Handelsbanken
Asset Management

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Weekly bulletin: Financial markets respond to the crisis in Ukraine

Key takeaways

Russia's invasion of Ukraine represents a highly complex and fast-changing situation, the human cost of which is already deeply tragic. As asset managers, it is our duty to our customers to assess these events from the perspective of financial markets and the world economy. At first glance, the likely impact in this regard seems limited, though such a statement comes with a number of caveats.

- Western nations have imposed severe sanctions on Russia as a result of its military action against Ukraine. At the time of writing, selected banks in Russia have been removed from the SWIFT messaging system (a huge network used to send and receive information quickly and securely) with the aim of cutting off these banks from the international financial system. Meanwhile, Russia's central bank's assets have been frozen, limiting its ability to access overseas reserves and defend its currency. A transatlantic task force has been launched to identify and freeze the assets of sanctioned individuals and companies, export licences have been suspended for dual-use items which could be used for military purposes or oil refineries, airspace has been closed to Russian aircraft, and permission has been removed for the opening of the Nord Stream 2 gas pipeline from Russia to Germany.
- The reaction of Russia's financial assets to these sanctions has already been extreme. Russia's local stock markets fell by a record -38% following news of the invasion (though they did recover some of these losses on Friday). Russia's bond index has fallen by 30%, with credit rating agencies downgrading its bonds to 'junk' status, making them largely uninvestible. Russia's currency has depreciated by almost 50%.
- The most effective way to damage Russia's economy would be to directly target energy exports, as these account for 36% of Russia's national budget. However, Europe is heavily reliant on oil and natural gas exports from Russia, and sanctions have (so far) avoided direct measures against energy exports. Even the SWIFT sanctions had explicit exemptions for any payments for energy. What's more, Russia and Ukraine together account for about a quarter of the global wheat production, meaning that disruptions here could impact global food supply chains and pricing. As a result, it is easy to see how sanctions could start to impact already stretched global supply chains and pricing pressures.
- Meanwhile, financial markets continue to struggle to determine whether the world's major central banks will focus on supporting growth (keeping interest rates low) or on tackling heightened inflation (raising interest rates). Russia's invasion of Ukraine further complicates this dynamic, though we think it could encourage central banks (particularly the European Central Bank) to act gradually and cautiously.
- Lest we forget, many other factors are in play in the global economy besides geopolitics. US inflation data was also released last week, and rose to its highest level since 1982 (6.1% in January), though this figure was in-line with market expectations. In other data news, the latest private sector survey data (the Purchasing Managers' Index) showed a sharp rebound in February's figures for both manufacturing and service sectors in the US, UK and Europe, providing a positive economic signal.

Weekly market moves

US share prices fell sharply mid-week, before staging a dramatic turnaround.

Unsurprisingly, the oil price also rose as concerns grew about available supply.

Gold – which has a 5,000-year-old reputation as a 'safe haven' during times of conflict – performed well over the week.

While asset prices have certainly been volatile in recent days, the harsh reality is that most geopolitical events do not have a lasting impact on financial markets. With few exceptions in history, global markets have tended to recover in fairly short order from the outbreak of conflict. Central banks have also tended to successfully support economies and financial markets during these periods.

What to look out for this week

There is no doubt that the crisis in Ukraine will continue to dominate news and market sentiment over the coming week.

Investors will also be watching as Jerome Powell – Chair of the US Federal Reserve Bank – testifies before Congress on central bank policy later this week.

As the week draws to a close, February's US employment report will be released. Current expectations are for unemployment to fall to 3.9%.

Market moves (as at 25 February 2022)

	Index Levels	Last Week	Month to Date	Year to Date
Equity				
MSCI United Kingdom	2,133.6	0.2%	1.2%	3.0%
MSCI United Kingdom Mid Cap	1,313.9	-1.3%	-3.9%	-10.3%
MSCI United Kingdom Small Cap	420.5	-1.9%	-4.8%	-12.0%
MSCI World (GBP)	2,277.0	1.2%	-2.4%	-6.7%
S&P 500 (GBP)	4,384.7	2.1%	-2.8%	-6.9%
MSCI Japan (GBP)	1,150.3	-1.6%	-1.8%	-5.9%
MSCI Europe ex-UK (GBP)	1,594.4	-1.5%	-3.7%	-8.8%
MSCI Pacific ex-Japan (GBP)	1,633.8	-1.9%	2.4%	-2.4%
MSCI Emerging Markets (GBP)	66,756.8	-3.7%	-2.9%	-3.9%
Bonds				
BoA Merrill Lynch Conventional Gilts	1,271.6	-1.3%	-1.8%	-5.8%
BoA Merrill Lynch Index-Linked Gilts	630.1	-1.7%	-1.0%	-3.6%
BoA Merrill Lynch £ Corporate	440.0	-1.3%	-2.8%	-6.0%
Commodities				
Oil (West Texas Intermediate, GBP)	$91.6	1.6%	2.7%	22.7%
Gold (GBP)	$1884.8	0.8%	5.0%	5.4%
S&P / GSCI (GBP)	3,266.9	2.7%	5.5%	18.9%

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.

Important Information