



WEEKEND READING

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

Gold, Guns and Goats – revisited

Will US and Canadian Federal Govt debt, lead to a financial collapse?

Some people clearly have too much time to spend on Facebook. There's been a lot of social media fear-mongering on the US Govt debt. One viral theme has us on the edge of financial collapse under mountains of debt. Social chaos, revolution and civil war is surely around the corner. Before the apocalypse hits, sell everything, move beyond the power grid, buy gold, guns, and goats! Clients have asked for our thoughts. My answer is this is just silly talk by people who can't (or won't) understand how government debt is serviced - or by those selling guns, gold, and goats.

Why I'm not (that) worried about US Fed Govt Debt and why interest rates may fall.

I grew up in Detroit, Michigan. I was there during the Detroit riots of 1967. In the late 60's and early 70's as oil prices spiked, inflation roared, the Vietnam war raged, the Cold War maintained, Detroit lost jobs and collapsed due to Japanese auto makers, many predicted a black on white civil war. Interest rates peaked in 1981. My first mortgage was at 15% interest. The US was clearly headed for disaster. The Back-to-The-Land movement took hold.

My parents believed it.

They sold all their worldly US possessions in Seattle, bought 80 acres of raw timbered land beyond the power grid on Northern Quadra Island, BC in 1972 and immigrated to Canada, taking my brother and I with them. I was 14. We carved out a hole in the forest, built a log cabin, grew our own food, used Kerosene lamps, propane cook stoves and fridges, wood burning heaters during the 2 feet of snow on the ground all winter. We had goats. Our neighbors were some of the craziest people I've ever met. Seattle looked tame. The world

didn't end. Civil war was avoided. The Vietnam War, like all wars, ended. Inflation abated. The US economy, as always, changed. Jobs shifted. The tech industry was borne. Productivity boomed.

The folks eventually sold off. My brother and I remained in Canada. I married a Canadian girl, moved to Duncan and raised a family here. Best thing that ever happened to me! Before you decide to move to a cabin in the woods to grow cabbages and milk goats read this...

<http://scottgrannis.blogspot.com/2023/01/m2-news-continues-to-impress.html>

and this...

<http://scottgrannis.blogspot.com/2023/01/federal-debt-is-not-as-bad-as-you-might.html>

To be clear, move out to the country for the peace and quiet and hopefully not crazy neighbors. Don't do it out of fear, do it with joy! As the song goes..."Things are gonna' work out fine".

This doesn't mean no trials or tribulations.

US Recession Risk – Weekly Monitor National Bank Jan 20, 2023

<https://nbf.bluematrix.com/sellside/EmailDocViewer?encrypt=a71763f2-c9d8-4898-9181-fadfdb31acf3&mime=pdf&co=nbf&id=steven.hilberry@nbc.ca&source=mail>

'Canada: The central bank is not there to please the markets' NBF HotCharts Jn 23, 2023

<https://nbf.bluematrix.com/sellside/EmailDocViewer?encrypt=8ff02af9-080f-4aae-adc0-f3b3d4e7097a&mime=pdf&co=nbf&id=steven.hilberry@nbc.ca&source=mail>

Turning to the energy markets...

'Canada's energy jobs transition bill sparks discord in oil heartland' - Reuters Jan 22, 2023

"Ex-coal miner Len Austin, who now runs a government-funded Just Transition centre supporting former coal workers, said policymakers made a "really good effort" with programs such as retirement bridging, relocation packages and C\$12,000 (\$8,945.21) retraining vouchers.

But there was insufficient funding for economic diversification and infrastructure projects within coal communities to create new jobs, and governments need to understand not everyone can work in renewables, he added.

"It's 100% not that simple...to go from making C\$100,000 to C\$40,000 plays a big part in the decision-making that comes with the idea of losing your livelihood," Austin said."

