Adrian Day
ADRIAN DAY ASSET MANAGEMENT

PORTFOLIO REVIEW

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How does one review the quarter just ended? A major war in Europe with discussion of the possibility of the use of nuclear weapons…U.S. sanctions that have accelerated the demise of dollar hegemony…commodity prices shooting up to levels not seen for a decade or more…talk of world hunger…a Federal Reserve that has run out of room to manoeuver…and, amid a war and rate hikes, U.S. stocks bouncing back from bear territory in one of the strongest rallies ever to within breathing distance of all-time highs. The world is upside down; and the tide is turning on investments.

■ Stocks: Volatile and Down

Throughout the quarter, most assets were very volatile. Both the U.S. and world equity indices entered the year at all-time highs, and, after falling sharply at the onset of the Russia-Ukraine war, recovered equally sharply, making back most of the declines.

For the quarter, stocks were mostly down, with the S&P off a little less than 5% and markets outside the U.S. down a little over. Other than Canada and Australia (both resource markets), Mexico and Brazil, all major markets around the world were down, with China off over 14% and many markets in Europe down in the low teens. (The U.K. market was *up* modestly, priced in British pounds, down in dollars.) The stand-out winner was Brazil, up 34% for the quarter. U.S.-based global equity mutual funds fell just over 8% (per the Bloomberg index).

Our global accounts are off to a strong start for the year, dramatically outperforming global markets and funds, up 12.6% for the quarter, and more for conservative accounts.* (Numbers are preliminary.) This follows a weak 2021 for us. Our outperformance for the quarter is attributable to three main factors: we were significantly underweight broad global markets, particularly the weak European markets; we were significantly overweight gold and other resources; and we held high allocations to the strong performing Business Development Companies, more so in conservative accounts.

■ Commodities: Volatile and Up

Every individual hard and soft commodity was up, led by oil (34%) and gas (51%); as well as nickel (58%). Many metals and agricultural commodities were up over 20% on the quarter. Of course, disruptions caused by the war and sanctions saw sharp moves in March.

Gold was up just under 6%, silver just over. Gold had been moving up steadily before the invasion, which saw it shoot up to over $2,050, only to give up much of those geopolitical gains and return to trend. (We'll discuss this below.) The stocks exaggerated gold's move with the XAU Index up 20%; the average gold mutual fund (basis Bloomberg Precious Metals Fund Index) was up just over 12%. As is quite usual, the average fund does not do as well as the index when gold stocks are strong, since there is no cash (nor fees).

Our resource accounts rose a little less than 12%, our gold accounts a little over (12.4%).* There is no good measure of resource investments, but if we underperformed it was because we were underweight oil and gas. Our gold accounts performed in line with gold funds. As always with the volatile and idiosyncratic gold stocks, there were outperformers and there were underperformers. In general, the royalty companies outperformed, while the exploration stocks were pretty flat.

■ How strong is the economy?

The U.S. economy, judging by many of the major economic reports, appears reasonably strong: unemployment claims are down; the purchasing managers index (an indicator of future growth) is up; and home prices are soaring (up over 19% annualized in the latest report).

But these headlines mask much underlying weakness. The labor participation rate is down, meaning the unemployment denominator is low. Manufacturing was up until the latest report; it had been positive partly because of the replacement of goods lost in supply chain purgatory, and thus destined not to last. Inflation has boosted the price of homes, while sales are down, and pending sales even more so. To the extent consumer purchases are up, it is because of higher prices. And consumer confidence (University of Michigan survey) fell to a decade-long low, while expectations for worse personal finances is the highest since the survey began in the 1940s. This affects consumers' willingness to buy big-ticket durables and discretionary items, aggravated by higher financing costs.

