Dear CIC Friends and Family,

We've received several client questions on the unfolding Russia-Ukraine situation and the potential implications for the stock market. As a result, we decided to provide some analysis and historical context. This does not mean markets will follow similar patterns as they have in the past. But historical perspectives and data can help frame expectations. It bears noting that markets are also facing challenges from high inflation and near-term interest rate hikes by the Federal Reserve, so we find ourselves at a point where there is a myriad of issues impacting the market at once.

Bottom line: The Ukraine matters but will likely be a secondary factor to how much and how fast the Federal Reserve raises interest rates this year. Amid heightened market volatility (and the likelihood that volatility may remain elevated), we continue to emphasize the best gameplan is to have a Financial Plan and thoughtfully diversified allocation to support it. In our view many retail investors over-concentrated on a narrow group of tech stocks or speculative companies/ideas that lacked real cash flow over the past few years. History has shown that what is in favor today may go out of favor tomorrow and vice versa. Hence our heavy focus on asset allocation and diversification.

With that, here are some interesting tidbits we saw in the media over the past few weeks along with our commentary:

- **Geopolitical shocks tend to have a shorter-term impact on markets**. Per a recent Reuters article ("As markets churn over Russia-Ukraine conflict, history shows fleeting impact"):

  "The equity markets are more at risk from the fallout from the war on inflation than on a potential invasion of Ukraine," Sam Stovall, chief investment strategist at CFRA, wrote in a note to investors.

  Past fluctuations from geopolitical events have been comparatively fleeting, CFRA's research showed. The firm analyzed 24 events since World War II, finding:
  - The S&P 500 fell on average of 5.5% from peak to trough in the aftermath of those events.
  - The market took an average of 24 days from the start of the event to reach a bottom
  - But, the market recouped those losses in an average of 28 days later.

CIC note: This is likely because most geopolitical events did not impact enough corporate earnings in aggregate to keep markets down for longer periods of time.

- **An analysis from Truist Advisory Services shows that the S&P 500 has, historically speaking, recovered in a matter of months following a geopolitical shock, so long as the event itself didn't lead to or coincide with a recession.**

  "The Russia-Ukraine border crisis complicates the near-term market outlook," wrote Keith Lerner**,** co-chief investment officer at Truist Advisory Services. *"That said, history suggests these types of events, which can be devastating from a humanitarian standpoint, tend to have a fleeting market impact unless they lead to a recession. Our work suggests recession risk in the U.S. remains low. Rising geopolitical risks, alongside the upcoming Fed transition, argue for continued choppier waters in the markets near term."*

- **Perhaps most telling of all, here is a chart showing how the S&P 500 has historically performed following major geopolitical shocks:**

Date	Select geopolitical/ military events	1-month later	3-months later	6-months later	12-months later
12/7/1941	Pearl Harbor	-3.4%	-12.7%	-9.1%	0.4%
10/31/1956	Suez Canal crisis	-2.8%	-3.8%	-0.1%	-11.5%
10/20/1962	Cuban missile crisis	8.7%	17.7%	25.1%	32.0%
10/17/1973	Arab oil embargo	-7.0%	-13.2%	-14.4%	-36.2%
11/3/1979	Iranian hostage crisis	4.2%	11.6%	3.8%	24.3%
12/25/1979	U.S.S.R. in Afghanistan	5.6%	-7.9%	6.9%	25.7%
8/3/1990	Iraq invades Kuwait	-8.2%	-13.5%	-2.1%	10.1%
1/17/1991	Gulf War	15.2%	23.5%	20.6%	33.1%
8/17/1991	Gorbachev coup	0.0%	3.0%	7.0%	8.9%
2/26/1993	World Trade Center bombing	1.2%	2.5%	4.0%	6.4%
9/11/2001	9/11	-0.2%	2.5%	6.7%	-18.4%
3/20/2003	Iraq War	2.2%	15.6%	17.4%	28.4%
	Average	**1.3%**	**2.1%**	**5.5%**	**8.6%**
	% Positive	**50%**	**58%**	**67%**	**75%**

Credit: Truist. Recessions indicated in gray.

