

Iran Escalation: How Markets Have Reacted to Geopolitical Events

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As with the recent escalation in the Middle East, financial markets are constantly exposed to unpredictable events — from geopolitical conflicts and terror attacks to political transitions, corporate crises, and systemic financial shocks. While each new development tends to generate uncertainty and anxiety, history consistently shows that markets are far more resilient than most investors expect.

Reviewing market reactions across more than eight decades of market history helps us understand how stocks typically behave when the unexpected happens, and which conditions matter most to determine the likely depth and duration of any drawdowns. It is important to note that past performance does not guarantee future results.

Immediate Market Reactions: Sometimes Sharp but Often Short-Lived

Across more than two dozen major geopolitical events since World War II, the S&P 500 has produced an average one-day decline of just -1%. In other words, even seemingly dramatic world events tend to trigger declines that are notable, but not catastrophic. Typically, markets tend to absorb shocks quickly, stabilize (bottoming on average within 18 days), and recover within a matter of weeks (the average time taken for the S&P 500 to get back to pre-event levels is under 39 days). Importantly, the scale of the initial event rarely predicts the magnitude of the market impact.

Stocks Largely Take Geopolitical Events in Stride

S&P 500 Index Returns and Select Geopolitical Events

Market Shock Events	Event Date	S&P 500 Returns		Days	
		One Day	Total Drawdown	Bottom	Recovery
Pearl Harbor Attack	12/7/1941	(3.8%)	(19.8%)	143	307
N. Korean Invades S. Korea	6/25/1950	(5.4%)	(12.9%)	23	82
Hungarian Uprising	10/23/1956	(0.2%)	(0.8%)	3	4
Suez Crisis	10/29/1956	0.3%	(1.5%)	3	4
Cuban Missile Crisis	10/16/1962	(0.3%)	(6.6%)	8	18
Kennedy Assassination	11/22/1963	(2.8%)	(2.8%)	1	1
Gulf of Tonkin Incident	8/2/1964	(0.2%)	(2.2%)	25	41
Six-Day War	6/5/1967	(1.5%)	(1.5%)	1	2
Tet Offensive	1/30/1968	(0.5%)	(6.0%)	36	65
Munich Olympics	9/5/1972	(0.3%)	(4.3%)	42	57
Yom Kippur War	10/6/1973	0.3%	(0.6%)	5	6
Reagan Shooting	3/30/1981	(0.3%)	(0.3%)	1	2
Iraq's Invasion of Kuwait	8/2/1990	(1.1%)	(16.9%)	71	189
U.S. Terrorist Attacks	9/11/2001	(4.9%)	(11.6%)	11	31
Madrid Bombing	3/11/2004	(1.5%)	(2.9%)	14	20
London Subway Bombing	7/5/2005	0.9%	0.0%	1	4
Boston Marathon Bombing	4/15/2013	(2.3%)	(3.0%)	4	15
Bombing of Syria	4/7/2017	(0.1%)	(1.2%)	7	18
North Korea Missile Crisis	7/28/2017	(0.1%)	(1.5%)	14	36
Saudi Aramco Drone Strike	9/14/2019	(0.3%)	(4.0%)	19	41
Iranian General Killed In Airstrike	1/3/2020	(0.7%)	(0.7%)	1	5
U.S. Pulls Out of Afghanistan	8/30/2021	0.4%	(0.1%)	1	3
Escalation of Russia/Ukraine Conflict	2/17/2022	(2.1%)	(6.8%)	13	23
Israel-Hamas War	10/9/2023	0.3%	(4.5%)	14	19
Iran Drone/Missile Attacks on Israel	4/14/2024	(1.2%)	(3.0%)	5	15
U.S.-Israeli airstrikes on Iranian nuclear sit	6/21/2025	1.0%	0.0%	0	0
Iranian Supreme Leader Killed in Airstrike:	2/28/2026	0.0%	?	?	?
Average		(1.0%)	(4.4%)	17.9	38.8

Source: LPL Research, Bloomberg, FactSet, S&P Dow Jones Indices, CFRA, Strategas 3/2/26

Disclosure: All indexes are unmanaged and cannot be invested in directly. Past performance is no guarantee of future results. The modern design of the S&P 500 index was first launched in 1957. Performance before then incorporates the performance of its predecessor index, the S&P 90.

How do Stocks Perform After Major Events?

