MARCH 4, 2022 MONTHLY

Global Investment Letter

Notable Inside This Issue:

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A MONTH OF REAL AND POTENTIAL TURNING POINTS

We have written since the start of the publication of the Global Investment Letter of our expectation that the 2020s will prove to be a challenging decade for investors, given the multitude of available economic and geopolitical catalysts for volatility.

The decade has scarcely begun, and the world has already experienced a global pandemic that has caused millions of deaths. Now we are witnessing the first major war in Europe since WW2 with the unprovoked invasion of Ukraine by Russia. Both events will have long-lasting consequences, some of which can be anticipated and some not. The law of unintended consequences is at work everywhere and at all times.

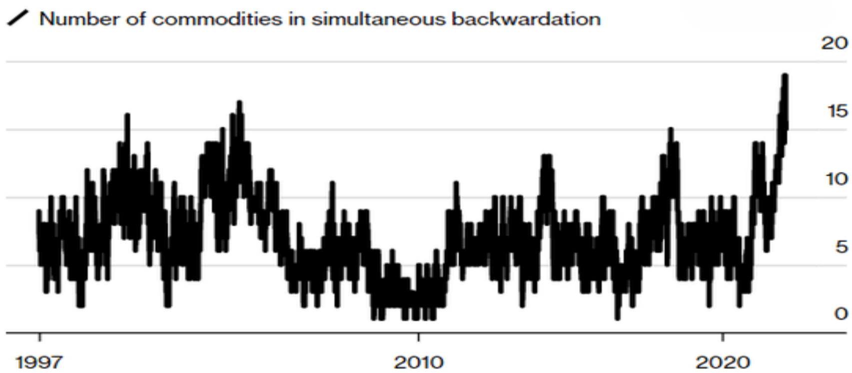
With the threat from COVID receding (at least temporarily), the war in Ukraine now occupies centre stage for its capacity to wreak havoc on lives and the global economy. It has certainly influenced the contents of this month's issue, contributing to a series of transactions, both sales and purchases, affecting our investment portfolio. These developments are described in detail in this issue.

We're pleased that our investment positioning has performed so well thus far in 2022, but that pleasure is diminished by the circumstances in Ukraine.

From an economic standpoint, the immediate effect of the war in Ukraine will be upward price pressure on oil and commodities in general. This effect is reflected in the following chart.

Shortages Everywhere

Signs of tight supply abound in energy, agriculture and metals markets



Source: Exchange data, Bloomberg
Note: Tracks 1st- to 2nd-month spreads in 28 major exchange-traded commodities markets

The number of commodity futures markets in backwardation (near-term prices higher than long-term) is the highest it has been in many years and is usually seen at this level only in times of war. Prices in futures markets normally rise with more distant contract dates to reflect the time value of money. Backwardation occurs when supply/demand is especially tight and usually indicates higher prices until the reason(s) that produced the market tightness are corrected.

The war's effect on commodity prices (especially oil) will boost and extend inflationary pressures that began with COVID-induced supply disruptions. Central banks have announced their intentions to implement a regime of aggressive interest rate increases, but we question the ultimate effectiveness of this strategy. Rising interest rates have historically been an antidote to demand-fueled inflation, while our current inflation experience is derived from supply issues. We elaborate on the prospects for interest rate increases in our commentary on 10-year Treasury Notes.

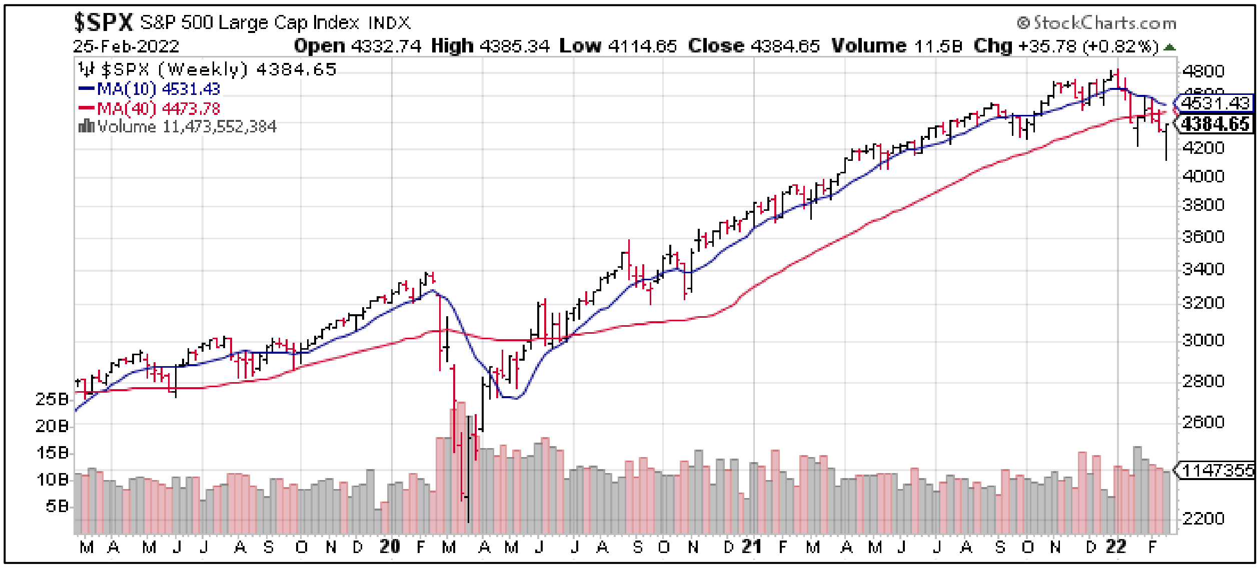
The Russian invasion of Ukraine has geopolitical consequences that are not confined to Europe. China is surely watching the West's response to Russia's actions in calculating their eventual invasion of Taiwan. The perception of weakness by the West, especially the United States, will embolden the Chinese to take what they view as a renegade province, but what the Taiwanese view as a democratic nation. It is noteworthy that China voted to abstain from condemning the Russian invasion in the United Nations. A near-term move on Taiwan is not likely, but the probability is higher than is being reflected by markets.

