HILBERRY GROUP
WEALTH MANAGEMENT

January 10, 2025

Welcome (back) to the madhouse.

It's been a busy 2025

We're only in it for a week. Justin Trudeau has announced his resignation as Prime Minister. The knives are out in the Liberal Party. Facing an election in 2025 and 51st state talk (see below) Canada is now in leader limbo. Thanks. A wag might argue that is an improvement! We disagree. This is not a time for petty politics, but it probably will be one.

US President-Elect Donald Trump's 2024 election win was certified without drama on Jan 6, 2025. This seems to have emboldened him. This week Mr. Trump pondered/threatened to take control of the Panama Canal and Greenland, by force if necessary. Perhaps smelling Canadian leadership weakness, Trump postulated taking over control of Canada as well…by finance. Perhaps freed from political niceties, Mr. Trudeau responded in untypically Canadian fashion.

Trudeau says 'not a snowball's chance in hell' Canada joins U.S. – CBC Jan 7, 2025

https://www.youtube.com/watch?v=7jF9REBEfBA

Diplomacy has descended into a meme flame war between Trump and Trudeau.

Trump Tweet

Trudeau's response

Elon Musk, who apparently now represents…?...has wrapped himself in a MAGA flag and commented on Mr. Trudeau too.

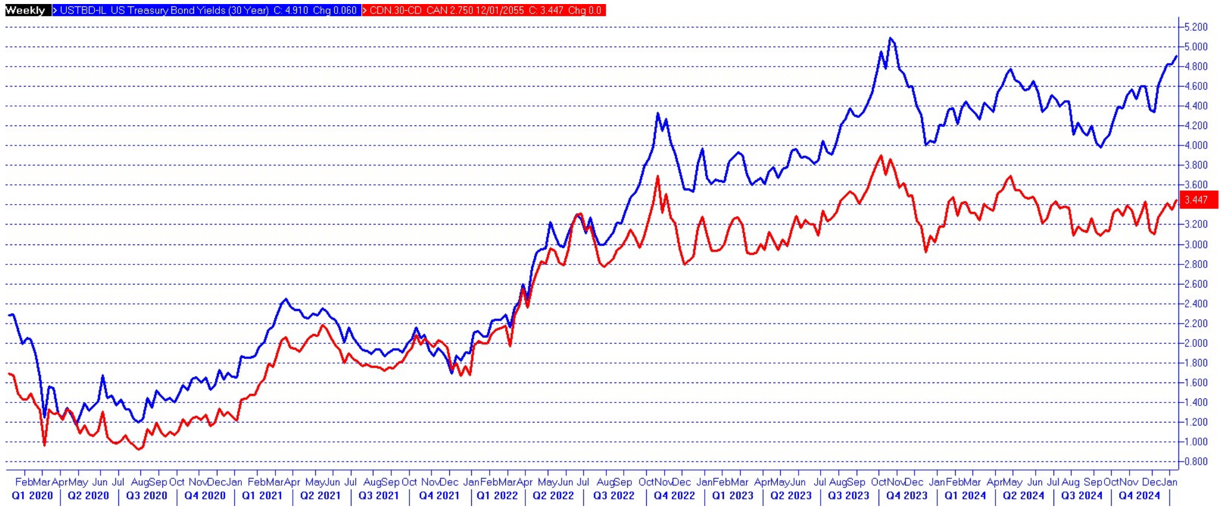
Source: X

Ontario Premier Doug Ford made a counteroffer to Trump to purchase Alaska and even threw in a bid to buy Minnesota. Is this the new diplomacy? Regards smouldering snowballs, and de-gendered leaders, the US Republican party might reconsider absorbing Canada. Many Canadians view the US Democratic party as right of the Canadian Conservative party. A Republican candidate running for local electoral college election, would share that same snowball's chance in the 'state' of British Columbia, let alone the 'state' of Quebec. The combined voting power of Canadian 'states' could probably elect Democratic candidates well into the next century. No. I think we can comfortably sleep at night knowing we'll continue our little Canadian political squabbles undeterred for decades to come.

