The Weekly Beacon

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.

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.*

Kansas City Water Intake Light, Kansas City, copyright photo by Warren White

Turtle Rock Light, Philadelphia, Pennsylvania

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

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Governments all in on one asset

Global Central Banks dove heavily back into gold. Central Banks have been net purchasers of gold since 2010 but that has accelerated over the last year to the highest point since 1967. Governments have piled in due to the lack of counterparty risk. Other currencies have counterparty risk when used as a reserve asset, gold does not.

Central bank purchases of gold have provided the spot price of gold with a nice tailwind pushing its price up since November's bottom. The end-of-year rally for gold essentially allowed gold to trade flat through 2022. Demand among retail investors for bars and coins also jumped to a nine-year high in 2022 above 1,200 tonnes with strong demand in Europe, Turkey, and the Middle East.

Gold's spot price throughout the last year:

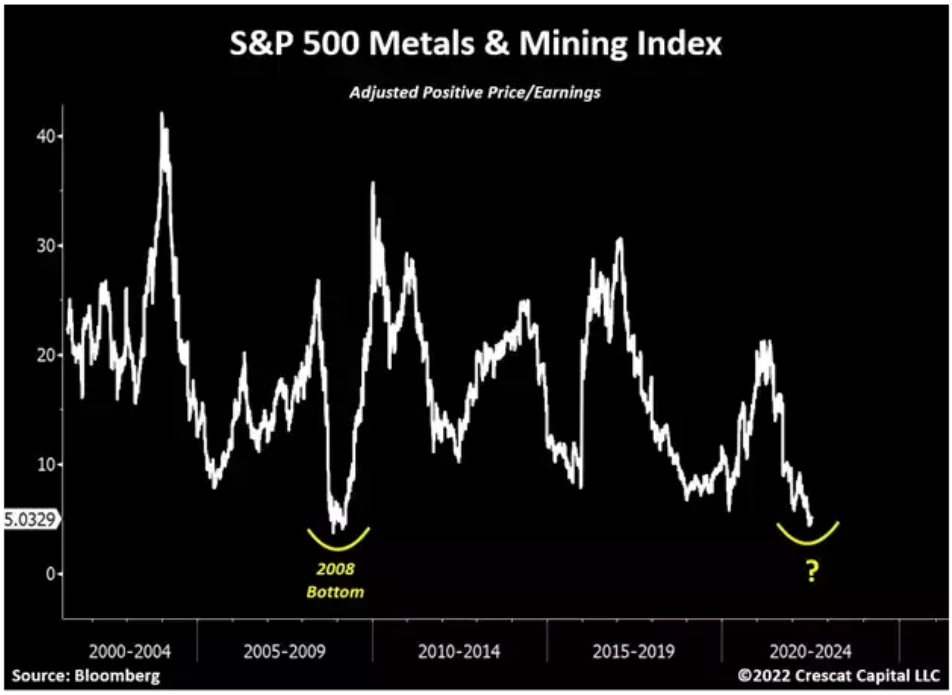
As a result of Central Bank buying and an expected return of inflows for gold-backed ETFs, UBS raised its 2023 target price for gold to $2,100, up from $1,850 previously.

We are glad investors are finally coming around to gold after a few years of hesitancy. In times of uncertainty, inflation and conflict, gold has historically performed extremely well especially when

currency values begin to deteriorate for several reasons. It's no surprise Central Banks are trying to reduce their counterparty risk, every other Asset Manager does the same.

Miners next

Speaking of gold, Crescat Capital shared two great charts in their most recent publication that make us very happy with our current portfolio allocations.



The P/E ratio of Metals & Mining companies is essentially at its all-time low. The P/E ratio also tends to move quite quickly as investors pile in or pile out of miners during times of uncertainty or times of economic growth. During the Dot Com Bubble and Housing Crisis, miners performed extremely well as investors targeted the value-oriented sector. The other thing to remember, miners have completely cleaned up their balance sheets over the last 7 years. U.S. and Canadian miners have reduced debt on their balance sheets by tens of billions since 2014. They are in a great place finacially.

