STOKES CAPITAL ADVISORS, LLC

Market Commentary
February 25, 2022

On Thursday (2/24/22) Russia took the first steps in what the news has termed an invasion of Ukraine. Not surprisingly, this has led to major market corrections around the world. While we are monitoring all aspects of this developing story which remains very fluid, we wanted to share some information on how markets have reacted to geopolitical events in the past.

Since WWII, there have been 37 major geopolitical and historical events affecting equity markets. If the economy was near a recession during these events, the S&P 500® Index declined on average, by 11.5% over the 12 months following the event. If the economy was not in or near recession, the S&P 500® Index advanced on average, by 10.8% in the subsequent 12 months.

As of (2/23/22), the S&P 500® Index officially moved into correction territory on an intra-year basis. It has declined approximately 14% from its 52week high earlier this year. This is the 33rd correction and/or bear market since 1980. The average draw-down of these periods was 18.8%. However, 90% of the time the S&P 500® was up nearly 25% or more one year later. For more information on how markets have reacted to geopolitical events in the past, see the included analysis: "Geopolitical Sell-offs are Typically Short-lived".

One of the critical factors being considered in all this is what might happen with Russian oil exports. For a little context, Russia is the third largest oil producing nation and is among the top 10 foreign oil suppliers to the U.S. With oil prices at $80-100 this commodity becomes a critical financial support for them to conduct war. However, it also becomes one of the most effective sanctions for importers to use along with sanctions on Russian financial institutions. At this point the U.S. is still importing Russian oil. This week, a Dubai-flagged tanker loaded with 700,000 barrels of Russian oil left port and is headed to St. Charles, LA.

From a policy perspective, geopolitical tensions and the uncertainty that follows may alter Central Bank policy for 2022. Before the invasion, markets had priced in five to possibly seven ¼ point increases and a pause/truncation of their asset purchases. Markets may need to adjust to a less "hawkish" Federal Reserve which could be a tailwind for equity markets. On the other hand, the invasion has aggravated an already challenging inflation picture which does not appear to be easing any time soon.

Lastly, the economic data evaluated so far for the U.S. economy remains healthy and not expected to materially decline due to the Ukraine/Russia conflict: strong labor market, GDP growth is above prior trend, retail sales, wage growth, consumer balance sheets and a strong housing market all point toward an expansion not recession. If history is any guide, the recent declines in the equity market may prove to be an excellent buying opportunity for long term investors.

Bottom line: unless we start to see deep stress in the financial markets and/or the U.S. economy starts to nose-dive, we believe this could be more of a normal "correction" and not the start of a bear market.

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