

# FULCRUM INSIGHTS

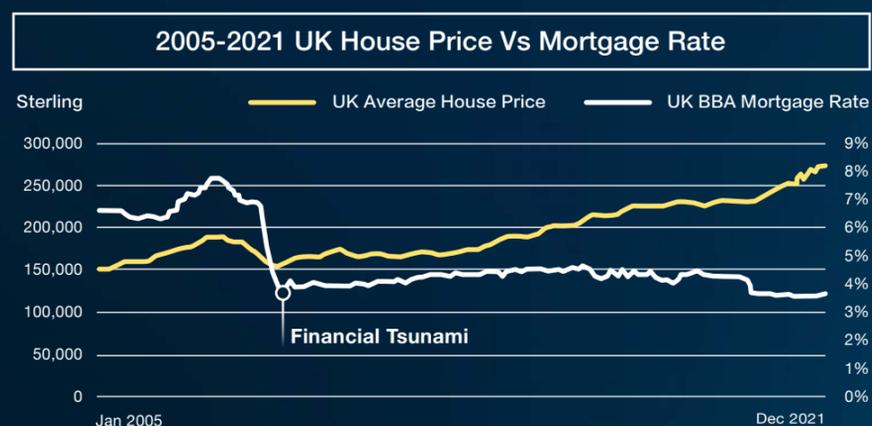
## Impact of the Russia-Ukraine Conflict on the Economy, Oil Prices and the Real Estate Market Globally

How the Russia-Ukraine conflict will evolve and how badly it will impact the prospect of a global economic recovery are highly uncertain. What is more predictable is that the geopolitical crisis will bring more financial market turmoil. Coupled with severe financial sanctions and embargoes, higher energy prices will fuel inflation further. The key is how to avoid volatility and hedge against inflation with a robust investment strategy.



弘捷國際

On 24<sup>th</sup> February 2022, the Nasdaq Composite Index fell dramatically to 12,587.88 at the opening bell. Bitcoin rebounded 15%, benefiting from its possible use as a tool to evade sanctions, but this bounce could be illusory since trading volumes between the Russian rouble and bitcoin spiked before declining by more than 50%. Since the beginning of the year, the price of gold has risen by as much as 11%, but it could be very susceptible to the development of the Russia-Ukraine conflict. The rise of Brent crude oil prices topped out over US\$130 per barrel in early March 2022, marking only the third time the price has risen above the US\$100 level in more than 70 years. Past experience has shown that the global economic recovery could help keep oil prices elevated for longer. It is hard to say whether oil prices could shoot even higher, or whether they will merely be maintained at an elevated level.



### UK Housing Prices Remain Strong Despite Rising Interest Rates

The Bank of England has forecast inflation will peak above 7% by spring 2022, which is likely to be an underestimate. To hedge against inflation, it is worth looking at the performance and prospects of the real estate market. Comparing the average housing prices and mortgage interest rates in the UK over the past 17 years, instead of falling due to the rise

in mortgage interest rates, housing prices have continued to increase, which was obvious before the 2008 financial tsunami. Although interest rates have been rising recently, British housing prices remained strong in February 2022, with the annual growth rate increasing to 12.6% from 11.2% in January.

Economists increasingly believe that higher inflation will bring higher housing prices, especially when supply continues to exceed demand. In fiscal year 2020/21,

the supply of new houses in the UK was only 216,000 units – far below the government's annual target of 300,000 units. The situation has not improved since then. The agreed sales in December 2021 fell by 13% because there were not enough new residential projects to meet the demand. The Bank of England tends to adopt a milder and gradual pace of interest rate hikes, which helps to relieve the pressure on household interest spending.

### Rental Income Contributes to The Inflation Hedging Power of Real Estate

According to the official data of the Government of the UK, in the 12 months to September 2021, the average rental yield in all of England was 3.7%, with the highest-performing regions as follows: North East England with a rental yield of 4.5%, Yorkshire and the Humber with 4.0% and North West England with 3.9%.

Source: 1. Nationwide 2. UK Parliament 3. RICS

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The rising trend of rents has been maintained, with the rent of residential properties in England increasing by 2.0% in the 12 months to January 2022. The rent increase was even stronger if London is excluded, accelerating to 3.0% from 2.8% in December 2021.

Overseas investors should take into account the exchange rate of pound sterling. Fuelled by the Russia-Ukraine crisis and the threat of nuclear war, the rise of the US dollar will pressure the exchange rate of the pound in the short term, despite the fact that the US Federal Reserve prefers a steady rate hike strategy. However, the British economic fundamentals are strong, and the economy has been predicted to grow by 4.7% during 2022. Unless the geopolitical crisis becomes worse, the British pound will rebound once the negative effects of these external factors have faded out.

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