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.*

Yaquina Head Lighthouse, Oregon

West Quoddy Head Light, Lubec, Maine

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

More Sanctions on Russia

As Russia continues to attack Ukraine and enter into week 2 of their invasion, Western nations have increased sanctions on Russia.

The sanctions have gone beyond oligarchs and Russian banks. The sporting world has even begun to punish Russia for Putin and the Kremlin's moves. The IIHF and FIFA have suspended Russian teams from competing.

Canada and various European nations suspended Russian flights last weekend. The U.S. also announced the banning of Russian aircraft during President Biden's State of the Union speech.

Perhaps the biggest blow came when Western leaders banned seven major banks from SWIFT, a global banking system.

West unleashes SWIFT bans, more crushing penalties on Russia

By ZEKE MILLER, RAF CASERT, ELLEN KNICKMEYER and KEN SWEET February 27, 2022

Two major Russian banks were exempt from the ban due to their importance in the energy industry. The two banks handle most of the payments related to gas and oil exports, on which the EU heavily depends to produce energy. Around 40% of the gas consumed by the bloc comes from Russia.

The move will limit Russian banks' access to capital and ability to move money. Sanctions on the Russian Central Bank target access to the more than $600 billion in reserves that the Kremlin has at its disposal and are meant to block Russia's ability to support the ruble.

Various Western leaders have even called for the banning of Russian energy imports. Alberta Premier Jason Kenney was one of the first to call for this massive move.

> Jason Kenney
> @jkenney
>
> "If Western countries stop building and investing in oil and natural gas, while demand continues to increase in the next decade or two, we are by default outsourcing more of our energy production – likely to Russia and OPEC." @KellyCryderman

Prime Minister Trudeau confirmed Canada would ban Russian oil imports earlier this week.

Even though the announcement seems big, it's not. In 2020 less than 1% of Canadian oil imports were from Russia, in 2019 it was 3% of imports.

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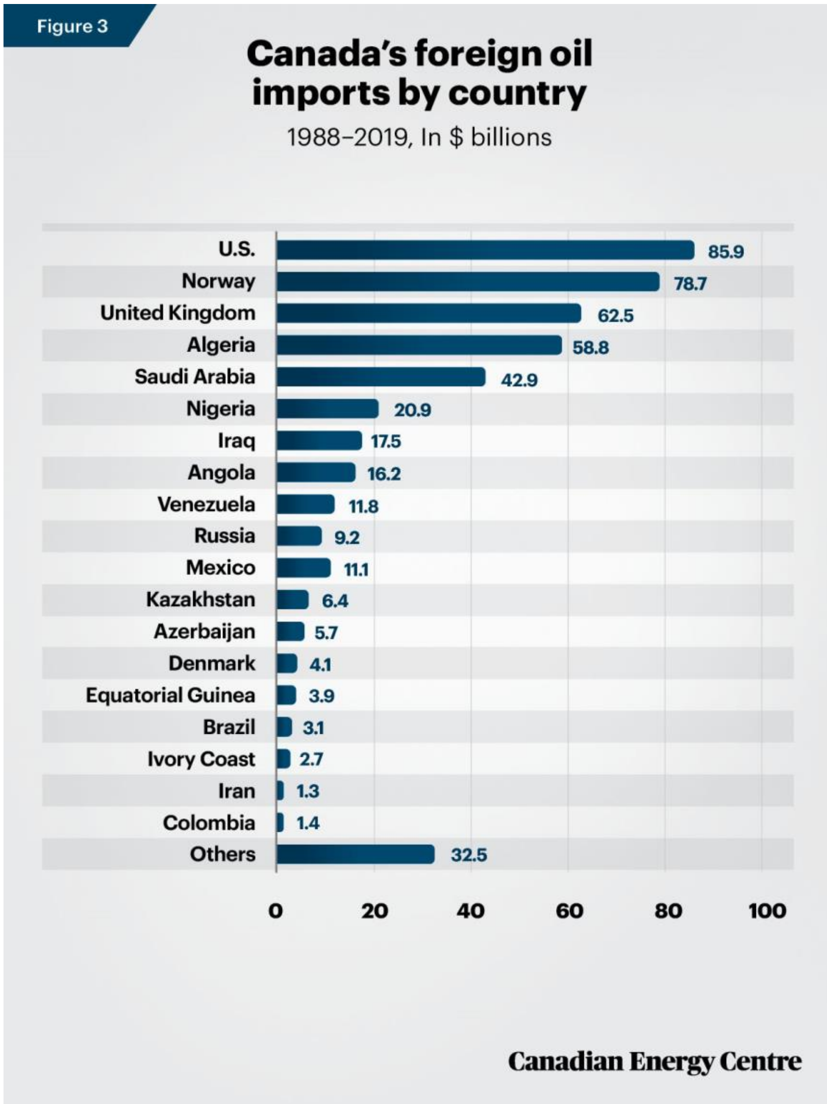

