

The Weekly Beacon

We will be giving some macro economic market updates on a weekly basis. No recommendations will be given in this commentary and we encourage you to contact us today if you have any questions regarding any observations.

*The two main purposes of a lighthouse are **to serve as a navigational aid and to warn boats (Investors) of dangerous areas.** It is like a traffic sign on the sea.*



Terence Bay, Nova Scotia, Canada.



Petit Minou Lighthouse, France

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



The Future of Fossil Fuels

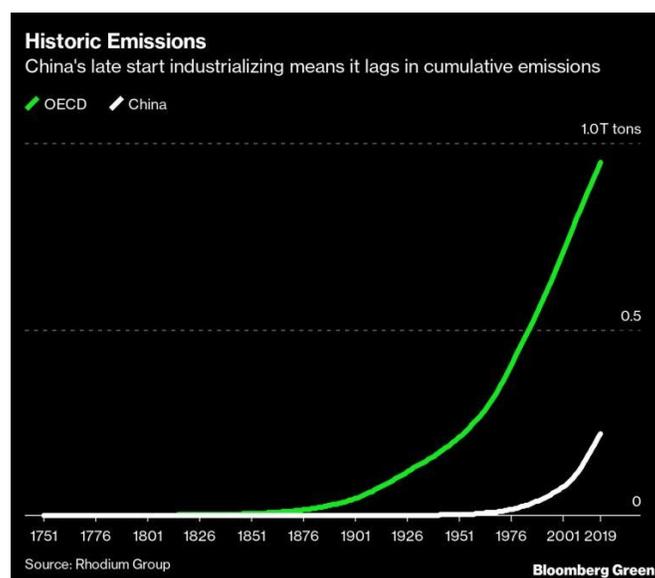
In the world we live in today, many banks, politicians and groups say oil production and usage needs to immediately end to save the world. This is a false statement. Countries across the world have increased production and many individuals who spew, “green energy is the future” do not follow their own logic. It is true that there will be a transition to green energy, but it will be a slower process than many people think. Oil will also hold a place in the world’s economy for the foreseeable future. Billions of people across six continents will not stop using fossil fuels because some countries decide to cut back.

“The United States has set a goal to reach 100 percent carbon pollution-free electricity by 2035.”

During the lead up to the 2020 election, President Biden announced a goal of the US achieving net-zero emissions by 2050. This is quite a goal for the world’s largest economy and in 2019 the world’s largest oil exporter. Leaders across the western world project these massive goals but do not think they need to follow them on a personal basis. Former Secretary of State John Kerry who is currently a Climate Advisor to President Biden has a private jet which he regularly uses. His excuse in 2019 during a trip to Iceland to promote green energy was, “If you offset your carbon - it's the only choice for somebody like me who is traveling the world to win this battle.” Even the people who say oil should end do not actually think it will.

The European Union recently drafted legislation that would exempt private jets and cargo jets from the jet fuel tax. Easy answer to why this was done, European leaders and billionaires do not want to be affected by rising prices and give away their ability to use private air transportation.

The developing world is also not slowing production. China consumed 53% of the world’s coal supply in 2020. China also created more emissions than all developed nations across the world combined in 2020. This is partially due to a relative lag in industrialization but also limited regulation and China’s drive to surpass the US as the global economic leader.



China has also promised the world an emissions peak by 2030, 10 more years of increasing consumption while the rest of the world cuts emissions and attempts to go green. China is kicking the ball down the field with this and it is entirely possible they slightly cut its emissions in 2030 and continues to burn fossil fuels well into the future. It is also possible the country could walk back this promise, 10 years is a long time.

Despite Pledges to Cut Emissions, China Goes on a Coal Spree

China is building large numbers of coal-fired power plants to drive its post-pandemic economy. The government has promised a CO₂ emissions peak by 2030, but the new coal binge jeopardizes both China's decarbonization plans and global efforts to tackle climate change.

BY MICHAEL STANDAERT · MARCH 24, 2021

As of 2020, 350 coal-fired power plants are under construction. They include seven in South Korea, 13 in Japan, 52 in India, and 184 in China with the rest underway in other parts of the world.

China is also **building and financing** hundreds of other coal-fired power plants in countries such as Turkey, Vietnam, Indonesia, Philippines, Egypt, and Bangladesh.

