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# NEWS HIGHLIGHTS

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OUR VIEWS ON ECONOMIC AND OTHER EVENTS AND THEIR EXPECTED IMPACT ON INVESTMENTS

APRIL 10, 2023

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## OWNER OPERATED COMPANIES



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COMPANY NEWS

**Alphabet Inc. (Alphabet)** – Alphabet plans to add conversational artificial intelligence (AI) features to Google Search, Sundar Pichai, CEO, said in an interview with The Wall Street Journal. AI capabilities could enhance Google's ability to answer an array of search queries and Mr. Pichai dismissed the notion that chatbots such as ChatGPT posed a threat to Google's search business. The company is testing several new search products, such as versions that allow users to ask follow-up questions to their original queries after saying last month that it would begin "thoughtfully integrating Large Language Models into search in a deeper way." Alphabet has already begun implementing new AI features within Gmail and other work-related products, but at the same time, the company is cautious about moving too fast with the technology and upending the way users interact with its search engine. Mr. Pichai said Alphabet needs to adapt its use of resources to continue its work in AI while also managing costs and that Google Brain and DeepMind – the company's two main AI divisions – would work more collaboratively on AI projects.

**Alphabet** will implement a new rule for apps providing personal loans starting on May 31 that is designed to protect users from abuse and harassment. The new policy prohibits cash lending applications from being able to access users' contacts lists, and they will no longer be able to access people's photos and videos as well. This is one of several changes the company has implemented over the past year following multiple reports of harassment in certain markets, such as India, Pakistan, Kenya and the Philippines. These applications typically require

access to users' phonebooks and media before they lend money, but when users run into issues keeping up with payments and the exorbitant interest rates they are charged, agents for these services would send profanity-laden texts to all the borrower's contacts to coerce the user into paying. Consequently, Alphabet has implemented rules for certain markets requiring these service providers to submit proof of approval and other documentation from the appropriate government agencies.

**Berkshire Hathaway Inc. (Berkshire)** – Berkshire may reportedly issue more bonds in yen, which could suggest further investments in Japanese stocks. Berkshire has tapped The Bank of America Corporation, Japan Securities and Mizuho Securities to underwrite the bonds, and part of the money raised will be used to refinance debt coming due this year, Nikkei said. Buffett's empire is a top foreign issuer of yen bonds and has issued them in each of the last three years. Its most recent offering came in December at a total of 115 billion yen, or about US\$870 million. Berkshire holds about 1 trillion in yen-denominated debt outstanding. Multiple tranches may go up for sale, with the 30-year maturity at about 125 basis points, it added. New yen bond issuance could lead to Berkshire further adding to its Japanese stock portfolio. In August 2020, Berkshire disclosed stakes in Mitsubishi Corporation and Mitsui & Co. Ltd., and said it boosted its holdings in those companies in November 2022. The potential new bonds also come as Kazuo Ueda takes over the Bank of Japan. Recent statements of his suggest that monetary easing could remain in place in the short term, though markets are bracing for an eventual shift toward tighter policy. Japan's 10-year bond yields have ticked higher as traders buoy themselves for Ueda's potential monetary policy adjustments.

**Brookfield Corporation (Brookfield)** – Brookfield has reportedly begun efforts to sell a 50% stake in one of the world's largest wind farms. The alternative-asset manager hired Bank of Montreal and Wells Fargo & Company to gauge interest in a deal for the Shepherds Flat facility in Oregon, said the people, who asked not to be identified discussing confidential discussions. Deliberations began recently and may not lead to a sale, the people said. Brookfield declined to comment. Bank

of Montreal and Wells Fargo & Company did not immediately reply to messages seeking comment. Brookfield bought Shepherds Flat for US\$700 million two years ago, adding to its portfolio of more than 8,000 power-generating facilities, and finished repowering the 845-megawatt farm a year later. The Toronto-based firm manages roughly \$800 billion and describes itself as one of the world's biggest investors in renewable power.

