HILBERRY GROUP
WEALTH MANAGEMENT

November 15, 2024

This disruptor cometh.

The GOP lead by Donald Trump has swept all three branches of government, winning the popular vote for Presidency and taking a thin majority in the Senate and House of Representatives. Markets like the result with the S&P500 blowing through record highs. Clearly, remaining invested in equities has been the correct stance. What's not to like?

While we are very pleased to present record portfolio values and cash income to our clients, this doesn't mean we're not losing sleep. Not about politics, about leadership. Leadership means making tough choices that benefit the whole. Histories greatest leaders have sought contrary advice that they often didn't like hearing. Mr. Trump has appeared to seek personal benefit over society at large. We worry Mr. Trump's apparent lack of empathy paired with self-interest may lead to unpleasant results.

In his first term, Mr. Trump appeared surprised he won. He clearly did not have a planned list of cabinet members in advance. As a result, he appeared to rely on the advice of others, appointing adults to his cabinet. His appointments to key posts were certainly political (they always are) but mostly brought real experience. His appointments to the military in particular were drawn from high level officers. They acted as a brake on his tendencies. The chaotic turn over and resignations in his cabinet reflected these tensions. He fired those who didn't tell him wanted he wanted to hear. He appears to blame those 1st term choices on his losing the 2020 election to Joe Biden (which he also continues to deny the result of).

This term he's stated he'll do things differently. The speed of the recent announcements, and names put forward imply he and his team now understand the importance of cabinet posts to the functioning (or lack thereof) of government and a wish to make sweeping changes. The initial list of proposed cabinet appointments appear to hold loyalty to Mr. Trump above sober experience and perhaps contrary advice. This is not a recipe for successful governance. We worry about this. https://youtu.be/4Lpn1e-mH50

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The US Federal Government is founded on balance of powers. The President must propose cabinet appointments, Congress must accept them. Trump doesn't like this requirement and has asked the Senate to pass laws circumventing this requirement. We're guessing even a malleable GOP lead Senate will jealously guard its powers, knowing the next mid-term elections could see the GOP's thin majorities in the House and Senate reversed. A President can get around the appointment approval process by appointing 'temporary' postings. We await the response of the GOP lead Senate.

While we watch this process, we remind readers (and the mirror) to recognize extremes. Have the recent gains in equities been too much of a good thing?

Total return %'g change: S&P500 ($USD) vs TSX Composite ($CDN) 10 years

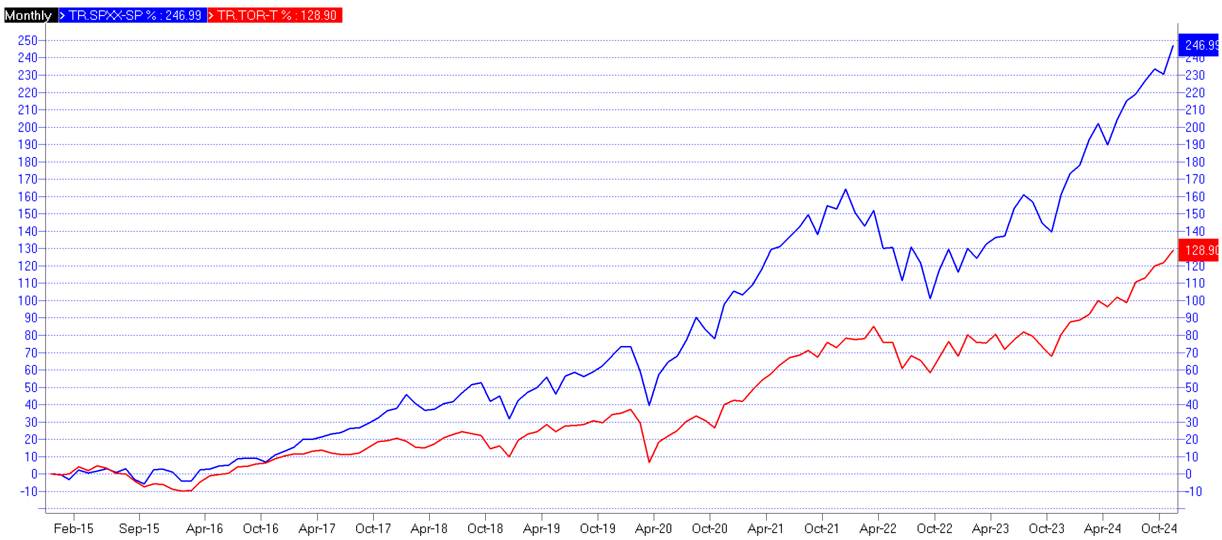


Chart Source: Refinitiv, NBF, Hilberry

Standard & Poor's began tracking the largest 90 companies in the US in the 1920's. At 2023 year end the average return for that predecessor index factored to the S&P500 generated approximately 9.90%. Since inception of the current 500 stock index in 1957 through to 2023 year-end, the S&P500 average annual return has been approximately 10.26% per year.

