



INVESTMENT INSIGHTS

Analysis, Insights, and a Different Perspective

November 2023

KEY POINTS

- The recent Israel-Hamas war has triggered worry for some investors.
- Over the long term, markets tend to be more resilient to geopolitical disruptions, underlining the secondary role of these events compared to fundamental economic factors.
- Long-term market trends are driven more by corporate profitability than geopolitical events.
- Markets historically have withstood many crises.



THE ISRAEL-HAMAS WAR AND YOUR INVESTMENTS

Some investors are nervous as they process the intensifying tensions between Israel and Hamas. With uncertainty on the horizon, there is no clear consensus on what is likely to follow, as geopolitical tensions are inherently unpredictable. This issue of Investment Insights focuses on the potential impact these current tensions may have on your investments.

BACKGROUND

The Israel-Palestine conflict began in the mid-20th century when both groups laid claim to the same territory in the Middle East. After the 1948 declaration of the Israeli state, tensions escalated, leading to wars and disputes. Over decades, numerous peace talks and international interventions attempted to resolve the conflict, often revolving around contentious issues such as borders, refugees, and the status of Jerusalem. Despite various efforts, a resolution has remained elusive, and the region continues to experience intermittent periods of tension, violence, and ceasefire.¹



Source: Nadivo

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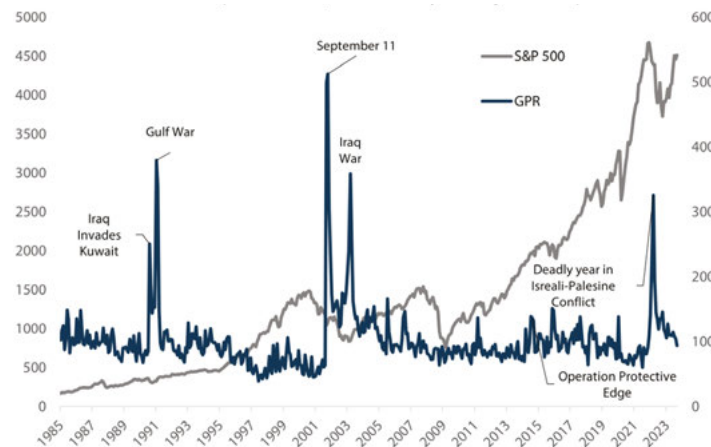
¹ Center for Preventative Action. "Israeli-Palestinian Conflict | Global Conflict Tracker." Council on Foreign Relations, Council on Foreign Relations, 16 Oct. 2023.

GEOPOLITICS AND THE STOCK MARKET

The markets experience continued volatility in response to the unfolding events between Israel and Hamas. Expectations suggest that this instability may persist in the short term. Looking ahead, the current crisis has the potential to profoundly affect the diplomatic interactions of the involved regions with the global community; however, it may not directly influence the wider market trends. Although past instances show that geopolitical unrest has influenced stock market returns, it does not constitute the primary determinant of these returns. Consider visualizing the inverse relationship as a seesaw with bond prices on one end and interest rates on the other. When one side rises, the other typically falls, underscoring the inverse dynamic between bond prices and interest rates.

Over time, the main force pushing the U.S. stock market has been company profits or "corporate earnings." To understand this better, we can examine past information that shows the relationship between the S&P 500 Index and the earnings of those companies within the S&P 500. We also consider something called the Geopolitical Risk (GPR) Index. The GPR Index is calculated every month by measuring how often words connected to international tension appear in major newspapers around the world. By comparing charts, we see what really matters for stock market growth are the basics, like how profitable companies are (that's what we mean by "fundamentals"). Even though world events can cause some short-term ups and downs, company earnings typically influence whether the market goes up or down over the longer term.

S&P 500 AND GEOPOLITICAL RISK (GPR) INDEX (JANUARY 1985-SEPTEMBER 2023)



Sources: Stock Market Data Used in "Irrational Exuberance" Princeton University Press, 2000, 2005, 2015, by Robert J. Shiller; and Caldara, Dario, and Matteo Iacoviello, "Measuring Geopolitical Risk," working paper, Board of Governors of the Federal Reserve Board, October 2023.

S&P 500 AND EARNINGS (1985-2023)



Sources: Princeton University Press, 2000, 2005, 2015, by Robert J. Shiller; and Caldara, Dario, and Matteo Iacoviello, "Measuring Geopolitical Risk," working paper, Board of Governors of the Federal Reserve Board, October 2023.

EARNINGS FORECAST

The current crisis has become a major geopolitical event that will likely cause more human suffering before it ends. As seen in the charts on pg. 2, geopolitical tensions have some impact on the stock market, but it is primarily driven by corporate earnings. Let's closely examine the earning trends of U.S. companies.

The U.S. economy continues to grow along with corporate earnings. In Q3 of 2023 (with 17% of results reported), 73% of companies beat their earnings estimates.² Over the next 12 months, earnings are expected to increase from approximately \$217 per share to approximately \$231 per share, representing a 6.45% growth rate. Additionally, earnings are expected to grow in 2024 from approximately \$220 per share in 2023 to approximately \$247 per share in 2024, representing 12.22% growth.

