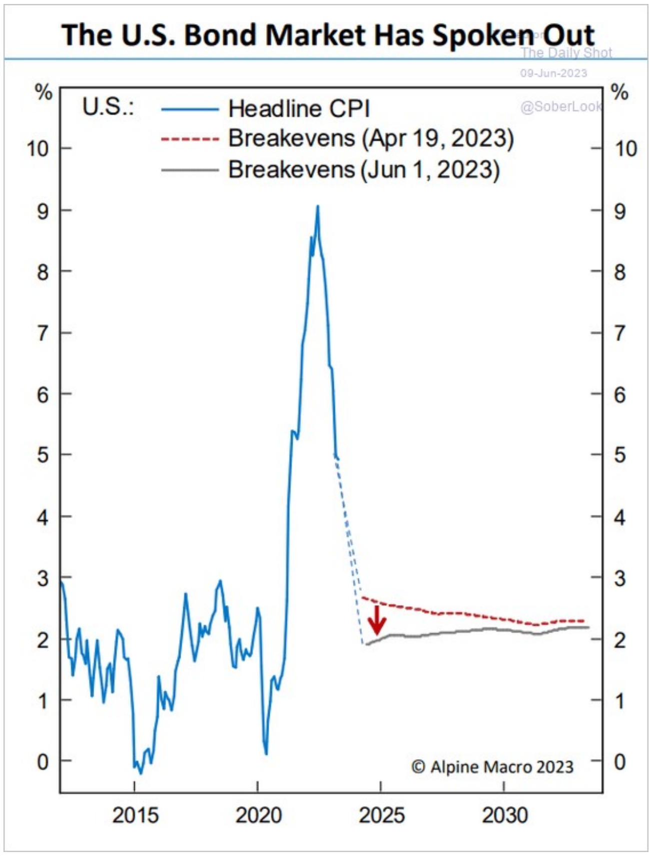
HILBERRY GROUP
WEALTH MANAGEMENT

June 23, 2023

Things are going to work out fine.

We gave our readers a break over the US Juneteenth Holiday. There has been much angst spilled by media types over the past two weeks. We're prescribing a dose of calm.

We maintain inflation has peaked...for now. It looks like the US bond market agrees. June 12. 2023



'Statistics Canada feeding misperception Canadians on the brink of financial ruin' – June 13, 2023

https://financialpost.com/opinion/statistics-canada-misperception-canadians-brink-financial-ruin

The notion, a majority of Canadians are $500 away from penury is a popular political talking point. They say the above headline confirms individuals need Govt help. A promoted solution is a 'living wage' or *Universal Basic Income* (UBI) plus *Modern Monetary Theory* (MMT). UBI says everybody gets a minimum monthly cheque whether they need it or not.

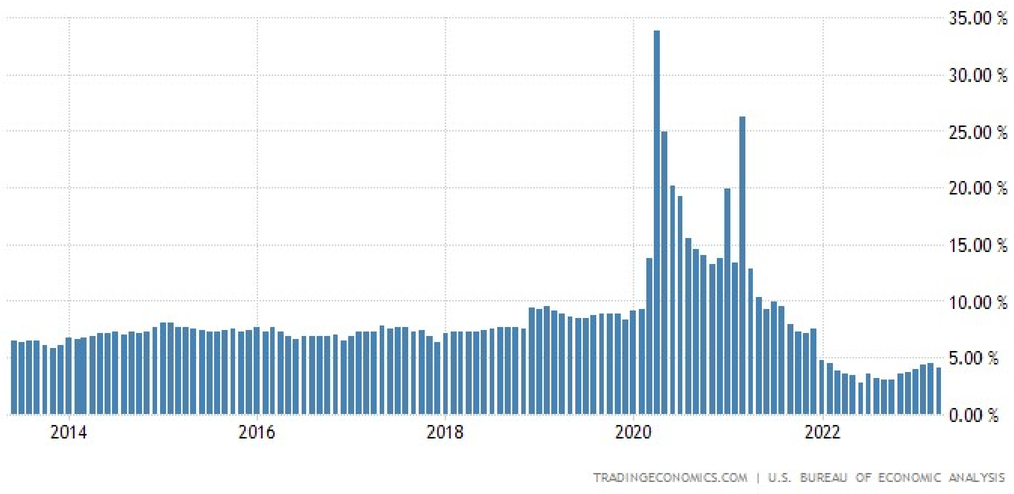
Q: Where does the money come from? A: Somebody else.

MMT says don't worry about the 'somebody else'. Governments can simply borrow. Certain Canadian politicians appear convinced. We think COVID-19 was a useful test. Presumably, if the citizenry is always on the edge of financial ruin, a sharp shut-down of the economy would have shown dramatic draw-downs in savings.

To be clear, regards COVID programs, on the one hand, given the information available, telling people to avoid contact to slow the spread of disease seemed reasonable. Having a contingency plan to rescue the truly needy made sense. On the other, fans of Big Government didn't let the crisis go to waste. We've seen WW2 type intervention in citizenry's daily lives, centralized government decision making along with experiments in economic fiscal and monetary policy, tinkering with Guaranteed Living Wage type programmes, sweeping economic policy changes. Inflation has resulted.

What actually happened to savings rates during the government induced COVID lock-downs? We'll start with the US data.

