Monthly Newsletter
Savings and Investments

Russian invasion in Ukraine leads to elevated risks

2022 February

As investors were trying to digest the drastic rise in inflation and the rapidly changing policies of central banks, volatility in financial markets had increased since the beginning of the year. However, on February 24th the world was shocked by the news of Russia's invasion of Ukraine and the fact the real war in Europe began. Although the Russian invasion was not entirely unexpected given the Russian military forces had been stationed at the Ukrainian border for months, until the last day it was expected that the real war will be averted.

The initial markets reaction to the events in Ukraine was the sharp fall of stock markets in Europe. Here, German and French stock indices started the 24th of February by dropping 5% and the Russian stock index RTS crashed 50% fall. However, as investors speculated about all possible war scenarios, the likely sanctions on Russia, and the hope that the war should not fundamentally change the trajectory of global economic development, equity indices stabilized fairly quickly. The next day, when US President Joe Biden announced a package of sanctions on Russia (that did not include Russia's disconnection from the SWIFT system), the markets even turned over and equity indices rose sharply recovering all the losses. It can be said that global investors have remained pragmatic and see the war in Ukraine as a local problem between Ukraine and Russia. The upcoming US Federal Reserve (FED) interest rate hike remained a much more important factor for market participants. The outbreak of the war has brought some uncertainty, which will likely make the Fed a little bit more cautious. On their next meeting in mid-March FED should raise interest rates by only 0,25%, rather than 0,50%, as has been discussed recently.

The share of Russian and Ukrainian stock markets in global equity markets was close to zero before the war (in the MSCI All country world index, the weight of Russian companies was about 0,2%, and close to zero for Ukrainian companies). Meanwhile, about 60% of global equity indices are made up of U.S. companies, so it is natural that investors, seeing that the war is unlikely to have a significant impact on the average U.S. consumer or business, have not rushed to reduce risk and sell stocks. However, given that Russia was one of the world's largest exporters of metals and Europe's main supplier of energy commodities, inflation, which is already expected to decline in the coming months, is likely to increase further in the near term. This could force the world's central banks to tighten monetary policy even further and raise interest rates faster.

Equity market returns (as of February 28th 2022)

Region	Index	Currency	February	2022 YTD	3 months	1 year	3 years	5 years
World	MSCI World	EUR	-2,7%	-6,5%	-3,54%	19,68%	51,95%	67,12%
World	MSCI Emerging Markets	EUR	-3,2%	-3,6%	-2,83%	-3,48%	20,87%	32,65%
US	S&P 500	USD	-3,1%	-8,2%	-4,23%	14,77%	57,08%	85,05%
Europe	MSCI EURO	EUR	-5,7%	-8,6%	-3,82%	8,46%	18,31%	19,89%
Central Europe	MSCI EM Eastern Europe	USD	-42,8%	-46,8%	-47,50%	-39,49%	-40,54%	-32,19%
Asia	MSCI EM Asia	USD	-2,4%	-5,8%	-4,60%	-16,38%	18,51%	36,55%
Latin America	MSCI EM Latin America	USD	4,7%	12,4%	17,49%	8,09%	-15,17%	-7,96%