

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.*



New London, Connecticut



Sentry Island Light, Hudson Bay, Canada

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



Not so Defensive, Not Recession Proof

As recession fears increase, investors have jumped ship from unprofitable technology, and hype stocks and have jumped for safety in defensive, non-cyclical companies, and even utility stocks. Investors fearing a recession bought companies that would perform well no matter the economic backdrop. Investors jumped into companies whose top and bottom lines would be the least impacted by a recession. Grocery stores, big box retailers, food and drink producers (General Mills, Pepsi), and even certain fast food companies. The biggest companies people flocked to were Walmart, Costco, and Target.

In early 2022, when Walmart released its earnings and decreased its projections when providing sales guidance for the rest of 2022. Walmart lowered its fiscal second-quarter and full-year profit guidance. Blame inflation, which is helping push up overall sales, but decreasing shoppers' ability to spend on anything but essentials.

Walmart's stock dropped 6% for its biggest single-day loss of 2022. Other retail giants were also hit quite hard as the guidance will affect competitors like Target and even Amazon. Remember a month ago, Target announced revenue and profit cuts as well as stale inventory that was hurting its business. We assume that will be the case for quite some time.

Market Summary > Walmart Inc

121.98 USD

-8.66 (-6.63%) ↓ past 5 days

Closed: Jul 27, 9:09 a.m. EDT • Disclaimer

Pre-market 122.38 **+0.40 (0.33%)**



Walmart has also struggled in 2022 even though many claim it is a safe stock. It has struggled this year due to the massive multiples it was trading at when markets were at their peak. Even defensive stocks got extremely expensive.



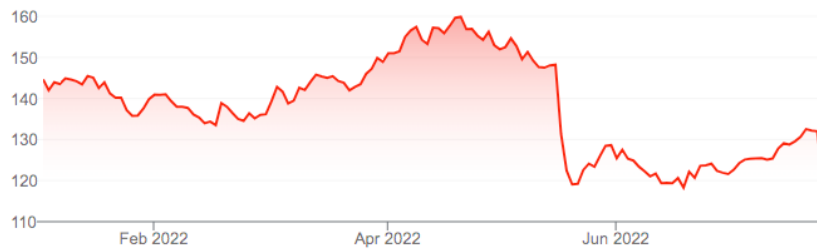
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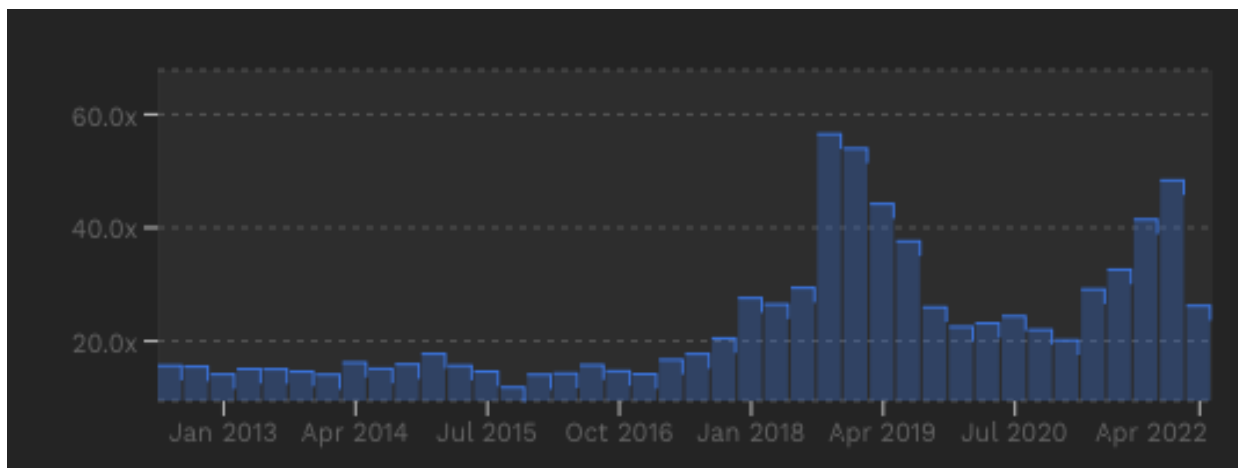
-22.67 (-15.67%) ↑ past 5 days year to date

Closed: Jul 27, 9:09 a.m. EDT • Disclaimer
Pre-market 122.38 **+0.40 (0.33%)**

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



Here are Walmart’s quarterly P/E ratios over the last 10 years. They are still quite elevated.



