HILBERRY GROUP
WEALTH MANAGEMENT

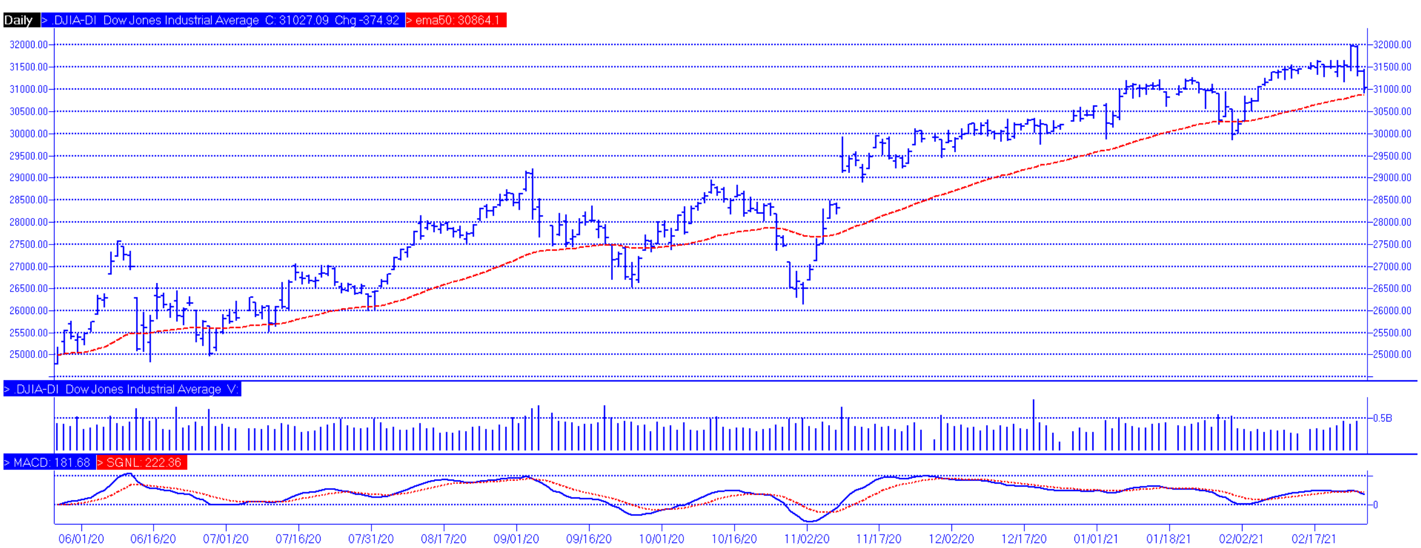
FEBRUARY 26TH, 2021

The 'What Me Worry?' Edition

Welcome to Friday, we made it to the end of the week. Wednesday saw markets up strongly with media announcers proclaiming it was due to Johnson & Johnsons vaccine getting the nod. Then on Thursday prices flopped with announcers proclaiming it was due to Treasury Yields rising. Friday down again suspiciously being the last trading day for the month.

The mid-week onwards selling has the Dow Industrials at 31,085 approaching the '50-day moving average' of 30,864 from above. Pundits breathlessly predict this decline 'confirms a downtrend'. Come back in off that ledge!!

Here is what they're on about. The red line is the 50-day moving average. Note this happens all the time. Selling every time the Dow declined to the moving average means going broke fast.



From a weekly view, the US market's appear to be simply moving along on their normal trend.

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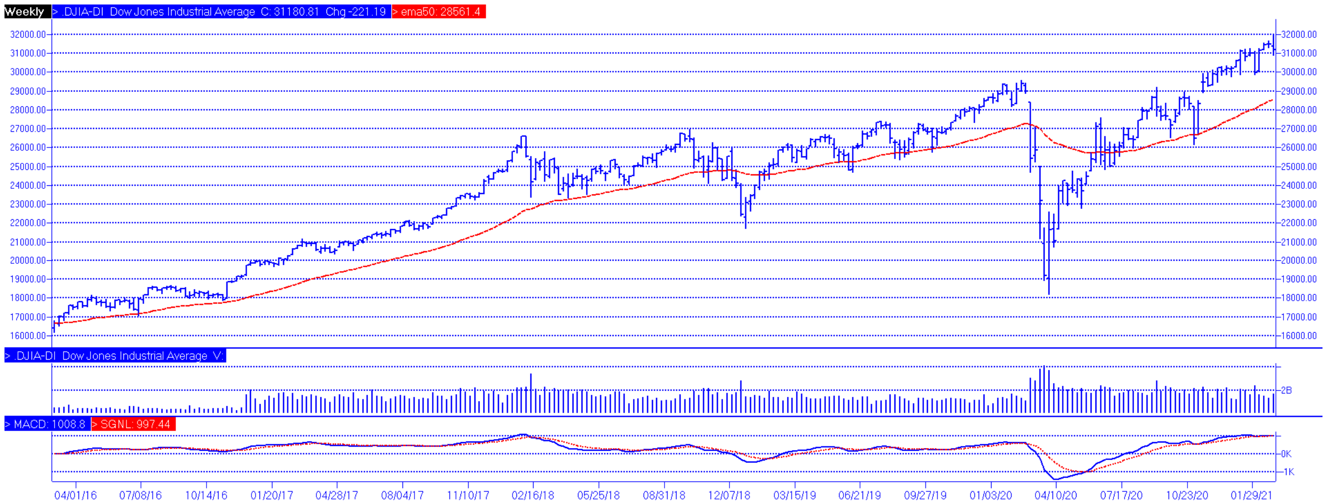
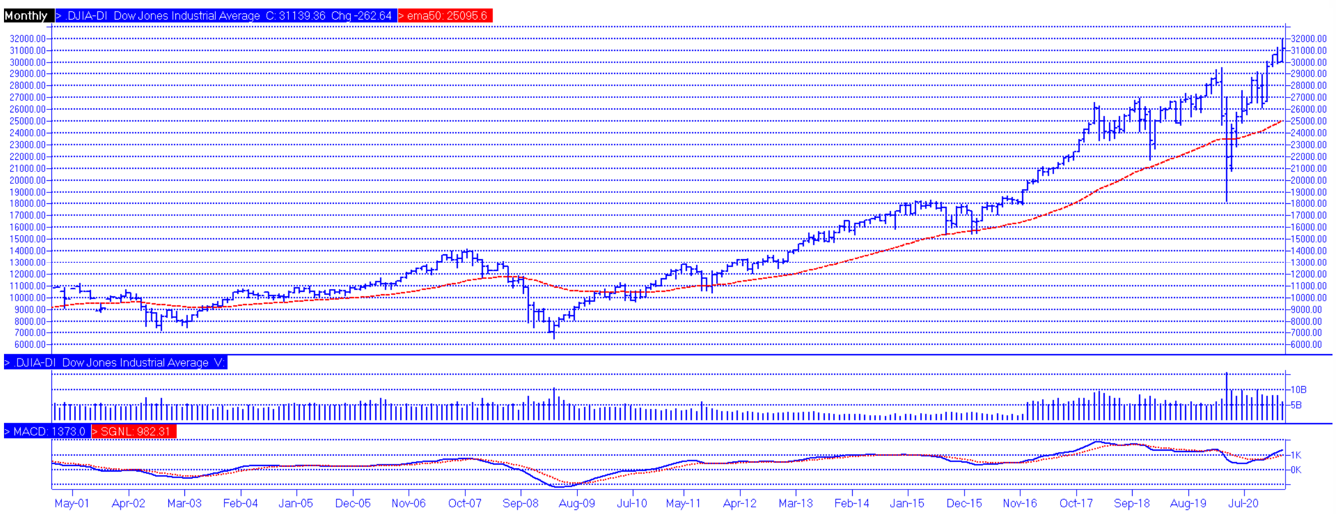


Looking at it monthly, we MIGHT say stocks are maybe a tad ahead of themselves, maybe. Not enough to get me jumping on the SELL button.



