HILBERRY GROUP
WEALTH MANAGEMENT

April 7, 2023

I've never met a rich pessimist.

Hope springs eternal in the human breast. It helps when it's actually Spring.

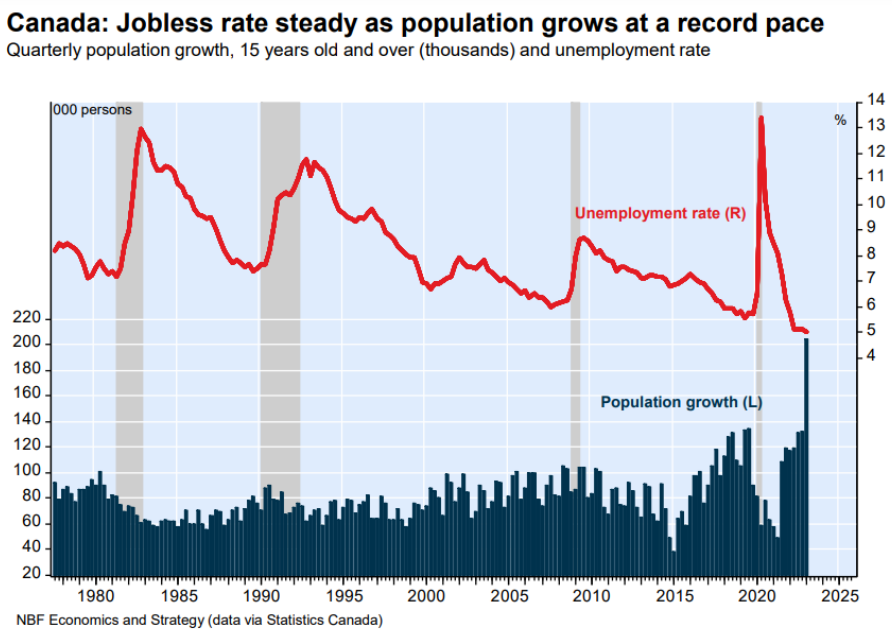
We have a bull -market in pessimism. One fear has been residential real-estate. Media Mavens have predicted the Canadian housing market will be 'crushed' by rising interest rates. They say this will lead to 'devastation' in the banks, pointing to Silicon Valley Bank (SVB) as an example. Never mind SVB's problems were centered around their unwise choice to carry unhedged long-term bonds market price risk, not housing.

We addressed the 'mortgage crushing banks' hyperbole in our **March 17, 2023 edition** (see our website). We laid out the typical borrower's mortgage qualification and paydown experience, grinding through declining principal vs. rising wages. Based on a $1,800 monthly initial available payment at 2.25% rate, our borrower could support a $400,000 mortgage. The above narrative has this borrower 'crushed' when renewing in 5 years at 6%. Not so.

With 5 years of principal paydown and core wage inflation at 2% (it's been much higher recently) our borrower's equivalent $1,800 earnings power grows to roughly $2,000. Assuming they've <u>also improved their skill value over 5 years</u> by 15% (3% per year) they can easily support a $2,285 monthly payment. $2,285 at renewal could support an average borrowing rate of 5.23%. AT 7% the additional monthly cost is $348. No fun but hardly foreclosure doom. Our example also showed at 5.23%, new buyer's purchasing power declines. House prices aren't likely to increase if rates rise. We've been saying this for the past 3 years. Our work also said a huge crash in house prices, devastating the banks was unlikely. While I think the math fascinating, one doesn't need a calculator. The next page tells all you need to know about Canadian housing and lenders.

NATIONAL BANK FINANCIAL
WEALTH MANAGEMENT

Weekly Economic Watch – NBF April 6, 2023



"CANADA: Employment completed a spectacular quarter on a high note as it registered a 35K increase, beating consensus expectations"

More people need more houses. That doesn't mean house prices will continue to rise like it's 2021 and doesn't mean prices can't fall. It means demand should act as support for house prices. **See the full NBF report**.

https://nbf.bluematrix.com/sellside/EmailDocViewer?encrypt=6c64b251-38a2-43d8-b3ef-d4f24f11e160&mime=pdf&co=nbf&id=steven.hilberry@nbc.ca&source=mail

Another reason for optimism about Canada's financial system is access to credit and income mobility. Canada's poorest 40% have ready access to banking, and credit. The majority of those lowest 40% income earners are unlikely to remain there. Upward mobility and turnover at both the bottom and the top, means its not always the same Fat Cats & Poor Joes. Income mobility is a sign of economic health, challenging the arguments around 'income inequality' so popular with left-leaning politicians.

