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THE SCHOONER

The Official Newsletter of the Dalhousie Investment Society (DALIS)

Whoa... We're Halfway There!

A Letter from The DALIS Executive

Happy New Year from the DALIS Executive team! As we catch ourselves humming Bon Jovi, we're compelled to reflect on the journey we've embarked upon so far throughout this academic year.

Midterm Check-In: The Numbers Don't Lie

As we approach the midpoint of the academic year, it's time for a thoughtful review, and we're excited to share some noteworthy achievements. We are thrilled to celebrate a new fall term milestone – a record-breaking 245 members spanning across 5+ faculties. This diverse and vibrant community has contributed to an impressive average attendance of 83 people at our DALIS events. We're not just setting records; we're building a dynamic and engaged community that spans disciplines and fosters collaboration.

Reflections on the Journey So Far

As we stand at the threshold of the holiday break, we take a moment to appreciate the collective energy, dedication, and undeniable passion that defines DALIS. Whether you're a seasoned alumni or a fresh face joining us this year, your presence contributes to the spirit that propels us forward as a society.

What's Next? The Winter Phase of Endeavors

Peering into the winter term, we're gearing up for the next leg of our financial journey. The momentum we've generated is just a glimpse of the potential ahead. We're ready to take on new challenges, elevate our goals, and perhaps inject a bit more excitement into the mix.

A Sneak Peek into This Month's Schooner

Before we wrap up the year, we present you with the final Schooner of 2023. From updates on the Maritime Fund to insights from our talented members – a wealth of content awaits.

Thank you to all for your support thus far. Here's to a successful second half of the academic year!

Best Regards,
Max, Monica, Arsh, Alexis, and Mark

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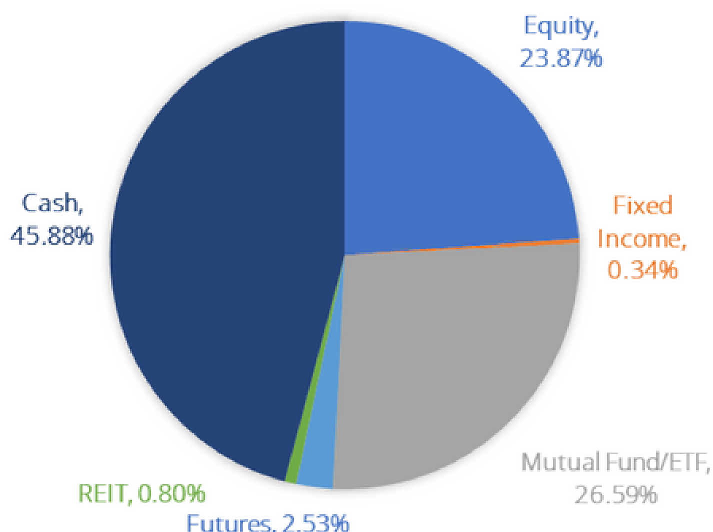
The Maritime Fund

Portfolio Overview

Portfolio	Holdings	Market Value	Change TTD	% TTD
Macro Strategy & Fixed Income	20	$30,942,292	$942,292	3.14%
Commodities	24	$31,076,466	$1,076,466	3.59%
Financials, Consumer, Tech	10	$30,365,957	$365,957	1.22%
Energy, Industrials, Real Estate	15	$30,765,554	$765,554	2.55%
Maritime Fund	69	$129,716,132	$9,716,132	8.10%

Sector	Market Value	Weight
Industrials	$22,095,096.45	17.63%
Financials	$9,792,397.57	7.81%
Real Estate	$7,516,646.23	6.00%
Consumer Staples	$7,386,557.58	5.89%
Energy	$5,333,208.85	4.26%
Consumer Discretionary	$4,428,238.82	3.53%
Metals & Mining	$4,011,869.17	3.20%
Technology	$2,467,928.70	1.97%
Utilities	$1,599,202.41	1.28%

Top 10 Holdings
1. Cash (CAD)
2. SPDR S&P Aerospace & Defense ETF
3. Invesco S&P 500 Equal Weight Industrials ETF
4. Fidelity MSCI Industrials Index ETF
5. Disney US Equity
6. Builders FirstSource INC.
7. iShares 20+ Year Treasury Bond ETF
8. General Electric US Equtiy
9. Natural Gas Futures March 2024
10. Vanguard Industrials Index Fund



**TTD = Term to Date*
All $ Figures in CAD

The Maritime Fund

Commentary

MACRO STRATEGY & FIXED INCOME

"The Macro Group entered a $3MM (USD) long position in the Yen against USD at ¥150 which was increased to $8.5MM on rumours that the BOJ would begin implementing tighter monetary policy. The portfolio exited the position at ¥143.61 for a $210k USD profit. The Macro group sold its position in Itua Unibanco as the P/E is now at a considerably higher level, leaving limited room for growth. The Macro group will continue to allocate a large portion of the portfolio to treasury bonds, as these bonds will appreciate as central banks decrease rates. The portfolio has kept the custom weighted S&P500 index, based on limited changes in unemployment rates and the recent forward guidance from central banks."

COMMODITIES

"Most of the moves made by the Commodities group were to manage positions already on the book; we realized some of our gains/losses to begin the month, added to a few of our favorites, and sold options where we thought appropriate. There was some active trading in crude contracts based on news and sentiment – from which we netted a small gain, and we also continued to be buyers of promising junior miners."

FINANCIALS, CONSUMER & TECHNOLOGY

"In December, our focus rested on the consumer sector, maintaining reduced positions in tech & financials relative to consumer & financials. Highlights include long positions in Dollartree, Ulta Beauty, Nordstrom, and Visa, all of which have delivered strong gains. We remain geared towards stability and growth, relying on our belief that value-oriented positions will be the key drivers for our portfolio's long-term performance."

ENERGY, INDUSTRIALS & REAL ESTATE

"The EIR portfolio achieved robust growth, primarily driven by a focused approach on the industrials sector. Notably, our long positions in General Electric (GE), as well as Industrials ETFs featuring Boeing (BA), Union Pacific Corp (UNP), Caterpillar Inc. (CAT), and others, delivered outstanding performance due to improved supply chains and a positive economic outlook for 2024, anticipating a decrease in interest rates. The most lucrative trade involved a 25% return from our long position in Builders FirstSource, Inc. (BLDR), a building construction materials manufacturer. The EIR portfolio also includes investments in Data Centre and Commercial REITs. Looking ahead, we plan to leverage supply chain improvements by exploring investments in manufacturing and closely monitoring the energy sector for potential rebounds, given recent substantial declines in stock prices."

