

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.



MACNICOL & ASSOCIATES
ASSET MANAGEMENT

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.



Planier Light, Marseille, Bouches- du-Rhône, France

This lighthouse is located off the southern coast of France in the Marseille region. The island is only accessible by boat and is not accessible to the public. The original lighthouse was built in the early 1300s at this light station.



Świnoujście Lighthouse, Świnoujście, Poland

This lighthouse is one of the tallest lighthouses in Europe. It stands at 212 feet tall and was originally built in 1857.

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



Another deal in AI

On Monday morning, another 11-digit deal involving OpenAI was announced. According to an announcement, Amazon and OpenAI have reached an agreement for Amazon Web Services to provide infrastructure for ChatGPT's AI workloads. The deal is worth \$38 billion, and this new partnership lasts 7 years and begins immediately.

Amazon said that OpenAI can expand the deal in 2027. Amazon Web Services would not announce any more details on the partnership but noted that the deal brings AWS to the forefront of AI, and this strategic partnership will strengthen and expand the capabilities of ChatGPT. The deal is one of OpenAI's biggest moves away from Microsoft to date. Microsoft was OpenAI's exclusive cloud provider until earlier this year.

This deal continues the trend in the AI industry of massive deals and commitments made by companies, which is the major catalyst for the sector's future growth. OpenAI is at the core of this trend and has committed billions in spending just this year. The new Amazon-OpenAI partnership is smaller in size than some deals OpenAI has completed this year. Last week, OpenAI and Microsoft announced the AI start-up would purchase an additional \$250 billion of Azure cloud services from Microsoft in the future. OpenAI has also agreed to purchase \$300 billion worth of cloud capacity from Oracle over roughly five years, the Wall Street Journal reported in September.

OpenAI has committed over \$1 trillion in AI infrastructure spending, including data centers and computing capacity. These commitments from the likes of OpenAI are gigantic and are essentially helping grow the revenue of a few technology companies, which are helping equity markets continue to roar. What happens if these spending commitments never actually occur? After all, OpenAI's revenue for 2025 is expected to be only \$13 billion. How is a company committing 77 times its revenue in infrastructure spending? The numbers do not add up. The company has yet to reach break-even but that has not stopped them from spending.

In other OpenAI news, the company is reportedly weighing an IPO in the second half of 2026. The company is reportedly seeking a valuation of \$1 trillion and will seek to raise more than \$60 billion in an offering. The IPO preparations signal a new urgency inside ChatGPT's parent company to tap public markets for funding and reduce its reliance on Microsoft.

For a reminder, OpenAI was started as a non-profit in 2015. A few years later, the company restructured so the nonprofit would have oversight and control over the for-profit arm of OpenAI. The main goal of this unusual structure was to ensure that OpenAI developed AI technology safely, rather than prioritizing pure profits. This week, OpenAI restructured once again. The nonprofit still holds a 26% stake in the for-profit firm with warrants to receive additional shares if the company reaches certain milestones. Microsoft owns 27% of the company and has invested \$13 billion. Other investors in OpenAI include SoftBank, Thrive Capital, and Abu Dhabi's MGX. Quite the story for a "nonprofit" – realize you can profit, halt open sourcing, raise capital, become entrenched in the industry (through massive deals like the one highlighted above), convert to full for-profit, and leadership cashes in.



Essentially, tech's biggest bait and switch in history.

Throughout OpenAI's time, there has also been a major power struggle in the boardroom for the company, something that seems like a soap opera-esque. We will not dive into the details, as it's a long story, but implore our readers to research it. There have been employees who have been fired and quit, billionaires involved, and strange interviews by leadership and investors. OpenAI has everything, and from a bird's-eye view, the company founder and CEO, Sam Altman, is not liked by his peers, coworkers, or fellow tech founders. According to former employees, he is of low integrity, often lies to coworkers, keeps his board in the dark regarding OpenAI, and hates to be challenged. Just this week, he went on a podcast and was challenged by OpenAI's financial commitments. The podcast host simply asked Altman how a company with \$13 billion in revenue can commit over \$1 trillion in spending (essentially hinting that math does not make sense). Altman immediately responded by claiming OpenAI does more revenue than that and that the podcast host could sell his shares if he wants to. From what we have seen with Altman, we understand those who question him and his company's direction. After all, the entire AI ecosystem is being built around a few companies, and OpenAI is one of them.

What happens if these spending commitments do not happen from OpenAI or its competitors, and Amazon/Nvidia/Microsoft/Alphabet miss Street earnings estimates two quarters in a row? How far will markets move lower? We think a lot, and investors better position themselves accordingly.

