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.

Hillsboro Lighthouse, Hillsboro Beach, Florida

Submitted by Michelle M.

Hillsboro Inlet Lighthouse is a lighthouse located on the north side of Hillsboro Inlet, midway between Fort Lauderdale and Boca Raton, in Hillsboro Beach, Florida. The lighthouse stands at 42 meters tall and was opened in 1907.

Baishamen Lighthouse, Haidian Island, Haikou, Hainan, China

Baishamen Lighthouse is located on Haidian Island, Haikou, in the province of Hainan, China, is the sixth tallest lighthouse in the world, and the second tallest in China. The lighthouse completed construction in 2000 and has a nautical range of 18 miles.

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

Inflation data drop

On Tuesday morning the Bureau of Labor Statistics released January's inflation data. The data showed prices moving higher than many expected.

For January prices rose 0.3%, a 3.1% annual rate down from December's number but much higher than what was expected.

Core inflation, which strips out volatile items like energy and food, came in at 3.9%, flat versus December showing some stubbornness and stickiness in prices, something that we along with the FED have mentioned before. Forecasts had core inflation increasing by 3.7% for January.

Shelter made up most of the increase in inflation over the month, increasing 0.6% over the month and 6% over the last year, nearly double the actual consumer price index.

Food prices moved higher as well, up 0.4% on the month. Energy helped offset some of the increase, down 0.9% due largely to a 3.3% slide in gasoline prices.

January's increase in the CPI could be problematic for the FED which is looking to take its foot off its monetary policy. The FED expects housing prices to decelerate by the end of the year and for housing prices to help alleviate the inflation rate. The FED mentioned in its last policy decision that it is still focused on a 2% inflation rate and will not be quick to slash rates in which inflation rates remain elevated.

Markets moved downward on this higher-than-expected inflation data on Tuesday as investors wake up to the realities of what the FED will do with policy throughout this year.

According to the CME FED Watch Tool, there is a 92% probability rates stay the same at the FED's policy meeting in March, and a 61% probability that rates stay where they are at May's decision. Just one month ago, there was an 81% probability of a March cut and a 99% probability that rates would be lower in May. Quite the pivot in just a few weeks.

Ackman's new fund

Billionaire hedge fund founder and activist investor is looking to do something that has never been done in the world of finance. He announced that he is planning to launch the largest closed-end fund in the U.S. in history.

The fund will look to raise $10 billion, nearly double the size of the largest closed-end fund now, the Pimco Dynamic Income Fund. No closed-end funds were launched in 2023 due to several factors. The main reason that the market dried up was that the average closed-end fund currently trades at a 10% discount.

This discount is not deterring Ackman and his company Pershing Square. Pershing Square filed paperwork late last week for an IPO of a closed-end fund. The fund will trade under the name Pershing Square USA Ltd. The closed-end fund launched by Ackman will hold anywhere from 12 to 24 stocks at a time. Ackman and Pershing already operate a closed-end fund in Europe so it will be interesting to see if there is a lot of overlap in the holdings of the two funds. Currently, his European closed-end fund's largest exposure is Alphabet, Loews, Howard Hughes, and Hilton Worldwide.

According to the prospectus, the 2% management fee for the first year will be waived.

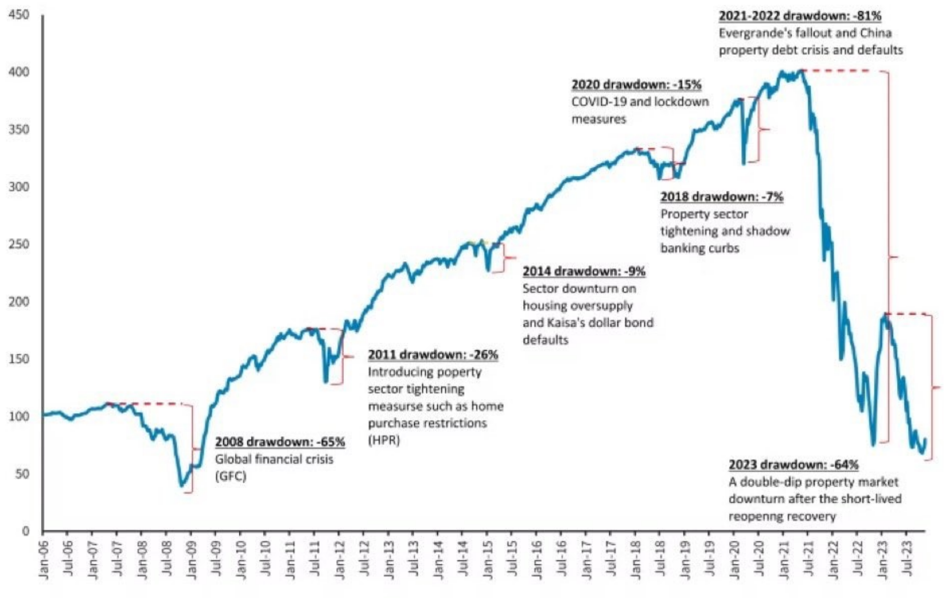
Ackman is attempting to launch a product that has struggled recently, his European closed-end fund trades at a steep discount to net asset value. However, if anyone can succeed in this area, it's Ackman, he has the mystique, track record, and notoriety.

