

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.*



Eldred Rock Lighthouse, Alaska



Tower of Hercules Lighthouse, Spain

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

Elon Does it Again

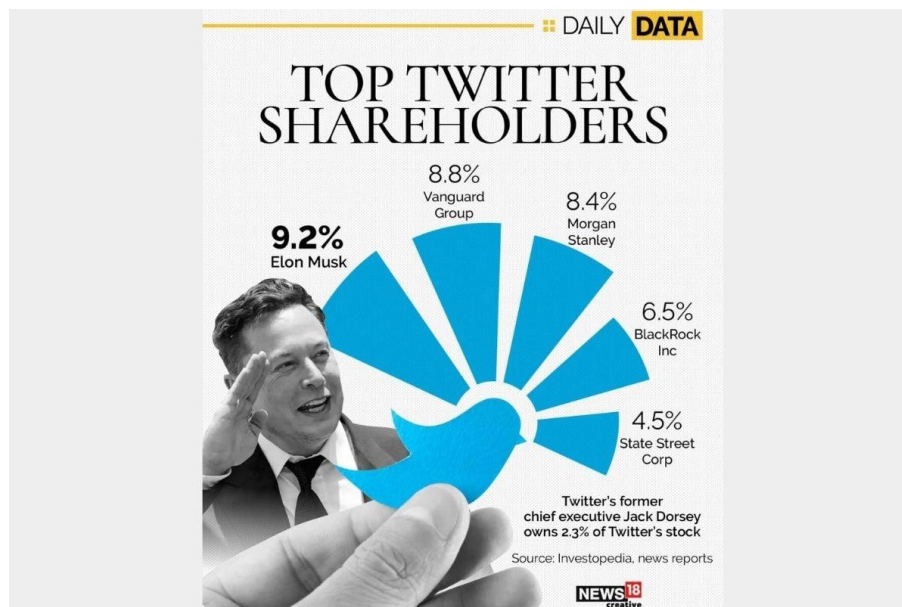
Unless you stay off the internet, we are sure you have heard that Elon Musk bought Twitter.

The CEO of Tesla bought 9.2% of Twitter according to SEC filings.

Elon Musk perhaps foreshadowed (or previewed) this purchase over a week ago in a series of tweets.



Musk has been a supporter of universal free speech and has often been critical of Twitter's moderation of certain viewpoints. Many thought he would create a new platform that would compete with Twitter. Instead, he became the largest shareholder of Twitter.





Musk is the world's richest man. Jeff Bezos trails him by over \$100 billion in terms of net worth, this 9.2% purchase of Twitter accounts for 1.2% of Musk's net worth.

Musk is passionate about free speech and is attempting to make the forum more transparent. After his purchase was made public, he was awarded a board seat. Current Twitter CEO Parag Agrawal claimed he was looking forward to working with Musk. For any CEO having Musk on the board will be a headache. Musk will essentially represent his 80 million followers in board meetings. He is not a normal CEO and is very for the people. We would assume he will make everything that he learns public.

Twitter did place a stipulation on Musk's ownership of Twitter, 15% of shares. The move denies Musk the opportunity for a hostile takeover.

Upon the announcement, Twitter shares leaped.

Market Summary > Twitter Inc

50.98 USD

+10.63 (26.34%) ↑ past 5 days

Closed: Apr 6, 9:26 a.m. EDT • Disclaimer

Pre-market 50.11 -0.87 (1.71%)

