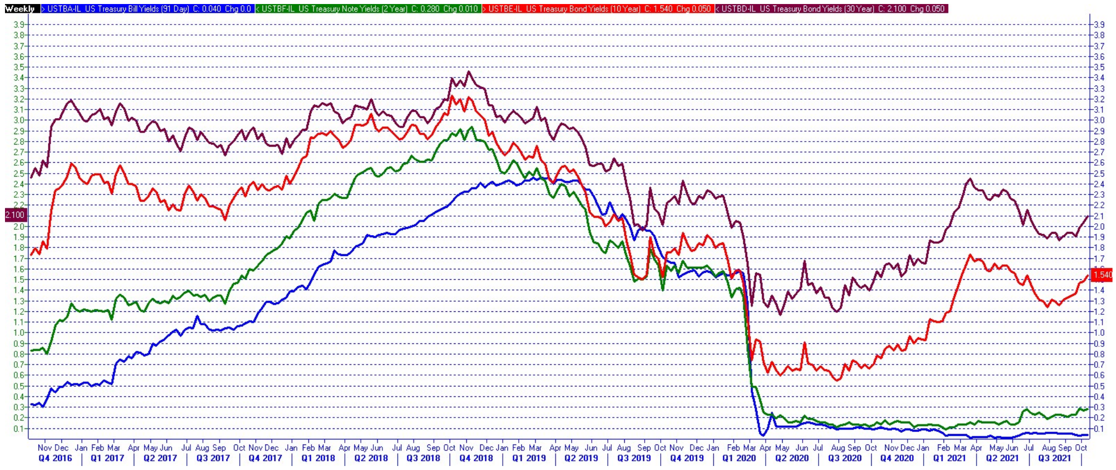
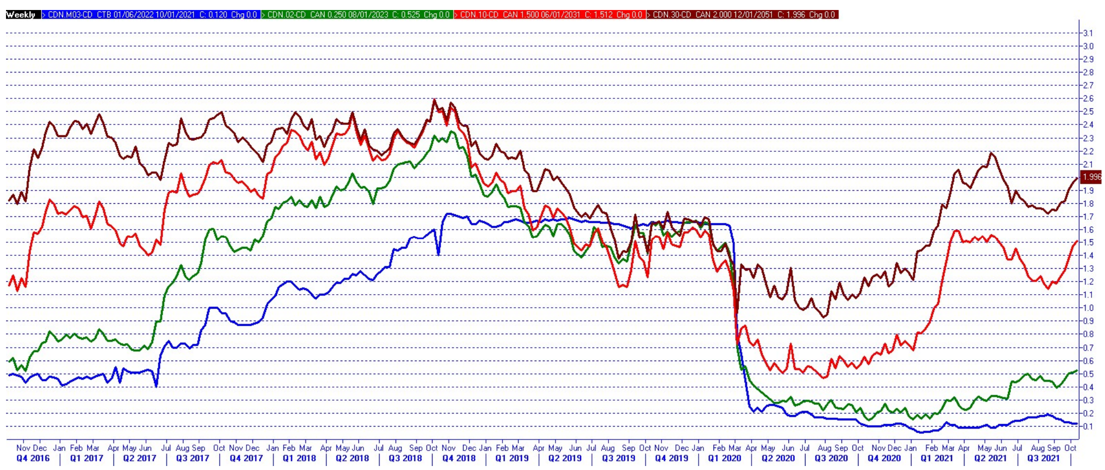
Thanksgiving Edition

90-day (blue), 2 years (green), 10 years (red), 30 years (burgundy)

US Fed Govt Treasury Bond yields weekly ranges 5 years

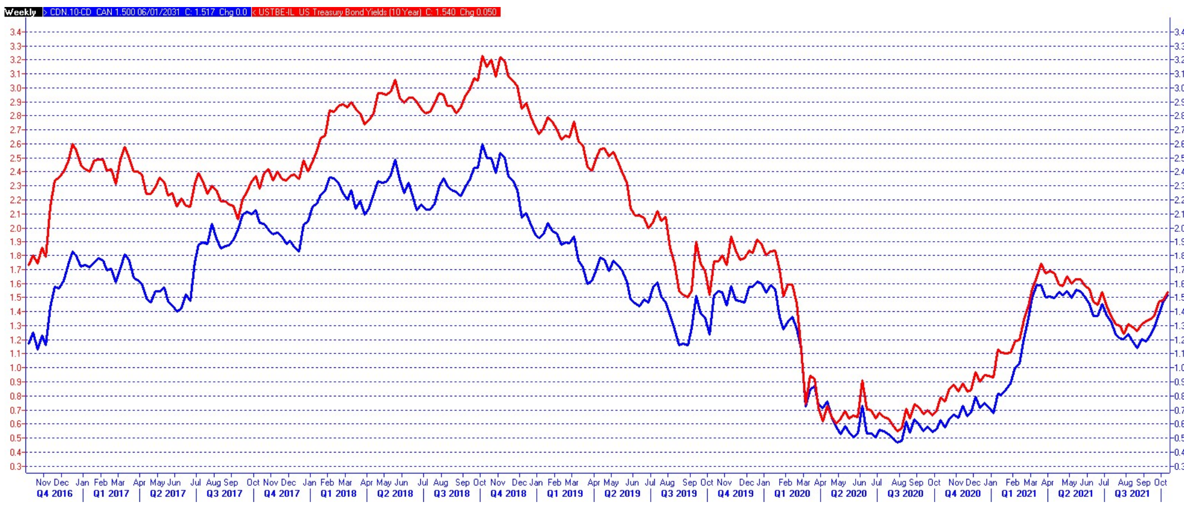


Canada Fed Govt Bond yields weekly ranges 5 years



The bond market worries about return OF the money before return ON the money. North American bond markets are signalling rising inflation. The ‘temporary’ featured in many inflation comments has been dropped. Rising interest costs are what we expect as the economy improves, wages rise, and consumption increases. Don’t let the media get you out of breath. A 10-year bond yield around 1.5% is hardly predicting rampant inflation. Despite my pillorying our current Federal and Provincial leader’s dismissal of debt levels, the bond market remains (slightly) less worried about Canada’s ability to pay its’s debt than the US Federal Govt. Neither is seen as high risk.

10-year yields Canada Govt (blue-1.50%) vs. US Fed Govt (red-1.54%) weekly 5 years

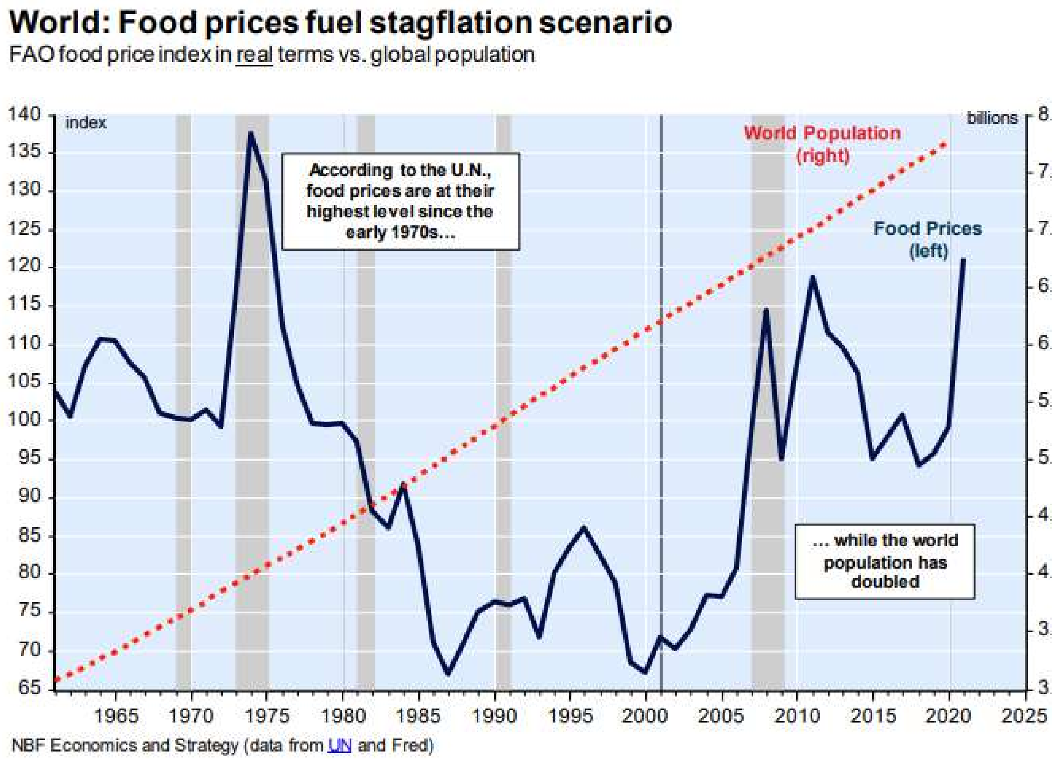


The above bond yield chart tells me…

- Things are getting better, not worse. COVID will end.
- We’re still in the early recovery stage.
- The last business cycle saw 10-year Interest rates peak over 3%.
- Yields have a long way to go. Keep your maturities short and invest for growth.

