

# COMMENTARY

February 17, 2022

## Market Uncertainty Grows with Potential Russia/Ukraine Conflict

- U.S. stock markets fell on Thursday as investors retreated to safe-haven bonds.
- The impact on stock markets from war and other crisis events is hard to quantify.
- A Russian/Ukraine conflict could lead to more inflation.

Equity markets are falling as uncertainty grows around a potential Russian invasion of Ukraine. On Thursday, the U.S. ambassador to the U.N., Linda Thomas-Greenfield tweeted about an imminent invasion, while President Biden said we were at a “very high risk” of a Russian invasion and added he believed that Russia is engaged in a false flag operation to create an excuse to invade. Russia continues to downplay the possibility of an invasion but also expelled the deputy U.S. ambassador to Russia. With the rising tensions, investors poured money into bonds, sending bond prices up and bond yields down. The money for these bond purchases were sourced out of equities, so the S&P 500 dropped over 2% and the tech-heavy NASDAQ dipped nearly 3%.

Market reactions to war and crisis events can be tricky and hard to quantify. Each one is also different, happening under different market and economic conditions with different factors at play. If we look at past market reactions, you can see that returns on the S&P 500 differed by event but were largely unaffected. We do point out that the 9/11 attack also coincided with the dot-com bubble, so attributing the 1-year return solely to that event might be misleading.

Stock Market Reaction to War and Crisis Events					
Event	Date	S&P 500 Return			
		1-Day	1-Month	1-Year	
Kuwait Invaded by Iraq	8/2/1990	-1.1%	-8.9%	12.8%	
1993 World Trade Center Bombing	2/26/1993	0.2%	1.4%	8.3%	
Oklahoma City Bombing	4/19/1995	-0.1%	3.1%	30.8%	
September 11th Terrorist Attack	9/11/2001	-4.9%	0.6%	-15.5%	
Start of Iraq War (2003)	3/20/2003	0.2%	2.4%	29.2%	
2004 Madrid Terrorist Attack	3/11/2004	-1.5%	1.5%	8.7%	
Brexit Referendum	6/23/2016	-3.6%	3.1%	17.8%	

Source: Cetera Investment Management, FactSet, Standard & Poor's. Returns shown are total returns, which include dividends.

Since each event does have different factors, let's dive deeper into what could potentially happen if a Russia/Ukraine conflict did escalate. Russia is a large energy-producing country, producing a lot of oil and natural gas for Europe. Potential sanctions on Russia could reduce this energy supply and cause oil and gas prices to rise, thus increasing inflation further. Europe is in a tough bind on this as they recently decommissioned nuclear energy plants, banned fracking and is coming off an extremely harsh winter a couple years ago, which diminished fuel inventories.

The wild card in this is central banks. In the U.S., the Federal Reserve is focused on raising rates and markets anticipate a 1.50% to 1.75% increase in rates (the equivalent of six to seven 0.25% hikes) this year. We currently believe that the market is overestimating the Fed's hawkishness, but a potential conflict could cause inflation to rise further, as we discussed. This would put the Fed in a tougher position. A conflict could also hurt growth which may cause the Fed to become more dovish as future inflation prospects may fall.

Meanwhile, China and Taiwan are both watching this conflict closely as China continues to declare its intention to reunify with Taiwan. U.S. debt to GDP is already at World War II levels after all the fiscal stimulus that was passed for COVID relief. One could argue the U.S. along with its NATO allies can't afford any type of military conflict right now. This could potentially limit the extent of any NATO interventions.

Trying to anticipate what may happen is extremely difficult. To further extrapolate the market impact is even harder. We reiterate that in 2022, our primary investment themes are slowing economic growth, a more hawkish Fed and an increase in market volatility. With market risks rising, we continue to anticipate more volatility in the near term. Any disruption to current expectations could be a headwind for stocks, and with high stock market valuations, this could amplify any volatility. Still lingering stimulus, a financially healthy consumer and the eventual abatement of supply chain issues suggest limited market downside. We maintain that diversification is the key in this market. In these times, your financial professional can help you stay focused on your long-term risk and return goals and help you with your personalized investment objectives.

---

This report is created by Cetera Investment Management LLC. For more insights and information from the team, follow [@CeteraIM](https://twitter.com/CeteraIM) on Twitter.

### **About Cetera® Investment Management**

Cetera Investment Management LLC is an SEC registered investment adviser owned by Cetera Financial Group®. Cetera Investment Management provides market perspectives, portfolio guidance, model management, and other investment advice to its affiliated broker-dealers, dually registered broker-dealers and registered investment advisers.

### **About Cetera Financial Group**

“Cetera Financial Group” refers to the network of independent retail firms encompassing, among others, Cetera Advisors LLC, Cetera Advisor Networks LLC, Cetera Investment Services LLC (marketed as Cetera Financial Institutions or Cetera Investors), Cetera Financial Specialists LLC, and First Allied Securities, Inc. All firms are members FINRA / SIPC. Located at 655 W. Broadway, 11th Floor, San Diego, CA 92101.

### **Disclosures**

Individuals affiliated with Cetera firms are either Registered Representatives who offer only brokerage services and receive transaction-based compensation (commissions), Investment Adviser Representatives who offer only investment advisory services and receive fees based on assets, or both Registered Representatives and Investment Adviser Representatives, who can offer both types of services.

The material contained in this document was authored by and is the property of Cetera Investment Management LLC. Cetera Investment Management provides investment management and advisory services to a number of programs sponsored by affiliated and non-affiliated registered investment advisers. Your registered representative or investment adviser representative is not registered with Cetera Investment Management and did not take part in the creation of this material. He or she may not be able to offer Cetera Investment Management portfolio management services.

Nothing in this presentation should be construed as offering or disseminating specific investment, tax, or legal advice to any individual without the benefit of direct and specific consultation with an investment adviser representative authorized to offer Cetera Investment Management services. Information contained herein shall not constitute an offer or a solicitation of any services. Past performance is not a guarantee of future results.

For more information about Cetera Investment Management, please reference the Cetera Investment Management LLC Form ADV disclosure brochure and the disclosure brochure for the registered investment adviser your adviser is registered with. Please consult with your adviser for his or her specific firm registrations and programs available.

No independent analysis has been performed and the material should not be construed as investment advice. Investment decisions should not be based on this material since the information contained here is a singular update, and prudent investment decisions require the analysis of a much broader collection of facts and context. All information is believed to be from reliable sources; however, we make no representation as to its completeness or accuracy. The opinions expressed are as of the date published and may change without notice. Any forward-looking statements are based on assumptions, may not materialize, and are subject to revision.

All economic and performance information is historical and not indicative of future results. The market indices discussed are not actively managed. Investors cannot directly invest in unmanaged indices. Please consult your financial advisor for more information.

Additional risks are associated with international investing, such as currency fluctuations, political and economic instability, and differences in accounting standards.

A diversified portfolio does not assure a profit or protect against loss in a declining market.

### **Glossary**

The **NASDAQ Composite Index** includes all domestic and international based common type stocks listed on The NASDAQ Stock Market. The NASDAQ Composite Index is a broad based index.

The **S&P 500** is a capitalization-weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.