LANDMARK
FINANCIAL ADVISORS, LLC

WEALTH MANAGEMENT

APR 2022

LESS GROWTH, MORE INFLATION

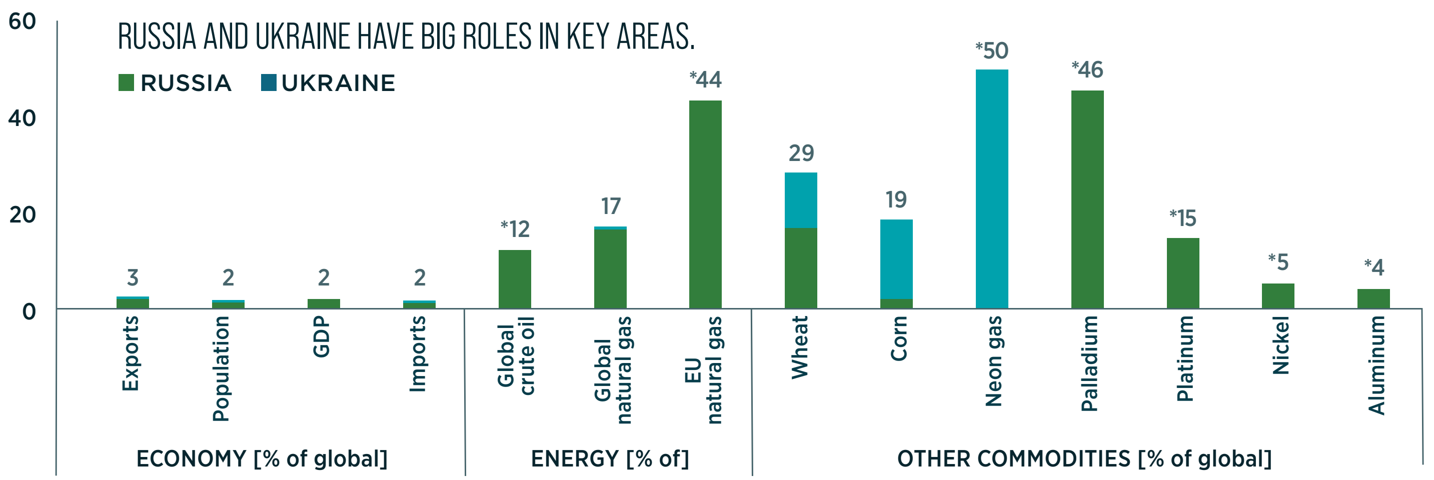
In just a few weeks' time, the threat of a Russian invasion of Ukraine has become the reality. The resulting humanitarian toll has led to millions of Ukrainians leaving the country, with a similar number displaced and too many killed or injured. Forecasting the eventual outcome remains highly uncertain, but Russia's relentless attacks show no signs of abating and the "off-ramp" for President Putin remains elusive. European growth will be most notably affected due to the region's close economic ties and reliance on Russian gas and oil. There will also second-order effects as surging commodities prices saffect inflation and growth globally. So far this year, oil prices are up 45%, European natural gas prices are up 74%, and global metals prices have risen 33%.

As shown in the exhibit below, Russia and Ukraine represent a small percentage of the global economy, but they have an outsized role in European energy and global agriculture. Beyond the risk of war-related supply disruptions, there is the potential for "weaponizing" the supply of key commodities. Russia and Ukraine are major producers of palladium, used in many industrial applications, and neon gas which is used in semiconductor production.

The impact of surging commodity prices will be felt most directly in those economies that are large net importers—such as major European countries and some emerging market economies like China. The U.S. is better positioned as a major producer of energy and agriculture, but it won't be immune to the indirect effects. We have increased our inflation expectations globally, as inflation was reaccelerating even prior to the Ukraine invasion.

In our global policy model, we have reduced our recommended exposure to developed ex-U.S. and emerging market equities, and increased our exposure to inflation-linked bonds, high yield bonds, U.S. equities and cash. Our base case outlook now envisions slower growth due to the fallout from the invasion, and more persistent inflation as countries have to find new commodity supplies. Our risk cases focus on the potential for military escalation by Russia, through unconventional war tactics or the invasion of the Baltics and other NATO countries. Our final risk case addresses the potential of a greater economic shortfall as the economic restructuring necessary to address the "newest world order" is greater than market expectations.

SMALL GLOBAL ROLE, BUT LARGE IN KEY AREAS



Source: Northern Trust Asset Management. Estimates from Bloomberg, Goldman Sachs, J.P. Morgan, Eurostat, MIT OEC Database, Financial Times.
*Ukraine or Russia not included due to its minor share and/or data limitations. Latest data as of December 2021.

BASE CASE

GLOBAL ECONOMIC SHOCK

Russia's invasion represents a global growth and sentiment shock as well as a commodity price shock. The accelerated shift toward a "One World, Two Systems" dynamic should play out well beyond our tactical horizon but, in the meantime, the most obvious growth impacts have been felt in Europe.

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PERSISTENT INFLATION PRESSURES

Already a strong risk case, recent developments have sealed inflation's fate globally. More than just an energy price shock, Russia's invasion of Ukraine means securing new input sources across a number of commodities and rebuilding infrastructure to better align with the evolving "newest world order."

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RISK SCENARIOS

MILITARY ESCALATION

Russian dictator Putin moves further into "unconventional" war tactics or invades the Baltics (or other NATO countries), notably increasing required equity risk premiums and pushing equity markets lower.

ECONOMIC DEGRADATION

The economic restructuring necessary to address the "newest world order" is greater than what's priced in, causing even lower growth and higher inflation (a key risk for our still-constructive U.S. outlook).

UPGRADES TO ASSIST WITH TAX RETURNS

We have invested in some new software to assist you and your CPAs with the preparation of your tax returns. Starting next year, we will be sending out a customized tax prep letter that will recap all your tax decisions that were made during the year. This will ensure that all the activities, tax documents and basis information are properly accounted and captured by your tax preparer. In addition, we do have a new tax report that we are utilizing for clients. Please make sure and get a copy of your 2021 returns to us once they have been completed. This new tool allows us to model different scenarios for analysis to be able to enhance your after-tax wealth. We can't stress enough how important it is for us to have your tax returns on file, so please forward them once completed.

> "NEVER INVEST IN ANY IDEA THAT YOU CAN'T ILLUSTRATE WITH A CRAYON."
>
> —PETER LYNCH

> "THE WEALTH OF A PERSON SHOULD BE ESTIMATED, NOT BY THE AMOUNT HE HAS, BUT BY THE USE HE MAKES OF IT."
>
> —JOSH BILLINGS