



The Hilberry Weekend Reading for Friday, February 12th, 2021



The How High is Too High (? Edition)

The S&P500 hit another high this week. We've fielded calls from clients who've been reading that 'the market' is extremely over-valued. An example is Charlie Bilello's comments this week.

***'Is This 1929 or 1998?'* – Charlie Bilello – Feb 10, 2021**

<https://compoundadvisors.com/2021/is-this-1929-or-1998>

Here's one sign of excess,

***'A Lucid look at the SPAC-craziness: \$CCIV deep dive'* – Yet-Another-Value-Blogger (yes that's his handle) – Feb 8, 2021**

SPAC: *Special Purposes Acquisition Company* created for the purpose of doing some yet-to-be-determined clever thing with blank cheque money given to them. The SPAC managers are deemed clever enough to be granted money before taking action permitting early investors to *'get in on the ground floor'*.

<https://yetanothervalueblog.com/2021/02/a-lucid-look-at-the-spac-craziness-cciv-deep-dive.html>

Regulation-lite investments. What could go wrong? Should clients speculate in Bitcoin?

According to past US FDIC Chair and current Fannie Mae chair Sheila Blair and Canada's Deputy.....no. But what do they know?

Sheila Bair Says Don't Buy Bitcoin, It's at 'Nosebleed Levels' – Bloomberg – Feb 11, 2021

<https://www.bloomberg.com/news/articles/2021-02-11/sheila-bair-says-don-t-buy-bitcoin-it-s-at-nosebleed-levels>

'Cryptocurrency boom is 'speculative mania,' Bank of Canada deputy says' – Financial Post Feb 10, 2021

<https://financialpost.com/investing/crypto-boom-is-speculative-mania-bank-of-canada-deputy-says>

And of course, this kind of thing happens...

A Crypto Kid Had a \$23,000-a-Month Condo. Then the Feds Came.

Yet another story of a crypto-fund going bust on questionable regulations.

<https://ca.finance.yahoo.com/news/crypto-kid-had-23-000-120000170.html>

I accept there are certainly bubbles in areas of the market and that these bubbles are probably a sign of more money than usual in certain wallets, particularly those attached to novice investors. There is always a crop of new students requiring schooling. Unlike modern education, the markets still deliver financial corporal punishment, sparing no rods. Concentrated craziness is nothing new in this business. I also accept that these behaviours can be a sign of general lack of fear of flying. Icarus and all that. We examine our values daily. We don't see much excess in what we own. A wag could point out perhaps we just own 'dogs' that missed out on all the fun. As our portfolios are broadly diversified with only a few industries avoided, I don't think this is the case. The fun has been concentrated in mostly the FANG stocks. Provided we're not focused on FANGS we should be okay.

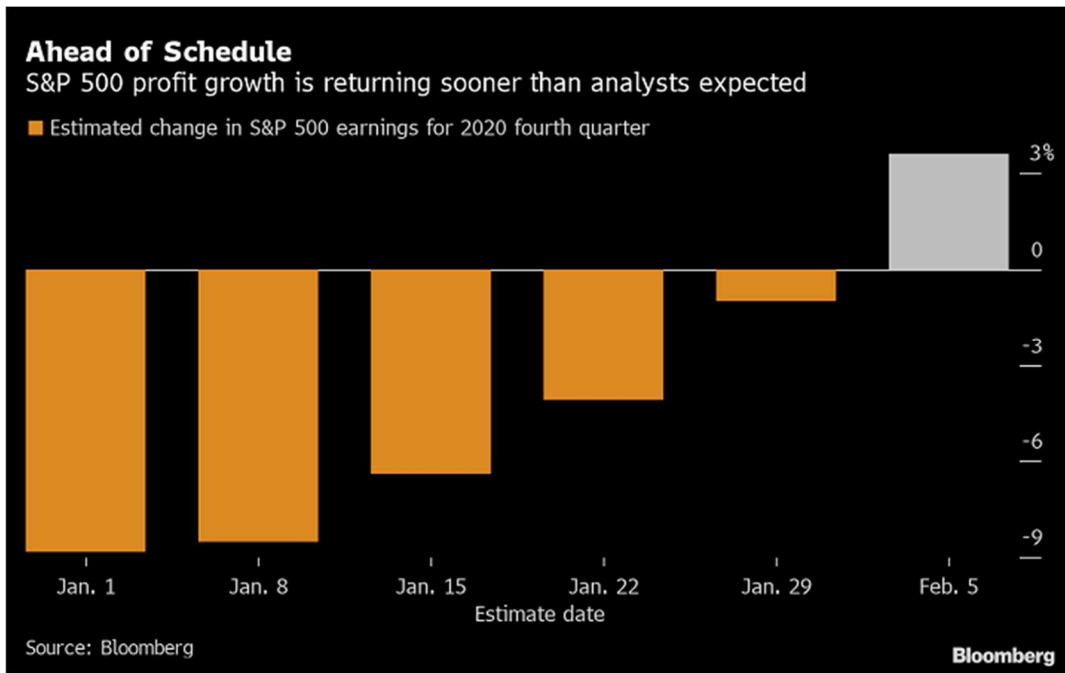
'The Basics of Value Investing' – Jack Forehand – Validea Guru Investor Blog – Feb 10, 2021

