

This commentary was written by our team and NOT outsourced to a third party. 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



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.



Gravenhurst Narrows (Lighthouse Island) Lighthouse, Muskoka, Ontario from Bruce C.

This lighthouse picture was sent to us from a long-standing client. This is a replica of the original lighthouse at the “narrows” between Muskoka Bay and the main lake. It was dropped in by helicopter in three sections over a two-hour period. Bruce enjoyed a 2-hour cruise along the lakes of Muskoka when he snapped this picture.



Sombrero Key Light, Marathon, Florida

This lighthouse is offshore of Vaca key in Marathon, Florida. The lighthouse is located on a submerged reef. The lighthouse was first lit in 1858, was automated in 1960, and was deactivated in 2015. The lighthouse stands at 142 feet tall and is on the National Register of Historic Places.

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



Chip maker risk

On Monday it was reported that the government in China was pressuring domestic companies not to use Western hardware (including Nvidia components).

Nvidia continues to face headwinds in China where reports continue to emerge that Beijing, and the Chinese Communist Party is pressuring local companies to use domestic offerings. Chinese authorities have informed local companies to use Chinese-made AI chips over Western-made products moving forward. The products being pushed to Chinese companies include Huawei AI chips.

Despite this Chinese risk for Nvidia, the company's future remains bright with robust demand for its new Blackwell processors, and billions in funding in AI research which will be partly used to buy Nvidia chips to support research and advancement. Last week, Nvidia's CEO was on CNBC talking about his company, he claimed demand has been "insane" for Nvidia's new Blackwell chips. Blackwell chips will cost between \$30,000 and \$40,000 per unit and is seeing hot demand from the likes of OpenAI, Microsoft, Meta, and other firms building AI data centers.

Nvidia's revenue continued to surge during the fiscal second quarter to \$30.04 billion, up 122% on an annual basis. It expects \$32.5 billion in sales during the current quarter. Huang says his company is focused on keeping costs down, decreasing energy consumption, and increasing efficiency while remaining innovative.

Nvidia shares are up 19% over the last month, bouncing with the overall direction of markets. However, shares are still 9.8% off 52-week and all-time highs. Being 10% off all-time highs has been an extreme rarity for Nvidia over the last 2 years as the stock has gone on its meteoric run.

Oil acquisitions

M&A in the energy industry has picked up in recent quarters. This trend is being led by producers with clean balance sheets and strong cash flows. Companies are as attractive as ever, and the oil thesis continues to remain intact. Shortages will arise and the market will be tight.

On Monday, Chevron announced they would be selling their interest in the Athabasca oil sands project and Duvernay Shale in Alberta to Canadian Natural Resources (CNQ) for \$6.5 billion. The all-cash transaction is expected to close this year. The sale of the asset by Chevron is a part of their strategy to divest \$10-15 billion of assets by 2028. Over the last few years, Chevron has amplified its focus on upstream capital spending on core growth areas like the Gulf and U.S. shale.

Chevron Canada will sell its 20% interest in the Athabasca Oil Sands Project, and its 70% operated interest in the Duvernay shale.



The sale of the asset by Chevron helps it clean up its portfolio ahead of the closing of its \$53 billion acquisition of Hess which was announced 12 months ago. The Hess transaction is dependent on arbitration hearings scheduled in May 2025 between Exxon and Chevron.

After the deal, CNQ will own 90% of the Athabasca Oil Sands project while Shell will own the remainder. CNQ has been scooping up oil sands assets for quite some time. This strategy has led CNQ to become Canada's largest oil producer. The overall deal boosts CNQ's output by 9%.

The deal is positive for both companies, as Chevron can continue to divest in its noncore areas and CNQ can continue to consolidate assets in the region.

After 5-10 years of U.S. companies selling their Oil Sands assets to Canadian companies, analysts believe there are no remaining assets that will be available in the short term. Many of these deals have been favorable to Canadian companies who have increased their output, boosted returns, and reduced their costs along the way.

We continue to believe that M&A activity will accelerate across the North American energy sector. We like the multiples that most of these companies' trade at. We think it is important to have a diversified approach to the energy sector with both U.S. and Canadian exposure.

Disclaimer: MacNicol & Associates Asset Management holds various Canadian, and U.S. energy stocks across different client accounts.

