



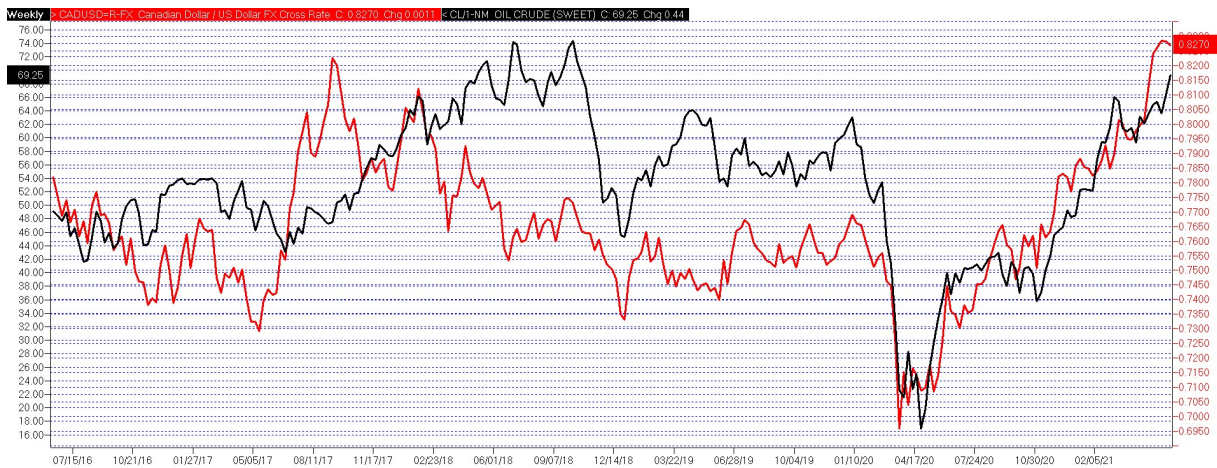
# WEEKEND READING

Shedding the light on what's happening - our world - our finances - our times

## Be Careful What You Wish for

### Oil Prices are up – taking the Loonie for the ride

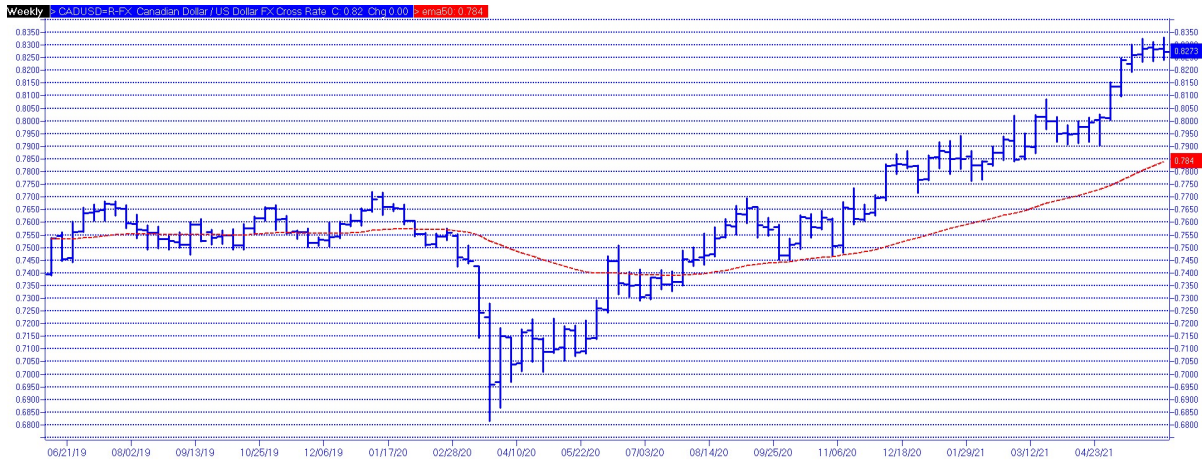
#### Loonie in \$USD (red) vs West Texas Intermediate \$USD (black) - weekly – 2 years



The valley on the chart is late March/2020 with the Loonie hitting lows around \$0.65 as WTI showed a daily contract low around \$6.00 (traded briefly negative). This week WTI is flirting with \$70 with Brent crude over \$70. The Loonie broke \$0.83 US this week. The inconvenient truth is that international money sees the Loonie as a petro-dollar. The Loonie continues to track oil prices, explaining my concentrating on the energy markets in our commentaries over the past two years.

