

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 questions regarding any observations.

*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.*



Portland Head Light, Cape Elizabeth, Maine



Two Lights State Park, Cape Elizabeth, Maine

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



Lehmann Moment?

Unless you were under the age of 16 between 2007 and 2009, we are sure you know the impact that the Financial Crisis had on North America. Even though equity markets are down 20-30% in 2022, it is nowhere near the 2008 level. Investment banks failed for the first time.

It appears many online are pointing to 2 financial institutions that could be the 2022/2023 versions of Lehmann Brothers or Bear Sterns - Credit Suisse and Deutsche Bank. Credit Suisse has more buzz around it and a messier balance sheet, so if something big happens, look there first. We highly doubt anything will break and that a bank will fail. Improved regulations and stress tests have led to a more regulated banking system since 2009 but it is something to mention as it's a hot topic now (plus it is interesting to look at what retail investors are thinking in today's markets, they have shown resiliency).

Before we jump into any details at all, this is quite a sign if we say so ourselves. Circumstantial or coincidence, you tell us.

Board of Directors of Credit Suisse Group AG

The composition of the Board of Directors of Credit Suisse is the same as the composition of the Board of Directors of Credit Suisse Group.

Name	Born	Citizenship	Function
<u>Axel P. Lehmann</u> ¹⁾	1959	Switzerland	Chairman and Chair Governance and Nominations Committee

Yes, you are reading that right, the Chairman of Credit Suisse's last name is Lehmann.

Essentially chatter online started to erupt that Credit Suisse was extremely levered and did not have the assets to pay off debt especially if credit spreads continue to rise. This chatter had a lot of steam behind it.

Here are a few of the tweets that went viral:

Rajat Kumar Singh
@imfamoustrajat

Credit Suisse and Deutsche Bank are on the verge of collapse.

A thread on the ongoing crisis at DB and CS as per my limited understanding. [🔗](#)

(/1)

#deutsche #CreditSuisse



2:23 AM · Oct 2, 2022 · Twitter Web App

2,187 Retweets 281 Quote Tweets 7,296 Likes

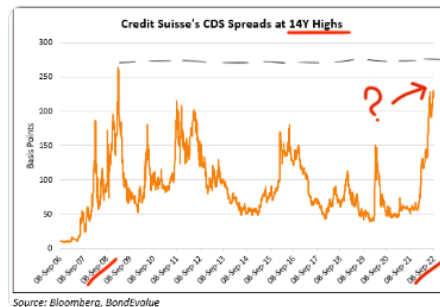
Graham Stephan
@GrahamStephan

\$600 Billion: What Lehman Brothers held in assets when they crashed and took the economy with them.

\$2800 Billion: What Credit Suisse and Deutsche Bank control in AUM. 4.6x more.

Credit Suisse is at a 'Critical Moment' now, says the CEO.

What lies in store for the world? [🔗](#)



11:55 AM · Oct 2, 2022 · Tweet Hunter Pro

7,169 Retweets 1,116 Quote Tweets 21.4K Likes

Lark Davis
@TheCryptoLark

Both Credit Suisse and Deutsche Bank are rumoured to be on the brink of collapse.

They have 2.7 trillion in assets under management between them.

This could be our "Lehman" moment when shit REALLY breaks.

3:47 PM · Oct 2, 2022 · Twitter Web App

2,770 Retweets 401 Quote Tweets 13K Likes

Michaël van de Poppe
@CryptoMichNL

🔥 - Credit Suisse has leveraged exposure of \$900 billion, the entire size of the crypto market.

This is fine.

9:33 AM · Oct 2, 2022 · Twitter for iPhone

795 Retweets 83 Quote Tweets 6,820 Likes

Before we jump in and analyze these problems, remember it's Twitter and who knows what's real especially when the accounts are not verified.

Rumors that Credit Suisse's capital position is at great risk circulated on the web. The company is trading extremely below book value, is extremely levered, and earnings have fallen.

Even after saying all of that, remember banks face much stricter regulatory supervision today than they did during the Financial Crisis meaning bankruptcy or failure is Extremely unlikely. Banks face rigorous stress tests to ensure they meet capital requirements. Still, Credit Suisse's CDS spreads are exploding and are at 14-year highs (circa 2008).

