



## Update on the Ukraine crisis: Context for Investors

The Ukraine conflict continues to escalate. A solution any-time soon does not seem to be in sight. As the news flows in, assessments are changing almost hourly. This note provides a brief update on how we are currently thinking about the potential impact on the global economy and on financial markets.

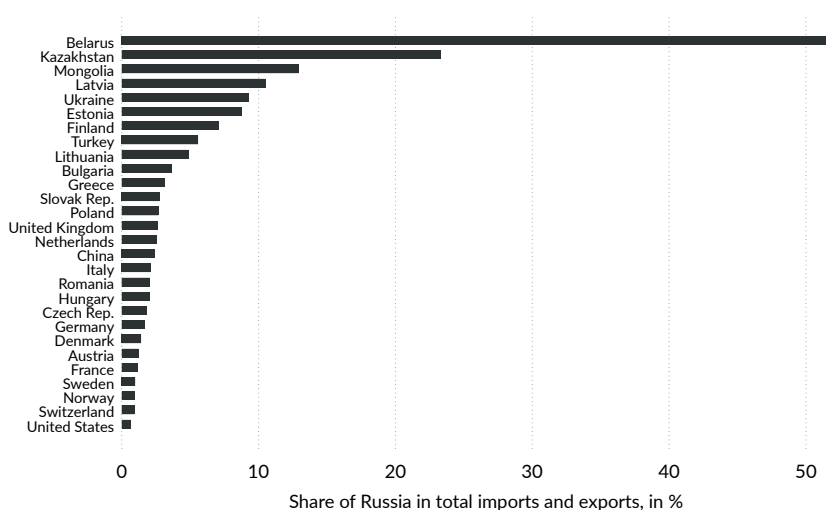
### The direct economic impact via trade is limited

Our starting point is to look at the target of the sanctions, Russia. The Russian economy is significantly more affected by sanctions than is the case for the global economy. If we were to jump ahead to one of the extreme forms of potential sanctions mentioned, banning Russia from the SWIFT international payments system, the consequence would be a sharp fall in trade between Russia and its key trading partner, the EU, given that about half of Russian exports go to the EU. Beyond the EU, the trade impact would differ from

country to country and from product by product. Only about 14 percent of Russia's exports go to China, and those two countries have set up their own payments arrangements. An additional restriction on Russia is that it cannot easily redirect natural gas intended for Europe to China or the global market because of the way the infrastructure is currently set up.

Seen from the EU's perspective, only about 5 percent of the EU's trade in goods is with Russia. Even for most eastern European countries, Russia's share of total imports and exports is low, and even for Ukraine the figure is below 10 percent (see Figure 1). Thus, the risk to the Russian economy to declining revenue streams from exports is large, whereas for the EU and the rest of the world it is relatively small.

Figure 1: Low importance of Russia in global trade



The figure shows the importance of Russia as a trading partner for various countries. For most countries, the share of trade handled with Russia is low. Russia is poorly integrated into global trade. Disruptions in mutual trade would therefore have little consequences on the global economy.





### Europe could survive this winter without Russian gas

Europe's dependence on Russian gas supplies is an Achilles' heel, but diversification efforts have reduced dependence on Russian gas so far this winter.

Whereas the EU has traditionally relied on Russia for around 40 percent of its natural gas, in the first six weeks of 2022, this share fell to about 25 percent as Europe sought to diversify via liquefied natural gas (LNG) imports and by increasing imports from other markets.

Should the rest of this winter be relatively mild, increasing liquefied natural gas supplies from other regions, together with existing, albeit low, EU gas reserves could be sufficient for this winter, even if Russian supplies were to cease completely. This is not to say that there might not be temporary disruptions in parts of the European gas markets, but the situation is far from as bad as it could have been. Yet, since Europe typically fills up its underground gas reserves from March onwards, this means that pressure on LNG prices are likely to remain.

### Global financial problems unlikely

Russia's exclusion from SWIFT would have significant consequences for Russian banks. However, Russia is comparatively self-sufficient overall; for example, its foreign exchange reserves exceed its foreign debt and the central bank has high reserves, which partially mitigates the risks of sanctions – for Russia as well as for most foreign banking systems. There are, of course, some countries whose banking systems are relatively more exposed to Russia according to BIS lending data (e.g. France and Austria), and there are some individual banks with large exposures, but overall this is not considered to be of systemic relevance to the EU.

