

# Myles Zyblock - Market Commentary

March 7, 2022

## Market Volatility: More than meets the eye?

### Today's Market Action

S&P 500: -3.0%

TSX: -0.5%

CADUSD: -0.6%

10y Treasury Yield: +5 bps

Oil: +3.8%

Gold: +1.4%

Source: Bloomberg. Data as at March 7, 2022.

While Russia is not an extremely large economy, only representing 2-3% of global GDP, it does punch above its weight in the commodity markets. Russian production accounts for 12% of global oil production, 17% of global natural gas production, and close to 10% of other key commodities including wheat, industrial metals, and fertilizers.

Many parts of Europe, Africa, and Asia rely on the fertile farmlands of the Black Sea and Russia's oil and gas exports for their food supply and livelihoods. Investors have been concerned that the conflict with Ukraine might result in global supply links being cut because of infrastructure damage or further sanctions imposed by the West. Commodity markets have responded, with prices surging for everything from wheat to oil.

### Eurozone Bank Stocks



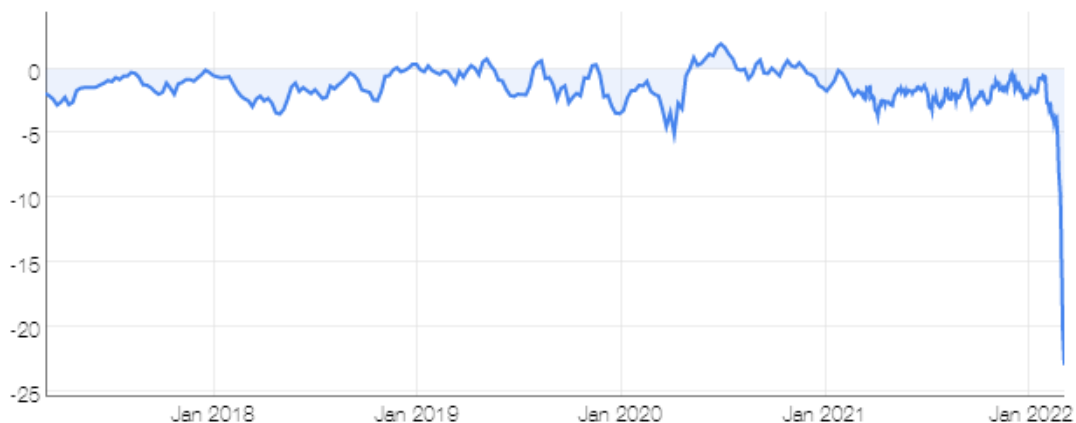
Source: Bloomberg

From this price shock, it seems reasonable to anticipate a large income transfer from the world's commodity consumers (e.g., India, Japan, Euro) to its producers (e.g., Canada, Australia, Norway). The operational frictions resulting from higher commodity prices are also likely to weigh on aggregate global GDP growth. But, most experts have felt that this shock would be manageable for the world economy.

There's a new twist to this story. European bank stocks are down by more than 37% since the conflict began, with the price weakness having accelerated over recent days. America also has seen its bank shares slide by a lesser, but still meaningful, 18%. When bank stocks are under significant pressure, we must start thinking about hidden, or not so obvious, risks to the system.

The announced sanctions have pulled the rug out from under Russia's economy. It doesn't end there. Fears of more sanctions have Western banks and commodity traders self-policing, with an almost total unwillingness to buy, ship, or finance Russian commodities. The record discount between the price for Russian and Brent crude oil speaks volumes about this restraint.

**Record Price Differential between Urals and Brent (\$/bbl)**



Source: Thomson Reuters

Maybe the faith that sanctions crafted in a way which maximized Russian economic distress without exacerbating financial instability in the West was a pipe's dream. Those who have pledged Russian commodities as collateral, whether they are commodity traders, commodity producers or other borrowers, might now be in the middle of some very difficult discussions with their creditors.

Funding markets are starting to play a more important role in the evolution of this story, a development which has surely caught the attention of the global monetary authorities. One potential catalyst for a meaningful equity market reversal from here could be delivered by the central bankers were they to walk back some of 2022's expected monetary policy tightening. While this is probably hard to imagine given booming labor markets and elevated CPI inflation, remember that the Federal Reserve cut the interest rate by 75 basis points in response to the 1998 LTCM/Russia debt default crisis even as the unemployment rate was sitting at a 25-year low.

**Myles Zyblock BA (Hons.), MA, CFA**  
Chief Investment Strategist

**dynamic.ca**

Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the prospectus before investing. Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated. Views expressed regarding a particular company, security, industry or market sector are the views of the writer and should not be considered an indication of trading intent of any investment funds managed by 1832 Asset Management L.P. These views should not be considered investment advice nor should they be considered a recommendation to buy or sell. These views are subject to change at any time based upon markets and other conditions, and we disclaim any responsibility to update such views. © Copyright 2022 1832 Asset Management L.P. All rights reserved. Dynamic Funds® is a registered trademark of its owner, used under license, and a division of 1832 Asset Management L.P.

**Dynamic Funds®**  
Invest with advice.