HILBERRY GROUP
WEALTH MANAGEMENT

Feb 24. 2023

Glum and Glummer

Investors have been in a selling mood. The worry beads include inflation, interest rates, declining home prices, the War in Ukraine, near-term direction of earnings, economic cycle are we approaching in or exiting a recession, China's politics, supply chains, tax hikes. Maybe snow in Los Angeles?

https://twitter.com/i/status/1628809088145698816

NATIONAL BANK FINANCIAL
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For those in LA at least it's not 1974.

LA Snowstorm of 1974 – source LA Times

S&P500 Gloom

- From the January 4/2022 4818.62 peak to date: -17.8%
- From the Jan/2022 peak to lows in Jun/2022: -24.5%

S&P 500: (3,951) weekly: flat since Feb/2021

The headlines would lead one to conclude things are dire. As per norm, news outlets reflect the mood piling on with stories of gloom. Financial media influencers – who need eyeballs not paying clients - chase doom down the street.

We don't see it that way. The more prices fall, the deeper investors gloom. It's a race between Glum and Glummer. The more prices fall, the happier we are. Well…we don't like to see our own portfolios decline in value any more than our clients. But that was yesterday. When prices fall we are in our happy place. Logic says the more prices have declined, the less likely they are to continue to do so. Emotion says the more prices have declined the more likely investors want to sell. If we can resist selling and be buyers the next major price move is more likely to be up than down. If prices have fallen we're probably getting better dividend incomes on what we're buying.

Remember that dividend income thing. If the dividend income you're receiving hasn't changed yet the price is lower, are you motivated to sell TO other investors at that lower price or buy FROM them? We usually choose to be buyers when prices are down.

Usually

Intel Corp (INTC-NSDQ-$25.15)

Intel Board of Directors announced on Wednesday they were reducing the quarterly common share dividend from $0.365/**$1.46 annual** to $0.125 cents/**$0.50 annual**. The dividend is now back to Feb/2008 levels. With the stock price around $25.00 the new dividend is priced to yield 2%. The Board cut its and Senior Management cash compensation (stock options not so much!).

History says North American corporate boards are loath to cut the dividend. A dividend cut says **'we need to conserve cash flow'** to cover corporation's internal operating costs, service debt payments, restructure divisions and make investments to build future profits. If the payoff was just around the corner, there would be no need to reduce the dividend. A dividends cut says things are tough and going to stay that way for awhile. History says turn-arounds often take longer than expected with the corporation's stock price languishing during the interim. With less dividend support, prices often fall if things don't go according to plan.

When a board of directors tells us things are rough and going to stay that way for awhile, we believe them. We sold Intel this week around $25.00 taking a loss. We moved the proceeds elsewhere in our US dividend portfolio. Take the lumps and move on. We don't like selling at losses, for our own or for our client's accounts. It's part of the process.

Speaking of crashes

Jeff Koons: Visitor breaks iconic Balloon Dog sculpture in Miami

The artist (left) speaks to a fan with one of his blown-glass blue Balloon Dog statues on the center podium.

A gallery guest apparently poked the glass statue that fell off it's stand. A $42,000 whoops.

https://www.bbc.com/news/world-us-canada-64695059?

- Q: Why is a glass balloon dog 'worth' $42,000?
- A: Because someone with an imagination is willing to pay $42,000 for it.
- Call me heathen for asking.

Speaking of imaginary value

Our habit is to allow other's to figure out what a new company is worth. Experience says patience is a virtue.

Turning to the energy markets

‘Peak Consumption’ is back.

Citigroup returned to the ‘Peak Consumption’ argument this week.


- Citigroup head of commodities research Ed Morse
  - Chinese and global oil consumption are approaching a peak as the energy transition away from fossil fuels gathers pace
  - “After this recovery, I’d say it’s the last hurrah for demand in China, and close to the last hurrah for demand around the world”
  - “China is on the way down – it’s moving out of the world of oil consumption”

India demand doesn’t look ‘peaky’ yet. European demand appears strong.

Goldman Sees European Gas Prices Doubling on Rebounding Demand

- Bank expects gas price to increase to €110 in third quarter
- Prices are below level that triggered demand destruction: bank

Source: Bloomberg

Oil Demand Booms in India as Government Forecasts Record Use (2)

- 'Massive' growth in infrastructure aiding demand, refiner says
- Ministry projects that diesel use will expand by more than 4%

Source: Bloomberg

What about Chinese demand for everything, including oil?

Oxford Research looked at a potential Chinese GDP/ consumption rebound post COVID lockdowns with the implications for the energy markets.

'China re-opens: Implications for energy markets and policies' – Oxford Research Feb, 2023

"Summary

• The Year of the Rabbit started on a buoyant note as the Chinese government lifted the COVID restrictions in place for the better part of three years. The government is also walking back the crackdown on the real estate and tech sectors, suggesting that a strong economic recovery lies ahead, once infections peak.

