Update on Russia/Ukraine

Russia's decision to invade Ukraine has dominated the headlines in recent weeks. We are saddened to see the impact on the innocent lives involved in this crisis. This is obviously a very fluid situation, and we are evaluating all developments closely.

Stocks could be volatile for a while, but the impact to stocks from geopolitical events historically has tended to be short-lived.

Using history as a guide, we note in the chart below, the S&P 500 fell 5% on average in 20 major geopolitical events dating back to the attack on Pearl Harbor in 1941. Importantly, the S&P 500 recovered those losses in fewer than 50 calendar days on average.

Geopolitical Events And Stock Market Reactions

		S&P 500 Index		Calendar Days To	
Market Shock Events	**Event Date**	**One-Day**	**Total Drawdown**	**Bottom**	**Recovery**
Iranian General Killed In Airstrike	1/3/2020	-0.7%	?	?	?
Saudi Aramco Drone Strike	9/14/2019	-0.3%	-4.0%	19	41
North Korea Missile Crisis	7/28/2017	-0.1%	-1.5%	14	36
Bombing of Syria	4/7/2017	-0.1%	-1.2%	7	18
Boston Marathon Bombing	4/15/2013	-2.3%	-3.0%	4	15
London Subway Bombing	7/5/2005	0.9%	0.0%	1	4
Madrid Bombing	3/11/2004	-1.5%	-2.9%	14	20
U.S. Terrorist Attacks	9/11/2001	-4.9%	-11.6%	11	31
Iraq's Invasion of Kuwait	8/2/1990	-1.1%	-16.9%	71	189
Reagan Shooting	3/30/1981	-0.3%	-0.3%	1	2
Yom Kippur War	10/6/1973	0.3%	-0.6%	5	6
Munich Olympics	9/5/1972	-0.3%	-4.3%	42	57
Tet Offensive	1/30/1968	-0.5%	-6.0%	36	65
Six-Day War	6/5/1967	-1.5%	-1.5%	1	2
Gulf of Tonkin Incident	8/2/1964	-0.2%	-2.2%	25	41
Kennedy Assassination	11/22/1963	-2.8%	-2.8%	1	1
Cuban Missile Crisis	10/16/1962	-0.3%	-6.6%	8	18
Suez Crisis	10/29/1956	0.3%	-1.5%	3	4
Hungarian Uprising	10/23/1956	-0.2%	-0.8%	3	4
N. Korean Invades S. Korea	6/25/1950	-5.4%	-12.9%	23	82
Pearl Harbor Attack	12/7/1941	-3.8%	-19.8%	143	307
Average		**-1.2%**	**-5.0%**	**22**	**47**

Source: S&P Dow Jones Indices, CFRA

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Broader Implications:

Based on our research, it does appear that the Russian invasion of Ukraine could depress global GDP growth and intensify already elevated inflation. The big question is to what extent?

- Russian and Ukrainian economies combine to account for less than 3.5% of global GDP and just 2% of global business sales according to data compiled by Carlyle.
- A contraction of 10% in these economies would subtract modestly from global GDP in 2022 and increase inflation rates by a similarly small magnitude.
- In terms of global demand in current dollars, this is roughly equivalent to a war between the U.S. states of Florida and Nebraska.

The ultimate economic impact of the Russian invasion is therefore likely to depend on the impact on the commodity markets.

- Direct sanctions are hardly the only risk facing energy markets. Energy supplies could be disrupted by hostilities, foreign banks' unwillingness to transact with Russian counterparties amid a web of legal risks, or Russian retaliatory supply restrictions.
- With global oil and gas production remaining well below levels one would expect at current prices, energy markets are likely to remain tight and prone to exaggerated price swings in the coming days and weeks.
- Other important markets such as palladium, wheat, are also strained and the broader impact on global GDP will take some time to evaluate.

We can't control markets, but we can adapt and take advantage of opportunities.

- We have been reviewing our current portfolios to estimate the direct impact from Russia/Ukraine. Importantly, we are trying to anticipate secondary implications that could result such as pressure on European banks that have exposure to the region, elevated commodity prices even beyond oil that could lead to higher costs or outright shortages (i.e., wheat, precious metals, neon gas) and the ultimate impact on individual companies.
- As we evaluate the companies we own (and ones we don't own but are studying), we are looking for great companies that have a competitive product/service and pricing power to handle the higher prices that are likely to result from this conflict. We are finding great opportunities in companies that are now trading at a discount.
- The only free lunch in investing is diversification. Although many stocks and bonds are negative on the year, real estate and a number of other assets classes continue to perform well. The large dislocation between asset classes creates opportunities for long term investors.

