The impact of Russia's invasion on markets

Please note all data and observations over the next few pages were correct at the time of publishing.

8 March 2022

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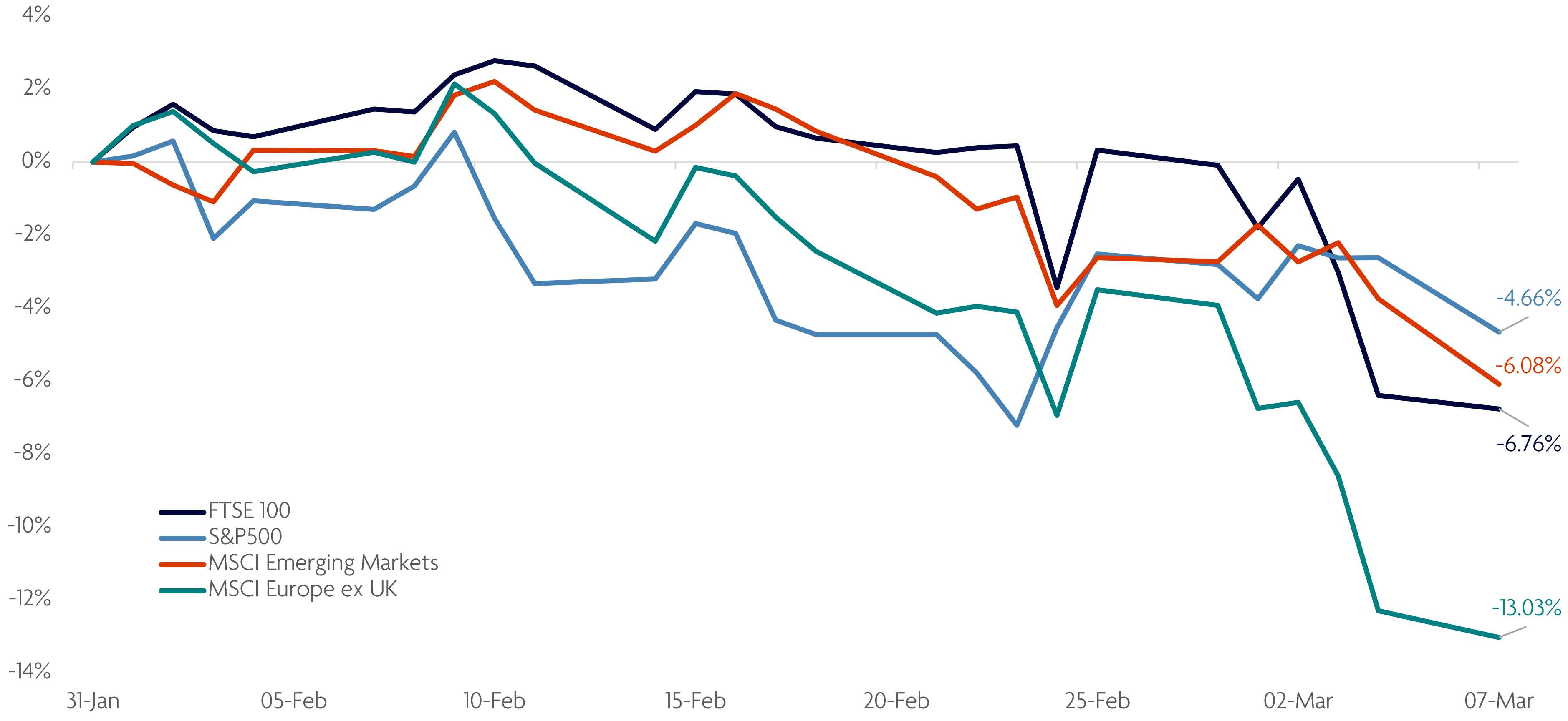
1. Stock markets have fallen dramatically