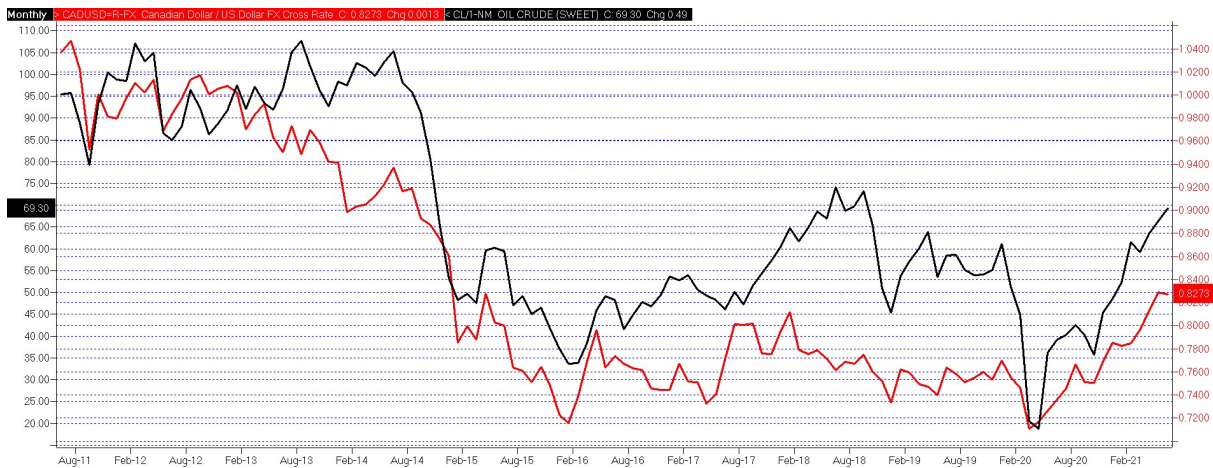
Having gained over 20% from the spring of 2020 the Loonie is at a two-year high.

### \$1 Loonie per \$USD weekly ranges – 2 years



The past 12 months 20% increase in the Loonie means an investment made outside of Canada was reduced by this same amount. We've long advocated our Canadian clients hold at minimum 35% in US stocks for diversification and profit. 2009 to 2019 we were overweight USD having more than 50% of our equity exposure to US stocks. Understanding the Oil/Loonie relationship, we changed this stance in 2019 and have been overweight Canada for the past two years.

### \$1 Loonie per \$USD (red) vs. WTI (black) monthly ranges – June/2011-June/2021



The left-hand margin has the Loonie at \$1.06 \$USD and WTI at \$95. WTI had broken above \$140 in 2008 and was on the way down. It seems likely if oil prices move higher, the Loonie is likely to also rise – reducing the returns for non-Canadian holdings. 'Buy US and International – avoid Canada' has been the popular drum beat in Canada for the past few years, with many Canadians despising their own markets. The last Loonie/Oil chart tells us oil prices have room to move higher, so could the Loonie. Anna and I don't think \$100+ oil and a Loonie over \$1.00 is likely but it's possible. We think it's time to begin shifting back to US dollars.





## What might sharply higher oil prices imply?

Our readers will have had a lifetime of following fuel prices at the fuel pump. They understand that gasoline and diesel prices result from Econ 101 supply/demand. 'Normal' oil price volatility has resulted from geopolitical risks to the supply vs. broad business cycle demand. Occasionally governments have gotten into the act.

The 1970's Arab Oil embargo demonstrates what happens when a non-economic element restricts supply with no corresponding decline in demand. The US and Canada saw a stagnating economy with rising inflation pared with weak employment and ballooning government deficits. 'Stagflation'.

Republican US President Richard Nixon tried solving the early 1970's inflation problem via government-imposed wage & price controls. Canadian Prime Minister Pierre Trudeau brought in wage and price controls in 1974 (proposed by the Conservatives!). Capping prices proved a disincentive to produce goods, restricting supply. Restricting supply did not, and never will, result in lower prices. Attempting to cap wages caused uproar in working families including violent protests by union members.

