



Russia attacks Ukraine: Questions and answers.

February 2022

- The Russia-Ukraine conflict is not new, but it has intensified in recent days. Russia's latest actions raise the likelihood of sustained military conflict between the two nations.
- The most important actions investors can take to ensure peace of mind is to confirm that their long-term strategic portfolio allocations are aligned with their investment objectives and tolerance for risk.
- At a high level, our strategies do not have significant direct exposure to Russia.

Events have accelerated in Eastern Europe with Russian forces moving aggressively into eastern Ukraine and reports of explosions in parts of western Ukraine.

The Russia-Ukraine conflict is not new, but it has intensified in recent days. Russia's commencement of overt attacks against Ukraine follows its unilateral recognition of the independence of Ukraine's two easternmost regions, Luhansk and Donetsk (known together as the Donbas). These actions raise the likelihood of sustained military conflict between the two nations.

Many Western countries have responded by ratcheting up sanctions on Russia, including Nord Stream 2 AG and high-profile Russian individuals. This raises key questions about the global economy and financial markets.

How likely is a continued escalation of the conflict?

The current state of affairs in Ukraine is almost certainly not Russia's desired endgame and there may well be more deterioration to come. The situation is fluid and could go on for months.

Perhaps the most extreme scenario would see the conflict extend to the Baltic countries of Estonia, Latvia and Lithuania as they are members of the EU, euro area and NATO. Fortunately, this appears to be a remote risk at present. Nevertheless, because it would represent a game-changing escalation, we should not discount this as a possibility.

What impacts could escalation within Ukraine—and subsequent additional sanctions from the West—have on commodity prices? At what point would higher prices start to dent global business activity and consumer demand?

This is a critical risk, but global economic activity has remained strong as the scope of lockdowns and other pandemic measures continue to recede. We don't think the world economy is at risk of recession in the near term.

While high commodity prices are favourable to Russia, its economy is heavily dependent on external trading relationships. Energy price pressures could also hasten negotiations with Iran to bring its oil production back onto global markets.

Furthermore, both OPEC (that is, the Organization of the Petroleum Exporting Countries) and non-OPEC oil production remains below pre-pandemic levels, which means there's spare capacity that could help offset high prices.

What would the combined effects of an energy price shock be on inflation, interest rates and the expected trajectory of central bank policies?

Central banks were already in a difficult situation given that both ongoing supply bottlenecks and robust demand pressures were causing inflation to run hot. While adding a high-profile geopolitical conflict to the mix could further complicate central bankers' jobs, this was already a well-established concern.

Would a relatively successful incursion or invasion by Russia embolden China with regard to Taiwan, raising the risk of military conflict in Asia?

First, let's define a successful invasion from Russia's perspective as one that neither invites a coordinated military response nor cripples the Russian economy via sanctions. While this could impact the strategic calculus for China, this was already a well-established risk.

At what point might Western sanctions begin to undermine confidence and activity in emerging markets more broadly?

This is a valid concern, but emerging-market assets have been lagging developed-market counterparts for some time. Most risk assets are likely exposed to further escalation of the conflict, but in the case of emerging markets, risk premia are already fairly wide (and have widened further in the case of Russian and Ukrainian assets).

SEI's view

There is a wide range of risks and ever-present uncertainties associated with the conflict in Eastern Europe. While there are no simple answers, investors should keep in mind that geopolitical conflicts occur with a fair amount of regularity.

Russia's aggression toward Ukraine will not be the last geopolitical conflict with the potential to impact markets and portfolios. These situations are just one of the many risks that call for sound portfolio diversification and disciplined rebalancing.

As bleak as the news about Russia and Ukraine may appear, the most important actions investors can take to ensure peace of mind is to confirm that their long-term strategic portfolio allocations are aligned with their investment objectives and tolerance for risk.

