THE WEEKLY BEACON	May 3, 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.

Portland Bill Lighthouse, Dorset, England

Portland Bill Lighthouse is a lighthouse off the southwest coast of England. The lighthouse stands at a height of 41 meters tall. The lighthouse was first lit in 1906 and was automated in 1996.

Les Eclaireurs Lighthouse, Ushuaia, Argentina

Les Eclaireurs Lighthouse stands on the northernmost island of the Les Eclaireurs islands. The lighthouse was constructed in 1920 and stands at 36 feet tall. It is a popular tourist attraction, reached on short boat tours from Ushuaia. It is known to the Argentines as the Lighthouse at the End of the World

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

Job market correction

The job market has been extremely robust over the last year plus. Employment numbers along with inflation, and GDP data have helped guide the FED in their interest rate policy. We will not dive deep into the general job market in this publication but will share an image that Indeed.com posted over the last month.

Indeed, posted a table that looked at the sectors with the sharpest decline in the number of job postings during 2023. The sectors that saw the biggest declines are unsurprisingly in the technology sector which has seen massive layoffs over the last 18 months. Regardless of the company size, tech companies have laid off employees in the thousands over the last 12-18 months. It's no surprise they are also not hiring.

Sectors with the sharpest declines in job postings

Year-over-year change in US Job Postings Index as of Dec 29, 2023

Occupational Sector	% change
Software Development	-44.8
Information Design & Documentation	-39.1
Mathematics	-34.1
Banking & Finance	-32.2
Human Resources	-30.2
Loading & Stocking	-30.1
Scientific Research & Development	-29.9
Media & Communications	-29.8
IT Operations & Helpdesk	-29.4
Chemical Engineering	-29.3

Source: Indeed

indeed

All the online gurus and news publications that promoted coding, and software development pre Covid-19 and in the early days of COVID-19 as a career path are quite right now. New grads in the space are struggling to find jobs as large enterprises are realizing that profit matters to shareholders and they employ excess staff.

Now before we blame this issue on the tech sector, we will mention that job postings are down for the most part across the board. However, we notice that job postings in the medical fields and trades are not on the list above.

This data is for informational purposes only and something that we are happy to see. We think the tech sector for the most part is undergoing a much-needed change where results matter, and profitability matters most. We think these changes will continue to unfold and could make certain tech companies quite attractive in terms of growth and value.

Tesla's great day

Before Monday, Tesla shares were down 32% year-to-date. Slowing demand was a major reason for the company's poor performance. We have commented on it in detail throughout this year. On Monday Tesla shareholders and Elon Musk got some great news which sent the stock soaring.

Tesla shares gained close to 15% on Monday from news out of China. Tesla received full approval to use full self-driving in China on Monday. This makes both its vehicles more attractive and unlocks another revenue stream for the vehicle manufacturer.

Musk received full approval from Chinese regulators during a 24-hour trip to Beijing over the weekend.

Bloomberg separately reported that Baidu will provide street-level mapping to Tesla for this new technology. Tesla has already used Baidu technology in the past using the company's mapping data for satellite navigation. Pricing for the new technology is not available in China but Tesla charges $8,000 up-front for lifetime use of full self-driving as well as a $99 per month subscription fee in the U.S.

This gives Tesla a leg up on competition in the Chinese market and continues to drive home the point that Tesla is at the forefront of innovation in the entire sector.

Many analysts highlighted that this approval by China is a home run for Musk and Tesla as sales have slowed in the Chinese market.

Tesla's focus on autonomous driving and its robotaxi future remain long-term catalysts for the company and help justify its pricey valuation.

This is a monumental moment for Musk and Tesla and will lead to new sources of revenue and boost earnings for the company. Although we still think Tesla's valuation is expensive and too pricey for our appetite, we can appreciate this move by the vehicle giant. The volatility that Tesla shares trade at is too high for our risk-reward metrics for our investors at this current time. Nonetheless, we would never short the company and bet against Musk as there are huge risks involved with that practice. Short sellers lost billions on Monday and could be closing out their positions in the coming days after a successful few months where Tesla shares were down quite substantially.

Finding safety in garbage

When you think of sexy investments, you think of revolutionary biotech, semiconductors, high-growth technology, or even self-driving cars. You do not think of consumer staple stocks or industrial stocks that are essentially recession-proof. Those are considered boring, stable, and slow growers. We are here to tell you that is not always the case.

