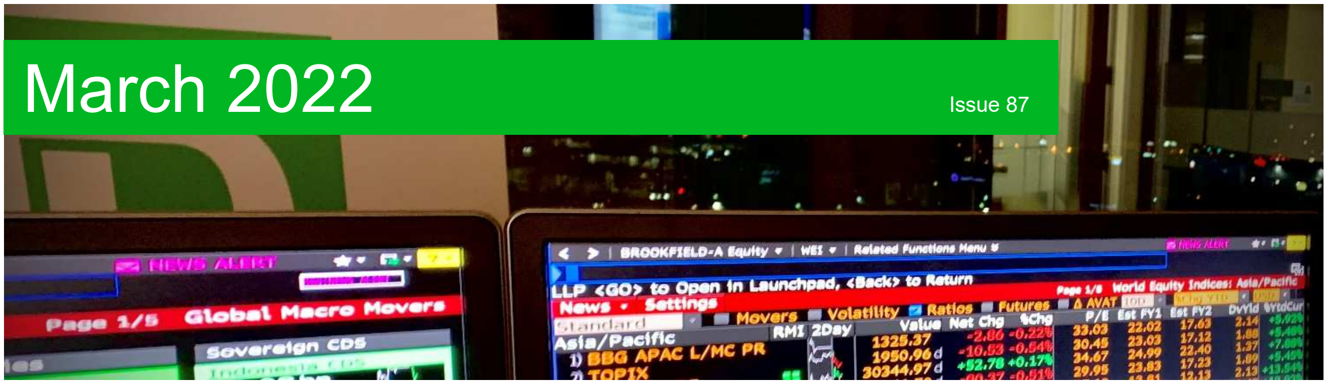
The Charter Group Monthly Letter

March 2022

Issue 87



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Economic & Market Update

Military Adventurism & Markets

News of Russia's invasion of Ukraine is a new chapter in a story that stretches back to 2008 when Russia invaded Georgia during the Beijing Summer Olympics. Then, in 2014, immediately following the Sochi Winter Olympics, Russia invaded Crimea, attempting to annex it from Ukraine.[1] Notice a trend here?

How much impact do military invasions have on the markets?

Often the impact is not as much as the dramatic headlines would imply.

In March 2014, I wrote about the market and investment implications of the Crimean invasion both specifically and in a larger post-Cold War context.[2] My conclusion was that the first annexation by force since 1975, and the first in the post-Cold War era, would set geopolitics on a new trajectory going forward, with increasing financial and security risks if there wasn't sufficient pushback from the rest of the world.

Now, here we are.

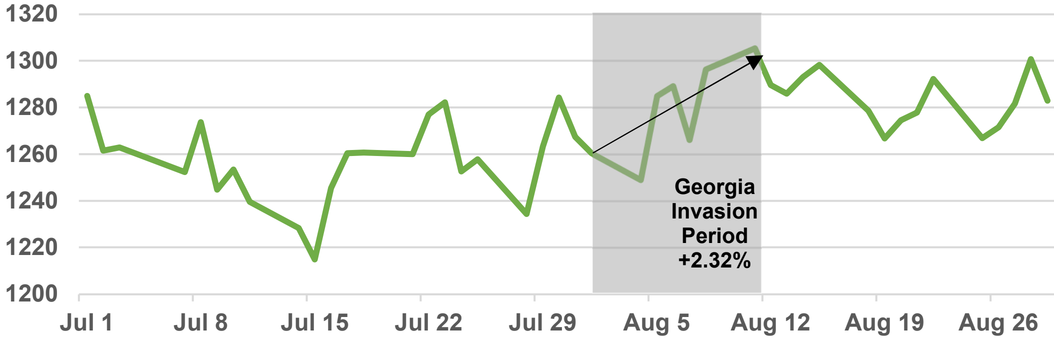
[1] The United Nations General Assembly declared the annexation as invalid. Canada has also done so, which precipitated Russia to impose sanctions on Canadian political figures. Despite Crimea being under de facto Russian control, the annexation is generally not recognized.
[2] Contact me if you would like to read what I wrote then.

During previous Russian invasions, there was no notable investor reaction, with American stocks rising across those invasion periods (**Charts 1&2**). U.S. stocks are generally higher during the current invasion. However, markets had been tracking downward since early January in light of the risks of rising inflation and interest rates, so some of this recent buying may be occurring because the market was somewhat oversold (**Chart 3**).

