HILBERRY GROUP
WEALTH MANAGEMENT

May 14, 2021

Patience is a Virtue

Market's sold off Tuesday and Wednesday. The media explainer narrative was that inflation fears had investors predicting Central Bankers will be forced to put their foot on the brakes, cranking up rates faster than expected.

The chart plots the yields on 30-yr US Treasury yields (green) over 30-yr Canada's (red) over the past 5 years.

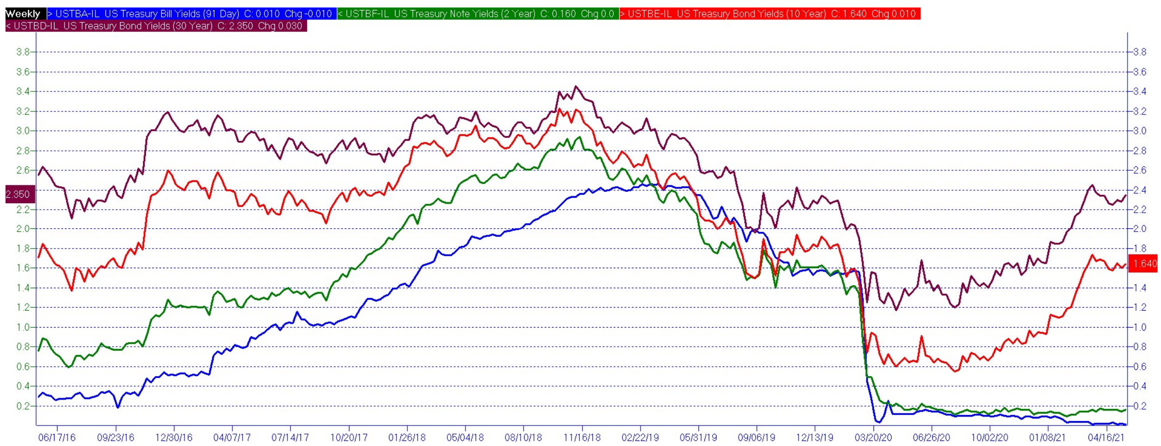
30-year government-back bond yields, are sensitive to inflation (30 years is a long time to wait to get your money back). The left hand margin starting yield for US Treasuries is 2.55%. The right hand ending yield is 2.35%. Yields for both US and Canadian bonds bottomed around 1%-1.2% in July/2020 as bond investors got over their 'flight-to-safety' COVID-19 panic and started to see an improvement in the economy. So yes, bond yields are up and yes they are predicting more inflation than was the case last summer. Broadly, US long term bond yields remain below the pre-COVID ranges. Canadian yields are approaching the previous ranges.

I should add that despite debt watchers worrying and grumbling about Canada's prolific spending (me too!), deficts and ballooning government debts, Canada's borrowing cost remains meaningfully below that of the US (red below green). Unlike the US Fed Reserve, the Bank of Canada does not have an internationally significant firehose it can bring to suppress our country's borrowing costs. This tells me, so far, versus the US, international money isn't concerned about Canada's ability to repay it's debts. Or maybe we're the best looking out of a bunch of shifty characters.

While I continue to fret about future inflation, the emphasis is on future. Not next month. Assuming we're much closer than expected to a series of central-bank induced rate hikes (I'm not convinced yet) past periods of escalating rates show the stock market does just fine for the initial period. As we stated in May/2019, it is only well after short-term rates are above long-term rates (2 year over 10 yr = 'inversion') that the economy stalls and stocks plunge. The stock plung lag post-inversion is often 6-months or more.

How far are we from a 'yield inversion'?

US Treasury Yields 5 years.



The 2-year rates currently hover around 0.16% (green). That's a long way from the current 10-year yield of 1.64% (red). Typically both sets of yields rise as the economy strenghthens. Up to a point, that's a sign of health. You can see that pattern from the left-hand margin to around the middle of the chart. In 2019 all rates compressed while the 90-day yields (blue) ended higher than 10 year yields (red). I'd expect to see 10-year yields above 3% this business cycle. I'd look for the 90-day rates above 3% and being over the 10-year, before I get worried.

