



WEEKEND READING

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

“When you’re going through Hell, keep going”

– Winston Churchill

With the horrors unfolding in Ukraine, we’ll start with a bit of history.

‘Are there Neo-Nazis in Ukraine?’ The War In Ukraine Part 4:
Vitaly Katsenelson

Vitaly Katsenelson is an investment manager based in Colorado. Borne in Russia to Russian-Jewish parents, he immigrated to the US as a youth. With his background and contacts in Russia. Mr. Katsenelson provides deep insights into the culture and attitudes of today’s Russia. His on going ‘War In Ukraine’ series is worth signing up for (free subscription).

Here is the Part 4 link:

<https://contrarianedge.com/war-in-ukraine-part-4-are-there-neo-nazis-in-ukraine/>

I've provided a PDF copy.

Debacle is only way describe the Russian Ukraine gambit. Putin’s Russian bear has a Ukrainian porcupine stuck in its throat. The conflict has revealed deep, if unsurprising, weaknesses in Russia’s military structure. Corruption and the suppression of dissent has predictably resulted in poorly led, poorly equipped and undisciplined troops. Caught in firefights not of their own making, Russian troops have been slaughtered. Their field commanders appear to have attempted to direct their troops rage at the local civilian population, further demoralizing the infantry and convincing the Ukrainians left alive that

their only option is to fight to the last. Recall Russia, while having a population of 145 million 3.8 times larger than Canada's, had an economy in 2019 that was smaller than Canada's. Of that economy, corruption has siphoned off billions every year. Imagine Canada attempting what Russia has tried. Could we afford to maintain the huge costs of tanks and materials consumed in such a conflict? Of course not. And neither can Russia. What Russia has is people. In defense having a lot of people willing to sacrifice everything for the motherland is powerful. The farther invaders go into the huge Russian country-side the weaker they become and the stronger the defenders. Invasions are hard, expensive and require a highly motivated, trained and experienced military. Mr. Putin appears to have swallowed his own cool-aid acid. This doesn't mean the Ukraine conflict won't get worse. It does mean it's not likely to expand to other regions. If Mr. Putin has any survival instincts, he'll dream up a story go send the troops hope and start rounding up dissent. My guess his days are numbered. The market seems to agree and has moved on to other worries.

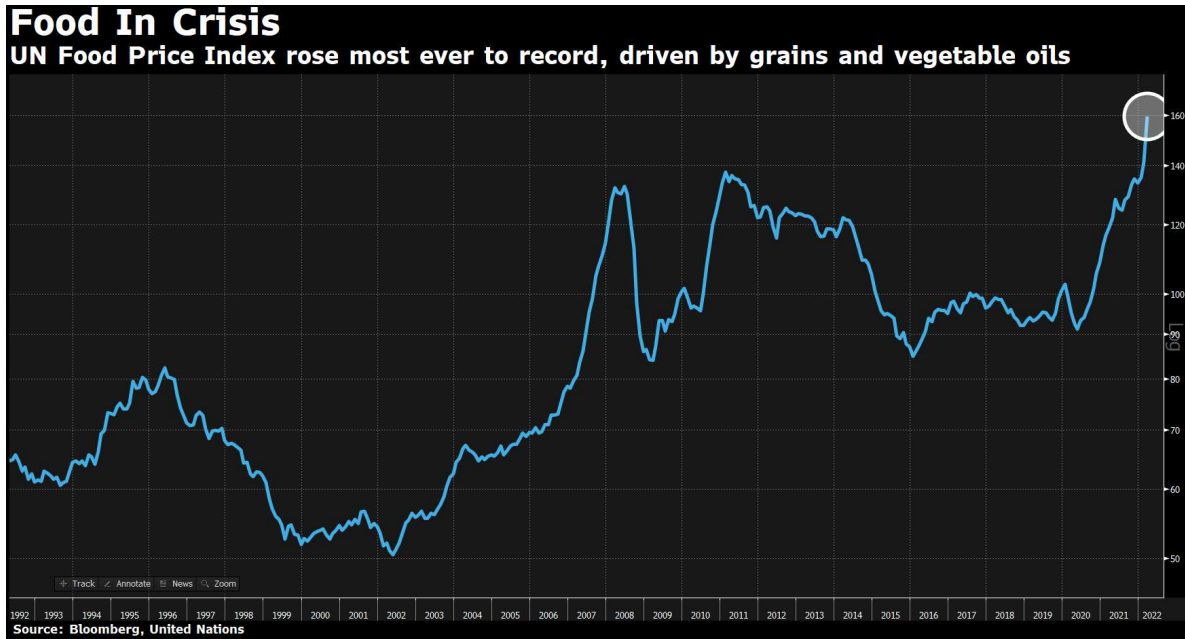
Bloomberg Chart of the Day for April 8, 2022 Kriti Gupta

