HILBERRY GROUP
WEALTH MANAGEMENT

Apr 1, 2022

Happy April Fool's Day!

The Four Most Dangerous Words on Wall Street are…

It's - Different – This - Time

'Household Pulse: The State of Cash Balances at Year End' – JP Morgan Institute, Greig, Deadman, and Sonthalia.

https://www.jpmorganchase.com/institute/research/household-income-spending/household-pulse-cash-balances-at-year-end#finding-1

In 2020, governments responded to the COVID-19 Pandemic by enforced social distancing and curtailment of public venues. Large swaths of the economy were locked down as we awaited vaccines. Whether this was a failure to act, Goldilocks correct, or deep state conspiracy overkill will be debated in political science class. The unprecedented lockdowns certainly caused an unprecedented contraction in GDP. Service industries went into free-fall, many never to return. Air Travel to Tourism declined to unheard of levels.

Following on the unprecedented COVID-19 lock downs, Federal Govts in Canada and the US provided unprecedented direct stimulus to their citizenry. If workers are locked in their homes, surely economic devastation follows? It seemed reasonable. If ever there was a time for Big Government to ride to the rescue, that was it. Maybe not.

JP Morgan Institute concludes the stimulus cheques mostly sat in recipients' chequing accounts. The lower the income band, the higher the percentage held in relative cash. To be clear the stimulus cheques meant less to upper income citizens and represented a lower percentage of their typical balances than the very lowest bands. It was understandable to want to conserve cash. Yet, the fact the <u>money wasn't spent</u> means on average recipients in all income bands didn't need it. It also means all income band recipients, including those in the lowest, had already reviewed their expenses and, SURPRISE, decided on their own to manage their costs and risks without Govt aid. Maybe they're not so helpless after all. That's encouraging. It also means the stimulus was and is inflationary. The COVID stimulus will also be debated in Econ 101 for years to come.

The stimulus cheques, intended to 'protect against catastrophic economic collapse' sat in cash. For some, it wasn't needed. Recipients held on to their Wind Fall (more on that term later).

CONCLUSIONS: Things that are Different This Time. Kind of:

- Coming out of a deep recession consumers usually have low levels of cash. Not this time. Consumers are at record distance from living paycheck-to-paycheck.
- As they have more cash than usual, consumers, in the short-term are less sensitive to increased inflationary costs. This means it will take more inflation than in the past to cause economic pain. We see evidence of consumer spending rising despite higher prices. In the short-term, consumers could add to the inflationary fire. This will end.
- Putin's Ukraine debacle has all of us understandably anxious. Caution is likely to remain high. The notion *'COVID's over - Let's Party'* is out. Consumers can afford their core goods but aren't going to splurge just yet. Inflation will still rise, but perhaps not as fast as predicted.
- Wars are bad. A major land war in Europe is worse. Destruction removes supply. Inflation isn't going away anytime soon.
- Wars are bad #2. Large scale conflicts, as with pandemics, cause a mental reset of what qualifies as an 'existential risk', a re-ordering of priorities
- Wars are bad #3. Supplies of everything, including government revenues contract during conflicts. Expensive ideas and grand schemes come down to earth. On the other hand, crisis has the citizenry turning to Govt for financial salvation and safety. Governments see a dramatic increase in size and power during conflicts.

What is not new. Heavy government intervention in the economy has skewed the normal flow of self regulation and self-improvement. Large Government programs have ballooned debts. Big Government = Big Debts = increasing tax burdens = slowing economic progress for all.

With inflation in mind, I've included the past two Monday Morning Outlooks from the good folks as US-based First Trust Portfolios. They explain how we got here.

***'It's the Money'* Brian Wesbury First Trust March 14, 2022**

https://www.ftportfolios.com/Commentary/EconomicResearch/2022/3/14/its-the-money

***'What the Fed Should Do'* Brian Wesbury - First Trust March 21, 2022**

https://www.ftportfolios.com/Commentary/EconomicResearch/2022/3/21/what-the-fed-should-do

Pulling My Hair Out.

'Big Oil rakes in billions as prices soar. Lawmakers want them to pay us back' – CNN March 20, 2022

https://www.cnn.com/2022/03/20/investing/stocks-week-ahead/index.html

EU Leaders Poised to Support Taxing Windfall Energy Profits

- European heads of government to discuss energy March 24-25
- Member states to further study emergency tools to curb prices

By Ewa Krukowska

(Bloomberg) -- European Union leaders will likely give the political green light to a proposal by the bloc's executive arm to consider a temporary tax on exceptional profits of some energy companies linked to surging gas and power prices.

