

# STAYING FOCUSED AMID THE UKRAINE CRISIS

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Following the headlines regarding Russia's invasion of Ukraine, our thought leaders have come together to outline potential macro impacts tied to these recent events. As we are in the early stages of this development, our comments are on what is more likely to occur nearer-term rather than conjecture about what may occur.

## **Equity Market**

The major theme of the last six months has been a large rotation away from unprofitable stocks to lower-duration, high-dividend value and quality stocks.

Our Senior Investment Strategy Advisor, Jeremy Siegel, believes the dominant theme for the markets over the coming weeks is the [Fed](#) and inflation and not the Ukraine crisis.

Stocks with strong cash flows and profitability metrics, especially those with pricing power, are likely to perform well in light of these [inflation](#) dynamics.

Stocks with pricing power are well represented in quality dividend-growth-focused indexes and strategies, and these indexes have weathered market [volatility](#) over the last three months quite well. The [valuations](#) of quality dividend growth stocks make them attractive over the short run, while their profitability metrics make them valuable over the long run.

One battered-down technology segment that looks ripe for renewed consideration is cybersecurity stocks, which have secular tailwinds and very high revenue growth rates. Fears of accelerated cyber warfare caused a strong bid to these stocks, and we think the major sell-off over the last six months and year-to-date represents a timely thematic opportunity for those looking to add more [growth](#) stocks to their portfolios.

**Bottom line: the macro environment reinforces the appeal of quality stocks selling at discounted valuations—with all eyes on inflation as a key variable for rates, factors and the markets.**

## **Fixed Income Market**

Obviously, geopolitical uncertainty such as the Ukraine news creates a knee-jerk [risk-off](#)/flight to quality trade.

UST [yields](#) are lower across the board, but the 10-yr yield retraced a good portion of its prior decline and ended up at 1.97%, only 2 [basis points \(bps\)](#) lower on the day.

At this point, I would expect to see upcoming Fed speak acknowledge this "newfound" risk, but unless things deteriorate rapidly in the risk markets (stocks), the Fed will still go ahead and raise rates in March. [Fed Funds Futures](#) have dipped a bit in early reaction, but we still believe March to be the lift-off and roughly six hikes in 2022, little changed.

Needless to say, energy prices have soared on the headlines, another tailwind for inflation. However, the Fed, or any other central bank, has no control over that development. In fact, higher energy prices may be viewed as a "tax" on the consumer.

Once again, unless this crisis spirals and spills over into something even more horrific, like Russia moving beyond Ukraine and challenging a NATO country, the macro impact here in the U.S. will probably be more of an energy-related phenomenon. The Fed's primary focus is domestic, and that would keep the Fed on a path to raise rates at the next 3 to 4 FOMC meetings.

The UST 10-Year yield will more than likely resemble a "sawtooth" pattern based upon what the stock market does.

**Bottom line: Russia's invasion of Ukraine has added a new aspect to the mix, but it has not changed our focus on rising rates.**

**Financial advisors:** [Register now](#) for a live webcast on **February 28, 2022 at 4:15pm** with Professor Jeremy Siegel, Senior Investment Strategy Advisor to WisdomTree, Jeremy Schwartz, Global Chief Investment Officer, and Kevin Flanagan, Head of Fixed Income Strategy, for a timely discussion on:

- The macroeconomic impact of this ongoing crisis
- Potential outcomes and implications for Fed policy, if any
- Strategies for maintaining long-term goals while navigating short-term uncertainty

**Register [Here](#).**

For standardized performance and the most recent month-end performance click [here](#) NOTE, this material is intended for electronic use only. Individuals who intend to print and physically deliver to an investor must print the monthly performance report to accompany this blog.

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## DEFINITIONS

**Federal Reserve** : The Federal Reserve System is the central banking system of the United States.

**Inflation** : Characterized by rising price levels.

**Volatility** : A measure of the dispersion of actual returns around a particular average level.&nbsp;.

**Valuation** : Refers to metrics that relate financial statistics for equities to their price levels to determine if certain attributes, such as earnings or dividends, are cheap or expensive.

**Growth** : Characterized by higher price levels relative to fundamentals, such as dividends or earnings. Price levels are higher because investors are willing to pay more due to their expectations of future improvements in these fundamentals.

**Risk-on/risk-off** : refers to changes in investment activity in response to perceived risk. During periods when risk is perceived as low, investors tend to engage in higher-risk investments. When risk is perceived as high, investors tend to gravitate toward lower-risk investments.

**Yield** : The income return on an investment. Refers to the interest or dividends received from a security that is typically expressed annually as a percentage of the market or face value.

**Basis point** : 1/100th of 1 percent.

**Fed fund futures** : A financial instrument that let's market participants determine the future value of the Federal Funds Rate.