Corruption and oligarchy are signs of a stagnant and declining economy. In passing wars cost blood and treasure. Losing one is bad for leaders. Russian President Vladimir Putin's ill-advised Ukraine gambit has him in deep trouble. Mr. Putin may be wise to travel by armored rail car and avoid flying. We advise reading *'Russia: Civil war and Revolution: 1917-1921'* - Anthony Bevor.

https://www.amazon.com/Russia-Revolution-Civil-War-1917-1921/dp/0593493877

Canada: The most inclusive financial system in the G7 – NBF April 7, 2023

Canada: The most inclusive financial system in the G7

Financial access and digital payments use (population 15+) in 2021

	Canada	USA	France	Germany	Italy	Japan	UK
Financial institution account ownership	100%	95%	99%	100%	97%	98%	100%
poorest 40%	99%	91%	98%	100%	95%	98%	100%
Owns a credit card	83%	67%	40%	57%	58%	70%	62%
poorest 40%	75%	46%	42%	50%	56%	63%	60%
Owns a debit card	96%	83%	86%	94%	82%	88%	95%
poorest 40%	94%	78%	87%	93%	76%	84%	96%
Borrowed from a formal financial institution	81%	66%	44%	55%	55%	61%	55%
poorest 40%	72%	44%	44%	52%	52%	52%	53%
Made or received a digital payment	98%	93%	98%	99%	96%	96%	99%
poorest 40%	97%	89%	97%	100%	93%	94%	99%
Used a mobile phone or the internet to pay bills	75%	66%	44%	57%	33%	31%	52%
poorest 40%	69%	56%	43%	61%	34%	27%	51%
Used a mobile phone or the internet to send money	63%	46%	29%	31%	26%	13%	51%
poorest 40%	58%	42%	27%	32%	23%	9%	49%

NBF Economics and Strategy (data via World Bank)

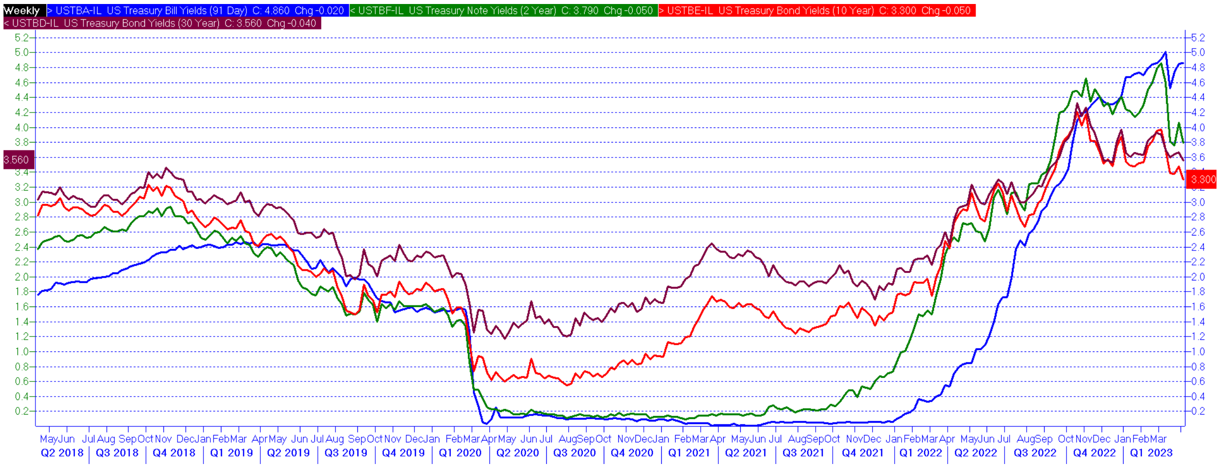
https://nbf.bluematrix.com/sellside/EmailDocViewer?encrypt=b5b2b845-4748-4023-ac1e-84b723fefd32&mime=pdf&co=nbf&id=steven.hilberry@nbc.ca&source=mail

Are we there yet?

We've been predicting that interest rates have peaked. Looks like it's happened.

US Federal Govt Bond Yields – weekly ranges 5 years.

