War and your investments

The ongoing wars in Ukraine and Gaza are rarely far from the headlines, particularly as lawmakers debate U.S. involvement in both conflicts. But do traders and investors need to pay attention to these developments? The answer is simple: yes and no.

In the short-term, largescale attacks tend to impact markets. Investments often recover quickly, however, as people adjust to a ‘new normal’ or the conflict begins to resolve. To help you better understand how current geopolitics may impact your investments, let’s walk through how things have played out in the past.

How do stocks react to conflict?

Looking at key events over the past 100 years, it becomes apparent that geopolitical events do have an impact on markets, but that impact only goes so far and lasts so long. The below chart highlights key events from World War II, Vietnam, the Gulf War, 9/11 and the subsequent War in Iraq. It also looks at two major recent events: Russia’s invasion of Ukraine and Hamas’s attack on southern Israel last October.

Stocks fell in the year following these events in just two instances—September 11 and Russia’s invasion of Ukraine. In both cases, extenuating circumstances likely had a far greater impact on stocks. In both instances, stocks may have been reacting to a series of rate hikes from the Federal Reserve as well as geopolitical events. Remember, the dot-com bubble burst in 2000 and Russia’s invasion of Ukraine coincided with the post-pandemic spike in inflation.

S&P 500 PERFORMANCE AFTER MAJOR GEOPOLITICAL EVENTS

	One Day	One Month	One Year
Pearl Harbor (Dec. 7, 1941)	-3.8%	-1%	4.3%
Gulf of Tonkin (Aug. 2, 1964)	-0.2%	-1.6%	2.7%
Tet Offensive (Jan. 30, 1968)	-0.2%	5.1%	10.2%
Iraq Invades Kuwait (Aug. 2, 1990)	-1.1%	-8.2%	10.1%
Al Qaeda Attacks (Sept. 1, 2001)	-4.9%	-0.2%	-18.4%
U.S. Invades Iraq (March 20, 2003)	2.3%	1.9%	26.7%
Russia Invades Ukraine (Feb. 17, 2022)	-2.1%	1.8%	-6.9%
Hamas Attacks Southern Israel (Oct. 7, 2023)	0.3%	1.6%	TBD
Iran Attacks Israel (April 14, 2024)	-1.2%	2.4%	TBD

Source: LPL Research, Bloomberg, Factset, S&P Down Jones Indices, CFRA, Strategas, CNN Money

It's also hard to draw a single conclusion about how investors react in cases of turmoil. When the U.S. invaded Iraq in March 2003, for instances, stocks surged as traders anticipated a swift victory. In April of this year, stocks fell after Iran attacked Israel, as traders anticipated an Israeli response and the possibility of escalating regional war in the Middle East. A month later, however, fear of contagion proved overblown.

The economic impact of conflict

The bond market may be a better barometer for how conflicts impact markets than stocks. Generally speaking, conflicts cost money, and the U.S. government may decide to fund military operations by issuing bonds or printing money, both of which may have a longer-term impact on investments and the economy.

In the short-term, conflicts may cause a "flight to safety" as investors buy Treasuries. (While no investment is without risk, the U.S. government has never defaulted on its debt.) Increased demand for bonds tends to drive prices up and yields down.

If the government loosens monetary policy to make it easier to finance a war, it's not uncommon to see inflation. Government spending on the Vietnam War, for instance, contributed to high inflation in the 1970s.

If the Federal Reserve needs to hike interest rates to combat that inflation, the impact on investors can be significant, something we're all too familiar with in 2024.

The devil's in the details

As you might expect, conflict is complicated. Its impact on markets is no different. Take the October 7 attacks on Southern Israel. The overall stock market fell only slightly in the first trading day after the attack.

However, defense stocks jumped as investors anticipated increased Israeli demand for weapons. Given the United States' special relationship with Israel, including numerous arms deals. Lockheed Martin stock jumped 9.9% on the Monday following the Hamas attacks. Six months later, the stock was 13.8% higher.

Crude oil and oil stocks tend to see similar surges whenever conflict strikes oil-rich regions. When Iraq invaded Kuwait in 1990, for instance, oil production fell and prices spiked. After the U.S. drove Saddam Hussein's forces out of Kuwait, crude prices fell significantly.

The U.S. invasion of Iraq told a different story, however. Unlike the Gulf War, investors knew the Iraq War was coming; lawmakers debated potential military involvement for months leading up to the invasion on March 20, 2003. As a result, crude oil prices steadily increased in anticipation. However, prices fell dramatically the week before the war started.

What caused the selloff? It's likely that traders thought the runup in prices over previous month already accounted for the invasion. Many likely anticipated a swift victory, much like stock market investors. But beyond that, Venezuela signaled it would increase oil exports at the same time.

What does this mean for investors in 2024?

The big takeaway from this is: Yes, global conflict will impact investments. However, it's hard to say exactly how, and for what length of time.

While conflict in the Middle East tends to drive oil prices up, everyone knows this, and markets tend to reflect that expectation almost instantly. Similarly, you never know when an unrelated events, like a global pandemic, interest rate hikes, or Venezuelan oil exports will complicate things.

That said, the U.S. economy, and the U.S. stock market, have historically trended toward growth in the long-term. While it's easy to get caught up in market volatility and how specific stocks or sectors react to conflict, the better play, as always, is to stay focused on your personal goals and long-term performance.