

Monthly Market Commentary – February 2022

The Volatility continues! Russia has launched an invasion of Ukraine and western governments are rolling out their initial responses and sanctions. We share our perspective and the approach we are taking in portfolios:

Russia is economically isolated from the United States, especially since sanctions were implemented in 2014. We don't believe there is an increased risk to US equities through this crisis. Additionally, the Fed has recently been pressured to raise interest rates quickly in response to inflation. Given an increase in geopolitical risk, they may approach this policy more cautiously. Historically, the S&P 500 reacts well to geopolitical crisis with the median one-year return after the event at 14.7%, as seen below:

Stocks Usually Recover Quickly From Geopolitical Crisis

S&P 500 Performance After Geopolitical Events

Event	Start Date	1-Week Gain/Loss	1-Month Gain/Loss (%)	3-Month Gain/Loss (%)	6-Month Gain/Loss (%)	1-Year Gain/Loss (%)
Germany Invades France	May-40	-13.5	-25.8	-16.1	-6.0	-22.0
Pearl Harbor	December-41	-2.7	0.3	-9.0	-5.6	3.7
Korean War	June-50	-7.6	-8.7	1.2	4.9	11.2
Suez Canal Crisis	October-56	1.6	-4.3	-4.1	-1.4	-11.5
Cuban Missile Crisis	October-62	-1.9	7.6	17.2	24.5	32.0
JFK Assassinated	November-63	2.2	3.1	8.3	12.7	20.5
U.S. Bombs Cambodia	April-70	-2.9	-6.4	-4.9	2.0	27.9
Kent State Shootings	May-70	-2.5	-4.4	-4.1	2.2	26.8
Iranian Hostage Crisis	November-79	-1.0	3.2	11.4	3.0	25.9
USSR in Afghanistan	December-79	0.3	5.4	-7.8	6.4	25.7
Falkland Islands War	April-82	2.1	2.7	-3.7	5.8	34.5
Beirut Bombing	October-83	-1.6	0.1	0.7	-5.5	0.8
U.S. Invades Grenada	October-83	-1.5	0.6	-0.7	-5.5	0.7
U.S. Bombs Libya	April-86	3.1	0.1	0.3	-0.6	17.7
Invasion of Panama	December-89	-0.8	-3.7	-3.4	3.7	-6.9
Iraq Invades Kuwait	August-90	-3.3	-8.1	-13.5	-2.1	10.2
Gulf War	January-91	4.4	16.7	22.6	20.6	32.3
Gorbachev Coup	August-91	2.2	0.1	3.0	7.0	9.1
World Trade Center Bombing	February-93	1.1	1.9	2.5	4.2	5.4
Oklahoma City Bombing	April-95	1.3	2.8	11.3	16.1	27.0
U.S. Embassy Bombings - Africa	August-98	-1.4	-6.1	2.7	14.6	19.3
U.S.S. Cole Bombing - Yemen	October-00	-1.6	0.1	-4.7	-14.6	-19.6
WTC and Pentagon Attacks - 9/11	September-01	-4.9	-1.1	4.3	6.9	-16.7
Bali Nightclub Bombing	October-02	5.9	4.9	11.0	3.9	25.1
Iraq War	March-03	-0.5	2.1	15.7	17.4	28.4
Madrid Terror Attacks	March-04	0.0	1.9	1.6	-0.7	7.6
London Train Bombing	July-05	2.4	2.6	1.6	6.6	6.6
India, Israel & Lebanon Bombings	July-06	-2.8	-0.1	6.1	11.0	19.4
Russia Invades Ukraine (Crimea)	February-14	0.8	1.0	2.6	8.3	14.7
Mean		-0.8	-0.4	1.8	4.8	12.3
Median		-0.8	0.3	1.6	4.2	14.7
% Positive Return		41%	66%	62%	69%	83%

Source: Reuters

There are several, more directly impacted areas to consider:

- European equities are likely to be more impacted based on their reliance on Russian oil and natural gas.
- China is allying with Russia and may also use this as an opportunity to invade Taiwan. Both actions increase the risk of delisting of Chinese companies in the United States.
- Commodities are likely to be impacted more than any other area:
 - We believe oil and natural gas prices are likely to increase.

- Russia and Ukraine have a large portion of wheat and grain exports internationally. These areas are likely to see a rise in prices. Foods and beverages that use these products are also likely to see an impact in input costs.
- Russia is a large exporter of palladium/catalytic converters. This could impact the auto supply chain.
- Russia is one of the largest exporters of fertilizer. We expect more demand for this input as well as for production from non-Russian suppliers.

This is not the time to panic and sell out of portfolios. We advise clients to maintain their long-term asset allocations and believe current market conditions offer a great opportunity to buy the dip in long term portfolios.

As always, please reach out to your financial advisor with questions or concerns.

Thanks,

The Seventy2 Capital Team

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