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Why Don't Geopolitics Rattle Markets?

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Key Highlights

GCC markets broke their losing streak in June, with the S&P GCC index rising 3% after four consecutive months of declines. Volatility remained on the higher side due to the Iran-Israel conflict. Kuwait led gains with a 4.2% rise, followed by Dubai at 4.1%, while Saudi Arabia saw a modest 1.6% uptick.

The impact of Iran-Israel conflict on the markets was short-lived, similar to many of the past events of geopolitical tensions globally. GCC markets rebounded sharply—rising by 2.9% on 24th June 2025—immediately after a ceasefire was announced and extending the gains to 5.3% in five trading days after the announcement.

Geopolitical conflicts can generally be classified into two categories: (a) high-frequency, low-impact events and (b) low-frequency, high-impact events. Most conflicts fall into the first bucket. Market impact of these events is short lived because investors look through these events and are reassured by the region's underlying economic resilience and institutional stability. However, this pattern need not persist always.

Over the past decade, the MSCI GCC index outperformed the MSCI EM index by an average of 1.47% annually; this figure rose to 5.22% over the past five years. Although it is hard to isolate the alpha that can be attributed to such geopolitical events, an educated guess is that at least half of it—around 50%—can be linked to the perceived risks.

While the S&P GCC index ended June 3% higher—breaking a streak of four consecutive months of declines—the gains were not without turbulence. The Iran-Israel conflict injected a dose of volatility, pushing both the region and markets to the brink. Kuwait's All Share Index led the rally with a 4.2% gain, lifting its year-to-date (YTD) return to nearly 15%. Dubai followed closely, rising 4.1% in June, bringing its YTD gain to 11%. Saudi Arabia, the GCC's largest market, posted a more modest increase of 1.6%, which helped trim its YTD losses to 7.2%. Meanwhile, oil prices surged 5.8% during the month, closing at USD 67.6/bbl.

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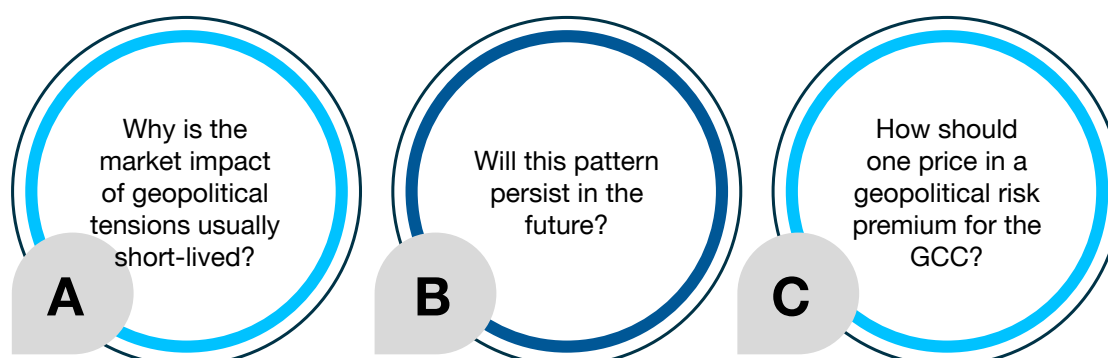
If there is one constant source of concern for the GCC region, it is geopolitics. Surrounded by hotspots plagued with persistent tensions and conflicts, the region is perpetually on alert. A recent and telling example was the Iran-Israel conflict, which came closest to materially impacting GCC markets.

	Start Date	End Date (Ceasefire)	Duration (Days)	Maximum Drawdown			
				MSCI World	MSCI EM	S&P 500	S&P GCC
Russia-Ukraine Conflict	24-02-2022	Ongoing	1,223	-15.1%	-16.0%	-15.8%	-10.3%
Israel-Hamas Conflict	07-10-2023	24-11-2023	48	-5.8%	-5.4%	-5.9%	-4.4%
Israel-Iran Conflict	12-06-2025	24-06-2025	12	-1.6%	-2.1%	-1.3%	-2.8%

Source: LSEG; Note: First three months of Russia-Ukraine considered for drawdown as other events like Fed rate hikes followed shortly

Between 12th June 2025 and 24th June 2025, the GCC market, in line with global indices, declined by 2.8%. Yet, history shows that the effects of such geopolitical events are often short-lived, typically followed by a swift recovery. For instance, the GCC markets rebounded sharply—rising by 2.9% on 24th June 2025—immediately after a ceasefire was announced and extending the gains to 5.3% in five trading days after the announcement.