Source: FACTSET

Measure	Last 12 Months	Future 12 Months Estimated	Growth
Earnings Per Share	217.01	231.01	6.45%

Measure	CY 2023 Estimated	CY 2024 Estimated	Growth
Earnings Per Share	220.20	247.10	12.22%

While uncertainty around this conflict has made many market participants worried, the fundamental data suggests that, if the conflict doesn't spill into other regions, the crisis' impact on markets will likely be limited in the long run.

CLIMBING THE WALL OF WORRY

Throughout history, the world has faced major challenges, from wars to financial crises. The timeline below outlines significant global events that may have been tough and uncertain, but they also show how resilient and adaptable both people and the markets can be. As we deal with today's issues, it's important to remember past lessons. Change is always happening, and we aim to help you navigate its impact on your investments. Navigating through tumultuous events, investors should focus on the fundamental drivers of investment returns, which tend to follow corporate earnings over the long term.

1939 World War II begins in Europe	1959 Castro takes Cuba	1984 Run on Continental Bank	2004 Global War on Terror
1940 France falls	1960 U.S. spy plane shot down	1985 U.S. becomes a debtor nation	2005 Record high oil prices
1941 Pearl Harbor	1961 Berlin Wall, Bay of Pigs	1986 Iran-Contra affair	2006 Iran and N. Korea tensions
1942 Price controls, Stalingrad	1962 Cuban Missile Crisis	1987 Black Monday	2007 Subprime mortgage crisis
1943 Allies invade Italy	1963 JFK assassinated	1988 PanAm 103 bombing	2008 Bank failures, Great Recession
1944 Normandy Invasion	1964 Vietnam War escalates	1989 Berlin Wall falls	2009 GM bailout, \$787 billion stimulus passed
1945 World War II ends - Cold War begins	1965 The Great Inflation begins	1990 Iraq invades Kuwait	2010 EU Crisis, unemployment hits 9.9%
1946 Stock Market Crash	1966 Medicare, U.S. bombing N. Vietnam	1991 The Gulf War, recession	2011 U.S. debt downgrade
1947 Taft Hartley Act - Marshall Plan	1967 The Six Day War	1992 Cold War ends	2012 Greek debt crisis
1948 Truman upsets Dewey, Berlin Blockade	1968 Tet Offensive, RFK/MLK shot	1993 WTC bombed	2013 Boston bombing, govt shutdown
1949 Mao establishes communist China	1969 First draft since WW II	1994 Orange County bankruptcy	2014 Oil price decline
1950 The Korean War begins	1970 U.S. invades Cambodia, Kent State	1995 Oklahoma City bombing	2015 Chinese stock market crash
1951 First commercial color TV broadcast	1976 Carter defeats Ford	1996 "Irrational Exuberance"	2016 UK votes to leave EU (Brexit)
1952 Steel Workers Strike	1977 Panama Canal Treaty	1997 Asian Currency Crisis	2017 Las Vegas mass shooting
1953 Korean War ends	1978 Humphrey-Hawkins Act	1998 Dot-Com bubble	2018 Trade Wars
1954 McCarthy's Red Scare	1979 Three Mile Island nuclear crisis	1999 NATO bombs Serbia	2019 Norte-Dame de Paris fire
1955 Ike's heart attack	1980 Savings & Loan Crisis	2000 Tech bubble bursts	2020 Global spread of COVID-19
1956 Suez Canal	1981 Recession, Reagan shot	2001 Terrorist attack on WTC	2021 U.S. withdrawal from Afghanistan, Taliban takeover of the country
1957 Sputnik I	1982 Unemployment hits 10.8%	2002 Corporate scandals - Enron	2022 Russia-Ukraine War
1958 U.S. recession	1983 U.S. invades Grenada	2003 War in Iraq	2023 Israel-Hamas War



Important Disclosures: The information contained in this report is as of October 27, 2023 and was taken from sources believed to be reliable. It is intended only for personal use. To obtain additional information, contact Cornerstone Wealth Management. This report was prepared by Cornerstone Wealth Management. The opinions voiced in this material are for general information only and are not intended to provide specific advice or recommendations for any individual. To determine which investment(s) may be appropriate for you, consult your financial advisor prior to investing. Investing involves risk including the potential loss of principal. No strategy can assure success or protection against loss.

Stock investing involves risk including loss of principal. The payments of dividends is not guaranteed. Companies may reduce or eliminate the payment of dividends at any given time. IA SBBI US Lrg Cap Index is represented by the S&P 500 Composite Index (S&P 500) from 1957 to present, and the S&P 90 from 1926 to 1956. The Standard & Poor's 500 Index is a capitalization-weighted index of 500 stocks designed to measure the performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries. S&P 90 was a value-weighted index based on 90 stocks. The Bloomberg Barclays US Aggregate Bond Index, which until August 24th 2016 was called the Barclays Capital Aggregate Bond Index, and which until November 3rd 2008 was called the "Lehman Aggregate Bond Index," is a broad base index, maintained by Bloomberg L.P. since August 24th 2016, and prior to then by Barclays which took over the index business of the now defunct Lehman Brothers, and is often used to represent investment grade bonds being traded in United States. Index funds and exchange-traded funds are available that track this bond index. Bonds are subject to credit, market, and interest rate risk if sold prior to maturity. Bond values will decline as interest rates rise and bonds are subject to availability and change in price. Government bonds and Treasury bills are guaranteed by the US government as to the timely payment of principal and interest and, if held to maturity, offer a fixed rate of return and fixed principal value.

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