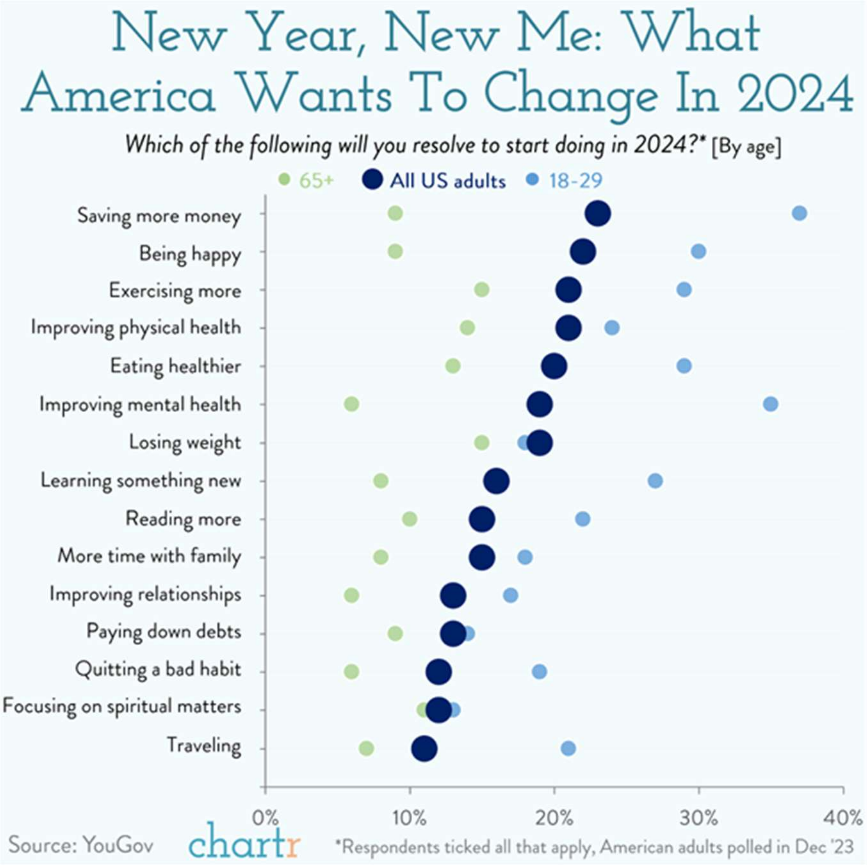
HILBERRY GROUP
WEALTH MANAGEMENT

January 5, 2024

We're baaaack! Welcome to 2024



Source: chartR Wed Jan 3, 2023 email – free to public.

Note 18–29-year-olds desire to save. Nobody wants to travel. Other than weight loss, we note 65+ year olds appear less anxious about all these issues. They appear particularly unfazed about mental health or learning something new. *"I'm all right Jack. It's the rest of you that are crazy".* Age will do that for you.

National Bank US Recession Risk Monitor: Jan 2, 2024

"Given the uncertain U.S. economic outlook, we provide on a weekly basis our tracking table for recession indicators. The table below shows the current reading and recent momentum of several indicators compared to the ones observed three months before the eight previous recessions. Red indicates that the current reading is worse than any historical episodes while green is better. Both yellow and orange are in the historical range, the former indicating a better situation compared to the median while the latter shows the opposite."

U.S.: Economic and financial indicators 3 months before recessions
As of January 2nd, 2024

