



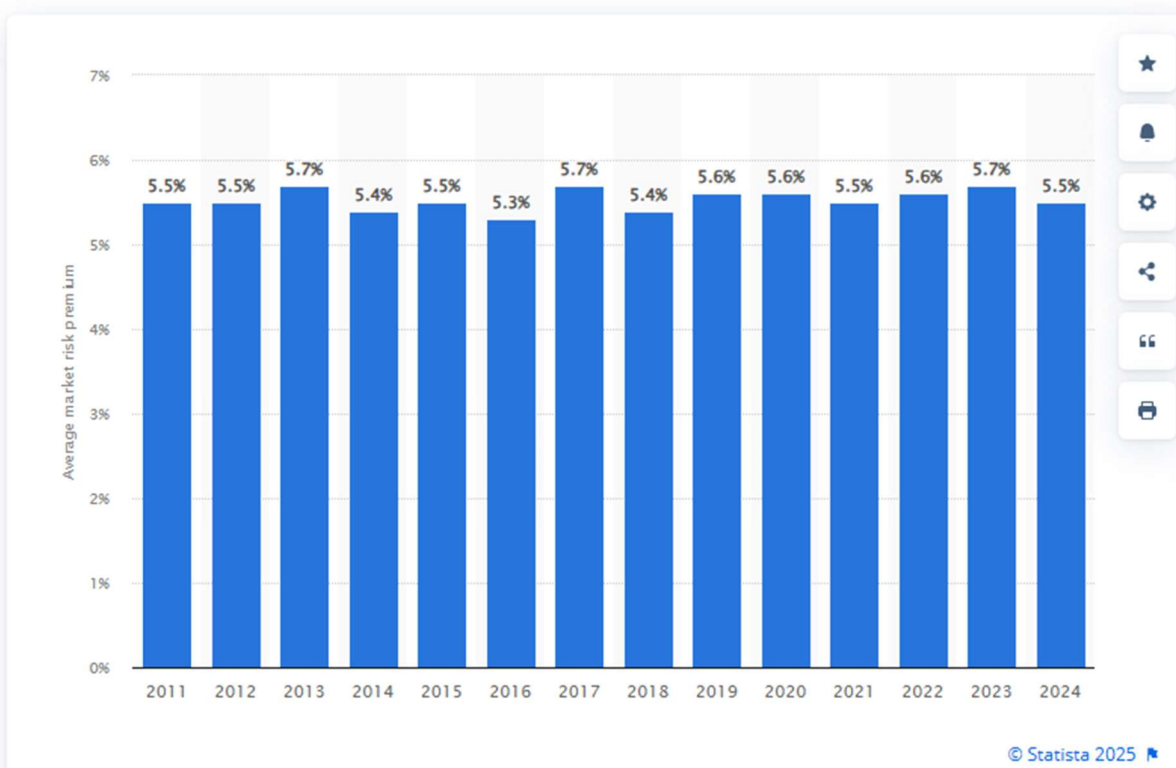
WEEKEND READING

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

Are markets expensive? Tariff, trade and Telcos.

Last week we focused on broad US equity index concentration risk in the Magnificent 7. We compared total returns for S&P 100 market-weight, equal-weight, GARP and Magnificent 7 indices. This week clients requested comments on articles saying stocks are expensive.

Average market risk premium in the United States from 2011 to 2024



Source: Statista 2025

Very broadly, US equities are not being priced with a lower-than-average equity risk premium. Translation: Investors aren't paying higher-than-average prices for the reward they might receive vs. the risk-free rate...very broadly.

What Is Equity Risk Premium, and How Do You Calculate It? - Investopedia

<https://www.investopedia.com/terms/e/equityriskpremium.asp>

That doesn't mean there aren't excesses.

Price/Earnings-to-Growth (PEG) Ratio: What It Is and the Formula

<https://www.investopedia.com/terms/p/pegratio.asp>

The PEG ratio tells us how long it will take to receive the price paid back via cumulative earnings + cumulative dividends. The PEG ratio will not tell you what investors will pay for a stock in the future. Here's an example:

The first two tables compare two companies with starting earnings per share of \$1. Neither pay dividends.

