



## WEEKEND READING

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

### The knives are out

#### 'Three in a row and plenty more to go' National Bank BoC Policy Monitor:

**Rate Statement:** For the third time in as many meetings, the Bank of Canada lowered the target for the overnight rate by 25 basis points, a decision in line with the consensus and market expectations. The rate reduction brings the policy rate to 4.25%, the lowest since January 2023. The move also pushes the BoC's policy rate 125 bps below the Federal Reserve's (based on their upper bound target), the most since 2000 (although that gap will narrow in September). Meanwhile, balance sheet normalization will continue as expected. See the full report for additional highlights from the communique and the opening statement to the press conference.

[National Bank BoC Policy Monitor](#)

**We believe the short-term rate could land under 3%**

#### NBF FOREX Update September 2024

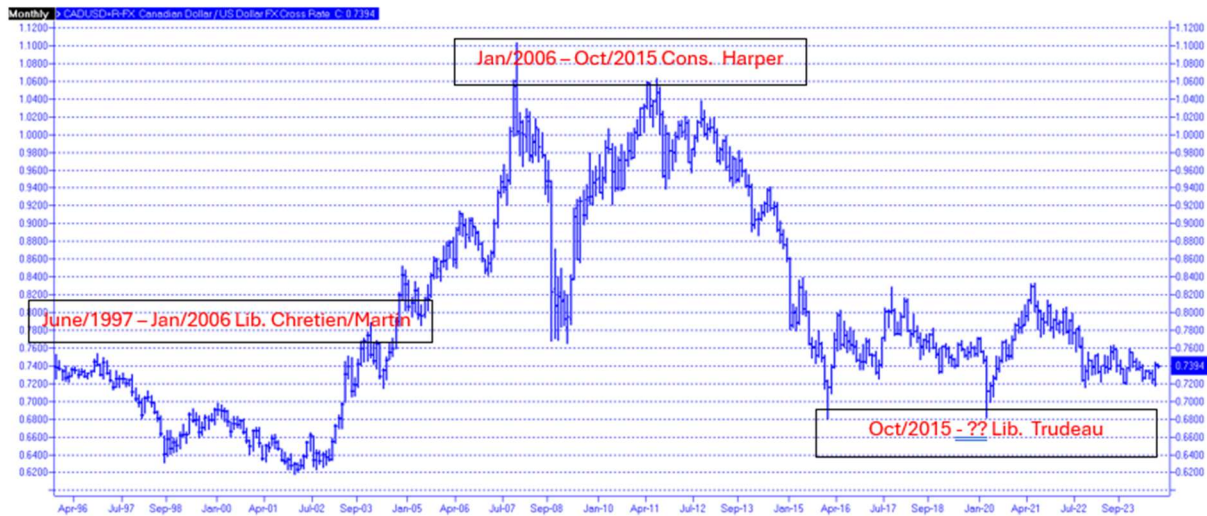
Changes in Bank of Canada (BoC) policy rates will affect the Loonie. National Bank explains. We cover why that may matter in greater detail below.

[NBC Forex Sept 2024](#)

#### Is the Loonie Cheap? What do charts say?

We've maintained Canada's relatively weak Loonie should (eventually) attract investment. US dollar-based investors may find Canadian assets just too cheap to resist...provided they can see past the current Canadian regulatory quagmire, or believe it will change. What does history say?

