

JANUARY 2024 | ISSUE NO. 20

# THE SCHOONER

The Official Newsletter of the Dalhousie Investment Society (DALIS)

## Introducing Student Spotlight: Unveiling the Stars of DALIS

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In the spirit of showcasing the exceptional talent that propels DALIS to new heights, we proudly introduce our latest feature: the Student Spotlight. We've always boasted a membership teeming with potential, and now it's time to shine a light on the individuals who consistently go above and beyond.

Within these pages, you'll find stories of dedication, innovation, and a passion for finance that transcends the classroom. From dynamic investment strategies to insightful market analyses, our Student Spotlight is a testament to the outstanding contributions of DALIS members who are making waves not only within our community but also in the broader financial landscape.

Join us in celebrating these rising stars – the heartbeat of DALIS – as we present a monthly showcase of the exceptional students who embody the spirit of the Dalhousie Investment Society. Their stories inspire us, and we're excited to share their journeys with our esteemed external network.

Here's to the brilliance of our members, today and every day.

Best Regards,  
Max, Monica, Arsh, Alexis, and Mark  
*DALIS Executive Team*



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# The Maritime Fund

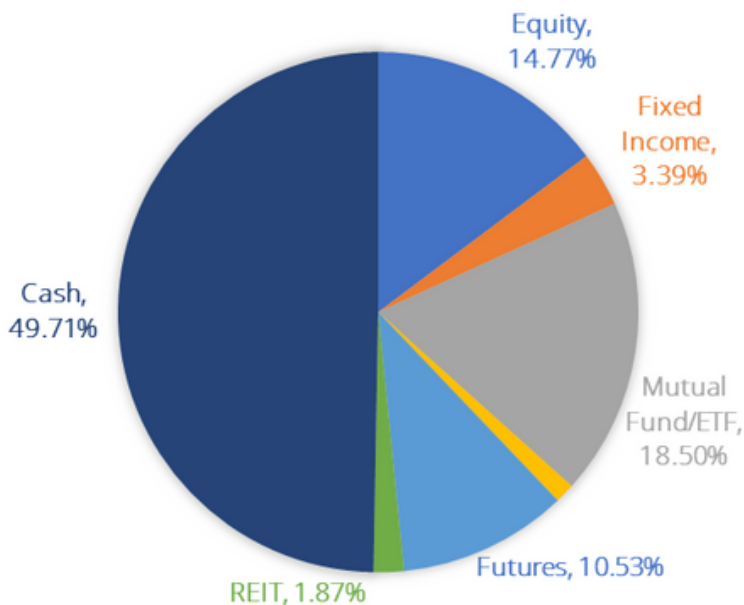
## Portfolio Overview

Portfolio	Holdings	Market Value	Change TTD	% TTD
Macro Strategy & Fixed Income	24	\$31,461,151	\$518,859	1.68%
Commodities	5	\$31,126,560	\$50,094	0.16%
Financials, Consumer, Tech	10	\$30,735,274	\$369,317	1.22%
Energy, Industrials, Real Estate	12	\$30,427,220	(\$338,334)	-1.10%
<b>Maritime Fund</b>	<b>51</b>	<b>\$123,750,206</b>	<b>\$599,937</b>	<b>0.49%</b>

Sector	Market Value	Weight
Energy	\$10,640,572.59	8.60%
Industrials	\$10,053,729.26	8.12%
Financials	\$9,959,177.46	8.05%
Consumer Staples	\$7,501,402.93	6.06%
Consumer Discretionary	\$4,724,981.43	3.82%
Technology	\$4,323,842.78	3.49%
Real Estate	\$3,917,891.07	3.17%
Metals & Mining	\$1,856,872.74	1.50%
Utilities	\$1,584,153.58	1.28%

Top 10 Holdings
1. Cash (CAD)
2. WTI Crude Futures March 24
3. US Dollar/ Brazilian Real
4. Invesco S&P 500 Equal Weight Industrials ETF
5. Disney US Equity
6. iShares 20+ Year Treasury Bond ETF
7. Bank of Canada 3 1/4 12/01/2033
8. Vanguard Industrials Index Fund
9. Visa US Equity
10. Procter & Gamble

### ASSET CLASS ALLOCATION



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

# The Maritime Fund

## Commentary

### MACRO STRATEGY & FIXED INCOME

Moving into 2024, the Macro group maintains its 50/50 diversified and speculative portfolio. TLT remained our top position in 2023, and the group still stands long duration on US Treasuries. After a conservative semester in defensive equity sectors, the Macro group plans to reallocate equity holdings to now overweight cyclicals. Expecting the US will not hit a recession within the next 4 months, the Macro group begins to overweight materials, industrials, and consumer discretionary sector ETFs while remaining diversified with lighter positions in the other composing sectors.

We continue to monitor central bank decisions, key economic releases, and hold bearish positions on the Brazilian real and Australian dollar while building back into a long Yen position after realizing a 3.15% gain. The group is focused on Europe as the ECB continues its stubbornness to cut rates in fear of inflation relapse. Our interest is specifically on Germany, the EU's largest constituent by GDP, which has underperformed in key bellwether sectors throughout 2023, posing a bleak outlook in 2024 pending aggressive rate cuts. The group looks to enter a short position in German Bunds and go long US Treasuries, holding onto a U.S. economy that refuses to slow down and growing concerns about German government debt levels.

