

The Threat to Investors of a New Cold War Emerging

Speaker Key:

DP David Pett
KM Kevin McCreadie
Gen. AL General Andrew Leslie

Time code	Speaker	Text
00:00:06	DP	The Ukraine war may have taken a backseat to central bank tightening in recent weeks, but it remains a very large and potentially persistent risk for investors. On this episode of Inside Perspectives Kevin McCreadie, AGF CEO and Chief Investment Officer, welcomes special guest General Andrew Leslie to discuss the potential market implications of a war that threatens to upend existing power dynamics around the world.
00:00:32		I'm your host, David Pett. Let's get into it. Okay, people are probably tired of pandemic lockdown conversation, but Kevin, I've been doing some math and it's been 28 months since the two of us have been together in a room doing this podcast. It's amazing. But the best part of being together again is that we're in this brand-new studio.
00:00:58		It looks great. We're in the new building. Happy to be here, and happy to be with you again, Kevin.
	KM	Thanks, David. It's been great. It's hard to believe it's been that long. And I believe the last one of these we did in person, the topic was COVID and what was going to happen. And one of our engineers, Kerry, was literally worried about a new baby he was having at the time.

	DP	That's right. And if you recall, and we're going to be shooting video today, and so people will get to see how the new studio looks, but the old studio was nothing like this.
00:01:32		You remember curtains, tents. It was pretty rudimentary.
	KM	Yes. It's a great way to step out into a hybrid world. So, yes.
	DP	Definitely. So, we have a special guest today. I want to welcome General Andrew Leslie to the show. Welcome, General. It's a pleasure to have you here with us.
	Gen. AL	Thank you.
	DP	I'm staring at your bio right now, and before I start peppering you with questions, I thought I'd share a few highlights of what can only be described as an illustrious military, political and corporate career.
00:02:03		You spent 35 years in the Canadian armed forces, culminating as the Commander CEO of the Canadian Army for four years during the latest Afghan war. You have also been a federal member of parliament, performing a number of roles. You were a chief government whip, a member of the Privy Council of Canada, and parliamentary secretary for global affairs, focused on Canada-US trade relations.
00:02:27		<p>You've also, as I mentioned, worked in the corporate world as a board director, strategist and mentor. Of course, I'm only scratching the surface here, but clearly, your experience makes you well equipped to talk a little bit today about the Ukraine war and the implications for markets going forward.</p> <p>Perhaps I'll start with just a quick question of both of you, and I'll start with you, General Leslie. We're four months, a little bit more than four months into the war. Maybe just a little bit of update, from your perspective, where we stand today.</p>
00:03:01	Gen. AL	Well, it's not going well for either the Ukraine or Russia. My sympathies are entirely with Ukraine. In 2014 Russia had about 7% of Ukraine territory as a result of their previous invasion. Now in 2022 they control 20%. It's turned into a savage war of attrition. Casualties are mounting, literally multiple hundreds per day, thousands per week.

00:03:26		<p>About ten million Ukraine citizens are on the move, fleeing the smashing of their cities. And Russia has settled into an attritionist style based mainly on firepower, which is smashing small towns and such. The sanctions don't appear to be stopping Putin. And some senior Russians are now openly talking about expanding the war to the Baltic states. So this is going to be with us for a while.</p>
	DP	<p>And so, you can't understate the humanitarian side of the war, Kevin. But I am curious to know, again, four months into this, just where are we at from a market perspective? What's the market think about the war at the moment?</p>
00:04:04	KM	<p>If you go back to the beginning of the war, and we can touch upon the first few days, but really the weeks after, the market started pricing in the secondary effects of energy shortages in Europe, the situation with natural gas in Europe, and then food.</p> <p>And given how important the Ukraine is to the world food supply, particularly Africa and some of the other developing nations, those all in a world where we already were worried about inflation, really gravitated the market to not the humanitarian side but what was this going to do to underlying asset prices of things.</p>
00:04:35		<p>Things which were already expensive, gasoline, heating oil, natural gas, which is, again, very different. And so, I'd say that occupied markets. And the fear was, gee, these higher prices mean central banks are going to have to make choices to get more aggressive, really killing this inflation off, right? And a lot of politicians had basically at that point gotten behind the war and really basically said, you know, all chips are in. We're not going to step back from this.</p>
00:05:00		<p>So the market's really in this place where you're seeing now where we sit today, pick your market, but all of them down pretty hard, S&P down almost 20%, really exacerbated by this event and what it does to inflation.</p> <p>As we sit here really today, the market wants this to go away. They want everyone to take what they have, recognise there are going to be no winners, and create some kind of a truce that gets something that settles down these higher prices. And we can have a discussion. That's what the market wants. Whether they get that seems a bit of a reach right now.</p>

