

# Omnis Managed Portfolio Service



Despite the military build-up by Russia against Ukraine throughout February, the invasion still came as a surprise to investors. The crisis has sent shockwaves through markets and threatens hopes of a strong global economic recovery from the pandemic, at least in the short term. Global leaders were quick to condemn Russia's actions, with the US, UK and European Union imposing new sanctions targeting key Russian individuals and institutions linked to the Putin regime.

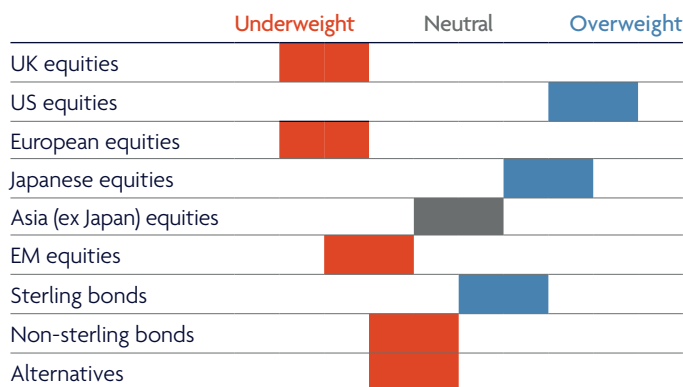
To protect itself from sanctions, the Russian central bank has raised interest rates from 9.5% to 20% and purchased millions of roubles to prop up the currency. Market volatility rose sharply, with most major markets falling on the news of the invasion, before recovering later in the week. We expect markets to remain volatile for the foreseeable future with the conflict likely to continue to impact investor sentiment over the short-to-medium term.

The biggest risk to the global economy is the likelihood that this conflict will push commodity prices higher, causing inflation to rise even further. Europe receives 40% of its oil and gas supply from Russia and Germany is one of the most reliant EU states. Oil prices have soared over fears that sanctions on Russia could cause potential global supply disruptions, with the price of a barrel of oil surging past \$100 (£74) to hit its highest level for more than seven years. If Russia retaliates to sanctions by cutting off the gas supply to Europe, wholesale gas prices would skyrocket, almost certainly leading to higher energy prices.

Surging energy prices will feed through to inflation, pushing up living costs which were already rising even further. This complicates the picture for central banks. While they won't want to raise interest rates when there is war in Europe, the high inflationary environment puts them in a difficult position. They can't just sit tight and not do anything, so it's going to be a tough balancing act for them. For example, the US Federal Reserve was widely expected to raise interest rates by half a percentage point to 0.75% at its next meeting on 16 March. However, while many analysts are still expecting rates to go up, they are now forecasting a more modest rise to 0.5%.

While we did expect inflation to drop back in the coming months, we now think it will now remain elevated whilst the conflict continues. From an investment perspective, the crisis is likely to be most painful for Europe, which is dependent on Russia for energy supplies. The good news is that while geopolitical shocks can rattle markets, disruption does tend to be short lived.

## Asset allocation



## Investment outlook

Within the Omnis Managed Portfolio Service we have been underweight equities since the start of the year. Over the month of February, we made further changes to the portfolio – some in response to the Russian invasion and some in line with our tactical asset allocation views. We significantly reduced our exposure to European equities, where we were neutral and have now moved to an underweight position in light of the likely economic consequence of the conflict on Europe.

On 11 February, we also instructed our investment managers to sell all their direct Ukrainian and Russian holdings, which were all sold before Russia invaded. This was done to avoid the risk of sanctions or measures taken by the government to limit the flow of foreign money in and out of the economy.

During the month we also increased our position to Asian equities (ex Japan) to neutral. We are looking at the economic cycle and in particular we expect China policy changes to benefit the Chinese economy and Asia more broadly – this is an area we will be monitoring. Due to the ongoing economic uncertainty, we've maintained our overweight position in UK gilts to provide diversification and protection for the portfolios.

Of course, we manage the Omnis Managed Portfolio Service on an active basis and will continue to make changes to the portfolio whenever necessary.

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