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February 2022: Market Review

Global equities posted a second consecutive month of broad declines in February as continued inflation concerns and the February 25th Russian invasion of Ukraine added considerable uncertainty to investors' market view. Since Russia's Ukraine attack, an escalating series of economic sanctions have been imposed by the United States, the European Union, and the United Kingdom and their NATO Alliance members (albeit with certain carve-outs for energy sales). A majority of these sanctions have targeted Russian banks, their defense industry, and industrial oligarchs (including President Putin) with hopes of crippling Russia's economy, limiting military and government resources, and eventually forcing Russia to withdraw their troops from Ukraine. Complicating the situation is the dependence of certain European countries (e.g., Germany and Italy) on Russian oil and natural gas. The S&P 500 Index fell -3.0% during the month while the Dow Jones Industrial Average declined -3.3%. The NASDAQ Composite was down -3.4% in February.

In the United States, the 12-month increase on inflation in January rose to a 40 year high of 7.5%. Despite this elevated reading, retail sales surged +3.8%, showing consumers aren't deterred by the price increases. The economy added 476,000 jobs in January and the unemployment rate modestly rose to 4.0% as more people rejoined the workforce. Within domestic equities, value stocks outpaced growth stocks and larger cap stocks declined more than smaller cap issues. The Russell 1000 Value Index decreased -1.2% while the Russell 1000 Growth Index fell -4.3%. The Russell Midcap Value Index depreciated -0.5% while the Russell Midcap Growth Index declined -1.2%. The Russell 2000 Value Index added +1.7% over the month versus a gain of +0.4% from the Russell 2000 Growth Index. Commodities had a strong month as WTI crude oil rose to $96 per barrel, up from $88 at the end of January due to the relationship between Russia and the E.U. deteriorating over the month. Gold also fared well in February, closing the month at $1,899, up +5.8% from the beginning of the month as investors fled to the safe haven asset.

International equity indices also declined as the Russian invasion into Ukraine poses more significant risks to their economies. The MSCI ACWI ex-U.S. Index dropped -2.0% while the MSCI EAFE Index fell -1.8%. The MSCI Emerging Markets Index declined -3.0% as Russian equities plummeted -52.7% after severe sanctions were imposed by NATO member countries. Chinese (-3.9%) and Indian (-4.1%) equities also contributed to the underperformance in February.

U.S. fixed income markets declined during the month as markets anticipate the beginning of a potentially significant interest rate hiking cycle to begin in March. With the release of the January inflation reading and strong economic data, the Federal Reserve signaled there is a high possibility that they will increase the Fed Funds interest rate by 25 basis points at their meeting next month. The yield on the 10-year Treasury ended the month at 1.83%, modestly higher than last month's close of 1.79%. The Bloomberg U.S. Aggregate Bond Index declined -1.1% in February while the Bloomberg Treasury 20+ Year Index was down -1.6%. Additionally, the Bloomberg Corporate High Yield Bond Index depreciated -1.0%.

Geopolitical disputes dominated the market this month and caused investors at the margin to sell equities. There is a possibility that the disputes will be resolved in a diplomatic manner as Russia and Ukraine have already begun discussions on a resolution. If Russia and Ukraine are unable to reach an agreement, additional sanctions are anticipated to be imposed by NATO member countries. However, these measures are unlikely to impact Russia's energy sector because European countries rely on Russia for a significant amount of their natural gas supplies. The United States has indicated its intention to increase energy exports to European countries if tensions escalate between Russia and the E.U. but have yet to indicate any reversal in the Biden Administration's general aversion to more robust carbon-based energy policy. Despite the relatively small size of the economies in Russia and Ukraine, there is much economic uncertainty surrounding the issues associated with the first ground war in Europe since the 1940's and how much economic coercion can be used to deter a country with nuclear weaponry. Whatever the resolution of these issues, the Ukrainian people will undergo massive personal hardships and U.S. investors, despite a recovering economy, should be prepared for heightened security price volatility in the coming months.

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