THE WEEKLY BEACON **MAY 26, 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.

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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.

Baring Head Lighthouse,

Baring Head, North Island, New Zealand

The Baring Head Lighthouse was originally constructed in 1935 and was automated in 1989. The Lighthouse stands at 40 feet tall and its range is 10 nautical miles.

Cuvier Island Lighthouse,

Cuvier Island, New Zealand

Cuvier Island Lighthouse was originally constructed in 1889. It is currently owned and operated by Maritime New Zealand and was fully automated in 1982. The current power source is solar energy.

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

Domestic chip-making gets a boost

Apple and semiconductor manufacturer Broadcom secured a multi-billion-dollar deal to help secure Apple domestic-made chips. The deal which was announced this past Tuesday, secures Apple 5G radio frequency components and wireless chips. The deal which benefits both companies secures Apple a domestic supply of these chips through Broadcom's manufacturing facility in Fort Collins, Colorado.

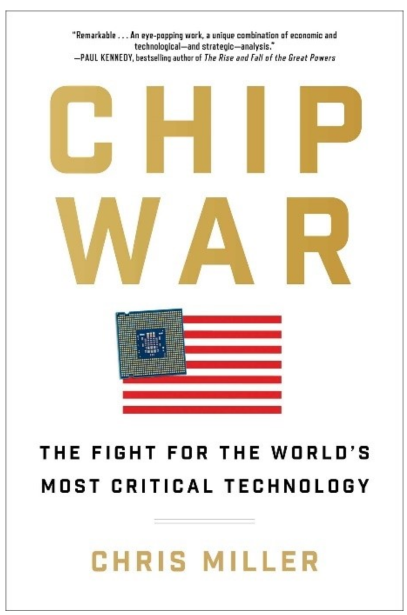
Apple announced that this deal was a part of their 2021 commitment to invest $430 billion in the U.S. economy over the next 5 years. Apple also announced it was on pace to reach its U.S. investment goal through its purchase of American suppliers, investments in data centers, and its recent capital investments across the U.S.

This is not the first big agreement between Broadcom and Apple. In 2020, Broadcom announced a deal that would supply Apple with wireless components worth approximately $15 billion.

After this week's deal announcement, Apple announced that they believe this deal will help Broadcom invest more in their domestic production sites. Apple reportedly supports 1,100 jobs already at Broadcom's facility in Colorado.

Both Broadcom and Apple shares rose over 1% on Tuesday after this deal's announcement.

This move by Apple is yet another move by a technology company to secure domestic (or Western) production of semiconductor chips.



Semiconductors are arguably the most important piece of technology to Western nations and their enemies. Semiconductors are critical components found in most modern electronics including smartphones, laptops, automobiles, medical devices, gaming systems, appliances, and many more. If you want to learn more, take the time to read *Chip War* by Chris Miller to learn more about the trade war for semiconductors between the West (U.S.) and the East (China).


Biden's semiconductor push has states jockeying for billions in federal cash with dreams of the next manufacturing boom


◆ WSJ NEWS EXCLUSIVE | TECH

Trump and Chip Makers Including Intel Seek Semiconductor Self-Sufficiency

Pentagon says coronavirus pandemic underscores vulnerability from reliance on Asian factories

By Asa Fitch Follow , Kate O'Keeffe Follow and Bob Davis Follow

Updated May 11, 2020 11:19 am ET

The issue is so pertinent that both U.S. political parties agree on this being a major issue moving forward. They also both agree that the best way to solve this crisis is domestic production. How many major issues do Trump and Biden agree on? Not many. So, when they do agree on something, make sure to follow along closely.

Semiconductor chips are vital pieces of technology that are essential today and will be essential tomorrow.

<u>Down to the last week</u>

The U.S. Federal government will run out of money on June 1st if the Debt Ceiling is not raised. We know we have mentioned this in the past few issues of this publication, and you are probably tired of hearing about it, but it deserves your attention, and some information changed this week in regards to inking a deal.

