



Wealth Management
Dominion Securities



2022 Q1 commentary



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Ukraine on Fire



Jon Mitchell, Portfolio Manager

There were hungry men who gathered
cause they heard about a fare
To see Jehovah move among them. It was
fasting, it was prayer
What they found was unexpected a pouring
out thats undefined
Legacy was in the making a way was paved
for us to find
We are standing at the Battle Line
This is our anthem. This is our cry
To see Revival the nations free
O Canada we stand on guard for thee
So we are meeting at the battle the same
ground where You poured out
You are doing something greater It is
coming, it is now
Here we are in the Northlands with our eyes
set on Your gaze
Canada will see revival and it's flowing from
this place

So the seeds that have been planted in the
soil of this land
Every child that is living You will walk with
hand in hand
Every color every nation, every tribe and
every tongue
They will bow their knees before You as
Your daughters and Your sons
Ruler Supreme O Hear our Prayer
Hold our dominion In Your loving Care
And Let us Be Oh God in thee a rich reward

Stand on Guard written by Nikki Mathis
<https://youtu.be/GG9Nz3Nw6Ps>

Since I wrote the last commentary in the early days of February, there have been some monumental events globally and here in our own country. Over the past two years the response to the pandemic was largely focused on protecting society which involved most governments running large deficits to offset the loss of wages and business interruption as a result of the restrictive measures imposed by the Federal and Provincial governments. Over 1 in 5 dollars in Canada's broad money supply was not in existence before 2020. It is now being argued that the increase in the money supply has been one the major catalysts for inflation, which is turning out not to be transitory.

February turned out to be one of the most tumultuous months in recent history for Canada and the world. The Liberal Federal Government enacted the Emergencies Act (formerly known as the War Measures Act)

on February 14th. It had been over 50 years since this type of legislation had last been implemented (the 1970 FLQ Crisis). The Emergencies Act was tabled in Parliament by the Liberal Minority Government on Monday February 21st ,supported by the New Democrat Party and then revoked on Wednesday February 23rd when it appeared that there was significant opposition to the Act in the Senate, hours before the Senate was slated to vote on the Bill.

<https://nationalpost.com/news/politics/breaking-justin-trudeau-set-to-revoke-emergencies-act>

<https://betterdwelling.com/over-1-in-5-canadian-dollars-created-didnt-exist-two-years-ago/>

<https://www.wsj.com/articles/powell-printing-money-supply-m2-raises-prices-level-inflation-demand-prediction-wage-stagnation-stagflation-federal-reserve-monetary-policy-11645630424>

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The Emergencies Act was invoked in response to the convoy of truckers and Canadians that had come to the Nation's Capital from across the country to protest various mandates, including the mandate that all cross-border truckers be vaccinated to leave Canada with their US bound goods.

<https://www.washingtonpost.com/world/2022/01/28/canada-truckers-convoy-ottawa-covid/>

By the time Parliament voted on Monday, February 21st, thousands of police from all across Canada had arrived in Ottawa and cleared the protestors and vehicles on Friday and Saturday. Hundreds were arrested and over 200 bank accounts were seized and frozen.

<https://www.cbc.ca/news/politics/emergency-bank-measures-finance-committee-1.6360769>

A day after the Emergencies Act was revoked in Ottawa, Russian forces entered Ukraine on Thursday February 24th and began the first major European conflict since Yugoslavia erupted in war in 1991 which continued in various stages of conflict as late as 2001. The conflict in the Donbas region of Ukraine has been ongoing since 2014 between Russian-backed separatists and the Ukrainian army.

<https://www.cfr.org/backgrounder/ukraine-conflict-crossroads-europe-and-russia>

Russia subsequently annexed the mainly Russian speaking region of Crimea in 2014, through a staged referendum after Russian troops had taken control of the Crimean parliament. Crimea is the primary naval base to the Black Sea Fleet of the Russian Navy. In April 2014. The legality of the referendum was generally not accepted by NATO, as evidenced by a telephone call between then President Obama and Russia's Vladimir Putin in early 2014.

<https://www.bbc.com/news/world-europe-26606097>

On February 21st Russia officially recognized these two self-declared states and openly sent in troops into the region.