That 70’s show…Stagflation?

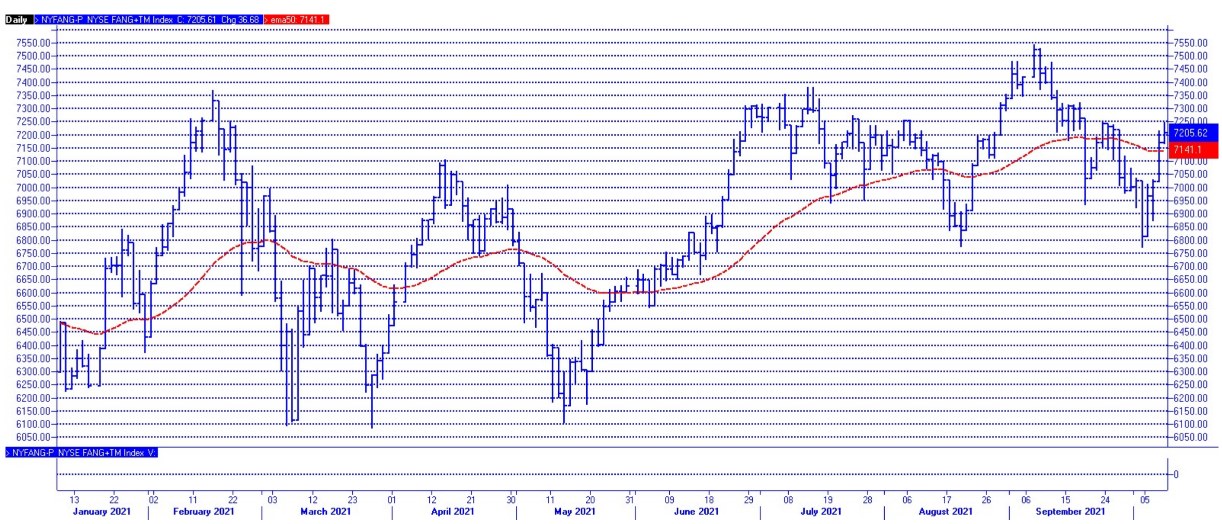
This week, the money-media featured to pundits pontificating perdition and persistant pain via stagflation. NBF joined the bandwagon with a comment on food prices. We’re watching this worry-fest with interest. I’m looking for reasons to BUY not SELL (explainer following). I think this concern may be over stated but remain alert to inflation excelleration. The above yield charts support my view…so far. We buy part of the inflation theme as we’re long commodities, conventional and alternative energy. See the energy sector notes later in the commentary.



See the PDF links section for the full report

Turning to the broad equity markets…

NYSE FANG Stock Index (7,205) daily ranges 9 months



Social media and ecommerce stocks dominated returns over the past 2 years. Since February they've gone nowhere. July 5 Jeff Bezos 'retired' as CEO of Amazon to work on his 500 million+ yacht and play with rocket toys. Does he know something?

Dow Industrials (34,250) daily ranges 12 months

History says, excluding dividends, the majority of annual stock price gains occur between the months of October and April. 2021 repeated this pattern. The Dow Industrials, being more main street and less tech heavy, saw prices dip in late October/2020 followed by a sharp run up into early May/2021. We took profits in the early summer and watched prices claw higher into August. Stock prices have broadly faded from the August highs (energy stocks are waaay up though) and are now back into the May price ranges. I suspect we're not quite done with the downside but we're close. We intend to spend our summer cash raise over the next 4-6 weeks – perhaps sooner if prices come down to our targets.

