

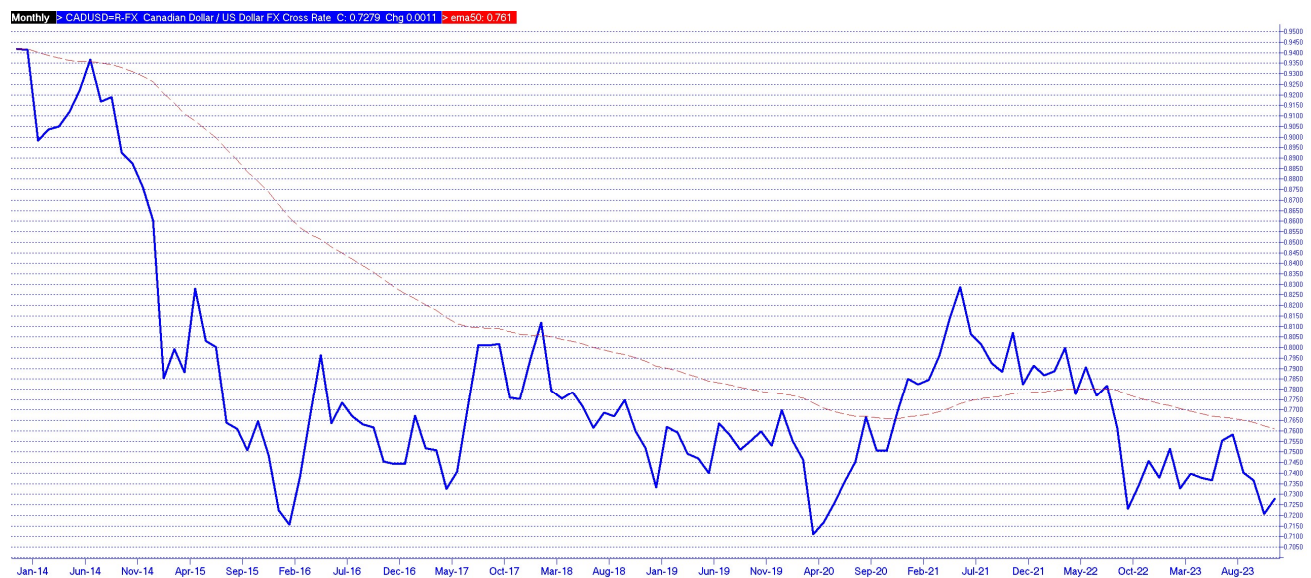


# WEEKEND READING

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

## Pity the Loonie. Even its namesake has fled south.

### \$1 Cdn Dollar cost per \$US (\$0.7279) – monthly ranges – 2003-2023

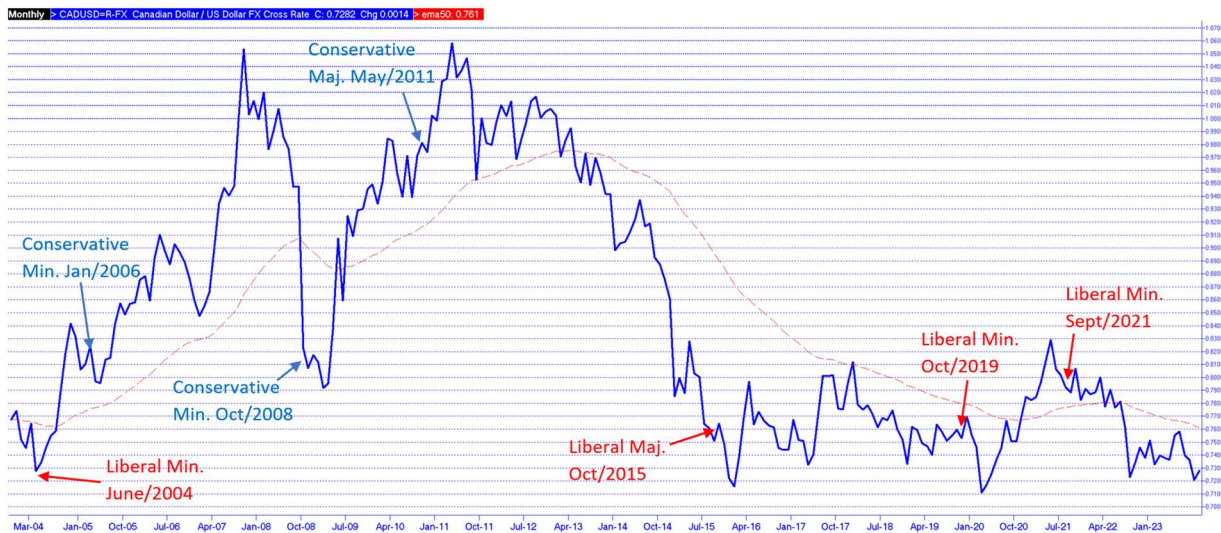


Source: Refinitive/NBF/Hilberry

The Loons have migrated from Canada’s hinterland to warm winter destinations. So has the Loonie. The above chart plots the cost in US funds to buy \$1 Canadian. The left-hand starting conversion level is 94 cents. Today we’re under 73 cents. Canada is discounted **-22%**.

With Canadian Federal politicians acting like an election is near, pundits claim politics drives the Loonie. One narrative has Liberals bad for the Loonie and Conservatives good. Clients have asked if there’s a correlation between Canadian Federal Election results and the US/Loonie FOREX Rates. Let’s have a look.

## CDN Fed. Election results vs \$1 CDn Dollar FOREX monthly ranges – 2003-2023



Source: Refinitive/NBF/Hilberry

