THE WEEKLY BEACON	JANUARY 26, 2024

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.

Arrecife Santiaguillo Lighthouse, Mexico

This active lighthouse stands at 105 feet tall and is attached to a 1-story concrete keeper's house. The lighthouse is only accessible by boat.

Makhachkala Lighthouse, Makhachkala, Russia

The Makhachkala Lighthouse is an operating lighthouse in the city Makhachkala, a capital of the Russian Republic of Dagestan. The lighthouse was constructed in 1852 and stands at 89 feet tall. With the development of the city and the port, the lighthouse ceased to be the most noticeable building in the city.

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

Stimmies in China

On Tuesday it was reported by Bloomberg that policymakers in China are putting the final touches on an aid package for the Chinese stock market. The package will be for about two trillion yuan ($278 billion U.S.) where Chinese state-owned enterprises offshore accounts will buy onshore stocks. According to Bloomberg, Chinese policymakers have also put aside 300 billion yuan of local funds that would be used to invest in onshore shares through state-owned financial firms China Securities Finance Corp. or Central Huijin Investment Ltd.

The reports of this package sent Chinese stocks upwards. This comes as Chinese equities have limped along for the last 2.5 years. Alibaba shares jumped by 8% on Tuesday while the iShares MSCI China jumped by close to 4%.

This comes days after the Chinese Premier (China's second most powerful man) spoke in Davos and did not mention any stimulus for his country's ailing economy and stock market. The Premier expressed that the Chinese economy is strong and has great growth prospects moving forward. This speech disappointed investors who were hoping for some stimulus to kick-start the Chinese economy.

Many market strategists have recently claimed that China is reminding them of the early 1990s Japan market, weak private demand, demographic issues, deflation, and structural issues that are not being addressed.

Chinese officials have intervened in equity markets in the past, often indirectly and in market routs. The MSCI China ETF is down 12% already this year, before this news, this contrasts the gains across global equity markets. The ETF almost reached October 2022 lows before this report and was closing in on lows it hit during October 2011. China eased its COVID-19 restrictions in October 2022 allowing its equity market to temporarily bounce.

Behind the equity market losses in China is a crisis in the property market, flagging confidence amongst consumers, and businesses, deflation concerns, and a potential population decline around the corner.

Many do not know if this package will be enough for the Chinese market. Many investors have divested over the last 2 years from China as geopolitical risk grows in the country. The policy decision is a move in the right direction for China in stabilizing markets but insufficient to life sentiment from investors. Until Beijing decides to promote growth, and stability and limit regulation in markets, investors will stay on the sidelines when it comes to China. Frankly, we (along with many other investors) think the risk is way too much to stomach in China even with Chinese equities trading at historically low multiples.

We wanted to report this news in case you were wondering why Chinese stocks have seemingly rebounded in recent days. We do not think this move is yet actionable due to our firm's risk tolerance.

Speaking of China

On Tuesday, it was reported that Alibaba's former CEO and Co-Founder Jack Ma along with a few other insiders at Alibaba were scooping up shares. The CEO scooped up $50 million in shares last quarter and the Chairman, Joseph Tsai's family office, bought $152 million of the U.S. traded shares over the same period.

Alibaba shares are down close to 75% from their peak in 2020. The company has been at the forefront of the Chinese Communist Party's crackdown on the technology sector over the last 2.5 years. Jack Ma even went missing over this period and many believed that his going silent and into hiding was due to comments he made against the CCP where he voiced his displeasure with their technology crackdown. Alibaba even recently lost its title of most valuable Chinese retailer to PDD, the owner of Pinduoduo and Temu, a value and budget-oriented platform.

The Chinese retailer known as Amazon of the east is currently trading below its IPO price:

The stock trades at multiple lows in terms of book value, trailing earnings, forecasted earnings, and enterprise value. The company's management has even had great earnings reports over the last few quarters which have still not turned around the stock price.

We are remaining on the sidelines here due to other risks but will still mention Alibaba as a strong value name with huge growth prospects. This is essentially a technology stock that is high-growth trading like a value utility or consumer staple stock in one of the world's most regulated jurisdictions.

