

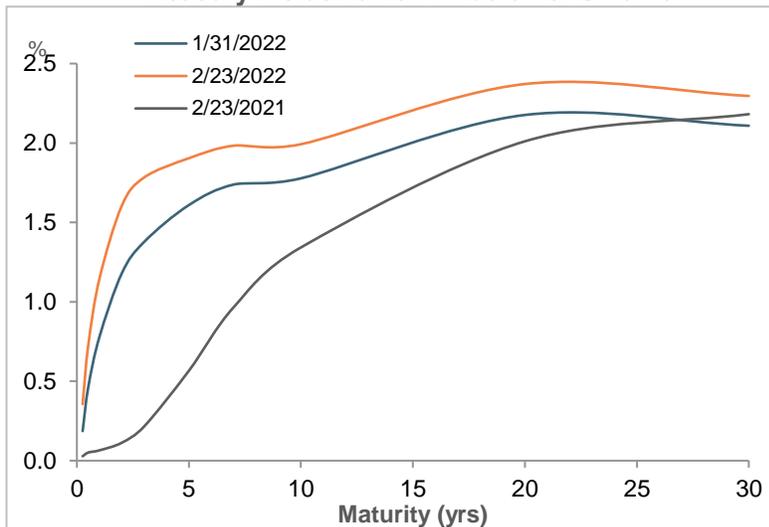
GEOPOLITICAL UPDATE

- After months of military build-up, Russian President Vladimir Putin ordered a full-scale invasion of Ukraine, including the capital of Kyiv, vowing to replace its leaders and bring the country back into the Russian domain
 - Putin warned that countries' attempt to interfere would "lead to consequences you have never seen in history"
 - Ukraine is not a part of NATO, which was a point of contention during US and Russia negotiations that broke down earlier this year
- President Biden imposed sanctions on Tuesday, predominantly hitting Russia's access to financing
 - Further US and European sanctions are expected, including additional asset freezes, restricting technology access, and constraining Putin's inner-circle oligarchs

MARKET REACTION & OUR TAKE

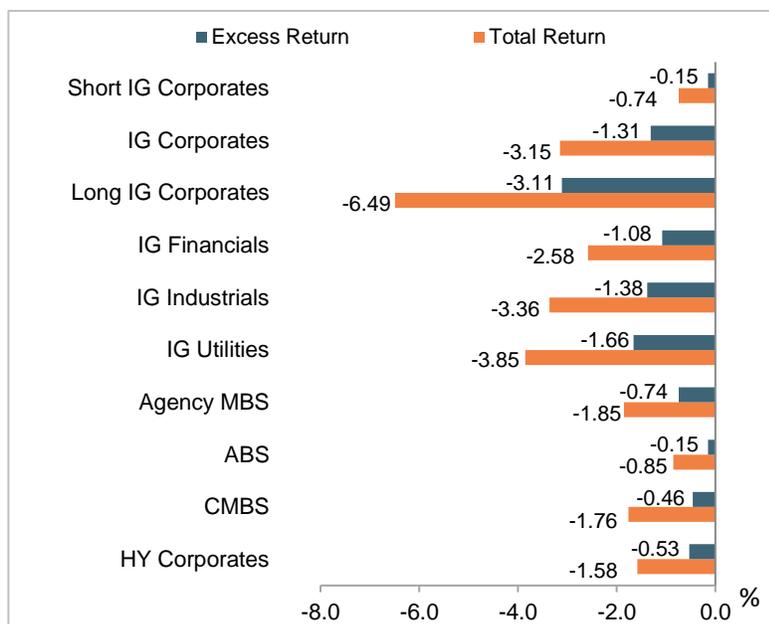
- Global equity markets declined, with the Russian stock market down over 30%, European markets down 4%; after opening down 2.5%, the S&P is down almost 1%
- Commodities are near multi-year highs with Brent crude exceeding \$100/barrel for the first time since 2014; WTI neared \$100/barrel and natural gas jumped to nearly \$5
 - 11% of global oil production and 40% of Europe's natural gas demand come from Russia
 - Wheat, oats, and corn are all up about 5% as Russia is the world's biggest wheat exporter
- After falling to 1.85%, the 10-year US Treasury has mostly retraced the rally, hovering at 1.92%
 - TIPS breakevens are 5-30bps higher, with shorter TIPS reflecting more near-term inflation expectations, and the 2- and 10-year breakeven currently at a record inversion
- After widening 5-10bps, corporate bond spreads are 2-4 bps tighter following the retracement in Treasuries and equities
- The main fallout could be lower growth and higher inflation, creating a stagflationary environment
 - Fed fund futures continue to price in six rate hikes for the year, as the Fed will have to boost yields to quell inflation; the chance of a 50bps hike at the March meeting, however, has dropped from 80% to less than 20%

Treasury Yields Fall on Invasion of Ukraine



Maturity	2-year	5-year	10-year	20-year	30-year
2/23/2022	1.61	1.90	1.99	2.37	2.30
DoD Change	0.06	0.04	0.05	0.06	0.06
MTD Change	0.43	0.29	0.21	0.19	0.19

MTD Returns



Sources: Bloomberg and Bloomberg Index Services Limited

Excess returns are the curve-adjusted excess return of a given index relative to a term structure-matched position in Treasuries.

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