THE WEEKLY BEACON	JUNE 30, 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*](mailto: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.

Punta Higuero Light,

Rincón, Puerto Rico

The original building was built in 1892 by the Spanish government and was rebuilt in 1922 by the United States Coast Guard. In 1933, the lighthouse was automated. The lighthouse stands at 21 meters tall.

Punta Tuna Light, *Maunabo, Puerto Rico*

This lighthouse was first lit in 1892 and automated in 1989. The light was a third-order lighthouse that served as the primary light connecting the island's southern and eastern lights system. The lighthouse was automated in 1989.

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

Canadian CPI

Statistics Canada released May's Consumer Price Index (CPI) this past Tuesday signaling an inflation rate of 3.4% over the last year. This is the lowest reading since June 2021. The CPI continuing to slow gives the Bank of Canada (BOC) more breathing room before their next policy decision. Although, many believe one last interest rate hike is likely. Inflation slowing down and the Bank of Canada being successful in its path to slowing price increases could be the first step for Canadians in getting relief. We do not think the BOC will cut rates immediately but think, that rate cuts could be in the cards next year, especially as economic data turns negative and we slip into a recession.

Although the CPI has decreased in recent months, relief has not come at the grocery stores for Canadians. Food from grocery stores has risen 9% over the last year.

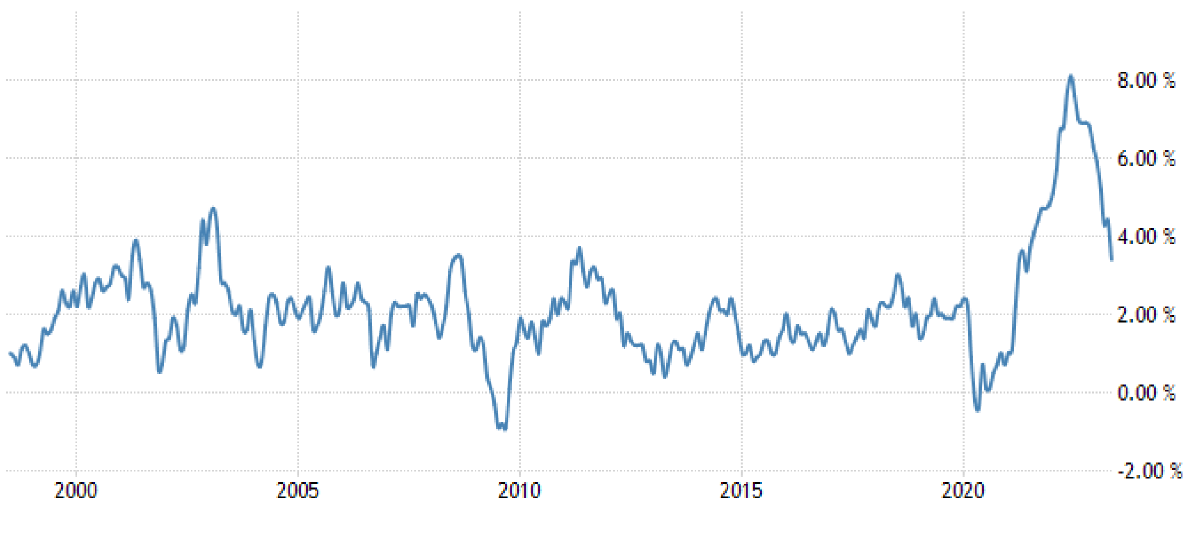
However, it is important to remember that 3.4% is no where near the Bank of Canada's target inflation rate of 2%.

A BMO Market Strategist wrote that he believes the BOC will not breathe a sigh of relief after Tuesday's numbers, as core inflation remains quite sticky, and an economic slowdown has yet to occur.

Tuesday's CPI reading came in line with economist expectations.

Money markets are now forecasting a 56% probability of a 25-basis point hike on July 12th, down from a 64% probability before the release of Tuesday's inflation data.