The sanctions exacted to punish Russia's actions will likely serve to drive Russia closer to China, which itself is experiencing issues with the democratic world. The geopolitical scene is evolving into a world polarized along authoritarian and democratic lines. The emergence of authoritarian sentiment expressed through "populist" parties in Western nations is a concerning development and adds to the potential for geopolitical volatility.

To state the obvious, we live in an unusually fraught economic and geopolitical time. Investors must be prepared for volatility, which is why we advocate the use of protective sell prices on positions to control risk. We also remain convinced that the expected volatility will present great opportunities for the attentive investor.

EQUITIES COMMENT

S&P 500 (WEEKLY)

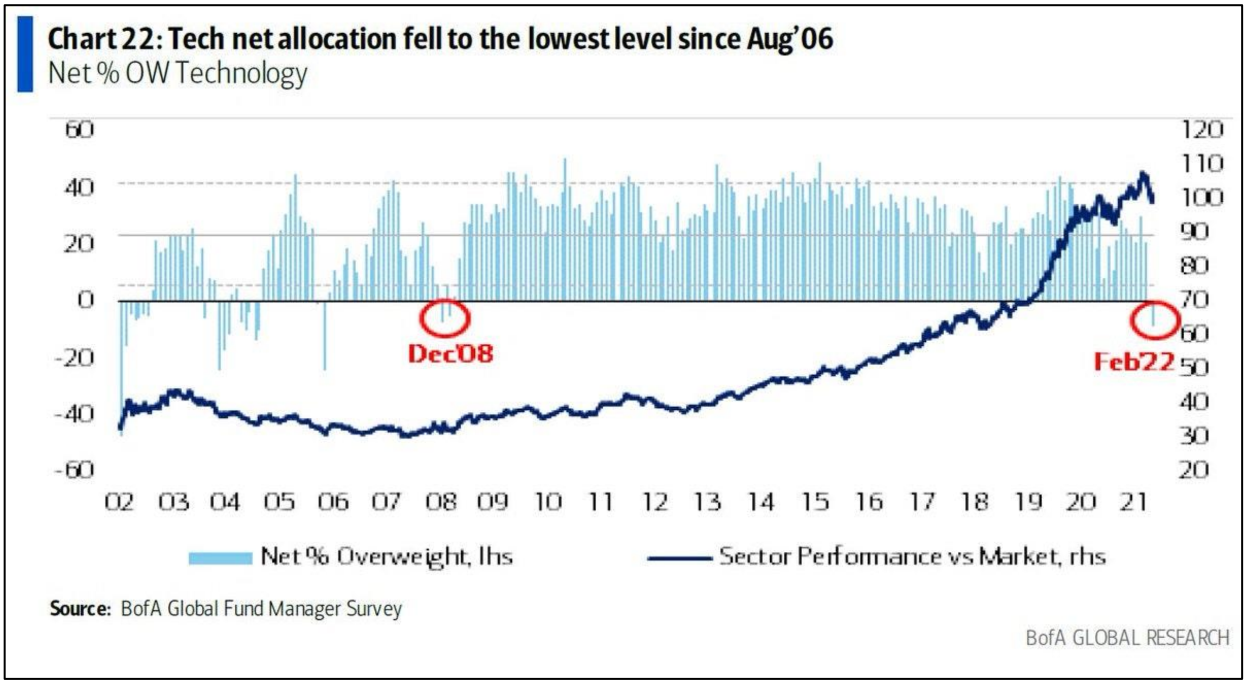


The January sell-off triggered our protective sell price at 4500, with the S&P 500 ending February 115 points below our sell price. We realized a gain of over 26% on the position that we established with the November 2020 breakout.

The S&P 500 is presenting an unusually difficult trading problem. On the one hand, the macro environment could scarcely be more dire with the eruption of the first ground war in Europe since WW2, a lingering pandemic, a resurgence of inflation and announcements by central banks of interest rate increases. One can add the elevated valuation levels of stock markets to this host of negative influences to produce a decidedly negative scenario for stocks.

Yet, while the S&P 500 has weakened since the start of 2022, it has also posted a couple of sharp weekly reversal bars (the latest to end February) that we have found to be useful bullish indicators. These rallies in such a bearish environment are noteworthy; as we are fond of saying, ”bullish behaviour in a bearish environment is very bullish indeed.”

To help weigh the prospects for the S&P 500 given these conflicting indicators, we present a series of charts starting on the following page.



Tech stocks have been the major driver of the S&P 500 bull market in recent years, with the FAANGs plus Microsoft comprising about a 30% weighting of the Index and contributing more than half of its performance over the past few years.

We have written previously of the dangers inherent in such market concentration represented by so few stocks. A change in sentiment towards these market leaders could produce significant market volatility and initiate a significant correction/bear market.

