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# The War Markets Playbook

Navigating Asset Behavior, Tipping Points, and Timeless Principles During Geopolitical Conflict

# 73%

The frequency with which the S&P 500 has posted positive returns one year after an act of military aggression since WWII.

# +60%

S&P 500 return since the Russia-Ukraine war began in 2022, despite severe global commodity disruptions.

## Markets historically price uncertainty, not casualties.

Armed conflict has been a persistent feature of capital markets. The most counterintuitive finding across 100+ years of data is that stock markets tend to rise during wartime once the initial shock clears.

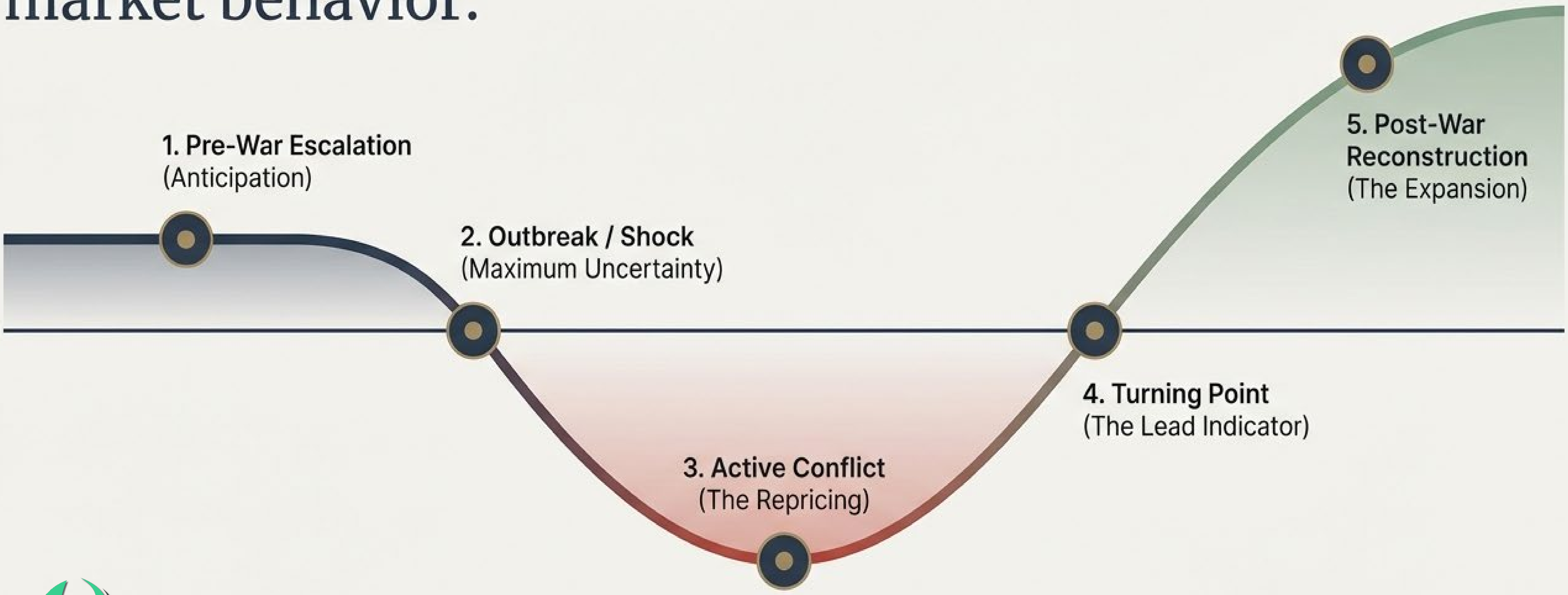
### The Map

Identifying your location in the 5 Phases of War

### The Compass

Applying 10 timeless cause-and-effect principles

