HILBERRY GROUP
WEALTH MANAGEMENT

September 8, 2023

We remain optimistic.

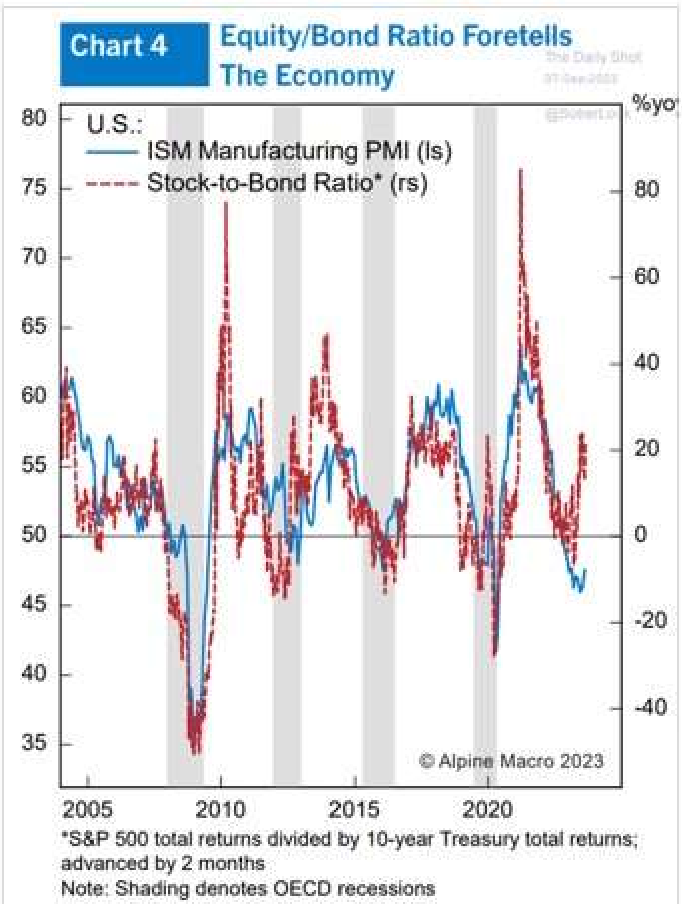
Stock markets declined in 2022. The S&P500 peaked in January at 4,818, flopped to 3,636 in June, rallied in the summer then, as often happens, finally bottomed in October/2022 at 3,491. Peak to trough decline **-27.5%.** It was an official 'Bear Market'. Driving with the rear-view mirror, media pundits have been calling for a recession ever since. Predicting the past, after declining 27% they advised stocks would decline another 10-15%. Go to Cash!

At our October/2022 seminars, we said the cash Tsunami pumped into the system during the COVID panic was receding. We noted Central Bank policy interest rates had been elevated. We predicted a recession was a logical result of the cash pulse receding, interest rate hikes, increased regulations, and taxes. We advised we were already in a recession. But…we predicted it would be a nothing burger. We pointed out that much of the broad index declines were concentrated in the FAANG and related social media/tech space. Tesla declined 75%. Meta (Facebook) dropped 77%. Netflix dropped 77%. Clearly there was some herd mentality getting washed out. Over that period our portfolios broke even. It was a nothing burger for us as well. We advised the companies we like to own were appealing. We think they still are.

We've seen some rebounds. From the Oct/2022 lows the S&P has rallied. The index remains 7.3% below the Jan/2022 highs. Over this period, our portfolios show a total return of +1.9%. Still a nothing burger. The big difference is in our dividend income. Our cash Sept/2023 projected cash income is 18% higher than Jan/2022. Same prices, a lot more income. That can't continue. Either our cash income is about to decline sharply, or stock prices are going to rise.

For cash income to drop, the majority of our companies would have to see sudden, unexpected and dramatic declines in internal cash flow from their business. But wait, we're in a rolling recession and soon to be exiting? That doesn't make any sense.

What about the chance stocks rise? It's the economy stupid. The economy appears on trend. The economic cycle is not dead. The next major move in 10-year lending rates is not likely to be a lot higher. More likely lower (although not back to 2%). While stock prices haven't exceeded the previous peaks, telling us investors aren't yet convinced, stock price lows have been rising, telling us investors are less and less willing to sell. The stock market is predicting expansion.



