HILBERRY GROUP
WEALTH MANAGEMENT

Sept 13, 2024

Lucky Friday the 13th?

Tuesday, Sept 10, 2024 saw the first televised debate between the Nov/2024 US Presidential election contenders, US Vice President Kamala Harris and US ex-President Donald Trump. Media analysts at both ends of the spectrum gave Kamala Harris a solid win over Mr. Trump. Polls suggest TV watchers agreed. On Wednesday, US inflation data came in a bit higher than hoped, potentially reducing the expected slope of Federal Reserve interest rate cuts. Equity markets were not amused with these two developments. On Wednesday the S&P500 traded down 1.6% early in the session. After the initial hissy-fit, investors began piling into stocks, pushing the S&P Wednesday's close +1% on the day and up 2.7% from the daily low. It was all a tad silly. So…would a Harris Administration be bad for the economy and bad for stocks?

NBF's Geopolitical desk commented on a Harris win in November.

NBF Economics and Strategy

Geopolitical Briefing: The Kamala Harris Agenda

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The Harris campaign has outlined several major policy proposals aimed at addressing key economic challenges, including housing affordability, tax relief for families, raising taxes on wealthier households, and healthcare costs. However, the ambitious agenda comes with significant fiscal implications, potentially adding to already high levels of deficit spending (a concern that applies also to Trump's platform).

NATIONAL BANK FINANCIAL
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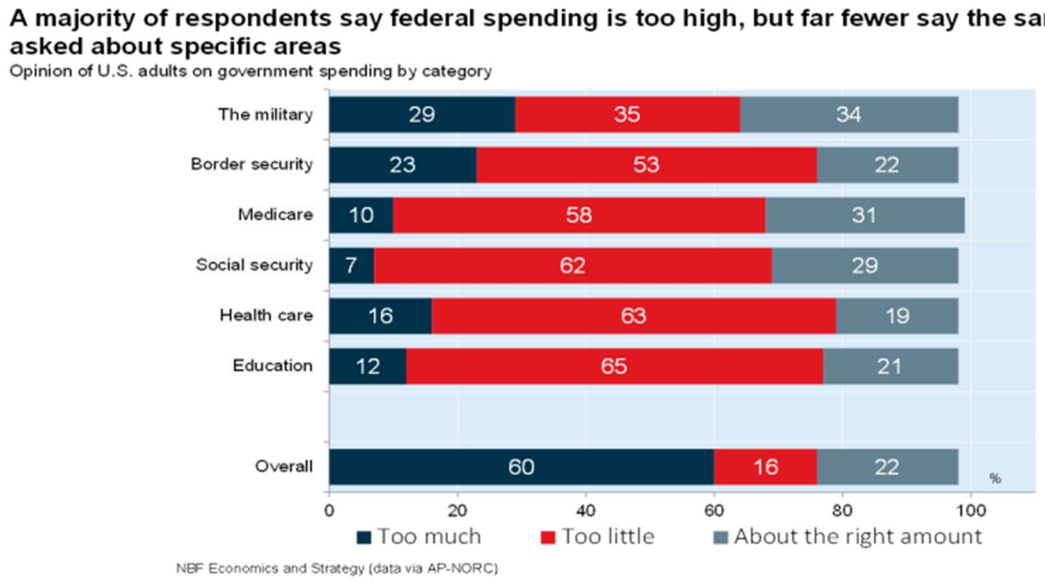
The attached report along with selected research from the Economics and Strategy Group can also be accessed by clicking this link

Angelo Katsoras

This chart from the report stood out for us. Everyone complains the Government spends too much money, but don't touch my benefits!!



The stock market did fine under Trump and under Biden/Harris. We don't see this November's outcome as binary…for stocks. Our guess is Harris wins.

How do US Presidential elections impact the stock market?

'Sell In May, go away. Don't remember 'till November'

Faithful Hilberry Weekend Readers will recall our advice to look for bargains in September and October. Experience tells us investor risk-appetite often follows the weather, heating up in late spring and cooling along with the weather in the fall. We call this pattern Seasonality. This September is following the pattern.

Chart Source: Barron's online Sept 11, 2024

History says US Presidential Election years see stock prices churning for the 6 months prior to the election as investors suffer angst over the unknown. One would think this worry reflects a binary outcome. Candidate #1 good (for stocks | Candidate #2 bad. That's not what happens. Once the winner is confirmed, regardless of the outcome, stocks usually take off, proving that it wasn't the candidates, it was worrying about the candidates that kept fingers off the BUY button.

