



WEEKEND READING

Shedding the light on what's happening - our world - our finances - our times

Facing Tragedy

It's been a tough week. Ukraine is bleeding. Unfortunately, it's not a surprise. Over the past few months Russia has openly amassed over 190,000 troops and material along three Ukraine borders. Even from Duncan an invasion looked likely.

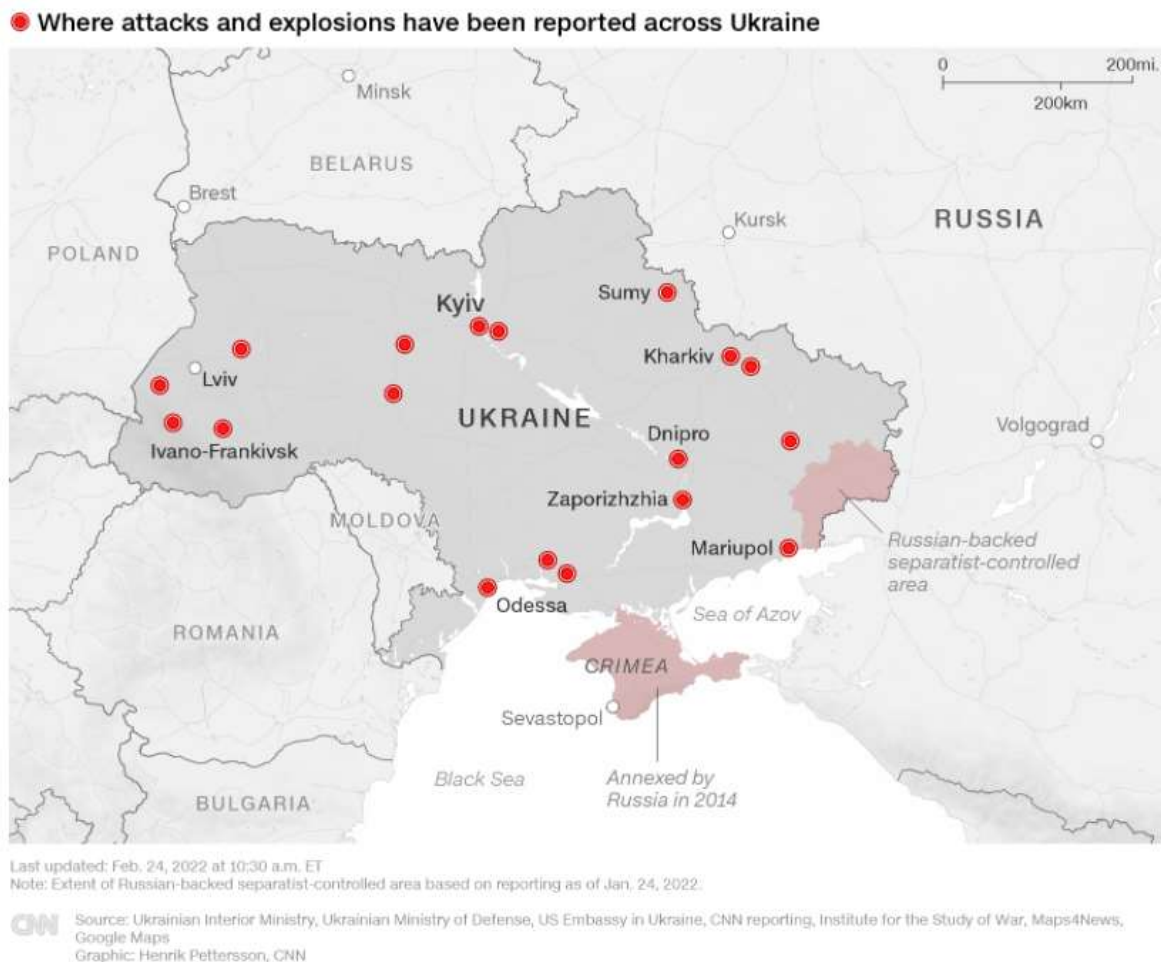
At this writing Friday morning, Russian troops are at Kiev. A successful military occupation of Ukraine by Russian forces was never in doubt. Having made false claims of Genocide and Nazification (Ukraine's Prime Minister is Jewish) it's likely Russia will continue following the same Cold War Stalin script arresting senior elected Govt officials, intellectuals, journalists, union party leaders, senior military personnel, University professors and business leaders in a purge. Many will never be heard from again. Russia-friendly autocrats will be installed. Ukraine will 'vote' for union with Russia and become a Russian satellite. Moldova is next. Looking at the second map below, the stretch from main USSR-friendly territory in Belarus through Lithuania and Poland to Kaliningrad Oblast is most inconvenient for Mr. Putin's empire dreams. When asked about 2014 sanctions over Crimea, Mr. Putin smiled and said "I thought it went surprisingly well"

