



RUBRICS

# Geopolitical Risk Resurgence



Fixed Income Macro View

[rubricsam.com](http://rubricsam.com)

## Crisis Overview

At Rubrics we have often focused on geopolitical developments, given their close linkage with economics. Every economic decision has a political dimension and vice versa. Most of these decisions are taken on the back of considerable strategic thought and analysis. Incentives are set and outcomes materialise, intended or not, as a function of the decision making process.

It would not be unfair to describe Putin's decision to invade Ukraine in a blitzkrieg style attack (with a little less blitz) as incredibly reckless and self-defeating on every level. Any political resolution that may have been achievable with the West now looks totally unattainable. The likelihood of Ukraine ever joining NATO (or the EU for that matter) was extremely low – until now. The once fractured alliance is now united, as Western powers combine to isolate Russia internationally until Putin is gone. There are going to be many dark days ahead for the people of Ukraine and perhaps others living further afield. There is light at the end of the tunnel, though it will likely require the oncoming onslaught of the Russian army in Ukraine to put in motion the mechanisms that will ultimately lead to Putin's demise.

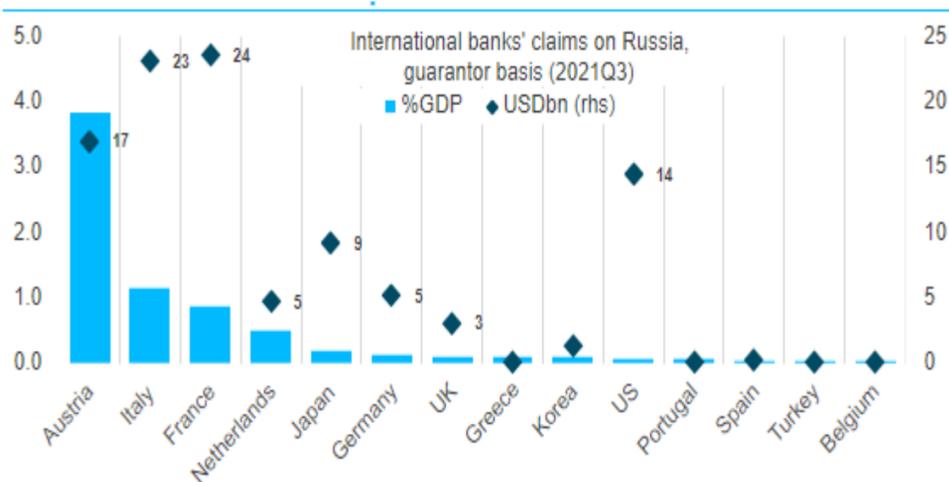
## Political Analysis

Is there a 'win' for Putin? It seems highly unlikely there is any political resolution which will give him one. He will in all likelihood succeed in capturing or destroying Kiev with a major show of force, but for how long will he be able to hold it?. It is clear the Russians were expecting the actor Zelensky and his government to run. They could not have been more wrong.

Will Putin escalate the fighting? Most analysts who know Putin reject the idea that he will accept defeat even if that means using heavy munitions on civilian targets. The human cost of this war for Ukraine is going to be horrifically high. The 20/21<sup>st</sup> century is awash with examples of major powers winning battles but losing wars. How Putin did not see this is a major miscalculation on his part.

How has the West responded? After the initial rounds of sanctions, they have been more proactive in offering military support in terms of anti-tank and other offensive weaponry. After a short delay the likes of Germany and Switzerland have moved their own goal posts to make this happen. Along with the multiple sanctions, we have also seen every major western business pull out of Russia - further isolating the country from western goods and technology. As one example, aircraft leasing companies are cancelling agreements with Russia. They might not get their planes back but there will be nobody left to service them or get new parts. For a country the size of Russia this will eventually become a problem.

## DM Bank Exposure to Russian Debt - Contained



Sources: BIS, TS Lombard.

Source: TS Lombard

**What is there left to do?** We feel that any direct military confrontation in the Ukraine between Russia and a NATO country is unlikely. However, there are future actions that we feel will be taken.