Unlike the conflict in Yugoslavia, NATO (North Atlantic Treaty Organization) forces from Europe, US, the UK, Canada or Australia have not sent in any troops or combat aircraft (the so-called "no fly zone") into Ukraine in a measured response not to start World War III. Instead, there has been billions of dollars of financial aid sent directly to Ukraine, including a recent \$US 40 Billion package that was recently approved through the US House and Senate in mid May, of which US 24 Billion is for "arming and

equipping Ukrainian forces, helping them finance weapons purchases, replacing U.S. equipment dispatched to the theatre and paying for American troops deployed in nearby countries."

<https://apnews.com/article/russia-ukraine-biden-government-and-politics-economy-a8db447928bb5e3f0609d553252531b8>

In addition, many countries have imposed crippling sanctions on Russia, including seizing of Russia owned assets, embargos on Russian energy and goods and even seizure of its foreign reserves (US dollars) held in financial centres like New York or London, England.

<https://www.bbc.com/news/world-europe-60125659>

As with every conflict, it is the civilian population that is hit the hardest. It is estimated that over 5 Million Ukrainians have fled the country since the outbreak of the war, mostly to neighbouring Poland. 180,000 have applied to come to Canada, as the Government of Canada has simplified the visa process to allow Ukrainians to work, study and access Canadian programs.

<https://www.aljazeera.com/news/2022/4/20/more-than-5-million-ukrainians-have-fled-since-russian-invasion>

<https://www.canada.ca/en/immigration-refugees-citizenship/services/immigrate-canada/ukraine-measures/key-figures.html>

<https://www.canada.ca/en/immigration-refugees-citizenship/services/immigrate-canada/ukraine-measures/cuaet.html>

One aspect of the counter-sanctions by Russia is notable. When they invaded Ukraine, their currency, the Russian rouble plummeted by nearly 40 % (from 80 rubles to the USD to 130 rubles to the USD). To counteract this massive depreciation in their currency, in late March 2022, the Russian Central Bank announced that they would temporarily allow Russian banks to convert (until June 30th) 5,000 Russian roubles for 1 gram of gold (there are 28.35 grams in an ounce of gold), effectively making the rouble the first currency on the gold standard since the US closed their gold exchange window in 1971. The conversion price, equated to a USD gold price the day it was announced of about US 1625 an ounce (about US 300 lower than the spot market). As a result, since this move, the Russian rouble has strengthened to 55 roubles per USD, or about 29% higher than it was prior to the invasion. If a Russian bank converted any gold into rubles today (June 13, 2022), the conversion ratio would equate to a price of approximately US 2,500 an ounce, or about US 700 higher than the spot market. Moreover, Russia is demanding

payment for its energy exports in either roubles (which Europe is short of) or gold bullion. As of May 19th, over 20 European utility firms have agreed to open Rouble accounts with Russian bank Gazprom to facilitate payment of Russian natural gas with roubles.

<https://nationalpost.com/news/world/on-train-headed-into-ukraine-a-stream-of-war-refugees-return-home>

https://en.wikipedia.org/wiki/Yugoslav_Wars

<https://seekingalpha.com/article/4498704-russias-3-step-program-to-put-the-ruble-on-a-gold-standard>

<https://financialpost.com/pmn/business-pmn/as-deadlines-loom-russia-says-eu-gas-clients-open-payment-accounts-2>

Pandemic Update

Since the major variant morphed into Omicron variant, severe disease and hospitalizations across Canada has steadily decreased since January 2022, which was the peak of the first Omicron wave and the highest level of Covid-19 cases since the pandemic began. For example, in Ontario, hospitalizations for Covid-19 peaked in mid-January at about 4,100 and are just over 700 today or a decrease of 83 %.

<https://covid-19.ontario.ca/data/hospitalizations#hospitalizedAndICU>

<https://covid-19.ontario.ca/data>

From a mandate perspective, nearly all provincial governments, universities and many non-government regulated businesses ended their vaccine mandates in late March or early April.

This means that employees who were placed on unpaid leave have been offered their jobs back, even those in the health care sector. For example, here in Alberta the Provincial Health Services amended their immunization policy to allow unvaccinated employees to return to their positions by March 31st. Alberta was the first province to end their vaccine passport system (February 9th), followed by Saskatchewan (February 14th), most of the maritime provinces (February 28th), and Ontario (March 1). However, the Federal Government has maintained their vaccination mandate for Federal Government employees and other federally regulated businesses, such as air, rail, telecommunications and financial services. Notably, the CEO of Westjet, Canada's second largest airline, Alexiss von Hoensbroech recently stated that "vaccine mandates for air travellers and employees need to be dropped. As vaccines are not preventing the spreading of the virus since

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Omicron, there is no more logic to maintain it (the policy that prohibits unvaccinated Canadians from flying or travelling by train or boat). This will also relax some of the operational challenges at the airports.”

