

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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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 Spear Lighthouse, St. John's, Newfoundland

This lighthouse is located on Canada's most easterly point of land. The current lighthouse was established in 1962 and the original lighthouse was opened in 1936.



Fisgard lighthouse, Fort Rodd Hill, Esquimalt, British Columbia

This lighthouse is located just outside Victoria. It is a popular destination for tourists and was the first lighthouse built on Canada's Westcoast.




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

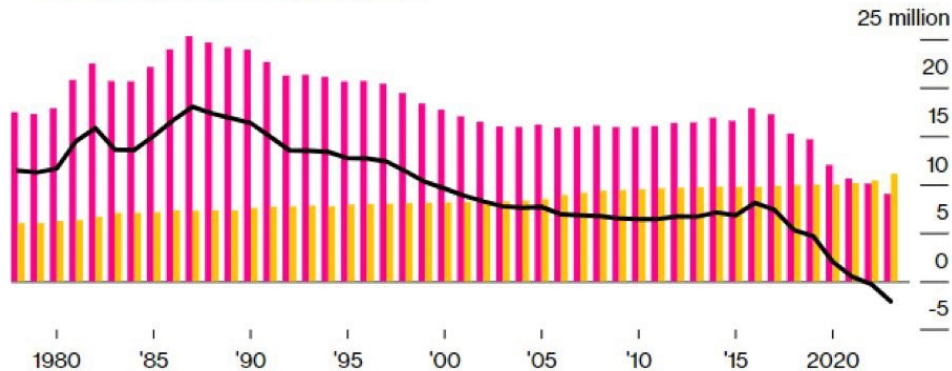
Collapsing population

The Chinese government released official 2023 population data and the country's population is seriously retracting in 2023 as deaths outpaced births in China. This was the third straight year this happened. Currently, in China deaths outnumber births by the largest number in history.

China's Population Shrinks Faster

Deaths rose while the number of births fell to a record in 2023

 Absolute change
  Births
  Deaths



Source: Chinese official data

Births also fell to an all-time low in China last year. This data has limitations and only goes back a few decades. However, the pattern is real, China is shrinking, and it will continue to do so. The population is also aging and will need younger people to take care of them and their pensions. China's median age has surged in recent years as people have fewer children and the life expectancy in China has severely improved.

So, what does this mean for us and the global economy? We think China's economic growth rate will slow down significantly and perhaps eventually contract as the population accelerates its shrinking. Despite China's strong growth, China in recent years has faced weak domestic demand and confidence due to its aging population. Consumption will decrease moving forward across China.

The problems will not get better and were arguably addressed too late by the Chinese Communist Party. Currently, 20% of China's population is over 60, and China's National Health Commission expects that number to hit 30% in a decade.

China is not the only country facing this issue. Many countries across the West are aging as life expectancy increases and women have fewer babies. In Japan, about 42% of adult women end up never having a baby. Last year Japan posted the fewest births since 1899. South Korea faces similar issues. The country has the lowest fertility rate in the world which is expected to decrease even more over the next 5 years.

Countries have addressed these problems through policy; however, it is uncertain if these policies will make lasting changes.

For now, look at health care and senior living as areas that will see a surge in demand decades down the road.

Down goes the loonie (and the U.S. Dollar)

The Canadian Dollar has been under pressure over the last few months as the Bank of Canada has cut interest rates. On Wednesday, the Bank of Canada cut its policy interest rate by another 25 basis points. The policy decision was the third straight interest rate cut by the Bank of Canada. The decision was expected by economists.

This brings the policy interest rate for Canada to 4.25%. Economists expect further rate cuts to end this year as inflation and economic growth have slowed in Canada.

The Bank of Canada has cut rates at the fastest pace among developed countries' Central Banks. The Federal Reserve is expected to cut interest rates later this month. This would be the first rate cut for Americans and one that will come approximately two months before the election.

Central Banks of advanced economies have begun to slash interest rates as economic data has come in softer than expected and cracks in the job market have occurred.

