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.*

Split Rock Lighthouse, Minnesota, USA

Cape Byron Lighthouse, New South Wales, Australia

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

Rental and Sales Markets Diverge

The rental and ownership markets have diverged recently.

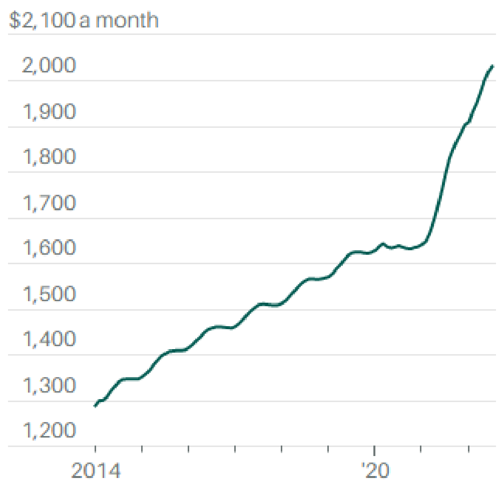
If you were in the market to sell your home in recent months, chances are you have rethought your decision. Sellers are not getting near as much money as home prices decline off their peaks.

It's a different story for renters, if you recently had to rent a house or apartment in any major city, chances are you are paying much more than you did on your last lease.

Rent was a major reason CPI in the U.S. did not fall in July 2022. The category measuring the cost of renting a primary residence increased 6.3%, while the measure of owners' equivalent of rent, or how much someone's home would be worth if rented out, gained 5.8%.

Rent prices have accelerated over the last 12-15 months in the U.S.

Rent prices soared since 2021, reaching $2,031 a month in July.



Note: Typical U.S. asking rent.
Source: Zillow.

Unsurprisingly, rent prices have accelerated the most in major city centers. Of the 50 largest metropolitan areas, prices in Florida cities such as Miami, Orlando, and Tampa, as well as New York City, San Diego, New Orleans, Charlotte, Nashville, Dallas, and Salt Lake City increased the most from the year prior, according to Zillow data. Apart from Salt Lake City, prices in all those cities hit records last month.

Rental demand remains strong and seems to be mainly driven by higher-income households who were likely shut out of the tight homeownership market. The fundamental problem in the housing market in both the U.S. and Canada is an undersupply of homes and a growing population, especially in areas where jobs are available (where people want to live). If young people cannot afford a down payment at current prices they will rent at any price out of pure necessity.

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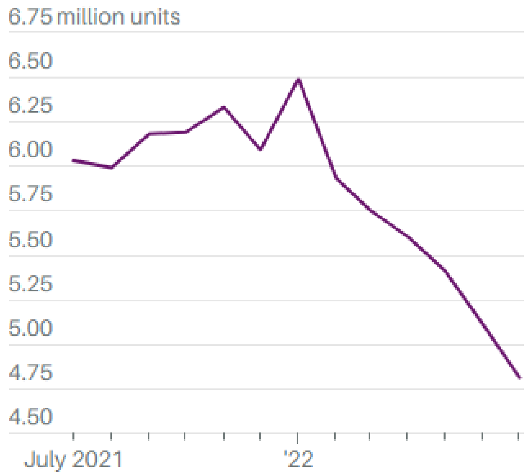
Now that we tackled the rental market, let's look at real estate prices.

In a matter of months, the pandemic's red-hot housing market has chilled, recently entering what some economists have called a housing recession.

