

Investment Strategy During War times

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Disclaimer 1

Whatever is being discussed is an academic exercise with the intention of learning from each other. Nothing should be construed as Investment Advice. Please consult your SEBI RIA before taking any investment related decisions

Disclaimer 2

War is a grave matter. Investments need serious concern. Today's presentation might border on being insensitive to such topics. An attempt has been made to keep the topic "light-hearted". It does not purport to hurt the sentiments of any person, living or dead, of any caste, creed, religion, gender or designation in any organisation

Agenda

- 01 Conflicts and Wars** How wars are defined, how many are happening now, and which 6% actually matter to markets.
- 02 Some Case Studies** WWI, WWII, Korean War, Vietnam, Yom Kippur — the defining conflicts of the last 100 years.
- 03 Conflicts Involving India** India's own war history: 1947, 1965, 1971, Kargil, 1962, and Operation Sindoor 2025.
- 04 How Asset Classes Behave During War** Equities, bonds, gold, real estate, and currency — what each does when conflict starts.
- 05 How Equities Are Impacted by War** The vicious cycle, the recovery sequence, and what drives recovery speed.
- 06 The 3-Question Framework** The analytical tool that predicts every recovery — and how to apply it in real time.
- 07 War-Like Crisis Situations** Weimar, GFC, COVID, USSR Collapse, India 1991 — non-war crises mapped against the framework.

Defining War vs. Conflict - (UCDP Definition)

Armed Conflict

- At least 2 parties (at least 1 should be Govt)
- Either over Government or Territory
- Use of Armed Force
- **At least 25 battle-related deaths per calendar year**

War (Correlates of War Definition)

- sustained armed conflict
- between organized forces
- **At least 1,000 battle-related deaths per calendar year**

Armed Conflicts (incl Wars) : The Reality

260+

Major Wars & Armed Conflicts

187M

Estimated Total Deaths

Sources: Correlates of War Project, Uppsala Conflict Data Program
(UCDP) /PRIO Dataset, IWM Research

Some numbers to Ponder

- Number of Conflicts since 1946: 259
- Current number of conflicts: 61
- Current Number of Wars (ongoing): 13 (> 1000 deaths)
 - Russia Ukraine War – 76,000 deaths
 - The Gulf War – version (Iran+++ Vs Israel, US, +++++)
 - Afghan – Pakistan “Open War”
 - Civil War – Sudan, Myanmar, Syria, Somalia
 - Insurgency in Ethiopia,
 - Insurgency in Nigeria
 - War in Mali
- **Impact on India – Restaurants not serving all menu items because of Gas Shortage**
(Energy import costs elevated; fertilizer prices up; defense budget under pressure)

The Critical Investment Insight

Of 260+ conflicts since 1900,
only
**15 had significant
global economic impact**

Less than 6% of all conflicts materially affected global markets

A few Noteworthy Conflicts

- **World War I (1914-18):** GDP declined 30-40% in major powers, massive debt, inflation
- **World War II (1939-45):** Birth of Bretton Woods, USD hegemony, IMF/World Bank
- **Korean War (1950-53):** US defense spending surge, Japanese industrial recovery
- **Vietnam War (1955-75):** Contributed to collapse of Bretton Woods, US fiscal strain
- **1973 Yom Kippur War:** OPEC embargo, oil prices quadrupled, global stagflation
- **Iran-Iraq War (1980-88):** Tanker War, Gulf oil facility damage, price volatility
- **Soviet-Afghan War (1979-89):** Contributed to Soviet economic collapse
- **Gulf War (1990-91):** Oil price shock, established Western military presence in Middle East
- **9/11 & Afghanistan (2001-21):** Multi-trillion dollar expenditure, security transformation
- **Iraq War (2003-11):** Oil market disruption, US fiscal deficits
- **Russia-Ukraine (2022-):** Energy crisis, food/fertilizer shortages, sanctions regime

1914–18

World War I (1914–1918)

Belligerents: Allied Powers: UK, France, Russia, Belgium, Italy (later) vs. Central Powers: Germany, Austria-Hungary, Ottoman Empire

Human Cost: 17 million deaths — 10 million military, 7 million civilian. Entire generation of young men wiped out across Europe.

Economic Devastation: GDP declined 20–40% in major powers. Sovereign debt exploded: France +170%, UK +135%. Widespread infrastructure destruction.

