# The Weekly Beacon

We will be giving some macro economic market updates on a weekly basis. No equity recommendations will be given in this commentary, and we encourage you to contact us if you have questions regarding any observations.

*The two main purposes of a Lighthouse are* ***to serve as a navigational aid and to warn boats (Investors) of dangerous areas****. It is like a traffic sign on the sea.*

Lindesnes Fyr Lighthouse, Norway

Tanjung Lancur Lighthouse, Belitung, Indonesia

*Feel free to send us your photos of Lighthouses to be featured in our weekly market observations.*

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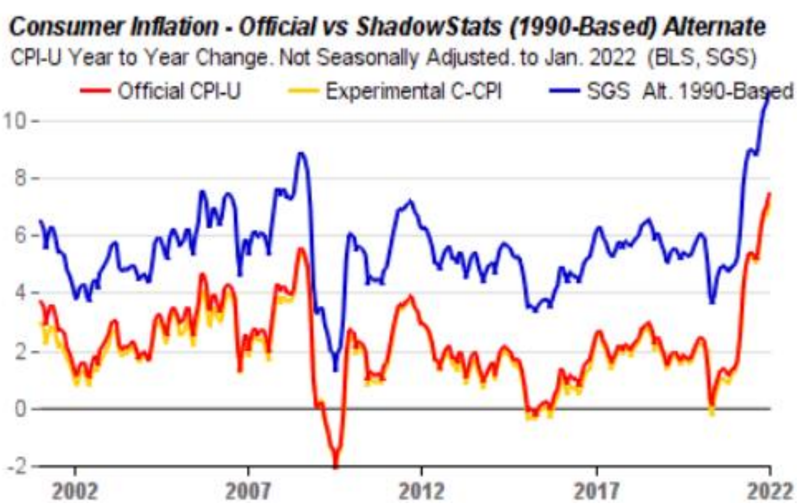
**Looking Across the World**

The US Bureau of Labor Statistics released the latest inflation numbers over the last week and the US hit another record….

# US inflation hits highest level in 40 years in January as prices rise 7.5% from 2021

A 7.5% price increase across the board is eating away at the wallets of Americans. Inflation persisting for over a year is not surprising to us. While some 'experts' believed inflation would be transitory, we saw some indicators that led us to believe, inflation would be a problem in the medium term and would last longer than expected.

One of our Economist Partners has been calculating CPI based on the 1990 calculation for years which has shown us the US Government has been severely underreporting inflation for over a decade. In 1990, changes were made to under calculate the inflation rate. Inflation running high is not good for political parties; changes were made for partisan reasons. While the reported CPI is 7.5%, we believe prices have increased by over 10% over the last year.




The major issue with today's inflation: certain prices may never return to their previous price levels, do not expect price reductions when inflation slows down, the only way prices will significantly decrease is a recession.

How does the US compare to other countries?

The US CPI is well above many other developed nations over the last year. The US for the most part was fully open throughout 2021 and demand has been almost normalized from a pre-pandemic level. Many Western nations in Europe and Canada have not seen that normalization due to restrictions that have persisted for the last two years. The US CPI could be a leading indicator for many Western nations - look for increased inflation across Western nations in 2022.

**Global Inflation Rates**

| Country | CPI Inflation (YoY %) |
|---|---|
| JAPAN | 0.8% |
| SAUDI ARABIA | 1.2% |
| SWITZERLAND | 1.5% |
| CHINA | 1.5% |
| INDONESIA | 2.2% |
| HONG KONG | 2.4% |
| TAIWAN | 2.6% |
| FRANCE | 2.9% |
| PHILIPPINES | 3.0% |
| THAILAND | 3.2% |
| PORTUGAL | 3.3% |
| AUSTRALIA | 3.5% |
| FINLAND | 3.5% |
| SOUTH KOREA | 3.6% |
| SWEDEN | 3.9% |
| SINGAPORE | 4.0% |
| ITALY | 4.8% |
| CANADA | 4.8% |
| GERMANY | 4.9% |
| UK | 5.4% |
| IRELAND | 5.5% |
| INDIA | 5.6% |
| NEW ZEALAND | 5.9% |
| SOUTH AFRICA | 5.9% |
| SPAIN | 6.0% |
| MEXICO | 7.1% |
| US | 7.5% |
| POLAND | 8.6% |
| RUSSIA | 8.7% |
| BRAZIL | 10.4% |
| TURKEY | 48.7% |
| ARGENTINA | 50.9% |
| VENEZUELA | 472% |

