Investor Perspectives

February 24, 2022

By: Michael Collopy, CFP®

Russian-Ukrainian Crisis & Market Notes

Our comments below are focused on markets as this is our area of expertise, not to understate the humanitarian fallout. We hope for a peaceful and swift resolution.

The US markets have declined roughly -12%, developed international markets lost -9% and emerging markets are off -14% from most recent highs. The impact from the Russian-Ukrainian crisis, as well as uncertainty around inflation, have had a toll on the markets.

While we expect continued volatility, we plan to stay the course. As detailed below, financial markets may overact to geopolitical events in the short-term but recover in the mid- to long-term.

For investors who have cash earmarked for equity investments, we suggest following through with those plans and averaging into the markets during times like this. Rather than attempting to time the bottom, averaging into lower prices has proven to be a more reliable approach for long-term investors.

Why is Russia invading Ukraine?

The communication has been that Russia is invading Ukraine to protect Russian citizens, especially those in the self-proclaimed Russian republics of Donetsk and Luhansk who declared such independence in 2014 when Russia last invaded Ukraine. However, Russian interests go much deeper. The collapse of the Soviet Union in 1991 left Russia vastly depleted from its former days of empire building. Security analysts believe this “one people, single whole” mentality is the true root.

What is happening in Ukraine?

Overnight, Russia launched a series of coordinated attacks on key military targets across Ukraine including air, ground, and amphibious assaults. The situation remains fluid.

How does this impact portfolios?

Most acutely, Russia is 3.29% of the Emerging Markets Index, which we have a modest overweight to compared to the ACWI. It is important to remember the Emerging Market Index is a collection of countries with different economic and geographical realities. While the Russian invasion is most likely to hurt the country itself and their immediate neighbors, other countries may benefit. For example, Brazil has benefited from higher oil prices globally and if tensions keep prices up, it may continue to do so in the future. Brazil is 4.32% of the index today and is up 20% YTD. Additionally, companies outside of Russia may experience more nuanced impacts. For example, French car manufacturer Renault has a subsidiary in Russia and fell nearly 10% on the news. On the global fixed income side, Russia accounts for 0.25% of the global bond benchmark and therefore is a modest contributor to overall risk of the index.

Advisory services offered through Veracity Capital, LLC, a registered investment advisor.

VERACITY CAPITAL

In the following chart we review events that have moved the markets due to geopolitical shocks related to militaries and war. Historically, if the geopolitical event did not coincide with or start a recession, market pain has been short-term (certainly not a guarantee but that is what history shows us).

How the S&P 500 has historically performed around major geopolitical shocks

Date	Select geopolitical/ military events	1-month later	3-months later	6-months later	12-months later
12/7/1941	Pearl Harbor	-3.4%	-12.7%	-9.1%	0.4%
10/31/1956	Suez Canal crisis	-2.8%	-3.8%	-0.1%	-11.5%
10/20/1962	Cuban missile crisis	8.7%	17.7%	25.1%	32.0%
10/17/1973	Arab oil embargo	-7.0%	-13.2%	-14.4%	-36.2%
11/3/1979	Iranian hostage crisis	4.2%	11.6%	3.8%	24.3%
12/25/1979	U.S.S.R. in Afghanistan	5.6%	-7.9%	6.9%	25.7%
8/3/1990	Iraq invades Kuwait	-8.2%	-13.5%	-2.1%	10.1%
1/17/1991	Gulf War	15.2%	23.5%	20.6%	33.1%
8/17/1991	Gorbachev coup	0.0%	3.0%	7.0%	8.9%
2/26/1993	World Trade Center bombing	1.2%	2.5%	4.0%	6.4%
9/11/2001	9/11	-0.2%	2.5%	6.7%	-18.4%
3/20/2003	Iraq War	2.2%	15.6%	17.4%	28.4%
	Average	**1.3%**	**2.1%**	**5.5%**	**8.6%**
	% Positive	**50%**	**58%**	**67%**	**75%**

Credit: Truist. Recessions indicates in gray.

