

Geopolitical Tensions and Market Volatility: Five Takeaways for Long-Term Investors

Services

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Geopolitical events can feel sudden, unsettling, and unpredictable. While headlines often trigger short-term market volatility, history shows that most geopolitical shocks have had a limited and temporary impact on long-term investment returns. Markets tend to process new information quickly, adjust to changing conditions, and refocus on economic fundamentals over time. For disciplined investors, periods of uncertainty are often reminders of why diversification, risk management, and a long-term plan matter most.

1. Markets React Quickly (and Often Recover Quickly)

Financial markets tend to respond immediately to unexpected geopolitical events, particularly those involving military conflict or energy-producing regions. These initial reactions are typically driven by uncertainty rather than lasting economic damage. Historically, once investors gain clarity around scope and potential impact, markets often stabilize. In many cases, the most significant declines occur early, followed by gradual recoveries as uncertainty fades.

2. Economic Fundamentals Ultimately Drive Long-Term Returns

While geopolitical events can influence markets in the short term, long-term returns are primarily driven by corporate earnings, economic growth, productivity, and innovation. Temporary disruptions may affect specific sectors such as energy or defense but rarely alter the broader economic trajectory for extended periods. Over time, markets tend to recalibrate based on underlying fundamentals rather than headlines. This is why maintaining focus on the bigger economic picture is critical.

3. Energy Prices and Inflation Are Key Transmission Channels

One of the main ways geopolitical tensions influence markets is through commodity prices, particularly oil. Sharp moves in energy prices can affect inflation expectations, consumer spending, and central bank policy decisions. However, modern global supply chains and diversified energy production have often reduced the persistence of these shocks.

4. Diversification Is Designed for Moments Like This

Periods of geopolitical stress reinforce the importance of diversification across asset classes, sectors, and regions. Different parts of the market respond differently to uncertainty, which

can help smooth portfolio volatility. Fixed income, defensive sectors, and international exposures may behave differently than high-growth equities during stress periods. A well-constructed portfolio is built with the understanding that unexpected events will occur.

5. Discipline Outperforms Reaction

Emotional decisions during periods of elevated volatility often lead to suboptimal outcomes. Attempting to time geopolitical events is extremely difficult, as markets frequently move ahead of confirmed news and recover before uncertainty fully resolves. Investors who remain disciplined and aligned with their long-term strategy have historically been rewarded. Maintaining perspective and avoiding reactive shifts is often the most effective response to short-term noise.

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The Russell 2000 index measures the performance of approximately 2,000 small-cap US equities.

The MSCI EAFE Index is a stock market index that measures the performance of large- and mid-cap companies across 21 developed markets countries around the world. Canada and the USA are not included.

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The Nasdaq 100 Index is a stock index of the 100 largest companies by modified market capitalization trading on Nasdaq exchanges.

The Russell 1000 Growth index is an index that tracks large cap, growth stocks. This benchmark is important for investors that might tilt their investments towards large cap growth. Growth stocks, in comparison to value stocks, are considered companies with a more growth potential, and a higher risk profile.

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The Bloomberg US Corporate Index covers performance for United States corporate bonds. This index

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