What does the bond market think? Is Canada at risk?

At 1/3rd the value of the bond market, the stock market is the emotionally overwrought, pimple-faced sibling of the bond market adults. What do the adults in the room think about Canada's prospects and risks? Surely if 25% tariffs or worse were in Canada's immediate future, Canadian Federal and Provincial government's ability to pay would be in doubt. Their borrowing rates would surely be higher than those of the US Federal Government.

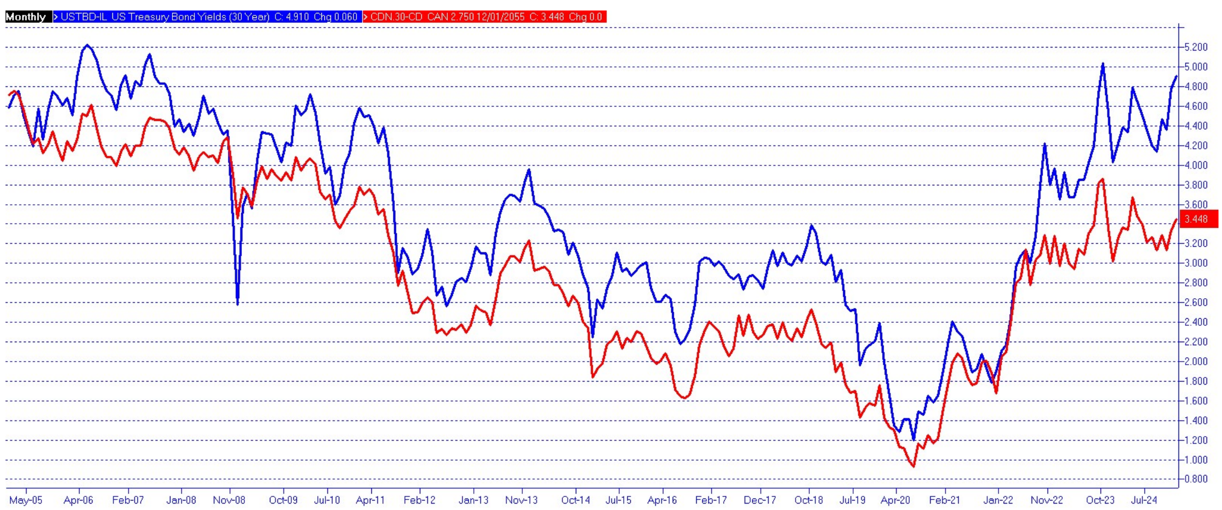
30-yr yields: US T-Bond (blue 4.9%) vs. Govt Cda (red 3.45%) 5 years - weekly



Source: Refintiv, NBF, Hilberry

Over the past 5 years, the US continued to pay higher borrowing costs than Canada.

30-yr yields: US T-Bond (blue 4.9%) vs. Govt Cda (red-3.45%) 20 years - monthly



Source: Refintiv, NBF, Hilberry

A 20-year chart shows the same relationship. International money (US based is biggest block) continues to believe Canada is the lower credit risk. Readers will note the current spread of 30-year US 4.9% vs Canada 3.45% = 43%, is the highest in 20 years. The bond market doesn't seem to believe Canada's economy is about to be harmed by across-the-board 25% tariffs or being taken over. The bond market doesn't appear to believe Mr. Trump can convert tweet-rants into action. Watch this space

What does the bond market think of US Government credit worthiness?