NYSE: TWTR

+ Follow

1D | **5D** | 1M | 6M | YTD | 1Y | 5Y | Max

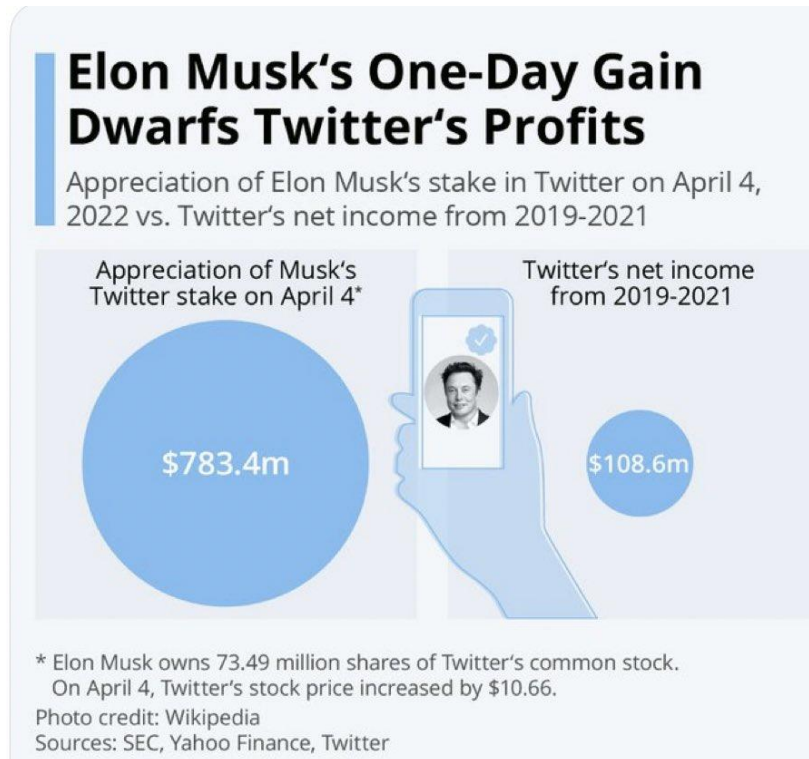


Twitter's stock price is up 26% over the last 5 days and 57% over the last month. Twitter shares did reach their 52-week low a month ago which is part of the reason shares had lifted even before Musk's announcement. Musk's bulk buys over the last month could also be a major reason for the pre announcement boost in stock price. Musk began buying Twitter shares on March 14th.

Before the announcement on April 4th, Twitter shares were trading below \$40/share. Original investors of Twitter would have been down. Twitter shares debuted in November 2013 at \$41.65. It has been a long, wasteful road for Twitter investors. We would expect the Musk juice and hype to be an X Factor for Twitter, one that should make any investor steer clear of betting against the company.

We have long recommended against buying it due to limited cash flows and troubles monetizing the platform as well as the moderation of accounts. The cult that is Tesla investors will pile into Twitter like it's a Model X and ride it into the sunset.

Perhaps the graphic that describes Musk's pull and Twitter's struggles:

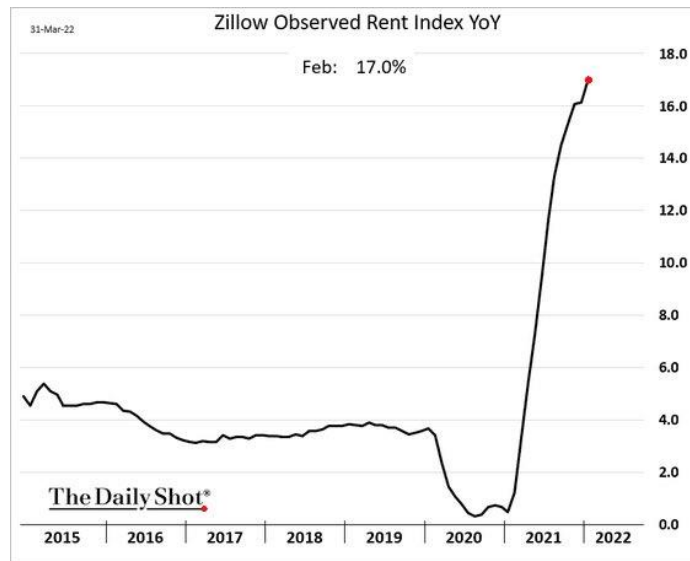


Musk's one-day gain in his Twitter investment was almost 8x Twitter's net income over the last 36 months. The low income highlights the financial issues we speak of when talking about Twitter. It's not debt or wasteful expenses, it's trouble monetizing the platform. Perhaps Musk can aid Twitter management and finally help turn the company around.