### COMMODITIES

The Commodities book has yet to make any major moves, but the group is bracing for a choppy few months after the recent FED meeting that flipped market sentiment on its head – or at least has brought some level of uncertainty back to the picture. That said, the book is ready to capture any forthcoming volatility from the fresh uncertainty and other macro movers; keeping a close eye on material shifts in the Chinese market, crude volatility, and West African cocoa. As for ideas we have coming down the pipe in the very near future - we are monitoring and pursuing avenues in Canadian heavy oil producers, Chilean lithium juniors, crack spread plays, and more.

The group has made a few short-lived trades that have each netted us a modest profit – all on crude. We continue to play both the weekly API and EIA reports, gauging market sentiment, then moving accordingly – whether that be long or short. Then, we also have a cocoa trade on the books, as alluded to above. The threat of weather vicissitudes has recently come back into play, so the group has gone long with 12 contracts (just over a \$750,000 market value) with March expires in anticipation of a re-rating event.



# The Maritime Fund

## Commentary

### FINANCIALS, CONSUMER & TECHNOLOGY

The Financials, Consumer, and Technology Group have recently initiated two new positions. Firstly, a \$100,000 (USD) long position in Ryanair Holdings PLC, which boasts the largest market share among all European airlines. Given the current trend of consumer spending shifting from products to experiences, we view Ryanair as a fantastic long-term hold.

Additionally, the group has taken a \$500,000 (USD) long position in Microsoft Corp. Despite a somewhat muted earnings report, we believe in the company's long-term potential. Looking ahead, it is likely that the FCT group will allocate a portion of the profits gained at the end of 2023 to invest in cyclicals, particularly in financials. This decision is driven by increasingly robust economic data.

### ENERGY, INDUSTRIALS & REAL ESTATE

The Energy, Industrials, and Real Estate portfolio started the semester by exiting our positions in multiple industrial sector ETFs. We sold our long industrial positions to realize our returns and free up approximately 10 million in cash. We are still holding 7 million dollars across 2 industrials ETF positions. One of which, we have sold covered calls slightly out of the money with a March 15th expiry. The rationale behind this covered call strategy is to hedge against shortfalls in the industrials sector while also having the potential to liquidate more of our ETF positions at a premium.

In other news, we have entered a pairs trade with Boeing and Airbus. We are long Airbus and Short Boeing for the time being to profit off of the ongoing quality control crisis and loss of consumer confidence that Boeing is facing, and the positive implications that could result for Airbus. In Real Estate we have taken on long positions in essential backed REITs to provide stable cash flow in what could be a rocky start to the year with refinances. We still hold a single REIT ETF that has exposure to all assets classes within CRE with a lack of exposure to the multi-family asset class.

## Student Spotlight



Portfolio Manager  
**Thomas Fallows**  
**Bachelor of Commerce (Finance)**  
 Candidate 2025

### Can you tell us a bit about yourself?

I am currently in the third year of my commerce degree, planning to major in Finance. Being born and raised in Halifax, with both parents attending Dalhousie, I didn't put as much attention to other schools as I should have; nevertheless, I am very grateful for what Dal has yielded. I currently help run the Macro portfolio at DALIS, established the Dal Powerlifting society, and have a Sauna Society in the works..

### What made you study finance and join the Macro group?

I cannot recall exactly when, but as a kid, I always wanted to be a so-called 'businessman.' In middle school, my father set up a \$100K paper portfolio on Investopedia, which I "strategically" invested and turned into \$6M. Although pure luck, seeing those returns hooked me to pursue a degree in Finance and later into a career in Capital Markets. As for Macro Trading, I had no idea what the title meant when I was selected for the group – I wanted to be a "stock trader," so equities seemed fitting. It was a rude awakening; however, I had a savage senior student and some lovely future economists by my side that I couldn't be more thankful for helping to show me the ropes.

### What is something you have learned from your co-ops?

Be very efficient with your work. In any instance where your manager gives you a daily task, make sure it gets done on time. Succeeding at this will spare time, but that is great as now it allows you to go back and try to streamline any inefficiencies. Multiple times I found myself really ambitious to automate an entire process but before I knew it my term was up. If I could go back, I'd always 1) present the issue 2) establish a clear solution 3) frequent progress updates.

Last, remember that nothing you do is perfect, just get it 80% of the way there.

### What is something you are following in the markets and what is your outlook?

Of course, being in the Macro group, we are watching central banks and interest rates closely. The following are our current positions:

- Long USDBRL: The Brazilian real is letting off its two-week bull run driven by commodity exports. The currency is beginning to flip as the central bank plans to continue slashing the domestic interest rate, which will begin to drive investment out of the country. Long USDBRL at 4.9383 stop at 4.9906.
- Short USDJPY: The Yen turned around almost two months of gains following the BOJ keeping short-term rates negative. Taking advantage of the selloff Macro entered a short position at 148.00, placing stop just above the 150.00 resistance.
- Short AUDUSD: The Australian Dollar has continued its downward trend following softer inflation numbers, foreshadowing a sooner than expected rate cut. Sold AUDUSD at 0.6595, stop loss at 0.6610.

### What are your career goals?

I would like to climb Mount Everest and get my pilot's license one day. As for a career, I plan on trying myself out as a trader.

