

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.*



Sedgeley Club, Philadelphia



Downtown Aquarium, Houston, Texas

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

Happy World Series.



Alphabet Misses

On Tuesday (October 25th) stocks bounced, the Nasdaq was up 2.1%, and many investors were looking to after-hours and anticipating good results from Alphabet and Microsoft announcing their Q3 earnings.

It seems investors were wrong and economists who have been bearish on the economy were right. Alphabet missed bottom- and top-line projections. EPS was \$1.06 and was projected to be \$1.25, revenue was \$69.09 billion vs. the \$70.58 billion expected. These weaker-than-expected results should not be a complete surprise to investors. Consumers are spending less, and financial conditions have worsened over the last few months.

Investors did not like the news and dumped shares immediately. We think the slight miss did not warrant this reaction, but we all know markets have not been rational in 2022.

Market Summary > Alphabet Inc Class A

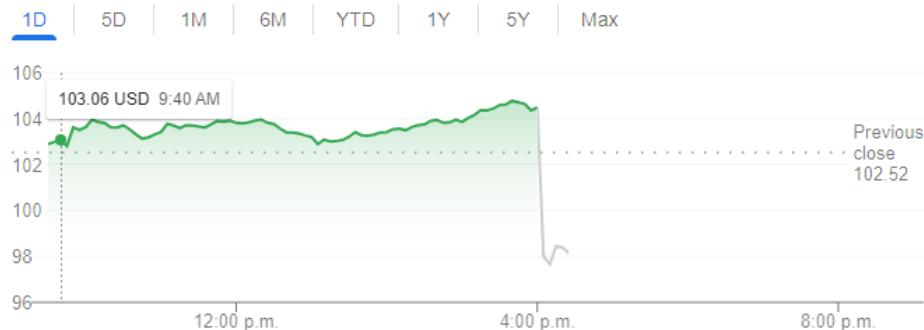
104.48 USD

+1.96 (1.91%) ↑ today

Closed: Oct 25, 4:25 p.m. EDT • Disclaimer

After hours 98.17 -6.31 (6.04%)

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Our favorite finance pundit Jim Cramer made another great call for the Cramer Inverse Index concerning Alphabet. He said Alphabet would deliver great earnings. The Inverse Index strikes again.....

With that being said.....Microsoft beat earnings estimates. One giant slump while one giant soars.

Xi Gives Himself a Rubberstamp

China's President won a third term this past week. President Xi known as a modern-day communist dictator with hatred for the west has been China's leader since 2012. His winning is minor news, what he did after is MAJOR news. Major news affects us as investors in global capital markets (even if we avoid China due to the political risk).

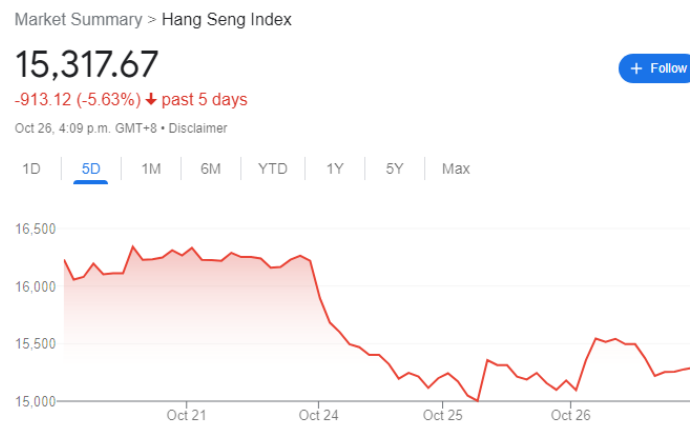


Xi is expected by some to try to stay in power for life. He has also promoted allies who support his vision of tighter control over society and the struggling economy, with analysts believing Xi has now established exclusive control over the party's inner circle.