Power Shift: US emerged as global superpower — lent \$10 billion to Allies. Germany financially ruined, setting the stage for hyperinflation and WWII.

Investment Lesson: Geographic distance from battlefield = economic advantage. US (arsenal, not battlefield) powered through and emerged dominant.

Framework: Productive capacity intact for US. Structural damage for Europe. US policy stimulative → US markets outperformed.

1939–45

World War II (1939–1945)

Belligerents: Allied Powers: UK, US, USSR, France vs. Axis: Germany, Japan, Italy

Human Cost: 85 million deaths — deadliest conflict in history. 25 million military, 60 million civilian. Atom bomb deployed for first time.

Economic Devastation: \$4 trillion in economic losses. Infrastructure destroyed across Europe and Asia. GDP fell sharply in all major war zones.

New World Order: US and USSR emerged as undisputed superpowers. Germany divided. Cold War begins. Dollar linked to gold (Bretton Woods).

Investment Legacy: Bretton Woods created IMF, World Bank, USD as reserve currency — the institutional framework for the greatest post-war bull market in history.

Framework: The post-war institutional rebuild (Bretton Woods, Marshall Plan) was the policy mechanism that drove 1945–2000 global prosperity.

1950–53

Korean War (1950–1953)

Background: WWII partitioned Korea. North Korea: industrialised, communist, Soviet-backed. South Korea: US-backed, anti-communist.

Conflict: North Korea attacked South (1950). UN forces (led by US) defended South. China intervened, pushing UN back. 3 years, 1 month — ceasefire only, no peace treaty.

Human Cost: 26 lakh civilian deaths. 2 lakh military deaths (33,000 US forces). Severe GDP contraction on the peninsula.

The Market Paradox: S&P 500 rose +89% during the active war. US defence spending = massive fiscal stimulus. Factories ran at full capacity. Earnings surged.

India Parallel: India's current defence indigenisation (HAL, BEL, Bharat Forge) replicates the US 1950s capital reallocation. The Korean War is the template.

Key Insight: Markets price economic impact, not geopolitical headlines. The arsenal nation prospers. The battlefield nation suffers.

1955–75

Vietnam War (1955–1975)

Pattern: Mirrors Korean War: Communist North (Soviet-backed) vs. US-backed South. France defeated 1954; Vietnam partitioned. US played 'advisory' role, then escalated to full bombing in 1964.

Timeline: Public support collapsed 1968. Troop withdrawal began 1973. Vietnam unified under communism 1975. Total cost: \$1 trillion (2024 terms).

Human Cost: ~1.45 million military deaths. ~2.4 million Vietnamese civilian deaths. Chemical weapons used. 70% of villages destroyed.

Economic Shock: Massive US fiscal deficit → Nixon ended dollar-gold convertibility (1971) → Bretton Woods collapsed → Inflation era began. Gold standard ended.

Investment Lesson: War that destroys the credibility of the reserve currency is categorically more dangerous than any conventional military conflict.

Vietnam → Dollar devaluation → 1970s stagflation → 16 years of zero real market returns. The fiscal channel is the critical risk.

1973

1973 Yom Kippur War

Conflict: Egypt & Syria attacked Israel (Oct 6, 1973) to reclaim territory lost in 1967. US backed Israel; USSR backed Arab states. War lasted just 19 days.

OPEC Embargo: Arab OPEC nations cut oil supply to US and allies. Oil prices surged 4x — from \$3 to \$12/barrel within months. Petrol queues appeared across the West.

Economic Fallout: Global stagflation: high inflation + low growth simultaneously. US and Japan entered recession. A scenario no standard policy tool could address.

Recovery: 6 years to full economic recovery. DJIA fell 45% (1973–74), took ~2 years to recover nominally, much longer in real terms.

Investment Lesson: A 19-day war caused 6 years of economic pain — purely through one chokepoint: oil. Energy supply disruption is the single highest-risk transmission mechanism.

The Yom Kippur template: geographically contained conflict, disproportionate global impact via oil. Always check energy exposure first.

Wars & Conflicts Involving India

1947 Kashmir War: 14 months. Defence spending 2% of GDP. Massive refugee problem (Rs. 100 Cr at 1947 values). First test of independent India's institutions.

