

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.



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ASSET MANAGEMENT

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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.



Koh Rong Samloen Lighthouse, Sihanoukville, Cambodia

Located in a popular hiking spot for tourists visiting Koh Rong Sanloem. This lighthouse and the walk to it is known for its viewpoints offering beautiful views of the coast of the Gulf of Thailand.



Bengtskär Lighthouse, Finland

Bengtskär Lighthouse is located in the Archipelago Sea about 25 kilometers southwest of Hanko, Finland. The lighthouse was built in 1906 on the Bengtskär skerry where it rises 52 meters above sea level and is the highest one in the Nordic countries.

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

Electric vehicle producers struggling

Who would have thought that investment bankers and EV producers would miss guide investors?

Fisker reported earnings this past Tuesday and their results were quite disappointing. Regulatory issues and production misses highlighted the quarter. The company had sales of less than \$1 million during Q1 while Wall Street estimated sales would exceed \$5 million. Perhaps the bigger issue came with the company's forecast for production. Production has been pushed out even more and the number of deliveries that will be made in 2023 has shrunk yet again, this time from 42,000-43,000 deliveries in 2023 to 32,000-36,000 for the year. Second-quarter production numbers were also cut. Fisker expects to produce 1,500 vehicles during the quarter.

Fisker's CEO blamed the regulation for the company's recent production misses. Fisker has been working for months to get their vehicles onside with regulators. This has meant Fisker has delayed its production on multiple occasions.

Sales in the U.S. are expected to begin in June. As Fisker cut its forecast, investors seem nervous about the company's ability to deliver. Going from producing less than 2,000 vehicles per quarter to 20,000 is extremely aggressive within one calendar year, but something that Fisker is seemingly confident in that they can accomplish.

Fisker stock was down 13% when the market opened on Tuesday, although it regained some of its losses to end the day.

Fisker was not the only EV producer to report poor numbers this week. Lucid Motors reported revenue and earnings that missed analyst expectations. They missed revenue estimates by 27% and lost more money than expected. The major deterrent for Lucid was decreasing sale prices. As Tesla has led the industry in slashing prices, competitors have been forced to do the same. Lucid's average sales rang in at \$106,000 during the first quarter versus \$133,000 during the fourth quarter of 2022. (Lucid Motors are targeting the luxury market so their prices are higher than competitors).

Management forecasts also caused some worry for investors as the company projects to deliver 10,000-14,000 vehicles during 2023, down from February's forecast which was 20,000-22,000 deliveries.

Perhaps the worst part of Lucid's first quarter earnings release came on their balance sheet. Lucid's cash on hand decreased by \$1 billion during the first quarter, leaving the company with \$3.4 billion. Even though some companies spend much more, they make much more. Lucid was forecasted to only use \$3 billion in cash through all of 2023 sparking speculation that they will require capital sooner than expected. Wall Street analysts expect Lucid to continue to burn through cash until 2026. Lucid Motors used \$3.9 billion in cash in 2022.

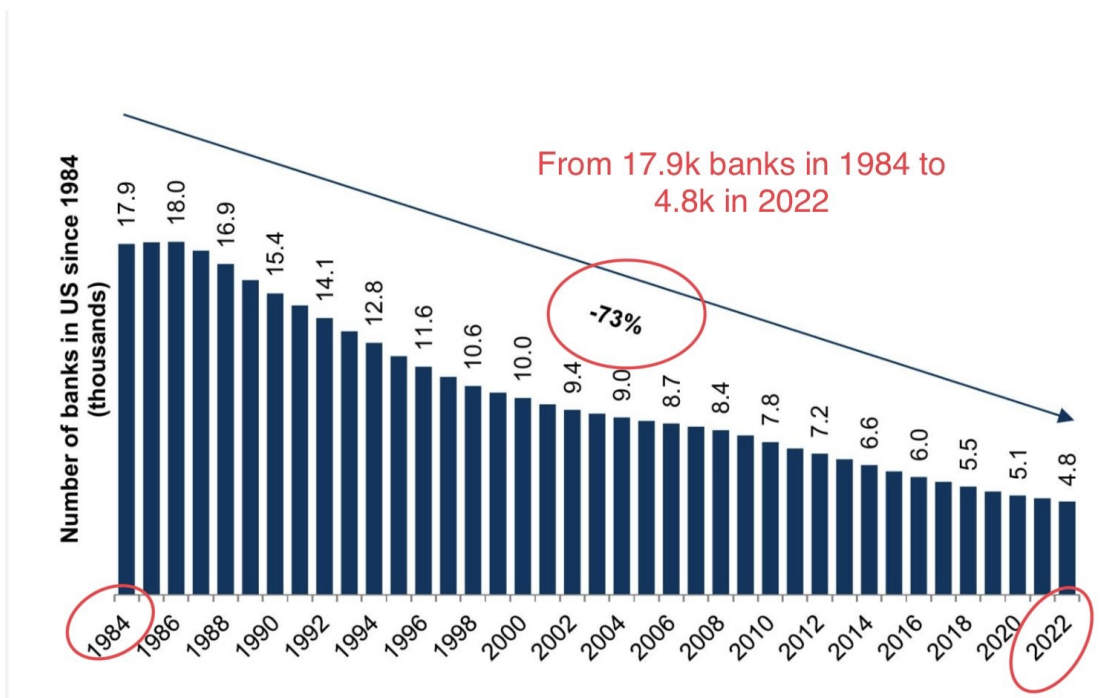
Shareholders will continue to get diluted as Lucid Motors ramp up production which will require much more capital. Even though this company could be an industry leader in the automobile sector in 5-10 years, there will more than likely be better times to buy the stock. The high price tag for their models will continue to decrease consumer demand in 2023. Consumers are running tighter budgets due to

