Hilberry Group
Wealth Management

December 6, 2024

Some folks have too much money

Got too much money? You could buy…..

…this for 1.25 million EURO / $1.85 million Canadian.

30-bedroom Chateau for sale with countryside view with Income Potential in Navarrenx, Nouvelle Aquitaine

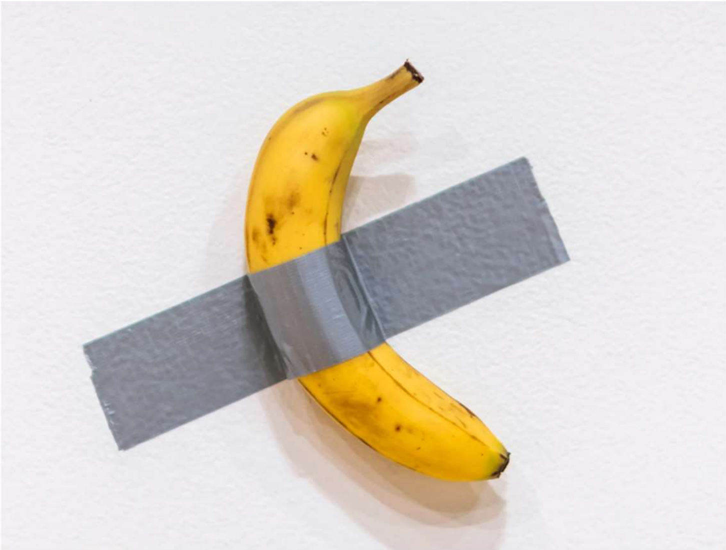
https://www.prestigeproperty.co.uk/30-bed-french-chateau-navarrenx-pyrenees-atlantique-nouvelle-aquitaine-france-251397

… or this for $3.8 million USD / $5.34 million Canadian

Ferrari's $3.8 million F80 auto

Source Baron's

… or this for $6.2 million USD/$8.7 million Canadian.



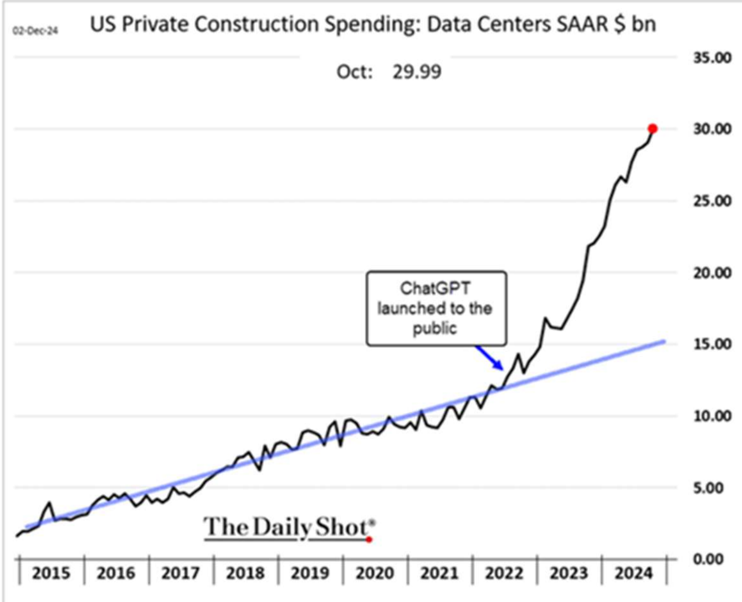
Source: CNN

Yes, a cryptocurrency billionaire actually paid $6.24 million USD for a banana taped to a wall. We're printing a hard copy of the 'cultural significance' of a banana on a wall and filing for posterity. Signs of irrational exuberance? Nah…

CNN story link

https://www.cnn.com/style/duct-taped-banana-maurizio-cattelan-auction-hnk-intl

How about some rational exuberance?