In a statement released Wednesday, Governor Tiff Macklem pointed to further rate cuts to end this year if the inflation rate continues to get closer to the Bank of Canada's target.

The loonie jumped slightly on this news relative to the U.S. dollar. However, the U.S. Dollar has been under pressure over the last few months relative to most advanced currencies. This weakness is due to probable rate cuts from the FED, the upcoming election (both candidates will negatively impact the USD), and de-dollarization.

Oil market manipulation

We all know the oil market is volatile. Commodities as a whole are volatile. You are investing in an industry that is global, is based on supply and demand, and relies on countries to produce their quota. In just a few days, the price of oil has dropped by \$7-8 a barrel. We are investors in the industry and are not worried. We know there will be pullbacks along the way and are invested for the mid to long-term.

However, this week we bring to you the white noise factor in the oil industry. Many analysts and investors cling to headlines daily in the energy sector and do not look at the long-term trends. Sometimes these articles are based on rumors or are unconfirmed.

Take a look at the picture below that was circulating online on Wednesday. Apparently over the holiday weekend in North America, OPEC has completely changed its tune and will not increase production.

August 30



World ▾ Business ▾ Markets ▾ Sustainability ▾ Legal ▾ Breakingviews ▾

Energy | Exploration & Production | OPEC | Gas

OPEC+ likely to proceed with planned output hike from October, sources say

By Ahmad Ghaddar, Alex Lawler and Olesya Astakhova

August 30, 2024 10:13 AM EDT · Updated 5 days ago



September 4



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Energy | Exploration & Production | OPEC | Gas

OPEC+ discussing delay to planned oil output hike in October, sources say

By Alex Lawler, Olesya Astakhova and Ahmad Ghaddar

September 4, 2024 7:25 AM EDT · Updated 9 min ago



We think this is a smart move to support elevated oil prices in times of uncertainty. It's also in the best interests of some of the leaders of OPEC to have the price of oil trading in the high seventies or higher.

We think the softer-than-expected demand will not continue and prices will bounce from here. Central Banks are going to slash rates to support the global economy and attempt to avoid a contraction.

The energy market is the only sector that is forecasting a recession. Investors are ignoring bullish news and assuming weak demand. Just last week, Libya reported that their oil output had decreased by 60% and the price of oil retreated the same day. We understand volatility, and uncertainty and are confident in our convictions. This short-term weakness has not changed our opinions on the sector. However, we will be monitoring it very closely.

Nvidia's wipe out

On Tuesday, markets felt uncertainty in droves. The Nasdaq 100 was down over 3%, oil was down 4%, and recession fears were littering the Internet. This fear was led by some poor economic data that was released Tuesday morning.

This volatility led AI stocks and semiconductors to have some of their worst-performing days in years. These losses were highlighted by Nvidia shares which lost more than 9% on Tuesday. Approximately \$279 billion in market capitalization was lost on Tuesday for Nvidia, the largest one-day market cap drop in U.S. history. The previous record was held by Meta in February 2022.

In after-hours trading, numerous outlets reported that Nvidia had received a subpoena from the Department of Justice as part of an antitrust investigation. On that news, shares shed another 1.5% but regained that small loss when trading opened Wednesday.

The investigation by the DOJ on Nvidia was already known. The DOJ has been investigating the company for antitrust violations. Previously, the DOJ had only sent in questionnaires to Nvidia executives, but the subpoena forces the company to answer for its actions. The report also stated that other companies also received subpoenas.

The DOJ is essentially investigating the chip maker for abusing its market dominance. Nvidia is alleged to have pressured cloud providers to buy multiple products while charging its customers more for networking gear if they bought AI chips from their rivals. Nvidia has a monopoly on the market, controlling around 80% of the AI chip market.

Earlier this summer, the French government accused Nvidia of anticompetitive business practices.

Nvidia is not a stranger to regulators. The FTC threatened to sue Nvidia over a potential acquisition in 2022 of Arm, a semiconductor giant. Nvidia eventually abandoned the transaction.