# The five phases of wartime market behavior.

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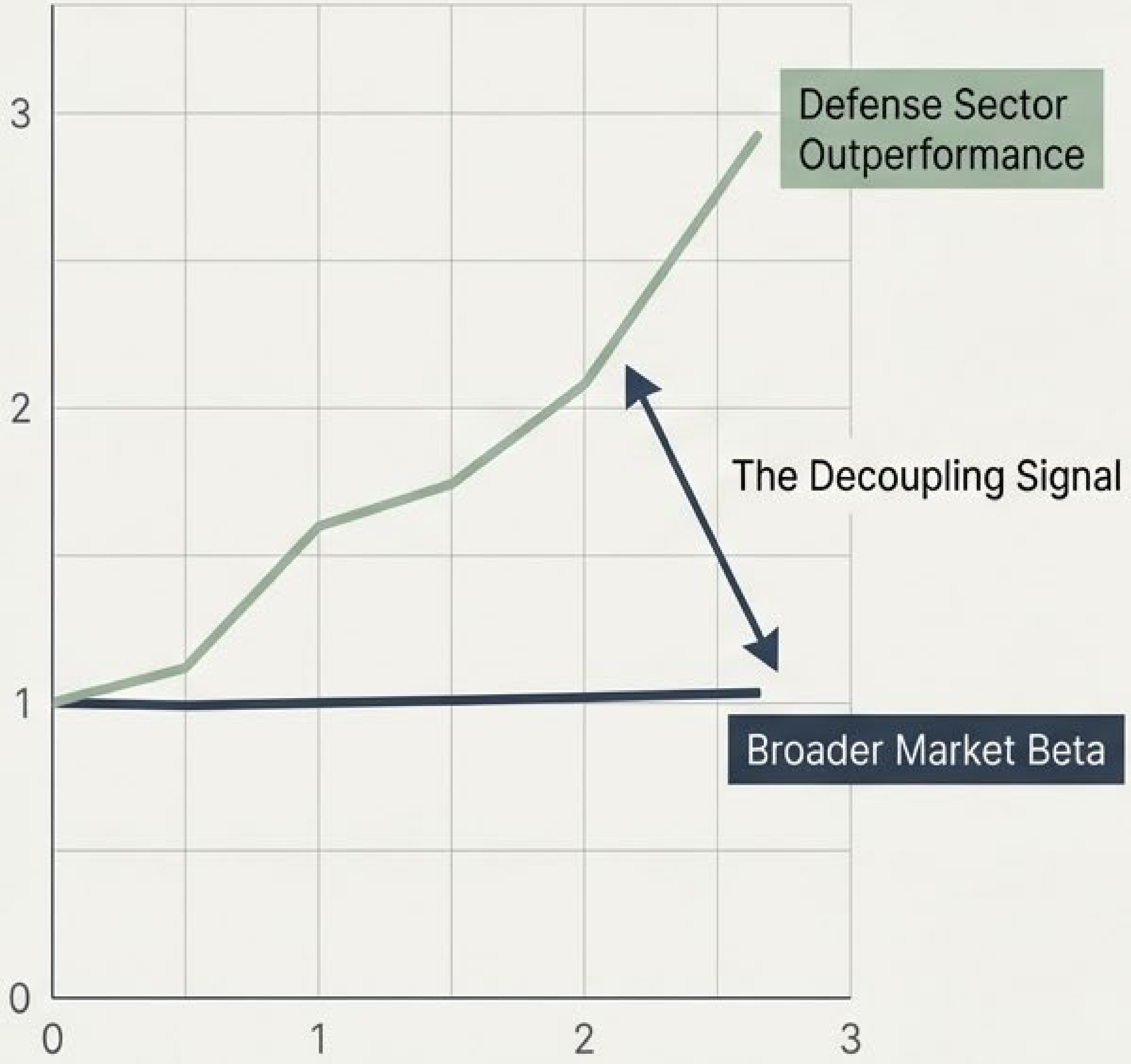
**Key Insight:** Markets do not follow the military timeline. The financial bottom systematically precedes the military turning point.

# Phase 1: Capital shifts during pre-war escalation




- Markets either completely miss the signal (WWI "bolt from the blue") or price it in gradually.
- Sovereign credit spreads widen for at-risk nations.
- Early capital flight moves from Emerging Markets (EM) to Developed Market (DM) safe havens.
- Commodity hedging (gold, oil) accelerates.

### Tipping Point Indicator

Watch the Beta. When defense stock correlations with the broader market drop below 0.3 while absolute performance accelerates, the market is quietly pricing in conflict before headlines confirm it.