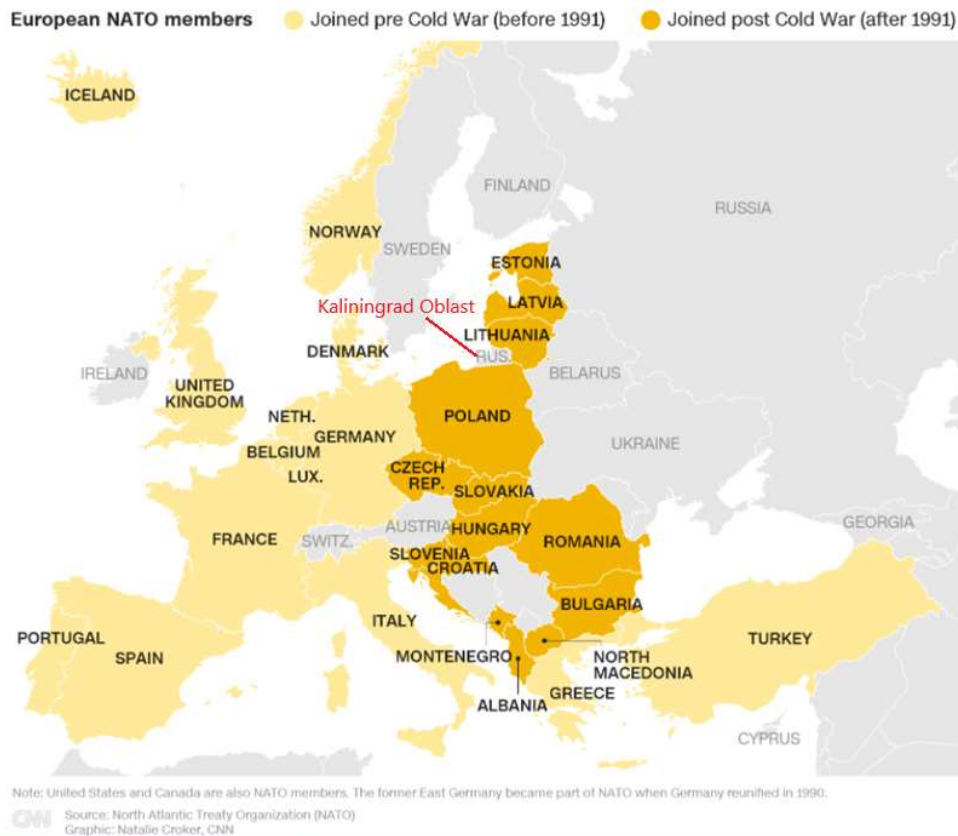
My guess is there will be a lengthy ongoing conflict in Ukraine. Bordering on NATO member Poland, who's had it's own history with Russian occupation, arms and support for Ukrainian nationalists will be readily at hand. Putin will have the excuse to militarize the Russia's Western borders, 'defending the motherland' effectively rebuilding an Iron Curtain from the Black Sea to Estonian coast. Ultimately Russia pays a heavy price and perhaps never truly succeeds. The rosy notion of commerce trumping despotic dictators will, yet again, be proven false. It didn't stop Germany under Hitler or Japan in the 1930's and it won't stop Putin or China's aspirations today. Europe will ponder paying for Putin's war from energy purchases (see gas pipeline maps below), wheat and steel. Germany relies on Russia for approx 40% of it's natural gas needs. Given the two country's history, what was Germany

thinking? The invasion of Ukraine will disrupt our assumptions about the global ‘always on’ supply chains that have exceeded demand driving down costs of T-Shirts at the Duncan Walmart Super-Store to ever lower prices each year. We could see a rush to onshoring of industrial production. Strategic considerations are likely to become MUCH more top of mind. Military hardware is expensive and generally not productive. Commodity inflation is here to stay and could accelerate. Geopolitical risk is up and the ‘risk premium’ demanded by investors will increase. The main reason the Allies won WW-2 was the United States’ internal economy able to churn out military hardware and personnel and supply it with energy. The closer you are to conflict, the more risk-premium demanded. The farther you are from conflict the lower the premium. Being a long tank drive from Russia, Canada should benefit. Canada has ample commodities and could - or at least should - benefit.

