

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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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.



Blitvenica Lighthouse, Zirje, Croatia

This active lighthouse is located on the Croatian islet Blitvenica. The lighthouse was completed in 1872 and was automated in 1990. The lighthouse stands at 21 meters tall.



Homlungen Lighthouse, Hvaler, Ostfold, Norway

This fully automated lighthouse was originally constructed in 1867. The lighthouse was automated in 1952 and stands at 39 feet tall. The lighthouse has a nautical range of 22 km.

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

Hedge Funds' new weapon

According to numerous insiders, hedge funds are utilizing new data sources. The source of data is being coined a 'secret weapon' by many. The 'secret weapon' they are using is alternative data. For those who are unfamiliar, in finance, alternative data refers to information collected from non-traditional sources used to gain unique insights and predict performance beyond traditional company filings, reports, and official disclosures. Alternative data sources include satellite imagery, social media, transactional media, and other select sources. This new data is being collected by new-age companies that are, in turn, selling it to investors, which include hedge funds.

The alternative data is fast-growing, and investors hope to benefit from insights beyond those provided by traditional company filings and government reports.

Data pieces include credit card transactions, the number of travelers passing through security in airports, and semi-trailer truck movement data.

The use of this data by investors is not new. For decades, select funds have utilized unusual data sources in their research. The thing that has changed in the last 5 years regarding alternative data, according to insiders, is the volume, sophistication, and variety of data being collected and used. This change has been driven by advances in computer vision technology, language processing models, and web scraping tools, which can harvest larger and more complex data sets.

This new industry includes new companies, like Genlogs, a start-up that collects data on the movements of America's semi-trailer trucks, to companies that monitor blockchain activity, Reddit, and X feeds, and satellite imagery. Other companies include ImportGenius (trade and logistics data), Albedo Space (Satellite imagery), Similarweb (Internet search traffic), Placer.ai (Customer foot traffic), and YouGov (consumer survey data).

As the quality of data has improved, the investment community has embraced it. According to FreightWaves (a company that tracks global cargo data) CEO, their hedge fund business has grown by more than 100% year-over-year. Public market investors are not the only firms using this data; private equity firms are also using this data for a variety of reasons, including assessing potential acquisitions, setting insurance premiums, and picking new store locations.

According to Neudata, a data collector, investment firms will spend at least \$3.3 billion on alternative data in 2025. That number will grow substantially according to forecasters by 2030. A poll released by Lowenstein Sandler earlier this year stated that nearly two-thirds of institutional investors now use alternative data, double the share compared with two years ago. Bloomberg has stated that their alternative data has grown substantially over the last 2-3 years and is being driven by investor appetite.

Prices for these platforms vary but investors can expect to pay a pretty penny for access to these alternative data sets. According to insiders, the most expensive platforms can pay huge dividends to investment firms. Data set costs reportedly can cost over \$500,000.

According to industry experts, these data sets can help elite funds stay ahead of the pack. This is essentially a technological arms race between hedge funds and investment firms. The data is used by many quant investors who have incorporated these data sets into their financial models.

Many data providers and investment professionals argue that alt data is making financial markets more efficient. However, many argue the opposite. Investors are now weighing more data, much of which is noise or contradictory, which can often lead to incorrect interpretations. This data can make markets less efficient. For example, if a fund is using a social media data set, and many users are talking about a 'meme stock' or 'short squeeze', they can gain alpha but also make markets even less efficient. Another concern regarding alternative data that many are focusing on is privacy risk. The biggest privacy concern comes from investors collecting information on executives and employees of companies.

Although these data sets can assist investment firms with forecasting, there are major pitfalls in the growth of this industry. We think artificial intelligence will only accelerate the growth of this industry.

We continue to monitor various data sets and are actively weighing alternative data in terms of our overall investment process.

General Dynamics

A few weeks ago, we found a value play that we like in the industrials industry. That company is General Dynamics, a Virginia-based aerospace and defense company. The company operates in four main business segments: Aerospace, Marine systems, Combat systems, and Technologies. The company was founded in 1899 and currently employs 117,000 people worldwide. The company's product portfolio ranges from Gulfstream business jets to combat vehicles and nuclear-powered submarines. The company is a leader in the global defensive industry, giving the company a major strategic advantage.

As the U.S. government continues its defensive spending splurge, General Dynamics will greatly benefit. Trump's push for NATO to defend itself will also increase spending across the industry substantially over the next 5-10 years. General Dynamics has a strong backlog underpinning future revenues. Currently, the order backlog sits at \$103.7 billion. General Dynamics has reported strong numbers in recent quarters, growing revenue by 8.9% YoY and diluted EPS by 14.7% (as of the second quarter 2025). Revenue and earnings increased in all four business segments YoY in both quarters this year. Both are expected to increase when third-quarter numbers are reported. Over the last 12 months, General Dynamics has reported over \$50 billion in revenue and \$4.09 billion in net income. The company continues to maintain strong financial discipline driven by strong operating cash flows and debt reduction. General Dynamics company balances growth through reinvestment with shareholder payouts (shares yield 2.04%). The company has also conducted significant share buybacks in recent years; last year, it purchased \$1.57 billion in stock, and the board authorized a new repurchase authorization of 10 million shares announced last December.

