

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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ASSET MANAGEMENT

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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.



Pigeon Point Lighthouse, San Francisco, California

Pigeon Point Light Station is a lighthouse that was built in 1871. The lighthouse was automated in 1974 and stands at 115 feet tall. The lighthouse and the land around have been preserved as Pigeon Point Light Station State Historic Park, a California state park. The lighthouse is also listed on the National Register of Historic Places, and designated as a California Historical Landmark.



Point Cabrillo Light, Caspar, California

Point Cabrillo Lighthouse is located off the coast of northern California. The lighthouse has been a federal aid to navigation since 1909 and was automated in 1973. The lighthouse stands at 47 feet tall.

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

Death of the dollar?

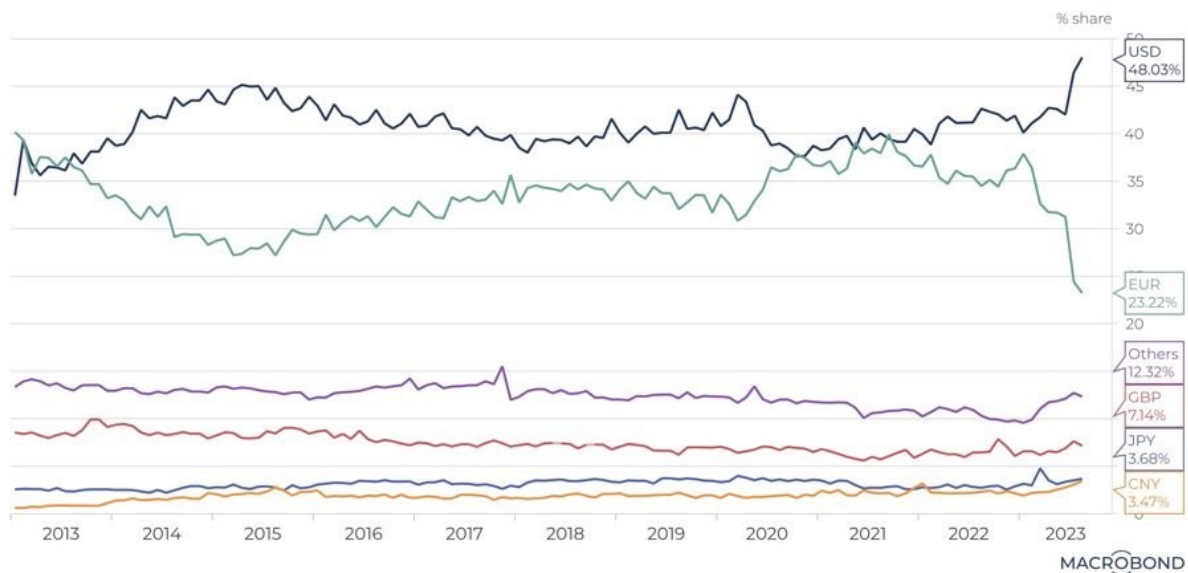
Many analysts and media pundits over the last few years have declared the U.S. dollar as dead, a currency of the past that will lose strength moving forward. Their thesis is simple, other countries are ascending, the U.S. is losing its absolute advantage, and countries will begin to diversify.

While the thesis makes sense, reality is not based on a thesis.

Last year, 48% of international transactions were denominated in U.S. dollars, while that may seem low, it's the highest number for the U.S. dollar in a decade.

Currency used for global payments through SWIFT system

Source: SWIFT, based on value



The real currency that has struggled and could eventually die is the Euro which has seen its use close to half in a matter of 3-4 years.

In times of geopolitical uncertainty and financial instability investors, consumers, and institutions flock to the world's financial center.

Our entire point in this entry is do not write the U.S. dollar off moving forward. The country that was built on the back of pure capitalism will not relinquish the title of the world's most powerful country without a long struggle that could take decades to unfold.

We understand the issues with a fiat currency. Those issues are why we own physical gold, silver and platinum and precious metal mining securities. However, we would rather own the U.S. dollar than the Euro, Yen or Yuan. It's simply the safer option when compared to fiat alternatives.