1965 War: 17 days, coincided with severe drought. Defence spend 4% of GDP. Increased dependence on US and USSR aid. Economy strained but resilient.

1971: Liberation of Bangladesh: Decisive victory. Huge refugee influx. War cost \$2.5 billion USD. Transformed regional geopolitics permanently in India's favour.

1999 Kargil War: Rs. 8,000 Cr cost. Conflict lasted 74 days. Sensex fell 12% at peak uncertainty — recovered +30% by year end. Boosted defence modernisation.

1962 Sino-India War: India's most economically damaging conflict. Shattered 'peace as strategy.' Defence spend 3.5% of GDP. Massive arms imports. BoP stress.

2025 Operation Sindoor: Surgical strikes against terror infrastructure. Precise, limited, strategically successful. Market reaction: contained and brief.

Pattern across all India conflicts: short-term pain, full recovery, often accelerated defence modernisation.

How Different Asset Classes Behave When War Starts

Equities Fall sharply on war outbreak. FII exit, panic selling, uncertainty premium. Recover fastest once conflict scope is known.

Gilts & Bonds Prices fall, yields rise. Debt MF NAVs correct. Corporate bonds widen spreads further. Defaults increase in prolonged wars.

FDs & Non-Tradeable Debt Appear safe but silently lose purchasing power as war-driven inflation rises. The hidden risk.

Gold, Silver & Commodities Rise sharply as safe-haven demand surges. Gold is the most reliable conflict hedge across 100 years of data.

Real Estate Illiquid, price distortion rather than true discovery. Difficult to exit quickly in a crisis. Hold but cannot trade.

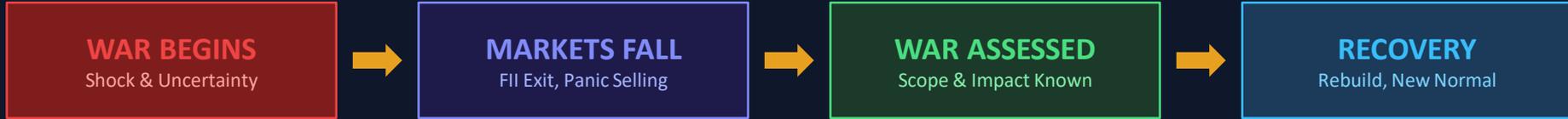
Currency Local currency depreciates as capital flees. Safe-haven currencies (USD, CHF, JPY) appreciate. INR typically recovers.

Evaluating Equities during War times

Implications of War on Equities

- Oil prices shoot up. Transport and Insurance costs go up
- Trade shrinks. Supply chains get impacted. Input costs go up.
- Government funds diverted to War. Capex falls. Taxes imposed.
- Government borrows more. Prints more money
- Fiscal Deficit goes for a toss
- Inflation increases. Real Incomes Slump
- Consumption Falls. Investments on Hold
- GDP contracts
- Capital Outflow.
- Currency Depreciation
- The vicious cycle continues....

Implications of War on Equities: The Full Cycle



Economic Spiral: Oil prices surge → Supply chains fracture → Input costs spike → Capex frozen → Govt prints money → Inflation ↑ → GDP contracts → Capital flight → Currency depreciates

Recovery Path: Ceasefire / Peace → Uncertainty lifts → FII re-entry → Govt shifts to capex → Supply chains normalise → Inflation cools → Consumption revives → Rebuild

Asset Response: Gold ↑ | Commodities ↑ | Equities ↓ then recover | Bond yields ↑ | Local currency ↓ | Safe haven currencies ↑

Key Insight: Markets price uncertainty, not war itself. The cycle always completes. The question is speed, not direction.

The Framework:

3 Questions That Predict Every Recovery

01 Is Productive Capacity Intact?

Human capital, infrastructure, institutions. If factories, farms, and brains survive — the market recovers. Destruction of paper wealth \neq destruction of economic capacity.

02 Is the Damage Structural or Sentiment-Driven?

Structural damage (broken banking system, currency collapse) takes years. Sentiment-driven selloffs (FII exits, panic) reverse in months. Knowing the difference is everything.

03 Is There a Policy Mechanism Capable of Response?

Markets don't always self-correct. Sometimes recovery requires a Volcker, a Manmohan Singh, or a Bretton Woods. The existence of policy capacity is the most underpriced factor in crisis analysis.

