THE WEEKLY BEACON	AUGUST 18, 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

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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.

Bakers Island Light, *Salem, Massachusetts*

This lighthouse was currently established in 1791. The current structure was built in 1820 and stands at 111 feet tall. In 1791 and 1820 there were two lighthouses constructed on this property. They were nicknamed “Mr. and Mrs.”. The smaller tower was eventually deactivated and permanently demolished in 1926.

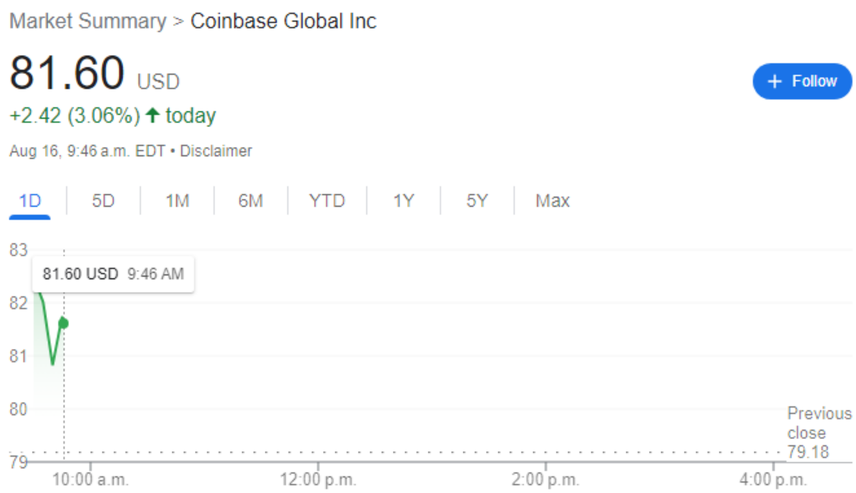
Portland Head Light, *Cape Elizabeth, Maine*

Portland Head Light is one of the most visited lighthouses in the U.S. According to world Atlas the lighthouse is the most photographed lighthouse in the country. The lighthouse stands at 101 feet and was first lit in 1791.

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

Coinbase gets the green light

Coinbase Global, a cryptocurrency exchange and broker got the green light from regulators to offer eligible U.S. customers access to cryptocurrency futures. The National Futures Association, a self-regulated body designated by the Commodity Futures Trading Commission approved Coinbase Global's application to operate as a Futures Commission Merchant. Regulators announced the decision in pre-trading on Wednesday, sending Coinbase's stock upward.



Futures Commission Merchants act as brokers for derivatives, which allow traders to make bets with leverage, or borrowed money. Coinbase and its competitors have been under immense pressure in recent months due to a lawsuit from the SEC. The SEC accused Coinbase in June of operating illegally as it had failed to register as an exchange. Coinbase's CEO has taken shots at U.S. regulators in recent months citing that U.S. regulators could push more crypto exchanges offshore due to overregulation of the industry.

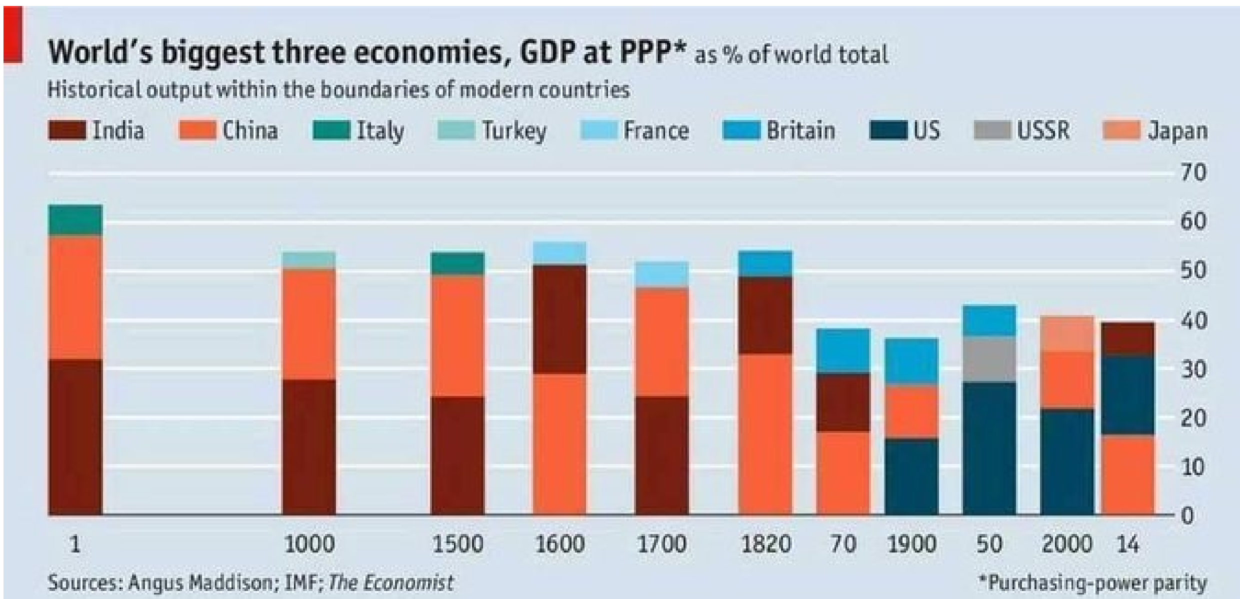
Coinbase responded to this decision by the NFA by saying this was a critical milestone for the community and company.

The global derivatives market represents approximately 80% of the entire crypto market, with leveraged bets on futures and other derivatives often at the root of volatility in the wider market. In July, cryptocurrency derivatives trading volumes totaled about $1.85 trillion, according to research firm CCData.

This decision will not impact us and our holdings, but we thought it was worth something to share as it could be a big step for the crypto world which has faced numerous hurdles in recent years. It also seems investor demand has slowed in this area as hype investors focus on other areas like artificial intelligence.

British investment due to American dominance

The world's largest economy is the U.S. The U.S. economy has dominated the world for over a century but many point to the post-war period in the late 1940s as the time the U.S. surpassed the United Kingdom. The U.S. has dominated numerous industries during various periods including steel, automobiles, financials, energy, and technology. We point to the 1940s as the U.S. was booming during this period and Europe was rebuilding from a costly war.



A large part of the recent success of the U.S. economy comes from technology and financials. The U.S. is home to the financial capital of the world, New York City, and the technology capital of the world, San Francisco. These two sectors have allowed one another to grow at an exponential pace over the last 20+ years. Venture capital and private equity have grown in popularity over the years as they have helped fund some of the largest companies in the world.

As the global leader in technology and finance, the U.S. has blended the two sectors that we know to create Fintech where founders look to revolutionize finance through technological advancements. It's part of the reason that robo advisors, blockchain technology, new brokers, and other forms of technology have been created in recent years. Much of this Fintech was developed on the backs of venture capital investors.

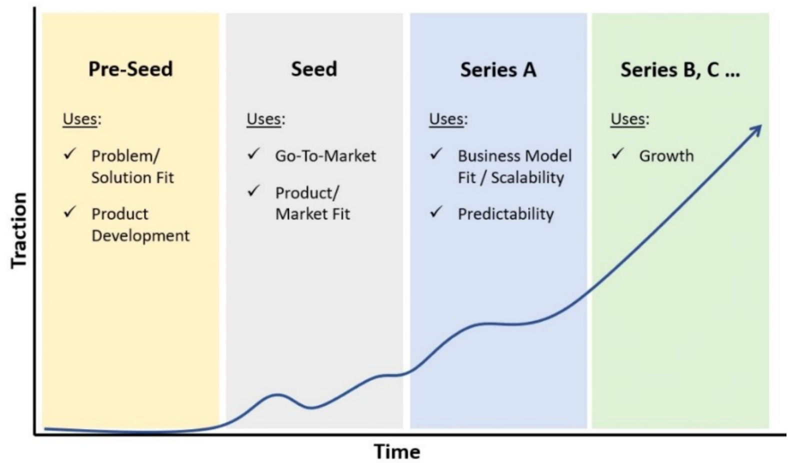
The success of Fintech in the U.S. has led the United Kingdom to launch its Fintech fund with up to $1.27 billion in capital. The fund is backed by Mastercard, Barclays, and the London Stock Exchange and will invest in growth-stage financial technology companies.

The United Kingdom has faced scrutiny in recent years for its overregulation of the industry which has stunted its growth and denied it a seat at the table globally.

This move is a major bid to bolster Britain's global image as a Fintech hub.

The fund is being advised by Pell Hunt, a British investment bank that will invest in companies as they seek Series C rounds and above.

For reference, here is a very simple chart that looks at the timeline of venture capital funding.



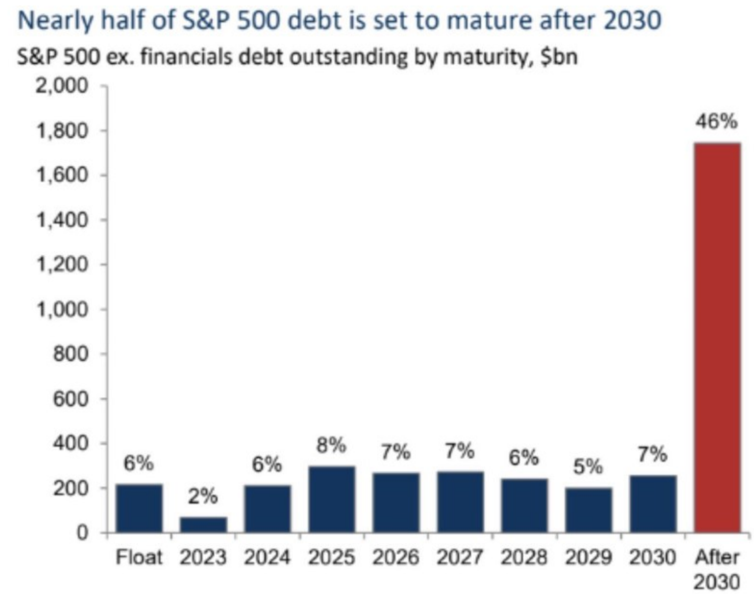
The barriers installed by the British government in recent years have led companies to leave the country and seek public listing on other exchanges.

The fund also counts Philip Hammond, the former U.K. finance minister, as an advisor.

The United Kingdom is home to 16 of the world's top 200 Fintech companies, according to research firm Statista. However, due to market turbulence over the last 18-20 months, British Fintech investment plunged by 57% in the first half of 2023. Many point to this move as a strong start for the British who one day want to compete with the U.S. in the Fintech world. We expect many large financial institutions to monitor and invest in this area as well as seek to find digital solutions and revolutionize their platforms.

Lack of an impact

The Fed raising interest rates has negatively impacted consumers across the country. Mortgages, car loans, and other lines of credit are becoming more expensive as financial institutions raise their consumer rates to track the FED Funds Rate. This has led to consumers dipping into their savings and deteriorating their balance sheets. However, interest rates rising has had a smaller impact on large corporations than that of consumers. This is because most of the corporate debt companies in the S&P 500 have on their balance sheets matures after 2030, almost 7 years from now.



Source: Bloomberg, Goldman Sachs GIR.

This is why corporate interest expenses have not surged over the last year. Even if they have, they have not surged as much as they have for consumers who have variable mortgage rates or entered into a new mortgage agreement.

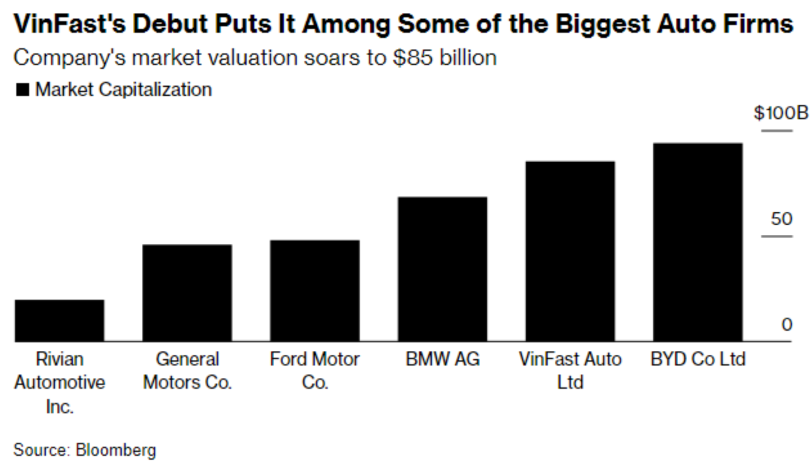
In other words, kicking the problem down the road to tomorrow's investors who will most definitely see higher interest expenses on income statements. The 0% interest rate period that we saw in the 2010s and early 2020s was more than likely an anomaly, even though Central Banks will probably cut rates slightly in the mid-term, do not expect them to cut them all the way back to 0-1%.

The return of 2020 and 2021

On Tuesday, VinFast, a Vietnamese electric vehicle maker made its U.S. public market debut when it was officially listed on the Nasdaq after a merger with a U.S. SPAC company. It's like late 2020 or early 2021 all over again! SPAC companies merging with electric vehicle producers - talk about déjà vu. VinFast was only founded 6 years ago by Vietnamese billionaire, Pham Nhat Vuong. VinFast is the automaking unit of the Vietnamese conglomerate, Vingroup.

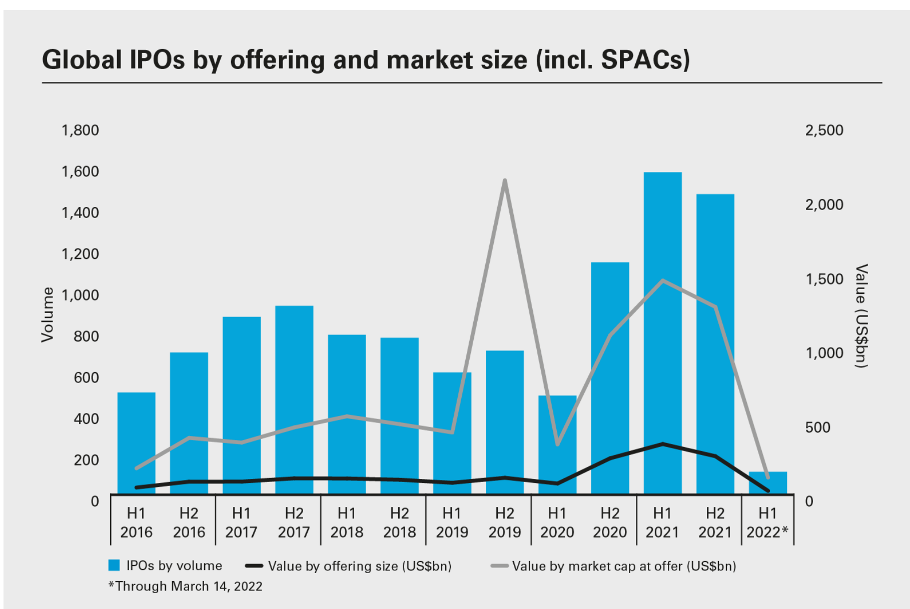
VinFast merged with U.S.-based special purpose acquisition company, Black Spade Acquisition. The SPAC agreement originally valued VinFast at $23 billion which would be the 20th largest market cap for a car producer in the world. This deal originally valued VinFast at the same market cap as Kia, a South Korean auto producer that produced $65.7 billion in revenue in 2022 from the sale of 2.904 million vehicles. VinFast sold approximately 7,400 vehicles in 2022. The Founder of VinFast believes they could sell 40,000-50,000 units this year.

However, after the merger between VinFast and the SPAC, shares surged to a point where VinFast was worth over $85 billion. This briefly made VinFast the fifth most valuable auto producer in the world only behind Tesla, Toyota, Porsche, and BYD, making VinFast for a moment more valuable than the likes of BMW, Ford, GM, and Honda.



On Wednesday, VinFast shares retreated approximately 21% placing its market capitalization at $67 billion which is the 8th largest in the world (for an auto producer).

Even though we did not buy VinFast for our clients and have not looked at this deal, we can honestly say VinFast is currently overvalued by what we have seen. The stock is surging purely due to investor hype, volatility, and a lack of public market debuts recently. When we say a lack of public market debuts, we mean IPOs and SPAC mergers with well-known companies, both are at decade lows due to public market underperformance, high-interest rates, and a lack of investor confidence. Just like pent-up demand for certain products or services occurred during Covid-19, pent-up demand for IPOs and SPAC mergers occurred over the last 18 months.

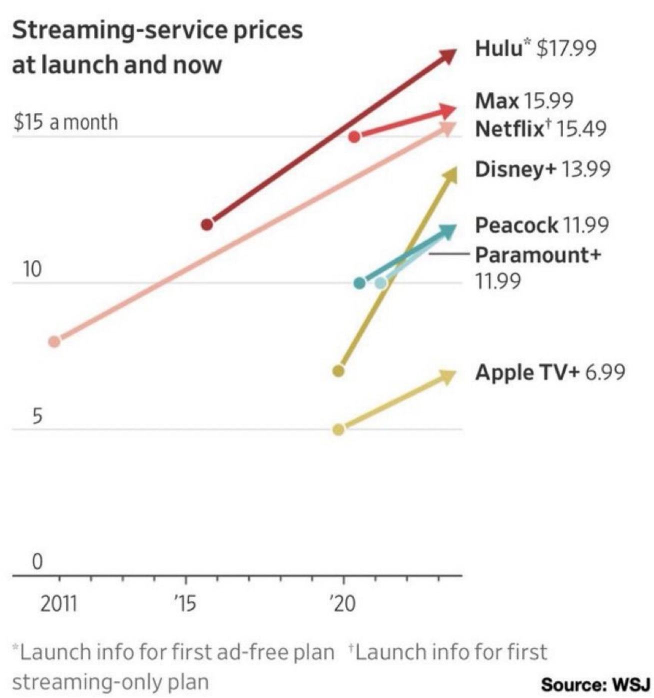


VinFast received $2.5 billion from its parent company in April to continue its global expansion. However, VinFast did have production delays for its vehicles. It originally had a December 2022 goal for its first U.S. delivery of a vehicle, compared to its actual first delivery which occurred over 3 months later. VinFast's biggest U.S. initiative is a production facility in North Carolina that is set to open in 2025 that will be able to produce 150,000 vehicles a year. VinFast is facing the same issues many other electric vehicle producers have faced in recent years. The reasons we have been critical of Lucid Motors, Rivian, and Nikola are the same reasons we will be critical of VinFast. The only major difference is VinFast's chairman is already a billionaire, and their public market debut was not purely about money, it was more about access to Americans. The other major difference for VinFast compared to other automakers is its liquidity. Its Chairman and Founder control 99% of the shares. This makes VinFast prone to large swings, but it also limits investor access to the company's stock.

We will have to see what happens next. We are not sure if this will buck the trend of electric vehicle makers or continue down the path of shareholder destruction that has plagued the industry for the last 2 years.

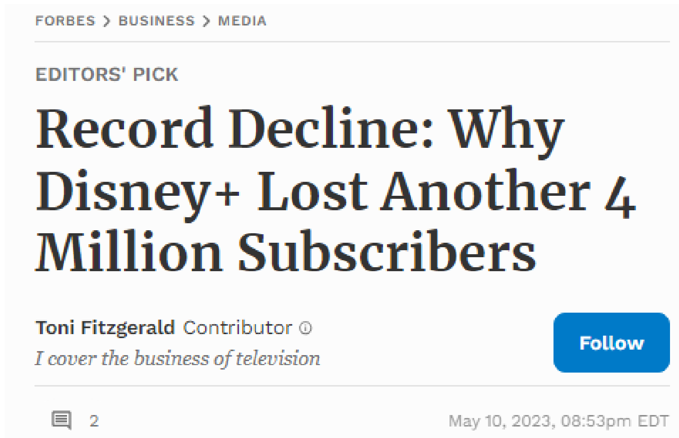
Pricing for streamers

Streaming companies were supposed to be a cheaper alternative to cable or traditional television. As more and more companies enter the industry, content is being spread across more platforms that are not as cheap as they once were. Every streaming company has raised their prices in recent years and some by quite a margin.



This has made subscriptions to streaming giants an added expense for consumers that is seen as a luxury and not a cheap necessity that consumers can stomach paying $7 to $8 a month.

This is the reason some streamers have reported their first declines in subscribers on record. Disney Plus has doubled in price in a few short years. It might not seem like a lot of money but when you add 3 platforms monthly costs, you are well over $40 a month in just streaming services.


FORBES > BUSINESS > MEDIA

EDITORS' PICK

Record Decline: Why Disney+ Lost Another 4 Million Subscribers

Toni Fitzgerald Contributor
I cover the business of television

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May 10, 2023, 08:53pm EDT

Bundling all these streaming platforms has become too expensive for some consumers who are returning to traditional television companies who have partnered with certain streaming platforms to include the streamer in their cable package.

We think this trend will continue as streaming rights get more expensive and streamers are required to become profitable and improve their financial situations. This will lead to more consumers turning to streaming alternatives which include traditional live television, and online piracy.

For now, we believe Netflix, Disney Plus, and other streaming stocks are overvalued and trade too expensive for our appetites.

MacNicol & Associates Asset Management
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