

Assessment of the Russian Invasion of UKR

<IMPACT AND OPPORTUNITIES FROM THE RUSSIA-UKRAINE WAR>

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I will accept questions via eMail

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Outline

- **The War- Putin, Sanctions, Peace talks**
- **Risk from loss of Russia, Ukr Exports**
- **Impact on Europe**
- **Oil, Nat Gas**
- **US Investing outlook**
 - **1Q 2022 Return Heat Maps**
 - **US Oil, Fixed income, commodities**
 - **GDP, Growth outlook**
 - **Market thoughts, Pressures**
 - **Fed, inflation, UST rate inversion, Stagflation, balance sheet runoff**
 - **Callan Table**
 - **Where we are in the Business Cycle**
 - **Review of My Tickers**
- **Summary**

Issues to deal with in our Investing Life in 2022

- **The war and its fallout**
- **Inflation- Commodities In general, supply chain, Oil, food etc**
- **The Fed's response- fighting inflation- AGGRESSIVE**
- **Earnings (looking backwards) & Guidance (looking forward) in face of inflation**
- **Covid variants, but BA.2 now causing issues- whats next?**
- **Even if the war comes to an end sanctions on Russia are likely to stay in place**

THE WAR ISSUE

- Russia Invaded UKR Feb 24, 2022, And we don't know where Putin will stop..
- Troops had been massing for some months prior
- UKR pushing back hard, very dependent on support for military material
- Why has Putin invaded?
 - Putin's ambitions to restore the former USSR
 - USSR fell in 1991- reverted to Russia plus satellite Countries
 - His Objectives in UKR- Takeover, complete surrender, Russian friendly govt
 - Reference the clues in his 5000 word epistle (Taken down from the web)
 - Ref Web Description leading to a dead end> "[Article by Vladimir Putin "On the Historical Unity of Russians and ...](#)" Jul 12, 2021
 - (<http://en.kremlin.ru/events/president/news/66181>)
 - Wiki has a description of the content>
 - https://en.wikipedia.org/wiki/On_the_Historical_Unity_of_Russians_and_Ukrainians

Putin's History- Power Hungry and Ruthless

Born in Leningrad, now St Petersburg, Russia in 1952

St Petersburg is on the Baltic- next to Finland

Studied Law, graduated in 1975

KGB- 16 Years as Intel officer

Started political career in 1991 in St Petersburg

Joined Yeltsin's Admin in Moscow in 1996 as Director of the Security Service

Appointed as Prime Minister of Russia in 1999 by Yeltsin, then succeeded him as President

Served as Acting President and then was elected President in 1999 re elected in 2004

Served as PM from 2008-2012, with Dimitry Medvedev as President for 4 years, then was President again

Has a history of censorship, controls the Military and the media

Aggression, Invasions- MO- Flatten cities & kill the citizenry

2nd Chechen War 1999

Malaysian Flight 17- Shot down by Pro Russia Rebels 2004

Georgia- August 2008

Crimea- March 2014

Syria- 2015

Ukr latest - Since 2014, Feb 24. 2022

UKR Map- Large- About the size of Texas



Areas in Contention in UKR + Troop Buildup

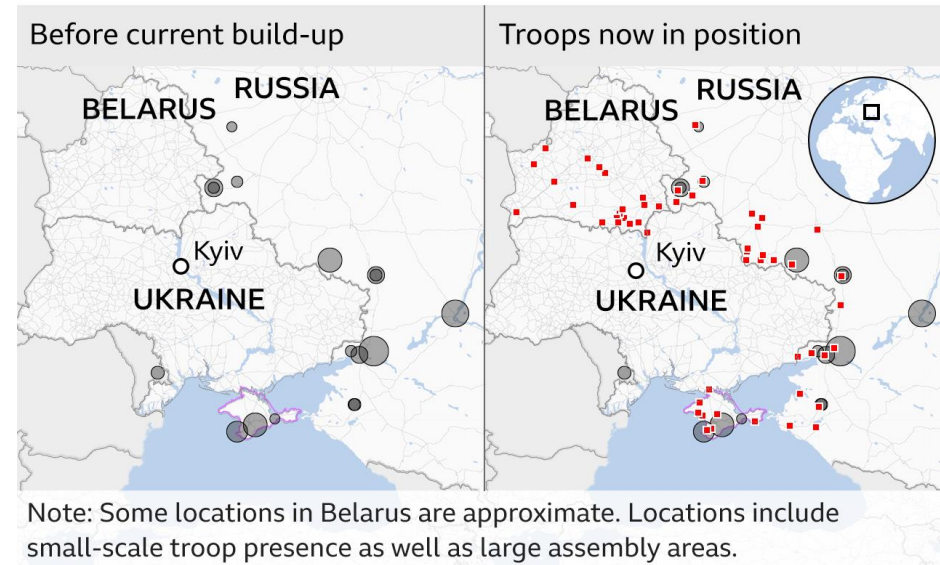
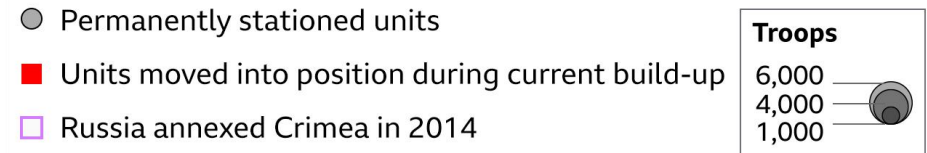
The Donbas Region

Putin Recognized the Donetsk & Luhansk Regions of UKR as independent Feb 21. Then he ordered Russian Troops in to “keep the Peace”



Here is the prior Russian Troop staging prior & just before the invasion

Russian troop build up around Ukraine



Source: Rochan Consulting, Maxar, 23 February

BBC

UKR & Western Europe



Sanctions- Applied, not deterring the Invasion

- **Feb 24- Top 10 Russian Financial Institutions**
- **Feb 25- Putin & Lavrov plus others**
- **Feb 26- Agreement to cut off Key Russian banks to SWIFT**
- **March 8,10- EO banning certain imports (Oil, other Energy)**
- **March 11- Further restrictions including North Korea**
- **March 24- To isolate Central Bank's ability to make transactions**
- **April 6- More banks. Putin Family**
- **Note- Europe has not banned Russian Oil imports**
- **< Also cutting off/Isolating Belarus a key ally of Russia>**
- **Not comprehensive early or even by end of March**
- **In the beginning repeated claims of “deterrence”- multiple WH & Staff statements including the VP**
- **On Mar 25- denial of claims by Biden in Poland**
- **More sanctions coming- Big Military arms better**

Peace talks- A series of talks Fail to end Hostilities

- **February 28th**
- **March, 3rd**
- **March 7th**
- **March 10th**
- **March 29th**
- **Looking much more difficult after atrocities**

Opinion: “Talks” won’t easily resolve this- both sides are dug in. Putin wants UKR, may settle for the Donbas Region, which Zelensky will rightfully say is UKR territory- but may concede for peace. Putin has been after this since 2014. Stalemate?

Russia & Ukr 2021 GDP Rank

2021 Nominal GDP Rankings by Country per the IMF

1. United States (GDP: 20.49 trillion)
2. [China](#) (GDP: 13.4 trillion)
3. Japan: (GDP: 4.97 trillion)
4. [Germany](#): (GDP: 4.00 trillion)
5. [United Kingdom](#): (GDP: 2.83 trillion)
6. France: (GDP: 2.78 trillion)
7. [India](#): (GDP: 2.72 trillion)
8. [Italy](#): (GDP: 2.07 trillion)
9. [Brazil](#): (GDP: 1.87 trillion)
10. [Canada](#): (GDP: 1.71 trillion)

In most lists Russia comes in at # 11

Note- Some lists have South Korea ahead of Brazil

UKR is about #55 in GDP Rank

**Based on the current war both Russia and UKR are sure to fall in rank
Their products are consequential for the world's economies in some key areas**

#10 & #41 & Heading lower

**Note- Russian Stock Market
graph in Back up- Was closed
for several weeks- now open.
Down significantly**

US/Allies Support for UKR

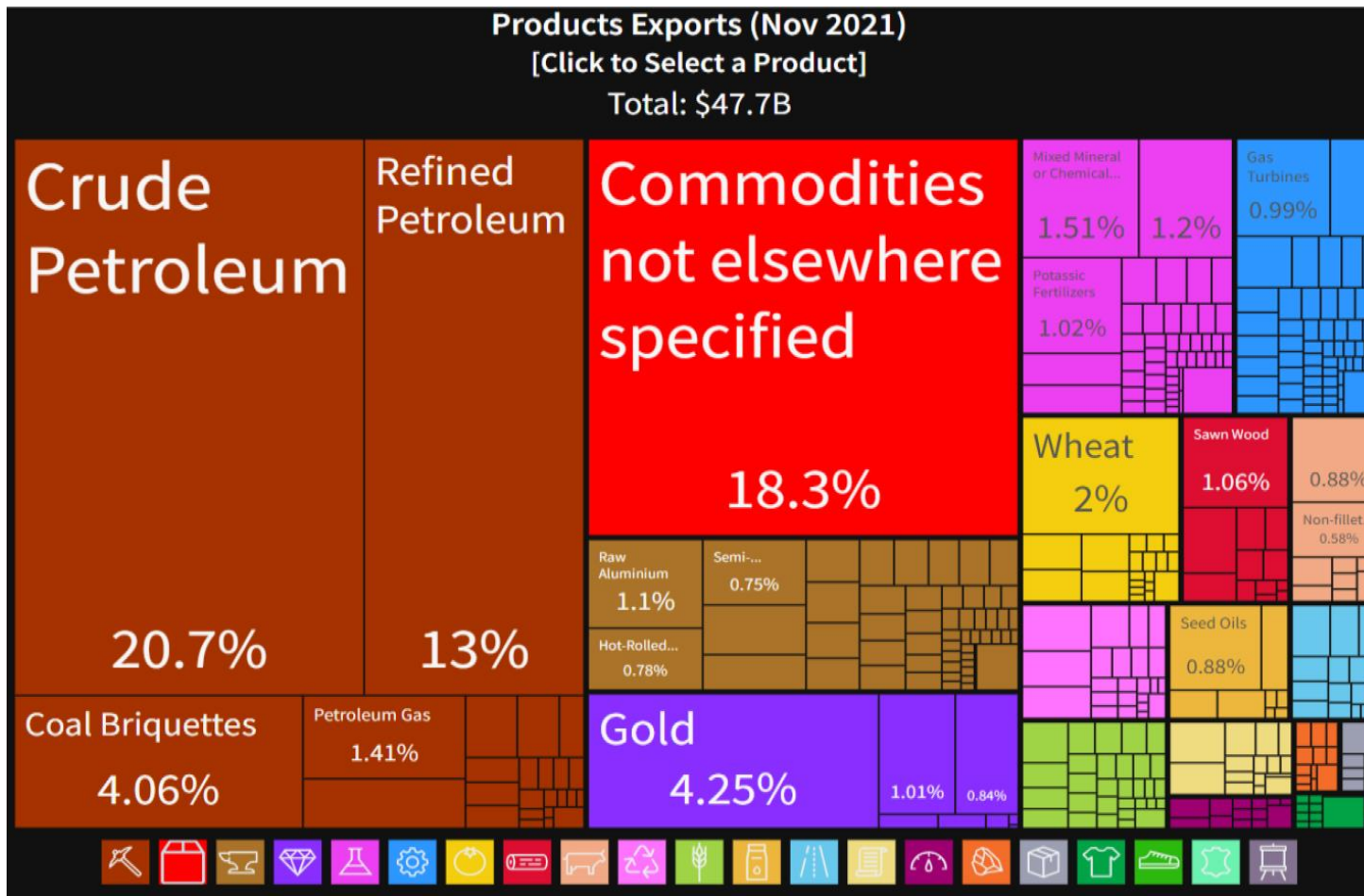
- **Humanitarian support**
 - Refugee homage of 4M near end of March, primarily to the Eastern block
 - US plans to accept 100K refugees
 - Many charitable contributions
- **Military**
 - Javelin FGM-148- 2.5 Km range portable heat seeking missile effective at armored vehicle attack
 - Stingers- 4800 Km range heat seeking anti air missiles (Admin now silent on this)
 - Munitions and gear
 - US sending addl Troops to NATO
 - Eastern block countries adding 4 new Army divisions
 - Germany and others adding to defense budgets- Years past failed to meet NATO support of 2% GDP. Long range plan
 - Turkey supporting with TB-2 Drones
 - *Cries for Mig fighters from Poland unresolved*
 - *Cries for S300 air defense unanswered*