Source : WSJ Daily Shot Dec 2, 2024

Prior to climate change legislation, most power generated in Canada's prairie provinces came from coal and natural gas fired steam turbines (and still is). Alberta's TransAlta Corp. (TA-TSX-$17.19) is Canada's largest private power producer. Under the Bush Jr. Administration, rumors of a buyout drove TransAlta's share prices to an all-time high around $38 in the summer of 2008. During the climate-change pipeline wars, TA was the target of climate cancel activists, dissed by politicians and dumped by university endowments. The election of US President Barak Obama signalled a change in climate regulation, sending TransAlta's prices into a tailspin, finally bottoming in Jan/2016 the last year of the Obama Administration at $3.60. The election of Donald Trump in Nov/2016 marked a sense that the rate of legislative change for power producers might be changing and the beginning of a long rebound in the share price.

Investors recently seemed to recalibrate power demand from the electrification of the transportation grid plus AI data centers. Suddenly, the reality of 'renewable' energy intermittent power issues has natural gas out of the doghouse and back in the limelight. Canadian power producers suddenly are market darlings again. We think Canada's energy producers and utility companies will suddenly get sexy again. We're glad to hold them for income and growth.

TransAlta Corp. (TA-TSX-$19.09) Nov/1989-Dec/2024

NBF's Patrick Kenny looked at Canadian energy producers this week

Pipelines, Utilities & Energy Infrastructure

The Big Data Buildout — assessing bluesky valuation upside…

https://nbf.bluematrix.com/links2/secure/html/66b77a81-3120-4d4d-994f-509b731e1755

Key Takeaways

• ***The 100 GW wave:*** *We tally "planned" data center growth topping 100 GW by 2030 across North America — an eye-popping ~40% unrisked CAGR from current levels of <20 GW. No doubt, a vastly over-stated queue, developers are taking a shotgun approach towards locking down potential sites with ultimate winners determined by speed to market, access to reliable power supply and regional regulatory / political support. At +$10 mln per MW of data center capacity (incl. power and IT equipment), the Trillion dollar-plus investment opportunity is setting up to be a good old fashioned gold rush for data center developers.*

• *Investment stance — generational bluesky upside: Given the convoluted and often cumbersome regulatory approval process facing electric utilities, especially now being politically supercharged in the face of affordability pressures and grid instability, we see the path of least resistance for the Big Data Buildout through "off-grid, behind-the-fence" development focused on natural gasfired capacity as well as certain integrated utilities operating in Big Data friendly jurisdictions. Inside, we highlight our bluesky valuation upside for the companies on our coverage list and recommend investors looking for derivative exposure to the data center growth theme for 2025 accumulate positions in* ***TA, CPX, TRP, H, ENB and FTS.***

Symbol guide: **Capitol Power** (CPX), **Enbridge** (ENB), **Fortis** (FTS), **Hydro One** (H), **TransAlta Corp** (TA), **TC Energy** previously known as TransCanada Pipelines (TRP).

DISCLOSURE: We (happily) hold Capital Power, Enbridge, Fortis and TC Energy personally, for family members and for client accounts over which we have trading authority. We have traded in 4 securities within the past 60 days. We have no position in TransAlta common at this time. We have not traded in TransAlta's common shares within the past 60 days.

'Alberta minister wants to see $100B in data centre infrastructure in next five years' BOE Report Dec 4, 2024

https://boereport.com/2024/12/04/alberta-minister-wants-to-see-100b-in-data-centre-infrastructure-in-next-five-years/

From NBF's Calgary Energy Desk 'Before the Bell' daily note Dec 3, 2024

Enbridge (ENB) 2025 guidance slightly above expectations + 3% divvy bump. The company released 2025 guidance incl. adj. EBITDA of $19.4-$20.0 bln (NBF $19.1 bln) and AFFO/sh of $5.50-$5.90 (NBF $5.60) while reaffirming its 7-9% EBITDA CAGR outlook for 2023-2026 as well as ~3% annual AFFO/sh growth guidance.

