Russian invasion of Ukraine

This year had seemingly started well with the trauma of the covid global pandemic fading into the rear-view mirror, corporate activity picking up significantly and a sense of optimism about the world opening up again, allowing us all to look forward to a more normal life.

Ten days ago, optimism morphed into depression as we witnessed one seemingly deranged and unhinged world leader unleash violence, death and destruction on a European sovereign nation. Very few of us will have had any inclination that in 2022 we could witness such flagrant abuse of international law and the obvious false propaganda and misinformation spouted by Putin in his address to the Russian nation in justifying his action:

'We will strive for the demilitarisation and de Nazification of Ukraine - we cannot feel safe, develop and exist with a constant threat emanating from the territory of modern Ukraine'.

The reality of course is that this is Putin's war - he is the aggressor and as President Biden declared, Russia will pay the consequences for their actions. Tough words but depressing to witness the seemingly helpless rhetoric of Ukraine's President Zelensky declaring that 'Ukraine is alone in defending its country, while the most powerful nations in the world watch from afar'.

It is clearly heart breaking to watch Putin unleash his destruction on a helpless nation who have shown no aggression to Russia. As we witnessed last week, Putin has no regard for human life or where his missiles land. Russia is killing civilians and Putin is clearly guilty of war crimes as well as demonstrating scant regard for international safety with the reckless attack on the Zaporizhzhia nuclear power plant in south-eastern Ukraine.

It appears hard to compute what Putin will achieve at the end of this, aside from alienating Russia from another territory, making the world a much more dangerous place and leading his own country into an economic wilderness from which they may not recover, at least while Putin remains at the helm. We will see how this saga ends for Putin.

In trying to identify his motivations for such radical behaviour, I can only conclude that with his enormous ego and desire to secure his place in history, he has recognised that what Russia has - primarily oil and gas - are commodities that the world wishes to have much less reliance on as we all transition to a greater focus on renewable energy. This potentially places Putin in a vulnerable position.

Putin has declared his intention to remain in power until 2036 and maybe he has concluded that real economic growth (at least keeping pace with that of major western economies) is not something he can likely deliver in that time frame and has therefore chosen an alternate course that he perceives will secure his place in history. What is crystal clear is that he shares delusional character traits with some very dangerous dictators from the last world war, which makes our predicament perilous while he remains in power.

Sanctions and markets

With the obvious option (and associated significant risks) of military intervention from the west off the agenda, economic sanctions are the only weapon available. In this regard, it has been encouraging to see the unity demonstrated by Europe, the US and indeed much of the world, in introducing very significant sanctions that will have a devastating effect on Russia and its inhabitants. As it appears most Russians are against the war, this will be a desperate position for their citizens.

The economic sanctions placed include a ban on transactions with the Russian Central bank, a block on Russian access to its foreign reserves, exclusion from the international banking clearing system - Swift - a clampdown on Oligarchs and Russian dirty money in the United Kingdom, a suspension of shipping to and from Russia, a block on access to ports and airspace and a strict limit on exports to the country. The rouble has tanked, and several Russian listed stocks have lost over 90% of their value. All of this will be profoundly hard on Russia.

Before Putin's invasion of Ukraine, we were looking at inflationary forces beginning to return to more normal levels towards the end of this year. Realistically, the further stresses on global demand supply issues caused by this war, (which may go on for months), is likely to prolong that period. Oil almost hit $120 a barrel last week and food inflation will remain elevated - wheat prices rose 50% last week and Russia and Ukraine between them account for 30% of the world's wheat exports.

As we have all witnessed over the last ten days, volatility has returned to global stock markets, and it is likely that slower growth will mean lower earnings numbers for corporates over the coming quarters. This will inevitably affect stock market returns this year and we will all have to expect lower returns from equities over the coming period until there is some clarity on the geopolitics.

Invested portfolios - What action should we take?

Naturally, all investors will be concerned about invested assets and how to navigate this period. Inflation is likely to rise and we would not be surprised to see UK inflation register an 8% print in April, which would be the highest in 30 years. Inflation is currently running at 5.5% in the UK. If this transpires, it is likely that UK households will buy less goods and services with lower levels of disposable income.

A leading investment firm has just looked at the impact that 25 geopolitical crises have had on stock markets. This analysis included looking at Suez, The Cuban missile crisis in 1962 (perhaps the last time the nuclear threat was in the narrative), the 9/11 twin tower attacks in 2001 and the Gulf war. On average that analysis demonstrated that any equity market losses were eradicated within a month.

These periods are always very concerning and this time it feels particularly frustrating as there seems no obvious military solution for the West without bringing risk factors for the world that none of us want to contemplate. My 35 year experience in wealth management, and the many severely challenging periods we have navigated through that time, lead me to reflect that **trying to cherry pick exit and entry points in volatile financial markets almost never works**. Our recent experience with the covid pandemic reiterates this point.

Our guidance, as always, remains that investors should retain cash assets that will secure expenditure and living expenses for a couple of years. Beyond that, hard as it may feel at the current time, it is likely that looking through this period and remaining invested will probably serve investors best. When markets and investors sense fear, indiscriminate selling of shares, which inevitably will include many good businesses, will occur and this is almost never a sensible time to crystallise a loss.

Most investors have highly diversified portfolios and should be reassured that fund managers with the roles of managing their assets are laser focussed on adjusting portfolios to manage risks, and indeed opportunities, that will arise through this period.

Our dialogue with fund managers and asset managers is continuous through this time and we will update our thoughts, observations and any significant strategy changes we deem appropriate through this period.

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