International Monetary Fund bullish on growth and higher prices

The IMF raised its global economic growth forecast earlier this week reflecting the resilience of consumers and the global economy. However, the IMF also raised its concern over higher prices and warned that inflation is not yet on retreat and still must be tamed.

The IMF and World Bank meet in Washington later this week for their spring meeting and policymakers already raised their global economic forecast by 0.1% from their last outlook in January. The IMF forecasts a global growth rate of 3.2% this year.

However, despite this short-term increase, medium-term growth prospects look bleak. The IMF expects global growth to reach 3.1% in five years. That is the lowest medium-term growth forecast in decades. The IMF labeled rising geoeconomic fragmentation, an increase in trade restrictions, and increased use of industrial policy as the East and West evaluate their relationship. The decoupling of the world's economy is real and even the IMF is addressing it.

The IMF's Chief Economist expects global inflation to fall this year as well as next year but believes inflation will remain above target levels for quite some time. He also warned Central Bankers to stay vigilant and prioritize getting back to their targets rather than focusing on secondary goals.

The IMF also said that the U.S. fiscal stance is out of line with long-term fiscal sustainability for the globe and their stance creates short-term risks like inflation and longer-term financial stability issues. The Chief Economist went on to say that something must be given in the U.S. The IMF has also changed its tune on Europe, believing that growth will rebound from current anemic levels.

Even the IMF understands the issues the U.S. faces moving forward.

Tesla slashes 10% of workforce

Tesla announced on Monday that it would be cutting its workforce by 10% as part of a global retrenchment extending into its executive ranks. The EV maker is struggling with consumer demand and is looking to cut costs.

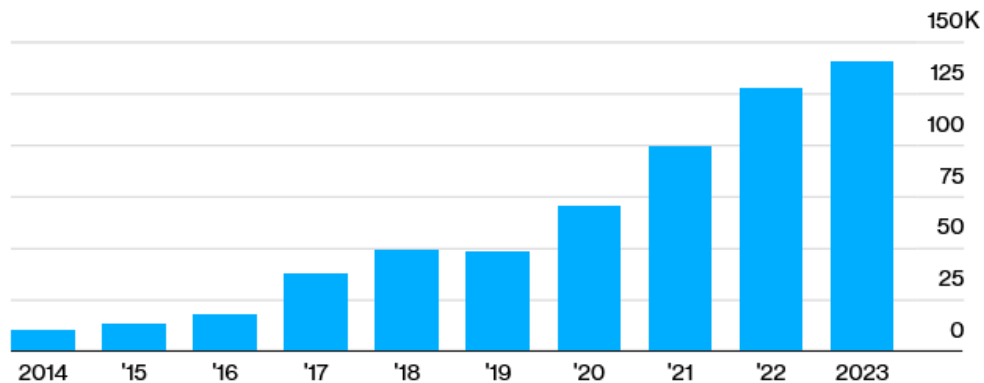
Elon Musk emailed his workforce on Monday morning, announcing that there could be up to 14,000 dismissals across the company. Musk cited duplication of roles and the need to cut costs as reasons for his decision.

Earlier this month, Tesla announced deliveries missed expectations during the first quarter, posting its first quarterly decline in four years. Many analysts are bracing for more issues for electric vehicle makers as demand remains soft in the industry.

Tesla was more than likely over-hired when consumer demand for EVs expanded over the last few years and is correcting its mistake. According to regulatory filings, Tesla employs more than 140,000 people and their employee count has tripled over the last three years.

Tesla Roughly Doubled Staff in Three Years

Company ended last year with 140,473 employees



Source: Regulatory filings

Tesla shares fell on Monday after this announcement. Tesla shares are down over 30% this year, ranking among the worst performers in the S&P 500.

Tesla staff members have been fearing potential job cuts for a few months as demand has slowed down. Musk has also been critical of high employee counts at tech companies in recent years, citing that nobody does anything in the modern-day office. Musk famously laid off most of Twitter's workforce upon his acquisition of the company. The writing was on the wall for some Tesla employees.