Bond rating agencies assess borrower risk and assign 'credit ratings' accordingly. Bonds of similar credit rating tend to carry similar yields. Ranked alphabetically AAA top drawer to D default, AAA is typically reserved for Federal Governments. The US Federal Government carries a AAA rating (for now). In the US, the only corporations with that status are Johnson & Johnson and Microsoft carry AAA ratings. The Province of British Columbia carries a AA+ rating. Newfoundland carries 'A'. For high quality corporate borrowers, 'AA' to 'A' is common for large corporate borrowers. Borrowers assigned a BBB rating are at the very lowest rank of investment grade borrowers. In May/2004 S&P maintained Tesla BBB 'despite pressure'. Bonds with BB+ or lower, ('junk' bonds) are broadly deemed an unacceptable risk for conservative investors, pension funds, and fiduciaries. Falling into junk status normally means higher costs but narrows the lending pool

The rate difference (spread) between BBB rated bond yields vs A rated bond yields has been an accurate survey of risk appetite. If BBB bond yields are ballooning vs single, this implies investors are getting nervous, fleeing borrowers that may face tougher times and harder credit realities.

For a deeper dive on ratings see here: https://www.investopedia.com/terms/c/creditrating.asp

If President elect Trump's chaotic media behaviour implied the US economic trouble, the last US sector one would want to lend to would be lower quality US corporate borrowers. This isn't happening.

The US bond market is not pricing in a steep decline in credit worthiness.

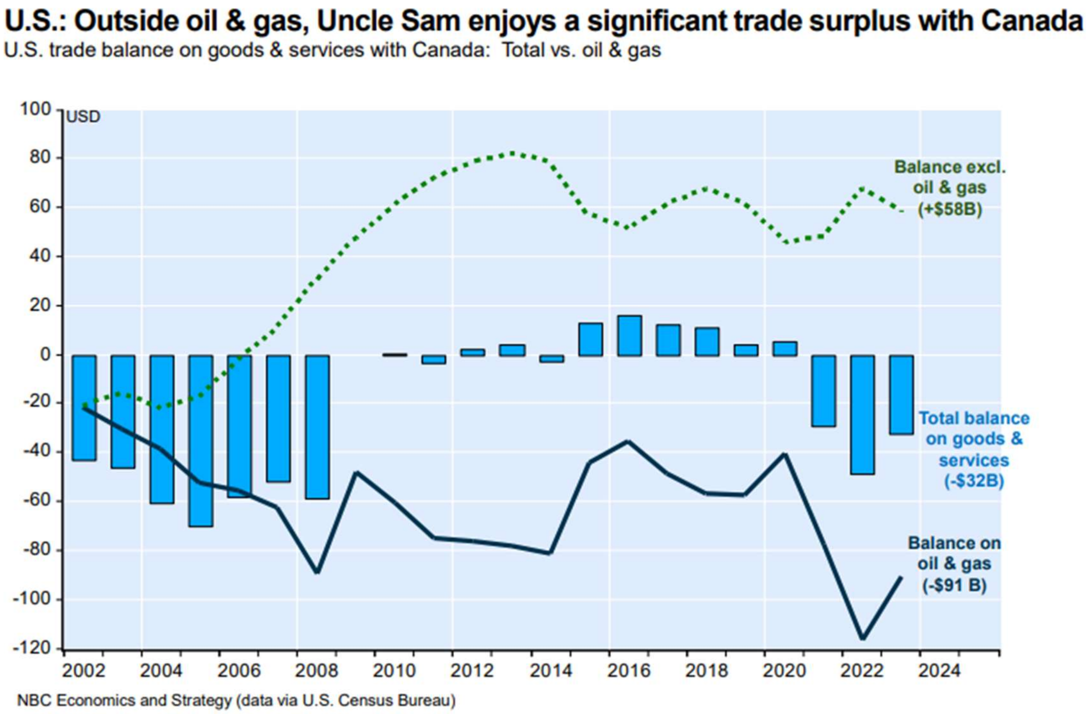
Source: WSJ Daily Shot – US Fed Reserve St. Louis

The single-A / BBB spread is at the narrowest since the 2007 Credit Crisis. The US bond market isn't worried. Yet?

What about Trump's claim the US 'subsidizes Canada 200 billion per year'?

