

Market Insights: The Russia-Ukraine conflict

24 February 2022

Military tensions between Russia and Ukraine have dramatically escalated over the last few days and the situation remains extremely fluid. While a lot of details remain unclear about the response NATO allies might take, the current volatility in geopolitics and stock markets is unlikely to ebb anytime soon.

Markets are in a "Risk-Off" mood as global equities dropped 4%, compounding the losses seen in January due to worries around high inflation and the prospect of Central Banks raising interest rates as they prepare to battle inflation. This month has seen a perfect storm in terms of negative risks materialising.

Due to their binary nature, these events are highly unpredictable, and it is extremely difficult to hedge such risks, but our approach of having diversified exposure to various asset classes and geographies works best in such instances.

Market Outlook

The Western countries are likely to condemn Russia's actions and impose heavy sanctions. As Russia is one of the largest Oil and Gas producers of the world, such sanctions are likely to keep Oil & Gas prices elevated over the near term, adding to the inflationary pressures experienced by developed economies. It is likely Central banks will not be deterred by this geopolitical uncertainty and will look to push ahead with their plans of hiking interest rates. Part of the sell-off in equity markets is attributed to this expectation.

Although the situation is tense, history has shown that stocks typically take such geopolitical events in good stride. However, we do note that every situation is different, but we believe that eventually this uncertainty will be lifted, and markets will stabilise.

S&P 500 Index And Geopolitical Events

Market Shock Events	Event Date	S&P 500 Returns		Days	
		One Day	Total Drawdown	Bottom	Recovery
U.S. Pulls Out of Afghanistan	8/30/2021	0.4%	-0.1%	1	3
Iranian General Killed In Airstrike	1/3/2020	-0.7%	-0.7%	1	5
Saudi Aramco Drone Strike	9/14/2019	-0.3%	-4.0%	19	41
North Korea Missile Crisis	7/28/2017	-0.1%	-1.5%	14	36
Bombing of Syria	4/7/2017	-0.1%	-1.2%	7	18
Boston Marathon Bombing	4/15/2013	-2.3%	-3.0%	4	15
London Subway Bombing	7/5/2005	0.9%	0.0%	1	4
Madrid Bombing	3/11/2004	-1.5%	-2.9%	14	20
U.S. Terrorist Attacks	9/11/2001	-4.9%	-11.6%	11	31
Iraq's Invasion of Kuwait	8/2/1990	-1.1%	-16.9%	71	189
Reagan Shooting	3/30/1981	-0.3%	-0.3%	1	2
Yom Kippur War	10/6/1973	0.3%	-0.6%	5	6
Munich Olympics	9/5/1972	-0.3%	-4.3%	42	57
Tet Offensive	1/30/1968	-0.5%	-6.0%	36	65
Six-Day War	6/5/1967	-1.5%	-1.5%	1	2
Gulf of Tonkin Incident	8/2/1964	-0.2%	-2.2%	25	41
Kennedy Assassination	11/22/1963	-2.8%	-2.8%	1	1
Cuban Missile Crisis	10/16/1962	-0.3%	-6.6%	8	18
Suez Crisis	10/29/1956	0.3%	-1.5%	3	4
Hungarian Uprising	10/23/1956	-0.2%	-0.8%	3	4
N. Korean Invades S. Korea	6/25/1950	-5.4%	-12.9%	23	82
Pearl Harbor Attack	12/7/1941	-3.8%	-19.8%	143	307
Average		-1.1%	-4.6%	19.7	43.2

Source: LPL Research, S&P Dow Jones Indices, CFRA, 01/24/2021

All indexes are unmanaged and cannot be invested into directly. Past performance is no guarantee of future results.

The modern design of the S&P 500 Index was first launched in 1957. Performance before then incorporates the performance of its predecessor index, the S&P 90.

Portfolio positioning:

As we entered 2022, we took some risk off the table and positioned all our portfolios defensively as the Copia Risk Barometer (a quantitative, forward-looking indicator of market outlook) entered the Amber zone citing a cautionary outlook to equities. In hindsight, this prudent positioning has helped shield the portfolio from some of the losses experienced in the near term.

Equity holdings have also been reviewed, both for regional exposure and for fund selection. Where a portfolio had a strong growth bias, funds with a value tilt have been recommended to temper this and the risks of funds known to have a strong growth bias have been flagged, prompting a reduction or replacement in holdings.

