



## WEEKEND READING

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

### **Weekend Reading catch up**

With no Weekend Reading on Nov 25<sup>th</sup>, we're providing a two-fer this Friday. It's supposed to be unusually snowy here on the coast with 25 CM-plus (10 inches for our Imperial readers) forecast over the week. Could be a nice weekend for cozying up to the fire and reading about finance!!

**Stock prices are better when The Street is bummed. There's an awful lot of negativity out there. Screw your contrarian hat down tight.**

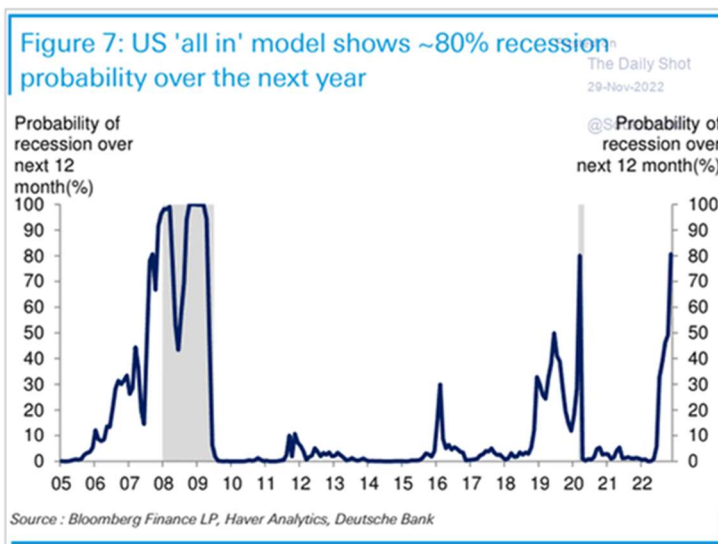
***"David Rosenberg: S&P 500 could drop as low as 2,500 before this bear market is finished"* Financial Post Nov 21, 2022**

*"Use this period of strength in the stock market to take profits and raise cash"*

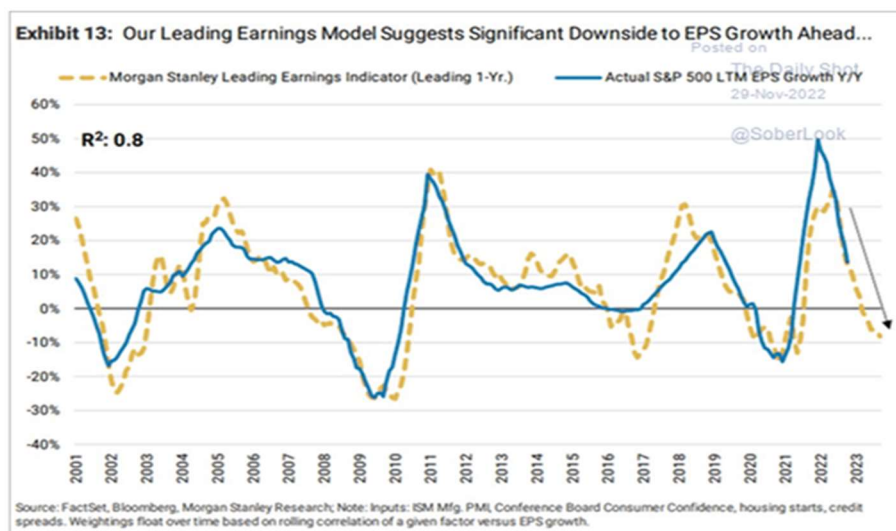
David 'Rosie' Rosenberg was at his click-bate best in the Financial Post again last week. NOTE: "...could drop as low as...". For the record: S&P500 Nov 21, 2022 close: 3,949.94 We'll revisit this call in late 2023

<https://financialpost.com/investing/david-rosenberg-sp-500-bear-market-recession>

**Deutsche Bank sees a recession coming.**



**Morgan Stanley predicts an earnings slump**



**First Trust sees stocks struggling**

**'This Rally Shouldn't Last' - First Trust - Brian Wesbury**

<https://www.ftportfolios.com/Commentary/EconomicResearch/2022/11/28/this-rally-shouldnt-last>

**Pundits are warning the stock markets will redo 2001 or 2007**



GreekFire23  
@GreekFire23

...