- **The question then becomes what market implications a Russia-Ukraine war might have. From a recent Bloomberg article ("Morgan Stanley's Wilson Says Potential Ukraine War a 'Polar Vortex' Risk to Stocks"):**

> *A war "materially increases the odds of a polar vortex for the economy and earnings," Morgan Stanley's chief U.S. equity strategist Michael Wilson wrote in a note to clients. A spike in energy prices "would destroy demand, in our view, and perhaps tip several economies into an outright recession," the strategist and his team said, adding that energy stocks are most at risk of a selloff.*
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> *Wilson, who has persistently warned that U.S. equity markets are heading for a correction and has the lowest year-end target for the S&P 500 index out of all strategists surveyed by Bloomberg, said Monday that investors will soon shift their focus from inflation to economic growth. In fact, a sharply decelerating economy may mean that the Federal Reserve will not hike rates as many times as markets currently expect, he said.*
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> *"This is why we still favor a more defensive, rather than growth, bias within the quality bucket where we believe earnings achievability is less vulnerable to that growth*

disappointment," Wilson said. The stock market's correction remains incomplete, he said.

To be sure, not everyone shares Wilson's gloom. Goldman Sachs Group Inc. strategists cut their year-end target for the S&P 500 index, but they still see an upside or around 11% from current levels for U.S. equities.

"*Despite recent volatility, it's important to remember that we are still in an environment of robust economic and earnings growth, and in our base case we expect upside for equity markets over the balance of the year*," Mark Haefele, chief investment officer at UBS Global Wealth Management said Monday. *"Our base case is that inflation will fall and geopolitical tensions will ease over the coming months, allowing markets to move higher."*

Ok, but what is CIC's position? Our position is that nobody really has any idea. Hence why we advocate using financial planning to set measurable financial goals and make investment decisions based on the goals! In our experience, market predictions are worthless given the substantial amount of unknowns that could impact markets positively or negatively in any one given year.

- **Barron's, in a recent evening market recap, summarized the following:**

While gut-wrenching and potentially tragic for people in danger of living in a war zone, geopolitical shocks tend to be short-term hits to the market. What continues to matter most for the prospects for stocks and bonds in 2022 is the path of Federal Reserve policy.

It's tough to draw a direct line from Ukraine to the S&P 500, but the unfolding situation could still have significant and negative second- or third-order implications.

Russia's status as a major supplier of natural gas and oil to Europe means that already tight global energy supply is at risk of further disruption. Oil and gas inventories are low, production hasn't returned to pre-pandemic levels, and demand continues to increase as the global economy recovers.

The result has been crude oil prices steadily pushing toward $100 a barrel. West Texas Intermediate gained 2.5% today, to $95.46—up 27% in 2022 to its highest price since 2014. Brent, the international oil benchmark, was trading for almost $97 a barrel today. U.S. natural gas prices have dropped from their recent highs a few weeks ago, but remain at elevated levels.

War in Ukraine that interrupts the flow of fuel through the region will mean even higher oil and gas prices, which will sooner or later add to the upward pressure

on already decades-high inflation in the U.S. The market is laser-focused on the monthly measures of inflation and their implications for the Fed's next interest rate move.

- **Finally, we would note that periodic market pullbacks are a normal occurrence in the context of longer-term investing. Interestingly, the S&P 500 has historically bounced back faster from declines than what most investors might otherwise think, so long as the pullback is of a lesser extreme (i.e. less than a 20% decline).**

Declines in the S&P 500 since 1946

Decline	# Occurrences	Approximate Frequency	Average Time to Recover (in months)
5%-10%	84	~ 1x per year	1
10%-20%	29	~ Every 2.5 years	4
20%-40%	9	~ Every 8.5 years	14
40%+	3	~ Every 25 years	58

Source: Guggenheim

All of that said, we know it doesn't feel good when markets go down and that for some no amount of data will offer solace. If you would like to discuss the status of your investments and financial plan, please don't hesitate to reach out!

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