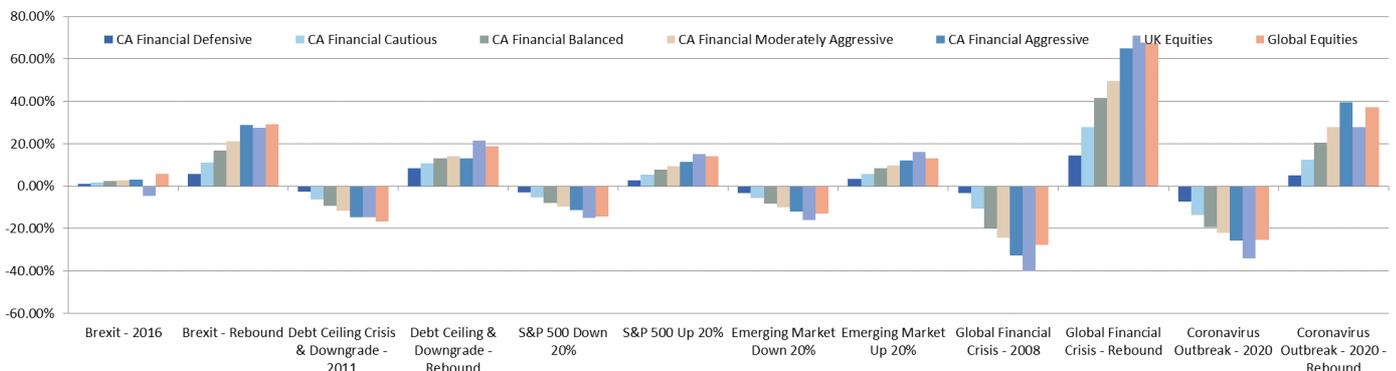
Our exposure to Russia and Ukraine come from the Emerging market equities and bonds we hold in the portfolios, and remain negligible as shown in the table below:

	CA Financial Defensive	CA Financial Cautious	CA Financial Balanced	CA Financial Moderately Aggressive	CA Financial Aggressive
Russian Exposure	0.03%	0.10%	0.20%	0.23%	0.50%
Ukraine Exposure	0.00%	0.00%	0.00%	0.00%	0.00%

Stress test:

We continuously stress test our portfolios for large unpredictable negative shocks. These do come around once in a few years and is a part investing. Our message in these tough times have always been to keep calm and stay invested. Once the dust settles, markets eventually tend to bounce back as it has done in the past time and again.

Scenario	Date Range		CA Financial Defensive	CA Financial Cautious	CA Financial Balanced	CA Financial Moderately Aggressive	CA Financial Aggressive	UK Equities	Global Equities
	From	To							
Brexit - 2016	22/06/2016	27/06/2016	0.91%	1.84%	2.23%	2.71%	2.89%	-4.82%	5.56%
Brexit - Rebound	28/06/2016	27/06/2017	5.56%	11.02%	16.87%	21.18%	28.82%	27.37%	29.11%
Debt Ceiling Crisis & Downgrade - 2011	22/07/2011	08/08/2011	-2.54%	-6.17%	-9.46%	-11.60%	-14.63%	-14.80%	-16.64%
Debt Ceiling & Downgrade - Rebound	09/08/2011	08/08/2012	8.47%	10.61%	12.99%	14.24%	13.16%	21.60%	18.82%
S&P 500 Down 20%	Hypothetical scenario		-2.83%	-5.48%	-7.90%	-9.53%	-11.45%	-14.93%	-14.21%
S&P 500 Up 20%	Hypothetical scenario		2.83%	5.48%	7.90%	9.53%	11.45%	14.93%	14.21%
Emerging Market Down 20%	Hypothetical scenario		-3.30%	-5.73%	-8.33%	-9.90%	-12.13%	-16.18%	-13.12%
Emerging Market Up 20%	Hypothetical scenario		3.30%	5.73%	8.33%	9.90%	12.13%	16.18%	13.12%
Global Financial Crisis - 2008	11/10/2007	04/03/2009	-3.17%	-10.80%	-19.59%	-24.29%	-32.88%	-40.05%	-27.83%
Global Financial Crisis - Rebound	05/03/2009	04/03/2010	14.58%	27.65%	41.50%	49.61%	64.86%	67.79%	67.26%
Coronavirus Outbreak - 2020	20/02/2020	23/03/2020	-7.21%	-13.65%	-19.38%	-22.06%	-25.62%	-34.24%	-25.43%
Coronavirus Outbreak - 2020 - Rebound	24/03/2020	31/03/2021	5.05%	12.28%	20.28%	27.97%	39.58%	27.66%	37.22%



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