

## Is War the New Normal for Investors?

### Speaker Key:

DP	David Pett
KM	Kevin McCreadie
Gen. AL	Lt. General (ret'd) the Honourable Andrew Leslie
GV	Greg Valliere

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00:00:07	DP	Geopolitical tension in Eastern Europe and the Asia Pacific region have unsettled markets this year, but investors may end up facing more instability going forward. On this episode of Inside Perspectives Kevin McCreadie, AGF's CEO and Chief Investment Officer, welcomes back Greg Valliere, AGF's Chief U.S. Policy Strategist and special guest, General Andrew Leslie, to discuss Russia's ongoing invasion of Ukraine and China's mounting aggression towards Taiwan.
00:00:33		I'm your host, David Pett. Let's get into it. Let's get started. Thanks to everybody for being here. Kevin, good to see you again. General, thank you for coming back. And Greg, we missed you the last time. I think you had trouble getting up here on a flight.
	GV	No comment.
00:00:55	DP	I'm pretty excited today, not just about the podcast, though. My son's first job ever, he starts today. 15, so I'm pretty excited for him, a little nervous too, but it made me think about first jobs. Maybe just go around the room. Kevin, maybe I'll start with you. What was your first job?
	KM	I was a paperboy. It leads to my early morning habits of getting up, except then I was putting rubber bands on papers. We actually did a poll, I don't know how it came up, a couple of weeks back. We found a large number of paperboys on the floor, interesting stat.
00:01:29	DP	Greg?
	GV	Paperboy as well. My memories are mixed. I recall vividly having a large Boxer who was faster than me on a bicycle, nip at my

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		heels. To this day, at least once a quarter, I have a nightmare about a large Boxer nipping at my heels.
	DP	General, I'm not sure what your first job would've been.
	Gen.AL	I started out cutting grass for neighbours, but that doesn't really count.
00:01:57		The first job was at about 13, where I and my American cousin were given chainsaws near a place called Montebello, Quebec, and asked to cut up logs that had drifted ashore. Which I'm astonished that I'm still alive. It probably accounts for why I decided to join a profession where you dealt with big, complicated machinery.
	DP	For what it's worth, I also worked with trees as my first job. I pruned Christmas trees in the summer, to make the shape. But we worked not with chainsaws, we worked with machetes and, unfortunately, I cut myself a couple of times one day, which was not great.
00:02:33		But great first job and obviously set us up for success, right? All of us. That's a little bit of a lighter touch to the show. We're going to get into some serious conversation about geopolitics and the political landscape that's going on around the world today. I want to start with a follow-up. As those listening probably know, we did an episode with the General and Kevin about a month ago on Ukraine and the war going on there.
00:03:04		Maybe we'll start with a bit of an update on that front. Just curious, it's been about a month since we last spoke, General and Kevin. And we'll have Greg get into this conversation as well. From each of your perspectives, what has changed with the war? Maybe I'll start with you, General, first.
	Gen.AL	Since its inception, Russia's war in Ukraine has gone from nine lines of operation or approaches down to two.
00:03:29		That's allowed the Russian army to concentrate its forces more effectively. They're losing men and equipment in very large numbers, which is probably not sustainable, unless they get a fairly lengthy pause. More on that later. The Ukraine has demonstrated a clear superiority in terms of its capabilities. Not only in terms of using the equipment, but the training, the level of initiative, the cohesion and the passion with which they approach the fight.

