



WEEKEND READING

Shedding the light on what's happening - our world - our finances - our times

Should I Stay or Should I go?

The Clash

Pundits and internet financial 'influencers' (once called promoters) claim US debt levels are unsustainable (true) and will lead to financial Armageddon (false), or at least much, much higher inflation and interest rates (maybe). Their offered solution is Gold and Bitcoin. We've complained about Canada's recent profligacy with the public purse, piling on debt and deficits. The US Fed's stand accused of the same. We've pointed out Canadian regulatory policies might lead to inflation and higher interest rates. We've projected interest rates would rise. Our concerns proved valid.

Are these debts a future problem? Yes. Are they problems unmanageable? No. Do we need to rethink our investment stance focusing a significant portion of our savings on 'alternative' currencies and cash assets? We don't think so. We don't think Gold and Bitcoin are sensible risk-adjusted solutions. Scott Grannis (no friend of the US Democratic Party) puts the US debt levels into perspective. We believe Canada's situation is similar.

Calafia Beach Pundit: How bad is (US) fiscal policy? Scott Grannis July 15, 2024

<https://scottgrannis.blogspot.com/2024/07/how-bad-is-fiscal-policy.html>

Extracted from Mr. Grannis comments...

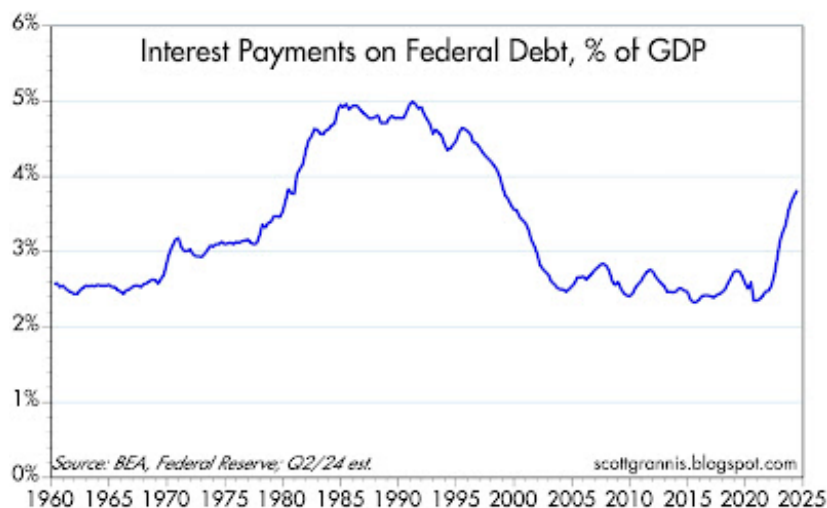


Chart #7 shows the true burden of our federal debt: interest payments on the debt as a percent of GDP. The debt burden was 25-30% higher in the 1980s than it is today. True, the debt burden is likely to continue to climb, especially if interest rates rise. But if they fall, as the Fed has all but conceded they will, then our debt burden should remain within bearable levels for the foreseeable future.

One important thing is missing from almost every discussion of debt and debt burdens: the burden of the debt from the government's perspective is equal to the payouts received by all those who have purchased Treasury securities. One man's debt is another man's asset. Paying interest on our national debt is not like flushing money down the toilet. In fact, the true cost of the debt can only be calculated by considering the benefits the country has obtained by issuing debt. A business can issue tons of debt and still grow, provided it is using the money raised for productive purposes. But governments—especially ours in recent years—are notoriously inefficient in that regard. (As I noted here, our government is spending an enormous amount of money on transfer payments, which for the most part only fund spending, not investment.)

And this leads to another conclusion: the problem with debt and deficits is not the borrowing, it is the spending that created the deficits in the first place.

