Markets

Odd Lots

Here's the Buy Case for Stocks on Rising Worries Over Nuclear War

This image made from a video released by the Zaporizhzhia nuclear power plant shows bright flaring object landing on the grounds of the plant in Enerhodar, Ukraine on March 4.

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How should investors (and the sell-side analysts which serve them) deal with the threat of a nuclear war?

On the one hand, a civilization-ending event would clearly be of concern for investors. For people who claim to be in the business of dealing in risk, it *feels* like something that they might want to at least talk about. The price action overnight, when Russia's shelling of a nuclear plant in Ukraine sparked a sharp risk-off moment in markets, might have at least focused more minds on the possibility if money managers weren't already thinking about it.

But on the other hand, attempting to price in the literal worst-case scenario seems of limited use: It's unlikely that anyone still around will be thinking much about their portfolios. From that perspective, it *might* make sense to buy the dip on rising worries over a nuclear incident. If the worst doesn't materialize, stocks will recover. If the worst does happen, they won't but you'll probably be beyond caring about them at that point.

All of which is to say, here's Peter Berezin, chief global strategist at BCA Research Inc., presenting the buy case for stocks on the risk of nuclear war.

As he notes, there might not be much point to try to price existential risk for markets:

> *Although there is a huge margin of error around any estimate, subjectively, we would assign an uncomfortably high 10% chance of a civilization-ending global nuclear war over the next 12 months. These odds place some credence on Brandon Carter's highly controversial Doomsday Argument.
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> * Even if World War III is ultimately averted, markets could experience a freakout moment over the next few weeks, similar to what happened at the outset of the pandemic. Google searches for nuclear war are already spiking.
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> * Despite the risk of nuclear war, it makes sense to stay constructive on stocks over the next 12 months. If an ICBM is heading your way, the size and composition of your portfolio becomes irrelevant. Thus, from a purely financial perspective, you should largely ignore existential risk, even if you do care about it greatly from a personal perspective.

And here's more on the 'freak out moment/buying opportunity' that could be yet to come:

> "The market today reminds me of early 2020. We wrote a report on February 21 of that year entitled 'Markets Too Complacent About The Coronavirus,' in which we noted that a full-blown pandemic "could lead to 20 million deaths worldwide," and that "This would likely trigger a global downturn as deep as the Great Recession of 2008/09, with the only consolation being that the recovery would be much more rapid than the one following the financial crisis." Many saw that report as alarmist, just as they saw our subsequent decision to upgrade stocks in March as cavalier.
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> Even if you knew in February 2020 that the S&P 500 would reach an all-time high later that year,

> you should have still shorted equities aggressively on a tactical basis. I feel the same way about the present. Google searches for nuclear war are spiking. A freak-out moment is coming, which will present a good buying opportunity for investors.
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> Just to be on the safe side, I picked up a couple of bottles of Potassium Iodide earlier this week. When I checked the pharmacy again yesterday, all the bottles were sold out…"

Berezin also notes that increased geopolitical tensions are likely to lead to a defense spending boom after years of sluggish capital investment in the euro zone. Meanwhile, household spending might pick up. ("It does not make sense to save for a rainy day if that day never arrives.") And while lower savings and higher inflation thanks to commodities disruption will likely lead to higher interest rates that will *eventually* hit risk assets, there's still a while to go.

So in the meantime, the strategist says the bottomline is buy stocks (and presumably Potassium Iodide.)