

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.



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.



Faro Mazatlán, Mazatlán, México

This lighthouse was originally constructed in 1892. The lighthouse is 11 meters in height and has a focal height of 157 meters. The lighthouse is the highest natural lighthouse in the world due to its location at the top of Creston hill which is 157 meters above sea level. The lighthouse is a large tourist attraction on the west coast of Mexico.



Puerto Morelos Lighthouse, Puerto Morelos, Mexico

This lighthouse sits near Cancun on the coast of Mexico. The lighthouse was originally built in 1905 and the second iteration was built 41 years later. The lighthouse is still active and currently stands at 14 meters tall. The leaning tower was the result of the foundations being washed away by Hurricane Beulah in September 1967.

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

Bank of Canada makes second cut



The Bank of Canada cut interest rates by 25 basis points for the second consecutive meeting and signaled further easing as inflation looks to cool. The Bank of Canada led by Tiff Macklem sliced interest rates to 4.5% on Wednesday. This was expected across Bay Street as inflation north of the border has slowed down substantially in recent months and growth looks to now be the economic issue that needs to be addressed.

After this announcement, bonds rallied, and the Canadian Dollar hit a 3-month intraday low relative to the U.S. dollar. The BOC has now cut rates by 50 basis points while the FED has yet to cut rates during this cycle.

Macklem said in a statement that the inflation target is in sight and now downside risks in the economy are taking an increased weight in the BOC's monetary discussions. Last month inflation in Canada decelerated to a 2.7% yearly pace.

Officials listed weaker-than-expected household spending as a main downside risk in Canada. They also mentioned mortgage renewals as a threat to current and future consumption due to higher mortgage rates for homeowners renewing their mortgages. In the BOC's statement, they mentioned that there are signs of slack in the labor market and job seekers are taking longer to find work as employers are not hiring.

When the BOC cut interest rates last month, they were the first G7 to do so. The European Central Bank has since joined them in moving rates lower.

Before you say wow, we are leaders north of the border as we are cutting first, lower rates are great, watch the Loonie and watch how it continues to break down as we cut rates this year.

In other Canadian economic news, last week the Prime Minister of Canada and the finance minister as well as the entire Liberal party were championing a report from the IMF that said the Canadian economy will be the fastest-growing economy in the G7 in 2025. On the surface this sounds great, Canada having the strongest economic growth amongst the most developed nations in the world is a positive thing to hear. However, when you look deeper it's another false flag.

The economic growth rate in Canada next year is being fueled by a surging population which is being fueled by immigration. Canada's population has surged in the last 10 years and its economy has only grown because of the added people. Productivity has arguably been stagnant as GDP per capita has remained flat over the last 10 years.

Canada's population is growing at rates seen in developing countries, not developed countries. This population growth and mass migration are artificially boosting the overall GDP of Canada while Canadians are not becoming better off.

We have talked about this GDP and GDP per capita phenomenon in Canada for about a year now and continue to believe we have a productivity problem in Canada that needs to be addressed before the issues accelerate.



The Fraser Institute released a 16-page paper this year that looks at this and why Canadians are getting poorer while headlines say we are better off. They also compare the Canadian economic growth rate to other countries over the last 20+ years.

We encourage you to give this study a read, it's about 15 pages long.

<https://www.fraserinstitute.org/studies/were-getting-poorer-gdp-per-capita-in-canada-and-oecd-2002-2060>

Nasdaq dips

On Wednesday, the Nasdaq was down over 3% as of 3:30 pm EST. This is the index's worst performance since October 7, 2022, and quite the single-day pullback. What happened?

Some big tech companies were disappointed with their Q2 earnings on Tuesday and investors hit the exit door. Valuations, which were already high, got even higher recently and it seems investors are worried. The Nasdaq-100 is down 7.7% since July 10th, its all-time high close.

This pullback has been led by a sharp pullback from the Magnificent 7. The Magnificent 7 has lost \$2 trillion in market cap over the last 10 days (as of July 24th). All of a sudden, investors realize 50 times earnings is expensive and valuations matter.

Companies like Tesla and Alphabet disappointed investors when they reported their earnings earlier in the week. Alphabet beat Wall Street earnings and revenue expectations for Q2 but disappointed in their forecast, they also disappointed investors when asked about the return on investment in AI. Alphabet's CEO did his best to assure investors that Alphabet's spending on AI will eventually pay off and lead to growth. The street had other ideas as Alphabet's stock price has now dropped 9.5% since July 10th and about 4.7% since their earnings call. Tesla's earnings were a different problem for the market. Tesla missed on earnings but beat on revenue and shares are down over 12% since the earnings release. Margins were the main driver of the collapse in earnings by Tesla. Tesla has been forced to slash prices over the last 12 months as they face more competition across the globe including in China. Tesla's operating margin shrank to its lowest level in 3 years and shrunk for the 4th quarter in a row.

Investors are also seemingly doubting Elon Musk's forecasted target for Tesla robotaxis which he thinks Tesla can deliver sometime this year. We would also doubt that forecast from Musk and Tesla.

The entire Magnificent 7 and tech sector were hit by these events on Wednesday quite substantially. The great rotation continues as mid and small caps continue to outperform mega caps and the Magnificent 7 over the last few weeks.



Microsoft delivers its Q2 earnings next Tuesday while Meta Platforms delivers after the bell next Wednesday. Finally, Apple and Amazon deliver earnings next Thursday. A huge week for the Magnificent 7. Next week's earnings could reverse this negative trend or steepen the correction in valuations that we have already seen begun. If the street sees a slowdown in earnings growth, high valuations will not be justified, and we would expect the Magnificent 7 and tech sector to continue its correction. The one company that we have not mentioned that has seemingly saved the day and led markets over the last 18 months has been Nvidia. The correction we have seen has even impacted Nvidia. Nvidia shares are down 18.5% from their all-time high. The stock that always went up has corrected yet it remains extremely expensive. Nvidia is due to release its earnings late next month, so do not expect some huge earnings beat by Nvidia next week and a reversal in this trend.

It happened

After a few weeks of pressure, President Biden paused his reelection campaign and dropped out of the 2024 race. This leaves the Democrat party without an official candidate. Biden had been under pressure since the debate with former President Trump to drop out due to his poor performance which had resulted in many across the world questioning his cognitive state.

So, what happens now?

The Democrats will need to get a candidate and they will need to pick a VP. The pick needs to be quick as some states have deadlines for their ballots in August.

After Biden dropped out, all focus turned to Vice President Kamala Harris as the nominee. Biden immediately endorsed her to be nominated as did many high-ranking Democrats including Senator Chuck Schumer.

As of Wednesday afternoon, it looks like Harris will be the nominee and will go head-to-head against Trump. She will need to get most of the delegates at the Democrat National Conference next month to be the official nominee. All reports point to her already having the numbers to be the nominee.

We will be reporting on Harris or the eventual Democrat nominee's policies as well as former President Trump's policies in the coming weeks so you can position yourself accordingly.

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