Ukraine-Russia Crisis
March 1, 2022

On February 21, 2022, Russia officially recognized two breakaway regions in eastern Ukraine, Donestk and Luhansk. On February 24, Russia announced a "special military operation" and launched a full-scale invasion of Ukraine. Russia's incursion from the East, South, and North of Ukraine appears to be aimed at destabilizing the democratically elected government of Ukraine and replacing it with a Russian-friendly regime similar to the one governing Belarus to the North.

Source: New York Times reporting; Institute for the Study of War (Russian-occupied areas). Data as of February 27, 2022.

Investor Concerns

Context is helpful to lend some perspective to concerned investors. Russia and Ukraine represent 1.7% and 0.2% of world GDP, respectively. The two countries represent less than 0.8% of world stock market capitalization and 2% of world population. Given this background, the two countries have minimal direct impact on world capital markets.

Russian Energy & Military

Despite the small economic impact overall, Russia is one of the world's largest exporters of oil and gas. Europe imports 30% of its crude oil and 39% of its natural gas from Russia, which represents half of Russia's oil and 70% of their gas exports. European countries that are heavily reliant on Russian imports, and worldwide consumers of energy more broadly, may suffer a drag on economic growth because of higher energy prices due to supply disruptions from the crisis. In this way, energy is Russia's wild card to negotiate with NATO and the Western countries. Perhaps even more important to global markets overall, Russia has a large, powerful military with nuclear capability. So, the threat of war escalation and a wider-reaching conflict looms over the regional dispute as Russia attempts to unilaterally impose its authority on Ukraine.

Source: New York Times, February 28, 2022

Our View

Even though there is a lot of talk about what the conflict means, the reality is that it will not have a major impact on the global economy. The West will continue to impose sanctions on Russia and discuss ways to address the situation with Vladimir Putin, but in the end the sanctions will not cut off energy (too important to Europe). Russia and Ukraine might be hobbled by the sanctions, but the rest of the world will move forward.

The US and NATO countries will not likely go to war over the Ukraine. As the NATO alliance has made very clear, Ukraine is not a NATO country.

Oil prices and most commodities will be volatile as we digest what possible impacts will occur. Prices should moderate within a few weeks as the situation unfolds. Fear of the unknown is driving capital markets. As time passes, markets will likely adjust and recover from the recent selloff.

The crisis will likely keep the spotlight on inflation and major world central banks will likely move ahead with expected rate hikes. Global economies are in the early stages of recovering from the pandemic and this will be the real focus in the coming months, conflict in Ukraine notwithstanding.