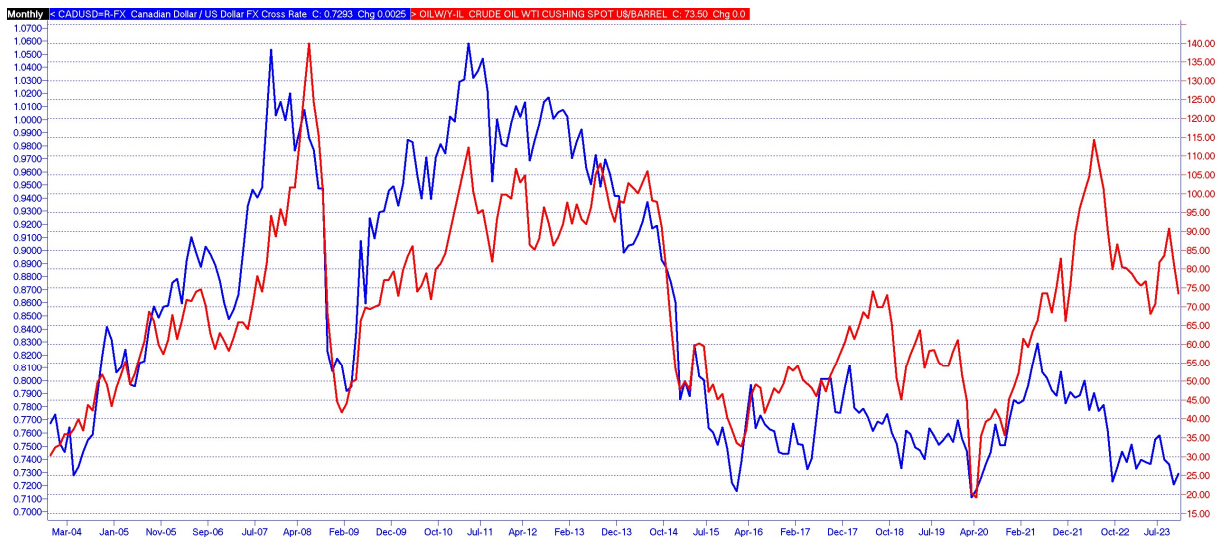
Off the page to the left, the Liberals were re-elected with a 57% majority in 2000. The left-hand beginning Oct/2003 FOREX rate is roughly \$0.77 cents USD cost.

The June 2004 election saw the Liberals lose seats to a 44% minority, matching the start of a rising FOREX trend. The Conservatives were then elected 3 times. May/2011 saw the Conservatives with a 54% majority, the Liberals receiving a thrashing landing at 11% seats while the NDP reached a zenith of 33%. History says Canadian Federal parties very rarely achieve a 4<sup>th</sup> consecutive term, particularly if in a minority.

The polls inevitably flipped, the Conservatives began to lose favor, the Loonie began to slide bottoming out with the Liberal majority in Oct/2015 (Conservatives 29%, NDP back to 13%). The last extremely unpopular 2022 election call saw little change in major party fortunes. The Green Party lost ground. The Loonie has been sideways since 2015.