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00:03:58		It's likely that Putin is going to start to try to position himself for some type of pause or ceasefire because he's exhausted his frontline troops. Don't forget, he invaded with 200,000 and about 50,000 of those have either been killed or seriously wounded, which leaves another 60,000 to 70,000, probably, who are lightly wounded. Which means he's got to think seriously about how does he replace that person power? The Ukraine, of course, will be very suspicious of any attempt to try and have a ceasefire.
00:04:28		Because the last time Putin has asked for these over the last couple of decades, he's done nothing but re-organise, re-equip and then re-attack. It'll be an interesting setup for the winter because let's not forget that Putin will try and make Europe's winter very, very cold. Why? To try and split NATO solidarity behind Ukraine. And in terms of the war, I'd say Ukraine's doing far better than most of us had thought they'd could've. Very well done, them.
00:04:58		Of course they're running out of people and they're running out of money. They're fighting bravely. Winter is coming and we'll see what happens.
	DP	Greg, I'm just curious to know from a Washington perspective, how do you see the war at the moment?
	GV	The most remarkable thing to me is the unity in Washington on this subject. Washington and the United States as a whole is extraordinarily partisan and divided, as we all know. And to see Biden succeed, he gets credit for unifying NATO.
00:05:31		I think that there still is a strong sense of support for the US sending more missiles, providing more aid. For now, we all talk about maybe the resolve will start to waver in the West. I must tell you, I have not seen a wavering resolve in Washington.
	KM	Does that change, Greg, maybe when we get past the mid-term elections and if you have a change in leadership of which party owns the House? You've got to remember, the Republicans under the Trump rule, were not favourable to Ukraine, they were more leaning toward Russia, if you think about it.
00:06:02	GV	It could change, Kevin, but at least for now, I haven't seen it. It hasn't been as partisan an issue as I would've expected. If it's a really cold winter and gasoline prices go back up again, that

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		might be a different story.
	DP	Kevin, given what General and Greg have talked about, what's been the market reaction over the last month? You mentioned that the market is kind of, not ignoring it, but put it on the backburner in favour of Central Bank tightening and those types of things.
00:06:31	KM	Very consistent with what we said last month. The market has moved this to the back. They see it now as a grind. It will reheat, as the General said, when things start to cool. Meaning, what this next phase does in the fall as we move into the winter. You're starting to see the market react to little things. One of the pipelines that feeds natural gas, Nord Stream 1, was under equipment repair.
00:06:57		It was returned to service at a much lower capacity, that's phase one of what maybe we can talk about, of what's going to happen. That created a little market dislocation. You're seeing even small things, such as under the sanctions you can't pay for natural gas a certain way, and so, a pipeline shuts down for a couple of days, it has a small market reaction in terms of the commodities. But broadly speaking, it still sits in the rear-view mirror of the market for now. Because it has reached this, either in the view of the market, a stalemate, nothing bad happening. But again, I think the next part of the story is where markets will take notice.
00:07:32	DP	That stalemate or pause, and we talked a little bit about that pause the last time, are we in that pause right now with the war? Does it feel like, to Kevin's point, you're grinding along here, we're not seeing anything?
	Gen.AL	I think grind is the best term to describe this because, though there's been not a lot of to-and-fro movement, lots of people are dying, lots of equipment is being destroyed. And lots of activity is happening from mainly the Americans, in terms of providing new high-tech equipment.
00:08:04		Such as the HIMARS, which is a new type of rocket system, at least new to the Ukraine, which can reach out about 100-plus kilometres and target Russian formations right where it hurts. There's a grind movement, probably won't be that dramatic over the next while, but the key is, to quote a certain film series, winter's coming.

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	DP	I think the General's right, it is a grind and we shouldn't lose sight of the tragedy that's on the ground.
00:08:30		When I look at it as a pause from the market's view of it being an event and I look at the media side of it, it's barely covered and certainly the frequency of it's covered until there is an event, from the mainstream media. That's where I use that word.
	KM	One other point, perhaps, related to the grind. There have been a lot of stories recently in The Washington Post and The New York Times about morale in Russia beginning to really soften. That people are dismayed by the casualties and feel they're not being told the truth. Is that a factor?
00:09:01	GV	I think it is, in a sense that the casualties are mounting and Russian mothers and fathers want to know where their loved ones are because they're not coming home and they're not answering their mail, and that's been going on for six or seven months. Having said that, according to polls that are taken from respondents inside Russia, which are highly problematic in terms of their credibility, but they exist. Putin's popularity hasn't dipped dramatically and the Russians, traditionally, have unified behind a strong leader when they feel themselves to be threatened from without.
00:09:30		And that's the narrative that's been relentlessly pushed on the Russian people through state-owned, state-controlled media. Strict messaging, oh woe is us, NATO's attacking, they're supporting the criminality of the West, and the usual nonsense. I don't think we can rely on a populist Russian uprising to stop this. The whole idea of things are sort of starting to gel in place and the markets are going elsewhere to carry on with their good work, I think is a very important point.
00:10:01		And because we might even be close to a degree of, and I shudder to use this word, normalcy, in public perception, vis-à-vis the war in Ukraine and other hotspots around the world. Is this the new normal?
	Gen.AL	I'd come back to something you just said about the other part of the Russian people's view. The sanctions haven't worked. We can look at this with many different lenses, the ruble is higher than it was prior to the start of the invasion, partly on the back of these much higher energy prices, which have benefited the budget surplus of Russia.