When you compare multiples to its competitors it gets even more obvious.



Name	Ticker	P/E Ratio
eBay Inc.	NASDAQGS:EBAY	-15.7x
Macy's, Inc.	NYSE:M	2.8x
Kohl's Corporation	NYSE:KSS	3.6x
	SECTOR:STPL.US	6.4x
Walgreens Boots Alliance, Inc.	NASDAQGS:WBA	6.5x
Target Corporation	NYSE:TGT	12.0x
PriceSmart, Inc.	NASDAQGS:PSMT	19.9x
Dollar Tree, Inc.	NASDAQGS:DLTR	23.7x
Dollar General Corporation	NYSE:DG	24.1x
Walmart Inc.	NYSE:WMT	26.2x
Costco Wholesale Corporation	NASDAQGS:COST	40.5x
Amazon.com, Inc.	NASDAQGS:AMZN	56.5x

We do not solely buy stocks based on P/E ratios, but Walmart is still quite expensive when comparing historical averages and competitors. However, if you owned Walmart this year, it could be much worse, you could have owned Amazon and been down 30% on a retail stock.

Walmart's update is another warning that some consumers, especially at the lower end of the income spectrum, are being forced to make harder choices as inflation remains persistently high.

The latest release is yet another reminder even the safest stocks can get hit hard.

All Time Low

We have mentioned throughout the past few issues of *The Weekly Beacon* that investors were betting against the market in historical amounts. Investors were extremely bearish on the health of the stock market and did not think the market was going to turn around.

Bank of America surveyed 259 market participants who manage \$722 billion and investor sentiment remains at historic lows.



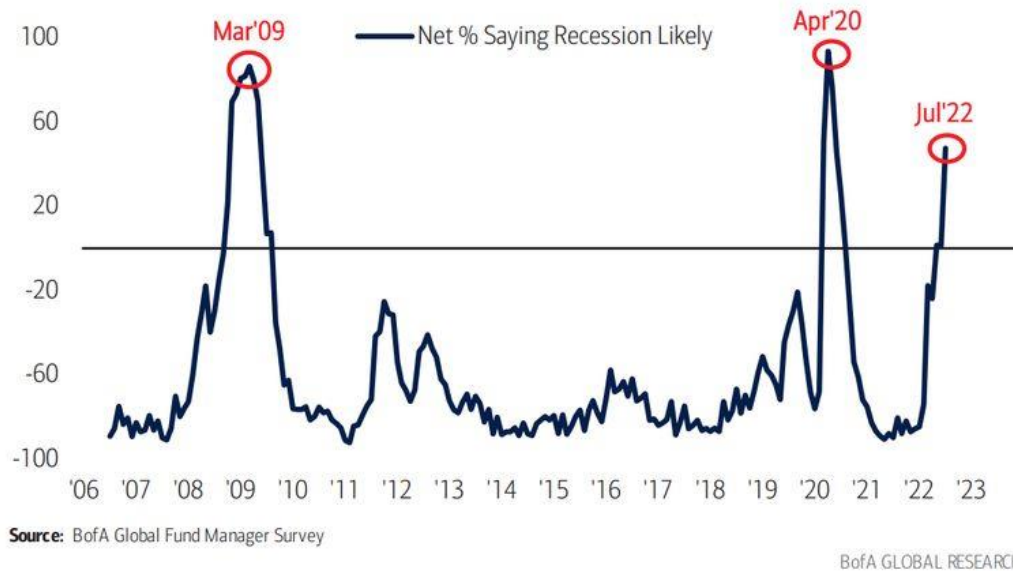
Chart 13: Where's Lehman?
Net % Taking Higher than Normal Risk Levels



Investors are taking safe bets and are uncertain. The main risk factors listed by the group surveyed were high inflation (largest tail risk), followed by a global recession, hawkish central banks, and systemic credit events.

