WAR AND ITS IMPACT ON THE US ECONOMY AND MARKETS

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Does war have a short or long-term impact on the US economy and markets? That is a question that SIM has been hearing since hostilities with Iran broke out on Saturday, February 28. Over the next several paragraphs, SIM will look at wars and conflicts over the past 80 years to see if there is an impact or lasting impact from US involvement in wars and conflicts.

The Theory

If you think about it, involvement in war brings about classic Keynesian stimulus[1]. In other words, war tends to bring about a boost in spending for defense and war material, which then gets cycled through the economy. Assuming that the increase in spending has a positive impact on economic growth, one would expect to see an upswing in economic growth in the months following the onset of war (or military action). Below is a chart of GDP growth and personal consumption growth in the United States from the second quarter of 1947 to the end of 2025. We have then indicated periods of war and military action in which the United States has been involved in order to see if there has been an impact on GDP.

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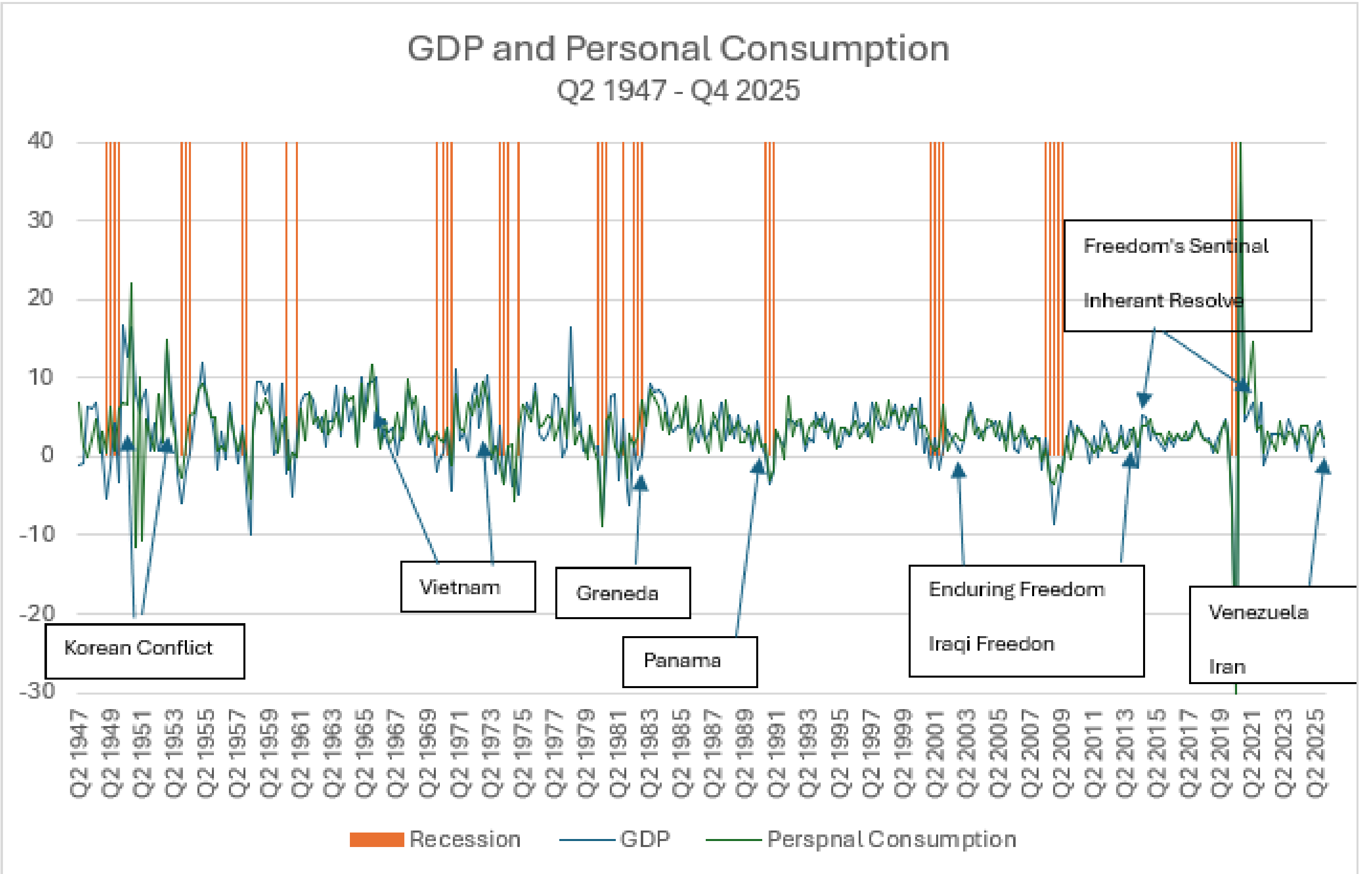