- The company expects to deploy ~$7 bln of growth capital throughout 2025, vs. its $8-$9 bln of annual investment capacity, as well as ~$1 bln of maintenance capital, expecting to end the year within its 4.5-5.0x D/EBITDA target range (NBF: 4.8x);

- Overall, with the ~$19 bln U.S. gas utility acquisitions in the rearview and fully funded, the company expects to remain comfortably within its 4.5-5.0x D/EBITDA and 60-70% AFFO payout ratio target ranges, with no external equity required;

- We will look for further updates on the company's growth strategy at its March 4, 2025 Investor Day, as well as any update regarding further asset sales / minority interest dispositions (NBF assumption $2 bln for 2025).

Figure 1 - ENB 2025e Adj. EBITDA Guidance Breakdown

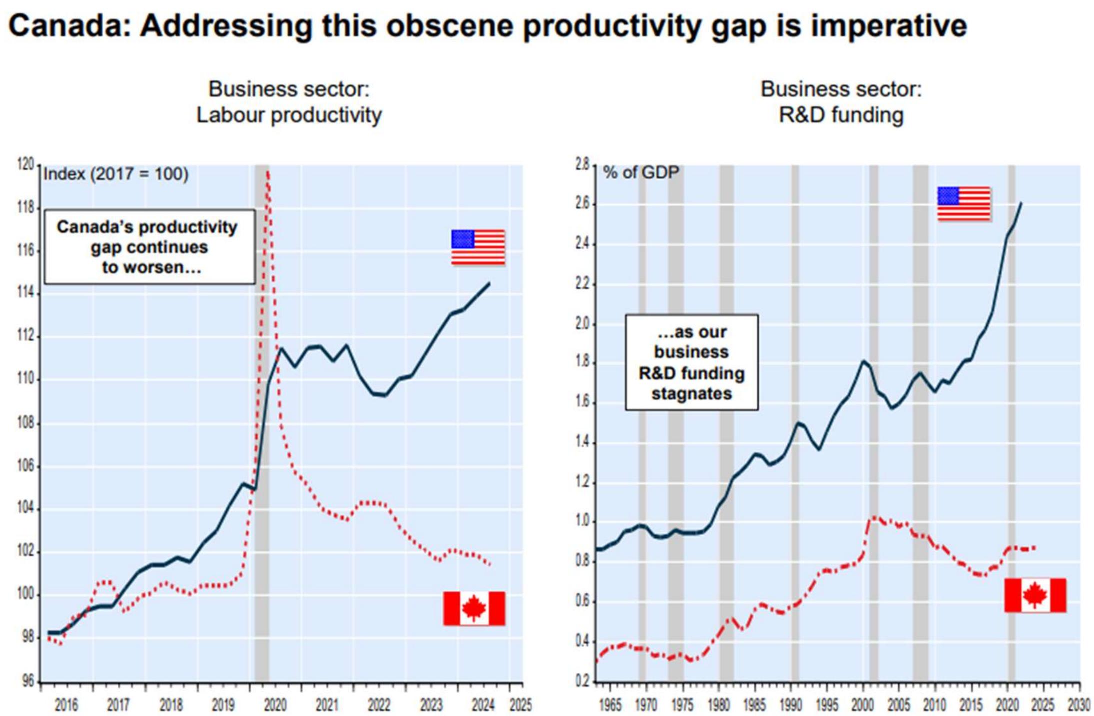
($ millions)	2025e	Key Growth Drivers vs. 2024 Updated Guidance
Liquids Pipelines	~$9,600	• Mainline toll escalators • Higher utilization across systems • Secured growth projects reaching ISD
Gas Transmission	~$5,100	• Full year Whistler, DBR system contributions • Contributions from organic projects placed into service • Allowance for equity during construction on Ridgeline and BC Pipeline expansions • Lower O&A and favourable re-contracting
Gas Distribution & Storage	~$4,100	• Full year U.S. Gas Utilities contributions • Enbridge Gas Ontario customer additions & rate escalation
Renewable Power Generation	~$700	• Incremental contributions from N.A. Solar and EU Offshore Wind projects
Eliminations & Other	~$200	
Adjusted EBITDA	**$19,400-$20,000**	