Between 1988-2019, Canada only imported $9.2 billion of oil from Russia. Russia exported $72.6 billion worth of oil in 2020. Canada's move is a raindrop in a swimming pool, even though it was a good move, it does little to financially impact Russia.

The U.S. has not banned Russian oil and gas. The U.S. currently imports more than $17.5 billion of Russian oil per year. In 2022, the value will exceed $20 billion. The U.S. cannot stop importing oil from Russia unless it wants to face shortages. Russia is one of the 3 largest suppliers of oil to the U.S. The move would be catastrophic.

Visa, Mastercard, and Apply Pay even limited transactions within Russia causing mayhem. Numerous companies including Apple have also limited their online stores to Russian citizens.

However, with all these sanctions, a few Western countries had exceptions for Russia.

Joe Barnes
@Barnes_Joe

Italian prime minister Mario Draghi successfully secured a carve out for Italian luxury goods from the EU's package of economic sanctions against Nato, EU dip tells me. 'Apparently selling Gucci loafers to oligarchs is more of a priority than hitting back at Putin,' source adds.

7:57 AM · Feb 25, 2022 · Twitter Web App

Gucci and Prada goods are too good to ban, the oligarchs in Russia would have nothing to wear! The leader of Belgium also secured an exception for Belgium's lucrative diamond market. Luxury goods continue to trump all.

Perhaps the most interesting headline came from China, a Russian ally.

Chinese State Banks Restrict Financing For Russian Commodities - Bloomberg

Article | Stock Quotes (1)

February 25, 2022 9:44 AM EST

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Two of China's largest state-owned banks are restricting financing for purchases of Russian commodities. This is an interesting move as it hurts Russia, one of China's most important strategic partners in the face of sanctions by the U.S. and its allies.

China Angle

Even though we just highlighted two Chinese state-owned banks sanctioning Russia, do not expect China to let Russia sit out in the cold.

Just last month as tensions were increasing between Russia and the West, a massive deal was secured between Putin and Xi.

