THE WEEKLY BEACON **DECEMBER 1, 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.

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ASSET MANAGEMENT

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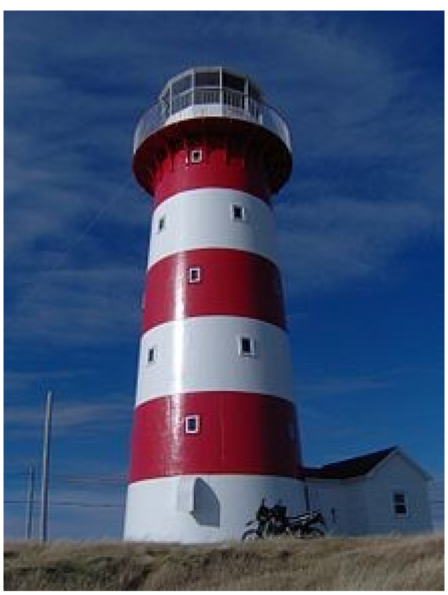
BEACONS OF THE WEEK

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.

Cape Mudge Lighthouse,
Quathiaski Cove, British Columbia

Cape Mudge Lighthouse is located on Quadra Island which is off Campbell River, on the east coast of Vancouver Island. The lighthouse stands at 12 meters tall and opened in 1898.



Cape Pine Lighthouse, *Cape Pine, Avalon Peninsula Newfoundland and Labrador*

Cape Pine Light was built on Cape Pine, Newfoundland by the British architect, and engineer Alexander Gordon in 1851. The lighthouse is 15 meters tall and is operated by the Canadian Coast Guard.

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

Recession not here yet

As Central Banks have raised interest rates, many investors and economists have warned of a looming recession when interest rates peak. Even though interest rates in the U.S. have remained the same since July 26th, we still do not seem to have that recession many have warned us about.

We say that because consumers spent a record amount on Cyber Monday. U.S. shoppers spent an estimated $12.4 billion online on Monday, a 9.6% increase from last year. In the peak hour between 10 a.m. and 11 a.m. Eastern consumers spent $15.7 million a minute.

The buy now, pay later trend is certainly going to eventually bite consumers in the ass. Consumers spent $940 million on the buy now, pay later options available to consumers on many online platforms. This was a 43% increase from last year. Adobe expects November to be the biggest month on record for the payment method.

Platforms such as Apple, Amazon, and Lululemon offer consumers these methods. Payment plans vary by retailer.

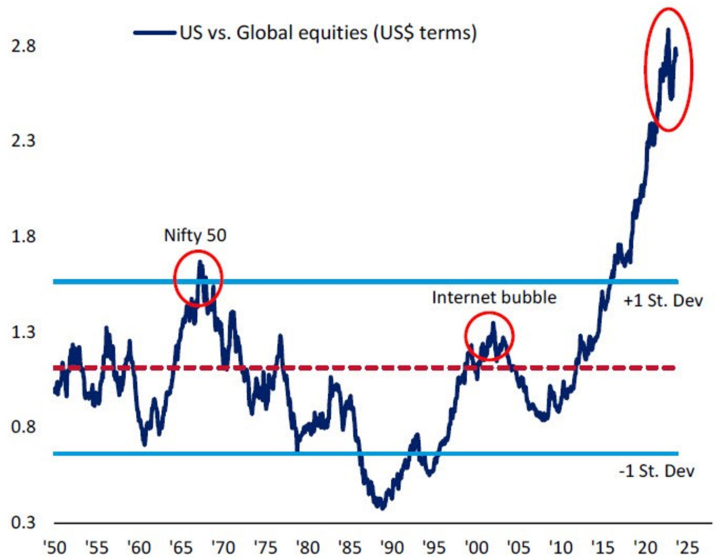
However, despite the splurge in spending, many consumers received huge discounts over the holiday weekend. Discounts hit record levels in some categories including electronics which peaked at 31% off listed prices, greater than the 25% peak last year.

E-commerce stocks had a good day on this news following the strong weekend online. Wayfair's stock price jumped 7.4%, Shopify rose 4.9%, and Etsy jumped 3%. The share price of Affirm stock jumped 12% on Monday. Affirm is a platform that supports retailers in the buy now, pay later option. Affirm shares jumped another 6% on Tuesday morning. Affirm shares are up 240% year to date and are at a 52-week high. However, shares are down 74% since the company's public market debut in January 2021.

U.S. versus the rest

We all know American equities have blown global equities out of the water over the last 14 years. However, U.S. equities are at extreme levels relative to global equities. The chart below illustrates the relative performance between U.S. equities and global equities over the last 75 years. The never-ending bull market for U.S. equities is at unprecedented levels. We did not reach close to these heights even during the Internet bubble.

