

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.*



### ***Bolivar Point Lighthouse, Galveston, Texas***

This lighthouse was established in 1845 when the Republic of Texas earmarked \$7,000 for the establishment of a lighthouse station. The lighthouse stands at 36 meters tall and the current iteration was built in 1872. It served for 61 years before being retired in 1933, when its function was replaced by a different light.



### ***Tibbetts Point Lighthouse, Vincent, New York***

This lighthouse was first lit in 1854. The lighthouse stands at 69 meters tall. The lighthouse was automated in 1981 and was added to the U.S. National Register of Historic Places in 1984.

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

## **It all comes down to this**

If you are reading this on Friday, you more than likely know who won the election, and who controls the Senate and House for the next two years.

We write this on Monday a day before election day to remind our readers that the world will not end depending on who won the election. Harris nor Trump will ruin the country and the sun will continue to rise. As the world has become extremely polarized, it is important to remember what matters. It is also important to understand that differing opinions exist and just because you do not feel the same way, does not make it true.

We wanted to start this week's publication with a different tone as all of America (and the world) will be ultra on edge this week. At the end of the day, politics come and go in short cycles, and they should not influence your entire life including who you choose to be friends with. At the end of the day western civilization was founded on differing opinions, and cooperation.

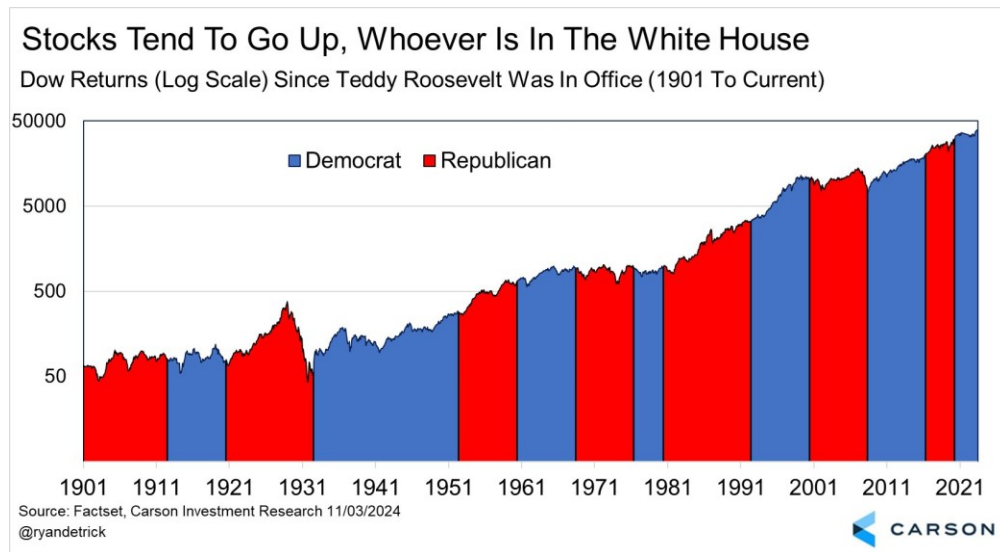
## **Election impact**

We are not political in this publication; however, we have a duty to our investors to forecast election results and position portfolios accordingly (depending on the results). We will warn our investors that the longer results take to tabulate, the more volatile equity and bond markets could be this week. If vote counting continues into Wednesday, Thursday, and Friday and results are uncertain expect some turmoil in public markets and perhaps some sharp drops.

Down the line, we expect both Harris and Trump to cause inflation through their policies. Expect this inflation to be stronger if either party controls all three levels of power (Senate, House, President) for the next four years. So, expect gold, silver, and other hedges against inflation to perform well under both Presidencies.

On a sector basis, we expect domestic automobiles, Medicare / managed care companies, financials, industrials, some technology companies, and even cryptocurrency (coins and exchanges) to perform well in a Trump victory. On the other side, we expect green energy, select technology providers, electric vehicles, discount retailers, and some homebuilders to perform well under a Harris presidency. We expect certain sectors to struggle under both Harris and Trump. Big tech companies have been targeted by Biden and Harris' Department of Justice and Antitrust Departments over the last four years, and Trump has historically been critical of the companies due to their vast reach and influence as well as opposition to him. However, Trump's opinions on some of these companies' leaders have changed over the last year as he has garnered more support in Silicon Valley driven by Elon Musk and Peter Thiel.