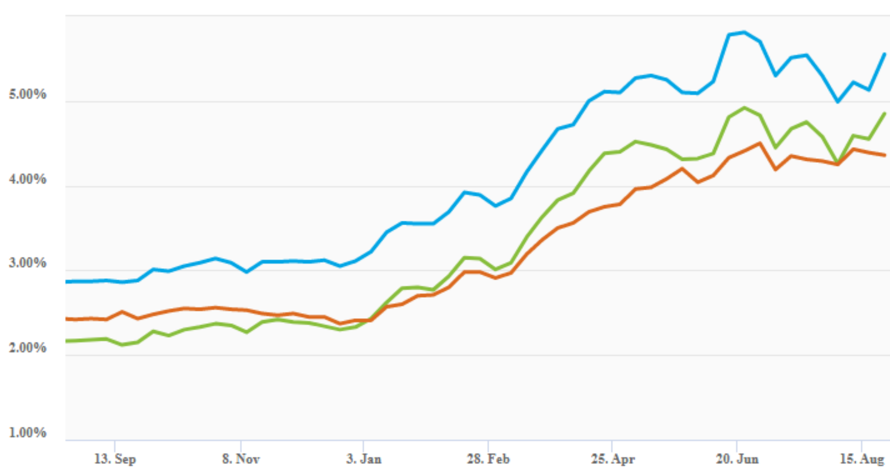
Home sales have started to fall. Existing homes in July were sold at a seasonally adjusted annual rate of 4.81 million, the lowest level since November 2015 excluding the market's freeze at the beginning of the pandemic.

Existing-home sales fell to their lowest level since November 2015, excluding the beginning of the pandemic.



Note: Seasonally adjusted annual rate.
Source: National Association of Realtors.

Rapidly rising mortgage rates are largely to blame. The average mortgage rate in the U.S. has more than doubled over the last year.



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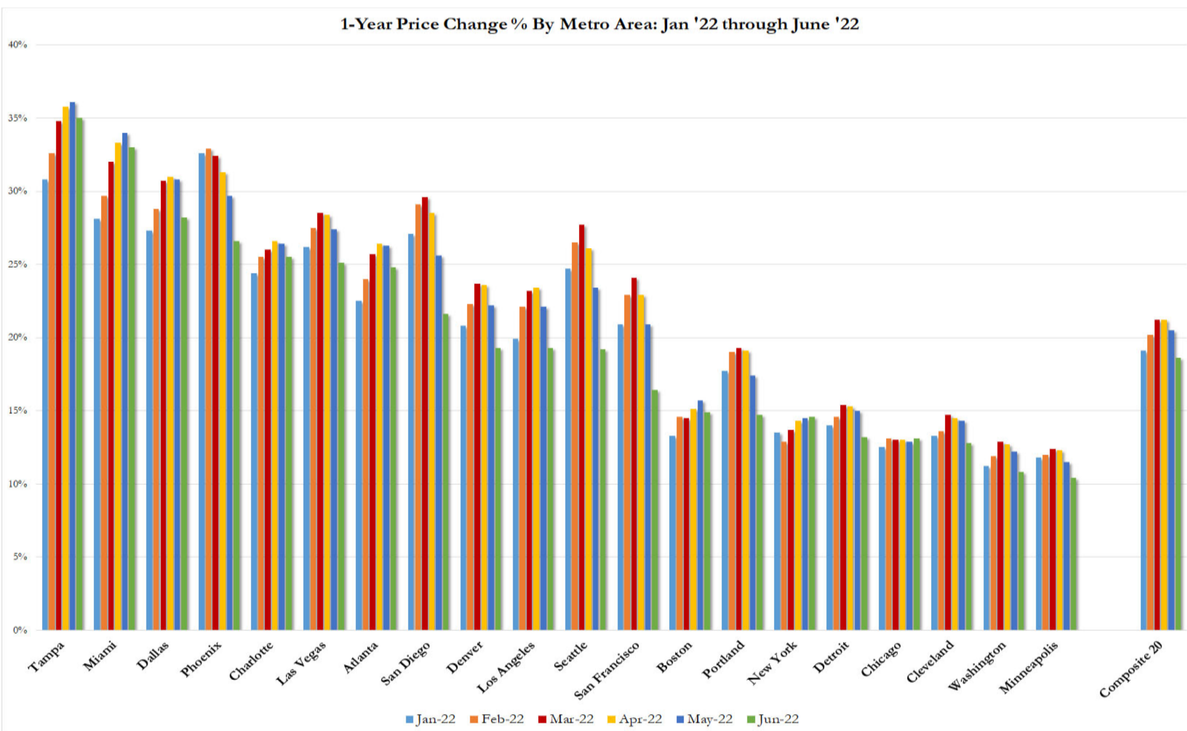
*The blue line represents a 30-year fixed rate mortgage, the green line a 15-year fixed rate, and the orange a 5-year adjustable-rate mortgage. *

A housing recession will impact the gross domestic product. Housing's overall share of U.S. GDP was about 16.6% in the second quarter, according to Bureau of Economic Analysis data.

