

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.



Kannonzaki Lighthouse ***Kannon Saki,***

Yokosuka, Kanagawa, Japan

The original Kannonzaki Lighthouse was the first lighthouse built in Japan. The original lighthouse was built in 1869 and stood at 19 feet high. The current lighthouse was constructed in 1925 and stands at 56 feet tall.



Omaesaki Lighthouse, Shizuoka *Prefecture, Japan.*

This lighthouse was originally constructed in 1874 and stood at 73 feet tall. The new iteration of the lighthouse stands at 165 feet tall and was constructed in 1946.

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

The pitfalls of pre-ordering

The auto industry has built up releases of special edition models and allowed consumers to pre-order them in advance for decades. The EV industry has continued this pre-order model. Many new-age EV producers have required deposits for ordering new cars which are used to assist and fund production. This has helped EV producers with production as they have only produced at the same rate as demand, decreasing the chances of inventory stacking up (or so they thought).

On Saturday night, Rivian hosted a one-day sale at its factory in Illinois. Rivian would not confirm how many vehicles they sold. Factory direct sales are also anything but typical for the auto industry. This sale shows consumers have canceled their orders and that Rivian was sitting on a large, unexpected inventory stockpile. The more options that consumers have when it comes to EVs, the more this will happen as consumers change their minds on what car they want and request a refund for their pre-ordered vehicle. Some companies charge a non-refundable deposit but some pre-orders in the EV industry remain refundable to consumers. Perhaps EV producers will change their tune on refunding order deposits.

This new way of producing and delivering vehicles could eventually present an inventory problem for EV producers, something that they have not dealt with before. Traditional automakers sit on billions in inventory on a rolling basis whereas Tesla is estimated to only be sitting on a few hundred cars that are unsold at any time.

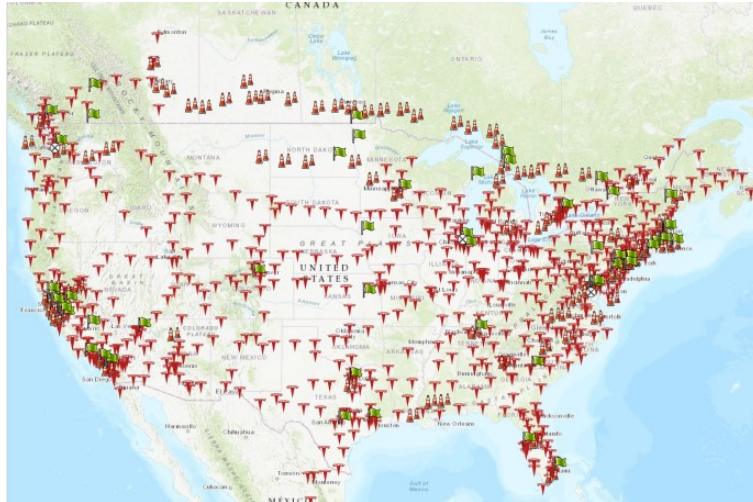
It's too early to say that there is an EV demand dilemma for any company in the industry. Even though Tesla has some inventory available to buy, its quarterly unit sales continue to hit records. One factory sale by Rivian doesn't signal something on its own, but inventory is now a new watch item for investors. We expect analysts to scrutinize growing inventory stockpiles moving forward for EV companies.

Speaking of EVs

Tesla has struck yet another deal with an EV producer that will allow the producer to use their vast and extensive EV charging station network. Tesla has struck deals with Ford and General Motors in recent weeks that give the company's customers access to Tesla charging stations.

Tesla's inked deal with Rivian will make Rivian adopt Tesla's charging standards. This deal gives Tesla more momentum in the company's bid to set the industry standard. The deal will allow Rivian customers to access the 12,000 Tesla superchargers across the U.S. and Canada by early 2024. Rivian also announced it would be making a Tesla charging port standard on its vehicles by 2025.

Here is a map of all the Tesla charging stations across North America.



