The Easter Edition

Many of our clients have children or grandchildren who are just starting the investment process, Anna's latest video discusses how to set those "Good Habits" that our more seasoned clients well know:

Watch Anna's Video Here:

https://www.youtube.com/watch?v=1JTgpg90n88

Covid….Where are we?

The news is full of COVID-Variant gloom. Discussions with clients reveal angst and concern. Many are amazed to see their account values at all-time highs. Some have been reading it's all a 'Sugar High' (science says there is no such thing in human metabolism) induced by excess money being injected into the economy by Central Banks.

It is true massive stimulus has been applied in many G-7 countries. The US Fed and the Bank of Canada have both feet firmly planted on the gas pedal leaving the brakes untouched. Other than the amount of stimulus, the timing and likely economic response follows previous economic cycle script as follows:

- Economy gets hot. Fed tightens money (summer 2019 – as we pointed out)
- Stock market peaks then drops, bottoming BEFORE the economy bottoms.
- Economy tanks…bottoms 6-9 mos after stock market bottoms.
- Fed pours money into the economy. As per the past they err on the side of excess. The stock market has already bottomed.
- Economy rebounds. Initial bounce is well within capacity to produce, meaning an instant and large jump in profits to corporations providing the goods (just turn the lights back on and start making things again).
- Workers get their jobs back.
- Economy expands further…

The above usually takes us out 3 years+ into the future. Eventually the demand for labor translates into bargaining advantages for workers, wages rise, inflation picks up as the cycle matures. This latter stage is usually 7yrs or so - the 'Seven Year Itch' – from the previous trough. So the cycle part is very much on a normal path.

The size of the stimulus means that this surge is much more likely to happen and is more likely to be larger than normal. This is unsurprising as the COVID-19 induced 2020 contraction was faster and deeper than normal. As per script, Central Bankers are nowhere near tightening the cost of money. Stock prices rising and bond prices falling confirms this process is already well underway. Earnings will increase and so will inflation. Eventually the stimulus and associated deficits must be paid for, implying tax hikes…eventually.

'High Octane Earnings' – Ed Yardeni Mar 30, 2021

Ed Yardeni walks us through the coming earnings expansion part discussed above.

He summarizes his findings at the end of his commentary as follows:

(5) S&P 500 targets and valuation. Even though I am raising my forward earnings targets, I am keeping my S&P 500 stock price targets at 4300 and 4800 by the end of this year and next year. That buys me a bit more wiggle room on our valuation multiple assumptions, which are now 21.5 and 22.9 for the end of this year and next year (Fig. 19). The multiple is currently 21.6.

"One of my accounts asked me whether I should lower my outlook for the forward P/E given that I am predicting that the 10-year US Treasury bond yield is likely to rise back to its pre-pandemic range of 2.00%-3.00% over the next 12-18 months.

Normally in the past, I would have lowered my estimates for forward P/Es in a rising-yield environment. However, these are not normal times. In the "New Abnormal," valuation multiples are likely to remain elevated around current elevated levels because fiscal and monetary policies continue to flood the financial markets."

http://blog.yardeni.com/2021/03/high-octane-earnings.html

Brian Wesbury at First Trust Portfolio talks about tax hikes in the US. As elected officials of all stripes live to spend tax payer dollars, expect to see Canadian politicians jumping on an opportunity to increase tax revenues as well.

'Tax Hikes are Coming' – Brian Wesbury – First Trust – Mar 29, 2021

https://www.ftportfolios.com/Commentary/EconomicResearch/2021/3/29/tax-hikes-are-coming

Key to debates on deficits (do they matter? IE Modern Monitory 'Theory'-MMT) and taxes (does increasing tax hurt the economy?) is the relationship of wages to inflation.

The notion that rising wages beget rising inflation was postulated as a theory in the 1950's by A W Phillips, describing the relationship as curved on a chart. The 'Phillips Curve' was borne.

Central Bankers have included inflation and employment in their mandates since the 1970's. The 'Dual Mandate'. If rising employment means rising wages, and rising wages means inflation, understanding this relationship could be useful for predicting the direction of interest rates. If it turns out there is no longer a relationship between wages and inflation, we can pump money into the economy with no ill effect on inflation, interest rates, and thus little concern for deficits…Whooo Hooo! Progressive Utopia.