Alumni Spotlight

B'Comm 2015

Max Vandewall

VP, Investment Banking
J.P. Morgan (London, England)

Could you talk about your role at J.P. Morgan and how you got there?

I'm currently a Vice President in Technology Investment Banking at J.P. Morgan, stationed at our European headquarters in London. After graduating from Dal in 2015, I joined Raymond James in Toronto as an analyst and worked for a couple of years in Mining Investment Banking. Raymond James acquired an investment bank in Munich and had the mandate to expand into London. I networked internally and in 2017 I was able to secure an associate position at our new London office focused on technology M&A. I worked there as an associate for three years and helped grow our office from five to 35 people. After three years at Raymond James in London, I decided that I would love to have bigger bank experience and have more tools in my tool belt so to speak, other than just M&A. Jefferies came inbound to me, and I was delighted to accept a position there as VP. After a year with Jefferies, J.P. Morgan approached me. I had a few conversations with them and realized this is arguably the best bank in the world to do investment banking at. I got a very good feeling from the team and the deals that they were working on and took the position.

What was your experience like transitioning like from Bay Street to Canary Wharf?

From a personal perspective, for one, the pub culture in London is a real thing! "Cheeky pints" after work are certainly something that people do. Second, I was in awe when I went into meeting rooms and looked out at somewhere like Tower Bridge. Lastly, the etiquette in meeting rooms. Sometimes North Americans tend to be a bit more colloquial in their conversation. In London, it's proper. Nobody wears any sort of patterned shirt, and nobody wears a blue shirt. If you are in finance, it's blue suits, white shirts, and black shoes. However, being in Tech, most of our clients are entrepreneurs, so I rarely wear a suit!

On the professional side of things, working in London is more global in the sense that you're covering a lot of different clients and geographies. During my time in mining, my bosses were flying to Vancouver and the odd conference in Colorado or Florida. Here, we cover Europe, the Middle East, and Africa. I was working on an IPO last year where the client was in Nigeria, I was just working on a fintech deal where the client was in Dubai, I am flying to Helsinki on Monday for two days to kick off another project. Also, you have country specific offices (Amsterdam, Finland, etc.) and they speak the local language, while the sector expertise sits in London. I work in our Tech team, so I am one of the professionals that knows all about software, IT services, or whatever sub-sector we're working on. We then collaborate with the local team and cover the client that way. It's a very diverse and broad market but you need to have the local language expertise or else you're not winning deals. You can't have a Canadian or American guy walk into a French office and expect to win a mandate.

What are a few pieces of advice you would give to current DALIS members?

1. Marks are the most important thing because it gets you into the best bank. I look at my career and I'm proud of being able to go from Raymond James (middle market bank) to Jefferies (leading boutique) to J.P. Morgan (bulge bracket bank). However, I look back and think about what inhibited me from landing at J.P. Morgan right away. It was due to not being at the very top of my class. I still got great marks, but I wasn't a 90%+ average student! But I have great memories from Lower Deck...

2. The DALIS program helped me identify what I wanted to do. When I was in DALIS I did an internship at Scotiabank in relationship management (hybrid role that bridges the sell-side and buy-side).

I was looking at everything in capital markets all day. I love the pace of it, but I realized that I wasn't getting that much depth. I wanted to really understand what made a business tick. I got involved in DALIS, got a sales & trading internship, identified that it wasn't what I wanted to do, and that enabled me to focus on getting an investment banking role right out of university.

3. Leverage your network but do it in a way that gets their attention. I can't tell you how many times I get people from Dal (or any university) reaching out to me. I give preference to Dal students, but if I receive a message like, 'Hey, I'm from Dalhousie. I would love to speak with you,' I just don't have time to answer every one! I am not trying to sound conceded, but if I have 10 live deals, 300 messages in my LinkedIn, I just don't have the time. It's more of a hook if you send three reasons why you're a great candidate, why you'd be a great fit for J.P. Morgan, or what you're trying to get out of the chat. This takes 15 minutes to prepare and probably increases your chance of getting a response by 50%. However this isn't meant to deter any Dal students or alumni from pinging me for a chat!

Are there any specific deals you were on that stood out as memorable or interesting?

In 2017 we worked with a publicly listed company that had three separate divisions. Healthcare software, industrial automation software, and oil & gas controls/systems. This was a very confusing story for public market investors to get their head around. We pitched the business to a private equity firm with the thesis that the sum of parts analysis was quite attractive, and they could probably sell off the two smaller divisions to focus on healthcare software. This would allow them to buy it at a valuation that's lower than the sum of its parts. We did some strategy work for them and thought about selling the two divisions or building them to scale, as they were interesting businesses but just a bit too small. It was an interesting thesis to develop, and we got to help them on the valuation, strategy, offer letter, and math surrounding the public-to-private transaction.

Right before Christmas we announced a deal with a global online luxury fashion business called Farfetch. They are the leading online luxury in Europe, so for example, if you wanted to order a pair of Gucci sunglasses and a pair of Prada shorts, you could build your own basket and get it delivered to your house. It is an e-commerce marketplace company. At its peak it was a €26B company, but before the announcement it had traded down to €500M. That's the result of making a few odd acquisitions, the founder owning 70% of its shares, and a lot of cash being held up in various parts of the business which led to a liquidity crunchIn November, we had to run an expedited process to try to bridge this liquidity gap, and on December 18th we announced the sale of Ferfetch to Coupang (leader of Asian fashion marketplaces).

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What is something that people misunderstand until they work in Investment Banking?

I didn't know what I was doing for the first year in my job! What you're doing in IB is advising companies on either financing (equity or debt instrument), an IPO, or M&A (buyside or sell-side). This means pulling together a financial model with the company to develop a buyer friendly operating model, looking at those numbers, and putting it into the various methodologies. You're running DCF's & LBO's, scrubbing comps, looking at precedent transactions, and you're putting those into excel. Working through revenue, EBITDA, the EV that was paid, implied multiples, EBITDA adjustments, FCF multiples, and assumptions will result in a multiple. You then use your judgement to determine the most comparable transactions to reference, while considering competition, business model, and barriers to entry.

When I first started out, I didn't think that I would get so much exposure to the C-Suite as quickly as I did. I was going with my boss to meetings with CEOs in the first six months. I also didn't know how much of my time would be dedicated to financial modeling and PowerPoint presentations. Explaining a business on two slides in a way that a CEO can digest it quickly requires a lot of skill when you're 22 years old. You must consider what is most important, how to use brevity in bullet points, and how to make graphs look simple. At the end of the day not many people read every slide, so it's important to highlight the key takeaways to the reader in a concise, easy to digest format.