China is building over 50% of the worlds coal plants currently under construction and its competitors (the West) are divesting and rotating towards "green energy".

U.S. coal-fired electricity generation in 2019 falls to 42-year low

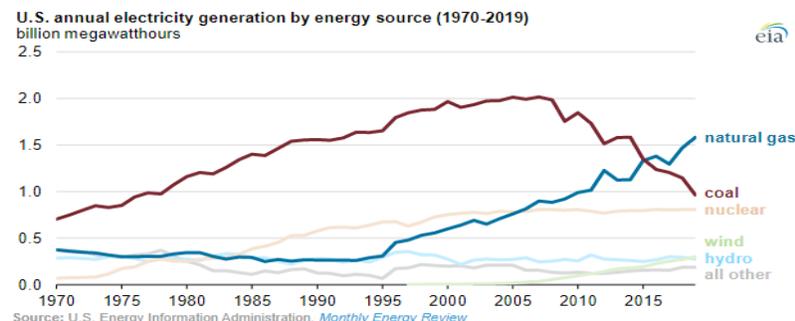
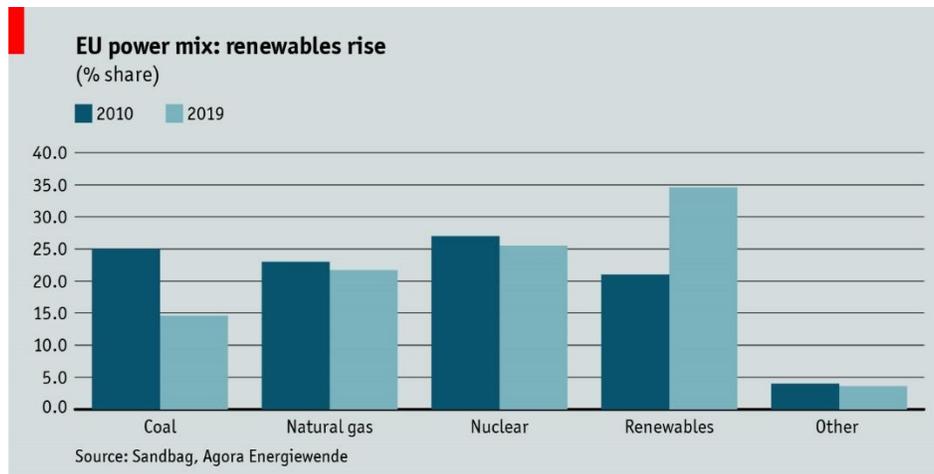
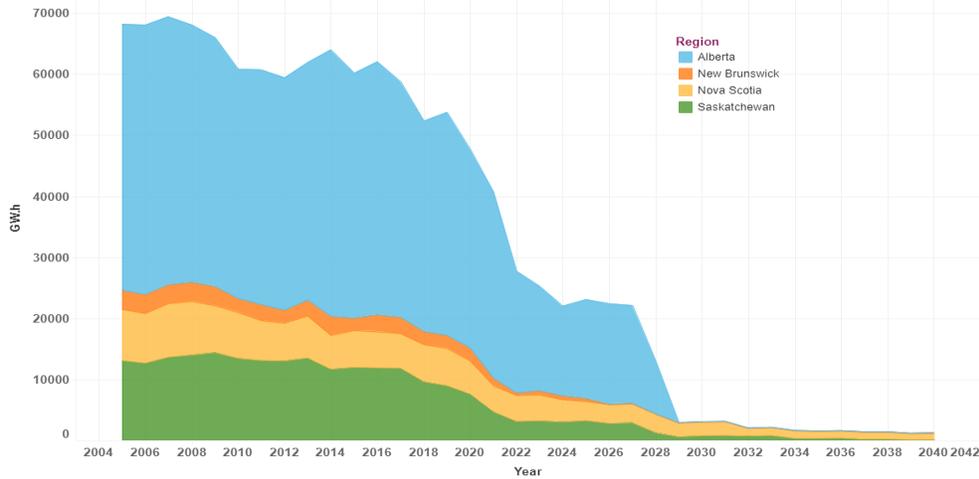


Figure 1. Canadian coal electricity generation by region to 2040



The Western world's use of fossil fuels is on a hard decline and is on a trajectory to eliminate coal usage in their economies while countries like China continue to build electric coal plants.

