



Markets Bulletin 4th March 2022

The War in Ukraine and Your Investment Objectives

Since our bulletin last week global geopolitical tensions have escalated, and markets have been sent into disarray as a result of Russia's invasion of Ukraine. We at Burley Fox are shocked by the turmoil and upset that this unprovoked invasion is having on the people of Ukraine.

The last week has seen a significant increase in market volatility. This is not at the level seen at the start of the pandemic, however as an investor this could be very disconcerting and make you consider selling out of the market.

We would strongly recommend not taking this course of action and would advise that remaining invested and focusing on your long term investment objectives remains the best option.

Historically, the market's response to geopolitical events tends to be short-lived. Only the 1970s oil shocks have had a significant long-term effect on markets, while the impacts of major events such as the wars in Iraq, the 9/11 bombings and the Arab Spring uprising have only been felt temporarily.

S&P 500 Sell-off Around Geopolitical Events

Event	Start of sell off	Duration of sell off (trading days)	Duration to recover to prior level (trading days)	Size of sell off (%)
Israel Arab war / oil embargo	29 Oct 1973	27	1475	-17.1
Shah of Iran exiled	26 Jan 1979	9	34	-4.6
Iranian hostage crisis	5 Oct 1979	24	51	-10.2
Soviet invasion of Afghanistan	17 Dec 1979	12	6	-3.8
Libya bombing	21 Apr 1986	20	7	-4.9
First Gulf War	1 Jan 1991	6	8	-5.7
Kosovo bombing	18 Mar 1999	4	9	-4.1
9/11 attacks	10 Sep 2001	6	15	-11.6
Iraq war	21 Mar 2003	7	16	-5.3
Arab spring (Egypt)	27 Jan 2011	2	3	-1.8
Ukraine conflict	7 Mar 2014	6	13	-2.0
Intervention in Syria	18 Sep 2014	21	12	-7.4

Source: Deutsche Bank, Refinitiv DataStream, Standard & Poor's, J.P. Morgan Asset Management. Past performance is not a reliable indicator of current and future results. Data as of 21 February 2022.



Burley Fox Limited 20 Cathedral Road, Cardiff CF11 9LJ
Tel: 029 2167 9770 Email: info@burleyfox.com

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Global markets have now fallen in the region of 10% from their peaks and are swinging daily between positive and negative performance, depending on the news flow that day. A fall of at least 10% in global markets is quite a regular occurrence, as shown in the chart below. Despite these regular bumps along the way, the US market has overall returned 11% a year over the last fifty years.

Western nations have launched a wave of sanctions against Russia's government, key persons, banks and other institutions. These carefully thought-out sanctions are designed to cripple the Russian economy, but at the same time ensure that Europe does not suffer a major fuel crisis. Russia's Central Bank has been a particular target, as the western allies attempt to block Russia from accessing its \$630 billion stockpile of foreign reserves. If Russia is unable to access these reserves, then it is unable to defend its currency and economic fallout could follow. We are already seeing the repercussions of these sanctions, as the Russian ruble has fallen to a record low against the U.S. dollar and the Central Bank has more than doubled interest rates from 9.5% to 20%.

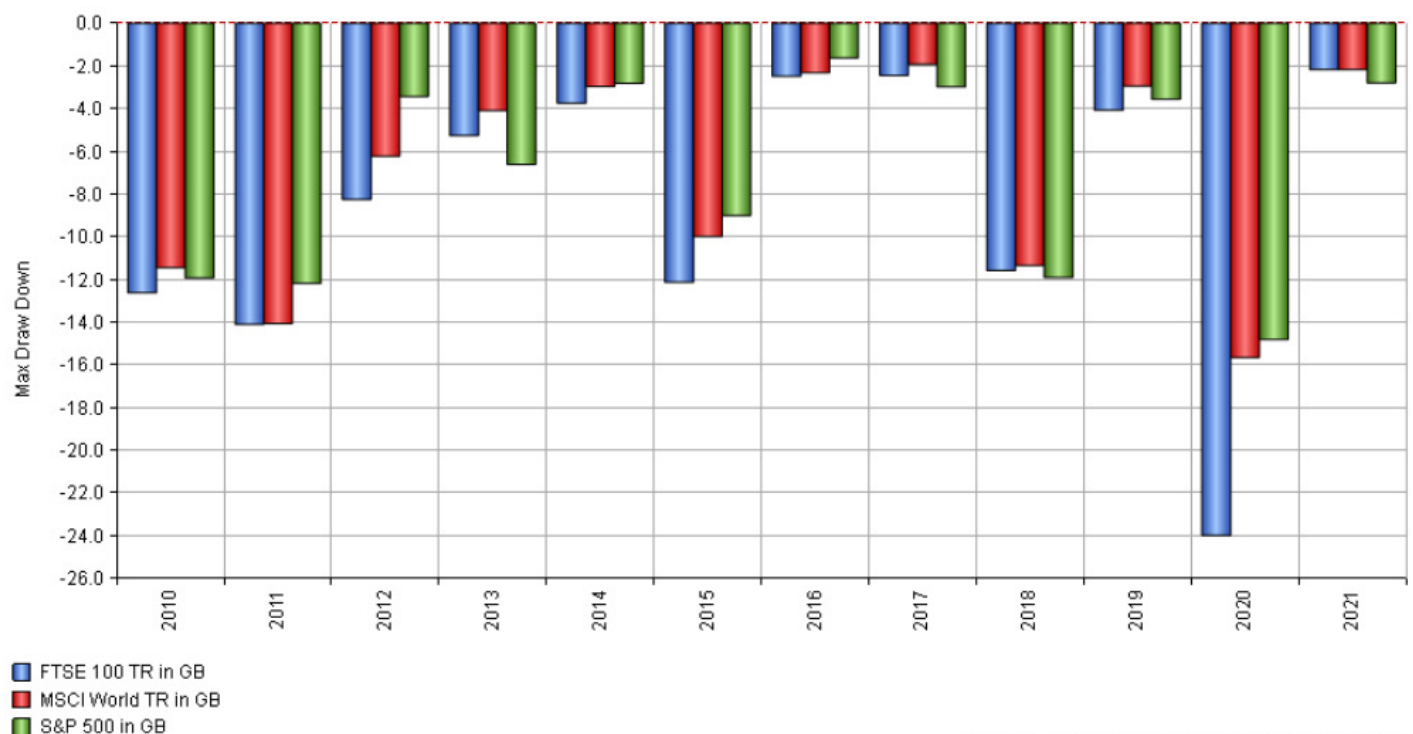
Russia's Energy sector has so far seen limited disruption from sanctions, as this could have significant implications across global markets. Russia is the third largest oil producer in the world and the second largest of natural gas, with Europe being particularly reliant on Russia for energy.