		Last reading	Prior reading*	Published since last edition?	Value 3 months before U.S. Recessions								Median
					2020	2007-09	2001	1990-91	1981-82	1980	1973-75	1970	
Financial/commodity	S&P 500 (% drawdown from past year max)	-0.8%	0.0%	yes	-1.3%	-0.4%	-13.6%	-7.7%	-5.6%	-7.8%	-13.3%	-14.6%	-7.7%
	BBB spread (increase from past year min, bps)**	5.1	0.0	yes	2.0	46.2	133.8	6.0	0.0	41.0	43.0	23.0	32.0
	Copper price (% drawdown from past year max)	-9.5%	-9.4%	yes	-10.6%	-2.2%	-9.5%	-12.0%	-16.2%	-1.2%	0.0%	-1.6%	-5.9%
	Oil price (% drawdown from past year max)	-24.9%	-23.8%	yes	-16.0%	-4.0%	-31.0%	-21.0%	-4.0%	0.0%	0.0%	0.0%	-4.0%
	U.S. Dollar (% increase from past year min)	1.0%	2.1%	yes	3.1%	0.0%	5.3%	8.3%	12.5%	4.5%	1.4%	NA	4.5%
	Yield curve (10-year minus 3-month, bps)	-144	-148	yes	26	77	-76	98	-62	-127	-157	35	-18
Soft data	Consumer sentiment (Michigan)	69.7	61.3	no	99.3	80.9	94.7	90.6	76.3	63.3	72.0	86.4	83.7
	SME optimism	90.6	90.7	no	102.7	96.1	96.4	99.4	97.4	93.3	NA	NA	96.9
	CEO confidence (quarterly data)	46.0	48.0	no	43.0	44.0	31.0	48.0	61.0	32.0	NA	NA	43.5
	ISM manufacturing	46.7	46.7	no	47.9	52.8	42.3	49.5	53.5	48.0	63.5	54.6	51.2
	ISM services	52.7	51.8	no	55.7	53.5	52	NA	NA	NA	NA	NA	53.5
Hard data	UI Claims 4-week ave. (% increase from past year min)	6%	6%	yes	6%	8%	26%	6%	2%	20%	12%	10%	9%
	Temp. help services jobs (% drawdown from past year max)	-4.6%	-5.3%	no	0.0%	-3.2%	-4.3%	NA	NA	NA	NA	NA	-3.2%
	Average hours worked (% drawdown from past year max)	-0.9%	-1.2%	no	-0.9%	-0.3%	-0.6%	-0.9%	-0.3%	-0.6%	-0.5%	-0.8%	-0.6%
	Building permits (% drawdown from past year max)	-5%	-4%	yes	-5%	-27%	-2%	-39%	-21%	-30%	-30%	-19%	-24%
	Real consumption (3-month, % ann)	3.1%	1.5%	yes	1.3%	2.4%	2.3%	1.8%	-0.1%	0.7%	4.1%	6.4%	2.1%

*December 15 for financial data, previous month for hard and soft data (quarter for CEO confidence)
** As of Thursdays
NBF Economics and Strategy (data via Refinitiv, Bloomberg)

Hilberry Take: We see mostly yellow (caution) with a bit of green showing up and few reds. Those following the progression of these reports will note the fading of red. We'll take it as 'stay the course'.

See National's full comment at the link below.

https://nbf.bluematrix.com/sellside/EmailDocViewer?encrypt=dba94251-faeb-48b1-8f89-acf2fbdbe604&mime=pdf&co=nbf&id=steven.hilberry@nbc.ca&source=mail

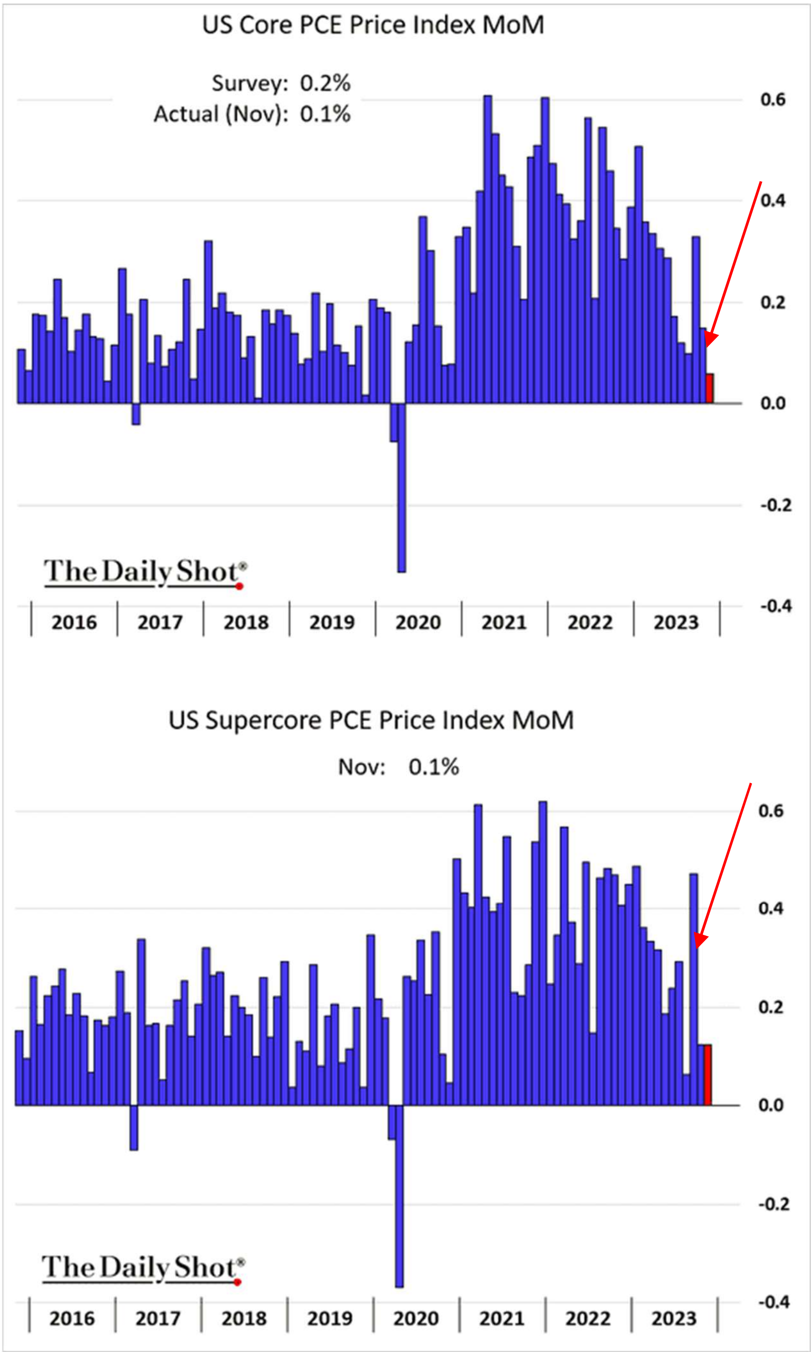
Prior to the Christmas break, National Bank's Financial Markets Team made a cautious call on the US economy for 2024.

