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.*

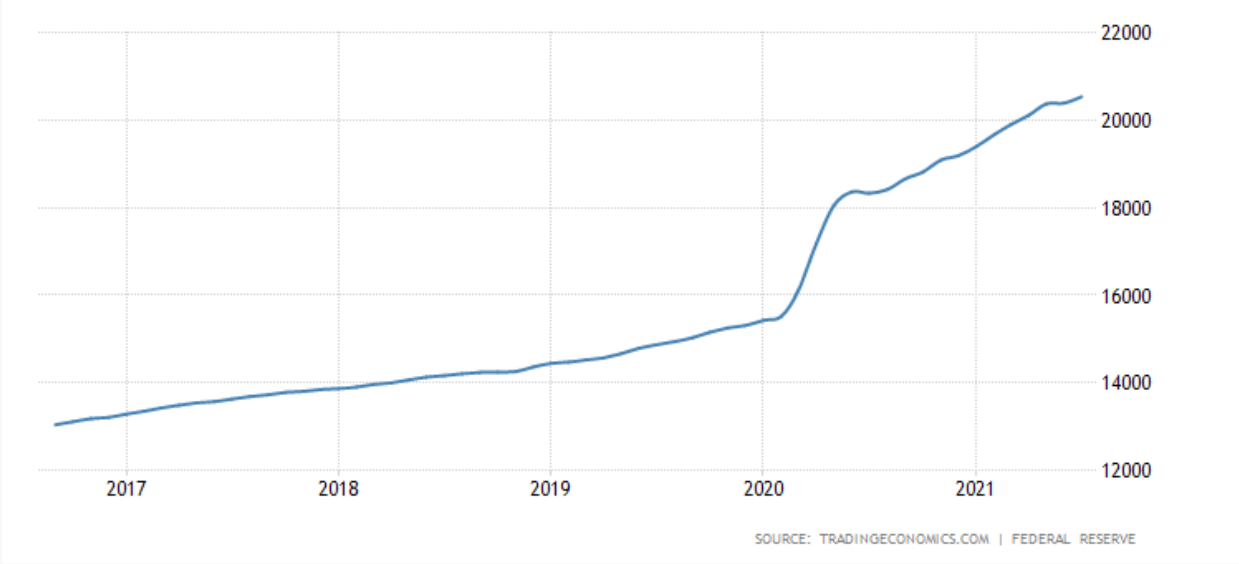
David MacNicol and friends at Griffith Island, Georgian Bay, Ontario, Canada.

The Harbor Lighthouse, Rockwall, Texas.

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

U.S. $3.5 Trillion Reconciliation Bill Update

A few weeks back we mentioned the U.S. Infrastructure Bill that was passed in Washington that cost just over $1 trillion. At the end of the article, we mentioned the possible $3.5 trillion "Reconciliation Bill" that President Joe Biden endorsed, and most Democrats in Washington supported. We mentioned this is not the right time for a bill of this size when so much money has already been printed over the last 18 months. This chart of the U.S. M2 Money Supply is before most of the Infrastructure Bill has been spent. The chart is in Billions so approximately $21 Trillion! Pre Covid-19 the M2 was approximately $15.5 Trillion.



A growth rate of over 30% in the money supply in a year and a half and we are being told inflation is solely due to the reopening of the economy…… Something does not add up.

The issue with the Infrastructure Bill is even though it has passed the Senate and has the support needed to pass in the House; Progressive Democrats including MET Gala Attendee AOC have repetitively threatened to tank the vote for the Infrastructure Bill if the Reconciliation Bill is not passed.

On July 16th:

ALEXANDRIA OCASIO-CORTEZ · Published July 16

AOC says progressives will 'tank' infrastructure bill without bold climate change provisions

The congresswoman called the $3.5 trillion reconciliation package a "progressive victory"

Even though the Infrastructure Bill got bipartisan support, AOC (Alexandria Ocasio-Cortez) still believes progressives can hold the Infrastructure Bill up. The group of approximately 6 progressive Democrats that plan to tank this bill purely for political reasons could fail. There will probably be a few Republicans in the House that vote yes for the Infrastructure Bill which means the progressives vote may not matter.

