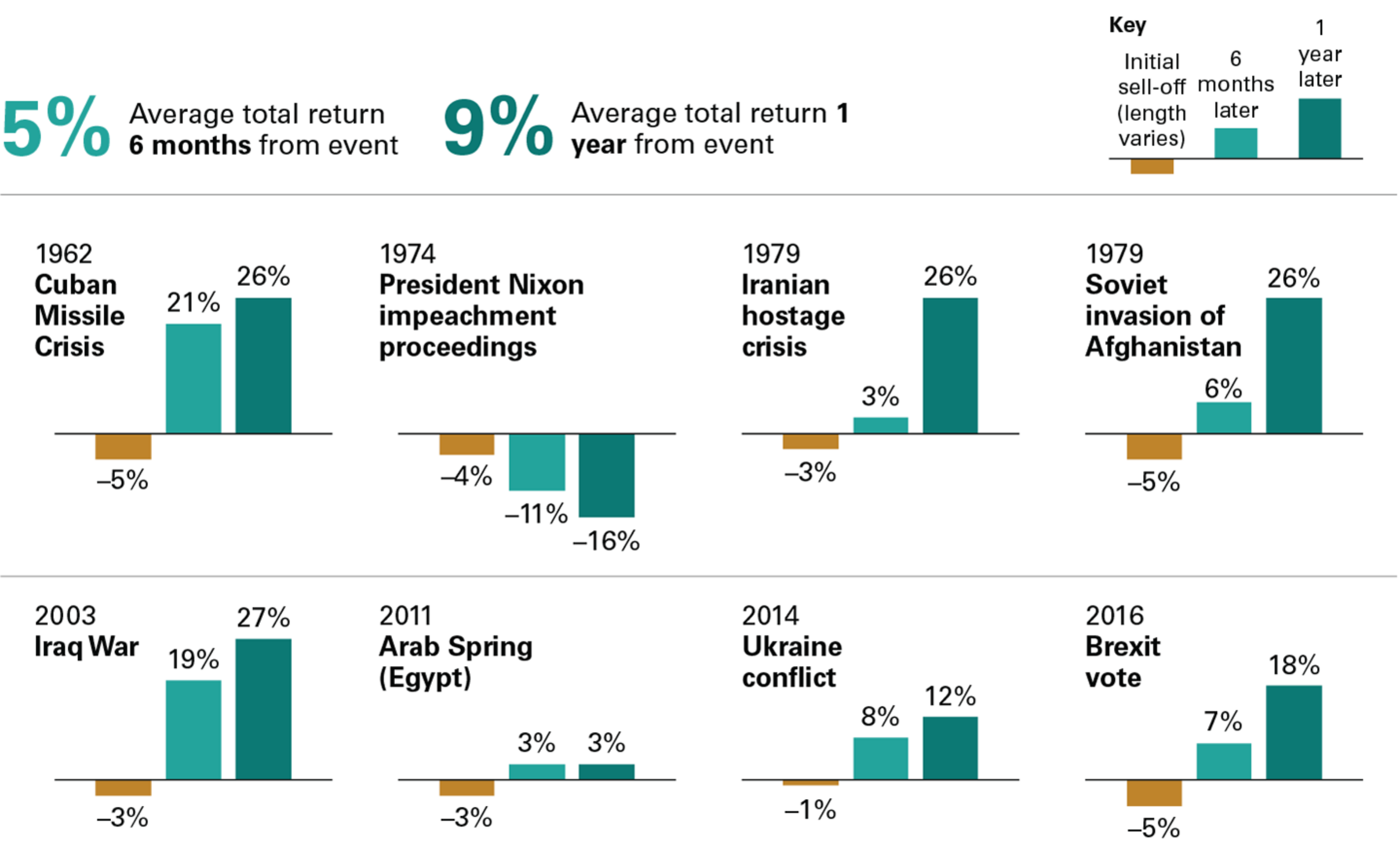
Ukraine and the changing market environment

With geopolitical tensions such as the conflict between Russia and Ukraine, investors often ask whether a link exists between current events and financial market performance. However, when we examined major geopolitical events over the past 60 years, we found that while equity markets often reacted negatively to the initial news, geopolitical sell-offs were typically short-lived and returns over the following 6- and 12-month periods were largely in line with long-term average returns. On average, stocks returned 5% in the 6 months following the events and 9% in the 12 months after the events as shown below.

Geopolitical sell-offs are typically short-lived



Notes: Returns are based on the Dow Jones Industrial Average through 1963 and the Standard & Poor's 500 Index thereafter. All returns are price returns. Not shown in the above charts, but included in the averages, are returns after the following events: the Suez Crisis (1956), construction of the Berlin Wall (1961), assassination of President Kennedy (1963), authorization of military operations in Vietnam (1964), Israeli-Arab Six-Day War (1967), Israeli-Arab War/oil embargo (1973), the shah of Iran's exile (1979), U.S. invasion of Grenada (1983), U.S. bombing of Libya (1986), First Gulf War (1991), President Clinton's impeachment proceedings (1998), Kosovo bombings (1999), multi-force intervention in Libya (2011), and U.S. anti-ISIS intervention in Syria (2014).

Sources: Vanguard calculations as of December 31, 2021, using data from Refinitiv.

Past performance is no guarantee of future returns. The performance of an index is not an exact representation of any particular investment, as you cannot invest directly in an index.

Even with that backdrop in mind, it's clear that a new dimension of risk has entered the financial markets with Russia's attack on Ukraine. It's not something the markets needed when they were already dealing with brisk inflation and preparing for an expected cycle of interest rate hikes from most of the world's central banks.

We know this, however, about equity markets in the context of geopolitical risks: They've been resilient, much as markets have always been resilient in the face of various risks. We expect the markets to work themselves out, reaching new heights over time and at varying paces. These rises will sometimes be punctuated by sharp declines, and that's when advisors like you can help your clients stay focused on their long-term plans.

Notes:

- All investments are subject to risk, including the possible loss of the money you invest.
- Be aware that fluctuations in the financial markets and other factors may cause declines in the value of your account.