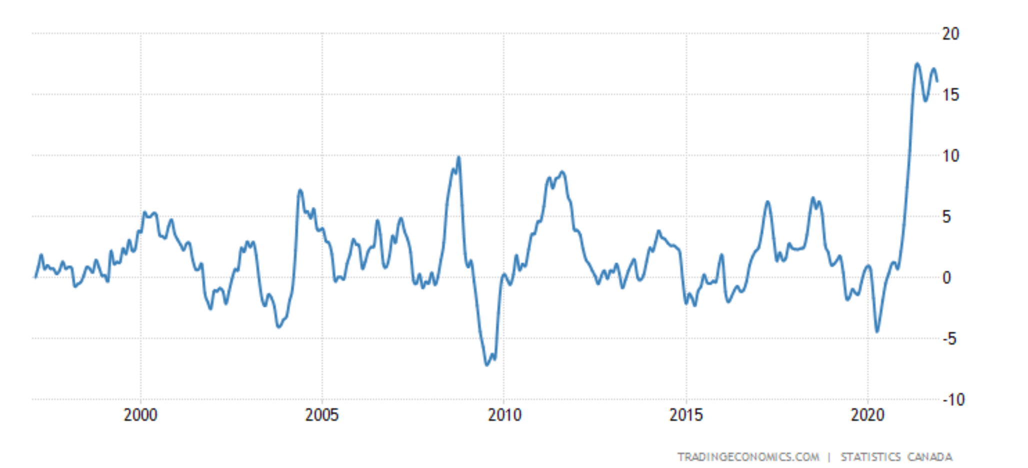
@CharlieBilello

If you do not think the US CPI will be foreshadowing for the rest of the west, perhaps their Producer Price Index (PPI) changes will convince you.

Germany’s PPI is at 24% while its CPI is only at 4.9% - those price increases will eventually be reflected onto consumers.

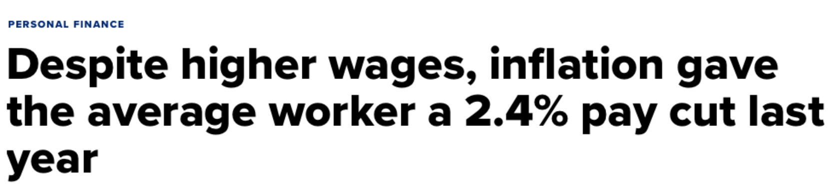

The UK has a PPI that is double its CPI.

The Canadian PPI is almost at a 50-year high. The PPI in Canada is at 16.1% while the reported CPI everyone pays attention to is only at 4.8%.




Price will continue to increase - make sure to account for inflation going forward.

Prices are hurting producers and consumers but they are hurting workers the most. Even with recent wage increases as the workforce supply has shrunk, workers received a 2.4% pay cut due to inflation over the last year. They did get a wage increase but, wages grew slower than inflation did. Workers have less to spend, and their spending power shrinks.


