

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 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.*



Neuland Lighthouse, Germany



Point Amour. L'Anse Amour, Newfoundland and Labrador.

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

China Taiwan Tension

Over the last year and a half, tensions have really perked up in the South China Sea. Since 1949 China has claimed sovereignty over Taiwan. China has claimed countries cannot have economic ties with Taiwan, this obviously limited the diplomatic ties Taiwan has had. Even with these restrictions, Taiwan has become a major economic player in Asia, it also is one of the worlds largest technology providers.

China has recently really started to intimidate Taiwan.



War fears as Chinese military expert warns US over Taiwan invasion- 'Won't stand a chance'

THE US "won't stand a chance" of stopping a Chinese invasion of Taiwan as it would happen "in a very short amount of time", according to experts.

By ISABELLA MARSANS

PUBLISHED: 07:02, Mon, Jul 26, 2021 | UPDATED: 12:07, Mon, Jul 26, 2021

ASIA

China Sends A Record 28 Military Planes Into Airspace Controlled By Taiwan

June 15, 2021 - 7:42 PM ET

JOHN RUWITCH

EDITORS' PICK | Jul 27, 2021, 08:00am EDT | 86,566 views

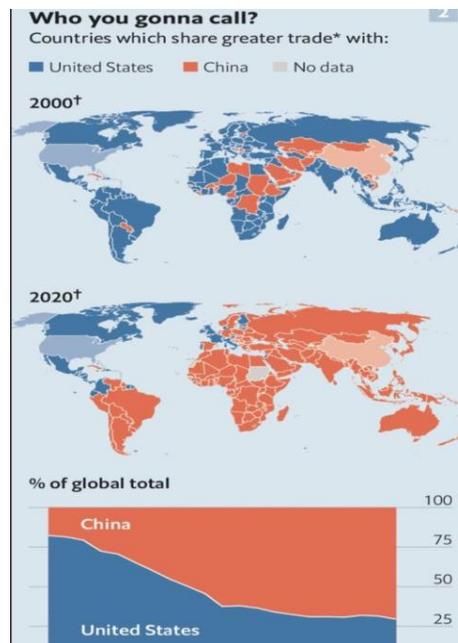
At the end of June 2021, the number of Chinese warplanes that entered Taiwan's air defense zone was approximately 115 year to date. In 2020 the number was 87, 2019 was 7 and 2018 was 14. There has been a real push from China as they are almost "stalking" their prey. Australia and Japan have also warned the world that Taiwan cannot fall to China. Obviously, the two largest western allies in the region could be negatively impacted with one less economic power in the region.

How the globe recognizes Taiwan has also changed in the matter of 70 years. This just shows how even the Western world who believe in democracy do not want to "tick" China off. At the moment, not one major country in the world officially recognizes Taiwan, many help them out and partake in trade together but no official recognition of Taiwan by **MAJOR** countries. China's influence has grown across the globe as the world has prioritized trade and cheap products rather than the people of Taiwan's want for complete sovereignty. Taiwan's goal is to be completely independent rather than a territory of mainland China. China's goal, keep Taiwan, its technology and population to strengthen its influence across Asia and the world.



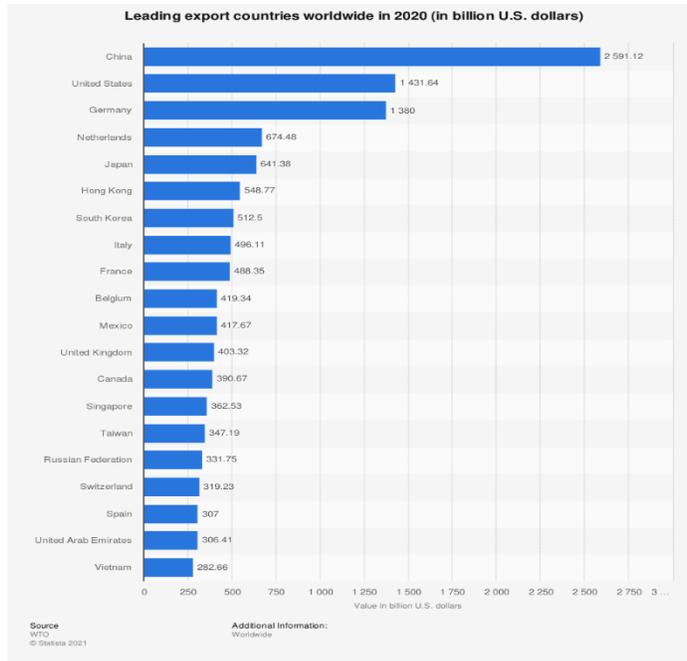
China's global influence and power is leveraging trade and economics.

In a matter of 20 years, the global economic environment has completely pivoted. China is the largest trade partner for almost every country across the globe. This gives China quite the amount of power and leverage when dealing with other countries.



