Dear Client

The Impact of the Ukrainian War

The war in Ukraine has added to the increased level of uncertainty in financial markets this year, which were already grappling with concerns over high inflation and higher interest rates.

When it was announced that Russia had invaded Ukraine, sharemarkets fell sharply and commodity prices, including oil, rose. The New Zealand market was impacted with the S&P NZX50 index falling 3.3% and the Australian share market falling 2.2%.

Sharemarkets usually fall when war is threatened. Yet perversely, once war starts, the focus of markets moves on to other issues and sharemarkets typically rebound. This occurred late last Thursday night when the US sharemarket S&P 500 was initially down 2.6% only to end the day up 1.5%. This flowed through to our sharemarket which rose 1.6% on Friday.

Clearly there will be some longer lasting economic and political impacts of the conflict and the subsequent sanctions. From a New Zealand perspective the extent of trade with both Russia and Ukraine is limited. Trade between NZ and Russia is worth approximately US$252 million, not large in the context of our overall economy.

There are wider implications however. The level and direction of inflation and interest rates around the world will be more important to share and bond markets in the long term. The oil price surged with Brent crude trading at over US$100 per barrel. Given Europe’s dependency on Russia for oil and particularly gas, Europeans will likely have to pay more for their energy - and this will increase inflation which will hurt their economies.

In summary, outside the significant human cost and the possibility for further increases in the price of petrol, the impact on the global economy is likely to be minimal. Sharemarkets experienced a similar fall in 2014 when Russia annexed Crimea. After the initial decline, the sharemarkets rebounded and largely overlooked the ongoing conflict. Therefore, we believe the prudent course of action is to look through any immediate tendency to over react and focus on the quality of your investments and how your portfolio is managing the impact of inflation and rising interest rates.

I believe that the fund managers we use are managing these threats well. Companies are generally reporting healthy profits but despite this the rest of the year will likely see more ups and downs, although hopefully not as violent as we have recently experienced.

As always, please contact me if you want your portfolio reviewed, or if you have any queries or concerns.

Best regards

Greg McGlynn BMS / Director

Financial Adviser
FSP 711032
greg@prospectwealth.co.nz
www.prospectwealth.co.nz
027 278 7656
09 449 2736.

Prospect Wealth.

If you have any questions please contact us on +64 9 449 2736 or email to: greg@prospectwealth.co.nz

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