• But can the Chinese leadership instil confidence in its growth plans? Will private entrepreneurs buy into the government's narrative and will foreign investors flock back to China? The critical question for 2023 remains one of sentiment.

• Policy zigzags have meant that oil product stocks have drawn down while gas shortages have emerged in northern China. With oil demand likely to grow by 0.7 mb/d this year, and gas demand by close to 30 bcm y/y, there will be more volatility in the domestic market.

• A classification change for diesel could mean less product exports than initially expected while crackdowns on Shandong raise questions about the government's priorities: cracking the whip or spurring growth?

• In the power sector, China continues to add coal capacity due to the fear of repeat power outages, even though solar and wind had a strong year in 2022 and are expected to grow even more in 2023. The 2021 and 2022 power outages were driven by unique factors that are unlikely to be repeated this year, but supply security will depend on industrial demand growth this year.

• China's draft solar technology export ban would prevent export of technologies used to make silicon wafers. The rule could hit Chinese firms setting up capacity outside China as well as non-Chinese companies seeking to scale up production in a field now totally dominated by Chinese manufacturers.

• *The move, if implemented, could push other countries to further accelerate efforts to localize production in solar, batteries, and EVs."*

https://www.oxfordenergy.org/wpcms/wp-content/uploads/2023/02/China-re-opens-implications-for-energy-markets-and-policies.pdf

The last two bullet points (highlighting mine) imply inflation in the cost of solar technology. To clarify, this does not mean demand for solar panels can't/won't increase. It means costs may not fall during a transition to renewable energy. This is contrary to what we often hear.

Are Lithium prices having second thoughts?

Predictions are for exponential Lithium demand for use in EV Batteries. Why are prices down? Did they simply rise too much or is something else afoot?

Don't buy (or sell) Canadian Crude?

The 'stranded asset' narrative for Canadian crude appears popular in our political circles. This view holds that crude demand will go to zero, stranding our crude resources, that this is a good thing, to be accelerated via disincentives to consume in Canada (carbon taxes, etc.), and that doing so will lead to an energy transition that Canada could be a leader of. This view holds that new jobs in the new economy will replace the old ones.

To get there, the Canadian Federal Government believed it needed to fund a ***'Just Transition Plan'*** to support workers exiting the oil and gas resource sector. Alberta and Saskatchewan leaders didn't like the implications. That proposed legislation label has been rebranded from *'Just Transition'* to *'Sustainable Jobs Plan'*.

'Federal government releases 'just transition' plan to shift to clean energy economy' – Global News Feb 17, 2023

https://globalnews.ca/news/9494850/just-transition-legislation-liberal-federal-government/

Energy industry workers in Northeastern BC, Alberta and Saskatchewan have expressed less optimism about that green transition future. Given the political gravitational pull of Ontario and Quebec, they have rightly wondered where those jobs might be based and what the compensation rates will be. One question in these many plans not addressed is, if Canada manages by design (or accident) to shut in crude supplies, while demand continues to grow, where will global supply come from?

Here is one answer.

Venezuela's Oil Industry, Reopening to Investors, Is Major Polluter – WSJ Feb 22, 2023

Across Venezuela's once-thriving oil industry, environmentalists say rusty pipelines and storage tanks routinely leak contaminants into the ground.

Frequent spills stain the mangroves of national parks with oil. Refinery explosions in recent years have sent black smoke billowing into the sky. And Venezuela's national oil company, unable to process the natural gas that is a byproduct of oil production, burns enough each day to supply the state of Georgia.

Following the Biden administration's decision last year to ease sanctions to allow Chevron Corp. to resume its Venezuelan operations, U.S. and European oil companies have been lobbying the U.S. for clearance to pump oil amid market upheaval stemming from the war in Ukraine, people close to the companies say. But Venezuela's neglect and mismanagement reflect the challenges before the Western energy companies and investors looking to return to the country, which sits atop some of the world's largest oil and gas reserves.

Freshwater drilling platforms in Lake Maracaibo. Frequent oil spills are a problem. Will the 'blood diamond' concept be applied to crude oil?

https://www.wsj.com/articles/venezuelas-oil-industry-reopening-to-investors-is-major-polluter-35ab2d97

'Alien Invasion!!!' – Barry Ritholtz Feb 14, 2023

https://ritholtz.com/2023/02/alien-invasion/

Signs of life?

Media pundits have been pounding the Drums of Doom. Recession, depression, inflation, soaring interest rates, trade disputes, housing market collapse, environmental catastrophe, war, pestilence, will surely cause a HYUGE MARKET CRAAAASH.

