

GEOPOLITICS: OPPORTUNITY OR THREAT?



VIDEO TRANSCRIPT

Geopolitical shocks such as the UK's vote to leave the European Union usually prompt certain financial assets to fall sharply. But in the longer run there is plenty of evidence to suggest they also provide an opportunity for long-term investors to buy assets cheaply.

Take the Cuban missile crisis, a 13-day confrontation between the United States and the Soviet Union between October 16 and October 28, 1962 when the world teetered on the brink of nuclear Armageddon. The S&P 500 fell sharply at one point during the crisis but three months later US stocks had gained nearly 14% from pre-crisis levels.

[Source: Bloomberg, as of August 19, 2016, data covers October 15, 1962 to January 15, 1963. Data shown is in US Dollars.]

And during the first Gulf War of 1990, the main US stock index lost over 13% of its value within three weeks of Iraq invading Kuwait on August 2, 1990.

[S&P 500]

But by the time hostilities ended on February 28, 1991, the market had clawed back those losses and more, standing three per cent above its level prior to the invasion.

[Source: Bloomberg, as of August 19, 2016, data covers August 1, 1990 to February 28, 1991. Data shown is in US Dollars.]

The lesson is that, particularly in this era of frenetic 24 hour news coverage, markets often overreact to events, selling off financial assets indiscriminately.

[Risk warning: Past performance is not a guide to future performance. The value of an investment and any income from it can go down as well as up and outcomes are not guaranteed. Investors may receive less than the original amount invested.]

History shows that markets can recover fairly quickly.

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Sources:

1. http://news.bbc.co.uk/onthisday/hi/dates/stories/october/28/newsid_2621000/2621915.stm
2. http://news.bbc.co.uk/onthisday/hi/dates/stories/february/28/newsid_2515000/2515289.stm
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