

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.



Contact us today if you would like to meet about your investment future. info@macnicolasset.com

BEACONS OF THE WEEK

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.



Cape Byron Lighthouse, New South Wales, Australia

Cape Byron Lighthouse sits on Australia's most easterly point, a shining light over Byron Bay. Cape Byron Lighthouse is Australia's most powerful lighthouse, with a light intensity of 2,200,000 candelas. It was designated as a Commonwealth Heritage List lighthouse in 2004.



Troubridge Island Lighthouse, Troubridge Island, South Australia, Australia

Troubridge Island Lighthouse is a decommissioned lighthouse that was constructed in 1856. The lighthouse was deactivated in 2001 but remains a Heritage building and is now a tourist attraction.

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



Higher wages, higher prices

Wage inflation has recently picked up, especially in retail and services. These wage increases for workers will eventually be reflected in the prices consumers pay at the cash register.

On Tuesday morning, Home Depot announced it would be spending \$1 billion on hourly workers' wage increases. The wage increases will be split across U.S. and Canadian stores. The wage increase will be reflected on workers' paycheques immediately.

This move by Home Depot signals the tightness in the labor market, especially for lower-wage hourly workers.

Home Depot is not the first retail giant to increase pay to incentivize workers. Walmart announced a plan recently to lift its average hourly wage to \$17.50 from \$17.00 as well as raising its U.S. minimum wage to \$14.

They have made these plans despite forecasted sales to decrease due to a potential recession over the next year. Retailers have listed rising wage costs as a driver of increasing consumer prices. Retailers have lifted wages to find workers and to help their workers with rising costs across the economy (shelter, food, electricity, gasoline, etc.).

Home Depot CEO Ted Decker said that this move will help the company attract and retain the best talent across the sector.

Wage inflation will continue to occur across the global economy as employers struggle to fill job vacancies.

The cherry on top

Crypto had a rough 2022 (even worse than public stock and bond markets).

Bitcoin's value dropped by almost two-thirds in 2022. The entire industry got slaughtered. Many of the well-known mid-caps performed much worse than Bitcoin in 2022 and many small-cap projects blew up in flames as founders liquidated their projects at the expense of retail investors.

The Global Cryptocurrency Market Cap (combined market capitalization of all cryptocurrencies) collapsed from \$2.5 trillion to approximately \$880 billion in 2022. The same index peaked at over \$3 Trillion in November 2021.

This money was essentially created out of thin air over the last decade. Crypto going mainstream was a product of easy money, and zero percent interest rates. Even with the early jump in price in 2023 for

crypto, do not expect it to bounce back to all-time highs as it has in past cycles. It could be a bumpy road ahead for crypto companies.

Did anything else of significance happen in 2022 across the crypto industry? Ah, SBF and that fiasco.....



Perhaps, the biggest financial scandal since Bernie Madoff. SBF fooled institutional investors, retail users, and even celebrities, essentially burning through billions in investor and user capital. SBF stole money to fund his crypto-based hedge fund that somehow lost all its money, this is what happens in a bear market to investors who think “it will only go up”.

We bring this up this week because Coinbase Global, a major crypto exchange released its earnings on Tuesday afternoon.

Before earnings, Coinbase shares were down 65% over the last year and 82% since it went public on the Nasdaq in April 2021. (Coinbase shares are up 85% in 2023’s melt-up as of this writing).

Market Summary > Coinbase Global Inc

62.88 USD

-113.88 (-64.43%) ↓ past year

Feb 21, 2:21 p.m. EST • Disclaimer

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



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On to the earnings release, Coinbase beat estimates, but numbers were still a mess from the year prior. Remember 2021 was a major bull market, especially for crypto. Coinbase reported a quarterly net loss of \$557 million, or \$2.46 a share, compared with a profit of \$840 million, or \$3.32 a share, in the same quarter in 2021. Revenue beat estimates by 7.1% and earnings per share beat estimates by \$0.05. Trading volumes plunged during the 4th quarter to \$145 billion from \$547 billion in 2021's fourth quarter. Revenue also crashed from \$7.35 billion in 2021 to \$3.15 billion in 2022.



