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Market Implications for the War in Ukraine

With the invasion of Ukraine by Russian forces, we wanted to provide our thoughts on the current situation. Leading into the invasion, there has been high levels of market volatility thus far this year driven by (1) escalating tensions with Russia and Ukraine and (2) the shifting of the Federal Reserve towards tighter monetary policy. Market volatility spiked the week of February 21st when the continued escalation of tensions culminated with the invasion of Ukraine by Russian forces on Thursday, February 24th before then staging a partial recovery. Coming into February 24th, the leading Equity indices all exceeded the threshold for a market correction: a drop of 10% or more, with the tech-focused Nasdaq exceeding 15%.

First and foremost, our thoughts are with the citizens of Ukraine and all of those affected by this conflict. Although it is difficult in the short-run to know how these specific events will continue to play out, we can use past geopolitical conflicts as a barometer to guide portfolio strategy. After dropping sharply on the morning of February 24th, US markets then staged a recovery into positive territory later that day. This continued both in the US and Globally during the following day's market sessions. Going back to the German invasion of Poland in 1939, it is not unusual for markets to behave in this manner. In fact, if we look back at some of the major geopolitical crises since 1939, thirty days out the S&P 500 was positive by an average of 7.2% in five events and negative by an average of 4.3% in five events. Twelve months later, the market was positive in seven events and negative in only three cases, with an average return of 8.8% .

	S&P 500 Returns	
Event	30 Days Later	12 Months Later
Iraq War (2003)	2.2%	28.4%
9/11 Terrorist Attacks (2001)	-0.2%	-18.4%
Gulf War (1991)	15.2%	33.1%
Iraq's Invasion of Kuwait (1990)	-8.2%	10.1%
U.S.S.R Invades Afghanistan (1979)	5.6%	25.7%
Iranian Hostage Crisis (1979)	4.2%	24.3%
Arab Oil Embargo (1973)	-7.0%	-36.2%
Cuban Missile Crisis (1962)	8.7%	32.0%
Suez Crisis (1956)	-2.8%	-11.5%
Pearl Harbor Attack (1941)	-3.4%	0.4%

Source: Goldman Sachs, Truist

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Volatility will likely continue in the short term. Markets are primarily focused on the duration of the fighting and the scope of economic sanctions the US, EU and other countries will continue to employ against the Russian economy in response. The severity of economic sanctions has ramped up in the days following the initial invasion, with certain Russian banking institutions being removed from the SWIFT international banking system. At the time of this writing, NATO allied countries have avoided specifically targeting the Russian oil / natural gas sectors as sanctions would bring higher economic consequences to their own countries. That being said, with geopolitical events, markets tend to overcorrect on the downside before stabilizing. The Vietnam War, Gulf War, Afghanistan War, Iraq War, and Crimean Crisis all saw equities decline in the immediate aftermath of the conflicts' beginning. However, markets then moved higher in the following six months as the focus returned to long-term fundamentals (company earnings, economic growth, etc.).

In the US, economic and market fundamentals remain positive and support future growth. At this time, the data does not show any sign of a recessionary event that would indicate a more significant drawdown in the markets. US GDP growth came in at 5.9% in 2021 and is expected to grow 3.5% in 2022. Both are above the long-term US growth average of 2.0%. Company earnings are expected to grow moderately in 2022, another supportive factor for markets. Lastly, US households and Corporations have $5 trillion in cash on hand and historically low debt levels, giving them more financial flexibility than pre-pandemic. Economically speaking, the Russian economy represents 1/15th that of the US economy and is smaller than some of the major European economies. Based on current information, the most considerable economic consequence will be from the short-term impact on oil/gasoline prices as current supply issues are exasperated. As it stands currently, these events are unlikely to significantly impact the Fed's path towards policy tightening and normalization, although the pace of tightening may be lessened.

On a positive front, markets often respond with more substantial returns after a market correction. Provided a recession was not forthcoming in the following year, markets were on average positive one, three, six, and twelve months out after experiencing a ten percent or more decline:

S&P 500 Return after 10% Correction, No Recession Next Year

Time Horizon	Avg. Return	% of Time Positive
One month out	0.3%	56.0%
Three months out	3.6%	74.0%
Six months out	7.0%	78.0%
Twelve months out	12.4%	89.0%

Source: Goldman Sachs, S&P 500 data going back to 1945

We understand that these periods of uncertainty and volatility in the markets are challenging to navigate and that the current state is changing rapidly. Our team is actively monitoring the situation, and if changes to your portfolio strategy are appropriate, we will proactively reach out. We have, and continue to screen the portfolios to take advantage of tax-loss harvesting opportunities where it makes sense. Additionally, we may tactically rebalance the portfolio, taking out of Fixed Income and rebalancing into Equities to take advantage of current lower prices as the situation warrants it. Keep in mind that market downturns are often opportunities to put long -term outside cash to work.

At this time, we remain comfortable with our long-term portfolio strategy and underlying managers. Additionally, we construct our portfolios and financial plans with the anticipation of market volatility and negative periods in the markets. Please let us know if you would like to discuss any of this in more detail. Our team is happy to address any questions and concerns you may have.

About Landmark Wealth Management

Landmark Wealth Management is a trusted, independent, registered investment advisory firm dedicated to helping clients reach their financial goals. Our firm works in a fiduciary capacity on behalf of high-net-worth individuals and families, institutions, and non-profit organizations. We focus on portfolio management, retirement planning, tax planning, and estate and generational wealth planning. Our team is credentialed in multiple areas: Certified Financial Planner (CFP), Chartered Financial Analyst (CFA), Certified Public Accountant (CPA), Certified Private Wealth Advisor (CPWA), and Certified Investment Management Analyst (CIMA). The firm is located in Amherst, New York, a suburb of Buffalo.