Looking at the chart it's easy to follow with punditry's '*Conservatives good for the Loonie*' narrative. They argue the current Govt's profligate budget deficits are to blame. As much as I see Tax & Spend ideology as bad for all of us...eventually, when it comes to the Loonie, not so fast, at least not based on simple election results.

## §CDN per USD (blue \$0.7279) vs. WTI - \$USD (red \$75.84) monthly 2003-2023



Source: Refinitive/NBF/Hilberry

Our next chart plots West Texas Intermediate crude oil \$USD price per barrel (WTI-red) vs. the Loonie cost per \$1 USD (blue). Proving oil prices are well beyond the control of any Canadian Federal politician, from Nov/2003 to Nov/2015 despite differing governments, the correlation confirmed international investor's view of Canada as a consistent energy producer, pricing the Loonie in line with WTI prices. Given the outsized impact of hydrocarbon energy export revenues on Canada's economy (that hasn't changed) this made sense. International money saw Canadian politics as boringly consistent. Ah for the good old days.

That correlation starts to break down in Oct/2015. Despite crude oil peaking briefly over \$100 in the summer of 2022 and remaining roughly double the 2005 ranges, the Loonie has been unusually lackluster. While it could be the current Govt's profligate budget deficits, I suspect that same government's stated policies regards the future of hydrocarbon fuels in Canada's economy is driving the price variance. Even Canadian Pension funds currently hold very low allocations to Canadian assets, Canadian equities in particular. The flood of money leaving Canada explains the Loonie's decline. In that sense, yes, Canadian politics mattered since 2015.

### What next?

That was then, this is now. The political pendulum swings. With Canada's history of 'throwing the bums out' after 3 terms, it would be rare for the current Government to be in power after the mandatory Oct/2025 election date. The Liberals rule at the pleasure of the NDP. Politicians first seek election based on ideas; they survive on politics. At the national level, each party's main goal is to be re-elected with more seats than the last time. The 2015 election saw a large block of NDP voters shift to the Liberals. Some as a protest vote against Stephen Harper's Conservatives, some as strategic voters in Quebec and some over the lack of Jack Layton's leadership.

That voting block has remained with the Liberals since 2015 but appears to be fading. The NDP do not 'like' the Liberals, they like power, as do all parties. Our belief is when, not if, the NDP calculates they would gain ANY seats in an election, probably from the Liberals, they will yank their support agreement. Given the direction of polling and recent language out of NDP leader Jagmeet Singh, they appear to smell blood. Our bet is the NDP pulls the rug out forcing a mid-to late 2024 election. With a likely still wishy-washy economy +Inflation, the election will be Conservative's to lose. If the NDP waits too long the economy will bail the Liberals out. Canada's Conservatives have a history of snatching Defeat from the Jaws of Victory. We'll see if Mr. Poilievre can maintain party discipline. It will take iron resolve.

To be clear we don't see the Conservatives as 'better' and don't endorse any party. We don't see the Conservatives as directly beneficial to the Loonie. All they have to be is not harmful to the Loonie and it will take care of itself. As the Conservatives are talking (some) fiscal discipline plus a more nuanced approach to Canada's energy future, international money may suddenly realize there's value here in Canada. The Loonie potentially plays catch up. We want to be front of that money wave sloshing back into our little Canadian boat.

### How should we invest?

Historically the Hilberry portfolios have maintained a strong US component, often over 50% of the total. 2021-2023 saw our US equity returns plus US dollar strength help carry us through the 27% S&P500 peak-to-trough flop with nothing-burger returns. Call it a win by not losing. Those returns, plus a weak Loonie had us tilted to US equities. With the above implying a stronger Loonie, we are trimming US in favor of Canada. We think we're in a wonderful place where Canadian stocks are cheap with fat dividends we haven't seen in years, while the Loonie means we can convert US to CDN at bargain rates. We're very pleased with the significant jumps in projected cash dividend income. Our clients won't see those numbers until it hits their bank accounts in 2024. Suddenly things don't look so bad.

**For a history of Canadian Federal Elections see this SFU site.**

<https://www.sfu.ca/~aheard/elections/1867-present.html>

### Nuclear Small Modular Reactors (SMR) update

My route to work through the rural Cowichan Valley often takes me past the Eagle Heights, BC Hydro power station on Glenora Road. You know the kind. An 8-foot hurricane fence surrounding a hectare of industrial size electrical power transformers heavy cabling and various complicated looking electrical equipment. It's across the road from a small subdivision located next to farmland. These local power stations are everywhere (and zoned!).