As you know, both Democrats and Republicans will have to agree on a deal that will allow the debt limit to be raised which will allow the government to continue operations. That is because the Senate and White House are controlled by Democrats and the U.S. House of Representatives is controlled by Republicans.

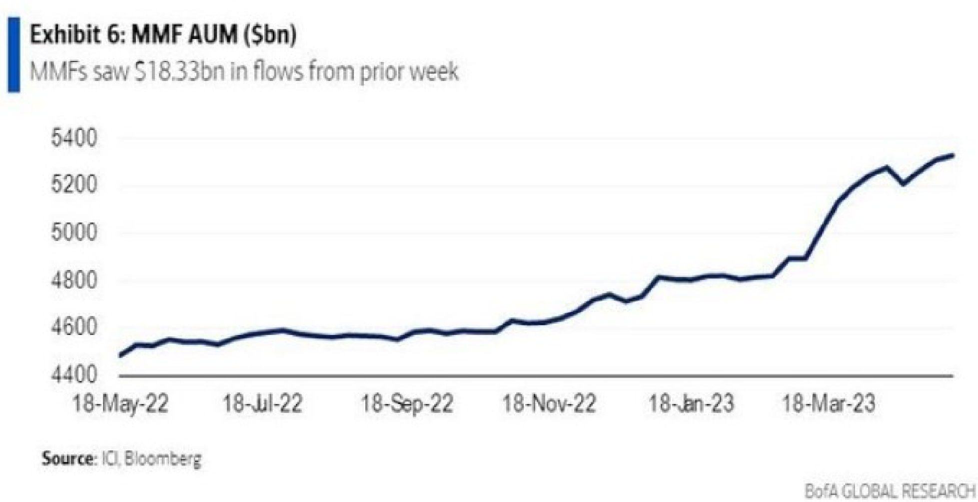
Just two weeks ago optimism had arisen that Speaker McCarthy (R-CA) and senior Democrats including President Biden were closing in on a deal that would avoid a default. Last week it was leaked that negotiations broke down and a standstill had been reached. We think it's more likely a deal is agreed upon but believe a short-term default is possible especially if Republicans cannot get their way.

So, what will happen to markets and the global economy if the U.S. default? We cannot forecast that, but things could get messy. Debt servicing fees, debt repayments, and social security payments will be halted which will impact everything from retirees to investors.

Congress has suspended the debt limit eight times since 2016.

The other thing to look forward to is what will happen when the debt ceiling is raised. The Treasury will more than likely unleash the printers and begin Treasury bill issuance. So, who will buy these Treasuries? Analysts expect a whopping $1.4 trillion in Treasury bills to be issued by the end of 2023 when the debt ceiling is raised, $1 trillion of which could come before the end of August. This 3-month surge will be approximately 5x the supply of an average three-month period pre Covid-19.

Many believe money market funds will be amongst the biggest buyers of these new Treasury bill issuances.

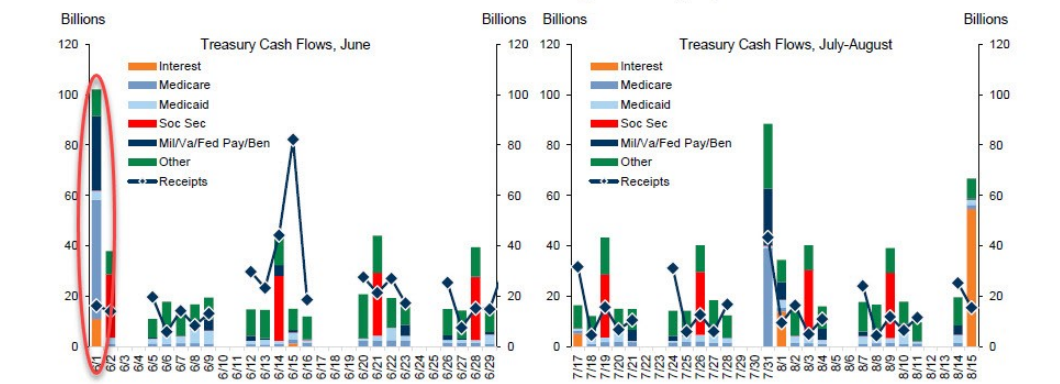


Money market funds have surged in popularity recently as yields have risen and consumers have pulled their deposits from regional banks after the collapse of Silicon Valley Bank.