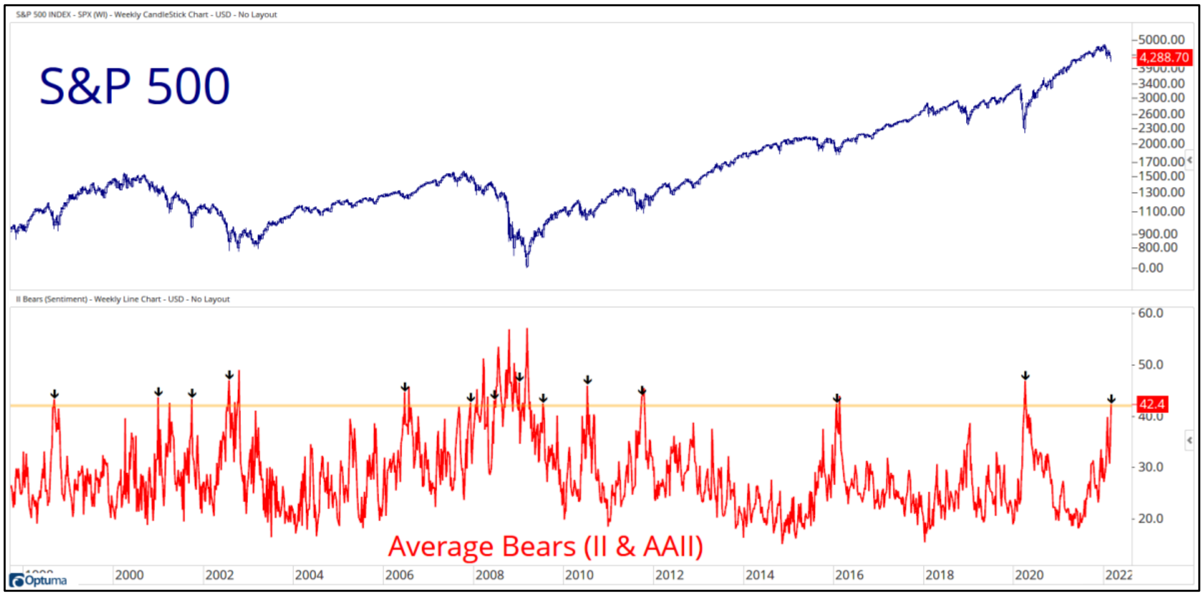
That change in sentiment may be at hand, as the chart above illustrates. Capital flows (to which we attach great importance) into the tech sector began to diminish in 2021 compared to previous years and turned negative in February. The collapse in the price of Facebook is a conspicuous indication of this trend, though none of the FAANG plus Microsoft charts looks especially bullish.

Bull markets have historically ended when the market leaders begin to falter. The weakening of capital flows into tech may be signalling a secular trend change.

It is axiomatic that sentiment and earnings drive stock markets. The previous chart depicted a wavering of sentiment toward the tech sector, while the chart above indicates a distinct sobering of expectations for earnings growth that has been a feature of the market rise of recent years.

The process of negative earnings revisions depicted in the chart has often coincided with a change in investor sentiment as analyst expectations grow more realistic. Thus, the chart above has decidedly bearish implications.

The final chart on the next page offers something of a counterpoint to the gloomy outlook portrayed by the previous charts.



The chart above demonstrates that the weakness of the S&P 500 this year has had a significant impact on investors, with bearish sentiment in early 2022 rising to the highest level since 2016 and approaching that of March 2020.

Extremes of sentiment, either bearish or bullish, often represent opportunities to take positions opposite to consensus thought. The spike in bearish sentiment, though not at the levels seen in March 2020 or during the Financial Crisis of 2008, still suggests at least a short-term halt to market weakness. The recent extremes of negative sentiment likely coincided with the weekly reversal bars in 2022 that we spoke of earlier.

So, what to do? The number of available catalysts for continued volatility argues against taking significant positions in the S&P 500 at this time. However, the presence of bullish price action in late February elevated bearish sentiment, and that together with the probability of foreign capital flows moving into US dollar-denominated assets, prompted us to establish a small TRADING position in the S&P 500 at 4375, with a protective sell price set at 4190.

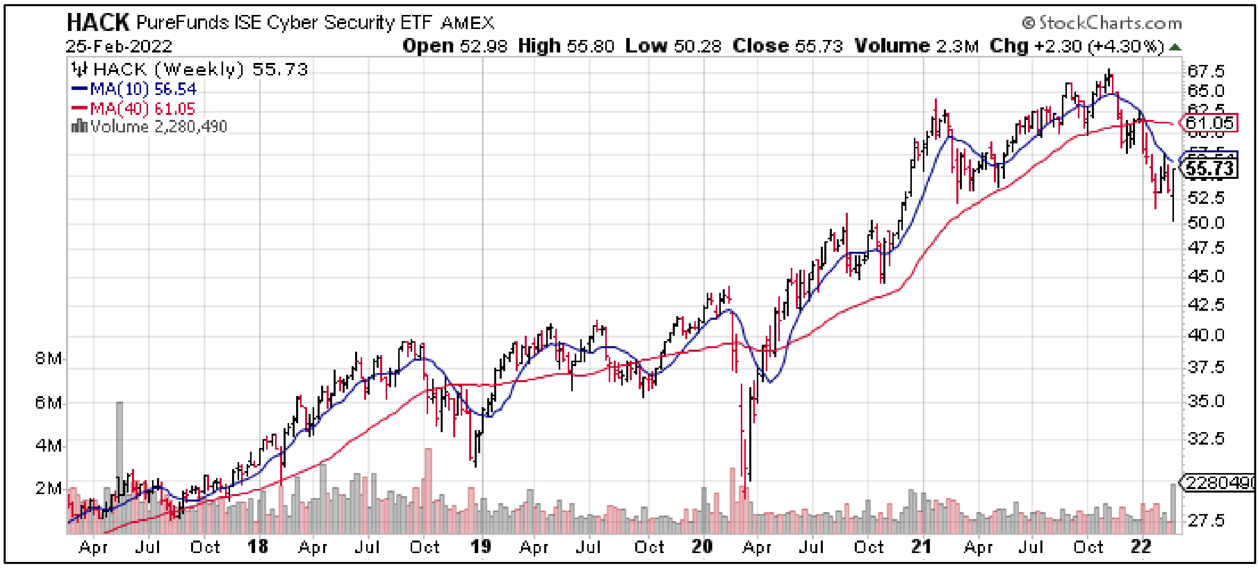
We established this position while "holding our nose." We are mindful of the old trading maxim that the best opportunities are often the hardest to take. This is certainly the case here.

We remind readers that our position is SMALL and is unlikely to be of long duration. We will be increasingly inclined to take profits as the S&P 500 nears its price high. Our small position size and tight sell price target (circa 4% below our purchase price) mean our loss will be small should the trade fail.