What is Putin’s deal anyway? CNN explains.

Six maps explaining the Ukraine-Russia conflict – CNN Feb 24, 2022





<https://www.cnn.com/2022/02/24/europe/ukraine-visual-explainer-maps/index.html>

Western Govts have imposed ‘heavy sanctions’ many of which were already in place following the Crimean invasion of 2014. On Feb 23, the BBC's Steve Rosenberg interviewed Russian spokeswoman Maria Zakharova. The topic was Russia’s attitude and concerns over Western sanctions. Ms. Zakharova began her answer with a laugh, then switched her public interview propaganda mask to anger claiming Russia would have faced sanctions no matter what then shifted the mask to the attack over Western behaviour. Her response was clearly scripted. It was very telling and not encouraging.

<https://www.bbc.com/news/av/world-europe-60498535>

Notable on the Western sanctions exemption list is energy (which includes wood!). Germany had much to say I’m guessing. Russia has spent months amassing over 190,000 troops, heavy equipment, field hospitals etc. on three borders of Ukraine. Europe and NATO did nothing. NATO’s largest current compliment of troops bordering the area are in Poland with 1,200 NATO and 5,700 US troops. At the clear signal of an onset of the Russian invasion, Pres. Biden pulled the few US military advisors in Ukraine out. Putin let everyone know his intentions yet the West appeased (where have we seen that tactic before?) Mr. Putin appears to believe the West will do little to directly defend Ukraine. Mr. Putin clearly believes If he can acquire all of Ukraine at the expense of a few billion worth of swank flats in London, that’s a good deal. The following maps explains why the EU does nada.



Excerpt from National Bank's Daily Energy notes for Feb 23, 2022

Main natural-gas pipelines into Europe



Source: S&P Global Platts
Emma Brown/THE WALL STREET JOURNAL

Crude Dependency

Most of Europe's eastern countries still depend on Russia for more than half of their crude imports



Source: Eurostat, data for 2019

Bloomberg

Feb 25, 2022

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Gas is key in the Russia-Ukraine conflict — and supply could be disrupted around the world

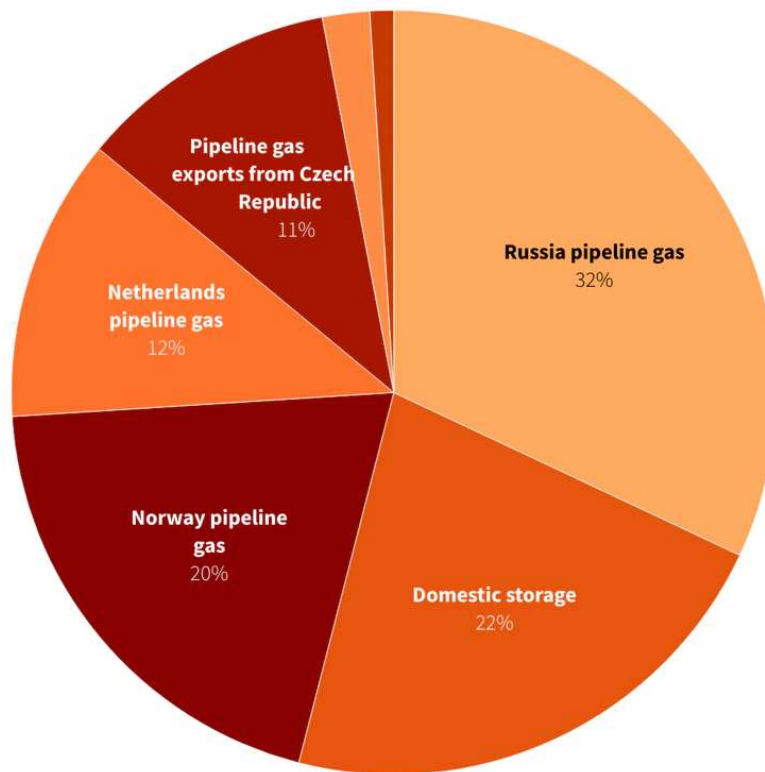
<https://www.cnn.com/2022/02/24/russia-ukraine-crisis-could-see-gas-supply-ramifications-for-the-world.html>