Overall, support could be more substantial and faster

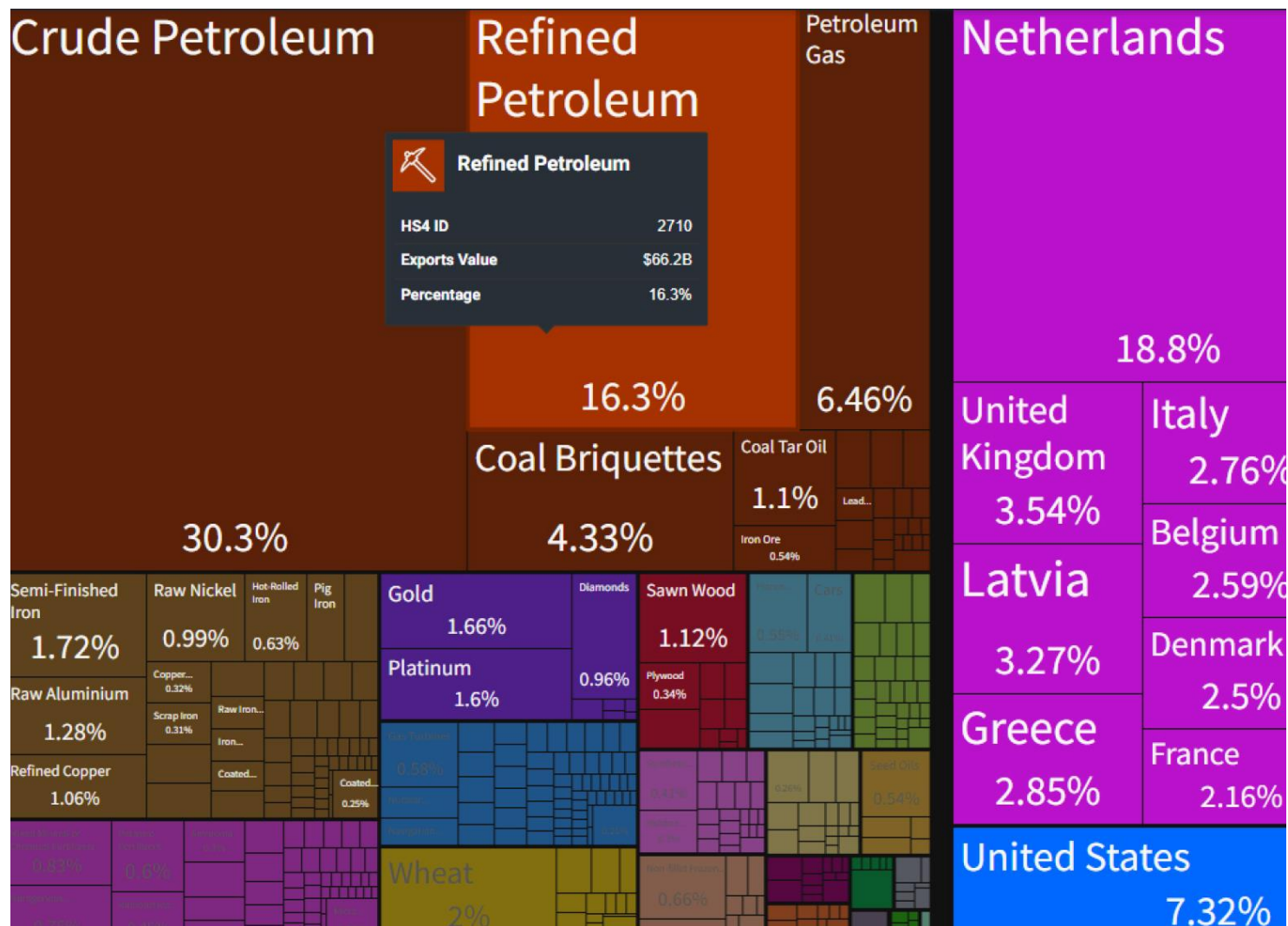
Russia Key Exports 2021- Oil, Nat Gas, Grains, Metals

Exports will be severely hampered by sanctions- shortages coming

Oil, Grains, Palladium for autos, aluminum and more



Russia key Exports- 2020- Oil/Gas- Bird's Eye View



← Russian Exports to US- Oil plus- Now sanctioned

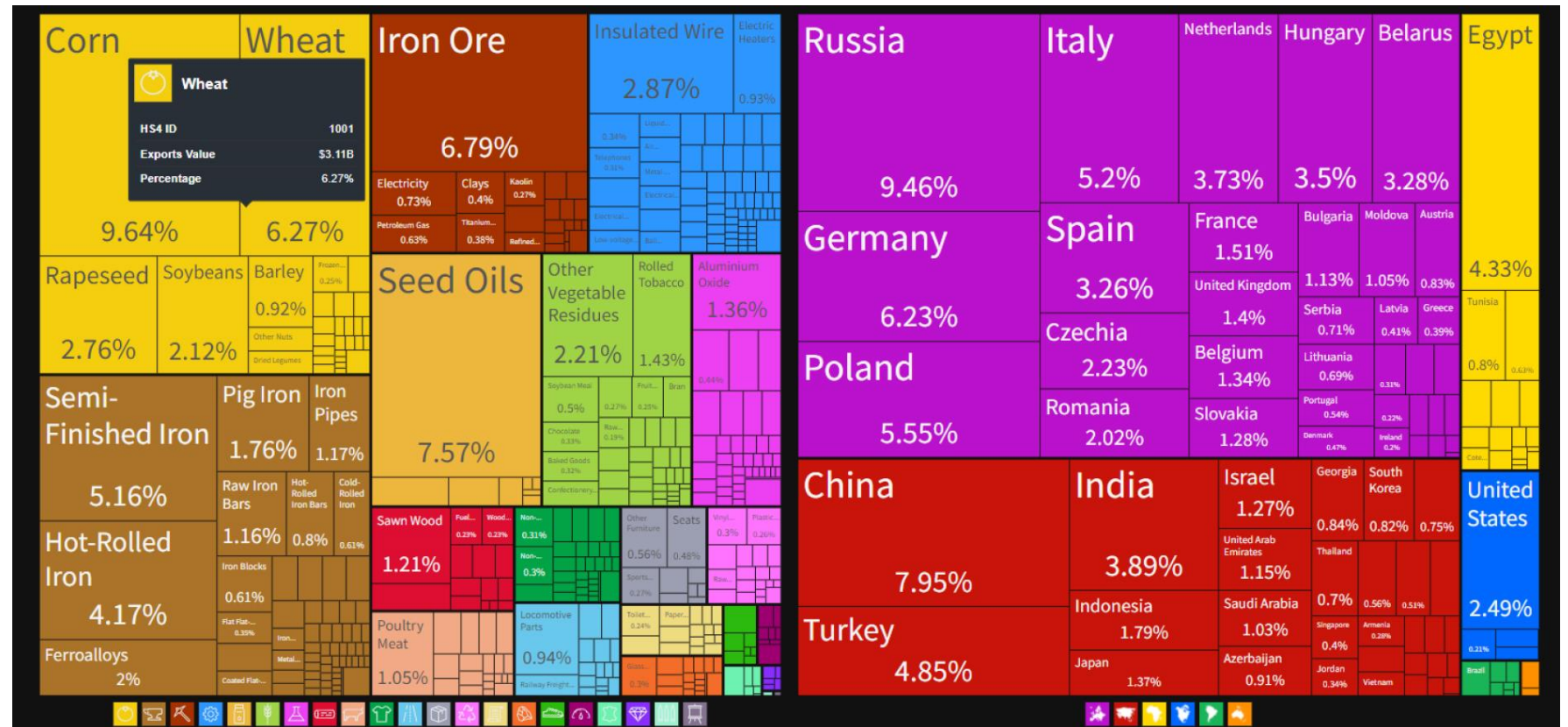
UKR Key Exports- Focus Grain Crops, also Neon & More

I think there will be surprises in shortages down the road- April 5-EU auto short of wiring harnesses from UKR

UKR two Neon suppliers account for about 50% of the world's supply of NEON used in SEMI production

One supplier is in Mariupol- highly shelled, One is Odessa taken by Russia

Semis & grains at risk

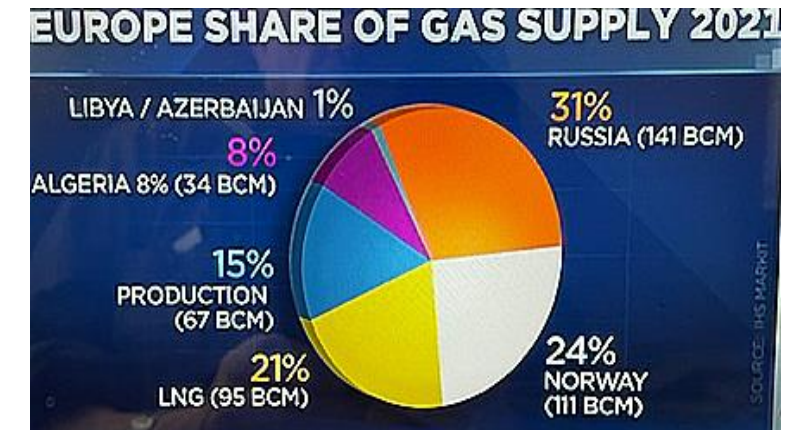


UKR Ag Crop Risk

- **UKR Minister reported that there is substantial risk with UKR supply**
- **Expects severe loss of production- likely 1/2**
- **Country at war**
- **Planting difficult**
- **Dependency on Russia for Fertilizer**
- **Exports reduced as long as Russia controls port and sea access**
- **Only other route is rail via Eastern block countries**
- **Shortages may cause famine in the Middle East**
- **Key crops are Wheat, Corn, Barley, Rapeseed (key source of protein, canola oil and is a very large WW crop)**
- **We have good supply in the US & from Canada, but costs up**

Key Europe Investing Issues

- **Difficult to invest in now**
- **Negatives**
 - The war- Shortages/More defense spend
 - Dependence on Russian Energy
 - The EU governance- Brussels
 - National cultures
 - Slow Growth- limited tech
 - Absorption of immigrants
 - Brexit
 - ECB limited, does not control individual country rates
- **Positives**
 - A positive is higher dividends but usually semi annually
 - Hard to invest directly at a retail level, but Funds, ETFs & ADRs are the rule for US investors
 - Very large trading block



Nat Gas & Electricity Cost Driving UP PPI in Europe

- **Germany declared Nat Gas Emergency March 30**
 - No rationing yet
 - Issue on cost & payment
 - Contract in Euros; Putin wants Rubles
- **Dutch Nat Gas for Feb at \$119**
- **Vs US Nat gas at \$5-\$6**

Feb 2022 PPI PRIOR TO THE WAR. Wind is not blowing, sun not shining, Energy costs UP



Europe's Nat Gas Pipelines- Dependency on Russia

Nordstream 2 Pipeline in yellow- was to feed Germany with Russian Nat Gas

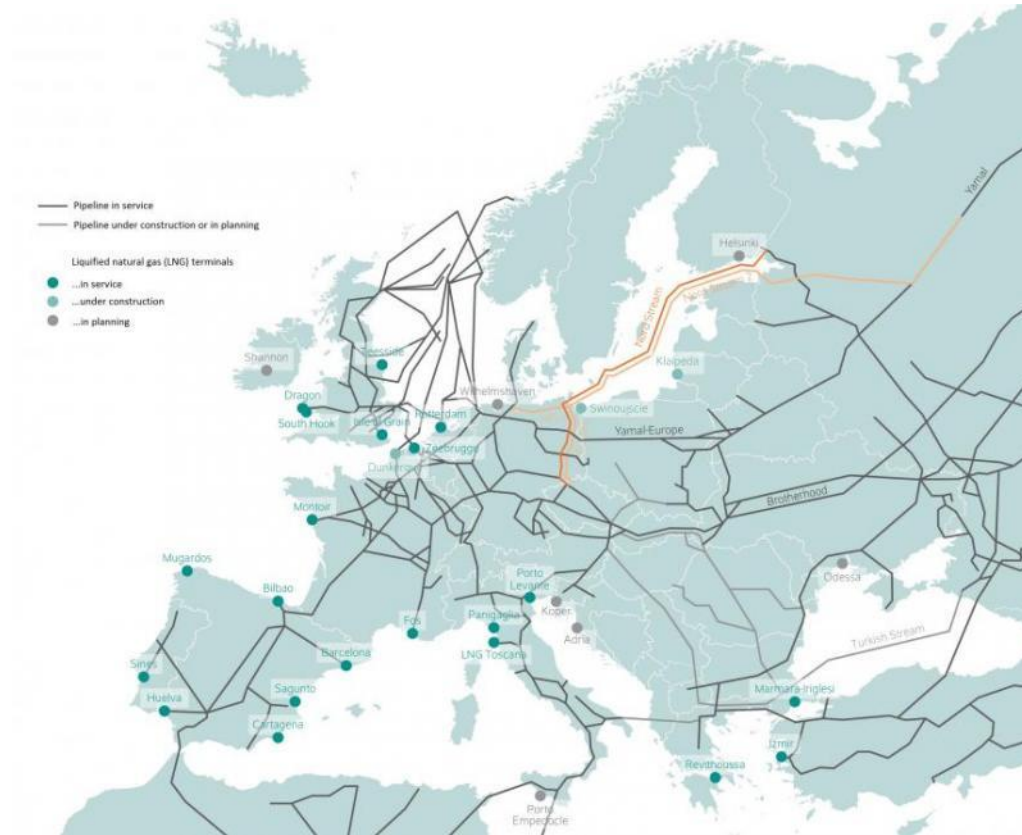
Trump admin implored Germany to abandon the project- ignored by Merkel

Now Germany is dependent on Russia for nat gas. Germany is now shutting down the project

Nat gas in us is approx. \$4.5 vs Europe at \$50-\$100. After Fukushima Germany shut down Nuclear reactors. Now dependent on Russia and renewables

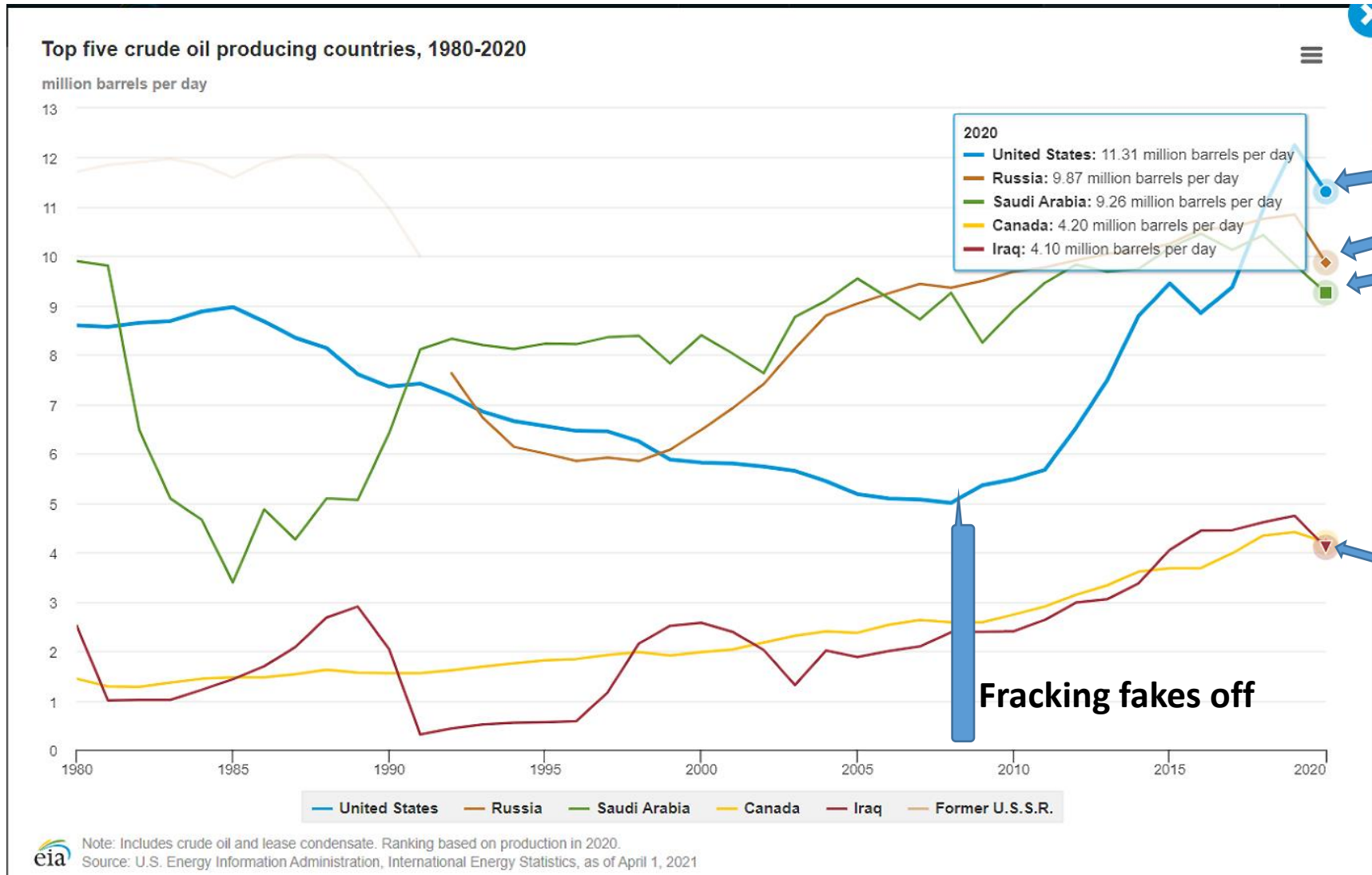
In my career at IBM we designed for redundancy & avoided single points of failure. Germany did not

US has agreed to provide about 15B cubic meters of Nat gas to the EU. Exports to Asia being diverted but not sufficient & will take time



Adding US Nat Gas capacity is long lead and the EU has insufficient ports to satisfy total demand. Weaning off of Russia will take Multi Years

Top Oil 5 Producing Countries- 1980-2020 per IEA



Million Barrels of Oil

USA 11.31M

Russia 9.87M

Saudi Arabia 9.26M

At least 3M
Barrels of Russian
Oil will be
blocked- hard to
replace

Canada 4.2M

Iraq 4.1M

Note the US
consumes 20% of
WW supply.