Does this impact the Fed?

Central banks globally, including the Fed, are in a difficult position. With interest to keep prices under control while not smothering economic growth, they are walking a fine line. Markets largely expect a 0.25% increase from the Fed after its March 15/16 meeting. However, conversation has been drifting to a 0.50% increase given recent headline inflation numbers. The invasion has a dual effect of adding fuel to the fire of inflation with higher energy prices but may provide the Fed aircover to move at the more modest pace of 0.25% based on greater uncertainty. A 0.25% increase is presumed to be the preferred path for the Fed. Futures prices that indicate the market's "best guess" on what the Fed will do also reflect this change in sentiment as shown below.

TARGET RATE (BPS)	PROBABILITY(%)			
	NOW *	1 DAY 23 FEB 2022	1 WEEK 17 FEB 2022	1 MONTH 24 JAN 2022
0-25 (Current)	0.0%	0.0%	0.0%	14.2%
25-50	82.8%	66.3%	64.4%	82.6%
50-75	17.2%	33.7%	35.6%	3.2%

* Data as of 24 Feb 2022 07:11:27 CT

*https://www.cmegroup.com/trading/interest-rates/countdown-to-fomc.html

Conclusion:

At this moment, we do not anticipate a recession from the Russian-Ukrainian crisis and therefore believe markets will rebound to make new highs.

1. The timing of a rebound and the depth of the bottom are unknowable, so we believe staying the course is the best plan of action.
2. With markets down over 12% from their highs, this is an attractive entry point for cash to transition to equities.
3. Should markets continue to falter, rebalancing asset allocation should be evaluated.

As the markets and the Russia-Ukraine crisis continues to unfold, we will continue to communicate any changes to our outlook.

Advisory services offered through Veracity Capital, LLC, a registered investment advisor.

Disclosure:

Advisory services offered through Veracity Capital, LLC, a registered investment advisor. Information presented is for educational purposes only and does not intend to make an offer or solicitation for the sale or purchase of any specific securities, investments, or investment strategies. Investments involve risk and, unless otherwise stated, are not guaranteed. Be sure to first consult with a qualified financial advisor and/or tax professional before implementing any strategy discussed herein. Past performance is not indicative of future performance.

This performance report provides information regarding the accounts managed by Veracity Capital, LLC, in accordance with your investment objectives. You should communicate any changes to your current investment objectives or financial condition to Veracity Capital, LLC.

Past performance is not indicative of future performance. Principal value and investment return will fluctuate. No guarantees or assurances that the target returns will be achieved, or objectives will be met, are implied. Future returns may differ significantly from past returns due to many different factors. Investments involve risk and the possibility of loss of principal. The values and performance numbers represented in this report do not reflect management fees. The values used in this report were obtained from sources believed to be reliable. Veracity Capital, LLC, calculated performance numbers using data provided. Please consult your custodial statements for an official record of value.

This information may be taken, in part, from external sources. We believe these external sources to be reliable, but no warranty is made as to accuracy. This material is not financial advice or an offer to sell any product. There is no guarantee of the future performance of any Veracity Capital, LLC, portfolio. The investment strategies discussed may not be suitable for all investors. Before investing, consider your investment objectives and Veracity Capital, LLC, charges and expenses. All investment strategies have the potential for profit or loss.

Benchmarks: The index / indices used by Veracity Capital, LLC, have not been selected to represent an appropriate benchmark to compare an investor’s performance, but rather are disclosed for informational purposes. Detailed information regarding the indices is available upon request. The volatility of the indices may be materially different than that of the portfolio.

Veracity Capital, LLC, is a registered investment advisor. Registration does not imply a certain level of skill or training. More information about Veracity Capital, LLC, including its advisory services and fee schedule, can be found in Form ADV Part 2 which is available upon request.