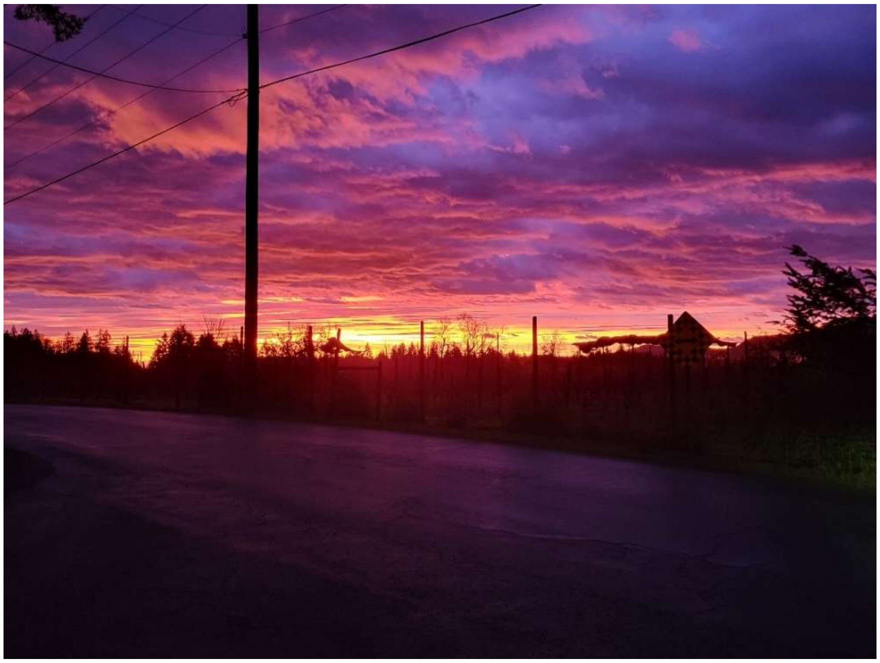
HILBERRY GROUP
WEALTH MANAGEMENT

February 2, 2024

Always Darkest before the Dawn

My morning commute. Sunrise in Hilberry Hollow



Source: Steve Hilberry Jan 29, 2024.

Demographics matter.

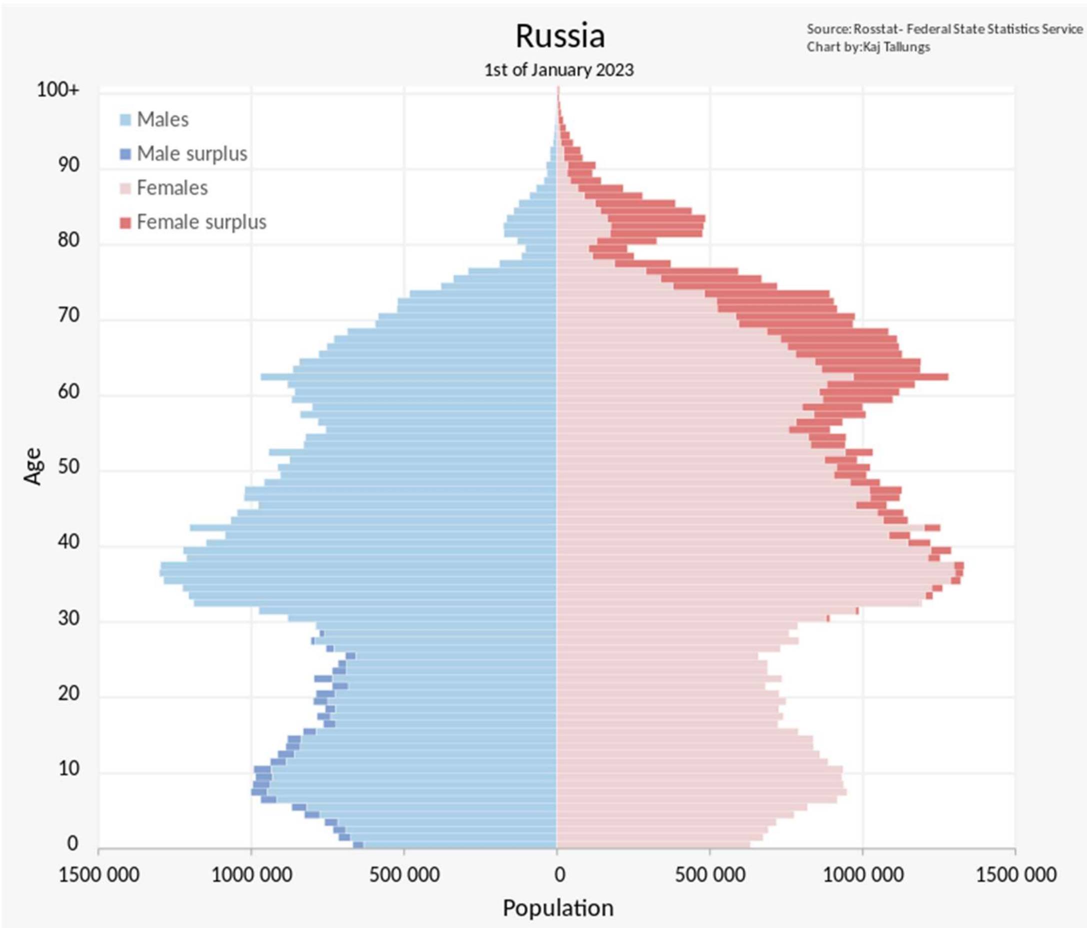
'Japan: A tale of two countries' – National Bank of Canada Geopolitical Briefing – Jan 29, 2024

