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.

Cape Florida Lighthouse, Key Biscayne, Miami, Florida

The Cape Florida Light is a lighthouse on Cape Florida at the south end of Key Biscayne in Miami-Dade County, Florida. The lighthouse was constructed in 1825 and became automated in 1978. The lighthouse stands at 95 feet tall and is owned by the Florida Department of Environmental Protection.

Cape Elizabeth Light, Casco Bay, Maine

Cape Elizabeth Light is a lighthouse located on the southern coast of Maine. The lighthouse was constructed in 1928 and stands at 66 feet tall. The lighthouse was first lit in 1874. The lighthouse has a nautical range of 15 miles.

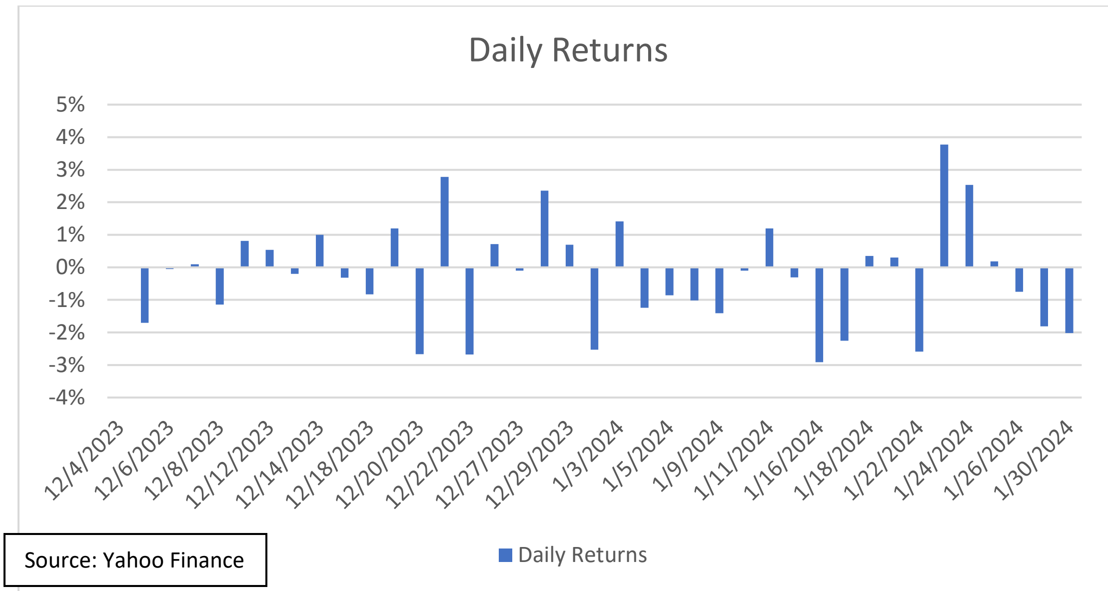
**Feel free to send us your photos of Lighthouses to be featured in our weekly market observations. **

<u>And just like that China is back</u>

After 3 days of gains for Chinese markets, fueled by a large stimulus package announced by the Chinese Communist Party early last week, Chinese stocks slid to start this week.

The weakness almost immediately after this aid package was announced is extremely telling and a cause for concern for Chinese investors. Although we are not traders and do not want to be overly reactionary to a few days of price movements, this data continues to confirm our thoughts on owning Chinese securities.

Here are the daily returns for the iShares MSCI China ETF:

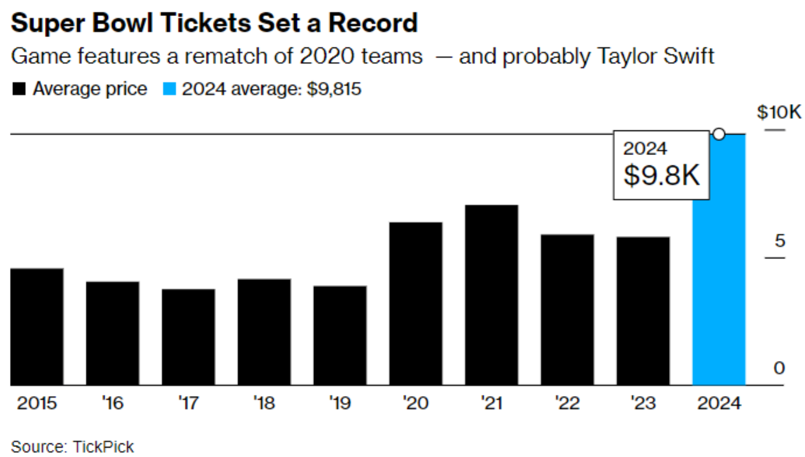


The spikes upward last week were due to the stimulus mentioned above, notice the trail off in recent days as investors “sell the news” or realize this is not enough.

