

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 ships (Investors) of dangerous areas.** It is like a traffic sign on the sea.*



Oyster Island Lighthouse, Rosses Point, Ireland from a recent golf trip - David MacNicol



Metal Man Beacon, Sligo Bay, Rosses Point, Ireland from David MacNicol

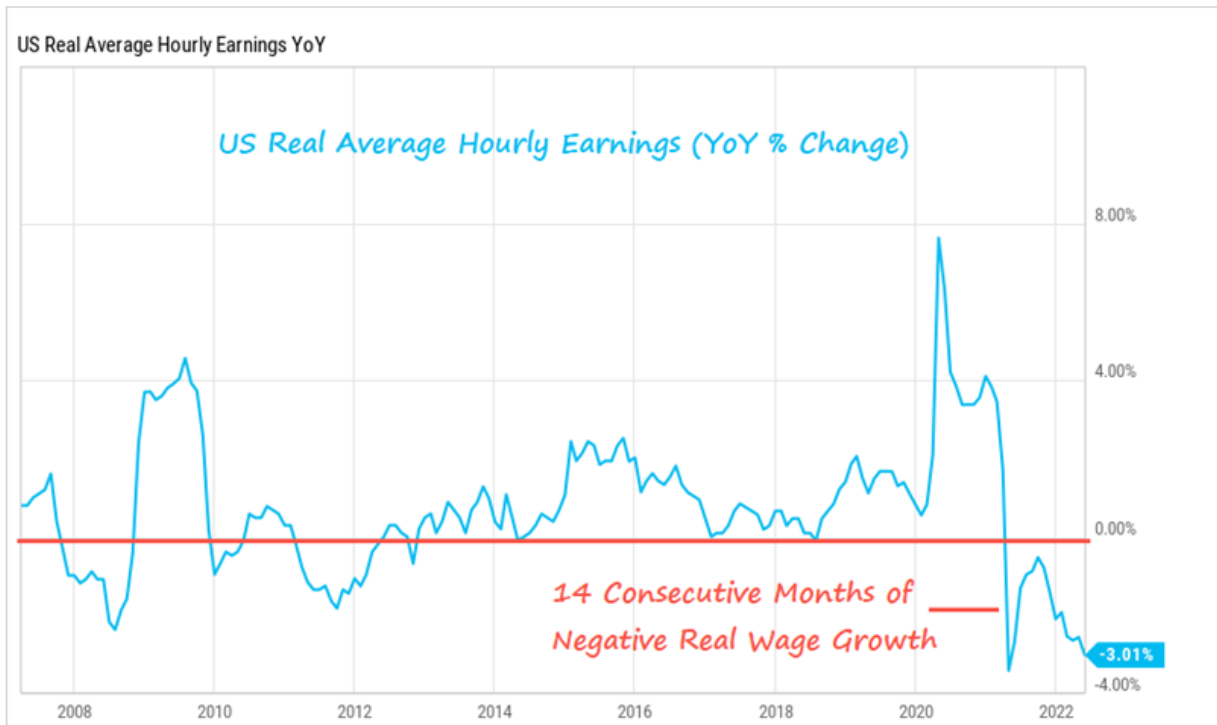
Feel free to send us your photos of Lighthouses to be featured in our weekly market observations.