What about the 'stagflation' argument? Those of us who lived through the 1970's recall Jammie-Lee Curtis' advice in the 1983s classic 'Trading Places' that she had all her money in T-Bills. T-Bills and Gold was the correct stance then. We're not there yet.

Investors who are broadly selling stocks today to avoid inflation are making a mistake.

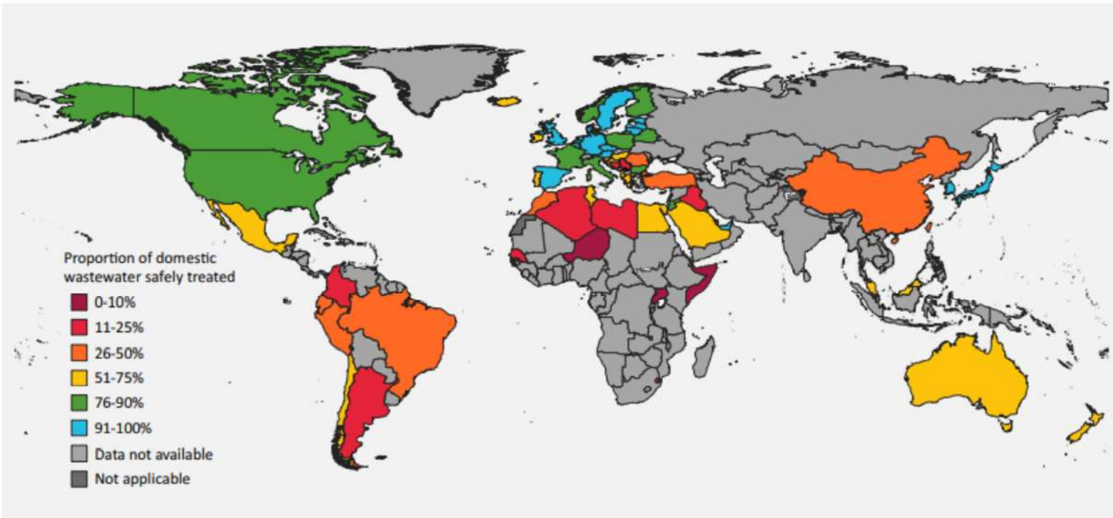
I don't dispute that some of the stocks we follow are less than cheap and a few are approaching expensive based on recent results. Note: "recent results". The economy is just turning the corner now. There's probably a number of years expansion to come. Other than trimming and rebalancing to mandates, we're not making a huge run-to-cash' call at this time.

NBF's Weekly ESG report

NBF's ESG analyst Amber Brown looks at water use and potential global scarcity

https://nbf.bluematrix.com/sellside/EmailDocViewer?encrypt=8112f68b-4b65-49b6-adba-fb1e3ab4bd4a&mime=pdf&co=nbf&id=josh.ochman@nbc.ca&source=mail