However, analysts have begun to question at which price investors will buy these Treasuries.

The exact day on which the federal government will default is still up in the air as cash burn rates vary across analyst forecasts. Cash balances at the Treasury Department have dwindled to less than $100 billion, according to economists at Jefferies. Barclays strategists estimate its cash balance may fall below $50 billion between June 5-15. June 1st is the first date that many look to as the Treasury has approximately $80 billion in net outflows that day:

Exhibit 3: A Debt Limit Deadline of June 8 or 9 Would Affect a Narrower Range of Treasury Payments

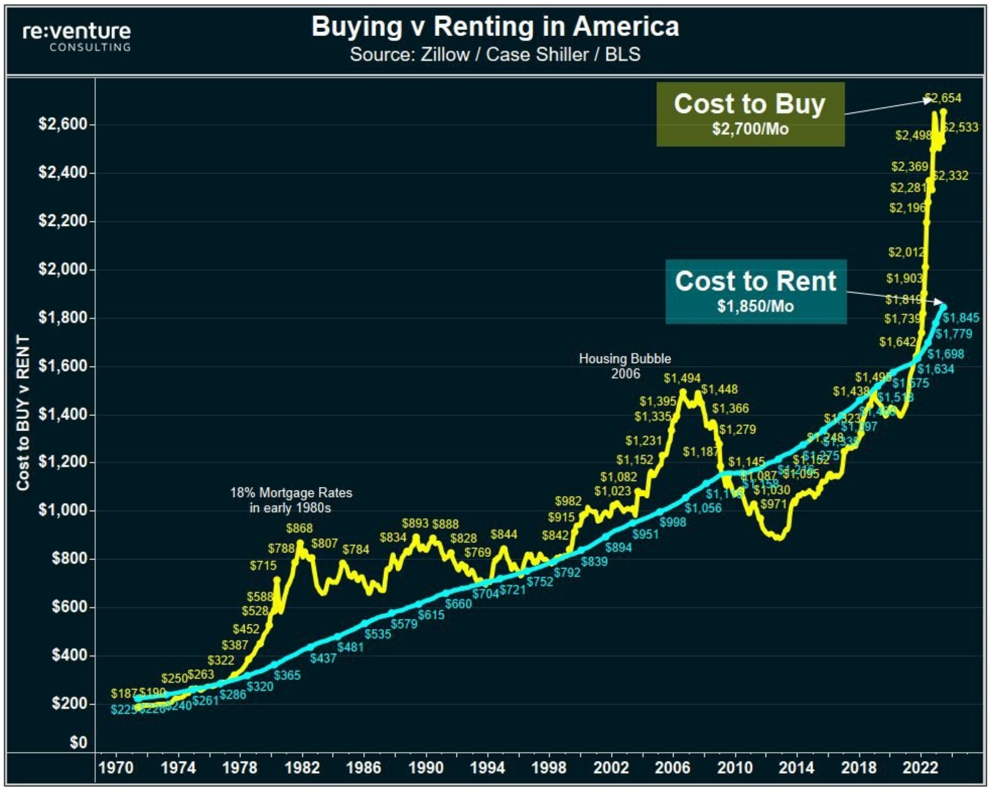


Source: Treasury, Goldman Sachs Global Investment Research

Consumers could be short billions as approximately $20 billion in social security payments are on June 2nd.

To buy or rent

Buying a house has become as expensive as ever in the U.S. (even more so in Canada). It now reportedly costs 46% more to buy a home than to rent a home.