'Is the Phillips Curve Still Alive?' – St Louis Fed May, 2020

The US St. Louis Federal Reserve Bank (FRED St Louis) studied this question in the spring of 2020. We trotted it out last year. Warning it's a very technical piece.

https://files.stlouisfed.org/files/htdocs/publications/review/2020/05/01/is-the-phillips-curve-still-alive.pdf

What does this mean for our clients?

We remain positioned for an expanding economy. This means we have our equity allocations at the maximum limit and have our bond allocations at the minimum limit. Within the bond allocation, we have biased the maturities towards the very short-term. We expect to roll these maturities over into higher rates in the next 2 years or so. In the meantime, keeping maturies short avoids market price declines. Here's why.

iShares 20 yr Treasury Bond ETF (TLT-$USD) Weekly Ranges 2 years

The price spike to over $175 on the chart in March/2020 matches investor flight to 'safety' during the COVID-19 panic. Last trade $137 – 19.4% from the 2nd quarter of 2020. Investors who panicked and sold stocks , that had already declined 35%, and bought long-term bonds a princely yield of 1.4%, then saw the market price decline by another 20%. Safe? Not. As with the Ballard Power chart above, the past year has provided many ways to lose money, confirming it's often what you don't do that matters.

Shareholders vs. Stakeholders

Speaking of progressive ideas, 'Stakeholder-ism' refers to the idea that corporations, (mostly big ones) owned by shareholders, should be guided by the interests of all the 'stakeholders' affected by its activities vs. only those of the shareholders. Sounds reasonable. The challenges rapidly mount.

Who is a 'stakeholder'? What are their issues? If stakeholders have none of their own money at risk, what 'stake' and what say should they have? Should Governments be able to enforce these notions on corporations? Or activist investors? Or activist populist politicians (Venezuela?)

There is no law preventing 'stakeholders' from becoming shareholders. If, as advocates contend, a corporation's business is no longer only business, they are free to spend as much money as they wish to take over the company and enforce whatever behaviour they wish. As with many popular 'Progressive' ideas, this is not the strategy. The usual approach is to either shame, or force other people's money into behaving in the manner chosen.

While the idea is a grand one, and I believe all entities should behave honorably, in practice stakeholder-ism often devolves into platitudes and politically correct speak announcements or worse, succumbs to whichever agenda of the day is the loudest. The need to manage public relations vs. careful management of the shop, is consuming more CEO time these days.

The Financial Post's Terrence Corcoran – a grumpy bear on fashionable ideas - discusses last month's shareholder revolt that saw the tossing out of Emmanuel Faber as CEO of Danone, the French distributor of brand-name yogurt and *Evian* water over corporate purpose. Shareholders, whose money was being lost, rebelled.

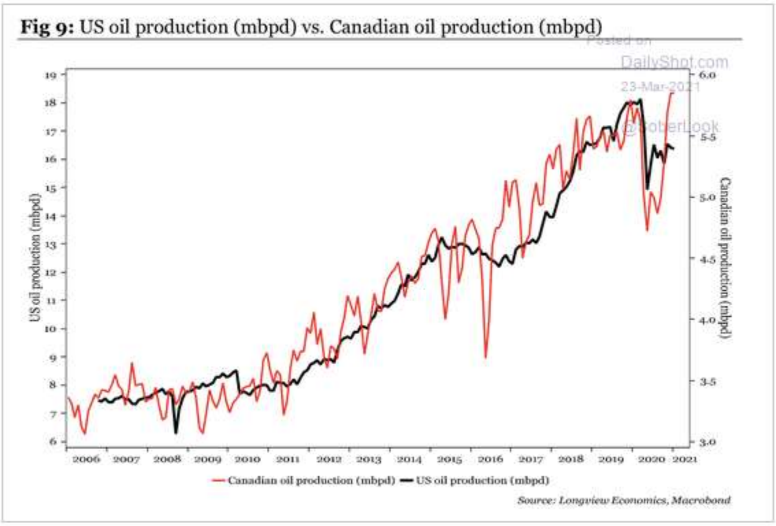
‘Terence Corcoran: Tear down the ESG statues’ – Financial Post Mar 31, 2021