Regardless of your political lean, markets historically move up regardless of the President and their party.



However, we expect the next few years to be different. We expect indexing to fail and flat returns for classic investors who “set it and forget it”. Active management will be rewarded and do not be surprised if you see a lost decade or few years across major indices. For young investors, this seems extremely unlikely however, it has occurred this century numerous times. If you do not believe us, check the S&P 500 from 2000 to 2012, it was flat, and investors saw negative real dollar returns (inflation-adjusted).

We do not say this to scare our investors, we simply are forecasting what we see moving forward. We have had these thoughts for most of this year and have been joined in this “anti-indexing” party by some market leaders including Goldman Sachs who forecasted last week that according to their forecast, the S&P 500 will have an annualized return of 3% over the next decade. Goldman cited high valuations, and lower sales growth as reasons for this. On the other hand, Goldman forecasts alternative assets to perform very well over the next decade.

### **Rubber stamp**

On Tuesday night, the Republicans and Trump campaign delivered a resounding win. The Senate was flipped, and the Republicans will have a 53-54 to 46-47 majority. The House will remain in Republicans' hands, and Trump won both the electoral and popular vote.

We will not dive into opinions but will say results point to new lines in the sand. There is a new coalition in the U.S., the working class and they are shifting right at record rates.











Eight years ago, Florida was a swing state, and Texas was rumored to eventually turn purple. Purple is what happens when you mix red (Republicans) with blue (Democrats) evenly. This year Trump won Texas by 14 points, and Florida by 13.1 points. To put this in perspective, Harris won New York by 10.8 points. In 2016, Trump won Florida by 1.3 points and Texas by 9 points. Trump's support has doubled down in red states and has expanded in swing states. As of Wednesday morning, Trump had won Georgia, Pennsylvania, Wisconsin, and North Carolina and it looks like he will win Arizona, Nevada, and Michigan. That is all seven swing states.

We know the reaction to this election will be split.

On Wednesday morning, Trump trades surged. Bitcoin, Tesla (Musk-backed Trump), Palantir (Thiel-backed Trump), Trump Media, and other Trump trades were surging. However, markets as a whole liked the result. Indices surged on this news. We do not think it's totally to do with Trump winning, we think it's more related to how he won. The decisiveness and confirmation of his victory so early pleased investors. To put it simply, there was no uncertainty, no four-day waiting period where we waited for a few election results that would decide the Presidency.

In particular, Tesla shares opened Wednesday up 12%, Bitcoin 8% to a record level, and small caps opened up 5%. Gold prices lagged slightly on Wednesday as their Dollar and Yields gained strength.

Bitcoin's surge led it past Meta Platforms to become the world's 9th largest asset by market capitalization.

	Gold 1 GOLD	£18.203 T	£2,711
	NVIDIA 2 NVDA	£3.431 T	£139.91
	Apple 3 AAPL	£3.377 T	£223.45
	Microsoft 4 MSFT	£3.059 T	£411.46
	Amazon 5 AMZN	£2.097 T	£199.50
	Alphabet (Google) 6 GOOG	£2.087 T	£171.41
	Silver 7 SILVER	£1.798 T	£31.94
	Saudi Aramco 8 2222.SR	£1.775 T	£7.34
	Bitcoin 9 BTC	£1.475 T	£74,466
	Meta Platforms (Facebook) 10 META	£1.445 T	£572.43

We will have to see how this plays out for the next four years....

In other news, Former Speaker Nancy Pelosi won her 20th straight House race in California. The Barron of Washington will be back and we are excited to watch her investment portfolio for at least the next 2 years!

### **Canadian energy buyout**

The energy sector continues to see more and more deal-making as valuations continue to get more attractive. The left-for-dead industry is as beautiful as it has been for years. Minimal leverage, clean balance sheets, growing cash flows, and forecasted market imbalances moving forward make this an attractive trade for us along with many other investors.