US Personal Savings Rate: 2013-2023



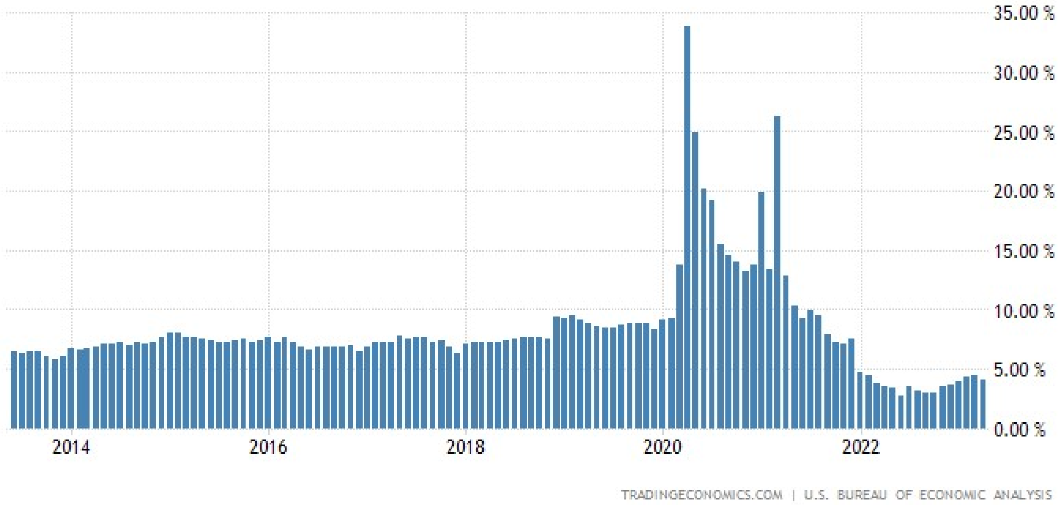
The first spike in savings is March/2020. The second spike is June/2021. The savings rate remained elevated during the entire period. Note that COVID 'relief' cheques didn't go out until mid-2020. The facts deny the idea that the majority of consumers have a wolf at the door.

For a full history of US Govt COVID fiscal response go here:

https://www.investopedia.com/government-stimulus-efforts-to-fight-the-covid-19-crisis-4799723

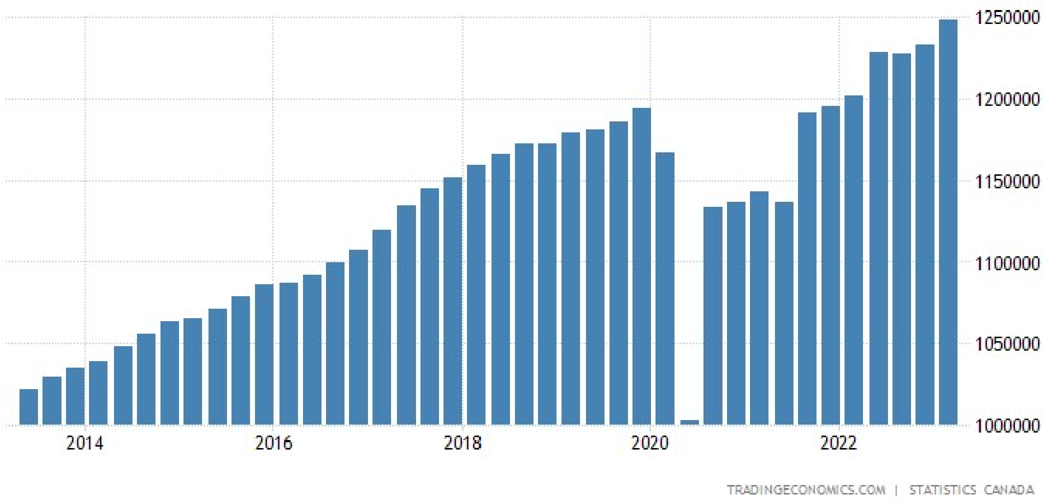
What about Canada?

Canada Personal Savings Rate 2013-2023:



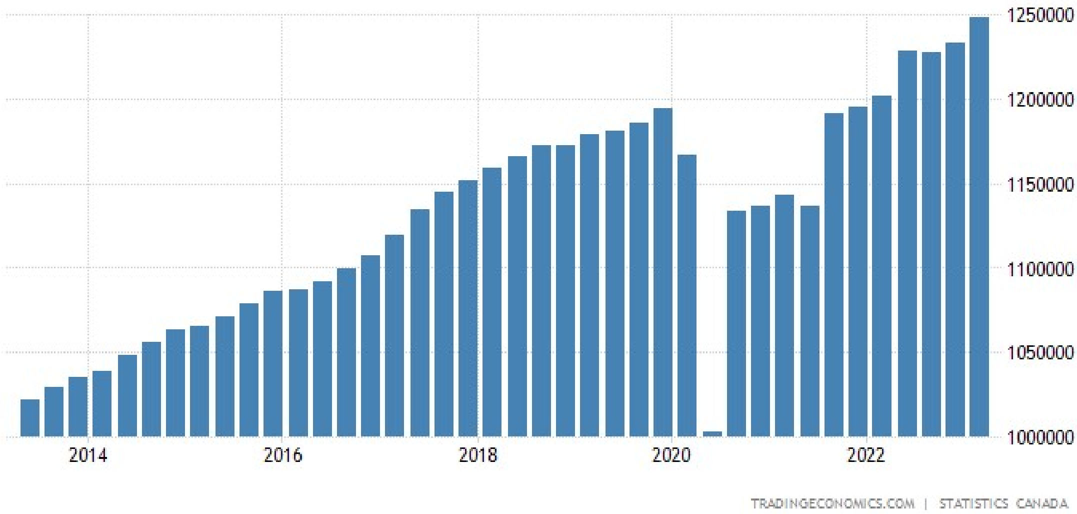
The current North American savings rate is slightly below average. Bear pundits have screamed *'Savings Rate Collapses'*. Given the 2020-22 savings bulge, it is unsurprising North American households are now saving below the 10-year average.

Canadian Consumer Credit balances went DOWN during COVID



Recent numbers say Canadian Consumers certainly don't look frightened. Despite rising interest rates, credit balance growth remains on-trend. Could it be that consumer's overall circumstances and income support increased borrowing? Maybe they're not lemmings running over a cliff after all.