Figure 1 - Source: Bureau of Economic Analysis

Wars and conflicts post-World War II

War/Conflict	Duration	GDP		
		1 mo	2 mo	6mo
• Korean Conflict	6/27/50 – 7/27/53	16.4%	7.9%	0.9%
• Vietnam	8/10/64 – 6/13/73	1.2%	10%	10.1%
• Grenada “Operation Urgent Fury”	12/15/83	8.1%	7.1%	3.6%
• Panama “Operation Just Cause”	12/21/89 – 2/13/90	4.4%	1.5%	3.2%*
• Persian Gulf War “Desert Storm”	8/2/90 – 4/6/91	-1.9%	3.2%	4.4%
• Afghanistan “Opn. Enduring Freedom”	10/7/01 – 12/28/14	3.4%	2.5%	3.6%*
• Iraq “Operation Iraqi Freedom”	10/16/02 – 8/31/10	2.1%	3.6%	3.1%
• “Operation Inherent Resolve”	10/15/14 – 3/23/19	3.6%	2.5%	2.3%*
• Afghanistan “Opn. Freedom’s Sentinel”	1/1/2015 – 8/30/21	2.5%	1.6%	1.3%
• Venezuelan Conflict	1/2/26 – 1/3/26	Unknown		
• Current Iranian Conflict	2/28/26 - ?	Unknown		

Figure 2 - Source: US Periods of War and Dates of Recent Conflicts, Congress.gov

*War/Conflict overlaps with the succeeding conflict/war.

According to Jean-Baptist Wautier[2] a well-designed stimulus should lead to a measurable uptick in economic activity within two to six quarters. Using that as a template, it does appear that fiscal stimuli created by spending done to fund munitions, weapons systems and personnel needed to affect the conflict has had a positive impact on domestic economic activity. However, we would also note that economic growth was already positive to strongly positive in the quarters leading to the conflict. That said, Operation Enduring Freedom was an exception, as the domestic economy had contracted in two of the three quarters leading up to the conflict.

We would also point out that beginning with Operation Just Cause, there is some overlap of the spending amongst and between conflicts. This is particularly true for Operation Enduring Freedom and Operation Iraqi Freedom as well as Operation Inherent Sentinel and Operation Freedom's Sentinel.

What we would draw from the data is that while it appears that an increase in defense spending caused by war and conflict does seem to have a positive impact on economic activity, that impact is far from clear.

What about military action's impact on the markets? Looking at monthly data from Macrotrends, we note the following:

	Performance			
	Month Prior	Month After	3 Months	6 Months
WWII	-4.51%	1.38%	-7.83%	-4.49%
Korea	-5.80%	0.85%	9.95%	15.38%
Vietnam	-1.62%	2.87%	3.17%	6.84%
Grenada	-1.52%	1.74%	-0.09%	-2.14%
Panama	2.14%	-6.88%	-3.81%	1.31%
Desert Storm	4.15%	6.73%	9.13%	12.76%
Enduring Freedom	1.81%	7.52%	6.64%	1.62%
Iraqi Freedom	8.64%	5.71%	-3.39%	3.52%
Inherent Resolve	2.32%	2.45%	-1.14%	3.34%
Freedom's Sentinel	-3.10%	5.49%	4.54%	5.46%
Venezuela	1.37%	-0.87%	N/A	N/A
Iran	-2.02%	N/A	N/A	N/A
Average	0.16%	2.45%	1.72%	4.36%

