

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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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.



Rubjerg Knude Lighthouse, Rubjerg, Hjørring Municipality, Denmark

This lighthouse is located on the coast of the North Sea in Denmark. The lighthouse was first lit in 1900 and stands 200 feet above sea level. The lighthouse stands at 75 feet tall and was deactivated in 1968.



Anvil Point Lighthouse, Swanage Dorset, England

This fully automated lighthouse is located on the south coast of England. The lighthouse was constructed in 1881 and was automated 110 years later. The 39-foot-tall lighthouse has a 17 nautical kilometer range.

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

Fresh IPO

A highly anticipated IPO that has been in the works for quite some time looks to be coming to the finish line and hitting public markets. Social media platform, Reddit has reportedly released the details of its upcoming IPO. Reddit's IPO comes more than 2 years after the company originally planned to go public. Morgan Stanley, Goldman Sachs, JP Morgan, and Bank of America are serving as the lead underwriters for the offering.

The company targets a valuation of up to \$6.4 billion. The company will look to raise \$748 million in the offering. Reddit will look to sell 22 million shares (a combination of issue and sales) at a price between \$31 and \$34.

The pricing information comes a few weeks after it was announced that Reddit had applied to the New York Stock Exchange for its IPO. Reddit will trade under the ticker RDDT.

The valuation that Reddit is targeting is well off its valuation from 2021 when Reddit was valued at \$10 billion following a 2021 funding round. Researchers at New Street Research recently issued a base case for Reddit's IPO and attached a \$10.4 billion valuation to the company. Reddit's interest must have been much lower than what management and some investors had once thought.

According to the IPO filing, Reddit had 2023 revenue of \$804 million, up 20.6% from 2022. Reddit realized a net loss in 2023 of \$90.8 million, a smaller loss than in 2022 of \$158.6 million. Reddit has yet to turn a profit and has lagged behind the success of its contemporaries like Twitter, and Meta Platforms.

Reddit was founded in 2005 and allows users to discuss a variety of topics through subreddits. Reddit's subcommunities or discussion forums are well-known and often go viral. The birthplace of the term "meme stock" came from Reddit through the 'wallstreetbets' forum. If you do not remember this saga in 2021, retail investors teamed up to buy highly shorted stocks like GameStop, AMC Entertainment, Nokia, BlackBerry, and many more and ran their prices up off pure investor demand. This phenomenon had quite a reach in markets and the news cycle. This 'wallstreetbets' forum is a perfect example of how engaged, and loyal Reddit users are. The platform has been described by many as cultish.

Reddit has allotted some of the stock they will be issuing in their IPO to retail users of Reddit. 8% of the shares issued will be reserved for platform users, moderators, members, and family and friends of employees. These special shares have no lock-up period and can be sold immediately. This retail aspect will make shares highly volatile when Reddit shares begin trading.

The one thing to watch on Reddit once the company IPO is the moderation of content. Reddit has historically relied on volunteers in the Reddit community to moderate discussions. This could be a serious issue for some investors as well as regulators.

Reddit's IPO is closely being watched by most equity investors as it will be the year's first big technology IPO. This is the first IPO in the social media space since Pinterest went public 5 years ago. Pinterest shares are up 41% since their IPO price but are trading at less than half of what they were in early 2021.

We think shares in the coming weeks for Reddit will be highly volatile, and the financials for Reddit do not excite us from a valuation standpoint. We also think the moderation of content moving forward could change on the platform as the company begins to trade publicly. We will be watching this IPO from the sidelines and believe many in the PE, VC, and IB will be hoping for a bang after a slower last 2 years in deal-making.

New York Community Bancorp's saviour

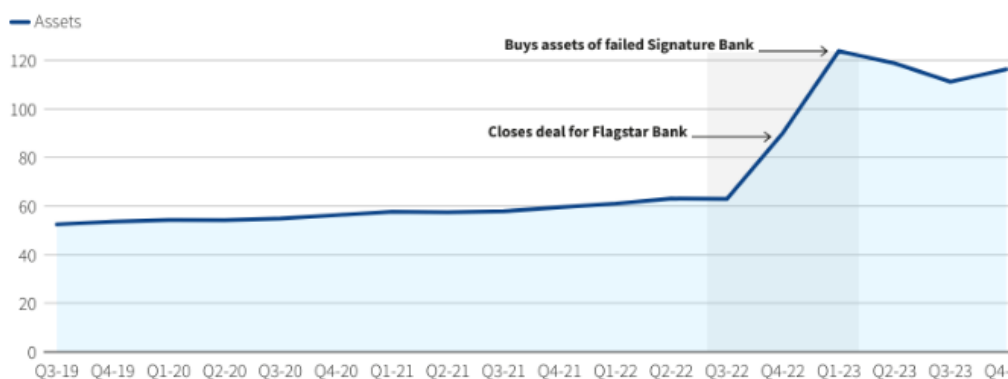
Last week, we talked about a regional bank that was in distress. The bank's struggles have accelerated through the year and reminded us of some regional banks that failed exactly one year ago this week (Silicon Valley Bank and Signature Bank).