‘Factbox: How dependent is Germany on Russian gas?’ Reuters 20-Jan-2022 (updated Feb 24)

German gas supply by source

Russian pipeline gas was Germany's biggest supply source in Dec 2021

- Russia pipeline gas
- Domestic storage
- Norway pipeline gas
- Netherlands pipeline gas
- Pipeline gas exports from Czech Republic
- Other
- Domestic production



Source: data intelligence firm ICIS

<https://www.reuters.com/world/europe/how-much-does-germany-need-russian-gas-2022-01-20/>

Europe needs natural gas...badly. Canada has lots. Too bad we can't ship it.

Canada has precisely zero operating LNG liquifaction plants. We have one de-liquefaction / regasification plant in St. John N.B. The Canaport terminal was designed to import LNG, turning it back into a gas for pipeline shipping to Eastern Canada and Quebec. Canaport was originally owned by Canada's Irving Oil. In 2013, Irving planned to expand the plant to



receive the proposed Energy East Crude for export. The 2015 election of Justin Trudeau's Liberals, saw Energy East cancelled (Quebec protested the project). Irving Oil, like Kinder Morgan with the BC TransMountain Pipeline project, gave up, selling its remaining interest in Canaport to Spanish energy giant Repsol last year. Repsol has changed the name to St John LNG. Canadians like the jobs but won't take the risk. The plant may finally be converted to LNG liquefaction. The original idea was to access Hibernia Gas, but those wells are shutting down. We still have lots of gas in Western Canada but...yet again unfortunately...we don't ship gas to the East Coast from Alberta (remember Energy East?). TransCanada applied to ship gas to the Maritimes back in 2019. That gas line would have made part of the journey through the US. Canada has had plenty of experience with US interference in Canadian energy projects. The result would have been a 40% reduction in East Coast gas costs to homeowners.

<https://www.cbc.ca/news/canada/new-brunswick/transcanada-corp-natural-gas-alberta-1.5021964>

Good idea? Nope. Didn't happen.

BC's Kitimat LNG Terminal is 50% complete after 3 years of active construction. Unfortunately for Europe, Kitimat is pointing in the wrong direction, towards China. Unfortunately for Canada, the likely eventual shutting out of Russia from European gas markets will see China gladly take every BTU of gas Russia wants to sell. With sanctions piling on Russia, Putin will need foreign currency. China's price will be cheap. Canada's Kitimat LNG gas will suddenly have a tough economic argument. While Canada fretted over carbon policies, the US added liquifaction terminals in a rush. There are currently 13 active LNG terminals in the US. Guess who's going to sell lots of gas to the EU?

***'Ukraine crisis puts East Coast LNG back on the map'* Financial Post Feb 24, 2022**

<https://financialpost.com/commodities/energy/oil-gas/ukraine-crisis-puts-east-coast-lng-back-on-the-map>

Who are the world's largest fertilizer manufacturers?

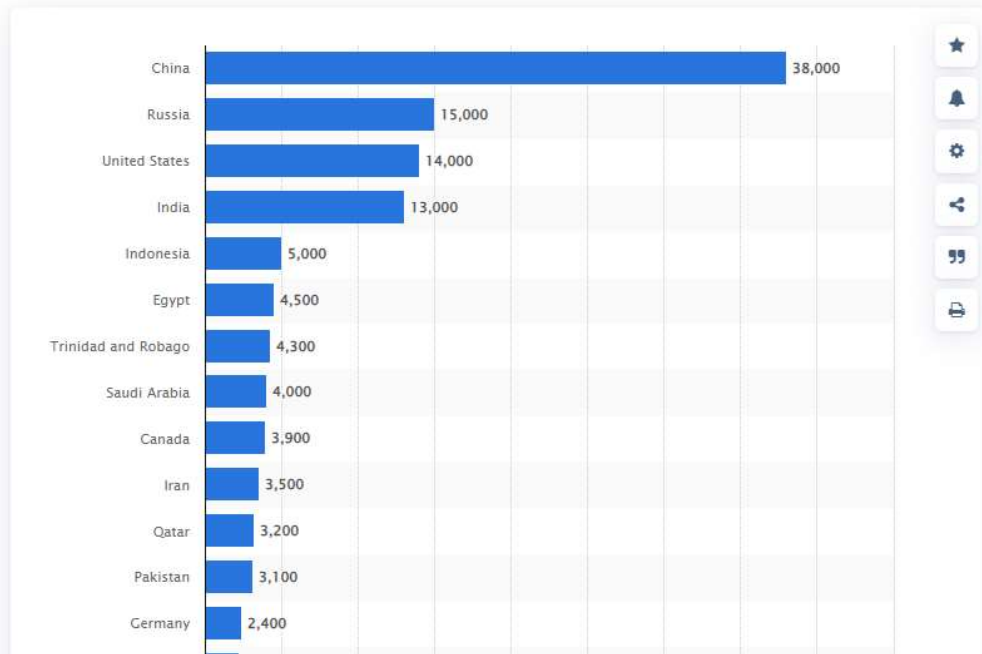
Russian producer Uralkali is in the top 10. They could be squeezed under sanctions. Food however is dicey political territory.

