CETERA® INVESTMENT MANAGEMENT

COMMENTARY

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Geopolitical Risks Increase with Israel-Hamas War

- The war adds to global uncertainty, which may increase the Fed's probability of pausing rate hikes.
- Previous stock market reactions to war and crisis events have been muted.
- As uncertainty rises, diversification becomes even more important.

Geopolitical risks have been increasing in recent years. From China-Taiwan relations, skirmishes in the South China Sea, to the Russia-Ukraine War, geopolitical risks were already rising. Now, investors are faced with a new risk with the Israel-Hamas War. While our job is to focus on the economic and investment implications of these events, we cannot disregard the human tragedy involved that weighs on our hearts. We hope for a quick and peaceful resolution.

Looking at the investment implications is tricky and hard to quantify as we have spoken about in the past. Each event is different as far as scope and magnitude. In addition, each event happens under different market and economic conditions. If we look at past market reactions, you can see that returns on the S&P 500 differed by event but were largely unaffected. We do point out that the 9/11 attack also coincided with the dot-com bubble, so attributing the 1-year return solely to that event might be misleading.

Stock Market Reaction to War and Crisis Events

		S&P 500 Return		
Event	**Date**	**1-Day**	**1-Month**	**1-Year**
Kuwait Invaded by Iraq	8/2/1990	-1.1%	-8.9%	12.8%
1993 World Trade Center Bombing	2/26/1993	0.2%	1.4%	8.3%
Oklahoma City Bombing	4/19/1995	-0.1%	3.1%	30.8%
September 11th Terrorist Attack	9/11/2001	-4.9%	0.6%	-15.5%
Start of Iraq War (2003)	3/20/2003	0.2%	2.4%	29.2%
2004 Madrid Terrorist Attack	3/11/2004	-1.5%	1.5%	8.7%
Brexit Referendum	6/23/2016	-3.6%	3.1%	17.8%
Ukraine Invaded by Russia	2/24/2022	1.5%	7.1%	-4.4%

Source: Cetera Investment Management, FactSet, Standard & Poor's. Returns shown are total returns, which include dividends.

The Israel-Hamas War is a very fresh and fluid situation. There is much we don't know and there are many ways the war could evolve. Perhaps the worst fears would be that more countries get involved, but it appears that the U.S. and other countries are trying to de-escalate the tensions from spreading. If oil-producing countries become involved, this would likely drive the price of oil higher. This could in turn drive inflation higher and potentially lead to more interest rate hikes by the Federal Reserve. However, the Fed will likely pause interest rate hikes in the near-term as uncertainty has grown. The war also creates more urgency to elect a Speaker of the House, which may decrease the odds of a future government shutdown after the stopgap spending bill ends November 17. Finally, if the war escalates, that could lead to a flight to quality as investors could flock to bonds and drive down bond yields, thus pushing bond prices higher.

We don't want to speculate too much on what may happen. It is extremely difficult and extrapolating the market impact can be even more difficult. Market volatility was already on the rise due primarily to rising bond yields. The increased geopolitical risks add to uncertainty and could drive more volatility. We continue to call for diversification to help mitigate volatility in markets. Your financial professional can help you stay focused on your personal financial goals. As always, please contact your financial professional with any questions about tailoring a portfolio to your personal situation.

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A diversified portfolio does not assure a profit or protect against loss in a declining market.

Glossary

The **S&P 500** is a capitalization-weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.