Who spends money better: the person who spends his own money, or the person who spends other people's money? (emphasis Hilberry)

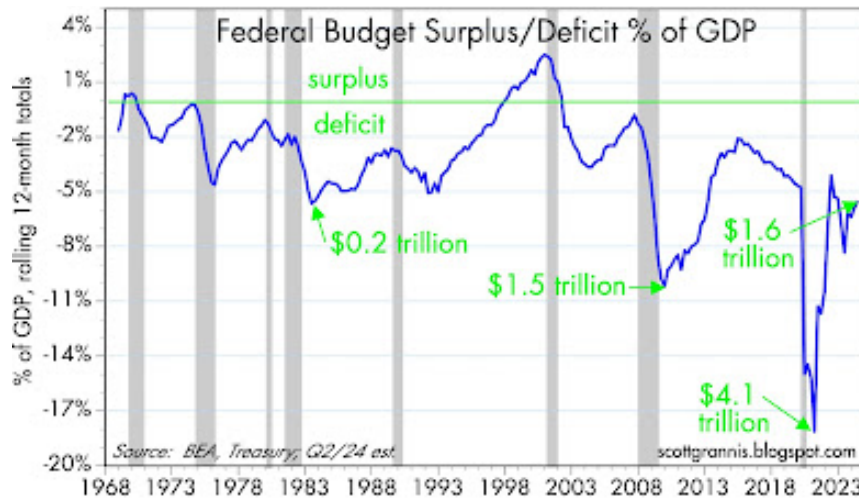


Chart #8 shows the federal budget deficit as a percent of GDP over time. The nominal amounts at key points are highlighted in green text. Note some amazing things: today's deficit is just about as much relative to GDP as was the deficit in 1983, but in nominal terms, today's budget deficit (\$1.6 trillion) is 8 times larger than 1983's deficit!

Mr. Grannis points to US Fed Reserve rates declining. NBF updated this week's US Fed Reserve FOMC Policy announcement. Rates remain unchanged. Tilt is down. This confirms our previous comments interest rates are likely to decline in the near term, being supportive of stock prices. The lack of a cut spooked equity investors on Thursday. Chip stocks dove.

Economics and Strategy: Fed Policy Monitor: Getting closer but not there yet

<https://nbf.bluematrix.com/links2/pdf/d78ea10a-b420-47cd-acdf-12b87df9b72d>

On the Canadian Energy front (speaking of debt)...

Ottawa Announces More Than \$192 Million for Nova Scotia Clean Energy Projects

[Energy Now - Story Link](#)

Canada, Germany commit \$600M for hydrogen export in Atlantic Canada

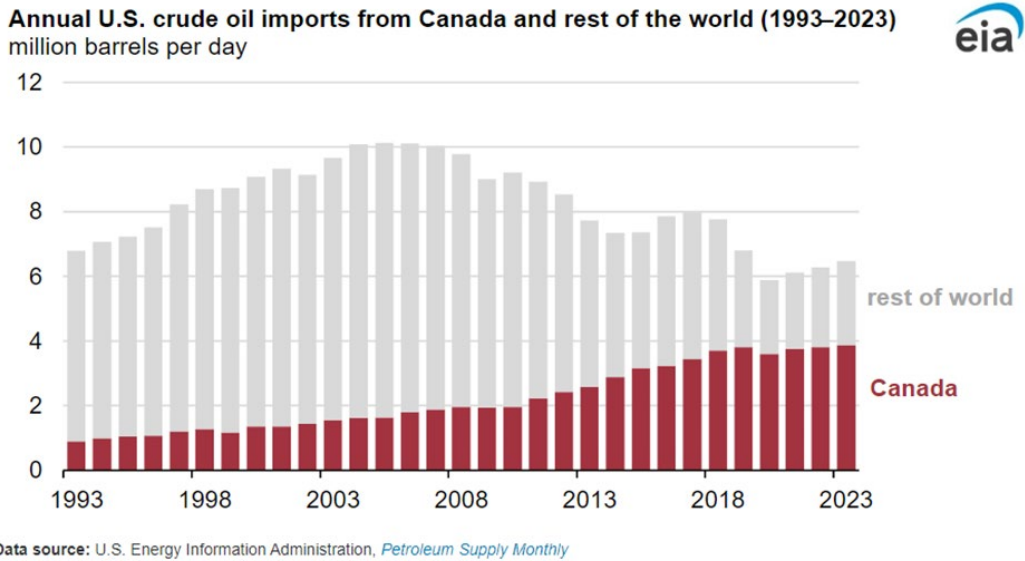
[CBC Story Link](#)

Meanwhile, Canada's importance to US hydrocarbon consumption continues to grow, replacing international sources. What a concept!!



