DAC Insights: Russian Invasion of Ukraine

On February 24, 2022, Russia invaded Ukraine. As this is a major event that will impact much of the world, this crisis is certainly influencing all global investment markets. How, then, will this impact an investor's portfolios, and how should investors think about what to do?

While it is unlikely the Russian invasion of Ukraine will trigger a recession, it is worth noting how the equity markets have reacted to such events in the past. Since World War II, there have been 37 major geopolitical events. When these events occur near recessions, the S&P 500® Index return, on average, declined 11.5% a year later. When they weren't near a recession, the S&P 500 return, on average, was +10.8% over the subsequent 12 months. Therefore, given that a recession doesn't currently appear to be looming, we believe that taking a long-term approach and not selling into the near-term volatility will ultimately benefit investors.

Geopolitical Events And Stock Market Reactions

		S&P 500 Index		Calendar Days To	
Market Shock Events	Event Date	One-Day	Total Drawdown	Bottom	Recovery
Iranian General Killed In Airstrike	1/3/2020	-0.7%	?	?	?
Saudi Aramco Drone Strike	9/14/2019	-0.3%	-4.0%	19	41
North Korea Missile Crisis	7/28/2017	-0.1%	-1.5%	14	36
Bombing of Syria	4/7/2017	-0.1%	-1.2%	7	18
Boston Marathon Bombing	4/15/2013	-2.3%	-3.0%	4	15
London Subway Bombing	7/5/2005	0.9%	0.0%	1	4
Madrid Bombing	3/11/2004	-1.5%	-2.9%	14	20
U.S. Terrorist Attacks	9/11/2001	-4.9%	-11.6%	11	31
Iraq's Invasion of Kuwait	8/2/1990	-1.1%	-16.9%	71	189
Reagan Shooting	3/30/1981	-0.3%	-0.3%	1	2
Yom Kippur War	10/6/1973	0.3%	-0.6%	5	6
Munich Olympics	9/5/1972	-0.3%	-4.3%	42	57
Tet Offensive	1/30/1968	-0.5%	-6.0%	36	65
Six-Day War	6/5/1967	-1.5%	-1.5%	1	2
Gulf of Tonkin Incident	8/2/1964	-0.2%	-2.2%	25	41
Kennedy Assassination	11/22/1963	-2.8%	-2.8%	1	1
Cuban Missile Crisis	10/16/1962	-0.3%	-6.6%	8	18
Suez Crisis	10/29/1956	0.3%	-1.5%	3	4
Hungarian Uprising	10/23/1956	-0.2%	-0.8%	3	4
N. Korean Invades S. Korea	6/25/1950	-5.4%	-12.9%	23	82
Pearl Harbor Attack	12/7/1941	-3.8%	-19.8%	143	307
Average		**-1.2%**	**-5.0%**	**22**	**47**

Source: LPL Research, S&P Dow Jones Indices, CFRA, 01/06/20

That said, we are tracking a few key dynamics of this crisis to better understand the potential depths of the current volatility…

First, Russia is the 3rd largest producer of oil and gas in the world (after the US and Saudi Arabia) and is the largest exporter that is not a member of OPEC. 40% of European natural gas comes from Russia, and the Ukraine serves as a major throughfare for the pipelines carrying that gas. Additionally, Russia's GDP accounts for about 2% of the global total, at $1.7 trillion, and exports roughly $16.8 billion in goods to the US (the 5th largest export market for Russia). However, Russia's financial isolation and dependence on oil and gas exports means that it isn't as integrated into the larger global supply chain as other countries of similar economic size are.

As sanctions begin to disrupt Russia's exports of oil and gas, expect to see a continued increase in energy prices, which should have a positive impact on companies with a focus on North American production. Additionally, the defense sector will get a boost as European governments begin to increase their planned defense spending. As global trade is disrupted, expect higher commodity prices as well as a potential worsening of supply chain issues, but these should be mostly near term.

One item that tends to be overlooked is how this is impacting shipping. As ships become unable to enter or leave Ukrainian ports, and others are diverted from planned routes either to deliver supplies to Europe or avoid Russian ports, expect an amplification to the current problems facing global supply chains. However, as supplies originally destined for Russia find new destinations, this can help alleviate some of the shortages that have been impacting much of the supply chain.

What does this all mean for your portfolio? It means that we will see a lot more volatility in prices in the near term. As the outcome of the invasion becomes clearer, expect the markets to begin to settle. Long-term, we anticipate that the markets will recover, and growth will resume. Thus, we will be seeking to take advantage of any buying and tax-loss harvesting opportunities that present themselves, while not panicking and selling into any downturns.

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