Source: Enbridge

NBF Economics and Strategy Dec 4, 2024

Hot Charts - Canada: Addressing this obscene productivity gap is imperative

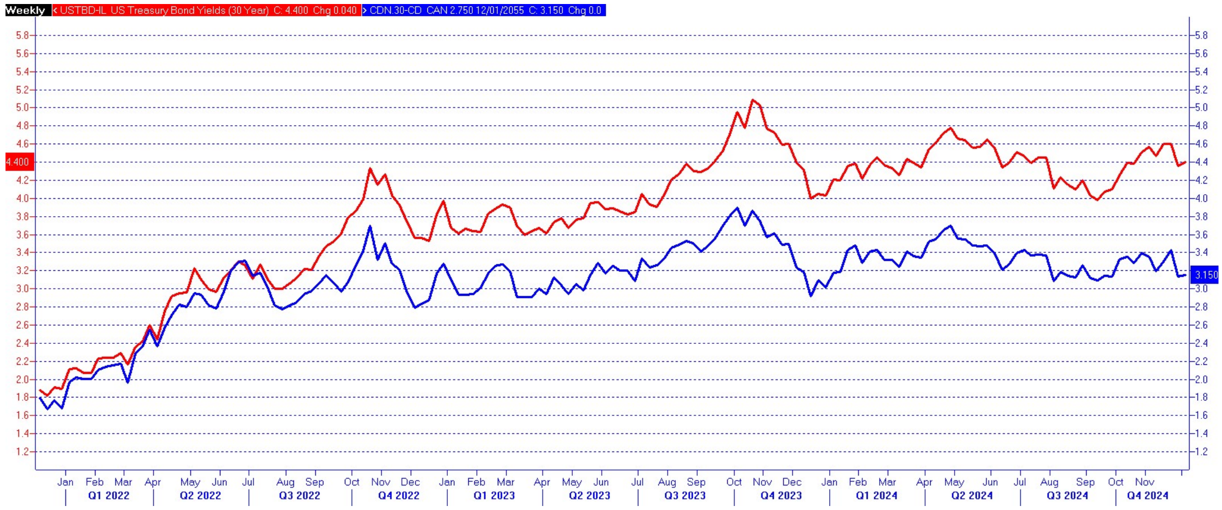
https://nbf.bluematrix.com/links2/pdf/f2d56e53-d636-4579-80aa-18da2c4205c3



We remind readers the ONLY way to improve inflation-adjusted, <u>pro rata</u> standards of living is via increased productivity. If workers demand an increase in pay per hour worked, yet don't produce more per hour worked, that cost becomes zero-sum born by others. In the case of Govt workers the cost shows up via increased taxes. For private sector workers the cost is born by consumers. Without increased productivity, increases in wages = increases in inflation. As mortgage borrowers are painfully aware, rising inflation = rising interest rates = higher monthly payments for the same house, reducing the purchasing power of the higher wages demanded. Productivity requires investment. Investment requires money. Scare off the money and…well, you get the idea.

While we continue to grumble about Canadian productivity, is this a short-term worry? Does the recent weakness in the Loonie predict trouble? Is the Canadian government seen as riskier than the US? The short answer is…no.

30 yr yields: US Fed Govt Treasury Bond (red 4.4%) vs. Canada Fed Govt bond (blue 3.15%



Since the spring of 2022, US government bond yields remain higher than Canadian. At this writing the spread is roughly 1.25% (125 BPS). This is a wider than normal spread. The higher US yields attract investment into US dollars, driving up the value of the US vs. the Loonie.

