



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.



Stawa Młyny Lighthouse Windmill, Poland



St. Helena Island Lighthouse, St. Helena Island, Michigan

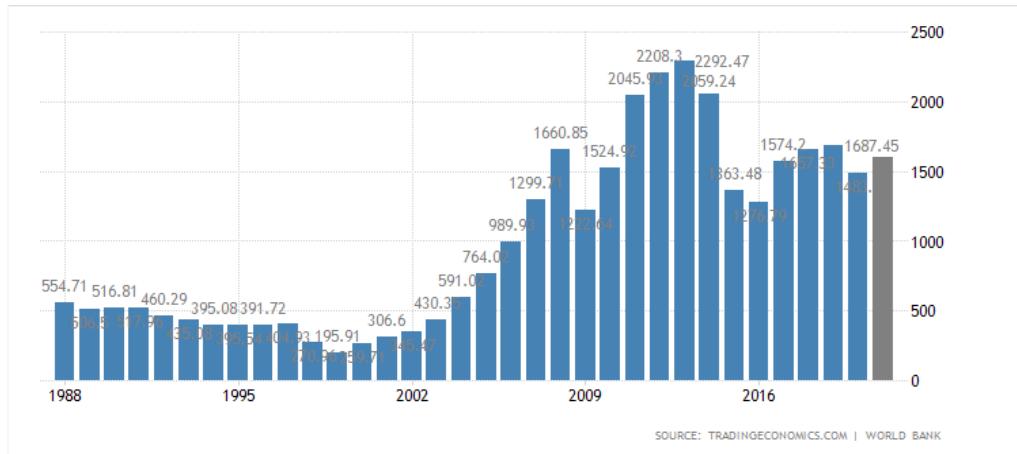
Feel free to send us your photos of Lighthouses to be featured in our weekly market observations.



East vs. West a new “Cold War”

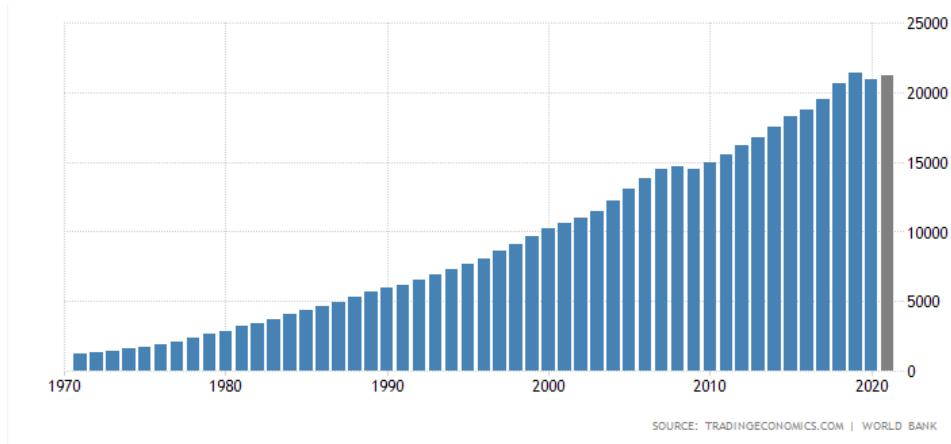
China has developed into the USA's greatest rival and there isn't a close second. For almost 30 years since the Cold War ended, there has long been a Cold War 2.0, Russian American narrative. Russia is not on the same playing field as the USA and is handicapped by a slow-moving economy. Many of the reasons the Soviet Union collapsed, and the United States claimed victory over the Cold War were attached to the Soviet Union struggling economically. This remains the case today.

Russia GDP (Billions USD)



In 2020 Russia had the 11th largest GDP in the world. In 2010 Russia had the 6th largest economy. The Russian economy highly correlates with global oil prices. The economy and country at large are reliant on oil prices being high. The three biggest companies in Russia are oil and gas producers. When oil trades above \$100 Russia has more influence globally but when it does not the entire country's economy tends to struggle.