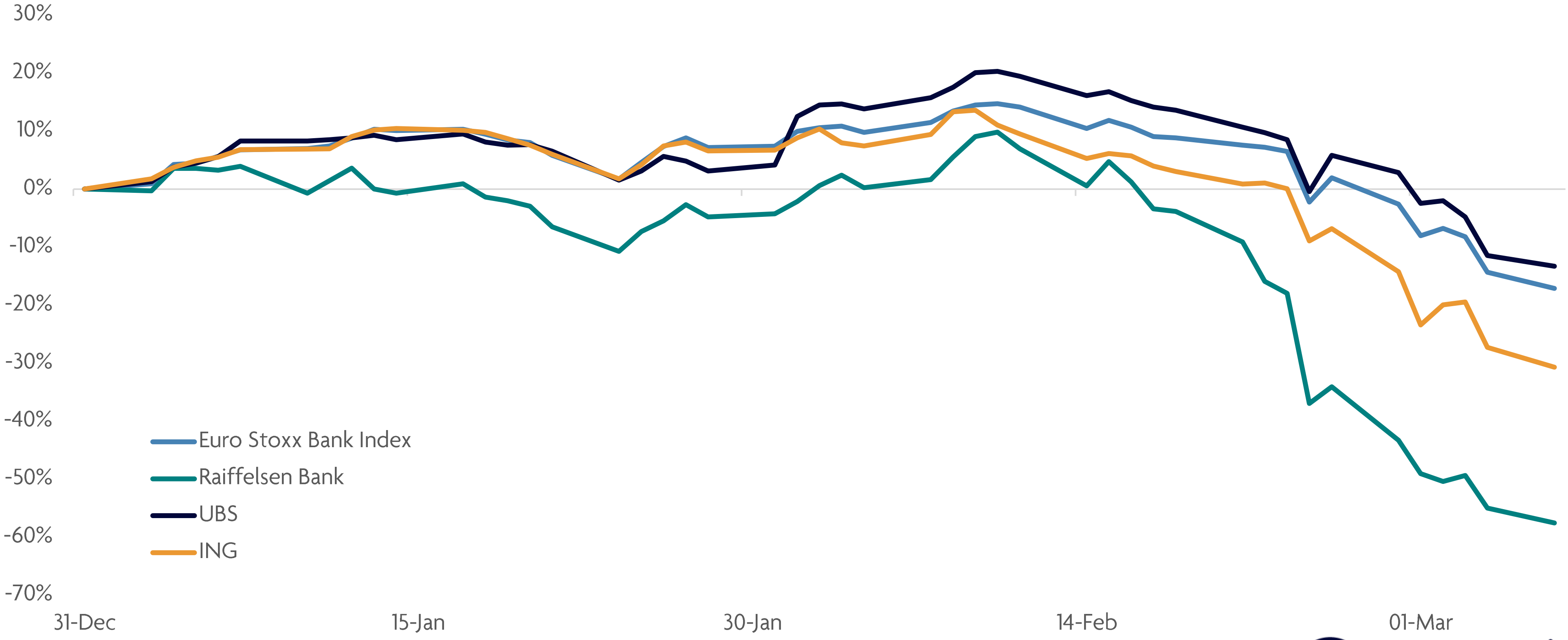
As the conflict in Ukraine escalated and Russia began its invasion of Ukraine, we have seen an increase in risk aversion amongst investors. As a result, major stock markets have fallen dramatically since.



Source: Bloomberg, returns since 31st January 2022 to 7th March 2022 in GBP

2. European Banks have been hard-hit

European banks have had a gruelling time, hit by a triple whammy of Western sanctions on Russia, the prospect of less aggressive interest rate hikes and a worsening macroeconomic environment. The moves more than reverse all the gains made earlier this year when it appeared that economic recovery would allow central banks to raise interest rates, benefiting banks.



