THE WEEKLY BEACON MARCH 8, 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

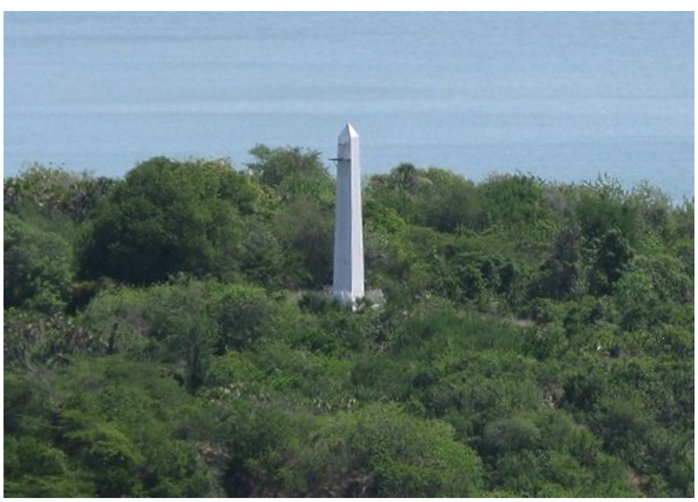
BEACONS OF THE WEEK

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.

Fig. 1 Vlakkenhoek Lighthouse at Tambling Wildlife Nature Conservation

VLAKKENHOEK LIGHTHOUSE, Bandar Lampung, Indonesia

This paneled lighthouse was built in 1879 on the outermost south-west tip of Sumatra. When the lighthouse was built the area was under control of the King of the Netherlands. The lighthouse stands at 63 meters tall. The lighthouse is now included in the Tambling Wildlife Nature Conservation.



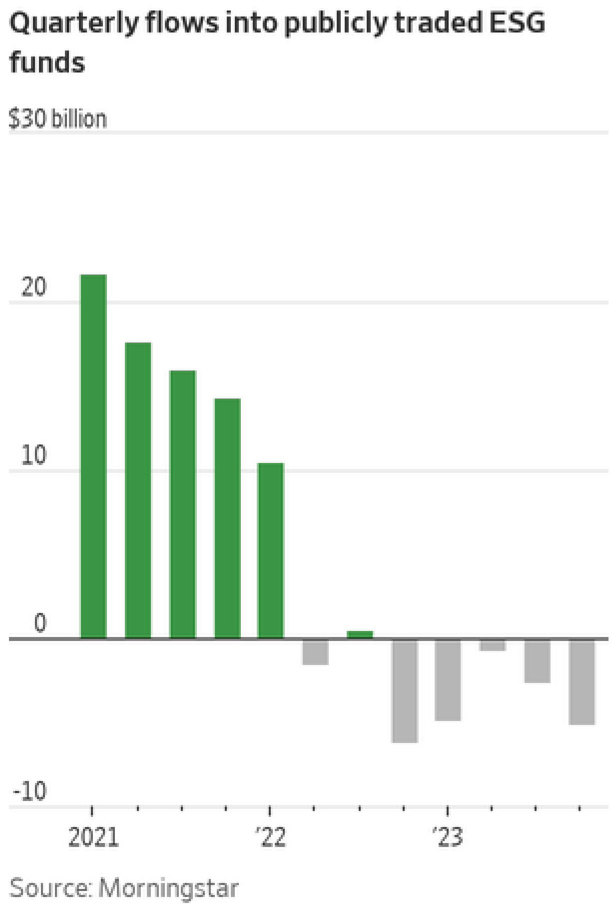
Kilindini Rear Light, Mombasa, Kenya

This concrete lighthouse stands at 49 meters tall. The lighthouse is located on the eastern coast of Kenya, close to the country's southern border with Tanzania.

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

Rest in peace ESG

Investors pulled $13 billion from ESG funds last year, accounting for 4% of the asset classes value.



The ESG movement is seemingly disappearing as it lost money for investors and did not deliver any real social or environmental benefits.

