# February Monthly Review
# Dabih Investments

A summary of key events and market trends during the month of February followed by your dedicated portfolio performance analysis.

# Global Markets Update

- With the events between Ukraine and Russia taking a turn for the worse all economic and market assessments will be rooted first in this geopolitical calculus

- The reaction to these events by NATO and its allies has been quick and unambiguous. On one hand, some could argue that a joint, forceful response has been a long time coming; on the other hand many agree the announcements over this weekend have been much stronger and punitive compared to their expectations

- The decisions to exclude some Russian banks from the SWIFT system as well as that of denying access to reserve funds to the Central Bank of Russia will have the intended profound impact on their economic and financial systems

- Given the importance of Russia as an energy and commodities supplier the lagged impact to the rest of the world could also be significant

- All this has made the life of a central banker all the more challenging: balancing out policy priorities between addressing stubbornly high inflation and inflated balance sheets with already disrupted supply chains was a tall ask, and with the unfolding geopolitical tensions this will become an undoubtedly difficult task

- The outcome in global markets has been a deep and entrenched risk-off mode, challenging the secular bull run in equities: as of month end, DAX was down 12% since the beginning of the year, Nasdaq -13% and S&P nearly -10%, marking one of the toughest year starts of the last decades

## Escalation Fears

The entire world is closely monitoring developments on the Ukrainian front, with fear of conflict escalation gripping everyone's mind and keeping volatility elevated

# Portfolio Review

(Refer to Official Statement)

- As per our earlier conversations and communications, we had already adopted a more cautious approach in January, and tactically hedged the portfolio

- Furthermore, we refrained from taking high exposures due to market's uncertainty and volatility, and this decision is paying off

- Overall we continue having a defensive portfolio:
    - 69% consolidated liquidity considering both Daud and Dabih
    - Currently have hedges, via long puts, of USD 1.8M on Nasdaq

- We took advantage of the recent spike in volatility to sell puts on strong names, most of which have now lapsed

- While the portfolio has been impacted by the difficult environment, it is clearly faring much better than the market and it is well positioned to withstand a continued volatile environment

- As of 28th of February, our Dabih portfolio was down -96k, meaning less than a 2% correction, comparing very positively to the market

- As of the same date, Daud's portfolio was down -270k ytd, of which USD 85k are attributable to the EUR/USD FX trade

- **Summarizing, our year to date investment losses are equal to USD -281k, with the portfolio remaining well positioned to capture markets' potential rebound once more clarity will be visible**

## Key markets

| Index | Month to Date (%) | Year to Date (%) |
|---|---|---|
| Topix | -0.47 | -5.29 |
| Hang Seng China Enterprises | -4.58 | -2.93 |
| Dax | -6.53 | -8.96 |
| Euro Stoxx 50 | -6.00 | -8.71 |
| S&P 500 | -3.14 | -8.23 |
| Dow Jones | -3.53 | -6.73 |
| Nasdaq 100 | -3.43 | -12.10 |
| US 10 Year Treasury | +31 bps | +4 bps |
| Bloomberg Barclays Global Aggregate Index | -1.19 | -3.22 |
| EUR USD | -0.34 | -1.51 |
| USD JPY | -0.09 | -0.04 |
| Gold | +6.22 | +4.36 |

## Recap of the month …

The world was taken by surprise last week when Russian forces launched multiple attacks on Ukrainian targets. While the Biden administration has been signaling their understanding of Russia's intent for some time, the eventual move was still not widely anticipated.

As truth is often the first casualty of war, we would caveat our commentary on these developments with a note that it is based on our best possible understanding given the events.

The progress the Russian forces have made appears to be slow with most key cities continuing to be under Ukrainian control. It appears that the welcome the Russian forces were expecting was unfounded. Instead, many ordinary citizens are taking up arms to ward off attacks. This calculus will be volatile based on tactics and strategy and is a developing story.

Seeing the aggressiveness of the intent from Russian, NATO and other countries have galvanised into action and have immediately committed sizeable military assistance to the Ukrainian forces. This assistance includes fighter jets and missiles among other arms and supplies being provided. As significantly, sanctions in the financial sphere will likely add significant pressure on the Russian economy.

We expect the situation to be tense for some time and note that the longer it takes to resolve the bigger the drag on the global economy. While Ukraine and Russia contribute only 2 % of global GDP the impact from higher energy and metals prices and hit to sentiment will likely be felt for some time to come.

Germany and other Western European countries have a high reliance on Russian energy supplies and this reality was earlier expected to limit the combined response to Russia's advance. At this stage however, having seen the strong response from NATO and allies, we would expect said supplies to possibly be disrupted. This would bring with it likely slower growth as well higher inflation. Along with the unintended consequence of a drive to scale up alternate clean energy supplies and sources to, in the longer term, reduce the dependence.

Interest rate markets have priced out some of the hawkishness and for the Federal Reserve meeting of 17th March there is now a stronger likelihood of only a twenty five basis point rate hike. Similarly, expectations are being scaled back for other central banks too.

Given the sell off in the equity markets had started in earnest from the turn of the year, we are now seeing some stabilisation in a broad trading range. Having reduced exposure from mid-January we are now cautiously closing out some hedges and continue to monitor developments closely.

We would expect volatility to continue to be high in this uncertain environment. The VIX closed the month at around 30 and we would expect it to trade over 20 until a final resolution to the situation in Eastern Europe.