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.

Sand Point Light, Escanaba, Delta County Michigan

This lighthouse sits on Lake Michigan's northern shore. The lighthouse was constructed in 1867 and stands at 44 feet tall. The lighthouse is on the National Register of Historic Places and is still an aid to navigation.

Round Island Light, Mackinac County, Michigan

This lighthouse is located on the west shore of Round Island in the shipping lanes of the Straits of Mackinac, which connect lake Michigan and Lake Huron. The lighthouse was originally constructed in 1895 and was automated in 1924. The lighthouse was then deactivated in 1947 and can be visited by tourists.

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

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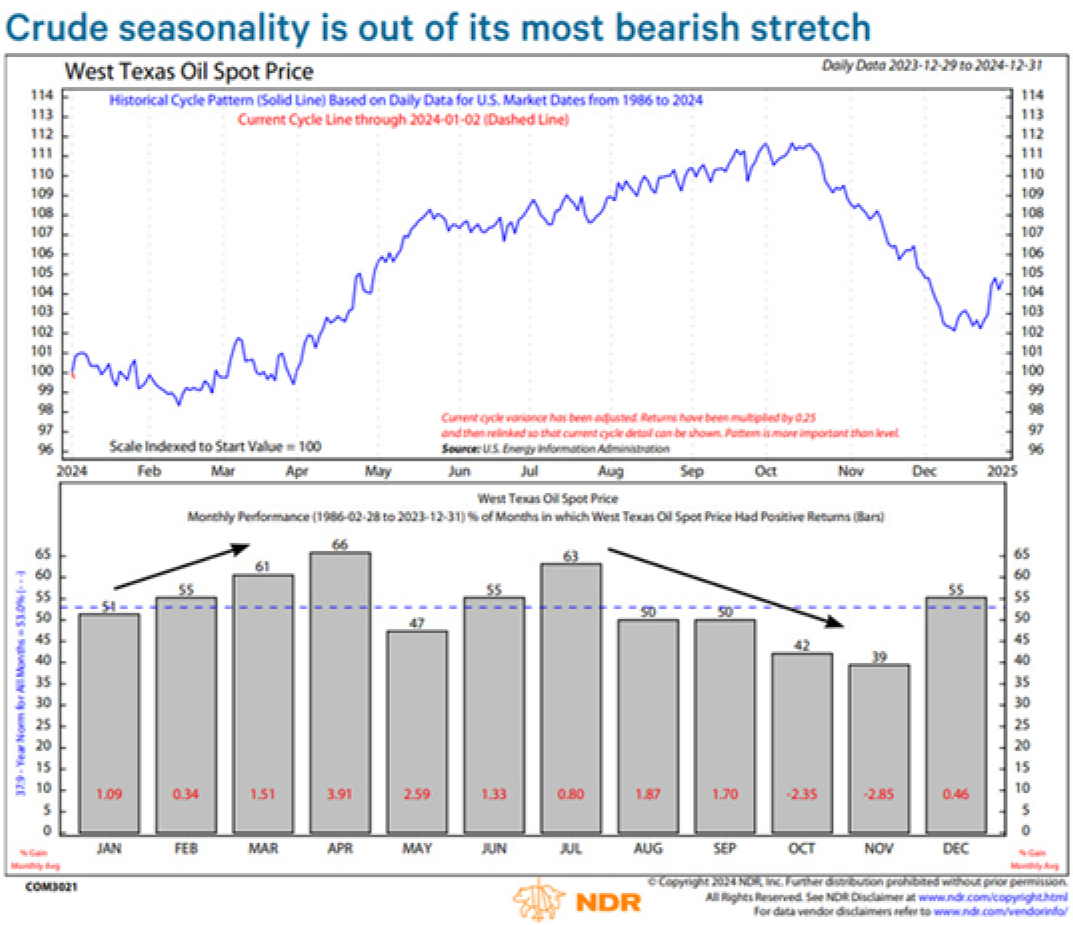
<u>Out of the woods</u>

As an Asset Manager, we run by many charts and data points that we look at. Over the last few weeks, we have seen the same chart repeatedly. Oil seasonality.

