Advertising information. Investing activity involves risk. Before making final investment decisions, read the fund's prospectus.

# WEEKLY COMMENTARY 28.02.2022

Santander Fundusze Inwestycyjne

**In the past week (21-27.02.2022) the black scenario of the conflict between Ukraine and Russia came true.** At first, Russia recognized the independence of two self-proclaimed separatist republics within Ukraine - Donetsk and Luhansk, and offered them aid and cooperation. **Russia then attacked Ukraine by, among other things, bombing Kiev and attacking Ukrainian airports**. Ukraine's armed forces are defending the country's territory, and **Western countries have announced further sanctions against Russia**. At the same time, US President Joe Biden has indicated, that American troops will not participate in the war unless Russia enters NATO territory (Ukraine, unlike Poland, is not a member of NATO). On Sunday, Russian President Vladimir Putin issued an order to put nuclear troops on alert.

**Due to the unprecedented in the history of the Polish stock market proximity of the armed conflict all other factors were pushed into the background, and valuations of domestic assets dynamically changed depending on the information coming from beyond our eastern border.** Last week the Polish equity market fell by 8.0% (WIG index), and smaller companies behaved relatively better than the broad market, with sWIG80 index falling by 6.4%. The largest companies grouped in the WIG20 index fell by 8.0%, while the medium-sized mWIG40 index decreased in value by 8.7%.

Among large Polish companies, **the situation in Ukraine had the strongest impact on the shares of the clothing company LPP (a 36.1% fall in the value of its shares over the past week)**, which operates stores in both Russia and Ukraine and has so far planned an intensive development of its store chain in these countries.

**Volatility was also elevated in markets geographically close to Russia.** The indices of the Baltic countries of Lithuania (OMX Vilnius Index), Latvia (OMX Riga Index) and Estonia (OMX Tallinn Index) fell 3.2%, 2.8% and 3.3%, respectively, while the Finnish stock market (OMX Helsinki Index) was down 3.2%. The index of the 50 largest companies listed on the Moscow Stock Exchange (RTS Index) fell 32.7% in dollar terms.

Global stock markets also reacted to Russia's aggression and growing uncertainty in financial markets, although the dynamics of changes were lower than in our region. **In a broader perspective, the Ukrainian-Russian conflict was treated as a merely regional event.** The American indexes S&P500 and Nasdaq Composite finally closed the week up by 0.8% and 1.1%, the German DAX fell by 3.2%, and the Japanese Nikkei fell by 2.4%.

**There was no panic in the bond markets -** Poland's 10-year Treasury bonds increased in yield by 13 basis points (their price fell), and 10-year U.S. Treasury bonds increased in yield by 4 basis points.

**Among commodities, coal quotations recorded high gains** (contracts for coal quoted in Rotterdam increased by 28.9%), **while crude oil quotations crossed the psychological barrier of USD 100 in recent days**, closing the week at the level of USD 94 (up by 0.6% during the week). **Gold quotations**, customarily seen as a suitable asset in times of growing uncertainty, **remained stable**, ending the week with a small decline of 0.6%.

**European Union countries and others, including the United States, the United Kingdom, and Canada, announced the imposition of sanctions on Russia**, including the blocking of transactions with the operator of the Nord Stream 2 gas pipeline. In addition, **transactions with the Russian Central Bank were banned**, and the President of the European Commission declared **the withdrawal of a number of Russian banks** (the list of banks is not yet known) **from the SWIFT system**, which will disconnect these banks from the international financial system and harm their ability to operate worldwide, blocking, for example, their ability to export and import. **The European Union has closed its airspace to Russian aircraft**. **The assets of V. Putin** (Russian President) **and S. Lavrov** (Russian Minister of Foreign Affairs) **are to be frozen**. The list of Russian entities subject to foreign trade sanctions has also been expanded. Additionally, Norges Bank, which is one of the world's largest wealth funds, announced **the sale of all Russian assets** (as of the end of 2021, they held Russian shares worth $3.1 billion). At the same time, more countries, including Poland, declared **to help rearm the Ukrainian army by donating arms and ammunition**.

Advertising information. Investing activity involves risk. Before making final investment decisions, read the fund's prospectus.



**The impact of the Russian attack and the imposed sanctions on the financial markets is difficult to predict.** At the moment, however, one can already talk about the **collapse of the Russian financial market** (including raising interest rates from 9.5% to 20%) and **the plunge in the ruble**. At the same time, investors, especially those engaged in assets in regions geographically close to Russia and Ukraine, reacted allergically to the first reports of the conflict, which led to a **classic 'risk-off'**, **i.e. selling off risky assets and local currencies.** On the other hand, there were gains in safe assets, which usually include treasury bonds of large Western countries, where prices should rise as capital flows in this direction. After the announcement of the first package of sanctions, the situation reversed. **Therefore, until the ceasefire agreement is signed, we can expect increased volatility on financial markets, which are trying to discount incoming information on an ongoing basis.**

**On a global scale, the main effect of excluding Russia from international trade will be first of all the pressure on energy costs and as a consequence an increase in inflation, since Russia is one of the world's largest producers and exporters of energy resources** (mainly oil and natural gas)**.** The actions of central banks around the world will also be important. At this stage, the developments in Ukraine do not seem to affect the interest rate policy of ECB and Fed, although in the United States there are already voices about the possible need to raise interest rates more slowly than previously anticipated. Potential reduction of the pace of tightening by central banks should support bond prices.

---

**This document is presented for marketing purposes and does not constitute an agreement or an information document required by law. It should not be relied upon as the sole basis for making investment decisions.**
The net asset value of some sub-funds of the Santander Funds is highly volatile due to the composition of the investment portfolio. Some sub-funds may invest more than 35% of their assets in securities issued, guaranteed or underwritten by the State Treasury or the National Bank of Poland.
The rewards of investing in shares are also accompanied by risks. A description of the risk factors, financial data and information about fees and charges can be found in the prospectuses, key information documents (KIIDs) and schedules of fees and charges available in Polish at Santander.pl/TFI/documents and at Santander fund distributors. For a summary of investors' rights, see the prospectus (Chapter III, sec. 4).
The Funds do not guarantee the achievement of a stated investment objective or a specific investment performance and future returns are subject to taxation, which depends on the personal situation of each investor and which may change over time. Before making an investment decision, the participant should consider the fees associated with the sub-fund and take into account the possible taxation of the investment return. The participant must also take into account the possibility of losing at least part of the invested funds.
When investing in mutual funds, the participant purchases the units of those funds and not the underlying assets that the fund itself invests in.
This document may not be copied, quoted or distributed in any way without the prior written permission of Santander TFI S.A. The information contained in this document has been compiled to the best of the authors' knowledge and is obtained from sources believed to be reliable, however the authors do not guarantee its accuracy or completeness. The authors do not accept responsibility for the consequences of investment decisions based on the interpretation of this document.
2022 © Santander Towarzystwo Funduszy Inwestycyjnych Spółka Akcyjna. All rights reserved. Santander name and flame logo are registered trademarks.

Tel. 22 431 52 25 Infolinia 801 123 801 Santander.pl/TFI tfi@santander.pl