

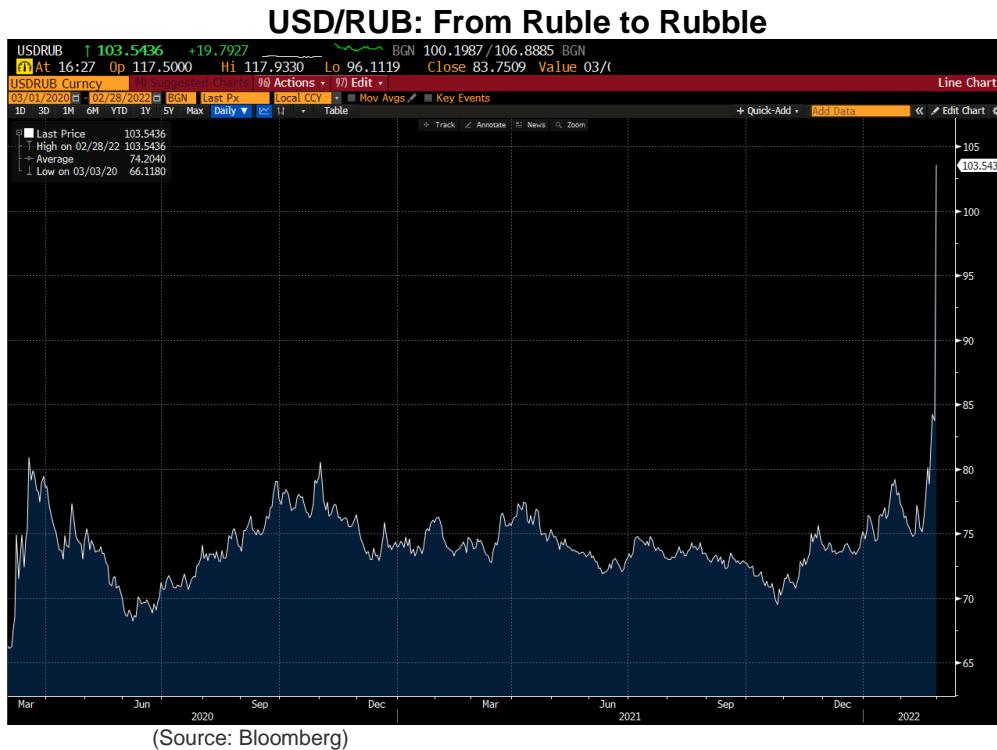
Myles Zyblock - Market Commentary

February 28, 2022

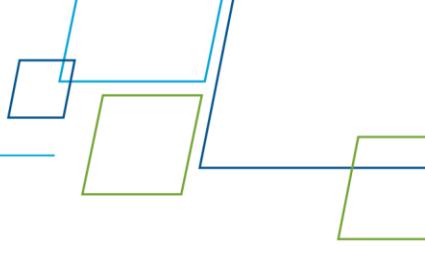
Market Volatility: Tightening the screws

The world has taken a harder line on Russia over the weekend and into the early part of this week. The two key new steps were as follows:

1. Disconnecting selected Russian banks from SWIFT, the financial messaging system which allows for quick and secure inter-bank payments. This will probably make it much more difficult, albeit not impossible, for many Russian institutions to effect cross-border payments.
2. Sanctioning Russia's central bank (CBR). In essence, the G7 countries have frozen any assets the CBR has on deposit with western central banks. This substantially reduces the ability of the CBR to liquidate its foreign assets, support the ruble, and help Russian firms service foreign exchange denominated liabilities. Our best guess is that about \$388 billion of the \$630 billion in Russian central bank reserves are now frozen.



These latest actions by the West have exerted a heavy toll on the value of Russian assets. The Russian stock market, at least as evidenced by what's trading in New York, fell another 28% today. The ruble closed 21% lower, bouncing off its low after the CBR more than doubled the domestic policy-set interest rate to 20%. The cascade lower in the ruble runs the risk of triggering a severe deposit run on Russia's banks. We now expect a deep recession to take hold of the Russian economy over coming months.



While the U.S. equity market was volatile, the S&P 500 recaptured almost all its earlier losses, closing 0.2% lower while the NASDAQ finished up by 0.4%. Focusing only on the U.S. markets might give the impression that not much had happened in the world's financial markets today.

Some other notable market moves on the day:

- Gold +1.0%
- Long-duration U.S. sovereign bonds +2.2%
- Wheat +8.7%
- Corn +5.3%
- Palladium +5.6%
- Crude oil +4.4%
- Energy stocks +2.6%
- Global Financials -2.3%

(Source: Bloomberg)

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