### What is your biggest piece of advice for other students?

Be wary of the "titles." I spent far too much time chasing titles around while job hunting, searching for anything with the words "analyst" or "finance" in the headline. If I could go back, I'd spend much more focus on the team and the bond with your direct manager. During my first co-op hunt, I turned down a position with a manager I had a meaningful connection with for a fancy title at a larger firm – and I paid dearly. Have fun during your Co-ops and to do so choose a manager that vouches for you.

### Do you have any interesting side hobbies?

Aside from all this, I am interested in graphic design and creating apparel. I hope to launch a clothing line within this semester if all goes to plan.

## Winter 2024 Portfolio Introductions

### Macro Strategy & Fixed Income

The Global Macro team expertly executes a comprehensive investment strategy, seamlessly combining a diverse array of financial instruments into their portfolio. This meticulously assembled collection comprises investment-grade bonds, high-yield securities, loans, convertible bonds, and a selection of preferred shares and equities. With this refined approach, they endeavor to consistently generate substantial interest and dividend income, reflecting their adept financial acumen.



**THOMAS FALLOWS**  
PORTFOLIO MANAGER

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*thomas.fallows@dal.ca*



**LUKAS MYERS**  
PORTFOLIO MANAGER

---

*lk266754@dal.ca*



**RYAN LAW**  
JUNIOR ANALYST

---

*ryan.law@dal.ca*



**KYLE STAMMERS**  
SENIOR ANALYST

---

*kyle.stammers@dal.ca*



**AIDAN BROOKING**  
JUNIOR ANALYST

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*aidan.brooking@dal.ca*



## Winter 2024 Portfolio Introductions

### Commodities

The Commodities squad plays a pivotal role in ensuring the fund's stability amidst the turbulence of equity markets and the looming specter of inflation. Their strategy is twofold: first, they directly invest in tangible commodity assets, and second, they deftly navigate the derivatives market, utilizing instruments like future contracts to bolster their exposure. This dual-pronged approach not only safeguards against market volatility and inflation but also fuels the fund's growth potential.



**KYLE PATTERSON**  
PORTFOLIO MANAGER

---

*k.patterson@dal.ca*



**JACK DURNO**  
PORTFOLIO MANAGER

---

*jack.durno@dal.ca*



**THOMAS DICKSON**  
JUNIOR ANALYST

---

*th798625@dal.ca*



**WILL KEARNS**  
SENIOR ANALYST

---

*willkearns@dal.ca*



**ERIC BUTLER**  
JUNIOR ANALYST

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*eric.butler@dal.ca*

## Winter 2024 Portfolio Introductions

### Financials, Consumer & Technology

The FCT team has their sights set on robust capital growth, and they're making it happen with a versatile strategy that hones in on two key areas: equities and their derivatives, specifically within the Financial, Consumer, and Technology sectors. By deftly allocating resources within this realm, they aim to drive substantial capital appreciation for their portfolio.



**SEAN CRANE**  
PORTFOLIO MANAGER

*sean.crane@dal.ca*



**ALEX VAN NIEUWKOOP**  
PORTFOLIO MANAGER

*alex.vannieuwkoop@dal.ca*



**ARYAN MOHANDAS**  
JUNIOR ANALYST

*ar307866@dal.ca*



**AARON BURLACOFF**  
SENIOR ANALYST

*ar445077@dal.ca*



**COLE MANSWORTH**  
JUNIOR ANALYST

*cmansworth@dal.ca*



## Winter 2024 Portfolio Introductions

### Energy, Industrials, & Real Estate

The EIR group is dedicated to achieving robust capital growth through a multifaceted strategy. Their primary focus lies in judiciously investing in equities and their derivatives within the Energy, Industrial, and Real Estate sectors. With precision and expertise, they seek to deliver significant capital appreciation, all in the best interest of their portfolio.



**MICHAEL CAISSIE**  
PORTFOLIO MANAGER

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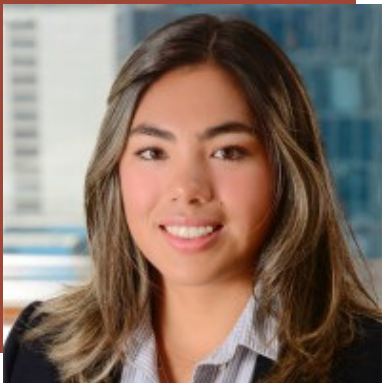
*michael.caissie@dal.ca*



**BRENNAN LEAHEY**  
PORTFOLIO MANAGER

---

*brennan.leahey@dal.ca*



**LAUREN TIGERT**  
JUNIOR ANALYST

---

*lauren.tigert@dal.ca*



**TYSON HASEGAWA-FOSTER**  
SENIOR ANALYST

---

*tyson@dal.ca*



**JOSH FRANKEN**  
JUNIOR ANALYST

---

*joshua.franken@dal.ca*

# Private Credit is Going Public

**Michael Caissie**, Portfolio Manager - EIR  
[michael.caissie@dal.ca](mailto:michael.caissie@dal.ca)

## PC & BDCs

Private Credit (PC) funds are lining up to go public this new year. The industry that provides non-bank loans to Small-Medium enterprises has been making headlines after major firms are declaring they will take certain funds to the equity markets. Fund valuations have surged with the recent credit run, and firms are wasting no time taking funds to major exchanges with the sentiment that it needs to be done quickly.