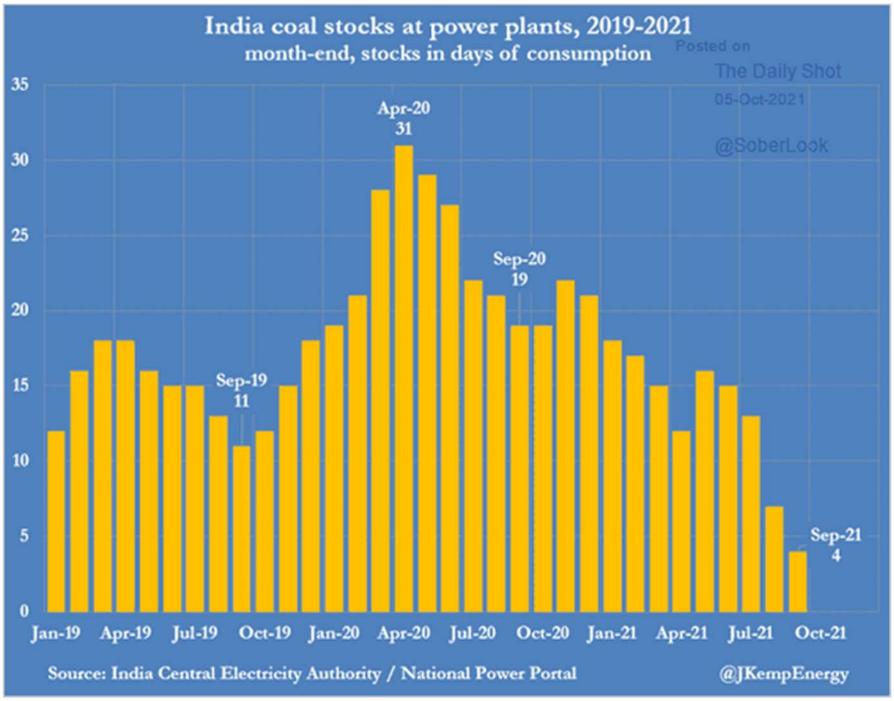
CAVEAT: Anna and I proclaim zero ability to time the market. When prices look high, we'll sell (some). When prices look low, we'll buy (more). We can't always buy below our sell points and often regret selling anything. Dividends do wonders, adding as much as 50% to the total return over 10-years, so we can't hang out in cash too long. Our process reduces risk, but may also reduce returns, trigger gains for tax purposes and add to reporting complexity. Our clients seem to feel the smoother ride is worth it.

We focus on out of favor dividend payers treating the markets like a lover's spat. We try to buy when the street hates a name or a sector and trim when they fall back in love. Prices jumped for everything earlier in the year. Institutional portfolio rebalancing probably triggered gains (it certainly did for us). October is the month for institutional tax loss selling. For tax purposes, many institutions must book losses in October to offset gains triggered earlier in the year. Stocks that are down in September are often driven lower in October as institutions sell to offset gains. We wait in the bushes for these sell-offs, hoping to pounce on bargains left behind by behemoths stampeding for the exits. We have until year end to make tax loss decisions.

Energy market notes:

We've been featuring stories over the past two years on a potential energy crunch due to lack of investment in conventional supplies. It's fine to predict net zero by 2025 or 2035 or 2050 but folks gotta' eat, heat their homes and move about NOW. Without COVID demand we would have already swamped contracting energy supplies. Recall this is exactly what carbon pricing policies are supposed to do, increase the price and restrict the production of fossil fuels to make the alternatives more attractive. IE pricing in the environmental cost. We shall see how voters react to this experiment once faced with the pocket book reality. As an investor I've had my doubts but I may be wrong. Consumers (voters) may shrug *"Yeah, we know. That's the way it has to be. I'm okay with paying a lot more than I used to. It's for a good cause*". We'll see.

Emerging Markets: India's coal inventories have collapsed



Source KempEnergy https://twitter.com/JKempEnergy

While Canadian politico's predict the pending end of the hydrocarbon fuel age, most of the developing world, where most of new carbon emissions are generated, still relies on coal. Yes coal. If coal isn't available the lights go off, hospitals go dark and industries shut down. We in North America can't imagine this. Some power plants are geared to switch from burning natural gas to burning heavy oil (gas-oil fired switching). Gas prices and a lack of coal increases demand for crude oil. It's not just India experiencing this pinch.

China's Energy Crisis' - Sahil Bloom

https://sahilbloom.substack.com/p/chinas-energy-crisis

Even the EU is having energy challenges.