# Phase 2: The point of maximum market uncertainty.

The initial outbreak triggers sharp, emotionally driven selloffs. Equities gap down, VIX explodes, and an oil premium of $5-$18/bbl is immediately priced in depending on infrastructure proximity. The Swiss Franc reliably appreciates.


### Tipping Point Indicator

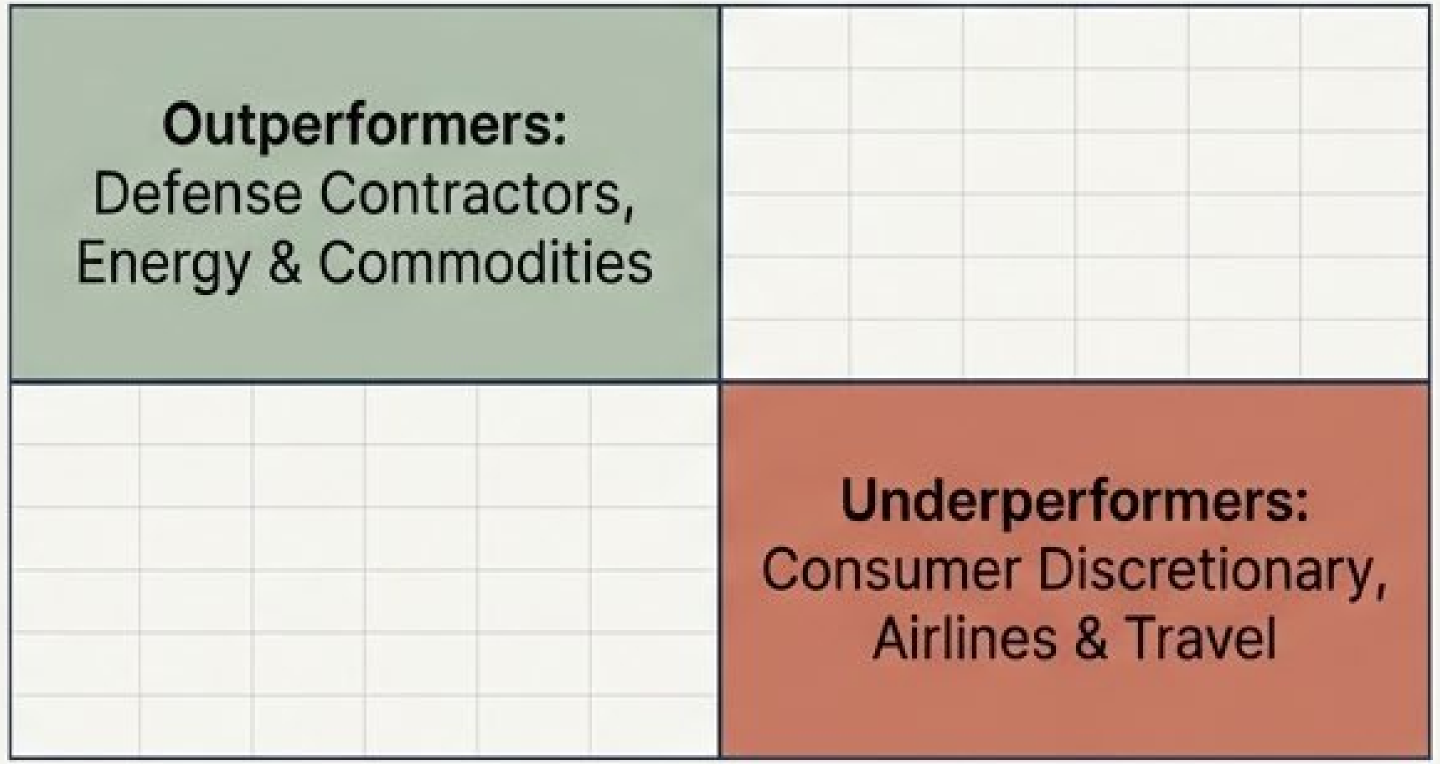
The Containment Signal. The equity bottom historically coincides with the first credible signal that the conflict will remain contained, not with any actual military victory.

