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February 24, 2022 – Investment Commentary Regarding the Russian Invasion of Ukraine

By Stuart Katz, Chief Investment Officer

Global equity markets continue to be influenced by two primary macro factors of rising geopolitical risk and changing central bank policies. Investors have been searching for answers for two key questions which are intertwined with each other. In the last 24 hours, Russia provided the markets certainty that it will annex the Ukraine with the largest military invasion since World War II. The second question is whether the Federal Reserve will embark on a tightening cycle that finds the proper balance between fighting inflation without pushing the US economy into a recession?

Today, the investors are expecting the Fed to move slower where, according to the CME Group, the probability of a 50-75 bps rate hike during the March 16th FOMC meeting has declined from 34%, as of yesterday, to 9.5% today. As a result, the threat has diminished for higher rates negatively impacting long duration risk assets, such as technology stocks, Investors now expect the Fed to be more careful where elevated energy prices may dampen aggregate demand versus prior expectations. This perspective provides a rationale for some investors to own durable growing technology companies which have declined ~ 20% from recent highs at the NASDAQ index level. Finally, students of market history are familiar with the market, on average, trading in positive territory one year after declines greater than 20%.

Clearly, these macro geopolitical and central bank developments are highly dynamic and material. The Fed will provide more certainty in 19 days during its next formal meeting. For global equity markets, the invasion may put margins under further pressure for certain sectors, assuming supply bottlenecks become more entrenched. For fixed income markets, a flight to safety suggests that the upward rate normalization, which was well under way in US Treasuries, may likely be on pause. The Investment Office will pay particular attention to a number of key macro variables as the crisis plays out, including the oil price. The shape of the US Treasury curve and central bank communications will help inform investor views on growth expectations. While sanctions have been announced against individuals and financial institutions in Russia, the Investment Office expects that sanctions will be expanded significantly with the possible broadening of this physical escalation into cyberspace. Overall, the Investment Office is currently less concerned about recession risks, given the strength of the macro and bottom up fundamental backdrop. However, we also recognize that as certain questions are answered there are new questions that need to be asked and addressed, broadening the range of potential market outcomes in 2022.