What does a mild recession mean? 2001 was the “mildest” recession in our lifetimes: 9 months, one quarter didn’t even have negative GDP, and still the markets crashed lasting 31 months



So what to make of all the negative headlines and tone?

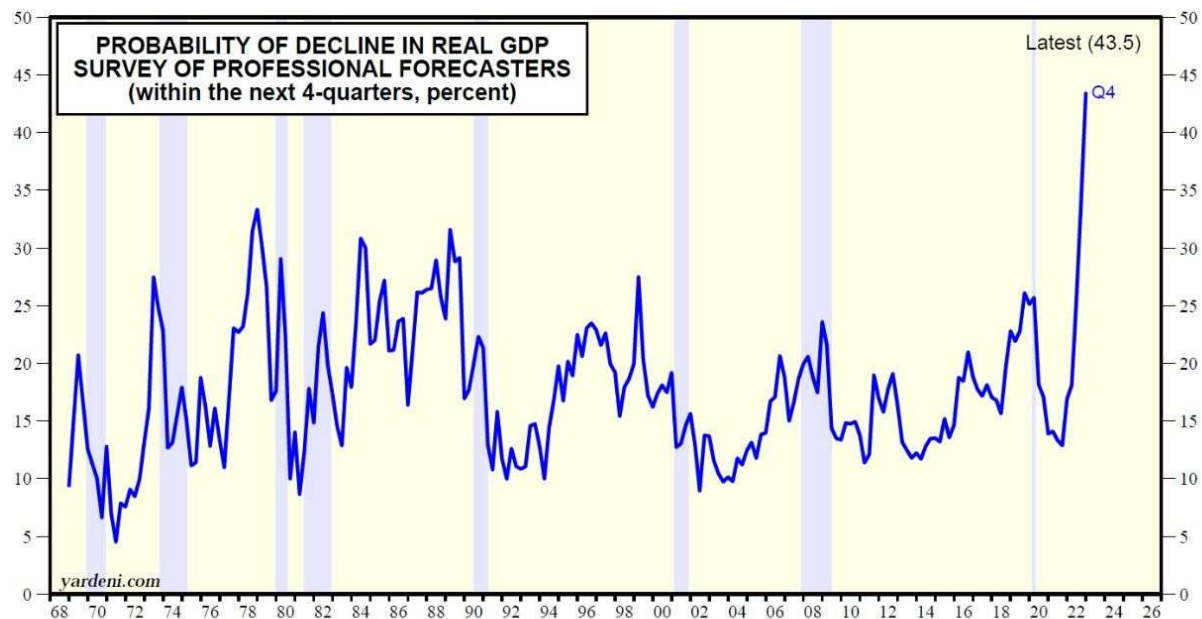
## Most Widely Anticipated Recession Ever Ed Yardini LinkedIn Nov 28, 2022

<https://www.yardeniquicktakes.com/the-most-widely-anticpate-recession-ever/>

*“The Philly Fed notes: “The index often goes up just before recessions begin. For example, the first quarter survey of 2001 (taken in February) reported a 32 percent anxious index; the National Bureau of Economic Research subsequently declared the start of a recession in March 2001. **The anxious index peaks during recessions, then declines when recovery seems near.** For example, the index fell to 14 percent in the second quarter of 2002, when economic indicators began improving.”*

*(2) Odds of recession over next four quarters. The probability of a recession over the next four quarters was 43.5%, the highest on record (chart)!” (highlighting mine)*

**Forecasters** are extremely bearish. Prices are unlikely to be too high when The Street is bearish. Expectations are very low. Surprises are likely to be positive.



