



## Empire Life webinar – Market Watch: What does the Russia-Ukraine conflict mean for the markets? Transcript of webinar held: March 2, 2022

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### PRESENTATION

**Paul Holba**

*Vice President, Retail Distribution*

Well, thank you for joining us today, and good day, everyone. I'm Paul Holba. I'm vice president of retail distribution at Empire Life, and I'm your host for today's call. On behalf of my sales team colleagues, we want to really thank you and welcome you to our webinar today, Market Watch. What does the Russia-Ukraine conflict mean for the markets? But first, on behalf of all of us at Empire Life, we want to acknowledge the pain, suffering, fear, and uncertainty that's being felt by the people of the Ukraine and their friends, family, and fellow citizens around the globe. Our hope is that these dark days come to a close quickly and safely for everyone involved.

And before we move on, I need to remind everybody that this presentation reflects the views of Empire Life on the date published and is subject to change without notice. The information in the presentation is for general information purposes only, and is not to be construed as providing legal, tax, financial, or professional advice. The Empire Life Insurance Company and its affiliates assume no responsibility for any reliance on or misuse or omissions of the

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Right, so the situation is changing very rapidly in Ukraine. The question as to whether an invasion was imminent has certainly been answered now. Between Russia invading Ukraine, troubling inflation levels, and the Federal Reserve entering a tightening cycle, is the Pavlovian buy the dip approach that people have been used to in recent years still going to work? To help us answer that and many other questions, we have two of our global investment managers who are joining us today. We have Ashley Misquitta, Senior Portfolio Manager, U.S. and Global Equities, and David Mann, Senior Portfolio Manager, International Equities. They'll discuss the current situation and some of the potential implications for global markets, as well as how they position their funds to mitigate some of these risks.

Now, we have reached out in advance for questions, and we have received them back from some of you when you registered, so thank you. We'll be addressing them following a few comments from our portfolio managers. Please feel free to use the Q&A chat window, part of this platform, to enter in any additional questions that you'd like to have addressed. And I see we already had a question from Marian. We will get you that answer, Marian. Ashley and David, over to you please, gentlemen.

**Ashley Misquitta**

*Senior Portfolio Manager, U.S. and Global Equities*

That's great. Thank you, Paul. So why don't we start out by sharing some thoughts around the situation,

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and then as Paul said, we'll answer some questions. Probably it makes sense to break this up into short-term perspectives, longer term perspectives, and then how we're responding. Why don't I hand it over to David, who will address some of the shorter term perspectives, and then I'll come back and talk about the longer term perspectives, how we're responding, and then we can go into some Q&A. David?

## **David Mann**

*Senior Portfolio Manager, Global Equities*

Thanks a lot, Ashley. In the short-term, the name of the game I think is really volatility across several asset classes. That includes equities, currencies, rates, and commodities of all sorts. A few examples of this volatility are recent actions in the VIX Index and sovereign yields. The VIX is essentially volatility expectations on the S&P 500. And this has roughly doubled to 35. To put this in context, excluding COVID, there were roughly five spikes higher than this level since 2010.

On the sovereign yield side, the bond yield, which is the German equivalent of U.S. treasuries, earlier this week had its single biggest move in the past decade. What's contributing to this volatility is where we're coming from. As Paul mentioned, really up until just before the invasion, the key theme across asset classes was really reflation and high but slowing levels of economic growth. Alongside this, rates were rising and financials were outperforming.

The uncertainties caused by the invasion have called into question the ability, I'd say at least in the short-term, for central banks to tighten policy at the same pace that they were previously expected. Consequently, their ability to control inflation is a bit more murky. The picture is increasingly challenged due to rising oil and gas prices and the additional inflationary pressures this creates.

Now Ashley, the rest of the team, and I are very much long-term investors, but it's critical that we pay attention to geopolitical events such as this, as they can impact equity market and company fundamentals. I want to talk about a few things that we're watching in the short-term, as it relates to Russia and the Ukraine. Now, it's important to say that the level of

uncertainty is really, really high. First, I'd say there's likely to be continued escalation before potential and hopeful de-escalation, and it will be critical to see if Putin takes Kyiv or not. It's also going to be important to see how NATO countries continue to respond to this.