<https://www.albertahealthservices.ca/assets/info/ppih/if-ppih-covid-19-vaccine-immunization-policy-faqs.pdf>

<https://www.mccarthy.ca/en/insights/blogs/canadian-employer-advisor/numerous-provinces-announce-end-provincial-vaccine-mandates-what-does-mean-future>

<https://calgary.ctvnews.ca/westjet-ceo-calls-for-end-to-vaccine-mandates-as-covid-19-border-restrictions-extended-for-another-month-1.5928340>

Investment Observations

The financial markets' volatility has extended into spring 2022, with more volatility to the downside than to the upside, save for some specific sectors. With the Russian invasion of Ukraine, the investment world has had to admit that Russia is indeed a critical producer of energy (world's largest oil, gas and refined products exporter) commodities such as base metals, precious metals, wheat (largest producer in the world), iron/steel, uranium, and fertilizers. Since the February 24th invasion, these commodities and companies' share prices that produce them have gained steadily, while many other segments in the market have declined. The second major issue for individuals and investors alike is the rapid ascent of prices, especially for essentials like food and energy. It could be said that the conflict in Ukraine has exacerbated these inflationary forces, but they were clearly in place during 2021, months before the conflict erupted.

<https://www.worldstopexports.com/russias-top-10-exports/>

One base metal garnered significant attention was Nickel which trading at around US\$ 25,000 a tonne around the start of the conflict. From March 7th to March 8th, the price of Nickel spiked from US\$ 42,000 a tonne to US\$ 100,000 in what can only be described as a classic short squeeze. The company who had sold some of their production short was a Chinese company controlled by billionaire tycoon Xiang Guanjda (also known as “Big Shot” by metals traders). The main exchange on which Nickel and other base metals are traded is the London Metal Exchange (LME) which decided to suspend trading of Nickel for eight days, and when it did open on March 16th, it only traded for a few seconds before it was suspended after declining by 8 % in the few trades that were allowed. Nickel has resumed its pedestrian trading range in the US\$ 32,000 to US\$ 34,000 range over the past month but it remains to be seen whether Mr. Big Shot needed extraordinary assistance or not.

<https://www.bloomberg.com/news/newsletters/2022-03-11/next-china-nickel-s-big-short>

<https://moneyweek.com/economy/people/604590/xiang-guangda-profile>

<https://www.hellenicshippingnews.com/nickel-prices-soar-amid-market-panic/#::-:text=LME%20nickel%20prices%20closed%20at,a%20frenzied%20early%20morning%20session.>

We need to give some space to natural gas as this is one of the most significant aspects of the conflict given that Russia delivers 40 % of all EU natural gas. Even before the invasion, most of Europe was already struggling with extraordinary high natural gas prices, fueled by dwindling inventories, increased demand for natural gas-generated electricity (as coal and nuclear sources were shut down) and various weather issues. EU natural gas prices soared from 18.4 Euros at the end of 2020 to 180 Euros in mid December 2021, a 10 fold increase! With the invasion, they spiked up to over 225 Euros and have since retreated to 84 Euros, which is still nearly a 5 fold increase from the starting point. As a result of the potential weaponization of energy where Russia may decide (again) to turn off the natural gas to Europe, the US has agreed to dramatically increase their liquidified natural gas exports to Europe by 75 % (from 22 Billion MCF to 37 Billion MCF).

<https://tradingeconomics.com/commodity/eu-natural-gas>

Meanwhile, back in the Western Canadian energy-oriented provinces, most producers are benefiting from the higher prices that started in 2021 and have continued into 2022, content to increase their dividends, pay down their debt, buy back their shares and then invest a bit more into expanding production. The energy sector is leading the TSX this year, gaining 32 % to the end of April (on the heels of a 68 % advance in 2021), versus a 1.3 % decline for the entire Canadian index.