Our strategies¹

At a high level, our strategies do not have significant direct exposure to Russia:

- **Dynamic Asset Allocation** has a commodities position that could be expected to benefit from higher commodity prices. However, MSCI EAFE Index and equal-weight S&P 500 Index equity positions could detract in the risk-off environment.
- **Global Factor Allocation** has a small overweight to Russia via its emerging markets sub-strategy.
- **Europe ex-UK Equity** has a small allocation to Russia. This is driven by exposure to four stocks: a steel company, a gold miner, and two oil & gas companies.
- **Emerging Markets Equity** has a neutral position to Russia compared to its benchmark.
- **Emerging Markets Debt** has a neutral weight relative to the benchmark on both the Russian ruble (RUB) and the Ukraine hryvnia (UAH). The fund is slightly underweight Russian hard-currency debt and overweight Ukrainian hard-currency debt.
- **Global Fixed Income** has a very small exposure to Russian local-currency debt and RUB.

¹ Investment strategy positioning information is sourced from BlackRock and current as at 23 February 2022.

Glossary of Financial Terms

Hard-currency debt: Hard-currency debt is debt issued in the currency of the largest industrialised nations and is mostly composed of U.S. dollar, euro, sterling or Japanese yen.

Local currency debt: Local currency debt refers to assets denominated in local currencies.

OPEC: OPEC is a permanent intergovernmental organisation of 13 oil-exporting developing nations that coordinates and unifies the petroleum policies of its member countries to make collective high-level decisions about oil production levels.

Recession: A recession is a period of broadly declining economic performance that lasts for several months or more.

Risk premium/premia: A risk premium refers to the additional potential return available to investors in assets that are perceived to be riskier. This additional potential return can serve as compensation for the additional risk being taken.

Sanction: A sanction is an economic penalty imposed by one or more nation onto one or more other nations. They tend to use trade, financial and foreign exchange markets to impose these penalties as a non-military form of coercion in pursuit of dispute resolution.

Index Definitions

MSCI EAFE Index: The MSCI EAFE Index is an unmanaged, market-capitalization-weighted equity index that represents the developed world outside North America.

S&P 500 Index: The S&P 500 Index is a market-capitalization weighted index that consists of 500 publicly traded large U.S. companies that are considered representative of the broad U.S. stock market.

Important Information

This material represents an assessment of the market environment at a specific point in time and is not intended to be a forecast of future events or a guarantee of future results. Positioning and holdings are subject to change. All information as of the date indicated. This information should not be relied upon by the reader as research or investment advice, (unless you have otherwise separately entered into a written agreement with SEI for the provision of investment advice) nor should it be construed as a recommendation to purchase or sell a security. The reader should consult with their financial professional for more information.

Statements that are not factual in nature, including opinions, projections and estimates, assume certain economic conditions and industry developments and constitute only current opinions that are subject to change without notice. Nothing herein is intended to be a forecast of future events, or a guarantee of future results.

Certain economic and market information contained herein has been obtained from published sources prepared by other parties, which in certain cases have not been updated through the date hereof. While such sources are believed to be reliable, neither SEI nor its affiliates assumes any responsibility for the accuracy or completeness of such information and such information has not been independently verified by SEI.

There are risks involved with investing, including loss of principal. The value of an investment and any income from it can go down as well as up. Investors may get back less than the original amount invested. Returns may increase or decrease as a result of currency fluctuations. Past performance is not a reliable indicator of future results. Investment may not be suitable for everyone.

This material is not directed to any persons where (by reason of that person's nationality, residence or otherwise) the publication or availability of this material is prohibited. Persons in respect of whom such prohibitions apply must not rely on this information in any respect whatsoever.

The information contained herein is for general and educational information purposes only and is not intended to constitute legal, tax, accounting, securities, research or investment advice regarding the strategies or any security in particular, nor an opinion regarding the appropriateness of any investment. This information should not be construed as a recommendation to purchase or sell a security, derivative or futures contract. You should not act or rely on the information contained herein without obtaining specific legal, tax, accounting and

investment advice from an investment professional.

Information issued in the UK by SEI Investments (Europe) Limited, 1st Floor, Alphabeta, 14-18 Finsbury Square, London EC2A 1BR which is authorised and regulated by the Financial Conduct Authority. Investments in SEI Funds are generally medium- to long-term investments.

Any questions you may have in relation to its contents should solely be directed to your Distributor. If you do not know who your Distributor is, then you cannot rely on any part of this document in any respect whatsoever.