

Delta Investment Management is a registered investment advisory firm. Delta welcomes discussions with individuals seeking investment advice and advisors seeking a new turnkey asset management solution.

Delta manages portfolios at TD Ameritrade and Schwab.

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January 10, 2020

Stock Market Lessons of War

For the past thirty years, the United States military has been highly active in the Middle East. Some of the activity has been initiated by the United States including the events listed below. In three out of four cases, the stock market was up over the next twelve months.

- August 2, 1990: Gulf War – Invasion of Kuwait

Twelve month price change in the S&P 500: 351.48 – 387.18, up 10.2%

- December 16, 1998: Operation Desert Fox

Twelve month price change in the S&P 500: 1,161.97 – 1,418.78, up 22.1%

- October 7, 2001: Invasion of Afghanistan

Twelve month price change in the S&P 500: 1,062.44 – 785.28, down 26.1%

- March 20, 2003: Iraq War

Twelve month price change in the S&P 500: 875.84 – 1,109.78, up 26.7%

War in the Middle East is usually not a primary driver of market price. The U.S. economy and the broader economic context have been more important than initiation of hostilities abroad in determining market direction.

- August 2, 1990: Gulf War – Invasion of Kuwait

Twelve month price change in the S&P 500: 351.48 – 387.18, up 10.2%

Recession began in July, 1990 and ended in March 1991. Twelve months after the U.S. invaded Kuwait the U.S. economy had emerged from recession and was on a strong growth trajectory.

- December 16, 1998: Operation Desert Fox

Twelve month price change in the S&P 500: 1,161.97 – 1,418.78, up 22.1%

The technology bubble was undergoing serious acceleration. In December 1998, the NASDAQ was trading at about 2,000. Over the next twelve months, it was up 100%. The flood of capital into opportunities related to the early adoption of the Internet and cell phones outweighed Desert Fox.

- October 7, 2001: Invasion of Afghanistan

Twelve month price change in the S&P 500: 1,062.44 – 785.28, down 26.1%

The September 11, 2001 attacks on the World Trade Center did materially impact investor thinking. Many investors transitioned from a view of endless growth and low risk to slow growth and high risk placing downward pressure on the market P/E multiple. The change in collective risk tolerance exacerbated the economic forces already driving the deflation of the technology bubble. Although this significant escalation of military involvement in the Middle East had impact, the underlying economic forces causing the unwinding of the technology bubble would have happened with or without conflict in the Middle East and were already in play before 9/11.

- March 20, 2003: Iraq War

Twelve month price change in the S&P 500: 875.84 – 1,109.78, up 26.7%

By early 2003, stocks had found their lows and the economy was well out of recession. Stocks advanced to the next peak in late 2007.

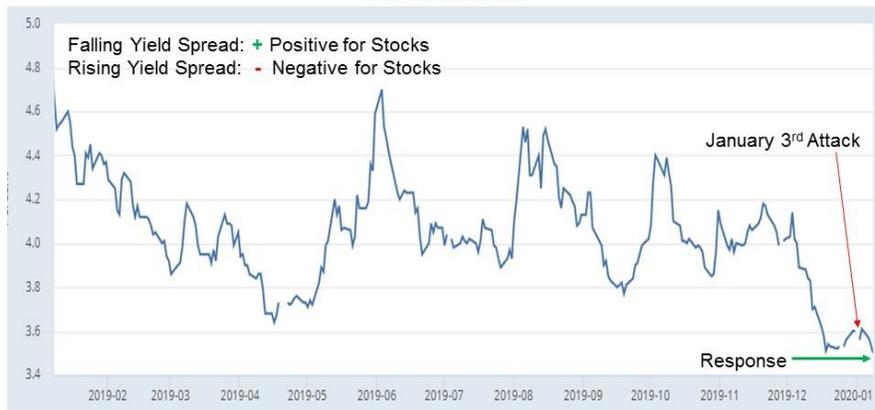
- January 3, 2019: Fatal Drone Strike on Qassem Soleimani

Three day price change in the S&P 500: 3,234.85 – 3,253.05, up 0.56%

The high-yield bond spread on January 3 was 3.61%. This week, the spread has fallen to 3.50%. The high-yield bond spread is a measure of risk sensitivity in the bond market (3x larger than the stock market). The immediate reaction in the bond market since the drone attack is bullish for stocks and suggests the investment environment is less risky.

High Yield Bond Spread

Past 12 Months



The stock and bond market responses to the most recent conflict are preliminary and could change. So far, we are seeing another case when conflict in the Middle East is not the primary driver of stock values. The falling yield spread is likely signaling better economic data. Corporate earnings season starts next week and the markets are acting like the negative revisions from 2019 might be a thing of the past.

Give Us a Call Today

We have unique and sophisticated investment methods that seek to capture the stock market's gains while minimizing drawdowns in bear markets. If you would like to learn more about how we manage money, we invite you to give us a call at **(415) 249-6337**, visit www.deltaim.com or email us at info@deltaim.com.



"Open a wine that will make me want to watch the shows you want to watch."

Delta Stock Market Dashboard

MARKET SENTIMENT IS

BULLISH

THIS WEEK'S NUMBER IS

77.7

Our technical indicator decreased
from 79.8 to 77.7 this week

INDICATOR STATISTICS

Consecutive Bullish Weeks:	12
Cycle Inception Date:	10/25/2019
Range:	57.4 – 79.8
Mean:	70.1
Bullish Weeks YTD:	2
Bearish Weeks YTD:	0
*S&P 500	8.7%
*DJIA	7.9%
*NASDAQ	12.5%

* Percentage change during current cycle



(Delta MSI is published every week in *Barron's*)

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