## SPECIAL EDITION: Russia Invades Ukraine

- Russia invades Ukraine: U.S. imposes fresh sanctions, Germany halts approval process for the Nord Stream 2 pipeline, designed to transport natural gas from Russia to Europe. Oil (West Texas Intermediate) reaches $100/bbl for the first time since 2014, the Russian Ruble plunged to record lows against the U.S. Dollar.[1]
- Russian objectives appear to be to install a pro-Russian government, demilitarize (destroy all Ukrainian military hardware), and round-up prominent anti-Russian/pro-Western political activists and politicians—much of which it hopes to accomplish in the coming weeks.[1]

## CLEARSTEAD POSITION:

- Clearstead's Investment Office is monitoring the situation in Ukraine and potential impact to our clients and their portfolios.
- As of Thursday, 24-February, the preponderance of longer-term negative ramifications looks to be largely confined to the economies of Ukraine and Russia.
- We do not believe Russian aggression is likely to extend beyond Ukraine's current borders given NATO troop positioning in other neighboring (NATO) states.
- It is likely that the full response of NATO and other Western nations to the invasion will be in the form of economic sanctions on Russia and may evolve over the next few days.
- Select commodities—oil, wheat, and some metals—have moved up sharply in recent days due to expectations of supply chain disruptions related to the conflict. We expect price volatility for these commodities in the next several weeks.[1]
- Our view is that global markets have been slowly digesting the likelihood of a range of Russian actions for weeks. The events of the past 24-hours represent a worst-case scenario, and we believe the risk-off sentiment gripping global markets to remain short-term in nature.

ONE MORE THOUGHT[1]: *Seventy-seven years of climbing the wall of worry*

In light of the Russian invasion, what can be the long-run impact on U.S. equities? It is true that several stock exchanges closed permanently due to wars on their soil—St. Peterburg exchange in 1917 or Frankfurt-Rhine-Main exchange in WWII. However, absent a war on the territory of the exchange that threatens the physical infrastructure and workers that underlie the companies being traded, markets tend to absorb these events in stride. The New York and London Stock Exchanges were briefly closed at the onset of WWI but survived and shares gradually moved higher upon their reopening. In WWII, the London Stock exchange was only closed for a week in 1939 as Britain voted to go to war and shares in British blue-chip firms gained ground by the conclusion of the war. As the Russian invasion of Ukraine commenced last week, we are reminded that markets have a deep history of dealing with

