First Shots in the New Cold War

written by Christopher Ecclestone | August 9, 2023

When we were recently writing our review of the takeover battle between Teck Resources Limited (TSX: TECK.A | TSX: TECK.B | NYSE: TECK) and Glencore PLC (LSE: GLEN) a colleague said, "don't forget to mention the Germanium" and we nearly did. It proved to be an important reminder as Germanium (Gallium) became eminently newsworthy only a few weeks later when China decided to turn off the spigots of both metals as part of the tit-for-tat over Chinese access to Western semiconductor output. The Chinese ban spurred a surge in Wikipedia and Google traffic as pundits and journalists scurried to get au fait with the metals. For us, it was lucky we had been so recently hot off the press with our thoughts. As for Gallium, we happened to be one of the few that also knew where a primary Gallium deposit was hiding in full sight…. Though we were not telling.

Let the Cold War Begin

written by InvestorNews | August 9, 2023

In a recent InvestorIntel interview, Tracy Weslosky spoke with Christopher Ecclestone, Principal and mining strategist at [Hallgarten & Company](), regarding China's new export ban on critical minerals germanium and gallium. The ban, enacted on August 1st, is seen as a strategic retaliation against Western restrictions on key semiconductor supplies to China.

Ecclestone explained this as an extension of the modern "Cold War," where conflict is expressed through trade embargos, rather than on battlefields. The aim, seemingly, is to disrupt Western semiconductor production by limiting access to essential materials like gallium arsenide, which is critical in chip manufacturing.

Despite China's dominance in gallium and germanium production (98% and 66% respectively), the U.S. government has been reticent to admit this 'stranglehold.' Companies in the West, Ecclestone highlighted, have failed to stockpile these critical metals, leaving them exposed to the current 'rainy day' scenario.

However, this new restriction has sounded an alarm for Western companies to reevaluate their dependencies and take necessary actions. Companies like Trafigura Beheer B.V. are already looking at byproduct production of germanium in their zinc refineries. Over time, this could eventually lead to Western self-sufficiency in these metals, negating Chinese leverage.

As Ecclestone concluded, the Cold War may have indeed restarted in the realm of trade. To read Ecclestone's latest report, "Let the Cold War (re)Begin," visit the Hallgarten & Company website.

To access the complete interview, click here

Don't miss other InvestorIntel interviews. Subscribe to the InvestorIntel YouTube channel by clicking here

Disclaimer: This interview, which was produced by InvestorIntel Corp., (IIC), does not contain, nor does it purport to contain, a summary of all the material information concerning the "Company" being interviewed. IIC offers no representations or warranties that any of the information contained in this interview is accurate or complete.

This presentation may contain “forward-looking statements” within the meaning of applicable Canadian securities legislation. Forward-looking statements are based on the opinions and assumptions of the management of the Company as of the date made. They are inherently susceptible to uncertainty and other factors that could cause actual events/results to differ materially from these forward-looking statements. Additional risks and uncertainties, including those that the Company does not know about now or that it currently deems immaterial, may also adversely affect the Company’s business or any investment therein.

Any projections given are principally intended for use as objectives and are not intended, and should not be taken, as assurances that the projected results will be obtained by the Company. The assumptions used may not prove to be accurate and a potential decline in the Company’s financial condition or results of operations may negatively impact the value of its securities. Prospective investors are urged to review the Company’s profile on Sedar.com and to carry out independent investigations in order to determine their interest in investing in the Company.

If you have any questions surrounding the content of this interview, please contact us at +1 416 792 8228 and/or email us direct at info@investorintel.com.

Assessing Winners and Losers

in the Global Financial Markets if China Invades Taiwan

written by Matt Bohlsen | August 9, 2023

In recent months China has escalated tension over Taiwan. An example of this came last month when CNN reported: “Military exercises suggest China is getting ‘ready to launch a war against Taiwan,’ island’s foreign minister tells.” CNN quotes Taiwan’s Foreign Minister Joseph Wu stating, “They seem to be trying to get ready to launch a war against Taiwan. Look at the military exercises, and also their rhetoric, they seem to be trying to get ready to launch a war against Taiwan.”

Taiwan’s Foreign Minister would be better informed than most and he clearly feels a China invasion is a very real near-term threat.

It should also be noted that President Biden has said that the U.S. would defend Taiwan militarily if China were to attack.

