THE WEEKLY BEACON **JUNE 16, 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@macnicol.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.

Basco Lighthouse,

Basco, Basco, Batanes, Philippines

Basco Lighthouse is a lighthouse in the town of Basco in Batanes, the northernmost province in the Philippines. The place can easily be reached by a 1.2-km (3/4 mile) hike from the Port of Basco. The lighthouse stands at 20 meters tall and was constructed in 2003.

Cape Melville Lighthouse,

Balabac Island, Palawan, Philippines

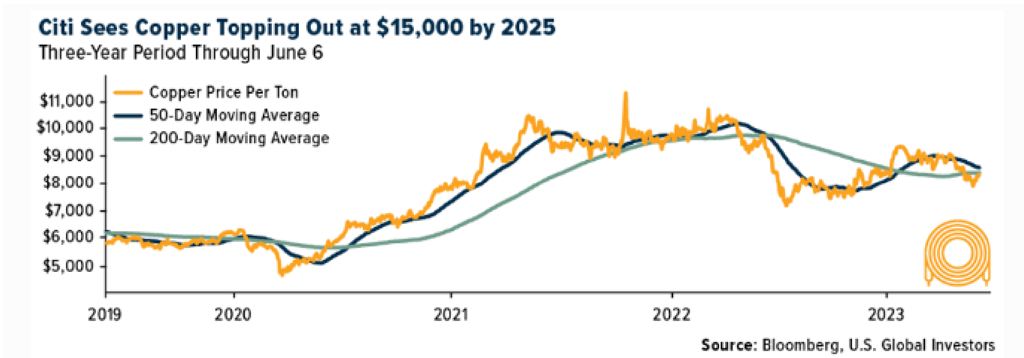
This lighthouse was originally constructed in 1892 and currently stands at 20 meters. The Spanish lighthouse is no longer in service and a white aluminum prefabricated tower with modern solar-powered light was erected near the grounds of the old tower by the Philippine Coast Guard.

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

Citi projects higher copper prices

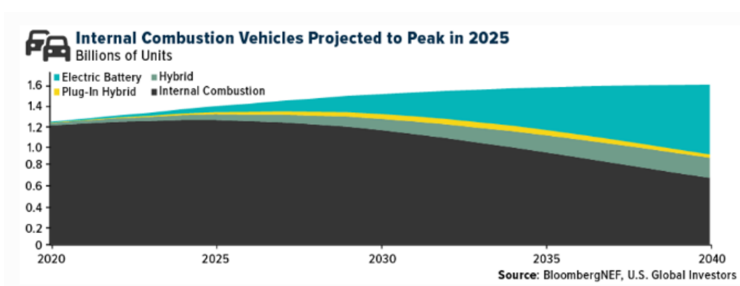
Citigroup released its latest market predictions and insights this past week, and they made one major projection that many are raising their eyebrows at. Citigroup made a forecast that copper will double in price by 2025. Copper is currently trading at $8,300/ton and they are projecting it to trade above $15,000 by 2025.

Copper prices peaked at $11,300 in October 2021.



Max Layton, Citi's managing director for commodities research, said he believes now is an ideal time for investors to buy, as the price of copper is still muted on global recession concerns. Citi highlighted that the short-term price could retreat for copper to recession fears but in the mid-term, the problems will persist in the supply side of the market as it struggles to keep up with boosted demand. The demand for EVs and renewable energy will continue to expand which will expand the demand for the industrial metal copper. EVs require almost three times the copper compared to traditional combustion engine vehicles. On top of the increased demand, supply is dwindling across the world. According to S&P Global, only 16 of the 224 copper deposits discovered between 1990 and 2019 came over the last 10 years.

Meanwhile, EV sales continue to set records across the Western world and China. Traditional combustion engines are not going anywhere but their peak demand is expected to occur by 2025.



If you do not believe us when we say copper is essential to the green transition, then follow the producers who are producing renewable energy sources as well as EVs. They understand the hardest part for them moving forward will be sourcing copper (as well as other metals) to meet their production goals.