Source: Bloomberg, returns since 31st January 2022 to 7th March 2022 in local currency

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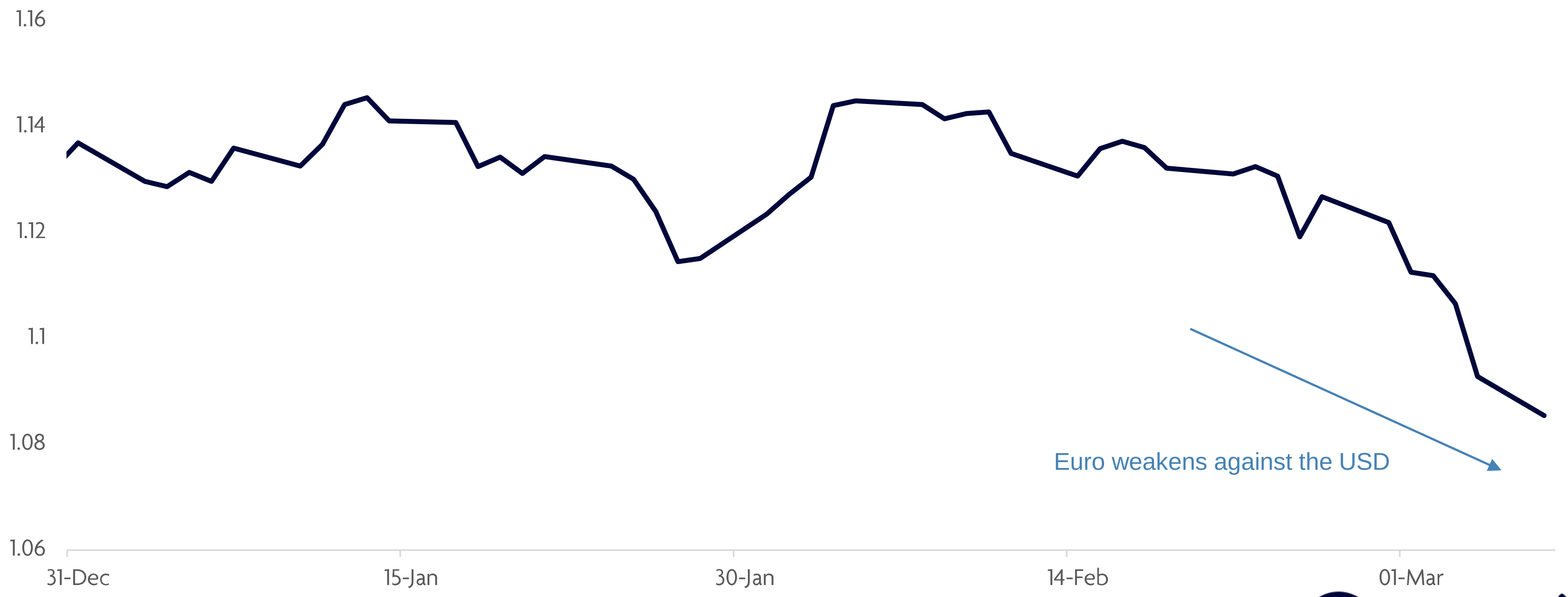
3. The €uro takes a beating