Figure 3 - Source: Macrotrends; US Periods of War and Dates of Recent Conflicts, Congress.gov

On average, it seems that war has been a net positive for equity returns (as characterized by the S&P 500). That said, it also appears that of the last ten wars/conflicts beginning with World War II, the first three months after the onset of hostilities have been the hardest as half of the time equities have declined. (We have not included the most recent conflicts in Venezuela and Iran as we do not yet have enough data to reach any conclusion.) It also appears that by the six-month mark after the onset of hostilities equities have risen quite nicely so that the average return is greater than 4%, with two instances of returns in the double digits. In only two instances have there been returns by the end of the sixth month that were lower than the third month (Grenada and Operation Enduring Freedom).

If we change our focus to "events of significance", we get a far different story. (See Figure 4 below.) Looking at the major events since the market crash of 1929, we see that, on average, the equity market had declined in the 1, 3, 6 and 12 months after the event. This makes sense to us as the "events of significance" have tended to be economic shocks that can either contribute to or cause the economy to slip into recession. (The exceptions are Black Monday, 1987 and 9/11/2001. In the first instance, significant liquidity was injected into the economy[3] by the Federal Reserve and in the second instance, the US economy was already in recession.)

	Performance				
	Month Prior	Month After	3 Months	6 Months	12 months
Crash of 1929	-4.89%	-13.37%	-5.63%	3.11%	-28.48%
Kennedy Slide	3.93%	-3.79%	-2.80%	-23.48%	-11.81%
Black Monday	5.47%	-8.53%	2.10%	3.79%	10.79%
Dot-Com Bubble Burst	9.67%	7.68%	-2.93%	-4.14%	-22.57%
9/11 Terrorists	-6.41%	1.81%	10.29%	10.23%	-21.68%
Great Recession	1.48%	-4.40%	-11.03%	-10.57%	-37.47%
COVID-19	3.40%	-0.16%	-20.00%	-4.04%	16.26%
Average	1.81%	-2.97%	-4.29%	-3.59%	-13.57%
Average ex-9/11	3.18%	-3.76%	-6.72%	-5.89%	-12.21%

Figure 4 - Source: Macrotrends.net;" The Biggest Events of the Past 100 Years and How They Affected the Stock Market", Madison Trust Company.com

Conclusion

While the initial shock of military action in the middle east certainly impacted equity markets, if history is any indicator, markets should eventually recover and work higher. Further, while SIM fully expects some negative impact (which has happened) in certain commodities (namely crude oil), eventually more normal supply and demand forces should help commodity prices stabilize – even if the conflict drags on longer than the Trump administration hoped. These shorter-term commodity cost gyrations should eventually work their way into consumer inflation. However, these gyrations should also settle down over time, resulting in some reversal of shorter-term inflation.

"Events" like military action have tended to provide a buying opportunity for investors as the short-term shock pushes stock prices down for a while, but lower prices have generally been fully recovered by the third month after the event. Within six months after the event, markets have tended to move higher.

End Notes and Definitions:

1. Keynesian Stimulus: A decision by the government to increase government spending financed by government borrowing in order to help kickstart the economy. "What is a Keynesian Stimulus," by Tejvan Pettinger, Economicshelp.org., March 4, 2009.

2. "What are the Impacts of Fiscal Stimulus on Economic Recovery During a Recession?", by Jean-Baptiste Wautier, Wautier Family Office, Linked-In, December 25, 2025.

3. "Black Monday (1987)" Wikipedia