What trends have you seen in the cloud space since the start of your career?

What is driving growth in cloud is hyper scalers like AWS, Azure, and Microsoft. When I started in 2017, these companies were growing at 50% to 70% a year and now they are growing around 30% a year, which is still impressive. The private-to-public cloud migration is a result of companies wanting to accelerate their digital transformation. They want to be able to run HR processes quicker, look at data in new ways, and store customer data in the cloud to run predictive analytics with it. The flexibility of the public cloud allows you to deliver a better service to your customers so it's the backbone of any corporation.

What people don't realize is that there's so many adjacent services and companies that benefit from this in tech.

For example, we cover IT services. There's EPAM, Globant, and Endava which are all $10B to $25B companies that focus on the implementation and app data platforms. They are doing the custom software development for a company's applications that sit on top of Azure, for example. A lot of small-cap companies don't get the attention of Microsoft, so they need an IT services firm to help them implement Microsoft and understand how to apply generative AI to write code more efficiently. It's not in Microsoft's strategy to be a consultant, it is in their strategy to sell software. There has been a corollary of growth as a result of these three mega-companies growing so quickly and that has been the biggest transformation.

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Getting Comfortable with the Uncomfortable

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When I was initially tasked with writing an article for the Schooner, my instinct was to delve into the narrative of being a woman in finance and breaking those barriers - a subject I am passionate about and very comfortable with. However, upon deeper reflection, I found greater significance in addressing the aspects we avoid discussing - the uncomfortable and less-talked-about facets.

Exploring Uncomfortable Beginnings

My journey at Dalhousie commenced as a typical first-year student, exploring various societies, excelling in classes, and enjoying a vibrant social life. Initially drawn towards the world of sports, I hesitated to join DALIS, perceiving it as a boys' club. However, my interest in finance gradually flourished through the year and I started attending events organized by MCS, which sparked a shift in my focus. My MCS Career Specialist recommended I apply for a Women in Financial Markets scholarship that was offered by one of the banks. This process exposed me to great people, offering valuable insights despite falling short on certain technical skills as a first-year student. However, it became a learning curve that shaped my future interviews and provided crucial feedback.

I will always remember the first time I heard the term 'Imposter Syndrome' during the WIBA conference from the president at the time. Since then, it has played over and over in my mind; enough that during our chat a couple of weeks ago I asked her if it ever went away as she began her full-time job. Her answer was no, but that is something you need to live with. I think being mindful of 'imposter syndrome' is the best way to overcome it.

Stepping into the Bloomberg Lab for the first time was extremely intimidating, hearing all the people using jargon I could not even begin to grasp. But as time goes by and you spend more time learning and exploring, you start knowing and understanding more, building the confidence to engage in the conversation.

Catching Up and Doubling Efforts

Realization struck me towards the end of the school year and as I began having coffee chats. I was asked if I had participated in case competitions - I had not. Or if I was in my school's investment club - I was not. And that's when it hit me, I had to start catching up on my lost time in my first year. Finding the balance between a full-time internship and enjoying summer, I dedicated my free time to completing a variety of certifications and talking to as many people as possible, striving to compensate for lost time. This juggling taught me incredible time management skills as I had to balance finding success in my internship while progressing toward my personal goals.

Embracing Balance and Priorities

As my second year rolled around, in addition to the extremely difficult course load, I doubled my extracurricular involvement and became: an analyst within DALIS, a second-year representative with WIBA, and participated in every case competition possible. All while maintaining a social life and pursuing the stressful co-op search.

Reflecting on my semester today, I realize the impossibility of doing everything. My workload this past semester was too much to be able to successfully accomplish all undertakings. Maybe I was doing as many coffee chats as others, but I was concentrating on other things, and that's okay. I believe it's better to excel at 3 things than being mediocre at 10.

You always think the grass is greener on the other side, but you have to remember all the nutrients that you put in your own grass.

I worked as hard as I could this semester to find balance and it rapidly developed my time management skills. I helped tutor a couple of first-year students, helping to reinforce my communication skills. I studied and read books to help strengthen my technical skills. All things that help me become a well-rounded candidate.

I learned the value of acknowledging personal efforts rather than constantly comparing to others. I also must mention the importance of building a support network and how helpful that is at the end of the day. Through the Women in Capital Markets' Mentorship Program, I was assigned a mentor with whom I meet once per month. I was fortunate enough to match with an incredible mentor who has helped me look at these positives and beat the Imposter Syndrome in the back of my mind. During the last meeting she told me, "At the end of the day, you are 19 years old and will be working on a trading floor. That is pretty awesome!" I think putting things into perspective and staying resilient through the ups and downs is what makes you succeed.

Learning from Missteps

My friend Fara and I embarked on our co-op search together, fixated on capital markets specific roles despite our lack of prior experience. Hours of intensive studying didn't fully prepare us for the unexpected technical interview questions. This experience underscored the importance of aiming high while accepting the inevitability of initial setbacks.

You don't need a perfect resume to break into the industry or a perfect GPA to ace technical interviews - it's all about perseverance and adaptability. Two things that resonated with me from one of Simon's sessions this semester were:

1. It does not matter if you get knocked down, everyone gets knocked down. What matters is how quickly you get back up.
2. It is an endurance race, not a sprint, be patient and keep going.

I think these two action items are important to keep in mind as they remind you about that perspective.

In hindsight, this small journey has taught me that setbacks are not roadblocks, but rather stepping stones. Embracing discomfort, overcoming the fear of inadequacy, and learning from setbacks are integral. Beyond grades and accolades, it is the ability to bounce back, evolve and learn, that truly defines success. As I stride towards my first co-op, I carry with me the lessons I learned and the determination to face challenges head-on, knowing they are not hindrances but opportunities for growth and development, and most importantly to get comfortable with the uncomfortable.

How Long Can the Consumer Remain Consuming?

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The consumer's health is one of the most carefully watched cogs in the financial and economic machine; its spending single-handedly accounts for roughly 70% of American gross domestic product (a number closer to the low 60s in Canada). But how much longer can the consumer continue to prop up the U.S. economy?

Despite the headwinds of inflation and rate increases that emerged over the past couple of years, the consumer has refused to tap out, instead electing to evolve how they spend. In order to maintain the lifestyles they became accustomed to during a regime of cheap and abundant money supply, consumers have had to turn to a dear friend —debt. This is, of course, most commonly accessed via credit cards, but amid higher costs and dwindling savings, we have also seen the rise of new products such as the buy now, pay later scheme (which, by the way, is not reflected in banks' internal spending data).