# Phase 3: Sector repricing and the active conflict bottom

Once uncertainty crystallizes into known realities, markets stabilize. Central banks enter an impossible trilemma: stimulate for weak growth, tighten for inflation, or hold for uncertainty.

- Defense and energy rotations lead the market.
- Broad equity markets often trend higher despite ongoing conflict (e.g., WWII, Korea, Gulf War).

### Sector Performance Matrix




## Tipping Point Indicator: Maximum Bearishness

Markets bottom when the news is maximally bad but no longer getting worse. In WWII, the U.S. stock market bottomed in May 1942—before the Battle of Midway—at the absolute peak of bleak news.

# Phase 4: Markets consistently lead military reality.

The market looks through the conflict 3 to 6 months before facts on the ground change. The Berlin stock market peaked in late 1941, sensing lost momentum well before any intelligence officer confirmed it.


## Key Behaviors

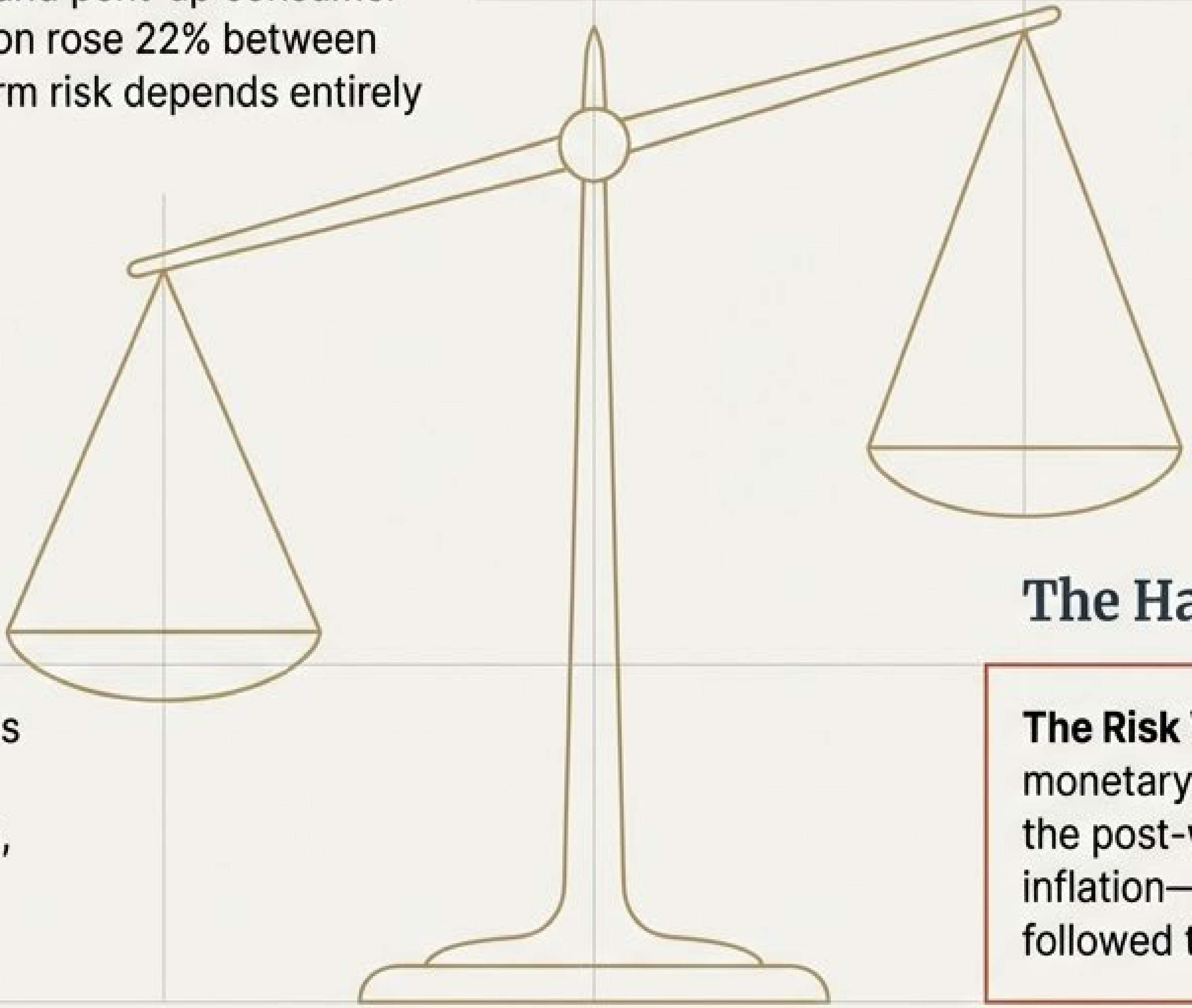
- Risk-on rotation begins: cyclicals and industrials outperform.
- Gold begins to plateau as the geopolitical premium fades.
- Defense stocks stall as the "easy money" has been made.