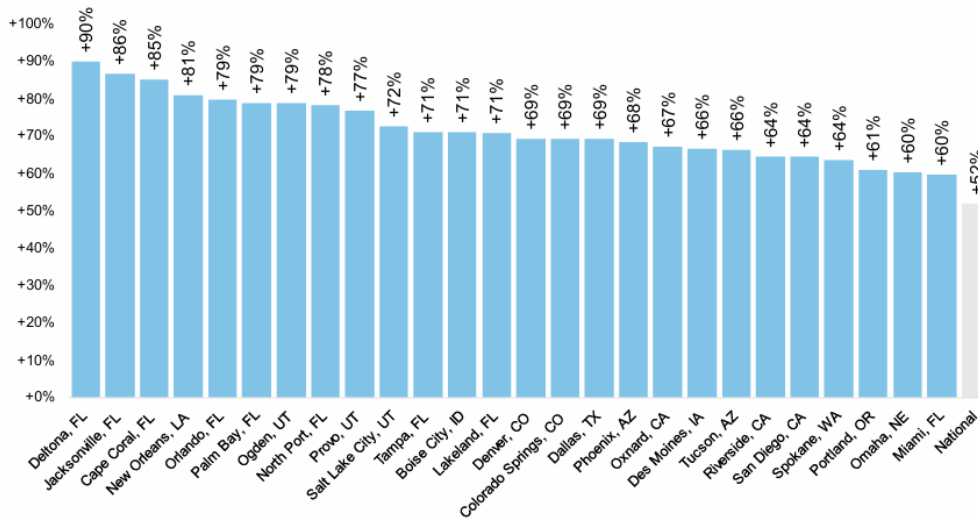
Insurance turmoil

Hurricane Milton is expected to hit the Gulf Coast of Florida early Thursday morning. This is the area's second hurricane in a matter of weeks. The hurricane could bring even more upheaval to the Florida homeowners insurance market. Over the last few years, rates have surged, and national insurers have fled due to storm risk.

According to data, Florida has seen the largest insurance cost increases since 2019:



Change in average property insurance payment since 2019 (Mortgaged single family residences)



The storm which was upgraded to a Category 5 earlier this week caused numerous insurers with high Florida exposure to tank on Monday. Heritage Insurance was down 25%, Universal Insurance 18%, and HCI Group 17%. All three providers have heavy South Florida exposure and could face millions in claims. National insurers also pulled back during Monday's session. These stocks saw heavy losses on Monday due to the claims that are anticipated to be filed. According to a KBW analyst over \$10 billion in insured losses could be caused by Hurricane Milton. According to the same analyst the worst-case scenario could see losses close to \$100 billion. The worst-case scenario would be Tampa Bay being hit. A day later Jeffries released that they believe Tampa could see damages up to \$175 billion and the Fort Myers area could see losses up to \$70 billion. Quite the damage for the west coast of Florida.

Many of these insurance stocks rebounded on Tuesday as the Hurricane was downgraded to a Category 4 storm.

Floridians have rushed to leave their homes in this region causing bottlenecks on highways to start this week. Gas stations and grocery stores also faced shortages in anticipation of this year's worst hurricane.

The largest homeowner's insurer is the state-run mutual Citizens Property Insurance. The company was formed 20 years ago and provides insurance to those unable to find coverage in the private market. Citizens had a 19% market share last year. Citizens insure \$444 billion in properties in Florida. Individual property owners paid the company \$3 billion in premiums last year.

Insurance providers in the Florida market often use reinsurance to limit their financial exposure to hurricanes and other events. In July, Citizens purchased \$3.6 billion of reinsurance coverage for the 2024 hurricane season for \$482 million. It said the reinsurance gave it the ability to play claims for a "1-in-83-year hurricane without having to levy an assessment on most Florida insurance consumers."

An even more troubling revelation that we found when researching this topic is that 15-20% of Florida homeowners have no insurance as of last summer. Homeowners simply cannot afford to insure their homes due to a lack of savings and the rate increases. These homeowners could be left out to dry as soon as this weekend with no ability to rebuild their homes.



According to 2023 data from the Insurance Information Institute (Triple-I), **between 15 and 20 percent** of Florida homeowners had no property insurance as of last summer. Jul 17, 2024

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[Florida Insurance Warning as 1 in 5 Residents Uninsured - Newsweek](#)

The U.S. hurricane season is expected to end on November 30th. This season has seen above-average activity due to unusually warm water temperatures.

The overall hurricane is expected to be impacted by Hurricane Milton as well as its predecessor Helene which hit Florida, North Carolina, and Tennessee earlier this month. Many expect job numbers to be impacted as many people as possible in the region have been given time off. According to JP Morgan, the hurricanes could lead to a loss of 100,000 jobs. In 2005, 35,000 jobs were lost during hurricane season. Reportedly, jobless claims will beat estimates in the coming months in states affected. These breakdowns could lead to further action at the Federal Reserve's next meeting where they could jump to cut rates yet again.