February 4, 2022
9:37 AM EST
Last Updated 25 days ago

World

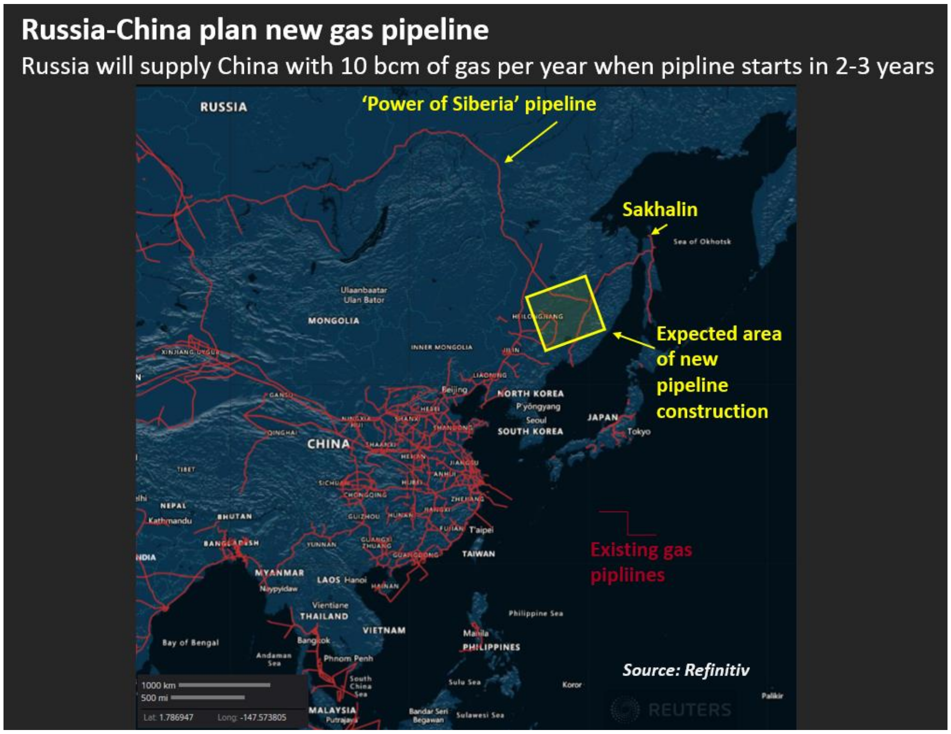
Putin hails $117.5 bln of China deals as Russia squares off with West

By Vladimir Soldatkin and Chen Aizhu

This deal reduces Russia's dependence on traditional European nations buying its energy. China is the biggest energy consumer around the world and in 2021 was Russia's 3rd largest customer.

The deal will create new pipelines between China and Russia's far east that will deliver billions of cubic meters of gas every year.

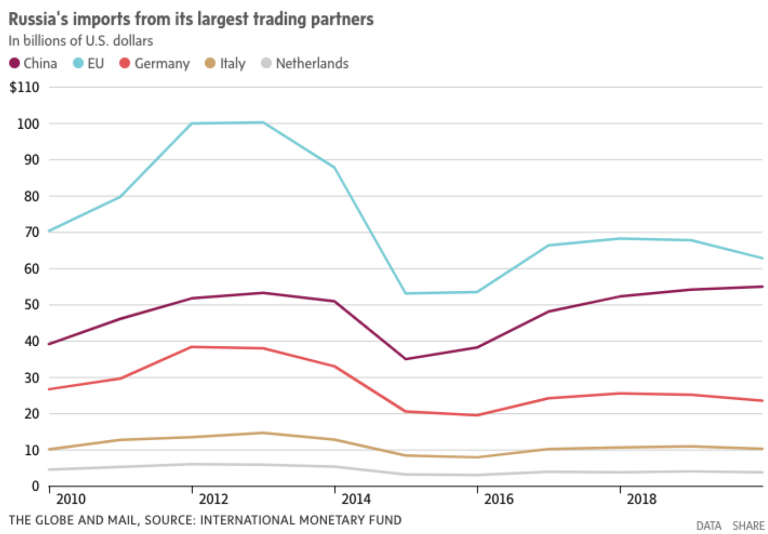
The pipelines between the two countries are below:



When there is money to be made, China does not care about anything other than making a bottom line. If making their bottom line also makes the West weaker, it's a double win for China.

This deal and the invasion of Ukraine put Russia deeper in China's pocket. The invasion has limited Russia's trading partners. Look for China to bolster new trade deals going forward with Russia, even if the invasion of Ukraine ends.

We would expect Russian imports of Chinese goods to substantially increase in the coming years.



Russian Implications

Equity markets remain closed in Russia during their invasion of Ukraine.