USA GDP (Billions USD)

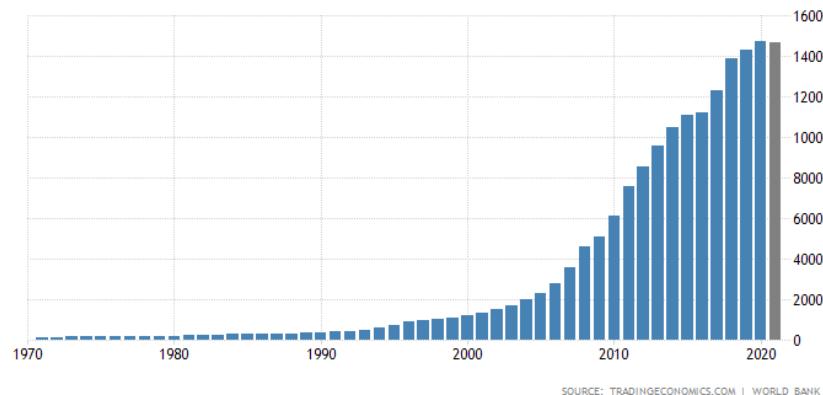


The American economy has been in an overall uptrend for almost 50 years. Even looking at the 2000s dot com crash, 2008-09 mortgage crisis and Covid-19 last year, the US economy does not contract that much. The US economy has doubled since 2000 and is not reliant on one sector to the extent Russia is.



with energy. The US also have an economy that is over ten times the size of Russia. The Russian economy is about the same size as the US Manufacturing industry on its own.

China's GDP (Billions USD)



China's economy has grown seven times larger since 2004 and now is the world's 2nd largest economy. China's GDP has grown by at least 6.1% every year since 2007 fuelled by large scale capital investment and rapid productivity growth. Another major factor that has fueled this recent growth is an increase in economic efficiency. China has also emerged as the world's largest manufacturer. China is the USA's largest competitor. China is on track to compete with the USA for global economic supremacy. What's more, China does not face the protests the Russian government does. The Chinese authoritarian government does not face much backlash at home. China also possesses greater superiority in technology, science and other sectors compared to Russia.

Do not let a narrative confuse you, China is the west's biggest threat and has been for quite some time.

The Authoritarian Chinese Communist Party and Financial Markets

Speaking of China, the country was the fastest growing economy over the last 15 years. However, it is vital to know the risks that come with investing in Chinese companies. An authoritarian government that does as they wish is a large obstacle when tackling Chinese capital markets. When looking at Chinese listed companies it is extremely important to go beyond the numbers and look at numerous other factors within China.

The Chinese Communist Party has been in power since establishing the People's Republic of China in 1949. The communist regime is the opposite of transparent. State run media within China make it hard for the rest of the world to see what goes on within China. One of the biggest examples, how Covid-19 originated in China and why they were so slow to warn the rest of the world.

As China's economy has grown so has the Chinese Equity Markets; however, they do not compare in size to the US financial market. The Chinese financial market plays a smaller role in the country's overall economy in comparison to the USA. In China only about 5% of total corporate financing is funded by equity whereas in the USA the number is significantly bigger.



Massive valuations, high liquidity and an appetite for innovative companies has made the US, the destination for foreign companies to list on, not to mention the size of the market. This has caused hundreds of Chinese companies to list on the NYSE and Nasdaq.



According to [Stock Market MBA](#), there are currently 251 Chinese companies listed on US exchanges which represent a market cap of over \$1.5 trillion. To put that in perspective the entire US stock market is approximately valued at \$45 trillion. The growing number of Chinese companies may come to a halt and probably will decrease over the next few months.

Numerous Chinese companies listed in the US will be delisted by the US government. 59 Chinese companies will be delisted on August 2nd for suspected ties to the Chinese government operating in the defense or surveillance technology sectors.

US-CHINA TENSIONS

US releases list of 59 banned Chinese defense and tech companies

Biden's executive order aimed at hindering China's military-industrial complex

EDITORS' PICK | Dec 18, 2020, 11:30pm EST | 20,527 views

Trump Signs Bill That Could Delist Chinese Companies From U.S. Stock Exchanges



Robert Olsen Forbes Staff
Asia

Finance

U.S. SEC says Chinese IPO hopefuls must provide additional risk disclosures

Echo Wang, Scott Murdoch, Kane Wu

The “be tough on China” attitude is something that is uniting both Democrats and Republicans. In an age of polarization some common ground has been reached on both sides of the aisle.



Democrats and Republicans seem to agree about one foreign policy point: Getting tough on China

But research suggests that U.S. concerns about a rising China won't bring Democrats and Republicans closer together

The authoritarian style of the Chinese government should also worry investors for the companies that remain on US exchanges. Even Chinese companies who are vocal critiques of the Communist government will face major issues.

