# Singlife Model Portfolios

Russia-Ukraine crisis – 3rd March 2022

Model Portfolios advised by abrdn Asia Limited ("abrdn Asia")

## Market review

Global stocks continued to fall in February. Markets dropped sharply as Russia invaded Ukraine and central banks reacted to rising inflation. Major indices fell in the US, Europe and Asia, with small rises for UK large-cap companies.

Investors pulled back from equities as tensions escalated in eastern Europe, with Russia deploying its armed forces to Ukraine's borders. The sharpest falls came on 24 February when troops invaded and launched attacks on airports and military sites. Stocks recovered somewhat, but finished down over the month. Meanwhile, concerns about central bank action and inflation remained present.

Europe was one of the hardest-hit regions, with Germany and France among the worst performers. While recent US corporate results have been strong, US stocks slid. In particular, the Nasdaq index continued to underperform the wider market, with losses in technology and consumer companies. Japanese stocks also fell but by less than other developed peers, with upbeat corporate results helping to stem losses. In emerging markets, Russia was one of the worst-performing markets, as many western countries imposed sanctions and removed Russian banks from the SWIFT global payments system. China and India fell, while Latin American indices rose, driven by strong commodity prices.

Bucking the trend, Australian stocks rose, driven by a string of positive quarterly corporate earnings. In both the UK and Australia, mining and energy companies benefited from rising commodity prices, with Brent crude rising above US$100 per barrel during the month and gas prices shooting higher.

European and US government bond prices fell over the month. Corporate and emerging market bonds also performed poorly. Meanwhile, corporate bond issuance dropped sharply as investors grew wary of Russia-Ukraine tensions.

## Outlook

On the latest round of sanctions, the direct impact on global growth will be minimal given Russia is 1.3% of global GDP but second order effect may come through via commodity supply disruption. Sanctions so far exclude energy related transactions, but there is room for further escalation. In practice, there are already some disruption to Russia's energy trade through "self-sanctioning" as companies do not want to be seen purchasing Russian energy products. For example, Credit Suisse and Societe Generale have halted financing of all commodities from Russia. There remains a risk that energy will be targeted directly if fighting escalates and Russia may also curtail some energy exports as a retaliatory measure. Hence, we expect inflation to remain elevated for an extended window.

The first round of Russia – Ukraine talk concluded with no agreement and it is too early to believe situation will soon de-escalate. Ukrainian presidential adviser Mykhailo Podolyak said that "the Russian side, unfortunately, still has a very biased view of the destructive processes it has launched". The talks are set to continue over the coming days.

Looking ahead, DM policy response to the situation will be key to watch, market is pricing down steepness of Fed hiking path, but we don't expect Fed stance to shift materially unless US economy takes a hit. In the immediate term, negative sentiment has dominated with equities underperforming. Safe haven such as US Treasuries should perform. Taking a step back from Russia / Ukraine, global growth recovery remains on track and supply chain bottleneck is showing signs of easing. We believe when / if geopolitical uncertainty peaks market will shift its focus back to fundamentals.

## Portfolio positioning

Look-through exposure of Russia is marginal across the three models portfolios at less than 0.1%. Hence, direction impact from Russia holdings are insignificant. Risk reduction initiated since the end of last year left the portfolio at neutral weight, and has helped mitigate recent market shortfall. We are comfortable with the current portfolio exposure at present as the recent selloff in equities is in line with the typical selloff around geopolitical events. That said, we would not hesitate to reduce equity exposure further if there is further escalation in geopolitics or higher risk of stagflation comes to play.

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