JSF FINANCIAL

RUSSIA-UKRAINE CONFLICT: MARKETS UPDATE

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Russia launched a full-scale military assault on Ukraine during the early-morning hours of February 24, the largest military incursion in Europe since World War II.[1] The US and European allies have been warning for weeks that this attack was likely coming, but now the question is: how far will it go?

The war is likely to send economic shock waves worldwide over the next several weeks and months. Outside of the human and political impact of these events, there are a few key market impacts that investors are monitoring.

To our clients and friends,

Our thoughts and prayers are with the people in the Ukraine suffering under this unfathomable assault. Words cannot express the sadness and worry in our office. The words "unprecedented times" have been said so often in the past two years, but once again we find ourselves in a worrying historical moment. We turn to each other for support, and we would once again like to reiterate that we are collectively here for you.

Jeff Fishman

Oil and Gas Prices

The Brent Crude oil index surged to over $100 a barrel after the attack began on Thursday, levels it previously reached in 2014.[2] This may only be the beginning of the price shock; earlier in February, analysts at JPMorgan estimated that disruptions to Russian oil exports could easily push the price of a barrel up over $120.[3]

While the Biden administration and others have looked at opening up strategic oil reserves,[4] we believe this important commodity (and important piece of the inflation formula) could continue to be volatile.

Chipmaker Supply Chain Impacts

As we all know, the pandemic has had a palpable effect on global supply chains, and a prolonged war in Ukraine could contribute. The conflict could impact the price and availability of semiconductor chips, an industry already struggling to get back to full capacity in the wake of the COVID-19 pandemic.

Ukraine produces 90% of semiconductor-grade neon gas, a critical component in lasers used for chipmaking; Russia produces 35% of the palladium used in chip sensors and packaging.[5] For now, large chip companies believe there will be limited supply chain disruption because of adequate stockpiles and diversified supply for the near future.[6] Longer-term effects remain to be seen, with the potential for upward pressure on prices.

Fears of China looking at this situation as an opportunity to invade Taiwan could add even more trauma to the markets and world economy. The supply chain disruptions in this scenario could impact numerous industries; hopefully, collective world sanctions against Russia send a loud message to other countries that this kind of behavior is unacceptable and has broad ranging consequences.

Markets Choose Risk-off

In times of uncertainty, markets sometimes take a sell first, ask questions later approach. Global markets tumbled after the invasion, and the S&P 500 equity index reached correction territory.[7] However, the prices of oil, wheat, gold, and government bonds were up sharply, as investors shifted to safe-haven assets.[8]

We've had warning for weeks that Russian aggression in Ukraine could set off short-term volatility in the markets, and events this week have demonstrated that. Of course, we cannot know what comes next, only that we will continue to watch the situation closely and with heavy hearts for the people of Ukraine.

We hope and pray for peace. However, we are also paying close attention to our clients' financial and investment needs. Please reach out if you have any questions or thoughts pertaining to your investment accounts and overall asset allocation, or if there have been any changes in your financial goals or circumstances.

More broadly, if there are any questions we can answer about the impact of these events on markets or your portfolio, please don't hesitate to contact our office.

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