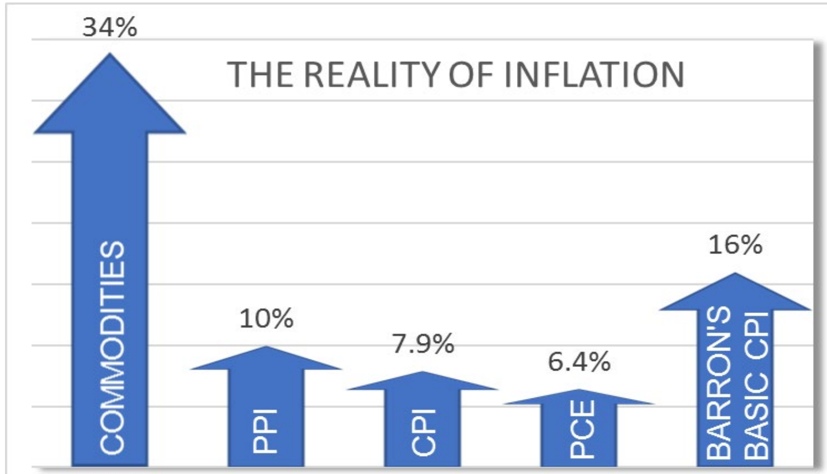
■ Inflation: Higher and not so transitory

And overlaying all this, of course, is the continued rise in inflation (or more accurately, in consumer prices), up 7.9% in the latest monthly report, that is for February, pre-invasion and thus before the spike in gas and many commodity prices. As we move into spring and summer, the year-to-year comparisons will be against prices that had already moved up (the "base effect'). But prices won't be coming back down any time soon, and inflation has a way of becoming embedded in an economy, as consumers bring forward purchases to avoid higher prices later (very evident in January). The higher commodity prices feed into higher producer prices which in turn feed higher consumer prices. So we can expect higher prices for some time yet.

And, as we have discussed many times previously, higher consumer prices are but a *symptom* of inflation. The inflation is the creation of excess money, money beyond the near-term needs of the economy, and that has already occurred, so higher prices are baked in the cake.

Inflation is always pernicious, since it destroys savings and ultimately the middle class. In the near term, in this economy, it will prove so damaging because of the very high levels of debt. Most mortgages may be long-term and fixed, but other debt is not. With interest rates at excessively low levels for so long, many householders and particularly companies took advantage of the opportunity to borrow money. The real impact comes, not with higher rates on existing debt, but with refinancing in coming months.

How high is inflation? We read a lot about so-called "core inflation" which excludes goods and energy, a most interesting concept. Then there is the "personal consumption" index, which minimizes housing and medical expenses, and tends to result in lower readings. Needless to say, this is the Federal Reserve's favored index. It is still up 6.4% year-on-year.



Barron's newspaper did an interesting study. Rather than exclude the things most people spend most of their income on, they looked at what they called the "Basics CPI" which includes basic food (milk, eggs, bread and produce), shelter, gas and utilities. Last month's "Basics CPI" was up 16%, compared with 7.9% for CPI and 6.4% for so-called "core" inflation.

Into this environment, President Biden is proposing the largest tax hike in U.S. history, and projecting an annual $1.15 trillion deficit. The proposal includes a plan to tax unrealized gains for wealthy taxpayers, and plans to "modernize rules for digital asset"; the "modernization" consists mostly of expanding tax reporting. Just as birds fly and fish swim, governments tax and spend.

■ The Fed starts to tighten, but lacks the resolve

And central banks create excess money; it's their nature. The Federal Reserve has taken its first baby step towards removing some of the excess from the economy. It has raised rates off the floor by a quarter of a percent, and promises further hikes throughout the year and to start reducing the size of its balance sheet. But there is still some hesitance. Fed chairman Jerome Powell's latest speech made markets nervous, but there was a notable lack of any clear pledge: "*If* we conclude that it is more appropriate to move more aggressively…we will do so." He added that the Fed would start to reduce its balance sheet "at a coming meeting".

As we have noted, even if the most aggressive of the various plans being floated is carried out, interest rates a year from now will still be more negative in real terms than at the dawn of the great inflation of the 1970s, and the Fed balance sheet will still be twice what it was in 2020. It should be noted that even as Fed chairman Powell was talking about cutting the balance sheet, the Fed continued to purchase bonds and add to its balance sheet, as of late March. It is perverse to use the word "hawkish" to describe the current Fed.