Nov/2014- Nov/2024 the S&P500 (blue) gained 246% for 10-year annual average return of approximately 14.7%. S&P500 total returns have been well above the long-term averages largely on the back of the Magnificent-7 stocks. We've commented regularly on concentration risk within the S&P500 constituent stocks.

The less tech-heavy Dow Industrials Average generated 11.65% total return over the above period exceeding the long-term averages by a smaller margin. The Dow generates roughly 1.4-1.8% cash dividends leaving a 'price-only' average return in the 10% range, close to the long-term average. The S&P500 trailing 10-year annual returns beat the Dow by 26%. These are notable differences.

We conclude the extremes in US valuations are not broad based. History says standing aside from much-loved names, focusing on value and cash dividend income can go a long way to avoiding significant disappointment. This does not mean our US portfolio will avoid future negative returns.

Our data sources for Canada TSX 300 composite total return begins in July/1980. July/1980 to Oct/2024 the TSX Comp generated 8.60% average total return. The above chart plots the TSX generating a total average return of 8.46%. The past 10 years has seen Canadian stocks generate below average returns. No, Canadian stocks are not over-priced.

We maintain our equities holdings with a tilt toward Canadian dividend stocks. We may further trim our US positions in favor of Canadian equities. We are not significantly reducing our aggregate exposure to equities. This may change.

(Sources: Investopedia, StatsCan, Refinitiv)

'Monthly Equity Monitor: Red wave, green screens' NBF November 2024.

NBF's November commentary went to press prior to the final US general election results.

https://nbf.bluematrix.com/links2/pdf/d0bbb06e-4887-4690-a337-7201778b6bab

Trump Draft Executive Order Would Create Board to Purge Generals – WSJ Nov 12, 2024

Panel could upend military review process and raise concerns about politicization of military

(may require subscription)

https://www.wsj.com/politics/national-security/trump-draft-executive-order-would-create-board-to-purge-generals-7ebaa606

Given Canada's reliance on energy exports and Mr. Trumps stated goals towards the energy, NBF commented on the sector in late October.

'Oil, Gas & Consumable Fuels & Diversified Metals & Mining' NBF Oct 23, 2024

Data Centers; Nuclear vs. Natural Gas – NBF Industry Note

"*One of the most topical thematics driving the power sector and its underlying fuel sources is that of expanding power consumption through data centers with the increased entrenchment and adoption of AI (5-10x power intensity). In this report, we distill the prospects of this theme towards some of the primary baseload fuels, and notably address competing views between natural gas and nuclear (and the broader fuels complex; recognizing that renewables/battery will be a material component of this conversation). The aggregate power complex is absolutely expanding (both including and in addition to data centers) and all fuel sources should be benefactors to some degree, which will likely be proven through near-term increments of natural gas demand (and value creation), relative to long-term* *(and large-scale) transformative opportunity for nuclear, with commensurate read-through to the participants therein!*

Bottom line will nuclear be a primary source of power contribution to fuel the data center and AI revolution, certainly; but all other sources of fuel to support expanded electric generation should also positively contribute to aggregate growth of the power sector, while also backfilling for growth until nuclear is ready for the market. We believe participants within each hold a different magnitude (nuclear +25% demand upside vs. natural gas 5-10% demand upside) and maturity (nuclear 10-15 years vs. natural gas 0-10 years) of value opportunity to consider. *Note, here we have evaluated the noted fuel sources, but acknowledge that other benefactors in primary power generation, materials (and views of battery storage) and renewable energy should also be key participants and benefactors."*

Full report link:

https://nbf.bluematrix.com/links2/secure/html/4b85da90-b60a-4148-a213-7b1b2554a2bf

What about the Loonie… continued?

Following up on Tuesday's notes, the Loonie continued to sag to new 52 week lows this week – or is the US dollar soaring?

$1 CDN cost in US Funds $0.7126) - 12 months – daily ranges.

Chart Source: Refinitiv, NBF, Hilberry

We've regularly grumbled about Canadian Federal Government fiscal policy (deficits ad infinitum). It's tempting to claim the Loonie's slide as made-in-Canada. Not so fast.

ICE US Dollar Index (106.78) – 12 months – daily ranges

Chart Source: Refinitiv, NBF, Hilberry

From Jan to Sept,2024 the FOREX markets USD decline appeared to price in a Harris victory. A likely Trump victory appeared to lead to rush to buy US dollars. This trend continued post results. Putting this into perspective, the long-term trend has been up. The US dollar has gained against major trading partners steadily over the past 20 years.