PERSONAL FINANCE

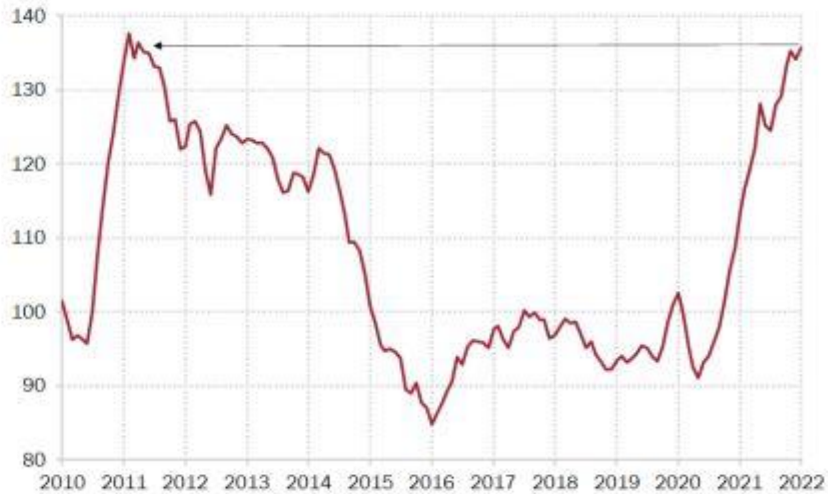
**Despite higher wages, inflation gave the average worker a 2.4% pay cut last year**

PUBLISHED WED, JAN 12 2022·2:42 PM EST | UPDATED WED, JAN 12 2022·2:49 PM EST

Another economist we work with, David Rosenberg, published a graphic about global food prices. We knew prices at the grocery store were rising to 11-year highs. In Canada, this chart could get worse in the coming months as an already delicate supply chain could be further strained by protests across the country.

**CHART 1: Gauge of Food Commodity Prices Reaches Highest Level Since 2011**

Global: *U.N. Food and Agriculture World Food Price Index*
(index)




Source: Bloomberg, Rosenberg Research

## Climate Goals: A Pipe Dream

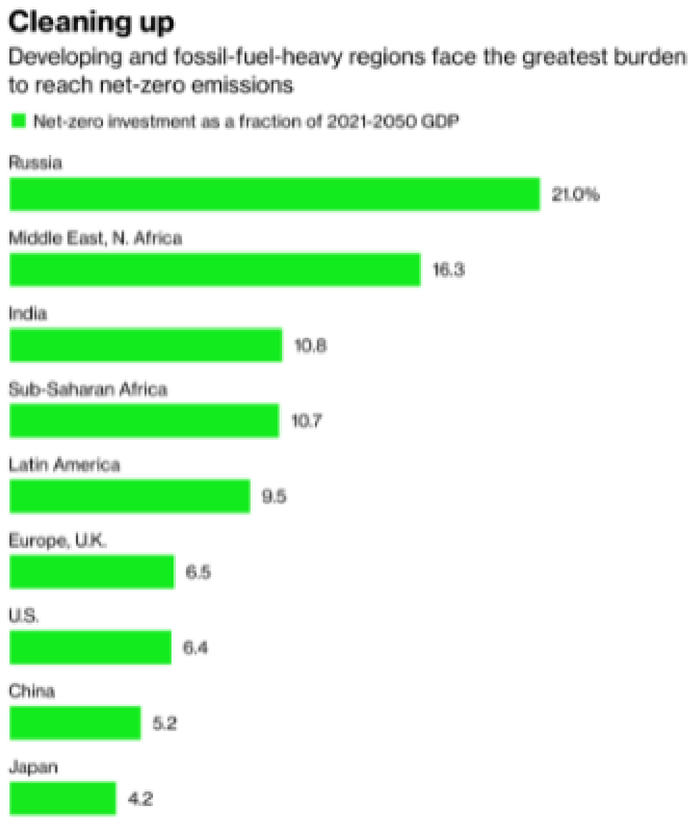
We have been realistic about global energy initiatives. Reaching net-zero, eliminating fossil fuels, and depending on renewables sounds like a fun idea but, we are nowhere ready to do that. We also will arguably never get to a place where we will.

