

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.



Baishamen Lighthouse, Haikou, Hainan, China

This lighthouse is the sixth tallest in the world standing at 72 meters tall. The lighthouse was constructed in 2000. Haikou is the capital of Hainan, an island province off the southwest coast off China in the northern part of the South China Sea.



Cordouan Lighthouse, Gironde, France

This lighthouse is the world's 10th tallest traditional lighthouse. It stands at 221 feet and was originally constructed in 1611 but was automated in 2006. The lighthouse is located on the west coast of France.

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

Welcome back to all our readers, friends, family, and network! We hope you had a great holiday season and wish you the best this year!

New Years surprise (to very few)

On Monday, January 6th, 2025, the Prime Minister of Canada, Justin Trudeau announced his resignation as the leader of Canada's Liberal Party. Trudeau has led the Liberals and Canada for over a decade. The once-popular political candidate has seen his support collapse nationally. Canadians have turned on him and his party due to his handling of the economy, immigration, and numerous scandals. Before this announcement, the Canadian Conservative Party was polling well ahead of other parties and was on track to win the largest majority in modern-day politics in Canada. The writing was simply on the wall for Trudeau.

Many had been speculating that he would resign for a few weeks now. Still, the final straw for Trudeau came before Christmas when his closest ally and finance minister stepped down from her leadership role and released a statement ripping Trudeau.

Opposition leaders across Canada wasted no time saying Trudeau's issues are that of the entire Liberal party. We must see what Canadians believe as the next election shakes out. The federal election might be held in October; however, many expect an early election to be called before that.

The Liberal leadership race is expected to be highly contested with candidates across the country gearing up to fundraise and run. Mark Carney and Chrystia Freeland are the two top candidates. However, it is important to note that these alternative candidates are also trailing the conservatives by a wide margin in hypothetical polling. Many Canadian political strategists believe the 2025 race is not winnable by liberals and believe that the party's focus moving forward should be on rebuilding for future elections.

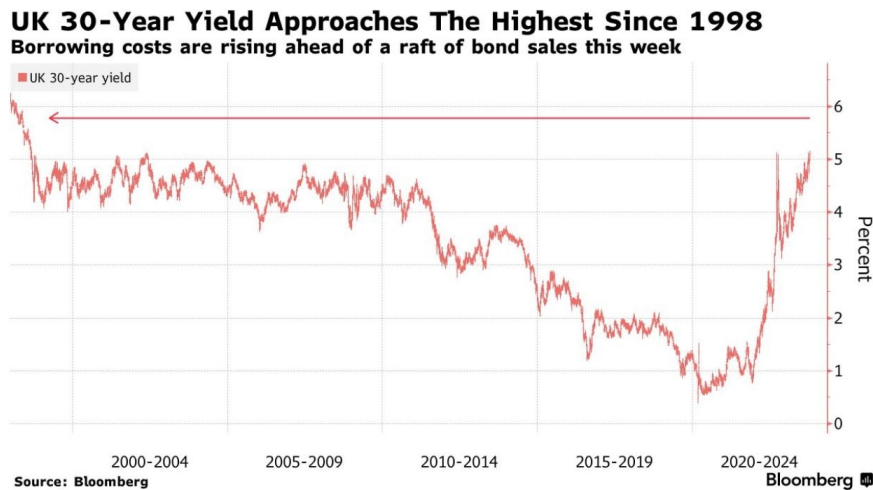
The Loonie rallied considerably on this news on Monday after hitting a multi-year low last week. The Loonie has been under pressure for the last 3-4 years but has especially sold off since President Donald Trump won in November in the U.S. election.

We expect an election sometime before October, a stronger Loonie, a Conservative win (unless things seriously change), and strong returns north of the border across equity markets.

Pre Y2K

It's 1998, the world is thriving, the internet is connecting the world, Pets.com is booming, and equity markets are on fire. Before you ask, why do we bring up these pre-Dot Com crash market attributes?

