

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 our observations.



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ASSET MANAGEMENT

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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.*



### ***El Faro de San Juan de Salvamento, Tierra del Fuego Province, Argentina***

This famous red and white lighthouse located on a tiny island located off the south east coast of Argentina is known as “the lighthouse to the world”. The lighthouse’s original construction dates back to 1884.



### ***El Faro Querandí (Villa Gesell), Argentina***

This lighthouse is an inhabited lighthouse of the Argentine Navy. The lighthouse was commissioned in 1922 and has a focal height of 65 meters.

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



## **Intel's leadership shake-up**

Intel Corp has made a big change after a rough few years. The technology provider has seen its stock price underperform in recent years while its competitors have seen outsized returns in their stock prices. On Monday, the CEO of Intel announced his retirement and stepped down from its board effective immediately. Pat Gelsinger returned to Intel in 2021. Since then, the company's stock price dropped 61%. When he returned to Intel, he said he vowed to return the company to a manufacturing leadership position. Part of his strategy was an expensive bet that Intel could again become a foundry business and make chips for other companies. Instead, Intel has racked up losses in its foundry business. At the same time, Intel has missed out so far on the AI trend that has benefited companies like Nvidia.

Intel addressed its struggles earlier this year by announcing sizable layoffs. The company also recently announced that it will miss its AI revenue forecasts this year. The miss comes as most AI-related companies have beaten revenue and earnings estimates for numerous quarters in a row. Intel's plans, driven by Gelsinger, have been costly endeavors that have weighed on its free cash flow and increased the company's leverage heavily.

Intel's underperformance led to its removal from the Dow last month. It was replaced by Nvidia, an industry peer that has seen its shares increase 824% since Gelsinger became Intel's CEO. During Gelsinger's tenure, Intel has seen its market share slip.

Gelsinger attracted significant government investment in recent years positioning Intel as the single largest beneficiary of the U.S. Chips and Science Act. The money has recently begun to flow to Intel and will help the company's chip fabs in Ohio and Arizona. Intel's grant was finalized last week and will total \$7.86 billion. Gelsinger also pushed to position Intel as vital to U.S. national security over his tenure. Intel won a multi-billion-dollar contract with the Department of Defense to build secure chips. However, these initiatives could not change the minds of investors who have questioned Intel's spending.

Gelsinger worked at Intel in decades past where he rose to become the company's first chief technology officer at the turn of the century. He spent recent years at EMC and VMware before his 2021 return to Intel.

Investors seemed optimistic about this shake-up as Intel shares rose slightly on Monday morning. Intel's current CFO and the CEO of its products unit will serve as co-CEOs for the time being. We will have to see if this move can attract investors moving forward. Despite its trouble in recent quarters, Intel has not attracted an activist investor. Perhaps a board shake-up is what is needed to turn the company around and not just a CEO change. Currently, Intel's board does not have any individuals with semiconductor expertise after a departure from Lip-Bu Tan earlier this year.



## Cyber Monday

After a nice Thanksgiving weekend, consumers in the U.S. and north of the border hit their Internet browsers to shop online. Cyber Monday is an online shopping frenzy where consumers flock to their Internet browsers to online shop. It is the second-largest retail shopping day in the U.S. (after Black Friday). Shoppers are expected to spend billions of dollars on Monday online after a strong Black Friday for retailers. Consumers spent \$10.8 billion shopping online on Friday, a 10% jump from last year. Sales on Thanksgiving also jumped year over year online as consumers got their shopping started early. Sales from smartphones surged this year as consumer preferences continued to pivot.

Sales are expected to be strong on Monday and could reach record levels according to analysts. Online sales are forecasted to jump 6.1% from last year on Monday. Adobe expects \$40.6 billion in online spending over 'Cyber Week', a record amount. According to a survey by the National Retail Federation, 72.3 million Americans will make an online purchase on Monday.

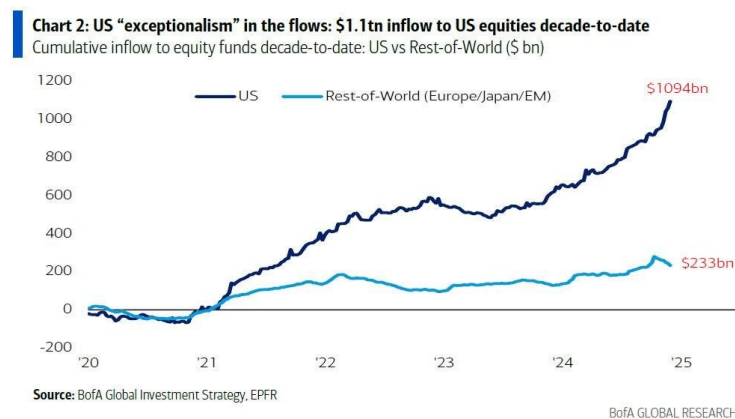
Shares of online shopping platforms like Amazon, and buy now, pay later providers like Affirm Holdings could significantly benefit from record numbers. Expect some e-commerce companies to report record earnings this quarter.