Chart #1

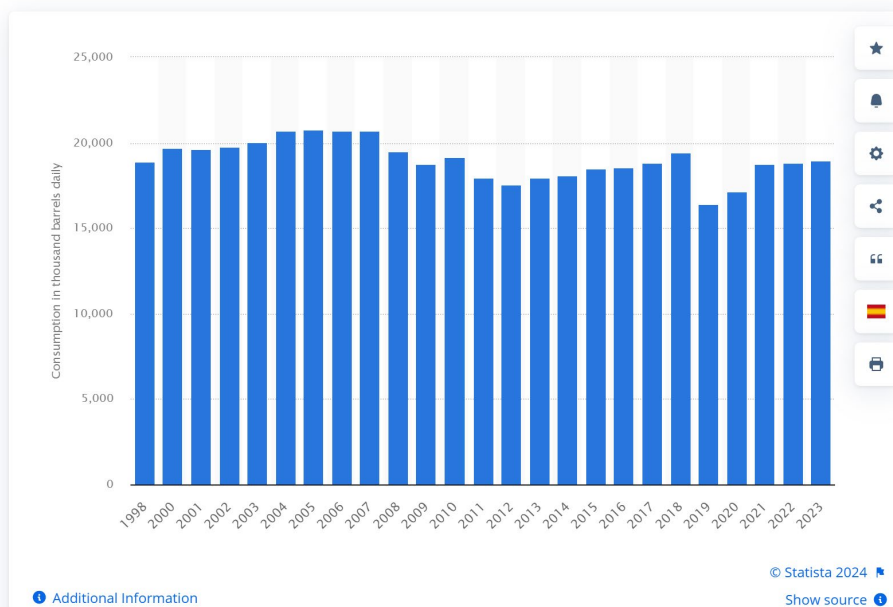
Canada's crude oil has an increasingly significant role in U.S. refineries



The decline in total US crude imports (grey) from 2004 onwards was more than offset by US internal crude oil production. What about US crude consumption?

Chart #2

Oil consumption in the United States from 1998 to 2023
(in 1,000 barrels daily)



Daily US crude-oil consumption peaked in 2005 at roughly 20.8 million barrels. 2023 daily average of 18.9 represents a decline of -8.74%.



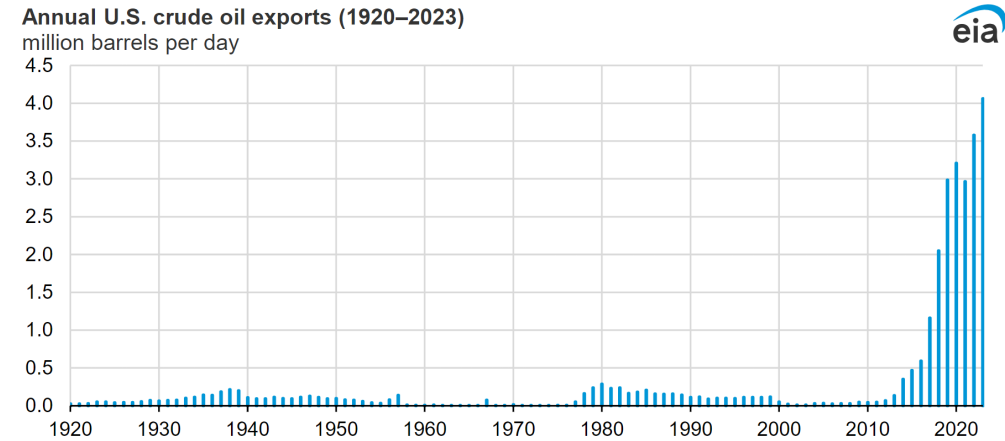
Compare Chart #1 source of imported crude chart to Chart #3 showing US total crude-oil exports hitting a record 4 million barrels per day in 2023. Note 2023 US daily barrel imports of Canadian crude are suspiciously close to US exported crude volumes. Coincidence?

Chart #3

MARCH 18, 2024

U.S. crude oil exports reached a record in 2023

This TIE was updated on 3/18/24 to correct the units of measurement in the third chart.



