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.

Cape Agulhas Lighthouse, Western Cape, South Africa

This lighthouse is located at the southernmost tip of Africa. The lighthouse is 171 years old and is South Africa's second oldest operating lighthouse. The lighthouse consists of a round tower that stands at 27 meters high and is attached to the keeper's house. The lighthouse has a nautical range of 56 kilometers.

Cape D'Aguilar Lighthouse, Hong Kong

This lighthouse is the oldest in Hong Kong. The lighthouse was constructed in 1875 out of stone. The lighthouse stands at 32 feet tall and was automated in 1975. The lighthouse is operated by the Marine Department and is a declared monument of Hong Kong.

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

European rotation

The European rotation continues. In another shot at governments worldwide, French President Macron dissolved the French Parliament. An early election has been called for June 30th.

President Macron called this election after his party faced major losses in the European Parliament elections. Germany's incumbent government also saw heavy losses in the EU elections held over the weekend. Both incumbent governments are left-leaning parties.

Macron's call for an early election is a gamble to regain more control but many believe his rival, Le Pen could easily win. Le Pen's right-wing party won around 31% of the vote in Sunday's European Parliament election, more than double Macron's party.

Current polls say the right-wing party led by Le Pen could win a majority in the coming elections. Macron's party is currently leading a minority coalition in the French parliament.

Reportedly, Macron's gamble is to use the three years before the next Presidential election in France to show that the right-wing parties did a poor job of leading France and that voters will reward him in the next French Presidential election.

Analysts are curious whether Macron's decision showed political intelligence and strategy or will expose him to more claims of arrogance and a lack of understanding of voter worries over domestic topics like immigration, public services, the cost of living, and employment.

This is a real gamble by Macron as he is seemingly relinquishing control in the short term for long-term success. He is betting that the right-wing party run by Le Pen will be a mess and unable to run a Parliament or pass legislation. If Le Pen does win a majority in parliament, her party's first big decision will be regarding the French budget in 2025. The country's deficit has rapidly expanded in recent years and has been a major focus for Marine Le Pen and her party. Her party will either rapidly cut spending or raise government revenues to decrease the government's deficit.

Beyond the landscape changing in French politics, we think this further confirms the trend occurring across the developed world in recent years. Voters are rejecting governments that are going further left due to some failed policies. Across Europe, people have struggled with affordability and inflation, which has been caused by government policies. The overregulation of certain industries, like energy, has led to higher prices as has inflationary spending from governments over the last 5-6 years. Open border policies across Europe especially France have been highly criticized by the French population.

We will continue to watch this trend as we have in recent years as it could impact us in North America moving forward with a pending election in the U.S. later this year and a potential Canadian election over the next 2 years. We have already seen the shift in countries like Italy, Netherlands, Poland, Eastern Europe, and now France. How far and how long will this trend last? It seems like these right-leaning parties want to take over the EU rather than leave the EU like the United Kingdom did a few years back.

A major area that this trend will impact is green energy which left-leaning governments in Europe have fully embraced and led the charge in terms of funding. The funding for green energy as well as green energy targets could disappear in the coming years.

Turkey's move on China

Many have labeled Turkey as one of the world's most important countries moving forward in terms of geopolitics. The country links the Middle East and Europe, is in NATO, is in the G20, and has warm relations with countries like Russia and China.

Many have dubbed the country as the linchpin of the world moving forward. Some believe they will turn their backs on the West whom they have been allies with for decades and cuddle up to eastern countries like China and Russia. We are not geopolitical experts so we will not speculate. We will simply highlight what we saw this week.

This week, the Turkish government announced new tariffs on imports of electric vehicles from China. Turkey announced a 40% tariff on Chinese EV imports. This comes just a month after the U.S. announced a 25% tariff on Chinese EVs. Many believe Turkey's move could spur a similar move from the EU.

The tariffs come as worries from U.S. and European officials that cheap Chinese EVs will undercut domestic development of EVs and distort the market.

China is now the largest new car market in the world and has a major labor advantage over the West.

Chinese listed EV producers on the NYSE fell on Monday after this announcement as the market for Chinese EVs looks like it could get smaller. Many U.S. and European vehicle producers are lobbying governments to ban or raise tariffs on these cheap Chinese vehicles including Ford whose CEO has been highly critical of his Chinese competitors.

Oil deal

Noble Corporation reached an agreement to acquire Diamond Offshore Drilling over the weekend in a stock plus cash transaction in the latest deal in the energy sector.

Diamond shareholders will receive 0.2316 a share of Noble plus $5.65 in cash for each share they own of Diamond. The deal values Diamond Offshore at $15.52 a share versus Friday's close of $13.93. After the deal closes, Diamond shareholders will own approximately 14.5% of Noble's outstanding shares.

