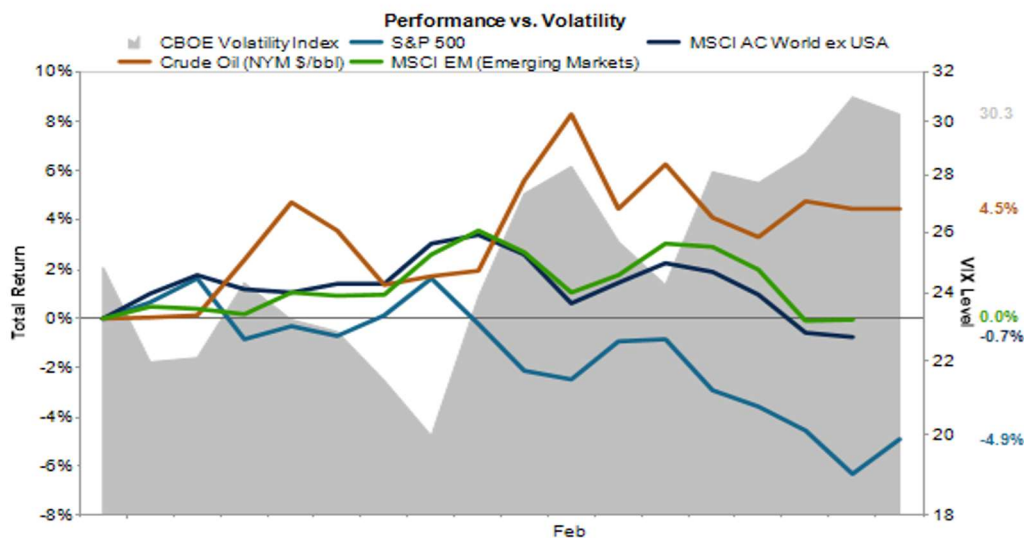


Market Update – Ukraine

February 25, 2022

First our thoughts go to the impact on the people of Ukraine, whose lives were once again disrupted by the needless invasion of their country. While this invasion has been widely telegraphed over the past few weeks, there was hope that a diplomatic solution would be found, which obviously was not the case.

February 2022 Month to Date Performance



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The markets have been moving all month on this news, as well as on inflation fears and prognostications of what the Federal Reserve will be doing next month regarding interest rate increases. These uncertainties have resulted in negative equity and fixed income returns around the globe. As you will note in the chart above, while the worst performance is in U.S. markets, the non-U.S. markets have not been immune. The winner has been energy related assets.

Russia remains a major producer of oil and 30% of Russia's petroleum and gas exports¹ to Western Europe run through the Ukraine (you ask, why does Russia want Ukraine back in its sphere of influence?) Russia also has about 30% of global titanium production (think airplanes). Ukraine is also a major exporter of wheat and corn. This all happens within the current backdrop of high and rising oil prices due to both the demand rebound and the lack of increased supply by

both OPEC and U.S. shale producers, all of which predated the recent turmoil. In addition, the agricultural backdrop is similar to energy, as we have seen increasing prices related to both weather-related supply constraints and increased demand and logistics issues worldwide. The direct impacts from the current situation fall primarily in the commodities area of the markets. As it relates to direct U.S. impact, Russia is not a large trade partner and exposure in S&P 500 companies of sales to Russia represent less than 1%.² This is likely one reason why we saw U.S. markets rebound significantly on February 24th.

What about non-U.S. countries and markets? Overall Russia is small in terms of capitalization. Russia represents 5% of the MSCI Emerging markets index and less than 1% (about 0.64%) of the worldwide stock market capitalization. There are, however, implications for Europe where the energy dependence is much greater, and obviously represents issues for power generation (Western Europe gets about 40% of their natural gas from Russian imports, and as we stated above, Russian pipelines through Ukraine provide a large portion of the delivery mechanism). This might help explain why European markets took a much bigger hit on Feb 24th than U.S. markets.

So, what's next? We saw the barrage of sanctions from the U.S. and expect more news out of Brussels. Given this is a commodity story, the short-term impact on inflation factors cannot be discounted. In addition, higher prices can cause demand to fall, so we could see lower forecasts for growth. Another conundrum is the impact on Central Bank's policy. Whereas we saw the ECB not discounting the POSSIBILITY of declining monetary support, this event may change that framework. As for the Federal Reserve's response in March which has been largely seen as 25 to 50 basis points, there is increased uncertainty surrounding that event, perhaps not that rates will rise, but by how much.

Much of this will be a wait and see in the coming weeks. In the meantime, as we often discuss with you, crisis events are not a time for panic. Selling into these markets is not advised. We have reached out to many investment firms around the globe and have not heard any issues related to forced selling nor any material issues with liquidity in the equity and credit markets. In the fixed income markets, interest rates fell during the day (prices rose) as we frequently observe in times of crisis but returned to their opening numbers by the end of the day. We expect that as with any event there are winners and losers that will be sorted through in the coming days. Stress on the markets highlights the positives of diversification as the impact will vary based upon asset class, style, sector and region.

We will continue to keep you informed if we see changed in events that are worth additional commentary. Until then, please let us know if you have any questions.

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¹Other commodities through the Russian orbit of Kazakhstan second largest uranium (nuclear power, x-rays) reserves, and large reserves of zinc (metal product, rubber, medicines), tungsten (used in electronics) and barite (used in drilling) and through Belarus (major producer of potash (fertilizers) and largest manufacturer of large heavy trucks used by mines across the globe.

² Source: Bank of America