HILBERRY GROUP
WEALTH MANAGEMENT

March 8, 2024

Hope springs.

We're back! To catch up on the past two week's developments, we're piling on the reading assignments this weekend before Spring Break.

The Russian invasion of Ukraine in Jan/2022 severely restricted Europe's natural gas supplies. During German Chancellor Olaf Scholz's visit to Canada in August of 2022, he requested (begged) Canada to increase Liquified Natural Gas (LNG) exports. Canadian Prime Minister Justin Trudeau famously dismissed Canada's LNG export prospects as having 'no business case'. We found Mr. Trudeau's LNG logic wanting. The United States seemed to find plenty of LNG business to be done. The last week of February 2022, NBF Research examined the 'business case' for exporting LNG to India through both environmental and economic lens (politely avoiding the European case). As we're repeated in past commentaries, NBF compares Canada's 1.5% of global GHG emissions to the planned increases in GHG emissions from India's coal-fired electrical power grid alone, noting the increases alone represent 3 X Canada's entire carbon footprint. NBF makes the business case in the next two reports:

'Canada has a compelling business case to help the planet' – NBF HotCharts Feb 23, 2024

https://nbf.bluematrix.com/sellside/EmailDocViewer?encrypt=f44fdcbf-16e0-45d1-b235-f955b869339c&mime=pdf&co=nbf&id=steven.hilberry@nbc.ca&source=mail

'Canada Has a Vital Role in Deleveraging the Global Environmental Balance Sheet' – NBF ESG Research

Taking the Global View; Canada's Focus on Reducing its Emissions Could Easily be Offset

While we appreciate Canada reflecting on its own emissions profile, we must recognize that the country is responsible for <1.5% of global emissions. Continued efforts in constraining

NATIONAL BANK
FINANCIAL
WEALTH MANAGEMENT

certain sectors of the economy could be futile in "deleveraging" the global environmental balance sheet as a direct result of other countries increasing their absolute share by orders of magnitude more. Emissions are global, they are not bound by geographical boundaries, as such, we propose to reorient the conversation with a global tilt.

India's Energy Challenge

With that as a backdrop, India is currently facing an energy conundrum — it needs to rapidly expand its power fleet to modernize its economy and accommodate population growth of more than 12 mln per year. The direction it has signaled to pursue is the one it is most familiar and reliant upon coal-fired power generation. The country has communicated its intention to double coal production to 1.5 bln tons by 2030, with a view to adding 88 GW of new thermal capacity (+40%) by early 2032. While India's official policy is to "build it all", coal-fired generation has been difficult to wean off. It is arguably the mainstay of power generation and the backbone of the economy, with 70-75% of the power stack over the past decade depending on the most carbon-intensive fuel.

The Canadian Alternative; 2 to 4 Times Canada's Emissions Profile Could be Avoided

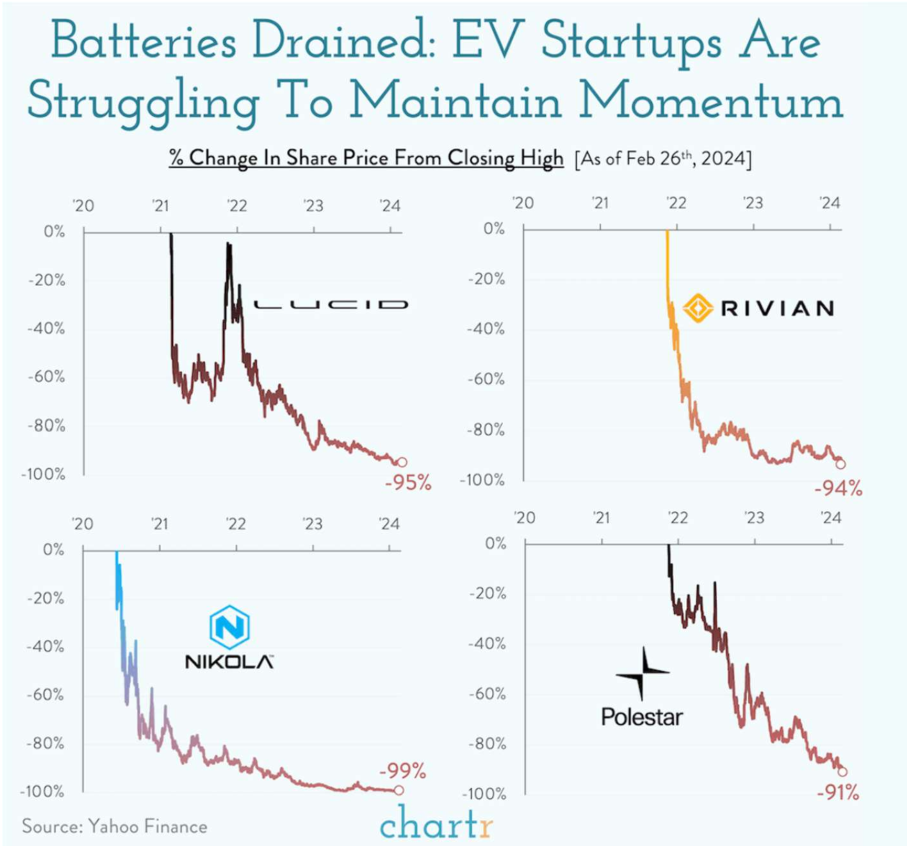
We distill within two scenarios where the cumulative increase in global emissions from additional coal capacity is many times greater than Canada's GHG emissions profile. The environmental consequences of doubling coal production for electricity generation have an outsized impact on the global environmental balance sheet, with our analysis suggesting in the case of India that displacing coal-fired generation with natural gas could avoid roughly 2 to 4 times Canada's emissions profile over the forecast period. In other words, it has a more profound impact on the planet than a complete shutdown of the Canadian economy (0.7 bln mtCO2e).