The current path suggests rate increases at every Fed meeting for the next year, two rate hikes of 50 basis points each at the next two meetings, followed by five of 25 bp each. The Fed members are supremely confident in their ability to tame inflation. Although the so-called dot-plot of Fed members' expectations shows rates ending the year below the expected rate of inflation, they still expect inflation to decline next year (to less than 3%) and thereafter close to the Fed's 2% target.

■ The Fed faces Hobson's choice

The reality is that the Fed must chose between inflation or a recession (or a little bit of both). It cannot tame inflation without a recession. Most astute observers seem to agree. It's not so much that the Fed will make a mistake going forward, rather they already committed the mistake, in creating so much excess money from 2008, and particularly 2020 on, and keeping it going so long. Having done that, there is no way out. Former NY Fed president Bill Dudley called out in particular the quite silly shift to "inflation symmetry", in 2020. ("We have had lower inflation in the past, so let's have higher inflation in the future to average it out.") Concludes Dudley, "this has made a hard landing virtually inevitable."

■ It's worse than before

The Fed is in a worse position today to start tightening than in previous cycles. Not only are interest rates the lowest in history, and the balance sheet so enormous, but the Fed is tightening into an economy that is already slowing, with oil prices up percentage-wise the same as they were in the 1974 oil embargo. At that time, the Fed cut rates—*and still there was a sharp recession*. The other negative factor is that debt levels are so high; the Fed simply can't raise rates sufficiently to normalize them. Consumers, corporations, and the federal government could not tolerate that.

Having said that, many are expecting the Fed to capitulate at the first sign of trouble in the stock market. I don't agree. The Fed won't surrender so soon this time, first because the inflation starting point is so much higher, and second because the Fed will have to act to preserve whatever shred of its credibility remains in some corner of the universe. I suspect the Fed will be less concerned going forward about the stock market, at least for a while. The S&P was already down 12% before the first rate hike, and that did not deter the Fed. A sharp rise in unemployment, however, would be a different matter. And however it plays out, I do not expect the Fed to stay the course sufficiently to tame inflation.

■ Bond buyers are front running the Fed

The market has already moved ahead of the Fed. Rates are moving up, and the futures market is pricing in eight consecutive rate hikes. We have seen the lows in nominal rates marking the end of the four decade-long bond bull market. Bond investors are pushing up rates, and if the Fed stops buying—it has been the largest single bond buyer in recent years—rates will rise further.

Government bonds have just finished their third-worst quarter since the end of the civil war, according to Deutsche Bank. We do not expect to see new lows in nominal rates. The last bear market in bonds lasted from 1946 to 1981.

In addition, the yield curve is flattening; the 2/10 is already inverted. It will not be long before rates are inverted along the entire curve; the 2/30 is within 15 bp. The shape of the curve is important since it affects returns of lenders, including banks, and a tight—let alone inverted—curve reduces the incentive to lend. That's why an inverted curve is a good predictor of a recession. In 2006, it took two years before the recession. Rates inverted in 2019, but a recession was avoided only due to massive monetary injection and gimmie handouts. We could see the same again, of course, but at what cost to inflation and public finances.

■ Global economies also slow as rates rise

The U.S. is not alone in experiencing a slowing economy with a central bank embarking on rate increases. Indeed, many smaller banks were well ahead of the Fed. Now banks from Sweden to Australia and Taiwan are raising rates. Yields on government 10-year bonds are at multi-year highs in

Europe and the U.K. The German 2-year bund is just 2.5 basis points from getting back to zero, for the first time since 2014. This is considered tightening! Though the amount of outstanding government debt that carries a negative yield has fallen dramatically over the past six months, there remains $5.7 trillion of negative-yielding debt. What a world!

Around the world there are signs of slowing economies. In Europe, consumer confidence was already down before the Russian invasion of Ukraine and the threats of the stoppage of Russian gas, which saw it fall further. As in the U.S., the European Central Bank is (finally) raising rates at the same time the economies are slowing, while inflation has moved, jumping to 7.5%.

China has seen a sharp drop in manufacturing as it shuts down more cities again. At the same time, it is removing stimulus. Japan is overtly attempting yield curve control but the country has little to show for its policies over the past 40 years. Now the collapse in the yen is causing import prices to rise, notably oil of which Japan is bereft.