Those same investors almost came to a consensus that we are headed for a recession (we would argue it already has started).

Chart 1: Recession now consensus
Net % Saying Recession Likely





April 2020 was Covid-19 induced and was only turned around due to historic levels of stimulus pumped through central banks across the world. We would have been in a deep recession without that stimulus while the world was shut down. However, today 60% of those surveyed think it is certain we head for a recession.

We do not bring this up to shine a light on pessimistic investors as we think we could be on the brink of turning the corner and have come out quite well, our Alternative Asset Trust has run flat in the year when most major indexes are down 15-25%.

We bring this up because it's not just investors, consumers are as bearish as they have been in terms of their thoughts on the economy. Consumer sentiment which is calculated by the University of Michigan and began in 1952 reached an all-time low this month:

Perplexing Pessimism

Consumer sentiment hit an all-time low this summer, despite a strong labor market, healthy consumer balance sheets and other indications the economy is solid.

Consumer Sentiment



Source: University of Michigan Survey of Consumers, accessed via the Federal Reserve Bank of St. Louis

When consumers are even lower today than they were in 2008 when their mortgage spiked, home prices plummeted or in 2002 when their retirement account collapsed, or even in 1970 when inflation soared, the stock market crashed, and the U.S. economy looked weak. In other words: consumers do not trust the FED, they have no faith in the FED, and they think we are on the road to economic collapse.

While we may agree that the health of the economy is weak and investors should be weary due to high inflation and low-interest rates, we think the Biden Administration and FED will not let this mess become worse. A midterm election is coming up and economic collapse is a horrible item to have on your report card after 2 years as President. People are mad their retirement accounts are down and are mad they cannot afford stuff. The President and his Administration will almost certainly try to turn

things around (what that means, we are not exactly sure, perhaps a pause on increasing interest rates). (This is just speculation before the next FED meeting).



Changing the Definition of a Recession

Speaking of the word Recession, it appears the Biden Administration is front-running some bad GDP numbers for the second quarter. Even though we mentioned the FED may pivot and could pause interest rate increases, it has not happened yet and probably will happen once the GDP for the U.S. contracts for the second quarter (the GDP numbers are released at the end of this week and should be out as you are reading this). This would be the second quarter in a row that GDP shrinks. Historically, the definition of a recession has been two consecutive quarters where GDP contracts.

It seems the President and his team are “massaging” the term recession and defining it in non-traditional ways. In other words, they know GDP will shrink and are panicking.

THE WEEK | The Week

The Biden administration's conveniently malleable definition of 'recession'



Grayson Quay, Weekend editor

Wed, July 27, 2022, 5:25 AM · 4 min read



ECONOMICS
by Jamie Redman

2 days ago



Biden Administration Accused of Propaganda and 'Redefining' a Recession's Technical Definition

They are even appealing to voters, proclaiming no recession and a strong economy. It seems extremely misleading and desperate.

It's honestly quite frightening that an Administration is playing with technicalities and not trying to solve the issues in the economy. It's no surprise they are spinning this, it was only a month ago that his team labeled the economy as strong as ever.

REUTERS

No, we're not in a recession, Biden administration tells U.S. voters

Trevor Hunnicut

Tue, July 26, 2022, 3:48 PM · 3 min read

Biden tries to persuade Americans that the U.S. is not in a recession.

The president and his aides spoke days before the latest data on the nation's economic growth is due to be released.

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It appears the President is even employing the art of persuasion to distract voters. "If I say it is true, then it is true." They took a page out of the New Zealand Presidents' playbook!



Seems like a dark playbook for a western democracy.

In case you were wondering, we googled "recession definition" and the Oxford definition comes up at the top of the page like this:

Dictionary

Definitions from [Oxford Languages](#) · [Learn more](#)



re·ces·sion

/reˈseʃ(ə)n/

noun

1. a period of temporary economic decline during which trade and industrial activity are reduced, generally identified by a fall in GDP in two successive quarters.
"the country is in the depths of a recession"

Who would have that? We think we learned the definition back in high school economics, it appears the uber-powerful skipped that class.

