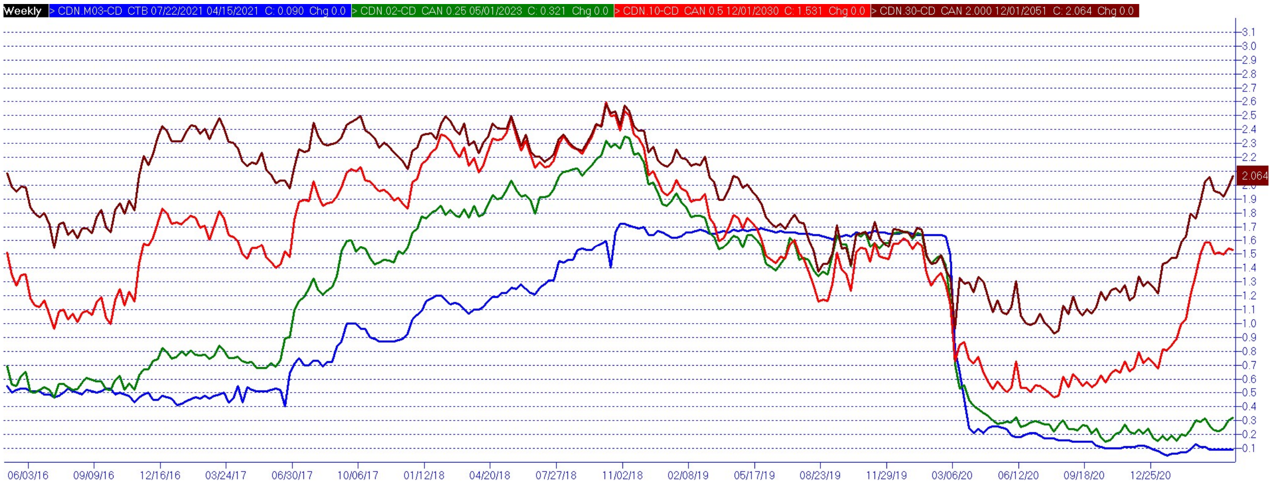
The Up, Up and Away Edition.

Bond yields are up. So are taxes. Any connection?

Govt of Canada debt issues by maturity- indicative yields - weekly 5 years

90-day blue 0.09% | 2-year green 0.32% | 10-year red 1.53% | 30-year burgundy 2.06%



The start of the slide on the chart begins in Nov/2018 with the valley bottoming out around Aug/2020. Investors have demanded higher interest rates since. Today's 10-year yield (red) is back to Dec/2016 levels with little sign of reversing. This tells me either, investors see a decline in purchasing power relative to costs that they must be compensated for, or they see the chance to demand higher rates due to higher demand for credit, or both. Let's break those down.

A typical 7-9 year economic business cycle sees a trough, expansion, peak then trough again. Happily, the expansion phase is the longest. Trough's are short, hard and nasty. They scare the wits out of investors, bringing some back to their senses. During scary times few wish to take on debt. Interest rates fall on less demand for credit. Interest rates usually bottom before the trough and start to climb in advance of the economy, signalling a healthier demand for credit.

We're coming out of a trough. Rates are up. Looks about right.

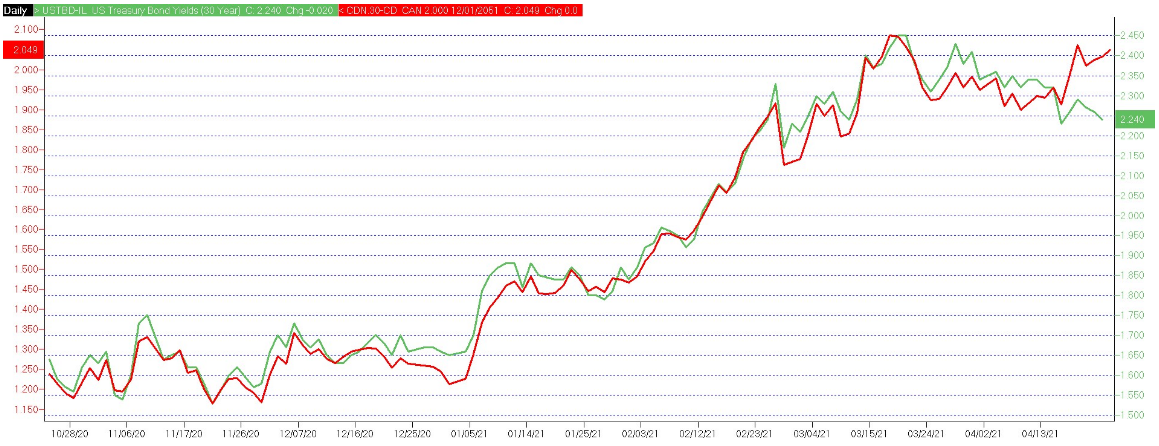
And…interest rates have also increased in the past when investors sense a coming decline in purchasing power due to rising inflation. If that inflation is the result of increased demand outstripping supply (in the short-term) again that's not a bad thing. It confirms a growing economy. Up to a point.

