

February E-Letter To Clients

Dear Clients,

In this newsletter we will be covering recent developments in the financial markets, discussing key topics of interest, and bringing you engaging content and advice from the world of financial planning.

Estimated time to read: 5 minutes

Market Update

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The dominant storyline at the moment continues to be the development of the Russia/Ukraine conflict in Eastern Europe. Rising geopolitical tensions have contributed to higher levels of volatility in the financial markets, which we discuss in more detail below. While the developments in Russia/Ukraine will likely remain the dominant storyline over the next few weeks, we will also be closely watching the Bank of Canada and US Federal Reserve this month.

Both central banks are expected to increase their respective domestic interest rates in March. The Bank of Canada is expected to raise interest rates by 0.25% on March 2nd and the Federal Reserve in the US is expected to raise interest rates by the same amount when it meets on March 16th. Although we believe that interest rate increases have largely been factored into the markets already, we will be watching for guidance on the direction of interest rate policies for the remainder of the year.

The Future Is Technology

Dave Morgan

Each year ARK Investments publishes a summary of their Big Ideas. ARK Investments is an ETF manager located in New York. ARK manages about \$12 billion (according to ETF.com as of Feb.4, 2022) (all figures in this article are expressed in US\$) in a broad number of Thematic ETFs which trade in the US. All of these ETF's share a common link which is technology.

Recently I reviewed the 2022 Big Ideas report. ARK's research highlights 5 areas of innovation which ARK believes are evolving rapidly and converging. Over the coming decade ARK believes Artificial Intelligence, Blockchain Technology, Energy Storage, Robotics and DNA Sequencing will reach a critical point where costs of these technologies will decline dramatically. The consequence will be the embracing of these technologies that further drive innovation.

Artificial Intelligence involves computer software and other computational devices which are capable of learning and changing by integrating data. ARK estimates this market sector, which includes a number of subsectors,

such as the Internet of Things, Cloud Computing, and more powerful Mobile devices will grow from about a \$10.5 trillion value in the stock market in 2020 to \$108 trillion by 2030.

Blockchain Technology (BT) promises to eliminate the need to house documents and records in a central location. We are already witnessing areas in the economy adopting blockchain for record keeping. Blockchain includes what is known as the digital wallet (DW). DWs allow anyone with a connected device to transact money instantly. Like your bank convenience card only incorporated into your smart phone. ARK estimates the value of this sector in the stock market in 2020 was \$1.4 trillion. By 2030 ARK estimates this area will have a market valuation of \$49 trillion.

With the rapidly growing market of electric vehicles (EV) the Energy Storage area is continuing to grow steadily thanks to the declining cost of storing energy. The value in the market in 2020 was estimated to be \$1.5 trillion. ARK is forecasting this sector will have an equity market value of \$32 trillion.

The Robotics area had a market valuation in 2020 of just \$168 billion. Robotics includes robotic manufacturing such as the robots used in auto manufacturing. This area also includes 3D printing which can be scaled to very large items and may provide the next iteration of “just in time” delivery. ARK believes the market value of this sector by 2030 could reach \$10 trillion.

DNA Sequencing is a very young scientific field. As the costs of sequencing decline, the ability of science to harness this field for medicines and treatment will increase substantially. In 2020 ARK estimates this sector had a market value of \$125 billion. By 2030 ARK believes this category will have a market value of \$3.6 trillion.

It is important for anyone reading this to appreciate this is a forecast by ARK Investments. It can and likely will overestimate and underestimate the growth in these technology sectors. Only time will tell. Wes and I often discuss valuation in the market. Different sectors in the economy will at times be valued higher or lower than the long-term average of that sector. Over the years I have observed many areas in the market which focus on technology have been valued higher than the long-term average of similar companies and sectors.

ARK Investments CEO Catherine Wood has seen a challenging year. The assets of her ETFs peaked at \$28 billion in February 2021. By February of this year according to ETF.com the assets of ARK were \$12 billion. Many folks would say that Cathie Wood’s expectations for the growth in these innovative industries is misplaced, and that is why the ETFs has lost assets. I would argue that her views are not misplaced. Rather, I believe that many investors lack the patience to realize the rewards that these innovative technologies can generate over the longer term. Where it continues to be suitable for a client based on their risk tolerance and capacity, I would not count ARK out