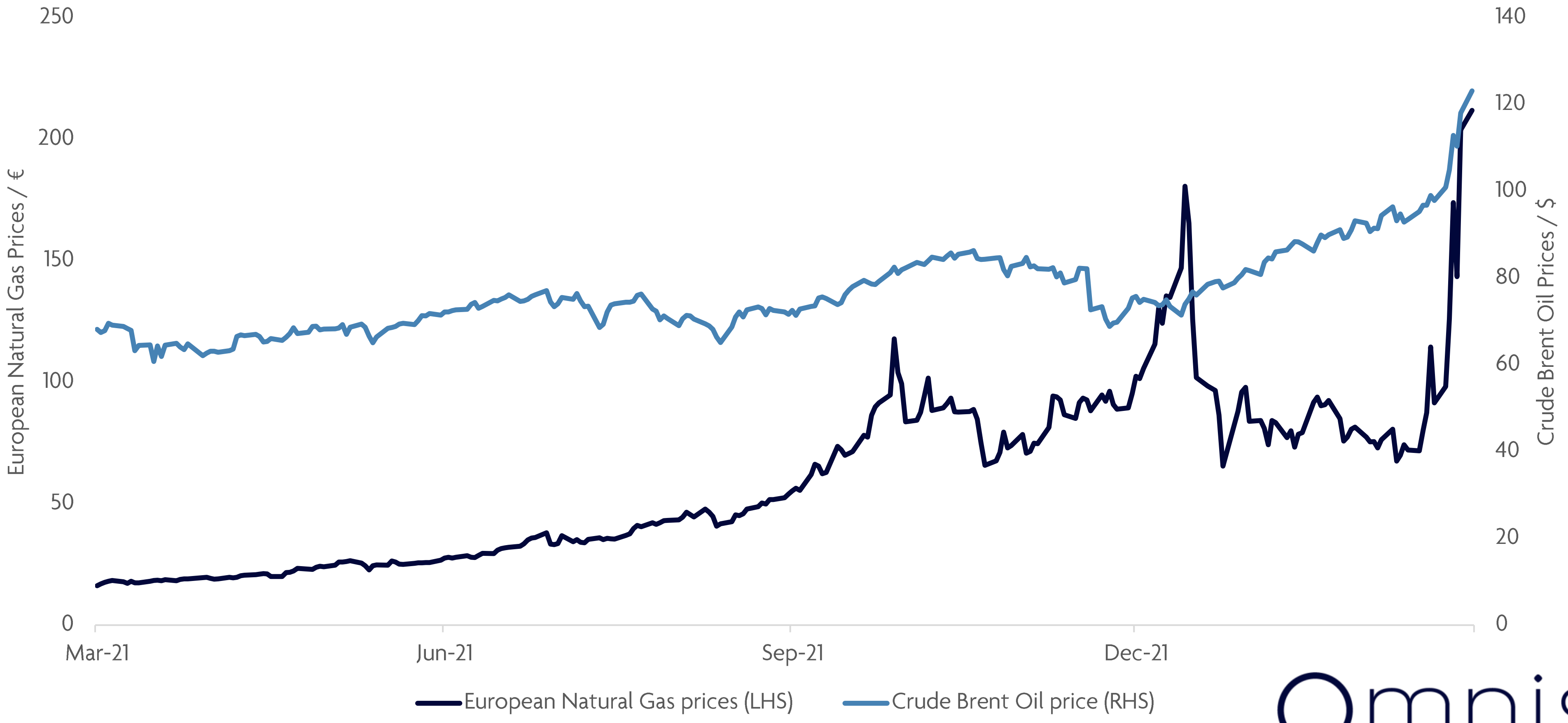
The euro has fallen against the US Dollar and the British Pound. The euro fell below $1.10 on Friday 4th March for the first time in almost two years, having shed over 3% against the dollar over last week for its biggest weekly fall since March 2020. Typical 'safe-haven' currencies like the dollar and the yen have strengthened over the month of February.



Source: Bloomberg, EUR-USD Spot Exchange Rate - 31st January 2022 to 7th March 2022