On EU Gas prices and Carbon Prices (extracted from NBF's Oct 6 daily note)

Carbon prices hit record highs last month largely been a result of the energy crisis, where natural gas shortages and skying prices has brought coal generation back online to maintain the reliability of the grid*. A cap-and-trade system has a capped supply of carbon allowances, which tightens every year dependent on that government's announced emissions reduction targets (i.e., Europe 55% by 2030). Based on both heightened demand and a tightened supply, compliance carbon credit prices have been driven upwards, ranging from 35%-70% since the beginning of January (UKEA since inception in May).*

Steve's Take: Rising costs are rising costs. Period. Rising costs reduce purchasing power. Period. Political claims to the contrary, the conversion from fossil to green has not reduced costs. Productivity has not been improved. Historically rising costs ex-productivity gains resulted in inflation. I'm positioned for rising inflation in our portfolios. We'll see.

Gas to get green label? *The EU Commission is set to rule in the coming weeks/months on whether natural gas and nuclear get the 'green' label under the EU Taxonomy. Recall, the EU Taxonomy is essentially a list of economic activities that can be marketed as green investments, allowing for enhanced private capital into these activities and allowing the EU to meet its climate targets. With that said, we are curious to see how the current gas shortage and heightened gas and electricity prices impacts the EU's decision on natural gas, especially given that a decision on gas is due by the end of 2021, before the climate change-related section of the taxonomy takes effect in 2022.*

- *In light of the current energy crisis, the <u>EU perhaps could reluctantly approve its previous recommendation that would allow gas plants to be labelled 'green'</u> if they emit below 100g of carbon dioxide equivalent per kilowatt hour (g CO2e/kWh). However, if the EU were to approve this structure, our ESG analyst Amber Brown wouldn't be surprised if the EU also implemented a descending emissions intensity requirement for natural gas facilities, with 100g CO2e/kWh being the baseline up until a certain year (i.e., 2025) then stepping down by a specific percentage (i.e., 10%) until natural gas generation would need to be carbon neutral (perhaps by 2035-2040??);*

- *For this to happen, carbon capture would have to be paired with natural gas generation. <u>Meanwhile, Amber notes that if natural gas does in fact obtain the 'green' crown, it would bode well for Russia, with the Nord Stream 2 pipeline recently being completed, the politically charged pipeline still needs approval from Germany's energy regulator to transport its gas to Germany</u>;*

<u>Despite what label natural gas receives, Amber expects more investor focus to be placed on 'transition assets' in the coming years,</u> especially as companies start to make progress on emissions reduction targets and as green valuations become too frothy

Steve's take: Mr. Elected Official, is 'going green' causing re-election angst? Change the label. I note that Canadian gas producers, lacking an effective LNG export infrastructure are mostly missing out on the increased demand. Our US neighbors happily fill the void.

Even the US is facing higher energy costs

U.S. Is Facing the Lowest Supplies of Heating Oil in Two Decades

- Current stockpile covers only 31.2 days of distillate demand
- Costs set to rise for heating, truckers, and farmers

By Lucia Kassai

(Bloomberg) -- The U.S. may be heading into winter with the lowest stockpiles of heating oil to meet surging demand in more than two decades.

Inventories of distillates -- used as diesel for both transportation and heating oil -- are enough to meet 31.2 days of demand, according to the Energy Information Administration. That's the tightest it has been for this time of the year since 2000.

The dwindling supplies raise the specter of energy shortages and price spikes in the U.S. this winter -- at a time when the rest of the world has already been upended by fuel shortages and blackouts. They also underscore how the economic rebound from the Covid-19 pandemic, a surge in demand for virtually all goods and an ensuing trucking boom are now colliding with volatile energy markets, threatening to raise the cost of fuel for homeowners, farmers and truckers.

The US mid-term elections are in Nov/2022. US voters speak from their hearts but tend to vote from their wallets. With the exception of Donald Trump Pres. Biden has a lower approval rating at this stage of his term than any US President back to Harry S. Truman

https://projects.fivethirtyeight.com/biden-approval-rating/

I suspect this may explain why Moderate Democrats are suddenly less excited about big-ticket ideas that are likely to accelerate the current cost trends for basic goods.

Some maybe good news on the carbon emissions front.