Shareholders topple Danone CEO over corporate ‘purpose’

https://financialpost.com/opinion/terence-corcoran-tear-down-the-esg-statues

WSJ Daily Shot 23-March-2021

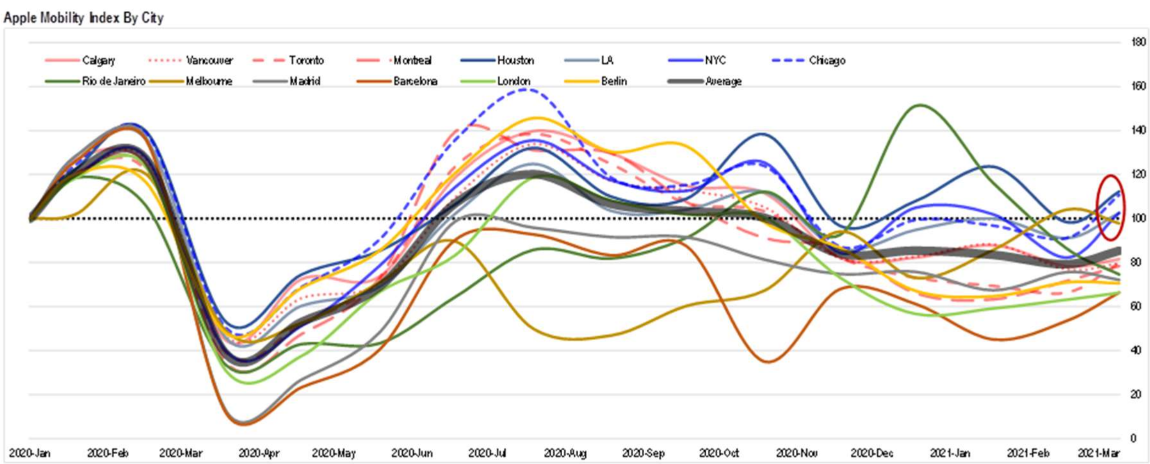
While US production growth is on pause for the foreseeable future, as the largest US shale operators focus instead on capital discipline, FCF and shareholder returns, Canadian production levels have now set a new high.



Source: Longview Economics, The Daily Shot

Excerpt from NBF’s ‘Before the Bell’ for Wed Mar 24, 2021 on getting back to normal – Apple Mobility updates

- However, keep in mind that this return-to-normal trajectory is also uneven as **Apple mobility data shows that most major centers have returned to normal while a lot of international cities are still 20-40% less mobile compared to before the pandemic**. Los Angeles, NYC, Chicago and Houston are all “back” (blue lines below), while London (light green), all of Canada (red), and Berlin (yellow) have all lagged the US. Another takeaway from this data is that are plenty of regions that remain in the middle of another surge, as Brazil continues to see cases spike and not enough hospital capacity or available vaccines – Rio de Janeiro (dark green) shows how the latest surge has held back demand in a country that consumes ~3 MMb/d. On average (in black), mobility still lags last year by ~17%.



Source: Apple Mobility, NBC

Steve and Anna's Take: This chart tells me the US is on track to return to that country's 'Normal' sooner than Canada and much of the rest of the world. As an investor I should remain invested in ways to benefit from an expanding US economy, by continuing to own US stocks. To me that means large cap dividend payers, and with a nod to the Capitalists, I should be pleased to be able to do so. The chart confirms…

"The United States always does the right thing…after having first tried everything else"

\- Winston Churchill

and yes, this attribution is disputed but I like it anyway. For history of the quote: https://quoteinvestigator.com/2012/11/11/exhaust-alternatives/

The verdict is in: Supreme Court upholds federal carbon tax constitutionality...Mar 25, 2021

This story got a lot of airtime with political parties revving to their base voters.

CBC had this take:

https://www.cbc.ca/news/politics/supreme-court-federal-carbon-tax-constitutional-case-1.5962687

The Financial Post was less effusive:

https://financialpost.com/opinion/terence-corcoran-carbon-tax-green-light-flashing-red

One might expect a formal decision by the Supreme Court confirming the constitutionality of a Carbon Tax (one should read the dissenting opinions carefully) might cause the share prices of power producers, many still reliant on hydro-carbon power, to decline. That would be wrong.