I reserve the right to change my mind!

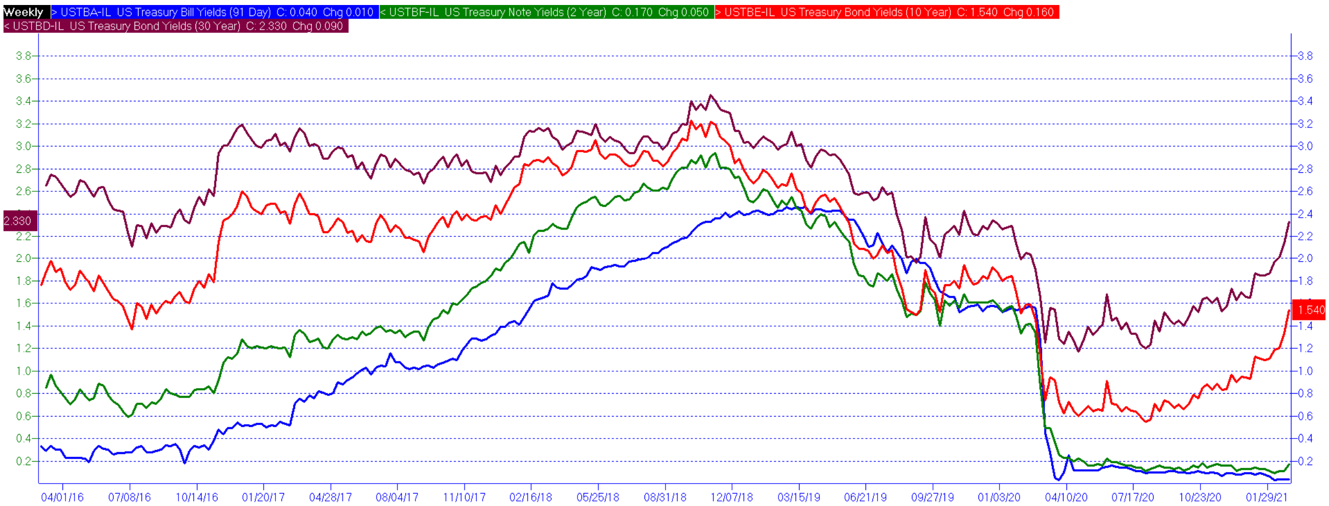
With punditry advising investors sold on Wed, Thurs and Friday due to rising rates (what…did they call everybody up and ask them?) we had calls/questions again from clients this week in response. I've been bringing rising bond yields to client attention regularly. As it's back in the news, we'll comment again this week.

I'll start with my own take then add in commentary from other folks smarter than me, with more fancy graphics (or the time to put it together) that I do.

Are rising rates a risk for the stock market?

The short answer, as is so often the case is "It depends and maybe". If interest rates are rising in an economy due to rising economic activity increasing demand for everything, including credit, rising rates are simply reflecting healthy demand. As I've been saying for awhile now, we are in the early 'Expansion' stage of a new economic cycle. As the demand for stuff grows, initially consumers spend their savings. The COVID-19 recession saw unusually high savings rates/debt pay down by the average consumer. After their saving wad of cash is blown, they look to do some borrowing. The next weekly chart confirms that the bond market sees this happening now.

US Treasury Yields 90-days (blue) 2 years (green), 10 years (red), 30 years (burgundy)