Exhibit 32: US is near extreme peaks vs. global equities, well exceeding the 60s/70s Nifty-50 and 2000s tech bubbles
US vs. World ex-US equities (relative price performance, USD)



Source: BofA Global Investment Strategy, Global Financial Data

Perhaps this Bank of America chart is an early indicator for investors to sell some U.S. equities and diversify their portfolio's equity composition by geographic region. We have begun to add positions in Mexico, India, and Argentina over the last year as well as our focus on Canada. We feel these additions will further diversify our clients' portfolios moving forward.

Charlie Munger

CNBC announced that Charlie Munger passed away on Tuesday at the age of 99. Munger was the Vice Chairman of Berkshire Hathaway and Warren Buffett's right-hand man. The investing genius remained active at Berkshire this year.

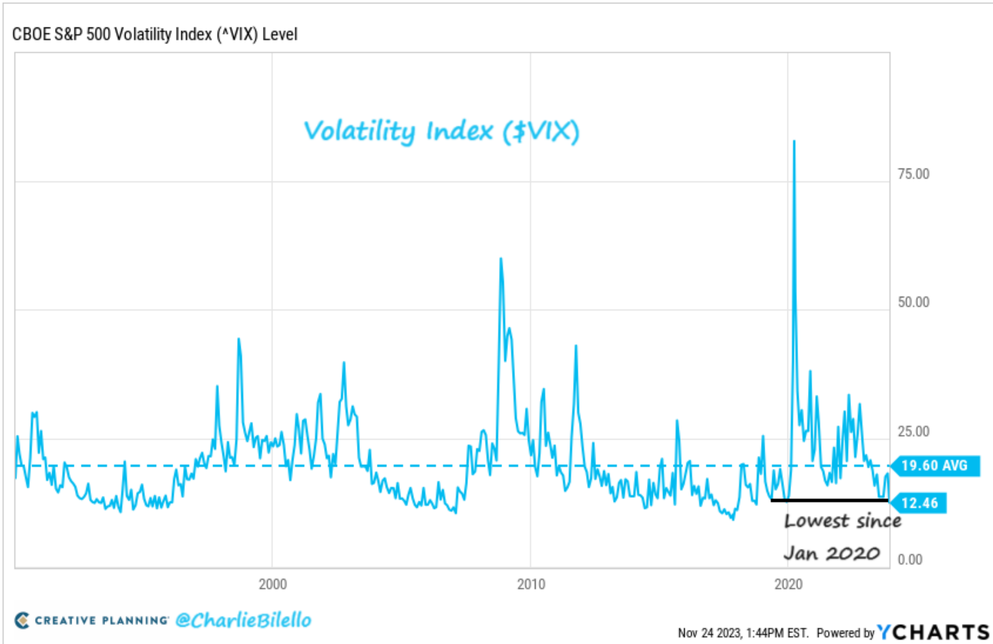
Buffett credited Munger with broadening his investment strategy from favoring troubled companies at low prices in hopes of getting a profit to focusing on higher quality but underpriced companies. Munger will go down as a legend in asset management. Berkshire shares are up 40,000% over the last 40 years. Over the same period, the S&P 500 was up 2,653%.

Munger leaves behind 7 children and a company that he described "is set up for success moving forward".

We will leave you with one quote from Munger that we will never forget. "Cryptocurrency is 'crazy, stupid gambling,' and 'people who oppose my position are idiots'". "I'm ashamed of my country that so many people believe in this kind of crap and the government allows it to exist." In recent years, Munger has called crypto a type of "venereal disease" and once referred to Bitcoin as "probably rat poison squared."

<u>Where has volatility gone?</u>

The Volatility Index (VIX) ended last week below 12.5% to its lowest level since January 2020. Despite the market's rebound during Covid-19 and the strong returns of 2023, the VIX remained elevated relative to historical values for over 3.5 years.



The VIX has also declined 41% over the last 4 weeks. According to Charlie Bilello, this is the 9th largest decline over 4 weeks for the VIX.

While the VIX has crashed, major U.S. indices moved higher, and are close to all-time highs. The S&P 500 and Nasdaq 100 are within 2% of all-time highs. Meanwhile, the Russell 2000 sits over 20% from an all-time high. Small caps have continued to show weakness this year despite the market's rebound. Investor sentiment will have to change for small caps to return to a bullish trend.

<u>Gold's sentiment</u>

For those who turned their back on gold a month ago or earlier this year, this entry will be annoying. Gold is back and within spitting distance of all-time highs (in terms of price).

