HILBERRY GROUP
WEALTH MANAGEMENT

January 13, 2023

Lucky Friday 13th edition

Opportunity Knocks: CIBC – has tanked. Back to Q1/2020?

We've long advised when it comes to Canadian Banks "Buy the one they hate the most". Up until September that was Scotiabank. Scotia has company in the doghouse. From $83.75 highs in Feb/2022 CIBC has declined 36% to recent lows around $54, same range as Q1/2020 BEFORE the COVID panic.

NATIONAL BANK FINANCIAL
WEALTH MANAGEMENT

Cdn Imperial Bank of Commerce (CIBC)

- Valuation date: Jan 10, 2023
- Symbol: CM
- Price: $56.85
- 52 wk range: $83.75 - $53.58
- 12 mos projected EPS: $6.80 (below 2021 and 2022)
- 5-year EPS growth rate: 5%
- Earnings Yield: 12%
- Dividend Per share: $3.40
- Cash Dividend yield: 5.98%
- 5 year dividend growth rate 6%
- Trailing 5-year annualized total return: 7.5%
    - (note: spans COVID-19. price flat since Feb/2020)

Last month CIBC raised the dividend to $3.40 per year. At this writing's $56.81 price the dividend yield is 5.98% - call it 6%. The earnings yield = 12%. (earnings dividend by price, inverse of P/E). 5-year earnings growth rate has been an unspectacular 5% per year. Worries we've heard: A 2023 recession, higher interest rates, Canadian property price declines hurting banks, boredom with the recent growth trend and looking for the next Tesla. We think these worries miss the next leg up for the banks. We'll take an internal earnings yield of 12% and a cash income yield of 6%, both growing around 5% per year. We see opportunity knocking.

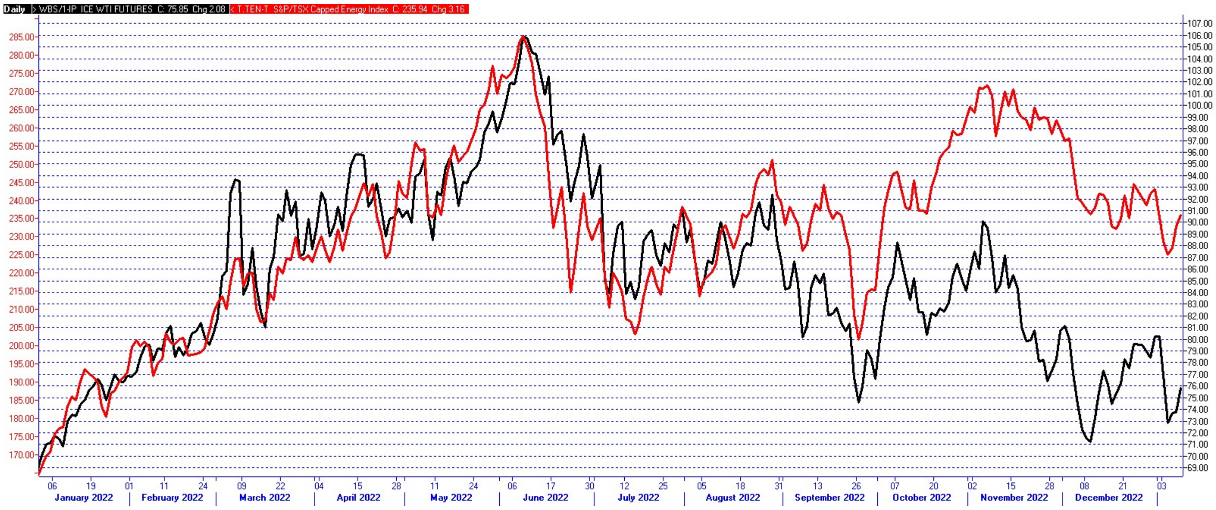
DISCLOSURE: I hold CIBC shares personally, for family members and for client accounts over which I have trading authority. We have traded in the security within the past 60 days. Dividends are not guaranteed and may be reduced or cancelled at any time by the corporation. Investing in common stocks may result in losses. Past results are not an indicator of future returns. This example is not to be construed as a solicitation to purchase securities. Consult your financial advisor before making investment decisions (hopefully us!).

