

# The Wrap Up



## Oh Dear Clients, it's a Wild World

After a two week break we return with our weekly recap and while markets have been relatively tame, there are a few events to unpack. As we will conclude, our perspective around markets has not changed significantly; we continue to remain cautious, not fearful and we continue to seek efficient investment returns in a time of high uncertainty.

Last week, Indian Prime Minister Narendra Modi paid visit to the United States and was treated to a very warm welcome. Both countries are looking to strengthen their relationship; a relationship best characterised as one of common interests and not necessarily common principles. India, after all, continues to rely on Russia for oil and weapons and rejects an outright Western-led global leadership. On the other hand, India has become the most populous country in the world, possesses the world's fifth largest economy and its mass diaspora grants it soft power that is unmatched. The CEOs of Microsoft, Alphabet, IBM are all of Indian descent, as are the heads of three of America's top five business schools. Mr Modi joined a very elite group of individuals who addressed a joint session of congress more than once (along with Churchill, Mandela and Zelensky), while the Biden administration is working on deals that cover technology transfer and defense contracts. This leads us to believe that America recognizes India's current and future role in a multi-polar world where global influence will be more dispersed than it has been in the last hundred years.

The implications from an investment perspective, are quite large. The most obvious being that increased investment in India, will lead to more wealth being created for its people. India still has a large proportion of its population that lives in poverty and it is a

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country that lacks formal structure (it only has 60M formal jobs for its 1.4B people, for example), however, when contrasting with China's rise to prominence, India may become the partner the world needs. While it is only normal that India will do what's in its best interests, if it respects global trade and intellectual property, for example, international firms would be granted access to its massive market without the fear of having to compete with the State itself. In the interim, firms like Apple, have begun to rely on India for the production of its phones and see the market as a new avenue for growth. We will monitor which firms stand to benefit the most from the strong relations between the two countries and evolve the investment approach as it suits our clients' objectives.

Last week had a different situation evolve, one where the leader of the Wagner Group (a private military contractor), Yevgeny Prigozhin almost took over Moscow in less than a day. For several months, Mr Prigozhin had expressed his dissatisfaction with the war in Ukraine; it has gone on for longer than promised, with many Russian casualties and no real direction coming from Russian military leadership. As such, Wagner forces seized control of two big cities and were within 200km of Moscow before they suddenly retreated. It is evident that Mr Putin grossly miscalculated his Ukrainian invasion when he underestimated the resolve of Western allies to support the country and overplayed his hand as a military strategist. This recent attempted mutiny may have been unsuccessful, however, it exposed his ineptitude to the Russian people and also highlighted how muted his support is within the country itself.

For the time being, there is no impact to register as it appears as though the Russian economy has not been impacted. Although they are longer the energy supplier of choice to Western Europe, Russia still exports oil to neighbouring countries including China and India; a disruption in Russian production would see both countries have to look elsewhere. This also applies to other Russian exports, be it metals or fertilizers, reminding us that commodity price shocks are always a possibility as long as Russian leadership remains in doubt. Although Mr Putin has weakened himself, history has shown us that despots can still cling on to power for a long time if there is no obvious plan for succession. It remains to be seen if commodities will trade higher to reflect a higher risk premium or if the optimistic resilience that has lead markets will look past this concern.

The North American economy has proven resilient throughout the first half of the year; the S&P 500 is up more than 14% (with the TSX up a more modest 2.5%), however, both Canada and the US have avoided recession with labour markets still quite strong. Macro economic indicators continue to point to a slowdown in economic activity (be it consumer spending or homebuilding) and interest rates are on the rise again (with Canada raising in June and the Fed expected to hike rate in July). Furthermore, examining market breadth reveals that most of this year's gains are still due to large cap tech, suggesting that the confidence in other industries is low (banking, oil and gas, retail and industrials are all well below the index return). We have continued to articulate our sense of caution and nothing that happened over that last two weeks has changed this perspective. Our portfolio stands to benefit further from its tech exposure while we look to secure profits either by shifting into underperforming, defensive sectors or into high yielding income notes.

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## Healthy Distraction

Having recently returned from vacation, I wanted to share one of my favorite experiences of the trip, our visit to l'Officina della Bistecca. The restaurant is operated by famed butcher Dario Cecchini, an eight generation butcher who has been profiled in the third season of Anthony Bourdain: No Reservations and in season six of Netflix' Chef's table. Dario possesses an interesting philosophy on life and food and is a strong advocate of respect for the animal. Before becoming a butcher, he trained in university as veterinarian but his father's illness brought him towards the family business where he continued to practice the old tradition of treating and feeding livestock in an honest and respectful manner.

The experience at the restaurant is unique; it is a set menu, with communal tables and plenty of pageantry. At Dario's, you're not just eating food; you taste, you interact, you laugh, you learn and you appreciate what's in front of you. For those who have the privilege to be in Tuscany, do not miss out in this experience.

Happy Canada Day!



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