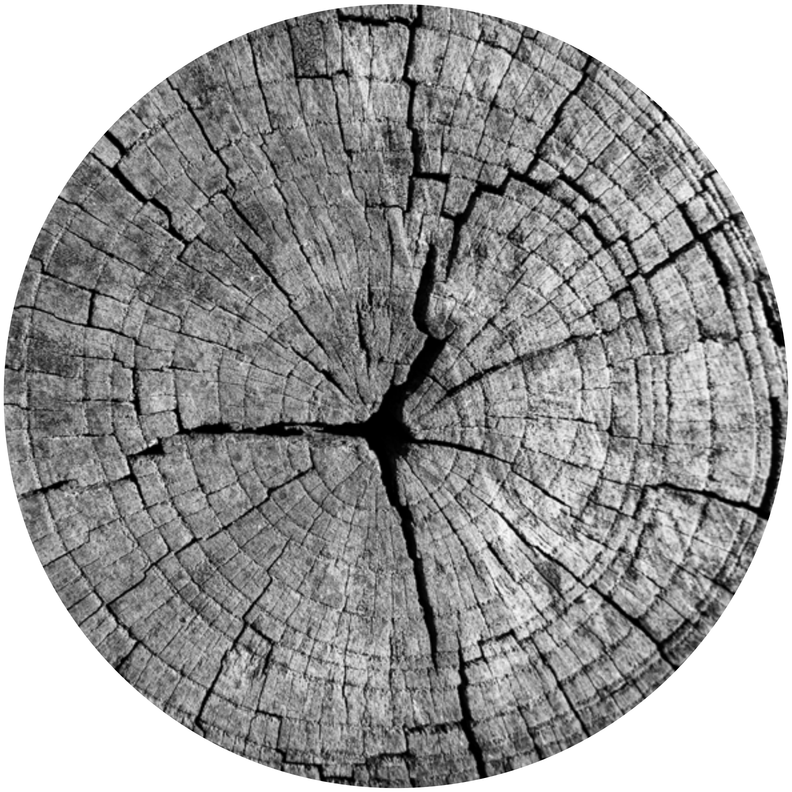

CAPITAL MARKETS UPDATE

Russia invades Ukraine

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RUSSIA INVADES UKRAINE

Russian soldiers invaded Ukraine, attempting to overtake the country by air, land, and sea in an unprovoked attack. Russian President Vladimir Putin stated that Russia could not feel “safe, develop and exist” due to, what he called, threats from Ukraine. The countries of NATO viewed this aggression as senseless and unacceptable, causing them to rally around the Ukrainian people. Several countries are also providing military equipment and humanitarian aid to help Ukrainians defend themselves.

EARLY ECONOMIC IMPACT OF WAR

This invasion has financial implications around the world. For example, Russia is being hit with economic sanctions intended to financially cripple the country, which includes many countries removing some of their banks from the SWIFT system. The Society for Worldwide Interbank Financial Telecommunication (SWIFT) system links financial institutions around the world. The SWIFT system does not send money but is an international standard for banks to send and receive instructions for transferring funds between countries. Removing an entire country from accessing the SWIFT system is widely considered to be one of the most severe economic sanctions a country can impose. Currently, the European Union, Japan, United Kingdom, Canada, and the United States have all enacted the ban.

In response, the Central Bank of Russia raised its primary benchmark interest rate from 9.5% to 20% overnight, making it the highest level in nearly 20 years. The CBR said this interest rate increase “is designed to offset the increased risk of ruble depreciation and inflation.” They are also trying to infuse liquidity into the Russian banking system by holding daily auctions of 3 trillion rubles, equating to roughly $28.3 billion U.S. dollars.

U.S. IMPORTS OF CRUDE OIL AND PETROLEUM PRODUCTS (THOUSAND BARRELS PER DAY)
TOP TEN COUNTRIES

CANADA	4125
MEXICO	751
RUSSIA	540
SAUDI ARABIA	522
COLOMBIA	284
ECUADOR	186
IRAQ	176
BRAZIL	126
KOREA	122
UNITED KINGDOM	85

SOURCE: U.S. ENERGY INFORMATION ADMINISTRATION

This war is disrupting energy markets since Russia generates roughly 10% of the global oil supply. According to Bloomberg, as of May 2021, the United States imported 844,000 barrels of crude and refined oil products from Russia. Several countries, as well as major corporations, are protesting the war and stating that they will no longer be purchasing or refining Russian oil, which has added to the already limited supply. At the time of this writing, the price of a barrel of WTI crude climbed as high as $130, marking its highest level since 2008.

FEDERAL RESERVE EXPECTED TO RAISE RATES

It is widely expected that the FOMC will hike the Federal Funds rate by 0.25% at their next meeting in March. Fed Chair Jerome Powell mentioned that the Russia-Ukraine war is adding significant uncertainty to the U.S. economy. Despite this, Powell made it clear that rate hikes are still needed to combat inflation.

The recent increase in oil prices has contributed to the inflation problem that the U.S. is already battling. The Consumer Price Index (CPI) rose 7.5% year-over-year in January, marking its highest level in 40 years. In addition, the supply chain issues at U.S. ports continue and are creating challenges for suppliers. This is causing the price of many raw materials to rise and is putting pressure on corporate profit margins.

The Fed's other mandate, full employment, is also reaching levels consistent with the Fed's decision to raise rates. Unemployment fell from an already low 4.0% to 3.8% in February. Nonfarm payrolls added 678,000 jobs which were far above the consensus estimate of 440,000. From this total, there were 179,000 jobs created in the leisure and hospitality industries. They continue to gain momentum as more and more people resume business travel and vacation.

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