

Market Commentary

February 2022

HIGHLIGHTS

- While market sell-offs from geopolitical events happen quickly, based on history, they don't tend to last that long.
- The market reaction to geopolitics may fade, but the interest rate environment remains a key consideration for investors and could continue to drive volatility in 2022.
- Events such as these serve as a reminder of the importance of diversification in your portfolio.

MARKET RETURNS AS OF FEBRUARY 28, 2022¹

Index return	February (%)	YTD (%)	1 Year (%)	3 Year (%)	5 Year (%)	10 Year (%)
S&P 500 TR	-3.0	-8.0	16.4	18.2	15.2	14.6
DJ Industrial Average TR	-3.3	-6.4	11.6	11.7	12.7	12.7
NASDAQ Composite TR	-3.3	-12.0	4.9	23.2	19.9	17.9
Russell 2000 TR	1.1	-8.7	-6.0	10.5	9.5	11.2
MSCI EM GR	-3.0	-4.8	-10.4	6.4	7.4	3.6
MSCI EAFE GR	-1.8	-6.5	3.3	8.3	7.7	6.6
Bloomberg US Agg Bond TR	-1.1	-3.2	-2.6	3.3	2.7	2.5

The first half of the month was defined by a focus on rising inflation. Most of our wallets had already felt the effects of rising prices when data on February 10 confirmed that inflation hit a 40-year high in January at a 7.5% annual rate, while the 10-year US Treasury hit 2%.²

The next day, geopolitical risks heated up – quickly – and on February 11 the U.S. warned that Russia could invade Ukraine at any time. Since then, Russia did indeed initiate an invasion and stock markets have underperformed safe havens and commodities.

- When it comes to stock markets, the exposure to Russia and Ukraine is quite small. In fact, the S&P 500 has less than 0.1% direct sales exposure to Russia.³ However, Russia is a large producer of key commodities, which means these events and global sanctions may feed into inflation.

Guessing how long this volatility lasts is a fool's game, but the market impact will fade. The chart below shows some of the largest impact geopolitical events over the past 50 years. The market decline is usually anywhere from 2 to 27 days in duration, and most of the time (but not always) the duration to recover was also relatively fast.

HISTORICAL VOLATILITY AROUND GEOPOLITICAL EVENTS⁴:

Event	Start of Sell Off	Duration of Sell Off (Trading Days)	Duration to Recover to Prior Level (Trading Days)	Size of Sell Off
Israel Arab War / Oil Embargo	29 Oct 1973	27	1475	-17.1%
Shah of Iran Exiled	26 Jan 1979	9	34	-4.6%
Iranian Hostage Crisis	5 Oct 1979	24	51	-10.2%
Soviet Invasion of Afghanistan	17 Dec 1979	12	6	-3.8%
Libya Bombing	21 Apr 1986	20	7	-4.9%
First Gulf War	1 Jan 1991	6	8	-5.7%
Kosovo Bombing	18 Mar 1999	4	9	-4.1%
9/11 Attacks	10 Sep 2001	6	15	-11.6%
Iraq War	21 Mar 2003	7	16	-5.3%
Arab Spring (Egypt)	27 Jan 2011	2	3	-1.8%
Ukraine Conflict	7 Mar 2014	6	13	-2.0%
Intervention in Syria	18 Sep 2014	21	12	-7.4%
Average	1973-2014	12	137	-6.5%

THE FED

The next Fed meeting is March 16. The closer we get to that date, the more the debate around what to expect for 2022 will come to the forefront. How aggressive will the Fed need to get to fight inflation? How many rate hikes do economists and investors expect? Will future hikes be 25bps or 50bps?

As we've discussed before, the beginning of rate hiking cycles are not always bad for stocks, but the key is whether the Fed will succeed in engineering a policy transition that will not cause a recession.

WHAT'S NEXT?

If nothing else, events such as these serve as a reminder of the importance of diversification in your portfolio. Some considerations in this environment:

- While it's hard to see it when stock markets are going up, core bonds and real assets can act as diversifiers to stocks when they aren't.
- Coming out of this event, ensuring a quicker energy transition may become more important, so look out for potential thematic opportunities in renewable energy.
- Although markets are choppy, keep your eye on the horizon (and the Fed), stay patient and ensure your portfolio is positioned for a rising rate environment.

These are just ideas, not recommendations, and whether they make sense will depend on an individual's personal circumstances.

If you have questions on your portfolio positioning, or have any changes to your goals, risk tolerance, or time horizon, please reach out to schedule a conversation.

1. Morningstar. Returns over one year are annualized.

2. Wall Street Journal. February 10, 2022. <https://www.wsj.com/articles/us-inflation-consumer-price-index-january-2022-11644452274>

3. Global X. February 25, 2022. <https://www.globalxetfs.com/russias-invasion-of-ukraine/>

4. J.P. Morgan Asset Management, Deutsche Bank, Refinitiv Datastream, Standard & Poor's. Data as of 2/21/2022.

Returns shown are total returns of indices. Returns over one year are annualized. Past performance is no guarantee of future returns.

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