'Can We Suck Up Enough CO2 to Cool the Planet?' Reasons-to-be-Cheerful.com Sept 24, 2021

https://reasonstobecheerful.world/carbon-capture-iceland-climate-change-two-degrees/

What's happening with residential roof top solar panels?

Last week I was in Saskatoon with my long-suffering spouse and past business partner attending the arrival of a new family member. With time for walks we noted new construction in the town. Post WW2 saw a building boom in Saskatoon of 900-1000 sq ft single level, single-family homes, 1 bath/2 bedrooms.

The trend is to knock the WW2 down and put two standalone ‘in-fill’ houses on the same lot. Each 2,500 sq ft and up. Smaller families, bigger houses. We noticed some of the newer places have solar panels on the roof. This had me wondering what’s happening with the rooftop solar industry. There’s been a lot of talk of solarizing roof tops as a way to earn energy from the sun. The US Biden administration has Big Ideas on solar, with billions in the planned in a $Trillion-dollar spending bill – currently stalled in Congress. Canada’s solar industry is a rounding error. California has been at it for a while. What’s happening there?

Sunlight Financial (SUNL $5.04) from the July 21 IPO $10.00

Sunlight Financial Holdings Inc., formerly Spartan Acquisition Corp. II, is a technology-enabled point-of-sale financing company. The Company partners with contractors to provide homeowners with financing for the installation of residential solar systems and other home improvements. The Company’s residential solar systems financing solutions include solar panels, batteries, and roofs. Its home improvements financing includes roofing, heating, ventilation, and air conditioning (HVAC), decks and patios, energy efficiency, windows, interior remodel, home automation and fencing. Sunlight was taken public by Spartan - a

Special Purpose Acquisition Corp (SPAC - or 'blank cheque' company) in July/2021 at $10.00 (red arrow). Looks like Spartan knew when to sell! Credit Suisse initiated coverage of Sunlight this week at $5.00 market price and $9.00 target. Tesla says many of their customers finance their solar roofs through Sunlight Fincl. Recall Tesla got into the solar roof business buying Solar City. Mr. Musk and his cousins were insiders of Solar Cit with lawsuits still pending. After a couple years of weak performance, Mr. Musk says Tesla's solar energy division is turning around, claiming in late 2019 *"Tesla's solar-roof sales will grow like kelp on steroids"* He knows how to pitch to the base. He claims the solar energy division will equal the car division. If so, Sunlight Fincl. should be a first-mover as homeowners seek financing paired to ready Federal money.

We're following this story as a potential leading indicator of a turn in the market. So far, in the US solar roof profits have been hard to come by. As an investor I'm on the sidelines.

https://www.nytimes.com/2021/01/04/business/energy-environment/rooftop-solar-installers.html

See the Sunlight Financial, Credit Suisse research opinion in the PDF links.

DISCLOSURE: No exposure to SUNL personally, for family members or for clients. We are not recommending the stock for client purchase and have not traded in the security.

Excerpt from National Bank's daily FOREX notes Oct 6, 2021

FX Commentary

We know the market does not like uncertainty and there is definitely some uncertainty floating around out there isn't there. Really, it's the same three things we highlighted yesterday:
***1. Evergrande** - but really the Chinese property market as a whole, contagion may not be a big worry right now but the drag on Chinese growth and the impact on the global economy is*
***2. U.S. Politics/Biden infrastructure plan/debt ceiling** - I think the debt ceiling will be raised but it will come down to the wire and it's just one more thing for the market to worry about in the near term.*
And the big one today:
***3. Energy prices/ inflation/ stagflation** - The big driver of today's negative sentiment is concern around rising energy prices and fears of dreaded stagflation. The headlines are everywhere with Europe hit especially hard:*
- German electricity prices at an all time high
- European natural gas prices jumping 20% on the day (emphasis Steve's)
- UK energy suppliers collapsing
- Nat gas up 400% YTD in Europe

Concerning headlines for sure. The fact that German factory orders data showed a much larger than expected -7.7% decline this morning added fuel to the stagflation fire and risk was under pressure from the get go in Europe.I am not sure if we are reaching peak energy panic or not and I am not ready to say the run up in energy prices is over but this is starting to remind me of the lumber move from earlier this year (from $495 in November 2020 to $1711 in May - now back to $640) with all the accompanying headlines. Of course, oil and gas are more important components of the economy and people are thinking back to the stagflation/energy crisis period of the seventies and those fears won't fade quickly.

