A PERSONALIZED, INDEPENDENT, PRO-ACTIVE WEALTH MAMANGEMENT FIRM

RealGrowth Investment Counsel

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Our Current Stance

EQUITIES: Equities have been struggling these past few months due to the uncertainty over rising interest rates. On one hand, inflation is stubbornly high and the Western nations may be forced to keep interest rates at elevated levels giving competition to equity valuations. On the other hand, and possibly at the same time, their economies may be slipping into respective recessions causing a decline in earnings.

Tax Free Savings Account (TFSA)

2023 TFSA Contribution: $6,500

Cumulative Contribution 2009 - 2023: **$88,000**

The stock markets are affected by both scenarios due to price to earnings multiples (affected by interest rates) and nominal earnings (affected by interest rates and economic activity). If a stock's multiple is, for example, 15 and a company earns $2 per share then the market price would be $30 per share.

If interest rates rise, then the multiple decreases. In the above case, the 15 could become 13 and the price would then fall to $26. It doesn't end there because a higher interest rate could affect the economy in general, and the cost of borrowing specifically, for the company and earnings could fall as well.

Also complicating the issue, and which scenario the equity and bond markets

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Month in Review

TO OUR CLIENTS: Over the course of the month your portfolios' performance grew in value. This was despite the great volatility experienced in the general markets. Nice to see!

There are a number of important variables that are affecting the markets, and a few seem to be coming to a head, a tipping point. One is military: the Ukraine "proxy war" between Russia and United States. Another: the growing civil war (another proxy war?) in the Sudan.

The other is financial: The U.S. debt limit ceiling is a thorn in the side of the global financial markets. If the U.S. cannot make a deal (to increase the amount that the government can borrow) they will be in default of their bonds and won't be able to pay any government workers, interest on U.S. Treasury Bills and Bonds….

A second is the path forward for the U.S., and European Federal Reserves. If they have to stop raising interest rates because of the growing developed country's banking crises (latest was the seizing of Republic Bank in the U.S.) inflation will take over the worlds' economy. If they continue to raise interest rates, there is a real possibility that Western Economies will descend into an economic crises.

We believe your portfolios are positioned for the above scenarios. Although one never knows how things will play out, we are probably best positioned for the "inflation takes over the world" outcome.

LOOKING FORWARD: On May 2nd, U.S. Treasury Secretary Janet Yellen warned that the U.S. government could be in default on some of its payments by June 1 if the debt limit is not increased. Reports said President Biden is calling congressional leaders to the White House to discuss the matter. This news may have also begun to put a new high floor price into the safe-haven gold market, setting the stage for all time high prices of bullion.

As of this writing, the U.S. debt ceiling fight is looming - yet again, giving investors another worry for markets this year. Ironically, the common reaction by the markets is happiness when the U.S. government is allowed to borrow more money. We wonder if that Pavlovian-like response will be the same this time around.

The U.S. government's deadline to raise the $31.4 trillion debt ceiling could be sooner than expected, due to falling tax revenues, pulling forward the risk of a

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CLOSING STOCK MARKET AVERAGES AS AT MONTH END

	28/04/2023	31/03/2023	Change(1 Months)	Change (Dec 31/22)
Dow Jones Industrial Average (DJ)	34,098.16	33,274.15	2.48%	2.87%
Standard & Poor's 500	4,169.48	4,109.31	1.46%	8.59%
NASDAQ	12,226.58	12,221.91	0.04%	16.82%
Toronto Stock Exchange	20,636.50	20,099.90	2.67%	6.46%
London FT100	7,870.60	7,631.70	3.13%	5.62%
USD/CAD $	1.360¢	1.3522¢	(0.57%)	(0.35%)
EUR/CAD $	1.5002¢	1.4744¢	(1.72%)	(3.69%)
Natural Gas	2.41	2.22	8.75%	(46.15%)
Oil West Texas	$76.78	$75.67	1.47%	(4.34%)
Gold	$1,990.10	$1,969.00	1.07%	9.36%

