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Financial advisers downplay geopolitical unrest while preparing for the worst

Traffic jam in Kyiv, Ukraine, as residents seeking to flee the capital after Russia attacked Ukraine.

Financial markets are reacting to Russia's invasion of Ukraine, while market watchers dissect the bigger picture.

February 24, 2022 *By Jeff Benjamin*

3 MINS

The escalating ***conflict between Russia and Ukraine*** has proved to be the final straw for a stock market that was itching for a major pullback. Now that the slide has been set in motion, with broad market indexes opening down more than 2% Thursday, ***financial advisers and market watchers*** say this is either a buying opportunity or a watching opportunity.

“This Russia-Ukraine story has been in the making for a little while and when we saw that the markets were likely to turn, we got out ahead of it and started reducing equity exposure about a month ago,” said Terry Sawchuk, chief executive of Sawchuk Wealth.

While the S&P 500 Index was down more than 11% this year prior to Thursday’s decline in response to Russia’s invasion of Ukraine, Sawchuk said the current stock market environment is the result of factors that were set in motion over the past few years.

“In 2021, more money went into the equity markets than the previous 10 years combined,” he said. “People had stimulus money, unemployment, payment protection programs, and all that money went into the markets and the economy.”

But while stock market indexes saw big gains last year, including a 28.8% gain by the S&P, a closer look shows cracks in the foundation, according to George Milling-Stanley, chief gold strategist at State Street Global Advisors.

“The stock market saw 70 successive all-time highs in 2021 and they were all due to a handful of tech stocks and some health care stocks, rather than being a true reflection of the strength of the overall market,” Milling-Stanley said.

In the near term, some financial advisers said they’re sticking to their plans and encouraging clients to stay calm as ***inflation spikes,*** markets slide and geopolitical risk builds.

“First, geopolitical unrest in the past has resulted on average in a 5% pullback, and the recovery has on average been in under 50 days,” said Kashif Ahmed, president of American Private Wealth.

"Second, without denying that there will be unnecessary bloodshed and human suffering for the people of Ukraine, and some in Russia, Ukraine is not of strategic interest to the U.S., nor does it possess oil or other natural resources of value," Ahmed added. "This will be short-lived and should not be a tradeable event. Having said that, people who are piling into oil ETFs and stocks are kind of late to that party. There might still be some upside, but not much."

Tim Holsworth, president of AHP Financial Services, said he has yet to hear from a single client regarding the market unrest.

"Selling into this decline is ridiculous," Holsworth said. "It takes courage to hold, and that's the right answer. This also might be a tremendous opportunity to buy quality stocks."

Scott Bishop, executive director of wealth solutions at Avidian Wealth Solutions, is walking a line between cautious and optimistic. "Historically, markets are higher a month after events like this about two-thirds of the time," he said. "Of course, if anything changes, we are prepared to adjust portfolios."

Bishop is also focused on the moving target of the ***Federal Reserve's monetary policy***, with the Fed slated to hike rates by between a quarter and half a percentage point next month.

While inflation is already at dangerous levels and showing no signs of receding, Bishop believes the market volatility in the wake of the geopolitical unrest will "turn the Fed more dovish."

A less aggressive tightening cycle by the Fed might sooth the financial markets, but it won't likely be enough to tamp down the pace of inflation.

Milling-Stanley of State Street still expects between four and five Fed rate hikes this year, but also believes the March hike will be 25 basis points, as opposed to the 50 basis points some had previously forecast.

"Inflation is the longer-term threat, but what you're seeing in stocks at the moment is probably causing some lack of sleep among Fed governors," he said. "They don't like sudden moves in the markets and certainly don't want to be precipitating sudden moves."

Sawchuk agrees that "the Fed is in a very difficult position here."

"They have to handle inflation and employment and financial stability," he said. "And the problem is two of those three indicate they need to tighten."

Sawchuk said factoring in a war between Russia and Ukraine introduces a "near certainty" of spiking oil prices, already exacerbated by inflation.

"We were on trajectory for $5 gasoline before Ukraine, and now we're on a path to $6 or $7 a gallon for gas," he said. "If this [Russia-Ukraine situation] doesn't resolve itself in short order, we could see oil push to $150 a barrel, and that's a recession starter."

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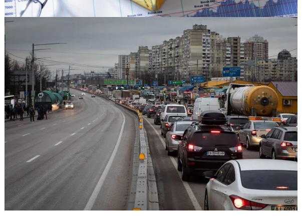

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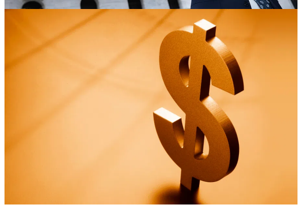

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