Shoppers are expected to spend \$241 billion online during the 2024 retail season, a record amount.

## U.S. dominance

In the past few weeks, we have highlighted some charts that paint a picture of how dominant U.S. equity markets have become versus the world.

This week we ran another chart that highlights this dominance. The chart tracks investment flows into equity funds since January 2020. The chart tracks U.S. flows and the rest of the world. Since 2020, U.S. equity funds have had \$1.1 trillion in inflows, and the rest of the world has seen \$233 billion, quite the outperformance and concentration from investors.



U.S. equities seem to be the most crowded trade across global markets. The contrarian in us has led us to research other areas of the market including in Canada and various emerging markets. We will continue this diligence moving forward and report back on other names that we see value.



### **South Korean Martial Law**

South Korea's President Yoon Suk Yeol put his country under martial law on Tuesday, a decision that shocked his population and the world. The world's 14th-largest economy and its capital markets were closed on Tuesday due to the announcement. The iShares MSCI South Korea ETF dropped by as much as 7% at the open (in North American trading) before rebounding on Tuesday.

President Yoon cited both domestic events in the country's parliament and the threat from communist North Korea in his announcement. Yoon did not cite a direct threat from North Korea but focused on his domestic political opponents in his announcement. A strategist from Capital Economics was quoted saying this move came out of the blue and it is not clear what martial law is aimed at. To put it simply, nobody across the world saw this coming.

Yoon claimed that he had no choice but to declare martial law, claiming opposition parties had taken hostage the parliamentary process to throw the country into a crisis. Yoon's party ironically does not have control of the South Korean Parliament, an opposition party currently controls it.

For those who need a refresher on martial law, martial law is the replacement of civilian government by military rule and the suspension of civilian legal procedures for military powers.

This is the first time since 1980 that South Korea has declared martial law. A taxi driver in Seoul told The Guardian that these moves by Yoon are the same methods used by Park Chung-hee and Chun Doo-hwan in the 60s, 70s, and 80s. Both men led South Korea and were considered war-mongering militaristic leaders who utilized martial law and were considered authoritarian.

The recent rift between Yoon and the party with the most seats in parliament stems from a recent spending bill that proposed major cuts to Yoon's budget. Yoon claimed these cuts would undermine the essential functioning of government administration.

So essentially South Korea is a political mess right now.

There will be major ripples in their capital markets which will impact global markets. Stocks will probably be hit in the short term if martial law is in place for a significant period. South Korea's largest companies include semiconductor companies, battery providers, and automobile manufacturers. South Korea is a global technology hub that is a major player in AI. The country is also a major leader in electric vehicle battery manufacturing.

We like South Korea as a growth market due to its innovation, forecasted growth, and technological development. The country is home to numerous high-tech leaders who are at the forefront of their industries.



We are not panicking to sell our exposure in South Korea quite yet. We think this will not last long as South Korea will be forced to return to normal due to the grave economic impact that martial law could lead to.

We will have to see what happens; we are watching this situation closely.

Just one hour after we wrote this and two hours after the President announced martial law, it was voted to be lifted by parliament.

*Disclaimer: MacNicol & Associates Asset Management has South Korean exposure through the iShares MSCI South Korea ETF.*

### **BlackRock bulks up its private arm**

The world's largest asset manager, BlackRock announced on Tuesday that it will buy private credit manager HPS Investment Partners in an all-stock deal valued at \$12 billion. The acquisition comes after weeks of speculation that the firm was targeting private credit firms to acquire.

HPS is a New York-based private market firm that manages \$148 billion in client assets. The firm is not well known to the masses but is well-known in Wall Street circles for its track record of deal-making in private credit. The acquisition bolsters BlackRock's position in the red-hot private debt market, last year BlackRock absorbed Kreos Capital, a London-based private credit manager.

As of September, BlackRock managed \$11.5 trillion. Much of its recent growth stems from the private market which continues to see massive inflows. BlackRock is best known for its vast variety of funds that trade on public exchanges and track indexes. Asset managers can earn higher fees for private market funds in comparison to public funds that trade on exchanges which is a highly competitive and low-margin industry.

