Industry experts Jack Lifton and Byron W. King talk about the coming economy based on gold and energy.

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In this video, long-time mining and metals analysts Jack Lifton and Byron W. King discuss gold, inflation, and global economic trends driven by rising energy prices. Gold prices will bounce around, to be sure. But energy-driven inflation is now structural and embedded in both the U.S. and global economy. Meanwhile, U.S. sanctions against Russia are backfiring, undermining the credibility of the dollar. Over time, we will see a new international financial standard based on hard commodities and energy.

To access the complete episode of this Critical Minerals Corner discussion, [click here]

Putin attacks Ukraine, what are the consequences for investors?

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

In my opinion, the bigger market impact will be how it affects the U.S. Federal Reserve actions. The potential for increased commodity inflation (due to sanctions) could slow the economy. A slowing economy is not a great background for gung-ho interest rate increases. So, this conflict/war/assault on humanity may actually temper interest rate increases which could be bullish tech and gold. A perceived less aggressive interest rate path may partially explain the slap upside the head that most North American financials took, although there may also be some ramifications from all the banking sanctions announced. But, by day's end, all I had done was to buy some Facebook/Meta (NASDAQ: FB) and sell some out of the money covered calls on Cameco Corp. (TSX: CCO | NYSE: CCJ), and that's it. There was a lot of uranium interest for sure, but we saw bigger intraday moves when everyone was all cranked up by the activity of the Sprott Physical Uranium Trust (TSX: U. UN). Nevertheless, I will often find some way to trade around a 10% single day move in an equity.

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

The current global supply/demand picture for both oil and natural gas, the largest contributor to Russian GDP, is such that no country has enough spare capacity or political will to completely shut off Russian imports. It seems like every speech made by President Biden on this topic always has some reference to keeping U.S. gasoline prices below $4/gallon. And in Germany, they made the symbolic gesture of halting certification for the Nord Stream 2 pipeline but that wasn't shipping any product yet anyway. There's still the original Nord Stream pipeline and its total annual capacity of 1.9 trillion cubic feet (55 billion m^3) of gas that hasn't been discussed in any press releases I've seen so far. Likely because it's still winter and Germany isn't about to let its citizens freeze, and realistically it doesn't have any other quickly available, viable options. If those united against Mr. Putin actually grow a spine and put a hard stop to all Russian oil and gas purchases, Russia could simply sell most, if not all, of it to China and current Chinese supply will redistribute to other parts of the world. This could certainly create some interim price volatility but it's highly improbable (in my opinion) that actual Russian oil and/or natural gas production will be cut and thus there will be no dramatic swings in supply.

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

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

Asset Class Winners and Losers

if Russia Invades Ukraine

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As Russian troops gather at the Ukraine border a war looks imminent. U.S intelligence has warned that Russia is likely to invade Ukraine as early as this week. Investors can look at ways to protect and position their portfolio if the Russian invasion goes ahead, as is widely expected.

Based on the February 27, 2014, Russian invasion that took control of the Crimean Peninsula from Ukraine, any invasion may meet with limited resistance. The 2014 invasion and takeover of Crimea was completed in only a month. Of course, on this occasion the whole of Ukraine is at risk and the Ukrainian military response should be a lot greater.

Russia and Ukraine look to be on the brink of war

Russia – Ukraine War

Source: iStock

Sanctions on Russia will likely be the key response from the West

If Russia invades then the most likely outcome is that very heavy sanctions will be imposed on Russia by at least the U.S, UK, and the European Union. Goods and services likely to be sanctioned could be the import of any military hardware & software, semiconductors, smartphones, critical metals etc. There would also likely be financial sanctions that act to block western finance to Russia and Russian companies as well as US dollar transactions. Russian exports (with gas and perhaps oil excluded) may also be sanctioned, which could lead to price spikes in key commodities and metals (palladium, iron ore, nickel, aluminum, or uranium) that Russia exports. For example, the Russian company Norilsk Nickel is the world's leading palladium and nickel producer; the Russian company Rusal is a large global aluminum producer; and much of the world's uranium comes from Russia, and Russian controlled companies such as those operating in Kazakhstan.

