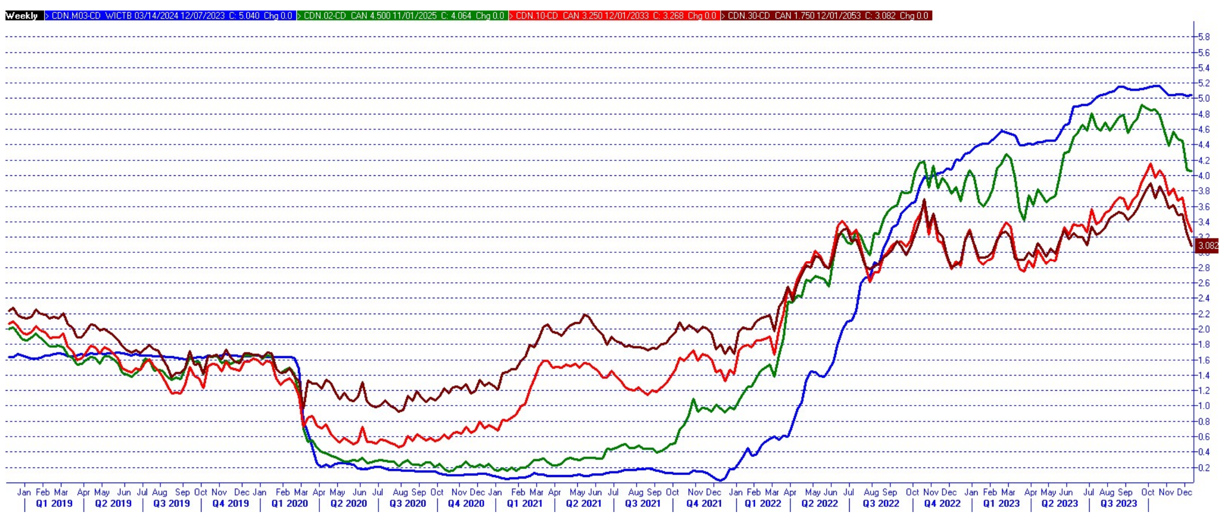
HILBERRY GROUP
WEALTH MANAGEMENT

December 8, 2023

It doesn't have to be complicated.

Inflation and Interest Rates will decline.

Govt Cda Yield: 90-day (blue) 2 year (green) 10 year (red) 30 year (burgundy) 2018-2023



Source: Refinitiv, Hilberry, NBF. Dec 5, 2023

2019 through late 2022 our bond maturity array was 1-3 years, a very short-term posture deviating widely from the benchmarks (and bond ETFs/Funds). That stance sheltered our bond portfolios from most of 2020-22 bond market meltdown. The 10-year yield soared from 0.5% in summer 2020 to 4% in Oct/2023. the 10-year Govt of Canada bond price fell 24% in market value. Summer/2023 we advised rates had peaked and would start to fall. We acted on that recently, positioning our bond holdings to benefit from falling rates by extending maturities. Unlike the punditry, we don't think we're headed for a deep recession so we're not pushing maturities way out into the 30-year range. We think rates will decline, flatten then generally bias higher over the next few years. This may require nimbleness in our bond allocations.

We're on record saying the 2016-2022 lending rates were far too low vs. history. At one-point, European investors had to pay banks to hold their savings, a ludicrous state of affairs. At the time we advised bond investors would regret owning long-term maturities and complained that Governments weren't taking advantage of the long-term, low yields. We strongly advised clients with mortgages to avoid floating rates and lock-in those low rates. We noted the extremely low rates enabled malinvestment. As an example, arguments in favor of Universal Basic Income (UBI) were founded on governments supposed ability to borrow money infinitely at negative 'real' rates, meaning no 'real' cost to the public. The rise in rates has put pain to such silliness.

We noted private investment could also suffer from similar 'discount' problems. When the alternative government bond yield is a loss after inflation, the hunt for returns can make a 20-year payback from a speculative venture look appealing. We predicted a future with higher lending rates would prove painful for such ideas.