Jack Ma and Joseph Tsai's move is a vote of confidence in the company, but the Chinese billionaires could be falling for the value trap that many shareholders have fallen into over the last 2.5 years regarding Alibaba shares.

Netflix's big earnings beat

Netflix reported earnings on Tuesday at market close and they smashed expectations on numerous fronts. A Deutsche Bank analyst wrote in a note that these earnings confirm Netflix has for the most part won the streaming war and is the dominant player in the space. However, as many analysts upgraded their views on Netflix after this report, Deutsche Bank stayed firm with their price target citing that this report was already priced into Netflix's stock price. Netflix currently trades at 32x earnings for 2024 and 27x earnings for 2025.

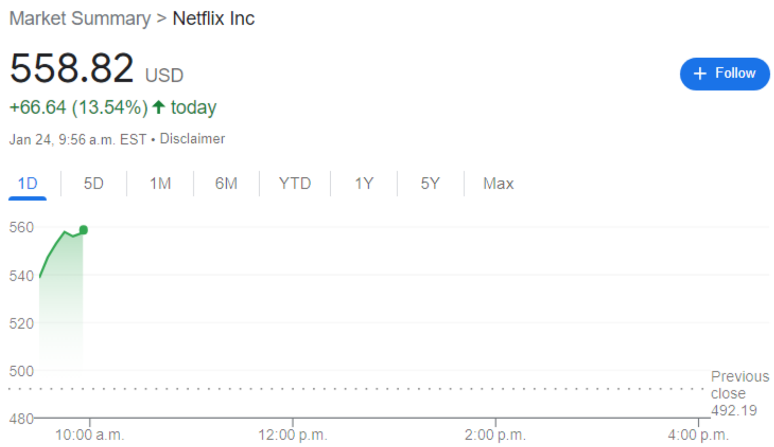
Getting into the numbers Netflix reported……

Netflix added 13.1 million subscribers in Q4, adding more subscribers than Wall Street forecasted. The strong subscriber growth was due to a crackdown on password sharing from Netflix. Netflix now has 261 million paid subscribers, a record amount for them. Wall Street pegged Netflix's subscriber growth between 8 and 9 million in Q4, so the result was very bullish. Netflix also beat revenue estimates and slightly missed EPS estimates.

Earnings per share in Q4 finished at $2.11 versus $0.12 in Q4 2022 as the company seems to have fully made the profitability pivot.

With these improved results, Netflix increased its 2024 forecast on several fronts. Netflix forecasts EPS to be $4.49 per share in Q1 2024 versus Wall Street estimates of $4.10. Netflix also announced that it repurchased $2.5 billion of stock in the quarter, leaving 48.4 billion remaining on its current buyback plan. The company also announced that it would be repaying a $400 million senior note during Q1 2024 to decrease its leverage.

This sent Netflix's stock price surging on Wednesday as well as U.S. markets.



While Netflix has historically struggled to turn a profit like many of its competitors, it recently has cut down on content spending and focused on the financials. Netflix is prepared to invest in a larger slate of content but mentioned they will not be doing that through acquisitions of traditional entertainment companies or linear assets. They went on to say in the 2023 MD&A that they believe the industry will undergo further consolidation but that will not change the competitiveness of the industry.

Even before its positive earnings report on Tuesday, Netflix was in the news for all the right reasons as it announced an inked deal with WWE Raw. The deal is a 10-year $5 billion agreement for Netflix to be the exclusive home of the weekly wrestling program Raw starting next January. As a part of the deal, Netflix will also be the exclusive home for all WWE shows and specials outside the U.S. Pay-per-view content will be available to Netflix subscribers at no extra charge.

On Tuesday's earnings call, they announced that the spending on the WWE rights falls under the company's previously announced target of $17 billion in annual content spending. The company's Co-CEO announced that they are extremely happy with the economics of the deal with the WWE.