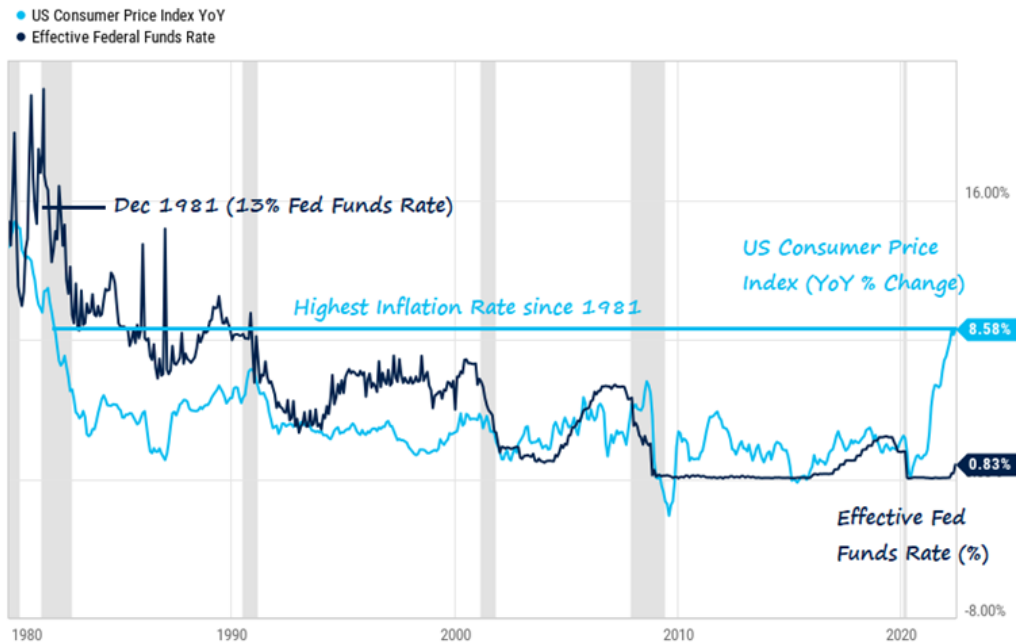
The Destruction of the Average Worker

Inflation destroys the poor and middle class the most. When hourly wages do not keep up with prices, wage value decreases for the hardest working people. The upper class enjoys inflation, things that cost them relatively low percentages of their wealth go up marginally and real assets/ financial assets go up two-fold (real estate, collectibles, stocks). What we have seen over the last year and a half has been exactly that (minus the recent wind down in equity markets).

Real wage growth has been down for 14 months in a row. Workers are losing and billionaires are winning, maybe that's why billionaires always lobby for more money printing because it will help them.



Charts do not look good when paired with charts like this:



The highest CPI in 40+ years and interest rates are basically the lowest they have ever been.

How are they going to fight inflation? Well, rate increases as we are sure you are aware; the U.S. and Canada are both increasing interest rates which will slow inflation down. The major issue with that, we are now in an equity bear market.

The last 8 bear markets have been fought by the FED through rate cuts and Quantitative Easing (QE). We are doing the opposite right now. Expect valuations to slow down, earnings to slow, capital raises to slow down, and bankruptcies across the public and private worlds. Easy money in venture and private equity will disappear. We are truly in an interesting time.

The FED could reverse course if the stock market continues to tank and stop its planned interest rate increases.

As of now, the bond market is now pricing in multiple 0.50% rate increases:

-June: 50 bps hike to 1.25%-1.50%

as of June 15th the FED hiked rates by 0.75%

-July: 50 bps hike to 1.75%-2.00%

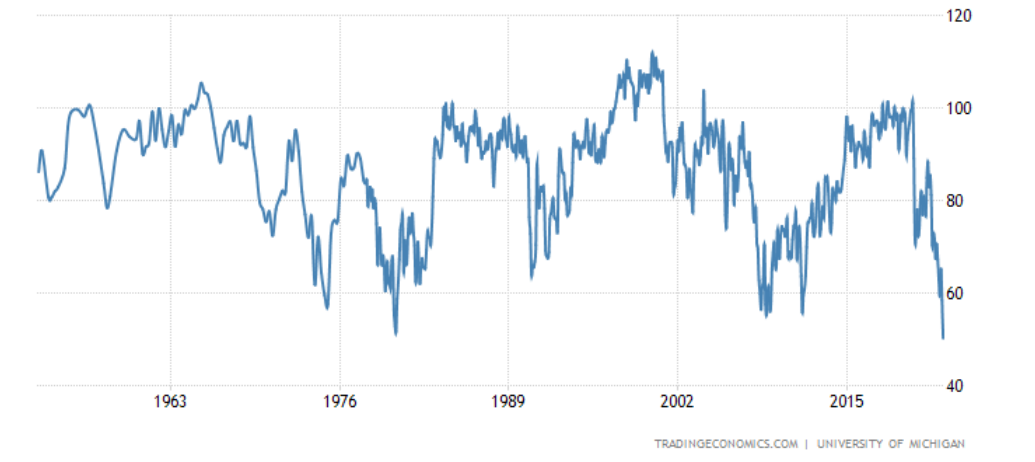
-September: 50 bps hike to 2.25%-2.50%

-November: 50 bps hike to 2.75%-3.00%

-December: 50 bps hike to 3.25%-3.50%.