A move below 4190 by the S&P 500 would be very bearish and would raise the probability of a major market decline.

CYBERSECURITY TRADE

CYBER SECURITY ETF (HACK) (WEEKLY)



The already significant threat of cyber attacks has been escalated by the war in Ukraine, as Russia can be expected to ramp up its malicious cyber activity in retaliation for the punitive sanctions imposed by Western nations.

Our chosen vehicle to participate in this sector is the PurFunds Cyber Security ETF (HACK), which provides diversified exposure to the industry.

We established our position at $55.50, prompted by technically bullish price action in late February.

Our initial protective sell price is set at $50.

HEALTH CARE TRADE

HEALTH CARE SPDR ETF (XLV) (WEEKLY)

Our sale in January of XLV at 134 locked in a return of a little over 25% since its purchase at 107 in November 2020. It is now trading below that level, closing February at 130.95.

The health care sector remains a key long-term focus of interest for us, and we will be looking to initiate a new position when the risk/reward proposition for purchasing XLV is attractive. The fundamental factors favouring the health care sector, ageing populations in developed nations and rapidly evolving medical technology, will be powerful drivers of revenue growth.

The negative price action that caused us to close our position in January remains concerning. The 125 level remains a key level of support that, if breached, would suggest much lower prices.

A move to new highs by XLV would be a bullish indication and prompt us to re-establish a position.

FTSE 100 (DAILY)

The London FTSE 100 continues to trade very close to major technical resistance at circa 7700, with the 200-day moving average acting as price support over the past year.

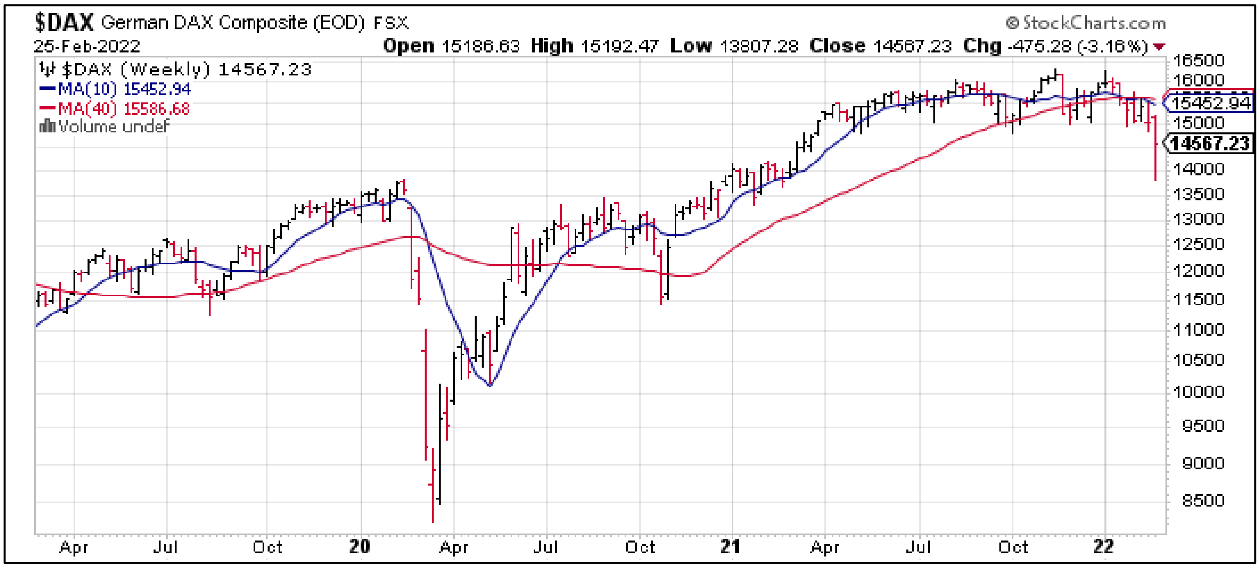
The FTSE has performed relatively better than other major European exchanges of late, but we still harbour reservations.

Experience has taught that purchasing positions close to major technical resistance represent a poor risk/reward proposition because such resistance often serves as barriers that can halt and reverse rallies.

In addition, our concerns about the negative effects of Brexit on the British economy remain.

We do not believe that the FTSE represents a compelling opportunity at current levels.

DAX INDEX (WEEKLY)



Our protective sell price set at 14900 was triggered in February, and thus we duly closed our position, which produced a 4.6% profit since it was established last spring.

We commented in previous issues that a break below 14900 would be technically very bearish and suggest much lower prices. This negative development has been exacerbated by the Ukraine war, which has potentially extra ramifications for Germany in that it depends on Russian natural gas for about 40% of its energy requirements.

Now that we have exited our DAX position, we will exercise patience in waiting for a new purchase opportunity to eventually appear.

CAC 40 (WEEKLY)

The Paris CAC 40 declined sharply to below 6500 in February before rallying sharply at month-end.

The steep intra-month decline was sufficient to trigger our protective sell price at 6700. Our CAC 40 position generated a return of 8.5% since it was purchased last spring.

Notwithstanding the late February rebound, the price action of the CAC 40 has been worrisome of late, and given the uncertainties generated by the Ukraine war and other factors, we are happy to exit this market with a reasonable, if unexciting, profit.

Having exited our position, we await another opportunity in due course.