The biggest outlier in their release was stock compensation was 68% of sales despite the company's massive loss. Stock-based compensation almost doubled in 2022 compared to 2021. We thought stock-based compensation was paired with positive performance not massive losses, but Coinbase must do it differently.....

We hope you did not drink the IPO "Kool-Aid" and bought Coinbase based on the headlines:

TECH

Coinbase is unlike any market debut Wall Street has ever seen

PUBLISHED TUE, APR 13 2021 1:00 PM EDT | UPDATED TUE, APR 13 2021 5:04 PM EDT



Ari Levy
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Philipp Sandner

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The Coinbase IPO Foreshadows the Crypto Industry's Future Role in Finance

Coinbase Listing Signals Digital Assets Maturity

April 26, 2021

READ TIME 3 MIN



John Patrick Lee, CFA
Product Manager

Always remember who liked Coinbase best:



Jim Cramer [✓](#)
@jimcramer

We like Coinbase to \$475

10:02 AM · Apr 14, 2021 · TweetDeck

297 Retweets 181 Quote Tweets 3,463 Likes



Cramer's signals remain undefeated.

It looks like the only way Coinbase will turn it around is if there is another crypto bull market. Coinbase is completely leveraged to the performance of the underlying assets traded on their exchange. If they can change that perhaps they have something. Until then, they sit at the feet of the overall crypto market.

Coinbase executives also mentioned that voters in 2024 will take into account candidates' crypto policies and claimed that many could choose to vote for a candidate based on crypto policy. While some may vote this way, it's a percent of a percent who will and Coinbase believing this is quite ridiculous if you ask us.

Retail investors buying the hype

Many optimistic investors who are begging for a bull market are buying the line "soft landing". These investors usually ride "hype waves" and were more than likely blown out of the water in 2022.

A soft landing, in economics, is a cyclical slowdown in economic growth that avoids recession. A soft landing is the goal of a central bank when it seeks to raise interest rates to combat inflation without causing a recession.

Retail investors have continued to pile into the stock market in 2023 even with negative results in 2022. The rush to fund their accounts seems to correlate with the soft-landing projections.



The more obvious part of this chart that is very indicative is the amount of participation in public markets via retail investors. Investing surged in 2020 due to lockdowns and stimulus cheques but it has not seemed to slow down, and it looks like inflows will continue to remain high from the retail channel.

