War Adds to Market Uncertainty

As February ended, investors were rushing to digest Russia's latest moves in the Ukraine and their potential impact on everything from oil to semiconductors. The S&P 500 fell into correction territory the last full week of February, closing down more than 10% from its January record, while the CBOE Volatility Index rose to its highest level in over a year.

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Russia's equity stock market has been quickly crushed, dropping over 55% in less than two weeks. Their central bank instituted an emergency interest-rate hike to combat a collapse in the ruble, more than doubling its benchmark rate to 20%, hours after imposing other restrictions on markets including closing on Monday February 28th. To further add to uncertainty, Russian president Vladimir Putin ordered Russia's nuclear deterrence forces to be put on alert, meaning that their network of nuclear missiles is ready to be used if necessary.

Besides the obvious horrific impact on the Ukraine, investors face many challenges in determining the impact on future corporate earnings. In addition to disrupting lives, Russia's invasion is piling new troubles onto the world's already battered supply chains.

The fighting has shut down car factories in Germany that rely on made-in-Ukraine components and hit supplies for the steel industry worldwide. It has severed airways and land routes that had become crucial since the pandemic. The war is also quickly stopping Ukraine and Russia's vast commodity exports, sending the price of oil, natural gas, wheat and sunflower oil rocketing. The chip shortage will worsen with increasing scarcity of commodities from Russia and the Ukraine on items such as neon gas and palladium.

The war is also going to exacerbate inflation that is continuing to broaden. U.S. consumer prices rose solidly in January, leading to a CPI increase of 7.5%, the biggest year-on-year increase since February 1982.

Yet, despite high inflation the economy grew at its fastest pace in 37 years in 2021 and the labor market continues churning out jobs. Earnings growth, however, is expected to moderate from its 2021's red-hot pace, when profits were being compared with their knocked-down levels during the early stages of the pandemic.

With all the carnage and uncertainty, many people expected markets to drop further. Despite recent volatility and a pullback, markets have held up fairly well. Today's biggest challenge for investors is discerning a likely future. Putin's actions are incredibly unpredictable and destructive, not just to the Ukraine but also to Russia.

The war will continue to drive headlines – deservedly so – however the driver of stocks will continue to be economic growth and profitability of individual compa-

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nies. Before the Russia invasion, we were projecting that profit growth would slow in 2022 and 2023. The war will almost certainly make this worse. Some of these headwinds have already been incorporated into today's prices, but more adjustments are coming. Companies face much uncertainty, yet investors still lack good investment options, which provides some support for stocks. Keeping your emotions in check during times of turbulence remains incredibly important.

Domestic equities are relatively well insulated from the Ukraine/ Russia conflict versus international developed and emerging markets. We continue to monitor the investment environment on both macro and micro perspectives, seeking out opportunities with compelling return/risk dynamics.