
Client Communication

War in Ukraine

The humanitarian crisis unfolding in Ukraine following Putin's scarcely believable attack is, quite rightly, front and centre of everyone's thoughts. It is impossible to know what the outcome will be, with a range from something that does not bear contemplation to a Russian retreat and positive regime change. With uncertainty abounding, it is only right that you have a sideways glance towards your investments and how these may fare.

Market volatility has shot up and is likely to remain elevated, but history shows us that markets also have great capacity to climb a wall of worry. In times of volatility it is easy to lose sight of your investment goals, and we reiterate the importance of maintaining a well-diversified portfolio and avoiding knee-jerk reactions. This is certainly how we are approaching the management of your investments. Research and data continuously shows us that 'time in the market is better than timing the market', and although it is painful to watch short term fluctuations, sticking the course inevitably provides the best results.

Financial markets, already under pressure from rising inflation and the expectation of rising interest rates, have been whipsawed in a rush to try and de-risk exposures. Not surprisingly, given the toxic brew, it has been one of the weakest starts to a year for a generation. The exception is the UK stock market, which has held up relatively well, thanks largely to its positive exposure to rising commodity prices.

The Ukrainian crisis follows swiftly on the heels of Covid, and the positive news feeding through as restrictions were eased has been somewhat curtailed. Market volatility will remain high in the current environment, and we have already seen significant moves, both down and up.

With the price of oil having returned to the highest level since 2008, and natural gas at record highs in Europe over worries around Russian supplies, energy costs are hitting the pain threshold. This has one of the biggest impacts on inflation and may have reached a level that causes reduction in demand. The outlook is clouded by uncertainty over Russia's continuing role in OPEC+, and whether Putin uses oil as an economic weapon.

The latest economic reports show that there was a positive response to the lifting of restrictions, imposed around the surge in Omicron, particularly across the service sector in Europe. However, these reports were taken before Russia attacked Ukraine. Expectations for a further phase of economic recovery, particularly if supply bottlenecks were to ease, are now being questioned. Employment appears to have come through the pandemic much better than feared, so it is hoped that this positive will help underpin continued growth momentum.



Inflation was becoming somewhat problematic prior to the invasion. Already at levels that warrant a robust response from central banks, it is now almost certain to go higher. This leaves policy makers in an invidious position and whatever decision they take will probably be done with crossed fingers. The likelihood is that they will let inflation run hot and limit interest rate increases until there is a bit more clarity.

Making investment choices without full information rarely works well, and it is important to remember we are investing over the long term, not days. In forty years' time we will not be discussing the rate of inflation or the price of oil in March 2022, but the great human cost of what has occurred these past two weeks. Investments, as they always do, will navigate a path through these troubling times.

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Chief Executive

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