Turning to the Energy Markets

Oil prices flopped in the latter half of 2022. Reasons? Surging COVID cases as China ended lockdowns (previous worry being lockdowns), fears that the Russian oil supply collapse narrative was over-done, natural gas supplies landing in Europe and (surprise) the EU managing gas consumption/reserves better than expected, economic slowdown in 2023 (?) and a distaste for risk.

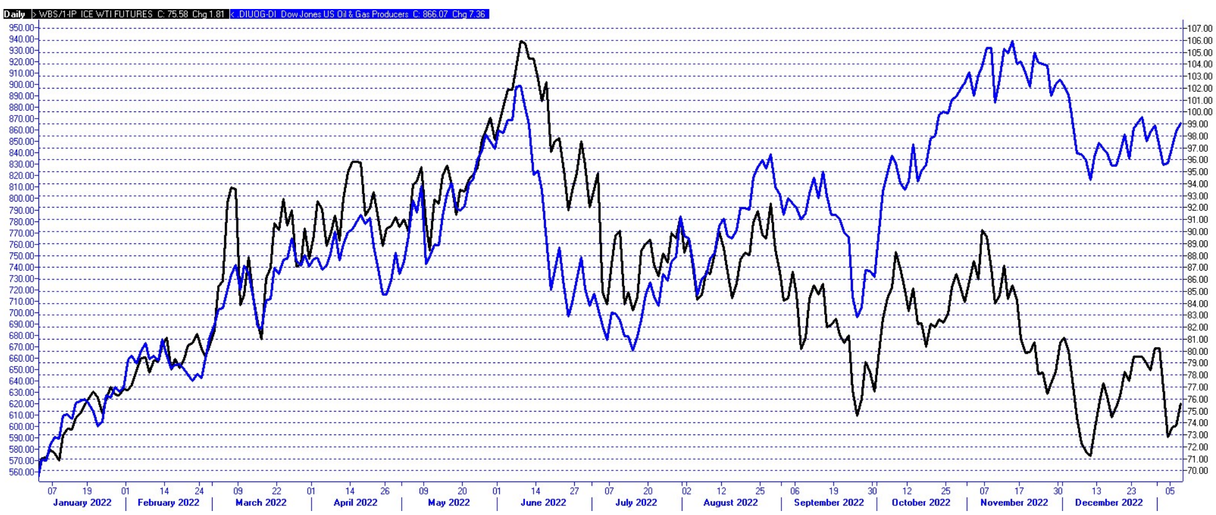
Jan/2022 saw West Texas Intermediate crude (WTI) trade around $71 Mid-June WTI printed $106, then reversed touching $70 again in December. Quite the year.

WTI (black) $US vs TSX Energy Index (red) daily ranges – 12 mos – Jan 9, 2023



The SP/TSX Capped Energy Index (TEN-red above) locked step with WTI into the end of the 3rd quarter. Q4 saw Canadian oil producers stock prices lift. US producers showed even stronger returns.

