3 Major Ways the War in Ukraine Could Become a Threat to Your Retirement Savings

Description

“An attack on one is an attack on all,” so says the famous Article 5 in NATO’s North Atlantic treaty. And while Ukraine isn’t a NATO country (if it were, we’d all be at war), the principle still makes sense in regards to the global economy.

Russia’s decision to invade Ukraine has shaken the world’s markets. Energy prices skyrocketed, and stock markets became erratic. Though it’s too early to tell how much damage this war will cause, both to the countries involved and the global economy, one thing is clear: the post-pandemic road to recovery has now been extended.

What does that mean for your retirement savings? As the war continues to shock the world markets, I can think of three ways it could threaten your ability to save.

1. Gas prices

First, the war in Ukraine doesn’t look good for gas prices.

To be sure, gas prices were already a major hurdle for Canadians. Before Russia invaded Ukraine, gas averaged around $1.65 per litre. That alone was high, considering that it averaged $1.26 per litre before the pandemic hit in 2020.

Soon after the invasion, gas jumped around five cents per litre. Canadians were paying prices between 1.68 to $1.78 per litre, with $1.74 being the average. We were bracing for higher gas prices in the spring, but most of us didn’t expect them to come this soon.

And gas prices may not drop for a while. Russia is not a member of OPEC, but it is a part of OPEC+. It's the second-largest oil producer in the world, firmly behind Saudi Arabia. It's also a major exporter of crude oil and natural gas to the E.U. If the E.U. stops buying oil and gas from Russia, these nations will look to other sources. In short, there could be less oil and gas to go around, causing prices to spike in Western nations.

There's another fear, too: Russia might employ its oil and gas as a weapon against the West. It could reduce supply on its own, causing prices to spike. Either way, gas prices are likely going to be high, especially as we get closer to summer. That means you could be spending more money on energy, leaving less for retirement.

2. Food prices

If the Ukrainian conflict pushes oil prices higher, many experts predict food prices will rise alongside it.

For one, higher gas prices will make trucks and freights more expensive. Given that our grocery stores depend on these methods of transportation, a change in one will effect a change in the other.

Secondly, Ukraine is Europe's third-largest producer of wheat and the ninth largest in the world. According to 2019 numbers (the most recent data), Ukraine produced over 26.2 million tonnes of wheat for that year. And to make matters worse, the largest producer of wheat in Europe (and third largest in the world) is, yes, Russia, with a whopping 85.8 million tonnes.

Both countries sell massive quantities of wheat to the world. Not only that, but they also sell other key commodities, such as sugar, sunflower oil, corn, and—who could forget—vodka. If both countries are wrapped up in a conflict, they could produce, not to mention export, less to European and North American nations.

3. Market volatility

The stock market was already volatile in 2022. High inflation, the continued outbreak of COVID-19 and its variants, as well as the expected benchmark hikes from the Bank of Canada all caused high short-term volatility.

The war in Ukraine hasn't helped stabilize the stock market. That said, it hasn't sent it plunging, either. Both the Nasdaq and the S&P 500 finished remarkably high just days after Russia sent its troops across the border. That's good news — for now.

Markets are a bit like cats: sometimes they behave exactly as you expect; other times they freak out over a cucumber. So, while we may see positive numbers today, don't rely on that trend to continue, especially if the conflict grows out of hand.

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