HILBERRY GROUP
WEALTH MANAGEMENT

April 12, 2024

From 10,000 meters to your shoelace

We took a break last week. Portfolio rebalancing took over the Friday writing time-slot. We're catching up this week. We'll start with the big picture and work down to the nitty-gritty.

Clients have asked, why did Russian invade Ukraine, will the Ukraine War expand to a wider conflagration, what could end the conflict, how does China's leadership view the current world trade order, will China invade Taiwan, will we see nuclear conflict, what do these potentials mean for North American politics, Canadian politics, and the economy and finally (whew!) how should investors position themselves?

We on the Hilberry Team are not geopolitical experts. Like everyone else, including Vladimir Putin and Xi Xiping, the answers to many of these questions is "I don't know". There are, as always horrendous scenarios. Coming of age during the depths of the Cold War, many of these valid worries will seem familiar to our retired clients. Happily, although by no means immune, history says Canada is not in the immediate trajectory of these risks.

The good news is humanity decided there were other alternatives. As to outcomes, one may find guidance from political and military history, explaining my deep interest in both (you should see the pile by my bedside table). This week we're featuring resources permitting clients to take deep dives into the broader subject.

Sarah C. M. Paine - WW2, Taiwan, Ukraine, & Maritime vs Continental Powers – YouTube

Sarah Paine, Professor of History and Strategy at the Naval War College is interviewed with the following questions. NOTE the questions appear to be sourced from current media narratives around Russian and China aggression implying 'it's the West's fault'. Dr. Paine holds these notions to the fire.

- How continental vs maritime powers think explaining Xi & Putin's decisions.
- How a war with China over Taiwan would shake out and whether it could go nuclear.
- Why the British Empire fell apart.
- Why China went communist.
- How Hitler and Japan could have coordinated to win WW2.
- Whether Japanese occupation was good for Korea, Taiwan and Manchuria plus other lessons from WW2, Cold War, and Sino-Japanese War.
- How to study history properly, and why leaders keep making the same mistakes

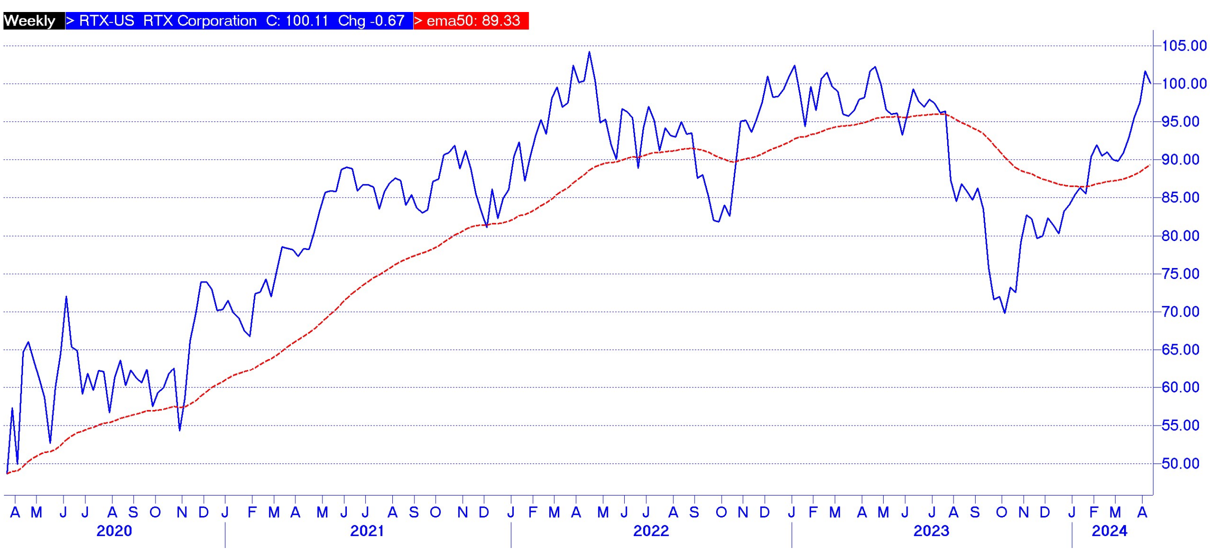
Be prepared to dedicate 2 hours to the entire video.

https://www.youtube.com/watch?v=YcVSgYz5SJ8

Working through geopolitical scenarios, if the developed world girds for battle, who supplies the military hardware? The side with more firepower usually wins. This is critical both to outcomes and economic realities of winning and losing. Getting there takes money. Who receives it?