We've been following nuclear 'small-scale modular reactor' technology (SMR). Advocates, and stock promoters, claim SMR's distributed location, on-demand level power supply of clean energy nuclear reactors could economically replace fossil fuels and negate the need for vast acreages of varying-output solar panels and/or wind turbines located at great distance



from end-point users. Placed on local power stations, they'd be onsite with transformers, removing the eye-watering costs of connecting 1,000's of hectares of remote location solar/wind farms let alone offshore to the grid. Maintenance and service costs for a travel trailer sized reactor would be far less than sending a technician 100 meters+ up a wind turbine tower located 60 KMs off the coast of Newfoundland or Haida Gwaii. Russia's attacks on Ukraine's energy grid have power analysts pondering the security of renewable energy infrastructure. A single air-borne cluster bomb would create havoc on a solar farm. Suddenly defending an offshore wind farm looks challenging. Defending small and hard to target SMR's would be comparatively cheap. A bit of concrete and trouble is MUCH harder to create. Maybe this is making sense?

SMR promoters have predicted volumes would bring SMR costs down while the small footprint would permit installation in the local power station sites already zoned for the purpose, potentially reducing NIMBY panic over living next door to a massive Three Mile Island sized nuclear reactor. (One wonders if the Eagle Heights sub-division residents would accept an SMR going in across the road without protest. Good luck with that). It seemed a great solution. We were cautiously optimistic. Investors chased up the shares of Canadian uranium producer **Cameco (CCO-TSX)** in anticipation. We've featured Cameco in previous Readings. We don't own it personally or for client accounts.

### Cameco Corp. (CCO-TSX-\$59.48) monthly ranges 20 years



Source: Refinitive/NBF/Hilberry

Cameco's previous peak was around \$55 in May/2007 (left hand spike on the chart). US President Barrak Obama was elected in Nov/2008 and again in 2012 (two bumps on the left hand third of the chart). Cameco then slumped to around \$11 in Feb/2020 with Donald Trump was US President. The election of US President Joe Biden in Nov/2020 has seen Cameco's share's soar again to new highs around \$60 recently. Politics has mattered on this story too. We missed out on this rise (we made good money in conventional energy over the same period). SMR's potential to replace conventional energy use has implications for Canada's energy patch, Canada's economy, and the Loonie. We have to get this right.

Depending on one's optimism, SMR's could be significant game changers. We've been following developments in the first live application of this technology in the US in Idaho. Real life has a way of shaking out the bugs. It hasn't turned out well...yet.

## The First Small-Scale Nuclear Plant in the US Died Before It Could Live – Wired Nov 9, 2023

*Six nuclear reactors just 9 feet across planned for Idaho were supposed to prove out the dream of cheap, small-scale nuclear energy. Now the project has been canceled.*

<https://www.wired.com/story/first-small-scale-nuclear-plant-us-nuscale-canceled/>

Investors are not amused. As featured in the article, this SMR project was being built by **NuScale Power Corporation** with the cleverly labeled stock symbol **SMR** trading on the **NYSE**. The company went public in Nov/2021 at \$10. Short Seller Iceberg put out a damning piece on October 19 to which NuScale rebutted on Oct 24 (see the links in the article). Investors panicked, dumping the stock 45% on Nov 9, hitting lows of \$1.81 last week. At this writing the stock trades around \$2.40. With a market cap under \$700 million, minimal sales, high cash burn rate, a reliance upon government subsidies and deals with cryptocurrency 'miners' the stock doesn't fit our risk parameters. We will continue following the name and sector.

### NuScale Power Corporation (SMR-NYSE-\$2.40) daily ranges – 2 years



Source: Refinitive/NBF/Hilberry

The recent collapse in green technology sector stocks proves 'Disruptive Technology' isn't always a great investment at the outset. It takes to time to shake out those bugs. That doesn't negate the potential for tremendous advances to follow, nor that money could eventually be made. We remind our readers that our job is to invest your hard-won savings successfully. We are unrelentingly optimistic that when there's money to be made, some clever soul will invent a solution. SMR's might be one of them. We continue to follow the story.

# Have a Great Weekend

## Steve & Anna Hilberry



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### FOR THE RECORD November 17, 2023

DOW INDUSTRIALS:	34,960
S&P 500:	4,515
S&P/TSX COMP:	20,194
WTI:	\$75.84
LOONIE IN \$USD:	\$0.7279 \$US

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