Why does this matter?

We remind our clients that every day someone must sell to pay for a new roof, replace the car, send the kids to college, settle a divorce or distribute an estate. Few must buy.

As daily selling pressure is a given, all it takes for stock prices to fall is a lack of buyers. A lack of confidence and worry keeps bidders' fingers off the BUY button. Headlines may scream 'investors head for the auction exit', but the truth is there were more empty seats before the bidding started. This explains our tendency to look at screaming headlines as signals of extremes. If we can recognize extremes, and do the opposite, history says we'll be okay.

The fact stocks…eventually…have gone up more than down confirms two truths.

1) The economy is growing, generating more profits to be valued upwards.

2) That growth also creates savings that need to go somewhere.

The rise in stocks prices, increases savings creating a virtuous circle of rising wealth.

Putting it all together, in election years, we squirrel away cash dividends and sale proceeds over the summer, building cash to buy in the September-October periods. This doesn't mean we go crazy and sell all our dividend payers in late spring. Experience tells us trying to be too cute, dumping all risk exposure in May and going back all-in the following October generates excess accounting bills, increases taxes, disrupts a carefully built portfolio of income generating stocks, and often accomplishes little. Each year is different. Seasonality doesn't always deliver highs in May and lows in October. We've found the main value in understanding Seasonality is avoiding the manias of summer and the panics of autumn. Being psychologically forewarned is forearmed. A smoother ride allows one to see declines as opportunities. We see opportunity this fall.

Which sectors have benefitted the most in US Presidential Election years?

We've featured financials in recent 'Readings'. Bank of America (BofA) provided the following chart this week.

Table 2: Financials have average Sep-Oct and Nov-Dec returns of 1.42% and 41.9%, respectively
Average sector returns for Sep-Oct and Nov-Dec in Presidential election years

Sector	Election year Sep -Oct	Election year Nov - Dec
Financials (1941 - 2023)	1.42%	4.19%
Consumer Staples	0.51%	1.54%
Utilities	0.30%	2.18%
Energy	0.18%	4.35%
Consumer Discretionary	-0.55%	1.64%
S&P 500	-0.71%	2.62%
Industrials	-0.90%	3.53%
Telecommunication Services	-1.27%	2.94%
Health care	-1.48%	2.94%
Information Technology	-1.71%	2.75%
Materials (1989 – 2023)	-3.69%	4.77%

Table 3: Financials have a solid percentage of time up for Sep-Oct and a strong percentage of time up for Nov-Dec in Presidential election years
Percentage of time up for Sep-Oct and Nov-Dec in Presidential election years

Sector	Election year Sep -Oct	Election year Nov - Dec
Financials (1941 - 2023)	65.00%	80.00%
Consumer Staples	50.00%	50.00%
Utilities	66.67%	70.83%
Energy	62.50%	75.00%
Consumer Discretionary	54.17%	54.17%
S&P 500	54.17%	66.67%
Industrials	54.17%	66.67%
Telecommunication Services	45.83%	62.50%
Health care	45.83%	66.67%
Information Technology	33.33%	70.83%
Materials (1989 – 2023)	62.50%	87.50%

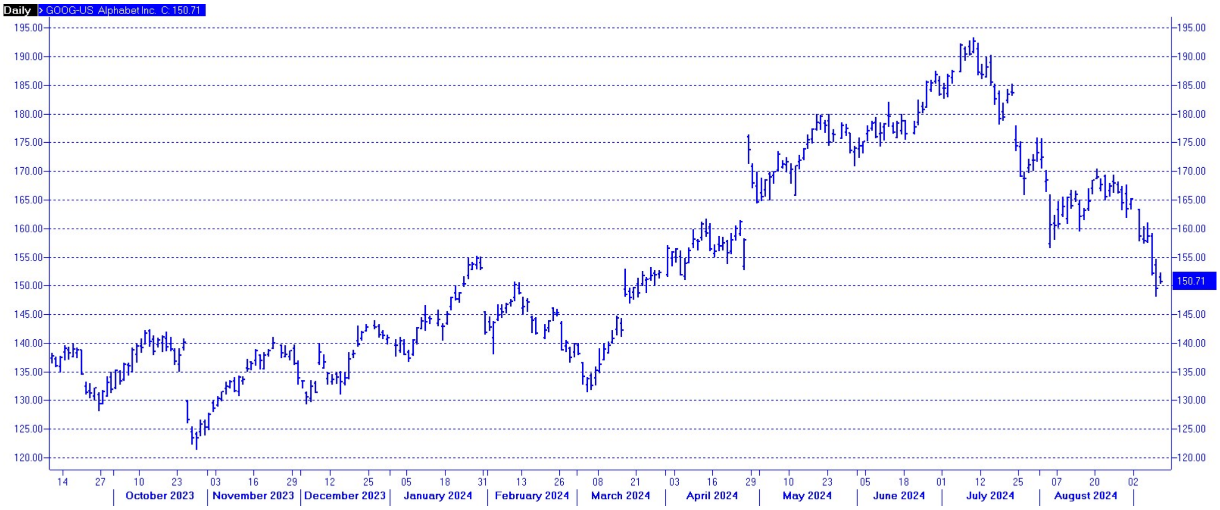
Source: BofA Global Research, Bloomberg, GFD