https://nbf.bluematrix.com/sellside/EmailDocViewer?encrypt=93872602-9394-421d-a7b6-dd3eb1b1bde3&mime=pdf&co=nbf&id=steven.hilberry@nbc.ca&source=mail

In the above chart, (Japan, red on left) note how China's 2022 65+ population at 14% (2nd red bar from right) rises to 30% in 2050, a much faster rate than the rest. Comparing Canada's 65+ population in 2022 (19%) to 2050 (25%) vs the USA 17% to 24% says Canada will remain slightly older than the US. Economically, the farther to the right, the better. Canada and the USA should do okay. Both should be better off than Europe.

What of Russia's demographics and Ukraine?

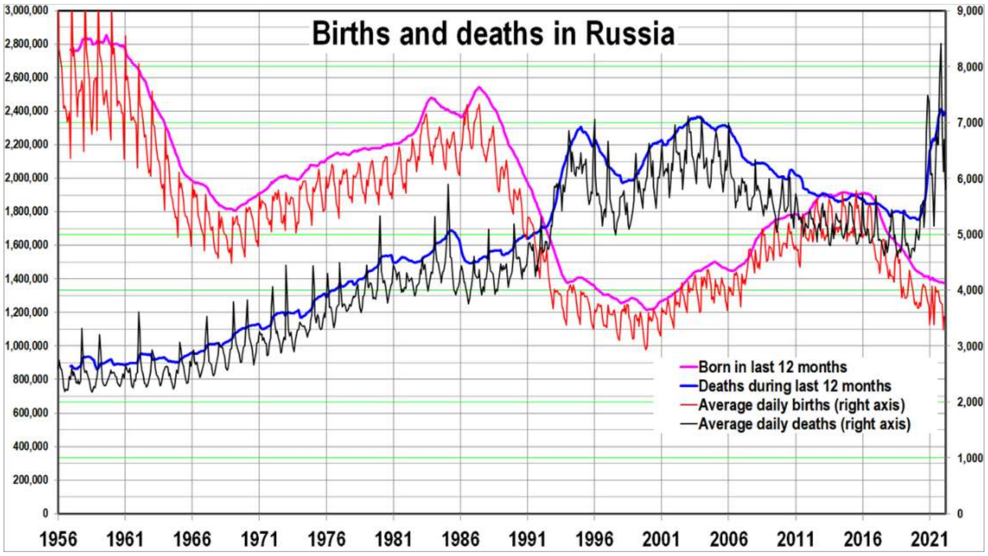
At the collapse of the Soviet Union in 1991, Russia's population totaled 148 million. Russia's 2023 population is 146.1 million, with a fertility rate of 1.46 per couple, below the 2.1 replacement ratio required to maintain the population.



Sources: Our World In Data and Gapminder Foundation. Accessed 01/31/24

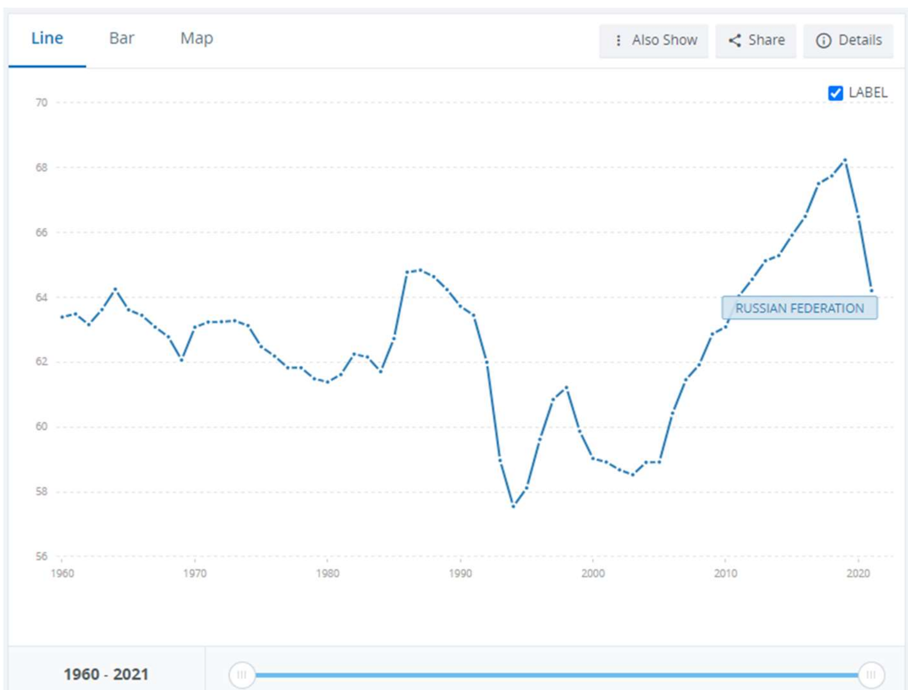
Russian males under the age of 35 (left blue lower third) is expected to fall sharply in the next 10 years. Estimates of Russian military deaths in Ukraine range from 70,000 to 150,000. Wounded estimates are 180,000 to 240,000. The war has encouraged young males to flee.