what has happened across the economy over the last 15-16 months, a pricey, and flashy EV purchase might get pushed down the road.

Lucid Motors shares are down 58% over the last 12 months.

Consolidation

The banking sector has become very consolidated in recent years. Larger banks have beefed up their customer base, deposit base, and assets by buying distressed assets, or smaller banks. This has caused the number of banks in the U.S. to collapse by almost 75% over the last 40 years.



Note: all FDIC-regulated banks

Source: FDIC, Goldman Sachs Global Investment Research

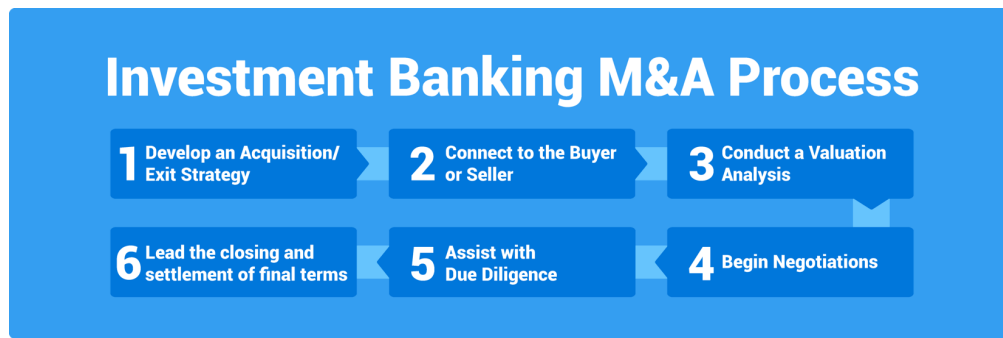
For those who know the Canadian banking industry, you know it is even more consolidated. The Canadian banking industry essentially operates like an oligopoly with very few players dominating the entire sector.

The consolidation that the U.S. banking system may accelerate moving forward. The recent banking crisis amongst regional banks could result in the FDIC assisting larger banks in purchasing or acquiring smaller banks. This gives consumers and investors fewer options. The one major plus for the U.S. banking system versus the Canadian banking system was more options for consumers. Consumers had way more access to regional banks that only operated in their geographical area or small credit unions.

Flashback 20-30 years and banking was a local business. Everyone knew their banker and relationships mattered. Fast forward to today and as banks have scaled and competition has decreased, everything is automated with little to no human interaction. Consumers can retrieve large lines of credit without even talking to someone who works at a bank.

This consolidation confirms what we have known for years, our economies are becoming more and more monopolistic. The consolidation across the industry has also made the big banks too big to fail which has resulted in governments bailing out banks who have poorly managed their companies.