China also surpassed the US in 2009 and is the world's largest exporter. In 2020 alone, during the Covid-19 pandemic the Chinese exported \$1 trillion more than the US. In 2019, the gap between the 2 countries was a number just above \$100 billion. The pandemic increased the world's reliance on China thus increasing China's global influence. The most interesting fact, if President Xi and mainland China

can rally in Taiwan (15th largest exporter) and Hong Kong (6th largest exporter) another “territory” they would export double the amount the US does. China’s end game is to be the world leader in everything and that will not change anytime soon.



China has also warned the US against signing a trade agreement with Taiwan that would further solidify US-Taiwan relations.

China warns US against trade deal with Taiwan

Move comes after US Secretary of State Antony Blinken signalled a possible resumption of economic talks with Taiwan.

After the Biden administration has resumed trade talks with Taiwan, Beijing has warned the US not to engage with the island territory. The US remains Taiwan’s strongest ally and largest arms dealer. Taiwan has also blamed China in hampering its ability to secure Covid-19 vaccinations. Japan has also described the tension as a “crisis”. Japan has mentioned that it would join a defense of Taiwan if it were to come to that as a free and secure Taiwan is critical to a secure Asia-Pacific region.

One of the most interesting things regarding Taiwan is the global recognition in media of the country. In the Olympics, Taiwanese athletes compete under an imaginary flag and country “Chinese Taipei”. They are forced to carry this faux flag and have a different national anthem if they win. They are competing under this flag and rule due to an agreement put in place in 1981. In a run up to the current Tokyo Olympics, there was growing pressure for the IOC to begin using the name Taiwan. The IOC said they would not consider any name change. The IOC allows Taiwanese athletes to have their own name but not the proper one? Seems interesting. Seems like the IOC, like a lot of countries and companies do not want to make China angry.

Even NBC, the official broadcaster of the Olympics in the US refers to Taiwan as Chinese Taipei as the media giant does not want to have any issues.

What to do with this? A probable conflict seems to be increasing in probability. There would almost definitely be external help from Taiwan allies as the country does not have the capabilities to beat China on its own. Resources and self defense could have some strength if anything boils over in the South China Sea.

Cobalt and Other EV Metals

Electric cars. A major puzzle piece in the efforts to solve global warming and eliminate fossil fuels. Last week we mentioned how eliminating fossil fuels will not be a thing. There will be a place for green energy and fossil fuels in our future. One major area we are already seeing this take place is in the automobile sector with electric cars.

Europe leads the way in new electric vehicle sales

New global electric car registrations and automobile market share, 2010-2020



Note: Electric car totals include all-electric, plug-in hybrid and fuel cell vehicles. "Europe" includes the 27 nations in the EU, plus Iceland, Norway, Switzerland and the UK. "Other" includes Australia, Brazil, Canada, Chile, India, Indonesia, Japan, Malaysia, Mexico, New Zealand, South Africa, South Korea and Thailand. Source: International Energy Agency, "Global EV Outlook 2021."

PEW RESEARCH CENTER

From 2017 to 2020, the number of electric cars around the globe tripled. There is still a lot of growth for them in tomorrow's economy. In 2018, globally there were approximately 1.42 billion consumer vehicles, exclusive of buses. By 2035 there will be approximately 2 billion cars on the road globally. Recent projections have said there could be about 19 million electric cars on the road by 2030, over six times the current amount. Green energy is a theme that we know has grown in popularity. Consumer demand for electric cars will probably be greater than the supply over the next decade or so.

So, what to do, how do we act on this trend?

Going short against fossil fuels seems like a bad bet as the metals that are used to create green energy need to be extracted from the ground using you guessed it, fossil fuels. That's not even mentioning the other uses of fossil fuels.

Last week, I highlighted a few electric car makers that have gone public via SPAC's (Lordstown Motors, Lucid Motors), there are also Fisker, Nio and market leader Tesla that are all tremendously overvalued at current prices. The electric car market is littered with companies. Picking the one that's the market leader in 5 to 10 years may be a harder task than thought. We all would have loved to bought Tesla in 2016 at \$50. However, we can't go back on that can we. Picking the dominant electric car manufacturer may not be limited to new companies like Tesla and Lucid Motors who are recently established; the company that may dominant the automobile sector could definitely be a current automobile producer that currently produce gas vehicles. These companies already have the plants and supply chains to mass produce vehicles.

The materials to make these electric cars are quite similar no matter the technology or company manufacturing them. They will all need various metals to be manufactured. Some of these metals have been flagged for near term deficits. Demand will greatly out weight supply. Obviously, with this growing demand and no massive supply sitting around prices will go up even without any other factors.

