

Global stock markets tumbled this past week as Russia’s increasingly aggressive actions toward Ukraine culminated in its invasion of the country on February 24. Investors were already concerned about rising inflation and the future path of interest rates, as central banks around the world showed signs of increasing rates later this year. The outbreak of actual war has exacerbated these concerns.

The S&P 500 experienced its first correction of 10% since the current bull market began in 2020 as it dropped 11.8% from its all-time high, posted January 4 of this year, through last Wednesday. This was the most severe decline in stocks since the COVID-related 34% decline that occurred in the first quarter of 2020. While the recent decline has been painful, over the past 20 years, there were intra-year declines of at least 10% in 10 of those years (50%) and declines of just short of 10% in 2 additional years (*Source: Charles Schwab*). Occasional pullbacks in stock prices are, unfortunately, impossible for long-term investors to avoid.

While the vast majority of stocks are down thus far this year, the most significant declines have been seen among stocks with higher valuations. We continue to believe that our focus on identifying stocks selling at reasonable valuations is likely to result in better relative performance, particularly in the current investment environment.

## 2022 YEAR-TO-DATE PRICE PERFORMANCE

Grouped by Trailing P/E



Data as of 2/25/2022  
Source: FactSet

The direct economic and financial footprint of both Ukraine and Russia is very small. However, the threat of punishing sanctions on the purchase or sale of Russian goods and the resulting potential supply disruptions are significant. Russia is a major exporter of oil and natural gas, and oil prices rose as high as \$105 last week, their highest level since 2014. Russia is also a major producer of metals, including aluminum, nickel, and copper, which are used in a wide variety of industrial applications. Finally, Russia is the world's top exporter of wheat, while Ukraine is a significant exporter of both wheat and corn. Wheat prices have jumped to their highest level since 2012, while the prices of corn and soybeans (which often trade in line with corn) have also surged. As a result, there is a risk of more upward pressure on inflation rates in the months ahead.

Over our more than 30 years of history managing large cap growth portfolios, we have seen many times that markets tend to exhibit heightened volatility in response to negative geopolitical news but that they typically rebound over time. It is still too soon to forecast a resolution of the current situation, but we believe that our current investment positions remain well-positioned and attractively priced for long-term investors.

## DISCLOSURES

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## REFERENCED INDICES

*(Indices are unmanaged and are not available for direct investment.)*

**Russell 1000 Growth Index**—The Russell 1000<sup>®</sup> Growth Index is a market capitalization weighted index that measures the performance of those Russell 1000<sup>®</sup> companies with higher price-to-book ratios and higher forecasted growth values.

**S&P 500 Index**—The S&P 500 Stock Index is a market capitalization weighted index and consists of 500 stocks chosen for market size, liquidity and industry group representation.

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