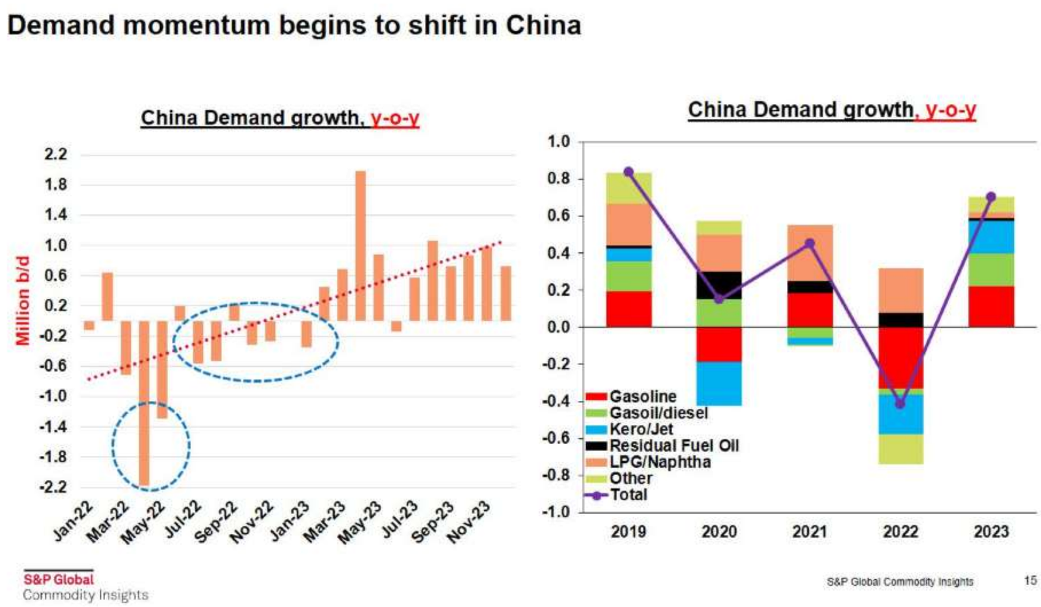
WTI (black) $US vs DJ O&G Producers Index (blue) 12 mos – Jan 9, 2023



Q3/2022 we advised WTI prices were likely to rise in 2023. Other than portfolio rebalancing we were not reducing exposure to the sector. Our view hasn't changed. Despite the laundry list of worries conventional energy producer stock prices went up. It seems the street now agrees. We're hanging on to our conventional energy producers.

Extract from NBF's daily energy notes Jan 9, 2023. 'Brent' is the price of crude oil in Europe.

China gearing up for '23 as it winds down its zero-Covid policy.



Source: S&P

Japan is coming looking for LNG…may go home with a story about hydrogen*.* *How Canada/the Federal government isn't advertising more the largest private investment in the country's history and the impact it's having on emissions reductions (represents ~30% year reduction in Canadian equivalent emissions) is sad…a good example of the warped politics around the environment (lip service and unrealistic/misleading projections & policy > action and facts).*

Japan PM Visit Could Highlight LNG Needs, As Tokyo Pushes Away From Russia And China

Monday, January 9, 2023, 12 AM MST

Print

THE CANADIAN PRESS

(The Canadian Press) — Japanese Prime Minister **Fumio Kishida**'s first official visit to Canada will take place next week, as Tokyo looks to Canada to provide much-needed liquefied natural gas.

Source: Daily Oil Bulletin

What of the 'business case' for Canada's West Coast LNG exports?

'Canadian LNG in Asia' - Wood-Mackenzie Nov 2022

Canadian Energy Research firm Wood-MacKenzie generated a report on the future of Canadian LNG to Asia. They have been addressing 'business case' comments from elected officials. The following four slides are extracted from the report.

https://www.canadianenergycentre.ca/wp-content/uploads/2022/11/WM-CEC-Role-of-Canadian-LNG-in-Asia-Public-Report.pdf

woodmac.com

Natural gas is a great transition fuel, and this presents Canada with a tremendous opportunity to grow into a significant LNG exporter