Exhibit 7: Global Wastewater Treatment

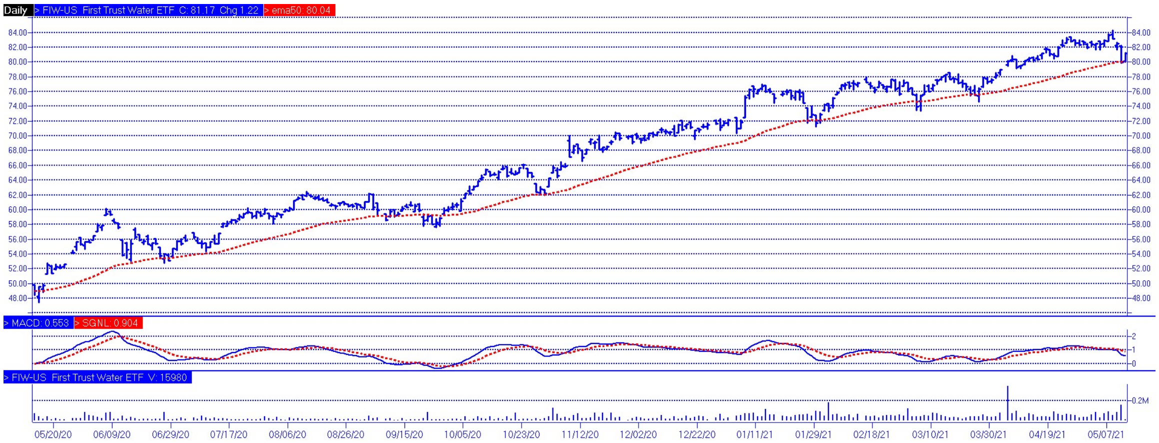


Source: United Nations Water, NBF

This chart plots wastewater treatement. Sewage systems are an obvious thing to identify - either you have one or you don't. Yet over half the areas on the chart are grey 'data not available'. The data may simply not be there (no treatment) or it's not being made available (China/Russia?) to the United Nations being the main data source for this study. Wait! Isn't the UN also understandably central to these kind of discussions? As we ponder the potential for a much needed global response to climate threats we should remember this chart. **For the full report see Weekly ESG in the PDF links section**

We added water focused investments in our portfolios in the early summer of 2020. Given liquidity issues, we opted to use an ETF (not our typical approach). We selected the **First Trust Portfolios Water ETF (FIW-$82.62)** trading in US dollars. It's up 51% from our initial buy-in.

First Trust Water ETF (FIW-US) daily – 1 year.



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

Meanwhile 'Green Tech' alternative energy ETFs have had a rough go since Jan/2021.

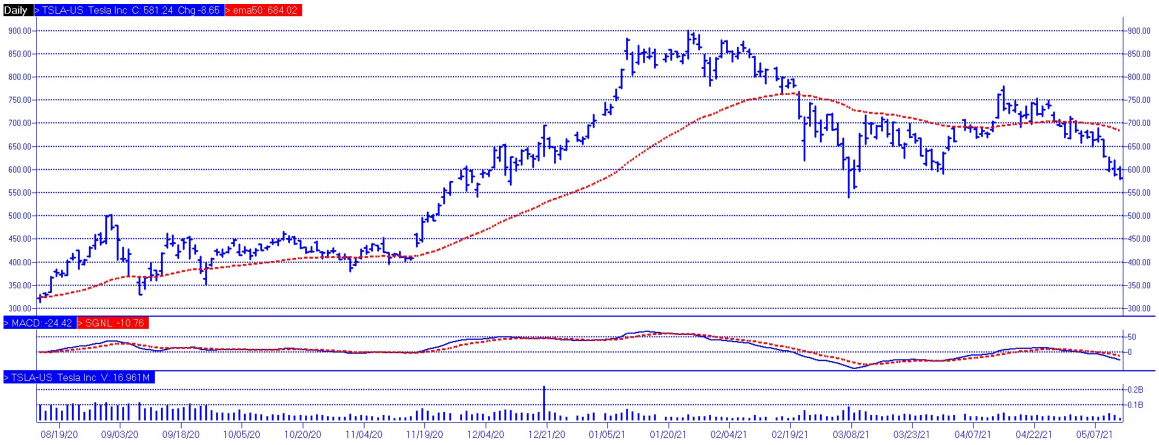
WilderHill New Energy Global Innovation Index (NEX)

Source: Bloomberg

Note: Chart shows end-of-day levels, not intra-day extremes.

