

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 our 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.



Negril Lighthouse, Negril Point Westmoreland, Jamaica

Negril Lighthouse was originally built in 1894. The lighthouse is 1.5 miles southeast of the westernmost tip of Jamaica. The light was originally operated by gas, but switched to acetylene in 1956, and solar in 1985. The lighthouse stands at 27 meters tall and has a focal range of 28 kilometres.



Great Inagua Lighthouse, Matthew Town, Bahamas

This lighthouse was constructed in 1870 by the English Crown to prevent piracy which had been reported for over 100 years in the area. The lighthouse is 113 feet tall and offers visibility of 17 miles

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



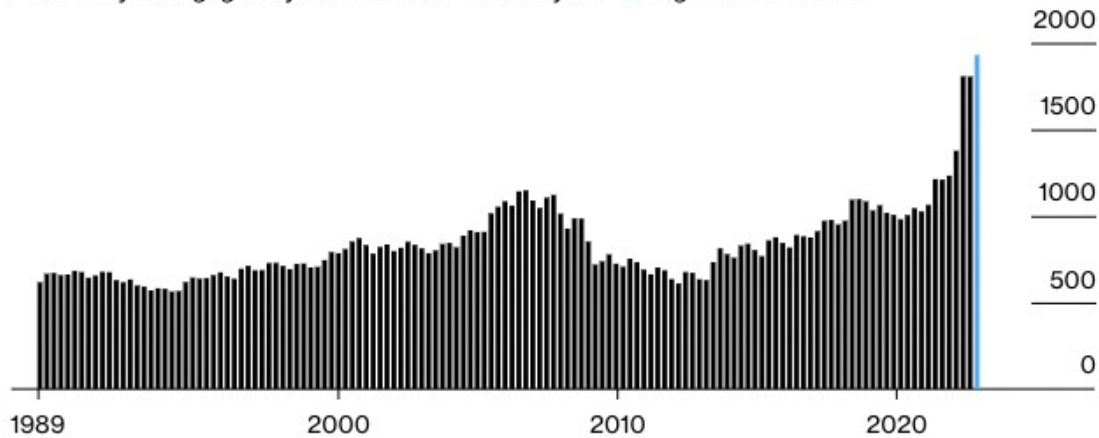
All-time highs

Mortgage payments for first-time homebuyers in the U.S. have reached new all-time highs. The average payment according to the National Association of Realtors is approaching \$2,000, close to double what the average payment was in 2020 and pre-Covid-19.

Mortgage Payments Hit New Highs

First-time buyers have to pay the most since at least 1989

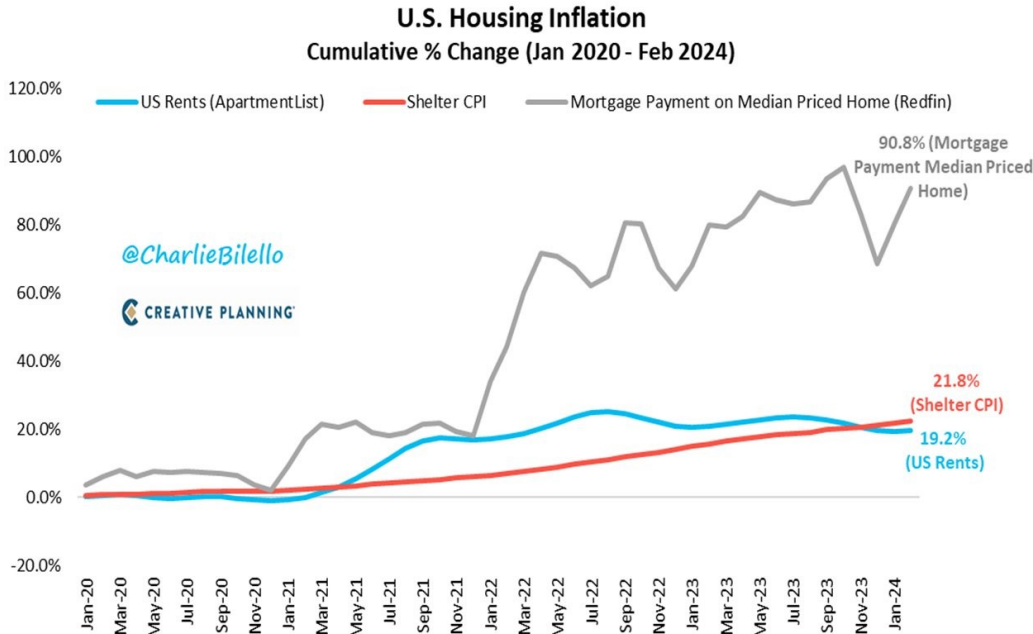
■ Monthly Mortgage Payment for First-Time Buyers ■ Highest on Record