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00:10:32		When you look at that economically, the hardship therefore wasn't translated down to the average Russian citizen. They'll be in a recession, but nowhere near what we thought in the West when we put these sanctions on. You want to think about normalcy, today, just interestingly, Ukraine's stock exchange opened for the first time since the invasion.
	KM	It's not just the West that's starting to try to normalise, to the General's point, it's actually normalising itself in those two countries themselves.
	DP	When we consider the Ukraine war from a market perspective, we seem to be in agreement that we're in this grind phase.
00:11:02		But there are other geopolitical issues that have popped up since that war began, and I speak of Taiwan, in particular. Over the last few days that's really ramped up. Just curious in terms of your perspective on what's happening. China, Taiwan and then the US involvement, now that Nancy Pelosi has gone to Taiwan to visit and really created an uproar on that front. Kevin, maybe just start with you on this.
00:11:28	KM	I'll tell you something. Bond market thought they'd treat this like it was an event. When you saw that the headline risk and the bantering between the Chinese about Pelosi going, you saw pretty good rallying safe haven assets, which we had not seen. There were market participants who said maybe this is pushing a little too hard on something we don't need right now. Once that trip was over or once she landed that plane in Taiwan without an incident, things cooled off a bit, but the markets took notice pretty quick. I would defer to these two gentlemen, but I will tell you, looking at it from now, sitting here a week or so later.
00:12:02		What was seen as a face-losing maybe for Xi at the time, I think he has actually gotten a lot out of this. He's redrawn the median line around what was Taiwan, you couldn't cross it, and he's encircled Taiwan. If you're a South East Asian leader right now, you're probably looking at this with a little bit of caution.
	Gen.AL	There's an old adage in military art, not art of the type of painting, but the practitioners of violence.
00:12:30		You never want to do what your enemy wants you to do. There's a high probability that China and its leadership were delighted with the fact that the speaker should chose that movement to actually state her case. Which, to be fair, she's been doing that

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		for 30 years with a significant degree of passion, but why now? And of course just before the congress. This allowed the president of China, as was mentioned, to circle the wagons, to put some pretty clear demarcation lines on the ground.
00:13:01		And, dangerously enough, to make the case to the Chinese people that they are facing potential external threats. Which is kind of what the language that Putin is using with his own people. Playing the victim when, in fact, they're the villains.
	DP	Just to be clear, you spoke of the congress. That's the national congress that will be held sometime in October, November. I don't think they've released a set date yet. That happens every five years, to my understanding. Greg, the General mentioned the timing of this, why now? Any thought on why now?
00:13:32	GV	I have a lot of friends in Washington who, like me, are scratching their heads, why she stirred the pot. Was this needless on her part? She comes from a city where her constituents are largely Asian. She's had a long history of opposing Chinese human rights violations, especially Tiananmen Square, so I think she feels strongly about this. Let me add one other point, David. And that is, in Washington, it's surprising how the level of antipathy towards China is bipartisan.
00:13:59		In both parties, I think there's a feeling that China did not level with us on the origins of COVID. That they treat their dissidents horribly, that they spy on us. A long laundry list of things that has made China quite unpopular in both parties.
	KM	I would add something else that I noticed about this, which links back to Russia for me. There's a group called the Quad, which is the US, Australia, Japan and India.
00:14:28		I think of that as a coalition around Asia. The Japanese and the Australians were quick to condemn the actions around this crossing of the median and his war games. The Indian government has said nothing. And along the same lines as we've talked earlier and the previous podcast, about how India has been a silent supporter, yet on the side of Putin. You've seen other South East Asian leaders, like the South Korean leader, who basically shunned Pelosi, who wanted to visit her.
00:14:57		You've created different dynamic with this visit of not just what it means for the US in this Taiwan longer game, but what it has done in the region to different voices.