The chart below highlights the historic price movements of crude oil throughout a calendar year.



What the chart tells us is that oil has gone through its weak portion of the calendar year and is entering its strong period.

Typically, oil experiences the formation of an up trend early in the year that strengthens throughout the second quarter before tapering off to the end of the year.

Now we know seasonality is not everything and the price trend of oil could greatly alter the historic trend, but we wanted to share the chart as we have seen it numerous times over the last few weeks.

We remain bullish on the energy sector specifically in crude and will continue to add to positions at these levels (valuations, and spot price of crude).

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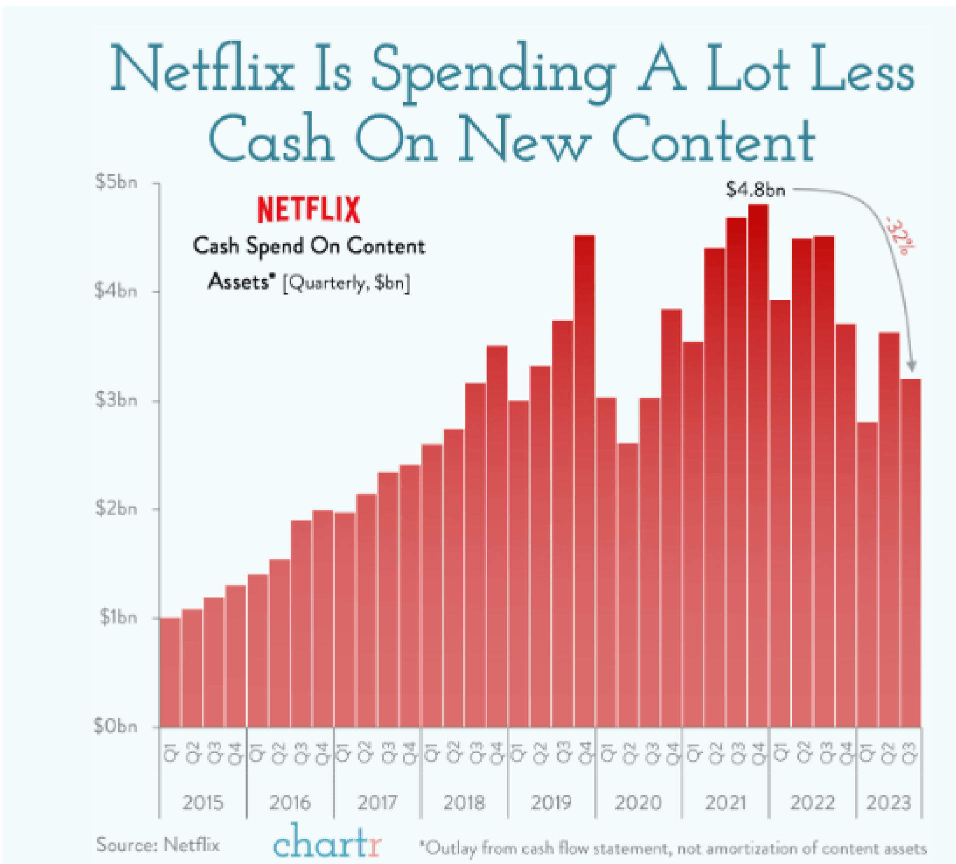
Netflix pivots

