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Military conflict Russia-Ukraine

Erste AM Investment Division / Erste AM Communications



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Russia launched a military invasion of Ukraine on Thursday. According to media reports, military targets in Ukraine have been attacked from the air and ground. Currently, it looks like the attacks are focused on military targets or military infrastructure.

At the same time, Putin warned Western countries, which had previously imposed initial sanctions, not to intervene and openly threatened an immediate Russian response and harsh consequences. Ukraine has declared martial law.

U.S. President Joe Biden will meet with his G7 counterparts today to discuss the way forward and then address the public. In the meantime, the EU has strongly condemned the attack on Ukraine and threatened further sanctions.

Stock market declines – government bonds, gold and oil prices rise

According to the textbook, the financial markets are reacting with declines in stock prices, increases in the price of crude oil, a decline in the Russian ruble, a strengthening of the U.S. dollar, and increases in the price of credit-sensitive government bonds.

In other words, risk premiums (valuations) for geopolitical tensions, economic and inflation risks have risen. A quick solution does not seem to be in sight. Sanctions by the West may be useful in the long term, but they are unlikely to replace diplomacy in the short term. Therefore, uncertainty about further developments is likely to remain high.

The central banks' more restrictive measures could be pushed back in time. This is because it has become more likely that central banks will at least exit the ultra-expansive stance less quickly than was thought a few days ago.

In the event of further dislocations, additional support measures (purchase programs, cheap and unlimited liquidity supply) are even likely.

Valuations for high-opportunity assets now more favorable

Equities were already in correction mode several weeks before the Ukraine crisis. Expectations of faster and stronger key rate hikes had hurt them. As a result of the renewed setbacks in the wake of the Russia-Ukraine conflict, valuations of opportunity-rich asset classes have retreated to more adequate levels.

Experience shows that equities experience sustained price declines, especially during recessions. As long as an economic downturn can be avoided, the outlook for opportunity asset classes remains cautiously positive.

Price fluctuations will persist

We expect volatility to persist in the near term as leaders weigh and announce their response to escalation. Historically, geopolitical crises have generally not prevented stock prices from moving higher over the medium term.

In the past, downturns due to geopolitical stress events have not had lasting effects in well-diversified portfolios.

Erste AM: Positions in funds and portfolios remain unchanged for the time being

Therefore, we are leaving our current positioning in our multi-asset funds and asset management portfolios unchanged for the time being. This is especially true as not all consequences, such as sanction measures or further course of military actions, are foreseeable yet.

Nevertheless, we will closely monitor the further steps of all parties to the conflict and their effects and make changes if necessary.

In our funds and portfolios, we are currently broadly diversified across asset classes, regions, sectors and currencies. In general, this allows us to reduce idiosyncratic (unsystematic) risks.

Furthermore, we also hold defensive investments that can perform positively in this environment, such as gold, U.S. dollar positions or government bonds.

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