I think we need:

- a strong non-farm print this Friday to help re-assure the market that we are not heading toward stagflation just yet (a weak print would not be good given current market sentiment)
- we need the debt ceiling lifted/possibility of default taken off the table
- and we probably need OPEC+ to increase production next month, I think there will be growing political pressure to get OPEC+ to act and while I don't think we're going back to $50 crude anytime soon a larger output increase may help cap further moves in energy and soothe the markets frayed nerves

***CAD** - The Canadian Dollar is a bit weaker as expected on a risk-off day but it remains one of the better performers among the G10 this morning. Rising energy prices are a negative for Europe but are a benefit for a producing country like Canada so you can't get too bearish on the currency over the energy headlines. As we noted yesterday the Canadian Dollar has been the top performer among the G10 this year and has done well on the crosses (EURCAD at 3-month lows, GBPCAD and AUDCAD hovering just above recent lows) and I think ultimately it starts to fare better versus the US Dollar as well, we'll likely need equities to steady before that happens though. 1.2630-40 remains initial resistance and gains were capped there overnight, 1.2580 is support followed by the all-important 1.2500-20 area.*

Staying with currencies..

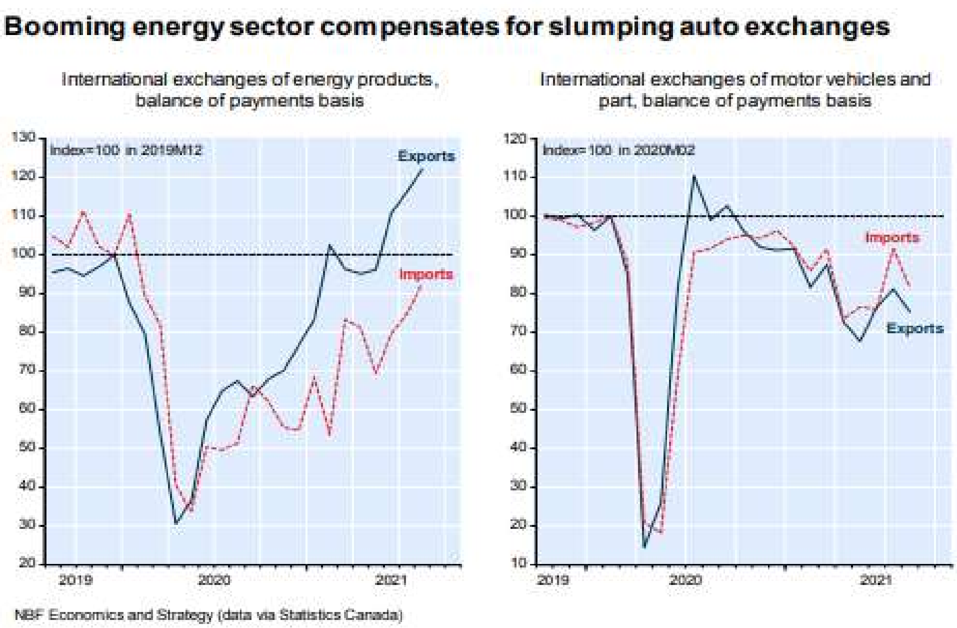
‘Bitcoin “an option on digital gold,” Niall Ferguson says’ Advisor.ca Oct 6, 2021

“Speaking to the CFA Society Toronto, the historian was bullish on Bitcoin, cautious on inflation and worried about China”

https://www.advisor.ca/news/economic/bitcoin-an-option-on-digital-gold-niall-ferguson-says/

Canadians can be thankful for the security and balance of our internal energy supply so often dissed and dismissed by thought influencers.