The company trades at an attractive valuation relative to forward earnings (18.32x). The company also forecasts that earnings will grow annually by 8.9% through 2029, driven by higher revenue and margin expansion. GD's full-year revenue forecast for 2025 has increased by \$900 million from prior estimates,

reflecting strong demand and backlog execution. EPS are also expected to increase and beat original Street estimates.

GD's previously mentioned order backlog provides strong future revenue visibility; the backlog increased by 14% over the last year, reflecting strong order inflows. We think this strong backlog is a solid foundation for GD in the midterm; it will allow the company to meet or exceed guidance and manage risk from potentially weak macroeconomic conditions. The commitments and orders being made by governments today will take time to complete; this increased defense spending is not going anywhere. We think we are in the early stages of a mass global defensive spending spree. As global conflicts accelerate, expect security and safety to remain priorities for voters in countries across the world. Many nations across the world have dropped the ball in recent decades and have neglected spending on defense. We think that is a mistake and could cost them. This recent spending push comes at the right time in our eyes. In today's world, security and defense must be a priority, especially with everything that has happened over the last 20 years.

The company is a major contractor of the federal government. In 2024, a significant amount of General Dynamics' revenue came from the U.S. government. However, General Dynamics is less reliant on government revenue than two of its largest competitors, Lockheed Martin and Northrop Grumman. In terms of risks that GD is exposed to, the company is exposed to supply chain and production constraints, geopolitical pressures, technological challenges, contractual risks, and overall market risk.

Despite these risks, we think GD presents a compelling opportunity even at today's stock price. The risk-reward setup for GD remains highly attractive in our eyes. According to our risk rating system, GD shares have a risk rating of three out of five. Our risk rating system grades securities based on fundamental and technical factors. This security is suitable for investors with risk tolerances that are high, medium to high, medium, and low to medium when combined in a well-diversified portfolio.

Shares are up 9% over the last year and 23% so far in 2025.

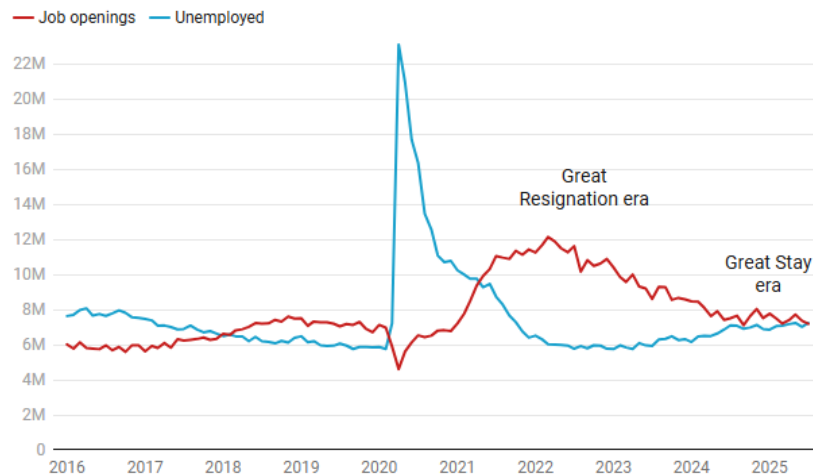
Disclaimer: MacNicol & Associates Asset Management holds shares of General Dynamics (GD: NYSE) across various client accounts.

Update on the job market

The U.S. job market continues to cool. According to data from the Bureau of Labour Statistics, July's employment data revealed that there are now more unemployed people than job openings. This is the first time this has happened since April 2021.

The U.S. has more unemployed people than job openings for the first time since April 2021.

In July the U.S. had 7.18 million job openings and 7.24 million unemployed workers.



Job openings remain at healthy levels but have fallen steadily since March 2022.

Employers are hiring at a slower rate due to the 11 interest rate hikes that the FED conducted in 2022 and 2023, and economic uncertainty being driven by macroeconomic factors.

The job market is currently the worst for young people, especially those who are freshly graduated from post-secondary institutions.

We think the FED will give some weight to this weak job market data when making monetary policy decisions this fall, which begins later this month.

Alphabet's win

Alphabet got a huge win this week that caught many investors off guard. The company received its ruling from the federal district court judge in the U.S. versus Google case. The court released a limited set of remedies to mitigate Google's monopoly on Internet search. Those remedies do not include selling Chrome. Many believed that the government would force the sale of Chrome due to the company's market dominance and anti-competitive behaviour. Another part of the ruling that was very closely watched also benefited Alphabet; Alphabet will not be barred from paying Apple to make Google the default search provider on its devices. Alphabet will also not be barred from making payments to distribution partners for preloading Google Search, Chrome, or GENAI products. Despite some major wins, this ruling delivered some minor losses to Alphabet. The company will be barred from entering exclusive contracts that relate to the distribution of their platforms, and they will have to share certain search index data with competitors. Alphabet sharing select search index data could greatly benefit AI search platforms like OpenAI and Perplexity.

