

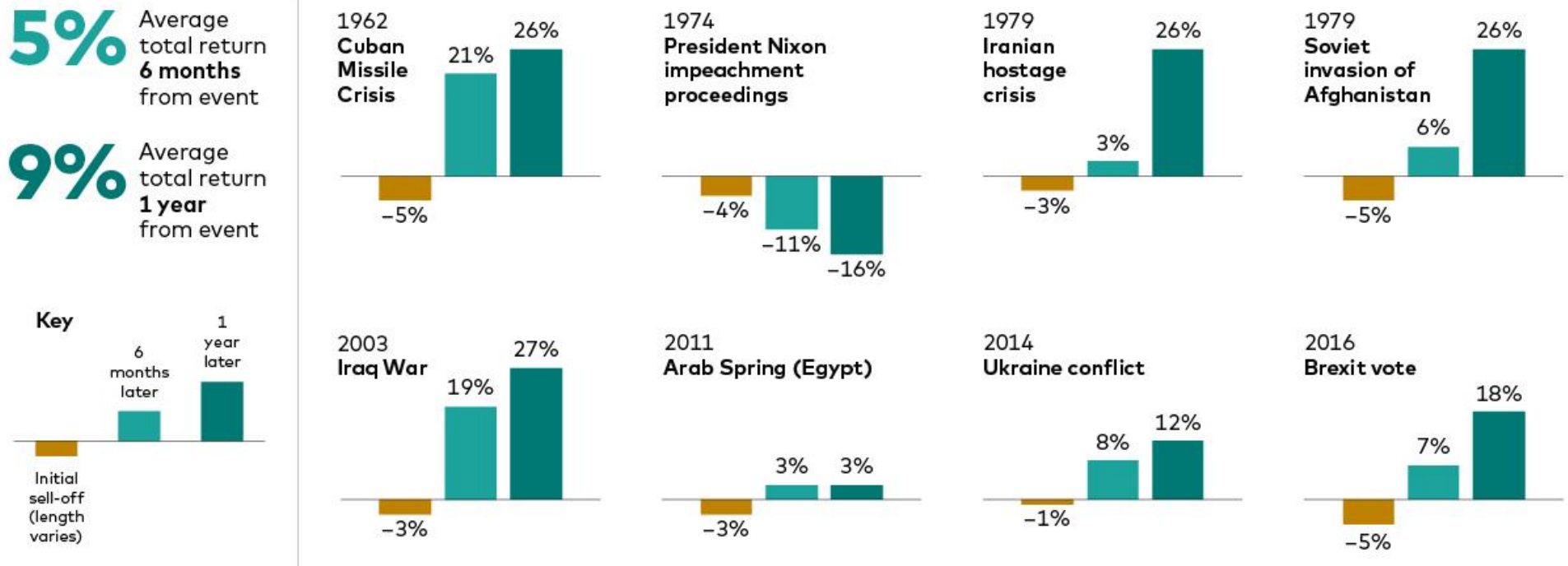
# How to withstand challenging markets....

As we're all well aware, events in Ukraine are creating a human toll and immeasurable suffering. Economic responses, including sanctions, have led to market turmoil and anxiety about what may come next. An emotional reaction is natural.

When it comes to investing, however, it's best to resist the urge to act. It's not easy, but in a situation such as this, we always recommend we steel ourselves for what may come and try to keep emotions out of investing decisions.

One of our investment partners, Vanguard, has studied more than two dozen geopolitical events of the past 60 years, some of which roiled the markets, to offer some perspective on how financial markets could react over the coming weeks and months:

## Geopolitical sell-offs have often been short-lived



**Sources:** Vanguard calculations, as at 31 December 2021, using data from Refinitiv. Returns are based on the Dow Jones Industrial Average to 1963 and the S&P 500 Index thereafter. All returns are price returns and expressed in US dollars and do not include investment costs. Not shown, but included in the averages, are returns after the following events: Suez Crisis (1956), construction of the Berlin Wall (1961), assassination of President Kennedy (1963), authorisation of military ops in Vietnam (1964), Israeli-

Arab Six-Day War (1967), Israeli-Arab War/oil embargo (1973), Shah of Iran's exile (1979), US invasion of Grenada (1983), US bombing of Libya in Syria (2014), and President Trump impeachment proceedings (2019 and 2021).

As the illustration shows, it hasn't taken long for equity markets to recover from initial sell-offs in response to geopolitical events. Yet we wouldn't have predicted such quick recoveries near the onset of any of these historical sell-offs. Nor do we predict one now as markets digest fast-moving developments related to Ukraine. Rather, we need to remain aware of the risks.

## **A new challenge for markets and policymakers**

Inflation, already accelerating to multi-decade highs, may have impetus to climb further still, beyond previous expectations, as the supply of goods from the region is constricted. Higher energy prices coupled with a potentially more challenging business environment owing to the conflict could weigh on economic growth and corporate profits. As a result, equity markets may respond poorly in the short run.

The economic and market outlook this year already had challenges we would expect for policymakers who aimed to promote still-fragile Covid-19 economic recoveries and stifle worrisome inflation. The uncertain events in Ukraine make the policy calculus, especially for interest-rate-setting central banks, more problematic than it had been.

Invariably, the markets will test investors' resolve yet again. Such environments may prompt investors to abandon well-considered asset allocations and encourage them to try to time the market, somehow picking not only the right time to exit, but also the right time to get back in.

Instead, our philosophy has always been, and remains, to maintain discipline and focus on what we can control; one of the tenets of investment success. They're what keep investors, in the long run, still standing.

## **Geopolitical sell-offs are typically short-lived.**

For further information please contact:

