

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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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 was constructed in 1995 and stands at 289 feet tall. The lighthouse is the fifth tallest traditional lighthouse in the world and the tallest in China. The lighthouse emits two white flashes every 15 seconds.



Recalada a Bahía Blanca Light, Monte Hermoso, Argentina

This lighthouse is located in the Buenos Aires province in Argentina. The lighthouse stands at 220 feet tall. The lighthouse is the 11th tallest traditional lighthouse in the world. It is also the tallest lighthouse in the southern hemisphere.

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

Forecasting the FED

As portfolio managers, we are required to stay informed about several factors beyond the earnings of our underlying holdings. Our research on most topics also includes a forecast (these forecasts help us position investor portfolios). In this part of this week's commentary, we will attempt to forecast the Fed's decisions in the short term by utilizing data points and industry analysis from experts.

After all, the Fed is one of the most talked-about news items worldwide and has become a highly polarizing topic.

So where are we? The FED lowered rates in September, and it was a unanimous decision to do so. President Trump has been pushing for interest rate cuts for months and has even pressured members of the FED to do so. Trump has even threatened FED Chairman Jerome Powell's job (ironically, Trump nominated Powell in 2018). Despite these efforts, the FED, for the most part, has resisted this push. They have continued to conduct monetary policy in an independent way. We think that will continue through the end of the year.

The FED has two more decisions due in 2025, one next week and one in December. According to analysts and probabilities, it is almost certain the FED will cut rates in October by one quarter of a percent when they meet next week (Trump and his allies are pushing for a larger cut, arguing that high interest rates are negatively impacting the economy). This move extends the Central Bank's pivot toward bolstering the job market and away from its inflation fight.

We think a cut in October makes sense, and if the FED surprises us with no cut, it could be a volatile few days. After all, the CME FED Watch Tool is currently predicting a 99% probability that the FED will lower its benchmark interest rate in October.

After reviewing all of that, our attention and many investors shifted to the December decision due in 7 weeks. The outlook is much less certain; analysts are split on what will happen. September's economic projections from the FED revealed a range of views about future policy decisions. The FED also bases its decisions on economic data, which will be released in the coming weeks. The federal government's shutdown has delayed or degraded key reports from the BLS. If agencies reopen in the next few weeks, a condensed wave of data on jobs and prices will land before the Fed's meeting in December. When earlier government shutdowns, in the 1990s and 2010s, delayed major economic reports, officials leaned on regional surveys and anecdotal evidence. Each time, they waited for clarity rather than moving aggressively, a pattern that points toward a smaller adjustment later this month. Both Chairman Powell and Board member Christopher Waller have mentioned the issues that the government shutdowns make it harder for policymakers to assess the health of the economy.

The issue with forecasting this decision is that two things could be true: prices could continue to rise, and the job market could continue to worsen. This would cause the FED some serious thought, as the FED has a dual mandate of balancing maximum employment and stable prices. We expect some Trump loyalists on the FED Board to push for more cuts and some policymakers to push back on that stance.

After all, the FED gets a new Chair on February 1st, and Trump will certainly nominate a loyalist this time around. Expect the Fed's independence to decrease in 2026 and some rapid cuts to occur. To that end, we expect the current FED members to keep rates in place at December's meeting (unless data reveals the job market is in even worse shape than many thought).

Banking + AI

This week, OpenAI announced a new initiative in the investment banking industry. The technology firm is hiring around 100 former bankers from large U.S. firms in order to train their AI models. The work will seek to complement and replace some junior banker work.

According to headlines, the bankers will be paid north of \$150/hour, and they are helping with financial models and writing prompts for IPOs, restructuring, and mergers. The contractors will write one model per week in Excel and receive feedback before the model is integrated into OpenAI systems.