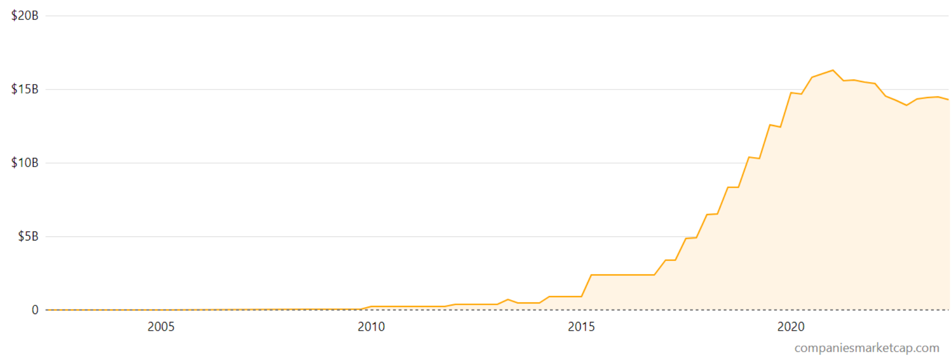
The world's most well-known streaming giant has slowly changed its strategy in a matter of 7 quarters.

The giant formerly had a focus on original content and churned out hundreds of shows over a 5–10-year period, spending billions on the creation of original content. Spending on new content peaked in Q4 2021 when Netflix spent $4.8 billion on content creation, approximately $52 million a day. Netflix spent approximately $17 billion on original content in 2021. This strategy was utilized as the streaming industry became highly competitive and subscribers were becoming flighty.

Original content spending has declined by 32% from its peak as Netflix pivots from quantity to quality. Netflix released 130 fewer programs in 2023 than the previous year, a 16% decline.



Netflix's recent strategy seems to be pleasing equity analysts as they have historically funded original content creation through the issuance of debt. Note the chart above, highly correlates with the chart below (the chart below tracks total debt on Netflix's balance sheet):



As they have pivoted their strategy and slowed their spending spree, Netflix's stock has rebounded over the last few quarters.

Wall Street analysts have an average price target for Netflix of $479 which is a neutral rating from its current stock price.

Netflix still trades extremely expensively in terms of earnings, sales, and book values. We do not hold Netflix and will not be buying at these levels but think the pivot by the company is a positive sign moving forward and would recommend the company try and continue to stick to this new strategy especially with interest rates remaining elevated.

America's great love

U.S. broadcasting companies released the list of the most viewed television programs in 2023 and the list should not surprise you.

Out of the top 100 most viewed programs, 93 were NFL games with the Super Bowl leading the way with 115.1 million viewers. Among the 7 other most viewed programs were 3 College Football games, the State of the Union address, the Macy's Thanksgiving Day Parade, the Super Bowl pre-game show, and the 95th Academy Awards. The NFL's dominance somehow increased in 2023, in 2022 - 82 NFL games were among the top 100 most viewed programs.

This once again confirms America's love of sports, specifically football. Football's rating rush will peak over the next month as the NFL begins its playoffs this Saturday.

Americans continue to watch more and more football with the NFL having 2.2 billion viewers in 2023.

2023 was also historic for baseball and basketball. It was the first year a basketball game or baseball game did not make the top 100.

So, what do these trends mean for us?

TV deals, team valuations, and revenue associated with the NFL will continue to increase while in basketball and baseball, they may have screeched to a halt. It is important to mention that the NBA heavily relies on the global market for support while most of the NFL's viewers are domestic.

This is especially important for the NBA as they have a television rights deal that is about to expire, and the league will need to renegotiate a new deal. Currently, the NBA is under a $24 billion deal with ESPN, and Warner Bros that was signed in 2014 and expires at the end of the 2024-2025 season. The new NBA deal will be larger than its last deal, but the growth rate of the deal may lag previous deals signed by the league. The league could also pivot to a digital approach and completely embrace the streaming market. The NFL has slowly adopted the streaming industry in small portions, streaming Thursday Night Football on Amazon, and select games on NBC Peacock.

This could result in increased market share for streaming giants as they add a major source of revenue. These sports subscribers differ from traditional streaming subscribers as they do not have alternatives.

The other avenue to look at is if an NFL team were to ever sell shares on the open market (even a minority stake). Fandom and popularity could send valuations to new heights in the NFL. Currently, numerous soccer teams trade publicly, as well as the parent companies of some NHL, NBA, and MLB teams.