'A challenging year ahead for the U.S. economy?' National Bank Dec 22, 2023

https://nbf.bluematrix.com/sellside/EmailDocViewer?encrypt=04cbd827-27c4-4a1c-91c1-cb78ff322f1f&mime=pdf&co=nbf&id=steven.hilberry@nbc.ca&source=mail

What about interest rates (again)?

We've advised the short-term direction for interest rates would be lower. Here's why.



Source: Wall Street Journal Daily Shot Jan 2, 2024

On the economy? What does the biggest of the big money think?

If National Bank is worried about the US economy, what does the US big money think? I mean, the REALLY big money. As we pointed out in November, JP Morgan shareholders, many of whom are industry insiders, weren't worried. JPM's stock price hit a new high this week. They're still confident.

JP Morgan Chase & Co (JPM-NYSE-$172.38) – weekly ranges 5 years,

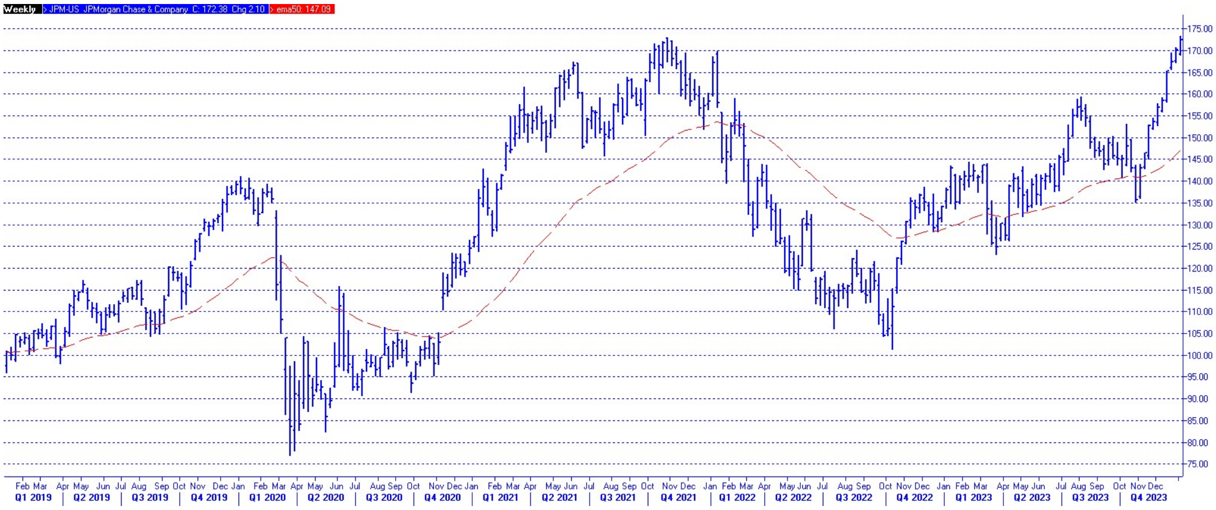


Chart Source: Refinitiv/Hilberry/NBF

DISCLOSURE: The Hilberry Team holds JP Morgan common personally, for family members and for client accounts over which we have trading authority. We have traded in the security within that past 60 days.