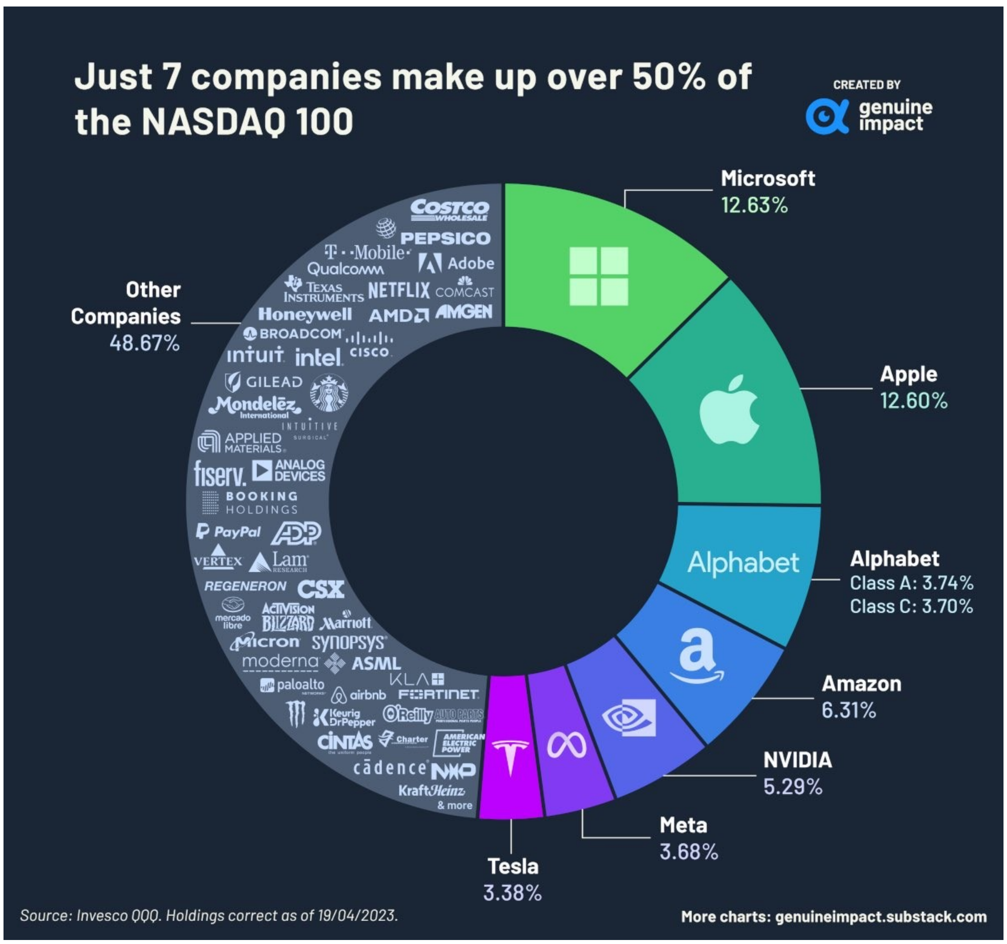
It is important to remember that today's inflation rate sits well above historical averages for inflation:



Market consolidation

We have mentioned the consolidation that we have seen this year in the S&P 500 in previous editions of this publication. This heavy concentration has helped indices in 2023, as the largest components have accounted for almost all of the indices' gains.

This week, we ran by a chart that doubles down on this concentration theory that many others and ourselves have talked about recently. Even though the Nasdaq is a heavy technology-weighted index and is known for its sector concentration, it has seemingly reached a new level this year. The chart shows the consolidation of the Nasdaq 100, and it makes the S&P 500 look diversified. As of a few weeks ago, 7 companies account for half the overall index. The mega-cap technology stocks that we all know so well makeup 51% of the Nasdaq 100, and the other 93 companies account for 49% of the index.