Most EV producers other than Tesla have strayed away from building their charging networks due to the capital commitments in achieving the goal. Tesla has built quite the monopoly in the space and many EV producers look like they will not be entering the competition. Tesla's Superchargers account for about 60% of the total fast chargers available in the United States, according to the U.S. Department of Energy. Services and other revenue which charging sales are counted under accounted for less than 10% of Tesla's revenue last quarter.

Tesla's charging standard had been proprietary until November when it made the design and specifications public and rebranded the technology as the North American Charging Standard.

Numerous charging companies have rushed to announce the addition of NACS plugs on their chargers in recent weeks. It's important to note that China, the world's largest market for EVs has its charging standard and Japanese automakers have promoted a different standard known as CHAdeMo.

Tesla shares were up another 4% on Tuesday after this announcement and are surging this year.

Market Summary > Tesla Inc

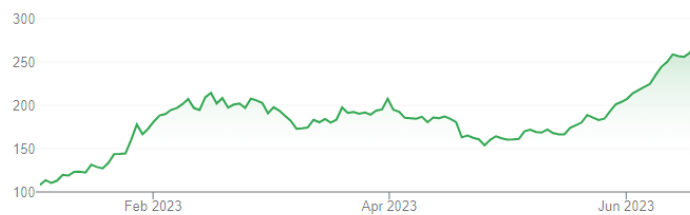
270.61 USD

+ Follow

+162.51 (150.33%) ↑ year to date

Jun 20, 3:02 p.m. EDT • Disclaimer

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



Open	261.50	Mkt cap	848.37B	52-wk high	314.67
High	271.53	P/E ratio	79.67	52-wk low	101.81
Low	261.12	Div yield	-		

Rivian shares also responded positively to the inked deal with Tesla, moving up 4% as well. Rivian shares have struggled to gain any momentum this year and are down 47% over the last year.