https://en.wikipedia.org/wiki/Casualties_of_the_Russo-Ukrainian_War



Sources: Our World In Data and Gapminder Foundation

Russian Life Expectancy at birth males 1960-2021: Age 64 and falling



Source: World Bank

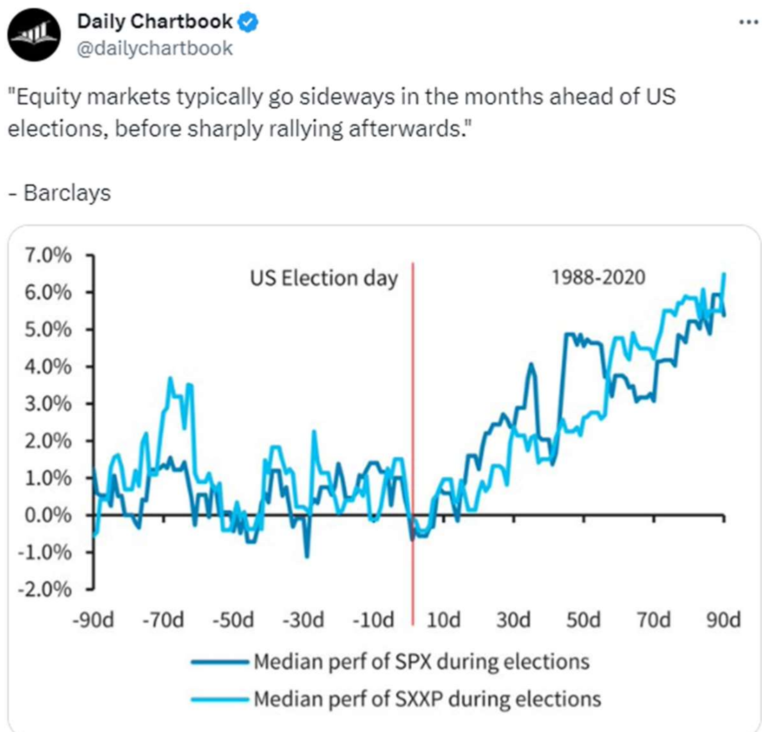
https://data.worldbank.org/indicator/SP.DYN.LE00.MA.IN?locations=RU

Note the decline from highs in 2019 back to 1960 levels. Russia's population is predicted to continue to decline 23% to 112 million by 2100. Of concern for dreams of military conquest, the number of fighting age males is declining more rapidly than the averages.

Staying with the US Presidential elections….

Q: What is the typical pattern for US stocks in a Presidential Election Year?

A: Fluctuate until the election then take off.



British Columbia heads for an election in October, 2024. Like the Federal Liberals, the Provincial NDP took Green voters in the last election. Natural gas development is an issue the Provincial NDP may dread. Remember this one?

'Anti-pipeline leaders restate resistance to Trans Mountain pipeline project' CBC April 16, 2018

'Burnaby mayor says city and citizens will fight pipeline expansion 'to our last breath'.

https://www.cbc.ca/news/canada/british-columbia/kinder-morgan-trans-mountain-pipeline-opposition-1.4611055

Burnaby Mayor Derek Corrigan staked his political career (and $1.1 million of Burnaby municipal tax dollars in legal costs) 'fighting' the TransMountain Pipe expansion.

https://www.burnabynow.com/local-news/city-of-burnaby-reveals-how-much-it-spent-fighting-trans-mountain-pipeline-in-court-3083180

The pipeline route existed through Burnaby, the expansion had Federal approval and the City had legal advice they would lose the case, which they did. Mr Corrigan pressed on. Voters were not amused. Mr. Corrigan lost his job, not lost on current elected officials.

Another pipeline issue may soon be on the BC Provincial NDP's plate. Given the tax dollars at stake, a positive decision from the Province appears likely. As Green voters could shift to the Green party in retribution for this likely outcome, we're guessing the decision could be delayed for political reasons until after this October's election. It remains hard to get things done in Canada.

> WINNIPEG, Manitoba, Jan 29 (Reuters) - U.S. President Joe Biden's decision to pause expansion of American liquefied natural gas (LNG) exports has raised pressure from environmental groups on the British Columbia and Canadian governments to do the same, although following suit may be politically difficult.
>
> British Columbia (B.C.) will hold an election in October, and its left-leaning New Democrat government is expected to decide late this year whether to approve Ksi Lisims' 12 million-metric ton export facility. It would become Canada's second-largest LNG terminal and also requires federal approval.

