

# Russian Stock Market Plummet

If you think U.S. stocks are trading poorly, you may feel better looking at the carnage in the Russian stock markets. RTS, for instance, is a Russian stock market index. It is a cap-weighted index of 50 Russian stocks trading on the Moscow stock exchange. The index was down 38% yesterday and is now off by 61% since late October. While many of its holdings are commodity-related, which should bolster its price, Russian stockholders are likely very concerned that sanctions will grossly limit many companies' ability to export their goods and services. The graph below shows the massive slide in recent days, but note also, the index, has yet to recover its pre-financial crisis peak.



[dmc]

## What To Watch Today

### Economy

- 8:30 a.m. ET: **Personal income**, January (-0.3%, 0.3% in December)
- 8:30 a.m. ET: **Personal spending**, January (1.6% expected, -0.6% in December)
- 10:00 a.m. ET: **Pending home sales**, January month-over-month: (0.2%, -3.8% in December)
- 10:00 a.m. ET: **Pending home sales**, January year-over-year: (-1.8%, -6.6% in December)
- 8:30 a.m. ET: **Durable Goods Orders**, January preliminary (1.0% -0.7% in December)
- 8:30 a.m. ET: **Durable Goods Orders excluding transportation**, January preliminary (0.4% expected, 0.6% in December)

- 8:30 a.m. ET: **PCE deflator**, January year-over-year (6.0% expected, 5.8% in December)
- 8:30 a.m. ET: **PCE deflator**, January month-over-month (0.6% expected, 0.4% in December)
- 8:30 a.m. ET: **PCE core deflator**, January year-over-year (5.2% expected, 4.9% in December)
- 8:30 a.m. ET: **PCE core deflator**, January month-over-month (0.5% expected, 0.5% in December)

## Earnings

- *No notable reports scheduled for release*

## Russia Invades, Stocks Rally?

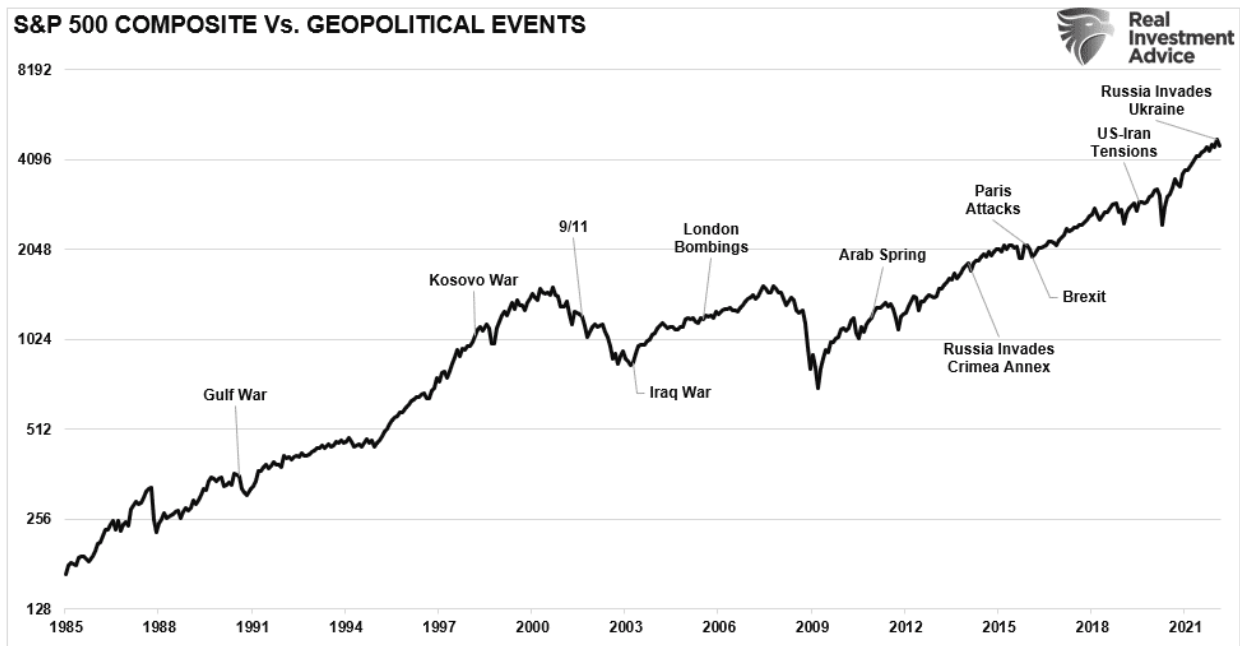
We discussed yesterday, the market was deeply oversold and due for a relief rally. While the Russian stock market took a beating, the U.S. market rallied strongly with the Nasdaq rising nearly 7% from its intra-day lows. If we get some follow-through this morning, the market will negate the break of support on Wednesday and should set the market in motion for an initial retracement to the 200-dma.