We think Chinese securities could remain under pressure moving forward and that many Western investors will continue to exit or avoid the trade due to geopolitical risks even with the deep value the securities trade at. We expect some deep value and contrarian managers to start mentioning China moving forward despite the concerns. As a conservative asset manager, we simply cannot ignore the risks.

Super Bowl tickets

Tickets to the big game have reached a new high this year as live sports especially big games become even more inelastic due to the heightened demand and fixed supply.



The average Super Bowl ticket is close to $10,000 this year well above the average over the last 10 years. This average price for tickets is by far a record for not only the Super Bowl but more than likely any sporting event.

This year's prices are 70% higher than last year's and 40% above 2021 prices which was the previous record.

Could this be because of the elite matchup that we get in 2 weeks or could it be because of some external forces:

Either way fascinating to watch. It also seems there is no sign of a recession for the uber-rich who can afford this event. We hope as football fans that some die-hard fans who love their team, and the game can be in attendance to cheer their team on in this spectacle. Die-hard fans also make for a great atmosphere. We hope you will be tuning in like we will be.

Rapid change brought to you by Apple

The world has changed quite substantially over the last 2 decades and we would assume you have changed with the world.

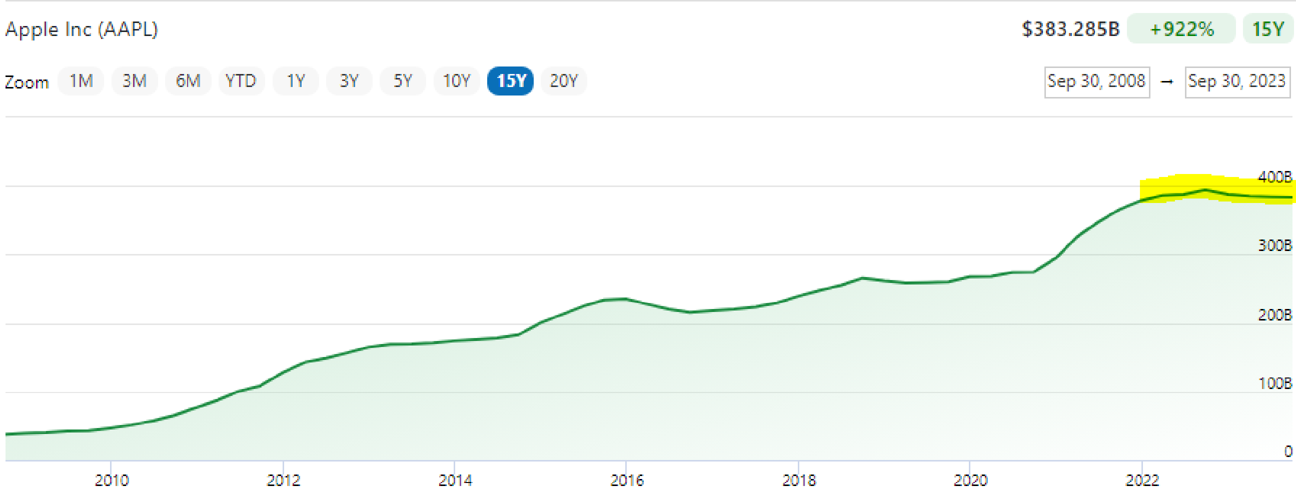
Just over 2 decades ago, Apple predominantly created revenue from Mac sales, to be precise 83% of Apple’s total revenue was from Mac sales in 2001. The Mac launched in January 1983 and dominated Apple’s sales during Apple’s first few decades. Originally, Apple sold its first Mac for $2,495 ($7,000 in today's dollars). Today Mac sales only make up for 8% of Apple’s total revenue. Apple has transformed the technology sector and driven innovation globally since its infancy, but that trend has exponentially grown over the last 2 decades. Another obvious driver of this trend is also the birth of the smartphone.

The 8% of revenue that Macs make up today is approximately $29 billion. This may seem like a small peanut for Apple versus major sales areas like the iPhone, but Mac sales help drive the Apple ecosystem, and allow users to have compatibility and ease of access between smartphones, and laptops.

Apple reports earnings on Thursday morning after the writing of this post so we will review what their numbers tell us in next week's edition of this publication.