Second, we expect further sanctions and actions by allied nations. There have been certain actions so far, some sanctions and other actions and removal of access to the SWIFT network and capital flows, but it's nowhere near maximum levels. So far, the EU and select other nations have banned some banks, some Russian banks, from SWIFT, but they've spared Sberbank, which is Russia's largest bank, and other banks that are deeply connected to energy flows. For those that don't know, SWIFT allows for efficient intrabank capital transfers globally, and preventing bank access to this network renders part of their business nonfunctional. And due to the relative opaqueness of global capital markets and just how intertwined things are, there could be unintended consequences.

The third thing that we're watching, it's kind of hard to describe because it relates to unintended consequences. And we, I don't know for sure, but I expect that there's going to be issues that pop up as a result of sanctions and other actions, but we don't really know what those issues are right now, but we're cognizant of those when it comes to portfolio positioning.

Lastly, and I really hope this doesn't happen, but Europe receives roughly 40% of their gas and 25% of oil from Russia. It's extremely unlikely, but there's a chance that Russia, or specifically Putin, cuts off all or part of that supply. Those are a few of the short-term things that we're watching, and I'm now going to pass it to Ashley to talk about some of the long-term potential impacts and how the investment team is approaching this instance of volatility.

## **Ashley Misquitta**

*Senior Portfolio Manager, U.S. and Global Equities*

Great. Thanks very much, David. The longer term is going to be, I guess not so surprisingly, given the uncertainty in the short-term, it's going to be

somewhat more complicated. There's some major changes I expect we're going to see in general, but one of them is that a lot of the foreign policy assumptions that most of the Western world has operated under for the past 30 years, it looks like a lot of them are wrong, in terms of defense spending, in terms of the risk of this sort of event. I mean, this is the first major land offensive we've seen on European soil in a really long time.

And interestingly, though, the way this is playing out, aside from the obvious horror of what's happening, of these events, so far Putin seems to have caused the opposite of what one would've thought he was ostensibly seeking. NATO is more united than I recall in my lifetime, certainly in the past 30 years, certainly sort of past Cold War. We're seeing countries like Finland, like Sweden, debating and potentially seeking fast track NATO membership. You're seeing Germany committing to finally spending two percent of GDP on defense, which is a NATO requirement. A lot of NATO countries have not been spending that required two percent. This seems to be shocking them into a recognition that that is important for providing for one's national defense.

Germany last week, and this is part of the sudden change we've seen, I'll touch on this in a second, the sudden and major change we've seen, Germany started last week, I think it was, promising some number of helmets in support of Ukraine. And now they're part of a group sending military weapons, offensive and defensive weapons. Switzerland is now participating in freezing accounts and assets, which is an incredibly stark departure from their famously neutral position they've held for a very, very long time. I even read a trial balloon, it would appear to be, I guess, a trial balloon, about Germany potentially delaying closing some of its nuclear power generation facilities in an effort to reduce future reliance on Russian natural gas.

So a lot of what we thought was true may not be the case. There's a lot of changes going on. The speech by Scholz, German Chancellor Scholz on the weekend, in many ways it almost undid the last few decades of German policy. It was a very, very major and stark change we've seen. So that's one longer term implication. I do think it's really important to be humble about prognosticating what's going to happen

while events are in progress. In these sort of situations, things can change in very unpredictable ways, both for the positive and for the negative. So I do try to make the point that these are our perceptions, based on what we know today.

So where we are today, we seem to have seen three theaters, military information, or three martial theaters, if you will, military, information, financial. The military one is undecided. I would caution that while things appear to be encouraging, the Russian military might is very formidable. And some of the actions we've seen in the past in Grozny, in Chechnya, is one of the examples that comes to mind, suggests that at least it's possible we see some escalation to some very disturbing levels, if it's perceived by Putin that he needs to push on to a victory of some sort, even though maybe a Pyrrhic victory.