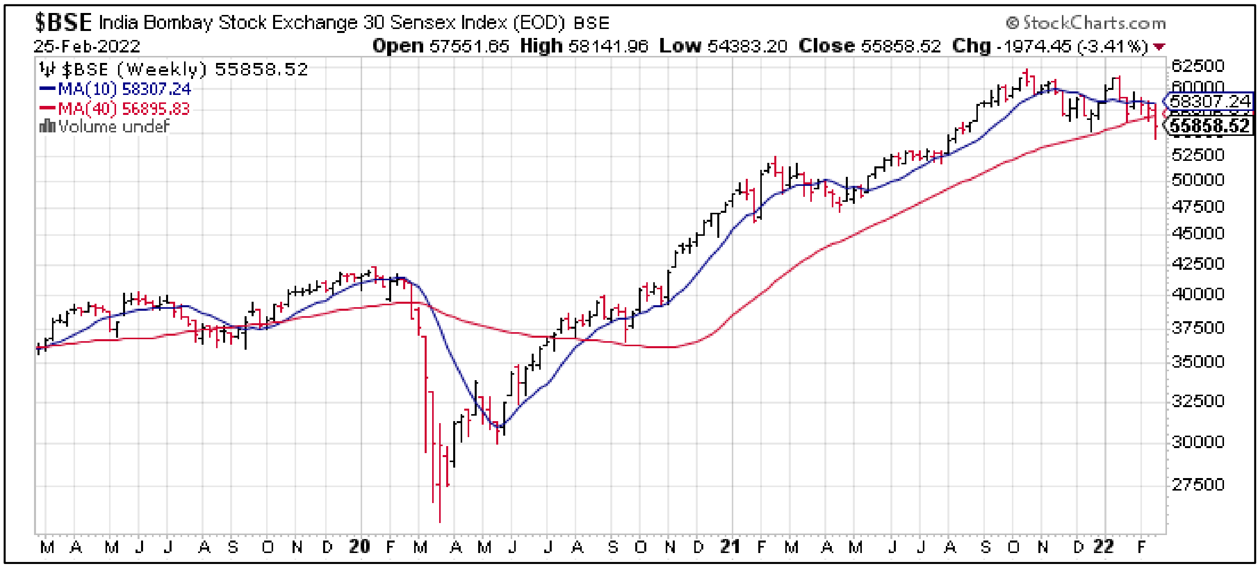
NIKKEI INDEX (WEEKLY)

The decision in January to lock in our 12.5% profit on our Nikkei position continued to be justified by a further decline in February. As we commented in the last issue, the fall through our protective sell price of 27000 in January was especially significant given that it had acted as a reliable level of price support on several previous occasions. Experience has taught that such penetrations of important support levels often produce significant downside risk.

We remain bearish on the prospects for the Nikkei. The prospect of continued upward price pressure on commodities, especially oil, will present challenges for the Japanese economy, given Japan's reliance on commodity imports. The economic challenges, combined with the technical damage done to the Nikkei, suggest this market should be treated with caution.

We will stand aside from the Nikkei until an attractive buying opportunity is presented.

SENSEX (WEEKLY)



The Indian Sensex Index has produced a couple of very profitable trades for readers of the Global Investment Letter in recent years, and India remains our favourite long-term emerging market.

However, we have been on the sidelines of the Sensex in recent months as this market's price action deteriorated sharply, suggesting lower prices ahead. Our concerns proved valid in February as the Sensex declined over 2% and, perhaps more importantly, ended February trading below its long-term 40-week moving average, which has bearish implications.

We're sure that we will eventually be a buyer of Indian equities again, but the current behaviour of global markets in general, and the Sensex in particular, will keep us on the sidelines until a compelling risk/reward purchase opportunity is presented.

EMERGING MARKETS ETF (EEM) (WEEKLY)

Our proxy for emerging markets, the EEM ETF, was essentially unchanged in February, which proved to be a relatively strong performance given the state of global equity markets.

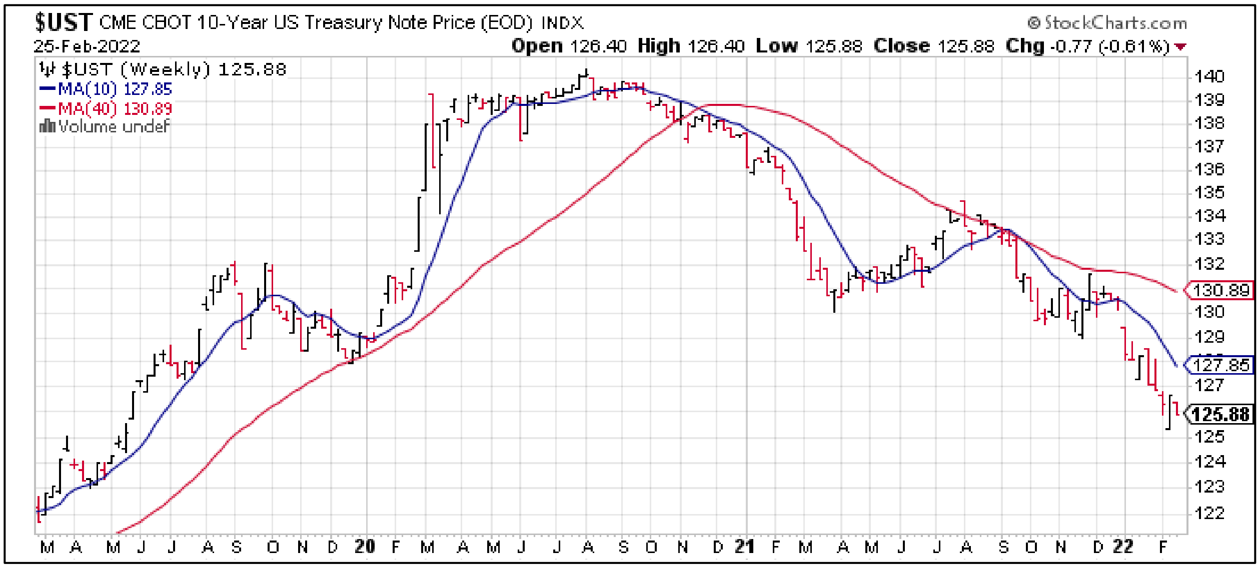
The current strength of commodity prices has likely supported emerging markets, as their economies typically rely more on commodity sales than more developed nations. Offsetting this positive factor is the likelihood of further US dollar strength (which typically is negatively correlated with emerging markets) and the poor technical picture for EEM (trading below both its 10 and 40-week moving averages).

