

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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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.



La Jument, Brittany, France.

This 48-meter-tall lighthouse sits on off the northwest coast of France. The lighthouse was constructed in 1911 and was automated in 1991. The lighthouse is currently powered through solar energy and its light has a range of 22 nautical miles.



Savudrija Lighthouse, Savudrija, Croatia

This lighthouse is the oldest lighthouse in Croatia and was originally constructed in 1818. The 95-foot lighthouse sits at the northern end of the Istrian peninsula close to Croatia's border with Slovenia. The lighthouse has a range of 30 nautical miles.

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



Deal blocker

Last week, we mentioned the deal that will see Capital One purchase Discovery Financial to create the sixth-largest financial institution in the U.S. (in terms of assets). We mentioned the regulatory hurdles that the deal would have to go through to be completed. We also mentioned that the Biden administration has been very critical of deals such as these, especially in the financial services sector.

Not even a week later the administration is fighting another merger, albeit in another sector.

The Federal Trade Commission and nine Attorney General's announced they were suing to block a proposed \$25 billion merger between Kroger and Albertsons. The FTC cited concerns about reduced competition in the grocery industry and potentially higher prices for consumers. The FTC also cited lower wages for workers as a reason for their move. However, the two companies have said costs would be lower due to synergies and would result in lower consumer costs.

The potential deal would create one of the largest grocers in the country. The combined organization would have about 5,000 stores across the U.S. and \$228 billion in annual sales. Kroger owns and operates approximately 2,700 stores, across two dozen supermarket banners, including its namesake stores, Fred Meyer and Ralphs and Albertsons operates 2,300 supermarkets across numerous grocery chains, including Safeway, Acme and Tom Thumb. The combined Kroger-Albertsons would become a much larger company with 5,000 stores.

Kroger's acquisition of Albertsons has been in a holding period since October 2022, when the deal was announced. Since then, regulators, along with numerous advocacy groups including union organizations have stalled the deal's completion. Kroger and Albertsons have already tried to help address FTC concerns announcing that they would be selling hundreds of stores in Washington, Colorado, and other states to C&S Wholesale Grocers. However, the FTC says that the move will not solve the problem.

Both Kroger and Albertsons have cited the dominance and the rise of Amazon, Walmart, and Costco in grocery as reasons the deal should pass. The deal would see Kroger close the gap on Walmart as the country's largest grocer. Walmart currently has more than 5,200 U.S. locations and accounts for approximately 25% of the U.S. grocery market.

Kroger has also claimed that a rejection of the deal would further embolden non-unionized grocers like Walmart, Costco and Amazon to further dominate the industry.

The completion of this deal would arguably increase competition at the top of the market and give Walmart an actual competitor, which could lower prices for more consumers.

The Biden administration aimed at the grocery industry in January over high prices, saying that stores are gouging consumers and bringing in excess profits. This move by the FTC and Justice Department is not the Biden administration's first, as they have already challenged JetBlue's takeover of Spirit and Microsoft's acquisition of Activision Blizzard.

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Kroger and Albertsons have said they look forward to presenting their case in public and believe a deal competition is what is best for the industry.

We will have to see what happens next.