Beneficiaries are countries whose rate hiking cycles are largely behind them, and who are commodity exporters. It raised rates from 2% to 10.75% in the last several months and seems to have at least stopped inflation rising more. Brazil houses the world's largest nickel miner, is one of top crop producers, and a large oil producer.

■ The dollar loses trust

The dollar, already strong as the least bad of a bad bunch, shot up to a nearly two-year high after the Ukraine invasion as it attracted safe-haven money. The euro was particularly hurt by the invasion and in particular the reliance on Russia for much of its oil and gas. The dollar's geopolitical risk premium did not last long, however, and the dollar was very volatile in April, as the safe-haven thesis battled concerns about the U.S. handling of the Ukraine situation and in particular the security of U.S. dollar holdings.

The far larger story longer term, however, is the ongoing move away from dollar hegemony. This has been developing for some years, but the dollar has been weaponized and other countries will take note. Foe or potential foe will not want to hold dollars in reserves, and will want to move away from sole reliance on the dollar for global trade. The move to stop some Russian banks using the swift international payment settlement system may hurt Russia in the near term, but it will significantly hurt the U.S. in the longer term. Not only is Russia demanding ruble or gold as payment for its oil, but Saudi Arabia is selling its oil to China for yuan. We will see more of this in the months and years ahead.

■ Stocks, overvalued, face headwinds

There is little question that the U.S. stock market is expensive, but the macro environment is deteriorating. Inflation, war, and monetary tightening all may hurt earnings in most sectors, and earnings guidance is the most negative since 2009. Increasingly, companies are seeing margins squeezed as the ability to pass on higher costs repeatedly is limited. The Fed preparing to withdraw liquidity is bad news for stocks, especially since there is so much debt. Companies will have to refinance their debt as it matures at higher rates. It has been the Fed's excessive liquidity that has been the main driver of stocks for the past 12 years, and particularly the last two.

We have discussed high inflation amid a slowing economy—the feared stagflation—and that environment is not good for stocks, unlike inflation with growth.

The main problem now is that stocks are so overvalued. Starting from high valuation levels means lower longer-term results. From today's levels, one might expect negative returns over a 12-year period.

Yet investors remain positive. According to the Investors Intelligence Bulls and Bears ratio, they are bullish again, after a brief flirt with a more bearish stance. The strength of March's rally—the first week being one of strongest on record—is actually a negative sign, suggesting as it does short-covering rather than fresh buying. At the same time, companies continue to buy back their own shares at record levels. Higher rates will slow that trend and remove one more factor driving the market.

■ Little value in global markets today

In short, the risk for stocks has risen dramatically; with valuations at extreme levels, the declines could be sharp. We expect increased volatility with the possibility of a sharp drop in coming months. At base, we can conclude that the risk-reward is skewed negative.

Global markets have already experienced greater declines than the U.S. European stocks recorded record outflows in February, and valuations relative to U.S. stocks are at the lowest on record. But that does not necessarily mean that the stocks are inexpensive. Higher inflation and slower growth, as well as the energy crisis, suggests this may not be the best time to be aggressive on European stocks.

As Chinese stocks have continued to decline—down 20% since the middle of last year—this has also affected Hong Kong, where sentiment had already been shaken by the mainland's growing political domination. That market has declined almost 25% in the same time frame, and stocks are quite undervalued, with the entire market selling in single digit p/es and less than book. Those metrics represent value. Growing Chinese control is undoubtedly a challenge facing Hong Kong, but it has been said that if you feel completely comfortable buying a stock, you are not buying a bargain.