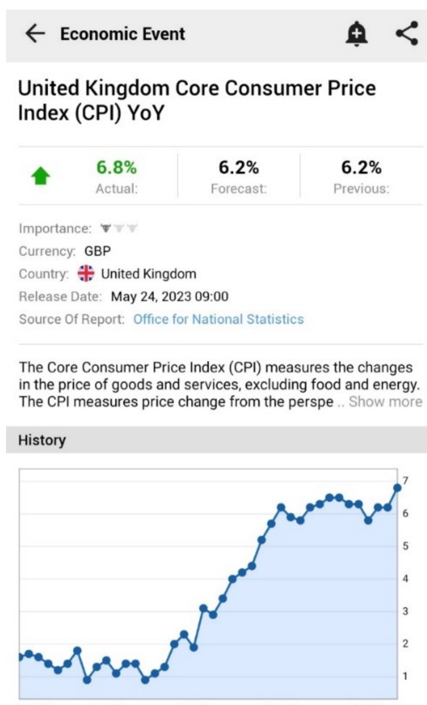
This is the largest premium homeowners have paid since the height of the housing bubble in 2007/2008. In absolute dollar terms when comparing buying to renting, buying is at its highest premium over the last 50 years. The chart above does not include the average down payments made to purchase a home.

It's no surprise that the housing component of the CPI continues to move higher. The structural difference between housing supply and demand continues to accelerate. That problem is even worse north of the border.

According to UBS, Canada is home to two of the cities with the largest risk of a housing bubble.

Core inflation flexes its muscles

On Wednesday morning, the UK released its latest inflation numbers and wow did one number stick out? Core inflation jumped 6.8% year over year versus a consensus estimate of 6.2%. Just as inflation began to cool, we have seen a resurgence in inflation numbers across Europe.



This is the largest increase on record for the UK. Core inflation strips out energy and food which tend to be more volatile items in the CPI calculation.

Will this inflation resurgence navigate across the pond to us - a second wave of inflation this summer?

The underlying CPI in the UK rang in at 8.7% which was well above the forecasted 8.3%. Even though the number beat estimates it was well below the previous month's inflation rate which was 10.1%. April's CPI rate was the lowest since March 2022 in the UK. It appears inflation remains quite "sticky" and Central Banks may have more difficulty than they thought in bringing it down.

<u>Who is going Nuclear?</u>

Its no secret that society's consumption of energy has increased as the world has developed. Moving forward it is simple to assume global energy consumption will increase as the world attempts to lift billions of people out of poverty. To summarize, energy consumption and economic development are directly correlated.
We also expect green energy use to increase as time moves forward. As green energy use increases, electricity grids across the world will begin to stretch as renewable energy sources have major shortfalls in their current form. The dependence on solar and wind energy may lead to blackouts across energy grids like what has happened in the green capital of North America, California over the last 10 years.

In September 2022:

Why California has blackouts: A look at the power grid

The state's electrical grid has been strained during a prolonged heat wave.

By Meredith Deliso
September 9, 2022, 4:02 AM

In May 2022:

California Warns of Possible Summer Blackouts as Power Runs Low

- State says energy supplies could be short through 2025
- California has struggled to keep lights on past two summers

In June 2021:

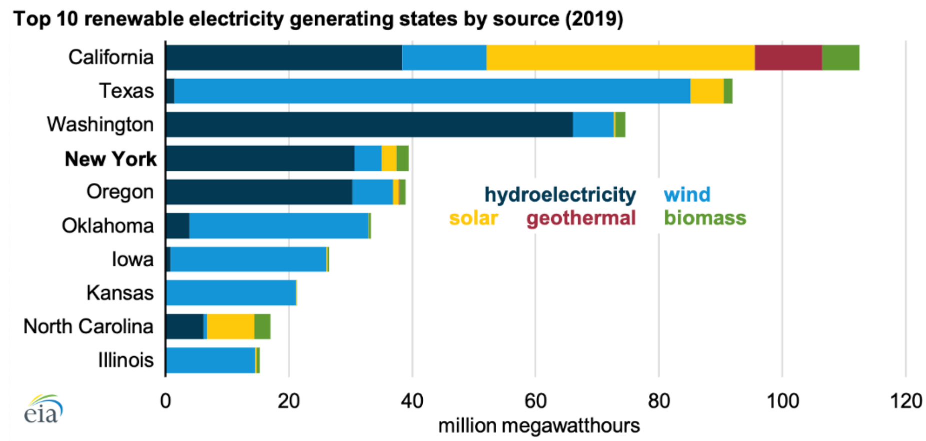
CALIFORNIA TODAY

Why Are Californians Being Asked to Turn Up the Heat?

