

The Weekly Beacon

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 any questions regarding any observations.

*The two main purposes of a Lighthouse are **to serve as a navigational aid and to warn boats (Investors) of dangerous areas.** It is like a traffic sign on the sea.*



Barra Lighthouse, Brazil.



Minas Basin, Nova Scotia - submitted by Peter T.

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



Coinbase in Trouble?

Coinbase is North America's most popular cryptocurrency exchange that went public in April and is listed on the Nasdaq. It was dubbed the hottest IPO of the year. Coinbase received a reference price of \$250/share valuing the company at \$86 billion. It was a landmark event, crypto and equity markets combining.

Coinbase Will Be The Hottest IPO Of 2021

SHARE

FRIDAY, FEBRUARY 26, 2021 | MARKETBEAT STAFF

The hype train was real, shares opened above \$328 and reached all time highs of \$428 on that first day of trading.

What has happened since?

After opening at \$328, the stock currently trades at \$242/share as of Tuesday morning, down 26% since open price and below the reference price.

Lack of promotion is not the reason for this flop.

Piper Sandler says buy the dip in Coinbase stock, sees nearly 40% rise

PUBLISHED TUE, SEP 14 2021-6:21 AM EDT | UPDATED 43 MIN AGO

Coinbase jumps after JPMorgan and Goldman Sachs tag the crypto exchange with 'buy' ratings

Will Daniel
© May 25, 2021, 03:42 PM

SHARE Your Market View

Queen Cathie who we mentioned in the [August 20th edition of The Weekly Beacon](#), has not missed out on this “disruptive, innovative” company.

Cathie Wood Has Invested Over \$1 Billion Into This Crypto Stock. Should You Follow Her Lead?

Down 35% from its high, Coinbase is beginning to look like it's worth the risk.



Daniel Foelber (Tmfpalomino2)
Jun 22, 2021 at 7:54AM
Author Bio

So what is it?

Coinbase faces a lot of risk most equities are not tied to. Coinbase has high volatility due to the inherent volatility in cryptocurrencies. Coinbase will also face major regulation risk due to the new world that cryptocurrency is in.

Coinbase was down last week due to the U.S. SEC announcing that they would sue Coinbase if Coinbase allowed users to earn interest while lending out crypto assets.

This announcement is a major blow to Coinbase's growth plans. This interest earning plan was a major move, Coinbase wanted to make. The issue with these new actions by the SEC may signal warning as the SEC is questioning whether some of the fastest growing parts of crypto industry are even legal. The SEC

are most worried about crypto companies paying high interest rates to users lending out their assets, something traditional banks do. The issue can crypto really be collateral as it has no intrinsic value.

Some worry, the SEC may deal with each crypto issue one by one and treat them all differently which would take time and create issues in the growth of the DeFi and cryptocurrency industries.

The SEC has already acted against 75-80 crypto coins. With no limit on the amount of different crypto coins and no major requirements to create a coin, this will be an uphill battle for the industry. The major assets like Bitcoin and Ethereum may struggle with the saturation of so many coins in the industry.

Even after this news dropped, Coinbase announced this week they plan to raise \$1.5 billion through a bond issuance. The proceeds will fund future acquisitions, investments, and product development. The bonds will be sold to preselected investors and have been given an early rating of BB+. Coinbase is not heavily leveraged, has strong liquidity and has avoided security breaches but they rely heavily on transaction revenue and are in the early stages of operating at such high volumes. Coinbase has already issued \$1.4 billion in convertible notes earlier this year.

If successful, this would be a transformative deal. It would be the largest deal between cryptocurrency and debt investors.

The risks Coinbase faces are very serious, and the SEC seems serious about their threats. Caveat emptor - buyer beware.

Rules for thee not for me



Were sure you have heard the term “Rules for thee, not for me” referring to politicians saying one thing but personally doing the opposite. This has happened more throughout Covid-19 as governments have placed restrictions on certain businesses and gatherings. Its not just Covid-19 that is exposing political superiority. There seems to be a never-ending list of examples:

Edmonton

Questions raised after Kenney, ministers seen dining on 'Sky Palace' patio

CALIFORNIA

Photos raise doubts about Newsom's claim that dinner with lobbyist was outdoors amid COVID-19 surge

NEWS · POLITICS

Ayanna Pressley claimed up to \$15,000 in rental income, while pushing rent relief in Congress

Financial disclosure with husband shows his pay, their income

This week was the MET Gala referred to as fashion's biggest night. A night of celebrities, billionaires and the elite flaunting their wealth in lavish outfits. A plate at this event costs \$35,000 and a table \$275,000 but even with these high costs, not anybody can go.

