MacNicol & Associates Asset Management Inc.

March 2024

The Monthly

With this commentary, we plan to communicate with you every month about our thoughts on the markets, some snapshots of metrics, a section on behavioral investing and finally an update on MacNicol & Associates Asset Management (MAAM). We hope you enjoy this information, and it allows you to better understand what we see going on in the marketplace.

"Within our mandate the ECB is ready to do whatever it takes to preserve the Euro. And believe me it will be enough."

- Mario Draghi, past President of the European Central Bank

"If you don't want to make money when you sleep, you will work until you die".

- Warren Buffett, Berkshire Hathaway CEO

The Numbers:

-

Index:		**2024 YTD:**
S&P/TSX:		1.36%
NASDAQ:		6.24%
Dow Jones:		3.34%
S&P500:		6.29%
Interest Rates:	**Canada**	**USA**
90-Day T-Bill:	4.94%	5.39%
5-Year Bond:	3.43%	4.08%
10-Year Bond:	3.36%	4.10%
30-Year Bond:	3.27%	4.27%

Economic Data:

- The Canadian economy added 41,000 jobs in February.
- Stocks globally higher in February
- US economy adds even more jobs in February.
- Large stock sales by Mark Zuckerberg, Jamie Dimon, Vince McMahon, Jeff Bezos and the Walton Family [Walmart] send mixed, investing messages.
- Gold now comfortably in the $2,000s

Valuation Measures: S&P 500 Index

Valuation Measure	Latest	1-year ago
P/E: Price-to-Earnings	27	23
P/B: Price-to-Book	4.7	3.8
P/S: Price-to-Sales	2.7	2.3
Yield: Dividend Yield	1.4%	1.7%

2024 Calendar Year by Sector: February 29th, 2024

S&P/TSX Composite	1.36%
NASDAQ	6.24%
Dow Jones Industrials	3.34%
S&P 500	6.29%
Russel 2000 (Small Caps)	0.28%
MSCI ACWI ex. USA	1.60%
Crude Oil Spot (WTI)	10.4%
Gold Bullion ($US/Troy Ounce)	-2.33%
SOX Semiconductor Index	8.44%
VIX Volatility Index	-15.28%

Source: Canaccord Genuity Capital Markets & Thomson Reuters

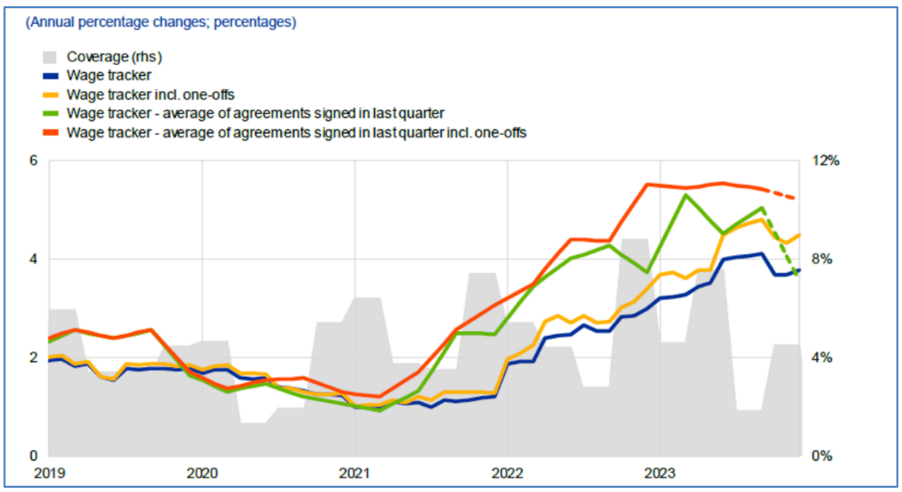
Foreign Exchange - FX

As of MARCH 14, 2024 9:40 AM EST	$5,000	Cdn		
Banks	Rate	Buy USD	Cost	% Difference from Spot Rate
CIBC	No Public Rate Posted Online			
Interactive Brokers	1.349	$3,706	$(2)	0.0%
Laurentian Bank	No Public Rate Posted Online			
National Bank	1.3825	$3,617	$(91)	-2.5%
Raymond James	1.3690	$3,652	$(56)	-1.5%
Royal Bank	1.3740	$3,639	$(69)	-1.9%
Scotia	1.3820	$3,618	$(90)	-2.5%
TD	1.3835	$3,614	$(94)	-2.6%
Canadian Snowbird	1.3679	$3,655	$(53)	-1.4%