The Private Credit industry provides small medium enterprises with customizable loans that are structured to benefit the lender and borrower. The funds payout preferred dividends to institutional and private equity investors, as the lender receives interest over time before receiving the principle at maturity. I continuously mention Private Credit FUNDS, and not FIRMS. The reason for this is that credit funds, for some time now, have been integrated everywhere in our financial system, and exist within banks, PE firms, pensions, family offices, and more

In recent weeks there has been a sharp increase in Business Development Companies (BDCs) that are opting to go public. A BDC can allow individual and institutional investors the opportunity to invest into small and middle market company debt, they can be described as a liquid PC fund. They can be traded on major exchanges and distribute loan income to investors on a similar basis to how REITs operate and distribute funds from operations to shareholders. A BDC can be private, public, close-end or open-ended, firms like Palmer Square Capital, Blue Owl Capital, Churchill Asset Management, and Morgan Stanley are all managers of funds that have recently listed as of January 2024 or are eyeing IPOs in the coming weeks. Public BDC's provide investors with significant liquidity upside and potential expansion opportunities dependent on fund structure. Because of the highly customizable and specific loans that tend to be lent out from these types of funds, BDCs tend to take relatively high management fees regardless of private or public structure.

## Why Now?

BDCs have witnessed a surge in valuation over the last 5 months and it has led firms to try and seize the opportunity by raising capital through a public offering. For the past 20 months, the industry has been trading and valued at discounts to their NAV. But with the recent rally in the credit markets, the discount has turned into a slight premium for many of these funds and is the biggest driver behind the recent announcements and offerings.

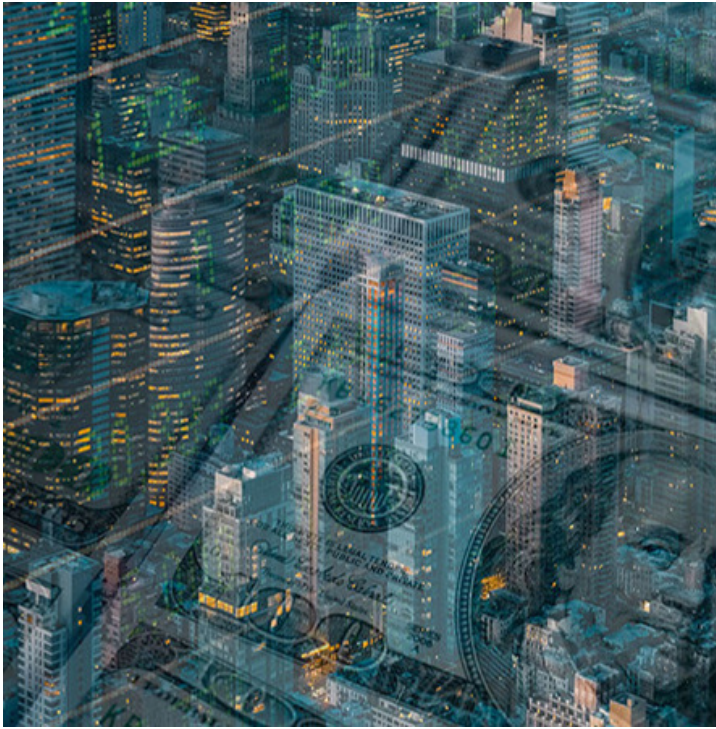
Price & NAV Performance



On top of attractive valuations, the rush to market is also attributable to large equity holders applying more pressure on management by relaying an increased importance of liquidity within the funds. In an uncertain market the ability to have access to capital has been a growing focal point for investors and is a force pushing management towards making the huge decision. It goes without saying that investors prefer the ability to become liquid or increase ownership at their discretion, and with growing potential for a volatile year in credit, major equity holders are starting to put more pressure on the ability to make those decisions. Banks have been increasing AFDA on their balance sheets and considering the consistent distress component that exists amongst the borrowers from BDCs, default risk is at the top of lenders' minds.

Plenty of fund managers had also made 'soft promises' at initial fund offerings to their equity holders saying they will provide them with liquidity options at some point down the road when the market is right for it. Funds that did offer 'hard promises' to their investors have also just been waiting for these types of market conditions to go public and now they are executing a plan to expand and grow with public capital.





## Electrification: Electric Vehicles and the Global Supply Consequences

**Jack Durno**, Portfolio Manager - Commodities  
[jack.durno@dal.ca](mailto:jack.durno@dal.ca)

The term electrification refers to the replacement of technologies or processes that use fossil fuels; for example, internal combustion engines and gas boilers that are replaced with electric vehicles and heat pumps, respectively. The ultimate goal of these replacement technologies is to reduce fossil fuel dependence and work towards the decarbonization of electricity generation. Electrification will have the effect of increasing demand for metals like lithium, nickel, cobalt, manganese, and platinum. One of the most popular examples of electrification is in the automotive industry. Electric vehicles (EVs) require approximately 6x the mineral inputs than internal combustion engine (ICE) vehicles.

Therefore, BDCs are going public for all types of reasons, but the credit run pushing price to NAV valuations to a premium is the consistent piece of the puzzle. Looking forward as private credit becomes more public, retail investors will start to take on a bigger part of the SME debt market through these funds.

While this retail exposure increases, investors are met with good and bad risks. The sector could be ripe for alpha opportunity if interest rates fall, and now existing loans can be priced on the secondary market with significant price upside. There is also an opportunity for funds to increase their dividends based on the new premiums they enter the market at. But the risk of default in this industry is much higher than investment grade and even corporate debt, regardless of the specifications associated with them. Giving retail investors exposure to this area without the expertise to properly hedge like the original institutional investors would be, is something to be aware of.