As we noted last week we're seeing 'Wind Fall Profits Tax' floated by politicians. Elected officials are desperate to deflect consumer anger over high fuel prices. Populist leaders Left and Right drag out the Blame Game. "It's all the fault of Big *(fill in the blank)* Industry Fat Cats." This time it's Big Oil. Europe is all over the idea. North American Left likes it too. We'll revisit this idea this week.

Those advocating a Wind Fall Profits Tax on commodity producers clearly don't – or won't - understand the economics of Boom/Bust commodities. Oil companies see huge swings in earnings (see Chevron above). In the bad times, bankruptcy is a fact of life in the industry. Only those with the deepest pockets survive - like Exxon the go-to hate target so pilloried in the above CNN story. Exxon's financial discipline in low-price environments enabled them to continue to sell oil to consumers despite losing money on each gallon of gas sold as was the case for much of 2020. Over time Exxon earns a profit. They're even able to maintain a cash dividend. Govts could learn from this example.

The failure of Wind Fall Tax logic is majestic.

1) If we're to apply a windfall profits tax on Big Oil, logically we should then give that money back to the oil companies when prices are below their operating costs.
2) So called 'windfall profits' occur when demand outstrips supply for whatever reason. This go-around, demand in USA and Canada outstrips local supply partially due to anti-oil policies of Govts aimed at restricting said supply (anti-pipelines through Eastern & Western Canada to tidewater, anti-exploration, carbon-taxes, no development on US Fed Govt Lands, Michigan vs Enbridge Line 5, cancel Keystone X-L etc.) by discouraging production. The rebound in demand sees - guess what? - no supply. Prices rise. 'Be careful what you wish for' in action. If Governments apply a Windfall Profits Tax when rising demand is already driving prices up, oil companies

will simply add the tax to the product cost. A Wind Fall Tax pushes prices higher. Why is this such a hard concept? Where are the adults?

3) Why stop at Oil & Gas producers? Why not apply the same to farmers, copper miners, lumber companies, fisherman, or anyone supplying a core commodity that is in short supply today due to no fault of their own?
4) High prices = angry voters. Politicians tend to resort to the easiest populist targets.

Every advance in human history replaced inefficient with more efficient. Costly with less costly. Faster, cheaper, safer, more convenient, more efficient will always win. No subsidies or Govt policies needed. Rather than concentrating 100% of their effort, money and political will on new technology that is more efficient than the current energy, govt policies appear mostly aimed are attempting to permanently drive up the cost of conventional energy until their chosen alternative is less expensive. At the same time, they hope to temporarily subsidize their chosen alternative enough to temporarily bring the cost down to make it more attractive. If you give people free stuff, they will take it. Once it's no longer free, they won't. Central planning rarely wins. Efficiency and productivity always do. Sadly, there is no free lunch.

What about an Oil & Gas Wind Fall Tax in Canada?

It's been fast and furious for the energy sector in North America. The Canadian Fed's ***Emissions Reduction Plan 2030*** (ERP) rollout, US Pres. Joe Biden name-calling the US energy Industry over 'windfall profits' and "sitting on unutilized reserves". Pundits calling the recent oil price rally 'The Last Hurrah'. European and North American politicians are calling for a Wind Fall Profits Tax. Finance Minister Chrystia Freeland tables her Liberal Govt's budget April 7. I expect it will show lots of red ink and little shame. The same bunch that warned oil was a dead asset to be avoided as it was a locked in asset are now promoting a Wind Fall Profits Tax on the Canadian Oil Sector. Would a *Wind Fall Profit's Tax* destroy shareholder value? Should investors sell before April 7?

Oil, Gas & Consumable Fuels Profit Surge Accelerates Tax Horizon

A reminder that oil and gas is complicated but simple. The product is consumed by consumers (who vote). No exploration and no development mean no new oil & gas to replace that which is consumed. The globe burns through 100 million barrels per day. No oil to replace those 100 million barrels equals falling supply. Unless consumer demand declines proportionately, the price rises meaning consumers (voters) pay the price for the lack of supply. This has happened recently in spades. It's not mysterious. There is no grand conspiracy of fat cats attempting to defraud the public.