We hold US civilian and military aerospace manufacturer **RTX Corporation (Raytheon)** (RTX-NYSE-$100.06) and Lockheed Martin (LMT-NYSE-$451.44). RTX has been on the books since March/2020. It has been a rewarding holding. Lockheed is a recent addition.

RTX Corp (RTX-NTSE-$100.06) weekly ranges Marc/2020-April-2024



Source: Refinitiv, NBF, Hilberry

'Global Arms Exports - Winners, losers & trends in the race to rearm' – Perun YouTube March 31, 2024

For insights into the dreadful and sadly necessary business of global military affairs, we recommend bookmarking Australian based Perun's weekly commentaries. WARNING: Weekly postings are generally 1 hour of detailed data. This week Perun reviews the global arms industry. An hour is required.

https://www.youtube.com/watch?v=JfMYpmrTGm0

‘The Limits of Russia's War Machine’ – Peter Zeihan April 12, 2024

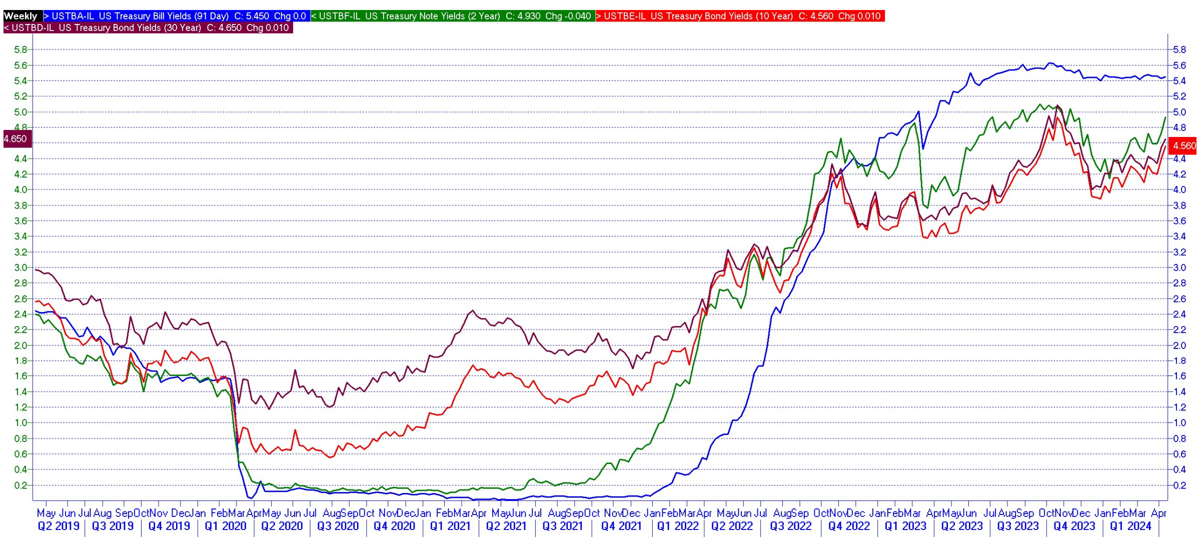
Mr. Zeihan discusses Russia’s ability to replenish lost equipment and replace lost military serviceman. This one is all of 5.3 minutes.

https://www.youtube.com/watch?v=F9Vtck34kRs

Inflation and interest rates?

With these sobering reviews in mind, we’ve advised rates were more likely to fall than rise, with the end targets being lower than today but higher than the past 10 years. Last fall we predicted the 10 year and longer lending rates would fall from 5%. We didn’t think we’d see 2% again. Somewhere around 3-4% seemed about right. We weren’t convinced rates would stay there, predicting a generally higher lending rate environment than the past decade. We didn’t believe we’re headed a lot higher for longer either. Our view hasn’t changed.

Rates declined to near 4% in mid-December during much recession talk, then rebounded back to just under 5% again this week. The slope of the decline now looks to be longer. We still believe rates are unlikely to accelerate significantly higher in the short term. We believe somewhat higher rates are here to stay and that investors will get used to it.