This product launch will allow retail investors in both Canada and the U.S. to invest beside one of the best investors over the last 30 years.

It will certainly be something that we will be keeping our eyes on.

Chinese meltdown

Chinese equity markets have melted down over the last few years. Investors have hit the exit door as the Chinese Communist Party has flexed its muscles on equity markets making the country uninvestable. We have mentioned these issues in China repeatedly over the last 24 to 30 months. Another issue China has faced is a debt crisis stemming from its real estate market. We have mentioned the difficulties that the Chinese debt markets have had over the last few years but have not really dove deep into property valuations. This week, we ran by a chart that highlights just how dire the Chinese property sector is hurting.



Chinese real estate prices have dropped over 81% from their 2021 highs and 64% from their 2023 highs. Imagine if that meltdown occurred in the U.S. or Canada. All hell would be breaking loose. Many people who bought homes 20-30 years ago counting on selling their homes to be a chunk of their retirement savings would be screwed. This issue will not be solved by some stimulus from the Chinese government or a jump in housing demand. China is oversupplied with housing, has a shrinking population, and its economy is extremely leveraged to its real estate sector (which is financially leveraged by quite a bit). We think this issue will persist in China and will continue to plague their overall economy.

Oh Cathie….

Cathie Wood and Ark Investments love hyped-up trends that have huge growth hopes. Her company focuses on several major themes which include the likes of electric vehicles and artificial intelligence. However, she seemed to miss most of the run-up in the most obvious stock in the space: Nvidia.

FINANCE · INVESTING

Cathie Wood says ARK dumped Nvidia shares before 320% surge because it's 'just pivoting' to other A.I. plays

Wood and Ark dumped Nvidia right before it began to surge, citing that there are other AI plays that deserve her attention. Nvidia is now the 3rd most valuable company in the world and Ark Investments was named Morningstar's most wealth-destroying ETF issuer. Nvidia shares are up 230% over the last year while ARKK is up just 20%.

We think Nvidia is too pricey for our investors at these levels and our investing style focuses on risk mitigation and conservative wealth preservation which does not match Nvidia. On the other hand, we cannot wrap our heads around the fact that Wood (a high-growth investor) avoided AI's biggest play during a historic run-up, seems like an extremely poor security selection.

An all-time blunder

Lyft shares were on a roller coaster ride after hours Tuesday after the company reported its earnings after the bell on Tuesday.

If you do not believe us, look at how its stock price moved:

So why did this boom and retreat happen, in such a short period? Lyft made an error in their earnings release which they corrected minutes later. Investors were extremely bullish on Lyft's report, originally lifting shares by almost 70%, before giving up most of their gains. As of Wednesday morning, Lyft shares were still holding on to a 30% gain from the report.

This error in the earnings report was not a small error reporting that something was 900% better than it was over one year. A release initially said the company was forecasting a 500-basis point, or 5%, expansion of its adjusted earnings margin for 2024. The correct figure, the company clarified later, should have been 50 basis points, or 0.5%.

Quite a typo that may leave some excited investors holding the bag.

Lyft is a quite heavily shorted stock so perhaps this was a subtle way management could get some shorts to stop out of the trade. We only speculate here.

Regardless, the earnings report was very positive as Lyft only reported a net loss of $26 million versus an estimate of a $69 million net loss. Lyft also beat revenue estimates.

Either way, it seems Uber has won the ride-sharing war and will continue to dominate the space moving forward. We for one have not heard the word Lyft in quite a long time.

Uber shares are up 66% since May 2019 and currently has a market capitalization of $142 billion. Lyft shares are down 85% since March 2019 and currently have a market capitalization of under $6 billion.

Lyft was once seen by many as a notable competitor to Uber. For a few years, Lyft slowly chipped away at Uber's market share, that trend has blown up over the last 18 months. As of last spring, Uber had 74% of the rideshare market versus just 62% in 2020. Lyft's market share slipped by the exact amount Uber gained, going from 38% to 26% over the same period.

