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By Wilson Sy

Sweeping sanctions on Russia

Last week, US President Joe Biden announced that he will ban new investments in Russia. Moreover, the US Congress suspended trade relations with Russia while also banning imports of Russian oil, gas, and coal. The fresh sanctions were triggered by news that Russia committed serious war crimes in the Ukrainian city of Bucha. The sweeping sanctions affect different sectors and have made Russia the most sanctioned country in the world, surpassing Iran and North Korea.

Economic sanctions vs. military aggression

Although the North Atlantic Treaty Organization (NATO) did not send troops to fight in the war, the US, Canada, and Europe provided important military and financial assistance to Ukraine. Instead of engaging in military warfare, the US and its allies concentrated in coming up with a comprehensive set of sanctions that target the Russian economy as well as its government officials, banks, financial institutions, oligarchs, and their families. Below, we list some of the sanctions that were imposed to penalize Russia for its invasion of Ukraine and the war crimes that were reported.

1. Major Russian banks are banned from using SWIFT, the international payment system.
2. US, Europe, Japan, Switzerland, and many other countries banned transactions with the Russian central bank, Ministry of Finance, and national wealth fund.
3. Various countries imposed export control/ban of military and technological items on Russia.
4. Russian aircraft are banned from using US, Canada, or EU airspace.
5. Asset freezes and travel bans were imposed on Putin, Russian Foreign Minister Sergey Lavrov, Russian oligarchs, and their families.
6. Various countries have seized several megayachts owned by Russian oligarchs.
7. Visa, MasterCard, PayPal, and American Express blocked Russian banks from their networks.
8. BP abandoned its stake in Russian oil giant Rosneft. Exxon Mobil announced that it will exit its Russian oil and gas operations valued at $4b. Shell will write-off up to $5b in assets due to its exit from Russia.
9. Apple and Microsoft suspended sales of products and services in Russia. Spotify closed its office in Russia indefinitely.
10. Multinational companies such as McDonald’s, Johnson & Johnson, Starbucks, Nike, and Heineken suspended their operations in Russia. Yum Brands, Procter & Gamble, and Nestle halted new investments in Russia. Banks such as Citigroup, BNP Paribas, ING Group, and Credit Agricole are withdrawing from Russia.
11. Automakers such as Renault, Volvo, General Motors, Daimler, BMW, Ford, Harley-Davidson, Jaguar Land Rover, Toyota, Mercedes-Benz, Volkswagen, and Ferrari either halted their car shipments to Russia or suspended their business operations in the country.
12. Credit rating agencies have either downgraded Russia to junk bond status or withdrew their ratings altogether. Investment funds and index providers removed Russia from their equity and bond portfolios, making Russian assets “uninvestable.”

What is noteworthy is the level of private sector involvement in sanctioning Russia. Many large private multi-national companies have followed the lead of their respective national governments and financial regulators. JP Morgan Chairman and CEO Jamie Dimon stated that his company is “following both the letter of the law and the spirit of all American and allied sanctions.”

Cautionary tale

The far-reaching sanctions against Russia, the active participation of private companies and major countries in the sanctioning process, as well as the exodus of investors and corporates serve as stern forewarning to countries that want to challenge the economic sanctions imposed by the US and its allies. A senior US diplomat said last week that China would face similar sanctions if it aids Russia. A top US economic adviser warned that India could face significant costs if it aligns itself with Russia. Countries such as China and India cannot afford to experience economic isolation, stifling sanctions, and the loss of investor confidence due to their friendly relations and economic ties with Russia.

The Almighty USA

Russia is crippled by the impact of several economic and financial sanctions. Meanwhile, the US dollar is up 4.4% % year-to-date and 1.5% month-to-date as investors sought a safe haven in light of the global turmoil caused by the war. We believe that the strength of the US dollar is a result of its role as the primary global reserve currency, the economic and military might of the US, and rising US interest rates. At this time, the US remains the top global superpower. Aside from having the biggest economy, the US also has the largest stock, bond, and currency markets in the world.

Sanctions – a powerful weapon

The goal of the sanctions imposed by the US and its allies is to put Russia into economic, financial, technological, and political isolation. The intention is to punish Russia, turn it into an economic pariah, and precipitate its collapse. Instead of military retaliation, it appears that economic sanctions are likewise powerful weapons in countering Russia’s aggression. Goldman Sachs expects the Russian economy to contract by 10% this year. While sanctions can be an effective deterrent and punishment for rogue leaders and violent states, the indiscriminate use of sanctions may eventually backfire and end up hurting the global economy. Russia is the 11th largest economy in the world with an estimated GDP of $1.6t. Moreover, it is a major exporter of energy, food, and metals. Thus, placing heavy sanctions on Russia can exacerbate the elevated inflation that we are experiencing now. As it is, the global stock market is weakening because of concerns on rising interest rates, the Fed’s balance sheet reduction, and the uncertainties caused by the Russia-Ukraine war.

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