

## Veil Over Eastern Europe

February 28, 2022

Russia's invasion of Ukraine, and the West's initial response, casts a veil over Eastern Europe. This veil of uncertainty can be unsettling as we confront many unknowns.

### Russia Invades Ukraine

Against the urging of the international community, Russian President Vladimir Putin has initiated a military invasion of its neighbor, Ukraine. Russia claims self-defense as the basis for the attack, a claim repudiated by most world leaders and widespread public opinion. The United States claims the invasion is not about genuine security concerns but President Putin's naked aggression and desire for empire.

### Western Response

Western countries are responding with sanctions and other actions, seeking to avoid direct military confrontation. These sanctions and measures are severe, sweeping, and many are without precedent.

For example,

1. The United States, United Kingdom, and European Union froze assets belonging to Russian heads of state, including President Putin.
2. The West also agreed to remove Russia from the Swift messaging system used for international payment flows.
3. Rating agencies cut the rating on Russian debt to junk in response to Russia's actions and sanctions.
4. The United States will deny Russia's two largest banks from accessing dollars, which hold 75% of Russian banking assets.
5. The European Union banned Russian flights over European airspace.
6. The United States halted technology and semiconductor shipments to Russia.
7. The U.S., the EU, the U.K., and Canada imposed restrictions on Russia's central bank, hamstringing Russia's ability to defend its banks and currency (The Russian ruble traded down 30% on Monday amid reports many Russians lined up at banks to withdraw cash).

### Potent Sanctions

These are potent sanctions that go far beyond standard measures seen in the past. Many of these sanctions are so severe that they will almost certainly impart consequences that will have far-flung impacts. While most of the sanction's pain will be borne by Russia, spillover effects will likely be felt around the globe. Companies and countries with ties to Russia may find assets stranded, and already tight supply chains may be further damaged. Prices of energy and other commodities will likely rise. And Russia may hasten efforts to create financial linkages away from the existing international system dominated by the United States, Great Britain, and Europe.

### Likely Impacts

More inflation and weaker global growth are the likely immediate impacts of ratcheting tensions between Russia and the West. Financial markets should continue to exhibit volatility near term. Still, some investors may begin to speculate that volatility may lead central banks to back away from anticipated tightening, a potential market positive. Others may look to buy into the market's recent pullback, especially in higher-quality names. However, suppose the situation in Ukraine worsens. In that case, if Russian economic troubles spread, or if financial markets become fearful of defaults, markets could correct further. Additionally, if commodity and energy prices spike, inflationary pressure could intensify. This would complicate central banks' task of maintaining financial market liquidity while simultaneously fighting inflation.

### Some Perspective

Times like these create risk and opportunity. History has shown that war and crisis eventually give way to peace and prosperity. As professionals entrusted with helping to manage wealth, we find it helpful to look back at past events for perspective. As you can see from the table on the next page, there have been many times of conflict and crisis. Each episode brought uncertainty and fear, causing markets to adjust to facts as they arose. While past performance does not indicate future results, the main lesson appears to be that patient investors tended to be rewarded.

Market Commentary

75 Years of Crisis  
S&P 500 Performance Following Crisis

		Gain/Loss (%)				
Event	Date	1-Week	1-Month	3-Month	6-Month	12-Month
=====	=====	=====	=====	=====	=====	=====
Russia Invades Crimea	14-Feb	0.8	1	2.6	8.3	14.7
Iraq War 2003	3-Mar	-0.5	2.1	15.7	17.4	28.4
9-11 Terrorist Attacks	1-Sep	-4.9	-1.1	4.3	6.9	-16.7
U.S.S. Cole Bombing	Oct-	-1.6	0.1	-4.7	-14.6	-19.6
African Embassy Bombings	Aug-98	-1.4	-6.1	2.7	14.6	19.3
Oklahoma City Bombing	Apr-95	1.3	2.8	11.3	16.1	27
WTC Bombing	Feb-93	1.1	1.9	2.5	4.2	5.4
Iraq Invades Kuwait	Aug-90	-3.3	-8.1	-13.5	-2.1	10.2
Invasion of Panama	Dec-89	-0.8	-3.7	-3.4	3.7	-6.9
U.S. Invades Grenada	Oct-83	-1.5	0.6	-0.7	-5.5	0.7
Beirut Bombing	Oct-83	-1.6	0.1	0.7	-5.5	0.8
Falkland Islands War	Apr-82	2.1	2.7	-3.7	5.8	34.5
USSR Invades Afghanistan	Dec-79	0.3	5.4	-7.8	6.4	25.7
Iranian Hostage Crisis	Nov-79	-1	3.2	11.4	3	25.9
Kent State Shootings	May-70	-2.5	-4.4	-4.1	2.2	26.8
U.S. Bombs Cambodia	Apr-70	-2.9	-6.4	-4.9	2	27.9
Pres. Kennedy Assassinated	Nov-63	2.2	3.1	8.3	12.7	20.5
Cuban Missile Crisis	Oct-62	-1.9	7.6	17.2	24.5	32
Suez Canal Crisis	Oct-56	1.6	-4.3	-4.1	-1.4	-11.5
Korean War	Jun-50	-7.6	-8.7	1.2	4.9	11.2
Pearl Harbor	Dec-41	-2.7	0.3	-9	-5.6	3.7
Germany Invades France	May-40	-13.5	-25.8	-16.1	-6	-22
		=====	=====	=====	=====	=====
Average		-1.7	-1.7	0.3	4.2	10.8
Median		-1.5	0.2	0	3.9	12.9
Positive Return (%)		32%	59%	50%	68%	77%

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### Conclusion

It has been said that war is the ultimate human failure, something utterly useless and unnecessary. But we have seen it before, unfortunately. The severity, scope, and nature of this past weekend's sanctions will likely have long-lasting implications in shaping international financial relations and systems. The next few days will be instructive, as more will be revealed and the extent of damage will be assessed. In the near term, a return to "normal" will prove challenging if the Ukraine situation deteriorates, if financial conditions tighten, and if spillover effects of sanctions ripple out into the global economy. Looking further out, the impact of potent sanctions will begin to be felt immediately in some cases and, in others, with a lag.

We are hard-pressed to see any winners from continuous and intensifying hostilities. This fact, and the fact that all people ultimately desire peace, provides a hopeful basis for an eventual resolution to the war in Ukraine. In the meantime, we pray for those affected and hope for the peaceful resolution of troubles in Eastern Europe.

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