THE WEEKLY BEACON	JANUARY 5, 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.

Pigeon Point Lighthouse, Pigeon Point, California

This lighthouse sits 50 miles south of San Francisco Bay. The lighthouse was originally constructed in 1871 and was automated in 1974. The lighthouse stands at 115 feet tall and is listed on the National Register of Historic Places.

Lindesnes Lighthouse, Lindesnes, Norway

Lindesnes Lighthouse is a coastal lighthouse at the southernmost tip of Norway, about 10 kilometres southwest of the village of Høllen in Lindesnes municipality in Agder county. The lighthouse opened in 1655 and stands at 16 meters tall. In 1920 the lighthouse station got its first fog signal, a siren.

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

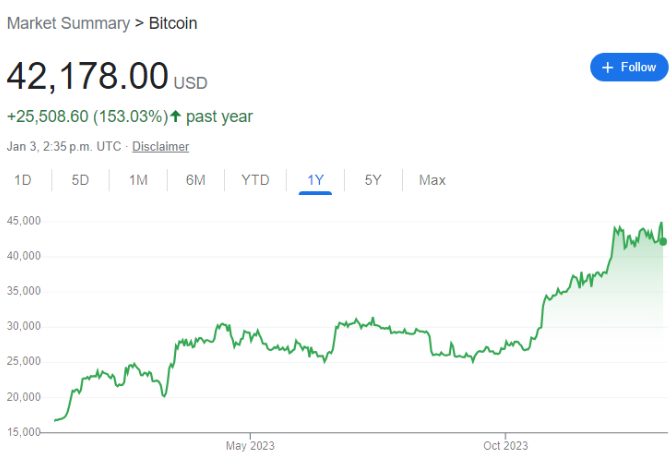
Bitcoin’s milestone and flop

Crypto markets have rallied over the last year as investors have returned to the sector after a horrible 2022. 2023’s gains continued on January 2nd for most cryptocurrencies including Bitcoin. Bitcoin surged above $45,000 for the first time since April 2022. The crypto sector has been on a broad-based rally recently amid expectations that approval of Bitcoin ETFs will come as soon as this week. On Tuesday the price of Bitcoin jumped by more than $4,000 per coin.

The approval of a Bitcoin ETF by the Securities Exchange Commission is expected to bring billions to the asset class. Reuters claimed that the SEC may notify issuers of these ETFs as soon as Wednesday of approval and they could launch these Bitcoin ETFs as soon as next week. The agency for years denied such spot Bitcoin applications, but an appellate court last year said the SEC’s rejection of one such bid was arbitrary and capricious.

Among the issuers expected to launch Bitcoin ETFs are Fidelity, Blackrock and Invesco.

Analysts who cover the crypto industry claim that the approval of ETFs could help bring another $600 billion to crypto funds over the next 5 years. An analyst from Bernstein released a note on Tuesday that claims that Bitcoin will have a market cap of $3 trillion by the end of next year (triple today's value). However, others believe this could be a sell-the-news moment for Bitcoin after a massive rally over the last 12 months.



However, on Wednesday morning, Bitcoin had given up its recent gains over the last few days on reports that the SEC would be rejecting issuers who applied to launch Bitcoin ETFs. Bitcoin was down 6.1% over the last day as of early Wednesday morning.

Crypto investment services provider Matrixport expects the U.S. Securities and Exchange Commission (SEC) to reject all applications to list a spot bitcoin exchange-traded fund (ETF) this month. Before this week we had not heard of Matrixport, so we are not sure what to think of this report and if it has any truth or validity.

Funny enough, CNBC Host Jim Cramer went all in on crypto on his show on Tuesday night in anticipation of ETF approvals by the SEC. He claimed "You Can't Kill Bitcoin" on the January 2nd edition of Mad Money.

Cramer never fails to have the timing perfectly wrong. The kiss of death some might say.

We will have to see what Gary Gensler and the SEC decide to do over the next few days.