00:05:31	DP	Yes. And we will definitely get into that, and we'll want to hear from General Leslie in terms of what he thinks on that front. But before we get to there, maybe we can just talk about how this war is realigning the global order, if you will, because it does seem to be creating new alliances as we go. General, just maybe a thought on that in terms of how you're seeing that side of the war play out.
00:05:57	Gen. AL	<p>Yes. It's a bit of a page turner in terms of the international systems and respect for the rule of law. So, on the one hand we have Russia, China and Brazil, Iran, India, which is walking a fine line down the middle, South Africa, Venezuela, and the list goes on, who represent the autocratic or authoritarian regimes. And their contempt for the rule of law is starting to express itself in all sorts of ways.</p> <p>On the other, you've got the Western democracies focused on human rights and the more progressive ideals. But there's a large portion in the middle who have not yet chosen a side</p>
00:06:32		And what I think we're seeing is essentially the re-establishment of the Cold War paradigm of a couple of decades ago, except for this time the cold war is quite hot, as we see in Russia and the Ukraine, tragically.
	DP	Kevin, just on that thought, it's been a long time. If this is where we're shifting, it's been a long time since markets or investors have had to worry about that type of alliance.
00:06:58		We've gone through generations, gone through globalisation, and it's been kind of one big happy party on that front, right?
	KM	I think you have to go back to probably the early 2000s, which is Iraq War II for the US was the biggest market-occupying thought for a while. And then you really rolled through the next almost two decades of incursions around the world, but it wasn't close. It wasn't on a European border. Yes, the events in the Middle East, Syria, other places were tragic.
00:07:29		But the world moved away. Markets clearly moved away. Didn't impact oil. Didn't impact food. Didn't impact inflation. And it wasn't near their border. The humanitarian crisis of refugees and other things became a problem later on in Europe for different

		<p>reasons, bringing political problems for some, but it wasn't a market-driven event.</p> <p>This, as I've said on the earlier side, has other implications for asset class and a duration that people don't want to think about. And if you think about investing during the Cold War, it was fraught with these events, which creates this volatility.</p>
00:07:59	DP	That's a tough thing for investors to deal with, right, because it is a little unknown and it almost feels like you get into these scenarios and you might feel it's uninvestable because you're not sure what the outcome's going to be.
	MK	Well, put it on the back of what we just went through too. COVID and the pandemic was something none of us had dealt with in this scale in probably 100 plus. You throw onto that the effects of trying to basically put economies in the world into a coma, send people home with money, and navigate through this, which has been, as you said at the outset, approaching two plus years, two and a half years.
00:08:34		Then you throw into that we now have inflation that we have to fight. We have not fought inflation for real like this in Western economies since the 70s. We've got pre-emptively worried about it and said, let's hike rates because maybe unemployment's getting too tight, but we never really had it, certainly not since the great financial crisis. So now we're dealing with the post-pandemic, the fear of our health that was taken, and that tragedy.
00:08:57		This fight against inflation, which is an aggressive tightening cycle around the world, maybe with the exception of Japan and China, everyone else is itching to get rates a lot higher quicker. And then you throw this, which is a long-term possible dislocation of volatility because of what you don't know about where this goes.
	DP	And on that front, so the market is hoping for resolution, the sooner the better, with the Ukraine war, but I'm staring at General Leslie right now and I'm not sure that's something that the market can count on.
00:09:29		Can we maybe go through some of the scenarios that you see going forward with how the war rolls out from here?