Diamond Offshore Drilling is an offshore oil driller with five conventional deepwater and midwater rigs. The company has strong forward contracts and has averaged 85% utilization over the last 3 years.

The transaction was unanimously approved by the board of directors of both companies. The deal is expected to close by early next year.

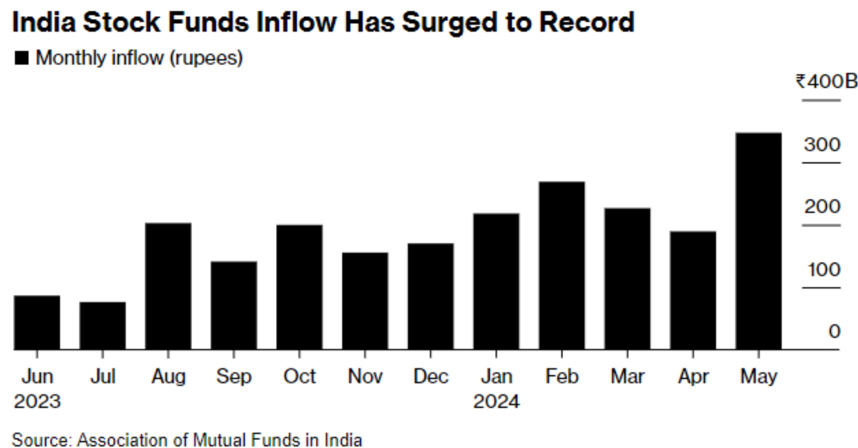
The deal sent shares of numerous offshore oil operators upward on Monday. This deal is bullish for the entire oil industry as deal-making continues to heat up.

Last month, Conoco Phillips agreed to purchase Marathon Oil. Chevron also plans to purchase Hess Corp., and Exxon is planning to acquire Pioneer Natural Resources. The entire industry has turned around since the pandemic as demand has recovered and balance sheets have been cleaned up.

We do not hold any shares of Diamond or Noble Corp. but are pleased with the continued deal-making in a sector that we are both exposed to and are monitoring closely.

Interest in India

Something we love to see. India saw record fun inflows in May ahead of their Presidential election. Indian stocks saw inflows of $4.2 billion in May, a record amount according to the Association of Mutual Funds in India. May's number is approximately four times the value of inflows in last June and July.



We continue to have elevated interest in India moving forward. Despite some weakness after the election earlier last week in Indian equity markets, we remain optimistic and bullish on the region's growth prospects. The pullback that Indian stocks had was very mild when you zoom out as Indian stocks went on quite the run in the month leading up to the election.

The results of the election do not worry us. The incumbent government which has spurred growth over the last decade won a third term, although the winning margin was less than many predicted.

We think the growth opportunities in India are too good to ignore and that the country will tremendously benefit from companies diversifying away from China due to rising prices and major

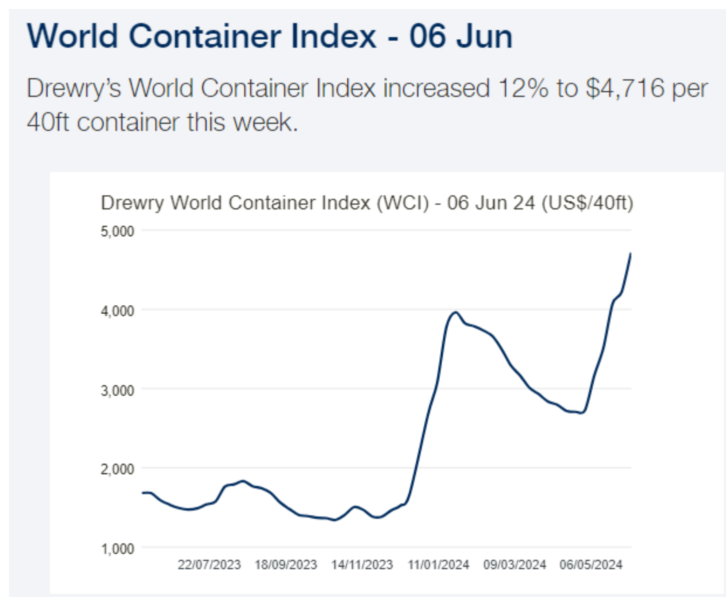
geopolitical risks. We think investors across the world including in North America will be adding exposure to India moving forward.

Even if there are short-term pullbacks, we believe this is a long-term trade that will pay off in the long run.

Got shippers?

