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## **2026.03.18**

Wars such as the one unfolding in Iran and the Middle East are always disturbing. For investors, there's additional concern over whether these conflicts will spill over into their investment performance. But it's important for investors to be cautious about making asset allocation changes in response to such events.

Markets are forward-looking. Prices move in response to changes in information. When unexpected developments arise that investors deem to be poor for markets, markets often drop. But the flip side is markets always set prices for positive returns in the long term. Once the news gets reflected in market prices, investors can still see positive returns even amid worrisome circumstances.

This is borne out in historical stock returns. Global equity markets have continued an upward climb even in the face of economic and political upheavals. We don't have to look far for illustrative examples. During the past few years, stock markets have had positive returns despite multiple wars being fought around the world.



This is not to trivialize the destruction wars bring and their impact on geopolitical risks. But history suggests investors may not help themselves by divesting from stocks. For medium to long term investors, the best bet is usually to stay the course. Knowing the range of possible outcomes, and how to behave in those circumstances, is critical to successful investment outcomes. The odds are that investors will be tested with a downturn. US stocks have experienced a downturn of at least 20% at some point during 29 of 98 calendar years since 1927. It's important to keep in mind that a bad stretch doesn't mean a bad year to come. While a 20% slide occurred in 29 years, only six times did the market end up below -20% for the full year. And the market actually posted positive full-year returns in 10 of those 29 years. This reinforces the lesson that the most reliable course of action following a market downturn is to remain invested.<sup>1</sup>

Volatility equals opportunity and our institutional wealth management partners at Canoe, Dimensional, Dynamic, EdgePoint, Fidelity, Guardian, Mackenzie Investments and Vanguard are well positioned to capitalize on market opportunities whenever and wherever they materialize.

As has been written here so many times before in our weekly blogs, eyes on the horizon and know markets will settle down sooner than later. From there, markets can be expected to do what they have done **without exception** following periods of volatility: resume their upward trajectory, rewarding investors who look beyond today's headlines.

Thanks for reading!

Martin

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Source 1: Dimensional

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