Just looking at the Western world, renewables will struggle to power nations. Only 17% of the European Union electricity grid is powered by renewables yet countries across Europe are dealing with power outages fueled by a lack of supply and dependence on wind energy (this past summer, the Northern Sea had historically low winds). Countries across Europe are filling this gap with natural gas, oil, and even dirty coal. Politicians would rather have the lights on across their nation than lose an election.

Even though Western leaders signal at ending fossil fuel usage, it will never happen. Countries like Russia, China, Mexico, Brazil, and other emerging markets will continue to use fossil fuels, many of those nations also depend on the exports of fossil fuels. It is not in their interest to stop using fossil fuels. This goes without mentioning, the global goal of economic prosperity in every nation. Billions of people live in poverty and have no access to electricity. How are they going to afford solar panels and wind turbines to power their grid?  Third-world nations will increase fossil fuel usage as the nation's increase economic productivity.

Our friends from [Capitalist Exploits] highlighted a key chart in their most recent edition of The Insider Weekly.

This chart shows how unreasonable net-zero is on a global scale. Russia would need to invest 21% of its national GDP every year to reach net-zero by 2050. That will never happen. The third world would be forced to invest critical money into net-zero energy sources. These nations will choose infrastructure, access to water, and other necessities like basic power over a transition that will put their population further into poverty.




## Red Hot Aluminum

Aluminum prices have reached their highest price since 1988 and it's leading to higher prices at grocery stores and for governments.


Source: London Metal Exchange

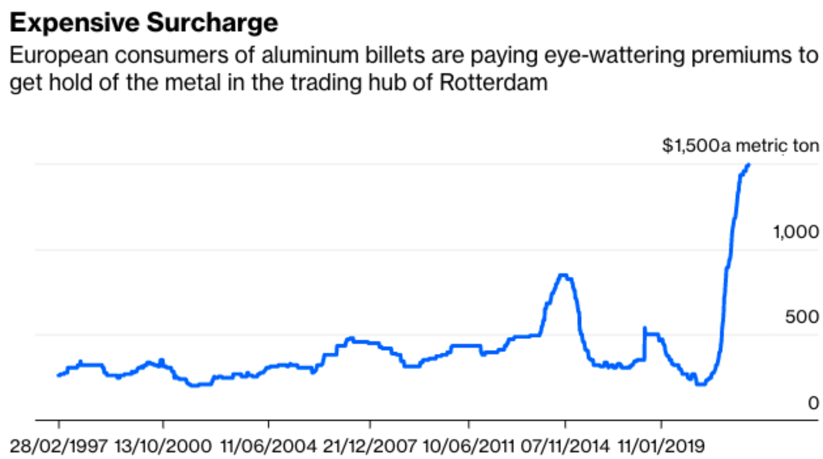
Whether you know it or not, aluminum is everywhere. Aluminum is used in iPhones, jets, cans of beer, and thousands of products. Even though aluminum has so many uses and will be a part of products for decades, there was always one major flaw in its bull case relative to other inputs, scarcity. Aluminum is made up of Bauxite, which is found in the Earth's core. It is also one of the most abundant metals on Earth. It's essentially everywhere.

A major trend we will continue to see will be an increase in demand for aluminum due to its uses in renewable energy sources. However, at the same time with this demand increase, governments are increasing regulation in fossil fuels which is used to extract aluminum. The process of creating aluminum is also extremely power-intensive. It takes the same amount of electricity a US family uses per year to create one tone of aluminum. This has caused a 30-year price high.

