

## The Weekly Beacon

We will be giving some macro economic market updates on a weekly basis. No equity recommendations will be given in this commentary, and we encourage you to contact us if you have questions regarding any observations.

*The two main purposes of a Lighthouse are **to serve as a navigational aid and to warn boats (Investors) of dangerous areas.** It is like a traffic sign on the sea.*



Robbins Reef Lighthouse, Bayonne, Hudson County, New Jersey, United States

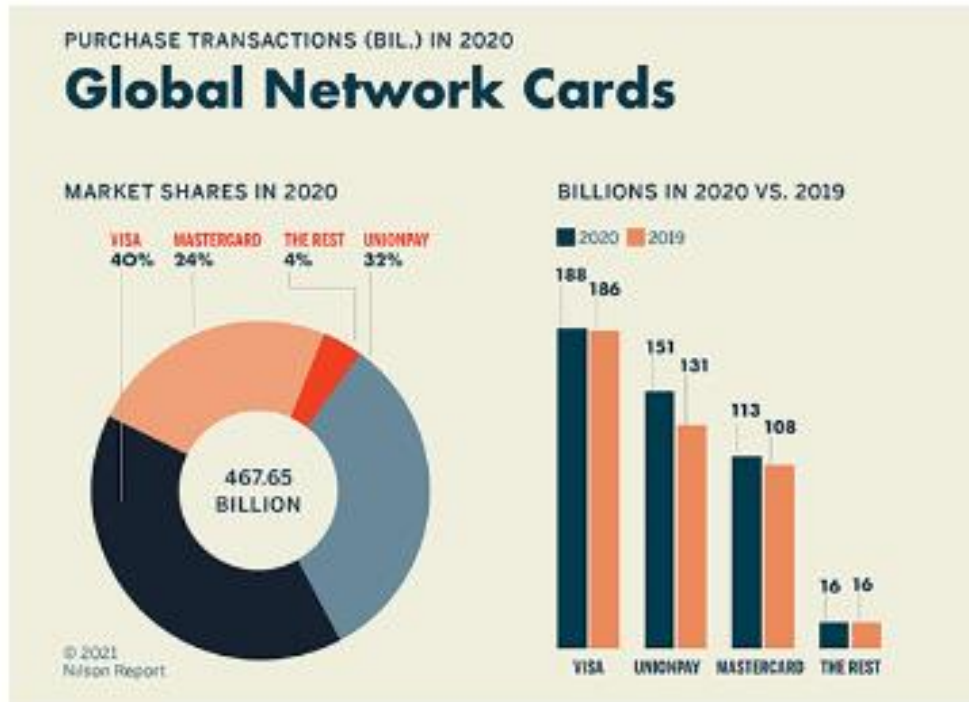


Isla Herradura Lighthouse, Faro Isla Herradura, Playa Herradura, Costa Rica

*Feel free to send us your photos of Lighthouses to be featured in our weekly market observations.*

## Pushing Russia Toward China

After Visa and Mastercard halted the use of their services in Russia, the Russian government quickly secured a deal with the Chinese firm UnionPay. UnionPay is the fastest growing global card payment network and is approaching Visa in terms of purchase transactions per year.



Visa, Mastercard, and even Apple Pay halted the Russian economy for days. People could not pay \$3 for the subway in Moscow. It's no surprise Russia went to a Chinese pay system. What did the West expect with this move? Russia to be stagnant and only pay in cash?

Some of these moves might be the best thing to deter Vladimir Putin from going forward but, as we know, no sanctions have caused him to second guess his moves.

The lives of tens of millions in Russia might never be the same. Their quality of life and access to millions of pieces of technology will remain limited going forward. The country will need to either be self-sufficient or reliant on allies. Russia has a few allies but, it looks like China will be the big brother it needs to access technology. In terms of energy, metals, agricultural products, and many necessities, Russia might be the most self-sufficient country in the world. The lives of the people will just suffer (not in terms of power and food but in terms of a new iPhone or new Nike shoes).

We are not comparing the impact on Russians to that of the Ukrainian population. We just are highlighting a trend that will continue going forward.

The one thing to monitor, is if these sanctions remain in Russia, how low will Putin's approval become. People get accustomed to iPhones, Gucci belts, Nike shoes, and Big Macs. The invasion of Ukraine that

Putin sees as strength could be the beginning of the end for him in Russian politics (that's inferring Russian elections are clean and transparent).



Regardless these moves by Western governments and Western-based companies will push Russia even closer to China.