<https://tradingeconomics.com/commodity/eu-natural-gas>

<https://www.scientificamerican.com/article/the-u-s-will-increase-natural-gas-exports-to-europe-to-replace-russian-fuel/>

<https://www.rbcinsight.com/WM/ResearchViewer/1924-639442-1/1651?docType=PDF&>



Eyehill – by Kelly Cooper (from the RM of Senlac SK near our land)

The Real Anthony Fauci: Bill Gates, Big Pharma and the Global War on Democracy and Public Health - by Robert F. Kennedy Jr.

TransHumanism – The History of a Dangerous Idea – by David Livingstone

Notable quotes

“The policy and practice of the Russian Government has always been to push forward its encroachments as fast and as far as the apathy or want of firmness of other Governments would allow it to go, but always to stop and retire when it met with decided resistance and then to wait for the next favorable opportunity.”

- Lord Palmerston (who dominated Great Britain's foreign policy from 1830-1865)

“I cannot forecast to you the action of Russia. It is a riddle, wrapped in a mystery, inside an enigma; but perhaps there is a key. That key is Russian national interest.”

- Sir Winston Churchill

“It is a way to take people's wealth from them without having to openly raise taxes. Inflation is the most universal tax of all.”

- Thomas Sowell

“Inflation is the one form of taxation that can be imposed without legislation.”

- Milton Friedman

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It is clear now that global central banks are “behind the curve” when it comes to interest rates (Canada at 1.0 %, US at 0.50 % at time of writing) being massively below the level of inflation (Canada at 6.7 %, US at 8.5 %). Again, inflation has been exacerbated by the conflict given the impact on food prices and fuel prices (which is an input into many goods and in the transportation of just about everything.) The market is now anticipating a full 2 % of additional hikes in Canada (to approximately 3 %) and 2.5 % in the U.S. (also to 3 %).

I would be re-miss if I did not highlight the fact that the bond market has had the worst start to a year since 1973 as bond yields increased markedly in reaction to the blistering inflation prints. For example, the 2 year US Treasury Bond ended 2021 at 0.39 % and closed June 13 at 3.36 %.

The US Treasury bond index lost a staggering 5.6 % in Q1. On the flipside, investors who have been getting minuscule returns on savings accounts and GICs are now seeing the highest guaranteed rates in many years. Debt holders will be feeling the pain with lines of credit and floating rate mortgages, which could bring some relief in real estate prices for would-be first time homebuyers.

<https://www.marketwatch.com/story/u-s-government-bonds-just-suffered-their-worst-quarter-of-the-past-half-century-heres-why-some-investors-may-not-be-fazed-11648859211>

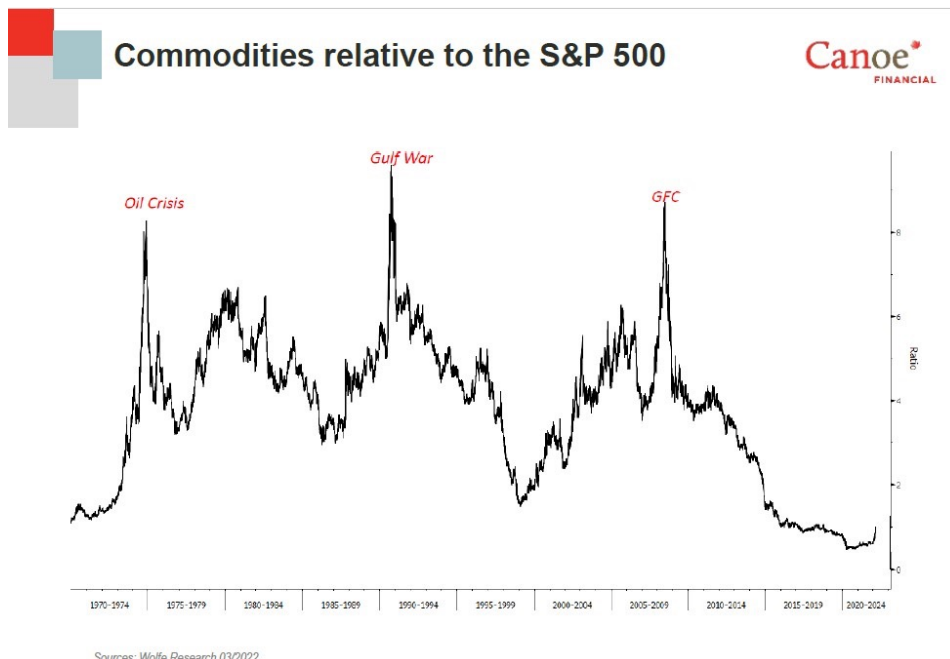
Here are a few charts that I clipped in the past few months which illustrate some of the market issues and changing trends.