Given the above, further levels of escalation should tend to only cause short-term turbulence in the financial markets, unless – and this is the big caveat – energy prices remain high globally and begin to impact economic fundamentals. From an investment point of view, however, we would not advise trying to play tactics with an hourly news flow on what the parties to the conflict may or may not do. The global macro fundamentals matter far more for internationally diversified portfolios.

### The course of the conflict is unpredictable

While the individual components discussed above allow us to view the financial exposures in isolation, the Ukraine conflict is obviously not taking place in isolation from the many other aspects that could impact portfolios:

- *Geopolitical spillover risk scenario:* If there were to be a geopolitical spillover, i.e., for example, if the Taiwan conflict were to escalate further in parallel to what is happening in and around Ukraine, then the economic uncertainties could potentially increase in more places. In conjunction with central banks, whose hands are at least partially tied by persistently high inflation rates, such a potential stagflation scenario would be very unpleasant. For now, this does not appear to be a central case scenario.
- *Further inflation shock:* A further rise in energy prices is more likely. A further price shock would increase the already high risks that inflation expectations in the US and Europe could become unanchored. Central banks would be under even greater pressure to act. Anticipating such a potential scenario, financial markets would anticipate and discount central banks' next moves by causing sharply rising interest rates, which would put equity valuations under pressure.

In conclusion, for internationally diversified investors the direct exposure of the impact of Russian sanctions is small, with the key channels to investor portfolios coming via energy prices (volatility and how long prices remain high) and via central banks' responses to prevent longer-term inflation expectations becoming unanchored. We would, therefore, keep a close eye on energy prices and inflation.

Given the expected volatility, investors who wish to protect their capital, are advised to hedge a part of their risk asset exposure.





---

## S. P. Hinduja Banque Privée – A family-owned Swiss Bank with Indian roots.

S.P. Hinduja Banque Privée S.A. is an innovative Swiss bank with roots in India, offering wealth management and investment advisory services to entrepreneurial clients. We partner with clients to create exponential economic and social impact, as our family has aspired to do for over 100 years.

Founded in Geneva in 1994 by Srichand Parmanand Hinduja with a vision to provide clients with a bridge between East and West, our institution remains the only Indian-owned Swiss bank in history. With an active presence in Switzerland, India, UAE and the UK, S.P. Hinduja Banque Privée offers its clients the reliability of Swiss regulatory oversight, while providing specialized access to high-growth markets.

We are a private bank with an entrepreneurial spirit, embracing collective action and building creative solutions that advance the world, economically and socially.

*The future of banking is emerging at the intersection of profit and purpose.*

### Contact:

S.P. Hinduja Banque Privée S.A.  
Place de la Fusterie 3bis  
1204 Geneva  
Switzerland

Phone: +41 58 906 08 08  
Fax: +41 58 906 08 00  
Email: [info@sphinduja.com](mailto:info@sphinduja.com)  
Website: [sphinduja.com](http://sphinduja.com)

---

### Disclaimer

This report has been exclusively prepared and published by S.P. Hinduja Banque Privée SA ("SPH"). This publication is for your information only and is not intended as an offer, or a solicitation of an offer, to buy or sell any investment or any other specific product. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. Certain services and products are subject to legal restrictions and cannot be offered worldwide and/or on an unrestricted basis. Although all information and opinions expressed in this document were obtained from sources believed to be reliable and in good faith, no representation or warranty, express or implied, is made as to its accuracy or completeness. All information and opinions indicated are subject to change without notice. Some investments may not be readily realizable if the market in certain securities is illiquid and therefore valuing such investments and identifying the risks associated therewith may be difficult or even impossible. Trading and owning futures, options, and all other derivatives is very risky and therefore requires an extremely high level of risk tolerance. Past performance of an investment is no guarantee for its future performance. Some investments may be subject to sudden and large falls in value and on realization you may receive back less than you invested or may be required to pay more. Changes in foreign exchange rates may have an adverse effect on the price, value or income of an investment. SPH is of necessity unable to take into account the particular investment objectives, financial situation and needs of our individual clients and we recommend that you take financial and/or tax advice as to the implications (including tax liabilities) of investing in any of the products mentioned herein. This document may not be reproduced or circulated without the prior authorization of SPH. SPH expressly prohibits the distribution and transfer of this document to third parties for any reason. SPH will not be liable for any claims or lawsuits from any third parties arising from the use or distribution of this document. This report is for distribution only under such circumstances as may be permitted by applicable law.

---

EDITORIAL DEADLINE: FEBRUARY 23, 2022



**S.P. HINDUJA**  
BANQUE PRIVÉE