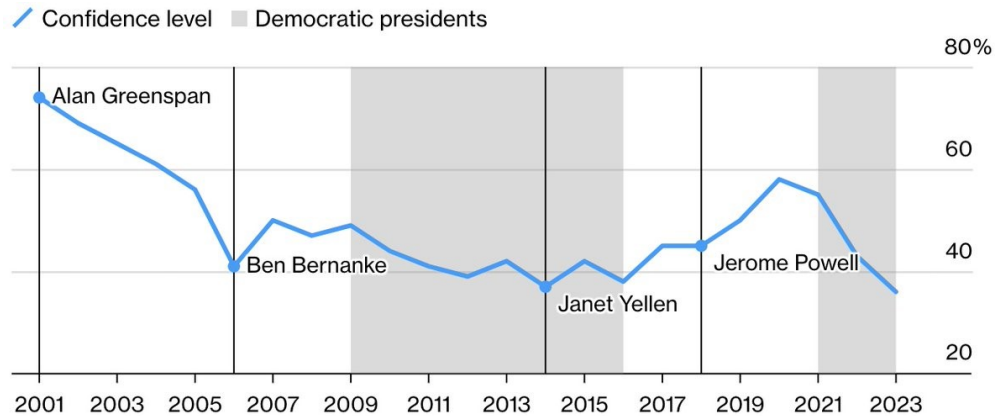
The biggest winners in this consolidation trend that has occurred over the last 40 years have been M&A advisory firms and investment bankers. As transaction activity has sped up and larger banks have bought up smaller banks, investment bankers were tasked with valuing the transaction, and rewarded with their nice 6% incentive fee.



No confidence in the FOMC

Consumer confidence has plummeted over the last 16-18 months, as inflation soared, interest rates were hiked, layoffs increased, and markets tanked, consumers have become very bearish in their view of the global economy.

Confidence levels for the FED Chairman Jerome Powell have followed a similar trend as the Chairman has led the FED in hiking interest rates at the fastest rate ever. He has hiked interest rates to combat sky-high inflation. Consumer confidence in the FED leader is at its lowest point ever, according to the Gallup poll:



Source: Gallup

Just 36% of respondents to a Gallup poll taken last month said they had either a "great deal" or "fair amount" of confidence in Powell.

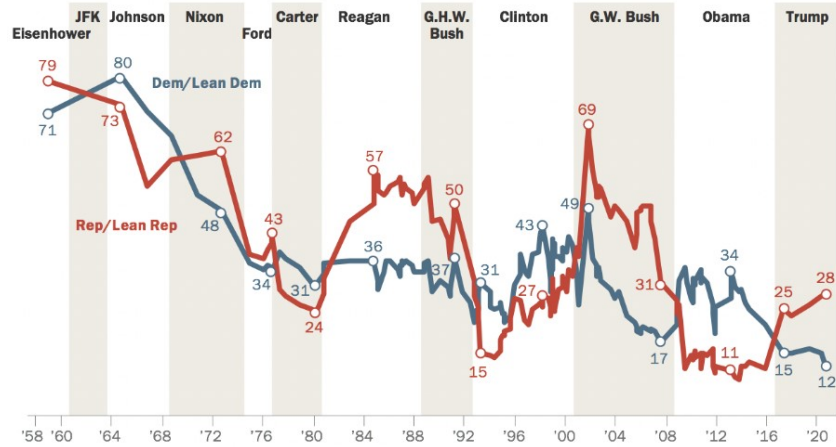
Powell's low approval rating is even lower than the FED's approval rating during the Financial Crisis. Today's society is mad at markets dipping 15-20%, and unprofitable tech stocks going belly up. Consumers in 08-09 were mad at surging foreclosures, high unemployment, and the government choosing to bail banks out while ignoring them. Our society has truly become reliant on instant gratification.

Consumers are also quite disapproving of other economic leaders in the U.S. Secretary Yellen's approval rating has dropped to 37% from 54% in 2021 and President Biden's economic leadership has dipped to 35% to the lowest level of his presidency.

Even though we think these polls are very telling, they could also be a further representation of the decay in confidence for Americans in their government. Supporters of both parties have seemingly lost more and more faith over time in the governments they support and oppose over the last 50+ years. In the mid-1960s, 73% of Republicans trusted the Johnson government (Democrat) versus in 2020 when only 12% of Democrats trusted the Trump administration.

Republicans' trust in the federal government has increased since the beginning of Trump's term in office

% who say they trust the federal government to do what is right just about always/most of the time



Note: From 1976-2020 the trend line represents a three-survey moving average within each administration.
Source: Survey of U.S. adults conducted July 27-Aug. 2, 2020.
Trend sources: Pew Research Center's American Trends Panel (2020), Pew Research Center phone surveys (2019 and earlier), National Election Studies, Gallup, ABC/Washington Post, CBS/New York Times, and CNN polls.

