



CIO OFFICE MORNING MARKET WRAP – 7th March, 2022. ALSO AVAILABLE ON ALEXA.

The war in Ukraine with Russian troops continuing to use military power into incursions into the country and last week taking control of the nuclear power plant is not only having a severe humanitarian toll but also changing the face of geopolitics. More than 1.5 million refugees have fled Ukraine in the past 10 days. Ukrainian President Zelensky has set up a strong defence and the U.S., European Union, and other global allies have broadly condemned Russia's invasion and swiftly responded with unprecedented sanctions aimed at destabilization of the Russian financial system cutting off access of some financial institutions to the SWIFT global payment system. Assets and foreign currency reserves of Russia's central bank have been frozen. Russian equities have been removed from major global indices and local trading of Russian equities has also been halted. The London Stock Exchange has stopped the trading of shares of Russian companies, including those with strong affiliations to Russia. Companies halted for trading include En+, Sberbank, Gazprom, Lukoil and Polyus. Many global companies have stopped supplying technology or services to Russia and social media giants Facebook and Google have cut off access to Russian media.

Global stocks closed lower -2.7%, at the end of a turbulent week, however European markets were much worse down 10% last week. The flight to safe haven assets continues as the timing of resolution in Ukraine remains uncertain. US Treasuries extended a weekly rally, the US 10

year is currently trading at a yield of 1.69% and the U.S. dollar has added to a recent upswing. Oil prices continue to rise with Brent futures at \$128 / barrel and gold has added to a weekly advance and is trading at \$1986. The euro has dropped relative to the USD and Swiss Franc on concerns about European growth. Palladium and copper are trading at record highs. Markets are also reacting to more troops being deployed to NATO member states that border Russia.

Markets in Asia, this morning, are sharply down with Japan and Hong Kong indices -3.5% and mainland China and India slightly less but still negative at -2%. Last week saw the MSCI China fall 4.3%, India 3% and the other Asian economies on the same track. The exception in global markets is the GCC which continues to see equities gain with both the Dubai and Abu Dhabi indices up over 5% last week and the MSCI UAE Index which has a smaller selection of stocks gain 8%. The KSA Index was up 3.8% last week. We are overweight the UAE market and expect markets to hold up on the back of higher oil prices.

The impact on global economic growth while still estimated to be small could increase if there is a change in sanctions yet to target Russia's exporting activity of energy, materials and agriculture. The US has announced it was discussing a ban on oil imports from Russia with European partners. As per IEA reports Russia is the world's third largest oil producer behind the US and KSA. In January 2022, Russia's total oil production was 11.3 million barrels/ day. Russia is the second largest crude oil exporter behind Saudi Arabia. About 60% of Russia's oil exports go to OECD Europe, and another 20% go to China.

A second straight month of stronger-than-expected U.S. labor data and testimony by Fed Chair Powell, during which he said he will propose a 25 bps hike at its meeting in two weeks given the inflation backdrop, strong economy, and an "extremely tight" labor market gave some support to the US markets which fared better than Europe with the S&P 500 down 1.25% but the Nasdaq down double that last week. Our recent addition to US equities was opportune but we reiterate the uncertainty of markets and reaction to day-to-day escalations in Ukraine and we continue evaluating the situation.

How should markets price in Russia shock? It's uncertain how long the war will continue and the inflationary impact from rising oil, gas, wheat, sunflower oil and essential components such as palladium for autos which Russia is a key supplier. Whilst we began the year with reasonable expectations of growth, the impact to earnings/ margins from increased supply chain constraints and higher energy prices are starting to be felt. Our stance for the year is, be reactive, take advantage of troughs and whilst still constructive on fundamental parameters for equity returns, sentiment could well rule markets short term. We will also closely watch growth metrics and inflation readings for future direction. We don't think the Central bank monetary tightening path will be derailed but growth parameters would become important inputs along with the need to control inflation by raising rates.

Stay safe.

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