The writing above does not indicate a bearish view on AI technologies or OpenAI. We are simply stating that the AI industry is very circular, and these commitments are massive. These commitments between a select number of firms have pushed markets higher. We think that is a huge risk in the market. Concentration and circularity enhance risk in our eyes. We hope you have some protection; we know our investors do.

Contact us today to understand how we give our investors peace of mind through these turbulent and volatile times.

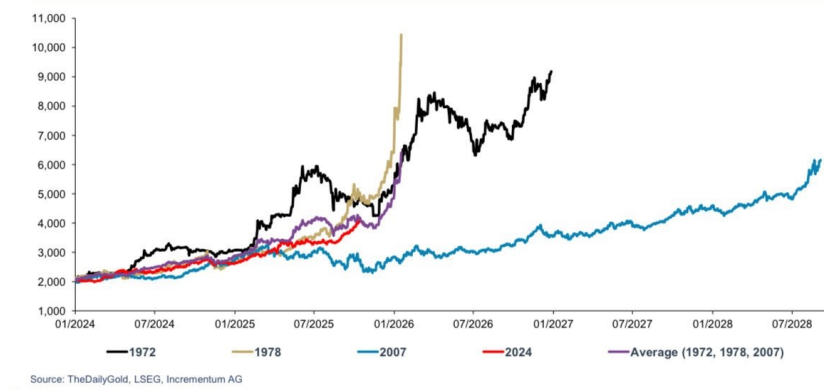
Precious metals thesis

If you have read this commentary or any commentary written by our portfolio managers or analysts over the last few years, you know we have long advocated for gold, silver, and platinum (precious metals) in an investor's portfolio. We have exposed our clients through various vehicles to these commodities. This year, we are very happy with this exposure. We think our thesis holds for these precious metals moving forward. We think precious metals are benefiting from instability, rising debt levels, geopolitical tensions, and structural volatility across the world. We think this will continue.

Despite reaching \$4,300/oz and \$54/oz respectively, gold and silver are still in the early innings of a bull market cycle. Here is a chart from TheDailyGold and LSEG that tracks the price movement of gold during previous strong cycles:

The Current Breakout in Gold Feels Spectacular but in the Context of History Is Nothing Major

Historical Gold Breakouts (Start Price = 01/01/2024), in USD, 01/2024–10/2028



Price momentum matters for commodities just like any other asset. We think the technicals still look strong and are driven by investor adoption and interest in tangible assets.

Another reason we continue to like precious metals in an investor's portfolio has to do with monetary policy and inflation. Inflation around the world remains an issue and is being driven by expansionary monetary and fiscal policy decisions. We think there will be a new target for inflation in the coming years, and it will increase for most developed Central Banks. Real interest rates also remain low or negative, which is driving investor interest in precious metals to hedge against inflation.

Beyond the scope of Central Banks, inflation, and price momentum, other factors make precious metals attractive today. Instability is being driven by conflict, tensions in trade, and a new world order. This is a complex statement, so let's unpack it. First, geopolitical instability, according to Google, there are between 59 and 150 ongoing armed conflicts globally. According to The Telegraph, global conflicts in July were at their second-highest level (by count) since the end of World War 2. Obviously, we will not discount any direct conflict across the world, but the big ones that are driving investors toward precious metals are Russia-Ukraine, instability in the Middle East, and the indirect conflict we are seeing in trade and in the new world order. The U.S. tariffs imposed by Trump and his administration have created a level of macroeconomic uncertainty that has caused instability in global trade and financial markets. This has been highlighted by the relationship between China and the U.S., which seems to change every week. Trade tensions arising now have caused even more volatility in geopolitics. Even before Trump, the world was undergoing a new world order where new alliances were being formed, and countries were selling their U.S. Treasuries. Central Banks across the world have been dumping U.S. Treasuries in favor of gold over the last 10 years to better hedge inflation and decrease America's stranglehold as the reserve currency. These new alliances that have formed have been led by the founding of BRICS, which seeks to increase political and economic influence and counterbalance Western-led global institutions.