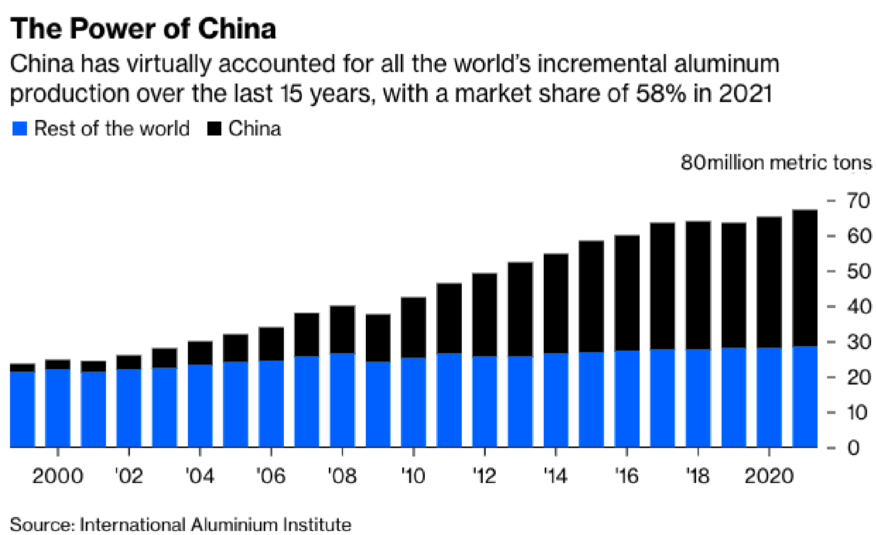
Aluminum is the world's most widely used non-ferrous metal, ahead of copper. This price increase will lead to price hikes for goods across the world and will contribute to the inflationary period, we are currently in.

In Europe, consumers are paying 4x more for an aluminum billet (a widely traded form of aluminum) than the 2000-2020 average.

Aluminum smelters have historically been located in places where electricity is cheap - Serbia, Canada, and Iceland. Over the last 20 years, the world has rotated and chosen China as the main smelter of aluminum due to their cheap coal plants. This has helped keep aluminum prices low but, it also is horrible for the Earth. Last year, China cut numerous smelters to save power for its population - those smelters have yet to turn back on. China has also proclaimed it will cut back on its smelters going forward so it can decrease emissions (we will see when that happens) and cut overall power consumption. In Europe, smelters were turned off in 2021 due to surging electricity prices. The status of those smelters will depend on electricity and natural gas prices decreasing (they will remain off until prices drop significantly). We do not believe natural gas prices will significantly decrease due to the global political climate and increasing demand. The weather and relative temperature also will factor into this discussion.




China currently accounts for 58% of the world's aluminum production. When production is cut and demand expands, prices will continue to move higher.




Spare inventories are also at the lowest point in decades. Countries are rationing aluminum.

The most plentiful non-ferrous metal on Earth could continue to break price records.

## Gold Breaking Out?

The oldest inflation hedge on record has historically been physical gold. Throughout 2021, as inflation surged, gold underperformed every commodity and major indices.