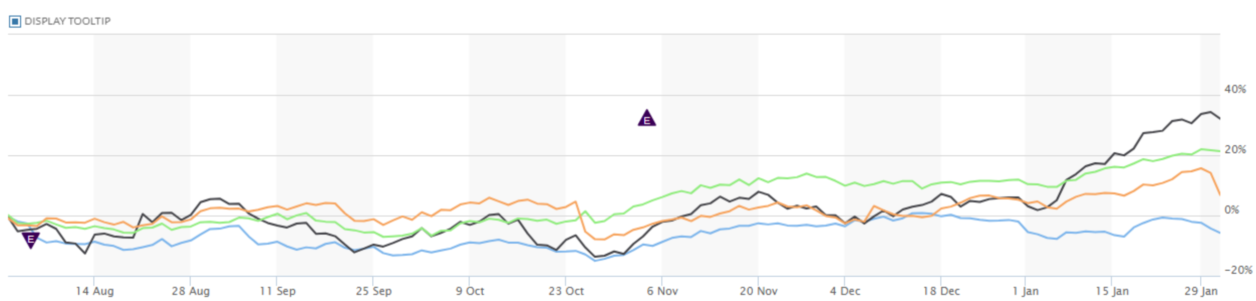
Over the last 2 years, something has happened that has not happened to Apple ever, flat revenue. We used trailing twelve-month revenue to gauge this. Apple's Q4 2023 (Apple uses a September 30th fiscal year end) numbers indicated a small reduction in revenue year-over-year.

AAPL Revenue TTM Chart



Analysts estimate that revenue will be $117.62 billion over the quarter, flat compared to the same period last year, and earnings to be $2.07 per share, an 11% jump from the same period last year.

Over the last 6 months, Apple's share price has severely underperformed its Magnificent 7 peers.



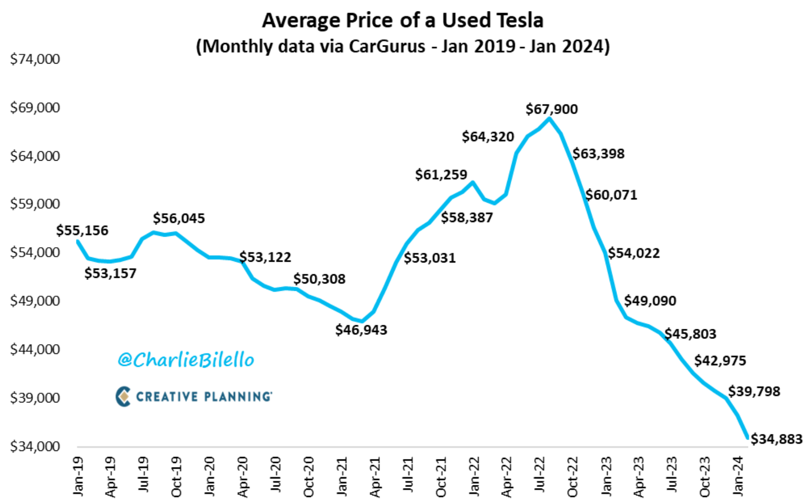
Apple shares (blue) are down 6% over the last 6 months, while Alphabet (orange) is up 7%, Microsoft (green) is up 21%, and Nvidia (black) is up 32%. The decoupling of Apple and its peers is being driven by slowing top-line growth and Apple falling behind others in the artificial intelligence race.

There have also been some warning signs recently that iPhone sales will slow down this year for Apple. An analyst's latest supply chain survey indicates Apple has lowered its 2024 iPhone shipments of key upstream semiconductor components to about 200M units, down approximately 15% year over year. iPhone sales in China have also come down in recent months.

We will have to see what Apple reports this week and if their new products and development are enough to drive growth moving forward. We certainly would not bet against Apple as the company has arguably been the most successful in the world over the last 20+ years. We would warn that these issues that we have highlighted are slight warning signs for investors.

Tesla, just like any other car

Used Tesla prices continue to retreat as people wake up to the realities of the vehicle. The average price of a used Tesla has retreated 18 months in a row. Today's price is at an all-time low for a Tesla.



Prices have dropped by 49% since their peak in July 2022.

So, what can this trend tell us? Tesla prices are acting exactly like the price of any other vehicle, prices decrease when they leave the lot, or simply, vehicles are depreciating assets not appreciating assets. We hope none of our readers bought into this bubble that was quite easy to see.

Consumer demand for Tesla has also slowed in recent quarters which has prevented Tesla from reaching previously forecasted targets.

