

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.

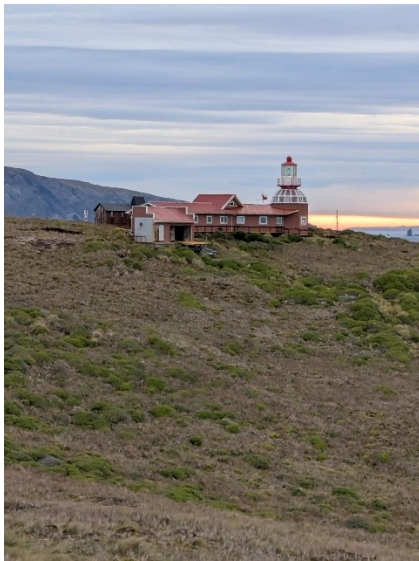


MACNICOL & ASSOCIATES
ASSET MANAGEMENT

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 Horn via Australis Cruises from Jerry B.

The lighthouse is the most southerly in the world. It is on the final island at the tip of the Darwin Mountain Range. The lighthouse is still manned by and supplied by the Chilean navy. One Officer lives there with their family in a year tour of duty. The current keeper has been there 3 years with his two children. One teenager and one soon to be teenager. They maintain the lighthouse and the 200 steps to the landing beach. There is also a helipad. The island also has a large sculpture representing an Albatross at its very tip.



El Rincón Lighthouse, Buenos Aires, Argentina

This lighthouse is an active lighthouse that stands at a height of 203 feet tall. The concrete lighthouse was constructed in 1925. The lighthouse remains one of the tallest concrete light structures in the world.

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

Do not panic

After all that has happened over the last week, we encourage our clients and soon to be clients to remain patient and calm. Volatility happens and market downturns occur. It is essential to know what you own, diversify your portfolios, and not panic. We think the positions we hold are of high quality, some have had significant dips not due to being of low quality or being exposed to tariffs but because of contagion across global markets. We are not extremely surprised that markets have been volatile and are teetering on the edge of entering a bear market. We have thought markets have been fragile for quite some time and presumed some overarching event (like tariffs) could be the trigger for some major volatility and an overall downturn. It's no secret we have thought markets had become too expensive; we shared charts every week that highlighted our thesis in that aspect. It's no surprise the most expensive names have seen the largest downturns over the last few days.

We expect volatility across markets to remain heightened moving forward. The tariff conversation is nowhere close to being over and Trump seems to believe these tariffs are good for Americans and will have a positive economic outcome. Perhaps the best resolution to this issue is fewer restrictions on trade moving forward (one can hope we get there eventually). We will warn our readers that now might not be the time to start buying in volume. However, do not panic and rush to sell. We think staying put in quality names while maintaining diversified portfolios is the current best way forward. It is important to remain impartial and not follow all the noise, as there will be rumors daily regarding tariffs and they will certainly sway markets. Stay calm and do not panic.

A lesson on overreacting

On Monday, markets opened lower once again as the global trade war intensified. Asian and European markets were down by more than 9% overnight. These poor returns bled into the North American market as investors sold off everything at the open. This sentiment made some sense as the rhetoric over the weekend from some Wall Streeters and media members warned of a 'Black Monday 2.0'. We thought that warning was more of a fear tactic than a reality. However, the fear tactic worked for only an hour. That is because around 10:20 am a rumor circulated that Trump's administration was considering a 90-day pause on all tariffs except for China. The rumor was reportedly initiated on X from an anonymous account focused on financial markets. Markets immediately erased their losses and moved higher. These gains were short-lived as markets tumbled on reports from Trump and his insiders that the previous headline was false and there would be no tariff pause. The moves by stocks were dramatic, trillions in value were gained and subsequently erased in a matter of minutes.



Palantir shares erased from being down 10% to being up 10% in 15 minutes on the original headline before crashing on the second headline.

Market participants are more reactionary than ever and cannot look through the short-term noise. U.S. markets are the most liquid in the world and we are seeing trillion-dollar swings daily. It is more important than ever to not overreact to a headline or rumor.

This false rumor that had no substance more than likely led traders, investors, and institutions to buy the dip and get optimistic about a market turnaround. Fast forward a few minutes and the headline completely changed and caused these buyer's further pain.

Do not overreact and attempt to perfectly time the bottom. No investor, how good they are can perfectly do that, if they do, it is by chance.