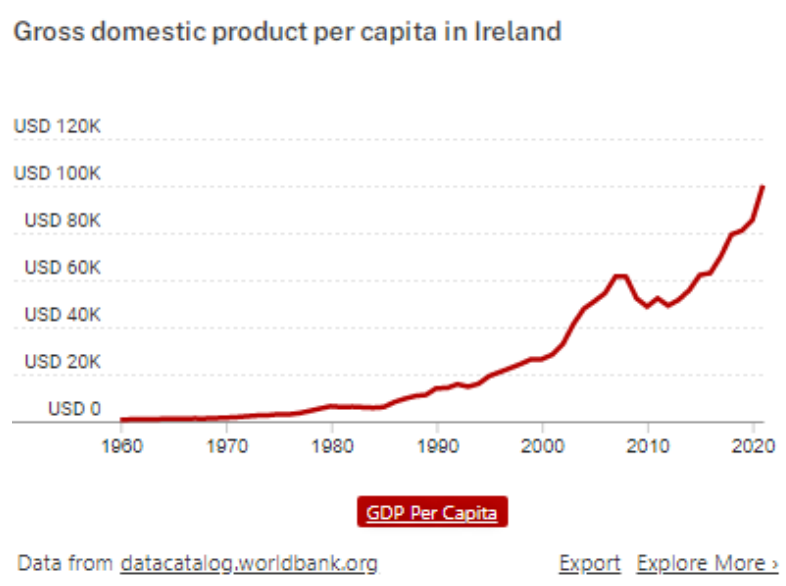


This is a very good sign as consumers are taking their future more seriously, however, this chart also reflects more investors than ever are speculating and not investing. Many retail investors would benefit from a Portfolio Manager, Financial Plan, and structured investment portfolio but do not trust the banks, so they ignore these avenues and try to take on Wall Street and Bay Street all by themselves. We think that will end up biting them in the butt through negative results. We encourage retail investors to contact an independent financial planner or independent financial advisor to help them with their service needs and invite them to contact us for any investment portfolio needs at info@macnicolasset.com where we would be happy to give your portfolio a complimentary assessment.

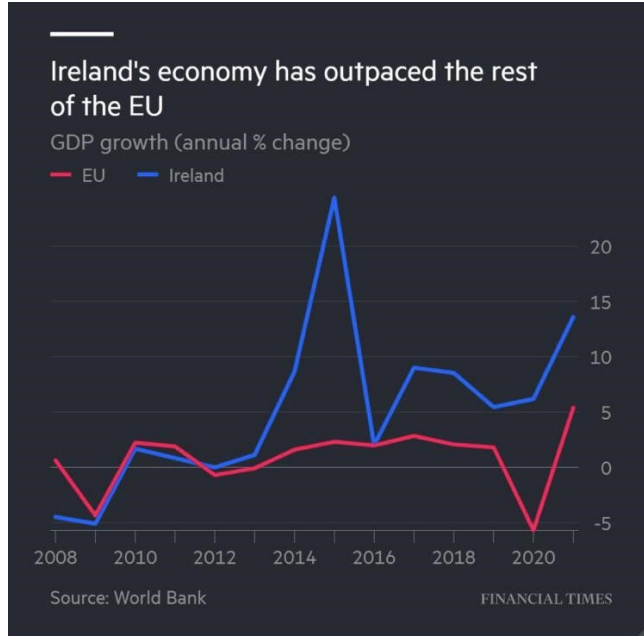
Ireland, a growth story

Ireland is a beautiful European nation known for its beer, coffee, whiskey, and St. Patrick's Day. Ireland has the world's 124th largest population and is home to fewer people than the Greater Toronto Area. As of 2017, Ireland's GDP per capita was 6th highest in the world.

According to the World Bank, Ireland's GDP per capita has almost doubled since the Financial Crisis:

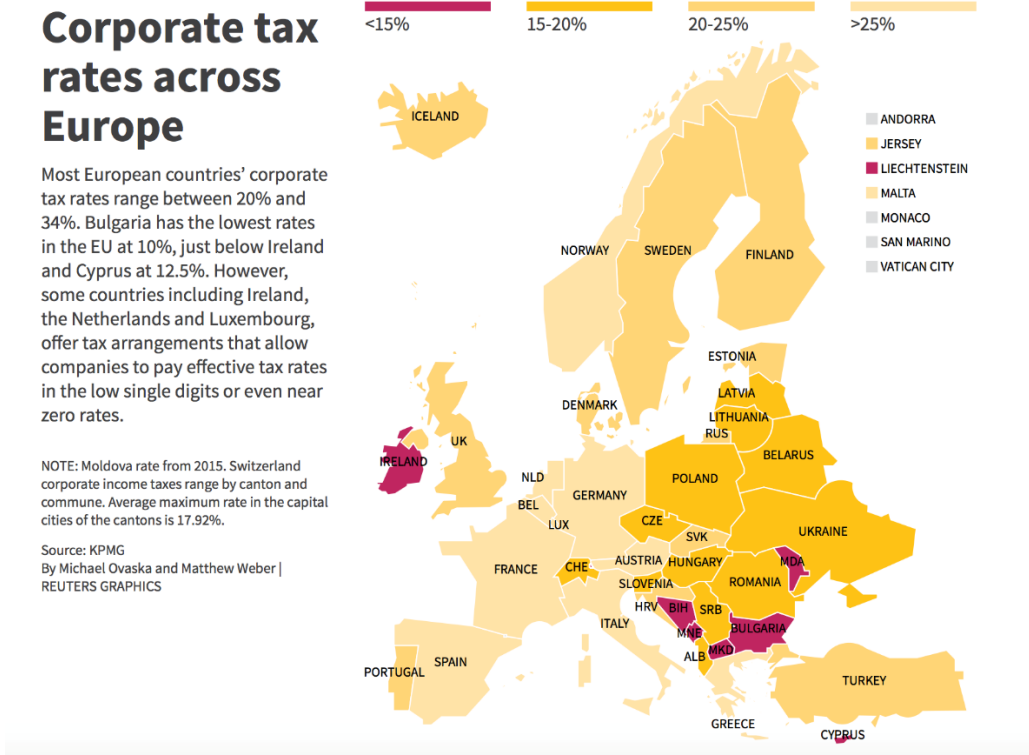


On top of that the Irish economy's growth rate has severely outpaced the European Union's over the last 10+ years:



So how did this happen and why did you not know about this?

Ireland has become a landing spot for global capital in recent years. Corporations have targeted Ireland's favorable tax code:





Companies around the world have used Ireland in recent years due to a decrease in their tax bill. As of 2017, 25 of the top 50 Irish firms were U.S.–controlled businesses, representing 70% of the revenue of the top 50 Irish firms. By 2018, Ireland had received the most U.S. Corporate tax inversions in history. Apple is a major user of these loopholes; they shored \$300 billion in intellectual property to Ireland in 2015 when they restructured themselves. This helped shoot the Irish GDP upward by 25% in 2015. Famous economist Paul Krugman called this phenomenon “leprechaun economics”. The pharmaceutical industry also uses Ireland as a tax haven.

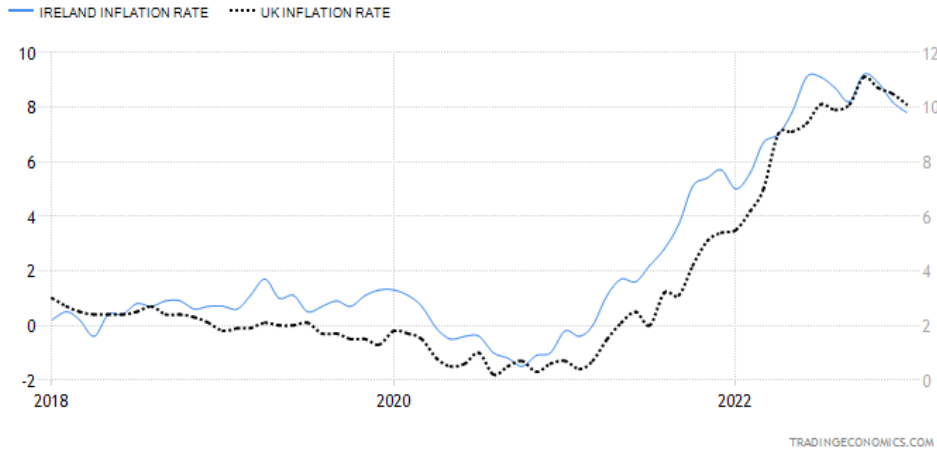
Ireland’s GDP grew by 3.5% over the last quarter of 2022 which single handedly prevented the Eurozone’s economy from running stagnant through the quarter.

Many argue that these inflated numbers are an outlier and not a real representation of the Irish economy. However, this week the Irish Central bank defended their economic growth and world-leading rebound, citing that their growth comes from real domestic employees including real factories and real people. The head of the Central Bank cited that the U.S. pharmaceutical companies are making their products within Ireland’s borders. He also highlighted Intel which has operated in Ireland for more than 30 years and its productivity gains.

He highlighted that the Irish Central Bank uses alternative GDP calculations that strip out the multinational companies' output as the money does not stay in Ireland. Economists have also mentioned the onshoring of balance sheets in recent years by multinational corporations has led to tremendous volatility in the Irish GDP.