**Cost to purchase \$1 Canadian in US funds (USD \$0.7398). Apr/2005-Sept/2024**



Source: Refinitiv, NBF, Hilberry

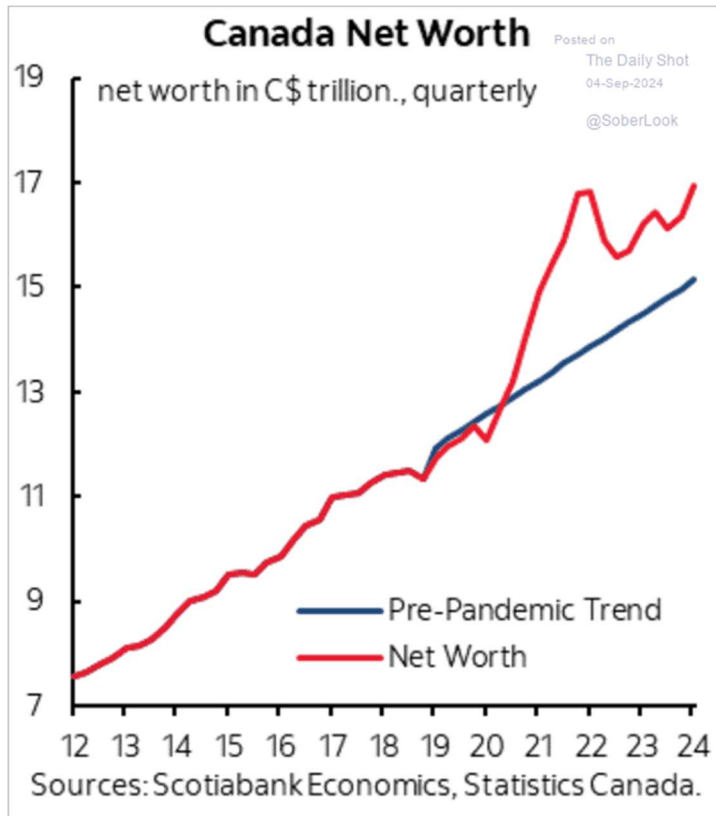
The Loonie traded around current levels in Oct/1995. After testing 64 cents USD three times, the bottom was around 61 cents in mid-winter 2002. The Loonie didn't fully break out from that range until Sept/2003, soared to \$1.12 USD in the summer of 2007, crashed to 76 cents during the 2008-09 Credit Crunch, rallied again to over \$1 USD by summer of 2011 then flopped into October 2015, landing right back around 74 cents recently. Recent lows have been around 72 cents.

**The good news:** The above chart confirms our view, the Loonie is at lower-end ranges. The next election looks to be the Conservatives to lose.

**The bad news:** It could take awhile.

Meanwhile, Canadians are doing just fine.



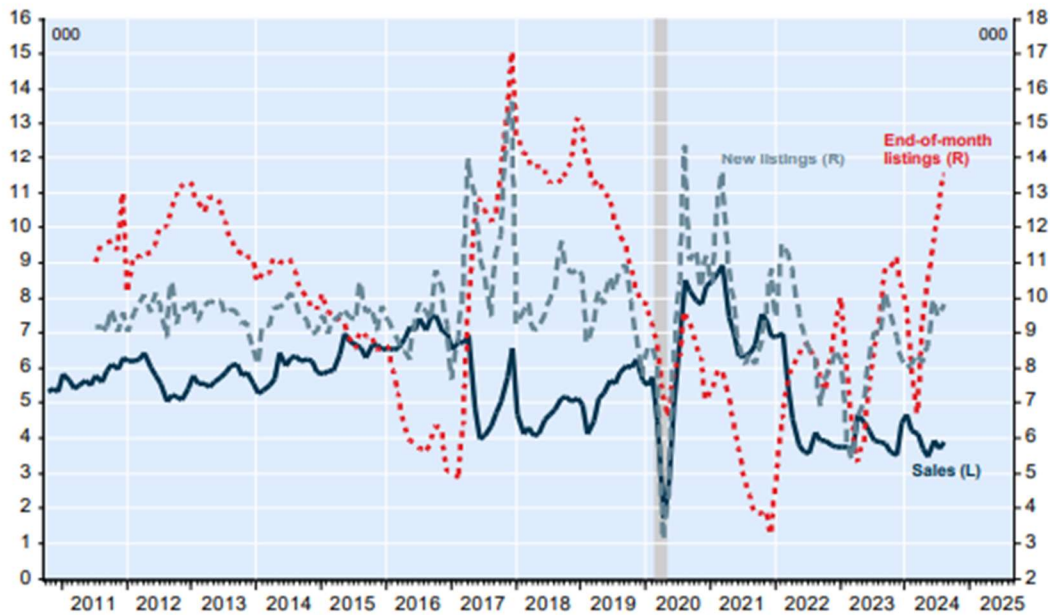


The Greater Toronto Area (GTA) is seeing lower house prices. Lower prices may impact voters.