PEW RESEARCH CENTER

April inflation

Inflation data for April came in lighter than what many expected. The CPI came in at 4.9% versus the consensus estimates of 5.0%.

← Economic Event 🔔 🔄

United States Consumer Price Index (CPI) YoY

↓	4.9% Actual:	5.0% Forecast:	5.0% Previous:
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Importance: ▼▼▼
Currency: USD
Country: 🇺🇸 United States
Release Date: May 10, 2023 15:30
Source Of Report: [U.S Bureau of Labor Statistics - Department of Labor](#)

The Consumer Price Index (CPI) measures the change in the price of goods and services from the perspective of the consumer. It is a key way to measure changes in... [Show more](#)

History



This is the lowest the CPI has been since April 2021. However, even though the CPI has retreated in terms of its magnitude. Prices are still increasing at 5% a year which is historically high. We are not saying we want deflation; we are simply stating that prices are still increasing at a high rate and it could take years for the CPI to return to 2%.

With inflation slowing, many investors believe this could be a sign the FED needed to pause their rate hikes. The FED just raised their benchmark interest rate by 0.25% at their meetings last week on May 2nd and 3rd.

April's CPI was the 10th straight month in which the underlying inflation rate had decreased. The CPI peaked during this cycle in June at 9.1%.

Energy prices have helped drive that decline. Fuel oil has decreased by 20.2% year over year, gasoline has decreased by 12.2%, and gas utilities have decreased by 2.1%.

Food, shelter, and transportation are still increasing in price over the last year. Food at home increased 7.1% year over year while food away from home increased 8.6%, shelter increased 8.6% year over year, and transportation prices increased 11% over the last year. The rotation from goods to services continues to unfold in front of our eyes.

Our thesis of consumers focusing on services and experiences this summer was further confirmed this week when Air Canada revised its earnings outlook for the rest of the year. This is the first positive revision Air Canada has released since the pandemic began over 3 years ago.

The positive earnings revision sent Air Canada's stock price surging:



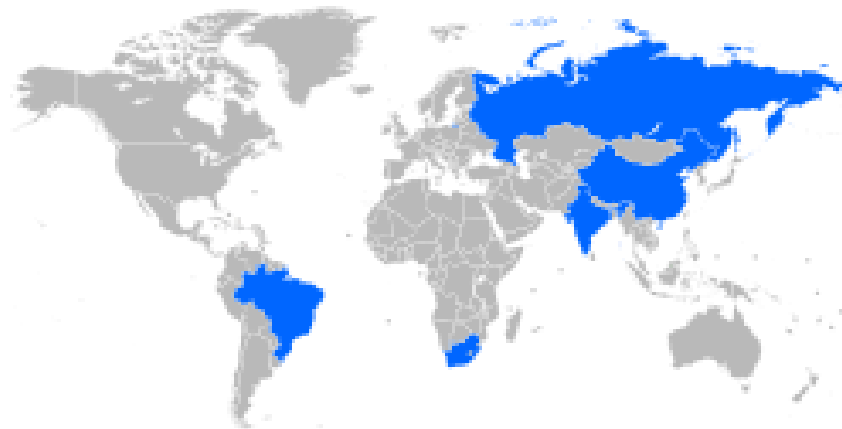
12% might not seem like much but Air Canada's stock has traded within a slim range since April 2021 and this jump could potentially be the start to something.

Getting back to Air Canada's forecast revision, management announced that they expect higher EBITDA, increased traffic, and lower costs in the short term. The announcement boosted its adjusted EBITDA by \$1 billion from \$2.75 billion at the midpoint of its guidance to \$3.75 billion. In 2022, its full-year adjusted EBITDA was \$1.46 billion.

Air Canada is trading at 5x EBITDA and approximately 2x 2023 EBITDA. Over the past five years, Air Canada has traded at an average above 14x EBITDA, pre Covid-19 it was trading at 11.9x EBITDA. We know the airline industry was hit very hard during the pandemic, forcing companies to add on leverage to continue operations but they are trading at historically low levels and are worth a deeper look.

Growing divide

BRICS is an acronym for a group of fast-growing countries, and that collectively want to dominate the global economy by 2050. Brazil, Russia, India, China, and South Africa form the BRICS alliance which has turned into an intergovernmental organization. The group of countries has turned into a cohesive geopolitical bloc that is highly dependent on each other. However, the alliance is non-interference and is based on mutual economic benefit.



