Market Performance around Crisis Events

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The U.S. stock market (as represented by the S&P 500 Index) fell sharply on Thursday (February 24) after Russia launched military attacks on Ukraine. This marks the fifth consecutive down day for the market and moves deeper into correction territory (more than a 10% drop), down close to 12% since the market peaked at a record high on January 3. As history has shown, while crisis events elicit an emotional response, the stock market has a general resiliency to move upward and crisis events often prelude strong forward market returns. (Please see the chart on pg. 2, "Crisis and Market Recovery.")

Current Market Considerations

1. **Diversification Works:** Not every asset class has been down each day. For example, higher quality bonds, defensive stock sectors, U.S. dollar, gold, oil and other diversifying assets have risen in price and helped support diversified portfolio returns. These time periods of market weakness are when portfolio diversification shows its true benefit.
2. **Bad News is Sometimes Good News:** While military conflict is never a good thing, the economic and market disruptions it has caused have led to a silver lining. In this environment, central banks may want to slow their plans for tightening (raising rates) and therefore actually support financial markets in the future.
3. **Inflation Persists:** One thing to be conscious about is that oil and gas prices (as well as other commodities) will be further disrupted, along with continued supply chain problems, adding to already high inflation readings. Given that inflation erodes wealth and could be a headwind to portfolio returns, it will be important to set "real" return expectations.

Future Market Considerations

1. *"In the short run, the market is a voting machine but in the long run it is a weighing machine."* – Benjamin Graham reminds us to focus on fundamentals. In the short term, there is often market turmoil driven by news headlines and fear. But the long-term backdrop has not changed: Economic and corporate earnings remain strong. Remember that in the long-term, the market is driven by fundamentals.
2. *"Be fearful when others are greedy and greedy when others are fearful."* – Warren Buffet's quote leads to the notion that you must try and avoid behavioral biases that lead to poor investment decisions. Given the strong fundamental backdrop and a potentially oversold market, this could be an opportunity to add quality investments at discounted prices.
3. *"It's waiting that helps you as an investor, and a lot of people just can't stand to wait."* – Charlie Munger delivers the point that sometimes the best thing to do is "nothing" in the face of market volatility. Being invested in a portfolio based on your risk tolerance and long-term goals, while weathering short term volatility, is the key to investment success.

As always, Dynamic recommends staying balanced, diversified and invested. Despite these short-term market pullbacks, it's more important than ever to focus on the long-term, improving the chances for investors to reach their investment goals.

Crisis and Market Recovery

(S&P 500 Index Performance Post Historical Crisis Events)

Event	Event reaction dates	Percent of gain/ loss during event	S&P 500 percentage of gain/loss after last reaction date			
			1 month later	1 year later	5 years later	10 years later
Fall of France	5/9/40–6/22/40	–18.2	3.1	5.2	15.9	13.2
Attack on Pearl Harbor	12/6/41–12/10/41	–6.9	4.5	16.0	18.1	17.1
Outbreak of Korean War	6/23/50–7/13/50	–11.1	9.5	42.0	27.6	18.4
Cuban Missile Crisis	8/23/62–10/23/62	–9.9	15.5	41.1	15.8	11.0
President Kennedy assassination	11/21/63–11/22/63	–2.8	7.0	27.8	12.4	7.0
U.S. attacks Cambodia	4/29/70–5/26/70	–15.0	6.4	49.0	9.3	9.3
President Nixon resigns	8/9/74–8/29/74	–13.4	–6.8	30.6	14.6	14.6
1987 stock market crash	10/2/87–10/19/87	–31.5	7.1	27.9	17.0	18.9
Gulf War ultimatum	12/17/90–1/16/91	–2.8	17.2	36.6	17.3	18.0
Attempted coup in USSR	8/16/91–8/19/91	–2.3	3.2	14.5	15.2	14.3
September 11 terrorist attacks	9/10/01–9/21/01	–11.6	11.3	–11.1	8.3	3.9
U.S. invades Iraq	3/18/03–3/31/03	–2.1	8.2	35.1	11.3	8.5
Collapse of Lehman Brothers	9/5/08–11/20/08	–39.1	18.3	48.8	21.5	15.8
U.S. debt downgrade by S&P	8/5/11–10/3/11	–8.0	14.9	35.0	17.0	17.1
U.K. Brexit referendum	6/23/16–6/27/16	–5.3	8.5	23.5	18.7	—
Covid-19 pandemic	2/19/20–3/23/20	–33.8	25.2	77.8	—	—
Pandemic recovery slows	9/2/20–9/23/20	–9.5	7.2	39.5	—	—

Historical references do not assume that any prior market behavior will be duplicated. Past performance does not indicate future results. The S&P 500® Index is an unmanaged index of common stock performance. You cannot invest directly in an index. Indexes are unmanaged and used as a broad measure of market performance. Source: Putnam Investments

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