Source: Refinitiv, NBF, Hilberry

FOREX: April 2024 National Bank

Highlights By Stéfane Marion/Kyle Dahms

Despite the continued resilience of the economy, the U.S. Federal Reserve continues to keep the greenback in check by with hints of monetary easing. However, the combination of easier financial *conditions and a falling unemployment rate from already low levels are not the usual conditions for the start of monetary easing. We remain skeptical about the FOMC's guidance and expect monetary easing in the US to be less aggressive than in the rest of the world. As a result, we continue to expect the dollar to strengthen in the coming months.*

The Canadian dollar's lackluster performance against the US dollar has been a notable curiosity in 2024, particularly given the recent spike in oil prices. Canada's economic woes relative to its southern neighbor and a potential divergence in monetary policy are likely behind this development. As we continue to believe that rate cuts will be more aggressive on this side of the border, we still see USD/CAD moving above 1.40 in H2 2024. That said, the upcoming federal budget on April 16 is a potential wildcard for the currency.

It has been an odd quarter for the Japanese Yen. After ending 2023 at its strongest level in several months, the island currency has depreciated to its weakest point in over 30 years in the ensuing three months. This, despite a first hike by the Bank of Japan in 17 years and indications that inflation and growth are showing resilience. The coming quarters likely hold some volatility for the third most traded currency in the world. While higher rates should translate into an appreciation for the Yen, we remain cautious in our outlook and are tabulating on a slight improvement over the next few quarters.

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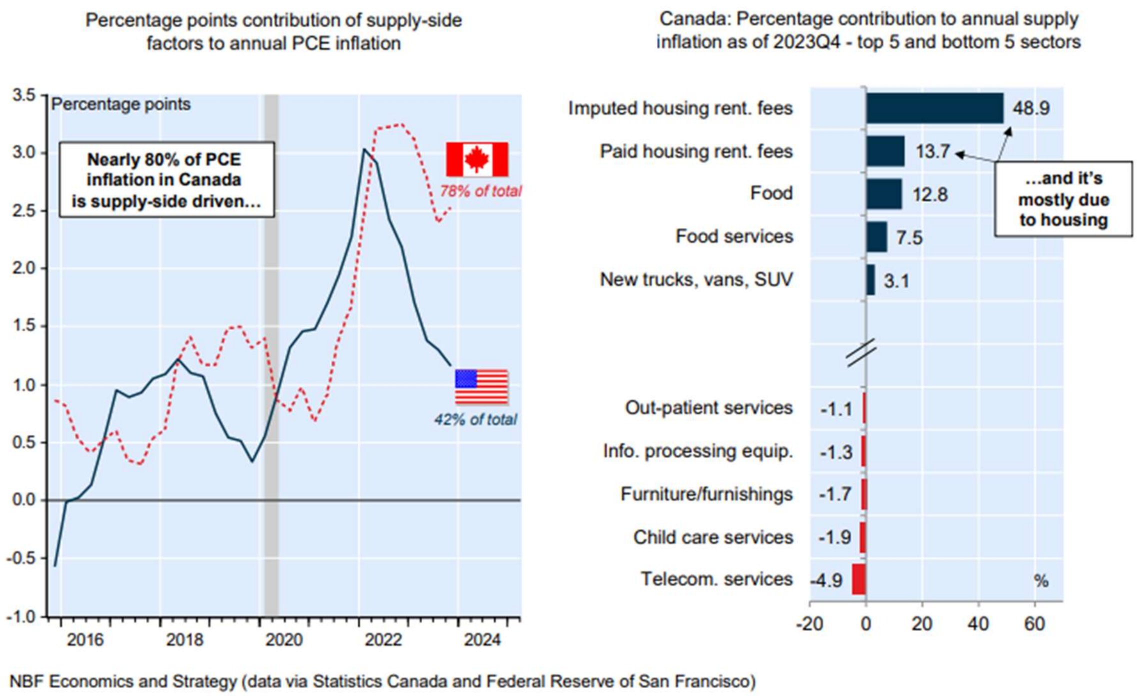
Inflation in Canada….