So why is consumer demand softer than many expected? The electric vehicle wave was supposed to be well under way and the pivot from traditional automobiles to EVs was supposed to be more pronounced by this point.

One thing we will say is consumers seem to be happy with their cars and not as ready to transition as analysts, companies, and governments thought. Consumers can talk a big game but up to now, they seem to not be acting.

The other aspect we will mention has something to do with reliability. We have mentioned that green energy like wind and solar is sometimes not the most reliable and can lead to energy shortages or blackouts. Something similar could be said for EVs. We have seen more and more horror stories from EV owners in cold places across the U.S. and Canada this winter.

The cold weather and brutal conditions that occurred two and three weeks ago over most of the U.S. led to several issues for EVs, more specifically Tesla owners.

Several Chicago area Tesla owners were caught in the cold for hours on January 16-17 as the cold temperatures prevented their Teslas from charging. One Tesla owner said "Nothing. No juice. Still on zero percent...... And this is like three hours being out here after being out here three hours yesterday".

Here is the article in the New York Post that looks at the issues many Tesla owners faced in Chicago:

https://nypost.com/2024/01/16/news/chicago-area-tesla-charging-stations-lined-with-dead-cars-in-freezing-cold-a-bunch-of-dead-robots-out-here/?utm_source=twitter&utm_campaign=nypost&utm_medium=social

The same issues are plaguing Canadians this winter:

https://ottawa.ctvnews.ca/ottawa-tesla-drivers-wait-for-nearly-two-hours-to-charge-at-supercharger-on-friday-1.6734453?cid=sm%3Atrueanthem%3Actvottawa%3Atwitterpost&taid=65ab6166abab3d000142c2d4&utm_campaign=trueAnthem%3A+Trending+Content&utm_medium=trueAnthem&utm_source=twitter

Here is an article from Michigan where a driver mentions his Tesla not being a cold-weather car and the challenges an Uber driver who owns a Tesla faced in the cold:

https://www.freep.com/story/news/local/michigan/2024/01/17/michigan-weather-cold-temperatures-cars/72253545007/

Tesla's are impacting the ability for consumers to earn as well as not being a cold weather option for drivers will stunt the company's growth moving forward.

Many Canadians and Americans are also having issues with the range of their charge this winter. In the cold temperatures, consumers have ranges that are less than half the normal range of their vehicle. This is simply not acceptable for those who travel for work, pleasure, to visit family, travel, and attend events (ie. children's activities). Imagine waiting at a Tesla charging station for 2 hours and making your son or daughter late for their hockey game.

Tesla and many other EV batteries do not begin charging unless they're at an optimal temperature, which takes time in cold temperatures. The reality for many Tesla owners without home charging stations is that they will continue to face these issues unless Tesla and the EV industry can improve the performance of their batteries in colder temperatures.

Soft EV demand as well as these cold weather issues have been drivers in Tesla's negative stock performance in recent months:

Nuclear narrative

All is well in the world of uranium.

This week, the Czech government announced that they will be accepting bids for four new nuclear reactors in the country. They know the importance of nuclear energy and want to decrease the spot price of uranium.

Czech Government Seeks Binding Bids for Up to 4 Nuclear Reactors

By Krystof Chamonikolas
01/31/2024 09:35:57 [BFW]

(Bloomberg) -- The Czech government decided to seek binding bids for as many as four reactors in an attempt to reduce the price per one unit, Prime Minister Petr Fiala said on Wednesday in a televised briefing in Prague.

- France's EDF and Korea's KHNP have submitted binding bids for one reactor, and the state will ask the two companies to submit alternative binding bids for up to four units by April 15, Fiala said.

Several firms are expected to compete for the new reactors. This is bullish for the entire industry as more and more consumers and governments wake up to the importance of nuclear energy in tomorrow's economy.

The Slovenian Prime Minister also announced a cross-party agreement in the country that states that green and nuclear energy sources will play a role in “the path to a carbon-free future”. This is yet another move by a government to change its tune on nuclear energy.

This week, Sprott also forecasted that the physical price of uranium could surpass 2007 highs as supply-demand constraints continue to worsen. Sprott believes utilities will ramp up demand for physical uranium. The lag times to boost production are also something vital to watch as capex takes time and large amounts of capital. Sprott also states the global supply of uranium needs to double from now by 2040 to meet global climate goals. We along with many are not sure where all that supply will come from.

