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The Market Now (First of a Series)

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It was almost a clean getaway.

Two years almost to the day since it emerged, Covid was crumbling. The combination of vaccinations (77% of Americans with at least one shot) and infection immunity was finally having an effect. Hawaii became the last state to announce an end to indoor masking.

Across the nation school children are finally seeing each other's faces. Most businesses are instituting some form of back-to-the-office procedures. And business travel is picking up.

Inflation was certainly on the rise, but the Fed pivoted in November to a decidedly hawkish stance with rate hikes scheduled to begin with their meeting this week. The economy remained in a growth mode across many industries, and job statistics continued on a buoyant path.

Then on February 24th, Russia invaded Ukraine. In the words of President Zelensky, "everything has changed." While that may be certainly true in the geopolitical sphere, it's too early to tell how this plays out economically or in the capital markets.

Of course, exogenous risk has always been on the table. But thanks to relative quiescence in Europe over the past several decades, at least in militaristic terms, concerns about geopolitical surprises usually centered around North Korea. A massive land attack by the Russians took the world by surprise.

As was the case in March 2020, investors and managers are now taking stock. On checklists are sanctions (what knock-on effects will hurt our businesses?), labor (how will workers in the region be impacted?), and regulations (what new rules could international agencies impose?).

More generally, how will Russia/Ukraine exacerbate already high inflation? Most obvious is soaring energy prices reflected in sticker-shock gasoline costs at the pump. That's hitting consumers in a real and regular way. Same with food prices, particularly wheat and barley. And commodities like nickel, which is used for (among other things) electrical vehicle batteries.

Unlike Covid-19, which quickly encompassed everyone on the planet, the war in Eastern Europe is grinding on regionally to an uncertain outcome. That could include anything from a cease-fire and political settlement to a wider conflict engulfing NATO. This range of possibilities touches on economies and markets in varying degrees.

Meanwhile market observers are scrutinizing in-coming economic data. They present a mixed picture. Corporate earnings growth is solid but cost headwinds from remnant Covid shortages remain. Will those flare in coming months if Ukraine uncertainty mounts?

Next week we look at the impact of Russia/Ukraine on credit markets