

Will Malaysia Airlines MH17 impact global markets?

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by Ari Towli, Smart Investment Management

The crash of a Malaysia Airlines jet carrying 295 passengers in eastern Ukraine was a terrible human tragedy; if it was also a conflict-related travesty carried out by the Russians it could potentially have other long-term consequences.

Early indications suggest that the jet was destroyed by a surface-to-air missile, and that those responsible may have errantly downed what they had thought was a military aircraft only to discover that they had struck a civilian airliner. Both sides in the conflict have wasted little time in apportioning blame. If what Ukrainian officials are claiming proves to be true, that the aircraft was been shot down by a Russian-made antiaircraft system (which the Russians vehemently deny), it would mark another dark turn in one of the world's most volatile geopolitical hot spots.



Unsurprisingly markets sold off immediately in the aftermath (not helped either by Israeli Prime Minister Benjamin Netanyahu ordering a ground offensive in Gaza). U.S. indexes dropped sharply and added to a drop in European equities. Safe-haven assets like US Treasury and gold jumped as investors looked for some protection against the market turmoil. The VIX index (often referred to as Wall Street's "fear gauge") rose more than 32%, though it remains low by historical standards.

Concerns about Ukraine were already edging back into markets following the U.S. decision to impose new sanctions on Russia for its support of the pro-Kremlin insurgency. East-West relations are now at their lowest point in many years. It also comes as investors ponder whether U.S. stocks are vulnerable to at least a near-term pullback with the S&P 500 and Dow Jones Industrial Average setting near-record highs.

Our view is that, despite deep suspicions, it will be very difficult to apportion the blame for this incident on Russia. If, as a result of the incident Russia distances itself from the rebels, the situation could de-escalate and may pave the way for a long-term solution which would be positive for markets. If, however, it is proved that Russia was responsible (which at this stage we believe is highly unlikely) then the impact on markets could be more severe.

We believe that the downing of the Malaysia jet will unlikely have a long-term effect on markets: we can draw parallels with Russia's annexing of Crimea, where the markets initially sold off only to recover again. The markets generally consider Ukraine to be largely irrelevant from an investment standpoint, though the human tragedy is undeniable. As ever, we will monitor the news for signs of deterioration and take appropriate action as the situation becomes clearer over the coming days, weeks and months.

Just a note – although this is the second Malaysian airliner to go down in a 6-month period, don't worry! For all those due to fly away on holiday over the summer, statistically speaking flying is still the safest form of travel. In fact, the death risk for passengers of commercial airlines is just one in 45 million flights. Of course at present it doesn't feel like it!

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