Sophomore Congresswoman, Alexandria Ocasio-Cortez (AOC) was in attendance on Monday night. AOC is a self proclaimed Democratic-Socialist and is a part of The Squad, a group of young members of Congress who are the most "progressive" in Washington. AOC has developed one of the largest followings on Twitter as an active, young user. AOC helped develop The Green New Deal, an ultra progressive plan to tackle climate change that researchers have said could cost \$93 trillion. Obviously, it did not pass.

However, she's in the news this week for non policy reasons but for a statement she made at the MET Gala.



Obviously attending an event of this status, puts AOC on a new level; but wearing a dress that says "Tax The Rich" at a \$35,000 dinner with the rich seems at best hypocritical. Dave Portnoy, Barstool Sports Founder described the issue quite well.

Politicians seem to have no limits! AOC has already called for an increase in pay for Congress during her first term in Washington. Currently Congress members make \$174,000 without allowances.

Alexandria Ocasio-Cortez is pushing for the first congressional pay raise in a decade, but other Democrats are rejecting it as 'political suicide'

Eliza Relman Jun 11, 2019, 12:18 PM





We agree with China

Although we have listed the added risks of investing in China in previous *The Weekly Beacon* issues and are critical of the authoritarian regime that leads China, we have finally reached common ground with the CCP.

CHINA ECONOMY

China has ‘too many’ electric vehicle companies, minister says

PUBLISHED SUN, SEP 12 2021-11:08 PM EDT | UPDATED MON, SEP 13 2021-12:25 AM EDT

The push for green energy is always a hot topic. Electric vehicles are a staple of that evolution. We have cautioned investors that stock picking the leading electric vehicle company may be harder than you think. The field is littered with companies across the world.

China’s industry and information technology minister seems to agree with us. We’re not far off from hundreds of companies producing electric vehicles, the market has become flooded with companies. Competition and capitalism are great, that is not our issue. We feel it is inevitable that some of these companies will merge and a large number will fail, consolidating the industry. We think picking the winners will be a hard task in an ever evolving industry.

The issue is how China will consolidate the industry. Will they overreach like they do in other sectors or will they allow the market to work itself out? After all, the government overreach in Chinese technology companies, it’s not far fetched to say the Chinese government will force consolidation quite quickly. The CCP is very good at getting what they want.

With the push for green energy and electric vehicles, we remain optimistic and interested in the metals used as inputs in production of this technology. We have mentioned the shortages some of these metals will be in as demand grows. Why try and pick which company will rival Tesla in the future when there are so many electric auto makers? Valuations for these EV companies are already sky high and some have yet to deliver a car to a consumer.

August Inflation

The August inflation data was released by the Canadian and U.S. governments this week.

We have been steady on the opinion that the inflation we are seeing is not transitory and is not solely due to the re-opening of economies. This is a serious issue that will last for at the minimum a few years.

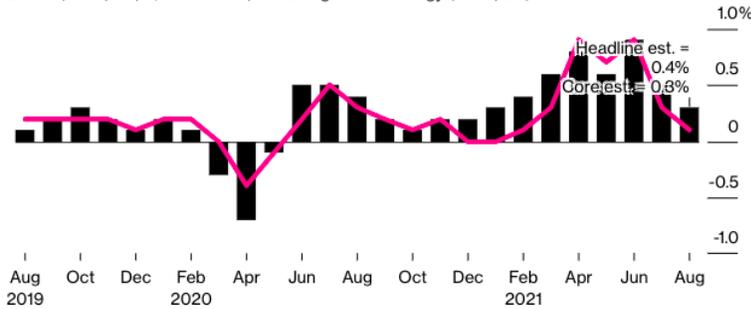
U.S. inflation saw a slight down tick in August.



