UPDATE ON RUSSIA/UKRAINE

Alfred Lam, MBA, CFA

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The news of Russia invading Ukraine created rattles in capital markets this morning. However, it was a known concern so a fair bit of the downside had already been reflected in asset prices before this morning.

Update on our views and positioning

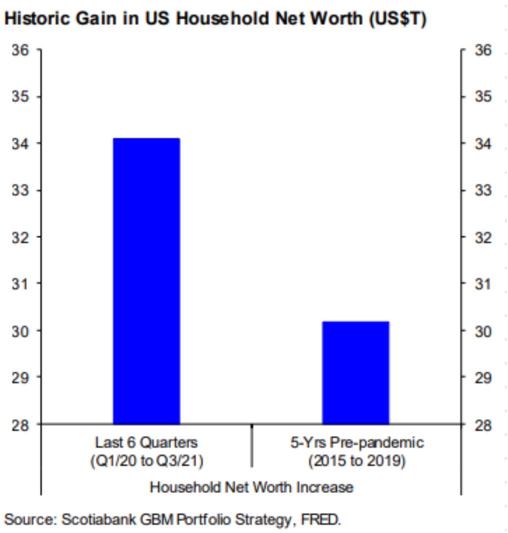
Going into today, we were holding a larger amount of USD, Yen, and government bonds. We expect them to perform well throughout this volatility.

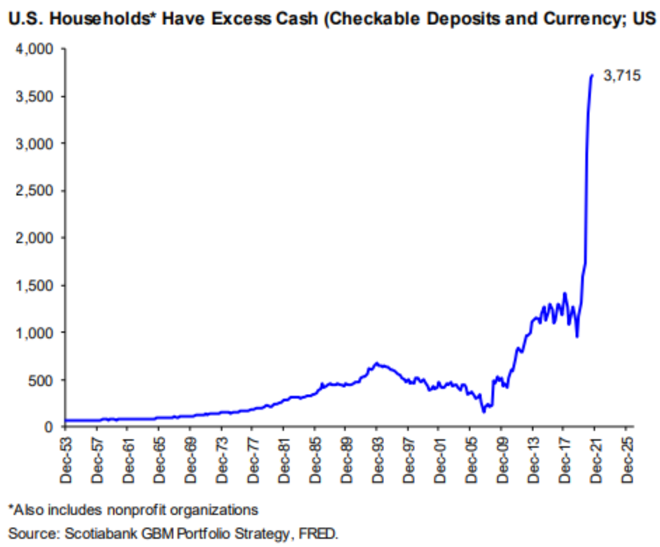
The markets are always evolving. During times of volatility, we constantly review of our holdings. In fact, the first thing our team did this morning is to go through the holdings to ensure:

1. what we own make sense for our investors' investment time horizon. (While a portfolio of cash and foreign currencies make the most sense on days like today, its important to look through short term volatility)
2. The thesis is still valid.

Generally, we believe:

- Given Russia is an exporter of commodities, any disruptions and sanctions will we lead to higher commodity prices for longer. This also means higher inflation globally.
- Depending on the details and size of the sanction package, there could be economic implications to Europe as there is more interconnection between Russia and Europe. This also means the European Central Bank (ECB) may take a more dovish stance on rates.
- Global stocks, as measured by the MSCI World Index, have sold off 10% prior to the invasion and should find bottoms in the near term. Fundamentals remain solid with strong job markets, growing wages, and growing demand. US households are in solid position to spend and invest. Net worth has risen $34 trillion since the pandemic, and they are holding $3.7 trillion cash. As we write, S&P 500 is down less than 2%, which to us signals a calm reaction.





Source: Scotiabank GBM portfolio Strategy, FRED

- The Fed and the Bank of Canada will go ahead with hiking rates in March as inflation pressure is increasing, not decreasing driven by commodities. We believe, it is unlikely to tip both economies into recession.
- Sovereign bond yields will trade higher, and this is a window to trim/sell.
- The negative real yield dynamics on bonds has not changed. It might have gotten worse. Investors are looking for growth to preserve purchasing power.

As a result:

- We have a positive view on energy companies.
- We are confident in the long-term earnings prospect of companies we own.
- We are less bullish on Europe and will likely trim our exposure.
- We see a potential revaluation of Yen vs other currencies, especially the EURO as the Bank of Japan is not the only central bank not hiking

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