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CHARTBOOK
Market Comment

Prepared by OceanFront Investment Counsel Inc.

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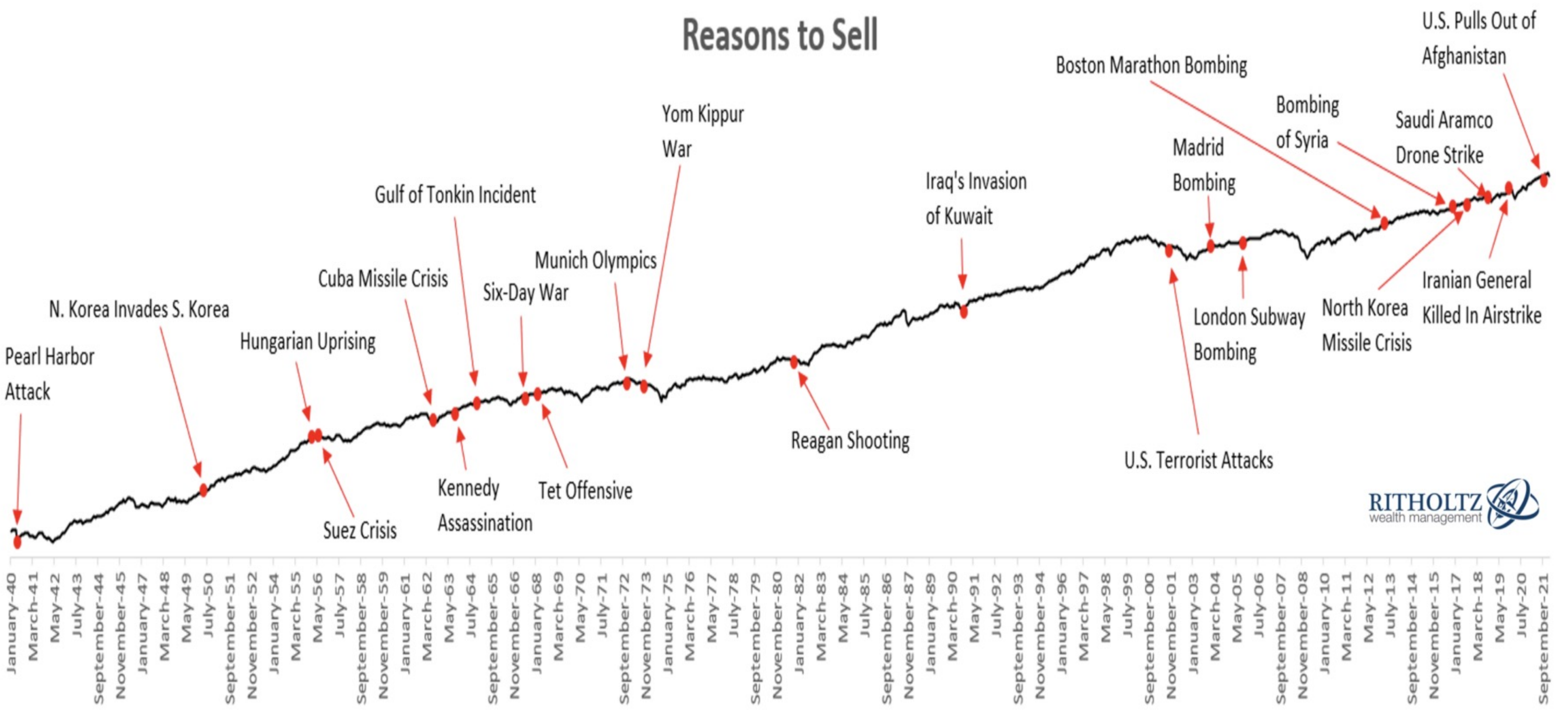
Market Comment

February was characterized by a major geopolitical event, as Russia invaded Ukraine, which led to volatility across markets. The initial reaction was stock markets pulled back, bond yields fell, and commodity prices spiked higher. The effects and resulting fallout of the conflict are impossible to predict, but it has increased the amount of uncertainty in global politics as well as the current investment environment.

Markets are evaluating what this potentially means for central banks' upcoming interest rate hiking cycle. If there is stress in the financial system as a result of the war or the economic sanctions imposed on Russia and their institutions, central banks may need to provide support for markets and institutions in the form of quantitative easing or alter their expected trajectory of rate hikes.

Looking to history as a guide, there are many past conflicts for perspective. In this chartbook we will present data on the market's reaction to past conflicts and look at some of the emerging themes.

Markets & Geopolitical Events



This chart shows stock returns with dates and names of significant geopolitical events. While these events can certainly lead to short-term volatility, zooming out to see the full, long-term picture can bring useful perspective. Over the long run, the market recovered and often did so rapidly.

