THE WEEKLY BEACON	MARCH 3 ,2023

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.

MacNicol & Associates Asset Management

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.

Fiskenæs Fjord Light, *Fiskenæsset,, Greenland*

Located on a skerry in the entrance to the harbor of Fiskenæsset, about 125 kilometers southeast of Nuuk. The lighthouse was constructed in 1978 and is only accessible by boat.

Potter's Bay Light, *King George Island, Antartica*

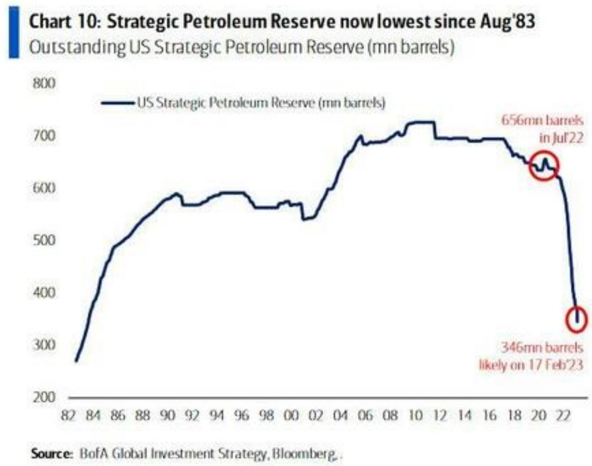
Photo by Creative Commons.

Potter Cove is a cove indenting the south-west side of King George Island to the east of Barton Peninsula, in Antarctica.

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

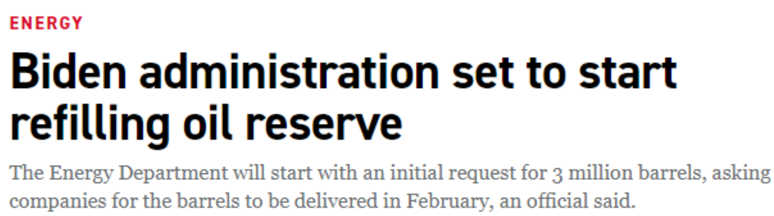
Drain the reserves

Another week and another draw in the U.S. Strategic Petroleum Reserves:



The U.S. government has been draining its reserves for months to suppress high oil prices. Despite that, prices remain above $75/bb. The Biden Administration have drained the reserves to their lowest point since 1983.

The Biden Administration announced further sales from its reserves over the last month despite a pledge at the end of 2022 to refill some of the lost reserves:


ENERGY

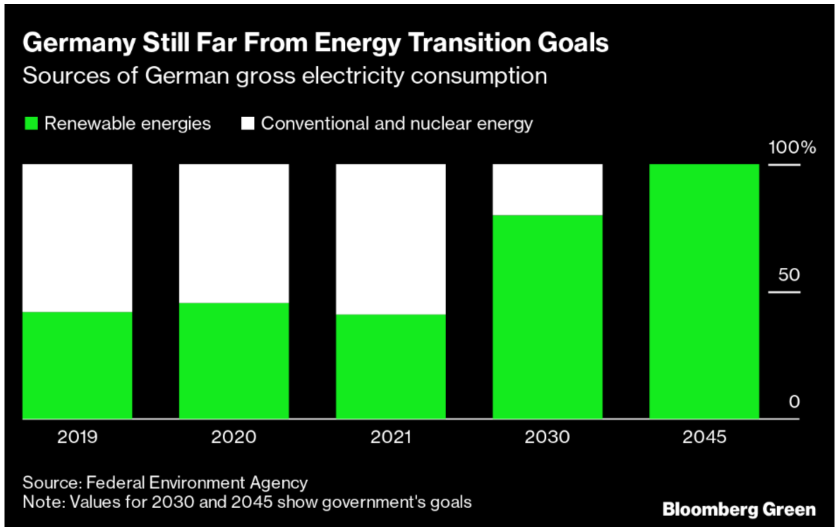
Biden administration set to start refilling oil reserve

The Energy Department will start with an initial request for 3 million barrels, asking companies for the barrels to be delivered in February, an official said.

It seems even the government is realizing the structural deficits across the oil market exist and are not getting any better. Western governments have begged some of their own companies, and foreign countries to increase oil production over the last few months. Those same governments are the ones to blame when it comes to supply deficits due to their heavy regulation and climate goals that have negatively impacted the energy industry over the last 10+ years.

German realities

Germany must invest $1 trillion in renewable energy to reach their 2030 energy goals. By 2030, Germany plans to use 80% of renewably sourced energy. Currently, that number is below 50% (41% in 2021). The second goal for Germany is a completely renewable electricity grid by 2045.



Germany will need to add around 250 gigawatts of new capacity by 2030 — when power demand is expected to be about a third higher than it is now.

To put the scale of the challenge in context, the required generation is enough to cover the current household demand for all 448 million people in the European Union.