Viewing 150 years of S&P500 Returns: Visual Capitalist

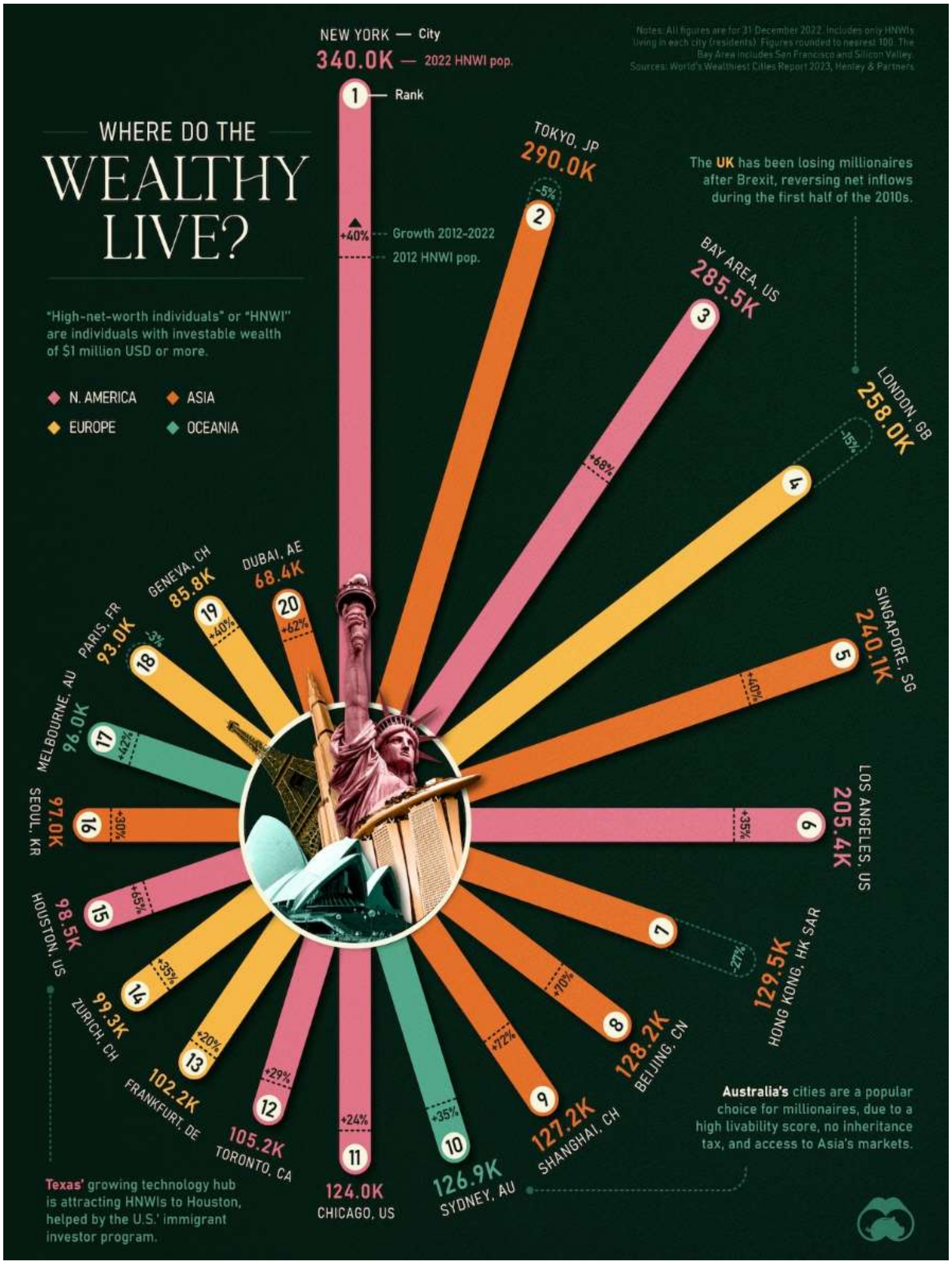
This article is required Weekend Reading. The material will be on the test!

https://www.visualcapitalist.com/150-years-of-sp-500-historical-returns

'The decline of the USA' is another theme we've head recently. Again, what does the big money think? Where are the millionaires+ going? Are they voting with their feet, fleeing the US? Not so much.

Cities with the most millionaires in the world: Visual Capitalist Dec 31, 2023

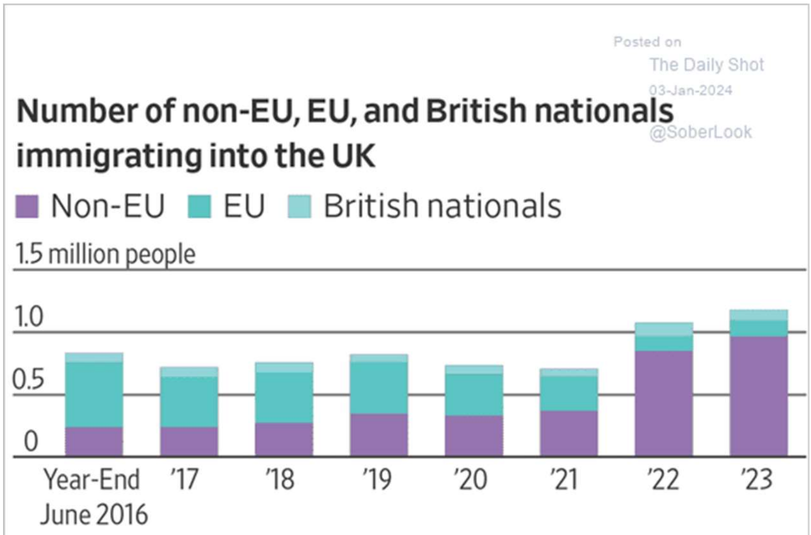
https://www.visualcapitalist.com/cities-most-millionaires/