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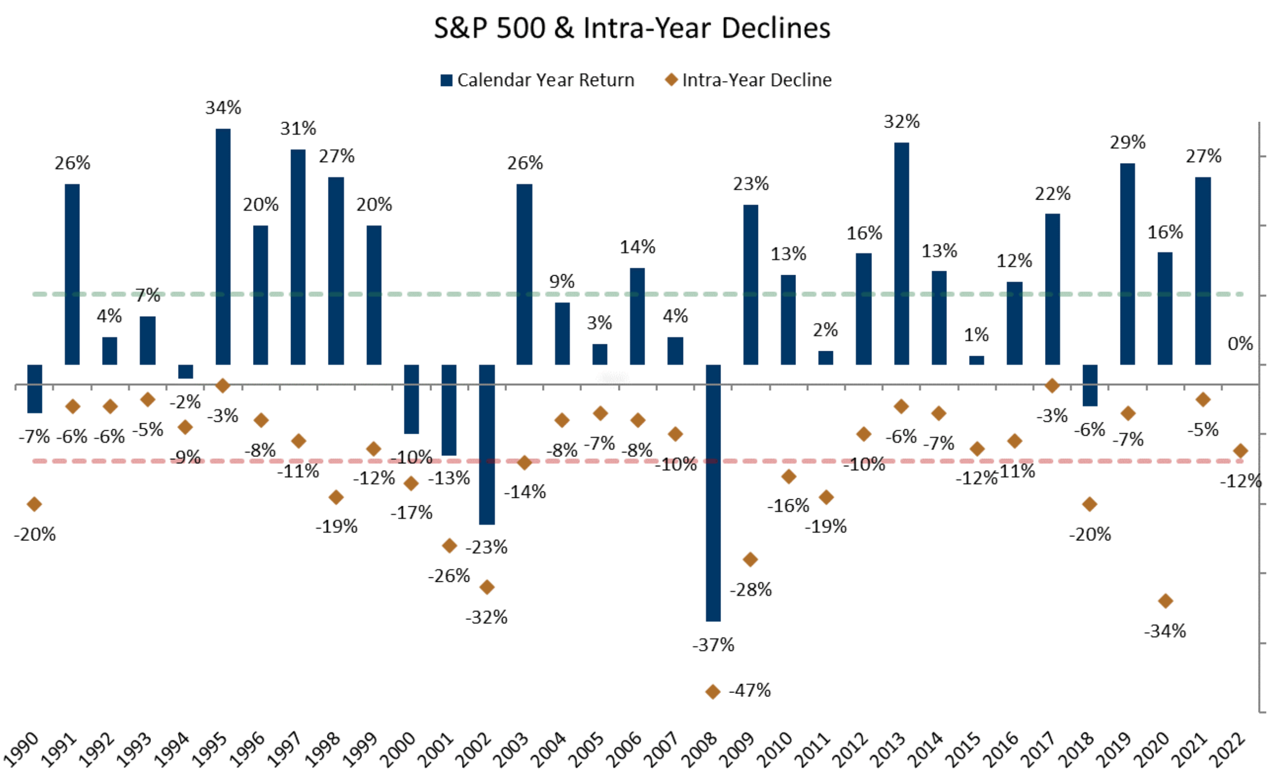
- We are evaluating opportunities to rebalance, which will allow us to maintain our desired allocation to stocks. Rebalancing helps us stick to our investment policy, while buying stocks at lower prices.

Lessons on Volatility

- This is normal. Since 1990, the average intra year decline in the S&P 500 is ~14%. In 2021, the largest decline was 5% and today we are down approximately 12%.
- If anything, last year was the abnormal year because there was no volatility. Unfortunately, volatility is the price that we all must pay for higher returns over time.
- As we have discussed before, we are most concerned with volatility that also involves a recession. Based on what we know today, we believe we are seeing normal volatility, but are paying very close attention to our recession indicators.



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