The Economist

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Hit and run | China's communists take control of tech

MAD MONEY

Cramer says it is the 'height of irresponsibility' to invest in Chinese stocks right now

PUBLISHED MON, AUG 2 2021-7:19 PM EDT | UPDATED MON, AUG 2 2021-8:24 PM EDT

Kevin Stankewicz PREVIN_STANK

SHARES f t in e

This all came to fruition with the recent IPO of DiDi Global, the Chinese version of Uber. DiDi went public on the NYSE and raised \$4.4 billion at a valuation north of \$70 billion. DiDi Global went public at \$14/share on June 30th and is currently trading around 30% lower. The company has 377 million users and controls 91% of China's ride sharing market. The issue with the price is not fundamental or from a valuation point of view, it's the conflict between DiDi Global and the Chinese government.

TECH

In the New China, Didi's Data Becomes a Problem

Country's largest ride-hailing company collected personal data, traffic and mapping information—and that has put it on the radar of authorities

INVESTING

Scaramucci says China's Didi crackdown an assault on capitalism, 'form of political terrorism'

PUBLISHED WED, JUL 7 2021-9:30 AM EDT | UPDATED WED, JUL 7 2021-12:41 PM EDT

Two days after its IPO on the NYSE, Chinese authorities launched an investigation into DiDi Global regarding data collection and cybersecurity. They also banned the app from being downloaded by new customers, handicapping the company's growth. A day later Chinese regulators told app stores to remove DiDi Global from there stores as they were illegally collecting customers data. These actions were followed by a report that the Chinese government asked DiDi Global to delay their IPO in the US. DiDi Global disobeyed and now are facing major consequences. The data DiDi Global collected is normal for a ride sharing company; however, China did not want this to end up in the US governments hands after disclosure.



Market Summary > DiDi Global Inc - ADR

10.08 USD

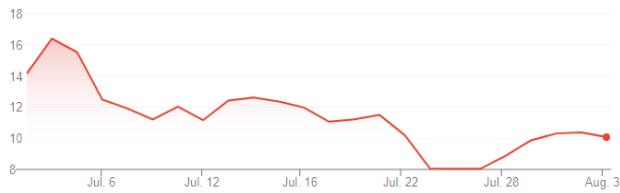
-4.06 (-28.71%) ↓ past 6 months

Closed Aug. 3, 4:54 p.m. EDT Disclaimer
After hours 10.04 -0.040 (0.40%)

NYSE: DIDI

+ Follow

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



Open 10.01 Mkt cap 48.62B Prev close 10.38
High 10.19 P/E ratio - 52-wk high 18.01
Low 9.65 Div yield - 52-wk low 7.16

Investors should take a lesson from DiDi Global and understand the massive risk that the Chinese government pose in financial markets. This could be the first of many of these instances as China does not want their data ending up in the west's hands. North American exchanges require more disclosure for public companies than Chinese exchanges require.

This is all after Alibaba (China's Amazon) Chairman Jack Ma disappeared for months at the end of 2020. Ma is a vocal critique of President Xi Jingping and some feared his disappearance could have been connected to the government at the time.

TECH

Alibaba founder Jack Ma appears for the first time since crackdown on his tech empire

PUBLISHED TUE, JAN 19 2021 11:58 PM EST | UPDATED WED, JAN 20 2021 8:22 AM EST

Ma had been extremely critical of Chinese financial regulators and their rules which he said, "would stunt growth". Ma was attempting to bring a new venture public, a financial company, Ant Group which would have been the biggest non-US IPO ever. The Chinese regulators placed new rules for Ant Groups lending business which suspended the IPO. China also launched a major investigation into Alibaba into monopolistic business practice. Alibaba paid a \$2.8 billion fine for its business practices. The Alibaba share price continues to struggle as investors fear more regulation from the Chinese government on the entire Internet and Technology sector will come.

Market Summary > Alibaba Group Holding Ltd

192.30 HKD

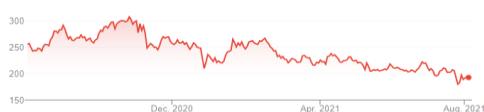
-63.50 (-24.82%) ↓ past year

Aug. 4, 4:08 p.m. GMT+8 Disclaimer

HKG: 9988

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





Alibaba is down 25% over the last year and was down 13.9% in July for its worst month in more than two years. Over the last year Amazon is up 7.5% and is greatly outperforming its Chinese competitor.

