THE WEEKLY BEACON **May 17, 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.

Pigeon Point Lighthouse, Pigeon Point, California

This lighthouse sits 50 miles south of San Francisco Bay. The lighthouse was originally constructed in 1871 and was automated in 1974. The lighthouse stands at 115 feet tall and is listed on the National Register of Historic Places.

Lindesnes Lighthouse, Lindesnes, Norway

Lindesnes Lighthouse is a coastal lighthouse at the southernmost tip of Norway, about 10 kilometres southwest of the village of Høllen in Lindesnes municipality in Agder county. The lighthouse opened in 1655 and stands at 16 meters tall. In 1920 the lighthouse station got its first fog signal, a siren.

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

Meme rally

Is it 2021 all over again?

On Monday, GameStop shares were halted on the New York Stock Exchange after a 110% rally to start the day. The GameStop surge comes with the return of popular Reddit user and retail trader Roaring Kitty (Keith Gill). Roaring Kitty was one of the leaders in the short squeeze meme stock era back in 2021. Roaring Kitty also testified in Congress during a hearing on markets, hedge funds, and short squeezes.

The jump in the stock price came with no news reports or filings by GameStop. The outsized move was reminiscent of price swings in 2021 when retail traders battled against large hedge funds who were betting against the video game maker GameStop and other companies.

Despite remaining well-off 2021 highs, GameStop shares have surged over 250% over the last month and are at a 52-week high.

The surge in GameStop shares is being linked to Roaring Kitty's X (Twitter) account. Roaring Kitty made his first post on the platform in almost 3 years on Sunday night. The post was a simple yet effective image appearing to display a man getting into focus. See the Tweet below for yourself:

Roaring Kitty followed that tweet up with another on Monday morning. The second tweet was a video that appeared to be a promotional 'pump up' video that you would see on a sports team's platform.

We are not sure what Roaring Kitty is doing but can only assume that its return is the cause of this interest in GameStop.

Currently, 24% of GameStop shares are being sold short, much higher than historical averages.

GameStop was not the only meme stock that surged on Monday. Retail favorite AMC Entertainment also picked up outsized gains on no news, gaining 31% as of lunchtime on Monday.

With short interest still high, these names could continue to skyrocket, or these gains could all come undone as there is an absence of a fundamental catalyst and GameStop still faces numerous headwinds. Retail traders could easily abandon the name just as fast as they flocked it, locking in some short-term gains and passing the risk to other retail traders.

We do not recommend any of our investors or readers buy shares of these meme stocks. We do not hold any of these stocks in client accounts. However, we will be following this 2021 renaissance and the return of Roaring Kitty.

Speaking of short squeezes

We wanted to share a list of potential short squeeze targets that retail traders like Roaring Kitty may have some interest in for the coming weeks. This is obviously for informational purposes only; we do not recommend our readers initiate positions in any of these names.

POTENTIAL SHORT SQUEEZE TARGETS

COMPANY	SHORT INTEREST 4/15 (M)	SHORT INTEREST 4/30 (M)	% CHANGE	SHORT INTEREST % OF FLOAT
SUNPOWER CORPORATION	39.2	42.4	8.10%	95.2
CHILDREN'S PLACE	3.1	3.3	6.50%	70.0
B. RILEY FINANCIAL	10.6	9	-15.10%	55.6
BIOMEA FUSION	13.8	14.0	1.10%	50.7
MAXEON SOLAR TECHNOLOGIES	12.1	14.1	15.80%	45.1
ARBOR REALTY TRUST	73.0	72.5	-0.70%	42.5
ALTIMMUNE	20.4	22.3	9.50%	41.9
PHATHOM PHARMACEUTICALS	12.0	11.8	-2.00%	41.9
BEYOND MEAT	22.9	25.4	10.70%	41.3
NEXTNAV	10.4	11.4	10.40%	40.9