Source: National Association of Realtors

It is becoming harder and harder for first-time home buyers to afford a home. They are essentially being priced out of the market. The issues that U.S. consumers are seeing are even worse in Canada. The unfortunate thing is politicians are not doing anything about this affordability issue. They run on campaigns that promise lower prices, sympathizing with consumers, and when they win, they do nothing, some politicians have even made affordability more of a problem due to the policies that they support (ie. Trudeau's immigration policies which have allowed home prices to balloon in recent years).

According to RedFin, over the last 3 years, the median mortgage payment has increased by 91%, while the shelter component of the CPI calculation has only increased by 22%.



Rent prices over the same period have only jumped by approximately 19.2% (nationally). In the U.S., it has become more and more unaffordable to buy a home. In today’s economy, it seems smarter to rent than to buy (in the U.S.) until things change in the housing market.

Japan finally hikes

The Bank of Japan announced on Tuesday that it will raise rates for the first time in 17 years. We are not talking about a rate increase of at least 0.5%, we are talking about any increase at all. The bank will be the last major developed central bank to reverse negative borrowing costs. The move is expected to impact global markets moving forward.

It was a modest move by the central bank, but an important one. The central bank lifted its key rate to a range of 0% to 0.1% from a previous level of minus 0.1%, where it had been since 2016. The central bank has been cautious about raising rates due to decades of deflation after the real estate bubble burst in the 1990s in Japan. Here is the Bank of Japan’s policy rate over the last 10 years (note, rates have been below 0% for most of that time):



Many believe the rate increase is due to inflation rates remaining above the 2% target for two years, and the recent increase in wages. However, rates will not come close to where they are in other developed markets. This move signals that crisis-era monetary policy in Japan has come to an end. Many scholars and researchers are warning that the first move by the BOJ will be benign, but the preceding moves will have ripples across global markets.

The BOJ's shift adds to the optimism that has continued to fuel Japanese stocks by confirming the view the economy is finally picking up and emerging from deflation. The iShares MSCI Japan is up 9.8% year-to-date and this move could give bulls more confidence than they have had in decades across Japanese equity markets. Japanese markets hit their first all-time highs in 30 years after over three decades of consolidation. Japanese markets look ripe for a breakout, however, there could be some short-term volatility, and this could be a longer-term trend that you may want to look at.

Confirmation in the Kremlin

In an unsurprising result, Vladimir Putin was re-elected as the President of Russia this past weekend. With 99.8% of ballots counted, Putin amassed 87.3% of the vote, according to preliminary results reported Monday morning by Russia's Central Election Commission. Putin had no true opposition in the race with the recent death of Alexei Navalny.

This election was not highly contested or even fair which is why we did not warn our readers about it. 2024 is a huge year for elections, globally. On a democratic level, the most people ever in one year will head to the election booths. This number technically includes Russia who host 'free and fair elections'.

The overwhelming victory was a reminder to the West of just how much of a stranglehold Putin has on his population. One leader that was quite happy with the result of this election was President Xi of China who called to congratulate Putin. Xi also announced to Chinese state media that he will further forge and promote a sustained in-depth relationship between the two countries as they continue to develop their strategic partnership. China and Russia have strengthened trade, diplomatic, and security ties over the last 2 years.



