

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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ASSET MANAGEMENT

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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.*



#### ***Newburyport Harbor Light, Newburyport, Massachusetts***

This lighthouse was established in 1788 and its current structure was built in 1898. The lighthouse was first powered by whale oil. The lighthouse stands at 50 feet tall.



#### ***Great Point Lighthouse, Great Point, Nantucket, Massachusetts***

*This 70 foot lighthouse was originally built in 1785, the current iteration of the lighthouse was built in 1986. The residents of Nantucket first wanted to put up a lighthouse at Great Point in 1770, but did not get permission from the General Court of the Commonwealth of Massachusetts until 1784.*

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



## Arm files for American IPO

Arm Holdings filed for an initial public offering on Monday. Arm Holdings is owned by the investment firm SoftBank and is an English technology company that designs chips found in phones. Arm is the architect of chips found in 99% of smartphones. The company is not a chipmaker but an architect of chip-making. The company designs, and programs chips instructing other companies to build the chips. The company is seen as a neutral party in the technology world as its designs are in most smartphones including Apple, and Samsung devices.

Arm Holdings is seen as the crown jewel in the British technology sector. According to <https://companiesmarketcap.com/> the United Kingdom does not have one of the top 100 public technology companies across the world (rankings are based on market capitalization). Countries that have a company that makes the list include the U.S., Taiwan, China, South Korea, Netherlands, Germany, Japan, France, Canada, Argentina, Switzerland, Thailand, Spain, and Israel. It's safe to say the British technology sector is lacking.

Jumping back to Arm's IPO filings. The company is filing for an IPO on the Nasdaq and its ADR shares will represent ordinary shares in the American market. In its filing, Arm Holdings reported revenue of \$2.68 billion for the fiscal year ended in March 2023, down slightly from the year prior's top line number of \$2.7 billion. Net income over the same period was \$524 million. The company reported \$675 million of revenue for its latest quarter, which ended in June 2023, down from \$692 million the year prior. It reported that net income more than halved to \$105 million in the quarter.

Barclays, Goldman Sachs, J.P. Morgan, and Mizuho are acting as joint managers for the proposed offering.

SoftBank agreed to acquire Arm Holdings for \$32 billion in 2016 which at the time was a record acquisition price for a European technology company. In 2020, SoftBank looked to sell Arm to Nvidia (perhaps for liquidity reasons, or perhaps as they were on a big losing streak), a price was agreed upon by the two parties, but the sale was shut down by the regulators.

## **NVIDIA to Acquire Arm for \$40 Billion, Creating World's Premier Computing Company for the Age of AI**

September 13, 2020

SoftBank is still getting bit in the a\*\* by their investment in WeWork and Adam Neumann.

TECH

## SoftBank values WeWork at \$2.9 billion, down from \$47 billion a year ago

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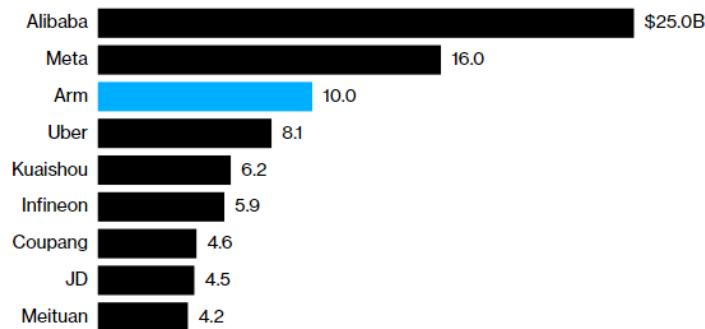
Its debut will be a big deal not only for Softbank but for an IPO market that's been in the doldrums since 2022. If this is successful, several companies could cash in on the IPO market later this year, including Instacart, Klaviyo, and Birkenstock.