How many of those will happen? We are not sure but at today's rates, probably not many, especially as we head into the US election. The stock market is a major issue now in the political world. One could argue, that today is when it has mattered to the average consumer the most on record.

Consumer sentiment has gone down the drain. The University of Michigan Consumer Index is at an all-time low, even lower than during the bottom of the Housing Crash in 2008.



Either way, consumers care more than they ever have about the economy and it's no surprise why. Covid-19 may have permanently screwed us up. Assistance payments during economic downturns will be expected going forward and bigger and better than in previous cycles. The only way to fight inflation is to increase interest rates which inherently hurts public markets. Expect a bumpy road ahead.

Projecting 2022

This November, the U.S. will head to the polls, numerous Governor races, every U.S. House race, and 1/3 of the Senate will be up for grabs. This will be a big year. Will Biden gain seats everywhere to help steer his policy? Or will the Democrats fail due to their failures 2 years into Biden's presidency?

It's no surprise the Biden Administration is using other issues as we head closer to November. They have ignored economic issues and have claimed the economy is strong as ever - not sure what numbers tell them that. They have failed on product shortages, fixing the supply chain, inflation, wage growth, and much more. Americans have noticed. Not only has their economic policy been unpopular but so have some other stances they have taken including energy policy, immigration policy, and crime policy.

To avoid 'historic shellacking' in midterms, Biden is promoting a sunny view of US economy

Much of America does not seem to be buying the optimistic vision that Biden and his team are selling

130 Bloor St. West, Suite 905, Toronto, ON M5S 1N5
Tel: 416-367-3040 Toll free: 1-866-367-3040 Fax: 1-877-215-4044
Email: info@macnicolasset.com URL: www.macnicolasset.com



We expect the Republicans to win pretty handily in November in both the House and Senate. This will pretty much gridlock the U.S. government and will prevent Biden from passing massive spending Bills. This could be a good thing in some instances. The one thing to remember, just because the Republicans might win, oil and gas prices will not immediately drop. We have underinvested and need time and money to increase capital expenditures, increase drilling permits, and add pipelines. We expect Biden to still push back on this even after a GOP sweep, we will truly have gridlock in Washington. This prediction matches recent election swings. In 2016 Trump and the GOP won, 2 years later the Democrats took the House, the same thing happened in 2010 and 2014 to the Democrats, 2 years after Obama won his elections.

Over the next few months, we will report more on this as the U.S. political world has a tremendous impact on global financial markets.

U.S. Mortgage Market Hits Another Milestone

A few weeks back in [The Weekly Beacon](#), we highlighted that the U.S. Mortgage Rate had reached 5%, well this week we hit 6%.

REAL ESTATE | FEATURE

Mortgage Rates Hit 6% After a Big Selloff in the Bond Market

By [Andrew Bary](#) [Follow](#) Updated June 14, 2022 6:46 pm ET / Original June 14, 2022 11:02 am ET

As of June 14th, the 30-year fixed mortgage rate hit 6.28%. It was 5.5% only a week earlier. That may sound like a small move but, it's massive.

The drastic rate jump this week is the worst since the so-called taper tantrum in July 2013, when investors sent Treasury yields soaring after the Fed said it would slow down its purchases of bonds. That caused the rise in rates that began in January, with the average rate starting the year at around 3.25% and pushing higher each month.

CNBC highlighted the change in dollar terms: a \$400,000 home, with a 20% down payment, the monthly mortgage payment went from \$1,399 at the start of January to \$1,976 this week.

Certain homebuilding stocks took this news on the chin as some investors see this as a slowdown in the residential real estate market especially if rates are increased through the end of this year.