We produce about
11% of WW Supply

Other Asia/Oceania/Latin America

- China dominates, aging, CCP heavy hand, volatile, slowing, lockdowns
 - Japan- poor demographics, growth slow, imports oil.energy
 - Taiwan at risk from one China policy
 - Australia- resource rich, investing in natural resources
 - New Zealand- Obscure , isolated, but stability
 - Indonesia- large demographic, resource rich especially copper
 - Latin America- resource rich, trend to onshoring in Mexico, rates up in Brazil, but outperforming in 2022 (ILF ETF)
 - Middle East, oil rich, attempting to diversify, Iran deal would drop oil prices
-

US Market Pressures

- **Note-** many tickers went into a bear market months ago- Indices were held up with a few stocks
- **The Fed**
 - Pivot end Nov 2021 and amp up this week
 - QE to QT
 - Balance Sheet reduction huge impact- no plan yet but harsh rhetoric
 - Now Signaling an aggressive Fed
- **Admin**
 - Admin unfriendly to business, especially energy
 - Seeking a 15% min tax on Domestic plus Intl earnings= hits US Multinationas
- **Inflation**
 - Supply chain/shipping
 - Oil, Food stuffs
 - Covid
 - Labor/Housing
 - War aggravates the problem
- **War**
 - Risk of protracted hostilities and expansion
- **Covid**
 - Potential spread of Omicron BA.2/China Lockdown posture. BA.2 now 55% of US infections. Now we have XE variant in some foreign countries (cross of BA.1 and BA.2)

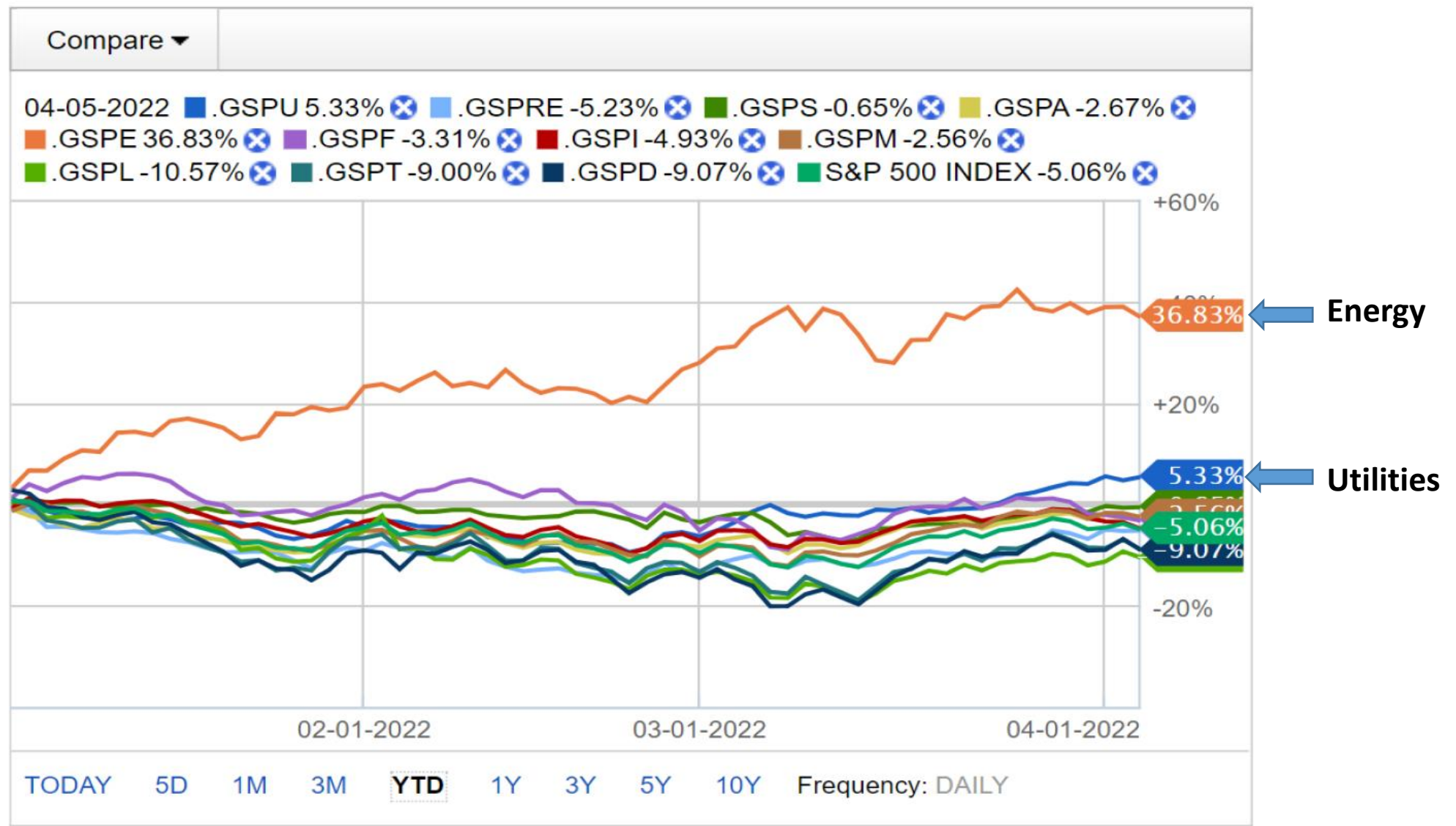
**Energy & Utilities
Only Positive
sectors YTD. Too
small to carry the
SP 500**

NASDAQ Bear market- moved to Correction

Bond Price BIG losses



Sector Performance YTD 04/05/2022



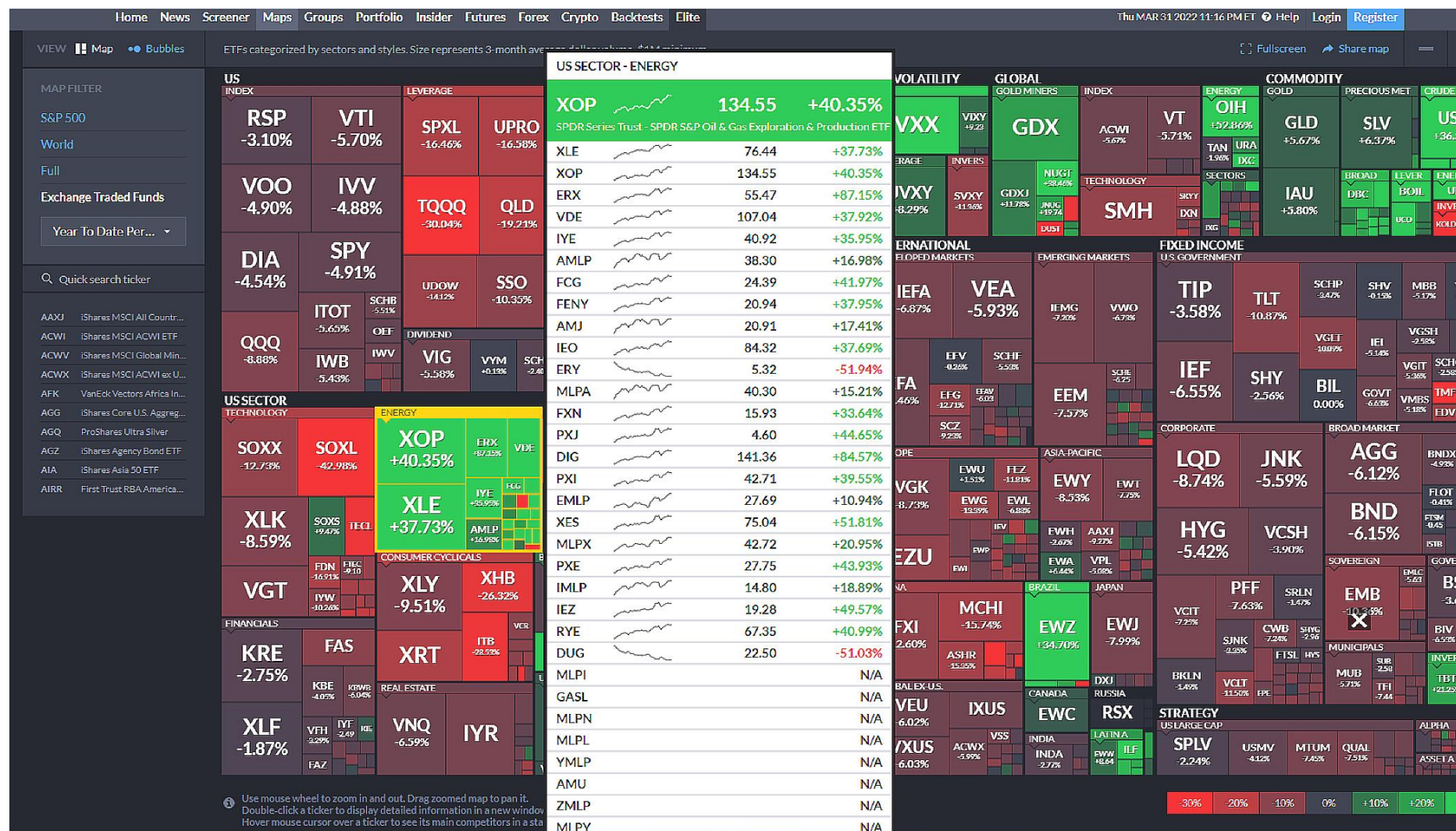
ETF HEAT MAP- YTD END 1Q per Finviz- Energy Displayed

Select ETF
in the
menu

Select the
Time
Frame

Hover
over the
Area of
interest

The ETFs
in the area
pop up
with key
data



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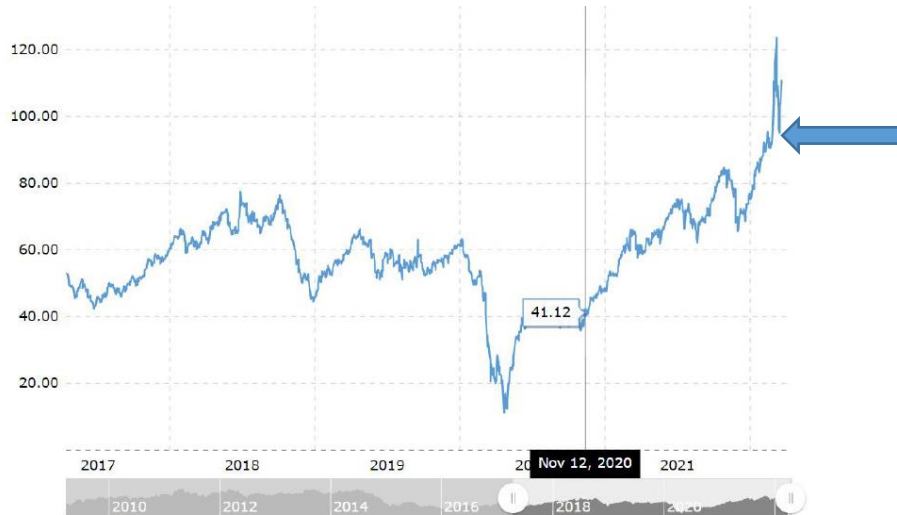
Oil Price Spike

- **WW Market Priced in US \$**
- **Two key Benchmarks US- WTI & North Sea Brent for International**
- **Imports from Russia increased under Biden- 600K Barrels/Day**
- **18 Tankers at Sea coming to the US with Russian Oil. Ban not immediate**
- **Europe very dependent on Russian Oil- No Sanctions on sale**
- **Sanctions limiting lending & Insurance for shipping- self sanctioning**
- **China, India, others buying Russian Oil**
- **Sanctions impact on price as a result on supply/demand unbalance**
- **Strategic Petroleum Reserve release 1, 2 are not a fix, but other options hard**
- **Admin focus on renewables years away for adequate supply**
- **Return of taxes- Ca (\$400 each for 2 cars) & others possible**
- **Admin wants more US producing now but EPA slow walking with Regs & shortages**
- **Supply tight WW & ability to produce more is limited (Except possible Iran Deal may increase market supply)**