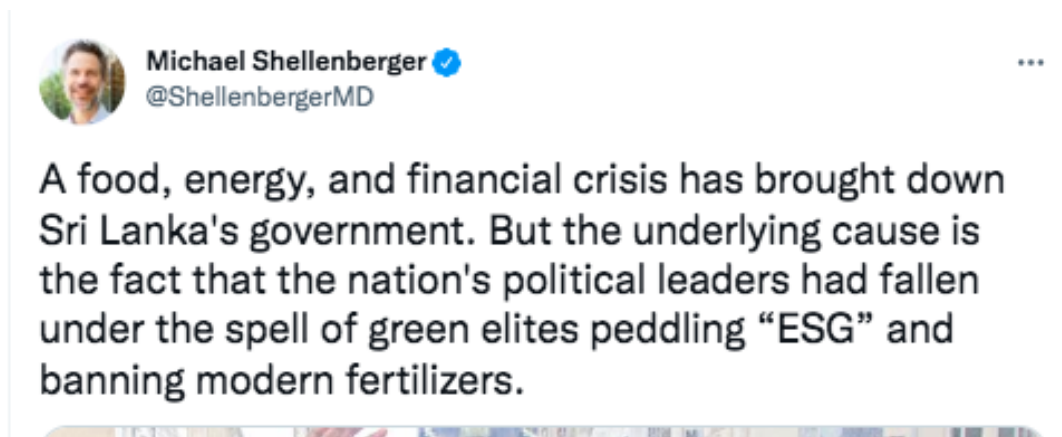


Inflation May Continue

As food shortages continue to scour the world, and fertilizer legislation increases, we think food shortages could continue into the Fall. The weird response by governments has been to increase regulation in these sectors. In the Netherlands, farmland is being taken by the government to decrease emissions from cows and farming, yet half the world is seeing food shortages and the rest of the world is seeing their grocery bills skyrocket. Globally, people are beginning to protest their leaders for causing these shortages, whether it's in Sri Lanka or Haiti, people are fed up. The food shortages we are seeing are also paired with energy shortages that will not go away. The world continues to use more oil than they produce every week, and an increase in production seems unlikely. The world is headed for a dark winter. Even with all these shortages, politicians continue to steer green policy that makes these shortages worse. They want to focus on ESG and decreasing the Earth's temperature and they do not care if most of the population cannot afford groceries and gas.

Their solutions to shortages have been to buy Beyond Meat burgers over Beef and buy a Tesla to hedge rising gas prices. Most people who cannot afford \$100 gas tanks cannot buy a \$60,000 electric vehicle but it seems they do not care. Most of the elites recommending these things have major financial interests in these businesses.

The most ironic part of this ESG wave is that it is causing global shortages and is probably the reason Sri Lanka's government fell. The country banned most modern-day fertilizers causing mass food shortages. The good part for Sri Lanka, is they have the highest ESG rating for a country in the world at 98/100.



Perhaps the Sri Lankan population can eat their ESG score next time they cannot find food at their grocery store. We do hope Sri Lanka turns around and turns away from ESG.

Reasons like this are why we think inflation could stay elevated for years to come unless something changes soon. UK natural gas futures are also surging to levels never seen. The chart below is the December contract for electricity in the UK:



Exponential growth is a great thing if it were a stock or index or a “meme” coin, but is a dark indicator when you realize it’s the price to heat your house during Winter.

Even our friends from The Economist are finally turning on ESG.



The Economist has historically miscalled numerous things in the energy sector and for a long period championed ESG guidelines. Most of their front covers never come true so who knows maybe ESG will end up saving the planet. Either way, we hope governments figure it out before it's too late and come to their senses on food and energy shortages.

When we say inflation may continue we mean it may remain elevated relative to historical averages. It will not stay in the 8-12% range but will probably not return to 2% anytime soon. We do not think the FED has the stomach to raise interest rates high enough to destroy all inflation.

Juicy Earnings

We have reached Q2 earnings season. It appears the energy giants are about to print some massive results even though over the last 7-8 weeks their stock prices have performed poorly. The poor performance stems from recession fears, demand destruction, retail traders' fear of selling, and liquidity issues, the fundamentals in the sector remain the same as they were a few months back.