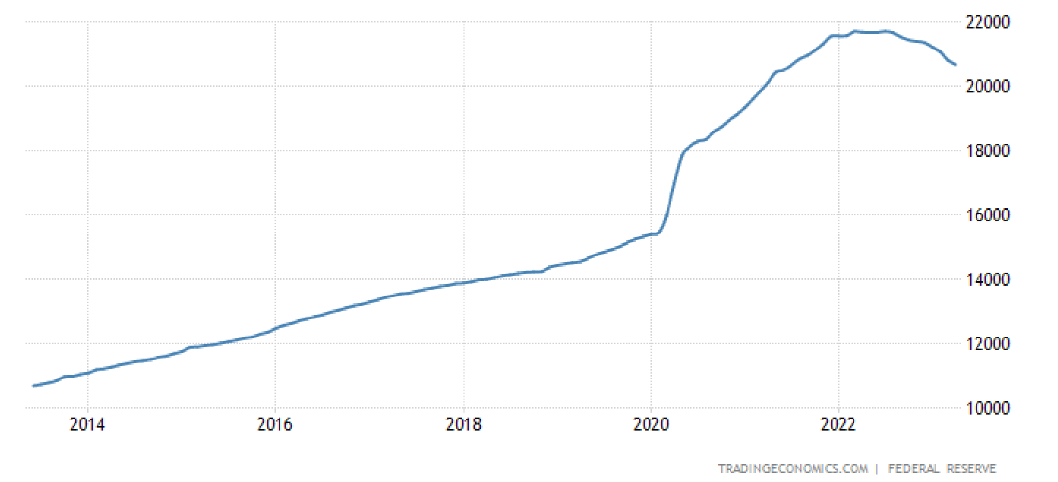


We are truly in a mega-cap world. It seems index performance is mattering less and less purely due to the concentration of these indices. Index performance does not seem to reflect overall equity market performance this year. This concentration has accelerated in 2023 as the mega caps have gone on euphoric runs after a rocky 2022 and most other stocks have continued to struggle.

Historic rug pull

We have talked about many of the companies that have tanked that merged with SPACs in 2020 and 2021 throughout this publication's history (it's a favourite topic of ours). These companies were overvalued at the time of their public market debut and remain overvalued (for the most part). Investors were sold a basket of riches, instead, they got an immature, cash-burning business that continues to struggle to operate. These investors were promised equity in early-stage companies that would eventually soar, and all they have gotten is diluted ownership positions. This was all the result of progressive fiscal policy stemming from Covid-19, money flooded markets in 2020 and 2021 and much of it went to equity markets.

Here is the U.S. M2 Money Supply which illustrates the supply of money in the U.S.:



We bring this up this week because one of the companies that merged with a SPAC to go public, filed for bankruptcy this week. This company checks all the boxes in terms of something that was extremely overvalued. The company is Lordstown Motors. Lordstown was founded in 2018 and reverse merged with DiamondPeak Holdings on October 23, 2020. The company was subsequently listed on the Nasdaq. The merger gave Lordstown an estimated equity value of $1.6 billion. The company's market capitalization as of this writing (June 27, 2023) is $38.4 million.

Company shares have collapsed over the last 2.5 years. Shares are down 98% from their SPAC reference price and even more from their all-time highs.

Lordstown is famous for being one of the first movers on an EV pickup and was lauded for its progressive and clean designs:

AUTOS

Lordstown Motors shares jump on early demand and robust hiring to build EV pickup

PUBLISHED MON, NOV 16 2020·11:10 AM EST | UPDATED MON, NOV 16 2020·4:51 PM EST

Lordstown's bankruptcy is a long time coming as it has burned through cash over the years and has yet to deliver any vehicles to customers. The company has generated only $400,000 in revenue over the last 4.5 years despite raising approximately $1.1 billion in equity. Lordstown announced that its bankruptcy filing was linked to Foxconn pulling out of the deal that they had agreed on. The deal which is now in limbo was agreed upon last November and would see Foxconn invest $170 million in Lordstown to accelerate production. Foxconn had already invested $50 million in Lordstown through the purchase of stock in October 2021.

