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Russia-Ukraine Update
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We have joined many around the world to witness the shocking crisis in Ukraine, with the images and developments in the war being painful to see and difficult to comprehend. Our thoughts and prayers are with the Ukrainian people enduring this humanitarian tragedy, and we are hopeful that this terrible situation will find an expedient resolution.

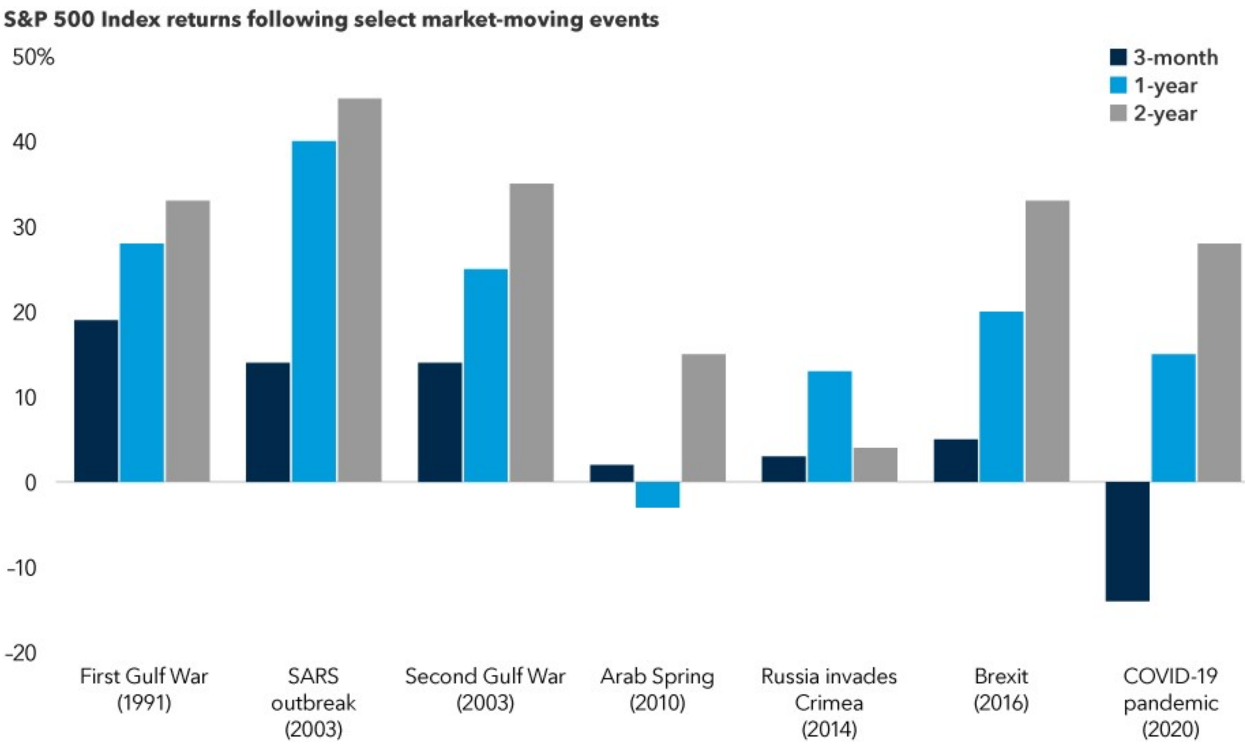
Unfortunately, geopolitical tension and military conflict are nothing new, as we have lived through twelve major events throughout the Middle East, Asia, and Eastern European regions in the past forty years. The Russian invasion, which began on February 24th, has leaders from most major countries responding with economic sanctions to dissuade Russia from inflicting further harm. Additionally, Russia has seen their access to the global banking system significantly reduced, further pressuring President Putin and the Russian economy. In recent days, NATO has provided arms shipments to Ukraine which, unfortunately, suggest the cost of this conflict will continue to rise.

In addition to the human toll of this war, there will be economic consequences for the countries involved which will reverberate throughout global financial markets. Not surprisingly, the movement of Russian troops into Ukraine caused upward pressure on commodity prices, particularly oil, natural gas, wheat, and various industrial metals. These inflationary developments are not to be taken lightly, as the world economy has already been struggling with higher prices due to the pandemic. As it relates to Europe and Russia, there is great sensitivity around energy prices as Russia supplies Europe with 34% of their oil imports and 32% of their gas imports. With oil prices up 45% since the start of the year, there are growing concerns that higher energy prices could restrain world GDP and possibly lead to an economic recession.

Despite the positive fundamentals found within the stock market today (i.e., strong earnings reports, healthy growth rates, etc.), equity prices are under pressure as the markets remain volatile and on edge. The S&P 500 Index, for example, is down over 10% year-to-date as this geopolitical turmoil, coupled with record inflation, have shaken investor confidence. Volatility can also be observed in the vast currency markets where the Russian ruble is in freefall as investors' concerns around a Russian debt default grow. Because crises involving energy prices are global in nature, we are now seeing world economists lowering their GDP growth estimates for the first quarter and the year (the Federal Reserve Bank of Atlanta recently lowered their first quarter U.S. GDP growth estimate to 0%).

Looking ahead, the Federal Reserve will be gathering on March 15th for their two-day committee meetings where they plan to initiate their first interest-rate increase since 2018. Even with the ongoing geopolitical unrest, the market is still pricing in six rate hikes by Fed Chair Jay Powell this calendar year. Given the tremendous uncertainty facing markets, coupled with the fast-moving nature of these events, investors can expect the Fed and other policy makers to be responsive to new information while not losing sight of their longer-term priorities for the world economy.

Market shocks have often been followed by market gains



Sources: Capital Group, Refinitiv Datastream, Standard & Poor's.