



### ***Ropes Wealth Reviews Russian Invasion Implications***

Russia launched a full-scale invasion of neighboring Ukraine this week. Tension had been building in the region since Russian President Vladimir Putin mobilized Russian troops near the Ukraine border in November 2021. The invasion began Thursday morning as the Russian army crossed Ukraine borders and bombed key military targets. Shock and anger echoed from leaders across the globe, with European Union President Ursula von der Leyen promising “massive and targeted sanctions” and U.S. President Joe Biden vowing to “hold Russia accountable.” U.S. and EU leaders stated that these measures represent only the initial tranche of disciplinary measures.

While markets have been reacting to escalating tensions in the region for months, they responded sharply this week as our worst fears became realized. Market losses year-to-date were compounded such that U.S. and global equity benchmarks now stand in correction territory with declines of over -10%. To be sure, the severity of losses varied across regions depending on their proximity and economic ties to the countries in conflict. As for Russia itself, its MOEX benchmark fell approximately 35%, its largest ever one-day drop. The impact of Russia’s severe decline on global investors is mitigated by its lack of representation among global and emerging market benchmarks.

The initial impact on markets has been most pronounced in the energy space. Oil prices, which were already up over 20% year-to-date through February 23, continued to spike more than 6%, with Brent crude up to \$104/barrel and WTI above \$95/barrel through February 24. Natural gas prices, which remain largely regional despite steps toward global integration, increased approximately 40% in Europe. This is especially troubling as global oil inventories are at their lowest levels since mid-2014. Although energy only accounts for approximately 7.3% of the Consumer Price Index (CPI), higher energy costs impact other categories, including transportation, clothing, apparel, and food & beverages. With CPI already at 7.5% as of January 31st, elevated energy prices may further contribute to inflationary pressures. Food prices are a potential concern as fertilizer uses large amounts of natural gas and Russia and Ukraine account for approximately one quarter of global grain exports. Further, Russia produces just under half of the world’s palladium and both countries export smaller portions of other metals such as platinum, nickel, aluminum, and steel. Disruptions to supply for a range of these commodities, due to the conflict itself, sanctions, or Russian countermeasures would likely have an inflationary impact across the West.

So what happens next? Global equity markets that were already rolling over as they confronted rising inflation, rising interest rates, and peaking earnings are now roiled by this new wrinkle of geopolitical risk. The angst and malaise that already permeated 2022 investor sentiment has now reached capitulation and many market segments have been driven down beyond what fundamentals justify. Yet keep in mind that equity markets have historically taken geopolitical events in stride. In most instances, drawdowns from these types of market shocks have been relatively modest and resulted in speedy recoveries. For their part, bonds maintained their safe haven status this week, driving yields lower and the yield curve flatter.

During periods of instability and uncertainty, it is important to maintain a long-term view despite the focus on these immediate tragic events and sharp market fluctuations. The investment plans we develop with you are designed to withstand periods of uncertainty. Now is not the time to lose focus or become overly aggressive or risk averse. We are in a nuanced environment in 2022 facing a complex web of risks while also investing in mature markets. Therefore, it is our strong belief that security selection is critical to navigating the path forward. We believe the path to strong absolute and relative performance is a focus on funds and securities that invest in leading companies with limited leverage, wide moats around their operations, led by strong and experienced management teams, and that are trading at reasonable prices. We remain convinced that diversification is critical, as well as keeping inbounds on the balance of stocks and bonds, value and growth style, and U.S. and non-U.S. securities.

The magnitude of these events cannot be overstated. Without question, this shocking escalation will cause a level of reverberating turmoil we have not witnessed from a geopolitical event in some time. We hope for a swift, peaceful conclusion that results in no further loss of life or liberty for the Ukrainian people. We are committed to maintaining a steady hand in managing your portfolios and in staying in communication with you as further events unfold.

### ***Your Ropes Wealth Team***

As always, please reach out to your client team with any questions. To our friends, family, and clients with loved ones in Ukraine, our thoughts and prayers are with you during this difficult time.

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