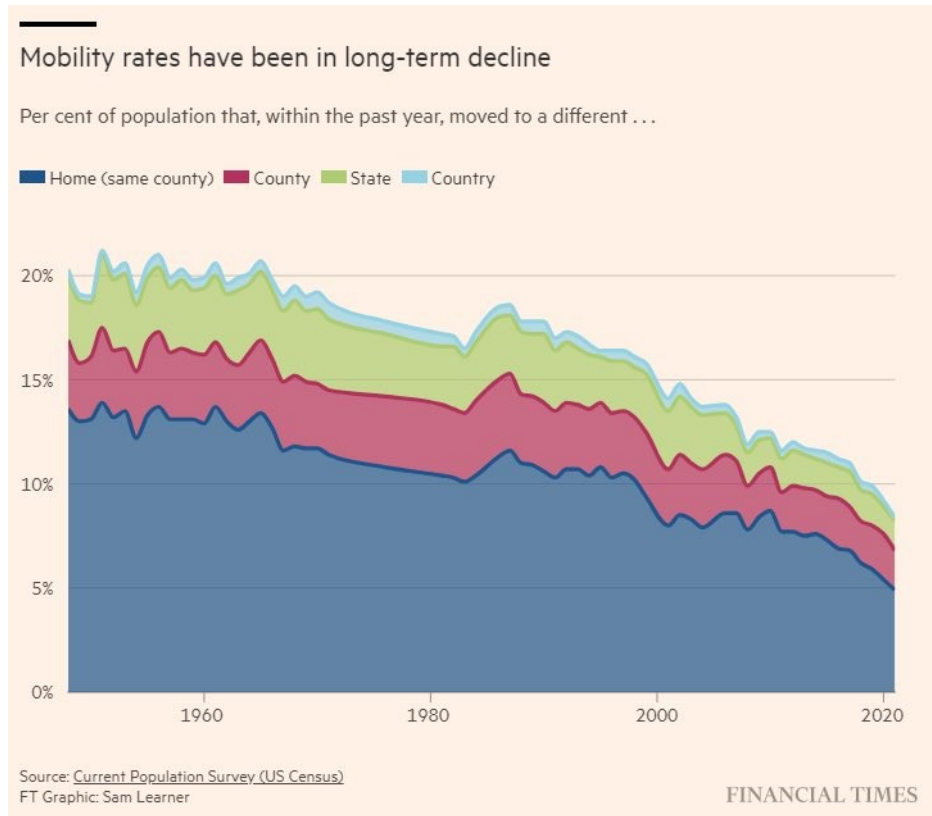


Rivian shares debuted on the Nasdaq at \$129 in November 2021. We would hate to be the bag holder on that trade. Investment bankers and executives promised a Tesla competitor with lofty price expectations, ridiculous sales targets, and a short road to profitability, since then all we have got are shareholders who have been completely blown out of the water and have also been diluted on the way down.

However, after dropping 50-90%, (89% (Rivian)) from their first day of trading, perhaps now is the right time to pick up some exposure in one of these small EV producers that could maybe eventually rival Tesla. We currently have no exposure to new-aged EV producers as of this writing. We think shareholder dilution will more than likely continue in the short term.

Staying put

The chart of the week we chose for this week is extremely interesting. Americans seem like they do not want to move and are content at home. There is much less mobility by Americans than there has been over the last 60 years.

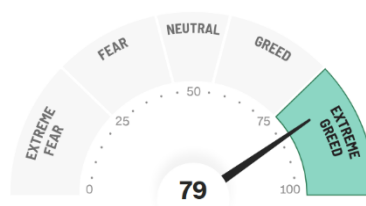


Forget moving states, Americans do not want to move across their own country right now. Approximately 5% of Americans have moved within the same country over the last year compared to 14% in the 1950s and 12.5% in the 1980s.

Perhaps this is a short-term trend or perhaps is greater evidence of changing social norms. Today's population looks at money, family, and children a lot differently than how their parents and grandparents did. Continue to watch this trend, it seems many Americans are turning their back on moving and looking toward home improvements to spruce up their living situations. We think this trend will more than likely continue.

What is pushing the market

Greed and fear seem to be back and present in today's markets. The CNN Fear and Greed Index reached 79 this past Tuesday.



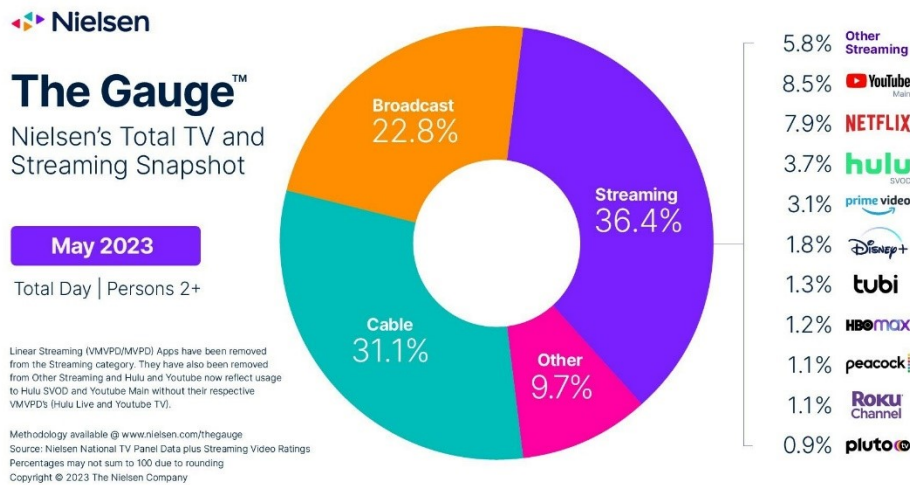
Investors are playing with fire as they pile in, and chase returns to make up for last year's losses. FOMO seems to be running rampant across markets as mega caps surge and the rest of the market runs flat. The world's biggest companies are up multiples this year and the rest of the market is essentially flat or down. Expect investors to continue to attempt to hit home runs while mega caps and AI lead stocks higher.