Potential losers if China invades Taiwan

In the short term, most stocks globally would be hit if China invades Taiwan. The biggest loser would likely be Taiwan stocks and the Taiwan currency.

Taiwan’s leading stock Taiwan Semiconductor Manufacturing Company (“TSMC”) (TWSE: 2330 | NYSE: TSM) would be the largest concern for Western investors. If the business was forced to shut down, it could cause havoc globally with the semiconductor industry.

CNBC reported in 2022:

> *"If China were to invade Taiwan, the most-advanced chip factory in the world would be rendered "not operable", TSMC Chair Mark Liu said. … Liu said that if Taiwan were invaded by China, the chipmaker's plant would not be able to operate because it relies on global supply chains."*

TSMC produces approximately 60% of the world's semiconductor foundry market, essentially the chips that are then used by companies in products such as smartphones, PCs, autos, and military hardware.

In 2022 the U.S. passed the Chips and Science Act, to provide billions of dollars in incentives to build semiconductor factories in the USA. The problem is that new USA semiconductor factories take time, expertise, and billions of dollars to establish.

This potentially means an invasion of Taiwan with TSMC inoperable, would lead to severe semiconductor shortages and massive global supply chain upheaval, especially across the electronics, telecommunications, auto, and defense & space sectors.

The good news is that the U.S-China trade war and then Covid-19 led to decisions to decouple supply chains and build up U.S. self-sufficiency, especially in semiconductors. Intel Corporation (NASDAQ: INTC), GlobalFoundries Inc. (NASDAQ: GFS), Samsung Electronics Co. (KOSE: A005930), Texas Instruments Incorporated (NASDAQ: TXN), and TSMC are all building new semiconductor factories in the USA.

TSMC is building a US$12 billion factory in Arizona, USA and Intel is outlaying US$40 billion on chip facilities in the USA. The CHIPS Act will pump an estimated US$52 billion into new US-based chip fabrication factories. By 2025 the USA will be in a much stronger position.

Companies that rely on semiconductors heavily in their products such as Apple Inc. (NASDAQ: AAPL) would also potentially be badly impacted.

FIGURE 1: The Nimitz Carrier Strike Group with aircraft carriers, like the one below, is operating in the vicinity of Taiwan in the Philippine Sea (April 2023)

Source: istock

Potential winners if China invades Taiwan

Cash should be the safest asset class, ideally in USD currency.

In terms of stocks, the non-Taiwan-based semiconductor foundries such as Samsung Electronics (13% global market share) and

GlobalFoundries could benefit.

Military stocks could likely be the clear winners. Some examples would be Lockheed Martin Corporation (NYSE: LMT), Northrop Grumman Corporation (NYSE: NOC), General Dynamics Corporation (NYSE: GD), Raytheon Technologies Corporation (NYSE: RTX), and The Boeing Company (NYSE: BA).

Closing remarks

Generally speaking, a Taiwan-China war would be very negative for most technology stocks. Taiwan, Hong Kong, and China's equity markets would be hit the hardest. U.S. stocks that rely on TSMC's semiconductors would also likely take a hit as would those sectors that rely on semiconductors the most, such as aerospace, automotive, consumer electronics, defense, and telecommunications.

The few winners would likely be those semiconductor companies that can gain market share and achieve higher pricing due to chip shortages. The other obvious winner would be the military stocks. Cash and other safe-haven assets, such as gold and treasury bills, could also be expected to outperform.

We all hope that wars never happen, but it is wiser to be prepared just in case it does.

Top picks in defense,

aviation, and related ETFs for 2022

written by InvestorNews | August 9, 2023

As we start 2022 one area of concern is global geopolitical uncertainty. In particular, Russia continues to threaten Ukraine, and China threatens almost everyone. The biggest Chinese threat, for now, is probably to Taiwan. Then there is always the threat posed by North Korea. Given the increasing global tensions, it is not surprising that many countries are boosting their defense spending. This leads to an opportunity for investors who want to be ahead of the game just in case a war or conflict breaks out.

Furthermore, it is starting to look like 2022 will see some recovery in the civilian aviation sector, assuming we are near the end of the COVID-19 pandemic, or at least getting back to more normal living.

Research groups also see a recovery ahead for U.S aerospace and defense. Fitch stated in December 2021: “Fitch Ratings views the 2022 Aerospace & Defense (A&D) sector outlook as improving following a bottoming out in early 2021 and a moderate improvement in 2H21.” Deloitte also forecasts a recovery in 2022.