As such, we advocate investors begin to consider the impact of avoided emissions, particularly in terms of displacing higher-carbon intensive fuels abroad, i.e., Asia-Pacific is a key market, as carbon emissions are fundamentally not bound by geographic boundaries.

https://nbf.bluematrix.com/sellside/EmailDocViewer?mime=pdf&co=nbf&id=replaceme@bluematrix.com&source=mail&encrypt=c60d18b1-71b9-4bd0-8f1e-e01dd070519f

Staying with energy transition…

We're on record as being optimists on both energy and climate. Where there's a will there's a way. We believe clever science boffins will discover more efficient means of transportation, the result being better, cheaper, faster, everything. When there's money to be made, history is on our side. We've learned to separate our optimism from 'beliefs'. We're also on record as being less optimistic with the current 'renewable energy' solutions being offered (how renewable is lithium?). We've repeated that as investors we've deferred risking our client's savings to more adventurous types. This proved correct. As an example, ChartR updates the investment results for EV startups. It's not pretty.



https://www.chartr.co/newsletters/2024-02-28

Update on NuScale Power Corp.

NuScale Power Corp (SMR-NYSE-$6.28) – daily ranges – 2 years.

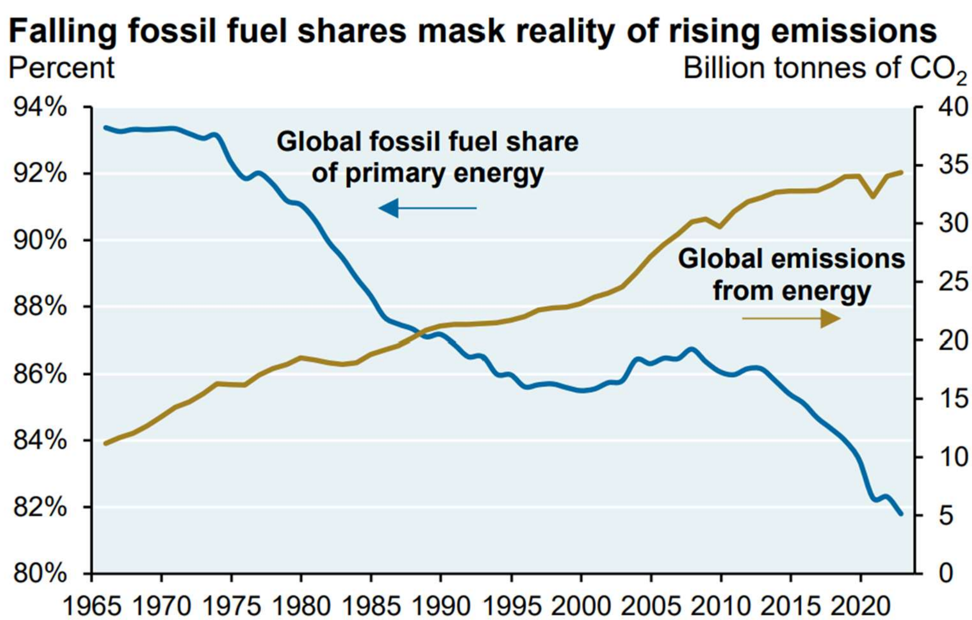
In mid-November, we pointed to stories of the cancellation of funding for NuScale's of the USA's first commercial-scale small modular nuclear reactor (SMR) facility in Utah by the state's power utility commission. Costs had ballooned. We provided the stock price from the $10 IPO to the $1.81 lows that week. We stressed NuScale didn't, and doesn't, fit our risk parameters for client accounts, were not recommending it as an investment and that we had no position in the stock personally or for clients. We still don't. Too bad. We missed out on a rebound. While still well below the $10 IPO and 72% below the high, the stock price has approximately doubled from Nov/2023 to this week's update. Fortune favors the bold…sometimes. We continue to follow this story.