To put a 79 reading on this index into context, last year this scale read 16 for extreme fear and in March it read 23. Investors have seemingly changed their tune on markets, and we think it's purely to do with fear of missing out and artificial intelligence.

Consumer preferences

How consumers absorb content has changed over the last decade. Everything is now online. We live in a streaming world where the new generation does not have a cable subscription. Even live sports, the jewel that TV has had, has begun to diversify into streaming.

But how exactly does our society absorb content? Nielsen conducted a study that broke down how people absorb content and how the streaming category breaks down.



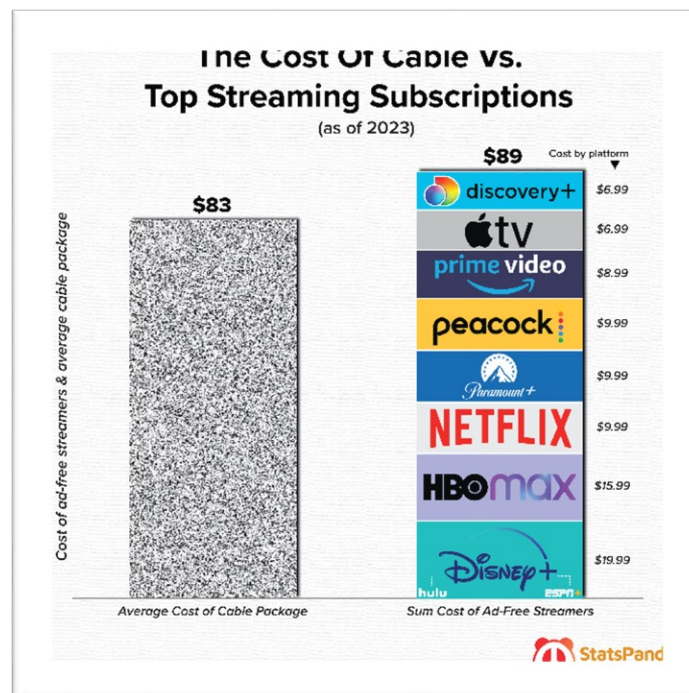
Interestingly enough, Netflix is not the leader among streamers, YouTube is. YouTube has a paid subscription option that they debuted a few years ago but still has their free option which many people use daily. The other thing that we found extremely interesting about the streaming industry for subscription platforms is Netflix still dominates the field with double the market share of the second-ranked subscription streamer, Hulu.

However, most consumers still absorb content through traditional cable and broadcast mediums. We think some consumers may continue to push the limits of streaming, but many will keep their cable option and choose a hybrid model to consume content.

Even sports have embraced the streaming medium in recent years, with numerous sports striking deals to offer a small percentage of their games/tournaments on a streaming platform (ie. Thursday Night Football on Amazon Prime). We expect these streamers to compete with traditional broadcasters going forward when broadcasting rights expire for various sports.

The one wrinkle to watch is prices, streamers have risen prices quite exponentially recently which has made consumers second guess their need for every platform. Consumers are mostly rotating platforms on a month-to-month basis.

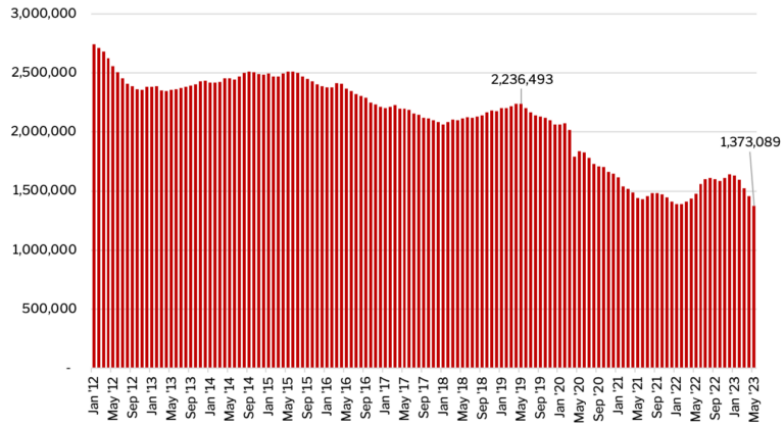
In the U.S. it is more expensive to subscribe to a basket of streamers than it is to have cable. How the times have changed as shareholders of streamers demand profitability after years of losses and burning through cash.



