



WEEKEND READING

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

Well. That's done. Election 2021 and we're back to...mengh.

After all the fire, furry, angst and noise, Canadians re-elected a Liberal minority Government.

	<u>2019</u>	<u>2019 Seats</u>	<u>2019 % Pop. Vote</u>	<u>Pre-2021</u>	<u>2021 seats</u>	<u>2021 Seat Change</u>	<u>2019-21 change</u>	<u>% Pop. Vote</u>
Liberal		157	33.12%	155	159	4	2	32.60%
Conservative		119	34.34%	119	119	0	0	33.70%
Block QC		32	7.63%	32	33	1	1	7.70%
NDP		24	15.98%	24	25	1	1	17.80%
Green		3	6.55%	3	2	-1	-1	2.30%
Peoples Party Cda		0	1.62%	0	0	0	0	5.00%

- Total seats changed hands via election results: 7
 - Liberals -2 seats during the interim as MP's left to sit as independents. The Liberals won back 2 and gained 2 for a total of 4
- Total Seats change from 2019: 5

The Sept/2021 election cost \$610 million making it the costliest in Canadian history. In exchange we saw 5 seats change hands from the previous election results. \$122 million per seat seems rich. There are roughly 700,000 Canadians of daycare age 2-4. \$610 million would have bought 61 million, \$10-per-day daycare spaces. I'm that guy on the hill-top yelling at clouds again.

A popular media notion is that the Peoples Part of Canada (PPC) 'split the conservative vote' costing the Conservatives close to 20 seats (the Conservative total would still have been below the Liberal total). This view may be simplistic. Closer analysis says the Green party lost significant votes to the PPC hitting them the hardest in total support. Wait. What? The anti-vaxer's? Political scientists say a significant portion of the Green party support is a protest

vote not necessarily reflecting deep progressive beliefs. Politics makes strange bedfellows. In the interest of the country, our elected officials need to do some soul searching.

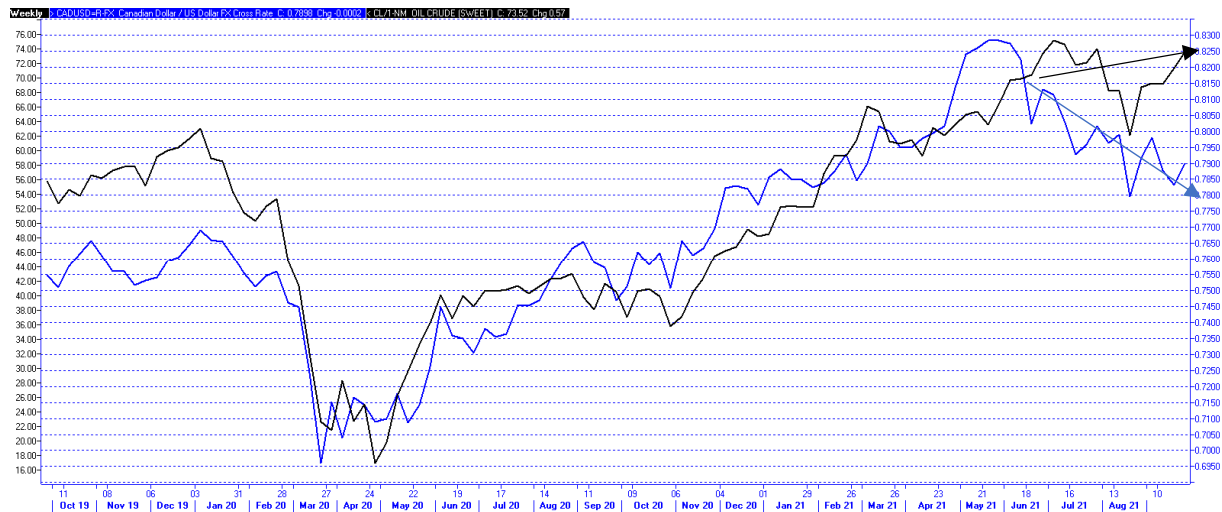
‘Canada election: Did the PPC split the Conservative vote? Maybe — but it’s not that simple’ – Global News Sept 22, 2021

<https://globalnews.ca/news/8212872/canada-election-conservative-vote-splitting/>

Have market prices reacted to the election?