Even before Putin invaded Ukraine, China and Russia had been laying the groundwork for a union like no other.

DAILY COMMENT

## RUSSIA AND CHINA UNVEIL A PACT AGAINST AMERICA AND THE WEST

*In a sweeping long-term agreement, Vladimir Putin and Xi Jinping, the two most powerful autocrats, challenge the current political and military order.*



By Robin Wright  
February 7, 2022

Both China and Russia endorsed the other in territorial claims (pre-invasion), China and Taiwan, Russia and Ukraine.

A press release from Putin and Xi's meeting:

*The world's two most powerful autocrats unveiled a sweeping long-term agreement that also challenges the United States as a global power, NATO as a cornerstone of international security, and liberal democracy as a model for the world. "Friendship between the two States has no limits," they vowed in the communiqué, released after the two leaders met on the eve of the Beijing Winter Olympics. "There are no 'forbidden' areas of cooperation."*

China and Russia share a special bond. Both depend on the other in conducting trade, China needs raw materials and Russia needs consumer products. Russia will look to China to fill the void the west has left with its sanctions.

As opportune as anybody, China pounced on the cheap opportunities to invest in Russian energy firms. The Russian stock market crashing has created unique opportunities for investors. Russian energy producers are money-making machines and will not slow down production in favor of ESG. However, due to sanctions from governments, brokers, and banks, most of us in the west cannot invest in Russia going forward.

## China considers buying stakes in Russian energy, commodity firms

*Any deal would be to bolster China's imports as it intensifies its focus on energy and food security – not as a show of support for Russia's invasion in Ukraine, sources said*

It's not just now that we noticed the steep discounts in Russia (due to the crash), Russian equities have always traded at a steep discount due to the country's political uncertainty.

The uncertainty was not enough to deter some of the largest Western pensions and institutions away from Russian companies. Even with all Russia has done over the last 20 years, the BC Public Sector Pension Fund owned more than \$450 million in Russian companies (mostly large Russian banks and energy producers), California's Public Employees' Retirement System had over \$900 million in Russian assets, the New York State Teachers' Retirement System had over \$125 million in Russian equities, and the list continues. Regardless of how you feel, tens of millions of Westerners had exposure to Russia, and it's no secret why. They do one thing REALLY well and create little red tape for the industry, energy.

The least surprising thing involving China during this conflict is their willingness to play both sides.

The U.S. has warned China not to assist Russia with any military supplies and told them to publicly condemn Russia for its invasion of Ukraine.

While all of this is going on, the U.S. banned CCP linked passports from China. In a move to combat the country's genocide of a religious minority, the U.S. has banned hundreds of high level Chinese government workers.

March 21, 2022  
4:30 PM EDT  
Last Updated 17 hours ago

China

## U.S. to restrict visas of Chinese officials - Blinken

Reuters

1 minute read



Perhaps now is the time, both the Western population and the U.S. government are starting to understand China does not want to be our ally.

China has completely flipped global trade over the last 20 years.

## Trade Timelapse: USA vs. China Each Country's Biggest Trading Partner by Year (1980 vs. 2018)



The scariest chart in GEOPOLITICS.

The U.S. exports fewer products on a relative basis due to the evolution of its economy. Most of the globe is dependent on China for trade and would not cut China off. This might give China a free pass in the future (Taiwan). Countries rely on Chinese products, not American products. Even Australia trades more with China.

Either way, geopolitics will be a huge player in global markets going forward. Expect nationalism going forward, especially with commodities.

### History Repeats Itself

Regardless of your political leanings, it is important to follow political news in major countries across the world.

This week, Canada had a major announcement that will have massive ripples and will create numerous opportunities within Canada in the upcoming years.

CANADA

## Trudeau confirms Liberals, NDP governance deal until 2025



By **Amanda Connolly** · Global News

Posted March 22, 2022 6:34 am · Updated March 22, 2022 12:45 pm

The NDP agreed to push off any elections along with the Liberals for an entire election cycle.

Why did each party do this?



The Liberals overplayed their hand in the last election (not gaining a majority) and may lose seats and the majority in an election in 1-2 years. It seems this move is the best way for Trudeau to stay Prime Minister for a full 4-year term.

The NDP has recently struggled with funding and would find difficulty in funding a campaign only 1-2 years after a recent election. The NDP was also promised some of its crucial policies will be passed in the next 3 1/2 years. The NDP was promised progress on climate change, dental care, and pharma care.

