

Market Flash Note Russia/Ukraine



The continued escalation of events over the weekend has seen refugee numbers fleeing from the Ukraine to Europe rise to over 1m people. Our thoughts remain with those affected both directly and indirectly as a result of the invasion by Russia.

Key market updates:

- > Energy is a critical factor in this crisis and threats to supply, given the European dependence on Russia, are very much to the fore.
- > Oil prices over the weekend have spiked further jumping as much as +18% in early trading as the US contemplates a ban on Russian crude imports, sending broader stock markets lower.
- > Brent oil prices are now hovering over \$120 per barrel with widespread concerns about the inflationary impact this may have on the global economy and growth going forward.
- > The global search for alternative sources of oil is ongoing with the US engaging with Venezuela and even Iran to see where strategic reserves may be released to ease the pressure.
- > This 'energy factor' will be material in determining the economic outcome of the crisis – see below for more detail on various scenarios.

Commodity	2Day	Price	Norm Chg	%Chg	Δ AVAT	Time	%YTD
Oil Futures							
NYM WTI Crude		125.32	+9.64	+8.33%	+9.93%	07:33	+66.63%
ICE WTI Crude		125.36	+9.68	+8.37%	+4.61%	07:33	+66.68%
ICE Brent Crude		128.84	+10.73	+9.08%	+16.77%	07:33	+65.65%
NYM Dubai Crude		114.95	+8.37	+7.86%	+430.75%	03/04/22	+57.07%

Source: Bloomberg

Key near term risk: Russian retaliation to an escalation of sanctions is directed at energy supplies.

Empower Funds and Markets

- > ILIM believes the strategic asset allocation of Empower funds is well positioned to come through this event and deliver on longer term return expectations.
- > Layers of diversification reduce exposure to single asset classes, sectors and geographies.
- > Designed to manage downside risk with multiple strategies like Low Volatility, Alternatives, Option Strategy and DSC all contributing to improved relative performance e.g. DSC has reduced exposure to the global equity markets (MSCI ACWI) allocation by around 15%.
- > Historically, staying invested through short term volatility delivers better long-term returns.
- > Global stock markets have experienced many different geopolitical events but have always recovered over time.

	Empower 2	Empower 3	Empower 4	Empower 5	Empower 6
Empower Fund Performance	-3.22%	-4.41%	-5.40%	-6.16%	-6.25%
Global Shares	-9.16%	-9.16%	-9.16%	-9.16%	-9.16%
Difference	5.94%	4.75%	3.76%	3.00%	2.91%

Source: ILIM, performance is gross of fees and charges and is from Jan 1st - March 6th, 2022. Global shares are MSCI ACWI.

What are the potential outcomes for markets from this crisis?

- > Below is a graph that shows a potential range of outcomes for the S&P 500 in the US.
- > There are always diverse opinions on where markets are going but these are even more pronounced when war is a factor.
- > Key considerations in determining the outcome are inflation and growth. More specifically:
 - > the short to medium term oil price.
 - > the medium to long term options to address dependency on Russian oil/gas supplies
 - > actions taken by central banks – continue the plan to reduce inflationary market support vs deliver schedule of expected rate increases which will slow growth?
- > These are not definitive projections but rather a range of scenarios given the uncertain nature of the crisis and the way it is evolving.



Source: ILIM

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