Canada: Unlike the U.S., PCE inflation is supply-side driven



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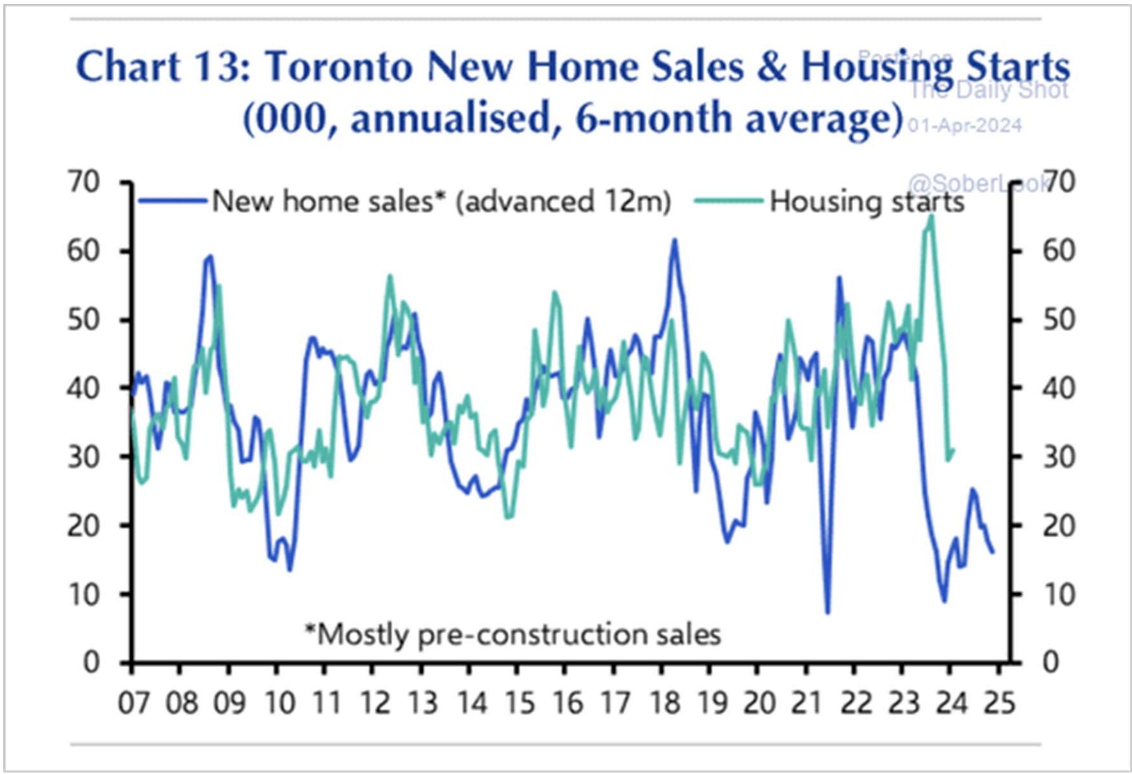
Construction costs + interest rates are suppressing new housing.



Source: Capital Economics

‘Canada’s Inflation illusion: Debunking CPI-med and CPI-trim’ National Bank Special Report Apr 2, 2024

https://nbf.bluematrix.com/sellside/EmailDocViewer?encrypt=152fcc5c-8de2-4742-878d-cc9b4e8242db&mime=pdf&co=nbf&id=steven.hilberry@nbc.ca&source=mail

Analysts are predicting gasoline will hit $5.00 US per gallon over the summer, roughly 40% higher from today's $3.60 average. The US Presidential election will be held in November. Rising fuel prices are the bane of incumbent Presidents. On the other hand, so is voter base apathy.

Donald Trump's Truth Social app downloads - Statista

Source: Statista

Does declining downloads signal apathy in Trump's base?