In the U.S., credit card balances increased to $48 billion in the third quarter alone— an increase of about 4.7%. Year over year, that number is $154 billion, making it the largest increase since 1999. In total, credit card balances now stand at $1.08 trillion according to the New York Federal Reserve, which is a record high as well. Third-quarter reports from the major American banks revealed a similar narrative, with credit-card spending at JPMorgan Chase and Wells Fargo, up 9% and 15%, respectively.

However, it is not just balances that have been rising; unpaid balances on accounts—also known as credit-card loans—also jumped in the third quarter. Compared to Q3 2022, credit-card loans are up 16% at JPMorgan, 14% at Wells Fargo, and 11% at Citigroup. Therefore, consumers are not only spending more via credit cards but also taking longer to pay their bills.

While these trends are definitely concerning, the statistic that matters most is delinquencies. And while credit card delinquencies continue to rise from their historical lows seen during the pandemic, and have now even surpassed pre-pandemic levels, they are by no means sounding alarm bells. Currently, just 3% of Americans' total outstanding credit card balances are at least 30 days delinquent. For reference, the average delinquency rate since the Fed began tracking in 1991 is 3.74%, while the average since 2000 is 3.46%. The 3% rate we see now is further dwarfed by the numbers we saw during the Financial Crisis when delinquencies peaked at nearly 7% in 2009.

However, there are certainly reasons to believe that consumer resilience has peaked and, in fact, is beginning to wane. While consumers' financial situations remain generally healthy, JPMorgan CEO Jamie Dimon says it is clear they are spending their savings. This is crucial, as the breadth of monetary stimulus consumers received during the pandemic, in conjunction with the general inability to spend during lockdown(s), board debt forbearance, and more topically, wage inflation and a rocking job market, have all contributed to a financial cushion that blunted the forces of inflation and increased rates. According to Marianne Lake, co-chief executive of JPMorgan Chase's consumer bank, "we're still on that journey, but getting closer to the end." At a December conference, she revealed that prior to the pandemic, "the bank's lowest-income clients had on average 12 days' worth of cash on hand." Today, "that average is around 15 days," thus this cash cushion is nearly depleted. Consumer deposits are also down more broadly; at JPMorgan that, deposits are down 3%; at Citigroup they're down 5%, and at Wells Fargo the number is a whopping 10%. While one factor for these deposit declines was certainly the reallocation of cash into higher-yielding alternatives, such as money-market instruments, consumer spending played a large role as well.

In addition to rising balances and decreasing savings, the well-being of the consumer is also threatened by other types of debt—particularly, borrowers straddled with auto-loans and/or student-loans, both of whom were more likely to fall behind on their loans than before the pandemic. This was especially the case for those with student loans and auto loans; this group's transition rate into credit-card delinquency is 0.6 percentage point higher than it was prior to the pandemic. These repayment difficulties will likely continue to mount for student loan borrowers, now that student loan payments have resumed.

Another factor making the outlook for consumers increasingly troubled is the rate they must pay on their piling debt burden. The average credit card APR in America today is 24.59%, and December marks the 22nd consecutive month in which APRs on new credit card offers have risen. Remember, the 24.59% is simply the average, borrowers with poor credit scores (which there are now more of) can pay many percentage points higher. In fact, there has been a large increase in the number of cards with maximum APRs of 29.99% or higher, which has historically been a percentage threshold that very few credit card issuers have been willing to cross. In September of 2019, just 2% of a broad selection of 200 cards had possible APRs of 29.99% or higher (and just 1% reached 30.00% or higher). Yet, in December 2023, 39% of cards had possible APRs of 29.99% or higher, while 13% had APRs of 30.00% or higher. In a report published at the end of October, the Consumer Financial Protection Bureau reported that credit card companies had charged consumers $130 billion in interest and fees in 2022—a record high.

It seems that through all of this, the last pillar of defence propping up consumer resilience is the incredibly strong labour market, which, while beginning to show signs of cooling, remains incredibly robust. While job growth rebounded in the month of November, particularly because the auto-workers strike was resolved, the trend in hiring has slowed. The reduction in demand for labour is being caused by a decrease in vacancies rather than an increase in unemployment.

It seems that through all of this, the last pillar of defence propping up consumer resilience is the incredibly strong labour market, which, while beginning to show signs of cooling, remains incredibly robust. While job growth rebounded in the month of November, particularly because the auto-workers strike was resolved, the trend in hiring has slowed. The reduction in demand for labour is being caused by a decrease in vacancies rather than an increase in unemployment.

With inflation having cooled significantly and numerous rate cuts expected in 2024, many seem to believe the consumer has dodged a monetary bullet. However, the lag effect of the Fed's interest rate hiking cycle is still in question, with some experts predicting that the extent of its effects has yet to peak.

Additionally, the incredibly strong labour market has helped the consumer weather its debt dependency so far; however, signs of cooling question the sustainability of debt-fueled consumer spending. Going forward, it will be crucial to monitor the financial well-being of consumers, which has continued to bolster the broader economy. Regardless of rosy predictions for a soft landing, the fragility of consumers' debt burden must remain in focus.

Golden Dynamics

Exploring the Resurgence of Gold and Mining Stocks

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Amidst an unpredictable economic landscape marked by policy shifts and uncertainty, gold has once again become the center of attention. It has reached record highs due to various market forces such as potential fluctuations in interest rates and geopolitical tensions. One of the major reasons behind this surge is the relationship between gold and interest rates. Since gold doesn't generate income, a potential decline in interest rates usually fuels speculative demand for the precious metal. Recent comments made by Federal Reserve Chair, Jerome Powell, regarding the trajectory of inflation, have led to a shift in Treasury note yields. This shift has created a favorable climate for gold. Furthermore, central bank gold purchases and geopolitical unrest, especially in the Middle East, have also contributed significantly to gold's surge, given its status as a safe-haven asset during periods of global turmoil.

Although the Federal Reserve's rate hikes were originally responsible for reducing the attraction of gold, indications of a potential policy reversal and potential interest rate changes in the upcoming year are expected to influence the metal's future trajectory. To put it simply, several intricate economic factors, including movements in interest rates, geopolitical concerns, and market sentiment, have played a role in the recent advance in gold prices and its expected trajectory, drawing in investors and pointing to future highs.

Gold Mining Stocks Amidst the Surge

Although gold prices have been rising, the stocks of gold mining companies have not reflected this trend to the same extent.

However, recent movements in these stocks suggest that they may be catching up to the rising price of gold, potentially resulting in a rally. The VanEck Gold Miners ETF, which is a key index for gold mining firms, has shown signs of recovery with notable gains in recent periods. This indicates that there is a possibility for these stocks to align with the upward momentum of gold prices.