Boring Co is growing the starting \$1 EPS at 10% per year.

Boring investor pays $10 \times \$1 \text{ EPS} = \10 per share (P/E 10).

Boring investor's price P/E to Growth rate ratio = 1:1

Darling Co is growing the starting \$1 EPS at 24% per year

Darling investor pays $24 \times \$1 = \24 per share (P/E 24)

Darling investor's P/E to Growth rate ratio = 1:1

How long will it take for these two investors to see their initial purchase returned to them via cumulative internal earnings per share? The calculations are my own.

Boring Co	P/E	Price	Growth	Yield			
	10	\$10.00	10%				
Start Div		\$0.00		0%			
			Cumulative	Annual		Cum Earngs	
Year	Start EPS	Growth	Earngs	Div*	Cum Divs	+Cum Divs	
1	\$1.00	10%	\$1.00	\$0.000	\$0.000	\$1.000	
2	\$1.10	10%	\$2.10	\$0.000	\$0.000	\$2.100	
3	\$1.21	10%	\$3.31	\$0.000	\$0.000	\$3.310	
4	\$1.33	10%	\$4.64	\$0.000	\$0.000	\$4.641	
5	\$1.46	10%	\$6.11	\$0.000	\$0.000	\$6.105	
6	\$1.61	10%	\$7.72	\$0.000	\$0.000	\$7.716	
7	\$1.77	10%	\$9.49	\$0.000	\$0.000	\$9.487	
8	\$1.95	10%	\$11.44	\$0.000	\$0.000	\$11.436	Money Back
9	\$2.14	10%	\$13.58	\$0.000	\$0.000	\$13.579	
10	\$2.36	10%	\$15.94	\$0.000	\$0.000	\$15.937	
11	\$2.59	10%	\$18.53	\$0.000	\$0.000	\$18.531	
12	\$2.85	10%	\$21.38	\$0.000	\$0.000	\$21.384	Double
13	\$3.14	10%	\$24.52	\$0.000	\$0.000	\$24.523	
14	\$3.45	10%	\$27.97	\$0.000	\$0.000	\$27.975	
15	\$3.80	10%	\$31.77	\$0.000	\$0.000	\$31.772	Triple

Darling Co	P/E	Price	Yield				
	24	\$24.00					
Start Div		\$0.00	0%				
			Cumulative	Annual		Cum Earngs	
Year	Start EPS	Growth	Earngs	Div*	Cum Divs	+Cum Divs	
1	\$1.00	24%	\$1.00	\$0.000	\$0.000	\$1.000	
2	\$1.24	24%	\$2.24	\$0.000	\$0.000	\$2.240	
3	\$1.54	24%	\$3.78	\$0.000	\$0.000	\$3.778	
4	\$1.91	24%	\$5.68	\$0.000	\$0.000	\$5.684	
5	\$2.36	24%	\$8.05	\$0.000	\$0.000	\$8.048	
6	\$2.93	24%	\$10.98	\$0.000	\$0.000	\$10.980	
7	\$3.64	24%	\$14.62	\$0.000	\$0.000	\$14.615	
8	\$4.51	24%	\$19.12	\$0.000	\$0.000	\$19.123	
9	\$5.59	24%	\$24.71	\$0.000	\$0.000	\$24.712	Money Back
10	\$6.93	24%	\$31.64	\$0.000	\$0.000	\$31.643	
11	\$8.59	24%	\$40.24	\$0.000	\$0.000	\$40.238	
12	\$10.66	24%	\$50.89	\$0.000	\$0.000	\$50.895	Double
13	\$13.21	24%	\$64.11	\$0.000	\$0.000	\$64.110	
14	\$16.39	24%	\$80.50	\$0.000	\$0.000	\$80.496	Triple
15	\$20.32	24%	\$100.82	\$0.000	\$0.000	\$100.815	

As both investors paid 1:1 for growth, both will see their purchase price regenerated from internal cumulative earnings in roughly the same periods. This may not equal market value!