Many of the financial sanctions that have so far been put in place have included caveats to ensure that oil and gas continue to flow to the EU. Energy is Russia's largest source of income, so if sanctions continue to bypass this sector Russia will still have the ability to raise cash and shall also benefit from the increase in energy prices.

This could all change however if the western allies decide that the current sanctions are insufficient and decide to target this sector. Russia could however retaliate against sanctions by disrupting the trade of its oil and gas with the intention of causing economic hardship in Europe. Crude oil accounts for 37% of Russia's exports, with the export of natural gas to Europe accounting only for 8%. You would therefore expect that if Russia wanted to retaliate to the sanctions and cause minimal financial hardship to its own economy, that it would cease the export of gas to Europe.

Another factor emerging is that a number of global buyers are boycotting Russian oil and sourcing elsewhere. By refusing to buy Russian oil, who as stated are the third largest global supply, buyers are effectively limiting the global supply of oil and pushing up prices as they try to source elsewhere. Russia is struggling to find buyers for its oil, and it is currently trading at an \$18 discount to Brent Crude.

Maximum Drawdown - Stock Market Comparison



12/2010 - 12/2021 Powered by data from FE fundinfo

Past performance is no guide to the future and future yields cannot be guaranteed. Unit prices can fall as well as rise



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Advisory Portfolio Service - Russia Exposure

Fund	Russia Exposure as at 31/01/2022	Current Exposure	Current Exposure as at Date
Fidelity Emerging Markets	7.60%	1.20%	28/02/2022
JPM Emerging Markets	1.07%	0.73%	23/02/2022
Blackrock Emerging Markets	8.17%	2.00%	28/02/2022
Baillie Gifford EM Growth	7.40%	1.96%	28/02/2022

As well as the Russian ruble coming under extreme pressure the Russian stock markets are also closed, in an attempt to fend off a complete collapse of the Russian stock market. Shares of Russian companies listed in London and New York have however collapsed as foreign investors look to sell out of Russia. The main asset class held within our portfolios with exposure to Russia is the Emerging Markets sector. Prior to the invasion of Ukraine, the Russian ruble was already under pressure and the Russian stock market had been recording significant falls, with the MSCI Russia Index currently down 60% for the year to date.

We have been in contact with the investment companies with whom we have our Emerging Market holdings, to ascertain the level of exposure to Russia within our portfolios. Details of the individual fund exposures to Russia are shown in the table above.

As can be seen, the level of holdings reduced significantly during February. This is a result of the fund managers reducing their exposure to Russia and the falling value of the Russian stock market over the month. To put these holdings into context of a typical Advisory Portfolio Service portfolio, a Moderate portfolio has approximately 7% invested within the Emerging Market sector. Therefore, based upon the exposure of the funds as of 31st January, a typical Moderate portfolio would have had approximately 0.55% of the overall portfolio invested in Russia.

There is a very high level of uncertainty hanging over global markets at this time, and no one is able to predict how the crisis shall unfold. If Kyiv falls to Russia, then further sanctions could be implemented by the western allies and the situation could escalate. What has become clear however is that inflation shall rise further for longer as the price of oil, gas and agricultural commodities continue to surge. Supply chain disruption is also expected to increase as commodities shall become harder to source, creating further inflationary pressures.

Central Banks shall continue to raise interest rates, as has already been confirmed by Federal Reserve Chair Jerome Powell, but rates are expected to be raised at a slower level than predicted at the start of the year. Markets shall scrutinize all communications from the Central Banks and will continue to be guided by them as the year progresses. With all of these factors influencing markets we would expect volatility to remain with sentiment changing more frequently. To reiterate our earlier recommendation, remaining invested at this time and focusing on your long-term investment objectives is the best course of action.

Should you have any queries or concerns, please do not hesitate to contact your Investment Director.



Kevin Hunt Dip PFS, Cert PFS (DM)
 Investment Manager
 Technical Team



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