The countries in the organization combine for 26.7% of the world's land surface, and 41.5% of the global population.

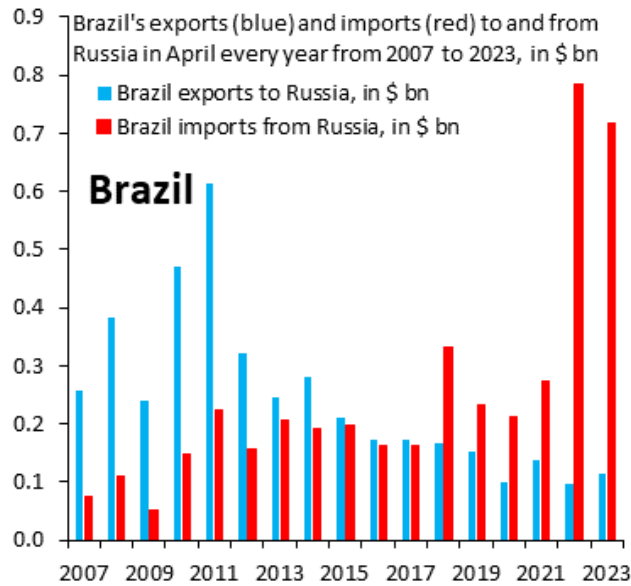
On top of the nations in BRICS, 19 countries have either applied for membership in the group or expressed interest in joining the group. Amongst the countries expressing interest are the United Arab Emirates, Algeria, Uruguay, Egypt, Turkey, Mexico, Argentina, Saudi Arabia, Iran, and many more. BRICS might become a larger more encompassing OPEC+ cartel fueled by the assistance of China.

The invasion of Ukraine has further separated BRICS countries from Western nations. BRICS countries placed no economic or diplomatic sanctions on Russia while Western nations have. Historically, BRICS nations have been quite dependent on developed nations in the West for trade and assistance. Now these BRICS nations can depend on each other allowing them to avoid being strongarmed by the West.

(We are not supporting Russia’s invasion of Ukraine, simply explaining why BRICS is a thing and why those countries have refused to place economic sanctions on Russia.)

The void that Russia has been left with from Western economic sanctions has been filled by its BRICS counterparts which include Brazil and India.

Brazil has vastly increased its imports from Russia in the last 2 years. Brazil is purchasing billions in fertilizers from Russia for its agriculture sector and exporting those finished products to China. China was Brazil’s largest buyer in 2022. Food and agricultural goods make up a significant portion of their total output and total exports.

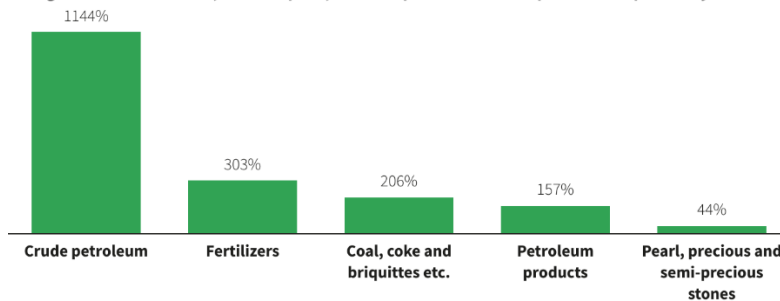


Brazil was not the only country to increase trade with Russia since they invaded Ukraine. India has essentially filled the European void in the energy market. They have scooped up oil, gas, and coal at a discount over the last year.

India's imports from Russia rise

Imports of top five principal commodities have surged since the war as sanctions-hit Russia offered deep discounts to India on key commodities, especially fuel.

Change in trade from Feb 24, 2022 to April 5, 2023 compared to the same period in the previous year



Source: Reuters reporting | Reuters, May 4, 2023 | By Kripa Jayaram and Aftab Ahmed

Since Russia invaded Ukraine on Feb. 24th last year, India's imports from Russia have risen to \$51.3 billion until April 5th, from \$10.6 billion in the same period in the previous year.

Varying prices

Have you ever wondered about the price of your morning coffee in another country?