This week we bring to you a company that we hold across numerous client accounts, Waste Connections Inc. (WCN). The company obviously by its name's sake operates in the waste management industry. We are commenting on the company as they released their first-quarter earnings at the end of last week. The earnings got us updating our report on the company and we wanted to give our readers a glimpse into the company's past and future.

First a small introduction to the company.

The company trades on the TSX and NYSE and is headquartered in Texas. WCN is an integrated waste services company that collects, transfers, disposes, and recycles waste. The company is the third largest waste management company in the continent and operates in Canada and the U.S. The company employees 23,000 employees (April 2024) and operates in 46 states and 6 Canadian provinces. 88% of WCN's revenue comes from the U.S.

Since WCN's IPO in 1998, the stock is up 5438%. Over the same period, the S&P 500 has grown by approximately 365%. When you zoom out on WCN's price chart you notice very small breakdowns, nothing major, and low volatility. This is something that we like our equities to have.

Diving into the company's earnings we see that the company beat EPS estimates as well as revenue estimates for the quarter. The company reported earnings per share of $1.04 versus an estimate of $1.00 and revenue of $2.073 billion versus a street estimate of $2.05 billion. Two slight beats for the company. Revenue jumped by 9.1% versus last year's first quarter while EPS jumped by over 15% compared to the same period in 2023.

In the earnings release the CEO of WCN noted how pleased management was with the first quarter, citing strong operating results which have been bolstered by recent acquisitions. He went on to say that the company is well capitalized for 2024 and the recent acquisitions will continue to provide more runway for growth for WCN.

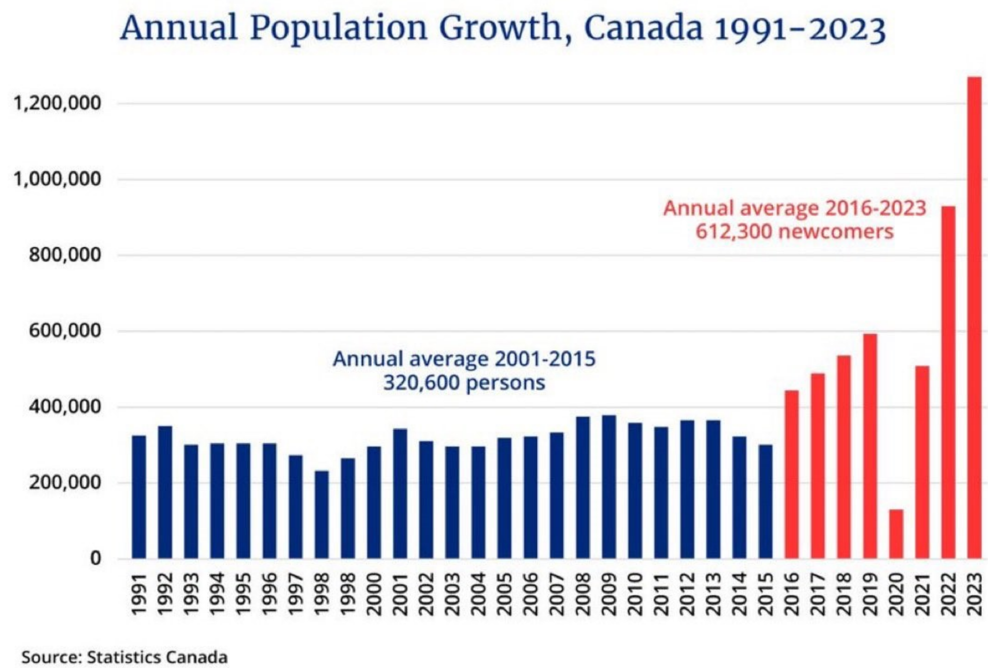
WCN saw revenue growth year over year in all 5 of its revenue streams, fueled by recent acquisitions. WCN has spent close to 50% of its capital outlays on M&A from 2016-2023, which has been its primary growth driver. Moving forward WCN plans to pull back their M&A spending to approximately 20% of capital outlays and focus on boosting capital expenditures slightly and more than doubling the return of capital to shareholders. We think boosting share repurchases and dividends are strong strategic moves for this maturing company. WCN has a strong track record of value creation and strategic capital deployment. We are confident that management will continue this trend.