4. Oil and gas prices surge

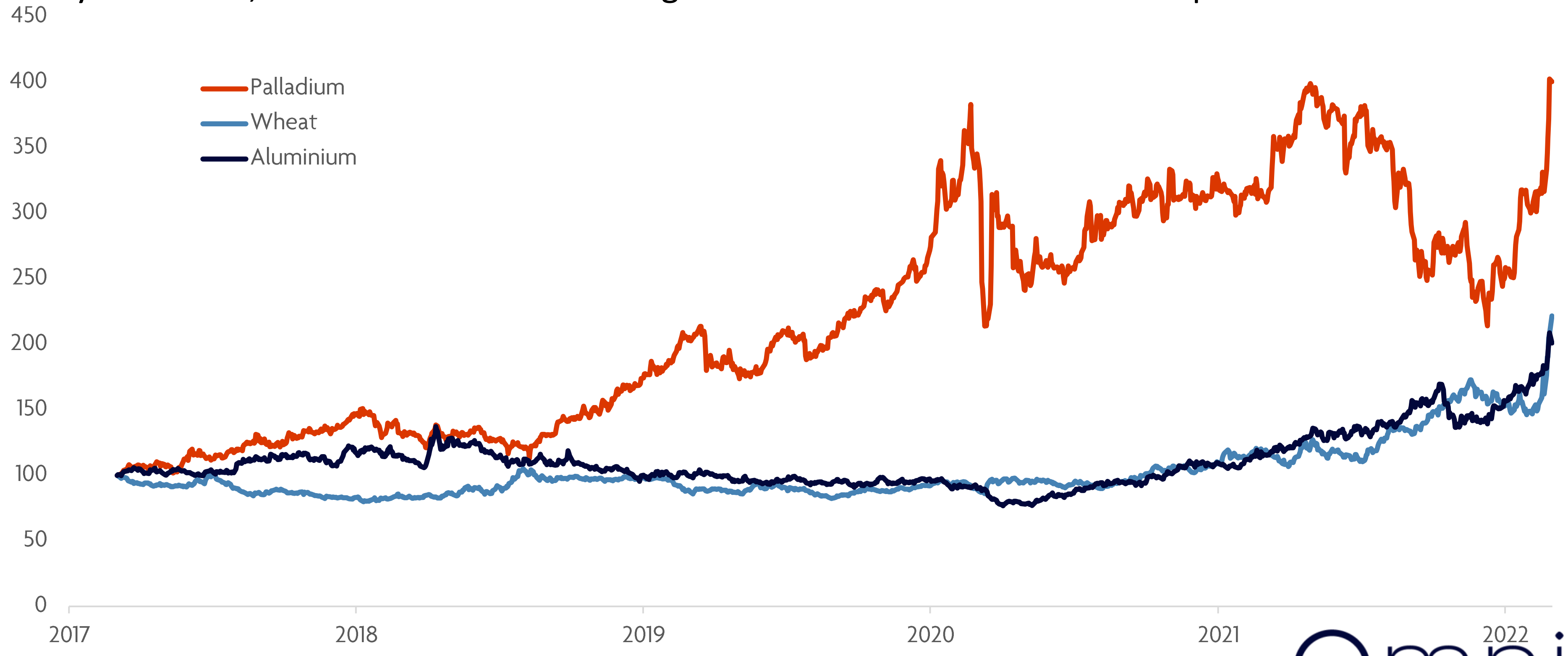
Brent crude prices rose over 20% last week, closing at their highest since 2013, with buyers and shippers increasingly shunning Russian oil supplies, with the risk of formal sanctions picking up. European gas prices notched an astonishing 120% weekly gain.



