A PERSONALIZED, INDEPENDENT, PRO-ACTIVE WEALTH MAMANGEMENT FIRM

RealGrowth Investment Counsel

SINCE 1981 JULY 2022

Our Current Stance

EQUITIES: We can all understand that unless the U.S. Federal Reserve, and other central banks, lighten up on their restrictive monetary policies, a recession is bound to ensue. This is already evident with the Fed funds rate only increasing by a paltry 1 ½% in the last year - a slight response to official U.S. consumer prices rising 8.6% during the same time period. Being forced into rethinking its priorities, preventing a stock market crash is now more important for the Fed than managing the economy's financial condition (aka the value of its fiat currency). It is not that the Fed doesn't care, rather it's because their cherished neo-Keynesian philosophies are at stake.

Concurrently, we can see the dangers from contracting bank credit. We can also anticipate that the Fed and other major central banks will be pulling out all the currency and credit stops to support markets, and to avoid their costs from going even higher, which would add significantly to the Federal Government's budget deficits and debts.

What this means for the markets will be tricky. We believe there will be areas that can benefit from their conundrum while others will face very strong headwinds.

INFLATION: Inflation is rising on both ends of the candle. Supplies of raw materials are harder to get out of the ground, harder to transport and logistic chains are not working. On the demand side, economies around the world are opening up, after being shut down by Covid, and are demanding more goods. Western governments have promised to fight inflation, however, nobody knows where their breaking point is. How high can they raise interest rates to dampen demand, without causing a recession? Can they avoid it? If they can't, how far are they willing to go, to risk a potential major world-wide economic collapse?

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Month in Review

TO OUR CLIENTS: Your portfolios remain solid and as of June 30th, up so far this year. These gains are despite the general markets being down significantly. In fact, our understanding is that the U.S. broad stock market indexes, such as the S&P 500, closed out its worst half-year since the 1970s.

Tax Free Savings Account (TFSA)

2022 TFSA Contribution:
$6,000

Cumulative Contribution 2009 - 2022:
$81,500

We believe that your portfolios are positioned to be protected against the market unrest and may continue to benefit over time. The cash flows being paid into your portfolios, from the investments, remain excellent and are not affected by the market volatility. In fact, a number of companies your own continue to raise their dividends.

Geopolitical unrest has continued to grow over the year and there has been more and more talk of stagflation. High and rising inflation, combined with stagnating growth (or possibly a recession), remains entrenched along with supply bottlenecks of finished goods and raw materials
.
The markets have been very volatile, and we believe will remain so, as long as the Ukraine proxy war continues. Also, because few are willing to invest the billions needed to increase oil supplies and build new refineries, oil prices will likely remain high and may rise even more.

LOOKING FORWARD: What does this mean?

Europeans' purchasing power is falling faster than the U.S. and Canada, as the Ukraine war has a more direct impact on the continent's economy, driving food and fuel prices steadily higher than wages.

After reaching 9.0 percent in April, Britain's annual inflation rate edged up to 9.1 percent in May, the

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CLOSING STOCK MARKET AVERAGES AS AT MONTH END

	31/06/2022	31/03/2022	Change(3 Months)	Change (Dec 31/21)
Dow Jones Industrial Average (DJ)	30,775	34,678	(11.25%)	(15.31%)
Standard & Poor's 500	3,785	4,530	(16.45%)	(20.41%)
NASDAQ	11,029	14,221	(22.44%)	(29.60%)
Toronto Stock Exchange	18,861	21,890	(13.84%)	(11.13%)
London (FT100)	7,169	7,524	(4.71%)	7.64%
CDN $/U.S. $	0.776¢	0.800¢	(3.03%)	(1.87%)
CDN$/Euro	0.7406¢	0.7223¢	2.53%	6.36%
Gas	6.50	5.64	15.25%	74.26%
Oil (West Texas Inter)	$105.76	$100.28	5.46%	40.62%
Gold	$1,817.50	$1,954	(6.69%)	(0.60%)

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FIAT CURRENCIES: The U.S. government has stated that they believe the U.S. dollar should remain the world's reserve currency. We were surprised that the U.S. Federal Reserve Chairman even brought it up. However, with the latest G8-9 meeting (China, Russia, India…) out of the way, they were clear those non-western countries (the G8) will create a new currency and settlement system away from the U.S. dollar – the U.S. is undoubtedly concerned. It is their Achilles heel. Without it, will they still be able to project wealth and power? Or will they be like every other country that has to create/manufacture something and balance their books?