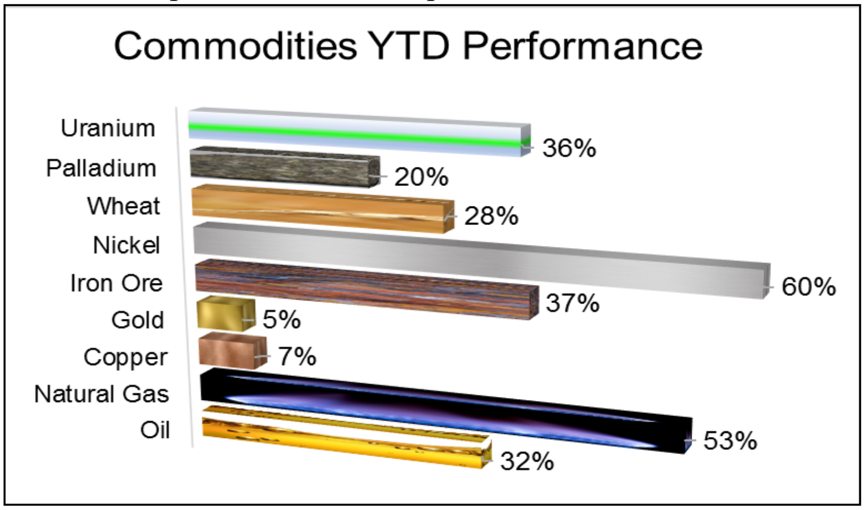
■ Smaller markets are stronger and better value

Smaller markets also offer opportunities. In general, the smaller and emerging economies are stronger than they have been in years and many have already raised rates to control inflation. Stocks are cheaper relative to the U.S. than they have been in a decade. Of course, smaller and emerging markets covers a range of economies and markets. Higher resource prices help many, but not others which have to import everything. As a group, their markets outperform during periods of a declining dollar, as much as 90% of the time.

While we are always searching the world for undervalued companies, we are mostly finding them now in smaller markets. We also are finding opportunistic buys where a particular market, sector or stock overreacts to what appears a temporary factor, providing an opportunity to buy, if only for a short-term trade. In general, we are reducing more than we are adding

■ Which commodities will hold Russia war gains?

Most commodities, both the metals and agriculturals, have spiked after the Russian invasion of Ukraine. For the most part, as would be expected, the commodities where Russia (or its satellite states) is a dominant producer jumped more.



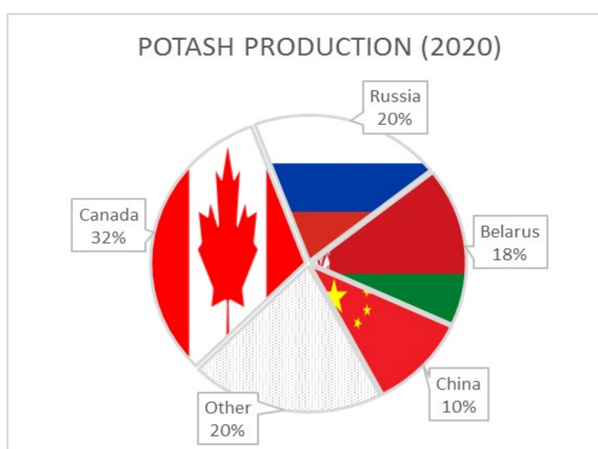
For the most part, however, Russia continues to produce oil, gas, nickel and so forth, and the resources that formerly went to western Europe or the U.S. now will find markets elsewhere, mostly in China or India. Resources that these countries have previously bought can now flow to western Europe and the U.S. So the war and sanctions on Russia produce a supply bottleneck, a short period when resources are in the wrong place at the wrong time, but do not fundamentally change the supply. So the price spikes will be temporary to varying extents. See oil discussion below.

There are specific commodities where Russia's dominance is more fundamental, such as enriched uranium. That could find alternate buyers, such as Iran, but that buying would not displace other product.

■ Ukraine exports are vulnerable

What Ukraine produces is more important in this regard, since there has been and will be destruction of production and therefore lower supply. Already, there is the risk of missing planting this year for next season.

Particularly important are fertilizers. The tightness in the fertilizer market, already evident before the war, is not limited to Ukraine. In Russia ally Belarus, three of five potash mines are closed, and only one boatload has left in over eight weeks. Belarus is the third largest producer of potash (18%) after Russia (20%), with Canada the top producer. The jump in the price of natural gas implies a three- to four-fold increase in the cost of nitrogen in Europe, further exacerbating the cost of fertilizers.



For the most part, premiums will evaporate when peace comes, or even before as global supply gets sorted out.