<https://www.msn.com/en-ca/news/canada/canada-s-energy-jobs-transition-bill-sparks-discord-in-oil-heartland/ar-AA16CGqk>

‘Nuclear Energy could support the energy transition’ – says Delta Clean Tech

<https://www.msn.com/en-ca/video/news/nuclear-energy-could-support-the-energy-transition-says-delta-clean-tech/vi-AA16Dfj2?ocid=entnewsntp&t=41>

NBF Hot Charts - Canada: ESG is meaningless if you ignore “G”overnance

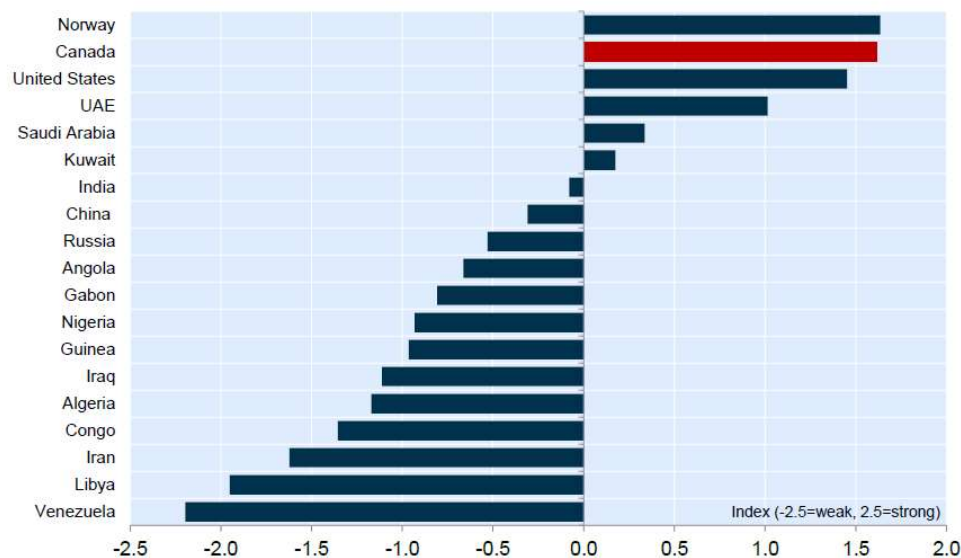
Canada Watch

By Stéfane Marion

As our colleague Angelo Katsoras recently [argued](#), geopolitical tensions and growing protectionist sentiments are forcing companies to establish additional supply chains in less strategically vulnerable locations. This means producing more domestically and importing more energy products from allied countries, especially those that have good ESG credentials. When it comes to deciding which energy producers are worthy of the name, governance is of the utmost importance to avoid greenwashing. According to the World Bank, governance consists of the traditions and institutions by which authority in a country is exercised. This includes the process by which governments are selected, monitored and replaced; the capacity of the government to effectively formulate and implement sound policies; and the respect of citizens and the state for the institutions that govern economic and social interactions among them. As today's Hot Chart shows, Canada is a world leader in governance. So it's no wonder that the German Chancellor and the Japanese Prime Minister recently visited Canada to inquire about our willingness to supply them with essential energy and to reposition our country in the Western world's developing supply chain. Sadly, we turned our backs on them.

Canada: ESG is meaningless if you ignore “G”overnance

Index of regulatory quality for OPEC countries plus Canada, Norway, U.S., China and India (2021)



NBF Economics and Strategy (data via [World Bank](#))

We’ve been cautious of the ‘ESG Score Index’ notion. The concept is laudable. We feared it would veer into ideological, top-down, technocratic decisions, isolated from reality, permitting all kinds of Fun With Figures. The above proves the point. The ESG Index Ranking is as of 2021. Russia’ invasion of Ukraine in Feb/2022 might just reduce that country’s ESG score from -0.5 to something below Venezuela’s -2.25.

“There are three kinds of lies: lies, damned lies, and statistics.” - Mark Twain



Full Report here:

<https://nbf.bluematrix.com/sellside/EmailDocViewer?encrypt=c126a4e6-59d8-4e0b-84be-585ac0746c9f&mime=pdf&co=nbf&id=steven.hilberry@nbc.ca&source=mail>

There is a hyperlink in the above a report to NBF’s Angelo Katsoras’s **Geopolitical Briefing**. On the chance Mr. Katsoras’s briefing won’t open, here is a direct link.