[https://en.wikipedia.org/wiki/Incomes\\_policy](https://en.wikipedia.org/wiki/Incomes_policy)

Voters suffering wage caps while prices continued to rise, turned their rage on the politicians who handed out 'exemptions' while borrowing heavily to '*protect the middle class*'. Yelling "*The fat cats are gouging us*", Government intervention attempted to control cost of supply by capping wages and profits. The resulting reduced earnings and profit to be had in a rising cost environment increased risk to both consumers and producers. To no surprise, producers decided the best course was to not expand production, further restricting supply of goods, decreasing supply. Once consumers realized costs were rising, they started hoarding, amplifying demand. Unions achieve *Cost Of Living Allowance* (COLA) clauses, passing wage costs on to consumers. The late 1960's to mid-1970's also saw the bulk of the Baby Boomers exit their *Free Love* phase, enter the workforce to become consumers of everything. Inflation spiraled out of control.

As politicians showed no spine by containing fiscal policy (ballooning Govt debts) containing inflation fell to the US Federal Reserve. Paul Volker pushed short-term interest rates past 15% The resulting 1981-82 recession hit housing and real-estate markets particularly hard.

<https://www.federalreservehistory.org/essays/recession-of-1981-82>

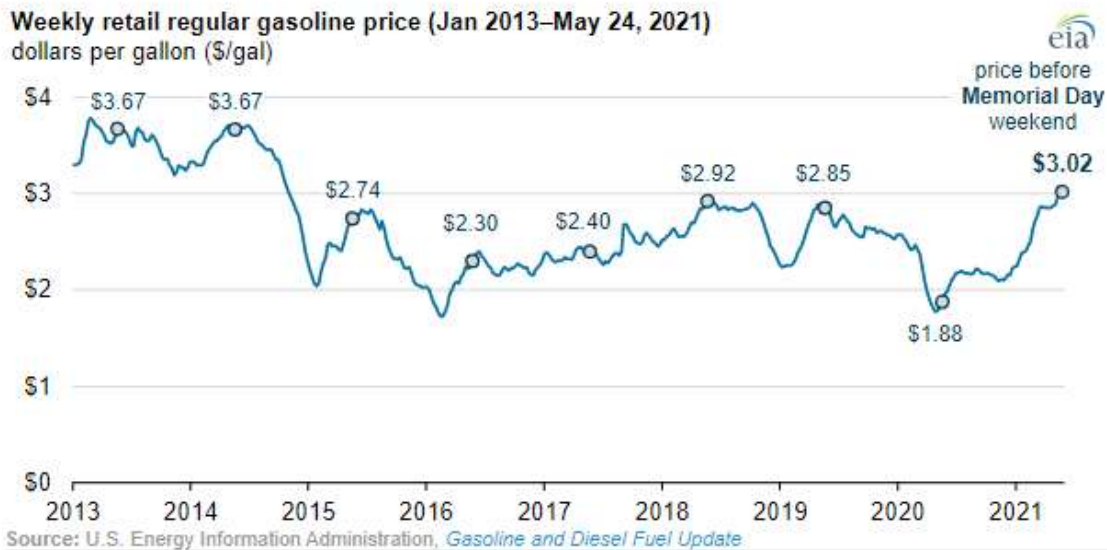
I purchased my first house in 1980. Paying 15% mortgage interest rates was no fun. Neighbors would move out over a weekend, tossing the keys to the bank.



Chairman Paul Volker in November 1982 (Photo: Bettmann/Bettmann/Getty Images)