As noted above a February 2023 S&P500 close around the current 4,000 level will mark two years of no return. Any way you look at it, stocks are not in a roaring bull market. Investors are not suffering from an excess of hubris nor irrational exuberance. That happened in 2021. That was then. This is now. One area to watch is the car dealers. New car sales are a good bellwether of the economy. One would expect rising borrowing costs and pending doom to spell trouble for car sales. In turn one would expect the publicly traded shares of a Canadian car dealer in particular to be glum and glummer?

AutoCanada Inc (ACQ-TSX-$29.19) daily ranges - 12 months

AutoCanada's shares are closely followed by our clients in the car business. Much of the daily trading seems to come from those in the industry. If things are about to get a lot worse, why is the share price up?

Scott Grannis looked at inflation (peaking) with the implication for interest rates (down)

'Inflation is under control and the economic outlook remains healthy' – Scott Grannis Feb 16, 2023

This chart with his explainer following sums it up nicely

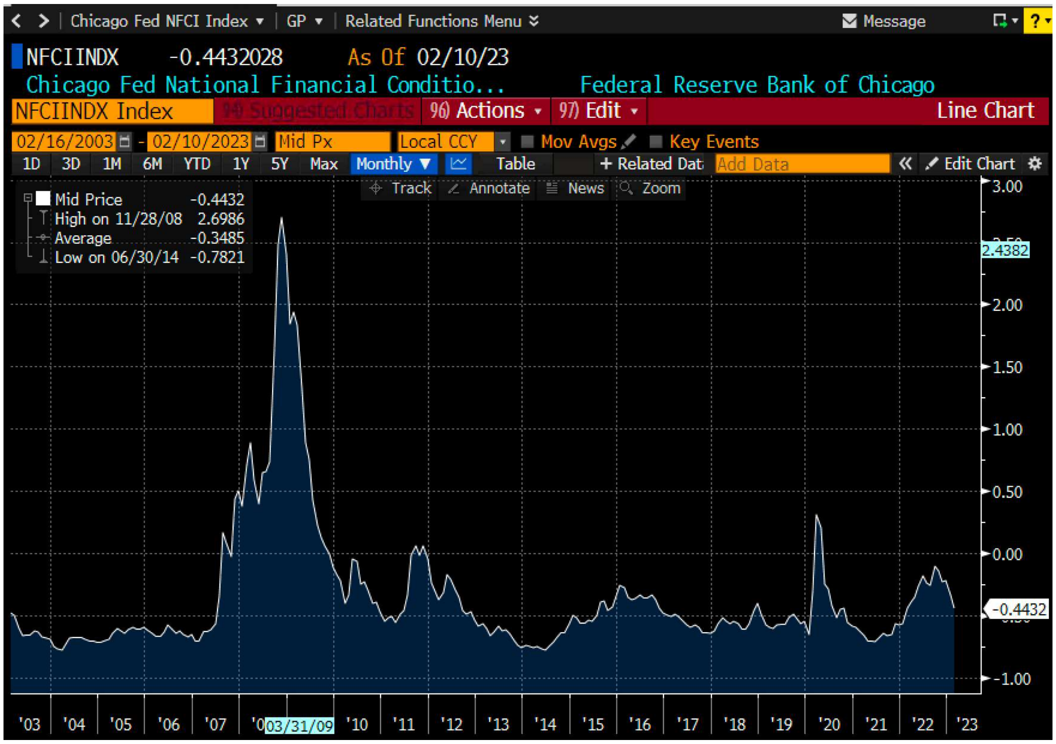

Chart #11 is the Chicago Fed's Financial Conditions Index. Higher values reflect deteriorating conditions, while lower values represent improving conditions. There is no sign here of any impending recession. Ditto for Credit Default Swap spreads and for corporate credit spreads. Liquidity conditions remain healthy, and this argues strongly for healthy economic conditions in general for the foreseeable future.

http://scottgrannis.blogspot.com/2023/02/inflation-is-still-under-control-and.html

For financial markets at large, we think we are closer to the end than the beggining of pricing in an economic slow down. This doesn't mean the economy won't sag from here. It means that decline is mostly already priced into stock and bond prices. We don't know when the next big turn comes. We believe that change will be higher and that patience will be rewarded. Patience hasn't been as hard on our dividend growth clients. From the Jan 4, 2022 S&P 500 peak, inclusive of this week's Intel's flop our Cdn/US blended live portfolio shows a cumulative positive +4.9% return. Dividends have worked. Each $100 invested is now worth $104.96. Cash dividend yield is +4% meaning prices did nothing and dividend saved the day.

Have a Great Weekend

FOR THE RECORD February 24, 2023

DOW INDUSTRIALS:	32,808
S&P 500:	3,969
S&P/TSX COMP:	20217
WTI:	$76.51
LOONIE IN $USD:	$0.7349 $US

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