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	Gen.AL	It's a question of poking the bear and the dragon, okay. Standing up to bullies, of course. Respect for the rule of international, got all that. But timing at the strategic level, you've got to think through the second and third-order implications and consequences. And I don't know, but I would love to know or love to glean some insight into what the senior military professionals in the United States thought of this move.
00:15:34	DP	Is there any sense, when we talk about timing, would this have happened if there wasn't what's going on Ukraine right now? It feels like there's a parallel here that perhaps the US, or Pelosi, in this case, was acting because of what was going on in Ukraine.
	Gen.AL	I'm going to defer the specific answer to Greg because he's one of the world's experts and he's sitting a foot-and-a-half away from me.
00:16:00		But I would like to take a stab at the linkage between what's going on with, essentially, Ukraine and Russia, and Taiwan and China. Ukraine and Russia, we've talked about a lot, I think everyone fully understands the picture in that context. It is where it is for now and it's probably not going to change dramatically, unless there's some catastrophe of which we're all unaware. That could become a new normal for quite some time, but Taiwan is still fresh.
00:16:29		Taiwan and China are quite a different matter because there's no chance of isolating to the extent that the impact of the Ukraine war has been relatively isolated. Because of the ripple effects, not only to what's going to happen in the region, should violence break out, but on production capabilities of niche, valuable commodities. Chips, you're well aware of that, but also, the impact on trade patterns. Because Ukraine's international trade doesn't really have, it has some effect, but not a great deal, across the face of the globe.
00:16:59		China, though, both import and export, that is a game-changer for a whole bunch of places.
	GV	I would just reiterate. Most of the people I talk to can't figure out the timing. They would agree with your very diplomatic, your assessment, General. But I think most people can't figure it out. A lot of people go all the way back to the US withdrawal from Afghanistan about a year ago as poorly handled, sending the wrong signals to our allies and our adversaries.



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00:17:27		I think that may have given Putin the idea that he could be bold in Ukraine, and then you go further and you see the story in Taiwan. I would think that the Beijing government may be a little bit more conciliatory once they get this congress out of the way, when Xi wins a third term. But until then, I think at the least, you're going to see trade friction, diplomatic fiction persist with one great risk. And that is that you could see on this calculation, that a US plane could hit a Chinese plane, and that's something you don't want to contemplate.
00:18:03	KM	I would touch on one other thing here, Greg. Which is in the beginning of the Ukraine invasion, people immediately jumped to China won't even think about doing this with Taiwan, given the sanctions. Sanctions haven't work. They do hold a lot of cards, as the General said, and they have a very different manufacturing input on the rest of the world, supply chain impact on the rest of the world. Even Taiwan, with the semiconductor dependence on the rest of the world.
00:18:27		Now you look at it and say the Chinese are much more strategic than the Russians. The Russians are very tactical, it feels. They see there's an opportunity, they go for it. I think this is a much longer game and that's where I draw the difference between the two. When I say longer game, about some of the things like the curiosity of India and how they play into both of these. I do think it does, to Greg's point, the greater market risk in the near-term is some unforeseen accident that gets walked down, but the immediate impact to the markets is not going to be good.
00:18:58	GV	If I may, really quickly, there is another impact that you see in Washington. That's growing support for a dramatic increase in defence spending. I think we could top 800 billion in the next year or two. The second leading spender is China about 120 billion. That's a big gap. And I see members of both parties in agreement that we need to spend more money on sea power in the South China Sea. I think that the Biden request for defence, which had been robust, will be clearly exceeded by Congress.
00:19:29	DP	I just want to go back to what you just talked about, Kevin, and this idea, strategic versus tactical. It sounds like, from what I'm hearing, that China, Taiwan, although an unrealised risk right now, could be a much bigger risk to markets, given the supply chain issues, than perhaps Russia, Ukraine is. But does the fact that it's strategic and could play out over several years, does

