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.

MacNicol & Associates
Asset Management

Contact us today if you would like to meet about your investment future. info@macnicolasset.com

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.

Boston Light, *Little Brewster Island, Boston, Massachusetts*

This lighthouse was originally built in 1716 and the current structure was built in 1783. The 89 foot lighthouse is the oldest lighthouse in the U.S. The lighthouse is still in operation and was named a National Historic Landmark in 1964.

Eddystone Lighthouse,
Rame Head, Devon, England

This lighthouse was originally built in 1698, and its current iteration was built in 1882. The lighthouse currently stands at 49 meters tall and was originally lit in 1882.

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

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Instacart, time to check out

Instacart is an American delivery company that operates grocery delivery and pick-up services in the U.S. in Canada. The company was founded 11 years ago and is headquartered in San Francisco. We bring this company up because it has been a highly anticipated IPO for quite some time. The rumors have been swirling for a few years now that the private company would launch its IPO, and yet today, it remains private. The service allows customers to order groceries from participating retailers with the shopping being done by a personal shopper. The services of the platform are offered via mobile app and website. The company reported $2.55 billion in revenue last year and earned a slim profit of $97 million. Instacart has a deep history of losses and joins the likes of Uber, and other technology companies who have struggled to consistently turn a profit.

We bring Instacart up this week because they finally filed for an IPO this week. The company is targeting a $616 million listing, valuing the company between $7.4 billion and $9.3 billion. The company could potentially debut publicly as soon as next week. When the company begins trading, its ticker will be "CART". The issue with Instacart's filings is that the valuation they are targeting is a fraction of what they used to be worth. In March 2021, Instacart was valued at $39 billion, becoming the 2nd most valuable U.S. based unicorn company. Instacart only trailed SpaceX in valuation currently for U.S. unicorns. The $30 billion drop in valuation was due to slowing growth, profitability issues, COVID-19 ending, and scalability concerns. Another driver for the valuation reset was venture capital funding drying up.

Instacart's valuation benefited during the first year of Covid-19 when consumers rushed to download the application due to lockdowns, and virus fears. The valuation grew from approximately $8 billion to $39 billion in just over a year. Instacart raised $265 million in March 2021 based on a $39 billion valuation. Some of the largest venture capital firms in the world bought their hype and piled in including Andreessen Horowitz, Sequoia, Fidelity, and D1 Capital.

Even though we will not be buyers of this IPO and think this company has a long way to go in terms of long-term success, we think it will serve as a major litmus test for U.S. equity markets. The U.S. IPO market has essentially been frozen for 2 years but will be tested by Instacart and Arm Holdings in the next week (which we wrote about in this publication a few weeks ago). Arm Holdings, which is owned by Softbank, completed its roadshow last week and was reportedly successful along the way. The company is aiming to raise $5 billion – valuing the computer chip designer at over $50 billion. Arm reportedly is over-subscribed for their IPO which is set for Thursday.

Instacart has taken investors on a roller coaster ride over the last 5 years, and we are excited to see what will happen next. Excitement does not mean we are buying the IPO. We will be on the sidelines watching to see what happens with Instacart, Arm Holdings, and the entire IPO market which will give us some more insight into the state of global equity markets.

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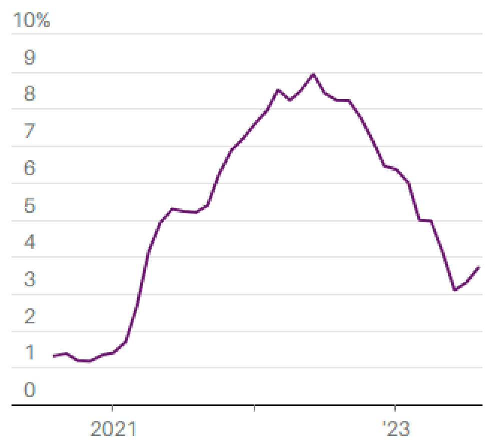
Prices……….rising again

The latest inflation data was released on Wednesday by the U.S. Bureau of Labor Statistics, and it looks like CPI is moving in the opposite direction of what the FED is hoping for. The annual inflation rate for the year ended August 31, 2023, was 3.7% which beat street estimates which projected the CPI at 3.6%. Prices climbed 0.6% in August; the largest month-over-month increase in more than a year. This is the second straight month the CPI has increased after 11 straight decreases (July's number came in at 3.29%). In this cycle, inflation bottomed in June but has since jumped to a 3-month high.

