

Russia, Rate Hikes and Recession

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This week, let's review the three R's of 2022: Russia, rate hikes and recession. The last "R" isn't something we want to hear about during the post-pandemic rebound, however, let's slow down and look at the data...

As the "Russia's Impact on Global Markets and Economy" charts below (on pgs. 2 and 3) show, Russia is a relatively small component of global markets and economy. While it's the 11th largest economy in terms of GDP, it represents less than 2% of global production. In terms of market capitalization, it is even smaller, with a weight of less than 0.2% of the total global market (ranking 28th largest). While there will certainly be market and economic disruptions throughout the world, the severity of a global recession may be overstated.

The Bad News

1. **Oil and Gas Disruptions:** Russia is dominant in production of oil and gas, representing about 12% of world oil production and 17% of natural gas production. A bulk of these exports are consumed by Europe, which will feel the most pain as oil prices reach the highest levels since 2008. The supply disruption will be felt across the globe with higher gas prices, as well as other oil dependent industries such as airlines.
2. **Market Volatility Persists:** Uncertainty about the war has created a high level of fear in the markets, leading to exaggerated stock market moves in reaction to media headlines. Unfortunately, recent positive corporate earnings announcements and strong labor reports have generally been ignored.
3. **Economic Growth Headwinds:** Increased prices for basic commodities, such as food and energy, will further increase inflation and translate into headwinds for economic growth. Meanwhile, the export-focused European Union could create prolonged supply chain and manufacturing disruptions.

The Good News

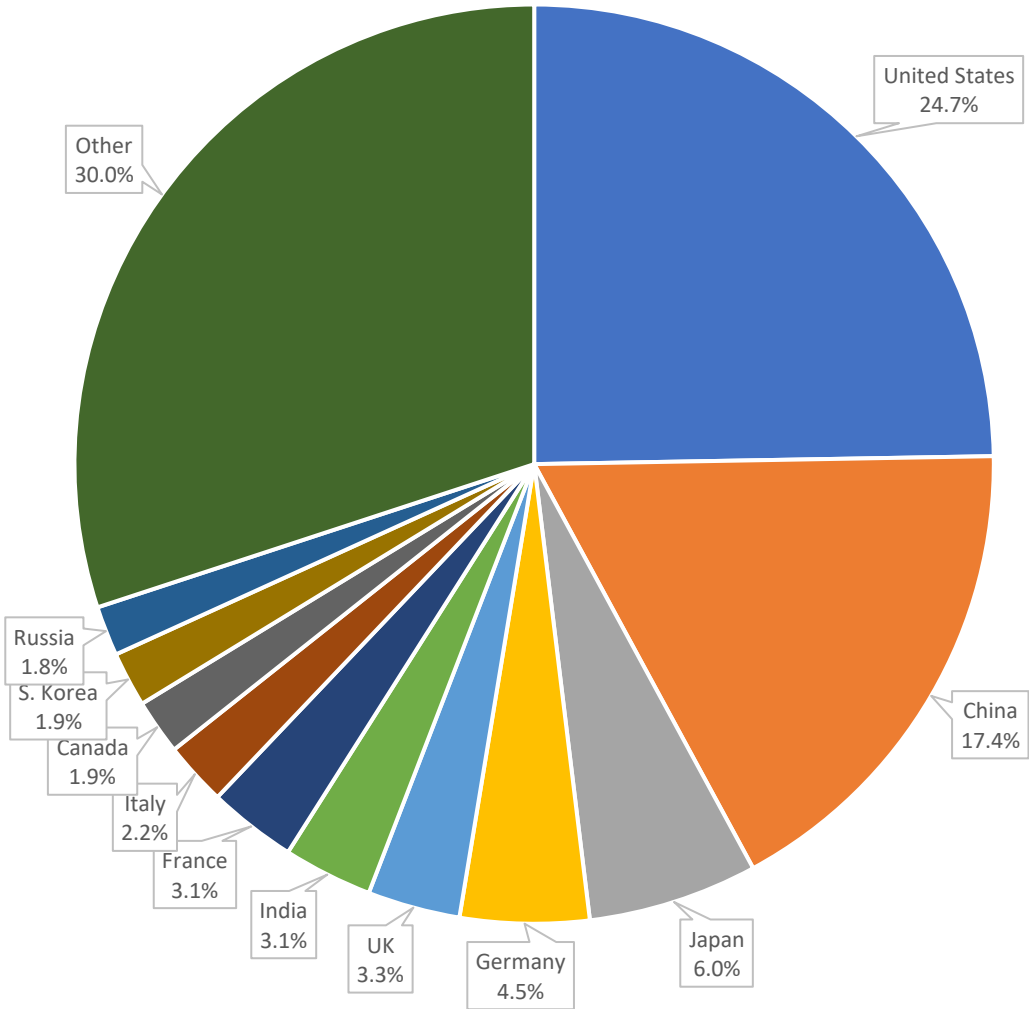
1. **A World United:** Most other disputes and tensions between major governments are forgotten as the world rallies together to support Ukraine. Countries are relying more on each other for resources and increasing political negotiations. This could provide the framework for additional trade agreements to support future growth for years to come.
2. **Supportive Fiscal Policy:** Inflation on food and gas prices could lead to further economic stimulus from governments around the world, as well as curb the risk of tax increases. Additionally, a renewed focus on security and defense spending will further boost government spending, providing tailwinds for economic growth.
3. **Supportive Monetary Policy:** While the Federal Reserve (Fed) still expects to raise rates in March, the expectation is now for smaller 0.25% hike as opposed to 0.50%. Overall, the Fed has communicated the desire to avoid adding to uncertainty in the face of extreme market conditions, pointing to a more steady and predictable monetary tightening.