It is important to note that Uber is finally profitable after years of growing losses. Uber has also announced a stock buyback plan worth $7 billion, showing their commitment to returning capital to shareholders.

<u>Amazon reliant on China</u>

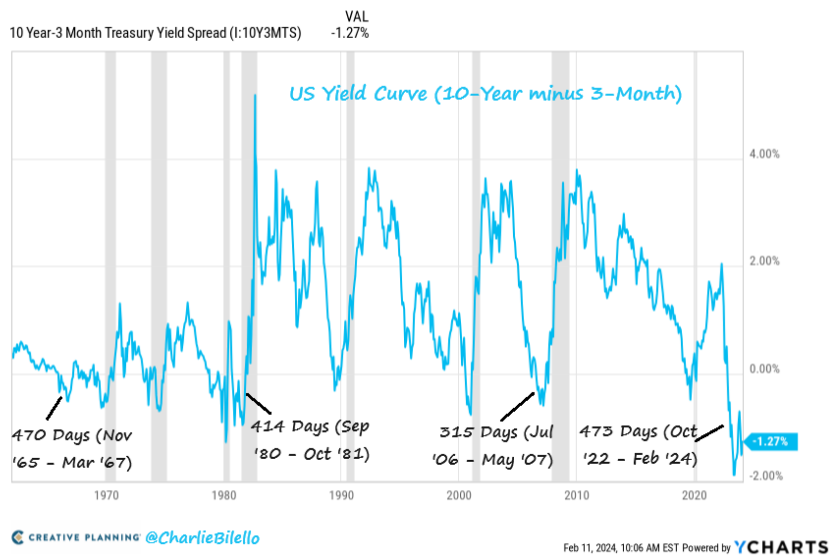
Could Amazon begin to regret its reliance on China?

Currently just under half of Amazon's top sellers are in China, a trend that has increased over the last 7 years. This makes Amazon much riskier in our opinion as they hold some geopolitical risk that many are not pricing in. What if Trump wins and puts more sanctions into place regarding China? What if China gets more aggressive with Taiwan? This geopolitical risk is seemingly flying under the radar, and we think many investors should be paying more attention to this.

In other Amazon news, Bezos sold another $2 billion in shares on Tuesday, marking $4 billion in sales by the Founder since February 7th. These are his first stock sales since 2021.

Record-setting

The 10-year minus the 3-month yield curve has been inverted for the longest period in history. The yield curve has been inverted for 473 days longer than the previous record set in the 1960s. It is important to note that this is also the steepest inversion, and we are still over 120 basis points from reverting to a flat yield curve, let alone a normal yield curve.



Historically this inversion has been a leading indicator for an economic downturn. However, the lead time has varied for these economic downturns. Recessions are seen in the above image as light grey vertical lines.

Equity investors have not been spooked by this inversion as the S&P 500 is up over 30% since the yield curve first inverted.

At this level of inversion, it's hard to see a soft landing playing out. We will have to see what happens next …..

Hype raises (chips and AI)

It seems we might have a record.

Sam Altman will reportedly require trillions in funding for OpenAI. The founder is looking to reshape the chip and AI industry through a record raise.

Sam Altman Seeks Trillions of Dollars to Reshape Business of Chips and AI

OpenAI chief pursues investors including the U.A.E. for a project possibly requiring up to $7 trillion

By Keach Hagey Follow *and Asa Fitch* Follow

Feb. 8, 2024 9:00 pm ET

We are not sure who will invest trillions as that is an astronomical number. The only organization that seems to deal in multiple trillions at a time is the U.S. government. Perhaps Altman and his team should give the Biden administration a call with his investment pitch. What's another $3-4 trillion in debt for the U.S. government? They have already amassed $34 trillion in debt, what's a little more to them?

Altman has said chip limitations hinder OpenAI's growth and capabilities. He wants to raise the global chip supply. According to the Wall Street Journal, he has been in talks with the UAE government for his lofty raise hopes. The WSJ reached out to OpenAI to confirm the numbers, but they did not respond.

Just before Altman's brief ousting at OpenAI, he was reportedly seeking billions for a new and not-yet-formed chip venture known as "Tigris" which he wanted to eventually compete with Nvidia. Nvidia controls approximately 80% of the market and supplies the GPUs that power the large language models created by OpenAI, Alphabet, and Meta.

We will have to see if Altman is successful at disrupting Nivida's stranglehold on the industry, for now, it seems like a distant pipe dream.

MacNicol & Associates Asset Management
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