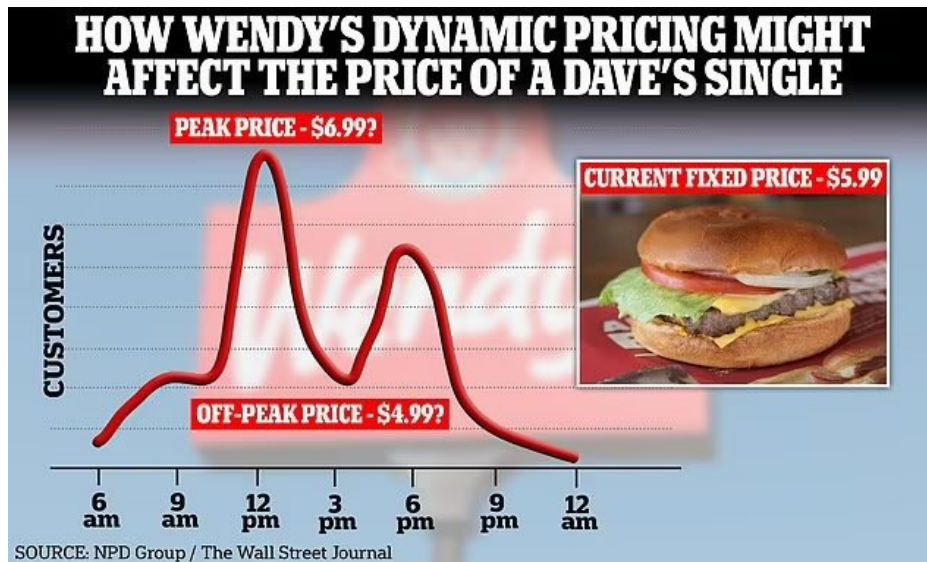
Artificial intelligence in fast food

Wendy's made a big announcement recently when talking with analysts, announcing the future launch of an AI-based dynamic pricing system.

The company announced that food prices will change throughout the day based on factors like demand, and time of day. The system is like what Uber has done with their pricing system. Uber uses surge pricing to increase prices at peak times, in certain places.

The deal will increase company profits according to Kirk Tanner, the CEO of Wendy's. The move will see Wendy's invest approximately \$20 million in digital menu boards that will have the capacity to fluctuate throughout the day by 2025 using AI. Tanner added that Wendy's will invest another \$10 million over two years to enhance its global system, help upsell certain menu items, and improve order accuracy.

Here is a visual description of the model created by The Wall Street Journal and NPD Group:



The move is a bold experiment that could help the chain be more efficient and profitable but runs the risk of losing current customers who have many other choices to choose from other than Wendy's. The model works for Uber as many consumers see Uber as the only option for ride-sharing. Wendy's competes on an international and domestic level with companies like McDonald's and Burger King and domestically with companies like Shake Shack, In-N-Out Burger and many more.

Does Wendy's using AI mean we are at the peak or that we have room to run before this AI bubble peaks? We are not sure but cannot ignore these signals that continue to flash in front of us.



Market leaders

Barron's published 4 charts that explain the S&P 500's spectacular gains. These charts will not display new knowledge to our long-time readers but are extremely telling and are something we felt we needed to share with you.

Chart 1: Nvidia's 14-month growth: the AI boom, a close second in the Magnificent 7, Meta's resurgence.

Exponential Growth

Nvidia is up nearly 450% since the start of 2023, far more than Meta Platforms, the Magnificent Seven stock with the second-biggest gain.

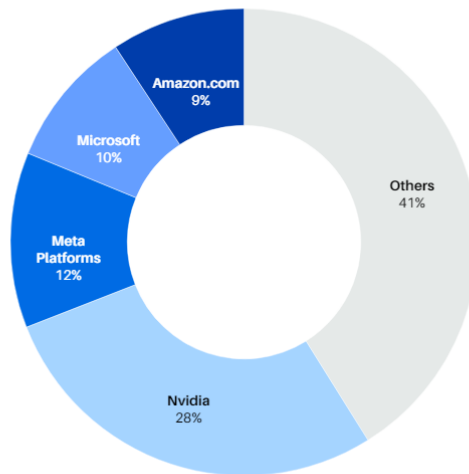


Chart #2: Nvidia's gain accounts for 28% of the S&P 500's gains this year, the top 4 account for 59% of the gains.

Lifting the Index

Nvidia has contributed nearly one third of the S&P 500's market-cap growth this year.

