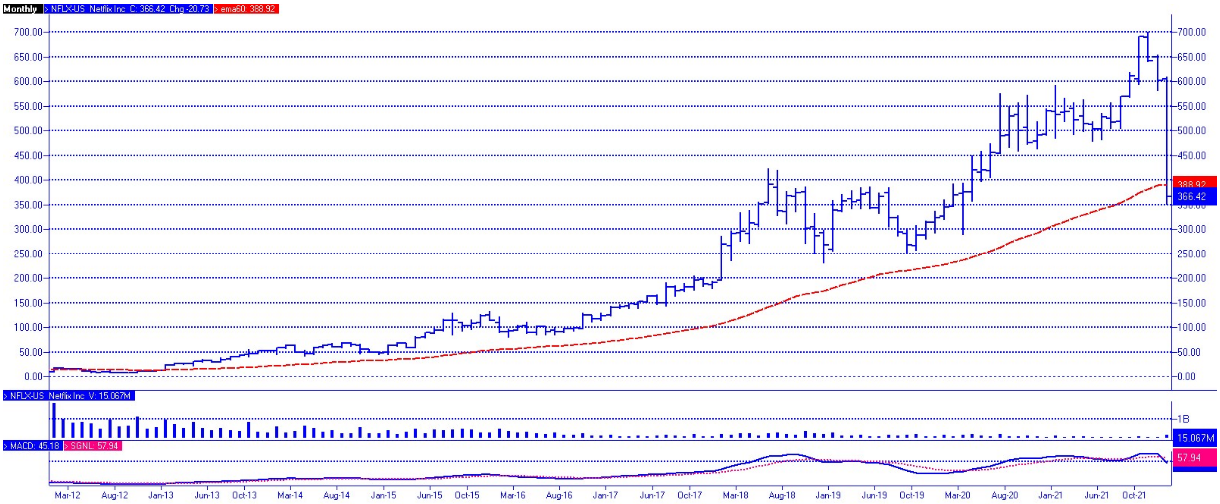
Holy Icarus Bat Man!

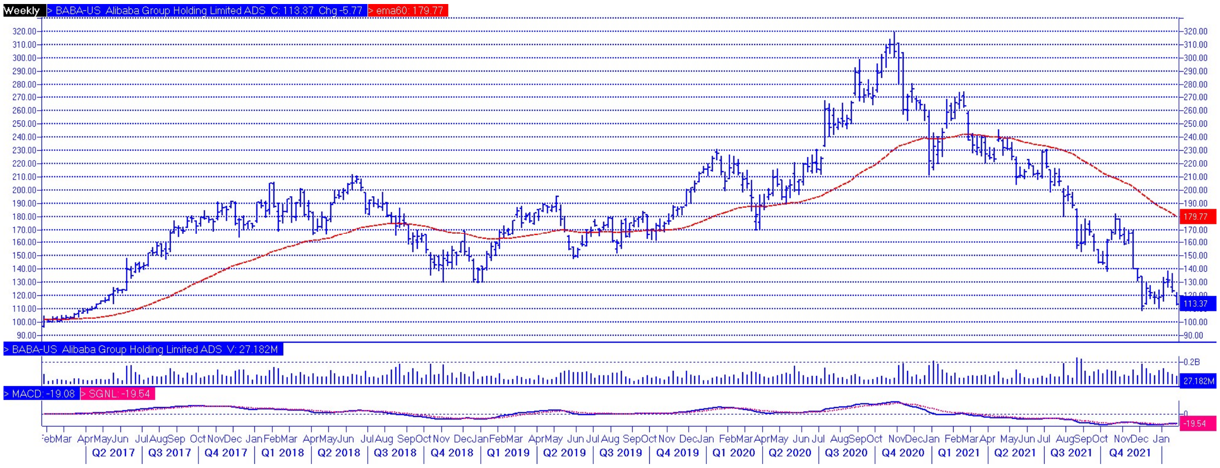
Netflix (NFLX-NASDAQ-$366.27 Jan 26 mid-session) weekly ranges 5 years



The high on the chart -s **$700.99,** Nov 17, 2021**.** Jan 25, 2022 close **$366.27**. Change **-47.7%**

Confirming how close to the sun Netflix was flying, a 48% drop takes their share price barely back below to the 5-year month term moving average. What you don't do matters.

Alibaba (BABA-$113.37 US – Wed Jan 26, mid-session) – weekly since Jan/2017 $100 IPO



From the Jan/2017 $100 IPO, Alibaba soared to highs of $319.32 on Oct 27, 2020. Prices began sliding. Wednesday BABA closed at $113.37 $USD -64.5% from that high. The price bounced off $110 in December and again in early January. This will be the 3rd go at a new low. If the price breaks below the original $100 IPO, no one, other than Jack Mah is making money. We have not held and do not hold Alibaba. What you don't do matters.

Amazon Corp (AMZN-$2,774 Wed Jan 26 mid-session) daily ranges 12 months

Amazon peaked twice in the past 12 months. In July (Mr. Bezos announced his retirement as CEO that month) and hit $3,762 in November. Peak to last -26.6%. This week the analyst community lowered it's Q4 2021 earnings expectations – release date Feb 3, 2022.

For a sense of professional opinion flow I've tabled one of our sources Credit-Suisse (CS). The goal is to compare what analysts were seeing to see if price momentum or emotion may have played into their own thinking.

AMZN Analyst projections									
Q4/2021 & 2021 Annual Earngs release date				03-Feb-22					
Credit Suisse									
Report DATE	Report Price	Latest Qtr EPS actual	Latest trailing 12 EPS	Price to Trailg P/E	Projected 2021 Q4-EPS	Projected 2021 Annual EPS	Price to Projctd 2021 P/E	Price Target 12 mos	Prev. Target 12 mos.
03-Feb-21	$3,380.00	$14.08 Q/4-20	$41.75	80.958	$18.19	$59.72	56.60	$3,940.00	$3,860.00
30-Apr-21	$3,471.31	$14.08 Q/4-20	$41.75	83.145	$23.99	$76.81	45.19	$4,000.00	$3,950.00
26-Jul-21	$3,656.64	$15.12 Q/2-21	$57.36	63.749	$23.83	$76.33	47.91	$4,850.00	$4,000.00
22-Oct-21	$3,435.01	$6.12 Q3/-21	$51.15	67.156	$15.38	$70.98	48.39	$4,200.00	$4,700.00
28-Jan-22	$2,792.75	$6.12 Q3/-21	$51.15	54.599	$6.92	$61.64	45.31	$4,000.00	$4,100.00

The above table tells us that Amazon's actual 12 mos. earnings results moved from roughly $41 in Feb/2021 to $51 in Jan/2022 (Feb 3, 2022 is Q/4 posting. It will be much anticipated). Amazon's EPS went up by $10 or 24%. Those are great numbers for such a large firm. Yet the current price is down -13% from Feb/2021 and -26% from the late 2021 highs. What's going on?

The tell is in the projected EPS analysts were using. Compare CS's 30-Apr-2021 projected Q4/2021 EPS of $23.99 to their current projection of $6.92 (!) If the future quarterly earnings for 2022 are anything like Q/4 2021 that takes Amazon's annual earnings back to the 2019 levels. IE Pre-COVID. Note the trend in actual price to actual P/E (trailing P/E). Starting around 80 X in Feb/2021 the current P/E is 55 X. The price to projected P/E in Feb/2021 was 56.6 (about where it is now).

The average P/E for the S&P 500 is 25. Historical ratios hear.

https://www.multpl.com/s-p-500-pe-ratio/table/by-year

Consensus analyst opinion for Amazon's 2025 EPS median is $144.55. Ranges $187 to $119. These projections imply an EPS growth from the current trailing EPS $51.12 (Q3/2021) for a 2.8 fold gain, representing an annualized growth rate of roughly 30%. Amazon's trailing 5-year EPS growth rate has been 100.5% (from a much smaller base). Longer-term growth rate projections are in the 36% per year range. What's not to like?

A common way of analyzing smaller, high growth companies is share price to cash-flow-per-share (P/CF) in place of share-price to earnings-per-share (P/E). As gross cash flow is plowed back into the company, investing in new equipment employees and clever stuff to grow future earnings, earnings are not released as a dividend (means taxes are avoided during this period). Share-Price to Cash-Flow (P/CF) is then compared to the growth rate in annual cash flow to arrive at P/CF :

As companies become larger the calculations shift to share **P**rices vs actual **E**arnings or P/E.

I'll apply the P/E in the following explanation.

Comparing a P/E to Growth Rate % gives us the 'PEG ratio'. Rule of thumb the PEG ratio should equal 1. IE a company growing at 10% per year might see a P/E of 10. 10 P/E = 10% growth rate. Why? Matching the current price to an accurately projected growth rate means getting all one's original back via internal accumulated earnings in 7-10 years.

Example: $1.00 EPS in year one growing at a constant rate (never happens). If the company grows at 10% per year and I pay $10 for that initial $1 in earnings I will see my money back (via internal cumulative earnings NOT cash in my pocket) in years 7-8.

If the company grows at 50% per year and I pay $50 for that initial $1 in earnings I will see my money back (via internal cumulative earnings NOT cash in my pocket) in years 8-9.

As the growth rate expectation increases compounding takes effect. If my company grows at 100% and I pay $100 up front for that $1.00 year one earnings I'd see $100 in year's 6-7. If the growth rate is 200% and I pay $200 I'll see my investment back by years 5-6. If the growth trend accelerates, other investors who are doing the math will pile on. As the price accelerates the trend-followers pile on some more. The price skyrockets. So much fun!

Don't forget that 'projected' thing. You are paying up front for something you won't get for awhile.

Let's go back to Amazon's projections. Next year's consensus EPS = $50.79. Current price to that projected EPS is 55X. But… next year's projected EPS isn't 55% higher than last years. More like 7% higher. Maybe next year is an 'anomaly'? FY 3 (2024) consensus EPS for AMZN is $76.03 implying a 14% growth rate. Yet the street remains convinced 2025 AMZN will produce $144 in 2025. Current consensus says 2025 will double 2024. Hmmm.

What happens if a company that was priced at 55 X $1 year one EPS (implying a 55% growth rate) grows at 36% in year one not 55%? The price will decline. In simple terms the price will decline by the difference from 55% projected to 36 X the year one's ending EPS 36% higher than the starting $1 or $1.36. $1.36 X 36 = $49 or -10% actual price slide. No fun but hardly a disaster. What happens if the growth rate is 'only' 20% in year one, not 55%? We end up at $24. Ouch! 20% growth is outstanding…unless you've paid for 55% or 80%!

A funny thing happens when stocks go from $55 to $24. The thrill is gone. The 'trendies' don't want to play any more. Note the above 17% decline in analyst price targets from $4,850 in the summer of 2021 to 4,000 today. Today's price at roughly $2,800 is a loooong way from a reduced 12 mos target of $4,000. Watching the analyst community is like watching a western gun fight. Who will draw first with a lower expectation?

Given Amazon's dominant market share position, could Amazon continue to grow at 36% per year? Maybe. Funny how Mr. Bezos stepped down as CEO last summer to go play with rockets and large boats. My guess is Amazon will remain a great company. Eventually Mr. Bezos will want a dividend. At some point the price will be lower vs. earnings. Not necessarily lower than today but lower vs. earnings. Only when that happens will we bite.

With the 'correction' of expectations in mind.

Underestimating the Red Queen – Morgan Stanley Jan 27, 2022

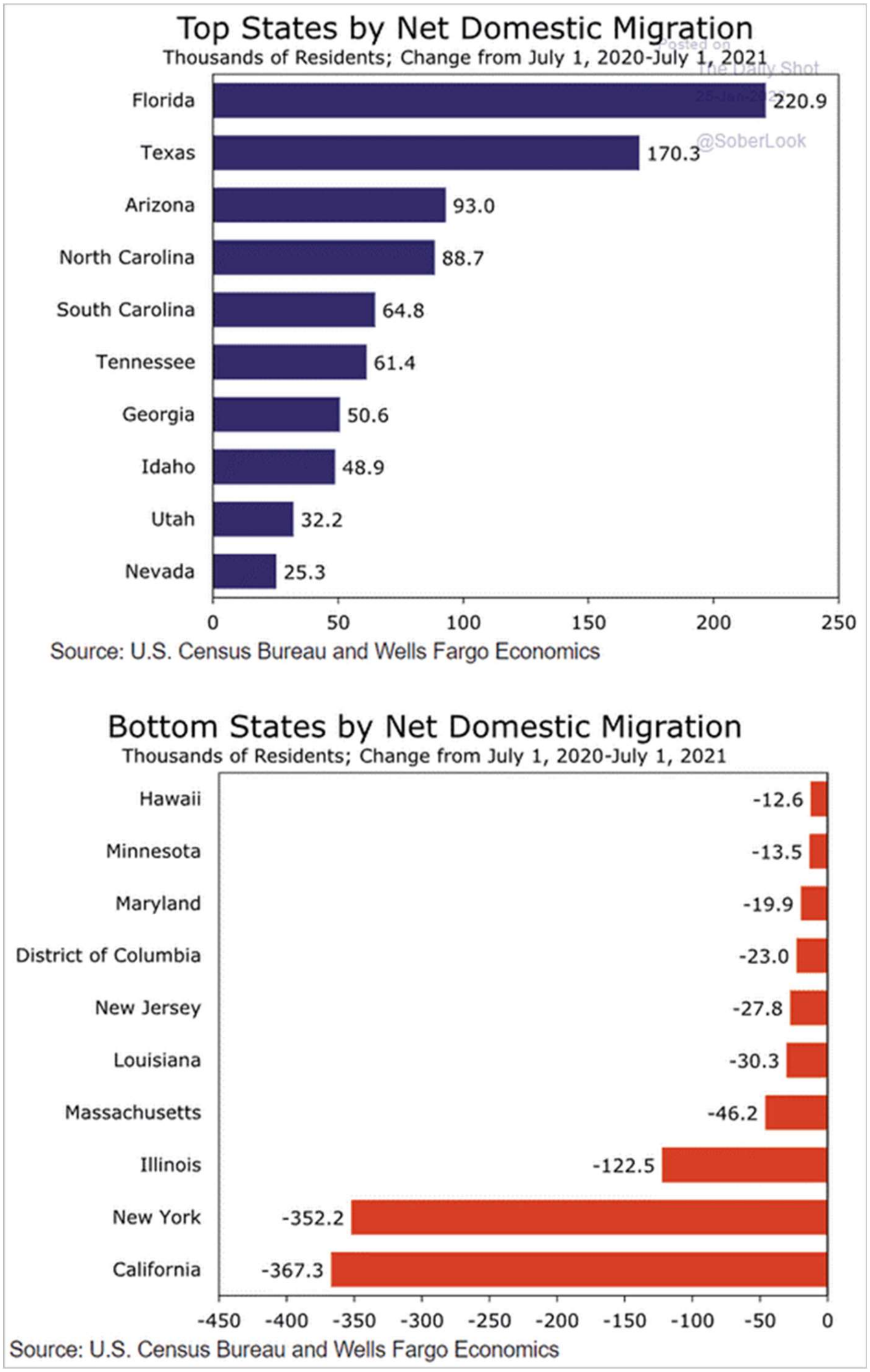
https://www.morganstanley.com/im/en-us/financial-advisor/insights/articles/underestimating-the-red-queen.html

'Are You Investing or Merely Speculating?' **Charlie Bilello**

https://compoundadvisors.com/2022/are-you-investing-or-merely-speculating

Following on last week's notes on fuel costs and US elections…

US residents are perhaps already voting…with their feet.



The US States showing the highest internal population exit have the highest taxes and energy costs. Those with highest internal population entrance have the lowest taxes and energy costs. Maybe just coincidence. Mr. Elon Musk moved himself and Tesla's corporate headquarters from California to Texas. He saves $2.5 billion annually in taxes. His corporation(s) will also have access to much cheaper energy costs of all kinds. Maybe just coincidence. Not to worry. Mr. Musk will still be able to soak up all the California beach sun he likes…as a visitor

https://www.businessinsider.com/tesla-texas-headquarters-move-from-california-officiallly-complete-elon-musk-2021-12

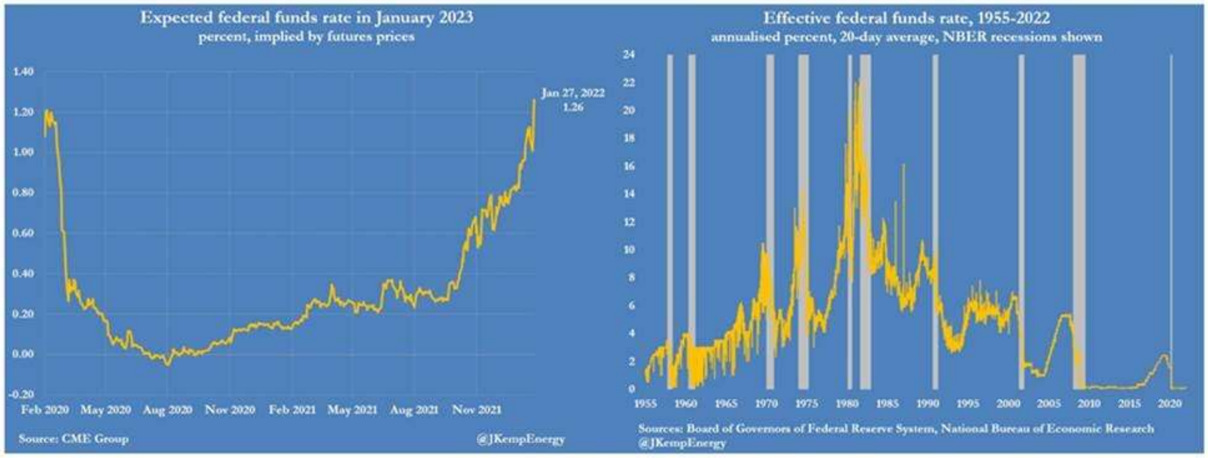
At what point do governments connect the dots?

Wed. Jan 26, 2022 Federal Reserve Open Market Committee (FOMC) meeting notes from NBF

Our Economics team weighed in on yesterday's Fed meeting: "This was very much a 'brace for lift-off' policy meeting as Chair Powell and the FOMC all but guaranteed that rates will be on the rise at the next meeting. With the taper to be wrapped up in just over a month, the focus will quickly shift to balance sheet normalization. On this front, the Fed provided some loose "principles" on how it views the balance sheet normalization process, though it remains unclear exactly when this process will officially begin. Based on Powell's post-meeting presser, it seems that the earliest we could see run-off formally announced would be in the June meeting. Once underway, expect the run-off to be tilted more heavily towards MBS as the FOMC noted it intends to "primarily" hold Treasuries in its portfolio in the longer-run. Overall, today's meeting represents a continuation of the pivot that started back in November. Tight labour markets and not-so-transitory inflation continues to push the Fed towards less easy policy. As Powell noted today, the inflation outlook has continued to worsen since the last meeting and risks are still probably skewed to inflation remaining elevated for longer. As a result, it's likely that we see the Fed raise interest rates four times this year, with the market more than fully priced for such an outcome". Note the next monetary policy meeting will take place on March 15-16th.

Breathless pundits have pointed to these rising rates as predictors of Doom. Perma-hyper bear Jeremy Grantham was on the news feed again this week predicting 'A 40% correction has already begun'.

John Kemp writes for S&P out of London. His chart this week plots both recent Fed Funds rate trend (that has been used as an alarm bell by hyper-bears) and the longer-term trend. The grey bars are recessions. Bottom line. Basing on the Fed Funds rate, we're a long, long way from doom. I'm sure the doomsters will come up with another reason to worry. That's okay. It's what markets are for. They can sell all they want…and we can buy from them.



A few highlights from Canada's perspective

Russian gas supply halt would deal EU economic hit -report: Reuters

The European Union could cope with a short -term halt to all Russian gas imports but doing so would have "profound economic consequences" and require emergency measures to curb demand.

https://www.reuters.com/world/europe/russian-gas-supply-halt-would-deal-eu-economic-hit-report-2022-01-27/

We've predicted higher energy costs for some time. We've also fretted that Canadian political will on energy policy means we'd miss out. This has borne out. While Canada had internal battles over single pipelines the US has expanded their LNG capacity dramatically. LNG will be purchased and consumed. Tax revenue, wages and profits will be earned. Not by us. Maybe Canadians are okay with this. The Globe & Mail details why.

Canada has the natural gas, but can't get LNG to Europe: Globe & Mail (requires subscription)

Canada has ample reserves of natural gas but the country finds itself on the sidelines as a global coalition plans to boost shipments of the fuel in liquid form to Europe in case Russia halts its exports.

https://www.theglobeandmail.com/business/article-canada-has-the-natural-gas-but-cant-get-lng-to-europe/

I hold to the assumption Mr. Putin does not need to fully occupy Ukraine. There are many reasons a strong man likes to parade his army toys around for the public, including making the generals happy. My take is the worst we'll see is Crimea-2. Russia moves some equipment in a limited way in the area surrounding Southern Ukraine from the Russian border through to the Donetsk region to the Crimean Peninsula base adjoining Ukraine, securing a land bridge for Russia. Note: Russia already has access to Crimea via the Tuzla

Bridge running from the extreme western end of the Krasnodar Krai region across Taman Bay to the Crimean Peninsula's Eastern end.

Another view is Putin may be playing to a romantic ideal of Russia's history derived from the Kievan Russ period. Will a desire for 're-uniting' the ancient Kiev centered kingdom (under Mr. Putin of course) be his goal?

https://en.wikipedia.org/wiki/Kievan_Rus%27

The problem with these kinds of games is someone makes the wrong move, the other side misunderstands, reacts, conflict starts. Once begun both sides assume 'it will be over by Christmas' and neither sets of leaders are willing to admit fault. When Hitler invaded Sudetenland, he fully expected the Allies to merely blink and do nothing. When they reacted with force, he was in turn forced to push harder. If he'd backed down, he would have been seen as weak. We're not in the environment facing the 1930's post-WW1 defeated Germany facing the Great Depression. There are many more reasons not to have a war than to have one. We're not assuming full on European theatre conflict is nigh.

Interest rates are likely to rise. To what levels?

NBF's Canadian projections

Canada						
Quarters	Overnight	3 Mth Bill	2YR	5YR	10YR	30YR
27-Jan-22	0.25	0.36	1.26	1.63	1.77	1.98
Q1:2022	0.50	0.55	1.40	1.75	1.90	2.10
Q2	0.75	0.80	1.65	1.85	2.00	2.15
Q3	1.25	1.20	1.85	1.95	2.05	2.20
Q4	1.50	1.40	1.90	2.00	2.10	2.25
Q1:2023	1.75	1.65	2.00	2.05	2.15	2.25
Q2	1.75	1.70	2.00	2.10	2.20	2.30
Q3	1.75	1.75	1.95	2.10	2.20	2.30
Q4	1.75	1.75	1.95	2.05	2.20	2.30
Q1:2024	1.75	1.70	1.90	2.00	2.15	2.25

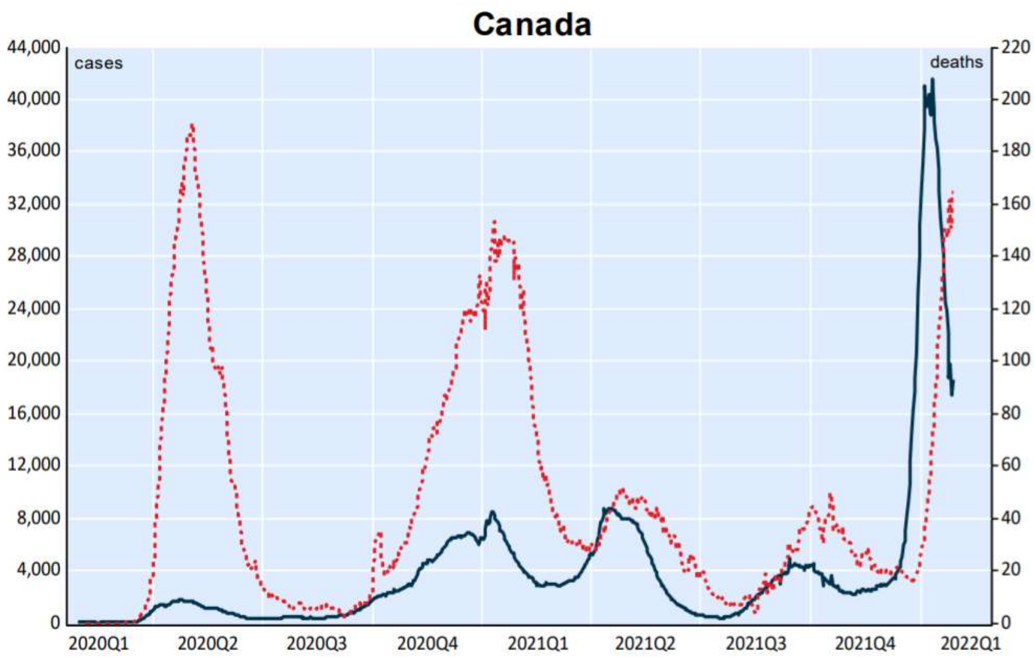
Source: 'This time It's Different'- NBF Fixed Income Monitor Jan 28, 2022

So yes short term rates will rise from 0.25% to 1.75% while 10 year rates will rise from 1.77% to 2.15%. Unless you are extremely leveraged you may climb back in off that ledge.

National Bank's COVID Daily Monitor for Jan 28, 2022

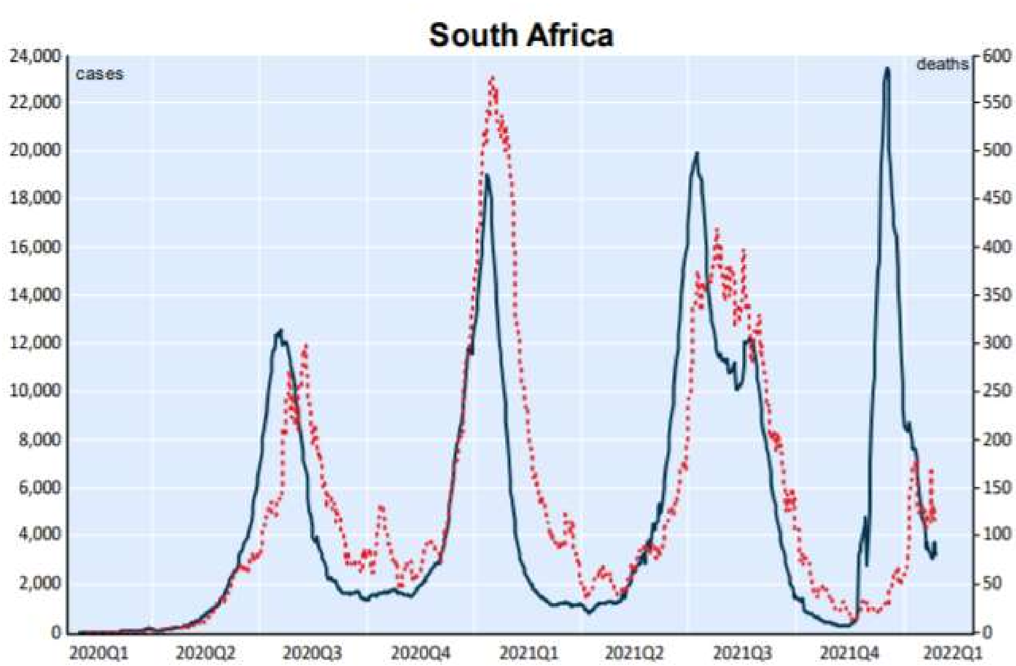
From page 2 (see link for full report)

https://nbf.bluematrix.com/sellside/EmailDocViewer?encrypt=1f828107-ded6-4180-9d0e-9f17dcea62aa&mime=pdf&co=nbf&id=steven.hilberry@nbc.ca&source=mail

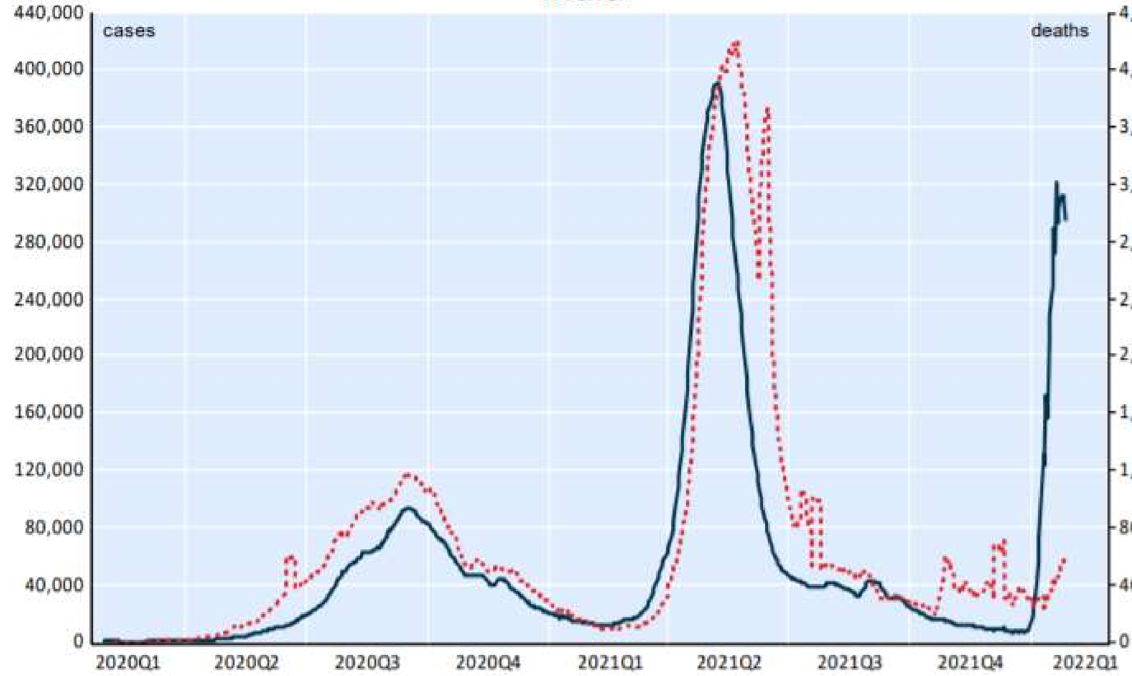


NBF Economics and Strategy

Canadian cases per million (blue left-hand axis) spiked the collapsed. Deaths per million (red-right hand axis) should follow. Developing nations with younger populations are seeing larger spikes in cases but not deaths.



India



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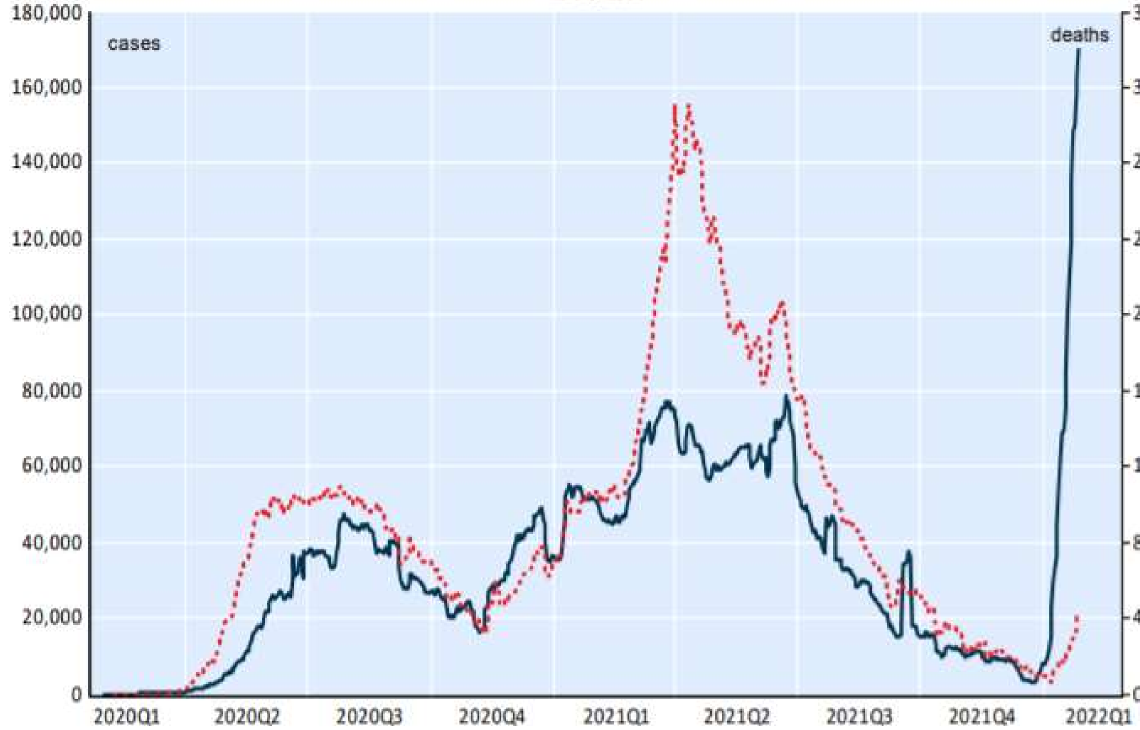
Brazil



NBF Economics and Strategy

Are we through the woods? On that happy note…

Have a Great Weekend

Steve & Anna Hilberry

FOR THE RECORD Jan 28, 2022

DOW INDUSTRIALS:	34,725
S&P 500:	4,431
S&P/TSX COMP:	20,741
WTI:	$87.29
LOONIE IN $USD:	$0.7829 $US

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