Elon Musk reportedly met with the Mongolian Prime Minister last month and many believe copper was a main talking point between the two. Mongolia is a copper-rich country home to the world's fourth-largest mine which is operated by Rio Tinto and the Mongolian government. Rio Tinto announced that production had finally begun in the mine last month.

This move could be a move by Musk and Tesla to secure a steady supply of industrial metal or a step further – building a metals processing plant in Mongolia.

Merger and acquisition activity is also surging in the copper space as producers attempt to cash in on the green energy boom.

Glencore, a Swiss miner made a $22.5 billion offer to Teck Resources earlier this year. The deal reportedly included $8.2 billion in cash. Teck Resources operate mines in British Columbia, Alaska, Chile, and Peru. Freeport-McMoran, the world's largest publicly traded copper producer reported that this offer is part of the copper industry's consolidation trend. They also believe that this consolidation is further proof that the industry is struggling to find fresh deposits. Glencore's reported offer was well above the value of Teck Resources and was completely unsolicited.

It's not just the big boys making moves to sweep up producers.

On April 13, 2023, Hudbay Minerals, a Canadian miner with operations in Canada, Peru, and the US, announced a formal agreement to acquire Copper Mountain Mining Corporation, a Canadian miner with operations in Australia and British Columbia, for $439 million. Lundin Mining, a Canadian base metal mining operator, also inked a purchase agreement to buy a controlling interest in a copper producer. Lundin purchased 51% of the Caserones copper mine in Chile from JX Nippon Mining & Metals Corporation, a unit of ENEOS Holdings, Inc., for US$950 million. Expect this trend to continue especially as the world's reserves of copper continue to dwindle.

Here are the world's largest copper producers (countries) and some of the largest North American listed companies to kickstart some of your research:

Country	Copper Reserves (as % of global total – 2021)	Company (Ticker)	Market Cap
Chile	23	BHP Group (BHP)	$157 billion
Australia	11	Rio Tinto (RIO)	$111 billion
Peru	9	Freeport-McMoRan (FCX)	$57 billion
Russia	7	Southern Copper (SCCO)	$56 billion
Mexico	6	Teck Resources (TECK)	$24 billion
U.S.	5	Hudbay Minerals (HBM)	$1.3 billion
Poland	4	Ero Copper (ERO)	$1.8 billion

MacNicol & Associates Asset Management owns numerous positions in the copper industry.

We think copper has the tailwinds to move higher. The real question for investors is do you have the short-term patience to be rewarded in the long run. Our thoughts on EVs and renewable energy trends do not alter our opinions on fossil fuels and uranium moving forward.

Signs of an AI bubble?

A few weeks ago, we shared a chart that showed recent bubbles compared to today's AI bubble. The chart compared Bitcoin, the Metaverse, and today's trending AI. The correlation between the three is uncanny. All surged euphorically as they were promised to change the world. All created outsized returns in their early days out of pure optimism and hope.

It seems we could be closing in on a peak in the current AI bubble, as Nvidia trades near all-time highs and near 200 times earnings, the entire industry is going parabolic.

Last week, a Paris-based start-up announced that it had raised €105 million after launching just one month earlier. That is truly absurd. We have no idea how this is possible. Investors essentially invested because the company, Mistral AI is an AI start-up. The company is currently valued at $260 million (U.S.) and have no product yet.


FINANCIAL TIMES

US COMPANIES TECH MARKETS CLIMATE OPINION WORK & CAREERS LIFE & ARTS HTSI

Artificial intelligence + Add to myFT

Four-week-old AI start-up raises record €105mn in European push

Funding puts value of Paris-based Mistral AI at €240mn as dealmaking frenzy around sector intensifies

Mistral AI co-founders Guillaume Lample, left, Arthur Mensch and Timothée Lacroix are former employees of big tech groups Meta and Google © David Atlan

Here is the company's website. Pre warning it's very detailed: https://mistral.ai/

Reuters reported that the successful raise is part of a trend for Europe to create rivals to Silicon Valley and Chinese tech giants. We would like to warn our European friends that pouring money into ideas like this does not create the next Alphabet/Google.

The three men leading the company as seen in the picture above are former Google and Meta artificial intelligence researchers. We are not doubting their abilities, we are simply pointing out that this raise is quite wild for such an early-stage company that looks to be capitalizing on a euphoric trend. Good for the leadership team who capitalized on this once-in-a-generation opportunity to raise that much money in such a short period.

Former Google CEO Eric Schmidt, Belgian firm Sofina, Italian firm Exor Ventures, and businessmen Xavier Niel and Rodolphe Saade were involved with this raise.

Paris has historically lagged behind New York, London, and San Francisco as a global technology hub. The French government lauded this capital raise, anointing Paris as a global tech center moving forward.

The company will focus on open-source solutions and targeting enterprises to allow AI to become useful. It plans to release its first models for text-based generative AI sometime next year. The one thing to remember, the company has barely begun operations and has no product, yet the company raised hundreds of millions of dollars, talk about a frenzy.

We will have to see what this company can do with its nine-figure cheque moving forward as they try and stake its claim on an industry dominated currently by giants.

Feels like 2001

Canada feels like 2001 again and for all the wrong reasons. After the Bank of Canada raised its overnight lending rate another 0.25% last week, 5-year variable mortgage rates are now at their highest point since 2001, this is higher than at the point during the 2008/2009 Financial Crisis:

Even though there has been a massive increase in mortgage rates across Canada over the last 18 months, the housing market remains elevated and close to all-time highs due to major supply issues. The supply issues and elevated immigration rates have allowed housing prices to continue to remain expensive despite sky-high mortgage rates.

Canada's immigration rates are not expected to slow down anytime soon:

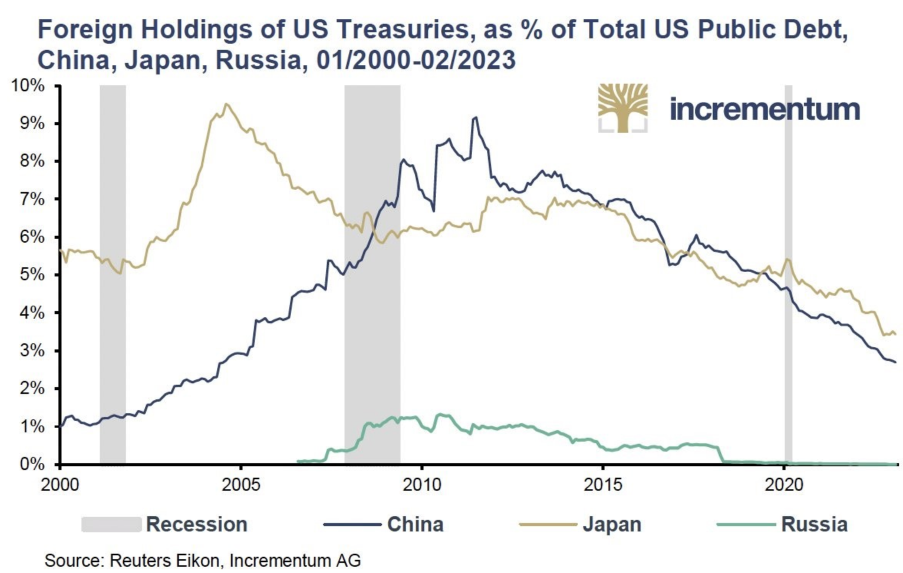
> Still, Trudeau's government has doubled the pre-existing target for welcoming newcomers since coming to power in 2015. A record 437,180 immigrants landed in Canada in 2022. That number is scheduled to rise to 500,000 per year by 2025.

The Canadian government released that their population would double in 26 years if this growth rate remains constant. Canada regularly has the highest annual population growth in the G7.