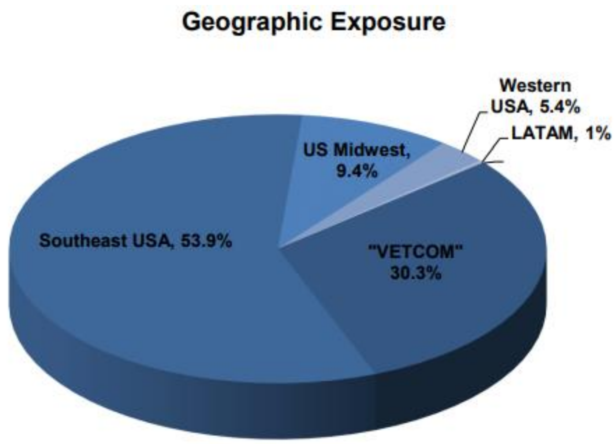
We do think prices will come down in certain markets but not across the country. There has been a major jump in demand to move into southern states for several reasons and that has yet to slow down. Home prices in major northern cities as well as in California may retreat. We also expect areas that saw the largest bumps in value due to the pandemic to drop in value (Denver, Salt Lake City, Des Moines, Jackson Hole).

When looking at price changes in 2022 in major metropolitan areas, a pattern arises:



Prices that have come off the most have been on the west coast (Phoenix, San Diego, Los Angeles, Seattle, San Francisco, Portland), and it's not even close. When you compare that to the southeastern cities that have barely moved off their peak prices, we know where we want to be.

The MAC 360 Degree Real Estate Income Fund is set up well going forward for the macro trends that we expect to continue. Here is the geographic exposure of the fund as of July 31, 2022:



"VETCOM" markets consist of Vancouver, Edmonton, Toronto, Calgary, Ottawa, and Montreal

As you can see, we have little exposure to areas that could be the most impacted by a correction in the real estate market. Our exposure to major northern cities, as well as cities across California, is small. Long story short: we were set up well for the migration patterns that began during Covid-19 and will continue.

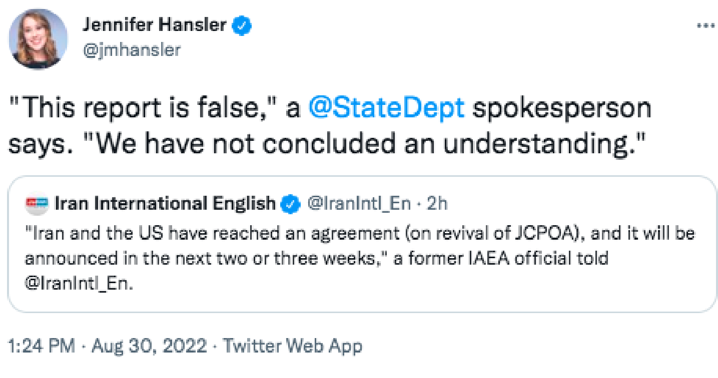
We will continue to monitor the real estate market as well as the real estate markets in major urban centers, sometimes the headline story does not correlate to every market.

Oil Market: Manipulation or Volatility?

The price of oil has always been extremely volatile. It is something everyone needs, and is universally traded. No matter where you are on the planet, oil holds tremendous value.

In recent months, many have speculated that the market price for oil in public markets has been manipulated to lower prices. We do not buy into things like that and follow the fundamental facts. Sure, in the short-term prices can be extremely volatile, and possibly manipulated but in the medium to long term, low physical supply will be exposed. That is where the fundamental problem is that global supply will not meet growing global demand. Sure, it may hurt when prices drop from day to day, but we are not traders, we are investors.

We only bring this up, because on Tuesday the price of oil swung $5 negative as news of a possible Iran-U.S. nuclear deal was released. The price drop was not solely based on this news release, but it did help. Earlier in the morning on Tuesday, news came out of Iraq that the conflict in the country would not affect the country's oil production.



