CIBC PRIVATE WEALTH

INVESTMENT STRATEGY GROUP

MONTHLY MARKET COMMENTARY

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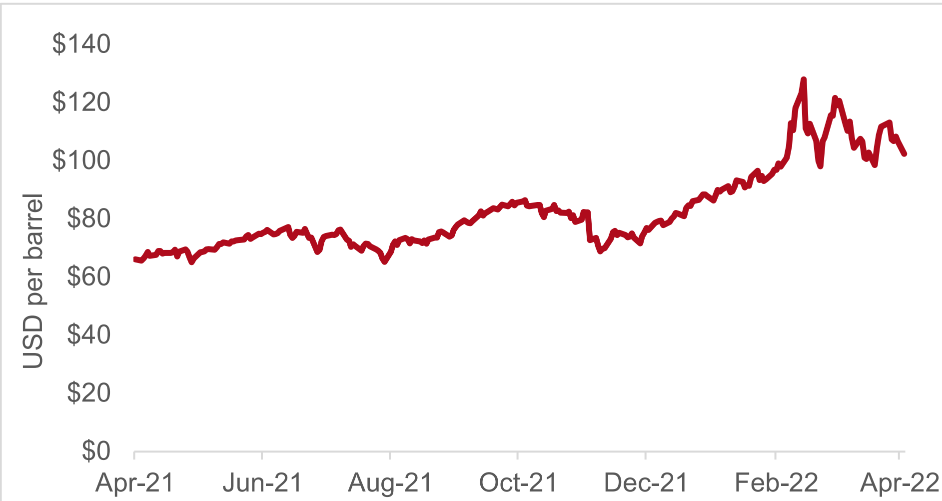
Energy cannot be created or destroyed, it can only be changed from one form to another - Albert Einstein

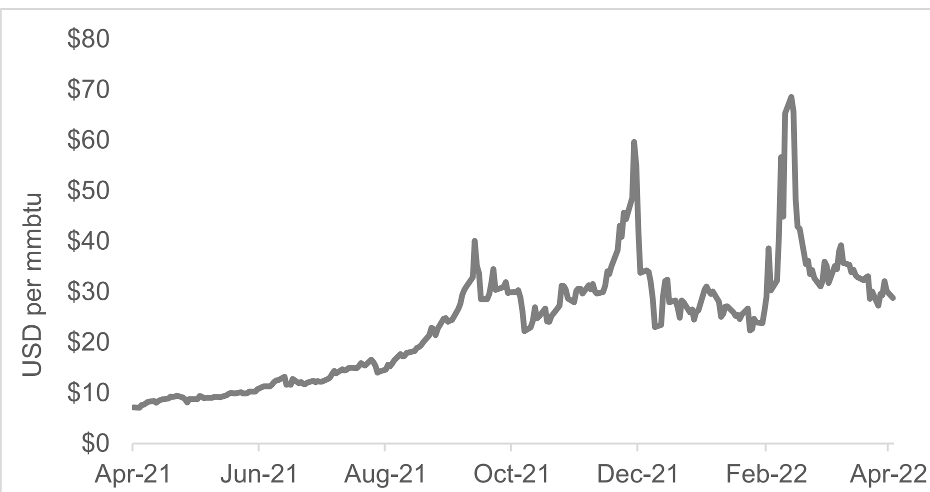
Listen closely the next time you are strolling down the street or through the office and you may overhear conversations about oil and gas prices given the impact consumers are experiencing as the elevated prices hit their pocketbooks and bring the sector back into the spotlight. When it comes to looking at the energy markets, investors need to understand that these markets, in particular, are often subjected to and may be impacted by many factors that drive near-term price volatility.

Crude Oil Price (Brent - USD per barrel)



Source: FactSet

Natural Gas Price (Netherlands TTF - USD per mmbtu)