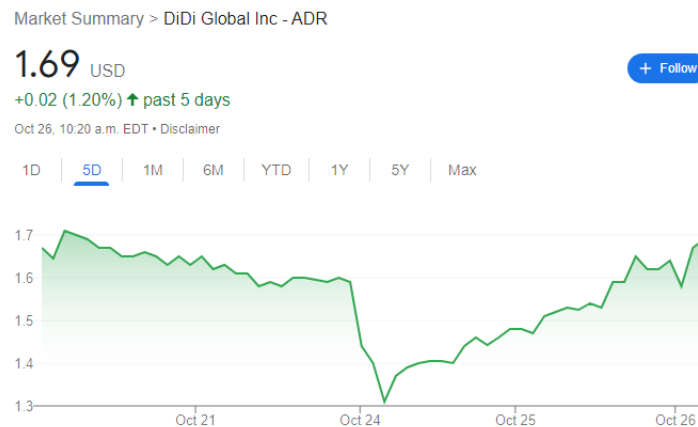
Xi even flexed his power versus rivals in Beijing. Former Chinese President Hu Jintao was unexpectedly escorted out of Saturday's closing ceremony of the Communist Party Congress in a dramatic moment. The CCP claimed the former leader's health is worsening so he needed help leaving but to the rest of the world it looked like Xi was eliminating his rival. Right after this encounter (which you can find online), the Chinese Congress unanimously approved Xi's leadership positions (2,300 people rubberstamping his agenda, which seems fair). Xi has become China's most authoritarian leader since Mao Zedong.

This move essentially gives Xi and his circle more power. They will not care. Remember their overreach with DiDi Global (China's Uber) or their heavy regulation of the Chinese Internet, it could get worst. Either way, your Chinese technology holdings hold higher risk than they did last week.

Through Wednesday, the Hang Seng Index was down over 5% since Xi's actions.



Chinese stocks were battered on Monday and Tuesday but bounced back Wednesday. Invesco's China ETF was down 14% on Monday alone.



Even though the Chinese ride-sharing app, DiDi Global lost on Monday it retraced its losses in short order (on Wednesday). However, do not forget to zoom out and look at the long-term picture.....



Market Summary > DiDi Global Inc - ADR

1.69 USD

-3.56 (-67.81%) ↓ year to date

Oct 26, 10:20 a.m. EDT • Disclaimer

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



Losing 67% of your value makes even the Nasdaq look like a winner. Other NYSE-listed Chinese companies are also down 40%+ YTD and are some of the worst-performing assets in the world. Alibaba, the online retailer, is down 45% YTD yet it still trades at a P/E ratio above 30.

Even though DiDi is down big, we still would not recommend jumping on board. We first started talking about DiDi Global in August 2021 in one of the first-ever issues of *The Weekly Beacon*. In the [August 6th, 2021 edition](#) of *TWB*, we highlighted DiDi Global. DiDi Global had just IPO'd in North America and in response the Chinese Communist Party banned the app and began a major audit of the platform. At the time DiDi Global was down 30% since its IPO price. On August 6th DiDi's price was above \$10/share, if you bought back then and ignored our warnings, you would be down a cool 90% in 14 months.

From the August 6th, 2021 edition of *The Weekly Beacon* "Investors should take a lesson from DiDi Global and understand the massive risk that the Chinese government poses in financial markets..... The stories of DiDi Global and Alibaba should serve as a major warning for North American investors when investing abroad. Emerging countries with more stable and less authoritative governments could present much better results than China in the coming years."

Regardless of the frequency of our writings on China, we always monitor the situation due to the sheer size of Chinese capital markets and the economic importance of China on the global stage.

Even though you might think Chinese stocks are trading at a steep, steep discount and these prices are bargains, we look at it a little differently. Gains depend on a form of economic make-believe that's becoming increasingly difficult to buy into in China. Monday's selloff represented investors waking up to autocracy risk, something we have highlighted for a long time. Hopefully, your Advisor or Pension Manager did not buy into the bargain argument for stocks like Alibaba over the last year. With Xi in

charge, China will continue to pursue goals that ignore investors and capital markets. Even though emerging markets could perform well in the next few years, it's tough to forecast Chinese stocks, continue to stay away, and diversify country exposure through other high growth, developing nations (we have talked about countries and regions that we continue to like throughout many of our publications over the last year and will continue to do so).