The inflation chickens came home to roost in 2023. Those silly rates are gone for good, and good riddance. We're now back to a (somewhat) more sober lending environment. The bond market is doing its job of enforcing financial discipline on borrowers. Canada's Federal and Provincial Governments will be forced back into spending discipline (fiscal policy). As the current band of merry makers appear reluctant to do the hard work, we suspect voters will demand change. As a result, we expect the 45th Canadian General Election will be held prior to the statutory Oct. 20, 2025 requirement. Political parties exist to gain seats. Politicians prefer to campaign in sunny weather. We expect an election call Summer 2024. A change of government could lift the Loonie. As the Conservatives have a history of snatching Defeat from the jaws of Victory it will be an interesting summer. This week's Bank of Canada (BoC) policy meeting, and NBF's Canadian deflator comments support our view that rates have peaked and will now decline.

'Bank of Canada Policy Monitor: Hiking bias left intact…for the final time?' National Bank Dec 6, 2023

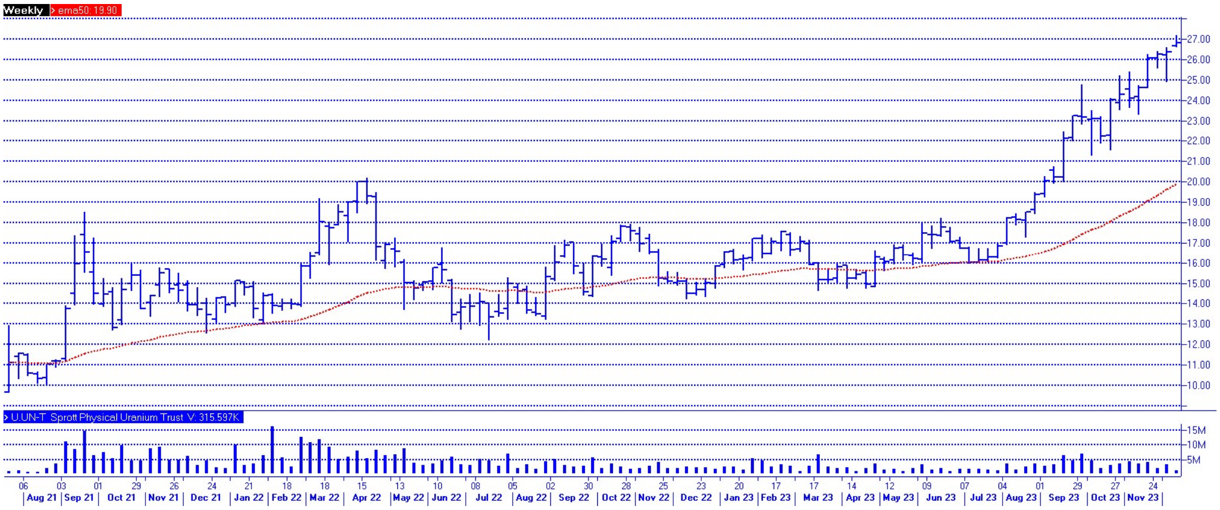
https://nbf.bluematrix.com/sellside/EmailDocViewer?encrypt=de73dcc9-9fb3-413f-bc47-5d6762fe1345&mime=pdf&co=nbf&id=steven.hilberry@nbc.ca&source=mail

'Hot Charts - Canada: Core PCE deflator decelerating faster' National Bank Dec 4, 2023

https://nbf.bluematrix.com/sellside/EmailDocViewer?encrypt=965eda11-6318-4d74-bdde-cbbafced2f21&mime=pdf&co=nbf&id=steven.hilberry@nbc.ca&source=mail

Moving on to energy, uranium prices are up again.

Sprott Physical Uranium ETF (U.UN-TSX-$26.65) weekly 2 years.



Source: Refinitiv, Hilberry, NBF. Dec 5, 2023

DISCLOSURE: We hold no position in Sprott Uranium ETF. We have not traded in the security within the past 60 days.

Investors continue to pursue the world's largest publicly traded uranium producer, Canada's Cameco Corp based in Saskatchewan. Is this a repeat of 2007?

Cameco Corp (CCO-TSX-$60.99) monthly ranges - 20 years

Source: Refinitiv, Hilberry, NBF. Dec 6, 2023

Cameco shares hit lows of $7.69 in March/2020 (red circle). The price hit $63 this month, capping the June/2007 highs of $59.90. Is it just me or is this looking familiar?

CCO's current market prices are 100 X trailing and 72 X FY1 projected earnings per share. The paucity of publicly traded companies in the space may explain investor enthusiasm. The price implies big things from Cameco or a big take over. We stand in awe…and aside.

DISCLOSURE: We hold no position in Cameco Corp. We have not traded in the security within the past 60 days.