U.S. Steel boost

While markets opened lower on Monday due to investor worry about tariffs, U.S. Steel moved higher. U.S. Steel shares gained over 16% on Monday on news that the Trump administration will rereview Nippon Steel's offer to buy the company out.

If you are a long-time reader of this publication, you know we own U.S. Steel shares and the entire story behind U.S. Steel in certain accounts. The company is a Pennsylvania-based steel producer that was founded in 1901. Two years ago, Nippon Steel (a Japanese competitor) made an offer to buy U.S. Steel. Despite promises to keep manufacturing in the U.S. from Nippon, the Biden administration rejected the acquisition for national security reasons.

Despite the deal falling apart, we remained bullish on U.S. Steel. The company continues to grow, trades at attractive multiples, and its products continue to be in high demand. We also mentioned the potential for a re-engagement between Nippon and U.S. Steel under the Trump administration and the potential for a larger U.S. steel producer like Cleveland-Cliffs to acquire U.S. Steel as potential catalysts for the company. These are some of the reasons we have continued to hold U.S. Steel. Ironically late last summer, Trump also opposed the deal, but the president appeared to soften his position in February during a meeting with Japanese Prime Minister Shigeru Ishiba.

Back to Monday's news - President Trump ordered a U.S. national security panel to take a fresh look at the acquisition offer to see if further action might be appropriate.

Nippon Steel shares also jumped on the news on Monday, Nippon shares trade on the Tokyo exchange. The company said it is happy with the announced fact-based review of the proposal by the Trump administration.

The original terms of the acquisition included a \$14.9 billion buyout, a nice premium on U.S. Steel's current market value.

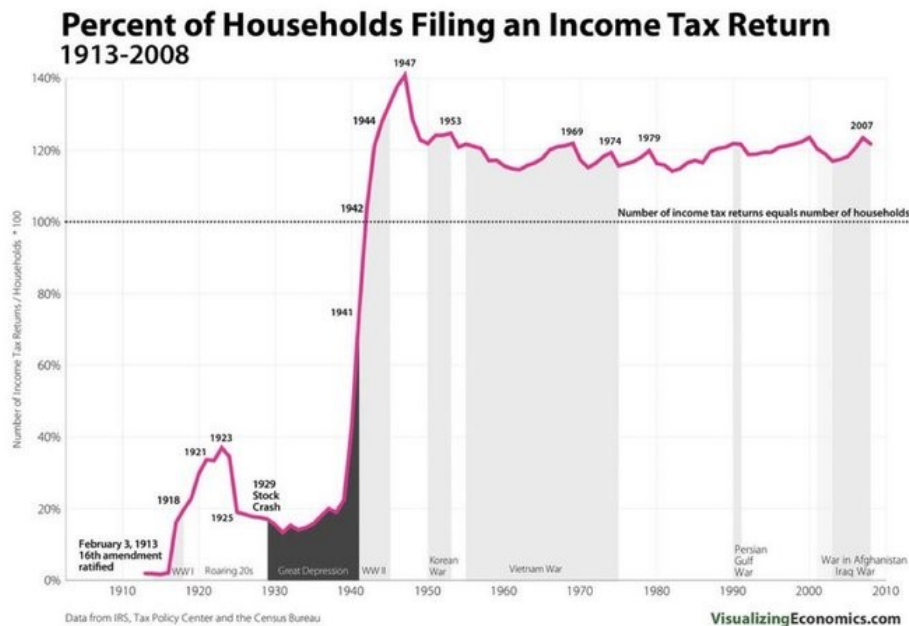
U.S. Steel shares are up 38% year-to-date and are at a 52-week high (as of Tuesday afternoon). Regardless of whether this deal is approved, we think U.S. Steel has an upside from here.

And just like that Trump threw some cool water on the Nippon deal on Thursday morning. We still remain bullish on the company and will wait out the overreactions from investors. U.S. Steel trades at an attractive valuation, the company is also an acquisition target for a few U.S. steel producers (Nippon is based in Japan and selling a U.S. company to them poses a national security risk according to experts).

Disclaimer: MacNicol & Associates Asset Management Inc. holds shares of U.S. Steel (NYSE: X) across various client accounts.

The history of American taxation

As the world adjusts to Trump's retaliatory tariffs and a looming global trade war, we share an image that many Trump loyalists have talked about over the last year.