Almost the weekend...

Today's Chart of the Day looks at the UN food price index sitting at a record, driven by cereal (grains) and vegetable oils. The report cited "reduced export supplies amid the ongoing conflict in the Black Sea region," showing the surge is a direct result of the war. That's in contrast to a few months ago, when the acceleration was driven by consumers bouncing back in the post-pandemic recovery.

The near-vertical move mirrors two key points in history...the inflation of 2007, which ultimately helped create conditions for the recession a few months later, and the rise in 2010 and 2011, which was a function of the recovery as well as a global crop crisis. The question is...is this surge comparable to the one in 2007 or 2010? The answer is key to understand what kind of timeline to expect on price relief -- months or years -- as countries around the world from Latin America to the Middle East that have to contend with higher prices.

In Western Europe and the United States, citizens spend less than 10% of their income on food. That number rises to as much as 50% in other regions of the world. When prices rise, the result can be political instability, protests and curfews. The Arab Spring, for example, has often been connected to the 2011 crop crisis. Evidence of similar behavior has already been seen in Peru and Kazakhstan among other countries. That has ripple effects around the world when it comes to other commodity exports, trade and investment.



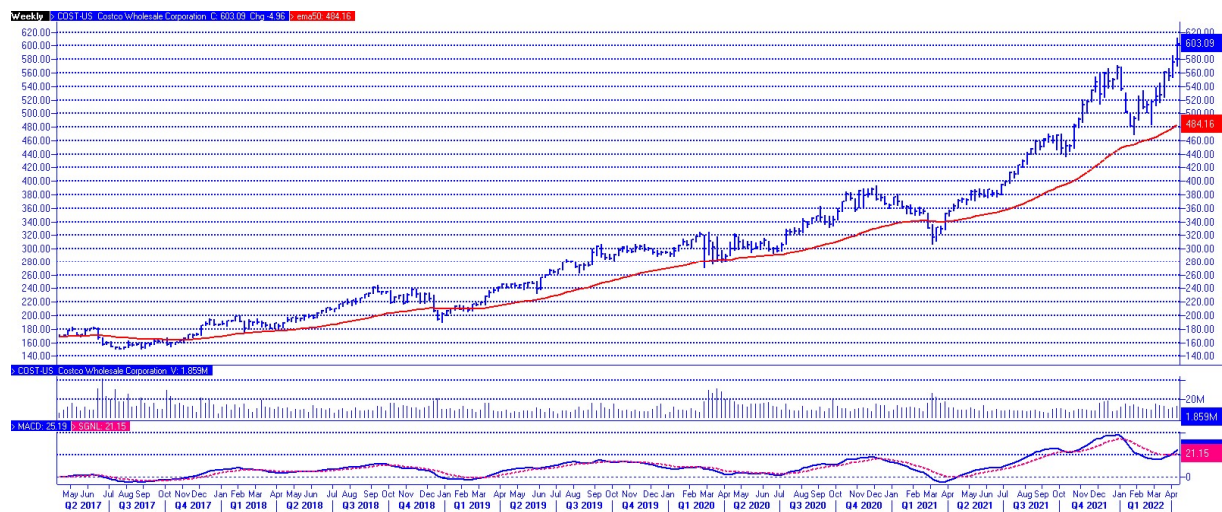
Source: Kriti Gupta (BLOOMBERG/ NEWSROOM:) <kgupta129@bloomberg.net>
Used with permission

With food in mind, there's always someone making a profit.