Gold Mining Stocks Amidst the Surge

There is an important difference between the sharp rise in gold prices and the more gradual rise in gold mining equities, which holds historical significance. Analysts have observed that this difference has resulted in significant increases in stocks related to gold mining in the months that followed. The senior research analyst at SentimenTrader, Dean Christians, emphasizes the importance of this occurrence. His views are supported by historical data, which forecasts a median return of 22.5% for the NYSE Arca Gold BUGS index during times when the price of gold is at the top of its range and mining companies are at the bottom.

Navigating the Outlook

Despite recent positive movements in gold mining companies, the market remains cautious. This is because commodities, including gold, have an intrinsic mean-reverting nature, making it challenging to sustain long-term trends. Therefore, implementing a buy-and-hold strategy in this erratic market is still difficult.

Market advisors suggest that investors should not fully commit to gold-mining trade, but instead take a vigilant approach. They recommend that investors keep a watchful eye on potential cyclical upswings and historical patterns, while also considering evolving market dynamics influenced by potential Fed pivots, interest rate adjustments, and geopolitical shifts.

Looking Ahead

The storyline surrounding gold mining equities makes for an engaging subplot as the golden boom persists. The latest upsurge suggests that it may be in line with the rising trend of gold prices, providing investors with chances in the changing investing environment.
The relationship between the price of gold and the recovery of gold mining companies opens up a fascinating chapter in the history of this precious metal's persistent appeal to investors.

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The Phenomenal Indian Growth Story

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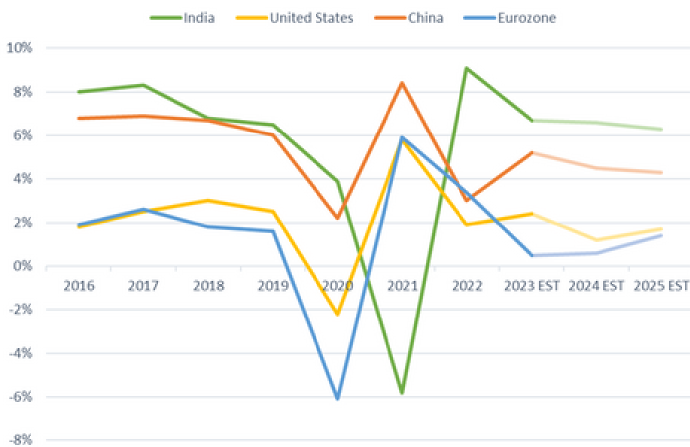
Over the last decade, India's economy has experienced strong growth in unison with peers, but as the world recovers from the pandemic, India's momentum has dwarfed the heavyweights. While others are battling inflation or trying to stimulate growth, they have been thriving. Why is this? What has India done right? This article dives into the unique dynamics of the fifth largest economy in the world, that have helped it outperform, despite a global slowdown, and how financial markets are reaping the benefits.

Figure 1: YoY% GDP growth, comparable countries/regions



Drivers of Long-Term Economic Growth

Population

India's biggest driver of economic growth has and will continue to be its population. Due to sheer size, age distribution and level of education, the country enjoys a constantly growing influx of young, educated individuals into its workforce.

India recently surpassed China to become the most populous country on earth at 1.43 billion people vs China's 1.4 billion, this huge population provides opportunity for immense potential, if labour participation and productivity growth are maximized. In addition, one key characteristic of this population sets it apart from China, age distribution, while the People's Republic braces for an aging population, India is experiencing the polar opposite.

A growing/youthful population will drive demand for goods and services, maximize manufacturing capacity and foster innovation, spelling great potential for the domestic consumption centric economy, if the government implements effective frameworks.

Government Ambition

As mentioned, a growing population will never see its potential utilized without the right policies, initiatives, and funding. Emphasizing the importance of leadership and direction within government. Let's look into the head of state and what frameworks he's put in action.

Prime Minister Narendra Modi is known for his ambition to bolster Indian economic development and achieve his vision of a 'New India'. The most significant being the 'Self Reliant India' campaign, an all-encompassing initiative to drive growth, backed by a stimulus package of USD 270 billion. Focuses include production-linked initiatives, most notably a USD 10 billion incentive package for semiconductor manufacturers to set up shop in India, a large boost in infrastructure investment and increased support to small and midsized enterprises. Other campaigns include but are not limited to, the 'New Education Policy', a sweeping reform of the education system, and the 'National Hydrogen Initiative' aimed at transforming India into a production hub for green hydrogen.

All these policies are aimed at maximizing everything the country has to offer while creating new opportunities for growth. The potential of India's population coupled with the Government's keen ambition to utilize it, has made the country an extremely attractive destination for Foreign Direct Investment.

Foreign Direct Investment (FDI)

India has experienced a record-breaking influx of FDI over the past decade. The technology industry leads inflows, accounting for 25% with infrastructure in second. Here are some of the biggest deals over the past five years:

2018:

- **Walmart**: Invested USD 16 billion in Indian e-commerce platform Flipkart.

2020:

- **Google**: The 'Google for India Digitalization Fund' was created with USD 10 billion to bolster India's digital ecosystem. They also invested USD 4.5 billion into Jio Platforms.

- **Amazon India**: Announced an Investment of USD 1 billion to digitize small and midsize businesses.
- **Facebook**: Invested USD 5.7 billion into Jio Platforms which holds India's largest mobile network operator.
- **GIC and Brookfield Asset Management**: Singapore's sovereign wealth fund GIC and Brookfield acquired an Indian telecom tower company from Reliance Industries for USD 3.7 billion.

2021

- **Saudi Public Investment Fund:** USD 1.5 billion in Jio Platforms and USD 1.3 billion in Reliance Retail.

2023

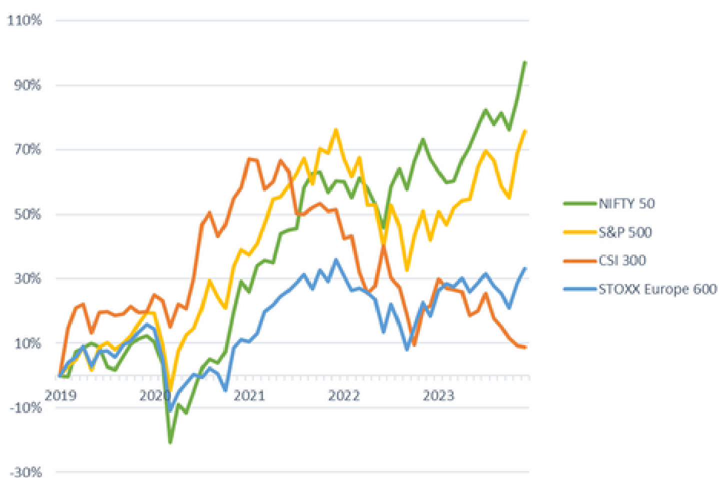
- **Foxconn**: The world's largest electronics contract manufacturer committed $600 million to production facilities in India.