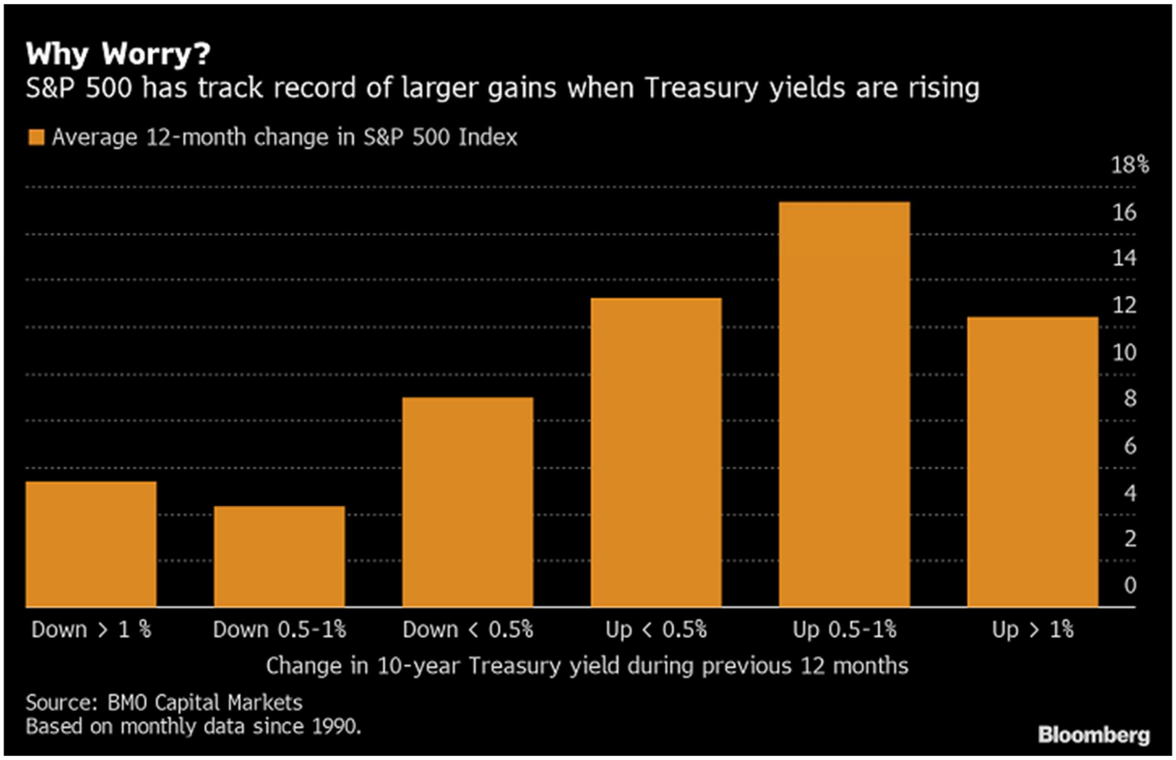


Before you panic, note that the ending 10-yr yield is 1.54% while the 30 is 2.33%. Hardly 'high' rates. The V-Shape of this yield chart confirms our comments from March/2020 that the recession was likely to be V-shaped, not 'U' 'W' or even 'L' shaped as click-bait loving punditry predicted. Reminder that in the financial press you don't have to be right to attract attention, just loud, negative and often. "More of the same" type good news doesn't sell much advertising.

If interest rates are rising at a much higher rate than the economy, it could be telling us even better/hotter times are ahead. It depends on the slope. If interest rates are rising during an economic <u>slow-down</u> that is a very, very bad sign, as it means lenders are afraid they won't get their money back. Think Venezuela/Zimbabwe. One should consider the actual rate vs. inflation too. Rates are still low even on a short-term basis.

The above 10-year bond paying 1.56% is still, in my books, not asking enough yield for even a modest inflation environment. This means rates are likely to rise further and up to a point, that is reasonable and perhaps even a good thing. Being careful what we wish for, if Governments see today's yields as a chance to lock in debt at 2.3% cost for the next 30 years, that would go a long way to removing rising rate risk. That assumes adults are in the room. So far, I'm not overly concerned about the current rate environment.

This next chart confirms yields/market reflecting the economy, not the other way around. When the economy slows, rates and stocks fall. When the economy expands rates and stocks rise. As the bond market <u>tends to move first,</u> we pay attention to yields!



Higher interest rates are no reason for U.S. stock investors to worry, Brian Belski, chief investment strategist at BMO Capital Markets, wrote in a report Wednesday. Belski looked at how changes in the 10-year Treasury note's yield influenced the S&P 500 Index's performance on a 12-month basis since 1990. The S&P 500 fared better when yields rose in the prior 12 months than when they fell, according to data compiled by BMO. The largest average advance, 17.3%, occurred after the yield climbed half a percentage point to a full point. "Investors should actually welcome, not loathe, higher rates," Belski wrote.