Accepted tax law holds the cost of investing into a business as deductible from profits. If I put in $1,000 my first $1,000 back is 'tax free' as I'm simply getting my investment back. Expanding the business means investing 'capital'. If the capital invested buys an asset that depreciates, example: a roof that wears out over time, that depreciation is deductible via formula from future profits – if any. In the oil and gas industry capital expense takes the form of exploration. It is a HUGE line item, fraught with risk that may not pay off. Dry holes are total losses. Like any business, oil & gas exploration and development cost is deductible from profits. Oil discovered will be consumed meaning each well is eventually worthless. This 'wasting asset' factor also has an accepted deduction against profits. The distance from the investment to taxable profits is the Tax Horizon. All makes sense, right? Yet it is these same oil & gas expenses activists wrongly claim are 'Oil & Gas Subsidies' implying the Government is subsidizing IE giving money to, the oil & gas industry. It's not true.

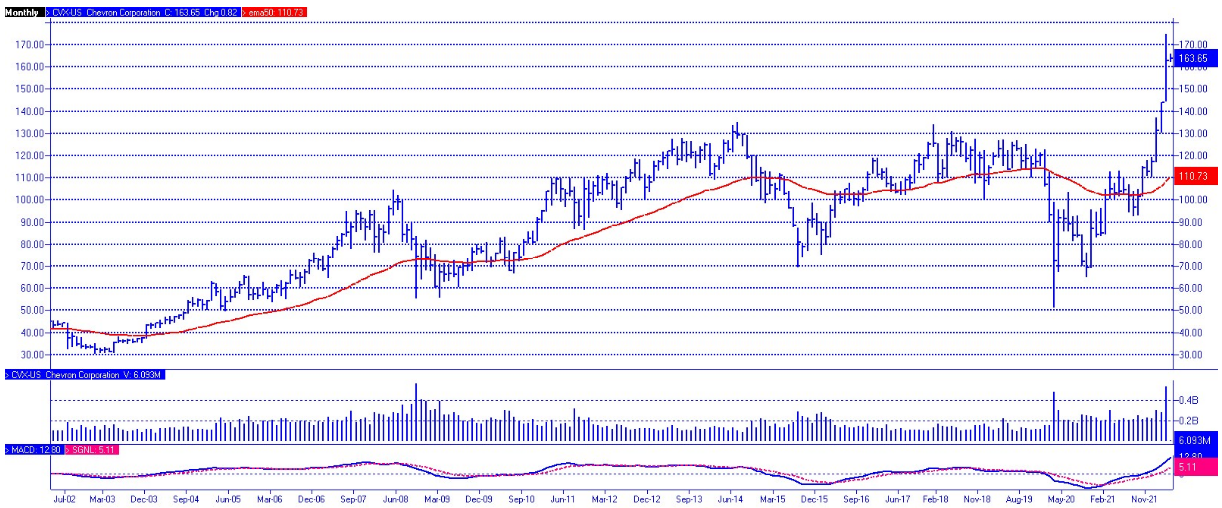
With that explainer in mind, the Canadian oil and gas industry is finally, after a terrible few years, making profits again. Those profits are large. So were the previous losses. This means the 'Tax Horizon' is approaching faster. Cash taxes are a drag on returns. What are those cash taxes and what do they mean.? The short answer is over $15 billion in cash taxes. Compared to the $100 Billion in projected cash flow by 2023 it's no reason to sell. Repeat , $100 Billion flowing into Canadian pockets. We hope the Fed's don't kill the golden goose. NBF explains address the Wind Fall Profits Tax notion in their review.

https://nbf.bluematrix.com/sellside/EmailDocViewer?encrypt=6f77128d-72f9-4432-90b0-87f6ad669778&mime=pdf&co=nbf&id=steven.hilberry@nbc.ca&source=mail

The Last Hurrah?

Patience is a Virtue. Sometimes you need lots of it.

Chevron Corp (CVX-NYSE-$163.53) monthly ranges – 20 years.



Chevron remains one of the world's top energy producers. Providing consistently high quality products North America uses every day, the company has been well managed, well financed and profitable. They have grown dividends to shareholders steadily. Yet they were vilified for doing all these same things. Hated as BIG Oil (they got Big by being good at it), despised for making money selling 'dirty oil' (who's buying isn't addressed) they became an easy target of 'divest' campaigns and social license, stakeholder transformation, build-back- better campaigns. Chevron was labelled Jurassic. These notions discouraged investors and the industry.