From a financial perspective, the war's been pretty decisively lost by Russia, even though it hasn't reached maximum levels. We sent a growing breadth of sanctions, which started, I would say, very tepidly at the beginning of this, but have extended and expanded to both official and organic, or unofficial maybe is the way to say it. So banks are much less willing to give letters of credit for someone to go buy cargoes of Russian oil, out of concern that it may be two days later deemed illegal to import and they're on the hook for it. So we've seen a bunch of these different places where organic type sanctions are resulting.

Companies like Maersk and other shippers are not shipping anything other than medical supplies and food and emergency supplies into Russia. Visa and MasterCard, FIFA, Apple, and a whole range of other companies, Nike included, have imposed their own sanctions, if you will, or perhaps maybe to say have announced they're going to be fully in compliance with sanctions. And this is going to make life awfully difficult in Russia, and sadly for a lot of people who have really zero desire to see this happen, to see this war happening. A lot of it is obviously being driven by a very small circle.

The information war, I guess is the final thing I would say is being decisively, it's just been an absolute [inaudible 00:13:00]. Some of these stories are not true. They're propaganda, admittedly, but there have

been stories of the ghost of Kyiv, of Snake Island and the resistance and resilience of the troops there. Images of President Zelensky in fatigues, out in the field, fighting for his homeland with his citizens, have inspired the rest of the world. And I think it's forced leaders who did respond quite tepidly to become much more aggressive. And it's been driven by their citizenry, who said, we absolutely, we have to support these people. We can't stand by and watch this happen. And that's been a key part of the information war.

To the credit of the U.S. intelligence agencies and satellite companies, they also showed the Russian buildup ahead of time, which really effectively prevented a false flag operation creating a casus belli which Putin could use as justification. The implications broader, as well though, are on China and Taiwan, and the relationship with the West. So one would expect that China's paying close attention to this. They made no secret of their desire to reintegrate Taiwan into China. And I think a tepid response that lasted, where the West treated this as a fait accompli that, okay, Russia's got Ukraine now, would've emboldened China, I think, to be more aggressive. I have to think that the response globally I would expect would be discouraging.

Again, at the risk of being a bit of a wet blanket here, this is not over as yet, and Russian and Putin don't have an easy off ramp. That is one of the things I do worry about longer term. We are going to see inflation likely be more prolonged as a result of spikes in energy prices and commodity prices. And I would encourage people to watch. We're watching for implications to agricultural commodity inflation. People become quite unhappy when it's economically a lot more difficult to feed their families. So that's something we're keeping an eye on.

So how are we handling things? I think most importantly, keeping a cool head. There are going to be stark moves in both directions in markets, and keeping calm is really important. I've been through 2008, and I saw people who didn't keep their heads and I saw the consequences of it. So I am a firm believer in how important it is to stay calm in these situations. A key part of our process is understanding the businesses we own and that we might want to own, and having a valuation discipline. The key parts

of our process, I've always thought they're important and many of you will have heard me talk about this before, but I think they're especially important in times like this.

So that positions us, I think, to take advantage of opportunities because we have a pretty defined view of what we think of things. And I would say we've moved to a slightly more defensive posture in Emblem and in some other portfolios over the past six months, some of you may recall. So I do think that positions us well. I really am of the view that this is not going to be a Pavlovian buy the dip scenario, sort of as Paul alluded to at the beginning. Inflation is the confounding factor here, and inflation is the Fed's primary response. Politically, inflation is very harmful. Midterm elections are coming up in some number of months. Polling data is not especially encouraging for Democrats, who control the White House, the Senate, and the House of Representatives. And Joe Biden, President Biden yesterday in the State of the Union, and in other recent speeches, has talked about Jay Powell needs to get inflation under control.

So I think stock selection is going to be becoming more important, play a greater role. And I think this should play to our strengths. So I think that's probably a good wrap for our formal comments. Why don't I hand it back to you, Paul, and we can go to some Q&A?

### **Paul Holba**

*Vice President, Retail Distribution*

Great. Thanks, Ashley. Yeah, we do, let's see, we had a number of questions that were sent in prior. I'll hit the first one here. You mentioned 2008. Can you talk about the magnitude of this crisis from an investment perspective, relative to some of the other previous crises that you may have or not seen over the past few decades?

