



WASATCH
 CAPITAL MANAGEMENT OF
RAYMOND JAMES®



“The stock market is like a roller coaster, except I never throw up my hands and go wheeeeeeeeeeeeeeeee!”

MARCH 2022

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WAR IS HELL**
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War is Hell -Article by Mark Lazar

The stock market is a mechanism for transferring wealth from the impatient to the patient. - Warren Buffett

Item	YTD Change
Dow Jones Ind Avg	<u>-6.73%</u>
S&P 500 Index	<u>-8.23%</u>
EAFE Foreign Index	<u>-6.73%</u>
Emerging Market Index	<u>-4.93%</u>
Barclays Agg Bond Index	<u>-3.25%</u>
10-Year Inflation Forecast	<u>2.67%</u>
Unemployment Rate	<u>3.8%</u>

**Market index data as of 2/28/2022*

Though at times necessary, war is always an unpleasant affair, and our hearts and prayers go out to those directly affected by the Russia/Ukraine conflict. While its human nature to feel horrified if not despondent by the tragedies of war, it's important for investors to understand how geopolitical events affect public markets.

Markets are forward looking, so anticipated negative events, such as the Russia/Ukraine conflict, are at least partially priced-in to the markets well before they actually occur. To this point, individual investors care greatly about human suffering, whereas markets instead focus on how events affect fundamentals, such as revenues, earnings, trade, interest rates, currency values, inflation, [fiscal policy](#), and the like.

We tend to think of markets as monoliths, however, nothing could be further from the truth. Markets are comprised of millions of investors, individuals and institutions, all of whom have emotions. Even the most stoic, battle-hardened investor is not immune to periods of fear, panic, euphoria, despair, herd mentality, and even irrational exuberance.

Business schools extol the virtues of [market efficiency](#), meaning that security prices reflect all known available information at any given time. However, I would argue that markets, while long-run efficient, in the short-run, can react to headlines (headline risk) in the same manner as individuals. News of negative events (potential as well as confirmed) oftentimes result in the immediate sale of liquid/semi-liquid [risk assets](#), such as stocks, corporate and high yield bonds, [REITs](#), etc., and subsequent shift to [risk-free assets](#), such as Treasury securities ([T-bills](#), [notes](#), and [bonds](#)) and cash. In addition to government securities and cash, precious metals are generally considered a safe harbor for investors, and have been a recent beneficiary of the Russia/Ukraine conflict.

Since early January, as the prospect of war increased, markets reacted accordingly. The broad stock indices sold off, Treasury prices increased/yields fell, and oil, gold, and silver prices soared. But not all stocks are negative for the year. Oil, gas, and defense contractor stocks are significantly higher. While this conflict has played out as one might have expected, the relationship between geopolitical crises and market outcomes isn't as simple as it seems.

The chart below provides an 80-year history of various events and corresponding market reaction.

Geopolitical Events And Stock Market Reactions

Market Shock Events	Event Date	S&P 500 Index		Calendar Days To	
		One-Day	Total Drawdown	Bottom	Recovery
Iranian General Killed In Airstrike	1/3/2020	-0.7%	?	?	?
Saudi Aramco Drone Strike	9/14/2019	-0.3%	-4.0%	19	41
North Korea Missile Crisis	7/28/2017	-0.1%	-1.5%	14	36
Bombing of Syria	4/7/2017	-0.1%	-1.2%	7	18
Boston Marathon Bombing	4/15/2013	-2.3%	-3.0%	4	15
London Subway Bombing	7/5/2005	0.9%	0.0%	1	4
Madrid Bombing	3/11/2004	-1.5%	-2.9%	14	20
U.S. Terrorist Attacks	9/11/2001	-4.9%	-11.6%	11	31
Iraq's Invasion of Kuwait	8/2/1990	-1.1%	-16.9%	71	189
Reagan Shooting	3/30/1981	-0.3%	-0.3%	1	2
Yom Kippur War	10/6/1973	0.3%	-0.6%	5	6
Munich Olympics	9/5/1972	-0.3%	-4.3%	42	57
Tet Offensive	1/30/1968	-0.5%	-6.0%	36	65
Six-Day War	6/5/1967	-1.5%	-1.5%	1	2
Gulf of Tonkin Incident	8/2/1964	-0.2%	-2.2%	25	41
Kennedy Assassination	11/22/1963	-2.8%	-2.8%	1	1
Cuban Missile Crisis	10/16/1962	-0.3%	-6.6%	8	18
Suez Crisis	10/29/1956	0.3%	-1.5%	3	4
Hungarian Uprising	10/23/1956	-0.2%	-0.8%	3	4
N. Korean Invades S. Korea	6/25/1950	-5.4%	-12.9%	23	82
Pearl Harbor Attack	12/7/1941	-3.8%	-19.8%	143	307
Average		-1.2%	-5.0%	22	47

Source: LPL Research, S&P Dow Jones Indices, CFRA, 01/06/20

As the previous chart confirms, the market's response to virtually every crisis/event is [risk-off](#). This is largely due to the fact that markets abhor uncertainty, and there are very few events more uncertain than war. But after a bit of time to digest the facts, markets tend to quickly filter out the noise and focus instead on fundamentals, such as how the current event/crisis will affect the earnings of Walmart, Home Depot, Amazon, or Starbucks? Realistically, very little, if at all. In fact, some companies will enjoy greater revenues and earnings than they otherwise would have.

William Tecumseh Sherman famously said, "War is hell." But that doesn't mean it's hell for the markets in the long-run. Savvy investors understand that geopolitical events and crises are inevitable and there will always be some reason for hand wringing, but generally the wisest course of action is to sit on one's hands instead. Investors who had the right mix of stocks, bonds, cash, real estate, and alternatives prior to the event, likely have the right allocation after the fact. Oftentimes, the best advice for investors is to not fixate on the news, but to instead read a book, go for a hike, bike ride, or enjoy the fellowship of one's friends and family. The best advice I ever heard came from the wise Jack Bogle, founder of The Vanguard Group; "Don't do something, just stand there." This too shall pass.

Mark Lazar, MBA

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Wasatch Team Updates



Mark

Mark & Savina on the beach



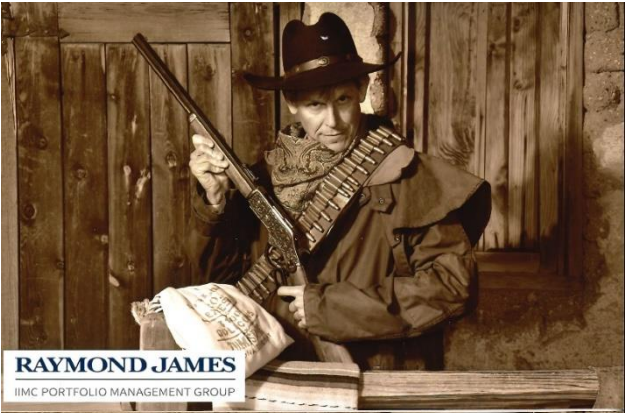
Stan

Stan being a Grandpa!



Rees

Rees & family in Park City



John

John practicing his retirement plan skills at a recent Raymond James Conference!



John Clower

Reed Grant

Reed and his son-in-law playing golf at Poipu Shores





Nicola

Nicola with her grandbabies!



Matt

Powder day at Alta!!



Jon

Jon at Utah Warriors Rugby match with daughter Mailea and the Mascot!



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