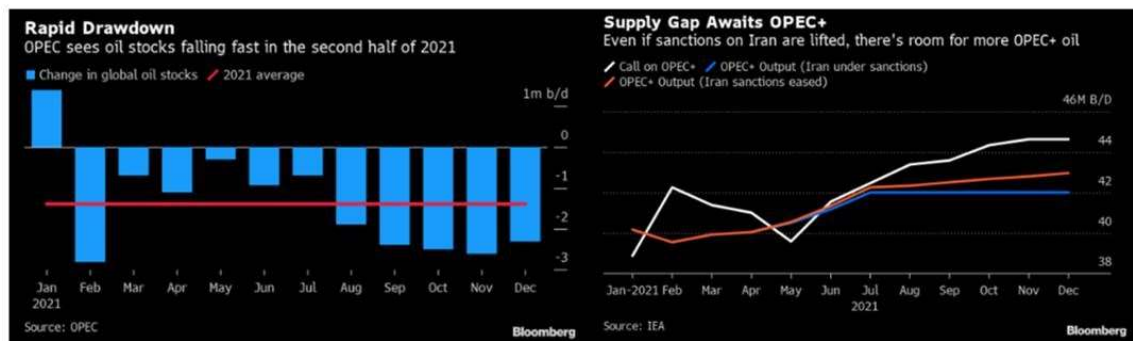
Deja-vu all over again?

U.S. average gasoline prices before Memorial Day are the highest since 2014



Joe Biden was Vice-President of the United States from 2008 to 2016. Why he would want another 4 years of abuse is beyond me. The surge in gasoline prices late in the Obama Presidency had many facets. The unexpected win by Donald Trump in Nov/2016 (surprising even him) had many facets. As fuel costs rose, MAGA -Trumpism surged. Maybe a co-incidence? As Ontario Premier Kathleen Wynne discovered, politicians who underestimate the impact of rising energy costs will soon be seeking employment.

Oil prices are up due to rebounding demand against restricted and likely future falling output from non-OPEC producers, largely Western capitalist controlled ones. OPEC is pleased.



Prices are rising. We don't think we're into an inflation super-cycle but are ready to be convinced otherwise. We could debate the impact of government regulations on the current inflation structure



but it's not zero. The difficult narrative would be *'Dear voter, you wanted change. This is the cost. Stop complaining'*. The easier course is to quietly borrow from the future to *'shield the middle class'* while talking up tax hikes to *'make the rich pay their fair share'*. It looks like some politicians are taking pages from the 1970's playbook, borrowing to avoid confronting voters while pointing fingers at 'The Rich' via tax policy. History is replete with examples of increased taxes not achieving the revenues planned while decreasing economic activity. If you tax something, you'll get less of it.

Mind you Jeff Bezos is building \$500 million super-yacht complete with sails (to be environmentally friendly?). As sail masts are inconvenient for landing a helicopter, he's decided to add a second yacht as tender replete with heli-landing pad. Commodore Bezos is a tempting target.

<https://www.denisonyachtsales.com/2021/05/jeff-bezos-building-a-127-meter-sailing-yacht/>

In the background the millennials are exiting their 'Living in Mom's Basement' phase, entering the work force and consumption phase.

The more things change, the more they stay the same. We're watching inflation indicators.

The 2022 US Congressional elections will be interesting.

### June 1, 2021: Suddenly everyone wants IPL

#### Inter-Provincial Pipeline (IPL-TSX-\$20.39) monthly – 10 years.



Despised for being a Canadian pipeline company, IPL traded as low as \$5.35 in March/2020.

Pembina Pipelines announces a friendly takeover of Inter-Provincial Pipeline in an all-stock deal.

<https://www.pembina.com/getattachment/147081ae-c91b-46f2-bea2-fc0d6687c77b/combination-presentation-final-website.pdf>

Pembina's offer is all stock (no cash) 0.5 shares of Pembina for each 1 share of IPL. Closing would be subject to regulatory approval some time mid-2022.

June 1 NBF updated their view on IPL, post the friendly Pembina takeover, advising to await a response from Brookfield.

<https://nbf.bluematrix.com/sellside/EmailDocViewer?encrypt=c59ef447-4903-4c7d-b00a-4aa7d4df7b18&mime=pdf&co=nbf&id=steven.hilberry@nbc.ca&source=mail>

This advice proved correct as Brookfield came back with a testy counter-offer June 2

<https://bip.brookfield.com/press-releases/2021/06-02-2021-121054396>

NBF's Calgary desk referenced Brookfield's counter offer in their June 2 notes.