ESG Guideline Confusion

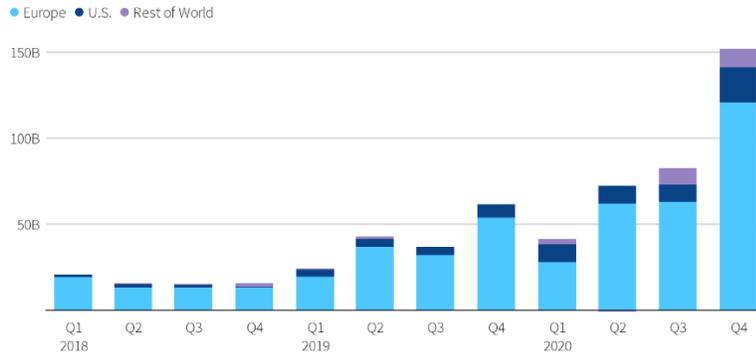
As the world aims for net zero emissions, Western developed nations are leading the charge. One of the first steps has been ESG guidelines. This is a relatively new thing for publicly traded companies, the score looks at the company's Environmental, Social and Governance (ESG) impacts. The higher the score the better. Certain companies carefully monitor their ESG scores as they want to increase them to attract more investors. Certain funds, institutions and individuals have minimum ESG requirements.

There are also hundreds of ETFs, Mutual Funds and Private Funds that not only have a goal of shareholders return but a positive ESG impact on the world. The growth of this phenomenon is quite exponential in recent years.



Sustainable fund flows surge past \$150 billion

Flows into sustainable fund flows over time, in billions of U.S. dollars



Source: Morningstar

In 2019, investors with \$100 trillion under management signed onto the United Nations Principles for Responsible Investment. The agreement focuses on ESG investing and advocates companies hold strong scoring companies. Over the last year or so, many have begun to scrutinize the ESG guidelines as a marketing system that has not led to much change for asset managers positions and the globe's impact.

According to a [study](#) that looked at the UN Agreement, investors did not improve their social and environmental performance. Many are coming to the realization that being ESG compliant is almost like a PR campaign to attract more capital.

Australia

The statement "net zero" has increased in usage exponentially across countries in the western world over the last 5-10 years. Political campaigns, CEOs and even large companies have promoted this net zero phenomenon.

What is Net Zero?

Net zero refers to the amount of greenhouse gas being produced by a country being equal to the amount removed from the atmosphere by said country.

A recent study was done in Australia and how they can achieve a goal of net zero emissions by 2050. What is needed to accomplish this is quite a lot which is very interesting.

Australia has a population of just over 25 million which is the 55th most populated country in the world. Australia boasts a lot of land for its relatively low population. It has the 6th lowest population density globally. The country is spread out, to transform the rural energy grid will be quite an added charge.



The study outlines 8 goals:

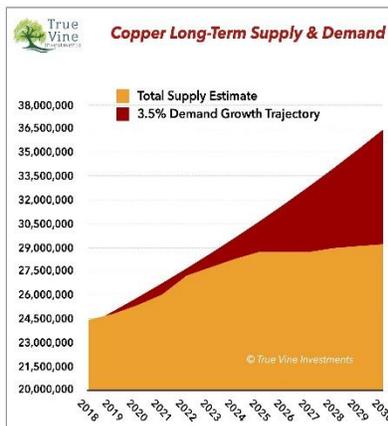
1. Decommission an amount of fossil fuel-burning generators, vehicles and equipment that collectively consume 1,085,000 gigawatt hours of fossil fuel annually and replace with zero emission equipment.
2. Install 119,000 wind turbines over an area of 60,000 square kilometres, an area as large as the area of 3 million Melbourne Cricket Ground stadiums. Construction and installation of the turbines will consume 36 million tonnes of steel and 145 million tonnes of concrete.
3. Install 6 million rooftop solar systems.
4. Build 22,000 solar farms.
5. For the 516,000 gigawatt-hours of fossil fuel-burning equipment that cannot be replaced, provide carbon offsets by planting 17 billion trees per annum for a total cost of \$238 billion and a total land requirement of 201 million hectares, an area equivalent to 50 per cent of Australia's total agricultural and grazing land.
6. Build 6 nuclear power stations at a cost of \$92 billion
7. Emit 670 million tonnes of carbon dioxide during the manufacture and construction of the infrastructure
8. Spend an estimated total of \$1.13 trillion

\$1.13 trillion is quite large. Using today's population of Australia, that will cost every citizen \$45,200. The cost does not add in the cost of connecting these new solar grids and wind farms to the current power system across Australia.

