

In the span of less than a month, Vladimir Putin's invasion has united a splintered West, revitalized NATO and thrust Ukraine's little-known president into an unprecedented virtual world tour designed to inspire support for the country. The Russian president has also managed to bring complete carnage to the Russian economy. By any measure, a miscalculation.

In financial markets, volatility has soared. Yet, in environments like these, investment managers are not without their tools. In fact, while world affairs have taken a new turn, markets are showing dynamics that have been witnessed many times in the past. Panics, rotations and swings in sentiment are not entirely rare.

As always, a rigorously pursued investment approach is required, one that provides guidance both during times of terror or unsupported jubilation. Such swings to extremes will have contributed to some of our strategy shifts this quarter.

Looking ahead, a variety of scenarios in the Ukraine crisis could yet unfold. No one knows for sure. But the battle lines have already been drawn. Most notably, the world finds itself in conditions of scarcity. Some governments and investors are now clamoring for supplies of wheat, energy and other needed commodities. At the same time, other nations are shutting down exports of materials. Hoarding and frantic stockpiling have begun.

While markets adjust to these new realities, we also note a continuation, and in some cases an acceleration of existing trends.

The growth-to-value rotation, headlined by a downturn in the market darling "Big Tech" stocks is

likely to continue. The renewed inflationary impulse from the war will turn up the heat on central banks, who desperately want to avoid losing control of inflation expectations. Rising rate environments tend to have a contractionary impact on valuation multiples; leaving the loftily-priced growth stocks particularly vulnerable.

Similarly, the path of least resistance for bond yields remains in an upwards trajectory. Investors clinging to a transitory inflation thesis appear to be capitulating en masse. However, this trend is likely to be self-limiting in nature, as fading growth expectations will increasingly act as a counterweight the higher rates climb.

Lastly, the war in Ukraine will accelerate the push for alternative energy sources; both in Europe and around the globe. During the height of the COVID lockdowns, significant government spending was announced and earmarked for "green" initiatives. Long-term aspirations have quickly become near-term imperatives. The transition away from fossil fuel-derived energy will still be a bumpy one, but the timeline has shifted materially closer.

Weighing these enduring themes against new realities provides us with an actionable framework to manage risk and capitalize on opportunities. Our reflationary bias remains intact, necessitating a pro-equity positioning. However, with a wider array of potential scenarios to manage, we have implemented hedges and broadened diversification this quarter.

INVESTMENT STANCE	Versus Benchmark			Changes from previous quarter
	Under	Neutral	Over	
NET GLOBAL ASSET MIX				
Cash		⬇️		⬆️ Increased
Global Equity			⬇️	⬆️ Increased
Total Fixed Income	⬇️			⬇️ Decreased
Opportunity		⬇️		➡️ Unchanged
CANADA INVESTMENTS				
Bonds	⬇️			⬇️ Decreased
Stocks			⬇️	⬆️ Increased
U.S. INVESTMENTS				
Bonds	⬇️			➡️ Unchanged
Stocks	⬇️			⬇️ Decreased
INTERNATIONAL INVESTMENTS				
Bonds	⬇️			⬇️ Decreased
Stocks			⬇️	⬆️ Increased

CASH AND CURRENCIES

Raising cash modestly

- Cash and equivalents' ability to dampen portfolio volatility is attractive currently, as war-induced market jitters are likely to persist in the near-term.
- However, the recent commodity price shocks will delay the cooling of inflationary pressure, which will exacerbate purchasing power erosion for cash holdings.
- We have raised cash modestly to near-neutral levels this quarter.

Initiating partial European currency hedge

- Europe faces numerous challenges with an active war on the continent and a terms of trade shock emanating from an over-dependence on Russian energy imports.

- With economic uncertainty, a deteriorating trade balance and fiscal stimulus likely to balloon, the euro and other European currencies look vulnerable to further downside risk.
- We have initiated a partial hedge on European currency exposure in client portfolios this quarter.

GLOBAL EQUITIES

Increasing equity overweight

- Indiscriminate selling has created numerous opportunities in global equity markets, as stagflation risks have been over-estimated.
- Critically, the world's two largest economies (the US and China) should prove resilient as US households are in solid financial shape and Chinese policy momentum had been building even before the war broke out.

- We have bought into the market weakness; further increasing equity exposure this quarter.

Adding to Canadian equities

- Despite heavily indebted households' vulnerability to rising interest rates, Canada stands out as relatively well positioned vis-à-vis the fallout from the war in Ukraine.
- Absent a sharp acceleration in loan losses (not our base case scenario), the concentrated financial sector exposure inherent in the Canadian equity market should do well in a rising rate environment.
- Canadian equity exposure has been increased in client portfolios this quarter.

GLOBAL FIXED INCOME

Moving further underweight fixed income

- Fixed income assets have offered little respite this year, with longer-dated bond prices falling sharply despite the risk-off market sentiment.
- Even with the higher yields, real rates remain deeply negative in most markets, offering little compensation to investors.
- We remain underweight fixed income in client portfolios and have decreased exposure this quarter.

Decreasing emerging market (EM) debt exposure

- EM bonds remain one of the few viable sources of real yield in global fixed income markets.
- We previously expected that EM rate hikes were nearing an end, but surging commodity prices will likely extend the cycle.
- We maintain our overweight positioning in EM debt, but have decreased exposure this quarter.

OPPORTUNITY INVESTMENT HIGHLIGHTS

Initiating gold miner equities

- Gold and gold-related assets provide an attractive source of diversification; offering an inflation hedge and benefitting from safe haven demand amidst market turbulence.
- Furthermore, limited capital spending in the gold mining industry over the past decade has left companies lean and profitable.
- A position in gold miner equities has been initiated in balanced and growth-oriented strategies this quarter.

Moving from Hong Kong to Australian equities

- Hong Kong and Australia both provide exposure to the policy-driven recovery in Chinese growth.
- However, a low vaccination rate in Hong Kong continues to necessitate punitive COVID lockdown measures, while Australia stands to benefit from Russian import substitution.
- We have decreased Hong Kong equity exposure in balanced and growth-oriented strategies and added to Australian equity exposure in income and balanced-oriented strategies this quarter.