<u>The oil market's elusiveness</u>

Many have called for the end of oil over the last 10 years, highlighting alternatives due to its negative ecological impacts. Some believe these alternatives can take market share for oil immediately and that peak oil demand has been reached or will be reached quite soon.

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We are here to tell you that these claims are just not true (at least for now).

For decades (yes, decades), climate groups, scientists, politicians, and even columnists have been predicting the timing of peak oil and have been for the most part dead wrong.

Here are a few of many who have forecasted the peak of oil and have been wrong:

In 1999 the IEA made their peak forecast, forecasting a 2014 peak.

In 2001 a Princeton geologist forecasted peak oil by 2005.

In October 2007, the Energy Watch Group, a German research group founded by a German minister, released a report claiming that oil production peaked in 2006 and would decline by several percent annually.

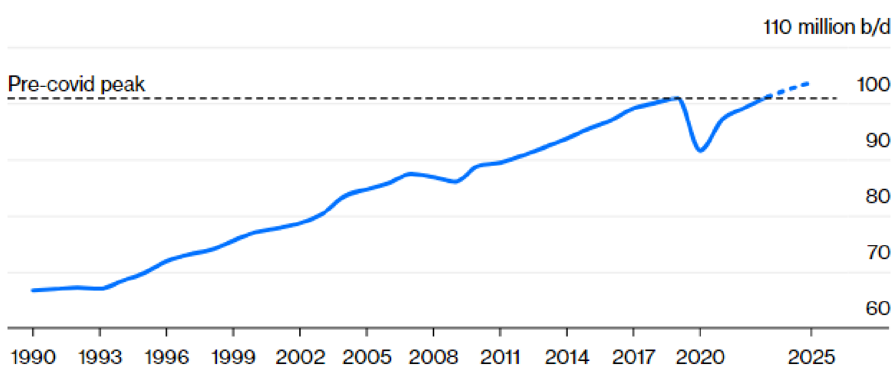
Many also believed Covid-19 could be the peak of oil as the world pivots from fossil fuels to renewable sources of energy.

We highlight all of this in this week's edition of *The Weekly Beacon* after an article was published by Bloomberg on Wednesday. The article looks at a recent forecast made by the U.S. Energy Information Administration (EIA) and the realities that come with it.

Every January, the EIA releases its oil market predictions for the following year. In their data release, they forecast that oil demand will grow by another 1.2 million barrels a day in 2025. The EIA expects oil demand to grow by 1.4 million barrels per day this year. This comes after last month's COP28 climate talks where the world agreed to transition away from fossil fuels. The International Energy Agency has forecasted peak demand to be reached by the end of the decade.

Oil Demand: Faster, Higher, Stronger?

Global oil demand has steadily grown for the last 30 years - but the energy market is now debating whether its expansion will peak in the short-term



Sources: EIA and Bloomberg

This data suggests that slower growth could be possible by the end of this decade, and perhaps a peak by the mid-2030s if all goes well but demand continues to increase in China, India and developing nations.

This outlook by the EIA highlights the issues with the transition and that it will likely take longer than many have forecasted or had hoped. A major factor that has been often overlooked by climate forecasters is global population growth. The global population has grown rapidly over recent decades and has been a major driver of increased oil demand. Global oil consumption per capita has held relatively steady since the 1970s but the world's population has more than doubled over that period. This trend is expected to continue as the world is expected to add 1 billion more people by 2037 (the globe's population is expected to peak in 2086), which could further complicate the transition and continue to increase the oil demand. It might be true that Western nations could soon reach their peak oil demand but the same cannot be said for the rest of the world.

So, while it's an early forecast for 2025, we see the same story that we have seen for the last few years in the oil market, increased demand, and business as usual, rather than evidence of a transition and cracks in global demand.

Global EV market

The global electric vehicle market had an interesting fourth quarter that surprised many consumers. During Q4 2023, Tesla sold 484,507 vehicles while its Chinese competitor BYD sold 526,409 vehicles. That's right, BYD beat out Musk and Tesla.