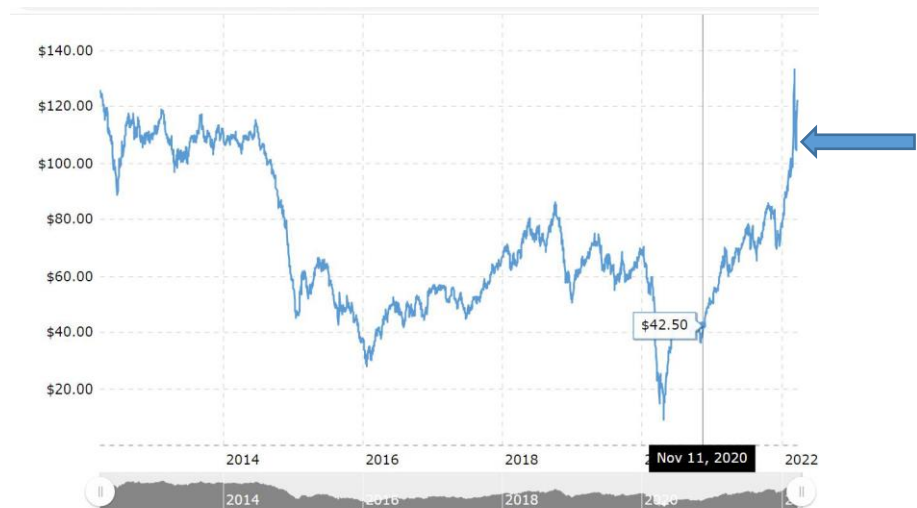
5 years WTI & Brent oil- Plus US BH Rig Count

<For a primer on oil suggest a review of my June 2015 pitch on Oil in AAll Silicon Valley Archive>

Both WTI and Brent futures popped the day after the 2020 election- at the vertical line. “Putin’s Inflation: is that spike at the extreme right of the plots where the blue arrow is



**West Texas Intermediate (WTI)
is the key US benchmark.**

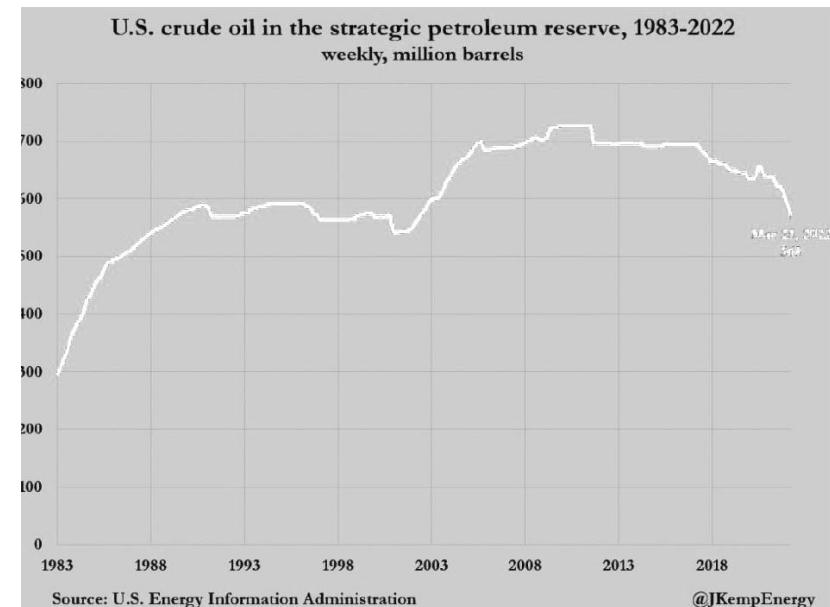
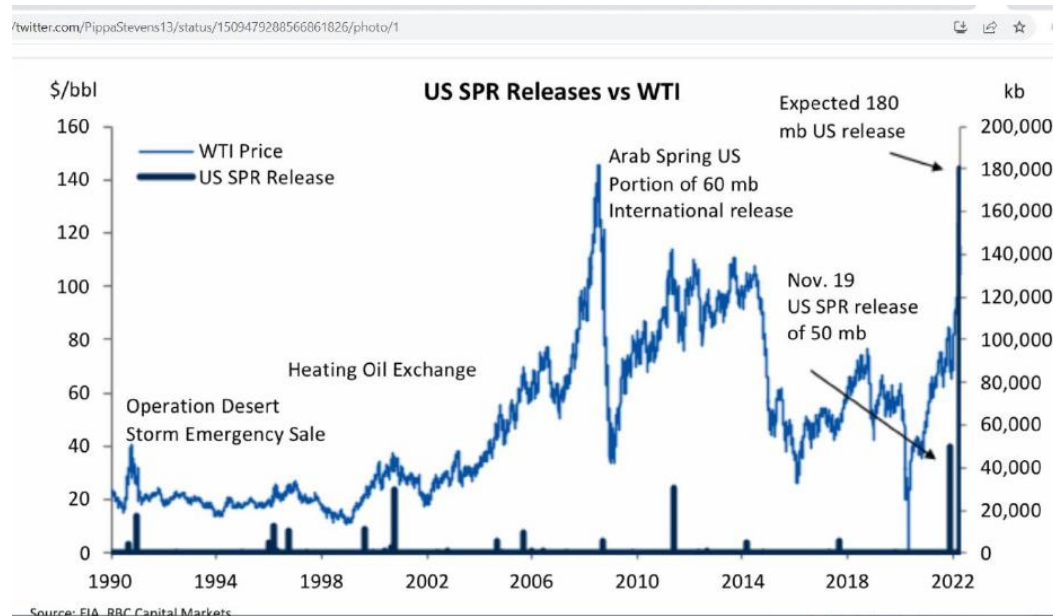


**Brent North Sea Oil is the key
International Benchmark**

Rig Count	Last Count	Count	Change from Prior Count	Date of Prior Count	Change from Last Year	Date of Last Year's Count
U.S.	01 Apr 2022	673	+3	25 Mar 2022	+243	01 Apr 2021

Oil Supply Outlook- OPEC+ and US SPR Release

- OPEC+ has a plan to add 400K Barrels of oil supply a month. They voted end March to add 432K- they will revisit monthly . The SPR release will discourage addl supply increases.
- Biden Admin announced an SPR release Mar 31 of 1M Barrels a day for 180 days. It is now at 530 M Barrels in the 4 locations. Pretty close to the Mid Terms and it will need to be replaced
- In the meantime, the Biden Admin has been courting the Saudi's, VZ and others to pump more and being rejected. An Iran nuke deal could drop prices (Iran capacity 3.8M/Day)
- Here is some data on SPR Capacity and release history. The last one (50M) did not move the needle this one is



Fixed Income- Caution: The Bond Bull Market is likely over

- We are now in a rising rate environment so caution is advised on all fixed income Instruments due to rising rates and duration risk
- The Feds new priority is fighting inflation by raising the FF rate
- Despite expected higher rates- the 2 Year UST has had significant upward changes- has flattened the yield curve. The markets are working for the Fed
- A menu of offerings and some typical tickers
 - Treasuries (SHY, IEF, TLT)
 - Corporate (AGG)
 - TIPs (TIP)
 - High Yield (HYG, JNK)
 - Preferreds (PFF)
 - Munis- California- (CMF, PWZ); (VCAIX, SWCAX, FCSTX, FCTFX, FCMAX)
 - Closed End Funds- Many, consult the Barron's CEF pages. Leverage is used to boost returns. Traded on premium or discount
 - BABS (Build America Bonds)- (BNN, GBAB) < Due to the Tax Change some changes>
 - Bank Loans (BKLN, FLOT)
 - International, Sovereign < Currency comes into play so consider hedged instruments>

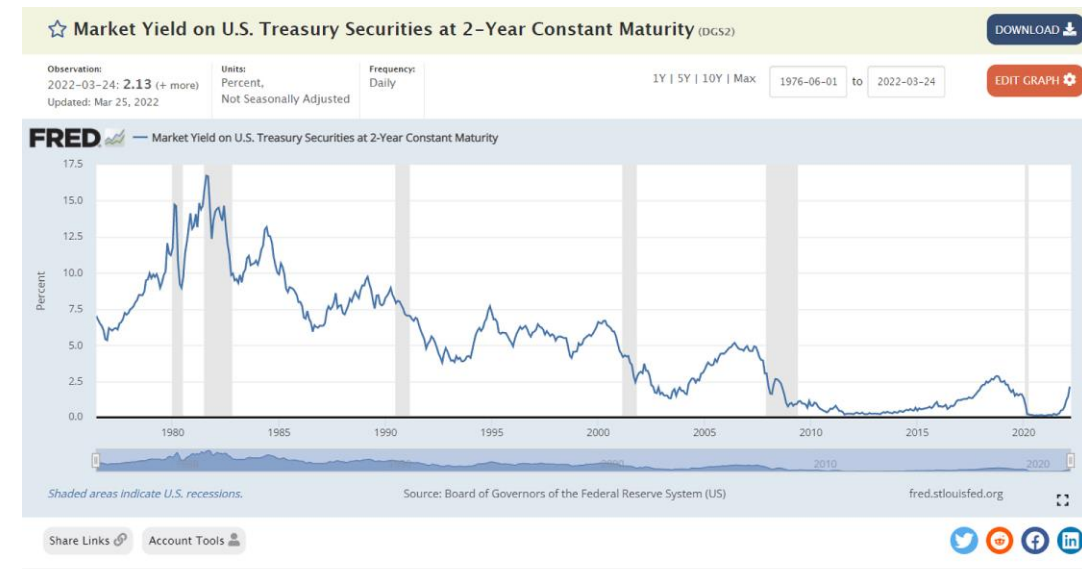
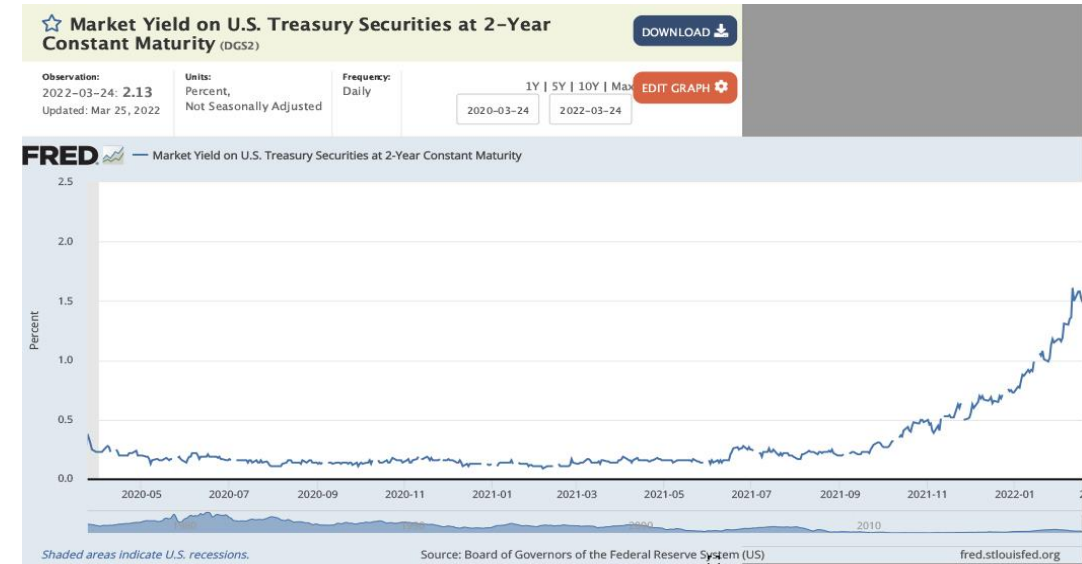
US Treasuries- 2 Year Maturity Plot

Note the rise in the 2 year last fall on the plot of the last 2 years, This is characteristic of UST rates- All UST rates went up

2 year UST- 1 Year

Here you see the history of the 2 Year UST since late 1976. The peak is when Fed Chair Volcker raised rates to break the back of inflation. At the time I got a CD paying 16%. The Bond market has been in a bull market since until 2008 and then in 2020. Now over

2 year UST- 1976>



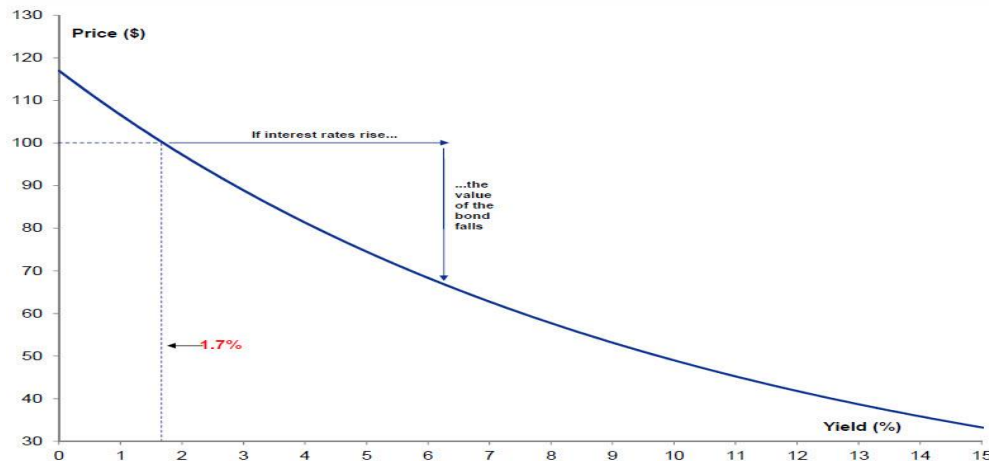
International Bonds- iShares IGOV Intl Bond

2 Year Plot IGOV
Longer Duration
YTD -8% →



Bond Principal Risks- Rates Up Price Down

- Rule of thumb- A credit instrument with a duration t will gain or lose a % about equal to t
 - Example- If a bond has a duration of 10 years and the rate moves up 1% (Say from 2% to 3%) it will lose about 10% in NAV
- After a 30 plus year bull market in bonds we are at the inflection point on rates. In a rising rate environment bond losses are sharp and painful
- Consider to shorten your duration or go to floating rate securities or consider a bond ladder
- A 50/50 Portfolio may not work now as it did during the 30+ year bull market in bonds



<http://www.zerohedge.com/news/2013-04-25/bonds-101-yields-prices-and-inflation>

GOLD/METALS- Commodities on the Rise

- I am very skeptical of ability of all EV makers to secure battery material supply

=====

- Vulnerable to headlines
- Gold/Silver/Copper
 - Commodity vs Miners
 - GLD/SLV vs GDX, GDXJ, NEM, PAAS etc
 - FCX, SCCO for Copper
 - Think EV vehicles
- Base metals- XME
- Lithium- LIT ETF, Albemarle
- Rare Earths- REMX. MP
 - Mostly China, some Russia
 - US- MP Materials
- Russian Exports
 - Nickel- Needed for steel
 - Palladium- Russian Export
 - Needed for Catalytic Converters