It's no surprise Foxconn wants out of this deal as Lordstown has proven for years that it is a cash burner who cannot even deliver 1 car. From a legal standpoint, we are not sure what will happen next but, on top of their bankruptcy filing, Lordstown has also sued Foxconn for fraud and breach of contract.

We will have to see what happens next but for now, we would wait on the sidelines on this one. After all, if you invested $10,000 in Lordstown at its peak price, you would only have $65 left! We hope Lordstown investors who stuck it out have learned their lesson that valuations and cash flows matter. Might as well have hit the casino and then thrown it into Lordstown.

For now, we will leave you with this:

HOME > TECHNOLOGY

Tesla Rival Goes Bankrupt

Lordstown Motors filed for Chapter 11 bankruptcy and put itself up for sale because it lacked the funding for a scalable vehicle-development platform.

LUC OLINGA • JUN 27, 2023 9:07 AM EDT

Yes, that is not photoshopped. At one-point Lordstown was compared to Tesla due to its focus on pick-ups and its innovation. The only issue is Tesla's revenue in four hours is approximately equivalent to Lordstown's market capitalization. Always remember to do your research and do not listen to Twitter, most sell-side bankers, and Jim Cramer.

The new wave and its repercussions

Pickleball is all anybody can talk about. Whether you are retired, working, or even in school, we are sure you have heard of the sport.

The sport has grown in popularity over the last few years exponentially, leading celebrities and athletes to invest in the sport.

Tom Brady buys Major League Pickleball expansion team for 2023 season

LeBron James and Draymond Green invest in… pickleball

NBA – Cousin of tennis and badminton, this racket sport is targeting 40 million players by 2030.

Published on September 28, 2022 at 5:42 p.m.

Major League Pickleball Reveals New Teams and Celeb Owners, Including Heidi Klum and Eva Longoria

Many pickleball believers think the sport can continue to grow on the professional and recreation levels over the next decade due to the entertainment factor on a professional level and limited entry barriers on a recreation level.

However, the growth in popularity of pickleball specifically in North America has led to a flurry of injuries. A flurry of injuries that Wall Street has its eyes on.

The Margin

Pickleball injuries projected to account for $377 million this year — here's how to play safely

Last Updated: June 27, 2023 at 5:39 p.m. ET
First Published: June 27, 2023 at 1:11 p.m. ET

By Charles Passy (Follow)

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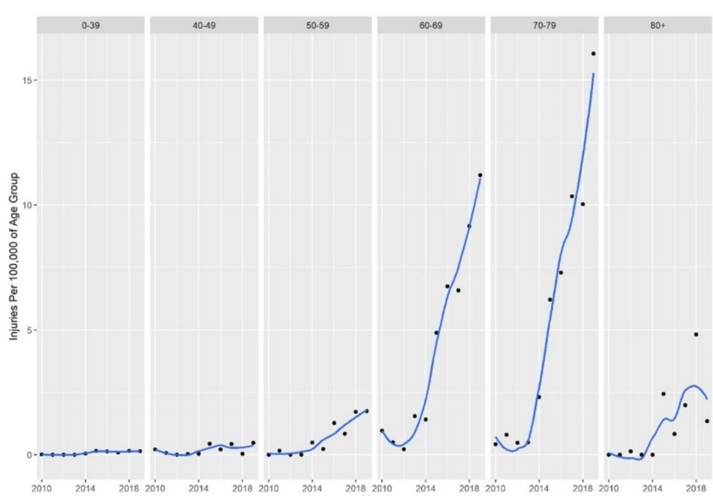
A new UBS report says that pickleball-related medical costs are surging — up 156% this year alone

UBS's report generated buzz across capital markets as it seems pickleball is impacting the earnings of some healthcare insurance providers.

