

How Geopolitical Events Are Affecting Markets Right Now

Presented by Potomac Financial Private Client Group, LLC

Recent news about conflict in the Middle East has raised an important question for investors: Has the market already reacted to the news, or could there be more downside ahead?

The honest answer is that no one knows for certain. Trying to predict short-term market moves is extremely difficult—even for professionals.

What we *can* do is look at how markets have responded to similar situations in the past. While every event is different, history gives us a helpful guide. In general, market declines driven mainly by geopolitical events have tended to be relatively short and mild.

What History Tells Us About Geopolitical Events and Markets

When market declines are caused by events like military conflicts or political tensions, they have typically played out over weeks, not months. In many cases, markets reached their low point within two to four weeks of the initial shock and often recovered to pre-event levels within one to two months.

We are now about four weeks into the current Middle East conflict. So far, the U.S. stock market has declined without sharp, sudden day-to-day swings. As of last Friday, the S&P 500 is down a little more than 5 percent for the year and about 7 percent from the all-time high set earlier this year.

Just as important, these types of events have rarely derailed long-term market returns. In many cases, markets delivered positive returns over the following year as uncertainty faded and investors refocused on company earnings and economic growth.

Why These Events Often Don't Last Long in Markets

There are a few key reasons why markets tend to stabilize after geopolitical shocks:

- Markets react quickly to uncertainty, and the initial drop often reflects fear of the unknown.
- As more information becomes available, investors gain clarity, and markets often stabilize.
- Most importantly, these events usually do not significantly affect overall corporate earnings.

Unless a conflict seriously disrupts global trade, supply chains, or economic growth, the long-term outlook for businesses and markets typically remains intact.

What Matters Most Right Now

The key question today is not just about the conflict itself but how it might affect the broader economy, particularly energy prices, inflation, and interest rates.

Headlines alone can cause short-term market swings. For a downturn to last longer, however, there typically needs to be a real economic impact—not just uncertainty.

When Geopolitical Events Have Lasted Longer

History shows that market declines have lasted longer when geopolitical events have led to ongoing economic problems, particularly through rising energy prices or inflation.

A well-known example is the 1970s oil crisis, when higher energy prices contributed to rising inflation, which led to tighter financial conditions and eventually a recession. In these cases, it was not just the geopolitical event itself but the broader economic effects that prolonged market weakness.

What Investors Are Watching Today

Investors may be concerned that a similar pattern could develop now. Oil prices have risen nearly 50 percent since the conflict began and remain elevated. Gas prices have climbed 33 percent to around \$3.96 per gallon, inflation concerns have picked back up, and interest rates have moved higher, with the 10-year Treasury—a key benchmark for interest rates—rising from 3.95 percent at the end of February to Friday's close of 4.38 percent. Expectations for rate cuts have also shifted, with some now considering the possibility of higher rates instead.

Why Today May Be Different

While there are some similarities to the past, there are also important differences. The U.S. is more energy independent than it was in the 1970s, and the economy uses less energy per dollar of output. These factors make the U.S. economy less sensitive to energy price spikes and may reduce the risk of prolonged economic effects, such as those seen decades ago.

What This Means for Your Portfolio

Periods like this can feel uncomfortable, but it's important to keep perspective. Despite ongoing uncertainty and negative headlines, expectations for corporate earnings in 2026 have continued to rise. Strong company fundamentals are still in place and can support markets over time.

Making short-term changes to your investments based on current events is similar to trying to time the market, which has historically been difficult to do successfully. Staying focused on your long-term goals and diversified portfolios remains critical during periods of volatility.

Final Thoughts

While geopolitical events can drive short-term market swings, they have rarely determined long-term investment outcomes on their own. Markets often react sharply at first, but then recover as investors shift their focus back to economic fundamentals, such as earnings, economic growth, and interest rates.

The key factor to watch is whether this situation leads to lasting effects on growth, inflation, and financial conditions. The situation in the Middle East is still evolving and can change quickly. While rising energy prices and inflation are worth monitoring, today's economic environment is meaningfully different from past periods of prolonged stress.

For investors, staying focused on long-term objectives rather than reacting to short-term uncertainty has historically been the most reliable approach—and that remains true today.

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