Downtick in Price Pressures

U.S. headline and core CPI both rose by less than forecast in August

■ CPI (MoM, SA) ● Core CPI, excluding food & energy (MoM, SA)



Source: Bureau of Labor Statistics, Bloomberg survey

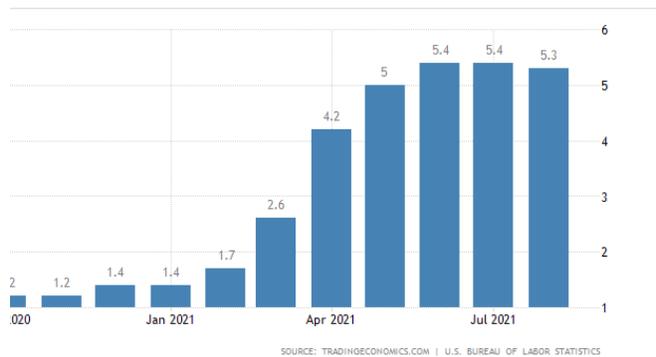
This has led to news outlets to label inflation as completely transitory.

Business

Record-high U.S. inflation looking a little more transitory as rate cooled in August



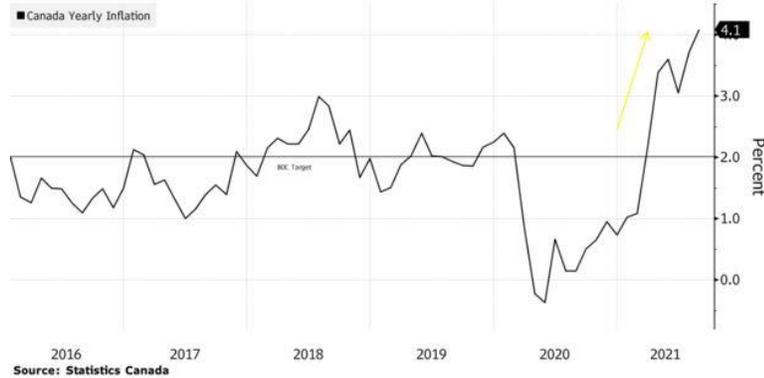
After 1 month the problem is solved? We would disagree. Inflation on an annualized basis only fell 0.1% in August and remains at 14-year highs.



The Canadian CPI rose 4.1% over the last year through August. That is the highest number since 2003. The number for August also beat analyst projections which has sent a ripple throughout the Canadian economy especially when voters go to the booth next Monday for the Canadian Federal Election.

Price Gains Accelerate

Inflation well above Bank of Canada's target



A surge in housing prices is a large contributor to current inflation in Canada.

Trudeau critics have been quick to jump on top of this opportunity with the upcoming election.



pierrepolivie

@PierrePolivie

Look at those price hikes:

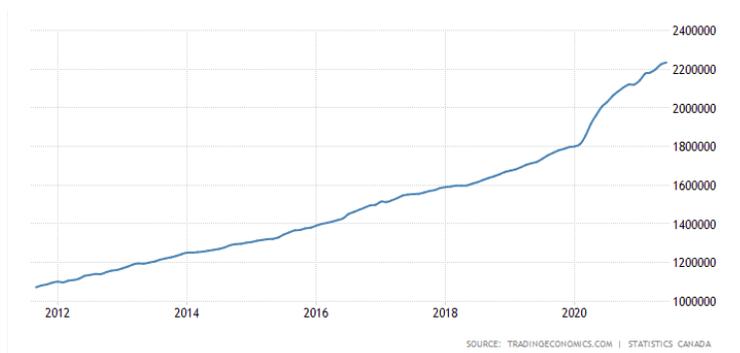
- meat 6.9%
- gasoline: 32.5%
- vehicles: 7.2%
- appliances: 5.3%
- traveller accommodation: 19.3%
- housing payments: 14.3%--highest since 1987

Deficits have real consequences:

NOW--inflation.

Even without gasoline price increases, inflation was 3.2% and still beat the Bank of Canada target. This is the result of massive government spending and less about being produced in Canada.

Canada's M2 Money Supply:



Quite the jump in 2020. Canada's deficit has grown more than any other G20 country due to the pandemic and it continues today. Inflation will not slow down in Canada unless something changes.

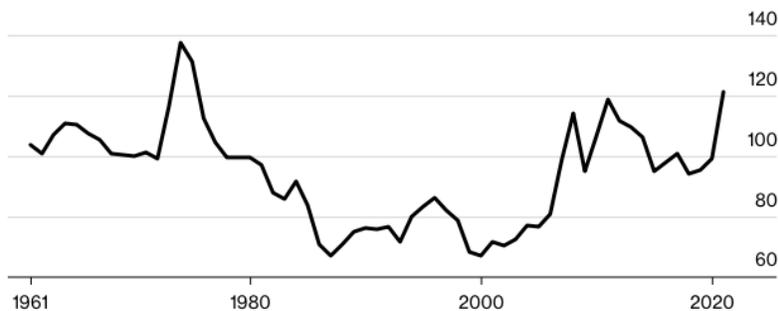
The inflation we are seeing across North America is happening across the world as well.