Shipping prices which are still relatively undervalued and well below their all-time highs have gone on quite the run over the last year. This run has been fueled by geopolitical tension, attacks on the Suez Canal, and decreased capacity across global shipping. The 3 factors have led to higher global shipping rates which have increased the revenues, profits, and free cash flows of marine shipping companies.

The World Container Index is up 12% over the last week and is 181% higher than last year.



The latest Drewry WCI composite index of $4,716 per 40ft container is 232% more than the average 2019 (pre-pandemic) rate of $1,420.

These higher shipping rates will trickle down throughout the economy and potentially lead to higher inflation. Trade disruptions have been on the rise and are expected to continue. Food prices remain highly vulnerable to shipping prices and could jump in price if any other disruptions occur.

Either way, it seems operators of container shippers are set up well in the short to mid-term. On top of capital gains potential, most of these stocks pay a juicy yield that is more than accounted for in its earnings.

May inflation slows

On Wednesday, the Bureau of Labor Statistics reported the May inflation data and to say investors breathed a sigh of relief would be an understatement. The CPI index held flat in May, and it increased 3.3% over last year. Both numbers came in lower than many expected. The energy index fell last month as prices retreated to the end of the month (though they have recovered those losses in June).

The lower-than-expected inflation report could signal a softening of inflation and a potential return to the FED 2% target. This could lead to faster and more frequent interest rate cuts from the FED. Investors piled into stocks as markets increased quite substantially on Wednesday in the hopes of lower interest rates.

Core CPI numbers also fell short of economist expectations in May. The one item that has continuously contributed to the inflation rate moving higher is shelter prices. According to the Navy Federal Credit Union, we will not see major drops in the CPI until shelter costs begin their long-awaited fall. We think this is unlikely in the short or mid-term unless something bad happens to the global economy. Housing prices have remained elevated even with higher interest rates due to demand greatly outstripping supply. As Canadians, we understand this problem very well as it plagues our housing market even more than the American housing market.

Regardless of how you feel this inflation report brings a sigh of relief as it could signal lower rates which is bullish for stocks, bonds, and numerous other asset classes. We will remind our readers that this is only one CPI report and warn that the FED will not overreact to a month’s inflation rate. We think this report along with one more report could warrant 2 interest rate cuts through this year, but that could change, and the FED could keep rates in place, especially as the U.S. heads into a Federal Election in November.

Either way, we do not think this is the end for inflation in the 2020s. We think it will remain a problem for the foreseeable future, although it may come in waves like it did in the 1970s.

Despite the pullback, inflation remains elevated, and it has been for quite some time. Currently, we are in the midst of the 4th longest streak since 1948 where the CPI is above 3%.

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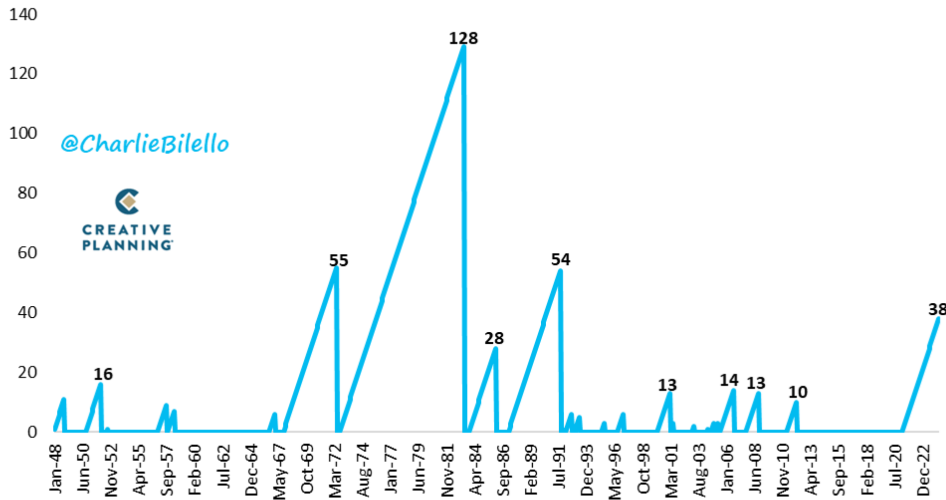
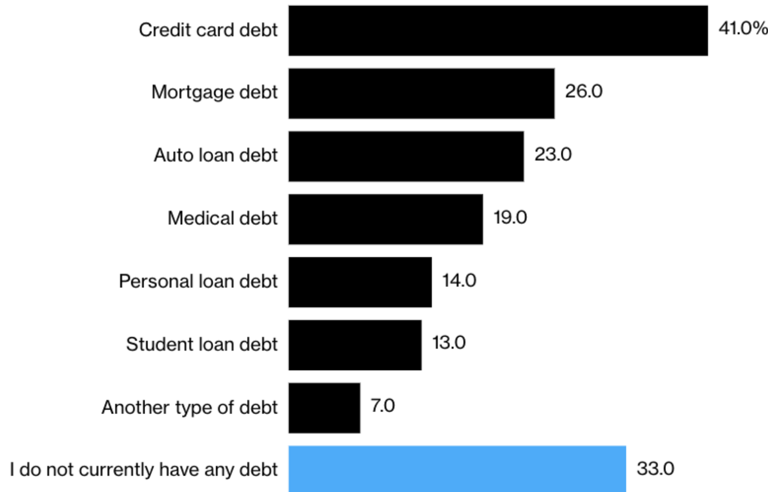


