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.

Tŵr Mawr Lighthouse,

Anglesey, Wales

This lighthouse was originally constructed in 1845 and was deactivated in 1975. The lighthouse sits on the northwest coast of Wales.

Clover Island Light,

Kennewick, Washington

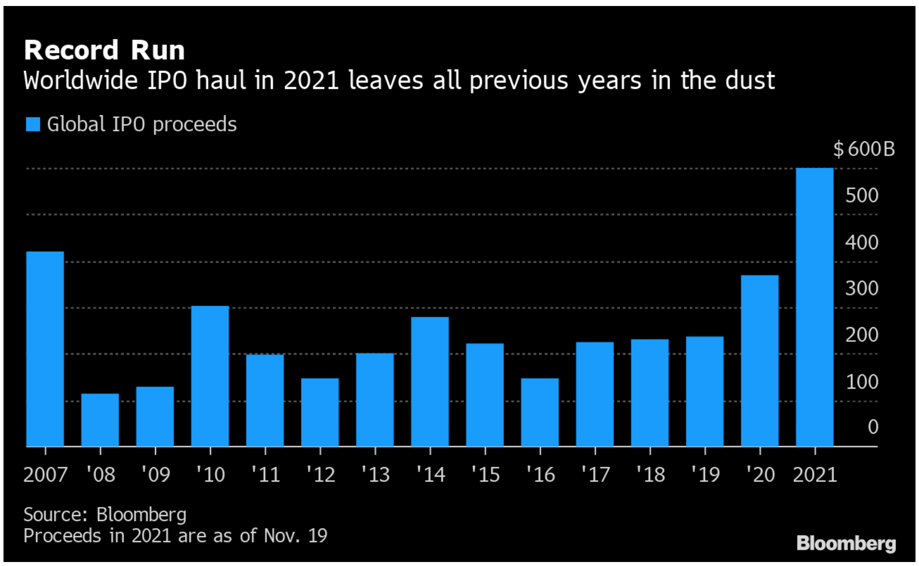
This Clover Island Light is a 62 foot tall lighthouse along the Columbia River in Washington state. The lighthouse was completed in 2010 and was the first lighthouse built in the United States since 1962.

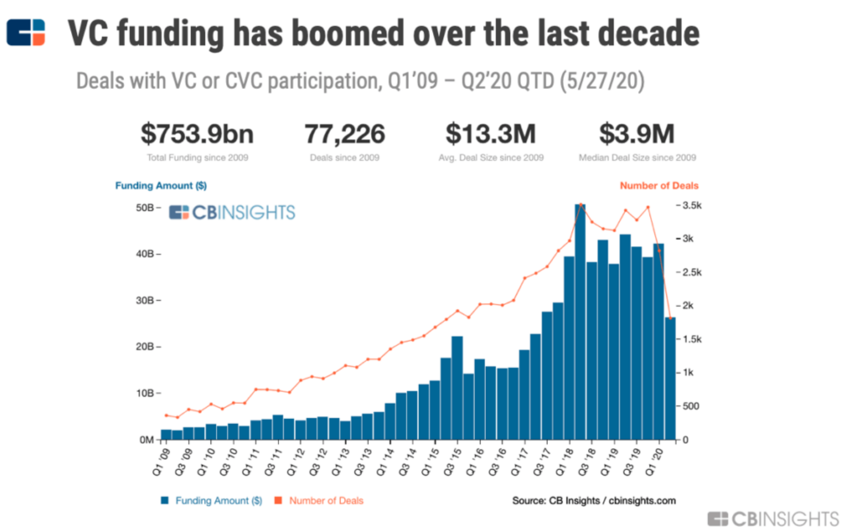
**Feel free to send us your photos of Lighthouses to be featured in our weekly market observations. **

Venture money dries up

2022's markets dried up investor capital. Capital raises slowed down and investment bankers had their lowest bonuses in years. IPOs slowed down, private capital dried up, and investors parked money on the sidelines. This trend was due to a number of factors.

The water tap (investor capital) that had been turned on to full over the last decade-plus had seemingly turned dry. When we say the tap, we mean both private and public market investors. Where IPO and venture capital proceeds surged over the last decade and peaked in 2021. The peak was at the same time as the height of the SPAC bubble.





We know some of the companies that raised capital over this time were strong with massive growth opportunities and used the investor capital to scale, become profitable and create value for their shareholders but others did not.

Many companies that had raised capital via public markets were cash-burning, investor-destroying, and unprofitable companies that had no business being listed on a public exchange. This problem was a major reason that caused the SPAC bubble to burst, with immature companies who were in the venture phase being eaten up by retail investors who did not understand the J curve. The public market volatility also was more than likely detrimental to many of these companies.

Look at many of the companies that IPO'd or that raised capital between 2019-2021. Most of their share prices are well below their initial price. It's almost like these companies and their investors wanted some public liquidity to sell shares. How do you do this? You IPO or raise public capital to free up personal liquidity. We are only speculating on this front but many of the founders did sell a chunk of their shares when their lockup period ended.

However, after that mess, it seemed 2022 was a reset for both founders (and companies) and investors.

Perhaps, investors finally realized that they couldn't pile into any and every new aged company, and perhaps companies realized there are major advantages to being listed privately in your early days/ cash-burning days. Mature investors have different risk levels than the average retail trader.

As markets nose-dived in 2022, companies were cautious to raise capital as valuations were reset and they would be selling capital at the low. Investors were also cautious due to market volatility and liquidity drying up across markets.