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She continued her threats this month:

CONGRESS · Published September 9

AOC threatens to tank infrastructure bill without Dems' $3.5T spending plan: It would 'give me pleasure'

AOC slams infrastructure bill as 'billionaire, dark money, fossil fuel, Exxon lobbyist drafted'

The threats did not sway the entire Democrat party.

Manchin Says He Won't Support $3.5 Trillion Spending Plan, Could Back it at $1.5 Trillion

BY DANIEL POLITI SEPT 12, 2021 • 12:27 PM

Joe Manchin gets all the attention. But Kyrsten Sinema could be an even bigger obstacle for Democrats' spending plans.

Senator Joe Manchin perhaps the most powerful person in Washington has come out hard against the $3.5 trillion Bill. Manchin is the most conservative Democrat in the Senate and a key vote in a 50-50 Senate. He has been joined by Arizona Senator Kyrsten Sinema in opposing the massive spending spree. Biden and his administration even invited them both to the White House to discuss the bill but the two are stark against the massive bill that targets education, healthcare, social programs, and climate change.

This may be the smartest thing for a country facing decade high inflation.

In an editorial in the Wall Street Journal Joe Manchin mentions inflation, a massive deficit, and fiscal responsibility for future generations as reasons he cannot support the Bill. There may be a few other reasons…

SAN FRANCISCO · Published September 3

Pelosi hears from GOP as Dem bill directs $200M to park in her San Francisco district

The House speaker is known to frequent the park herself

Must be a sweet park! Pelosi regularly attends this park which includes a private golf course that she is a member at.

However, Manchin, Sinema, and Republicans aren't the only ones upset at this bill…….

From 'blatantly biased' to 'discriminatory:' Tesla, Toyota and Honda criticize $4,500 EV tax incentive for union-made vehicles

PUBLISHED TUE, SEP 14 2021•12:20 PM EDT | UPDATED TUE, SEP 14 2021•1:49 PM EDT

Part of this massive bill is a $4,500 tax incentive for consumers to buy electric vehicles, but the credit is only available at unionized companies.

Another large part of this bill, a $150 Billion program called the Clean Electricity Performance Program which would pay utility companies to switch from using greenhouse gases to renewable energy. We do not have to list all the problems with this just ask California and their power outages. Consumer demand

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and market efficiency will demand a transition not massive government spending. Utility companies that deny the switch will face penalties going forward.

The push for electric vehicles has been quite popular across the world but the goals are unrealistic, the U.S. have a goal of 50% of cars in 2030 being electric, this Bills funding would allow that number to be 61%. In the U.S. electric vehicles make up less then 2% of automobiles on the road. Simply put, this seems like a massive reach.

The massive Bill would continue to trigger inflation across the U.S. A part of the Bill which has already been removed was a provision that would give citizenship to 8 million illegal immigrants. Very Washington, burying immigration reform into a massive fiscal package. This is not the first time in 2021 a large fiscal Bill has included unrelated items. The Covid-19 Stimulus Bill passed earlier this year originally had a provision for a federalized minimum wage which ended up being removed.

All this spending is happening when the U.S. Treasury has warned they will not be able to pay its bills in October unless the debt limit is raised or removed. The debt ceiling is the limit the U.S. Treasury can incur. If the ceiling is not raised by Congress, the government could default for the first time in history. The current debt ceiling is $28.4 Trillion.

September 17, 2021
2:11 PM EDT
Last Updated 5 days ago

United States

Warnings of economic catastrophe come as Congress prepares to debate debt ceiling

4 minute read

Reuters

The House passed a rule that would increase the debt limit, the vote was right down party lines. The rule would give the U.S. Treasury enough funds to operate until December 3rd. It would also suspend the debt limit through the end of 2022. In the Senate the Bill will need 60 votes to pass this new debt limit which means in a split Senate it will need 10 Republican votes.