OpenAI Hires Ex-Goldman Staff to Help Cut Down Junior Bankers' Grunt Work

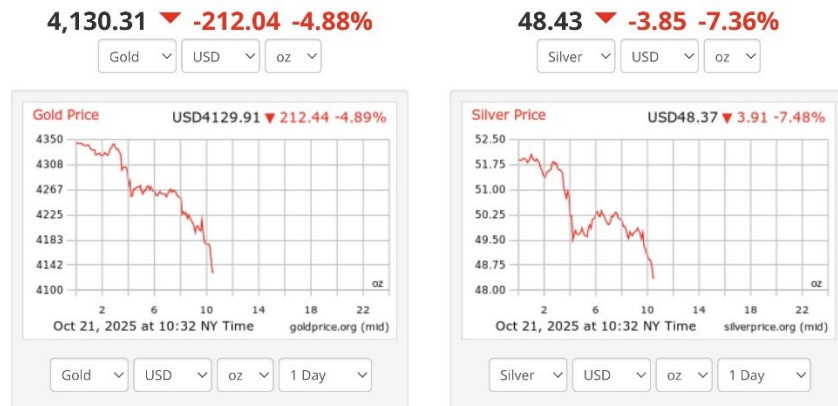


The project underscores the urgency at Sam Altman's OpenAI to make its technology more useful to businesses. Photographer: Justin Sullivan/Getty Images

The move adds to concerns about the job security of some investment banking analysts. Financial institutions are actively looking into AI to boost efficiency across various channels, including investment banking. This initiative also highlights OpenAI's push into practical industries, which could eventually include law and consulting as well.

Precious metal slide (after its roar)

On Tuesday, precious metal prices pulled back heavily. Silver dropped by 8.7% (the largest drop since 2021), and gold dropped by 6.3% (the largest one-day drop since 2013).



Gold and silver miners pulled back heavily on these moves.

Many believe the pullback came from easing trade tensions between the U.S. and China. On Tuesday, President Trump said he expected a “strong and fair” deal with China, aiming to have constructive exchanges with President Xi at a summit in South Korea set for next week. Secretary Scott Bessent is also expected to meet the Chinese Vice President in Malaysia later this week to begin discussions between the two nations. There was also news out of the White House from economic adviser Kevin Hassen said that the prolonged government shutdown is “likely to end this week” with negotiators nearing a deal.

The easing of political uncertainty alongside trade optimism is reducing investor demand for precious metals, especially with the recent record-breaking rallies we have seen in recent months.

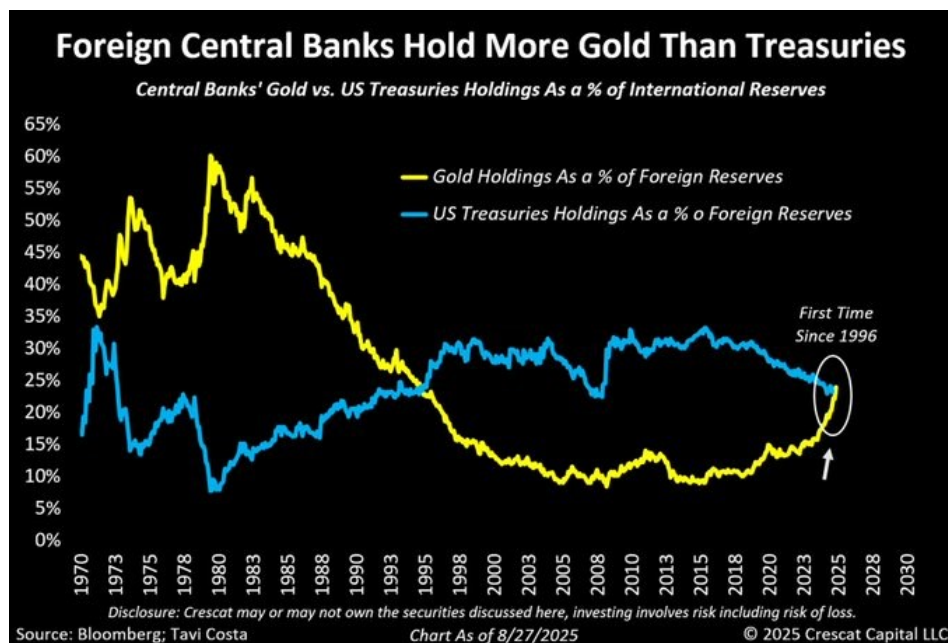
This move by gold and silver (and miners) is not worrying us; we continue to believe in the trade in the long term. However, what has happened over the last 12-16 months may come to an end. In today’s market, we think gold and silver in physical form are great hedges against inflation, conflict, mass government spending, and other uncertainties. We also think miners are highly attractive at these price levels due to their valuations, margins, and the scarcity of the assets they are producing.