Magnificent 7	PEG Ratio
Alphabet	1.16
Amazon	2.72
Apple	2.64
Meta Platforms	2.65
Microsoft	2.59
Nvidia	0.84
Tesla	9.50

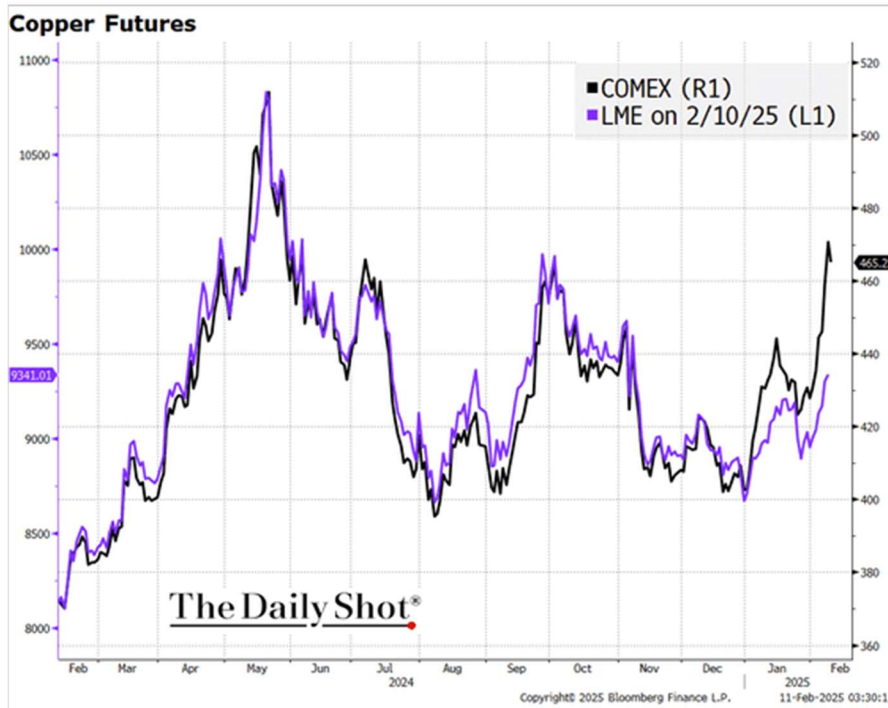
Source: Refinitiv, NBF, Hilberry

Alphabet (GOOG-US-\$186.13) shows a reasonable PEG ratio close to 1. Apple through Microsoft are more expensive. Nvidia is ‘cheap’ while Tesla is in another universe. Tesla (TSLA-\$349.15) is trading at 172 X trailing 12 mos. earnings and 126 X projected 12 mos. earnings. Not 24, 126 (!) Using the PEG ratio, Tesla’s implied long-term annual average earnings growth rate is 126%...per year. Uhmhhh... OK. So....broad indices aren’t broadly expensive. Some stocks are crazy expensive.

DISCLOSURE: No position in the above names is within our managed portfolios.

Inflation signals: We’ve been warning inflation is likely to remain higher than over the past decade. Copper agrees.

Commodities: COMEX copper has sharply outperformed LME copper amid tariff risks.