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		that mitigate the risk a little bit?
00:19:57	KM	I think it does. I don't think it boils over like what we're seeing in Eastern Europe and Ukraine and Russia, but clearly, the economic impact to a broader part of the world is significant. But I do think it's a longer term and what's happened is you've redrawn some things here that may now stay. Different lines and thinking about encircling Taiwan, which we, in the West, are really not reacting. We'll play a different game now, I think.
	Gen.AL	I'd like to pick up on a point Kevin mentioned. That is China's awareness, indeed all of ours, that sanctions, quite frankly, haven't worked.
00:20:27		Yes, it's had a certain impact, but not on the overall state of the Russian gross domestic product. They're making lots of money right now with a whole bunch of energy sources, mainly. China's been watching that and there's rumours that the president of China has issued firm directives to all his international asset holders, to figure out how they would survive a round of sanctions imposed by the West, should unpleasantness occur. Point one. Point two is Taiwan is much more sophisticated in its terms of the application of force.
00:20:59		They've got the tools, they've got the training. They've got a more focussed population, in terms of they can't go anywhere. It's an island, so they can't flee to the extent that poor, unfortunate Ukrainian children and women have been forced to flee. So, they're going to have to stay and fight or surrender, and I don't think they're in a surrendering mood quite yet. I think it's going to last a lot longer in terms of the development of this crisis.
00:21:23		But in terms of market impact and trigger points, I think as we've seen, as Kevin mentioned, the world will be paying a lot closer attention to the signals that are being put out by China and Taiwan and the United States over the next little while. Something to watch.
	GV	If I could follow-up really quickly, how do you envision an ultimate truce or a ceasefire? Would it involve Zelensky having to accept borders that were not pre-war borders, but reflect the Russian gains? How would a possible deal evolve?
	Gen.AL	Very often when it comes time to try to figure out how to end a war, it's a lot tougher than starting it.

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00:22:01		And so much blood has been shed now by the atrocities committed by the Russian forces, it's hard to see how the president of Ukraine could survive trading away territory, even if it's only been recently captured or conquered. I think it's going to stay a grind for a considerable period of time and the levels of hatred are now growing on both sides of the fence, especially amongst the combatants, where war crimes are literally not daily, but hourly.
00:22:32	KM	Let me maybe lead us to how that next negotiation, if it happens, occurs. It's August, this is when you refill your storage. There are three components to thinking about gas. There's gas supply, there's gas storage and your demand. Demand is low, you typically refill what you need. This is if you're going to weaponize natural gas in Europe, it's now.
00:22:55		The EU has said they want to see storage at about 80% by November. If the Russians actually cut off natural gas, I'm not saying they will, but if they do, you'll probably be at 80% in November. But it's very different where you sit. If you're in Portugal and Poland, you're about 100% today of your storage. If you're in France and Spain, you're already at 80%. If you're in Germany, because you use a lot more for the manufacturing and Germany is the iron horse of the economy in Europe, from a manufacturing standpoint, you're probably in the 60 to 70% range.
00:23:28		And the dependence on Russian natural gas, again, where you sit. France has nuclear capabilities they can turn on. Even the UK has no need to borrow from Russian natural gas supply. So, natural gas will be the first thing I would keep an eye on that leads you to this. I'd say the second thing is you get into the fall. And you have to look at what's going on in the world since the Ukraine invasion's happened. Biden's poll ratings, even though he's had some successes recently, dreadful.
00:23:57		You have seen in the UK, we don't even know who the next prime minister's going to be. You have had a lack of a parliamentary majority now in France. And you look at what's gone on in Italy. So, if you're Putin, you're saying okay, if I squeeze these guys now, the resolve in the West, politically, is weakened. If I'm going to do it, now is probably the time. That's where he tries to go to the table with something. Again, I defer to the General on how that plays.
00:24:25	Gen.AL	I am intrigued. I'm a strategist, thank you, by the way, for training