We believe that emerging markets will eventually produce very attractive investment opportunities, and we are monitoring individual markets in addition to EEM.

However, we will continue to remain on the sidelines with this sector until an attractive risk/reward purchase candidate is identified.

FIXED INCOME COMMENT

10-YEAR US TREASURY NOTE (WEEKLY)



Our proxy for bond markets, the 10-year Treasury Note, declined an additional 1% in February from the prior month. That its decline continues can hardly be a surprise to anyone, given the ongoing hawkish rhetoric coming from the Federal Reserve and the boost to existing inflationary pressures provided by the war in Ukraine.

The technical picture for the 10-year Note remains very bearish, with circa 122 being the next downside target.

We believe that consensus opinion is anticipating more interest rate increases than will transpire. The fragility of the global economy, exacerbated by the effects of the Ukraine war, will likely produce a recession well before the full number of expected rate increases are made.

Evidence of recession will eventually cause central banks to halt and then reverse their interest rate increases, which will likely represent the next major buying opportunity in Treasury Notes.

Until that time, we will continue to avoid debt markets.

CURRENCY COMMENT

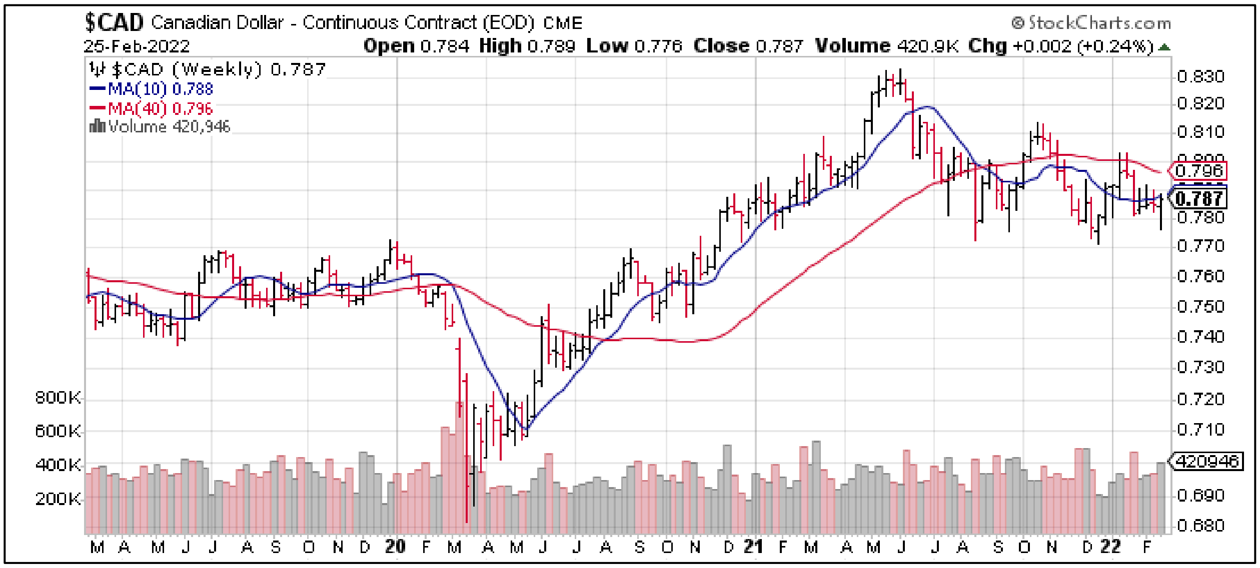
US DOLLAR INDEX (DXY) (WEEKLY)

The US Dollar Index fell slightly in February, compared to January, but its increase late in the month in response to the escalation of the crisis in Ukraine reminded us of the dollar's enduring role as a safe haven in times of danger.

We expect that foreign capital flows will continue to support the dollar.

In times such as these, there is no attractive currency alternative to US dollars.

CAD/USD (WEEKLY)



The Canadian dollar rose modestly in February versus its American counterpart, with higher energy prices being the likely driver of the Canadian dollar's relative strength.

Though the announcement by Western nations that they will release some 60 million barrels of oil from their strategic reserves may serve to moderate price increases, upward pressure will continue as long as geopolitical tensions remain elevated.

As the Canadian dollar is most highly correlated with changes in the price of oil, our expectation of continued pressure on energy prices suggests further upside potential for the Canadian dollar.

EUR/USD (WEEKLY)

The euro rose against the US dollar in February, after closing down sharply in January.

The fundamental and technical picture of the euro remains decidedly bearish, causing us to maintain our long-held negative view of the currency.

The eruption of the largest war in Europe since WW2 on its eastern border is but the most conspicuous of a host of geopolitical challenges confronting the Eurozone now and in the years ahead. The Eurozone's economic issues remain considerable, not the least being mediocre growth and high levels of indebtedness.

These factors will continue to weigh on the euro, as will its negative interest rate differential with the US dollar. From a technical standpoint, the breakdown in January was very bearish and suggests a target price of 1.07-08 before it encounters substantial price support.

In sum, we still see little reason to be bullish on the euro.

POUND/USD (WEEKLY)

We wrote in the last issue," The Bank of England has announced its second rate increase, which we believe will likely produce a short-term strengthening of the pound, much as the December increase did. However, we think the positive effect on the pound will be temporary and will end at the 40-week moving average…".

So things transpired, with the 40-week moving average acting as resistance to the rally before weakness by the pound resumed late in the month. Such behaviour is typical of a market in a secular downtrend.

We expect further weakness by the pound against the US dollar.

YEN/USD (WEEKLY)

The yen weakened slightly in February from the month previous, continuing a trend that began in early 2021.

We continue to view the path of least resistance as being a weaker yen versus the US dollar, with the circa 116 level constituting an important resistance level to further yen weakness. A move through circa 116 would suggest an acceleration of the trend to a lower yen.

