THE WEEKLY BEACON **March 14 2025**

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.

Mulantou Lighthouse, Hainan, China

This lighthouse also known as Hainan Head Light is the worlds fifth tallest lighthouse and the tallest in China. The lighthouse was built in 1995 and has a focal plane of 289 feet. The lighthouse is located on one of the most southern points of mainland China.

Campen Lighthouse, Campen, Germany

This lighthouse is located off the north coast of Germany. The lighthouse was built in 1889 and went into service October 1891. The lighthouse stands at 65 meters tall.

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

Retail showing cracks

February's retail sales in the U.S. are softer than anticipated, raising more concerns that consumer spending is starting to sputter. The Census Bureau said Monday that retail sales rose 0.2% in February, the FactSet consensus estimate was an increase of 0.7%.

Overall sales rose 3.1% on an annual basis. Sales in only five of the 13 categories tracked by the Census Bureau rose from their January levels in February. The categories that saw increases lean toward essential products rather than discretionary. Restaurant spending fell by 1.5% in February compared to January. Economic conditions continue to break down. Retailers have warned that February got off to a soft start, thanks to a combination of cold weather, delayed tax refunds, and a growing sense of uncertainty among consumers about the economy.

This spending pullback comes as layoffs have increased and corporations have slowed their hiring rates.

Finally, economists have become increasingly worried about stagflation due to tariffs and uncertainty. Stagflation is defined as periods when inflation is high and economic growth is stagnant. Many believe Trump's reciprocal tariffs which could come into effect in April are a recipe for disaster that could destroy the President's credibility with many of his supporters as prices could surge for various items. On Tuesday, Secretary Bessent confirmed the tariff timeline by saying every country will "get a tariff number" on April 2nd. Buckle up.

One of Trump's major campaign platforms was slowing inflation, tariff measures could have the opposite impact. We will say price increases have slowed as economic uncertainty has increased and spending from consumers has decreased over the last 3-4 months.

This is the reason that we have altered our positioning this year and have not exited the inflation beneficiaries across equity markets that we have owned for the last few years.

Free cash flow galore

As the price of gold breached $3,000/oz this week and continued moving higher, we wanted to reshare a familiar image with our readers from Crescat Capital. The image tracks an index of North American listed gold miners since 2010. As you can see the index hit a multi-year high recently. You can also see the upside potential the index has relative to previous cycle highs.

However, this time is different, gold is trading at $3,000/oz (not $1,500-1,700 like in 2010/2011), miners are producing record free cash flows, and profits, costs are low, and no new major mines have come online.

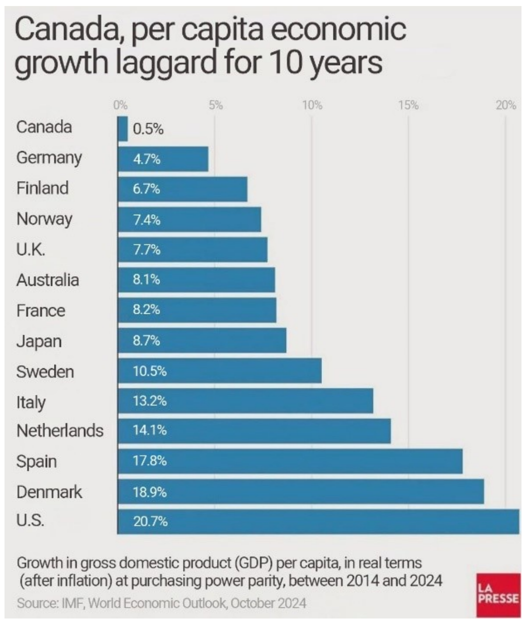
In other words, there is no pending supply that will come online and impact the physical market. At the same time, investors both individuals and institutions are adding gold into their portfolios at record rates. It's a flight to safety. Even global Central banks are adding gold in mass. We think both physical gold and gold miners are attractive in this environment. We will not be selling our positions at these levels. On a relative basis, we think some miners will go on huge runs this year and gold prices could run a little flatter. Miners will see their margins expand with the spot price of gold above $3,000 and beat earnings estimates. Investors will flock to these cash cows and investors like us could be major beneficiaries.