If inflation (the cost of basic goods) is rising due to constricting supply, against so-so demand that is a bad thing. The return of China as an economic powerhouse has meant a dramatic, and welcome, increase in supply of goods. The (partial) release of China's huge population from ideological constraint has meant a dramatic surge in productivity. The result has been 20 years of global consumers seeing inflation fall and goods becoming more available at steady or falling relative costs. It's that supply thing. The cost of almost everything consumed has gone down vs. incomes. Purchasing Power increased. Then Donald Trump arrived. Ideology showed up again on both sides of the political aisle. Tariffs and regulations have restricted supply. Trump's use of tariffs, opened a Pandora's jar of trade evils. We're now seeing politicians pondering tariffs to meet various other goals.

Think of the 1970's Arab Oil Embargo. Middle Eastern geopolitics saw a sharp constraint in the supply of oil, causing prices to skyrocket. Rising prices saw economic activity decline. The US and Canadian economy stagnated but inflation took off. The result was 'stagflation'. The Oil Embargo focused attention on Canada's oil patch.

Rising rates may also reflect the hit to purchasing power by rising taxes on income and other items. Politicians speak of 'taxing the rich' implying ONLY the rich will be taxed. The chart tells us increased taxes will eventually land on all of us. As rising borrowing costs hurt lower income investors more than the very wealthy, in the end, raising income taxes prove regressive not progressive. As the connection isn't immediate to middle class consumers, 'Tax the Rich' sounds easy.

This next chart compares the yields on US Fed Govt (green) vs. Govt of Canada (red) 30-year bond yields – daily ranges 6 months.



Note the tight correlation suddenly breaking down on the right end. The deviation begins on April 15th. Investors in these two issues suddenly are seeing different risks. It's early days, and this could simply be very short-term portfolio positioning by institutions. Being ten times the size of Canada a small US portfolio shift there has huge effects here. As Canada's COVID response has been much slower than the US and our COVID recovery has been weaker, I doubt this widening reflects more enthusiasm for Canada….unless oil prices are heading to $100 (maybe?). Or are potential tax changes also in the calculation? I'm watching this relationship.

'Joe Biden is eyeing a capital gains tax as high as 43.4% for wealthy' – Financial Post – Apr 22, 2021

Getting this tax hike through Congress could be a challenge. If the combined US income tax rate hits the 50%+ levels noted in the article, it could add fuel to Canada's current political passion for higher taxes. BC's top rate already exceeds 52% and hits at much lower income levels than in the US. We'll see.

https://financialpost.com/personal-finance/high-net-worth/joe-biden-is-eyeing-a-capital-gains-tax-as-high-as-43-4-for-wealthy

Turning to energy. Notes from NBF's Energy Desk

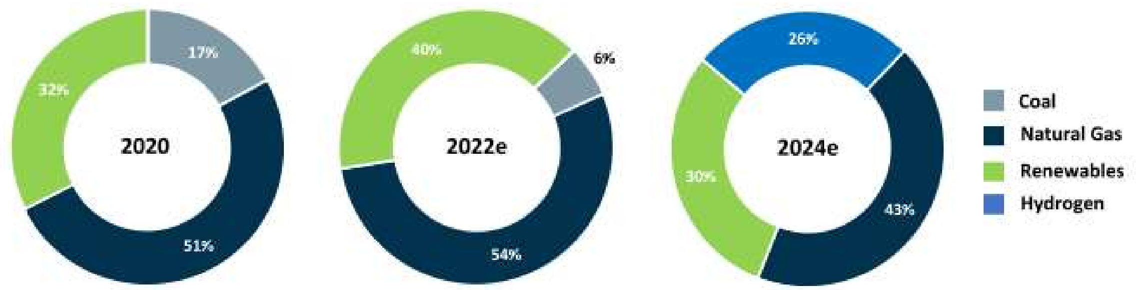
Capital Power (CPX-$37.97) Anheuser Busch-Inbev (BUD-$67.31)

