



# The Russian Invasion and the Financial Impact

March 2022

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**Russia has been building forces along the Ukraine border for several months and invaded its neighbor on February 24, 2022. Our thoughts and prayers are with the people of Ukraine.**

## The financial impact

At Prato Capital, we are wealth managers. Our primary and professional concern is any impact generated by economic and geopolitical events on our clients' portfolios and the long-term goals they have set in their financial plan.

Very strong economic sanctions have been imposed on the Russian government, Russian leaders, and many Russian businesses. Looking at how the markets react to these sanctions and how the global economies cope with any possible disruptions from the war is just part of how we gauge any potential impact on our clients.

## Some Economic Background

Ukraine's economy is ranked as the 56<sup>th</sup> largest in the world by GDP. For perspective, that is slightly less than the GDP of Washington, DC. The main exports from Ukraine are steel, coal, petroleum and agriculture products like wheat and corn. Ukraine is the 5<sup>th</sup> largest exporter of wheat globally. Most of these products are exported to Turkey and the former Soviet states of Russia, Belarus, and Kazakhstan.

Russia's economy is larger as the 11<sup>th</sup> largest in the world. It is still smaller than the states of California, Texas and New York and is about half the GDP of the United Kingdom. The main exports from Russia include petroleum, minerals, wheat, and steel. Most of these are exported to China and other European countries.

For many reasons, our hope is that this conflict is short. Most importantly, the sooner a conflict stops, the less suffering and loss of life. Economically, if the conflict is short, it may minimize the impact of possible cost increases and shortages due to the economic and financial sanctions announced against Russia.

## History as a Guide

We have written often about using history as guide. Looking back can provide some clues how markets may react to events like we saw recently with the military buildup and subsequent invasion of Ukraine.

The chart below shows some major geopolitical events and the return of the S&P 500 for following calendar year. All of these events were followed the next year with gains and most were well above the S&P 500 average return of 10.3% since 1926.

**Chart 1: Geopolitical Events and Subsequent S&P 500 Returns:<sup>1</sup>**

Geopolitical Event and Year	The following year - S&P 500 total return	
Attack on Pearl Harbor in 1941	1942 return	20.3%
Start of Korean War in 1950	1951 return	24.0%
Start of US troops in Vietnam in 1964	1965 returns	12.5%
Iraq Invades Kuwait in 1990	1991 return	30.5%
Start of Iraq War in 2003	2004 return	10.9%
Russia invades Afghanistan in 1979	1980 return	32.4%
Russia invades Crimea in 2014	2015 return	1.5%
Russia Invades Georgia in 2008	2009 return	26.5%
During Cold War	1947 – 1989 annualized return 12.3%	
After Cold War	1990- 2020 annualized return 10.8%	

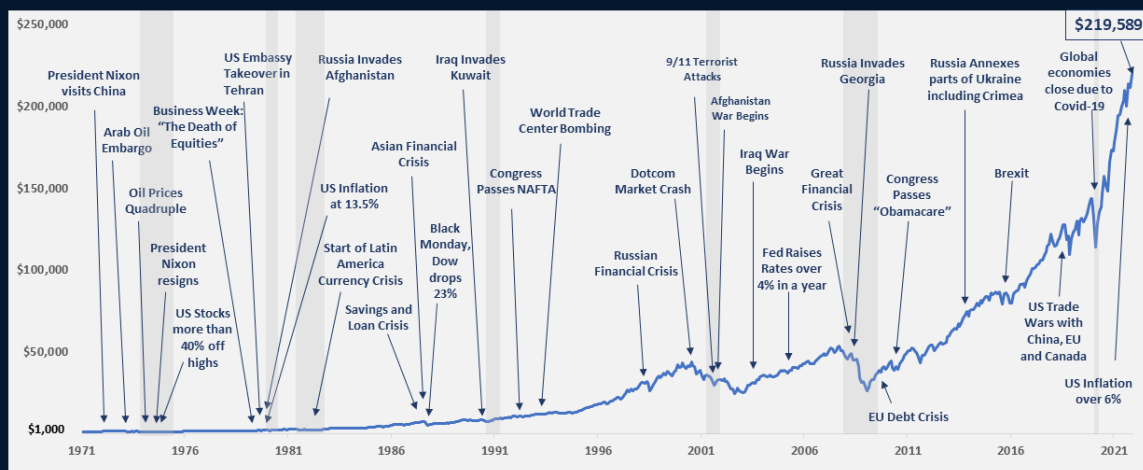
There seems to be bad news in the media almost all the time. Separating the anxiety caused by world and economic events from a portfolio is very hard to do but history has shown when long-term investments are separate, it can be very rewarding. The chart below is from our [February 2022 newsletter](#) and shows returns over the past 50 years for the Wilshire 5000, a broad US stock index that includes almost all publically traded companies. The chart includes some of the news events that many people found concerning, not just investors. This is just another example showing that many major geopolitical and economic events do not always have long lasting negative impacts on stock prices.

**Chart 2: Patience Can Be Rewarding:**

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<sup>1</sup> S&P 500 Total Return data includes reinvestment of dividends, Source: Dimensional Fund Advisors.

## Growth of \$1,000 - Wilshire 5000, 1971 - 2021



Data: Wilshire Associates, Wilshire 5000 Total Market Index [WILL5000IND], retrieved from FRED, Federal Reserve Bank of St. Louis <https://fred.stlouisfed.org/series/WILL5000IND>, dividends reinvested. Shaded areas indicate US recessions.



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### What should the long-term investor do?

A balanced and globally diversified portfolio based on an investor's risk tolerance and financial goals is the base for a sound investment plan. Decisions for buying and selling should be made long before any geopolitical or economic event happens and emotion should not be part of the plan. Then, stay disciplined and stick with the investment plan. Many of our past [newsletters](#) and [blogs](#) have discussed the benefits of a balanced and diversified portfolio and a well-thought out investment plan.

### Conclusion

It has been very troubling to see the Russian invasion of Ukraine. Again, our thoughts and prayers are with the Ukrainians. Our hope was to never see anything like this.

Since we are wealth managers, our focus remains on advising our clients through any market volatility. It is in our client's best interest to maintain a view that is not clouded by emotion and we will 'use history as a guide.'

We thank all of our clients who put their trust in us at Prato Capital. Please call us with any questions or concerns.

Gregory, Gabriella, Brian, Chris, and Samer.

*I believe that the more you know about the past,  
the better you are prepared for the future." - Theodore Roosevelt*