In 2019, renewable energy made up 6.4% of energy consumed.

These new energy sources, require large amounts of metals to manufacture which need to be mined. The mining of these metals uses oil and fossil fuels to extract them. The circular net zero issue is not close to being addressed and investors should be wary of anyone who says there is no future in oil and other fossil fuels.

A small glimpse into the demand for these metals to produce this renewable energy is copper. The major issue shown below: a major deficit between demand and supply will occur if this transformation happens. Obviously, some basic economics tells us when Demand > Supply, prices will go up and with this net zero goal across the developed world, input prices for renewable energy will go up.





SPAC Attack

At the evolution of the SPAC, known as an alternative to IPOs. Sponsors of these new companies has become a who's who of the celebrity world. It seems every CEO, Fortune 500 board member, former politician and even athletes are involved in one of these Special Purpose Acquisition Companies (SPAC).

POLITICS

SPAC with ties to Biden Cabinet picks sees surge in support from Wall Street after offering 'access'

PUBLISHED WED, DEC 9 2020-11:06 AM EST | UPDATED WED, DEC 9 2020-11:07 AM EST



Brian Schwartz
@SCHWARTZBNCB

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5 'Celebrity SPACs' To Consider: Shaq, Serena, Steph, A-Rod And Ciara



Chris Katje, Benzinga Staff Writer

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July 15, 2021
3:09 AM EDT
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Finance

Former BP CEO Hayward launches green energy SPAC

1 minute read

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IPOs ▼ NVSAU \$10.02 -0.04 0.40%

SPAC: New Vista Acquisition, led by ex-Boeing CEO Dennis Muilenburg, prices upsized \$240 million IPO

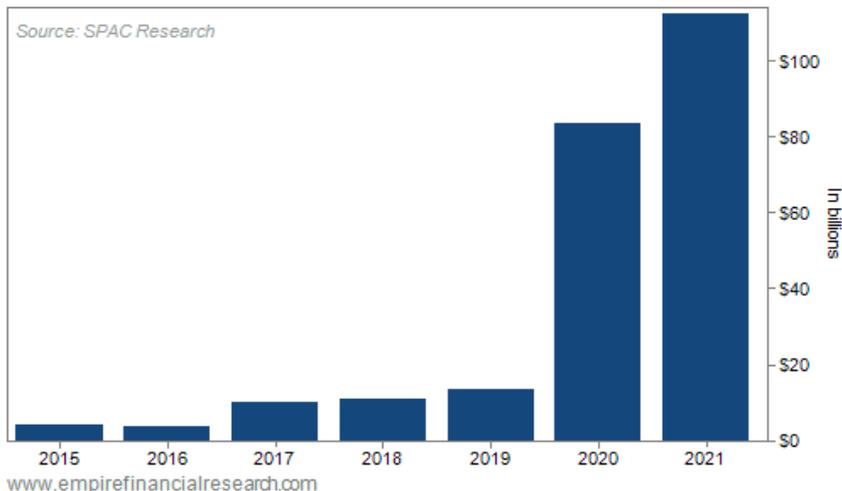
CONTRIBUTOR
Renaissance Capital — Renaissance Capital

PUBLISHED
FEB 17, 2021 6:19AM EST

With all these celebrity endorsements, political insiders and former CEOs operating these blank cheque companies, what do we do?

Mass capital is pouring into capital markets via SPACs. The trend exponentially broke out in 2020 as many retail investors flocked into these companies who had not even announced a partnership or target company. Halfway through 2021 and we have already beat 2020 in terms of market value created by SPACs.

U.S. SPAC IPO Issuance





Many retail investors have bought into SPACs off a rumour and many have been hurt over “hype”. A major example of this hype was earlier this year when Churchill Capital Corp IV was rumoured to be merging with Lucid Motors, an electric car company. Many believed the “hype” and thought Lucid Motors could supplant Tesla as the market leader in electric automobiles as they would be the luxury leader. Shares went from \$10.01 on January 6th all the way up to \$63.20 on February 22nd. This was before an official announcement by the merging companies. After the merger was announced and valuations were released, share prices have collapsed to about \$22 currently. Lucid is currently facing a class action lawsuit for misleading statements up to there merger. The lawsuit is focused on production and the schedule of deliveries which are well behind what many investors were led to believe.