Note: Shaded areas are recessions according to the National Bureau of Economic Research.  
Source: Federal Reserve Bank of Philadelphia and Haver Analytics.

**Our take.** A recession is likely in 2023. We don't think it will be deep. We don't think stocks will decline much below the 2022 lows, if at all. We think interest rates have mostly peaked. We don't think rates will decline that much either. For stock investors, owning quality names at reasonable to low P/E's that pay a dividend should be safe enough. Might see some bumps but nothing life-altering. Sound familiar? The biggest changes we see are in Fixed Income allocations. We've been hanging out in short-term bonds and cash since 2020. We think it's time to move from short to longer-term bonds.

**Turning to the energy markets...**

**‘Connection - Vehicle-To-Grid Technology Could Make EVs An Asset To The Power Grid’ RBN Energy**

<https://rbnenergy.com/connection-vehicle-to-grid-technology-could-make-evs-an-asset-to-the-power-grid>

**Speaking of batteries. It’s never simple.**

**VW warns soaring EU energy costs render battery plants unviable**

VW brand boss Thomas Schäfer says ballooning energy costs will hamper battery-cell factories.

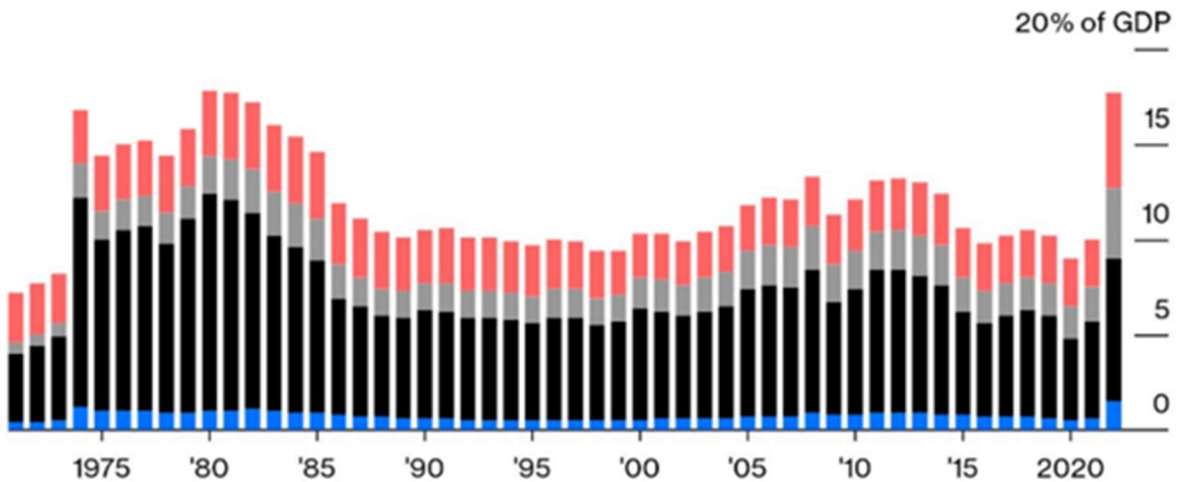
**‘Energy Musings’ Alan Brooks Nov 29, 2022**

<https://energy-musings.com/energy-musings-november-29-2022/>

**Share Shoots Up**

Estimated energy end-use expenditures for OECD nations as % of GDP

■ Coal ■ Oil ■ Natural gas ■ Electricity



Source: OECD

BloombergOpinion

**‘Some thoughts on China for the (oil) bulls’ – NBF Energy Desk Nov 29, 2022**

The following is directed towards oil prices but could easily be applied to the broader economy.