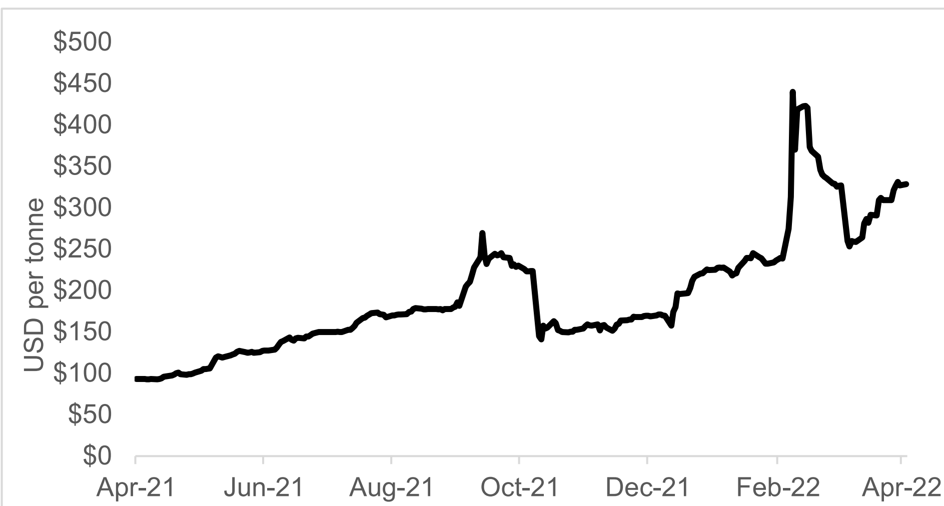
Source: FactSet

Currently, we are seeing multiple factors at play. Weather events such as the recent cold snap in Europe have driven energy demand sharply higher while hydrology and wind production declined and this is one of many things currently contributing to the rise in energy prices. Even before the recent geopolitical tensions in Ukraine tipped the scales on the current supply/demand imbalance, there were years of under-investment in energy production to consider. There are also concerns related to the rise of ESG investing, issues such as the desire to reduce Greenhouse Gas emissions and economic growth risks related to rising Covid-19 infection rates in China and a global recession. Most recently, as demand began to recover from the depths of when Covid first hit, it became overwhelmingly evident that the depletion of oil and gas supplies globally could not keep pace with demand and drove commodity prices higher. Given that all of this has added to the volatility of this commodity-driven sector, some investors have become reluctant to position themselves in this area and have chosen to avoid it altogether opting for less or no energy exposure or replacing it with exposure to renewables.

While this is a reasonable allocation for those investors who are avoiding fossil fuels for altruistic reasons, for those doing it out of discomfort or unease regarding the volatility and uncertainty surrounding traditional energy exposure, we would argue that this may simply be a case of investors not being able to see the forest for the trees. That is to say, investors may get bogged down in the near-term details and immediate chaos of a situation, in this case the current energy sector volatility, and lose sight of the bigger picture. When it comes to the energy sector, there is still a way forward for traditional sources and this means that there is still opportunities from an investing perspective.

Aside from near-term volatility, investors need to understand that larger shifts and changes are inevitable given the ongoing long-term transition happening in energy but this is not a reason to avoid the sector. A recent example of this is what is happening and likely to happen as a result of the war in Ukraine. Russia, as a large supplier of oil and gas to Europe, has further exasperated the supply and demand balances with its aggression in Ukraine. Near-term, we suspect energy security is front-of-mind, particular for European countries that rely heavily on Russia, driving prices up for a variety of alternate energy sources including liquefied natural gas (LNG), coal, and nuclear. So given this new dynamic, how should the world's nations view this current situation? Taking a similar approach to portfolio management, they may consider the benefits of portfolio diversification to mitigate risk and volatility in their countries' energy supply. In this case, energy diversification, especially for European nations with less internal production appears to be a sensible consideration going forward. This creates a possible opportunity for North American producers to potentially fill that gap in supply by Europe.

Thermal Coal Price (Newcastle Benchmark - USD per tonne)



Source: FactSet

While it is clear at this point that renewables have become the wave of the future that does not mean traditional energy sources (fossil fuels) will be extinct any time soon. The industry is in the midst of a slow decline rather than a fast substitute. The industry is also investing in technology to address some of the key ESG concerns. This means that while investors will see opportunities in the renewable space and in new more efficient means of fuel (i.e. blue/green hydrogen), there will continue to be opportunities for above-average gains made in the traditional areas. Investors should consider approaching it from a portfolio perspective as a slower changing of the guards where the risk/reward of each security is considered against your risk tolerance and time horizon. A fear of the ebbs and flows of the market should not drive investors to a complete avoidance of a sector because ultimately, volatility creates opportunity.

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CIBC World Markets interest rate outlook

Interest rates (%) – End of Qtr	25-Apr-22	Jun-22	Sep-22
Canada 3-month T-Bill	1.30%	1.55%	2.05%
U.S. 3-month T-Bill	0.84%	1.70%	2.20%
Canada 10-year Gov't Bond Yield	2.91%	3.15%	3.00%
U.S. 10-year Gov't Bond Yield	2.93%	3.15%	3.00%
US$/C$	0.80	0.79	0.79

Source: CIBC World Markets Inc.

CIBC World Markets economic outlook

Economic outlook	2022F	2023F
Canada Real GDP Growth (% Chg)	3.60%	2.80%
U.S. Real GDP Growth (% Chg)	3.80%	2.80%
Canada Consumer Price Index (% Chg)	4.50%	1.90%
U.S. Consumer Price Index (% Chg)	5.20%	2.50%

Source: CIBC World Markets Inc.

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