Canadian Household spending – 10 years

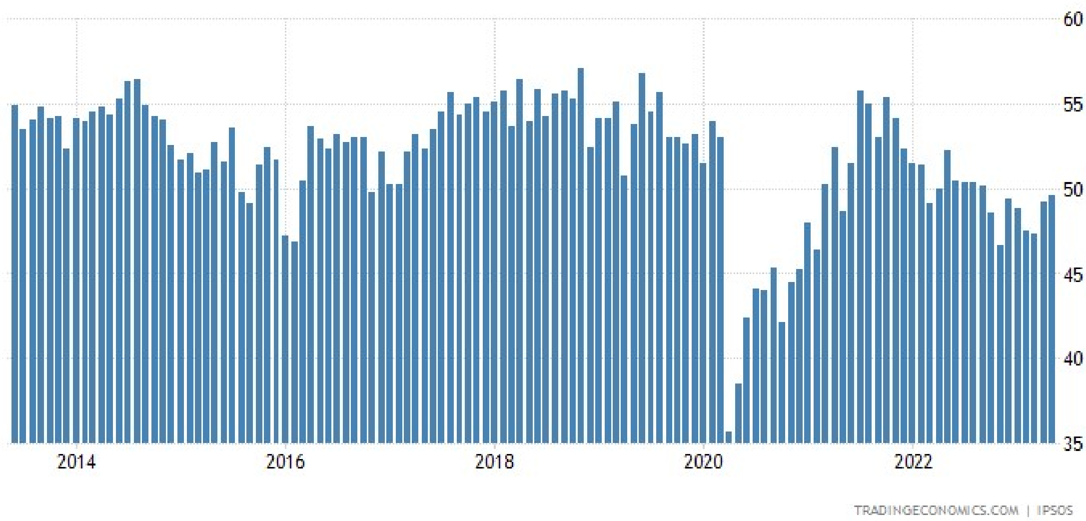


Broadly, Canadian spending is on trend. Are we really idiots then? Are we spending our last $500 each month?

Where does the 'financial ruin' notion come from?

Media algorithms need and feed emotion to sell advertising. Politicians read polls. The current emotion is angst.

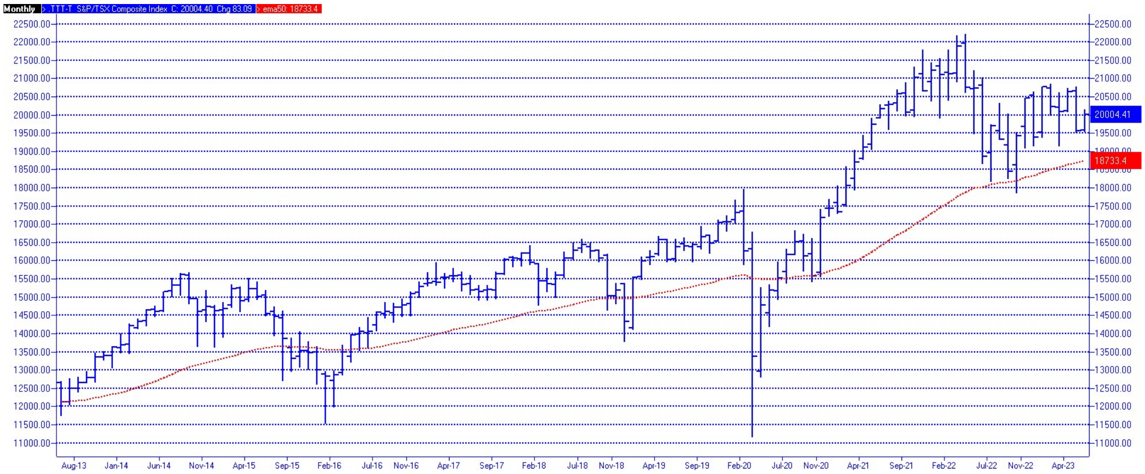
Canadian Consumer Confidence 10 years.



How does consumer confidence correlate with stock market pricing?

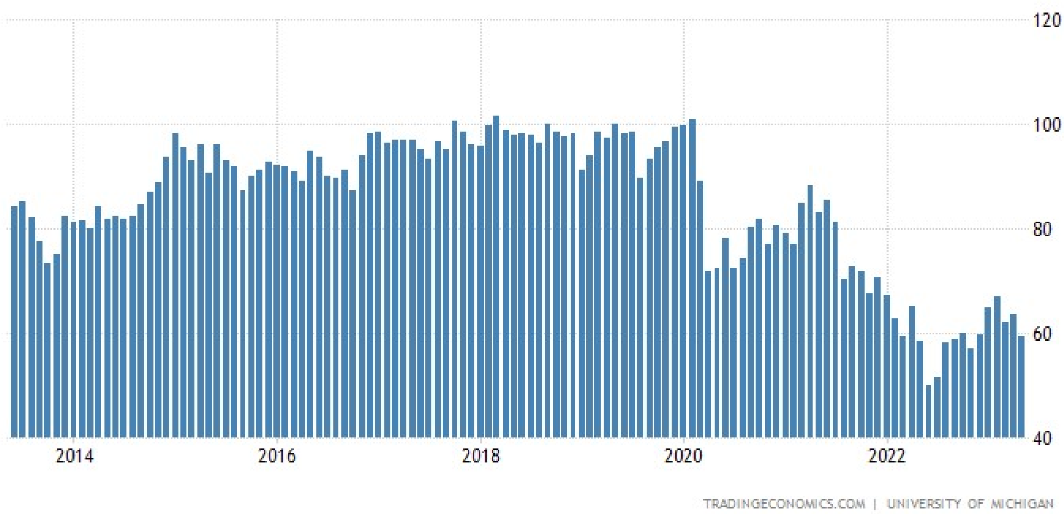
June 23, 2023

TSX Composite Index 10 years



The valley on the CDN Consumer Confidence chart is March/2020. The TSX bottomed in March/2020. Retail consumers are retail investors. Consumer Confidence is a <u>lagging</u> indicator. We believe low Consumer Confidence readings are contrarian equity buy signals. In March/2020 we were lonely buyers. What about US consumers?