This move by Netflix is yet another step by streamers to get into the live entertainment industry. Amazon Prime owns exclusive rights to Thursday Night Football, NBC's streaming platform Peacock owns exclusive rights for select NFL games in the U.S., Apple TV owns exclusive rights to select MLB games in both Canada and the U.S., and many other platforms have deals with other leagues. This move by Netflix is their first major move into the world of live sports.

The WWE Raw deal is an early sign of what could come for various sports leagues, tournaments, and tours moving forward. The NFL own the most lucrative TV deal which they signed just 3 years ago for $110 billion over 11 years.

We like these moves by Netflix but think the stock is currently quite expensive and trades at too high of a valuation for us as responsible retirement Portfolio Managers. We think the company has growth prospects to justify an elevated valuation but certainly not this valuation.

Bank of Canada holds put

The Bank of Canada (BOC) left its benchmark interest rate at 5% on Wednesday morning in a decision that surprised nobody. This is the Central Bank's 4th consecutive hold of its benchmark interest rate. The BOC last raised its benchmark rate in July of last year. The BOC also seemed to signal that further rate hikes are off the table due to a slowing Canadian economy.

We think the BOC will act before the FED in terms of cutting interest rates due to a housing market that relies on interest rate fluctuations, much more. Canadians mostly hold 5-year terms in their mortgages which forces them to renegotiate their rate numerous times throughout their mortgage. Canada also has an economy that is seemingly struggling and that has been propped up by mass immigration.

The BOC did mention its concerns about the risks to the outlook of prices, particularly mentioning core inflation and its stubbornness. Canada's CPI for December was released last week coming in at 3.4%, the highest reading since September and up from November's annual rate of 3.1%. We predicted this months ago even as inflation decreased. We believe inflation as well as rates will stay higher for longer than many think.

CIBC's Chief Economist believes the BOC is hinting at rate cuts later this year.

The BOC said consumers continue to reduce spending due to higher interest rates as well as higher prices. They are now focused on how long and not how high, signalling for now an end to hikes but not an end to a high-rate environment.

You could look at this in 2 ways: this is bullish for stocks and the economy as rate hikes are off the table or bearish as the BOC did not mention rate cuts in the immediate future.

Canada's next CPI release is on February 20th and its next benchmark interest rate decision is due on March 6th.

British billionaire Joe Lewis

British billionaire Joe Lewis pleaded guilty in a New York court this week for insider trading, and securities fraud. Lewis's company, Broad Bay Ltd., also pleaded guilty and accepted its participation in the scheme and will pay $50 million in penalties.

Lewis is the principal owner of Tavistock Group, a private investment organization and through a family trust the majority owner of Tottenham Hotspur, a well-known English Premier League team. According to the Bloomberg Billionaires Index, Lewis is worth $7.6 billion and is the world's 316th richest person.

For context we are talking about this Joe Lewis:

Not world champion of boxing Joe Lewis:

Lewis faces a maximum of 20 years in prison for his 1 count of conspiracy to commit securities fraud and 2 counts of securities fraud. He will be sentenced in March and his lawyer said he will consider appealing depending on what happens.

U.S. attorneys allege that the 86-year-old billionaire abused inside information in companies that he owned large stakes gained through access to corporate meetings. Lewis then went on to share this information with his friends, employees, and romantic interests. The information allowed these individuals to bet on companies and net millions of dollars.

In one instance, according to the indictment, Lewis told a girlfriend to invest in a biotech company in July 2019, before the results of a clinical trial by the company were made public. In another instance, Lewis wired his private pilots $500,000 each to buy stock in a company he tipped them off about.

The corporate penalty is the largest financial penalty for insider trading in over a decade.

Even though Lewis did not personally gain from his actions, those around him did. He used inside information to enrich the people around him. What started as kind gestures, turned into a horrible story where an 86-year-old will face the music of the law for his actions.

Something to note

We are in an election year and markets are forward-looking and will price in how polling is going. We will periodically fill you in on any major changes in the run-up to November. We will also fill you in on major elections worldwide that we have an interest in, like Mexico and India.

