STANDER FINANCIAL

MARKETS, WAR, AND THE ECONOMY

With everything unfolding in the Middle East, it is worth stepping back and looking at what these headlines may actually mean for markets and the broader economy. As expected, markets reacted with some volatility due to all of the uncertainty, energy concerns, and geopolitical risk involved.

When events like this occur, it helps to step back and see things through two perspectives:

- The macroeconomic view
- Your personal financial plan & investment strategy

Why Markets React Quickly

If there is one thing the markets don't like, it's uncertainty. Stock market fluctuations tell the story of what the investors are expecting to happen in the future. So when a conflict like this breaks out, markets immediately "price in" the unknown:

- Energy supply disruptions
- Oil prices and inflation pressure
- Interest rate impacts
- Military escalation
- Global trade

Headlines often create sharp market volatility.

Oil is often a first major concern because it impacts almost every part of the economy. From transportation, to manufacturing and consumer purchases, when oil prices spike, there is an immediate reaction and concern about gas prices and inflation.

That said, short-term market reactions and long-term outcomes are often very different.

What History Shows About Markets During War

Though wars almost always create volatility, and rightly so, they don't necessarily have the long term impact we think they do.

Historically, during wars we've seen:

1. Governments increase spending
2. Industrial production often rises
3. Technology and infrastructure investment accelerate
4. Energy and defense sectors expand

Major geopolitical events often lead to short term sell offs as expected, but then followed by recovery once markets adapt to the new environment. To be clear, in no way should this minimize the human impact of war. Rather, if you decide to look at it from a purely economic standpoint, which is what we're doing today, history shows economies can be remarkably resilient.

Perspective On Past Wars

Where the war is fought, matters. Wars on your own territory almost always have a negative long term impact. The US hasn't really had any war on our own soil since the Civil War, so oftentimes the US hasn't experienced long term negative impacts as most would think. Matter of fact, it's sometimes had the opposite effect in the past.

Across dozens of major geopolitical events since World War II, the S&P 500 has produced an average one-day decline of just -1%. Essentially, even what seems to be a terrifying world event tends to trigger declines that are notable, but not catastrophic.

History shows markets usually absorb shocks quicker than people expect. On average, they tend to bottom within about 18 days, and in many cases recover back to prior levels within five to six weeks.

Across these wars, market results averaged:

- 1 month later: +0.2%
- 3 months later: +3.8%
- 6 months later: +8.0%
- 12 months later: +9.8%

What The Market Is Actually Built On

The stock market reacts to headlines, but isn't built on them.

At its core, the market is built on:

- Corporate earnings
- Productivity
- Employment
- Innovation
- Consumer spending
- Business confidence

Temporary geopolitical conflicts often shake confidence, but long-term market growth is driven by whether businesses continue producing profits and consumers continue to spend and support the economy.

Right now, many of those underlying fundamentals remain intact.

Current Economic Fundamentals: Should We Still Have Cautious Optimism?

1. **Employment remains relatively healthy**
The labor market has softened modestly, but employment remains historically very stable.

2. **Consumers are still spending**
Household spending continues to support economic growth.

3. **Corporate earnings remain resilient**
Many major companies are still producing strong profits despite higher interest rates.

4. **Inflation has been settling down from peak levels**
While not fully solved, inflation is far below where it was at its worst.

5. **Interest rates continue to stabilize**
Markets increasingly believe we are nearer the end of aggressive rate pressure than the beginning.

6. **GDP growth remains positive**
Even with higher interest rates, global uncertainty, our economic growth has remained positive

7. **PMI Continues to Signal Expansion**
The Purchasing Managers' Index (PMI) gives insight into business activity across manufacturing and services.

A PMI reading above 50 generally signals expansion. We're currently sitting at 56.

Does this change your long-term plan?

For most retirees, the answer is no.

Short-term geopolitical events rarely change the core drivers of long term wealth:

1. Disciplined investing
2. Diversified portfolios
3. Income planning
4. Tax strategy

and managing emotional reactions to volatility.

Markets will continue reacting to headlines. But retirement plans are built to endure many different environments, including wars, recessions, elections, and crises.

Final Perspective

To be very clear, none of this should be interpreted as minimizing the seriousness of war or human conflict. Real human lives are impacted and that isn't something we should ever ignore.

As you consider your own situation and financial wellbeing, history reminds us that economies are often more resilient than headlines suggest. This is a moment of perspective, not prediction of what will happen. None of us know exactly how headlines and reality unfold from here, and frankly markets will likely keep reacting day by day for a while.

From an economic perspective, the environment still supports being cautiously optimistic. Not because the war and risk doesn't exist, but because many of the economy's core pillars remain intact.

History rarely rewards panic. It more often rewards discipline.

Stay steady.

Keep on with your strategy.

And above all, let's keep praying.

Blessings,

David