

# News Flash: Ukraine conflict and impact on our investment policy

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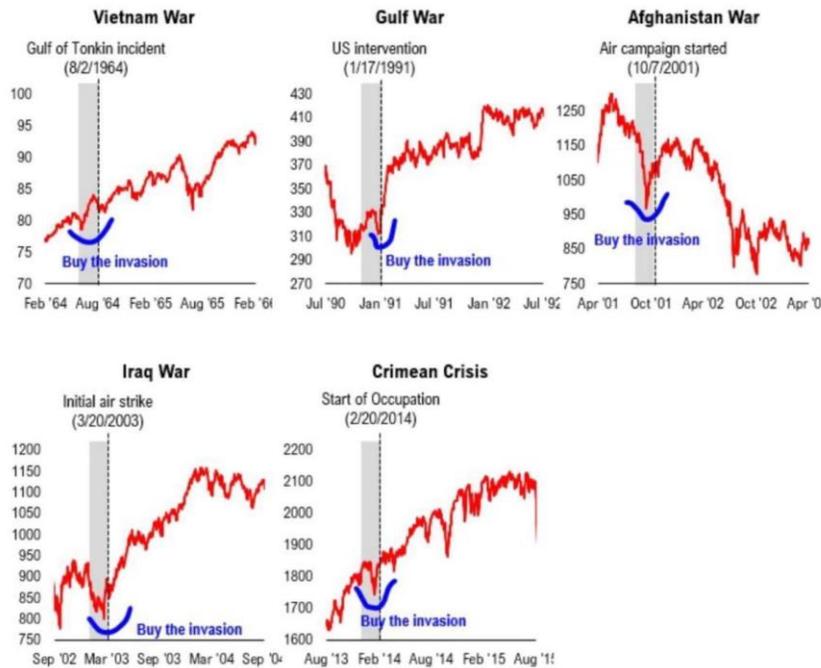
The scenario that many people, including us, considered unlikely has unfortunately become reality as of yesterday. The invasion of the Ukraine by Russian troops represents a turning point for Europe. Europe is now facing the biggest aggression of military and soldiers since the Second World War. Why it had to come so far and could not be prevented is not part of our analysis and also not our task. We are now trying to classify this invasion within a geopolitical and investment context and to derive alternative courses of action for ourselves.

## Geopolitics – Ukraine, what's next?

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As of today, it is clear that Russia respectively Putin is not afraid of large-scale military actions and that he does not care about sanctions. The downside potential for Putin from the invasion of the Ukraine seems limited to him. The US will not take any military countermeasures or provoke a major war. The Europeans, above all Germany, have their hands tied; they are too weak and have nothing to oppose to Russia's military weight. In the short term, the situation even plays into the hands of the US, because Europe's dependence on Russian gas and oil exports is now shifting towards the US, with far-reaching consequences. Russia will (after successfully occupying the whole of the Ukraine) be directly adjacent to Nato countries. It remains to be seen whether Putin can be prevented from realizing a next goal, e.g. conquering the Baltic states. This would however trigger the stipulated military support of all other NATO countries. From today's point of view, this is still relatively far away, but it now seems possible and must be considered a probability. It is no longer possible to negotiate with Mr. Putin, that is clear at present, and ratified treaties can no longer be relied on. For China, however, it is now also clear that an engulfment of Taiwan, which has been China's goal for a long time, is also becoming increasingly likely. From the US perspective, this cannot be prevented militarily, just as Hong Kong is no longer free and independent and no Western state has intervened. Consequently, we are facing geopolitically uncertain times in the medium to long term, which investors must observe closely and take into account in their allocations.

## Investment policy - Buy when the guns are thundering?



Source: Seeking Alpha

This old stock market adage has always been valid in the past decades, if you had the nerve as a long-term investor to sit it out. This time, too, there are many reasons to believe that the above saying is still valid, this as the markets have already corrected strongly since the beginning of 2022 and many stocks are back in fair to undervalued levels. If it were not for the long-term geopolitical implications for Europe and the world order addressed above. In addition to geopolitical tensions, we currently have extremely high inflation as a result of the Corona crisis and negative real interest rates for a long time, which are now putting pressure on the central banks to initiate a turnaround in interest rates in order to get inflation under control. This makes the situation comparable to 2000/2001 and the terrorist attacks on the US. At that time, we had three years of very difficult markets, but this time also passed. We understand the mandate of our investors, first and foremost, to protect assets, i.e. from real devaluation or large losses, and also to take advantage of investment opportunities and invest in the future industries. The world will continue to turn and innovation will not be stopped. On the contrary, this aggression by Russia can be seen as an act of desperation, because dependence on fossil fuels is decreasing and Russia is thus in a kind of dead end. We live our conviction towards healthier, better and cleaner investments also in such difficult times.

The business model for companies like Roche, SAP, Apple, Microsoft etc. will not change because of this crisis. The dividend yield of some companies held in our portfolios amounts today to 6 - 7%. Stocks of high-quality companies with high cash flows and market power will stand one's ground. We currently see the dangers for the markets and the global economic order and are aware of them. We are currently underweight in equities in almost all mandates and in some portfolios, where appropriate, have partially hedged with short positions on the S&P 500 since the end of January. Nevertheless, we have suffered losses since the beginning of the year, which hurt and are not easy to absorb.

However, we are invested in future-oriented themes or good companies and technology that are also less dependent on commodity prices, especially energy prices. Our relative overweighting of US and underweighting of European securities (EU - Europe) is even more important now. As Europe will have more trouble dealing with the new geopolitical situation than the US, we will continue to reduce exposure to European equities and build up cash until the situation improves and a clearer picture emerges of how politics and the economy will react to these recent developments.

If one can take something positive from the whole situation, it is the fact that the central banks in this environment have arguments to raise interest rates less quickly, which is then again positive for stocks and especially our selection of stocks. The first rebound could be noticed yesterday February 24, 2022, the day of the invasion, when the NASDAQ had made an amazing rally from its lows to quite positive closing. This rally should however not be overestimate, caution should be implemented.

As you know, we are always there to answer your questions and take action. We have been through difficult situations together before. This time, too, you should keep a cool head and not let yourself be driven too crazy by the media and the daily news, as we had already shown in the Corona crisis two years ago. Nevertheless, it is always important to weigh up the risks and opportunities on the market and, based on this, to make wise decisions in your favour.

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