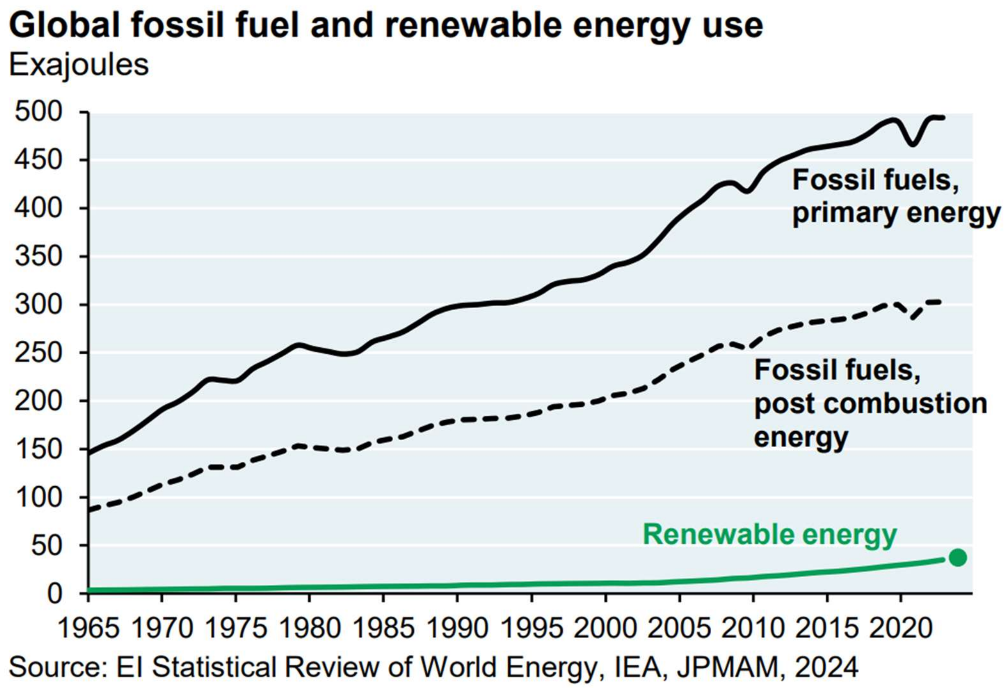
DISCLOSURE: We are not recommending this holding for client accounts. At this writing, I have no position in NuScale personally, for family members or for client accounts. We have not traded in the security within the past 60 days (or ever). Other than for very aggressive accounts, we remain cautious on the name. It might be fun though!

And still on an energy transition…

'Electravision: The complicated journey to an electrified future' – JP Morgan 14th annual energy review. March/2024

From their seat in the midst of Big Money, JP Morgan is worth listening to. Their past comments on electrification probed cogent.





The second chart from page 1 of the Electravision report confirms fossil fuel use continues to grow. Canada has an economic advantage in fossil fuels, we don't have in manufacturing. Has Canada participated meaningfully in the existing global manufacturing of green energy equipment? IE: where are solar panels produced now?

https://am.jpmorgan.com/ca/en/asset-management/institutional/insights/market-insights/eye-on-the-market/energy-paper-2024/

***'Ukraine's critical minerals and Europe's energy transition: A motivation for Russian aggression?'* Middle East Institute - July 21, 2022**

https://www.mei.edu/publications/ukraines-critical-minerals-and-europes-energy-transition-motivation-russian-aggression

Moving on to geopolitics. Wars are expensive. Can Russia maintain the offensive?

Follow the Money: Understanding Russia's oil and gas revenues By: Vitaly Yermakov Oxford Institute

https://www.oxfordenergy.org/publications/follow-the-money-understanding-russias-oil-and-gas-revenues/

The Ukraine war: Info Resources

For clients willing to devote listening time, we refer you to the excellent podcast series '**Battleground: Saul David**'. (Google search and choose your platform based on application).

For daily updates with local conflict details and commentary we'll repeat our referral to the Institute for the **Study of War (ISW) – Russian Offensive Campaign** updates.

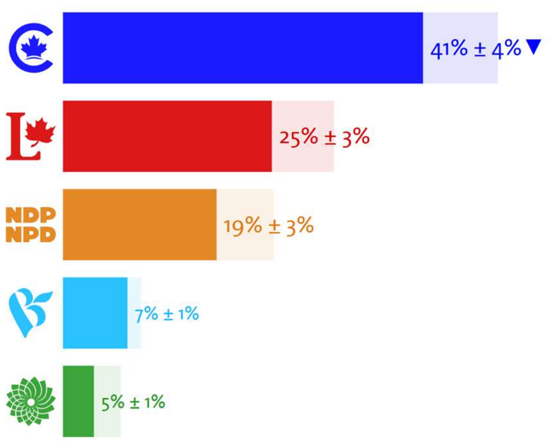
https://www.understandingwar.org/

Closer to home…

When will the next Canadian federal election be called?

Polls suggest Canadians are ready for a federal election. The last unpopular one saw the Liberal Party returned to a minority government with a modest uptick in seats but a record low percentage of the popular vote, lower than the Conservatives. The Liberal party secured power via a ‘Supply and Confidence’ agreement with the NDP which commits both to support Liberal legislation on matters of confidence avoiding an election until the next mandated election date, on or before, October 20, 2025. The Supply and Confidence agreement is non-binding. Either party can exit the agreement and force a vote of confidence at any time. Given the low polling of the Liberals they appear unlikely to call an election this year. We’ve speculated the NDP may see things differently.