<https://blog.validea.com/the-basics-of-value-investing/>

As we exit the COVID-19 Recession the wind is at the economy's and the market's back. There probably will be 'corrections' as in correcting out excesses along the way. That's the market's job. The ups will be larger than the downs. I don't see a 'Big One' in 2021. Back-to-back annual 30% stock market declines have been very rare.

It's not all just speculative hot air. Stocks have been climbing because the future they pay for is improving.

David Wilson Chart of the Day for Feb 8, 2021

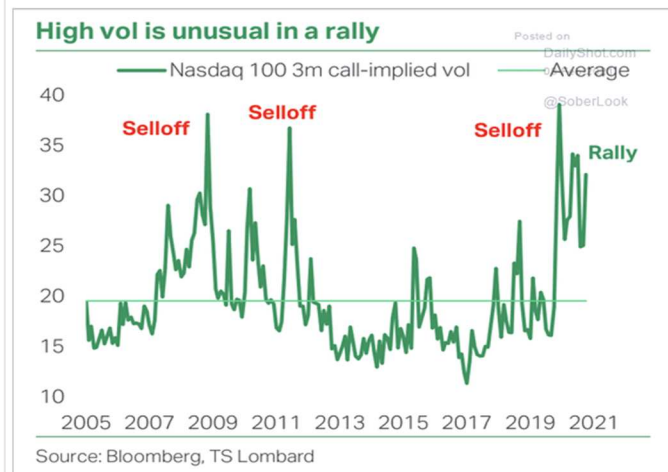


Earnings growth for U.S. companies was supposed to return this year, judging by analysts' estimates. Now it looks like that already happened. Companies in the S&P 500 Index are in position for a 3.6% increase in fourth-quarter profit, according to data compiled by Bloomberg. The figure reflects results from the companies already reporting and estimates for those yet to do so. When last quarter ended, analysts expected S&P 500 profit to decline 8.8%, which would have been the fourth straight quarterly drop.

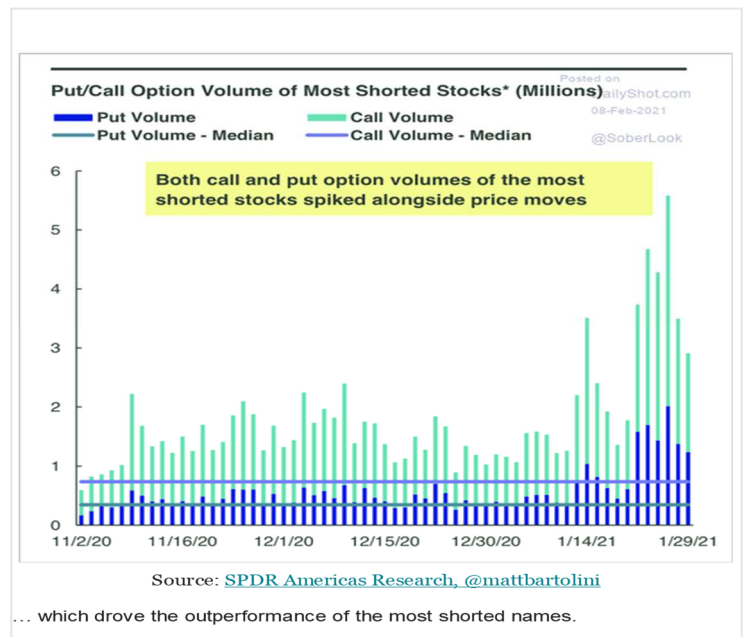
David Wilson
(used with permission)