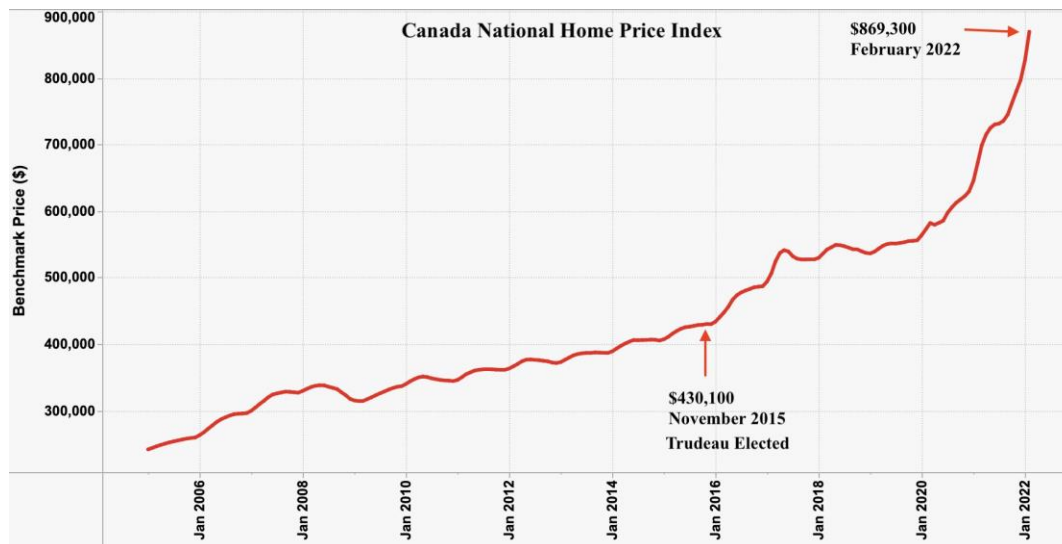
Regardless of how you feel about dental and pharma, it will be expensive, and taxation will probably marginally increase.

Looking at climate change.

It looks like we have 3 1/2 years of significant underinvestment in fossil fuels. It also looks like Canada will not be the solution to the Russian caused global supply drop. We have mentioned supply-demand gaps in the global energy market going forward, this event will not help that.

The other major area where a macro trend could continue in Canada is real estate.

Since Trudeau was elected in late 2015, the average home price in Canada has almost doubled. How much more will homes across the country appreciate with another 4 years with him as Prime Minister.



Canadian real estate might have another boom.

There are also other bullish signals which include inflation and the Liberal party walking back on a campaign promise.

On the road to the 2021 election, the Liberals had promised a foreign buyer freeze. The policy was promised as a response to the Conservatives who were making it a major issue. Home prices have arguably gone up the most in Canada due to foreign buyers.

Well fast forward a few months after the Liberals won the election and they voted down their promise.



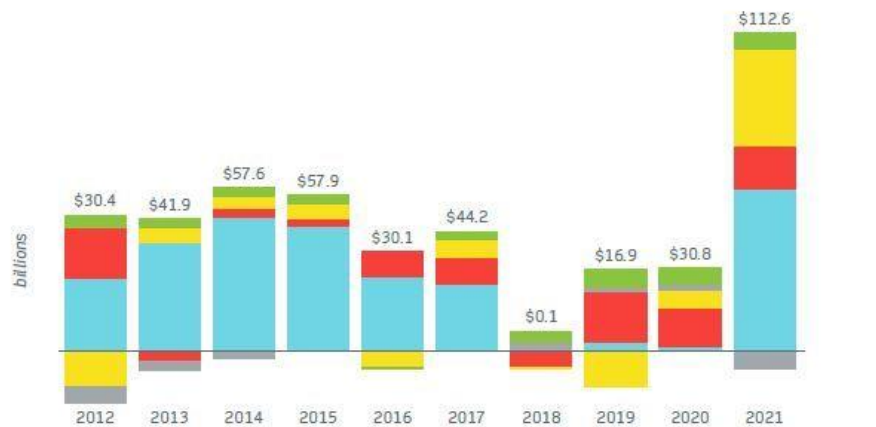
## Trudeau government votes down promised ban on foreign home buying

By Jonathan Bradley - March 2, 2022

What does this mean? More buyers with no major supply increase (unless something changes). The partnership looks like it got off to a rough start. On Tuesday night, the NDP brought a motion that would create a higher tax rate for energy companies creating a higher profit than the previous year. The NDP was hoping for Liberal support, the motion failed. In a time when energy prices are soaring why would you make it less attractive for oil companies to expand?

