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The Krygier Report

An exclusive newsletter from Mark J. Krygier, Senior Portfolio Manager | April 2022 www.krygierwealthmanagement.ca

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Not out of the Wood(s) yet…

Where's the red carpet? After a hiatus from the office of almost two years to the day, on March 1st I finally put on a suit and tie and returned to our Yonge St. offices in North York. The elevators and the underground parking lot remain empty – no matter what time I manage to get here I still get a great spot on level P1. To put it in perspective, in the P.C. ("Pre-Covid") era, if I came to the office later than 9:15 I would be stuck parking on level P2 or P3, and after 10 I would be lucky to find a spot in the dark corners of P4. So, while things are beginning to return to "normal", it is clear that we are still a long way from the world we knew before Covid became the top story on every news report. One great thing about Covid is that it gave Canadians something to speak about other than the weather. It used to be that every conversation seemingly had to start by mentioning how great or awful the weather was that day. Now, it is still socially acceptable to discuss the weather, but only after you first ask how someone is feeling and how they are managing during C.E. (the "Covid Era"). That being said, despite the number of face-masks I still see on the way to work, even after the mask mandate has been lifted, I personally want to move forward, think positively about a post-Covid era and plan accordingly. Not surprisingly, as hotels and airlines are reporting a significant increases in bookings for the summer and fall seasons, it seems this feeling of mine is global in nature.

The Russian invasion of Ukraine surprisingly continues. Despite a vastly greater number of armaments and military personnel, Russia has not taken control of significant amounts of Ukrainian territory as most had expected. As discussed in my newsletter in March, the economic sanctions of the West don't seem to have dampened former KGB officer and current President Putin's desire to pull a former Soviet satellite back into the Russian sphere of influence. The media has reported that some of his top advisors have been held accountable for setting expectations of a quick Russian military defeat over passive Ukranian resistance that were apparently rather exaggerated. The question for investors remains - how does this prolonged Russian situation impact the world of investing? Assuming we are not heading for WWIII, for under such a scenario all bets are off, I believe the existing situation of a prolonged Russian invasion, and for that matter ongoing Covid restrictions, only exacerbates the existing reality of supply shortages and inflationary pressures. Fifteen years ago, one could look at the economic impact of China on the global economy and say with some certainty that China's greatest export was not any particular goods or services, but rather "deflation". With a seemingly endless supply of cheap labour and manufacturing that in time rivalled the quality of Europe or North America, prices of goods and services were depressed globally, as unemployment was relatively high and wage inflation was nonexistent – or the job would be transferred to Asia. Today, all of this seems to have been reversed. Hardly anyone speaks of global trade anymore and the Russian invasion has forced global leaders to reconsider outsourcing their source of energy. While for years Russia increased its own nuclear energy capacity for domestic energy consumption, allowing it to export more of its oil to Germany, China, et al, most other countries have done the opposite – closing down their nuclear reactors and importing more oil and gas from…Mother Russia.

As we have finished the first quarter of 2022, it has been an absolutely wild ride. It has also been a huge contrast from previous years, as everything that did so well in the previous two years has for the most part collapsed. The NASDAQ technology and bio-tech laden benchmark index, which was up over 20% in 2021, is down over 8% so far in 2022 (it was down almost 20% by late February). In contrast, a company like Exxon Mobil, the giant oil producer, which was kicked off the Dow Jones index in December 2020 and replaced with a high tech stock, is up over 37% so far in 2022 after rising over 60% in 2021. The increasing demand for electric cars has put more supply constraints on resources, such as copper (stock in producer Teck Resources is up over 40% in 2022), lithium, nickel and palladium. The rediscovery of nuclear power, as the only real source of clean energy capable of meeting the insatiable global demand for energy, has put tremendous pressure on uranium supplies (stock in producer Cameco is up over 34% so far in 2022). For example, Germany had just closed three of its last remaining reactors in December of 2021 and had plans to shut down the final three before the Russian invasion occurred. With few Central Bankers or economists still daring to utter the words “transitory inflation”, a mantra repeated ad nauseam in 2021, and with refinance mortgage applications in the U.S. recently reported being down a whopping 60% from a year ago, this inflation theme may just be beginning – be forewarned!

As mentioned in my newsletter in January, Portfolio Manager Cathie Wood is the oft-quoted guru of the Covid era. Her “disruptive” innovative technology focus took the investing world by storm when she posted returns of nearly 150% in 2020. With the advent of the inflation theme roaring back, Ms. Wood is stoically sticking with her strategy of holding stocks in companies which thrive in a deflationary environment, like electric car manufacturers and “cloud” based technology, whose future growth potential is spectacular but whose net earnings are negligible. Compare and contrast the year-to-date returns of her flagship ARKK fund versus that of the nonagenarian “old-fashioned” value investor Warren Buffett’s company Berkshire Hathaway to get a sense of what the “smart money” is doing. By the end of the first quarter in 2022, Ms. Wood’s ARKK fund is down over 29% and down over 44% in the past 12 months; Mr. Buffett’s Berkshire Hathaway is up almost 20% so far in 2022 and up over 40% in the past 12 months. While Ms. Wood continues to have her investing head in the “clouds”, Mr. Buffett, who is known for his “buy and hold” strategy and for buying under-valued companies, recently sunk over $6 billion into oil giant Occidental Petroleum. I don’t know about you, but I know where I am placing my bets…

Bottom line

For many years a successful investment strategy consisted of “buying the dips”. The approach was to look at what has been successful, wait for a drop in its price, buy more of it and reap the rewards as the price rebounds. Times are a changin’…the strategy of buying yesterday’s winners may prove to be a losing strategy. It is time to think big, consider the real inflationary impact of governmental actions, and to invest accordingly!

Global benchmarks
As at March 31, 2022 (Canadian $ Returns – except where noted)

Asset class	YTD	1 year	3 years
S&P/TSX Composite T/R (Canada)	3.8%	20.2%	14.1%
S&P 500 TR - **US$**	-4.6%	15.6%	18.9%
NASDAQ Composite - **US$**	-9.1%	7.4%	22.5%
MSCI Europe Index Price Return	-8.9%	0.7%	3.4%
MSCI Emerging Markets	-8.3%	-13.7%	0.4%
China S.E Shanghai A Price Return	-11.4%	-2.8%	1.5%
MSCI World Index Price Return	-6.5%	8.1%	10.7%

Asset class	YTD	1 year	3 years
30-year U.S. T-Bond - **US$**	-10.9%	1.0%	4.1%
10-year U.S. T-Bond - **US$**	-6.9%	-3.8%	1.5%
Long GOC Bond (2051)	-14.1%	-6.6%	-2.4%
10-year GOC Bond	-7.6%	-5.0%	-0.6%
5-year GOC Bond	-4.7%	-4.9%	0.0%
3-month CDN T-bill	0.0%	0.1%	0.7%
US$/CDN$ (1.2499)	-1.1%	-0.5%	-2.2%

Source: RBC Capital Markets Quantitative Research

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