Hello gold, goodbye U.S. Treasuries

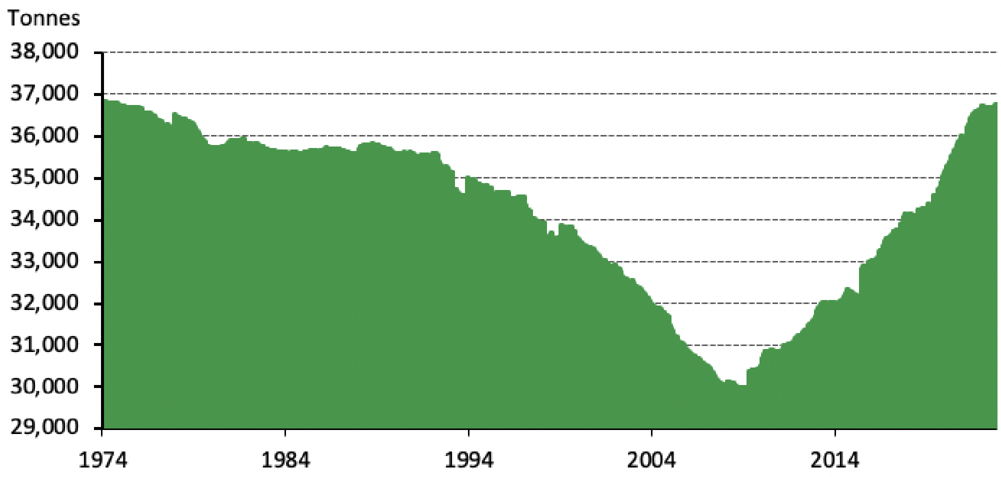
Countries around the world are dumping their U.S. Treasury holdings that their Central Banks have held for decades. This trend has caused many to speculate that the U.S. Dollar will cease to become the world's foremost currency reserve which gives the U.S. FED and Government extreme power. The dollar accounted for roughly 60% of global currency reserves at the end of last year, down from 70% at the start of the 2000s.

The countries dumping their U.S.-denoted holdings are not just our enemies but also our allies.



China, Russia, and even Japan have dramatically decreased their holdings of U.S. Treasuries since 2010. They have diversified their Central Bank holdings as many fear the U.S. Dollar could potentially lose some value (we are not saying we would rather own the Yuan, Yen, or Ruble). These countries and others have rotated into a diversified basket of currencies as well as precious metals.

Central Banks have rapidly increased their holdings of gold over the last 15 years.



We expect this trend to continue moving forward. Even though interest rates have rapidly risen in the U.S., gold prices have remained strong over the last year, signaling a potential bottom and major rotation.

The U.S. would be the biggest loser if the U.S. Dollar loses its status as the world's reserve currency. This has allowed the U.S. government to print large amounts of money, have lower borrowing costs, lower exchange rate risk, and most importantly have global trade settled in their native currency.

We think the U.S. Dollar could remain the leading world reserve currency moving forward but we think its dominance will eventually slip from 60% of global reserves to 40-50% of reserves. For comparison, the Euro makes up approximately 20% of global foreign exchange reserves and is second to the U.S. Dollar. There is a huge spread between the U.S. Dollar and everything else, and we think that will change. It will change into a more competitive landscape where a basket of currencies will have close to equal weightings. This will negatively impact the U.S. government's economic power.

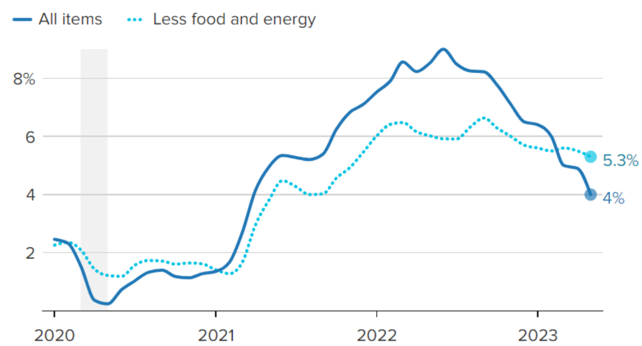
Inflation slows down in the U.S.

Inflation continued to slow in May signaling another short-term victory for the FED. The year-over-year CPI rang in at 4% for May, a two-year low. This was also the 11th straight month in which the CPI decreased. Declines in May were largely driven by a major drop in energy prices, which fell 3.6%. Food prices climbed 0.2%, marking the first increase in the category in two months largely due to a 0.5% jump in prices for food at restaurants.

Core inflation also decreased to 5.3% from 5.5% in April. As a reminder, core inflation strips out energy and food categories which tend to be much more volatile.