### Record Year in Canada

#### Mutual Fund Net Sales by Asset Class



**In 2021, balanced** funds brought in \$63 billion in net sales, representing 56% of total net sales, equity funds brought in \$37 billion, or 33% of total net sales, bond funds brought in \$14.4 billion or 13% of total net sales, and specialty funds<sup>1</sup> brought in \$5.8 billion, or 5% of total net sales.



Even with the late-year pull back, 2021 was a record year for mutual fund sales in Canada. 2021 sales were almost 4x 2020's. 2021 sales were almost higher than the two highest years combined over the last 10 years.

Market euphoria and FOMO (fear of missing out) are real in today's markets. Nobody wants to miss out on the melt-up but, is surprised during a correction. A lot of the investors who piled into these mutual funds did it as blind faith to their bank. While the banks make billions off of their basis points in fees, investors lose out on retirement savings.



Equity fund sales were larger than 2020's total sales value. Investors would benefit more from investing in ETFs when targeting general equity exposure. Numerous ETFs have much lower fees than mutual funds offered through Canadian banks.

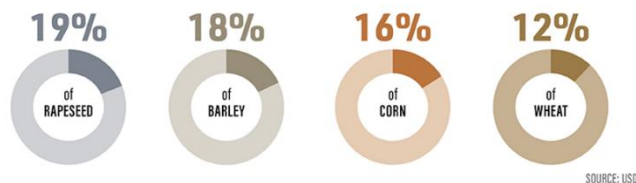
### **Arab Spring?\***

We have warned readers in the past 4 issues of [The Weekly Beacon](#) of the economic consequences of Russia invading Ukraine. The invasion has a massive human cost as the lives of tens of millions of people will never be the same.

Looking at Ukraine, Ukraine plays a critical role in global agricultural exports. Numerous countries across the Middle East, Asia, and Africa heavily rely on Ukrainian wheat, corn, sunflower oils, and other agricultural products.

## **GLOBAL EXPORTS**

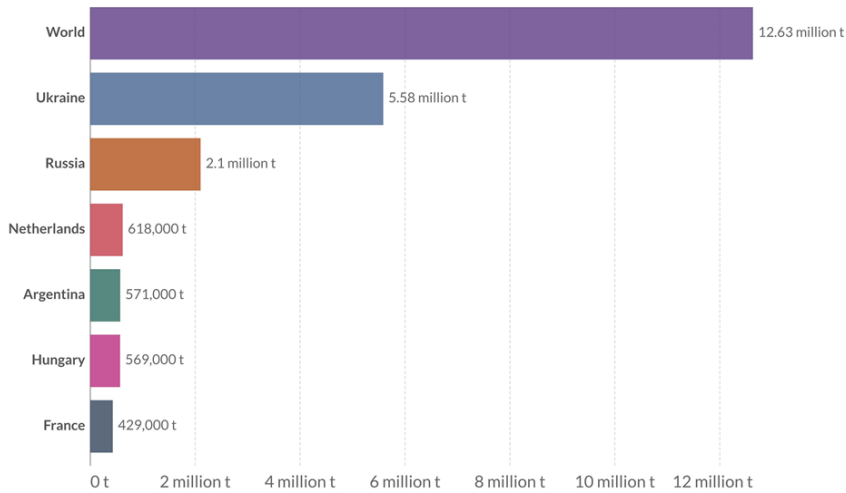
**This year, Ukraine is predicted to account for ...**





## Sunflower oil exports, 2018

The quantity that is exported in a given year.