Hitting you where it hurts.....

Inflation continues to be underreported and we will continue to tell you.

Rent across the U.S. is up 17% over the last year. This is 4 times the growth rate as of pre-Covid-19. There was also no time of negative rent reduction (nationally), rent was flat at the beginning of Covid-19 but, was never reduced on a year over year basis (note the chart never dips below 0%).



Landlord costs are increasing and are being reflected on consumers, housing demand is ballooning and is increasing prices for consumers. So, if rent, a major staple in the cost of living is up 17%, how is inflation only being reported at 7.9%?

Energy is not dragging it down. The average price per gallon for gasoline in the U.S. is currently \$4.16 compared to a year ago which was \$2.87, a 45% increase.

Is it food?

2021 was a bad year for grocery bills. Shoppers paid 6.4% more for groceries in November 2021 compared to November 2020, according to the **consumer price index**. All food prices were up a bit more than usual but the most dramatic price increases come from meat, **pork cost 14% more than a year ago and beef cost 20% more**. These increases are slowing, per **consumer price data** released January 12th, but show no signs of dropping to pre-pandemic levels anytime soon.

No, food prices are soaring, especially meats and fresh produce. Fertilizer prices are spiking and summer 2022 will not be easy on your wallets at the grocery store. Expect price hikes and possibly shortages of certain goods. The only way to profit from food inflation remains futures which present retail investors with massive risk and buying fertilizer stocks (there are not that many).

We continue to follow our indicators for inflation and believe governments are underreporting inflation by about 5%, with interest rates in the toilet, real rates make traditional fixed-income investments the least attractive buy on the market. Do not fall for the Institutional 60/40 portfolio. Contact us today if you have any questions on why the 60-40 portfolio is dead.



Russia Unfazed

We have reported on the financial implications of Russia invading Ukraine in [The Weekly Beacon](#) over the last few weeks. We have also said Russia will survive as they have necessity goods but, no luxury goods. Their population may not be able to buy new iPhones or new designer handbags but, they will not starve or lack energy to power their homes. They might be miserable but, they will not starve or freeze. It appears the market has finally priced this in.

Even though peace talks are perking up and news out of Ukraine says they are making progress on a solution to the conflict, we believe we are not out of the woods entirely. News out of Ukraine this week was horrific as Russian troops backed out of Northern Ukraine. It appears general citizens were killed by the Russian military. Who knows how long this conflict lasts? It appears every news outlet has a different story. The financial and economic sanctions on Russia are seemingly getting worse, that should tell us something.

We are not geopolitical experts, we are here to talk about the financial implications.

The Ruble to USD conversion rate has reached its pre-invasion price. After collapsing almost 50% in a matter of weeks, the Ruble has climbed out of the ashes and seems to be stable.



So, what happened? Russia still has major political risk, that has not changed.

For one, Putin signed an order that demanded purchases of Russian energy to be made in the Russian Ruble instead of the USD. Certain countries have obliged.

Germany and other EU nations have also continued their energy purchases from Russia even with their promise to decrease purchases of Russian oil and gas.

India, the most populous country in the world with hundreds of millions of people in poverty has jumped on the opportunity to buy Russian oil at a discount. Since Russian sales were not going through (due to Western sanctions), Russia dropped its ask price and India received a \$35/barrel discount. A great discount for an impoverished nation.