Data source: U.S. Energy Information Administration, *Petroleum Supply Monthly* and *Petroleum Supply Annual*

Canada’s US-bound crude exports are largely sourced from Western Canada. ‘Western Canadian Select’ crude oil (WCS) historically [trades at a discount to WTI](#) (West Texas Intermediate crude) reflecting transportation costs from Alberta to the US Gulf Coast refinery complex and a lack of pipeline shipping capacity to meet demand, enforcing a price discount to sell product. The lack of pipeline capacity resulted from Canadian Federal and Provincial Govt policy resistance to pipeline expansion. The lower WCS price has been an invisible cost to Canadian revenues, both private and public. Less money earned vs expenses paid is a problem. There may be hope. The much reviled and resisted Alberta to BC Transmountain Pipeline expansion, years past plan and far over-budget, finally completed this spring. Shipping volumes are up. The WCS discount may narrow.

We sense US and international attitudes are shifting in favor of Canadian energy. Perhaps our domestic view will too. If investment dollars follow, this could be an inflection point for the Loonie and Canadian equities. Here’s one reason why.

Remembering the Massive Crude Bull Markets of the 1970s and 2000s

“The article below is an excerpt from our Q1 2024 commentary.

WTI Crude Oil
1/1/1970: \$3.18
2/15/1981: \$34.30
1/1/2000: \$25.55
7/14/2008: \$145.18



The theories of King Hubbert are about to become once again highly relevant. What follows is the first in a series of essays in which we will cover many of his most important views. Hubbert is best known for “peak oil,” his framework for predicting when global oil production will peak, plateau, and rollover.”

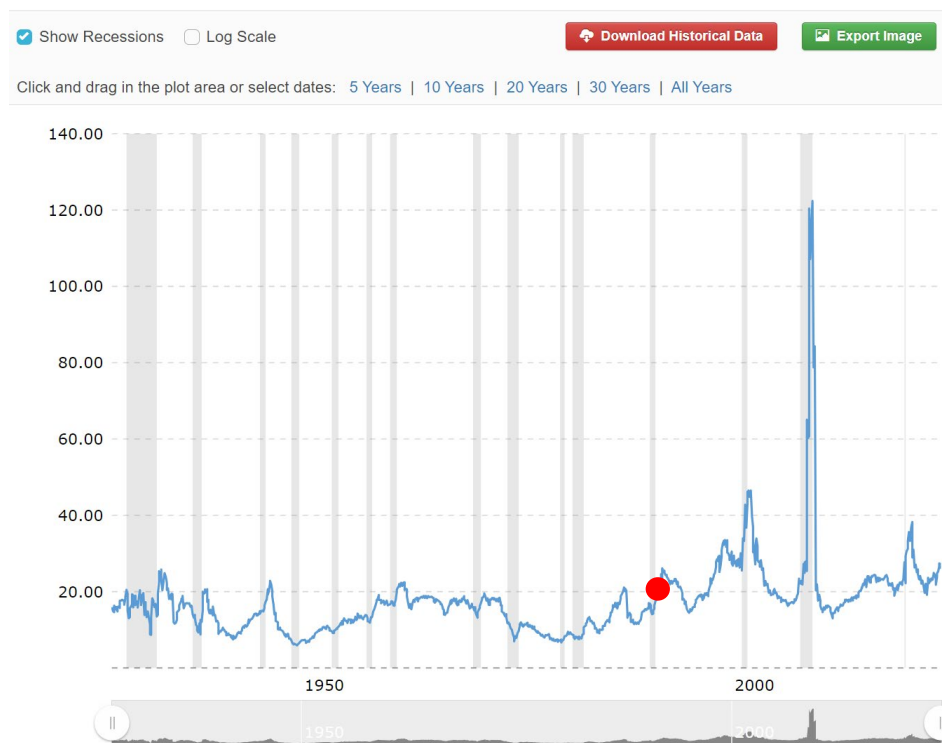
“Today’s essay focuses on how Hubbert’s theories could have been used to predict the massive crude bull markets of the 1970s and 2000s. Using them as a guide, we will explain why we believe we are on the verge of a bull market of similar magnitude today.”

[Story Link](#)

If GoRozen is correct, Canada could suddenly be very appealing.

Are US Stocks expensive?

S&P500 trailing P/E Ratio 1929-2023 – Macrotrends Research



Source : [Macrotrends](#) Aug 1, 2024

Based on 1929-2023 averages, today’s S&P500 P/E around 27 is elevated. Using 1989 as a starting point (red dot), the S&P500 is currently at the lower end of the past 25-year range. If one accepts the 1990’s onwards revolution in information technology has embedded higher productivity and profit growth (??), a higher P/E makes sense. We caution that the current S&P500 P/E has been elevated by the [Magnificent Seven](#). It’s a circular relationship. Most of the US names we favor show P/E’s below the S&P’s ratio.



The bottom line: US stocks are more expensive than they have been in the past. That doesn't mean they can't make great investments. Note the spike in P/E to over 120 in 2020. The short-term collapse in earnings from the COVID-19 Pandemic pushed the P/E exponentially higher. Investors panicked. Prices crashed over 30% from mid-Feb to late March/2020. Buying into that decline brought us deals of the decade. A high P/E? It's all relative.

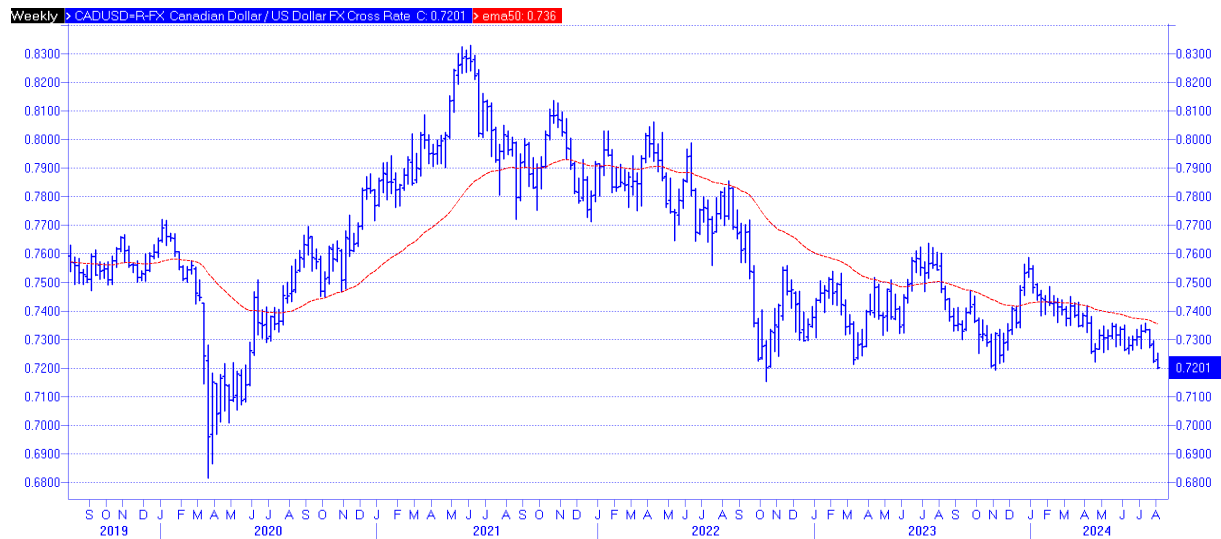
Despite crude being broadly higher, the Loonie is down. What's going on?

WTI – USD \$76.79 5 years weekly ranges.



Source: Refinitiv, NBF, Hilberry Aug 1, 2024

Loonie in US dollars (\$0.7201) – 5 years – weekly ranges



Source: Refinitiv, NBF, Hilberry Aug 1, 2024

The Loonie fell off a cliff this week.



Loonie in US dollars (\$0.7201)– two weeks – 15 min intervals



Source: Refinitiv, NBF, Hilberry Aug 1, 2024

Two weeks ago, clients said they were worried about Mr. Trump’s polling in this November’s US Presidential election. Should they dump their US stocks? The arrival of Kamala Harris on the Democratic ticket has transformed that party’s hopes. Has it also increased Canadian’s fondness for the US dollar? We suspect Wednesday’s lack of a US Fed Reserve rate cut encouraged hot money to chase the still-higher US T-Bill yields. We don’t see this week’s swoon as signaling a 65 cent Loonie is around the corner. We maintain our modest tilt towards Canadian stocks.

Have a Great Weekend

Steve & Anna Hilberry



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FOR THE RECORD Aug 1, 2024 close

DOW INDUSTRIALS:	40,347
S&P 500:	5,446
S&P/TSX COMP:	22,723
WTI:	\$76.94
LOONIE IN \$USD:	\$0.7207 \$US



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