Canada’s GDP represents 1.4% of global total and 10% of the US. No matter how silly our politicians become, Canadian politics typically do not alter market prices. As an investor, one can usually safely ignore Canadian election results. In last week’s series I answered a client’s question “*Is the Loonie selling off because of the election?*” with a dismissive “*Nah. It’s all about oil*”.

West Texas Intermediate (black) vs cost to buy \$1 CDN in \$USD (blue) – weekly 2 years

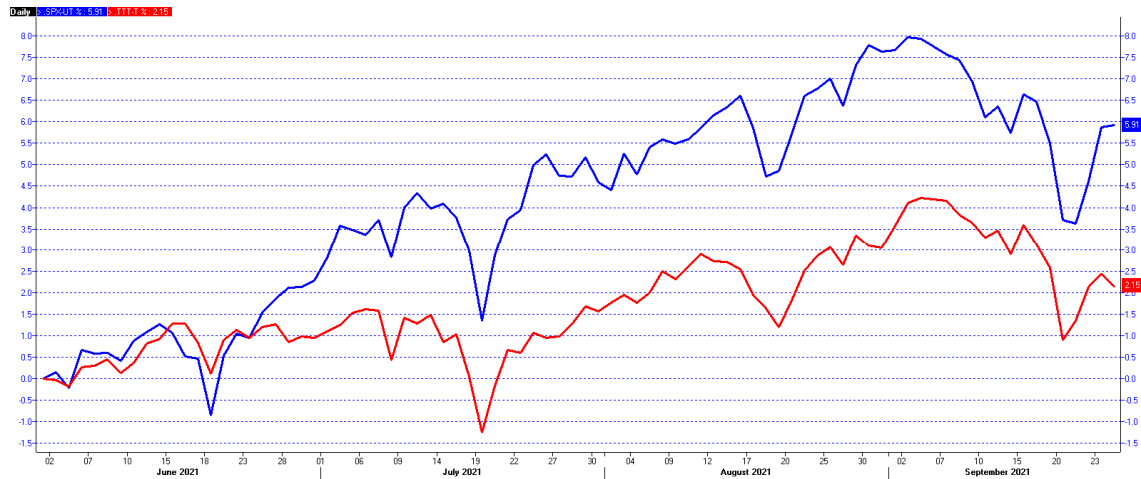


Since June 4th, WTI is up 5.7% while the Loonie is down -4.5% for a net spread change of 10.2%. Not insignificant. The lows for the Loonie came this week. Hmmmm. Maybe I was too glib. Maybe the election is having an impact after all. Has the talk of higher Canadian corporate and upper income band taxes caused Canadians to start moving their money elsewhere?



What about Canadian stocks?

S&P500 \$USD (Blue) vs S&P/TSX \$CDN (Red) % change Jun-Sept/2021

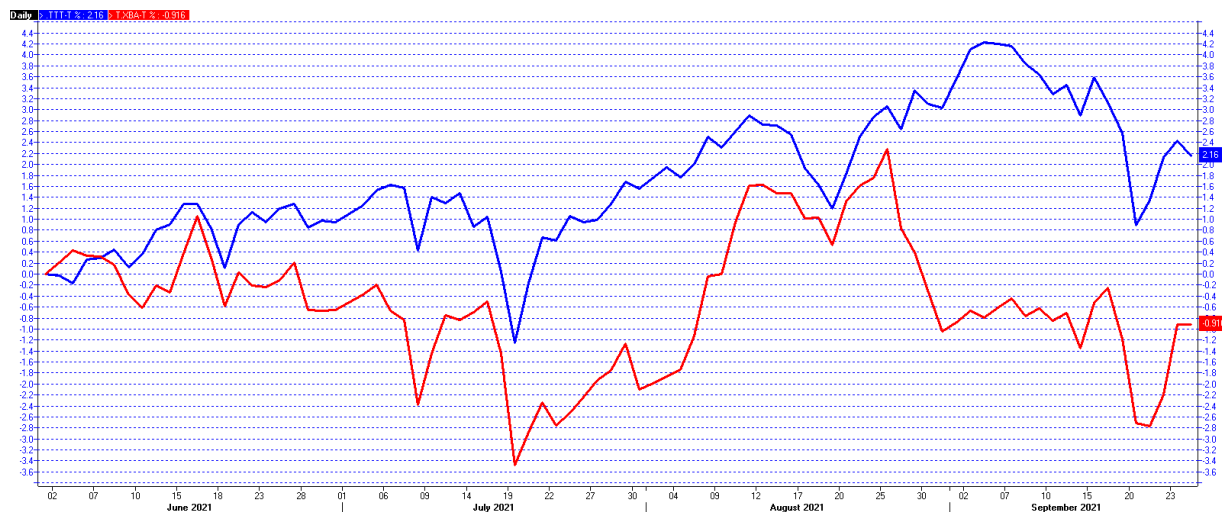


June 4-Sept 24, 2021:

- S&P500: + 5.9% in USD | +10.55% in Canadian funds
- S&P/TSX: +2.15% (it was down and flat at the morning after the election)

With Canada's still significant exposure to commodities, crude oil in particular, one would expect Canada's stock market to perform as well as the US if not stronger. Not happening. Canadian bank and insurance Co's are facing proposed tax hikes (see the Liberal and NDP platforms for details). How are they doing?

SP/TSX Comp (blue +2.16%) vs TSX Banks (red -0.91%) June-Sept/2021



In August the TSX Bank index was tracking the broader Canadian market, up roughly 2% since June. Lately the Banks have given those gains up and are now flat since June. Bank share prices may have reacted to the election platform tax hikes.

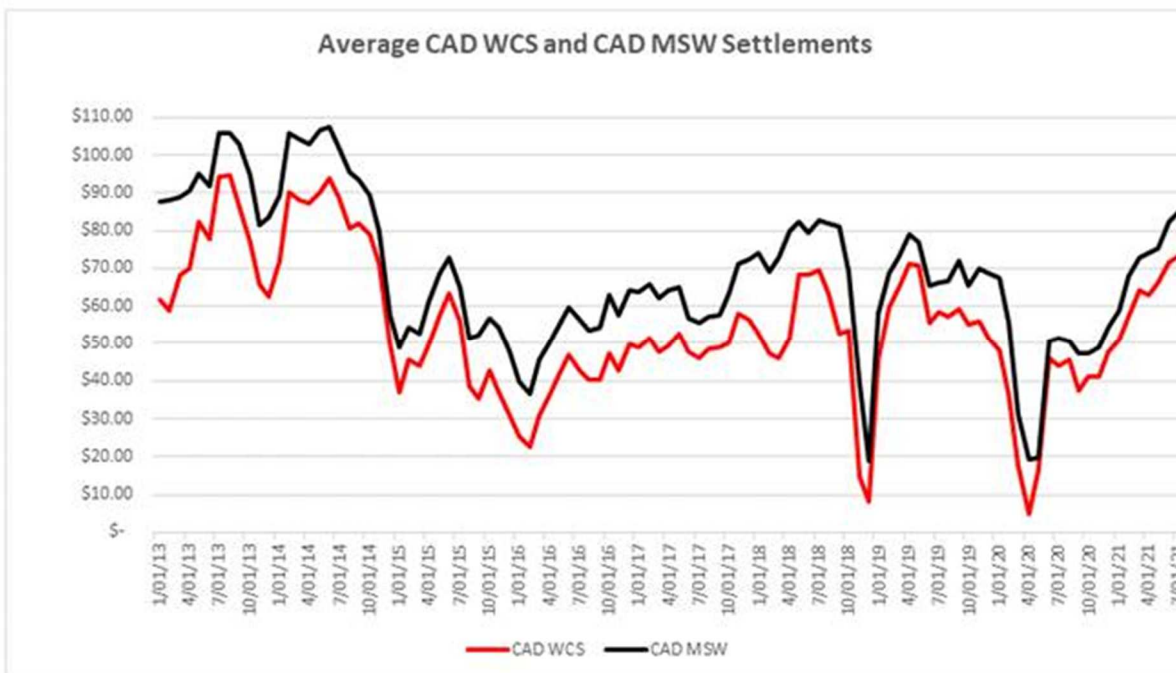


From any Canadian with a pension plan, RRSP, RRIF or TFSA holding mutual funds and the banks a big “Gee thanks Ottawa!”. There is no free-lunch. Keep this in perspective. The Canadian banks are up 22.3% year-to-date vs +17% for the TSX Composite. Banks remain great investments.

If oil and natural gas prices are up, that should be good for Canadian oil producers, right?