After all, precious metals are still inexpensive when adjusted for inflation:

Silver (Nominal), and Silver (US CPI Adjusted – August 2025), in USD, 01/1970–08/2025



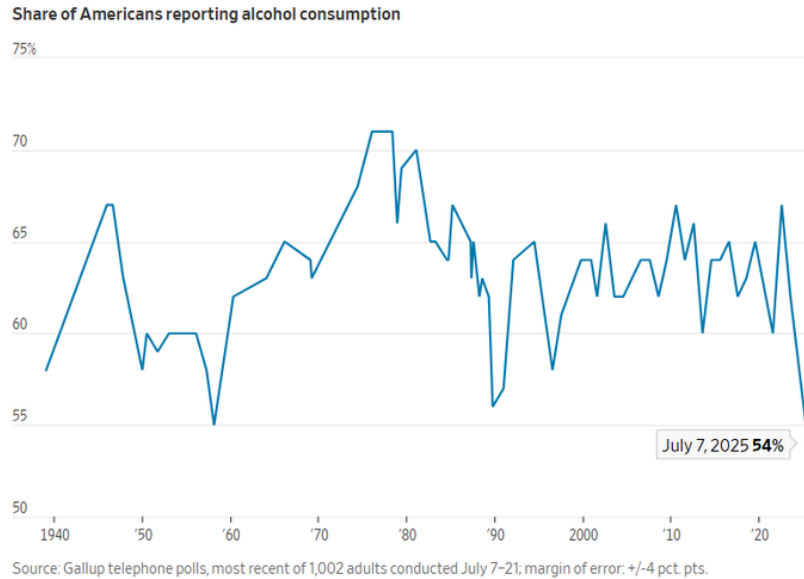
It is also important to reshare this chart, which tracks gold and U.S. Treasuries as a percentage of foreign reserves. The chart is at a breakpoint, and we think the trend will continue to accelerate as institutions flock away from Treasuries.



Disclaimer: MacNicol & Associates Asset Management holds shares of trusts, ETFs, and Mutual Funds that hold physical precious metals and shares of ETFs, and companies that mine precious metals.

Social dynamics changing

One of our favorite newsletter writers, Charlie Bilello, shared a chart this week that has little to do with finance, but it really caught our eye and made us think.



Americans (and Western consumers as a whole) are drinking much less alcohol. According to the Gallup poll, only 54% of U.S. adults drink alcohol (an 86-year low). This trend is something we have known for a few years, but it is glaring when displayed in chart form.

So why is this happening? People are drinking less due to a few factors: increasing public awareness of health risks, a cultural shift toward moderation, and recent economic pressures. Consumers also have more alternatives to alcohol, including marijuana and certain psychedelics. This trend is stronger with younger generations who are turning away from alcohol. We expect the chart to somewhat accelerate, especially as economic conditions and consumer balance sheets continue to deteriorate.

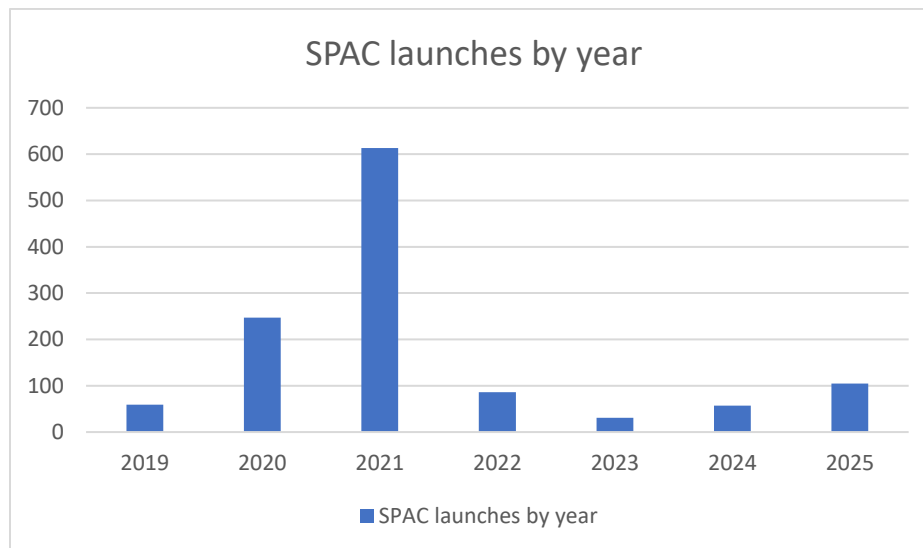
We think this trend presents a major issue for alcohol giants across the world. The largest firms will look to expand their top and bottom lines through acquisitions with shrinking sales.