Source: WSJ Daily Shot

'Net Zero Will Be Harder Than You Think – And Easier. Part 1' Bloomberg New Energy Finance Blog September 6, 2023

https://about.bnef.com/blog/liebreich-net-zero-will-be-harder-than-you-think-and-easier-part-i-harder/

Excerpts from the article

Costs: It isn't going to be cheap:

First, in a future economy deeply dependent on electricity, resilience really matters. While getting to 90% clean power should be affordable, the last 10% could cost as much again as the first 90%. To *provide real resilience, batteries alone won't cut it: we will need a combination of renewable overcapacity, multiple long-distance interconnectors, much more bio-energy, nuclear power and pumped-hydro storage, and long-duration storage of either hydrogen or its derivatives. As of today, we have neither the regulatory frameworks nor the political support to fund these solutions.*

For high-temperature industrial heat, to match today's benchmark Henry Hub gas price of $2.70 per million British thermal units with clean electricity would require a wholesale price of just $9 a megawatt-hour – around a third of the price in many markets before the recent spike – not just when it's windy or sunny, but continuously. To displace the same natural gas with hydrogen, its cost would need to be 31 cents per kilogram. While the cost of electrolysers is surely set to plummet, they constitute only one cost driver for green hydrogen among many; no serious forecaster expects hydrogen at 31 cents per kilo.

So, to be optimistic about clean energy displacing natural gas on the economics alone, you have to hope clean power costs drop by another factor of five, or green hydrogen costs drop by a factor of more than ten.

The third reason cost is such a problem is that in much of the world, even cheap wind, solar, batteries and EVs are still a mirage. Clean energy, which almost always involves higher capital costs followed by lower fuel and maintenance costs, is only cheap if you have access to cheap capital. That's fine if you are in Europe, Japan, South Korea or the U.S. and your cost of capital is 6%, but not if you are in the Global South and your cost of capital is 15%.

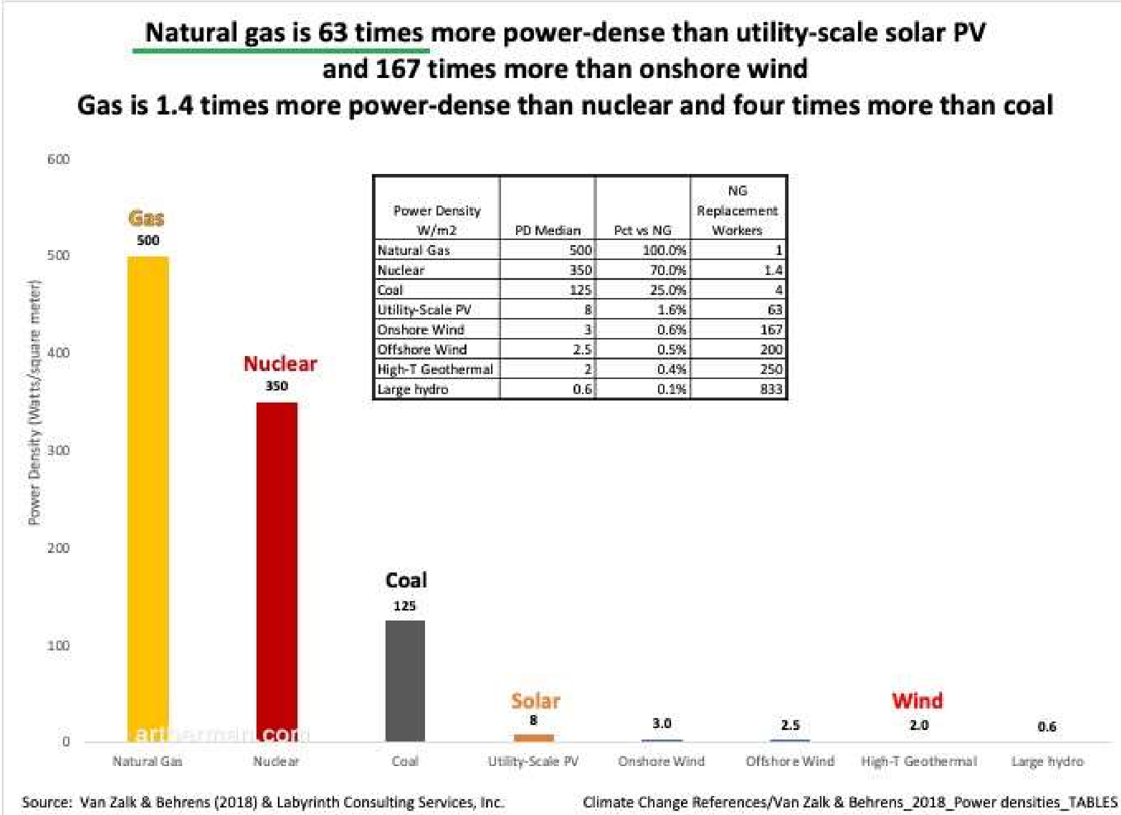
On electrification and transmission:

Getting to net zero will require a dramatic expansion of our electrical infrastructure and a commensurate amount of investment: $21.4 trillion in the Net Zero Scenario of Bloomberg NEF's New Energy Outlook. To put that figure in perspective, it would be one dollar out of every seven managed by the signatories to the Glasgow Financial Alliance for Net Zero. Spread across transmission, distribution and high voltage DC lines, underground and overground, the Global North and the Global South, we are talking about a network double the size of today's – one that would reach all the way to the sun and part-way back.