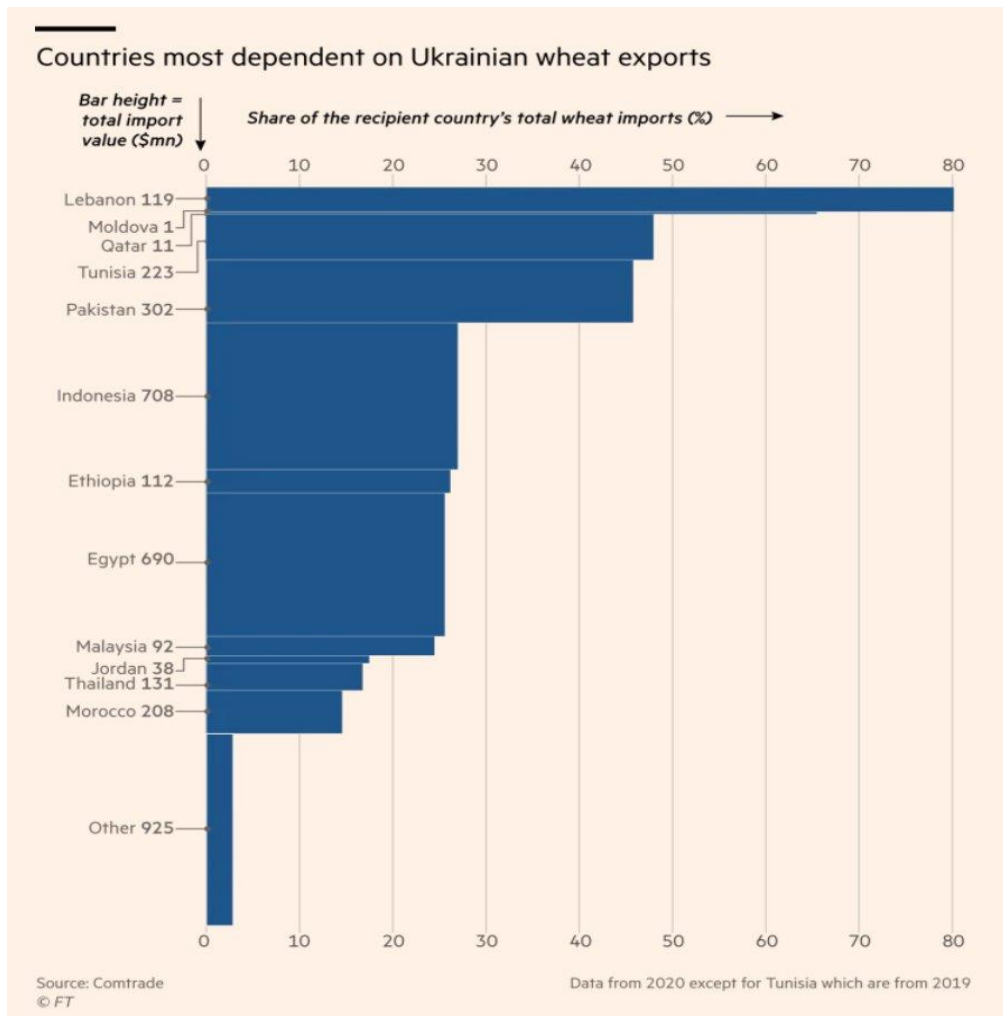


Source: UN Food and Agriculture Organization (FAO)

CC BY



With Russia invading Ukraine, and crops not being planted, these are nations that most heavily import Ukrainian wheat.