Jennifer Hansler @jmhansler

"This report is false," a @StateDept spokesperson says. "We have not concluded an understanding."

Iran International English @IranIntl_En · 2h
"Iran and the US have reached an agreement (on revival of JCPOA), and it will be announced in the next two or three weeks," a former IAEA official told @IranIntl_En.

1:24 PM · Aug 30, 2022 · Twitter Web App

Many news outlets reported that the U.S. and Iran had reached a deal when just 2 weeks ago the U.S. announced a deal was not possible. Fast forward a few hours later and the U.S. State Department claimed that story is fake. Really weird timing and it makes us wonder, who was the source of the original story that many outlets reported on.

Regardless of what you think, it got oil prices to drop quickly.

We are not sure what to think of all of this but just remember even the best oil holdings or energy stocks are susceptible to these sorts of swings even if the physical market is seemingly getting worse daily.

We also doubt the U.S. will get a deal done with Iran, and if they do it will be a bad one that will be short-sighted with one goal, lower gas prices by November. We think more should be considered when dealing with Iran, it's not just about what we pay at the gas pump that matters.

November is Midterm season and Midterms are on everybody's mind; as they should be - 2 years of gridlock or 2 more years of advancing policy for Democrats.

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Electric Vehicles (EV) Producers: Endlessly Raising Capital

In the August 12th edition of *The Weekly Beacon* (click here to read it), we talked about EVs. We talked about the ridiculous multiples that these companies traded at and even though many are off their all-time highs by 50-60%, they would drop much more. We also explained that these companies were burning through cash, and most were not even producing revenue.

We brought that up because something usually gives in these situations, the company blows up, the company is bought out, or the company will raise more capital, more than likely diluting current shareholder capital.

Well, 3 weeks later and we have been proven right. Lucid Motors and Nikola have both filed registrations to raise more capital. They both cited rising costs for EVs as the reason. Yes, that is true, but it will only get worse. For years, we have explained that the best way to play the EV trend will be to buy the metals that are used to produce them or buy the miners that produce those metals.

There is a short supply of all the rare earth metals that are used in the production of electric vehicles and the only company that seemed to care was Tesla. Tesla spent the last few years securing deals with companies to supply them with critical metals, some at fixed contracted prices.

Lucid Motors and Nikola are experiencing higher prices which are accelerating their cash burn which has in turn accelerated their need for cash. To put things short, they would have needed to raise cash at some point, this just accelerated the need.

Nikola said in an SEC filing that it will raise $400 million via an “at-the-market” stock offering. Lucid filed a shelf registration giving it the right to issue up to $8 billion in new stock over the next three years.

Lucid said in a statement that its shelf registration is intended to “provide greater flexibility” to raise additional money in the future and that it has no immediate plans to sell any new stock. Lucid had $4.6 billion in cash on hand as of the end of the second quarter, enough to fund its operations and capital expenses into next year, it said earlier this month. So apparently issuing stock in one year is not anytime soon…….

Public markets seemed to take this news the same way we did.

Lucid shares traded down 7% on Tuesday afternoon after their filing was released.

Yes it is possible the stock rebounds, but it could also drop. One thing is for sure: this probably will not be the company's last time raising capital.

One thing to remember, if things get worse and we do enter a recession, capitally intensive companies that burn through cash will not be great investments, especially when they need to raise more capital. It's easy to raise capital in bull markets, not so much during down cycles.

We hope the management teams for these companies (high growth, not just EV) have included a bear case while making projections and are ready if they cannot access that extra capital.

Uranium Update

The nuclear industry continues to get more attractive. People and countries are finally warming up.

If you are a long-time reader of *The Weekly Beacon,* we are sure that Nuclear Energy / Uranium Commentary has been a staple of our publication. If you have not been a long-time reader, we welcome you to check out these past editions of *The Weekly Beacon* for our thoughts on the industry:

July 8th Edition

May 6th Edition

April 15th Edition

These are just 3 examples of our commentary on nuclear and we continue to build on it. Our thesis has not changed, and we continue to grow in confidence in how the sector will perform.

If the world wants off fossil fuels, nuclear will be the answer not wind or solar.