 Source: Ritholtz Wealth Management, LPL Research, OceanFront Investment Counsel Inc.

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Markets & Geopolitical Events

Stocks Usually Take Geopolitical Events In Stride

S&P 500 Index And Geopolitical Events

		S&P 500 Returns		Days	
Market Shock Events	Event Date	One Day	Total Drawdown	Bottom	Recovery
U.S. Pulls Out of Afghanistan	8/30/2021	0.4%	-0.1%	1	3
Iranian General Killed In Airstrike	1/3/2020	-0.7%	-0.7%	1	5
Saudi Aramco Drone Strike	9/14/2019	-0.3%	-4.0%	19	41
North Korea Missile Crisis	7/28/2017	-0.1%	-1.5%	14	36
Bombing of Syria	4/7/2017	-0.1%	-1.2%	7	18
Boston Marathon Bombing	4/15/2013	-2.3%	-3.0%	4	15
London Subway Bombing	7/5/2005	0.9%	0.0%	1	4
Madrid Bombing	3/11/2004	-1.5%	-2.9%	14	20
U.S. Terrorist Attacks	9/11/2001	-4.9%	-11.6%	11	31
Iraq's Invasion of Kuwait	8/2/1990	-1.1%	-16.9%	71	189
Reagan Shooting	3/30/1981	-0.3%	-0.3%	1	2
Yom Kippur War	10/6/1973	0.3%	-0.6%	5	6
Munich Olympics	9/5/1972	-0.3%	-4.3%	42	57
Tet Offensive	1/30/1968	-0.5%	-6.0%	36	65
Six-Day War	6/5/1967	-1.5%	-1.5%	1	2
Gulf of Tonkin Incident	8/2/1964	-0.2%	-2.2%	25	41
Kennedy Assassination	11/22/1963	-2.8%	-2.8%	1	1
Cuban Missile Crisis	10/16/1962	-0.3%	-6.6%	8	18
Suez Crisis	10/29/1956	0.3%	-1.5%	3	4
Hungarian Uprising	10/23/1956	-0.2%	-0.8%	3	4
N. Korean Invades S. Korea	6/25/1950	-5.4%	-12.9%	23	82
Pearl Harbor Attack	12/7/1941	-3.8%	-19.8%	143	307
Average		**-1.1%**	**-4.6%**	**19.7**	**43.2**

Source: LPL Research, S&P Dow Jones Indices, CFRA, 01/24/2021
All indexes are unmanaged and cannot be invested into directly. Past performance is no guarantee of future results.
The modern design of the S&P 500 Index was first launched in 1957. Performance before then incorporates the performance of its predecessor index, the S&P 90.

The illustration shows the rate of return of the S&P500 index following significant geopolitical events, and the time it took for the market to bottom and then recovered.

Apart from events that took place during pre-existing drawdowns from major bear markets, these market pullbacks were relatively minor.

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Market Timing

Is selling in anticipation of a dip in the market a sound investment strategy?

Renowned investor Howard Marks of Oaktree Capital recently wrote the following memo.

"What about the idea of selling because you think a temporary dip lies ahead that will affect one of your holdings or the whole market? There are real problems with this approach:

- Why sell something you think has a positive long-term future to prepare for a dip you expect to be temporary?
- Doing so introduces one more way to be wrong (of which there are so many) since the decline might not occur.
- Charlie Munger, Vice Chairman of Berkshire Hathaway, points out that selling for market-timing purposes gives an investor two ways to be wrong: the decline may or may not occur, and if it does, you'll have to figure out when the time is right to go back in.
- Or maybe it's three ways because once you sell, you also must decide what to do with the proceeds while you wait until the dip occurs and the time comes to get back in.
- People who avoid declines by selling too often may revel in their brilliance and fail to reinstate their positions at the resulting lows. Thus, even sellers who were right can fail to accomplish anything of lasting value.
- Lastly, what if you're wrong and there is no dip? In that case, you'll miss out on the ensuing gains and either never get back in or do so at higher prices."

- Howard Marks

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Commodities

As stock markets pulled back following the Russian invasion of Ukraine, commodity prices surged higher on the prospect of a disruption in the supply of commodities produced by Ukraine and Russia.

The chart on the left shows the GraniteShares Bloomberg Commodity ETF, and the chart on the right is the WTI Light Crude Oil price.

These markets were already in strong uptrends prior to the Russian invasion and the stock prices of many associated stocks.