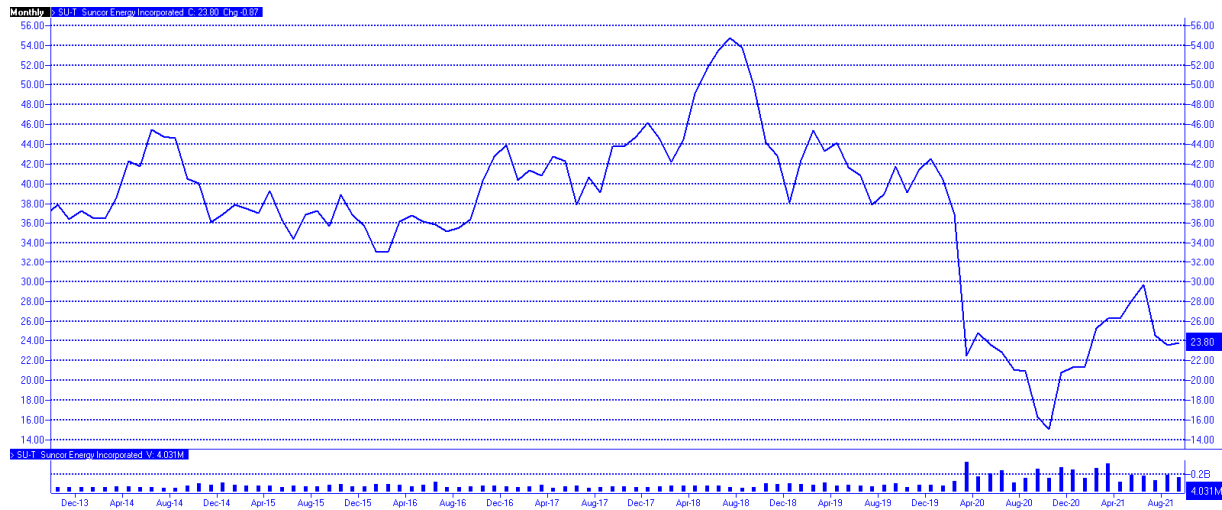
It hasn't been this good for Canadian heavy oil in years.

Western Canada’s oil supplies are dominated by heavy crude. Heavy crude is produced by open pit ‘tar sands mining’ and the now more common in-situ *Steam Assisted Gravity Drainage* (SAGD) and variation systems. Oil sands mining provides great activist fodder with pictures of huge machines in ugly pits. A picture of a SAGD facility looks like any prairie farm building. A cement pad, a steel shed building and some pipes. Canadian heavy oil is labeled *Western Canadian Select* or WCS. WCS is largely sold and shipped to the US as raw product, often refined at the Texas gulf coast. Distance and lack of expanded shipping /anti-pipeline politics (NOTE: which favours US producers) mean WCS experiences a discount to the equivalent product sold by US producers to those same refineries. NOTE: Restriction of pipeline access has not resulted in a reduction of supply to the US. The rest now goes by rail and will continue to do so, explaining the balloon in profits by CP and CNR. We Canadians must accept a lower starting price if we’re going to sell to the US. The proportion of this discount is a major issue for all Canadians as it means profits, jobs and tax revenue missed. It is not an insignificant factor. The ‘WCS Discount’ was very painful for Canada 2014-2019. Our stock markets lagged during that period. Things have perked up. The next 2013-2021 chart plots the WCS prices. The black line is the CDN per barrel dollar equivalent price that our producers and the rest of us receive. That price is pushing \$90 Canadian.