7 charts and maps show where Harris underperformed and lost the election - CNN

After initial predictions of a ‘strong mandate’ from US voters, the final tally on the US Presidential and general election was a lot closer than initial estimates. The GOP ends up with unusual control of all three branches of Govt. In the Senate, the Democratic Party lost 4 seats to hold 47 while the GOP controls 53. If Marco Rubio gains approval a bi-election would probably return another GOP member

In the House, the GOP lost one seat to control 220 seats taking their lead down to 5 seats vs the Dem’s 215. 2 sitting GOP House members are nominated to Trump’s cabinet, potentially bringing the lead down to 3. If bi-elections return to the Dem’s, the GOP lead potentially falls to 1. This may explain Trump’s selections for cabinet posts from outside elected members of Congress.

https://www.cnn.com/2024/11/27/politics/election-voters-harris-what-matters-dg/

Were cars cheaper in the Goode Olde Days?

While reviewing a client’s portfolio, the discussion wandered off into collector cars. He’s owned a 1969 Triumph Spitfire since the late 1970’s.

SOURCE: 1969 Triumph Spitfire MK3 – Conceptcarz.com

Curiosity got the better of me. What did a new 1969 Spitfire MK3 cost and how did that compare to average incomes and house values? The following is courtesy of 'ConceptCarz.Com'. Values in USD.

https://www.conceptcarz.com/s9787/triumph-spitfire-mk3.aspx

In 1969 The Spitfire retail price was $2,300

1969 Averages	
Avg. Car Cost :	$3,270
Avg. Household Income :	$9,302
Avg. Home :	$15,500
Avg. Gallon of Gas :	$0.35

1969 Spitfire retail price was equivalent to 24% of the average household income and 15% of the average house price. In 1969, the average car sold for 35% of income and 21% of home values. The avg salary was 60% of the avg house price.

While pondering house values remember to factor interest rates. Our data for 30-year mortgage rates begins in 1971 at 7.38% being 3% higher than the prevailing Fed Funds rate of 4.3%. In Nov 1969 the Fed Funds Rate was 9.23% (source: St Louis Fed) implying mortgage rates in excess of 12%. High mortgage rates suppress home buyer's potential, compressing prices.

In 2024, the average USD cost of a new car in 2024 is approximately $48,400 (*source MoneyGeek*) while the average USD salary in 2024 is $62,027 (*source: BLS*). The average $USD price for a single-family home in Aug/2024 was $385,000 (*source: Visual Capitalist*). The avg 30-year mortgage rate in Nov/2024 is 6.7% (*source: St Louis Fed*).
The avg car is now 78% of average incomes and 12.5% of home values. The avg salary today is 16% of the avg house price. Cars and Houses have become a LOT more expensive vs incomes.

To be fair, today's cars are safer, more efficient, faster, more powerful per unit weight, offer more amenities and have MUCH better tires and brakes. Today's houses, despite housing smaller families, are <u>much</u> larger with higher-end finishes, technology and climate controls… and government regulated fees and bylaw compliance. So yes, in the good old days cars and houses were cheaper…for a reason. Get used to it!

Have a Great Labor Day Weekend

Steve & Anna Hilberry

<u>FOR THE RECORD Dec 5, 2024 close</u>

DOW INDUSTRIALS:	44,765
S&P 500:	5,591
S&P/TSX COMP:	25,680
WTI:	$67.56
LOONIE IN $USD:	0.7063US

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Sent by

Montreal Office
National Bank Financial
Wealth Management
800 Saint-Jacques Street
Office 79721
Montreal, QC H3C 1A3
Ph: 514-879-2222

Toronto Office
National Bank Financial
Wealth Management
130 King Street West
Suite 3200
Toronto, ON M5X 1J9
Ph: 416-869-3707

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