**'Economic News - GTA: Softest housing market conditions since the 2008 recession' – NBF Research.**

**6. Toronto: Home sales and listings, dwellings other than apartments**

Seasonally adjusted by NBF. Last observation: August 2024

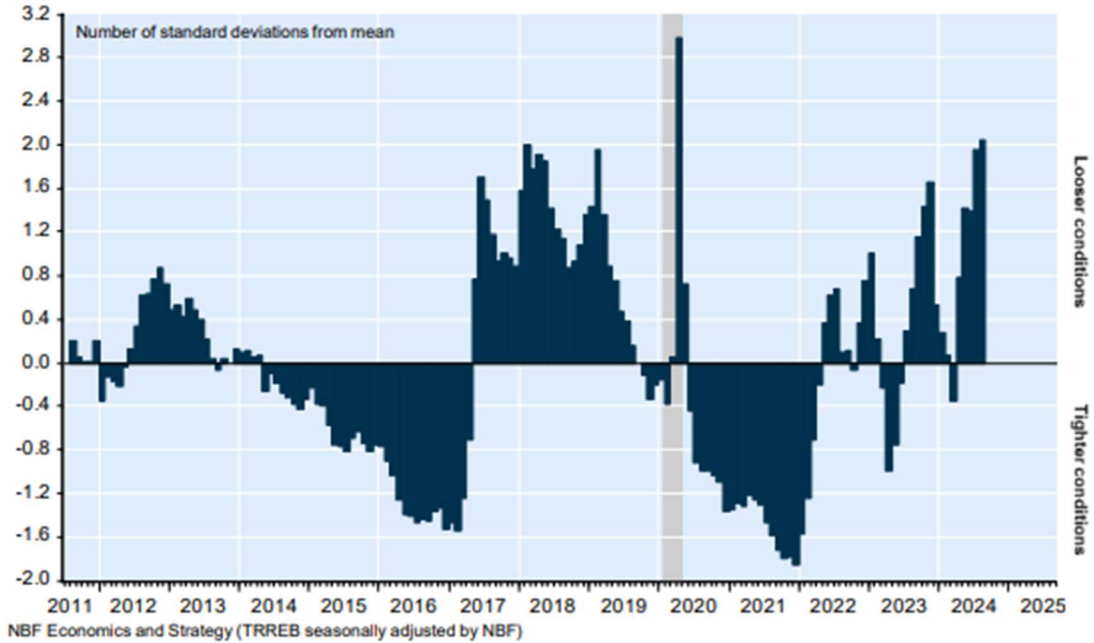


NBF Economics and Strategy, data from TRREB.

