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BREAKING NEWS
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The invasion of Ukraine: investment implications

Russian military activity with Ukraine is escalating rapidly, with growing uncertainty. As events unfold, we suggest investors remain focused on their long-term goals, but remain attuned to the potential shifts in and disruptions to inflation, growth, energy prices and global financial markets.

Insights from

Nuveen's Global Investment Committee

KEY TAKEAWAYS

- We do not see the ongoing turmoil shifting the pattern of a global economic expansion.
- We expect market volatility to increase as uncertainty around broader military action grows, and the market sell-off is likely to persist.
- Tactical opportunities may arise through the energy sector, emerging markets equities and Europe, but we think broad diversification should remain the best stance.
- We expect the Fed to remain focused on U.S. inflation and employment measures, with a first rate hike coming in March to combat rising inflation.

The invasion of Ukraine by Russian forces is a continuation of an ongoing aggressive stance by President Putin and his inner circle to both rewrite the end of the Cold War in a way more favorable to Russia and detract from domestic difficulties, such as a slowing economy.

Our views, however, are focused on the investment impact across global markets and the potential ramifications for inflation, central bank policy and the broader impact of sanctions.

VOLATILITY IS LIKELY TO PERSIST AND POSSIBLY CLIMB

We expect additional volatility, should events deteriorate further. A broad risk-off environment has been roiling equity markets since the start of the year, with a pullback in tech names and the market changing course ahead of the U.S. Federal Reserve's predicted hike in March.

The addition of geopolitical volatility pushed the S&P 500 into formal correction territory (a 10% decline off a recent high). If events in Ukraine continue to escalate and the global security response increases, we expect continued volatility across risk assets.

European equities are now in a technical correction as investors exit risk assets, pushing the Stoxx Europe 600 to its lowest level since March 2020 (and down >10% from a January 2022 record high).

We also see potential volatility caused by Russia using its cyberattack network. This has already occurred with Ukrainian government infrastructure, and the attacks could spread to a broader network of countries and targets.

This growing area of non-military attack should remain a significant risk going forward, and may expand to include areas such as financial services, which is likely to cause ongoing uncertainty. As such, we are monitoring our own cyber threat intelligence sources and taking steps according to best practices and recommendations.

ENERGY PRICES COULD SPIKE FURTHER, DRIVING INFLATION EVEN HIGHER

While we do not expect military action to spread beyond the borders of Ukraine, the economic ramifications could be relatively far reaching. Half of Europe's energy supplies originate in Russia, and Germany has already canceled a planned pipeline due to the current hostilities.

Europe has two to three weeks of natural gas inventory. While the U.S. could supply Europe with liquified natural gas (LNG), it would take time to reroute supplies and would be more expensive. The current action could result in Europe finally making a serious effort to diversify from its reliance on Russian gas supplies.

In the interim, global energy prices have grown increasingly volatile. Oil prices were climbing prior to the current invasion, and the Brent crude price has since spiked across the mental threshold of $100/bbl.

We expect high energy prices to cause further inflationary pressure in the U.S. and globally, even as winter begins to thaw.

THE FED IS STILL LIKELY TO RAISE RATES IN MARCH

While further inflationary pressures are obviously a concern, we do not believe the current disruption will shift the Federal Reserve from its expected 25 bps hike in March. The question is more focused on the Fed's longer-term path. The Fed may hike faster than otherwise expected due to increased inflationary pressures, or it could hold off if the potentially rising cost of energy slows the economy.

We do believe that higher energy prices are likely to lead to rising inflationary pressure, which should increase pressure on the Fed to hike rates. But the Fed will also be reluctant to raise rates during periods of high market volatility.

We continue to expect a 25 bps rate hike in March, as the Fed has to be seen doing something and remain consistent in its messaging. The bottom line, though, is that any Fed action (or inaction) could lead to even more volatility.

As for other central banks, such as the ECB, we believe that no matter how the ECB proceeds, the risks of stagflation in the eurozone have increased due to this military action.

SANCTIONS SHOULDN'T DERAIL THE GLOBAL ECONOMY

We expect the sanctions to cause only localized disruption for now. We don't think broad economic contagion will be a concern, but supply chain disruptions, sanctions and higher energy prices could cause some regions and economic sectors to suffer. However, as the situation is deteriorating further, with sanctions being added, we could see increased risk of spreading economic effects.

The first tranche of sanctions was generally seen as mild/within expectations and in line with what the UK and Europe previously announced.

With further escalation occurring, we expect:

- More Russian banks and some non-energy state-owned enterprises added to the blocking list (Blocking sanctions on larger Russian banks could have more negative implications on Russian debt instruments and the Ruble).
- More high level Kremlin/Duma officials being blocked (with Putin likely being last resort).
- Some export ban of U.S. technologies to Russia.

INVESTMENT VIEWS: STAY THE COURSE, FOCUS ON DIVERSIFICATION AND CONTINUE REBALANCING

Geopolitical risks are always a wildcard in investing and are nearly impossible to forecast. We don't think this is a time to overreact or adjust plans. Institutional investors should focus on long-term policy objectives, individual investors should remain committed to their portfolio growth and income objectives. All should stick with the broad diversification, asset allocation and portfolio rebalancing plans already in place.

The impact on gold will be interesting to follow. Gold's price action has been positive on almost every Russian headline. Further, the Russian central bank over recent years has been opting for buying gold over U.S. Treasuries.

Over the near term, we may see tactical opportunities across public and private markets as energy prices remain elevated and certain asset classes become oversold (such as select emerging markets debt and equity). However, due to market volatility in recent weeks, the optimal entry points may well have passed.

We expect alternative investments (especially private investments) to remain relatively insulated from the turmoil, which is one reason they remain a critical part of an investment portfolio. The North American energy sector may benefit from higher oil and natural gas prices, and these stocks have already been among the top performers over the past year.

These events certainly bear watching. But from a long-term investment view, they shouldn't be driving portfolio strategy changes.

For more information, please visit us at nuveen.com.

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