Besides this, or the reason for it, western central bank initiatives are directed to keep bond yields as high as possible, without causing a recession and runaway government budget deficits due to falling tax income. Will extra spending counteract the decline in economic activity, or will they be forced to allow for a decline in the value of the U.S. currency? Given that the world is "still" on a dollar standard, in these early stages, the Fed will probably assume that the consequences for foreign exchange rates - a new round of currency debasement - will have to be ignored. However, there is no doubt that if the world economy does begin a downturn (many think it already has) currency debasement will be expected to accelerate, not just for the dollar but for all the other major western currencies. They will attempt to keep their exchange rates in line, as close as possible, to each other but we don't believe it will matter. A fiat currency race to the bottom?

INTEREST RATES: The U.S. Federal Reserve, Canada and Europe have done much lately to express their determination in killing inflation by raising interest rates. We believe that is a collective delusion. It assumes that inflation is caused by demand only, and that higher interest rates won't affect world economies. We believe the world is still too fragile, with too much debt, to allow for much higher interest rates.

It will be interesting to see where all this goes, and we are watching closely.

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Month in Review

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national statistics agency reported, setting the latest in a string of 40-year-high inflation rates. Other countries across Europe are also experiencing multi decade high rates of inflation.

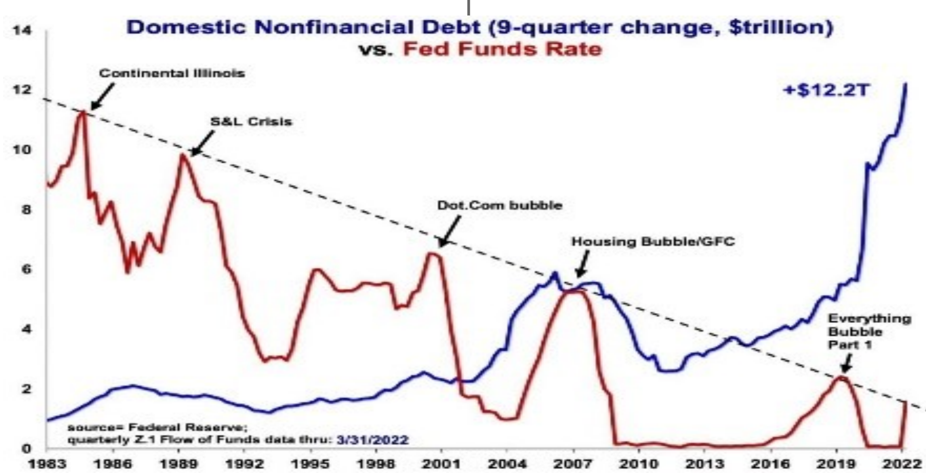
The increasing distance between wages and prices is sparking unrest, as labor actions in Britain are taking place.

The greater the distance between real wages and rising prices becomes, the greater the unrest, which could grow to political instability, demands for new elections, and added strength in the ideological extremes. Economic damage across the Western world is increasingly likely to splinter the NATO alliance's resolve to hold sanctions in place against Russia. If and when Russia shuts off all gas exports to Europe, the sanctions and the cohesiveness of the European Union itself will be stress-tested unlike ever before.

Further, we've noticed that labor unions seem to have gained renewed strength. That may start to top the news trends for the balance of this year. We have seen it from Amazon warehouses in the U.S. to France and now in the U.K.

With workers still in short supply (it's a mystery where everyone went) in key industries, those working will flex their muscles, demanding more pay and better benefits in sectors, industries, and companies where unions have not succeeded in decades. This is a spiral that governments and central banks have found especially difficult to reverse in the past.

Chart below: U.S. domestic debt (other Western countries are in the same boat) has risen $12.2 trillion over the last 9 quarters (2020-present) to a record $66.7 trillion, more than 2x the increase of the 9 quarters through Q1 2006 (see: housing bubble). Rising rates are pure kryptonite to asset prices especially with debt and leverage at such levels. As the U.S. Fed shifts from supporting asset prices to combating inflation, we should expect the market to continue lower.



