Lynx's Perspective on the Russia-Ukraine Crisis

In Lynx's opinion, the long-term impact of the Russia/ Ukraine crisis on the United States will be insignificant unless it becomes a Third World War. The US and Russia don't trade that much, and the impact on US corporate earnings is minuscule. While there may be slightly more impact on Europe, it still will be insignificant as the Russian energy sector is unlikely to see any sanctions. We believe that the market, given its rich valuation, would take any opportunity to either correct or change from growth to value, which is what we see happening today.

The biggest loser of broad-based sanctions will be Russia from an economic perspective. Using the Crimea annexation in 2014 as an analog suggests that an altercation between Russia and the West would likely send Russia's economy into recession. Oil prices, which are highly correlated with the Russian economy, dove after the Crimea annexation (see Chart 1 below), and we expect the same may happen over the next few months. However, a slump in Russia is unlikely to have much of an impact on global growth, including Europe, as we saw in 2014 (see Chart 2 below). Not even among the world's ten largest, Russia's economy encompasses 1.8% of global GDP. Given that the economy hasn't grown much in recent years due to sanctions and weak productivity and demographic trends, its impact on global growth is even more negligible. In summary, unless this is a sign of a bigger war, we will continue with the investment strategy we have been advocating for the last few quarters, i.e., focusing, on value, current earnings, and dividends.

Yours faithfully,

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Chart 1

Russian economy and oil prices tanked after Crimea annexation

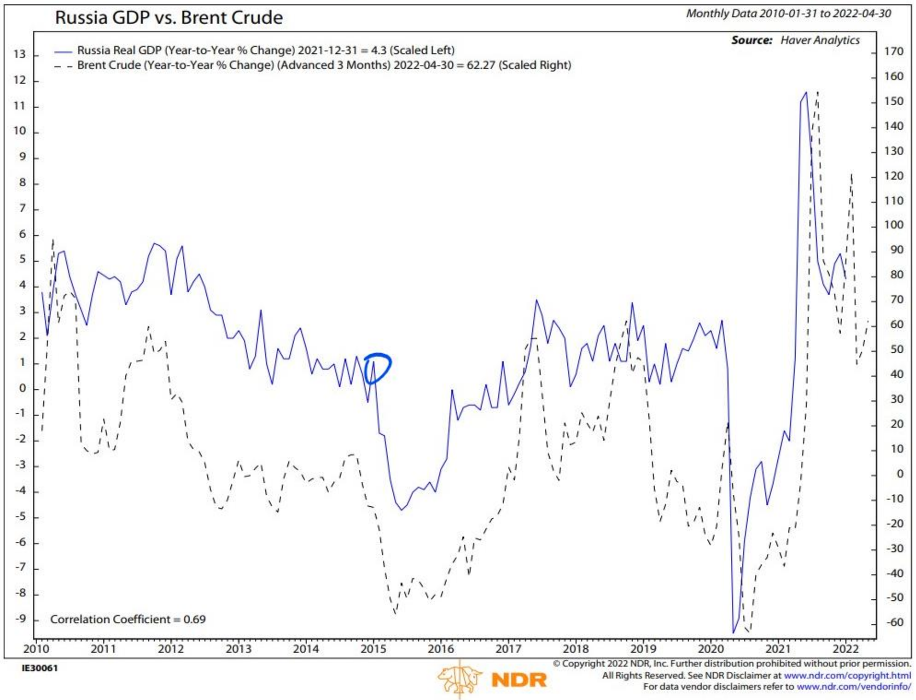

Chart 2

Global uncertainty and equities little impacted by Crimea crisis