BofA GLOBAL RESEARCH

Chart Source: Bank of America Global Research - Chart of the Day Sept 11, 2024

Speaking of cooling…..

Alphabet (GOOG-US-$150.71 Wednesday Sept 11)



Source: Refinitiv, NBF, Hilberry – mid-session Sept 10, 2024)

S&P heavy-weight Alphabet has dropped 22% from the all-time of $193.31 hit in mid-July. The current Forward Price to Earnings Ratio (FWD P/E) is 19X earnings. The P/E has contracted from the 40-50X highs of 2021. In 2021 the price hit highs around $152 in November as investors anticipated exponential growth continuing. Based on 2020's known results, 2021 investors were paying for, and received, spectacular growth…in 2021. And then they didn't. 2022 earnings came in at $4.56, -18% from 2021 but +56% from 2020. The COVID-19 shadow hung over these results. The 2021 mid-point price of $118 was 40X the 2020 posted $2.93. The Nov/2021 high was 51x. The 2021 mid-point of $118 proved to be 21X 2021's $5.61. At this writing on Thursday Sept 12, investors are paying 25X 2023's trailing (actual) earnings and 19X FWD earnings. The P/E multiple has contracted significantly.

Alphabet Concensus Earnings Projections vs. actual

Source: Refinitiv, Sept 10, 2024

Earnings have grown over the past two years but the stock price hasn't. The Street expects GOOG's per-share earnings to grow 73% from $2023's $5.80 to $10.06 in 2026. What's not to like?

Oh. Right. 2022 was lower than 2021 and 2023 is only 3.4% higher than 2021. The past two years earnings growth have been a nothing burger. In Nov/2021 investors paid all-time highs of $152 up 72% from Nov/2020's $88.04 close and +132% above Nov/2019 $65.25 close. Peak Fever was confirmed in Nov/2021 when Tesla's stock (TSLA-US) touched $414. Nov/2021 we wrote it looked like an extreme. Tesla last trade $217 or -47%.

Over the past decade. Alphabet's low P/E has been around 20 X earnings. Alphabet is now priced at the low end of the historical P/E multiple. That was then. This is now. Have things changed?

Risk Off: The rise of AI generated search results (OpenAI's 'SearchGPT' and 'Perplexity AI',) has investors worried Alphabet will lose their 80% lock on search results. The company also recently lost an anti-trust case brought by the US Federal Govt. After the decision, the Feds said they might consider breaking Google up. This week's strong showing by Kamala Harris has raised worries of an over-bearing government taking away the punchbowl. Bears worry earnings will suffer. Alphabet initiated 20 cents per-share quarterly dividend in June/2024. The 0.5% yield is disappointing for income investors.

Risk-On: Google is the dominant search engine provider. Their leading position is seen by bull's as hard to beat. Buy-Side analysts accord a low probability to an enforced break-up, and note Google's constituent parts are worth more than the current whole.

Evercore Research recently updated their opinion (available on request). They maintain an Outperform rating (means does better than the sector) and a 12-18 month target of $225, implying 50% upside. **IF** Alphabet can match analyst consensus earnings projections, the stock could be a solid winner. This might be a good entry point for risk-tolerant clients.

DISCLOSURE: I do not hold Alphabet personally, or for family members. We hold unique positions for clients at their request. We do not hold Alphabet in our Dividend Growth portfolios. That could change. Please see important disclaimers at the end of this document.