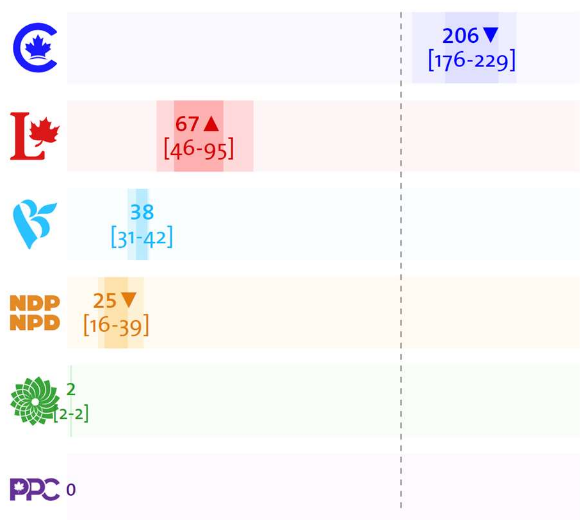
Popular vote projection



338Canada Popular vote projection | March 3, 2024

This projection is calculated using a weighted average of polls by the 338Canada model to estimate current party support. This is *not* a poll, but the result of an aggregation of polls and modelization of various data. Read more on 338Canada's methodology here.

338Canada seat projection | 170 seats for a majority



338Canada seat projection | March 3, 2024

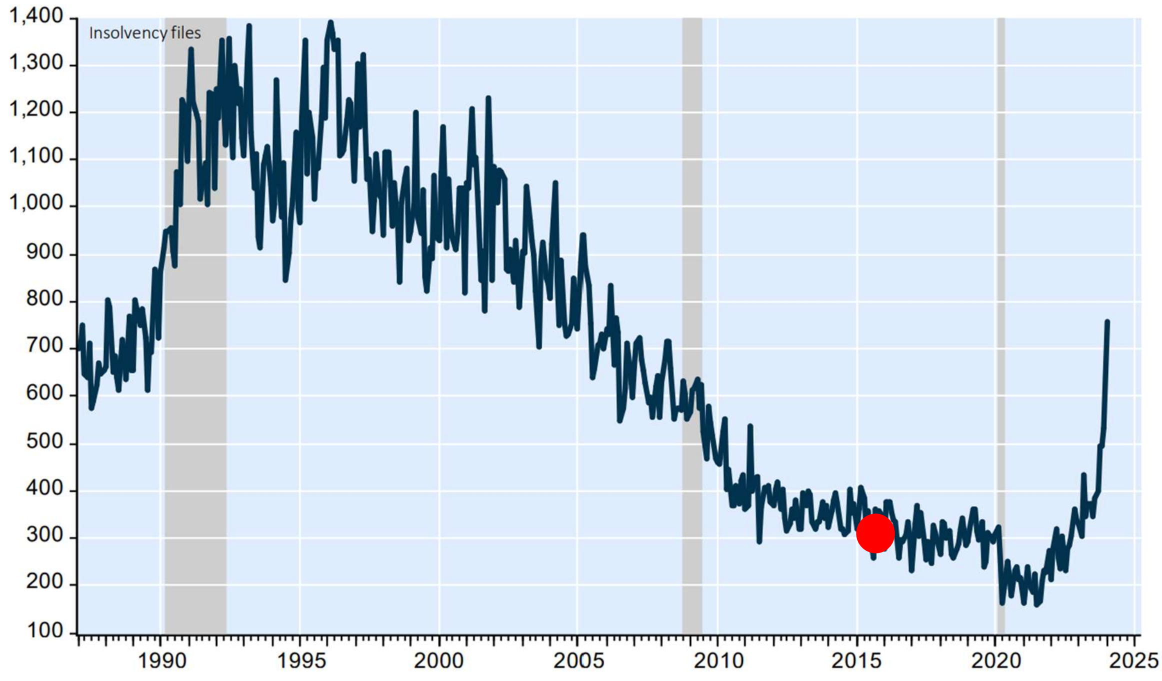
https://338canada.com/

We believe the metric to watch is NDP polling. With little chance of winning power, the leader of the NDP’s job is to gain seats. If leadership believes the NDP will gain more seats by calling an early election they will yank the rug. At this writing, the NDP is polling within 6 seats of the Liberals.

Gaining seats from the government in power requires a disgruntled independent or swing voter. We speculate the NDP will be watching economic news for a sense of how that moderate to left leaning voter may be feeling about the party in power. Here’s an example.

Canada: Business insolvencies surge to a multi-year high in January – NBF Hotcharts

"Canada ended 2023 with a weak performance, with GDP growth of just 1% annualized in Q4. (see note). Looking ahead, don't expect much of a rebound in 2024. As today's Hot Chart shows, just released data show that Canadian business insolvencies rose to their highest level in 19 years in January. At the industry level, the surge was the most important in the accommodation & food services, transportation & warehousing, professional, scientific, technical services, retail trade, and construction sectors. While January's increase was certainly exacerbated by the end of COVID-era subsidy programs, restrictive monetary policy is certainly playing a role as well. It will be interesting to see how the Bank of Canada tweaks its guidance at tomorrow's rate-setting meeting (the benchmark rate is expected to remain unchanged) to guard against a potential disappointment in job creation when the February employment report is released on Friday."