Others Nvidia Meta Platforms Microsoft Amazon.com

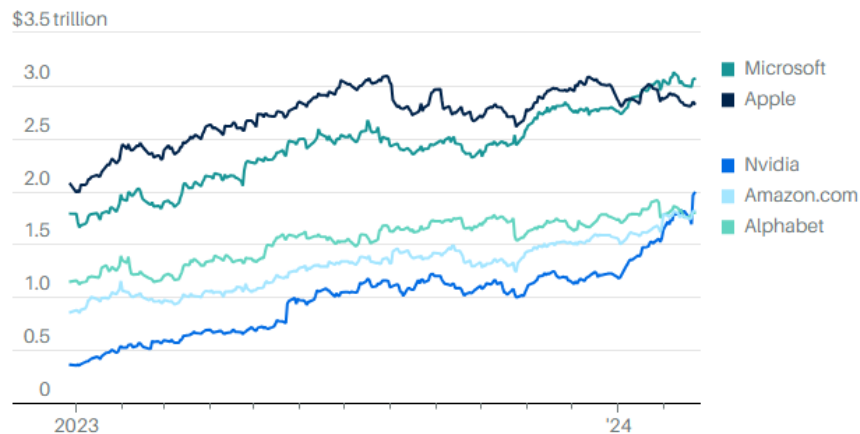


Source: FactSet; Dow Jones Market Data

Chart \$3: Nvidia: an (almost) \$2 trillion company, joining Apple and Microsoft. Nvidia is now larger than Amazon and Alphabet in terms of market capitalization after strong earnings last week.

Race to the Top

Microsoft outranks Apple in market capitalization, while Nvidia has passed Amazon and Alphabet.



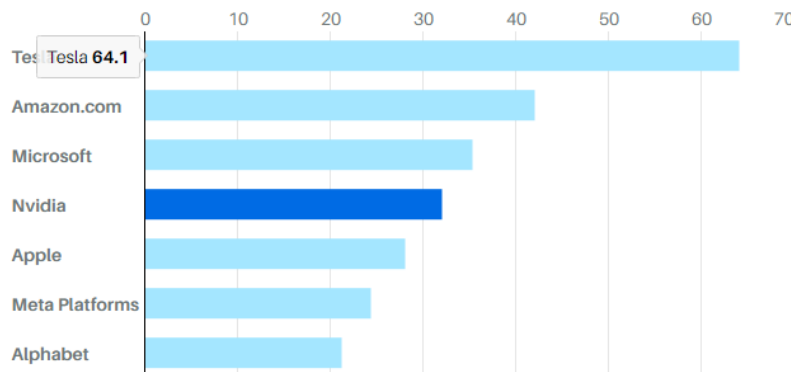
Sources: FactSet; Dow Jones Market Data

Chart 4: Nvidia's valuation trails 3 of the Magnificent 7 in terms of forward P/E. Alphabet looks like the best value of the bunch while Tesla continues to trade extremely expensively.

Not Too Lofty

Nvidia's valuation ranks in the middle among the Magnificent Seven stocks.

Forward price/earnings ratios



Source: FactSet

This is not new information to our readers, but we think the charts are very telling and explain exactly how markets have performed over the last year. Top heavy with a few companies accounting for most index returns. AI hype fueling markets on forecasted economic growth, and improved productivity through the expansion of this new technology. Nvidia's CEO Jensen Huang confirmed these thoughts last Wednesday on Nvidia's earnings call stating that the new wave of investment driven by generative AI will double the amount of data centers in the next five years. "A whole new industry is being formed, and that's driving our growth." This technology is not only fueling Nvidia's growth but the entire equity market's growth.

Bitcoin's 2024 leg up

Bitcoin hit \$57,000 on Tuesday, marking its highest price since November 2021. Bitcoin has jumped more than 30% this year and is up 144% over the last year.

This rise in Bitcoin has been driven by several factors including expectations for lower interest rates, increased investor demand, an upcoming technological change for how Bitcoin miners are compensated, an upcoming halving event, and the debut of Bitcoin ETFs.

Other major cryptocurrencies have also risen this year as have equities tied to the crypto industry including Coinbase, MicroStrategy, and Marathon Digital Holdings. Despite the run-up over the last few months, Coinbase is well off all-time highs as well as its IPO price. Coinbase's valuation remains too expensive for us even with the recent bounce back in crypto markets.

