

## 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.*



Lighthouse image painted by Tony Harris for MAAM's 10th Anniversary - [www.thfineart.ca](http://www.thfineart.ca)



Nubble Lighthouse, Cape Neddick, York, Maine

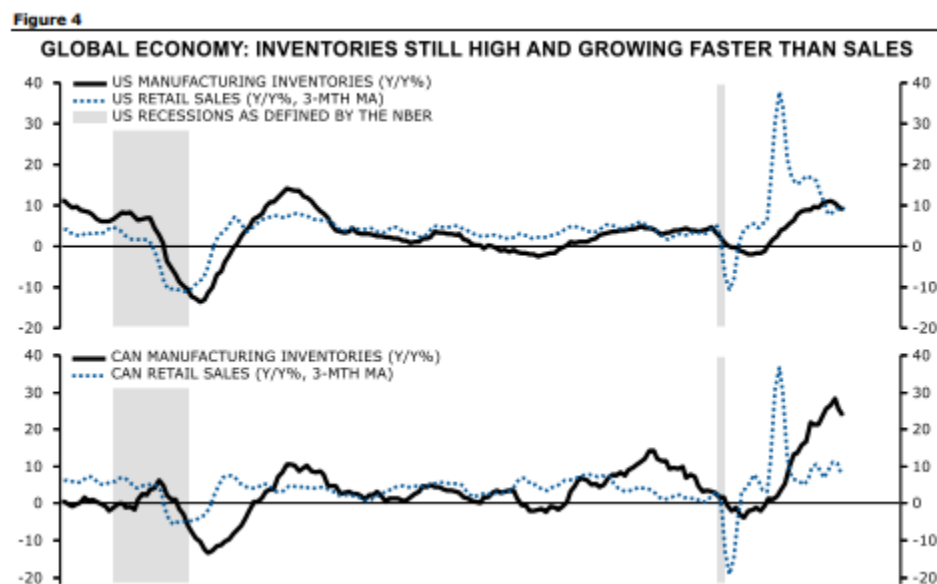
**Feel free to send us your photos of Lighthouses to be featured in our weekly market observations.**

## Growing Inventories; Continuing to be a Problem

CEOs are being put to the test in the current portion of the business cycle. Numerous companies are underperforming due to stale inventory. Companies are sitting on their largest stockpiles of inventories in years. Many companies increased inventory at their fastest rate ever (YoY) in response to an increase in demand for consumer goods during Covid-19. People could not participate in any service activities, so they purchased goods to fill their needs. Consumers helped Amazon, Target, Walmart, and many other retailers set profit and sales records during Covid-19. The closures were good for retailers as people could not do anything except entertain themselves with products (services were for the most part unavailable at this time). Fast forward to now and certain companies have been sitting on stale inventory for months. Consumers have pulled back on spending due to inflation, recession fears, and a preference change. For 18 months, consumers were limited to what they could do, now that lockdowns are for the most part over, our economy has shifted from goods focused to services focused. We forecasted this months ago and is a reason that we said Amazon and other retailers could take a hit on their income statements. The Covid-19 economic cycle was temporary, but it seems certain CEOs thought that it was permanent when you look at their order book. The last year has shown investors that strong leadership matters when investing in a company.

The issue looks much worse up north than in the U.S.

Inventories in Canada have grown at a record rate while sales have slumped over the last year. Expect certain Canadian retailers to struggle out of the gates in 2023 and expect some non-traditional blowout sales as a response to stale inventory for select Canadian retailers.



From increasing holding costs to opportunity costs, stale inventory creates multiple problems for large retailers. Stale inventory often leads to dead inventory which results in lost money, something

shareholders do not want to see. Perhaps retailers will learn from this in the next cycle and not overextend their order book when times are good because as we know, nothing is forever.



Stale and increasing inventory is a major reason that Target's stock price is down 28% YTD while competitor Walmart is up 6% YTD (as of November 29th, 2022).

### **Netherlands Government Pushing for Famine**

The Netherlands government which has recently been in the news for all the wrong reasons (farmer protests) announced that they would be closing 3,000 more farms to comply with European Union climate objectives. This move will reignite tensions between the government and farmers (as it should). The Dutch government is planning to buy out and close as many as 3,000 more farms, to halve the country's nitrogen emissions by 2030. The buyout plan will be close to \$25 billion in value.

You might say, "why would farmers be mad, the government will give them a fair price for their land, governments usually overpay for stuff." Well, that may be true, there is a major stipulation in the plans that have Dutch farmers extremely mad.

If farmers do not agree to the plan, the buyouts could become compulsory. Certain areas will be targeted, and farmers will be offered deals whether they like it or not. Some farmers will essentially be forced off their land for money.

To meet the EU emissions target, the Dutch government estimates that 11,200 farms will have to close, and 17,600 others will have to reduce their livestock numbers significantly.