*“The bears are overdoing it. It’s anyone’s guess what will come of the weekend’s demonstrations, but most likely outcomes are bullish for commodities. The politically optimistic path — that China enjoys a peaceful political transition that loosens the grip of the Communist Party over the economy and everyday life — would almost certainly be negative*



for raw materials, given the oversized role the state has in stimulating unsustainable demand. That's also much less likely than more pessimistic scenarios.

*Xi Jinping's style of authoritarianism has been less responsive and more muscular, riding out dicey moments with massive economic stimulus. If you look at cement output as a proxy for such activity, the biggest spikes of the past decade have all come in the wake of politically treacherous episodes — the pre-Xi 2011 "Jasmine revolution" protests, the bursting of the 2015 stock market bubble, the 2018 US-China trade war, and the first coming of Covid in 2020.*

*Beyond a possible stimulus splurge, any move to moderate China's severe Covid Zero policy would likely increase mobility — currently constrained by lockdown policies in major cities including Beijing. That would mean a boost for oil demand as people drive and fly more.*

*In the long term, China desperately needs to get serious about the deleveraging that it has promised and failed to deliver. In the short term, however, protests are most likely to deliver a loosening of the purse-strings. A major government health briefing Tuesday led to a more buoyant mood in markets before it had even begun. One commodity that's not joined the misery party is iron ore, with Dalian contracts for the stimulus-exposed metal up 5.2% so far this week and Singapore futures breaking north of \$100.*

*The bears shouldn't feel too confident."* – David Fickling, Bloomberg Opinion

### About that Stranded Asset/Leave-it-in-the-Ground thing? Not Joe Biden.

#### US to Auction Almost 1 Million Acres Off Alaska for Oil Drilling

- Lease sales mandated in Democrats' Inflation Reduction Act
- Greens enraged, though debatable if drilling will ever occur

Meanwhile back in Canada...

### Updates for three stocks we own

**Suncor (SU) announces the company is retaining their retail business.** The company announced that following a comprehensive review it's decided to retain and instead improve and optimize its retail business "increasing EBITDA contribution and strengthening Suncor's integrated and refining & marketing business". The company indicated that it had reviewed preliminary indications of interest from a "global set of third parties" and considered a range of alternatives and the associated value for SU if retail was sold. Bottom line, SU saying the retail business is just too good for business. Expect to hear more at the investor day held today.

- The SU investor day has been branded to highlight its strategy around retail. With this news of retaining its retail business, coupled with its recent news that we should expect Fort Hills to yield lower production and higher costs for the next couple of years, the IR day pre-release seems to be light on other factors we would be looking for, specifically around strategic direction and details on asset optimization and reliability. We anticipate gaining more detail around both its retail plans and strategic direction during the live investor day today at 1PM EST;

- *SU announced its 2023 budget, which outlines a plan for capital spend of \$5,400-\$5,800mm, to deliver annual production of 740-770 mboe/d, as well as refinery throughput of 430-445 mbbld/s (with a utilization of 92-96%);*
- *Overall, upstream production came in below NBF and consensus (NBF 775 mboe/d; Cons 788 mboe/d) driven by previously communicated operational issues at Fort Hills, whereas capital spend came in higher than NBF and consensus (NBF \$5,400 mln; Cons: \$5,300 mln). Cash costs for Syncrude and Fort Hills came in higher than expected, with cash operating costs of \$33-\$36/b and \$39-43/b respectively.*

Interesting that **Suncor (SU-TSX-\$43.10)** resisted activist shareholder pressure to sell their PetroCan retail gas station business. Recall Suncor bought PetroCanada in 2009 for 18.43 billion Canadian. The deal included the retail gas stations. Suncor clearly sees a future in that arm of their business. This may have implications for convenience store chain operator, **Alimentation-Couche Tard's (ATD-TSX-\$61.59)** business. Unlike Suncor, Couche-Tard relies more heavily on retail fuel traffic bringing customers to their stores.