Every crisis in this presentation will be mapped against these three questions. (The market has survived two World Wars, multiple oil crises, demonetisation, and JEE Main. It will survive this too.)

1950–53 · The Korean War: The Market That Rose During a War

S&P 500 returned +89%

during the Korean War · Not after it. During it.

WHY MARKETS ROSE

Defense spending injected massive fiscal stimulus into an already-industrialising US economy. The war accelerated technology transfer — semiconductors, aerospace, and manufacturing capacity — that formed the backbone of the 1960s boom. Unemployment fell. Corporate earnings surged. The market priced the economic tailwind, not the geopolitical headline.

THE INDIA PARALLEL TODAY

India's defence indigenisation push — Make in India, Atmanirbhar Bharat — mirrors precisely this dynamic. Defence PSUs like HAL, BEL, and the broader defence manufacturing ecosystem are experiencing the same capital allocation that US industrials saw in 1950. The Korean War precedent gives this thesis historical legitimacy, not just policy aspiration.

Key Insight: Markets price economic impact, not geopolitical events. The question is never 'is there a war?' — it is 'who benefits from the capital reallocation?'

1999 · Kargil War: How Markets Price Uncertainty vs. Known Outcomes

-12%

BSE Sensex fall at peak Kargil uncertainty
(May 1999)

+30%

Sensex gain from pre-war levels by December
1999

74 Days

Duration of conflict — brevity was itself a
market signal

THE TIMELINE

- May 1999** Intrusions detected · Sensex falls 12%
- June 1999** Conflict contained · limited geography
- July 26, 1999** Vijay Diwas · Pakistan withdraws
- Dec 1999** Sensex up 30% from pre-war levels

THE KEY INSIGHT

The market's 12% decline during Kargil was not pricing 'India is in a war.' It was pricing 'we don't yet know how large this war will become.'

Once the conflict was understood as limited, contained, and strategically bounded, capital re-entered rapidly. The resolution — India's decisive military victory — became a signal of institutional strength, not weakness.

Markets price uncertainty far more harshly than they price known bad outcomes. Clarity — even about a bad situation — is less destructive than ambiguity.

Principle: Uncertainty is priced more harshly than known adversity. Once the shape of a crisis is understood, re-entry is fast.

Feb 2022

Russia-Ukraine War: Market Response

India's Remarkable Resilience — Recovery in Weeks, Not Months

OIL PRICES

+46%

\$95 → \$139 peak (Mar 2022)
Back to pre-war by Apr 2022

NIFTY 50

-5%

17,100 → 16,250 (next day)
Back to pre-war by Mar 2022

S&P 500

-12.7%

4,418 → 3,858 post-invasion
Recovered to 4,328 in 30 days

WHY INDIA RECOVERED IN WEEKS

Zero direct exposure: India has no geographic or economic dependency on the conflict zone.

Sentiment shock only: FII outflows drove the decline, not balance-sheet damage. Once panic subsided, FIIs re-entered.

RBI forex buffer: \$600B+ reserves absorbed currency pressure without crisis.

THE KEY INSIGHT

The Nifty's 5% drop was not pricing 'India is affected by this war.' It was pricing 'we don't yet know how large this will become.'

Once the conflict was assessed as geographically contained — not a NATO-Russia escalation — capital re-entered immediately. India was back within 3 weeks.

Framework Check: Productive capacity intact. Contagion only. Policy robust. Recovery: weeks.

Principle: Uncertainty is priced more harshly than known adversity. Once conflict scope is bounded, India recovers. Every time.

Some more War like Scenarios

Weimar Germany: When Money Became Wall Paper

The most extreme monetary collapse in modern history — and what equity investors learned

16 hrs

Time for prices to double at peak hyperinflation

4.2 Trillion

Marks per US Dollar by Nov 1923 (was 4.2 in 1914)

Preserved

Real value of equity vs. bonds & savings (in hard currency)

WHY IT HAPPENED

War Reparations: The Treaty of Versailles imposed impossible reparation payments on Germany, forcing the government to print money on a biblical scale.

Feedback Loop: As the mark fell, citizens spent faster, accelerating velocity of money — a self-reinforcing spiral that policy couldn't outrun.