This massive jump in recent days is almost vertical:

Average 30-year fixed mortgage rate



FREDDIE MAC DATA THROUGH JUNE 9, 2022. THE READING FOR JUNE 14 COMES FROM MORTGAGE NEWS DAILY

Zonda, a real estate research firm has highlighted the change in price for monthly mortgages across various U.S. cities:

How much mortgage payments for the typical new borrower have jumped over the past six months

Through the first six months of 2022, the average fixed mortgage rate has climbed from 3.1% to 6%

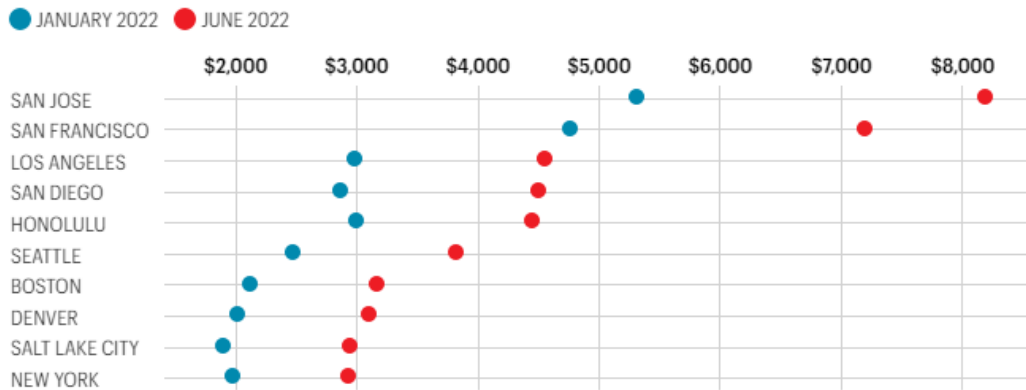


CHART: LANCE LAMBERT - SOURCE: ZONDA



Tough time to be buying in California.....

Crypto Melt Down

Crypto and NFT Markets have imploded over the last few months. It has been like the technology stocks that were overvalued by 3x. Stable coins melted down, Bitcoin's value was cut in half, and million-dollar pictures (NFTs) dropped 90% in value. The crypto industry as a whole has undergone a wealth wipeout. Who would have thought? Infinite projects, all trying to change the world, no regulation, social media pump and dumps, and even cartoon photos of rocks selling for millions of dollars. The industry is a mess. Most of the projects have no intrinsic value and are worthless.

The crypto industry is still the wild west. This week this all got worse. As the stock market fell 4-5% crypto markets dropped 30%+ over the last week. No, we are not talking about random altcoins and small projects you have not heard of, we are talking about Ethereum and even Bitcoin.

If you do not think crypto and NFTs can drop more than that you are mistaken. The Bored Ape NFT collection still has a floor price of \$100,000 USD.

At peak value, they sold on average for \$1.5 million, some fetched over \$3 million. We have room to run to the downside. Don't believe us? We would argue there are a lot of alternative purchases we would make for 100k rather than this image: (farmland, equity investments, and real estate (just to name a few)).



So, the NFT market has collapsed which is no surprise and so have small altcoin projects. The major surprise has been how the mainstream cryptocurrencies have fared over the last week, month, and year. We hope you did not buy the dip because the dip has been going on for 15 months.

ASSET (IN USD)	JUNE 15 TH PRICE	MARKET CAP	PEAK PRICE	5 DAY RETURN (%)	YTD RETURN (%)
BITCOIN	21,557	407 Billion	68,990	-25.68	-54.75
ETHEREUM	1,138	136 Billion	4,865	-31.36	-69.74
CARDANO	0.4801	16 Billion	3.1	-15.88	-69.94
XRP	0.3135	15 Billion	1.41	-17.5	-63.04
LITECOIN	44.99	3 Billion	294.56	-20.81	-70.27
SOLANO	29.64	10 Billion	260.04	-21.5	-82.67

130 Bloor St. West, Suite 905, Toronto, ON M5S 1N5
Tel: 416-367-3040 Toll free: 1-866-367-3040 Fax: 1-877-215-4044
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DOGECOIN	0.05431	7 Billion	0.3501	-27.66	-68.6
POLKADOT	7.28	7 Billion	55	-16.41	-72.66
POLYGON	0.3965	3 Billion	2.92	-34.04	-84.29
CHAINLINK	6.48	3 Billion	38.16	-18.8	-68.44

With returns down -60 % or so, we would take the overvalued Nasdaq even back in January in a heartbeat, it's only down 30% year to date.

So, what happened? We would guess some people got margin called, some people were sick of massive losses, some people increased cash, and people sold off the riskiest assets of all due to recessionary fears. Regardless, crypto remains the riskiest asset in financial markets and there arguably is more risk to the downside especially if the economy continues to struggle.