While a weaker yen is painful to Japan in that it makes commodity imports more expensive, the Japanese economy's reliance on exports to the United States makes a weaker yen desirable to the Bank of Japan.

YUAN/USD (DAILY)

The strength of the yuan frankly continues to surprise, especially considering the general strength of the US dollar and the troubled relations between China and the United States.

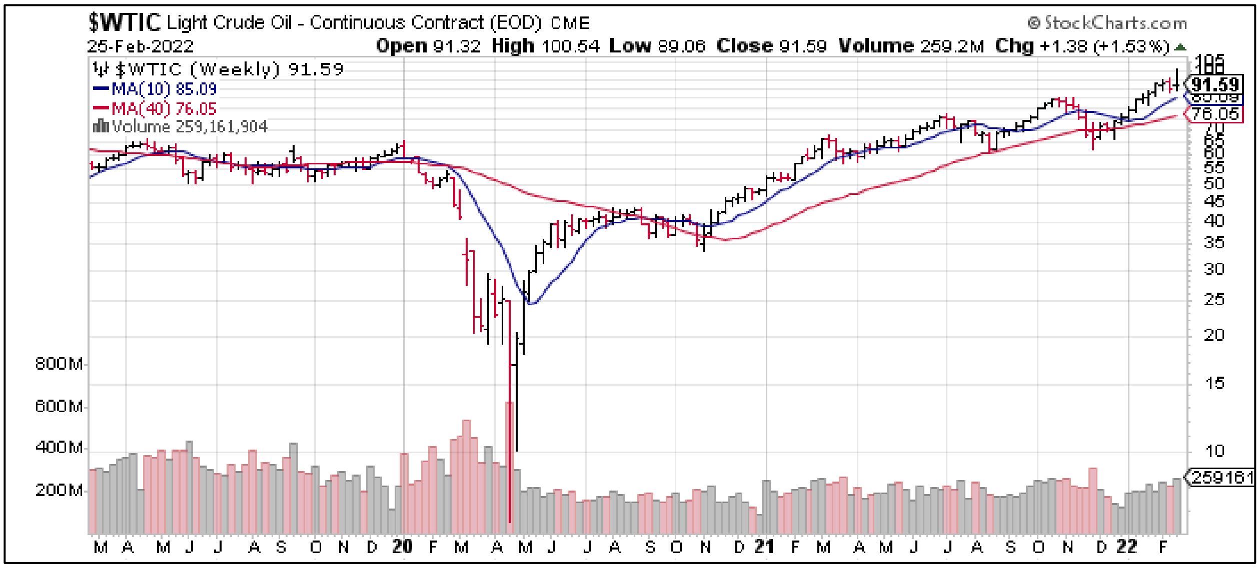
The Chinese may be maintaining a strong yuan to offset the effects of rising commodity prices, which are denominated in dollars.

We continue to believe that a weaker yuan will transpire in time, as that appears to us to be in China's long-term interest. An eventual weakening of the yuan may coincide with the easing of inflationary pressures on commodity prices.

The yuan is the most difficult currency to forecast, given its non-convertibility and the unusually large role the Chinese government plays in setting its price.

OIL COMMENT

CRUDE OIL (WTI) (WEEKLY)



Oil rose over 6% in February, confirming our comments in the previous issue, where we stated, “We believe the strength of oil in January suggests that the market considers the probability of a geopolitically driven spike in oil as being greater than the potential negative factors we discussed above. There is a chance that we could see a sharp spike in the price of oil, depending on Russian actions in the next month.”

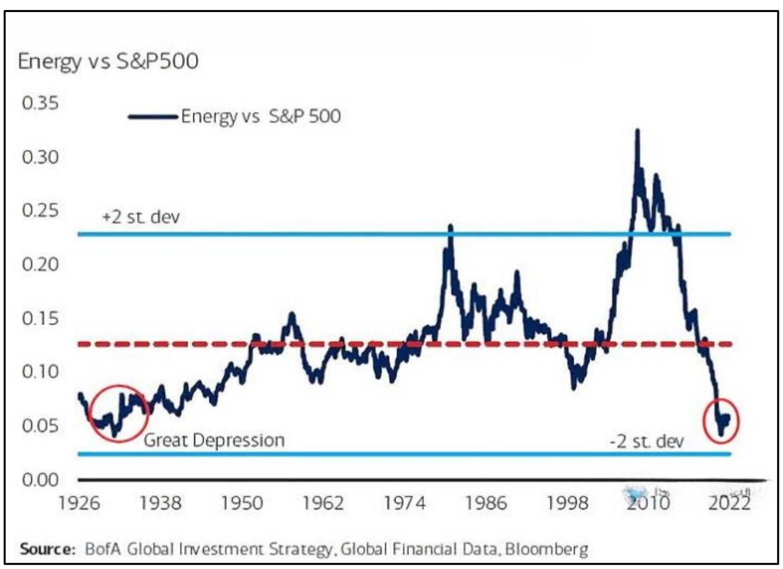
The prospect of a greater spike in energy prices remains possible given the uncertainty of events stemming from the Ukraine war. Major pipelines may be damaged or the Russians may decide to reduce or eliminate their supply of natural gas to Europe. Given the irrational behaviour of Putin, any event must be considered possible.

Geopolitical factors currently dominate the pricing environment for oil, making a detailed discussion of supply/demand this month moot. What is certain is that volatility in the oil market will persist until there is a resolution of the Ukraine crisis.

Our latest position in the XLE energy ETF, initiated in January at $58.50, has produced a return of 17.7% through the end of February.

The swift return has been gratifying (and confirms the value in buying breakouts above key chart levels). We will maintain our position, raising our protective sell price to $59.75 from $58.50.

Indeed, there is no compelling reason not to be bullish on oil equities at this juncture. The chart below illustrates that the performance of energy shares versus the S&P 500 recently fell to Depression-era lows, suggesting the potential for significant appreciation with a return to historic norms.