This strengthened partnership has hurt China in certain aspects but Xi and the CCP see this as a strong move that will reshape the world moving forward. China and Russia are both hoping to achieve a new world order that is not centered around the West.

The decoupling continues.

Putin first rose to power in 1999 and will be in control of Russia for another 6 years. During his term, he will overtake Josef Stalin and become Russia's longest-serving leader in more than 200 years.

Putin's dominant victory will result in a continuation of Russia's invasion of Ukraine. Many believe Russia will accelerate its efforts in Ukraine this year as global support of Ukraine has slowed down, and U.S. aid may come to a halt as Americans head to the polls in November. In Putin's victory speech, he stated one of the main goals of his government is to strengthen the country's defense capabilities. Putin will also reportedly focus on infrastructure spending domestically over the next 6 years.

We will not invest in Russian securities and do not have the opportunity to as the Canadian government has removed Russian products from Canadian capital markets.

The major reason we discussed this topic this week was the result and what China's reaction to this result was. The major trend of decoupling continues, and this result will more than likely embolden Putin and Russia in their efforts in Ukraine. Do not expect an ease of tensions in Ukraine.

Casino era

Equity markets are being used more and more like casinos by retail traders as they make bets on outlandish events across financial markets.

On Monday, Bloomberg reported that traders bought 24,000 Nvidia call option contracts that expire Friday with a strike price of \$1,940 between 2:00 and 2:30 PM EST. The contracts were bought in small lots indicating that they were retail traders. The casino-like call options are just another example of how retail traders are using option markets like a Las Vegas casino. Throughout Monday, 33,000 call option contracts with this strike and expiration were bought.

Nvidia shares currently trade below \$900/share and would have to more than double by Friday to reach the strike price.

Way Out of the Money Nvidia Call Options Contract with \$1,940 strike sees uptick in volume



While the trade is insignificant next to wagers on single-digit moves in the stock, it does bring back memories of 2021's meme-stock mania. The difference this time is Nvidia is the third most valuable stock on the planet, not some low-billion-dollar company that is trending on Reddit.

Perhaps, these retail investors were betting on some massive announcement at Nvidia's GTC conference on Monday.

It seems Warren Buffett's comments linking markets to casinos come more and more true every day.

A Cramer-sized warning

Speaking of Nvidia, Jim Cramer, the popular CNBC pundit and host of Mad Money, known over the last few years for all his wrong calls in markets, came out with some very bullish comments on Nvidia on Monday.

MAD MONEY

Jim Cramer says Nvidia will 'create the next industrial revolution'

PUBLISHED MON, MAR 18 2024-6:38 PM EDT | UPDATED 4 HOURS AGO

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KEY POINTS

- CNBC's Jim Cramer on Monday said he believes Nvidia will revolutionize enterprise.
- Cramer said Nvidia wields immense power because its software can speed up processes and innovation, as well as cut costs, for companies in a wide array of sectors.
- To Cramer, Nvidia's market value isn't as apparent as tech peers like Microsoft, Alphabet or Amazon, which offer services that are clearly seen as valuable by consumers.