Commodities- Prices on the rise

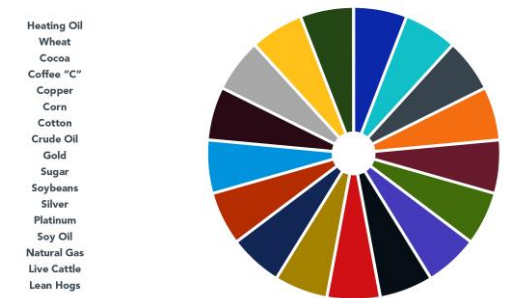
- Commodity prices are moving up
- Tracking war news- Peaked and fell back recently
- Commodity Trade is done by **FUTURES** at the commodity exchanges
- Contracts require **DELIVERY**
- We retail folks can trade via ETFs
- Some “diversified” ETFs are DBA, DBC, Wisdom Tree GCC, GUNR
- Think Oil, Grains, Metals, Coffee beans, cotton and their producers & consumers
- Hard goods vs softs
- You will see some ETFs in my tickers

<Charts are from 2018>

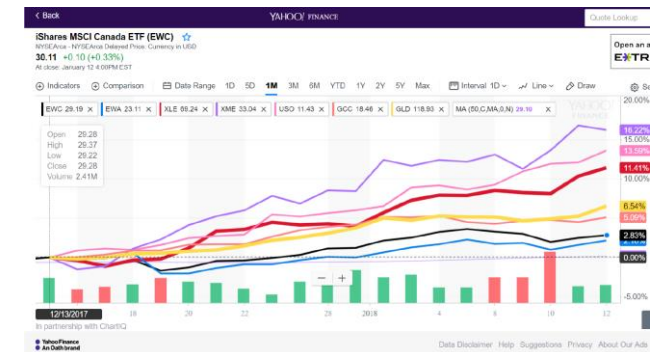
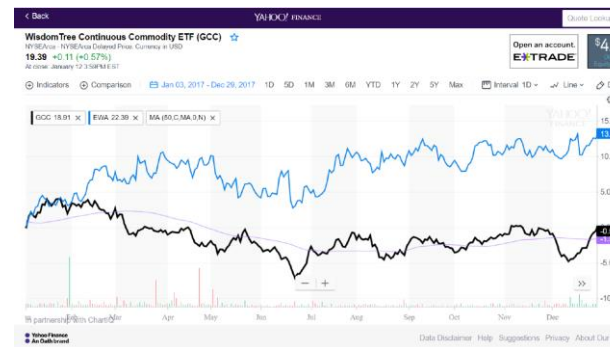
Thompson Reuters CRB Index
Ags a little above oil related



Wisdom Tree Equal Weight in GCC ETF
Favors Ags over Oil related

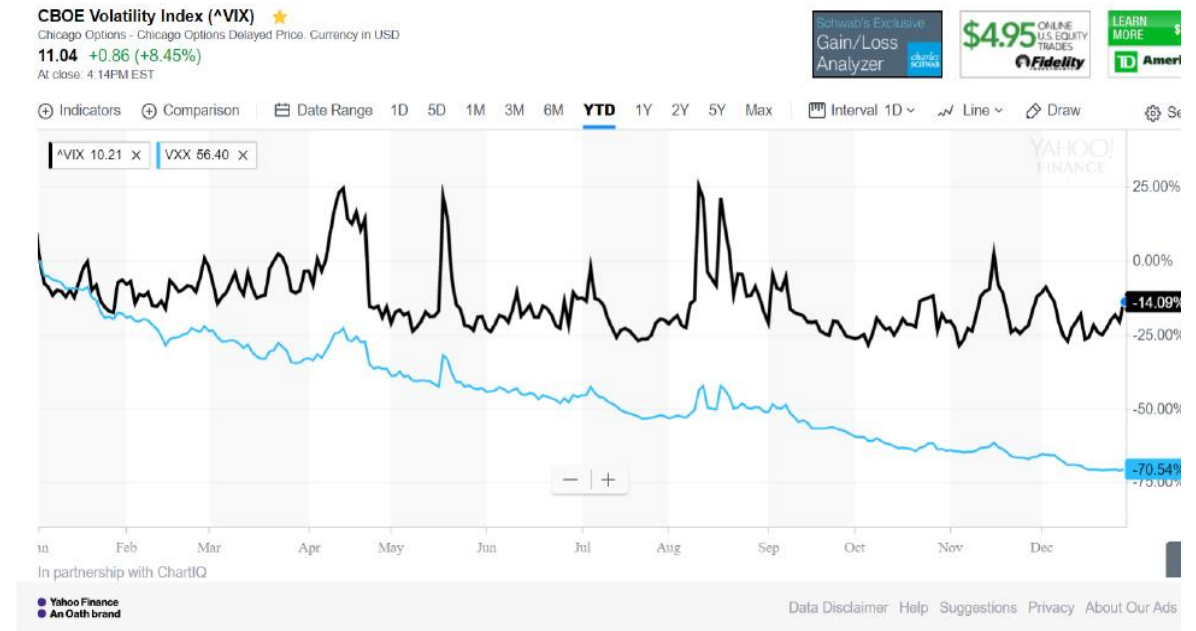


Wisdom Tree Equal Wt GCC vs Aussie EWA XME outperforms since Tax Bill



Volatility ^VIX vs VXX- An unreliable ETF- Option decay

- ^VIX is the [ticker symbol](#) for the [Chicago Board Options Exchange \(CBOE\)](#) Volatility Index, which shows the market's expectation of 30-day volatility.
- This volatility is meant to be [forward looking](#), is calculated from both calls and puts, and is a widely used measure of [market risk](#), often referred to as the "investor fear gauge."
- Only use this as a short term trade vs an investment
- VIX increases as a function of fear or for protecting positions
- Very Low VIX (approximately 15 & under) indicates complacency and is a contrary indicator
- VIX during the financial crisis rose to 89.53
- VIX is played by options or via an ETF- "VXX"
- "VXX" has a miserable history as it is based on futures. The options decay and expire worthless- the option roll makes it a bad bet
- Oil has its own VIX (^OVX)- it is a cousin of ^VIX- use it as a read on trader sentiment for oil. Others exist



-
- Recent ^VIX rose from 21 30 36 and is back to 21 as of end March.

US GDP Actuals & Estimates 2021 & 2022

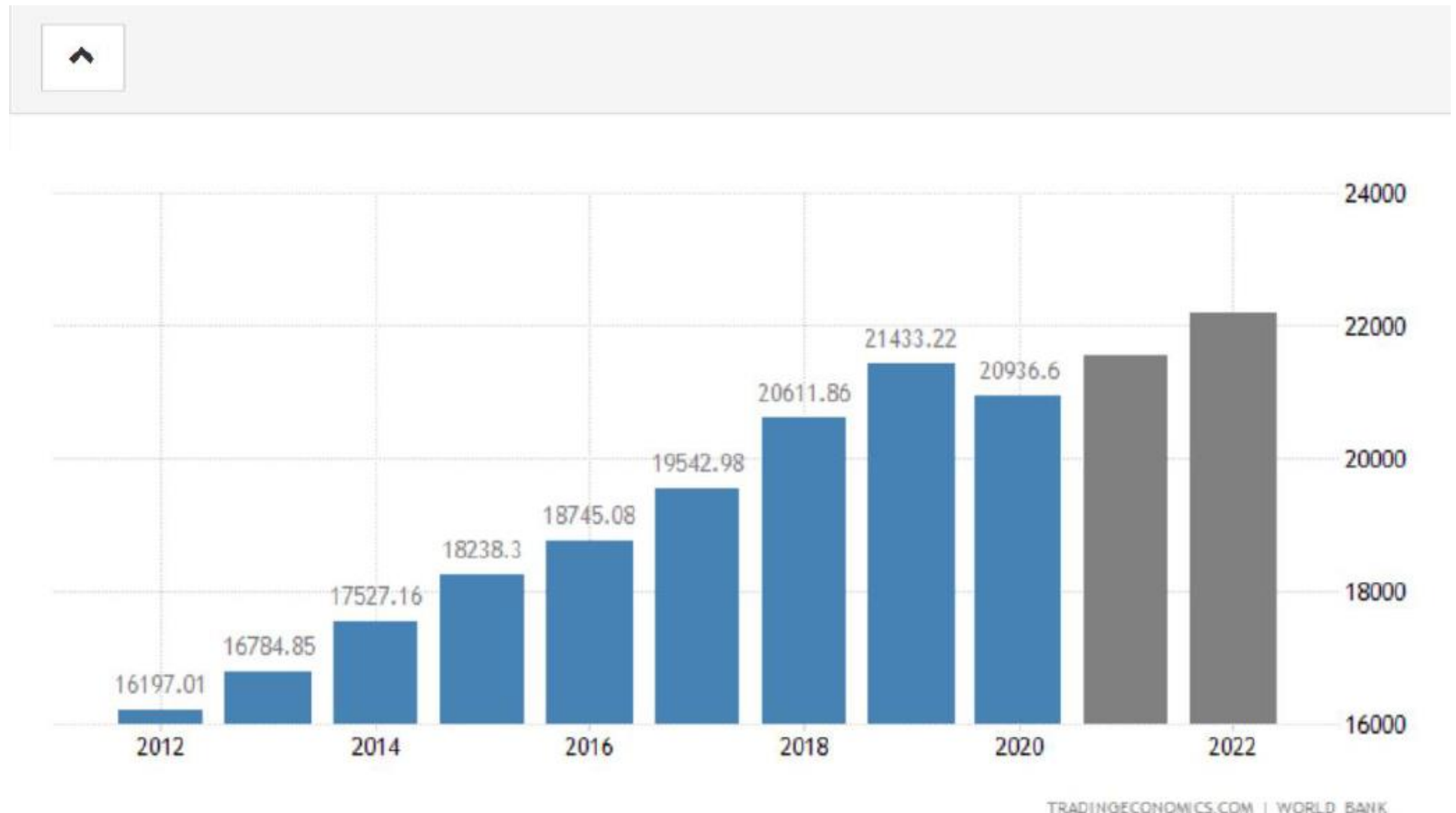
Values in
Billions

Blue bars are
actuals

Grey bars are
estimates

Q: What is the
current 2022
Outlook?

A: Murky
outlook- many
large
unknowns



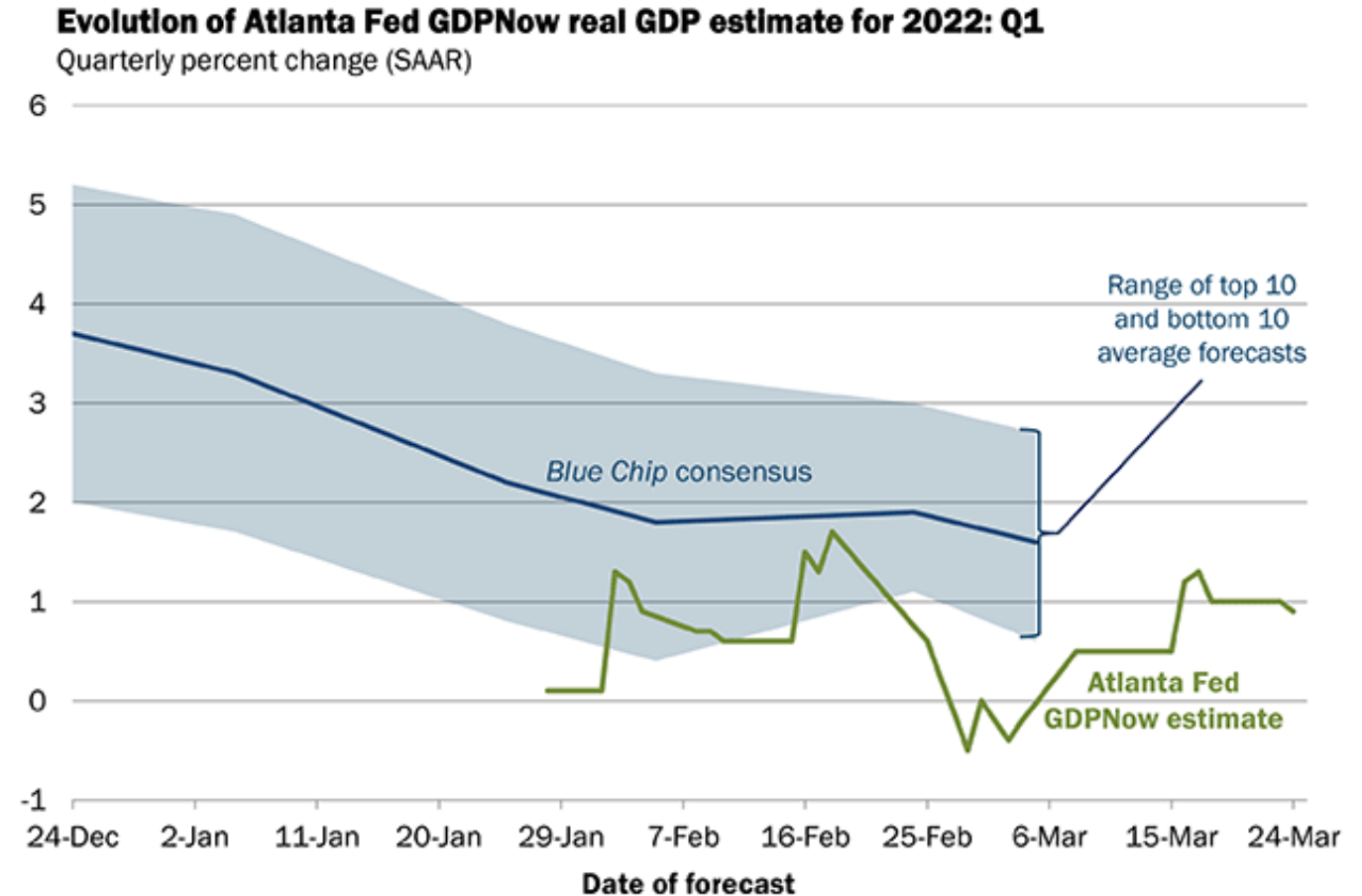
GDPNOW- 1Q22 Atlanta Fed vs Blue Chip GDP Est

GDPNOW 1Q 2022 GDP estimate now down to around 1%

You can see the Blue Chip estimate sloping down

2021 GDP by Quarter per CNBC
6.3/6.7/2.3/6.9%

There are many possible outcomes depending on the War/Geo Political outcomes, supply chain, Fed, Covid, and consumer sentiment- huge unknowns with large GDP upside unlikely. A slowing economy



Sources: Blue Chip Economic Indicators and Blue Chip Financial Forecasts

Note: The top (bottom) 10 average forecast is an average of the highest (lowest) 10 forecasts in the Blue Chip survey.