Overseas…but not over inflation…

Christine Lagarde is a Parisian Lawyer and the President of the European Central Bank [ECB]. If you think US Federal Reserve Chair Jerome Powell is the only person in the world who can make interest rate futures "sing and dance" you are mistaken. Powell's pen strokes of course set the pace for the world's biggest economy and therefore to some degree the global economy, but the ECB is not some fringe or peripheral central bank. American nominal GDP is roughly $23 trillion and that dwarfs the output of other countries and regions. But Eurozone nominal GDP is roughly $18 trillion and because these monthly missives often have a decidedly American look and feel to them, we felt it would be good to take a trip overseas. The challenges facing Madam Lagarde and her deputies sound eerily like those experienced in North America inasmuch as she is acutely aware that consumers, business and politicians would like her to signal that interest rates cuts are indeed coming soon. But because Lagarde, like other central bankers, chooses her words very carefully, she will also have to choose her economic data points carefully too, and she will have to look hard to find the Doves in a flock of Hawks.

The dovish information Lagarde seeks, should "drip" to her more slowly, so do not be fooled into expecting a sudden tsunami of Dovish data that triggers an initial reduction in interest rates at the April meeting of the ECB or forward guidance replete with words describing inflation in the **past tense**. In fact, where the ECB might have to speak of inflation as an ongoing problem, however, is around wage gains. Employees at European companies are relying on pay increases to help them cope with the erosion created by higher prices. Higher than expected wage gains make life easier for consumers but more challenging for Lagarde. Wage gains could create inflationary "flare ups" or allow businesses to pass on even more price increases to consumers that were furloughed during the pandemic. The ECB itself has stated that wages are their single biggest risk in its 18-month lengthy battle against inflation, and ECB economists expect that wages across the eurozone will grow by more than 4.5%. A 4.5% growth rate in wages is too high and inconsistent with the rate of wage growth the ECB needs to return inflation to the 2% level in a credible way.



[New wage deals and some tinkering with the minimum wage have meant that labor's contribution to the annual change in consumption has increased the most since the pandemic (Source: Deutsche Bundesbank).]

As with stocks in North America, equities in the eurozone take their que from the ECB more than from corporate profit growth. And because investors have speculated that the ECB will cut rates before the Federal Reserve does, European stocks have done quite well.

[The STOXX600 index is a European stock index comprised of 600 large, mid and small capitalization companies among 17 European countries. The STOXX600 represents 90% of the market capitalization of Europe and we would argue that YTD '24 has outperformed both

the Dow Jones Industrial Average and the S&P500 even if it technically has not. The STOXX600 is an equal weight index whereas the S&P500 is capitalization weight and thus slanted towards a small handful of gargantuan companies that exert a disproportionate influence on the index as a whole. Even out the weighting methodology for the S&P500 and the STOXX600 is leading 2024 easily.]