Look at the chart below:



The UK 30-year bond is yielding over 5%, the highest since 1998. Bond investors are driving rates, not Central Banks. The bond market is pricing in higher inflation, something we have been forecasting for quite some time. We think the recent movement of treasury yields (last 6-12 months) across the developed world is partially confirming our thesis of a second wave of inflation. We think many bond investors see what is coming and think many high-growth equity investors could be majorly unprepared. Equity markets have shrugged off the recent increase in yields despite Central Banks slashing rates.

We think today's rising yields should be a warning to investors, especially retail investors. The FED and other Central Banks only control the short end of the curve, the rest of the curve is controlled by investors. Investors have pushed yields higher despite the recent cuts we have seen by Central Banks. This should be more of a headline but instead, most investors remain focused on finding outsized returns.

What Wall Street sees

Every year we read expectation commentary from numerous large Wall Street banks to begin the year. We find the diverse opinions interesting and thought-provoking.

This week we wanted to share a photo that summarizes various 2025 Year-End targets for the S&P 500 from the largest institutions on Wall Street.

Wall Street Braces for a 12% Year

Expectations for a strong S&P 500 are widespread, with few outliers

		2025 Year-End Target	2025 Percentage Gain %	2025 EPS
Oppenheimer	John Stoltzfus	7,100	20.6%	\$275
Wells Fargo	Chris Harvey	7,007	19.0%	274
Deutsche Bank	Binky Chadha	7,000	18.9%	282
Societe Generale	Manish Kabra	6,750	14.6%	271
BMO	Brian Belski	6,700	13.8%	275
HSBC	Nicole Inui	6,700	13.8%	268
Bank of America	Savita Subramanian	6,666	13.2%	275
Scotiabank	Hugo Ste-Marie	6,650	12.9%	255
Average		6,614	12.3%	269
Barclays	Venu Krishna	6,600	12.1%	271
Evercore ISI	Julian Emanuel	6,600	12.1%	257
Fundstrat	Tom Lee	6,600	12.1%	275
Ned Davis Research	Ed Clissold	6,600	12.1%	254
RBC Capital Markets	Lori Calvasina	6,600	12.1%	271
Citigroup	Scott Chronert	6,500	10.4%	270
Goldman Sachs	David Kostin	6,500	10.4%	268
JPMorgan	Dubravko Lakos-Bujas	6,500	10.4%	270
Morgan Stanley	Mike Wilson	6,500	10.4%	271
UBS	Jonathan Golub	6,400	8.7%	257
BNP Paribas	Dennis Jose	6,300	7.0%	270
Cantor Fitzgerald	Eric Johnston	6,000	1.9%	267

Source: Bloomberg

The average target is 12% higher than what the S&P 500 ended 2024. No bank surveyed sees the S&P 500 having a losing year and most of the banks see at minimum a gain of 10% this year. We will warn our investors that these strategists are often wrong so take their forecasts with a grain of salt. Last year, the average Wall Street bank had a 2024-year end target for the S&P 500 of \$4,891 – the S&P 500 finished 2024 over 20% higher than the average forecast. To put it simply – the strategists got it REALLY wrong and often are wrong.

Wall Street strategists are not the only group that is very bullish on equity markets right now. According to Bloomberg and The Conference Board, almost 60% of Americans see stock prices rising over the next year, the highest percentage ever:



When consensus is this bullish, warning signs go off in our heads, and we adjust accordingly. We hope you are too.

An alternative play in a sleepy sector

When you talk to retail investors, and portfolio managers, or read commentary about hot stocks or forecasts, you generally read or discuss high-octane or attractive sectors like technology, biotechnology, mining, oil drilling, or even AI. We are all susceptible to this as we like to discuss interesting things and avoid things that we find boring.

We bring up boring because a stock that we have liked for quite some time fits that mold. It's in a boring old sector that many overlook or look down on.