Source: WSJ Daily Shot

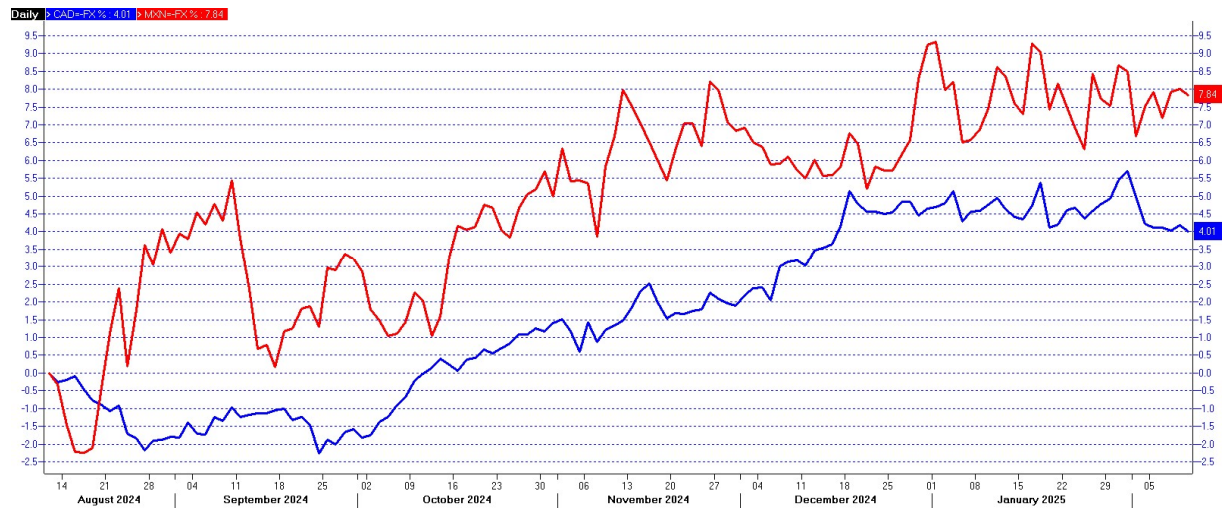


Are Bond and FOREX markets predicting the end of Canadian sovereignty?

The FOREX markets are the hottest of the 'hot money'. If there's trouble afoot, it will show in up early. NOTE: FOREX markets are notoriously twitchy. Take price trend 'predictions' with a tablespoon of salt. A lack of movement is probably a better indicator.

Are the Loonie or the Peso pricing in 25% tariffs (or US military occupation)?

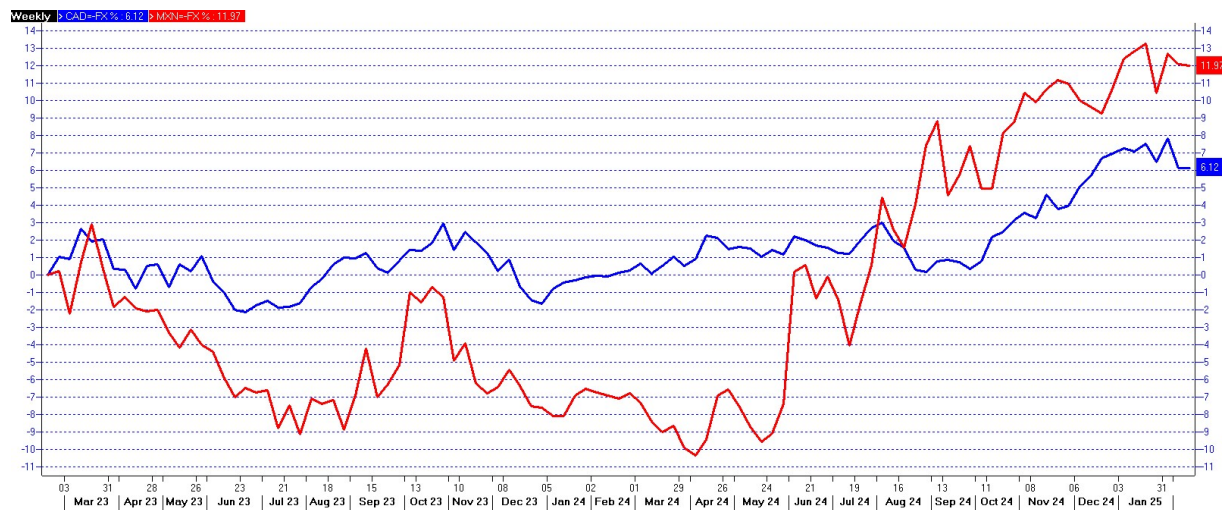
6-month % change: \$1 USD: Mexican Peso (MXN 20.552-red) and Loonie (CAD-\$1.429)



Source: Refinitiv, NBF, Hilberry

Higher means more expensive to buy \$1 USD (up = weaker). Responding to Donald Trump's election, both currencies fell (spiked on chart). In Nov, 2024 the peso gapped higher than the Loonie, and largely traded sideways since. The Loonie continued to weaken into late Jan. 2025, then rebounded over the past two weeks. The latter may reflect Canadian's repatriating travel funds destined for the the US. They may buy Pesos instead.