But ECB officials, such as governing council member Peter Kazimir, have recently stated that there is no need to "rush" to cut interest rates. Kazimir states that rushing is neither smart nor beneficial and investors may wish to pare back their bets on the timing around a first rate cut to June [from April]. Lagarde herself recently spoke in the Belgian city of Ghent and indicated that slower pay growth in the fourth quarter was "encouraging," but that she will have to see how union bargaining rounds go in the first quarter for further evidence on a decision about rates. Many sectors in the eurozone are undergoing negotiations during Q1 '24 and though it is inappropriate to say European labor unions are "more powerful" or bigger than similar unions in America, they are effective. Some countries, like Germany, Austria, Belgium, Sweden, and the other Nordic countries, have extremely strong, centralized unions, but data specifically around the word **strength** can be blurred by labor's participation in union membership. Only around 17% of German workers are unionized and that figure is itself dwarfed by union membership in smaller countries like Albania [36%], Belgium [49%] and the traditionally high Nordic countries. But statistics aside, as an investor, one must take into consideration the progress of those negotiations as having an almost unbelievable level of importance in the decision Lagarde and her governing council make, be it in April or June. Presumably, the ECB is also acutely aware of the danger of unintentionally compromising the economy in its fight against inflation. Though surely not the ECBs base case, the risk of not loosening monetary conditions at the appropriate time including economic contraction and higher unemployment. In extreme cases, overly aggressive or overly lengthy hawkish conditions can cause deflation.

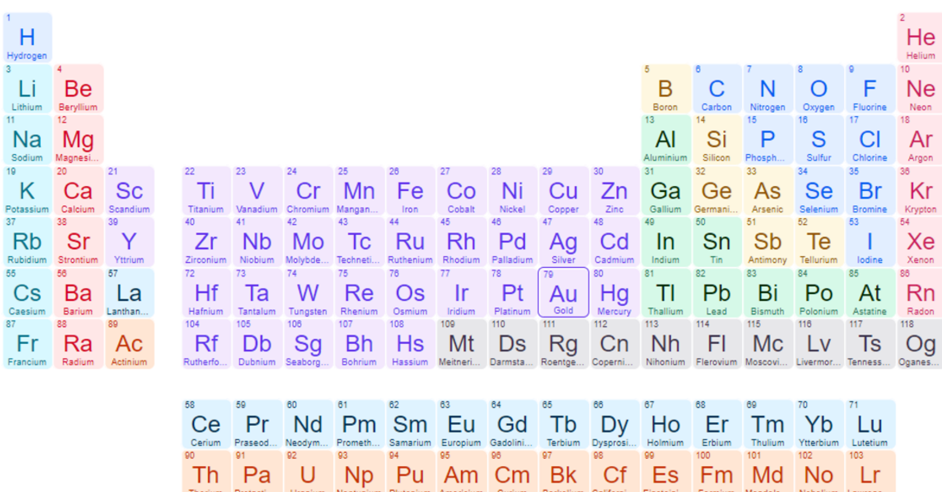
Joachim Nagel, the President of the Deutsche Bundesbank [above] has echoed Peter Kazimir's views by arguing that the ECB must resist the temptation to cut rates too early and we think this is an especially important point. Though most countries in the European Union demonstrated growth in 2023, Germany was not one of those countries. Germany is the largest economy in Europe [by far] followed by the United Kingdom, France, and Italy. And these countries together hold a 50% share of the European economy. Nagel believes that the EBC will only obtain more accurate evidence about how domestic price pressures are unfolding during the second quarter and only then will a cut in rates be contemplated. Once again, growth in employee pay is still higher than what officials would hope to see in the context of their inflation targeting and we believe that policy makers will feel more comfortable waiting on data from Q1 '24 to be able to more confidently assert that a move towards lower rates is prudent. Figures on salaries and pay will only just start being reported in April, and that is going to be too late for the ECBs meeting at the start of that month therefore postponing a pivotal decision on rates until June.

And it's not even all about wages. Robert Holzmann, the governor of Austria's central bank, had previously stated that eurozone rate cuts are not certain during any part of 2024 because, in addition to the inflation risks stemming from wages, ongoing shipping tensions in the Red Sea, themselves an evolving story, are creating price instability over and above wage gains. Earlier in the year, Ernst & Young published a report indicating that they did not believe the situation in the Red Sea would materially alert the global outlook for inflation. However, that report, which came out at the end of January was superseded by a more recent report from the OECD which referenced that higher shipping costs could add 5 percentage points to OECD member import costs.

