

# Geopolitics and the U.S. Financial Markets



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International conflicts and other global events dominated the news in early 2026, most notably the U.S. action in Venezuela and pressure to obtain control of Greenland, as well as anti-government protests in Iran and a snap election in Japan.

These are all serious issues that can have far-reaching consequences on many levels, ranging from individual lives to the world political order. However, based on past experience, their effects on the U.S. financial markets are likely to be temporary.

## Learning from the past

A study of market reaction to 28 negative geopolitical events over the last quarter of a century found that 16 of the 28 resulted in a decline of the S&P 500 Index on the day of the event (or the first market day after the event), with an average loss of 1.5%. Many events saw a bounceback the following day and/or a full market recovery within a week. In only five cases was the market lower after a month, and these low points were not necessarily related to the original event.<sup>1</sup>

The most dramatic of these events from the U.S. perspective was the September 11 attacks, which led to a four-day closure of the stock market. When the market reopened, stocks declined by almost 5% and by 11.6% over the week. Even so, the S&P 500 Index surpassed its previous level exactly one month after the attacks.<sup>2</sup>

## The U.S. business engine

Although global events can create uncertainty and short-term volatility, the U.S. stock market is driven primarily by the corporate earnings of American businesses, which are typically affected more directly by domestic economic trends such as interest rates, consumer spending, and the employment situation. The relevant question for any geopolitical event is how it will affect these economic parameters, and more often than not, global events have little direct impact on the American economy. The stock market is agnostic about whether an event is good or bad in a political or moral sense.

## Sell America?

Because bonds are generally more stable than stocks, the traditional view is that when geopolitical events cause nervousness in the stock market, investors turn to bonds as a "flight to safety." When this happens, bond prices typically rise due to greater demand, and yields — which move inversely to prices — decrease. However, this is not always the case. Sometimes a geopolitical situation can cause a rush to sell bonds.



**Darren J. Cart, CPA/PFS**  
Partner

Going CPAs & Wealth Advisors

[337-942-3041](tel:337-942-3041)

[darren@going.cpa](mailto:darren@going.cpa)

[www.going.cpa](http://www.going.cpa)

2811 S Union St, Opelousas, LA,

[Schedule a meeting](#)

This is what happened on January 20, 2026, after President Trump's threat of additional tariffs on European nations who opposed his efforts to obtain Greenland. Concerned by the potential for disruption of the NATO alliance and higher inflation due to the tariffs, investors sold U.S. stocks, U.S. bonds, and U.S. dollars at the same time, a trifecta that some analysts have called the "sell America" trade. The S&P 500 and NASDAQ Composite indexes fell by more than 2%, the yield on the 10-year Treasury bond spiked to its highest level in five months, and the dollar saw its biggest decline since April.<sup>3-4</sup> All of these assets bounced back after Trump moderated his position the following day.<sup>5</sup>

Although the Greenland conflict was a key cause of market unrest, the U.S. Treasury sell-off began after investors sold Japanese bonds in response to concerns that planned tax cuts might further damage Japan's fiscal health. This sparked fears that Japanese investors would dump their U.S. Treasuries to reinvest at higher yields in Japan, while the Japanese government might sell its U.S. holdings to finance the tax cuts. Put simply, investors sold Treasuries until yields were roughly equivalent to yields on Japanese bonds.<sup>6</sup>

This illustrates the interconnectedness of global markets as well as the importance of international sentiment about U.S. fiscal strength and political stability. Foreign entities own one-third of U.S. Treasury securities and 18% of U.S. stocks. High U.S. debt and a changing foreign policy have eroded confidence to some degree, but U.S. Treasuries and the U.S. dollar remain the benchmarks of the global financial system, and there is no evidence of a widespread movement to divest of U.S. assets.<sup>7</sup>

## **Economic resilience and long-term investing**

Although geopolitical events don't generally have a long-term influence on U.S. financial markets, global trade does impact U.S. companies, which is why the on-again, off-again tariff program has caused market volatility over the last year. Even so, the economy has been remarkably resilient. The most recent report on gross domestic product (GDP) showed robust annual inflation-adjusted growth of 4.4% in the third quarter, and consumer spending — which accounts for about two-thirds of GDP — increased at a solid 0.5% monthly rate in October and November.<sup>8</sup>

The world will likely continue to be turbulent, and there are genuine concerns about the changing role of the United States in the global economy. But it's generally not a good idea to overreact to short-term market movements. A wiser strategy may be to construct a well-diversified portfolio appropriate for your risk tolerance, time horizon, and personal goals, and potentially let your portfolio ride out the storms of market volatility.

*All investing involves risk, including the possible loss of principal, and there is no guarantee that any investment strategy will be successful. Diversification does not guarantee a profit or protect against investment loss. Investing internationally carries additional risks such as differences in financial reporting, currency exchange risk, and economic and political risk unique to the specific country, which may result in greater share price volatility.*

*The S&P 500 Index is generally considered representative of the U.S. stock market. The performance of an unmanaged index is not indicative of the performance of any specific investment. Individuals cannot invest directly in an index. Past performance is no guarantee of future results. Actual results will vary. U.S. Treasury securities are guaranteed by the federal government as to the timely payment of principal and interest.*

*The principal value of Treasury securities and other bonds fluctuates with market conditions. If not held to maturity, they could be worth more or less than the original amount paid.*

- 1) MarketWatch, January 21, 2026
- 2, 4) Yahoo Finance, 2026
- 3) CNBC, January 20, 2026
- 5) *The Wall Street Journal*, January 21, 2026
- 6) *Barron's*, January 20, 2026
- 7) MarketWatch, January 20, 2026
- 8) U.S. Bureau of Economic Analysis, 2026

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