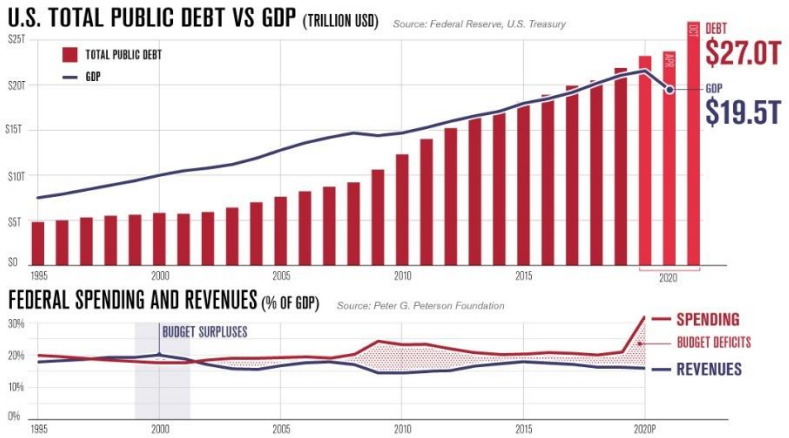
POLITICS

House Passes Bill to Keep Government Running. The Senate Won't. What's Next?

By Sabrina Escoba r Updated Sept. 22, 2021 12:00 pm ET / Original Sept. 22, 2021 8:33 am ET

Republicans said they will not raise the debt limit in opposition of the massive $3.5 Trillion Bill which they label as an inflationary spending spree. They have offered a solution to vote on a stand-alone bill that will allow the U.S. Treasury to have access to the funds it needs to operate.

Perhaps both parties should focus on pressing issues like not allowing the government to default and less on massive Bills. The major issue with U.S. debt, it has grown 28 times larger since 1980 while GDP has only grown about 8 times larger over that span. Debt only makes sense to a certain point.



When public debt is higher than the annual GDP its time to make a change.

European Energy Shortage

Throughout the Weekly Beacon's history, we have been critical of the green energy goals set by progressive countries. In the September 10th edition, we highlighted Spain and the UK having the highest electricity prices in their history fueled by a lack of wind energy they rely on to fuel there power grid. Last week France and Germany also confirmed their record prices but, unfortunately it will not stop here.

French electricity prices could skyrocket in 2022, consumer group warns

Europe is now joining California; they are facing expensive energy prices and possible blackouts due to a lack of energy.

Ireland recently announced the country faces blackout risk.

Markets

Europe's Power Crunch Deepens as Ireland Warns of Blackout Risk

By Will Mathis and Rachel Morison
9 September 2021, 21:19 GMT+10 *Updated on 9 September 2021, 23:11 GMT+10*

Ireland has halted exports of wind energy to the UK as the country is facing a shortage of energy. Low wind speeds this summer were a primary driver of this.

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Goldman Warns of Blackout Risk for European Industry This Winter

By Elena Mazneva and Javier Blas
September 15, 2021, 10:47 AM EDT

Europe faces a winter energy crisis years in the making

By ANNA SHIRYAEVSKAYA, RACHEL MORISON AND ISIS ALMEIDA on 9/19/2021

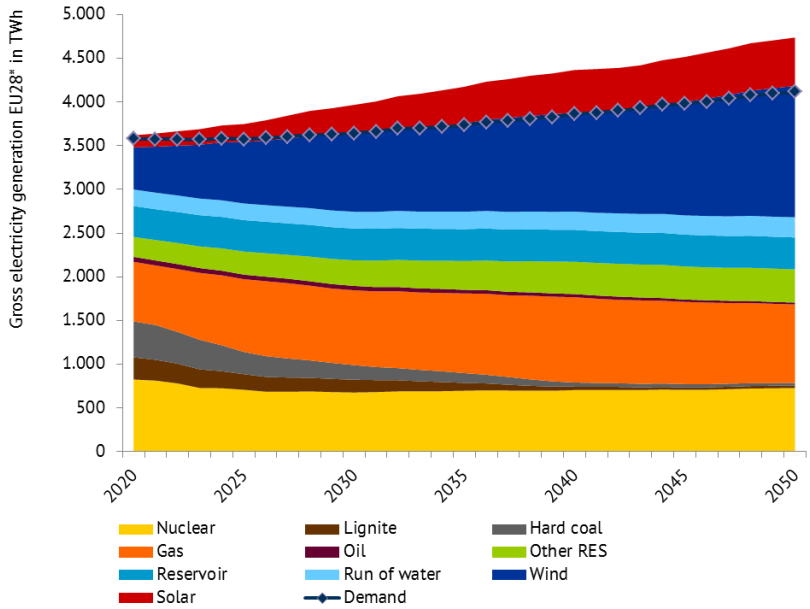
In California its one thing to have blackouts, its bearable and warm in the winter, but a European winter filled with rolling blackouts is a whole other story.