ICE US Dollar Index (106.78) – 20 years – monthly ranges

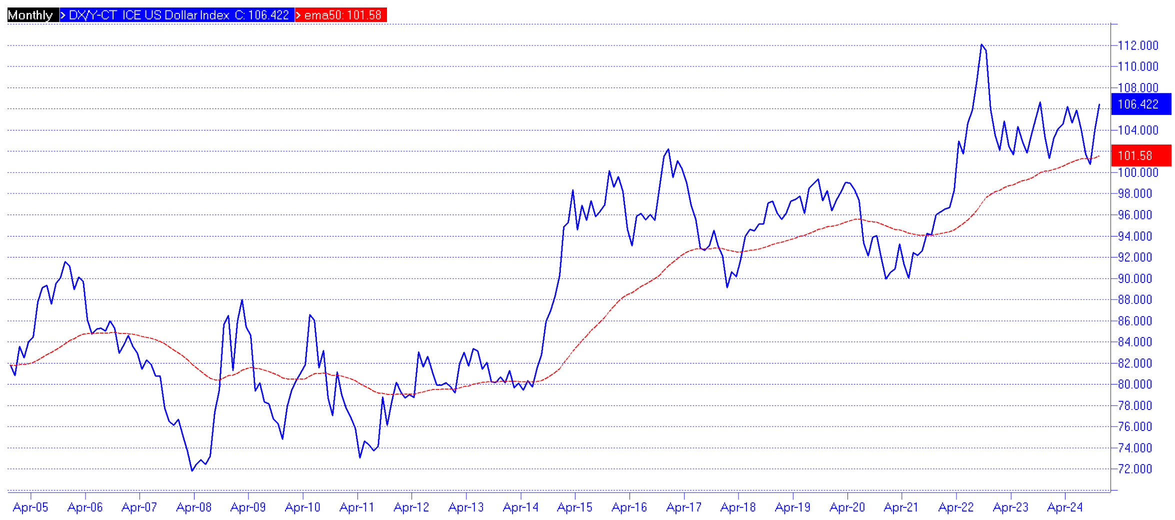
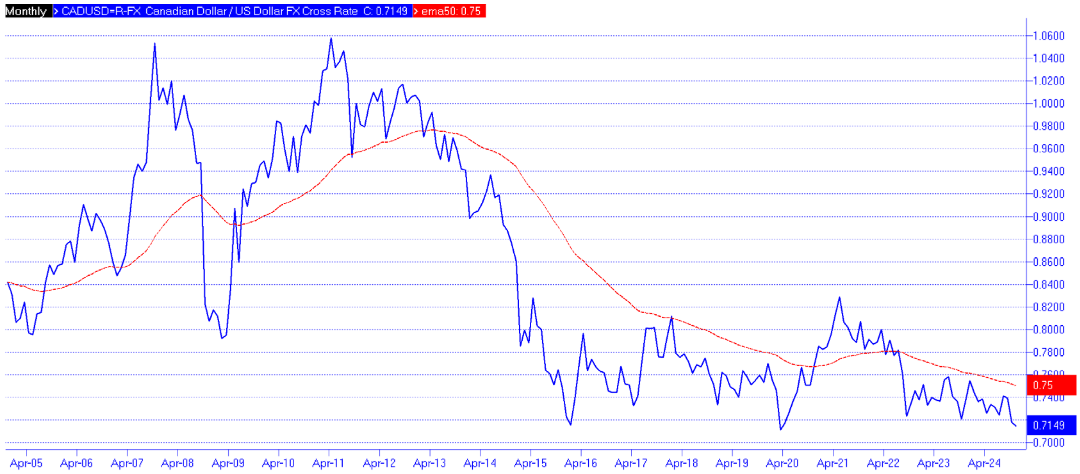


Chart Source: Refinitiv, NBF, Hilberry

$1 CDN cost in US Funds $0.7091) – 20 years – monthly ranges.



1 UK Lb Sterling cost in $USD ($1.27) – 20 years

Japanese Yen cost in $USD ($0.6435) – 20 years

Chart Sources: Refinitiv, NBF, Hilberry

So…Yes, the Canadian government needs to get real on costs and no, the Loonie's decline is (mostly) not made in Canada. The US dollar looks expensive, but given geopolitical risks this isn't a surprise.

If we think Canadian dividend stocks are cheap and still worth owning, this implies they've underperformed the US. True. So…. how 'bad' has it been owning them?