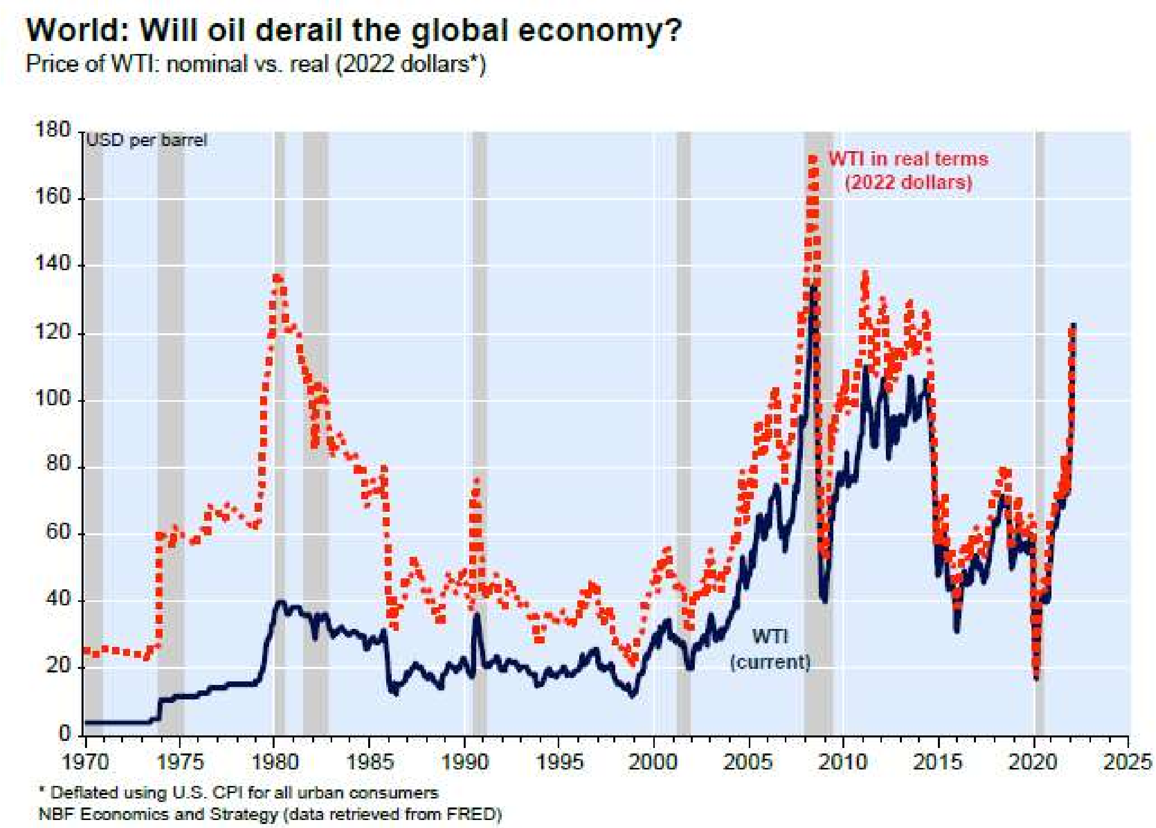
Chevron's share price went sideways from 2011 to 2021. The market hadn't completely lost its mind as Chevron struggled during the middle of the last decade. 2011-2016, Sales, Cash flow declined 50% while profits went negative in 2016 and again in 2020 (COVID did that to many companies). Like Exxon, analysts questioned Chevron's dividend. Chevron stuck to their guns and managed through.

Then Russia brutalized Ukraine. Suddenly the world, particularly the rich part, must review its energy reality – now – not in 2050. Suddenly Chevron is asked to be a Champion for the People. Suddenly investors see value in the business. The stock is at record highs. Is this the Last Hurrah! Is it the high price the biggest April Fools joke in history?

At these highs the forward P/E ratio is 12.7. CVX's dividend yield is a solid 3.46%. The S&P500 forward P/E is 19.85. S&P500 dividend yield is 1.4%. Chevron is a long way from expensive.

On oil prices and the economy.

What oil price is too high? NBC thinks $170 would do it.



NBF notes high oil prices have been the 3rd most likely recession trigger. Tight monetary policy (rising short term rates) is the leader. I'm mixed on this one. Higher oil prices are very good for Canada. USA not so much. Canada stays on a roll longer in higher oil price environments. But…as the saying reminds us…*'The Solution to High Oil Prices is High Oil Prices'*. Economic recession paired with an (eventual) increase in oil supply has occurred 100% of the time during past oil price spikes. Given the apparent permanent decline in Russian oil supplies, which should benefit Canada as a producer, we might arrive late to an oil price induced recession party and may not experience the serious indigestion of other guests.