The big million-dollar question is - how much can Western governments' stand? How high can they raise interest rates, to fight inflation, before causing a recession that is not acceptable? It is possible that raising rates may only put the economy into a recession without affecting prices at all. That would not be good for the incumbent powers that be and would therefore not be palatable. In addition, higher interest rates also mean higher borrowing costs, and less tax revenues, for governments that are up to their eyeballs in

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Our Current Stance

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OIL AND GAS: U.S. president Biden traveled to Saudi Arabia in July, and he indicated to them that he thought OPEC should be increasing oil production.

This is where Biden is quite wrong. It is not in the Gulf oil kingdoms' interest to pump more. Regardless, most of them do not have any spare capacity, and the couple that do may have seriously overestimated that spare capacity. And this, we understand, includes Saudi Arabia.

Demand for Liquefied Natural Gas (LNG) has soared this year as EU countries are trying to reduce their energy dependence in general, and on Russia in particular. After becoming the largest buyer of U.S. LNG (what a surprise - sarcasm), the EU seems to be looking for diversification options over the longer term. Reuters reported at the end of June that Germany was in talks with Canada about LNG exports from Canada's east coast, about the development of two proposed LNG export terminals.

"Our view is the private sector should be putting up the money for these projects, and it should be done on a commercial basis," Minister of Natural Resources Jonathan Wilkinson told the Globe and Mail.

"We're certainly willing to assist in the conversations with our friends in Germany who are looking for these kinds of supplies to ensure that there are long-term arrangements, contractual arrangements that provide certainty for the private sector."

Currently, there is one LNG export terminal under construction in Canada—Shell-led LNG Canada in Kitimat, British Columbia, which is scheduled to start exporting in "three years."

Because of the size of the investment typically needed for LNG export facilities, total reliance on private funding means that the developers behind the two proposed projects—Pieridae Energy and Repsol—will probably insist on sealing long-term supply deals with their European buyers.

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Month in Review

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debt. The U.S. government alone has over 30 trillion of it and we are sure are keeping very close tabs on the U.S. Federal reserve's rhetoric and actions.

ECONOMICS: It looks like the world economies are heading into a recession. This in the face of high inflation and central banks that have painted themselves into their respective corners. The U.S. data point as of the end of June and setting the tone for the second half of the year, was the U.S. personal income and outlays report for May. It is an old number; however, it included the personal consumption expenditures (PCE) price index component of the report that is said to be the Federal Reserve's favorite inflation gauge. The May PCE price index came in up 6.3%, year-on-year, with the core rate up 4.7% in the same period. Metals traders were concerned the numbers could have been worse. If they were, they worried it could have prompted the Federal Reserve to be even more aggressive in its monetary policy tightening. Raw commodity traders, including metals traders (copper and the like), have taken a tack recently of being more worried about less consumer and commercial demand for commodities amid an economic recession—as opposed to the notions of higher inflation being supportive for raw commodity prices.

Trader and investor risk appetite has receded late this week, following downbeat consumer confidence and GDP readings out of the U.S. (and most western countries) this week. U.S. Fed Chairman Powell and ECB President Lagarde on Wednesday, June 28th, repeated warnings that their central banks will keep raising interest rates even if their economies slowed down. Recently, much of the marketplace has deemed economic recession's potential as superseding inflation worries, when placing their trades, and that has caused larger than normal volatility.

CONCLUSION: Apparently, the number of shells and missiles the Russian soldiers use in days exceeds what the U.S. produces in a year. In the past four months the Russians have used more cruise missiles than the U.S. has produced in several years.

The Ukraine war has made some things clear. Consider two economic and military blocks: the G7 for the Nort West (NW) bloc and, as recently christened by Russia, the G8 for the South-East (SE) bloc. The G7 consists of the U.S., Japan, Germany, Britain, France, Italy, and Canada. In the G8 corner are China, India, Russia, Indonesia, Brazil, Mexico, Iran, and Turkey, and we would add many countries in Southern Africa (a block) that would make 9.