On values and what's been happening...from WSJ Daily Shot – Feb 8, 2021

Equities: Retail demand for call options has been keeping the Nasdaq 100 implied vol elevated.

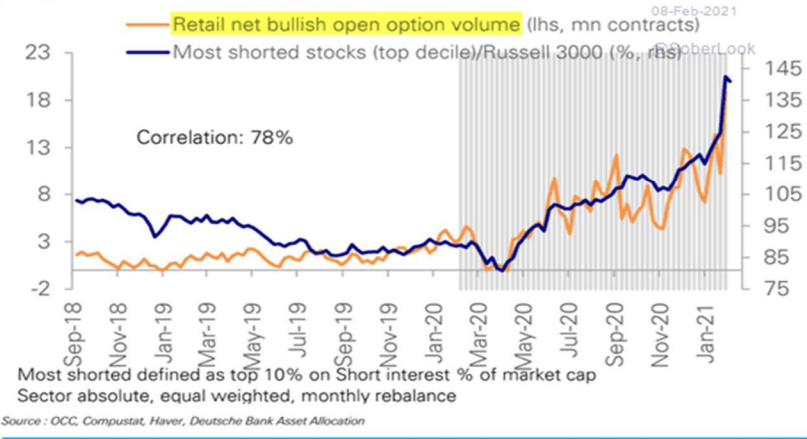


Options activity in the most shorted stocks increased substantially last month, ...



... which drove the outperformance of the most shorted names.

Figure 8: Outperformance of the most shorted stocks has coincided with a surge in call volumes, largely led by retail



Source: [Deutsche Bank Research](#)

Credit: US junk bond yields are hitting record lows.



Source: The Daily Shot

YTW: Yield to Worst, being the semi-annual yield to maturity of a bond with various maturity options with the yield calculated at the maturity least opportune for investors holding the bond. Typically, this would be the yield calculated at the nearest 'call' feature, being when the issuer may call the bond in for repayment (not the investor holding the bond), prior the ultimate final maturity of the bond issue. Example: Bond originally issued with a 10-year maturity with a 5-year call feature. The yield-to-worst would be calculated on the 5-year call date in the calculation.

Explainer: Some take historically low junk yields as proof of caution-tossed-to-the-winds. I have some sympathy for this view. Another take is that a) the back-ground yield environment warrants low junk yields paired with b) an improving economy, meaning the risk of default is declining. Yields should be lower. Both could be right. Half-empty or half-full?

Meet the company that's looking to mine lithium from Alberta's old oil and gas wells – Financial Post – Feb 5, 2021

<https://financialpost.com/commodities/mining/meet-the-company-thats-looking-to-mine-lithium-from-albertas-old-oil-and-gas-wells>

Positives for the US dollar, economy and thus stocks.

Extract from National Bank's Daily FOREX notes for Feb 9, 2021

- One other tailwind that continues to play out is the ongoing stimulus driven portion of this rally, so we wanted to call out the U.S. Congressional Budget Office latest report ([here](#)) that showed the U.S. Treasury Department reported a deficit of US\$144 billion in December alone – almost half the of annual expected total in Canada (likely makes sense proportionally). On top the December deficit lining up with November at US\$143 billion, January's deficit is expected to increase to US\$165 billion and would have been up to US\$211 billion had increased social security and other corona virus payments gone out on time. Altogether, **the October to January deficit is US\$913 billion**, although because interest rates have fallen so dramatically, **interest costs have gone down at US\$115 billion vs the same period a year ago at US\$134 billion**. To us, this could provide a solid cushion to the ongoing stimulus program's debt servicing – that is, until rates have to increase to stomp out inflation if some of the predictions about the reflationary trade materialize (as we are seeing in the commodity space).

