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History repeats itself 60 years on

Overview

Last week was particularly turbulent for financial markets after the Russian army stormed into Ukraine. The Russian stock market set a new record when its index plunged by 45% in a single session. We're also witnessing a rerun of history 60 years ago. Back in 1961, the Americans tried to overthrow Fidel Castro's regime in Cuba, unhappy with the idea of having Russian missile bases within 200 kilometres of Florida.

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Last week's news and the atmosphere in the markets can be split into two distinct phases: the surprise invasion and the uncertain reaction of the Western countries initially weighed down the equities until early Thursday. But when the first sanctions were announced, and these were generally less severe than expected, the market turned the corner and rallied by more than 6.5% from last Thursday's lows. With Western capitals ruling out military intervention, the content of the sanctions became the only gauge of the severity that this conflict would inflict on the global economy.

In all humility (as it's not easy to forecast events in this kind of geopolitical conflict), there are reasons for not seeing everything as bleak. Rhetoric from countries taking a stance is one thing, but that is different from their interests.

That is where market KPIs are useful. Note that long-term yields in both the US and Europe have hardly budged. Neither has high-yield corporate debt. On the foreign exchange market, euro fluctuations against the US dollar remain within the ranges seen in recent months. Only volatility in equity markets has increased, which is normal in such circumstances. Western countries have tried as much as possible not to shoot themselves in the foot with the sanctions. Russian oil and gas exports have not yet been targeted.

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The impact of the sanctions on the Russian financial system and the restrictions placed on the Russian central bank are where the measures bite hardest. The Russian central bank could be partially hindered in defending the local banking system, which would in turn erode the value of Russian savings. This morning the Russian central bank hoisted its benchmark policy rate from 9.5% to 20% to counter the nosedive in the rouble and forestall a potential run on banks.

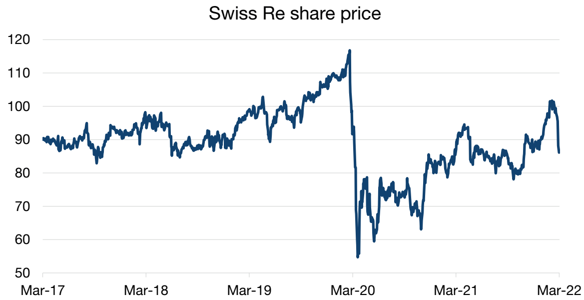
All in all, looking at key market indicators, namely government bond yields of Western Countries, we are not picking up any particular signs of stress at this stage. We believe that the effects of the sanctions, which ultimately penalise both sides, will encourage the parties to return to the negotiating table. As Charles de Gaulle said, "No nation has friends, only interests".

Key data

	USD/CHF	EUR/CHF	SMI	EURO STOXX 50	DAX 30	CAC 40	FTSE 100	S&P 500	NASDAQ	NIKKEI	MSCI Emerging Markets
Latest	0.93	1.04	11'987.31	3'970.69	14'567.23	6'752.43	7'489.46	4'384.65	13'694.62	26'476.50	1'171.99
Trend	→	→	↓	↓	↓	↓	→	↓	↓	↓	↓
YTD	1.46%	0.57%	-6.90%	-7.62%	-8.29%	-5.60%	1.42%	-8.00%	-12.47%	-8.04%	-4.87%

(values from the Friday preceding publication)

Swiss Re



Financial results for 2021 disappointed the market, even though the reinsurer managed to pull out of negative territory. Swiss Re ended 2021 with a net profit of USD 1.44 billion, compared with a loss of USD 878 million in 2020, which was considered an honourable performance in a year marked by several natural disasters and the continued effects of the pandemic. However, the share price fell once investors digested the earnings, which fell short of their estimated USD 1.88 billion. The newly announced guidance to increase the return on equity (RoE) to 10% in 2022 and 14% in 2024 was not enough to win back investors.

Solid figures were seen in the property & casualty (P&C) and commercial primary insurance (Corporate Solutions), which both came in more than 5% above expectations despite the USD 2.1 billion in claims for Hurricane Ida and Europe's floods. In contrast, the life and health unit (L&H) had a bad year, recording a loss of USD 523 million due to the pandemic.

In addition, RoE was 5.7% in 2021 versus -3.1% in 2020, so still well below the 2013-2018 target of 7%. During January renewals, however, Swiss Re obtained rate increases of 4% and correspondingly increased its targets to 2024. The dividend remains unchanged at CHF 5.90 per share as the group wants to hold cash to expand its life insurance business.

Concerning recent events, the CFO stated that Swiss Re has no exposure to Russia or Ukraine, neither in its reinsurance business nor investment wise.

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