Previous Russian invasions had no noteworthy impact on financial markets.

Chart 1:

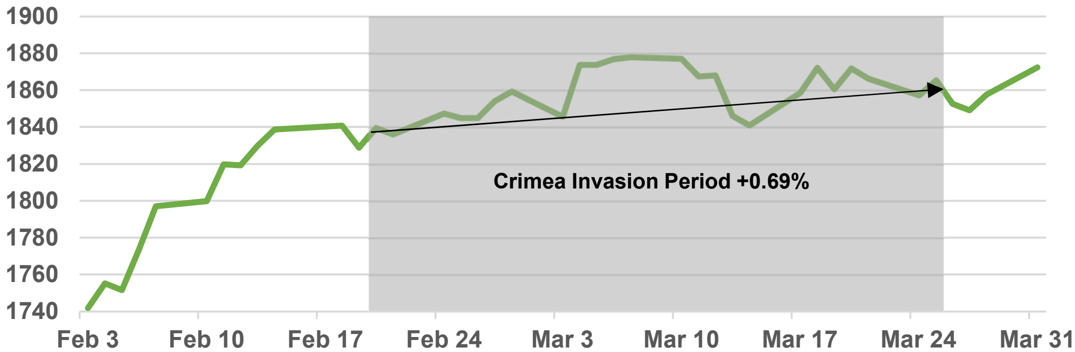
S&P 500 Index (2008)



Source: Bloomberg Finance L.P. as of 3/1/2022

Chart 2:

S&P 500 Index (2014)



Source: Bloomberg Finance L.P. as of 3/1/2022

Chart 3:

S&P 500 Index (2022)

Source: Bloomberg Finance L.P. as of 3/1/2022

Why such muted reactions? Perhaps sanctions in the past were not robust enough for investors to become worried about global economic growth. This time, sanctions are far more severe, which heightens the worry about economic disruption. However, maybe investors are now expecting the U.S. Federal Reserve (the Fed) to reduce the intensity of its inflation battle plans that involve raising interest rates over the next year. The prospect of continued cheap money might outweigh the downside of sanctions at this point.

Perhaps previous sanctions were not strong enough to concern investors.

Or, there were other economic factors that were greater concerns to investors.

The tendency of leadership at the Fed over the last few decades has been to respond with dovish policies when the economy and the markets were hit will negative surprises. A 0.25% increase in the Fed Funds Rate at the March 16th Fed meeting is still baked into the cake. However, it might be an opportunity for Fed Chair Jerome Powell to telegraph a more friendly monetary policy because of the invasion and its near-term implications.

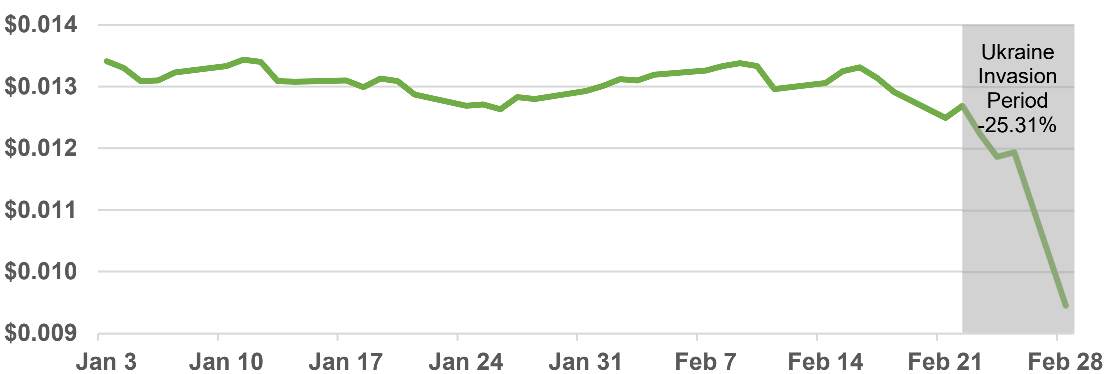
Investors have been anxious about higher interest rates and inflation. The invasion could intensity and extend this.