This week we bring this all up because a deal was announced that got our attention. Step Energy Services Ltd., a Calgary-based oil and gas equipment and services company announced that it had entered into a definitive agreement with an Alberta-numbered company and Arc Energy Fund to take company private. The deal will be an all-cash transaction and will take Step shareholders out at \$5/share. Before the announcement Step shares were trading at approximately \$3.50/share. Quite the premium (40%) that shareholders were bought out at. The purchase price is reportedly at pro-forma 17% cash flow yield. At \$5/share Step trades at 6x forward earnings, quite a bargain when you compare it to its sector, and the overall market.

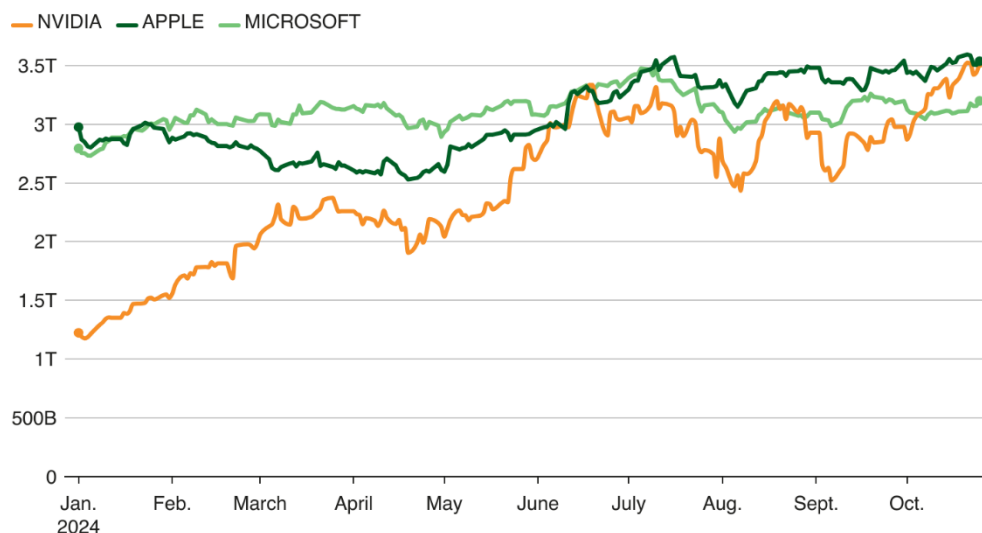
Although Step is not an exploration company, one can see that this deal shows how attractive the entire oil and gas sector is, even the complimentary companies. We think deals like this will continue to come to fruition as private investors take out companies trading at extremely attractive valuations and see top and bottom-line growth moving forward. Across the energy sector, there are Canadian and U.S. producers, equipment providers, offshore drillers, refiners, and midstream companies that are all extremely attractive and deserve a look at for investors looking to add some energy exposure.

### **Nvidia surpasses them all**

On Monday, Nvidia surpassed Apple to become the world's largest public company (in terms of market capitalization). The company has briefly surged into this position a few times throughout this year. Nvidia shares have roared throughout this year and are up 189% year-to-date. At the start of the year, Nvidia's market cap was slightly above \$1 trillion, nearly a third of Apple's.

### **Nvidia's race to become world's most valuable company**

The tech trio's market valuation has been neck-and-neck this year



Source: LSEG Datastream | Reuters, Oct 25, 2024 | By Sruthi Shankar

Quite the ride.

This news comes as the U.S. population heads to the ballot box on Tuesday. Trump and Biden have similar policies toward the semiconductor industry, while Harris has said she would seek more balanced competition and innovation in the industry. Perhaps this bump for Nvidia has something to do with Trump leading in the polls which could point to continued excellence from Nvidia like we have seen in recent years. The Trump campaign has said it would cut costs and regulation in the industry which will further foster growth in the industry.

Other news that analysts point to for this recent surge is the continued investment by large technology companies in AI infrastructure according to recent quarterly filings. This continued investment includes mass purchasing of Nvidia's industry-leading Blackwell processors. Multiple big tech companies reported increased AI infrastructure spending and are forecasting that to continue. UBS Global Wealth Management's CIO revised their forecasts for big tech capex spending growth rates to 50% this year and another 20% next year. Last month, Nvidia said their Blackwell GPU products are booked out for 12 months. That means if you order today, you will not receive the product for 12 months. This wait time reflects the supply-demand imbalance that remains in the industry.

Nvidia's CEO Jensen Huang said last month at a conference that the \$1 trillion that was invested in global data center infrastructure would move from CPUs to GPUs which enable AI workloads. He claims were only \$150 billion into the \$1 trillion transformation process.

Nvidia is also in the news this week as it is replacing a competitor in the Dow Jones Industrial Average as of Friday. Nvidia will replace Intel which has been in the Dow since 1999. Nvidia will join the index on Friday along with Sherwin-Williams which will replace the Dow (company). Do not expect an index bump as few funds track the Dow as opposed to the more broad-based S&P 500. However, Nvidia's inclusion is further acknowledgment of Nvidia's role as the leading U.S. chip stock and its importance to the global economy.

Nvidia's resurgence comes a few days after the company strangely asked the U.S. Supreme Court for legal immunity from securities fraud (Meta Platforms also made the same request). This comes a week after Nvidia's 3rd largest customer was dropped by its auditor. We talked about Super Micro Computers last week in this publication. The company has until November 16th to provide an audited compliance plan, or they will be delisted from the Nasdaq.

Nvidia has reportedly been rerouting orders to other suppliers to contain potential SMCI disruption.

SMCI was previously delisted in 2018 for accounting fraud. History often repeats itself!

SMCI shares remain near 52-week lows and are down 45% over the last week and a half.

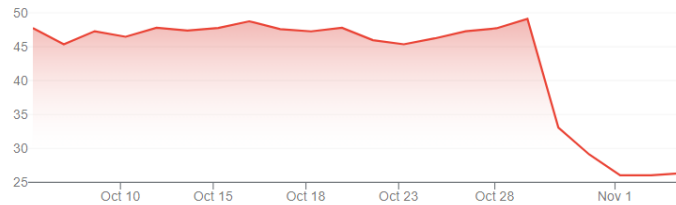
Market Summary &gt; Super Micro Computer Inc

**26.41** USD

-21.33 (-44.67%) ↓ past month

Nov 5, 11:33 a.m. EST • Disclaimer

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1D 5D 1M 6M YTD 1Y 5Y Max

Open	25.98	Mkt cap	15.47B	CDP score	C
High	26.79	P/E ratio	13.16	52-wk high	122.90
Low	25.10	Div yield	-	52-wk low	23.90

For now, there is no SMCI contagion in the technology sector, we will see if that lack of correlation continues.....

*Disclaimer: We do not hold shares of Nvidia or Super Micro Computers in client accounts we manage.*

## Cramer the legend

On Monday, our infamous buddy Jim Cramer of CNBC made a prediction. He said the street and investors were pricing in a Harris victory. Not even a day later the legendary anti-Cramer index hits.

MAD MONEY

### Jim Cramer says Monday's market action suggests some traders anticipate a Harris win

PUBLISHED MON, NOV 4 2024 4:30 PM EST | UPDATED 3 HOURS AGO


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 @JULIAUCOLEMAN

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#### KEY POINTS

- CNBC's Jim Cramer said the session's moves reflect investors who feel Vice President Kamala Harris could win the presidency, even as the race remains deadlocked in polls on the eve of Election Day.
- "I'm not sure the market's right about what a Harris presidency would mean for business, but at least now we have a blueprint for what Wall Street thinks it'll mean," he said.



