THE WEEKLY BEACON	May 2 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.

Planier Light, Marseille, France

This lighthouse stands at a height of 216 feet and is the world's 12th tallest traditional lighthouse. The original lighthouse was built in 1326 and is only accessible by boat. The site is closed to the public.

Penmarc'h Lighthouse, Penmarch, France

This lighthouse stands at 65 meters tall. The tower was built in 1882. The lighthouse was rebuilt in 1897 and takes 307 steps to climb to the top. The lighthouse has a nautical range of 23 miles.

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

It all comes down to this

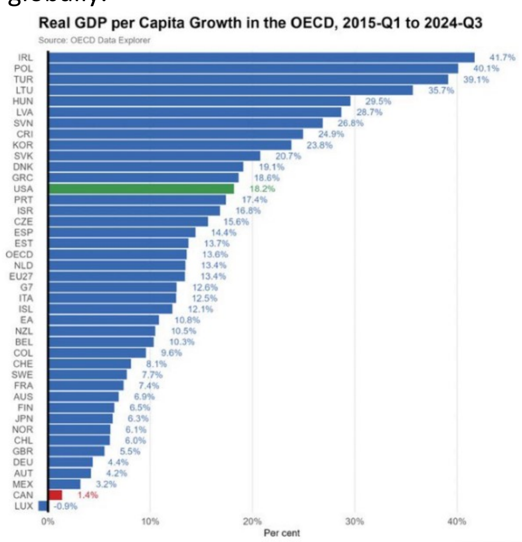
On Monday, millions of Canadians head to the polls to elect a new Parliament just weeks after Mark Carney was sworn in as Prime Minister following Justin Trudeau's resignation. After over a year of Conservatives polling way ahead, Trudeau's resignation reversed polls, as the Liberals have enjoyed a comfortable lead, according to major pollsters over the past few months. We are writing this on election day before any results have been released. We have no clue what will happen, but we hope all Canadians vote and practice their democratic rights.

The looming factor that has greatly impacted our election has been the rhetoric of the Trump administration which has targeted Canada with tariffs and even called us a U.S. 51st State.

And just like that the Liberals won a slim minority government on Monday. This is the 4th straight election win for the Canadian Liberal Party. The liberal party made some gains compared to 2021 and so did the Conservatives. The real story of the night was the collapse of the NDP (a progressive party) and decreased support for the Blob-Quebecois. If you know Canadian politics, you know the NDP is the reason we did not get an election over the last year or so. The NDP was propping up the old Liberal party through a Parliament partnership. The NDP did not even reach official party status on Monday.

We will have to see what happens moving forward with a fourth Liberal mandate, this time under Mark Carney. Increasing Canada's productivity and improving economic conditions should be Mark Carney's focus. The Canadian economy on a per capita basis has significantly underperformed other global economies over the last decade. Productivity is a real issue in Canada that this government needs to solve.

Here is a graph that depicts real GDP per capita growth from 2015 to 2024. Canada ranks second worst amongst industrialized nations globally.



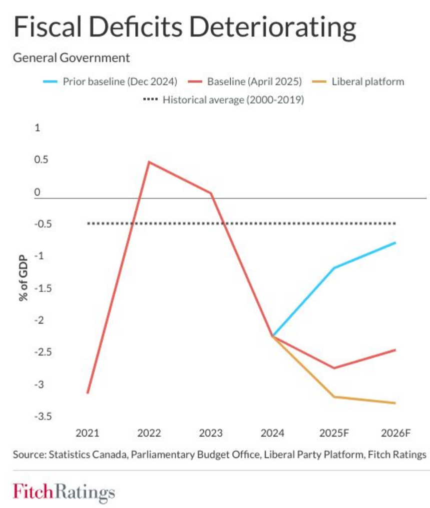
This is a real issue that needs a solution. The Trudeau government did not foster economic growth and stunted innovation. Over the same period, the public sector in Canada has grown where approximately

1 in 4 workers in Canada are now employed by the government. This is completely unsustainable and paints a grim picture for Canada down the line.

