

the past. Higher oil prices have historically encouraged additional production, and over time, increased supply has helped stabilize prices once an initial shock passes. Even if historical data shows that broad equity returns have been good for 312 months following such events, that doesn't rule out the possibility that things could become even more unsettling, particularly if oil prices remain volatile and continue to rise. It goes without saying that the scope of the conflict and the uncertainty around an end to the gunfire and bombing seem to be unsettling markets.

As previously stated, a prolonged increase in oil prices could be detrimental in several ways, including slowing consumer spending, rising inflation figures (which would force the Fed to keep rates higher at a time when rate cuts are anticipated), and putting pressure on corporate profits. If you didn't already know, the United States produces more crude oil and natural gas than any other nation in the world. However, this does not shield our country from the negative effects of rising oil prices, particularly at a juncture of heightened economic worry. The following graphic shows that significant increases in oil prices have far fewer long-term negative effects on equity returns than one might think:

When Oil is up 20%+ in 5 days....

Date	S&P 500's next one-year return
4-May-2020	47%
6-Aug-1990	17%
7-Apr-1986	30%
7-Aug-1986	36%
6-Mar-2026	?
3-Apr-2020	62%
31-Aug-2015	10%
23-Jan-2009	31%
22-Sep-2008	-11%
4-Mar-2022	-7%
1-Jan-2009	23%
23-Mar-1998	15%
25-Feb-2009	44%
29-Oct-1990	30%
27-Jan-2016	22%
20-Apr-1989	9%
23-Jun-1998	19%
Average	24%

Source: FactSet

Also, be reminded that before this turmoil in Iran, U.S. economic data continued to reflect steady expansion. And since the salvo of military action began, interest rates have moved modestly higher, and the yield curve has steepened. In the past,

positively sloping yield curves have existed when the economy is more stable than when they are inverted.

When it comes to investment strategy, asset allocation, and portfolio holdings, the first fact we must face is that no one enjoys volatility or uncertainty. However, and I don't mean to sound dismissive, it comes with the territory and is part of long-term investing. It goes without saying that times like these may be unsettling, as news changes swiftly and markets react just as quickly. When circumstances beyond our control occur, we should make every effort to let perspective take center stage.

Truth be told, some of the recent pullbacks in equities may prove advantageous for the market as a whole. Stock market valuations had risen to levels that many experts, understandably, thought excessive. Let's not forget that the stock market has been quite robust, delivering outsized gains over the previous three calendar years; hence, equity valuations have risen as well. Periodic setbacks, such as those we've seen in recent weeks, can help reset expectations and provide opportunities for subtle allocation and portfolio tweaks. Like one of my favorite clients often says, "I always like buying good quality companies when they go on sale."

In the end, economic data indicate that abrupt geopolitical disruptions often diminish in significance unless they alter long-term projections for global growth or inflationary pressures. Historically, most post-WWII wars involving the U.S. have led to a stronger stock market within 6 months. A quote I've used in a prior newsletter from Mark Twain says, "History rarely repeats, but it often rhymes."

While headlines can at times be bombastic and dire, the severity of the messaging should not affect the overall conclusion: investing should be viewed as a marathon, not a sprint. Although unpleasant, periods of turbulence are an integral part of the journey. Ultimately, your portfolio should be constructed in accordance with your strategy, encompassing your objectives, timeframe,

and priorities. Your long-term goals and objectives should not be thrown off-track by short-term headlines.

Our purpose at First American Bank Wealth Management is simple: help our clients reach their financial goals. In times like these, that means providing perspective, discipline, and guidance.

Until next month—
by David Lackmann
Florida Director of Investment Management



www.FirstAmBank.com
Illinois | Florida | Wisconsin

Not FDIC Insured | Not Bank Guaranteed | May Lose Value