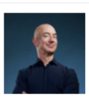
Fidelity continues to mark down "X" (Twitter)

Fidelity has once again marked down its investment in X, the social media platform owned by Elon Musk. In October 2022, Fidelity valued its stake in Twitter at nearly $20 million. Fast forward 14 months, and that stake was marked at $5.59 million. This means Fidelity now believes that X is worth 71.5% less than when it was purchased.

X has been under immense pressure recently as Musk's platform has lost numerous major advertisers including IBM, Walt Disney, and Apple. Companies have turned their backs on X due to comments made by Musk himself and the reported increase in extremist content on the platform.

It is reported that Musk's X will lose north of $75 million due to these moves by advertisers.

Despite X's valuation collapse from Musk's purchase price, he remains the world's richest man, according to Forbes. Forbes pegs Musk's net worth at $244 billion, well above the second-ranked person:

	RANK	NAME	NET WORTH	CHANGE
	1	Elon Musk	$243.6 B	▼ $7.7 B | -3.06%
	2	Bernard Arnault & family	$189.1 B	▼ $6.9 B | -3.51%
	3	Jeff Bezos	$172.4 B	▲ $168 M | 0.10%
	4	Larry Ellison	$131.0 B	▼ $2.8 B | -2.07%

Musk's net worth could continue to grow in 2024 on the backs of Tesla and SpaceX. Tesla has the world's 9th largest market cap, and SpaceX is rumored to have a valuation of $180 billion, larger than the value of any U.S. defense contractor or U.S. telecommunications company.

The year that was

2023 brought us numerous things across global capital markets. A huge bounce back, new all-time highs, the hype of AI, higher rates, decade-high mortgage rates, and massive banks collapsing. The 2nd, 3rd, and 4th largest bank failures in U.S. history happened last year and most people have forgotten about it. We guarantee if you poll a large group of investors, many will assume that these large banks failed in 2022.

Largest U.S. Bank Failures

Bank	City	State	Year	Assets at time of failure
Washington Mutual	Seattle	Washington	2008	$307 billion
First Republic Bank	**San Francisco**	**California**	**2023**	**$229.1 billion**
Silicon Valley Bank	**Santa Clara**	**California**	**2023**	**$209 billion**
Signature Bank	**New York**	**New York**	**2023**	**$118 billion**
Continental Illinois National Bank and Trust	Chicago	Illinois	1984	$40.0 billion
First Republic Bank Corporation	Dallas	Texas	1988	$32.5 billion
IndyMac	Pasadena	California	2008	$32 billion
American Savings and Loan	Stockton	California	1988	$30.2 billion
Colonial Bank	Montgomery	Alabama	2009	$25 billion
Bank of New England	Boston	Massachusetts	1991	$21.7 billion
MCorp	Dallas	Texas	1989	$18.5 billion
FBOP Corp banking subsidiaries	Oak Park	Illinois	2009	$18.4 billion
Gibraltar Savings and Loan	Simi Valley	California	1989	$15.1 billion
First City National Bank	Houston	Texas	1988	$13.0 billion
Guaranty Bank	Austin	Texas	2009	$13.0 billion
Downey Savings and Loan	Newport Beach	California	2008	$12.8 billion
BankUnited FSB	Coral Gables	Florida	2009	$12.8 billion
HomeFed Bank	San Diego	California	1992	$12.2 billion
AmTrust Bank	Cleveland	Ohio	2009	$12.0 billion
WesternBank	Mayaguez	Puerto Rico	2010	$11.9 billion
United Commercial Bank	San Francisco	California	2009	$11.2 billion
Southeast Bank	Miami	Florida	1991	$10.5 billion

CREATIVE PLANNING @CharlieBilello

The ironic part of these failures was that they did not lead to a full-fledged financial crisis. After a few weeks of turbulence, markets bounced back. The regional banking crisis for now looks like it is contained, and it looks like it will not spill over into any larger institutions.

