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Cross-Asset and Strategy Research

A pitch black anniversary

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A year of war - and no end in sight

A year ago, almost all of us stood in disbelief before the horrendous news about Russia's invasion of Ukraine. Except for those who, once again, afterwards had known everything beforehand, this development hit us like a hammer blow. Even today, the images and reports move and shock us, again and again, every day. On the human level. However, as it seems, less and less on the stock-exchange floors.

A year ago, markets had expected Putin to win quickly. The numerical superiority seemed overwhelming. However, these expectations underestimated both the incompetence of the Russian military apparatus and the bravery and iron will to resist foreign occupation by the vast majority of Ukrainians.

Today, expectation run exactly the opposite. Only a few still expect an imminent end of the fighting. This was also the result of my non-representative LinkedIn survey earlier this week: a good two-thirds anticipate the war to still be raging fiercely on 24.2.2024. Hardly anyone still trusts Russia to take Kiev (Fig. 1).

The economy got off lightly

For the European and the German economy, the worst fears did not come true. In particular, the dreaded gas shortage did not materialize. That would have hit European, and particularly German industry enormously. But the economy didn't get thrashed, as it did during the financial crisis. It got off fairly lightly.

This is due to the remarkable resilience of many companies. Prudent crisis management by governments also played a role. All levers were pulled to fill gas-storage facilities after the Russian supply freeze. And yes, of course, the mild weather also helped a lot. Sometimes luck is on our side, after all.

Few still believe in an imminent end to the war

What is most likely to happen in the upcoming twelve months?

Source: LBBW Research, non-representative survey on social media

On the financial markets, the war no longer seems an issue

Oil and gas prices are now back below the levels they were at the time of the brutal attack. Optimism has spread, again. Gold, the ultimate bastion against uncertainty, has lost four percent since the day before the war began. Stock markets fell down briefly, but then got up, again; they shook briefly and then continued their rally. The DAX index of German blue chips is currently even five percent above its pre-war level (Fig. 2), and this despite the unprecedentedly rapid rise in interest rates!

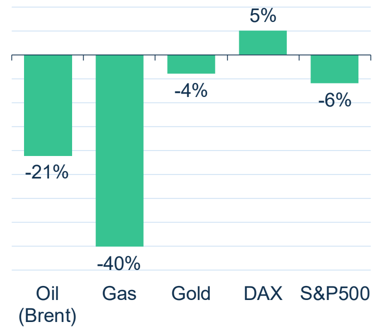
Optimism is good, but naivety is risky

Be honest: if someone had told you a year ago that fierce fighting would still rage in February 2023, including increasing involvement of the Western allies and mounting antagonism between the superpowers USA and China: would you really have expected such a positive sentiment on the stock markets?

Only very few would have answered this hypothetical question in the affirmative. That it nevertheless came about in this way is all the more remarkable as most of us expect that an end to the war is nowhere in sight. So, does the war no longer play a role in the economy and the capital market? Caution! Such an assessment would be negligent naivety. After all, this is the biggest geopolitical shock in Europe since World War 2, and an accelerant for protectionism and deglobalization.

Shareholders should keep an eye on these risks.

Selected price changes for the period since the start of the war



Source: Refinitiv, LBBW Research.
Change between 2/23/2022 and 2/22/20233

Stock markets no longer seem interested in geopolitical risks