State of consumer debt

41% of Americans currently hold credit card debt, the most of any type of debt.



For some Americans, adding on debt as prices rise has been a necessity as they cannot afford their monthly expenses. However, on the other side of the spectrum, there is a large chunk of Americans who are not carrying any type of debt. 33% of Americans currently hold no ongoing debt. This number is quite high when you think of the economic state of the U.S. We would assume the majority of this 33%

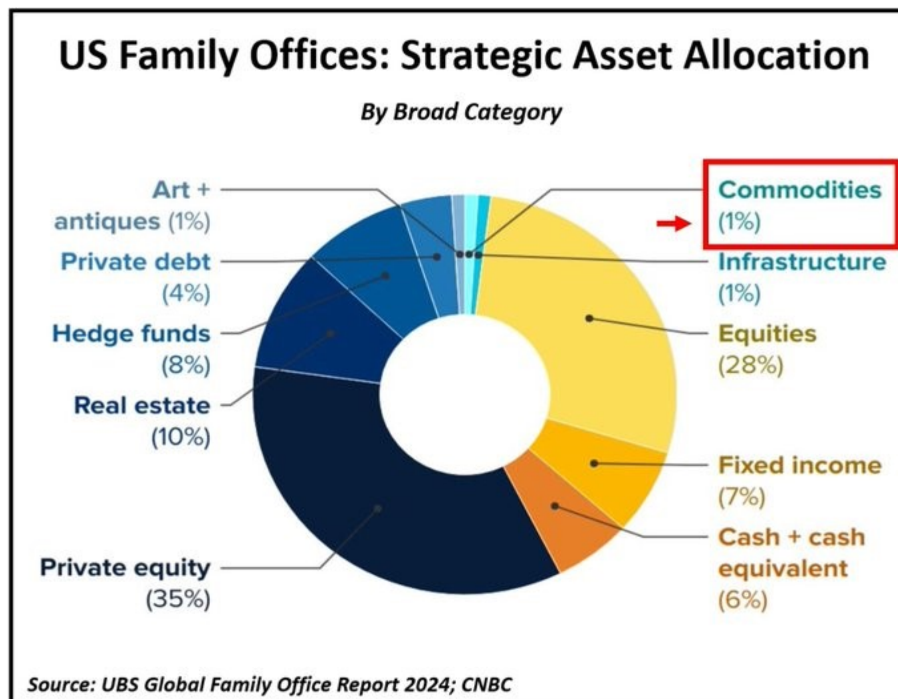
are older Americans who bought their homes decades ago, paid off their mortgage, and are living within their means. We also understand that some of the population living without debt are amongst the wealthiest Americans.

Either way, we found this chart quite interesting and revealing of the American population.

Asset allocation for family offices

Ultra-wealthy families usually have family offices managing their finances and investments. But did you know that they rarely invest in public stocks and bonds?

According to the UBS Global Family Office Report, only 35% of family office assets are invested in public securities. This means almost two-thirds of their assets are invested in a variety of private market asset classes. The largest individual exposure for family offices is currently private equity.



So why are family offices along with institutions so bullish on private assets? They like the absolute return goal, the limited volatility, and the diversification that alternative assets expose them to. We invest in a variety of private assets for our investors. Our MacNicol Alternative Asset Trust invests in real estate, private equity, and hedge funds. It was modeled after the Yale Endowment Fund, one of the pioneers in alternative assets. We think all investors should be able to access these private market opportunities that the uber-rich and institutions keep to themselves. By launching our alternative program in 2010, we gave our investors access to these new markets. The fund has performed very well over the long term, has a strong Sharpe Ratio, limited volatility, and performs well when public markets perform poorly.

If you are interested in exposing yourself or your clients to alternative assets, contact us today to set up a call with one of our Portfolio Managers.