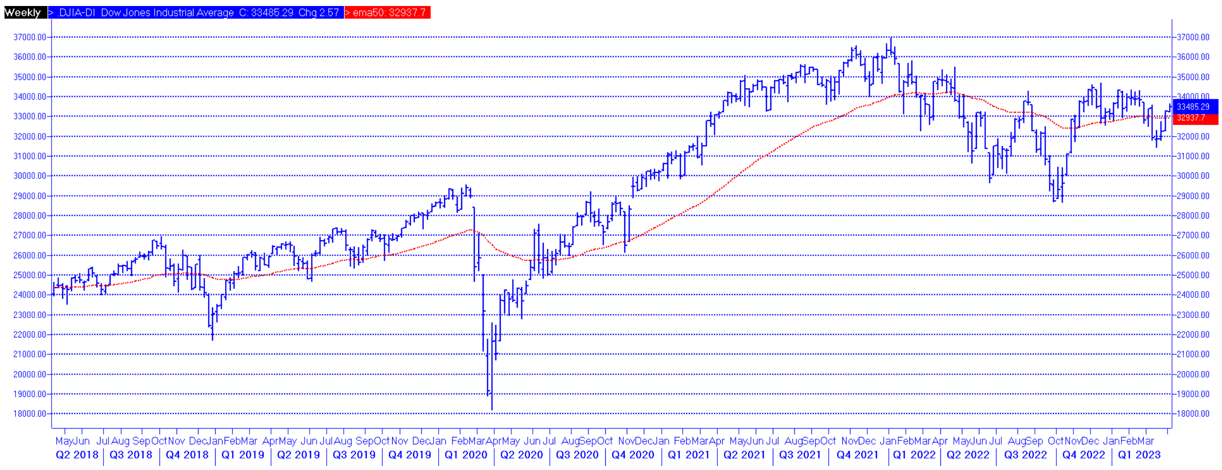
90-days (blue), 2-year (green), 10-year (red), 30-year (burgundy).



The bond markets are telling us inflation has peaked. Pundits predict this signals a recession. We agree. The question is how deep and how much of that is already priced into stock and bonds? Recall that 27% S&P500 decline. In a race to the bottom, perma-bear David Rosenberg invited the ever-entertaining, mostly wrong, self-proclaimed 'Legendary Investor' Jeremy Grantham on Mr. Rosenberg's March 16, 2023 pod caste. Mr. Grantham likes predict a 50% crash' followed by a global depression (for fun, Google his name). Experience says the media trots Mr Grantham out to bray about depressions AFTER a decline in stock prices. Mr. Grantham could be the Canary in the Coal shaft for market bottoms (or perhaps an animal with longer ears).

Here's what we see.

Dow Jones Industrials Average - price only – weekly ranges – 5 years



The Dow is the same as April 2021. Along the way the S&P500 dropped 27%, with a partial rebound. It's a bummer prices haven't budged for two years . What should one do?

We could throw up our hands in frustration and sell 30 of the largest, most well capitalized companies on earth, with two years of accumulated earnings growth and dividends embedded in them to a buyer at the same price we could have 2 years ago eating the inflation loss. We can then say *"Whew...no more risk! Now I can sleep at night".*

Or…we could look at a new can of tuna fish on the shelf on offer for the same price it was in April of 2021 and see it as a bargain. Rather than putting 2 in my shopping cart I'd probably buy 10! We think it's time to be an optimist.

Finally, we just couldn't resist. Que the political jokes.

24 Sussex Drive closed. Rodent carcasses fill walls and attic – CTV Apr 4, 2023

https://www.ctvnews.ca/politics/24-sussex-drive-closed-as-rodent-carcasses-fill-the-walls-and-attic-documents-1.6342413

Our offices will be closed for the Monday, April 10, 2023 statutory holiday.

Have a Happy Easter Long Weekend

Steve & Anna Hilberry

April 7, 2023

Anna Hilberry's YouTube Page

NBF – Hilberry Group website

FOR THE RECORD April 7, 2023

DOW INDUSTRIALS:	33,485
S&P 500:	4,105
S&P/TSX COMP:	20196
WTI:	$80.51
LOONIE IN $USD:	$0.7405 $US

Sent by

Montreal office
National Bank Financial
Wealth Management
1155 Metcalfe 5th Floor
Montreal, Quebec H3B 4S9
Phone: 514 879-2222

Toronto office
National Bank Financial
Wealth Management
130 King Street West Suite 3200
Toronto, Ontario M5X 1J9
Phone: 416 869-3707

HILBERRY GROUP