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Market Observations – February 2022

Uncertain times

As you will no doubt have read and heard, Russia has escalated its attack on Ukraine this morning under the guise of a 'special military operation' in Ukraine's eastern Donbas region. There is perhaps a handful of people in the Kremlin who know of President Putin's final designs on Ukraine but he has stated that he wants to reshape European security architecture and hinder NATO's protection of former soviet states. A prosperous and democratic Ukraine under the protection of NATO undermines him and Russia. Russia has claimed that Ukraine is attacking the separatist-held territories in the Donbas, however there is no evidence of this.

The immediate effects on the Ukraine crisis are that it will exacerbate the current inflationary pressures. The UK government has warned of a prolonged conflict, which will push oil and gas prices further (Brent Crude is above $100 per barrel this morning), dampen the economic recovery (particularly in Europe) and provide a further dilemma for central bank's monetary policy. A prolonged conflict increases the risk that inflation remains higher for longer and it is also unlikely that monetary policy will not tighten as fast as the market had been expecting a few weeks ago.

Until today the market in general has been quite sanguine about the escalation in tensions. Equity markets have declined this morning, due to the uncertainty but moderately so. The FTSE 100 is at levels we witnessed in December 2021 and January this year, as too are markets in Asia. Equity markets in the US and Europe have declined more with the Russian market down 30%. Within fixed income markets, government bond prices have increased, but not materially so, with the price of a 10 Year Gilt the same as it was in early February. There doesn't appear to be any overreactions in markets in which we can take advantage of immediately and nor do we feel that the diversified portfolio of managers and underlying stocks we have in place will be unduly affected relative to the market. Of course, if the situation and data changes we will adjust, but in our experience holding course through periods like this is far better than selling and then trying to time the market.

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