The story is different for investors who dabble in the Russian ruble, and in Russian investments in general. The losses have been remarkable (**Chart 4**). However, they don't appear to be much greater than the crashes that followed the invasion of Georgia in 2008 and of Crimea in 2014 (**Charts 5&6**). The Russian ruble versus the U.S. dollar has been mostly a one-way street. Since it replaced the Soviet ruble in 1992, the Russian ruble has lost over 99% of its value vis-à-vis the U.S. dollar![3] History is full of countries, which are not able to offer its population a credible economic plan, resorting to nationalistic pursuits such as conquests to deflect attention away from financial misery.

Russian invasions have been horrible for the ruble and Russian stocks. But those tend to be the domain of speculators.

Chart 4:

Russian Ruble priced in U.S. dollars - Offshore Spot Rate - 2022



Source: Bloomberg Finance L.P. as of 3/1/2022

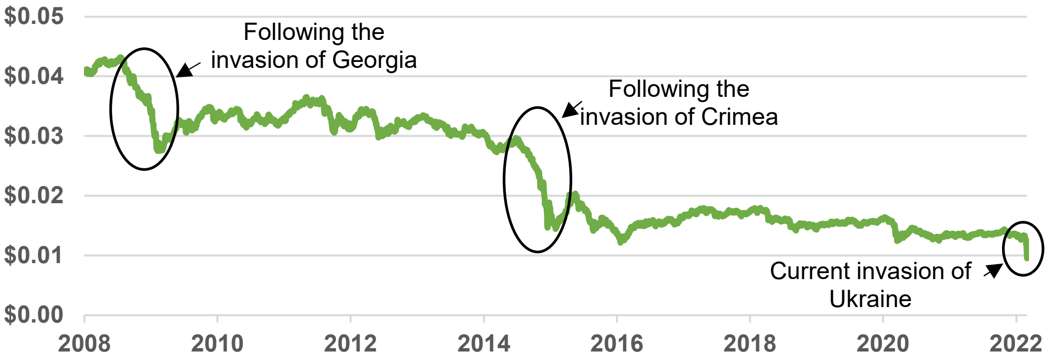
One final point is what this might to do the emerging markets (EM). Russia is considered part of the EM and has an impact on one of the primary indices used to measure EM investment performance, the "BRIC" index (**Chart 7**). Investors having been fleeing EM

[3] Source: Bloomberg Finance L.P. as of 3/1/2022.

over the last year as inflation and higher interest rates have historically ravaged EM economies more than developed markets. Now, with the selloff in Russian stocks, the BRIC index is *negative* over the last decade (reaffirming my decision to eliminate EM exposure in November 2007.)

Chart 5:

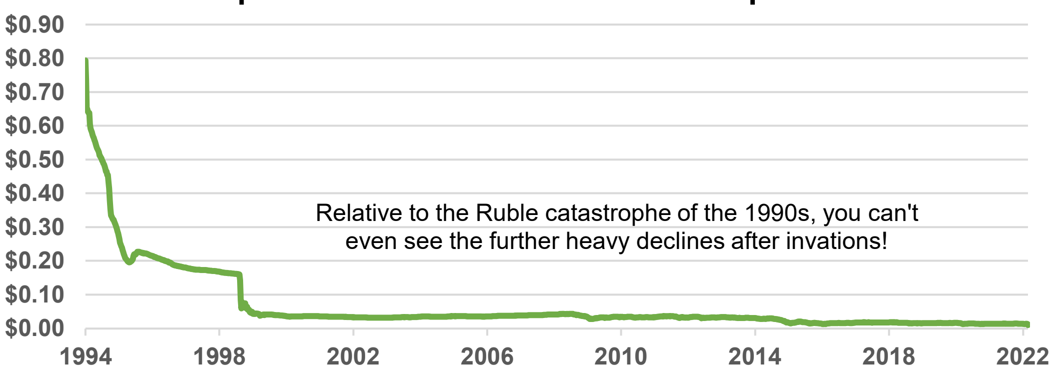
Russian Ruble priced in U.S. dollars - Offshore Spot Rate



Source: Bloomberg Finance L.P. as of 3/1/2022

Chart 6:

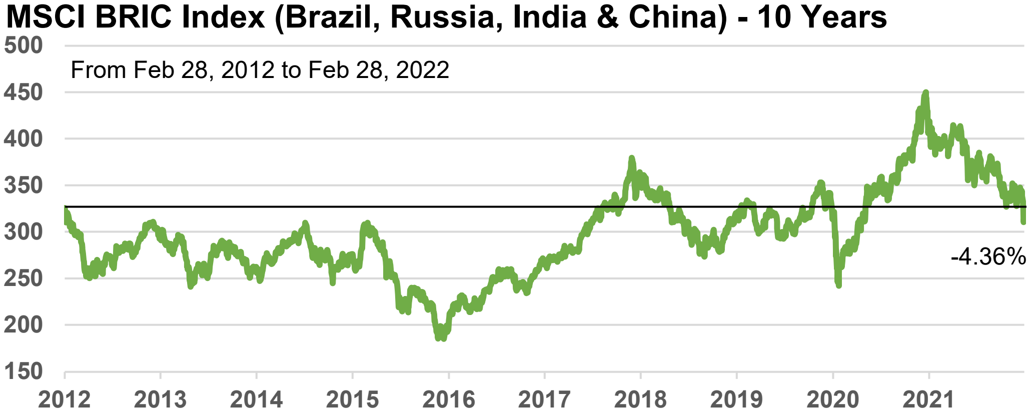
Russian Ruble priced in U.S. dollars - Offshore Spot Rate



Source: Bloomberg Finance L.P. as of 3/1/2022

Chart 7:

MSCI BRIC Index (Brazil, Russia, India & China) - 10 Years



Source: Bloomberg Finance L.P. as of 3/1/2022

Russia, being an emerging market country, can cause a problem for investors investing in emerging market investment products that have a Russian component.

Model Portfolio Update[4]

The Charter Group Balanced Portfolio
(A Pension-Style Portfolio)

	Target Allocation %	Change
Equities:		
Canadian Equities	12.0	None
U.S. Equities	38.0	None
International Equities	8.0	None
Fixed Income:		
Canadian Bonds	22.0	None
U.S. Bonds	6.0	None
Alternative Investments:		
Gold	8.0	None
Silver	1.0	None
Commodities & Agriculture	3.0	None
Cash	2.0	None

There were no changes to the asset allocations or the individual securities in the model portfolios during February.

No changes in the model portfolios during February.

The model portfolios were flat to slightly positive for the month mainly due to the spike in the bullion prices for gold and silver which were up 6.22% and 8.82% respectively in Canadian dollar terms.[5] That helped to offset the negative contributions from U.S. and international stocks. Canadian stocks, using the TSX/S&P 500 Composite Index, were up 0.13% as investors found some refuge in the commodity producers that have a heavy weighting in the Index.[6] The model portfolios were structured to cushion against the impact of higher-than-expected inflation. As a result, even though I certainly did not predict the Russian invasion of Ukraine, we were in the right place beforehand if investors expect an extension of the inflationary supply chain disruptions because of the invasion.

The model portfolios were able to navigate through the tumultuous month with the help of gold and silver bullion.

Also, Canadian stocks did well as investors bought commodity stocks.

[4] The asset allocation represents the current *target* asset allocation of the Balanced Model Portfolio as of 3/1/2022. The asset allocations of individual clients invested in this Portfolio may differ because of the relative performance of the asset classes since the last rebalancing and because of differences in the timing of deposits and withdrawals. The Balanced Model Portfolio is part of a sequence of five portfolios ranging from conservative to aggressive: Conservative, Balanced Income, Balanced, Balanced Growth, and Growth.
[5] Source: Bloomberg Finance L.P. as of 3/1/2022.
[6] Source: Bloomberg Finance L.P. as of 3/1/2022.

With regards to the Canadian dollar, it was remarkable that it hardly moved against the U.S. dollar, only up 0.28% for the month.[7] Significantly higher oil and commodity prices, would normally drive the Canadian dollar higher. This may be an illustration of how powerful the U.S. dollar can be as a safe haven in times of uncertainty.

It is hard to forecast when the crisis in Eastern Europe will abate.