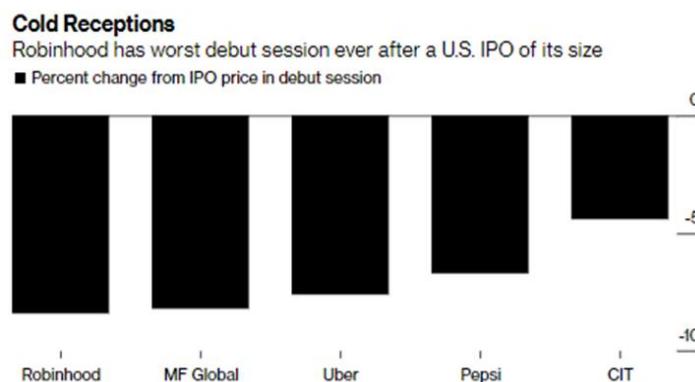
The stories of DiDi Global and Alibaba should serve as a major warning for North American investors when investing abroad. Emerging countries with more stable and less authoritative governments could present much better results than China in the coming years.

Robinhood IPO Flop and Rebound

Robinhood an American financial company known for commission free trading for its users went public last week. The app was very popular with retail traders since its debut in 2015. Covid-19 increased its user base as more people dived into trading when stuck at home. Robinhood's user base grew from 2 million in 2017 to an estimate of 13 million in 2020. [Robinhood's filings for its IPO revealed](#) it had 18 million retail users at the end of March 2021.

Retail traders loved Robinhood, they saw no fees on their trades and they could also trade Cryptocurrencies on the platform. That changed during the short squeeze GameStop era when Robinhood decided to halt the trading of numerous "meme stocks" on its platform. This obviously angered the retail trading community, and many were financially hurt by the trading halt. Buying these meme stocks was not allowed which in the short term plummeted the price as demand was unavailable.

Robinhood ended up going public at \$38/share at a valuation of about \$35 billion, not bad for a company that was founded in 2015. The first day of trading was exactly what the WallStreetBets "meme stock" community wanted, Robinhood's stock completely fell on its face.



Robinhood had the worst opening day session for an IPO of its size. Part of the reason many believe it had this rocky start was the number of shares Robinhood made available to its users from the start. About 35% of the public float would be available to Robinhood users. Robinhood made the decision for its retail clients to democratise a part of the market that retail investors usually do not have access to. After flopping the stock has since gone up by 108% as fund managers, led by Cathie Wood slowly pile in. With all that being said, Robinhood is quite expensive right now; it was trading at 11x price to sales on Wednesday morning, some would say overvalued. Charles-Schwab, the largest US brokerage is trading at 7x price to sales. Robinhood will probably fall back to reality after its recent run.



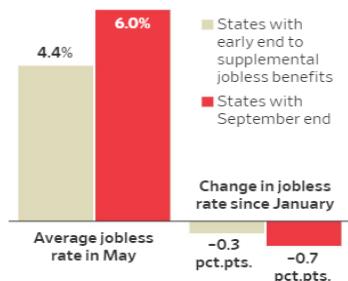
US Job Openings: What gives?



9.2 million job openings at the end of May in the USA and nobody wants them. The US is facing a record number of job vacancies. The interesting thing right now, an excess in labour supply usually drives wages down but that's not case. The unemployment rate remains much above the pre pandemic level. This could result in more inflationary pressure as employers are being forced to raise wages which will in turn raise consumer prices. Wages have risen even with job openings sky high. Several factors have led to this issue, workers moving throughout the pandemic to areas where jobs are not, workers preferring remote work and extended unemployment benefits from the government. This all reflects a mismatch in the labour market, one that has not been seen since the housing crisis.

The most notable factor that cannot be ignored is federal unemployment benefits. The unusually high Covid-19 unemployment benefits remain in place in certain states. The benefits have helped people look for a job without rushing. An argument could be made that this will lead to greater economic efficiency in the long run, but it could continue to cause short term problems and increase the populations reliance on government support in the long run. The states that have already ended the supplemental jobless benefits have a much lower unemployment rate than states that have not. It may be time to end these pandemic benefits to fill the millions of job openings across America.

Parsing the Payouts
Generous benefits could be slowing down job searches. May unemployment rates in states that set a September end to benefits were higher than states that ended benefits earlier.



Source: Labor Department

August 6, 2021

MacNicol & Associates Asset Management Inc.

130 Bloor St. West, Suite 905, Toronto, ON M5S 1N5
 Tel: 416-367-3040 Toll free: 1-866-367-3040 Fax: 1-877-215-4044
 Email: info@macnicolasset.com URL: www.macnicolasset.com