Our Current Stance

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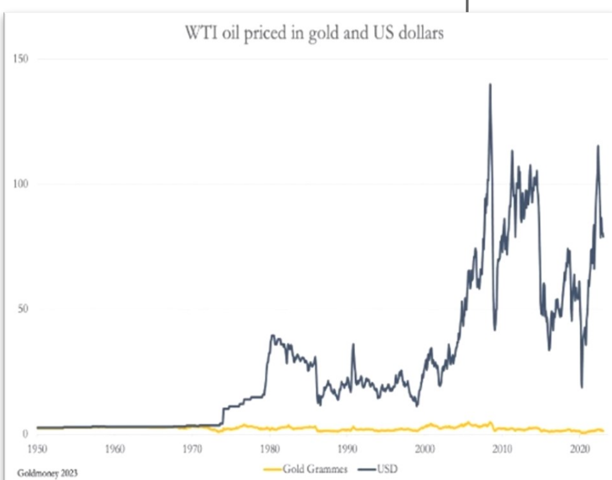
are not prepared for, is the future use of the U.S. dollar as the worlds reserve currency. If the dollar falls out of favor, then the cost of borrowing might increase even more in the West amplifying the volatility of changing market valuations.

The scenario that unfolds going forward may be determined by the outcome of the proxy war in Ukraine and elsewhere such as the Sudan and Taiwan, as military prowess will dictate who can write more cheques.

We will be watching the geopolitical events very closely.



INFLATION: Inflation is going to be very stubborn. We've been expecting inflation for a number of years, mainly due to the excessive printing of fiat money and increasing levels of government debts. But we don't see that changing and, in fact, believe it could get worse.

How Western governments react to their decreasing share of the world economy will be critical in what happens to prices going forward. That includes sectors from food prices to interest rates. So far, it looks like they are willing to go to war to protect their piece of the pie.

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Month in Review

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debt default that could have wide repercussions across global financial markets.

U.S. Treasury Secretary Janet Yellen said that without increasing the limit in January, which was the case, the government could only pay its bills through early June – they are close.

The U.S. Government still runs the largest economy in the world. However, at this point they are already expected to have a budget deficit this year of over $1.4 trillion and this in the face of a potential recession. We can't predict a recession, however, M2 money supply, which feeds directly into (production) GDP, has been contracting. A recession leads to lower tax receipts and higher welfare spending. If a recession does happen, in the next short while, the deficit will be far larger than $1.4 trillion.

If the U.S. government, in negotiations at the final hour, has an actual U.S. debt default, it would likely send shockwaves through global financial markets, as investors would lose confidence in the U.S.'s ability to pay its bonds. As it is still the world's reserve currency, their bonds (the money they borrow), seen as among the safest investments and which serve as building blocks for the world's financial system, could affect world-wide trade.

A default would leave lasting scars, including a permanent increase in the cost of funding U.S. federal debt, and probably extend to other western governments as well.

The reason that market response may be different from past "crises" is because U.S. dollar dominance is being challenged by a major portion of the world's population. A MAJOR factor is world dedollarization. The fact is that the broader world is becoming less dependent on the U.S. dollar, and demand for it is dropping. Lower dollar demand will further devalue the dollar, against other world fiat currencies and precious metals and oil, which will in turn lead to higher inflation.

In all likelihood, we can now assume that the U.S. Government's future deficits will be financed increasingly by the U.S. Federal Reserve. The Fed will also have to pick up the pieces from foreigners no longer willing in aggregate to buy U.S. Treasuries — if anything they are turning into net sellers, putting even more pressure on the Fed to buy ever more of its government's debts.

If push comes to shove, Western Central banks FEAR deflation, way more than they say they fear inflation – PERIOD. Devaluing government debts is the guiding long-term factor why central banks go out of their way to create inflation and avoid recessions.