The decision will have long-term impacts on natural gas producers based in north-eastern British Columbia and western Alberta, BC Provincial Government tax revenues and rural jobs in BC. Will this issue see a repeat of the Pipeline Wars pitting Burnaby climate activists against natural gas field workers in Dawson Creek?

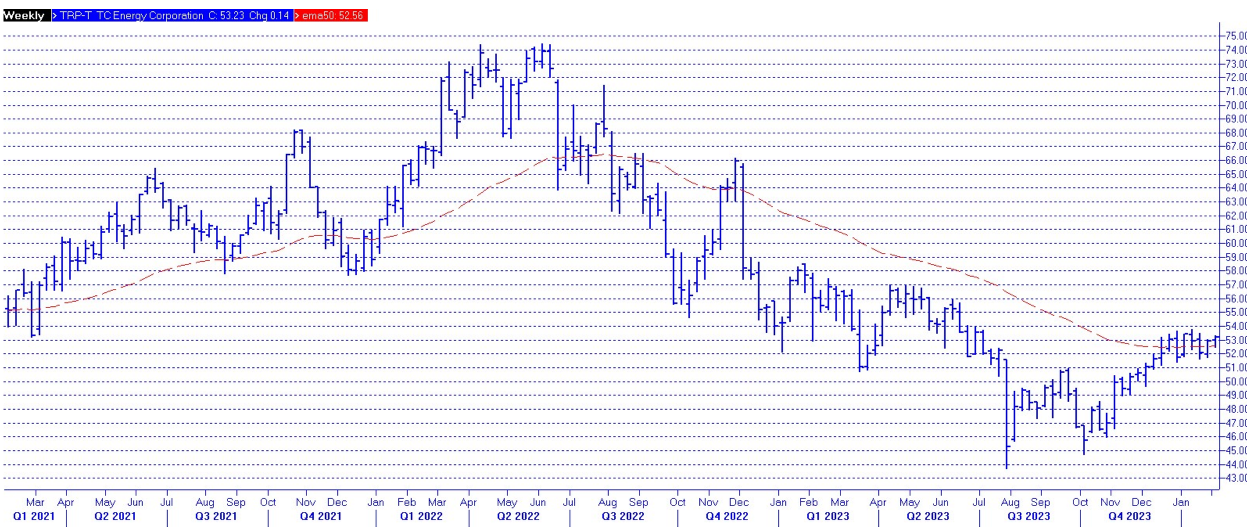
On pipelines…..

'Pipelines, Utilities & Energy Infrastructure – Show Me the Money ' – Patrick Kenny NBF Industry Report Jan 30, 2024

https://nbf.bluematrix.com/sellside/EmailDocViewer?encrypt=55b90adb-e3bb-4362-bd32-c8fd8a542a10&mime=pdf&co=nbf&id=steven.hilberry@nbc.ca&source=mail

Mr. Kenny highlights **TC Energy.** Formerly known as TransCanada Pipeline Corp. It's telling the company rebranded away from their Canadian roots.

TC Energy (TRP-TSX-$53.23) – weekly ranges – three years



TC Energy pays a cash dividend of $3.72. The stock is priced to pay a 7% dividend yield. Fiscal year 2023 consensus predicted earnings per share is $4.10 out to 2026 EPS projected at $4.70. The dividend appears covered. We think investors underestimate TC Energy's future earnings power. We're willing to get paid to wait.

DISCLOSURE: I hold TC Energy personally, for family members and in client accounts over which I have trading authority. We have traded in the security within the past 60 days.

Extract from NBF's Daily Energy Desk notes Jan 30, 2024 in support of nuclear power.

A thread from John Arnold on X: The conundrum facing renewables and the case for nuclear.

"To spark the massive uptake necessary to make a significant dent in emissions, renewables must be very cheap. But cheap energy induces more demand, which makes reducing reliance on fossil fuels that much harder.

New sources of energy have never killed existing sources. The new form is always additive. Every energy source, even wood & coal, is effectively at all-time highs in usage. Renewables are growing market share, but the absolute level of GHG emissions continues to increase.

Barring policy bans/mandates that are very difficult in most political systems, at least two conditions are necessary to actually cause a decline in fossil fuels in anything but the very long term.

First, the new source needs to be materially cheaper in most geographies such that it is economic to scrap legacy energy infrastructure prior to end of life. But cheap full-cycle energy will increase global usage, particularly in middle and low income countries.

That leads to the second condition: growth in the low-carbon source must not have binding constraints like access to land, labor, or minerals, that makes them intrinsically inflationary. In other words, the source needs to be able to massively scale without costs increasing.

Of the low carbon energy sources, the only one that potentially fits these conditions is nuclear. Wind, solar, hydrogen and hydro all hit constraints on scaling. They are useful at meeting current demand growth but likely can't materially displace existing forms of energy.

The few geographies where fossil fuel usage has declined generally have stagnant economies (flat energy demand) and high quality renewable resources. Good illustration of this at bottom of this article.