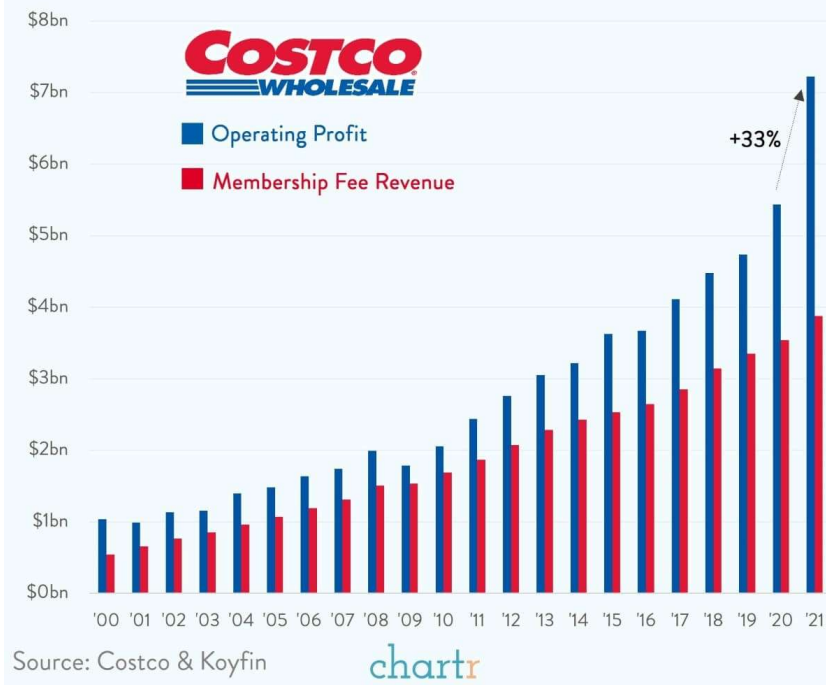
‘A "boring" business, worth billions’ – Chartr Apr 8, 2022

<https://www.chartr.co/newsletters/2022/4/8/food-prices-join-the-list>

Costco Wholesale Corporation (COST-NASDAQ-\$603.21) weekly – 5 years.



Slow & Steady: The Costco Membership Model Just Keeps Working & Working



This week Costco, the membership-only big-box retailer, announced that the company's revenue had jumped almost 19% in March, relative to the year before. That's fast growth for a sleepy retailer that doesn't pay for advertising and is most famous for huge no-frills warehouses and \$1.50 hot dogs.

Costco is an amazing company. Investors agree as they are now paying an almost amazing price.

I visit the Victoria store twice a month, enduring jammed shoppers line-ups half-way back across the warehouse floor from the tills. It's starting to feel like I'm earning my 'savings'. At 48 X trailing earnings and 46 X forward earnings (2X the not-cheap S&P average) investors appear very confident in Costco's future. They may be right, but wow are they paying for it.