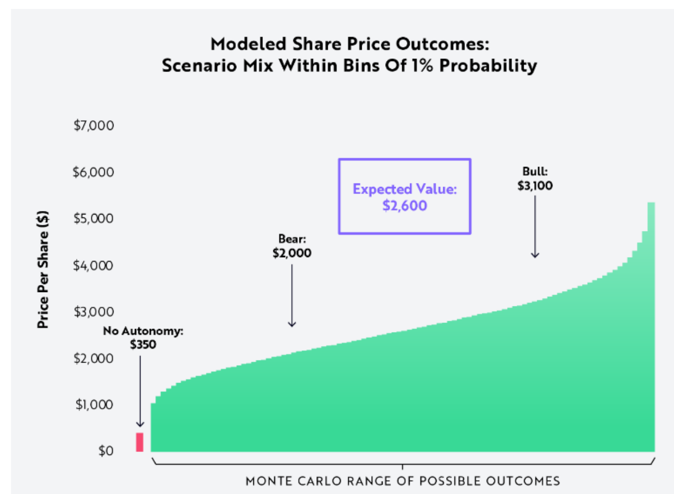
Ark and Tesla

Cathie Wood's love affair with Tesla continued this week. We have commented on how bullish she has been with Tesla since this publication's inception, and it has gotten even crazier.

For some background, Ark is an ETF provider that has approximately $7 billion in AUM - in 2021 they had $50 billion in AUM. The firm invests in highly speculative forward-looking companies, that are often not profitable. Ark's performance history has been mixed as it enjoyed massive years like 2020 (+152% ARKK) and horrible years like 2022 (-67% ARKK). Ark's largest holding across its ETFs is Tesla.

This week, Ark put out its investment thesis for Tesla and Cathie Wood, the CEO went on CNBC to talk about it.

Ark's open-sourced Tesla model forecasts that Tesla shares will trade at an expected value of $2,600 by 2029 their bull case is $3,100, and their bear case is $2,000.



ARK estimates that nearly 90% of Tesla's enterprise value and earnings will be attributed to the robotaxi business in 2029 while EVs will make up 25% of sales and 10% of earnings.

We will not dive deep into the thesis but will say that their simulation forecasts that there is a 58% probability that the first year of Tesla robotxi commercialization is next year. That seems a little soon, especially with all the regulations that will be needed to pass. If you want to read the publication, click here: https://www.ark-invest.com/articles/valuation-models/arks-tesla-price-target-2029

Aside from that, we will look at the valuation, what does $2,600/share mean?

Currently, Tesla trades at $179, its all-time high is approximately $410 per share (November 2021). From today’s price to the 2029 forecast, Ark believes there is over 1,300% upside in Tesla’s share price. In order to reach that price target, Tesla shares would need to increase 71% per year for five years. Ark’s valuation of Tesla would put its market cap in 2029 at $8.1 trillion. Currently, Apple is the world's largest company in terms of market capitalization at $3.3 trillion, quite the jump in just a few years. The only way this happens is if Tesla completely revolutionizes travel, energy storage, and the world's financial system continues to get fueled with fiscal injections and stimulus like it has for the last 15 years.

We do not think this price target is likely but can applaud the people at Ark for putting together a very interesting piece on one of the world's largest companies, even if we do not own shares in the company.

In other Tesla news, there is a serious fight over the pay package for Elon Musk at Tesla. Some shareholders are up in arms over a proposed pay package that would pay the Founder as much as **$56 billion** through salary, shares, and options. The pay heads to a shareholder vote on Thursday. Several large investors support the new proposed package, and several investors oppose the increased pay package for Musk.

Here are those who support and oppose the package and what % of Tesla they own:

Support:
- Baillie Gifford & Co. – asset manager (0.56%)
- Ron Baron – CEO of Baron Funds (0.54%)
- Cathie Wood – CEO of Ark (0.16%)
- Gavin Baker – CIO Atreides Management (0.005%)

Oppose:
- Norges Bank - Norway sovereign wealth fund (1%)
- Marcie Frost – CEO California Public Employees Retirement system (0.3%)
- Chris Ailman – CIO California State Teachers System (0.14%)
- Brad Lander – Comptroller NYC (0.1%)

Several large individual investors have spoken out in support and opposition to the pay package. It seems this package is pitting asset managers and venture capitalists against pension managers. It will be interesting to see what happens if Musk does not get his way. Many investors have said they will sell their Tesla shares if the package is not passed. This could cause some serious downward pressure for Tesla shares in the coming weeks.

We will be monitoring this and reporting back next week.

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June 14, 2024