Trump and his cronies believe an increase in tariffs will help shrink the U.S. deficit and will allow for a reduction in taxes. They state that originally all government revenue in the U.S. came from tariffs, not taxes. The chart above shows that only 20% of Americans paid taxes in the mid-1930s. Today everyone pays taxes, it's something that has become routine. Tax laws force our employers to tax us before we get paid, and we file our returns every April (reminder to file your taxes). So, when did this pivot happen from tariffs to taxes? It happened during World War 2 when the government needed more money to finance their war efforts. At the time and looking back this made sense, the U.S. and its allies were fighting for freedom, and they needed to increase spending. However, once the government knew it could install a broad-reaching tax system, it never reversed course. The government originally used taxes for dire and necessary needs, but soon necessary needs became anything governments could get their hands on.

We are not supporting broad-reaching tariffs. We simply wanted to share a chart that many Trump insiders talk about when they share their support for tariffs and how they could replace or decrease taxes.

Attractive gold

Gold prices reversed over the last week as the market pulled back by almost 10%. Reportedly the price of gold pulled back due to investors selling off their positions in gold due to margin calls. The GDX ETF had its largest outflow since the Covid crash last week. We think this price action is very overdone, and it presents an attractive entry point for investors.

Gold is still an attractive investment, especially in today's environment. Despite the broad market pullback and numerous margin calls, gold is still trading above \$3,000/oz. Many of the miners are still producing gold for \$1,500/oz. Those margins cannot be beaten, and those cash flows are highly attractive moving forward. Central Banks around the world and institutional investor demand provide a floor for the price of gold as the shine on the U.S. dollar and Treasuries continues to fade.

Goldman stated that long gold is their highest conviction trade after the recent decline in gold prices. Goldman believes the U.S. government's reciprocal tariffs will weigh on global growth and believes defensive assets like gold will outperform. Gold and other precious metals have been exempted from Trump's tariffs.

Disclaimer: MacNicol & Associates hold physical gold, gold ETFs, and gold mining stocks across most client accounts.

Watch treasury yields

Trump 2.0 has been highlighted by uncertainty and volatility. Every market participant is attempting to forecast their next move (as are we). However, it is much harder to forecast unpredictability than we thought.

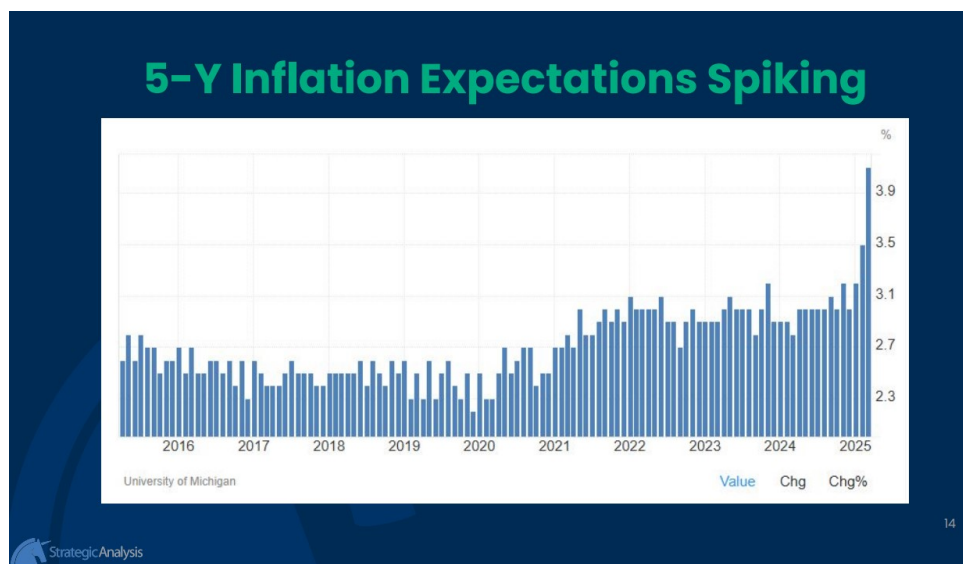
The uncertainty caused by global tariffs and a potential trade war has led to lower equity prices. This uncertainty has led investors to buy bonds in bulk as they rotate out of risky assets into low-risk assets like U.S. Treasuries. This has led to falling interest rates despite the Federal Reserve remaining firm on pausing interest cuts. The U.S. 10-year Treasury yield decreased from 4.8% to below 4% from Trump's first days in office to last week. We have highlighted why lower yields are a major focus for the Trump administration. The administration must refinance a mountain of debt maturing this year, they want to lock in a low rate.