Nickel demand for EVs expected to shoot up over next 20 years

[Valentina Ruiz Leotaud](#) | February 7, 2021 | 12:25 pm Battery/ Metals Europe Nickel

Hyperdrive

Tight Battery Market Is Next Test for EVs After Chip Crisis

By [Annie Lee](#)

July 22, 2021, 5:00 PM EDT Updated on July 23, 2021, 1:30 AM EDT

Lithium-Ion Battery Demand To Jump Seven Times This Decade

By [Tsvetana Paraskova](#) - Jul 01, 2021, 2:30 PM CDT

Markets

The World Will Need 10 Million Tons More Copper to Meet Demand

By [James Attwood](#)

March 19, 2021, 1:13 PM EDT Updated on March 19, 2021, 8:00 PM EDT

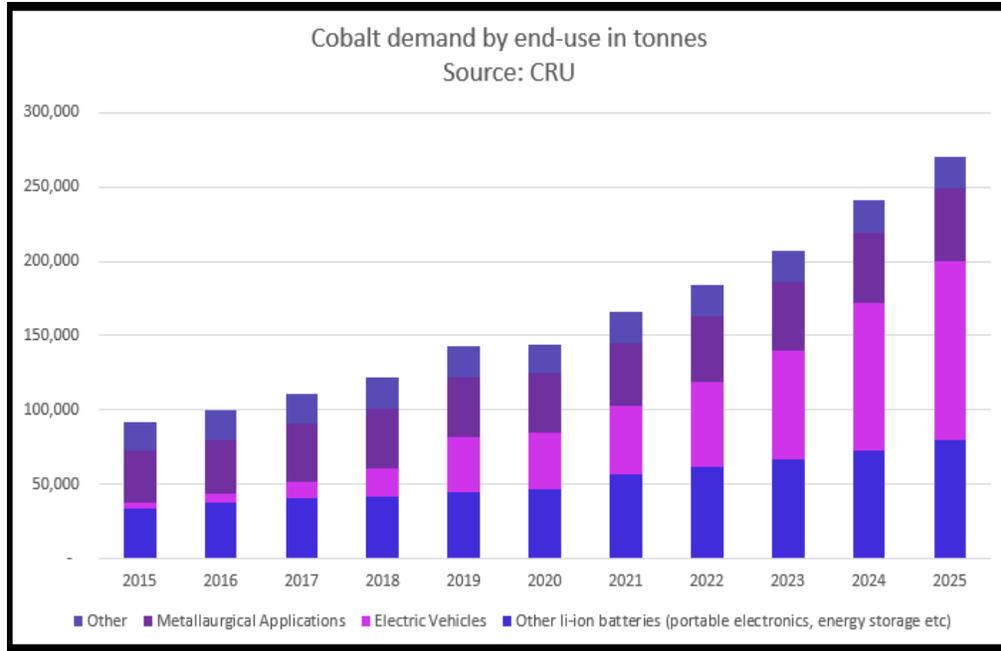
Cobalt, lithium to move into deficit by 2024, 2025: MI

📄 🗑️

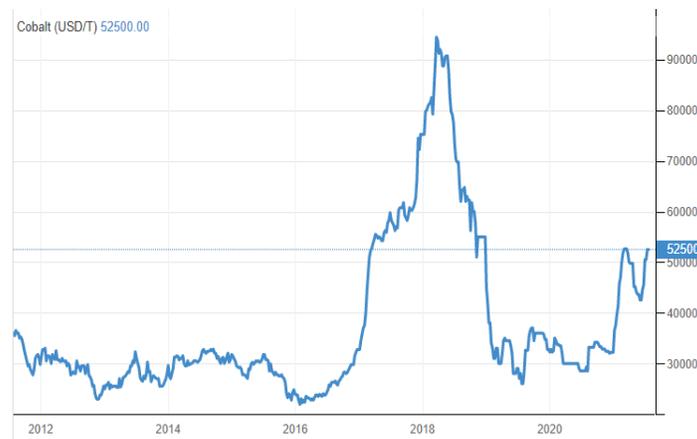
Author [Jacqueline Holman](#) 📄
 Editor [Daniel Lalor](#) 📄
 Commodity [Electric Power, Metals](#)

The chip shortage mentioned above has allowed many Semiconductor stocks to thrive over the last year or so. Next up will be base metals used in manufacturing electric vehicles. Nickel, copper, lithium, and cobalt are required to manufacture electric vehicles and will have demand deficits over the next decade as the green wave grows. The other thing that has slowly gotten harder over time is mining these metals. Regulation across the world limits the number of mines and where the mines can be.





The demand growth is projected to almost double for Cobalt in the matter of five years. The only end use with a massive spike is electric cars. As we mention again, fossil fuel usage will not come to a halt and even though green, renewable energy goals set by countries are unrealistic, it does not mean they won't increase in usage especially in the automobile sector.