Some have cited high gas prices as the only reason causing this issue. High natural gas prices and an increase in demand due to the reopening of economies are a factor in this electricity price surge but so is the heavy reliance on renewable energy sources that are not the most reliable.

Articles are being written across Europe that these high prices in fossil fuels should increase investment into green energy now. They want to speed up the transition to solve this issue with renewables which are partially to blame for the lack of electricity.

The EU also has the worlds largest carbon credit system which charges emitters for every metric ton produced. This puts further upward pressure on consumer prices and makes it less attractive for producers in the region. The cost to pollute in Europe has risen by 80%.

The EU has also released its energy outlook for electricity generation for 2050 and its only up from here for Wind and Solar! More blackouts on the way for years to come.



These rolling power outages and lack of power will most certainty accelerate across Europe especially with the massive push from progressives to go green fast.

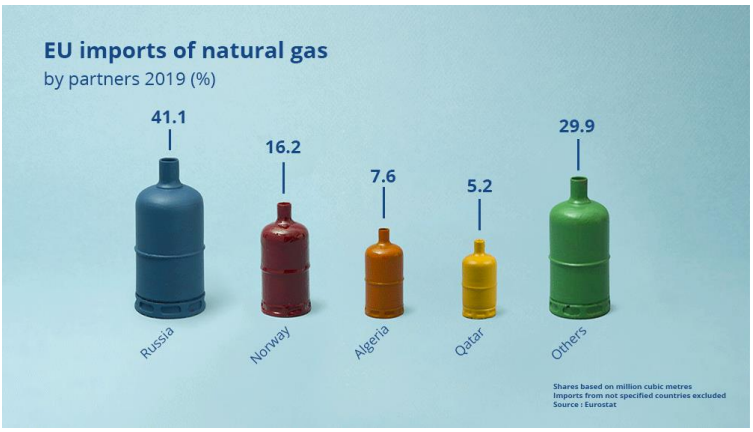
The UK is bracing for massive change in the energy industry. The Dutch TTF hub, a European benchmark for natural gas has risen 250% since January. A few have warned that these high prices could lead energy companies across Europe into default. Bill Bullen, founder of Utilita Energy said high prices stemming from low supply, high global demand, and high carbon prices could lead to an oligopoly in the European natural gas market.

The UK has turned to coal the dirtiest fossil fuel to fill these supply issues they currently are having.

The higher the percentage share consumers are reliant on renewables the higher the likelihood of emergency coal use. Prices will be put directly on consumers during this transition to green.

Natural gas stockpiles in Europe are at there lowest point in a decade for this time of the year when stockpiles are usually the highest due to the coming winter season. Norway has had a historically low output in 2021 due to infrastructure maintenance. Russia has been accused of holding back offers for its liquified natural gas that can be transported globally. Poland and Ukraine have said Russia is attempting to make a point to show Europe how much it needs the Nord Stream 2 pipeline which Germany has still not approved.

The Nord Stream 2 pipeline would further increase the European Union's reliance on Russian natural gas. Russia would have a monopoly across Europe. Monopoly, oligopoly two words Putin and Co. would love to use in the future when describing energy in Europe.



Russia's economy is heavily reliant on oil and gas exports, they will not be slowing down the production to go green.

Perhaps the most interesting part of the Nord Stream 2 Pipeline, the U.S. gave the project a green light earlier this year while ending their own pipeline with Canada.