Wednesday: An energy expert explains the stress on California's energy grid and what's likely to be ahead.

Although California's renewable energy exposure is not the only thing to blame for energy shortages and blackouts, they are a contributing factor.

California is the largest producer of renewable energy on a state level.

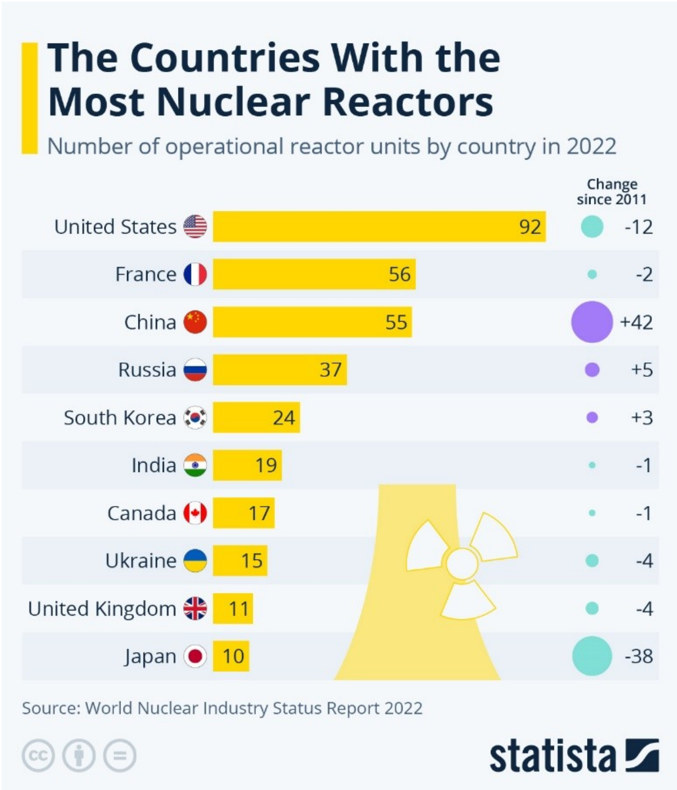


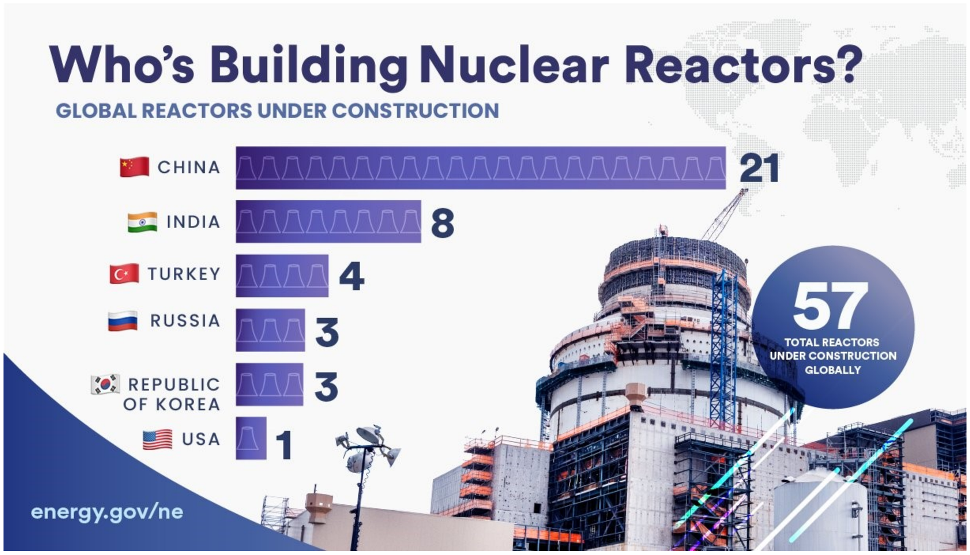
We are not denying California is a green state and will continue to lead the way in moving from fossil fuels to renewable sources of energy. We think this trend will continue. We just are realistic and know Californians are in the best place to face blackouts in the U.S. The rest of America need the power to heat or cool their homes as a necessity for most of the year. This means other states (and countries) need energy sources that can be depended on in all cases, and that will not result in the occasional blackout. We are betting on uranium and nuclear energy to be that energy source. Nuclear energy is much cleaner than fossil fuels as it burns much cleaner which appeases greenies, environmentalists, and those promoting net zero goals. Nuclear energy is also much, much more dependable than renewable sources of energy which can be very weather dependent (ie. Solar, wind).