However, the Central Bank highlighted the major benefits of these companies seeking Ireland as their tax haven. He highlights that these multinationals have added to Irish prosperity in recent years, highlighting employment levels via Foreign Direct Investment (FDI) which are typically high-paying jobs. This increase in employment in FDI has also increased Ireland’s tax revenues. The Irish unemployment rate has also been cut in half over the last 7 years, reaching 4.4% in January 2023.

Economists argue that Ireland's onshoring multinationals have increased the cost of living for their people. While that might be true for specific products, the Irish CPI follows a similar trendline to global inflation rates over the last 5 years. The British and Irish inflation rates are almost the same since 2018.



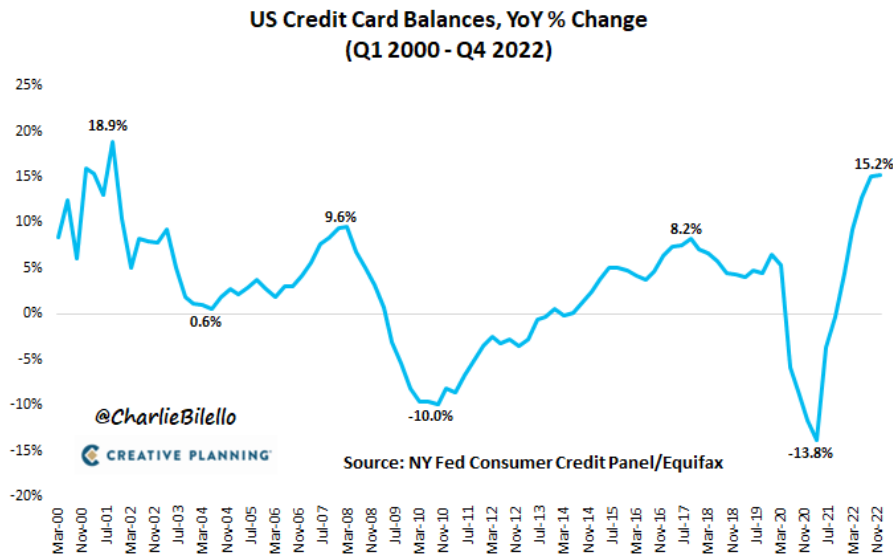
Many argue these GDP numbers released by the Irish Central Bank as artificial, and some argue that they are real and are helping the Irish population. We will let you come to your own conclusions.

For now, we will mention that it is interesting to see a first-world country (other than Luxembourg) act as a major tax haven. Multinationals have been flocking to Caribbean countries for the same reason for decades. There are benefits and costs associated with what the Irish government has done. They just must weigh which matters more (just like we do when we look for new areas of the world to invest in).

We do not directly own any Irish equities at the time of this writing.

Consumers swiping away

Consumers are swiping away with their credit cards. This has led to the highest year-over-year percentage change for outstanding credit balances in over 20 years.



Consumers are eating away at their savings as prices continue to rise. There is also the desire for many to continue to travel and experience things after 1.5-2 years of lockdowns. Expect retail sales to begin to slump and services to continue to be in high demand.



Labor rotation

China has long been known for its cheap and intelligent labour. The major advantage China has over low-income countries is its economic development and technological superiority and its main advantage for manufacturing versus developed nations are costs (ie. Labour).

Since 2013 labour costs have doubled in China.



The Economist

Chinese labour is also much more expensive than other countries within Southeast Asia. This region of the world has recently been coined "Altaisia".



Will low costs continue to deteriorate China’s competitive advantage and allow countries like Vietnam, India, and Thailand to move in on its manufacturing monopoly?

Many are betting on economies in countries like India to make the jump that China’s economy made over the last 25 years. A major driver of this will be an increase in exports fueled by an increase in manufacturing.