<https://www.imarcgroup.com/fertilizer-companies>

Global top 10 Ammonia producers (fertilizer)

Chemicals & Resources > Chemical Industry

Ammonia production worldwide in 2020, by country (in 1,000 metric tons)



<https://www.statista.com/statistics/1266244/global-ammonia-production-by-country/#:~:text=China%20is%20the%20world's%20leading,than%2010%20million%20tons%20produced.>

Canada's **Nutrien Ltd (NTR-TSX-\$80.26)** is in the top 10 fertilizer producers. The stock price is up 49% since Feb/2021



DISCLAIMER: We hold Nutrien for client accounts over which I have trading authority. We have traded in the security within the past 60 days.

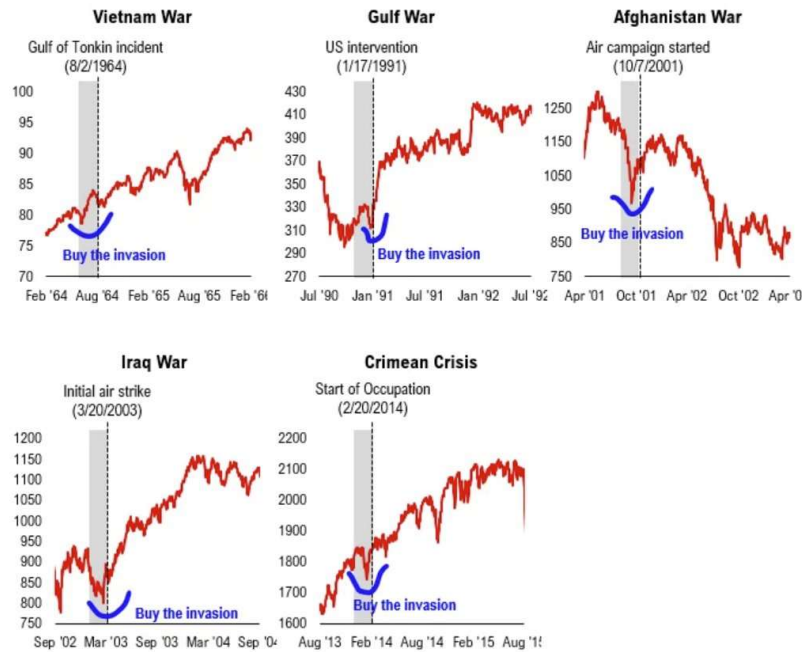


What are we doing about the Ukraine conflict?

Like all waves that come crashing into the beach, we must let the froth subside. Share prices typically bottom during such events. History tells us investors understandably overreact to risk. Patience is a virtue.

5 of 5 times: Stocks bottom just before “invasion”