Thesis Element	*Findings*	*Confidence Level*
Natural gas has many advantages, particularly for the power sector	**Natural gas has the lowest emissions amongst fossil fuels:** Gas produces less than half the emissions of coal when used in power generation **Natural gas can act as baseload as well as a peak shaver for power generation:** Along with coal and nuclear, gas is a baseload fuel that is reliable and dispatchable, especially as it can help to offset the intermittency of wind and solar power **Gas has numerous other advantages:** Natural gas is cost-competitive and there are large global reserves in many countries, including Canada. Furthermore, natural gas is used in various other industries aside from power generation	▪ High confidence in natural gas emissions intensity ▪ High confidence in natural gas reliability and dispatchability ▪ Relative confidence in natural gas cost-competitiveness
Canada is well-positioned to capitalize on this unique opportunity	**Demand for LNG continues to grow, especially in Asia:** By 2030, there is a global demand gap for LNG of 51 mtpa. Even in a scenario where Canada aggressively ramps up its LNG exports (i.e., the unconstrained case), Asian demand will still be able to absorb the additional Canadian LNG on the global market through 2050 **Canada is well-positioned geographically:** Pipelines and LNG export infrastructure can be built in the western part of Canada to send higher volumes of LNG to Asia. Western Canadian LNG is much closer to Asia relative to US Gulf Coast LNG, which needs to be shipped through the Panama Canal to get to Asia **LNG from Canada would be cost-competitive for northeast Asian importers:** Although not as inexpensive as LNG from Qatar for Asian buyers, Canadian LNG is quite cost-competitive, due to its relatively low shipping and liquefaction costs. Compared to other global exporters of LNG, Western Canadian LNG is cost-competitive	▪ High confidence in Asian LNG demand growth ▪ High confidence in amount of Canadian natural gas reserves ▪ Relative confidence in Canadian LNG cost-competitiveness for buyers in NE Asia

Source: Wood Mackenzie

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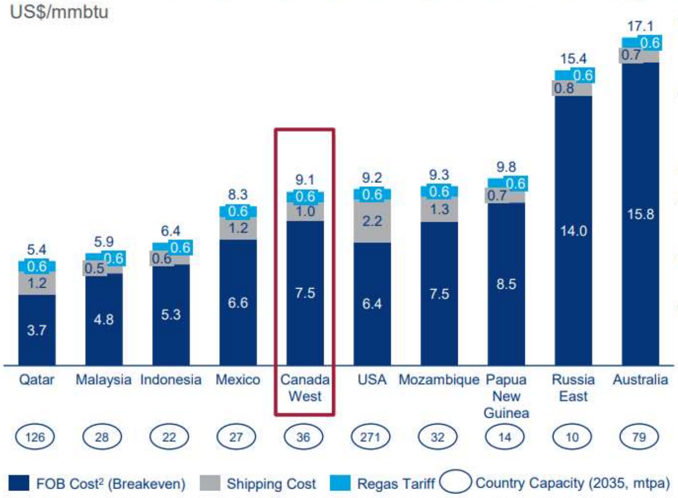
Canadian LNG remains cost-competitive delivering to Asian markets compared with the largest exporter (US), given lower transportation costs

Average Delivered Full Life Cycle Cost to Northeast Asia[1] from Competing LNG Supply Countries



- **Qatari LNG** is the most competitive from a cost perspective and is increasingly GHG focused. **Malaysia and Indonesia** are also competitive given short distances and low FOB costs
- **Canadian** new LNG projects will face lower FOB costs due to existing common infrastructure and workforce buildup, along with modular solutions for specific projects
- The **US**, although competitive, has the highest shipping costs
- **Mozambique's** projects face a considerable degree of development uncertainty
- **Australian** projects have a wide range of FOB costs and have incurred cost overruns in the past
- Economic competitiveness is key to securing off-takers, but **other aspects are considered** when assessing contracts with pre-FID LNG projects, for example:
  - Some LNG buyers have concerns about becoming overly dependent on Qatari or Russian LNG
  - US LNG is facing growing scrutiny due to carbon emissions
  - Contract terms such as duration, flexibility and indexation are also increasingly important to securing offtake agreements

1) Supply capacity weighted average of costs to the main import terminal for each region: Shanghai (China), Ohgishima (Japan), and Incheon (South Korea)
2) FOB Cost at a 12% discount rate
Source: Wood Mackenzie