New York Community Bancorp was first mentioned in this publication in late January when the stock cratered from \$10.25 to below \$5 in a matter of days. The reason this happened was because NYCB was facing stricter covenants as a larger bank, the company reported a surprise net loss, and its dividend was slashed, all due to its commercial real estate portfolio being highly stressed and NYCB taking on some assets from Signature Bank which failed last year. Last week, the stock kept falling and we thought the company could be scooped up for nothing or the company would file for Chapter 11 bankruptcy.

NYCB had stricter covenants as they grew quite rapidly over the last year through the acquisition of external assets. The company acquired Flagstar Bank in late 2022 and acquired assets of failed Signature Bank in the spring of last year. More assets on a bank's balance sheet trigger tougher capital rules and requirements from regulators.

NYCB's rapid growth to \$100 billion in assets

Deals for Flagstar Bank and Signature Bank push New York Community Bancorp's total assets above \$100 billion triggering tougher capital rules and requirements from regulators



Note: All data in blns of \$ | Source: Company statements | By Manya Saini & Niket Nishant

NYCB shares dropped over 40% last Wednesday morning, reaching new lows on another leg down. Shares cratered as the company released that losses would be much larger than expected this year. The company also released data that reflected outflows in deposits and that 20% of its deposits were uninsured.

During this turmoil, NYCB customers reportedly stood in line to withdraw their money as it was reported that NYCB would need capital to stabilize their deposits, balance sheet, and investor sentiment.

Market Summary > New York Community Bancorp, Inc.

3.26 USD

+0.46 (16.27%) ↑ past 5 days

Mar 11, 3:31 p.m. EDT • Disclaimer

+ Follow

1D | 5D | 1M | 6M | YTD | 1Y | 5Y | Max



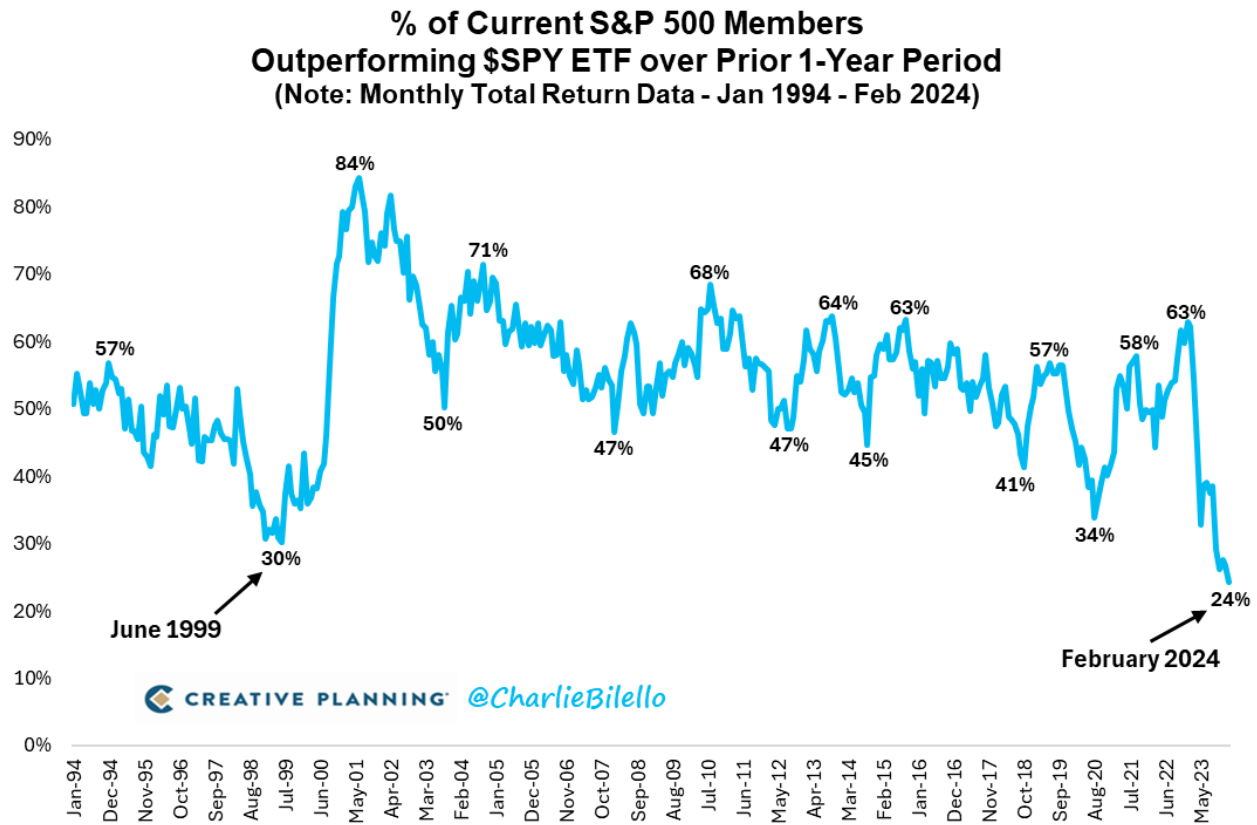
Midway through the day last Wednesday, NYCB investors, management, and customers got their wish, new investors injecting a lot of capital to save their company. The announcement reversed the losses that NYCB had incurred over the last few hours.