Looking at a wider list of historical events, from Pearl Harbor to the Cuban Missile Crisis, from the 1987 stock market crash to 9/11, and from Brexit to the Russia–Ukraine conflicts, stocks have repeatedly demonstrated resilience. The consistent takeaway is that shocks cause volatility, but rarely change the long-term trajectory of the economy unless accompanied by deeper fundamental stress.

In reviewing more than 40 major events, from wars to political resignations, corporate failures, terror attacks, natural disasters, currency crises, and pandemics, a few universal lessons emerge:

- Markets dislike uncertainty but tend to adapt quickly.
- The economic backdrop matters more than the event itself.
- Shocks rarely alter long-term fundamentals, though sometimes can deepen a recession.

Stock Performance After Major Events

S&P 500 Index Performance After Select Major Geopolitical and Historical Events

Market Shock Events	Event Date	S&P 500 Index Returns				Near a Recession?
		1 Month	3 Months	6 Months	12 Months	
Germany Invades France	5/10/1940	(19.9%)	(12.7%)	(4.5%)	(18.7%)	No
Pearl Harbor Attack	12/7/1941	(1.0%)	(11.0%)	(6.5%)	4.3%	No
N. Korean Invades S. Korea	6/25/1950	(10.0%)	1.6%	4.1%	11.7%	No
Hungarian Uprising	10/23/1956	(2.1%)	(2.8%)	(1.3%)	(11.7%)	Yes
Suez Crisis	10/29/1956	(4.4%)	(3.6%)	(0.0%)	(11.6%)	Yes
Cuban Missile Crisis	10/16/1962	5.1%	14.1%	20.7%	27.8%	No
Kennedy Assassination	11/22/1963	6.8%	11.9%	15.5%	23.2%	No
Gulf of Tonkin Incident	8/2/1964	(1.6%)	1.9%	5.3%	2.7%	No
Six-Day War	6/5/1967	3.3%	5.9%	7.5%	13.5%	No
Tet Offensive	1/30/1968	(3.8%)	5.1%	5.2%	10.2%	No
Penn Central Bankruptcy	6/21/1970	(0.1%)	7.2%	16.8%	28.6%	Yes
Munich Olympics	9/5/1972	(1.0%)	5.7%	2.3%	(5.8%)	No
Yom Kippur War	10/6/1973	(3.9%)	(10.7%)	(15.3%)	(43.2%)	Yes
Oil Embargo	10/16/1973	(7.0%)	(13.2%)	(14.4%)	(35.2%)	Yes
Nixon Resigns	8/9/1974	(14.4%)	(7.0%)	(2.8%)	6.4%	Yes
Reagan Shooting	3/30/1981	(0.9%)	(1.8%)	(14.0%)	(16.4%)	Yes
Continental Illinois Bailout	5/9/1984	(3.1%)	1.0%	6.4%	12.8%	No
1987 Stock Market Crash	10/19/1987	8.1%	10.9%	14.7%	22.9%	No
Iraq's Invasion of Kuwait	8/2/1990	(8.2%)	(13.5%)	(2.1%)	10.1%	Yes
Soros Breaks Bank of England	9/16/1992	(2.5%)	3.0%	6.8%	9.9%	No
First World Trade Center Bombing	2/26/1993	1.7%	2.0%	4.0%	4.7%	No
Asian Financial Crisis	10/8/1997	(3.7%)	(1.8%)	14.1%	(1.5%)	No
U.S.S. Cole Yemen Bombing	10/12/2000	2.7%	(0.9%)	(11.3%)	(19.6%)	Yes
U.S. Terrorist Attacks	9/11/2001	(0.2%)	2.5%	6.7%	(18.4%)	Yes
Iraq war started	3/20/2003	1.9%	13.6%	18.7%	26.7%	No
Madrid Bombing	3/11/2004	3.5%	2.7%	1.5%	8.4%	No
London Subway Bombing	7/5/2005	3.3%	1.8%	5.3%	5.5%	No
Bear Stearns Collapses	3/14/2008	3.6%	5.6%	(2.8%)	(41.5%)	Yes
Lehman Brothers Collapses	9/15/2008	(16.3%)	(26.2%)	(34.8%)	(11.7%)	Yes
Boston Marathon Bombing	4/15/2013	6.3%	8.4%	9.7%	17.9%	No
Russia annexed Crimea	2/20/2014	1.5%	2.6%	8.0%	14.7%	No
BREXIT	6/24/2016	6.5%	6.2%	11.0%	19.7%	No
Bombing of Syria	4/7/2017	1.8%	3.1%	7.6%	12.8%	No
North Korea Missile Crisis	7/28/2017	(1.1%)	3.6%	14.8%	13.4%	No
Saudi Aramco Drone Strike	9/14/2019	(1.4%)	5.4%	(8.8%)	12.5%	Yes
Iranian General Killed In Airstrike	1/3/2020	1.9%	(23.1%)	(4.2%)	14.4%	Yes
U.S. Pulls Out of Afghanistan	8/30/2021	(3.7%)	2.8%	(3.4%)	(12.0%)	No
Escalation of Russia/Ukraine Conflict	2/17/2022	1.8%	(10.9%)	(2.2%)	(6.9%)	No
Israel-Hamas War	10/7/2023	1.6%	9.0%	20.8%	32.2%	No
Iran Drone/Missile Attacks on Israel	4/14/2024	2.4%	9.9%	14.4%	5.5%	No
U.S.-Israeli airstrikes on Iranian nuclear si	6/21/2025	1.2%	12.2%	15.3%	?	No
Iranian Supreme Leader Killed in Airstrike	2/28/2026	?	?	?	?	?
Average		(1.1%)	0.5%	3.1%	3.0%	
Average if no recession		0.2%	3.8%	8.0%	9.8%	
Average if recession		(3.6%)	(5.9%)	(6.3%)	(9.8%)	