This has happened numerous times as investors have thrown valuations out the window and have simply invested with a mindset of “I don’t want to miss out on the next ____ (Tesla, Netflix, Amazon, Apple).” With hundreds of SPACs there will probably be a few ten baggers but there will also be numerous companies that fail even after going public.

SPAC Fallacy

A fallacy some investors have used when investing in SPACs is describing them as investments with relatively low downside risk. Invest into this blank cheque company at \$10 as the baseline and if the company is worth the same as a publicly traded competitor it should go up 2x, 3x or 4x in a year or two. This sometimes does happen, companies with an established customer base, already creating revenue and good financials. However, some SPACs do fall below there \$10/share IPO after a merger.

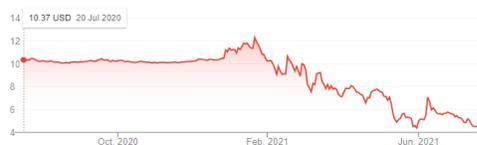
Numerous post SPAC deals in which the company that has gone public and has been labeled as the future have fell belly side up.

Market Summary > Carlotz Inc

4.49 USD
-5.88 (-56.70%) **↑** past year

Jul. 19, 3:14 p.m. EDT Disclaimer

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



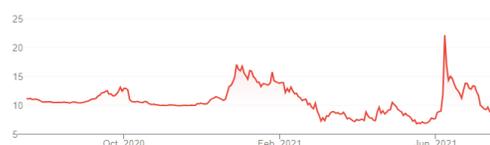
Open	4.40	Mkt cap	510.38M	Prev close	4.50
High	4.54	P/E ratio	-	52-wk high	12.70
Low	4.30	Div yield	-	52-wk low	4.30

Market Summary > Clover Health Investments Corp

8.32 USD
-2.84 (-25.40%) **↑** past year

Jul. 19, 3:17 p.m. EDT Disclaimer

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



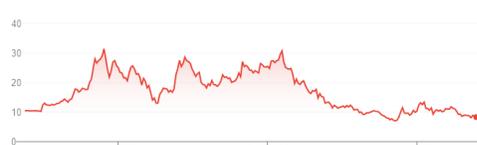
Open	7.87	Mkt cap	3.40B	Prev close	8.20
High	8.38	P/E ratio	-	52-wk high	28.85
Low	7.67	Div yield	-	52-wk low	6.31

Market Summary > Lordstown Motors Corp

8.38 USD
-2.06 (-19.76%) **↑** past year

Jul. 19, 3:28 p.m. EDT Disclaimer

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



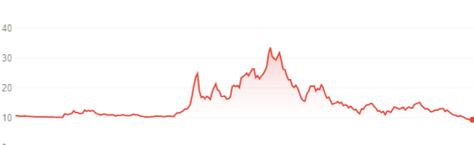
Open	8.28	Mkt cap	1.48B	Prev close	8.54
High	8.56	P/E ratio	-	52-wk high	31.80
Low	7.93	Div yield	-	52-wk low	6.69

Market Summary > Desktop Metal Inc

9.16 USD
-1.45 (-13.63%) **↑** past year

Jul. 19, 3:29 p.m. EDT Disclaimer

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



Open	8.94	Mkt cap	2.34B	Prev close	9.15
High	9.17	P/E ratio	-	52-wk high	34.94
Low	8.76	Div yield	-	52-wk low	8.76

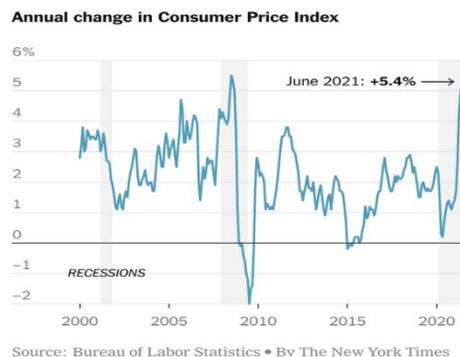


Many of these companies have been overvalued and are focused on the future. Lordstown Motors produces electric cars, CarLotz is an online marketplace for buying used cars, Clover Health is a healthcare insurance provider that seeks to offer lower prices and Desktop Metals designs and markets 3D printing systems. All have a focus on tomorrow's economy and all have been described as innovative and disruptive.