Across various sectors China is already beginning to lose its stranglehold:

China's share of global exports of consumer goods has fallen since 2016

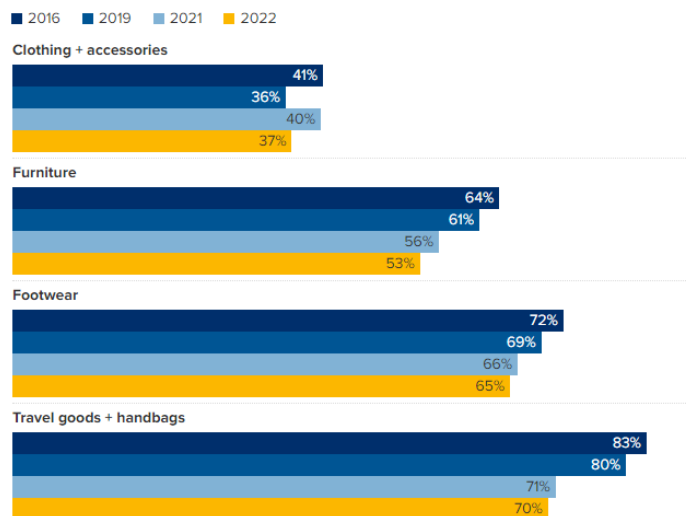


Chart: Gabriel Cortes / CNBC
Source: MDS Transmodal



Vietnam, Malaysia, and Bangladesh have all increased their global share in the manufacturing of various consumer goods.



The U.S. imported more goods from Altasia than it did from China from October 2021-September 2022 (\$29 billion more).

Western companies are already starting to exit China. Sony (Japan) announced in January that they would be moving manufacturing of their cameras from China to Thailand. Samsung (South Korea) has cut its Chinese workforce by almost 70% since 2013. Dell (U.S.) announced that they will stop using Chinese chips by next year. Intel (U.S.) has moved some of its semiconductor manufacturing from China to Vietnam; Intel also announced plans to increase the manufacturing of semiconductors within Europe. Kia (south Korea) closed a key production facility in China in 2019.

Aside from pure costs, companies are choosing to leave or decrease their dependence on China manufacturing due to rising tariffs and geopolitics.

No single country will replace China as the manufacturing hub of the world. This group of countries across southeast Asia will offer companies options and alternatives to China. It will be a scattered industry eventually.

The major advantage that China still has over these countries (not Japan, and South Korea) is a sophisticated supply chain. Altasia will need a far more integrated and efficient supply chain to truly surpass China in the industry. This will not happen overnight, and Chinese manufacturing is not dead. We are simply pointing to something that will more than likely occur in the future.

We are sure the U.S. and its allies would love to decrease its dependence on Chinese manufacturing and would be on board for advancement in Southeast Asia.

Lines in the sand

Geopolitics is a tricky issue. You see what your leaders want you to see.

News outlets cover what domestic leaders tell them (for the most part).

During times of conflict, countries accuse their opposition of all kinds of things but often omit that they are doing the same thing. We are not judging that thought process because it for the most part is probably the easiest way to convey national threats rather than admit that your country is spying on an enemy that individuals did not even know they had (as a country).

This week the obvious (to some) became even more obvious.

China and Russia have a major alliance. Many have been naïve when it comes to Russia-China for several reasons but this week both President(s) Xi and Putin essentially confirmed their geopolitical alliance out loud. Even for the most naïve, this is impossible to ignore.

◆ WSJ NEWS EXCLUSIVE | WORLD

China's Xi Jinping Plans Russia Visit as Putin Wages War in Ukraine

Chinese leader is expected to use Moscow trip to push for multiparty peace talks

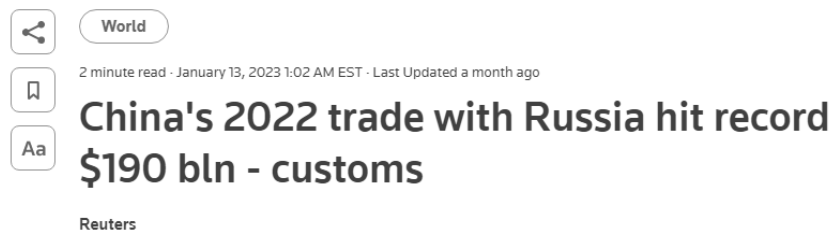


So, why does Xi visiting Russia matter? China claims it's for peace talks between Russia and Ukraine but that is just a smoke screen. This trip also comes weeks after Putin visited Beijing. The two seem closer than ever.

