The Buttonwood Blues

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The headline of the Wall Street Journal article framed on my wall reads: "Stocks Plunge 508.32 Amid Panicky Selling." It is dated October 20, 1987 and, as many of you might have guessed, describes the events of and investor reaction to Black Monday, which saw the largest single-day percent price decline in U.S. market history. Nearly 40 years old, the newspaper appears stressed, worn and jaded – probably emblematic of investors' faces and attitudes on that infamous day. But, it is an eternal reminder that stock price drawdowns—however large in scale and scope and regardless of rationale—are inevitable during all investors' timelines.

It is safe to say investors have been "singing the blues" following market pullbacks ever since organized stock trading commenced under Wall Street's buttonwood tree in the 1790s.

As of this writing, the S&P 500 has slipped roughly 5% from its all-time-high mark and erased about half of the year-to-date gain. While this modest decline hardly warrants "singing the blues," every pullback drives some concern the negative price action could evolve into something more sinister.

It is difficult to point to any one dynamic behind the market's recent pullback. However, we believe a portion relates to escalating geopolitical tension in the Middle East and potential repercussions it could have on global economic conditions. Rising interest rates and persistent inflation may also be weighing on investor sentiment. For this piece, we frame our discussion on the former dynamic and, while we acknowledge the unfortunate human toll geopolitical events cause, our job is to view this event through the prism of capital markets.

It is still relatively early to determine what phase the evolving story in the Middle East moves to next. That said, indications suggest a conflict resolution is likely some time away. At any rate, we can look to historical geopolitical precedents as examples to gauge the potential impact on the stock market.

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by Mitch Van Zelfden, CFA

One recent study from Carson Research highlights market returns for various time periods following major geopolitical and historical events, starting with Germany's invasion of France in 1940 and ending with last October's Hamas-Israel conflict. The analysis showed investors should expect the stock market to suffer an approximate 1.0% average decline during the month following the onset of a major event; however, there is a wide range of outcomes. That said, following the initial period of fear and uncertainty, the study indicated the stock market tends to bounce back relatively quickly, with the average return turning positive over the ensuing 3-month (+0.1%), 6-month (+2.0%) and 12-month (+2.1%) time periods.

Interestingly, investors witnessed some of the strongest and quickest bounce-back rates after the 1987 Stock Market Crash (i.e., Black Monday). In fact, one month after that 20% single-day plunge, the market had gained 8% off the low and had recouped nearly the entirety of the drawdown a year later. So, my framed article is a reminder to expect not only price drawdowns but also robust recoveries.

Put another way, investors might want to think again about "singing the blues" during temporary market pullbacks and perhaps not change their tunes in the first place.

At Truxton, we are not known for our voices but rather our relentless focus on risk management and diversified portfolios comprised of durable assets with long-term track records of stable earnings growth. While we do not know the extent or ultimate magnitude of the current market pullback, we believe our strategies could help limit the impact on both our clients' psyches and portfolios. We wish all of you a great and safe spring season. ■

How Do Stocks Perform After Major Events

Market Shock Event	Event Date	S&P 500 Index Returns			
		1 Month	3 Month	6 Month	12 Month
Germany Invades France	5/10/1940	-19.9%	-12.7%	-4.5%	-18.7%
Pearl Harbor Attack	12/7/1941	-1.0%	-11.0%	-6.5%	4.3%
N. Korea Invades S. Korea	6/25/1950	-10.0%	1.6%	4.1%	11.7%
Hungarian Uprising	10/23/1956	-2.1%	-2.8%	-1.3%	-11.7%
Suez Crisis	10/29/1956	-4.4%	-3.6%	0.0%	-11.6%
Cuban Missile Crisis	10/16/1962	5.1%	14.1%	20.7%	27.8%
Kennedy Assassination	11/22/1963	6.8%	11.9%	15.5%	23.2%
Gulf of Tonkin Incident	8/2/1964	-1.6%	1.9%	5.3%	2.7%
Six-Day War	6/5/1967	3.3%	5.9%	7.5%	13.5%
Tet Offensive	1/30/1968	-3.8%	5.1%	5.2%	10.2%
Penn Central Bankruptcy	6/21/1970	-0.1%	7.2%	16.8%	28.6%
Munich Olympics	9/5/1972	-1.0%	5.7%	2.3%	-5.8%
Yom Kippur War	10/6/1973	-3.9%	-10.7%	-15.3%	-43.2%
Oil Embargo	10/16/1973	-7.0%	-13.2%	-14.4%	-35.2%
Nixon Resigns	8/9/1974	-14.4%	-7.0%	-2.8%	6.4%
Reagan Shooting	3/30/1981	-0.9%	-1.8%	-14.0%	-16.4%
Continental Illinois Bailout	5/9/1984	-3.1%	1.0%	6.4%	12.8%
1987 Stock Market Crash	10/19/1987	8.1%	10.9%	14.7%	22.9%
Iraq's Invasion of Kuwait	8/2/1990	-8.2%	-13.5%	-2.1%	10.1%
Soros Breaks Bank of England	9/16/1992	-2.5%	3.0%	6.8%	9.9%
First World Trade Center Bombing	2/26/1993	1.7%	2.0%	4.0%	4.7%
Asian Financial Crisis	10/8/1997	-3.7%	-1.8%	14.1%	-1.5%
U.S.S. Cole Yemen Bombing	10/12/2000	2.7%	-0.9%	-11.3%	-19.6%
U.S. Terrorist Attacks	9/11/2001	-0.2%	2.5%	6.7%	-18.4%
Iraq War started	3/20/2003	1.9%	13.6%	18.7%	26.7%
Madrid Bombing	3/11/2004	3.5%	2.7%	1.5%	8.4%
London Subway Bombing	7/5/2005	3.3%	1.8%	5.3%	5.5%
Bear Stearns Collapses	3/14/2008	3.6%	5.6%	-2.8%	-41.5%
Lehman Brothers Collapses	9/15/2008	-16.3%	-26.2%	-34.8%	-11.7%
Boston Marathon Bombing	4/15/2013	6.3%	8.4%	9.7%	17.9%
Russia annexed Crimea	2/20/2014	1.5%	2.6%	8.0%	14.7%
BREXIT	6/24/2016	6.5%	6.2%	11.0%	19.7%
Bombing of Syria	4/7/2017	1.8%	3.1%	7.6%	12.8%
North Korea Missile Crisis	7/28/2017	-1.1%	3.6%	14.8%	13.4%
Saudi Aramco Drone Strike	9/14/2019	-1.4%	5.4%	-8.8%	12.5%
Iranian General Killed in Airstrike	1/3/2020	1.9%	-23.1%	-4.2%	14.4%
U.S. Pulls Out of Afghanistan	8/30/2021	-3.7%	2.8%	-4.9%	-12.0%
Russia invades Ukraine	2/24/2022	5.9%	-7.2%	-2.1%	-7.1%
Hamas-Israel Conflict	10/7/2023	1.3%	10.6%	?	?
AVERAGE		-1.2%	0.1%	2.0%	2.1%
MEDIAN		-0.9%	2.5%	4.1%	7.4%

Source: Carson Research