We hope for our great country that we get back on the right track after Monday's election.

Unfortunately, our hopes got off to a rough start as Fitch, the credit rating agency released on Tuesday that Carney and the Liberal's spending plan would downgrade Canada's credit rating. Fitch was the first credit rating agency to downgrade Canada's rating during this cycle. They downgraded Canada's rating from AAA to AA+ in July 2020. We hope this warning leads Carney and the Liberals to pull back on their spending plan because their proposed budget and deficits could significantly impact our country's creditworthiness, devalue our Loonie, and impact foreign investment.

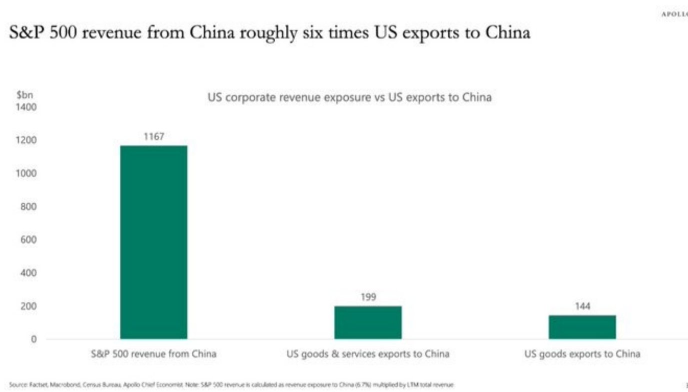
Here is Fitch's research on Canada's deteriorating fiscal deficit, check out the forecasted decrease according to the existing Liberal platform:



Fitch, as a reputable firm, did not release this before the election so they did not interfere in the election.

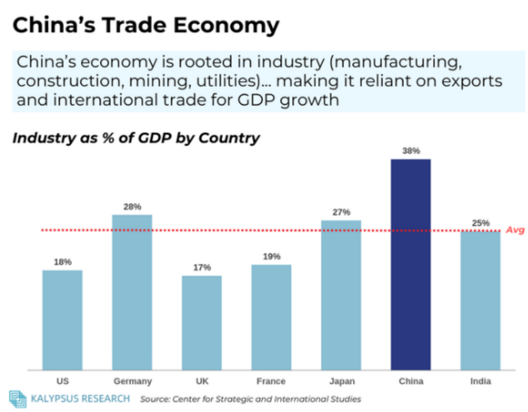
The real impact of tariffs

If the global economy eventually fractures and global trade slows, investors will be the most hurt by tariffs and other trade barriers. As globalization has increased in recent decades so have corporate profits. U.S. companies now source a chunk of their revenue from international markets including China. Approximately $1.167 trillion of the S&P 500's revenue comes from China. According to Factset, China's proportion of the S&P 500's overall revenue is 4.5-6.7%. That might be a small number of the pie, but it could be impactful if China turns up the rhetoric on Trump and U.S. companies.



U.S. companies have a much larger exposure to China than China has to the overall U.S. economy (measured by Chinese imports of U.S. goods and services). However, China does have a problem. What if Americans stop or slow down their purchases of Chinese goods? China is vastly dependent on exports; its largest importer is the U.S. China needs its largest customer to continue purchasing goods and services to maintain growth. This is especially important today as the Chinese economy has already shown signs of weakness in recent years.

China's economy relies on trade more than any other major economy due to its cheap labor, innovation, and vast resources.



On Monday, a few Chinese retailers raised their prices for U.S. consumers due to tariffs. The price increases are substantial, and we have a feeling that consumers (especially young ones who utilize e-commerce more often) will notice. Below are price changes for select Temu and Shein goods:

Import Tariffs Weigh on Temu Shopping Cart in the US

Import charges are higher than product prices for non-local items

Item	Price	Import charges	Import charges vs price ratio
14-in-1 power strip with surge protection and one-touch control	$19.49	$27.56	1.41x
Women's 3-pack high-stretch athletic biker shorts	27.81	38.18	1.37
3pcs women's high-waisted capri yoga pants	28.31	38.31	1.35
Women's breathable mesh slide sandals	13.23	17.89	1.35
Multi-function power outlet with overload protector	19.43	26.23	1.35
Washable 6ft outdoor table cover with elastic edges	10.30	13.88	1.35
3-in-1 portable air conditioner, humidifier & fan	30.67	39.67	1.29
In-car vacuum car wired 12v car powerful handheld	17.72	22.78	1.29
Handheld steam iron for clothes	25.80	32.10	1.24
Soft quilted sofa cushion	28.89	35.56	1.23
Portable high-pressure hose spray gun	12.45	15.04	1.21
115-in-1 upgrade screwdriver set	16.96	20.24	1.19
Space-saving 2-tier pull-out organizer	24.19	27.49	1.14
Dual-compartment raised garden bed kit	66.03	67.89	1.03
Total for 14 items	**341.28**	**422.82**	**1.24**

Source: Bloomberg

Biggest Price Jumps Observed Among Most Popular Items

% price change for some Shein listings on April 25 in the US

Item name	Price change	April 24	April 25
Thick kitchen cleaning towels	+377%	$1.28	$6.10
Blinds air conditioning gap brush	219	0.80	2.55
Manual chicken/meat shredder	210	2.91	9.02
Wax strips and post-wax wipes	205	1.31	4.00
Eyebrow gel, natural effect	199	0.97	2.90
Collagen anti cracking lip balm	180	1.07	3.00
Ultra-fine blackhead remover tweezers	168	0.57	1.53
Eyelash shaper tool	152	0.44	1.11
Press on toenails glossy white	150	1.12	2.80
Sweet mint matte pearl shimmering eyeshadow stick	141	1.45	3.50
Razor holder for no-drill shaving	141	0.46	1.11

Source: Bloomberg
Note: The biggest jumps observed among most popular items in beauty & health, home & kitchen, toys & games and women's clothing categories.

Talk about immediate inflation and less discretionary spending (at least on Chinese goods).

On Tuesday, a large U.S. firm went a step further and announced that shoppers will be able to see the real price difference of items due to tariffs. Amazon, a major online retailer that will be impacted by pending tariffs, seemingly wanted to get ahead of customer complaints. Approximately 70% of products sold on Amazon are made in China. This planned transparency by Amazon was not applauded by the Trump administration. Members of Trump's circle called Amazon's plans a hostile act, a partisan act, and accused the company of hiring a Chinese propaganda arm. Not even an hour later Amazon released a statement stating they were never planning to make these changes, they were internal discussions that were being considered by members of the team that operates and leads Amazon's low-cost store, Amazon Haul.

Even without the listed price differences, consumers will notice the price increases on Amazon and may forego their old purchases and look for cheaper alternatives.

<u>Weak economic data</u>

On Wednesday, the first estimate of the first quarter's inflation-adjusted GDP growth rate was released by the Bureau of Economic Analysis. GDP growth rates are released and revised a few times with updated data after a quarter. Economists expected 0.8% growth in the GDP during Q1 (according to FactSet), instead the U.S. economy *contracted* by 0.3% over that period. The Bureau said the contraction was mostly driven by a large increase in imports which drags GDP growth. Government spending also pulled back with the new administration's focus on cutting bureaucracy and federal funding. The 0.3% pullback is not as bad as you think when you dive into the data. Companies were front-running tariffs and mass importing; this trend will not persist, and tariffs are meant to shrink a country's trade deficit.

This quarterly GDP contraction was the first negative quarter for the U.S. in 3 years.

A soft jobs report was also released this week where the U.S. added fewer jobs in April than it did in March (62,000 vs. 147,000 in March) and April's number came well below forecasts (120,000).

The report follows a rise in initial jobless claims, according to weekly figures set out at the end of last week.

Equity markets moved lower on these economic data points being released on Wednesday as investors began to realize that the tariffs, instability, and irrationality of Trump's economic policies could negatively impact the U.S. economy.