THE NON-OBVIOUS INSIGHT

German equities measured in gold or dollars **preserved wealth far better than cash or bonds.**

A factory still produces. A farm still grows. A railroad still runs. Hyperinflation destroys paper — not productive capacity. Equity is a claim on real assets, and real assets survive monetary collapse.

Investors who held industrial stocks in companies with physical assets lost far less than those who held savings or government bonds.

2008 · Global Financial Crisis: Why India Recovered Faster Than America

The most important distinction in crisis analysis: contagion vs. structural damage

-63%

Sensex peak-to-trough fall Jan 2008 – Mar 2009

18 Mths

India's time to recover to pre-crisis levels (~2010)

5+ Years

US time to recover to 2007 Dow highs

Zero

India's exposure to toxic mortgage-backed securities

WHAT HIT INDIA

India fell 63% — one of the steepest declines in the world. But the mechanism of decline was entirely different from the US.

FII (Foreign Institutional Investor) outflows: global investors liquidated emerging market positions to cover losses at home. Over \$12 billion in FII money left India in 2008 alone. Sentiment and liquidity drove the fall — not balance sheet damage. India's banks held no subprime paper. No Indian bank required a bailout.

WHY INDIA RECOVERED FASTER

Once global panic subsided and FII flows normalised, India's underlying economy reasserted itself — because the real economy was never damaged.

The US, by contrast, had genuine structural damage: underwater mortgages, insolvent banks, securitisation chains that had distributed toxic paper globally. Repair required recapitalising the entire banking system — a years-long process.

India's 63% fall was borrowed fear. The US's 55% fall was real damage. Same headline number. Completely different recovery speed.

The Single Most Important Diagnostic: 'Is this contagion or structural damage?' India 2008 = contagion. US 2008 = structural. Same selloff. Different recovery.

COVID-19 · Fastest Bear Market, Fastest Recovery

The most dramatic test of market resilience in living memory

-38%

Sensex fall in 40 days: fastest crash in market history

6 Months

Time to full recovery — remarkable given scale of crisis

+130%

Sensex gain from Mar 2020 low to Oct 2021 high

THE UNPRECEDENTED SHOCK

For the first time in history, the global economy was deliberately shut down. GDP fell 24.4% in India in Q1 FY21 — the worst quarterly contraction ever recorded. Businesses closed by government order. Supply chains fractured. The IMF projected the worst global downturn since the Great Depression.

And yet this was, by most measures, the shortest bear market in history.

Three framework questions answered clearly and quickly:
WHY RECOVERY WAS SO FAST

1. Productive capacity intact? Yes — the shutdown was temporary and reversible. Unlike a war or natural disaster, no physical infrastructure was destroyed.
2. Structural damage? No — banks were solvent, companies' underlying business models were valid. The damage was a pause, not a destruction.
3. Policy mechanism? Unprecedented fiscal and monetary intervention globally — India's RBI cut rates, provided liquidity, and the government launched stimulus packages. Markets priced policy response before economic recovery.

1966–1982 : When Zero Returns Lasted 16 Years

The most underappreciated market failure — and the most powerful recovery playbook

0%

Nominal Dow return: 1,000 in 1966, still
1,000 in 1982

-70%

Real (inflation-adjusted) loss over the same
16 years

20%

Fed Funds Rate in 1981 — Volcker's radical
medicine

THE PERFECT STORM (4 simultaneous shocks)

1965–75 Vietnam War: Massive fiscal deficit, political fracture, social unrest

1971 Nixon Shock: Dollar delinked from gold — the entire monetary anchor removed overnight

1973 & 1979 Oil Shocks: OPEC embargo drove oil from \$3 to \$35/barrel — cost-push inflation on every sector

Stagflation: High inflation + low growth — the scenario for which no standard policy tool existed

THE VOLCKER PLAYBOOK: DELIBERATE PAIN

Paul Volcker, appointed Fed Chair in 1979, did the unthinkable: he deliberately induced a recession to break inflation's back. He raised rates to 20% — knowing it would cause unemployment, knowing it would cause political backlash, knowing businesses would suffer.

It worked. Inflation fell from 14% to 3% in three years. The S&P 500 then began the greatest bull market in history — 1982 to 2000.

The recovery required a policymaker willing to administer the cure even when the cure hurt.