Ukraine would also be heavily impacted by a Russian invasion, which would interrupt Ukrainian businesses. Ukraine is well known for its fuel and non-fuel resources production and mining industry, including natural gas, oil, coal, iron ore, chalk, limestone, and manganese ore. Manufacturing is also a major business in Ukraine and includes automotive, shipbuilding, aircraft & aerospace. Ukraine is also a strong agricultural producer that helps to feed Europe. Key Ukrainian agricultural products include corn, wheat, sunflower oil, sugar, dairy, meats, honey, and nuts.

Ways to protect your portfolio

Some of the safe havens in times of conflict include:

- Cash (U.S dollar, Japanese Yen, Swiss Franc).
- U.S Government bonds.
- Physical Gold, and quality gold producing mining companies.
- Rotating some money out of risky assets.
- Reducing exposure to Europe.

Possible winners if Russia invades Ukraine

- Global energy companies due to increased price of oil and gas. Leading non-Russian gas and oil companies include Exxon Mobil Corporation (NYSE: XOM), BP plc (NYSE: BP), and Chevron Corporation (NYSE: CVX).

- Global metal companies (palladium, iron ore, nickel, aluminum, uranium). For palladium consider South African Sibanye Stillwater Limited (NYSE: SBSW). For iron ore and nickel consider Brazil's Vale S.A. (NYSE: VALE), or Australia's BHP Group Limited (NYSE: BHP). For aluminum consider China's Chalco (SHA: 601600) or America's Alcoa Corp. (NYSE: AA). For uranium consider Energy Fuels Inc. (NYSE American: UUUU | TSX: EFR) or Ur-Energy Inc. (NYSE American: URG | TSX: URE).
- Military related stocks as the West supports Ukraine and other parts of Europe with access to the latest weapons as a counter to Russian expansion in Europe. Consider the iShares U.S. Aerospace & Defense ETF (ITA) or the more aggressive Direxion Daily Aerospace & Defense 3X Shares ETF (DFEN). More details on the top defense stocks in my recent InvestorIntel article are here.
- Agricultural stocks. Given Ukraine is a food bowl of Europe, then any significant disruption to the Ukraine agricultural sector could force up prices for grains such as corn, wheat, and sunflower oil.
- Cybersecurity stocks may be a winner if Russia responds to the West with cyber-attacks. Consider buying the ETFMG Prime Cyber Security ETF (HACK).
- Inverse or Bear ETFs that short the market or the currency. As there is no current Russia short ETF (Direxion Daily Russia Bear 3x Shares (RUSS) ETF closed in 2020) or short Russian ruble ETF to my knowledge, one option would be ProShares Short Euro (EUFX) or ProShares UltraShort Euro (EUO) for shorting the Euro currency. These are only suited to day trading and sophisticated investors.
- Shorting individual Russian stocks.

Possible losers if Russia invades Ukraine

- Russian ruble currency, Ukrainian currency (the hryvnia).
- Russian stocks and the Russian stock market index (eg: iShares MSCI Russia (ERUS)).
- Companies that have significant exports to, or revenues from, Russia as Russia may impose countersanctions or suffer a sharp slowdown. Examples include Veon (NASDAQ: VEON), Mobile TeleSystems (NYSE: MBT), EPAM Systems (NYSE: EPAM), Playtika (NASDAQ: PLTK), QIWI (NASDAQ: QIWI), and Ozon Holdings (NASDAQ: OZON).

Closing remarks

When Russia invaded Ukraine in 2014 the immediate impact saw the Russian stock market index fall ~11%, European stock indexes fell (Germany fell 3.3%), and the Russian ruble fell to a record low. US shares fell about 1.3% and money flowed into US bonds, gold and safe haven currencies. Rotating some funds from risky assets into safe havens right now looks to be a good idea.

Apart from what's mentioned in the article, investors should also consider using any significant dip in global share markets as an opportunity to buy, as any contained Russia/Ukraine conflict should not have a lasting impact on the world. I will most likely use any market dip to top up on some of my favorites such as Alphabet Inc. (NASDAQ: GOOG) and Tesla Inc. (NASDAQ: TSLA), as well as some well valued EV metal miners.

Finally, there is also the risk that Russia backs down or de-escalates and we get no Ukraine invasion. In that case, most of the stocks and ETFs in this article are likely to fall back after a recent run up as invasion risks have been an issue for some months now.

At the rate of escalation, we should know what the outcome is probably within the next month or two. Feel free to post your thoughts and idea in the comments section below.