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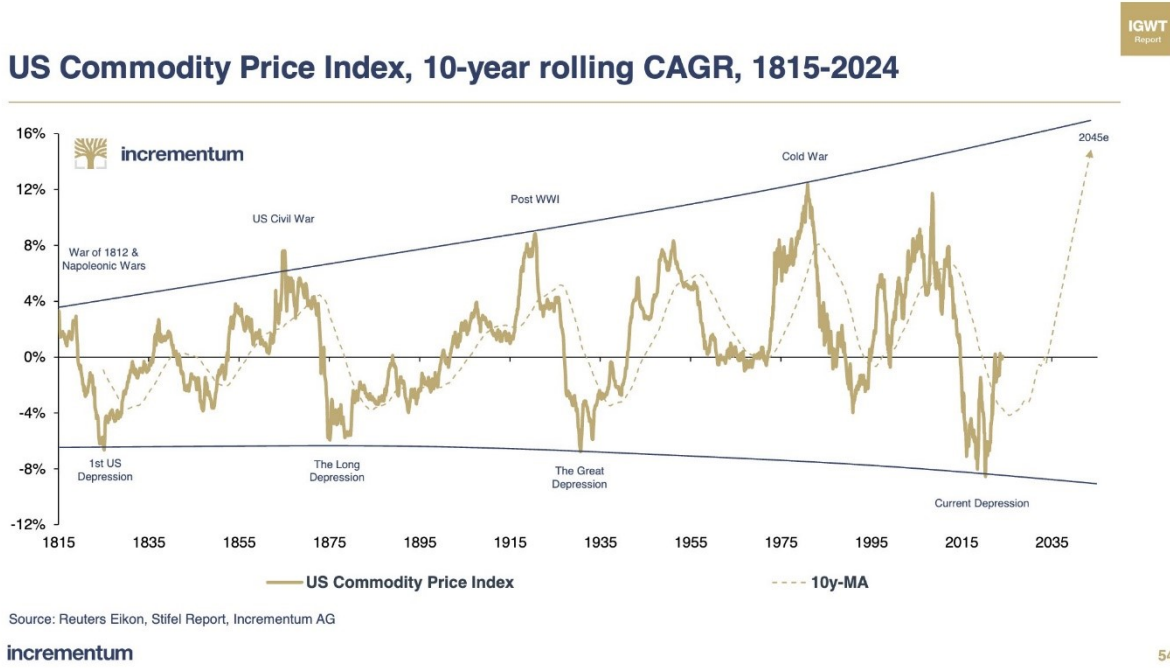
Perhaps this will start a trend change for Nvidia or perhaps the company is too powerful to be taken down by the reverse Cramer that we have commented on numerous times over the last year. If you have missed our Cramer commentary, it seems every time he is bullish on a company, the company misses earnings or something negative happens to the company, and the stock drops, and whenever he is short or views a company pessimistically, the stock soars.

We will have to see if Cramer finally, reverses his (inverse) trend. If one company can solve his miscalls, its Nvidia whose shares are up 238% over the last year and seem to only go up everyday.

Commodity resurgence

We ran by a great long-term chart this week that we had to share.

The chart was published by incrementum and tracks the rolling 10-year returns of the U.S. Commodity Price Index since 1815, yes, a 200+ year chart.



Commodities have historically moved in cycles in the U.S., and it seems we could be breaking into a period where commodities could create some outsized annual returns.