Arm's IPO is poised to be the largest since the electric vehicle maker Rivian went public in October 2021 (Rivian raised \$13.7 billion) and would only trail Alibaba (2014) and Meta (2012) for the largest technology IPOs ever.

### SoftBank Envisions One of Tech History's Largest IPOs

Arm is targeting a stock debut that would be the third-largest ever

■ Amount raised in IPO



Source: Bloomberg

In the United Kingdom, Arm Holdings is seen as strategically important to national interests. As a chip war ramps up, the UK has a trump card in its back pocket. The British government pushed for a listing on the London Stock Exchange but was not successful as SoftBank preferred a debut in New York.

It is not clear what SoftBank is seeking for Arm, but many believe the initial valuation will be between \$60-70 billion, double the value of the company in 2016. Arm plans for its roadshow to begin in just a few weeks to gauge investor interest.

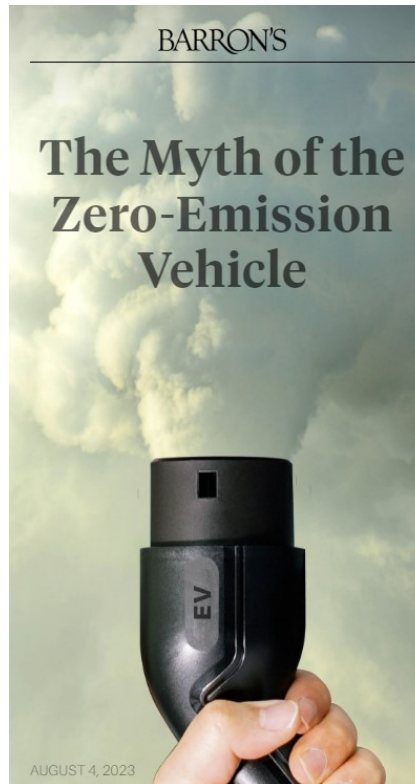
SoftBank has sunk billions into the growth of AI in its Vision Fund and is hoping their bet pays off after some weak investments over the years. The Vision Fund lost \$30 billion last year, a record number. A successful IPO of Arm could also represent continued investor interest and confidence in AI not waning.

The last thing we will say about the IPO, Arm sales have shrunk 15% over the last year and the rumored valuation would slap a 22-26 times revenue multiple on Arm, at that price we will have a hard pass.

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## Mainstream catches on

Barron's ran some graphics this week on electric vehicles. The images and stats are not what you would think. The media has long applauded electric vehicles as zero emissions modes of transportation and has barked at those who have opposed the point of view. We have been in the party that electric vehicles do produce emissions just not at the pump like traditional automobiles do.

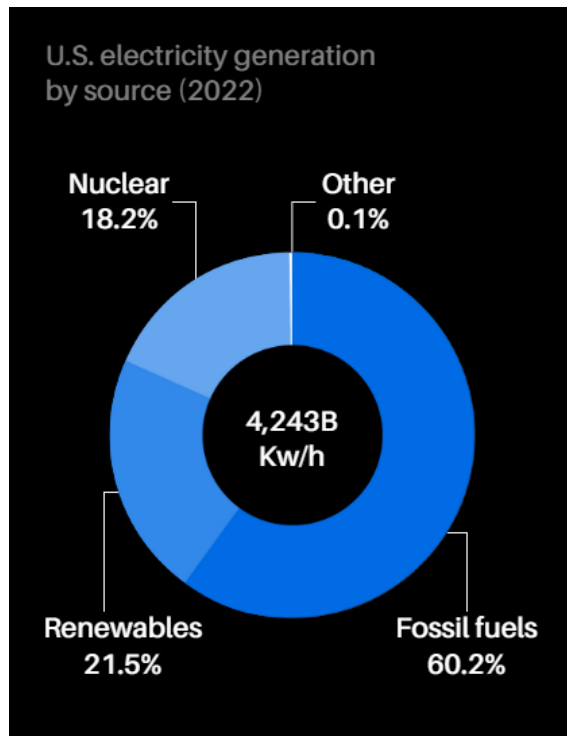


We are not sure why the media has flipped their opinion but can only think that the lack of popularity and price point of electric vehicles has something to do with their opinion. Elon Musk's brashness could also be a driver of these evolving opinions. Musk runs the world's largest electric vehicle producer (Tesla) and is not the most media-friendly CEO.