Debt record

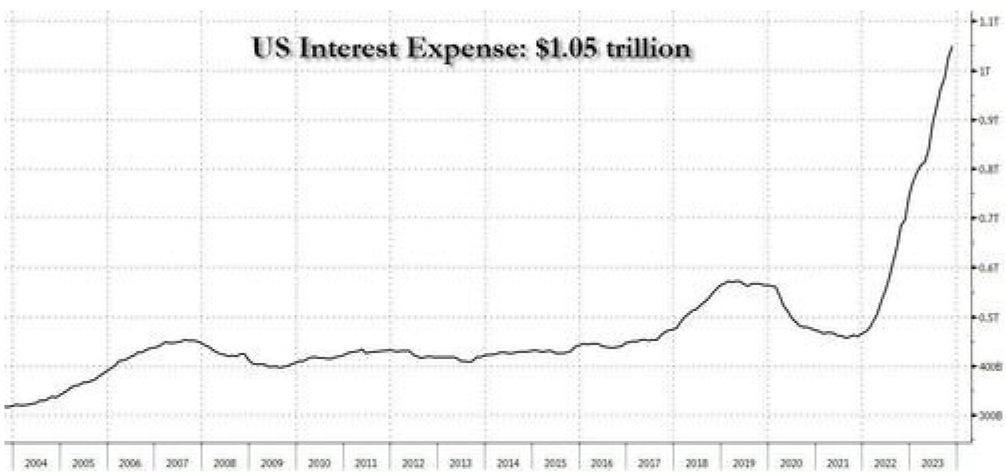
The U.S. did it. U.S. debt hit a record $34 trillion on Tuesday.

TABLE IIIC - Debt Subject to Limit

Balance Transactions	Closing balance today	Opening balance: Today	Opening balance: This month	Opening balance: Fiscal year
Debt Held by the Public	$ 26,938,518	$ 26,891,920	$ 26,843,822	$ 26,330,142
Intragovernmental Holdings	7,062,976	7,019,307	7,034,857	6,837,192
Total Public Debt Outstanding	34,001,494	33,911,228	33,878,679	33,167,334
Debt Not Subject to Limit:				
Other Debt (-)	477	477	477	477
Unamortized Discount (-)	105,159	111,434	111,656	90,889
Federal Financing Bank (-)	5,492	5,492	5,492	5,492
Other Debt Subject to Limit:				
Guaranteed Debt of Government Agencies	0	0	0	0
Total Public Debt Subject to Limit	$ 33,890,366	$ 33,793,825	$ 33,761,055	$ 33,070,476
Statutory Debt Limit	SUSP-1	SUSP-1	SUSP-1	SUSP-1

U.S. debt has surged from $10.6 trillion in January 2009, to $34 trillion in just 15 years. Even more staggering is the growth of debt in recent months and years. U.S. debt has increased by $41 trillion over the last 3 months, $2 trillion over the last 6 months, and $4 trillion over the last 2 years.

At this point, everyone knows how this story will end. At best, we can prepare for the potential hyperinflationary outcome. The U.S. interest expense hit $1 trillion (over the last 12 months) just a few days ago. This interest expense is double what it was at to start of 2022. The interest expense is $250 billion more than the Defense budget, $250 billion more than Medicare spending, and $200 billion more than healthcare spending, and will eventually surpass Social Security spending this year, becoming the U.S.'s single largest expense.