### **Ashley Misquitta**

*Senior Portfolio Manager, U.S. and Global Equities*

Yeah, why don't I grab that one? So from an economic perspective, we are still fairly early in things. And the world seems to move very, very fast, not all of a sudden, but in the past three to five years,

recalibrations and valuations have happened very swiftly, thinking back to late 18, where in two months we saw a massive sell off, COVID in March of 2020, very swift response. So I mean, we haven't seen that quite yet, but I would argue that we're still quite early days potentially in this.

So from an economic perspective, we haven't seen that yet, but if I think back to 2000 and 2008, particularly 2008 comes to mind with respect to this, is that we had a long run up, right? You've got to go back to 2007, even, and remember some of the off-balance sheet things that were starting to blow up. Bear Stearns had a couple of off-balance sheet structures, which blew up on them. That was back in 2007. And then in March 2008, Bear Stearns blew up, and then in September, Lehman blew up.

So a lot of it depends on the magnitude of these things, and also the rate of change. If you go back to 1998, and I don't recall if it was the Thai baht crisis, or Russian ruble crisis. I think it was the ruble, but it could have been one of the Asian currencies, the baht I think it was, where we saw a little-known company like Long-Term Capital Management, populated with Nobel prize winners, absolutely imploded because they had a very substantial leveraged bet on a particular thing that had systemic consequences.

And it takes some time, excuse me, it takes some time for those to come to light. So at this point, and sometimes the wedge that slides down the hill, the proverbial slippery slope, the slippery slope doesn't keep sliding. But at this point, I think we're still early in the game.

### **Paul Holba**

*Vice President, Retail Distribution*

Okay. Now, thank you. Again, a lot of second and third derivatives on what happens as a result of some of the things we've seen over just the last week. You mentioned inflation with respect to commodity prices, food prices. So a little bit, are you worried about inflation or even stagflation, the S word?

### **Ashley Misquitta**

*Senior Portfolio Manager, U.S. and Global Equities*

Yes, the S word. So why don't I ask David, if you don't mind starting out on that, and look at it from more of an international perspective, and then I'll jump in talking about North America. David?

### **David Mann**

*Senior Portfolio Manager, Global Equities*

Yeah, for sure, Ashley. I'm going to focus more on Europe rather than Asia, Asia and Japan, because I think that's where more of the concern and the potential issues are. So again, as Paul and Ashley said, there were inflationary concerns, coming into before the invasion. And the ECB, the European Central Bank, was set to tighten. German bond yields had gone positive. So Russia is geographically and economically very tied to Europe, and it creates more uncertainty there. So I think the ability for the ECB to tighten, to quell inflation, is questioned. And that has certainly been priced into rate markets in Europe.

Stagflation, that dirty S word, it's by no means a base case in Europe, but there is a chance of it. It's lucky that Europe is rebounding and that current growth in Europe, economic growth, is pretty high and had some momentum. Unemployment, a bit of a concern. It's trending down, but in the EU, it's still around seven percent.

Inflation, and this is the last piece of the puzzle here, yeah, it's uncomfortably high. And as I said, I think it's harder for the ECB to tighten, as was previously expected. If there's further inflationary pressures from here, from energy or other sources, and the ECB's hands are tied from a tightening perspective, that would increase my stagflationary concerns. So right now stagflation is kind of on the radar, but I'd say a tail risk, and that's what I'm watching, for it to increase in odds or probability. Ashley?

**Ashley Misquitta**

*Senior Portfolio Manager, U.S. and Global Equities*

Yeah. Thanks, David. So from more of a U.S. perspective, and I guess this would apply to Canada as well, this is something I am concerned about. And the concern is particularly because we've seen real, really serious commodity driven inflation, and that's only getting worse now. One of the economic complications of all of this is that Russia and Ukraine are very large commodity exporters. Russia is one of the leading, one of the top three, I think, energy producers in the world. Food, nickel, copper, the list goes on. I mean, and then unknown, unexpected things, like apparently Ukraine, it turns out, produces a staggeringly large percentage of the world's neon, which is used in semiconductor manufacturing. Now, that's not quite as bad as it sounds, and there's not a switch which flips off tomorrow because of that, but structurally, that's important.