BlackRock cited HPS's benefits to fee growth in their announcement. Analysts have been focused on how BlackRock can continue to increase revenue moving forward.

This deal paired with BlackRock's acquisitions of Prequin and Global Infrastructure Partners highlights the company's focus on expanding and growing fee-based revenue. The company continues to stretch its reach in the industry, and we think this acquisition of HPS will be accretive. We also think is a strong strategic move for the financial giant as more and more capital is rotating from public debt to private debt for a variety of reasons.



## GM writes down international venture

General Motors announced on Wednesday that it is writing off some long-held investments in China. The write-downs will not impact cash balances, but it is a sign that the car business in China is extremely tough.

GM wrote down its 50-50 venture with SAIC Motor, taking a one-time charge of \$2.8 billion. There is an additional \$2.7 billion restructuring charge that the venture took to improve profitability. The roughly \$5.5 billion in expenses will hit 4<sup>th</sup> quarter numbers. GM said it does not expect it will need to put in additional cash to support the restructuring.

Investors traditionally do not like write-downs, but many already knew the condition that GM's Chinese business was in. In previous years, the venture reported net income of roughly \$500 million for GM, this year, it has generated less than one-tenth the amount. Profitability in the Chinese auto market has decreased due to its changing structure, more EVs, a crowded space, and an industry with excess capacity.

The GM SAIC co-venture operated in the traditional vehicle market, a market that is rapidly shrinking in China. Battery-electric and plug-in hybrid sales will account for almost 50% of all new car sales in China in 2024. The number for the U.S. will be closer to 20%.

As EV sales grow in the U.S., the challenge for traditional automakers like GM will be to manage profitability better than what has happened in China while continuing to innovate in its existing industries.

As investors already knew the state of GM's Chinese venture, this announcement did not surprise many as shares opened Wednesday slightly down on the announcement, but are up 48% so far this year.

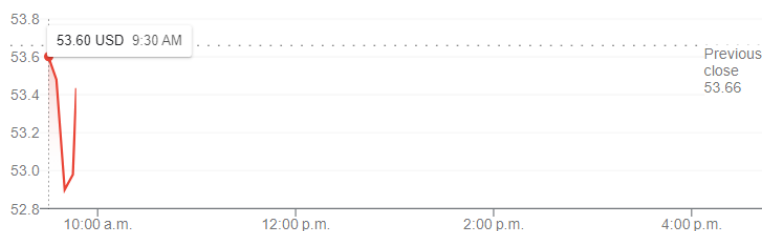
Market Summary > General Motors Co

53.43 USD

-0.23 (0.43%) ↓ today

Dec 4, 9:47 a.m. EST • Disclaimer

1D | 5D | 1M | 6M | YTD | 1Y | 5Y | Max



We think GM remains interesting due to its cheap valuation, market positioning, and growth potential. However, there are risks in holding GM due to new-aged EV producers that continue to gain market share.



## **UnitedHealth's CEO shot dead**

UnitedHealth Group's health insurance subsidiary CEO woke up on Wednesday, preparing for an investor conference in New York. He woke up at his midtown hotel, exited the hotel, and was promptly shot dead at 6:45 am. The shooting reportedly was targeted. Unfortunately, Brian Thompson was pronounced dead at a hospital shortly later.

The CEO of UnitedHealth put out a statement after the shooting in honor of his former colleague. He pointed to the friendship that the two had and the difficult personal situation this is. UnitedHealth then canceled their investor conference for obvious reasons.

Thompson had been the CEO of the subsidiary since 2021, he previously worked as a senior executive in the same subsidiary since 2017.

UnitedHealth shares opened down on this news but recovered after a few hours.

The individual who reportedly shot Thompson used a silencer and exited the scene quite smoothly. The NYPD is offering a cash reward for information regarding the murder.

Some individuals on X called the incident ironic as Thompson was reportedly paid a salary of \$10 million, and his subsidiary often denied claims to individuals. Regardless of how you feel about Thompson and his company, that rhetoric is disgusting as he is an individual with family and friends who lost someone for unknown reasons through a disgusting attack.

UnitedHealth dominates its industry, and many have critiqued its market share. Recently the Department of Justice sued to block an acquisition of home health and hospice provider Amedisys as the DOJ claims the transaction would negatively affect care for vulnerable patients.

We will not comment further on the company and its financials due to this tragedy.

**MacNicol & Associates Asset Management**  
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