Mr. Trump doesn't like 'trade deficits.' He appears to misunderstand the concept. We've yet to find any data supporting a $200 billion subsidy claim. Where does that figure come from? More Post-Truth behaviour. Canada happily sells raw materials to the US. The US then converts those raw materials into finished goods and sells them back to Canada. Guess which side makes money in the deal? What is the trade relationship between Canada and the US. NBF looked at that this week.

NBF HotCharts – US has a trade surplus with Canada in Goods & Services



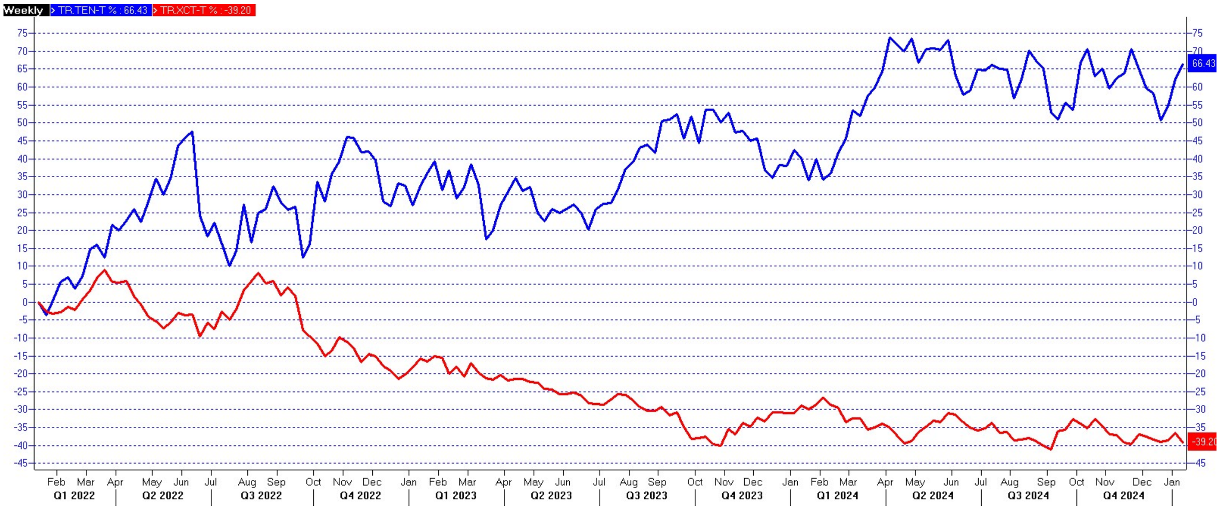
NBF HotCharts full report here:

https://nbf.bluematrix.com/links2/pdf/34e9f1bc-6258-41eb-a736-e3a0844ad290

Energy Update

We don't see 'good' or 'bad' energy, just see energy. We don't think the future will be either/or, but both for a long time. We remained invested in Canadian oil, gas and related infrastructure. This has been rewarding for our clients. On alternative energy (we view the term as branding), we cautioned the economics weren't there. We warned focusing on alternative energy at the expense of conventional energy might not be rewarding for investors. How did that turn out?

TSX Capped Energy Idx (+66%) vs TSX Renewable & Clean Tech (-39%) % change - 3 yrs



