IMA Retirement

Navigating Conflict: Portfolio Discipline Historically Wins

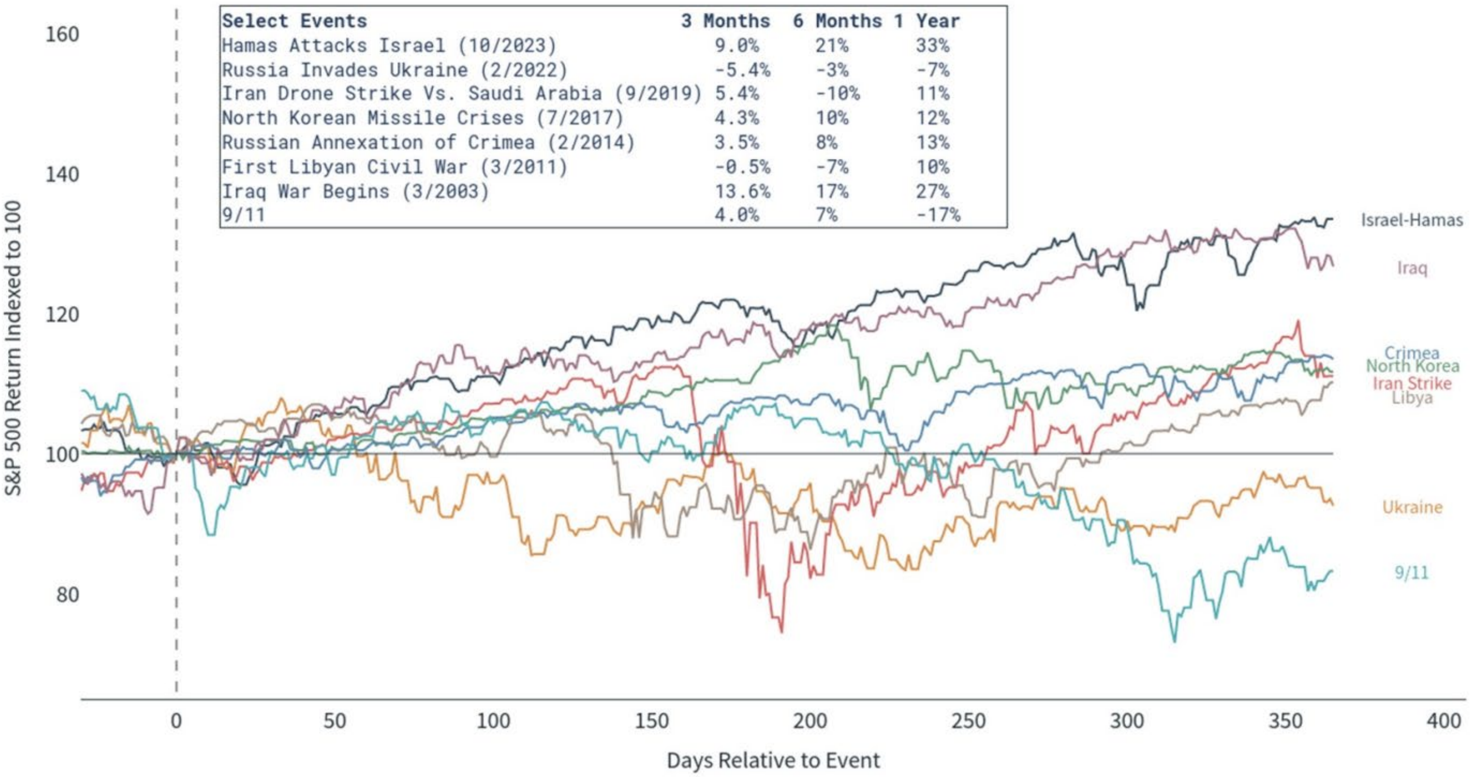
The military conflict in Iran has triggered a new wave of geopolitical tension. With missile strikes, retaliatory drone attacks, the involvement of nuclear sites, and the involvement of the US, has added to uncertainty in global markets. Yet one guiding principle for investors remains unchanged: the most effective way to navigate geopolitical risk is to maintain a long-term perspective while maintaining a portfolio aligned with long-term financial objectives.

Geopolitical shocks can be jarring, but history shows they rarely alter the long-term trajectory of markets. In the days following Israel's June 13 strikes on Iranian nuclear facilities and Iran's retaliatory attacks, stock indices fluctuated but stabilized and Brent crude briefly rose before pulling back on hopes of diplomatic resolution. (Clearnomics, 2025). After U.S. airstrikes on Iranian nuclear sites Brent crude briefly surged on June 23rd to its highest level in five months. Though as fears of further escalation subsided prices had again settled, even falling below levels seen earlier this year. (Reuters, 2025)

This pattern of short-term market volatility followed by recovery is consistent across past conflicts as markets have absorbed geopolitical disruptions without derailing their long-term path. Even severe regional events have impacted prices for only weeks or months before reversion to trend (Clearnomics, 2025).