US Consumer confidence 2013-2023:



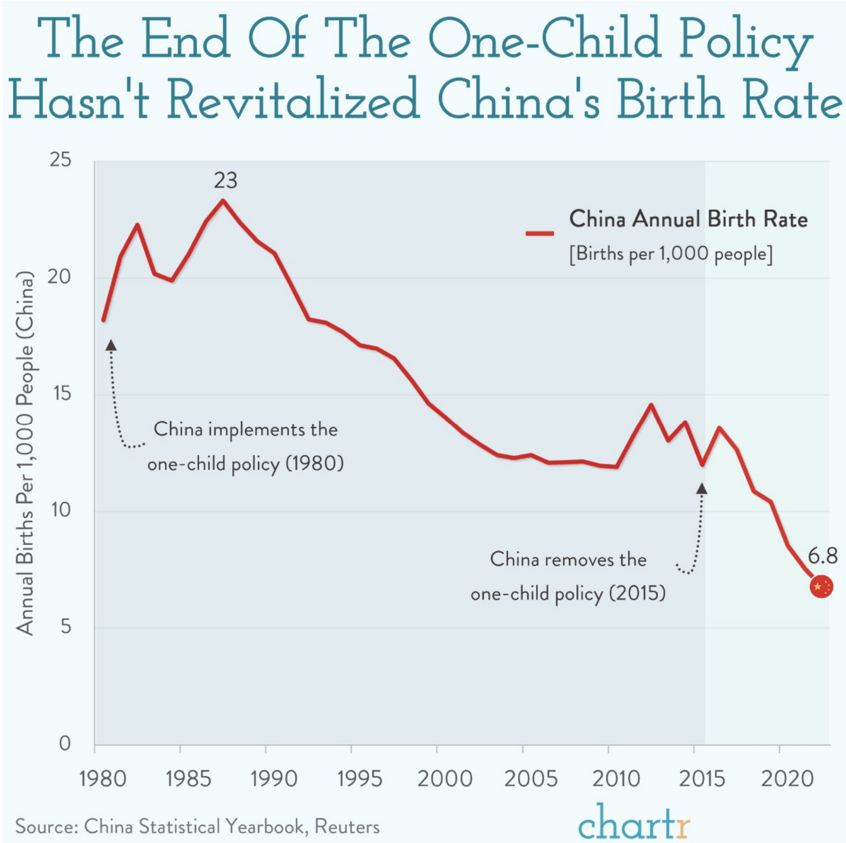
US Consumer survey results have been less volatile than Canada's but is now much lower than Canada's and lower than during COVID-19. We believe the current lower-than-average confidence US readings mean we will see higher-than-average returns in the future. Canada could be dragged higher too. We see worry as opportunity.

In short….

Things are going to work out fine.

https://www.youtube.com/watch?v=qJ-DtiogPzc

China Updates: We've featured to China's demographic time bomb regularly. It's one of the reasons we've avoided investing there. It's front-page news now.

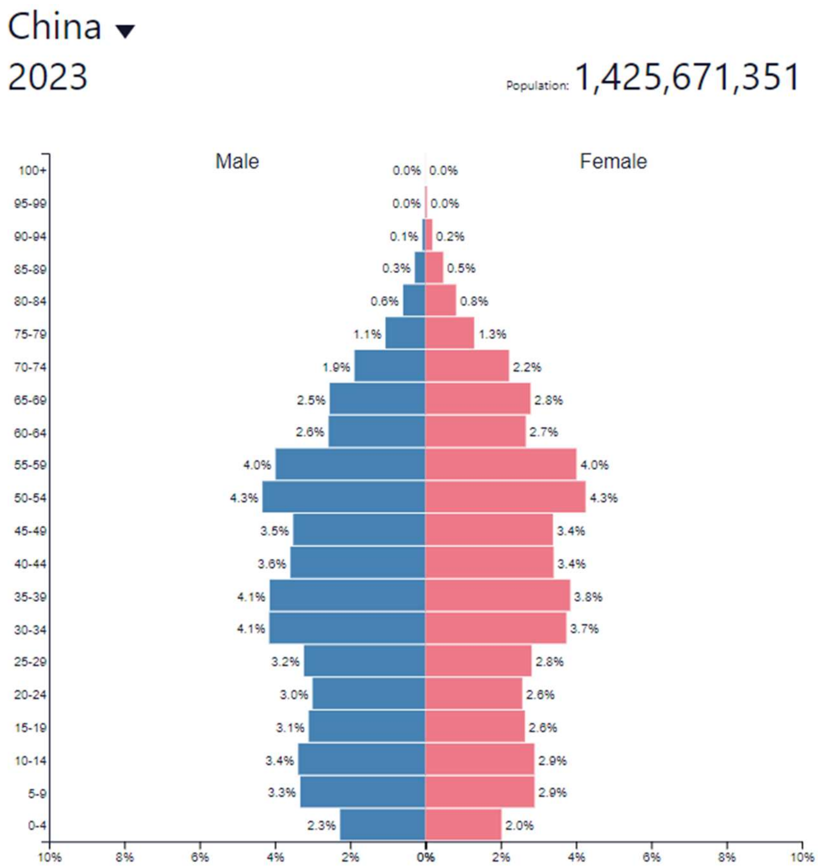


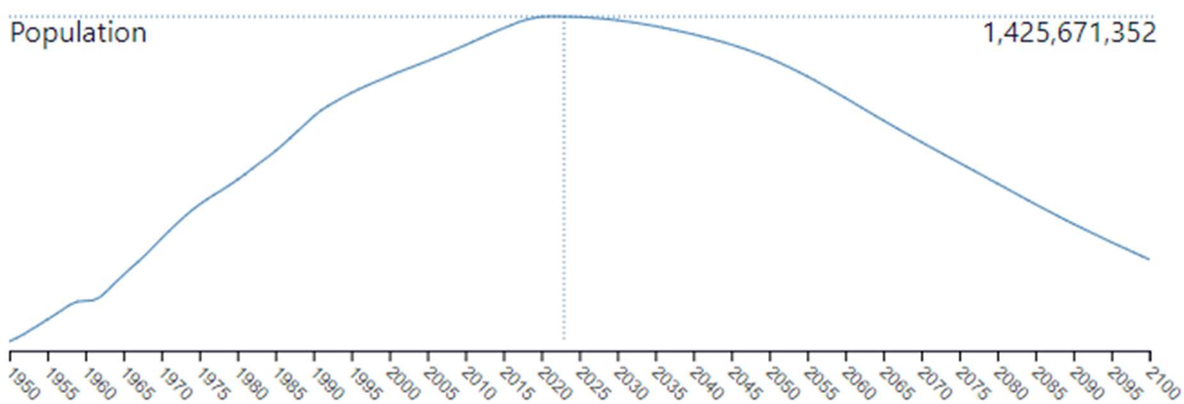
https://www.chartr.co/newsletters/2023-06-19

'Post-COVID China: Will the Economy Bump or Slump?' – Peter Zeihan June 12, 2023

https://www.youtube.com/watch?v=5_ixipWUaSA

China's population is expected to decline from 1.425 billion in 2023 to 778 million by 2100. Analysts predict this 50% drop has implications for demand, investment, access to savings, military service, etc. We've been calling China's population issues to our clients attention for some time. We're not as confident in the 50% drop idea. Before one dismisses China's military capacity, males of military age (20-40) currently make up 14.5% of the population = 205 million. Assuming a decline in population means this pool declines in half, that's still over 100 million military-aged men. In 2023, for each female of child-bearing age there are 1.15 men. 40 million single men is a lot of frustrated testosterones. The government may be tempted toward military adventures.





https://www.populationpyramid.net/china/2023/

What about China's impact on global energy demand? How might this affect Canada?

OIES Podcast – The outlook for fossil fuels in China's energy transition and its geopolitical implications – June 22, 2023

In this latest podcast from the OIES China programme, Anders Hove and Michal Meidan discuss the future of fossil fuel demand in China, what this means for the country's import requirements and the geopolitical implications of these trends.

While focused on hydrocarbon demand, the geopolitical implications are important.

https://www.oxfordenergy.org/publications/oies-podcast-the-outlook-for-fossil-fuels-in-chinas-energy-transition-and-its-geopolitical-implications/

Staying with the energy markets

US Farmers worry lower grain prices are ahead while costs remain high.

With the following CBC article on Canadian regulations in mind, fuel costs are a major worry for US farmers. Increasing energy costs equals inflation. Why is this a surprise?

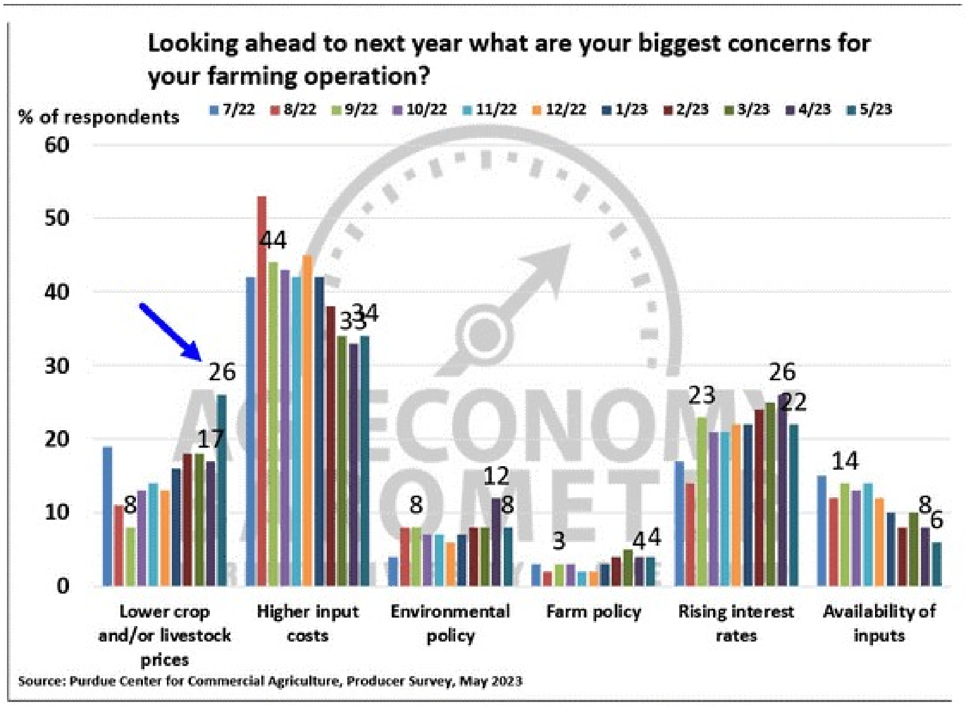


Figure 8. Biggest Concerns for Your Farming Operation, August 2022-May 2023.

'New federal fuel regulations are coming soon — here's what you can expect' - CBC June 11, 2023

https://www.cbc.ca/news/politics/clean-fuel-regulations-carbon-tax-climate-change-1.6871116

'Hubbard's Peak is Finally Here' Adam GoRozen – June 15, 2023

https://blog.gorozen.com/blog/hubberts-peak-is-finally-here

Federal Government predicts Canada's 2050 commitment means Canadian hydrocarbon output collapses. June 20, 2023

For the first time, a department of our Federal Government provides scenarios for Canadian hydrocarbon output under it's *2050 Net Zero* targets. This week the Federal Canadian Energy

Regulator (CER) published ***Canada's Energy Future 2023: Energy Supply and Demand Projections to 2050***. We don't agree with all the conclusions.

https://www.cer-rec.gc.ca/en/data-analysis/canada-energy-future/2023/canada-energy-futures-2023.pdf

The CEO Ms. Gitane De Silva, is a Liberal government appointee. Ms. De Silva and her team take pains to clarify the study is a scenario study, not a prediction.

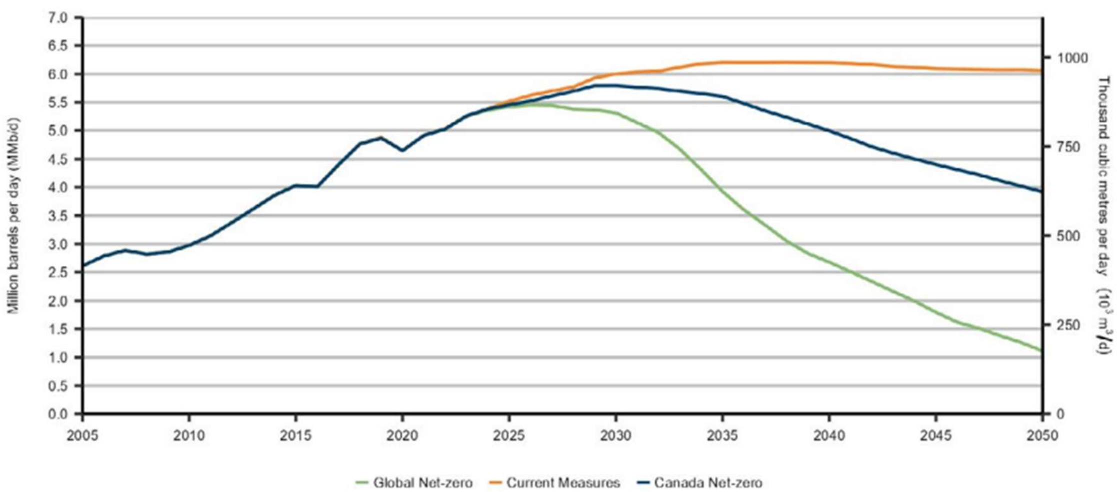
The study provides links to Federal and Provincial programs and policies, discusses Carbon Capture Usage and Storage (CCUS), Canada's future output of electrical power, from conventional and alternative sources, hydrocarbon usage/consumption, and the economic impacts on provinces. I found it sobering reading for Western Canada. Canadian politicians may find some of their assumptions challenged by the report. The CER notes that carbon tax pricing, IE driving up the cost of hydrocarbons, is implicit in many of the scenarios.

Page 68 explores electrical power generation in Canada, predicting power generation must increase significantly. Canada's industrial sector, population (and votes) are centered in Ontario and Quebec. Transmission line losses mean generating power in the Maritimes or Western Canada to meet that demand is a challenge. Ontario and Quebec-based electrical power generation will be required, implying Western Canada is out of the future energy transition loop. Recall where Government-subsidized battery plants are being built. We've been pointing this out.

Page 82 of the report address Canadian hydrocarbon supply, based on three scenarios:

1. 2050 targets missed: Global GHG emissions current measures remain in place.
   - Crude production increases to 2035 then flatlines (buff).
2. Canadian achieves Net zero 2050 targets but rest of the globe does not.
   - Crude production increases to 2030 then falls 27% below 2022 levels (blue).
3. Global 2050 emission targets are met.
   - Canadian crude production peaks in 2023-24 then falls 72% by 2050 (green).

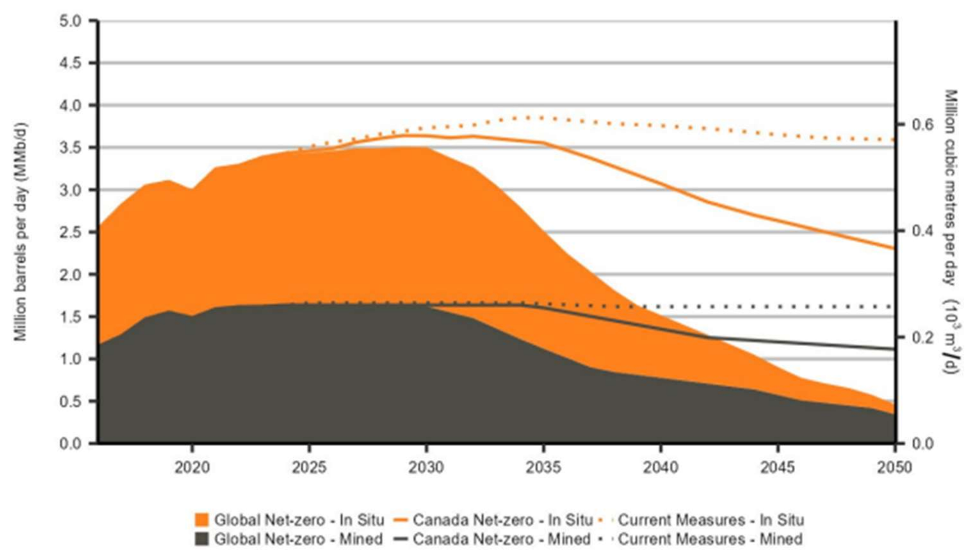
Under scenarios 2&3 Canadian hydrocarbon production falls significantly.



Under the above scenarios, the CER projects global crude oil prices will fall sharply. The implication is demand will decline faster than supply = lower prices. Recent producer behaviour challenges the excess supply/falling price idea. Producers have cut production faster than demand, driving up the price of crude, contrary to Scenario 2 & 3 projections.

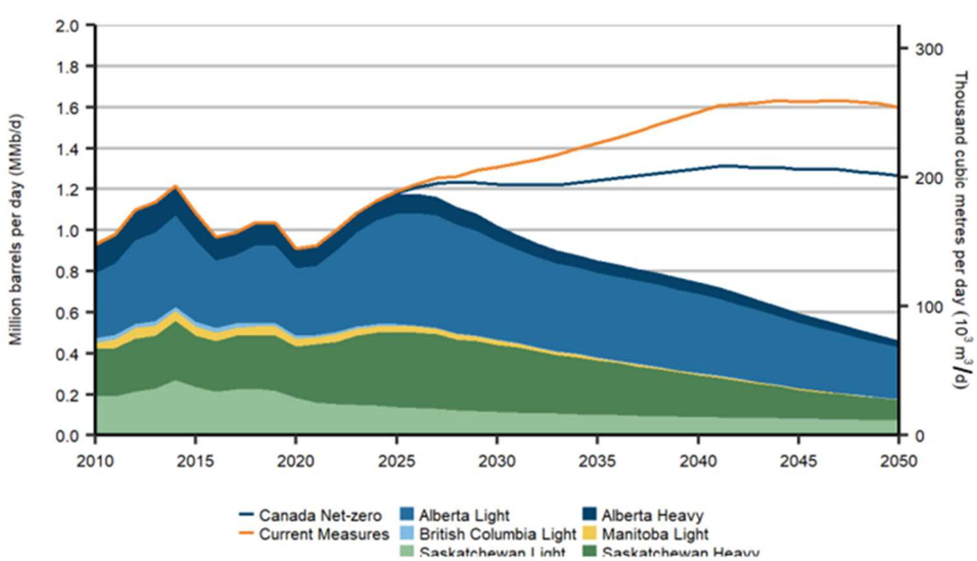
Oil sands production declines. Global 2050 Net Zero means -85%.

Oil sands production by type, all scenarios



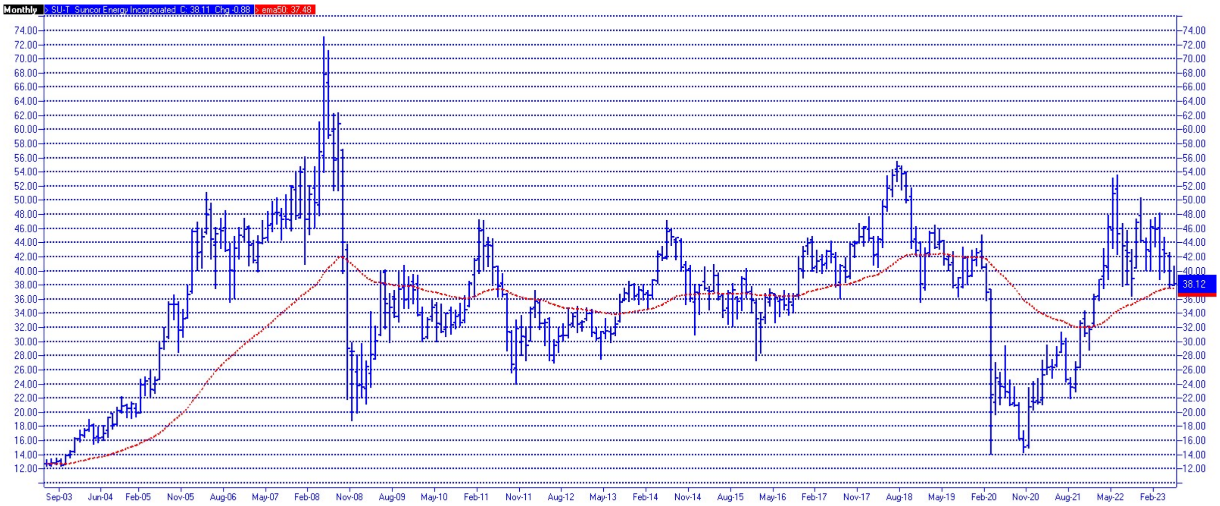
Global 2050 Net Zero also sees Alberta and Saskatchewan conventional crude production declining 50%. As oil sands represents over 80% of Canadian crude production, the Global 2050 Net Zero economic result is sobering on Western Canada.

Conventional onshore oil production by province and type, Global Net-zero Scenario



Yet…Suncor's share prices are at the higher end of their 20-year range. Investors don't seem convinced the end is near.

Suncor Energy Inc. (SU-TSX-$38.13) monthly ranges – 20 years.

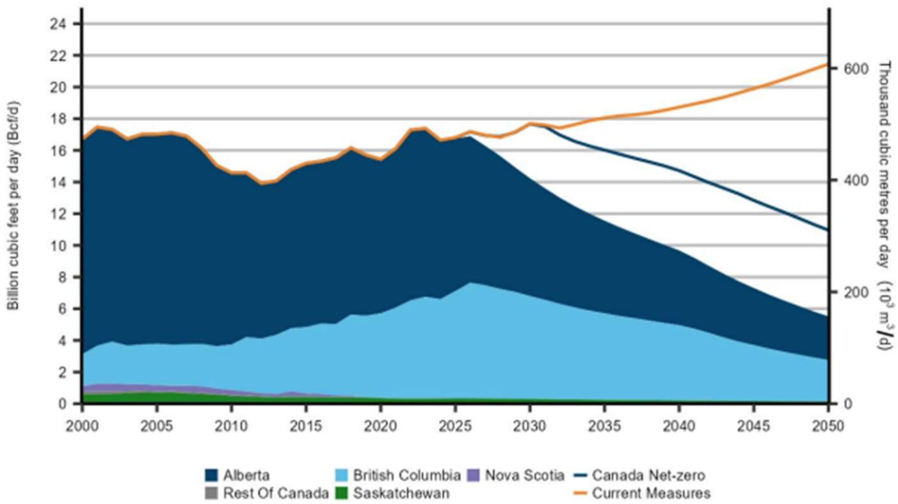


Under all three scenarios, the Maritimes lose 85% of offshore oil production.

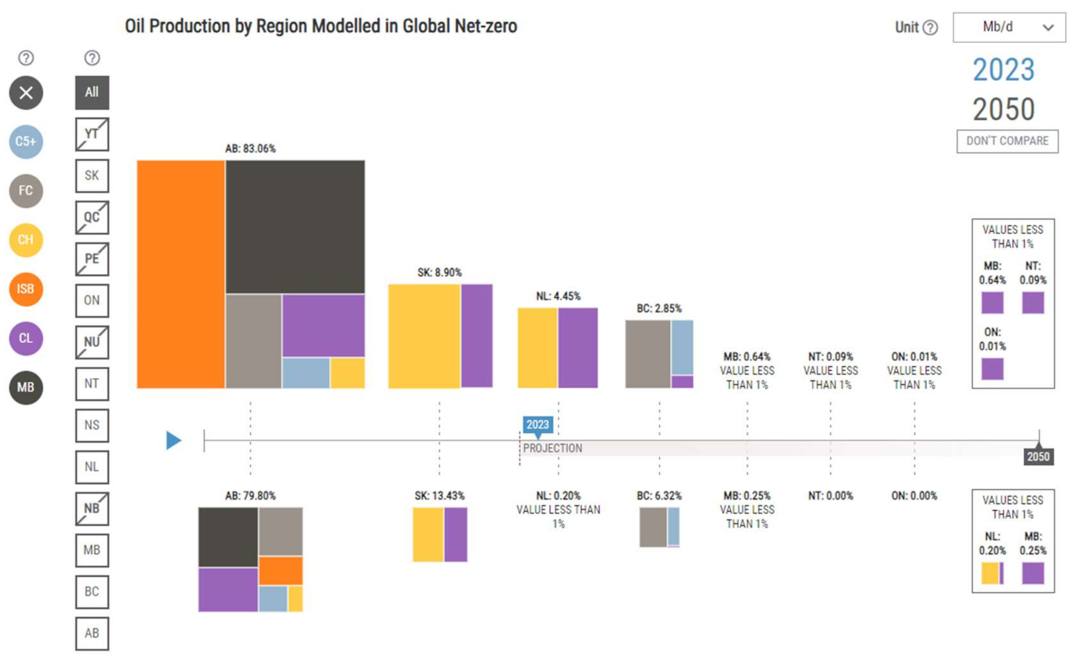
Figure R.34:
Offshore oil production, all scenarios

Predicted Global 2050 Net Zero has no relief for Canadian natural gas liquids (NGL) either. At 50% of Canada's NGL supply, British Columbia sees it's NGL revenues collapse (light blue). 'Current Measures' see rising demand. The outcome is binary. Will we or won't we?

