SRPS Retirement News Highlights
*Friday, February 25, 2022*

## Consultants, Wirehouses Urge Investors to Stay Calm Following Ukraine Invasion

By Justin Mitchell
***FUNDfire***
February 25, 2022

Russia's wide-scale invasion of Ukraine this week has left the entire globe reeling, and shook up markets. Still, consultants for the most part are encouraging their clients to stand firm on their current allocations and not let short-term developments get them off track.

Vladimir Putin's forces first invaded parts of Eastern Ukraine and annexed Crimea in 2014. While this week's escalation was predicted in recent weeks in U.S. intelligence reports broadcasted by President Joe Biden, the scale of the latest invasion, the largest ground war in Europe since World War II, took some investors by surprise. By Friday afternoon in Ukraine, Russian forces and armored vehicles were making their way through the outskirts of Kyiv, bringing the prospect of brutal street fighting and heavy civilian casualties to the city of three million. The U.S. and European allies have responded with Russian sanctions.

In the short term, global markets are likely looking at "heightened volatility," said Mark Haefele, chief investment officer at UBS Global Wealth Management, in an alert sent out Thursday, noting that markets had not fully priced in the potential fallout from a deeper conflict.

"We expect continued volatility in the near term as leaders calibrate and announce their response to this escalation," he wrote.

Still, gatekeepers are urging investors not to overreact and to trust that well-diversified portfolios will be able to weather the storm.

"The first thing to do is not to panic," said Sue Crotty, chief investment officer of Segal Marco Advisors, in a statement.

Moments of chaos and uncertainly like this one are a part of investing, and the trick is to keep an eye on your long-term goals, said Steve Foresti, chief investment officer, responsible for asset allocation and research at Wilshire.

"If it's not Ukraine, it's going to be something else right?" he said. "The one thing we know about uncertainty is it's always going to be there."

The market fallout from widening invasion in Ukraine can be an opportunity for investors to see where vulnerabilities in their portfolios lie, but it is also important to maintain discipline when re-balancing, Foresti said. Equities and other growth assets are in portfolios because investors think they will produce attractive returns over the long term, but that does not mean it will always be smooth sailing, he said.

“We know with virtual certainty that there’s going to be pockets of stress and sometimes really big drawdowns,” he said. “You can’t participate in the growth side of [the investment landscape] without exposing yourself to those risks … There is no version of getting out of the way and then getting back in.”

Since World War II, many international incidents have sparked short-term market drawdowns, but they have all resolved relatively quickly, said Timothy Ng, senior consultant for Fiducient Advisors.

“You don’t want to rebalance for the wrong reasons or make a change because of a change in sentiment or a sharp reaction one way or the other,” he said.

The initial uncertain phase will fade, and “opportunities will present themselves and rebalancing to targets will be among the decisions to consider,” Crotty said.

Russia’s actions have affected the commodities market, with crude oil prices shooting up. Russia supplies the European Union with 40% of its gas imports and 30% of its oil imports, and is also the world’s largest wheat supplier, UBS’ Haefele wrote in his letter.

“Amid the risk of supply disruptions, we think broad commodities can be an effective geopolitical hedge for portfolios, as well as offering an attractive source of returns in an environment of accelerating growth, persistent inflation, and higher rates,” he wrote.

Specifically, wheat, gold, oil and palladium are particularly good hedge investments, said Marko Papic, chief strategist for the Clocktower Group, a California-based asset manager, in a Thursday commentary.

“An opportunity to find the bottom will only reveal itself when both the Fed and Putin – in their own manner – back off,” Papic wrote. “It may come swiftly if Russia backs off and thus the tale of the ticker tape may be found in the bogs and marshes of Ukraine over the next few days.”

Another potential hedge could be the real estate market, said Prashant Tewari, a partner and head of investment strategy at The Townsend Group, a real estate investment consultant owned by Aon. In particular, core holdings, are a reliable source of income, and a better one than bonds, considering the current low interest rate environment.

“I think those characteristics will become even more important today,” he said.

Rising energy prices could cascade into the U.S. economy if consumer spending takes a hit due to higher gas prices, wrote Scott Wren, a senior global market strategist at Wells Fargo Investment Institute in a Thursday market commentary

“If these consumers are paying substantially more to fill up their gas tanks and heat their homes, that translates into fewer dollars they have to spend on discretionary activities like going out to dinner and a movie,” he wrote. “The perception that consumer spending might be dampened and corporate profitability might get squeezed is more than enough to give the stock market at least some pause.

In a separate analysis, Wells Fargo Investment Institute President Darrell Cronk and Head of Global Market Strategy Paul Christopher said they expected a “negative path for global equity markets” but suggest investors practice patience.

“The uncertainty of the current markets and the difficulty of relying on Russia’s stated intentions makes it too difficult to predict exactly how the incursion will develop,” they wrote.

Back to top