SP 500 Earnings Forecasts- Tabulated by CNBC- My view- hard to achieve

**Maximum target: 5,330 —
John Stoltzfus,
Oppenheimer**

**Minimum target: 4,400 —
Mike Wilson, Morgan
Stanley**

Average target: 4,920

Median Target: 4,900

A wide range- 4400 to 5330

**As I scribe this chart the SP
closed at 4510.3 (Apr 5)
Peak for the year- Jan 3 @
4777.1**

We are at 4530 end of 1Q

FIRM	2022 S&P 500	2022 EPS	IMPLIED P/E
BANK OF AMERICA MERRILL LYNCH	4600	\$173	26.59
BARCLAYS	4500	\$223	20.18
BMO	5300	\$245	21.63
CFRA	5024	\$220	22.81
CITI	4700	\$226	20.8
CREDIT SUISSE	5200	\$235	22.13
DEUTSCHE BANK	5250	\$230	22.83
EVERCORE ISI	4800	\$228	21.05
GOLDMAN SACHS	4700	\$221	21.27
JPMORGAN CHASE	4900	\$235	20.85
MORGAN STANLEY	4400	\$227	19.38
OPPENHEIMER	5330	\$230	23.17
RBC	5050	\$222	22.75
UBS	4850	\$242	20.04
WELLS FARGO INVESTMENT INSTITUTE	5200	\$235	22.13

How to Estimate the YE SP 500 target- Earnings x PE Ratio

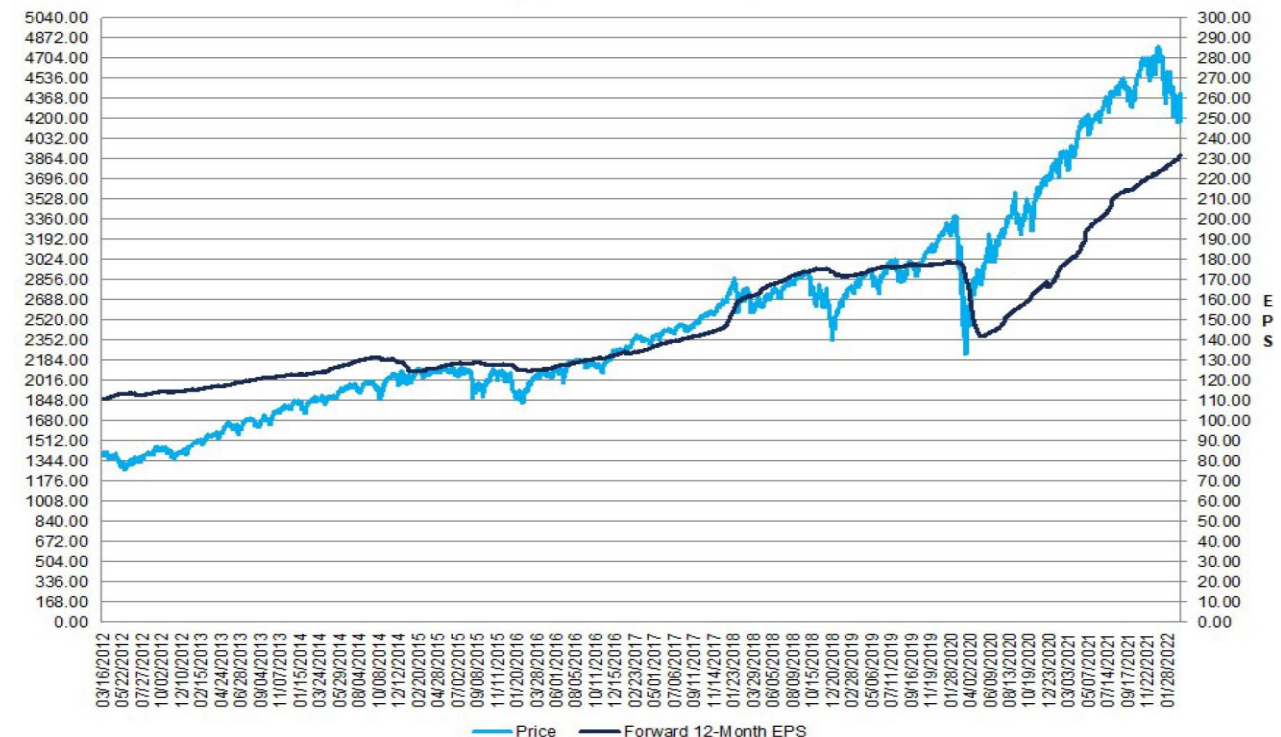
<2018 pitch> Bespoke valuation chart from 2009 below shows a way to estimate the SP 500 target
 You need to know the est earnings and the PE
 IF: SP 500 YE 2018= earn (150 eps x 20 PE =3000)

So get the earnings for the year times the PE and you have it



YE 2022 Est by Fact Set = \$230 per share
The graph is a 10 year track vs SP 500
2021 YE Close= 4766.18.

S&P 500 Change in Forward 12-Month EPS vs. Change in Price: 10 Yrs.
 (Source: FactSet)



Latest Earnings Estimates by Quarter- per CNBC

- Bob Pisani of CNBC reported the following April 4

- Q1 \$51.54
- Q2 \$55.92
- Q3 \$59.24
- Q4 \$60.75

- Annual earnings est \$227.45

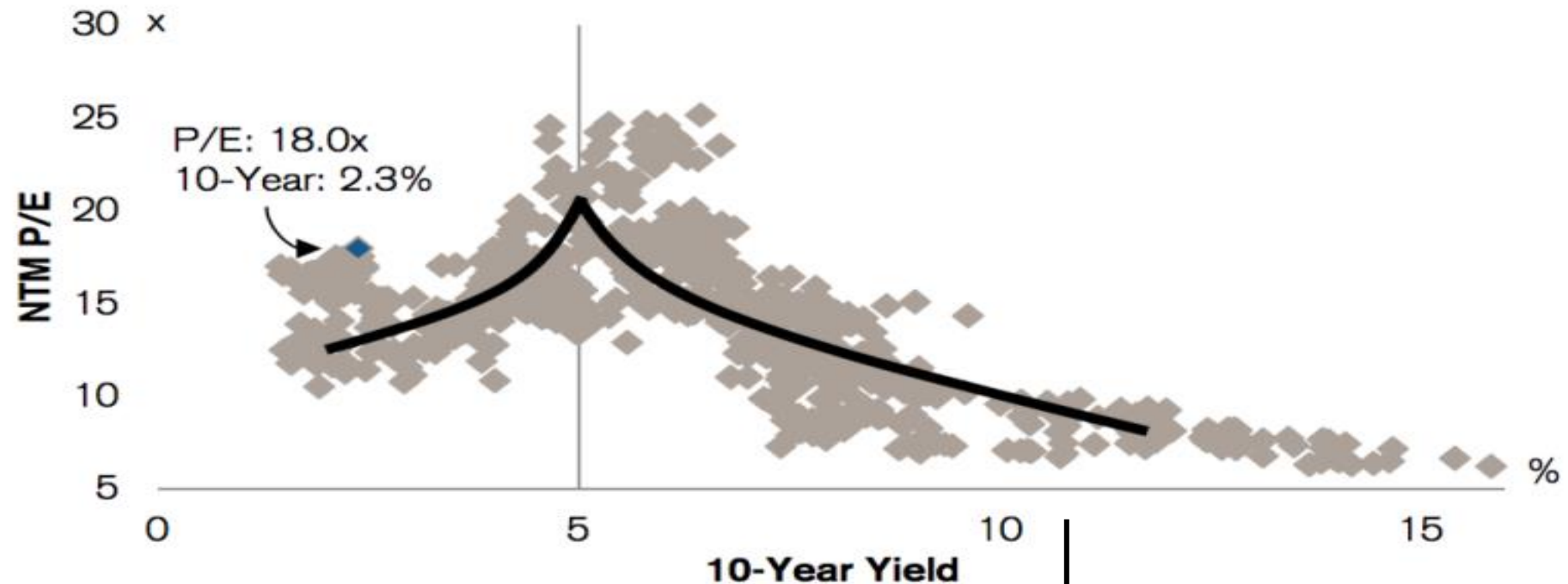


- With a PE of 20 leads to a Year End SP 500 of 4549 vs End March 4516 plus div
- The Current PE is 26.07- with that & the earnings above we get SP at 5915
- With the number of unknowns there are a wide range of outcomes
- Keep your eye on the ball- Earnings reports, Guidance, Fed, Inflation, War, Covid

Metrics Drivers SP 500 Earnings

Watch Yields and Fed!

Figure 4: Valuations vs. 10-Year Treasury Yield



Source: Standard & Poor's, Federal Reserve, Thomson Financial, FactSet, Haver Analytics®, Credit Suisse
Note: 1965 to present

Fed Overview- Major Changes Coming SOON

- **Controls the Fed Funds Rate, provides regulatory functions over banks**
- **The Fed is “politically independent” or so they say**
- **The Fed has 8 scheduled meetings per year- 4 with press conferences**
- **Fed Chairs during the 30 plus year bull market in bonds**
 - **Volcker, Greenspan, Bernanke, Yellen**
 - **Volcker broke the back of inflation in 1980, 1981, starting a bull market in bonds**
- **Powell/Brainard are not yet confirmed for Chair/Vice Chair terms**
- **4 Votes Rotate every year on a prescribed schedule to the districts**
- **2022 is a year of major transition as go from QE to QT> RATES UP**
- **Fed very hawkish towards fighting inflation**
- **Fed Pressers, Fed Minutes and Fed Speak move markets**

Fed- Normalization- Rates Going Up

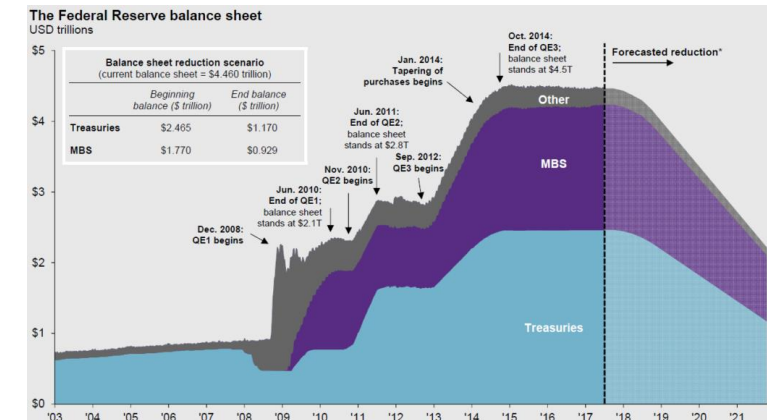
What is Normalization? A return to Normal monetary policy. It means leaving the emergency rates behind, raising the FF rate and then working off the Fed's enormous balance sheet to pre pandemic levels- \$9T to approximately \$4.5T. That will be painful and take time.

The first Rate Hike Announced At Fed Presser Mar 16- FF Rate 1-.25 to .25 to .5, managed to .375%. The Fed plan was to raise an additional 6 times in .25 bps increments. Now low. Since then Powell, Waller, Bullard and Mester have signaled a 50 bps hike at the next meeting

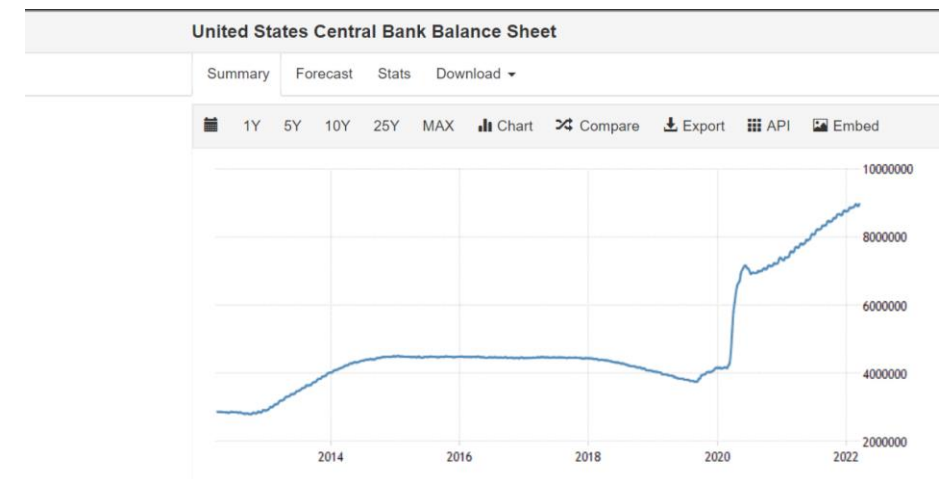
Powell indicated they would have at least a framework for balance sheet runoff at the next Fed presser May 4. Brainard amped that on 4/5- much more aggressive. She shocked the markets- indicates the Market is not prepared for the Fed plan

“Fed Speak” in a hawkish tone has already lifted interest rates significantly. I don't see any of this damping near term inflation causes- Supply Chain issues, Wages rising, Admin Policy and the WAR. The Fed has turned very hawkish

2018 Balance sheet & Outlook



Current Balance sheet at \$9T



Balance Sheet Runoff Map- Fed Minutes 04/06

The Fed's minutes indicate the FOMC's "General Agreement"

\$95B Runoff Cap per month- \$60B UST and \$35B Agency Mortgages

Start reduction in May

Phase that in over a 3 mo period to the cap

More aggressive than in 2017

Sees some 50 bps rate hikes

Fed restrained in March by the war

The rate of run off indicates a long slog on balance sheet reduction

Market moving up and down on the news- ^VIX continues- trend down

Fed Reserve 2022 Meeting Calendar

- **The remaining Fed Press meetings for 3022 are as follows>**
 - **May 4**
 - **June 22**
 - **Sept 21**
 - **Nov 2**
 - **Dec 14**
- **Minutes come out 3 weeks after meetings usually Wed at 11 am Pacific**
 - **The market reacts to minutes**
- **The Fed has a blackout period before meetings**
- **Fed members speak often and their words have turned very Hawkish-bad for the stock and bond markets**
- **About 10 rate hikes are priced into the futures with 5 meetings left so that implies a number of 50 bps hikes at each meeting**

