TIFF Perspective on Russia's Invasion of Ukraine

View of Russia's Invasion of Ukraine

At TIFF, we are hopeful for a near-term peaceful resolution of Russia's invasion of Ukraine. We are mindful of the dire humanitarian consequences on Ukraine and its people.

There are many significant moving pieces in this conflict – the actions of Putin and Russia, the heroic response of Zelensky and the Ukrainian people, the coordinated and unified response of Europe generally, the United States' evolving role, the response from China, and, alarmingly, the first genuine threat of nuclear engagement in this century. Although the number of actors and complexity of this event contribute to a wide range of possible outcomes, we think a few implications are more likely than not. Below, we provide our assessment of market impact, our portfolio positioning, and our actions in response to the market conditions created by the invasion and subsequent developments.

Market Impact

Market reaction has been global and across asset classes. Equities generally have fallen, particularly in Europe as the prospect of a protracted conflict, higher energy prices, and possible recession weighs on stocks. Bonds have rallied, causing yields to drop. Oil has hit decade-high prices as buyers shun Russia, which is second globally behind Saudi Arabia in production. Gold and bitcoin have also rallied, albeit less so.

Market Expectations

Our internal optimist has us seeking a clear "best-case" scenario, but our internal realist sees few positive near-term repercussions.

Inflation has and will be negatively impacted, as, similar to our experience with COVID, supply chains are reworked and there is added demand for certain goods without commensurate increases in production. If all else were equal, this rise in inflation may force the Federal Reserve and other central banks to be even more hawkish than they have become in recent weeks. However, all else is not equal. Because of the wide range of outcomes, the market now perceives a bit slower retraction of accommodation as banks proceed cautiously and also are careful to forestall a "Lehman-like" moment.

Longer-term is even less predictable, though some developments seem likely. The European Union and individual European countries have indicated that they will vastly increase defense spending. Europe may also reduce its vulnerability to Russia by accelerating its transition to green energy and / or allowing oil production. The US may also allow for increased oil production to offset a sustained reduction of Russian oil imports. Two other possible secondary effects of economic sanctions: 1) intentional decoupling of connected economies to reduce interdependence; and 2) revisiting crypto as a possible workaround for sanctions and asset freezes. We do expect the reversal of some recent market trends. For example, if the US and / or Europe are able to wean themselves off Russian oil through production or alternate supply, the war may counterintuitively expedite oil's ultimate decline. Similarly, while near-term we see inflation increasing, dramatic expansion and duplication of capacity in energy, alternatives, food, etc., may ultimately lead to lower long-term inflation.

TIFF Exposure

Our direct exposure to Russia is de minimis, with approximately 0.5% of any given portfolio as of February 28.

Action

We are monitoring the situation closely, staying in close contact with our managers, and avoiding making large, reactive moves. We remain underweight bonds and have rebalanced back to slightly above our target for equities. We have explored and are considering inflation hedges, but are mindful of how expensive hedges have become in recent weeks. Our portfolios are well diversified, and we are prepared to adapt quickly as needed.

Past performance is no guarantee of future results and the opinions presented cannot be viewed as an indicator of future performance.

There is no guarantee that any particular asset allocation or mix of strategies will meet your investment objectives.

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TIFF Investment Management

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