6 months prior (2 months prior are shaded in gray) and 18 months after



Source: Fundstrat, Bloomberg

S&P 500 price changes during geopolitical (military) events since 1939

| Event date | Geopolitical (military) event | Before the event | | | After the event | | | Max drawdown* |
|-------------------|---|------------------|--------------|-------------|-----------------|-------------|-------------|---------------|
| | | -3m | -1m | -1w | +1w | +1m | +3m | |
| 2014-02-20 | Start of Russian occupation in Crimea | 2.7% | -0.8% | 0.5% | 0.9% | 2.4% | 3.2% | -5.8% |
| 2003-03-20 | Initial U.S. air strike in Iraq | -1.9% | 2.7% | 8.7% | -0.5% | 2.2% | 15.6% | -14.1% |
| 2001-10-07 | U.S. air campaign starts in Afghanistan | -10.0% | -3.2% | 2.9% | 1.9% | 2.9% | 9.4% | -20.9% |
| 2001-09-11 | September 11 attacks | -12.9% | -8.2% | -3.6% | -4.9% | -3.3% | 4.3% | -23.1% |
| 1991-01-17 | Gulf War (U.S. intervention) | 5.8% | -4.2% | 1.5% | 4.4% | 15.2% | 23.5% | -6.1% |
| 1990-08-02 | Iraq invades Kuwait | 6.3% | -1.3% | -0.4% | -4.8% | -10.4% | -14.5% | -19.9% |
| 1982-04-02 | Falklands War | -7.1% | 2.6% | 0.5% | 2.1% | 2.3% | -4.5% | -12.7% |
| 1968-01-30 | Tet Offensive (Vietnam War) | -1.5% | -3.2% | -0.7% | -1.6% | -3.0% | 4.4% | -9.3% |
| 1967-06-05 | Six-Day War | 1.7% | -4.8% | -1.3% | 2.0% | 1.2% | 4.3% | -6.5% |
| 1964-08-02 | Gulf of Tonkin incident | 3.8% | 0.7% | -0.3% | -1.6% | -1.6% | 2.0% | -3.2% |
| 1962-10-16 | Cuban Missile Crisis | -1.0% | -2.8% | 0.4% | -4.0% | 3.8% | 13.8% | -10.5% |
| 1956-10-23 | Suez Crisis | -6.3% | -0.8% | -1.3% | 0.4% | -2.9% | -4.0% | -10.8% |
| 1950-06-25 | North Korea invades South Korea | 9.0% | 2.4% | 0.9% | -7.6% | -8.7% | 1.6% | -14.0% |
| 1941-12-07 | Attack on Pearl Harbor | -8.7% | -2.7% | 2.2% | -6.3% | -2.5% | -12.4% | -20.1% |
| 1939-09-01 | Nazi Germany invades Poland | -2.1% | -8.1% | 2.9% | 11.8% | 14.4% | 9.1% | -10.8% |
| Average | | -1.5% | -2.1% | 0.9% | -0.5% | 0.8% | 3.7% | -12.5% |
| Median | | -1.5% | -2.7% | 0.5% | -0.5% | 1.2% | 4.3% | -10.8% |
| % Positive | | 40% | 27% | 60% | 47% | 53% | 73% | |

CIO Office (data via Bloomberg). *Max drawdown over the 3m periods before and after the event.



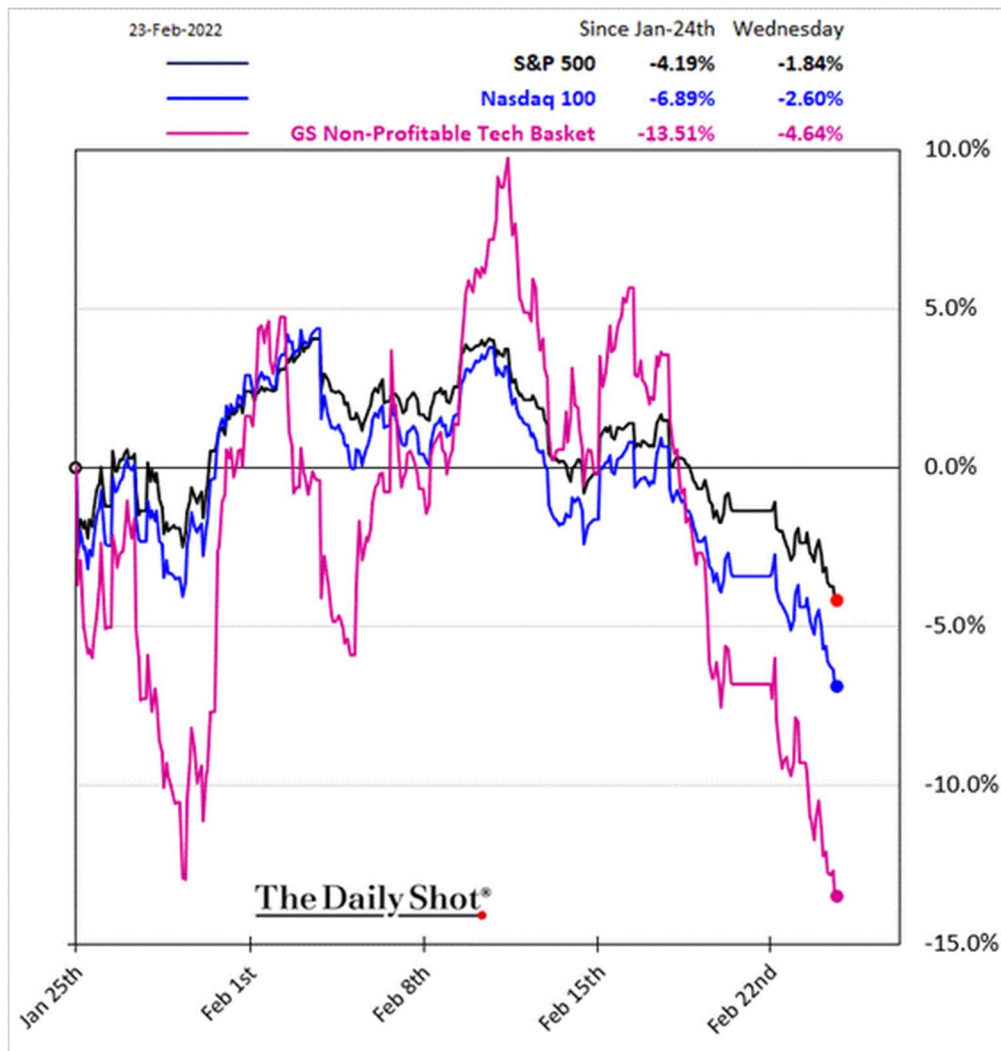
For further details see this week's attached National Bank Chief Investment Officer (CIO) 'Historical perspective of stocks in times of military conflicts' PDF.