Private Credit has been taking over the private side of finance for quite some time now, but with this increased opportunity for retail to become involved, the risks and opportunities that the sector brings are now present for all.

As electric vehicle adoption increases, the surge in demand for these metals will create economic and supply-chain problems. A study done by Fengqi You, a Cornell University professor in energy systems engineering, examined 48 countries that are committed to playing a strong role in electrifying transportation. Under a scenario where 40% of vehicles are electric by 2050, the demand for lithium globally will increase by 2,909% from its 2020 level. Demand for electric vehicles will be further stimulated due to government efforts to increase adoption. Canada's government, for example, has established policies that target 35% of all new medium and heavy-duty vehicle sales to be electric by 2030, increasing to 100% of sales by 2040 (based on feasibility).





The International Energy Agency (IEA) says that to meet the new EV adoption policies, the world will need 50 new lithium mines by 2030, 60 new nickel mines, and 17 new cobalt mines, essential metals for making lithium-ion batteries. As of 2021, 270 metal mines were operating across the US and only 70 in Canada. With the surging demand for lithium, a substantial supply challenge arises, potentially necessitating the use of substitute commodities or technologies. Hydrogen-converted vehicles, commonly known as fuel cell electric vehicles (FCEVs), are one example of a fully electric vehicle substitute. FCEVs produce electricity using a fuel cell powered by hydrogen, rather than drawing electricity from lithium-ion-based batteries. The FCEV market has grown to over USD \$2.5B in 2022 and is projected to expand at more than 25% per year from 2023 to 2032 due to the adoption of FCEVs. In April 2023, Toyota announced that its heavy-duty hydrogen fuel cell kit can start replacing diesel engines in California.

Additionally, the California Energy Commission authorized a \$155M project to build over 100 new hydrogen fueling stations by 2027 for the purpose of refueling FCEVs. The government of British Columbia is also beginning a pilot project where they are investing \$16.5M in six newly delivered hydrogen-powered transport trucks for commercial use. Despite Elon Musk's dismissive terms like "fool cells" and "load of rubbish" when describing FCEVs, 78% of automotive executives believe they could be the "golden bullet" for electric transportation. However, a significant obstacle to FCEV adoption lies in its raw material and manufacturing costs, particularly for metals such as platinum and iridium.



## Hybrid Vehicles

Another potential trend shaping the EV market is the adoption of hybrid electric vehicles (HEVs), which Toyota highly praises. Hybrids are powered by an internal combustion engine and one or more electric motors, which use energy stored in batteries. Toyota's chairman, Akio Toyoda, has expressed skepticism about a complete shift to pure EVs. He envisions that 30% of the vehicle market share will be comprised of battery electric vehicles (BEVs), while the remaining 70% will be divided among hybrids, hydrogen fuel cells, and traditional fuel-burning cars. Mr. Toyoda's concerns arise from the bottlenecks in the lithium supply, and the difficulty the industry will have meeting the increase in demand by building new mines. He also considers the pricing impacts, pointing out that the raw material costs for EVs are considerably higher due to increasing prices of the metals required for battery cell production. According to the IEA, China produces three-quarters of all lithium-ion batteries and is home to 70% of the production capacity for cathodes and 85% for anodes (both are key components of lithium-ion batteries).

Last year, the high demand for lithium-ion batteries outpaced the supply, leading to elevated EV prices. In contrast to Mr. Toyoda's forecast, Morningstar expects that by 2030, EVs and hybrids will collectively represent 90% of auto sales, with EVs accounting for 50% and hybrids for 40%. In 2023, sales of hybrid vehicles outpaced those of all-electric vehicles. Hybrids accounted for 8.3% of US car sales through November 2023, compared to all-electric EVs, which made up 6.9% of sales. However, in the long term, with increased subsidies for EVs and continued government support, they may surpass hybrids in sales, but only time will tell.

## Final Words

As we continue through this transformative period, it is evident that the consensus view regarding the adoption and dominance of pure EVs may have some gaps that have not been fully resolved yet. The importance of understanding the supply and demand imbalances and the constraints they impose cause us to consider a scenario that includes EVs and other alternatives as the final solution to the electrification of vehicles. A slower adoption of EVs due to raw material bottlenecks could imply some level of market share preservation and continued demand for internal combustion engines and fossil fuel-powered vehicles.



This scenario raises questions about the impacts on the metal producers involved in supplying the EV industry. Any potential slowdown in EV adoption could have negative effects on certain commodity prices and mining companies' profits that are more exposed to the EV industry. Other commodities like copper, for example, have end market demand that extends beyond EVs, partially protecting producers from dependence on the EV industry. Global diversified miners with higher copper exposure, such as Teck Resources and Vale, may be less sensitive to EV adoption than other more 'pure play' EV commodity companies. Lithium giants like Albemarle and SQM could have increased sensitivity of their share prices to the movements in the underlying price of lithium and the growth of EVs. The unfolding story of the EV transition requires investors to stay vigilant, monitor the adoption of EV alternatives, and be prepared for a future that continues to reshape the automotive and metals industries.

