

## My Future Focus (MFF) exposure – 28 February 2022

	MFF Cash	MFF Consolidation	MFF Drawdown	MFF Growth
Russia Equity	0.0%	0.0%	0.1%	0.2%
Russia Fixed Income	0.0%	0.1%	0.2%	0.3%
Ukraine Fixed Income	0.0%	0.1%	0.2%	0.2%
<b>Total</b>	<b>0.0%</b>	<b>0.2%</b>	<b>0.5%</b>	<b>0.6%</b>

*There is a very small allocation across the funds ranging from 0.0% up to 0.6% due to the diversified approach that all our Multi-asset funds take.*

### Summary of the Ukraine / Russia crisis

- Ukraine-Russia tensions have been building for several months prior to the military action taken overnight. However, an invasion was considered far from inevitable. Its arrival has had an immediate impact on financial markets, with risk assets selling off and a general flight to safety towards the major government bond markets. Global equity markets (MSCI World Index) fell circa -1.4% on Thursday 24 February. Going forward we expect to see continued volatility in markets as this crisis unfolds.*
- There remains a range of possible outcomes from here that could encompass anything from de-escalation and drawn-out occupation of the contested regions in the East of Ukraine, to a more aggressive, but short-lived military incursion by Russia to rapidly take control of the whole country. The extent of military action will also impact the response from NATO allies in terms of economic and financial sanctions against Russia. It is extremely difficult to judge the likely outcome of the situation, but the broader global economic impact should be relatively limited.*
- Some commentators talk of fears that this could escalate in to a global war if the US becomes more involved. However, Biden has vowed that he will not deploy American troops to Ukraine under any circumstances. Under NATO's article 5, the alliance is only obliged to come to the defence of any member state that comes under attack.*
- A key consideration is the impact this may have on the energy supply, in a world of already heightened inflation concerns. While there are mitigating factors in maintaining global oil supply, for example through potential increased OPEC production, a new deal with Iran to increase their supplies and the potential for the release of global strategic reserves, the near-term impact is likely to add further pressure to rising inflation. These inflationary moves leave little room for central banks to move into too dovish territory despite the geopolitical turmoil. Bond prices have risen this morning as markets seek the safe haven of major government bonds.*
- The price of oil has risen today to over \$100 per barrel, the first time since 2014 and the price of gas has also increased by 20% in the past 24 hours, it should be noted that Russia is the second largest producer of oil and gas globally and provides 40% of Europe's gas supply.*

### What action has the Multi-asset team taken?

- Although we believe the global economic impact of the crisis should be limited, we increased our bond duration last Tuesday (22 February 2022), by buying US Treasuries in anticipation of a probable flight to safety, this thesis has proved correct.*

### What action has the Emerging Market Debt team taken?

- We have been underweight Russian sovereign debt given the risk of sanctions from the US.*

- *Ukraine benefits from relatively high ability (FX reserves) and willingness to honour debt commitments. This results in a lower risk of default than current market pricing.*
- *Exposure in the corporate sector for Russia and Ukraine has been concentrated in oil and gas. These positions are well supported by higher commodity prices and are unlikely to be covered by any potential sanctions.*

**Aviva, 28 February 2022. Returns from FE in sterling. This update is for advisers, trustees and employers only. It is not suitable for use with pension scheme members.**