Canadian Pipeline companies are suddenly on fire

Solactive Cdn Pipelines Total Return Index (2839) – 2020-2024

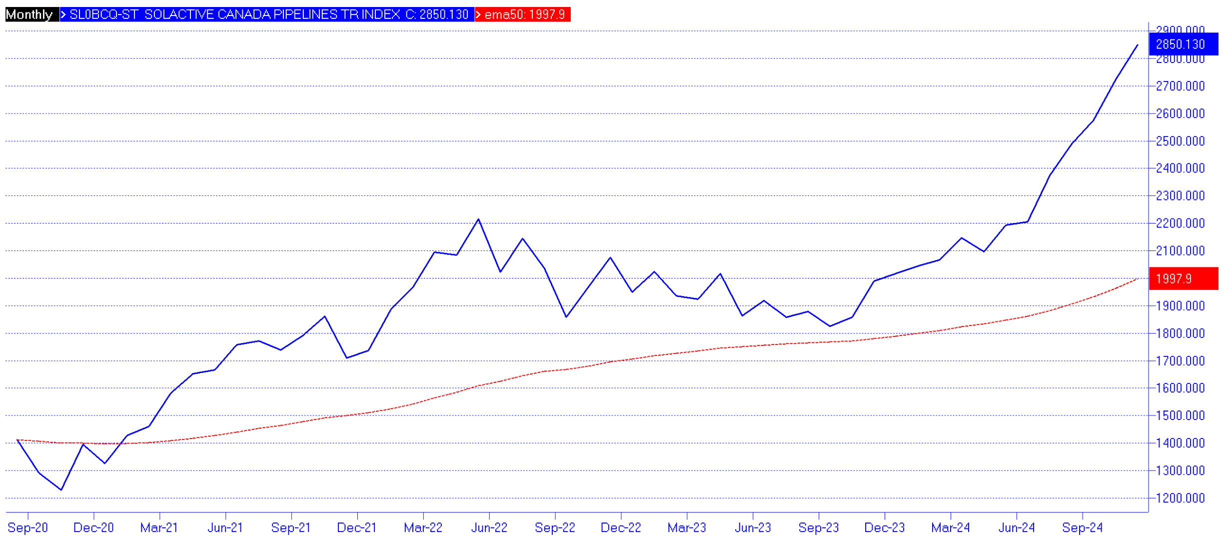


Chart Source: Refinitiv, NBF, Hilberry

The Street narrative of the future of Canadian hydrocarbon fuels, particularly natural gas, in any energy transition is changing. From *'wasting assets with no business case best left in the ground'* to, *'Oh My! We need a LOT more energy of all kinds including electricity, than we thought… soon'.*

The above industry comments on electrical power production say natural gas demand will increase for decades not years. Canadian pipeline companies **Enbridge (ENB-TSX-$60.62)**, **Pembina Pipeline (PPL-TSX-$ 58.78)** and **TC Energy (TRP-TSX-$68.97)** have been priced up. The gains have been dramatic. In April/2015 Enbridge hit an all-time high of $66.14. In mid-November 2020, perhaps reacting to the election of Joe Biden, the 'wasting asset' narrative was dialed to 11. Enbridge hit a multi-year low of $35.80, -45.8% from the high. This week Enbridge broke $60, up 67.6% from the Nov/2020 lows. Pembina hit lows of $23.45 in April/2020. Recently Pembina hit $59.86 +155% from the April/2020 lows. And you thought tech stocks were volatile!

We've held and added to all three names over the past 5 years. We saw the lows as bargains, adding to share holdings at lower prices, increasing the average dividend yield. At the time, we looked like losers, chasing dinosaurs into the tar pits. That's the business. From hero to zero and back again.

US hydrocarbon supply appears to be cresting while Canada has a very long-term, stable supply. Trumpist protectionism may see China in for a tougher time. We suspect Canada will be, correctly, viewed as too strategically important to US energy ambitions to be discouraged from exporting to US markets.

Mr. Trump has stated he wants to the see the US accelerate energy exports. History says the US is very willing to purchase cheap Canadian energy, selling on their own more expensive kind, capturing the difference. As Canada has proved incapable of developing offshore terminal capacity. The US has expanded terminals significantly, while avoiding domestic carbon pricing. Canadian producer must compete against this lower price regime. Canadian energy producers are likely to increase exports to the US (selling higher volumes at reduced prices factoring carbon pricing costs– reducing Cdn Govt. tax revenues – just sayin') to US corporations engaged in exports who could see continued profit growth, explaining our holdings in Chevron and Exxon.

Wrapping it up. We're happy for clients. We get paid to worry, fretting when prices are high and sleeping like babes when prices are low. This is nothing new.

Have a Great Weekend

Steve & Anna Hilberry

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FOR THE RECORD November 14, 2024

DOW INDUSTRIALS:	43.750
S&P 500:	5949
S&P/TSX COMP:	25049
WTI:	$67.90
LOONIE IN $USD:	$0.7091 $US

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