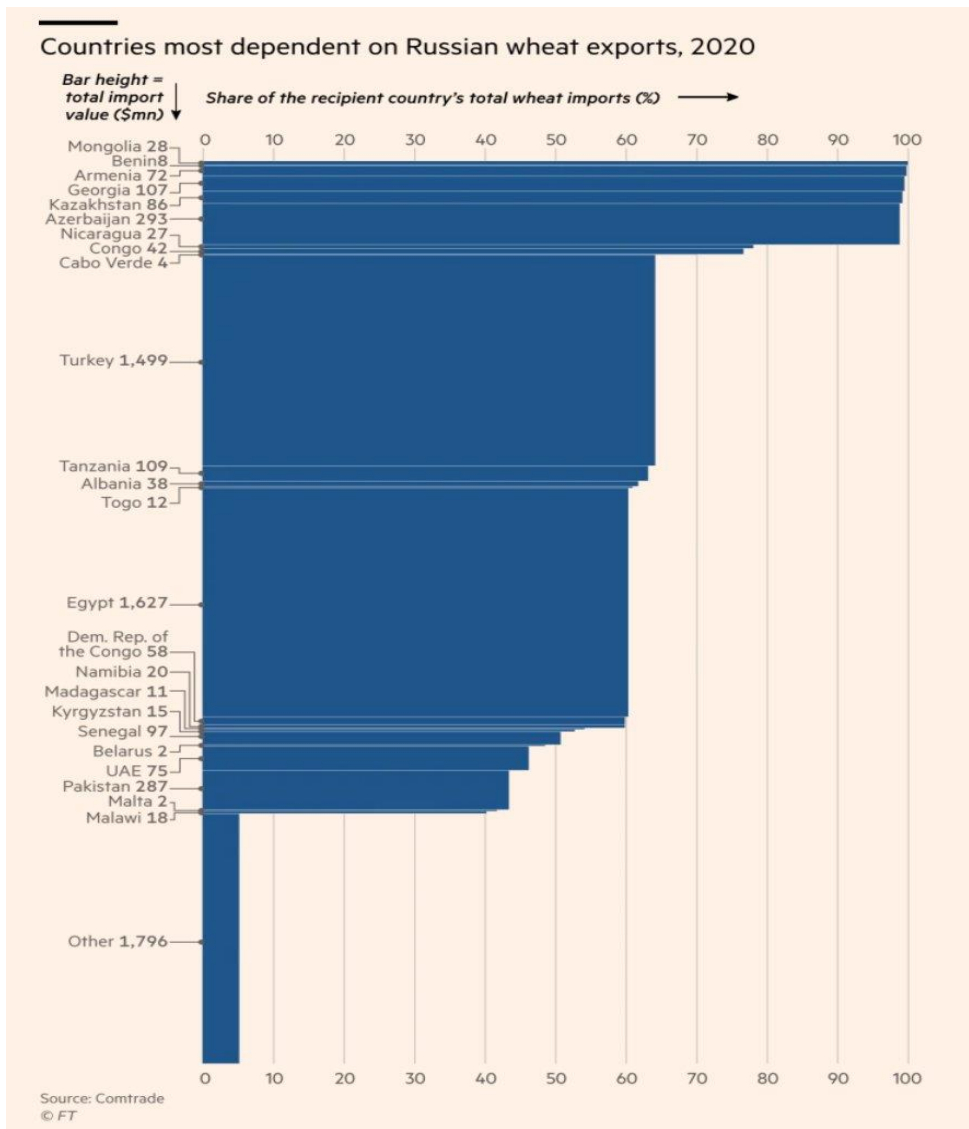


Looking past Ukraine, Russia also is a large agriculture exporter. Although Russia will not have as many issues planting crops, many countries may choose not to buy Russian products due to sanctions. Russia is also rumored to ban the export of numerous commodities which probably will include Russian agriculture.

Russia had a normal February and start to March in terms of agriculture sales but, the well looks like it's drying up. The country is creating very few new deals.

*"There are new contracts, but they are negligible compared to previous seasons," head of the Russian Union of Grain Exporters, Eduard Zernin.*

Here are the nation's most reliant on Russian wheat.



We have regularly warned of fuel shortages, power outages, and energy shortages. Energy is a necessity in the West but, is not readily available across the globe. Food is something that is a necessity across the world no matter what walk of life you live in.

With these disruptions to the global food market, there will be grave consequences.

Over here in the west, we will get food but, it will be more expensive. Wheat and grain futures are soaring and might continue that way. Fertilizer stocks might be the best way to play this trend.

In the Middle East and Africa where nations cannot afford price increases and are reliant on Ukraine and Russia imports, famine will occur. Shortages will increase poverty.

An Arab Spring is seriously on the table in the region.

MIDDLE EAST

## A new Arab Spring, thanks to the Ukraine war?

The price of bread is rising rapidly in the Middle East, thanks to concerns about wheat supply from Ukraine and Russia. In the past, such increases have led to violent protests and political upheaval.

What is an “Arab Spring”?

The Arab Spring\* occurred across the Middle East and Northern Africa from 2010-2012 when mass protests occurred. People were protesting socioeconomic issues. One of the major issues across the region: the lack of food and rising prices of food. International agencies estimated the protests resulted in 61,000 deaths.



Around 500 people protested in Iraq’s southern city of Nasiriyah a few days ago as flour suddenly rose in price by nearly a third. With food-related protests subsequently taking place in Albania and Sri Lanka, the ripple effects of the war are spreading.

The situation has also been exacerbated by neighboring Iran and Turkey, which according to Iraqi sources have restricted food exports to Iraq to prioritize their national stocks. Countries will begin to implement these export bans as shortages increase as they worry about their own first. The major downfall of rising food prices aside from the higher cost of living in the limited ways you can go long food prices. Get creative and look at complementary goods.

\*The Arab Spring (Arabic: الربيع العربي) was a series of anti-government protests, uprisings, and armed rebellions that spread across much of the Arab world in the early 2010’s. It began in response to corruption and economic stagnation and was first started in Tunisia.