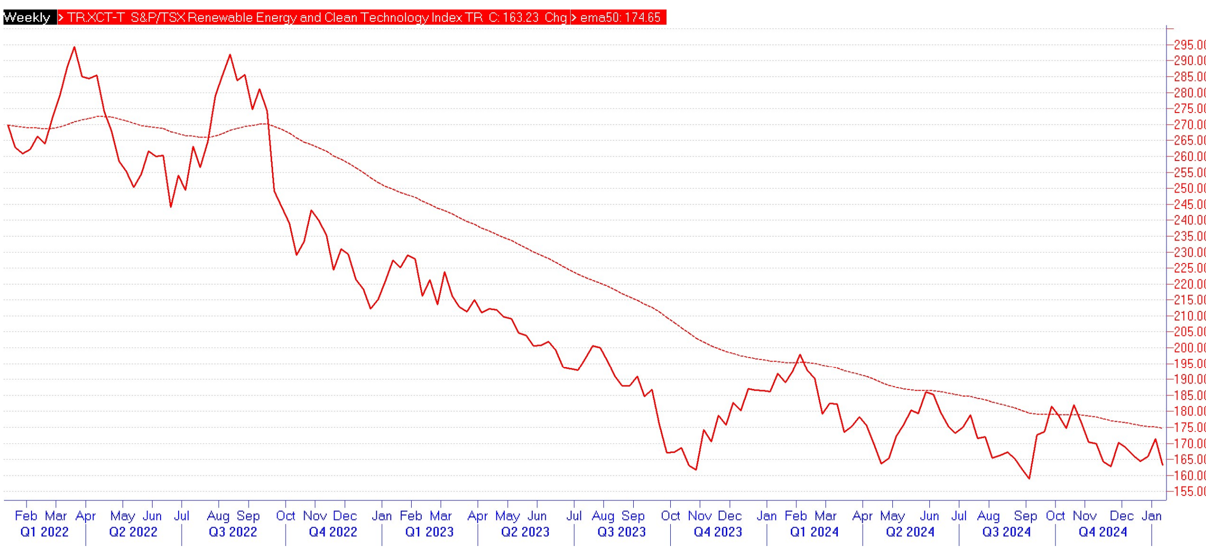
Source: Refintiv, NBF, Hilberry

In 2022 Renewable's were the darlings. It was mid-term for Joe Biden. Canada's Liberals were still in favor and Greta Thunberg was still attracting media attention.

$10,000 invested in Jan 14/2022: The much-despised conventional energy is now worth $16,643. The much-loved Clean Tech index is now worth $6,080 for a 100% difference in return. Lesson: Be cautious of investment community darlings.

We note the Canadian renewable sector may have finally bottomed out.

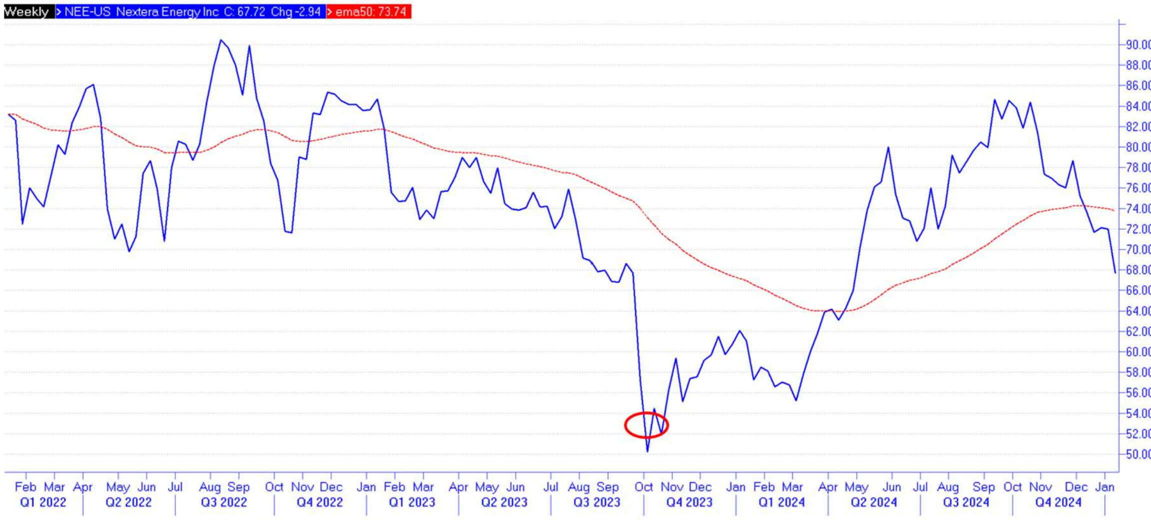
S&P/TSX Renewable and Clean Tech Total Return Index (XCT-163.23)



Source: Refintiv, NBF, Hilberry

While we're still cautious on productivity of the alternative energy, the sector may have hit a value floor. It may be time to look at the sector again.