Ukraine crisis: Why India is buying more Russian oil

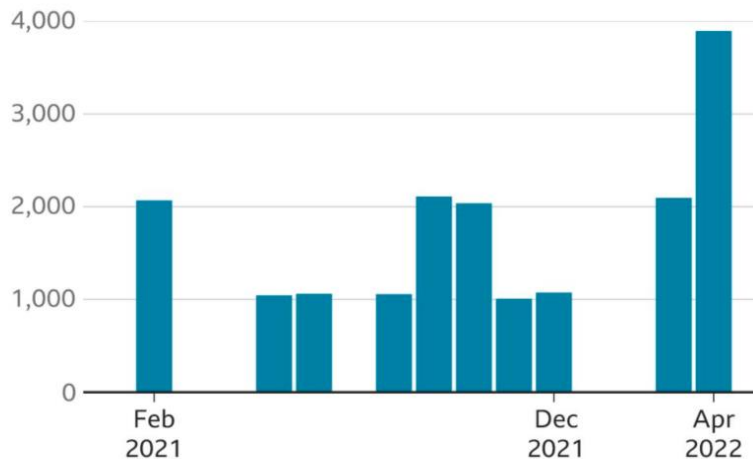
By Shruti Menon
BBC Reality Check

🕒 29 March

India has increased its purchases of Russian oil after the western sanctions on Russia were announced. India is the 3rd largest consumer of oil globally and imports 80% of its oil.

Total imports of Russian Urals crude by India

Million barrels



Note: April 2022 data reflects expected deliveries

While the West zigs, India and other nations are choosing to zag. Numerous countries across the world have used this conflict to their advantage to address real economic problems they face and will face in the future.

China is also rumored to be the next country to take advantage of these Russian oil discounts. They have filled numerous orders in the commodity space that Russia has had trouble filling. There are also rumors that they are filling their strategic oil reserves with cheap Russian oil.

Russia has essentially limited the global supply of various agriculture exports due to its attack on Ukraine and limited energy exports due to western sanctions. The exports that Ukraine is known for are also

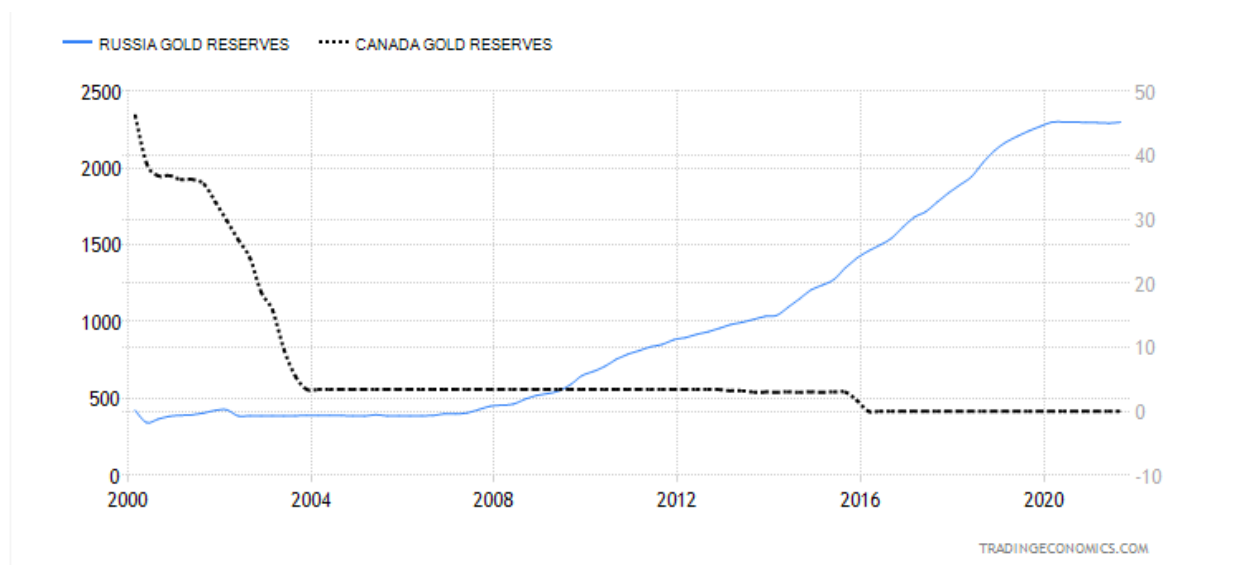
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exported by Russia, as supply shrinks this year, prices will rise and will help Russia. Countries will not let their citizens starve. Energy is a little trickier, but we think shortages will trump sanctions and countries will continue to desperately buy Russian oil and gas. Certain countries across Asia, Africa, and other parts of the world will turn a blind eye to Ukraine.