The benefit of nuclear is it has the lowest cost physics, or cost of materials needed per MWh of generation, of any energy source. There is no natural constraint on scale. The podcast "Age of Miracles" episode 3 does a good job explaining this concept.

Conversely, nuclear has the highest "idiot index", a term coined by @elonmusk referencing the ratio of a product's final cost compared to the cost of its raw materials. In other words, there is a high cost in turning the raw materials into a working reactor.

"The problem is a Gordian Knot of construction, financing, and regulation. Each makes the other worse, and it's gotten so bad that we're not currently building any new large reactors, which means that we get worse at building them, which makes them more expensive." -@packyM

Technologies with low-cost physics and high Idiot Index have huge potential for improvement. That doesn't mean nuclear will be easy, but it has the most potential of all low-carbon energy sources. Nuclear should be getting vastly more public $ to help reach"

We've featured '**Nuscale (SMR US-$3.02)** in previous readings. We don't own the stock.

We've been warning the 'BUY Magnificent Seven' trade is getting narrow

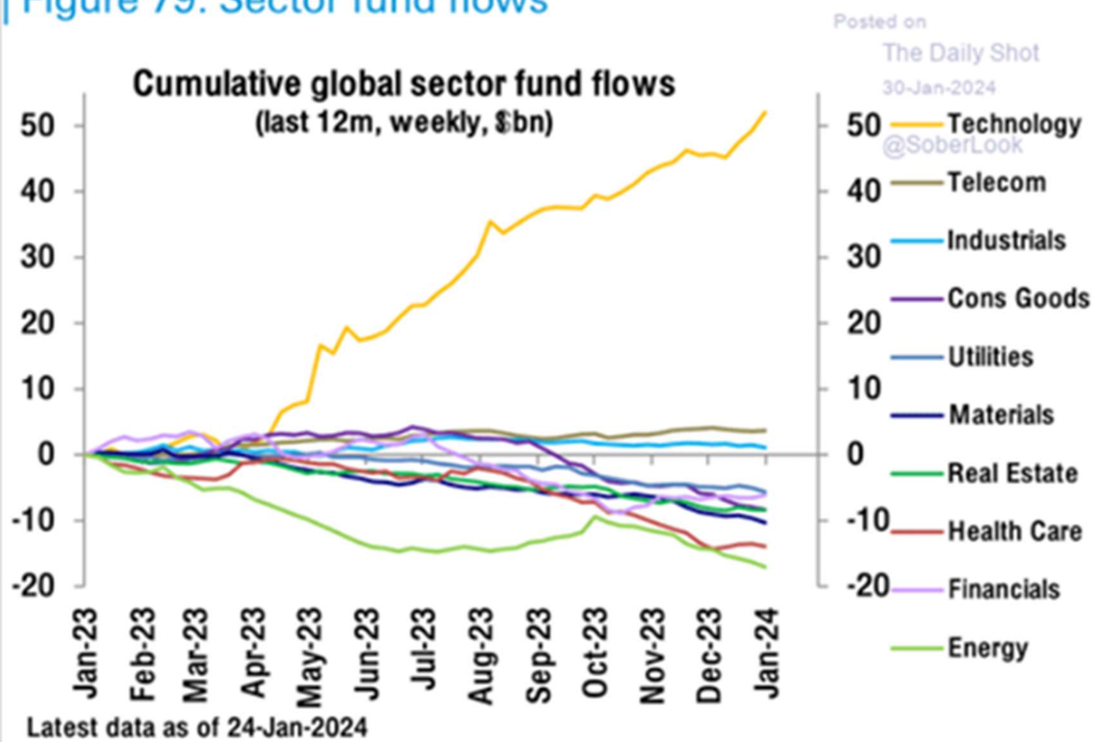
Magnificent Seven: Alphabet (GOOGL; GOOG), Amazon (AMZN), Apple (AAPL), Meta Platforms (META-Formerly Facebook), Microsoft (MSFT), NVIDIA (NVDA), and Tesla (TSLA).

