Monthly review

Macro

The intensification of geopolitical tensions, with Russia's invasion of Ukraine, has raised serious concerns and rekindled risk aversion among traders. The financial markets had a particularly negative week, as did the surge in safe-haven assets and commodities. Volatility is likely to continue, depending on the announcements in Ukraine. Clearly, the markets were concerned that the situation between Moscow and the Western powers would degenerate more violently.

We are trying to anticipate various scenarios for the future:

> Central scenario
> Annexation of Russian troops to the Dnieper and capture of Kiev, frozen conflict with persistent tensions. Severe sanctions but no interruption of energy supply. Short-term effect on inflation and interest rates.
>
> Bearish scenario
> Escalation of the conflict and stalemate. Western countries impose drastic sanctions including Russian energy supply. Sharp rise in commodity prices and increased risk
>
> Bullish scenario
> Rapid de-escalation with strategic concessions by both parties. Return to the negotiation process and normalization of economic relations

Below is the impact of sanctions on countries (regions) compared to the scenarios according to Bloomberg:

Scenarios For Economic Impact of Ukraine Crisis
Possible paths for the Russian, European and U.S. economies
Severe Moderate Mild

Scenarios	Oil and gas keep flowing, markets settle	Energy supply disrupted, oil and gas prices up, risk-off in markets	European gas supply halted, oil disrupted, significant global risk-off shock
Sanctions	Broad. Sanctions on major banks, curbs on FX transactions and access to tech components.	Universal. Russian corporates and banks cut off from global markets, with carveouts for oil and gas.	Maximal sanctions or Russian retaliation cut off flow of gas to Europe.
Russia Impact	Falling ruble and rising inflation force big rate hikes. Sanctions hit trade, economy shrinks.	Combined impact of weak ruble, market turmoil, and disruptions to trade trigger deep recession.	Deeper crisis as Russia's budget and energy sector take an additional hit.
Europe Impact	Higher energy prices and moderate negative spillovers to growth. End-2022 ECB hike still in play.	Energy price surge, negative spillovers, and financial turmoil prompt mild downturn. ECB hike postponed to 2023.	Combined impact of energy shortages, negative spillovers and elevated uncertainty triggers a recession.
U.S. Impact	Higher energy prices and tighter financial conditions take most hawkish seven hike path for Fed off the table.	Higher energy prices and global risk off shock mean more dovish Fed heading into second half.	Worst case: energy spike combines with unanchored inflation expectations and Fed has to tighten as demand slows.

Source: Bloomberg Economics
Bloomberg

At the beginning of a conflict, it is important to avoid arbitration as much as possible and to keep your cool. It is better to act when the protagonists have revealed their true intentions.

Equity markets

The stock market indices had a complicated month in February due to the conflict in Ukraine. Until mid-February, the indices rose slightly before falling sharply.

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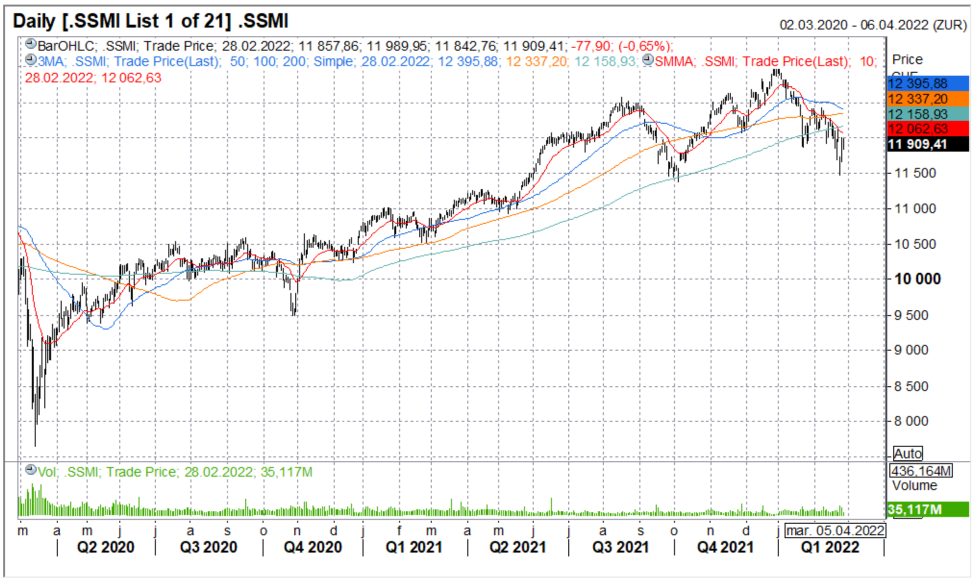
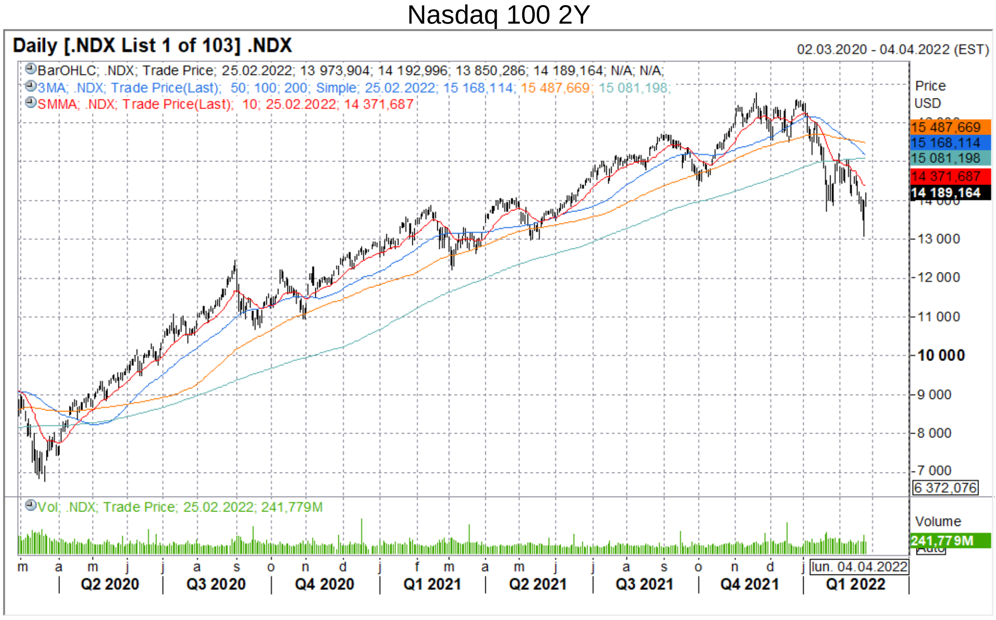