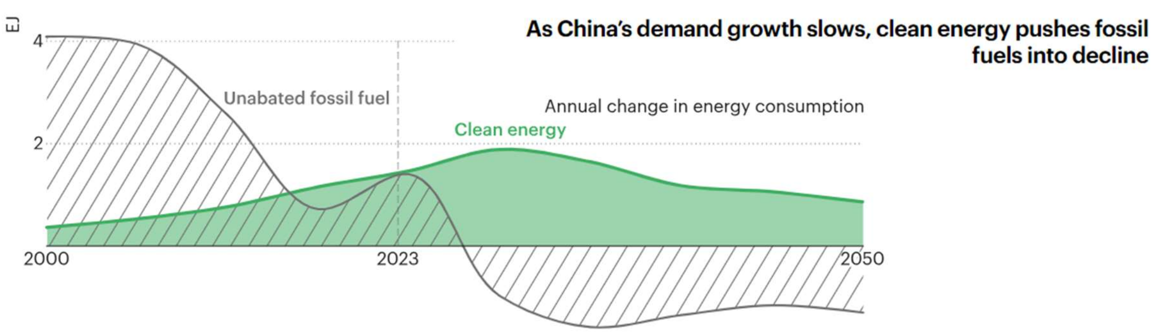
As to global uranium production, in 2022 Kazakhstan produced 43% of global supply followed by Canada at 15%. NIMBY's have made 'mining' a four-letter word in G7 countries. For nuclear power to take off, developed Western countries must get reacquainted with mining **in their own backyard**. The days of having the messy stuff made somewhere else are over. For more on the current global supply of Uranium go here.

https://world-nuclear.org/information-library/nuclear-fuel-cycle/mining-of-uranium/world-uranium-mining-production.aspx

Staying with Energy…the UN Climate Change Conference of the Parties 28th meeting (COP 28) has been on in Dubai since Nov 30 and concludes Tuesday next week. The Canadian Federal Government used the event to reveal it's view on Canadian energy sector emissions. As part of the lead up to the COP meeting, Paris based Intl Energy Agency (IEA) updated their World Energy Outlook in October.

https://www.iea.org/reports/world-energy-outlook-2023

This year's Outlook maintains the IEA's stance that global energy emissions will be lower in the future. One of their inputs is the assumption that total energy demand per GDP unit will fall significantly. By extension the net consumption of oil and gas will decline – replaced by alternative energy - leading to lower GHG emissions.



Source: IEA World Energy Outlook 2023 – Summary and Key Findings

While we're optimistic GHG emissions can fall, and that humans will arrive at a profitable solution, we taken issue with some of the IEA's core assumptions, believing some of their conclusions display a fundamental misunderstanding how energy is consumed. As energy becomes cheaper, humans consumer more of it, not less. This is only common sense.

For detail, we've directed clients to research provided by GoRozen that refutes some of the core assumptions in the IEA's scenarios. We'll leave clients to revisit GoRozen's latest comments here:

'Dr. Jevons or: How I Learned to Stop Worrying and Love Demand' – GoRozen Nov 29, 2023

https://www.gorozen.com/commentaries/3q2023

What do the world's largest publicly traded energy companies (spending their shareholders money) believe about future demand for crude oil and natural gas consumption vs. alternatives? Note that the two are not mutually exclusive.

> (Bloomberg) -- Chevron Corp. followed rival Exxon Mobil Corp. in raising planned capital spending as the biggest US oil explorers seek to increase long-term crude production.
>
> Global expenditures will reach a range of $18.5 billion to $19.5 billion in 2024, up from $17 billion this year, San Ramon, California-based Chevron said Wednesday. The Permian Basin will account for the largest portion of that investment at $5 billion.

A billion here, a billion there, and soon you're talking real money. We don't dismiss new and exciting things may happen with energy generation. We want to be there when it does. We also want to be careful dismissing the current energy we use today.

On the 'new and exciting' a recent Google project underway in Nevada to explore 'fracking' for geothermal energy looks promising.

'A first-of-its-kind geothermal project is now operational' – Google Blog Nov 28, 2023

https://blog.google/outreach-initiatives/sustainability/google-fervo-geothermal-energy-partnership/

The irony that the oil & gas industry's expertise may provide an energy solution based on current, proven, relatively inexpensive technology that is available globally doesn't escape us. Peter Zeihan comments on this development.

