

CWM

CHARTERED WEALTH MANAGEMENT

Russia/Ukraine Crisis and Markets

We thought it would be timely to issue a briefing note on the current Ukraine crisis and its effect on investment markets.

Global markets in general have had a tough start in 2022 with inflationary pressures and the prospect of rising interest rates. This has been further exacerbated by the Russia/Ukraine conflict which is likely to place more inflationary pressures into the system at least in the short term.

The information below is taken from various studies and comes with the caveat that each geopolitical crisis is different and what happened in the past will not necessarily be reflected in the future. We have, however, spoken to various investment managers this week and, whilst the situation is being monitored, portfolios aren't in general being adjusted defensively in response to the situation just yet. Previous stock market reactions to conflicts are supportive of this.

Market Reactions to and Recoveries from Geopolitical Crises

- What Happens to the Stock Market Amidst Geopolitical Shocks, Yahoo Finance ([link](#))

Date	Select geopolitical/ military events	1- month later	3- months later	6- months later	12- months later
12/7/1941	Pearl Harbor	-3.4%	-12.7%	-9.1%	0.4%
10/31/1956	Suez Canal crisis	-2.8%	-3.8%	-0.1%	-11.5%
10/20/1962	Cuban missile crisis	8.7%	17.7%	25.1%	32.0%
10/17/1973	Arab oil embargo	-7.0%	-13.2%	-14.4%	-36.2%
11/3/1979	Iranian hostage crisis	4.2%	11.6%	3.8%	24.3%
12/25/1979	U.S.S.R. in Afghanistan	5.6%	-7.9%	6.9%	25.7%
8/3/1990	Iraq invades Kuwait	-8.2%	-13.5%	-2.1%	10.1%
1/17/1991	Gulf War	15.2%	23.5%	20.6%	33.1%
8/17/1991	Gorbachev coup	0.0%	3.0%	7.0%	8.9%
2/26/1993	World Trade Center bombing	1.2%	2.5%	4.0%	6.4%
9/11/2001	9/11	-0.2%	2.5%	6.7%	-18.4%
3/20/2003	Iraq War	2.2%	15.6%	17.4%	28.4%
	Average	1.3%	2.1%	5.5%	8.6%
	% Positive	50%	58%	67%	75%

- How the Stock Market Has Reacted to War, Investopedia ([link](#))

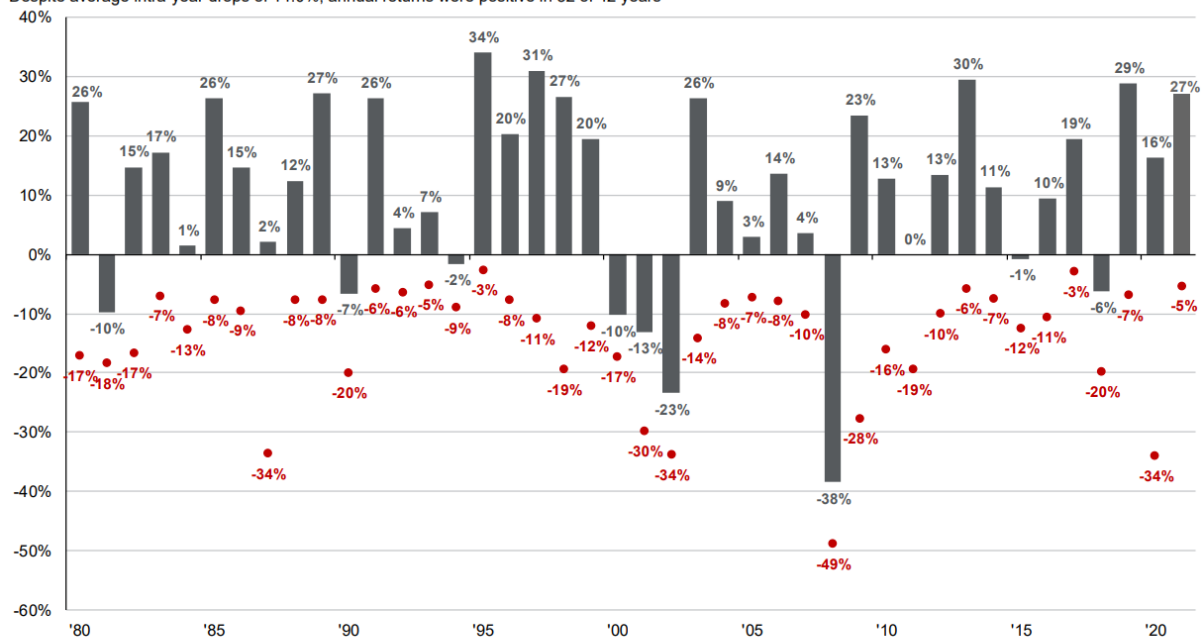
Market Shock Events	Event Date	S&P 500 Index		Calendar Days To	
		One-Day	Total Drawdown	Bottom	Recovery
Iranian General Killed In Airstrike	1/3/2020	-0.7%	?	?	?
Saudi Aramco Drone Strike	9/14/2019	-0.3%	-4.0%	19	41
North Korea Missile Crisis	7/28/2017	-0.1%	-1.5%	14	36
Bombing of Syria	4/7/2017	-0.1%	-1.2%	7	18
Boston Marathon Bombing	4/15/2013	-2.3%	-3.0%	4	15
London Subway Bombing	7/5/2005	0.9%	0.0%	1	4
Madrid Bombing	3/11/2004	-1.5%	-2.9%	14	20
U.S. Terrorist Attacks	9/11/2001	-4.9%	-11.6%	11	31
Iraq's Invasion of Kuwait	8/2/1990	-1.1%	-16.9%	71	189
Reagan Shooting	3/30/1981	-0.3%	-0.3%	1	2
Yom Kippur War	10/6/1973	0.3%	-0.6%	5	6
Munich Olympics	9/5/1972	-0.3%	-4.3%	42	57
Tet Offensive	1/30/1968	-0.5%	-6.0%	36	65
Six-Day War	6/5/1967	-1.5%	-1.5%	1	2
Gulf of Tonkin Incident	8/2/1964	-0.2%	-2.2%	25	41
Kennedy Assassination	11/22/1963	-2.8%	-2.8%	1	1
Cuban Missile Crisis	10/16/1962	-0.3%	-6.6%	8	18
Suez Crisis	10/29/1956	0.3%	-1.5%	3	4
Hungarian Uprising	10/23/1956	-0.2%	-0.8%	3	4
N. Korean Invades S. Korea	6/25/1950	-5.4%	-12.9%	23	82
Pearl Harbor Attack	12/7/1941	-3.8%	-19.8%	143	307
Average		-1.2%	-5.0%	22	47