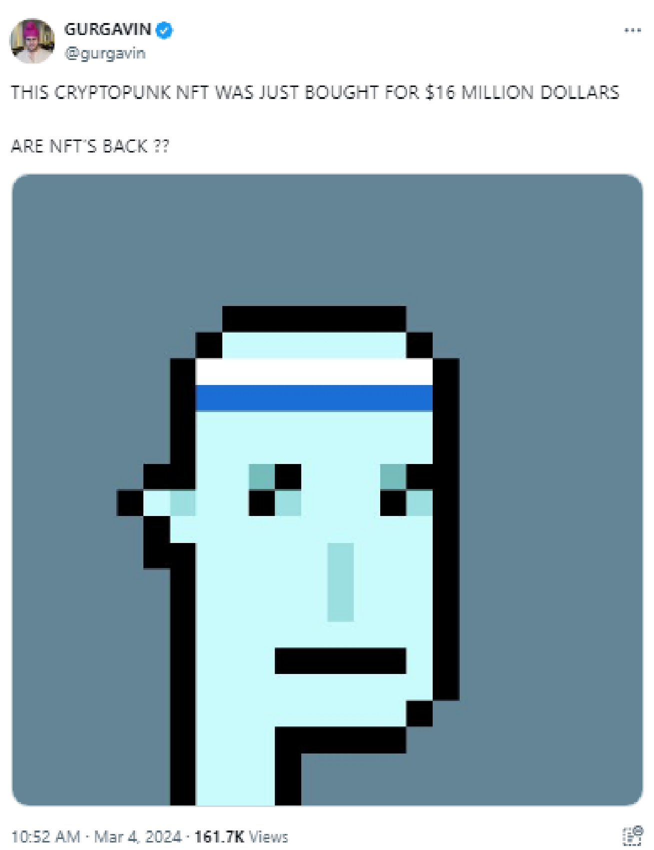
We think investor withdrawals will continue in the ESG space, and companies will cut back on their ESG focus, spending and commitments.

Crypto and NFTs

Bitcoin, as of Monday afternoon, was close to all-time highs, after jumping over 7%. The cryptocurrency is up over 50% this year. The crypto space seems to be back as social media, news outlets, and talk shows cannot stop talking about the asset. Retail investors have piled back in and are as bullish as ever on the asset. We mentioned the factors that have led to Bitcoin's ascension over the last 4-6 months in last week's publication so will not talk about those this week.
This week we wanted to talk about the craze that crypto markets have right now.

Everybody is talking about Bitcoin and crypto, don't believe us? A friend who does not invest his own money or work in the financial services sector mentioned that he wanted to go all in on Bitcoin and some altcoins due to their massive upside and recent returns. If that is not a signal, then we do not know what is.

Another signal that we saw that confirms this "crypto craze" came from Twitter this week. A popular account shared an image of an NFT that was sold recently and look at the selling price:



$16 million for a grainy clip art picture that we could create in a few minutes. That is peak craze or money laundering. We are not sure which one we would classify this as but believe neither option is bullish for crypto and the NFT space.

The last crypto craze that the world saw was just a few years ago when NFTs went crazy and every social media influencer, celebrity, and company began to sell NFTs. These groups and individuals capitalized on the crypto craze and many retail investors were caught holding the bag when the bubble popped. We are not saying Bitcoin is a bubble but believe its volatility could lead to large losses for investors when the tide turns. It is important to protect profits and we do not think that many investors in this space are protecting their interests in the long term.

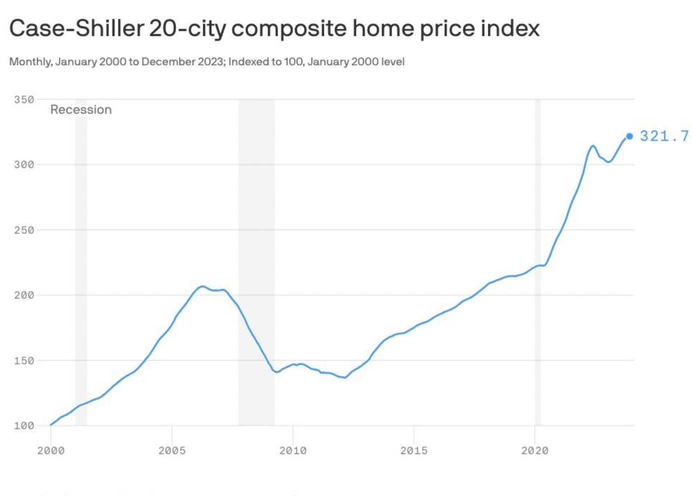
We will continue to report on the industry moving forward as we are most definitely in a crypto craze and want to remain informed and share what we see in the space.

Bitcoin hit its all-time high on Tuesday morning, soaring above $69,000.

After Bitcoin hit its all-time high, prices slid by over 7% in the two hours following that mark. Quite the roller coaster, or just another day in crypto. If you are a crypto investor, you must accept the volatility both on the upside and the downside.

Supply < Demand

The housing market continues to hit new highs even with interest rates hitting decade highs and sitting well above recent averages.



Many Americans have not been forced to sell their homes as they have locked in low rates. This has led to a slower housing market over the last year but has not significantly impacted prices. There has been no flood of supply into the market and demand remains quite strong despite high interest rates.

This is all to do with supply and demand. The supply and demand dynamics of the housing market are well known to us north of the border. The housing market in Canada is tighter than the U.S. but both markets remain hot due to a lack of supply. Canada's housing supply has been reported on in depth over the last few years as the country has welcomed a flood of immigrants into its borders but has not built enough homes to match that growth rate.