This week we wanted to bring some nuclear news to our reader's attention from the past few weeks.

Japan, one of the world's most anti-nuclear energy countries has turned the corner. 11 years after a horrible nuclear accident, the country announced that they will shift back to nuclear to secure energy and avoid shortages. We applaud their move. We assume they are looking at Europe and realizing they could be next.

ASIA

Japan signals a shift back to nuclear energy, 11 years after Fukushima disaster

With the nation's energy security under threat and prices rising, Tokyo is making plans to extend aging reactors' lifespans and develop new nuclear power plants.

Aside from Japan, even Scientists are beginning to back nuclear energy as they realize power grids cannot be solely powered by renewables. We are glad they are finally waking up.

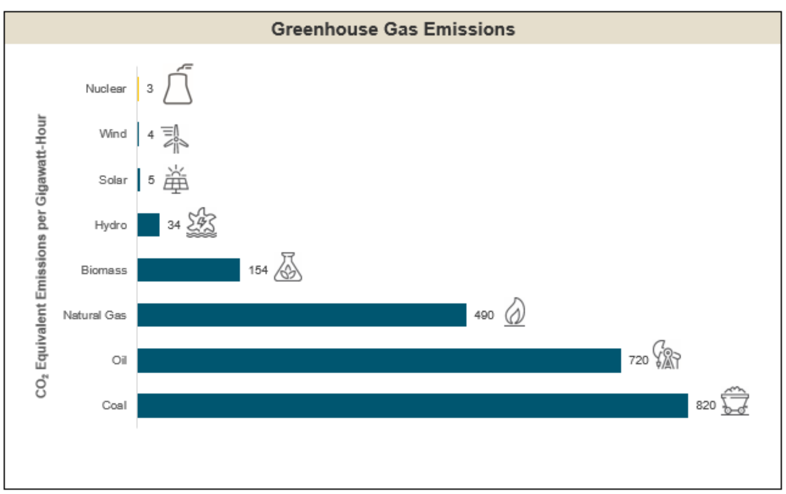
ENERGY

Why even environmentalists are supporting nuclear power today

August 30, 2022 · 1:34 PM ET

URI BERLINER

Perhaps those environmentalists and scientists are finally doing some deep dives and realizing nuclear is the cleanest energy source on the planet.



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Beyond the environmentalists, many countries besides Japan are making us very optimistic about using nuclear energy.

In California, the state's last remaining power plant which has long been scheduled to be scrapped may now remain open. Governor Gavin Newsom, a long-time opponent of the plant, is seeking to extend its lifespan through at least 2029. Newsom's announcement was probably an attempt at front running this statement by California Energy providers (released August 31):

California ISO NEWS RELEASE

HEAT BULLETIN

Aug. 30, 2022

Contact: ISOMedia@caiso.com

Excessive heat starting tomorrow will stress energy grid

Consumer conservation likely needed this weekend to avert power outages

FOLSOM, Calif. – Starting tomorrow through Tuesday, California and the West are expecting extreme heat that is likely to strain the grid with increased energy demands, especially over the holiday weekend.

Temperatures are forecast to begin rising Wednesday, August 31, intensifying through the holiday weekend and extending to early next week. In many areas of the West, temperatures are forecasted to hit triple digits and break records.

In what's likely to be the most extensive heat wave in the West so far this year, temperatures in Northern California are expected to be 10-20 degrees warmer than normal through Tuesday, Sept. 6. In Southern California, temperatures are expected to be 10-18 degrees warmer than normal.

The ISO is taking measures to bring all available resources online. Restricted Maintenance Operations (RMO) have been issued for Wednesday, Aug. 31, through Tuesday, Sept. 6 from noon to 10 p.m. each day, due to high loads and temperatures across the state. During the RMO, market participants are ordered to avoid scheduled maintenance to ensure all available generation and transmission lines are in service.

The peak load for electricity is currently projected to exceed 48,000 megawatts (MW) on Monday, the highest of the year.

If weather or grid conditions worsen, the ISO may issue a series of emergency notifications to access additional resources and prepare market participants and the public for potential energy shortages and the need to conserve.