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Source: Wood Mackenzie

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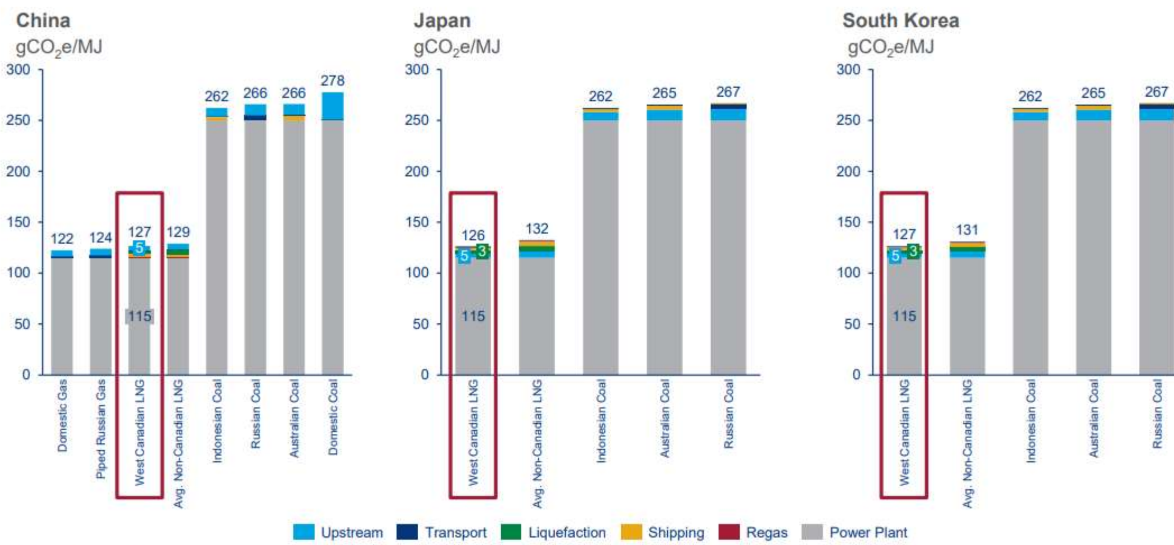
Canadian LNG is among the lowest emitting sources of energy to Northeast Asia

Canadian LNG has fewer upstream and liquefaction emissions compared to the average NE Asia LNG supplier