MARKETS

Russia ETFs continue plunge as the nation's stock market remains closed

PUBLISHED TUE, MAR 1 2022-8:28 AM EST | UPDATED 52 MIN AGO

Tanaya Macheel
@TANAYAMAC

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Blackrock has even blocked new cash from its Russia ETF and has halted inflows. The fund has essentially become a closed-end fund. The move was made as Russian assets went into free fall and were halted by the Russian government from trading.

Blackrock's Russian ETF is down almost 70% over the last month.

The largest Russian stock index is down only 33% since the invasion but, has been closed for several days. Once the Russian market re-opens, we would expect Russian equities to continue their free fall.

The most interesting part of this Russian stock crash is that it is happening at a time when oil is trading well above $100.

The reason Russia is in economic freefall is the collapse of its currency. The Ruble is collapsing…… it is down 30.7% since February 9th relative to the USD.

Oil Goes Parabolic

On Tuesday night, President Joe Biden gave his State of the Union speech. In the speech, Biden gave little guidance in terms of the economy and inflation, just that he would fix it. He made numerous promises on how he was going to change America, promises that cost $$$$ (more stimulus perhaps).

The group that had the best night was not a political group, it was oil traders.

Biden's speech started at 9 pm, oil was trading below $105 just a few hours earlier. Fast forward to the next morning and oil is up to $112/bb and is up 8.5% over the last day.

Oil traders have been on a ride for the ages over the last few months. Every decision the U.S. government has made has benefited them in the long run. In November, the U.S. released millions of barrels of oil from the Strategic Petroleum Reserves (SPR), prices dropped for a few weeks but went on to new highs, a month later.

Well, it appears Biden and his allies did not learn their lesson from the first release of the SPR. During his speech on Tuesday, Biden announced that the U.S. would be releasing 30 million barrels of oil from its SPR and U.S. allies would release another 30 million barrels from their strategic reserves.

US and allies agree to release 60 million barrels of oil from their reserves as Russian invasion of Ukraine causes price spike

By Phil Mattingly, Kevin Liptak, Kaitlan Collins, Natasha Bertrand and Matt Egan, CNN
Updated 12:39 PM ET, Tue March 1, 2022

The move did nothing for oil prices as they continued to increase. The desperation is real in the West. Consumers are fed up with failed policies.

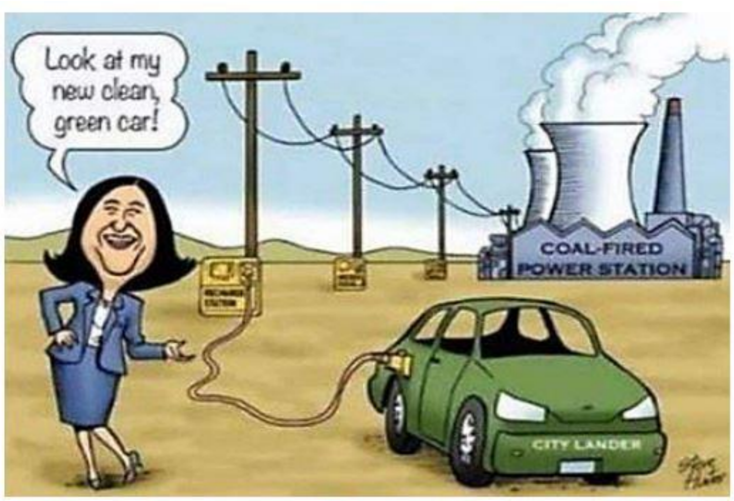
Just a week ago, the Biden Administration halted oil and gas leases to battle climate change. This was the day before Russia invaded Ukraine. The Western leaders who are fighting climate change, continue to make energy more expensive for consumers.

Biden halts oil, gas leases amid legal fight on climate cost

By MATTHEW DALY February 22, 2022

Green Energy Fallacy

Our friends from *Maison Placements,* shared an interesting graphic that best highlights our green energy thesis, a fallacy.



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We believe green energy has potential and that it will improve. We are just realistic in terms of its scalability and "cleanness".

