



The Ukraine War: one year on

It's been one year since Vladimir Putin's brutal invasion of Ukraine began. We look back at how events unfolded and their impact on global markets.

The invasion

One year ago, Russia invaded Ukraine, devastating the lives of millions and reducing entire cities to rubble. The conflict sent shivers across the world as the war was happening at the doorstep of Europe. It also challenged the economic and social fabric of our society, which hasn't witnessed devastation on such a scale for decades.

Russia's invasion of Ukraine in February 2022 marked a dramatic escalation of the eight-year-old conflict that began with Russia's annexation of Crimea. Russian troops quickly reached Kyiv's outskirts, but their attempts to capture the capital and other cities in the north-east met stiff resistance. Governments around the world quickly responded by introducing sanctions against Russia and providing support to Ukraine.

Many analysts expected Ukraine's capital to fall within days of the invasion, but the Ukrainian forces have defied the odds. Few would have bet that one year into this war Ukraine would still be fighting, but the country is determined to drive out the Russian forces.

What happened as a result?

The fallout from the attack has caused immense economic and social disruption throughout Europe and beyond. Vital grain exports for Africa and the Middle East were blocked from exiting the Black Sea. Fragile post-Covid supply chains were further damaged, helping to fuel the cost of living crisis. Europe's over-reliance on Russian gas was also exposed.

Despite the military build-up by Russia against Ukraine throughout February 2022, the invasion still came as a surprise to investors. Markets were rocked by the news of the invasion, causing an increase in volatility for most of 2022. Predictably, the Russian and Ukrainian stock markets were hit the hardest.

A year after the fighting began, the war has become a major strategic blunder for Russian President Vladimir Putin. Support for Ukraine remains strong from western leaders, but with no end in sight, there are now fears the war could last for years. The situation has exposed the complexity of geopolitical relationships, and highlighted the increased risk on financial markets.

The international community was quick to implement sanctions on Russia in response to the invasion to apply economic pressure. They included restrictions on Russia's financial industry, its central bank and its coal and oil exporters, in addition to general export controls.

A string of global firms also announced they would suspend operations in Russia, including McDonald's, Coca-Cola and Apple. Russian fixed income and equity assets issued in foreign currency were sanctioned and no longer eligible for trading. Russian and Belarusian securities were also excluded from mainstream international fixed income and equity indices as of March 2022.

Russia and Ukraine are major commodities producers, and disruptions have caused global prices to soar, especially for oil and natural gas. Europe's energy prices rocketed due to its reliance on Russian gas imports. Before the invasion, Russia accounted for 40% of the European Union's natural gas imports, mostly by pipeline.

Food supply chains were disrupted, driving grain and food-oil prices to historical highs, adding to inflationary pressure across Europe. Africa and Asia, which are largely dependent on Russian and Ukraine for grain exports, were also significantly affected.

What did we do?

In the run-up to the invasion we became concerned that the prospect of sanctions and capital controls on Russia could limit our investment managers' ability to sell holdings in the region if necessary. So we reviewed the exposure we had to a small number of Russian and Ukrainian holdings in our funds.

As Authorised Corporate Director (ACD) our primary responsibility is to act in the best interests of our investors. With this in mind, we decided to take action to ensure we were not exposed to the risk of sanctions or capital controls and instructed our investment managers to sell their Russian and Ukrainian holdings immediately.

All holdings were sold before the invasion took place and before any sanctions were imposed (figure 1). As such, within our single strategies, we had no direct exposure to Russia or Ukraine at the time of the invasion. We can do this because we are the ACD of the funds, so we can instruct our managers to do what we feel is in the best interest of our investors.

Within the Omnis Managed Portfolio Service (OMPS), we have the ability to modify the exposure to different regions. Immediately after the invasion we reduced our exposure to all equity markets, and in particular Europe, given its reliance on Russian gas.

In March 2022, as markets began to get a fuller assessment of the impact of the war, we increased exposure to Europe as the impact had already been factored in by markets. We remained underweight to Europe, but we were 'less negative' as the markets stabilised after the initial shock.

Figure 1: Reducing risk ahead of the conflict

This table shows the holdings we asked our funds to sell before Russia's invasion.

Fund	Holding	Asset	Industry	% of fund	Performance from 10 Feb to end 2022
Global EM Equity Leaders	Severstal	Equity	Metals and mining	2.3	Sanctioned
Global Bond	Russian gov't bond	Bond	Government	1.8	Sanctioned
Global EM Equity Opportunities	Headhunter Group	Equity	Online recruitment	1.5	Sanctioned
Global EM Equity Opportunities	TCS Group Holding	Equity	Online financial services	1.3	Sanctioned
Global EM Equity Opportunities	Yandex	Equity	Search engine	1.0	Sanctioned
Global EM Equity Leaders	TCS Group Holding	Equity	Online financial services	1.0	Sanctioned
Short-Dated Bond	MHP	Bond	Food production	0.5	-47%
Strategic Bond	Ukrainian gov't bond	Bond	Government	0.4	-65% to -75%*
Global EM Equity Leaders	X 5 Retail Group	Equity	Food retailer	0.3	Sanctioned
Absolute Return Bond	OJSC Novo	Bond	Steel production	0.2	Sanctioned
Absolute Return Bond	Gazprom	Bond	Gas production	0.2	Sanctioned
Strategic Bond	MetInvest	Bond	Metals and mining	0.1	-39%
Absolute Return Bond	Sberbank	Bond	State-owned bank	0.1	Sanctioned

* In addition to the drop in the value of its bonds, the Ukrainian government also stopped paying the interest due on them.