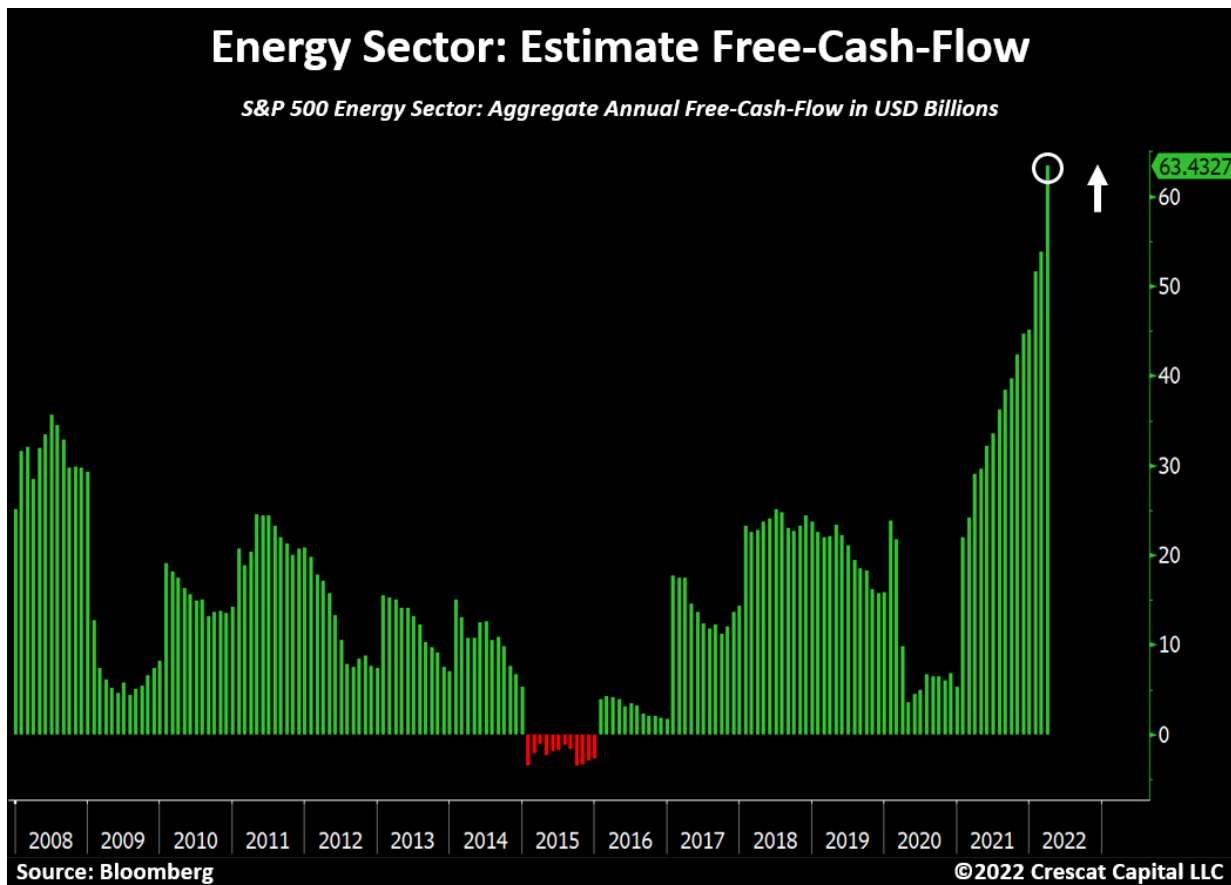
### **Energy Stocks: Still Undervalued**

Numerous energy stocks, both American and Canadian remain undervalued even with recent run-ups. Many are trading at historically low multiples and are creating record profits, cash flows, and revenue. These records are occurring almost every quarter.

Specifically looking at large-cap U.S. energy companies on the S&P 500, the sector is on track for another record quarter to start 2022.

As oil prices have remained elevated for the entire Q1 2022, April will be a good time for energy company earnings.

The most recent annual free cash flow for the energy sector on the S&P 500 is over \$60 billion. Only 21 of the 500 companies on the S&P 500 are energy companies.



Even though we are explaining this using the S&P 500 energy constituents, we believe the most value can be found elsewhere (size and country). We are simply using this as a large-scale example.

MarketWatch conducted a study that looked at multiples by industry of S&P 500 companies. Despite the run-up, energy remains the least expensive sector in the index, and it's not that close.



