

# Monthly Market Insights

Data and opinions as of February 28, 2022



## Russian invasion of Ukraine raises humanitarian, economic concerns

The tough start to 2022 continued in February as Russia invaded Ukraine, raising grave humanitarian and global security concerns. In financial markets, this caused a selloff in risk assets: during the period of peak market stress on February 24, when Russian forces commenced the invasion, most global equities experienced a swift decline. However, market response has since been more differentiated. For example, the S&P 500 Index recouped the losses it had previously incurred following the invasion, a recovery partly due to the market pricing in a lower level of risk arising from the tensions and also a possibly less aggressive U.S. Federal Reserve stance against inflation.

### The NEI perspective

**Armed conflict, invasion shake markets.** Russia invaded Ukraine in February, raising grave humanitarian and global security concerns. In financial markets, this action caused a selloff in risk assets such as equities, a widening of credit spreads, and higher commodity prices, elevating near-term inflation expectations.

**Commodity prices soar.** The invasion of Ukraine exacerbated an already elevated inflationary environment for commodities, as Russia is a key energy supplier to Europe, and provides other critical industrial and agricultural resources. At the time of this writing, sanctions have not targeted Russian energy exports, but traders have avoided Russian supply on uncertainty over sanctions, resulting in a global increase in oil prices.

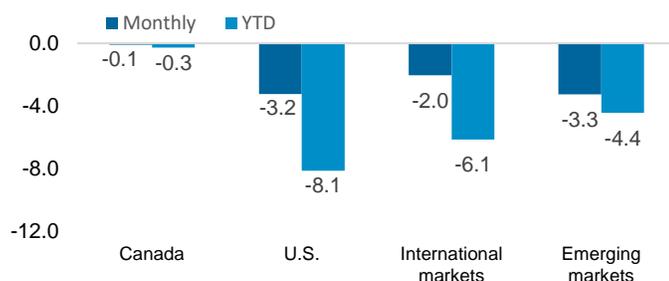
**Policy uncertainty in wake of Ukraine attack.** The invasion has changed policy expectations, generating uncertainty as to previously aggressive stances against inflation. Policymakers now must contend with the geopolitical pressures of Russia's actions and increased inflation risk. The Bank of Canada's 25-basis-point rate hike without quantitative tightening reflects a compromise that could be adopted by other central banks.

From NEI's Monthly Market Monitor for March. [Read the full report](#) for more insights.



### Equity

% return in C\$



**Canada:** MSCI Canada; **U.S.:** MSCI USA; **International markets:** MSCI EAFE; **Emerging markets:** MSCI Emerging Markets. Source: Morningstar Direct.

### Fixed income and currency

% return in C\$



**Canada investment grade:** Bloomberg Barclays Canada Aggregate; **Global investment grade:** Bloomberg Barclays Global Aggregate; **U.S. high yield:** Bloomberg Barclays U.S. High Yield. Source: Morningstar Direct.

## The SWIFT network, and the implications for Russia

The Society for Worldwide Interbank Financial Telecommunications (SWIFT) was founded in 1973, and is a cooperative headquartered in Belgium. Over 11K financial institutions in over 200 countries are connected to the global payment communications system that transfers information about financial transactions between counterparties. SWIFT does not transfer the actual funds, but merely transfers information (for example Bank ID number) about the origin and destination of those funds. It is core to cross-border payments, and used in areas such as trade, foreign investment, and remittances.

As a result of the Russian invasion, certain regions (including Canada, the U.S., and the E.U.) announced that sanctioned Russian banks (such as VTB Bank and Bank Rossiya) will be cut off from SWIFT. A consequence is that it becomes harder for Russia to deal in export/import commerce and hinders the flow of capital in and out of the country. Russian exports account for nearly 40% of the E.U.'s natural gas supply, and payments for this will be disrupted. These sanctions also choke foreign exports into Russia. The restrictions on imports and exports payments can cause a major balance of payments (BoP) crisis, which would lead to an inevitable further devaluation of the Russian ruble and, consequently, higher local inflation. The purpose of the global sanctions, such as removing Russian bank access to SWIFT and other measures restricting access to global capital markets, is to stop the invasion as quickly as possible by reducing Russia's ability to fund its military operations.

### SWIFT traffic heavily concentrated within Europe, Middle East, and Africa region

		Destination		
		Europe, Middle East, Africa	Americas	Asia-Pacific
Origin	Europe, Middle East, Africa	47.6%	8.9%	2.5%
	Americas	9.4%	12.8%	5.2%
	Asia-Pacific	3.5%	3.8%	6.3%

Source: Wall Street Journal, February 26, 2022.

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