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Keeping a Long-Term Perspective Amidst Geopolitical Volatility (Video)

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Major geopolitical events can quickly dominate the headlines and create uncertainty for investors. Recent developments in the Middle East — including the U.S. military campaign in Iran — have led to heightened market volatility and understandably raised questions about what these events may mean for portfolios and the broader economy.

In moments like these, it's natural for investors to feel concerned or to wonder whether action is needed. Constant news coverage and dramatic headlines can make short-term market movements feel more significant than they ultimately prove to be. However, history shows that while geopolitical crises can create temporary volatility, they rarely change the long-term trajectory of financial markets.

In our latest video, Ben Wallace, Chief Market Strategist at Grimes & Company, provides perspective on how markets typically respond to geopolitical events, what factors investors should actually be paying attention to, and how our investment process is designed to navigate periods of uncertainty. Drawing on historical examples and current market dynamics, Ben explains why maintaining a disciplined, long-term strategy remains the most effective approach for investors during times like these.

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VIDEO TRANSCRIPTION:

Hi, my name is Ben Wallace, Chief Market Strategist at Grimes & Company. I want to take a few minutes to address the recent geopolitical headlines and the impact they may be having on how investors are feeling about their portfolios. As we record this on March 4th, we have had just two days of market reaction to the U.S. military campaign in Iran. This is an opportunity for us to discuss how we manage such events in our process. First off, an emotional reaction to major news headlines is a normal human response.

When news coverage is constant and dramatic, it's completely normal to feel uneasy. Whether geopolitical, such as the military action we're seeing today, political events such as elections, or other headline grabbing events like hurricanes, major global events naturally trigger emotional responses. Concern, uncertainty, and sometimes the urge to take action. In short, when faced with stress, our systems are wired to want to do something via their fight or flight response. Yet while this is a natural human reaction, history shows us that even very significant geopolitical crises have rarely altered the long term direction of financial markets and applying this need to take action to an investment portfolio can actually be counterproductive.

The second part of the process is understanding what part of an event, if any, is relevant for the markets. Just as with any new development, new information enters the system and prices need to adjust. Early on, uncertainty is high, so prices will be more volatile. By understanding what factors the market is actually focused on, investors can start to reduce their concerns by looking for the signal amidst the noise. For this event, the primary financial market focus is on energy prices and specifically the ability for shipping traffic to move through the Strait of Hormuz. This is a situation of restricted distribution, not limited supply. The length of the shipping disruption will determine how long energy prices stay elevated. But once the shipping access issues are addressed, the price disruption is expected to abate.

As an example, the market started to move midday on Tuesday amid stories that the U.S. would provide insurance and naval escorts to tankers. The follow on impact from energy prices is their upward pressure on inflation, which is causing global interest rates and thus bond prices to be volatile as well. The Fed, for example, would be less likely to cut interest rates if it sees inflation ticking up due to rising oil prices. But if the Fed sees the price pressure as temporary and abating, so too will the markets, and thus the market impact on interest rates should uncertainty as well.

Third, by looking at prior examples of major geopolitical events, we can see that the market reactions are not as significant nor as long lasting as we would think. One powerful example is 9-11. The financial heart of the United States was attacked, markets closed for several days, and global economic activity was disrupted. When markets reopened, the S &P 500 fell roughly 10%. Yet within about a month, it had recovered to its pre-9-11 level.

Without question, this was a significant geopolitical event impacting trillions of dollars in spending, tens of thousands of lives, and overall shifting the path of world history for the next decade. But from a market standpoint, when you look at a long-term chart today, that event is barely noticeable amid the broader trend. More recently, during the highly disruptive pandemic, the S &P 500 declined approximately 34 % from its February 2020 peak to its March 23rd low.

It was a rapid and unsettling drop. Large portions of global economic activity went into lockdown. And yet by June 3rd, the market had recovered back to its pre-lockdown March 2nd level, just three months later. And this event was far more impactful than the global economy than 9-11. Another relevant example, more similar to today's situation, is the Russia-Ukraine conflict in 2022, which was disruptive to energy markets.

After Russia's invasion of Ukraine in February 2022, oil prices surged, rising from approximately $85 per barrel to nearly $120 as supply concerns mounted. Yet within six months, oil prices had fallen back below $80 as markets adjusted and supply dynamics evolved. These examples are important because they remind us that markets ultimately move based on long-term economic fundamentals, such as earnings growth, innovation and productivity, not headlines alone.

While geopolitical or global crises can create short-term volatility, they have historically not derailed the long-run trajectory of diversified portfolios. In fact, the greatest risk to an individual investor is that making changes during periods of heightened emotion can sometimes lock in temporary losses and interrupt a long-term strategy that was carefully built around their goals. Of course, as part of a strategy, you can have tactical tools. Ours will react if needed based on internal models, not reading the news.

Depending on how the situation unfolds, our individual stock strategies might make adjustments to take advantage of perceived opportunities on a stock-specific basis. And, of course, various fund managers we use are making their own adjustments. Importantly, these tools are selected ahead of time, not mid-crisis. Nor do they involve major shifts in the underlying strategic allocation of a portfolio. At Grimes & Company, our client portfolios are intentionally diversified and structured to help weather periods of uncertainty like this.

If watching the news is increasing anxiety, one of the most helpful steps can simply be limiting exposure to the constant updates and refocusing on the bigger picture of your financial plan. As always, we're here to talk through any concerns and make sure you remain confident and comfortable with the strategy that we've put together. If you have any further questions, don't hesitate to reach out to your advisor at Grimes & Company. Thank you for your time.

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