China and Russia will strengthen their ties both economically and militarily through this trip. China gets backed by one of the world's strongest militaries and Russia is provided the capital it needs by economic power. China also gets to continue selling its oil, gas, and other natural resources at market prices to one of the world's largest buyers. This is also bad news for western alliances as the world is shifting into two large alliances which are for the most part east versus west.

Chinese Communist Party's foreign policy chief Wang Yi visited Moscow this week and said he plans to work on strengthening and deepening relations between Beijing and Moscow.

On top of all of that trade between the two nations hit a record in 2022 and is projected to grow in 2023:

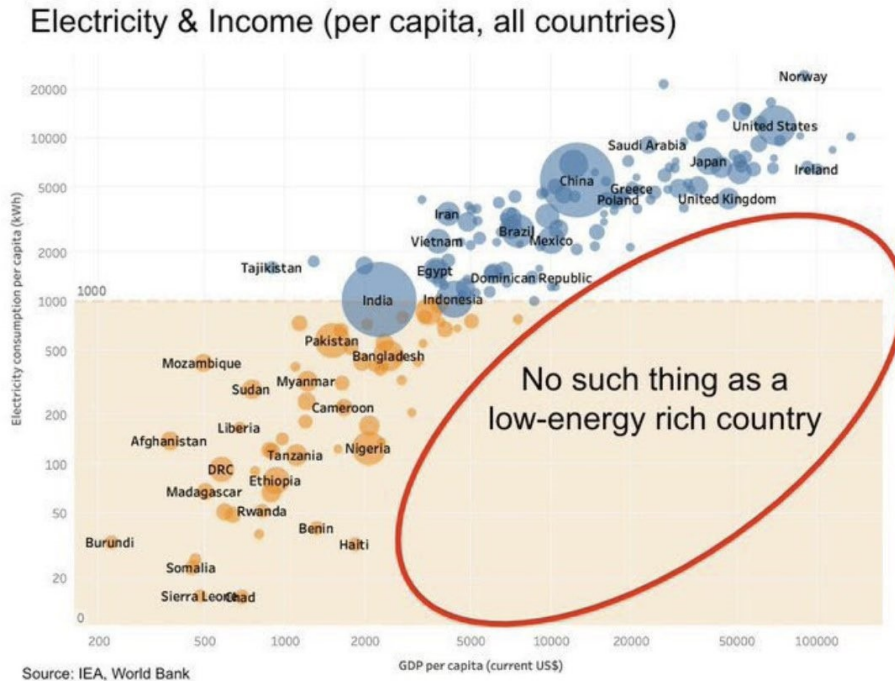


Keep your eyes on this relationship. The bond with Russia could make China a tad more aggressive when it comes to Taiwan.

Chart of the week, more energy more money

It's no secret that using more electricity correlates with higher incomes. Prosperous countries (and individuals) use more energy (to power their homes, businesses, cars, etc.).

The graphic below shows this relationship:



The relationship is direct, as countries consume more energy their income per capita proportionately increases.

There are no outliers in this chart. Second and third-world countries are aware of this chart and are attempting to build their grids out, so their citizens increase electricity consumption and become increasingly productive and increasingly wealthy.

Domestic energy production is extremely important and should be a major focus for global leaders moving forward. Countries do not want to have to rely on countries across the world for their domestic energy needs. Countries especially should not want to rely on enemy countries for their energy needs (Germans are finally realizing why reliance on Russia is bad for their economy). This should serve as a major warning to western nations from relying on China for Rare Earth metal production used in different forms of renewable energy. China currently has a major stranglehold on several of these.

MacNicol & Associates Asset Management
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