Source: Bloomberg – 8th March 2021 – 7th March 2022

5. It's not just energy going up

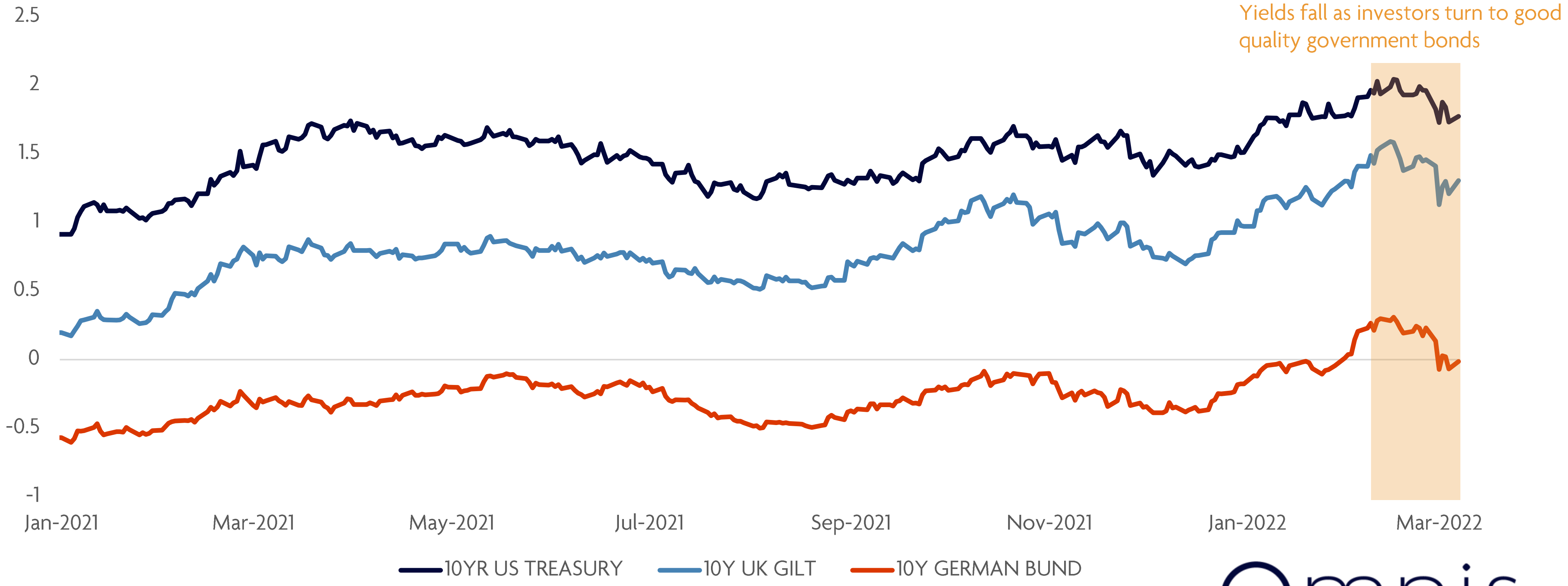
Prices of raw materials from wheat to metals have soared to multi-year highs as Western sanctions have disrupted air and sea shipments of commodities produced and exported by Russia. Russia and Ukraine are two of the world's biggest exporters of wheat and its price has risen nearly 40% since Russia invaded Ukraine on Feb. 24. Russia is also a supplier of metals. Aluminium hit a record high on Friday. On Tuesday 8th March, the London Metal Exchange cancelled nickel trades after its price doubled.



Source: Bloomberg – 9th March 2017 – 7th March 2022, rebased to 100

6. Flight to safety

Market turmoil, increased uncertainty over the economic outlook and expectations that central bank will raise interest rates less aggressively has meant that investors have looked for safe havens. As a result, the yields on good quality government bonds have fallen (which means the price of the bonds has risen). For example, in Germany, the yield on a 10-year bond has returned to negative territory. In other words, investors are once again willing to pay Germany's government to hold its bonds in.



Source: Bloomberg, 1st January 2021 – 7th March 2022

Staying calm during turbulent times

8 March 2022

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1. Markets rebound after big falls