## The Clean Energy Solution

**Lukas Myers**, Portfolio Manager - Macro Strategy & Fixed Income  
lk266754@dal.ca

The U.S. currently relies on fossil fuels to produce roughly 60% of its electricity. As the global focus shifts towards clean energy, limited viable alternatives capable of meeting the world's demands are currently available. Most renewable options have strings attached. Solar energy is inefficient and requires plenty of maintenance, and hydroelectric energy only works if sufficient volumes of moving water are available. Despite past negative perceptions on nuclear energy due to events including Three Mile Island, Chernobyl and Fukushima, nuclear power seems to be making a comeback in the eye of the public. Uranium spot prices have reached levels not seen since 2007.

Currently there are about 440 nuclear power reactors across 33 countries providing about 10% of the world's electricity. There are currently 60 nuclear reactors under construction, with 110 more planned for development. China is at the forefront globally, boasting 26 reactors currently being built and an additional 42 in the planning stages. There are about 30 countries considering or starting nuclear power programs. A part of what is making nuclear power more appealing is a recent innovation in the nuclear power plant industry with the introduction of small modular reactors (SMRs). These reactors are built in factories, and then assembled on premise. Their smaller form factor allows them to be used in areas where the more traditionally large nuclear reactors would not be used and the factory prefabrication reduces cost and deployment time. The safety of nuclear reactors is a major topic of interest by the public. However, it is worth noting that there are roughly 160 ships/submarines powered by about 200 small nuclear reactors, none of which have ever had any sort of failure. Furthermore, incidents such as Chernobyl were the complete result of human error, and not a design flaw.

Production of uranium has decreased by many countries in the past decade. In 2014, the United States produced 1919 tonnes of uranium which fell to 6 tonnes in 2020. The decrease in production is due to the decline of the spot price of uranium, making it not viable to produce. The estimated spot price for mine reactivation is roughly \$80-\$100 per pound. As the spot price has now reached over \$90 according to Cameco, production of Uranium has increased around the world. The United States buys its uranium from Canada, Kazakhstan, and Russia in that order. The United States passed a bill December 11th, 2023, which aims to ban uranium imports for use in nuclear power reactors. Decisions like this would only accelerate the reactivation of uranium mining in the United States and among its trading allies including Canada.

I recently read Mark Bowden's article in the Atlantic from December 13th, 2023, on the current speculation of how the Nord Stream Pipeline incident happened and who did it. One of the key takeaways from this article is that the Nord Stream Pipeline will likely never be repaired as Germany is planning to move to clean energy sources within a timeframe that would make repair of the pipeline not viable.



While Germany is anti-nuclear, many countries are in a similar position of urgency to transition towards clean energy sources quickly. France is a great example of a country that has utilized nuclear power to produce electricity for the country with about 63% of its power being generated from nuclear in 2022. The recent declaration by more than 20 countries at COP28 to triple nuclear energy capacity by 2050 adds notable additional support for increased investment in the sector.

One of the critiques of nuclear reactors is they're not a form of renewable energy. Instead, the uranium cores once used up need to be treated as waste. However, nuclear reactors do not directly produce any carbon, and the spent fuel can also be used to produce medical isotopes, the sensors in smoke detectors and many other useful industrial products. What remains as waste is quite safe long term.

Unlike other commodities such as gold or oil, Uranium is not sold on a public market. Instead, all sales of uranium are done in private. In the past, this has made exposure to uranium quite difficult for the public. Exposure to uranium was only possible through buying shares of uranium mining companies. However, in July 2018, Yellow Cake PLC from Jersey, Europe went public on the London Stock Exchange with the goal of holding physical uranium for the long-term. Furthermore, in July of 2021, the Toronto based firm Sprott Asset Management came out with a physical uranium trust available for purchase on the Toronto Stock Exchange. Both initiatives provide the public with exposure to triuranium octoxide, a precursor to the form of uranium used in nuclear reactors.

The recent uranium rally has largely been fueled by the inception of both investment vehicles, a better public perception of nuclear energy, and the resulting uptick in plans for nuclear reactors. Liberum forecasts a 300,000-pound uranium deficit for 2024 with a demand of 174.7 million pounds. Much of the demand for uranium has been due to both Sprott and Yellow Cake PLC, which will slow down as the two companies' stockpiles no longer need to grow. Andre Liebenberg, CEO of Yellow Cake, said in the company's most recent quarterly operating update: "Supply remains constrained, while demand is growing worldwide, driven by both what is now a general acceptance of nuclear as key to achieving our global net-zero ambitions, but also more recently concerns about the short-term viability of renewables."



I think nuclear power will be an important part in achieving net-zero carbon emissions globally, however the recent uranium rally should be entered with caution as the recently high spot prices will allow for the reactivation of uranium mines.

## **The Red Sea Crisis: A Geopolitical Chess Match**

**Aryan Chawla**, General Member  
[aryan.chawla@dal.ca](mailto:aryan.chawla@dal.ca)

### **Background**

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.

With a surge in assaults by Houthi militants supported by Iran, oil tankers are in a state of idleness, and container ships are opting to divert their routes around Africa's Cape of Good Hope. This strategic adjustment aims to avoid the waters near the Yemeni coast, which serves as an inevitable passage for vessels utilizing the Suez Canal to traverse between Europe and Asia.