The slide is likely due to NEX having a meaningful percentage in Tesla, down 36% from the Jan/2021 post-split highs around $900 USD

Tesla (TSLA-$577.50) daily – 9 months



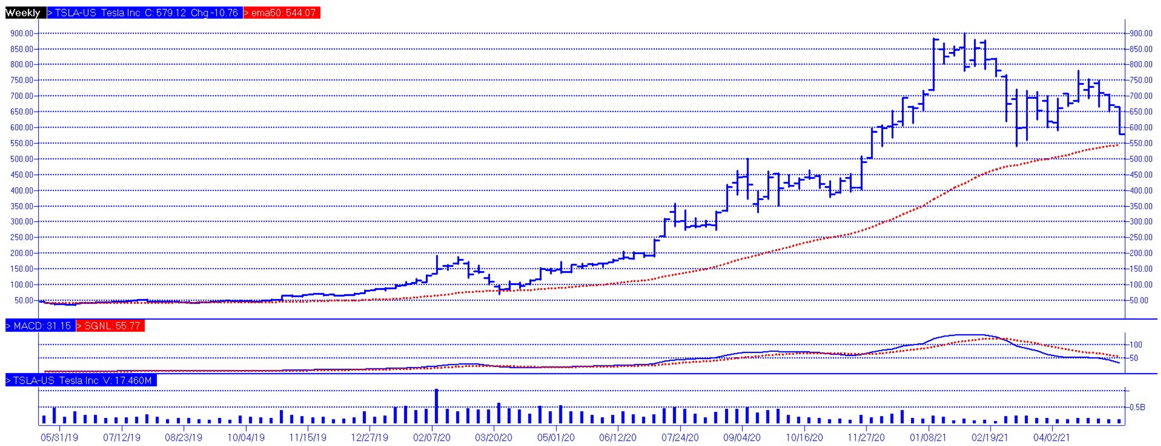
Some have attributed the Tesla sell-off to Elon Musk's appearance on Saturday Night Live (snl) last weekend. Dogecoin cryptocurrency-bugs had planned pizza and whiskey parties, with their cell-phones keyed to their discount trading accounts on the chance Elon would through them a bone. In one skit Elon 'joked' that cryptocurrencies were a scam. He then announced this week that Tesla would no longer be accepting Bitcoin (after announceing the company had made $110 million in profits in the first quarter trading the $1.1 billion they owned). The crypto-bugs were not amused. Crypto's crashed. Tesla sold off. An appearance on SNL now qualifies as investment advice. It's come to this.

We also got a story that one of Tesla's largest shareholders has been selling significant percentages of their holdings.

https://www.cnn.com/2021/05/06/investing/tesla-investor-sells-shares/index.html

To put the recent Tesla sell-off into perspective…the next chart starts at $42.21 and ends at $577. The weekly 52-week moving average (red line) is $548. Under this view, Tesla has simply 'corrected' back to an average price. Is this a sign of maturity or a sign of much worse to follow?

Tesla (TSLA-$577) weekly ranges - 2 years.



DISCLOSURE: No position in Tesla personally, family or for client accounts overwhich I have trading authority.

Our resident ESG expert Amber Brown will be doing a Green Revolution Series of conference calls, and the first one will be on Thursday May 27th at 10:00AM ET. Invite below.

This event will Feature Amy Kalt, Consultant of Analytical Services – Low Carbon Fuel Standards at Baker & O'Brien, Inc. Format: 20 Minute presentation by Amy, followed by 10 Minute Q&A session moderated by Amber.

Additionally – Here is an article Amy sent that was posted in RBN Energy's Daily Energy Post on April 27th, 2021.

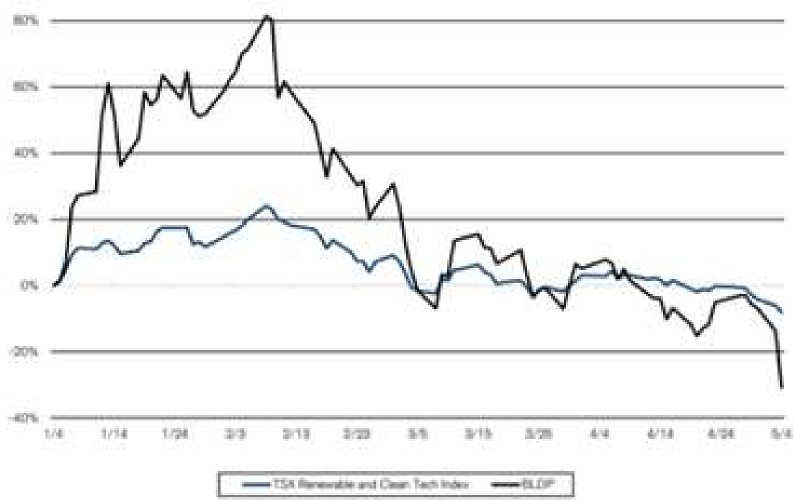
[Come Clean - California's Low Carbon Fuel Standard and Why it Matters (bakerobrien.com)]