A slim chance for a rate cut by the ECB in April does exist, and its existence is created by the plethora of data that typically comes the ECBs way in March. Whether or not the ECB acts on the data or has time to assess it for the April meeting is in our view highly unlikely. But there are policy makers, such as Portugal's Mario Centeno, who warn that the ECB must be prepared to act quickly if incoming data underwhelm.

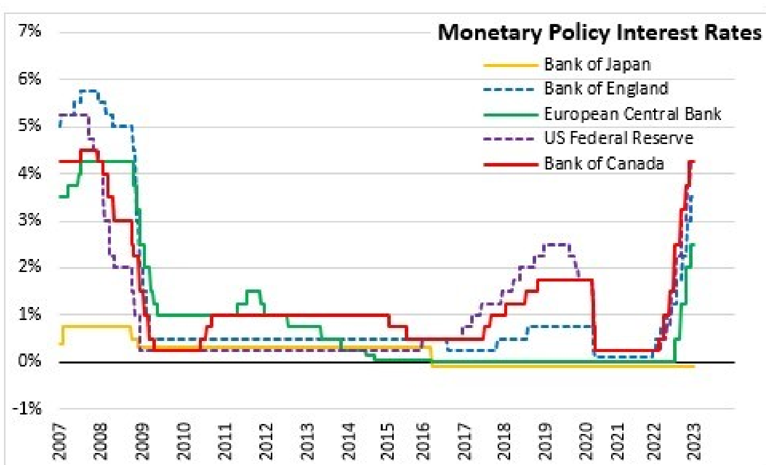
European stocks have done well thus far in 2024, but we worry that their performance could be undermined by the delay of an ECB rate cut in April, even if pushing a rate cut further out into the year is appropriate. Accordingly, while we would love to travel overseas, most of our investor capital will stay within a 3–4-day drive from where this publication was issued.

A *constant* holding from the *periodic* table…



I am not sure that many of you know this, but I took Inorganic Chemistry at University until 3rd year and in so doing got to know my way around the Periodic Table. The table is an icon of modern chemistry and physics because it succeeded in proving an orderly way to think about the chaotic world of atoms, matter and the universe. Dmitri Mendeleev developed the first table in accordance with periodic law, which is the law that states that when elements are arranged in order of increasing atomic number, there is a **periodic** repetition of their chemical and physical properties. The table also lists elements in order of their prevalence in our universe with Hydrogen being the most plentiful by a landslide. The table even has an implied "staircase" style border separating elements that are metals from those that are not, and every element on the periodic table has a unique story behind it.

My own personal favorite is the naming convention behind ^{84}Po [element No. 84] which is known as Polonium. Polonium, named in Poland's honor as a nod to the legendary Madam Currie. Currie, whose maiden name was Sklodowska married Pierre Currie. Her contributions to the world of physics, chemistry and radioactivity earned her not one but two Nobel Prizes and a spot on the greatest scientists ever list. Oh, and Pierre was no slouch either[1]. Albert Einstein has an element of his own too ^{99}Es [element No. 99] which is known as Einsteinium, and often the stories about the elements are more interesting than their atomic properties. To the layperson, the periodic table is a neat looking and well laid out collection of symbols. To the die-hard lover of science, the periodic table is a series of non-fictional stories about the nature of our galaxies. Still, one element on the periodic table is more famous than any other. ^{79}Au [element No. 79] has been respected by societies the world over for millennia. It shimmers, it shines, and it captivates all those who possess it; it is gold. Gold's enigma really is not all that difficult to understand, and we have invested directly in the metal itself. Next month, we will be hosting an investing event at the Rosedale Golf Club featuring an appearance by the Royal Canadian Mint. We visited The Mint in January and held two sets of meetings with them about a potential bullion investment program they now run. Though the Royal Canadian Mint can certainly answer many questions about bullion, by law, they cannot provide investment advice. That's unfortunate because I know that the two main questions anyone with an interest in gold is asking themselves are: a) what is driving the price of gold higher b) with Gold now well over $2,000 per ounce, can I expect some of my gold stocks to pop and b) why would Bitcoin rise in tandem with Gold? The MacNicol Investment Team believes that the recent run up in gold can be explained by three primary variables, which in descending order of impact are: gold backed ETF demand, weakness in the Japanese Yen and [most importantly] direct gold purchases by central banks. Since it is easy to appreciate how gold-backed ETFs increase demand for bullion while simultaneously choking out demand for gold stocks, we offer our advice on gold stocks in a moment. For now, let us hop over to the land of the rising sun [Japan] for a quick update on that nation's economy and monetary policy.



