

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.

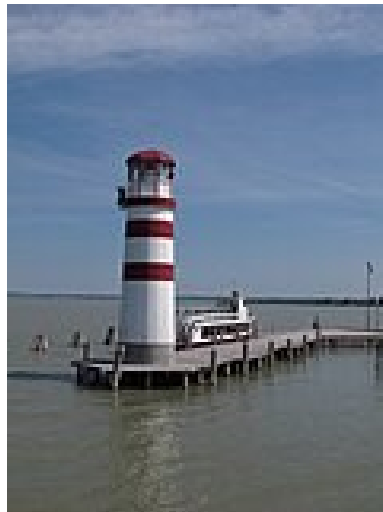


MACNICOL & ASSOCIATES
ASSET MANAGEMENT

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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.



Podersdorf Lighthouse, Podersdorf am See, Austria

This lighthouse was built in 1998 and sits on Lake Neusiedl standing at 11 meters tall. Austria is home to a limited number of lighthouses as the country is landlocked in Europe. However, there are a small number of lighthouses located on lakes which are navigated by passenger ships and leisure boats.



Adra Lighthouse, Adra, Almeria, Spain

This lighthouse is an active lighthouse located in southern Spain. The current structure was built in 1985 and is the third to have been constructed in this area. The first structure was built in 1899, and it washed away. The lighthouse stands at 49 meters tall.

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

Nvidia makes a splash

On Monday, Nvidia made a big splash as it announced a \$12 billion investment in OpenAI to support the expansion of artificial intelligence data center capacity. Nvidia's CEO Jensen Huang stated that this investment and partnership will mark the next leap forward in AI and will power the next era of intelligence.

TECH

Nvidia to Invest Up to \$100 Billion in OpenAI

Chip maker will make its investment in OpenAI to support data center and power capacity



PHOTO: JUSTIN SULLIVAN/GETTY IMAGES

Nvidia will invest up to \$100 billion in OpenAI and will deploy at least 10 gigawatts of Nvidia AI systems to train and run OpenAI's models. The deal also makes Nvidia the preferred computer and networking partner for OpenAI's AI factory growth plans. According to reports, Nvidia's investment in OpenAI does not confer control rights. Nvidia will invest the first 10% of this deal in OpenAI upon the deployment of 1 gigawatt.

The first phase of this partnership is projected to come online during the second half of 2026 using Nvidia's upcoming Vera Rubin platform. The two companies will finalize this deal and partnership in the coming weeks.

This is a huge bet for Nvidia in which it further entrenches itself into the AI landscape. Nvidia shares rose over 3% on Monday after this was announced.

This deal is quite circular, which is a major theme in AI in our eyes. Nvidia is investing in OpenAI so OpenAI can buy Nvidia chips and rent capacity from cloud providers who also buy chips from Nvidia. Nvidia's market cap is now also larger than the Canadian economy, which made major headlines last week. Nvidia has been on a generational run and could continue to run; however, this deal reflects underlying issues in the overall space. The deal reflects slowing demand and the circular nature that exists across the AI landscape. The mass capex and outsourcing of R&D will lead to much lower return on investment ratios for these companies in the short to medium term. This deal could work out, but it also could be a major sign of a changing industry.

This circular strategy is highly dependent on growth in the industry and adoption by consumers and enterprises. If growth and revenue adoption are slower than expected, this could get very messy down the line. We think AI in the long term will create tremendous economic value as applications are created, but that process could take some time.

This image circulated around X when the announcement was made and graphically explains part of the “circularity” in the AI industry:



We will say, we think some of the companies in this space still have tremendous value, but many are high risk.

Quality amongst the crowd

We often talk about quality assets when discussing certain investments we make. It is a pillar in our investment philosophy. We like unlocking value, strong management, high quality assets, and a strong market position. We think that these factors limit risk for us as investors even in highly cyclical industries. We bring this up this week as we are highlighting a very high-quality company that is in a cyclical industry that we own and wanted to discuss.

The company we are talking about is a Canadian natural gas producer headquartered in Alberta. The \$3.7 billion company focuses on Alberta’s Deep Basin and operates with an industry-leading low-cost structure that enables strong profitability despite the volatility in spot energy markets. The company has been and will continue to benefit from the growing demand for natural gas, driven by LNG ramp-ups across North America and the global shift to cleaner energy sources. PEY remains focused on long-term growth in LNG, where demand will grow globally and in North America through data center expansion.