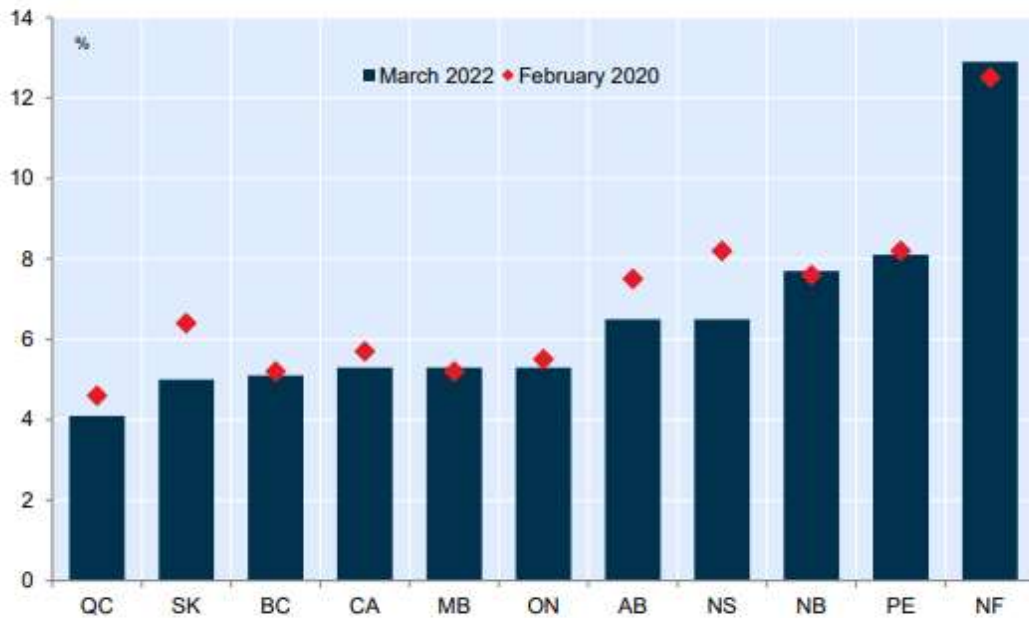
Why are stores full of shoppers? Good news/bad news on Canadian jobs.

**'Canada: Jobless rate reaches a record low in March' - NBF Economic News
Apr 8, 2022**

Good news for job seekers. Employers certainly aren't anticipating a recession. Bad news for borrowers. Rates aren't likely to fall much if at all from here. On balance it's a plus.

Canada: Jobless rates have recovered in the vast majority of provinces

Unemployment in February 2020 and March 2022



*Ontario as of May (trough)

NBF Economics and Strategy (data via Statistics Canada)

Canada: All indicators point to a significant labor scarcity situation

Firms hiring intentions, balance of opinion vs. average expected wage increase, next 12 months



NBF Economics and Strategy (data via Bank of Canada)



“The Canadian labour market continued to defy gravity in March. After a spectacular hiring spree in February, a pause would have been quite normal. This, however, did not occur. Instead, private sector hiring continued, particularly in the sectors hardest hit by the pandemic, where employment levels are now at a cyclical high. We are also pleased that job gains stemmed from full-time employment. These developments have allowed the unemployment rate to reach an all-time low in the country. This is partly due to the significant drop in Quebec's unemployment rate to a new record low, but we also note that all but two provinces have unemployment rates at or below their pre-crisis levels (left chart). After this recent boom, it should come as no surprise that employment gains will likely moderate from here on out. The tightness of the labour market means that while companies still have very elevated hiring intentions according to the Bank of Canada's latest Business Outlook Survey, they may have difficulty finding candidates. Considering strong competition, companies are planning to raise wages at an unprecedented rate to attract/retain talent according to the same survey (right chart). This is a situation that the central bank needs to address, as such an environment could jeopardize the ability to achieve its long-term inflation target. While the current monetary policy would be appropriate in times of economic difficulty, it is simply inadequate in the present situation (arguably for several months now). This morning's report cements our view that the BoC will raise rates by 50 basis points next week.”

If you'd like the full report let us know.

What direction for interest rates?

The good folks at First Trust portfolio provided their views on inflation and interest rates recently. As we have advised, First Trust has expected that government intervention in the economy = inflation. We/they've been right.

'Inflation Games' First Trust Mar 28, 2022

<https://www.ftportfolios.com/Commentary/EconomicResearch/2022/3/28/inflation-games>

'We Are All Keynesians Now' - First Trust Apr 4, 2022

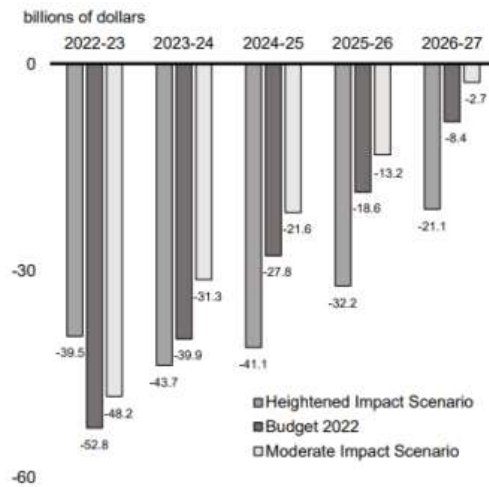
<https://www.ftportfolios.com/Commentary/EconomicResearch/2022/4/4/we-are-all-keynesians-now>

Which leads us the Canadian Federal Budget

As we expected, Finance Minister Chrystia Freeland this week’s budget shows lots of red ink and no shame.