Just because gold mining is not sexy like tech or AI does not mean the industry cannot create outsized returns.

Disclaimer: MacNicol & Associates Asset Management holds shares of North American listed gold mining companies, shares of ETFs that hold gold mining stocks, and physical gold, silver and platinum across various client accounts.

Canada's economic gloom

Ten years of population gains in Canada have not equated to productivity gains over the same period. According to the IMF and World Economic Outlook, Canada's per capita economic growth was 0.5% over the last 10 years. When you compare that small number with the growth of other developed economies over the same period, it raises some alarm bells.



Canada's economy has some serious cracks in it, and it will take some time to fix. Ignoring these issues will only worsen our problems as a country. We need a policy that attracts investment and spurs growth as unfortunately, we have not had that over the last few years.

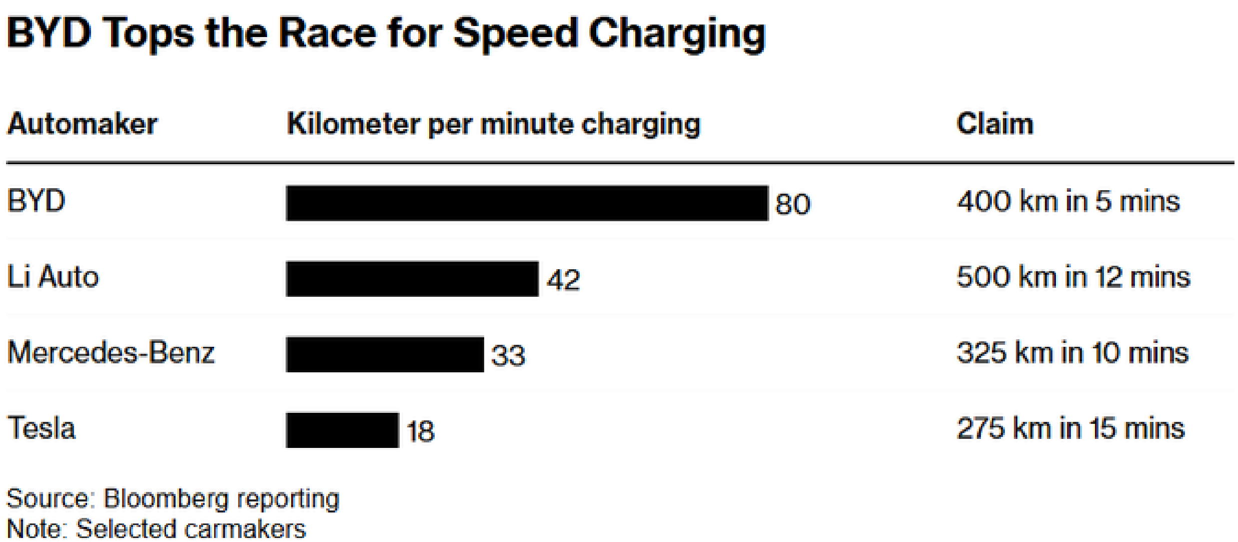
Tesla's bag months

Tesla shares have cratered in recent months. We mentioned this a few weeks ago in this publication. The downturn in Tesla's shares has correlated with Elon Musk's increased political presence in the Trump administration.

Shares are down 41% in 2025, and approximately 54% since their November highs. Tesla shares started their downturn before the market did. On Wednesday, shares moved lower on news from a competitor.

Chinese electric vehicle producer BYD announced an EV breakthrough that caught investors off guard. BYD revealed new charging technology that could rapidly speed up charging times. The chargers have speeds of 1,000 kw which is double the speed of Tesla's superchargers.

According to Bloomberg reports, the BYD chargers will significantly outpace the market in terms of speed to charge.



If this technology is not flawed it could revolutionize the EV industry. This technology could also aid BYD's growth in China and across other markets. Tesla sales in China have plunged in recent months where they reported their lowest monthly Chinese sales figure since July 2022 earlier this year.

