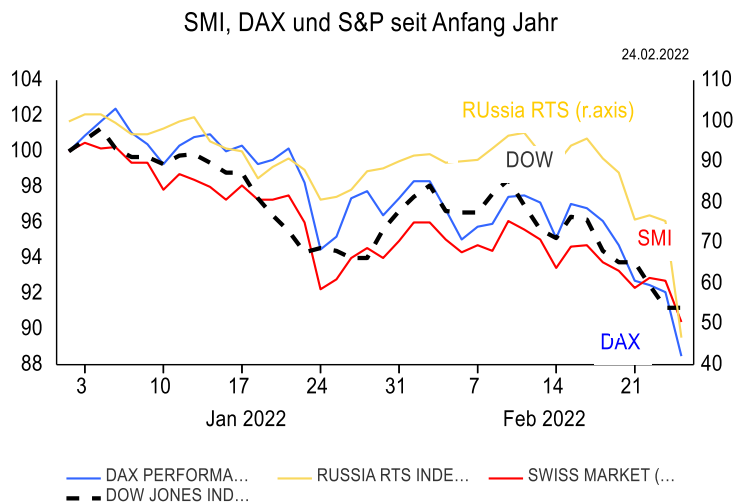


## Special commentary on Russia's Invasion of Ukraine

The invasion of Ukraine by Russian troops took the world by surprise. Capital market participants also only factored this scenario into prices with a below-average probability. The reaction has been correspondingly huge.



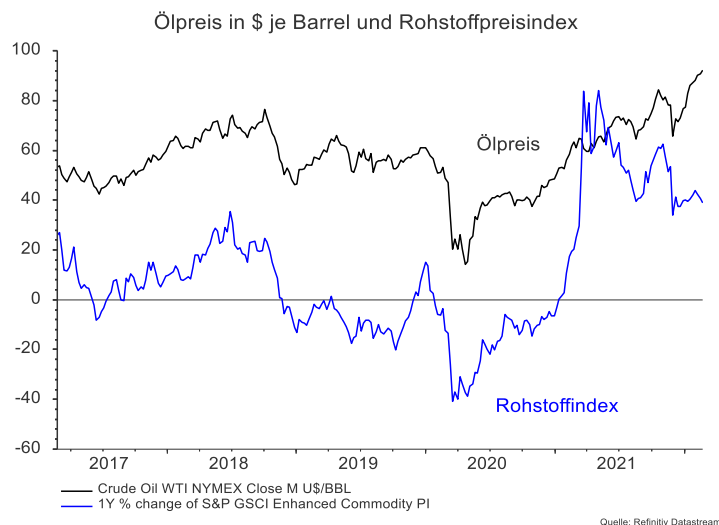
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Obviously, the West clearly underestimated Russia's reaction. They hoped to dissuade Putin from an invasion through diplomatic talks without having to address Russia's security-policy concerns. Russia has repeatedly pointed out that NATO's strong expansion - a new NATO member has joined every 18 months over the past 30 years - was dangerously encircling Russia. China and Russia have therefore recently emphasized in a joint statement that a further advance of NATO towards the east is no longer acceptable. The West - above all the United States - does not want to restrict this enlargement strategy by pointing to the state sovereignty of the accession candidates. Russia is therefore providing itself with the security it has demanded by invading Ukraine. It is still unclear whether this is only intended to secure the Donbas region or whether the government in Kiev is also to be replaced by a regime loyal to Moscow. Another declared goal is to demilitarize Ukraine. The destruction of military infrastructure is already underway.

In our current assessment of the situation, we assume that no Western troops will intervene in the war and that there will therefore be no expansion of the hostilities beyond Ukraine. However, sharp economic and social sanctions have already been announced. This affects in particular the five major Russian banks, which are no longer to be given access to the Western capital market. In addition, export restrictions on technology goods and restrictions on Putin's inner circle with regard to mobility and assets. We further assume that access to the SWIFT payment system will not be restricted, as the collateral damage for the West would be very high, as international trade would suffer greatly. Germany in particular would be hit hard by this.

The acts of war as well as the sanctions measures reduce the international division of labor, productivity and thus economic growth. This is particularly true for Russia, Europe and Germany in particular. The impact on Asia is likely to be rather less pronounced, as Russia is likely to turn more to that region. The USA could also benefit from the fact that the Europeans will have to orient themselves more toward the West. In the energy sector, this has long been urged by the Americans. They have always opposed Nordstream 2 and offered liquefied natural gas as an alternative. Other sectors will follow.



Another consequence of the acts of war is the sharp rise in energy and commodity prices.

They likely mean that the declining inflation rates we expect will remain high for the time being or even rise temporarily. There is also a risk that gas and oil supplies to Europe could be interrupted. For example, through intentional or unintentional damage to the oil pipeline through Ukraine. Many other dangers of war are conceivable. Nevertheless, we do not expect the central banks to tighten the announced normalization of monetary policy. On the contrary, the European Central Bank is unlikely to raise interest rates again this year, and the USA will have to be content with no more than four rate hikes. The asymmetric supply shock we are experiencing with the acts of war on European soil is also likely to strengthen the dollar to the disadvantage of the euro.

If we compare the real and monetary effects of the external shock with the corrections on the capital markets, the reaction may be described as appropriate. We cannot yet speak of an undervaluation of equities. Moreover, with the correction in equities, we are now in a slightly underweighted position. We will only leave this position when the prospects for the war can be better assessed. For the moment, caution is still the order of the day.

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