And so the inflation that we're seeing driven by commodities is not going to ... So the inflation level, I think, there's an expectation it would abate quite swiftly in the U.S. through 2022. Now adding greater commodity driven inflation into the mix, I suspect that that is less likely to be the case. It will potentially abate, but probably at a slower rate than people expected. Between commodities and wage inflation, which certainly appears to be continuing, we're seeing companies continuing to raise prices in different places. Housing, and I'm kind of now just sort of going through major components of the CPI, housing is still not fully represented. The inflation we've seen in housing, they use something called owners equivalent rent, has not caught up to housing prices. So those are going to be tailwinds to inflation.

Car prices, they're likely to roll over, I would think, assuming we get some rebuild in supply. We've had various shutdowns for various reasons. They seem not to have stopped, which is kind of ... Sorry. The shutdowns seem to have continued, I guess I should say, in certain pockets, which is a concern, I think. And while companies on the retail side appear to be building inventories, the macro data would suggest that, but shipping costs haven't stabilized and rolled over. There's a couple of data series, high frequency data series, I pay attention to. And there's been some stabilization, but it hasn't rolled over, which is what

you would've expected with Chinese New Year happening, in that there's less being shipped over while China was on holiday.

So that's something that's certainly a concern. The problem is going to be for the Fed that they're caught between a rock and a hard place, or Scylla and Charybdis, for you Greek mythology fans. They've got inflation, which is likely going to continue to be a problem, but they've got a slowing economy. And you've got global conflict layered on top of that, and they're going to be hiking rates. And so that is, I think, a key aspect and sort of the key formulation that causes concern about stagflation.

I don't know if I would, again, for me, it's not a base case, but I've kind of had my eye on this for a little while, not necessarily because of Russia and Ukraine, but it is something I do worry about. And I think that unfortunately humans are not very good at remembering the lessons of history, and there's a lot of talk about modern monetary theory and how it's a fundamental different way of understanding economics. And I think it really gained some purchase with different people, and I think that's part of what's put us into this situation. So it is something I am concerned about and paying attention to.

**Paul Holba**

*Vice President, Retail Distribution*

Thanks, Ashley. Yeah, those that don't learn from the past mistakes are doomed to repeat them, right? The next question is, what changes have you made as a result of last week's events?

**Ashley Misquitta**

*Senior Portfolio Manager, U.S. and Global Equities*

Yeah. Thanks. Well, David, why don't you go ahead with that one first, and I'll jump in with a couple of thoughts as well?

**David Mann**

*Senior Portfolio Manager, Global Equities*

Sure. Thanks. So for those not familiar, I focus mainly on EAFE equities, the international fund and sleeves of other funds. So as a result of current events, we adjusted our energy exposure a bit, but nothing too significant. So took it up a smidge. I think a tangential question, though, is how has positioning changed over the past few months, and how have we really been positioned this year?

And I had become a lot more concerned on European growth, especially growth momentum, which was slowing, rising inflation, energy prices, and kind of the relative complicity in equity markets in dealing with these macro challenges. So reflecting that, we had trimmed our European bank exposure a bit, but again, despite the rising risks that I felt were being presented to the market, equity volatility was really low. So earlier in the year we bought a put option on just a part of the European exposure in the international and some of the other funds. Our view was that volatility was likely to rise and that there was a downside to European equities. We acknowledged the Russia/Ukraine risk didn't predict it. However, positioning had become so bullish that any exogenous shock like this I thought could have had an outsized negative impact on markets.

I'm in no means happy about the catalyst that caused the big downturn in European markets. But as our cautious view became more consensual, markets declined alongside that. And then there was an increase in volatility. We've profitably sold the majority of our put options. So we have taken some money off the table, or most of the money off the table, with respect to that investment. Ashley, I assume you have some comments on your and other funds.

**Ashley Misquitta**

*Senior Portfolio Manager, U.S. and Global Equities*

Yeah, absolutely. Thanks, David. So I would echo David's comments about the importance of the positioning going into it, and over the past six months or so, I think as I've alluded to, we've been progressively more concerned around valuations,

around the implications of Fed rate increases, and it sort of altered our positioning somewhat. In Emblem, some of you may be aware, we moved to a slightly more defensive posture.

