

Quick Take

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Historical perspective of stocks in times of military conflicts

After a challenging January, the geopolitical newswire continued to fuel investor anxiety in February as escalating tensions between Russia and NATO on the borders of (and now within) Ukraine worsened by the day. Against this background, we went back eight decades to observe how stock markets have behaved in times of military conflict. Since these events rarely happen without warning (case in point: Russia's military build-up has been in the news for some time now), we have included in our analysis the few months preceding each of these episodes of heightened tension.

Indeed, we see that it is actually the month before the event that tends to be the worst (positive only 27% of the time with an average return of -2.1%), while the following 3 months usually see gains (positive 73% of the time with an average increase of 3.7%). In addition, we see an average maximum drawdown of about 12%, which is not too far from what the US stock market has experienced since the beginning of the year.

Naturally, these historical trends are no guarantee as to what will happen next, especially since Russia's actions seem to depend on the will of one man. However, they do demonstrate the anticipatory nature of the stock markets, which have certainly discounted many worries since the start of the year.

S&P 500 price changes during geopolitical (military) events since 1939

Event date	Geopolitical (military) event	Before the event			After the event			Max drawdown*
		-3m	-1m	-1w	+1w	+1m	+3m	
2014-02-20	Start of Russian occupation in Crimea	2.7%	-0.8%	0.5%	0.9%	2.4%	3.2%	-5.8%
2003-03-20	Initial U.S. air strike in Iraq	-1.9%	2.7%	8.7%	-0.5%	2.2%	15.6%	-14.1%
2001-10-07	U.S. air campaign starts in Afghanistan	-10.0%	-3.2%	2.9%	1.9%	2.9%	9.4%	-20.9%
2001-09-11	September 11 attacks	-12.9%	-8.2%	-3.6%	-4.9%	-3.3%	4.3%	-23.1%
1991-01-17	Gulf War (U.S. intervention)	5.8%	-4.2%	1.5%	4.4%	15.2%	23.5%	-6.1%
1990-08-02	Iraq invades Kuwait	6.3%	-1.3%	-0.4%	-4.8%	-10.4%	-14.5%	-19.9%
1982-04-02	Falklands War	-7.1%	2.6%	0.5%	2.1%	2.3%	-4.5%	-12.7%
1968-01-30	Tet Offensive (Vietnam War)	-1.5%	-3.2%	-0.7%	-1.6%	-3.0%	4.4%	-9.3%
1967-06-05	Six-Day War	1.7%	-4.8%	-1.3%	2.0%	1.2%	4.3%	-6.5%
1964-08-02	Gulf of Tonkin incident	3.8%	0.7%	-0.3%	-1.6%	-1.6%	2.0%	-3.2%
1962-10-16	Cuban Missile Crisis	-1.0%	-2.8%	0.4%	-4.0%	3.8%	13.8%	-10.5%
1956-10-23	Suez Crisis	-6.3%	-0.8%	-1.3%	0.4%	-2.9%	-4.0%	-10.8%
1950-06-25	North Korea invades South Korea	9.0%	2.4%	0.9%	-7.6%	-8.7%	1.6%	-14.0%
1941-12-07	Attack on Pearl Harbor	-8.7%	-2.7%	2.2%	-6.3%	-2.5%	-12.4%	-20.1%
1939-09-01	Nazi Germany invades Poland	-2.1%	-8.1%	2.9%	11.8%	14.4%	9.1%	-10.8%
Average		-1.5%	-2.1%	0.9%	-0.5%	0.8%	3.7%	-12.5%
Median		-1.5%	-2.7%	0.5%	-0.5%	1.2%	4.3%	-10.8%
% Positive		40%	27%	60%	47%	53%	73%	

CIO Office (data via Bloomberg). *Max drawdown over the 3m periods before and after the event.

General

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