

# Making Sense

Each month, **Chief Investment Officer, Brent Ciliano** and **Manager of Institutional Portfolio Strategy, Phillip Neuhart** help you make sense of the markets and the economy. Below you'll find a summary of their most recent update. Watch the full update [here](#). Register for the next Making Sense webinar [here](#).

#### WHAT'S COVERED?

1. Historical market performance and corporate earnings data during geopolitical/military events
2. What's next for markets?

The next Making Sense Webinar: March 30th – Register [here](#).  
REVIEW OUR 2022 [MARKET OUTLOOK](#)

Following the February 23rd market update, Russia launched attacks on Ukraine, and markets responded upon opening on February 24<sup>th</sup>. Considering this material development, we will continue to bring you reliable information as you make financial decisions.

## Consider History: How have markets performed around geopolitical/military events?

Given the current conflict between Russia and Ukraine, we've received many questions surrounding the impact of geopolitical events and their effect on both markets and corporate earnings. Looking at 12 major conflicts post 1940, the S&P 500 has been positive on average 1, 3, 6, and 12-months post event. The average S&P return is positive 12.7% 12-months following an event. Additionally, when we exclude the three events that occurred while the US economy was already in recession, the S&P 500 was higher in 100% of observations.

Figure 1 – Source: Strategas Research Partners – 02-25-2022

S&P 500 Performance Around Select Geopolitical/Military Events					
Date	Geopolitical/Military Event	Total Return After Event			
		+1Mo	+3Mos	+6Mos	+12Mos
12/7/1941	Pearl Harbor	-1.0%	-10.2%	-7.2%	7.3%
10/31/1956	Suez Canal Crisis*	-1.1%	-1.0%	2.2%	-6.4%
10/20/1962	Cuban Missile Crisis	8.7%	18.4%	26.7%	36.3%
10/17/1973	Arab Oil Embargo*	-5.3%	-10.7%	-12.6%	-32.6%
11/3/1979	Iranian Hostage Crisis	3.7%	13.8%	5.9%	32.8%
12/25/1979	U.S.S.R. In Afghanistan	6.0%	-6.7%	11.5%	33.1%
8/3/1990	Iraq Invades Kuwait	-6.1%	-8.7%	1.3%	16.2%
1/17/1991	Gulf War	12.9%	20.0%	18.1%	31.8%
8/17/1991	Gorbachev Coup	0.3%	0.0%	8.6%	12.5%
2/26/1993	World Trade Center Bombing	1.2%	3.0%	5.5%	8.1%
9/11/2001	9/11*	0.6%	4.4%	7.7%	-15.5%
3/20/2003	Iraq War	2.2%	14.2%	19.3%	28.9%
<b>Average</b>		<b>1.8%</b>	<b>3.0%</b>	<b>7.2%</b>	<b>12.7%</b>

\*Economy was in a recession at some point during the measurement period.

## How have geopolitical events impacted corporate earnings, historically?<sup>i</sup>

Corporate earnings and profitability drove markets in 2021. We believe corporate earnings strength will play a major role in the direction of markets over the next several years. Looking at notable geopolitical and macro events historically, it is no secret that equity markets can be quite reactive as investors work to quickly digest the potential headwinds. However, the same cannot be said for corporate profits. Typically, the day and month after these events occur, NTM (Next Twelve-Months) estimates for the S&P 500 hardly budge. However, as analysts take more time to handicap these events as fundamental drivers develop, earnings estimates begin to move. Until we can learn of any lingering fundamental changes from current events, we remain comfortable with S&P 500 companies' ability to meet or exceed analyst's consensus estimates, which as of February 28<sup>th</sup> are \$226 per share for CY22 and \$248 per share for CY23.

Figure 2 – Source: Strategas Research Partners – 02-25-2022

<b>S&amp;P 500 NTM EPS Change Following Significant Historical Events</b>						
<u>Event</u>	<u>Date</u>	<u>Day Of</u>	<u>+20-Days</u>	<u>+65-Days</u>	<u>+125-Days</u>	<u>+250-Days</u>
Iraq Invades Kuwait	8/2/1990	0.1%	-0.3%	-1.4%	-3.7%	-4.8%
Soros Breaks Bank of England	9/16/1992	-0.2%	0.6%	1.3%	2.7%	7.3%
1st World Trade Center Bombing	2/26/1993	0.0%	0.2%	2.1%	3.8%	8.5%
Asian Financial Crisis	10/8/1997	0.0%	0.5%	1.6%	1.7%	3.8%
U.S.S Cole Yemen Bombing	10/12/2000	-0.3%	-0.8%	-4.4%	-4.6%	-9.7%
9/11 Terror Attacks	9/11/2001	0.0%	-3.4%	-4.2%	-1.7%	2.1%
Iraq War	3/20/2003	0.1%	0.6%	2.2%	5.8%	11.9%
Bear Stearns Collapse	3/14/2008	0.0%	0.0%	0.6%	-1.3%	-34.4%
Lehman Brothers Collapse	9/15/2008	0.0%	-4.7%	-20.5%	-34.5%	-29.2%
U.K. Votes to Leave EU (Brexit)	6/24/2016	0.0%	0.6%	1.9%	4.4%	9.5%
NBA Shutdown (COVID)	3/11/2020	-0.3%	-14.1%	-18.9%	-12.3%	0.8%
	<b>Median</b>	0.0%	0.0%	0.6%	-1.3%	2.1%

### The bottom line for markets:

1. Wall Street consensus S&P 500 12-month forward price target is 5,300.12 or 23.6% return from February 24's close.<sup>ii</sup>
2. Our 2022 S&P 500 price target is 4,900 equating to ~+3% growth over 2021, but we expect a much more volatile year.
3. We believe the full market cycle can last through year-end 2023 and potentially reach 5,500 greater (EPS of \$267 at ~20.5x), but much can and will change along the way.

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<sup>i</sup> I/B/E/S, FirstCall, Goldman Sachs Investment Research, as of 02/28/2022

<sup>ii</sup> FactSet, as of 02/25/2022