As visible, the focus of FDI has been the rapid digitisation and manufacturing capabilities of the Indian economy. This influx of foreign investment coupled with stellar growth projections has greatly benefitted one particular sector, the stock market.

Stock Market Performance

India's stock market has rallied like no other in recent years. The country's National Stock Exchange (NSE) surpassed a market capitalization of USD 4 Trillion, making it the fifth largest equity market in the world. The benchmark equity index NIFTY 50, which tracks the 50 largest companies listed on the NSE, surged 103% over five years, outperforming all benchmarks in comparable countries during the same time frame, such as the USA's S&P 500 (92%), China's CSI 300 (12%) and Europe's STOXX Europe 600 (42%).

Figure 1: YoY% GDP growth, comparable countries/regions



Top Performing Sectors of 2023

Auto-mobile Manufacturers

Automakers rallied this year on improving economic growth, and rising personal incomes increasing demand for their products. Additionally, growing availability of semiconductor chips and a decline in steel and aluminium prices helped widen gross margins.

Top performers:

- **Tata Motors (87%)**: Manufacturer of both combustion and electric cars and commercial vehicles, also the owner of Jaguar Land Rover.
- **Bajaj Auto Ltd (82%)**: Multinational producer of motorcycles, scooters, and auto rickshaws based in Pune.
- **Hero MotoCorp Ltd (51%)**: Multinational motorcycle and scooter manufacturer based in Delhi.

Energy Utilities

Power producers rallied on similar sentiment, the strong uptick in economic growth boosted demand for electricity. Additionally, demand for thermal power generation remained strong, further benefiting established utilities.

Top Performers:

- **NTPC Ltd (86.9%):** The largest energy utility in India, operates over fifty power stations ranging from coal, combined cycle gas and fuel, hydropower, wind and solar.
- **Coal India Ltd (66%):** The largest government-owned-coal-producer in the world.
- **Power Grid Corporation (47%):** State-owned energy company responsible for transmission of bulk power across different states in India.

Other sectors did perform, such as technology, banking, infrastructure, and some large conglomerates, however their returns did not come close to the two above. Additionally, companies outside the 'blue chip' category saw eye watering returns, observable in the broader spanning NIFTY 500 Index, where the top 100 performers saw returns from 75% all the way to 300% this year. So, in short, keep an eye out for promising companies in any sector, that stand to benefit from strong economic growth and a shift to green energy.

Near Term Catalysts and Risks

The Indian stock market, like any other, is easily swayed by shifts in monetary policy or the economic climate. The current positioning of monetary policy and the unique dynamic of the economy has set the stage for the following near-term catalysts and risks:

- Monetary Policy: The Reserve Bank of India's (RBI) benchmark repo-rate sits at 6.5% after 225 bps of hikes aimed at taming inflation. The aggressive tightening seems to have worked, with CPI coming down towards target as the broader economy continues to grow. The RBI even held rates at their last meeting, signalling an end to hawkish policy. This narrative bodes well for the stock market, as rate cuts will be a huge catalyst, however, a shift in direction poses a risk.

- Crude Oil Prices: India is a net importer of crude oil and imports around 85% of its requirement, so an increase in crude oil prices severely affects the country's inflation. Therefore, the current downturn in prices continues to act as a catalyst, however, the opposite stands as a risk.

- Political Leadership: Narendra Modi has been at the forefront of the country's growth and with his re-election in 2019, markets rallied. As elections come in 2024, Modi will fight to serve a third term, his loss could pose as a massive risk to sentiment.

- Geopolitical Tension: The longstanding border disputes and conflicting interests between India and its neighbors, China, and Pakistan, poses a serious risk to markets if tensions escalate.

- Climate Change: India is very susceptible to changing climate conditions, mainly due to its dependence on agriculture. In recent years the country has seen worse monsoons and hotter temperatures, hurting agriculture output and rural incomes, hence applying upward pressure on inflation. If this trend continues, it poses a risk to maintaining the cost of living.

In conclusion, the Indian economy's phenomenal growth and strong potential is due to the size and age distribution of its population, along with its ambitious political leadership.

These characteristics have made it a prime destination for billions of USD in FDI, which has propelled the stock market to record breaking levels. Uncertain factors such as monetary policy, global commodity prices and a change in leadership pose as risks and catalysts in the near term, however the long-term potential of the country sees little coming in its way.

Fortune on the Sea Floor

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The ISA & CCZ

As east-to-west trade disputes heat up, in concert with the demand for critical minerals like nickel, cobalt, manganese, and copper – global powers have made it a priority to shore up their supply chains. Notably, in part thanks to the surging demand for EVs, the world's appetite for nickel and cobalt is expected to grow at a 21% CAGR through 2035 - per CRU Group. Thankfully, so as to not exacerbate the already asymmetric balance of power, the world's largest single reserve of these resources does not find itself within any sovereign border, but for better or worse, it is as yet untouchable.

First noted by the British Challenger Expedition in 1873, the Clarion-Clipperton Zone (CCZ), sitting 800km south of Hawai'i, in the middle of the Pacific Ocean, contains more than 3x the world's known land-based in-situ reserves of nickel, more than 12x the reserves of cobalt, and more than 5x the reserves of manganese in the form of potato-sized polymetallic nodules. At depths of 4-6 thousand meters, these nodules sit just above the sediment and are extremely abundant, with an estimated 34 billion wet tons of rocks spread across the CCZ, each being made up of somewhere around 29% manganese, 1.3% nickel, 1.1% copper, and 0.2% cobalt.

Because this area, and others like it, does not fall within any country's exclusive economic zone – the question of who should have the right to exploit these regions' considerable resources remains unanswered. Although government entities and enterprising contractors have spent over 25 years collectively exploring the CCZ, no one has been able to extract these nodules on a commercial scale. In the hopes of not unfairly perpetuating current global power dynamics or mistakenly forming a new world hegemony, the UN established the Law of the Sea Convention (UNCLOS) in 1994 and created the International Seabed Authority (ISA) to act as its administrator.