Here it is:

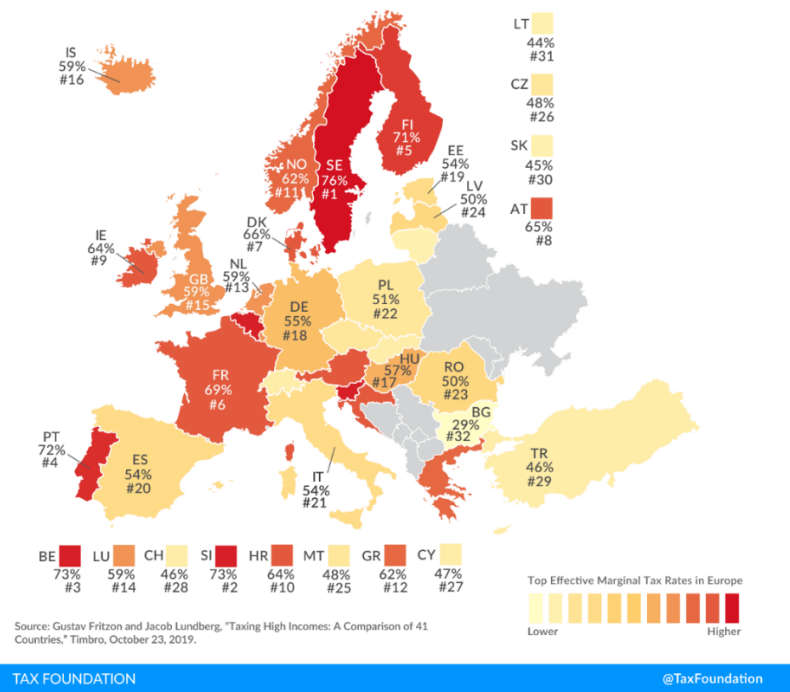


The price of coffee correlates slightly with economic prosperity amongst this group of countries.

Turkey, Brazil, Egypt, and Columbia are emerging or developing economies and have the cheapest Starbucks coffees (on this list) and countries with the most expensive coffees are amongst the richest in the world (and on this list). However, countries at the top of the list are also home to some of the highest tax rates.

Here are the tax rates across Europe. Check the correlation between the price of coffee above and the top marginal tax rate below.

Top Effective Marginal Tax Rates in Europe

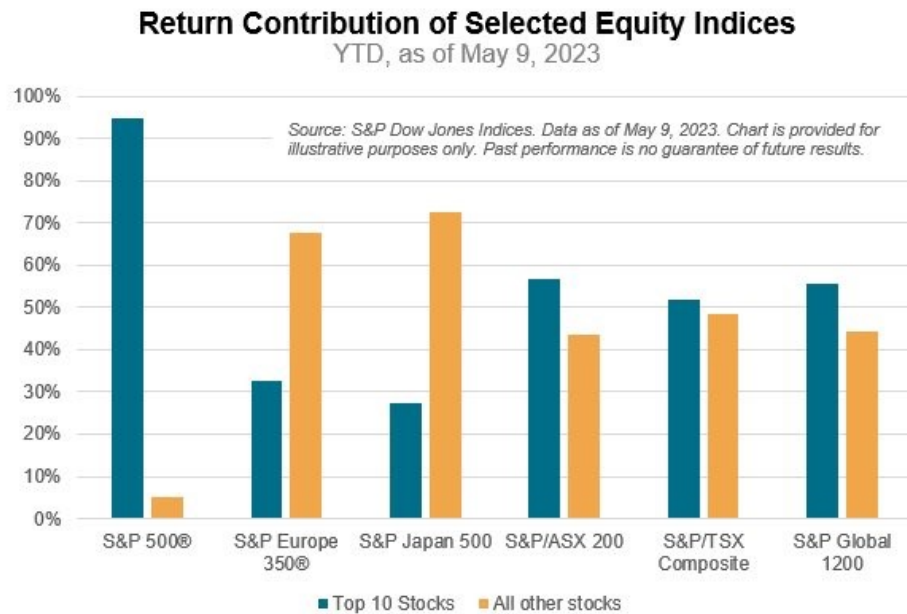


Many nations across Europe with high tax rates have free health care, and social security guarantees.

American Monopoly

Mega caps have led the way for U.S. equity markets in 2023. Apple, Amazon, Alphabet, Microsoft, and other mega caps have rebounded quite nicely in 2023 and are the only reason indices are positive on the year.

The same cannot be said (at least to the same extent) for other countries and their largest companies:



MacNicol & Associates Asset Management
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