With that being said, it looks more and more like Former President Trump will be the GOP nominee for President and will face off against President Biden in a rematch of 2020. All that crap that we saw in 2020 looks like it will repeat with both candidates aging another 4 years. Out of 330 million people, the free world is dead set on electing a President who will be 80 years old when 2028 ends (Biden is 81, Trump is 77).

We say this because Trump won the second primary in the GOP race, in New Hampshire. Trump already won Iowa, the 1st prompting two major candidates to drop out, entrepreneur Vivek Ramaswamy and Governor Ron DeSantis. Both have endorsed Trump in the race. New Hampshire was a pivotal moment as Trump went 1 on 1 with Former Governor of South Carolina Nikki Haley. Haley had the backing of the current Governor of New Hampshire but that was not enough to beat Trump. Many are calling for Haley to drop out so the GOP can focus on the Democrats and not each other.

Beyond that, we ran an interesting graphic that shows the returns of the S&P 500 in an election year, a year after the market is up 20%. On every instance that this has happened, the S&P 500 is up.

A 20% Pre-Election Year = Never Lower Election Year

S&P 500 Performance After >20% Pre-Election Years (1950-Current)

		S&P 500 Index Returns			
Election Year	President	First Year	Midterm Year	Pre-Election Year	Election Year
1953	Dwight D. Eisenhower (Rep)	-6.6%	45.0%	26.4%	2.6%
1965	Lyndon Johnson (Dem)	9.1%	-13.1%	20.1%	7.7%
1973	Richard Nixon (Rep)/ Gerald Ford	-17.4%	-29.7%	31.5%	19.1%
1989	George H.W. Bush (Rep)	27.3%	-6.6%	26.3%	4.5%
1993	Bill Clinton (Dem)	7.1%	-1.5%	34.1%	20.3%
2001	George W. Bush (Rep)	-13.0%	-23.4%	26.4%	9.0%
2017	Donald Trump (Rep)	19.42%	-6.2%	28.9%	16.3%
2021	Joe Biden (Dem)	26.9%	-19.4%	24.2%	
	Average	6.6%	-6.9%	27.2%	11.3%
	Median	8.1%	-9.8%	26.4%	9.0%
	% Higher	62.5%	12.5%	100.0%	100.0%

Source: Carson Investment Research, FactSet 01/24/2024
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This has only happened 7 times before but is something to note as the average return in these instances is 11.3%. Perhaps, this signals a good year for markets and a return to the norm after a few years of outlier returns (2020-2023).

Another "coincidence"

On Wednesday, it was announced that Nvidia, Alphabet, and Microsoft would partner with the U.S. government on an Artificial Intelligence program.

The National Science Foundation announced it would team up with big tech companies to launch the National Artificial Intelligence Research Resource pilot program. The NAIRR pilot is designed to create a national resource for researchers to access high-powered AI tech to ensure that the U.S. remains at the forefront of the industry.

Companies also joining the initiative include Amazon, Intel, Meta, OpenAI, Palantir, and many more.

NAIRR, which was born out of President Biden's AI executive order, will serve as a framework for how the government and private sector can advance AI technologies in the future.

Tech companies are reportedly not being paid directly for the project. Contributions by the companies include 20 research projects from Amazon, datasets, and benchmarks from IBM, $20 million in computing credits from Microsoft, and $30 million from Nvidia.

This sent most of these technology names higher on Wednesday and allowed Nvidia to continue to hit new highs.

Funny enough numerous politicians own Alphabet, Microsoft, and Nvidia shares. Former Speaker of the House, Nancy Pelosi, (the Barron of Washington) who owns all three, even loaded up on 50 Nvidia call options at the end of last year. Since then, Nvidia shares have surged. They are up 25% over the last month and approximately 33% since the start of December. Pelosi's returns are estimated to be in the millions on this trade and well over 100% due to the upside in call options. This data is according to a few accounts and websites online that track Congressional trading.

Perhaps, this timing by Pelosi is coincidental, or perhaps she knew this partnership would be formed and Nvidia shares would soar. We will never know. Until they reign in the trading abilities of current Congress members, they will continue to greatly outperform indices and the average investor. These are truly the best traders in the world.

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