On Tesla's earnings call in January, the CFO cited cost cutting as a focus and that the team wants to chase down every penny possible.

We will have to see if this move by Tesla is the first of many that begin to justify its valuation and make the company attractive to investors like us.

Apple's issues

We have commented on the issues that Apple has faced in recent months. That's why we have recommended not to buy it in portfolios. The company's growth is slowing, and consumers are passing on new products to afford services and experiences. The forecasted growth rates are also expected to slow for Apple which does not justify its valuation.

This week, an analyst on Wall Street highlighted a new risk that Apple may face. Evercore's analyst who covers Apple believes that approximately \$8 billion in fiscal net income is at risk for Apple.

The \$8 billion risk stems from an antitrust case against Google's monopoly on internet search on Apple devices. Google currently pays \$18 billion to Apple to be the default search engine on Apple devices. The judge on the case could potentially forbid the payment from Google to Apple.

The government could lose the case which would be beneficial for Apple, but the case is worth watching for investors as it's a key risk. Recently, the government has faced setbacks in blocking Microsoft's acquisition of Activision Blizzard and dropped its challenge to UnitedHealth Group's acquisition of Change Healthcare.

Another Wall Street analyst highlighted a different risk that Apple is facing this week. The analyst highlighted weakness in the China market as a cause for concern. The analyst decreased her sales estimate for the second quarter by 4% and slashed forecasted earnings for the quarter as well. The analyst highlighted Chinese alternatives in the phone market which could bite into Apple's market share in China.

Apple shares are down 9% so far in 2024 and are well off their 52-week highs.

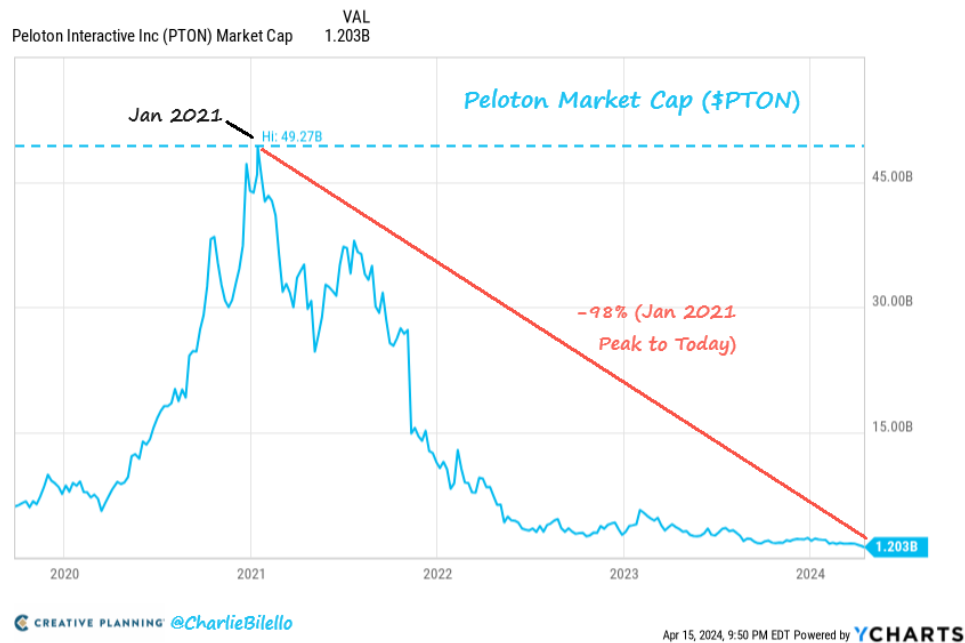


Stay-at-home stocks

Covid-19 changed the world forever. For a few quarters, it completely changed the stock market and led to a huge transfer of wealth.

Stay-at-home stocks like Zoom, Peloton, Netflix, and DoorDash soared through the pandemic as they saw record use and record sales.

Fast forward a few years and some of those stocks are well off their all-time highs. Zoom, and Peloton by the most. Zoom shares are down 10% over the last 5 years and 90% from their all-time highs in the fall of 2020. Peloton shares are down even more.