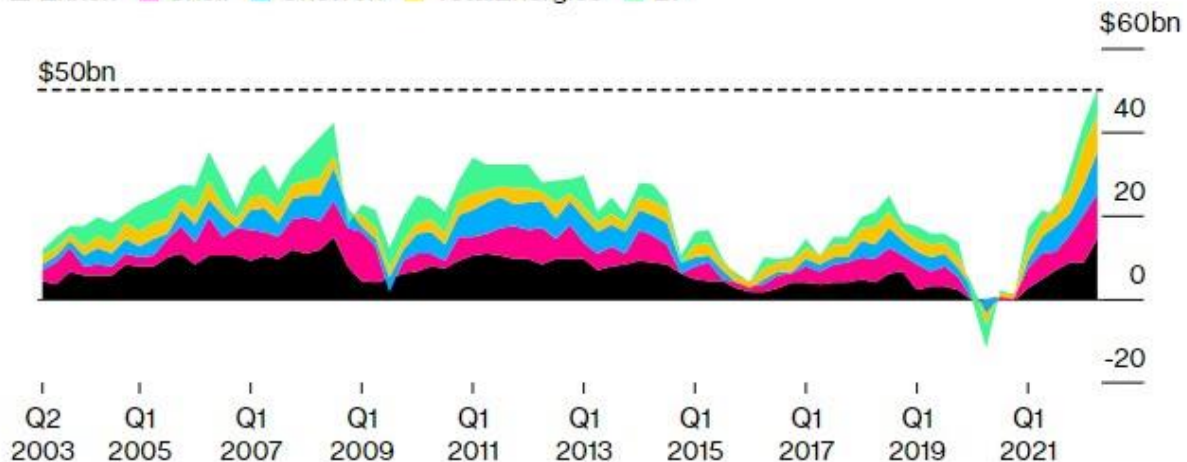
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The largest U.S. energy companies are projected to smash their records and some of those earnings will probably be given right back to shareholders. We assume dividends, stock buybacks, and paying off debt will be priorities for energy companies. Expansions and acquisitions will be secondary due to increased regulation that makes some of these moves extremely difficult and costly. Expansion projects and increasing production is essentially not worth it for oil and gas companies due to all the red tape that governments have created.

Pumping Profits

Big Oil is forecast to make more money than ever in the second quarter

■ Exxon ■ Shell ■ Chevron ■ TotalEnergies ■ BP



Source: Bloomberg data

Look out for some juicy dividends over the coming weeks to months as earnings will be released. We expect earnings to smash records throughout the energy sector. We also want to highlight that consistent cash flows (ie. Dividends) are a good way to beat inflation.

Cramer Does It Again

The anti-Cramer index is thriving even when markets tank. The man switches positions almost every day and has no consistency. We will let you come to your conclusions from two tweets, both about Coinbase.



Jim Cramer ✓
@jimcramer

...

We like Coinbase to \$475

9:02 AM · 4/14/21 · [TweetDeck](#)



Jim Cramer ✓
@jimcramer

...

I have been waiting for this SEC investigation of Coinbase to happen for ages. Now here we go. You can't just do what you want with securities in this country..

2:52 AM · 7/26/22 · [TweetDeck](#)

Cramer was not the only person who changed his mind on Coinbase this past week. Everyone's favorite fund manager, Cathie Wood dumped Coinbase stock at its all-time low after the SEC announced its investigation intentions. We guess Ark and Wood could not stomach the investigation and dumped the shares to save face as her average purchase price was over \$250/share and shares are currently trading at a fifth of that.

Even though Coinbase shares were up 12% on Wednesday, we think it's a dead cat bounce and the company will head lower. The SEC investigation has some real teeth, many users could not withdraw their money from the platform which is a HUGE red flag.

This is not a new recommendation for us, we have said from its IPO that Coinbase traded extremely expensive and had a long road to profitability, fast forward 15 months and the stock is down 82%, so much for revolutionizing finance.

MacNicol & Associates Asset Management Inc.
July 29, 2022