



Iran key to market moves

From my vantage point alongside the Thames, I see thousands of people attending an emotional vigil for Israel outside 10 Downing Street. The crowd solemnly sings the country's national anthem, *Hatikvah* (The Hope). A few miles to the west, Palestine supporters are setting off fireworks and flares at a mass rally taking place outside the Israeli embassy in Kensington at the same time. The juxtaposition could not be more eerie.

Which is why people ask how it's possible that markets appear so sanguine despite the horror stories coming out of the Middle East.

It seems like a fair question, with a death toll of more than 1,000 people in just the first few days of war, yet share prices around the world have been relatively resilient.

It feels nearly inhumane to say, but this is how ruthlessly financial markets often respond in the face of even the most horrific news.

I vividly recall February last year, when I switched on my television and saw Russian missiles starting to destroy strategic targets in Ukraine.

Somehow, the threat of nuclear war felt bigger than before. People were on tenterhooks and financial markets be-

haved accordingly, at first.

A month later, global equity indices were 5% higher than when that war started. Fast-forward to where we are today, and strategists hardly talk about the plight of Ukraine when they start listing their top investment risks. Life goes on.

I happen to be subscribed to a mailing list of John Authers, who used to be chief market commentator at the Financial Times and moved to Bloomberg as senior editor and columnist a few years ago. On Monday last week, I received an e-mail from him before I'd even woken up; global markets were still closed and had thus not had any chance to respond to news of heinous acts committed over the preceding weekend. The title of his piece was: "Gaza Won't Hamper Markets – Unless Israel Strikes Iran".

Thus far, Authers has been right. After opening about 0.1% down that first morning, the S&P 500 rallied in the afternoon and ended the trading session 0.6% up. Dovish comments on the state of inflation in a speech from the Federal Reserve vice-chair on the same day seemed to matter more to markets than the atrocities in Israel.

Consider Northrop Grumman, the multinational aerospace and defence technology company and a likely beneficiary of this war. It was no surprise

that its share price added more than 11% soon after the market opened last Monday.

The Fed factor

But it's a line in a market report from CNBC on the very same day that really struck me: the daily rise in Northrop Grumman's share price was still not as dramatic as the one the company had on March 26 2020. And remember, there was no fresh war back in March 2020 from which a weapons manufacturer could possibly "benefit" – except, of course, the war on Covid.

This is relevant, because the Fed got involved as the world went into lockdown and announced inter alia that it would begin purchasing securities backed by commercial mortgages for the first time. It underscored that the US central bank was serious, and markets started rallying hard after the lightest and steepest drawdown in living memory had played out over the preceding few weeks.

And what about oil? Brent crude prices rallied about 4% as news of war broke, and a number of people compare this situation with the oil crisis of the 1970s. But the key thing is that the world has changed somewhat since the Yom Kippur War of 1973, when Arab members of Opec imposed an embargo against the US in retaliation for Uncle Sam's support of Israel.

Today, the US is largely energy independent thanks to, among other things, the wonders of fracking. I would therefore not bet all my money on a sustained spike in the oil price from levels which already appear relatively elevated.

So, harsh as it may sound, fighting the Fed can indeed be considered more perilous than battles in Israel and Gaza when it comes to financial markets. In the meantime, be mindful of the caveat suggested by Authers: much depends on the possible involvement of Iran as this war develops. The hope is that it never comes to that. **x**

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