DALIS DALHOUSIE INVESTMENT SOCIETY

In the almost 30 years since the creation of the ISA, its ham-fisted attempts at legislation still have not been able to arrive at a clear path for anyone to be able to exploit these deep-sea resources; what has been agreed on at this point is that any large-scale production needs to benefit the world as a whole - while remaining conscientious toward the environment. Among the policies that have been widely agreed to in this time is the stipulation that if a developed nation wishes to begin production in any offshore field governed by the ISA, they will need a co-sign from and give consideration to a still developing nation. With that, the common good prerequisite to production seems to be nearing a full and workable resolution; however, no one can seem to agree on how harmful this will be for the eco-system of the CCZ, which seems to be a persistent sticking point.

The Metals Company (TMC)

The Metals Company (NASDAQ: TMC) is a Vancouver based operator in the CCZ, currently pushing the most ambitious production timeline out of any of the 19 current exploration contractors sanctioned by the ISA. Nauru Ocean Resources Inc. (NORI) and Tonga Offshore Mining Ltd. (TOML) are wholly owned subsidiaries of TMC which hold exploration contracts on two of the CCZ's zones earmarked for future production. Owing royalty rights to Nauru, and the Kingdom of Tonga respectively, these claims hold a combined 1.6 billion tons of wet nodules. This amounts to an approximate 280 million electric vehicle batteries worth of in-situ nickel, cobalt, manganese, and copper – enough to replace the entire US passenger vehicle fleet (using NMC 811 75-killowatt batteries).

Despite TMC holding first dibs at production rights in one of the world's most valuable undeveloped mineral reserves, two years ago the company was staring down the barrel of a nearly fatal dearth of funding. Ramas Capital Management, a small PE firm failed to deliver $200 million promised in a PIPE deal that was needed for the company to begin its preliminary digging and exploration; Ganesh Betanabhatla, the firm's principal, never offered an explanation and has since been charged with fraud by the SEC in a separate matter. As a result of this rug-pull, TMC, once valued at $3 billion, is now worth just one-tenth of that. Were it not for the support and partnership of Glenore, Maersk, and crucially - Allseas who provided the company with a bespoke production and exploration vessel – the company would have been dead in the water.

Looking to the future, the companies plan to submit their first exploitation application following the ISA's next meeting this coming July would put them on track to begin production in a subsection of their NORI claim (NORI-D) by Q4 2025 – far out-pacing their peers. This includes the likes of state sponsored enterprises from China, the UK, France, Germany, and Japan. One notable exclusion from this confederation of national interests in deep-sea mining is the United States who never signed UNCLOS, and so cannot be tied to any production claims.

Deftly, TMC has positioned itself as the US's dog in the fight, endorsing and celebrating an open letter to US Defense Secretary Lloyd Austin on December 7 th signed by 31 members of congress; the letter argues that the US should not let this opportunity to secure strategically important resources fall by the wayside - risking China gaining a stranglehold - and that the country should work with its allies to these ends. This could be a substantial tailwind for TMC - a fact not lost on company management; TMC's Chief Executive, Gerrard Barron, adding in previous correspondence with US officials that supporting the company would allow the US to close strategic vulnerabilities in respect to resource security. Harvesting the benefits without jumping through the bureaucratic hoops associated with ratifying UNCLOS.

Environmental Concerns

Seabed mining can count filmmaker James Cameron among its admirers, but the same cannot be said for companies like Google, Samsung, Volvo, and BMW who have all stated that they will not source any material from the deep sea until environmental uncertainties are addressed. Chief among these companies concerns (as well as organizations like Greenpeace) is the protection of megafauna in the CCZ and other deep-sea regions. In an attempt to address this concern, the ISA has set aside 43% of the CCZ in the name of habitat preservation and is also forcing contractors to consider then mitigate any externalities that may negatively affect the wider eco-system before their exploitation application could be approved.

With that said, while it is essential that we protect our planets biodiversity, it is also important to understand some context: the abyssal plain, the sedimentary layer where the polymetallic nodules sit contains just 7% of ocean life, and oceans make up just 3% of the earth's total biomass.

For reference the average land biomass per square meter is 3.64kgs, whereas at depth of 4-6 thousand meters in the abyssal zone, the average biomass is just 13 grams per square meter. Hence why deep-sea mining should be preferrable to finding our nickel in the Indonesian rainforest or sourcing cobalt from artisanal miners in the Congo.

Conclusion

Deep-sea mining will be an inescapable fact of life in coming years and maybe the final frontier before humanity is harvesting asteroids sometime in the distant future. Once the regulatory ambiguity is cleared up, the CCZ and other similar international seabeds will help provide high-density, low-cost minerals to the world, serving to meet new demand; then, while it may be a tad quixotic, the ISAs presence as steward for these resources, probably sums out to a net positive; The added bureaucracy slows the process, but also forces contractors and governments to consider the delicate eco-system they operate in, and also forces global heavyweights to give smaller nations a piece of the pie. That said, ESG related protests and concerns seem to be overblown when you consider the alternatives and society should cheer on this new frontier.

From Mines to Miles

The Key Challenges Facing the Electric Vehicle Supply Chain

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The transition away from the internal combustion engine (ICE) and towards electric powered transportation has been identified as a crucial component of building towards a more sustainable future. Within the U.S. economy the transportation sector contributes more greenhouse gases to the earth's atmosphere than any other economic sector. Logically, it therefore makes sense that demand for electric vehicles (EV) is expected to grow significantly for the foreseeable future. Fundamental to the success of wide-spread electric vehicle adoption is the ability to produce lithium-ion batteries at a rate that can meet this growing demand. For this reason, it is of the utmost importance to understand the complex dynamics that exist within the battery supply chain; from the mine all the way onto the road.

In the United States alone it is estimated that there are 2.5 million EVs currently on the road. In order to reach net-zero emissions by 2030, this number will need to increase dramatically to 44 million. Consequently, the strengthening of battery supply chains to rapidly scale production will be crucial in accomplishing this goal.

The electric battery supply chain is made up of three major components: upstream, which consists of mines that extract raw materials from the ground; midstream, where those materials are processed and further refined so that they can be used in the production of battery cells; and downstream, which involves the final assembly of battery cells into modules and packs which are then sold to automakers around the globe.

Upstream

Demand for electric vehicles has caused a recent surge in demand for a number of critical minerals including lithium, cobalt, manganese, nickel, and graphite. Interestingly, the energy that is required to extract and refine these materials typically emits more greenhouse gases per car than cars powered by traditional means. It is important to note, however that the average EV makes up for this difference in a span of less than two years. Therefore, over the typical lifetime of an EV it is clear that they produce significantly less emissions than traditional ICE vehicles.