■ For copper, supply is the issue

Copper, whose price has almost doubled since the beginning of last year, is susceptible to reduced demand from China in particular. However more fundamentally, supply is the bigger issue. Richard Adkerson, CEO of Freeport, the world's largest publicly traded copper company, says market tightness "is far beyond a price issue", pointing to a deterioration of deposit quality and more difficult operating environments. Even if the price of copper doubled overnight, he said, it would be years before there was any significant additional production. "The market is going to need it far faster than (we) can produce it."

Palladium moved to record levels as sanctions threaten the supply from the world's largest producer, responsible for nearly 40% of world production. Palladium was already in deficit before the Ukraine crisis. The risk is that palladium becomes too expensive for the automobile industry—its largest source of demand—leading to a switch to platinum in time.

■ Don't expect a huge increase in oil supply soon

The oil price spiked to a 13-year high in the aftermath of the Russian invasion, though it has fallen back since, dropping further on the Biden Administration's plan to release oil from the strategic reserve. This release, 1 million barrels per day over six months, is the third this administration has made in the past six months, and by far the largest. This will take the U.S. strategic reserve back to the levels of 1983, and more-or-less guarantees new buying to replenish it in the next year or two. So at best, this move will produce some temporary stability. Oil closed the quarter just below $100/per barrel, still up nearly 50% from November. For context, Russia exports 5 million barrels per day.

President Biden said the release was just temporary "until domestic production goes up". But in order for domestic production to increase meaningfully, his administration needs to change fundamentally many of its policies as well as its attitude to the sector. We already see how the reaction of drillers to a doubling in the oil price over the past year has been very cautious.

OPEC has little immediate spare capacity and seems unable as much as unwilling to boost production. It is difficult to believe that at least some members would not have increased production to take advantage of current prices if they could. Indeed, OPEC failed to meet even its current production quotas (in January, by nearly 2%), so it is unlikely it will boost its quotas and production beyond the current planned schedule. More oil released from inventories worldwide only points out the critical state of those inventories. A sustained price over $100, however, would likely see increased production from non-OPEC players, particularly U.S. companies, but cautiously at first.

Oil and natural gas have larger distribution issues than, say, the metals. If Russian oil is prohibited from going to Europe, the largest (though not the only) market would be China. It would have to be shipped there, and Russia does not have enough "supermax" vessels currently. So the "wrong place at the wrong time" issue would be more costly and take longer to solve for oil and gas than for other resources.

The stocks of oil and gas producers have already moved, and reflect the new price levels. We did add to the sector at the end of last year, but are not chasing the stocks, given the economic outlook and the *potential* for increased supply.

■ For gold, money more important than war

Gold hit new highs in terms of Swiss franc, Japanese yen, and euros, and close to new highs in dollars. War, inflation, a slowing global economy, Federal Reserve policy, and monetary uncertainty all combine to drive the gold price—almost a perfect storm—though war provided the spark to see gold move to $2,050 in early March. The war will end, though, and geopolitical premiums tend to be short-lived in any case; as the fighting continues, gold has retreated towards the trend line that started in late January when the Federal Reserve laid out a timeline for raising rates. In the near term, gold could fall back further, but inflation, a slowing global economy, Federal Reserve policy, and monetary uncertainty will drive it higher in the longer term. Any further pullback will be shallow and short lived.

There are factors that support the notion that gold is in a bull market. Over the past couple of months, gold has moved up on days when yields were falling, but declining only modestly, if at all, when yields climbed. Similarly, gold rose with the dollar after the invasion; it also fell on days the dollar fell, indicating that it is the geopolitical premium rather than rate hikes that have moved gold. In addition, silver outperforming gold is usually indicative of a bull market.