Source: Wood Mackenzie

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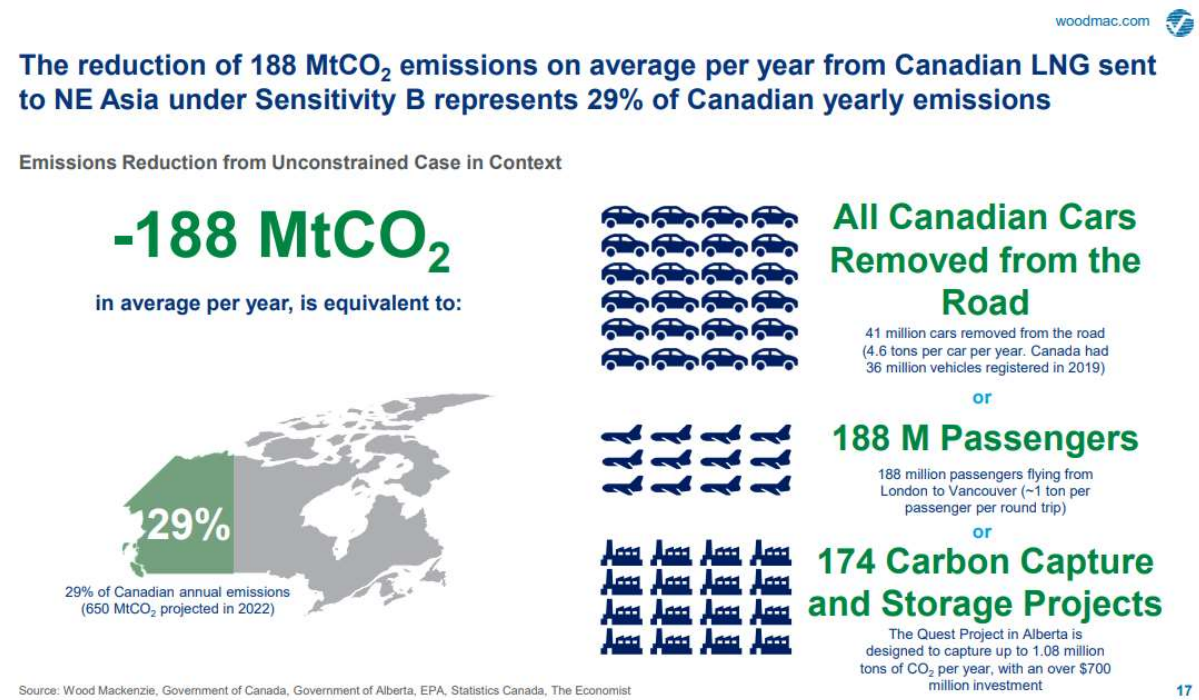
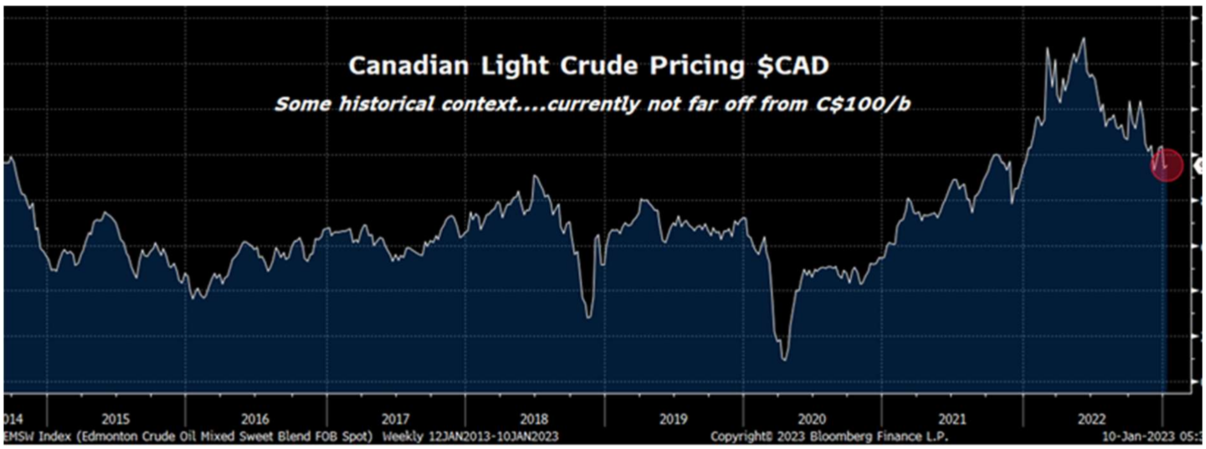
Source: Wood Mackenzie



Source: Wood Mackenzie

We continue to like Canadian crude oil producers. They're 'Making Bank'.



Will e-bike batteries lead the way to faster charging times for EV cars?

***'CHARGING TIME FOR ELECTRIC BIKES COULD BE JUST MINUTES WITH NEW BATTERY FINDING'* – Visor Down**

https://www.visordown.com/news/industry/charging-time-electric-bikes-could-be-just-minutes-new-battery-findings

With the recent punditry focus on Hockey Stick Inflation in mind…

***"Inflation is always and everywhere a monetary phenomenon in the sense that it is and can be produced only by a more rapid increase in the quantity of money than in output."* - Milton Friedman - 1963**

From 2010 to 2020, Dr. Friedman's warning was often dismissed. Those arguing against noted 20 years of very low inflation and borrowing costs despite growing Government Budget debts and deficits. The Bond Vigilantes of the 1980's seem to be Rip Van Winkling in the Catskills. They argued the low rates confirmed governments could borrow and spend without concern for repaying the borrowers (Modern Monetary Theory -MMT) to support a 'guaranteed living wage' (Universal Basic Income UBI). Voters liked easy money. Politicians delivered. They borrowed heavily on our behalf.

Canada's combined federal-provincial debt will exceed $2 trillion in 2022/23; Fraser Institute – Jan 10, 2023

https://www.fraserinstitute.org/sites/default/files/growing-debt-burden-for-canadians-2023-newsrelease-ntl.pdf

It was all great fun. Joe and Jolene Average Joe were able to borrow unheard of amounts at very low cost. Many bought houses driving up prices (trigging calls for affordable house policies). The MMT/UBI activists were provided right....until they weren't.