So stay strapped in and hang on for the ride in 2022 –good businesses will figure inflation out just as they had to adapt to what happened during the covid era. The cream always rises to the top!

Current Implied Government Overnight Rates					
Canada			US		
Meeting	Implied Rate	#Hikes	Meeting	Implied Rate	#Hikes
06/01/2022	1.49	2.2	05/04/2022	0.84	2.0
07/13/2022	2.00	4.2	06/15/2022	1.45	4.5
09/07/2022	2.33	5.5	07/27/2022	1.92	6.4
10/26/2022	2.76	7.3	09/21/2022	2.33	8.0
12/07/2022	2.92	7.9	11/02/2022	2.61	9.1
			12/14/2022	2.83	10.0
			02/01/2023	2.98	10.6
Target:	1.00		Target:	0.50	
Effective:	0.92		Effective:	0.33	

Source: Bloomberg

So the 7.9 figure implies 8 0.25 % interest rate hikes by December 2022. This seems like a realistic increase by the Central Banks given the high levels of inflation.



After 15 years of under-performance to the broad S&P 500 index, commodities appear to be improving. The 1970s was the last era of persistently high inflation, which was accompanied by a significant rise in interest rates and commodity prices. Is the commodities train just leaving the station ?

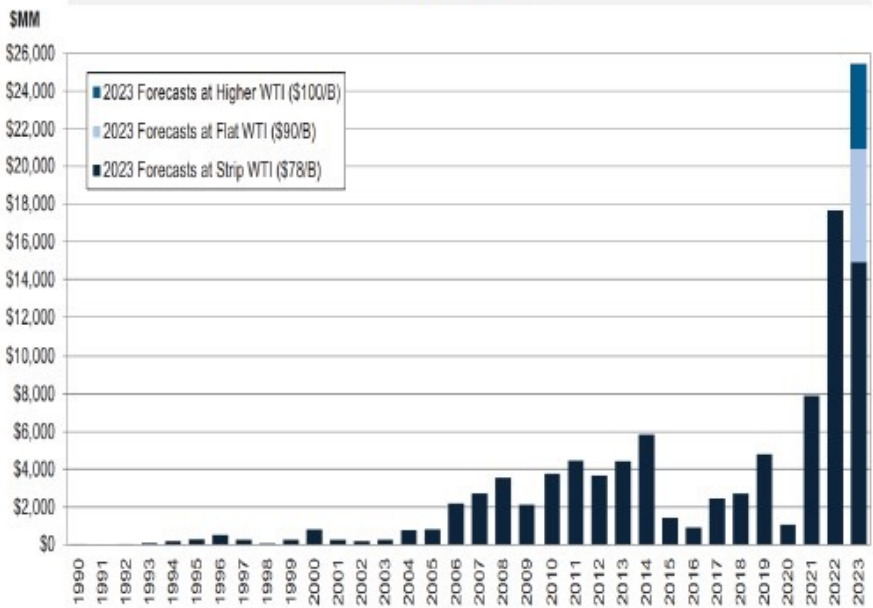
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The Province of Alberta's 2022-23 budget is using US\$70/ barrel in their budget. Prices are currently just under US 100/ barrel. Similarly, for natural gas, the Budget is using prices of C\$ 3.20 per gigajoule versus the current price of approximately \$7.00. If current prices persist, according to the above forecast, Alberta is set to reap massive Budget Surpluses in the coming years.

