# REVIEW AND COMMENTARY
# 1st QUARTER – 2022

**“You cannot reason with a tiger when your head is in its mouth!**”

Attribution of the above quote is from the movie ‘Darkest Hour’ in which British Prime Minister Winston Churchill is trying to dissuade his cabinet from negotiating with Hitler during the darkest days WWII for ‘favourable terms’. While the outcome of the conflict is uncertain, it is impossible not to admire the resolve of the Ukrainian people and their President Zelensky. To date, any attempt to negotiate has been unsuccessful – to be successful both sides would have to be earnest in reaching a resolution. From news sources provided to the West, Russia presently has little interest in negotiations as its military appears unwilling to honour any cease fire. Whether there will be a parallel between Zelensky and Churchill’s unwillingness to capitulate, particularly given what appear seemingly unbeatable odds, most of us hope history will repeat itself in some form and Ukraine will be able to continue the road of self determination.

Whether Putin had considered President Biden too weak to unify significant opposition to his invasion, NATO, and the G8, needed little encouragement in opposing his aggressions. Support for Ukraine was instant and unanimous. In addition to the various governments who imposed crushing sanctions on Russian institutions and some of their elite citizens, Western business withdrew their employees, closed businesses, and abandoned joint ventures in Russia. Germany, who years before had determined to forgo any sense of energy independence, instead relying almost exclusively on Russia for most of their energy needs, reversed their support of the building of the Nord Stream 2 pipeline. Like many other countries, they too banned all imports of Russian goods. While it is impossible to determine, it appears that Putin had underestimated the immediate and almost universal opposition to his military offensive.

Contextually, it is important to remember that the previous US administration had done little to unify NATO by regularly admonishing fellow members for not paying their fair share of costs. That administration also withheld military funding from Ukraine and dismissed their Ambassador to Ukraine, in part, because of a lack of cooperation in obtaining harmful information about then candidate Biden and his son. It would be hard to imagine that Putin could not have wished for more favourable circumstances during the previous administration, discord among NATO and a destabilized Ukraine.

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With such universal support for Ukraine and comprehensive sanctions on the Russian economy, almost all but a small faction of Russians will be severely impacted. It is hard to imagine Putin's aggression would be sustainable if every Russian citizen shared equally.

Even before the geo-political tensions started commodity prices started to rise. Iron ore, gold, nickel and certainly energy prices, among others, were increasing back in January. Major economies starting to recover and the decline of COVID cases in most major countries increased demand for basic goods and services. But supply chain issues, limited supplies, and under staffed businesses all contributed to higher price expectation which led to higher interest rates charged by lenders. West Texas crude started the year just under $80 per barrel and moved up steadily until the conflict in Ukraine which hit a high over $130 per barrel at the beginning of March. With crude prices are approximately $100 per barrel at the time of writing, the decision by many major consumers to not purchase Russian oil and gas has increased demand for the residual supply of available energy, leading to higher prices which may remain near these levels for some time given alternative supplies will take longer to come into production. Goldman Sachs recently raised its average 2022 Brent spot price forecast to $135 per barrel from $98 and its 2023 outlook to $115 from $105. Presently there are too many variables to predict whether these levels will be realized but it would suggest that there may be more upside to prices. Thankfully, for those invested in the energy sector, earnings, cash flow and return to shareholders have not only increased but appear to be sustainable for the next several quarters.

The Energy sector lead the SP/TSX index higher along with the Material sector over the past quarter. Following the lead of the U.S. markets, the price of technology companies moved lower as well. China's threat of increased regulation along with the threat of delisting from U.S. exchanges weighed further on prices and some of the more high- profile names like Shopify retreated to more conventional valuations. We have talked about Shopify's influence over broad index in Canada before and this is magnified in the Canadian Technology sector which lost over 30% in the quarter. Despite this weakness, the SP/TSX total return index posted a positive return over the quarter while the SP500 and Dow Jones quarterly returns were negative.

We have regularly qualified potential market outcomes depending on the geo-political climate, we never expected what the world is presently facing. Fortunately, the collaborative effort to impose sanctions on Russia is taking hold and there may be more to come. The important question must be what does the future hold for Vladmir Putin. It is hard to imagine he will withdraw or backdown. The formidable support system he has built over the past several decades must be feeling the strain of isolation most of the world has imposed on Putin in order to undermine his efforts in Ukraine. Even as Russian media is working overtime to provide an alternative reality, some of the atrocities of the Russian military are working its way into Russian society given the close ties between so many of the Ukraine/ Russian population. Russians will determine Putin's fate and we hope it will lead to a restored peace to that area and the rest of the world. The uncertainties surrounding this conflict will lead to increased volatility in the stock markets and likely weigh on equities, however, North American corporations remain fiscally healthy on balance and so many companies, in a wide range of industries, have stated intentions of buying back their stock if the opportunity presents itself. So, unless the unimaginable happens (a major global conflict), we see every reason to maintain our present course of investing for the long term.