



The Weekly Market Update – 2/22/22: Russia Conflict = Market Volatility

| Major Indices (Price Returns) | Close | Last Week | Quarter-to-Date | Year-to-Date | Trailing 12-Months | All-Time High | % to High |
|-------------------------------|-----------|-----------|-----------------|--------------|--------------------|---------------|-----------|
| S&P 500 | 4,348.87 | -1.58% | -8.76% | -8.76% | 17.09% | 4,796.56 | 10.3% |
| Dow Jones Industrial Average | 34,079.18 | -1.90% | -6.22% | -6.22% | 13.66% | 36,799.65 | 8.0% |
| NASDAQ Composite | 13,548.07 | -1.76% | -13.40% | -13.40% | 3.65% | 16,057.44 | 18.5% |
| Russell 2000 | 2,009.33 | -1.03% | -10.51% | -10.51% | -3.10% | 2,442.74 | 21.6% |
| MSCI EAFE (USD) | 2,235.92 | -1.90% | -4.29% | -4.29% | 5.27% | 2,398.71 | 7.3% |
| MSCI Emerging Markets (USD) | 1,231.77 | -0.70% | -0.02% | -0.02% | -7.36% | 1,444.93 | 17.3% |
| Bloomberg Commodity Index | 111.63 | 1.58% | 12.57% | 12.57% | 39.37% | 237.95 | 113.2% |
| Barclays U.S. Aggregate Bond | 100.49 | -0.29% | -4.05% | -4.05% | -7.60% | 112.07 | 11.5% |

Source: FactSet

News on Monday that Russia's President Putin has moved troops into Ukraine has put investors on edge, sending U.S. equity indices to new 2022 lows. The potential for war between Russia and Ukraine creates many unknowns, as well as loss of life, as the conflict plays out. The U.S., along with many European countries, will impose severe economic sanctions on Russia to limit investment and curtail trade. While the U.S. will send aid and weapons to Ukraine, the Biden Administration hopes to avoid war with Russia and will not commit troops to the conflict. In our view, equity markets are vulnerable to further weakness if the Russian invasion continues, but we do not believe that the conflict will derail the post-Omicron economic recovery that is underway. Thus, we see conditions for equity market gains from current levels, as earnings growth and U.S. GDP growth continue. The Russia conflict, along with sanctions, threaten the global energy markets and oil prices (as measured by West Texas Intermediate and Brent Crude) have traded to 7+ year highs over the past few weeks. According to the International Energy Agency (IEA) Russia produces an estimated 10.4 million barrels of oil per day (mbpd), or about 10% of global production of 99.0mbpd. The U.S. produces an estimated 11.3mbpd. Much of Russia's oil is likely to continue to flow, but even a 1.0-2.0mbpd disruption will jar global supply and demand. A drop in production is likely to be a positive for global Energy sector stocks, while users of petroleum inputs will face rising cost levels. As for overall economic growth, according to the International Monetary Fund (IMF), Russia operated the world's 12th largest economy in 2021, producing GDP of \$1.7 trillion (T). This is less than 2% of global GDP of \$92.0T. By comparison, the U.S. and China are #1 and #2 with GDP of \$20.5T and \$13.4T, respectively. Ukraine was the 57th largest economy with GDP of \$147 billion (B). U.S. trade in goods with Russia was miniscule as the U.S. exported just \$6.4B of goods in 2021 and imported \$29.7B. We do not see economic sanctions negatively affecting either global GDP trends, or disrupting U.S. corporate results in aggregate. We believe that investors can use market weakness to add or establish positions in high-quality (strong balance sheets, cash flow positive) market leaders.

Equity market volatility has continued to begin the shortened trading week, and the S&P 500 has extended its 2022 correction. While Putin did not observe the President's Day holiday on Monday, U.S. markets did and equities have moved lower to begin the week. Through mid-day trading on Tuesday, the S&P 500 was about 1% lower and was trading below the 1/27/22 closing price of the index, the 2022 market low. That puts the S&P 500 down 9.5% in 2022 year-to-date, and down 10.1% from its all-time closing high of 4,797 on 1/3/22. There have been 35 trading days in 2022 and the index has traded lower by 1% or more 11 days (31% of days). By contrast, for all of 2021, the index dropped by more than 1% just 8% of days. While more volatility raises concern in portfolios, we continue to see good value in companies that are driving earnings gains, despite inflation, including leaders in cyclical sectors, Industrials, Materials, Energy, Financials and Technology.

Although the Russia-Ukraine conflict will dominate headlines this week, investors will get a read on U.S. economic activity through earnings and government data. About 15% of S&P 500 companies have yet to post earnings, most of which operate on a January quarter, which will give an early read of January results. Economic data includes home prices, new home sales, and personal income and spending, including PCE inflation.

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