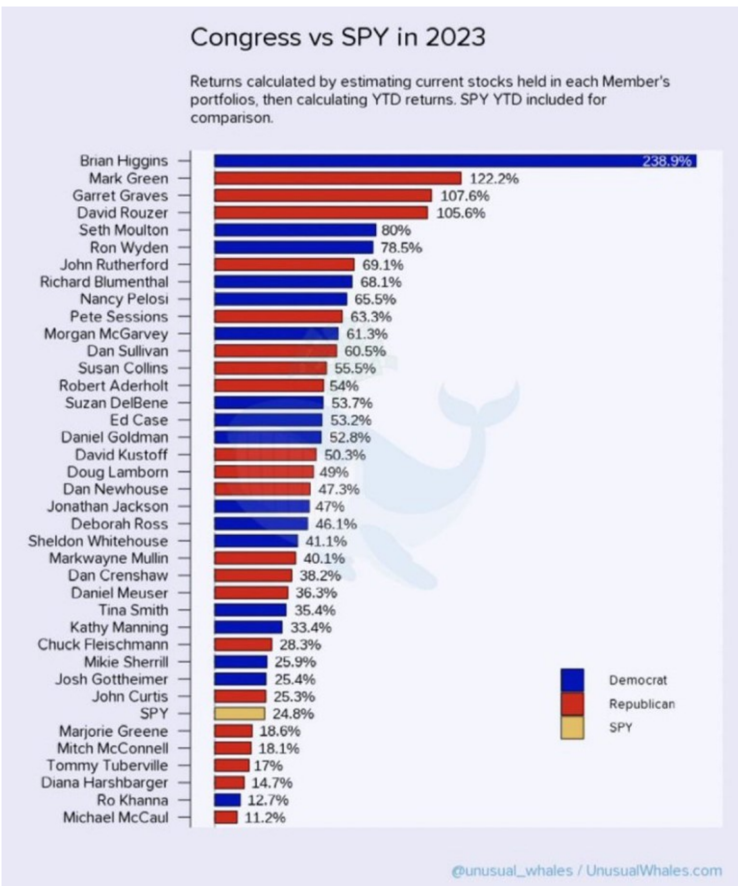


Many economists have pointed to government spending as the reason the U.S. government has not slipped into a recession. One must ask if we do slip into a recession, how much more debt will be added on to support the U.S. economy by the government? We are already too far down the line for them to not act.

Congress versus the market

Unusual whales is a popular X account that focuses on capital markets. Over the last few years, the account has tracked the trades of Members of Congress. This has led to him estimating the returns of congress members (and how outsized those returns can be).

Here are the 2023 returns for various members of Congress for 2023 versus the S&P 500. Politicians included in this graphic include the best performers as well as notable politicians many are familiar with. The performance of Congress members only tracks public securities as private holdings, real estate, and other assets can not be estimated without data.

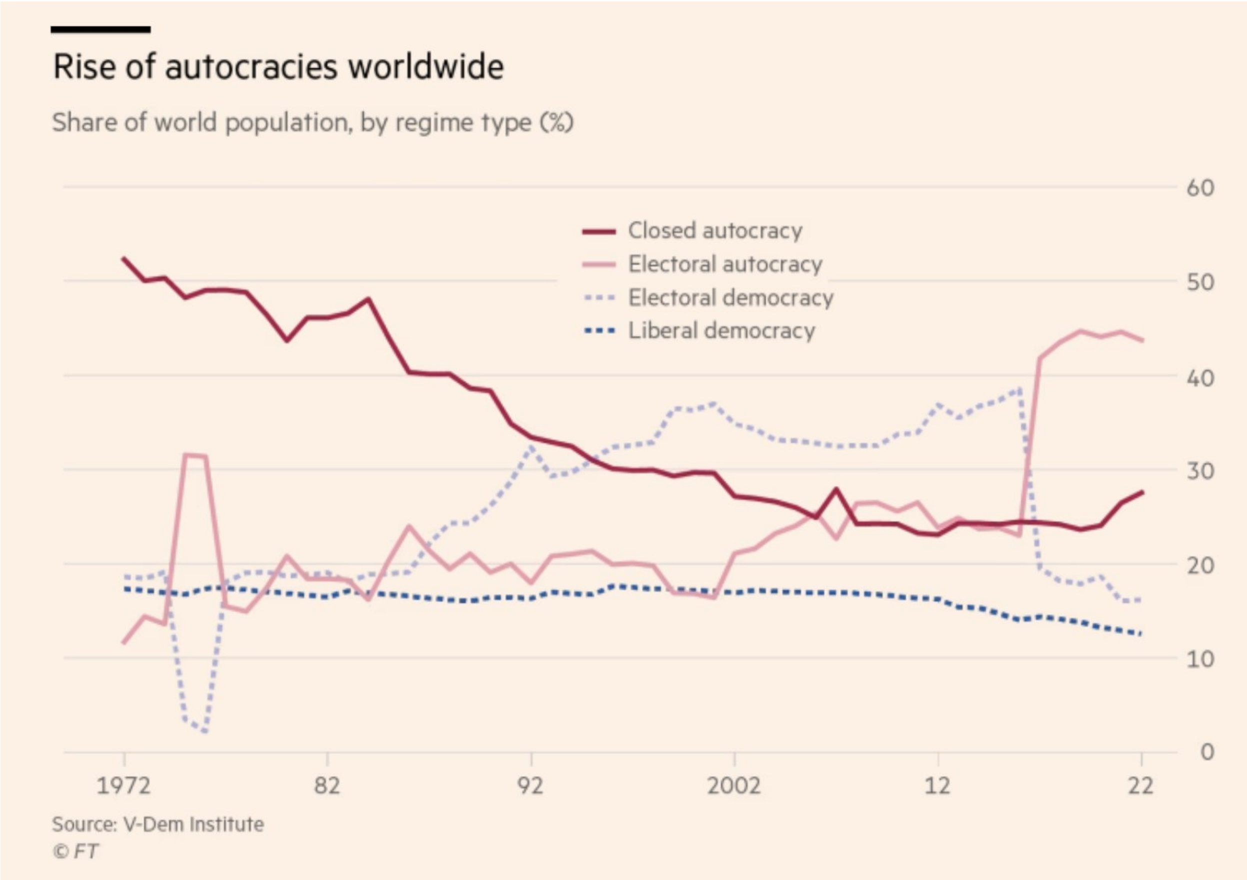


What this graphic tells us is nothing new. Politicians on both sides of the aisle game the system to benefit themselves, their families and their associates. Many of the politicians listed in the graphic are moderates in their respective party and are the most against major changes in Washington. We would also assume those close to these Members of Congress have even better investment results as their trades are not as heavily scrutinized.

Unless a large Bill is passed that banned Congress from holding individual stocks, or sectors, this will continue to happen. The only solution is for them to hold the market or hold a style while in office, but we expect that never to happen. Why would the people who benefit from the current system hurt themselves?

The rise of Autocracy

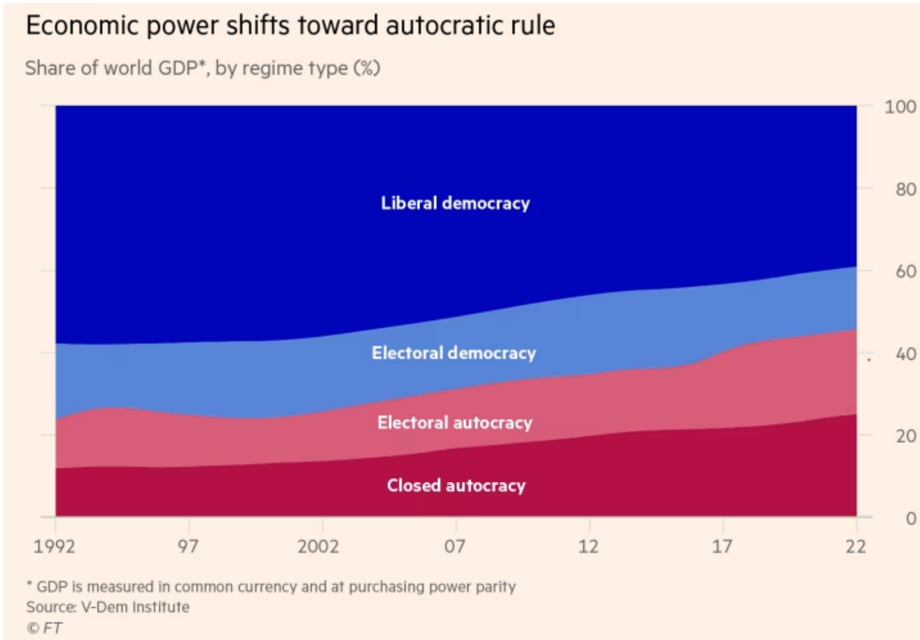
A disturbing trend has occurred over the last few years. The rise of Autocracies across the world is a real thing and young people are driving the trend.



Approximately 65% of the world is run by an Autocracy, the highest percentage since the early 1980s. For those who need a refresher, an Autocracy is defined as a country, state, or society governed by one person with absolute power.

The trend that shocked the Financial Times most was that younger people are becoming increasingly tolerant of Autocracy.

However, most of the world's GDP remains in the hands of Democracies, despite the growth of Autocratic economies like China.



This trend is important to watch as more than 2 billion adults head to the polls in 2024 to elect a leader. This is half the voting population across the world. Elections will be held in the U.S., India, Mexico, and Indonesia as well as many other countries. Another growing trend is populism, especially across the West. The Netherlands, Italy, and Argentina have all recently elected right-wing populists as their populations turn on the far left and moderate policies that they think do not help them. The Financial Times article claimed some of these populist leaders are displaying autocratic tendencies.

Whatever way this goes next, it is fascinating to watch it unfold. The one thing we are certain of is that the recent rise of autocracy has something to do with China's global influence increasing.

<u>Shipping back in favour</u>

In the last edition of this publication of 2023, we talked about the Houthi attacks in the Red Sea, and how these attacks were impacting shipping routes, global trade, and energy markets. Those issues have continued into 2024 and have led to shipping stocks rebounding.

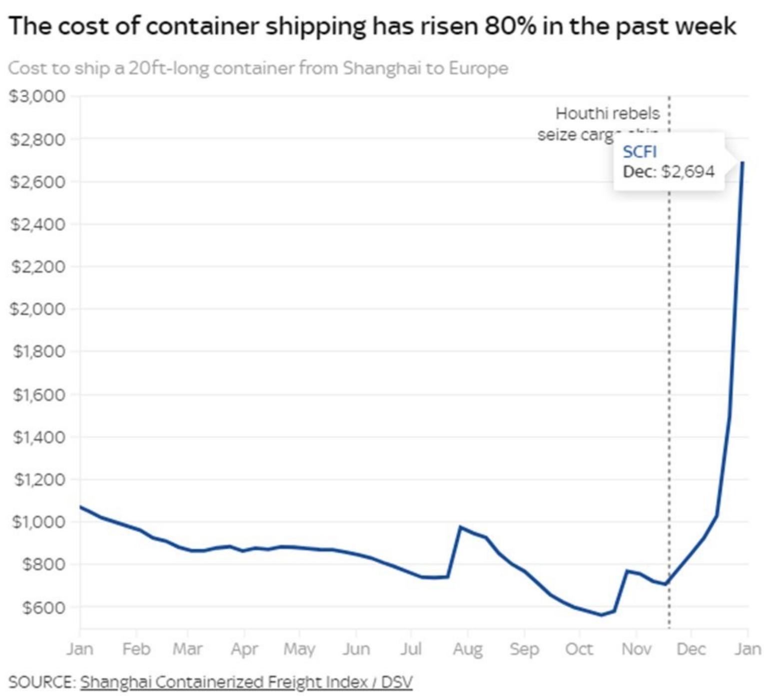
During the pandemic, and Russia's invasion of Ukraine, shipping rates surged, and shipping stocks performed extremely well, as blockages disappeared those stocks retreated and have been consolidating for approximately a year and a half.

Fast forward to today and many of those shippers are beginning to slowly breakout.

Shipping giant Maersk extended its halt on Red Sea travel on Tuesday due to safety concerns. This resulted in numerous upgrades by sell-side firms on price targets of shipping companies.

This continued halt of travel is increasing shipping times and is creating a shortage of vessel space across the world.

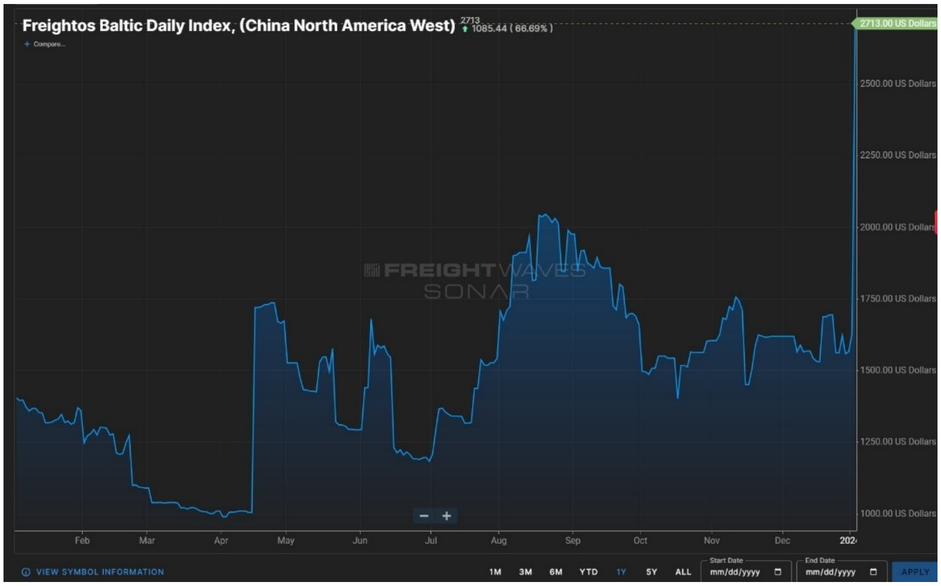
Freight rates have close to tripled between Asia and Europe since the start of December when these attacks began.



Despite the disruptions that many see could persist the impact will be much less than the impact of Covid-19.

The attack in the Red Sea is pulling out capacity from the market when demand has softened which is great for the carriers. This conflict will trickle down to consumers who will likely see increased transit times, worsening reliability, and a potential increase in prices.

The Houthi attacks have spilled over across the globe as freight rates from China to the U.S. West Coast have hit 1-year highs as well:



Many liners are currently negotiating their annual rates for the fixed part of their business. These deals are agreed upon during the first quarter and elevated rates may continue to benefit shipping companies.

FED minutes

December's FED meeting minutes were released on Wednesday and what FED officials said did not surprise us. After a dovish press conference in December, many believed rate hikes were over and cuts would come soon to start in 2024.

The minutes reflected that rates could remain at their peak for longer, more hikes could be needed, and restrictive policies would be in place for some time moving forward. The higher-for-longer narrative that we believe will happen has been overlooked as investors pivot from hikes to cuts. Only a few FED officials pushed for easing, most stressed that the FED needs to move carefully. However, the consensus believed that rate cuts would occur in the next year.