## How Are the Houthis Benefiting?

- **Encouraging Ceasefire:** The Houthis aim to use the economic costs of trade disruptions as leverage, seeking international intervention for a ceasefire in Gaza.
- **Boosting Popularity in Yemen:** Faced with economic and humanitarian crises, the Houthi attacks serve to divert attention from domestic challenges, enabling them to position themselves as regional defenders of the Palestinian cause. This chaos is allowing them to cause more instability and further division in Yemen.
- **Shifting Focus:** By depicting themselves as frontline warriors against Israel and the United States, the Houthis are shifting attention away from their struggles in providing basic services within Yemen.
- **Global Recognition:** Lacking global legitimacy, the Houthi group seeks to attract international attention, emphasizing that larger actors cannot disregard their influence in regional affairs.

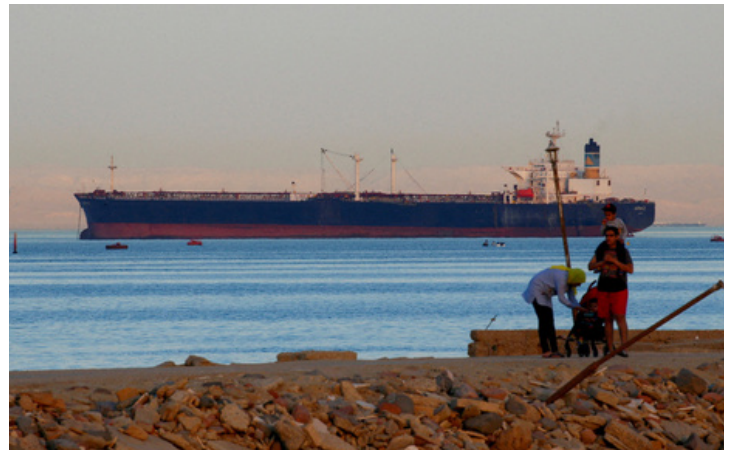
## How Are Shipping Companies Reacting to This?

The heightened risk of attacks in the Red Sea has led many shipping companies to reconsider transiting the Suez Canal. Between December 15 and 19, 13 operators suspended trips to/from Israel or voyages through the Red Sea. Cargo insurance is outsized in the decision to risk transiting the Red Sea. Analysts tracking cargo insurance have seen a sharp increase in insurance rates (0.6% of the value of the cargo on a ship, is now up to 2%) for the Red Sea and Bab al-Mandab voyages. Maersk, a major shipping company, had initially suspended Red Sea routes after a near-miss incident in mid-December, then resumed when Operation Prosperity Guardian (OPG) was launched. However, another sequence attack by Houthis on Maersk caused them to halt all ships scheduled through the Red Sea.

Diversions to the Cape of Good Hope for Europe-Asia voyages increase shipping time by 30-50%, impacting the economy and creating logistical challenges. Hence, despite the crisis, some bulk carriers with low cargo value (often raw materials) continue to navigate the region, perhaps fortune favors the bold?

## The Messy Geopolitics

Nations aligned with Israel are grappling with the fallout as their shipments become Houthi targets, with the U.S. particularly affected. However, major players in the region, including Saudi Arabia and Egypt, find themselves constrained in their response, cautious of being seen as siding with Israel. Saudi Arabia, a key US partner, is currently in diplomacy talks with the Houthis to end the civil war in Yemen. Egypt on the other hand is facing repercussions of ship diversions as Suez Canal revenues experienced a substantial 40% decline in January compared to the levels observed in 2023. Adding to the economic strain, the fees for canal usage are denominated in foreign currency, posing a challenge for the Egyptian government grappling with rising inflation and difficulties in securing foreign funds.



India, pro-Israel, relies on the Suez Canal for its exports to the Mediterranean and is significantly exposed to the Red Sea Crisis. Approximately 80% of goods bound for Europe use sea routes through the Red Sea, making up 15% of India's total exports. Taking diplomatic steps, the Indian government has engaged with Iran and implemented measures to safeguard exporters from further Houthi attacks.

Similarly, China, heavily reliant on shipping for 95% of its exports, has a significant economic stake in securing Red Sea shipping lanes. However, Beijing faces diplomatic challenges, with Chinese diplomats expressing concerns about U.S.-led military actions and opting for a cautious stance. China appears to have assessed that Houthi attacks may not target its Red Sea vessels as they have Western vessels aligned with Israel. Bloomberg reports indicating that certain Chinese ships in the region have been signaling their nationality, emphasizing their lack of economic ties to Israel.

## Long-Term Supply Crisis Incoming?

Global supply lines have some flexibility to mitigate Red Sea traffic disruption, but the fragility of transportation networks was tested and evident during the COVID-19 pandemic. Delays in vital goods deliveries could further inflate global prices and dampen demand, impacting the easing inflation trend we have all been looking forward to. The 2021 Suez Canal blockage showed how even short disruptions take months to normalize international supply chains. The attacks, driven by Houthi awareness of gaining international attention and diverting focus from Yemen's service challenges, are unlikely to be swiftly resolved, further complicated by the persistent Israel-Hamas conflict. The ability of the US and UK, as international powerhouses, to bring peace is uncertain, given their track record in the region.

## The Waiting Game

**Aidan Brooking**, Junior Analyst - Macro Strategy & Fixed Income  
[aidan.brooking@dal.ca](mailto:aidan.brooking@dal.ca)

Everything imaginable in our universe has its ups and downs. It is worth noting that cycles have always and will always happen around us; so why does everyone get caught up in the present moment and forget the longer-term rebound?

My best guess: human nature. We all consider what is happening at this current moment as the most crucial time in our lives; the past, a forgotten history no longer cared about, and the future, a weary uncertainty that direct product of the present day.