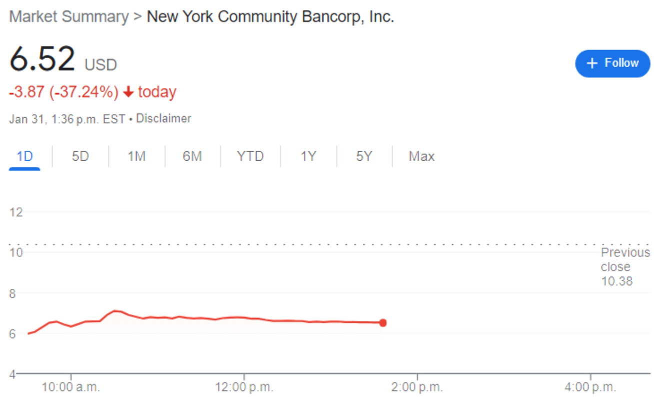
Hero turned to jester

When numerous regional banks across the U.S. were flailing last year, many banks stepped into secure companies that could not fulfill customer deposits due to unrealized losses on debt securities. This led to several banks purchasing Signature Bank's assets. Signature Bank is the 4th largest bank ever to fail in U.S. history, only behind Washington Mutual which failed in 2008, and First Republic, and Silicon Valley Bank which both failed early last year.

New York Community Bancorp was the company that absorbed the 40 Signature Bank branches last spring in a deal brokered by the FDIC. New York Community Bancorp operates branches across numerous states under several names.

New York Community Bancorp acquired Signature Bank assets for pennies on the dollar at the time which sent NYCB shares surging. NYCB shares were originally hit by the regional banking crisis and lost 35% in value from February 2023 to March 19, 2023. Upon the deal announcement, shares soared from $6.54 on March 17th to $13.87 by the end of July. The bank looked like it was well-positioned and avoided the issues that plagued other regional banks. Fast forward 6 months from that price high and NYCB shares have collapsed to $6.52, erasing all the gains that stemmed from its previous transaction with Signature Bank.

The largest drop for NYCB came on Wednesday of this week, when NYCB shares lost 37%:



The drop came as NYCB reported a surprise net loss of $252 million during their last quarter. The company also announced it would be suspending its dividend. The drop is the largest drop for NYCB in a single day in history.

The company has been and will be building up its reserves to meet regulatory requirements as a larger Category IV bank. Category IV banks have assets between $100 billion and $250 billion. Despite its increase in reserves, NYCB still lags other Category IV banks on capital, reserves, and liquidity. This makes NYCB carry a riskier credit profile than its peers. After acquiring the ailing Signature Bank and its $38 billion in assets last year, NYCB now meets the regulatory definition of a Category IV bank. It also closed its acquisition of Flagstar Bank in late 2022. As of December 31, total assets were $116.3 billion, up from $111.2 billion on September 30th.

The bank is now facing similar issues that regional banks faced last year due to the acquisition of more loan losses on their balance sheet. They also are facing the realities of being larger and stricter risk management.

We did not hold NYCB in any client accounts and believe their stock will underperform in coming quarters as they deal with loan losses and build up their reserves to meet peer levels.

In this case, NYCB was a hero just last year and now looks like a joke as they face the same issues as the bank they acquired assets from that failed last year.

<u>FED holds put</u>

On Wednesday the Federal Reserve announced they are holding their benchmark interest rate put in a surprise to nobody. This leaves the key rate in place for the 4th consecutive FED meeting. At this FED meeting, the committee was unanimous to not raise the FED funds rate.

However, in the release, the FED indicated that it is not ready to start cutting rates. The statement said there are no plans yet to cut rates with inflation still running above the Central Bank's target. The FED said that any adjustments to rates will be based on incoming data, the economic outlook, and the balance of risks.

The overall message that we got from the statement before Chairman Powell spoke was that rate cuts are coming, but the FED is in no rush to start in March many believed.

As of 2:20 PM EST (before Powell spoke), the CME FED Watch Tool indicated a 55% chance rates stay put at March's decision. One month ago, there was an 11% chance rates stayed the same (and an 89% chance of cut(s)), quite the monthly change.

In Powell's press conference, he reiterated the statement that the FED released saying inflation needs to come down before anything changes in terms of interest rate policy. He went on to say that the FED policy is more than likely at its peak and the FED will dial back rates if the economy evolves as expected.

Powell also stated he believes we will achieve a soft landing. He also stated that labor market weakness could weigh on cutting sooner. He also mentioned that he believes the FED is done hiking interest rates.

For now, it seems our higher-for-longer thesis is coming true. Stay tuned.

MacNicol & Associates Asset Management
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