Figure R.35:
Natural gas production by province, Global Net-zero Scenario, and total production, Canada Net-zero and Current Measures scenarios



Affect on Provinces?



The two left hand boxes, Alberta, Saskatchewan represent 92% of Canadian hydrocarbon production in 2023. CER predicts they continue to dominate at 93% in 2050. Global Net Zero sees output down 77% for Alberta and 65% for Saskatchewan. Recall the CER's prediction of Global 2050 Net Zero also driving hydrocarbon prices down. Falling volumes and falling prices. Today 26% of Alberta's government revenue comes directly from oil & gas royalties and taxes, 20% from personal income tax. Losing the revenue and the high paying jobs attached means lower income for Alberta and Federal tax revenues. That 'someone else' thing.

We repeat, hydrocarbons represent 10% of Canada's GDP. Given the zeal of the current government, will this study give pause, or be used as rationalization to move even faster in the direction of Government mandates?

The CER report clarifies the scenarios are not predictions. In each section they show uncertainties and provide ranges of outcomes. In this sense the report is balanced. An important factor I could not find addressed is the impact of inflation on the costs of installing and maintaining alternatives to hydrocarbon energy (I may have missed it). A popular view is that the costs of building/maintaining green electrical-power generation and the costs to end-users will decline through scale. The reports assumption of falling hydrocarbon prices could be an important variable. We think this is a key question. Based on the current alternative technologies, regulatory environment, and government programmes, for both conventional and alternative energy, the idea an energy transition will result in lower costs/increased productivity has yet to be proven. Conventional energy prices have risen, not fallen. A significant factor in the past decade's declining manufacturing costs for green tech has been declining conventional energy costs, historically low finance rates plus generous subsidies. Hydrocarbon productivity gains plus the US Shale oil boom (the only significant marginal global supply increase) drove down energy prices, lowering inflation and interest rates. Goehring & Rozencwajg has commented on this idea.

'The Price Tag on Renewable Subsidies: The Inflation Reduction Act's Mal-Investment of Trillions' **GoRozen Apr 23, 2023**

https://blog.gorozen.com/blog/the-price-tag-on-renewable-subsidies

The above CER scenarios predicting falling green energy costs and falling conventional energy prices means the demise of the hydrocarbon industry. The 'stranded assets' idea that supply is inelastic (producers must produce at a constant rate to make money) resulting in a permanent supply exceeding declining demand scenario. Hydrocarbon energy producers have proven supply is anything but inelastic. They have, understandably, been cutting future exploration, corralling costs. The result has been reduced Western oil & gas exploration and development. Oil is a wasting asset. No exploration reduces future supply. Proof? The Biden administration, blaming Russia and Big Oil, tapped the US Strategic Petroleum Reserve (SPR) in a politically driven bid to raise crude supplies to refineries, hoping to lower gasoline prices. The SPR is now well below historical levels. A one-trick pony.

Broadly, energy prices are up. Inflation and interest rates have followed. Capital-intensive projects have suddenly become less viable. Political leaders seem surprised, yet appear to be doubling down, relying on tax-payer subsidies to fill the cost gap. Can that continue?

Under CER Scenario 2 Canada meets 2050 Net zero but the globe does not. Canada may see a self-made, internal gap between hydrocarbon supplies in the West and demand in Eastern

Canada. Over 50% of Ontario and Quebec's hydrocarbon demand is currently met from US and international supplies. (https://www.capp.ca/energy/markets/) Note the Gulf of St Lawrence receives 10 X the current Pacific Coast oil tanker traffic. Scenario 2 would accelerate that trend with implications on the economy, Federal and Provincial tax revenues, Canadian corporate profit retention, consumer costs, international trade, balance of payments and foreign exchange rates. This may explain why the Loonie is below average and Canadian equities have been ignored by international investors. I remind readers that oil is 'fungible'. If Eastern Canadian crude demand is not met by Western Canada, it will (at best) be met by US supplies, meaning those supplies don't compete with less savory supplies for global demand elsewhere – think Russia. Eventually, somewhere, and somehow, global supplies meet Ontario and Quebec's demand. Russia and other unsavory types are rewarded.

What about the idea of falling alternative energy costs?

Energy Musings, June 20, 2023 – Allen Brooks

This week Mr. Brooks takes a look at the experience of US Eastern seaboard, offshore wind power producers. They seek renegotiation of their contracted Power Purchasing Agreements (PPAs) signed with the various state's energy utility regulators. The reason? Soaring costs.

https://energy-musings.com/energy-musings-june-2-2023-2/

Conclusions:

We think…

- Inflation and interest rates have peaked (for now) and will fall.
- We're in or exiting a mild recession. The bond market confirms this. We are sellers of short-term bonds, holders of medium and longer-term bonds.
- Consumers are nervous.
- Equity prices have overshot to the downside. Dividends are priced for rising rates.
- Equities are priced attractively vs future earnings and dividends while today's dividend yields are appealing.
- We are buyers of dividend paying stocks.
- We're cautious on Asia/Europe.
- We like the USA.
- We REALLY like Canada.

June 23, 2023

Have a Great Weekend

Steve & Anna Hilberry

FOR THE RECORD June 23 2023

DOW INDUSTRIALS:	33,774
S&P 500:	4,354
S&P/TSX COMP:	19440
WTI:	$68.80
LOONIE IN $USD:	$0.7575 $US

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