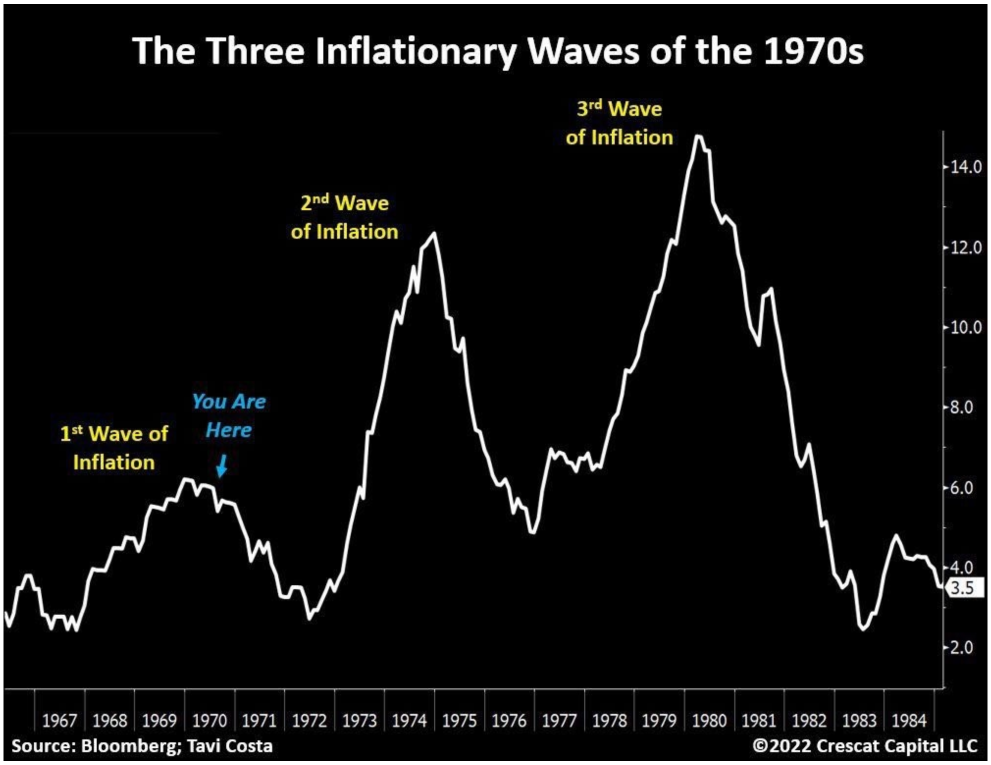
Headline inflation ticked up in August, for the second month in a row this year.



Note: Seasonally adjusted year-over-year change in the consumer-price index.
Sources: Labor Department.

The largest contributor to this CPI jump was a 10.6% increase in gasoline prices over the last month. Rising gas prices are at the forefront of consumers who have seen gas and energy prices surge in recent months. Structural supply-demand issues are a major driver of higher prices. However, we do not think consumers will get any relief at the pump anytime soon like they did last year when oil prices plummeted in the second half of last year. The energy market has shaken off recession fears, and a shaky Chinese economy to move higher in 2023 reigniting inflation rates. (We are not surprised by the latest CPI numbers and higher energy prices as we forecasted this phenomenon months ago when inflation was decreasing. We forecasted waves of inflation that could be like past decades.)

For what feels like the 5th time we will share this great chart created by Crescat Capital which tracks inflation from 1967 to 1984.



The other major contributor to August's headline number was shelter costs, which the Labor Department says have now risen for 40 consecutive months. We think inflation rates could slowly heat up in the short term especially if energy and food prices continue to move higher. However, this number should not be a major alarm for investors as the FED will more than likely look past high energy prices when making their next rate policy decision.

Despite this headline increase core inflation dropped to its lowest level since September 2021 to 4.4% year over year.

According to the CME FedWatch Tool, there is a 97% chance that the FED will pause in its interest rate increases. The FED is due to release its decision on September 20th. The FED also has policy decisions to be released on November 1st, and December 13th to end 2023.