The power grid operator expects to call on Californians for voluntary energy conservation via Flex alerts over the long weekend.

During a Flex Alert, consumers are urged to reduce energy use from 4-9 p.m. when the system is most stressed because demand for electricity remains high and there is less solar energy available. The top three conservation actions are to set thermostats to 78 degrees or higher, avoid using large appliances and charging electric vehicles, and turn off unnecessary lights. Lowering electricity use during that time will ease strain on the system, and prevent more drastic measures, including rotating power outages.

Learn more about conserving energy or sign up for text notifications at www.FlexAlert.org.

The ISO continues to closely monitor conditions and will provide updates as necessary.

Yes, you read that right keep temperatures 78 or higher and avoid using large appliances. It's only September and there are cracks in the grid……

Even though we are applauding Newsom for his nuclear energy announcement, his policies have led to these blackouts (which will get worst). He also made a bizarre announcement that bans the sale of gasoline cars by 2035.

In Europe, both Finland and Belgium extended the lives of nuclear energy facilities by 10 years, and the Netherlands, the Czech Republic, and the United Kingdom (UK) announced they plan to build more.

Good news all around the world in the nuclear industry.

Even the mainstream media has begun to change its tune on nuclear energy use (maybe, they realized that if we do get blackouts nobody will be able to watch their shows).

Source: Sprott Uranium Report

We are glad we were early, but we think this trade has just begun. Just wait to see what countries this winter will do when they run out of oil and gas, they will be begging for pro-nuclear policies.

Chinese Energy

China has been labeled as the beacon of green energy and the ESG hub of the world. The World Economic Forum (WEF) even wrote an article just 18 months ago that stated ESG was about to take over

China (The WEF is a nonelected body that has some of the most ridiculous projections when it comes to energy, the economy, and even food) (We do not agree with the WEF).

CHINA

A green wave of ESG is poised to break over China

Dec 4, 2020

Home

The East Is Green: China's Global Leadership in Renewable Energy

By Dominic Chiu

Environment 12:04, 30-Mar-2021

Energy Official: China leads world in renewable energy development

Updated 15:05, 30-Mar-2021

One problem, China continues to use coal (and at staggering rates). Not very ESG but it is out of bare necessity due to how cheap coal is relative to oil and natural gas.

Disclose.tv
@disclosetv

JUST IN - China's coal-fired power generation reached a record 120 billion kWh in August — China Energy announced.

5:28 AM · Aug 31, 2022 · Twitter Web App

So much for all that green energy, EV production, and ESG-friendly companies.

<u>Gasoline Up, Electricity Up (More)</u>

Western leaders have been claiming that a major advantage of electric vehicles is the cost to use them. As gas prices have risen over the last year, they have claimed purchasing an EV will save you money in the long run. They started this as it has historically cost much less to fill up a Tesla than a regular gasoline automobile. Many leaders and celebrities who push EVs have been called out of touch due to the upfront cost of an EV versus a regular car and how the savings would only be realized 8-10 years down the road.

Well, it seems that savings have gone away.

Over the last few years, Norway has been aggressive in pushing EVs and they have become the global leader in new purchases on a percentage basis of new automobile purchases. Norwegians love EVs and the ESG crowd loves them for it.

Many publications have written articles like these over the last 10 months:

IDEAS • CLIMATE GOALS FOR 2022

What Norway Can Teach the World About Switching to Electric Vehicles

Many claimed that Norwegians were saving money as they did not have to worry about oil prices rising as so many of them were flocking to electric vehicles.