CONCLUSION: Our portfolio rebalancing discipline requires regular trimming portions of outsized winners adding to undervalued ones. A properly diversified portfolio will have both. We have been doing some pruning in the energy sector. Caveats: I've yet to meet an investor who went broke making a profit, energy stocks are cyclical meaning 'buy/hold forever' is a mistake, and our energy stock profits have been large. We think it's too early for aggressive selling of energy names.

Speaking of the pending April 7 budget…

Jamie Golombek: What tax changes might be coming up in the federal budget

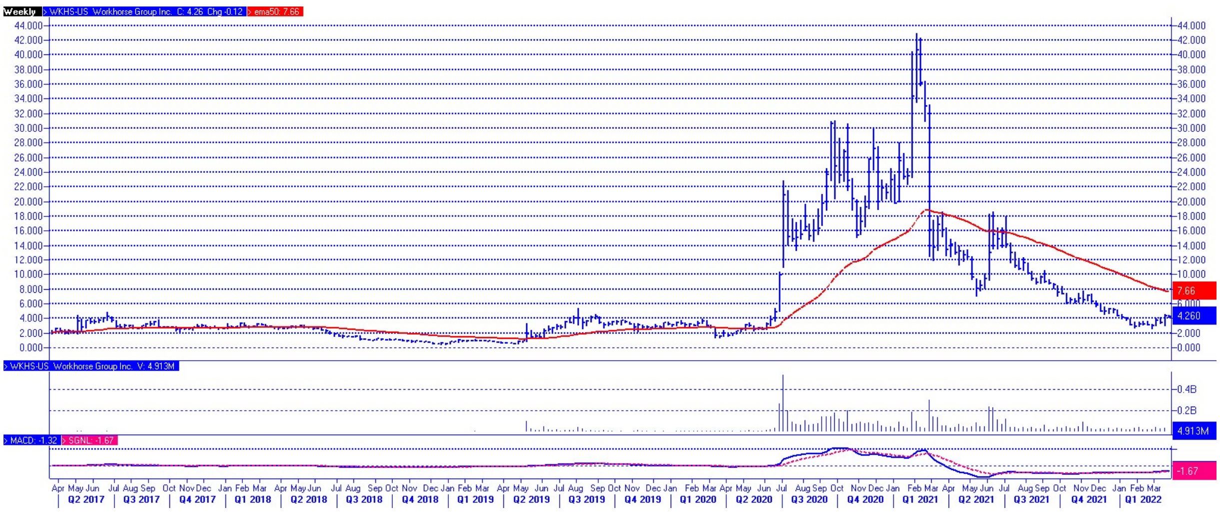
https://financialpost.com/personal-finance/taxes/jamie-golombek-what-tax-changes-might-be-coming-up-in-the-federal-budget

'Stellantis and LG announce $5-billion EV battery plant in Ontario'

This sounds like great news. A major expansion in Canadian battery manufacturing is surely a good thing. Have the long-promised Green Jobs arrived? The devil is in the details. Provincial and Federal Govt speakers have been coy on the subsidized cost. Some analysts speculate govt subsidies represent more than half the $5 billion projected cost. Any time Govt's spend tax-payers money, budgets magically balloon. We'll watch this one.

https://financialpost.com/commodities/energy/electric-vehicles/stellantis-and-lg-expected-to-announce-major-ev-battery-plant-in-ontario-today

Workhorse Group Inc – update. Insider Buying



We follow (but do not own) electric heavy truck manufacturer **Workhorse Group Inc (WKHS-$4.26)**. It's been interesting and not in a good way. From $10 in June/2010, WKHS hit a Biden Green-Wave high around $42 in June, 2021. At the end of February/2022 the price hit a new annual low of $2.58. Interesting indeed. Last month it bounced. Maybe here's why.