Pickleball has surged in popularity recently. The Sports & Fitness Industry Association has reported that over 9 million Americans now play the sport, an 86% increase year-over-year. As many pickleball players are 60 and up due to the accessibility of the sport, injuries are unsurprisingly up in the sport, mostly among the older players.



All Age Pickleball Injuries Per 100,000 of Age Group (weighted)

UBS estimates that pickleball participation will grow to 22.3 million Americans from 9 million last year and injuries will rise 150% this year compared to an 86% jump last year.

Even though you might think this trend would be good for health insurers like United Health Group (UNH) in boosting their earnings it's not. Injuries and orthopedic surgeries are up due to the sport which chips away at the bottom line. It seems pickleball could be something to watch for the foreseeable future when analyzing healthcare insurance providers.

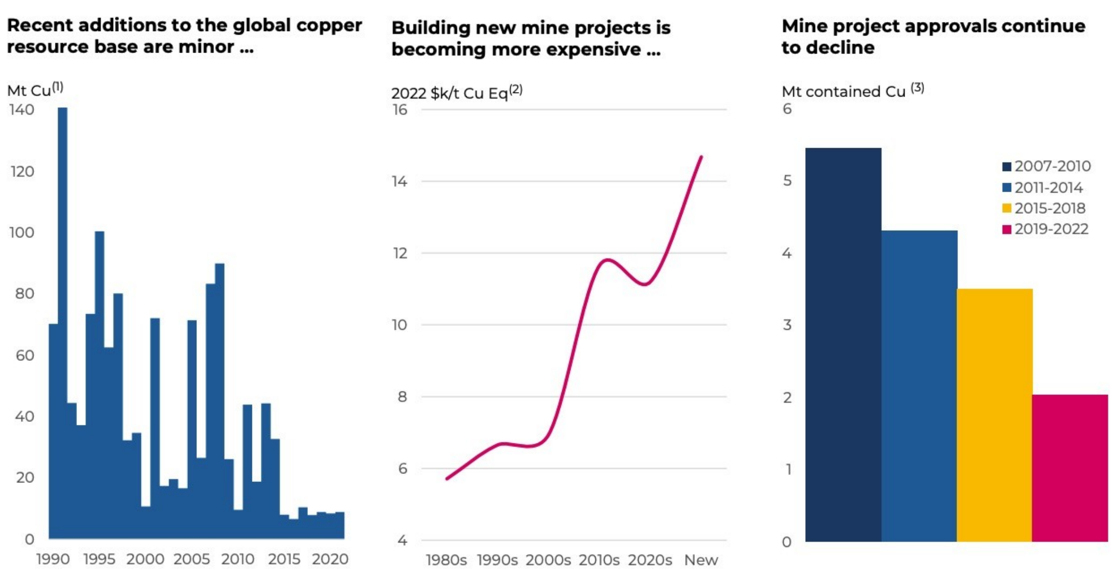
Doctor copper

In last week's edition of *The Weekly Beacon*, we talked about copper and the growing demand for industrial metal. We will not bore you with the details but point you to the last edition of this publication if you want more details on this subject.

This week, we purely want to share three graphs that illustrate the supply constraints of the industry and why supply more than likely will not grow at the same rate as demand grows.

We all know copper is used in the manufacturing of numerous products already and its growing demand stems from green energy and electric vehicles which require more copper than traditional products. Many countries that believe in green energy have invested in these sectors to decrease pollution. One problem, the global copper supply is shrinking and that’s due to several reasons:

- Additions to its resource base are very minimal versus 20-25 years ago
- Mines are much more expensive to build than they were 10-25 years ago
- Governments are approving fewer mines to reduce mining’s ecological impact on Earth