USSR Collapse: Opportunity in Disintegration

How savvy investors made 500%+ returns while a superpower dissolved

-40%

Russia's GDP contraction 1991–98 — worse than the Great Depression

2,500%

Russian inflation in 1992 — the year after the USSR dissolved

+500%

RTS Index gain from 1995 launch to 1997 peak (in dollar terms)

THE PARADOX: GREATEST RETURNS FROM THE RUBBLE

The Soviet Union collapsed. GDP fell 40% over 8 years. Inflation hit 2,500% in a single year. Life expectancy dropped. Crime exploded. It was, by every measure, a civilisational disintegration in peacetime.

And yet: investors who entered the Russian equity market at the right moment made extraordinary returns — over 500% on the RTS index between its 1995 launch and the 1997 peak. Russia's vast natural resource base, physical infrastructure, and educated workforce were all intact. The collapse was institutional and political — not productive. And markets priced that underlying value, even through the chaos.

CRITICAL DISTINCTION:

Institutional collapse ≠ Productive collapse. Oil fields still produced. Gas pipelines still flowed. Scientists still worked. The equity market priced productive capacity — not political chaos. This distinction is the foundation of contrarian investing.

1991 · India: The Crisis That Built a Nation

The gold airlift, the ₹1,000 Sensex, and the 80x return that followed

THE NUMBERS NOBODY REMEMBERS

\$1.2 Billion — India's total forex reserves, Jan 1991. Enough for **3 weeks of imports**.

67 Tonnes of Gold

— airlifted to the Bank of England as collateral for an emergency IMF loan. India had literally pledged its gold reserves to survive.

THE SENSEX JOURNEY

1991 (Crisis)	~1,000
2000 (IT Boom)	~6,000
2008 (Pre-GFC Peak)	~21,000
2024	80,000+

THE MECHANISM: CRISIS AS REFORM CATALYST

P.V. Narasimha Rao and Finance Minister Manmohan Singh used the emergency as political cover to do what had been politically impossible for four decades. Industrial licensing was abolished. Foreign investment caps were raised. The rupee was devalued and made partially convertible. Public sector monopolies were dismantled.

These reforms would never have passed in calmer times. The crisis created the political space for transformation. This is the India pattern — and it is repeating today: every structural stress India has faced has been met with reform, not retreat.

The 80x Sensex return from 1991 to 2024 is not a story of resilience. It is a story of transformation.

The Pattern Across 100 Years of Market Crises

Every event. Same three questions. Same ultimate outcome.

Event	Max Decline	Recovery Time	Q1: Capacity?	Q2: Structural?	Q3: Policy?
Weimar 1923	Currency → 0	~2 years	✓ Intact	✗ Yes (monetary)	✓ New currency
Great Depression 1929	-89% Dow	25 years	✓ Intact	✗ Systemic	✗ Had to be built
Korean War 1950	+89% (ROSE)	N/A	✓ Enhanced	✓ None	✓ Stimulative
Lost Decade 1966-82	-70% real	16 years	✓ Intact	✗ Multi-structural	✓ Volcker (painful)
India 1991	Forex crisis	~3 years	✓ Intact	✗ BOP only	✓ Transformative
Kargil 1999	-12% Sensex	< 6 months	✓ Intact	✓ None	✓ Military victory
GFC 2008 (India)	-63% Sensex	~18 months	✓ Intact	✓ Contagion only	✓ Present
COVID 2020	-38% Sensex	~6 months	✓ Intact	✓ Temporary pause	✓ Unprecedented

Pattern: When productive capacity survives, recovery is inevitable. Speed depends on whether damage is structural and whether policy is capable.

India Today: Scoring the Three Questions Forward

Why the pattern that produced 80x from 1991 is structurally stronger today

Q1: Is Productive Capacity Intact & Growing?

STRONGLY YES

India's demographic dividend: 65% population under 35. 1.4M engineering graduates annually. \$1.4Tn infrastructure capex under NIP. Digital public infrastructure (UPI, Aadhaar, ONDC) creating productivity multipliers invisible to traditional analysis.

Q2: Is Any Current Damage Structural?

NO

Indian banking system at multi-decade low in NPAs (below 4% GNPA as of 2024). No sovereign debt stress. CAD well-managed. Corporate balance sheets post-deleveraging cycle are clean. FII volatility is the primary risk — and that is contagion, not structure.