Recent insider trading reports show CEO Richard Dauch and Sen Officer Stanley March both made open market purchases (IE spending their own money) of Workhorse group. March 11 to March 14, Mr. March purchased 44,000 shares at $3.47 and $3.18 while Mr. Dauch purchased 50,000 shares at $3.10. The buys for Mr. March are notable as they increase his direct ownership by 59%. Mr. Dauch spent more money but the additional 50,000 shares at

$3.10 = $155,000 take his holdings up 2.6% to 1,955,115. Still, it's nice to see insiders spending their own cash, vs. exercising shareholders options. Other Workhorse Group Directors and Officers were actively executing 'Acquisitions' (not the same as Purchases) in February around the $3.00 mark. Insider buying doesn't always equate to investor profits. In this case they seem to feel something's up. Last trade $4.75. They're in the black so far.

DISCLAIMER: I do not hold Workhorse Group personally or for family members. I have not traded in the security personally or for family members. I consider Workhorse Group to be speculative. We have adventuresome clients holding the stock on their own initiative.

Putin Has Coup-Proofed His Regime

Senior Western politicians have speculated a Russian coup could replace Mr. Putin. Foreign Policy.com looks at this idea.

https://foreignpolicy.com/2022/03/23/putin-coup-russian-regime/

A coup appears unlikely. Recall that despite murdering millions of his own citizenry, losing WW2 and bringing down death and devastation of his country, Hitler died by his own hand in bunker in Berlin. Military coups driven by ideologs in the ranks have a history of replacing a bad actor with a worse one. In Russia, clearly anything is possible. I'm not betting on a coup. A more likely scenario is the Ukrainian's make life so difficult Putin gives up, retreats into a hard shell, isolating Russia from the West and concentrating on persecuting internal dissent. I fear it will get worse in Ukraine before it gets better.

Nestle's is pulling out of Russia

We hold Nestle's in our International Dividend portfolio. It's been a core holding for some time. This week Nestle's announce they were pulling 'non-essential' products from their Russian offering. Nestle's total sales to Russia were $1.8 billion last year. Nestle's has committed to maintaining 'essential' offering and to donate any profits from those activities to charities. $1.8 billion is a lot of money. Not vs Nestle's annual sales last year of $94 billion. Chartr.com posted the following graphic.

https://www.chartr.co/newsletters/2022/3/25/nestl-takes-a-break

We like Nestle's international diversification.

'U.S. 2s/10s Treasury yield curve inverts' – Reuters Mar 29, 2022

Media Favorite Bears pulled their pundit heads out of their honey jars again recently predicting a recession is around the corner. They've pointed to rising oil prices and an 'inverted yield curve'. Reuters looked at the recent relationship

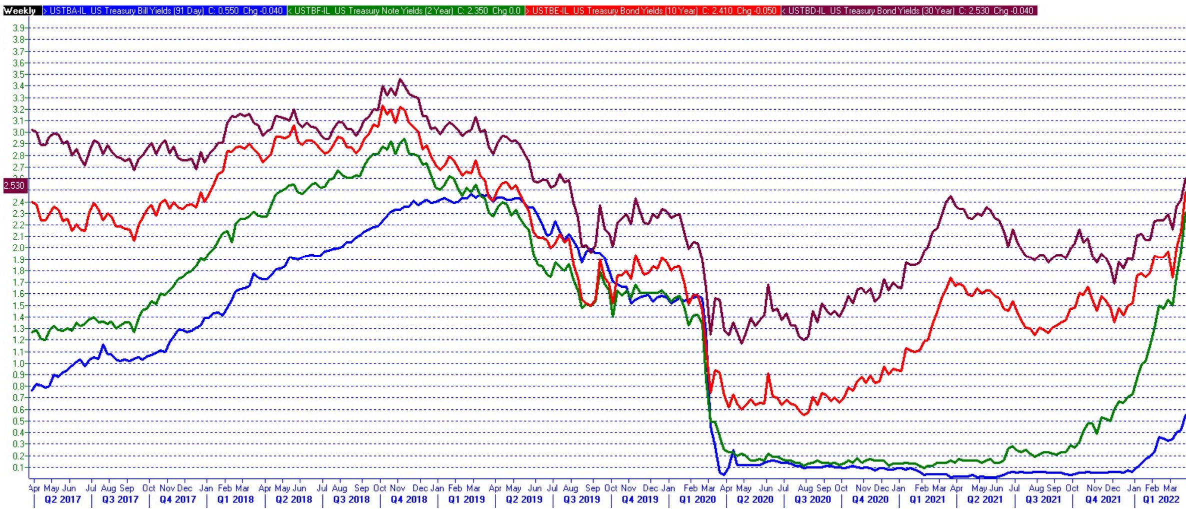
https://www.reuters.com/business/finance/view-us-2s10s-treasury-yield-curve-inverts-2022-03-29/

We pay attention to the US Fed Govt 2-year vs 10-year yield. Experience tells us the US 90-day rate (which is more directly influenced by The Fed) vs. the 10-year yield is a better leading indicator of a slowing economy and the in-advance stock market contraction.