Receipts, October–January					Outlays, October–January					
Billions of Dollars					Billions of Dollars					
Major Program or Category	Actual, FY 2020	Preliminary, FY 2021	Estimated Change		Major Program or Category	Actual, FY 2020	Preliminary, FY 2021	Estimated Change	Estimated Change With Adjustments for Timing Shifts in Outlays ^a	
			Billions of Dollars	Percent					Billions of Dollars	Percent
Individual Income Taxes	602	580	-21	-3.5	Social Security Benefits	355	370	15	15	4.4
Payroll Taxes	411	435	24	6.0	Medicare ^b	252	225	-27	5	2.4
Corporate Income Taxes	76	85	9	11.5	Medicaid	136	165	29	29	21.4
Other Receipts	91	91	*	0.1	Subtotal, Largest Mandatory Spending Programs	742	760	18	50	7.0
Total	1,179	1,191	12	1.0	Refundable Tax Credits	1	144	144	144	n.m.
Memorandum:					Unemployment Compensation	11	115	104	104	n.m.
Combined Individual Income and Payroll Taxes					DoD—Military ^c	238	245	7	12	5.1
Withheld taxes	866	837	-30	-3.4	Net Interest on the Public Debt	134	115	-19	-19	-14.2
Other, net of refunds	146	179	33	22.6	Other	442	549	107	125	29.4
Total	1,012	1,015	3	0.3	Total	1,568	1,928	360	415	27.4

Data sources: Congressional Budget Office; Department of the Treasury.
FY = fiscal year; * = between zero and \$500 million.

Data sources: Congressional Budget Office; Department of the Treasury.
DoD = Department of Defense; FY = fiscal year; n.m. = not meaningful.
a. Adjusted amounts exclude the effects of shifting payments that otherwise would have been made on a holiday or weekend. If not for those timing shifts, outlays would have been \$1.513 billion in fiscal year 2020.
b. Medicare outlays are net of offsetting receipts.
c. Excludes a small amount of spending by DoD on civil programs.

If the above US CBO office hyperlink won't open, here is the full link text:

<https://www.cbo.gov/system/files/2021-02/56976-MBR.pdf>

'Apple Is the \$2.3 Trillion Fortress That Tim Cook Built' – Bloomberg – Feb 9, 2021

Those arguing Governments should enact policies that enforce industrial jobs returning to the US and Canada (think tariffs and taxes) should read the following article.

<https://www.bloomberg.com/news/features/2021-02-09/this-is-how-tim-cook-transformed-apple-aapl-after-steve-jobs>

I've been re-reading histories of WW 1&2. In both conflicts the late entrance of the United States led to victory for the Allies. While US added manpower was important (Russia had much larger land armies) it was the US economy's ability to rapidly pivot from manufacturing from domestic products to military hardware that turned the tide. Everything from bombers to boots to bullets.

Since the Vietnam War, modern conflicts have been 'asymmetrical' pitching unevenly matched combatants. Industrial output capacity hasn't been a problem for the US or Canadian military in the Balkans, Iraq and Afghanistan. The COVID pandemic has purchasing agents worried about the longer-term implications. The US military purchasing agents have been fretting.

'Pandemic Focuses Military on Supply Chain Risks' – National Defense Magazine – Dec 2, 2020

<https://www.nationaldefensemagazine.org/articles/2020/12/2/pandemic-focuses-military-on-supply-chain-risks>

While researching supply chains, this story popped up.

'Air Force Swarming Drone Program to Take Next Step' – National Defense Magazine – Feb 4, 2021

Yikes. 'Skyborg'. Perhaps a mixture of The Terminator 'Skynet' and Star Trek's 'The Borg'? Really!

<https://www.nationaldefensemagazine.org/articles/2021/2/4/just-in-air-force-swarming-drone-program-to-take-next-step>

Moving on to transportation tech the next article comes from a client in the oil & gas industry.