The new wave of SPACs

Everyone's second-favorite (we think meme stocks are #1) hype bubble is back (of the 2020s). SPACs seem to be back in the limelight as numerous sponsors have launched SPACs to take companies public (SPACs are cheaper than an IPO when taking a company public). If you are a long-time reader of this publication, you know that the 2020/2021 SPAC bubble was a rug pull. Most of the companies that went public were not ready for public markets, and the companies were built on pipe dreams / ideas rather than a business model and cash flows. We stayed away from many of these names for those reasons, despite the early successes of many of the stocks.

After many of these companies collapsed, the SPAC phenomenon sort of went away. The bubble popped, and sponsors could not find investor demand. Fast forward to 2025, and SPACs have begun to pop up once again. This year, 105 SPACs have already been launched, compared to a total of 174 over

the last three years. In the first half of 2025, 37% of U.S. IPOs were SPACs – a 26% increase year-over-year.



Even the King of SPACs, Chamath Palihapitiya, is back in the SPAC arena. Chamath, known as the “SPAC King”, is beloved by many retail investors due to his transparency, communication, and success. Chamath launched around 10 SPACs in the early 2020s, and almost everyone eventually tanked; some companies he backed have even faced major legal issues. The ironic part of retail's love for him is that they were caught holding the bag of many of his horrible SPAC deals.

These new SPAC companies have shifted their focus from highly speculative ventures to new trends, which include AI, fintech, critical industries, and even American security. Some of these deals seem much more organized, and management teams seem much more disciplined. We think this wave could present some highly interesting opportunities. Last time SPACs boomed, sponsors rushed for deals to catch market attention. We think this time will be different.

Despite this discipline, SPACs remain a bit risky due to their post-merger performance lags, structural risks, and overall uncertainty. However, they are no longer a roller coaster and are re-emerging as a credible path to go public (in our eyes).

Just because something failed once does not mean it will fail again. In these markets, we continue to monitor all potential options that could benefit our investors.

Staple reports earnings

A broad holding of ours reported earnings on Tuesday and reported some strong figures. Waste Connections (TSX: WCN) reported both revenue and EPS beats for its third quarter. Revenue jumped 5.1% YoY and net income declined slightly YoY. Free cash flow margin jumped from 12.2% last year to

15.5% this year, driven by overall profit margin improvement. Waste pricing and improved operational efficiency expanded the company's margins.

On these strong results, WCN increased its quarterly dividend by 11.1% and continued its share repurchase program, repurchasing 1% of shares during the quarter. The company successfully offset commodity headwinds through operational execution and pricing. The company's revenue growth was driven by growth in all business segments, especially commercial and residential waste services.

The company reaffirmed its 2025 fiscal year forecast previously provided in July. WCN management anticipates revenue growth and continued margin expansion moving forward. The company highlighted employee retention, record-low safety rates, and the execution of acquisitions on its earnings call. WCN has completed or agreed upon numerous acquisitions in 2025 that will total \$300 million in annualized revenue. WCN also remains committed to disciplined capital allocation and will continue to maintain strong financial flexibility in order to ensure future growth opportunities that will enhance shareholder returns.

From a valuation standpoint, we still like WCN as it trades near industry averages relative to forward earnings. WCN trades at a slight premium on an EV/EBITDA (enterprise value to EBITDA (earnings before interest, taxation, depreciation, and amortization) multiple reflecting the company's strong growth outlook, margin expansion, and pricing power.

We like WCN for many reasons, including the safety it provides to our investors. We like blending growth with value in portfolios to minimize drawdowns and risk. We think WCN is a strong value play that operates in a stable industry that is not greatly impacted by the business cycle. Although WCN has been more attractive in the past (in terms of valuation), we are long-term investors and still believe WCN can provide value in our investors' portfolios.

WCN shares jumped on this earnings report; shares are up 5% in 2025 but are down from their peak reached in the spring.

Disclaimer: MacNicol & Associates Asset Management holds shares in Waste Connections (WCN: TSX) across several client accounts.

MacNicol & Associates Asset Management
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