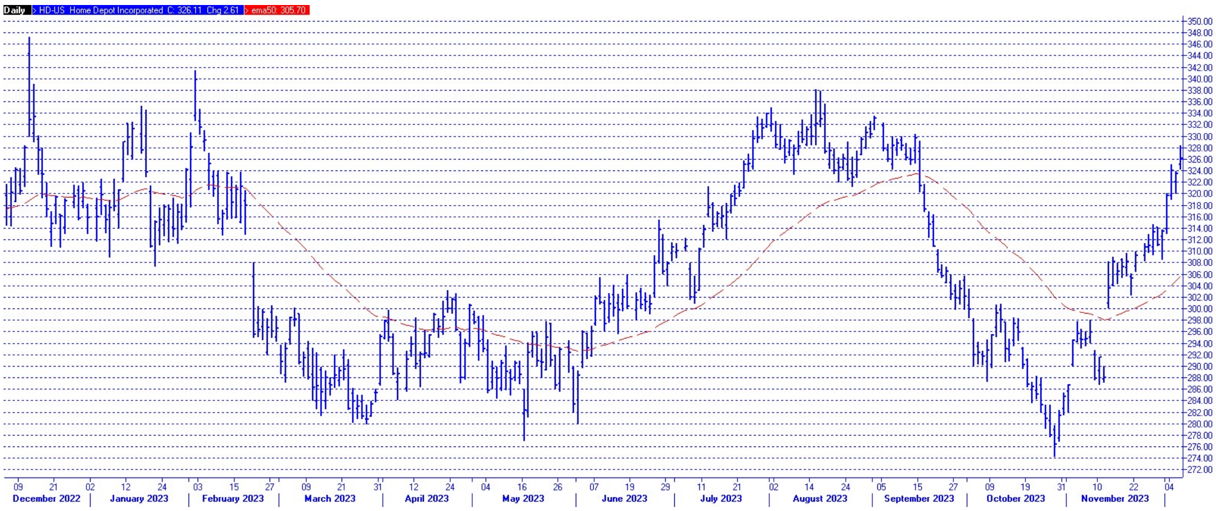
'Generating Geothermal Energy Using Shale Technology' – Peter Zeihan – Dec 7, 2023

https://zeihan.com/generating-geothermal-energy-using-shale-technology/

What about that deep US recession thing?

Not according to Home Depot.

Home Depot (HD-NYSE-$326.11) daily ranges – 12 months



Source: Refinitiv, Hilberry Dec 6, 2023 close

Home Depot's share price is not predicting a deep slow down in the US economy. The August through October/2023 decline on the chart was pricing in a moderate slowing in the first half of 2024. Pundits have recently 'predicted' and bemoaned this pending recession as pending doom (looking at you David Rosenburg) that the market has already priced in. The subsequent price rebound in Home Depot's share price implies to us a turn back to expansion is coming, probably in the 2nd half of 2024. Yes, things will slow. No, that slowing won't morph into the 'Great Recession #2'.

As we've been saying since June, equity prices (and now bond prices) support the idea inflation will fall but not crash into depression. We've advised owning dividend paying stocks for the turn in the economy. We were aggressive buyers in October. We still are. A recent example: At our Octobers 24 & 26 seminars, we feature the Canadian banks (see previous Readings for detailed charts and valuations). We noted a blend of Bank of Montreal, CIBC and Scotia generated an average dividend yield of 7%, reflecting the sharp decline from 2022 highs. We advised the price decline was an extreme. We believed the Canadian banks were too cheap and were buying them. While we thought those low prices wouldn't last, (prices have rebounded nicely) at 7% cash yields we were willing to wait. If 10% per year is a tidy goal, starting off the year with a 7% income that is growing, means we don't need spectacular price gains to hit the 10% target. Even if nothing happens, 7% is hardly a 'fail', particularly if that 7% is cash in your hand. Making money doesn't have to be complicated.

DISCLOSURE: I hold Bank of Montreal, CIBC, Scotia Bank personally, for family members and for client accounts over which I have trading authority. We have traded in all three securities within the last 60 days. See important disclaimers at the end of this document.

December 8, 2023

Have a Great Weekend

Steve & Anna Hilberry

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Wealth Management Advisor, CIM

Anna Hilberry
Wealth Management Advisor, CIM

FOR THE RECORD Dec 8, 2023

DOW INDUSTRIALS:	36,178
S&P 500:	4,592
S&P/TSX COMP:	20306
WTI:	$70.64
LOONIE IN $USD:	$0.7352 $US

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