The other chart that we wanted to highlight from Crescat is a chart on Gold spot price and miner's prices. We think some underperformance over the last 5+ years will lead to a major catch up in gold equity prices.

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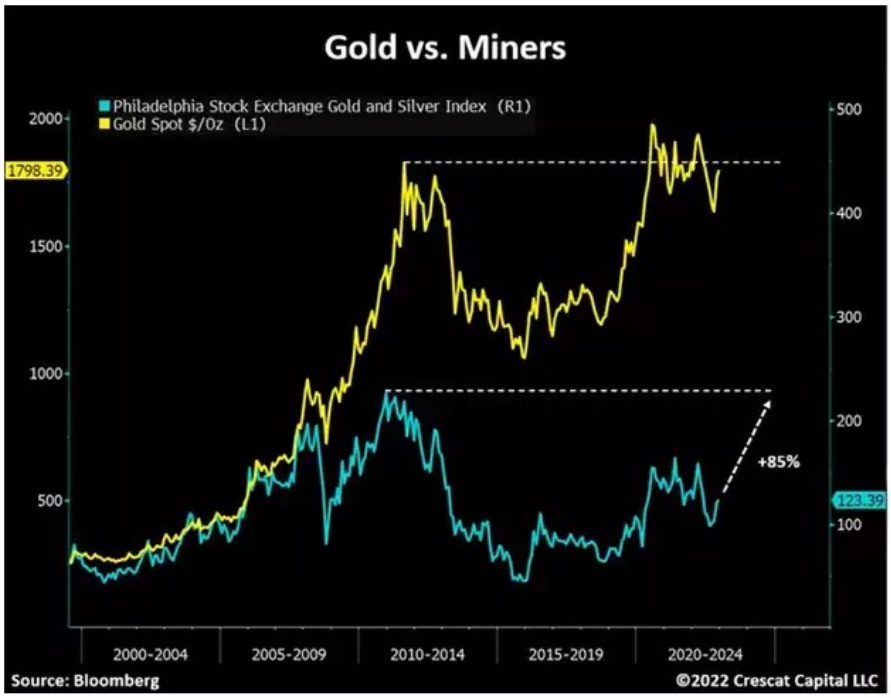
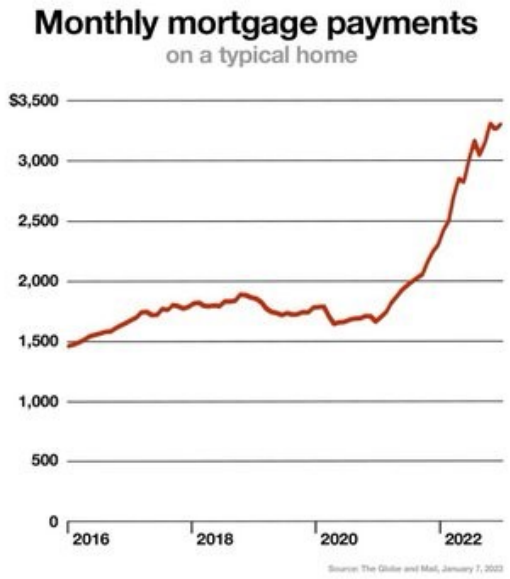


We think various gold equities are trading at a steep discount and could eventually catch up to the performance of the underlying commodity that they produce.

Mortgage payments surging

Hockey, snow, poutine, and high mortgage payment prices. Who would have thought these were 4 things that come to mind when describing Canada?

The average monthly mortgage payment is well north of $3,000 in Canada. This has more than doubled over the last 6 years.



So why has this happened? Underinvestment throughout the sector has been caused by overregulation and too many government restrictions. Canada has also added millions of people to its population in recent years which has increased the demand for housing but has not addressed the supply side of the equation. Monthly payments have also increased due to an increase in interest rates by the Bank of Canada to combat inflation.

