

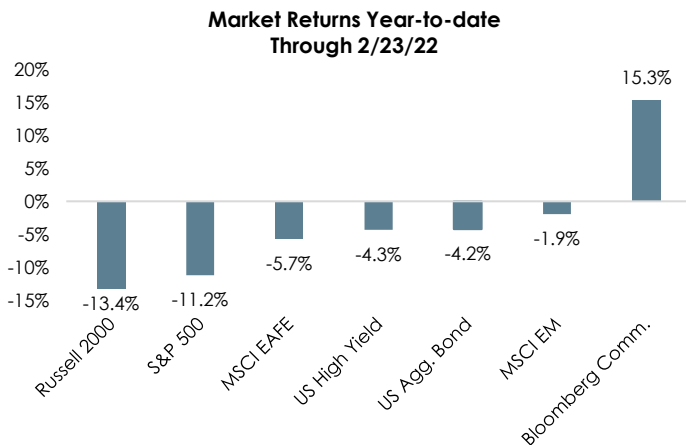
## Russia/Ukraine Conflict

February 2022

- After weeks of escalating tensions, the Russian military invaded Ukrainian borders
- Russian President Putin is trying to strong-arm the West into revisiting post-Cold War security arrangements with Europe
- As risk assets decline and emotions run high, investors should be cautious about making drastic portfolio changes

### Overview

Prior to Russia's recent invasion of Ukraine, financial markets had already started to discount the potential of a full scale war, while at the same time, higher growth equities (Tech) and more speculative assets ("Meme" stocks, cryptocurrencies, SPACs, etc.) displayed the negative effects of potentially higher short-term interest rates in the US, as the Fed turns hawkish.

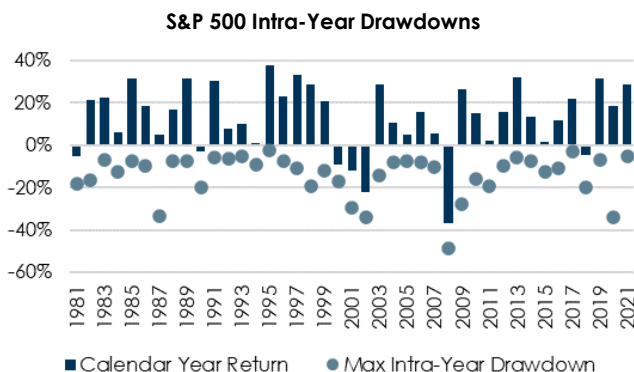


### Keeping things in perspective

Investors should recall that in recent years, stock market returns have been well above long-term averages. The MSCI All Country World Index has generated an annualized 13.3% return over the three years ending 2/23/22. Over the same period, the S&P 500 had an average annualized return of 16.8%. Investors that adhered to their strategic investment plans benefitted from the tailwinds of financial assets during a period when monetary and fiscal policy were particularly supportive.

### Drawdowns happen

During periods of low market volatility, it is easy to forget that corrections happen quite frequently and during any given year it is not uncommon for equities to selloff 5% - 10%. In the past 41 years, EVERY YEAR has had an intra-year decline but in 34 out of those 41 years the market went on to be positive for the year.



That said, staying the course is not easy when bouts of volatility can be driven by a multitude of different factors. Right now, a geopolitical shock is taking hold and the longer-term implications are hard to quantify with any degree of certainty.

### What happens next?

It is still too early to tell if this offensive will evolve into a protracted military conflict. Putin has described this invasion as a "special military operation", but claims to have no plans to occupy the region. Russian citizens could soon start to feel the effects of retaliation from the West, as sanctions drive Russian interest rates materially higher, the Ruble declines and inflationary pressures escalate. This could undermine Putin's resolve.

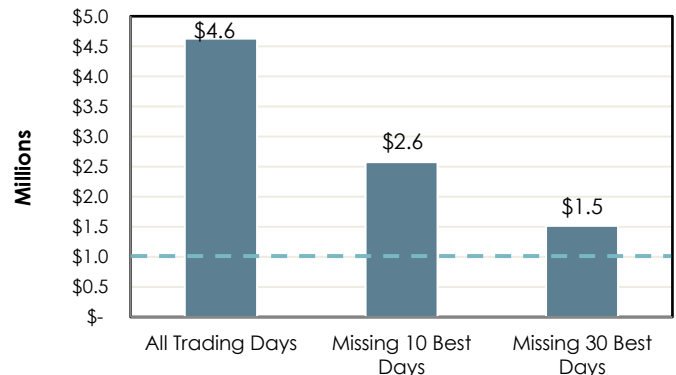
### Key factors we are monitoring:

- Higher oil, gas and wheat prices if supply is disrupted
- Further supply chain bottlenecks and inflationary pressures
- Decline in consumer confidence
- Moderation in the pace of monetary tightening
- The impact of sanctions on Russia
- Whether China wavers in supporting Russia

### Portfolio positioning

Making wholesale changes to a strategic portfolio during periods of high market volatility has generally proven to be injurious to long-term portfolio outcomes. Similarly, trying to time the market always requires two decisions – when to get out and when to get back in. Missing the 10 or 30 best days can materially impact portfolio growth over time.

**Growth of \$1 Million – S&P 500 Return Trailing 10 Years, 12/31/2021**



Source: Bloomberg, ACG Research

Clients should revisit their asset allocation targets and any material deviations from policy, along with liquidity and cash flow needs, and consider rebalancing if appropriate.

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