

Sanctions in a digital world

Published on: 4 March, 2022 | Author: Investment Team

For the past two weeks we have read daily reports of new financial sanctions that have been imposed on the Russian state, Russian companies and Russian individuals by countries in the West. It may surprise you to know that more than half of Russia's central bank reserves are actually not covered by any sanctions as they are held in Russia, China, and Gold bullion (source: Central Bank of Russia, 30th June 2021).



Following the “de-dollarisation” of Russia's reserves over the past years, dollar assets made up only around 16 percent of Russia's stockpile.

This trend is interesting to us as the US\$ is the primary trading currency for global trade and also the de facto reserve currency of the world. It is fine for a country such as Russia to have such low exposure to the US\$, but what if it becomes more normal following the invasion of Ukraine for countries with intentions to invade their neighbours (China/Taiwan for one) to ‘manage’ international sanctions by holding each other's reserves, thus to limit the economic damage that can be inflicted upon them by countries in the West, led by the US?

It is for this reason that we feel the current events have potentially changed the world order in a way that many have not yet comprehended. In such an environment, alternative reserve assets, be they physical, paper or digital, are likely to become more prevalent following nearly 50 years of moving away from Gold to fiat currencies. The prevalence of the US\$ as the reserve currency of Western economies and as the medium of international trade will survive for a time, but digital currencies may become an alternative for countries, not just criminals, to manage their economies in a way that many in the West have not yet begun to comprehend.

This will have ramifications for investing over the coming years and it is important to remain vigilant to the changing global landscape which is unfolding before our eyes.

Important Information: Any views, insights, or commentary are for general information only, do not constitute personal investment advice or research, and are intended for UK residents. They may not be appropriate in all jurisdictions. While sourced from information we believe to be reliable, we make no guarantee as to accuracy or completeness. Past performance is not a guide to future results, and the value of investments can go down as well as up.

Regulatory Disclaimer: Tacit Investment Management is the trading name of TIML Limited (No. 9228395), part of Tacit Holdings Limited (No. 10611211). Both companies are incorporated in England and Wales, with the registered office at 14 Hanover Square, London W1S 1HN. TIML Limited is authorised and regulated by the Financial Conduct Authority (FCA ref. 670184) and approves and issues this communication under Section 21 of the Financial Services and Markets Act 2000. Please note, tax and estate planning services are not regulated by the FCA.