We hope you did not buy Coinbase's IPO like a lot of media pundits recommended. The crypto play might be one of the biggest duds ever.

Market Summary > Coinbase Global Inc

54.69 USD

-177.38 (-76.39%) ↓ past year

Jun 15, 10:17 a.m. EDT • Disclaimer

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



Down 77% in a year and even more from its November peak of \$368, yikes.

Never forget:



Jim Cramer ✓
@jimcramer

We like Coinbase to \$475

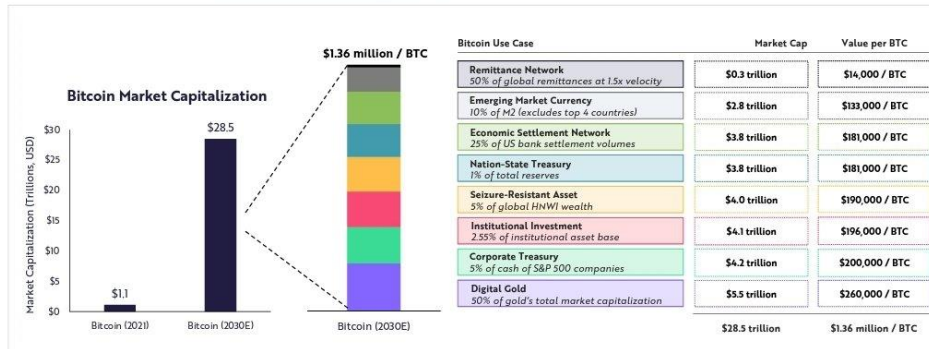
10:02 AM · 4/14/21 · TweetDeck

Speaking of Whacky Calls, Ark Investments (our favourite financial firm to pick on) put out their latest deck on cryptocurrencies and the slide on Bitcoin's price is quite funny.

55 · Bitcoin



The Price Of One Bitcoin Could Exceed \$1 Million by 2030



Forecasts are inherently limited and cannot be relied upon. | For informational purposes only and should not be considered investment advice, or a recommendation to buy, sell or hold any particular security or cryptocurrency.
Source: ARK Investment Management LLC 2021. | Corporate Treasury Data Source: Capital IQ. Seizure-Resistant Asset Data Source: <https://worldwealthreport.com/wp-content/uploads/sites/7/2021/07/World-Wealth-Report-2021.pdf>. Remittances Market Data Source: <https://theftreemtimes.com/global-remittance-market-is-expected-to-grow-by-200-billion-by-2026/>. Nation-State Treasury Data Source: <https://data.worldbank.org/indicator/FR.BST.TOTL.CD?end=2020&start=2002>. Note: a 25x price multiplier was applied to Nation-state treasury and corporate treasury opportunities. The price multiplier is the upper bound estimate made by Chris Burniske (Co-author of Cryptosassets: The Innovative Investor's Guide to Bitcoin and Beyond and Partner at VC firm Polychain), which roughly equates to the average between the estimated lower bound made by Burniske and the estimated upper bound made by Citi Bank <https://medium.com/@cburniske/cryptosassets-flow-amplification-reflexivity-7e306815dd8c>.

According to Ark, Bitcoin will be worth 1.36 million by 2030 because of math!

Now we are not saying Crypto has no place in society and are not claiming all projects as worthless. We are highlighting the issues the industry faces. One example, is a meme coin, Dogecoin which is a complete joke and is worth \$3 Billion at the moment. Numerous projects have no utilization and blanket price predictions are as good as gambling. We just want our readers and investors to understand the risks associated with a hot new industry in financial markets. Many experts may say we are at the bottom and this is the best time ever to buy, but we disagree. Crypto will continue to get hit the hardest in a market downturn. Certain projects will disappear just like certain companies went bankrupt during the Dot Com Crash.

Looking Back on Something

Electric vehicles (EV) might be the future. Millions of people who own regular automobiles today might own an EV in just a few years. There is no denying the trend. Even though we believe in the fundamental technology and trend potential, we do not buy stocks on an idea, we focus on valuation.