<https://nbf.bluematrix.com/sellside/EmailDocViewer?encrypt=2db41f59-fb5d-4573-9d5d-8c911471d530&mime=pdf&co=nbf&id=steven.hilberry@nbc.ca&source=mail>

Here are some extracts from Katsoras’s work. We recommend the full report.

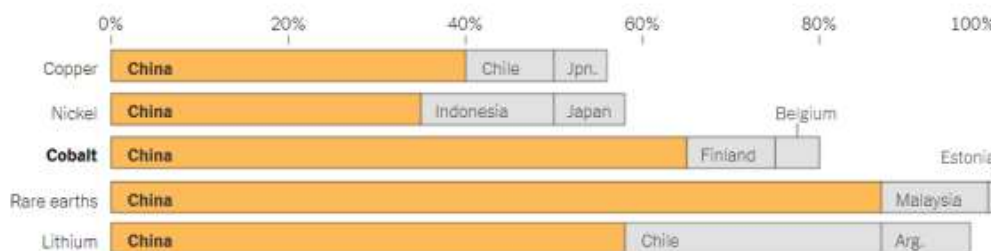
The Inflation Reduction Act: an example of how domestic production is being incentivized

Signed into law last August, the Inflation Reduction Act provides for \$370 billion in financing for clean energy investments. This includes a \$7,500 electric vehicle (EV) tax credit. For a vehicle to qualify for half the credit, at least 40% of the minerals used to produce the vehicle’s battery must be sourced in the United States or in any country with which the United States has a free trade agreement. This required percentage is set to rise to 80% by 2026. For a vehicle to qualify for the other half of the credit, at least 50% of the battery’s components must be made in North America. This level is set to rise to 100% by 2028.¹⁾ While the majority of the minerals that go into the production of EV batteries are mined elsewhere, most need to be refined in China. This is one of the main reasons why China is the largest producer of EV batteries today (70% global market share).

Where Clean Energy Metals Are Produced



And Where They Are Processed



Source: “Clean Energy Metals,” New York Times & International Energy Agency, February 2022

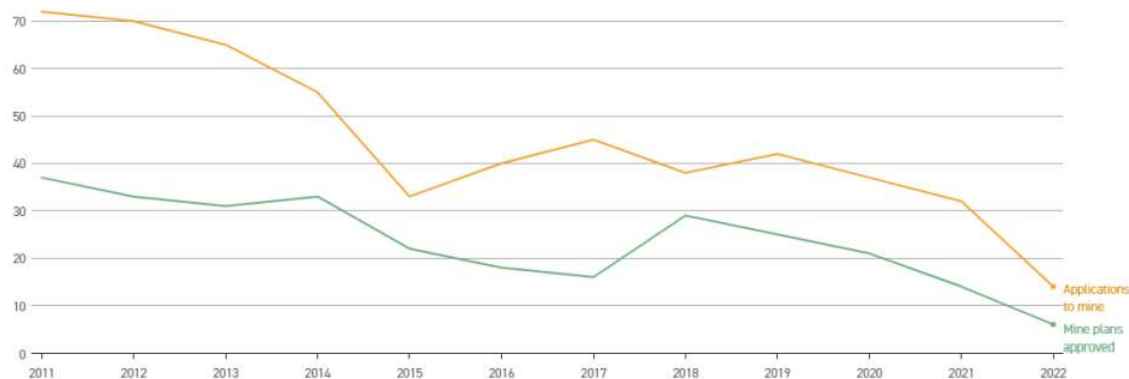
2) These local content requirements pose a huge challenge in that the United States holds very little of the world’s capacity for mining and refining the minerals needed to produce EV batteries. In 2020, its share of refining was 4% for lithium, 1% for nickel, 0% for cobalt, and 0% for graphite.



3) Despite the lack of mining capacity, obtaining approval to open mines and build related infrastructure has become increasingly difficult in the United States. The Bureau of Land Management, which is responsible for handing out mining permits on federal lands, has seen a decline in the number of projects approved in the past decade. 4) What's more, mines that are approved take 10 years on average to bring online. 5) This significantly increases the risk of supply bottlenecks and higher operating costs over the longer term.