The term zero emissions might be true for tailpipe emissions for electric vehicles, but it is not true for the production, battery replacement, and methods of charging for electric vehicles. EV chargers use all kinds of power to charge vehicles, mining the metals that construct electric vehicles causes immense pollution, and so does replacing a battery for one of these vehicles.

According to some reports, electric vehicles still produce half the greenhouse gases that traditional automobiles produce, some analysts believe that number is a generous estimate.

In the U.S., most electricity used to charge electric vehicles is generated from fossil fuels.



As long as electricity grids rely on fossil fuels, fossil fuel demand will not decrease even if more electric vehicles are in use. However, a rotation from oil to natural gas could take place as traditional automobiles consume oil and the electricity grid is primarily fueled by natural gas, diesel and coal.

### Retail issues

Dicks Sporting Goods reported earnings on Tuesday and the company's price chart says it all (in terms of how it went).





A 24% drop for a \$9.6 billion retailer is massive. The company missed its earnings for the first time in 3 years. The company's second-quarter earnings missed consensus estimates by quite a margin. The company reported earnings per share of \$2.82 versus an estimate of \$3.81, the company also fractionally missed revenue estimates. Without a massive drop on the top line, what caused this bottom-line catastrophe? Executive bonuses? Stale inventory? A huge jump in operational expenses? If you said yes to any of those then you are wrong.

The major driver of this earnings miss was the impact of elevated inventory shrink – a term used by public companies to describe damaged inventory or stolen inventory. The sporting retailer is facing serious theft issues just like other retailers like Walmart and Target. The practice is costing retailers billions of dollars a year according to industry executives.

The NRF's National Retail Security Survey, which was conducted with the Loss Prevention Research Council, found that retailers saw a 26.5% increase in organized retail crime incidents on average in 2021. That number is presumed to have increased in 2022 and 2023.

Looking forward the company announced that they believe EPS for the year to come in 12% below its initial forecast, while they forecast sales to stay flat or increase by 2% to the end of the year.

The crime that has Dick's and other retailers worried is organized retail crime which has spiked in recent years. Just last week, more than 30 people entered a Los Angeles-based Nordstrom and nabbed \$300,000 worth of merchandise at once.

Dick's Sporting Goods is trading at its lowest point since December 2022 and is trading at the same point it was trading at in August 2021.

Until something changes with how these criminals are punished, this retail crime will continue especially in big cities like New York, Los Angeles, and Chicago.

## **Safety shift**

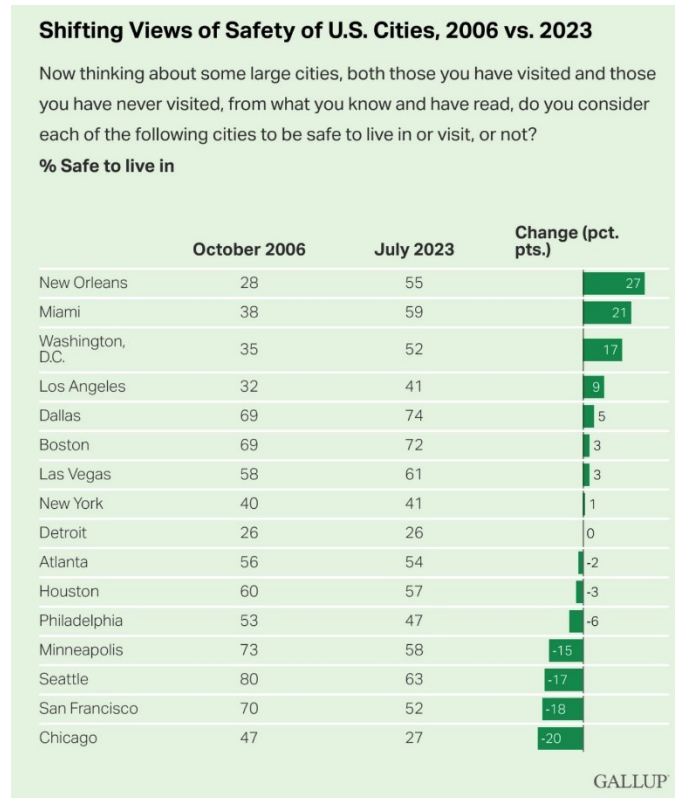
Over the last 17 years, a lot has happened.