Even though we might miss a long-term trend and a huge return, we have avoided the duds that have failed. We avoid everything, high multiple. We did not own Zoom, Netflix, or Uber. We also did not own any of those EV companies during the peak hype of 2020 and 2021. We still do not own them as the road will be extremely rocky for each company. Scaling is hard, production is hard, and creating a positive return takes years (ie. Tesla).

Tesla created its first profit in 2020 and was founded in 2003.



Tesla Has First Profitable Year, but Competition Is Growing

Looking back at the boom in EV IPOs and SPAC listings, we have noticed a few pretty appalling things. These companies along with their sponsors or underwriters misled investors.

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- Electric Last Mile Solutions which went public via SPAC last year has filed for bankruptcy. The company had a peak market cap of over \$1.5 Billion. They projected \$613 million in revenue in 2022 and \$3.05 billion in 2025. They have never sold anything.
- Nikola which went public via SPAC in 2020 has a market cap of \$2 billion, it peaked at over \$30 billion. They projected revenue of \$300 million in 2022 and \$3.2 billion in 2024. They have created \$1.8 million in revenue so far (since being founded).
- Hylion Holdings which went public via SPAC has a market cap of \$600 million, it peaked at over \$8 billion. In 2020 they projected revenue of \$344 million in 2022. They have yet to sell a single car.
- Lordstown Motors Corp. has a market cap of \$321 million which peaked at \$5.3 billion in 2021. During their SPAC process, they projected \$1.7 billion in revenue in 2022 with a positive EBITDA. Revenue in 2024 was projected at \$5.4 billion. They have yet to generate revenue and EBITDA is estimated to be -\$382 million in 2022.
- Fisker currently has a market cap of \$2.3 billion which peaked at over \$9 billion. They estimated (last year) revenue of \$600 million in 2022 and have yet to create any substantial revenue (in the thousands).
- XL Fleet Corp which went public in 2020 via SPAC has a market of \$180 million, it peaked at \$3 billion. In the SPAC prospectus, they estimated revenue of \$75 billion in 2021, and \$281 million in 2022 with a positive EBITDA in 2022. In 2021 they had revenue of \$15 million and are on pace for revenue of \$19.5 million in 2022.



- Lucid Motors went public via SPAC and had a peak market cap of \$105 billion. Today the market cap is \$28 billion. In May 2021, upon the SPAC merger announcement, Lucid put out projections, of \$2.2 billion in 2022 revenue, and \$22.8 billion in 2026. They are on pace for revenue of \$85 million in 2022. The company's EBITDA is expected to be -\$1.8 billion in 2022.
- Rivian, the final company we will touch on was the only major EV company to directly IPO and had a peak market cap of \$160 billion in November 2021, its current market cap is \$26 billion. In its IPO, Rivian did admit it would not be profitable for the foreseeable future. Rivian's free cash flow is estimated to be -\$5.1 billion in 2022.

So why should we care? Well, as we have said, production matters. Even if your idea and technology are above average, you need to properly deploy capital. Raising equity at every turn is not the answer and during market downturns, capital dries up. We only listed these companies as they are the big names, many others have suffered as well. Just over a year into the EV SPAC/IPO boom and \$100s of billions of wealth have been wiped out. Valuations should matter and the market is finally pricing them in. Some of these companies will fail, some will be bought out, and some will flourish but it will take time.

Important to note, that with no earnings, and some companies with no revenue, we cannot even use current ratio values to show how overvalued they are relative to traditional automakers. The largest sellers of EVs in 10 years might be Tesla, one or two of these companies, and a few traditional automakers.

By far the worst-looking EV chart is this one:



Bankruptcy is a real risk and many investors might not know that.

Oil Headlines

Another week, another Strategic Petroleum Reserve (SPR) release by Biden, another production miss by OPEC, and some extremely weird tax proposals against oil companies.

It would not be a new month without a new SPR release to slow oil prices down.

Even though some might think that a surprise oil release would decrease the price of oil, we know due to recent events, it will probably rise within the week.

This is a graphic we used in our [Energy Shortages Webinar from May 2022 \(click here to watch\)](#), both times the SPR has been emptied by Biden this past year, and oil goes up in price.



This week he announced a 45 million barrel sale.