Geopolitical Events and Stocks

Historical events and S&P 500 price returns 3, 6, and 12 months after



Select Events	3 Months	6 Months	1 Year
Hamas Attacks Israel (10/2023)	9.0%	21%	33%
Russia Invades Ukraine (2/2022)	-5.4%	-3%	-7%
Iran Drone Strike Vs. Saudi Arabia (9/2019)	5.4%	-10%	11%
North Korean Missile Crises (7/2017)	4.3%	10%	12%
Russian Annexation of Crimea (2/2014)	3.5%	8%	13%
First Libyan Civil War (3/2011)	-0.5%	-7%	10%
Iraq War Begins (3/2003)	13.6%	17%	27%
9/11	4.0%	7%	-17%

Sources: Clearnomics, Standard & Poor's

The conflict has tragically claimed hundreds of lives and caused widespread infrastructure damage. Yet as far as global portfolios are concerned, the key driver remains whether the broader economy continues to expand, not whether headlines provoke panic.

The Cost of Reactivity

Over the past month, headlines have veered from nuclear threats to diplomatic talks, from drone retaliation to sanctions. The real danger is not volatility itself but investor overreaction to it. Selling based on fears, attempting to time geopolitical developments, chasing short-lived asset trends, or abandoning diversification in search of safety often destroys more long-term value than the geopolitical crisis itself.
While we don't believe a broader conflict is a high probability, contrary to some common assumptions, U.S. capital markets have historically demonstrated resilience, even outperformance, during periods of war. Analyses of major historical conflicts including World War II, the Korean War, the Vietnam War, and the Gulf War reveal that both large-cap and small-cap equities often exceeded their long-term average returns during wartime. Past data also indicates that market volatility was frequently lower than expected, defying the notion that geopolitical uncertainty always leads to instability. Despite their reputation for being a safe haven, it was often bond performance that tended to lag as equities have more historically rewarded investors who stayed invested (Armbruster, 2017).

Capital Market Performance During Times of War

	Large-Cap Stocks	Small-Cap Stocks	Long-Term Bonds	Five-Year Notes	Long-Term Credit	Cash	Inflation
1926-2013							
Return	10.0%	11.6%	5.6%	5.3%	5.9%	3.5%	3.0%
Risk	19.0%	27.2%	8.4%	4.4%	7.6%	0.9%	
All Wars							
Return	11.4%	13.8%	2.2%	3.7%	2.8%	3.3%	4.4%
Risk	12.8%	20.1%	6.4%	3.5%	5.5%	0.7%	
World War II							
Return	16.9%	32.8%	3.2%	1.8%	3.0%	0.3%	5.2%
Risk	13.8%	21.0%	1.9%	0.8%	1.1%	0.0%	
Korean War							
Return	18.7%	15.4%	-1.1%	0.7%	0.3%	1.5%	3.8%
Risk	11.1%	12.7%	3.0%	1.7%	3.2%	0.1%	
Vietnam War							
Return	6.4%	7.3%	1.9%	4.7%	2.7%	4.9%	4.1%
Risk	12.1%	21.1%	8.1%	4.4%	6.9%	0.3%	
Gulf War							
Return	11.7%	-1.2%	12.5%	12.5%	12.1%	7.0%	4.7%
Risk	19.4%	27.5%	8.4%	3.8%	6.7%	0.2%	

(Armbruster, 2017)

The key to successful investing in times of geopolitical uncertainty lies in maintaining discipline rather than trying to forecast events. Investors are often tempted to react emotionally to breaking news. However, economic fundamentals remain the dominant force behind long-term investment returns. For instance, post-World War II industrial growth transformed markets; the dot-com boom followed the Gulf War; and even during the Cold War, equity markets steadily advanced. The lesson is clear: volatility driven by conflict is often noise compared to the enduring signal of business cycles (Clearnomics, 2025).

While short-term volatility can create discomfort, it can also create opportunity, as volatility isn't inherently bad and can offer entry points for long-term investors and reward disciplined strategies (Boyte-White, n.d.).

Conclusion

During geopolitical crises, a clear, long-term perspective remains an investor's greatest strategic advantage. The most resilient portfolios aren't built to dodge every bullet; they're designed to endure and compound through cycles. While geopolitical shocks like the Iran conflict can rattle nerves, they rarely rewrite the rules of long-term investing. Staying anchored to goals, diversified across risk factors and maintaining discipline, is not just the prudent path, it has also historically been the most effective one.

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