The realities of electric vehicles are that most use fossil fuels to get charged. Even solar and wind energy is heavily fossil-fuel reliant; a great amount of oil and gas is used in the construction of wind turbines and solar panels.

Clean energy is not as it is described.

We have highlighted surging European power prices over the last few months as a reason against renewable energy reliance. Only 17% of the European electricity grid is powered by renewables, yet this 17% has caused prices to surge. Over the last year, wind speeds were historically low in Europe, wind turbines did not collect the amount of power that was needed for the electricity grid to run efficiently. This has led to surging power prices for consumers.

Electricity prices soared to record levels in 2021, rising more than 200% in Germany, the U.K., Spain, and France. In the Nordic region, prices surged 470% compared to 2020.

An article in the Calgary Sun highlights the issues Europe is facing. The article states surging consumer prices are caused by policymakers.

Columnists

Guest Opinion: Poor climate policies spur Europe's energy debacle

Jairo Yunis and Elmira Aliakbari
Mar 02, 2022 • 2 hours ago • 2 minute read • Join the conversation

Within the article….

> But the main problem is Europe's aggressive climate polices.
>
> The European Union's carbon price has risen rapidly from 22 euros per tonne in early 2020 to 90 euros by December 2021, an increase of more than 300% in two years.
>
> This has contributed to higher natural gas prices, which in turn has resulted in rising electricity bills.
>
> Similarly, the EU's aggressive push to decarbonize its energy mix by aggressively phasing-out coal and nuclear power and replacing it with renewable energy sources (e.g. wind) is another policy failure contributing to the crisis.

These prices should be a stark warning for North American leaders on what not to do.

Even though we say Europe should serve as a warning for North America, the White House announced renewable energy sources will replace foreign oil reliance going forward. These people never learn their lessons!

Psaki pushes renewable energy to stop dependence on foreign oil instead of increasing US production

Comments come as fears that energy prices could continue to rise amid Russia's invasion of Ukraine

By Michael Lee | FOXBusiness | Markets Quotes displayed in real-time

Power shortages and even higher energy prices will be coming soon to every place across North America.

It appears Germany is also planning to go all-in on energy shortages and 200% annual price increases going forward. The German government will bankrupt their citizens just through electricity bills.

Breaking News | FinancialJuice
@Financialjuice1

GERMANY AIMS FOR 100% ENERGY FROM RENEWABLE SOURCES BY 2035 - SOURCE

5:27 AM · Feb 28, 2022 · financialjuice

38 Retweets 35 Quote Tweets 305 Likes

Germany's energy policy continues to fail.

European Union

Germany needs to stop imposing its failed energy policies on the rest of the EU

By Pieter Cleppe - January 4, 2022

Germany has banned fracking, increased renewable energy sources, and on January 1st, 2022 shut down half of its nuclear reactors. Nuclear energy will play a key role in an energy transition. Germany still disagrees with nuclear energy usage even though nuclear is the best blend of clean and reliable.

The Washington Post even ripped Germany's energy failures:

"Though Germany has invested heavily in renewables, it nevertheless has had to burn massive amounts of coal since 2011 to keep its economy running. Absent nuclear, Germany also depends more on Russian natural gas, a deep geopolitical vulnerability that gives leverage to Russia's authoritarian government."