Priciest Food Since 1970s Is a Big Challenge for Governments

Global food prices were up 33% in August year over year. Everything from meat to grains is on the rise. Things also don't look like they will be getting better anytime soon for several reasons; freight and fertilizer costs have spiked, global shipping gridlock, labour shortages across the world and recent extreme weather events.

Grocery Bills

Food is more expensive than almost anytime in the past 60 years



Source: UN's FAO
Real food price index, annualized and adjusted to inflation

Riots have broken out across Asia, the Middle East and Africa over rapid food inflation. Cuban protests were the biggest in decades due to food shortages.

Food Shortage Set to Grip South Africa After Rioters Rampage

By [Prinesha Naidoo](#), [Janice Kew](#), and [Loni Prinsloo](#)
July 14, 2021 12:00 AM Updated on July 14, 2021 6:04 AM

Global food prices have spiked this year and will continue to rise. Inflation is here to stay, brace for it.

Commodity	Monthly	YTD
Poultry	1.08%	40.6%
Beef	1.98%	13.56%
Palm oil	-0.2%	23.28%
Orange Juice	10.32%	17.57%
Coffee	-0.11%	42.69%
Canola	-3.54%	39.81%
Oat	4.05%	44.21%
Sugar	-2.25%	26.4%

As of September 15th, 2021.



China Turmoil

We have mentioned numerous times that investing in Chinese companies comes with extreme political risk. The CCP crackdown on tech giants Alibaba and DiDi Global look to be the tip of the iceberg.

North America's view of China seems to be something that can unite both sides of the aisle.

A lot of the financial world still see China as an opportunity including BlackRock. Billionaire George Soros went after China directly in an editorial 2 weeks ago.

George Soros: Investors in Xi's China face a rude awakening

The leader's crackdown on private enterprise shows he does not understand the market economy

How it took some people so long to understand this is quite ridiculous. The CCP will never embrace or care for a market economy, its why they lead through authoritarian Communism.

The trend of government overreach continued in China this week. The Chinese government announced they will be tightening official oversight in the casino industry in China. The Secretary of economy and finance announced a reform of the territory's gaming laws will take place. The most notable adjustment will be the mandate of government officials to sit on the boards of private casino companies.

After this announcement, Wynn Macau was down 28%, Sands China was down 32% and MGM China was down 26% on Wednesday. The entire industry lost almost \$19 billion in market capitalization in one day.

Chinese authorities have tightened gambling regulation over recent years and the industry is only operating at half the pre-pandemic levels.

Perhaps the biggest story in Chinese equities right now surrounds a real estate company.

The second largest real estate company in China, the Evergrande Group is facing a possible default that could threaten all Chinese real estate.

An Evergrande fire sale could crush prices, causing leveraged developers to blow up and crippling a sector comprising a quarter of China's economy



Reuters
Tom Westbrook and Andrew Galbraith

Sep 14, 2021 • 1 day ago • 4 minute read • [Join the conversation](#)

Evergrande is down 80% this year as it cannot make certain debt payments. The company has over \$300 billion in debt and is extremely leveraged. The Ministry of Housing and Urban-Rural Development in China told Chinese banks that Evergrande will not be able to make its interest payments on September

20th. Evergrande is the world's most indebted real estate developer. Evergrande has issued numerous bonds over the years that will all be expiring in the next few years. This crisis was brought forward last year when Evergrande warned China it was facing a liquidity crisis and may not be able to make its payments due in January 2021. This was averted (or just pushed down the road) when investors pushed back their right to collect \$13 billion in January. The company has struggled to offload some of its assets as the Chinese real estate market has cooled off.

The main issue: if a fire sale is hosted to offload Evergrande's assets, it would create a catastrophic affect on Chinese real estate.

The default looks more and more likely as Chinese authorities have green lit restructuring conversations between Evergrande and Chinese banks. Some see the Chinese government eventually stepping in and have said developers will be treated like regulated utilities going forward due to this mess.

Not a great time to be a Chinese stock investor.

MacNicol & Associates Asset Management Inc.

September 17, 2021