Natural Gas Tech Firm Wins Blessing from Bill Gates-led Fund – Rigzone – Feb 9, 2021

(Bloomberg) -- Breakthrough Energy Ventures, the fund helmed by Bill Gates, led a funding round to raise \$11.5 million for California-based startup C-Zero Inc.

The company has developed technology to lower the greenhouse-gas emissions from using natural gas. Instead of burning the fuel to produce carbon dioxide and water, C-Zero passes the gas through a mixture of molten salts. Doing so splits methane — the main component of natural gas — into hydrogen gas and solid carbon. When the hydrogen burns, it produces water; the solid carbon goes to landfills.

https://www.rigzone.com/news/wire/natural_gas_tech_firm_wins_blessing_from_bill_gatesled_fund-09-feb-2021-164573-article/

<https://www.czero.energy/>

Air, Moelis Invest in Electric Air-Taxi Developer (1)

her plans production in 2023 with customer flights in 2024
rtup to list on NYSE in SPAC deal providing \$1.1 billion

Bachman

g) -- United Airlines Holdings Inc. is investing \$20 million in an
aircraft startup and may eventually buy as many as 200 of the
s small flying taxis to whisk customers to the airport in crowded

d, the aircraft purchase would be valued at \$1 billion, Archer, the
of the vehicles, said in a statement Wednesday. In addition, United is
ions for another \$500 million of the taxis, which would take off and
cally and be able to fly as far as 60 miles (96 kilometers). Archer
tart production in 2023, with consumer flights in 2024.



'Brookfield calls at \$16.50/sh...will IPL finally show its hand?' – P Kenney, NBF – Feb 11, 2021

With all the excitement over crypto-currencies this week, clients may have missed Brookfield's \$16.50 per share hostile takeover bid of Inter-Provincial Pipeline Ltd (IPL-TSX-\$17.30). NBF's Patrick Kenney reviewed the deal this week. The market price has remained well above Brookfield's offer since the announcement. Investors believe a higher price is coming.

From NBF's Thursday Feb 11, 2021 AM notes:

Inter Pipeline (IPL; SP; \$15T) is also in the M&A headlines here in Canada after Brookfield Infrastructure Partners L.P. (BIP) along with its institutional partners, publicly announced its intent to pursue a privatization transaction of IPL, in which BIP will look to acquire all of the outstanding common shares of IPL not already owned, at an offer price of \$16.50/sh (~23% premium to IPL's \$13.40 closing price). Under the terms of the offer, each IPL shareholder can elect to receive the consideration in a cash offer of \$16.50/sh, subject to a maximum cash consideration of ~\$4.9 bln (~76.2% of the total offer), or 0.206 of a Brookfield Infrastructure Corporation (BIPC) class A exchangeable share.

- *Of note, BIP has unbeknownst become the largest investor in IPL, having been accumulating shares since March 2020, with a current economic interest in ~84.3mm common shares (~19.65% of undiluted outstanding shares), comprised of ~41.8mm beneficially owned shares (~9.75% of undiluted outstanding shares) and a total-return equity swap that provides BIP with an economic interest in ~42.5mm IPL shares without any voting rights;*
- *BIP noted it first began discussions on a collaborative strategic transaction back in September, ultimately proposing specific privatization proposals to IPL's Board in November and December, with premiums in the range of 40-50% (\$17-\$18.25/sh), based exclusively on publicly available information. The offers were predicated on Brookfield's ability to conduct confirmatory due diligence to validate its proposed price, specifically with regards to the Heartland Petrochemical Complex (HPC), while also containing a "go shop" clause to solicit third party offers;*
 - *Ultimately, IPL declined to engage in a friendly privatization transaction, citing differences on the company's intrinsic value;*
 - *With that said, BIP remains open to future discussions and is willing to upsize its current offer, contingent on: 1) its ability to conduct customary due diligence, including an ability to*

substantiate credible growth potential and IPL's outlined commercialization of HPC; and 2) IPL not restricting its access or ability to make any offer to shareholders directly, or otherwise limit BIPs strategic alternatives with respect to its current offer;