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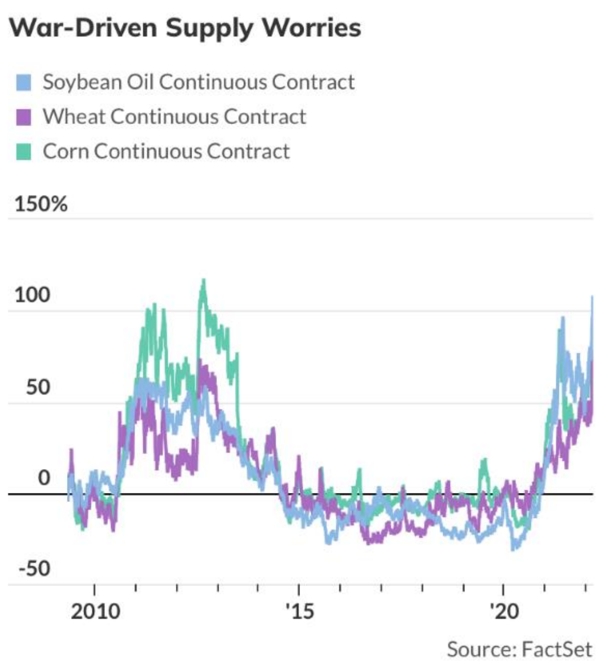
Germany has turned to emergency coal usage this winter to fill the gap that frozen solar panels and no wind energy have caused.

German energy policy is behind and will catch up when it is to late. Uranium will play a critical part in tomorrow's economy.

War & Inflation

The conflict between Ukraine and Russia as well as inflation has led to higher prices across various commodities. Wheat prices hit a 22-year high, soybean prices have hit a record, and corn prices are approaching decade highs. Prices did not begin to surge last week, prices have moved up throughout Covid-19 due to less supply, supply chain disruption, and rising input prices.

Prices over the last week have surged yet again due to the conflict. Together, Russia and Ukraine account for about 29% of global wheat exports, 19% of corn exports, and 80% of exports of sunflower oil, which competes with soy oil.

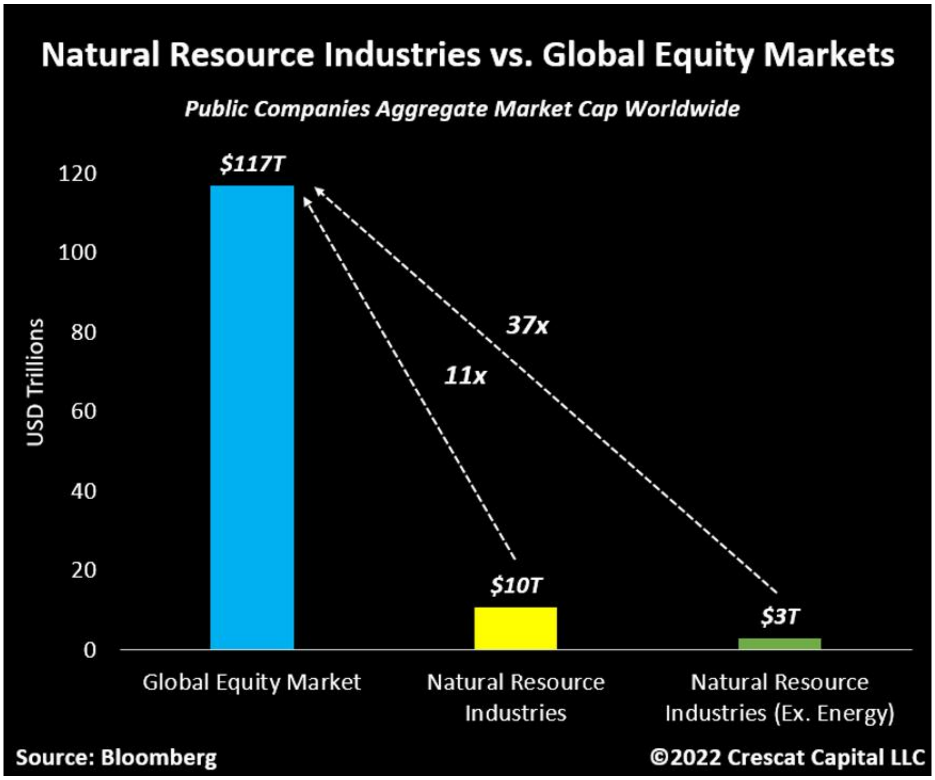


These price increases will directly trickle down to consumers, look for grocery prices as well as restaurant prices to increase this summer.