KM	And maybe debunk my what we want versus what we get, which is take what you have and stop so we can get back to normal, why that maybe is a flawed thinking for the market right now.
Gen. AL	It's a possibility. I don't think it's a high probability. And in part, it's the actions of Russia where they've engaged in rape and pillage and destruction of livelihoods and families, causing tens of millions to flee.
00:10:04	<p>There comes an emotional tipping point where the citizens of the Ukraine, if they were to accept the status quo or surrender, feel quite frankly that they're just as likely to be killed by the Russians as if they were fighting them. So, why surrender?</p> <p>But there are scenarios, there's a range of scenarios which I think it's worth thinking about, keeping in mind it's possible that peace could break out relatively quickly, but I think it's highly improbable.</p>
00:10:29	<p>And why should you consider scenarios? In my military experience, dealing mainly with large numbers of people who are facing incredible stress, literally life and death issues, the time to think through what you might do is before it actually happens, because otherwise you can have panic set in. And when soldiers panic, people die. A lot of times it's the soldiers themselves.</p> <p>In your profession, which is taking care of the movement of capital and investments, you can lose a fortune inadvertently or through miscalculation.</p>
00:10:59	<p>That's why you want to think through the implications before bad things happen. So, in the context, if you think about the worst cases and roll them back, then somewhere in between that range of options that you've thought about a likely scenario and a probable scenario will eventually emerge. So when it does happen, you can say, aha, we've talked about this. I know what I'm going to do tomorrow, or the next day.</p> <p>So let me just go through some brief scenarios for you. The first is that Putin dies, in which case there's a variety of sub-options there.</p>
00:11:29	Another tough young Soviet general takes over and carries on with the war, or a purely political animal emerges from Moscow and declares peace. Either of those scenarios are possible. Some of them are even probable. But whether or not he'd be allowed to

	<p>declare peace by the oligarchs, which are still inside Russia, or the Russian military machine, remains to be seen.</p> <p>The president of Ukraine dies is another scenario, and he's been an inspirational figure. I don't think it would make that much difference because I think he's surrounded himself with likeminded tough people who are demonstrating charismatic leadership.</p>
00:12:02	<p>And I think the Ukraine people would be even more energised to fight.</p> <p>And then in the broader context, it's Russia wins. What does that look like? What would the Ukraine accept? How many Ukraine citizens would be left, and how would the rest of the world react to essentially Russia occupying the entirety of Ukraine territory, with no signs of stopping their attack? So that's an unfortunate outcome and something that I worry about.</p> <p>Of course, Ukraine wins, which is they hold Russia to where they are now, or push them back, reclaiming all the territory that Russia's occupying.</p>
00:12:33	<p>All of them are possible. I believe the most probable is that it's going to settle into a war of attrition, lasting several years.</p>
DP	<p>So, General, one of the things that I think about, it's the summer, but we're already thinking about how to restore and restock for the winter in Europe. You're seeing political unrest around Europe, the US, even Canada on these higher prices, gas, food, everywhere.</p>
00:12:58	<p>Some of it, if you listen, in the US the narrative is being blamed on this war. Some of it's structural, as we've talked about, post-COVID reopening supply chain issues.</p> <p>But the populace is pushing back. You look at what happened in France. You've had, again, Macron now maybe changing his tune and saying, maybe we have to find a way to get to a solution, because as these higher prices and we start to move into the fall, I think it gets to be the pressure points will start to mount. Some of these guys basically say to Zelensky and Ukraine, hey, you know what, we can't support this war.</p>
00:13:31	<p>We can't give you any more weapons. What happens then, because we're worried about the winter?</p>