**LVMH Moët Hennessy Louis Vuitton SE (LVMH)** – Global luxury giant LVMH, the operator of multiple fashion and jewelry brands such as Louis Vuitton, Christian Dior and Tiffany & Co., logged record sales in South Korea last year, following a slew of price hikes for its flagship products amid the country's increased spending on luxury goods. According to Louis Vuitton Korea, the Korean subsidiary of LVMH's Louis Vuitton, the company's sales last year recorded 1.69 trillion won (US\$1.2 billion), up 15% from 2021. The brand's operating profits also saw a significant increase, recording a 38% jump from the year before, with 417 billion won. LVMH's Christian Dior Couture Korea's sales last year also increased by 52% on-year to 929 billion won, while its operating profits increased by 53% to 323 billion won. The increase in sales and profits for LVMH's flagship brands in Korea follows a series of price hikes amid the burgeoning market for luxury goods in the country. Over the course of 2021, Louis Vuitton Korea increased the price of its bestselling products such as the Alma BB handbag five times. The prices of its flagship products were raised twice more in 2022. As of April, the Alma BB is priced at 2.25 million won, a 29% increase from two years ago, when it was sold at 1.75 million won. Christian Dior Couture Korea also raised prices for its major products last year. In January 2022, the luxury brand raised prices of major bag products such as the Lady Dior Bag, Dior Caro Bag and major jewelry products up to a maximum of 20%. The constant price hikes follow Korea's steadfast demand for luxury goods. As of last year, data from global research company Euromonitor International showed that Korea's total luxury market was worth about US\$14.1 billion -- the seventh-largest in the world. Furthermore, South Koreans' total spending on personal luxury goods per capita was recorded as the highest in the world, with one Korean spending an average of US\$325 on luxury goods. The report stated that the constant demand for luxury products in Korea accompanies the nation's increase in purchasing power as well as locals' desire to flaunt their social standing with displays of wealth.

**Samsung Electronics Co., Ltd. (Samsung)** - Samsung said it's cutting memory chip production after reporting its slimmest profit since the 2009 financial crisis, a significant step toward ending a supply glut that had cratered prices across the industry. Operating profit plunged more than 95% to 600 billion won (US\$450 million) for the three months ended March, missing the average analyst estimate of 1.4 trillion won. Sales fell 19% to 63 trillion won. Samsung said it would cut memory chip production to a meaningful level, a move competitors had been waiting for after a pileup of inventory hurt pricing and profits. So far, Samsung had resisted pulling back despite the downturn, in part to grab market share from rivals SK Hynix Inc. (Hynix) and Micron Technology, Inc. (Micron), which have been forced to cut output. Samsung's cuts could help bolster chip prices, a key step for the industry's recovery. Samsung plans to provide a full financial statement with net income and information on divisional performance later this month. Memory prices tumbled more than anticipated because of sluggish demand for a wide range of electronics from smartphones to personal computers, as consumers and companies navigated recession risks. Despite its post COVID-19 re-opening, China's market has also not bounced

back as quickly as some anticipated. Micron, the largest U.S. maker of memory chips, has said customer inventories are declining, and predicted gradual improvements to the supply-demand balance. Hynix executives have said production cuts by memory suppliers should take effect in the second half and help prop up prices. But the two Samsung rivals underscored the pace of the recovery will hinge on peers' efforts to cut supply. Historically, Samsung has opted against slowing down during difficult times so that it can take share from rivals. It is spending hundreds of billions of dollars to build the world's largest chip complex in its home country and is building a new facility in the U.S. too. The South Korean and U.S. governments are both offering financial incentives to bolster their domestic industries. Inventory at Samsung had swelled to 52.2 trillion won at the end of last year after the company maintained production despite a collapse in demand. Samsung managed to stay in the black during the first quarter in part because its new Galaxy S23 series bucked the overall smartphone slump. Sales of the phone lineup came to about 11 million units during those three months, up 50% compared with its predecessor.