The problem with increased demand for these materials then transitions into an over-reliance on mineral-rich countries, many of whom do not meet the generally accepted business and labor law requirements of the West. For example, the Democratic Republic of the Congo hosts over 70% of the global cobalt supply. Manganese production is largely dominated in places such as South Africa, Gabon, and Ghana, while nickel production is heavily concentrated in Indonesia, the Philippines, and other parts of Southeast Asia. Furthermore, Australia, Chile, and China makeup over 91% of lithium production worldwide.

In order to increase domestic production of these materials within the United States the Biden administration passed the Inflation Reduction Act in August of 2022. Since its inception, the United States has seen more than $40 billion worth of new investments across the entirety of the battery supply chain. However, given the amount of time it takes for new projects to become operational, especially upstream, it is unlikely that any significant changes will be made in this segment of the value chain, at least in the short-term.

Midstream

China stands as the unequivocal global leader in terms of processing and refining battery metals. To be more precise, the country is responsible for three quarters of all battery cell production worldwide and handles over half of the world's processing and refining of lithium, cobalt, and graphite. South Korea and Japan, the two next largest players, produce about 29% of the world's cathode electrodes and 14% of anode electrodes collectively. The highly concentrated nature of the electric battery supply chain highlights the vulnerabilities the EV movement faces to various disturbances such as natural disasters, geopolitics, and the ever-evolving landscape of international trade alliances.

Since the G7 Summit in May of this year there has been an abundance of discussions with regard to democracies de-risking their economic ties with China. Given the fact that the European Union currently relies on China for 98% of its rare earth element supply, 93% of its magnesium and 97% of its lithium it will be difficult for western leaders to strike a balance between satisfying consumer demand while also reducing economic dependency on their geopolitical rival.

Downstream

The downstream segment of the electric battery supply chain is also an extremely concentrated market. Chinese, South Korean and Japanese companies account for nearly 80% of battery manufacturing worldwide. Companies such as CATL, LG Energy Solution and Panasonic are among those leading the charge. Unlike Western leaders, the Chinese government prioritized significant investment in battery manufacturing in anticipation of the EV revolution. Conversely, both South Korea and Japan's strong history of producing consumer electronics can help to explain their strong positioning within this industry.

In 2022, the United States was responsible for 6% of the battery production across the globe. Moving forward, the Advanced Manufacturing Production Tax Credit will help to support the development of a domestic supply chain for renewable energy technology. In effect this tax credit will incentive businesses to setup their facilities within the United States in order to take advantage of an assortment of tax benefits. However, as mentioned previously this type of program will do little to help Western countries to catchup to China in the short-term as a result of the substantial market share disparity that currently exists.

With that being said, there are other ways in which the West has been trying to close this gap. Primarily, these efforts have been driven by placing an emphasis on cost-effective solutions that have the potential to accelerate the production scale up that will be necessary in order to catch up to China. For example, the transition from nickel manganese cobalt (NMC) to lithium iron phosphate (LFP) has emerged as a new standard for batteries produced outside of China.

Conclusion

The transition away from ICE vehicles and towards EVs is evidently riddled with complexities throughout every level of the supply chain. Specific pain points that will limit the speed at which different milestones can be accomplished include a shortage of raw materials and minerals, environmental and ethical concerns surrounding the opening of new mines, rising costs of raw materials and the time it will take to commercially scale domestic battery production. In conclusion, despite strong consumer demand for these vehicles it remains uncertain whether the goals outlined by governments worldwide will be achieved on schedule.

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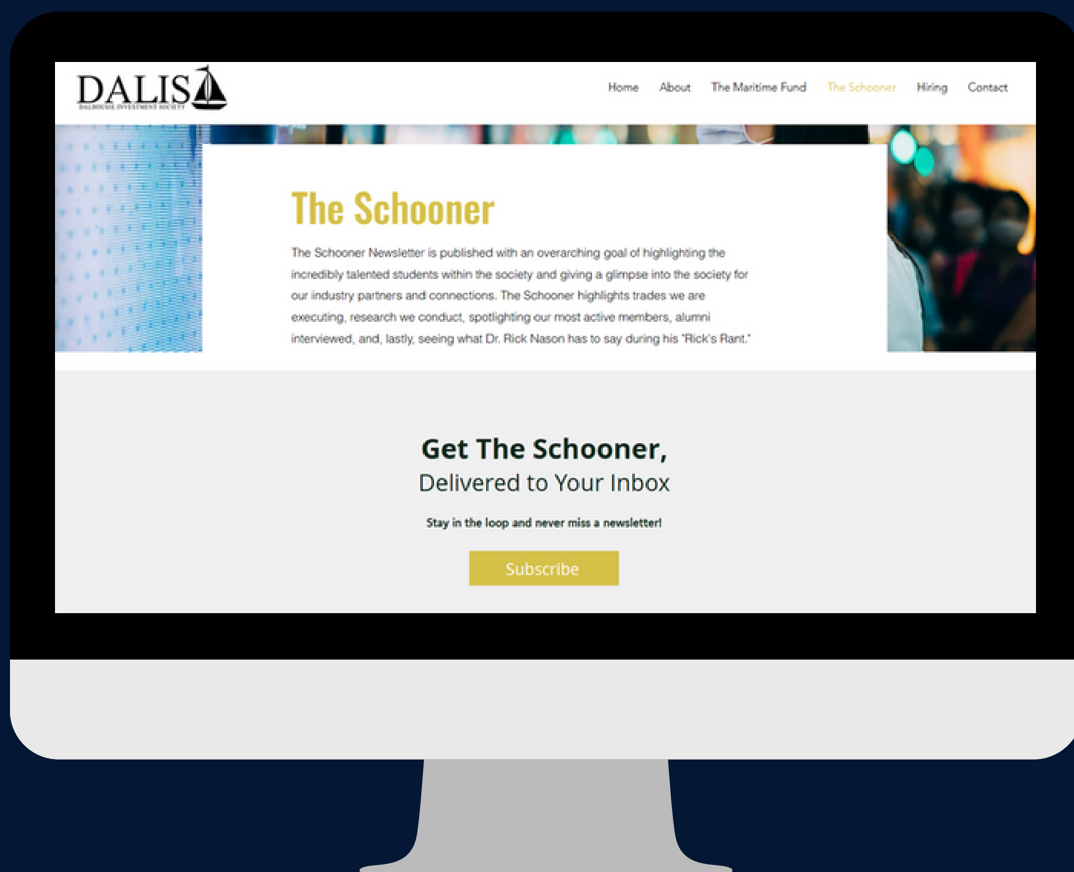

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