WCN boasts the strongest stock returns in the sector in recent years due to its strong margins which are industry-leading. WCN also trades at attractive multiples relative to its industry. According to the New York University's Stern School of Business, the industry average forward price-to-earnings ratio for Environmental & Waste Services companies is 37x while WCN trades at a forward P/E of 25x. The largest company in the industry and WCN's largest competitor, Waste Management trades at a multiple of 30x, making it slightly more expensive for shareholders than WCN.

Disclaimer: MacNicol & Associates Asset Management holds shares of WCN in various client portfolios.

A graphical representation that hits home

We all know that the population in Canada has boomed in recent years. New government policies have led to millions of immigrants coming to Canada. In theory, this is a great idea as Canada was built on diversity, and has the space to house more people. In reality, the government did not plan to house these new people which has sent home prices skyrocketing. We all know this. We are simply summarizing the core issues in Canada's housing market and population. We preface all of this by sharing an image below that we ran this past week.



Canada's population over the last 7 years has grown on average by 612,300 people, quite the jump from the previous 15-year average which was close to half that number.

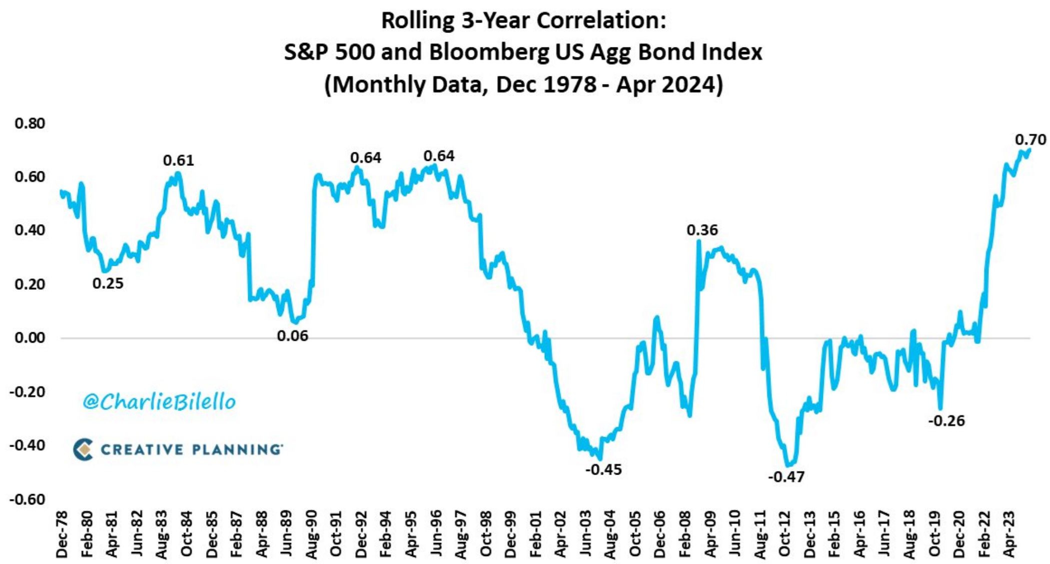
Until Canada decides to make changes to their immigration policies in the short term or build hundreds of thousands of new homes, housing affordability will continue to plague most Canadians. Whenever the next federal election is called, you know housing affordability will be a major talking point.

Lack of diversification

Historically, bonds have served as a good asset class to diversify your portfolio. Bonds paired with equities performed well for the most part. The relationship between bonds and stocks helped birth the balanced portfolio that many investors continue to use today. The balanced portfolio has been a bedrock for investment advisors over the last 40-50 years. The balanced portfolio is supposed to perform well even when equity markets have a correction through their bond exposure. That did not happen in 2022, or even in 2008.

We believe one of the reasons the balanced portfolios failed in recent market downturns is due to the correlation between equities and bonds. Bonds and stocks are currently trading with extremely high correlation, correlation levels that we have never seen before. For those who do not know, correlation is a statistic that measures the degree to which two securities move about each other. Correlations are used in advanced portfolio management, computed as the correlation coefficient, which has a value that must fall between -1.0 and +1.0. 1.0 is a perfect correlation. -1.0 is a perfect inverse correlation.