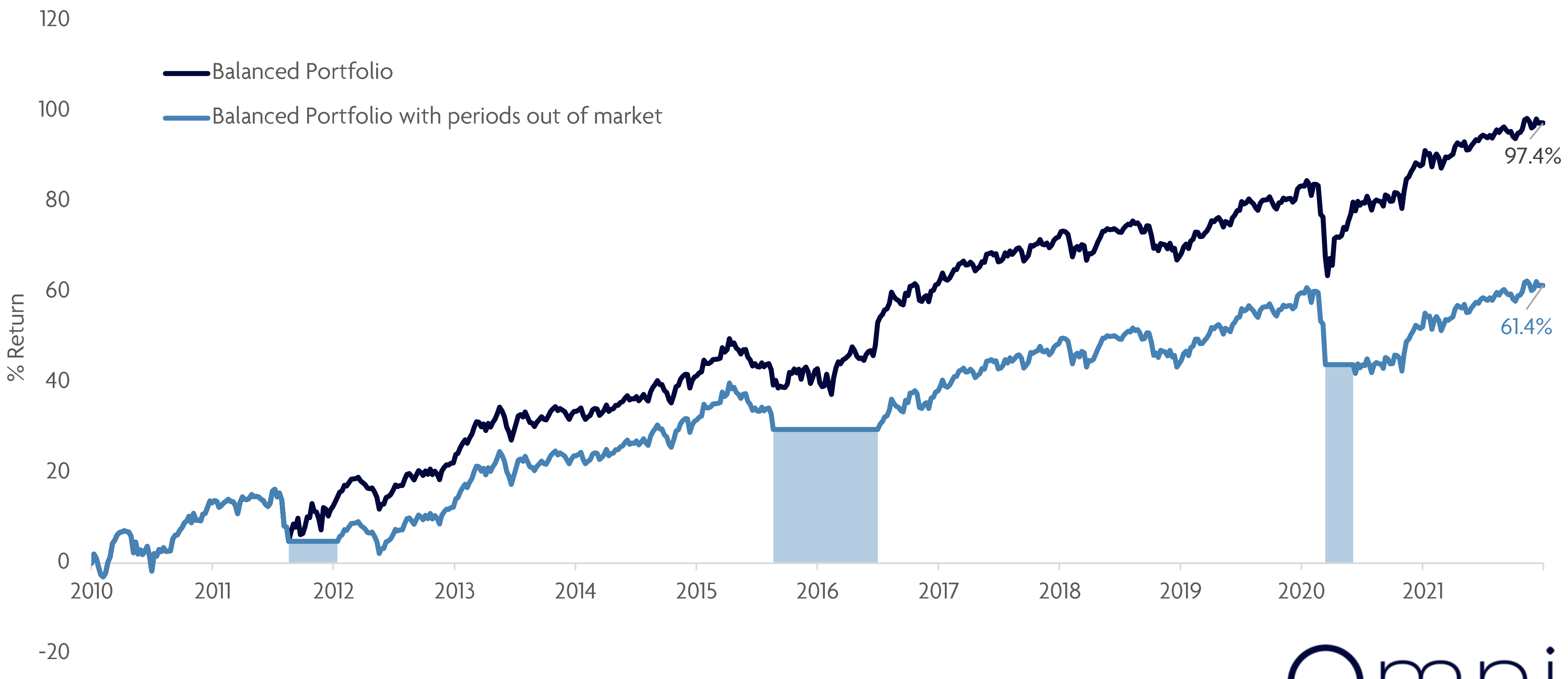
Using the US stock market as an example, we see that in many 5-year periods after big drops in stock markets, the market recovers strongly. The most severe one-day drop was a 9% fall in October 2008. This was followed by a five-year return of 109%. Of course, past performance is not guaranteed to be repeated in the future. The returns are illustrative and do not include any costs or fees, but the data underlines the historic resilience of shares over longer timeframes, even following shocks.

Date	Reason	One Day Fall	Return after 1y	Return after 5y
15-Oct-2008	Global Financial Crisis	-9.0%	24.0%	109.0%
01-Dec-2008	Global Financial Crisis	-8.9%	39.3%	146.3%
29-Sep-2008	Global Financial Crisis	-8.8%	-1.5%	69.9%
09-Oct-2008	Global Financial Crisis	-7.6%	20.9%	103.5%
27-Oct-1997	Asian Economic Crisis	-6.9%	23.4%	8.7%
31-Aug-1998	Russia defaults on loans	-6.8%	39.8%	13.0%
20-Nov-2008	Global Financial Crisis	-6.7%	48.8%	164.3%
08-Aug-2011	Eurozone debt crisis	-6.6%	28.1%	117.0%
13-Oct-1989	Black Friday	-6.1%	-5.8%	63.8%
19-Nov-2008	Global Financial Crisis	-6.1%	39.2%	147.5%

Source: Schroders, using Refinitiv data – worst 20 days for S&P 500 since 1989 to 2019.

