

Given the current geopolitical situation here are a few thoughts from our investment team

- The situation is changing very rapidly in Ukraine, so we won't try and update you on the moment-to-moment situation.
- Let's start by extending our sincerest best wishes to the people of Ukraine. We can't imagine what it feels like to wake up to a terrifying situation that must have felt inconceivable a couple of months ago and realize that your life and that of your family are in danger. All our thoughts and prayers are with them.

Now confining our thoughts to the economic and market implications, let's break things up into short term, longer-term, and then how we are responding:

Short term

- These sorts of actions will likely result in continued volatility. We could see volatility in the price of oil, gold, agricultural commodities, and the broader commodity complex. The real-time news updates may well cause markets to vacillate between fear and relief as we saw during the first week of Russian troops invading, resulting in further equity and credit volatility.
- We'll likely get ongoing announcements about sanctions, American/European troop movements to Poland and Baltic NATO (North Atlantic Treaty Organization) allies, and some unexpected surprises that we aren't really contemplating right now. The strengthening of the sanction regime – extending them to the Russian Central Bank (it appears as of this writing) and excluding some banks from the SWIFT (Society for Worldwide Interbank Financial Telecommunication)¹ payment are examples of this. Again, adding to more near-term volatility.
- All of this is happening in the face of robust inflation, a potentially slowing economy, and a Federal Reserve that is in the early days of a tightening cycle.

Longer-term

- Things have become somewhat more complicated. This is the first time we've seen a major military land offensive on European soil in, well, quite a long time. Many of the assumptions that have underpinned Western foreign policy over the past 2 decades have proven to be completely wrong.
- Despite these stark realities, the sheer unadulterated courage of the Ukrainians, has been an inspiration. The unwillingness to surrender in the early days stiffened the spine of Western politicians who only a few days ago were offering sanctions with little bite and little martial support.
- As each hour passes, announcements of ever more onerous sanctions continue to come in. Europe has been unified in purpose in a way we haven't seen in a long time. Germany has announced it will finally spend the NATO required 2% of GDP on defence spending. Switzerland has announced that it will freeze accounts belonging to oligarchs in Putin's circle. There are even reports on what appears to be a German trial balloon about holding off on decommissioning their nuclear energy production.
- This is still a very fluid and dangerous situation, but these are sea changes in policy that might have long-lasting implications.
- One especially important consideration is the potency of the "information war" which has been decisively lost thus far by Russia. Think about the stories you've heard of heroism from Snake Island, the "Ghost of Kyiv's" fighter ACE and the incredible personal bravery of Ukrainian political leaders taking up arms at great personal risk to defend their cities. On the other hand, we've seen stories of demoralized Russian troops who thought they were on a training exercise, tanks out of fuel and a "slower" march than many expected.
- These have been the dominant narratives and even if all of them are not true, this is the first war of aggression that has also had a

substantial social media component. This brings me to the something else that is also very important.

- The chain of events (admittedly oversimplified) has been declassified by US intelligence telling the world what was coming, the invasion of Ukraine by Putin's forces, early nights of terror and confusion, tepid sanctions, stories of heroism by Ukrainians followed by outrage and admiration from the rest of the world. I'd argue that Western politicians are following their citizens not leading them (this is good, not bad). There is an outcry that is demanding stronger resolve, stronger consequences, and an implicit acknowledgment of shared sacrifice. The stronger sanctions, support for sending military supplies, and even increasing defence spending is a direct result of the popular outrage and the courage of Ukraine.

China

- This brings us to another particularly important aspect of all this, China. What will the Chinese government conclude from all this? It's no secret that China wants to make Taiwan a part of China. The real question has been how they'll approach it.
- A few days ago, I'd have thought China would have viewed the Western response as encouraging to its ambitions. Early responses felt like an acceptance that Putin would take Ukraine and we'd all have live with it – sure he'd take a slap on the wrist but there'd be a way around the sanctions.
- That is not necessarily the case anymore and it appears the bravery of the Ukrainians, the one-sidedness of the information war, the organic response of ordinary citizens in Western nations, smaller jurisdictions banning the sales of Russian goods and finally the apparent robustness of the building national and international sanctions regimes may very well make the Chinese government think twice about approaching things too aggressively.
- As a reminder, Taiwan produces the lion's share of the world's most advanced semiconductors. Semiconductors are critical elements of everything from cars to electronics to military equipment. From both

an economic and moral perspective, the rest of the world would have to respond, and the current situation offers clues to how that might look.

What Now?

- This is likely not over. Putin is becoming increasingly isolated, and the war has not gone as he would have wanted but he, the Russian army, and their weapons remain formidable
- There always exists in situations like this the risk of unexpected things happening when tensions are high, and fingers are on triggers. This is something we have stated for some time now that the market has failed to appropriately price risk and now, we are seeing the convulsive effects of that starting to happen.
- A robust information war, which is new in its immediacy, but the sanctions represent a real-time financial war as well. There will be pressure on banks in Russia, on the currency and its economy.
- We are also likely to discover various weaknesses in the global financial system and the exposure of several over-leveraged market participants in the days ahead. AKA, more volatility. Partially in response, we are likely to see Central Banks step in with liquidity in certain markets where necessary and take other actions to support global economies.

So that brings us to the question of how do we handle these situations?

- First off, as calmly as possible. There are potentially going to be violent moves in both directions in the next little while and all of us keeping our heads is important.
- Understanding businesses and valuation discipline are key parts of our investment process. We believe that has always served us well, but they serve us particularly well in times of volatility. We have been moving to a somewhat more defensive posture over the past 6 months or so – you may recall some

recent tactical repositioning in our Empire Life Emblem portfolios.

- This puts us in a position to take advantage of market dislocations and volatility to add to or initiate positions in businesses that we have been keen to own but unwilling to pay up for.
- There is a slightly different flavour this time around though. Between Russia invading Ukraine, troubling inflation levels and a Federal

Reserve entering a tightening cycle, I'm not certain that the Pavlovian "buy the dip" approach that people have used in recent years is going to work.

- It may be that stock selection is going to play an even greater role in the coming years, something that we feel plays to our strengths.

We hope you find this helpful and wish you and our clients all the best as we all navigate these complicated times.

¹ The Society for Worldwide Interbank Financial Telecommunication (SWIFT), is a secure global messaging network that banks use to make cross-border payments. The network facilitates financial institutions to wire money to each other, helping ensure that global trade carries on smoothly.

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