

Key Lessons from Past Military Conflicts

The escalation of the war in the Middle East is dominating the news, and investors are increasingly worried about the impact of this confrontation on the stock market. While investing through such a major regional crisis, there are three key considerations to keep in mind:

1. No one knows how long this volatile situation will last, or the extent to which it may evolve.
2. Disruptions to the energy market—whether it be production, distribution, or general flow—could continue to significantly impact oil prices.
3. The possibility of prolonged military action or even just higher energy prices when consumer confidence is already weak would increase the probability of an economic recession.

A Long-Range View

Trying to anticipate and invest for a worst-case scenario has historically been an ineffective strategy. Yet proactively managing risk and adapting one's portfolio as evidence unfolds has a solid track record in navigating many different periods of uncertainty.

We've compiled the table at right with examples of past crisis events to provide some historical context for potential market reactions. This table lists important military showdowns that have occurred since 1940, and it also looks at the market performance that followed.

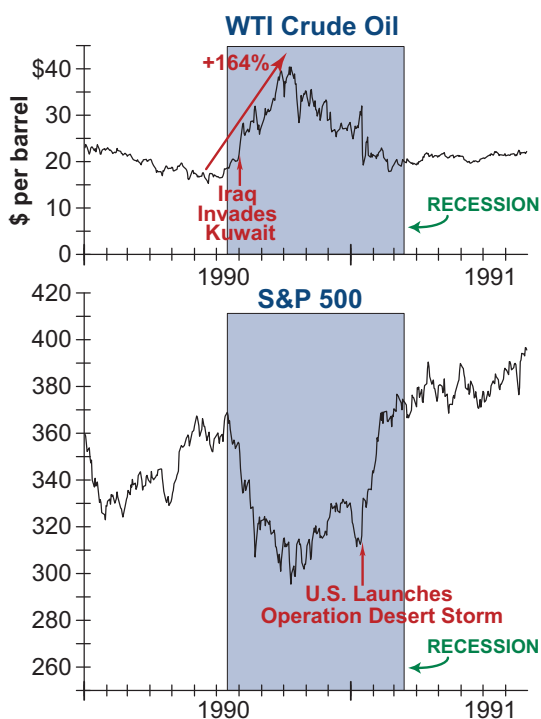
In most cases, these crisis situations have had only a transient impact on Wall Street. And the majority of the time, the S&P 500 saw gains over the next 12 months. The exceptions were 1940, 1941, 1973, 2001, and 2022 when bear markets were

already in progress as the conflicts began. While any significant military action can be frightening, geopolitical disputes alone do not make or break the stock market. Ultimately, the first rule for investing through such events is “follow the weight of the evidence and don't overreact.”

DATE	WAR / POLITICAL EVENT	S&P 500 Gain/Loss				Bear Mkt
		1mo	3mos	6mos	12mos	
05/10/1940	Germany Invasion of France	-23.0%	-15.3%	-5.9%	-22.0%	Y
12/07/1941	Pearl Harbor	-3.5	-13.0	-10.4	-0.3	Y
06/25/1950	Korean War	-8.7	1.6	4.9	12.6	-
10/16/1962	Cuban Missile Crisis	4.7	13.7	20.6	26.4	-
06/05/1967	6-day Middle East War	1.2	4.3	5.9	11.8	-
10/06/1973	Yom Kippur War	-3.9	-10.0	-15.3	-43.2	Y
04/02/1982	Falklands War	2.3	-4.5	7.2	34.4	Y
04/15/1986	U.S. Bombs Libya	0.1	0.3	-0.8	17.7	-
08/02/1990	Iraq Invasion of Kuwait	-9.3	-13.6	-3.5	8.9	Y
01/17/1991	U.S. Launches Operation Desert Storm	16.7	22.6	20.7	32.3	-
09/11/2001	9/11 Terrorist Attack on U.S.	-1.1	4.3	6.6	-16.7	Y
03/20/2003	U.S. Launches Operation Iraqi Freedom	2.2	13.8	18.6	27.0	-
08/18/2014	Annexation of Crimea by Russia	2.4	4.4	7.4	7.5	-
02/24/2022	Russia Invasion of Ukraine	5.5	-6.0	-2.3	-5.0	Y
02/28/2026	U.S. Launches Operation Epic Fury	?	?	?	?	?

InvesTech Research

The 1990 Oil Lesson



Oil Shocks

Along those lines, due to the location of this dispute, a worst-case scenario for the U.S. economy might occur if the conflict continues to intensify in a way that further suspends oil production and shipments. This would likely send energy prices significantly higher and keep them elevated, which could almost single-handedly drag down the broad economy as was the case during the 1990 Oil Shock.

When Iraq invaded Kuwait in August of that year, crude prices shot upward more than 160%. This disruption in oil was a contributing factor in triggering an economic contraction. It wasn't until the U.S. launched Operation Desert Storm and prices moderated that the economy was able to climb out of the recession.

An even worse shock occurred prior to that in 1973-74 when oil prices rocketed up more than 200% following the Yom Kippur War and Organization of Arab Petroleum Exporting Countries (OAPEC) Oil Embargo. This exacerbated the downturn in a market that had already peaked in January 1973 following a period of overvaluation and speculation. The sell-off finally ended in October 1974 after the S&P 500 had fallen -48% in what ended up being the largest bear market since the Great Depression. Bottom line, the economic impact of a prolonged oil shock has been significant in the past, and the potential for a similar fallout today should not be overlooked.