<https://open.alberta.ca/dataset/6d0f1358-beb5-4bb7-8da1-a350a138039c/resource/36771cab-bee0-44b5-99ad-a03d88da653c/download/budget-2022-fiscal-plan-2022-25.pdf#page=101>

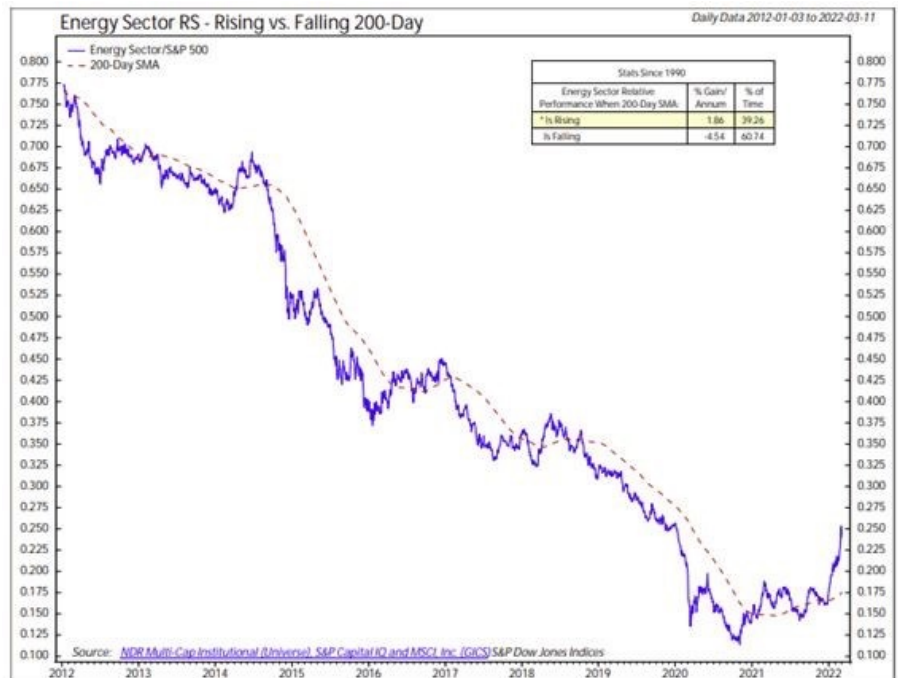
Alberta oil sands royalties – historical data and forecasts



Source: Ned Davis, 09/30/1985-04/01/2022. (left) Peters & Co. 03/07/2022 (right).

Permission to use granted by Canoe Financial.

Ten Year under-performance of energy sector ended in Q4 2021 How long the new uptrend will last is a big question!



Source: Ned Davis Research

Permission to use granted by Canoe Financial.

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Team updates

- Here in Alberta we are generally back to normal with the office life, as most staff are working at least 4 days in the office out of 5.\
- We continue to use Webex for our client meetings as an option. Our clients are getting pretty adept with the e-signature forms that James and Pauline are using.
- Jon got in in six days of skiing at Marmot Basin in Jasper this season and made it to Unity SK already in April to check on the spring run-off and the fields. Pauline wrapped up another Ukrainian Easter with her Pysanka egg masterpieces, while James and his wife managed to have a short get away stateside.
- As always, we are open to speaking to any of your friends that may benefit from a second opinion on their investments or current wealth plan.

• Finally, we would like to recommend that you circle back to our website from time to time, as we are using that as one of our primary points of contact to post salient articles on our firm's views, along with details on relevant government programs and announcements. You can access it here: ca.rbcwealthmanagement.com/jon.mitchell/

Again, stay safe and take care. We have a lot to be thankful for, living in Canada. Do your best to enjoy the positive moments each day, and please support your local businesses whenever you can.

Investment index	Q1 2022 return	12-month trailing return	3-year compound return
S&P/ TSX composite index	3.8 %	20.2 %	14.1 %
S&P 500 (C\$)	-5.6 %	15.1 %	16.4 %
NASDAQ comp (C\$)	-10.1 %	6.8 %	19.9 %
Short-term comp bond index	-3.0 %	-3.3 %	0.8 %
iShares U.S. High Yield Bond Index ETF (XHY, C\$ Hedged)	0.6 %	-1.3 %	6.5 %
US\$ / C\$	-1.1 %	-1.1 %	-2.2 %
Gold bullion (C\$)	5.7 %	13.4 %	12.1 %
Global gold mining index (XGD – C\$)	20.0 %	24.1 %	22.3 %

<https://www.rbcinsight.com/WM/ResearchViewer/1924-628001-1/1651?docType=PDF&>

<https://www.blackrock.com/ca/investors/en/products/239858/ishares-us-high-yield-bond-index-etf-cadhedged-fund> (XHY)

<https://www.blackrock.com/ca/investors/en/products/239848/ishares-sptsx-global-gold-index-etf> (XGD)



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