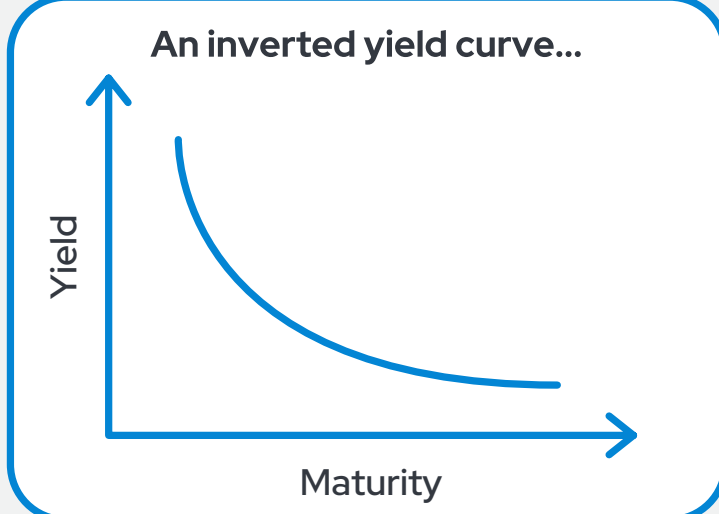
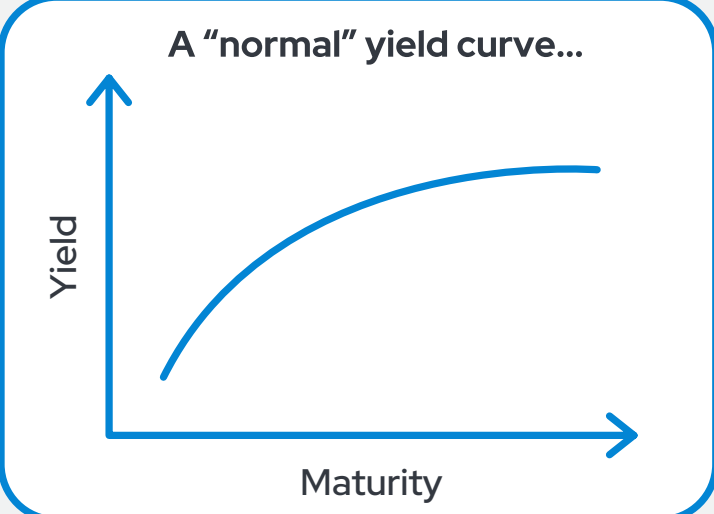


# Trends We're Tracking: Falling Fixed Income Returns, Foreign Reserves, Authoritarian Brain Drain

 April 2022

## Rising yields in Q1 → largest drop in price for bonds in decades

Why do economists care when yields go up but total returns on major indices fall?



Inverted yield curves have preceded every recession since 1956.

[Read our detailed take on this current situation.](#)

Source <sup>1</sup>

## Short shelf life for sell offs after geopolitical events

Vanguard looked at how markets reacted after 22 geopolitical events:

- Average total return six months after an event was 5%
- Average total return one year after the event jumped to 9%



Markets are initially roiled when a crisis occurs, but they tend to bounce back quickly after shock.

Source <sup>2</sup>

## Russia's foreign reserves and the impact on the global financial system

The U.S. and allies froze \$630B of Russia's foreign reserves.

Russia is considering alternate payment methods for international transaction of oil:

- "Friendly" nations could purchase Russian oil with their own fiat currency or bitcoin 
- "Unfriendly" nations will be forced to pay for oil with gold or Russian Rubles 

Ripple effects:

Saudi Arabia may move away from U.S. dollar denominated oil sales, may work with China to price oil contracts in the Chinese yuan 

Trust in current U.S. dollar based financial system may drop, causing countries to diversify away from the dollar as the global reserve currency.




Source <sup>3,4,5</sup>

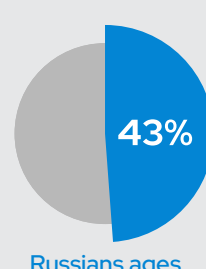
## Authoritarian regimes and brain drain

Russians want to leave Russia:

200,000 Russians have fled since the invasion

'Human capital flight' has happened before:

-  Germany during the war from 1945-47
-  Hong Kong after the protest crackdowns in 2019
-  Venezuela due to its authoritarian regime



Modern history and economics give clear indication that apart from global sanctions, 'brain drain' might cripple Russia's long term economic productivity.

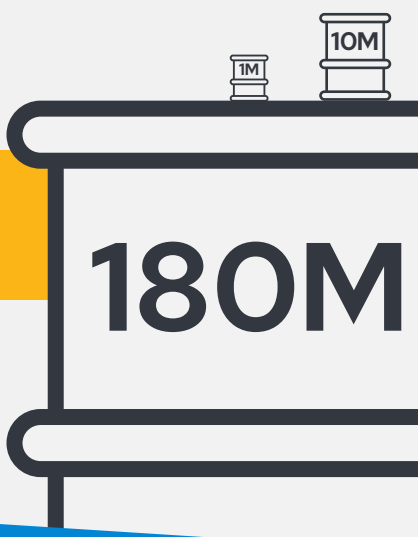
Source <sup>6,7,8,9,10,11</sup>

## Strategic petroleum release helps stabilize oil prices

The largest Strategic Petroleum Reserve (SPR) release in history: **1M barrels of crude oil per day x 6 months = approx. 180 million barrels**

Without this measure, oil prices could easily experience super spikes of over \$20-30 in a very short period, causing severe damage to the global economy.

This release buys precious time for Biden Administration and oil companies to work out a plan to contain price surges.



Source <sup>12,13</sup>

Need more details?  
Read our comprehensive analysis [here.](#)

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A monthly review of the latest trends shaping the markets.

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