Real Application: Fractional Value

We regularly state how we are in a melt up stage in global equity markets. The market is littered with low quality, hyped up, negative cash flow generating companies.

This week we bring you an image that is very on brand for this week's issue, natural resources relative to global equity markets. It is astonishing that global equity markets are worth ten times natural resource companies. A picture truly says a thousand words. Real assets remain undervalued.



Markets continue to prop technology and growth valuations up (even with the recent turmoil).

This situation will not continue forever, and the gap will slowly close. Real assets will have their time and that time might be now (for commodities). Ballooning demand, heavy regulation, supply chain disruptions, and decreased global trade. The macroeconomic setup for various commodities is quite attractive right now.

Warren Buffett Shareholder Letter

Warren Buffett released his annual letter to his shareholders this past week. You can find the letter here.

The letter as always is quite insightful and gives you a glimpse of what Buffett and his partner, Charlie Munger are thinking.

Before jumping into what was in the letter, let's look at what was not. The terms "Pandemic, Covid, Ukraine, Federal Reserve, Biden, Trump, Russia, China" did not show up in the letter once. Cryptocurrency, blockchains, Bitcoin, and decentralized finance were also not mentioned (as expected).

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Charlie Munger says crypto is 'like a venereal disease' and should be banned

Warren Buffett's right-hand man warns on 'wretched' market excesses

Bloomberg News
Katherine Chiglinsky

Feb 17, 2022 • February 17, 2022 • 1 minute read • Join the conversation

Just a month ago, Charlie Munger compared crypto to a venereal disease, quite the metaphor.

Words that did appear multiple times in Buffett's letter were business (50), value (19), earnings (17), dividends (7), cash (6), and income (5). Buffett has yet to waver from his methods and continues to preach earnings, dividends, and shareholder value.
Buffett ignores fads and does not get caught up in "hyped technology" like some of today's biggest investors.

Checking in on the EV "Hype"

In the November 12th edition of *The Weekly Beacon*, we wrote about Rivian being tremendously overvalued:

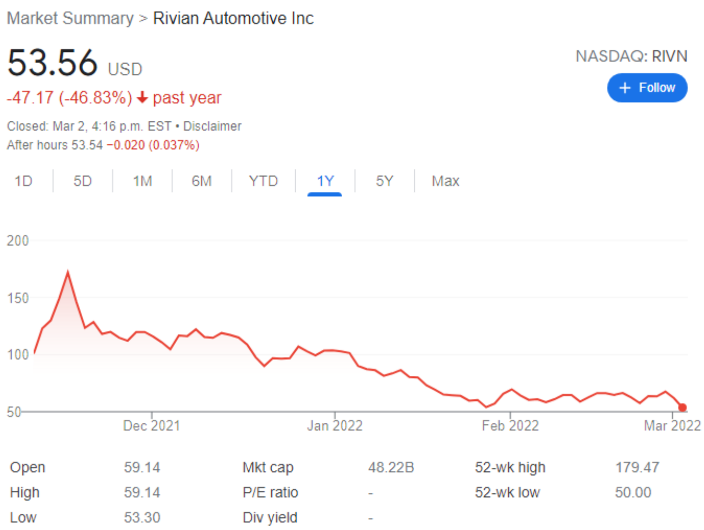
"Rivian remains extremely overvalued at the current valuation." (Rivian was trading at $100 at the time).

The week before, in the November 5th edition of *The Weekly Beacon*, we talked about the fundamental problems with Rivian during its anticipated IPO.

" The most interesting thing about Rivian; the company will be worth almost $56 Billion, yet they have only built 56 cars so far. $1 Billion for every car built! We understand to look forward and Rivian does look more promising than other EVs that have gone public over the last year or so. However, the valuation looks quite expensive at this point."

Fast forward a few months and look where we are: below the IPO price, below the opening price in public markets, and below the original valuation from a few weeks before the IPO. Who would have thought?

Stay away from the hype and stay away from whatever the experts tell you to buy on CNBC.



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March 4, 2022