Expect fruit prices to jump if Hurricane Milton is devastating as Florida produces 17% of the U.S.'s citrus production. When Hurricane Ian hit Southwest Florida in September 2022, the damages to the state's citrus crop were estimated at between \$200 million and \$400 million, according to the USDA. As the season progressed, however, the agency estimated that losses attributable to Ian were as high as 42% of Florida's overall production. If Hurricane Milton has the grave impact that many believe it will have, it could drag the overall U.S. GDP during the fourth quarter by 0.14%. However, numerous economists stated that the loss of output in October will be made up for in subsequent months.

We hope for the best for our readers in the region and wish them, their friends, and family safety and sound health.



Uber invents the bus

The ride-share provider Uber launched a new service this week that is worth a chuckle. Uber is launching a ride-sharing service that will run between Manhattan and LaGuardia Airport. Uber will operate large 14-passenger rides between the airport and three locations in Manhattan, Penn Station, Grand Central, and Port Authority. The ride will cost passengers \$18 each and will run every 30 minutes. The shuttles can be booked up to seven days in advance or five minutes before the ride.

Uber is launching this shuttle service as passengers have complained about surge pricing to and from New York City airports. Rides can cost up to \$100 during peak times. Shuttles have long existed in major U.S. cities, but Uber claims their product will give riders more familiarity and a similar experience.

We will not make fun of Uber for this launch as it has a market, but it is ironic, we have come full circle back to shuttles in the ride-sharing industry. This will impact Uber moving forward as 15% of their rides come from airport trips. Uber said in the announcement that the service will expand to other U.S. airports in the future but for now it will just be LaGuardia.

Shuttles began this past Tuesday and will run 7 days a week between 5 am and 11 pm.

Uber's stock has been on fire in recent quarters as the ride-sharing company has increased its market share and improved its financials. However, many believe the imminent launch of robotaxis could impact the ride-sharing industry immensely. We will have to see if the company's market share falls with this alternative for consumers.

Investors lead the charge

Despite the Federal Reserve slashing interest rates a month ago, rates have moved up.

Mortgage rates in the U.S. are hitting 7% for the first time since July. The U.S. 10-Year Treasury Note is yielding 4%, up from 3.6% one month ago.



U.S. 10 Year Treasury Note

ADD TO WATCHLIST



Yields are up across the world despite the FED's recent move, why is that? The bond market is looking forward. Investors are dumping Treasuries and fleeing to safety in stocks and gold, despite record-level valuations. Investors think they can earn better returns in other assets which is causing the demand for Treasuries to fall. The other reason rates have moved up recently is that investors think there is a possibility they will move higher as inflation concerns have returned (we have talked about this potential second wave of inflation for a while now). If inflation does return, the FED would be forced to re-pivot and raise rates again which could lead to another horrible year for bonds like we saw in 2022.

Some credit traders also believe wide deficits in the U.S. will lead to higher rates. The current administration is financing their agenda through credit and went on a hiring spree over the last year or so financed by debt to prop up the numbers. Looking forward, neither Trump nor Harris have addressed the deficit and what they will do to shrink it. Frankly, from what both candidates have said, they will both lead it to expand.

We are watching yields very closely and hope you did not pile into bonds over the last few months, anticipating rapid rate cuts, it will certainly not be as smooth as a ride as previously predicted.

China risk

A week after Chinese equities roared and the likes of Michael Burry and David Tepper were applauded for their outsized exposure to China, Chinese equities sharply pulled back.

Earlier this week Chinese stocks had their worst fall in 27 years. Happened after the Chinese government held a press conference to announce their economic plans. The plans and stimulus disappointed investors. The economic planning authority in China did not announce any new plans to stimulate growth. Many investors predicted new actions to assist the faltering economy.



The Shanghai Index lost close to 7% on Wednesday while Chinese ADRs and ETFs also had sharp pullbacks this week.

The main concern was that the raft of measures announced before last week's holiday – which had lit the fire under a moribund market – were not followed up with any specific actions from the authorities, or indeed further plans. Investors have serious concerns about China's growth prospects as growth has slowed, innovation has slowed, the country has a massive real estate crisis, and the country's population is expected to collapse. China's government has also become more involved in the economy in recent years. The country is littered with economic problems and the press conference held earlier this week failed to meet investor expectations.

Despite this week's pullback in the Chinese equity market, Chinese equities are up year over year, and in 2024. The iShares MSCI China ETF is up 31% in 2024 (as of Wednesday morning).

We continue to beat the drum that investing in China is highly risky. Despite its attractive valuations, we remain out on this highly volatile and unpredictable market.

MacNicol & Associates Asset Management
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