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LEROY WEALTH MANAGEMENT GROUP

Seeking Clarity in a Time of War

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The Russian invasion of Ukraine is a humanitarian disaster, and our hearts go out to the people of Ukraine and to Ukrainians and their loved ones living abroad.

Given the escalation of the Russian invasion, intensifying geopolitical risks, and recent financial market volatility, we would like to share our thoughts and some of our research around possible implications for the global economy and capital markets.

Speculation about a possible recession this year had been dampening as pandemic restrictions began to lift and economic activity surged. But now, the situation in Ukraine and Russia is adding another headwind to global economic growth for the months ahead. The Russian economy itself is only a minor contributor, overall, to global GDP. However, sanctions and the effects of the war could have far-reaching effects.

Economic sanctions have been swiftly imposed with a high degree of alignment among Western countries, and are contributing to economic uncertainty worldwide in addition to financially devastating Russia. Russia is an important global oil producer, and Ukraine is a significant agricultural producer. Oil distribution and food-based commodity production restrictions could severely impact the price of oil, feed, and also food prices, exacerbating already high inflation levels. An interesting side effect of the effectiveness of sanctions on Russia could be a cautionary lesson for China with respect to its ambitions for Taiwan.

European geopolitical expectations are undergoing realignment, as speculation about Russia seeking a secure buffer between itself and NATO, and Russian threats of tactical nuclear deployment contribute to instability. Already, marked increases in military budgets have been declared, particularly in Germany. Thursday night's strike on Europe's largest nuclear plant further underscores the physical risks of war to people in a nuclear era, even beyond Ukraine's borders.

Furthermore, the now obvious risks of relying on Russian oil and risks associated with nuclear power plants raise wider questions that could lead to a reassessment of how Europe powers itself going forward. Disruption will surely follow in the energy sector, as well, opportunity.

As economies everywhere began to climb out of covid induced despondency and inflation soared, central banks had already begun an interest rate tightening cycle. However, the prospect of further constricted supply chains and slower growth now could be shifting those expectations. Interest rate hikes may not be as quick or as severe as initially predicted. CEO and CIO of AGF Management Limited, Kevin McKreadie suggests that while the fog of war may be clouding investment markets for now it may also lead to a more cautious and gentler rate hiking cycle allowing for freer economic growth.

As much as inflation is painfully making itself felt now, even if interest rate rises slow and are thus less effective at controlling inflation, it is important to remember what trend strategies manager Tim Rudderow reminds me whenever oil prices spike: the cure for high prices is often high prices. Soaring energy and food prices are eventually self-correcting as high prices dampen demand and encourage innovation, the laws of supply and demand come into play to lower prices once more.

The lessons of history during and following periods of uncertainty can guide us. Capital markets have faced such periods many times and have always adapted and recovered. We invite you to check out Mackenzie Financials' insight: Seeking Clarity in the Fog of War. Buying out of greed and selling out of fear has rarely proven a wise path and can result in much risk and disappointment. Rather, building an investment strategy designed to meet objectives throughout all economic and market conditions, as is our specialty at LeRoy Wealth Management Group, makes much more sense. For example, a well-designed retirement income portfolio should be able to support a regular income while protecting against inflation, without having to sell equities at those moments when stock prices have temporarily fallen. Then, periods of market volatility become something to simply wait through, and perhaps even take advantage of.

If you have any doubts about whether your investment portfolio is sufficiently positioned to weather temporary volatility while supporting your objectives, please reach out.

Thank you,

Sonia & Adrian