Federal mine approvals declined over the last decade

Bureau of Land Management mine applications and approvals



Mine plans approved in a given year are not tied to mine applications that year. Data for 2022 is as of June 22.

Source: Bureau of Land Management
Claudine Hellmuth / E&E News

Source: "Biden wants minerals, but mine permitting lags," E&E News, August 9, 2022

Just as the United States imposed restrictions on China's access to American semiconductor technology, China could choose to weaponize the United States' dependence on minerals refined in China."

The chart on mine approvals is a familiar in BC. Everybody wants a green future. Everybody wants battery-operated cars. Nobody wants a mine to dig up the necessary ores, aluminum smelters, chromium plants, rare earth metals refining mill and battery manufacturing plants in their neighborhood. How many are planned for Davos, Switzerland?



Electrical generation and refining in China





Chinese open pit lithium mine – source: *Robotics Automation news*

Globalism permitted us to have our cake and eat it to. Pollution was ‘outsourced’. Will this continue?

‘Supply Questions Surround Raw Materials for EV Batteries’ Ward’s Auto

Ward’s Auto looked at battery manufacturing and recycling in July/2022. Some good news.

<https://www.wardsauto.com/industry-news/supply-questions-surround-raw-materials-ev-batteries>

On oil prices...

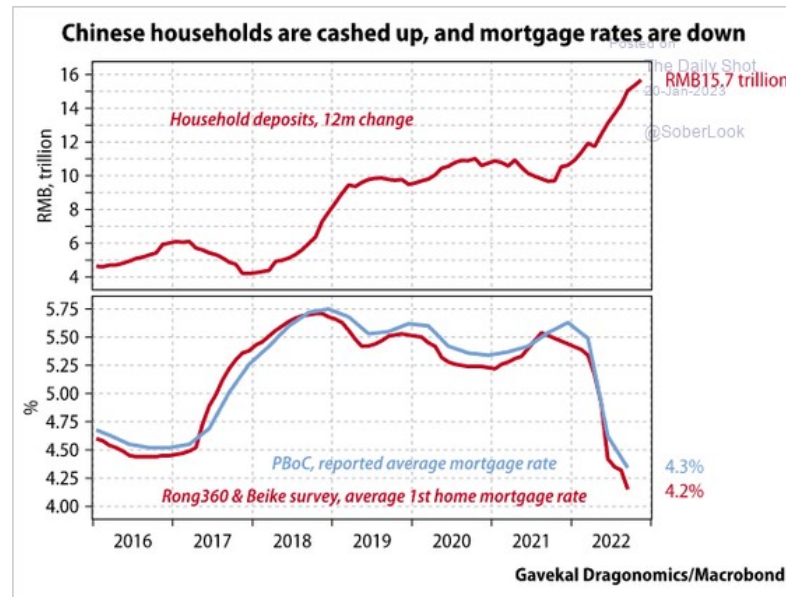
***‘China: Reopening economy points to surge in oil demand’ NBF HotCharts
Jan 24, 2023***

<https://nbf.bluematrix.com/sellside/EmailDocViewer?encrypt=e9c2572e-f207-4db9-aaee-0fbd0467e19c&mime=pdf&co=nbf&id=steven.hilberry@nbc.ca&source=mail>

With China in mind...



China: The housing market is primed for a bounce.



Source WSJ Daily Shot Jan 20, 2023

Past gains in Chinese property prices have led to interest in Canadian real estate.

Ukraine War update:

This week German Chancellor Olaf Scholz announced Germany will provide their Leopard 2 tanks to Ukraine and will not restrict other countries doing the same. Peter Zeihan provides a short commentary. He explains why the Leopard 2 is immediately useful to Ukraine and why the US main battle tank, the Abrams M1, is not.

‘Germany Green-Lights the Tanks’ – Peter Zeihan – YouTube

<https://zeihan.com/germany-green-lights-the-tanks/>

The Institute for the Study of War, (ISW) provides greater depth.

NATO member states will send Ukraine modern main battle tanks

<https://www.understandingwar.org/backgrounder/russian-offensive-campaign-assessment-january-24-2023>

ISW’s notes Russia’s internal friction between military factions.