- Cryptocurrencies and Bitcoin were created
- Covid-19 locked the world down
- The Mortgage Crisis came and went
- The U.S. elected their first African American President, Barack Obama (twice)
- Donald Trump became President
- Instagram, Airbnb, Slack, Uber, Square, and Pinterest were founded
- In 2006, there were 44 people worth \$10 billion or more, today there are 192
- The Chinese economy has grown by 7x

- In 2006 the world's largest company (by market cap) was ExxonMobil, and no technology company was in the top 10, today the world's largest company is Apple, and Microsoft, Alphabet, Amazon, Nvidia, and Meta are in the top 10
- Tom Brady was 29 and only a 3-time Super Bowl Champion



We highlight all these major events to preface the next chart.

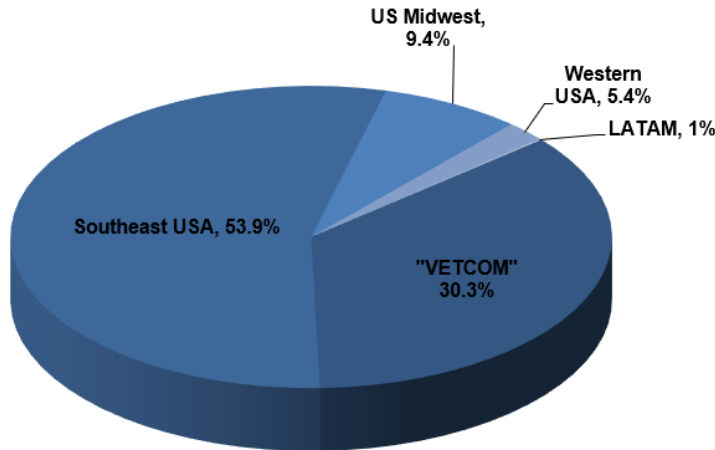


Gallup surveyed how major cities have changed over the last 17 years in terms of how safe they are (or how safe the population sees them).

A major shift has occurred in Silicon Valley once a beacon of prosperity and the birthplace of the global technology sector has now become quite unsafe for its inhabitants. We will not jump into the reasons for these shifts but think they are interesting to look at especially when we look at where we have our major real estate holdings.



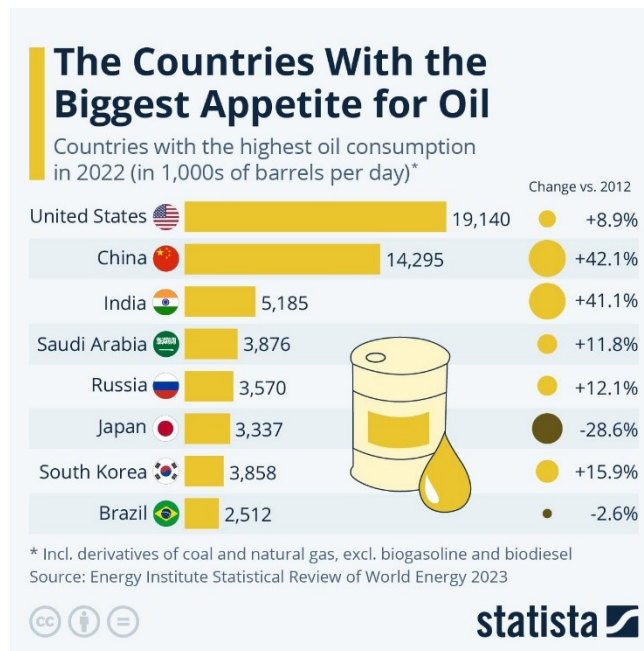
**360 Degree Fund Geographic Exposure, as of June 30<sup>th</sup>, 2023**