NYCB came to terms with a group of investment firms who agreed to invest more than \$1 billion in equity. The group included Hudson Bay Capital, Reverence Capital Partners, and Former Secretary Steven Mnuchin's firm Liberty Strategic Capital. Former Secretary of Treasury Mnuchin will join NYCB's Board as part of the deal. The Board will have 4 new members as part of the deal. Mnuchin and his group named former Comptroller of the Currency, Joseph Otting, NYCB's new CEO. Otting and Mnuchin's connection expands past their time serving the American people where Otting was the CEO of OneWest, a bank and Mnuchin was one of the Founders. Both individuals served President Donald Trump.

As a part of the deal, Liberty Strategic will infuse \$450 million, Hudson Bay \$250 million, Reverence Capital \$200 million, and the remainder from a small group.

A chart from one of our favourites

This week, Charlie Bilelo published a chart in his weekly newsletter that we needed to share with our audience. The chart below tracks the percentage of companies that have outperformed the S&P 500 ETF, SPY over the last year.



Only 24% of the S&P 500 components have outperformed the overall index ETF over the last year, that number is the lowest percentage on record (data goes back to 1994). The number is lower than the Dot Com era by quite a bit.

The chart shows just how limited market breadth has been during this rally. The chart above also moves in consistent cycles, when does breadth begin to outperform the mega caps and reverse the chart above? Perhaps, it already has slowly started. Nvidia shares have reversed after hitting fresh all-time highs last Friday morning and are now 12% off ATHs in a matter of hours (as of Monday, March 11, 2024, at 10:00 AM).

Here we go again?

On Tuesday, the U.S. Bureau of Labour Statistics released the Consumer Price Index data for February and numbers across the board came in higher than expected.

Consumer prices rose 0.4% over February and were up 3.2% year over year. The number slightly beat estimates and was higher than in January. January's CPI and the consensus estimate for February 2024 were both 3.1%.

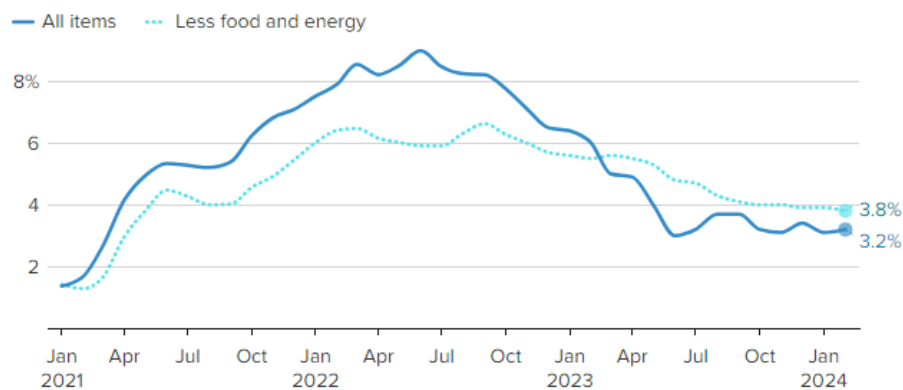
Excluding food and energy prices, core CPI increased 3.8% over the last year, 0.1% higher than what was forecasted. February's monthly increase of 0.4% for core CPI was the highest monthly number since September 2023.