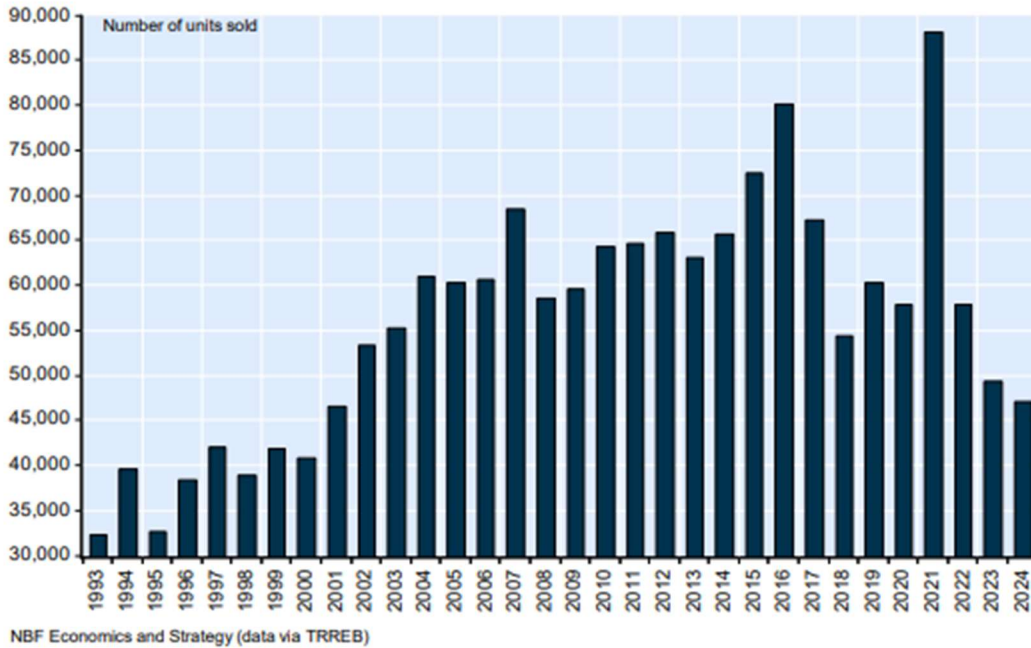


### 7. Toronto: Home resale market conditions, other dwellings

End-of-month-listing-to-sale ratio. Last observation: August 2024



### 9. Toronto: Year-to-date home sales

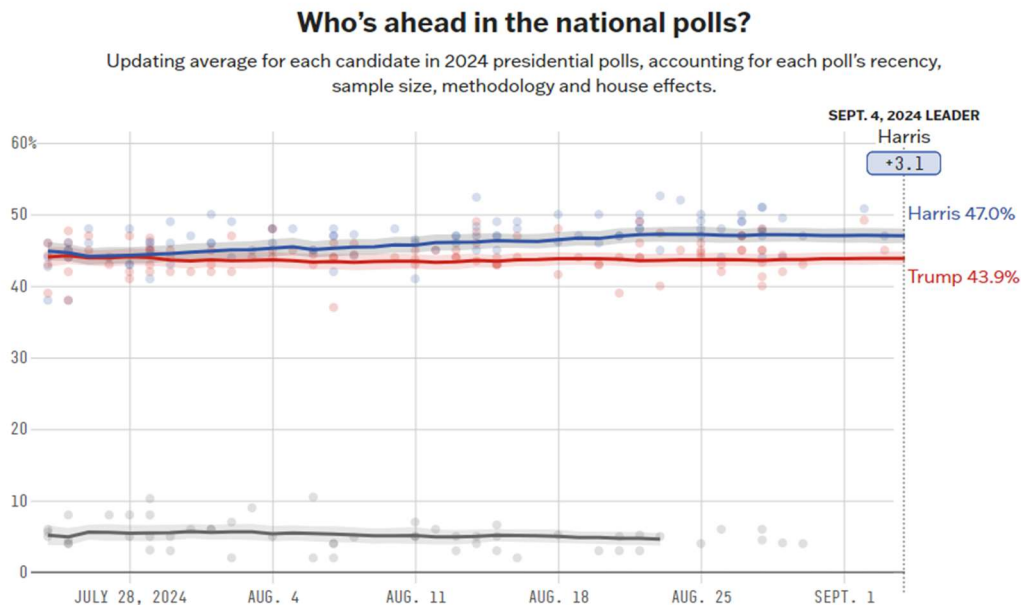


[GTA softest housing market since 2008 - full report](#)

In the US the Nov/2024 election has turned into a horse race.