The major question for Bitcoin specifically and the overall crypto market is how long this resurgence can last. Bitcoin hit its all-time high early in November 2021, when it traded above \$65,000. Even though ETFs have brought a new clientele to Bitcoin, it's unclear how long the boost will last. Bitcoin is extremely volatile, and many investors might not be happy with a 20% drop in an ETF they hold over a month.



Another negative that crypto continues to face is criticism from Central Banks. The Atlanta FED warned of the risks of crypto on Monday stating the riskiness of holding the asset. Last week members of the European Central Bank released a statement saying that the existence of ETFs “doesn’t change the fact that Bitcoin is not suitable as a means of payment or as an investment,” and that “the fair value of Bitcoin is still zero.”

We expect regulators, and Central Banks to continue to push against the asset class as a whole. We think this could limit the upside of Bitcoin and other cryptocurrencies that have occurred in the past. We also think crypto will be the hardest hit during a market downturn. Those who pile half their retirement into crypto or Bitcoin will continue to confuse us. We think there is a way to safely play crypto for all investors but the exposure for a client should be a small chunk of their overall portfolio. The MacNicol & Associates Asset Management Investment Team is currently analyzing an investment in the cryptocurrency industry that we think our investors will be excited about. More news on that later.

The above was written on Tuesday, Bitcoin surpassed \$60,000 on Wednesday morning.

Apple rug pulls its vehicle pursuit

Bloomberg reported on Tuesday that Apple was abandoning its vehicle project after over 10 years of development. Bloomberg reported that Apple was moving on from this project and focusing on new projects in generative artificial intelligence.

There has long been fear in the auto sector that Apple would launch a vehicle that could compete with the likes of Tesla and traditional automakers in tomorrow’s economy. After all, Apple has printed money and sat on huge cash piles over the last decade-plus, if any company had the resources to venture off into a new industry, it was Apple. Apple produces approximately the same free cash flow on an annual basis as the entire global automobile sector.

This pursuit by Apple even led to a Wikipedia page for the Apple car which tracked all the reports and rumors connected to the project.

Many reports believed that the Apple car would eventually morph into a self-driving car and steal market share from Tesla. However, it seems investors never took that pursuit seriously as Tesla shares have multiplied in value by more than 10 over the last 10 years.

We think this project by Apple was a bit of a pipe dream and one that could further diversify its revenue base. Apple has been ahead of the curve over the last 20 years, expanding their revenue channels and we think this move was one they thought could bring them to new heights and further confirm their global dominance.

Tesla Founder, Elon Musk, took these new revelations quite well on X this past week:



We think this will benefit Musk and Tesla as they shake off a major potential competitor.

Apple has not disclosed how much it spent on its secretive auto project – reportedly known internally as 'Project Titan'. However, CNBC has reported that Apple pumped around \$30 billion into it last year alone.

Apple reportedly had 2,000 employees working on the project. Many of the employees working on the project will be moved to teams focused on generative AI.

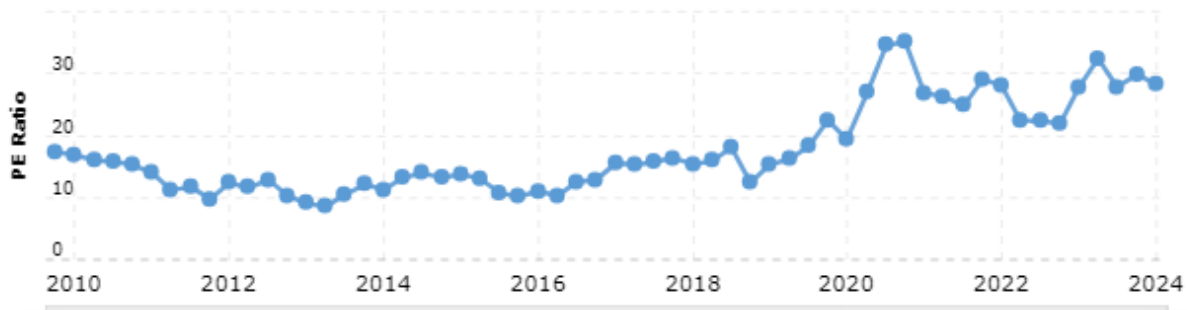
The abandonment of this pursuit comes just one month after Bloomberg reported that Apple would launch its car in 2028, although with much fewer self-driving capabilities.

