



# How Should Investors Process the Israel-Hamas War?

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The Key Wealth Institute is a team of highly experienced professionals from across wealth management, dedicated to delivering commentary and financial advice. From strategies to manage your wealth to the latest political and industry news, the Key Wealth Institute provides proactive insights to help grow your wealth.

I am privileged. I live in a leafy Cleveland suburb where I do not hear sounds of bombs detonating or fighter jets flying overhead, and the images of incomprehensible human suffering appear only on my TV, not outside my window. I have friends who have been emotionally affected by the unspeakable horrors occurring in the Middle East. But thankfully, none have been directly or even indirectly subjected to the immense human tragedy that has engulfed this region of the world.

Given this, I profess a heavy dose of humility when writing this note and hope it does not come across as callous or cavalier to anyone who reads it, for I cannot begin to imagine the deep and lasting wounds caused by the events that have occurred over the last 10 days. Admittedly, on several levels, I struggle to make sense of them. However, one of my responsibilities is to provide thoughts to our clients and colleagues as to how they might process the war between Israel and Hamas and consider possible economic and market implications.

Historically, major geopolitical events have been accompanied by sharp declines in stock prices. Bond prices tend to rally, as does the US dollar, and certain commodities also increase, although their movements tend to be more volatile. Soon thereafter, however, equities generally stabilize, with recoveries generally beginning less than a month after the sell-off started.

For instance, in the aftermath of 9/11, on the day after stocks resumed trading, the S&P 500 Index declined by 7%. By early October, however, the index returned to the level it had reached just prior to the attacks. Three months later, the index was more than 4% higher.

That said, a year later in 2002, stocks slid backwards for reasons largely unrelated to the terrorist attacks in 2001. This highlights the fact that while geopolitical events can certainly disrupt the economic environment, other forces, such as prevailing economic conditions (e.g., monetary policy interest rates) and market fundamentals (e.g., corporate earnings and valuations), play a larger role over longer time horizons.

Today, the markets' more muted response is notable and may possibly prompt some to ask why this is the case. We would contend that the recent market action is again being driven by factors mostly unrelated to geopolitics. Last week, for example, the S&P 500 Index gained 0.4%, while international stocks in developed markets advanced 1.0% and emerging market equities increased by 1.5%. The trigger was a broad decline in long-term interest rates which, in weeks prior, had been increasing at a pace too concerning to many market participants.

Interest rates retreated last week due, in part, to investors seeking safe havens. Yet, the decline in interest rates was initially precipitated by comments from key members of the Federal Reserve, who suggested that interest rates might have peaked, underscoring the notion that economic conditions are typically a larger influence on markets.

Furthermore, today's market action reflects relatively modest economic outcomes, for now. Thus far, Iran and other countries in the Middle East have not engaged in

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an overt and militaristic way. Similarly, the world's biggest economies are urging pragmatism. Should this dynamic change, however, it could have material yet unknowable consequences.

Nevertheless, despite the uncertain nature of how this terrible situation may evolve, we do not advise de-risking portfolios given that market drawdowns driven solely by geopolitical events have tended to be short-lived. Rather, we would remain focused on ensuring one's portfolio is fully diversified and that adequate sources of liquidity exist to meet known and potential funding needs.

All of this is to say that recent events are not trivial, nor are they insignificant. But of far greater significance is the idea that we should take this time to reflect on what truly matters: the safety and well-being of our families and friends and demonstrating compassion, kindness, and gratitude towards others.

In closing, I'll share a more succinct view expressed by a well-known investor who expressed a similar sentiment with his clients last week: "Put your portfolio concerns aside and focus instead on your loved ones. Give them as many hugs and kisses and kind words as you can. It's a much better use of your time."

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For more information, please contact your advisor.



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