## 2024 US Presidential Election Polls aggregate – 538.com Sept 4, 2024



Source: [FiveThirtyEight.Com](https://www.fivethirtyeight.com)

### Toyota vs Tesla

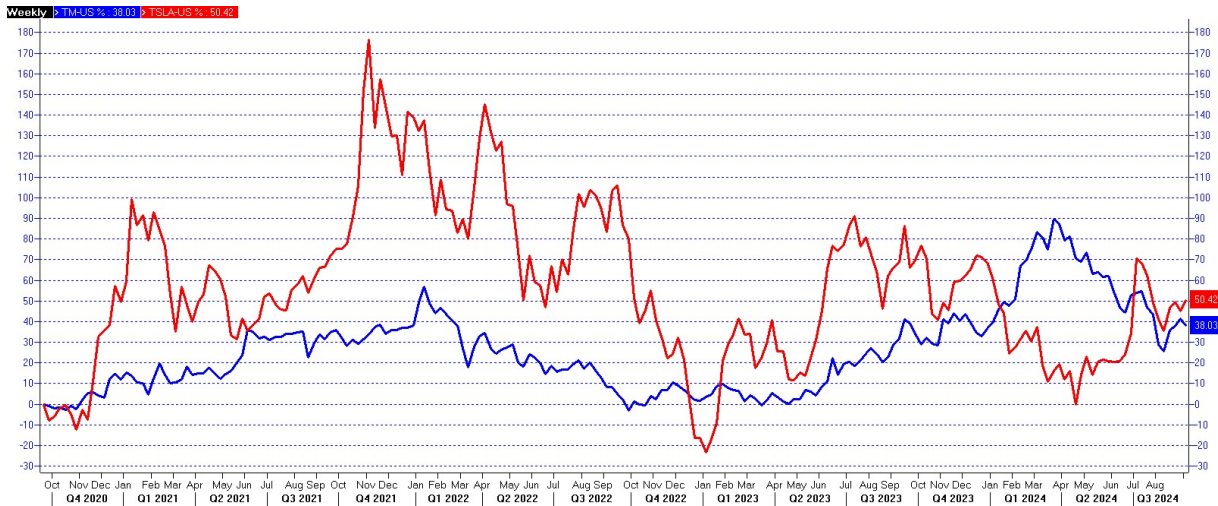
We've maintained Hybrid EV's would prove more popular in the near-term than all-battery EV's. Our rationale: Electric/gasoline powered EVs don't suffer range anxiety, fulfill most drivers daily commutes under battery power (note: work-from-home is reducing commuting) are generally lighter in weight than current pure battery plug-ins, won't suffer from power outages, won't leave the driver stranded or stuck in an under-developed charging grid area and don't require as much re-charging power thus don't require the required massive build-out of charging stations both at home and public roads. Home-owners won't be forced to install as large a charging station at home and the tax-payers won't need to fund nearly as intense a re-charging infrastructure. The hit to gasoline tax revenue would be smoothed. What hybrids don't fulfill is the ideology around 'zero-emissions' (there is no such thing).

We identified Toyota as the leader in Hybrid sales. We believed Toyota's low-key pragmatic approach (can you name the CEO off the top of your head) would eventually win over customers and investors. We focused on Toyota and avoided Tesla.

Over the past four years, Tesla is up 50% (they were flat in May/2024) while Toyota is up 38%. In both cases, all the positive returns occurred from Aug/2020-Aug/2021. Since August/2021 both are flat. Toyota has been MUCH easier to live with.