https://www.statista.com/statistics/1293120/truth-social-downloads-app/

'US Recession Dashboard' National Bank Economics – April 5, 2024

U.S.: Economic and financial indicators 3 months before recessions

As of April 5, 2024

		Last reading	Prior reading*	Value 3 months before U.S. Recessions: 2020	2007-09	2001	1990-91	1981-82	1980	1973-75	1970	Median
Financial/commodity	S&P 500 (% drawdown from past year max)	-1.0%	-0.7%	-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)**	3.1	9.4	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)	-0.4%	-6.4%	-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)	-7.2%	-16.7%	-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)	3.2%	2.4%	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)	-97	-130	26	77	-76	98	-62	-127	-157	35	-18
Soft data	Consumer sentiment (Michigan)	79.4	76.9	99.3	80.9	94.7	90.6	76.3	63.3	72.0	86.4	83.7
	SME optimism	89.4	89.9	102.7	96.1	96.4	99.4	97.4	93.3	NA	NA	96.9
	CEO confidence (quarterly data)	53.0	46.0	43.0	44.0	31.0	48.0	61.0	32.0	NA	NA	43.5
	ISM manufacturing	50.3	47.8	47.9	52.8	42.3	49.5	53.5	48.0	63.5	54.6	51.2
	ISM services	51.4	52.6	55.7	53.5	52	NA	NA	NA	NA	NA	53.5
Hard data	UI Claims 4-week ave. (% increase from past year min)	7%	4%	6%	8%	26%	6%	2%	20%	12%	10%	9%
	Temp. help services jobs (% drawdown from past year max)	-5.6%	-6.1%	0.0%	-3.2%	-4.3%	NA	NA	NA	NA	NA	-3.2%
	Average hours worked (% drawdown from past year max)	0.0%	-0.3%	-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)	0%	-1%	-5%	-27%	-2%	-39%	-21%	-30%	-30%	-19%	-24%
	Real consumption (3-month, % ann)	2.7%	2.7%	1.3%	2.4%	2.3%	1.8%	-0.1%	0.7%	4.1%	6.4%	2.1%

*Previous month (quarter for CEO confidence)

** As of Thursdays

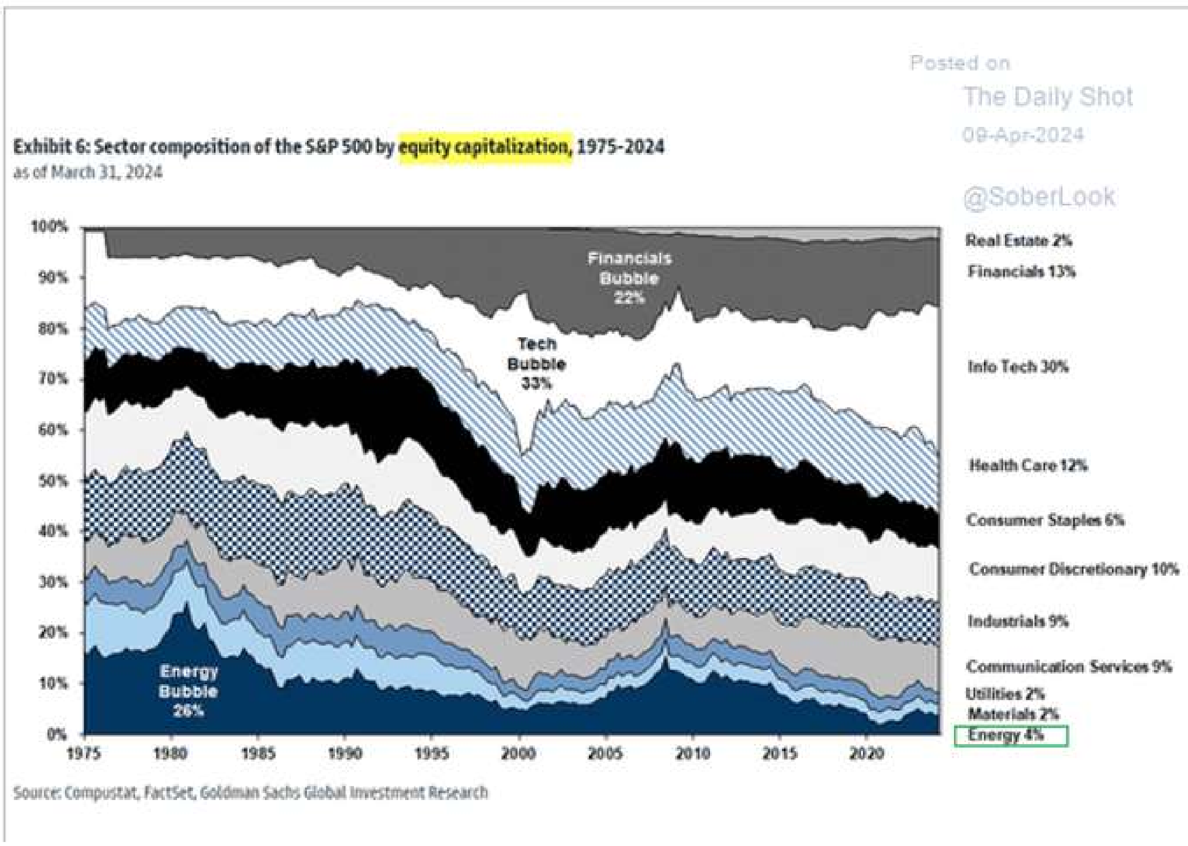
NBF Economics and Strategy (data via Refinitiv, Bloomberg)

