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2022 March Market Update

We are all closely following the war in Ukraine. This is a human tragedy of death, dislocation, and separation, and our thoughts and prayers go to the millions whose lives have been shattered by this war.

There are also significant economic ramifications from this conflict, which will affect all of the world over the next weeks, months, and possibly years.

- Energy:
  - Russia produces 11% of all global crude oil and is the second largest oil exporter. Crude oil prices reached $123 per barrel on March 7th, up 36% since the end of January.
  - Europe receives 40% of its natural gas for heating, industry and electricity generation from Russia. Natural gas prices in the UK are up 211% since mid-February.
- Food:
  - In 2020, Russia was the largest global exporter of wheat with a 17% share of the market and Ukraine was the 5th largest wheat exporter at 8%. The price of wheat contracts has doubled since mid-February.
  - Ukraine is the largest exporter of corn at 13%. The price of corn is up 20% since the end of January.
- Metals:
  - Russia produces 40% of the world's palladium, a key material for auto emission control. Palladium is up 32% since mid-February.
  - Russia is the largest producer of nickel, key for battery technology. Nickel is up 30% over the past two weeks.

We know that the impact of sanctions on the Russian economy will be severe, but here at Choate Investment Advisors we have very minimal direct exposure to Russian securities. Of course, we do invest in stocks from other countries overseas and many of them are affected by uncertainty. We don't know how or when this conflict will end, but as we assess the potential economic impact at present, we see the following:

1. 2022 corporate earnings, even for U.S. stocks, will be impacted by the rise in commodity prices and/or the reduction in household spending. It is too early to know how much margins will be squeezed. Likewise, it is too early to know whether increased global uncertainty will have an impact on hiring and on capital projects.
2. The harm to European economies will be greater, clearly, than the harm to the U.S. or China, given Europe's energy dependence on Russia, and its proximity to the conflict. In addition, 4.1% of all EU exports were to Russia in 2021, and the EU is the largest investor in Russia. We believe China may actually benefit from this conflict because it is an outlet for Russian commodities and it has the potential to be a neutral arbiter in the conflict.
3. Western governments may cushion some of the downside risk with increased fiscal spending. Germany and other European countries have significant fiscal flexibility. Moreover, the U.S. Federal Reserve might delay or slow expected interest rate hikes.
4. Valuation for U.S. growth companies continue to deflate. At least some of this disruption is priced into stocks, which may make them more attractive investments.

We are following our iterative process of listening, learning, applying, and adapting to the geopolitical events we are seeing. Last week, we shifted some of our holdings out of international stocks and into U.S. stocks. This week, we plan on further reducing our

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international exposure and investing the proceeds in short term U.S. bonds, except in our most aggressive strategies. Until we better understand the long term impact of this conflict, it makes sense to reduce our exposure to international stocks.

The situation remains fluid, and we continue to adapt to new information. We hope the war will end soon and the economic picture will become clearer. As always, please don't hesitate to reach out if you have any questions.

Best,

Your ChoateIA team

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