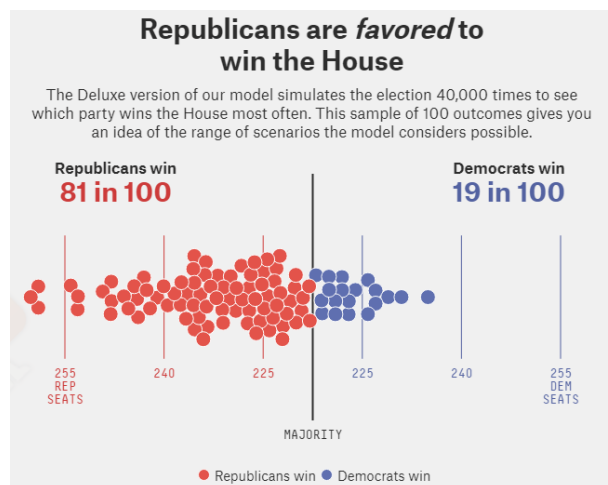
Midterm Update

Last week, we said we would jump into some midterm election analysis so you would not have to. We are bringing you all the data, so you do not have to find it. First: why does it matter? If the Senate and/or House of Representatives flip into Republican control, Democrats will not control everything, and Washington would be in gridlock. If the Democrats hold on and Chuck Schumer remains the Majority Leader in the Senate and Nancy Pelosi the Speaker then Democrats will have absolute power for President Biden's last 2 years in office. If Democrats pick up a few new Senate seats, there could be a massive change in the U.S. This would be massive for the progressive wing of the Democratic Party. Senators Manchin and Sinema have held their party in check and have voted down certain ideas that they think have gone too far. In a 50-50 Senate, they are the most important, in a 52-48 or 53-37, their votes do not matter. We are not saying that this result is likely, but it is important to plan for every outcome. In this outcome, green energy spending would roar, social spending would increase, and taxation would more than likely be raised.

Before we get too ahead of ourselves, here is what the experts are saying.....

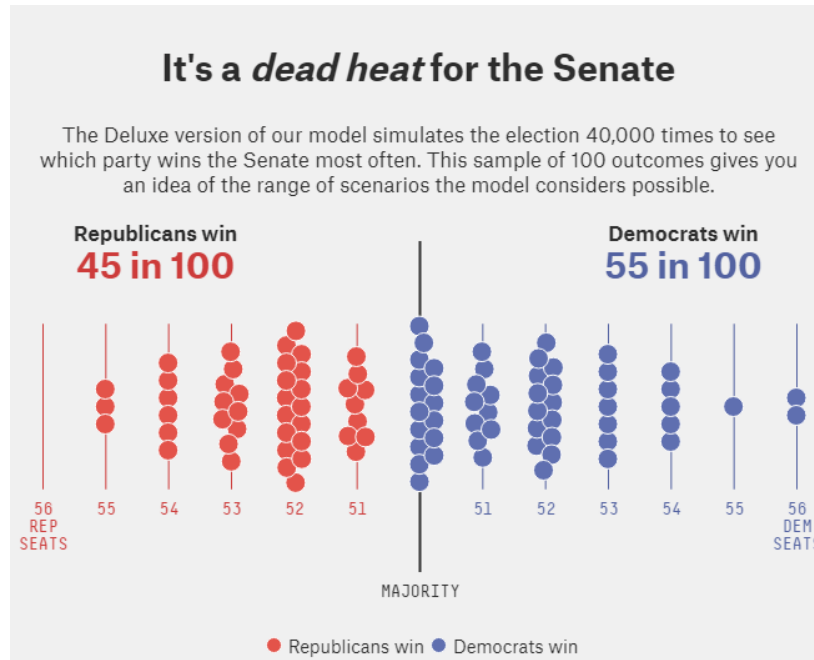
Project 538 runs simulations based on polls taken across the country.

In their simulation, the House looks like it will flip into Republican control. This usually happens in Midterm elections. The party that wins the White House (2 years prior) usually loses seats in the following midterm elections as voters pull the country back to the middle.



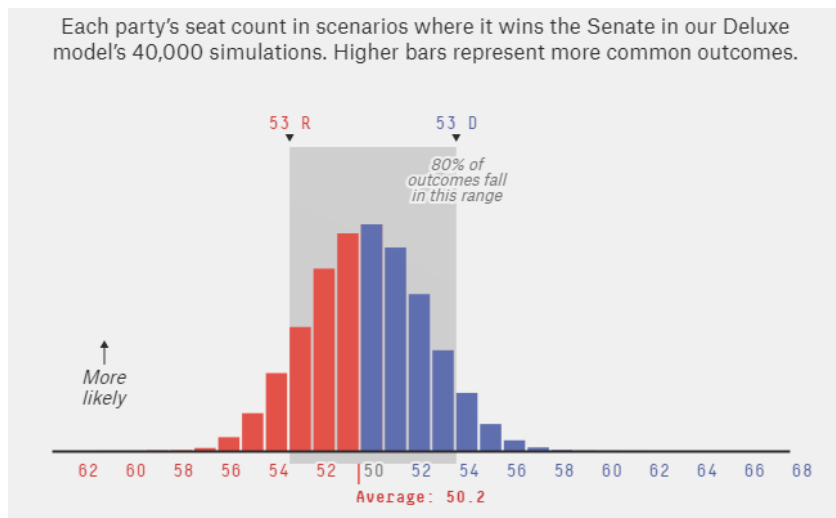


In the Senate, it is essentially a dead heat that is flipping back and forth. Only a third of Senate races occur this year. The model has flipped back and forth in recent months and will be decided by a few races in moderate states.