DEBT: In recent weeks, the threat to America being able to maintain its dollar's hegemony has noticeably increased. Similar to the sound of a fire alarm (maybe a drill) businesses are deserting their buildings. In reality, growing numbers of countries are backing off from using the dollar in favour of China's renminbi, and to a lesser extent other emerging market currencies. China has brokered a peace deal between Iran and Saudi Arabia, and in turn the Saudis are now improving their diplomatic relations with Syria.

It appears that America's divide-and-rule Middle East policy has been questioned. Even Mexico is reported to be prepared to accept the renminbi in defiance of its northern neighbour's prowess. And Brazil has always been the B in BRICS. Now Argentina has applied to join an expanding BRICS, alongside Algeria, Indonesia, and Iran…

Saudi Arabia, Turkey, Egypt, and Afghanistan are also said to be interested, along with other likely contenders for BRICS membership. This may include Kazakhstan, Nicaragua, Nigeria, Senegal, Thailand, and the United Arab Emirates. All of them had their finance ministers present at the BRICS Expansion Dialogue meeting held last May. And if they all joined, the expanded BRICS would have a nominal GDP 30% larger than the United States. This would also represent over 50% of the world population, and control over 60% of global gas reserves.

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Our Current Stance

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FIAT CURRENCIES: The risk of a major escalation of the war in Ukraine is considerable. Russia's main aim, they say, is for the Minsk agreement to be honoured, whilst the powers that be, in the U.S. in particular, seem to want to weaken Russia (and by proxy China) in a direct conflict. Many in the U.S. believe that a defeat for the U.S. in this conflict (many are saying it's a proxy war – to the detriment of Ukraine and its people) would be the end of the U.S. dollar's hegemony and their economy. At the same time, Russia (and China in the background – as they must be thinking about Taiwan) is determined not to lose the war, whatever it takes. This is the kind of background that has a high risk of ending badly, and making the suffering of the Ukrainian people even worse.

Regardless, we believe that the U.S. dollar is in the early process of losing its relevance as a global reserve currency. Nations such as China, India and organizations like OPEC+ are dealing amongst themselves more and more, away from the U.S. dollar as a vehicle for global trade.

INTEREST RATES: The state of the U.S. banking system is undoubtedly a cause for global concern. The days of low interest rates are now palpably over, and an assessment of the banking system's survivability in a higher interest rate environment is surely being made by our foreign competitors.

OIL AND GAS: Oil and gas remains a part of our core portfolio. The graph on the previous page says it all. Costs of items that the world needs to run its economies, the real value of things we all use, is based on supply and demand. That goes for fiat currencies as well. And when the values of fiat currencies are devalued, by governments

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Month in Review

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Following China's diplomatic achievement over the previous Middle East divisions, President Macron of France and Ursula von der Leyen, President of the European Commission, visited President Xi in Beijing in April seemingly to see if he could persuade the Russians to consider a peace deal over Ukraine. The Chinese appear to see France as a more important trade partner than the European Commission. On the surface, Macron reveived the full diplomatic treatment while von der Leyen, who recently delivered a hawkish speech over Taiwan, was side-lined.

Macron's popularity with China's leadership is undoubtedly connected with his longstanding policy of promoting diplomatic and trade relations between China and France, with China making substantial investments in France. It was rumoured that a French exporter of LNG to China even accepted payment in renminbi instead of dollars.

For sure there is a great deal of debt

ECONOMICS: When fiat currency devaluation is happening on a long-term and consistent basis, our banking system needs to leverage itself in order to keep up with rising demand for all those things that the economy needs to exist.

You can see that in the next graph. It shows the growing leverage that banks are using off of their capital (the real money that is theirs) to lend to those wanting to borrow from them. This is unsustainable.

Based on the ratio of assets to Tier 1 capital, the entire banking system is significantly more leveraged than it has been since 1990, when the FDIC's figures commenced.

