



Then and now: Market reactions to military conflicts and what they mean today

Kelly Bogdanova – San Francisco

With the Middle East gripped in an acute crisis, it's worth examining how prior military conflicts and significant geopolitical events impacted the U.S. stock market—and what history suggests for investors today.

In 20 major post-World War II military interventions and hostilities that we evaluated, the S&P 500 fell six percent, on average, from the initial market impact to the trough level. In 19 of the 20 events, the market took an average of only 28 days to return to where it had been prior to those events.

This happened despite some interventions lasting longer—sometimes much longer, as in years or decades. In other words, the duration of a particular conflict historically has not had much bearing on market performance.

But these are just snapshot average statistics that don't tell the full story. As with many studies of small sample sizes, there are notable deviations.

As oil goes, so goes the stock market?

Many times, market performance after such events had unique contours, especially when energy supplies were disrupted or could have been—an issue relevant to today's Middle East crisis that has spread well beyond Iran and Israel to the oil- and natural-gas rich Gulf Arab states.

Two events that prompted oil shocks resulted in double-digit stock market losses: the 1973 Yom Kippur War and Arab oil embargo, and in 1990 when Iraq invaded Kuwait and seized its oilfields. The S&P 500 traded down by 16.1 percent and 15.9 percent, respectively.

During the third oil shock related to a military operation—the beginning of Russia's intervention in Ukraine—the stock market declined “only” 7.4 percent.

Nuances associated with two of those events:

- The Arab oil embargo in October 1973, which lasted five months and occurred when the U.S. economy was much more dependent on oil imports than today, kicked off a lengthy recession and then a malaise period, and an inflation surge that wasn't fully arrested until many years later. There were also fiscal policy and Federal Reserve monetary policy mistakes during this period. The S&P 500 had fits and starts, but it took six long and painful years after the onset of the Arab oil embargo for the market to return to even in 1979, and it didn't move meaningfully higher until the 1980s. Many investors gave up and exited equities altogether in the 1970s—missing substantial market gains from the 1980s onward.

For perspectives on the week from our regional analysts, please see [pages 4–5](#).

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Priced (in USD) as of 3/4/26 market close (unless otherwise stated). Produced: 3/5/26, 14:28 ET; Disseminated: 3/5/26, 15:00 ET

- During the early stage of Russia’s military operation in Ukraine, WTI crude oil was above \$90 per barrel for six straight months in 2022, peaking at nearly \$124 per barrel. We think the U.S. stock market selloff was less acute during this episode than the other two oil shock periods because it became evident that Russian crude oil supplies would not be meaningfully hindered. Also, economic and corporate earnings risks were much lower for North America than they were for Europe, in our view.

Economic fundamentals: Current realities and risks

Economic and corporate earnings trends are key for stock market performance over the mid and longer term, and military interventions can impact these trends in rare cases.

The good news is, heading into this Middle East crisis, our leading U.S. economic indicators were not hinting of U.S. heightened recession risks. Consumer spending, service sector, and employment trends have been relatively sturdy, although there are fragilities for the latter under the surface. The fourth quarter of 2025 corporate reporting season has shown respectable earnings, revenue, and profit margin trends, and forward consensus earnings estimates have risen further.

Despite an above-average U.S. GDP growth forecast in 2026, RBC Global Asset Management assesses that the Middle East crisis has “introduced a new meaningful macro [economic] risk and, while these kinds of military actions don’t usually have lasting economic significance, we acknowledge that the range of potential outcomes for the economy and markets has widened. Iran and the Middle East are a key source of energy for the world, and should the conflict be sustained or even escalate, restrictions to oil supply and/or higher crude prices could hinder economic activity and/or weigh on investor sentiment.”

The RBC Capital Markets commodity strategy team has cautioned that in a prolonged conflict scenario, oil prices could reach above \$100 per

barrel, and global natural gas prices could climb to their highest since the first quarter of 2023.