With two more weeks until the Midterms, the Senate races in Georgia, Pennsylvania, Nevada, New Hampshire, Florida, Arizona, and Wisconsin look like they will decide the balance of power in the Senate.

Project 538 is currently projecting Republicans win 50.2 seats and Democrats 49.8, but in that circumstance, the tie goes to the Vice President (Kamala Harris).



Either way, these political races will impact capital markets moving forward. Even if things remain status quo or Washington becomes gridlocked, the election will impact financial markets. Financial markets

have become political issues whether we like it or not, both parties have dug in and investors have bought in.



Interest Rate Hikes Slow

Every Western Central Bank is hiking interest rates to combat inflation which they helped cause. Japan, China, Russia, and Turkey are the only major economies still cutting interest rates. We will leave them alone. As the FED and many Central Banks have raised rates at a faster pace than ever, many have said the Central Banks have gone too far and rates are too high.

Global Central Bank Policy Rates						
Country	Rate	Central Bank Rate (Today)	CPI YoY	Real Central Bank Rate	Last Move	Last Move Month
Japan	Policy Rate Bal	-0.10%	3.0%	-3.1%	Cut	Jan-16
Switzerland	Target Rate	0.50%	3.3%	-2.8%	Hike	Sep-22
Denmark	Deposit Rate	0.65%	10.0%	-9.4%	Hike	Sep-22
Eurozone	Deposit Rate	0.75%	9.9%	-9.2%	Hike	Sep-22
Thailand	Policy Rate	1.00%	6.4%	-5.4%	Hike	Sep-22
Taiwan	Discount Rate	1.63%	2.8%	-1.1%	Hike	Sep-22
Sweden	Repo Rate	1.75%	10.8%	-9.1%	Hike	Sep-22
Norway	Deposit Rate	2.25%	6.9%	-4.7%	Hike	Sep-22
UK	Bank Rate	2.25%	10.1%	-7.9%	Hike	Sep-22
Malaysia	Policy Rate	2.50%	4.5%	-2.0%	Hike	Sep-22
Australia	Cash Rate	2.60%	7.3%	-4.7%	Hike	Oct-22
South Korea	Repo Rate	3.00%	5.6%	-2.6%	Hike	Oct-22
US	Fed Funds	3.13%	8.2%	-5.1%	Hike	Sep-22
New Zealand	Cash Rate	3.50%	7.2%	-3.7%	Hike	Oct-22
Hong Kong	Base Rate	3.50%	4.4%	-0.9%	Hike	Sep-22
China	Loan Prime Rate	3.65%	2.8%	0.9%	Cut	Aug-22
Canada	Overnight	3.75%	6.9%	-3.2%	Hike	Oct-22
Saudi Arabia	Repo Rate	3.75%	3.1%	0.7%	Hike	Sep-22
Philippines	Key Policy Rate	4.25%	6.9%	-2.7%	Hike	Sep-22
Indonesia	Repo Rate	4.75%	6.0%	-1.2%	Hike	Oct-22
India	Repo Rate	5.90%	7.4%	-1.5%	Hike	Sep-22
South Africa	Repo Rate	6.25%	7.5%	-1.3%	Hike	Sep-22
Poland	Repo Rate	6.75%	17.2%	-10.5%	Hike	Sep-22
Peru	Policy Rate	7.00%	8.5%	-1.5%	Hike	Oct-22
Czech Republic	Repo Rate	7.00%	18.0%	-11.0%	Hike	Jun-22
Russia	Key Policy Rate	7.50%	13.7%	-6.2%	Cut	Sep-22
Mexico	Overnight Rate	9.25%	8.7%	0.6%	Hike	Sep-22
Colombia	Repo Rate	10.00%	11.4%	-1.4%	Hike	Sep-22
Turkey	Repo Rate	10.50%	83.5%	-73.0%	Cut	Oct-22
Chile	Base Rate	11.25%	13.7%	-2.5%	Hike	Oct-22
Brazil	Target Rate	13.75%	7.2%	6.6%	Hike	Aug-22
Argentina	Benchmark Rate	75.00%	82.9%	-7.9%	Hike	Sep-22

COMPOUND

@CharlieBilello

We have forecasted that bankers will slow interest rate increases then pause increases then cut interest rates. We think Central Banks will do this as capital markets continue to suffer and economies continue to struggle. It was our prediction; we did not agree with the move but still think that it is likely.