Apple executives had most recently imagined the Apple car to be priced at \$100,000. However, many familiar with the matter believed that Apple executives were concerned about the Apple car not being able to deliver margins that traditional Apple projects have enjoyed.

\$100,000 and not enough margin is wild. Perhaps, Apple car employees which included former employees of Aston Martin, Lamborghini, and Porsche got a tad ahead of themselves.

Apple's stock shook off this move to abandon their vehicle project. Many sell-side analysts have justified Apple's expensive valuation over the last decade with moves such as the Apple car which was supposed to expand revenue and disrupt a new industry. This along with other revenue channels were supposed to be major catalysts for Apple to continue to expand their top and bottom lines.

Apple's P/E ratio remains well above its historical average and seemingly just got more expensive.



Apple shares continue to lag the rest of the Magnificent 7 (ex. Tesla) over the last 6-12 months. Apple shares are now down 3% year-to-date. We think this underperformance could continue as Apple's growth hits the brakes. Flat revenue will continue to plague Apple moving forward.

Who knows, Apple could rotate off cars today and outright buy an EV maker in 2 years out of bankruptcy. Hint hint: Rivian, Lucid Motors, Nio, or one of the many other EV makers.

Apple's balance sheet currently has \$73 billion in cash and short-term investments on it. Every pure EV maker in North America other than Tesla boasts a market cap below \$15 billion.

NFL is king

The NFL yet again flexed its muscles in ways other sports leagues cannot. The league bumped its salary cap for next season by 13.6% to take the number to \$255 million.

This jump is the largest single-season jump in the cap since the NFL first introduced the salary cap 30 years ago. When the NFL first instituted its salary cap, it was under \$35 million per team.

On top of the \$255 million in salaries teams can pay, NFL teams can pay a whopping additional \$74 million in player benefits (performance bonuses, and retirement packages). That brings the total to \$329 million for 2024.

As the league continues to gain more and more popularity, league revenue has ballooned. TV deals could reportedly be worth north of \$126 billion by 2033.

If the NFL salary cap tracked the U.S. CPI over the last 30 years, it would be \$74 million today.



The NFL is outstripping its Big 4 competitors by a larger margin than ever.

The NHL's salary cap is projected to grow by less than 5% next year and has only grown by 2.5% (total) since 2019. Over the same period, the NFL salary cap has grown by almost 20%. The NBA salary cap has seen high growth rates in recent years due to a new TV deal that was signed a few years ago. However, next season the salary cap is expected to only grow by 3.6%. Next season, the NBA salary cap will be \$141 million, a number the NFL salary cap passed a decade ago.

The other major benefit that NFL teams have over NBA, NHL, and MLB teams is how their contracts are guaranteed. Many contracts in the NFL are not guaranteed, and most are partially guaranteed. This non-guaranteed salary system is a benefit for owners and protects them against poor performance, major injuries, and other issues displayed by players. The reason the NFL can get away with this is how they set their original collective bargaining rules up and how popular the league was.