Russia has also pegged the ruble to the gold standard, a price of RUB5,000 (£45.12) for a gram of gold. Although we have no reason to trust Russia. They have essentially pegged the Ruble to Gold which conversely pegs the price of oil to Gold.

Russia has been on a 10+ year spree of buying gold. They paused during Covid-19 but, plan to restart in April 2022. Russia's central bank has 2,298 tonnes of Gold in its reserves, Canada has 0. We are not saying Gold is the end-all, be-all asset but, having a little of the oldest precious metal might be something the Bank of Canada might want to consider (especially during inflationary periods (right now)).



Speaking of Oil

Right after we finished [The Weekly Beacon](#) for last week ([April 1st edition](#)), the Biden administration had a huge announcement. The second release of the Strategic Petroleum Reserves (SPR) of his presidency was to combat high oil prices.

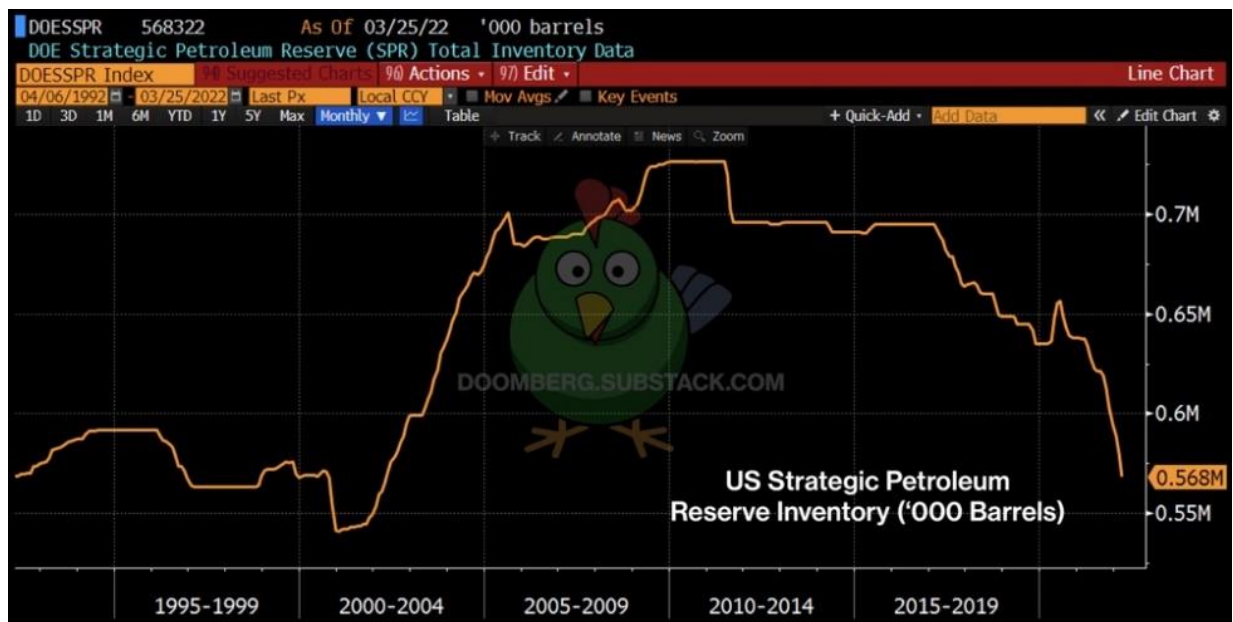
Biden released 50 million barrels of oil from the reserves in November 2021.



