

## Russia Invades Ukraine

### What happened?

Russian President Vladimir Putin ignored global condemnation and cascading new sanctions as he unleashed the largest ground war in Europe since World War II and chillingly referred to his country's nuclear arsenal. He threatened any country trying to interfere with "consequences you have never seen," as a once hoped for diplomatic resolution now appear impossible.

By air, land, and sea, Russia has launched a devastating attack on Ukraine, a European democracy of forty-four million people. As the number of dead climbs President Putin is accused of shattering peace in Europe and what happens next could jeopardise the continent's security structure.

### Why did it happen?

Last year President Putin wrote a long piece describing Russians and Ukrainians as "one nation", and he has described the collapse of the Soviet Union in December 1991 as the "disintegration of historical Russia". He claimed that modern Ukraine was entirely created by communist Russia and is now a puppet state, controlled by the West. Mr. Putin wants NATO to remove its forces and military infrastructure from member states that joined the alliance from 1997 and not to deploy "strike weapons near Russia's borders". That means Central Europe, Eastern Europe and the Baltics.

### What has NATO and its allies said?

NATO is a defensive alliance with an open-door policy to new members, and its thirty member states are adamant that will not change. There is no prospect of Ukraine joining for a long time, as Germany's Chancellor has made clear. But the idea that any current NATO country would give up its membership is a non-starter.

The chief of the NATO alliance, Jens Stoltenberg, said the "brutal act of war" shattered peace in Europe, joining a chorus of world leaders decrying an attack that could cause massive casualties and topple Ukraine's democratically elected government.

US President Joe Biden said the U.S. will introduce a new wave of sanctions against Russia in a broad effort to isolate Moscow from the global economy. He said that the totality of the penalties will target trillions in assets and include specific measures against Russian elites and banks including state-owned VTB Bank. The White House has also authorized additional troops to be stationed in Germany as NATO allies look to bolster defenses in Europe.

British Prime Minister Boris Johnson said the UK aimed to cut off Russia from the U.K.'s financial markets as he announced sanctions, freezing the assets of all large Russian banks and planning to bar Russian companies and the Kremlin from raising money on British markets.

### What do we know?

The geopolitical tensions between Russia and Ukraine are not new and has been identified as one of risks to financial markets for a number of years. Even though Russia's contribution to world GDP is modest at an estimated 3%, Russia is one of the world's largest oil producers and provides an estimated one third of Europe's natural gas.

Oil surged past \$105 per barrel with the market impact mixed, European shares re-acted negatively with markets down by 2% to 3% across Europe. US markets held up well and ended positively for the day. The JSE's All-Share index reaction was muted, decreasing by 2%, and the rand lost some ground decreasing by 3% to trade at R15.49/\$. Many of these moves have reversed early in the current trading session. We do know in the short term the markets will continue to be volatile as the war in Ukraine continues.

Historically the immediate reaction to war is erratic with markets settling after the initial uncertainty as the geopolitical tensions are resolved. Since World War II, there have been many geopolitical tensions resulting in conflict and war, on average the markets fell by 5% during periods of war with the most extreme market reactions being during World War II and the North Korean Invasion of South Korea during which markets fell by +/- 10% and took 80 days to recover.

### What do we not know?

We are unsure of how this will be resolved and the extent of any contagion.

### What should investors do?

We do believe increased uncertainties reinforces the importance of having and updating a strategic financial plan. Your financial plan should make provision for market uncertainties i.e. through an emergency fund and your investment portfolio should reflect your own objectives and money personality.

Conservative investors will have less investments exposed to the market i.e. this reduces the negative impact of any market uncertainty. Long term investors, planning toward or in retirement do need growth assets to ensure they have an income for life. Their investment strategy will have more exposure to growth assets that will be impacted by the negative news flow.

During times of uncertainty, it is important to have, and hold on to a tried and tested investment philosophy. Various international and South African studies confirm that investors seldom get the "market return" as they react to market noise and negative news flow. As an example, US investors consistently earn lower returns than the market and the funds in which they invest. This gap in performance is known as the behavioural penalty, and it is big and relentless. \$100 invested in the S&P 500 (Top 500 shares in the US) in 1996 would have grown to \$480 by the end of 2015. The average investor's \$100 would have grown to only \$250. That is a 92% difference in return between staying invested and reacting to the market's moods and emotions! Although this research is US-based, there is no reason to believe that investor behavior in the rest of the world is any different

Human nature is to blame for the average investor's underperformance compared to the market. Behavioural finance teaches us that investors are too often driven by emotion, including buying high and selling low, which can impact their long-term portfolio performance. By having a clearly articulated and well considered financial plan which is supported by a well-considered investment philosophy, we can assist investors in delivering on their returns and generating market related returns and not becoming a victim to the market's moods and emotions.

Should you want to discuss further, contact your Financial Advisor at Gradidge-Mahura Investments.