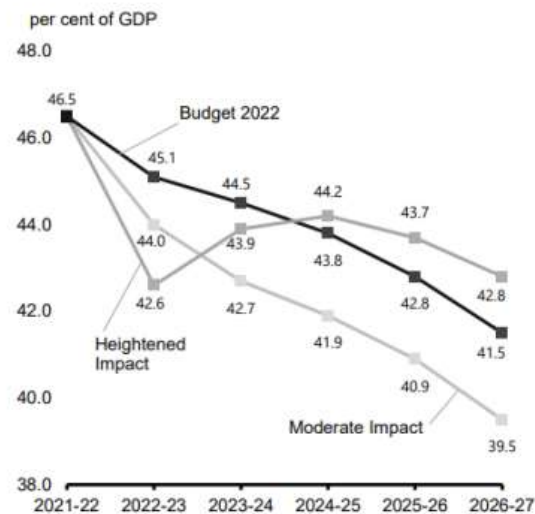
‘Not exactly restraint, but hot economy accelerates deficit paydown’ – Canadian Federal Budget Review – NBF Economics Mar 7, 2022

Deficit Under Alternative Economic Scenarios



Source: Department of Finance Canada calculations.

Federal Debt-to-GDP Ratio Under Alternative Economic Scenarios



Source: Department of Finance Canada calculations.

See the attached PDF for the full commentary

The good news is the projected red is less intense than many feared. One reason is a ‘one time’ 15% 2022 ‘recovery dividend’ (?) tax on bank earnings exceeding \$1 billion and additional taxes on this same bunch. The banks all went up on Friday. Here’s why.

‘Canadian Banks & Life Insurance Companies: The tax man cometh (for less than expected)’ – NBF Research

<https://nbf.bluematrix.com/sellside/EmailDocViewer?encrypt=95d6bd39-e8ef-4a84-bf74-0a363a1e04e3&mime=pdf&co=nbf&id=steven.hilberry@nbc.ca&source=mail>

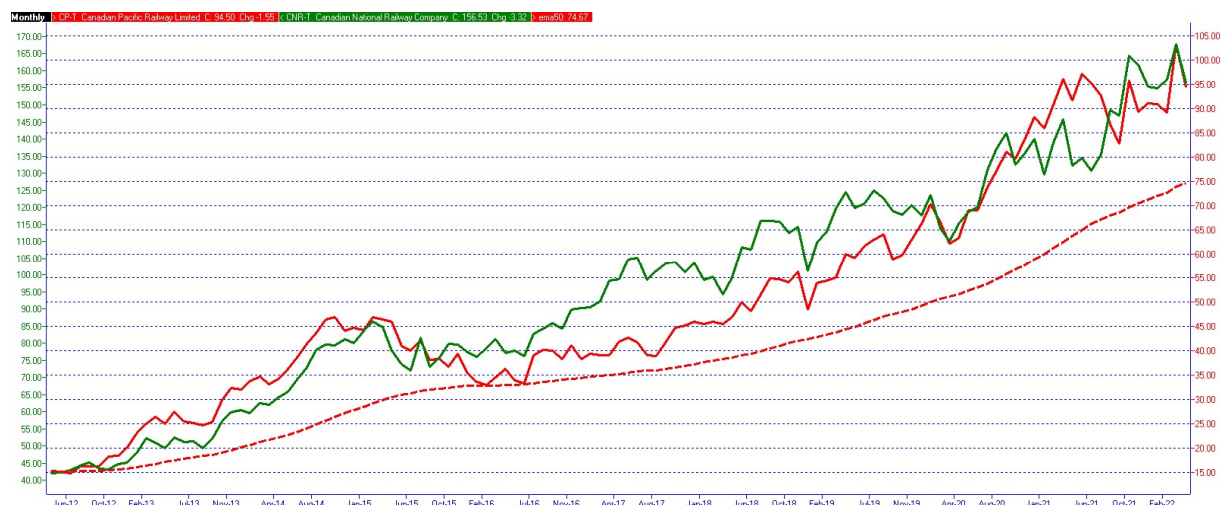
The budget total take = roughly 2% of Canadian Bank profits. That’s a lot of money. It’s less than the market feared. There is no free-lunch and there is only one taxpayer. Expect to see your banking fees rise.