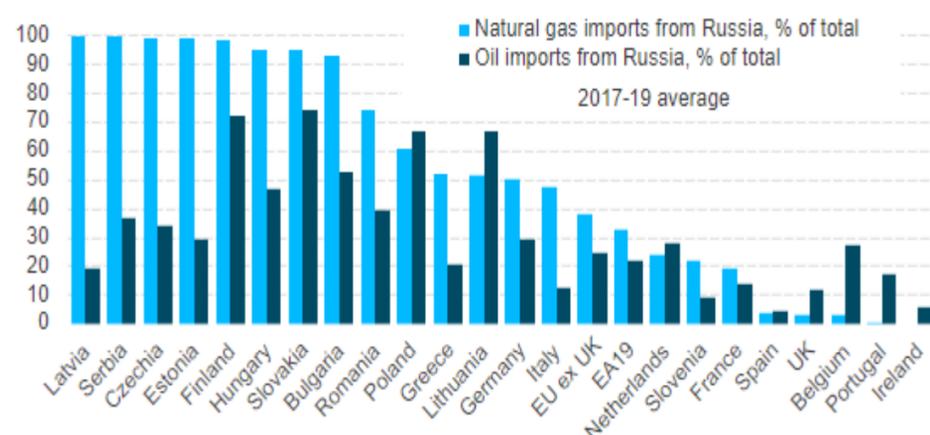
- At the moment oil and gas exports from Russia have not been sanctioned. It is now only a matter of time before this eventuates. As Russia's only major source of income, without it their ability to keep its economy operating becomes severely hampered. While it will be painful for Europe in particular, it is an action one feels they are now ready to take. How many more dead bodies do we need to see to make this happen?
- While many Western nations have been near unanimous in both their condemnation of Russia and willingness to impose sanctions, some have not been as clear - the likes of Hungary and India for example. As the violence and war crimes against Ukraine grow so will the 'with us or against us' rhetoric from the US and Europe. Direct pressure will be put on countries that do not toe the line in this regard.

**How does the crisis get resolved?** As we mentioned earlier there are few easy wins left for either Putin or the West for that matter. Without NATO troops marching into Ukraine there does not seem to be a military solution, not in the short run anyway. It is clear the Ukrainians will continue to fight a guerrilla war ably supported with munitions from Europe. Putin is clearly going to do anything he can to bring the Ukrainian resistance to an end but as we have seen in the Middle East and Afghanistan - this is far from easy.

This war is going to escalate dangerously from here, we can be pretty sure of that. The one way Putin (and his hench men and facilitators) probably feels they can survive this is through a growing alliance with China. In our minds this holds the key to how this develops from here. If China conforms with the Western position, then Russia can be fully isolated and would find itself in an impossible position both politically and economically very quickly.

**What if China doesn't join the West?** Outside of Russia's supply of oil and gas it is not an economic powerhouse. China on the other hand plays a significant role in the global economy. If China continues to trade openly with Russia (Putin's only remaining lifeline) this would represent a strong signal they no longer want any part of the western rule based system. The globalised economy so long in the making would be rendered a thing of the past. Seeing what happened to Western investments in Russia will certainly make many investors think twice about deploying new funds. It would also indicate China's view on taking Taiwan. Without doubt the likes of Japan, Australia and other western leaning nations would be on high alert.

## Exposure to Russian Oil & Gas – CEE most at Risk



Sources: Eurostat, TS Lombard.

Source: TS Lombard

## In Summary

It is our view that China will support the West (to a degree) in ensuring that the crisis is contained. China is a 'strategic partner' and not an 'ally' of Russia. There will likely be very clear messages that nuclear engagements would be completely unacceptable. Without China's backing the Russian economy would collapse. Putin invaded Ukraine to enact regime change, it is quite possible the only real regime change will be his own. Without access to the Oligarch's money, the ability of Putin's cronies to stay in power seems highly unlikely against a worsening economic crisis at home. Ultimately it must be the people of Russia who need to reject this regime.

Both the US and Europe have been asleep at the wheel in facilitating the ascent of 'strong men' politics both at home and abroad. They have now awakened to this threat, which if not met head on will see our world change in ways we haven't seen in generations. History indicates that we can pull back from the brink. We can no longer be apologists for these bad actors and facilitate them with our trade and IP. We wrote in 2015 that every major economic crisis ends in a political crisis. I think it is fair to say we are now staring that endgame square in the face.

## Long Term Evolution of a Crisis



### Debt Crisis

- US – subprime mortgage crisis, student/auto loans
- Europe – Europe's periphery
- China – \$23tr in additional debt since 2008



### Economic Crisis

- Global – trade deterioration, currency wars
- Developed Market – wage deflation/inflation in cost of living
- Emerging Market – balance of payments crises, fiscal mismanagement
- Monetary – zero/negative interest rates, liquidity preference theory



### Social Crisis

- Social partnership breakdown – housing, health and pension crisis
- Inequality acceleration
- Social mobility decline
- Social discord surge – US, UK, France, Middle East



### Political Crisis

- Rise of nationalism
- Rejection of globalisation
- Increased protectionism – trade barriers, currency debasement
- Corporate and political conflict