U.S. consumer price index

Year-over-year percent change through May 2023



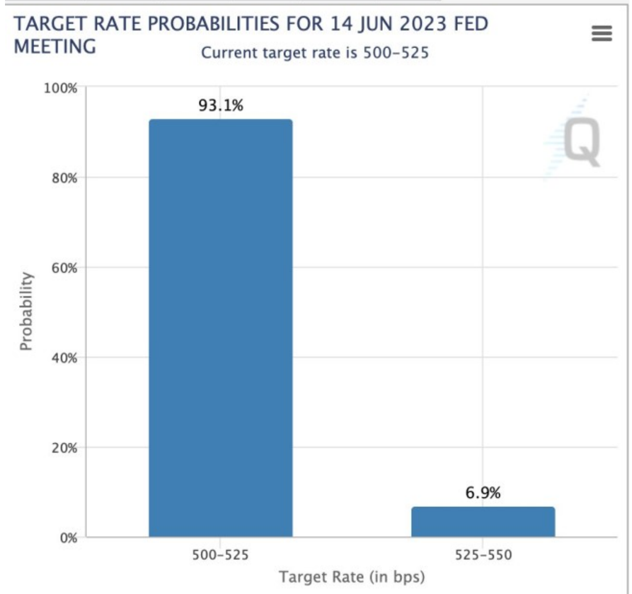
Note: Shaded area indicates recession.
Chart: Gabriel Cortes / CNBC
Source: U.S. Bureau of Labor Statistics
Data as of June 13, 2023

This could be good news for investors as the continued decrease in inflation could mean the FED is done with rate hikes moving forward.

Immediately after the CPI was released, forecasts almost unanimously agreed that the FED would not be making a policy change on interest rates at its next meeting. The next FED policy decision came on June 14th, the day after the CPI was released.

As of 10 am on June 13th after the CPI release, forecasters believed that there was a 93% chance that the FED does not change interest rates this month. Just a few weeks ago, forecasts were split between a pause and another rate increase.

MEETING INFORMATION						PROBABILITIES		
MEETING DATE	CONTRACT	EXPIRES	MID PRICE	PRIOR VOLUME	PRIOR OI	EASE	NO CHANGE	HIKE
14 Jun 2023	ZQM3	30 Jun 2023	94.9138	39,720	272,157	0.0 %	93.1 %	6.9 %



Beyond the FED making its policy decision, inflation coming down so quickly is purely to do with energy prices retreating from last June's highs when the price of oil reached $120/bbl due to Russia invading Ukraine. Fuel oil, gasoline, and gas utilities have decreased year over year in the double digits which has helped push the CPI lower and lower over the last 8-12 months.

Transportation: +10.2%
Food away from home: +8.3%
Shelter: +8.0%
Electricity: +5.9%
Food at home: +5.8%
New Cars: +4.7%
Overall CPI: +4.0%
Medical Care: -0.1%
Used Cars: -4.2%
Gas Utilities: -11.0%
Gasoline: -19.7%
Fuel Oil: -37.0%

Why is this a bad thing?

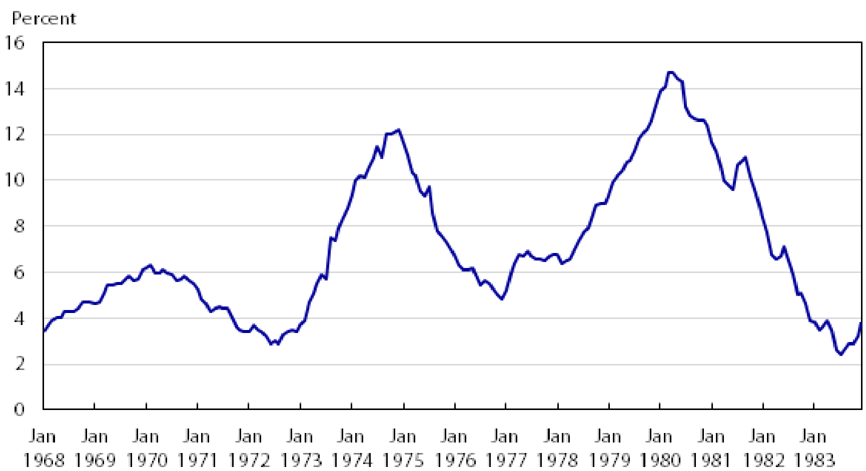
Inflation could reignite if oil prices move higher. Much of the reduction we have seen in recent months in the CPI stems from energy prices retreating.