### **Brookfield responds to Pembina's (PPL; SP; \$39T) offer to acquire Inter Pipeline (IPL; SP; \$19T).**

Brookfield (BIP) has come back to challenge PPL's offer by announcing an intention to up its previous bid to \$19.75 in cash (74%) and stock for IPL. This is a +4% premium to PPL's offer. Analyst Pat Kenny highlights that a bid for IPL at \$21/sh would equate to a transaction metric in line with comparables at ~11x 2023e EV/EBITDA (including similar cost synergies). And BIP saying they can close in 20 days and have received all regulatory/anti-trust approvals (PPL looking to close in Q4). *More details around BIP's revised offer [here](#).*

- BIP is also citing a \$350mm break fee to PPL that was agreed to by IPL's Board despite BIP putting forth a superior proposal of \$19.50/sh the night of May 31st. *"On the evening of May 31st, Brookfield Infrastructure submitted its final offer valued at ~C\$19.50 per share comprised of 74% cash and 26% BIPC shares. That evening we were informed that the "totality" of the competing offer was superior, and exclusivity had already been signed. Upon reviewing the details of the Pembina offer and the arrangement agreement between IPL and Pembina (the "Arrangement Agreement"), we fail to understand why an inferior offer from the perspective of aggregate consideration, transaction certainty and timeline to completion was recommended by the IPL Board."*

Ooooo! It's getting nasty.

**DISCLOSURE: I own Pembina and Inter-Provincial Pipe, hold both for family members and for client accounts over which I have trading authority. We have traded in both securities within the past 60 days.**

### **June 3: Capital Power Corporation**

<https://nbf.bluematrix.com/sellside/EmailDocViewer?encrypt=a7f526a0-ace1-453b-84a7-b74c8ad8a783&mime=pdf&co=nbf&id=steven.hilberry@nbc.ca&source=mail>

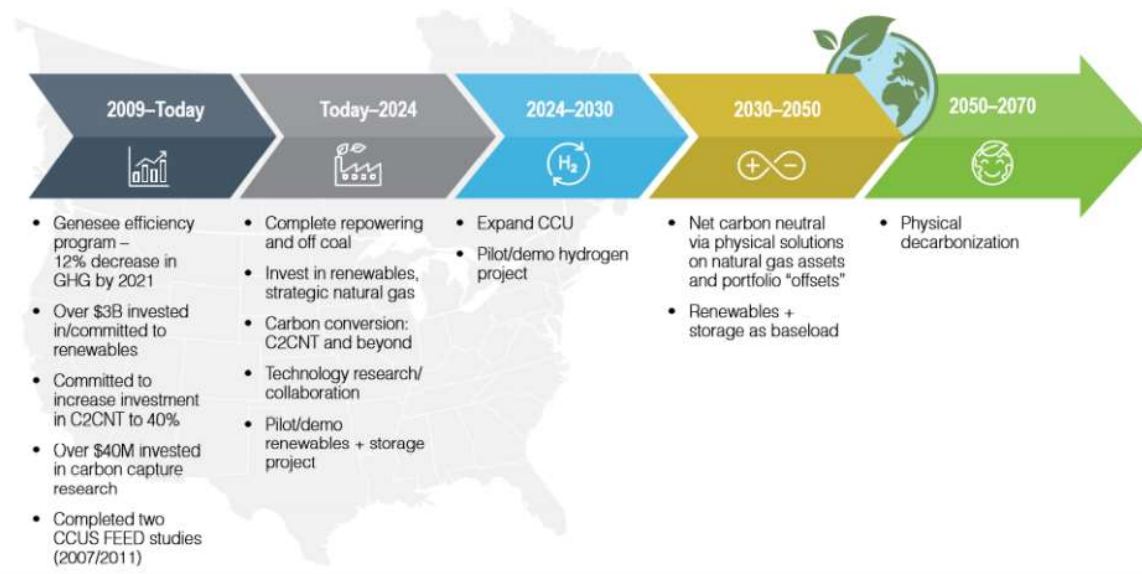
Major power producers are often directly government controlled (BC Hydro) or partially government controlled (Ontario's Hydro One). This means their decisions may be driven by politics and policy –



not profit. Power policies may be driven by larger social issues. Then we have power consumers who become very upset over a \$30 increase in their monthly power bill and vote accordingly. Private corporations must compete. It's useful to review how for-profit corporations are attempting to address climate-change driven policies and regulations.