For all you do…this Bud's for you. Capital Power (CPX; OP; $44T) announced it has entered into a Virtual Power Purchase Agreement (VPPA) with Budweiser Canada for 51% of the electricity generated from its 75 MW Enchant Solar project in Taber, Alberta (online Q4/22), supporting Budweiser's sustainability initiatives, including a commitment to crafting its beer with 100% renewable electricity. This deal helps to validate CPX's strategy of collaborating across industries to support economic decarbonization.

- CPX continues to progress towards its own goal of carbon neutrality by 2050, supported by seven renewable projects under development representing 425 MW for ~$665mm, adding ~$70mm of annual EBITDA upon completion through 2022;

- With a capital commitment target of $500mm/yr towards renewable developments and mid-life U.S. natural gas acquisitions and continued demand for renewable corporate offtake agreements, we note demand pulls support for the sanctioning of potential renewable opportunities within company's resilient pipeline, including eight solar sites (360 MW) and nine wind farms (1,129 MW).

Exhibit 1: CPX Portfolio Mix Transition



Note: Assumes Portfolio optimization EBITDA is related to natural gas, carbon offset credits are related to renewables and Genesee 1 & 2 are 95% hydrogen ready in 2024; Fuel mix based on EBITDA contributions

Source: Company Reports, NBF Estimates

DISCLOSURE: I own both Capital Power and Anheuser Bush-Inbev personally, hold both for families and for client accounts over which I have trading authority. We have traded in both securities within the past 60 days. We are glad we own both!

CO2 emissions related to the energy sector are set to rise by 1.5bln metric tons in 2021

The biggest annual gain since 2010 with a major part of this being driven by coal consumption in China according to the IEA. Global coal demand is expected to rise 4.5% beyond the levels seen prior to the pandemic.

> *"High-carbon emission companies and industries in China will have to exit the market in the next 30 years if they can't cut down their emission, and this will bring about huge financial risks," Ma Jun, previously a member of the People's Bank of China's monetary policy committee, said at a briefing during the Boao Forum in southern China's Hainan province.*

Record Chinese Coal Burning to Drive Surge in Carbon Emissions

- Energy sector emissions will nearly recover from 2020 dip
- A rebound in coal power in Asia will push up carbon emissions

By William Mathis and Javier Blas

(Bloomberg) -- Chinese coal consumption is poised to hit a record this year, contradicting a view held by many climate change and energy experts that the voracious coal usage in the world's second-biggest economy had peaked.

A 4% surge in Chinese coal demand, coupled with higher consumption elsewhere in Asia, as well as in the U.S. and Europe, will trigger a large increase in carbon emissions, the International Energy Agency said, days before global leaders plan a virtual gathering to discuss the climate change challenge.

Source: Bloomberg

We've pointed out China and SE Asia carbon fuel demand, particularly coal, in numerous previous Readings. We've noted that despite what political leaders in SE Asia say they <u>will</u> do…someday…what they <u>are</u> doing is increasing consumption of the most inexpensive energy sources they can find to expand their economies at the lowest cost, lifting as many of their citizens out of poverty as fast as possible. Until Green Tech is less expensive than coal, this trend is likely to continue. T-shirts made in SE Asia are cheaper at Walmart than those made in Canada for a reason. The jobs and GHG emissions that go with making T-shirts are in those countries for the same reason. Canadians buying these T-shirts are in effect transferring the GHG emissions from Canada to those countries. It's complicated.