Q3: Is There a Policy Mechanism Capable of Response?

**YES — INSTITUTIONALLY STRONGER
THAN 1991**

Forex reserves at ~\$600+ Bn (vs. \$1.2Bn in 1991). RBI has demonstrated inflation management credibility. GST creates a broad, digitised tax base. The political economy has shown willingness to undertake structural reform even in adversity.

Conclusion: India scores GREEN on all three questions — the configuration that has historically produced the strongest and fastest recoveries.

The Market Has Already Survived Your Worst Nightmare.

Hyperinflation so severe prices doubled every 16 hours

→ Markets preserved real value

A superpower dissolved, GDP fell 40%

→ 500% equity returns amid the rubble

89% market crash, 25 years of recovery

→ Systemic reinvention rebuilt it all

India pledged its gold, 3 weeks from default

→ 80x Sensex return over 33 years

The risk is never whether markets recover.

The risk is not being invested when they do.

The Bottom Line for Investors

War / Crisis ≠ Collapse Historical data confirms: only conflicts disrupting global energy, food, or financial systems cause lasting market damage. Less than 6% of all conflicts since 1900 materially affected global markets.

Uncertainty is the Real Enemy Markets don't price 'war' — they price uncertainty. Once the scope of a conflict is known and bounded, capital re-enters. Clarity — even bad clarity — is less destructive than ambiguity.

Productive Capacity Survives A factory still produces. A farm still grows. A railway still runs. Equities are claims on real assets — and real assets survive most conflicts. Paper wealth falls; economic capacity often does not.

India's Structural Edge India scores GREEN on all three framework questions: productive capacity growing, no structural damage from current conflicts, policy mechanism stronger than any prior crisis point.

87% of conflicts see equity market recovery within 1 year. The risk is not investing — it is not being invested when recovery comes.

Historical Market Behavior: Key Patterns

Initial Shock Markets typically fall 5–12% on war outbreak — pricing uncertainty, not the conflict itself. The decline is fastest in the first 72 hours.

Rapid Re-Assessment Most conflicts see market stabilisation within 30 days as scope becomes clear. FII outflows peak early and reverse as global investors seek yield.

Prolonged Disruption Only When... Wars involving major oil producers (Gulf 1973, 1990) or global supply chains cause multi-year disruptions. These are exceptions, not the rule.

Long-Term Resilience Equities recover to pre-war levels in 87% of conflicts within 12 months. India specifically has demonstrated faster recovery than global markets in every major event since 1991.

Pattern: Duration of uncertainty, not duration of conflict, determines equity market pain.

Stock Market Recovery Timeline

Fast Recovery | 30–120 Days 9/11 (2001), Gulf War 1991, Iraq War 2003, Russia-Ukraine 2022, Kargil 1999, COVID-19 India. Common factor: damage was sentiment-driven, not structural.

Medium Recovery | 1–2 Years WWII (US markets), Korean War, Israel-Hamas 2023. Common factor: war-driven fiscal boost eventually priced in, or conflict geographically contained.

Slow Recovery | 5+ Years Great Depression 1929 (25 years), 1973 Oil Crisis (6 years). Common factor: structural monetary / energy system damage requiring system-level repair.

India vs. Global: The Consistent Gap In every major post-1991 crisis, India's equity recovery has been faster than the US and global indices. The average India recovery: 6–18 months. Global average: 2–4 years.

Key Differentiator: Whether the damage is contagion (fast recovery) or structural (slow recovery).

The LSG Framework: Your All-Weather Portfolio

L

LIQUIDITY

12

Months of Expenses

FD, Savings A/c, Arbitrage Funds. Do not seek returns here. Seek instant access.

S

SAFETY

72

Months of Expenses

Gilts, Gilt Funds, PF, PPF, Sukanya, Residential Property, Gold. War-proof. Crisis-proof.

G

GROWTH

∞

Long-Term Capital

Equities & Equity MFs. Do NOT distress-sell. This is where 80x returns are made over decades.

L keeps you alive. S keeps you stable. G builds the wealth. Never raid G for L needs.

War Strategy: The Phased Deployment Approach

Step 1 — Confirm the Framework (Day 0) Apply the 3-Question Framework. If productive capacity is intact and damage appears sentiment-driven: this is a buying opportunity. If structural damage is confirmed: wait.