This week, Perun posted a 1-hour YouTube review of these internecine struggles.

‘How Politics Destroys Armies’ – YouTube - Perun Jan 22, 2023

<https://www.youtube.com/watch?v=hx5mTslkUBs>

It should be added to your collection of his previous work on corruption and lies.

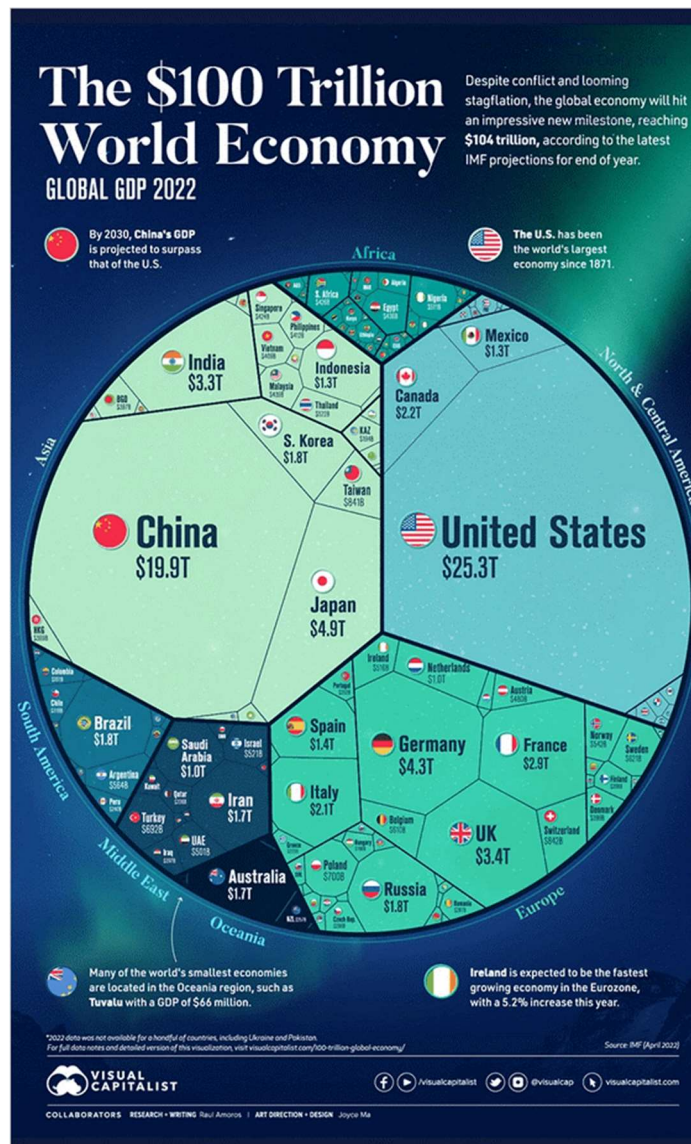
How Lies Destroys Armies: <https://www.youtube.com/watch?v=Fz59GWeTlik>

How Corruption Destroys Armies - <https://www.youtube.com/watch?v=i9i47sgi-V4>

WARNING: Be prepared to devote 1 hour to each episode.

While the mess in Ukraine has devastated most of us...the World keeps turning. Humankind keeps increasing output.

A reminder of who's #1, the US has been the largest global economy since 1871.



Back to Canada.