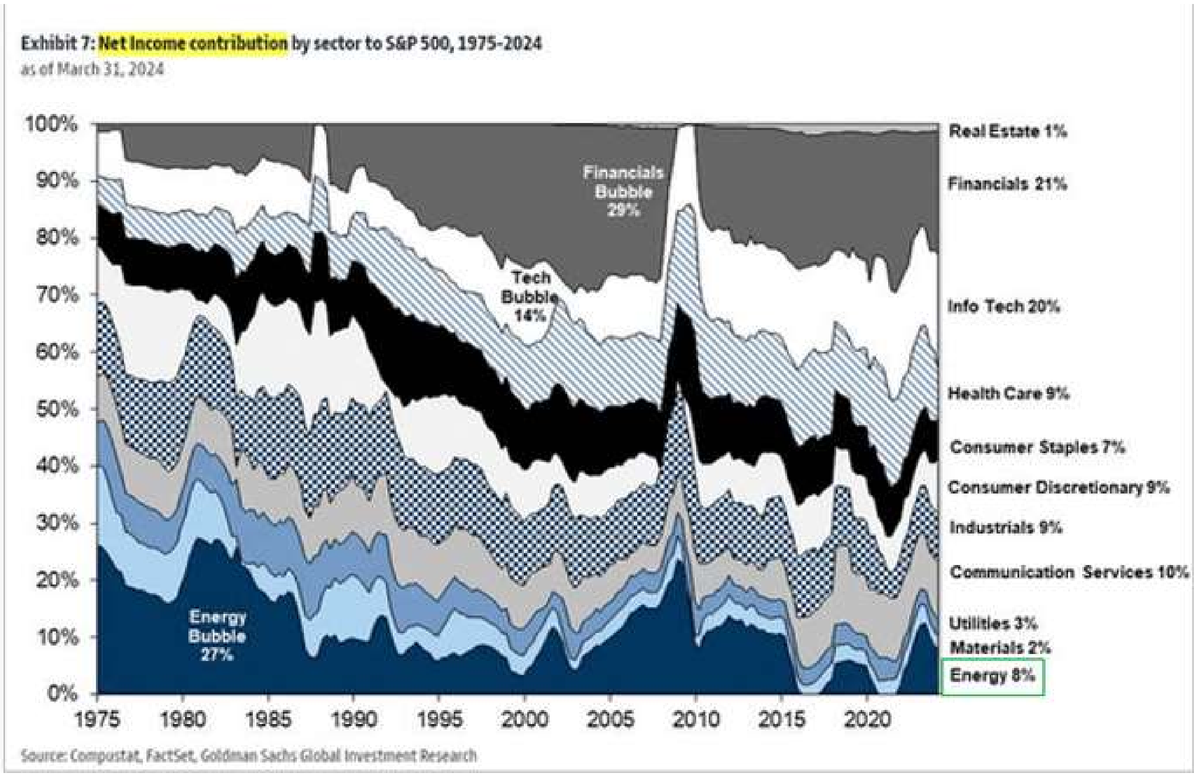
While we worry about the impact of rising energy prices on a recovery, the indicators say Red is fading to Yellow, and Yellow is fading to Green pointing to recovery phase. At this writing, the pattern appears recovery-to-demand typical of an early to middle stage economic cycle. With a nod to the Boys of Summer, we think we're in inning 3.

https://nbf.bluematrix.com/sellside/EmailDocViewer?encrypt=e5940f77-20f4-46f1-bc2c-29ecb4d33217&mime=pdf&co=nbf&id=steven.hilberry@nbc.ca&source=mail

How have investors been positioned?

We've been concerned about valuations in tech and social media/e-commerce stocks and noted similar variance between market cap weighted and equal weighted indices, signaling excess. We've reminded readers to Recognize Extremes. The following 50-year chart via WSJ Daily Shot provides the S&P500 historical market % weight by sector vs the S&P500 earnings % earnings contribution by sector. Extreme concentrations in a given sector have proven 'bubbles' to be avoided. The 2000 Info Tech earnings contribution bubble saw Info Tech hit 33% vs 14% earnings contribution. Q1/2024 saw Info Tech market weighting 30% vs 20% earnings contribution. Tech is expensive. It's been worse. We look elsewhere. 'Energy' is highlighted as it points to Canada's energy intensive economy and market cap weights.