[I am not the President or Governor of one of the world's major central banks. But if I was, I would choose the Bank of Japan. The BOJs monetary policy interest rate hasn't moved appreciably in decades, and so I imagine life at the BOJ to be quite easy.]

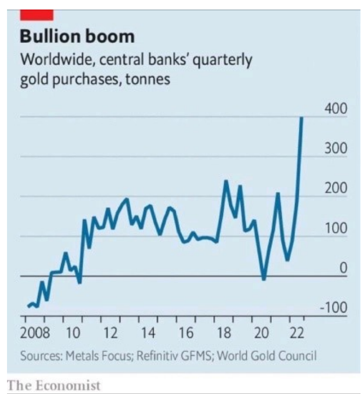
Currently, Bank of Japan Governor Ueda faces significantly challenges. Ueda's bank has **remained** a dovish anachronism among the world's major central banks.

[1] Pierre Currie was not just no slouch but a fellow "giant" in the world of science also. Mr. Currie was a pioneer in crystallography, magnetism, and radioactivity, and one can only imagine what dinner time conservations were like at the Currie home in the 1880s and 1890s. Three (3) Nobel Prizes were awarded to Pierre and Madam Currie, and it would be staggering to envision either one of the Curries having any troubles with the inorganic chemistry courses I took in the late 1990s.

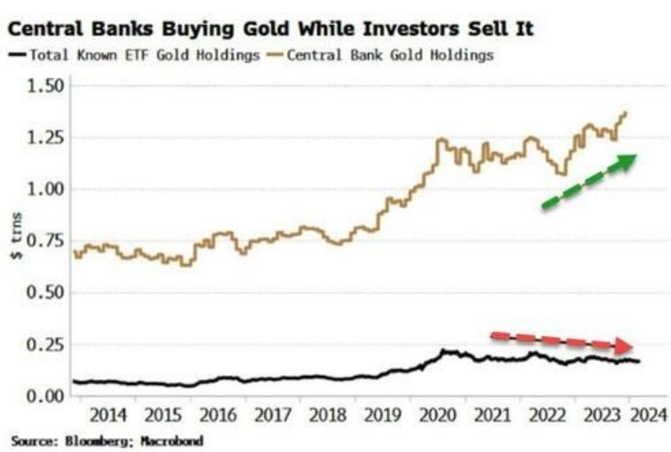
Even as other major central banks tightened monetary policy aggressively to combat soaring inflation, the Bank of Japan remained the G7s biggest "Dove". And with Japan's economy looking weaker than it looks stronger, Ueda and his deputies are [in our opinion] highly unlikely to raise rates in the immediate future, and that has badly dented the Japanese Yen with a portion of funds flowing into Gold.

Without any doubt the biggest factor impacting Gold: US Fiscal Deficits

Under the leadership of President Joe Biden, the United States has kicked its deficit spending into high gear. Last year, the United States fiscal deficit surpassed the already beefy 2022 deficit by over $300 billion, and just this week, Biden announced $460 billion worth of spending to avoid a government shutdown. The United States' perverse fascination with debt would appear to be evolving into a full-blown fetish, and central banks around the world are taking notice. China, Germany, and Turkey have been the biggest sovereign buyers of gold over two quarters, and one of the busiest buyers of gold last during the 2023 calendar year was Singapore. Gold purchases by central banks can also take a page from the strategic playbook, avoiding seizures [if your reserve currency is the US dollar] and if you have a "tense" relationship with the United States.



