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Aperture Investors

Market Commentary - Ukraine

Aperture's PMs first assessment of the impact of Russia's invasion of Ukraine

Aperture European Innovation

***Anis Lahlou**, CIO UK and Portfolio Manager of the Aperture European Innovation Fund*

Anis believes the escalation and invasion was a worst-case scenario and therefore took the market by surprise. The ramifications are potentially deep as this conflict could a) deteriorate further b) drag on c) create a supply shock to the commodities complex if sanctions take Russia out of the supply chain d) escalate further if China gets involved with Taiwan and so on.

Initial knee jerk reaction in the market is risk-off with the worst performing groups being Banks, Autos and Construction-related companies.

Risk-off is pricing more than just direct exposure to Russia and Central/Eastern Europe, it is pricing in somewhat of an EU Recession and bond yields capped.

Stock prices are moving around sharply and Anis has reacted by reducing risk at the margin (ie CEE exposed banks); hard to say where exactly positioning lands but he has been hovering around the benchmark index. Current volatility is not causing major damage yet. Oil price at $100 is interesting but becomes concerning 10% higher, he believes.

Aperture Credit Opportunities

***Shikhar Ranjan**, Co-Portfolio Manager of the Aperture Credit Opportunities Fund*

US credit will not be directly impacted beyond general risk sentiment (and associated flows) and a potential pause in QT that changes the shape of the yield curve. There isn't material direct asset exposure to Russia for US corporates so no US portfolio impact to speak of. European credit is seeing the most direct exposure through banks and energy. There have been some large moves in single name equities and debt in European and CEEMEA credit; the Credit Opportunities strategy had some exposure that has been reduced, with de-minimus P&L impact.

Both US and European markets are seeing bottom fishing for bonds, selling of front-end bonds for raising cash, but no panic at an index level.

At a macro level, the team believes:

- ECB probably cools down on QT rhetoric
- Really confused on understanding Putin's end game: NATO is (likely) all talk as there seems no will in the citizenry anywhere to support politicians in a ground offensive.
- That said the sanctions are going to be crippling. China likely sends them aid behind the scenes to help counter/circumvent.
- That leaves the markets in a limbo until they move on to carry/dividends/value.
- Stagflation becomes front of mind concern.

Aperture New World Opportunities

***Peter Marber**, Portfolio Manager, CIO of the New World Opportunities Fund and Head of Emerging Markets*

Russia's swift invasion of Ukraine has hit most Emerging Markets, with risk premiums widening to levels not seen since the pandemic began in 2020. At this early stage with news and sanctions unfolding hourly, it is hard to speculate on how long this invasion lasts or what the outcomes may be. Both Russian and Ukranian assets have been hit hard, with worries over US and European sanctions freezing both market makers' and investors' abilities to trade certain names. The New World portfolio remains underweight the combined complex of Russian/Urkrainian names relative to the benchmark, with more than 10% in cash. It may be too early to jump in and add exposures, but the meltdown - following the brutal selloff in 2022 with rising interest rates - may create some opportunities around the world.

CEO's letter

Peter Kraus,
CEO of Aperture investors

Peter Kraus thinks that we have to believe that Russia will go all the way to establishing a new government in the Ukraine, whether that is a bloodless coup or a bloody one we don't know but the Russians won't care. Additionally, they take over neighboring Moldova essentially taking their borders right up to NATO. Peter doesn't believe they will invade a NATO country - even that is (likely) beyond Putin. The economic damage will be minimal although it could take two to three months to see that and for the markets to find a bottom. The resulting world will be more inflationary and will reinforce the Fed rate moves and higher rates in the long end of the curve. A recession wouldn't become apparent for two or more years so there's plenty of growth left before we roll over into a declining growth market. As for oil prices, we haven't seen the effect of any additional production from the middle east, the entry of Iran into the market and the re-initiation of US shale production, so $100+ oil prices are likely not stable and as they move lower, we could see lower inflationary pressure (ie shock) from the invasion. While this invasion is an affront to both human decency and democratic ideals, it should not have a meaningful economic impact assuming Russia does not invade a NATO country. If they were to do that, which again Peter does not believe Putin will do, then we'd potentially have World War III and a much riskier and less stable situation. The market would decline precipitously, US Treasuries would be the only haven and it wouldn't be pretty.