**Reliance Industries Limited (Reliance)** - Secured creditors, unsecured creditors and shareholders of Reliance will meet on May 2 to approve the proposed demerger of Reliance Strategic Ventures. Post the approval, the unit, which is the financial services subsidiary of the oil-to-telecom conglomerate, will be renamed Jio Financial Services. Shareholders of Reliance will receive one share of the demerged entity for every one share held in the company. Reliance approved the demerger of the financial services arm in October 2022. KV Kamath, Veteran Banker, will be the non-executive chairman of the demerged entity. Jio Financial Services will acquire liquid assets (including treasury shares) of Reliance's financial services arm to bring adequate regulatory capital for lending to consumers and merchants, and to incubate other financial services verticals, including insurance, payments, e-broking and asset management over the next three years. Following the demerger, shares of Jio Financial Services will be listed on both Bombay Stock Exchange Limited and National Stock Exchange of India Limited with its share capital rising to RS15,005 crore from RS232.1 crore, while the paid-up share capital will go up to RS6,766 crore from RS2.33 crore. The structure of Jio Financial will allow it to partner with strategic or financial investors, enhancing strategic focus and supporting its growth drivers. Reliance's financial services business reported combined revenue of RS1,535.6 crore in financial year 2022 and had a combined asset base of RS27,964 crore.

## DIVIDEND PAYERS



**Johnson & Johnson** has announced a US\$6.9 billion increase in funding commitments for the company's subsidiary thereby bringing contribution to a settlement to a total present value of \$8.9 billion payable over 25

years. The new total is a negotiated amount, and includes commitments from over 60,000 current claimants. A new claimant-supported settlement could enable Johnson & Johnson to finally begin to put the talc liability behind it. For decades, Johnson & Johnson has been embattled by allegations and related litigation regarding the safety of its cosmetic talc products, and extensive testing and discussions with The United States Food and Drug Administration. The company continues to stand by its claims that the products did not contain asbestos and did not cause cancer. That did not stop the wave of claims against the company, putting Johnson & Johnson in the unenviable position of potentially having to defend each case individually which, based on management's comments last week, is a process the company estimated could have taken 50 years, accruing material litigation expense over time.

## LIFE SCIENCES



**POINT Biopharma Global Inc. (POINT)** – POINT announced an agreement with Eckert & Ziegler Group (Eckert & Ziegler) on the supply of Actinium-225 (non-carrier-added Ac-225). Eckert & Ziegler will provide predetermined amounts of good manufacturing practice grade Ac-225 to POINT for use in the development of POINT's pipeline of next generation Ac-225-based radioligands. Actinium-225 is used as an active substance in cancer treatment. The radioisotope emits powerful, high-energy alpha particles with short penetration depths that enable precise treatment of tumor cells with minimal impact on surrounding healthy tissue. For this purpose, Actinium-225 is combined with a suitable carrier (e.g. an antibody or peptide) that specifically binds to cancer cells, thereby selectively targeting them. Clinical experts expect the demand for Actinium-225 to increase exponentially over the next decade. Eckert & Ziegler is currently developing a production process to be capable of supplying significant amounts of the highly demanded radionuclide Ac-225 to the market. Besides Actinium-225, Eckert & Ziegler also supplies international pharmaceutical companies with Lutetium-177, Gallium-68, Yttrium-90 and other radioisotopes that are essential for use in diagnostics and therapy. In addition, the company offers contract development and manufacturing services for radiopharmaceuticals, including production for clinical and commercial phases, at three sites in Europe, North America, and Asia.

## ECONOMIC CONDITIONS

**Canadian employment** registered a 35,000 increase in March, marking a seventh consecutive monthly gain. This gain was slightly above consensus expectations for a 8,000 increase. March's jobs gains left the unemployment rate unchanged at 5.0%. The increase in employment stemmed from both full time (+19,000) and part-time

jobs (+16,000). The gain was mainly attributable to the private sector (+35,000) while the public sector (+3,000) and self-employed people (-3,000) were essentially unchanged. March's gain came exclusively from the services sector (+76,000), while goods (-41,000) also posted a decrease. On the goods side, construction (-19,000), forestry (-11,000), manufacturing (-6,000), agriculture (-3,000) and utilities (-2,000) all posted declines. On the services side, notable gains were registered in transportation (+41,000), business/building services (+31,000) and finance/insurance (+19,000). Employment in health care/social assistance (-13,000) and other services (-11,000), meanwhile, posted decreases. Regionally, there were job gains in Ontario (+21,000), Alberta (+14,000) and, to a lesser extent, British Columbia (+1,000) while employment declined in Québec (-2,000). Hours worked climbed (+0.4%) in March, following a 0.6% increase. The increase in wages was down on a year-over-year basis, reaching 5.2% in March (5.4% in February).