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		me how to be a strategist, Canadian tax payers. We have LNG as critical global commodity. The single biggest importer of natural gas is Japan. I believe they get about 8% of their requirement from Russia. We've identified the linkages between Ukraine and Russia, obviously, self-evident. Between Taiwan and China, once again, self-evident.
00:24:56		But if you conflate both those critical issues, there's a whole bunch of overlap, Europe is about to be facing what could be a cold winter. Canada has LNG resources to spare, but we can't seem to build a pipeline that goes from the west coast to the east coast, for a whole host of reasons. None of which makes sense to any intelligent person, but anyway. But what we can do, is we can build up capacity. But let's just talk about Japan for a sec. Japan is the single largest importer, I've already said that.
00:25:26		Their second-largest source of natural gas as a conglomerate is from the Middle East. Which, by the way, is where Europe gets most of its oil. If we were to expand the assets, i.e., natural gas, that we send to Japan, we could free up Japan from using the shipments from the Middle East, which they could then redirect to Europe. That's a big idea. The question is have for you, is did it make sense when I first articulated it?
00:25:56	KM	I think it does, but it's now a time function, time is running against you. If you don't do anything... And I'll get to the last piece, as I've said, there's storage, there's supply, but there's also consumption. You're about to see the talk becoming of a consumption constraint and that the EU is going to try to impose. And that's going to get pushback. But you won't be there in time, your big idea. That means if you don't do anything, you can foreseeably see that parts of Europe will run out of natural gas into the winter.
00:26:28		And that's where the headline risk is. The headline risk starts in the fall for markets. You've seen natural gas prices over the last two years in Europe. Remember, it's regionally traded, in Europe alone, it's 2,500% increase. The equivalent if you had to take natural gas and put it into a barrel of oil today, it would be about a \$300 barrel of oil. These are going to be economic headwinds on an economy that's already facing, depending on where you're sitting in Europe, headline CPIs that 8 to 11%.
00:26:58		And all of a sudden, think about having shut down manufacturing capacity to get to that consumption quota, you are probably in a recession in Europe right now. It depends on if

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		this happens, how deep that goes.
	GV	David, I was wondering, with all of the issues surrounding supply, should we ask the General, how much should we worry about Iran? A nuclear deal seems unlikely, they keep stalling. Could Iran be part of this access of evil, one might say, and become a really disruptive force?
00:27:28	Gen.AL	I think Iran has drifted, not so gradually, into the Russian orbit, quite firmly now. And, as you may recall, the Russian foreign minister was there quite recently and a variety of trade experts were there, trying to do deals of note. China is increasingly present in Iran, that appears to be purely commercial. The point is, they're there already, something to put into that equation of danger, if you could.
00:27:58		The imponderables are getting even more complicated to try and figure out. Throw in North Korea, through in India's, not desperate, but determined attempt to walk a tightrope between the two emerging power blocks, i.e., the United States and NATO, and China plus Russia. China's very much the dominant one emerging. And we are in for what could be a new Cold War, but with very hot sequences.
00:28:28	DP	I want to pivot slightly. Kevin, you already brought this up in passing with one of your answers earlier. It's this political stability, or lack thereof, in the West right now, that seems to be exacerbating everything that you guys have talked about already today. You've got the UK, the government is in disarray. Italy is in disarray. US, we've mid-term elections that make the fight at home in the US seem more interesting and more pertinent than perhaps the fight outside of the country.
00:29:03		Just curious, and maybe we run through each of these countries, but how is that impacting what we're seeing on the geopolitical front?
	KM	I'll take them in aggregate. If you're Putin, you're loving the way this is shaping up. And if you can squeeze them hard in the fall, that's when your chips are best at the table if you want to work for a deal. Individually, I'd say you're going to know a bit more about the UK soon. But UK's in a very difficult spot in terms of they're all facing the same thing. Higher inflation, getting it under control.
00:29:31		The idea that's being floated of tax cuts is going to be a little bit problematic, but you're going to see the EU, broadly, take the