S&P 500 sector	Current forward P/E	5-year average forward P/E
Communication Services	18.27	20.17
Consumer Discretionary	28.74	28.46
Consumer Staples	20.67	19.71
Energy	11.71	8.32
Financials	14.23	13.28
Health Care	16.56	16.38
Industrials	19.98	19.37
Information Technology	23.83	21.23
Materials	15.70	17.47
Real Estate	21.43	19.63
Utilities	20.17	18.41
S&P 500 Index	<b>19.44</b>	<b>18.92</b>
Source: FactSet		

Why is energy the least expensive? ESG investors and funds who invest in hype companies and futuristic technology over cash flows.

The news and certain parts of Wall Street want you to pump their solar energy and battery stocks, so they can raise equity and debt at higher valuations. Even though the majority of energy comes from fossil fuels, people give oil and gas stocks the stink eye.

Run screeners to look for value. Some oil and gas companies are trading at prices that reflect \$75/bb of oil while we are approaching \$115/bb yet again.

### **More "News" in Fossil Fuels**

If you cannot tell, energy and commodities are one of the sectors that we follow the most. We believe there will be supply issues but, that it is a major indicator of the health of the overall economy.

This week we bring you a few charts:

Chicago will divest from fossil fuels.



## Chicago Council Bans City Investments in Oil and Gas Companies

By Shruti Date Singh

(Bloomberg) -- The Chicago City Council on Wednesday voted to ban city investments in coal, oil and gas companies in an effort to curb climate change.

The measure that passed was supported by Chicago Mayor Lori Lightfoot and Treasurer Melissa Conyears-Ervin, who manages investments for the city as well as its pension funds and oversees \$9 billion in assets. The city plans to create a list of companies that are coal, oil, and gas reserve owners, ranked by potential carbon emissions. The treasurer will not invest any city funds and will divest securities or other obligations of the companies on the list, according to the ordinance.

“The consequences of climate change stand to make Chicago a less desirable place to live and work, negatively affecting the fiscal and social health of the city,” according to the ordinance.

Looks like Chicago may have emergency energy shortages in the coming winters.

On the same day, ING made a big announcement regarding traditional energy companies.

March 23, 2022  
5:44 AM EDT  
Last Updated 5 hours ago

Sustainable Business

## EXCLUSIVE Dutch bank ING ends financing for new oil and gas projects

By Simon Jessop and Toby Sterling

When will politicians learn their lesson? When will banks realize this is a horrible strategy? Perhaps when it is too late.

These two instances followed a Monday announcement from the SEC.

March 21, 2022  
8:17 AM EDT  
Last Updated an hour ago

Securities Enforcement

Environment

## U.S. SEC set to unveil landmark climate change disclosure rule

By Katanga Johnson

The SEC will now help tackle climate change. The SEC may want to change its website that reads:

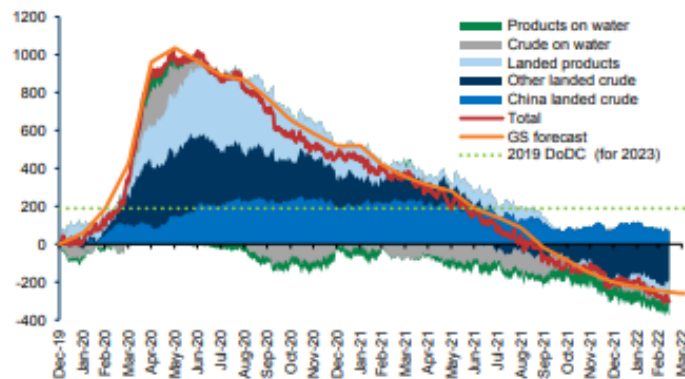
*“The primary purpose of the SEC is to enforce the law against market manipulation.”*

The climate activists were out in full force this week.

Goldman Sachs released the most important data piece by a bank. Oil stockpiles are even lower than they had projected. The supply is weakening and we have not even yet realized the loss of Russian oil in the global market.

**Exhibit 12: The deficit is unresolved with stocks falling recently even faster than our expectations**

Global high frequency inventory tracking vs Dec-19 vs implied by GS supply-demand balances (mb)



Source: Kpler, IEA, JODI, EIA, PAJ, PJK ARA, Oilchem, Fujairah, IE Singapore, Goldman Sachs Global Investment Research

After the recent release of the U.S. Strategic Petroleum Reserves to curb oil prices (which did not work), oil reserves are at the lowest level since 2002.

Those reserves will eventually be filled back up and probably at a much higher price.





The biggest story in politics is climate change. The largest problem we will face in the future is energy shortages.

**MacNicol & Associates Asset Management Inc.**

**March 25, 2022**