Source: LPL Research, Bloomberg, FacSet, S&P Dow Jones Indices, CFRA, Strategas 03/03/26

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The Real Differentiator: Recession vs. No Recession

The single most important factor determining market performance after a shock is whether the economy is already in or near a recession. If a shock occurs during an expansion, then markets are typically flat to modestly positive over the next month followed by positive returns over the next three, six, and 12 months (average 12-month post-shock return in non-recessionary periods: +9.8%). However, if a shock occurs near a recession, markets tend to fall across all timeframes, and the average 12-month post-shock return near recessions is -9.8%. This pattern makes intuitive sense: shocks can add volatility, but they rarely derail a fundamentally sound economy; however, if conditions are already fragile, the event can accelerate or amplify existing weakness.

Cross Asset Market Behavior During Shock Events

Equities: Shock events often temporarily rotate leadership toward utilities, staples, gold miners, and defense stocks. Growth-oriented and cyclical sectors typically lag amid growth fears during the volatility window, but rebound as uncertainty fades. Other equity asset classes tend to behave in somewhat predictable ways with small caps tending

to lag as volatility increases, and a strong U.S. dollar, often a safe haven in times of geopolitical conflict, also tends to weigh on (unhedged) non-U.S. equities.

Fixed Income: Shock events tend to trigger flight-to-safety buying, pushing Treasury yields lower as rate policy expectations adjust, particularly if growth expectations deteriorate. If energy prices are affected due to supply disruptions (e.g., in an oil shock) and inflation expectations rise, yields may initially move higher before falling back as risk aversion builds.

Oil and the Energy Sector: Energy markets frequently embed a temporary risk premium following geopolitical stress. Historically, and as markets exhibited this week, oil prices spike on perceived supply risk, energy equities often outperform, but price pressures fade once physical supply and distribution prove resilient.

Gold and Precious Metals: Gold remains one of the most reliable safe haven assets during global shocks. Patterns typically seen include strong initial inflows and continued strength when/if inflation expectations rise as a result of the shock. However, as evidenced in trading on March 3, a surging dollar on safe-haven flows can put downward pressure on precious metals, especially when the metals are technically overbought after a strong rally.

Conclusion: Shock Events are Unsettling but Typically Secondary Drivers for Markets

While global disruptions can feel destabilizing in real time, history supports a disciplined, long-term investment approach, though past performance does not guarantee future results. Shock events introduce volatility, but rarely do lasting damage, unless underlying economic conditions are already deteriorating. For investors, we believe the key is not to predict the next headline, but to understand the cycle, maintain diversification, and try to avoid emotional decision-making during periods of short-term turbulence. The LPL Research Strategic and Tactical Asset Allocation Committee (STAAC) maintains its neutral tactical stance on equities but continues to monitor developments in the Middle East closely to determine the potential impact on the energy sector, broader equity markets, gold and precious metals, and the path of interest rates.

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