When the FED and the Bank of Canada slash rates, expect the chart above for U.S. homes and Canadian homes to surge in price. The supply problem that the U.S. and Canada have created will not be solved overnight and young home buyers will be the ones most impacted.

The national home price index was up 5.5% year-over-year as of December 31st, 2023. This was the 12th straight year the Case-Schiller Home Price Index increased on a nominal basis.

Gold prices

Internet gold, Bitcoin hit its all-time high this week causing investors to rethink their allocation. The Bitcoin bulls continue to thump the table that the asset is the strongest storehold of value across financial markets.

Interestingly enough, physical gold prices, also hit all-time highs this week. Gold has historically been the strongest storehold of value and a hedge against instability and inflation.

The price of gold hit $2,125 on Tuesday and closed above $2,100 for the first time on Monday. Gold is now up 2.5% year-to-date, and 15% over the last year. The price of gold moved even higher Wednesday, hitting new highs above $2,140.

Despite hitting all-time high prices, gold is well below its other peaks in real terms that we saw in 1980, 2011, and 2020. This is a reference to higher levels seen when adjusted for inflation. 1980 gold prices would adjust to $3,200 today.

So, what has supported this rally in gold? Several factors.

Concerns around global economic conditions, geopolitical tensions, and shifting expectations on global interest rates are major factors that we think have contributed to higher gold prices. We also think sticky inflation and the many Central Banks around the world buying of gold also contributed to the price accession over the past few months. A flood of Foreign Reserve money has piled into gold since the U.S. and EU confiscated $300 billion in Russian foreign exchange reserves after Russia invaded Ukraine. Countries around the world have exited U.S. Treasury notes in favor of gold for potential safety concerns.

Gold has performed quite well over the last year despite high-interest rates and a strong U.S. dollar. Gold performs best when rates are lower as money exits gold and seeks yield when rates are higher.

Expectations over the last week or so have changed on the FED's interest rate policy. Rate cuts are now expected to come in June which is increasing interest in gold. According to the CME FED Watch Tool, there is a 70% probability of lower interest rates at June's policy decision from the FED versus a 58% probability just 1 week ago. Expectations are shifting quickly, and investors are positioning themselves accordingly.

We are happy we stayed in the gold trade despite its consolidation over the last few years. We think that some gold miners trade at extremely attractive valuations and think the price of gold has an upside even from here.

Disclaimer: MacNicol & Associates Asset Management investors own gold mining securities, ETFs, physical gold, and other assets involved in the gold and precious metals industry.

Bezos overtakes Musk

Jeff Bezos returned to the world's richest man on Monday for the first time since 2021. Bezos leapfrogged Elon Musk after Tesla shares dropped 7.2% on Monday, for its biggest daily loss since January 25th. Tesla shares were down another 4% as of mid-day Tuesday.

As of March 4th, Bezos's net worth sits at $200 billion, while Musk's sits at $198 billion, and Bernard Arnault sits at $197 billion. The 3 men have traded places at the top of the list in recent years. However, 2024 has been Bezos and Arnault's year as both have gained $20 billion in net worth this year while Musk has seen over $31 billion in his net worth disappear.

This loss of net worth has been due to Tesla's underwhelming start to 2024. Tesla shares have already lost over 25% year-to-date. Musk's net worth like Tesla shares has been extremely volatile in recent years and if the stock can get its mojo back, Musk will more than likely return to number one on the list.

Musk needs Wall Street along with retail investors to regain their confidence in him and his company.

Musk has been on the outs of Wall Street and mainstream media outlets since he purchased Twitter and has become more vocal regarding political issues like free speech, vaccines, the border, and inflation. Musk's net worth peaked in November 2021 at $326 billion according to the Bloomberg Billionaires Index. Tesla's recent struggles and the write-down of Twitter's value have been the major drivers of the decrease in his wealth.

Recession?

It appears some consumers are not feeling the effects of high prices, higher interest rates, and a slowing global economy:

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BUSINESS

Lamborghini says all cars sold out till 2026

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Synopsis

The Italian super-car maker posted record sales of more than 10,000 vehicles last year as it introduced the Revuelto, its first plug-in hybrid model, and quickly racked up a two-year backlog of orders. Lamborghini is only slowly introducing electric vehicles with plans on track fc

Lamborghini selling out of vehicles over the next two years means one of two things: crypto bros are already banking on the crypto market soaring over the next 18 months, or Nancy Pelosi is loading up on call options and the market is uber bullish. Perhaps both are true ………. buyer beware. We would have more confidence following the Barron of Washington rather than crypto bros trading on their desktops.