Because central bank buying of gold is heavy, we have a very difficult time advising investors to sell their gold [you shouldn't]. Increased demand on the part of global central banks – along with the usual demand from jewelry and industry – will soon begin to constrain supply, and that problem will only be made worse once more institutional and retail investors begin to increase their own exposure to gold. For now, central banks would appear to be hands down the biggest buyers of gold, increasing an already wide gap investors who perplexingly are net sellers. If central banks have their fingers on the "buy" [gold] button, expect prices to glitter.



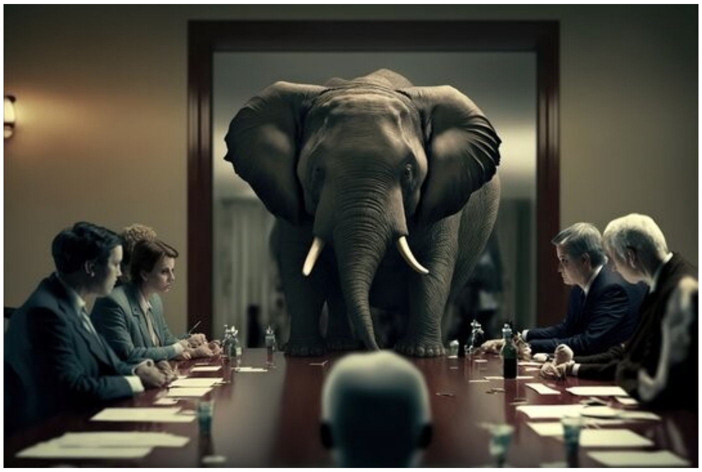
But how about gold stocks?

As $2,000 per ounce is now increasingly being viewed at as a distance memory, and as gold's near-term price objective is clearly biased even higher due to demand, when can investors holding gold stocks exclusively begin to see their fortunes change. The MacNicol Investment Team believes the answer to that question is: **soon**. Gold's higher price, and the perception that the higher price is here to stay, will drive up cash flows at mining firms, rewarding shareholders with dividends and share buybacks in firms with strong corporate leadership. A case in point is Barrick Gold. Barrick produces gold at US$1,334 per ounce and realized a gold price of US $1,948 per ounce, up 13% during the fourth quarter of 2023. The high gold prices increased its net earnings per share by 200% to US $0.72 and the company announced a [new] share buyback program, which can be found in the Q4 '23 earnings press release found here:

https://s25.q4cdn.com/322814910/files/doc_news/2024/02/Barrick_Q4_2023_Results.pdf

Barrick bought back $424 million of its own stock during the 2022 stock buyback program and the newly announced program takes the capital committed to further buybacks to $1 billion. Barrick is one of several gold names the MacNicol Investment Team is familiar with and uses in certain client portfolios, and you can expect good things from the higher quality names soon.

The elephant in the room…



It is comparatively easy to envision a world in which gold trades at an even higher price tomorrow than it does today. And it is just as easy to envision a world where gold price spikes impact cash flows at publicly traded gold firms. But how does one even begin to address the parallel run that gold has had with Bitcoin? One currency has been in place for many thousand millennia and immortalized with its own spot on the periodic table of the elements, the other "currency" doesn't exist at all. But Bitcoin recently gained the one thing that was missing from its growing portfolio of credibility: US Securities and Exchange Commission (SEC) regulatory approval. By allowing bitcoin exchange-traded funds to trade on US markets, Bitcoin now enjoys a legal status that many have talked about for a long time. The SEC approval of 11 applications [i.e. ETFs that hold Bitcoin] from groups like BlackRock, Ark Investments, Fidelity, Invesco and VanEck means the overall liquidity of Bitcoin will be enhanced because investors won't have to get their Bitcoin exposure from a sketchy exchange or questionably wallet. What's more, Bitcoin's built-in scarcity, with a maximum supply of 21 million coins, will now become a huge topic among investors. Like Gold, Bitcoin's supply is finite. But aren't Bitcoin and Gold textbook examples of "risk on" and "risk off" respectively?