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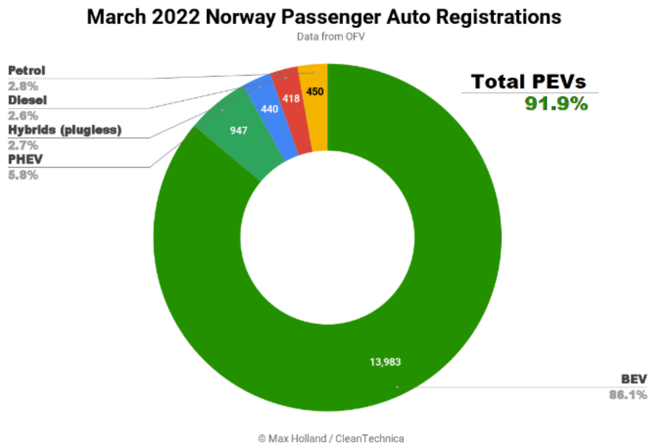
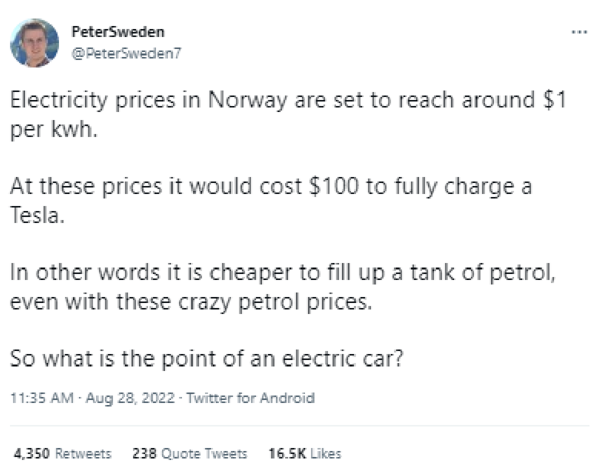


One problem:


PeterSweden
@PeterSweden7

Electricity prices in Norway are set to reach around $1 per kwh.

At these prices it would cost $100 to fully charge a Tesla.

In other words it is cheaper to fill up a tank of petrol, even with these crazy petrol prices.

So what is the point of an electric car?

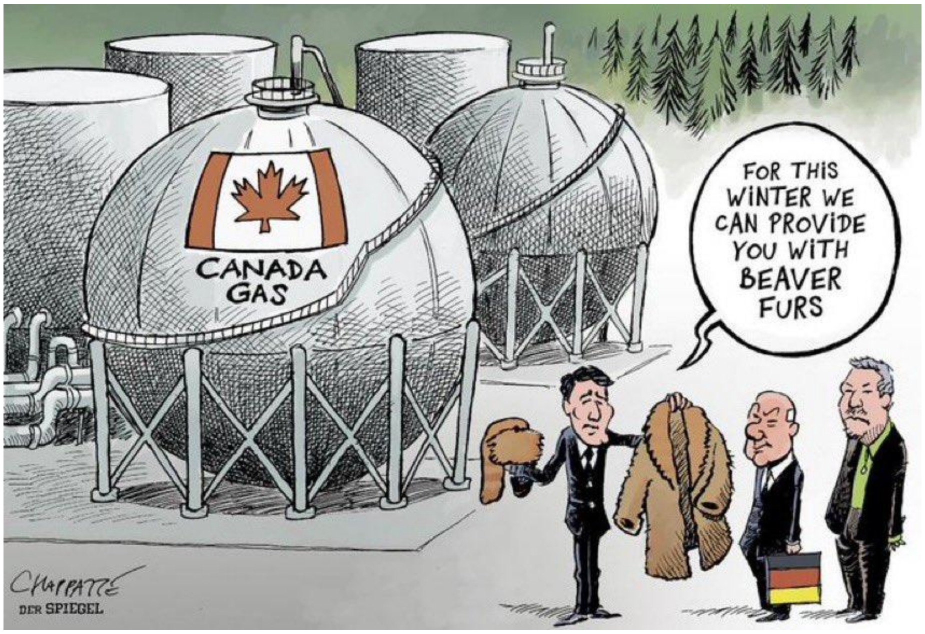
11:35 AM · Aug 28, 2022 · Twitter for Android

4,350 Retweets 238 Quote Tweets 16.5K Likes

Due to the surge in the price of electricity in Europe, it now costs more to charge an EV than it does to fill up your gas tank. This trend will only continue into the winter months. We hope Tesla owners put away a big allowance for fill-ups this winter……

Ending on Some Humour

Considering our discussion of Canada and Germany in last weeks edition of *The Weekly Beacon*, we found a funny graphic that explains the situation both countries have found themselves in. Germany will suffer, Canada fumbled a generational opportunity.



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September 2, 2022