Fed Dot Plot March 16- URL for full Econ Projections

<https://www.federalreserve.gov/monetarypolicy/files/fomcproptabl20220316.pdf>

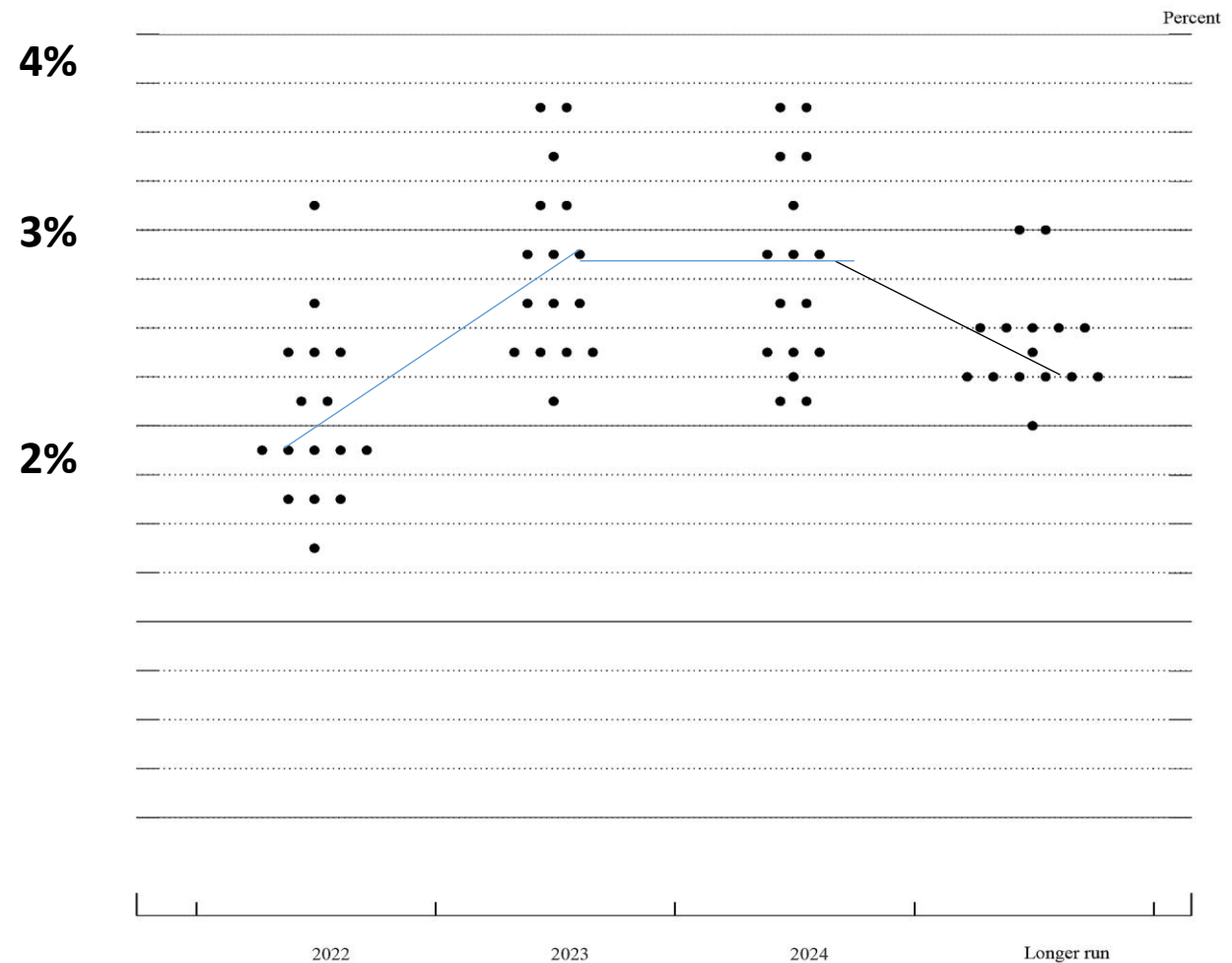
The DOT Plot is presented every 3 months as part of the Fed's economic projections.

It represents participants view of forward Fed Fund rates by Year

The dots are by year and only personal views. They are not locked in stone as a formal statement but offer what the personal outlook is of the Governors and District Presidents

It is useful to gauge where we are headed with rates.

Note that rates are forecasted to go up & then decline



Potential for Stagflation- Slow Growth plus Inflation

- Higher rates will slow the economy & inflation causes may be beyond control of the Fed
- Markets
 - SP 500- corrected, greater than ½ way back- in trading range 4300-4600
 - Nasdaq- Excess valuation, some recovery Bear market, wide range of tech
 - Dow- My view- a very flawed index- price weighted, but mostly good co, not the market, reasonably well correlated to SP 500
 - Small Cap- poor recent performance, Small Cap 600 (IJR) over 2000 (IWM)
- Canada (EWC ETF)- view as a significant partner, lots of US trade
 - Resource rich, auto component supplier and has outperformed the SP 500 by 8% this year
- Mexico- ^MXV- Major Auto supplier, oil reserves depleted
- Bonds- Bond bull market over
 - UST- Rates up, PRICES DOWN on expectations of rate hikes & inflation
 - Corporate- Ditto
- International
 - Europe- Down on war, limited tech, good dividends
 - Asia- China lockdowns slow economy
 - Russia- (MOEX) Long term downer, Closed has reopened to much lower level

The Fed vs US Inflation- Aggressive Fed Action

On May 5 about 9 am Pacific Vice Chair candidate Lael Brainard spoke at a conference & said > “It is of paramount importance to get inflation down,” and went on to express a series of statement that were very hawkish, sending the market down. This illustrates the power of the Fed over the market. Ms Brainard is typically a DOVE and her statements were very Hawkish, especially re the balance sheet, <Ref in back up>



FED: QE to QT- Quantitative Easing to Quantitative Tightening

- **Since 2008-2009 the key Central Banks of the world have been easing**
- **This has provided easy money and fueled stock markets over the globe**
- **The Fed has a dual mandate- Price Stability & maximum sustainable employment**
- **We expect a plan for Bal Sheet Reduction at the next Fed meeting in Early May**
- **Outlook is more aggressive than 2008 unwind**
- **This is a \$4.5T unwind**
 - **Will impact US Treasures and Mortgage Backed Securities directly**
 - **Ripple into other fixed income already occurring**
 - **Multi year unwind- Who will buy and at what price?**
 - **This will be painful for investors**
 - **And Govt INTEREST RATE PAYMENTS WILL GO UP (POTENTIAL TO CROWD OUT OTHER PROGRAMS)**

Yield Curve Flattening- Inversion? Recession?

- Historically an inverted yield curve signals a recession- Pundits use 10 yr- 2yr curve
- But Evidence suggests 2 Yr – 3Mo T Bill is more predictive
- Most recessions are brought about by Fed tightening down the road
- NBER Recession definition- significant decline in econ activity lasting more than a few months

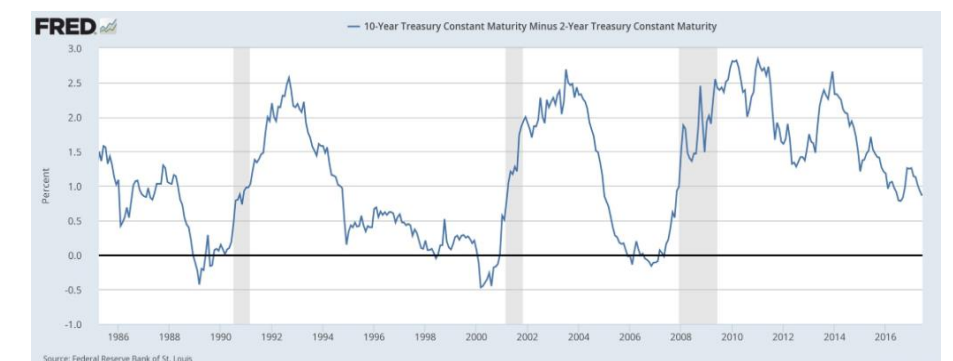
10 Yr-2yr
Time
Stamp
W/E 4/1



!0 Yr-3 Mo



Start of Inverted Yield Curve	Start of Recession	Lag Time (Months)
Aug. 1978	Jan. 1980	17
Sept. 1980	July 1981	10
Dec. 1988	July 1990	19
Feb. 2000	March 2001	13
Dec. 2005	Dec. 2007	24



- Concern re FED YIELD CURVE MODELS- we now have so much distortion in various markets because of QE we have a risk of a policy error causing issues. Watch the whole yield curve

Long Duration vs Short Duration Assets- Know what you own

- **Long duration assets** have payoff in the future. They are characterized typically by negative earnings, high price to sales ratios, no dividends and valued on TAM (Total Addressable Market). They thrived on near zero interest rates and pull ahead growth that was not sustainable **Out of Favor**
- **Examples-** Zoom, Peloton, Docusign, ARKK ETF, many others that were stars in 2020 post Covid crash and into 2021. Their valuations have been reevaluated and marked down some to about 20% of their peak values
- **Short duration** assets have current investing attributes- Free cash flow, positive earnings, lower PE ratios, often pay dividends. They are often considered value stocks. If they miss estimates they will be punished also but are more durable with good track records. They may be cyclical in nature- rising and falling with the economy, **More in favor but still at risk**
- **Examples-, Defensives.- Utilities, Real Estate, Staples, Health Care**

Market Behavior 3/29 to 4/7- Late Stage per Pisani

Bob Pisani, CNBC reported key observation on market behavior

- **Market data suggests entering late stage Biz Cycle- next would be recession**
- **Rising wages. Higher inflation, deceleration in growth, peal profits**
- **This does NOT infer an imminent recession**

Stocks: Cyclical down, commodities/defensives up

- | | |
|----------------------------------|-------------------------------|
| • Transports (IYT) -11% | Utilities +4% |
| • Homebuilders (XHB) -10% | Consumer Staples +1.9% |
| • Retail (XRT) -9% | Energy (XLE) Flat |
| • Banks (KBE) -8.8% | Health Care -.9% |
| | Metals/Mining -1.4% |

Summary- Caution: MY RADAR SEES A WITCHES BREW

- The war has unknown outcomes- a mix of impacts, could grind on
- The Fed will be aggressive to fight inflation- Fed, War, Economy will influence pace of rates
- The Rate increases have limited affect on key factors- the war. supply & covid
- The economy is shifting from goods to services
- Housing costs are escalating- Prices, mortgage rates (5%!), rents up. Affordability a headwind
- Increases in energy costs are likely to be sticky- SPR release is a band aid, has to be replaced
- High gasoline cost will incent WFH, even after SPR release
- The consumer has reserves & a will to get out of the house and travel
- The admin wants to tax High NW wealth and business (Corp rate 28% plus Intl 15%)
- The midterm elections are coming
- Value/Services should outperform Long duration growth but also could be down on inflation
- The EU wants to penalize our Mega Cap tech- the backbone of SP 500 stability
- Covid BA.2 and now XE Variant overseas
- The markets tend to overshoot and undershoot
- BUT, There will be some GREAT BUYS AHEAD
- 1Q 2022 earnings reports start in earnest next week. GUIDANCE is key- That's forward looking and we will likely hear inflation and labor issues. That can ruin a good report

The Callan Table for 2002- 2021- Worth Reviewing

ASSET CLASSES ROTATE

A Balanced Portfolio will have likely meandered somewhere near the middle over time but now we are in new territory with rates ramping up.

The table is published quarterly. A reminder about Asset Allocation/Rotation

The Callan Periodic Table of Investment Returns

Annual Returns for Key Indices Ranked in Order of Performance (2002–2021)