NextEra Energy (NEE-US-$67.64) weekly – 3 years



Source: Refintiv, NBF, Hilberry

We haven't ignored alternative energy. One of the US leading electrical utilities in the field is Florida base electric utility **NextEra Energy (NEE-$67.64).** The dotted red line on the above chart ending to the right at $73.75 is the 50-week moving average price (average price paid by investors over the past 50 weeks, updated each week). At this writing, over the past 3 years, on average, investors are in the red.

Our model portfolio investment in NextEra paid off but took some zigging and zagging. The red circle is our initial buy Oct/2023 around $57.50 USD. We then trimmed NEE by 31% between March and April 2024 with our best sales around $84. With these profits in hand, our current portfolio break-even cost per share ($'s in, less $'s out, excluding dividends) is approximately $47.50. We could sell at that price and still breakeven.

In Oct/2023 NEE paid a quarterly dividend annualized at $1.87. NextEra typically hikes the dividend in February. In Feb/2024 the dividend was hiked 10.1% to $2.06 annual, well above inflation. We'll see what Feb/2025 brings. There is no guarantee the dividend will be increased or even maintained. Boards may alter or eliminate dividends without notice. If the stock trades back under $60, we might add again.

NOTE: Client deposits, withdrawals, transfers-in or out of securities, changes to investment mandates, etc. may alter their NEE average cost. Clients holding NextEra in Canadian denominated accounts (think RRSPs) will show a cost in $CDN.

DISCLOSURE: We own NextEra personally, for family members and for client accounts where we have discretionary management. We have traded in the security within the past 60 days.

Oil, Gas & Consumable Fuels 2025 Outlook: Same, Same But Different. NBF Dec 18, 2024

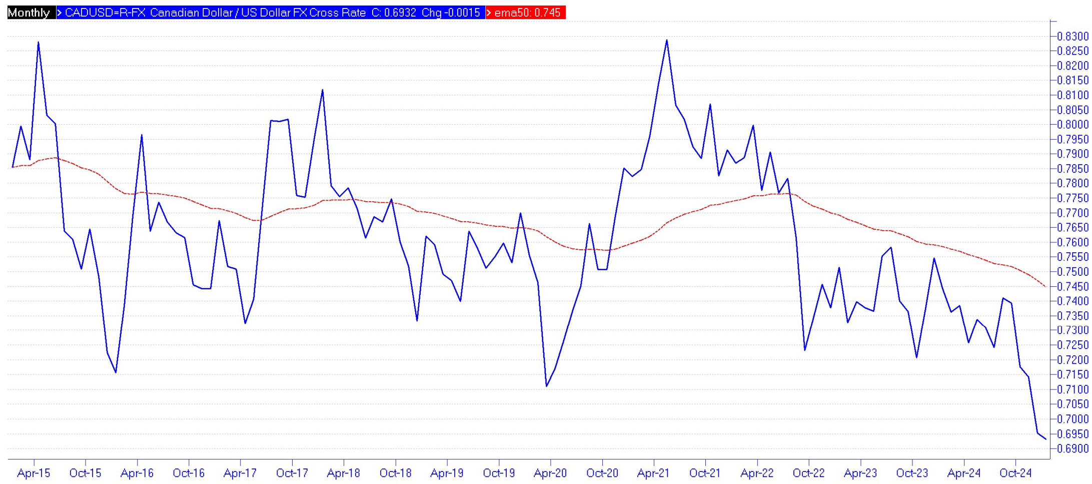
https://nbf.bluematrix.com/links2/secure/html/e6c3d3e0-ea92-4c0e-8879-99294bacb2b0

Sustainable Infrastructure and Clean Tech 2025 Outlook: Sector recovery should follow what was a very tough year. NBF Jan 7, 2025

https://nbf.bluematrix.com/links2/secure/html/6e3ef993-983b-49a9-b9d6-f11bbff78f9c

Speaking of internal squabbles Canadians have much to complain about the past decade's leadership results. In 2015 the final year of the Harper Govt's mandate the Loonie traded over 80 cents In July/2015. The Liberals won a majority Oct 19, 2015. The trend has been lower highs and lower lows over the Liberal mandate.