‘Canada: BoC is playing with fire’ – NBF Hotcharts Jan 25, 2023

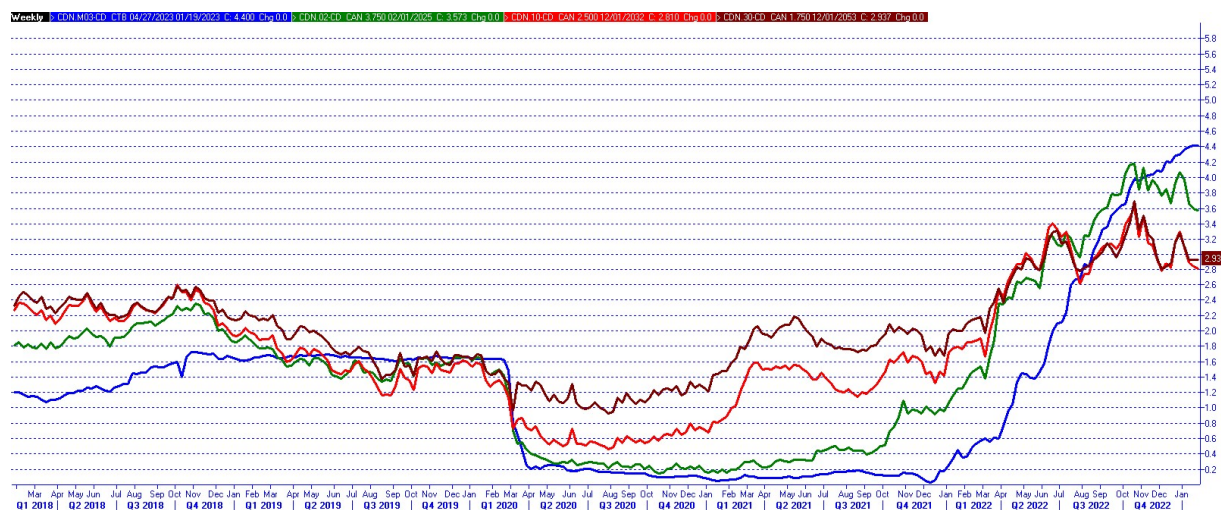
Wednesday the Bank of Canada (BoC) hiked rates an additional ¼ of 1% (25 basis points) setting the rate paid by major banks (Bank Rate) at 4.50%. Canada 180-day T-bill rates climbed to 4.50%. Bank Prime is likely to land at 6.7%.

Floating rate mortgages are typically tied to Bank Prime. NBF looks at the impact on floating rate mortgage borrowers. The ‘trigger’ referred to means borrowers have been paying a fixed monthly payment based on floating rate. If Bank Prime increases above a ‘trigger point’ the monthly payment must increase to a new higher fixed amount. The actual dollar varies widely, meaning, a) it’s an impact and b) we won’t know how much of a hit. Given the trend in longer term (see below) the hit may not last.

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Here is the Canadian yield array as of Jan 25, 2023.

Govt Canada Yields: 90-day (blue), 2-yr (green), 10-yr (red), 30-yr (burgundy).



Note how 2 to 30-year yields (reflecting consumer/commercial lending rates) have been flat to falling since peaking in November and are back to May/2022 ranges. These declines predict a slowdown. The downtrend is not sharp. The bond market is not pricing in a steep slowdown. Neither is the stock market.

Following this week’s rate hike, NBF’s Economics team looked at BoC rate policy.

‘BoC Policy Monitor - Pause and effect’ – NBF Economics Jan 25, 2023

<https://nbf.bluematrix.com/sellside/EmailDocViewer?encrypt=fa7c25e2-dc67-412b-9abb-481dd2e0a954&mime=pdf&co=nbf&id=steven.hilberry@nbc.ca&source=mail>



We expect the Bank of Canada will cease further rate hikes. We expect bond yields to drift lower in the short-term. We do NOT expect to see the 2020 sub-2% rates again in our lifetimes. Broadly we suspect the rate trend will be sideways to up but not significantly so. As a result, we've lengthened our bond portfolio maturity duration from the very short-term stance we held in 2020. We're not way out at the long end either. We continue to focus on high quality, avoiding heavily leveraged debt issuers. Rising rates are hell on junk bonds. Rising rates sharpen the mind. Suddenly today's profits and cash-flow matter.

What we believe:

- A) A slowdown in first half/mid-2023 that will be...
- B) A reset of 2021 excesses vs. a full-on economic crash.
- C) We've reduced cash, extended bond maturities **added to** common stocks.
- D) We remain slightly tilted towards Canada.
- E) This could change.

Have a Great Weekend



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Wealth Management Advisor, CIM

FOR THE RECORD Jan 27, 2023

DOW INDUSTRIALS:	34,143
S&P 500:	4,091
S&P/TSX COMP:	20730
WTI:	\$79.52
LOONIE IN \$USD:	\$0.7542 \$US

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