Source: Rubrics AM

## Rubrics Portfolio Exposure to Russia

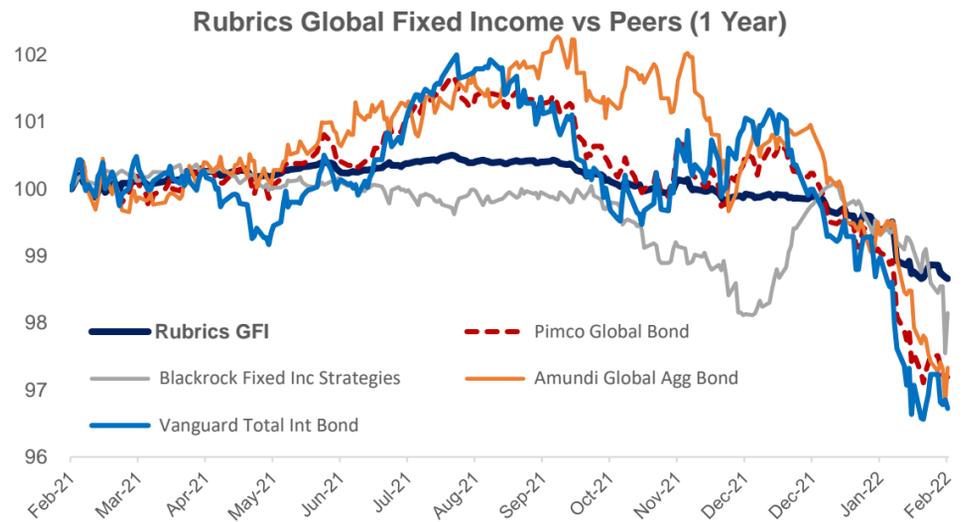
Below is an overview of direct holdings in Russian assets across the Rubrics Global UCITS funds as at 25.02.22.

**The Global Credit UCITS Fund** has approximately 0.25% direct exposure to Russia via a single (non-sanctioned) issuer. Wider exposure to Eastern Europe is limited to approximately 0.40%. The Fund's exposure to the global banking sector is heavily concentrated on the largest players in the UK/Europe with limited direct exposure to Russia.

**The Global Fixed Income UCITS Fund** has 0% exposure to both Russia and wider Central and Eastern European issuers. The Fund has been strategically underweight EM hard currency on account of a challenging fundamental picture in addition to tight valuations. A continuation of widening spreads can create good opportunities within this space as well as broader credit.

**The Rubrics Emerging Market Fixed Income UCITS Fund** holds 0% exposure to direct Russian assets and approximately 11% exposure to wider CEE. This is exclusively in the form of liquid currency forwards (PLN, CZK, HUF). The Fund has typically favoured local currency over hard currency assets and had previously exited a small position in RUB on account of the growing political risk.

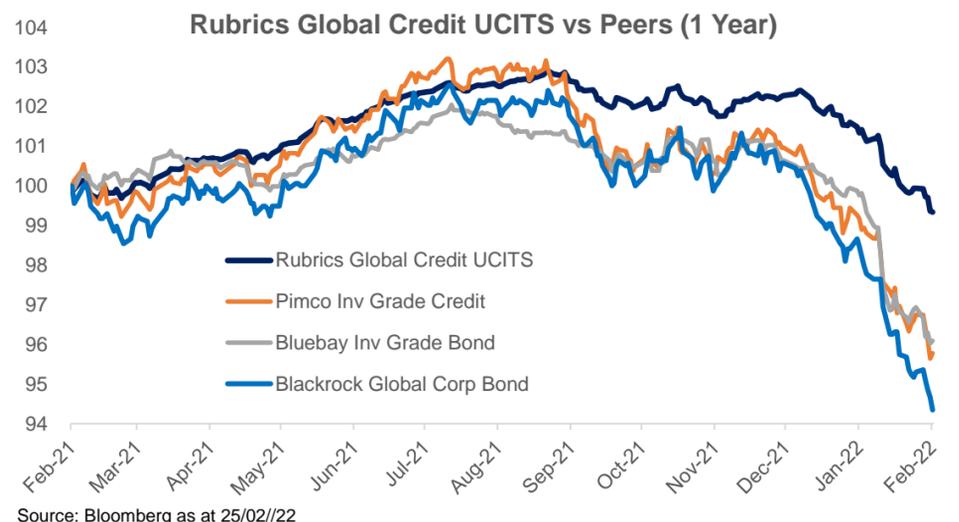
## Rubrics Global Fixed Income UCITS Fund



Source: Bloomberg as at 25/02/22

Fund as at 25.02.22	Ytd Perf	1 Yr Perf	3 Yr Perf
<b>Rubrics Global Fixed Income UCITS A</b>	<b>-1.22%</b>	<b>-1.54%</b>	<b>2.25%</b>
Pimco Global Bond	-3.03%	-3.14%	3.01%
Blackrock FI Strat	-1.62%	-2.02%	2.29%
Vanguard Total Int Bond	-3.27%	-3.68%	1.81%
Amundi Global Agg Bond	-3.49%	-3.06%	2.50%