In an unsurprising rant, Trump blamed Biden for the poor performance of the stock market this year stating that the Biden "overhang" has been negatively impacting the country's economic numbers and the stock market. You cannot make this stuff up; it is getting comical at this point:

Later in the day, Trump went further front running the second quarter economic data blaming potential poor numbers also on the Biden administration. Trump also said he is off to the best start as President ever despite poor economic data beginning to pile up. We will have to see if the tariffs and negotiations end up working out in the long run. For now, we think they will cause volatility, uncertainty, and inflation. Inflation has not picked up due to the delayed impact of tariffs. Inflation has cooled under Trump's first few months due to some products including energy, and shelter moving lower or flat in recent months.

<u>A consistent compounder</u>

Visa reported earnings on Tuesday evening and the credit card provider once again beat on earnings per share and revenue estimates. Earnings per share jumped 10% year-over-year and revenue jumped 9% over the same period. Visa's total processed transactions increased by 9% over the last year as they increased their market share globally. Visa's revenue growth was driven by payment volumes, cross-border volumes, and processed transactions. The company also approved a $30 billion share repurchase program. Visa said it bought back $4.5 billion worth of shares during Q1.

Visa shares moved higher on this earnings release on Wednesday. Shares are up 28% over the last year.

Visa kept their earnings forecast in line with their previous forecast which sees both earnings and revenue growth. This was a positive sign for investors as many were anticipating a downgrade in Visa's 2025 forecast due to overall consumer uncertainty.

Visa has created outsized returns for investors for over a decade. The company continues to grow and dominate its industry. We continue to watch the payment processing industry as innovation looks to be accelerating in the space. For now, Visa's outlook looks strong and its market share looks safe.

On a side note, Visa reportedly offered Apple almost $100 million in a bid to replace Mastercard as the provider of Apple's payment network. The Apple credit card that uses Mastercard's network is currently issued by Goldman Sachs.

During Visa's earnings call, the company highlighted a trend they have noticed regarding consumers recently. They highlighted consumer confidence metrics which have declined due to uncertainty but highlighted that spending remains strong and resilient and balance sheets for consumers remain relatively healthy. This spread between how consumers feel and are acting is something we will be monitoring very closely moving forward.

Disclaimer: MacNicol & Associates Asset Management holds shares of Visa across various client accounts.

Saudi Arabia not playing along

On Wednesday, oil prices dipped by 3% as Saudi Arabia signaled that they would increase production even with lower prices. We have highlighted over the past year that OPEC+ has cut production to prop prices up, and Saudi Arabia has cut their production to prop prices up for almost five years. They are reportedly done with that for now. We are glad we sold down some of our U.S. oil majors over the last few weeks as their pullback has continued. We still like some of our gas, pipelines, and Canadian oil plays moving forward. The Canadian oil names that we have held onto have lower production costs and are trading at much more attractive multiples.

We will have to see if Saudi Arabia is serious about this and will forego higher margins to increase market share. According to OPEC+ sources, Saudi Arabia is growing frustrated with the price action in the oil market and certain members continuing to overproduce including Iraq and Kazakhstan. The market remains tight, and oversupply has been removed due to cuts by some OPEC+ members including Saudi Arabia, yet prices have moved slightly lower. Perhaps this move by Saudi Arabia is a shot at the other members of OPEC+ and push for them to fall in line.

Saudi Arabia producers have extremely low break-even costs. However, their government relies on oil revenue to fund projects and other government initiatives. According to sources, Saudi Arabia is okay with pulling back on initiatives moving forward and will more than likely have to delay some of their projects with the recent oil price drop. According to the IMF, Saudia Arabia requires oil prices above $90 to balance its budget.

This move will hurt select OPEC+ the most as well as Russia who has seen its oil revenue shrink due to sanctions against the Kremlin over the last 3 years.

We remain bullish on oil producers and some oil companies in the mid-term. However, we think there could be some short-term volatility in the industry where certain producers see large pullbacks. It is more important than ever to know what you own in the energy industry and see where your exposure is. We know we do.

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