



**BlackDiamond
Financial**

INVESTMENT INSIGHTS

FIRST QUARTER 2022

Key Topics

- ◆ Russian Invasion and Rising Interest Rates Influence Markets
- ◆ Russia's Economic Influence Centers on Energy Exports
- ◆ Stock Market Implications from the Russia-Ukraine Conflict

Stand With Ukraine



Russian Invasion and Rising Interest Rates Influence Markets

Russia’s unprovoked attack on Ukraine has created untold tragedy for the Ukrainian people. This shocking attack on a sovereign European nation will have far-reaching and long-term impacts on the world for decades to come. Unfortunately, this incursion immediately followed the prolonged Covid pandemic that has had substantial effects on the world economy. As the war evolves, we expect substantial financial market volatility to continue.

Rising energy and other commodity prices have fueled already persistent inflation that reached 7.9% over the last 12 months. To cool enduring inflation, the Federal Reserve raised short-term interest rates by 0.25% on March 16th for the first time since 2018. Interest rate expectations have risen substantially over the last three months and financial markets now expect seven more rate increases in 2022 and short-term rates of at least 2% by the end of the year.

Rising interest rates caused the average 30-year mortgage rate to jump 55% from 3.1% to 4.8% this quarter. In addition, the most widely followed bond index, The Bloomberg Aggregate Bond Index, dropped by 5.9% this quarter (interest rates and bond prices are inversely related). This was the biggest quarterly decline for bonds since 1980. The silver lining of rising interest rates is that investors will benefit in the future as coupons and interest income increase.

Stocks experienced significant volatility and negative returns this quarter. Large-cap U.S. stocks rebounded from a 12.3% decline in early March to end the quarter down 4.6%. Real estate stocks performed similarly and declined by 4.3%. Small-cap and international stocks also performed poorly and decreased by 7.5% and 5.4%, respectively.

Comparative Returns

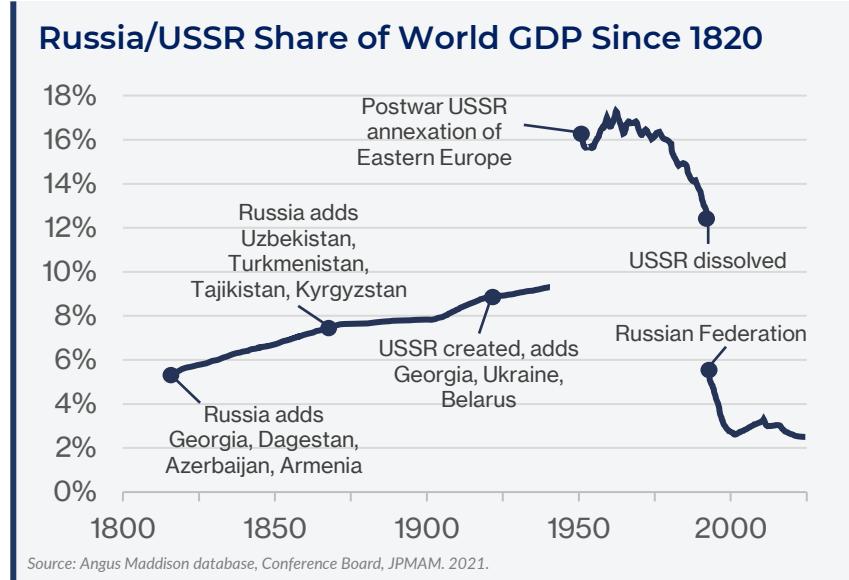
	Annualized Performance				
	Q1 2022	1 Year	3 Years	5 Years	10 Years
Large Cap U.S. Stocks ¹	(4.6%)	15.6%	18.9%	16.0%	14.6%
Small Cap U.S. Stocks ²	(7.5%)	(5.8%)	11.7%	9.7%	11.0%
International Stocks ³	(5.4%)	(1.5%)	7.5%	6.8%	5.6%
Real Estate ⁴	(4.3%)	25.0%	9.9%	8.4%	8.4%
U.S. Bonds ⁵	(5.9%)	(4.2%)	1.7%	2.1%	2.2%

1 S&P 500 index, which includes 500 of the largest U.S. companies in all sectors of the economy
 2 Russell 2000, which includes the 2000 smaller stocks of the Russell 3000 index
 3 MSCI ACWI ex-U.S. index, which includes large and mid capitalization stocks from developed and emerging international markets
 4 MSCI U.S. REIT index, which includes domestic publicly traded real estate stocks
 5 Bloomberg Barclays Aggregate Bond index, which includes a representation of the performance of the entire U.S. investment grade bond market