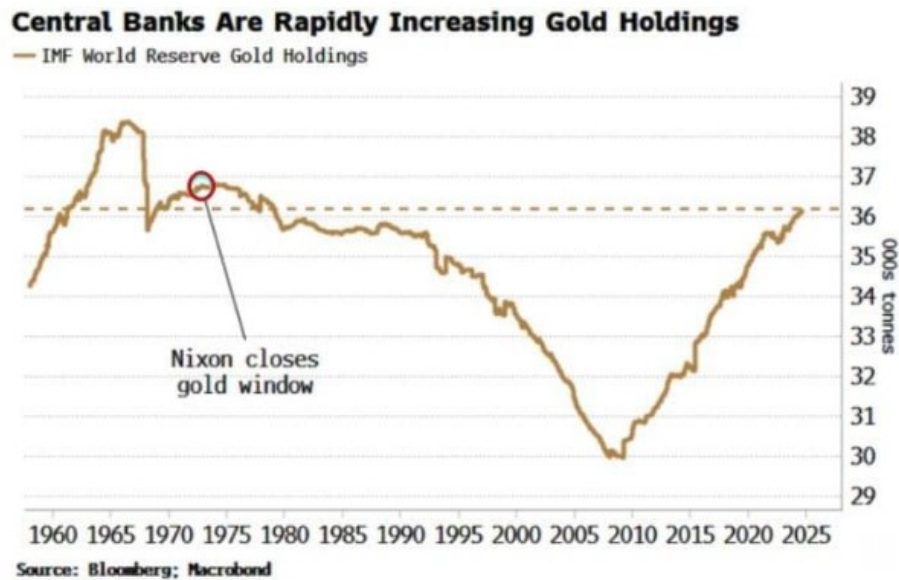
A true legend of the game.



## Got gold

Gold pulled back on Wednesday after the election results. This is because the U.S. Dollar and Yields soared. We think this pullback is a good opportunity for investors. We still like gold from here and the miners remain relatively inexpensive.

However, this week we wanted to share an image that we ran across that shows how strong the demand for gold has been from Central Banks over the last 10-15 years.



Central Banks are dumping U.S. Treasuries in favor of a real asset, gold. In fact, the IMF World Reserve has ended the gold standard. We expect Central Banks to continue to pile into gold especially as developed countries continue to add on debt.

On another note, gold rallied by about 50% during Trump's last presidency.





## **Cutting the red tape**

One thing many can agree on in a Trump Presidency is less regulation and less red tape. Expect less regulatory hurdles. Expect boosted M&A activity. That is good for investors, consumers, and investment bankers. Bankers might be the biggest winner in a Trump Presidency.

From Barrons:

• 2 hours ago ★

### **Aggressive M&A Activity Expected After Election. Why Dealmaking Could Surge.**

By Dean Seal, Dow Jones Newswires

Trump's victory in the presidential race is expected to usher in deregulation and more aggressive M&A activity, Mergermarket head Lucinda Guthrie said in a statement.

Trump ran on a platform of replacing key roles at regulatory agencies that oversee dealmaking, including the Federal Trade Commission and the Securities and Exchange Commission, Guthrie said.

Trump will certainly clean house at the FTC and SEC. The FTC Chair Lina Khan had become a hot election topic due to her actions when leading the organization. Khan has blocked numerous deals, has looked to break up technology giants, and has drawn criticism on both sides of the aisle.

One example of this is U.S. Steel. We have talked about the company in this publication repetitively. U.S. Steel is a Pittsburgh-based steel producer. The company's share price is up 20% over the last year but is down 14% this year. U.S. Steel shares were soaring on Wednesday after Trump won. U.S. Steel's stock has pulled back in recent months on news that its acquisition from Nippon Steel would not pass U.S. antitrust regulators. Many doubted that any acquisition involving U.S. Steel would not pass under a Harris Presidency like under Biden. We will have to see if Trump allows a Japanese company to acquire U.S. Steel, his American-made policy makes us doubt it. However, even if Nippon Steel does not acquire U.S. Steel, a domestic competitor could. Cleveland-Cliffs and other major steel producers have always been interested in acquiring U.S. Steel and under Trump that is more likely.

Alphabet (Google) shares also jumped on Wednesday as the breakup push has more than likely ended as Trump reportedly will not look to break up the tech giant.

This boosted activity is great for investors.

*Disclaimer: MacNicol & Associates Asset management hold shares of U.S. Steel in various client accounts.*

**MacNicol & Associates Asset Management**  
**November 8, 2024**