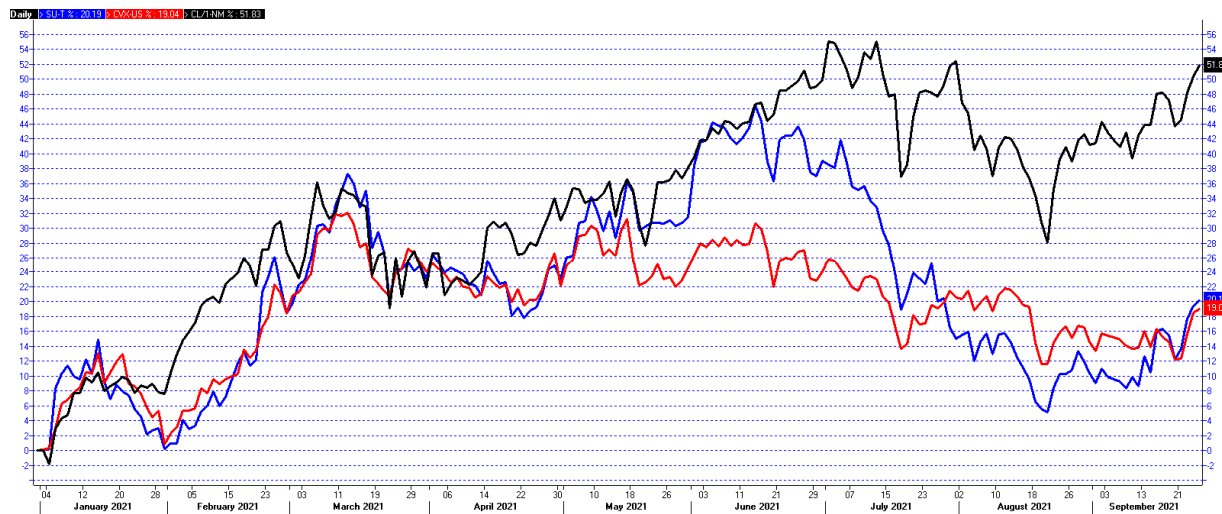
Prices haven't been this high since 2013. Yet the share prices of **Suncor** (SU-TSX-\$23.92) one of Canada's largest heavy crude producers doesn't reflect this price action over the same period.

Suncor (SU-TSX-\$23.92 Sept 21, 2021)



NBF reiterated their 12-18 month \$36 target price in mid September. Suncor last traded at \$36 in Jan-Feb/2020 pre-COVID-19 pandemic panic. Are investors discouraged by Canadian politics?

% Price change Suncor (blue 20%) Chevron \$USD (red 19%) WTI \$USD 51.7% 2021 year-to-date.

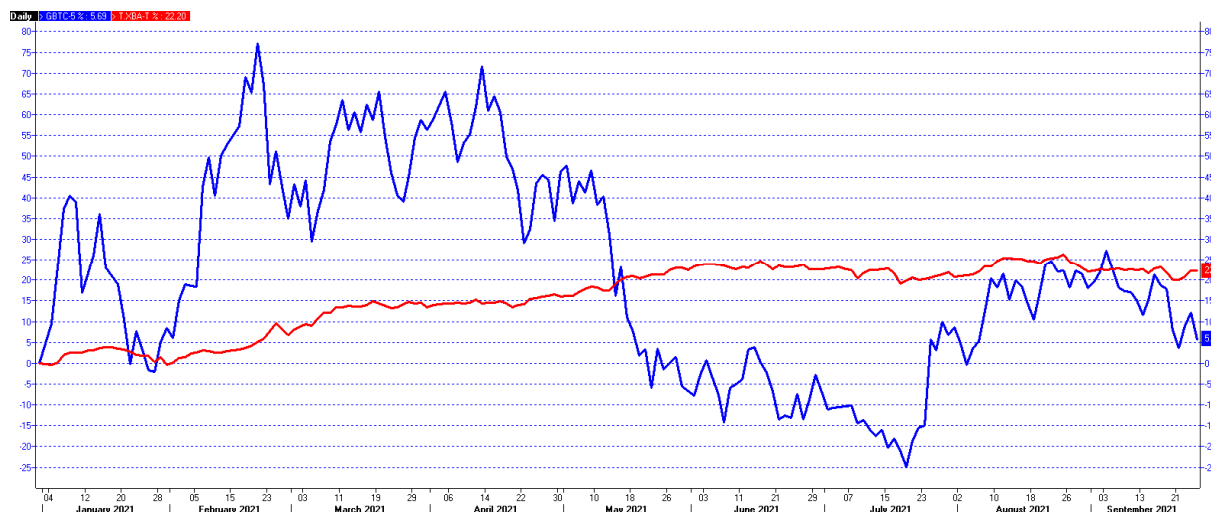


As tempting as it may be for pundits to blame Canada's energy patch price on politics, it appears the generalist investor on both sides of the border continues to shun energy stocks. The potential turn around could be dramatic.