The following graphic from the above Capital Power report link lays out the company's plans to meet climate change regulations, policies and goals. Note the color schemes.

**Figure 1: Capital Power's Decarbonization Plan**



(1) Other includes solar, landfill gas and tire-derived fuel generation  
 Source: Company Documents, NBF

For-profit companies have the challenge of meeting government expectations (political winds shift sharply) activist expectations (it's never enough) customers sensitivity to price (up is bad) and shareholders who demand the entire operation make profits (down is bad). As many for-profit corporations have discovered, energy related and otherwise, lately profits are not the focus of the media and policy makers and (some) shareholders. One must be seen to have a 30-year climate goal that is accomplished by 2050 and must state so. I must gently point out a 30-year goal is the kind politicians and CEO's love. It's a nice long-term, hazy horizon that extends well beyond their own career best-before date.

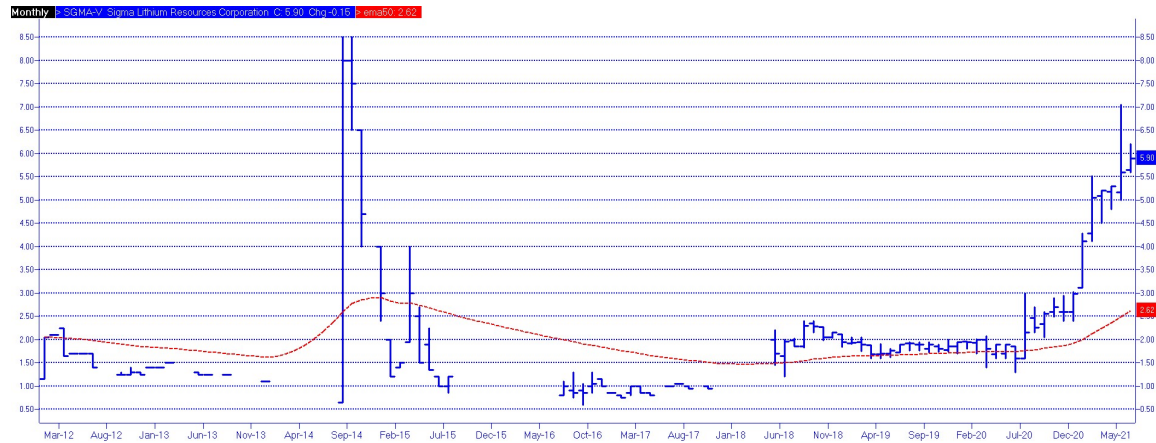
It's hard to argue that spending billions to replace sources of power already being generated from existing sources (convert coal-fired to solar powered) means on balance electrical grid power production costs will fall and that power prices to consumers won't go up. Rising costs and prices don't necessarily mean falling profits to the power producers. They'll produce power from whatever source the public is willing to pay for. After initial dismay over the conversion costs, driving power producer stock prices down sharply, the market suddenly thinks the cost will be borne by consumers not power producers. Power producer stock prices are up. We're happy to own them



**DISCLOSURE: I own Capital Power personally, hold it for family members and for client accounts overwhch I have trading authority. We have traded in the security within the past 30 days.**

The market thinks power companies are going to spend billions transitioning their energy sources. Recently the market thought lithium producers would benefit. The price spikes implied they'd REALLY benefit. The enthusiasm has since waned. NBF's Rupert Merer updates his opinion on Canadian lithium producers **Sigma Lithium Resources Corp** and US based **Lithium Americas Corp**.

**Sigma Lithium (SGMA-TSX Venture-\$6.05)– monthly Jan/2012-June/2021**



The Aug/2014 price spike hit \$8.50. Last trade \$6.30.

<https://nbf.bluematrix.com/sellside/EmailDocViewer?encrypt=394307e7-45ff-4830-ae90-033ef0f23211&mime=pdf&co=nbf&id=steven.hilberry@nbc.ca&source=mail>

**Lithium Americas Corp (LAC-TSX-\$18.03) monthly July/2008-June/2021.**



The price Jan/2021 spike goes to \$38 \$CDN. The July IPO was \$4.00. Last trade \$19.55.