Sincerely,
David Wilson: Feb 26, 2021 Chart of the Day.

'How does the stock market perform when interest rates rise?' – Ben Carlson

https://awealthofcommonsense.com/2021/02/how-does-the-stock-market-perform-when-interest-rates-rise/

'The Auto Industry Bets Its Future on Batteries' – New York Times – Feb 16, 2021

"Carmakers, government agencies and investors are pouring money into battery research in a global race to profit from emission-free electric cars."

https://www.nytimes.com/2021/02/16/business/energy-environment/electric-car-batteries-investment.html

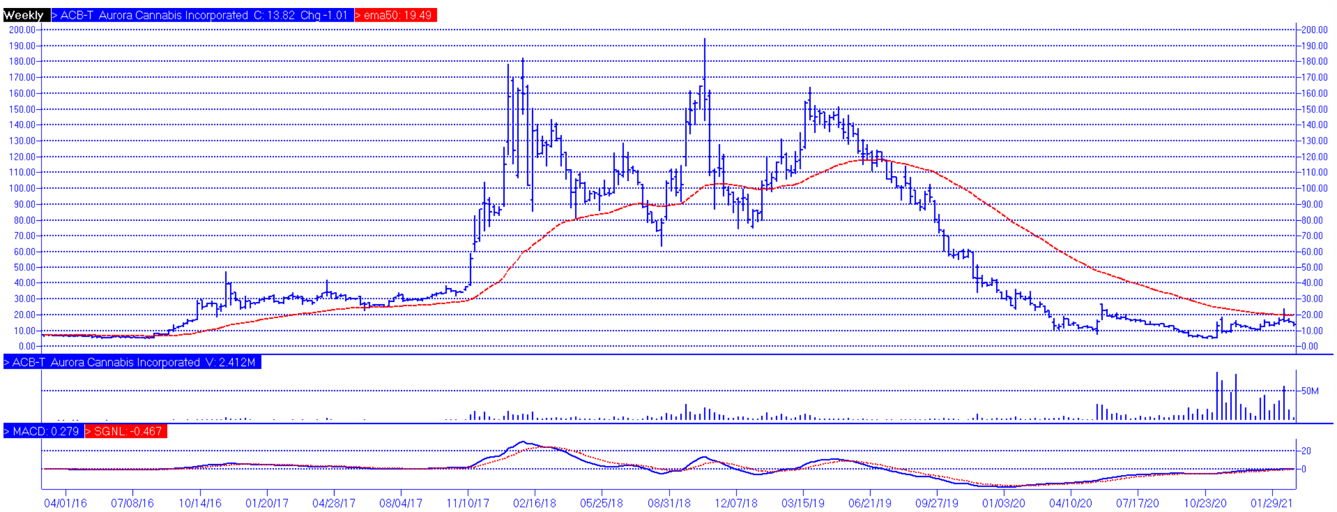
‘Technology & The Financial Printing Press’ – Jamie Catherwood – Feb 2021

https://canvas.osam.com/Commentary/BlogPost?Permalink=technology-and-the-financial-printing-press

We’ve been fielding calls & emails from clients who’ are worried after reading we’re in a stock market bubble that is about to burst spectacularly (David Rosenberg et al.) I’ve addressed some of the bubble media narrative last Friday and continue with this week’s notes.

For certain sectors, prices are definitely in bubble territory. The Cannabis Craze saw financial companies rush to create ETF to feed investor’s bad case of the munchies for pot stocks, with predictable results.