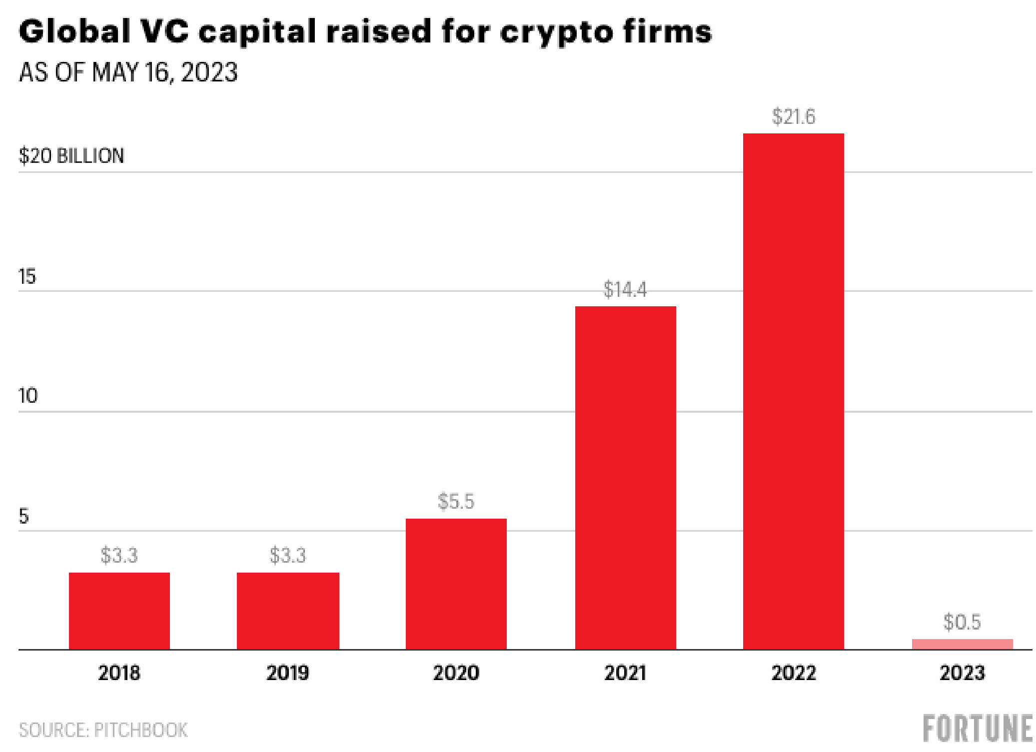
We bring this up because one segment of the market raised more capital in 2022 than it did in 2021. This subsegment of the venture world grew when markets were suffering. Investors ignored the red flags and continued to pile into this industry. When we saw the chart and saw what industry it was, we were extremely surprised.

Before we say what it was, we will preface by saying it's nothing in the commodity space (don't worry).

It was the crypto industry.

Venture investors poured $21.6 billion into crypto firms last year. An almost 50% jump from the year prior. These raises were despite Bitcoin, and other crypto assets tanking. These raises were despite all the funny business that occurred across the industry including the FTX fiasco, and numerous other Ponzi schemes across the cryptocurrency industry. In short order, investors ignored major red flags and poor performance and still believed in the sector despite any major changes.

Fast forward 5 months and investor capital has completely disappeared in the industry. The chart below only includes investments made during the first quarter (ending March 31st), even though it states otherwise, pitchbook data is reported quarterly. Nonetheless, investment in the space is way down and is projected to be lower than the pre-pandemic levels. Yet another pandemic-fueled bubble that unfolded in front of our eyes, crypto firms, exchanges, and companies raising infinite capital so investors and users can trade or own an asset that has no fundamental value.



We also think the FTX fiasco is a huge driver of capital in this space drying up. Some of the biggest investors in the world, as well as numerous A-list celebrities, got their hands caught in the cookie jar investing in the world's biggest Ponzi scheme since Bernie Madoff. LPs are probably telling their managers to not touch crypto with a ten-foot pole (at least for the time being).

Speaking of crypto

The bad press for the cryptocurrency industry is not over. The world's largest exchange was hit with some bad news this week despite cryptocurrency prices surging in 2023.

On Monday it was announced the SEC was suing Binance and its CEO Changpeng Zhao (known as CZ).

If you remember back in the fall, we talked about CZ's role in the FTX fallout, as he sort of triggered the eventual collapse. Recall, Binance owned shares in FTX's native FTT coin and they sold their holdings, crashing the coin, the exchange, and then the FTX empire which turned out to be a Ponzi scheme or a house of cards.

The SEC has charged CZ and Binance with 13 charges. Essentially the SEC is alleging both CZ and Binance comingled billions of dollars worth of user funds and sent them to a European company controlled by

Zhao. The SEC's entire case is based on Zhao's "web of deception". The suit alleged that Binance created U.S. only trading arms, BAM Trading and BAM Management US Holdings Inc., to avoid having its main exchanges, which were outside the U.S., fall under U.S. regulatory scrutiny.

One senior executive (CCO) at Binance allegedly told a compliance officer in December 2018 that the company was operating as a "[f---ing] unlicensed securities exchange in the USA bro."

The entire web of accounts and dodgy business practices led the SEC to file a court order for a temporary freeze of all Binance assets in the U.S. on Tuesday.

According to investing.com investors pulled out approximately $780 million in assets from Binance after the SEC's formal charges.

CZ immediately went to his Twitter account to deny the SEC charges. CZ and Binance essentially ripped the U.S. government for stunting and targeting the industry and its growth. CZ even retweeted several tweets that were in support of him and against the SEC:

We will preface by saying we have no stake in Binance or direct exposure to crypto assets. We also did not read the 130-page complaint that the SEC filed against Binance. We have no idea what Binance and CZ have done but believe some wrongdoing may have gone on. If you think the limited regulation of the industry only allowed FTX to break the rules and run a Ponzi scheme, then you are quite naive. This more than likely occurred across the industry, and we are in the early innings of reigning these problems in.