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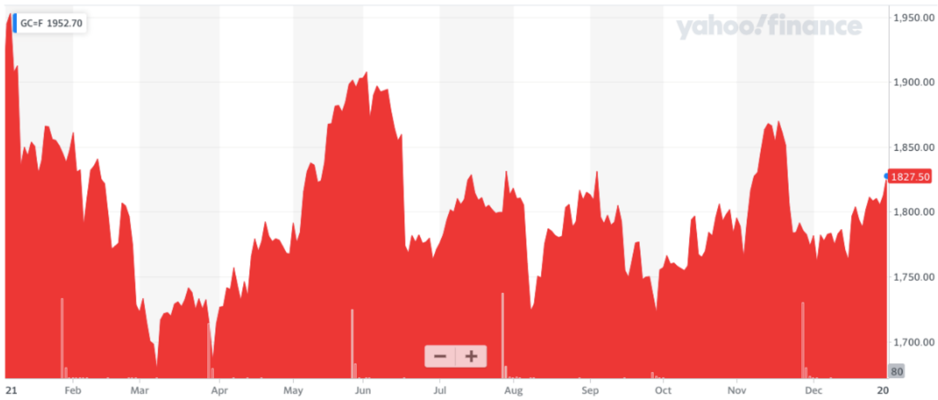
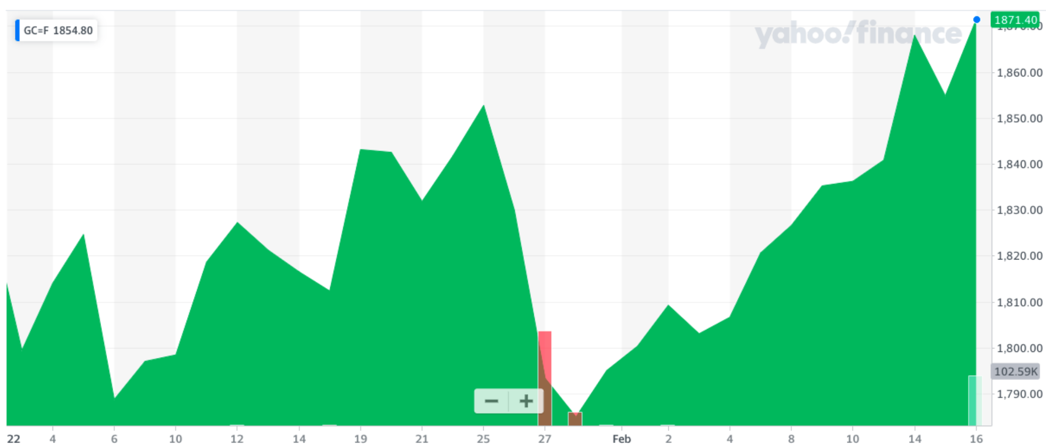
Gold's 2021 Performance:




Gold was down 5% in 2021. Bitcoin bulls were claiming 2021 as the end of gold as a hedge against inflation. However, 2022 has been a different story, as markets have been choppy, numerous commodities have started 2022 quite well.




Gold is up over 2% year to date and 3% over the last month. Bitcoin has gone the other way. Bitcoin is down 8% year to date and is down 11% over the last year.

We have been quite consistent on our Bitcoin commentary. Bitcoin is a speculation, not a currency, not a store of value.

This past week, as gold prices rallied, many analysts noted the price of gold was on the brink of a breakout. Many point to an 18-month consolidation period on a technical basis.

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Looking beyond the technical data, the macro setup looks good for gold, inflation, stretched valuations in public markets, and underperformance relative to almost everything else.

Numerous large-cap gold miners are also beating revenue and earnings expectations and are using those profits to boost dividends and to initiate stock buybacks.

# Barrick Gold announces $1 bln buyback as quarterly earnings jump

By Helen Reid and Arunima Kumar

Boosted profits by the miners are being translated to shareholders which seems rare for public companies in today's markets.

Gold prices have also held up quite well during recent financial market crashes.

## Deep Dive into the US Housing Market

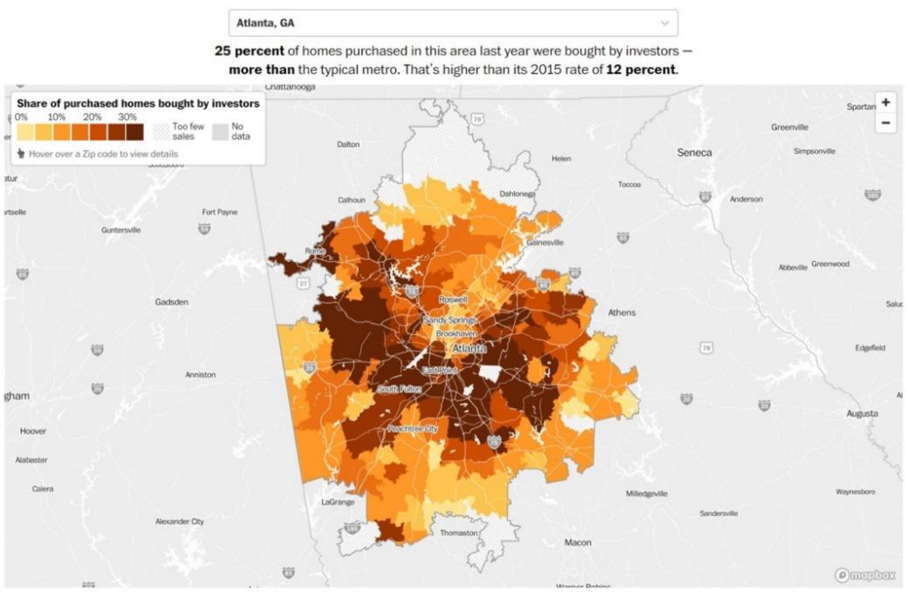
In last week's edition of *The Weekly Beacon*, we highlighted an underinvestment in the US residential real estate market. The underinvestment is leading to higher home prices. We also highlighted that in 2021, 18.2% of all US homes sold were bought by investors. Investors are flooding the real estate market.