'How stock markets react to conflicts and wars' – Asia Times Jan 20, 2020

<https://asiatimes.com/2020/01/how-stock-markets-react-to-conflicts-wars/>

The likelihood of inflation and an increased risk premium has investors second-guessing high priced stocks with low/no current earnings. When tomorrow is in doubt 5 years from now is an age. The priority of 50-year risks may also be reconsidered.

Equities: All of a sudden, corporate profits matter. Unprofitable growth companies have sharply widened their underperformance on Wednesday



Source: WSJ Daily Shot for Feb 24, 2022



So what do we like?

We bought the US aero-space/defense firm **Raytheon (RTX-US-\$98.16)** in the spring of 2020 when the likely election of Joe Biden had investors pricing aero-space and defense sales cheaply. We bought the value. As often happens, investors came flooding back driving up the price. RTX daily. We're holding the stock. The price is up 36% in the past 12 mos.



DISCLAIMER: I hold Raytheon personally, for family members and in client accounts over which I have trading authority. We have traded in the security within the past 60 days.

We hold Western Canada **Telus Corporation (T-TSX-\$32.50)**. The stock price hit an all-time high this week as investors seem to like the distance from risk. The price is up 44% since Feb/2021.



DISCLAIMER: I hold Telus Corp personally, for family members and in client accounts over which I have trading authority. We have traded in the security within the past 60 days

Feb 25, 2022

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Canadian Banks: Lots to look forward to...just not this quarter' NBF Feb 22, 2022

<https://nbf.bluematrix.com/sellside/EmailDocViewer?encrypt=1bea6c90-fac1-4d83-bebc-7474e2a6a06e&mime=pdf&co=nbf&id=steven.hilberry@nbc.ca&source=mail>

National Bank's 2022 Dividend All-Stars – 2022

<https://nbf.bluematrix.com/sellside/EmailDocViewer?encrypt=29b0a4f3-7de1-48b9-9438-a6b1b137f79&mime=pdf&co=nbf&id=steven.hilberry@nbc.ca&source=mail>

Don't Pay More Tax Than Necessary! Make Use of A Tax Free Savings Account (TFSA).



Watch Anna's latest video here

<https://www.youtube.com/watch?v=IZ8wOhfwuEw>

Have a Great Weekend

Steve & Anna Hilberry



FOR THE RECORD Feb 25, 2022

| | |
|------------------|---------------|
| DOW INDUSTRIALS: | 33,932 |
| S&P 500: | 4,365 |
| S&P/TSX COMP: | 21,056 |
| WTI: | \$91.87 |
| LOONIE IN \$USD: | \$0.7863 \$US |

Feb 25, 2022

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