Implications of Russia's Invasion and What They Mean to the Investment Landscape

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We are all saddened by the news of Russia's invasion of Ukraine. We hope this war will end soon and that the people of both countries will find relief.

Markets initially reacted to the invasion with calm as the looming concern had become reality, which is generally considered good news by capital markets. Over the years, we have seen conflicts and wars between countries, which investors typically regard as isolated events. This time was the same but only initially. This invasion was unpopular and has reached the hearts of many leaders and civilians across the globe. Through social media, we have witnessed strong leadership from Ukraine's President Volodymyr Zelensky who did not give up on his people. The conflict between Russia and Ukraine quickly turned into a conflict between Russia and the rest of the world. Many countries – led by the U.S., Canada and the European Union – quickly responded with sanctions. It was an overwhelming response and included some of the toughest measures in history. The Russian ruble fell 20% in one day versus the U.S. dollar, while investors dumped Russian assets not only to express frustration but to cut ties. Energy companies, BP PLC and Shell PLC, were also the first to pull their investments from Russia.

Our exposure to Russian assets was tiny. It was never a country that we favoured as considering political risk is part of our investment process. We generally have a large portion of assets invested in developed countries that have solid judicial systems and governments elected by the people. As investor sentiments turned bearish, the appetite for the most solid companies in the world were also impacted. However, it is important to note that sentiments for good companies typically turn around.

We have seen dramatic moves in the markets over the last couple of weeks. Besides the obvious downward pressure in equities, commodities such as gold and oil were significantly higher and interest rate expectations were lower. For example, prior to the invasion, the markets were predicting the U.S. Federal Reserve to hike rates six times in 2022 – it is now five times. The Bank of Canada hiked rates 25 basis points on March 2, 2022, as opposed to 50 basis points. This type of uncertain market can cause investors to act emotionally. It is obviously comforting to position defensively and chase safe-haven assets such as gold and government bonds and dump growth assets. The issue is this will position investors for a binary outcome, which is not sustainable. Investors should be reminded not to deviate from their investment goals even though the path is a little more challenging now.

When we invest, we have absolutely no idea how the investment will do in the next hour, day, week and month. We are focused on the investment horizon, typically over 5 years or longer, for almost all our portfolios. During that period, sentiment means less and fundamentals – earnings, valuations and yields – dominate. We continue to have positive outlook for equities as consumers

are in great shape with growing wages and rising household income. We also believe that technological innovation will continue regardless of wars, rising rates and other factors. This will benefit the semiconductor sector that provides the "fuel."

Following this war, certain things have changed. Firstly, interest for Russian investments is unlikely to return. It takes years to build trust and days to destroy it – and it has been destroyed. In addition, NATO will have to build more defense against Russia as this incident proves the threat is growing. Germany has announced its decision to increase its military budget to above 2% GDP. Secondly, the world will consume a lot less of Russian commodities. They have been an important supplier of oil, natural gas and palladium. We expect prices to rise as supply shrinks. This puts higher inflationary pressure on the world, particularly Europe, as it has historically sourced large amounts of commodities from Russia due to geography. Higher inflation and weaker business confidence will likely cost European GDP growth in the next few quarters. Thirdly, central banks will have a tough job. While inflation is rising in the immediate term, business confidence is becoming fragile. Moving rates too much, too quickly will put economic recovery at risk. We anticipate rates will only rise slowly, with the European Central Bank delayed at least six months. Hence, interest rates will be negative after inflation for longer.

Considering these changes, we have made some adjustments to our portfolios. Most notably, increasing weight to the energy sector, decreasing exposure to Europe and holding on to our positioning in underweight bonds. We have also favoured the U.S. dollar versus the euro and the Canadian dollar. All these changes are enough to put us in a better position and keep us on the investment track.

Combined top 15 equity holdings as of February 28, 2022 of the Assante Private Portfolios 40i60e Standard portfolio with Alpha-style exposure:

1. Microsoft Corporation 2. Royal Bank of Canada 3. Alphabet Inc. (Class A) 4. Amazon.com Inc. 5. Brookfield Asset Management Inc. (Class A)	6. Mastercard Incorporated (Class A) 7. Intact Financial Corporation 8. Humana Inc. 9. Meta Platforms Inc. (Class A) 10. Taiwan Semiconductor Manufacturing Co., Ltd. (Sponsored ADR)	11. Toronto-Dominion Bank 12. Suncor Energy Inc. 13. Constellation Software Inc. 14. Analog Devices, Inc. 15. Open Text Corporation

Source: Bloomberg Finance L.P. and CI Global Asset Management as at February 28, 2022.

For more information, we encourage you to speak to your advisor or visit us at assante.com