Nord Stream 2: Biden waives US sanctions on Russian pipeline

20 May

Keystone XL pipeline halted after Biden blocks permit

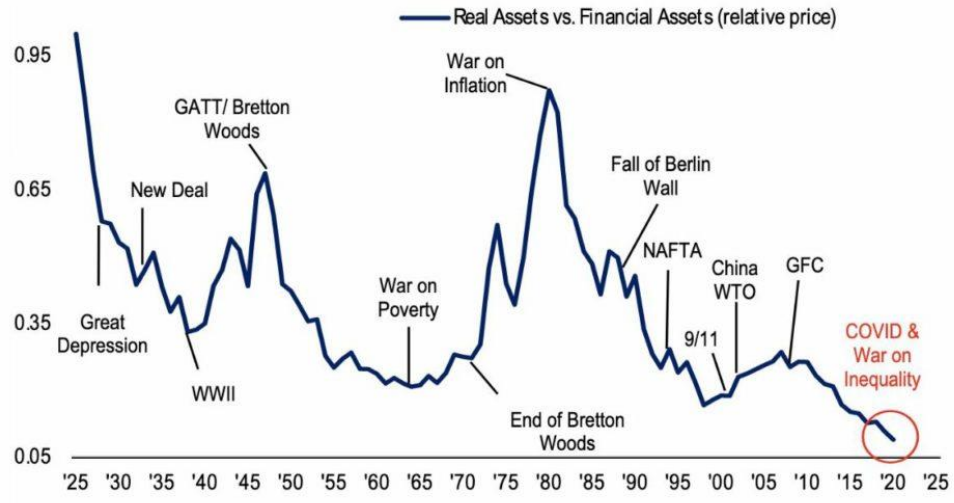
9 June

Energy dependence no more, only if its energy dependence through renewables.

The move by the U.S. was interesting as it will give Russia more influence across Europe. Ukraine has voiced there displeasure with the U.S. who approved the project.

<u>A picture worth more than 1000 words:</u>

Exhibit 1: All-time lows...real assets relative to financial assets since 1925
Real assets (Commodities, Real Estate, Collectibles) vs. Financial Assets (Large Cap Stocks, Long-term Govt Bonds) since 1925



Source: BofA Global Investment Strategy, Global Financial Data, Bloomberg, USDA, Savills, Shiller, ONS, Spaenjers, Historic Auto Group.

Note: Real Assets (Commodities, Real Estate, Collectibles) vs. Financial Assets (Large Cap Stocks, Long-term Govt. Bonds)

BofA GLOBAL RESEARCH

Even with the massive run real estate has had over the last 10-20 years, this chart shows the all-time lows Real Assets are having relative to Financial Assets that keep melting up. Look for a reversal over the

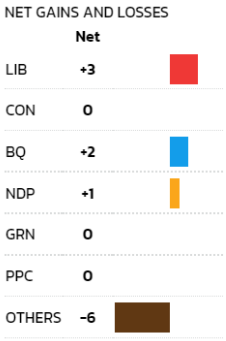
next few years. History usually repeats itself which means Real Assets could significantly outperform over the next decade.

The funniest part of wealth prosperity right now, all the government assistance and stimulus meant to help those in need are pumping Financial Assets the most increasing the 'Inequality Gap'. Hopefully they finally realize their policies are helping the 1% the most.

A waste of $600 million….

The Canadian election that was held Monday was called 36 days earlier by Justin Trudeau. He called the early election as he thought he could win a majority government rather then the minority he was currently leading. Trudeau wanted to avoid other parties when passing legislation. The results made many Canadians roll their eyes as the election produced basically the same government breakdown, a Liberal minority government leading the way with Conservatives as the opposition.

As of Tuesday morning, most ridings had officially elected their MP and things are almost identical to the previous government.



We heard a lot from the opposition parties that Trudeau was selfish for calling this election in a pandemic. They all cited the health dangers and issues surrounding an unnecessary election during Covid-19. It seems the financial cost of this election was greater than the health risks. The election is the most expensive election in Canadian history. The election cost taxpayers over $600 million over the course of the 36-day campaign.

This is Canada's most expensive election

Pandemic measures, more eligible voters and inflation push up the price tag

Roxanna Woloshyn · Posted: Sep 06, 2021 7:31 PM ET | Last Updated: September 19

Pandemic federal election estimated to cost $610M, most expensive in Canadian history

BY CORMAC MACSWEENEY
POSTED AUG 13, 2021 11:22 AM EDT LAST UPDATED AUG 13, 2021 AT 2:24 PM EDT

That cost is without mentioning all the "campainging" Prime Minister Justin Trudeau did before the election was called. Once an election is called, candiates need to fund their travel with donations but before an election is called, Trudeau used his government jet and campaigned all across the country on the dime of tax payers.