Gen. AL	<p>And that sentiment is growing in other parts of the world, which you've already articulated. It's perhaps the Achilles heel of the Western alliance's ability to resist the incursion, the aggression by the autocratic leaders, first represented by Russia in the attack in the Ukraine.</p> <p>I believe the West does have the nerves to stick it out for the next couple of years.</p>
00:14:00	<p>But there will be negative impacts. Germany is already very worried, as is most of Europe, about having a long, cold winter, and there's talk of them restarting coal plants and refurbishing nuclear facilities, which will take several years. And they're looking for alternative sources of energy.</p> <p>I believe that there's some focus areas that really the G7 leaders and NATO leaders, all 30 nations, are going to have to think through in terms of prioritising where fuel goes, and fuel can be manifested and produced in a variety of ways, where food goes, and what are the mechanisms to transport it from point A to point B, and what are the secure supply lines.</p>
00:14:38	<p>Stuff that's going to have to be talked about not only between the politicians, but more importantly, with the markets to figure out what sort of support there is and how you can best make efficiencies.</p>
KM	<p>We're facing, David and General, this idea of choosing to heat or eat. And as we get into the fall, we get into the winter, it just feels like if there's not a solution, the pressure is going to get higher.</p>
00:15:01	<p>I guess we'll see, but the markets, that's going to be a negative because these higher prices will either cause and fulfil this idea, maybe recession's on the horizon and bring it forward, certainly for Europe.</p> <p>And so, if you're investing today, knowing that there's this attitude that's still aligned that says we're going to push forward, this is not good news for what this brings forward in the next six months, if you force a recession on Europe.</p>
Gen. AL	<p>That's an excellent point, and I'd like to build on that.</p>
00:15:27	<p>There's a very probable scenario, as I mentioned in the beginning, that the war settles into a grind, and hostilities, or large-scale</p>

		<p>hostilities may come to a close as an interim measure. In other words, not for long, or maybe for a year or two, until Russia decides to keep on going or Ukraine tries to take their territory back.</p> <p>But that I think is still several months away at the best, if not a year or two. And if it does settle into a stalemate that goes back to sort of the Cold War model, which a whole bunch of us lived through, but it's been a long time since we have any practical experience in dealing with it.</p>
00:16:06	DP	And there's no chance that the West decides to escalate and jump into this in a more fulsome way?
	Gen. AL	There is a chance, but just about every general would recommend that their politicians think very, very carefully about this because Russia has the largest supply of nuclear weapons in the world, and Putin and several of the Russians that surround him are already behaving in an irrational fashion.
00:16:32		So you just don't want to risk poking the bear too hard because it could be extraordinarily dangerous for all of us.
	KM	Talking about negative headline events markets won't want, is some type of tactical nuclear weapon, some type of chemical weapon, some type of idea that the West now has to back larger engagement because of something that has now changed the bounds of what we're dealing with, right? That would be a pretty big market negative right there.
00:16:58	Gen. AL	Right. And it would also go against the advice of just about everyone who's thought about this carefully. And though our heart goes out to the Ukraine citizens who are literally fighting the fight for their lives, and ours, there are certain thresholds we cannot cross in all good conscience. And it's a really tough decision to make, and really there's only three people who make it in the West. That's President Biden and the leaders of France and England. That's it.
00:17:26		There's some advisers in the room, but it's not up to us, Canada, to decide, or any of the other nation states. It's the ones who actually have nuclear weapons.
	DP	I just want to go back, and I hope I'm articulating this right, but that scenario where maybe there is a bit of a pause, Kevin, would the market be okay with that, because would that maybe give

	the market time to figure out some of these issues in terms of energy security?
KM	So, we're in the pause now. It's a grind.
00:17:57	<p>And as a colleague of mine on the investment floor says, as soon as it reaches not the front story on CNN and moves to the back half of the hour, the world has moved away. So we're in that grind.</p> <p>Where we're not is if inflation does not come down. And again, the market isn't focused on the war and it being a catalyst for these higher prices in Europe. It's focused on these higher prices, right, and what that means, to the extent that something happens that this grind keeps that from rolling off, and it's hard to see how some of these prices come down.</p>
00:18:31	If you take grain and wheat as a hostage in the Ukraine, it's a big component of supply. It's 15% to some portion of the world, depending who you're looking at, needs that wheat. It's therefore hard to see these naturally rolling off because people demand it less. People have to eat. Every society has different mixes of things. You look at gasoline prices around the world at record levels.
00:18:58	<p>It doesn't matter which metric you are using, whether it be litres or gallons. These are things that will pinch people. There's not a salve for this unless you can start to bring the marginal pressure down on some of these, which is energy, energy provided to Europe. If you can't get it from Russia, you're going to need it from someplace else. Everyone gets squeezed from that effect.</p> <p>So, while it may be the grind, we're in it now, and the market's not looking at it, they're looking at the outcome that it's creating, and that's the focus.</p>
00:19:30	I think as you move into the fall, if those prices don't start to roll, I think you're going to see a different reaction function.
DP	And then, General, I'm just curious again on this idea of a pause. How would that be signalled? Tactically, what does Russia do to kind of, we're going to pause but we're not done here yet?
Gen. AL	Well, Putin has reorganised his forces after essentially being beaten by the Ukrainians in the first couple of weeks, and needs to be organised to attack on only one or two axes.