FED makes its decision

The entry above was written on Tuesday after the CPI was released and before the FED made its policy decision. This entry is after the FED made its decision and will discuss where we go from here.

On Wednesday, the FED announced that they will not make an interest rate policy change at this meeting. In other words, we have reached the point where they pause. However, the FED did hint at two more interest rate hikes by the end of this year which came as a big surprise to investors. Forecasts before the meeting had one rate hike in July then were split between pauses and cuts to end 2023. Two hikes signal that the FED knows inflation could bounce back just like it did in the 1970s when it came in three large waves, each one bigger than the last.

Figure 5. All-Items Consumer Price Index for All Urban Consumers (CPI-U), 12-month change, 1968–1983



Source: U.S. Bureau of Labor Statistics.

The pause on Wednesday comes after 10 straight interest rate increases from the FED. However, the announcement of a pause was quickly forgotten when further rate hikes were mentioned. The FED announced that further rate hikes would hinge on economic data and holding now would give them more time to assess additional data available to them.

After the news dropped that the FED would consider a further 50 basis point increase to end this year, stocks and indices dropped immediately. That is because economists and investors were not considering rate hikes that high in any scenario, especially with yesterday's CPI dump which came in lower than expected.

Markets dropped right at 2:00 PM EST when the announcement was made:

The other part of Jerome Powell and the FEDs announcement that had investors pessimistic was the time length for rate cuts. Powell announced that they are a couple of years out from rate cuts. It appears he does not want a second wave of inflation to occur so soon. It also appears that Powell does not care what the investors who believe in 0% discount rates have to say.

However, with what has happened in recent months to the CPI and interest rates potentially rising even more, will deflation occur? Housing in numerous markets has already come off quite substantially and numerous retailers are struggling to move products and increase sales.

COMPANY NEWS

Jun 8, 2023

Retailer Roots reports $8M Q1 loss, sales down from year ago

NEWS

Target says digital sales fell in Q1; net income drops 5.8%

Paul Conley | May 17, 2023

Retail & Consumer

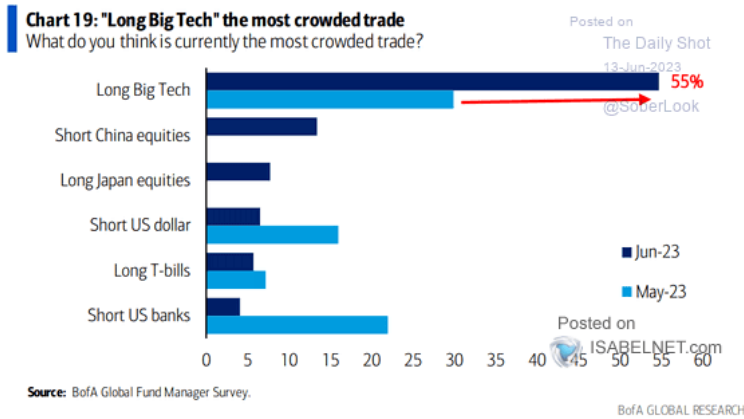
Best Buy says demand weakness to bottom out by year end, sales decline narrows

By Savyata Mishra

May 25, 2023 9:32 AM EDT · Updated 20 days ago

Crowded trade

According to the monthly survey the Bank of America conducts for fund managers, the most crowded trade by a long shot currently is long big tech stocks.



In May the number of participants who thought big technology was the most crowded trade was below 30%, a month later and it's at 55%. Even though these large-cap tech stocks are near all-time highs and are trading at extreme premiums, investors continue to pile in.

The respondents to the survey have a combined $708 billion in AUM across 247 different funds.

The other interesting data point that we saw from this survey was profit expectations. The fund managers collectively believe that global EPS will shrink over the next 18 months by 0.6%. A month earlier fund managers expected EPS to grow over the same period.

MacNicol & Associates Asset Management
June 16, 2023