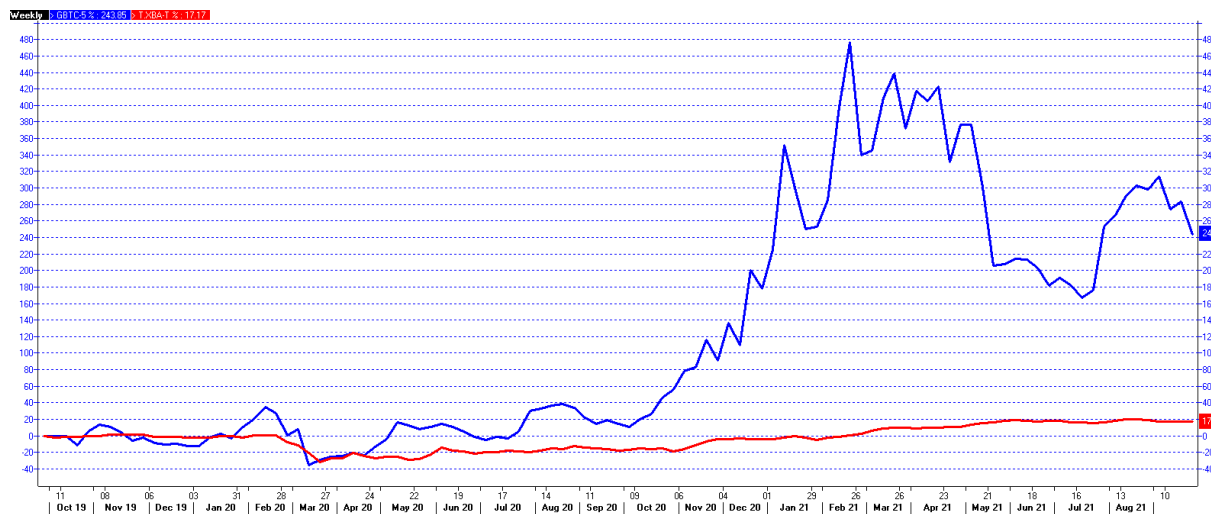
Speaking of dramatic, we'll revisit crypto-currencies again. For fun I've compared one to the above TSX Bank index year to date.



YTD % chg Greyscale Bitcoin Trust (GBTC-blue +5.6%) vs TSX Banks (red- +22.2%)



Same relationship 2 years – GBTC+243.9% vs. Banks +17.2%



The banks +17.2% price added to 8% cumulative dividends exceeding 25% total return is sooooo booooring and sooooo yesterday.

Bitcoin’s +250% over two year sounds impressive. That number was +480% in March! Prices crashed to ‘only’ +170% in July, then rebounded. Prices look like they’re headed lower. I’m on record as a firm doubter on tradeable cryptocurrencies (Bitcoin, Dogecoin, Ethereum classic, etc.) I don’t doubt blockchain technology will alter finance. I question the utility of a ‘currency’ that doesn’t provide a stable medium of exchange between transactions. I also stand in awe that central banks haven’t clamped down on what can only be described as ‘counterfeiting’. A lack of Central Bank control over the money supply may sound like a good thing to the financially secure libertarians out there. Expanding the money supply beyond the natural growth in the economy has a 100% correlation to inflation. Past such events have been associated with asset bubbles.



I reassign Nigel Ferguson's *'The Ascent of Money'* for this week's reading. It will be in the test.

<https://www.amazon.ca/Ascent-Money-Financial-History-World/dp/0143116177/>

I fear crypto speculators may fail this learning assignment, facing losses. John Paulson agrees. The rest of the class should do just fine.

***'Crypto crash: Here's why billionaire John Paulson's 'worthless' call might be right'* – Financial Post Sept 15, 2021**

<https://financialpost.com/moneywise/crypto-crash-heres-why-billionaire-john-paulsons-worthless-call-might-be-right>

Write a Will in 2021 | Why You Need a Legal Will



Watch Anna's latest video here

<https://www.youtube.com/watch?v=vXyFg2Yetkl>



I will be away from the branch next week attending a new family member's arrival on the planet. Small wonder I'm pondering day care. Technology travels with me but is not as crisp as here at the branch. On that optimistic note....

Steve & Anna Hilberry

Have a Great Weekend!



FOR THE RECORD Sep 24, 2021

DOW INDUSTRIALS:	34,754
S&P 500:	4,447
S&P/TSX COMP:	20396
WTI:	\$73.95
LOONIE IN \$USD:	\$0.7893 \$US

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