Those pondering Canadian energy GHG emissions policy should factor GHG emissions coming out of new coal-fired power plants being installed in SE Asia. China approved 38.4 GW new coal-fired capacity in 2020. Net of older plants being decommissioned, China's coalfired power capacity increased by 29.8 GW in 2020, dwarfing the rest of the world's reduction of 17.2 GW.

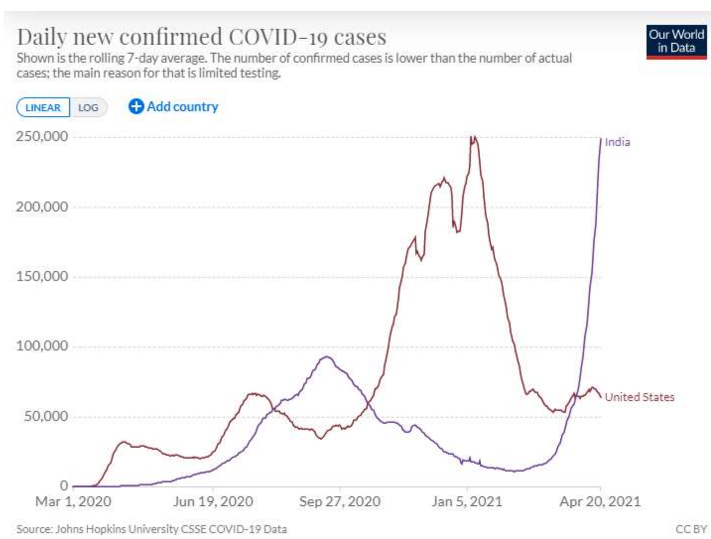
'China's new coal power plant capacity in 2020 more than three times rest of world's': study – Reuters Feb 2, 2021

https://www.reuters.com/article/us-china-coal-idUSKBN2A308U

Some perspective. British Columbia has installed electrical capacity of 18.2 Mega-Watts of electrical power. 91% of that is BC Hydro's 15.9 MW, most of it along the Columbia River. There are 1,000 Mega watts in 1 Giga watt. Each 1 Giga watt of additional Chinese coal-fired electrical capacity = 62 BC Hydro's. Replacing the roughly 30 Giga-watts of additional Chinese coal-fired electrical generation in 2020, would require the addition of capacity equal to 1,875 BC Hydro's in one year. Again, I'm not saying we should all try to be cleaner and greener. AS there's a lot of political heat on the issue, let's just keep it in perspective.

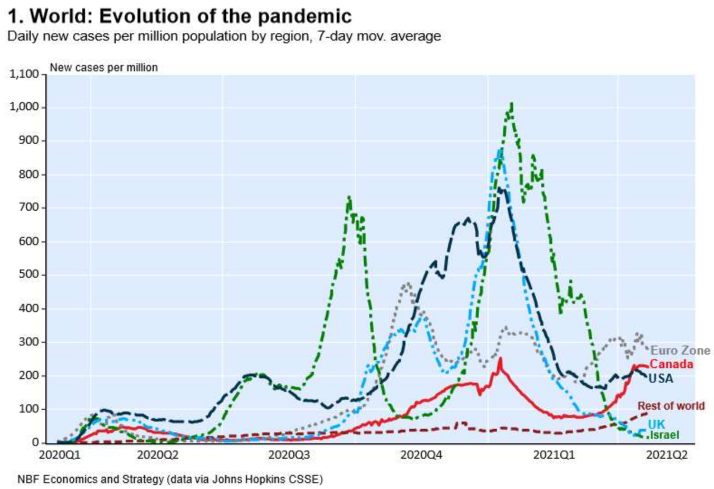
https://www.cer-rec.gc.ca/en/data-analysis/energy-markets/provincial-territorial-energy-profiles/provincial-territorial-energy-profiles-british-columbia.html

India continues to be the focal point in terms of the uneven recovery in the global pandemic – April 21, 2021



National Banks COVID-19 Daily Monitor

The above chart is alarming. Here is the path of the global COVID-19 panic.



Globally we're still seeing more good than bad signs. There are worrisome COVID trends in some areas. It's a race between vaccines, herd immunity and mutations. I'm still betting on human ingenuity. We remain positioned for growth, not recession.

