

Geopolitical Events and their Impact on Markets

March 1, 2022

The people of Ukraine are foremost in our thoughts as the invasion of that country is underway. We are also concerned for the people of Russia. The ordinary citizens of both countries are innocent victims of Vladimir Putin and his governments' aggression towards the Ukraine.

The impacts of these events are felt most directly by those engulfed in the conflict, but the repercussions are and will be widespread, including for the Canadian and global markets. We can all hope the resistance of the Ukrainians and the international response to the crisis will lead to a rapid and peaceful resolution of the conflict.

The events unfolding in the Ukraine are contributing to a volatile start to 2022 in both stock and bond markets. With volatility comes uncertainty. Investors across the board are watching the news with great concern not knowing what the impacts will be for their portfolios.

Looking at the past can help put the present uncertainty into perspective.

Attached is a table that lists a series of historical geopolitical (largely) events, the immediate impact of those events on the S&P 500 (peak to trough drawdown), and the subsequent impact one, three months, and twelve months later. [1] This list is by no means exhaustive but includes major events that many, if not all of us, will remember. It starts with Germany's invasion of Poland in 1939, includes the Cuban Missile Crisis in 1962, Russian invasions of Georgia and Crimea, and the 2020 onset of the Coronavirus pandemic (more a global economic crisis than geopolitical).

In this list, the peak to trough drawdowns range from **-0.2%** (first North Korean nuclear test in 2006) to **-42.9%** (the India Mumbai terrorist attacks) with the average or mean drawdown at **-13.9%** and the median at **-10.4%**. Significantly, twelve months later the average gain from the time of the crisis is positive 8% with the median at positive 11.7%.

As of today, March 1st, the S&P 500 is down **-8.2%** year to date (price only) while the S&P/TSX has been relatively sheltered by its energy exposure being down a more modest **-0.5%** (price only) from the beginning of January. There is certainly room for equity markets to continue to decline while the situation in Ukraine remains unresolved – which is why it is important to look at the subsequent impacts. Market movements often resemble a V shape during periods of crisis – falling swiftly but recovering slowly.

[1] The S&P 500 is used as it is the most representative index over time. Returns for the maximum decline in the S&P 500 show the peak to trough decline in the index over the three months pre and post the event.

With respect to the bond markets, not surprisingly, the flight to safety that bonds represent has seen yields decline both in Canada (table below) and in the US (with the US yields contracting more than in Canada, especially at the short end) since the crisis erupted last week. As a reminder, when yields decline prices increase (meaning positive returns for bonds).

The table below covers a very short period of time (four days) but reinforces the flight to safety that bonds represent for investors. As central banks in 2022 begin to unwind their monetary easing policies, the crisis will undoubtedly weigh on their timing deliberations.

	Feb 23	Mar 1	Change
2 yr	1.57	1.35	-0.22
5 yr	1.80	1.54	-0.26
10 yr	1.97	1.77	-0.20
30 yr	2.24	2.03	-0.21

While geopolitical crises evoke fear and uncertainty, and a short-term overreaction (selling) may seem the preferable response, staying the course (while challenging) is the more prudent approach.



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Geopolitical Events And Equity Market Impact