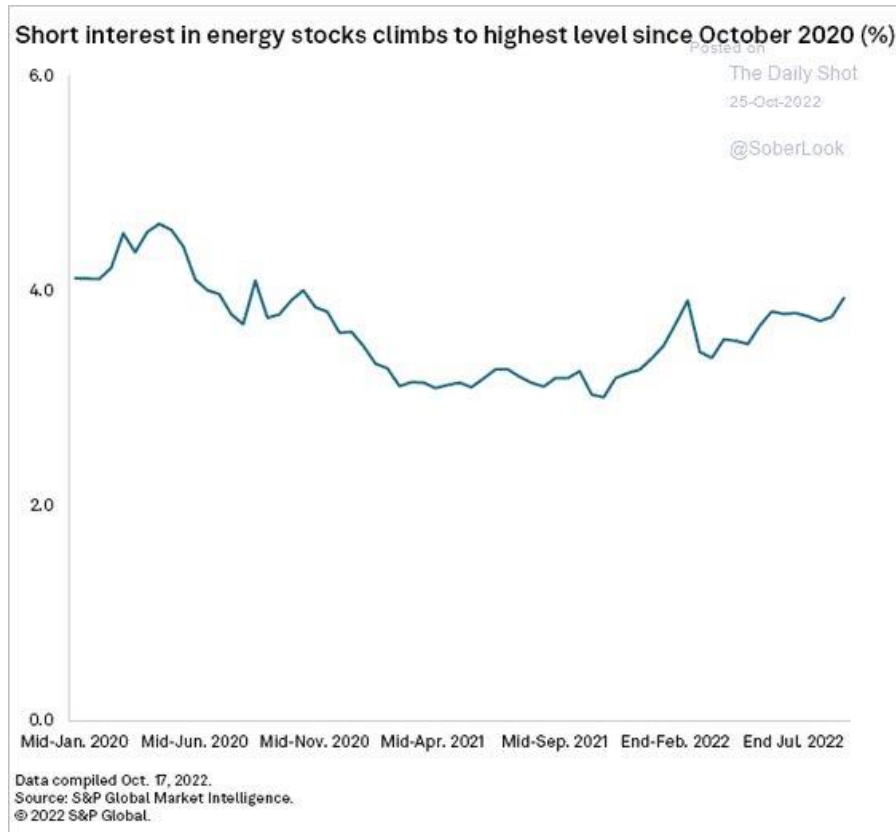
This week we might be on the first step in our forecast. The Bank of Canada raised interest rates by 0.5%, still, an increase to combat inflation but a lower increase than analysts were projecting. Many were pricing in a 0.75% hike. The increase marks the fifth consecutive outsized hike, bringing the rate to 3.75%. To put things in perspective on how fast this has happened, the interest rate at the BOC was 0.25% in March.

Watch what other Central Banks do in the coming weeks. We think they are getting very nervous and could soon reverse course.

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Investors Continue to Doubt Energy

Do some investors blindly invest? Sometimes we wonder. By that, we mean just because something is at its 52-week low, do they pile in because of odds? Or do they bet against companies because they are up year-to-date and the market is down over the same period so as an outlier, it makes no sense? We hope not, we hope all investors do their due diligence, but we know all do not. It seems the market and investors are continuing to bet against energy stocks.



Investors are as bearish as they have been on energy stocks in over 2 years. Yet, fundamentals are the same, stock prices have retreated, and multiples are still low. Now, this is not a massive move so it's not huge, but it is a pattern that continues to unfold. Investors, institutions, and governments all hate traditional energy companies even though they allow us to live the lives we are accustomed to. They want renewables and want to stop fossil fuels.

There are major discounts amongst many energy companies as energy stocks have suffered in recent weeks. Opportunities are scattered across the industry, just continue to follow the fundamentals and do your due diligence. We are always available if you would like another opinion or are considering a change in Managers.

MacNicol & Associates Asset Management Inc.

October 28, 2022