Aurora Cannabis Corp (ACB-TSX-$13.74) Weekly 5 years



After going public at $5.00 in 2008, Aurora languished until 2014 when it appeared Mr. J Trudeau might be a force in politics. With the Liberal election win in Oct/2015 their platform promise of legalizing pot caught investors imagination. Two year later in Oct/2017 Aurora traded around $36, then the bull began to run taking the stock price over $140 in Jan/2018, Sept 2018 and April, 2019. The bubble burst and the stock price collapsed. The blogsphere was full of ‘canary in the coal shaft’ type stories, conflating the Cannabis Craze with ‘excess money, low interest rates, decline in Canada’s morality, crumbling economy, etc. would lead to a crashing stock market. This narrative proved partially correct, but it took an inverted yield curve in the summer of 2019 (see our repeated warnings from that period) and the entirely unexpected COVID-19 pandemic to make it come true. The pot-binge had little to do with the subsequent market flop.

With Bitcoin being all the rage, we are now seeing ETF generators pumping out product. Mr. Musk of Tesla, never one to let a hot topic go to waste, got in on the show saying Tesla would accept Bitcoins. I note that unless Tesla’s creditors are also willing to accept said Bitcoins, I’m not sure how that works. But what do I know. I’m not trying to ‘call a top’ for this one – no dog in the fight – but I note that last week's $10.00 IPO Bitcoin Trust offering by Purpose Investments (BTCC'B-TSX-$8.80) immediately cratered. Today sitting around $8.80. -12%. Thanks for showing up.

The following post by Ray Dalio sums it up.

'Are We In a Stock Market Bubble?' – Ray Dalio – Feb 23, 2021

https://www.linkedin.com/pulse/we-stock-market-bubble-ray-dalio

'They Want Max Vol' – Michael Batnik – Feb 21, 2021

https://theirrelevantinvestor.com/2021/02/21/they-want-max-vol/

'Absolute vs relative' – Anand Sridharan – Feb 22, 2021

"We are overly influenced by immediacy. To counter this, our investment framework needs to be way more absolute than relative. (4th essay of series on greyness & contradictions)"

https://buggyhuman.substack.com/p/absolute-vs-relative

'When Everyone's a Genius (A Few Thoughts on Speculation)' – Morgan Housel – Feb 24, 2021

https://www.collaborativefund.com/blog/speculation/

'Soaring U.S. Incomes Help Drive Biggest Spending Gain Since June' – Bloomberg – Feb 26, 2021

https://www.bloomberg.com/news/articles/2021-02-26/u-s-incomes-soared-in-january-helping-drive-personal-spending

'S&P 500 Earnings: V-Shaped Recovery' – Ed Yardeni – Feb 2021

http://blog.yardeni.com/2021/02/s-500-earnings-v-shaped-recovery.html and finally a bit of cold water….