We suspect it depends on what you consider risk to be.

Geopolitical risk in the world is very high right now and it is arguably a greater threat to investors than they might even expect. Many G7 countries continue to wrestle with the problem of how to cut rates amidst government spending and lingering inflation. And so, from this perspective, the overall appeal or attractiveness of any fiat currency or an asset denominated in a fiat currency is discounted. Since Bitcoin and Gold are both finite in supply, and since neither one is issued by a government, their enhanced liquidity through ETFs, and in Bitcoin's case, broad-based acceptance by the largest securities regulator in the world, is likely to drive prices higher for both in the near term. The term "fiat" is Latin for "it shall be" or "let it be done". Therefore, fiat currencies only have value because the governments that issue them maintain that value, which is to say there is no utility to fiat money. I derived much utility from my studies of inorganic chemistry, including going up, down and across the rows and columns of the periodic table. Governments come and go, currencies too, but the enduring presence of gold not only as an atomic element sought after for its luster and shine, but as the currency you can believe in is constant. The MacNicol Investment Team believes that gold should continue to perform well in 2024 and soon drag the price of shares in gold companies along with it. As far as Bitcoin goes, we will say this: Bitcoin has moved a long way in a very short period so do expect pullbacks just don't expect a crypto-winter or a spot on the periodic table of the elements.

Behavioral Investing: fortitude

We include a quote from the great Warren Buffett in this edition of *The Monthly* for two main reasons. First, March is the month that Buffett and his company distribute their annual investment letter to shareholders of Berkshire Hathaway. Second, on any given day, Buffett is of course the world's: 5^{th}, 6^{th} or 7^{th} [it really doesn't matter] richest person. That Buffett didn't create anything per se is as impressive as his wealth is. Buffett's only source of wealth has been the stock market. Depending on who you ask, the stock market is alternately a vast wasteland of investment horror stories where fortunes are lost, or a source of infinitely interesting endeavors with profitable payouts.

To Buffett, of course, certain stocks are paradise, and it shows when you read through his most recent newsletter with quotes like this one:

I can't remember a period since March 11, 1942 – the date of my first stock purchase – that I have not had a majority of my net worth in equities, U.S.-based equities. And so far, so good. The Dow Jones Industrial Average fell below 100 on that fateful day in 1942 when I "pulled the trigger". I was down about $5 by the time school was out. Soon, things turned around and now that index hovers around 38,000.

But the way in which Buffett has invested in stocks is ludicrously simple but involves some courage to apply successfully at the portfolio level. You see, Buffett realized that most investors would invest their money in a wide range of stocks, and immediately sell as soon as any of the stocks are doing poorly. Buffett's strategy suggests staying loyal to a few stocks; researching them well, believing in their businesses, and trusting that they will eventually pay out a high return.

In a day and age when investors are quite literally being drenched in information, it can take courage [fortitude] to stick to your guns. There is always something prettier around each investing corner, and with over two decades of experience as one of North America's leading independent asset managers, the team here at MacNicol can empathize. Sometimes you don't need a fancy scan of the brain to point out the failings of suboptimal investment strategy. Instead, all one needs is the courage to shut out all the noise and distractions. Working with us can help, but thinking about how Warren Buffett made it can help too. The MacNicol Investment Team are big fans of Warren Buffett, but we are even bigger fans of you.

The MacNicol Investment Team

Firm Wide News:

MacNicol & Associates Asset Management will be hosting Dr. Woody Brock for an economic webinar on March 28th, 2024, at 12:00 PM EST. Dr. Brock will go over the state of the U.S. economy, interest rates, inflation, and what the FED will do next.

Click here to register for the webinar: