HILBERRY GROUP
WEALTH MANAGEMENT

Feb 16, 2022

When Bad News is Good News

We've been advising interest rates were headed higher since the middle of 2020. We've said this isn't necessarily bad. We've pointed out rising rates can be a sign of increased, healthy demand for stuff. In 2020 we advised the COVID Pandemic panic would end. We thought the post-pandemic COVID induced collapse, would see demand boom. In 2020 investors didn't believe it. Neither did they in 2021. We advised once they did believe it, asset prices would jump. Wow did that prove correct! Historians will debate the cause of the COVID collapse. Were infections laying consumers low, or was it Govt policies? Similar debates continue for the Great Depression. 'Why' is for academics, politicians (and voters). We just want to make money.

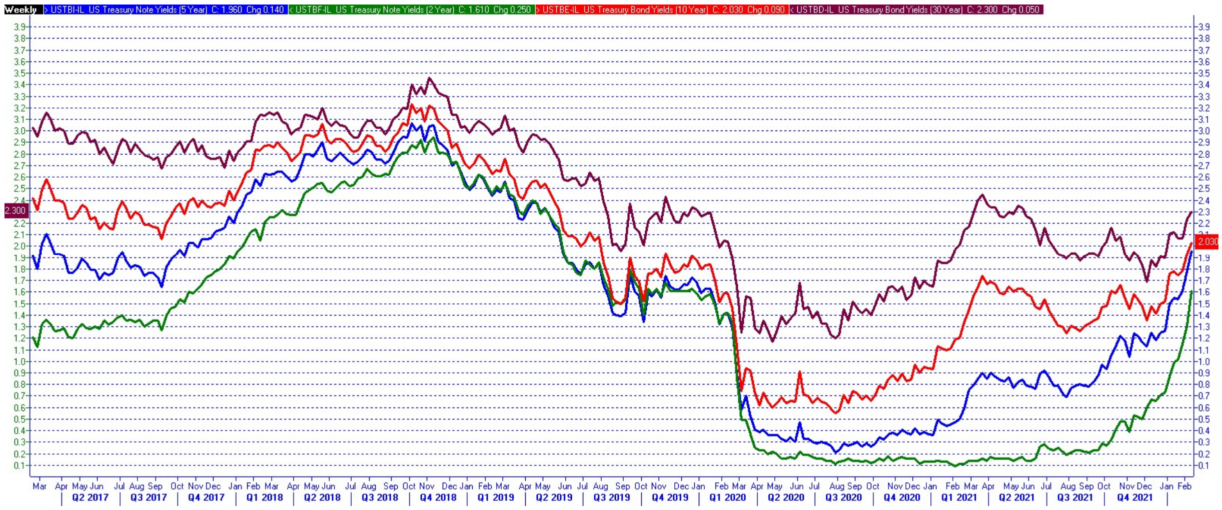
How did that interest rate call work out?

North American Lending Rates	**------- Yield to Maturity -------**					
	Feb-21		**Feb-22**			
11-Feb-22	**US**	**CANADA**	**US**	**CANADA**	**% Change**	
Over Night/Bank Rate	0.09%	0.25%	0.09%	0.25%	0.00%	0.00%
T-Bills 3 months	0.04%	0.07%	0.38%	0.48%	838.50%	585.71%
Fed Govt Bonds 2-yrs	0.110%	0.193%	1.61%	1.50%	1363.64%	677.20%
Fed Govt Bonds 5-yrs	0.500%	0.82%	1.96%	1.80%	292.00%	119.51%
5 year Fxd Mortgage Avg Rate	n/a	4.79%	n/a	4.79%	n/a	0.00%
5 yr Floating Mortgage Avg rate	2.9%	1.20%	3.99%	0.900%	39.51%	-25.00%
Fed Govt Bonds 10-yrs	1.20%	1.029%	2.03%	1.95%	69.17%	89.80%
Fed Govt Bonds 30-yrs	2.01%	1.633%	2.30%	2.22%	14.43%	35.64%
Bank Prime Loan Rate	3.25%	2.45%	3.25%	2.45%	0.00%	0.00%

Sources: Refinitiv,Fed St Louis, Bank of Canda, NextAdvisor.com, RateHub.ca

Interest rates are up. **Check.**

US Bond yields: 90-day (blue) 2-yr (green) 10-yr (red) 30-yr (burgundy) 2017 - 2022



Rates plunged during the COVID Recession (right hand center section). They've rebounded back to 2019 levels. **Check.** We expect this upward trend to continue.

Other than the obvious post-precession rebound, are there any longer-term trends to consider? The rise of Chinese and other developing nation manufacturing in the early 2,000's saw a rush for industry market-share backed by governments desperate to improve their population's lot. It worked. China's average poverty rate plummeted with a whole new middle-class of workers actually earning money (imagine that). We believe investors must understand the magnitude of this change and what it means, financially geo-politically and strategically. I assign the following for this Week's required reading. It will be on the test!

How Well Off is China's Middle Class? - Center for Strategic & Intl Studies

https://chinapower.csis.org/china-middle-class/

Even with the rise in fortunes, China is still a poor country. Middle class is categorize as earning $20-$50 US per day in Purchasing Power Parity ("PPPs are the rates of currency conversion that equalize the purchasing power of different currencies by eliminating the differences in price levels between countries".)

The numbers are breathtaking. From 3% of the population (39 million) 20 years ago to over 50% of the population (700 million). Chinese savings soared. Currency flowed into the country. A virtuous circle of falling costs, improved productivity, improving health, smaller families making more money with nowhere to spend it led to an excess of savings. More money to lend meant interest rates flopped. Fed Reserve Chairman 'Helicopter' Alan Greenspan made money easy during the post 2000 Dot.Com bust, 9/11 era. Ben Bernanke took that idea and went nuclear with Quantitative Easing during the Credit Crunch. We saw negative interest rates galore. Easy money every where. Professional Doomsters like David

Rosenburg and 'investment legend' (in his own marketing) Jeremy Grantham have predicted doom every year since. Eventually they'll be right and will trumpet they predicted the recession. Even a stopped clock is right twice per day.

We thought easy money would end. Why? We pointed to a longer-term challenge for China being their future population declines.

The above ***CSIS*** study provides a handy bell bar chart plotting China's demographics 1970 to 2020. We advise clients play with it. The trend is obvious. The reverberation of China's draconian *One Child* policy (https://en.wikipedia.org/wiki/One-child_policy) predicts a future decline in the working population. We featured this policy effect and the same studies 4 year's ago at our seminars. China's population is aging rapidly.

We believe one result will be more internal consumption of savings inside China's economy and a slowing of the economic growth rate. Interest rates could rise. This explains our caution on investments leveraged to falling interest rates, including speculation. Falling rates makes everyone a genius. When the loan rate is virtually zero, so is the 'discount rate'. The future gain potential is infinity.

An example of this caution has been in our bond portfolios. We've kept the average maturity range unusually short for money managers, with an average maturity (duration) at or under 3 years. We've maintained that stance since late 2019. We were early but eventually correct in spades. Getting on the bus early gets you a seat. Later means standing room only. Too late and you miss your ride!

We thought interest rates would rise. It's happening. We did not and do not believe these increases will (initially) prove a hurdle for the economy. So far so good. We believe, eventually rates will rise past the 'no fun' point causing a slowdown in the economy. We expect that inflection point will be later in the business cycle. Years not weeks. The second chart on this week's notes shows a narrowing of yields back in late 2018 to mid-2019. In 2019 we took that narrowing as an early warning recession indicator and began reducing equity risk. We'll see if the pattern repeats. Very tidy.

There's always at least one bogey. This cycle's bogey might be rising energy costs. Oil prices remain a core cost for the economy including you and me. Similar to rising interest rates, higher energy costs take money out of our pockets we'd like to spend on other things. Who takes joy out of paying their hydro bill or filling their gas tank? Or even charging their EV? Anything that increases energy costs, increases all costs and decreases our net purchasing power. Such costs are 'regressive'. The poorer you are the more you feel the pain (I've harped on intentional increasing of energy costs through Govt policies ad nauseum – not this week). Rising oil prices could have the same effect as rising interest rates, acting as a drag on the economy. We don't think the rising oil prices are enough to have this effect…yet. So far we've surfed the wave of rising oil demand by owning the underlying assets. We hope to avoid a wipe out.

Speaking of wipe outs, Neil Young railed against the Big Four US banks this week after pulling his offerings from Spotify last week over Joe Rogan's Shock-Jock anti-COVID mandate antics. Spotify said 'See Ya Neil'. Perhaps Joe Rogan's $100 million per year in revenue trumps Mr. Young's.

Mr. Young's actions focused attention on streaming and the music industry in general.

NEIL YOUNG'S SPOTIFY EXODUS IS A TEST CASE FOR ARTISTS WHO DARE QUESTION MUSIC INDUSTRY DOGMA.

https://www.musicbusinessworldwide.com/neil-youngs-spotify-exodus-test-case-for-artists-who-dare-question-music-industry-dogma/

Not to worry, Neil's estimated to be still Rockin' in the Free World with his $200 million wealth. His revenues actually soared after he left Spotify. While he might have simply been making a principled stand (I agree with his views on Joe Rogan's anti-mandate antics) he may also have been playing the 'any attention is free marketing' ploy.

https://www.rollingstone.com/music/music-news/neil-young-streaming-sales-numbers-rise-joe-rogan-spotify-1296388/

With the US banks in the news cycle, some pundits piled onto the Canadian banks (never let story go to waste) warning the banks were ticking time bombs. Pundits pointed to the US Debt Crises experience of American banks. This is a rehash from 8 years ago. We revisit an LA Times 2014 article explaining why the Canadian Banks are less risky than the American ones.

***'How Canada is not like the United States: Home mortgage edition'* LA Times Jan 16, 2014**

https://www.latimes.com/business/hiltzik/la-xpm-2014-jan-16-la-fi-mh-canada-20140116-story.html

Feb 14 Valentines Day: From Russia - With Love?

We're making a Family Long Weekend History Assignment: Russia and Ukraine

Crimean Crisis: Russia Annexation Crimean Peninsula Feb – March/2014

Feb 27, 2014: Russian masked troops with no uniform insignia staged a coup, occupying the Crimean Parliament. Russian regular forces eventually occupied all strategic positions within the peninsula. Pro-Russian Sergey Aksyonov installed as leader of a new 'independent' Crimea. Feb to March 16, 2014: A referendum of Crimean independence from Ukraine was held. The outcome was never in doubt. March 18, 2014: Russia welcomes the 'newly independent Crimea' with a bear hug, fully and openly occupying the territory, installing military hardware to complete the occupation.

https://en.wikipedia.org/wiki/Annexation_of_Crimea_by_the_Russian_Federation

How did the US stock market react?

S&P500 Jun 30, 2013 - Dec 31, 2014

S&P500 closing levels.

- Dec 31, 2013: 1848
- Jan 31, 2014: 1782
- Friday Feb 14, 2013: 1838
- Monday Feb 24, 2014: 1847
- Thurs Feb 27: Russia invades Crimea: 1854
- Mon Mar 3, 2014: intra-day period low: 1834 -0.75% from Dec 31, 2013 close
- March 31, 2014: Russian annexation complete: 1872
- Today's level: 4445 (Feb 16, 2022)

What about Canada?

S&P/TSX Composite closing levels.

- Dec 31, 2013: 13,621
- Jan 31 2014: 13,694
- Friday Feb 14, 2013: 13,880
- Monday Feb 24, 2014: 14,227
- Thurs Feb 27: Russia invades Crimea: 14,214
- Monday Mar 3, 2014: intra-day period low: 14,160 **+3.96%** from Dec 31, 2013 close
- March 31, 2014: Russian annexation complete: 14,335
- Today's level: 21,379 (Feb 16, 2022)

Feb-March/2014 North American bond and equity markets ignored Russia's annexation of Crimean correctly interpreting NATO's lack of interest in spilling blood and treasure. Same response as the Russian military occupation/annexation of Georgia in 2008.

As I write this section on Wed. Feb 16, Russian forces appear ready to invade – ahem – 'liberate' Ukraine from the democratically elected Ukrainian Govt. The script now calls for a false flag operation with a manufactured crisis requiring the 'rescue of Russian peoples' in Ukraine. Mr. Putin editorialized the 'ancient and enduring' cultural connection of Ukraine to Russia as being 'the same country'. Politico commented last week.

'Opinion | Sorry, Mr. Putin. Ukraine and Russia are Not the Same Country' – Politico – Feb 6, 2022

https://www.politico.com/news/magazine/2022/02/06/ukraine-russia-not-same-country-putin-ussr-00005461

From an investor's perspective, the question is not if Mr. Putin will direct Russian forces to invade Ukraine. The question is what will NATO (Germany, France, Britain, and the US) do about it? Russia supplies 40% of Germany's natural gas. Turning off the gas taps makes it harder (but not impossible) to ramp up a military industrial complex in the cold and dark. The new German Chancellor Olaf Scholz met with Putin this week. The Russia/Germany NordStream 2 natural gas pipeline was no doubt discussed. Then, the above stories of Russian troops pulling back floated in the media.

The US has moved 3,000 troops to Poland. Canada is sending '*personal protective and load carriage equipment'* (helmets and backpacks) and is considering bullets and guns. NATO is pondering offering sophisticated military hardware or heavy armaments (if Ukraine is lost to Russia would that be a good idea?) NATO has previously stated it will not engage in hostilities. The risk of NATO/Western Democracy's entry into a Ukraine conflagration appears small. Just like Georgia and Crimean. Putin has this figured out. Pundits have labeled Putin's gambit a gamble. Markets don't see it as much of one either way. So far.

Headlines have shouted Russia moving forces totaling over 130,000 troops to the Ukraine border. The actual number of Russian combat troops is not clear. Ukraine has nominally over

200,000 active-duty troops but a far weaker armament. Crimea was mostly friendly territory for Russian troops. As battles around the Donetsk region proved, Ukraine not so much.

How Do the Militaries of Russia and Ukraine Stack Up?

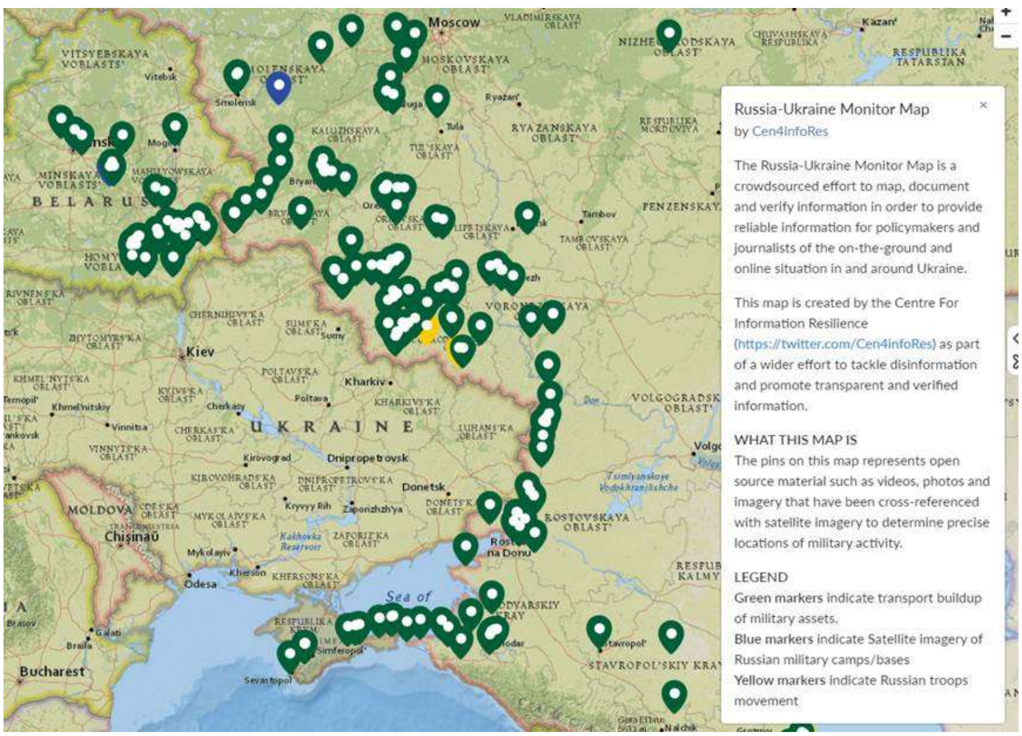
https://www.cfr.org/in-brief/how-do-militaries-russia-and-ukraine-stack

I write this section on Wednesday Feb 16, 2022 in Duncan, BC literally half a world away from these tensions. I'm aware of it and so is every other investor on the planet. Investor response, so far, has been '*wait and see?*'.

Tuesday this week equity markets jumped, and commodity prices fell in response to news stories (put out by Russia) of Russian troops pulling away from the border (video of tanks moving). Are Russian troops actually pulling away or just moving locations? NBC's Institutional FOREX team provided this comment and map using crowdsourcing to try and identify Russian troop locations and tease out potential market signals.

https://maphub.net/Cen4infoRes/russian-ukraine-monitor

Based on this troop movement, yesterday's moves were apparently only from Belarus (north of Ukraine) to the border east of Ukraine - not necessarily de-escalation. We also note several new locations in yellow there including another field hospital and camp, so it's not immediately evident that there's a pullback per se. One of the other leading indicators that we thought would show up was for natural gas and power pricing to spike before an attack, so with that not being the case yet, we're not sure what to think will happen next.



With history as a guide, dramatic changes in portfolio allocations do not appear prudent. Yet.

'Lessons From Past Rate Tightening Cycles' – Institutional Investor Feb 7, 2022

https://www.institutionalinvestor.com/article/b1wl6km9sjtzmy/lessons-from-past-rate-tightening-cycles

7-Chart Sunday (2/6/22) Charlie Bilello

Charlie's look at bond yields and inflation is required reading for anyone with a mortgage. Rates are heading higher.

https://compoundadvisors.com/2022/7-chart-sunday-2-6-22

BlackRock's Larry Fink: Don't divest fossil fuels, stay in the game

Larry Fink is CEO of Black Rock, the world's largest asset management company with assets exceeding 9 $ Trillion US. He makes points we've been harping on for years. We agree with his concerns for the climate and many of the solutions he offers, including paying attention to what any entity we're considering investing is doing about their carbon footprint. Mr Fink believes, and we agree, that climate change is a problem He believes, and we agree, that a lot of money will be made solving these problems. There is always a lot of money to be made! That's the beauty of the capitalist system. Allow folks to make money and they'll do it without any government regulations.

But/and…it's not simple and it's certainly not simply 'no carbon'. There is no such thing as 'no carbon'. We need policies that work, not policies that appeal to voter emotions.

He makes this point:

"Keep in mind, if a foundation or an insurance company or a pension fund says, 'I'm not going to own any hydrocarbons,' well, somebody else is, so you're not changing the world," Fink told a virtual audience at the MIT Golub Center for Finance and Policy's eighth annual conference, "Financial Policy and the Environment."

He concludes with this section

Stop greenwashing

Above all, Fink reiterated that the process of tackling climate change "cannot be emotional" and instead should focus on policies that work in the long run.

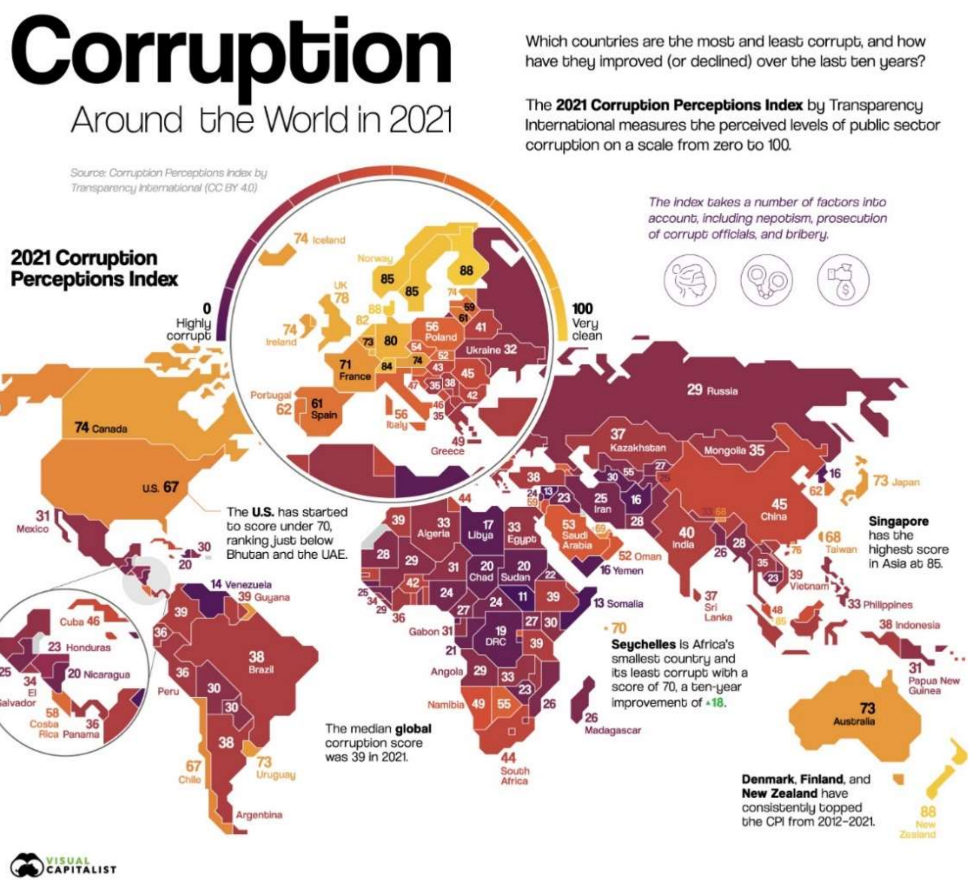
"Unfortunately, so much of the policies are greenwashing," Fink said. "Nothing is more greenwashing than divestiture. Because it doesn't change the [carbon] footprint of the world."

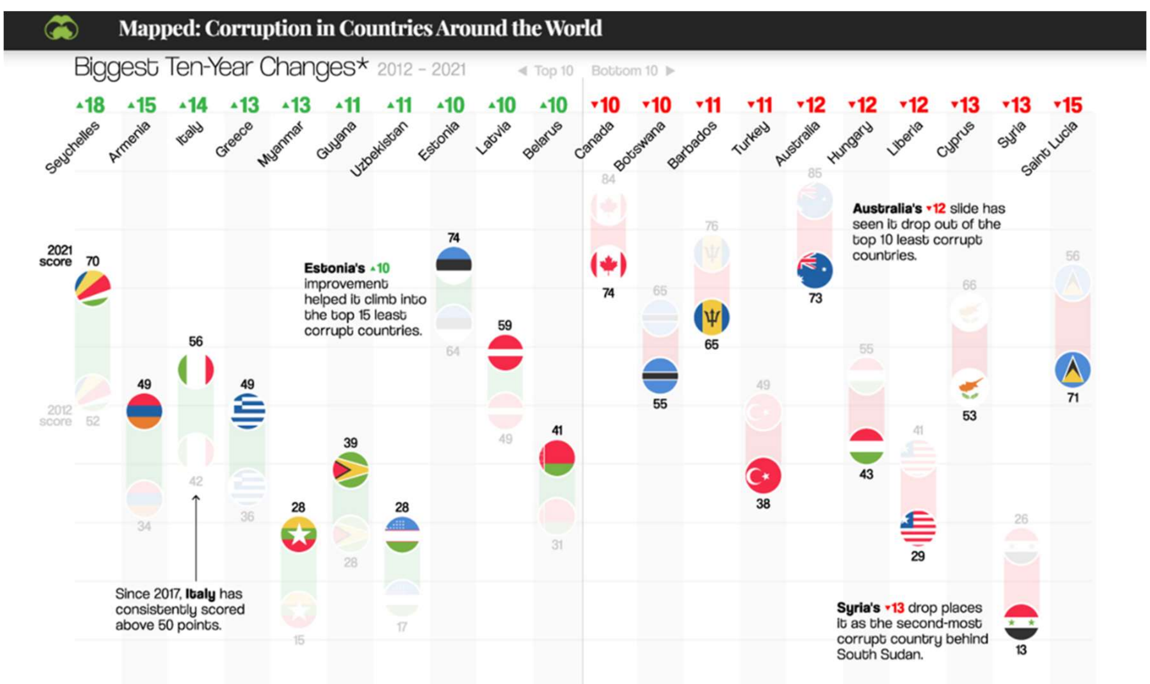
https://mitsloan.mit.edu/ideas-made-to-matter/blackrocks-larry-fink-dont-divest-fossil-fuels-stay-game

Staying with energy…

***Sledgehammer: Energy Transition Slams into Energy Reality – School of Energy Spring 2022’* - Rusty Braziel RBN Energy Blog Feb 8, 2022**

https://rbnenergy.com/sledgehammer-energy-transition-slams-into-energy-reality-school-of-energy-spring-2022





Feb 16, 2022

HILBERRY GROUP

NATIONAL BANK FINANCIAL
WEALTH MANAGEMENT

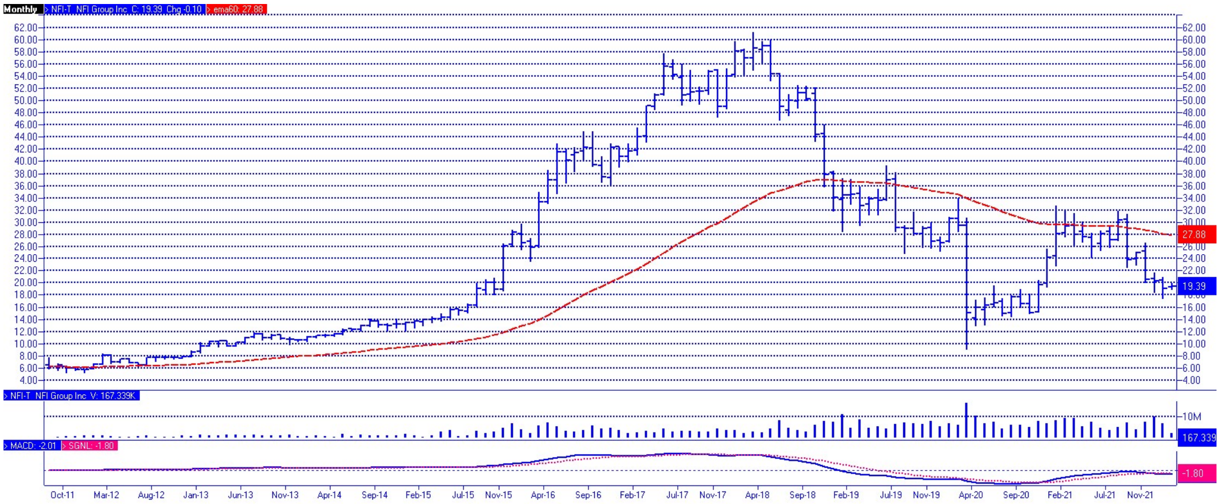
From least to most, Canada is led by the Nordic countries, New Zealand, Germany, UK, Singapore and…Hong Kong (?). *''both Australia (-12) and Canada (-10) have actually fallen out of the top 10 least corrupt countries over the last decade."* Imagine. Canada with some racy corruption? Maybe we're not so boring after all.

https://www.visualcapitalist.com/mapped-corruption-in-countries-around-the-world/

Identifying Investing's Anti-Patterns - Safal Niveshak Feb 8, 2022

https://www.safalniveshak.com/investing-anti-patterns/

NFI Group Inc (NFI-TSX-$19.32) monthly ranges since IPO Oct/2011



A client has been following **NFI Group Inc (New Flyer Industries).** She's an adventuresome type, willing to take big risks. She has learned to manage the size of those risks vs. her portfolio. Take big risks with small dollars per position. I admire her courage and questing spirit. We'll nod to her interest this week. NFI Group is a Canadian based company building public transport buses. Here an excerpt of their business description.

NFI Group Inc. is a Canada-based independent global bus manufacturer that provides transportation solutions. The Company operates through two segments: Manufacturing Operations and Aftermarket Operations. The Manufacturing Operations segment is engaged in manufacturing, servicing and supporting of new transit buses, coaches, medium-duty and cutaway buses. The Aftermarket Operations segment is engaged in the sale of aftermarket parts for transit buses, coaches and medium duty/cutaway buses. It operates through its brands, including New Flyer (heavy-duty transit buses), Alexander Dennis Limited (single and double-deck buses), Plaxton (motor coaches), MCI (motor coaches), ARBOC (low-floor cutaway and medium-duty buses) and NFI Parts (aftermarket parts sales). The Company offers a range of drive systems, including zero-emission electric (trolley, battery and fuel cell), natural gas, electric hybrid and clean diesel.

NFI is a small company with revenues in the millions, not billions. Investor excitement has focused on their low/zero-emissions propulsion systems. Public Transit relies on Federal, Provincial, State and Municipal money. The move toward green tech has seen Govts talk up 'Build Back Better' slogans on both sides of the border (IE subsidies). Actual dollars have been thin on the ground.

Here is a link to NFI's 2020 annual report.

https://www.nfigroup.com/static-files/016cdd59-fa52-44d8-8cf9-4fc2ae5a4d14

To no surprise, 2020 was a tough year. New Flyer was indeed a flyer in 2018 when the stock price hit $62. Lately it's under $20. One positive: Insiders loaded up on their own stock in Dec/2021 $15-$16 per share.

NBF provides research on the name. Here is NBF's opinion history. It makes interesting reading. In April/2019 with stock around $32 the price target was $44. Recently with prices around $20 the price target is $23. Ouch. This might be an interesting story to follow. We are not recommending our clients buy.

NATIONAL BANK OF CANADA FINANCIAL MARKETS

NFI Group Inc.

NBCFM Research | December 3, 2021

Disclosures

PRICE, RATING AND TARGET HISTORY: I = Initiation, OP = Outperform, SP = Sector Perform, UP = Underperform, UR = Under Review, R = Restricted; T = Tender (Source: Factset, NBF)

DISCLAIMER: I do not hold NFI Group personally, for family members or for accounts over which I have trading authority. We are not recommending clients buy NFI's common shares. We have clients who've traded in the security under their own initiative within the past 60 days. This information is for general interest only.

Got some down time over the long weekend? Clean up and update those passwords!

Stocks That You Should Sell: Don't Miss This Critical Sell Signal for Stocks (Investing Like Icarus)

Watch Anna's latest video here

https://www.youtube.com/watch?v=EN5Z1GaXVdA

Feb 16, 2022

We're working remotely Feb 17-22. Full time back in the branch Feb 23.

Have a Great Weekend

Steve & Anna Hilberry

FOR THE RECORD Feb 16, 2022

DOW INDUSTRIALS:	34,934
S&P 500:	4,475
S&P/TSX COMP:	21,383
WTI:	$90.92
LOONIE IN $USD:	$0.7881 $US

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