For the U.S. stock market, RBC Capital Markets equity strategy team makes an important caveat about energy prices: “...the key issue is not whether there is a short-term spike in oil prices. What’s more relevant to stocks, in our opinion, is whether a sustained impact to oil prices is seen, which is what we think would have more of a potential to damage confidence at various levels.”

If a lengthy oil shock occurs and stokes inflation, large portions of the American population do not have much wiggle room to absorb it, in our assessment. Many households are still struggling with the 26 percent cumulative increase in consumer prices that has occurred since January 2020, right before COVID hit.

Continued on next page

S&P 500 responses to select military interventions and hostilities since World War II

Event	Start date*	Trading days to trough	% change to trough	Trading days back to even
N. Korea invades S. Korea	June 25, 1950	15	-12.9%	56
U.S. spy plane shot down in USSR	May 7, 1960	2	-0.6%	4
Bay of Pigs invasion	April 15, 1961	6	-3.0%	14
Cuban Missile Crisis	Oct. 16, 1962	6	-6.3%	13
Gulf of Tonkin Incident (Vietnam)	Aug. 2, 1964	4	-2.2%	29
Lead-up to Six-Day War (June 6)	May 14, 1967	15	-5.6%	20
Tet Offensive (Vietnam)	Jan. 29, 1968	25	-6.0%	46
Cambodian Campaign (Vietnam)	May 1, 1970	18	-14.9%	86
Yom Kippur War, Arab oil embargo	Oct. 6, 1973	42	-16.1%	6 years**
Soviet-Afghan War	Dec. 24, 1979	7	-2.3%	10
Intervention in Grenada	Oct. 25, 1983	11	-2.8%	15
Lead-up to intervention in Panama	Dec. 15, 1989	2	-2.2%	8
Iraq invades Kuwait, oilfields seized	Aug. 2, 1990	50	-15.9%	131
Lead-up to Gulf War (Desert Storm)	Jan. 1, 1991	6	-5.7%	13
Intervention in Yugoslavia (Balkans)	March 24, 1999	3	-4.1%	11
U.S. spy plane captured in China	Apr. 1, 2001	3	-4.9%	7
War in Afghanistan	Oct. 7, 2001	1	-0.8%	3
Lead-up to Iraq War	Feb. 5, 2003	24	-5.6%	28
Russia intervention in Ukraine	Feb. 11, 2022*	17	-7.4%	27
12-Day War (Israel/U.S. and Iran)	June 12, 2025	5	-1.3%	7
Average of all 20 events	—	13	-6.0%	28

□ Red circled data indicate events impacted by crude oil price spikes.

* Dates attempt to capture any material pre-event impact; actual starting dates may differ.

** Following the Arab oil embargo, other economic and monetary factors negatively influenced the number of days to get back to even; this event is not counted in the average.

Source - RBC Wealth Management, RBC Global Asset Management, National Security Archive at George Washington University, Wikipedia, U.S. Naval Institute

Pullbacks are par for the course

We believe it's prudent for investors to assume that military and geopolitical risks can push the U.S. equity market into a temporary five percent to 10 percent pullback or, in rarer cases, an even longer-lasting correction of greater magnitude.

Also, with the S&P 500 currently near its all-time high, such selloffs need to be put into perspective. While the average six percent decline of the past 20 episodes should not be dismissed, it's well within the bounds of a typical, modest pullback in many scenarios that often confront markets—including scenarios that have nothing to do with military clashes.

Brief midyear pullbacks are common, even when the market ends up performing well for the full year. The S&P 500 declined by 10 percent or more at some point during the year in more than half of the years since 1980.

And as we've noted before, midterm election years often have been accompanied by market turbulence. In the 23 midterm years since 1934, the S&P 500 has experienced a noteworthy downturn with an average peak-to-trough decline of just over 20%—typically followed, it must be said, by a robust rebound that usually went on to set new highs.

If an investor's current portfolio allocation to equities cannot be sustained through these types of declines and volatility episodes, then there may be a mismatch between the equity weighting and liquidity needs, risk tolerance, or time horizon that should be addressed.

Plan for volatility

We recommend maintaining U.S. equities at the Market Weight level (long-term strategic allocation level) in portfolios as long as indicators are signaling that the U.S. economic expansion should persist, and S&P 500 profit growth is not materially threatened.

However, we are mindful that this Middle East crisis is highly fluid and unpredictable, and events could escalate further.

We think it's prudent to expect and plan for some potentially unnerving market volatility this year.

For more information about crude oil and natural gas risks related to this crisis and views on the prospects for major equity and bond markets, see our recently published March [Global Insight](#) report.

UNITED STATES

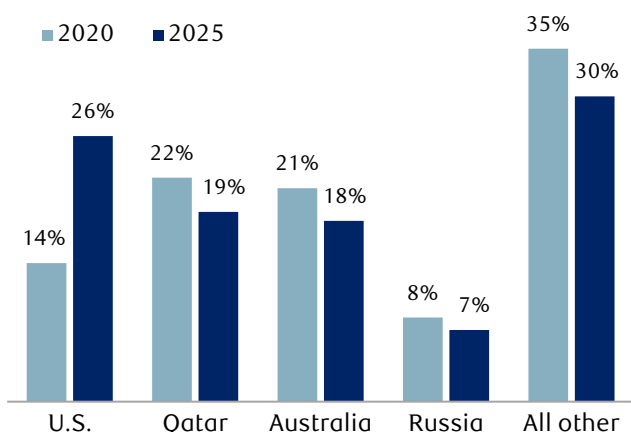
Tyler Frawley, CFA – Minneapolis

■ **The U.S. liquefied natural gas (LNG) industry is emerging as a key strategic asset amid rising geopolitical risks.** The Middle East crisis underscores that energy markets are about more than price—they are defined by reliability and security. Oil often dominates the headlines, but LNG flows are just as exposed to geopolitical risk. This vulnerability became clear when Iranian-launched drones struck key Qatari facilities, forcing QatarEnergy to shut down major sites including Ras Laffan and Mesaieed. These outages alone have removed nearly 20% of global LNG supply, sending European gas prices sharply higher and creating a scramble among buyers to secure reliable alternatives. Even before this disruption, the United States had been steadily growing into its position as an LNG powerhouse, increasing its share of global exports to 26% in 2025 from 14% in 2020, while all other leading exporters saw their shares drop. Factors such as the ongoing war in Ukraine, perpetual Middle East instability, and now a material outage in Qatar are driving buyers to view U.S. LNG as a preferred solution for mitigating geographic and political risk. Supported by flexible shipping, transparent markets, and a strong track record of delivery, U.S. LNG is increasingly being treated not merely as a commodity but as a strategic asset. For investors, we believe these events highlight a structural shift: the U.S. has become an indispensable cornerstone of global energy security. This role appears set to expand as the market prioritizes dependable, long-term supply over proximity or cost alone.

■ **February hiring improved, but the U.S. labor market still looks narrow and fragile beneath the surface.** Private payrolls rose by 63,000, the strongest monthly gain since July 2025 and modestly ahead of expectations.

The rising influence of U.S. liquefied natural gas

Share of global LNG exports



Source - RBC Wealth Management, Bloomberg

However, the growth was heavily concentrated. Education and health services alone added 58,000 jobs, while construction contributed another 19,000, offsetting declines in areas such as professional services and manufacturing. Wage growth for workers staying in their roles held steady at 4.5%, while pay gains for job switchers slowed to 6.3%, the narrowest gap the monthly ADP Employment Report has recorded and another sign that labor market churn continues to cool.

CANADA

David Iacono, CFA & Shizhe Zhong – Toronto

■ **Canada's Q4 expenditure-based GDP contracted by 0.6% q/q** on a seasonally adjusted annualized basis, falling below both consensus expectations and the Bank of Canada's (BoC) forecast. **The headline decline was largely driven by inventory destocking, though domestic demand and net exports posted comparatively strong growth**, which softened the negative data. Temporary, non-tariff-related distortions also weighed on Q4 growth, including labour disruptions in education and postal services as well as a substantial drop in auto production tied to semiconductor shortages. According to RBC Economics, these factors combined to subtract approximately 0.5 percentage points from GDP growth in Q4. Despite the quarterly contraction and the headwind from U.S. tariff increases, the economy proved resilient throughout 2025—and, when controlling for slowing population growth, per-capita GDP posted its first increase in three years. Looking ahead, **RBC Economics' base case assumes the BoC will keep its overnight interest rate on hold for the remainder of the year.**

■ **Canada and India are pursuing a comprehensive economic reset following years of diplomatic tensions.** Under the leadership of Prime Minister Mark Carney and Prime Minister Narendra Modi, both nations aim to conclude a Comprehensive Economic Partnership Agreement (CEPA) by year's end, targeting a doubling of two-way trade to CA\$70 billion by 2030. Currently, Canada's top three exports to India are peas, aircraft, and potash. **The partnership focuses on strategic sectors including nuclear power, oil, and critical minerals.** Markets expect that a landmark long-term uranium supply agreement will enhance India's energy security while supporting Canada's diversification away from U.S. dependence. This initiative represents a significant diplomatic turnaround after 2023 tensions stemming from former Prime Minister Justin Trudeau's allegations linking India to a Sikh separatist's death in Canada. Carney's visit precedes further regional engagement in Australia and Japan, signaling Canada's broader Indo-Pacific strategy.

EUROPE

Guy Foster, CFA – London

■ **The UK government appears on track to stay within fiscal rules that prevent an unsustainable trajectory of public debt growth**, according to forecasting by the Office of Budget Responsibility (an independent fiscal watchdog) cited by Finance Minister Rachel Reeves in her Spring Statement. However, the watchdog pointed out that similar plans have been derailed by previous economic shocks such as the COVID-19 pandemic and the 2022 energy crisis; the result has been continually growing public debt that limits the government's ability to weather future economic shocks.

■ **This was an apt observation when making forecasts which are in danger of already having been overtaken by events.** The UK, like most European states, has been highly sensitive to changes in volatile natural gas prices, which more than doubled within the first two trading days of the Middle East conflict as Iran disrupted transit and targeted energy assets in the Gulf region.

■ **Higher inflation would lead to greater tax revenue** but would also increase forecast interest costs on the public debt. More damaging for public finances, in our opinion, would be any political pressure to subsidize gas and electricity price increases.

■ **The selling of European assets emerged as a knee-jerk reaction** to the outbreak of hostilities and has been reflected in equity, currency, and bond underperformance since the conflict began.

■ **The direct impact of gas and wider energy price changes will likely be fairly modest on inflation and, therefore, growth in Europe**, even if sustained, in our view. Across the region, energy comprises approximately 10%–12% of consumer spending measured by Consumer Price Index weights. France is insulated by robust nuclear generation capability, whilst Norway is the world's third-largest gas exporter.

■ **Indirect costs come through producer prices.** We estimate that before war broke out, European natural gas prices were three times higher than in the United States. That has leapt more than five times. Until production and transit resume, this gap in energy competitiveness could widen, highlighting European industries' exposure to energy price volatility.

ASIA-PACIFIC

Nicholas Gwee, CFA – Singapore

■ **Asia-Pacific equity markets have traded sharply lower this week** amid the ongoing developments in the Middle East. The conflict appears more intense than previous episodes, with a key global trading route being disrupted. As of this writing, the regional equity markets are recovering some of the steep losses accumulated

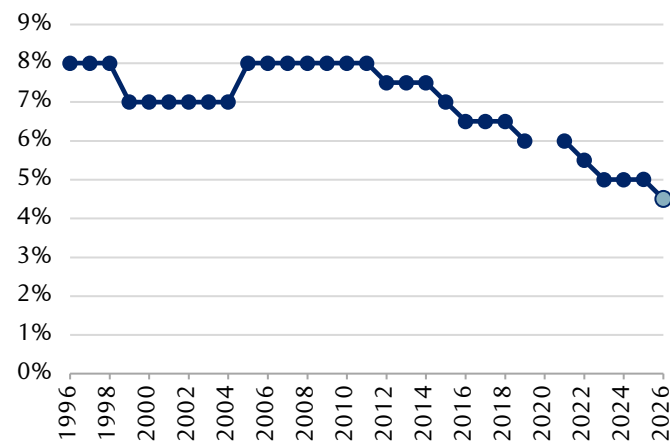
during the week. We expect near-term equity market movement to remain very volatile. Notwithstanding the current uncertainty, we believe the medium- to longer-term outlook for the region remains positive, driven by a combination of factors: still-respectable GDP growth forecasts, modest inflation, and mostly accommodative policies. We think the regional Tech sector could continue to benefit from AI capex.

■ **Taking a closer look at Japan, we see the immediate setup as more challenging compared to its regional peers.** Japan is a net oil importer—more than 90% of its imported crude comes from the Middle East, more than 60% of its oil imports pass through the Strait of Hormuz, and it also depends on the Middle East for liquefied natural gas and naphtha. Japan has 250 days' worth of oil reserves as of the end of 2025. Bank of Japan (BoJ) Governor Kazuo Ueda has warned that the situation could affect the domestic economy and inflation. Industries most vulnerable to a prolonged Middle East conflict include banking and financial services, airlines and transportation, shipping, energy-intensive manufacturing, oil refiners and petrochemicals, and electronics and export-oriented industries. If the conflict drags on, curtailing energy supplies, we believe Japanese equities will remain under pressure. Despite being perceived as a safe-haven currency, the yen has weakened since the start of the conflict. We think the yen could remain weak given Japan has to import more expensive oil, which is an unfavorable supply-side price pressure. Higher oil prices could also affect the timing of the next BoJ rate hike.

■ **China has set its most modest GDP growth target in more than 30 years.** Beijing now targets 4.5%–5.0% GDP growth for 2026. Although the new target is in line with private economists' expectations, it represents the least ambitious goal since the early 1990s. We think this shift may be suggesting that Beijing is comfortable with slower but more sustainable growth.

China targets modest 2026 GDP growth

China annual GDP growth targets



Source - RBC Wealth Management, Bloomberg

MARKET Scorecard

Equities (local currency)	Level	MTD	YTD	1 yr	2 yr
S&P 500	6,869.50	-0.1%	0.4%	18.9%	33.9%
Dow Industrials (DJIA)	48,739.41	-0.5%	1.4%	14.6%	25.0%
Nasdaq	22,807.48	0.6%	-1.9%	24.7%	40.7%
Russell 2000	2,636.01	0.1%	6.2%	26.8%	27.1%
S&P/TSX Comp	33,942.86	-1.2%	7.0%	38.1%	57.6%
FTSE All-Share	5,664.60	-3.2%	5.9%	20.0%	35.7%
STOXX Europe 600	612.71	-3.3%	3.5%	11.2%	23.2%
EURO STOXX 50	5,870.92	-4.4%	1.4%	9.0%	19.5%
Hang Seng	25,249.48	-5.2%	-1.5%	10.1%	52.1%
Shanghai Comp	4,082.47	-1.9%	2.9%	22.8%	34.3%
Nikkei 225	54,245.54	-7.8%	7.8%	45.3%	35.2%
India Sensex	79,116.19	-2.7%	-7.2%	8.4%	7.1%
Singapore Straits Times	4,812.75	-3.6%	3.6%	23.7%	54.1%
Brazil Ibovespa	185,366.44	-1.8%	15.0%	51.0%	44.4%
Mexican Bolsa IPC	70,368.67	-1.5%	9.4%	34.3%	26.9%
Gov't bonds (bps change)	Yield	MTD	YTD	1 yr	2 yr
U.S. 10-Yr Treasury	4.096%	15.8	-7.1	-14.8	-11.7
Canada 10-Yr	3.274%	14.7	-15.9	33.6	-17.8
UK 10-Yr	4.441%	20.8	-3.8	-9.3	32.4
Germany 10-Yr	2.750%	10.7	-10.5	25.5	35.8
Fixed income (returns)	Yield	MTD	YTD	1 yr	2 yr
U.S. Aggregate	4.27%	-0.5%	1.2%	5.8%	11.6%
U.S. Investment-Grade Corp	4.82%	-0.4%	1.0%	6.2%	12.7%
U.S. High-Yield Corp	6.85%	-0.3%	0.4%	7.1%	17.4%
Commodities (USD)	Price	MTD	YTD	1 yr	2 yr
Gold (spot \$/oz)	5,131.83	-2.8%	18.8%	75.9%	142.7%
Silver (spot \$/oz)	83.21	-11.3%	16.1%	160.2%	248.3%
Copper (\$/metric ton)	12,911.05	-2.9%	3.7%	38.4%	52.7%
Oil (WTI spot \$/bbl)	76.08	13.5%	32.5%	11.5%	-3.4%
Oil (Brent spot \$/bbl)	82.54	13.9%	35.6%	16.2%	-0.3%
Natural Gas (\$/mmBtu)	2.93	2.4%	-20.5%	-32.7%	52.9%
Currencies	Rate	MTD	YTD	1 yr	2 yr
U.S. Dollar Index	98.7710	1.2%	0.5%	-6.6%	-4.9%
CAD/USD	0.7332	0.0%	0.6%	5.5%	-0.5%
USD/CAD	1.3640	0.0%	-0.6%	-5.2%	0.5%
EUR/USD	1.1636	-1.5%	-0.9%	9.5%	7.2%
GBP/USD	1.3372	-0.8%	-0.8%	4.5%	5.4%
AUD/USD	0.7078	-0.6%	6.1%	12.9%	8.7%
USD/JPY	157.0500	0.6%	0.2%	4.8%	4.3%
EUR/JPY	182.7500	-0.9%	-0.7%	14.8%	11.8%
EUR/GBP	0.8702	-0.7%	-0.2%	4.8%	1.7%
EUR/CHF	0.9068	-0.2%	-2.6%	-4.1%	-5.6%
USD/SGD	1.2748	0.8%	-0.8%	-4.8%	-5.1%
USD/CNY	6.8971	0.5%	-1.3%	-5.0%	-4.2%
USD/MXN	17.5794	2.0%	-2.4%	-14.6%	3.7%
USD/BRL	5.2312	2.1%	-4.5%	-11.1%	5.7%

Equity returns do not include dividends, except for the Brazilian Ibovespa. Bond yields in local currencies. Copper Index data and U.S. fixed income returns as of Tuesday's close. Dollar Index measures USD vs. six major currencies. Currency rates reflect market convention (CAD/USD is the exception). Currency returns quoted in terms of the first currency in each pairing.

Examples of how to interpret currency data: CAD/USD 0.73 means 1 Canadian dollar will buy 0.73 U.S. dollar. CAD/USD 0.6% return means the Canadian dollar has risen 0.6% vs. the U.S. dollar year to date. USD/JPY 157.05 means 1 U.S. dollar will buy 157.05 yen. USD/JPY 0.2% return means the U.S. dollar has risen 0.2% vs. the yen year to date.

Source - Bloomberg; data as of 3/4/26

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As of December 31, 2025

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			Count	Percent
Buy [Outperform]	884	58.31	282	31.90
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Sell [Underperform]	46	3.03	3	6.52

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