The SEC went another step further on Tuesday afternoon and filed a lawsuit against U.S. based crypto broker, Coinbase.

Although these large exchanges have been hit with lawsuits, bitcoin prices have remained stable. After a year of volatility and a major bear market, it seems only committed investors are left in the crypto space. The market capitalization of all crypto has collapsed from $3 trillion to $1.1 trillion over the last year or so. We think for now, cryptocurrencies could hang in there especially as markets continue to move in the right direction.

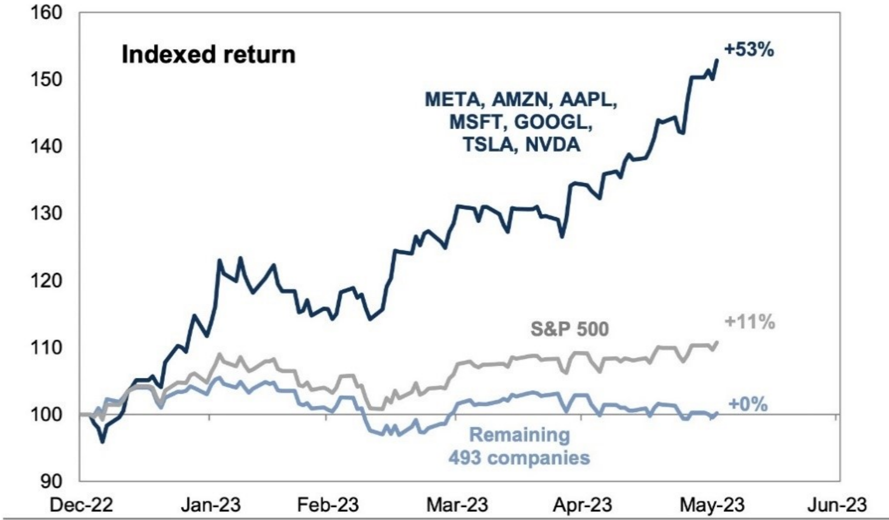
Coinbase's stock price on the other hand is down 14% over the last 5 days and 24% over the last year.

Big boys versus the rest

We have talked about the 2023 rally in length. Mega caps have pulled the market by its teeth. The S&P 500 and Nasdaq are up double digits through the first 5 months of this year, things seem good, most stocks are up big, right? Wrong.

If you take away the U.S.'s (world's) 7 largest tech stocks, the S&P 500 is flat this year and down since April.

Exhibit 2: Mega-cap tech has led the market higher YTD
as of June 1, 2023



Source: FactSet, Goldman Sachs Global Investment Research

The world's 7 largest tech stocks are up a whopping 53% cumulatively year-to-date. These companies are not just the world's tech giants, they are 7 of the 9 largest companies in the world.

Here are the world's largest public companies by market capitalization (highlighted in yellow are the companies used in this study):

Company	Country	Market Cap (June 7, 2023)
Apple	USA	$2.85 Trillion
Microsoft	USA	$2.47 Trillion
Saudi Aramco	Saudi Arabia	$2.09 Trillion
Alphabet	USA	$1.63 Trillion
Amazon	USA	$1.3 Trillion
Nvidia	USA	$973 Billion
Tesla	USA	$729 Billion
Berkshire Hathaway	USA	$727 Billion
Meta	USA	$701 Billion
TSMC	Taiwan	$532 Billion

Things on the surface may seem good and well, but when you take a peak underneath, markets are struggling/flat. It seems the 7 tech stocks are pulling the market along and they are purely being pulled by optimistic investors and hopeful aspirations down the road.

Apple shares are essentially at an all-time high and are up 43% year-to-date, however, Q1 sales and earnings were down from the year prior. Demand for iPhones, and Macs were down quite significantly year-over-year, yet Apple and its 6 tech compatriots continue to chug along to all-time highs.

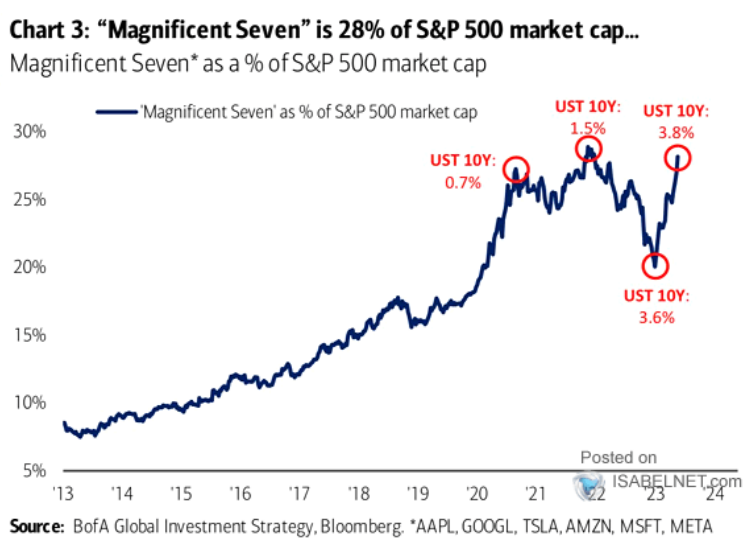
2023 is historic for the overall S&P 500 with the smallest number of companies outperforming the underlying index in over 15 years:

Only 25% of companies on the S&P 500 are outperforming the index this year, last year that number was close to 60%.

[Here are the year-to-date returns for every S&P 500 component.]

Today's rally is unlike one we have ever seen before. Tech companies are driving markets on pure investor optimism and hopes of global productivity improvements through new technology (artificial intelligence).