What do I mean by this? Take some time and think of a huge news headline at any time in your life and what your thoughts were on the subject two years before and two years after it happened. How did you live your life before this event? What did you do during this event? What do you think of the event now? You will notice that your perspective would have changed, maybe even shifting your beliefs.

One notable example I can give would be our most recent pandemic. In years prior, I had no care in the world about a pandemic ever happening again. I believed that modern medicine would never be so behind on letting a flu-like disease make an impact that would change the mechanics of the world. When Covid hit, people went crazy. Every day I would see a new video online of people losing lifelong friendships because their third cousin twice removed got Covid, or that the cure was hidden by world elites, or the trend of sanitizing your steering wheel every time you drive, scrubbing off all the Covid, not to mention half of the leather that was once known as your steering wheel. Now, almost four years since the lockdown began, we view all these actions as exaggerated and silly even though in the moment, they were viewed as a serious matter and very much necessary.

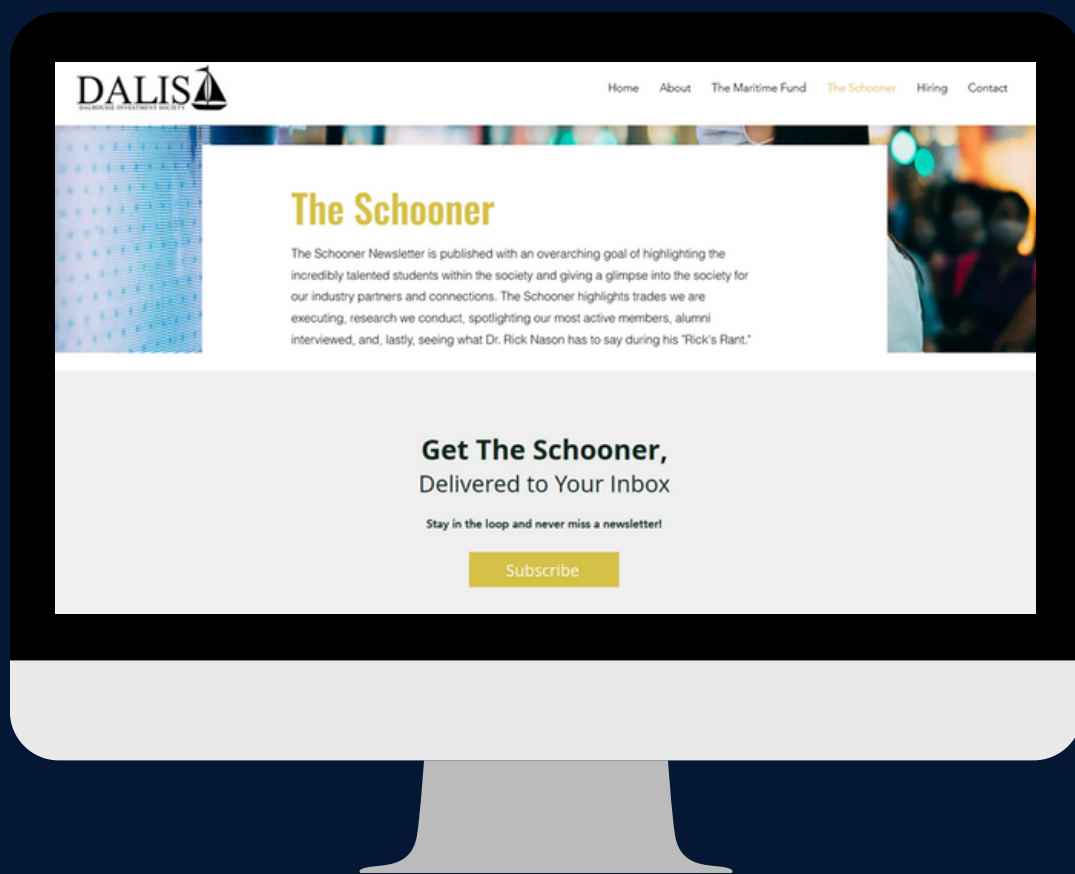
Where am I going with all of this? The same human-natured overreactions can be observed within the financial markets. Yes, it is important to read the Wall Street Journal every day, but do not take the most recent headline as the most important piece of information you have ever consumed. Stop for a minute and think of what this headline will mean five years ahead. Will that company fail to adapt and go bankrupt? Will it take a year for the company to overcome this issue and start turning a profit? Will this article have a weeklong effect that has no meaning toward long-term growth? A "scare-sell" is a regretful investing mistake that happens even to the best of us, so have patience, and only let it ever happen once.

In the end, do not let yourself inflate a piece of news that will have no long-term negative effect any influence on your investing decisions. Everyone has had a regret like this before, so use it as a learning experience, and trust yourself after taking time and reflecting on how this will affect the company in the long term.



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# Get in Touch With DALIS:

## Executive Team

**Max Barrow**, President  
max.barrow@dal.ca

**Monica Conohan**, Vice President  
mconohan@dal.ca

**Mark Howatt**, Executive  
mark.howatt@dal.ca

**Alexis Reid**, Executive  
alexis.reid@dal.ca


**Arsh Merchant**, Executive  
arsh.merchant@dal.ca

## Schooner Editors

**Monica Conohan**  
Mconohan@dal.ca


**Max Barrow**  
max.barrow@dal.ca

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