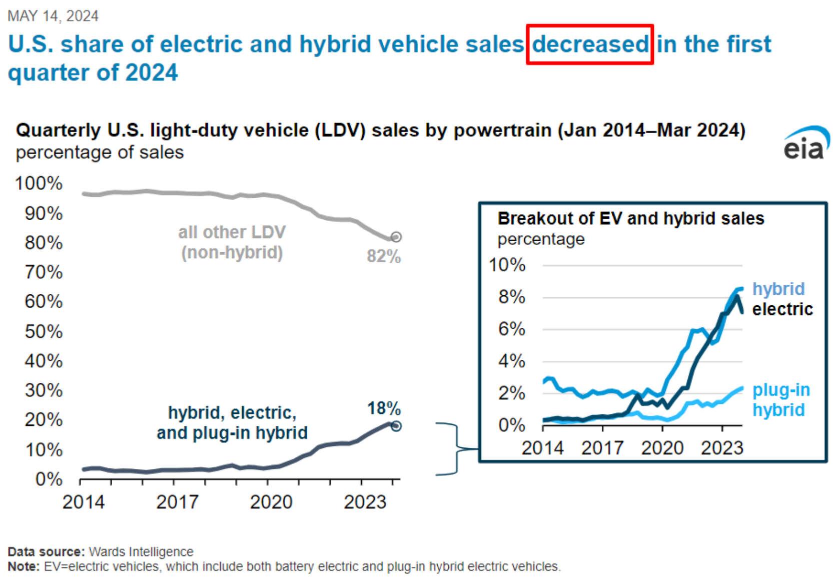
Source: FactSet

The list above is sorted by short interest percentage of outstanding float. As you can see, all the companies are shorted more heavily than GameStop and could be targets of the next retail short squeeze.

Consumers turn their backs on EVs

Another tailwind for us oil bulls who have overweighted the oil industry in client portfolios.

During the first quarter of 2024, the U.S. share of electric vehicles and hybrid sales decreased for the first time since the start of Covid-19. This overall decrease was paired with an increase in the share of traditional automotive sales during the first quarter.



The decrease in the share of hybrid, electric, and plug-in car sales versus overall sales was fueled by electric vehicle sales decreasing. Hybrid sales as a percentage of total auto sales were flat on the quarter while plug-in hybrid sales as a percentage of total auto sales moved up during the first quarter. This further reaffirms that consumers are turning their backs on EVs for several reasons - reliability, range, and price. Consumers do not want to switch from a traditional vehicle to an EV even with all the subsidies and benefits that the Biden Administration has put into place over the last few years. The Biden administration has put these tax benefits, and subsidies into place to attract consumers to EVs and make the switch from gas-powered vehicles.

We hope you have some oil exposure; we think prices will be higher for much longer than many predict. Continuous OPEC+ cuts, underinvestment in CAPEX, and increased regulations are just a few tailwinds that we have mentioned for the oil industry over the past year. Those tailwinds remain true today. We think that some of the most attractive investments across markets are major oil producers and offshore oil drillers today.

Expanding on the EV front, you must notice that every North American EV producer (ex. Tesla) has yet to break even and has only burned through more and more capital. We think this will continue. After all, in their forecasts from just a few years ago, they forecasted a huge market, huge demand for consumers, and positive EBITDA and FCFs, instead the market has told them the demand is not there and their fundamentals have severely suffered.

Trade wars

The global trade war just got worse as the Biden administration put more tariffs into place against China. The Biden administration raised tariffs on $18 billion of goods from China as part of its long-awaited review of the tariffs installed by Trump during his Presidency.

The tariffs put into place by Biden outpaced tariffs installed by Trump. A key issue in politics recently has been how the West will handle China and it seems the Biden camp does not want to give Trump any ammunition on the China front in the run-up to this year's election.

The tariffs impact steel, aluminum, computer chips, solar cells, cranes, and medical products as well as Chinese EVs. Taxes on those products will rise to 25-50% by the end of this year, however, EV tariffs are dominating the headlines. According to experts, the tax rate on Chinese EV imports will rise from 27.5% to 102.5%. Duties on semiconductor components will increase to approximately 50%.

Immediately after the White House announced these new tariffs, China vowed retaliation. China's Commerce Ministry said Beijing opposed these U.S. tariffs and would take measures that define its interests.

Last year, the U.S. imported $427 billion in goods from China and exported $148 billion in goods to China. The trade deficit has been something that Washington has been trying to address for close to a decade.

In a statement that responded to Biden's new tariffs, Trump claimed that these tariffs were not broad enough as China is still "eating our lunch". Trump has been pushing for 60% tariffs on all Chinese products as part of his campaign. Trump's trade sanctions on China during his presidency kicked off a modern-day trade war between the world's two largest economies. It seems Biden is continuing this trade war trend as he aims for a new economic platform for his second term. The tough-on-China approach is quite universal in Washington, quite the pivot from the free-trade consensus that once reigned in Washington, a period that was capped off by China joining the World Trade Organization in 2001.