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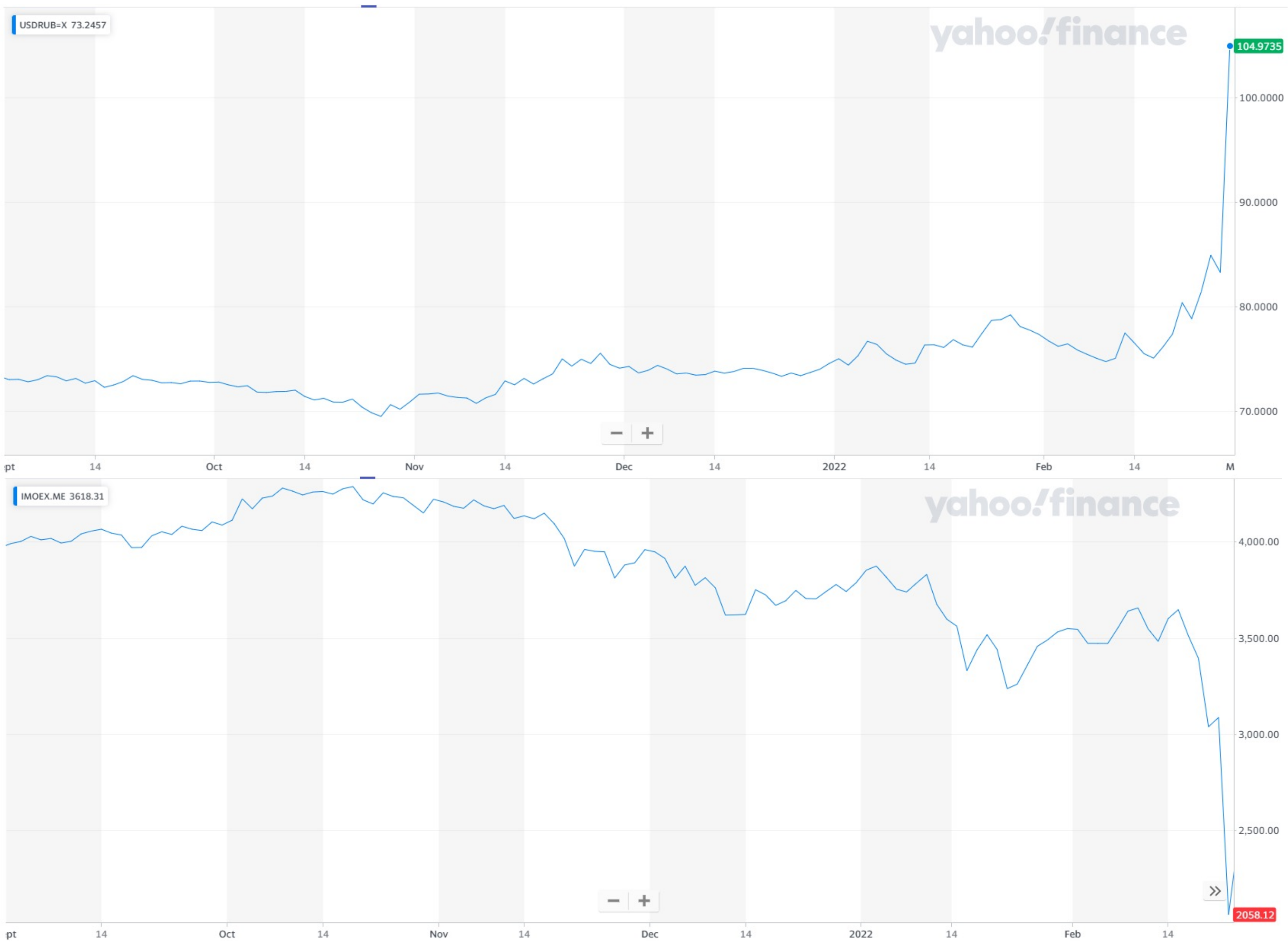
Russian Markets



Russian markets crashed following the invasion and economic sanctions. The Russian Ruble (the top panel) has fallen ~40% against the US Dollar from the middle of February.

The Russian MOEX stock index has fallen ~40% over the same period.