Overall, our conclusion on this data release is do not overreact to this information and do not expect inflation to return to 2% at the snap of a finger. We think we will have an elevated CPI for the foreseeable future.

Mortgage crisis

Are we in the early stages of a mini-mortgage crisis north of the border? If you know the Canadian real estate market, you know home prices are approaching bubble levels (especially in the Greater Toronto Area) despite economic conditions worsening. This is because Canada is probably short 1-2 million homes (estimate).

This situation has caused home prices to surge over the last decade. However, according to data from CIBC, BMO and TD (3 of Canada's Big 5 Banks), 20% of residential borrowers across the country are seeing their mortgage balance increase month over month as monthly payments no longer cover the interest they owe. This is known as negative amortization and is growing as interest rates increase and variable-rate mortgages kick consumers in the teeth. According to the three banks, the 20% of residential mortgages facing negative amortization represents $130 billion in loans.

This negative amortization could lead to many homeowners selling their homes out of desperation so they can get out of their unaffordable mortgages.

According to a Nanos Research survey, 70% of Canadians would be happy or somewhat happy if home prices came down. Rent prices have also surged in recent years so options are quite limited for Canadians when it comes to shelter.

The benchmark home price in Canada has more than doubled over the past decade to $755,000 and has become increasingly detached from earnings.

Homeowners did get some relief in Canada as the Bank of Canada held its benchmark interest rate in place at its last policy announcement last week.

We expect home prices and the real estate market to be a leading issue in the next Canadian election as the Trudeau government has repeatedly fumbled the ball in this area. Surging immigration paired with slowing housing supply growth is a recipe for disaster. It's no surprise the narrative has switched, and polls are looking bleak for the Prime Minister and his party. Odds from a betting site in Canada on who will win the next election are below.

Which Party Will Win The Federal Election?

Party	Odds
Conservative Party	-150
Liberal Party	+100

A hype train sold to Gen Z

Gen Z has been categorized as the tech generation. The group grew up online watching TV, and YouTube, using social media, and playing video games. This trend led to numerous celebrities being born from online platforms.

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The access to the Internet led young fans to flock these celebrities and supporting them in every kind of way.

One of the most popular groups online is the Faze Clan. Faze Clan was born on Call of Duty, a popular online video game, the group streamed themselves playing together and went viral. The success of the group eventually led to the expansion of the organization into other avenues including traditional media and entertainment. The success of the organization eventually led to the company debuting on the public market through a SPAC merger on the Nasdaq.

The company debuted on public markets in July 2022 and has since plummeted in value.

The company's stock price has dropped 98% from its initial value and even more from its peak last August. For approximately a month the Faze Holdings SPAC merger was a huge success - the stock jumped from $10 to $17 in a matter of days.

The company briefly had a market cap of more than $1 billion last August/September before plummeting to only $15 million today.

So, what happened to this Gen Z staple that has had partnerships with the likes of McDonald's and has signed the likes of Bronny James, and rapper Lil Yachty?

The company is hemorrhaging cash and has been flooded with a scandal over the last year. Who would have guessed that the business model was flawed? Maybe, somebody should have told the group that cash flows matter before they threw a party in San Diego last September for $1.7 million. The company reported a net loss of $48.7 million last year.

We hope your children or grandchildren did not hop on this pony out of notoriety and reputation. This event shows young investors that name, popularity, and likeness do not equate to financial success and a strong investment.

We will not compare this to crypto Ponzi schemes which littered the Internet over the last 2-3 years but must bring up the point that the Internet has been the birthplace of numerous financial controversies over the last few years.

America's enemies: continuing to unite.

It's no surprise America's 21st-century enemies continue to grow closer. As the U.S. and its allies have sanctioned Russia and slowed their trade with the country, Russia has turned to India, China, the Middle East, and Africa to fill this void. These countries have been more than happy to do business with Russia. China and Russia have grown even closer in the last year and a half and it's the U.S. who have pushed them together. The countries both have their strengths, and both often spar with the U.S. and West for different reasons. The alliance of China and Russia is both economically and militarily powerful and it looks like they are gaining more and more support as the world turns its back on the West in favor of economic benefits offered by China, Russia, and the East.

BRICS was formed for this reason; member nations were emerging powers on the brink of rapid growth and wanted to cooperate geopolitical and mutually benefit from trade.