According to Statistics Canada, the nation has seen significant double-digit population growth between 2006 and 2021, and that is poised to increase further with Canada's commitment to welcome 1.2 million immigrants into the country between 2021 and 2023. Canada plans on welcoming 500,000 immigrants in 2025 but only builds a plan to build 250,000 houses per year by the end of the decade. Real estate inventory in Canada is already extremely tight and it looks like things could potentially get tighter in the coming years. Things can change, and the addition of inventory could help home buyers and help the market with these issues.

Pressure will also be seen in the rental market that remains extremely hot in Canada, especially in Canada's largest cities.

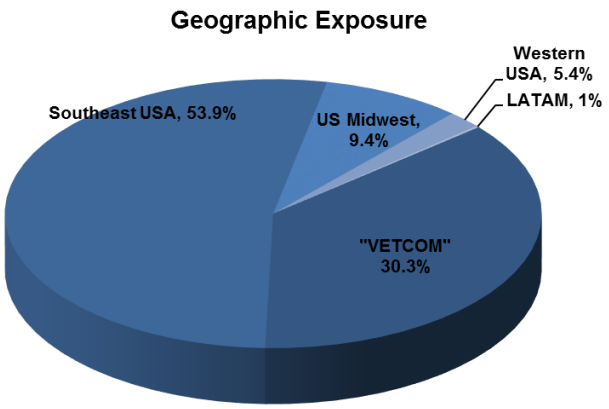
East or West coast?

Charlie Bilello summarized the Case-Shiller U.S. Home Price Indices for major cities across the U.S. and one major trend is evident, the west coast is struggling. Real estate prices are well off their all-time highs across California and in the Northwest. The other trend that is evident is the east coast has been least impacted by the recession and rising interest rates. Florida and other southeast cities are close to all-time high prices due to population trends that favor these areas. These are the highest growth areas of the last 3 years. We expect this trend to continue moving forward as people flock to Florida, Georgia, and even Texas for several reasons which include weather, taxation, and restrictions.

@CharlieBilello	Case-Shiller US Home Price Indices (as of November 2022)							Data: YCharts
City	1-Year %	3-Year %	5-Year %	10-Year %	15-Year %	20-Year %	All-Time High Date	Months From High	% Below All-Time High
Miami	18.4%	62.2%	75.3%	164.9%	69.2%	182.3%	7/31/2022	4	-1.9%
Tampa	16.9%	65.5%	83.3%	176.6%	83.3%	180.9%	7/31/2022	4	-3.0%
Atlanta	12.7%	47.5%	62.6%	136.9%	74.1%	98.5%	7/31/2022	4	-1.7%
Charlotte	12.6%	51.5%	67.3%	119.5%	90.7%	135.3%	7/31/2022	4	-2.4%
Dallas	11.0%	49.4%	59.5%	138.4%	136.0%	153.0%	6/30/2022	5	-5.1%
New York	8.1%	34.3%	38.8%	66.9%	33.4%	87.1%	6/30/2022	5	-2.1%
Chicago	7.7%	28.4%	32.1%	63.5%	15.9%	46.3%	7/31/2022	4	-0.8%
Cleveland	7.5%	34.7%	46.1%	70.2%	52.1%	55.8%	7/31/2022	4	-1.1%
Boston	6.9%	34.2%	46.9%	95.7%	80.8%	104.2%	6/30/2022	5	-3.4%
Las Vegas	6.6%	43.5%	65.1%	179.2%	39.5%	129.5%	6/30/2022	5	-6.0%
Phoenix	6.3%	60.5%	83.6%	157.1%	65.2%	172.4%	6/30/2022	5	-6.8%
Detroit	6.2%	32.2%	43.7%	111.0%	62.4%	46.3%	6/30/2022	5	-1.6%
Denver	6.1%	38.4%	52.5%	131.1%	133.9%	147.5%	5/31/2022	6	-5.0%
Washington	5.3%	27.6%	34.8%	58.6%	34.6%	106.2%	5/31/2022	6	-2.3%
Minneapolis	4.9%	27.6%	40.1%	84.0%	46.4%	66.2%	6/30/2022	5	-1.7%
San Diego	4.8%	47.4%	57.9%	138.5%	86.6%	151.4%	5/31/2022	6	-7.4%
Los Angeles	4.4%	36.0%	45.2%	123.0%	64.5%	173.4%	5/31/2022	6	-6.2%
Portland	4.0%	34.2%	44.6%	127.8%	77.3%	184.5%	5/31/2022	6	-4.5%
Seattle	1.5%	41.8%	55.9%	156.2%	96.1%	213.5%	5/31/2022	6	-9.1%
San Francisco	-1.5%	27.4%	35.2%	132.4%	75.0%	137.0%	5/31/2022	6	-11.9%
20-City Index	**6.8%**	**38.4%**	**48.0%**	**107.7%**	**61.2%**	**123.7%**	**6/30/2022**	**5**	**-4.1%**

