

Putin attacks Ukraine, what are the consequences for investors?

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Like a lot of people around the world, I'm royally pissed off about what is happening in Ukraine. My email inbox exploded yesterday with questions on what this means from a trading perspective, and no one seemed to like my answer, which is – it meant very little to me (but please don't mistake that for my personal outrage with respect to this issue). Frankly, when all was said and done not a whole lot happened in the market, and depending on how the continued sanction saga goes, we'll see if it has much impact at all. I targeted a few buying opportunities of anything that got yard-saled, but my guess is that this is a simple speed bump, and the market will have forgotten about it in a week or two.

In my opinion, the bigger market impact will be how it affects the U.S. Federal Reserve actions. The potential for increased commodity inflation (due to sanctions) could slow the economy. A slowing economy is not a great background for gung-ho interest rate increases. So, this conflict/war/assault on humanity may actually temper interest rate increases which could be bullish tech and gold. A perceived less aggressive interest rate path may partially explain the slap upside the head that most North American financials took, although there may also be some ramifications from all the banking sanctions announced. But, by day's end, all I had done was to buy some Facebook/Meta (NASDAQ: FB) and sell some out of the money covered calls on Cameco Corp. (TSX: CCO | NYSE: CCJ), and that's it. There was a lot of uranium interest for sure, but we saw bigger intraday moves when

everyone was all cranked up by the activity of the Sprott Physical Uranium Trust (TSX: U. UN). Nevertheless, I will often find some way to trade around a 10% single day move in an equity.

Now don't get me wrong. I'm definitely paying attention to the obvious [sectors that may be impacted](#) as one could argue that Russia is a global commodities superstore – you know, oil, natural gas, wheat, corn, palladium, platinum, aluminum, potash and phosphate, to name a few. But let's be frank, a lot of these commodities will see limited impacts for various reasons.

The current global supply/demand picture for both oil and natural gas, the largest contributor to Russian GDP, is such that no country has enough spare capacity or political will to completely shut off Russian imports. It seems like every speech made by President Biden on this topic always has some reference to keeping U.S. gasoline prices below \$4/gallon. And in Germany, they made the symbolic gesture of halting certification for the Nord Stream 2 pipeline but that wasn't shipping any product yet anyway. There's still the original Nord Stream pipeline and its total annual capacity of 1.9 trillion cubic feet (55 billion m³) of gas that hasn't been discussed in any press releases I've seen so far. Likely because it's still winter and Germany isn't about to let its citizens freeze, and realistically it doesn't have any other quickly available, viable options. If those united against Mr. Putin actually grow a spine and put a hard stop to all Russian oil and gas purchases, Russia could simply sell most, if not all, of it to China and current Chinese supply will redistribute to other parts of the world. This could certainly create some interim price volatility but it's highly improbable (in my opinion) that actual Russian oil and/or natural gas production will be cut and thus there will be no dramatic swings in supply.

In fact, I believe China probably has the most sway over how this whole situation unfolds. Mr. Putin obviously doesn't care about sanctions from the rest of the world given those sanctions were signaled well in advance and it doesn't appear to have dissuaded him in any way, shape or form. China can likely absorb a lot of the commodities that Russia is currently selling to the rest of the world, should sanctions actually start to have an impact, but I'm pretty sure Mr. Putin isn't that trusting of his giant neighbor who happens to have an even larger economy and army. But if China decided that enough is enough and threw its weight behind the opposition of the rest of the world then this incursion ends immediately. If China is on board with sanctioning Russia along with everyone else, Russia no longer has an economy to speak of. But I suspect China plays along for a while, at least until they have Chinese troops on the ground in Taiwan, but we can hope that's not a story for another time.

Ultimately, I have no idea what Mr. Putin's end game is. Why has he manufactured some alternate reality regarding Ukraine that supposedly required Russia to invade? We may never know. To quote Winston Churchill from 1939 when he defined Russia as "a riddle, wrapped in a mystery, inside an enigma," it would appear Mr. Putin has taken this description to heart. In the meantime, it might be time to start nibbling away at North American commodity producers and explorers of just about everything because this event has taken security of supply to another level. It should also reshape the perspective of any ESG funds and investors as I'm pretty sure an unwarranted invasion of a neighboring country violates both Social and Governance mandates, and if it doesn't then it should. With that said, let's be clear, these are the actions of Mr. Putin and his political and financial supporters and not necessarily the Russian people. Regardless, I'm glad I don't own any Russian equities or companies with Russian backing right now.