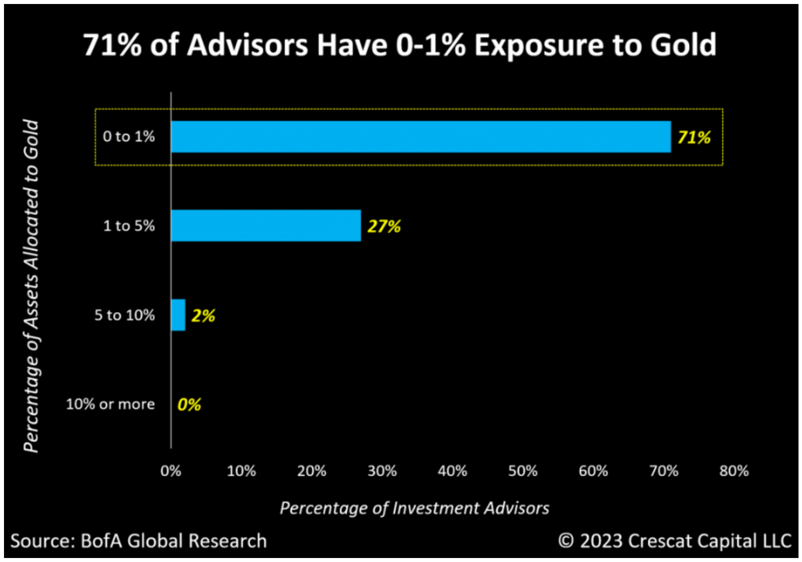
The precious metal is up over 12% year-to-date, and 16% over the last year.

The asset diversifies an investor's portfolio and provides investors with a physical hedge against inflation. Gold is a strong store of value and has surged in price recently as the U.S. Dollar has shown some weakness.

Despite the physical price rebound, mining stocks continue to lag and are well off their 52-week and all-time highs.

We are proud to say that we have (for the most part) stuck it out in the gold industry despite the recent weakness over the last 18-24 months. Our investors have exposure to physical precious metals (including gold, silver and platinum), large-cap gold mining companies, and select small-cap gold mining companies. We believe our diversified approach to gold will give our investors the most upside moving forward. Gold has been playing catch-up for quite some time but could provide a portfolio with strong returns moving forward. This sector is very challenging to trade. One day we will wake up and be pleased to have positions in our portfolios.

Despite gold's recent price movements and the cheap valuations most miners trade at, many advisors still have almost no exposure to the precious metal.

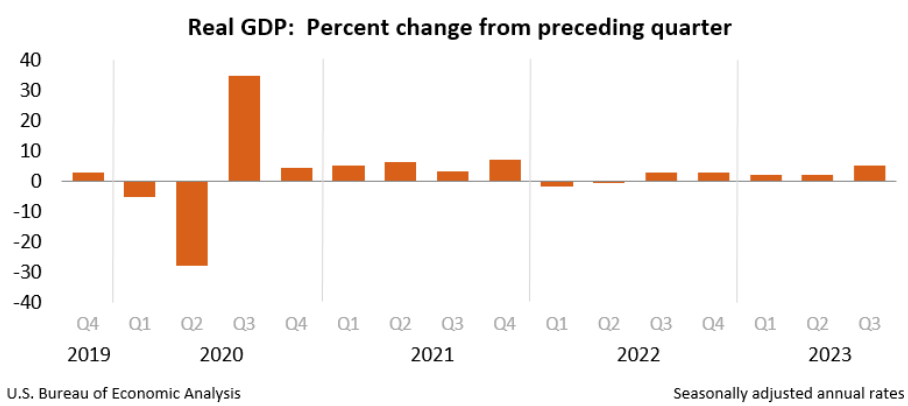


We think every investor, no matter the size should have some sort of physical precious metal exposure.

We are bullish on the physical price of gold moving forward.

U.S. economic data

The U.S. economy grew at a 5.2% annual pace during the third quarter, faster than the initial reported rate of growth which was 4.9%. This quarterly growth rate (annualized) is the highest increase in a decade if 2020 and 2021 are excluded.



However, the strong growth rate looks to be a one-off as the economy looks to have cooled off during the 4th quarter. Consumer spending has been softer in the first 6 weeks of the 4th quarter and businesses have slowed down their number of hirings. GDP is expected to be between 1% and 2% in the 4th quarter.

All the figures mentioned above are adjusted for inflation.

Consumer spending represents about 70% of the economy. The increase in the third quarter was unusually large and cannot be sustained given the current level of growth in household incomes, economists say.

Even with strong Thanksgiving week spending, GDP numbers for the 4th quarter of 2023 will more than likely lag the reported numbers from Q3.

GDP numbers are updated twice after the initial results are published to incorporate new information not immediately available. The second update for the third quarter is due in one month.

Goldman pivots on China

Goldman Sachs CEO and famous DJ David Solomon spoke at the Financial Times Global Banking Summit earlier this week and it seems Goldman is turning on China.

Goldman's strategy on China over the last 5-10 years had been "growth at all costs", they were very bullish on the Chinese market and economy. A few years later it seems their minds have changed as they have pivoted to a conservative strategy on China. At the conference, Solomon announced that Goldman would be "paring back some of our financial resources there, simply because there's more uncertainty".

This is big as Goldman has been one of the bullish Western institutions in China over the last decade. Goldman has also had offices in Hong Kong for over 40 years and opened its first office in mainland China in 1994. This history has cultivated deep corporate ties for Goldman in China. It is one of the most closely followed U.S. companies in the country.

So why did Solomon and Goldman have a change of opinion? Risk. Geopolitical uncertainty and risks associated with trade and economic sanctions between Beijing and Washington.

Solomon said the issues between the two will take years to resolve as the issues are deep-rooted and some might be unsolvable. Solomon went on to say that the recent dialogue and conversations between Presidents Xi and Biden are encouraging.

We remain on the sidelines in China and believe the geopolitical risks associated with the country are too large of a risk for investment. We think foreign investment in China could slow down as more and more investors and institutions grow tiresome with the authoritarian Chinese government.

Investors like what GM announced

General Motors announced dividend boosts and stock buybacks on Wednesday sending the stock up 10%. GM shares remain 7% down year-to-date, and well off their 52-week highs.

CNBC WATCH LIVE

AUTOS

GM initiates $10 billion buyback, boosts dividend and reinstates 2023 guidance after UAW strikes

PUBLISHED WED, NOV 29 2023-6:32 AM EST
UPDATED 3 HOURS AGO

GM's new initiatives have a goal of regaining Wall Street's confidence following a tumultuous year of labor strikes and setbacks.

GM announced a 33% increase to its quarterly dividend and a $10 billion share repurchase program.

After a few years of dismal financial results, we are not sure what to think of these moves. Perhaps, these moves can be the start of something long-lasting for the auto industry or perhaps, it will fail, and GM stock will continue to move sideways. GM shares went public (again) in 2010 and are down 8% since.

<u>In USMCA we trust</u>

The U.S.'s largest trading partner is officially its southern neighbor and its northern neighbor is not far behind.

Mexico surpassed China as the U.S.'s largest trading partner and Canada is not far off at surpassing China. When we say trading partner we mean as a percentage of the U.S.'s total imports. China was the U.S.'s largest trading partner from the mid-2000s up until this year.

On an overall basis which includes imports and exports, Mexico, and Canada rank 1 & 2.

Total trade between China and the U.S. has decreased since 2018 when President Trump began to sanction China. China's trade accounted for over 15.5% of total U.S. trade from 2017-2018 and now is slightly above 10%. This major decrease highlights the decoupling and growing tension between the world's two largest economies.

On the other hand, Mexico and the U.S. have grown closer in recent years on an economic basis. The Mexican economy has tremendous upside moving forward especially if what happened in Argentina's election, happens next year in Mexico. Mexico has reaped the rewards of nearshoring, but many believe they could be benefiting even more as the leftist government has been skeptical of the trend.

Analysts have also been bullish on Mexico revising GDP growth estimates from 1% in January to 3.3% last month. The Peso has also enjoyed a strong year, appreciating 15% relative to the U.S. Dollar. Foreign direct investment has also grown in Mexico as companies like Tesla expand their operations into the Latin American country. Many expect this number to grow moving forward no matter which political party wins next year.

The Mexican iShares ETF is up almost 24% year-to-date.

Many expect Mexican equities to outperform yet again next year on strong economic growth estimates which have increased throughout this year. Jamie Dimon announced that he and his bank believe Mexico presents the best international opportunity in equity markets moving forward just 2 weeks ago. Dimon was interviewed at a conference and highlighted the opportunity by using two numbers, Mexico's GDP which is $1.3 trillion, and its domestic equity market cap which is $400 billion. For comparison, Canada's GDP is $1.98 trillion and its market capitalization is approximately $3 trillion.

We are glad to have you aboard Jamie and JP Morgan.

Disclaimer: MacNicol & Associates Asset Management Inc. clients own Mexican equities. This is not investment advice.

MacNicol & Associates Asset Management
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