However, a few industry experts and analysts believe the EV tariffs will increase EV prices for Americans and impact Biden's climate goals centered around EVs.

The U.S. is not alone in pushing back against China's export machine. The European Union is expected to impose its tariffs on Chinese EVs in the coming months, a move to protect domestic firms and production. Brazil has restored vehicle tariffs which have impacted Chinese exports. Finally, India has put tariffs into place on Chinese steel.

Nobody knows exactly how China will respond but anyone with a brain knows they will go after the critical mineral industry, something that developed countries have growing demand that they dominate.

We will have to see what happens next in this East-West decoupling. Chinese equities responded to these new tariffs quite neutrally as the tariffs are not extremely broad. Chinese equities have bounced back in recent months quite strongly after being beaten down for close to 2.5 years. We still cannot stomach the risk in Chinese securities and continue to believe that geopolitical risk outweighs the reward in this faction of equity markets.

Hopes of a cut

Consumer prices rose by 0.3% in April, slightly lower than the number forecasted. The reported CPI gain was the lowest reported for a month in 2024. Inflation on a year-over-year basis increased by 3.4%, down from a month earlier. April's annual inflation rate was in line with economist expectations. For the inflation report, price gains were driven by shelter and energy. Shelter and energy prices have been the major issues for the FED as they aim for their 2% inflation target.

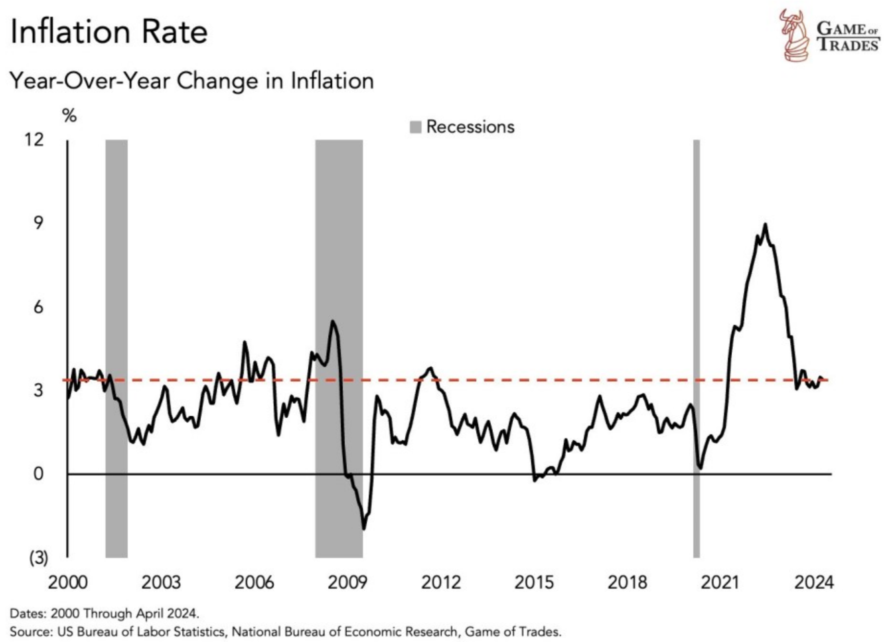
The annual core CPI gain was 3.6%, the smallest number reported in three years.

The report comes with the FED on hold since July 2023 with interest rates. Slowly the probability has decreased for interest rate cuts in 2024 has decreased this year as inflation has remained hot. Economic growth has also remained hot despite high interest rates which has also pushed off interest rate cuts.

Many believe this CPI print could be the first piece of data that the FED uses to cut interest rates. Following the release of April's CPI data, FED Funds futures indicated a 52% chance that the FED will cut rates at its meeting in September, up slightly from before the release. Futures signaled increased confidence in two interest rate cuts during 2024, quite the change from a few weeks ago when futures were pricing in 1 cut this year.

Stocks took this release positively, as the S&P 500 hit a new all-time high on Wednesday morning. With hopes of lower interest rates, more and more investors will likely pile into equity markets.

However, Powell, the FED, and investors should not brush off inflation so soon as inflation remains elevated and not close to the target 2% range. Remember, prices could easily accelerate if tensions increase across the world.