The scale of the challenge is almost inconceivable. As an example: in May 2023, the UK's National Grid estimated that meeting the Government's 2035 net-zero power target would mean building five times more transmission lines by 2030 than it had built over the past three decades. Under the UK opposition Labour Party's promise to bring net-zero power forward to 2030, the challenge becomes even more extreme. The clean energy transition will require 5x more minerals by 2040 vs. today. EV's use 6x minerals vs. ICE.

To reach net zero, demand from the energy industry for lithium will increase by a factor of 14 by 2050. Demand for rare earths used in wind turbines and electric vehicles will grow by 11 times. Copper demand will increase by six times and cobalt will double.

Investment in the mining sector has doubled over the past two years, but even if all the projects on the drawing-boards could enter production by 2030, according to the IEA, that would still deliver just 75% of the minerals required to keep the world on a 1.5C pathway.



Source: Van Zalk & Behrens

On Challenge #5: Corruption and Special Interests.

Example 1: One could argue the Ukraine War is the result of Russian anxiety over a future declining conventional energy economy. Rife with corruption, lacking Western money and technology, Russia was (likely to be left behind in any green technology revolution. Ukraine has no oil. It has plenty of grain. Was Putin's gambit to replace oil with food? Or…is Vladimir Putin simply an egomaniac despot with no grasp on geopolitical reality surrounded by sycophants? Ironically, regardless of any future energy transition, Putin's aggression has accelerated the West's turn away from Russian energy and now food supplies. Russian's will suffer. As the saying goes, *'All Russian folksongs are sad'.*

Example 2: Magically, Malaysia has become a net exporter of crude and refined oil products, well in excess of its production capacity.

'The Flaw in the Plan to Cap Russian Oil Prices' Carnegie Endowment for Intl Peace Aug 8, 2022

"The proposed restrictions could also be easily circumvented. Whenever countries on sanctions lists face difficulties in selling their natural resources, creative minds will find a way to thwart the proposed measures with help from companies prepared to turn a blind eye to the shady elements of ostensibly

legal transactions. Oil shipments could be bundled with some symbolic but pricey services, such as customs services, laboratory analysis, or document translation. Another scheme would involve loading a supposedly full 80,000-ton oil tanker with only 50,000 barrels of oil, bringing the cargo price per barrel closer to the market price.

Such schemes would, of course, require some collusion on the part of intermediary countries, but that is unlikely to be a problem. In recent months, Malaysia's oil exports to China have exceeded the country's actual oil production by one-third. Malaysia also cooperates with Iran and Venezuela in contravention of sanctions regimes."

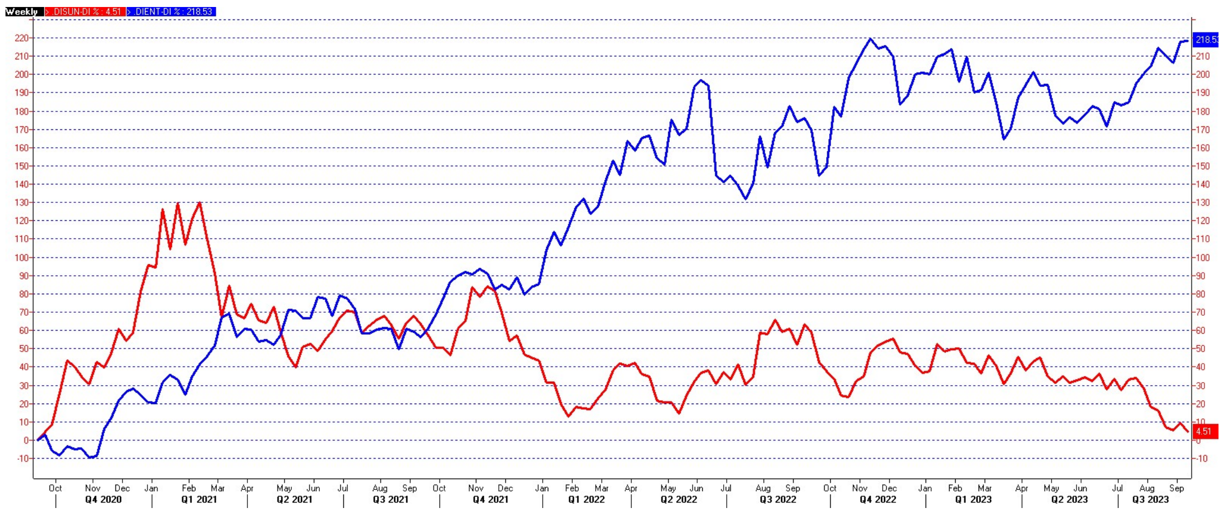
https://carnegieendowment.org/politika/87873

The challenges of the projected energy transition are nicely summarized in Part 1. These challenges explain our caution on investing in the timing of acceptance of Green technologies and our tilt towards conventional energy supplies (that still appear undervalued). So far, avoiding Green and following conventional has been profitable. This is not dogma. We're just following the money. In *Net Zero Will Be Harder Than You Think – And Easier Part 1* (harder), the author argues these challenges will prove to be speed bumps. We await the 'Easier Part 2' with bated breath.