Some have fretted what an end of the Age of Oil would mean to Couche-Tard. Apparently, Suncor believes that end is a way off yet.

**We think the business case for both of these companies is bright.**

### **TC Energy (TRP-TSX-\$58.32) flopped this week**

**TC Energy (TransCanada Corp-) Coastal GasLink overrun.** TC Energy (TRP) expects another material increase in project costs and TRP's corresponding funding requirement (recall, was recently increased from \$0.2 to \$2.1 bln), citing significant labour cost pressures, shortages of skilled labour, along with contractor underperformance and disputes (on top of drought conditions, erosion and sediment control challenges). TRP expects to provide an updated capital cost estimate in early 2023 that will incorporate the scope of recent developments. The projects is now 80% complete and continues to target mechanical completion by year-end 2023.

- Despite the overrun, TRP is reaffirming 3-5% annual dividend growth, underpinned by 6% annual EBITDA growth through 2026 (including 5-7% growth for 2023e), driven by \$34 bln secured backlog;
- Reiterated funding plan including +\$5 bln divestiture program during 2023, and remains committed to shutting off the DRIP by the end of June 2023;
- Approx. 85% of long-term debt is fixed, with a weighted average maturity of ~20 years at 4.8%;

**We think the decline in TC Energy share price is overdone.**

**DISCLAIMER: I own Couche-Tard, Suncor and TC Energy personally, hold it for family members and for clients over which I have trading authority. We have traded in all three securities in the past 60 days**

### **Canadian real estate markets**



We've been cautious on Western Canadian Real Estate for some time. Cautious doesn't mean panicked. While we don't think property will make the same returns over the next decade as over the last, we're not calling for a huge crash in prices either. More likely a long, grinding period of no return and painful but tolerable cost. You know, like paying off a mortgage. The following link looks at Metro Vancouver house sales.

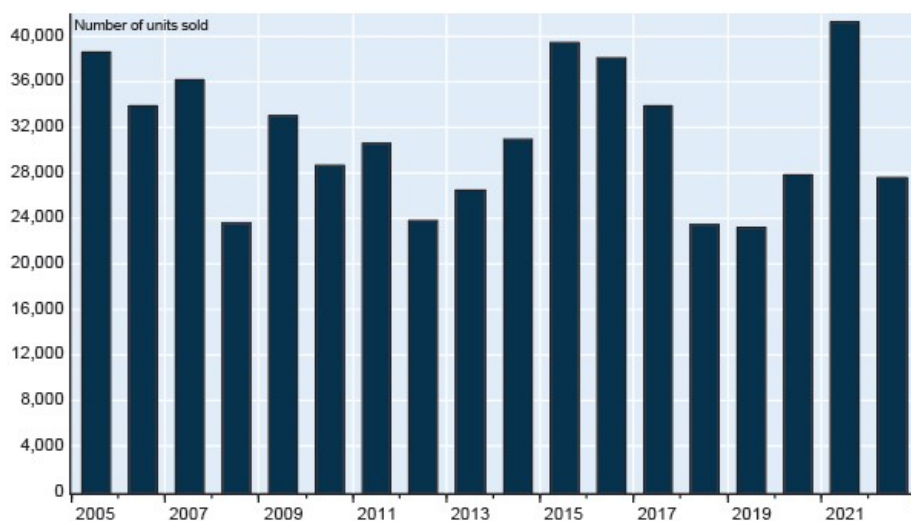
## NBF Economic News Dec 2, 2022

### Metro Vancouver home sales plummet in November

<https://nbf.bluematrix.com/sellside/EmailDocViewer?encrypt=d2bd633b-5b8e-40f8-92c1-0667c056c443&mime=pdf&co=nbf&id=steven.hilberry@nbc.ca&source=mail>

The November 2022 sale volumes (not prices) are down. Some have predicted this is the start of massive flop in prices (from extremely high values in early 2022). Keep the headline in perspective. The next chart plots Metro Vancouver Jan-Nov house sales calendar years 2005-2022. Not that far off the long-term averages, confirming how silly 2021 was.