Farming is a critical sector in the Netherlands. Despite being slightly larger than Maryland, the Netherlands is the world's second-largest exporter of agricultural goods, behind only the U.S. The Netherlands exported 105 billion Euros worth of agricultural products in 2021.

This move by the Dutch government will decrease the domestic and global food supply. This decrease in supply will need to be made up for as food is a necessity good. Many believe this move will lead to higher emissions in less regulated parts of the world where it's higher cost and less efficient to farm. The only way to decrease agriculture emissions is to create another form of food where agriculture demand decreases (ie. Fake food).

This is where new forms of meat and climate-friendly foods have been introduced. Many climate activists believe oil and farming are to blame for climate change and that something must change. EVs were introduced to combat gasoline engines and Beyond Meat was introduced to combat cow farms. Think is about how many Beyond Meat or Impossible Burger ads you have seen in the last year.

For now, we are glad we can still access real meat, however, it may become harder when climate activists go after the supply of traditional meat. They have failed with their alternative product but will still attempt to destroy the farming sector.



It seems most consumers have outright rejected this new type of food that was created in a lab:

Market Summary > Beyond Meat Inc

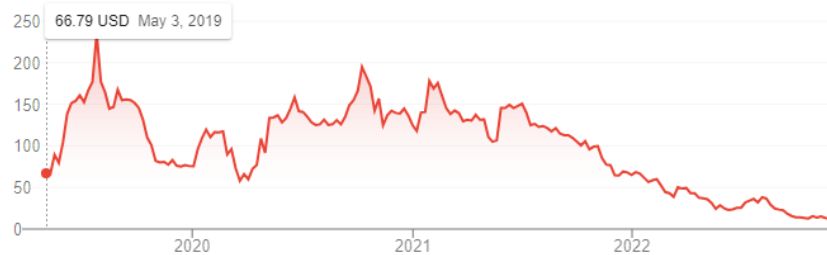
12.75 USD

-54.04 (-80.91%) ↓ all time

Nov 29, 2:26 p.m. EST • Disclaimer

+ Follow

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



Open	12.45	Mkt cap	812.71M	52-wk high	75.49
High	12.99	P/E ratio	-	52-wk low	11.56
Low	12.45	Div yield	-		

Beyond Meat is not profitable, burns through cash, and have seen a large decrease in revenue. The product is also quite expensive. Consumers have rejected the products that they offer, and investors have finally realized they are not the future. We are extremely glad we were never investors and never drank the sell-side Kool-Aid.

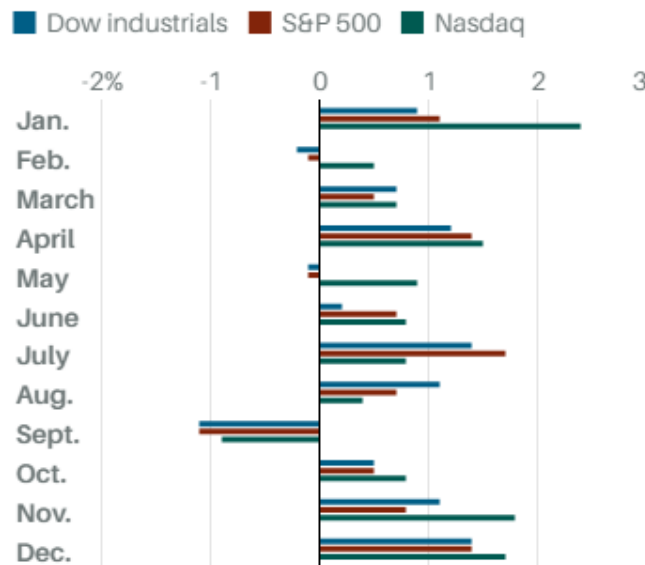
The financial outlook is similar for all of Beyond Meat's competitors. We are not solely picking on Beyond Meat., they are just the market leader and are well known to consumers.

Either way, this situation in the Netherlands could get quite bad throughout the next few years. We feel for the Farmers who will be pushed off their land and we feel for consumers who will pay the price at grocery stores. This move by the government in the Netherlands is yet another example of overregulation in the pursuit of decreasing emissions.

### Holly Jolly December

The Santa Claus Rally is real for U.S. markets, it is no myth. December has historically been a great month for markets (even with 2018). December is historically a month when investors make large contributions to their retirement accounts. With new money rushing into markets in December they usually move upward.

### Average monthly performance



Note: Data since DJIA (1896), S&P 500 (1928), Nasdaq Composite (1971).

Source: Dow Jones Market Data.

We are not guaranteeing a “Santa Claus Rally”, we are simply showing historical averages and we all know 2022 has been anything but “average”.