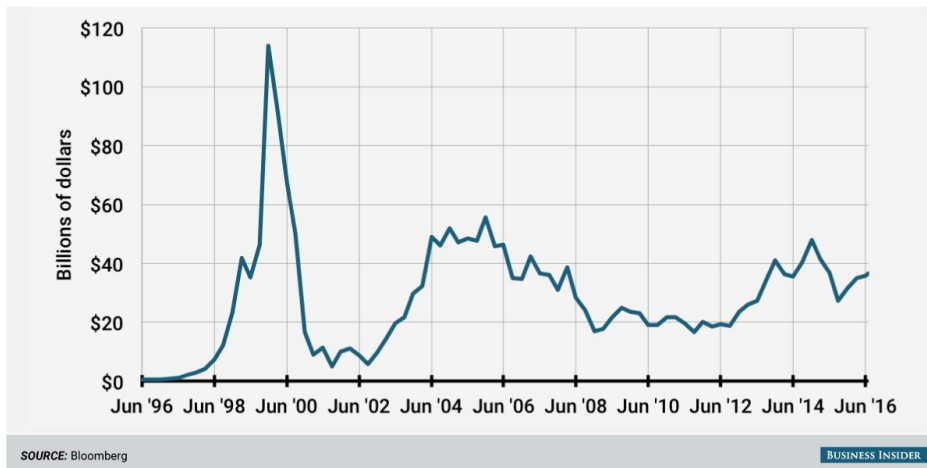
Sports teams valuations have ballooned over the last few decades, we expect that trend to continue in the NFL across the league. The other leagues may see some slower growth due to slowing growth, and revenue numbers.

Just a decade ago Mark Cuban, long-time owner of the Dallas Mavericks said the NFL peaked and he would rather own an NBA team. Perhaps, he was championing his league, but he consistently reiterated his point, meaning he believed it. Fast forward a decade, and Cuban just sold his Mavericks. NBA viewership has been on the decline over the last 5-10 years, while NFL viewership surged. We cannot seem to notice that one of the smartest businessmen in sports sold his team at what he perhaps saw as a peak for his league.

Cuban sold a majority share of the Mavericks to the families who own Las Vegas Sands Corp. for \$3.5 billion in late 2023. Cuban will hold onto 27% of the team and serve as an alternate governor. Cuban bought the Mavericks for \$285 million in 2000 so he had quite the return on his investment. During his 23-year ownership of the Mavericks, Cuban won a championship and was one of the league's most prominent faces.

Cuban made most of his early fortune off the sale of Broadcast.com to Yahoo right before the Dot Com Crash. Cuban's sale of his company was for Yahoo stock, and he famously hedged the stock that he was given during the deal. He has said that if he did not hedge his position, most of his fortune would have disappeared. The transaction by Yahoo is described as the largest blunder in the history of internet acquisitions. Cuban sold at a peak. Could history be repeating itself? At least for the non-NFL big 4.

If you do not believe us, look at this chart (Cuban sold to Yahoo in 1999, at Yahoo's peak):



Verizon purchased Yahoo's operating assets for \$4.6 billion in 2017.

Another 'potential' government shutdown

Over the last year and a half, there have been numerous times where the government has narrowly avoided a shutdown. A split Congress has led to no long-term government funding Bills, just short-term ones. Well, we are back in that place yet again, albeit in an election year.

Without a new spending agreement from Congress by midnight Friday, federal appropriations will expire in several areas, including Housing and Urban Development, Agriculture, Transportation, and Veterans Affairs.

No deal could result in the delay of paycheques for thousands of federal workers and threaten programs such as food stamps and housing vouchers used by low-income Americans. The Spending Bill would not impact things like Social Security, Veteran Affairs, and airport workers as the first two are negotiated through longer-term Bills and airport workers have been deemed as essential workers.

President Biden met with Democrats on Tuesday to hammer out a deal. Although the most likely outcome looks to be yet another short-term resolution. However, the biggest hurdle remains the Republican-led House which will not vote for a funding Bill for several reasons. The reasons include the end of DEI funding, and a pause in the salary of the Homeland Security Secretary, who they have impeached for his open border policies.

Assuming they reach another short-term deal this week, the real deadline comes at the end of April when the debt limit resolution expires that was agreed to last year.

Although Republicans could be the ones to blame for no resolution, the current President's party could face the consequences in November if government funding of certain programs comes to a halt even for just a few weeks.

MacNicol & Associates Asset Management
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