Prices were in the low \$80s at the time and dropped in December to the high \$60s, a nice short-term price change. However, since then prices have surged. They almost doubled earlier in March and are settled near \$100/bb at the moment.

Biden's new release of the reserves will release approximately 180 million barrels of oil, almost four times the November release, the major issue with this move is logistics. The U.S. does not have the infrastructure to rapidly release this much oil daily (pipelines, fuel trucks, etc.). The other issue, this oil release will combat the reduction of Russian oil on the global market.

This move will also put the U.S. SPR at the lowest level since 1984. If a major emergency did arise, the U.S. would be in a world of hurt. The SPR will also need to be refilled one day, probably at a much higher price than today. Although the price of oil has come down a few dollars since this announcement, we think oil in the medium to long term will rise in price. The move is desperation and will reduce short-term prices, it does not fix the fundamental problem.



The 180-million-barrel release may sound big. However, the U.S. consumed 19.78 million barrels of oil per day in 2021. The release will only cover 9 days. The IEA expects a 3 million barrel per day gap due to current sanctions on Russia (which could get much worse with more outright bans by the EU and other nations). The supply impact of Russia-Ukraine is expected in the coming weeks and has not been completely realized.

Media outlets are finally realizing the release of the SPR is a band-aid fix for a water leak.

The Financial Post:



Oil & Gas / News / FP Investor / FP Energy / FP Economy / Commodities

Eric Nuttall: The world has plunged into a deep, enduring energy crisis that may threaten the economy for years to come

Long before Russian tanks rolled towards Ukraine, the oil and gas industry had culminated into an undersupplied market

Eric Nuttall
Mar 28, 2022 • 1 hour ago • 5 minute read • [Join the conversation](#)

Forbes:



ENERGY

Biden's Wasteful SPR Release

Ed Hirs Contributor

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Apr 4, 2022, 02:34pm EDT

The banks also seem to agree and will willfully scoop up oil and gas shares when investors sell in the short term due to single digit percentage declines.

Goldman Confirms Biden's SPR Release Plan Does Nothing To Resolve Structural Supply Deficit, OPEC+ Sticks To Output Plan



BY TYLER DURDEN

THURSDAY, MAR 31, 2022 - 08:09 AM



Goldman has highlighted some fundamental issues with the global oil market that make the SPR release bullish for oil. They highlight the release as a misstep.

Worse, according to Goldman's commodity team, "upsides risks have not been resolved with today's release" because:

1. **Potential logistical bottlenecks to such an unprecedentedly large and long US SPR discharge could reduce its flow rate**, with potential congestion on the Gulf Coast in getting to refiners or export terminals.
2. **We see risks of a slower shale growth than the 1.1 mb/d we are expecting in 2023, due to the combined effects of rising cost inflation and binding service bottlenecks.**
3. The US policy use of an SPR release, a potential deal with Iran, extreme price volatility and the growing risk of a recession next year, **are all exacerbating the uncertainty faced by producers, reducing their incentive to invest more.**

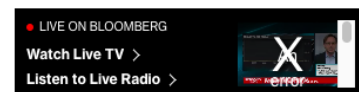
Common sense. Companies will also be less likely to invest in new exploration and increase production for an administration that makes rash decisions that attempt to tank their market.

Futures investors are also telling us something. We should probably listen.

Oil Futures for 2023 Gain With Trafigura Seeing U.S. Release as Misstep

By [Alex Longley](#) and [Devika Krishna Kumar](#)

March 31, 2022, 12:41 PM EDT



Even though hundreds of oil and gas companies went bankrupt over the last decade and operated at a loss, added profit due to global price increases is not acceptable according to President Biden. This is a government-induced problem.

If the government continues to interfere in the energy market, prices will continue to soar. The U.S. government should speak against Apple and Pharmaceutical companies for raising phone and medicine prices the same way they do against Chevron and Exxon.