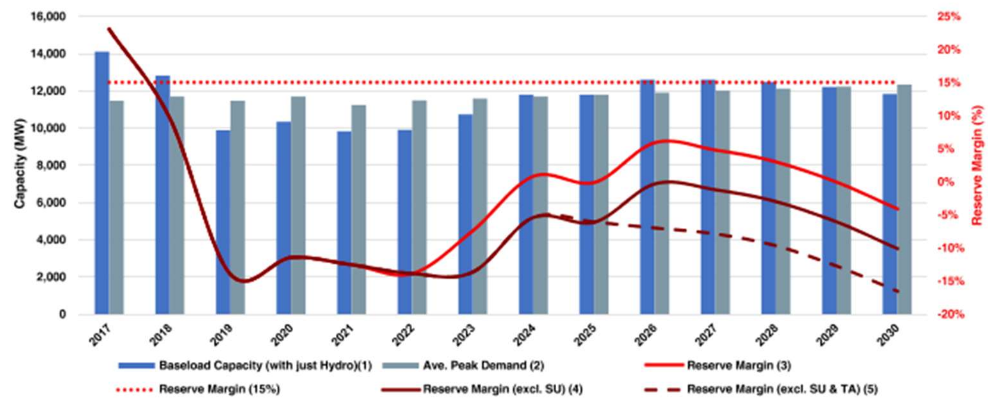
Capital Power (CPX-TSX-$36.86) two weeks – 15-min intervals
Day price action of Supreme Court Decision Thurs March 25 – green box

The share price of CPX declined BEFORE the decision, roughly $1 /-2.7% from the Tuesday AM peak to the Wed March 24 trough at the close. After the decision the market price has regained to the previous highs. The market had the decision priced in. No surprises.

NBF's Power and Utilities analyst looks at the impact of this decision on Canadian electrical power producers, explaining why the stock is up:
"Morning,

Yesterday the Supreme Court of Canada released its decision on the constitutional validity of the federal carbon tax, ruling 6-3 in favor of the federal government's jurisdiction. Recall, the Alberta Court of Appeal sided with Saskatchewan, Ontario, and Alberta in its claim the Greenhouse Gas Pollution Pricing Act oversteps Provincial jurisdiction to develop its natural resources. Can't say the Supreme Court decision comes as a total surprise. The Supreme Court stated that Parliament has a right to enact this law out of national concern. While this outlook for a more aggressive approach to carbon pricing already feels at the least partially baked into the upstream sector, one group who may stand to benefit is the power sector. Analyst Pat Kenny notes that although the headline of a federally mandated price on carbon increasing in magnitude by more than fourfold this decade appears alarming, for Alberta power players (CPX, TA) they have already largely realigned their strategies for the future "carbon-neutral" economy. Currently, we calculate the Alberta Reserve Margin remaining <15%, confirming the market's steady call on higher cost mid-merit or peaker capacity within the stack – i.e., during periods of low wind or solar resource, power prices will continue to reflect the marginal cost of gas plants, including full carbon tax burden. Our current long-term Alberta power price assumption of $54/MWh is a function of renewable generation bidding into the market during periods of strong wind/solar utilization at ~$30/MWh (~1/3rd of the time) and gas-fired plants bidding in at ~$70/MWh during periods of low wind/solar contributions to the grid (~2/3rds of the time). Meanwhile, with its portfolio of assets sitting at the lower end of the stack, we continue to highlight CPX as the leading benefactor from a rising variable cost environment as older competing units continue to require a higher spot price to clear the market – i.e., the marginal cost of power will rise as the higher carbon tax increasing the price less efficient thermal units bid into the market."

Exhibit 1: Alberta Reserve Margin



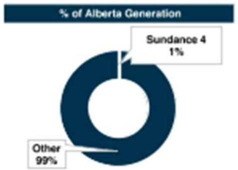
(1) Assumes 0% capacity factor for wind, and 0% for solar/biomass and 67% for hydro, as per the AESO 2019 Long-term Outlook

(2) Assumes decreased peak demand by 100-450 MW from 2021-2023 from lower oil sands activity and COVID restrictions. After 2023 peak demand grows at 0.9% per year, as per the AESO 2019 Long-term Outlook

Exhibit 2: Marginal Cost of Supply

SUNDANCE 4 ($50/tonne)

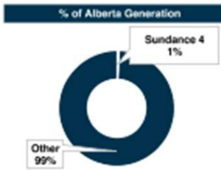
% of Alberta Generation



Cash Cost Breakdown		
Total Capacity per plant		113 MW
	($ mln)	($/MWh)
Fuel Costs	$7,750	$26.50
Fixed Costs	$4,250	$14.50
Variable Costs	$750	$2.25
Carbon Costs	$7,250	$24.00
Sustaining Costs	$1,750	$5.50
Total	**$21,750**	**$73.00**