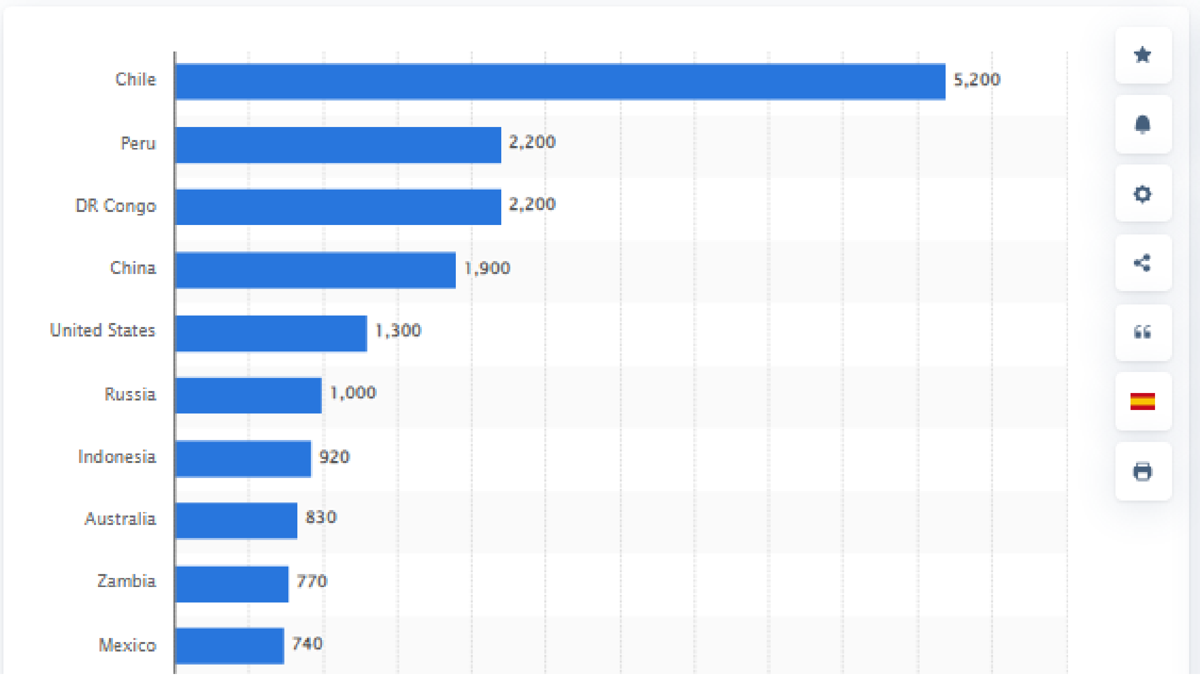
Notes: (1) Copper in reserves, resources, past production and new copper in major discoveries, 1 June 2022, S&P Global, Copper discoveries – Declining trend continues. (2) Wood Mackenzie, Copper Mine Costs, Q4 2022 Edition. (3) Wood Mackenzie, Goldman Sachs Global Investment Research.

Companies are less likely to invest in new mining projects that might not be approved by governments or profitable due to copper prices. We think this depressed supply will continue and copper stockpiles will continue to deplete moving forward especially as demand accelerates as green energy and electric vehicles become more popular.

The other major thing at play when it comes to copper is political trends. Look where a large amount of the world's copper comes from. Latin America. What has happened across Latin America over the last few decades? The rise of Socialism.

Major countries in copper mine production worldwide in 2022

(in 1,000 metric tons)



Chile, the world's largest copper producer, who produce 25% of the world's copper, is struggling to produce more copper due to decades of underinvestment in exploration and capex. Chile nationalized the copper industry decades ago, and the government's underinvestment in the industry is finally having an impact.

Giant Chile mines are struggling just as world needs more copper

Bloomberg News | March 31, 2023 | 10:43 am Intelligence Top Companies Latin America Copper

We expect these trends to continue across Latin America. It also seems that Latin America is continuing down the road of socialism which could have rippling effects on the copper industry for years to come.

Political instability is another thing to watch in the region, as political unrest is a regular occurrence across most of South America. We point to Peru and their protests earlier this year as example number one.