Even though prices have dropped, do not expect Q1 results for oil companies to suffer, oil traded at a premium throughout Q1. Debt will be paid off, share buybacks will be completed, and dividends will be paid.



Even the most successful investor of all time is still buying energy companies.

Why Buffett Is Buying Energy Stocks At Multi-Year Highs

By [Alex Kimani](#) - Apr 02, 2022, 6:00 PM CDT

Buffett does not buy expensive stocks; he is a value seeker. He knows energy stocks are still trading at basement valuations and maybe he even read [The Weekly Beacon](#) and understands the fundamental issues the oil market will face in the future.

Note the difference in policy for China and the U.S. regarding strategic reserves (long game vs. short game).

Where did the Keystone XL Pipeline go?

After the announcement of the SPR release, the Biden Administration announced that they would look to Canada to boost production. The announcement would imply the U.S. wants to increase imports from Canadian oil and gas producers.

POLITICS

U.S. Wants More Oil From Canada but Not a New Pipeline to Bring It

White House still opposes Keystone, but other options could include shipping more oil by rail or expanding pipeline capacity along existing routes

Good thing the Keystone XL Pipeline was canceled on President Biden's first day in office.

The green line was what was canceled, it would add a major pipeline between Canada and the U.S. The Pipeline was canceled for environmental concerns.

Green energy was supposed to replace the oil that was to come through the Keystone XL but, that never happened. Workers who were fired were also promised green jobs. We bet millions of North Americans would take Keystone oil over Saudi oil or even unreliable solar energy.



Regardless of the decision to cancel the Pipeline, this move could be bullish for Canadian oil companies. Companies that operate in Alberta will benefit from this ask by the Biden administration. Perhaps this move could be the first of many by Western nations on being energy independent or independent with allies. Why depend on your enemy for energy when you have other options?

Either way, this move is another example of the overregulation of the oil and gas industry in North America and Europe. This has caused underinvestment in the sector and will lead to higher prices for consumers.

The only thing that could be more bullish for oil would be oil rebates by the government to reduce prices. This will increase the demand destruction price.

U.S.

Nancy Pelosi: Rebate Cards, Payments Being Considered to Fight Gas Costs

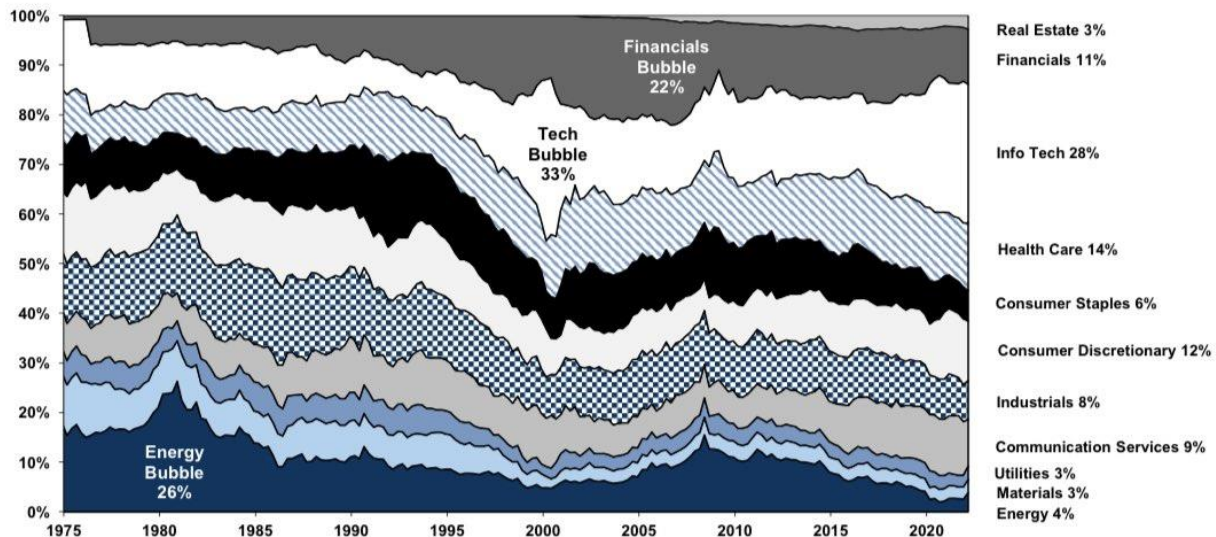
BY **LORA KORPAR** ON 3/31/22 AT 1:06 PM EDT



