Beacon Trust
INNOVATING WEALTH STRATEGY

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Beacon Weekly Investment Insights

As the Russian invasion of Ukraine continued and intensified last week, the Russian economy has taken serious blows and its financial system is further isolated from the rest of the world. While the Russian economy is expected to shrink by 35% in the second quarter as a result of global sanctions, it would still pale in comparison to the human suffering and loss of life.

Numerous corporations around the world cut off their ties with Russia in response to the military aggression in Ukraine, including Apple, Exxon, Boeing, Airbus, Ford, BP, Shell, Visa and MasterCard. The corporate world shunning Russia, along with the global financial community removing them from SWIFT, should further isolate Russia from the rest of the world and cause major damage to Russian assets and Russian currency, the ruble.

Here on our shores, the biggest impact of the Ukraine crisis is likely to be felt at the pump as the average national gasoline price surged to the highest level in a decade. Crude oil prices jumped to the highest level since 2008 with the benchmark West Texas Intermediate crude futures trading as high as $116 last week in what appears to be the biggest energy market disruption since the Arab oil embargo in the 1970s. Oil markets were already tight before the Russian invasion following a steep cut by OPEC to oil production in response to the pandemic.

While the sanctions already announced against Russia did not specifically target the energy sector, the markets expect some limits on the Russian energy exports eventually. President Biden announced in his State of the Union speech last week that U.S. will release 30 million barrels of oil from strategic reserves as part of a 60 million release globally in an effort to help calm down the huge spike in oil prices.

We are also likely to pay higher prices for food. Russia is the largest exporter and Ukraine is the fourth largest exporter of wheat. Russia and Ukraine account for 30% of the world's wheat exports. That commodity spiked up 55% this year as a result of the conflict, adding to concerns about lower supply and higher prices for bread, pasta, cereal and other wheat-reliant foods.

Russia also supplies one-third of the global demand for palladium, a metal used to manufacture semiconductor chips, which are found in a range of consumer electronics. Palladium is also a key metal used in catalytic converters in cars. The conflict in Ukraine is expected to hit the electronics and automobile markets as a result.

Another area we may feel the effect of the war in Ukraine is in the retail sector. Large consumer businesses such as Apple, Nike, and American Eagle Outfitters already warned about business impacts from the Ukraine crisis, especially if it drags out for a long period.

On the economic front, Institute for Supply Management (ISM) released two important reports last week. Manufacturing sector rose to 58.6 in February according to ISM, an increase of 1 point from the January reading, as the overall economy registered its 21st consecutive month of growth. Services sector declined to 56.5 last month, slightly lower than the 56.7 consensus. The services sector, which is much larger than the manufacturing sector, also showed 21st consecutive month of growth.

ADP employment report showed on Wednesday that private job creation remained solid. Not only did companies add 475,000 new jobs in February, better than the estimate of 400,000, but the previous month's count was revised from a loss of 301,000 to a gain of 509,000. The massive upward revision brought the two-month count to almost 1 million new jobs added. The leisure and hospitality sector posted the biggest gains as Americans are eager to fly and travel again.

The more closely watched nonfarm payrolls report on Friday showed that 678,000 jobs were added in February, more than the 440,000 estimate. Further, the unemployment rate fell to 3.8%. The wage growth rate was 5.1% year-over-year, below expectations but still high enough to fuel inflation expectations. This was the final labor report ahead of the Federal Reserve meeting on March 15-16, and it confirmed that the labor market remains healthy. It gives the Fed the confidence to tighten monetary policy, but also a reason to go easy on the gas pedal due to wage growth potentially levelling off.

Fed Chair Jerome Powell gave his semiannual hearing at the House Committee on Financial Services on Tuesday and his semiannual hearing at Senate Banking Committee on Wednesday. He stated that he still sees interest rate hikes this year although the economic uncertainty increased as a result of the war in Ukraine. He cited extremely tight labor markets and historically high inflation as reasons to start raising borrowing costs. He promised to use Fed's policy tools as appropriate to bring inflation lower while promoting sustainable economic growth and a strong labor market. The first rate hike is expected to be announced on March 16^{th} and markets expect a 25bp rate hike.

High level of geopolitical uncertainty discussed above nullified the positive economic news of last week. For the week, S&P 500 and the Dow Jones Industrial Average declined by 1.3%. The tech-heavy Nasdaq Composite slid 2.8%.

The economic calendar will be relatively light this week with the Consumer Price Index (CPI) released on Thursday and University of Michigan's consumer sentiment reported on Friday. The headline inflation is expected to rise to 7.8% from a year ago, the hottest level since 1982, and the consumer sentiment is expected to decline. We expect Russia-Ukraine war to remain a major focus point for investors this week. We will continue to monitor the overseas developments closely along with the investment implications.

Market Scorecard:	**3/5/2022**	**YTD Price Change**
Dow Jones Industrial Average	33,614.80	(7.49)%
S&P 500 Index	4,328.87	(9.18)%
NASDAQ Composite	13,313.44	(14.90)%
Russell 1000 Growth Index	2,615.00	(14.96)%
Russell 1000 Value Index	1,593.56	(3.75)%
Russell 2000 Small Cap Index	2,000.90	(10.89)%
MSCI EAFE Index	2,035.47	(12.87)%
US 10 Year Treasury Yield	1.73%	22 basis points
WTI Crude Oil	$115.68	53.81%
Gold $/Oz.	1,966.60	7.55%

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