

## A message from Square Mile's Investment Team

Despite multiple and sometimes seemingly uncoordinated efforts by Western powers to avert armed conflict in Ukraine through diplomatic means, the crisis clearly worsened yesterday as Vladimir Putin ordered Russian troops to enter eastern Ukraine. This action, described by the President in a television broadcast to the Russian people as a peacekeeping operation, followed the 'recognition' of the breakaway regions of Donetsk and Luhansk as independent states. Is this a prelude to a full-scale invasion of Ukraine or, like the annexation of Crimea, is it just another limited act of military muscle-flexing perhaps to bolster public opinion and President Putin's popularity at home?

We simply don't know and we certainly claim no geopolitical expertise. Different courses from here could clearly give rise to a wide array of outcomes in financial markets, both in terms of magnitude and longevity. Every geopolitical crisis is different of course, but over the last seventy years or so the impact on financial markets of events such as Iraq's invasion of Kuwait and the Cuban missile crisis has generally been contained and fairly short-lived. We do know, however, that Western powers have all but ruled out direct military involvement, preferring instead to pursue punitive sanctions against Russia. Given Russia's importance as a producer of commodities, it seems probable that energy prices would rise further if the conflict escalates and sanctions are imposed. This would come at a time when oil and gas prices are already at or close to historical highs and, in the short term at least, this would exacerbate the cost-of-living squeeze in the UK and elsewhere.

In managing investment portfolios, we can only play to our strengths and be aware of and manage the risks we are taking. We have certainly been monitoring very closely the exposure we have (through our allocations to emerging market equity funds) to the Russian stock market and it is extremely low even in the highest risk, most equity-oriented portfolios we manage. It would be foolish to take investment decisions based on trying to second-guess President Putin's intentions or even on what may or may not happen to commodity prices. As such, we have not at this time made any Ukraine-related changes to portfolios. Instead, we will continue to follow developments closely. If developments and evidence warrant it, however, we will not hesitate to take appropriate action in portfolios which we judge to be in the best interests of our clients.

Andrew, Charles, Chris, Daniel, Mark and Will  
Square Mile Investment Team  
Wednesday 23<sup>rd</sup> February 2022



**thomascarroll**  
WEALTH MANAGEMENT



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