Germany has already ruled out coal and nuclear energy as solutions and plans to install solar and wind facilities. They will also add numerous gas plants that will eventually be able to run on hydrogen.

The transition will require the installation of solar panels encompassing the equivalent of 43 soccer fields and 1,600 heat pumps every day. It also needs 27 new onshore and four offshore wind plants to be built per week, according to a wish list presented by Chancellor Olaf Scholz. The plan is detailed and will present an uphill battle for Germany especially as they shut down nuclear facilities and accelerate their exit from coal.

Although these plans might be unreachable, we think Germany will continue to commit to green energy (even if it hurts their grid and population). The government will pour billions into this plan and is counting on private business support to help them get where they want to be. The plan will require a massive amount of steel, and rare earth metals that will be provided by private businesses.

We understand the challenges that green energy presents but, we do think the commitments made by western nations are serious and believe there is an opportunity in equity markets where investors can profit from those commitments. We think the safest bet remains in green energy commodities and the underlying inputs. Why bet on one company when you can bet on what every company (and government) will need? This trade will come with risk as most commodities are quite volatile.

For now, continue to watch what governments do.

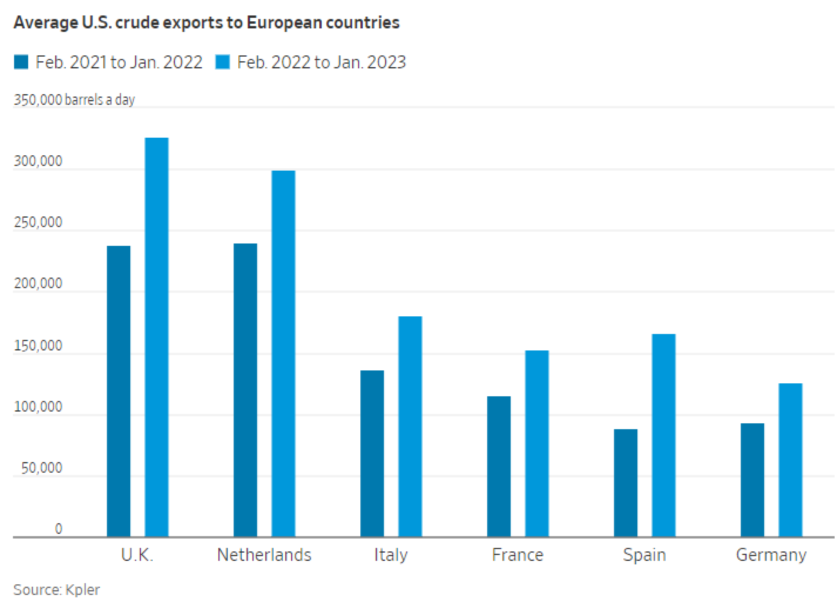
Europe leans on North America

The war in Ukraine has negatively impacted both Ukrainian and Russian populations. It has also impacted global markets. Europe has been highly dependent on Russian energy for years. Few people have pointed out the issues with this and most European leaders have completely ignored it. When Russia invaded Ukraine and western nations announced an exit or a reduction in trade with Russia, energy prices surged around the world (and even more in Europe).

Energy prices were already sky-high in Europe even before Russia invaded Ukraine. Europe is home to the highest carbon taxes in the world.

Many wondered how quickly Europe would pivot from Russian energy to North American or Middle Eastern energy.

Most major European nations have increased their oil imports from the U.S. over the last year. A move that will go a long way in securing energy from a major ally rather than an enemy.



The UK led the way increasing their U.S. imports by 37% to 326,000 barrels a day. Spain increased their imports from the U.S. by 89% over the last year.

Although imports from Russia have slowed across Europe, they cannot eliminate their dependence on Russia as no affordable replacement currently exists.

We expect Germany and other European nations to continue to scale back on Russian imports but not eliminate them going forward.

Elon does it again

Although arbitrary, the world's richest list is always something interesting to watch. Bezos and Musk have dominated the list over the last 2-3 years but were overtaken by Bernard Arnault last year. Mr. Arnault's company, LVMH was less impacted by falling stock prices than Bezos (Amazon) and Musk (Tesla).

However, as Tesla shares have surged in 2023, Musk has again emerged as the world's richest man:

Tesla shares have nearly doubled in 2023:

But are still down 40% from their April 2022 highs.

Electric vehicle stocks and higher-risk stocks have rebounded over the last 3-4 months as investors forecast the FED cutting rates sooner rather than later. Although Musk's fortune has grown, it would arguably be much higher without his purchase of Twitter. However, if he can make Twitter profitable, his purchase could eventually become a great investment that made him much more diversified.

Sportsbooks potential record-breaking quarter

Consumers have flooded online sports books over the last year or so. As countries, states, and provinces legalize sports betting it seems more and more people are betting on sports. Consumers are taking advantage of sign-up bonuses and are betting on games even if they are not huge sports fans. It has arguably increased viewership across sports and leagues are embracing it. If you do not believe us, watch an NHL or NBA game on ESPN, TNT, or TSN (Canada) and tell us how many sportsbooks you see advertised.