Tesla and European EV makers probably won't feel an immediate pinch from the technology in their home markets, where China-made EVs are effectively excluded.

On another note, another Chinese company, Zeekr announced they will be releasing advanced driver assistance capabilities to its local customers. Zeekr's tech enables their cars to drive nearly autonomously from one pre-set destination to another if drivers keep their hands on the steering wheel and there is regulatory approval. This free technology comes as Tesla's similar technology will cost $8,850 in China for Tesla owners.

For now, it seems Tesla's monopoly on EVs is slightly shrinking and its growth trajectory could slow down.

It's important to note that Tesla still has a few catalysts up its sleeve including their constant innovation and a looming ride-share platform that they may launch along with their self-driving technology.

Xi gets angry

President Xi is reportedly quite angry at the Hong Kong based company that is planning to sell ports in the Panama Canal to BlackRock. Reportedly the Chinese leader was going to use the Panama Canal as a bargaining chip in discussions with Trump regarding trade policy, and tariffs.

The sale of these ports was announced earlier this month. In Trump's days as President-elect, returning the Panama Canal to American hands was a strategic move he was focused on. Trump claimed the U.S. did not mean for it to ever get into the hands of the Chinese.

CK Hutchison, the Hong Kong company that is selling the ports is not incorporated in China or Hong Kong so it is unclear how Chinese authorities will try to stall this sale. The assets CK Hutchison is selling are not in China and the company is incorporated in the Cayman Islands. Beijing directed multiple agencies on Tuesday to examine the transaction, according to Bloomberg News. Numerous high-ranking Chinese leaders have stated this deal goes against the national interests of China.

Earlier this month, the group of investors led by BlackRock said it would spend $22.8 billion to buy the ports of Balboa and Cristobal on either end of the Panama Canal from CK Hutchison, as well as its controlling interest in 43 other ports comprising 199 berths in 23 countries.

Trump applauded the purchase by BlackRock when it was originally announced stating that the control of the Panama Canal should be in American hands.

The $22.8 billion deal isn't yet final. The companies have said they hope to sign definitive documents by April 2nd before the deal will be subject to regulatory approval.

Alphabet dives into security

Alphabet announced an acquisition on Tuesday that seemed to irritate investors. The technology firm announced they are acquiring cybersecurity firm Wiz for $32 billion. This is Alphabet doubling down on cybersecurity as it looks to gain an edge against Microsoft and Amazon in the cloud computing space. This is Alphabet's largest acquisition ever; the previous high came in 2012 when they bought Motorola for $12.5 billion.

Alphabet's shares continued their 2025 decline after this deal was announced on Tuesday. Alphabet shares are now down 15% in 2025 after rising 35% last year.

The purchase price is much higher than the $23 billion Alphabet offered Wiz just last year before antitrust worries forced the two parties to pause negotiations. We warned our readers that a Trump administration would see more deals as many were held up or rejected under Biden's administration.

This deal is an all-cash offer from Alphabet and is quite pricey according to insiders. Wiz has been one of the fastest-growing software startups and was last valued at $12-16 billion last May (according to a private raise). After the Wiz-Alphabet deal fell through last year, Wiz reportedly was looking into an IPO and focused on increasing recurring revenue. Fast forward a few months and they pivoted back and found their exit.

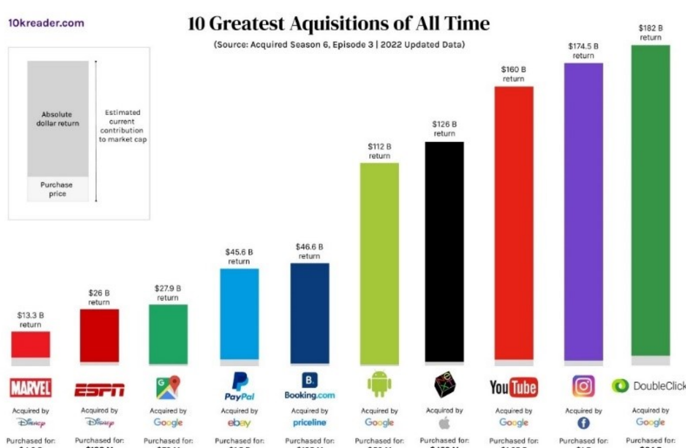
The deal is also the latest by Alphabet to bolster its cybersecurity offerings. In 2022, the company acquired Mandiant for $5.4 billion, outbidding Microsoft in a high-stakes contest.