And then there was one

Republican Presidential Candidate Nikki Haley dropped out of the race for the Republican nominee for President on Wednesday morning after being blown out on Super Tuesday by Former President Trump.

Haley was the longest Republican holdout but has finally conceded to Trump so her party can focus on the November general election.

Trump won all but one of the 14 states that went to the polls on Tuesday night, essentially locking up his party's nomination for President.

As of March 6th, 2024, it seems almost certain that we will see a rematch of the 2020 election: Biden versus Trump.

As an Asset Manager, we tend to not talk politics. We will continue to share our thoughts on the election in November in an apolitical way that an Asset Manager should use when analyzing politics. We will not be avoiding the topic as we head closer to November as it is important to stay informed due to the ripple effects of November's result. However, we will avoid becoming political as we believe there is no place for that in our industry and think we should value all opinions and viewpoints.

The one thing on the election that we will say and feel most rational people would agree with is that it's unbelievable that a country with 330 million people is choosing between a 78-year-old, and an 81-year-old in November to be their President for the next 4 years.

European Union reignites trade war

The EU quietly is moving closer to imposing more tariffs on Chinese electric vehicles entering its geographical area. The EU cited Beijing and the CCP giving illegal financing to Chinese EV producers as the reason for these new tariffs.

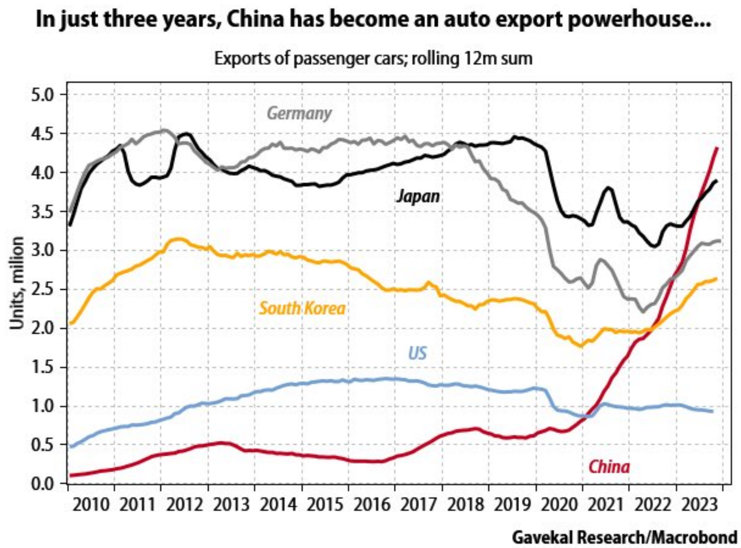
The EU said this week that they have found sufficient evidence that Chinese EV companies receive subsidies from the Chinese government including direct transfer of funds, tax breaks, or public provision of goods or services below market prices.

The EU is essentially saying that Chinese producers are expanding into new markets (like the EU) with low vehicle prices which are being fueled by government advantages (from the CCP), low costs (labor), and sometimes the vehicles are being built in illegal ways. These factors will lead to the EU's largest vehicle producers being put out of business and would negatively impact employment, and the overall production of domestic producers.

The EU launched this inquiry in October, and provisional tariffs could be put into place as soon as July, and definitive tariffs will hit Chinese producers in November. The EU will continue their inquiry in the coming weeks and months. The EU is attempting to deter Chinese EV imports which have increased massively in recent months.

This move by the EU is part of a recent push to protect supply lines and bring production closer to home. The move comes at a time when relations with Beijing have become very fragile. The focus of this recent push has been on the semiconductor and pharmaceutical industries, but it seems this announcement has broadened the push. Currently, the EU makes up almost one-third of Chinese EV exports.

Over the last 3 years, China has become a powerhouse in the automobile industry:



The China Chamber of Commerce voiced their disappointment in the findings, saying that the 'recent surge in Chinese EV imports mirrors the increasing demand for EVs in Europe.

China has also retaliated against the EU with its probe into an EU industry. China is investigating an anti-dumping investigation into Brandy imported from the EU. Despite China's retaliation, their investigation will more than likely have less of an impact on the EU as the total value of Brandy exported to China from the EU was $1.6 billion from January 2023 – November 30, 2023, versus $12.7 billion in battery electric vehicles imported to the EU from China over the same period. Vehicles imported by the EU from China grew by 37% in 2022 and is a fast-growing industry for China.

Europe is viewed as one of the last big, open markets for advanced Chinese goods. In other big markets such as the United States and India, they are commonly subjected to import tariffs or other market access restrictions.

The commission said that it would require customs registrations of Chinese EV imports starting this Thursday.

Will this move help revive the automobile industry that has been collapsing in the EU?

We are not sure. Europe based automotive producers have struggled to make the transition in the EV space in recent years and have lagged North American and Chinese producers in this pursuit.

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