Why?

Time is money. The longer you want to borrow money, the higher the rate you'll pay. In the US, the Fed and only the Fed, controls the 90-day US Fed Govt T-Bill rate (yield). Being the lowest risk borrower over the shortest period, the Fed offers the lowest yields available. One of the Fed's mandates is controlling inflation. If inflation takes off the Fed intervenes. The Fed's Big Gun is pushing 90-day rate upward, raising the cost of borrowing. If the Fed 'inverts' the 90-day T-Bill rate above the 10-year bond yield, there is little incentive for institutions to lend on a 10-year commercial loan vs lending to the US Fed promising to repay in 90 days at a higher rate. While a narrowing of the 2-year rate vs. the 10-year rate is worth watching, it's the 90-day vs 10 we focus on. Here are the rates for 90 days (blue) 2 years (green) 10 years (red) and 30 years (burgundy) The 90-day blue line is miles from the 10-year red line.

US Fed Govt Debt Yields. 5 years – weekly ranges



In mid 2019 the 90-yield crossed over the 10. To clarify, the 90-day moved from around 0.75% in 2017 to 2.45% in 2019. The 2's, 10's and 30's all peaked in late 2018, then declined meaning the 10-yr yield crossed below the 90-day. This is a typical pattern. This also means bond investors should pay more attention to the 2 vs 10 than equity/stock market investors.

If, as Favorite Bears now advise, equity investors had used the Q4/2018 narrowing of the 2 vs 10 as their sell signal, they would have sold the S&P500 somewhere between the Q4/2018 quarterly highs of 2939, lows of 2,346. The Q/4 2018 avg range was 2,642. We waited for the 90-day to cross over the 10 in in Jun/2019 to reduce equity holdings. June/2019 saw the S&P500 average 2,846. Waiting for 90 day-over-10 didn't hurt our performance, paid us more dividend income, and increased our average take. Patience is a virtue. Even so, we sold too soon. The S&P ultimately peaked in Jan/2020 at 3,337 and averaged 3,275. The Jan/2020 monthly average was 15% above the Jun/2019 avg. and 24% above the Q4/2018 avg. I can confirm it's very hard to watch stocks you sold then take off.

The March/2020 COVID-19 Pandemic Panic SP500 extreme low in was 2,191 (for a literal New York Minute). The March/2020 avg was 2,664. The Q4/2018 2-over-10 sellers would have been lucky to achieve advantage. We managed to capture some bargains.

How precise are yield inversions as leading indicators of stock price decline anyway? Not very

Yield Curve Inversions and SPX Returns

10yr - 2yr yield curve inversion occurs for the 1st time in at least 6 months.
SPX forward returns shown. 1976 - present.

Ticker	Date/Time	Close	21-Day % Chg	42-Day % Chg	63-Day % Chg	126-Day % Chg	252-Day % Chg	378-Day % Chg	504-Day % Chg
$SPX	8/18/1978	104.73	-2.1	-4.05	-10.52	-5.79	3.41	10.2	20.04
$SPX	12/13/1988	276.31	2.74	5.87	7.37	17.2	27.3	32.06	18.14
$SPX	5/26/1998	1094.02	3.55	4.28	-0.54	6.36	17.4	29.88	25.58
$SPX	2/2/2000	1409.12	0	6.87	0.42	2.1	-2.53	-13.37	-23.34
$SPX	12/27/2005	1256.54	2.16	1.92	3.69	-0.84	13.55	19.64	17.66
$SPX	8/27/2019	2869.16	3.78	5.35	9.22	3.82	21.25	32.83	55.79
		Average	1.69	3.37	1.61	3.81	13.40	18.54	18.98
		% Wins	67%	83%	67%	67%	83%	83%	83%

