Legacy Trust

Investment Perspectives

Russia-Ukraine War and Investment Implications

March 14, 2022

Since Russia's invasion of Ukraine on February 24, markets have swung dramatically as investors have looked to price in this new set of risks to global economic growth. The S&P 500 is down more than 12% from its January 3rd peak and only the Energy sector has managed to avoid the selloff. As of Friday's market close, oil has jumped to $112 per barrel, a 45% increase year-to-date. Against this backdrop of heightened risk, we wanted to share some key considerations to bear in mind in the coming weeks as events continue to play out in Eastern Europe and in the U.S. economy.

- We believe that **the odds still favor positive U.S. economic growth for 2022, but there is no question that recession risk has increased**. Lingering supply-demand imbalances from the pandemic and an historically tight labor market were already causing inflation concerns prior to the war in Ukraine and the coordinated sanctions against Russia that have recently been enacted are adding additional inflationary pressures. Geopolitical events typically have short-lived impacts on equities, but economic disruptions are more impactful, and it will take some time to see how this scenario plays out.

- **The Fed's path has now become highly uncertain**. The Fed made clear in their January meeting that they were on a path to raise rates several times throughout the year in an effort to curb inflation. However, with U.S. economic growth now at higher risk, the Fed will be cautious about raising rates too quickly. The Fed meets this week and is expected to announce a 25bp rate increase, but future actions and guidance will be closely watched.

- It should be noted that **Europe is likely to see a sharper slowdown in economic activity than the U.S.** Europe is a more active trade partner with Russia and is far more dependent on Russian energy supply. European equities have already reacted to price in the impact, but the longer the situation goes on, the uncertainty of outcome will weigh on sentiment. We have recommended a significant underweight to European equities since early 2020 and continue to believe this is appropriate.

- Despite the real near-term risks, which we will continue to monitor closely, **we continue to find equities to be the most attractive place to invest in an inflationary environment and recommend that investors maintain their strategic allocations**. Fixed income is modestly negative year-to-date and while we do not expect significant further downside, we expect bonds to underperform for the foreseeable future. Corporate earnings remain supportive for equities, even if growth becomes more modest. Further, this period of market volatility is creating buying opportunities for active stock pickers and we are confident that long-term investors will be rewarded.

- While we are looking out for tactical opportunities, **we strongly encourage investors to stay the course with their long-term asset allocation plans that will have already accounted for the next few years of anticipated cash flow needs**, avoiding the need to make significant and costly portfolio adjustments during periods of market volatility. Remember that your investment plan was set with these types of scenarios in mind and that your equity allocation was designed to ride through periods of heightened risk and uncertainty.

There will undoubtedly be more to say as matters unfold over the coming weeks and we will continue to share our thoughts with you as things progress. We know that it can be challenging to ride through these periods and we're here to help. Please don't hesitate to reach out to the Legacy Trust team with any questions.

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