### **RBC Makes a Big Move**

The Royal Bank of Canada agreed this week to buy HSBC’s Canadian division for \$13.5 billion. The deal is set to close by late 2023, and RBC will acquire all of HSBC Canada’s shares at a price that works out to 9.4x adjusted 2024 earnings (\$1.4 billion).

The bank projects the deal will lead to \$740 million in annualized pre-tax synergies. HSBC Canada holds approximately 2% of Canadian savings and mortgages.

RBC leadership mentioned that the transaction was culturally a good fit for employees and customers of both banks. RBC also highlighted that 50% of HSBC Canada clients are globally connected which will position RBC to be the bank of choice for clients with international needs (in banking and wealth management). RBC estimates that the transaction will add 6% to earnings in 2024, as well as provide a 14% internal rate of return.

This transaction could hurt Canadian mortgage shoppers. HSBC Canada has historically been known in the industry as the institution in Canada that undercuts the big banks on mortgage rates. HSBC has

advertised rates that are commonly 20 basis points or more below the so-called “special offer” rates promoted by big banks. Even if individuals want to get a mortgage at their native bank, they often can negotiate with the big bank using HSBC’s rate as ammunition. If you take that low rate away, the buyer has little to no negotiation room.



This move will further concentrate on a sector in Canada that is comparable to an oligopoly. This move would further cement a spread between the big 2 and “the rest” of the large Canadian banks. In recent years, RBC and TD have separated themselves from the competition dominating the Canadian banking sector. RBC holds a 21% market share in both deposits and loans. TD is close behind, at 19% of loans and 18% of deposits.

The Canadian banking sector is much more concentrated than the U.S. banking sector. The two largest competitors – JPMorgan Chase & Co. and Bank of America – hold 16% and 15% of deposits, respectively. However even though the U.S. sector has become more concentrated in recent decades, regulators are still promoting competition. In the past decade, U.S. regulators shut down domestic acquisitions by the biggest U.S. players to encourage competition.

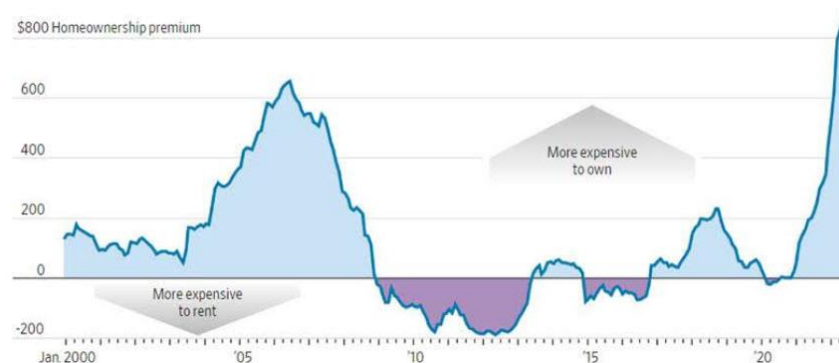
Canadian regulators need to approve this acquisition to make it official, we will see what happens. For now, it looks like a concentrated sector will become even more concentrated.

For an open economy, numerous sectors in Canada are run like an oligopoly giving consumers and even investors little to no options when picking a company or product. After all, we should all hope for competition as it usually brings better pricing and better products for consumers.

### **Rent or Own?**

The U.S. real estate market has taken a hit in recent months due to rising mortgage rates. Markets that were strong fundamentally have been less impacted by this while overvalued markets with flat demand have been hit the hardest.

Numerous publications including John Burns Real Estate Consulting LLC publish a graphic like this monthly:







The chart calculates if it's more expensive to own or rent a house. Currently, in the U.S. homeowners are paying the largest premium in 22 years to own their home. Even though rent prices have soared, they have not soared at the same rate that maintenance costs have increased. Furnishing, and maintaining a home is as expensive as it ever has been. Don't believe us? How hard has it been to find somebody to fix your closet, redo your bathroom, or install a new door over the last 12-18 months? It's extremely hard to source labor at the moment as the industry is in extreme demand.

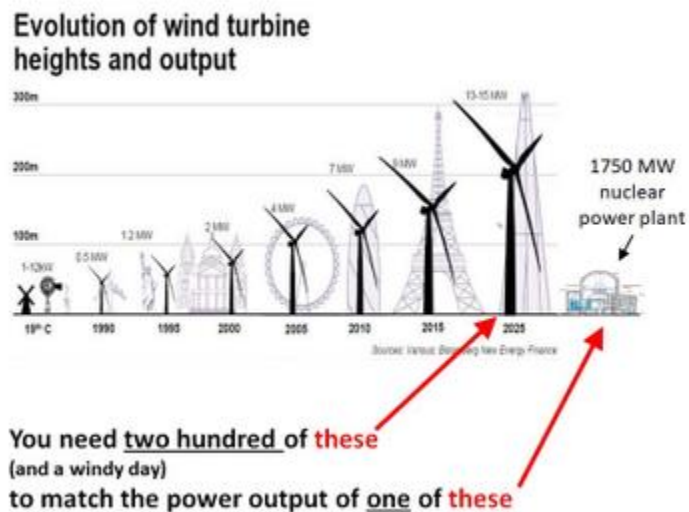
Maintenance costs are often forgotten by homeowners when calculating their budget. Many consumers look past maintenance issues during tight economic periods but often these needed repairs become worse without action.

