The war in Ukraine: Long-term implications

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The war in Ukraine has shaken the world. It has accelerated trends fueled by the pandemic and put international relationships and global dependencies under scrutiny. The conflict will reshape with whom—and how—business is done as international relationships and alliances are reassessed.

In particular, we identify three key trends in this changed world: the three D’s of deglobalization, decarbonization, and defense:

- Deglobalization, a trend already in evidence for a number of years, will accelerate in an environment of heightened international mistrust. For investors, the risk of international sanctions will mean new considerations about where, and how, to diversify. This will lead to increased business and governmental focus on supply chain security. Beneficiaries include select stocks and bonds from commodity producers, and relevant investment themes in this context include “Automation and robotics.”

While the US dollar’s leading role as a reserve currency is not at risk, in our view, we expect increased diversification of reserve assets and currencies used for trade settlements. We expect the Chinese renminbi to gain market share gradually, and recommend investors consider exposure to CNY-denominated fixed income.

- Decarbonization, also in evidence prior to Russia’s invasion, will take on greater significance as energy markets tighten and countries aim to lessen their fossil fuel dependence. Environmental, security, and continuity considerations will all play a role in shaping energy markets in the years ahead.

Relevant investment themes include “Clean air and carbon reduction,” as well as other greentech themes (including through impact private equity investments). We also expect greater shareholder and bondholder engagement in carbon-intensive companies and industries and see opportunity in green bonds, for example in financing energy transition projects.
Defense spending is bound to be a key theme in the aftermath of the war as the “peace dividend” brought about by the end of the Cold War fades. We expect greater focus on security more generally, and around cyber, food, and energy specifically. Beneficiaries of higher defense spending include cybersecurity and relevant themes such as “Security takes center stage,” “Investing in the ABCs of tech,” “The food revolution,” and “Agricultural yield.”

Increased government spending could also mean higher debt levels, which could have implications for inflation. Long-term, a new cold war may trigger a gradual move toward a European fiscal union, but a bond yield convergence trade looks premature.

Read more in our new report, “The long-term implications of the war in Ukraine.”

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