Uranium and nuclear energy

Yes, we know that you know how we feel about uranium. As a reader or an investor of MacNicol & Associates Asset Management, you have gotten your fair share of uranium content. It's been a few months since we last updated our readers, so we thought it was time to share some current thoughts on events in the uranium and nuclear energy industries.

To preface we still think miners in the space will outperform markets, and that the demand will greatly outstrip supply moving forward. We also think that countries will adopt nuclear energy as green energy and that the narratives around nuclear energy being bad will eventually subside. We also think the physical market is the best bet moving forward in the space, betting on higher physical prices. We are sure you know the security that we are talking about.

On to recent news in the space:

Last week, Congress passed a Bill to ban imports of Russian uranium. Earlier this week, Biden signed the bi-partisan Bill into the law. The ban will take effect in mid-August. Russia controls nearly half of the world's supply of enriched uranium and currently provides 25% of the U.S.'s enriched uranium used to power the 94 nuclear reactors across the U.S. The Bill also unlocks close to $3 billion in federal funding to expand the domestic uranium industry.

The U.S. Energy Secretary directly labeled nuclear energy as green energy in her statement on the ban claiming the U.S. clean energy future will not rely on Russia. This is a huge statement as more and more green energy bulls warm up to the fact that nuclear energy is green energy.

This move will take some supply off the table for the U.S. and potentially its allies. We think this is a positive event for physical uranium prices and will be a contributing factor in the multi-year supply deficit that is in its early days.

On Monday, another country announced that they are considering adding to their nuclear energy capabilities through a 1.2-gigawatt nuclear power unit. Slovakia's government approved a plan to build a new nuclear reactor in the country. Currently, 50% of electricity is generated at two nuclear plants. This is further confirmation of countries going all in on nuclear energy. There recently has been a major expansion in nuclear capabilities in Central and Eastern Europe. The Czech Republic is planning to build four new reactors, while Poland struck a deal with a company to build its first nuclear power plant. Hungary has also shown some major interest in expanding its nuclear energy capabilities. Nuclear power has drawn major interest in this region of the world amid the drive for a carbon-free world.

China, our adversary (the West) is continuing to rapidly expand their nuclear power capacity due to the energy sources' cleanliness and reliability. China currently has 55 nuclear reactors in use and is building or planning to build an additional 23 reactors. Most of the reactors in China have been built over the last 10 years. Despite this growth, nuclear energy only accounts for 5% of China's cumulative power generation, in the U.S. that number is 18%. China is playing catch up and will add demand to an already tight market.

Finally, Italy's government is also eyeing nuclear energy. The country closed all its reactors in 1987 following the Chernobyl accident. The country's energy minister is looking to restart the nuclear industry and build some small reactors. The administration is looking to get the associated legislation passed. Late last month, Italy's Energy Minister spoke of nuclear energy's role in the energy transition. He said the country must consider nuclear energy to meet climate goals. The Minister also highlighted that restarting the industry would shield Italy from the impact of geopolitical events. Italy hopes to build new nuclear reactors in the country over the next 7-10 years.

Countries around the world are diving all in on nuclear energy creating new demand for what we think is a clean energy source. We think prices will increase from here and that it is a strong play in public markets.

Disclaimer: MacNicol & Associates Asset Management owns uranium equities and physical uranium securities across various client accounts.

A family favourite circles the drain

Family favourite chain restaurant Red Lobster is reportedly a week away from filing for bankruptcy. According to the Wall Street Journal, the casual dining chain will file next week. According to insiders, the 'all you can eat shrimp' promotion that executives originally believed would turn the chain around, resulted in millions in losses.

Red Lobster's minority owner, seafood supplier Thai Union Group said in a statement earlier this year that it had lost too much money on the chain and potentially wanted to move on. In an earnings call last year, Thai Union Group shared with its investors that the all-you-can-eat shrimp promotion contributed to its more than $11 million in Q3 operating losses.

Red Lobster abruptly closed at least 99 locations across 27 states earlier this week. The closures represent 15% of the company's approximate 700 locations.

Red Lobster has struggled with its debt, unfavorable lease terms, and executive turnover. The Thai Union Group mentioned that Red Lobster does not strategically align with their future.

According to those familiar with the matter, Red Lobster was seeking a buyer last month, but none have materialized.

The company will use bankruptcy proceedings to restructure agreements with its landlords and creditors in an effort to shed some of its debt.

We will have to see if Red Lobster finds a buyer and if bankruptcy filings can assist the company moving forward.

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