EVENT	DATE	MAX S&P 500 DECLINE*	1 MONTH LATER**	3 MONTH LATER**	12 MONTH LATER**	TYPES
Germany invades Poland	1939-09-01	-7.22%	13.19%	8.76%	-7.08%	Geopolitical
Pearl Harbor	1941-12-07	-22.06%	-3.43%	-12.45%	-0.21%	Geopolitical
North Korea invades South	1950-06-25	-14.02%	-9.98%	1.46%	11.23%	Geopolitical
Cuban Missile	1962-10-16	-10.52%	5.40%	13.30%	27.84%	Geopolitical
Six Day War	1967-06-05	-6.50%	3.31%	6.54%	12.96%	Geopolitical
Prague Spring	1968-01-05	-10.04%	-4.24%	-2.76%	8.39%	Geopolitical
Tet Offensive	1968-01-30	-9.31%	-3.80%	5.06%	10.40%	Geopolitical
Yom Kippur War / 1st Oil Shock	1973-10-06	-16.10%	-4.45%	-9.97%	-43.25%	Geopolitical
Iranian Revolution / 2nd Oil Shock	1979-01-16	-6.32%	-0.79%	1.67%	11.65%	Geopolitical
Soviet Invasion Of Afghanistan	1979-12-25	-10.86%	5.53%	-7.87%	26.21%	Geopolitical
Iran-Iraq War	1980-09-22	-5.26%	1.17%	4.13%	-10.52%	Geopolitical
North Korea bombs Korean Air Flight 858	1987-11-29	-32.10%	1.77%	11.43%	12.72%	Terror
Tiananmen Square Massacre	1989-06-04	-2.32%	-1.93%	8.67%	12.87%	Geopolitical
Berlin Wall Collapse	1989-11-09	-10.23%	3.60%	-0.88%	-6.78%	
Iraq invades Kuwait (Gulf War I)	1990-08-02	-19.92%	-8.23%	-11.28%	10.16%	Geopolitical
US invades Iraq (Desert Storm)	1990-08-02	-19.92%	-8.23%	-11.28%	10.16%	Geopolitical
Russian Invasion Of Chechnya	1999-08-01	-12.08%	0.18%	1.91%	8.23%	Geopolitical
9/11 Attack	2001-09-11	-23.10%	0.45%	4.05%	-16.76%	Terror
US invades Afghanistan	2001-10-07	-13.43%	4.15%	8.73%	-26.70%	Terror
Operation Iraqi Freedom / Gulf	2003-03-20	-8.96%	2.05%	13.71%	26.73%	Geopolitical

* RETURNS ARE CALCULATED BASED ON PEAK TO TROUGH MARKET DRAWDOWNS AROUND THE CITED EVENTS FOR A MAXIMUM WINDOW OF 3 MONTHS BEFORE AND AFTER.

** RETURNS ARE CALCULATED FROM DATE OF EVENT TO CITED TIME AFTER THE EVENT.

SOURCE: BCA CALCULATIONS.

BC&O Research

<https://www.bcaresearch.com>

Geopolitical Events And Equity Market Impact, Continued

EVENT	DATE	MAX S&P 500 DECLINE*	1 MONTH LATER**	3 MONTH LATER**	12 MONTH LATER**	TYPES
Ukraine Orange Revolution	2004-11-22	-1.7%	2.75%	0.59%	7.13%	Geopolitical
Lebanon War	2006-07-12	-6.88%	0.65%	8.28%	22.97%	Geopolitical
First North Korean Nuclear Test	2006-10-09	-0.24%	2.05%	4.55%	15.88%	Geopolitical
Russian Invasion of Georgia	2008-08-08	-40.49%	-2.20%	-28.18%	-22.05%	Geopolitical
India Mumbai Attacks	2008-11-26	-42.85%	-1.68%	-15.19%	25.12%	Terror
North Korean Shells Yeonpyeong Island	2010-11-23	-3.70%	6.44%	10.73%	-1.60%	Geopolitical
US Debt Ceiling	2011-08-02	-19.25%	-6.39%	-1.29%	8.85%	Economic
Ghouta, Syria Chemical Attack	2013-08-21	-4.63%	4.09%	9.32%	21.28%	Geopolitical
Crimean Invasion	2014-02-27	-2.08%	-0.28%	3.11%	13.49%	Geopolitical
Russian intervention into Syria	2015-09-30	-9.78%	8.30%	7.46%	12.93%	Geopolitical
Paris Terrorist Attacks	2015-11-13	-13.31%	-0.53%	-7.82%	6.99%	Terror
North Korean Nuclear Test (Hydrogen Bomb)	2016-01-06	-13.31%	-5.54%	3.84%	14.41%	Geopolitical
North Korean Nuclear Test (Warhead for Rocket)	2016-09-09	-4.79%	1.22%	6.19%	15.68%	Geopolitical
Hwasong-14 North Korean	2017-07-04	-1.78%	1.97%	4.48%	11.70%	Geopolitical
Iran strikes Saudi Refinery	2019-09-14	-4.57%	-1.37%	5.37%	12.51%	Geopolitical
US strikes Iran's Soleimani	2020-01-03	-31.32%	0.43%	-23.07%	16.11%	Geopolitical
Coronavirus Outbreak	2020-01-20	-32.80%	1.31%	-15.21%	15.68%	Economic
Russia-Saudi Oil Price War	2020-03-08	-33.92%	-7.48%	8.75%	28.56%	Economic
MEAN GAIN/LOSS		-13.89%	-0.01%	0.39%	8.00%	
MEDIAN GAIN/LOSS		-10.38%	0.44%	3.95%	11.68%	

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SOURCE: BCA CALCULATIONS.