ALTMAN
INVESTMENT MANAGEMENT

BRIEF INSIGHTS

February 24th, 2022

IN BRIEF: Initial Thoughts on The Ukrainian Crisis

This morning, the world reacts to the Russian/Ukrainian crisis as catastrophic to human suffering, condemned by a united free world in support of the self determination of nations and the rule of international law. This is hardly the first time that NATO has failed to deter Russian aggression. We are reminded of Hungary in 1956, Czechoslovakia in 1968, Afghanistan in 1979, and the suppression of Solidarity in 1981, and of course the annexation of Crimea in 2014. This invasion appears to be different though - since Russia is overtly attacking a neighboring democracy. However, the reaction from the UN has also been quick and unanimous, with the exception of the Chinese. As the geopolitics firestorm begins to settle down, we believe this period should turn out to be another buying opportunity for investors.

The markets began the correction on January 5th, in response to a pivot by the Fed Reserve, which resulted in a taper tantrum that roiled markets and caused bonds to begin a nasty selloff in the face of rising inflationary fears. Since the record high on January 3rd, the downdraft is characterized as being in correction territory. The question is: Could the Ukrainian crisis turn into a bear market, signaling a recession? We think it could if this crisis leads to a sustained period of higher oil and gas prices in the U.S., Europe, and the rest of the world. Of course, it's hard to assess the likelihood of that scenario persisting at this juncture. However, we can conclude that in the near term the stock market will likely continue to be volatile awaiting further clarification as to the fallout of Putin's aggression.

Although the Berlin Wall came down in 1992 - and it looked like Western democracy vanquished totalitarianism - it appears that this story of human history is far from over, and the inherent conflict between democracy and autocracy continues. Putin's speech titled the "Historical Unity of Russians and the Ukrainians" made it painfully clear that he intended to correct what he described as "the greatest geopolitical catastrophe of the century" when the Soviet Union collapsed.

Although the markets are in corrective mode, forward revenues, operating margins and earnings are at record highs and continuing to beat street estimates. Keep in mind that during inflationary times, stocks tend to be among the best inflation hedges and beat bonds handily. That's because some of the strength in revenues are reflected in the higher rate of price inflation. This is unfolding now as companies clearly are responding to rising costs by raising their selling prices.

Geopolitical crises have tended to be buying opportunities for stock investors in recent years. There have been dozens of panic attacks that included a number of geopolitical crises since the start of the current bull market in 2009. We examined major invasions over the past 60 years and contrary to what one might think, in almost every instance stocks bottomed several months before the invasions took place and in every instance traded higher following the invasion, with 4 of the 5 incidents significantly higher 18 months following the invasion: Vietnam War - Gulf of Tonkin incident on 8-2-64 (+19.7%); Gulf War - US intervention on 1-17-91 (+20.32%) ; Afghanistan War - air campaign started 10-7-2001 (-29.44%); Iraq War - initial air strikes on 3-20-2003 (+26.8%); Crimean Crisis - start of occupation 2-20-2014 (+19.64%).

It's a good thing that the air continues to come out of the forward P/Es of the various S&P stock market indexes and specific companies that have very inflated valuations. Value is likely to continue to gain relative to Growth, as long as investors are more concerned about inflation and higher interest rates than they are about a global recession.