New York is #1 in absolute numbers. We note that more millionaires are being minted around the globe. That's a good thing. To mangle Winston Churchill; Capitalism is the worst system on earth…except for all the others. Speaking of voting with one's feet and immigration…

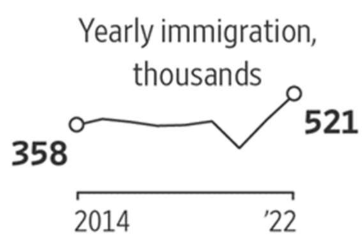
Dumb and Dumber

The above chart shows London losing millionaires. Some blame Brexit (we agree) while the exit of Russian oligarchs may be at play too. What about Brexit then?



United Kingdom

The U.K. formally left the European Union in 2020 partly to have greater control over its borders by ending the right of Europeans to move to the U.K. without a visa.

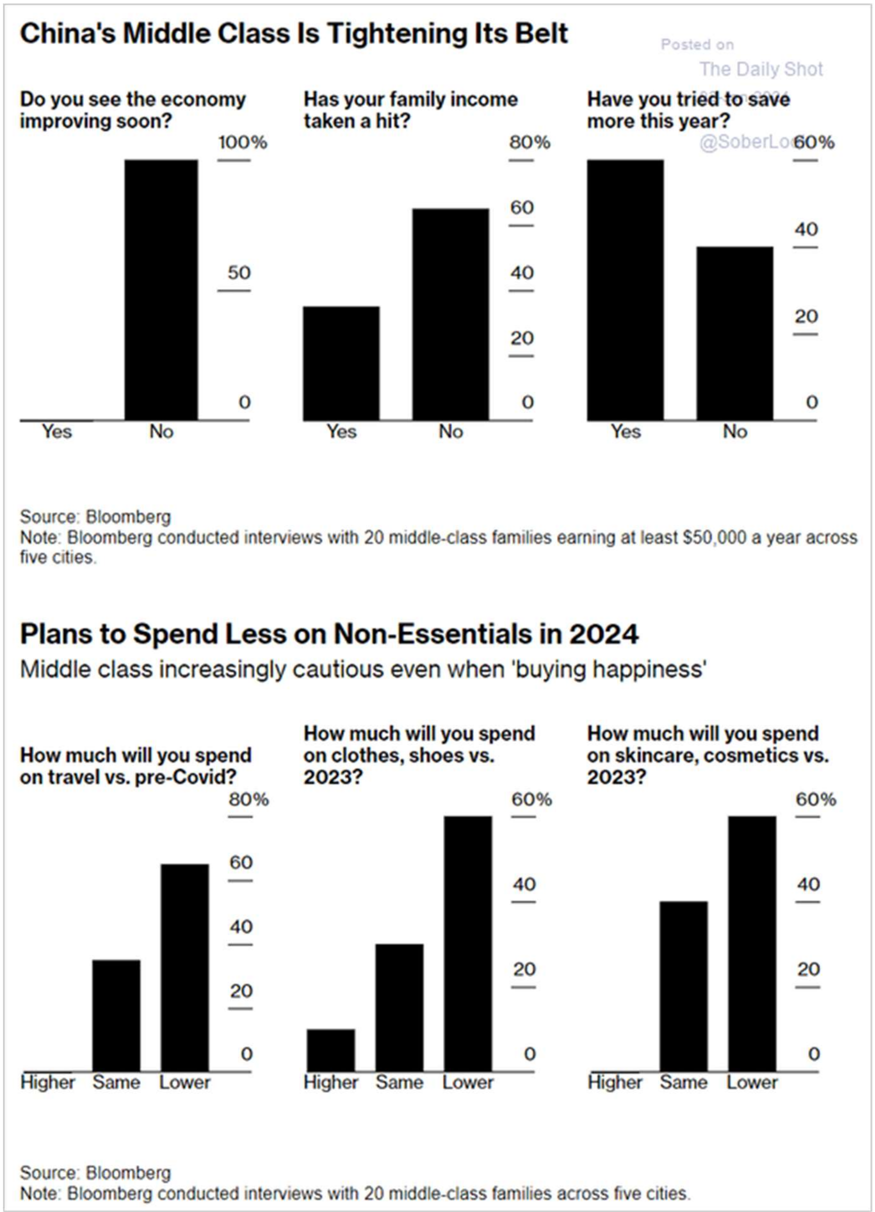


The vast majority of immigrants to the U.K. are now non-EU citizens, a shift from pre-Brexit years when EU migrants dominated. The government this month unveiled a 5-point plan to curb immigration, including by preventing some workers from bringing family dependents and increasing the earnings threshold for skilled workers.

