For Today's Graduate – It's Batteries!

One of the iconic lines in the 1967 movie **The Graduate** is when Dustin Hoffman's character is advised the career path to future riches is "plastics." In the movie, the meaning is perhaps more symbolic, but certainly at that time plastics was a burgeoning industry. Fast forward to today and perhaps it is batteries that will be a cornerstone of our society. In our electronic connected world we could not survive without this portable power source. The weekend's **Wall Street Journal** provides an in-depth article on **lithium-ion batteries** and their ever growing role in Electric Vehicles (E.V.s), but also as an effective and climate friendly method to store power for our electrical grid.

As investors this mega trend is important for two reasons. The obvious, of course, is **investment strategy.** For example, what is the long-term implication for our beleaguered energy industry? But then, this is potentially a great boon for miners of much needed raw materials utilized in the manufacturing process. The second is a topic that, as regular readers know, I believe will soon be a **much larger issue** than economists currently expect, and that is **inflation**.

Last week, General Motors announced its intention to produce only EVs by 2035, joining other major manufactures in the headlong race to become "clean". About 92 million vehicles are produced a year. A recent study shows that to produce the batteries for 20 million EVs it would require 94% of the world's annual current graphite production, 165% of lithium, 56% of the cobalt output and 31% of the nickel mined. This resource demand will obviously be steadily growing in the years ahead.

In the short-term, more signs that <u>**"consumer inflation"**</u> is going be much higher than projected. Some random examples: **In the UK,** regulators allow the maximum amount customers pay for their energy bills to rise by nearly 10 per cent to pre-pandemic levels from April, piling pressure on household finances. **In the US,** prices paid by factories for material is the highest since 2011, while semiconductor shortages cause production delays and layoffs at Ford. We have all experienced the rise in food prices, and once Covid restrictions lift and 'revenge spending' gets into full-swing, I expect price increases across the board. In case you have missed it, statistics show household saving in the last six months of 2020 was among the highest ever, not only in North America but overseas as well – we are talking around 20% plus of disposable income - that's huge!!

Meanwhile, the post inauguration market exuberance continues. US shares posted their strongest week since November, with the S&P 500 and Nasdaq Composite climbing to new record highs, as investors hoped a weak January jobs report would increase the likelihood of another big fiscal relief package. The recovery in the U.S. labor market appeared to stagnate for a second month, strengthening the case for further stimulus. Every major index and sector was higher and weekly gains over 4% were widespread: the S&P rose 4.7%, the Nasdaq jumped 6%, and our own TSX up 4.6%. Overseas, India led with a 9.6% gain. Also in the 4%+ plus group were Emerging Markets, Italy, Spain, Germany - well you get the picture. But also of note, the benchmark 10-year US Treasury yield finished at a year-to-date high 1.17%, gaining 8 basis points on the week. Higher rates are bad for bondholders and another warning sign of inflation ahead.

I wrote last year that I expected a year-end / New Year rally, but I was unsure if it would be a few percent or a bit more. It now appears 4,000 on the S&P500 is in the cards before my expected consolidation into second quarter. Many share prices are well above comfortable buy levels, thus prudent portfolio management says keep an appropriate cash reserve on the sidelines.