Numerous sportsbooks went public via SPAC's over the last few years. They went public at high valuations that we would never touch. However, as their stock prices have retreated, the market is seemingly expanding. A special purpose acquisition company (SPAC) is a publicly traded company created for the purpose of acquiring or merging with an existing company.

Super Bowl parties were littered with bets. From anytime touchdown props to what the color of Gatorade poured on the winning coach. Everyone wants in on the action.

ESPN estimated that 50.4 million Americans bet on the Super Bowl, betting approximately $16 billion in one day. This doubled the 2022 total for the Super Bowl.

Numerous sportsbooks beat earnings estimates for the fourth quarter of 2022 and the first quarter of 2023 could be even better. First-quarter earnings will include the Super Bowl, and the NCAA Tournament (March Madness).

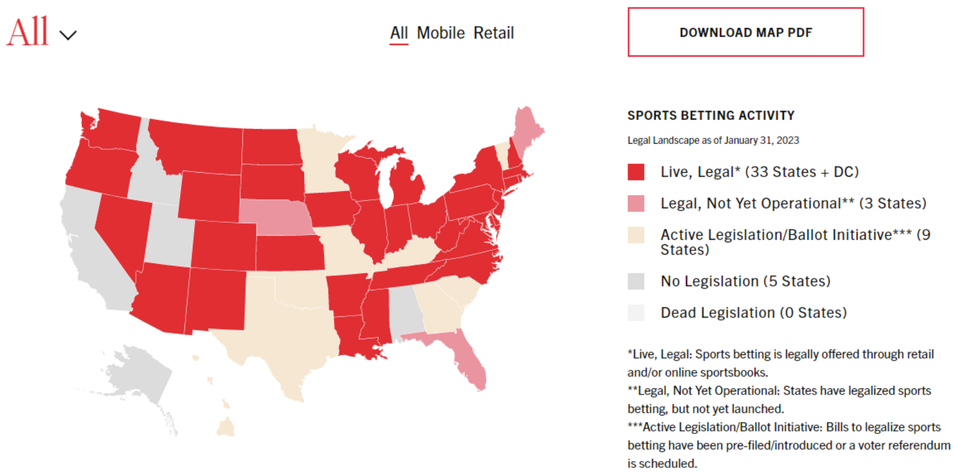
Sportsbooks and news outlets have long reported that March Madness draws in more betting than the Super Bowl. It potentially could be another record-setting event for sportsbooks.

Wall Street analysts are expecting both earnings and revenue to jump year over year for the first quarter. However, many sportsbooks remain unprofitable increasing risk to investors.

There will be growth within this industry but choosing the right time and right company to invest in will be extremely important.

Revenues will only increase for sportsbooks as sports betting is legalized in more and more jurisdictions.

Sports betting is currently legal in 33 states:



This will be a story we continue to watch. We will continue to follow the numbers to see if more sportsbooks can become profitable even while they scale.

Party like its 2007

The U.S. 1 year treasury note is yielding above 5% for the first time since 2007.

Will investors seek treasury bills in the short term to combat uncertainty across equity markets? We are not sure, but we think some are considering it. The issue with diving into treasury bills is the yield is still below the U.S. CPI. This creates a negative real return for investors.

Some investors are still seeking this option due to the S&P 500 earnings yield being approximately 5.6% (Morgan Stanley). The spread between equity markets earnings yield and U.S. treasury bills is razor thin and if it turns negative it would imply that risk-free assets would generate superior returns in the short term. We are not saying to sell your stocks but think investors should know what they own. We also think investors who own the index could struggle moving forward, especially if yields remain elevated.

The earnings yield (the inverse of the P/E ratio) shows the percentage of a company's earnings per share.

Another auto maker secures inputs

A few weeks ago, General Motors announced a deal with Lithium Americas that would help secure GM vital inputs for its electric vehicles. (We reported on this in the February 3rd edition of *The Weekly Beacon*, click here to read that edition.)

GM will make a $650 million equity investment in Lithium Americas to help develop the second phase of Thacker Pass, a major lithium deposit in Nevada. Every automaker realizes they cannot meet demand expectations if they lack the inputs to produce cars moving forward. Securing inputs will be an ongoing issue across the industry.

The one major advantage Elon Musk has highlighted that favors Tesla over other electric vehicle producers is its deals to secure inputs moving forward with reliable and consistent producers.

This week, Tesla announced another deal to secure inputs for electric vehicle production. Tesla signed a $2.9 billion deal with L&F, a Korean maker of materials for batteries. The component that L&F provides is a battery cathode, the positively charged side of a battery. This side of the battery is made of lithium, cobalt, nickel, iron, and other metals.

This is another signal to investors that even the largest companies are worrying about securing supply moving forward. As more people buy electric vehicles, lithium, cobalt, and rare earth metals will increase in demand.

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