Countries have been slow to label nuclear energy as a renewable source of energy due to the accidents that have happened involving uranium in the past and to a lesser extent, the disposal of uranium waste.

As countries change their tune on nuclear energy, raw uranium will be in higher demand which will increase the spot price of the underlying asset.

As we move forward, certain countries are positioning themselves to lead the industry and it looks like the East is leading the way. Although the West still operates the most reactors, the East is building them at a much faster pace:





It seems China and India understand that nuclear energy will be a key in tomorrow's economy, and it will be vital to reaching global and national climate goals.

Increased electricity consumption directly correlates with increased economic prosperity. Cheaper and more reliable energy can help developing/ emerging markets make the jump to developed markets. China and India have hundreds of millions of people living in poverty and know cheap energy is the solution to increase their economic standing.

Cash flows galore

Free cash flows remain hot across the energy sector even though spot prices of crude oil and natural gas have retreated.

The pullback in energy prices has pulled back energy stocks which we think has presented investors with a historic opportunity before the next leg up. Unless something catastrophic happens, we think the downside in energy markets is quite limited with spot prices having a high floor price moving forward. OPEC+ has already announced several production cuts due to the pullback in the price of oil. They seem committed more than ever to keeping oil prices elevated.

Back to the huge positive free cash flows, something that we love to see. We have always loved cash printing businesses, no matter what sector they operate in. Our thesis on energy markets on top of our love for cash flows makes us even more optimistic looking forward to this sector. After years of consolidation, bankruptcies, and cleaning up balance sheets energy producers are ready to return their juicy free cash flows and capital to shareholders through share repurchases or dividends. Do not go anywhere yet.

Consumers reject fake meat

One of the hottest IPOs in 2019 was Los Angles based producer of plant-based meat, Beyond Meat. Beyond Meat was the first plant-based meat company to go public. On the day of its IPO, Beyond Meat, was valued at $3.8 billion. The stock got a reference price of $25.00/share. Interest surged as the IPO was oversubscribed. Shares jumped on their first day of trading to $66 and eventually peaked 2 months later at $234/share.

Since then, shares have collapsed to $11.28 and Beyond Meat's value has plummeted to $725.1 million.

Why has the value of Beyond Meat cratered?

In simple terms, consumers rejected the fake meat that was being pushed at them.

Beyond Meat had partnerships with the most popular restaurants and grocery chains in the world in its early days. Beyond Meat at one time was available in Denny's, Hardee's, McDonald's Canada, Uno Pizzeria, KFC, Subway (meatballs), Dunkin Donuts (select states), Tim Hortons, and many more.

If you do not believe us when we say the hype was ridiculous for Beyond Meat and this industry back in 2019, we encourage you to timestamp your Google search.

We did, so you did not have to:

From a Business Insider Article in October 2019:

"Analysts have estimated that the market could grow to be $140 billion in the next decade."