Investing in Green Energy

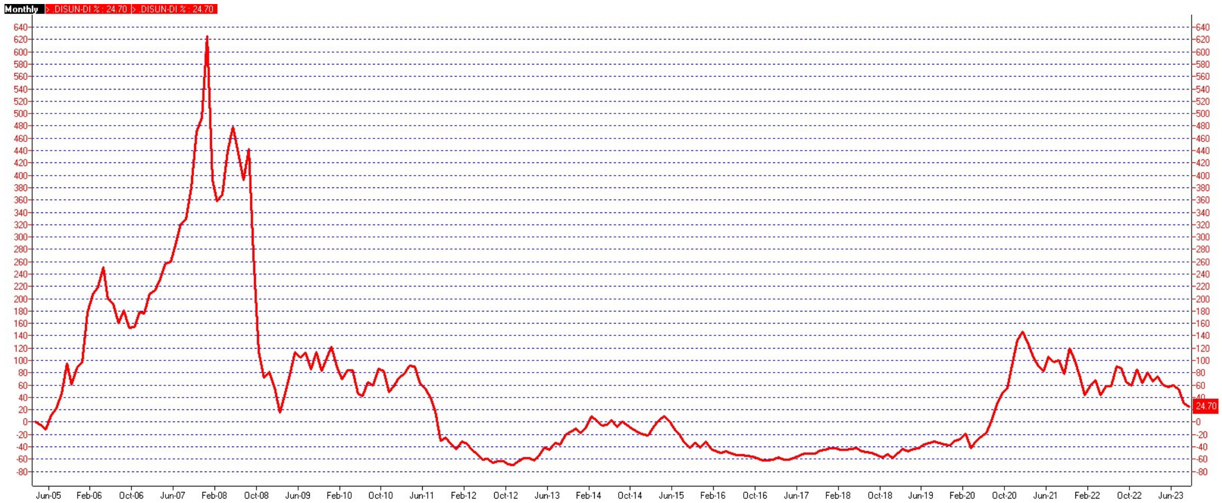
Pundits predicted the election of Joe Biden in Nov/2020 would lead to dramatic expansion in green technology. Invest in Solar. Divest oil. How did that work out?

2020-23 MAC Global Solar Energy Index (4.5%) vs US Oil & Gas Total Return Index (216%)



Has solar energy been a good investment over the longer term?

MAC Global Solar Energy Index inception March/2005 to date +24.7%:



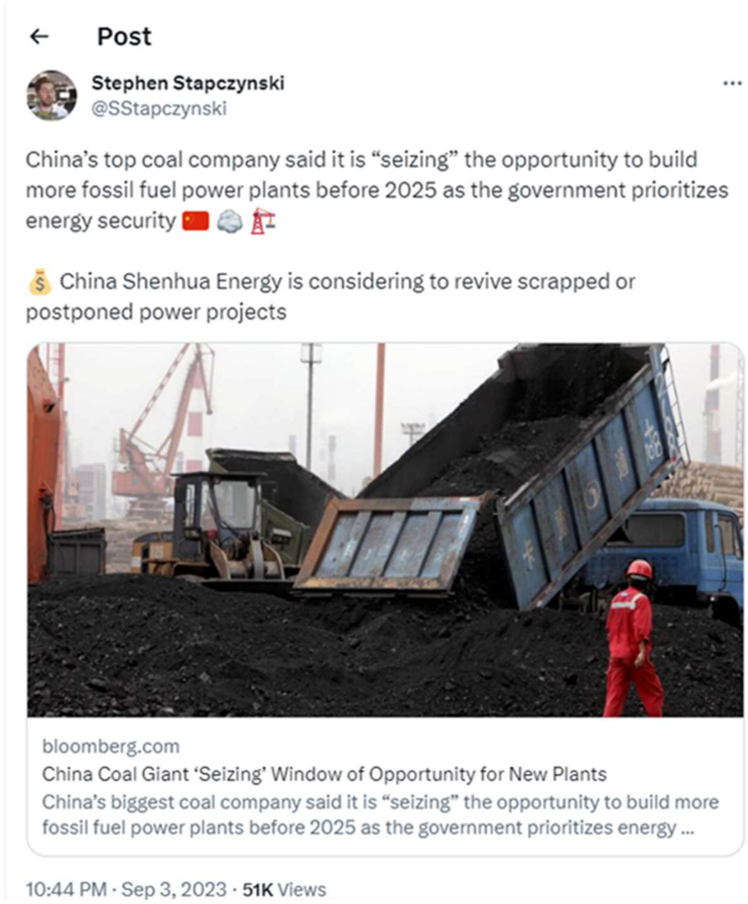
Canada: How to win friends and influence people.

'Ottawa to reveal plan for emissions cap on oil and gas this fall' Financial Post

"It's no secret, generally speaking, that industry isn't particularly fond of government coming up with new regulations, but I think by and large, industry understands that we need to tackle emissions, that the world is de-carbonizing whether they like it or not, and they can either be part of the solution or the solution will be imposed upon them." **Steven Guilbeault: by phone from China will speaking at a climate conference there.**

https://financialpost.com/commodities/energy/oil-gas/canada-to-reveal-plan-for-emissions-cap-on-oil-and-gas-this-fall

While Mr. Guilbeault was in China….


Post

Stephen Stapczynski
@SStapczynski

China's top coal company said it is "seizing" the opportunity to build more fossil fuel power plants before 2025 as the government prioritizes energy security 🇨🇳 💨 🏗

💰 China Shenhua Energy is considering to revive scrapped or postponed power projects

bloomberg.com
China Coal Giant 'Seizing' Window of Opportunity for New Plants
China's biggest coal company said it is "seizing" the opportunity to build more fossil fuel power plants before 2025 as the government prioritizes energy ...

10:44 PM · Sep 3, 2023 · 51K Views

And in India…

India steps up coal use to stop outages triggered by unusually dry weather.

Source: Reuters

Two middle-aged women unloading coal…with shovels. Face masks? Boots? Gloves even?

https://www.reuters.com/business/energy/india-steps-up-coal-use-stop-outages-triggered-by-unusually-dry-weather-2023-09-03/

‘Chinese Leadership Concerns: Xi Ditches the G20 Summit’ – Peter Zeihan

“The announcement that Xi Jinping won't be attending the upcoming G20 Summit is the equivalent of friends coming together for your intervention, and you turn around as soon as you see their cars parked down the road. With China facing economic slowdown, trade wars, and a slew of other things, an intervention (aka the G20 Summit) is exactly what Xi needs right now.

While some speculate that Xi is moving away from G20 in favor of BRICS, he didn't even show up to the opening ceremony of the BRICS business forum. So, this announcement doesn't indicate any political angle; it's just a reminder of Chinese leadership's ongoing and accelerating failure.

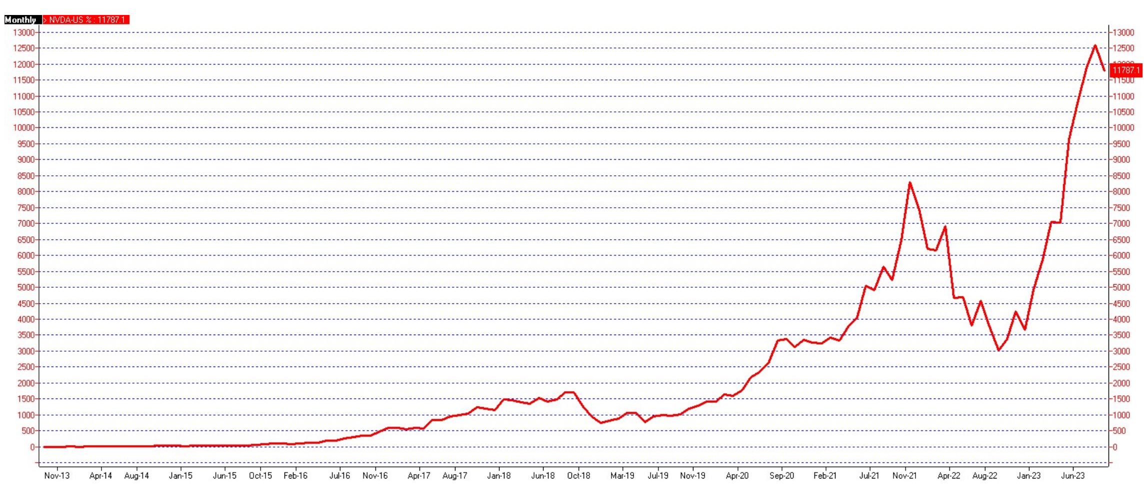
Xi has purged the Chinese political system of anyone who can form thoughts and potentially challenge his power, leaving him as the judge, jury, executioner, and everything else of importance in China. Even if Xi happened to be the smartest person in the world (which I won't even comment on), he is still human.
Xi can only do so much alone, and the lack of competence across the Chinese system means that policy stalls wherever Xi is not. While Xi will send a replacement to the summit, concerns over China's leadership capabilities are mounting, and the question remains - what is next for the Chinese people?”

See Peter Zeihan’s YouTube commentary Sept 6, 2023:

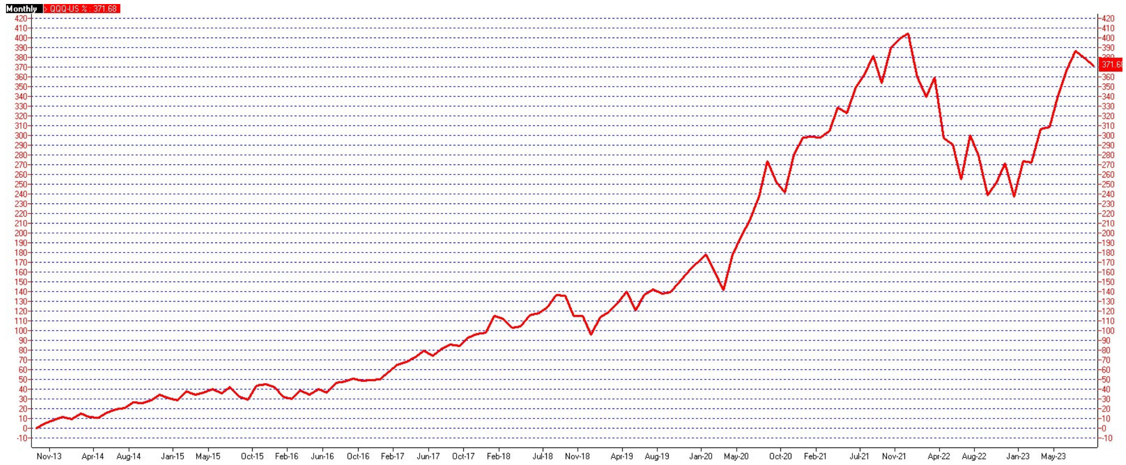
https://www.youtube.com/watch?v=w8lYdGnVEs4

2023 Bubble Perspectives…

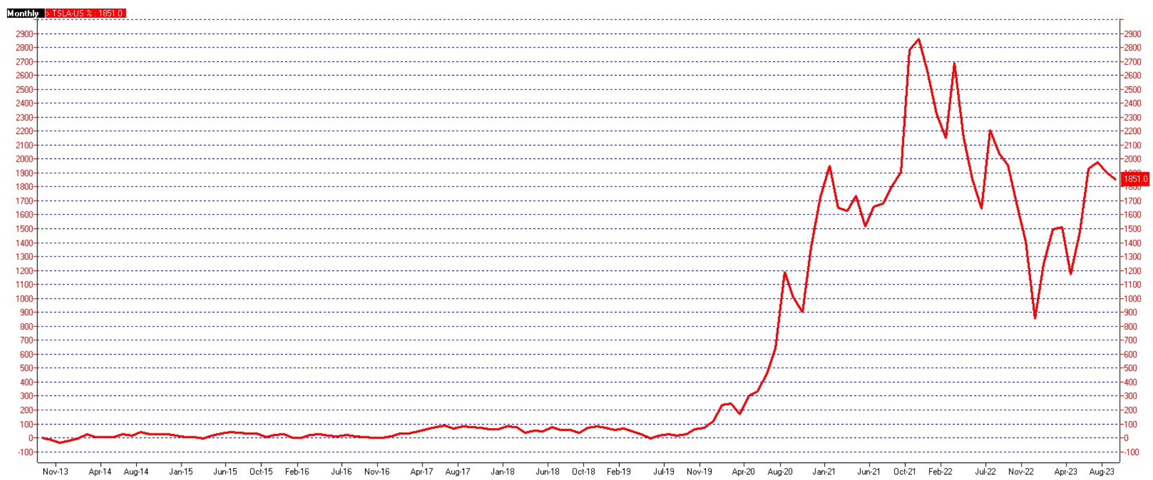
Nvidia Corporation (NVDA-$462.41): Base 0% 10 years: 11,787%



NVDA pushes up the NASDAQ Tech (QQQ) Index: Base 0% 10 years 371%



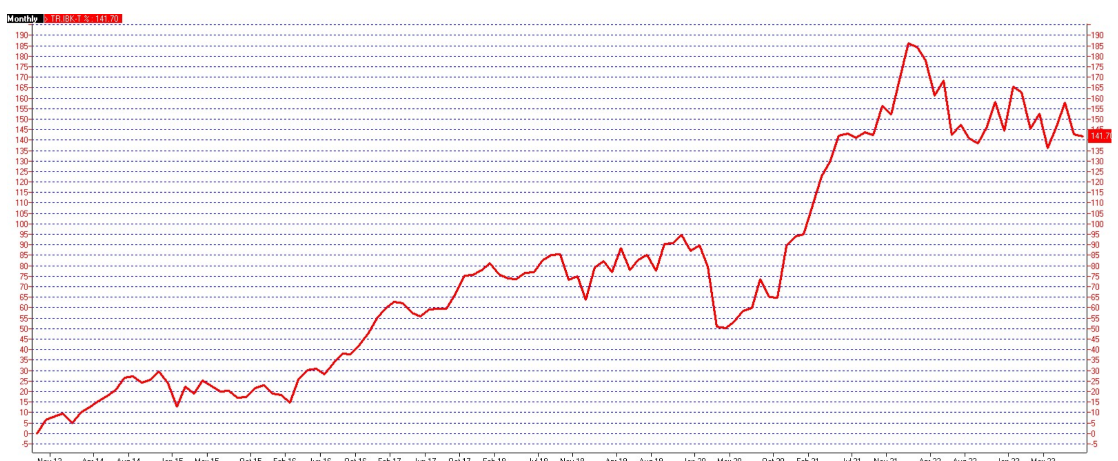
Tesla Inc (TSLA): Base 0% 10 year: 1,851% (note decline from 2,900% peak)



Back in Canada….

How about the Canadian banks over the last 10 years?

S&P/TSX Banks Total Return Index Base 0% 10 years: +141% Ho Hum



Canadian Financials – Conference Questions – Sept 2023 Edition

NBF's Gabriel Dechaine summarizes company-specific questions for Canadian financials.

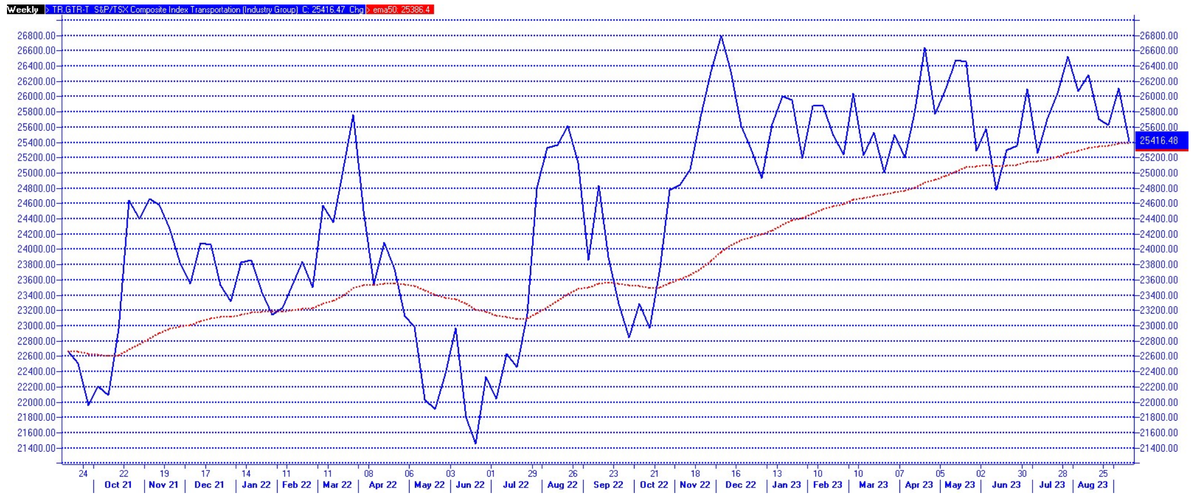
https://nbf.bluematrix.com/sellside/EmailDocViewer?encrypt=6250727a-9c64-477c-b652-f39aecffcf01&mime=pdf&co=nbf&id=steven.hilberry@nbc.ca&source=mail

If you bought it, a truck brought it. Canadian Monthly Freight update: NBF Sept 6, 2023

Wondering about the broader Canadian economy? Follow the transportation stocks.

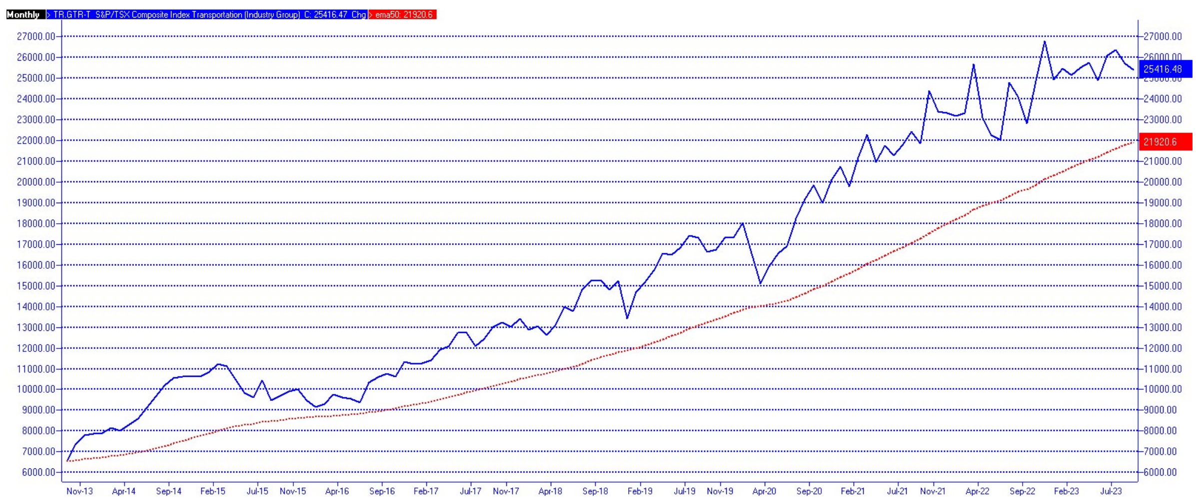
https://nbf.bluematrix.com/sellside/EmailDocViewer?encrypt=a9243742-21e8-4fae-89b0-f00f22a71299&mime=pdf&co=nbf&id=steven.hilberry@nbc.ca&source=mail

S&P/TSX Transports Total Return Index – weekly ranges – 2 years



Sources: Refinitiv/Hilberry/NBF

S&P/TSX Transports Total Return Index – monthly– 10 years



Sources: Refinitiv/Hilberry/NBF

NATIONAL BANK FINANCIAL
WEALTH MANAGEMENT

Sept 8, 2023

HILBERRY GROUP

The transports are not signaling a sharp slowdown in the Canadian economy.

Fortis Inc (FTS-TSX-$52.70). BCUC ups ROE & equity thickness for FortisBC…

Sources: Refinitive/Hilberry/NBF

https://nbf.bluematrix.com/sellside/EmailDocViewer?encrypt=e889734e-8937-457d-89a2-c38a23bff8ee&mime=pdf&co=nbf&id=steven.hilberry@nbc.ca&source=mail

Excusing the industry jargon, we have two conclusions:

One: We own the stock. Fortis has been a boring winner for us with a fat dividend. FTS prices are down recently likely due to worries over interest rates, climate change regulations and populist political posturing. We see current prices as an opportunity.

Two The BC Utilities Commission (BCUC) has a history of activism (or at least posing as such) on voter's…er…consumer's behalf. The current NDP government sicced the BCUC on provincial gasoline retailers, implying they were gouging the public.

https://vancouversun.com/opinion/columnists/vaughn-palmer-so-called-action-on-b-c-gas-prices-a-slow-motion-waste-of-money

The resulting brouhaha went nowhere. All retailers do is pass along costs. The study quietly vanished. On Fortis, the BCUC had to 'allow' an increase in costs being handed on to the public, confirming our long-stated view that demand for, and cost of, energy will rise with resulting benefits to producers, explaining why we hold the sector. Politicians will attempt to deflect policy results.

DISCLOSURE: I hold shares of Fortis personally, for family members and for client accounts over which I have trading authority. We have traded in the security within the last 60 days. The above is for information purposes only and is not a solicitation to purchase securities.

Putin's Ukraine gamble is not going well.

Admiral Yamomoto worried Japan attacking Pearl Harbor would awakening a sleeping giant. The Ukraine War has awoken Europe from its slumber. A much wider conflagration appears unlikely. The Feb/2022 invasion of Ukraine is a terrible example of what can go wrong when despots run the place. The numbers said Russia would walk into Kiev, kidnap a few politicians, hoist the flag, have a parade, call some false elections, and go home. The tankers took along their dress uniforms.

Nobody asked the Ukrainians. Democracies always look ‘weak and feckless’ to strongmen. Underestimating the average citizen’s determination for a better life is a mistake. True in war, but it's also it’s also true in gentler times. When offered a flight to safety, Vladimir Zelensky replied “I don’t need a ride. I need ammunition”. Corruption loses. Human sacrifice and teamwork win.

Want to know who wins in Ukraine? Follow the money. We have bookmarked Perun’s YouTube channel on war economics.

https://www.youtube.com/channel/UCC3ehuUksTyQ7bbjGntmx3Q/videos

For a daily Ukraine updates we advise bookmarking Institute for Study or War (ISW) Understanding War https://www.understandingwar.org/

We believe Russia will lose the war. Ukraine confirms necessity is the motherhood of invention. After all the tragedy, they will be determined not to allow despots to drag them into the same mistakes. History says the Ukraine will eventually see a better future. Sadly, humans must test their lower limits. To paraphrase Winston Churchill we think we will…”Do the right thing, after having first tried everything else”.

We remain optimistic. We remain invested.

Have a Great Weekend

Steve & Anna Hilberry

Steve Hilberry
Wealth Management Advisor, CIM

Anna Hilberry
Wealth Management Advisor, CIM

FOR THE RECORD Sept 8, 2023

DOW INDUSTRIALS:	34,559
S&P 500:	4,462
S&P/TSX COMP:	20,111
WTI:	$87.60
LOONIE IN $USD:	$0.7336 $US

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Sept 8, 2023

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