Wiz works with major cloud providers such as Amazon Web Services, Microsoft's Azure, Oracle as well as Google Cloud, and has customers which include Morgan Stanley, BMW, and luxury powerhouse LVMH. Wiz was founded in 2020, and its venture investors include Sequoia Capital, Andreessen Horowitz, Index Ventures, and Greenoaks. In other words, Wiz's investors are the who's who of Silicon Valley.

Many question why Alphabet made this move as they are paying a premium for a company that accounts for 4% of their market cap instead of being opportunistic and buying back their shares at multi-month lows while they trade at their cheapest levels in numerous years. Alphabet is trading below 18x, 2025 earnings.

The deal is expected to close in 2026 when Wiz will join Alphabet's cloud unit.

We will warn our readers that it might be time to consider Alphabet purely on valuation. We should also say that Alphabet has made some of the strongest acquisitions in history in terms of realized returns. This list was circulating X on Tuesday and highlights some of their acquisitions over the years:



We will say the list is subjective and the deals on here are by no means the best deals ever in our opinion. The raw numbers are the reason we want to share this image.

This pending deal's biggest winners are Wiz's management team, its investors, and the bankers who advised the deal.

A successful Wiz acquisition would be a promising sign for venture capitalists who have struggled to turn a profit after a yearslong drought in the IPO and M&A market.

Sportsbooks hoping for a good March

As we head into mid-March, the NCAA Tournament will catch a lot of attention across the U.S. and Canada. March Madness is a remarkable event that has everything a sports fan would want, parody, upsets, emotion, and gambling. In recent years the Women's tournament has also garnered a lot of attention due to the growth of the game and some marquee players including Caitlin Clark.

We all know how much sports are intertwined with sports gambling in today's world. As gambling has become legalized across the world (and in more states), consumers have flocked to sports betting. The Super Bowl, Masters, Kentucky Derby, and March Madness are a few of the largest bet events. However, with the tournament starting this weekend, sportsbooks are hoping for some big wins.

Sportsbooks are hurting, they reported major losses during the NFL season. According to industry reports, the 2024-25 NFL season was the most successful betting season ever for fans. Sportsbooks described the season as consumer friendly. This has led to pull backs in the stocks of numerous sportsbooks including FanDuel and DraftKings. The successful year for fans was capped off by the most successful betting Super Bowl ever.

On a recent earnings call the DraftKings CEO said last years March Madness tournament was also unfriendly for online sportsbooks, a slight warning to investors. An estimated $3.1 billion is expected to be legally wagered on the men's and women's college basketball tournaments this year, a 14.8% increase from $2.7 billion in 2024, according to the American Gaming Association, a gambling-industry group. If online sportsbooks have another poor performance, investors could hit the exit doors.

Last year, online sportsbooks saw losses as the tournament favourite won which consumers were heavily backing. If a Cinderella story can go all the way it could be a big payout for sportsbooks.

On a side note, Warren Buffett is once again offering $1 billion to anyone who fills out a perfect bracket. The odds of someone filling out a perfect bracket for either tournament is 1 in 9.2 quintillion. Buffett has also offered a $1 million prize to anybody who correctly predicts 30 of the 32 first-round games. "Just think of the excitement it would create all over the place if somebody gets a million instead," Buffet told the Wall Street Journal the day after brackets were finalized. "I hope it's this year. We made it easier this year than ever."

We along with Buffett hope somebody cashes in on this prize. We hope you enjoy the tournament and remind all our readers to bet responsibly.

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