Narrowness

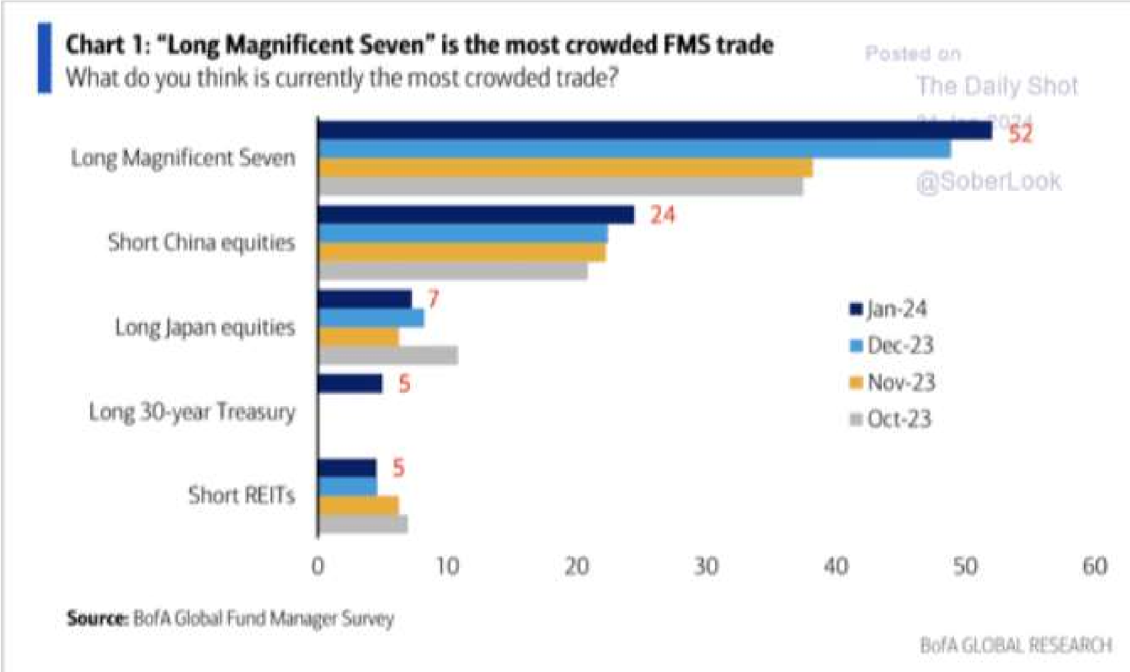
The top 13 stocks have driven the whole of the S&P's YTD upside with the top five contributing ~70%.

Name	End Prc	% Chg	Points↓	%Idx Mv
1. NVIDIA Corp	608.32	+22.84%	+33.279	+27.42%
2. Microsoft Corp	403.99	+7.43%	+24.746	+20.39%
3. Meta Platforms Inc	393.07	+11.05%	+10.341	+8.52%
4. Alphabet Inc	151.71	+8.60%	+8.474	+6.98%
5. Amazon.com Inc	158.78	+4.50%	+7.409	+6.11%

Figure 79: Sector fund flows



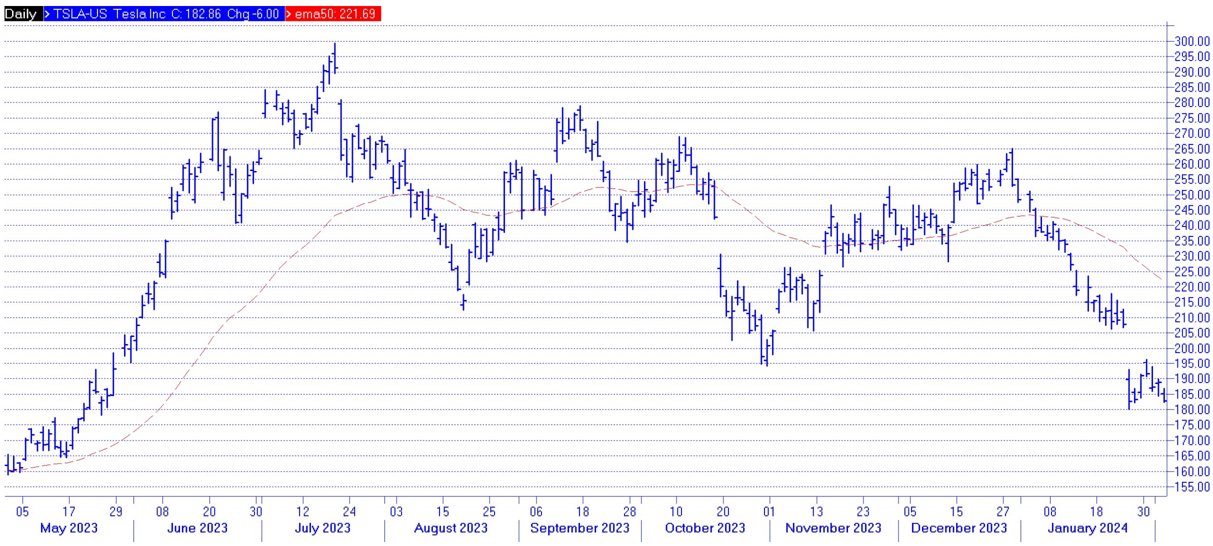
Source : EPFR, Haver Analytics, Deutsche Bank Asset Allocation



We stand in awe of the majesty of a roaring bull market in these names. We also stand aside. We don't know when a trade this crowded ends. We think we know how. History says *sooner than later* and *not well*. We don't need to own them to find out.

Tesla had a difficult day on Friday. Mr. Musk warned of sales slowing. The stock plummeted 12% at the opening. At this writing mid-morning Feb 2, Tesla trades around $180

Tesla Inc (TSLA-$183.63) weekly ranges – two years.



Tesla has staked its future on all-battery powered vehicles. We've repeatedly challenged this conviction. If the future belongs to batteries, battery-producer and component stocks should be on fire. How are investors pricing battery demand?

Global X Lithium & Battery Tech ETF (LIT-US-$40.50) – weekly – 2022-2024

The left-hand starting price range is $80 US. At today's $40, <u>average prices</u> for the group are down a cool 50% with no bottoming yet.

