Handelsbanken
Asset Management

7 March 2022

Weekly bulletin: The war on Russian assets is underway

Key takeaways

As the world continues to react to Russia's act of war against Ukraine, the financial market response has been swift and ruthless.

- As Russian military forces advance in Ukraine, sanctions against Russia continue to ramp up. A huge range of multinational corporations – from Apple to BP – are now exiting Russia or limiting their operations in the region. Russia's central bank closed the Moscow Stock Exchange last week, preventing trading in Russian-listed securities (it will remain closed until at least Wednesday), but Russian securities listed in London were still able to trade, and fell by more than 90%. This prompted the London Stock Exchange to suspend trading in these shares, with similar events taking place in other stock exchanges around the world. Russian securities are now almost impossible to trade.
- Meanwhile, Russian assets are being removed from benchmark financial market indices, with index providers like MSCI, FTSE Russell and S&P Dow Jones announcing that they will cut Russian stocks from their benchmark indices this week. Suffice to say that the financial market reaction to Russia's act of war has been fast and severe.
- However, while sanctions, reactions and reprisals have the potential to cripple Russia's economy, they may also start to have ripple effects on the global economy. The most obvious knock-on effect could come via supply chain squeezes and pricing pressures, given Russia's status as a major commodity producer. Energy markets in particular have been under the microscope, but at this juncture we feel it is unlikely that an inflation spike in energy prices will tip the US or even Europe into a full-blown recession. Robust labour markets, still-accommodative central banks (even factoring in interest rate rises ahead), and strong consumer and corporate balance sheets support this view.
- Indeed, the latest US jobs report indicated that 678,000 new jobs were added to the market in February, and that the unemployment rate fell to 3.8% from 4%. Less positively, wage growth flattened, which is unhelpful for consumer spending power. Overall, though, the US labour market looks solid for now.
- Despite this robust employment picture, financial market expectations for the US central bank's interest rate rising programme actually fell. This suggests that the Russia/Ukraine situation currently holds more sway in investor minds than slightly stale economic data.

Weekly market moves

Share prices began the new month on the back foot, with Europe feeling most of the pain, though some of this weakness spilled over to UK stock markets on Friday.

Bond markets moved around rapidly over the course of the week, with rising bond prices reflecting investor interest in traditional 'safe havens'.

The largest moves came in commodity markets. Pricing pressures here have the potential to delay the peak for inflation levels in the global economy, though the situation is changing rapidly.

What to look out for this week

The European Central Bank's meeting this week marks the first major central bank meeting since Russia's invasion of Ukraine. Investors will be watching closely to see how, if at all, the conflict has changed the near-term plans for policymakers.

Market moves (as at 4 March 2022)

	Index Levels	Last Week	Month to Date	Year to Date
Equity				
MSCI United Kingdom	2,000.0	-6.2%	-5.9%	-3.4%
MSCI United Kingdom Mid Cap	1,209.1	-8.0%	-8.7%	-17.4%
MSCI United Kingdom Small Cap	386.8	-8.0%	-8.9%	-19.0%
MSCI World (GBP)	2,219.3	-1.3%	-1.2%	-7.9%
S&P 500 (GBP)	4,328.9	0.3%	0.5%	-6.7%
MSCI Japan (GBP)	1,128.7	0.3%	-0.4%	-5.6%
MSCI Europe ex-UK (GBP)	1,462.1	-8.9%	-8.7%	-16.9%
MSCI Pacific ex-Japan (GBP)	1,620.6	1.9%	1.5%	-0.6%
MSCI Emerging Markets (GBP)	65,945.6	-0.8%	-0.8%	-4.6%
Bonds				
BoA Merrill Lynch Conventional Gilts	1,303.5	2.5%	2.1%	-3.4%
BoA Merrill Lynch Index-Linked Gilts	656.6	4.2%	3.5%	0.4%
BoA Merrill Lynch £ Corporate	446.0	1.4%	1.1%	-4.7%
Commodities				
Oil (West Texas Intermediate, GBP)	$115.7	28.1%	22.2%	57.4%
Gold (GBP)	$1945.3	4.8%	3.4%	10.4%
S&P / GSCI (GBP)	3,921.5	21.8%	18.1%	44.8%

Past performance is not a reliable indicator of future results. The value of investments may fall as well as rise. All performance returns are in GBP, while all index levels are in local currency.

Registered Head Office: No.1 Kingsway, London, WC2B 6AN. Registered in England No: 4132340. www.wealthandasset.handelsbanken.co.uk
Telephone: 020 7045 2600