The FTC and DOJ have been aggressive under their current leadership. They have targeted numerous technology giants over antitrust violations.

Analysts do not seem as worried about the current DOJ investigation as it was in its early days. We will have to see what happens with this investigation. Pure capitalists will say the market will correct itself and Nvidia's market share will eventually decrease. We will have to see what happens from a technology standpoint because currently, Nvidia remains the top dog with superior tech.

Pricey homes

Despite a pullback in the U.S. housing market and a slower summer, down payments for U.S. homebuyers have hit another record. The median down payment is now \$67,500 according to Redfin, 116% higher than 5 years ago and more than double the down payment versus 2011.

Homebuyer Down Payment Hits Record High

Median down payment for U.S. homebuyers, in dollars



Source: Redfin analysis of county records - [Get the data](#) - Created with [Datawrapper](#)

Both higher housing prices and interest rates have led to this surge in down payment sizes.

Affordability for Americans remains a hot topic as homes have become less affordable over the last 5 years. Price appreciation has greatly outpaced income gains. Over the last 5 years, the Case-Schiller 20 City Index is up 52% while U.S. average hourly earnings are only up 25%.

This spread between income gains and home prices is prevalent in all major U.S. cities but is most pronounced in South Florida. Prices in Miami have surged by 80% over the last 5 years as Florida's population has surged. Many Americans have relocated to Florida recently due to policy, low taxation, weather, and Covid-19 policies.

Affordability for housing will be a major factor in the upcoming election, especially for young voters. We will be watching the debate next week to see how each candidate will tackle this issue.

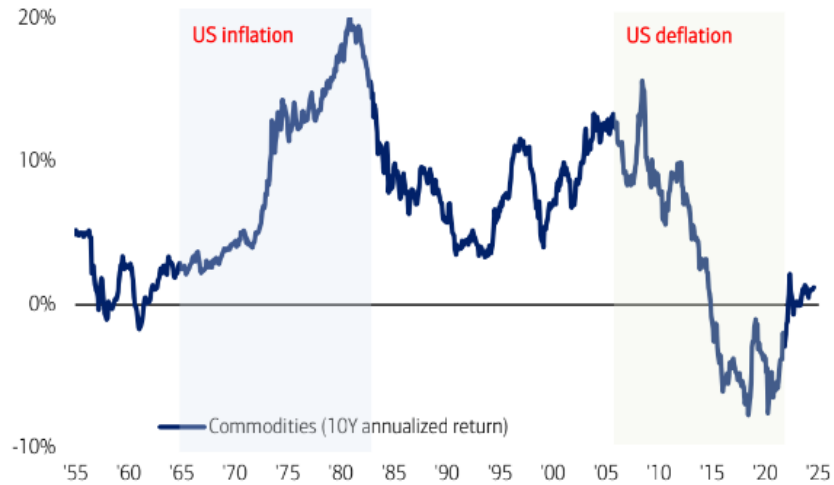
A great chart

Bank of America put out a very interesting chart in their recent investment strategy note that caught our eye. The chart looks at commodities since 1955 and paints a pretty picture.

Take a look below:

Chart 6: Secular bull market in commodities just getting started

Commodities index 10-year annualized returns



Source: BofA Global Investment Strategy, Bloomberg, GFD Finaeon

BofA GLOBAL RESEARCH

The chart looks at constant 10-year annualized returns. Commodities usually trade in cycles and have just broken out of a 12+ year down cycle where commodities and their producers were beaten down. This beatdown led to an underinvestment in expansion despite increased demand. As readers of our commentary, you know how we stand on commodities and how we are positioned. This Bank of America chart paints a similar story. Whether it's precious metals or energy, we think commodities are set to outperform in the coming years. We continue to study the data and adjust our positions, but our overall thesis has not changed over the last 18-24 months. An area we continue to watch is emerging markets, strong demand from China, India, Mexico, and other emerging markets is key for commodity prices. We think the recent weakness in these areas will disappear and is only a short-term trend.