The chart below depicts the rolling 3-year average correlation coefficient between the S&P 500 (stocks) and Bloomberg's U.S. Aggregate Bond Index (bonds) since the late 1970s. Currently, the correlation between the two is 0.7 which is higher than ever before and well above the levels that we have seen in recent years.



We share this with you as information for when your bank advisor pitches you on a "safe" balanced portfolio at your next meeting. This chart could be some ammunition for you to combat that old-school approach.

We currently prefer a diversified approach through a basket of equities across most sectors, alternative assets, and money market funds.

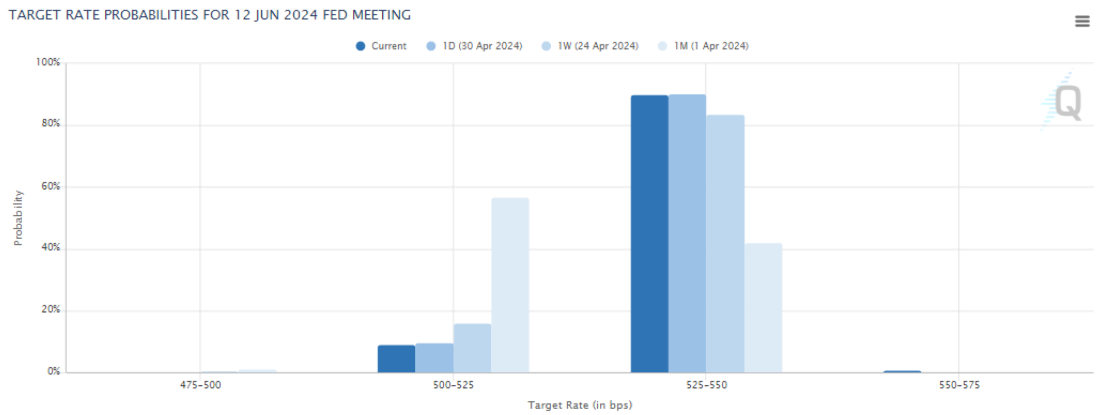
Contact us today for a complimentary portfolio assessment. info@macnicolasset.com

FED decision

The Federal Reserve made its interest rate policy announcement on Wednesday for May and it surprised nobody. Rates will remain in place yet again. The FED mentioned the lack of progress in reaching their 2% inflation target as a reason to keep rates elevated. The FED's move to hold rates in place was unanimous.

The FED's next announcement is due June 12th, 2024. After that, there are decisions due in July and September before the U.S. Elections.

According to the CME FED Watch Tool, there is a 91% probability that rates will be held in place at June's meeting. Just 1 month ago there was a 57% probability that we would get our first rate cut in June, quite the change in just 4 weeks.



Currently, some large institutions are forecasting only 1 rate cut in 2024. Just 5-6 months ago, there was consensus that we would see 5-6 rate cuts in 2024.

However, when you zoom out it seems the FED is currently accomplishing its goal of a soft landing. We cannot tell the future and will not assume that the soft landing will continue but simply point out the facts. Many retail investors and high-growth fund managers have shouted from the hills that we need rate cuts desperately despite the realities that we live in.

The higher-for-longer narrative that we forecasted for both the U.S. and Canada is coming to fruition as we thought due to higher-than-expected inflation. We think inflation could continue to heat up through the spring and summer which could spook some investors as well as the FED.

The FED also announced an easing of its balance-sheet run-off starting in June. The FED announced they will be reducing their balance sheet reduction policy from $60 billion a month to $25 billion a month. The FED likes its balance sheet big and will continue to hold these U.S. Treasuries that nobody seemingly wants to buy. The FED will hold the bag so investors can party in the streets.

Powell also mentioned in his press conference that a weak jobs report would warrant a cut and that it's unlikely that the next FED policy decision will be a hike. Powell also said that he sees inflation coming down through the year (we doubt this).

Despite no rate hikes, markets took this press conference and announcement quite positively.

Gold prices also moved up quite strongly on the news, erasing most of their losses from the previous few sessions. The FED's tapering policy slowing down led to an increase in demand for gold.

Gold provides the stability that bonds used to and does not lose purchasing power (for the most part) like the U.S. Dollar. We think investors and consumers will continue to flock to gold moving forward. Remember some of the biggest gold buyers over the last few years have been global Central Banks who have dumped some U.S. treasuries in favour of the precious metal.

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