Millions of single-family homes are being snatched up by Wall Street asset manager - Blackrock has led the charge.


The Washington Post conducted an analysis on who was buying homes across 40 major metro areas in the US in 2021. In the 4th quarter alone, investors bought 80,293 homes across the US worth $50 billion.

The study confirmed much of our thought process when making decisions regarding the MacNicol 360 Degree Real Estate Fund.

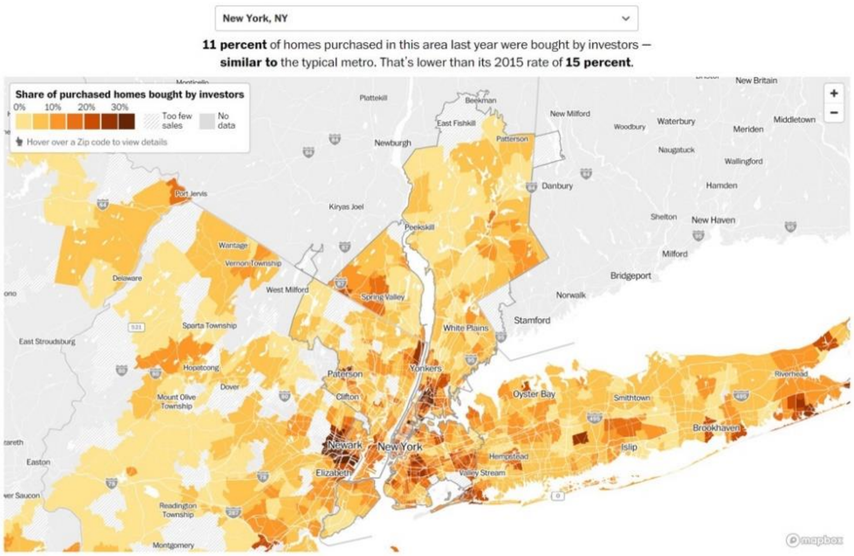
25% of homes purchased in the Atlanta area were bought by investors.




Real estate in the south is soaring - it's not just the peach state. Charlotte, Las Vegas, and Phoenix were also amongst the nation-wide leaders in percentage of homes bought by investors. Jacksonville saw a 157% increase in investor purchases year over year.

Washington D.C. and Providence, Rhode Island had the least amount of investor purchases in 2021 at 6.2% and 7.8%, respectively.

New York City had one of the lowest numbers for a major metropolis. Only 11% of homes were bought by investors in 2021. In 2015, 15% of homes were bought by investors.




New York City is not dead, but it could be entirely possible that it takes years for it to return to its glory days.

In 2021, Goldman Sachs even announced some employees would be moving to Florida as the organization is banking on Florida as a financial hub.

## Goldman Sachs Goes All-In on Florida as Wall Street South

The bank reportedly plans to move traders and senior executives to West Palm

States that have seen recent growth will continue to grow. Americans are choosing these states for several reasons that include, weather, taxation, regulation, job markets, real estate, and many more. Do not expect this trend to change.

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**February 18, 2022**