Notes: Where a holding shows as sanctioned, investors could sell their existing holdings via specialist Russian brokers, often at a very heavy discount. Investors also had to contend with repatriation of proceeds, if any. In many cases the value of shares dropped more than 80%.

Source: Omnis Investments and Bloomberg.

Looking forward

Although Russian stocks have recovered, it is no longer possible to invest in them due to the sanctions in place, so they remain excluded from world stock indices. Ukrainian assets are still depressed in value as it has agreed with government creditors and bondholders to suspend debt and dividend payments, after struggling to plug a budget deficit running at \$5 billion a month. Therefore, they are likely to remain out of scope for investment until the conflict ends.

The slowdown in growth many countries are experiencing has helped offset any inflationary pressures from price rises in commodities. Emerging market fixed income valuations remain attractive, but the risk of a further de-rating of the asset class is possible. In contrast, emerging market equities remain depressed compared to their developed peers. Emerging market earnings outlooks are also yet to turn around.

Markets bounce back

While wars and dramatic geopolitical events usually spark an initial sharp sell-off, they rarely have a prolonged impact on markets. When it comes to investing, it's nearly impossible to predict geopolitical or other major events. While it's still early to determine the full impact of the war, market performance in 2022 was affected by both the conflict and rising interest rates due to inflation as economies reopened post-lockdown.

We can see this in figure 2, which shows that despite numerous global events such as the Covid-19 pandemic, Brexit referendum and the Great Recession, the markets have always rebounded and continued to perform.

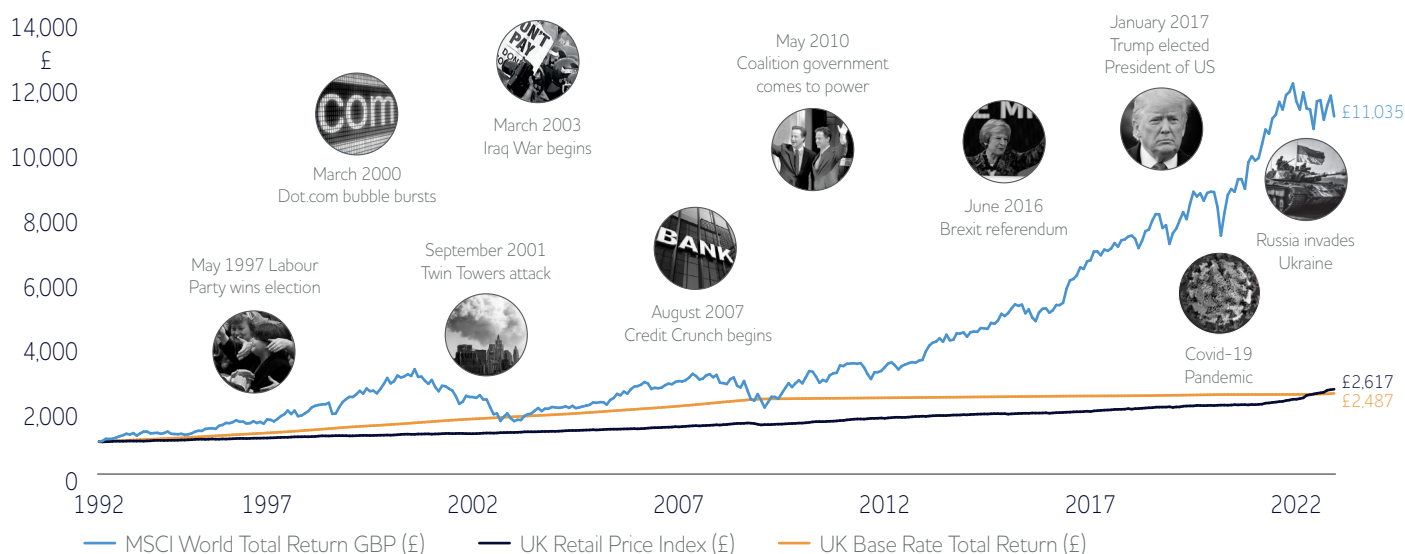
While we can't predict the future, we know that staying invested over the long term is key, and that markets almost always recover. Short-term dips in your portfolio may seem volatile, but they are likely to be insignificant when looking at its long-term performance.

To discuss your portfolio in more detail, please contact your financial adviser.

Figure 2: The power of investing

This chart compares the growth of £1,000 invested in global equities with leaving money in a cash deposit account over the past 30 years, as well as the impact of inflation. Despite a number of stock market crashes, equities have outperformed significantly over the long term.

December 1992 = 100



Source: Financial Express and ONS.

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