#### 4. Vancouver: Year-to-date home sales



NBF Economics and Strategy (data via Real Estate Board of Greater Vancouver, seasonally adjusted by NBF)

### Crypto update.

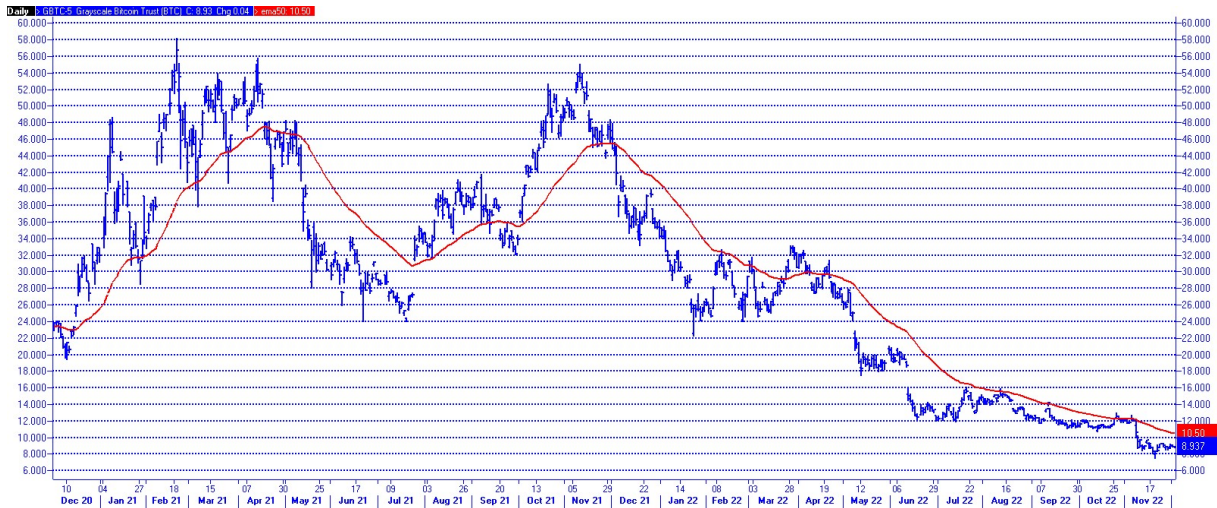
We've had zero exposure to the crypto-kid's sandbox but clients still ask us so...We droned on long and loud about cryptocurrency risk. We said crypto's were a solution looking for a problem. We warned the peak nominal \$trillion plus values might prove ethereal or falsified. We thought the only true beneficiaries would be illicit types. We worried that the lack of oversight would lead to fraud and sorrow for speculators.

### SURPRISE!

### 'Opinion: FTX's Collapse Was a Crime, Not an Accident' - Coin Desk

<https://www.coindesk.com/layer2/2022/11/30/ftxs-collapse-was-a-crime-not-an-accident/>

**Greyscale Bitcoin Trust (GBTC-US-\$8.94)**



As Warren Buffet advised: “When the tide goes out, we see who’s been swimming naked”

I will repeat and reassign the classic....

***Millionaire: The Philanderer, Gambler, and Duelist Who Invented Modern Finance***

Those were the good old days!

<https://www.amazon.ca/Millionaire-Philanderer-Gambler-Duelist-Invented/dp/1501154974>

**Have a Great Weekend**

**Steve & Anna Hilberry**



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**FOR THE RECORD December 2, 2022**

|                  |               |
|------------------|---------------|
| DOW INDUSTRIALS: | 34,435        |
| S&P 500:         | 4,071         |
| S&P/TSX COMP:    | 20482         |
| WTI:             | \$80.14       |
| LOONIE IN \$USD: | \$0.7426 \$US |





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