Modern Monetary Theory isn't modern. It's been tried before with the same sad results. Easy money leads to inflation. Lenders notice erosion of their saving's purchasing power and demand a higher rate of interest. **As it's their money to lend**, Governments must go cap-in-hand to the bond market.

"I used to think that if there was reincarnation, I wanted to come back as the president or the pope or as a .400 baseball hitter. But now I would like to come back as the bond market. You can intimidate everybody." Clinton political adviser James Carville.

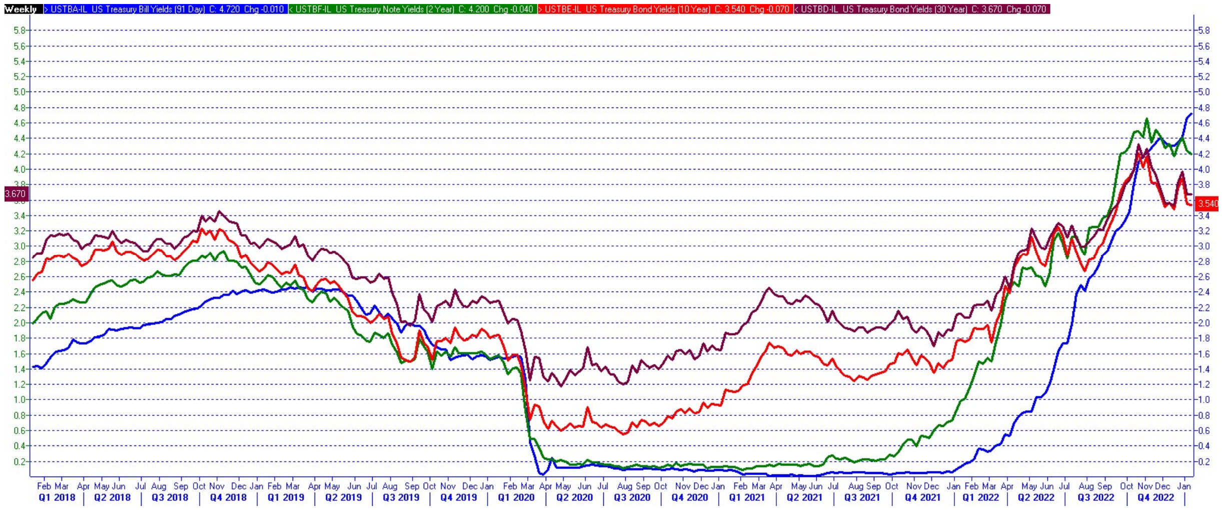
"Ideas & Trends: The Bondholders Are Winning; Why America Won't Boom" by Louis Uchitelle, www.nytimes.com. June 12, 1994

It took an 8% Government Bond yield in 1994 to convince the US Clinton Administration to get serious about debt. Once wrestled taxes were cut. The pessimist headline for that 1994 NY Times article was disproved. The US economy boomed as inflation and interest rates declined

How is the bond market taking it this time around?

US Fed Govt Bond Yields – 2018-23 – weekly ranges.

90-days Blue, 2 years – Green, 10-years Red, 30-years Burgundy



10-year yields bottomed around 0.80% in Q2/2020 (middle chart). Rates have quadrupled. The Bond Vigilantes may have awoken from their long nap.

As per Dr. Friedman, inflation is caused by excess money chasing too few goods. M2 is the growth in money provided to the system.

While inflation may result from shortages caused by the biblical curses of war, famine and plagues, in modern well-functioning and well-supplied economies, (ahem) inflation has been caused by excess money supplied to the citizenry. 'Excess money' means citizens receiving a benefit that is not tied to productivity. This is not to say governments should NEVER offer succour (think COVID cheques). Such support must be fiscally conservative, and temporary. Politicians have a hard time with both concepts. Voters like ‘free’ money. Politicians like promising them their own money back (less government waste, interest and inflation).