'Insights #147 April 2024: - The role of carbon markets in carbon capture and storage (CCS)' – Oxford Institute for Energy Studies

Although oil, gas and coal are projected to fall sharply in most net-zero scenarios, CCS is still expected to play a key role. Leading analysis including the IEA's 'Net Zero Scenario' by 2050 (NZE)7 , the Intergovernmental Panel on Climate Change (IPCC)'s 1.5°C scenarios and the Energy Transition Commission (ETC) 8 all estimate that, by 2050, gigatonne-scale CCUS deployment will be required, with estimates of CO2 captured ranging from 6.9 GtCO2/year up to 15 GtCO2/year.

Yet, despite this key role, financing, and scaling of CCUS projects has, to date, proved challenging for governments and the private sector alike. According to the IEA's CCS tracker 9, the total annual carbon capture capacity in 2023 amounted to only 44 MtCO2 – far below what is needed to be on track to deliver on its promised potential in climate change mitigation.

This paper examines the challenges and opportunities of making CCS an economically viable decarbonization solution through one of the most prominent financing vehicles for low-carbon projects, that is carbon markets. Carbon markets represent an important mechanism to achieve international cooperation, reduce marginal costs of abatement, and provide incentives for players in the form of subsidies, taxation and/or valuation of carbon sinks. 10 Specifically, we evaluate the treatment of CCS under different carbon market-based crediting programmes.

https://www.oxfordenergy.org/wpcms/wp-content/uploads/2024/04/Insight-147-Carbon-Markets-and-CCS-Final.pdf

Pipelines, Utilities & Energy Infrastructure – 'Alberta R.E.M.: It's the end of the world as we know it (and I feel fine)...' NBF Thematic Research – April 10, 2024

Electrical power is key to our current economy and is likely to become more so in the future. NBF does a deep dive into Alberta's recent power market regulatory changes and looks at gas-fired power within the changing North American electrical power grid.

With the view to rising power demand, the section on how North American Power grids operate, their lack of interconnectivity and changing regulatory landscape is assigned reading. It will be on the test!

https://nbf.bluematrix.com/sellside/EmailDocViewer?encrypt=bc3a8b63-608a-46e0-b830-1532cf5e2739&mime=pdf&co=nbf&id=josh.ochman@nbc.ca&source=mail

Is Gas the New Uranium? GoRozen – April 11, 2024

The article below is an excerpt from GoRozen's Q4 2023 commentary. British Columbia has lots of natural gas.

Five years ago, we became uranium bulls. We explained how the market had quietly slipped into a structural deficit, with reactor demand outstripping mine supply. Fuel buyers used so-called "secondary supplies" to fill the gap -- notably large commercial stockpiles accumulated following the 2011 Fukushima nuclear accident. At the time, investors did not pay uranium any attention at all. The premiere Western uranium producer, Cameco, changed hands at $9 per share – 20% below its tangible book value – and held nearly $800 mm of cash on its balance sheet. By the first quarter of 2019, no uranium company on any exchange sported a double-digit stock price – a sign that investors had given up on the industry. Investor attitude is entirely different today. Bloomberg consistently reports on structural deficits. Instead of trading for $9, a share of Cameco now changes hands for more than $50.

Why start our natural gas essay with a discussion of uranium?

***We believe today's North American natural gas market resembles that uranium market: despite widespread investor pessimism, it too is about to slip into "structural deficit". Careful research and a differentiated outlook may reward the enterprising natural gas investor just as large profits accrued to the uranium investor back in 2018*.**

https://blog.gorozen.com/blog/is-gas-the-new-uranium?utm

We remain positioned for an expanding economy. Seeing the Loonie as depressed and Canadian equities as undervalued vs. the US peers, we are moderately tilted towards Canada. We have small allocations the international names.

Have a Great Weekend

Steve & Anna Hilberry

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Wealth Management Advisor, CIM

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April 12, 2024

FOR THE RECORD April 12, 2024

DOW INDUSTRIALS:	37,997
S&P 500:	5,127
S&P/TSX COMP:	22935
WTI:	$86.06
LOONIE IN $USD:	$0.7261 $US

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