

Webinar Summary

THE WORLD ON THE BRINK: UKRAINE, RUSSIA, AND THE GLOBAL ECONOMY



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The events unfolding in Ukraine over the past week have shocked and saddened the world. The human suffering is incalculable, and the financial and economic consequences of the war are already substantial and likely to grow. PGIM brought together a host of experts to discuss the ongoing conflict and its ramifications, and the following are brief highlights of the discussion, which can be watched in its entirety [here](#).

- The role of sanctions:** Perhaps the most significant of the many sanctions imposed on Russia and its leaders is the decision by Western countries to freeze Russian central bank reserves. The goal is to decouple the Russian economy from the global economy in the hopes it will collapse and pressure President Putin to end the onslaught. Until then, it's likely sanctions will be further imposed. Closer to home, states are issuing executive orders largely focused on having state pension plans divest of Russian investments.
- The energy impact:** There is also growing global sentiment for further energy-related sanctions against Russia, and one potential outcome of the crisis is the likelihood that the push for a greener economy will accelerate. The political will in Europe is strong to diversify away from a dependence on Russian oil, and Russia's actions in Ukraine have further opened Europe's eyes to the significant risk that dependence presents to the continent. The transition won't happen overnight, however; the investment required to get there will be massive, and the world will need to realistically recognize that the answer isn't to shut off all investments in fossil fuels.
- The fate of inflation:** The Fed and other central banks are in a difficult spot. Even prior to the invasion, central banks were coming off the longest period of low, zero, or even negative rates in history, making normalization tough enough to begin with. After decades of disinflation there has now been a sharp acceleration in inflation, on the heels of huge fiscal response in light of a crippling pandemic. Navigating it all in the current environment will be a challenge, and it's likely the Fed will be more cautious in raising rates, though a 25-basis-point hike this month seems certain as of now.
- Is there contagion risk?:** While Russia's is a relatively small economy, it is intertwined with key areas globally, notably oil, grains, fertilizer, and many other commodities. There will be fallout around the world – the US was already grappling with high inflation, which is likely to continue – and standing up to Putin won't be pain free for the West. That said, the impact on the Russian economy will be many times worse, and it's likely this leverage will become important in resolving the crisis.
- Second-order effects:** The near-term impact of the invasion has already been devastating, but there may be long-term favorable developments. After a long period in which Russia was able to expand its influence with little pushback from the West, a more united free world is a positive. From a geopolitical point of view, Germany embracing the notion of hard power is an important development. The invasion has also likely paved the way for a more strategic Europe, one with strong transatlantic relations. Finally, the future of Putin himself will be heavily defined and perhaps determined by his actions in Ukraine.



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