<https://nbf.bluematrix.com/sellside/EmailDocViewer?encrypt=0be90113-39b1-4342-88b0-a434acd134d8&mime=pdf&co=nbf&id=steven.hilberry@nbc.ca&source=mail>

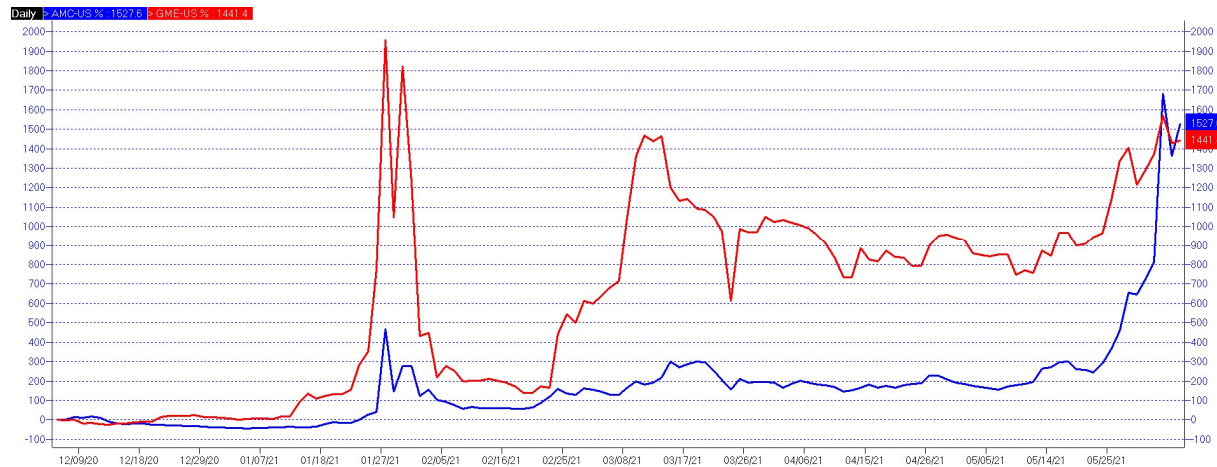
**DISCLOSURE: We have no position in Sigma personally, for family or for clients. We have not traded in the security.**





## The 'Internet Meme' trend continues

AMC Entertainment (AMC-blue-1,505%) vs Game Stop (GME-red- 1,433) % change



## 'Some Random Thoughts About Inflation, AMC & Small Caps' – Ben Carlson Jun 3, 2021

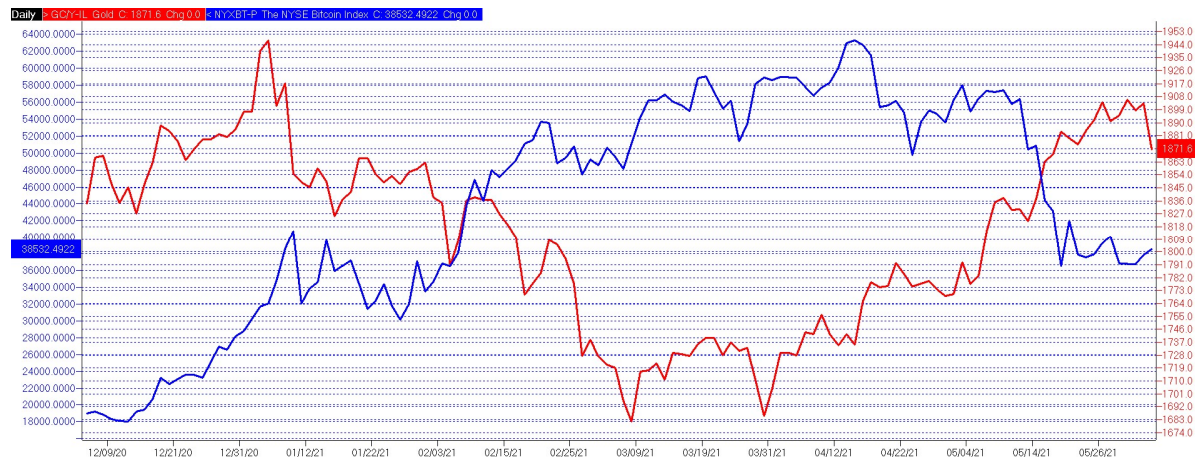
Ben Carlson discusses the above two, providing perspective on the importance of the price moves (not much)