The group of 7 companies now accounts for a whopping 28% of the S&P 500:

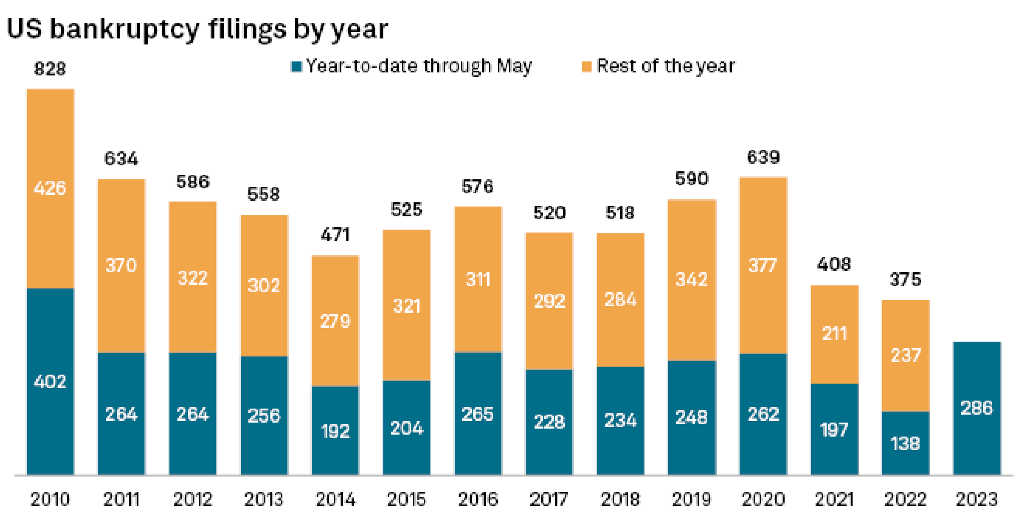


Talk about being too big to fail or too reliant on positivity.

These factors make us believe that markets could roar as other components play catch up in this recovery. We would also more than likely recommend exiting these big boys now as they trade at all-time highs. Most of their returns are unsustainable and all of them are trading extremely expensively on a historical basis and sector basis. For example, Nvidia trades at a PE ratio of 205x, Apple trades at 30 times earnings, and 45 times book, Tesla trades at 62 times earnings, and Alphabet trades at 28 times earnings. All are expensive, and all could potentially teeter with one missed revenue target or another interest rate hike from the FED. At that point, they are much more susceptible than other growth companies as well as value companies.

Bankruptcies galore

U.S. bankruptcies have almost doubled this year versus last year:



Data compiled June 2, 2023.
Includes S&P Global Market Intelligence-covered US companies that announced a bankruptcy between Jan. 1, 2010, and May 31, 2023.
S&P Global Market Intelligence's bankruptcy coverage is limited to public companies or private companies with public debt where either assets or liabilities at the time of the bankruptcy filing are greater than or equal to $2 million or to private companies where either assets or liabilities at the time of the bankruptcy filing are greater than or equal to $10 million.
Source: S&P Global Market Intelligence.
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286 bankruptcy filings in 5 months is quite the number. It is the most that have occurred in the first 5 months of a year since 2010.

This is the result of rising prices, decreased consumer demand, rising rates, and poor economic conditions which have been going on for the last year.

Here is a list of the largest bankruptcy filings in the U.S. this year:

Largest bankruptcies of 2023

Bankruptcies with more than $1 billion in liabilities

Company	Primary sector	Bankruptcy announced	Liabilities at initial filing ($M)	Assets at initial filing ($M)
Envision Healthcare Corp.	Healthcare	05/15/23	More than 1,000	More than 1,000
Kidde-Fenwal Inc.	Consumer discretionary	05/14/23	More than 1,000	100-500
Monitronics International Inc.	Industrials	05/14/23	More than 1,000	More than 1,000
Whittaker Clark & Daniels Inc.	NA	04/26/23	More than 1,000	100-500
Bed Bath & Beyond Inc.	Consumer discretionary	04/23/23	More than 1,000	More than 1,000
LTL Management LLC	NA	04/04/23	More than 1,000	More than 1,000
SVB Financial Group	Financials	03/17/23	More than 1,000	4,078.2
Diamond Sports Group LLC	Communication services	03/14/23	More than 1,000	More than 1,000
Avaya Inc.	Information technology	02/14/23	More than 1,000	More than 1,000
Serta Simmons Bedding LLC	Consumer discretionary	01/23/23	1,931.1	78.0
Party City Holdco Inc.	Consumer discretionary	01/17/23	More than 1,000	More than 1,000

Data compiled June 2, 2023.
NA = not available.
Includes S&P Global Market Intelligence-covered US companies that announced a bankruptcy between Jan. 1, 2023, and May 31, 2023, with liabilities of $1 billion or greater.
S&P Global Market Intelligence's bankruptcy coverage is limited to public companies or private companies with public debt where either assets or liabilities at the time of the bankruptcy filing are greater than or equal to $2 million or to private companies where either assets or liabilities at the time of the bankruptcy filing are greater than or equal to $10 million.
Source: S&P Global Market Intelligence.

Office continues to sink

In every cycle there is a big loser in real estate. Sometimes its residential, sometimes its retail, sometimes its industrial. Right now the big loser, post Covid-19 is office real estate. With today's economy and with many working from home this trend should not surprise you.