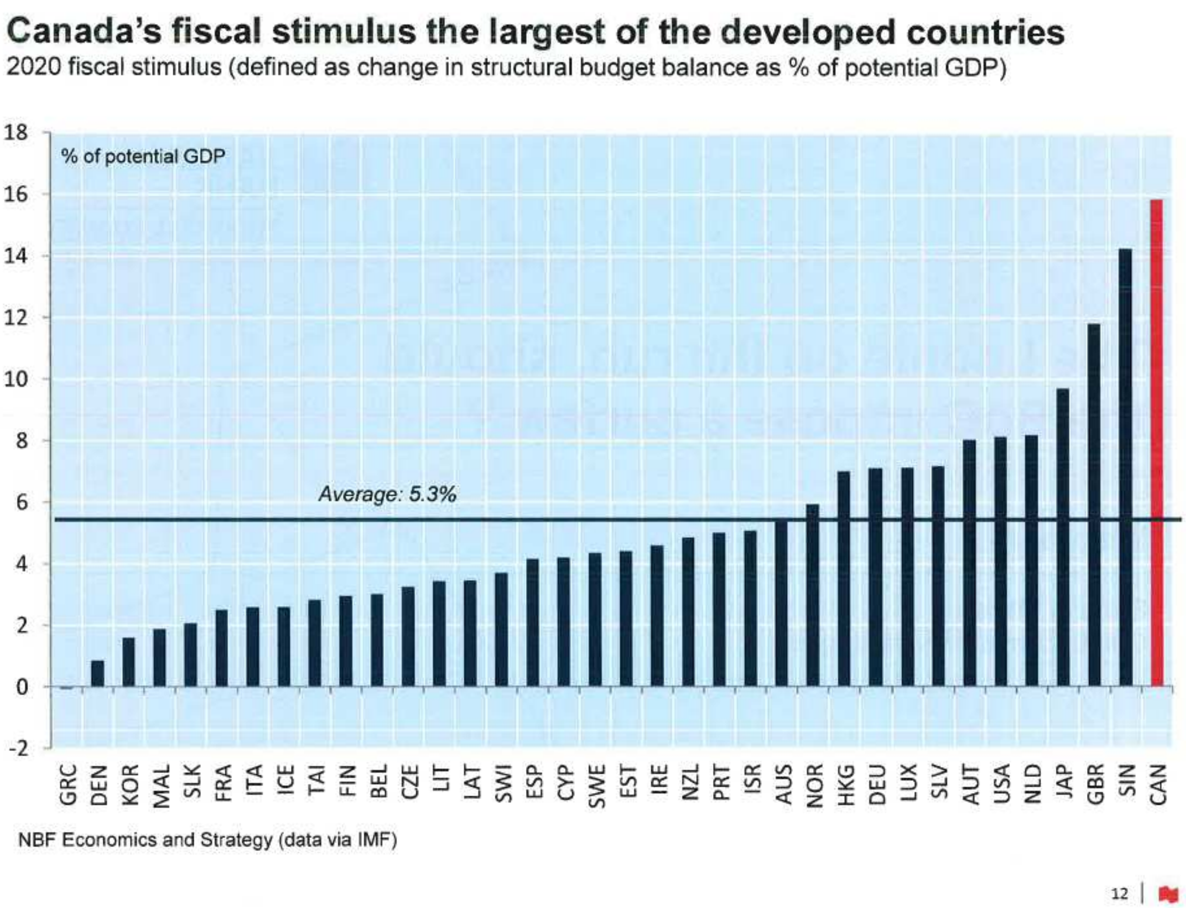
'Overstimulation on the Way' – Brian Wesbury – First Trust – Feb 22, 2021

Mr. Wesbury follows on our comments from last week that Govt's tend to pour the gasoline on after the economy has already caught fire, resulting in more than needed money. Never fear. The remedy is to pull some money back out. Yes that will mean some tightening. Happens in every cycle. This one is unlikely to be any different.

https://www.ftportfolios.com/Commentary/EconomicResearch/2021/2/22/overstimulation-on-the-way

Speaking of getting stimulated…some like it hot!

Stefane Marion Client presentation – Feb 9, 2021



For the full presentation, see PDF:

The Loonie on the run, should the BoC impose a curfew – NBF, Stéfane Marion

**Find this PDF in the attachments*

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Moving on to COVID-19 vaccinations…