The housing market hits the breaks

It's no secret that the housing market has come off in recent months. As mortgage rates rise, consumers are being priced out of segments of the housing sector. This has led to the least number of homes for sale in the U.S. at one time in 11 years (RedFin's data begins in 2012).

Number of Homes for Sale Drops to Lowest Level on Record in May
Active listings of U.S. homes for sale



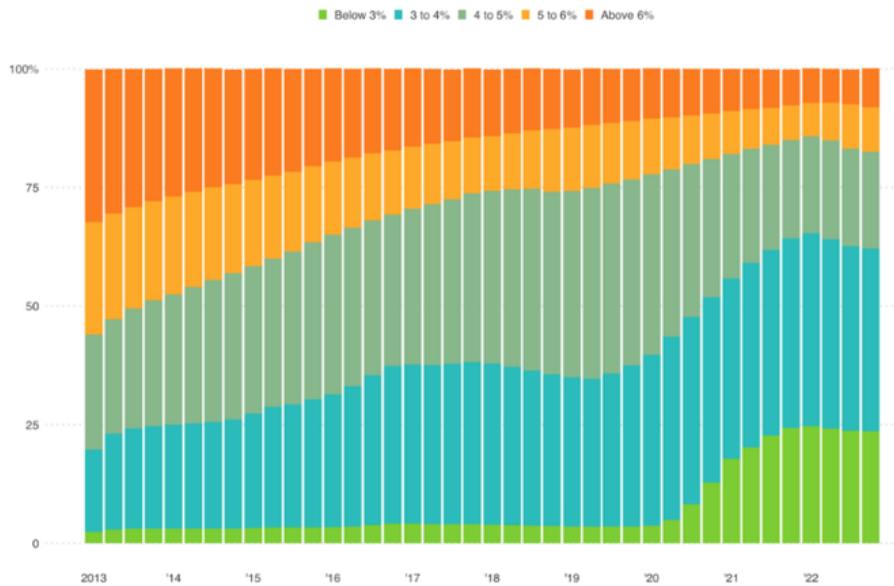
Source: MLS data, county records

REDFIN

Just 4 years ago, there were 63% more homes on the market. That is what 0% interest rates got us. Consumers could stretch their wallets when rates were extremely low, and they got complacent. However, over the last 6-12 months more and more homeowners are paying a premium in terms of their mortgage rate. Over the last 4 quarters, consumers paying 4% or more have slightly increased, this is the first time that this has happened in this study's history which goes back to 2013. This study also explains why there are fewer and fewer homes on the market. 62% of U.S. mortgage holders have a rate below 4% and 92% have a rate below 6%. Why would consumers sell just to take on a new mortgage at a higher rate for a bigger house when they could try and wait until rates decrease a few years down the road? (We do not think rates will decrease substantially and do not think they will return to the pre-pandemic lows.)

