Market update

24 February 2022

Investors must stay calm in the face of war in Ukraine

"The outbreak of war between two countries presents a challenge for investors at the best of times. Wars, by their nature, create much uncertainty, which is very different from the risk probabilities involving, for example, interest rate movements and economic growth that can be approached more scientifically. And when the ultimate combatants are potentially two nuclear superpowers, the stakes are raised even more.

Given the current situation in Ukraine, it should be of little surprise that share markets are in retreat as investors demand a higher short-term risk premium. It is what happens next that will be crucial. As we have seen over the past week or so, markets can react violently to news reports suggesting either a greater threat of hostile action or de-escalation.

The cumulative swings have been much greater than the final net movements and trading such moves is virtually impossible. History tells us that localised regional conflicts tend not to have a lasting effect on global financial markets, and we continue to see a low probability of this particular conflict erupting beyond Ukraine.

However, it is clear that there are greater-than-usual economic risks associated with the current situation owing to the threat of sanctions upon Russia and the counter-threat of a reduction of exports of key commodities, including the natural gas that much of Europe depends upon for its energy.

In the event that there is greater disruption on this front, we would still expect it to be relatively short-lived and that the majority of companies in which we invest would not be existentially threatened. It may be the case that they would rebound quickly once matters are resolved.

We do not believe that selling now in the hope of reinvesting at a lower level is a sufficiently practical course of action relative to maintaining our long-term investment goals. Portfolio diversification is also helpful in circumstances such as we currently find ourselves.

A mixture of more economically-sensitive and defensive shares combined with government bonds and a judicious selection of alternative assets means that balanced portfolios are less likely to experience the market volatility that is more routinely reported by the media. Such periods of uncertainty also tend to provide opportunities to invest in assets that are the subject of forced liquidation, and our residual cash balances can be utilised as deemed appropriate in that regard."

John Wyn-Evans
Head of Investment Strategy, Investec Wealth & Investment UK

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