Increases over the month in energy and shelter prices amounted to more than 60% of the CPI for February. Rent, gasoline, and airfare prices increased by more than expected over the month.

Both headline and core CPI are well off their 2022 highs but remain well above the 2% rate targeted by the Federal Reserve. Inflation has essentially flatlined over the last 8-12 months as prices continue to increase.

U.S. consumer price index

Year-over-year percent change as of February 2024



Source: U.S. Bureau of Labor Statistics
 Data as of March 12, 2024



FED officials have more data to weigh as they approach their two-day policy meeting next week. FED officials have signaled over the last few months that rate cuts are coming in 2024 but the timing of those cuts has seemingly been pushed back due to sticky inflation numbers.

Strong economic numbers have allowed the FED to avoid having to rush to slash interest rates. The U.S. GDP is expected to grow at an annualized rate of 2.5% during the first quarter.

This new data could be trouble in the short term for the FED as they continue to push back interest rate cuts. The same could be said for the Biden Administration who are at the whims of voters this Fall. Higher rates and continued inflation will be major sticking points for voters in November.

Just last week, Biden said he bets the FED will cut rates soon. Presidents tend to refrain from comments on the FED.

Expectations over interest rate cuts have changed over the last month quite substantially. Just one month ago there was a 52% probability of a 25-basis point rate cut at May's FED meeting, as of today that number is below 12%. Probabilities for a rate cut at June's meeting have also decreased over the last month.

Wall Street's top dog, Jamie Dimon, CEO of JP Morgan said the FED should wait on cutting rates at this current time.

Wall Street: slowly turning on Musk

Wells Fargo's analyst who covers Tesla came out with a surprising change to his report on Tesla Wednesday morning. Colin Langan downgraded Tesla from a hold to a sell and slapped a \$125 price target on the company. His previous price target was \$200.

Langan said in his note that volume will disappoint in Q1 and through 2024 for Tesla, claiming price cuts are having a diminishing impact on demand. His recent EPS estimate for 2024 is 32% below consensus estimates. The volume he has forecasted that Tesla will achieve would be flat year over year versus 2023. His revenue range estimate was forecasted lower this week and is well below Wall Street consensus estimates. Langan also downgraded Tesla's revenue forecast and EPS for 2025, citing that this problem will continue to plague Tesla moving forward.

Langan called Tesla's stock, a growth stock with no growth in his report. He mentioned that new Tesla models due in the next 18 months will not make up for this soft demand. He also believes the Model 2 (due in 2025 as a cheaper option) will have razor-slim gross margins and the Cybertruck will have plenty of competition pulling down the price.

Langan is not the only bearish analyst on Tesla. A few other analysts have Tesla labeled with a sell signal now 18% of analysts covering Tesla have it labeled with a sell signal.

Tesla shares have tumbled almost 30% in 2024 and shareholders could have a rude awakening if earnings and revenue continue to miss. If Tesla fails to continue growing at the fast clip that it has seen over the last 10 years, its stock price will tank as the elevated valuation would not be warranted. Tesla's stock price would move closer to traditional automakers' valuations and further away from the valuations of big tech (barring some radical change to the business).

We believe Tesla will be a leader in the EV space for decades to come but believe they will have more competition than some thought and believe the whole sector could struggle with consumer demand moving forward.

Gold surging despite outflows

Gold prices continue to hit all-time highs despite investor outflows in gold ETFs.



Investors have more than likely taken profits from gold ETFs in recent years and rotated them into other asset classes like traditional equities, Bitcoin, money market funds, or even alternatives. The start of the outflow began in early 2022 when interest rates surged and money market funds became attractive to investors, more outflows came at the end of the year when equity markets and Bitcoin had horrible years, investors saw this as a buying opportunity.

Despite the lack of investor interest in gold over the last 18 months, we are pleased with how the physical market has performed. Gold prices continue to hit new highs as some investors, and Central Banks pile into the asset. We like gold as a hedge against inflation, a store and hold of value, and a way to diversify our investors without limiting their upside in their portfolios. We think the physical price of gold could heat up moving forward, especially as more investors begin to pile into the asset. We think there will eventually be more deterioration in fiat currencies across the world moving forward as governments continue to expand their deficits.

We also think gold miners, who have deleveraged over the last 10 years, and are sitting on the highest cash piles in decades are in prime positions to outperform moving forward. Every day, prices remain elevated, and revenue and margins improve for miners, something we are glad to see.

Disclaimer: MacNicol & Associates Asset Management owns physical gold, silver and platinum, gold ETFs, and gold mining equities across various accounts.

MacNicol & Associates Asset Management
March 15, 2024