- We expect the stock to jump >20% on the market's initial view of the proposed privatization at \$16.50/sh, with a further 10-15% upside stemming from either: 1) IPL's willingness to engage in friendly privatization discussions and granting BIP access to due diligence; or 2) IPL disclosing positive contracting details to the market, de-risking the Heartland investment and the company's going concern valuation (Heartland ~\$450-\$500mm of annual EBITDA once in-service, we highlight an implied pro forma run-rate Heartland 2023e valuation of \$16.50/sh at 10.8x EV/EBITDA, which would put the bid on par with Midstream peers currently trading at ~10.5x 2022e EV/EBITDA - de-risking the Heartland cash flows with certainty surrounding the nature of the company's 70-85% take-or-pay contracting target, a bid of \$18.25/sh would imply closer to ~11.3x run-rate EBITDA).

Check out analyst Rupert Merer's take on what this means for BIP [here](#)

Here is an excerpt from Mr. Mere's notes (highlighting mine):

A value focused investment that could be a big win, even if it attracts competitive interest IPL fits the mold for BIP, as a value-focused contrarian investment that has been overlooked by the market and with room for BIP to realize financial and operational efficiencies. The deal looks attractive to us, at an AFFO yield of ~9% for 2021E at the deal price (based on NBF estimates), but with potential for a run-rate AFFO yield of ~14% (with IPL's AFFO run-rate estimate at C\$2.30/sh) following the completion of IPL's Heartland petrochemical facility which is due to come online by 2022E. With BIP trading at an AFFO yield of roughly 5.5% (NBF estimated AFFO for BIP at US\$2.86 /unit for 2021E), the transaction could ultimately increase BIP's AFFO by 10% or more, to an AFFO yield of >6%, at the current unit price.

We believe the deal announcement could be a win for BIP even if IPL decides to solicit interest from other parties, with BIP standing to benefit on it's existing exposure. An incremental \$3 /sh or more above the current share price of IPL, at \$13.40, should provide a net gain to BIP of more than C\$250 mln.

Further, Brookfield has an organization wide focus on ESG reporting. With that, we believe IPL could see value unlocked by an ESG re-rating with benefit from Brookfield's established ESG and disclosure capabilities.

And [here](#) is the statement IPL issued in response to the bid by BIP

See, PDF Attachment: [Brookfield calls at \\$16.50/sh...will IPL finally show its hand – NBF Patrick Kenny](#)

**Find this pdf 'attached' in this week's newsletter email or with the 'attachments' at the end of this newsletter.*

DISCLOSURE: I hold IPL personally, for family accounts and for client accounts over which I have trading authority. We have traded in the security within the last 60 days.

'US Electrical & Gas Utilities the Unloved Clean Energy Play' – Credit Suisse – Jan 20, 2021

Trying to figure out the next BIG THING in green tech is risky. Too risky for us anyway. Our preferred route is to 'sell shovels in the Klondike', looking for businesses that are making profits now providing needed services today who could make even more profits in the future. Electrical utilities fit that bill. No matter what form of propulsion is used to power the future, most expect electrical power consumption to go up sharply.

Our Canadian portfolio is sprinkled with electrical power producers and companies who will profit selling to raw materials those power producers.

See, PDF Attachment: **Electrical and Gas Utilities – the Unloved Clean Energy Play – Credit Suisse**

**Find this pdf 'attached' in this week's newsletter email or with the 'attachments' at the end of this newsletter.*

Staying with alternative power generation....

'Alternative Energy: Thoughts on Potential Tariffs on Western China' – Credit Suisse – Jan 19, 2020

First Solar Inc (FSLR-NASDAQ-\$98.87) is featured in this report.