<https://awealthofcommonsense.com/2021/06/some-random-thoughts-about-inflation-amc-small-caps/>

**DISCLOSURE:** We hold no position on either of these companies and have not traded in them.

## The inverse relationship of Gold to Bitcoin continues

Gold \$USD (red) Bitcoin (blue) daily ranges - months



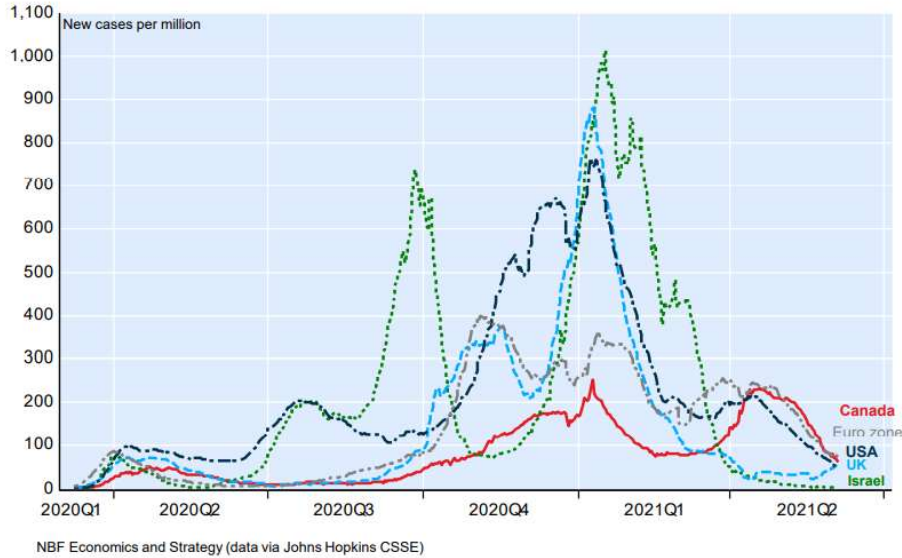
# Canadian ETF Flows: May 2021: Sector Rotation at Play

<https://nbf.bluematrix.com/sellside/EmailDocViewer?encrypt=41b3cd04-c1c1-4239-8b96-e774f6c80832&mime=pdf&co=nbf&id=steven.hilberry@nbc.ca&source=mail>

## National Bank's COVID-19 Daily Monitor June 4, 2021

### 1. World: Evolution of the pandemic

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



<https://nbf.bluematrix.com/sellside/EmailDocViewer?encrypt=7cd7024d-ce95-4a45-936d-39dd84a138de&mime=pdf&co=nbf&id=steven.hilberry@nbc.ca&source=mail>

COVID-19 is fading into the rearview mirror. The economy is on the mend. A new business cycle has begun. The TSX broke 20,000 this week. Consumers are itching to spend. The warm weather has arrived. Head Marth Reeve's advice. Go and dance in the street

<https://www.youtube.com/watch?v=CdviTn5cAVc>



## Chasing Highs Can Lead to Disaster | What Risks Should You Take

Our clients know that a strategy is key to success when it comes to investing. Encouraging the young people in your life to use a strategy instead of chasing stock highs can help set them on the right path.



Watch Anna's latest video here

<https://www.youtube.com/watch?v=i4KxQMwGRBY>

**Steve & Anna Hilberry**

## Have a Great Weekend!



### FOR THE RECORD June 4, 2021

DOW INDUSTRIALS:	34,692
S&P 500:	4,221
S&P/TSX COMP:	20,006
WTI:	\$69.37
LOONIE IN \$USD:	\$0.8276 \$US

...ect those of National Bank Financial.

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Sent by

Montreal office  
National Bank Financial  
Wealth Management  
1155 Metcalfe 5th Floor  
Montreal, Quebec H3B 4S9  
Phone: 514 879-2222

Toronto office  
National Bank Financial  
Wealth Management  
130 King Street West Suite 3200  
Toronto, Ontario M5X 1J9  
Phone: 416 889-3707



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