## Tipping Point Indicator

The Earnings Signal. The first quarter of positive earnings revisions in non-defense sectors reliably signals that the market is looking past the war.

# Phase 5: Reconstruction booms and the inflation hangover.

Post-war periods produce immense economic expansions driven by infrastructure spending and pent-up consumer demand (e.g., U.S. real consumption rose 22% between 1944-1947). However, the long-term risk depends entirely on how the war was paid for.



## The Expansion

- Reconstruction-exposed equities (materials, industrials) surge.
- Income inequality often narrows, fueling domestic consumption.

## The Hangover

**The Risk Warning**: If a war is financed by monetary expansion rather than taxation, the post-war period faces severe structural inflation—identical to the stagflation that followed the Vietnam War.

# Ten timeless principles for navigating geopolitical shocks.

## Pillar 1: Market Psychology & Timing

1. Markets price uncertainty, not casualties.
9. The 25-year complacency cycle.
10. The bottom precedes the turn.

## Pillar 2: Macro & Financing Variables

2. Financing determines the regime.
3. Oil is the master variable.

## Pillar 3: The Reality of Risk Assets

4. Gold's prolonged conflict premium.
5. The bond safe-haven illusion.
6. Defense stocks disappoint late.
7. Contextual dollar strength.
8. Emerging markets are collateral damage.

# Psychology dictates market timing during crises.

## 1

### Uncertainty over Casualties.

Markets respond to the probability distribution of economic outcomes. **Reduced uncertainty** in any direction—even a negative one—sparks recovery.

## 9

### The Complacency Cycle.

Investors unlearn the realities of war every 25 years. They **routinely apply outdated lessons, assuming modern conflicts** will perfectly mirror the previous generation's wars.

## 10

### The Bottom Comes First.

The most actionable rule in the playbook: equity bottoms **precede military turns by months.** You must buy when the rate of negative surprise peaks.

# Financing and oil dictate long-term economic damage.

## Principle 2: The Financing Regime.

**Taxation** (e.g., Korea) — Short-term stall, faster long-term recovery.

**Debt Issuance** (e.g., WWII) — Higher yields, crowding out.

**Monetary Expansion** (e.g., Vietnam) — Triggers a stagflationary boom.

**Deficit + Tax Cuts** (e.g., Iraq) — Structural fiscal crises.

## Principle 3: The Oil Transmission Mechanism.

Any conflict disrupting >3-5% of global oil triggers nonlinear economic damage.


**20%** of global supply

Every week of full closure adds **~$3/bbl** to the baseline risk premium

# Traditional safe havens often fail in modern conflicts.

## Principle 4: Gold's Conditional Protection

### Average: +8.98% over 12 months following major conflicts.

Gold only works in prolonged conflicts paired with monetary easing. In rapid de-escalations (e.g., Operation Rising Lion 2025), gold immediately loses its premium.