In the portfolios that I sort of manage directly, sorry, the portfolios that I manage directly, we currently and relatively recently prior to this have had an overweighted energy. We have some gold exposure, and we have some cash. So we've also sort of shifted away a little bit from some of the higher beta, more valuation rich businesses, that even though they're a small part of our portfolio, stuff that people absolutely adored, we've kind of trimmed a little bit of that. We're not super defensive, we're not hiding or anything like that, but we're looking for opportunities to deploy that. So I think it puts us in a pretty good position to be able to respond.

**Paul Holba**

*Vice President, Retail Distribution*

Next we have a question from Jacques. I think it's timely with what we're, you know, Bank of Canada increased the rates today. We've got Chairman Powell speaking on the House right now, floor, on the U.S. expectations for interest rate increases. And Jacques is asking, will the Fed start printing money again?

**Ashley Misquitta**

*Senior Portfolio Manager, U.S. and Global Equities*

Yeah, I mean, it's a great question. My suspicion is they're going to have a very difficult time. So there has been what one might think of as a Fed put, and it's been pretty well correlated, I mean, almost since 2010 or 11, with the 200 day moving average on the S&P 500. So when the S&P 500 moves down to that, or just slightly below, there's a new system of some sort the Fed puts into place.

I'm skeptical the Fed is going to be able to do that this time. And the key reason, the key central difference, which would sort of differentiate my view from other people, is that I think that people are underestimating the importance and impactfulness of inflation on the decision process. The Fed generally has a dual mandate, employment and inflation. They've taken

the employment mandate to be a derivative if you will. They haven't formally said this, they've alluded to it a little bit, but I think it's fairly clear. They've viewed this as a derivative of the market in terms of the more money people have, the more money people will spend, and therefore, they will go and spend money in the economy that will help employment.

Well, unemployment levels are relatively low right now. We have a substantially higher number of jobs available versus people seeking those jobs. So it's not necessarily obvious that there's a huge employment problem. There is, however, clearly a huge inflation problem. And it's an inflation problem that amazingly, I think, the Fed and many economists who've kind of come of age over the past 40 years in a post inflationary world, they really missed it. It was shocking, the conversations we had last year, and David can attest to this. We had frequent conversations with U.S., Canadian, global economists, and almost to a T, they were like, "No, no, inflation's transitory. You're overly concerned. The Fed says this is transitory. Therefore, it's transitory."

**Ashley Misquitta**

*Senior Portfolio Manager, U.S. and Global Equities*

And I think that people had been trained into a the Fed says this, therefore it's true, far too much, and inflation, and the lack thereof, is what enabled that to be true. So to be fair, that has been the right answer for the past decade plus. I think that inflation that we're seeing now, the likely worst, I'm sorry, it's actually worsening, the likely lengthening of troubling inflation because of commodity price, unless something very suddenly changes, those things are going to take that latitude away from the Fed.

The other thing, and I think this is where the Fed really made a big mistake, is they should have been tightening last year. They should have been raising rates last year. The Fed should be raising rates into a strong economy. You don't want the Fed raising rates into a weaker economy. You want them to have dry powder where they can cut rates, where they can ease, where they can have tools that can help in a tougher environment. So I think that they really misjudged the situation. And then unfortunately, I think that's going to limit their ability to be as helpful as they historically would've been in these

environments. They're already near zero. There's not really much further to go.

**Paul Holba**

*Vice President, Retail Distribution*

Excellent. Thanks, Ashley. I'll just, how about I jump onto the next question then.

**Ashley Misquitta**

*Senior Portfolio Manager, U.S. and Global Equities*

Yes. Thank you.

**Paul Holba**

*Vice President, Retail Distribution*

We've talked globally. We've talked about U.S., maybe implications for Canadian assets. And then the closing comment, too, this will be our last question, medium-term implications for the markets as a result of these current events. So not short-term, not longer term, but sort of medium-term implications for markets.

**Ashley Misquitta**

*Senior Portfolio Manager, U.S. and Global Equities*

David, why don't you start with the medium-term implications, and I'll grab Canada and share some thoughts as well on medium-term implications.

