Market Flash Update 15 April 2024

What happened?

On 14 April 2024 evening Singapore time, the Middle East tensions escalated with Iran launching over 300 drones and missiles towards Israel, in retaliation against Israel's attack on Iran's embassy on 1 April which killed senior Iranian commanders. A U.S.-led coalition worked with Israel to intercept nearly all the drones and missiles. A few fell inside Israeli territory, causing minor damage to a military base and seriously injuring a young girl.

Should investors be concerned?

Investors should not be concerned but should expect volatility. We've seen that markets tend to have a knee-jerk reaction and then settle back. This time was the same. On Friday evening Singapore time, gold and oil prices (which tend to be most sensitive to geopolitical tensions) spiked in a rather muted fashion, rising less than 2% on expectations the attack. Within hours, the prices dropped back down to levels even before the day started.

How about market response after the attack? On Monday morning, they traded as if nothing had happened, moving less than a fraction of a percentage point at the time of writing. Gold and oil continued to trade down, while S&P futures were up marginally. While we would not trivialize the loss of lives throughout this period, **markets are quickly looking past the event.**

What does this mean for investors?

How about the longer-term impact? By that we do not mean the typical 5-10 year horizon but the shorter time horizon of months that investors are fixated on when events compel them to focus on the short term. This table shows that investors should not be concerned as markets tend to end up positive even within a short 12-month horizon, up 8.6% on average.

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%

Source: Truist. Performance shown for S&P 500

One might recall we used the same table during the start of the Russia-Ukraine war two years ago. Back then, there were concerns that “this time is different”. Within a month of the Russia-Ukraine attack, equities were up 3.74%, very different from the pessimistic expectations.

Additional thoughts on the event

If handled well, this latest attack might have been a way to resolve the escalating tensions as both sides came out with a ‘win’. The Iranians got their counterattack with a show of force to avenge the losses at the embassy. The Israelis ‘demonstrated’ that the Iron Dome could withstand a concerted Iranian attack with minimal losses. The U.S. has also announced that it would not back any follow-up counterattack operations against Iran. Both sides have let off some steam and may be less inclined to push harder knowing the outcome may not play to their benefit.

Investor implications

While the longer-term outcome is clear, in the short-term the market may still use this as an excuse to sell-off in the coming days and weeks. We do not expect many to see this as a window of opportunity to deploy more capital even if it may be a better opportunity for the long-term investor.

Importantly, investors should not overreact in a counterproductive manner. At the end of the day, the fact is that markets recover after such geopolitical events. If you are properly diversified, those who are prepared can shrug off the short-term concerns and let your money compound over the long-term.