June 14, 2022
4:32 PM EDT
Last Updated a day ago

Energy

U.S. to sell up to 45 mln bbls oil from reserve as part of historic release

The reserves are almost on reserve. This is not good, unless something changes, the U.S. government will have to fill up the reserves at higher prices for real emergencies. Stupid policy results in bad outcomes.



Speaking of stupid policy, this week a windfall tax was proposed and talked about by both U.S. and Canadian government members. A group of more than 30 lawmakers recently urged a Congressional vote on a new oil tax. Executives of oil companies are now being blamed for high oil prices by the U.S. government, sometimes its Putin, sometimes oil companies, depends on the day. A windfall tax would increase the taxes paid by oil and gas companies. Any extra profit compared to last year would be taxed at a higher rate.

That would lower the capital companies have and would make energy companies less likely to increase production and capital expenditures. It's an extremely short-sighted mindset.

Another way to look at it, Exxon paid \$13.3 billion in taxes on \$88 billion in revenue during Q1 2022. Apple's revenue was \$97 billion and only paid \$5.5 billion in taxes over the same period. Is Apple also greedy?

Problems are not only occurring in North America in energy.....they are occurring all over the world. Russia shut down large gas pipelines in Europe for routine maintenance, sending European gas prices vertical. A Russian gas supplier also said it would cut supply to areas immediately by 15%.

Triple-whammy for European gas supplies sends prices soaring

By Anna Cooban, CNN Business

Updated 1:02 PM ET, Wed June 15, 2022

The world (Western politicians and climate experts) thought we would not need oil and did not want oil and is now eating its own words.

The final piece of news we are sharing is another OPEC production miss.

OPEC+ Fails To Meet Output Target Once Again

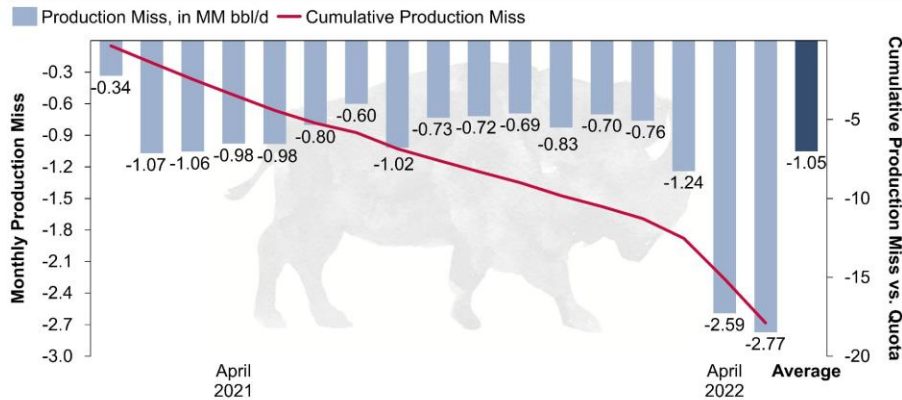
By [Irina Slav](#) - Jun 10, 2022, 9:00 AM CDT

OPEC continues to miss production quotas. Many believe various countries do not have extra capacity to increase production in any way. A major increase in production will also take a significant amount of time.

Bison Interests* has been tracking these production misses over the last year and it has stretched out:

130 Bloor St. West, Suite 905, Toronto, ON M5S 1N5
 Tel: 416-367-3040 Toll free: 1-866-367-3040 Fax: 1-877-215-4044
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OPEC+ Monthly Deviation from Output Targets (in MM Bbls/d)*, 2021 – May 2022



Sources: Bison Interests analysis, Bloomberg

*Note: Excludes the OPEC exempt.

* Bison Interests is an opportunistic investment firm focused on public energy equities. For energy bears who cite OPEC increasing production in the Summer as a point against oil prices, how will OPEC increase production when they fail to meet current expectations?

Even though there is some downside risk in energy, the economic backdrop is quite attractive at the moment.

Some Humor to End the Week

Impress her with something expensive



Forget diamonds, buy her a few jerrycans, who knows gas could be \$2.60 CAD/liter by next month.

MacNicol & Associates Asset Management Inc.
June 17, 2022

130 Bloor St. West, Suite 905, Toronto, ON M5S 1N5
 Tel: 416-367-3040 Toll free: 1-866-367-3040 Fax: 1-877-215-4044
 Email: info@macnicolasset.com URL: www.macnicolasset.com