Source: LPL Research, S&P Dow Jones Indices, CFRA, 01/06/20

Given the US S&P 500 has now fallen 11% since the start of the year, it's also interesting to note the below chart from JPMorgan. This shows that the S&P 500 has suffered intra-year peak-to-trough declines of 10%+ in 8 out of 13 years since 2009 (and 5%+ falls in 12 out of 13), with 5 of these 8 years seeing 10%+ positive calendar year returns and only 2 of these years seeing calendar year falls (and these of only 1% and 6%). Again, the caveat is that the past isn't always reflective of the future, though just a reminder that falls of this scale typically happen at least every other year and the stock market has historically been resilient to these falls.

S&P intra-year declines vs. calendar year returns

Despite average intra-year drops of 14.0%, annual returns were positive in 32 of 42 years



Source: FactSet, Standard & Poor's, J.P. Morgan Asset Management. Returns are based on price index only and do not include dividends. Intra-year drops refers to the largest market drops from a peak to a trough during the year. For illustrative purposes only. Returns shown are calendar year returns from 1980 to 2021, over which time period the average annual return was 9.4%. Guide to the Markets - U.S. Data are as of December 31, 2021.

J.P.Morgan
ASSET MANAGEMENT

Summary

- Markets have reacted negatively to Russia invading Ukraine with most markets down 3% to 4% today, the US S&P 500 is now down 11% 2022 year to date (FTSE 100 was, however, positive year to date prior to today's falls and other major markets had fallen much less than the US).
- Studies show that previous wars/geopolitical crises resulted in initial stock market falls (average of 5-7%), however these were short-lived with markets having recovered within a month in the majority of conflicts and returns on average +5-9% over the following six months (depending on the study).
- History shows that, from a stock market standpoint, the impact of conflicts is fleeting unless this leads to prolonged recession, with most commentators viewing this to be unlikely and economic fundamentals and corporate profits unlikely to be materially impacted.
- The primary driver of stock market performance over the coming 6-12 months is likely to remain around inflation and the pace of monetary tightening (interest rate rises) in response to this.

At times like this, our advice is to stay calm and remain invested, and be accepting of the fluctuating values, in pursuit of longer-term returns. It is also important to accept that market downturns also create opportunities for longer term investors and fund managers alike.

As you would expect, we are currently reviewing portfolios and will look to make changes should this be required in the coming weeks and months.

Our hearts go out to the people of the Ukraine at this terrible time.

If you have any questions or wish to discuss anything, please do not hesitate to contact us.