On Rental Housing Supply:

'Tax alert: new rules for short-term rentals in B.C. What do B.C.'s new short-term rental rules mean for you?' MNP

The Province of B.C. (the province) has introduced new rules geared toward making more units available for long-term residential use. The rules target three different areas:

- *Increasing fines for persons not following the rules*
- *Requirements for platforms to share information and obtain business licenses from operators*
- *Returning more units to long-term homes*

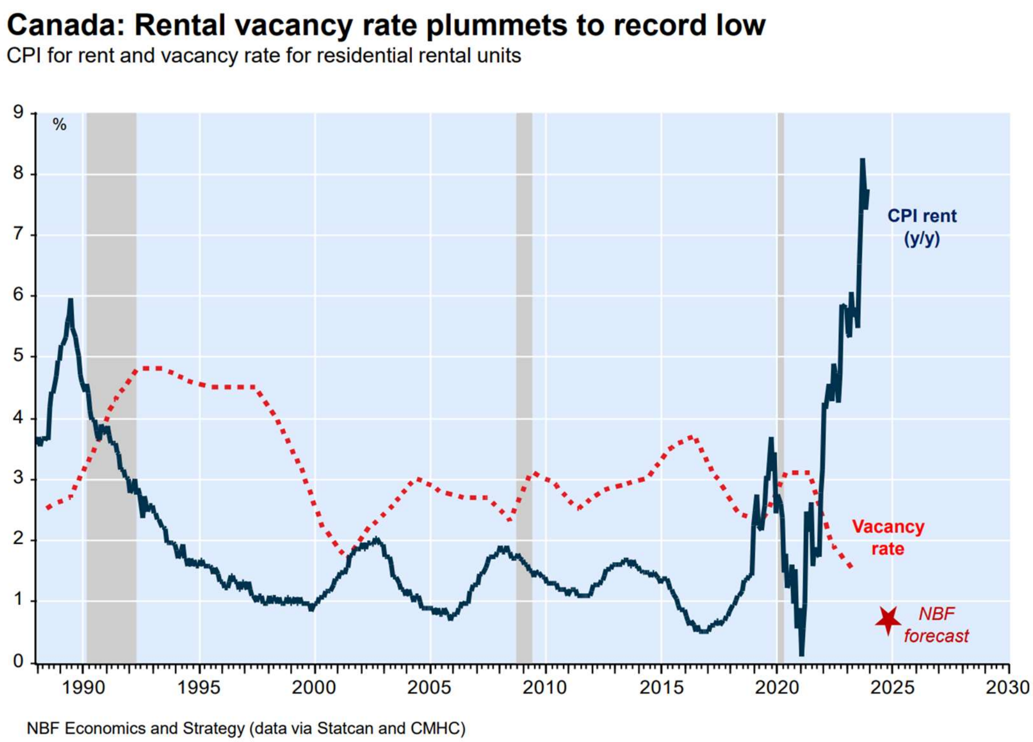
As part of the measures announced on October 17, 2023, the province plans to implement a principal residence requirement effective May 1, 2024, limiting short-term rentals to the host's principal residence plus one secondary suite or accessory dwelling unit.

https://mailchi.mp/b52162b2c471/the-latest-insights-from-mnps-business-advice-centre-2601446?e=28db9280c9

Have past punitive policies, empty homes tax, foreign buyers limits, etc. increased supply?

NBF HotCharts:

Canada: Rental vacancy rate plummets to record low – Jan 31, 2024



https://nbf.bluematrix.com/sellside/EmailDocViewer?encrypt=6db3d4b2-0abb-452f-8dfc-7ae546e6622d&mime=pdf&co=nbf&id=steven.hilberry@nbc.ca&source=mail

Rent is roughly 6% of the Consumer Price Index. Rental inflation is now above 1990 levels.

We have clients in the building and land development trade. They repeatedly complain of federal, provincial, and municipal government regulations, taxes, fees, and red tape inhibiting their ability to add to new housing stock. A few have simply given up.

One told a story of a 60-unit apartment going up in Victoria. The city building-permit cost $1.2 million equating to roughly $20,000 per apartment. One would expect municipal governments to salivate over the fee revenue moving heaven and earth to enable more construction. The opposite is true. Obstruction drives up the value of existing supply. Buying the land, obtaining zoning, building and environmental permits, achieving 'social license' then actually building the structure is a multi-year process. They tell us building projects require a dedicated 'zoning consultant' who's only job is to deal with the city/provincial and federal regulations. Restricting/discouraging the stock (supply) of rentable space, drives up the value increasing rents. Rising rents increase inflation. Rising inflation drives up interest rates. It's very straightforward. Rising land values are quietly very popular with NIMBY neighborhood activists. Politicians wring their hands and shout about affordability while deflecting responsibility for the inputs. The Oct 2024 BC Provincial elections could see aspirants running on a platform of 'middle-class affordability' with many promises made. Delivering them will be a challenge. The good news is the solution is to simply stop saying No.