We bring this all up not because of BRICS adding new members (we talked about that in this publication 2 weeks ago), but because North Korea's leader visited Moscow this week.

If you surveyed the American population on the 4 largest enemies to the U.S. you would more than likely get a combination of China, Russia, North Korea, and Iran (all for different reasons).

It seems two of those members are getting friendlier than ever. The leader of North Korea traveled via train from North Korea's capital to Vladivostok, Tsiolkovsky, Russia (in Russia's far east) for a summit with Russian leaders including President Putin. This was the North Korean leader's first trip abroad since 2019. The North Korean leader vowed full support to Russia in their invasion efforts in Ukraine. The summit is expected to finalize a deal that will exchange weapons and humanitarian aid. There is also ongoing military cooperation between the two countries – but both have denied this claim.

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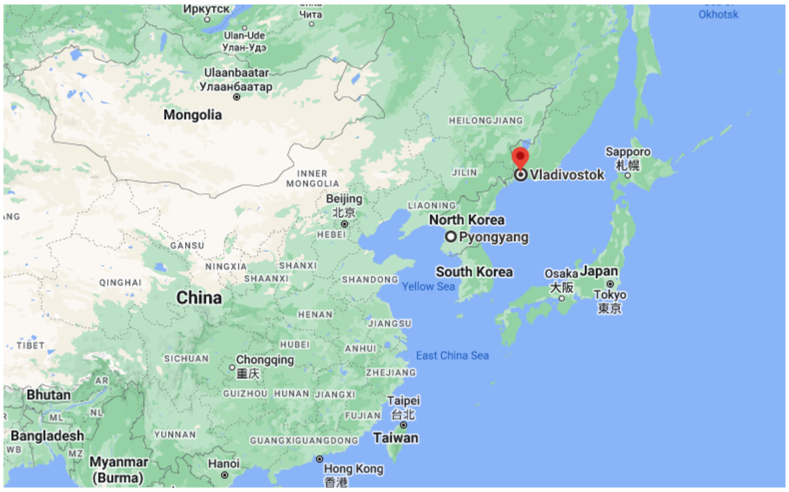


Russian leaders said they would always act in their national interest but believed that Russia and North Korea have many aligned interests.

It's rumored that North Korea was looking for assistance on its space program and is looking to rearm its nuclear program. Russia is not the first country to grow closer to North Korea, China has long had a tight economic relationship with the country, essentially supporting the isolated nation. Many believe that without China, North Korea could not survive without help from the outside world.

North Korea's growing economic dependence on China

North Korea essentially only imports Chinese products, and China is the largest buyer of North Korea, and by a long shot.

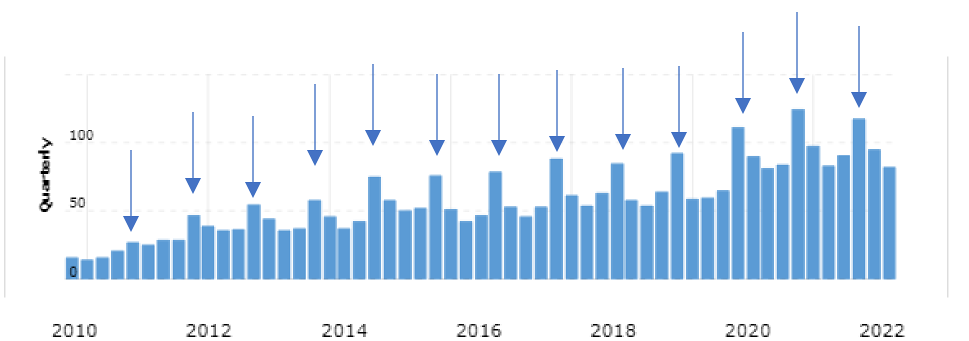
This geopolitical piece in this publication is quite different than our regular commentary but felt it is important to share. We think this unification of China-Russia-North Korea is a huge step as the U.S.'s real enemies are cozying up with the countries that they spar with economically. Could this lead to something bigger? Perhaps but we are not conflict experts. We think this movement will make global markets more diverse moving forward which could result in rapid expansion for other emerging markets. Expect the U.S. and China to continue their economic decoupling and expect the West to cozy up to other markets in the region like India, Indonesia, Thailand, and Bangladesh. The China-Russia alliance's (both militarily and economically) global influence looks to be growing at a time when Europe's global influence seems to be shrinking.

