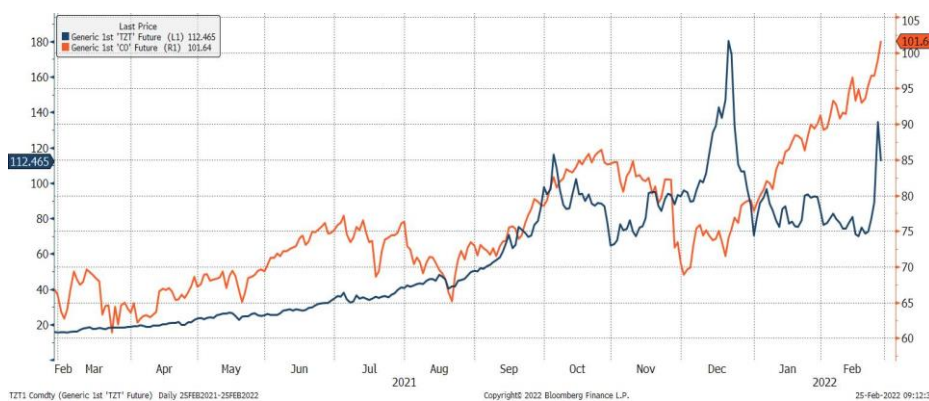


Back to the Cold War?

To the surprise of most observers, Russia has invaded Ukraine on a large scale with the aim of installing a government that suits it. The West has decided on initial measures and is considering further suitable responses. However, the military option is unlikely to be considered.

With this offensive warlike action by Putin, the security architecture of Europe has been shaken. It can be assumed that a rethinking of security policy will take place in Europe's capitals. The decades of peace dividends are over, and the issue of military defense strength will gain importance. The consequence will be that a larger share of government spending will flow into the defense budget - as the Americans have demanded of the Europeans for years.



Graph: blue line = European gas price, red line = European oil price

The economic impact depends on the extent of sanctions and countersanctions. The most important influencing factor in the short term is the price of energy. As Europe is dependent on Russian supplies, this business will not be an option in case of sanctions. Assuming that the political risk premium on energy prices recedes and given the already high price level before the outbreak of war, the impact on inflation in Europe and the USA is likely to be moderate. In the medium and long term, this energy dependence will be reduced. However, economic uncertainty is likely to persist for the time being, mainly in Europe. Accordingly, the European Central Bank has signaled that the economy is more important than price stability. The U.S. central bank, on the other hand, sees no reason (yet) to adjust its interest rate schedule.



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The war has hit the financial markets in a delicate phase of adjustment to a higher interest rate environment. It could well be that this has accelerated the correction and possibly reached a temporary low point in the indices. However, due to the many uncertainties, we would urge caution and give the equity portfolio a more defensive character.

Wangs, 25.02.2022