Wealth Management
Dominion Securities

Pringle

PORTFOLIO MANAGEMENT GROUP
of RBC Dominion Securities

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Integrity, trust and experience

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Welcome and thank you

A warm welcome to the clients who have recently joined us, and a special thank you to the people who mentioned our name to them. We appreciate your trust and support.

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Tight Money

Inflation has been rising quite quickly for the first time in decades. As economies emerge from the pandemic lockdowns, high demand for goods has clogged and dislocated supply chains, leading to higher prices. While the pandemic disrupted many businesses and employment, it also triggered many employees to retire. This was expected at some point, as the demographic bulge in most western economies called the "Baby Boomers" is now at retirement age. Those of us born during the post-WWII population boom from 1946 to 1966 are between the ages of 56 and 76, and as these people retire, it leaves a void in the workforce. The labour market is tight and competition for workers will likely push wages up. It is not just skilled workers that are scarce; it is across all job classes and industries.

Russia's invasion of Ukraine has been going on for more than a month now, and will likely continue for some time longer. Russia's advances have been thwarted by Ukrainian defenses in some cases, and outside of Russian propaganda, many reports point to Russia being surprised and unprepared at the strength of the resistance. Reports of Russia asking for China's help in their invasion of Ukraine appear to have been fruitless. It seems that China, while not necessarily disapproving of Russia's actions, has recognized that any help would likely trigger economic sanctions from its biggest customers.

Central banks have begun to raise interest rates in an effort to tame inflation, which will likely continue for most of this year. In response to the pandemic-induced economic shock, interest rates were pushed to near zero and a tremendous amount of money was injected into monetary systems. At first, this monetary inflation showed up in the most sensitive asset prices such as stocks and real estate, but now it is appearing more widely.

As Milton Friedman famously said, inflation is always and everywhere a monetary phenomenon. So much for modern portfolio theory, as like physics, the laws of economics have not been repealed by this new era of technological advances. Of course, the war in Ukraine has helped accelerate inflation of energy and agricultural goods.

Central banks have always said that they would remove the monetary stimulus they created during the pandemic, but some doubted their ability to do so adequately. With the onset of inflation, they are beginning to do so, however, many believe that they are behind the game, requiring faster and higher monetary tightening, and risking a recession at some point ahead. Regardless, we are undoubtedly in for less monetary stimulus sloshing around and higher interest rates. These tightening efforts are necessary for longer-term financial stability reasons, but will undoubtedly cause an economic slowdown at best, or a hard landing for the economy.

Many governments' balance sheets are extremely bloated with market debt bought during the pandemic to keep markets moving, as well as to suppress interest rates. Although most businesses and consumers are reported to be financially healthy, we will soon find out who has been swimming naked when the tide goes out, as rates rise and liquidity dries up in the financial system. Don't believe those that say "it's different this time." It isn't.

The bond market has experienced a good selloff, as expected, given rising inflation and central banks beginning to raise interest rates to try to control it. This will continue for some time yet. We are avoiding longer-term fixed income and prefer to focus on well-financed companies with good cash flow rates.

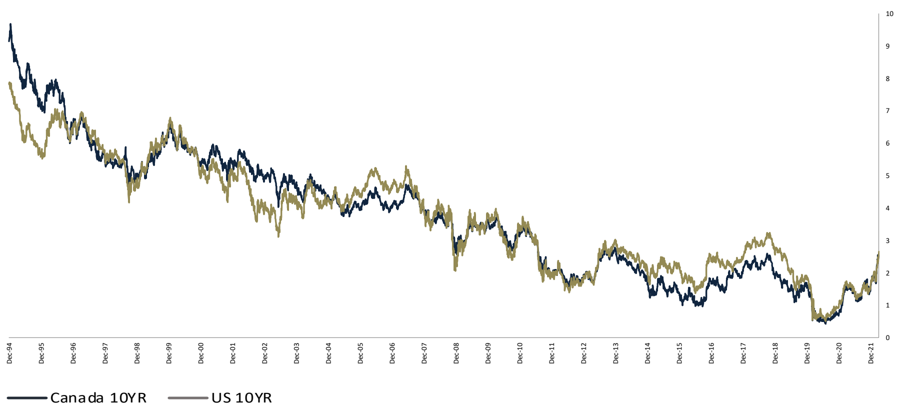
Stocks have been weaker overall with the prospect of higher inflation. We expect volatility to remain elevated in the months ahead. We are prepared for this, and remain focused on the long-term horizon. Well-financed companies, which are growing and can be purchased at reasonable values, will be worth more over time, likely providing good inflation protection. Markets have become accustomed to cheap and abundant money and many over-extended players will be washed out – though this may create volatility, it will also likely create opportunity for long-term, disciplined investors.

We believe that owning good companies in the right sectors will remain important to help maintain or grow one's savings. As always, we at The Pringle Group will do our best to protect your interests.

Tony Pringle, CFA
March 31, 2022

Exhibit 1

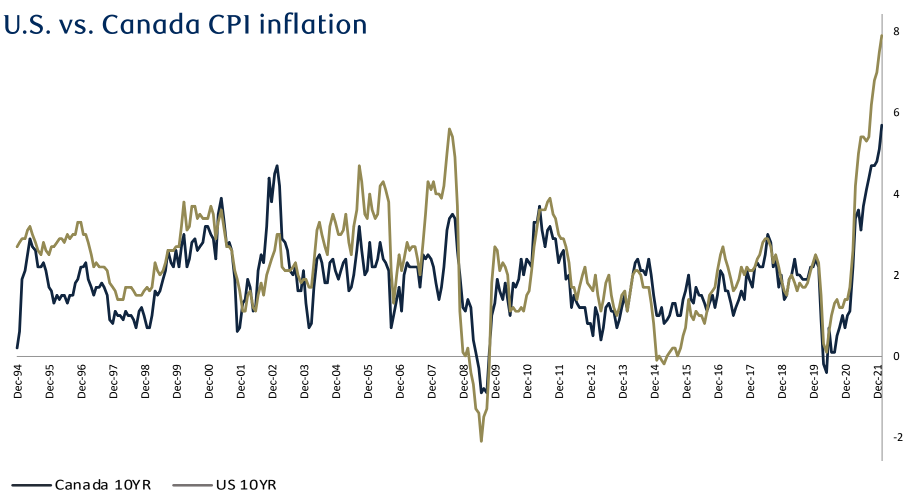
U.S. vs. Canada 10-year bond yield



Source: Federal Reserve Board, Statistics Canada

Exhibit 2

U.S. vs. Canada CPI inflation



Source: Federal Reserve Board, Statistics Canada

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