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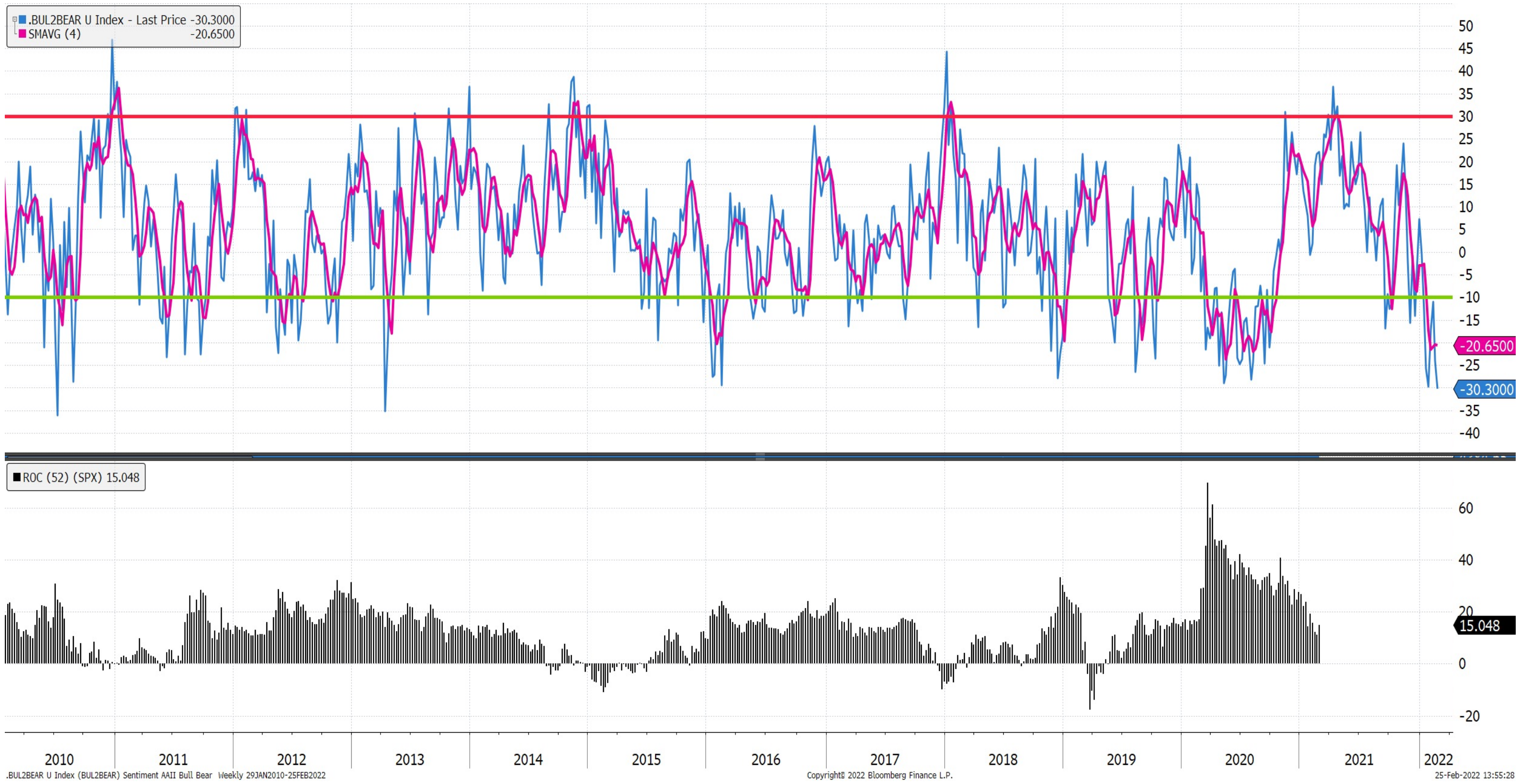
Sentiment

Investor sentiment (top panel) is extremely bearish, the most bearish it has been since 2013, even more so than during the 2020 Covid market crash.

The bottom panel shows the 12 month return following each sentiment reading from the top panel. You can see that the forward returns seem to be higher when sentiment is lower (aka "bearish"), and vice versa.

Extreme levels of bearishness are a contrarian indicator associated with positive future returns.



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Impact of Sanctions

At very high prices, oil is a significant drag on the economy. Sanctions initially carved out Russian energy exports in order to limit the impact on energy prices. Sanctions on Russian energy could cause oil prices to spike further.

Scenario	Sanctions	Russia Impact	Europe Impact	U.S. Impact
Oil and Gas Keep Flowing, Markets Settle	Universal. Russian corporates and banks cut off from global markets, with carveouts for oil and gas.	Falling ruble and rising inflation force big rate hikes. Sanctions hit trade, economy shrinks.	Higher energy prices and moderate negative spillovers to growth. End-2022 ECB hike still in play.	Higher energy prices and tighter financial conditions take most hawkish 7 hike path for Fed off the table.
Energy Supply Disrupted, Oil and Gas Prices Up, Risk-Off in Markets	Universal. Russian corporates and banks cut off from global markets, with carveouts for oil and gas.	Combined impact of weak ruble, market turmoil, and disruptions to trade trigger deep recession.	Energy price surge, negative spillovers, and financial turmoil prompt mild downturn. ECB hike postponed to 2023.	Higher energy prices and global risk off shock mean more dovish Fed heading into 2H
European Gas Supply Halted, Oil Disrupted, Significant Global Sentiment Shock	Maximal sanctions or Russian retaliation cut off flow of gas to Europe.	Deeper crisis as Russia's budget and energy sector take an additional hit.	Combined impact of energy shortages, negative spillovers and elevated uncertainty triggers a recession.	Worst case: energy spike combines with unanchored inflation expectations and Fed has to tighten as demand slows

Color scheme based on Bloomberg Economics' judgment: yellow = mild; orange = moderate; purple = severe

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