Hot Charts - Canada: No country for young men

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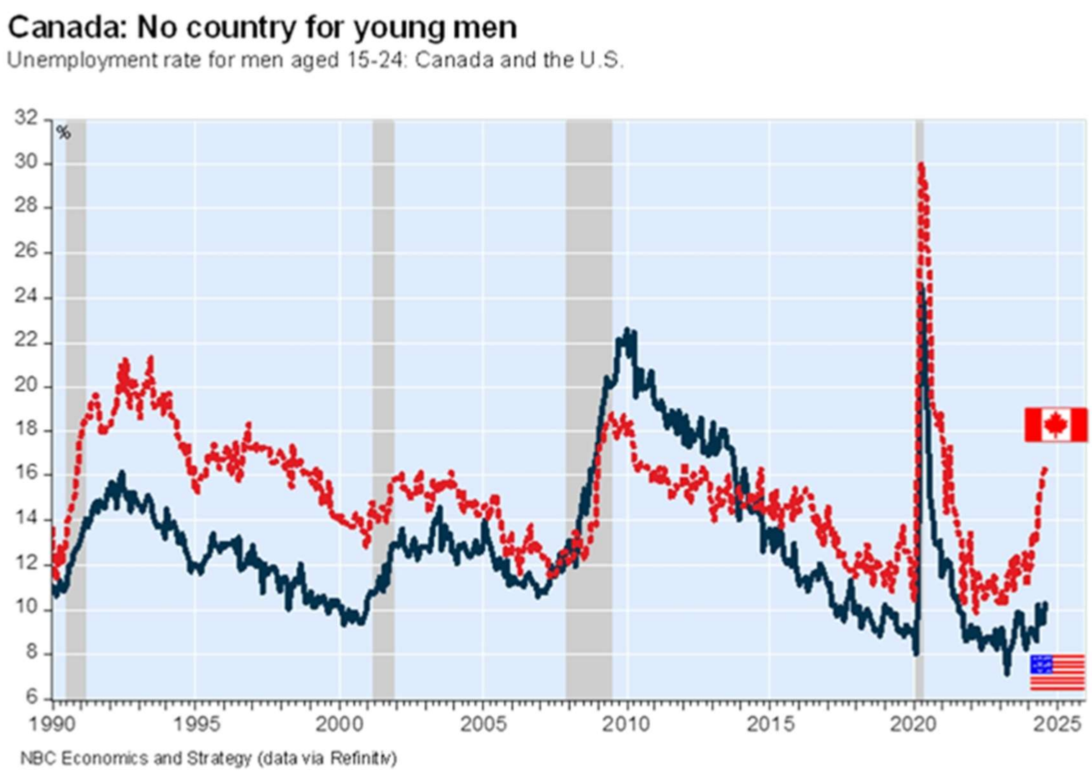
Canada Watch

Canada's labor market continued to face challenges in August (see our analysis **here**), with one of the most concerning aspects being a sharp rise in the unemployment rate for young men, reaching a multi-year high of 16.3% (excluding the pandemic). This spike is particularly relevant for monetary policy, as a Bank of Canada analytical note from April (**link**) highlights the unemployment rate among men aged 15-24 as the top indicator among 32 labour market measures in explaining fluctuations in underlying inflation. As shown in today's Hot Chart, the unemployment gap between Canada and the U.S. for this group of workers is now at its widest point since the 1990s. To draw a comparison, during the 2008 U.S. recession, the film *No Country for Old Men* was released. Fast forward to 2024, and a Canadian version at the ongoing Toronto International Film Festival (TIFF) could aptly be titled *No Country for Young Men*. This troubling trend should also serve as a warning for another "Tiff" — Tiff Macklem — to accelerate the pace of rate cuts.