As always, Dynamic recommends staying balanced, diversified and invested. Despite these short-term market pullbacks, it's more important than ever to focus on the long-term, improving the chances for investors to reach their investment goals.

See the "Russia's Impact on Global Markets and Economy" charts on the following pages.

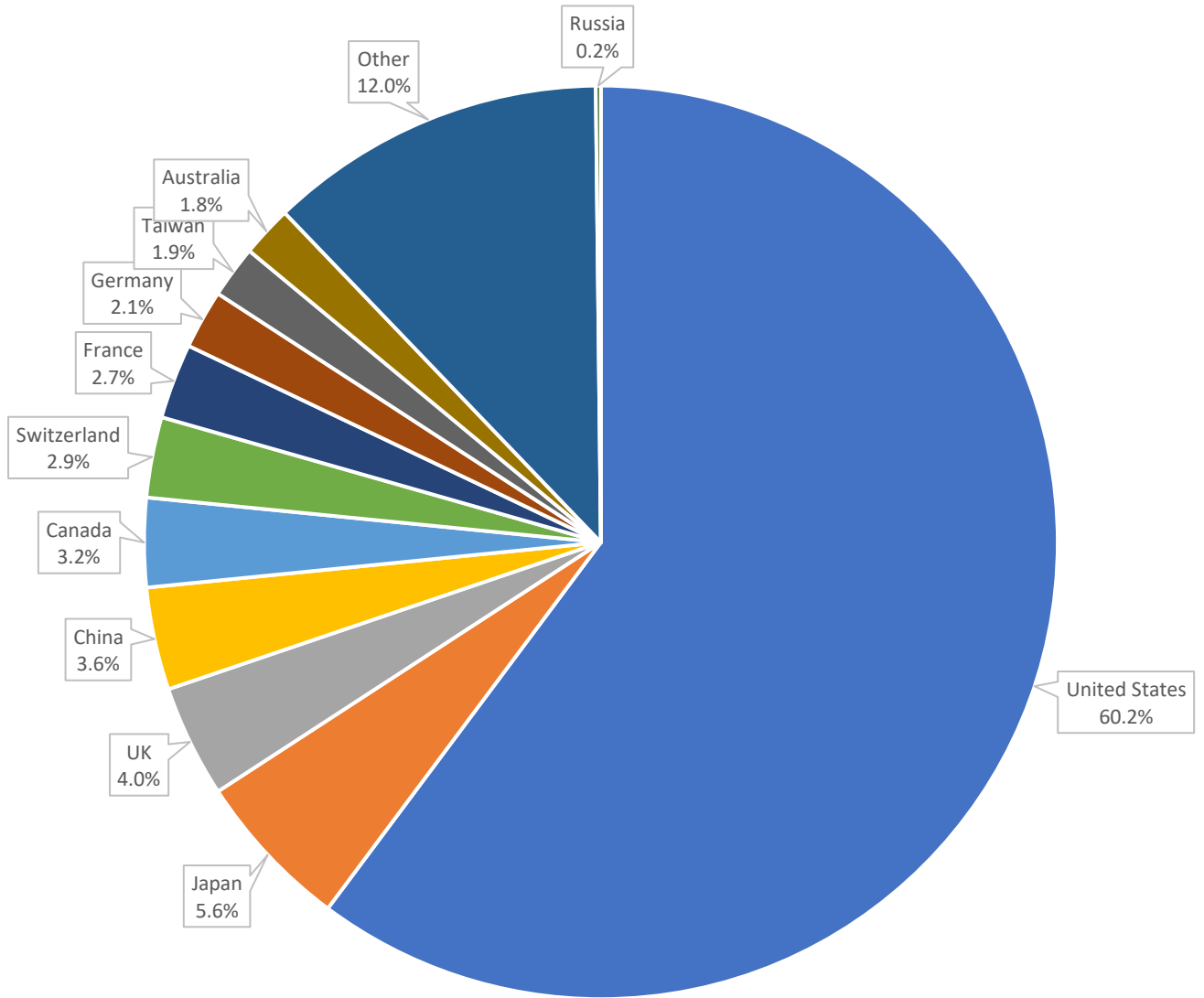
Russia's Impact on Global Markets and Economy

Share of Global GDP by Country (12/31/2020)



GDP Source: The World Bank. <https://data.worldbank.org/indicator/NY.GDP.MKTP.CD?end=2020&start=1960&view=chart>
Market Cap Source: Data from Morningstar Direct, MSCI ACWI Index as of 2/28/22

Market Capitalization of Global Stock Index by Country (2/28/2022)



GDP Source: The World Bank. <https://data.worldbank.org/indicator/NY.GDP.MKTP.CD?end=2020&start=1960&view=chart>
Market Cap Source: Data from Morningstar Direct, MSCI ACWI Index as of 2/28/22

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