24 months % change: \$1 USD: Mexican Peso (MXN 20.552-red) and Loonie (CAD-\$1.429)

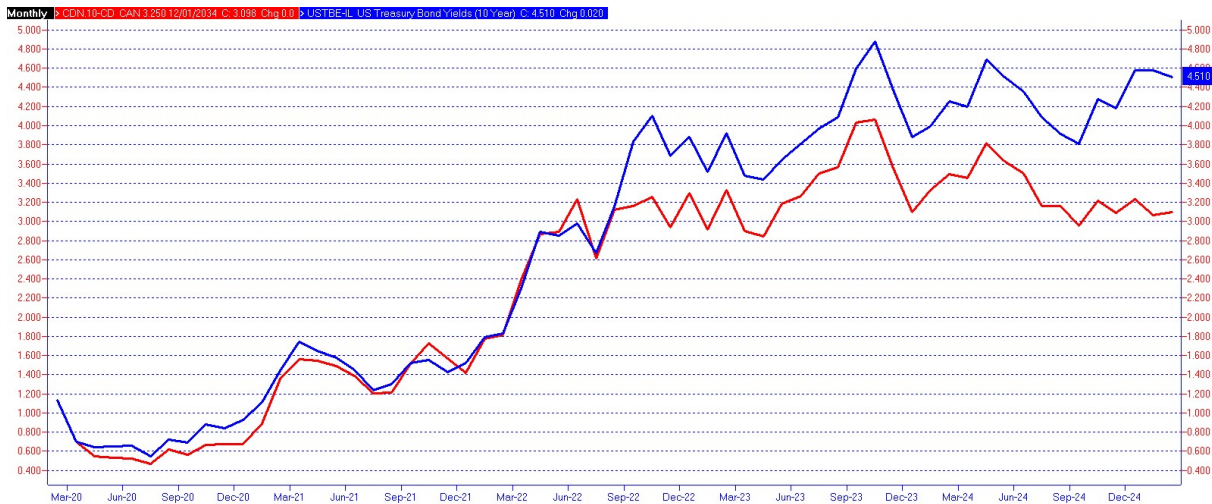


Source: Refinitiv, NBF, Hilberry



The Peso strengthened (chart down) into April, 2024 then began to weaken with the arrival of Donald Trump. The Peso has declined by 12% since Feb/2023 with most of the weakness occurring between May-Nov, 2024. The Loonie has declined by around 6% with most of that decline occurring since Oct, 2024. Neither currency is pricing in deep challenges.

10-year Govt Bond Yields: CDA (red-3.098%) US (blue 4.51%) 5 years



Source: Refinitiv, NBF, Hilberry

The two sets remained tightly correlated Feb, 2020 (COVID-19 Pandemic begins) into mid-summer 2022. Since July, 2022 Canadian yields traded sideways while US yields have increased. We think CDN yields reflect a made-in-Canada anti-business environment, not significant risk of the Canadian Federal government failing to pay its debts nor US Marines landing on the Parliament front lawn. Perhaps here's why.

'Trump's push to make Canada the 51st state could backfire on Republicans' – Ali Veshi MSNBC Feb 10, 2025

If the thought of two senators from Puerto Rico scares the GOP, how will 20 from the land of maple syrup, Mounties and "Anne of Green Gables" go over?

<https://www.msnbc.com/top-stories/latest/trump-land-grab-canada-state-rcna191505>

Donald Trump and Co. pounded the tariff drums this week NBF updated their views. (may require email 2-step verification that you are human!)