00:20:01		<p>And he's feeding, essentially, his veterans, veterans of now four months of war, back into the fray, and a lot of them are exhausted and they're making mistakes, and they're dying in large numbers.</p> <p>At the same time, he, Putin, is introducing not conscripts but people who they've literally recruited off the street, giving them a couple of months' training and then sending them in to fight, and they die very quickly indeed. So casualties are mounting. They've lost probably in excess of 8,000 or 9,000 armoured vehicles, they being the Russians.</p>
00:20:33		<p>And the same is true on the Ukraine side, bravely defending, doing heroic work, actually brilliant tacticians. But the bottom line is they're suffering hundreds of casualties a day, thousands per week killed and wounded. And they're starting to run out of people, out of infrastructure, and their economy is shattered. So it's not a question of not having the will. It's having the capacity to do much in terms of a big push or a big attack against one side or the other.</p>
00:21:02		<p>So you can see looming on the horizon, and this is going to sound ironic, much akin to the First World War, where you had this static trench warfare developing with fixed lines to allow people to re-equip themselves and overcome their exhaustion. But the war still ground on for many years.</p>
	DP	<p>So, one of the assumptions the West made was that these sanctions would cripple the economy. You saw the rouble sink to ridiculously low levels.</p>
00:21:30		<p>The rouble's back to well higher than where it was before. It feels like the sanctions haven't taken a bite. It doesn't look like there's a large amount of unrest being reported in the Western media, but yet you take the other side of that, you're seeing protests in countries in Europe. You're seeing, do we really want to support this war any longer? That narrative, it feels like the West is more dislocated than Russia from everything that's gone on, sanctions and others.</p>
00:21:56	Gen. AL	<p>I think sanctions was a desperate attempt by a variety of politicians, who perhaps were starting to realise they should have declared a peace dividend over the last couple of decades, and thought that they had a panacea, a quick fix. We're going to declare sanctions against a variety of oligarchs and we're going</p>

		<p>to punish them by taking away their yachts and their fancy houses and their aircraft. And quite frankly, deep down the Russian people don't seem to care. And they keep attacking, led by their leader.</p> <p>So I don't think they're working that well. People say, oh, you've got to wait long-term. Well, it's not stopping.</p>
00:22:31		<p>It's been four months. How much longer do you have to wait for sanctions to kick in? Arguably, sanctions have contributed to higher prices in a variety of increasingly scarce commodities. So, eventually we're going to have to figure out who's actually getting hurt by these.</p>
	KM	<p>Yes. One would argue, obviously, the price of energy, oil, natural gas, which are big commodity exports of Russia, have actually fuelled a larger revenue source for Russia to carry on this war, at the extreme cost of the West, who depends on it.</p>
00:23:01	DP	<p>And yet the West, would they ever consider stopping the sanctions?</p>
	Gen. AL	<p>I don't think so.</p>
	DP	<p>Politically?</p>
	Gen. AL	<p>No, I don't think so. I think that the political classes were caught unprepared, despite all the warning signs. I don't think they've handled this tragic chapter in our global history incredibly well. They've got some scrambling and catching up to do.</p>
00:23:26		<p>What it has done, and by the way, let's be clear here, I'm entirely on the side of Ukraine, and I think what Russia's done is illegal, immoral and tragic beyond belief, but the sanctions have pushed Russia into the embrace of China. India is walking a fine line. And you've got a variety of other nations that are giving a lot of consideration to not joining the West but starting to tilt towards the side of the autocrats, i.e., China, Russia and the rest.</p>
00:23:57		<p>So, ergo you have this essentially reestablishment of a cold war, with tragic and hot sequences, something we haven't seen in a long time, where the world is sort of bifurcated into two blocs.</p>
	DP	<p>But very different. This is the emerging world. This is an economic bloc of the number two economy in the world, China, the size of</p>

