Ukraine situation is capturing all the headlines. And rightly so, as we haven't seen a ground war in Europe in 80 years.

Generally speaking, geopolitical events tend to produce a "whoosh" lower on fear and then a solid rebound once the war begins... hence the trading strategy, "Buy when the bullets fly."

There is a group of charts making the rounds (see attached) that show how effective it has been to "buy the invasions" over the years. In short, the only time this approach didn't work well was when stocks were entrenched in the "Tech Bubble – Secular Bear."

It also wasn't surprising to see stocks rebound last week as investors concluded that nothing Russia is doing will impact earnings or GDP here in the US.

However, the latest developments, which include removing the Russian Central bank and other banks from of Swift system, are causing some folks to worry about the impact/contagion of such a move. Cutting to the chase, this move may create difficulties for global banks. For example, if an Italian bank lent money to a Russian bank/entity that can no longer use Swift, it becomes very difficult for the Russian bank to make payments on the loan.

While markets have been dicey of late, there is also a fair amount of good news to keep in mind such as (A) The economy is doing, "just fine, thank you." (And severe market declines usually are accompanied by recessions, which isn't even a consideration at this point.) (B) Earnings are at record highs and expected to grow nicely this year (even if part of that growth entails higher prices). (C) The consumer is flush and there is pent-up demand for a return to normalcy. (D) The pandemic appears to be waning. (E) History shows that 1 year after the S&P 500 crosses into "correction territory" (-10%) or "bear market territory" (-20%), the market is higher by 24.8% on average and is up 90.3% of the time. Two years later, stocks are up 37.4% and are higher 87% of the time.

From a bigger picture standpoint, our working thesis is the Ukrainian situation has created a continuation of what had to date been a relatively "normal" corrective phase. Prior to the invasion, investors had been adjusting to the new realities of (a) higher inflation, (b) changing Fed policy, (c) higher rates, and (d) slower rates of growth for both the economy and corporate earnings.

The result of these concerns had been a reset/rethink in terms of multiples for various segments/sectors of the equity markets.

For example, the “spec-tech” space (ARKK is the poster child here) has been hit exceptionally hard due to analysts’ discounted future cash flow modeling, which makes a dollar of earnings in the future worth less as rates rise. In other words, investors are rethinking the multiple they are willing to pay for earnings that may (or may not) show up in the future.

In terms of “Fed Expectations,” our view is the markets are now expecting the Fed to hike rates on March 16 – most likely by 0.25% (and yes, 0.50% is on the table, but Ukraine situation causes us to lean toward 0.25%). We expect an additional rate hike at each ensuing FOMC meeting – with the possibility of a “pause” around the mid-term elections (the Fed doesn’t like to appear political and as such, tends to stand pat around elections). But it is important to recognize that the Fed is behind the curve on inflation and must catch up - over time. The key here is whether or not Jay Powell is willing to “surprise” markets with hikes that are either larger than expected or unscheduled. At this stage, we don’t expect either.

In sum, leading up to Russia’s invasion, we believed markets were in the midst of a relatively “normal” correction. Recall that according to history, stocks have, on average, experienced corrections averaging about 14% each year.

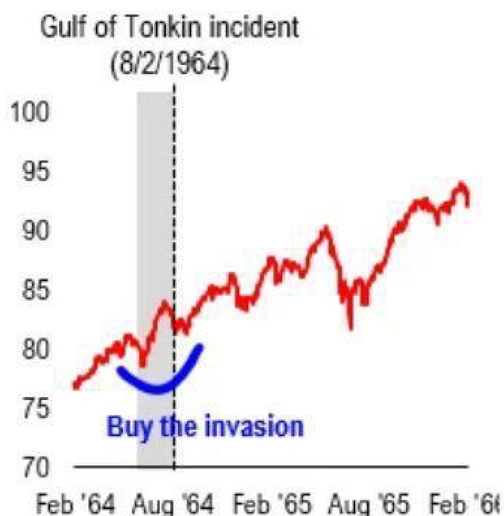
And with the S&P now having entered “correction territory,” it stands to reason that a buying opportunity is likely close at hand.

Of course, if the economy slows or a hot war breaks out between multiple countries (i.e., the WW III scenario), all bets are off. But for now, we see the current decline as a potential opportunity to add equity exposure and prepare for the next leg higher – and we expect that to happen in the coming months. In the meantime, we must be prepared for a bumpy ride.

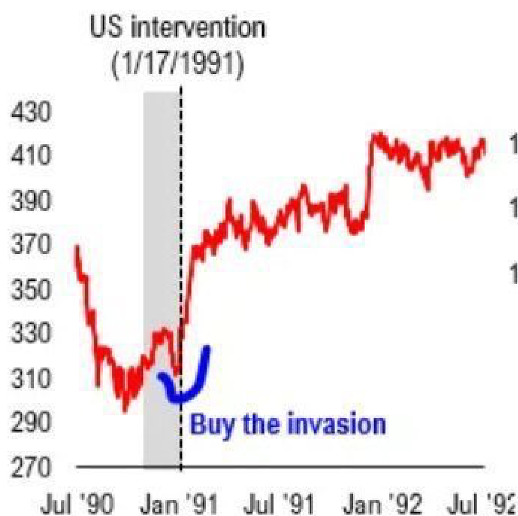
Strategy Adjustments

The TFA funds have made adjustments to the changing environment. Generally speaking, our strategy managers and subadvisors have taken steps to reduce exposure to risk. One such step was to eliminate the use of leverage. Another was for mean reversion strategies to stop “buying the dips” until technical damage is repaired. Trend-following and momentum strategy increased cash positions. In short, managers are playing the game more conservatively. This said, some of strategies are now looking for opportunities to add exposure.

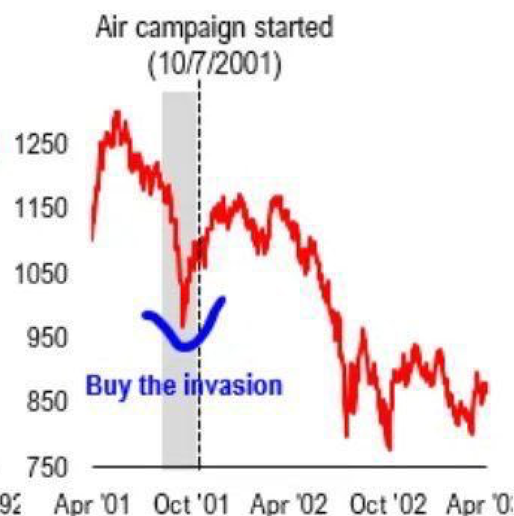
Vietnam War



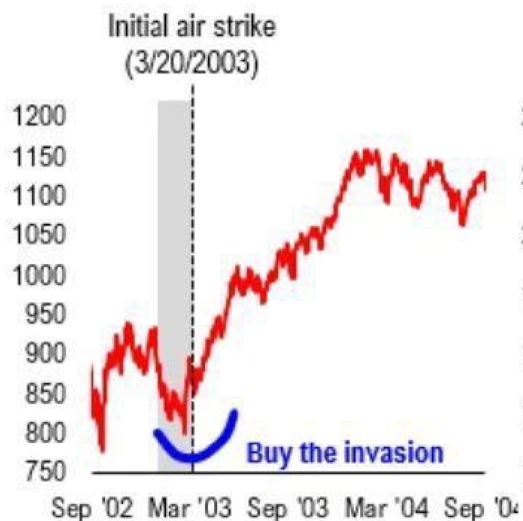
Gulf War



Afghanistan War



Iraq War



Crimean Crisis

Source: @fxmacro

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