'Tariffs and Trade - [Trade] War, What Is It Good For / Absolutely Nothing' NBF Thematic Research Feb 2, 2025

<https://nbf.bluematrix.com/links2/secure/pdf/72cbcc54-6f52-4320-80bd-ecdae69de3d3>

'Merchandising and Consumer Products: Initial thoughts on the impact of announced tariffs on our coverage universe' NBF Vishal Shreedhar Feb 2, 2025

<https://nbf.bluematrix.com/links2/secure/html/1892630a-a950-46c8-b413-a49ee09923b9>



Canadian Banks: sector news flash NBF-Dechaine Feb 5, 2025

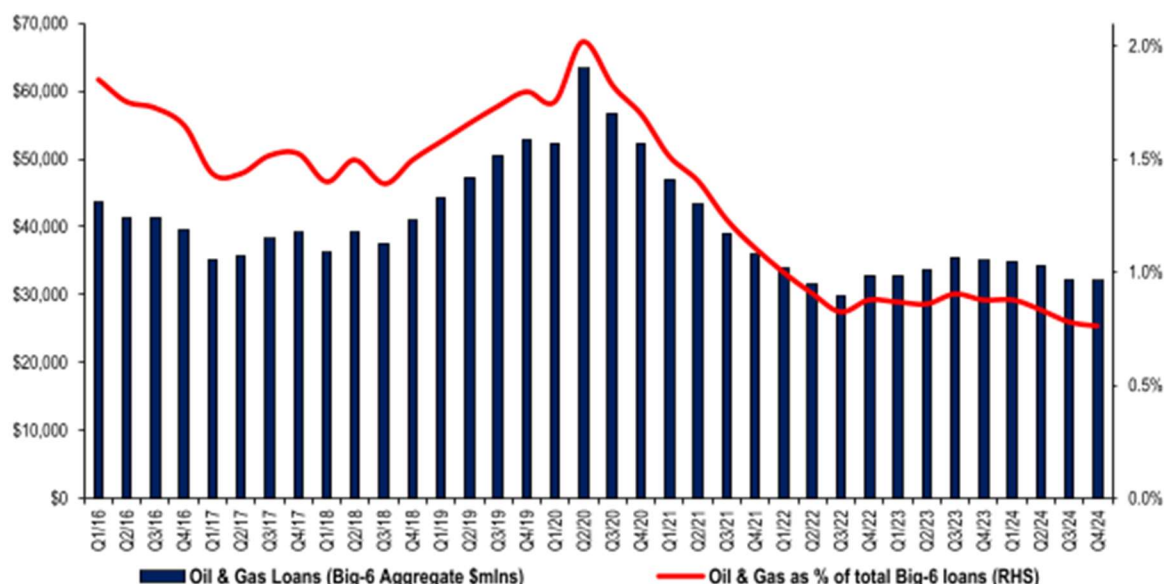
<https://nbf.bluematrix.com/links2/secure/html/3d32a775-92bf-408c-8adf-4727fc407aeb>

Patience is bitter, but its fruit is sweet

Long-term momentum shift? The current trade dispute between Canada and the U.S. is clearly a short-term negative for the Canadian banks. However, the long-term outlook is improving, assuming our policymakers adapt to the changing landscape in a rational manner. Early indications are positive, for the most part. As noted in the [CBC article published on February 4th](#), the Province of British Columbia is fast-tracking 18 resource projects in order to diversify its export markets. Initiatives like these could unleash billions of pent-up capital expenditure spending, which bodes well for the Canadian economy and the banks that operate in it.

A welcome reversal in credit demand could be taking place. To quote Gwyneth Paltrow, the Canadian banks and the Canadian energy sector have been consciously uncoupling over the past decade (Figure 1). Excluding a spike during the pandemic, direct loans to the energy sector have been consistently declining, hitting a low of 0.8% of total bank loans by the end of fiscal 2024, or about half of the pre-pandemic “normalized” level. If investment in Canada’s resource sector is revived in order to create more resiliency for the economy, then the banks would certainly be there to assist. Merely getting back to normal levels of lending to this sector would mean over \$30 bln of credit capacity from the Canadian banks. And this figure understates the growth potential to the extent that other resource (and support) sectors could be on the upswing, consumer credit demand could rise in line with job creation in these sectors and Capital Markets activities could increase alongside these trends.

Figure 1 - A reversal of the trend below could mean tens of billions of credit supply from Canadian banks



Source: Company Filings



2 yr % change: BCE Inc (blue: -45%), Rogers (green: -40%), Telus (red: -22%)



Source: Refinitiv, NBF, Hilberry

What’s going on? The Canadian regulatory environment has been restrictive, competition has been intense, debt-funded infrastructure/acquisitions haven’t led to profit, yet. Add in worries about Trumpian pressure to grant US Teleco’s access to Canada. Investors fled. On the latter worry, we’re not convinced US Teleco’s are hungry for Canada. Past invitations to bid on Canadian broad band spectrum met ‘no thanks’.