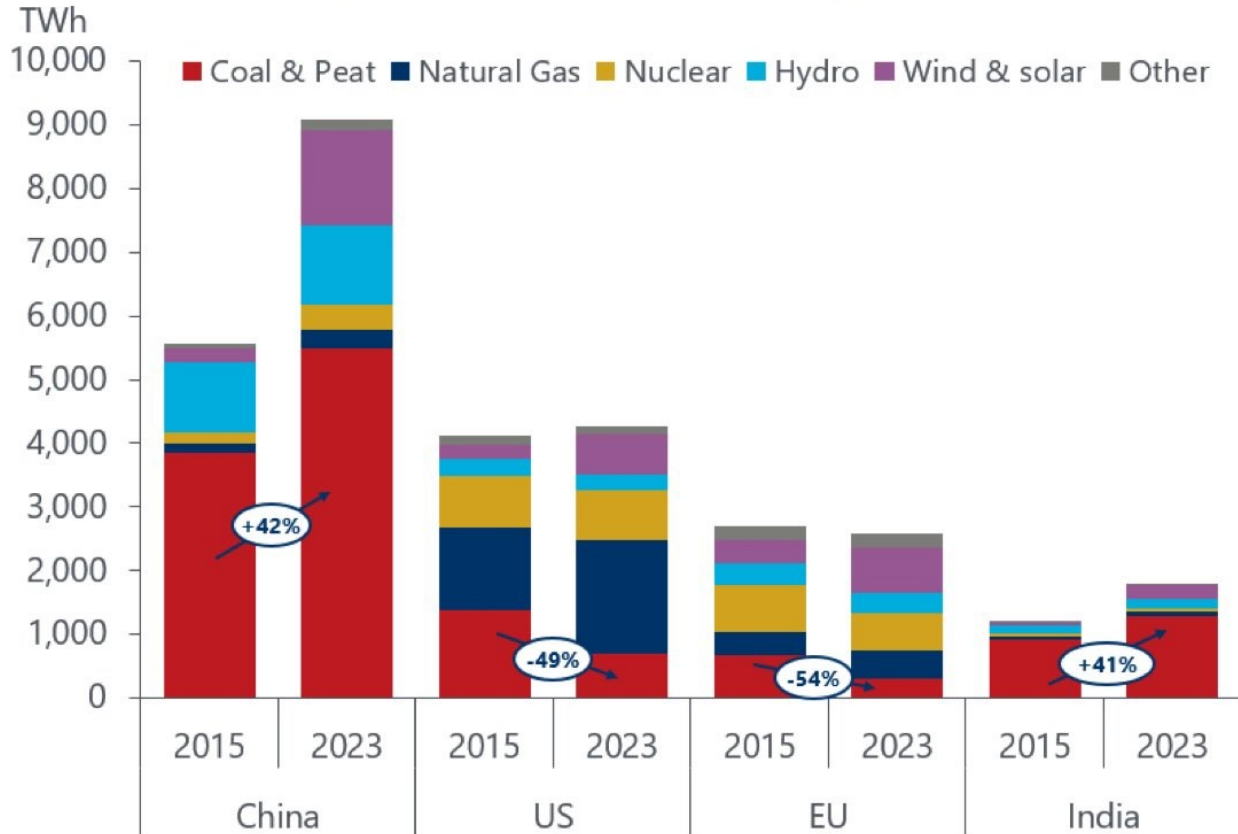
Potentially something to look forward to as we head into the future.

Disclaimer: MacNicol & Associates Asset Management owns securities across various commodity industries.

Global electricity production

China is currently the world's largest generator of electricity, and it's not even close. In fact, in 2023 China generated more electricity through coal energy than any other country did overall. Next time somebody gets on you for not using a paper straw, send them this chart:

World: Electricity generation by technology



Source: Oxford Economics/IEA (EU excludes Romania, as data not available)

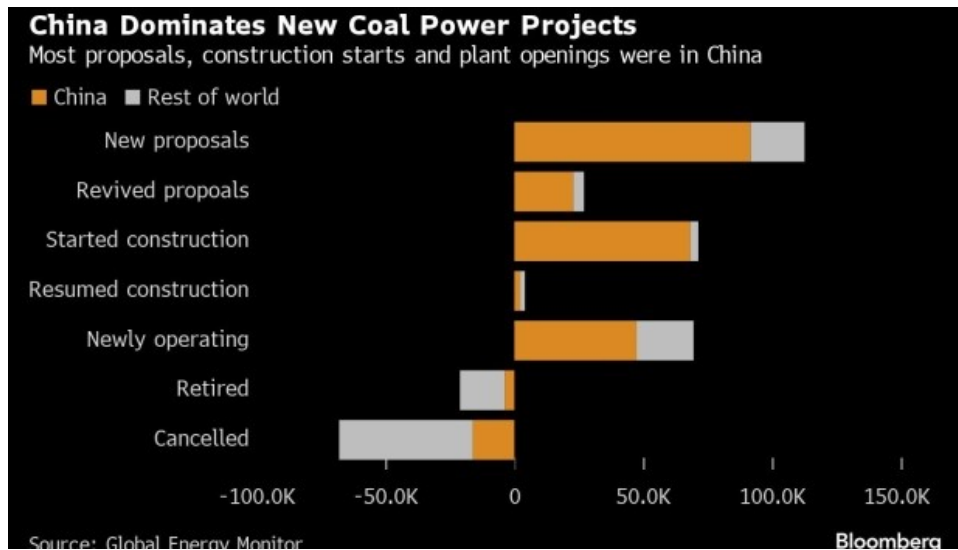
China has increased its electricity generation over the last 8 years by approximately 65%, mostly being fueled by growth in the generation of electricity through coal, wind, and solar. Electricity generated by coal jumped in China and India over the last 8 years while Western nations have decreased this practice quite substantially.