Peloton shares have collapsed by 98% since January 2021. The company has faced bankruptcy worries, leadership changes, price cuts, decreased revenue and leverage issues. The company that promised to be the future of fitness is struggling to survive.

If you bought into the hype of Peloton on the way up, we feel bad for you. However, the company was a part of the stay-at-home bubble and presented tremendous risks. The company traded at a premium that was impossible to justify, it made Tesla look inexpensive a few years ago. Retail bought the company while insiders unloaded their holdings throughout 2021 leaving retail traders holding the bag. We hope you were not one of them. This is a lesson to not always buy the hype and look past the short-term trend. Valuations always matter.

Canada hikes the capital gains tax

The Canadian budget for 2024 was introduced by the Trudeau government on Tuesday and there were a few notable items that we wanted to highlight.

The first change was a change to the Home Buyers Plan was increased by \$25,000 from \$35,000 to \$60,000 per individual. This allows home buyers some more flexibility and RRSP withdrawal capabilities when making a downpayment. Contact us today at info@macnicolasset.com for any RRSP, HBP or FHSA questions.


The biggest change from a capital market perspective comes in a change to the tax code. The government of Canada changed the way we deal with capital gains. The government hiked the capital gains tax for individuals, trusts, and businesses. Canada will now tax two-thirds of capital gains above

\$250,000, up from half currently. The change to the tax code is expected to bring in billions in revenue for the government which they will deploy into the housing market for young Canadians.

The Trudeau government labeled this as a fair way to tax all Canadians. Make the rich pay their “fair” share and a way for young Canadians to get on an even playing field like their parents and grandparents had in the past.

However, we would point out that your parents and grandparents at one point never paid capital gains tax.

Before 1972, **capital gains were not taxed.** Jan 23, 2024

 <https://www.canada.ca> > tax-return

Calculating your capital gain or loss -
Canada.ca

This seems like a short-sighted solution to a problem that the government created. It will eventually negatively impact most Canadians and will hinder their abilities to compound capital.

The budget proposes \$52.9 billion in new spending over five years, including \$8.5 billion in new spending for housing.

The government also boosted the CBC’s budget, student housing spending, tobacco prices, CSIS’s budget and disability spending.

There could be some profit taking in some Canadian equities and secondary housing across Canada before the budget is set into law in June. Canada continues to deter innovation and entrepreneurial spirit which has negatively impacted our economy in recent years.

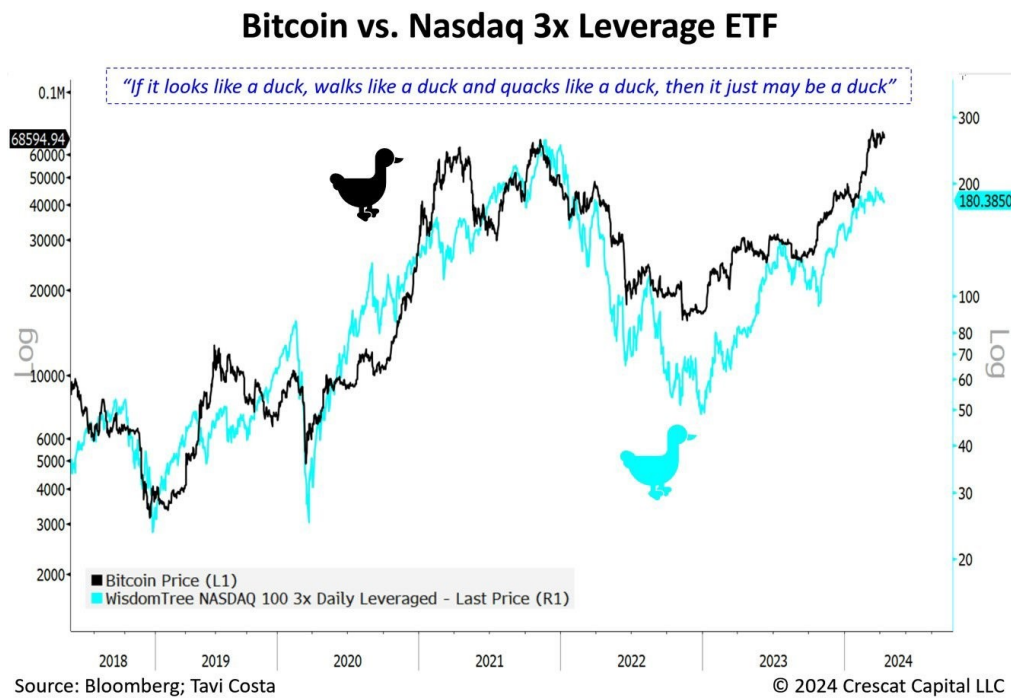
The CEO of Shopify went to Twitter to share his displeasure with the new changes to the tax code. In other posts on Twitter this week he aimed at regulation and government overreach as reasons Canada’s economy is lagging.