Brexiteers focused their ire on immigrants. One suspects the objection was to the arrival of non-Northern European (read non-Caucasian) immigrants in their neighborhoods, many fleeing economic and humanitarian crises outside of Europe. The EU is now less motivated to screen asylum seekers headed for the UK. Brexit appears to have amplified the problem. The Brexit anti-immigrant idea was a fail. Was Brexit's economic cost worth it?

Example: Brexit required Canada and the UK to negotiate a treaty on cheese outside the existing arrangement with the EU. It has yet to pass. Meanwhile European cheese is plentiful on Canadian store shelves. Canadians are bypassing UK Stilton for French Camembert. Guess where the profits go?

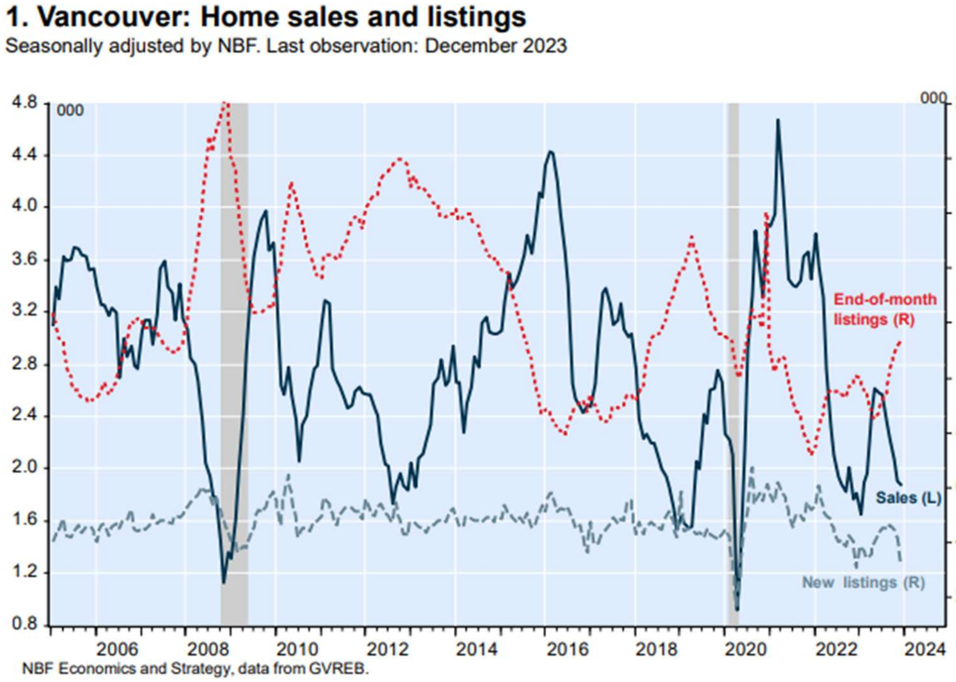
On Chinese consumer sentiment…

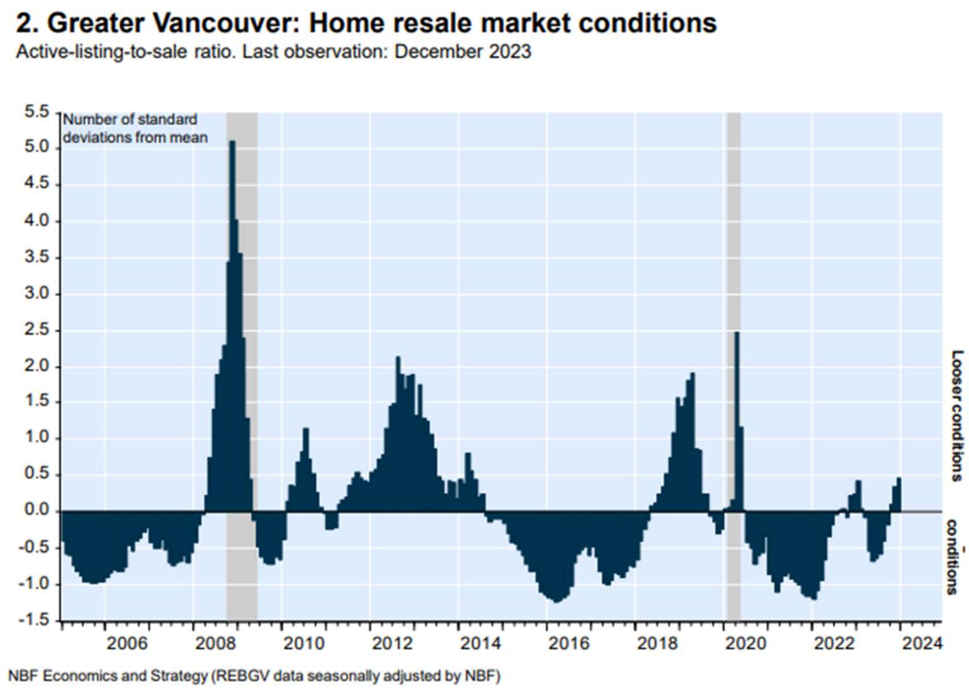


Note that while they expect to see the economy worsen, Chinese consumers have yet to see a hit to their personal income and are determined to save. With the vagaries of Chinese politics, they may be right. If their caution proves over done, the wave of future spending could see an uplift to the Chinese and thus global economy. Maybe.

Thoughts on housing.

Economic News: Metro Vancouver: Home sales decline further in December – NBF- Jan 3, 2024





Source: National Bank Financial Economic news Jan 3, 2024

Hilberry Take: Pundits have fretted *'Canadian banks will be crushed by crashing house prices'*. Lower Mainland listings are now balanced with demand. This implies less risk of a rapid rise or collapse in prices. Toronto metro prices are up recently. Recall that immigration thing we've been pointing out…. We think the banks will do just fine.

https://nbf.bluematrix.com/sellside/EmailDocViewer?encrypt=9400af93-1d2a-4dab-849e-1c2e1162ef08&mime=pdf&co=nbf&id=steven.hilberry@nbc.ca&source=mail