The company we are talking about is News Corp. The company trades on the Nasdaq under NWSA and NWS (the company has 2 classes of shares). The company's dual share structure includes one share class with voting rights and one without. News Corp is a New York-based business that was founded in 2013 following a spin-off. News Corp is a company controlled by the Murdoch family that owns various publishing assets. News Corp is one of two companies that was formed in 2013 following spin-offs from the original media conglomerate News Corporation. The other company is 21st century Fox which controls Fox Entertainment Group, and several international operations. The company essentially underwent a stock split where shares were split into two separate companies. Rupert Murdoch founded the company in 1980 acquiring various media, print, and alternative assets in the following decades.

Back to News Corp. The company's diverse asset group includes The Wall Street Journal, Dow Jones & Company, UK outlets The Sun and The Times, REA Group – operator of realtor.com, book publisher Harper Collins, as well as several other digital and print assets.

You might think, “Why are you buying failing newspaper assets that are yesterday's news.” However, News Corp has undergone a successful evolution over the last 5-10 years. The company is growing through digital, recurring, subscription-based businesses.

News Corp has been on the radar for value purposes and its strong stable of assets for a few years now. The company is growing while many of its former competitors are struggling. We also see some extra upside in News Corp through successful activist investor campaigns that are currently underway. A prominent activist investor is pushing for major change at the company’s corporate level. The investor believes the changes they are recommending will unlock shareholder value and upside, we agree with that thought process after reviewing the proposals. Essentially the dual share structure concentrates control of the company while allowing for broad ownership in the non-voting share class. The company’s founder and his one son retain most of the voting shares creating super-voting powers. The activist investor's first attempt to end the dual share structure failed in November but the investor remains focused on unlocking value and ending the dual share structure moving forward.

According to the Founder, he created this system to keep control of his company in his family’s hands and to consolidate decision-making power in his eldest son’s hands as he was worried about a lack of consensus among his four adult children. A lot of the current court battle between the family members is regarding what happens to News Corp when Rupert Murdoch dies. The legal proceedings are all regarding a trust that was established in 1998. Rupert Murdoch is also reportedly worried that his other 3 children will turn his two companies into less conservative outlets. This is real-life *Succession**.

*[https://en.wikipedia.org/wiki/Succession_\(TV_series\)](https://en.wikipedia.org/wiki/Succession_(TV_series))

The family is currently embroiled in a court case over the Family Trust and the activist continues its campaign to end the dual share structure.

A lot to unpack yes, but regardless we see upside and true value in a sector that we have limited exposure in, across most client portfolios.

The stock is up 12% over the last year but has dipped over the last month. We see an upside over the next year, but it could take some patience as we let the activist and legal proceedings occur.

News Corp has numerous undervalued assets that management continues to focus on unlocking more value. The company has beaten consensus earnings estimates in six of the last seven quarters (the one non beat came in line with expectations). The company’s net income has also grown in recent quarters. This growth has been driven by digital real estate services, book publishing, and digital media subscription growth. News Corp trades quite inexpensively relative to most forward multiples we focus on. News Corp does not have any liquidity issues and is not over-levered.

News Corp announced a \$1 billion stock buyback program to begin 2025 indicating that management could be quite active when they see value in the company’s share price.

We think Rupert Murdoch will not let his life's work remain in limbo and a solution will come forward. Either Rupert's eldest son, Lachlan, raises capital to buy his siblings out for their votes, or Rupert goes ahead and cashes out by selling both his companies to a trusted buyer. The asset sale could include provisions for certain executives to remain in place after the acquisition. Buying out the other siblings could be difficult due to the control premium which could be very expensive.