While China dominates green energy, they also continue to pile into coal energy. China is eating our lunch and playing both sides of the coin in the energy industry. As Western nations shut down coal plants and ban coal mining, China continues to build more coal plants which will be in use for the next 20+ years. The West is focused on decreasing emissions by cutting fossil fuel usage, but their share of global emissions is relatively small which begs the question, "Will what the West is doing be enough and

why are Western nations voluntarily hurting themselves while they allow emerging and developing nations do what they want?”



The chart below shows just how active China has been in expanding its coal capabilities even today while the rest of the world is decommissioning and canceling such projects:



Developing nations continue to develop their grid capabilities and the easiest way to expand those capabilities is through cheap energy sources like coal. Expect China, India, parts of Asia, and Africa to continue expanding their use of coal in electricity generation.

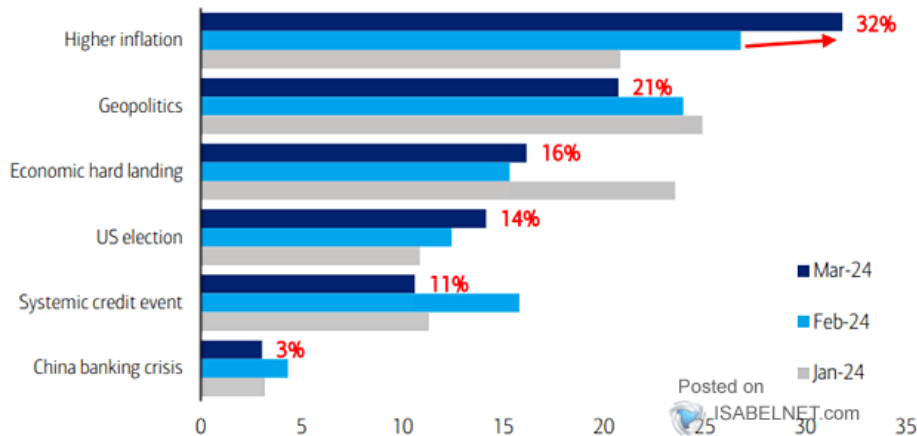
Fund Manager Survey update

Bank of America released its monthly Fund Manager Survey for March 2024, and one chart stood out to us. Fund managers were asked what they see as the biggest tail risk for markets today.

For those unfamiliar with the term “tail risk”. Tail risk is defined as the probability of a loss occurring due to a rare event, as predicted by a probability distribution. Colloquially, a short-term move of more than three standard deviations is considered to instantiate tail risk.



Chart 7: Higher inflation seen as the biggest tail risk
 What do you consider the biggest 'tail risk'?



Source: BofA Global Fund Manager Survey

The one factor that investors see as the biggest tail risk to markets is inflation. Higher inflation is seen as the biggest tail risk to 32% of respondents to this survey, 2 months ago that number was below 20%, if we zoomed out further it would be even lower. For months, the media, some economists, and many institutions have championed lower prices, claiming that inflation will only move down from here. We have been wary of these early calls, linking today’s inflationary environment to the 1970s, when there were 3 waves of inflation with peaks and valleys over an 8–10-year period. Sticky inflation in recent months has somewhat confirmed our worries and perhaps worried more and more investors.

The other events seen as major tail risks to investors today include geopolitics (Middle East, Russia / Ukraine, Taiwan / China), economic hard landing (recession), the U.S. election (Biden vs. Trump 2.0), a systematic credit event, and a Chinese banking crisis.

MacNicol & Associates Asset Management
March 22, 2024