NEWS Economy

Advisers brace for Russian invasion of Ukraine

Ukrainian frontier guards

Stocks fell as President Joe Biden warned of an imminent Russian attack on Ukraine, combined with other concerns, like rising inflation.

February 17, 2022 *By Sean Allocca*

3 MINS

While the Russian military buildup near Ukraine has grabbed media headlines in recent weeks, financial advisers and their clients are remaining calm and bracing for only short-term market impacts.

The U.S. escalated warnings about a possible attack Thursday, with President Joe Biden ***telling reporters*** that an invasion is expected in the next several days and that a "false flag" attack is likely.

While Russian officials said the country doesn't have plans for an invasion, Russia expelled the deputy U.S. ambassador to Russia, the State Department said, in what American officials called an "escalatory step."

The price of oil spiked and stocks fell as of midday Thursday as investors watched the worsening relations unfold. Despite the dire predictions, advisers remained steadfast and said they wouldn't react to the deteriorating geopolitical developments.

"New clients to our firm this year have expressed nervousness about the market crashing due to the possibility of a war," said Jon Ulin of Ulin Wealth Management in Boca Raton, Florida. "Long-term clients haven't lost any sleep."

With hostilities looming, the prospect of economic sanctions on Russia could play a role in the overall U.S. economy. While restricting trade could serve a political purpose, it generally also limits economic growth, said Blaine Thiederman, founder of Progress Wealth Management in Denver.

Energy prices are likely to increase sharply over the initial 30 to 60 days following the beginning of the conflict, but markets will adjust over time, he said.

"Initially, investors should expect a short-term drop in the markets due to this, but long term, markets figure themselves out," Thiederman said. "The real reason behind this is that markets hate uncertainty."

If the price of oil spikes higher, ***concerns over inflation,*** which already ***hit near-historic levels*** this month, could place an even greater strain on the price of consumer goods and the supply chains that move those goods around the country.

"Our oil reserves are at their lowest levels in the last few years, so supply-side economics are already forcing crude prices higher," said Matt Slaton of Slaton Capital Advisors in Bartonville, Texas. "This will accelerate with an invasion, but I don't think initial sanctions would impact our economy. However, long term, based on which countries get pulled into the conflict, it could certainly affect different parts of our economy."

An invasion could actually be a blessing in disguise for the markets in the long run, since a quick market pullback and a spike in energy prices caused by hostilities would likely slow inflation and thereby lessen pressure on the Federal Reserve to raise rates, said Noah Damsky, principal of Marina Wealth Advisors in Los Angeles.

"There would be a short-term, knee-jerk pullback in markets, but after the initial shock and awe, markets would head higher," he said.

Historical data may help put the headlines in context for clients. A review of 20 major geopolitical events going back to World War II showed that stocks had fully recovered their losses within an average of 47 trading days, after an average maximum drawdown of 5%, according to a ***CFRA Research study.***

Market returns, on average, have been positive 12 months after spikes in economic uncertainty, as measured by the Geopolitical index.

"Stocks do react to headlines and many times the market recovers abruptly — especially in response to truly horrific events," said Corey Voorman, founder of Voorman Investment Counsel in Plymouth, Michigan.

As proof, Voorman points to President Reagan's assassination attempt in 1981 and the Yom Kippur War in 1972. On both occasions, the market fell less than 1% and recovered in less than a week.

"Invasions and war are not new to markets," he said. "Wars come and go, and the capital markets, in some form, have existed for thousands of years."

While a military conflict, either through traditional combat or cyber warfare, seems almost inevitable, the probability of a material impact on the U.S. economy will be little and any impact would likely only last weeks to months, said Kashif A. Ahmed, president of American Private Wealth in Bedford, Massachusetts.

"We will, of course, be selectively buying any dips that happen based on news," he said.

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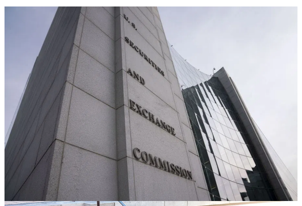

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