Even with recent price movements, cobalt and other EV metals have a lot of room to run especially as governments push electric vehicles to consumers. There is only so much cobalt, lithium, and copper to create these vehicles and with growing demand exceeding supply by a long shot, this could be quite the opportunity for years to come.

Reddit Short Squeeze: Abandoned

The short squeeze, an interesting phenomenon that has taken financial markets by storm in 2021. Started on Reddit a social media platform, by millions of users is a group known as "Wall Street Bets".



Members ran up the prices on several highly shorted stocks, forcing certain hedge funds to cover their losses in the millions and sometimes billions. Highly shorted stocks can exponentially increase when short sellers are forced to cover or sell their positions. This has allowed stocks like GameStop and AMC Entertainment to increase over 1,000% in the matter of weeks, not off earnings, or an updated business model but by pure euphoria from a short squeeze.

The trend is completely unsustainable and pose extreme risk to participants. The entire thesis behind the trend was “stick it to large hedge funds” and “stocks only go up”. This new age stock picking is not backed by any fundamental or technical data. The most interesting part of this trend: major financial websites and news outlets have a dedicated tab to “Short Interest” on their websites to see what the next AMC or GME will be.

[MarketWatch Short Interest Screen](#)

<i>Company (Ticker)</i>	<i>Current % drop from 52 week high</i>
<i>AMC Entertainment (AMC)</i>	-46.17%
<i>GameStop Corp (GME)</i>	-62.3%
<i>BlackBerry Ltd (BB)</i>	-65.52%
<i>Bed Bath and Beyond (BBBY)</i>	-46.5%

As of July 27th 2021

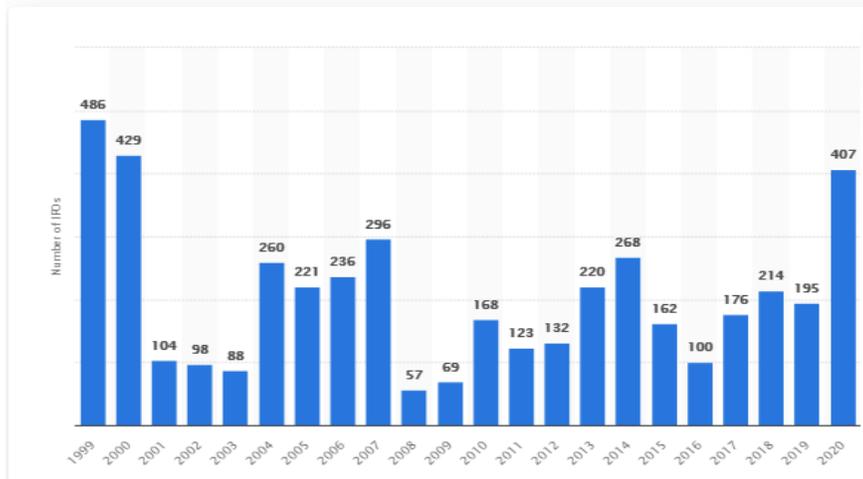
All these prices are significantly off their 52-week highs, but they are also significantly up year to date. Even with these drops, these returns would have been phenomenal but if you did buy at the wrong time as you were missing out, you are down massively. All these companies are now valued at extreme levels which will continue to drop. There are numerous lessons to be learned from this trend, for hedge funds and investors. Investors should only risk what they are willing to lose in something like a short squeeze; you never know where the top of one of these trends is.

Even the retail investors who have said they would never sell have begun to sell, it won't be long until these names return to historical low prices.

Today's IPO Market

According to FactSet there were 494 initial public offerings last year, 407 in the United States alone. This was the most by a long shot since 2000, before the “Dot Com” bubble burst. A big part of this trend was SPAC companies which made up about half the IPOs. In 2021, there has already been over 300 SPAC launches raising over \$100 billion. Not a lack of capital in the market that's for sure.

The first quarter of this year saw over 300 new IPOs representing more IPOs than the average over the last 20 years. Although SPACs have struggled recently, IPOs have not thanks to low interest rates and lots of capital.



The largest IPOs of 2021 have been in the technology sector, Bumble (dating app), DiDi Global (China's Uber), Shoals Technology (Solar Technology) and Playtika (Mobile game maker). Most of these IPOs are barely trading better than the S&P 500 over the same time frame, some have traded in the red. Most of the gains were realized on the first day of trading for these large IPOs. Bumble was up 64% on its first day but since then its down over 30%. Playtika is trading at \$23 today despite going public at \$27 and going up another 17% on its first day of trading. DiDi Global is down 35% from its IPO price and over 50% from its price high. DiDi Global is suffering on its own as it is an American listed Chinese company, it is currently in conflict with the Chinese government.

The lesson: IPOs seem to be easier to currently pull off, so buyer beware. Look for quality and a track record rather than online hype.

July 30, 2021

MacNicol & Associates Asset Management Inc.