If you have some large capital gains that you have been sitting on, maybe now is the time to unload them before your tax rate goes up.

Bitcoin and the Nasdaq 100

A user on Twitter shared an image online this week and we want to share it with you.



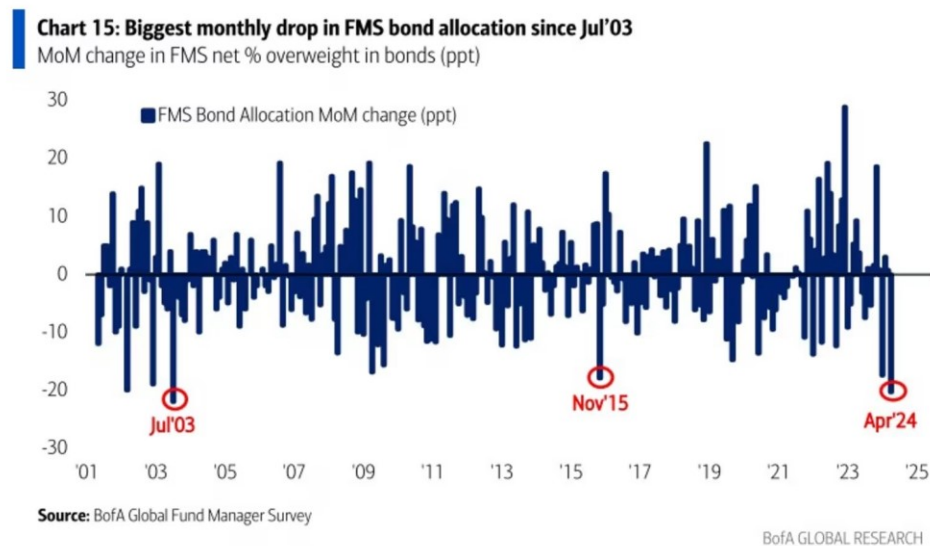
Bitcoin trades like a leveraged version of the Nasdaq 100. It does what many anti-crypto investors have claimed for years, it trades like an extremely high beta stock and is correlated somewhat with public equity markets.

We will not go into any more depth on this piece and will let you formulate your own opinion on Bitcoin and the Crypto market.

Bearish on debt

Despite investors, media pundits and government officials pushing for rate cuts, hedge fund managers are positioning themselves for higher rates.

According to the Bank of America Global Fund Manager Survey from last week, managers are aggressively dumping bonds currently. They are dumping them at the most aggressive rate in over 20 years.



What does this mean for the U.S. bond market? Are fund managers realizing that rates will be higher for longer like we have said for quite some time? We are not sure, but we are glad we have been correctly positioned **away** from these moves in the bond market. Investors who piled into bonds earlier this year have had a tough 6-8 weeks as bond yields have climbed, rate cuts have been pushed back and inflation rates come in hotter than expected.

We hope you position accordingly. If you want some yield and security, we prefer some short-term money market instruments at the moment. Although, you will be losing to inflation but it might allow you to sleep better.

MacNicol & Associates Asset Management
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