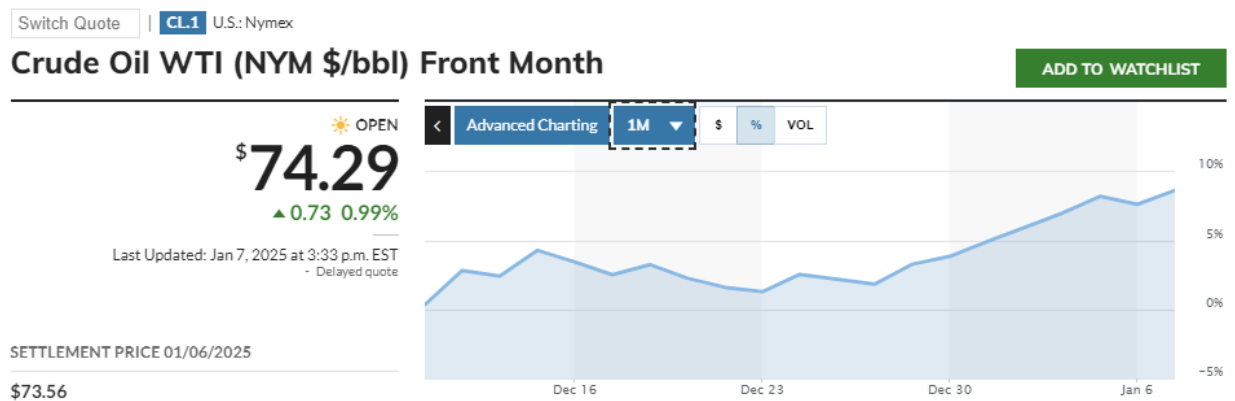
We also think a transaction has not been thoroughly explored as Murdoch was waiting for Trump to take office so a potential transaction could get easier regulatory approval.

We will have to see what happens moving forward. We like the current risk-reward in this trade but that could change if News Corp gets into the wrong hands and changes its strategic direction.

Disclaimer: MacNicol & Associates Asset Management Inc. holds shares of News Corp (NWSA and NWS) across various client accounts.

Energy bounce

After a tough year for oil investors, oil has quietly heated up over the holidays. The price per barrel is now in the mid \$70s for the first time in 3 months. The price of oil has jumped 8% over the last month after bottoming.



We did not completely exit the energy trade; we diversified last year and monitored the sector. We still see upside in several names which remain extremely attractive.

Always remember the best time is to buy at the bottom and when investors hit the exit after a few rough months, the thesis remains intact yet many panic sold. It is important to own quality and manage your exposure. Our portfolio diversification allowed for the pullback in energy to affect the overall portfolio only minimally.

After all, Berkshire and Buffett bought more Occidental right before Christmas, diving further into the producer and betting more on energy. Buffett bought another half billion in Occidental stock despite an

unrealized loss of \$2.2 billion in the position. Buffett knows what many value and contrarian investors are forecasting, oil is on the rise, energy stocks are very cheap, and now is the time to buy.

Occidental is Berkshire's 6th largest equity position according to filings. Chevron is Berkshire's fifth largest equity holding.

Oil is not the only energy commodity on the rise over the last while, natural gas prices have jumped over the last few months on tighter supply, colder weather, and boosted demand. We scooped up a major U.S. natural gas producer in numerous portfolios at the end of last year. We think the company will continue to expand its market share and enjoy a strong 2025. Oil and natural gas are not going anywhere, and we are closer to January 1st, 2030, than January 1st, 2020. The climate crew has not done what they promised simply due to reality and energy demand. Consumers have also grown tiresome of extra taxes, and higher prices fueled by government regulation directed to prevent climate change.

Buy the pullback

Indian equities, one of our favourite international markets right now have pulled back over the last few months. We think this pullback creates an attractive entry point for numerous (not all) names.

Our Indian thesis remains strong, and this short-term weakness will eventually disappear. India's economy is still forecasted to grow at the fastest rate globally amongst large economies moving forward. Companies continue to invest heavily in the country. Corporations are also moving operations into India from other countries to decrease their geopolitical risk. Remember, India will be a huge beneficiary of capital rotating away from China. There is simply much less risk in India.

This week the bullish news in India continued as Microsoft announced a \$3 billion investment in India to boost artificial intelligence and cloud infrastructure.

We expect this trend to continue and are comfortable with the valuations across the Indian equity market.

Disclaimer: MacNicol & Associates Asset Management holds various Indian investments across client portfolios.

MacNicol & Associates Asset Management
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