Most obvious is that U.S. sanctions have proved worse than useless. In a world of fundamental resource scarcities, U.S. fiat money means a lot less than it used to. We have long argued that resource scarcities were accelerating and that it would lead to a crisis sooner or later. The war in Ukraine and the astonishing lack of astuteness by NW countries have meant sooner has arrived faster than we've thought possible. Sanctions, coupled with a European response that in some cases has been unfathomably ill-advised, have brought Europe to a major crisis point. We aren't sure where this will go from here, but the U.S. seems intent on continuing with this "proxy" war in Ukraine. Is China next?

We will have to watch these potential developments very carefully.

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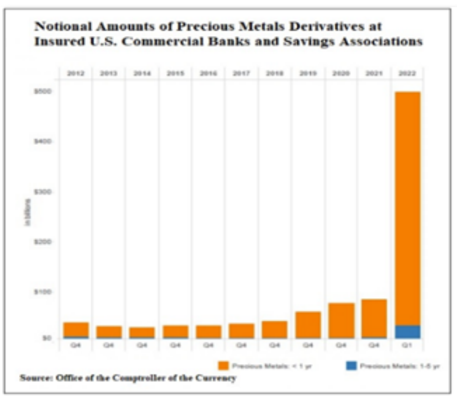
However, long-term contracts for any form of fossil fuel imports go against the Brussels commitment with regard to climate and emission reductions, and this might complicate matters for Canadian LNG export hopes. Somehow that didn't stop Germany from re-starting up their coal power stations.

Certainly, it will stop many companies from making big, or new, capital commitments and that will put a long-term strain on any kind of new developments...no net new supplies.

PRECIOUS METALS: As John Pierpont Morgan stated in his testimony before Congress in 1912, **"Gold is money. Everything else is credit".** He was not expressing an opinion but stating a legal fact.



Vladimir Putin and Xi Jinping are among those who know the golden rule: "Whoever has the gold makes the rules". Unfortunately, the West has been conned by their own lies.

Paper gold (futures and derivatives) have been ruling gold for many years. We believe this charade will be ending soon. The chart above shows that there has been an "explosion" in gold futures, so far this year, which were already large. Also of note, the increase was concentrated in mostly two of the biggest of the U.S. money centre banks. Is this part of a concerted effort, by Western governments, to disseminate disinformation to keep a lid on this tinder-box? There are a growing number of investors who believe that the Financial Stability Desks, at the western world's central banks, have followed the Bank of International Settlements' instruction to hide the perception of inflation (and devaluations of fiat currencies) by rigging the gold market. It is like holding an ice-cube under a thermometer to hide the fact that the temperature in the room is not hot.

Political Shorts

BIDEN

President Biden just took a trip to the Middle East for highly charged political reasons.

What he did not do was satisfy anyone he saw, including the U.S. public, with respect to reducing the price of gas at the pump. He did not even take his wife with him, which seems to indicate that he did everything in a rush, without much forethought.

Israel. President Biden went there to discuss Iran and a possible common stand to take regarding stopping Iran from continuing to develop a Nuclear bomb. He said that he wants to give Iran more time, and to continue negotiating an agreement for Iran to stop, while Israel concludes that negotiations are and will go nowhere, and that a show of force is the only way to deal with Iran. To annoy the Israelis further, when his car drove into the eastern part of Jerusalem, he stopped his car, removing the Israeli Flag on it to show that he did not approve of Jerusalem being the Israeli Capital.

West Bank. All he talked about was for the West Bank to make peace with Israel and, gave them some money. He did not touch on the question of stopping Israeli's building homes in the West Bank. Which is what they had wanted to hear.

Saudi Arabia. On Friday he sought a reset of relations with the Saudis, as he looked for ways to lower high gas prices in the US, which have contributed to a significant drop in Biden's approval ratings. His main request from the Saudis, was for them to increase their oil production.

The reset began with a widely criticized fist–bump with Crown Prince Mohammed bin Salman (MBS), the man he had called a Paryia, for the killing and torture of the journalist Khashoggi. This was not appreciated by most Politicians, the Media, nor the general public.

All in all, the trip should be called a failure. Nothing new on Iran and its building of an atomic bomb. No peace in the Middle East. No more oil from Saudi Arabia to help lower the gas price at the pump.

Looking at it from our financial perspective, there will continue to be no peace in the Middle East and the price of oil will remain high.

At RealGrowth, we always follow world affairs, as they usually have an effect on financial matters.

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