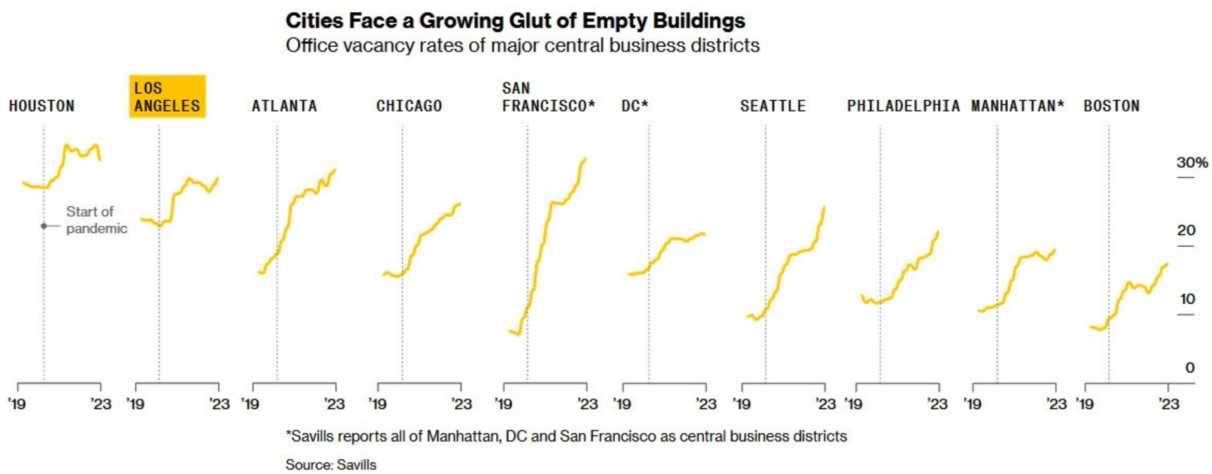
Office vacancies are up across the board in many major cities across North America. Investors are losing money on office real estate in the billions, especially as rates continue to rise.

Wells Fargo just reported a major loss on the sale of a building they picked up a few years back. The sale netted them a loss of $60 million. The building is not in rural Iowa or Fargo, North Dakota, it's in Silicon Valley in downtown San Francisco, the birthplace of the U.S. technology sector.

Wells Fargo to take a $60M loss on 13-story office tower in SF

550 California, purchased for $108M, has mystery buyer paying $43M to $46M

This trend is not uniform across the country, but San Francisco is leading the way:

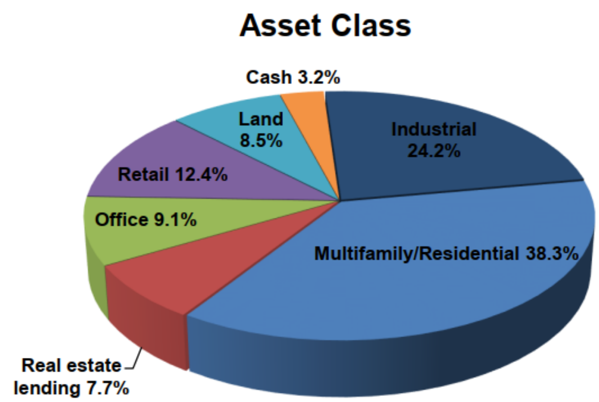


San Francisco currently has the largest vacancy rate for office space for a major U.S. city.

Currently, approximately 17% of all office space is vacant across the U.S. However, the real issue looming is not vacancy rates, it's $1.5 trillion in commercial real estate debt that is due in just 2 years. Most of this debt is held by regional banks and these vacant properties are struggling to pay down this debt due to shrinking cash flows.

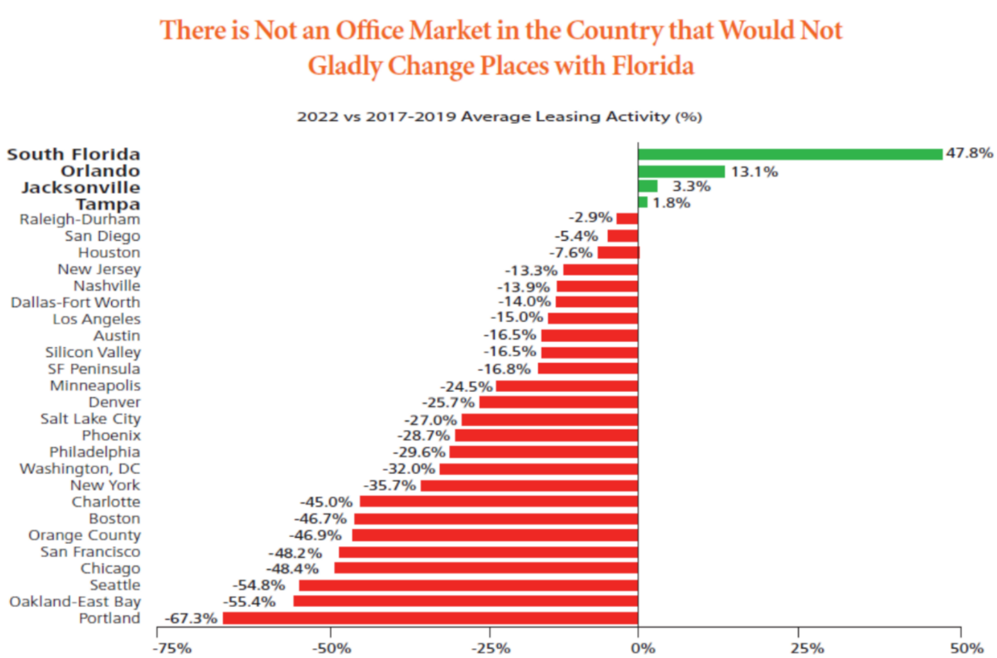
This trend of increasing office vacancies is not a pure Covid-19 trend. Vacancies have been increasing since 2016-2017 when national vacancy rates in metropolitan areas were near 16%. They are now at 19% and increasing.