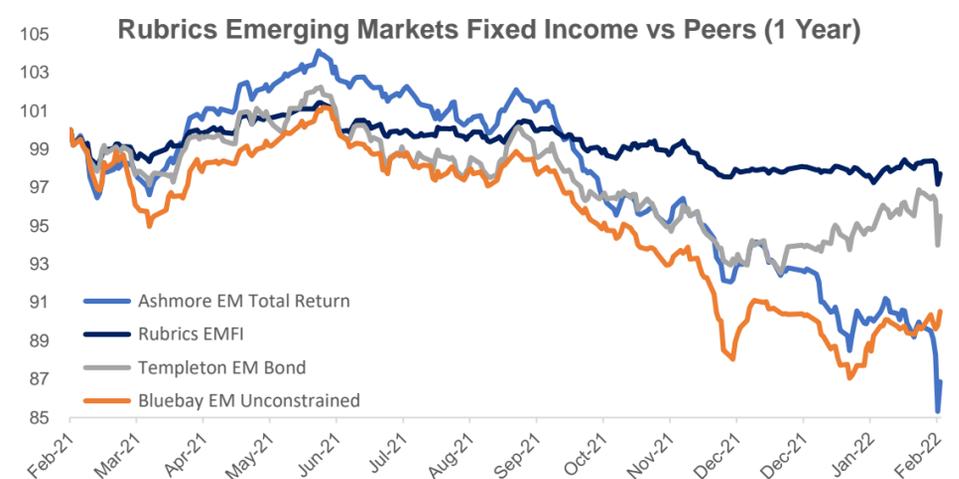
## Rubrics Global Credit UCITS Fund



Source: Bloomberg as at 25/02/22

Fund as at 25.02.22	Ytd Perf	1 Yr Perf	3 Yr Perf
<b>Rubrics Global Credit UCITS A</b>	<b>-3.00%</b>	<b>-0.79%</b>	<b>2.65%</b>
Pimco Global IG Credit	-5.17%	-4.57%	2.73%
Bluebay IG Bond	-4.33%	-4.20%	3.41%
Blackrock Global Corp Bond	-6.01%	-5.53%	3.03%

## Rubrics Emerging Market Fixed Income UCITS Fund



Source: Bloomberg as at 25/02/22

Fund as at 25.02.22	Ytd Perf	1 Yr Perf	3 Yr Perf
<b>Rubrics Emerging Markets Fixed Income UCITS A</b>	<b>-0.36%</b>	<b>-1.87%</b>	<b>0.69%</b>
Ashmore EM Total Return	-6.34%	-12.87%	-11.07%
Templeton EM Bond	1.62%	-4.03%	-13.50%
Bluebay EM Unconstrained	0.20%	-9.01%	5.01%

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*Rubrics Global UCITS Funds Plc is a variable capital umbrella investment company with segregated liability between sub-funds; incorporated with limited liability in Ireland under the Companies Acts 2014 with registration number 426263; and authorised by the Central Bank of Ireland pursuant to the European Communities (Undertakings for Collective Investment in Transferable Securities) Regulations 2011, as amended). This document is for information only and does not constitute an offer or solicitation to deal, whether directly or indirectly, in any particular fund. Nothing in this document should be taken as an expressed or implied indication, representation, warranty or guarantee of performance whether in respect of income or capital growth. No warranty or representation is given as to the accuracy or completeness of this document and no liability is accepted for any errors or omissions that the document may contain. The Key Investor Information Documents (“KIIDs”) and prospectus (including supplements) for Rubrics Global UCITS Funds Plc are available at [www.rubricsam.com](http://www.rubricsam.com). The management company of Rubrics Global UCITS Funds Plc is Carne Global Fund Managers (Ireland) Limited (the “Management Company”). The Management Company is a private limited company, incorporated in Ireland on 16 August, 2013 under registration number 377914. The investment manager of Rubrics Global UCITS Funds Plc is Rubrics Asset Management (Ireland) Limited (the “Investment Manager”). The Investment Manager is a private company registered in Ireland (reference number:613956) and regulated by the Central Bank of Ireland in the conduct of financial services (reference number:C173854). Details about the extent of its authorisation and regulation is available on request. Rubrics Asset Management (UK) Limited is an appointed representative of Laven Advisors LLP, which is authorised and regulated by the Financial Conduct Authority of the United Kingdom (Reference number: 447282). Laven Advisors LLP is not authorised to promote products to retail clients, all communications originating from either Laven Advisors LLP or Rubrics Asset Management (UK) Limited is therefore intended for professionals and eligible counterparties only. Data Source: © 2020 Morningstar. All Rights Reserved. The information contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information. [www.morningstar.co.uk](http://www.morningstar.co.uk).*

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