In the judge's decision, he claimed that "the emergence of GenAI changed the course of this case." The decision in this case recognizes the growth of AI chat boxes, which are changing how people get information. Alphabet essentially argued that competition in the search engine industry is tough and is becoming tighter with the emergence of AI.

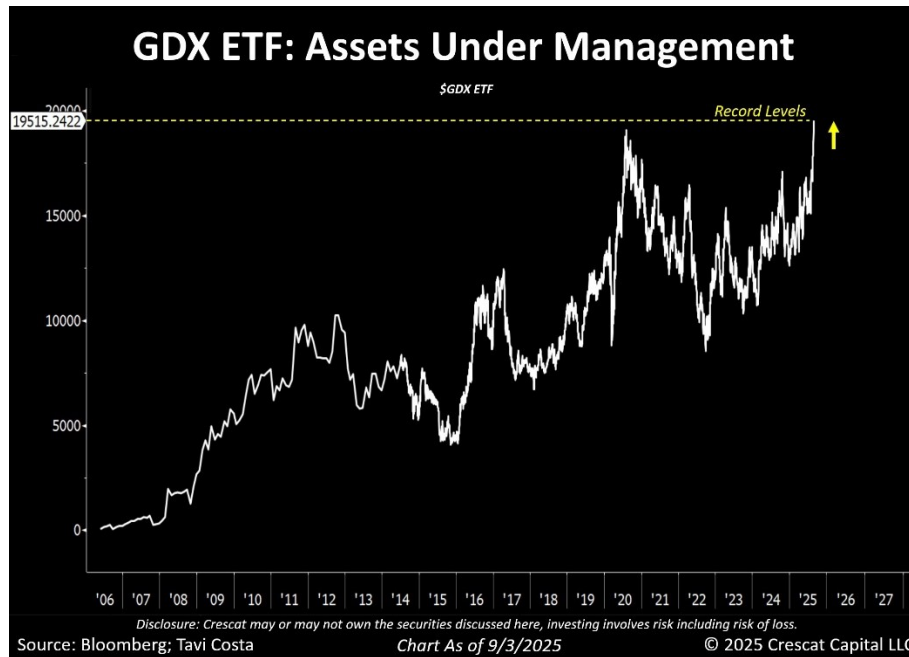
Essentially, Alphabet avoided the worst-case scenario, and shareholders are PLEASED.

This case is one of the reasons Google shares have been trading at a discount relative to historic valuations. Alphabet is the cheapest Magnificent 7 company relative to trailing and forward earnings. The company trades below 20 times forward earnings. However, in recent months, shares have increased substantially, increasing 36% over the last 6 months. After this decision was made, Alphabet shares moved up by more than 8% (to all-time highs), the largest non-earnings move for Alphabet shares since 2008 (when Alphabet was added to the S&P 500).

Some argue that this is negative news for Alphabet as the company could be worth more in parts than together. However, we disagree and believe this is great news for Alphabet. For one, the uncertainty and volatility that come with an antitrust case are gone, and shares will drift towards their intrinsic value. The one thing we will warn investors is that Alphabet's dominance could be something of the past as AI revolutionizes the search engine industry. Many consumers are avoiding traditional search engines and are opting to use AI chat boxes, which could seriously impact Chrome and Alphabet as a whole.

Renewed interest and inflows

After being beaten down for years, gold miners have finally caught a bid. Investors are seeing the juicy returns being driven by strong earnings, growing margins, and an increased demand for gold. Despite the strong cash flows and cheap valuations, miners have only recently caught the eyes of many mainstream investors. Investors have finally joined us and are adding exposure. GDX, a major gold mining ETF, just saw a record inflow and hit an all-time high regarding assets under management.



This is an indicator that mainstream interest is coming to the sector. We think this is being driven by the strong demand in the physical market and the very impressive financials being reported by companies across the sector. Certain gold mining companies are reporting operating margins above 30% and profit margins exceeding 50% reflecting record profitability in the sector. We think this interest is not going anywhere and will drive inflows, investing, and even M&A across the sector.

Despite this investor interest and the strong performance of gold miners over the last year, the gold miners to gold ratio is almost 60% below its 2011 highs, reflecting even more upside in mining equities despite the recent strong performance. After all the physical price of gold is up almost 70% since the start of 2024 a historic run for the precious metal. We think prices for physical gold will not retreat from here as many institutions and Central Banks continue to buy the metal.

Disclaimer: MacNicol & Associates Asset Management holds shares of gold mining equities, units of gold mining ETFs, and units/shares of investment vehicles that invest in physical gold.

MacNicol & Associates Asset Management
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