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Russia-Ukraine

Client Update · February 2022

In light of Thursday's invasion of Ukraine by Russian military forces, we wanted to provide an update on the evolving situation and the impact this is having on world stock markets. However, as the situation is fast moving, this may already have been superceded by further events.

Relations between Russia and NATO countries have deteriorated in recent weeks as Russia has amassed military forces on the Ukrainian border. This heightened political uncertainty has been adding to the challenges faced by the global pandemic recovery, which was already dealing with persistent price pressures and tightening monetary policy.

Global share indices fell sharply on Thursday after Russian President Vladimir Putin declared a "special military operation" in Ukraine's Donbas region. The sell-off was most acutely felt in emerging market indices, whilst markets in Europe and the UK also suffered losses with the FTSE 100 falling 3.9%, its biggest one-day fall since June 2020. However, following President Biden's announcement of US sanctions on Russia, US indices rallied and actually finished the day higher. Markets in Asia and Europe have followed suit this morning. Whilst volatility is likely to remain heightened, it seems the market does not believe as yet that this is a major shock to rival the financial crisis, for example.

The West's response to the invasion has been to announce further tough sanctions on Russia which include freezing bank assets and cutting off state-owned enterprises but so far have stopped short of disconnecting Russia from the Swift international banking system or targeting its oil and gas exports. It remains to be seen whether further escalation and civilian casualties will ultimately lead to Western military involvement.

The biggest threat to the global economy and equity markets is further disruption to energy markets. Russia is the second largest exporter of crude oil after Saudi Arabia and the world's biggest exporter of natural gas. This has the greatest ramifications for Europe which gets nearly a third of its oil and around 40% of its gas from Russia, much of it flowing through pipelines across Ukrainian territory. The price of Brent crude has already exceeded $100 (£75) a barrel this week and higher energy prices will undoubtedly add to inflationary pressures and weigh on European economic growth.

Previous crises have shown us that what markets hate most is uncertainty and the worst phase for markets is when uncertainty is at its peak. It is unclear whether we are near that point as the biggest issue of all is what is Putin's endgame? While the situation remains highly fluid, we must focus on the fact that markets have typically stayed resilient over the long-term despite numerous conflicts. We encourage investors to remain calm and focus on their long-term financial planning as making rash decisions in periods of heightened uncertainty has rarely proved to be the best course of action. We will of course keep you updated of developments and be sure to keep a look out for our monthly Portfolio Review for more in depth commentary on the impact of recent events on the Beckford James portfolios.