**‘No U.S., other larger foreign carriers to bid in Canada's spectrum auction’
Financial Post Sept 23, 2013**

<https://financialpost.com/technology/no-u-s-other-larger-foreign-carriers-to-bid-in-canadas-spectrum-auction>

Why no bid? Canada’s GDP compares to that of New York State. Canada’s population is roughly twice the size of New York, spread out along 4,600 KMS (3,800 miles) with 90% of the population living within 240 Kms / 150 miles of the US Border. We’re not as efficient.

Graphic: The 50 US States’ GDP Compared to Countries

<https://pgcgroup.com/blog/us-states-gdp-compared-to-countries>



'Telecom Services' – NBF – Feb 4, 2025

CRTC's Final Decision on Whether Big 3 Will Ultimately Be Able To Resell Each Other's Networks Won't Come Until Summer

<https://nbf.bluematrix.com/links2/secure/html/be51b68b-7516-4b02-a8b3-c1942432cfc1>

'BCE Inc Sector Perform. Price target \$35' NBF Feb 6, 2025

<https://nbf.bluematrix.com/links2/secure/html/5f641420-d831-476a-93b9-b60064622c6b>

'TELUS Corp. Sector Perform. Price target \$2'. NBF Feb 13, 2025

<https://nbf.bluematrix.com/links2/secure/html/2b5075a2-6e92-4d71-b22d-67f8708dbeb0>

Prices are down. We see value. We remain invested in the sector.

CONCLUSIONS: Trump bellicosity is likely to have long-term effects. Insulting one's military allies, neighbors and trading partners turns those inward. Trump won't be around forever, and the US political landscape will likely change in 2026 yet again. Twice burned, thrice shy. We think our allies will turn inward resulting in military duplication, trade barriers and inefficiency. Europe can face down Russia if it chooses. We think it will. We continue to believe inflation is likely to be stubbornly high, that interest rates won't fall as much as many hope and that Canada is in a unique position to prosper.

Happy Valentine's Day!

Steve & Anna Hilberry



Steve Hilberry
Wealth Management Advisor, CIM

Anna Hilberry
Wealth Management Advisor, CIM

FOR THE RECORD Feb 13, 2025 close

DOW INDUSTRIALS:	44,711
S&P 500:	6,115
S&P/TSX COMP:	25,698
WTI:	\$70.92
LOONIE IN \$USD:	\$0.7059 \$US



National Bank Financial - Wealth Management (NBFWM) is a division of National Bank Financial Inc. (NBF), as well as a trademark owned by National Bank of Canada (NBC) that is used under license by NBF. NBF is a member of the Canadian Investment Regulatory Organization (CIRO) and the Canadian Investor Protection Fund (CIPF), and is a wholly-owned subsidiary of NBC, a public company listed on the Toronto Stock Exchange (TSX: NA). NBF may act as financial advisor, fiscal agent or underwriter for certain companies mentioned herein and may receive remuneration for its services. NBF and/or its officers, directors, representatives or associates may have a position in the securities mentioned herein and may make purchases and/or sales of these securities from time to time on the open market or otherwise.

The information contained herein has been prepared by Steven Hilberry, a Portfolio Manager at NBF. The information has been obtained from sources we believe to be reliable, but are not guaranteed by us and may be incomplete. The opinions expressed are based upon our analysis and interpretation of these particulars and are not to be construed as a solicitation or offer to buy or sell the securities mentioned herein. The opinions expressed do not necessarily reflect those of NBF. I have prepared this report to the best of my judgment and professional experience to give you my thoughts on various financial aspects and considerations. The securities or sectors mentioned in this letter are not suitable for all types of investors and should not be considered as recommendations. Please consult your investment advisor to verify whether the security or sector is suitable for you and to obtain complete information, including the main risk factors. Some of the securities or sectors mentioned may not be followed by the analysts of NBF.

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