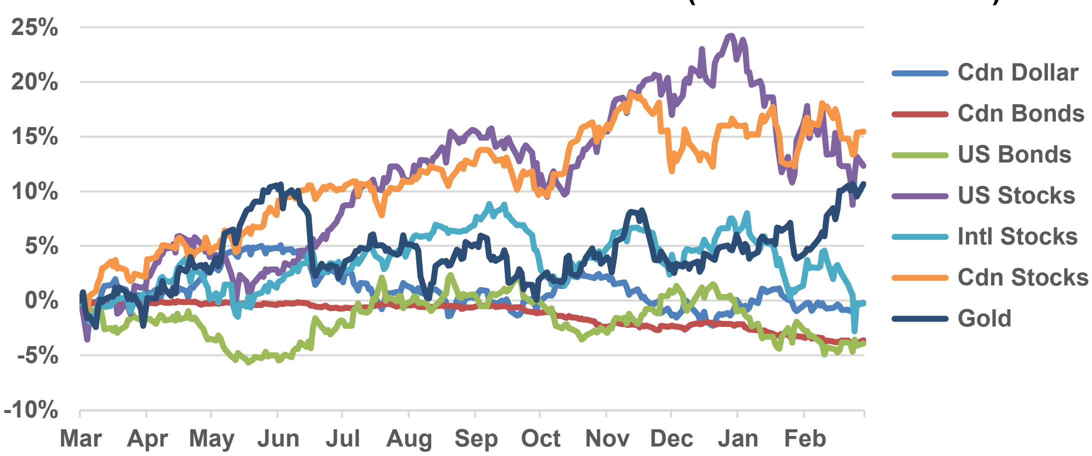
Even if it does so relatively soon, the economic fallout, including the potential for disruptions and inflation, could persist.

The crisis in Eastern Europe is far from over and could have effects that reverberate for an indefinite length of time. The interest rate futures markets have scaled back expectations for how much the U.S. Federal Reserve (the Fed) and the Bank of Canada (BoC) will raise rates compared to how things looked two weeks ago.[8] If we get a combination where the Russian invasion does turn out to be more inflationary, and where the Fed and the BoC fall further behind in combating inflation, there could be more stock market volatility later this year than I would have previously anticipated. However, this is a scenario for which the model portfolios are well positioned.

Below is the 12-month performance of the asset classes that we have used in the construction of The Charter Group's model portfolios. (**Chart 8**).[9]

Chart 8:

12-Month Performance of the Asset Classes (in Canadian dollars)



Source: Bloomberg Finance L.P. for the interval from 3/1/2021 to 2/28/2022

[7] Source: Bloomberg Finance L.P. as of 3/1/2022.
[8] Source" Bloomberg Finance L.P. as of 3/1/2022.
[9] Source: Bloomberg Finance L.P. – The Canadian dollar rate is the CAD/USD cross rate which is the amount of Canadian dollars per one U.S. dollar; Canadian bonds are represented by the current 3-year Government of Canada Bond; US bonds are represented by Barclays US Aggregate Bond Index; U.S. stocks are represented by the S&P 500 Index; International stocks are represented by the MSCI EAFE Index; Canadian stocks are represented by the S&P/TSX 60 Composite Index; Gold is represented by the Gold to US Dollar spot price.

Top Investment Issues[10]

Issue	Importance	Potential Impact
1. Global Geopolitics	Significant	Negative
2. U.S. Fiscal Spending Stimulus	Significant	Positive
3. Short-term U.S. Interest Rates	Moderate	Positive
4. Canadian Dollar Decline	Moderate	Positive
5. Canadian Federal Economic Policy	Moderate	Negative
6. China's Economic Growth	Medium	Negative
7. Deglobalization	Medium	Negative
8. Global Trade Wars	Medium	Negative
9. Canada's Economic Growth (Oil)	Light	Positive
10. Long-term U.S. Interest Rates	Light	Negative

[10] This is a list of the issues that we currently deem to be the ten most important with respect to the potential impact on our model portfolios over the next 12 months. This is only a ranking of importance and potential impact and *not* an explicit forecast. The list is to illustrate where our attention is focused at the present time. If you would like an in-depth discussion as to the potential magnitude and direction of the issues potentially affecting the model portfolios, I encourage you to email me at mark.jasayko@td.com or call me directly on my mobile at 778-995-8872.

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The Charter Group is a wealth management team that specializes in discretionary investment management. For an annual fee, we manage model portfolios for private clients and institutions. All investment and asset allocation decisions for our model portfolios are made in our Langley, B.C. office. We do not outsource any of the decision-making for our model portfolios – there are no outside actively-managed products or funds. We strive to bring the best practices and the calibre of investment management normally seen in global financial centres directly to the Fraser Valley and are accountable for the results.

Accountability is further enhanced by the fact that we commit our own investable wealth to the same model portfolios in which our clients are invested.

The information contained herein is current as of March 1, 2022.

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