



Market Volatility Update

Markets have been in a precarious position for the past several months, primarily due to uncertainty surrounding the March Federal Reserve policy meeting and lingering inflation. Now, a potential “black swan” event has emerged in the form of an escalating conflict between Russia and Ukraine. Unlike 2014’s takeover of the Crimean Peninsula, this time Russia seems set on pushing deep into Ukraine with the goal of overthrowing and replacing the government.



The situation is rapidly evolving and even if Russia quickly overwhelms Ukrainian resistance and achieves their military goals, we will likely see a period of prolonged uncertainty, negatively impacting geopolitical relationships and financial markets. In the most extreme outcome, Russia’s aggression could embolden China to undertake a similar expedition into Taiwan, or the Ukraine conflict could spillover and draw in a bordering NATO member. At the very least, the market turmoil increases the uncertainty of the Federal Reserve’s interest rate trajectory, which was already weighing on markets.

For our clients, we know these developments can be stressful. Rest assured, in our proprietary tactical models Hanlon has been proactively increasing cash positions since early January. Our Tactical models currently have very low exposure to equities (as of February 24th our most aggressive Tactical model is roughly 90% cash). This has limited drawdown across our Tactical models, and we will remain defensively positioned as this situation unfolds. For clients in our All-Weather models, the Tactical component will partially buffer against the volatility by providing up to 10-25% (depending on the model selected) cash allocation to limit volatility from the buy-and-hold strategic portions of the models.

Military conflicts typically result in an initial shock selloff, followed by a sharp rally. This conflict may play out similarly, but a high level of caution and patience is prudent as the situation unfolds. If Russia can successfully redraw its borders by overtaking Ukraine there will be a significant increase in the risk to global markets, a potential setback for European equities which were just beginning to show relative strength after a prolonged period of underperformance. As these geopolitical and market events continue to unfold, we will adapt our tactical strategy appropriately to protect our clients and position our models for continued success when the uncertainty subsides.

Thank you, as always, for the opportunity to let us serve you.

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