	the population of India, export nations like Brazil. So it's a very different mix in that bloc versus the traditional West and western Europe.
00:24:31	Is there a player, General, in this who can bring this down to a level of getting to an agreement, or is there somebody out there who can play broker, peace broker in this all?
Gen. AL	I think there is, and it's India. I think they're walking a very clever line between one side and the other. And I think that Modi and his burgeoning middle-class population, insatiable demand, understandably so, for betterment and better resources, is well positioned to act as an influencer to both groups.
00:25:05	And so far, he has focused mainly on India's aspirations, but of course, India being a global partner, their aspirations are linked to international trade and international prices, just like the rest of us.
DP	Okay. Maybe we'll spend the last part of the conversation, and we've already talked a little bit about challenges and opportunities, but I do want to put a more specific point on those two things.
00:25:31	Maybe we'll start with just maybe short-term versus long-term, because we've talked a little bit about short-term challenges in terms of capital and inflation and what's come out of the war, but when you talk about these different power blocs that are emerging, that feels like a potential real challenge long-term for markets in the way capital flows.
00:25:56	If you start taking out major markets that we've gotten used to over the last 30 years, and all of a sudden you're not so comfortable working with those markets, that could be a potential huge challenge for investors going forward.
KM	As we said earlier, we've gone through this period now of relative peace around the world of large nations into one now where you introduce potential uncertainty of who joins what bloc, who reacts to someone's action, that we haven't had to live with for a long time.
00:26:31	And so, we will have event risk. We'll be calm, even through this grind, if that's what it is, but each event, whether it be something tactical, is going to create more volatility. So for generally all

		<p>markets we're going to have to put a risk premium in that is a bit different than what we have experienced over these past decades because of some of this uncertainty created. We just haven't lived with it.</p> <p>There'll be winners and losers, right, in this. Maybe, General, it feels like NATO, if they can stay together, is stronger than they've been in decades.</p>
00:27:02	Gen. AL	I agree.
	KM	Does that play a role in this at some point in terms of a new world order, a stronger European border, a stronger Europe acting together, that they've wanted for many decades? But at the same time, somebody getting bigger over here creates greater risk for the guys that fear you over there, right, meaning Russia. So I just think we have to price risk into these markets because of the volatility of the event now, event risk.
00:27:29	DP	And then, General, maybe just to follow on that. What challenge do you see arising, we've talked about some of the short-term challenges, but long-term, of these new power blocs potentially formulating and becoming more cemented?
	Gen. AL	At the height of the Cold War the greatest fear was the emotional outburst. In other words, mainly tough young men and women flying machines that are designed to kill, or in submarines deep beneath the surface of the waves, or soldiers facing each other across lines of separation, getting caught up in the passion of the moment and triggering a war, which, because of modern communications can spread extraordinarily quickly.
00:28:08		<p>And of course, the risk potential goes up the more you have troops that are facing off against one another, even though they're not shooting at each other at that particular moment.</p> <p>So let's go back to, Russia and Ukraine over the course of the next several months exhaust themselves, both in equal measure, and they settle into a stalemate, and some combination, plus and minus.</p>
00:28:31		The probability of that is moderate, which is probably the highest I've assigned in terms of probable outcomes, because there's so many variables. So, that's not going to remove the international tension. And to get to the point earlier, it's going to create more