**David Mann**

*Senior Portfolio Manager, Global Equities*

Okay, sounds good.

**Paul Holba**

*Vice President, Retail Distribution*

Awesome. Thanks.



**David Mann**

*Senior Portfolio Manager, Global Equities*

So it's a tough question because we're kind of in the thick of it right now. So it's hard to say with much certainty what the medium-term market implications are going to be. And there's so much being tossed around, that things are likely to change and not meet what current expectations are. That being said, specifically on Europe, it's going to remind investors of the persistent geopolitical uncertainty that exists there. Uncertainty in Europe is nothing new. Investors, management teams, et cetera, are used to coping with it. It's just a reminder.

I think this is also another catalyst for peak globalization, realizing how intertwined everything is and trying to get a little bit more of that under one's control, be it company or country. That has implications for capital expenditures globally and related companies. So maybe companies spend more building capacity at home, being in the U.S., Canada, or elsewhere, and trying to rely less on the countries that they've outsourced to previously.

And then lastly, I would say given Europe's reliance on Russia for oil, and I would say this is a high likelihood, there's going to be more of a focus on renewable power supply. Those are just the samplings of the current themes that we're exploring now, but there could be many more changes depending on Russia's, I'd say continual actions, and allied responses.

From my perspective, though, this is just one more uncertainty, but it's a big uncertainty. I've spent my entire career investing in economies with uncertainties. And what's great is there are awesome businesses led by really strong management teams. And those management teams are also used and accustomed to those uncertainties. They're used to capitalizing on them and making sure that their business model is durable. It's those businesses that we invest in, those businesses with strong and durable business models, an excellent and seasoned management team, and with great long-term growth opportunities. That's consistent with all the messaging that you would've heard from me previously.

And the great thing is that in Europe... Japan, and globally, there's a lot of those fantastic businesses for us to choose and build portfolios from. I guess with that, Ashley, I'll pass it back to you for some comments.

**Ashley Misquitta**

*Senior Portfolio Manager, U.S. and Global Equities*

Sure. Let me finish off with that one, and then I'll jump into Canada real quick. So I would echo a lot of what David said in terms of peak globalization. I think we're going to see more onshoring. So there's this, you know, we've had two, I think you would consider this a second major supply chain shock. In the first one we found out that we actually don't produce nearly as much medical supplies and equipment domestically as we thought we did, or we didn't have as ready access to it as we thought we did, among many other things.

And I think that as a result of that, if you think of sort of expanding concentric circles, think of a circle, then a bigger circle around it, and a bigger circle around that, the bullseye, if you will, the smallest circle, was things we absolutely have to produce domestically, national security implications, some level of food, things like that. And then there were different industries were sort of captured in circles as you went outwards. And I think the number of things and industries where it'll be viewed as sort of akin to national security will grow. So there will be more industries where it becomes necessary and appropriate to produce it domestically.

I would expect to see increased defense spending. I think that at least in the medium-term, almost regardless of what happens here, if this turns out to be, you know, if hostilities cease tomorrow and everyone goes back to the respect of borders and promises, and Putin promises, I'll never do anything like this again, no matter, even if you go from that scenario all the way through to a much, much more dire one, there's going to be a greater focus on defense spending. These sort of reminders just drive that home.

I suspect we are potentially going to see longer and more persistent inflation. I think one of the under-considered factors of the very low inflation levels we've seen in the past two decades up until relatively

recently has been a function of globalization. Western companies have been able to outsource production at lower cost to emerging markets, and they've been able to capture greater margins and they've been able to maintain really good control of costs. And that, in a peak globalization world, is likely to change. So between that and commodities, we're likely to see that to continue.

My last comment around medium-term dovetails nicely into the thoughts around Canada. And that is that I actually differ a little bit. I'm and a slightly different than David's view on this, and that's with respect to energy. I think that yes, there will be an increased focus on renewables, but the problem that we faced, the European consumers and governments and companies faced over the past six to eight months, was an excessive reliance on renewables. England was expecting 20 gigawatts of power from wind, when wind was blowing at two gigawatts, well, well below long-term averages.