MNP Insights 2022 Federal Budget

<https://www.mnp.ca/en/insights/directory/2022-federal-budget-highlights>



CDN Pacific Railway (CP-TSX-\$93.98 red) /CDN National Railway (CNR-TSX-\$155.84 -green) -weekly – 5 years



‘Canadian Railroads: Q1 preview: maintaining neutral stances on CNR and CP’ – NBF Research Apr 7, 2022

<https://nbf.bluematrix.com/sellside/EmailDocViewer?encrypt=5bbd13e4-5ff5-42b7-8112-7e71048394b4&mime=pdf&co=nbf&id=steven.hilberry@nbc.ca&source=mail>

The trucking industry likes to remind us, “If you bought it, a truck brought it”. A rail car probably brought it first. Paying attention to the transportation stocks (transports) can provide nearer-term leading indicators of where the economy is headed. Recent declines in railcar volumes has professional (as in paid to be) perennial pouting pundits seeing recession.

NBF’s summary of the Canadian Railways could be applied to the broader Canadian economy.

“Volumes soft in Q1; H2 looks better, but some risks to the forecast Canadian railroad traffic as measured by carloads is down 10.3% in the past four weeks and down 9.4% through Q1. While the Q1 volumes would not indicate a particularly healthy demand environment, overall volumes were heavily skewed by very weak grain volumes, some operational challenges related to weather and broader supply chain issues (impacting automotive volumes especially). We continue to believe that both CN and CP will see some more pronounced volume tailwinds in the second half of the year including a better grain harvest, ongoing strength in coal, higher potash production, and a normalization of the automotive supply chain. The key risk to the outlook is the health of the broader economy and potential deterioration in consumer demand.”

Steve’s Take:

- If one is doubtful for Canada’s continued expansion out of the COVID recession and/or concerned over events in Ukraine, being conservative is understandable. But it may not be smart.

Apr 8, 2022

HILBERRY GROUP



- CP's all-time high of \$105.46 and CNR's peak of \$171.48 were in March. At this writing CP (-10.23%) and CNR (-8.5%) from their March highs. When, not if, stocks decline, there is a tendency to mentally continue the trend. Trends continue until they don't.
- The above chart dotted red line plots CP's 50-week moving average. CP isn't cheap. There's a good reason why these two rarely are. They're both great companies. As Warren Buffet Advised: *"You are better off buying a great company at a fair price than a fair company at a great price"*.
- We're holding what we've got and would like to buy more. We MIGHT see even cheaper prices in 2022. I'm not counting on it. I believe the Canadian economy will surprise to the upside. The railways will help us get there.

DISCLAIMER: I hold CP & CNR personally, for family members accounts and for client accounts over which I have trading authority. We have traded in both securities within the past 60 days.

Spring has finally arrived in Duncan. Snow drops, crocuses and daffodils are showing in the lawns. The unassuming Bebb Willows growing behind our building back parking lot are doing their best to add to the spring fragrance. Things are looking up.

Carefully manage company stock! When balloon position becomes a speculation, it increases your risk.



Watch Anna's latest video here

<https://www.youtube.com/watch?v=Exi74qygfng>

Have a Great Weekend

Steve & Anna Hilberry



FOR THE RECORD Apr 8, 2022

DOW INDUSTRIALS:	34,816
S&P 500:	4,503
S&P/TSX COMP:	22942
WTI:	\$96.98
LOONIE IN \$USD:	\$0.7948 \$US

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