'Canadian Infrastructure: Considering the Clean Contagion with the Ballard Power Ballast' – Credit Suisse May 5, 2021

While Ms. Brown is generally optimistic on the ESG space, Credit-Suisse updated their opinons on the Canadian Energy Infrastructure space last week with the following lead off comment.

- **Passive Pondering**: We don't formally cover **Ballard Power**; however, the stock's severe ~20% negative move on the reported results in a somewhat sloppy stock market is hard to ignore. In relation to our coverage universe, we note the significant presence of Ballard in a number of ETFs and various indices. Therefore, the downward performance of the fuel cell company looks to be somewhat responsible for a cascading series of negative impacts across a number of renewable power stocks. That "clean contagion" looks to exacerbate an already ample amount of downward momentum in this sub-sector from the start of the year. The secular business trends for renewables are very difficult to ignore, however, valuations are generally not as favourable as other sub-sectors in our infrastructure coverage universe – like energy infrastructure and some fossil skewed power generation. Yet, the most recent downdraft looks to reinforce a re-visitation of exposure to the sector's core names.

Figure 1: Ballard Power and TSX Renewables and Clean Tech Index

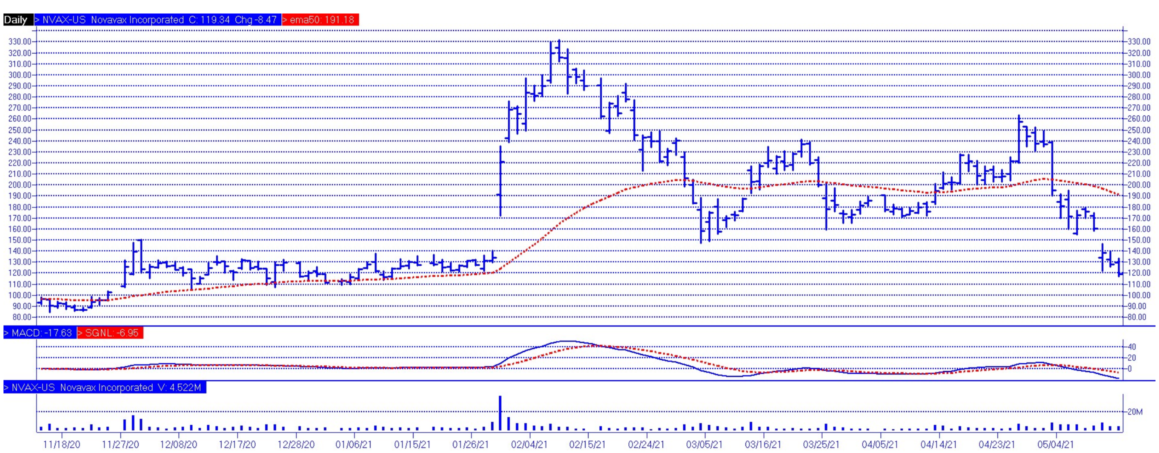


The issue of Ballard's share price impact on the broader Canadian ESG / ETF space points to the challengs for Canadian based ETFs focusing on our domestic markets. If a small portion of US investors take a shine or decide to pan, one of our companies, that price action will be small potatoes for their portfolios but has an outsized impact on the broader Canadian group. That's great on the way up. Not so much on the way down. A good example was Nortel Networks in the late 1990's tech boom. Nortel subsequently went bust.

Whats up (down) with the new vacinne makers?