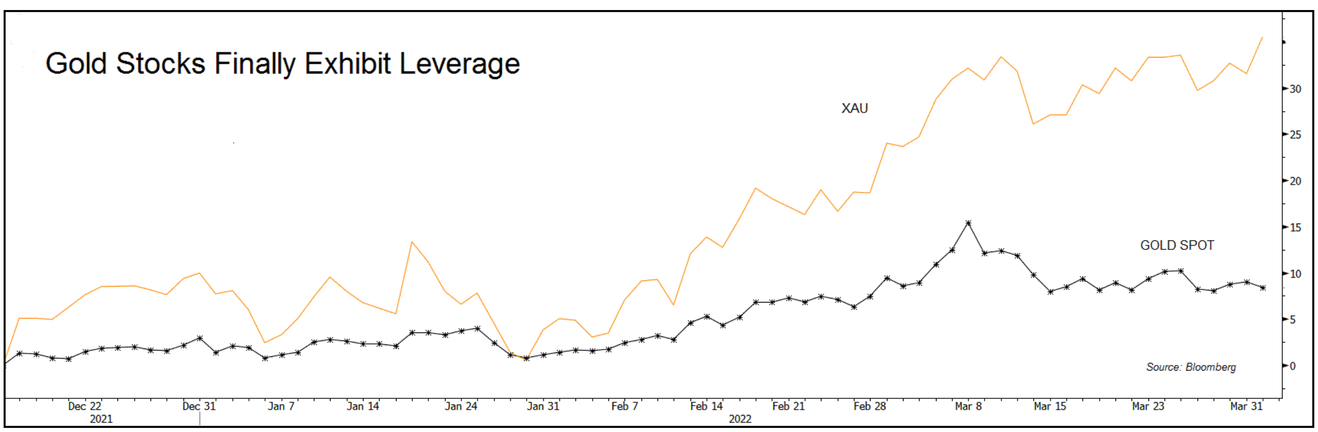
We discussed in the last *Review* that gold typically declines when the Fed and other major central banks start *talking* about tightening, but bottoms once they actually start taking action. On the face of it counterintuitive, this reflects the market recognition that the Fed is doing too little, too late. If ever there was a time when this was true, it is now. We do not see the Fed carrying through on its hiking plan. And a fed that capitulates is extremely positive for gold.

■ Gold stocks play catch up

After years of dramatically lagging bullion, the gold miners have started to outperform, and equally dramatically. This is another indication of a gold bull market, and a bull market for the stocks.

At the same time, notwithstanding a jump of 35% in the last two months (basis XAU), the gold miners remain good value. The average gold miner is four times as profitable as the average S&P company, yet the valuations are far less. On an historical basis, the gold stocks are undervalued as well.

The price-earnings multiple is virtually the lowest it has been in 20 years. The XAU stocks yield 1.7%, their highest in 20 years, other than briefly in 2013. Individual stocks are even better value, of course;



Barrick's free cash-flow multiple is close to a 10-year low. So even though margins will be squeezed as costs increase, those costs are still below where they were the last time the gold price was at this level. Then, oil was over $150/bbl, and the commodity currencies (in which miners make their local expenditure) were nearly 50% higher.

At the same time, the juniors and exploration companies have, for the most part, hardly budged in response to the gold price. Eventually, they will, and all gold stocks will be wildly overvalued. But for now, that is not the case.

We continue to hold our gold position, only trimming at the margins in response to the recent sharp rally in the seniors. We continue to add, and are buying across the spectrum, from the majors to the juniors.

Overall, we are cautious of global stock markets because of valuations and central bank action. We expect to raise more cash before we buy aggressively or broadly again. In the meantime, we are very selective in any buying, mostly bottom-up, and opportunistic. We are cutting some resources given the sharp moves and the risk of the war premiums dissipating. But we are for the most part holding gold assets which remain undervalued and very favorably positioned for the current environment.

Review of Individual Accounts

Global Accounts

Cash levels in global accounts remains the same as where it was when we entered the quarter, at just over 3% of accounts, more (7%) for conservative accounts. Exposure to global stocks fell slightly, now just 8%, as we took some profits on short-term trades, while exposure to U.S. income stocks moved up as we became more defensive (8% for mid-risk, 15% for conservative accounts). We anticipate cash in global accounts moving up as we trim gold and resource stocks, while continuing to hold strong allocations.

We sold several global stocks, mostly nearly the beginning of the quarter before the sharp sell off (and before subsequent rallies). We exited Brazil (other than resource stocks) on a rally ahead of possible election turmoil; and Japan, concerned about the currency. We also sold two U.K. companies, a pharma company after a major rally, and a telecom, with exposure to eastern Europe. (As before, thanks to the SEC, we cannot provide names.)