Peru Copper Mines Rev Back up to Full Power After Protest Hit, Data Show

By Reuters | March 3, 2023, at 5:28 p.m.

We think there are major tailwinds that could send copper prices much higher for years to come. However, choose your stocks wisely as operating mines in certain countries come with much higher risks than others.

U.S. considers new export restrictions on China

It was reported this week that the Biden Administration is considering export controls on artificial intelligence chips to China. Recent concerns have arisen over the power of the technology and how important this technology is to the U.S. and its ally's security and competitive advantages.

It was reported that the Commerce Department could move as early as next month to stop chip shipments from American companies to customers in China.

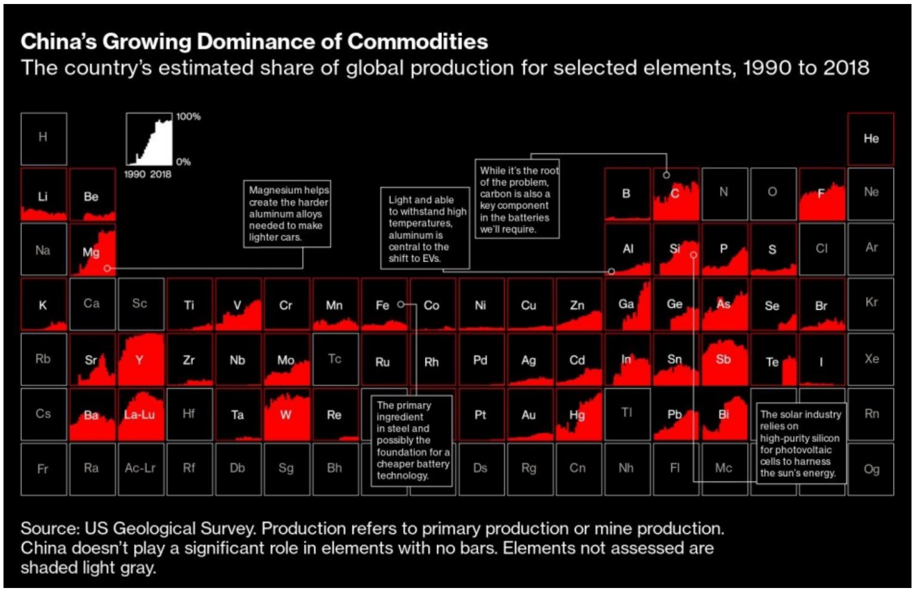
The new rules would force Nvidia, AMD, and other U.S. chip producers to apply for an international sales license before selling to China and certain other countries. The licensing approval would be controlled by the government and would almost certainly include a provision that would decrease the capabilities of chips being shipped to China.

This would slightly impact Nvidia and its competitors' sales, but management announced that they do not believe this will significantly impact the company due to a huge and growing demand domestically.

However, in the short run, this would severely impact Chinese technology firms that rely on U.S. chips. For instance, ByteDance, is reported to have placed orders for over $1 billion worth of GPUs from Nvidia this year, per a report by a Chinese news outlet. On top of these chip restrictions, the U.S. is rumored to be pondering restrictions on cloud services that many Chinese firms utilize. This would cause a serious problem in the short term in China as the country rushes to upgrade and scale their domestic cloud services industry.

If the Biden Administration places these restrictions into place, do not expect President Xi to sit down and be quiet, expect him to return the favour.

We are not sure what Xi and China will restrict. We are not geopolitical experts. But we do think it could be something on this chart:



The chart above highlights China's monopoly on numerous global commodities which we require to manufacture products. Many of these metals which are dominated by China are critical components for green technology. We are not saying export bans are guaranteed by China when it comes to these metals, but think it is definitely in consideration as a retaliatory tactic.

Chart of the week

Taxation is a hot topic across North America, even more so in Toronto after Monday's Mayoral election.

MacNicol & Associates Asset Management
June 30, 2023