Russia's Economic Influence Centers on Energy Exports

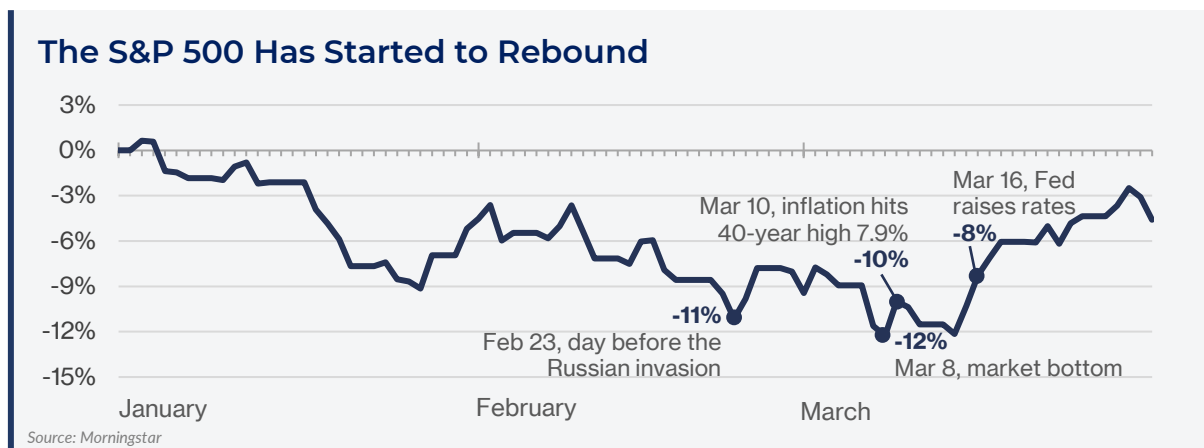
Russia's global influence is primarily derived from its vast energy supplies, commodity assets such as wheat, and a massive store of nuclear weapons. According to the International Monetary Fund, Russia is ranked as just the world's 11th largest economy, only 7% as large as the United States. Furthermore, its total share of world GDP is only 2%, far lower than when the Soviet Union was intact and produced over 15% of the world's output.

Russia is not large enough to substantially impact global economic growth for a sustained period. It wields its influence largely by supplying 10% of global oil and 50% of Europe's energy needs. Debilitating economic sanctions and renewable energy alternatives will likely reduce Russia's economic influence and cause its economy to decline further.



Stock Market Implications from the Russia-Ukraine Conflict

Stock prices have been resilient since Russia first invaded Ukraine on February 24th. In fact, the S&P 500 has increased 7.4% since the initial invasion. While somewhat surprising, historical data suggests that localized military events typically do not significantly impact global stock prices. After the Russian invasion of Crimea, the U.S. invasion of Iraq, and even the 9/11 attack on the U.S., stocks rebounded fully within a month of the initial incident. Investors value stocks based on expected future earnings-per-share and isolated military conflicts have little impact on global earnings. According to FactSet, expected global earnings-per-share growth in 2022 dropped from 7% before the invasion to 6% today, a 1% decline. Furthermore, U.S. corporate earnings are somewhat protected as less than 1% of revenues come from Russia and Ukraine.





ABOUT US

Black Diamond Financial, LLC is a fee-only registered investment adviser with a unique and holistic focus on preserving and enhancing wealth. Our mission is to help you achieve your financial goals through the use of low cost, tax-efficient investment strategies. We create individualized investment portfolios for each client that are risk-appropriate, returns optimized, and tax-efficient. Furthermore, we believe cost is a critical factor in any successful investment strategy and therefore offer fully transparent pricing that is well-below industry standard. As an employee-owned firm focused on our fiduciary duty, we make our clients' interests our highest priority.

CONTACT US

info@blackdfinancial.com



Baltimore

305 W Pennsylvania Avenue
Towson, MD 21204



Bend

855 SW Yates Drive, Suite 101
Bend, OR 97702

Black Diamond Financial, LLC is a registered investment adviser. Information presented is for educational purposes only and does not intend to make an offer or solicitation for the sale or purchase of any specific securities, investments, or investment strategies. Investments involve risk are not guaranteed and may lose value. Be sure to first consult with a qualified financial adviser and/or tax professional before implementing any strategy discussed herein.