NBF Economics and Strategy (data via Office of the Superintendent of Bankruptcy)

STEVE's NOTE: The Liberal Party came to power in Oct/2015, inheriting record low business insolvencies (red dot). They haven't been able to maintain the trend. Recent spikes predict a recession in Canada (grey bars for previous ones). The increase rate is notably higher than previous events. The NDP will be watching.

https://nbf.bluematrix.com/sellside/EmailDocViewer?encrypt=7894ebc1-fa6e-4631-8a26-52bef91799cc&mime=pdf&co=nbf&id=steven.hilberry@nbc.ca&source=mail

We believe the NDP would have a better chance of increasing their seat count this summer, perhaps even to official opposition status, than by waiting. Stay tuned.

‘Bank of Canada Policy Monitor: Watching. Waiting. Commiserating’ - National Bank - March 6, 2024

https://nbf.bluematrix.com/sellside/EmailDocViewer?encrypt=d84e4a29-0f2b-44b9-9163-d058f3b77f72&mime=pdf&co=nbf&id=steven.hilberry@nbc.ca&source=mail

Regards the US/China rivalry and Taiwan. The capacity to build shipping enabled the US to project power, dominating Japan in the WW2 Pacific War. Hopefully history doesn’t repeat!

‘China’s Shipbuilding Capacity is 232 Times Greater Than That of the United States’ – American Manufacturing.Org blog

https://www.americanmanufacturing.org/blog/chinas-shipbuilding-capacity-is-232-times-greater-than-that-of-the-united-states/

Moving on the equity markets…

Passive funds surpass active funds for the first time.

The markets exist for price-discovery. A core premise is if enough participants are competing for trades, greed will lead someone to discover the good, bad and ugly of each investment. The more eyeballs (and greed) involved the narrower price ranges will be and the truth of value will out. Price discovery will be efficient. Liquidity will improve. Overall risk and costs should decline. Implicit is a lot of investors doing the digging.

Passive funds ask *‘Why bother? You can’t beat the market. Let others do the work. We’ll tag along once they’ve set the price’* (charging a smaller fee than the diggers by doing even less work). History has shown this can work. It has indeed been difficult for US based investors trading in US dollars to beat the S&P500 in USD.

What happens with the diggers are in the minority? This is new territory. We don't know the answer. We suspect digging will come back in fashion. We'll stick with getting our hands dirty.

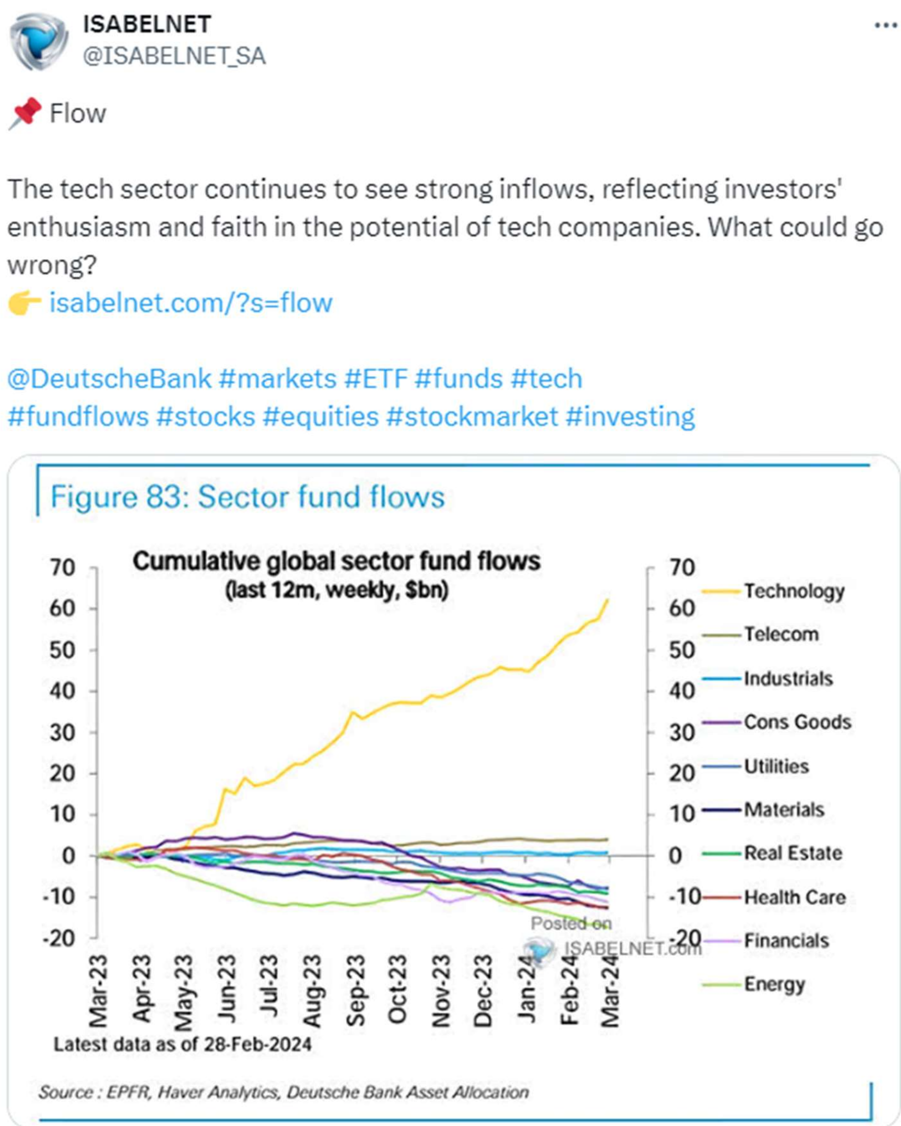
Ray Dalio: Are we in a stock market bubble?