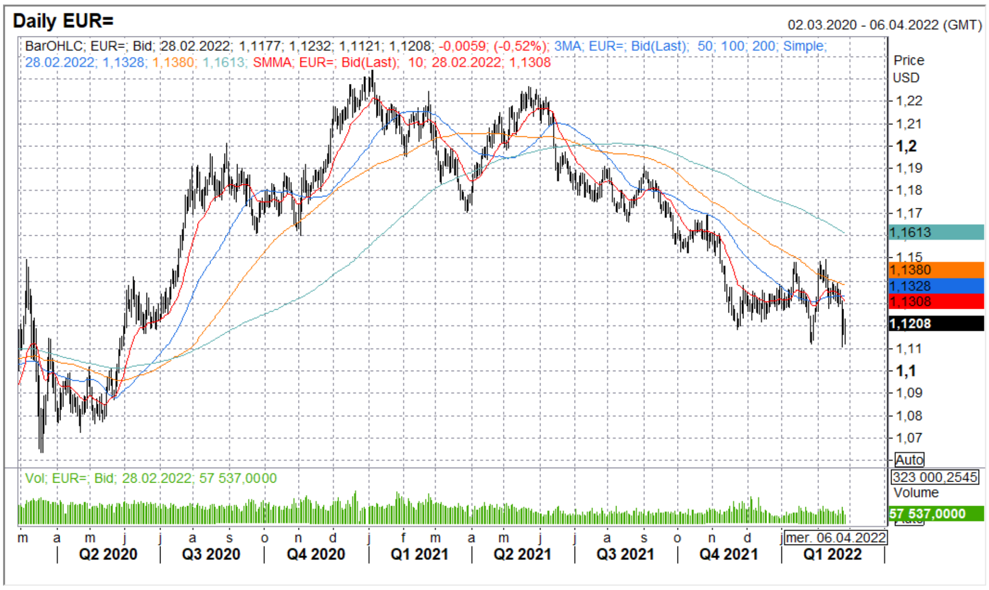
Nasdaq 100 2Y



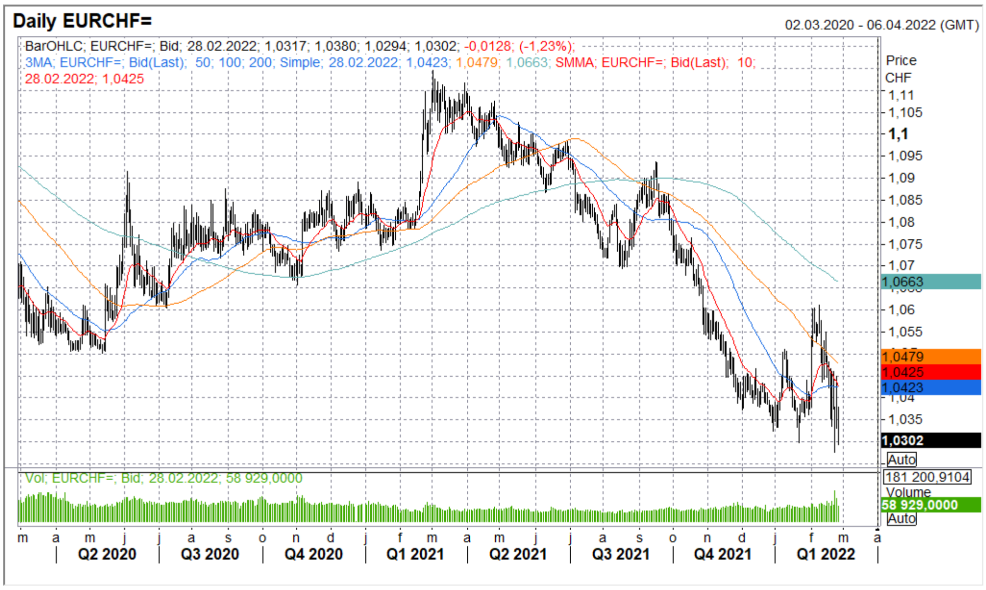
Foreign exchange market

The dollar and the Swiss franc are acting as safe havens. One of the losers of the conflict is the European single currency, which is suffering from the consequences of the conflict on its economy.

EUR USD



EUR CHF



Bond market

US 10y 2Y

The confident tone of the FED chairman at his last press conference did not completely erase the deep hesitation of the US monetary authorities - and their European colleagues - as to what to do about the inflationary threat. If inflation proves to be sustainable, it will be necessary to intensify the rise in interest rates. Moreover, no one has yet identified the risk that the impact of the conflict may have on inflation and central bank decisions. Such indifference between inflation and interest rates cannot be allowed to continue indefinitely.

Moreover, the US producer price index for January 2022 rose by 1% compared to the previous month, twice as fast as expected, compared to a 0.4% increase a month earlier.

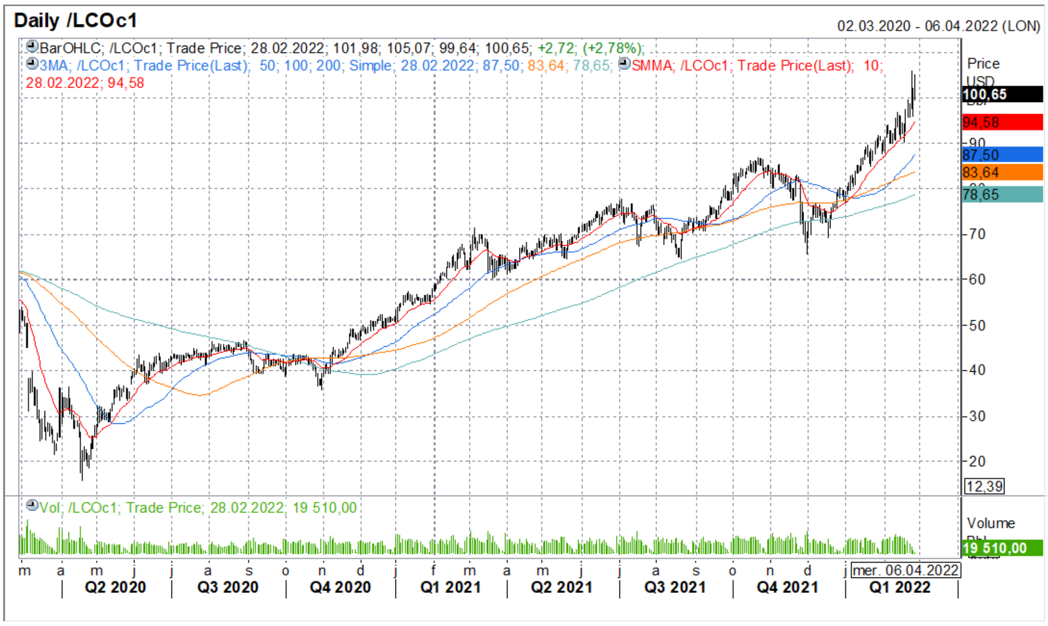
By focusing on the price of energy, we forget that inflation has other components as well. The price of rents is one of them. This component will soon become more important in the CPI and could surprise investors. Finally, let's not forget that rising rent prices also mean that the purchasing power of Americans continues to ... decline which could therefore have an impact on growth.

Commodities

Gold 2Y

The deepening crisis is causing investors to turn increasingly to safe investments like gold. The price of gold reached its highest level since last July on Thursday. The price of an ounce of the yellow metal climbed to $1,973. Over a month, the appreciation is close to 5%.

Brent



Latent tensions have driven oil prices higher since the beginning of the year. Given the fragile demand and supply dynamics, energy price volatility could continue, especially if sanctions against Russia escalate and provoke a new response from Russia. Both the U.S. and Europe are trying to penalize Russia - but without hurting energy markets and creating new inflationary pressures. Russia supplies a huge amount of natural gas to Europe, and this gas cannot be replaced quickly.