How Big Will Energy Get?

Energy has underperformed every other sector over the last few years (until the recent run-up). Energy still has a large gap to fill. The S&P 500 still has historically low exposure to energy, even with the sector's usefulness. We think energy will increase from 4% of the S&P 500 closer to 10% over the next few years. The energy shortage will be a real story for years to come. This will continue to get worse as countries implement carbon taxes and green energy policies. Solar and wind energy will not solve our problems.

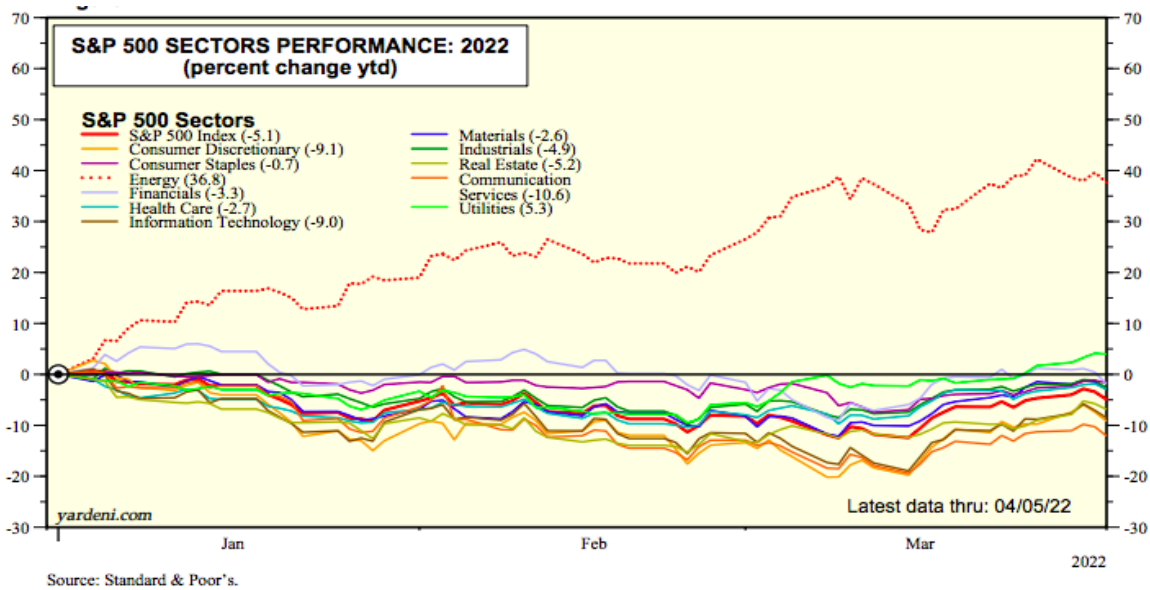
Exhibit 7: Sector composition of the S&P 500 by equity capitalization, 1975-2022 as of March 31, 2022



Source: Compustat, FactSet, Goldman Sachs Global Investment Research

Energy remains the best performer and it's not even close. The only other sector on the S&P 500 that is not down year to date is boring old utilities (something we all use).

We will continue to recommend certain energy and utility stocks over the next hype EV manufacturer, or ground-breaking SAAS company.



It could be a bumpy few years for technology investors and even indexers.

MacNicol & Associates Asset Management Inc.
April 8, 2022