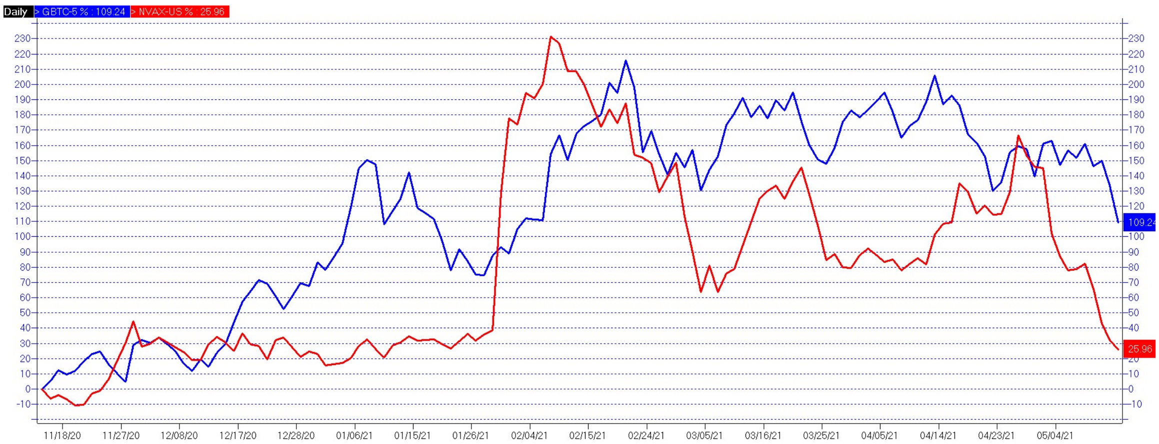
We were fielding questions from clients on US-listed **Novavax Inc (NVAX-NDQ-$119.62)** back in mid-April with the shares around $190. The stock price had flopped from all-time highs around $320 in early Feb/2021 (note the correlation with Tesla's price peak). Media pundits were recommending the stock based on COVID vaccine enthusiasm. We advised caution. What happened?

Novavax (NVAX-NASDAQ-$119.62) daily ranges – 6 months.



At today's price, Novavax is below the Nov/2020 – Jan/2021 ranges and well down from the spike in Feb/2021. As is so often the case, what you <u>don't</u> buy can be more important than what you buy.

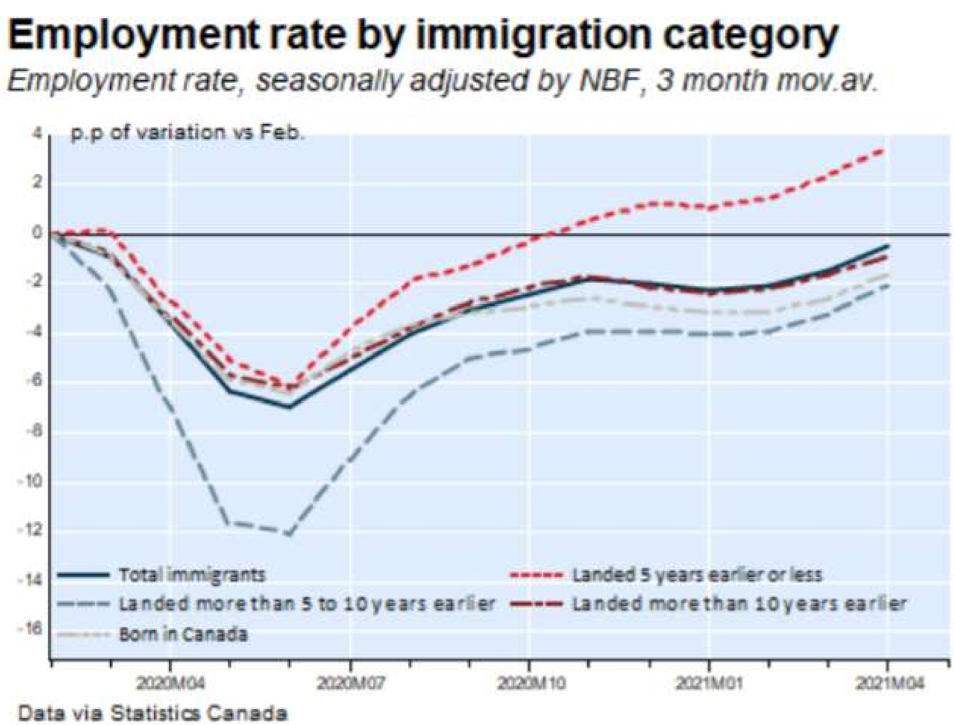
The next chart compares percentage changes for Novavax (red) and the Greyscale Bitcoin Trust (GBTC-blue) over the same past 6 months.