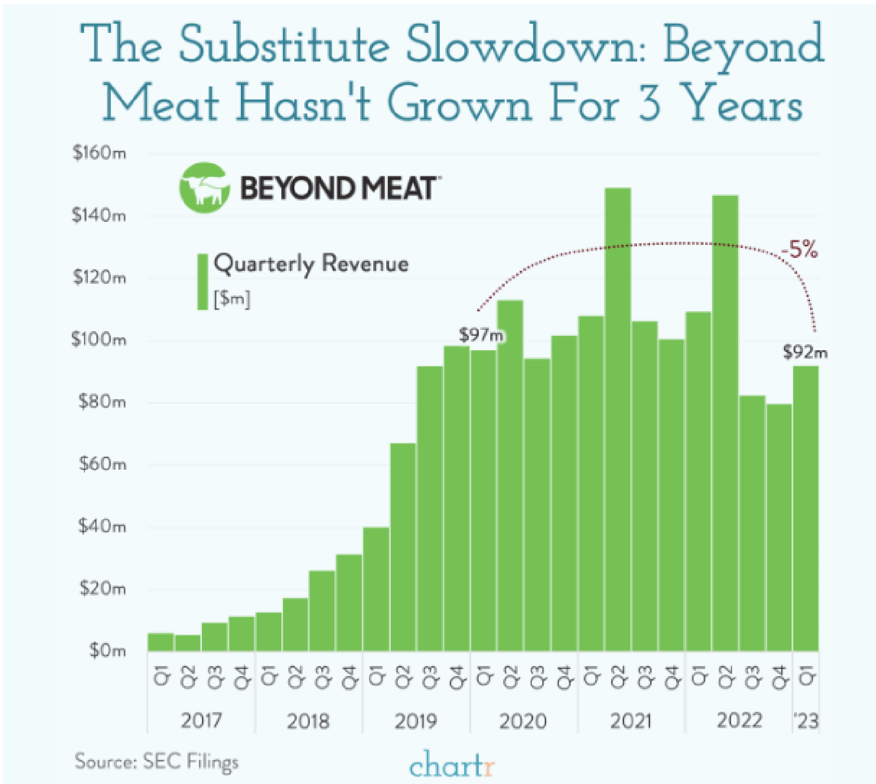
From a CNN article in July 2019:

"Beyond Meat's sales continue to soar as consumers maintain an appetite for fake meat."

From a CNBC article in May 2019:

"Given those advantages over animal-based peers, Barclays argues that "there is a bigger market opportunity for plant-based (and maybe even lab-based) protein than perhaps was argued for electric vehicles ten years ago.""

So, do the underlying numbers back up the thought that consumers have turned their back on plant-based meat? You tell us.



Sales have declined over the last 3 years for Beyond Meat. Over the same period, net losses have expanded exponentially from a $12 million loss in 2019 to a $366 million loss in 2022. Beyond Meat burned through $410 million in 2022. We mentioned earlier in this issue of *The Weekly Beacon* that we love cash cows. This looks more like an endless drain that will more than likely require a new capital raise sooner rather than later. As of March 31, 2023, Beyond Meat had $260 million in cash and $547 million in current assets.

We think investors have realized consumers are not as willing as their model suggested in 2019 to switch from normal meat to plant-based meat.

Mr. Cramer does it again

Our buddy Jim Cramer continues to make the right calls when it comes to warning investors of what not to buy.

Just a week before Home Depot’s earnings, Cramer recommended the stock to his viewers:


CNBC WATCH LIVE

MAD MONEY

Why betting on Home Depot could be a win right now, according to Jim Cramer

PUBLISHED TUE, MAY 9 2023 6:34 PM EDT

Natasha Piñon

WATCH LIVE

A week later and Home Depot had its worst revenue miss in 20 years:


CNBC WATCH LIVE

RETAIL

Home Depot posts worst revenue miss in about 20 years, lowers forecast as consumers delay big projects

PUBLISHED TUE, MAY 16 2023 6:01 AM EDT
UPDATED 10 MIN AGO

At this point his miscalls are quite impressive as he is almost perfect at miscalling things. After all, it's harder to get everything wrong than everything right.

MacNicol & Associates Asset Management
May 26, 2023