**Toyota ADRs (TM-US-blue) vs. Tesla Inc (TSLA-US-red) % change – 4 years - weekly**



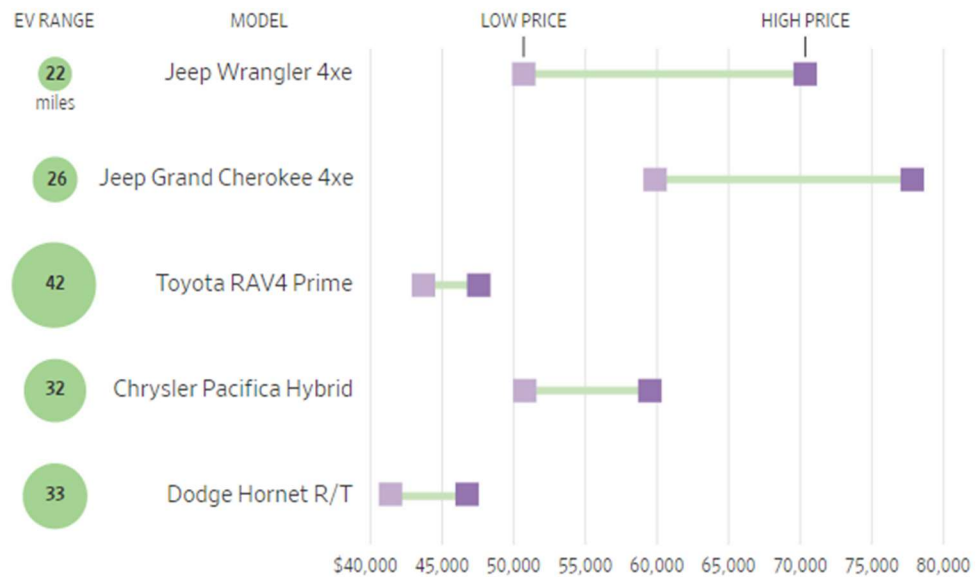
Source: Refinitiv, NBF, Hilberry

We're keeping our chips on Toyota.

The Wall Street Journal reports the US sales of Hybrids are starting to show broader based acceptance.

**'The plug-in hybrid car starts to win over buyers' – WSJ Aug 25, 2024**

Best-selling plug-in hybrids in the U.S., ranked from highest to lowest



Note: January-June  
Sources: Motor Intelligence (sales); Edmunds (EV range, price)  
Ming Li/WSJ



*The plug-in hybrid, long a fringe technology in the car business, is gaining some traction.*

*As automakers slow-walk plans to roll out more fully electric vehicles in response to lighter-than-expected consumer interest, more are embracing plug-in hybrids, which run on battery power for about 20 to 40 miles before reverting to a gas engine.*

*The technology has been on the market for more than a decade, but sales hadn't taken off until recently. Some automakers shied away from offering them because of the added cost and engineering complexity—they essentially require two ways to power the car, packed under one hood. The relatively small number of models available also were pricier than gas-powered cars, limiting their appeal.*

*Now, car companies are finding more reasons to offer plug-in hybrids, which provide another path beyond full EVs to meet tougher U.S. tailpipe-pollution rules.*

*Ford Motor said this past week that it canceled plans for a fully electric large SUV and instead will offer hybrid versions, potentially including plug-ins.*

*The number of plug-in-hybrid models on sale in the U.S. has nearly doubled since 2019, to 47, according to automotive-research site Edmunds. These include well-known nameplates, such as the Toyota RAV4 and Ford Escape compact SUVs.*

[Plug-in Hybrids winner over buyers - WSJ](#) - may require subscription.

## **The knives are out**

We close with Canadian's favorite sport. Politics!

A Canadian political party leader's primary job is to win seats. More seats = more power and more money for the party (and their salary). The NDP remains unlikely to win a majority, meaning their thrust will be to win seats. Polls say the next Canadian election favors the Conservatives, but that's not the NDP's concern. They just want more seats. The most likely source would be left-leaning Liberal voters taken from the NDP in the past two elections. The NDP dearly wants them back. We speculated the Federal NDP would likely pull their Supply and Confidence agreement supporting the Liberal minority government prior to the mandated Oct/2025 election. Where did we get this idea?

Time heals all wounds. We've provided polls demonstrating Canadian's summer 2024 dissatisfaction with the Liberals. We thought those polls showed the NDP would win more seats by forcing an election in 2024 vs. waiting into 2025. We believed waiting into 2025 might let the Liberals to escape the current heat. We thought the NDP would pull their agreement in 2024. It happened this week.

**'The NDP is ending its governance agreement with the Liberals' - CBC Sept 4, 2024**

[NDP Ending Supply & Confidence Agreement - CBC](#)

**Does it matter?**

We've also advised a change of government might put support under the Loonie (see above), and ease concerns over taxation of Canadian investment returns. This could give international investors a more positive view on Canadian stocks. Our Canadian clients need Canadian dollar returns. Focusing on US dollar investments has been significantly more rewarding than Canadian ones. Leaving US dollar investments unhedged has helped (Loonie weakened slightly and hedging costs were avoided). It certainly wouldn't hurt Canadian banks (see last week's notes on Scotiabank).

Total returns \$ and % results of investing \$10,000 Canadian using ETFs. All income reinvested via Dividend Re-Investment Program (DRIP).

**July 30, 2004 to Aug 31, 2024:**

FOREX: \$ CDN in USD : July 2004 \$0.7579 USD | Aug 31 2004 \$0.7404 USD

S&P500 ETF unhedged (SPY-US): \$75,965 \$Cdn = 7.6 X return

S&P500 hedged ETF (XSP-T): \$60,978 \$Cdn = 5.10 X return

SP/TSX Comp Idx ETF (XMD-T) : \$41,723 \$Cdn = 3.17 X return

*Source: Refinitiv, NBF, Hilberry*

These numbers might lead Canadians to ask "Why bother with Canadian stocks or even the Loonie? Invest in the US and take the proceeds back to Canada"

Not so fast.

The results are heavily skewed by the 2018-2024 returns.

**Here the same instruments 2004 to 2014**

Total returns \$ and % results of investing \$10,000 Canadian using ETFs. All income reinvested via Dividend Re-Investment Program (DRIP).

**July 30, 2004 to Aug 29, 2014:**

FOREX: \$ CDN in USD : July 2004 \$0.7579 USD | Aug 29 2014 **\$0.9189 USD**

S&P500 ETF unhedged (SPY-US): \$18,264 \$Cdn = .82 X return

S&P500 hedged ETF (XSP-T): \$19,226 \$Cdn = .92 X return

SP/TSX Comp Idx ETF (XMD-T) : \$25,689 \$Cdn = 2.57 X return

*Source: Refinitiv, NBF, Hilberry*



The big differentiator was the Loonie rising 21% against the US dollar. The rising Loonie discouraged Canadians from buying US dollars and encouraged international investors to buy Canada. The subsequent money pushed Canadian stocks up. Canada represents under 3% of global wealth. It doesn't take much external pressure to sent Canadian stocks on fire. 2004 to 2014 Canadian's who owned Canadian stocks enjoyed significantly higher returns than those holding US stocks. Will history repeat?

As a cautionary note, the Loonie traded around it's current level near 74 cents USD in the August of 1994. During the late 1990's Dot.Com craze when the globe was chasing US High Tech, the Loonie sagged to lows of \$0.6406 US in Aug/1998. The Dot.Com boom went bust in 2000, followed by the Sept. 11, 2001 Terrorist attacks on the New York World Trade Center. The Loonie hit an all-time low of \$0.6177 USD in Jan/2002 then rebounded to our above Aug/2004 starting range of \$0.7589 USD per \$1 CDN. Getting the Loonie FOREX trend right has been important for Canadian dollar returns. On the other hand, few Canadians would object to having more \$USD. If the FOREX rates aren't favorable, one can just keep owning US dividend paying stocks and spend the resulting US dollars in travel destinations where the US dollar is favored over the Loonie – being most of them. We continue to hold US dollars for our Canadian clients.

## Have a Great Weekend

### Steve & Anna Hilberry



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Wealth Management Advisor, CIM

#### FOR THE RECORD Sept 5, 2024

DOW INDUSTRIALS:	40,775
S&P 500:	5,503
S&P/TSX COMP:	22988
WTI:	\$69.16
LOONIE IN \$USD:	\$0.7404 \$US



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