I don't believe the correaltion is simply random noise. When you experience **Fear of Missing Out (FOMO)** take two Asprin and wait for the itch to go away.

Moving on to the Canadian economy…we're revisting a topic from previous Readings on Canadian immigration.

Are immigrants good or bad for Canada's economy? Do they work more or less than those born in Canada?



Source NBF Economics and Strategy – May 7, 2021

Immigrants to Canada landed 5 years or less (red line) have the highest employment ratio of all groups of Canadian workers. As Canada screens immigrants on a points system biased towards younger, skilled workers, this makes sense. We may congratulate ourselves for this program's success, explaining Canadian's confusion over US immigration politics. Immigrants are good for Canada.

COVID-19 Daily Monitor for Friday May 14, 2021

https://nbf.bluematrix.com/sellside/EmailDocViewer?encrypt=4e080f42-90b3-4d8c-ac60-0f933dd8dbe4&mime=pdf&co=nbf&id=steven.hilberry@nbc.ca&source=mail

Is the end nigh?

The Canadian financial news media have been featuring bears lately. Here are a few stories. The Financial Post seems to like feeding the bears.

Stock markets have entered a valuation Twilight Zone — and history tells us it won't end well

https://financialpost.com/investing/stock-markets-have-entered-a-valuation-twilight-zone-and-history-tells-us-it-wont-end-well

FP Answers: Are markets headed in the same direction as the Great Crash of 1929?

https://financialpost.com/investing/fp-answers-are-markets-headed-in-the-same-direction-as-the-great-crash-of-1929

Any time I see '1929' in a headline I get out the BS-O-meter. Anytime I see *'XX%' likelihood of XX happening'* the meter goes into alarm mode. The second article states ***'There's an 80 per cent chance we'll see a significant downturn in the next year'.***

(sigh) Okay then let's have a look. This is one of those statistically sloppy and generally useless statements so popular with financial pundit influencers. What does 'significant' mean? And why is there an '80%' chance (vs 67% or 92%). Compared to which periods? What should one do about it? And if one did something about it today (presumably SELL) what tool would the pundit advise to use on the rebuy or is the world ending?

I am VERY confident there will be some kind of decline in stock prices over the next 12 months. I am very confident there could easily be a 10%+ decline. Maybe even 15%. I don't see a reason for a 30% but who knows. It's a useless argument to ponder. Read on…

I'll repeat a story of a discussion with a client on this same topic. It was the summer of 1989. The 1987 Black Monday crash wiped out 25%+ values in one day. My client had read and was convinced it was going to happen again. He wanted to keep $10,000 US in cash to buy later. I disputed it. Both of us were wasting our time. The S&P500 total return index closed May/1989 at 337.69. At this writing it stands at 8,451.39. His $10,000 would now be worth $250,270 US. There are some REAL statistics for you. It was worth the wait. He remained invested and remained a client until both he and his wife passed on. Their daughter is still our client.

Don't let media nonsense scare you out of participating in the future. If you think your own future is bright, so do most Canadians. They're right. Hang around. It's worth the wait.

Steve & Anna Hilberry

Have a Great Weekend!

Anna Hilberry's YouTube Page

NBF – Hilberry Group website

FOR THE RECORD May 14, 2021

DOW INDUSTRIALS:	34,398
S&P 500:	4,175
S&P/TSX COMP:	19,363
WTI:	$65.30
LOONIE IN $USD:	$0.8237 $US

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