



Should Investors Exit Equities as the US Exits Afghanistan?

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No, although America's standing in the global world order should be monitored over time.

Bordered by Iran to the west, Pakistan (the world's fifth-most-populous country) to the east, India (the second-most-populous country) to the south, and China (the most populous country) to the northeast, Afghanistan is at the crossroads of Central and Southern Asia. In addition, at 33 million people, Afghanistan's population is comparable in size to its regional rival Saudi Arabia and other emerging countries. It is also modestly smaller than many developed nations, including Canada (38 million), and larger than Australia (26 million).

Perhaps because of its location in the world, coupled with the size and diversity of its population (there are no fewer than eight ethnic groups who reside in the country, with no one group holding a simple majority), Afghanistan's history is fraught with military conflict. Such episodes include conquests undertaken by Alexander the Great (circa 300 BCE), Genghis Kahn (circa 1200), the British Empire (mid-to-late 1800s), the Soviet Union (1930 and again in 1979), and more recently the United States and NATO (beginning in October 2001). Understandably, Afghanistan has been labeled "unconquerable" and nicknamed "the graveyard of empires."

In the past few days, images of mass chaos within Afghanistan have been unavoidable. Scenes of armed militants seizing the country's capital and desperate civilians fleeing presumably in fear have flooded the airways, newspapers, and social media. Producing the most visceral reaction, pictures of a helicopter evacuating people from the American embassy in Kabul have drawn comparisons to a similar photograph taken in April 1975

during the fall of Saigon, a symbol that some associate with America's retreat from Vietnam.

Sadly, as a result of the abrupt change in power, Afghanistan has become a less safe place. This event may also mark the beginning of a significant humanitarian tragedy. Politically, while it is highly unlikely that the strength, readiness, and resolve of America's military will be called into question, it is likely that the US has lost some credibility amongst its allies, making it harder to build coalitions in the future. Adversaries may seek to capitalize on this, increasing geopolitical risk. As an example, China has been quick to establish ties with the Taliban.

Domestically, although President Biden should not solely be blamed for the larger strategy to withdraw from Afghanistan, he does bear some responsibility for its execution and several miscalculations. As one highly regarded political observer has noted: "US intelligence agencies thought Kabul could hold off the Taliban for 2-3 years. Once the Taliban's offensive kicked into high gear, the intelligence assessment dropped to 2-3 days."

Notably, a large majority of Americans support Biden's decision to withdraw all forces, including 56% of Republicans and 73% of independents, according to a poll just last month. Still, Biden's legislative agenda that includes his large social infrastructure plan could be undermined, and the razor-thin majority his political party currently holds in Congress could be at risk in next year's mid-term elections. A lot could happen (good and bad) between now and then, but the images that play out over the next several days could leave lasting impressions.

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As to whether investors should consider exiting stocks based on the decision by the US to exit Afghanistan, we believe the answer is a firm “no.” Economically speaking, Afghanistan’s economy is the world’s 96th largest with a gross domestic product (GDP) of \$73 billion as measured in purchasing power (smaller than the state of Delaware’s GDP) and ranks 169th out of 186 countries in terms of per-capita GDP (roughly \$2,000). In other words, there is limited financial or economic contagion risk based on the current state of play, no matter how gut-wrenching the images are.

That being said, should this catastrophe devolve into something far worse, America’s standing and moral authority could be undercut, leaving us somewhat vulnerable and more exposed to geopolitical uncertainty. This uncertainty is only magnified by the fact that our ability to monitor and strike against terrorist groups in Afghanistan will be extremely limited in the future. Quoting the previously referenced geopolitical analyst: “The ‘known unknowns’ about Afghanistan will skyrocket in the coming years.”

Positively, the US continues to enjoy many unique benefits that include a vibrant domestic economy, a mobile workforce, a strong reserve currency, an unflappable entrepreneurial spirit, and individuals who put their country at the center of all that they do. We are profoundly grateful for the men and women who serve in our military and the sacrifices they and their families have made.

For more information, please contact your Key Private Bank Advisor.



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