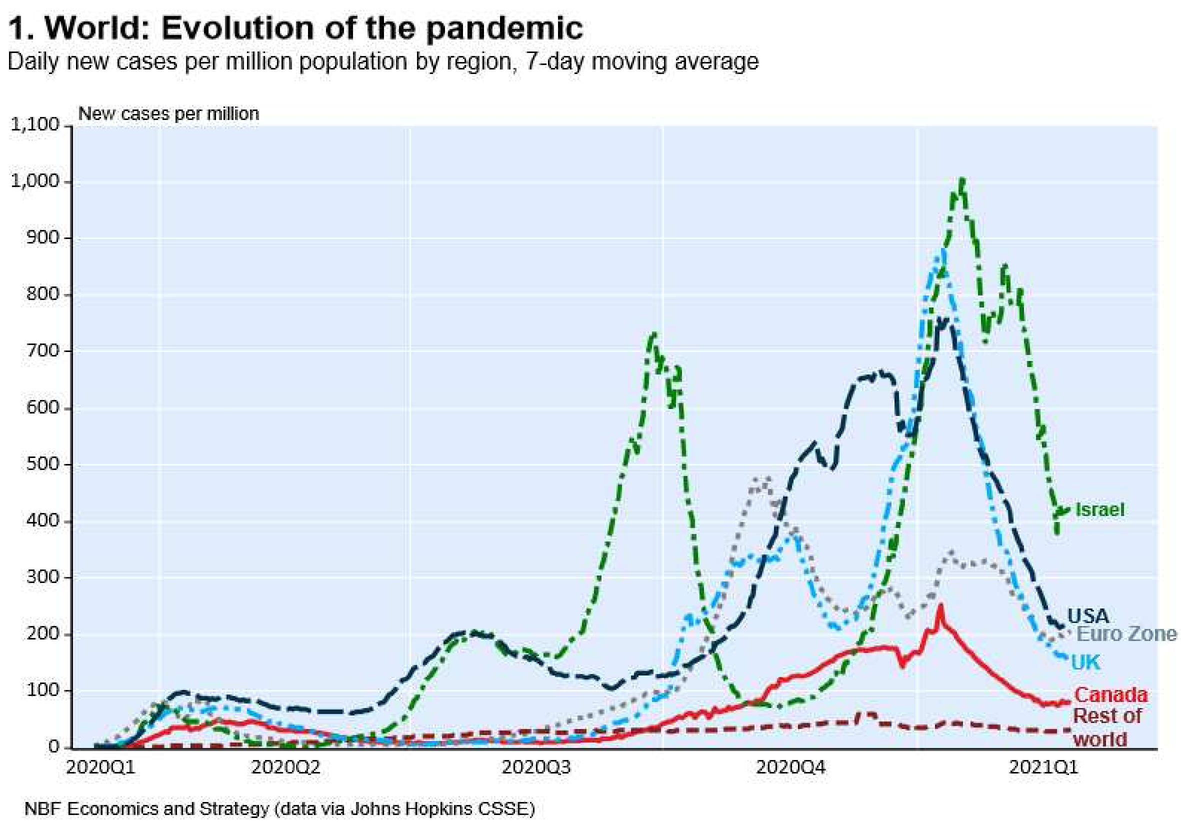
Feb 25, 2021: An interesting data point on what to maybe expect as vaccination momentum continues, covid-19 case counts drop and lockdowns/travel restrictions ease.

> **Fat Tail Capital**
> @FatTailCapital
>
> $BKNG with some of the most detailed color on travel recovery I've seen so far.
>
> "...in Israel, where vaccination rates are the highest in the world... we quickly saw domestic bookings return to solid double-digit growth versus the same period in **2019**."

Source: Twitter/NBF daily notes

There has been much discussion of a '3rd wave' based on the UK Variant in the media of late. My medical professional clients tell me this isn't a frivolous fret, but so far the vaccine's appear to be doing the job. The bond and stock market's think so too.

National Bank COVID-19 Daily Monitor – Feb 26, 2021



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For the full repost, see PDF:

COVID-19 Daily Monitor – February 26, 2021 – NBF Economics and Strategy

*Find this PDF in the attachments

I usually avoid discussing the company I work for. National Bank's latest quarterly earnings numbers are too good not to share.

'National Bank of Canada – Running short of superlatives to describe the quarter' – Gabriel Dechaine, NBF Bank Analyst

See the research notes, PDF:

National Bank of Canada – Running short of superlatives to describe the quarter – NBF

*Find this PDF in the attachments

DISCLAIMER: I hold National Bank shares personally, in family member accounts, and for client accounts over which I have trading authority. We have traded in the stock within the past 60 days. We eat our own cooking.

The bottom line is, interest rates and stocks are up for the right reasons.

Hold on to your hat!

February 26, 2021

Have a Great Weekend!

THE HILBERRY TEAM

FOR THE RECORD – FEB 26, 2021

DOW INDUSTRIALS:	**30,932**
S&P 500:	**3,811**
S&P/TSX COMP:	**18,060**
WTI:	**$61.39**
LOONIE IN $USD:	**$0.7863 $US**

(nearing the 5-year resistance point)

Anna Hilberry's YouTube Page

NBF – Hilberry Group website

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