

Thoughts on Ukraine

This weeks' economic reports are mostly of the minor league variety. With the global economy and the financial markets being so uncertain, yesterday's economic news pales in comparison to the day-to-day outlook. Front and center is the escalating military conflict in the Ukraine. This war will be viewed through the unfiltered lens of social media. In an arena where sensational stories get the most clicks, this rapidly evolving conflict will amplify conversations on Wall Street, Main Street and in Washington.

Oil prices have risen along with tensions since the beginning of the year. This promises to add to February headline CPI, so the Fed is likely to see another uncomfortably hot consumer inflation report just before its March FOMC meeting. Although major military action might normally put monetary policy on pause, Fed officials are almost certain to announce the initial 25 bp rate hike on March 16th. It's still possible that the Fed opts for a larger 50 bp increase next month, *but it's become less likely as the outlook clouds.*

If things continue to escalate in Ukraine, several major things are likely to happen: Higher oil (and gasoline) prices, delayed improvement in global supply chains, and extreme volatility in the global equity markets that continues to chip away at investor and consumer confidence. All of this promises to reshape the mid-term election results.

The bond market has priced-in more than five rate hikes by the September FOMC meeting, but as the conflict drags on, a dramatic slowdown in global and domestic growth wouldn't be a surprise. By that time, consumers could be grappling with higher pump prices, reduced savings, battered retirement accounts and a sense of unease ... on top of whatever remains of COVID-19.

Fed rate hikes are designed to slow consumer demand, but the near-term outlook suggests demand could slow significantly *without the Fed's help*. A majority of Fed officials have repeatedly said that future policy will be driven by the virus, the data ... and now, unfolding geopolitical events.

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Market Indications as of 2:51 P.M. Central Time

DOW	Down -457 to 33,140 (HIGH: 36,800)
NASDAQ	Down -325 to 13,056 (HIGH: 16,057)
S&P 500	Down -66 to 4,239 (HIGH: 4,797)
1-Yr T-bill	current yield 1.15%; opening yield 1.15%
2-Yr T-note	current yield 1.59%; opening yield 1.60%
3-Yr T-note	current yield 1.77%; opening yield 1.77%
5-Yr T-note	current yield 1.89%; opening yield 1.88%
10-Yr T-note	current yield 1.98%; opening yield 1.94%
30-Yr T-bond	current yield 2.28%; opening yield 2.25%

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