San Francisco is the only major city that has seen real estate prices drop over the last year. It looks like the valley has peaked as technology companies relocate into lower tax jurisdictions. Prices have also dropped in the Bay area due to how overvalued that had become over the last 10-20 years. Crime could also be playing a part in the San Francisco real estate market as consumer demand decreases.

Therefore, analysis matters and is why certain real estate funds outperform others during periods of interest rate increases (when real estate prices historically decline). Many real estate funds have focused on California, New York City, and Chicago solely based on size and reputation. Those funds did not pivot from their focus when the tide was changing and have been left in the dust of those who followed demographic trends. Check out the MAC 360 Degree Real Estate Fund by clicking here. The MAC 360 Degree Real Estate Fund invests in U.S. and Canadian real estate. As of December 31, 2022, this is the fund's exposure by geographical region.



"VETCOM" markets consist of Vancouver, Edmonton, Toronto, Calgary, Ottawa, and Montreal

Traditional automaker smashes expectations

General Motors announced earnings on Tuesday morning and investors were extremely happy.

GM shares traded up 8% by lunchtime Tuesday due to the release of 4th quarter earnings and extremely positive guidance for 2023.

GM's earnings per share for the 4th quarter came in at $2.12 versus analyst expectations of $1.69. GM sales also beat expectations by 5.78% for the 4th quarter. Revenue and earnings also beat results from the 4th quarter in 2021. GM's revenue in 2022 grew by 23.4% but net income dropped due to sliming margins. Its adjusted profit margin was 9.2%, down 2.1 percentage points compared with the previous year.

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For 2023, GM expects net income attributable to stockholders of between $8.7 billion and $10.1 billion. It expects adjusted earnings before interest and taxes of $10.5 billion to $12.5 billion and adjusted earnings per share of between $6 and $7. Even though those numbers are below 2022 results they were above analyst projections for 2023. Wall Street was pricing in a worst-case scenario demand destruction period for GM and other automakers for their 4th quarter results. Even though consumers have cut costs to offset rising prices and a recession, GM delivered through consistent demand and competitive pricing. GM CFO, Paul Jacobson believes they are well positioned moving forward no matter the economic environment. He believes GM's prices are causing other market participants to price cut to remain competitive. Ford and Tesla recently sliced the prices of their EVs. GM's EVs currently range from the mid-$20,000 Chevrolet Bolt models to the more than $100,000 Hummer vehicles.

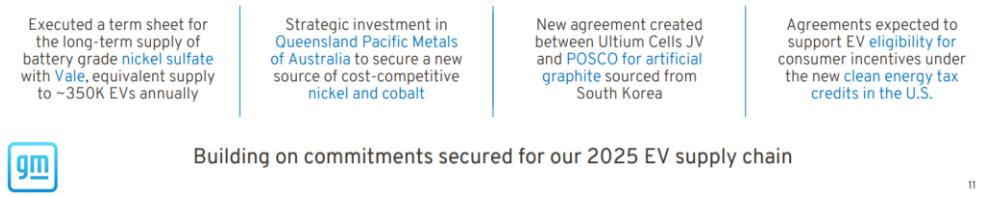
GM also announced they will be executing a $2 billion cost-cutting plan over the next 2 years. GM's revised plans to produce 400,000 EVs in North America between 2022 and the first half of next year.