SUNDANCE 4 ($170/tonne)

% of Alberta Generation



Cash Cost Breakdown		
Total Capacity per plant		113 MW
	($ mln)	($/MWh)
Fuel Costs	$7,750	$26.50
Fixed Costs	$4,250	$14.50
Variable Costs	$750	$2.25
Carbon Costs	$24,250	$81.50
Sustaining Costs	$1,750	$5.50
Total	**$38,750**	**$130.50**

Note: Assumes 0.85 emissions intensity and $2.40/mcf AECO price

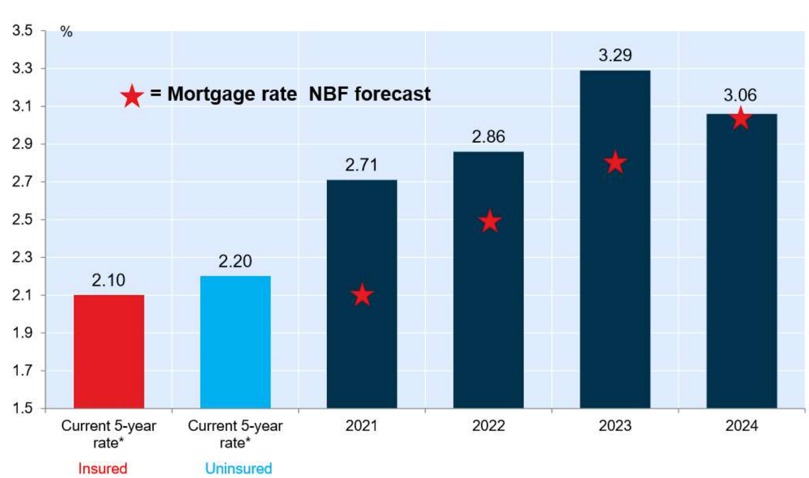
Source: Company Reports, NBF Estimates

DISCLOSURE: I own Capital Power personally, hold it for family members and in accounts over which I have trading authority. We have traded in the security with the past 60 days.

NBF HotCharts March 30, 2021

Canada: No interest-payment shock in sight

Current 5-year mortgage rate, contractual rate of existing mortgages by year of renewal



NBF Economics and Strategy

'The time has finally come': Hydrogen fuel cell companies in Canada take off after toiling in obscurity for years – Financial Post March 30, 2021

https://financialpost.com/commodities/energy/the-time-has-finally-come-hydrogen-fuel-cell-companies-in-canada-take-off-after-toiling-in-obscurity-for-years

Gravity Sucks: Parabolic charts are bad for your portfolio.

Ballard Power (BLDP-TSX-$28.69) Weekly ranges – 2 years

We've mentioned Ballard Power in previous Readings. I'm on record that hydrogen fuel cell technology MIGHT be a viable alternative to hydro-carbon fuels and that Toyota might be taking the correct approach to this strategy, and the Ballard Power might be an interesting speculative investment, I have also long advised clients to be cautious buying into 'parabolic' upward price curves. Ballard's price pattern in February/2021 was a case in point. Spiking from the $29 range in Dec/2020 to around $53 in February, at today's writing Ballard trades back to the Dec/2020 ranges. The ESG bulls have pulled in their horns.

For clients seeking exposure to hydrogen fuel cell tech (HFC), this might be an opportunity to nibble at Ballard. NOTE: With no earnings, no dividends, big questions surrounding cash flow and being entirely reliant upon both Canadian and international central Govt. subsidy policy, Ballard doesn't fit our risk parameters for our managed portfolios.

DISCLOSURE: No position in Ballard personally, for family members or for client accounts over which I have trading authority.

April 1, 2021

The buds are starting to bloom on the Maple Trees… Tomorrow is good Friday.

Have a Great Weekend!

[Anna Hilberry's YouTube Page]

[NBF – Hilberry Group website]

FOR THE RECORD JAN 22, 2021

DOW INDUSTRIALS:	33,153
S&P 500:	4,019
S&P/TSX COMP:	18,990
WTI:	$61.24
LOONIE IN $USD:	$0.7978 $US

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