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

**Oil consumption**

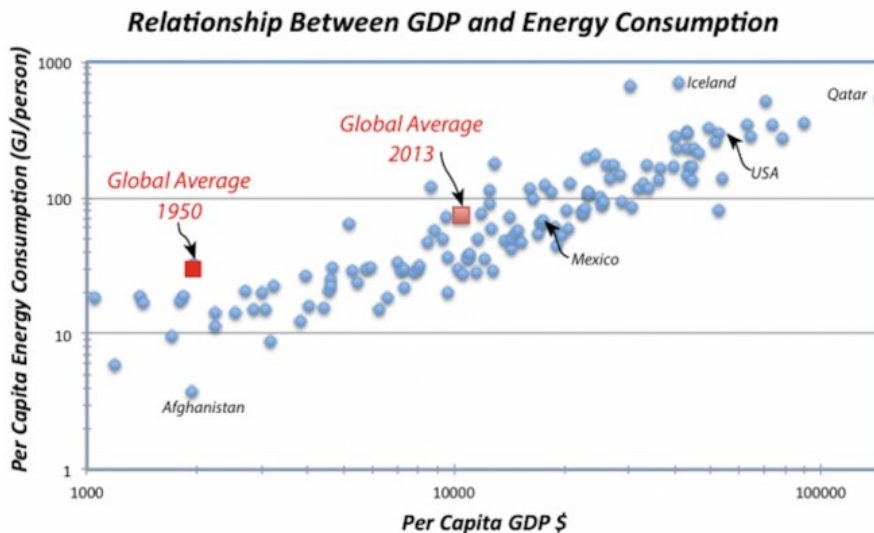
Who consumes the most oil globally? The list will not surprise you, but the 10-year change numbers probably do.



U.S. oil consumption continues to rise even with the push from green energy activists. Oil consumption from other major consumers is also on the rise as countries attempt to make the jump from emerging or developing economies to developed economies. We expect India to continue their ascent as an



economy that will continue to increase their consumption of oil. Always remember more oil = larger economy = higher quality of life.



### Home sales slide, prices move up

Home sales in the U.S. in July fell more than expected with rising mortgage rates keeping buyers and homeowners on the sidelines. Existing sales at a seasonally adjusted annual rate was 4.07 million in July a 12.2% decline from June. July's number was 16.6% lower than July 2022. This was also the slowest single month since January.

Economists were calling for a consensus estimate of 4.15 million homes sold in July.

Two major drivers are causing this slowdown in home sales, mortgage rates and housing inventory. There were only 1.11 million homes for sale in July, the lowest inventory number since at least 1999 when data by this association was first tracked.

30-year U.S. mortgages are at their highest level since 2000 and are inching closer to 8%.



## Average U.S. 30-year fixed mortgage rate

Weekly; Dec. 31, 1999, to Aug. 22, 2023



Data: FRED Economic Data, St. Louis Fed, Mortgage News Daily; Chart: Axios Visuals

Interest rates ticking up are not only hurting prospective home buyers but also current homeowners who will be forced to re-negotiate their mortgage rate at the end of their term. There are also those consumers who locked into variable rate mortgages when interest rates bottomed during Covid-19 who are getting blown out of the water. Consumers are stretching themselves as their mortgage payments increase.