Step 2 — Deploy 25% at First Signal Enter early when the 3-question framework signals positive. Only 25% — we do not know how far the market will fall. Choose Index funds or fundamentally strong businesses only. Never fly blind.

Step 3 — Next 25% When Market Holds Markets stop falling even as bad news continues — this is the signal. The market is pricing in the worst. Second 25% deployed here.

Step 4 — Third 25% on Further Fall or Peace Signal Significant further decline, or first signs of ceasefire / resolution. Third tranche. Final 25% can remain in cash — dry powder is not a failure.

Patience is the strategy. The investor who buys in stages, not all at once, sleeps better and performs better.

© Wife: 'Don't invest, markets will fall more.' Husband follows framework, invests 25%, markets rise 30%. Wife: 'I always believed in this.' Moral: Trust the framework.

Recovery Time: India vs. Global Markets

GLOBAL MARKETS

2–3

YEARS (avg.)

INDIA (POST-1991)

3–20

MONTHS (range)

EVENT-BY-EVENT RECOVERY DATA

India

- Kargil 1999 -12% Sensex ▶ **~2 months**
- GFC 2008 -63% Sensex ▶ **~20 months**
- COVID 2020 -38% Sensex ▶ **~8 months**
- Russia-Ukraine 2022 -5% Nifty ▶ **~3 weeks**

Global

- Gulf War 1990 -20% S&P ▶ **~4 months**
- GFC 2008 (US) -57% S&P ▶ **~48 months**
- COVID 2020 (US) -34% S&P ▶ **~5 months**
- 1973 Oil Crisis -45% DJIA ▶ **~2 years (nominal)**

India's worst post-1991 recovery (GFC: 20 months) is faster than the US's best major-crisis recovery (GFC: 48 months). The structural edge is real.

War-Driven Drawdowns: India vs. Global Markets

GLOBAL MARKETS

-30%

Avg. major conflict drawdown (global)

INDIA (POST-1991)

-8%

India avg.

73% smaller average drawdown for India vs. global peers in major conflicts (post-1991)

Source: BSE/NSE historical data, Correlates of War Project. Post-1991 India conflicts: Kargil 1999, 2008 GFC, COVID 2020, Russia-Ukraine 2022.

Sector Allocation During War: What to Buy, Hold, Avoid

BUY — WAR BENEFICIARIES

Defence & Aerospace

Infrastructure

Power & Energy

Pharma & Healthcare

Gold & Precious Metals

HOLD — DEFENSIVE

Banking (PSU)

Consumption Staples

Telecom

Railways

Agro & Fertilizers

REDUCE — AVOID

IT Exports (currency risk)

FMCG Exports

Auto Exports

Tourism & Hospitality

Consumer Discretionary

The Defence-Led Capital Flow Model



Korean War Precedent (1950-53): US defence spending triggered the greatest bull market of the 20th century. S&P 500 rose 89% during the active conflict.

India Defence Indigenisation Today: HAL, BEL, Bharat Forge, L&T Defence, BEML — replicating the exact capital reallocation dynamic. Make in India is not aspiration; it is order books.

The Broader War Economy: Infrastructure (roads, logistics), Power (energy security), Pharma (medical preparedness), and Agri (food security) all receive accelerated state spending during conflict periods.

Capital Deployment Timeline: The 25/25/25 Approach

25%

Day 0–10: Framework Confirms Buy Signal 3-Q framework is positive. Market has fallen 8%+. Deploy first 25% into Index / strong fundamentals. Not more — we don't know how far it falls.

25%

1–3 Months: Market Holds on Bad News Markets stop declining despite continued bad news — the classic capitulation signal. Second 25% deployed. Sentiment is still bearish; smart money is buying.

25%

3–18 Months: Further Decline or Peace Signal Significant further fall, or ceasefire / resolution announced. Third 25% deployed. Portfolio now 75% invested at well-below-market prices.

25%

Ongoing: Stay Liquid — Powder Dry Final 25% remains available. Not deploying everything is not a failure — it is discipline. Can be used for further weakness or post-recovery momentum plays.

Rule: Never deploy 100%. Keeping powder dry is not cowardice. It is optionality.

Questions?

Let's discuss your portfolio strategy

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