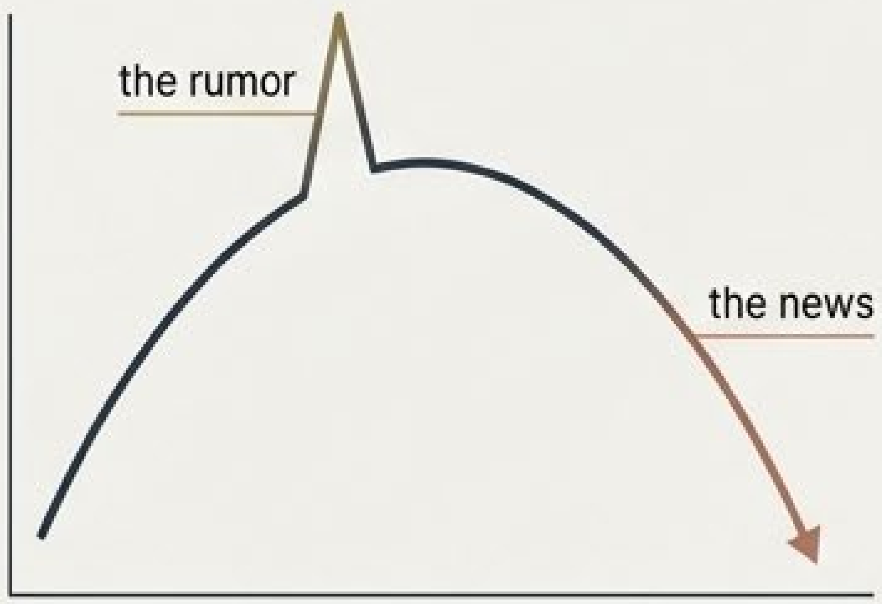
## Principle 5: The Bond Stagflation Trap


### The Treasury flight-to-safety trade is broken.

When wars disrupt energy and spike inflation, bonds become liabilities. In recent conflicts, yields rose (prices fell) as the inflation sell-off completely overwhelmed the safety bid.

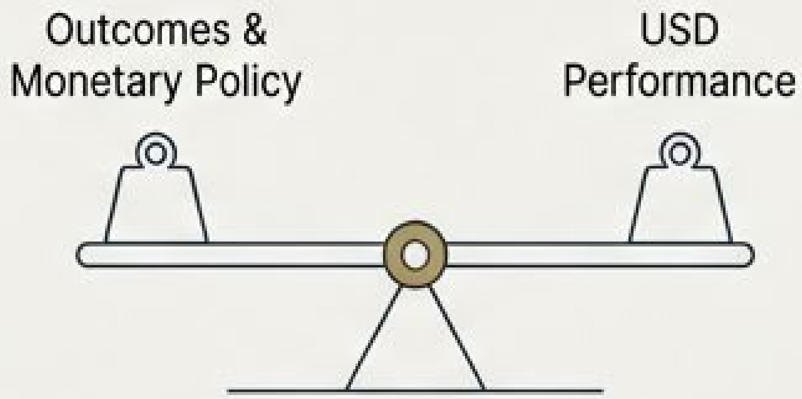
# Risk assets absorb unequal collateral damage

### Principle 6: Defense Stocks Anticipate



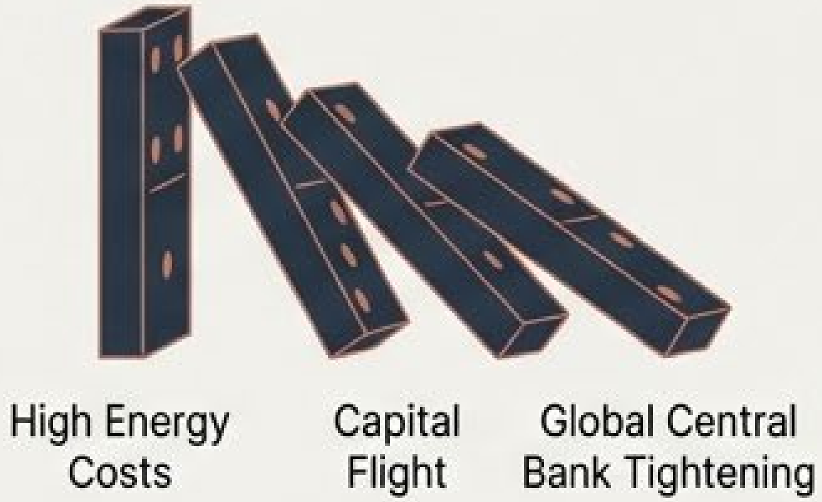

Defense equities exhibit classic "buy the rumor, sell the news" behavior. Unless an attack is a genuine surprise (9/11, Oct 7), post-outbreak performance often disappoints because the pre-event baseline was already inflated.

