

# A Fractured World

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*For the past several months, investors have been faced with the dual threats of rising interest rates and soaring inflation. In February, investors encountered a third battlefront: a raging war in Ukraine. Uncertainty now reigns supreme in the markets as investors grapple with the economic ramifications of the first major armed conflict in Europe in over seven decades. The global financial markets are the secondary battleground in the Russia/Ukraine conflict as major sanctions have been imposed by the U.S., EU, and other Western allies. As a result of this shocking escalation, the Federal Reserve has found itself in the difficult situation of tackling inflation by raising rates at home while simultaneously confronting geopolitical-driven market instability. With energy costs representing a primary driver of inflation, this tragic conflict has already pushed oil above \$110/bbl, moving the containment of inflation even further out of reach. Perhaps the biggest risk to the U.S. economy is an inflation shock, which could impede economic growth just as the Fed attempts to engineer a soft landing. Investors should expect an even higher degree of volatility as we cope with a new fractured world.*

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