All of this cooperation by America's enemies does not include China and Russia admitting Iran into the BRICS just 2 weeks ago.

Make or break quarter for Apple?

Apple had its annual event on Tuesday where it announced new products and new additions to existing products. This September release leads to historically strong numbers in the fourth quarter for Apple as consumers head back to school and into the holidays.

Dating back to 2010, revenue has been the strongest in the fourth quarter compared to other quarters due to the time of year and new products being launched. Here is a chart that tracks quarterly revenue for Apple since 2010, there is an arrow for the fourth quarter of every year, quite the trend.



This trend is no coincidence. Apple customers have historically had extreme brand loyalty. Consumers have flocked to stores for new phones, laptops, wearable technology, and even iPads when they have launched over the years. Consumers who used to buy a new iPhone every year are holding onto their old phone for longer or seeking cheaper options.

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Who would have guessed that consumers would eventually grow less likely to purchase the same product a year later? This has led to a new phenomenon for Apple - slowing sales, and revenue that has flattened out. The world's largest company many sell-side analysts say will grow forever in perpetuity seems to have a growth issue and nobody is talking about it.

Apple's revenue declined in the second quarter of this year compared to the year prior by 1.4%. On a trailing twelve-month basis, sales for Apple have essentially run flat for the last 7-8 quarters. Apple has had similar issues for brief periods throughout its history and new products or entering new markets have usually reignited its sales numbers but what's their new product or market this time around?

Apple's new iPhone has small changes including its charging port and launched a new watch. Beyond that, the only new product Apple has unveiled recently is the Apple Vision Pro, a reality headset (unveiled in June). The headset is comparable to the Metaverse goggles that Meta developed a few years ago (which flopped). The only difference we noticed is Apple's price point of $3,499. That's right $3,499 for a pair of goggles that have various settings including virtual reality. Unfortunately, for Apple, this product will not hit shelves until 2024 so it will not help bump sales during this quarter (even if it did hit shelves, we expect demand to be soft on this product).

Even though Apple may get a holiday bump like it historically has in terms of sales, we do not think it will be as big as usual as there is no new product consumers are dying for. iPhone sales decreased in 2022 by 4% from the year prior. Apple has also slashed sales numbers this year for the iPhone and has indicated that sales for the new iPhone 15 will lag sales in the previous year's new iPhone, the iPhone 14.

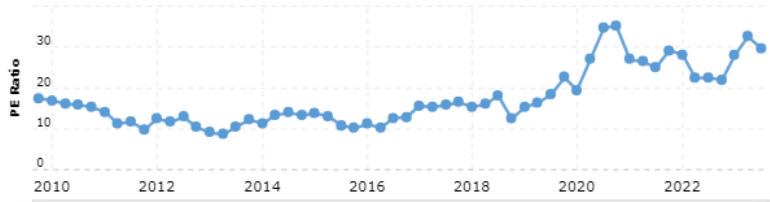
The forever growth narrative has allowed Apple's share price to trade quite expensively but forever growth is not reality. China recently banned government workers and agencies from using iPhones which could be the first step China takes against American technology companies. Some analysts believe that this could reduce Apple's revenue by 5%. Further sanctions could reduce Apple's access to one of the largest markets in the world.

Are Apple's share issues here to stay or are they temporary? We are not sure. Perhaps they need a new product to spur some consumer interest.

We are sure that Apple's Vision Pro is not the answer, $3,499 is ridiculous.

Perhaps the answer is growing their services business which has grown slowly or perhaps Apple's answer is an acquisition. Apple has been reported to be interested in Disney's cable assets which include ESPN, ABC, and numerous other channels. Could live broadcasting be a new channel for Apple to get involved in? Perhaps a leg into the lucrative sports broadcasting industry could be part of Apple's solution to grow.

Regardless of how we feel about Apple as a company, we think it financially trades very expensively. Apple's P/E ratio is currently 29.2 versus 11.9 a decade ago.



Apple is an extremely innovative company that could solve the issues they have had very quickly which would change our opinion on them. For now, we will remain in the camp that Apple trades too expensively and its high growth stage is ending. However, we understand we could be wrong (with our thesis) and that the stock and revenue of Apple could reignite until to end of the year.

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September 15, 2023