Geopolitics and the Stock Markets

Wes Taylor

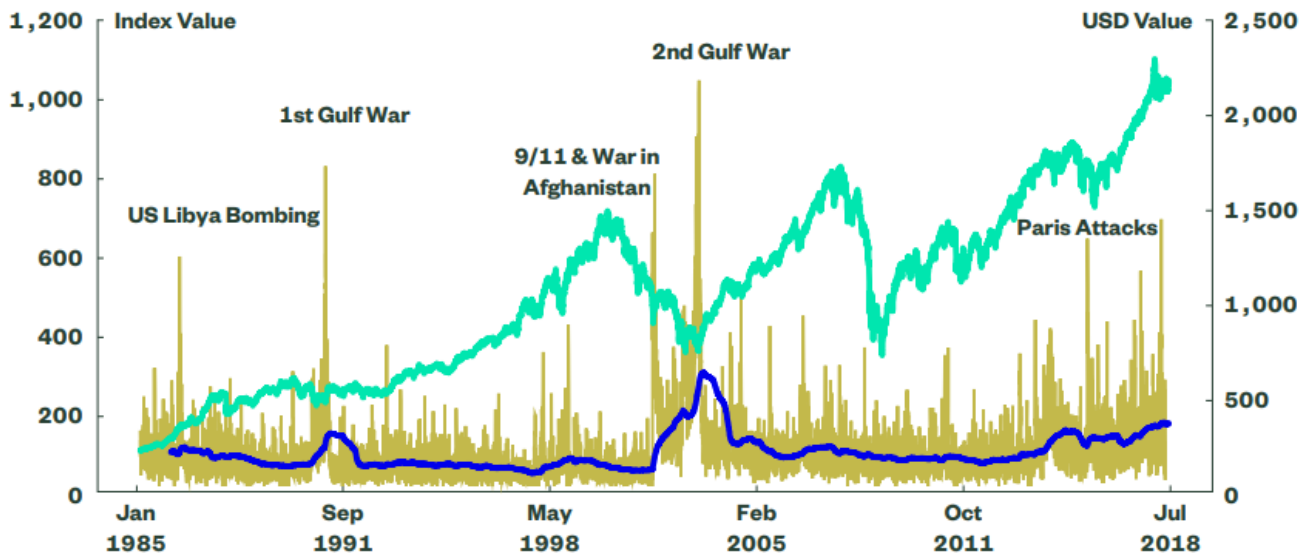
As the Russia/Ukraine conflict continues to unfold, we are being inundated with news that is both disheartening and concerning. Of course, Dave and I make every effort to stay on top of the news cycle when geopolitical tensions are high and adjust portfolios accordingly. But it is important to ask, how do the markets typically behave in times like these?

Author and alternative investment strategist Marko Papić writes in his book “Geopolitical Alpha” that few geopolitical events have a lasting impact on stock markets. Going back to the 1962 Cuban missile crisis, the pattern has typically been an initial fall in the major stock indexes which is then followed by a rally over the following year, and often a strong one. An article in *The Economist* cautions against acting on advice from “armchair generals”, arguing that in times like these it seems that everyone is an expert on complex geopolitical issues.

But a little knowledge can be a dangerous thing, especially when it leads to investment decisions that are based on an incomplete and imperfect understanding of international politics and military strategy. Papić notes that from an investment perspective, geopolitical events move more quickly than you can possibly act on, and this can easily lead investors astray.

If we look at 9 major geopolitical events since 1970, 6 of the 9 events had positive market returns in the year after the event and 5 of those 6 years saw market returns above 20%.¹

The table below shows the world stock markets (green line) plotted against a Geopolitical Risk Index (in yellow). Interestingly, the table shows that spikes in geopolitical risk since 1980 do not have a strong correlation to sustained market declines.



Source: State Street Global Advisors Research using GPR index data from <https://2.bc.edu/matteo-iacoviello/gpr.htm#home> and MSCI World data from Bloomberg.

Whenever we see developments like the ones unfolding in Ukraine today it is understandably concerning. While we are always assessing the markets for risks, it is helpful to understand how financial markets have absorbed periods of heightened geopolitical tensions in the past.

¹ <https://www.ssga.com/library-content/pdfs/official-institutions-/how-does-geopolitics-affect-financial-markets.pdf>

Ongoing Reminders

- The TFSA (Tax-Free Savings Account) contribution room for 2022 is \$6,000.00
- For your RESP (Registered Education Savings Plan) you are able to contribute to qualify for the 2022 CESG (Canadian Education Savings Grant).

We hope that everyone is keeping well,

Dave and Wes

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