With the market oversold and triggering a short-term buy signal, such a rally seems probable heading into the March FOMC meeting. We suggest using this rally to further reduce risk and rebalance holdings accordingly.

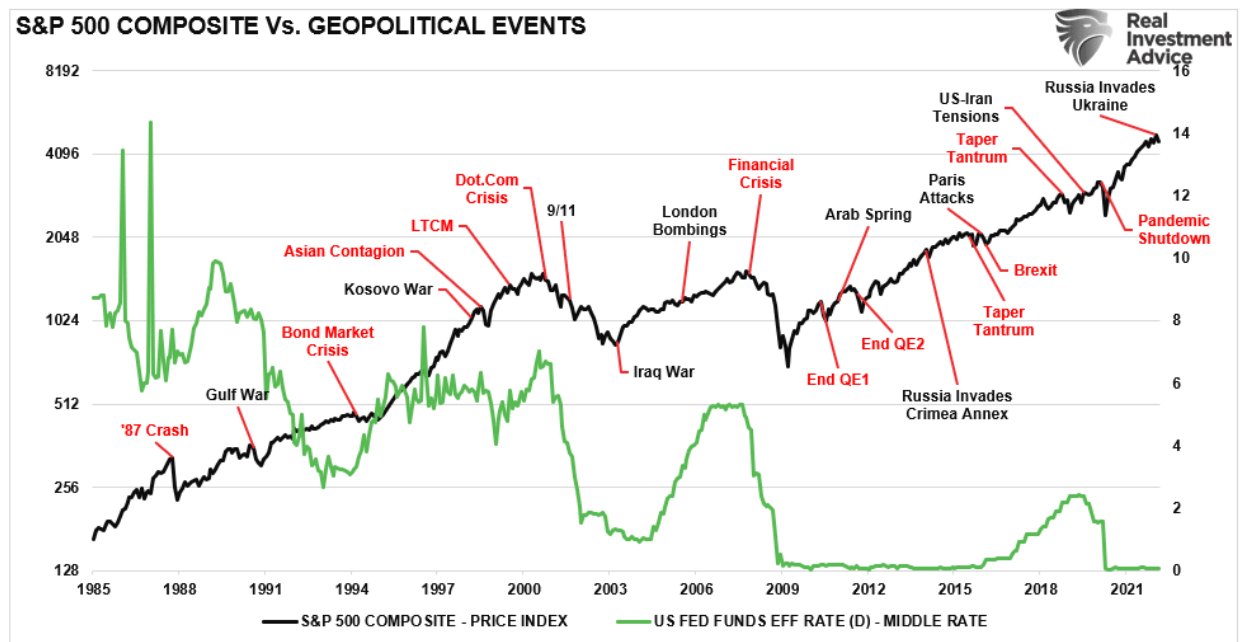


## Geopolitical Risk Is Less Important Than Monetary Policy Risk

A look back at history suggests that while there is much angst about the geopolitical risk of the Russian invasion, as shown, those events typically have very little impact on markets. *(Historically, markets tend to rally following geopolitical events.)*



What is more important to markets are changes to Fed policy either through the increase in interest rates or removal of monetary accommodation.



While the market may quickly adjust to the Russia crisis, the FOMC remains a bigger concern as we head into the rest of the year.

## FAANG and the Generals Underperform The Troops

The graph below, courtesy of Research by Potomac, shows the largest S&P 500 companies, aka the Generals, outperformed most other stocks when the market rallied last year. However, the equal-weight S&P 500 Index (RSP) started outperforming once the market peaked. The top ten stocks in the S&P 500 account for about 27% of the S&P 500, while the bottom 490 account for

about 73%. The takeaway: if you are bullish, bet on the largest companies; if bearish, skew your equity exposure to the 490 troops.



## Will Russia Dump Its U.S. Treasury Bonds?

A reader asked us if Russia would dump or threaten to dump its holdings of U.S. Treasury securities to persuade Biden from taking harsh sanctions against Russia. The answer is a definitive no. The graph below shows that Russia has sold its U.S. Treasury debt and now holds a negligible amount.



## Mapping The Invasion

The map below, courtesy of the Financial Times, helps show how this incident may unfold. As shown, the bulk of Russia's activity is still in Luhansk and Donetsk, the far eastern separatist regions. The question is does Putin want just those regions or the whole country. Russia's growing military presence in Belarus and Crimea are concerning as they indicate the potential he wants the entire country.



## Twitter Selling Junk Bond For All The Wrong Reasons

Twitter (TWTR) will issue \$1 billion of junk bonds, allowing them to buy back shares of its struggling stock. TWTR provides another example of how uber low-interest rates create behaviors not aligned with the company's interests. Shareholders should prefer the company to use the new funds to enable expansion, employee training/retention, or to reduce costs. Instead, the funds are being used to boost the share price and lower the share count. Due to executive compensation, Twitter's share count rose by 8% over the last 18 months.



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