More Than 9 in 10 Mortgage Holders Have a Rate Below 6%

Share of mortgage loans outstanding by mortgage rate



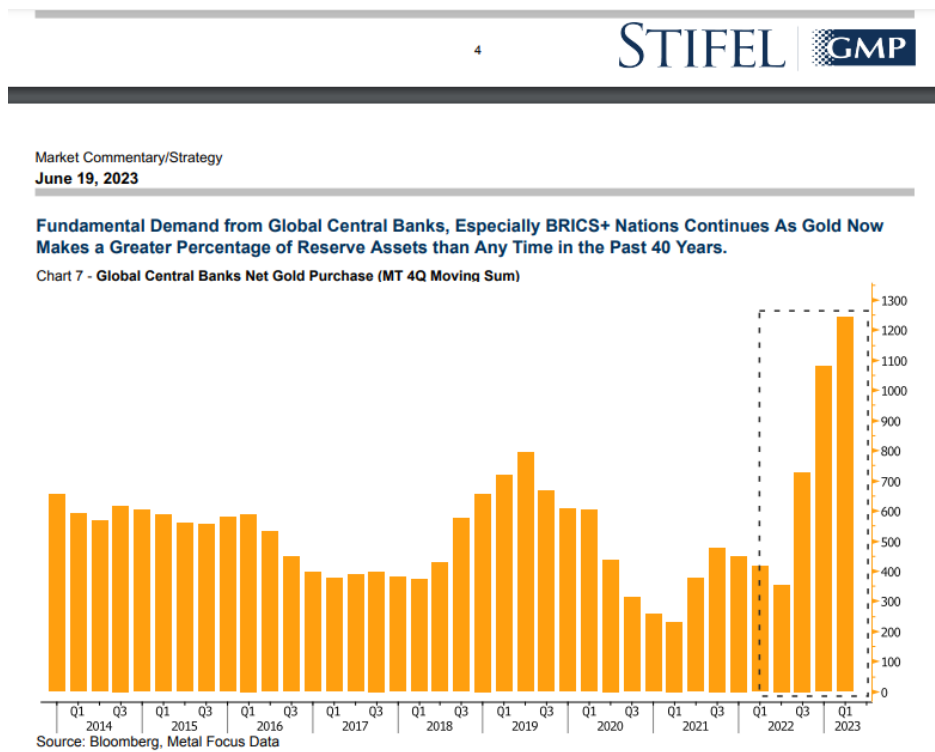
Source: FHFA, National Mortgage Database (NMD)

Although the housing sector has slowed down, it is in no way crashing or in similar conditions to 2008/2009. We expect prices to remain quite elevated even if we do tip into a recession to end this year. For now, it seems the solution for the housing market is new builds and new supply which many markets are in dire need of.

BRICS love their gold

BRICS nations have continued to splurge on their gold purchases in 2023 and after setting a record for purchases in 2022.

We reported on this trend on a global level in recent editions of this publication. We explained that this is a move by global Central Banks to decrease U.S. dollar assets like the USD and U.S. Treasuries and move to a diversified approach. These moves by other Central Banks are well thought out and are meant to decrease the U.S.’s global power and reach.



In case you forget, BRICS represents a group of countries in a trade and economic alliance, Brazil, Russia, India, China, and South Africa.



Several other countries have also inquired about joining the organization in recent years.

President Macron of France announced that he would like to crash the BRICS summit and be the first Western leader to attend a BRICS conference ever. Whether the West likes it or not, this organization is a formidable economic force.

Macron wants to crash summit with Russia, China and allies

France is waiting for an invitation, FM Catherine Colonna says.

Macron announced that open dialogue on trade, and economics is critical across the world, explaining that dialogue is important even when you do not agree 100% of the time. If Macron attends, it will give further legitimacy to the organization. The next summit is scheduled for the end of August in Johannesburg. The head of state for South Africa is set to visit France this week on another matter, but many assume Macron will bring up the BRICS summit. Is this Macron and the G7 trying to get an ear in on Russia and China's trade conversations or does France seriously want to join this southern trade alliance? We are not sure; we will have to see.

One of the major reasons BRICS was formed was to combat the G7 group of countries and provide the world with another major trade alliance.

We expect their gold buying spree to continue which should give gold yet another tailwind to breakout to the upside. We like to follow powerful trends, and this is one we are watching quite closely. These are some of the world's most powerful governments, and some of them are enemies of the U.S. and would like to see their global reach decrease in the coming years.

As of this writing, gold prices are up 6.5% year to date, despite most commodities retreating.

Gold Continuous Contract

ADD TO WATCHLIST



We think a new floor could be established in the price of gold moving forward limiting some downside risk of holding the precious metal.

MacNicol & Associates Asset Management
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