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Investors ignore world-changing news. Rightly

The Nothing Ever Happens Market

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MISSILE WARFARE has erupted in the Middle East. On June 13th, as the bombs began to fly, S&P 500 futures fell by 1.6%. But as the hours passed, the stockmarket steadily climbed. The index has now recovered to around 6,000, a hair's breadth from an all-time high.

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of both trade war and conventional conflict. But consider the long list of recent events that at first seemed to have epoch-making potential, only to fizzle out, and it appears more reasonable. Examples include China's anti-lockdown protests, the Wagner Group's rebellion in Russia and skirmishes between India and Pakistan. Xi Jinping and Vladimir Putin are still in charge. Nuclear war has been avoided.

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Geopolitical threats are often pregnant with all-or-nothing outcomes that are difficult to price. This is especially true of the most potentially devastating events, which involve the risk of nuclear war. Take the example of South Korea, which has a stockmarket worth \$2trn that could be reduced to rubble by its belligerent northern neighbour. How should an investor price the threat? For South Koreans, hedging against such an outcome is all but impossible. Many prefer to ignore the prospect. Even the so-called Korea discount—the persistent cheapness of South Korean stocks relative to their international peers—is explained by poor corporate governance rather than geopolitical risk, according to Sohyun Kang of the Korea Capital Markets Institute.

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The momentum of markets can be relentless. Shares tend to grind higher over time as consumers spend, entrepreneurs innovate and companies grow. Earnings per share for American firms have risen by 250% or so over the past 15 years. For any event to have a meaningful impact, at least for longer than a few days, it must harm such dynamism.