We are not recommending how to go about your real estate in this publication but find this index quite fascinating. Many often forget about the added costs of owning a home.

## Nuclear Energy

As readers of *The Weekly Beacon*, we are sure you are aware of our stance on energy. We talk about energy every week. We try to explain the realities of fossil fuel usage and renewables. We often explain that fossil fuels will not disappear. We also are major proponents of nuclear energy which we believe will solve many of the issues that renewables cannot solve on a large scale.

This week, we share an image with you that helps illustrate the solutions to climate change. Nuclear is the only non-fossil fuel option that will be reliable and cleaner than fossil fuels. Nuclear is nowhere near perfect but it's the best we can do as a society today. Wind energy is simply unreliable, and consumers cannot power their homes in a hope that it's windy that day.



This goes without mentioning the destruction of ecosystems in wind farms where thousands of acres of forest, farmland, and natural habitat have been destroyed to create minimal power.



### **Twitter Mess**

Twitter and Elon Musk have been under the microscope in recent weeks after he acquired the social media platform. Many advertisers including Apple have halted advertisements on the platform. Musk even claimed that Apple threatened to remove them from the Apple store. Musk claimed that Apple had the largest monopoly in modern history and that what they consistently have done is unfair, and anti-competitive. Apple has removed apps from its App Store for various reasons over the years.

The removal from the App Store essentially removes the availability of an application to consumers. Even if the app is beloved and used, people would not have access to it via an app, they could access it through a browser but not as an app. Twitter usage would take a massive hit if people could not access it through the application. Most social media users access platforms through apps over browsers.

The EU even threatened to ban Twitter if it does not stick to strict rules going forward.

We bring all this up because it seems the more Musk digs in on Twitter and his other ventures, the more investors question Tesla and his focus. We have said Tesla is overvalued but were constantly questioned. Many "Tesla bulls" have turned into bears almost immediately after Musk bought Twitter. Some turned to bears due to Musk's focus and bandwidth and some turned to bears due to Musk's independent, transparent political opinions.

Either way, a fascinating story is unfolding in front of our eyes. Netflix, bring on the documentary.

### **FTX Update**

Samuel Bankman-Fried (SBF) went to Twitter last week to announce he would still be speaking at a New York Times conference on November 30th. He was announced as a speaker before he was exposed as a fraud and FTX went bankrupt. The conference boasts an A-List panel of guests and would cost you \$2,499 to attend. SBF probably could not personally afford to attend this conference but that's beyond our main point of why is he able to speak at this event.



**The New York Times Events**

November 30, 2022, 8 a.m.–6 p.m. E.S.T.  
New York City  
Premier Sponsor Accenture

**Speakers**



**Sam Bankman-Fried**  
C.E.O., FTX



**President Volodymyr Zelensky**  
Ukraine



**Larry Fink**  
Chairman and C.E.O., BlackRock



**Secretary Janet L. Yellen**  
U.S. Department of the Treasury



**Shou Chew**  
C.E.O., TADA



**Mike Pence**  
48th Vice President of the United States  
and Author, "So Help Me God"



**Mark Zuckerberg**  
Founder, Chairman and C.E.O., Meta



**Eric Adams**  
Mayor, New York City



We will talk about what he said in his interview next week.

He defrauded investors, customers, and his employees yet nothing has happened to him - seems quite fishy. Perhaps, nothing happens when you donate the second most to politicians in an election year.

This event will have a lasting impact on investors. People weary of crypto just got wearier. Those who hated crypto just got more ammunition against the asset class, and traditional pension funds will probably get questioned on these types of investments going forward. Either way, this could be bad news for the entire industry in the short term.

Even the mainstream media is realizing the FTX debacle will limit investment in the space. From a Barron's article this past week:

**CRYPTOCURRENCIES**

## **FTX Has Spurred a 'Mass Exodus' in Crypto. Some May Be Ditching Bitcoin Forever.**

By [Jack Denton](#) [Follow](#) Nov. 30, 2022 12:07 pm ET

Easy-money fueled cryptocurrencies, liquidity has dried up and investors sold.

**MacNicol & Associates Asset Management**  
**December 2, 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](mailto:info@macnicolasset.com) URL: [www.macnicolasset.com](http://www.macnicolasset.com)