

Asset Class Winners and Losers if Russia Invades Ukraine

As Russian troops gather at the Ukraine border a war looks imminent. U.S intelligence has warned that Russia is likely to invade Ukraine as early as this week. Investors can look at ways to protect and position their portfolio if the Russian invasion goes ahead, as is widely expected.

Based on the February 27, 2014, Russian invasion that took control of the Crimean Peninsula from Ukraine, any invasion may meet with limited resistance. The 2014 invasion and takeover of Crimea was completed in only a month. Of course, on this occasion the whole of Ukraine is at risk and the Ukrainian military response should be a lot greater.

Russia and Ukraine look to be on the brink of war



Russia – Ukraine War

Source: iStock

Sanctions on Russia will likely be the key response from the West

If Russia invades then the most likely outcome is that very heavy sanctions will be imposed on Russia by at least the U.S, UK, and the European Union. Goods and services likely to be sanctioned could be the import of any military hardware & software, semiconductors, smartphones, critical metals etc. There would also likely be financial sanctions that act to block western finance to Russia and Russian companies as well as US dollar transactions. Russian exports (with gas and perhaps oil excluded) may also be sanctioned, which could lead to price spikes in key commodities and metals (palladium, iron ore, nickel, aluminum, or uranium) that Russia exports. For example, the Russian company Norilsk Nickel is the world's leading palladium and nickel producer; the Russian company Rusal is a large global aluminum producer; and much of the world's uranium comes from Russia, and Russian controlled companies such as those operating in Kazakhstan.

Ukraine would also be heavily impacted by a Russian invasion, which would interrupt Ukrainian businesses. Ukraine is well known for its fuel and non-fuel resources production and mining industry, including natural gas, oil, coal, iron ore, chalk, limestone, and manganese ore. Manufacturing is also a major business in Ukraine and includes automotive, shipbuilding, aircraft & aerospace. Ukraine is also a strong agricultural producer that helps to feed Europe. Key Ukrainian agricultural products include corn, wheat, sunflower oil, sugar, dairy, meats, honey, and nuts.

Ways to protect your portfolio

Some of the safe havens in times of conflict include:

- Cash (U.S dollar, Japanese Yen, Swiss Franc).
- U.S Government bonds.

- Physical Gold, and quality gold producing mining companies.
- Rotating some money out of risky assets.
- Reducing exposure to Europe.

Possible winners if Russia invades Ukraine

- Global energy companies due to increased price of oil and gas. Leading non-Russian gas and oil companies include Exxon Mobil Corporation (NYSE: XOM), BP plc (NYSE: BP), and Chevron Corporation (NYSE: CVX).
- Global metal companies (palladium, iron ore, nickel, aluminum, uranium). For palladium consider South African Sibanye Stillwater Limited (NYSE: SBSW). For iron ore and nickel consider Brazil's Vale S.A. (NYSE: VALE), or Australia's BHP Group Limited (NYSE: BHP). For aluminum consider China's Chalco (SHA: 601600) or America's Alcoa Corp. (NYSE: AA). For uranium consider Energy Fuels Inc. (NYSE American: UUUU | TSX: EFR) or Ur-Energy Inc. (NYSE American: URG | TSX: URE).
- Military related stocks as the West supports Ukraine and other parts of Europe with access to the latest weapons as a counter to Russian expansion in Europe. Consider the iShares U.S. Aerospace & Defense ETF (ITA) or the more aggressive Direxion Daily Aerospace & Defense 3X Shares ETF (DFEN). More details on the top defense stocks in my recent InvestorIntel article are here.
- Agricultural stocks. Given Ukraine is a food bowl of Europe, then any significant disruption to the Ukraine agricultural sector could force up prices for grains such as corn, wheat, and sunflower oil.
- Cybersecurity stocks may be a winner if Russia responds to the West with cyber-attacks. Consider buying the ETFMG Prime Cyber Security ETF (HACK).
- Inverse or Bear ETFs that short the market or the currency. As there is no current Russia short ETF (Direxion Daily Russia Bear 3x Shares (RUSS) ETF closed

in 2020) or short Russian ruble ETF to my knowledge, one option would be ProShares Short Euro (EUFX) or ProShares UltraShort Euro (EU0) for shorting the Euro currency. These are only suited to day trading and sophisticated investors.

- Shorting individual Russian stocks.

Possible losers if Russia invades Ukraine

- Russian ruble currency, Ukrainian currency (the hryvnia).
- Russian stocks and the Russian stock market index (eg: iShares MSCI Russia (ERUS)).
- Companies that have significant exports to, or revenues from, Russia as Russia may impose countersanctions or suffer a sharp slowdown. Examples include Veon (NASDAQ: VEON), Mobile TeleSystems (NYSE: MBT), EPAM Systems (NYSE: EPAM), Playtika (NASDAQ: PLTK), QIWI (NASDAQ: QIWI), and Ozon Holdings (NASDAQ: OZON).

Closing remarks

When Russia invaded Ukraine in 2014 the immediate impact saw the Russian stock market index fall ~11%, European stock indexes fell (Germany fell 3.3%), and the Russian ruble fell to a record low. US shares fell about 1.3% and money flowed into US bonds, gold and safe haven currencies. Rotating some funds from risky assets into safe havens right now looks to be a good idea.

Apart from what's mentioned in the article, investors should also consider using any significant dip in global share markets as an opportunity to buy, as any contained Russia/Ukraine conflict should not have a lasting impact on the world. I will most likely use any market dip to top up on some of my favorites such as Alphabet Inc. (NASDAQ: GOOG) and Tesla Inc. (NASDAQ: TSLA), as well as some well valued EV metal miners.

Finally, there is also the risk that Russia backs down or de-escalates and we get no Ukraine invasion. In that case, most of the stocks and ETFs in this article are likely to fall back after a recent run up as invasion risks have been an issue for some months now.

At the rate of escalation, we should know what the outcome is probably within the next month or two. Feel free to post your thoughts and idea in the comments section below.