Given our orientation towards large cap, dividend paying stocks for our personal and client accounts, if stock prices are in a 'bubble' are we setting ourselves up for a significant destruction in value from a much-predicted crash in market prices (David Rosenberg, et al)?

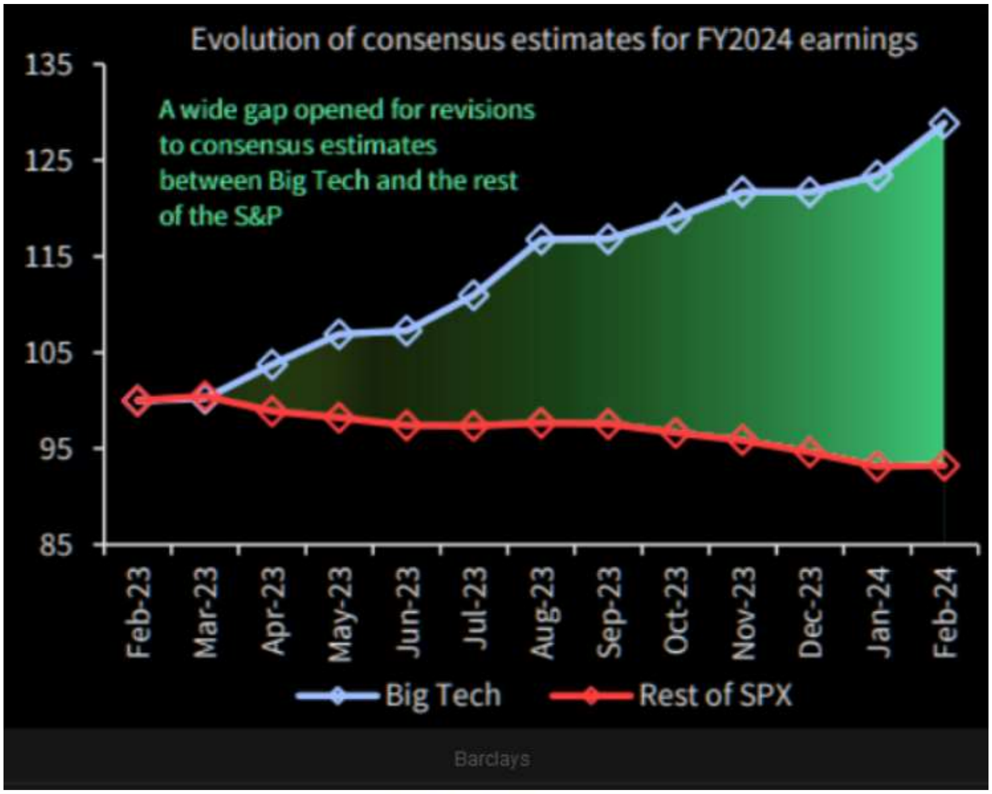
Short answer: No.