There is simply no getting around the fact that money's only purpose is to represent a store of value. Value only comes from being added to something. Value is only added by productive effort. This process is sometimes called work or having a job. This is the significant problem with the concept of 'Universal Basic Income' (UBI).

Which brings us to...

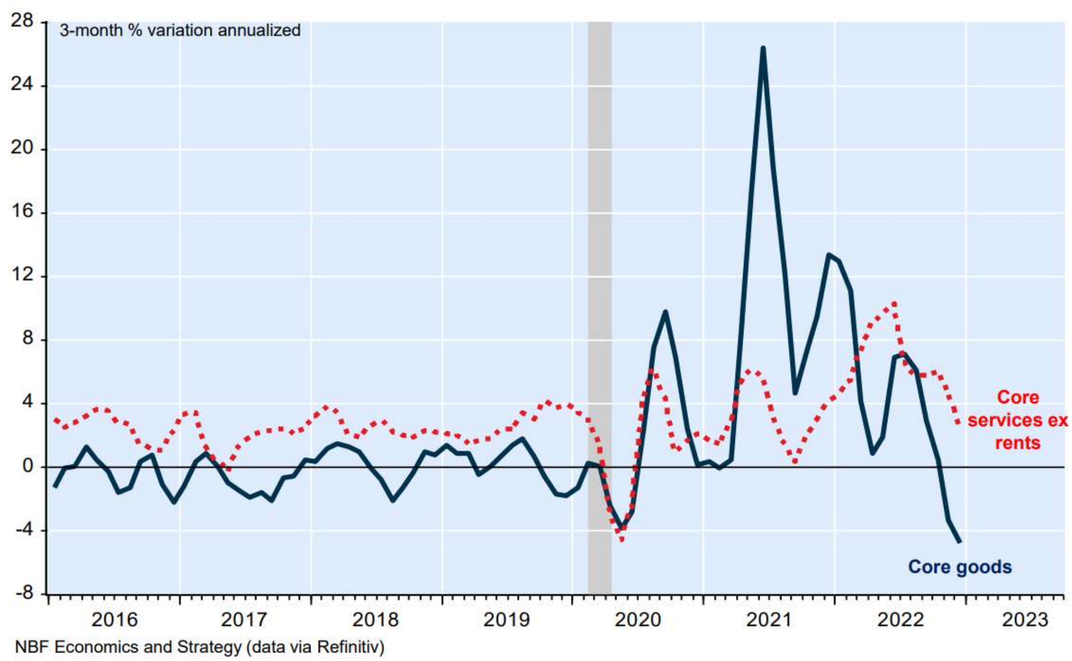
Q: Surely if more of us have better paying and more satisfying jobs, the less need for UBI, and Government to manage it? Less required support means less cost and less tax, leaving more for the earners of those good wages to spend on their families present and future. Why don't 'progressive' Governments focus on job creation vs entitlements?

A: Encouraging work/discouraging not working won’t get votes.

Speaking of Jobs…

Alberta Bound?

'U.S.: Ex-rent inflation slowing down quickly' – NBF HotCharts Jan 12, 2023



https://nbf.bluematrix.com/sellside/EmailDocViewer?encrypt=1e64eb53-c1a2-4cb2-b837-3d5518c31b38&mime=pdf&co=nbf&id=steven.hilberry@nbc.ca&source=mail

January 13, 2023

US Inflation may be moderating. Mr. Scott Grannis explains

'The inflation tide continues to recede' **- Scott Grannis**

http://scottgrannis.blogspot.com/2023/01/the-inflation-tide-continues-to-recede.html

Putting it all together we believe a recession is coming, it's likely to be mild and it's already priced into stocks. We're sticking with dividend-paying stocks.

Have a Great Weekend

Steve & Anna Hilberry

FOR THE RECORD Jan 13, 2023

DOW INDUSTRIALS:	34,233
S&P 500:	3,979
S&P/TSX COMP:	20302
WTI:	$79.42
LOONIE IN $USD:	$0.7464 $US

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