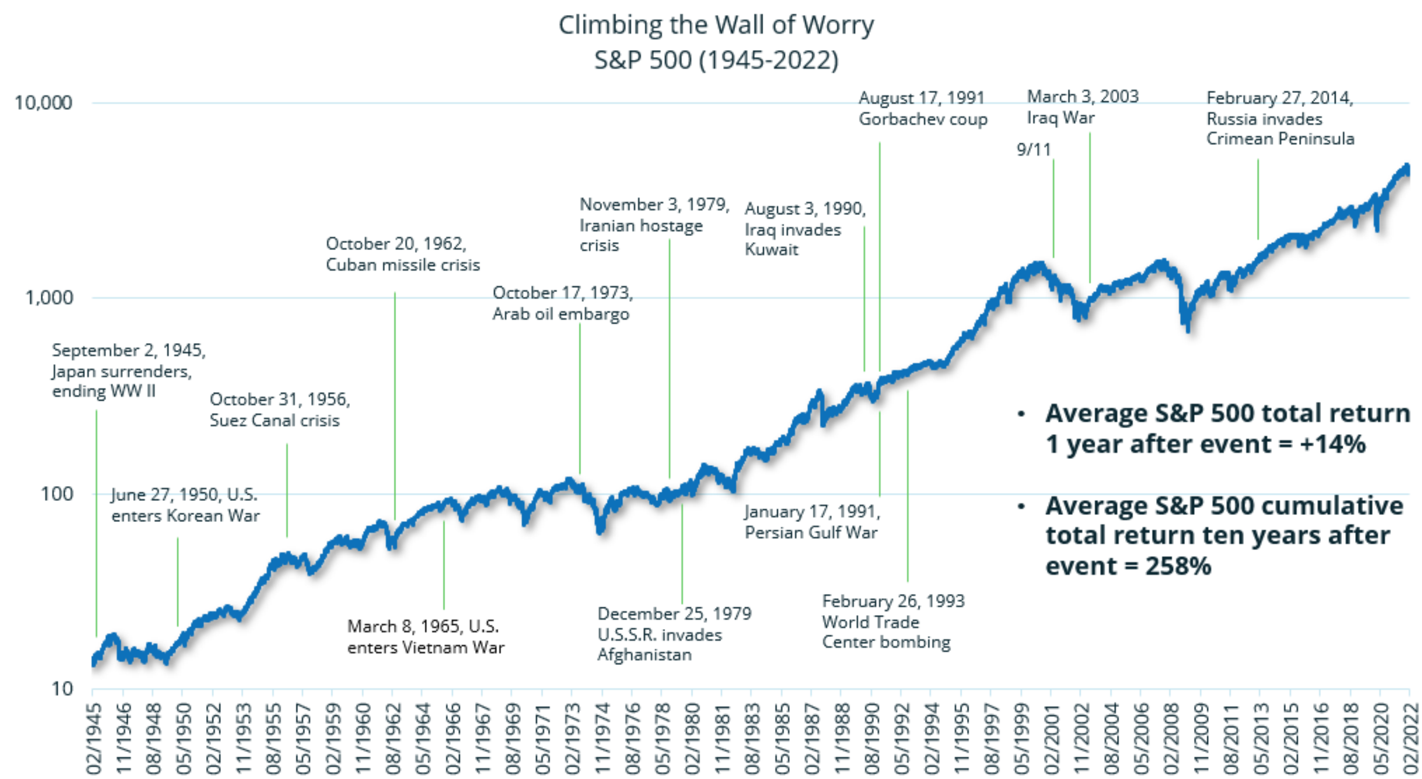
| S&P 500 Cumulative Returns | | 1-Yr later | 10-Yrs later |
|---|---|---|---|
| September 2, 1945 | Japan surrenders ending WW II | 4.1% | 496.3% |
| June 27, 1950 | U.S. enters Korean War | 29.3% | 421.6% |
| October 31, 1956 | Suez Canal crisis | -6.4% | 146.2% |
| October 20, 1962 | Cuban missle crisis | 36.4% | 168.4% |
| March 8, 1965 | U.S. enters Vietnam | 4.7% | 36.7% |
| October 17, 1973 | Arab oil embargo | -32.6% | 152.1% |
| November 3, 1979 | Iranian hostage crisis | 32.8% | 408.6% |
| December 25, 1979 | U.S.S.R. in Afghanistan | 33.1% | 398.5% |
| August 3, 1990 | Iraq invades Kuwait | 16.2% | 431.9% |
| January 17, 1991 | Persian Gulf War | 31.8% | 405.8% |
| August 17, 1991 | Gorbachev coup | 12.5% | 271.6% |
| February 26, 1993 | World Trade Center bombing | 8.1% | 125.4% |
| September 11, 2001 | 9/11 | -15.5% | 28.3% |
| March 3, 2003 | Iraq War | 40.3% | 122.9% |
| February 27, 2014 | Russia invades Crimean Peninsula | 15.8% | 172.1%* |
| **Average Return** | | **14.0%** | **258.2%** |

*Source: Clearstead, Bloomberg LP, Archives.gov, History.com, Yahoo Finance, Nationalgeographic.org, S&P 500 cumulative total returns, as of 21-February-2022, Past performance is not an indicator of future results, *S&P 500 cumulative total return through 21-February-2022*

[1] *Bloomberg LP*

the unfortunate propensity of humans to wage wars. Geopolitical conflicts introduce uncertainty, and therefore volatility, into the minds of investors. Yet, historically markets have been able to move past these difficult times — primarily due to the observation that the primary driver of long-term returns (i.e., earnings growth and dividends) become the more important determining factor of investor experience.  This is not meant to be dismissive of conflict, as there will be consequences that markets will have to contend with such as higher commodity prices, a risk-off sentiment that comes from greater uncertainty, the prospect of a recession in some economies of Europe, and the potential for the Federal Reserve to alter its rate hike path.  Nonetheless, the global economy marches on and day will dawn for U.S. firms poised to deliver products to their customers as usual and profit accordingly.

**CHART OF THE WEEK**




*Source: Source: Clearstead, Bloomberg LP, Archives.gov, History.com, Yahoo Finance, Nationalgeographic.org, S&P 500 daily prices as of 21-February-2022, chart displayed in logarithmic terms, Past performance is not an indicator of future results*

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