		uncertainty based on specific events, more volatility because of one incident which could cause markets and the consumer to go, oh my goodness, will this lead to war, because the probability of a war goes up with the more troops you have facing each other.
00:29:01	DP	On the flipside though, Kevin, and you've kind of taught me this over the years, but for every challenge there's an opportunity, right? And so, I'm just curious, when you hear general Leslie, and we've had this conversation, what opportunities might arise from something like this, again, from a market standpoint?
	KM	I think this stalemate, if we go there, will probably embolden the markets that maybe it comes to an end. That may be a false hope though, as we've discussed.
00:29:29		So we may be in for a relative period of lessened volatility during this period. But unless there's truly an agreement that is something that can be put down and everyone has something to gain by it, and as I've said earlier, it feels like the West has more against them right now than Russia does, given the fact that these sanctions didn't work, it feels hard for me to see that outcome yet unless there's an actor who really puts pressure on this situation to make that happen. So we could be in for a small period of lessened volatility.
00:29:59		<p>But as I think you get into the fall, if this starts to heat back up, if pressures on refilling natural gas storage occur, this starts to become a little bit higher probability of maybe the longer could be a deeper and tougher bout economically, certainly for Europe, but Europe won't be the only economy if these high prices are sustained.</p> <p>The silver lining to that would be maybe central banks, if you force European recession, maybe they have to back off. Maybe that demand function as people just basically stop buying things starts to cool these economies off naturally.</p>
00:30:37		It still does not remove the headline risk of an event. This is probably the highest that I have witnessed in decades in terms of being hair triggered to something that we thought had been unthinkable. I'll tell you, you whisper the word tactical nuke into this market, just even the days when people early on in this thing thought about it, you could see it, intra-day volatility. [Unclear] price is right for it.

00:31:01.	Gen. AL	Just remind us that one of the greatest periods of global prosperity, especially for the Western part of the equation, happened during the Cold War. Unprecedented economic growth. I'm not suggesting that's a perfect model, by the way, by any stretch of the imagination.
	DP	It's good for the defence industries.
	Gen. AL	Well, it's good for a variety of industries, though we never wish... But you've already articulated them very well.
00:31:29		You've got defence, you've got food, you've got transportation of those assets. You've got power supply, and then you have a variety of consumer goods which maybe aren't that which is demanded today, but has to be more innovative and more cost and energy efficient than ever before.
	DP	I'm just curious. Is there a reason for that? Was it because at some point during the Cold War, I don't know if stability is the right word, but markets kind of knew what they were up against, because things were aligned, there's this side, and there's this side?
00:32:05	KM	Markets do get used to things. Don't let me lead you too astray. I just think we haven't been in this place for such long time, it's going to take us longer potentially to get used to this, especially if this is a decade-long philosophical fight about NATO being on the border of Russia or Russia wanting to recreate its former empire. That's a philosophical change that's going to take some time getting used to.
00:32:29		<p>But I think the General's right. What we've just been through with the pandemic and this war, there will be great technological innovation that comes forward. The energy transition in Europe will be propelled forward faster. That's a spin that will have to be made.</p> <p>In the interim, it's not going to be pretty. As we've said, higher prices, coal being reintroduced. But it's going to speed up the transition of things, and some of the technological forces at play will speed up some of the productivity of things later on.</p>
00:32:59		In the early days though, until you can figure out this philosophical change that we're about to look at, I think it creates uncertainty.

DP	And then maybe I'll just end and ask you, and maybe I'll go back to something General Leslie talked about, I'll paraphrase here, about being prepared for the worst. I feel like investors are kind of like that too, right? You've got assess the options that are out there so that when one option ends up happening, you're ready for it.
00:33:30	Is that kind of the lesson that you would leave with investors?
KM	<p>Yes. For me, that's exactly where we are. We've been cautious around this event because we can't model it. We like to look at things that we can model outcomes for, put probabilities on, put an expected return on. Event-driven risk is one you just can't factor.</p> <p>So we will use hedges in our portfolios today. We'll sit on more cash. We'll participate in market upside being overweight, potentially equities in this, but have some offsets to that in case that event risk shows up.</p>
00:34:02	That has served us well over these last four or five months. I think we're going to have to play that same way for a bit until there's more clarity on this.
Gen. AL	I think what's happening internationally, both in terms of the markets and with war, and the whole idea of the world devolving back down into two big blocs, is tragic and unfortunate. But I think it's worthwhile for us to think about it so that if it does happen, you can have some idea where you want to invest, and how.
00:34:32	Because there are opportunities, just as we saw during the last Cold War.
DP	<p>Right. Let's leave it there. This has been a fascinating conversation. Thank you, General Leslie, for being here, and Kevin, as always. And we're going to do this again soon.</p> <p>For a full transcript of today's episode, visit agf.com/podcast. Don't forget to subscribe to hear more from us at Apple Podcasts, Spotify, Google Play Music, Stitcher, Podcast Addict, and Pocket Casts.</p>
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