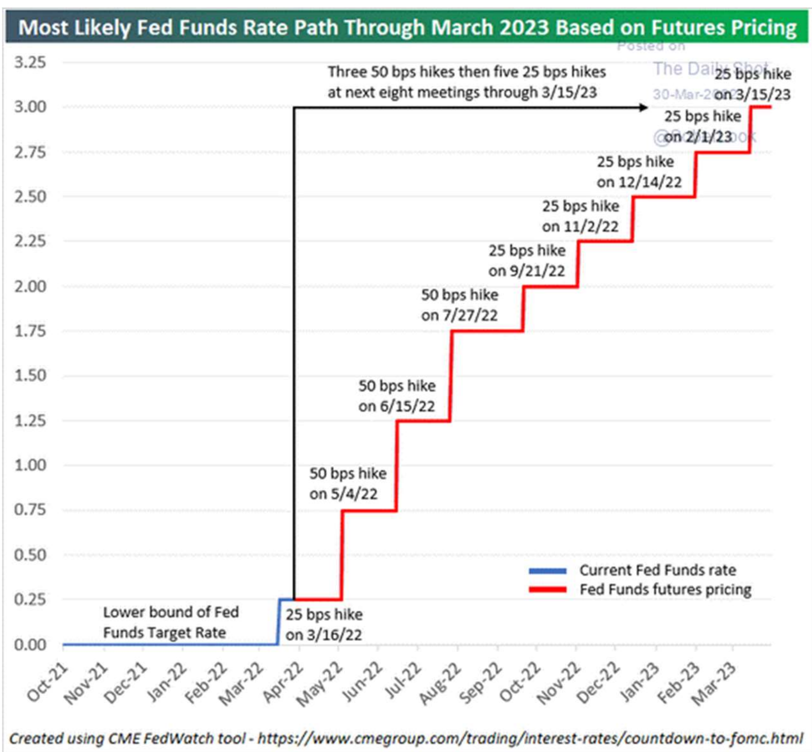
10yr - 3mo yield curve inversion occurs for the 1st time in at least 6 months.
SPX forward returns shown. 1982 - present.

Ticker	Date/Time	Close	21-Day % Chg	42-Day % Chg	63-Day % Chg	126-Day % Chg	252-Day % Chg	378-Day % Chg	504-Day % Chg
$SPX	3/27/1989	290.57	5.57	9.83	12.88	19.44	16.05	7.14	26.47
$SPX	9/10/1998	980.19	0.42	15.3	20.74	32.08	37.9	42.33	52.47
$SPX	4/7/2000	1516.35	-6.87	-3.61	-2.69	-7.08	-24.98	-28.01	-25.59
$SPX	1/17/2006	1282.93	-0.23	1.9	1.93	-3.59	11.18	21.06	3.92
$SPX	3/22/2019	2800.71	4.75	1.98	5.35	6.83	-20.11	17.15	39.63
		Average	0.73	5.08	7.64	9.54	4.01	11.93	19.38
		% Wins	60%	80%	80%	60%	60%	80%	80%

QuantifiableEdges.com

https://quantifiableedges.com/yield-curve-inversions-and-spx-returns/

The market is pricing 3% short-term rates end of 2023. How likely is that?



NBC Economics believes the 3% market assumption is too high. They see the 10-year Govt Canada bond paying 2.04% in Q4/2024. That doesn't spell soaring mortgage rates. The Canadian housing market hopes they're right!

CONCLUSION: While we pay attention to yield inversions, we don't make huge bets on them. We're well off from a yield inversion providing an equity market sell signal.

"Crypto's are secure"

Hackers Steal About $600 Million in One of the Biggest Crypto Heists – Bloomberg Mar 29, 2022

April Fools!

https://www.bloomberg.com/news/articles/2022-03-29/hackers-steal-590-million-from-ronin-in-latest-bridge-attack
(may require subscription)

Canada: Who's #1?

The Financial Post notes TD Bank was deposed after two years of owning the #1 Top Brand in Canada. They were deposed by…Royal Bank #2…who took it back after two years as #2. TD is now #2. Of the top 10 brands in Canada 6 are financial services firms. Canada likes banks.

https://financialpost.com/executive/executive-summary/posthaste-royal-bank-ranked-canadas-most-valuable-brand-taking-crown-from-td

None of the top 10 US brands are banks. Visa and Mastercard are on the list.

https://www.rankingthebrands.com/The-Brand-Rankings.aspx?rankingID=423&year=1245

Have a Great Weekend

Steve & Anna Hilberry

FOR THE RECORD Apr 01, 2022

DOW INDUSTRIALS:	34,818
S&P 500:	4,545
S&P/TSX COMP:	21,952
WTI:	$99.46
LOONIE IN $USD:	$0.7986 $US

Apr 1, 2022

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