2. The cost of getting it wrong

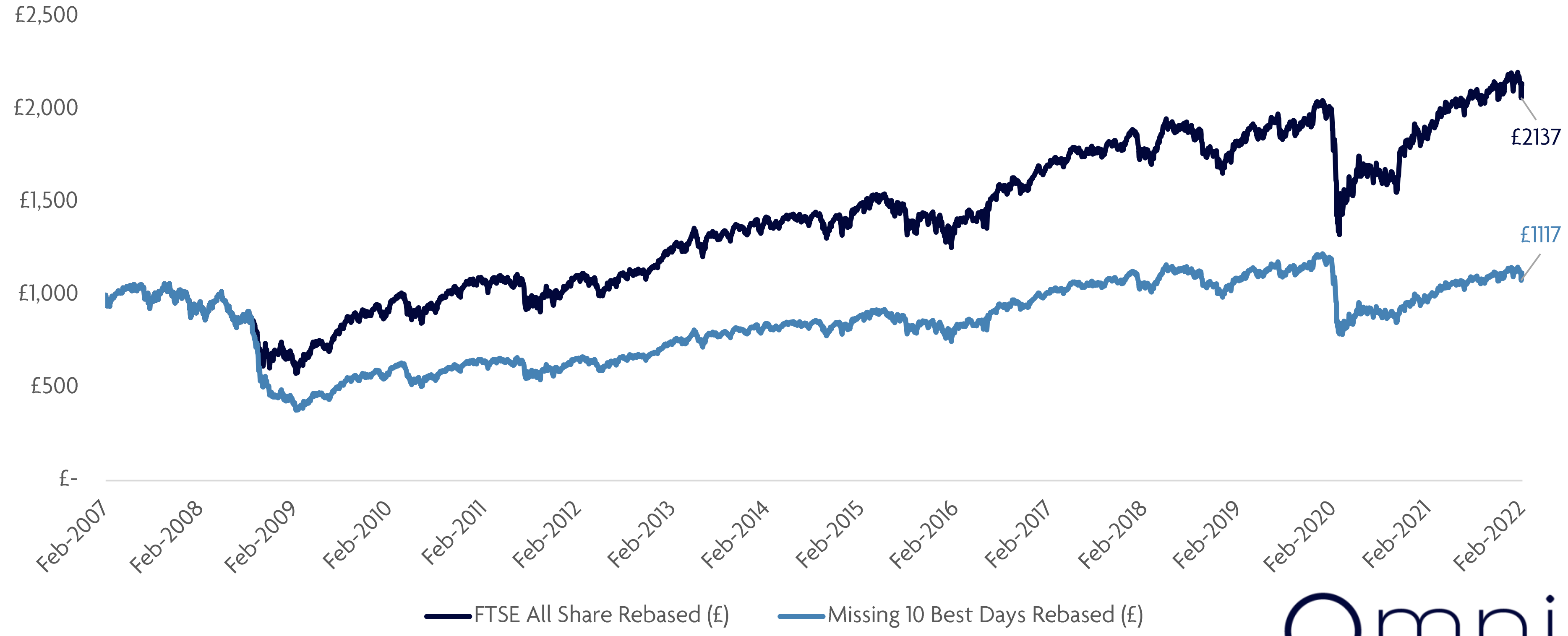
To assess the impact of divesting when big markets shocks occur, we assessed two identical 'Balanced' portfolios*. In one portfolio, the investor pulled out when the market fell 10% and only reinvested once stock markets had risen 10% from that point. In the other portfolio, the investor stayed invested throughout. As shown in the chart, missing out on recoveries can be very costly for long term investors.



Source: FE fundinfo – 1st January 2010 – 31st December 2021. *Using Graphene C2 Balanced Index Equivalent for Balanced Portfolio.
Assumes investments are withdrawn when market falls 10% and reinvested when market subsequently recovers 10%

3. Timing the market can cost you

Some of the best days in markets come right after some of the worst days in markets. For example, on 24th March 2020, the FTSE All Share return 8.9% in a single day, but this followed a 3.9% decline the previous day. If you tried to come out after some of the worst days in stock markets, you are also likely to miss out on some of the best days and as this chart shows, missing just 10 days means you could hamper your returns by almost 50%.



Source: Bloomberg, using FTSE All Share Total Return in GBP, assuming £1000 invested on 26th February 2007. Chart shows return to 28th February 2022

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For any questions, please speak to your financial adviser

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