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One year of war in Ukraine – consequences and effects

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More than a year has now passed since Russia launched its attack on Ukraine and triggered a war with global consequences. But what have been the demonstrable consequences of this war and what impact has the conflict had? Even though the origins of the war can be traced back to 2015 and, depending on how you look at it, even beyond, it has only been during the past 12 months that the effects of this conflict for the global economy and financial markets have become clearer. In any possible analysis, however, it is important to note that the impact of this war could change at any time, especially in the event of an escalation that sees further countries drawn into the conflict.

The war between Russia and Ukraine is a major human tragedy and will shape the relationship between nation states both within and outside Europe for a long time to come. The impacts outlined in the following brief analysis should neither be considered to be exhaustive nor complete and could change at any time during the further course of the war or due to other political developments. Nevertheless, in the year that has passed since Russia's attack on Ukraine, various trends and consequences have come to light that should not be overlooked and are important for the economy and the financial markets.

> "Important consequences of the war in Ukraine include higher military spending and a greater role for the state in economic matters."
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> Gérard Piasko, Chief Investment Officer

While the war has not been the sole reason for the rise in global inflation, it has played a large part in this development. Producer and consumer prices have increased considerably, with this primarily being the case for fertilisers, industrial metals and energy commodities such as oil, diesel and natural gas as well semiconductors and foodstuffs, which have all been hit by war-related shortages. The consequence is historically above-average volatility in all asset classes together with an increased level of uncertainty, including among the central banks, with respect to interest rate developments that, owing to political reasons, are much less predictable than in the past.

The second consequence of the war is that military and defence spending will increase globally, with this especially being the case in Europe, leaving less money available for other spending in relative terms. The alternative is a situation in which national debt expands yet further due to this additional government expenditure. The financing of this government spending by issuing more bonds increases the bond supply and thus the global interest rate level in a long-term comparison. Following the collapse of the Soviet Union after 1990, the West had worked on the assumption of a more peaceful cooperation with the great Eastern powers of China and Russia and a period of lower military and defence expenditure, rising consumer spending, greater prosperity and higher share valuations commenced, a phenomenon referred to as a "peace dividend". Unfortunately, these times are over, as has become very apparent.

The third consequence is the growing role of the state in the economy. Pointing to national security or refugee management, the state is once again intervening significantly in the market economy and hindering competition and likely also productivity and profitability, as both requirements and costs are rising. When selecting equities, focus should therefore be placed on companies that have a good market position, enjoy stable profitability and do not have excessive debt in light of increased interest rates, with this being the case even more now than it was before.

Fourthly, the geopolitical landscape has changed. NATO has established itself as a Western defence alliance and is likely to expand. In Europe, Germany no longer finds itself in a position where it can stand on the sidelines and will have to play a much greater role in political decisions and military expenditure within NATO than in the times of "Ostpolitik".

As a fifth consequence, a deterioration in economic and political relations between the US and China is becoming ever more apparent. The strategic partnership with Russia declared by China one year ago shortly before the outbreak of the Ukraine war saw bilateral trade between China and Russia reach a peak at USD 190 billion last year, in part because China, together with India, is buying oil from Russia and thus helping to finance the war.

And finally, a further consequence of the war is likely to be a deglobalisation of the world economy and the increasing fragmentation of global supply chains as well a greater focus on the closer and more politically secure production of goods components and raw materials. Both trade and the supply of energy are increasingly being used as political leverage or weapons, as are direct investments and financing. The safety of food production is a further factor that is growing in importance. All of these effects are making investing more difficult and increasing volatility in all asset classes, with things likely to remain this way for an extended period of time.

Gérard Piasko

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