**Canada's population growth** continues to accelerate in 2023. In March alone, the working-age population expanded by 80,000 people. This brings the cumulative increase to 204,000 in the first quarter of 2023. There is no precedent for a quarterly rise of this magnitude (for comparison, the UK population increased by 200,000 in a full year in 2022). Unfortunately, Canadian homebuilders are unable to keep up with this population surge. Estimate housing starts for the first quarter of 2023 are only 57,000 units. At just 0.27, the ratio of housing starts to working-age population growth is the lowest on record and well below its historical average of 0.61, (the ratio is normally below 1 to account for the fact that there is more than one person per household). The lack of new housing starts in the face of very strong population growth will continue to put pressure on housing affordability in the coming quarters.

**U.S. Nonfarm payrolls** rose 236,000 in March, in line with expectations. The previous two monthly gains were revised down a total of 17,000. The March increase marks a step down from the prior six-month average of 334,000. However, it is still stronger than normal and capped over one million net new jobs in the first quarter of the year, thus providing support for consumer spending. The three engines of job growth were leisure and hospitality (72,000, largely restaurants), government (47,000), and health care (34,000). Meantime, manufacturing, construction, and retail were all negative. Average hourly earnings stepped up to a 0.3% monthly gain, though this still extended a downward trend for the yearly rate to 4.2%. This downtrend partly reflects the still-large number of jobs created in the lower-paying leisure and hospitality sector. In our view the Federal Reserve will note the decelerating employment in the past two months and some easing in wage growth, but the low unemployment rate and continued above-normal pace of job growth likely tips the scales toward another rate increase in May.

**German factory orders** jumped by 4.8% in February and well above consensus expectations of +0.3%. The IFO Institute for Economic Research stated that the German economy missed a winter recession and now sees growth of +0.3% in 2023 and 1.5% in 2024. European Central Bank's Boris Vujcic declared that the biggest part of the rate hike cycle is now behind them but warned that the central bank may still need to hike rates further to address elevated core inflation. European Central Bank's Bostjan Vasle admitted that core inflation is clearly on an upward trend.



## FINANCIAL CONDITIONS

**Reserve Bank of Australia (RBA)** kept rates unchanged at 3.6%, breaking the run of 10 consecutive hikes. The RBA said that further tightening may well be needed, but admitted that the full effect of their cumulative rate hikes is yet to be felt. The central bank noted some evidence of substantial slowing in household spending and cited that the combination of high rates, consumer price index (CPI), and lower house prices as reasons for curbing demand. The RBA made the decision to hold on rates in order to assess the state of the economy.

**Reserve Bank of New Zealand (RBNZ)** surprised the market and increased the ordinary capital resources by 50 basis points to 5.25% when market consensus expected a 25 basis points rise to 5%. Upside risks to inflation have been nudged higher in the near term above February master production scheduling forecasts, overriding downside risks to growth. Credit conditions not tightening sufficiently played a key role in the Bank's decision to hike 50 basis points. While the RBNZ acknowledges that economic growth would be softer this year, the central bank says it is still concerned over unanchored inflation resulting from the rebuilding efforts after the weather events: "The recent severe weather events in the North Island have led to higher prices for some goods and services. This higher near-term CPI inflation increases the risk that inflation expectations persist above our target range".

The U.S. 2 year/10 year treasury spread is now -0.59% and the UK's 2 year/10 year treasury spread is 0.06%. A narrowing gap between yields on the 2 year and 10 year Treasuries is of concern given its historical track record that when shorter term rates exceed longer dated ones, such inversion is usually an early warning of an economic slowdown.

The U.S. 30 year mortgage market rate has increased to 6.27%. Existing U.S. housing inventory is at 2.6 months supply of existing houses - well off its peak during the Great Recession of 9.4 months and we consider a more normal range of 4-7 months.

The volatility index (VIX) is 19.39 and while, by its characteristics, the VIX will remain volatile, we believe a VIX level below 25 bodes well for quality equities.

**And Finally:** *"Most people have absolutely no idea that they have no idea what they are talking about" ~ John Cleese*

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1. Not all of the funds shown are necessarily invested in the companies listed

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