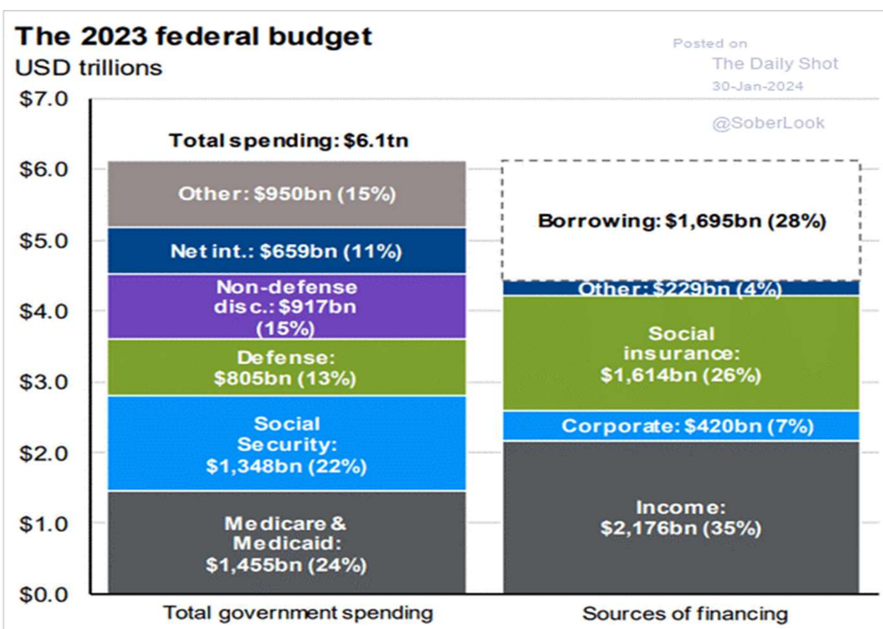
On Interest Rates: Direction & Duration.

We believe rates have peaked and will fall. The US Fed appears ready to lower rates. Lower short-term rates could put the wind back into the sails of the equity markets. Off we go!

National Bank Fed Policy Monitor Marching toward rate cuts…in March

https://nbf.bluematrix.com/sellside/EmailDocViewer?encrypt=9a18b729-495f-42d4-8968-6881718c194f&mime=pdf&co=nbf&id=steven.hilberry@nbc.ca&source=mail

We don't think 'lower for longer' interest rates are back. The US Federal budget is one reason why.



Source: WSJ Daily Shot Jan 30, 2024

The above tells us for each $100 the US Federal government spent in 2023, $28 was borrowed. To reduce alarm, this ratio can improve with economic expansion. Infrastructure expenditures are long-term in nature. Borrowing to build a highway should be repaid by users over time not in a single budget year. Investing in infrastructure makes sense but 'investing' is a much-abused term in politics. We don't think *'lower for longer'* rates are back.

<u>We strongly advise clients facing mortgage term renewals, or who owe floating rate debt obligations to have a discussion regards their borrowing costs, if they get the chance this spring.</u>

On Canadian Stocks :

Dynamic Active Dividend ETF fund manager Don Simpson Q4/2023 commentary extract.

Looking ahead to 2024, we feel that taking a cautious/conservative approach is appropriate. The unknowns related to the economy and the potential for a recession, due to higher interest rate levels, stubborn inflation, and a highly indebted consumer. Couple that with elevated equity valuations and sadly the ongoing geo-political instability globally, with several conflicts ongoing and tensions escalating in other areas, leads us to be cautious. However, based on this backdrop it is setting up to be an ideal market for stock pickers and for those that are looking for more value-oriented businesses. This is a positive for the Canadian market, due to our high composition of commodities and value-type sectors.

Despite our cautious stance, we continue to believe that on a relative basis the Canadian market remains attractive. Looking back over the last decade, it has been a great run for the U.S. market, while Canada has shown strength in certain periods. This has been partially offset by a couple of very tough years. As active managers, we believe Canada stands out as one of the better places to invest for a number of reasons. First, the Canadian market trades at a discount to its peers, the TSX at 15x forward price to earnings looks much more reasonable when compared to the S&P at 22x, and the MSCI World at 17x. Second, we have a very solid banking system in Canada. Our banking systems has shown its stability in prior financial crisis and the regional bank crisis earlier last year and it accounts for 20% of the TSX index. Third, our large exposure to some of the leading material and energy operators provides a solid inflation hedge. Fourth, we live in a very stable political environment, which is even more appreciated with the ongoing and escalating political instability in the world. And finally, we have a healthy and welcoming immigration policy, which is driving population growth and bolstering the Canadian economy

Please ask us if you'd like to see the full commentary.

We think the economic cycle is turning towards expansion. We anticipate shortening our bond maturities, trimming US stocks and adding to our Canadian names.

Have a Great Weekend

Steve & Anna Hilberry

February 2, 2024

FOR THE RECORD February 2, 2024

DOW INDUSTRIALS:	38,548
S&P 500:	4,950
S&P/TSX COMP:	21014
WTI:	$72.19
LOONIE IN $USD:	$0.7428 $US

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