OBSERVATIONS

- Russia's ruble has declined by -60% (vs. the U.S. dollar) since 1-Jan as sanctions and capital flight continue. In response to ruble collapse, Russia's central bank raised its main policy interest rate to 20.0% from 9.5%.[1]
- Meanwhile, Oil giants BP, Shell, Exxon, and Norway's Equinor each announced their intentions to exit their respective Russian investments. France's Total Energies remains the holdout among big oil giants in announcing plans to divest Russian investments.
- Beyond big oil, a myriad of other companies are pulling goods and severing business ties with Russia including Apple, Nike, Maersk, Siemens, Boeing, and numerous Western airlines and banks. Meanwhile, due to Russian equity markets having declined nearly -90% from their peaks, MSCI and FTSE Russell equity market index providers have dropped Russia from their respective indices.[1]
- Most NATO countries closed their airspace to Russian planes and Russia reciprocated by closing its airspace to European, U.S., and Canadian airlines, which is likely to disrupt air freight shipments to and from Asia.[2]
- Chinese PMI data increased across the board in February with its official manufacturing PMI edging up to 50.2 from January's 50.1, while the Caixin-Markit manufacturing PMI improved to 50.4 from last month 49.1 figure. Similarly, the official services PMI also increased in February to 51.6 up from 51.1 in January.[3]
- Amid surging inflation akin to the U.S., the Bank of Canada voted to increase its policy rate for the first time since the Covid pandemic began in 2020 — hiking rates by 0.25 percentage points last week.[4]
- The U.S. had another strong employment report with +678,000 jobs created. The unemployment rate fell to 3.8% and the labor force participation rate inched up to 62.3% as did average weekly hours worked.[5]

EXPECTATIONS

- The Chinese Communist Party kicked off its annual Two-Sessions conferences last week and it is widely expected this week that Chinese authorities will announce various economic targets and goals for the year including real GDP growth, inflation, the fiscal deficit, and job creation goals. Many analysts expect China to also provide additional clarification on its policies towards its property sector and the goals to customize policies to reflect disparate local conditions across the country.[6]
- Crude (West Texas Intermediate) oil's ascent to above $116/bbl during last Thursday's trading session —the highest price since 2008 — may start to have implications for when Year-over-Year measures of inflation peak. Previous expectations for a late spring to mid-year peak in such inflation measures are likely being pushed out 3-6 months, adding pressure for the Fed to act.[1]

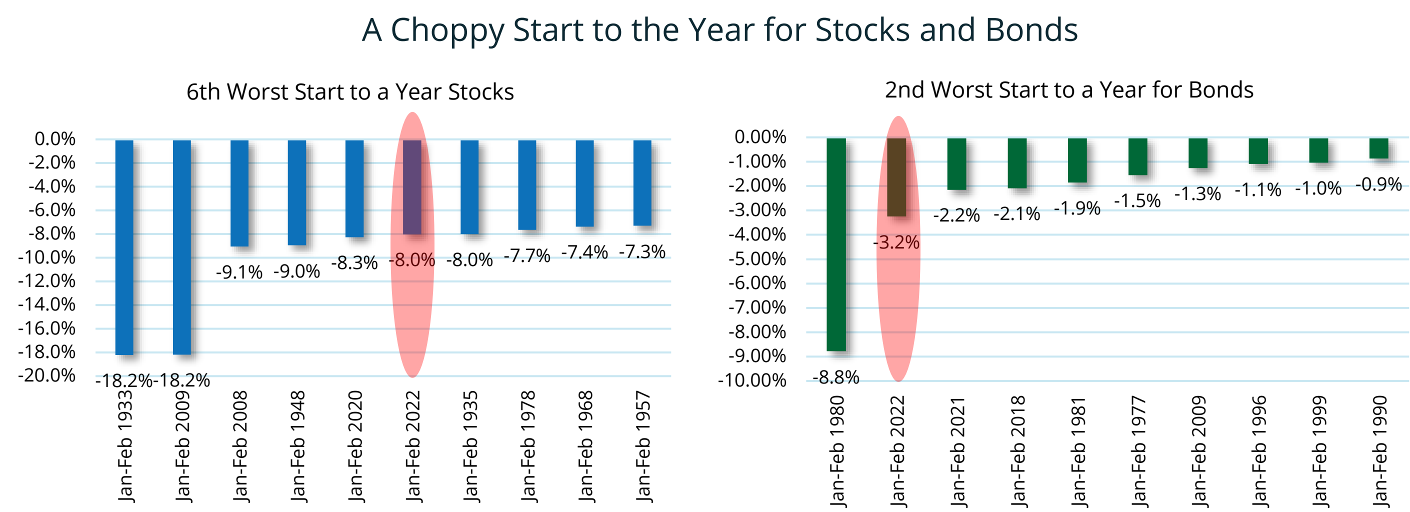
ONE MORE THOUGHT[1]: *Russia and the New Cold War*

Early 20th century Russian revolutionary Vladimir Lenin once noted that "there are decades when nothing happens; and there are weeks where decades happen." The past few weeks have been the latter and it is not an exaggeration to say the world has changed. Russia has become an international pariah. In the span of a few short days, Germany has reversed a twenty five-year trend of spending less than 2% of GDP on defense spending to announcing a nearly doubling its annual defense outlays in the coming years. Switzerland reversed hundreds of

[1] *Bloomberg LP*
[2] *https://www.reuters.com/business/airspace-closures-after-ukraine-invasion-stretch-global-supply-chains-2022-03-01/*
[3] *GS "China: February PMIs Suggest Pick-Up in Manufacturing and Services Growth" 1-March-2022*
[4] https://www.bankofcanada.ca/2022/03/fad-press-release-2022-03-02/
[5] https://www.bls.gov/news.release/empsit.nr0.htm
[6] *GS "China: Two Sessions Preview – Growth Target and Tone Housing Policy The Key to Watch" 25-Feb-2022*

years of neutrality to impose economic sanctions on Russia in concert with its European (and mostly NATO) neighbors. These sanctions include cutting off most Russian businesses and banks from global capital markets, global investments, and the international dollar-based payment network SWIFT. These moves along with similar economic sanctions imposed by the US, Canada, and the UK will undoubtedly batter the Russian economy— the Ruble has already fallen about -60% since the start of the year and the Russian stock market plunged in late February and has been closed for the past week. While some of the most severe of these sanctions could be lifted or eased in the event of a negotiated truce, many are likely to linger so long as Russia is headed by Vladimir Putin. This portends for a steady decline in the Russian economy and the overall wealth of the Russian people. Russian firms will increasingly slip from the technological frontier as foreign partnerships, technology, and investment shun them. Along the way there will be the potential for the unintended consequences of sanctions, more Ruble capital flight, and speculative swings in Russian asset prices. We think investors will need to brace for additional volatility in global markets as policy makers and investors handicap the potential short and long-run outcomes of the conflict.

CHART OF THE WEEK



Source: Clearstead, Bloomberg LP, as of 28-Feb-2022, Stocks = S&P 500 (1928-2022), Bonds = Bloomberg Aggregate Bond Index (1978-2022), January to February Total Returns

Stocks (S&P 500) have suffered one of their worst January to February periods ever after declining -8.0% during the two-month stretch — the 6th worst start to a year on record. Meanwhile, bond markets declined -3.2% in the first two months of this year as interest rates were on the rise. The declines stand as the 2nd worst start of a year ever.

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