

FUNDAMENTAL FLASH

Unpacking Russia-Ukraine Tensions

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Updates on Ukraine

Russia has launched a full-scale military invasion of Ukraine and demanded Kyiv's army lay down its weapons, launching what could be the largest conflict in Europe since the second world war.

In an address broadcast on state television on Thursday, Russia's president claimed that he was not planning to occupy Ukraine but vowed Moscow would punish all those who stood in its way. Western powers has announced sweeping sanctions on Russia as the conflict enters its second day.

Market Views

While it is difficult to ascertain Putin's end game, the current situation appears that Russia is intent on invading Ukraine while seizing Kiev (the capital), so that they can install a new government that will be pro-Russia and renounce any future intentions of joining NATO.

Regardless of the above scenarios, the following should be taken into consideration:

- 1) Ukraine is NOT a member of NATO. NATO is thus not legally bound to defend Ukraine from a military attack. It is thus highly unlikely that NATO and US will engage in a direct armed conflict with Russia.
- 2) Russian military aggression is likely to be confined to Ukraine and not spill over to neighbouring NATO members such as Poland
- 3) The situation remains very fluid. The quality of information during an armed conflict will be poor.



Portfolio positioning

Regional equity funds already have decent cash levels of 15-20%.

While past history has shown that armed conflicts will lead to a period of drawdowns but ultimately recover, we remain on the cautionary side as the US Federal Reserve (Fed) is slated to hike rates and embark on quantitative tightening.

Furthermore, a rise in energy and commodity prices could cause inflation to last longer, making it difficult for the Fed to back away from any tightening measures.

We currently do not have any direct exposure to Russian equities

In a hurry? Here are the Flashpoints...

- Russia has launched a full-scale military attack on Ukraine as the conflict enters its second day. Western powers have condemned its actions and have announced sweeping sanctions since.
- Ukraine is not a member of NATO. As such, the Western military alliance is not legally bound to defend Ukraine from a military attack.
- While it's difficult to ascertain Russia's end game, it appears that Russia is intent on seizing the capital and installing a new pro-Russia government that will renounce any future intentions of joining NATO.
- Regional equity portfolios are defensively positioned with moderate cash levels. We are erring on the side of caution as the Fed embarks on tightening and inflation stays sticky due to a rise in energy and commodity prices.

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