'The Most Annoying Bull Market of All-Time' – Ben Carlson Apr 19, 2021

Mr. Carlson's post is required reading this week. It will be on the test!

https://awealthofcommonsense.com/2021/04/the-most-annoying-bull-market-of-all-time/

'Why Should Equities Be Fairly Valued?' – Joe Wiggins – Behavioural Investment April 20, 2021

https://behaviouralinvestment.com/2021/04/20/why-should-equities-be-fairly-valued/

'Endowment performance has sharply deteriorated since 2008' Larry Swedroe – Apr 21, 2021

https://www.evidenceinvestor.com/endowment-performance-has-sharply-deteriorated-since-2008/

'The Rage of Carson Block' – Institutional Investor Apr 19, 2021

https://www.institutionalinvestor.com/article/b1rgry7qgc7t9f/The-Rage-of-Carson-Block

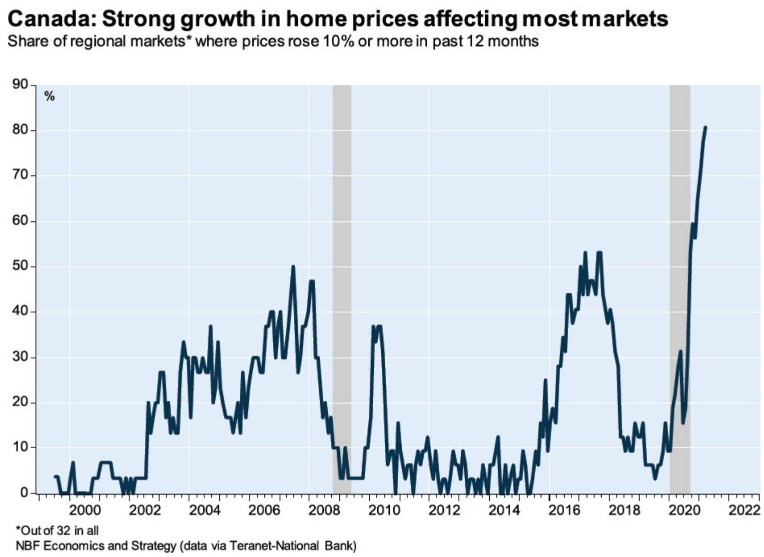
We've regularly mentioned the coming wave of millennials and their potential effect on the economy. The good news is millennial demand will drive the economy. For examples look at the Boomer effect in the late 1970's onwards as the moved from being 18-year old free-love Hippies to careers on Wall Street. The Boomer wave saw 30-year Govt bond interest rates at 15% in late 1981.

Thankfully I don't predict 15% any time soon but…keep that one in mind. This week Ben Carlson added some stats.

'The Two Most Underappreciated Forces Driving Markets Today' - Ben Carlson Apr 22, 2021

https://awealthofcommonsense.com/2021/04/the-two-most-underappreciated-forces-driving-markets-today/

Weekly Economic Watch – NBF – Apr 23, 2021



Being successful isn't about obsession, its about discipline.

For our young professionals, Anna reviews how much time you really need to spend on your finances.

Watch Anna's latest video here

https://www.youtube.com/watch?v=tuH8Il9RJl8

We'll close with two pieces of optimism

'Yes, Stocks are Still Cheap' – Brian Wesbury – Apr 19, 2021

Mr. Wesbury sums up the math why we should remain invested for growth.

https://www.ftportfolios.com/Commentary/EconomicResearch/2021/4/19/yes,-stocks-are-still-cheap

Investing during Steve's career

Our closing chart tracks Canada's S&P/TSX Composite Total Return Index (dividends reinvested) from the start of Steve's financial industry career in July/1989.

July/1989 6,574 | Apr/2021 70,321. $100,000 invested at my start date is now worth $1,069,683. That original $100,000 would now be generating projected dividend income of $28,860 (2.7% on today's value) Our model portfolio pays closer to 4.2% yield. Yes, this example excludes costs, taxes and whacky ideas of investors. For all the fretting, fire and fury, optimism combined with patience wins.

Steve & Anna Hilberry

Have a Great Weekend!

FOR THE RECORD

DOW INDUSTRIALS:	34,057 - flat
S&P 500:	4,182 - flat
S&P/TSX COMP:	19,098 - down
WTI:	$62.06 - flat
LOONIE IN $USD:	$0.8006 $US

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