The MAC 360 Degree Realty Income Fund has a limited exposure to office real estate:



As of April 30, 2023, the fund had 9.1% of assets allocated to office real estate. A large portion of this office real estate is in the southeastern area of the U.S. which has much lower vacancy rates than the rest of the country. This area of the country has a growing population, labour force, and economy, and has a lower percentage of remote jobs than the country. For example, office vacancies in Miami have decreased since 2020 and sit well below the national average for office vacancy rates. We think this regional trend will continue like we have forecasted in the past in many of our other publications.

The chart below highlights this trend:



Source: U.S. JLL

[Click here to learn more about our MAC 360 Degree Realty Income Fund.]

Bank of Canada does it again

The Bank of Canada announced that it will raise interest rates by another 25 basis points on Wednesday. After Wednesday's policy decision interest rates are at their highest point since April 2001. This hike brings the Bank of Canada's key interest rate to 4.75%.

The Central Bank pointed towards stubborn inflation, and resilient economic data points as the reason to raise its rate once again. The Canadian economy grew by 3.1% during the first quarter of this year despite major recession worries. Inflation in April also came in hotter than expected jumping to 4.4% surpassing expectations of 4.1%, and March's inflation rate which was 4.3%.

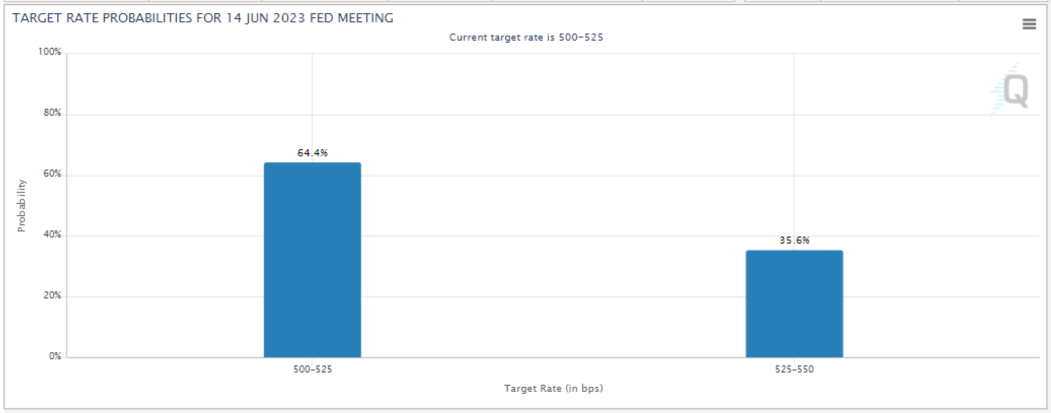
This interest rate hike was different because the last two meetings by the Bank of Canada resulted in a pause from the Central Bank. Rates remained unchanged in March and April (there was no announcement in February or May, so rates had remained unchanged since January). Before that the Bank of Canada had raised its key interest rate 8 months in a row, with increases ranging from 0.25% to 1%.

The next interest rate announcement to come from the Central Bank is on July 12th.

Will this result in the FED continuing to raise interest rates or will the FED pause like many are forecasting?

Here are the CME Group's rate probabilities for June 14th's meeting:

MEETING DATE	CONTRACT	EXPIRES	MID PRICE	PRIOR VOLUME	PRIOR OI	EASE	NO CHANGE	HIKE
14 Jun 2023	ZQM3	30 Jun 2023	94.8763	30,441	269,595	0.0 %	64.4 %	35.6 %



TARGET RATE (BPS)	PROBABILITY(%)			
	NOW *	1 DAY 6 JUN 2023	1 WEEK 31 MAY 2023	1 MONTH 5 MAY 2023
500-525 (Current)	64.4%	78.2%	73.6%	91.5%
525-550	35.6%	21.8%	26.4%	8.5%

Notice something?

They believe there is a 64% chance of interest rates remaining unchanged which sounds promising, however, at the bottom of the chart you can see how expectations have changed on this decision over the last month, week, and day. Just a month ago there was a 92% chance of rates remaining unchanged, and yesterday a 78% chance. The large swing is more than likely due to economic data points which have beat expectations as well as policy decisions made by other Central Banks over the last few days.

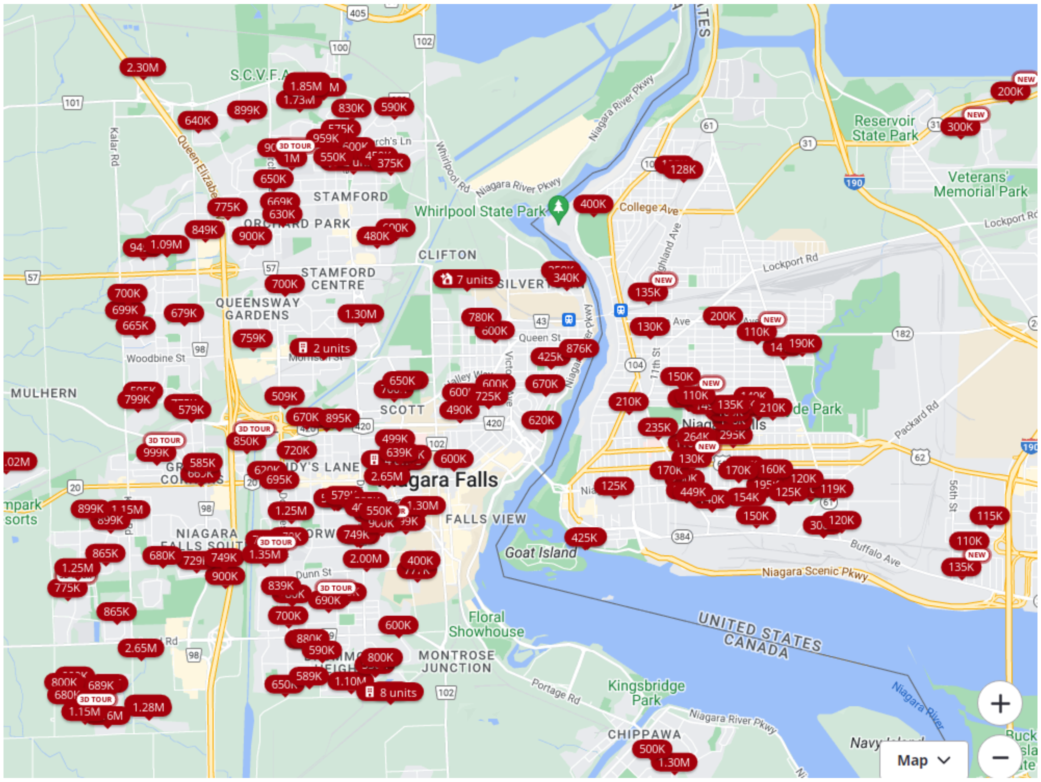
The resurgence in core inflation in Canada should serve as a warning to the FED (and other Central Banks) that inflation could remain sticky and the return to 2% will not be as smooth as they once thought.

The rate hikes that started last year have sent Canadian residential real estate prices tumbling. The average home across the country has lost 8.5% of its value over the last year (as of April 30, 2023). This is the largest decline on record and yes that includes the financial crisis in 08/09.

The comfort Canadians were given by booming real estate early in Covid-19 is slowly disappearing as home prices decline.

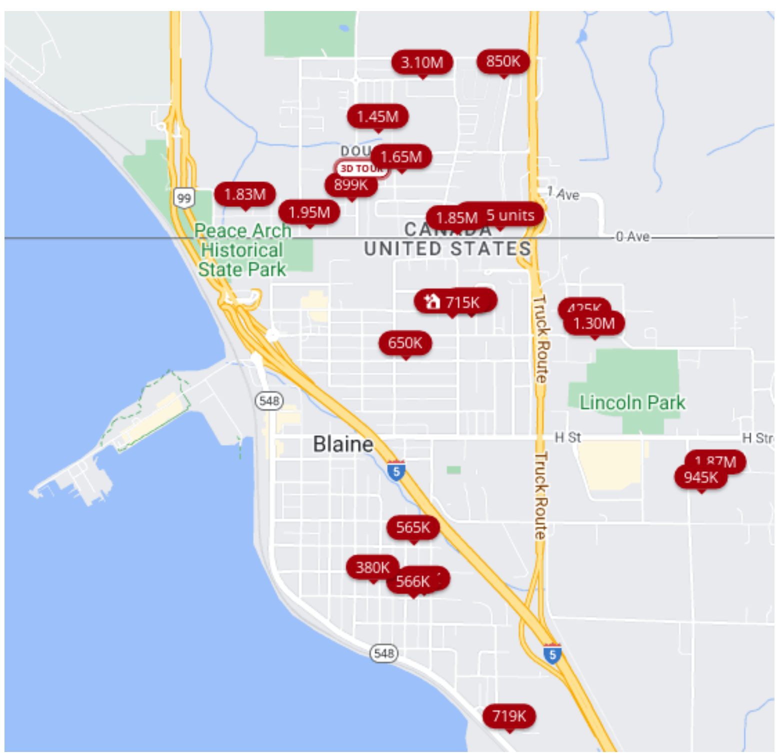
However, do not go on the offense just yet, Canadian real estate is by no sense cheap relative to the U.S. yet.

Here is the Niagara Falls border, comparing the real estate prices on the Canadian side and American side, you tell us what stands out.



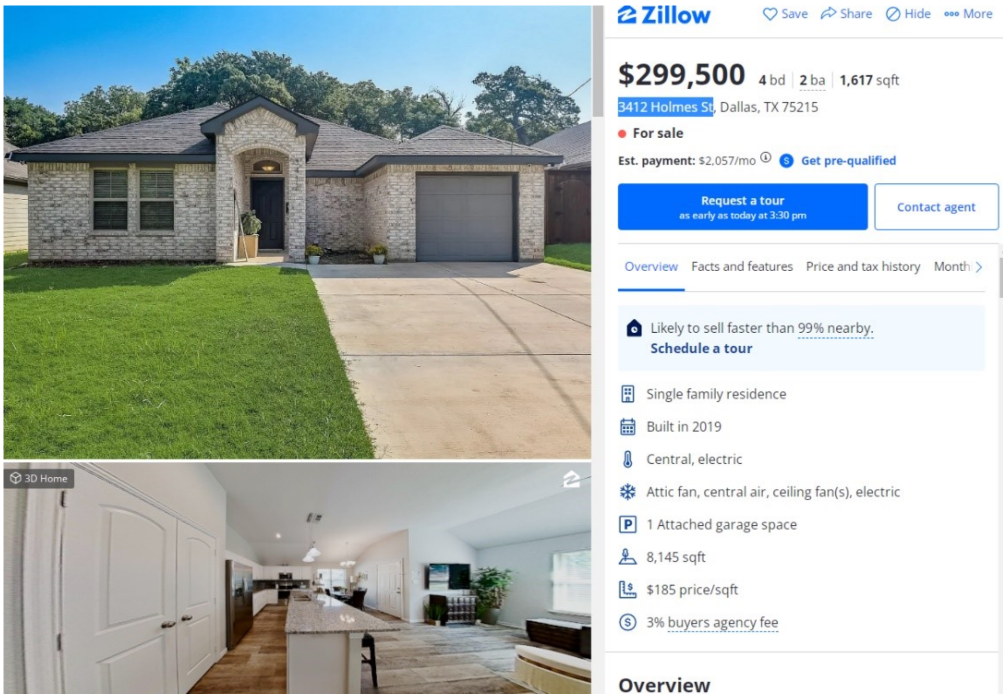
It’s not just in Ontario.

