Crisis In Ukraine: What Wealth Managers Are Saying

Tom Burroughes
Group Editor
6 March 2014

The fraught situation in Ukraine changes by the hour so it is understandable that quite a lot of wealth management firms, from what we see, have kept their counsel on what to say about the situation. One issue that might arise – and be of considerable concern to managers – is whether countries seek to impose any form of sanctions on Russia, and interfere with, or seek to freeze, personal and corporate assets held by certain Russians. Russian citizens have, in recent years – and with considerable publicity at times – been prominent buyers of property in Western capitals; they have invested in businesses of all kinds. Other economic consequences of worsening relations that have been mentioned recently include higher energy prices, rises in prices of wheat, and consequence hits to a still sluggish European economy.

What they are saying:

Oracle Capital Group, the multi-family office business with an extensive network in Russia.
"Whilst a number of Oracle's clients are from central and eastern Europe, a large majority both reside and invest internationally. As such, while the situation is clearly a concern for anybody with connections to both Russia and the Ukraine, it should have little impact on our ongoing business."

Rothschild Wealth Management
The firm recommends that clients hedge against possible sharp corrections to equity markets, although it says in general that risk markets should on balance fare relatively well during 2014.

Coutts
In a wider context the problems of Ukraine are symptomatic of the challenge the US has in maintaining its status as the policeman of the world. A high government deficit and ongoing challenges to balance the books has already led to sharp cutbacks in defence spending. When the US backed off from military action in Syria and pulled out of Afghanistan earlier than expected, it was seen by many commentators as evidence of the more toothless power that the US was now prepared to wield in global politics. The more circumspect way that the US has subsequently engaged in the global political theatre has not been lost on President Putin as he tries to exert greater influence over neighboring countries. Investors face greater geopolitical risk in the future.

There are a number of immediate impacts on financial markets. Most of the cross-border bank lending to Ukraine has come from Austria, Italy and France, but the market share of European banks has fallen steeply since 2008 when ratings agencies downgraded Ukraine's sovereign debt. Outside Western European banks, Russian banks are believed to have an estimated $28bn in exposure. Ratings agency Fitch warned last week that an economic catastrophe in Crimea could affect the solvency of Russian banks although Moscow would likely intervene through existing ownership of those institutions.

Threadneedle Investments' chief investment officer, Mark Burgess
"To date, the fallout from the Ukrainian crisis has been largely confined to the emerging market debt, emerging market equity and commodity markets. At current levels, emerging market local

currency debt appears to offer value, although we expect both the hard and local currency markets to remain volatile in the short term.

Emerging equities reflect concerns not only around Russia and Ukraine but also the weaker growth outlook in Brazil and China. In commodities, Russia is a significant oil player, supplying 30 per cent of Europe’s gas, with 50 per cent of that piped through Ukraine. Any move to curb Russian oil exports by the EU could easily drive Brent crude oil into the $140-160 a barrel range. We therefore do not expect major sanctions against the country.

Elsewhere, investment grade and high yield markets have been unmoved by the crisis in Ukraine. Foreign exchange markets, outside of the obvious areas such as the rouble, have also ignored it. Developed market equity and bond markets have recently been driven by other factors such as the headwinds from a stronger pound for UK equities, the severe weather in the US and the weaker than expected European corporate results. Finally, core government bond investors have been focused on the softer US macroeconomic data, which has seen 10-year Treasury yields fall. We are monitoring the situation closely, but as it looks today, markets are not expecting further intervention or action by Russia.

Jyske Markets
The crisis in the Ukraine may develop from being a regional conflict to an East-West conflict. We see the following two scenarios: 1) The basic scenario, which is the most probable one, involves new turbulence in the emerging markets, particularly in Eastern Europe, but otherwise only temporary effects. 2) The risk scenario, under which Russia will test the West's tolerance threshold. In particular dependence on energy supplies will determine to which degree the market will be affected. If the crisis drags on, we may see uncertainty as to global growth.

eVestment vice president of research, Peter Laurelli
The firm tracks $418.3 billion in institutional assets invested in emerging market fixed income universes, with the $5.3 billion exposure to Ukraine representing just a fraction of that total – about 1.27 per cent of assets invested in traditional emerging market fixed income universes.

Ukraine has not attracted significant attention or investable assets from the traditional institutional investor community. This could be due to a variety of factors, including its location in a frequently volatile region. Investable assets were leaving Ukraine for most of 2013, long before the public visibility of the current crisis in the region. Those outflows picked up in the second half of the year.

In purely numerical terms, institutional investor exposure to Ukraine is minimal. However, wider impacts are being felt as tensions in the area call into question the stability of other investments in adjoining geographies and other global emerging markets, stability of investments in industries and countries likely impacted by the tensions and the overall unpredictability of the current situation. All of this broadens the impact of the current situation beyond the actual investments in the Ukraine.