Basically, there are two ways by which the ratio can return to more normal levels. Either banks raise more equity capital, which in many cases would be at a discount to stock market values and therefore undesirable. Alternatively, they must reduce the asset side of their balance sheets, which would mean a slowing economy. Collectively, banks seem to be choosing the latter course.

CONCLUSION: The equity and bond markets are on a knife's-edge. There are a number of macro and micro factors that seem to be converging around the long-term hegemony of the U.S. dollar.

Such things as the U.S. debt ceiling debates are a red herring. At the end of the day, they will just borrow more and more money.

For example, the bigger picture is the proxy war in the Ukraine. If the war in Ukraine is won by Russia, in short order, then China will move forward with their currency dominance in a faster way, with their BRIC trading partners, and probably make their move on Taiwan. If the war goes the other way, then China and its BRIC trading partners may wait to make any aggressive moves away from the U.S. dollar. It will still happen, but patience will be a virtue. Other proxy wars are breaking out, such as the civil war in Sudan, but Ukraine seems to be of utmost importance to the U.S..

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spending and printing too much money, the relative price of those “things” that societies need to clothe and feed its populations rise in price. We call that inflation.

PRECIOUS METALS: Gold now on the verge of breaking out to record levels.

China is expanding its gold reserves, in response to its abandoning the U.S. dollar as its main medium of exchange. The latest news is that China's gold reserves increased by 8.09 tons in April. Total gold stockpiles in China reached 2,076 tons after they added 120 tons in the five months through March. Historically, China has been a major buyer of U.S. Treasuries, but this has seen a marked cooling off as Beijing swaps them out in favor of gold.

This strategic move will limit China's dependence on the U.S. dollar, as trade and political relations with the U.S. have deteriorated. Buying gold rather than dollars may also signal moves by China that it is eventually seeking to replace the U.S. dollar as the world's reserve currency with its own. We believe China is building stocks of precious metals, and allowing the Chinese yuan to be traded freely, to weaken the U.S. dollar's dominance as the global reserve currency, and the U.S.’s ability to print wealth and power. Others seem to be climbing on board, and if that is true then holding precious metals (gold equities) is a great way to insure ones assets.

Political Shorts

The Road Not Taken

The world’s geopolitical scene is at a cross roads that may affect the way equities are valued for generations. At the very least, we are watching events

closely with regards to our strategic planning going forward.

The Western, so called “developed,” world has held sway over the rest of the world since World War I, in terms of moral doctrines, and economic and military prowess.

That has changed recently, and that power continues to move eastward. The U.S. and Europe had the chance to bring Russia closer to counter China’s growing global influence, but instead decided to fight both at the same time. We believe the war in Ukraine is a proxy war and warning to China not to make a military move on Taiwan.

The other glaring and probably more important policy decision was driven by the Easts’ move away from using the U.S. dollar as the world’s reserve currency.

The U.S. has attacked other countries for the same thing. Think Libya, Nicaragua, Iraq. Without the U.S. dollars being used as the world’s reserve currency for all transactions, the U.S. will not be able to print wealth and power. Unfathomable as it may seem, the U.S. may be forced to balance its books.

The much talked-about Ukraine counter attack will have certain political consequences. If successful, it will have negative results for Putin and Russia’s future survival. If failed, it will have a negative effect on the U.S. standing in the world, the timing of China’s moves on Taiwan, and the U.S. dollars’ relevance in the global economy.

At the moment we see geopolitics playing out in the way we have forecasted, and as such we are maintaining the focus of your portfolios’ on our present Asset Allocation Model.

RealGrowth Investment Counsel

Ralph M. Adès, CFA

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We offer Personalized, Independent and Pro-Active Wealth Management.

Our Clients include: Individuals, Families, Estates and smaller Corporate and Registered (RRSP, RESP, RIF, TFSA) accounts.

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