The main thing to focus on SPACs is the valuation. Some of these names that have lost capital over the last year may produce tremendous returns in the future but betting on a company or an idea without any sort of valuations or a company being overvalued comes with risk.

Mid Year North American Inflation Update

No matter what you see reported by the news, inflation is real and is probably here to stay for a bit. The US CPI Index clicked in at the highest since August 2008, at 5.4% for the year ended June 30, 2021.

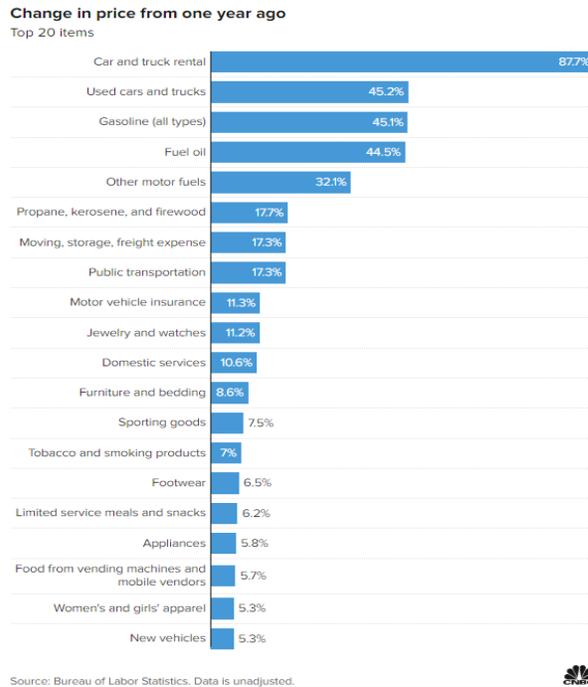


The raw data speaks for itself. Core CPI (takes out food and energy) was up 4.5% the highest rise since November 1990. Car prices are up, transportation prices are up, commodity prices are up and now consumer goods are rising to complete the circle.

One of those prices seeing dramatic price hikes is the cost to fill up your car. Prices across the United States have skyrocketed for consumers.

City	Price 07/20/20	Price 07/20/21	% Change
San Francisco	3.305	4.465	116.0%
El Paso	2.154	2.99	83.6%
Seattle	2.921	3.965	104.4%
New York	2.326	3.284	95.8%

Source: AAA Gas Prices (Price/Gallon)



Companies are reacting to the inflationary environment for their inputs by raising prices. Earlier this month, food and beverage companies PepsiCo and Conagra Brands announced price increases to offset the rising costs of inputs.

US policy makers still are claiming this is a transitory reaction to reopening the economy and will be short term.

NEWS

Biden insists inflation is 'temporary,' 'expected' despite \$4.7T spending plan

By Steven Nelson

July 19, 2021 | 5:22pm | Updated

MARKETS

Powell says the Fed is still a ways off from altering policy, expects inflation to moderate

PUBLISHED WED, JUL 14 2021 8:36 AM EDT | UPDATED 9 HOURS AGO

Jeff Cox
@JEFFCOXCNBC
#JEFFCOXCNBC

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The current inflation will more than likely last. There is a bipartisan infrastructure deal worth about \$1 trillion that is in the final days of negotiation. There is a proposed \$3.5 trillion human infrastructure bill currently being negotiated. There is also a proposal for a \$6 trillion budget for the federal government in 2022.

Biden to seek record \$6 trillion for 2022 federal budget: NYT

US President Joe Biden's budget proposal brings the federal fiscal footprint to levels unseen since World War II as he seeks to fund his infrastructure plans and expand social safety nets, *The New York Times* reports.

REUTERS | Reuters

U.S. Senate Democrats agree to \$3.5 trln for budget reconciliation bill

Richard Cowan and Susan Cornwell

Tue., July 13, 2021, 5:20 p.m. - 5 min read



Whether policy makers and the media want to cover it, inflation is here, and it is important to hedge your assets for something that is not transitory. The most interesting thing said was something by President Joe Biden, “if you are concerned about inflation, you should be more enthusiastic about this spending plan.” He claimed this spending would take pressure off inflation.

July 23, 2021

MacNicol & Associates Asset Management Inc.