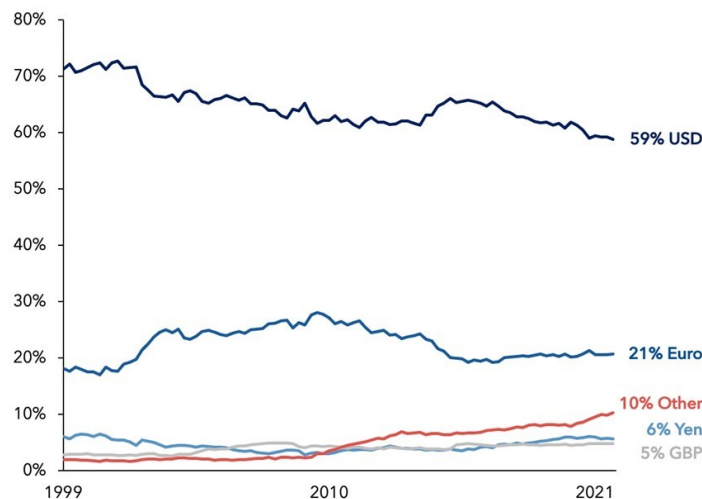


BRICS members and some other countries have been pushing to decrease the economic power of the U.S. by trading in other currencies, buying other assets, and selling their U.S. treasuries. What happens when the East and West break apart, and trade becomes more regionalized? The economic impact could be grave and even larger than we believe.

Currency composition

Nontraditional currencies have played a larger role in global foreign exchange reserves in recent years.

(currency composition of global foreign exchange reserves, percent)



Sources: IMF Currency Composition of Official Foreign Exchange Reserves (COFER).
Note: The "other" category contains the Australian dollar, the Canadian dollar, the Chinese renminbi, the Swiss franc and other currencies not separately identified in the COFER survey. China became a COFER reporter between 2015 and 2018.

IMF

All of these factors are causing ripples across the global economy and are leading individual and institutional investors towards safe havens and tangible assets. We think this trend continues, especially as countries continue to spend heavily to finance their progressive budgets and cut interest rates to manage their deficits and attempt to afford to service their outstanding debt. Not even a day after we wrote our piece on precious metals, the Canadian government gave us a big piece of information that supports our precious metals thesis. The government put out its budget, and the numbers are not pretty. The budget shortfall will more than double this year. The \$78.3 billion deficit is the third largest ever for Canada in one year. The annual deficit will remain above \$57 billion every year of this forecast (until 2030), according to the Liberal government. The Carney government has somehow found a way to

spend more than Trudeau. This level of spending will certainly negatively impact the Loonie, Canadian consumers, and businesses across the country.



We think that in a portfolio, precious metals provide a safe haven, inflation protection, diversification, and uncorrelated returns relative to public markets.

We hope you are buying tangible assets; we know we are.

Disclaimer: MacNicol & Associates Asset Management holds shares of mutual funds, ETFs, and other investment vehicles that hold physical silver, gold, and platinum.

Earnings update from a fast-food favorite

One of the world's largest fast-food corporations reported earnings this week, and we were paying very close attention. Yum Brands Inc. is a giant; the company operates KFC, Pizza Hut, Taco Bell, Burger King, and more. As of 2025, the company operates approximately 60,000 locations and employs over 1 million people. Yum is the world's largest restaurant company and operates in over 55 countries and territories. Yum is headquartered in Kentucky and has delivered strong returns to shareholders for years.

We noticed Yum a few quarters ago, as it flashed a few signals to us that were very intriguing. We think the company is a strong buy from a macro basis due to its differentiated global scale, robust cash flow generation, accelerating margin expansion, and digital adoption. Its portfolio of brands is durable, diverse, and resilient in economic downturns.

3080 Yonge Street, Suite 4076, Toronto, ON M4N 3N1
 Tel: 416-367-3040 Toll free: 1-866-367-3040 Fax: 1-877-215-4044
 Email: info@macnicolasset.com URL: www.macnicolasset.com

The company has also seen strong unit growth over the last five years, something we expect to continue with international expansion. Yum Brands' net unit growth has beaten industry averages in four of the last five years and is expected to jump to 4.8% next year (the 2025 forecasted increase is 3.5%). Taco Bell has also seen the strongest same-store sales growth in the U.S. amongst major fast-food chains over the last 6 quarters:

Same-Store Sales (%)						
	Q2 25	Q1 25	Q4 24	Q3 24	Q2 24	Q1 24
Taco Bell US	4.0%	9.0%	5.0%	4.0%	5.0%	2.0%
Domino's US	3.4%	-0.5%	0.4%	3.0%	4.8%	5.6%
McDonalds US	2.5%	-3.6%	-1.4%	0.3%	-0.7%	2.5%
Burger King US	1.5%	-1.1%	1.5%	-0.4%	0.1%	3.9%
Papa John's US	0.3%	-4.6%	-5.7%	-6.7%	-4.2%	-3.0%
Popeyes US	-0.9%	-4.0%	0.1%	-3.8%	0.6%	6.2%
Starbucks US	-2.0%	-2.0%	-4.0%	-6.0%	-2.0%	-3.0%
Wendy's US	-3.6%	-2.8%	4.1%	0.2%	0.6%	0.6%
KFC US	-5.0%	-1.0%	-5.0%	-5.0%	-5.0%	-7.0%
Pizza Hut US	-5.0%	-5.0%	-2.0%	-1.0%	-1.0%	-6.0%
Jack in the Box	-7.1%	-4.4%	0.4%	-2.1%	-2.2%	-2.5%
Average	-1.1%	-1.8%	-0.6%	-1.6%	-0.4%	-0.1%

Source: Bloomberg Intelligence

Bloomberg Intelligence **BI**

Yum's earnings this week did not alter our bullishness for the company. Yum reiterated its 2025 guidance in its earnings call as momentum at KFC and Taco Bell has continued into the fourth quarter. Yum reported a 15% increase year-over-year in EPS and beat Street expectations by 8% in the third quarter. Revenue jumped 8.4% YoY and slightly beat estimates. Yum's growth was driven by Taco Bell and KFC, which saw 10% and 6% sales growth YoY. Yum continues to see strong organic growth from Taco Bell in the U.S. and rapid KFC growth globally, specifically across Asia.

Yum's digital adoption initiative also continues to deliver; digital sales hit a record of \$10 billion, approximately 60% of total sales.

Yum also announced it is engaging in a strategic review of Pizza Hut. We think a potential divestiture and sales could improve management's focus and result in better top and bottom-line growth at Yum Brands. Pizza Hut has been a small thorn in Yum Brands' side as U.S. sales have declined.

On the financial side, Yum Brands is a free cash flow monster. It is an asset-light model, which is 98% franchised. Management predominantly uses excess cash for dividends and share repurchases. The company also strategically reinvests in the business through selective acquisitions that drive growth and profitability. In 2024, Yum Brands bought back \$441 million in shares and has bought back \$372 million in shares through the first 3 quarters of 2025. On the dividend front, Yum Brands has raised its dividend annually every year since 2017.

In terms of relative valuation, Yum Brands trades at attractive multiples when compared to comps. Yum Brands trades at a slight premium in terms of Fwd P/E and EV/EBITDA versus the entire industry; however, the premium represents the company's strong growth and forecasted organic and international growth. Analysts expect high single-digit growth in earnings over the next year and 13.5% EPS growth on an annual basis to 2029.

However, when compared to its largest peers (in terms of market cap) in the fast-food industry, Yum Brands trades on the cheap side in terms of Fwd P/E, and EV/EBITDA:

Summary of Current Multiples					
	Name	2Y Corr	Mkt Cap (USD)	BF P/E	BF EV/EBITDA
11)	Yum! Brands Inc		41.22B	22.6x	16.9x
	Current Premium to Comps Mean			-10%	0%
	Mean (Including YUM US)		59.94B	25.2x	16.9x
12)	McDonald's Corp	0.51	218.63B	23.4x	16.6x
13)	Domino's Pizza Inc	0.41	13.63B	20.9x	16.6x
14)	Starbucks Corp	0.27	93.69B	32.8x	17.8x
15)	Chipotle Mexican Grill Inc	0.26	42.33B	26.2x	16.7x
16)	Shake Shack Inc	0.20	4.10B	61.1x	16.8x
17)	Cava Group Inc	0.09	5.97B	87.5x	31.2x

In the company's earnings call this week, the CEO emphasized improving franchisee economics, expanding its AI-powered platform, and staying relevant as major priorities for the firm. For those of you who do not know, Yum Brands announced the first-ever AI partnership with Nvidia from a restaurant operator back in March. The company's AI-powered platform Byte is improving operational efficiency and innovation.

Yum Brands acknowledged inflation in its earnings call, pointing to beef inflation, which has slightly impacted Taco Bell's margins. The company mentioned its ability to offset some margin pressure through top-line growth and menu innovations. Management also pointed to beef prices declining by 10% since the third quarter ended as positive news but noted that it remains a key risk factor for the firm. Managing cost pressures remains a key focus for management moving forward.

Management also remains committed to maximizing shareholder value through strategic investments while also maintaining a strong and flexible balance sheet. The company aims to maintain a leverage ratio of approximately 4x moving forward.

Disclaimer: MacNicol & Associates Asset Management holds shares of Yum Brands (YUM: NYSE) across various client accounts.

MacNicol & Associates Asset Management
November 7th, 2025