BDCs are still attractive

On the buy side, we added diverse companies in Hong Kong (a very depressed real estate company, and a processed meat packer) as well as China (a major financial company). We also continued to add, on weakness, to our top Business Development Companies (BDCs), and added a new one, another high-quality company with diversified loans and a high (nearly 9%) yield. We took advantage of a sharp drop in the sector when the Fed made its first rate hike.

Other things being equal, companies that pay a good dividend become less attractive as the overall level of rates move up (and with it, what is available from government debt and on bank deposits). But other things are not equal, since BDCs have the ability—and the history—of being able to increase their dividends over time.

Moving ahead, we continue to position accounts more defensively, which means holding more defensive companies, more income stocks, and being quicker on trades, as well as holding gold which can act as a hedge on an overall portfolio.

Gold Accounts

The cash in gold accounts moved up to 5% from less than 2%. Much of this cash is set aside against puts we have sold, but we have also trimmed some positions as stocks moved up (and one or two laggards). Last quarter, we wrote that we expected to cut many of the recent add-on trades, particularly among the smaller stocks as they typically rally in the New Year after year-end tax-loss selling. All this selling has been very much on the margin.

The allocation to seniors remained at 27%, as the group generally outperformed, offsetting a little trimming and one loss (see below). The junior sector increased to 10%, on more buying, while the exploration group declined from 36% to 30%, mostly reflecting relative prices.

Exited most Russian exposure ahead of invasion

There were no new buys, but we sold entirely one of the two Russian gold companies we held, escaping the stock being halted. We also sold the other company for many clients but held for others. Although this one continues to trade in London and the U.S., the stock price fell dramatically—over 90% in 10 days—at its lows trading at only one times cash flow and priced to yield over 50%. We have since added to that company for appropriate clients.

This company is incorporated in Jersey, Channel Islands and has over half its assets outside of Russia. Nonetheless, with headquarters in that country, it is thought of as Russian and fell with other Russian stocks.

Going forward, we expect to continue to be almost fully invested, with over a third of portfolios in major miners (and the big royalty companies). We will continue to look for opportunities to raise cash, where stocks have achieved their targets, or contrary-wise are failing to deliver, so we have cash available for new buys. The gold bull market is only just getting started and we intend being fully exposed.

Resource Accounts

Cash in resource accounts also increased, to 3.5%, still low and essentially all set aside against puts sold. Gold remains the largest component, inching up to 27% of accounts, with silver second at 11%. Copper is our third-largest component, though much of our exposure to copper comes from diversified miners.

We sold most of our Russian stocks, including one gold company and one nickel miner, ahead of the Russian invasion. We continued to hold, for some clients, one gold miner (see above under "gold accounts"), as well as one major natural gas producer. Since Russian stocks are suspended from trading in London and the U.S. markets, the latter is priced on brokerage statements at zero. It remains a valuable company with strong assets, however, and continues to trade on the Moscow Exchange (where it is down about 25% from pre-halt). At some point, after the war is over, we would expect it to resume trading in London and elsewhere.

We diversified into more resources recently

Other than the Russian stocks, we had no other sells. We had five new, or repeat buys however, though mostly small positions: a mid-tier copper producer in Latin America; a leading U.S. E&P company; a couple of major uranium companies; a major PGM miner; and a private carbon-trading company (due to go public in the autumn). Much of our exposure to various commodities comes from diversified companies or as by-products, so we have exposure to a range of resources in accounts.

Going forward, we expect to take more profits in some of the resources that shot up on the Russian invasion but may fall back as Russian supplies find markets outside of Western Europe and the U.S. (per our discussion above). On price declines, however, we anticipate adding to those resources which have strong fundamentals apart from any war-induced shortages. On balance, though cash may increase, it will likely be temporary, and we expect to remain fully invested in resource accounts.

In sum, we are more concerned about major global stock markets than previously and expect to be raising more cash in global accounts, with any buying very selective and more likely as short-term trades. Overall, we are moving to a more defensive stance, which includes holding gold as an asset that is not only good value but has the ability to move contrary to the broad market.

Adrian Day, 1st April, 2022