Staying with real estate, 2015's Federal election through to the last one in 2021 saw Canadians electing left-leaning politicians. The result was a slew of 'affordability' policies aimed at the property markets. The tools engaged were various forms of punitive taxes and regulations. British Columbian's voted in the provincial NDP with a thin minority government, supported by the Green party in 2017. The combo enacted a Provincial 'empty home' tax, in 2018 officially called the 'speculation and vacancy tax'. The rationale for the empty home tax was it would force owners of empty homes to rent them or sell them, increasing the supply of rentals. That government should do so was a bit scary but never mind. This logic assumes the owners are unwilling to rent for the wrong reasons. They simply must be 'part of the solution'.

Initially applied to the Lower Mainland, it was then expanded to the following:

- Capital Regional District (CRD)
- Metro Vancouver Regional District
- City of Abbotsford
- City of Chilliwack
- City of Kelowna
- City of Nanaimo
- City of West Kelowna
- District of Lantzville
- District of Mission

New and improved for 2024 this tax now extended to…

- **City of Duncan**
- **District of North Cowichan**
- District of Squamish
- **Town of Ladysmith**
- **Town of Lake Cowichan**
- Village of Lions Bay

The Cowichan Valley makes the list!

https://www2.gov.bc.ca/gov/content/taxes/speculation-vacancy-tax/how-tax-works/taxable-areas

Not to be outdone, the Federal Liberal minority government supported by the Federal NDP enacted a national 1% 'Underused Housing Tax' that came into effect Jan 1, 2022. Directed at 'foreign national' owners it can also cover Canadian residents.