Many investors and advisors are underexposed to the commodity space or avoid it due to volatility. We have diversified our client portfolios in a way that should capitalize on this trend moving forward but also mitigate downside risk.

We also think the recent pullback in many of these commodities creates a strong entry point for those who have so far missed out. Many of these commodity producers also trade at extremely low valuations that we think are extremely attractive and are under-priced.

Disclaimer: MacNicol & Associates Asset Management holds numerous commodities, and commodity producers through public securities in various client accounts.

NDP rips up deal with Trudeau

The NDP party ripped up its deal with the Canadian Liberal party on Wednesday. The Liberals needed the NDP's support to have a majority government in Ottawa. Last election, the Liberal party won the most seats in the House of Commons but not enough for a majority government.

Over the last 3 years, Trudeau's Liberals have led a coalition with the NDP. The alliance has soured. The NDP leader, Jagmeet Singh, pointed to Liberal weakness, selfishness, and how the Liberal Party is beholden to corporate interests. Singh is a huge critic of large Canadian corporations and CEOs. He has accused grocery chains of price gauging and has called for fixed grocery pricing.

The NDP, on the Federal level, is the 3rd largest party in Canada and is nowhere near winning an election according to polls. We think Singh ended this alliance to distance himself from Trudeau who has become very unpopular in Canada. He perhaps is banking on Trudeau's poor polling and assuming he can pick up some of those seats. Singh says his party is best positioned to stop Conservatives.

Currently, polls point to a large Conservative majority led by Pierre Poilievre.

We do not get political, but we must pay attention to the best positions for our clients. We will have to wait and see if there will be a snap election this fall north of the border.

Political opposition

U.S. Steel was set to be acquired by Japanese-based steel producer Nippon Steel. The two companies agreed on a deal late last year and only needed regulatory approval. Nippon Steel made numerous efforts to appease U.S. regulators. They set up Nippon Steel North American which would be headquartered in New York, the board would be made up of mostly American citizens, and all U.S. Steel plants would remain in the U.S. They also committed \$2.7 billion in local investments to try and sway politicians and the United Steelworkers union. Nippon agreed to acquire U.S. Steel for approximately \$14 billion.

Fast forward to this week and it looks like Biden is set to block this acquisition. Kamala Harris also reportedly opposes the deal. On Wednesday, shares dropped after this was reported by The Washington Post. Many analysts point to the election as the reason for this move. The Biden administration pointed to the deal being a national security risk.

Despite the pullback in the stock price of U.S. Steel, we think other parties will come to the table and potentially attempt to acquire U.S. Steel. Japan and the U.S. have shown how important steel producers are as they know the infrastructure boom is next. Before Nippon Steel made an offer last year for U.S. Steel, Cleveland Cliffs, another U.S. producer made an offer for U.S. Steel. Cleveland-Cliffs has remained interested through this transaction and has warned the deal will not close. They seem very keen on re-entering the arena and perhaps finally acquiring U.S. Steel. We think either way a transaction involving U.S. Steel is imminent, the other party is the variable.

The rejection of this deal is more than likely about union workers in Pennsylvania. In the upcoming election, no state matters more than Pennsylvania to Harris and Trump. The steelworker's union did not support this deal at any point despite Nippon's commitments. The Biden administration hopes the decision will boost support among union workers in Pennsylvania, where Harris and Trump are polling neck and neck. Trump has said he would block the deal "immediately" if he won the election.

However, U.S. Steel looks like it wants to play hardball with Harris and Biden as they warned on Wednesday that if this deal collapses, they will close plants in the U.S. Closing steel plants in Pittsburgh right before an election could have a severe impact on voting results.

Wednesday's dip in U.S. Steel's stock price presented a strong entry point with upside and limited downside. The stock remains extremely attractive from a valuation standpoint. We continue to believe that steel demand will grow over the next 10-20 years.

MacNicol & Associates Asset Management
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