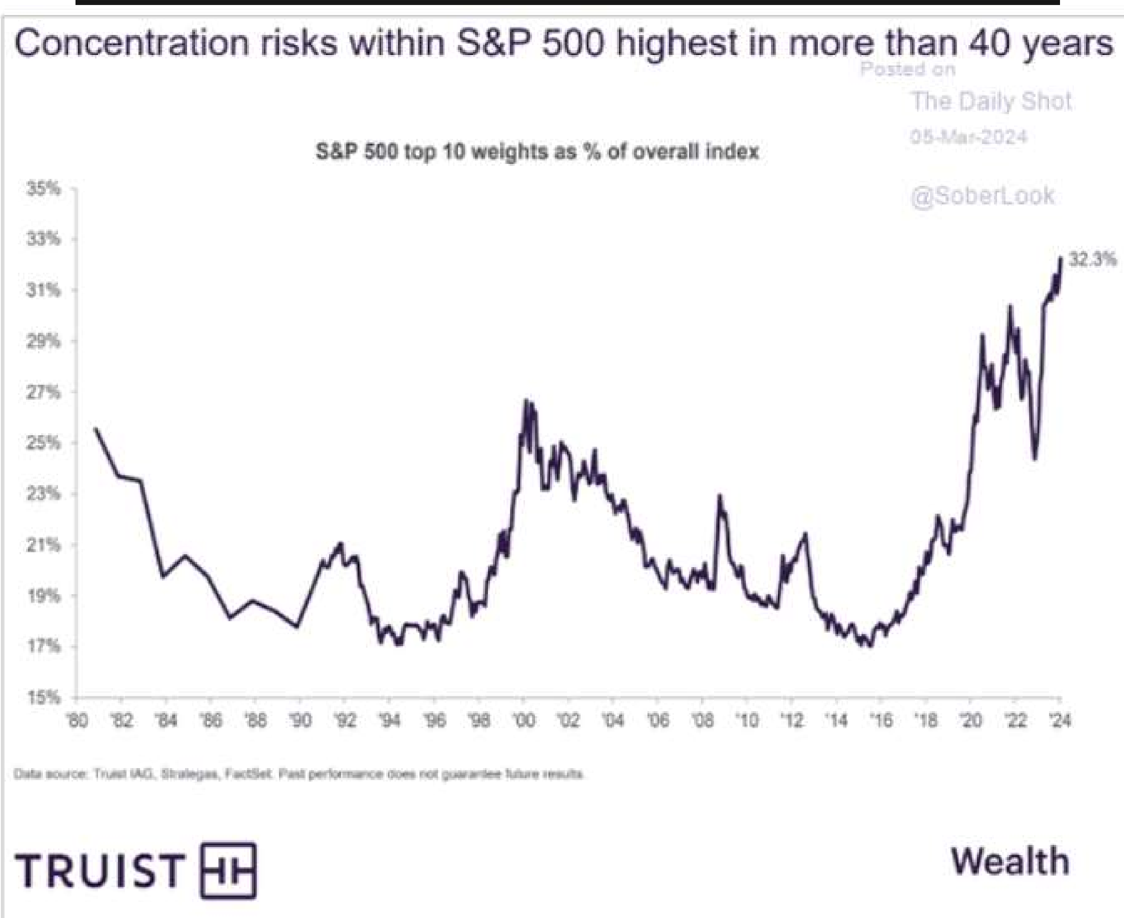
https://www.linkedin.com/pulse/we-stock-market-bubble-ray-dalio-zpdre/

With this caveat, we remain cautious of exposure to the more expensive corners of High Tech. Some charts to explain our caution.



March 8, 2024



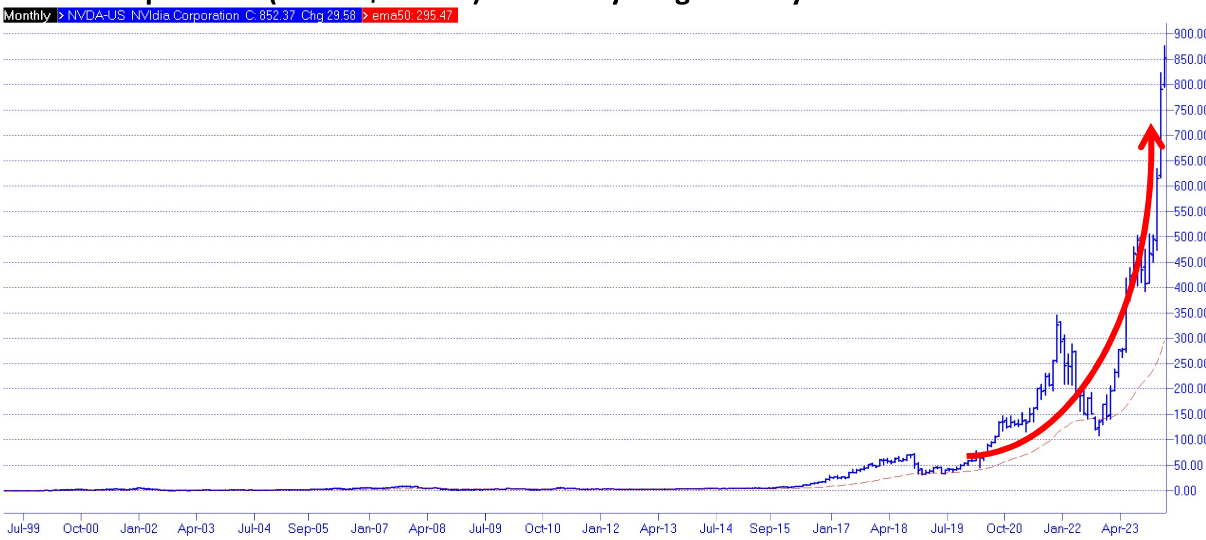


NATIONAL BANK FINANCIAL
WEALTH MANAGEMENT

HILBERRY GROUP

NVidia is an example of a great company trading at an even 'greater' price.