Stéfane Marion

NBF Monthly Fixed Income Monitor – September, 2024

By Taylor Schleich & Warren Lovely

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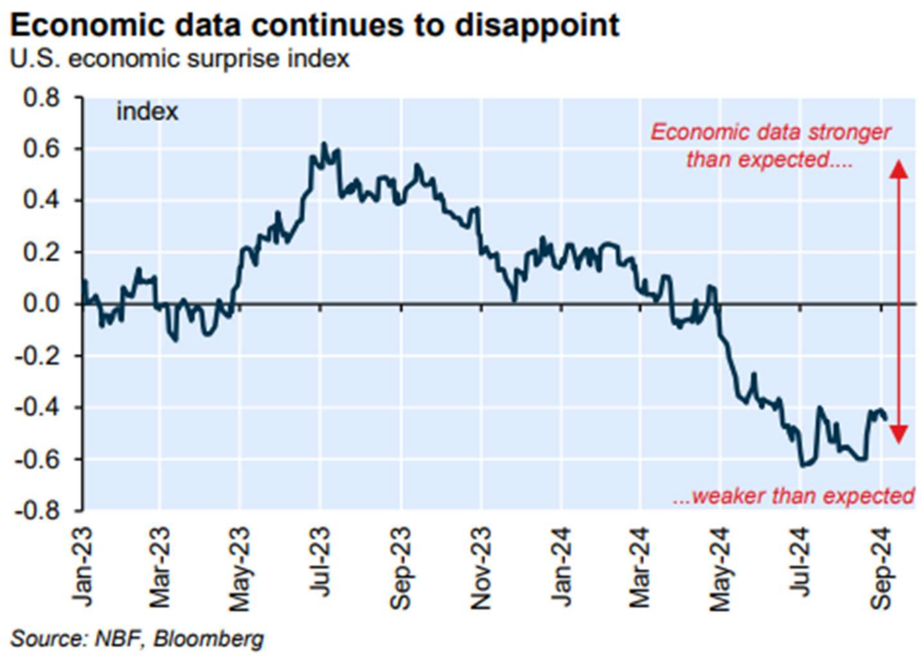
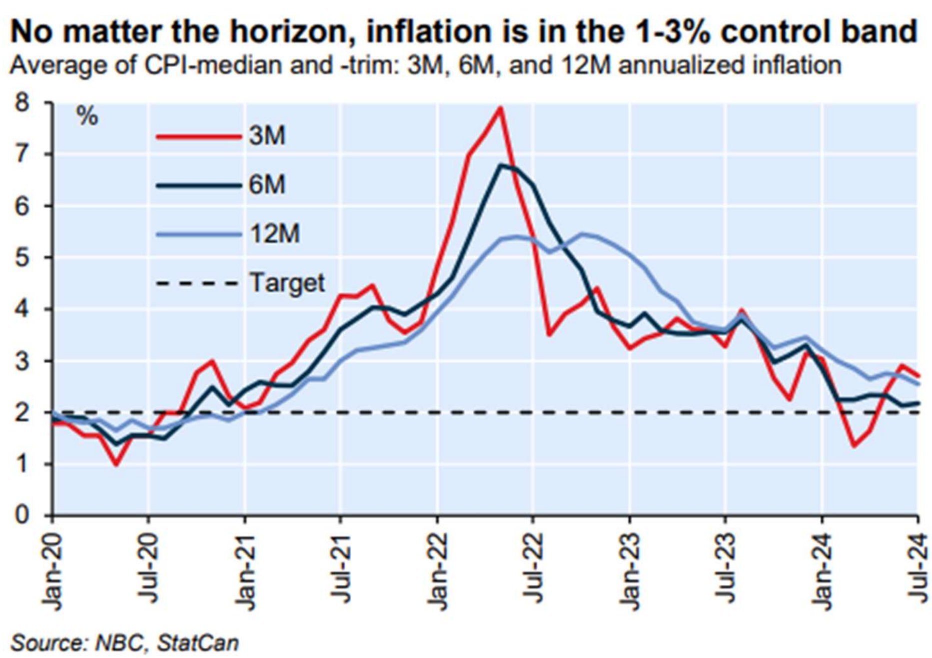
Forecast Summary

•Get going and/or keep going, as the case may be. That's the clear theme (and wholly appropriate stance) as it relates to interest rate relief in North America (and beyond really).

Notably, the time has now come for the U.S. Federal Reserve to initiate a monetary easing cycle, FOMC members have clearly laid the groundwork for such a policy pivot in recent days and weeks (going back at least to the last interest rate decision in late July). Notwithstanding our long-standing and well-publicized anxieties surrounding U.S. growth prospects, there's now little to be gained from castigating the FOMC for having taken its time. What's done is done; importantly cuts are finally here. Perhaps the more vital aspect will be the speed and extent of looming policy rate relief.





Borrowing costs look to fall. Stock prices have flopped. It's September. We see bargains.

Have a Great Weekend

Steve & Anna Hilberry

FOR THE RECORD Sept 12, 2024 close

DOW INDUSTRIALS:	41097
S&P 500:	5596
S&P/TSX COMP:	23475
WTI:	$69.30
LOONIE IN $USD:	$0.7363 $US

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