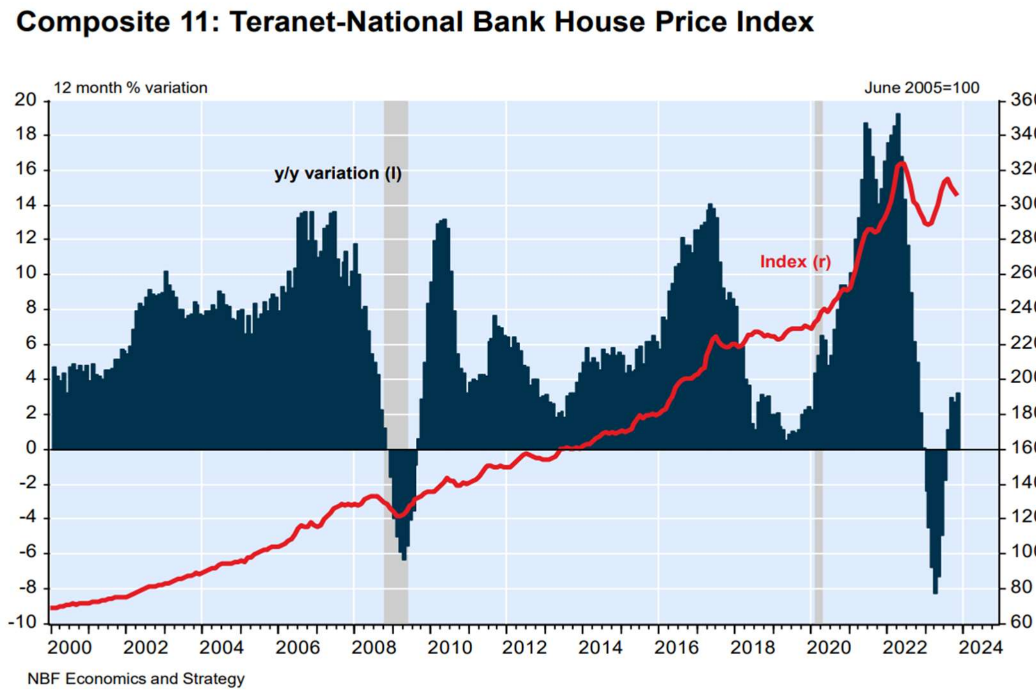
In a bid to protect the rental pool, governments have also enacted measures making it more difficult to evict renters. And…the Federal Government brought in a 2-year prohibition on 'foreign buyers' acquiring residential property. And…the regulations surrounding housing construction have steadily become more onerous and costly to comply with.

This begs the question, have any of these measures increased affordability? Has it worked?

'Why Canada's ban on foreign buyers hasn't made homes more affordable' – CBC Dec 26, 2023

https://www.cbc.ca/news/canada/british-columbia/canada-foreign-buyer-ban-housing-affordability-1.7058154

One implication of enacting the foreign buyer's tax and then ban is that 'foreign buyers' are a problem. These 'foreign buyers' (read SE Asian ones) were/are supposedly driving up prices by 'speculating' in condos. There have been suspected cases of mainland Chinese buyers hiding money by purchasing properties in Canada. The supposed rationale for the 'hiding' was to escape Chinese government scrutiny or seizure. Staying with that logic, the more expensive the condo, the better. If you're hiding money in a $1.5 million condo, will a 1% 'speculation' tax deter you? Or even a 3% one? As neither worked (but raised tax money) the solution was to enact and outright ban. If at first you don't succeed….



Source: National Bank Financial Housing Market Monitor Dec 19, 2023

The blue bars are the annual rate of change (left-hand scale). The red line is the index average from base 0 in 2013 (right-hand scale). 2013 to 2023 after spiking from 280 in 2020 prices peaked in 2021 around 325. Currently closer to 310. We're confident the sharp rise in mortgage interest borrowing cost from under 2% in 2021 to 6% in 2023 explains the recent price declines. But even that 3-fold increase in cost didn't make much of a dent. Clearly the various government measures have had little effect on prices thus 'affordability'.

This tells us three things.

One: Sellers will price for what they can get. The fact they're still achieving high prices tells us someone can afford to pay the price. That someone is not some cabal of nefarious foreign buyers, it is us Canadians. The collective we have the money. Period. There is also clearly still demand. We think both of those are good things.

Two: If demand is strong (good) the only way to reduce prices is to increase supply. You either do this by decreasing ownership (think about the implications - shudder) or increase new construction. You can't force builders to take on the risk of building. You must encourage them to do so. Increased production will not be encouraged by punitive taxes, regulations, and fees. If costs go up, the only solution for the builder is to raise the price. The more costs go up, the higher value IE luxury must be added to recoup the cost-on-cost escalation.

Three: For affordability to increase, costs must fall, and incomes must rise. It will not be news to our readers that the cost of buying a home is heavily dependent upon borrowing costs. Rising mortgage rates reduce the mortgage-service-to-income-ratio sharply. What drives up mortgage rates? Inflation. What increases inflation? Reduced productivity. What reduces productivity? Anything that increases costs without expanding supply. Factors include commodity costs (think energy – there's a policy question), transportation (ditto) wages and money supply. Wages tend to lag with demand for higher wages coming from the lived experience of workers seeing their purchasing power depleted by inflation.

This takes us back to the basic question. Have government policies, taxes and regulations reduced costs, increased supply, increased productivity? While we're at it, what happened to the revenue generated from those taxes? Did government debts decline?

Meanwhile, confounding the punditry, stocks had a good year in 2023. Hold on to your hats!

Welcome to 2024

January 05, 2024

Have a Great Weekend

Steve & Anna Hilberry

FOR THE RECORD Jan 5, 2024

DOW INDUSTRIALS:	37,502
S&P 500:	4,704
S&P/TSX COMP:	20,953
WTI:	$73.94
LOONIE IN $USD:	$0.7490 $US

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