But you still need that electricity. So they were forced to move to much higher price inputs to produce that electricity. So the rate at which we've moved away from coal, natural gas, nuclear power, nuclear power facilities being shut down in Western countries, I think that's going to almost have to change. And so I think we will likely see changes around the rhetoric and strategies with respect to the energy transition that we've seen in recent years.

And I think that probably bodes quite well for energy, because as we move on to the Canadian aspect to my comments, it's that oil is going to be produced for quite some time. Every model I've seen tells me, and sort of a bottom-up model saying, how many cars are produced? What is the GDP intensity? What is, sorry, the oil intensity of each percentage of GDP growth? Incorporation of electric vehicles, incorporation of hydrogen vehicles, take all that into the mix and spit out an oil demand number. Based on all those models, I haven't seen one that I believe is credible. Actually, I haven't really seen one in any meaningful way that shows peak oil demand before late this decade, and some of them later than that, some of them into the 2030s. And that's peak, and it'll decline from there in terms of demand.

So we've seen quite a bit of pressure on the supply side from governments, from ESG, from capital discipline. So many of you will, if any of you have exposure to energy in the U.S. or Canada, or you're familiar with what's going on with it, U.S. shale producers who have historically been the ones who've overproduced uneconomically have been pulling back on capital spending and growing much, much slower, and focused on returning capital to shareholders. Some of that's required by investors. Some of that is concern about what the long-term for oil looks like, and unwillingness to spend on very long-term projects. Think of it this way, if someone's telling you your industry's going away, how motivated are you going to be to spend huge capital expenditures for something that may or may not materialize? So that's part of the thinking in the boardrooms there.

So overall, I think that this bodes pretty well structurally for energy. What I do think it means is that as we go further in time, as we move towards reduced demand for energy, we still are, sorry, for fossil-based energy, we're still going to need oil. We'll just progressively need less and less of it. What I think that means is the companies that are able to produce at the lower end of carbon intensity, so less carbon emission intense production, those companies will have more of a social license to produce.

So that's one of the key themes we're looking at, and key types of companies, companies that are able to produce, but do carbon capture and sequestration or things like that, or who reuse their natural gas produced to reinject it into the ground so it's not actually carbon entering the atmosphere. So a variety of things, there's a whole range of things companies are doing. So that's something we're seeing in Canada.

So I think broadly speaking, that's a tailwind for Canada, for the energy companies. It's a tailwind for our economy. And I think that's one of the, well yeah, I would say that's probably the biggest takeaway from this, I would say, a reconsideration of the energy transition potentially, but at minimum, strength for oil producing companies and countries, at least in the near term. That'll help us.

Sorry. Since I'm coughing away here, it's probably time for me to stop talking.

## Paul Holba

Vice President, Retail Distribution

Exactly. No, yeah, take care of yourself. Listen, I'll add my belief. And you sort of mentioned this, the events of the last week or so are a real eye opener for a lot of people. I was speaking to a family in the Southeast Czech Republic today. The reality of war less than 500 kilometers away is certainly a nasty reminder of the past, and that's life changing. And as you mentioned, Ashley, regarding defense spending and infrastructure change, it will happen.

So listen, I'd like to conclude our webinar today. I would really like to thank Ashley and David for all their insights today, and to thank all of you for joining us. The investment team does continue to find investment opportunities in all market cycles. You can stay informed on the investment team's activities through our investments blog, where you'll find our Emblem portfolio asset allocation updates mentioned earlier today, and what's been happening there over the last little while. And our portfolio manager

newsletter, *From the Desk of...* Ashley's had some updates recently in there too, from his insights on the past year and what lies ahead.

If you do have any additional questions on today's webinar or the topics, please reach out to our sales team. We haven't talked to you about, we have some of questions that came up today as well, in the Q&A box. So we'll reach out directly to those of you that asked and provide you with those answers. We always love to talk to you and look forward to seeing you again face to face shortly.

If you keep an eye on your inbox, you'll see an email coming, too, that will summarize the points that were covered today. I'll also remind you, we did send out commentary late yesterday afternoon in English and in French that reviewed a lot of these topics. So if you've not seen that, take a look. With that in mind, I wish all of you well, and thank you very, very much for joining us today. This will conclude our webinar.

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