MH & ASSOCIATES • SECURITIES MANAGEMENT CORPORATION

INVESTMENT VIEWS

OCTOBER 31, 2024

ELECTION FEVER....and DELIRIUM

As we write this newsletter, the whole country and much of the world is waiting and watching as the 2024 Presidential Election draws near. The mainstream media and social media are fanning tension as the candidates make their final pitch for every last American's vote.

Policy differences on most issues are clear, and for many people their votes were decided long ago. However, from an investment standpoint, some of the major investment themes probably will not change all that much, whichever candidate wins.

Some of this is due to the fact that no matter what, macroeconomic forces won't change and some is due to policies that are unlikely to change. For example, our national debt is now growing in the trillions of dollar per year. It is almost mathematically impossible to cut government spending to a degree without causing a very severe recession and potentially triggering a default on our debt. Inflation is needed at this point and is likely to continue in fits and starts for years to come. Wage inflation, in particular, will rise as witnessed in the recent victory for the longshoreman union where they obtained a 70% raise. Neither of these trends will really change no matter who is in office.

Other issues such as international trade with China and other countries will also continue to trend towards favoring American reshoring and re-industrialization. Both candidates want to encourage this trend and while they may have different ideas on how to go about it, they still both support it. Also, on energy policy, both candidates want American energy independence and are very favorable towards next generation nuclear power. While the candidates definitely differ on global climate change, they both understand that oil and gas are important for at least the next decade.

No matter who wins they will inherit an economy that has been buffeted by inflation, and continues to be resilient in the face of many other challenges such as weakening employment and interest rate uncertainty.

Once this election has been decided, we can assess what the winner will be able to do since they must also deal with Congress. At this point, it is unlikely we will make any changes to our investments and will continue to manage them based on underlying fundamentals and valuations.

CENTRUS IS GLOWING

Centrus Energy (LEU) is a nuclear fuel provider that we hold in our accounts that want some risk exposure. Currently, the majority of LEU's business is being a fuel broker that imports uranium fuel to nuclear utilities. However, this year Congress banned Russian uranium from being imported and will be providing major support in kickstarting domestic production capability.

To that end, Centrus has built a facility the size of the Pentagon in order to become a major nuclear fuel producer. Recently they were announced as a winner of a multi-billion dollar grant to produce fuel for the Department of Energy, which sent the stock soaring over 100% in a matter of days. Additionally, many major tech companies are now making big investments in nuclear power to secure their growing Artificial Intelligence powered data centers. LEU is in a prime position to receive further investment that will fuel it's growth. While we are excited for the recent gains, it is our investment thesis that the valuation for Centrus Energy has potenital to grow. If they can successfully build out their gigantic facility in Ohio, LEU will see multiple gains in the years ahead.

WAR PREMIUM IN OIL PRICES

Oil prices have struggled in 2024, as fears of a slowing global economy, combined with pressure in the United States to keep prices low for the election have weighed on it. Over the past several months prices sharply rose as the escalation in the Middle East between Iran and Israel ratcheted up. This premium, known as a "war premium" has been hotly debated among energy experts. Many have minimized this war premium, while others can show a strong case for prices rising due to high geopolitical tensions.

In any case, we do not ascribe much to war premiums, with a fairly recent example of the Ukraine War showing that such premiums cannot be sustained and is not a good reason to invest in oil.

Recently, the markets have been anticipating the Israeli response to the Iranian missile attack. When the response came, it was much more tempered and focused only on military sites and included messages from both sides that no more attacks should be expected. Oil dropped over 6% on the news, showing again that war premiums exist.

We remain bullish on oil and gas as these still essential commodities have been neglected and starved of investment for nearly a decade. A building supply shortage looms as growing demand from developing nations like India, China, Brazil and Indonesia overtakes slowing demand for Western nations. We expect this to begin to be seen sometime in 2025.

NEWMONT MINING

Ruining The Gold Party

NEWMONT

Newmont Mining (NEM) has been in our portfolio for years. As a gold miner, it is the largest public company in the world and was well managed for years. However, the last few years have shown some troubling signs that became evident in their most recent earnings report.

Gold mining is a very tough business, as everything a mining company does is real physical work so there is very little place for software efficiencies or other technological cost savings – yet. Recent inflation has hit them hard, more so than other miners and it is our assessment that it is due to the diverse mines the company owns across the world. It is very difficult for management to really understand and then manage the cost drivers at each mine. Costs are very different at each location for Mali in Africa to Peru in South America to Mexico and the United States.

With gold prices at all-time highs of nearly $2800, it was a major disappointment when Newmont reported earnings earlier in October. NEM turned in a decent profit and cash flows were solid. However, management really fumbled when pressed by analysts and investors what they were going to do about higher costs. They replied with vague answers and seemed unprepared and to not really have a plan or specific ideas on what to do. As long-standing investors, we have patience that management can make the right moves so shareholders can benefit from these historic high gold prices.

Gold will continue to rise and though NEM was a downer, the combination of higher prices and proper resolve of management will see the share price recover and begin to reward patient shareholders.

Recommendation List: A list of all previous specific investment discussions published over the past 12 months will be provided upon request. Please email lara@mhandassociates.com or call our office for this list.

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