DEFENCE SECTOR COMMENT

US AEROSPACE & DEFENCE ETF (ITA)(WEEKLY)

The defence sector has long been a core investment theme that delivered very good returns until we closed our long-held position just before the March 2020 market crash. We have not re-established a position since then because of the relative underperformance of our proxy for the defence industry, the ITA ETF, compared to the S&P 500.

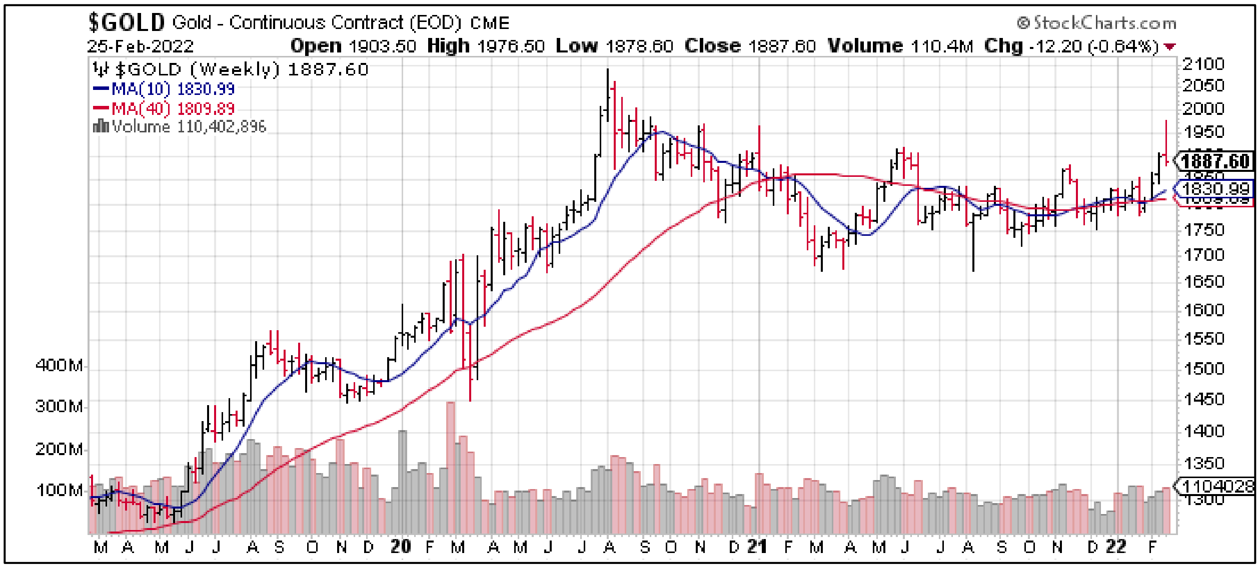
The deteriorating geopolitical scene took a decided turn for the worse recently with the unprovoked invasion of Ukraine by Russia. One of the outcomes of this war will be a long-term increase in defence expenditures by NATO nations, with Canada and the European members posting the biggest percentage increases.

Though we have not been compelled to initiate a purchase of ITA since March 2020, it has been constructing a positive chart pattern since last summer.

We will re-establish a position in ITA should it trade above its price high of last summer of circa 112. A move through 112 would be bullish and suggest higher prices, though the ultimate returns generated by ITA will be highly dependent on the performance of the broad market indices. We do believe that the Ukraine war makes the relative outperformance of defence stocks versus the S&P 500 increasingly likely.

GOLD COMMENTARY

GOLD (WEEKLY)



Gold jumped over 5.5% in February, increasing the return on our position established at $1700 last August to 11%.

Gold's recent price behaviour appears to be confirming our view that its price responds much more to perceptions of risk (in this case geopolitical) than as a hedge against inflationary pressures or monetary growth. The price response by gold to risk has recently been seen not only in February but also in the early months of the COVID pandemic in 2020.

Of concern is gold's price action in late February, when it reversed sharply after approaching technical price resistance at the circa $1975 level. Such a sharp weekly reversal often produces continued price weakness, but these bearish tendencies may be mitigated by concerns about the war in Europe and its wider implications.

We are maintaining our position in gold, though we are raising our protective sell price to $1750 from $1700, which will assure us of at least a small profit in the event of a price retracement.

The chart of the Gold & Silver Index (XAU) currently displays clearly defined technical support and resistance levels that can act as an aid for those interested in precious metals stocks. Substantial price support exists at circa 118. A move by XAU below that level should be viewed as very bearish price action.

Conversely, there is significant price resistance at the circa 165 level, which could act as a reversal point for a rally. A move by XAU through the price barrier at circa 165 would be very bullish and suggestive of further strength.

As long-time readers know, we tend to restrict our activities in gold to bullion. If we were to contemplate purchasing precious metals equities, we would wait for a breakout by XAU above resistance at 165. In the case of individual gold or silver stocks, we continue to advocate avoiding companies with operations in politically unstable jurisdictions.

Silver climbed sharply in February to rise above the price ($23) at which we established our long position in our January issue.

We are maintaining our silver position and will leave our protective sell price at $21.80.

ABOUT THE EDITOR

The Editor and Publisher of the Global Investment Letter is Jonathan Baird CFA. Prior to founding the Global Investment Letter, Jonathan spent more than 25 years as an award winning money manager in Canada, most recently winning a Lipper Award in 2010 for managing the #1 Global Equity Fund in Canada. Jonathan managed several #1 ranked funds over the course of his career as a money manager, investing in all major industries, asset classes and markets. Along with his interest in the world of investment, Jonathan has been a lifelong student of history and uses the lessons of history to help interpret and provide context to current events. Jonathan no longer invests money for others, managing only his own account. The Global Investment Letter represents his personal thoughts and opinions.

Jonathan well understands the difficulty of the investment process, and the essential role that quality information and opinion play in successful investing. Each monthly issue will contain comments on major markets, economics, geopolitics as well as investment ideas. There may also be discussion of investment philosophy or practices and reviews of books deemed of potential interest to readers.