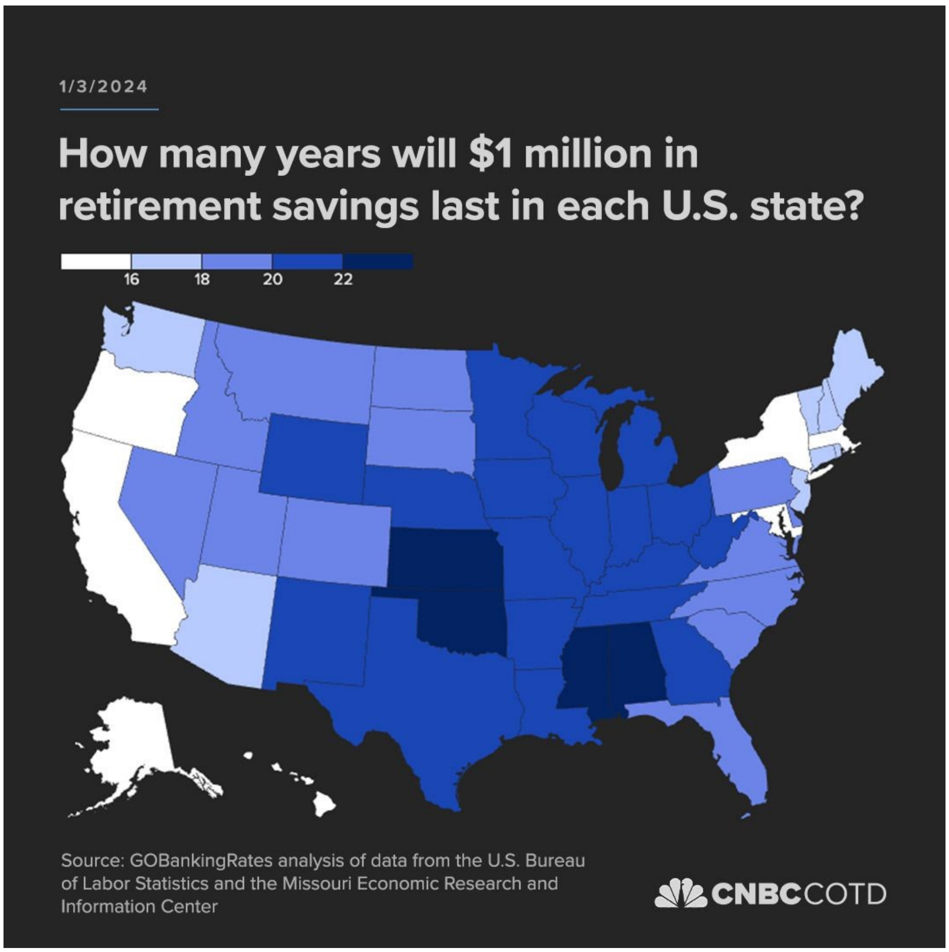
We understand why rate cuts could be considered early this year but believe they will happen farther from now than many believe (barring the economy turning over). We think inflation will remain elevated for quite some time which will make FED officials cautious in slashing rates. The only variable that goes against our higher for longer thought process is a recession in an election year which could potentially lead to rapid rate cuts to stimulate the economy.

The next FED policy announcement is on January 31st, 2023. According to the CME Group, there is a 91% probability rates remain the same, and a 9% chance rates will be cut by 25 basis points (0.25%). The announcement after that is on March 20th, 2024, and they believe there is a 68% chance that rates will be 25 basis points lower than today.

However, the FED is data-driven, and their policy will be impacted by data releases. The Labour Department said job openings fell to a 32-month low in November in another sign that the U.S. hiring boom is fading in response to higher interest rates. Friday's job report will be a key data point for investors in determining the prospect of rate cuts this year.

<u>Where to retire?</u>

Many Americans believe they need more money than ever to retire comfortability. Most Americans believe they will need more than $1 million before they retire. However, depending on where you live in the country, the amount you would need greatly differs.



This is no surprise to anyone as the cost of living differs by state.

However, the gap between the top and bottom might be as large as it's ever been.

According to CNBC, $1 million in retirement will last the average person in Mississippi 22.7 years compared to only 10.3 years in Hawaii:

1/3/2024

How many years will $1 million in retirement savings last in each U.S. state?

Longest		Shortest	
Mississippi	22.7	Hawaii	10.3
Oklahoma	22.1	Massachusetts	12.8
Kansas	22	California	13.8
Alabama	22	New York	14.1
Iowa	21.8	Alaska	15.3
Georgia	21.6	Maryland	15.5
Ohio	21.5	Oregon	15.7
W. Virginia	21.3	Vermont	16.5
Missouri	21.3	Connecticut	16.6
Tennessee	21.3	New Hampshire	16.7
Indiana	21.3	Maine	16.8
Arkansas	21.2	Washington	16.8
Nebraska	21	New Jersey	16.8

Source: GOBankingRates analysis of data from the U.S. Bureau of Labor Statistics and the Missouri Economic Research and Information Center

CNBC COTD

This cost difference could impact interstate migration and force Americans to move into less expensive situations depending on their financial situation.

Higher prices over the last 2+ years have decreased the number of years $1 million will last across the country. However, the spread has grown in recent years and is something to continue to monitor.

MacNicol & Associates Asset Management
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