Unfortunately, these low rates were short-lived. U.S. Treasury Yields began breaking out on Monday and continued this trend throughout this week, the U.S. 10-year rate increased by almost 50 basis points (0.5%) in 3 days. The U.S. 30-year yield rose (in a day) the most in more than 40 years on Wednesday. While many follow equity market prices, these bond yield moves impact everything and paint a grim picture. The moves of this magnitude could have a severe impact on the world's economy. Suddenly the

uncertainty in equity markets is also causing uncertainty in the debt markets. The S&P 500 was outperforming the iShares 20+ Year Treasury Bond ETF by a wide margin this week (as of Wednesday afternoon).

We think this increase in the yield curve is more than likely due to a blend of factors; inflationary fears, a large holder liquidating (Central Banks around the World ... China?), or hedge funds / large institutions facing margin calls or selling for another reason.

We have mentioned that inflation fears have begun to increase due to tariffs. According to the University of Michigan, consumer 5-year inflation expectations are at their highest point in over 10 years (and it's not even close). As inflation expectations increase, investors anticipate higher yields to combat them.



Hedge funds and large financial institutions are facing margin calls on their positions due to the pullback in risky assets over the last few months, especially with the hard pullback we have seen over the last week. According to Bloomberg, hedge funds are seeing tighter margin requirements from their prime brokers. These tighter requirements and the unwinding of the basis trade is leading to surging rates overnight. Hedge fund managers are also dumping Treasuries over fears that Central Banks around the world will continue to shrink their holdings of U.S. Treasuries including the People's Bank of China.

Hedge funds are hit by Lehman-style margin calls as Trump's 10 percent global tariff kicks in

- **READ MORE:** [Trump's global tariff takes effect in dramatic US trade shift](#)
- **PODCAST:** Trump's 'Liberation Day' Tariffs, plus shock call for Death Penalty in Luigi Mangioni case. [Listen to Welcome to MAGAland here.](#)

By [SAMANTHA RUTT FOR DAILYMAIL.COM](#)

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The last reason yields are on the rise and the most important factor is a large holder like a global Central Bank is dumping their Treasury holdings. There have been lots of rumors that China's Central Bank is dumping U.S. Treasuries due to the trade war and a collapsing Yuan. China is the second largest foreign holder of U.S. debt behind Japan. The U.S. dollar is at its strongest point against the Yuan since 2007. The Chinese need to stop the bleeding. The Chinese government has also been buying everything across their equity markets to artificially prop them up. The government has also told Chinese banks to sell U.S. dollars to slow the collapse of the Yuan.

China has been accused of manipulating its currency for years. They devalue the Yuan to undercut competitors. Trump's increased tariffs on China bring the true cost of Chinese imports back up to what they would be. Many believe a devaluation of the Yuan is imminent. Before you ask, "How do you devalue a currency?", we will explain, that a currency can be devalued through lower interest rates, quantitative easing, controlling capital flows, and influencing investor sentiment. China's government limits the Yuan's movement against the dollar as the Yuan is not freely traded.

Secretary Bessent has been warning China in recent interviews to not devalue their currency in response to tariffs and has stated everything could be on the table regarding a trade war with China. Bessent and many investors know the Chinese economy remains weak and its issues from a few years ago remain. The country continues to see foreign outflows and their only support for their flailing Yuan, equity markets, and real estate market is the government. The collapse of the Yuan could be imminent and could severely slow China's growth. Perhaps, stopping China and decreasing their global soft power is the real reason Bessent and Trump are using tariffs.

For those that do not know, Secretary Bessent was responsible for the research that led to the Pound short in the mid-1990s by George Soros's fund. Soros's fund went short the Pound and arguably broke the Bank of England. Soros's fund made a huge profitable bet against the Pound and caused a developed market to have a currency crisis. Bessent was reportedly responsible for the research of this position. Is Bessent trying to repeat history, this time with the Yuan, not the Pound, and for national security reasons, not profit?

We know this last piece is a lot of information, so if you have any questions, feel free to contact us.

MacNicol & Associates Asset Management

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