Below are three defense or aviation stocks/ETFs to consider in 2022.

Defense stocks can offer some safety to a portfolio especially if we get any conflicts in 2022

iShares U.S. Aerospace & Defense ETF

The iShares U.S. Aerospace & Defense ETF (ITA) seeks to track the investment results of an index composed of U.S. equities in the aerospace and defense sector. The advantage of using the ITA ETF is the broad exposure to the U.S aerospace & defense sectors, which are sure to gain if there are any global breakouts of hostilities.

The current top 5 holdings are:

- Raytheon Technologies Corporation. (NYSE: RTX) (20.83%)
- The Boeing Company (NYSE: BA) (18.38%)
- Lockheed Martin Corporation (NYSE: LMT) (5.27%)
- Northrop Grumman Corporation (NYSE: NOC) (4.71%)
- TransDigm Group Inc. (NYSE: TDG) (4.66%)

The ITA ETF trades on a PE ratio of 26.59, with a dividend yield of 0.9%pa.

An alternative to the ITA ETF is the SPDR S&P Aerospace & Defense ETF (XAR) with a key differentiator being that XAR takes an equal weighted approach. XAR describes its approach as an "equal weighted index which provides the potential for unconcentrated industry exposure across large, mid and small cap stocks". XAR trades on a weighted average PE of 24.75.

Northrop Grumman Corporation (NYSE: NOC)

Northrop is one of the world's largest weapons and military technology providers. It is also a large U.S military aircraft manufacturer. What I like about Northrop is that it is well diversified and provides products and services across the air, land, sea, space, and cybersecurity sectors. Over the years Northrop has grown organically but also via takeovers, including that of Orbital ATK Inc., a global aerospace and defense systems company. This has enhanced Northrop's capabilities especially in the area of Ground-Based Interceptor ('missile') products.

In March 2021 it was reported that Northrop had won a US defense contract for up to $3.9 billion to design the next-generation interceptor for the U.S. missile defense network. The report stated: The new interceptors would be a part of the Ground-based Midcourse Defense (GMD) system here, a network of radars, anti-ballistic missiles and other equipment designed to protect the United States from intercontinental ballistic missiles (ICBMs). Northrop's stock rallied on the news, but there is still the possibility of a contract extension or expansion as Reuters stated: "The next-generation interceptor program could be worth as much as $10-$12 billion over its lifetime as the contractor works to make the technology capable of defeating current threats and future technological advances from countries like North Korea and Iran." There is also the next possibility of a space based defense system (read "a space-based sensor layer for ballistic missile defense").

Northrop trades on a market cap of US$62 billion and has a current PE ratio of 16.1. Not bad when you consider the U.S S&P 500 PE is currently 33.8.

The Boeing Company (NYSE: BA)

When it comes to U.S companies with massive exposure to defense, aerospace and civilian aviation there is none bigger than Boeing. I like Boeing in 2022 as it stands to benefit both as the aviation industry recovers post-COVID-19, and if we get any rise in the defense stocks due to global conflicts.

Boeing is an aerospace company that manufactures commercial jetliners and defense, space and security systems. Its products, and tailored services, include commercial and military aircraft, satellites, weapons, electronic, and defense systems, launch systems, advanced information and communication systems, and performance-based logistics and training.

Boeing trades on a market cap of US$125 billion and has a 2022 PE ratio of 32.8. Not cheap but remember Boeing is potentially at the early stage of an earnings recovery as global airlines look again to open their airline order books. One example of this is today's news of U.S. carrier Allegiant Air rumored to be buying 50 Boeing 737 MAX jets valued at US$5 billion.

Closing remarks

We never know when the next terrorist attack or a global conflict will breakout. Given the tensions building after a tough two years enduring the COVID-19 global pandemic, it would not be surprising to see a geopolitical event spark in 2022. Will it be Ukraine, Taiwan, North Korea, the South China Sea, the Middle East, a terrorist attack on Western soil, or an unforeseen black swan event? It is hard to predict, but one thing is certain, and that is that buying up some 'defense' stocks as insurance, early at very reasonable market valuations, makes a lot of sense as we enter 2022.

Finally, the aviation sector looks poised to come out from its worst-ever downturn caused by COVID-19 in 2020 and 2021.

It now looks like it is time to book a seat and invest back into the defense, aerospace and aviation sectors in 2022. Fasten your seat belt and enjoy the ride, hopefully with much less turbulence in 2022.