2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Glob ex-U.S. Fixed	Emerging Market Equity	Real Estate	Emerging Market Equity	Real Estate	Emerging Market Equity	U.S. Fixed Income	Emerging Market Equity	Small Cap Equity	U.S. Fixed Income	Real Estate	Small Cap Equity	Real Estate	Large Cap Equity	Small Cap Equity	Emerging Market Equity	Cash Equivalent	Large Cap Equity	Small Cap Equity	Large Cap Equity
22.37%	55.82%	37.96%	34.00%	42.12%	38.38%	5.24%	78.51%	26.85%	7.84%	27.73%	38.82%	15.02%	1.38%	21.31%	37.28%	1.87%	31.49%	19.96%	28.71%
U.S. Fixed Income	Small Cap Equity	Emerging Market Equity	Real Estate	Emerging Market Equity	Dev ex-U.S. Equity	Glob ex-U.S. Fixed	High Yield	Real Estate	High Yield	Emerging Market Equity	Large Cap Equity	Large Cap Equity	U.S. Fixed Income	High Yield	Dev ex-U.S. Equity	U.S. Fixed Income	Small Cap Equity	Large Cap Equity	Real Estate
10.26%	47.25%	25.55%	15.35%	32.17%	12.44%	4.39%	58.21%	19.63%	4.98%	18.23%	32.39%	13.69%	0.55%	17.13%	24.21%	0.01%	25.52%	18.40%	26.09%
Real Estate	Real Estate	Dev ex-U.S. Equity	Dev ex-U.S. Equity	Dev ex-U.S. Equity	Glob ex-U.S. Fixed	Cash Equivalent	Real Estate	Emerging Market Equity	Glob ex-U.S. Fixed	Dev ex-U.S. Equity	Dev ex-U.S. Equity	U.S. Fixed Income	Cash Equivalent	Large Cap Equity	Large Cap Equity	High Yield	Dev ex-U.S. Equity	Emerging Market Equity	Small Cap Equity
2.82%	40.69%	20.38%	14.47%	25.71%	11.03%	2.06%	37.13%	18.88%	4.36%	16.41%	21.02%	5.97%	0.05%	11.96%	21.83%	-2.08%	22.49%	18.31%	14.82%
Cash Equivalent	Dev ex-U.S. Equity	Small Cap Equity	Large Cap Equity	Small Cap Equity	U.S. Fixed Income	High Yield	Dev ex-U.S. Equity	High Yield	Large Cap Equity	Small Cap Equity	High Yield	Small Cap Equity	Real Estate	Emerging Market Equity	Small Cap Equity	Glob ex-U.S. Fixed	Real Estate	Glob ex-U.S. Fixed	Dev ex-U.S. Equity
1.78%	39.42%	18.33%	4.91%	18.37%	6.97%	-26.16%	33.67%	15.12%	2.11%	16.35%	7.44%	4.89%	-0.79%	11.19%	14.65%	-2.15%	21.91%	10.11%	12.62%
High Yield	High Yield	Glob ex-U.S. Fixed	Small Cap Equity	Large Cap Equity	Large Cap Equity	Small Cap Equity	Small Cap Equity	Large Cap Equity	Cash Equivalent	Large Cap Equity	Real Estate	High Yield	Dev ex-U.S. Equity	Real Estate	Glob ex-U.S. Fixed	Large Cap Equity	Emerging Market Equity	Dev ex-U.S. Equity	High Yield
-1.37%	28.97%	12.54%	4.55%	15.79%	5.49%	-33.79%	27.17%	15.06%	0.10%	16.00%	3.67%	2.46%	-3.04%	4.06%	10.51%	-4.38%	18.44%	7.59%	5.28%
Emerging Market Equity	Large Cap Equity	High Yield	Cash Equivalent	High Yield	Cash Equivalent	Large Cap Equity	Large Cap Equity	Dev ex-U.S. Equity	Small Cap Equity	High Yield	Cash Equivalent	Cash Equivalent	Small Cap Equity	Dev ex-U.S. Equity	Real Estate	Real Estate	High Yield	U.S. Fixed Income	Cash Equivalent
-6.16%	28.68%	11.13%	3.07%	11.85%	5.00%	-37.00%	26.47%	8.95%	-4.18%	15.81%	0.07%	0.03%	-4.41%	2.75%	10.36%	-5.63%	14.32%	7.51%	0.05%
Dev ex-U.S. Equity	Glob ex-U.S. Fixed	Large Cap Equity	High Yield	Glob ex-U.S. Fixed	High Yield	Dev ex-U.S. Equity	Glob ex-U.S. Fixed	U.S. Fixed Income	Real Estate	U.S. Fixed Income	U.S. Fixed Income	Emerging Market Equity	High Yield	U.S. Fixed Income	High Yield	Small Cap Equity	U.S. Fixed Income	High Yield	U.S. Fixed Income
-15.80%	19.36%	10.88%	2.74%	8.16%	1.87%	-43.56%	7.53%	6.54%	-6.46%	4.21%	-2.02%	-2.19%	-4.47%	2.65%	7.50%	-11.01%	8.72%	7.11%	-1.54%
Small Cap Equity	U.S. Fixed Income	U.S. Fixed Income	U.S. Fixed Income	Cash Equivalent	Small Cap Equity	Real Estate	U.S. Fixed Income	Glob ex-U.S. Fixed	Dev ex-U.S. Equity	Glob ex-U.S. Fixed	Emerging Market Equity	Glob ex-U.S. Fixed	Glob ex-U.S. Fixed	Glob ex-U.S. Fixed	U.S. Fixed Income	Dev ex-U.S. Equity	Glob ex-U.S. Fixed	Cash Equivalent	Emerging Market Equity
-20.48%	4.10%	4.34%	2.43%	4.85%	-1.57%	-48.21%	5.93%	4.95%	-12.21%	4.09%	-2.80%	-3.09%	-6.02%	1.48%	3.54%	-14.09%	5.09%	0.67%	-2.54%
Large Cap Equity	Cash Equivalent	Cash Equivalent	Glob ex-U.S. Fixed	U.S. Fixed Income	Real Estate	Emerging Market Equity	Cash Equivalent	Cash Equivalent	Emerging Market Equity	Cash Equivalent	Glob ex-U.S. Fixed	Dev ex-U.S. Equity	Emerging Market Equity	Cash Equivalent	Cash Equivalent	Emerging Market Equity	Cash Equivalent	Real Estate	Glob ex-U.S. Fixed
-22.10%	1.15%	1.33%	-8.65%	4.33%	-7.39%	-53.33%	0.21%	0.13%	-18.42%	0.11%	-3.08%	-4.32%	-14.92%	0.33%	0.86%	-14.57%	2.28%	-9.04%	-7.05%

The Callan Periodic Table of Investment Returns conveys the strong **case for diversification** across asset classes (stocks vs. bonds), capitalizations (large vs. small), and equity markets (U.S. vs. global ex-U.S.). The Table highlights the uncertainty inherent in all capital markets. Rankings change every year. Also noteworthy is the difference between absolute and relative performance, as returns for the top-performing asset class span a wide range over the past 20 years.

A printable copy of *The Callan Periodic Table of Investment Returns* is available on our website at callan.com/periodic-table/.

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Disclosure: My tickers

MARKET AREA	25 Yrs Plus	5 to 25 Yrs	3 to 5 Yrs	Recent to 3 Yrs	Sold
Fixed Income	IBM Proprietary Income Fund			FARFX	IEF
IT	MSFT, AMAT, ORCL, IBM	WDC	AAPL	ROKU, GOOGL, SWKS, NOW	TEL, SMH, TSM
Utility	ETR				
Financials		MET		JPM	XLF, BAC, PYPL
Health Care	WBA	MDT	THW	PFE, ZBH, SRC, ILMN, XLV	
Industrials		SHW, WM		WRK, CARR, PWR, SBGSF	XLI
Staples	PG			KO, XLP	
Cons Disc					XRT, RCD, CHGG, UA, LOGI, SONO. PEJ, SBUX
Energy				PXD, XLE, ENB	
Housing				DHI	KBH
Materials/Metals/Mining				FCX, SCCO, GUNR, AA, GDX, CLF, MLM, VMC, PAVE, IFRA. XLB, MOS	BASF, IDEV
Index			IWD	BFOR, IEV	RSP
Defense				ITA	
Dividend Focus				SDY	
Retail				PINS	CLIX
Telecom		SPKKY	BCE	VZ	
Transports				SBLK	HA
Mutual Funds		FPURX		DODGX	VWINX, FDLX. FLPSX
Short Position				SDS	
Stalking				PANW, IUSG, BASF, EVGO, LIT, ALB, MP, KSS, BAC, ADM, IJR	

Questions?

**That's it folks- I hope you leave better armed for 2022 markets.
Check AAll Silicon Valley Presentations for this pitch to be posted in full color**

Bill Jump

Suggest visiting our Archive to review my Epistle on oil/shale June 13, 2015.

And Kevin Gahagan's presentation on history of investing in a rising rate environment

Kevin Gahagan presentation covers how different bond classes performed in past periods of rising rates as well as how equity markets reacted in those time periods

Visit AAll Silicon Valley, Main Events, Archive, 2015, scroll down- download

Timeline Leading to the War- Ref Reuters Article- It has been known for a year

2019: Former comic actor Volodymyr Zelenskiy is elected president.

Jan. 2021: Zelenskiy appeals to U.S. Biden to let Ukraine join NATO. freezes the assets of opposition leader Viktor Medvedchuk, the Kremlin's most prominent ally in Ukraine.

Spring 2021: Russia begins massing troops near Ukraine's borders in what it says are training exercises.

Nov. 2021: Satellite images taken by Maxar Technologies show ongoing buildup of Russian forces near Ukraine with estimates soon surpassing 100,000 troops deployed.

Dec. 17 2021: Russia presents security demands including that NATO pull back troops and weapons from eastern Europe and bar Ukraine from ever joining.

Jan. 24 2022: NATO puts forces on standby and reinforces eastern Europe with more ships and fighter jets.

Jan. 26: Washington responds to Russia's security demands, repeating a commitment to NATO's "open-door" policy while offering a "pragmatic evaluation" of Moscow's concerns. Two days later Russia says its demands not addressed.

Feb. 2022: Amid growing Western fears Russia could attack Ukraine, the United States says it will send 3,000 extra troops to NATO members Poland and Romania. Washington and allies say they will not send troops to Ukraine, but warn of severe economic sanctions if Russian President Vladimir Putin takes military action.

Feb. 21: In a TV address, Putin says Ukraine is an integral part of Russian history and has a puppet regime managed by foreign powers. Putin orders what he called peacekeeping forces into two breakaway regions in eastern Ukraine, after recognising them as independent.

Feb. 22: The U.S., Britain and their allies sanction Russian parliament members, banks and other assets in response to Putin's troop order. Germany halts the Nord Stream 2 gas pipeline project.

Feb. 23: Russian-backed separatist leaders ask Russia for help repelling aggression from the Ukrainian army.

Feb. 24: Putin authorizes "special military operations" in Ukraine. Russian forces begin missile and artillery attacks, striking major Ukrainian cities including Kiev.

This has been known since March/April 2021>

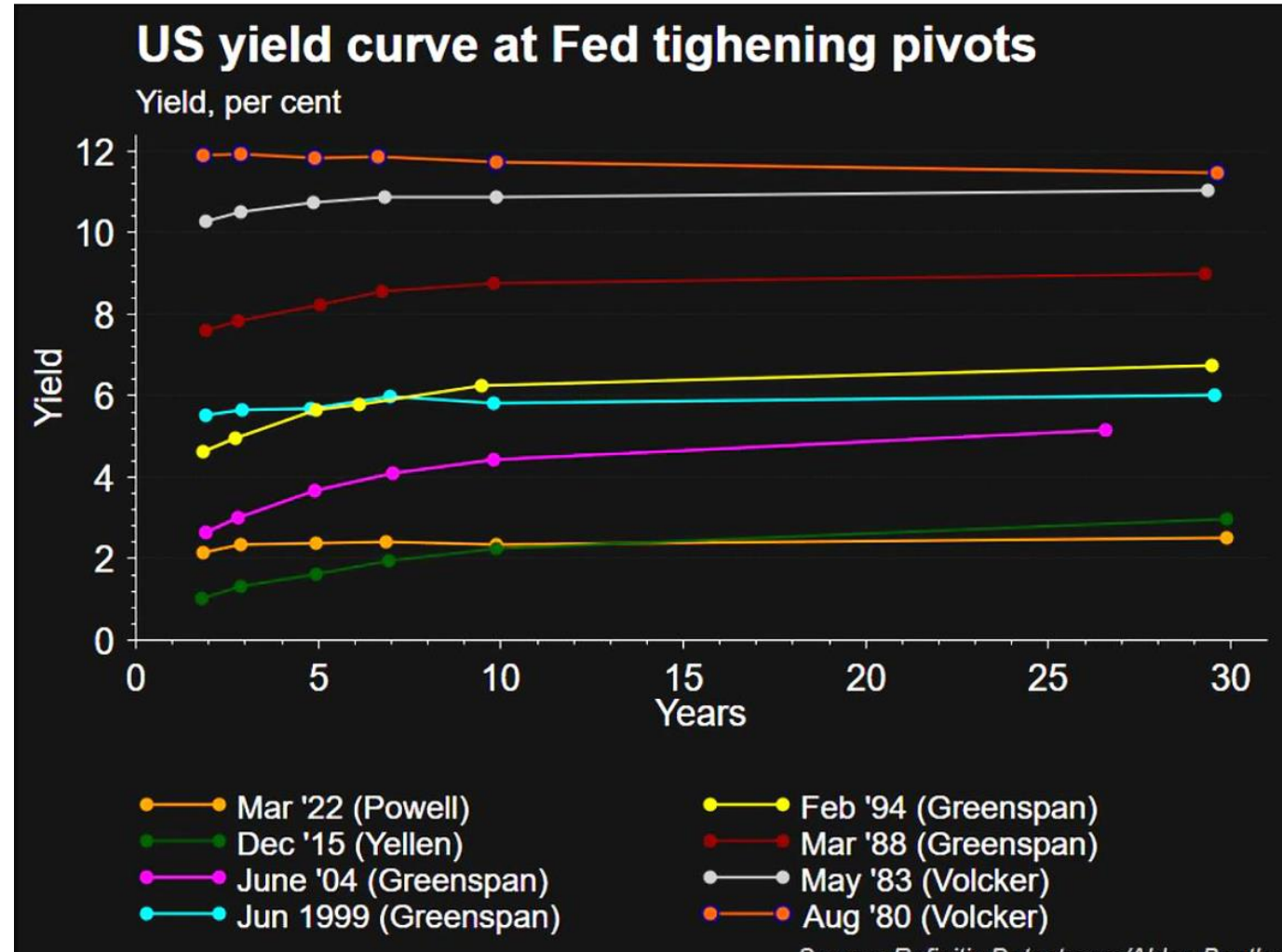
https://en.wikipedia.org/wiki/Prelude_to_the_2022_Russian_invasion_of_Ukraine

Yield Curve History at Fed Pivot Points

Two things stand out

Yield range

Flatness



More USA Investing Thoughts

- Wide range of possible outcomes- War, Fed, Covid, inflation, Investor sentiment, labor strikes, WFM
- Q1 Earnings coming next week- Expect negative guidance. JPM leads next week, expect Volatility
- Reset on globalization, onshoring difficult, long term and inflationary
- Semis demand more pervasive but at risk- EV Increases demand; Capacity and Neon supply issues
- Supply Chain impacts persistent this year and many items out of sync seasonally
- Inflation persistent and driving the Fed
- Labor costs rising- about 70% of Company cost, wages sticky, labor force demanding more, unions pressing
- More new retail investors- more trading/options
- WFM will be sticky- why spend hours burning gas, ZOOM saves time, collaboration suffers
- Remember ½ of SP 500 Revenues are Intl
- ^VIX Popped to 36 and Round tripped to less than 20 then popped over 20
- Rapid market improvement from corrections, did it end at the end of March. Market trending down in April so far
- THE MIDTERM ELECTIONS ARE COMING

China- Russia Support Taiwan Risk



Support for Russia

- China and Russia have energy deals
- The first started Nat Gas flow in 2019
- 2021 flow was 16.5B Cubic meters
- The latest deal will add to that & be operational in 3 year
- They are allies
- The US has warned them about supporting Russia re the war
 - Support for Russia unknown

Talk is cheap



Taiwan- China- “One China”

China is watching the US response carefully

So far we have been saying what we wont do

The Afghanistan fiasco set the stage for a takeover and also emboldened Putin

China has built military bases in disputed areas near Japan and Taiwan

High risk- Militarily and Economically

References

- Ref Lael Brainard comments April 5 am
 - <https://advisornews.com/oarticle/lael-brainard-puts-paramount-importance-on-reducing-inflation?p2=%5EEQ%5Ecd00us%5E&doi=2021-07-13&o=APN12174#.YkxuUOfMLs>
- Export Heat Maps
 - [Russia \(RUS\) Exports, Imports, and Trade Partners | OEC - The Observatory of Economic Complexity](#)
- Ref PE History
 - <https://www.currentmarketvaluation.com/models/price-earnings.php>
- Neon Risk
 - https://www.theregister.com/2022/03/11/ukraine_neon_supplies/
- Events leading to the war (you may need a Reuters PW to see this)
 - <https://www.reuters.com/world/europe/events-leading-up-russias-invasion-ukraine-2022-02-28/>
- USA Today ref
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- Fall of the Soviet Union 1991 per Wiki
 - https://en.wikipedia.org/wiki/Dissolution_of_the_Soviet_Union

Russian Stock Market ^MOEX

- Closed for Several weeks from Monday after invasion- had plunged down, Reopened. 5 Year chart from CNBC

