



## Nexus Notes

January 2020

Friends,

Et voilà. (One translation for the French language challenged, And there you go.)

From the last paragraph in my December 2019 Nexus Notes: “Save for a surprise negative geopolitical occurrence...”.

January 3<sup>rd</sup>, 2020 headline: “US Airstrike kills Iranian General”

January 4<sup>th</sup>, 2020 headline: “Iran vows ‘harsh retaliation...’”

What happens now? The immediate reaction will be short-term volatility, as usual. However, the long-term might not be nearly as bad as might be feared. As one might expect, the reaction to markets in general on Friday was to sell off. However, the decline on that day combined with the moderate decline today (January 6<sup>th</sup>) as I write, has been no more than recent declines that were based on disappointing earnings reports on major stocks. As Yoda might say, “A panic not this is”. Yet.

Why not? The biggest risk in the past to this sort of news would have been how the possible interruption of oil supplies might affect the world economies. However, the U.S. is now the largest producer of oil and essentially approaching energy independence. In fact, it recently became a net oil exporter. This availability of oil exports means that other countries have an alternative source from the Middle East. A second factor: after the initial shock of conflicts and possible war, markets generally tend to rebound into positive territory.

The other shoe. The main risk longer term is that most companies have global supply chains, so a war anywhere could disrupt the business environment around the world. However, the Middle East is not as great a concern because most companies – with the exception of big energy companies – don’t source extensively from this area.

As one investment analyst put it: “As a citizen, I am paying attention and concerned about the recent developments. As an investor, not so much”.

*\*These are my opinions and not necessarily those of Cambridge, are for informational purposes only, and should not be construed or acted upon as individualized investment advice.*

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