$1 Cdn cost in US Dollars ($0.6932) Jan/2015-Jan/2025



$1 Cdn cost in US Dollars ($0.6932) 1995-2025

Chart Sources: Refintiv, NBF, Hilberry

The Loonie is back into the depths of the late 1990's price range. That period was dominated by a global hunger for US high tech culminating in the year 2000 Dot.Com boom bust. NBF thinks Canada economy is ready for landing.

Monthly Economic Monitor (December 2024 / January 2025) - Canada: Ready for landing Dec 2025/January 2025

Summary

For the second time in a row, the central bank announced a 50-basis point cut with the aim of normalizing monetary policy. The BoC's haste contrasts with the attitude of other major central banks and is entirely justified insofar as inflation is under control in Canada and the economy has continued to deteriorate recently. Weakness could persist for some time in an environment where inventory levels are high and the deterioration in the labour market is probably not over, as evidenced by the further decline in profits in the last quarter.

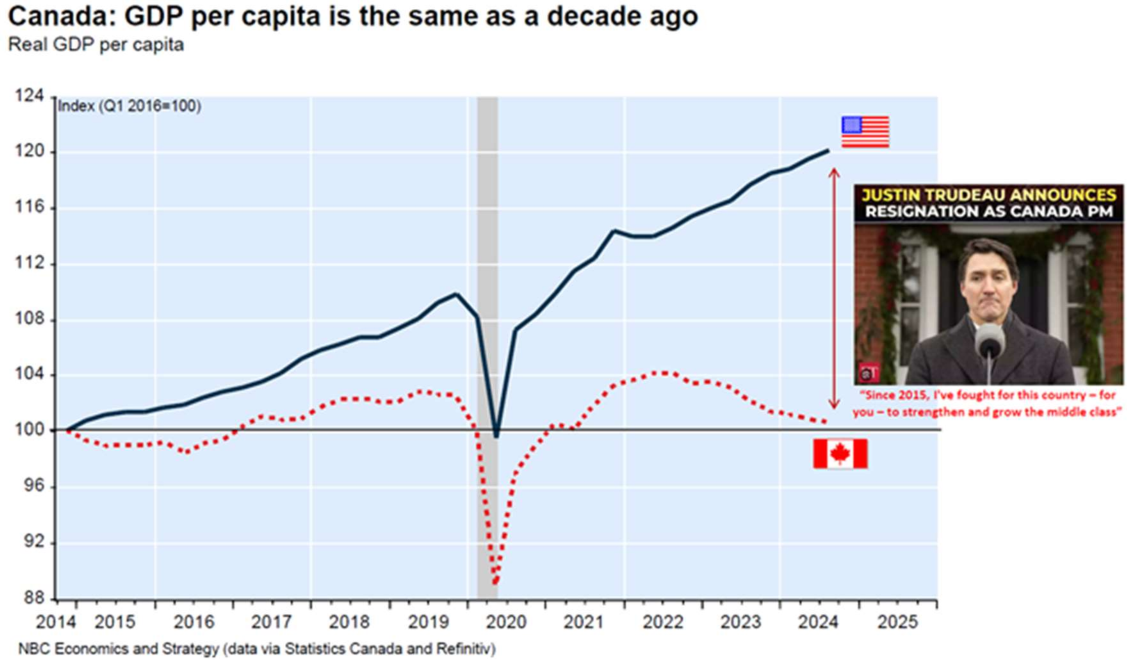
But it's not all doom and gloom. The residential housing market has come back to life and that's good news, especially as this sector of activity often has a major indirect impact on spending on renovation and retailing. Thanks to the interest rate cuts that have been made, the conditions now appear to be in place for GDP per capita to stabilize and the unemployment rate to stop rising in the first half of 2025. In the coming months, we will therefore be able to determine whether the central bank has achieved a soft landing or whether it has inflicted more damage on the economy than was necessary in its fight against inflation.