The biggest announcement GM made was an investment in a project that will position them in the pole position in the EV market (minus Tesla). GM invested $650 million in a project with Lithium Americas to develop a lithium mine in Nevada known as the Thacker Pass.

GM is to receive exclusive access to phase one of production, the automaker announced. GM also announced that they would have 9 different models offered as EVs in 2023.

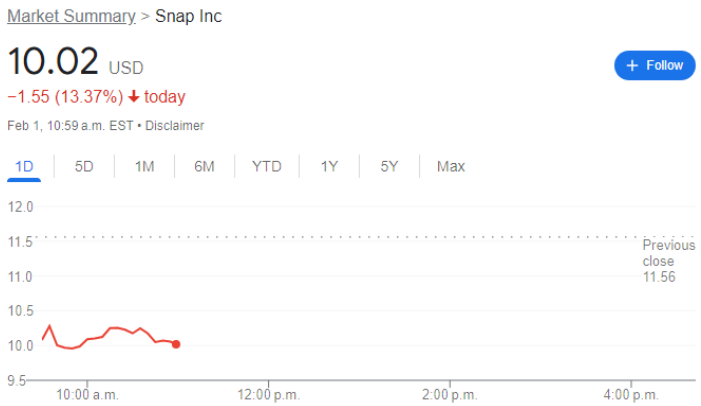
Watch for GM to cut into Tesla's market share in the EV market in the coming years. GM has made moves like Tesla that some other automakers have ignored by securing the supply of various rare earth metals needed for EV production.

From GMs Q4 2022 investor deck:



Déjà vu for Snap

Snap (the parent company of the popular social media platform Snapchat) announced earnings this week and let's just say they did go well.



Snap shares plunged on the day after earnings were released, very similar to what happened when Q2 and Q3 earnings were released back in July and October. Snap continues to miss expectations and continues to cut forecasted revenue and earnings. They have forecasted that revenue will slip from 2-10% during this quarter, but analysts believed revenue would increase. Revenue was also flat every quarter for Q4 year over year. Their operating margin also got much worse in 2022 compared to 2021. Despite all these issue,s management handed out $451 million in stock-based compensation during the 4th quarter and $1.4 billion during 2022. This stock-based compensation represents 35% of Q4's revenue and 31% of 2022s revenue. Management, who are underperforming, reward themselves at the expense of shareholders.

Snap shares fell 28% in October after Q3 earnings were reported and 39% in July when Q2 earnings were reported, so technically Snap came out ahead only being down 10-15% on Wednesday.

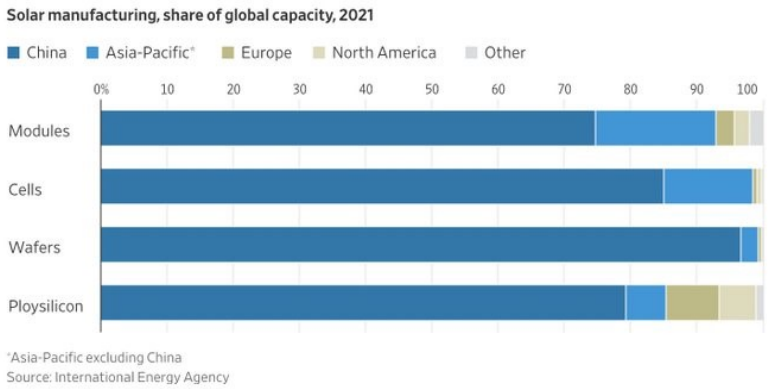
Snap shares fell 81% last year, significantly underperforming the technology sector and the Nasdaq 100. It seems social media companies and Internet-based services are struggling to find advertisers. Companies have cut back on ad spending due to the economic climate, but perhaps other companies have cut back on ad spending on these platforms due to the return on investment being so low. Most

users of Snap use the app for its purpose and get off. They do not scroll around throughout the application where they would see advertisers.

We hope you did not buy into the dip-buying mania that may have worked for some stocks but high multiple, low growth companies not so much. Snap could serve as a major warning to other social media companies reporting earnings in the coming days like Pinterest.

