



# Research Supplement

GEOPOLITICAL EVENTS

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### Summary

- With tensions between Russia and Ukraine escalating, we examined prior geopolitical events to provide historical context. While no two geopolitical events are the same, some caused temporary periods of market volatility while most did not have long-term impacts on the markets and economy overall.
- In response to Russian military mobilization, the US and European countries have imposed sanctions targeting Russian financial institutions and political power players, with more sanctions likely to come.
- Qualitatively, the biggest risk in this scenario is tied to global energy prices, Europe's energy supply, and any industrial or manufacturing disruptions that could arise.

### S&P 500 Reaction to Prior Geopolitical Events

There is little to no consistency in how markets react to geopolitical events, with each having their own distinct causes and implications.

Event	Date	1 Month	3 Months	6 Months	12 Months
Germany Invades France	5/10/1940	-19.9%	-12.7%	-4.5%	-18.7%
Pearl Harbor Attack	12/7/1941	-1.0%	-11.0%	-6.5%	4.3%
N. Korea Invades S. Korea	6/25/1950	-10.0%	1.6%	4.1%	11.7%
Cuban Missile Crisis	10/16/1962	5.1%	14.1%	20.7%	27.8%
Yom Kippur War	10/6/1973	-3.9%	-10.7%	-15.3%	-43.2%
Oil Embargo	10/16/1973	-7.0%	-13.2%	-14.4%	-35.2%
Iraq's Invasion of Kuwait	8/2/1990	-8.2%	-13.5%	-2.1%	10.1%
9/11 Terrorist Attacks	9/11/2001	-0.2%	2.5%	6.7%	-18.4%
Iraq War Began	3/20/2003	1.9%	13.6%	18.7%	26.7%
Russia Annexed Crimea	2/20/2014	1.5%	2.6%	8.0%	14.7%
Bombing of Syria	4/7/2017	1.8%	3.1%	7.6%	12.8%
Saudi Aramco Drone Strike	9/14/2019	-1.4%	5.4%	-8.8%	12.5%
Iranian General Killed in Airstrike	1/3/2020	1.9%	-23.1%	-4.2%	14.4%
US Pulls Out of Afghanistan	8/30/2021	-3.7%	2.8%	n/a	n/a
	Range	25.0%	37.2%	36.0%	71.0%

Source: Helios Quantitative Research, Bloomberg, LPL Research

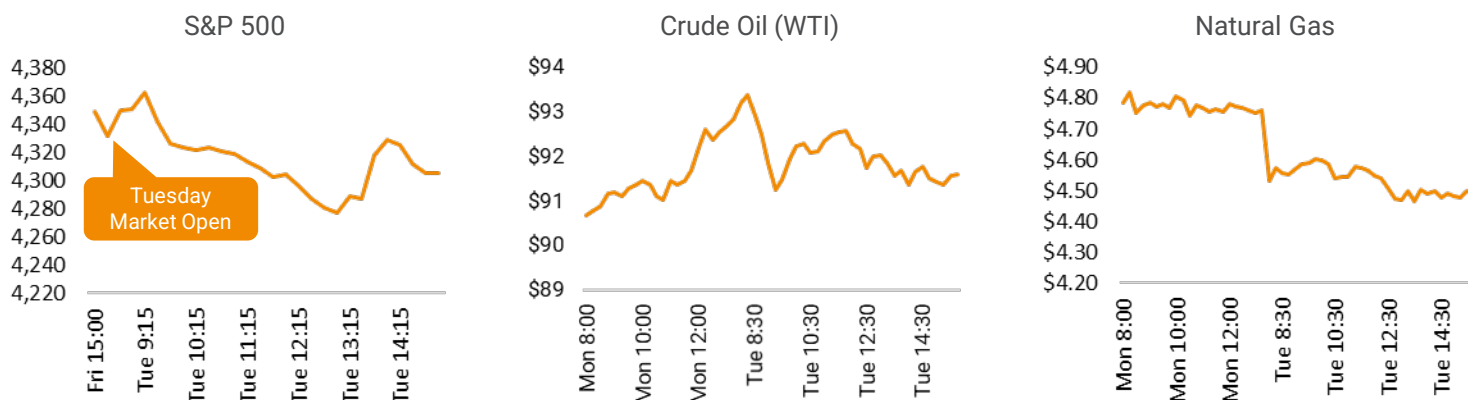
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### Initial Market Reactions



S&P 500 2/18/2022 close to 2/22/2022; Oil and Natural Gas 2/21/2022 to 2/22/2022

### Market Impact

Initial sanctions have been imposed on Russian banks and political allies, isolating them from western financing, with more sanctions being likely. In response to the invasion, Germany announced a halt to the Nord Stream 2 pipeline, while the UK plans to implement additional sanctions on Russian banks. A disruption of Russian energy exports could drive prices up since Russia produces approximately 10% of the world's energy and 50% of the energy consumed in Europe<sup>1</sup>. This may create some short-term volatility, which in turn may cause investors to look for safe havens such as bonds or gold, though these impacts are likely temporary.

Europe could experience harsher impacts, as there is no easy alternative to replace Russian natural gas. The US is more insulated from much of the direct negative repercussions, such as potential energy shortages. However, it is still exposed to global energy prices and any additional inflationary pressures they can cause. As we can see in the charts above, the initial market reaction was relatively muted across US equities to oil and natural gas.

While tensions are high, there are more important factors at play in markets than geopolitical tensions. Recent market volatility is being driven by expected Fed policy moves and inflation concerns, which are higher priorities for the market right now.

### Crimea Spotlight

Taking a closer look at the annexation of Crimea, there wasn't a lasting impact in equities or energy commodities. In short, it is unlikely for there to be long-term consequences to US markets from these geopolitical tensions.

Crimea Annexation	12 Months
S&P 500	14.70%
Crude Oil (WTI)	-51.09%
Natural Gas	-9.69%

Percent price changes following 2/20/2014

1. Source: Fidelity

Source: Helios Quantitative Research, Bloomberg

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