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		UK out for a second, having to face down this high inflation that they've not seen and raise rates into a recession. It'll be continuing to raise rates to have to cool this off. If you're in France and you're facing these high energy prices and higher food prices... And that's with a big drop in food that we haven't talked about, food has come off a lot.
00:29:58		Wheat's down 40-odd percent probably since the spring, but it's not showing up at the store or at the table. The citizen unrest that you're seeing around Europe, even in the US, on higher prices, even Canada, isn't going away in the short term because of these things. So, I'd say it won't matter country by country, when you think about Europe, but it will get louder when countries start to get imposed sanctions from the EU, given that their dependence on certain things is different.
00:30:27		As I've said, France, more sensitive, has more nuclear reactor capabilities, so maybe less suspect to these higher natural gas prices. You have to be mindful of it and it's resolved to be tight right now, does NATO, at the political level, start to fracture?
	GV	Let me just say, you can't overlook the polls. I live in a city that is addicted to polls. In Washington, before people take a shower in the morning, they check and see if there's a new pole in the Washington Post. That's just the way it is.
00:30:56		And I think the relevant number here is below 40% job approval rating for Joe Biden. He's in the mid-30s, which is extraordinary, weaker than even Donald Trump at his weakest point. That probably does diminish Biden's international clout, makes it more difficult to see a president that weak. And I would just add, that while Biden has had a little bit of a comeback this summer, I still think the House of Representatives will flip back to the Republicans. The Senate might not. The Senate's becoming really interesting because the Republicans have some really bad candidates.
00:31:29		But I think the House will flip and that will make Biden's task even more difficult internationally, to see his power continuing to dwindle.
	Gen.AL	Danger of governments which don't enjoy a huge amount of popular support is, by definition, they're weak. Not in terms of their outlook on life or how they may personally feel, but they're vulnerable to sudden fluctuations in voter opinion.

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00:31:55		As people get more and more concerned and the impacts of inflationary pressures or recession activities or lack of certainty and uneasiness caused by warfare or tens of thousands, indeed millions, of migrants on the move in Europe, not only in Europe but elsewhere, it's reasonable to expect that most voters are going to be even more uncertain about the future. What does that mean? That means that governments which were initially thought to be stable and to be able to withstand political shocks, are going to tumble like dominoes. That's possible.
00:32:30		Which, by the way, feeds into the hands of Putin and Xi. Because in that chaos, there's opportunity for them because people will no longer be united. Now, that's a dark story that I've just painted, it's the worst case. There is light at the end of the tunnel and that is, so far, NATO has pulled together. So far, President Biden and his team of experts have made most of the right calls. So far, China and some of their affiliates haven't done the unthinkable and actually used violence against Taiwan.
00:33:00		And, so far, winter has not reared its ugly head and we haven't seen the impact, but we should be getting ready for it. And for governments that have spent a huge amount since COVID on social programmes and now have no reserves or capacity left, they're going to be in trouble.
	DP	I just wonder if leaders in France and Germany are seeing what's going on in Italy and the UK? Does it make them respond in a certain way, so that they avoid that? Maybe that comes with some capitulation on their stance on Ukraine?
00:33:35	Gen.AL	You are going to see governments... Again, you have this other problem, which is there are constraints on what governments can do in the EU under the constructs of the EU. You're also trying to manage 20-plus economies with one currency, all moving at different speeds. This would be like 26 patients with different illnesses being treated with one drug. It's impossible to cure them all.
00:33:56		Each country is going to react differently to the stress. You're going to see gas rebate, you're going to see tax credits for some of this, depending on the country. But your ability to finance that, if you're Italy, is going to be very difficult under the constructs of the EU. Each of them are going to deal with a very different backlash, depending on which of the problems they're trying to solve.