The major reason home prices have not retreated (even though sales volume has) in both Canada and the U.S. is purely to do with supply which continues to greatly trail demand in both markets.

Just to visualize what this rate increase means to consumers who are buying a home, here is a simple calculation of monthly payment, total interest paid, and total paid over a mortgage's lifetime for two different interest rates.

	August 22 2023	August 1 2020
Mortgage Amount	500000	500000
Years	30	30
Monthly	12	12
Interest Rate	7.49%	3%
Payment	\$3,492.65	\$2,108.02
Total Paid over 30 Year Mortgage	\$1,257,353.79	\$758,887.26
Interest Paid	\$757,353.79	\$258,887.26

Comparing 2020 interest rates to today is quite telling. Homeowners are paying almost \$500,000 more over a 30-year mortgage assuming the same mortgage amount.

However, it looks like there is no relief coming for prospective buyers as interest rates look to be staying high at least to end this year and to start next year.

Meanwhile, home prices ticked up by 2% in July even as mortgage rates surged.

For home affordability to return to pre-pandemic levels, incomes would need to rise dramatically, while mortgage rates and home prices both fell – an unlikely scenario.

### **Harder than he thought**

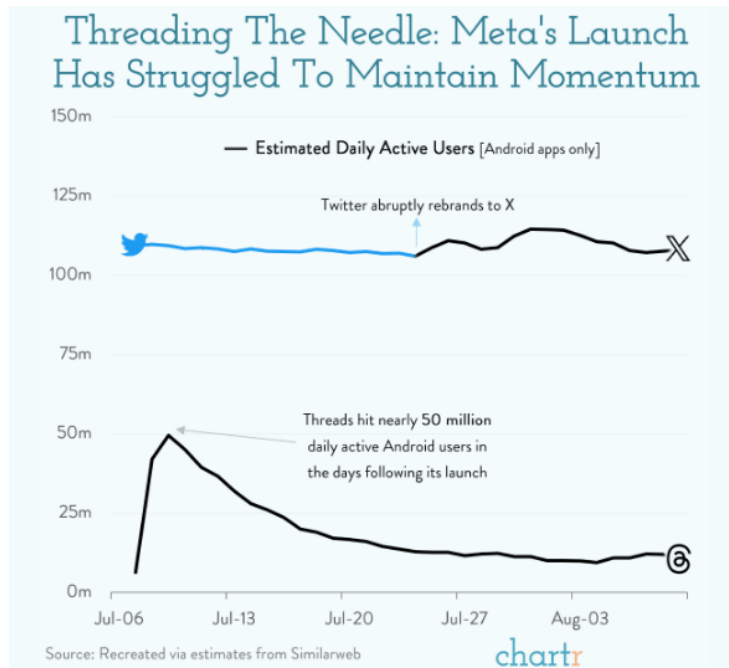
Mark Zuckerberg launched Threads, a platform connected to Facebook and Instagram that would be Meta's competitor to Twitter on July 5th. Many believed that this platform would surpass Twitter as it was a similar platform, connected with Instagram, was more regulated, and was not run by brash Elon Musk. If you believed that then you were sold a pipe dream. Many believed Threads would add revenue, and earnings to Meta's income statement and that this launch was a major catalyst for its stock price.

In its early days, Threads was very popular. It surpassed 70 million users in 48 hours, was talked about on the news, and was the fastest App to reach 100 million users. However, since that original pop, the hype for Threads has faded and social media users have returned to the application they have used for over a decade, Twitter.

A bit harder than you thought Zuck.....



In early to mid-July, Threads had 50 million daily active users, that number has collapsed to 8 million versus Twitter (X) which has approximately 110 million daily active users.



Although Zuckerberg has found massive success with Facebook and with his acquisition of both Instagram and What's App, it is important to note that maintaining momentum is half the battle for social media platforms. Remember Myspace, Friendster, Vine, and even BeReal.

**MacNicol & Associates Asset Management**  
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