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From the Desk of CIO

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Russian-Ukraine War

As we enter into year 2022, we know we are facing a highly infectious yet less fatal Omicron variant and higher inflation led by rising commodity prices, which are in part due to delivery disruption. The higher-than-expected inflation has caused the Federal Reserve to hasten its interest rate hikes in the US. Now we are facing another uncertainty i.e. the Russian-Ukraine war, which has fuelled to the already escalating global inflation as Russia is a major commodity producer and exporter especially crude oil and gas. Our market fluctuates according to the tempo of the war. The strategy on how we should position our investment whether to buy or hold or reduce, will depend on whether the Russian will stop the invasion. It is extremely difficult to determine whether Russia will cease its invasion, which essentially depends on the assurance that Ukraine will not join NATO (North Atlantic Treaty Organisation)'s military alliance.

The Russia-Ukraine war on 24 Feb 2022 can be avoided if NATO or the US openly declares that Ukraine will not be admitted into NATO. This is what Russia wanted as no country will allow its opponents to place missiles at its door step (*note: US dispatched its nuclear war ships in 1962 when Russia placed missiles in Cuba, which is 90 miles south of Florida*). Unfortunately, both US and NATO want to keep the admission of Ukraine open.

In the meantime, the war caused most commodities prices to surge further. Russia is the world's third largest producer of oil and gas, accounting for 10% and 17% respectively. It supplies a third of Europe gas consumption. It is also a major wheat, gold, nickel, palladium and fertiliser producer. Whenever the war escalates commodity prices surge, USD strengthens but stock market and US treasury yield fall (*see Exhibit 1*). When news of a Ukraine nuclear power plant was on fire and Russia threatened to use its nuclear weapon on those nations interfering with the war, market nosedived.

Exhibit 1: Impact of Russian-Ukraine War

Asset Class		War Tension Goes Up	War Tension Goes Down
Commodities	Crude Oil	↑	↓
	Wheat	↑	↓
	Gold	↑	↓
	Fertilizer	↑	↓
Equities	Stock Market	↓	↑
Forex	USD	↑	↓
Fixed Income	US Treasury Yield	↓	↑

Source: PCM Mar 22

Since Ukraine is not a NATO member, it is not appropriate for the NATO to dispatch its army to help Ukraine neither will the US interfere directly. To pressure a retreat of Russia aggression, the US and its allies bar selected Russian banks from using the SWIFT international banking settlement system. There are also several sanctions imposed on Russia. Several corporations stop operating in Russia e.g. Apple, Shell, BP and eventually Uniqlo also joined in to show disagreement on Russian invasion. China, on the other hand,still treats Russian as its important strategic partner.

A positive note is that Russia and Ukraine have four rounds of engagement to find a possible solution to the conflict. Russia President Putin claimed that his goal is not to occupy Ukraine but to 'demilitarise' and 'de-nazify' Ukraine.

As long as the war is on, we will continue to feel the shock wave from the war front. For long term investors who can weather the volatility and have the holding power, accumulation is the most appropriate strategy as most wars do not have long term impact on the stock market. Warren Buffett once said do not keep cash during a war (*see Exhibit 2*). He postulates buy

Exhibit 2: Warren Buffett – Don't Keep Cash in a War

"You're going to invest your money in something over time. The one thing you can be quite sure of is if we went into some kind of very major war, the value of money would go down. That's happened in virtually every war I'm aware of. **The last thing you'd want to do is hold money during a war**. You might want to own a farm, you might want to own an apartment house, you might want to own securities. During World War II the stock market advanced."

Buffett recalled that **he bought his first stock in 1942, just after Pearl Harbor**, when the macro situation didn't look very good, either.

Source: Warren Buffett, 24 Apr 201