# Market Commentary on Russia and Ukraine Situation

## Current situation

On the 22nd of February when Putin announced that Russia recognises the two regions of Luhansk and Donetsk as separatist governments, this was the first proclamation of war which has now escalated to troops driving deeper into the country having attacked Ukraine from 3 directions.

The world has been taken by surprise by Russia's surprising escalation of the conflict. Vladimir Putin's decision to authorise military action against Ukraine shows the disdain that Russia has for international law and for the United Nations. The actions have ripped through both international law and the Minsk agreement.

The invasion has instantly marked a major paradigm shift of Western politics towards Russia. A colossal amount of sanctions are being announced by the West which seem to be on an hourly basis, and may well be the start of a protracted stand-off between Russia and the West.

While the West is targeting Russia with financial sanctions designed to cripple the Russian economy, the world waits to see 'what's next'; we could see Western arms and materials supporting any Ukrainian insurgency.

## Economic impacts

The immediate impact of Russia's hostile actions have been seen already, equities have fallen sharply and many regions such as the U.S. and Europe have seen equities hitting new lows for the year. On the other side of the coin, Russian assets have plummeted due to imposed sanctions with the implication being that this will only intensify.

The geopolitical breakdown with the West and Russia will have sudden effects on oil and gas prices, as seen by recent price increases. This may also have a further upward pressure on inflation; the central bank meetings generally showed the idea of leaving the energy sector to deal with itself and normalise throughout 2022, but with recent events, supply-driven inflation may go through a phase where the recovery is delayed and raising its peak. The West now also has to find another route to fill the gap left when they eradicate their dependency on Russian energy and fossil fuels. In addition, demand for certain commodities that would be commonly used as pantry stock may also increase boosting upward inflation pressure.

The economy was already starting to feel the effects of the prospect of central banks' monetary tightening policy, prior to the advancements of Russia within Ukraine. This headwind may now be eased due to the number of sanctions being imposed by the West on Russia. The sanctions may protect the Western economies by slowing down growth, the initial reason for the monetary policy tightening.

## How will it affect ebi portfolios?

As for Russian and Ukrainian equities, our exposure to Russia is minimal and we have no exposure to Ukrainian equities or bonds in our Vantage Earth portfolios. This was not a tactical decision, and our portfolios still maintain a close to market-cap approach, with small differences due to factor exposures. This can be seen in the table below.

| What are the exposures to Russia and Ukraine in our portfolios? | | | | |
|---|---|---|---|---|
| **Country** | **Vantage Earth 100** | **Vantage Earth UK Bias 100** | **Vantage Bond** | **MSCI ACWI IMI** |
| Russia | 0.11% | 0.13% | 0.37% | 0.27% |
| Ukraine | 0% | 0% | 0% | 0% |

The miniscule exposure to Russia may reduce further due to the sanctions placed by the US, UK and European Union. Fund managers may react to these sanctions by removing any exposure to Russian equities as a result of large scale ESG red flags.

As with all market shocks, it's human nature to attempt to take some form of action, but to do so you run the risk of attempting to 'time the market'. Picking winners and losers is a dangerous game and one of the key advantages offered by ebi's portfolios is diversification.

Diversification will naturally minimise the risk of loss; if one country performs poorly over a certain period, other countries may perform better over that same given period, reducing the potential losses of the portfolio compared to if it had been concentrated in one market.

## Our positioning

Even in these times predictions are exactly that, just predictions. If you would have asked anyone what the economic environment would have looked like today 3 years ago, its almost certain that none of them would have been close to predicting the current economic landscape. Therefore while we are not certain about the future, we invest on the core principle that ESG passive investment, with diversification among factors, is the preferred long-term course of action for superior risk-adjusted returns.

The argument that these factors have certain moments in the economic cycle where they shine brightly is true. However, moving in and out of these positions at optimum times and predicting when we are entering a certain stage in the economic cycle is near impossible to do, consistently. We, therefore, believe that including factors in our portfolios at all times has positioned them well to deal with any market regime, and only by stepping back and taking a holistic portfolio view over a long-term time horizon can we fully appreciate the interaction among these various factors.

ebi monitor the portfolios on a daily basis to ensure the risk profile is maintained. We will continue to hold extremely well diversified assets which will help cushion the falls compared to owning a single equity investment. We are also monitoring the underlying funds within the portfolios to ensure that they are performing as anticipated, and in-line with the index they are tracking.

## We have money to invest, should we invest now or wait?

Market volatility and falls in the valuation of stock markets can present buying opportunities. However, it's worth remembering that we are still in the early stages of this conflict and its quite likely that there will be market volatility over the coming weeks/months. None of us really know how long and how widespread the conflict will be.

> **An evidence-based investor will take the view that 'timing the market' is a high-risk gamble and that 'time in the market' is the best way to build long-term investment returns.**

An evidence-based investor will take the view that 'timing the market' is a high-risk gamble and that 'time in the market' is the best way to build long-term investment returns. Whilst studies suggest investing a lump sum may deliver a higher return than phasing the investment over a period of time, we cannot be certain of this and investors should prepare for continued volatility and be comfortable with the risks that they are taking.

## Will I be told if my portfolio has fallen?

You can login to your chosen wrap platform at any time to view your portfolio valuation. Legislation requires you to be notified should your investment fall by 10% within a quarterly reporting period. You may received this notification from either us, the wrap platform or your financial adviser.

SWINDELLS

FINANCIAL PLANNING

Suite 7, Beecham Business Park, Northgate, Aldridge, WS9 8TZ 01922 472 226 ebi.co.uk enquiries@ebi.co.uk