### Principle 7: Contextual Dollar Strength




USD performance is driven by outcomes and monetary policy, not automatic safety. The dollar strengthens during successful engagements (1991 Gulf War) and aggressive Fed hiking cycles, but weakens during protracted failures.

### Principle 8: Emerging Markets Break First




EM economies suffer uniquely acute damage from a simultaneous combination of high energy costs, capital flight, and global central bank tightening.

# Tactical portfolio navigation across conflict timelines.

| Timeline Phase | Action / Move | Portfolio Rationale / Target |
|---|---|---|
| At Escalation | Overweight | • Gold, Swiss Franc, Energy Producers, Short-duration Treasuries. |
| | Reduce | • EM Equities, Energy-importing nations. |
| | Hedge | • VIX calls, Oil tail-risk options. |
| During Active Conflict | Overweight | • Value/Cyclicals over Growth. |
| | Monitor | • Oil price stabilization signals the equity bottom. |
| | Action | • Favor TIPS over nominal bonds if inflation builds. |
| At Turning Point / Post-Conflict | Action | • Buy broad equities aggressively (bottom precedes headlines). |
| | Reduce | • Gold and Defense (consensus trades). |
| | Overweight | • Industrials, Materials, and reconstruction themes. |

# Applying the framework: The 2026 Iran conflict.

The current military campaign against Iran perfectly stress-tests our principles. Bonds have lost their safe-haven status as yields rise, EM currencies have suffered their worst sessions since 2024, and gold shattered $5,400.

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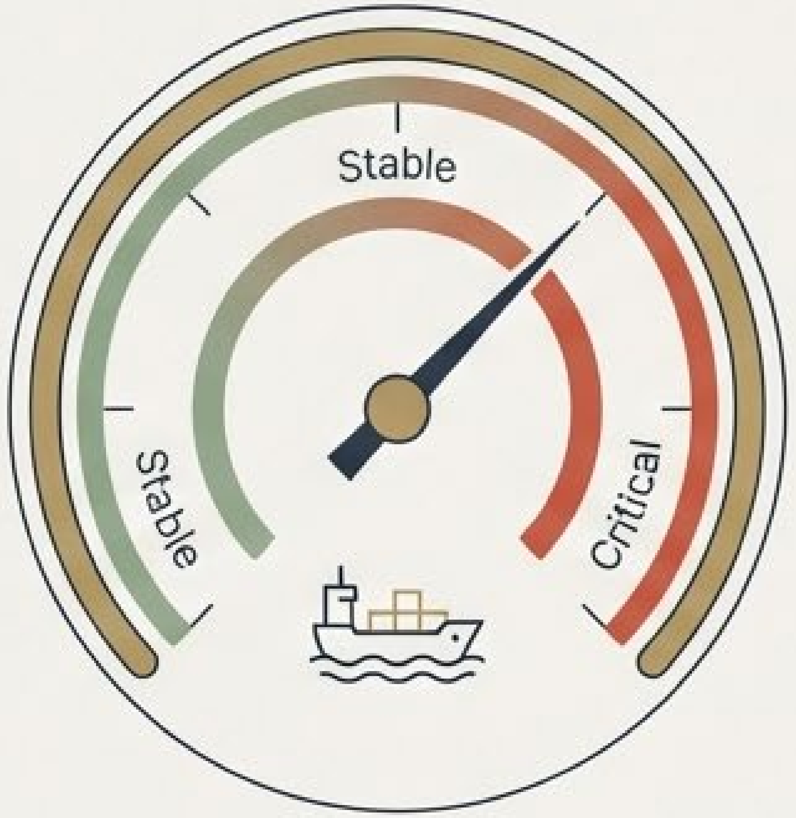
## The Ultimate Variable: Hormuz Access




- **If tanker traffic resumes quickly:** Follow the short-conflict playbook. Expect rapid equity recovery, gold retreat, and oil normalization.
- **If closure is protracted:** Brace for a 1973-style energy shock. Brent risks hitting $100-$120, triggering aggressive tightening and material recession risk. Monitor the oil premium over all other metrics.

**Gold:** $5,400+ ↗

**Bonds:** Yields Rising (Safe-haven failure) ↑

**EM Currencies:** Worst sessions since 2024 ↓