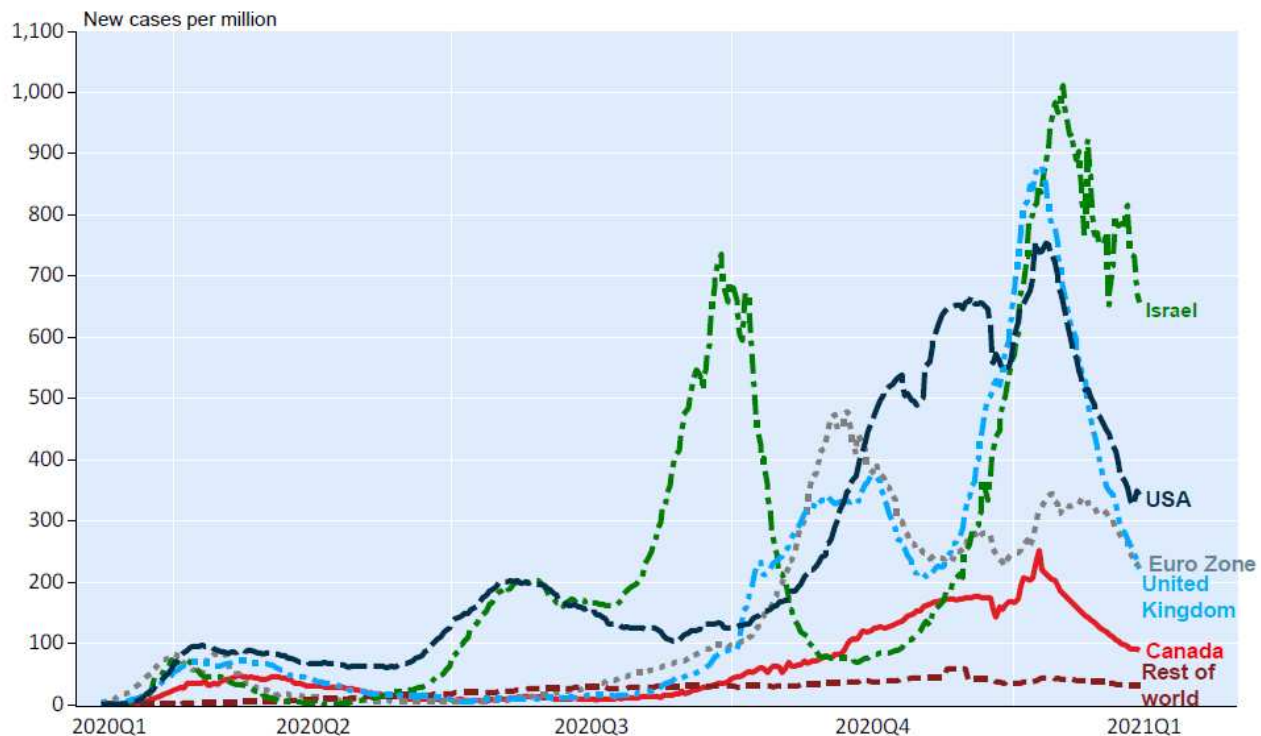
See, PDF Attachment: **Alternative Energy: Thoughts on Potential Tariffs on Western Canada – Credit Suisse**

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COVID-19 Daily Monitor – NBF Feb 12, 2021

1. World: Evolution of the pandemic

Daily new cases per million population by region, 7-day moving average



NBF Economics and Strategy (data via Johns Hopkins CSSE)