China dominates solar

China has a stranglehold on global solar panel manufacturing and it's not even competitive.



This is an even larger threat to western energy policy than our dependence on Russian oil and gas. Russia is the world's third-largest oil producer behind the United States and Saudi Arabia. Russia is the world's largest exporter of oil to global markets and the second-largest crude oil exporter behind Saudi Arabia. Even though the oil and gas sectors are highly concentrated by a few nations, solar manufacturing is much, much, much worse.

China manufactures over 70% of the world's modules, cells, polysilicon, and wafers. They control 97% of global wafer manufacturing, a monopoly if we have ever seen one.

If you are a long-time reader of this publication, you know we are not the largest believers in solar energy on its own, but we do think it will play a part in the world's power grid moving forward (along with oil, gas, and uranium). We highlight this because this is a national issue for numerous countries that want to go green. China will hold western nations hostage if they can hold a monopoly in this growing sector.

This week China announced a plan to restrict exports of key manufacturing technology to the U.S. which will delay production across the U.S. China's Ministry of Commerce and Ministry of Science and Technology are considering adding advanced technology used in the production of ingots and wafers, some of the inputs in solar panels, to a list of technologies that are subject to export controls. To put it in plain English, China does not want the west getting what they have and will restrict exports from

getting on top of them. If approved, Chinese manufacturers would need a license from the government to export any solar technologies used in manufacturing.

At present, only Chinese companies can make larger 182- and 210-millimeter wafers, according to the Taipei-based market research firm TrendForce. These wafers produced by China will reportedly make up 96% of the world's market share in 2023.

U.S. policymakers have encouraged domestic production and encouraged allied governments to do the same thing. The U.S. was joined by India and European nations voicing their concerns with this move by the Chinese government.

Green energy enthusiasts need a solution fast or domestic solar production could take years to increase. China's major advantage is cost, without the large wafers that they produce, the U.S. would be forced to begin producing them at much higher costs, a process that many industry analysts say would take a few years to set up.

Adani Group

Last week we reported on the activist's short-seller Hindenburg Research publishing a short report on the Adani Group, an Indian conglomerate. Hindenburg cited fraud, corruption, insider ownership, fraudulent accounting, and much more as their reasons to bet against the Adani Group. Originally, Indian investors were not scathed by this report, as shares dropped 4-5% the following day. Adani Group then responded to Hindenburg with a 400+ page report where 30 pages focused on the issues Hindenburg brought forward. Adani did not address the core allegations that Hindenburg reported on. Adani also claimed that Hindenburg was an attack on India as a whole and was an attack on the independence of the country and their future ambitions. Adani also claimed they would take legal action against Hindenburg's false claims which Hindenburg encouraged in a U.S. court where Adani would be forced to disclose documents. Adani has denied the allegations, saying the short-sellers narrative of stock manipulation has "no basis" and stems from an ignorance of Indian law. It has always made the necessary regulatory disclosures, it added.

The market finally priced in the short report and seems to believe Hindenburg and not the Adani Group.

BUSINESS | News

Gautam Adani loses Asia's richest crown as stock wipeout reaches $86B

The drop in Adani shares is also tied to Adani raising $2.5 billion through a share issuance on Monday. Many investors were surprised that the company could raise that amount of money with these allegations swirling, nonetheless, they did. However, just two days later the company announced a cancelation of the transaction, announcing money would be returned to investors. The offering of equity

was a way of paying off debt that is coming due. The interesting thing with this equity raise is two of the underwriters were accused by Hindenburg of assisting Adani in their offshore bank accounts and fraudulent accounting.

Tim Buckley, a former investment banker at CitiGroup Australia (who has studied Indian equities for 10+ years), and Bill Ackman, a U.S. hedge fund billionaire claimed they would not be surprised if Adani raised the funds with affiliates and through insiders via offshore funds.

We do not know what to think of this, but it is extremely interesting. Adani also more than likely canceled the equity raise as the market price dropped below the offering price due to the stock tanking. Why would new investors want to buy in with such a huge premium? We will let you come to your own conclusions…… For now, we will continue to follow along on the sidelines.

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