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LILLEY: Trudeau should call election now, stop campaigning on our dime

The speculation is a campaign launch on Aug. 8 with voting day taking place on Sept. 13

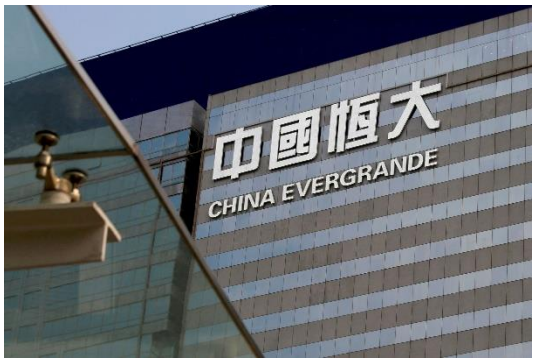
Brian Lilley
Jul 17, 2021 • July 17, 2021 • 3 minute read • 196 Comments

Even though the Liberals and Trudeau failed to win a majority and spent a massive amount of taxpayer money, they are labelling the election as a success. The election should serve as an eye-opening experience for Canadians, if an election can be called solely for political gain and they deem it safe in a pandemic then why are we still so restricted in other facets of life?

Maybe this election will prove to Canadians, we can get back to normal?

Everfailure

Last week we mentioned China's Evergrande Group and their probable default due to there $300 billion debt problem. This Monday, markets across the world were all affected by this news. The Hang Seng (Hong Kong) Index was down 3.3% on Monday and major North American Indexes all took 2% dives on Monday morning. Markets have jumped back up after Monday's sell off.



Investors were solely focused on China as its second largest real estate developer looks to be on the brink of collapsing. With low liquidity the Evergrande Group will pay their debt and interest payments with real estate.

The effect of this crisis will be felt across the Western world, BlackRock, UBS, and HSBC are some of the largest Evergrande bond holders globally.

Many people last week said the actions by China would allow the company to make a controlled default, minimizing impact. No matter what way you want to spin in it, this massively leveraged company will fail, and investors will be on the hook. China's real estate market will be quite unstable as assets could be sold in a massive fire sale.

On Wednesday, Evergrande announced they were able to reach a deal with a domestic creditor to pay an interest payment that is due this week. The amount due was $35.9 million (U.S.), the announcement did not specify how much will be paid. Another bullet dodged? Or just kicking the can down the street? Evergrande is sitting on $300 billion in debt and have trouble paying $35.9 million, this will be a rocky road, this deal should not be a sign of optimism. The next payment due is on Thursday, offshore

creditors have not heard whether they will be paid. The CCP has more then likely made it clear to Evergrande that domestic creditors should be prioritized.

The Evergrande Group default will not trigger a global financial collapse, but it will cause some serious economic slowdown across China. The CCP will not allow this to turn into a "Lehman Brothers" moment. This event will severely impact the Chinese real estate market and could have a ripple effect across the globe. China's property development model relies heavily on presales to fund construction costs, this event has completely exposed the CCP model. A major issue China has faced over the last few years, empty buildings across the country as the bubble grew too quickly. Demand could not keep up with supply.

The Evergrande issues have been labelled as not the issue, but a symptom of a much bigger problem China faces. Real estate makes up 29% of China's total GDP (Source: Financial Times). It is massively overbuilt, what has led them to grow so quickly but could also cause China's economy to lag for years to come. Real estate in the U.S. makes up just over 6.2% of total GDP while in Canada residential real estate makes up 10.1% of total GDP as of Q2 2021.

Land sales in China by local governments have fallen 90% year over year. Land sales are a major revenue stream for local Chinese governments. Projections expect the numbers to only get worst.

The Rhodium Group says China has enough vacant real estate to house 90 million people. 90 million is the same population as the United Kingdom and Australia put together.

The stunt in the growth of China will be felt worldwide……

A major issue China is facing, many homeowners rely heavily on there home as a source of savings, if that market collapses, wealth across China's population would be wiped out. This would spill into the global economy as U.S. sales for consumer companies that rely on China would drop. Chinese demand would also decrease in the commodity space.

Remain pessimistic in the short term against the entire Chinese market and remember all the added risks associated with the CCP.

MacNicol & Associates Asset Management Inc.
September 24, 2021

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