We expect GDP growth of 1.4% in 2025 and 1.5% in 2026, slightly higher than the 1.2% we estimate for potential economic growth, held back by a weak demographic outlook.

Obviously, this outlook could be disrupted by an escalation in trade tensions with the United States. We remain hopeful that, in the months ahead, Canada will be able to demonstrate that it can be a key ally in the implementation of the US economic security agenda, which includes, in addition to domestic re-industrialisation, tighter border controls and the promotion of energy security.

Full report here:

https://nbf.bluematrix.com/links2/pdf/5d5cbdc5-4eb7-44bd-afe8-a27e3bd3e6bc



The Value of the Global Semiconductor Industry, in One Giant Chart Jan 6, 2024

There's been much talk of China's rise in technology. US politicians have focused on this 'risk'. While China has certainly proved predatory in many industries, what is their current penetration by value in the semi-conductor industry? Visual Capitalist answers. China's hunger for Taiwan will be tempered by the need to maintain Taiwan's infrastructure.

https://www.visualcapitalist.com/the-value-of-the-global-semiconductor-industry-in-one-giant-chart/

Our thoughts for 2025:

We'd be surprised if 2025 shows results exceeding 2024's high double digits. With the 24 gains in hand, we dialed back our equity risk in late 2024. We're sitting on the cash.

We doubt Mr. Trump's ranting about Canada, Greenland and Panama will lead to much. His pre-inauguration behaviour has already ticked off many Canadian citizens and leaders. Canada stands in a line of peeved-to-angry global partners. The US position on the global stage is changing. This was always likely. Trump's shouting about national defense spending (in other countries) has already led to divisions within NATO and re-shoring of defense within borders. Much of this was necessary. Recent reviews of defense capabilities have left many European leaders alarmed. Trump's plans on Ukraine will tell us much of his beliefs on Europe and NATO. We'll add that the US President not all-powerful.

Trump aside, we believed the era of the Peace Dividend was always likely to pass. We remain invested in the defense industry. Trumps chaos is likely to add a trend away from harmonious global trade, reduced trade barriers, increased productivity and lower costs. 'Re-shoring' may be necessary but it's not cheap. We think inflation will not decline back to the sub-2% range. We believe Central bankers will have to adjust their targets. Rising inflation is not good but it's not bad for all stocks. Commodity producers tend to benefit.

Rising inflation implies higher lending costs. Industries that are highly leveraged to higher lending costs suffer. Real estate is an obvious example. We'll clarify housing demand can exceed the price dampening of rising costs. Canada's small population makes immigration a significant factor for housing demand. Rate sensitive can also include companies with minimal debt but that carry very high price to earnings multiples. Rising rates have a way of dampening risk premiums. The higher the initial premium being paid, the greater the decline effect. We continue to be cautious on high P/E stocks. That stance had an opportunity cost over the past couple of years. We've yet to meet someone who went broke from opportunity costs.

Canada is good at commodities. Our stocks are not priced for perfection. Some are already priced for a LOT of trouble that may not develop. We think Canada offers good value for Canadians.

Finally

I Am Canadian

US politicians may be given a lesson about Canadian's being nice.

https://www.youtube.com/watch?v=Ix7WstsCwSA

Welcome to 2025

Steve & Anna Hilberry

FOR THE RECORD Jan 09, 2025 close

DOW INDUSTRIALS:	42.635
S&P 500:	5,918
S&P/TSX COMP:	25,073
WTI:	$76.51
LOONIE IN $USD:	$0.6947 $US

NATIONAL BANK FINANCIAL
WEALTH MANAGEMENT

HILBERRY GROUP

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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