Three key questions arise from this pattern:



Among these, the second question is perhaps the most consequential.

To address the first, geopolitical conflicts can generally be classified into two categories: (a) high-frequency, low-impact events and (b) low-frequency, high-impact events. Most conflicts fall into the first bucket. The last truly high-impact, low-frequency event was the 1973 Arab-Israeli conflict, which led to the oil embargo—or even earlier, the devastation of Hiroshima and Nagasaki. Since then, most events have lacked escalation, remaining confined and transitory. Once ceasefires are brokered, markets quickly shift focus to the next pressing issue—often monetary policy developments like the Fed’s stance.

Moreover, GCC equity markets are largely composed of companies in banking and industrial sectors. These sectors are typically insulated from the direct effects of geopolitical turmoil, unless explicitly linked to Défense. As a result, despite the initial panic, investors often “look through” such events, reassured by the region’s underlying economic resilience and institutional stability.

Turning to the second issue—the outlook—it’s important to recognize a rising trend: geopolitical conflicts are not just more frequent but also more direct. In the past, nations preferred symbolic gestures or proxy confrontations. Now, they act more openly and assertively. This has shifted geopolitics from a largely theoretical concern to an active, real-time driver of risk. Furthermore, many of today’s so-called ceasefires are merely temporary pauses. Research covering 200 historical conflicts shows that 80% of ceasefire agreements eventually break down.

This suggests not only a higher likelihood of recurring tensions but also greater potential for protracted instability—Russia-Ukraine being a prime example. So, will markets remain resilient to such shocks in the future? I believe not always.

This brings us to the third aspect: assigning a geopolitical risk premium. This connects the first two dimensions. Geopolitical stress often pushes oil prices higher—as seen in the recent Iran-Israel clash, where crude surged from \$66/bbl to \$78/bbl in a matter of days. Analysts from global investment banks even projected a rise past \$100/bbl in extreme scenarios. For the GCC, higher oil prices are generally beneficial—up to a point. Once prices cross a certain threshold, say \$100/bbl, concerns shift to demand destruction and inflationary pressures.

Additionally, geopolitical risk often manifests through rising bond yields, driving up the cost of borrowing. For the GCC—whose currencies are pegged to the US dollar—such shocks transmit quickly through interest rate channels. The third and most intriguing manifestation of geopolitical risk premium is the excess return investors demand for exposure to this volatile region. Over the past decade, the MSCI GCC index outperformed the MSCI EM index by an average of 1.47% annually; this figure rose to 5.22% over the past five years. How much of this alpha is attributable to geopolitical risk? It’s difficult to isolate, but I would estimate that at least half of it—around 50%—can be linked to the perceived risks surrounding the region.

Appendix:

Market Performance

Equities	Returns		
	2024	Jun-25	YTD-2025
Saudi Arabia	0.6%	1.6%	-7.2%
Kuwait All Share	8.0%	4.4%	14.8%
Kuwait Premier Markets	4.8%	4.4%	17.2%
Qatar General Index	-2.4%	2.7%	1.7%
Abu Dhabi	-1.7%	2.8%	5.7%
Dubai	27.1%	4.1%	10.6%
Bahrain	0.7%	1.2%	-2.1%
Oman	1.4%	-1.3%	-1.7%
S&P GCC Composite	2.0%	3.0%	0.3%

Source: LSEG Workspace


Commodities	Returns		
	Close Price	Jun-25	YTD-2025
Oil - Brent (\$/bbl.)	67.6	6.1%	-9.2%
Natural Gas (\$/mmbtu)	3.46	0.3%	-4.9%
Gold (\$/oz.)	3,303	0.4%	25.9%

Source: LSEG Workspace

Fixed Income	Yields	
	June 2025	2024-end
U.S. Treasury 10Y Sov.	4.2%	4.6%
Saudi Arabia 10Y Sov.	4.5%	5.2%
Abu Dhabi 10Y Sov.	4.2%	4.9%

Source: LSEG Workspace

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