The company we are talking about is Peyto Exploration (TSX: PEY). PEY is a leading Canadian energy firm that is committed to building value through the exploration and development of high-quality assets.

PEY shares trade at a discount compared to its peers at 11 times, trailing twelve-month earnings, and 7.4 times forward earnings.

PEY slightly missed earnings and revenue estimates over the last 2 quarters. However, share performance has remained strong. PEY's quarterly earnings reflect solid operational and financial performance, including production growth, higher realized prices, and growing revenue and cash flow over the last year. PEY reported a 70% operating margin and a 28% profit margin during the quarter. PEY's hedging strategy slightly offset natural gas price volatility during the quarter. In 2025, over 70% of the company's production is hedged at around \$4/Mcf which shields cash flows from volatility. This hedging strategy generates significant gains that stabilize income (something we think is a must in the energy sector). In the second quarter, PEY's hedging gains totaled \$52.6 million.

PEY has increased production by 8% over the last year, which was driven by new wells from the company's capital program. PEY's capital program (\$450-500 million) for 2025 supports stable production and revenue growth. The company is focused on drilling 70+ net wells this year. PEY's production growth is forecasted to be between 5% and 10%, which aligns well with its peers. However, PEY's efficient cost structure and exposure to premium markets (export and U.S. diversification) distinguish it relative to the industry. Analysts expect PEY revenue to grow by 19% annually through 2028, ahead of many competitors.

PEY has also delivered its balance sheet in recent quarters. The company has reduced debt through disciplined free cash flow generation and capital allocation. In its most recent quarter, interest and financing costs decreased 21% year-over-year, driven by a reduced debt load and the Bank of Canada's lowering of interest rates. PEY's strong cash flow performance allows the company to maintain its investments in growth without adding risk to its balance sheet.

These strong results helped management continue its monthly dividend. Shares continue to yield over 7%. PEY's share price is up 10% in 2025 and 26% over the last year. We think PEY shares have nice upside moving forward and do not present as much risk as most of the companies in their industry.

Market Summary > Peyto Exploration & Development Corp

18.82 CAD

+3.91 (26.22%) ↑ past year

Sep 23, 3:25 p.m. EDT • Disclaimer

+ Follow

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



Shares are slightly off their 52-week highs but have outperformed its peer group and sector:

iShares S&P/TSX Capped Energy Index ETF

TSE: XEG ⓘ

Market Summary > iShares S&P/TSX Capped Energy Index ETF

18.82 CAD

+1.58 (9.16%) ↑ past year

Sep 23, 3:26 p.m. EDT • Disclaimer

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



As always with energy companies, PEY is exposed to numerous risks, including geopolitical factors and natural gas price volatility. However, the firm's hedging program and diversified commodity exposure minimize these risks.

Disclaimer: MacNicol & Associates Asset Management holds shares of Peyto Exploration (PEY: TSX) across various client accounts.

Powell's thoughts on the economy

Federal Reserve Chairman Jerome Powell gave his first public remarks since the FED's interest rate cut last week. On Tuesday, Chairman Powell spoke in Rhode Island and gave investors some more insight into his thoughts. Powell noted a weakening labour market and economic outlook, as well as inflation remaining above 2%. He stated that this combination puts the FED in a tough position. He stated that "two-sided risks mean that there is no risk-free path" when discussing monetary policy decisions.



Powell stated that the economy is slowing down, pointing to employment, housing, and consumer spending as data points that reflect concern. However, Powell stated that the U.S. economy is showing resilience amid substantial changes in trade and immigration. Powell said that policy decisions are still

being made by the Trump administration, and their longer-term implications will take some time to be seen. Powell also said that tariffs have been passed through at a much lower rate than the FED anticipated.

Powell gave a little insight into the FED's next decision (in October), stating that their policy is not on a preset course and they will look at incoming data to form an opinion. This slightly differs from last week's dot plot, which points to a few more interest rate cuts to finish this year.

