We hope that this e-mail finds you well and looking forward to Spring.

The first quarter's market activity was impacted by a combination of factors. We saw a change in our geo-political landscape at the same time that we were attempting to tackle inflation and supply chain issues. Sanctions on Russia impacted the global economy since they are a major energy, mineral, and agricultural producer. By limiting Russia's ability to supply goods, prices of these goods rose, especially oil and fertilizers. Inflation was already trending higher globally due to the massive stimulus which had led to increased consumer demand as economies re- opened.

As stimulus unwinds, volatility should remain elevated. Moving forward, we will likely see some of the higher costs tied to the pandemic start to ease. The opening of supply chains will help, however, this took a step back with the shut down in Shanghai and other industrial centres in China.

Rising interest rates to fight inflation will likely affect the housing markets and may impact consumer spending. Low interest rates, used as a tool to prop up the economy during the worst of the pandemic, led to higher housing prices and increased borrowing. These trends are unsustainable longer term in a rising rate environment and this has led to uncertainty about the growth trajectory of the economy. The markets are now focused on the pace of rate rises and whether we can avoid recession.

Central Banks will be aggressive, but should still remain data dependent. We are looking for a neutral rate where expansion cools, without dramatically slowing economic expansion.

The Central Banks believe that there is still some distance between where rates are now and when policy really begins to slow the economy. If demand stays strong earnings will continue to grow, especially in the service sectors, energy and materials. So far earnings season has been solid. Employment levels remain robust In Canada and the United States.

Equity markets have reacted with limited returns and declines in some global markets. Canadian equity markets have outperformed recently due to our elevated weighting in energy and material names which benefit from rising prices. In addition, many large dividend paying Canadian companies have the ability to flow through increased costs to consumers (banks, utilities). It is important to remember that the indexes do not fully reflect the underlying equities. Indexes are a replication of a market of individual stocks and certain sectors and companies can perform well in inflationary times.

There appears to be a reevaluation of Canada as a secure and ethical supplier of fossil fuels which should benefit both producers and transportation names (rails and pipelines). Canada has mineral wealth and agricultural abundance. As commodity prices remain elevated due to sanctions and war related supply shortages, Canada should benefit. These factors could mitigate some of the impact of current inflation trends, strengthening the Canadian Dollar, increasing government revenues, decreasing deficits and allowing Canadian markets to perform well.

High energy prices and supply insecurity appears to be driving renewed interest in green energy companies. Solar, wind, hydro and nuclear have become increasingly cost competitive. These technologies will also be essential to succeed in keeping global warming in check. As we progress toward a green future it is important that we understand the importance of traditional energy production to the transition process. Complete replacement of fossil fuel demand is still years away. Sanctions against Russia have revealed the global economy's continued dependence on fossil fuels. Western dependence on foreign oil due to political expediency has weakened Western geo-political power, especially in Europe. Producing oil locally, monitoring emissions and elevating environmental standards appear to be critical to the path forward.

In the U.S. there has been a rotation away from high growth names to dividend growth/value names. The technology markets have been especially hard hit with companies relying on future growth and higher current trading multiples declining dramatically from their highs. Attention has also been given to balance sheet leverage especially among companies with little ability to raise prices.

Equities tend to be sound investments in inflationary times. Especially commodity stocks and those with high cash flow and profits. The key is to look past the volatility and focus on the underlying fundamentals and the income being produced.
As always if you have any questions or just want to touch base , we are just a phone call or e-mail away.

Take care and enjoy the season.

Best Always,

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