Time code	Speaker	Text
	DP	What we talked about, we've talked about Western governments. We haven't even talked about what's happening in Sri Lanka, in Pakistan, a whole host of emerging markets. What impact do those, I won't say smaller countries because population-wise certainly not smaller.
00:34:35		But those emerging nations, they're under the gun too in terms of this cost of living crisis as well, what impact does that potentially have on the geopolitical landscape?
	Gen.AL	It feeds into sort of an instability pool. The larger that pool gets, much akin to a swimming pool, the more it's going to have an impact with neighbours and trading partners.
00:34:57		And we're going to see, I suspect, the impact of higher food prices or restrictive food supplies having a huge impact on Africa and other parts of Asia, which could cause huge migration pressures or refugee pressures. Which are destabilising in and of themselves. We're entering, essentially, an age of uncertainty. Whereas, ironically, you look back a year and things were pretty set, weren't they? That's changed quite quickly.
00:35:28		There's opportunity there, and I think we've all got to think our way through this pretty carefully. And we seek stability, stability is going to be key.
	KM	One of the interesting things that's occurred the last few weeks is grain exports out of the Ukraine have started again, after being tied up for months. It's a hopeful sign, it was bargained by the Turkish government, I believe. But that could be something that starts to take the pressure off on some of the emerging world.
00:35:55		But let's assume that there's enough pain and damage on both these two economies, Russia and Ukraine, that they do cut some type of ceasefire, something that the grind stops where it is. The negotiations may last years. The markets will react pretty positively to that. You're going to see commodity prices drop dramatically. I don't know what's in a barrel of oil today, but it's significant. That doesn't feed its way into a gas pump tomorrow, right away, but it will fairly quickly. You've seen gas prices, gasoline, in North America drop about \$1 a gallon in the US, comparable amount in litres in Canada.
00:36:31		Those type of unlikely, can't-model even will have quick impacts



Time code	Speaker	Text
		to some of this inflationary pressure. Again, not immediate, tomorrow, but you'll start to see that that roll-off then take some of that unrest off.
	GV	If I could add one more positive thing, that is earnings were really good in this last quarter. The market appreciated that. That doesn't mean the next quarter will have great earnings, but that was encouraging to see. Secondly, the United States unemployment rate is 3.5%. So, you have some positives that could offset some of the very real negatives that we've talked about.
00:37:04	DP	To your point, General, we've moved from a period of relative stability a year ago to now unstable. But to Kevin's point, if you start to get some agreements, can we shift back to some stability just as quickly as we left it, I wonder?
	KM	Yes, everyone will be looking for stability and money will flow. Jobs will flow. People will return in astonishing rates, if and when it occurs. And, quite frankly, it's going to happen. The question is when and what will be the triggers that cause such to occur?
00:37:36		Not only what's going on in Europe, but also, with the increased tensions facing the Pacific. There are already stories about who rebuilds Ukraine.
	Gen.AL	Great discussion to have. That's the sort of indicator which will cause a whole bunch of folks around the world to go hey, I want a piece of that too.
00:37:56	KM	I would see what the fall sets up. We're going to have to see this play out. We're not at that place where there's a stalemate yet.
	KM	That's right. Think this weaponization of energy is going to play out, that will create some volatility in the market. Economies are like aircraft carriers. You start raising interest rates and these higher commodity prices, you don't slow an aircraft carrier down immediately. The lag effect of some of these higher things is going to weigh on these economies. You'll be in recessions in parts of Europe for sure. I think to the extent that you don't get this immediate start to the winter, that will help.
00:38:27		But when we have to make choices about heat versus eat in parts of the world, it could be more volatile. I'd say some of what's happened, we've had to raise rates to combat some of this. We have this, emerging still, outcome yet to be known, so that uncertainty I think will create some volatility. Even to Greg's

Time code	Speaker	Text
		point, the earnings that we've seen have been okay so far. It's really if you continue to see these economies start to soften, where do they go? It sets up for, I think, an interesting fall, at one level.
00:38:59	DP	I think that's probably a good place to end the conversation, Kevin. As always, really appreciate your insights, fascinating stuff, and let's do this again soon. For a full transcript of today's episode, visit <a href="http://AGF.com/podcast">AGF.com/podcast</a> and don't forget to subscribe to hear more from us at Apple Podcast, Spotify, Google Play Music, Stitcher, Podcast Addict and Pocket Casts.
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