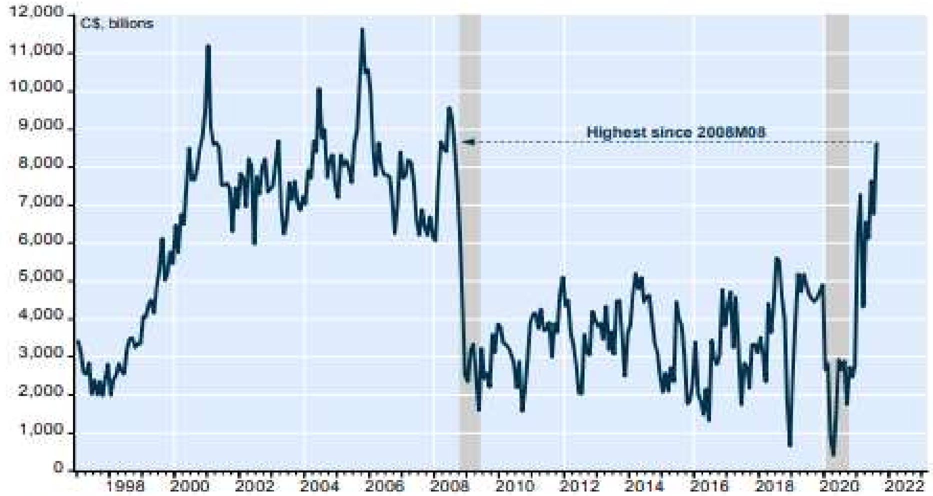
‘Canada: Surge in energy exports compensate for slump in auto sector’ - NBF Economic update Oct 5, 2021



NATIONAL BANK FINANCIAL WEALTH MANAGEMENT
HILBERRY GROUP

Trade surplus with the U.S. at a 13-year high

Trade balance with the United States, balance of payments basis



NBF Economics and Strategy (data via Statistics Canada)

Steve's take: As Mr. Ferguson points out in the previous article, Canada as a whole and Canadian energy in particular, has been a laggard over the past decade as investors chased other stories. We believe it's Canada's turn in the spotlight. We remain invested for Canadian growth, energy in particular. NOTE: 'Energy' isn't restricted to oil and gas. I am thankful for Canada's energy patch.

Finally some good news for Alberta to be thankful for. A $10 billion spend is welcome. So is the 'Net Zero'. NOTE: This blessing is coming from a Big Bad US chemical company.

'Staggering' — Dow plans major petrochemical expansion, shift to net-zero in Alberta

https://financialpost.com/commodities/energy/oil-gas/staggering-dow-plans-major-petrochemical-expansion-shift-to-net-zero-in-alberta

Will 3d laser printing replace grandma's Thanksgiving Turkey?

CBC Radio's Quirks and Quarks with Bob MacDonald

A team in the U.S. has used robotic lasers to cook 3D-printed samples of chicken — and they say that the food was superior in taste and texture to conventional cooking methods.

Jonathan Blutinger, a member of the team of engineers at the Creative Machines Lab at Columbia University in New York, told Quirks & Quarks host Bob McDonald that the precision of lasers is the great advantage over conventional cooking methods like ovens, stovetops, and grills.

"Lasers are great because you can control the heat on a much finer resolution", he said. "So with lasers you can control the scanning pattern, you can even control the type of cooking you're getting just based on changing the wavelength of light, which is pretty cool."

Their tests of laser cooking work hand in hand with another technology the lab has been working on: 3D-printed food.

Happily, this creepy idea isn't likely to replace turkey with stuffing anytime soon. The scientists note laser cooking is more energy efficient…at 2 cms or less.

https://www.cbc.ca/listen/live-radio/1-51-quirks-and-quarks/clip/15869574-set-weapons-sautee-engineers-learn-cook-lasers

Write a Will in 2021 | Why You Need a Legal Will

Watch Anna's latest video here

https://www.youtube.com/watch?v=vXyFg2YetkI

I'll close with my list of thanksgivings:

Thanks for:

- Canada accepting immigrants…like me.
- Canada's effective health system and to our health care workers.
- Canada's election process that works (grumble about the results).
- My fellow Canadians who work together to solve our problems. This includes tolerance and patience with fake-news-itis.
- An education system that improves our young people's thinking.
- An economy (mostly) free of corruption, that enables the average Joe and Joleen to live the life of kings only a century ago. Spices from the orient, fresh fruits from the tropics, food in abundance that doesn't make you sick, clothing for all seasons that fits, goods so cheap we throw them away, all available for delivery to your door at the waving of an electronic wand (your cell phone). Sitting at one's ease, flying at 900 kms per hour 9 kms in the sky to visit relatives (some day).

We live in amazing times.

Happy Thanksgiving

Steve & Anna Hilberry

FOR THE RECORD Oct 8, 2021

DOW INDUSTRIALS:	34,753
S&P 500:	4,395
S&P/TSX COMP:	20445
WTI:	$79.28
LOONIE IN $USD:	$0.8008 $US

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