Here are the home prices on the Washington/ British Columbia border:



We know home sizes, proximity, safety, demographics, job growth, and many other factors go into these home prices but the quick jump across the border is quite telling.

For example, we bet a lot of Canadians would sign up for this home in Dallas, Texas ahead of the GTA if they could:



Before you say, it's in rural Dallas and the boonies, it's a 10-minute drive from American Airlines Arena (home of the Dallas Stars and Mavericks). We could be off base with area and all but you simply cannot find a detached home that is brand new in the GTA within half a million of this home in Dallas.

The Saudis do it again

This entry is for our readers who love golf. We are sure you heard about the PGA and LIV Golf merging this week and are wondering what's next.

For those of you that do not know, the PGA Tour got a formidable challenger recently, LIV Golf. LIV was founded in 2021 by the Saudi Public Investment Fund (PIF), an entity controlled by Saudi Crown Prince Mohammed bin Salman and began its tournaments last year. The tour was run by Greg Norman, a former great in the golfing world. LIV's premise was simple, a less grueling schedule (ie. fewer and shorter tournaments) and huge payouts. Since LIV was funded by the PIF, they essentially had a blank cheque book. They gave extremely lucrative deals for several top 20 golfers and ran their tour for a year. They had approximately 75 players which included Phil Mickelson, Brooks Koepka, Sergio Garcia, Dustin Johnson, and Cam Smith. These players were given nine-figure deals. In return, the PGA Tour underwent a battle against LIV, they stripped these players of their tour cards, and for the most part, barred them from competing in their tournaments. LIV players seemed fine with this as their payouts were massive. The only issue is LIV struggled to find any revenue - no major network picked them up and advertisers steered clear of the tour. The entire tour seemed like a cash burn that you could watch for free on YouTube.

We will not get into the ethical issues with LIV and being funded by the Saudi Arabian government, but we will say the PGA's main sticking point was ethical issues with the Tour and the Saudi Arabian government's checkered past. We all know how the Saudi government has acted when it comes to human rights and its reported involvement in 9/11. Many PGA players echoed these concerns and rejected LIV's lucrative offers. World #1 Jon Rahm and Rory McIlroy were reportedly offered hundreds of millions each by LIV, and Tiger Woods was reportedly offered north of a half billion dollars to join the tour.

Fast forward a year (a very rocky year between the competing tours) and the dust had finally seemed to calm between the two. The PGA tour increased prize money to incentivize its golfers to stay and LIV was slowly gaining some popularity.

That all came to a stop on Tuesday when the two leagues announced a merger.

Sport ▸ Golf ▸ Rory McIlroy

LIV Golf merger LIVE updates from Rory McIlroy press conference after heated PGA meeting

The PGA tour sold out and took the money that many PGA tour players (Woods, McIlroy, Rahm) had rejected. The players that left the PGA tour for LIV will now rejoin their fellow golfers on the PGA tour. The deal will squash pending litigation and move forward as a larger golf enterprise.

The PIF is run by Yasir Al-Rumayyan, a close confidant of the Saudi Crown Prince.

> The joy on Al-Rumayyan's face was evident. This was a new kingdom, one outside the kingdom of Saudi Arabia, where he serves as right-hand man to Crown Prince Mohammed bin Salman, one of the world's most powerful and controversial rulers.

The PIF is rumored to have assets north of $620 billion. The PIF has diversified in recent years and is a very powerful organization. Yasir serves as the Chairman of EPL Club Newcastle and the world's largest petroleum producer Saudi Aramco, sits on the boards of Uber and Softbank and now essentially owns a stake in the PGA Tour. Quite the diversification and a very powerful man today. As a part of the many beliefs LIV Golf will fold and the PGA tour will emerge as a for-profit organization in which Yasir (and the PIF) will have voting power on the newly elected Board of Directors (which has not been named).

The power dynamics are still up in the air, but many believe the PIF could hold all the power in golf when the dust settles:

LAST CALL

SHARE

'Yasir Al-Rumayyan is going to be the most powerful person' in golf, says Barstool's Sam Bozoian

Jimmy Roberts, NBC Sports & Golf Channel broadcaster, Sam Bozoian, Barstool podcast host, and Marc Ganis, Sportscorp founder and CEO, join 'Last Call' to discuss the PGA's surprising move to partner with Saudi-backed LIV Golf.

SPORTS

PGA Tour-LIV Golf merger is a major win for the Saudis — and Americans are slamming it

PUBLISHED WED, JUN 7 2023•8:12 AM EDT | UPDATED 2 HOURS AGO

Beyond its purchase of Newcastle, and its stakes in SoftBank and Uber, the PIF has made major investments in Amazon, Alphabet, Microsoft, Boeing, Bank of America, Disney, and Meta (worth billions). The investment vehicle has also aggressively spent money on hosting boxing matches, and a Formula One race. Rumors have swirled that they also are in the market for an F1 Team. The country has also aggressively spent money on soccer players this year to play in the Saudi soccer league. Saudi Arabia is also expected to make a major push for the 2030 World Cup. The country's diversification beyond fossil fuels seems legitimate and they seem to be targeting sports and technology to get the job done. Sports could also be a way to improve their reputation across the globe after decades of controversy.

The one thing we know, PGA golfers are probably quite upset at the tour's leadership at this moment.

Either way, we are looking forward to seeing the details of this deal as they are released.

MacNicol & Associates Asset Management
June 9, 2023