Even looking past the rumors or narratives online, the story originally stuck for one major reason - Credit Suisse is a mess. Their balance sheet is weak, and their employees are quitting in droves.



Market Summary > Credit Suisse Group AG

4.24 USD

-5.67 (-57.16%) ↓ year to date

Oct 4, 09:37 EDT • Disclaimer

+ Follow

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



A major investment bank’s stock is down 57% year to date; it has performed like an exploratory miner or even a biotech stock. Bank investments are historically “safe”, and Credit Suisse has been far from that.

Comparing the stock performances of TD Bank and Bank of America over the last 5 years versus Credit Suisse, one can easily notice the outlier.

Market Summary > Toronto-Dominion Bank

64.58 USD

+8.39 (14.94%) ↑ past 5 years

Oct 4, 09:40 EDT • Disclaimer

+ Follow

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



Open	64.32	Mkt cap	117.66B	CDE score	B
High	64.58	P/E ratio	11.13	52-wk high	86.02
Low	64.15	Div yield	4.27%	52-wk low	58.64

Market Summary > Bank of America Corp

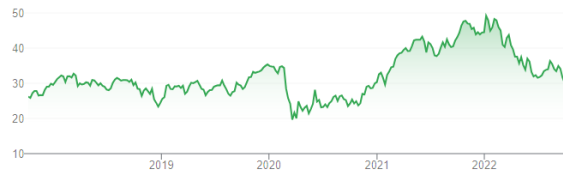
32.08 USD

+5.88 (22.42%) ↑ past 5 years

Oct 4, 09:41 EDT • Disclaimer

+ Follow

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



Open	31.72	Mkt cap	257.77B	CDE score	A-
High	32.12	P/E ratio	10.00	52-wk high	50.11
Low	31.66	Div yield	2.74%	52-wk low	29.67

Market Summary > Credit Suisse Group AG

4.25 USD

-11.80 (-73.52%) ↓ past 5 years

Oct 4, 09:42 EDT • Disclaimer

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



Open	4.18	Mkt cap	11.14B	CDE score	B
High	4.26	P/E ratio	-	52-wk high	11.04
Low	4.15	Div yield	2.37%	52-wk low	3.70



We know banks do not create outsized returns, but they usually create consistent returns that are lower risk than most other equities. Credit Suisse has traded like a company that is being muscled out of its market by a new disruptor (think Amazon muscling out GameStop, or Netflix to AMC) and not like a company that operates in a highly regulated, stable industry. Either way, something is up.

Even though its stock has bounced to start this past week, stay away. Credit Suisse shares are now a “buy for the brave,” Citigroup analysts led by Andrew Coombs wrote Monday. There is “significant execution risk” from the firm’s new strategic plan and markets are now pricing in what will likely be a “highly” dilutive capital raise, the analysts said, though they don’t believe this is another “2008” moment.

This tweet went viral on Sunday night while Credit Suisse was trending.



A fake tweet with fake numbers, funny, nonetheless.

If you want a signal other than the ones above, Jim Cramer said Credit Suisse buyers are getting a bank bargain on a great company as rumors swirled. Other than his recent gaffs, Cramer recommended Bear Sterns stock six days before it tanked and was bailed out.



Elon Flip Flops

After months of pushing back at Twitter, Elon Musk has offered Twitter the same deal he agreed to at the start of the year. Yes, after months in court and a refusal to buy the company, something changed. Maybe, Musk thinks markets have bottomed, maybe he wants to implement something, who knows what he is thinking, either way, we think he is overpaying.

Remember he offered to take Twitter private at \$54.20 a share. Before the deal was announced Twitter shares were trading near \$42. Shares were halted a few minutes later due to volatility after prices jumped \$5. Twitter shares have outperformed other social media stocks and technology stocks out of optimism. Many held onto Twitter's stock as they thought the U.S. legal system would force Musk to buy the company and the stock was trading well below the deal value (Remember, if the deal did not go through, Twitter's stock probably would have been in free fall, it was never risk-free).

Either way, we are fascinated to see what Musk will bring to Twitter. Hopefully the site becomes more transparent and acts more like a utility company and less like a media publisher.



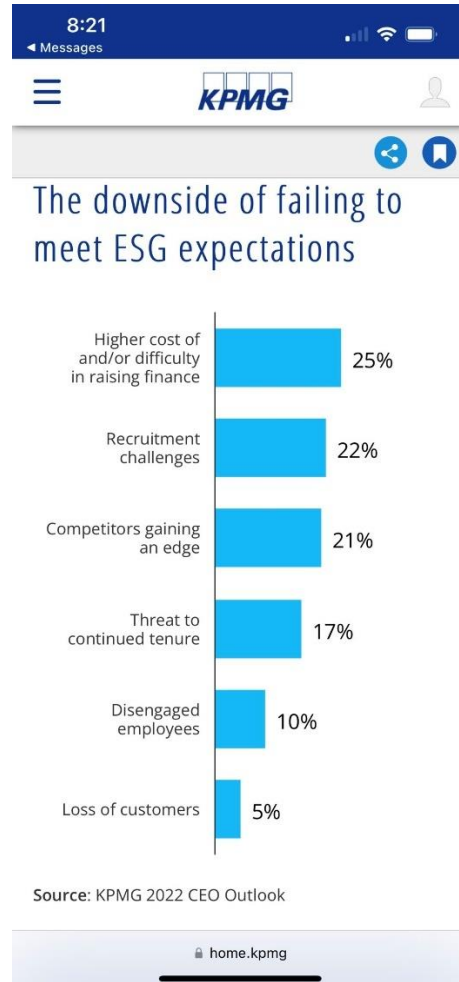
Twitter did announce that they would not be making any decision on the deal for at least 24 hours as they believe it could be a legal move by Musk and his team.

[Musk filed a 13D with SEC upon announcement. Click here to view it.](#)

Moments after Musk's 13D was filed, Twitter announced they intended to accept the offer to take the company private. Musk also released a letter that he sent to the Twitter Board which implied his deal is contingent on his access to debt to help finance his deal.

Energy Stops Growing

KPMG conducted a CEO survey about the “downside of failing to meet ESG expectations.”



Interesting that the number one concern is raising capital or raising capital at a higher cost. This survey is not energy specific but is very applicable to our current global energy crisis. For years providers of capital did not lend to energy companies or lent less and today we are stuck with this supply issue. The issue that makes this worse, ESG guidelines have gotten worse and access to capital has become even harder for non-ESG compliant companies.

Meanwhile, the providers of capital are the biggest proponents of ESG. It’s one giant circular reference that enriches very few and hurts the rest of us.

Do not get us wrong, ESG could have a positive impact one day, but in its current form, it has failed and will continue to do so.



The UK leads the way....

Last week, we mentioned that the UK Central Bank would begin buying long-term government bonds reversing the current inflation-fighting policy even though inflation remains high. They did this as equity markets were tanking, interest rates were soaring, and economic recession fears were at multi-year highs.

This week, the UN (yes, the United Nations), called on the FED, BOC, and other Central Banks to halt interest rate increases and to stop quantitative tightening. The organization claimed that further interest rate increases would cause a global economic downturn and would lead to a major recession. They even claimed that Western developed nations were gambling in their fight against inflation and were hurting the poorest countries the most by making these domestic monetary policy decisions.

We have predicted that countries will pause interest rate increases but did not predict that a global agency would be advocating for it. Maybe, the leadership of the UN has massive exposure to interest rate-sensitive companies.

UN accuses richest countries of 'imprudent gamble' in inflation fight

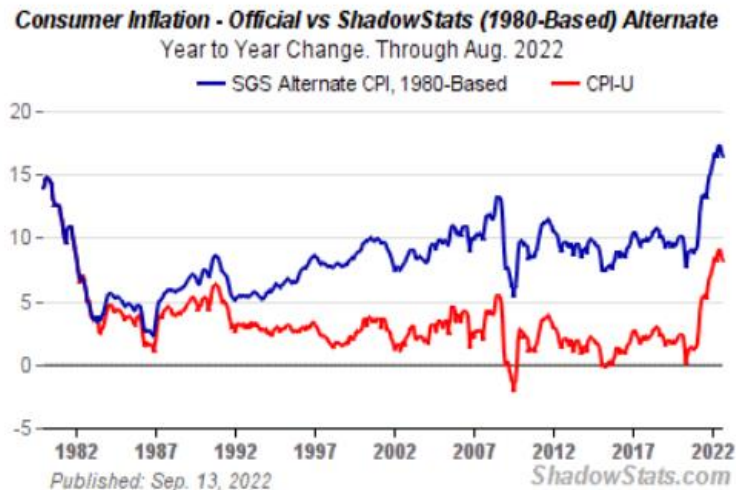
Report says policies of high interest rates and austerity risk triggering global recession that will hit developing nations hardest



The UN even offered an alternative to raising interest rates to combat inflation, pricing controls. If the fundamental problem remains supply, pricing controls will only cause more issues. Pricing controls have never worked and never will.

For now, we wait. We wait for Central Banks to blink as they did in the UK. It's not a matter of if, it's a matter of when.

We even think, governments will flip and will claim inflation in the 5% ballpark is healthy for economic growth and a strong economy. Maybe, they even change the calculation of CPI as they did in the 1980s and 1990s.



OPEC+ Flex its Muscles

Over the last few months, Western nations have begged OPEC, and Western companies to increase output to decrease oil prices. On top of that, they also have artificially depressed prices by draining strategic oil reserves. The U.S. Strategic Petroleum Reserve (SPR) is at its lowest level since 1984. Oil supply is being drained that has been stockpiled for decades for emergency use to win votes in November's Midterm elections.

Western countries have even pleaded with citizens to use less power, so the supply of energy is not depleted. It is a full-out crisis, across most of the West. Governments have even used this energy crisis to promote green energy ("Oil is too high in price to use, let's buy Teslas and use wind turbines"). Well, if you are a long-time reader of this publication, you know green energy is one of the major causes of today's crisis. The countries and states with the heaviest reliance on green energy have the biggest problems (Germany, California).

After consistent attacks on the sector, OPEC+ got sick and tired of the West and agreed on a production cut of 2 million barrels of oil per day. The agreement was led by Saudi Arabia and was unanimously agreed upon. We think countries who rely on oil exports are annoyed with all the funny business in the energy sector on the other side of the world. The next OPEC+ meeting is set for December.

Aside from OPEC+, Western companies will not increase production, for almost 5 years they fought off bankruptcy and regulation at the same time. They did not get subsidies or help from anyone; so, do not expect them to assist governments who repeatedly attack them.

As we are writing this oil is trading above \$85/bb, quite the jump from a week ago when oil dropped below \$80/bb, we knew the fundamentals did not change in the sector and that the price was artificially being dropped. We hope you did not get nervous and sell all your energy exposure last week or over the last month.

For now, OPEC+ is showing us who's in charge when it comes to energy. Expect prices across the board to increase in the coming months if oil returns to \$100/bb. Inflation could also return to new highs if energy prices surge upward (energy prices helped decrease the CPI in August), as food, shelter, and other components increase in price.



A Dose of Reality

On Monday this week, Jeff Currie an Economist and the Global Head of Commodities Research in the Global Investment Research Division at Goldman Sachs went on Squawk Box, a CNBC show, and reiterated his stance on energy commodities specifically oil. We will not bore you with his points as you have probably heard many from us.

Instead, he brought up an interesting point that made us raise our eyebrows.

At the end of last year, overall fossil fuels represented 81% of energy consumption. 10 years ago, they were at 82%. In the last 10 years, \$3.8 trillion has been spent on renewable energy development and all that money has helped decrease fossil fuel dependency by 1%. We could not find Jeff's exact source but could find on Bloomberg that renewable energy drew more than \$2.6 trillion in investment from 2010 to 2019. Investment into the space has only accelerated over the last few years and is set to increase by 8% in 2022 to reach \$2.4 trillion (IEA).

Whatever the number is, it's a lot of money for no results and we continue to throw more and more into the space expecting better results while ignoring reliable sources of energy, some of which are extremely clean (North American Natural Gas, Nuclear).

Jeff highlighted that renewable investments has increased energy storage capacity across the world, but it has not equated to increased utilization (ie. Renewables are extremely unreliable).

MacNicol & Associates Asset Management Inc.

October 7, 2022