A new global crisis: Focus on what you can control

Russia's invasion of Ukraine, the ongoing war, and related sanctions have helped drive market volatility, creating a market that feels driven by the latest turn of the 24-hour news cycle. That's understandable. What we're seeing on our TV screens is disturbing, as are the worst-case scenarios of a 21st century Cold War or the threat of a nuclear showdown. The implications for the market and our investment portfolios only heighten the level of our emotions, which, as we know, are the enemy of the successful investor. At times, it all seems out of control.

In fact, it is out of **our** control, and yours. That means, from a purely investing perspective, you should not spend much time worrying about it. Rather, focus on what you can control. It's a simple way to align yourself with the most successful long-term investors of all time, even if it doesn't always feel easy, especially during market dips.

"Markets often stumble on headlines, but soon after these wobbles, they tend to return to whatever the prior trends were."

—Barry Ritzholtz, "History Shows War Shocks Have a Modest Impact on Equities", Bloomberg, March 2, 2022

Russia, rates, and rising prices

The war in Eastern Europe is not the sole cause of volatility. Investors entered 2022 hopeful about the receding pandemic, but concerned about inflation, expectations of rising interest rates, and continuing supply-chain bottlenecks. Those issues are all, to some extent, exacerbated by the conflict. Russia is one of the world's largest exporters of oil and natural gas, and energy prices, already a cause of inflation, have spiked. The U.S. Federal Reserve's (Fed's) efforts to balance raising rates and maintain economic growth became even more delicate amid all the tension. We also should not lose sight of the fact that Russia produces minerals and metals that are vitally important to global supply chains.

In a not-so-surprising surprise, the Fed raised interest rates in March, for the first time in three years. Now they forecast six more hikes in 2022 and additional ones in 2023, which could lift today's near-zero rate (where it's been for nine of the last 16 years) to near 3%. That's a new environment that may take some getting used to, but it's one we've lived through in past decades. Even the most aggressive projections for the next few years would keep rates historically cheap. Plus, rising rates will eventually allow investors to profit from savings vehicles and may help stabilize areas of the market that are driving inflation, such as real estate.

The good news

Major geopolitical events tend to impact markets, and that is a normal, recurring part of investing. The good news is, historically, the associated drawdowns tend to be short-lived. Barry Ritholtz and many others point to the market's historical resilience in the face of war and other violent shocks. Since World War II, the market has lost an average of approximately 1% on the initial news of a major conflict, bottomed out after a 5.5% decline over 24 days, and then climbed back to even after 52 days. The volatility usually ends up a short-term blip in a full market cycle, and that reality can be helpful in managing one thing you can control: your emotions.

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S&P 500 Response to Geopolitical Events

U.S. equities tend to lose a little ground early during geopolitical events such as major wars, but they also tend to recover quickly. An analysis by Ryan Detrick, chief market strategist at LPL Financial, found that for 22 major geopolitical events since 1941, the market rebounded perhaps surprisingly quickly. On average, one-day losses averaged about 1.1% and average losses before returning to pre-crisis levels were only 4.8%.

	Year	Change in S&P 500® at trough	Days to recovery
Attack on Pearl Harbor	1941	-19.8%	307
Iraq invades Kuwait	1990	-16.9	189
N. Korea invades S. Korea	1950	-12.9	82
Tet Offensive	1968	-6.0	65
Munich Olympics	1972	-4.3	57
Gulf of Tonkin incident	1964	-2.2	41
Saudi Aramco drone strike	2019	-4.0	41
North Korea missile crisis	2017	-1.5	36
Terrorist attacks on U.S.	2001	-11.6	31
Madrid bombing	2004	-2.9	20
Bombing of Syria	2017	-1.2	18
Cuban missile crisis	1962	-6.6	18
Boston Marathon bombing	2013	-3.0	15
Yom Kippur War	1973	-0.6	6
Iranian general killed in airstrike	2020	-0.7	5
London subway bombing	2005	0	4
Hungarian Uprising	1956	-0.8	4
Suez Crisis	1956	-1.5	4
U.S. pulls out of Afghanistan	2021	-0.1	3
Attempted assassination of Reagan	1981	-0.3	2
Six-Day War	1967	-1.5	2
Kennedy assassination	1963	-2.8	1

Source: LPL Research, S&P Dow Jones Indices, CFRA

Please remember, past performance may not be indicative of future results. See index disclosure on the last page.

That's not to say the market will process all of this quickly and resume its long run-up. No one knows how this current situation will unfold, how it will impact world order over time, or even what will happen to oil prices, the key consequence for the U.S. market for now, which appears more insulated from this conflict than in Europe and other parts of the world.

How to manage what you can control

Fortunately, you don't have to know how the war, the Fed, or inflation will shake out in the coming months and years. Managing what you can control starts with the foundational blocks that NewSquare investors build upon. Investors who know their risk appetite/tolerance and time horizon are often better prepared to adjust if necessary. Understand what your portfolio is designed to do, which is to reach your investment goals over full market cycles, not months or days. Then, stick with it, maintaining that long-term perspective. Remember that volatility is normal, and an integral part of investing. Analyze and respond with those things in mind, rather than panicking or reacting to short-term trends and events, always with an eye on risk management. These are core principles at NewSquare which we will not abandon, especially in times like these.

At NewSquare Capital, that is what we do. We do not try to predict what's going to happen, whether it is a geopolitical event or the markets themselves. We listen to the market, we manage risk, no matter which direction the market is moving. While we monitor things like price, value, supply, and demand, we recognize that we can't control them. But we believe we will be successful by continuously refining how we interpret and react to them.

To be clear, we are not standing pat. One thing that geopolitical events and drawdowns eventually provide are opportunities to adjust portfolios. We're constantly seeking them out, balancing risk management with a focus on identifying ways to improve long-term outcomes. We know at some point, those opportunities will present themselves, and we plan on seizing them.

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Market Review

Even prior to the invasion of Ukraine, we saw increased market volatility driven by surging inflation rates, the beginning interest-rate increases from the Fed, and signs of a slowdown in earnings-growth momentum. The largest military conflict in Europe since World War II pushed key indexes lower, with the S&P 500 registering a -4.6% first-quarter drop. The energy sector advanced, backed by a 33% increase in the price of oil, while utilities was the only other positive sector. The high-flying, growth technology names that led the bull market since early 2020 (and really, the last decade-plus) experienced a significant sell-off as government-bond yields rose further, with the NASDAQ down 9%.

Inflation fears rattled bond markets, with the Bloomberg U.S. Aggregate Index closing the quarter down nearly 6%. That is an adjustment for folks, too, to see low interest rates and negative returns for bonds across the board, from Treasuries to high-yield paper. Interest rates and bond yields have been low for years, and they typically move inversely to prices—though it is important to remember that the losses are unrealized, paper losses, because individual bonds held to maturity typically retain their principal. We still believe that over time, bonds can help you preserve capital, generate income, and provide diversification, reducing a portfolio's volatility and smoothing out risk-adjusted returns over time.

For related reading, please see:

[“What happens to bonds when interest rates rise?”]

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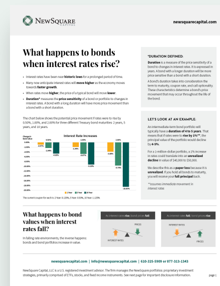

Statistical data sourced from: Bloomberg Finance, LPL Research., Morningstar, and NewSquare Capital, LLC

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MM202304-301385