We think that there is a chance that rates remain in place in October, and we will only get one more cut in 2025. The FED has been hesitant to act early over the last few years when it comes to lowering rates. We think that will continue. We also think that the FED will not give in despite being pressured by the White House to lower rates.

China spends on AI

One of China's largest private firms made a huge announcement on Wednesday regarding artificial intelligence. Alibaba shares soared by 9% on the NYSE after the company announced plans to open new data centers abroad, increase AI spending, and unveiled a new AI language model.

Alibaba shares are in the midst of their best year in almost a decade, and there is a belief from analysts that this trend could continue.

The plans revealed that Alibaba plans to spend more than its allotted AI spending target of \$50 billion. This comes days after China banned Nvidia semiconductor chips and is the latest firm pledging a large sum toward the AI race. Alibaba will update its spending plan in the coming weeks.

Alibaba intends to launch its first data centers in Brazil, France, and the Netherlands in the coming year.

Alibaba is the latest Chinese firm to reaffirm its commitment to the AI industry. China's government has been pushing Chinese technology firms to increase spending on AI as the global AI race heats up. Total capex on AI infrastructure and services could top \$32 billion for the four largest technology firms in China. These Chinese companies, including Alibaba, are developing AI models. However, Chinese firms face a major dilemma right now regarding access to Nvidia's AI processors, which are needed to train advanced models. Alibaba has been developing its own hardware for years to wean off American suppliers. However, no technology is currently close to Nvidia's product offering. Last week, Huawei presented a three-year plan that laid out a roadmap for the company to challenge Nvidia's global dominance. We will say, it remains to be seen whether any of Huawei's claims and goals can be achieved, especially on a large scale.

U.S. seeks rare earth metal break up

It's no secret that China dominates the rare Earth metals industry. China has a monopoly on a high-demand industry. Their market position has allowed them to leverage the industry during tariff negotiations. While the U.S. dominates big tech and AI, China dominates a mining industry that is growing rapidly due to new technologies and innovation.

Globally, China controls more than 50% of global mining for rare metals and nearly 90% of the processing of the metals. China's strategic dominance stems from government investment, subsidies, advanced refining capabilities, and control over the entire supply chain. Rare earth metals are in high demand due to their scarcity and the number of applications. They are used in various electronics, clean energy technologies, defense, automotive, and aerospace.



This dominance by China has been a major focus of the Trump administration. They see this as a national security risk. This dependency by the U.S. and its allies on Chinese rare Earth metals is even worse than the dependency that Europe had on Russian energy (before the invasion of Ukraine). It's an issue that needs to be solved. We do not think that this is a pure American issue, we think it's a Western issue that other global leaders should be working to solve.

During Trump 2.0, some progress has been made in terms of the rare-earth metals industry. In July, the Department of Defense struck a deal with MP Materials, a U.S. producer that owns and operates a mine. The deal comes with a price floor and volume guarantees that are huge. This gives MP Materials a chance at competing with Chinese firms. The partnership provides MP Materials with capital and a price floor for what they produce.

The U.S. also reached a deal with Ukraine that will provide for the reconstruction fund with mining royalties.

On Wednesday morning, another deal was announced between the U.S. government and a North American mining company. According to reports, the U.S. government is seeking a 10% stake in Lithium Americas, a lithium miner headquartered in Vancouver. Lithium Americas is the majority owner of

Thacker Pass, a mine in Nevada. Thacker Pass is expected to become one of the largest sources of lithium in North America once it becomes operational. Thacker Pass is scheduled to begin operations in 2027, and Lithium Americas owns 62% of the mine. General Motors owns the other 38%.

While lithium is not a rare earth metal, it shows the consistent trend that continues to unfold in front of our eyes. There is a sprint to secure resources and a steady supply of them, especially in today's geopolitical landscape. This is the latest move by the Trump Administration that aims to control the mineral supply chain. This is the first time that the U.S. government has looked for equity in a non-U.S. mining company.

Lithium Americas shares jumped by 90% after this was reported. The equity stake comes as the miner renegotiates its terms on a loan from the Department of Energy. An official deal has not been finalized, but negotiations are being pushed forward. The deal will need Canadian approval.

This deal is the latest example of the U.S. attempting to compete with state-owned Chinese competition in critical metals.

MacNicol & Associates Asset Management
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