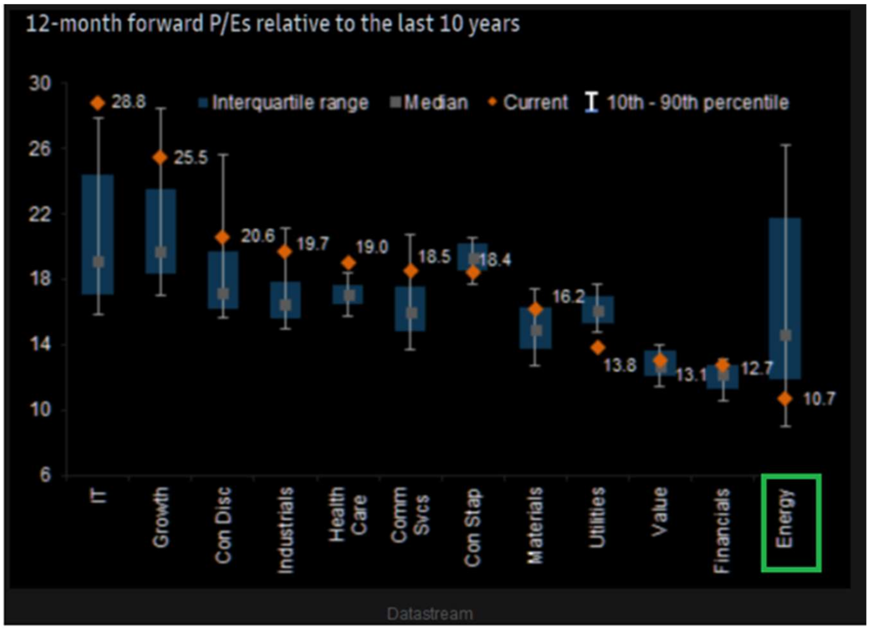
NVidia Corporation (NVDA-$894.50) – monthly ranges – 30 years



The long flat line runs from around 50 cents per share in 1999 to $6.00 in Jan/2002, not breaking $6.00 again until Sept/2015. In Jan/2018 NVDA broke $60. Jan/2024 it broke $600. This week the stock price traded over $974. NVidia now trades at 74 X trailing earnings yet 'only' 36 X projected forward earnings, being less than Amazon's 43 X forward P/E. The S&P500 trades at a higher-than-average 23.4 X forward earnings. These two carry a 'great' P/E ratio's. A great company, trading at too great a price, may not make a great investment. Painful experience says be wary of parabolas.

Given lower-than-average prices on offer elsewhere, we can envision NVidia proving disappointing while other stocks do just fine.

While Big Tech is being valued well above historical norms, other areas look attractive.



Sectors from the middle right hand third to the left are either reasonable or cheap. Consumer Staples, Utilities, Value and Financials look reasonable to attractive. Conventional energy remains the standout for being valued much lower than average (grey square) and the ranges (blue column).

Speculative fever is back. Memestocks have gone ballistic. We stand aside.

An update from Charlie Bilello.

The Week in Charts (3/4/24) – Bilello Blog

https://bilello.blog/2024/the-week-in-charts-3-4-24

Given the concentration risk in the S&P500 and speculative fever in certain sectors, we believe stock picking will generate superior risk-adjusted returns vs indexing. We think investors are over-paying for some sectors, underpaying for others. We see value in equities vs. the risk-free alternatives. We are not significantly reducing equity exposure.

Finally, some more optimism, perhaps even for Ukraine (?)

Confidence in the Global Economy, by Country – Visual Capitalist

The link takes you to a chart plotting optimism in the global economy vs last year.

We note India leads SE Asian countries – including China, much more so than in the West.

https://www.visualcapitalist.com/confidence-in-the-global-economy-by-country/

My take:

Poland, Bulgaria and Romania either share borders with, or are very close to, Ukraine. The Ukraine war had them depressed in 2023. While those countries confidence figures remain below the global average, the levels are up significantly from last year. This may imply they believe Russia will fail. We have maintained this view since mid-2022.

US confidence slightly below the global average. Given the US dominance this is telling – and may not portend well for the current administration re-election hopes.

Canada's optimism is very low. Regarding the Liberal party's hopes for re-election, Canada's modestly increased optimism is close to Romania's dearth of optimism last year. With no major conflicts near our borders, we're more bummed than Romania? While we think we know why Canadian's show such low optimism, we believe this view to be an extreme, from which hope will spring. We don't know when. Surely US politics (or our own) can't be THAT bad? We are optimists.

Whew! Class dismissed.

Have a Great Weekend

Steve & Anna Hilberry

NATIONAL BANK FINANCIAL WEALTH MANAGEMENT

<u>FOR THE RECORD March 8, 2024</u>

DOW INDUSTRIALS:	38,864
S&P 500:	5,149
S&P/TSX COMP:	21,779
WTI:	$78.26
LOONIE IN $USD:	$0.7421 $US

Terms of Use Confidentiality ABC's of Security

Sent by

Montreal Office
National Bank Financial
Wealth Management
1155 Metcalfe 5th Floor
Montreal, Quebec, H3B 4S9
Phone: 514-879-2222

Toronto Office
National Bank Financial
Wealth Management
130 King Street West Suite 3200
Toronto, ON, M5X 1J9
Phone: 416-869-3707

CIRO Canadian Investment Regulatory Organization

CIPF Canadian Investor Protection Fund MEMBER

March 8, 2024

HILBERRY GROUP

NATIONAL BANK FINANCIAL
WEALTH MANAGEMENT