The number for Tesla beat expectations by approximately 1,400 vehicles. Tesla also exceeded its vehicle delivery target for the 2023 year but came up short of an upside scenario pitched by Elon Musk last January. Tesla delivered 1.8 million vehicles in 2023. A series of price cuts failed to stoke enough demand for Tesla to meet Musk's production target. Tesla is expected to deliver more than 2.1 million vehicles this year.

BYD's accent past Tesla, reflects China's growing clout in the automobile industry. China has surpassed the U.S., South Korea, and Germany over the last few years in the auto industry and may have overtaken Japan last year as the world's largest passenger car exporter.

Tesla, however, generates more revenue and profit than BYD because it sells its vehicles at much higher prices. Despite its strength in China, BYD does not sell in the U.S. due to a 27.5% import tariff and other hurdles. So, as a consumer that is why you may have never heard of BYD or have not considered them to be in the same ballpark as Tesla.

Tesla's two largest markets remain to be the U.S. and China.

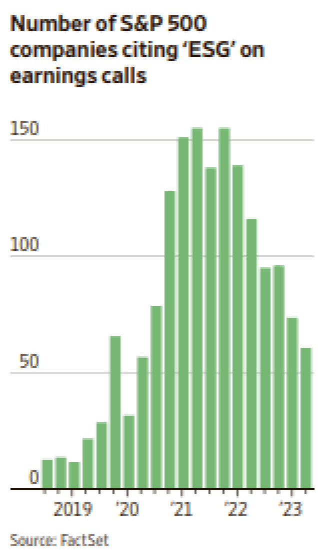
We think Tesla shares trade at an extreme premium and buying at this level could be quite risky. On the other hand, BYD shares have more value but present other risks that we cannot stomach for our investors, primarily relating to the CCP, President Xi, and geopolitics.

<u>ESG's bubble pops</u>

Both Asset Managers and conglomerates are pulling back on their ESG push. The ESG push that we are talking about is something that you are more than likely familiar with as we along with many others have talked about the topic in great depth. The ESG push promoted that investors should pick companies and funds by how well they score Environmentally, Socially, and in Governance. Asset Managers and companies across the world ate this trend up and are now facing the realities of the push, investors prefer returns rather than arbitrary ESG scores.

We have commented on this bubble pop over the last few months but this week we ran two separate articles that further cement this point.

The first was from the Wednesday edition of *The Wall Street Journal* titled "Some CEOs No Longer Utter 'ESG'". The *WSJ* highlights the number of companies who are citing ESG on earnings calls and the number has dropped by two-thirds over the last 2 years.



This trend comes as 8% of S&P 500 companies are ramping down their ESG programs, and the rest seem to be handling their programs a lot differently. For the most part, investors do not want discounted returns due to ESG spending which is accomplishing very little.

The second articles come from the *Financial Times* titled "Launches of ESG Funds Plummet as Investors Pull Back". Asset Managers are launching fewer ESG products as investors and even regulators begin to scrutinize these newly aged products.

Just 6 funds were launched in the U.S. over the last 6 months of 2023 with ESG guidelines compared to 55 in the first half of 2022, and over 100 per year from 2020-2022.

The ESG label has also been removed from many funds' names. Morgan Stanley and UBS have dropped ESG from certain funds and Abrdn plans to drop the phrase 'sustainable leaders' from two of its funds next month.

These changes come as regulators have targeted ESG funds, investor demand has disappeared in the space, and politicians have become very critical of the investing practice.

ESG funds have struggled over the last two years, underperforming targets and the overall market. BlackRock's ESG Aware MSCI ETF had the largest outflows in the space last year as the asset lost more than $9 billion last year and was removed from a major BlackRock model portfolio.

This trend may continue but we do not expect ESG to disappear anytime soon. We think some investors still target ESG funds as these funds align with their beliefs. We do think Asset Managers will launch fewer products in the mid-term due to a lack of interest from investors. The issue with ESG remains that the scoring varies by platform and scores can be subjective.

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