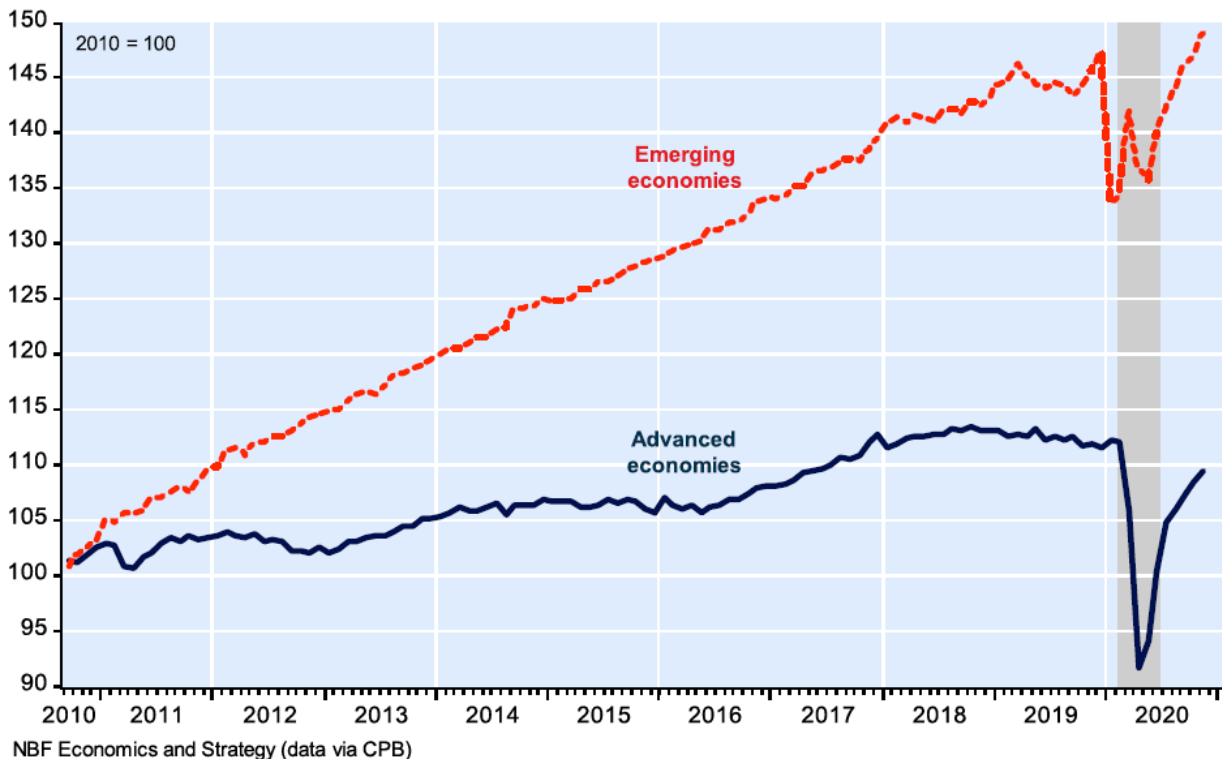
See, PDF Attachment: [COVID-19 Daily Monitor – February 12, 2021 – NBF Economics and Strategy](#)

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More good news on the global economy

World: Emerging economies are expanding

Industrial production (volume)



See, PDF Attachment: [World: Emerging economies are expanding – NBF Hot Charts](#)

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We'll let NBF Economics take us out with their weekly notes...

Weekly Economic Watch – NBF – Feb 12, 2021

See, PDF Attachment: [Weekly Economic Watch – February 12, 2021 – NBF Economics and Strategy](#)

**Find this pdf 'attached' in this week's newsletter email or with the 'attachments' at the end of this newsletter.*

It supposed to snow. Have a Winter Wonderland Weekend!



**Have a Great Weekend!
Steve & Anna Hilberry**

FOR THE RECORD FEB 12, 2021

DOW INDUSTRIALS: 31,383 (NEW HIGH THIS WEEK)

S&P 500: 3921

S&P/TSX COMP: 18,426 (NEW HIGHS – ABOUT TIME)

WTI: \$59.61 (\$30 IN APRIL/2020)

LOONIE IN \$USD: \$0.7871 \$US (LOONIE TRAILING WTI GAINS...FOR NOW)

ATTACHMENTS – See the following pages for:

- **Brookfield calls at \$16.50/sh...will IPL finally show its hand – NBF Patrick Kenny** (4 pages)
- **Electrical and Gas Utilities – the Unloved Clean Energy Play – Credit Suisse** (52 pages)
- **Alternative Energy: Thoughts on Potential Tariffs on Western Canada – Credit Suisse** (8 pages)
- **COVID-19 Daily Monitor – February 12, 2021 – NBF Economics and Strategy** (12 pages)
- **World: Emerging economies are expanding – NBF Hot Charts** (3 pages)
- **Weekly Economic Watch – February 12, 2021 – NBF Economics and Strategy** (8 pages)

**For better copies of the attachments, please refer to the PDFs attached in this week's newsletter email or contact our office.*



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