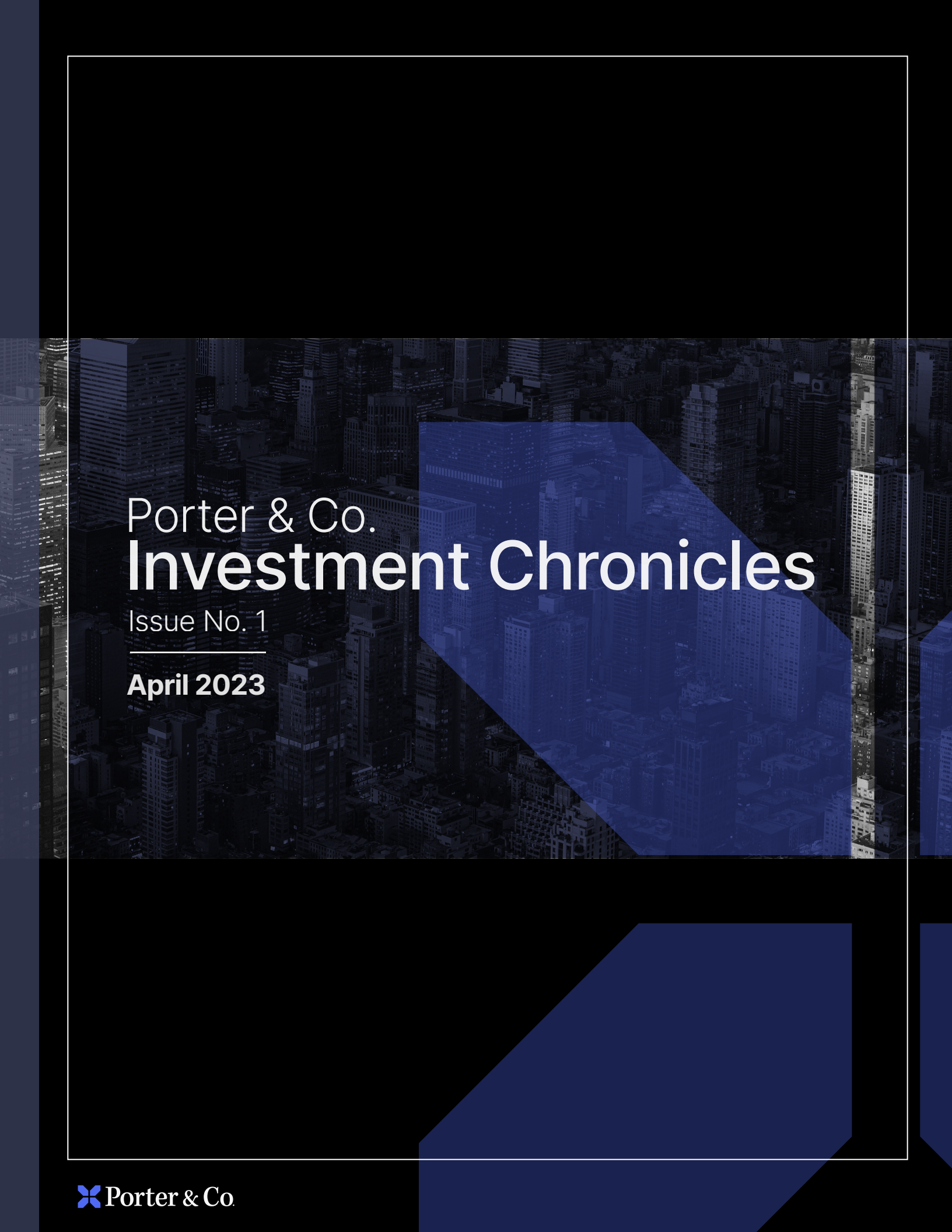


The background of the cover is a dark, high-angle aerial photograph of a dense city skyline, likely New York City. A large, semi-transparent blue geometric shape, resembling a stylized 'P' or a series of overlapping planes, is positioned diagonally across the center of the image. The text is overlaid on the left side of this shape.

# Porter & Co. Investment Chronicles

Issue No. 1

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**April 2023**



# Porter & Co. Investment Chronicles

Welcome to *Porter & Co. Investment Chronicles*, our newest research service available exclusively to lifetime members of *The Big Secret on Wall Street*.

The *Investment Chronicles* is your guide to the most important and interesting stories from the worlds of investing, finance, and economics.

Each month, my team and I will extract the most valuable insights we come across from the hundreds of sources we regularly read – hedge fund letters, annual reports, SEC filings, investment newsletters, newspapers, Twitter threads, conferences, podcasts, and more – and digest them into one carefully-curated, easy-to-read resource.

With the *Investment Chronicles*, you'll have your finger on the pulse of the markets without having to spend hours scouring the internet each day.

You can navigate through each issue using the hyperlinked [Table of Contents](#) below. All content also includes links back to the original source, so you can easily click through for more details, to see a larger version of a chart or image, or to learn more about accessing paid content.

We're also building a dedicated *Investment Chronicles* web portal where you can access previous issues and easily search for content by tags and keywords.

We hope you'll come to think of our *Investment Chronicles* as being the absolute highlight of your subscription with Porter & Co. We think it is the most comprehensive expression of our goal as a business: to give you the information we'd most want if our roles were reversed.

Porter Stansberry  
Miami Beach, FL  
April 2023

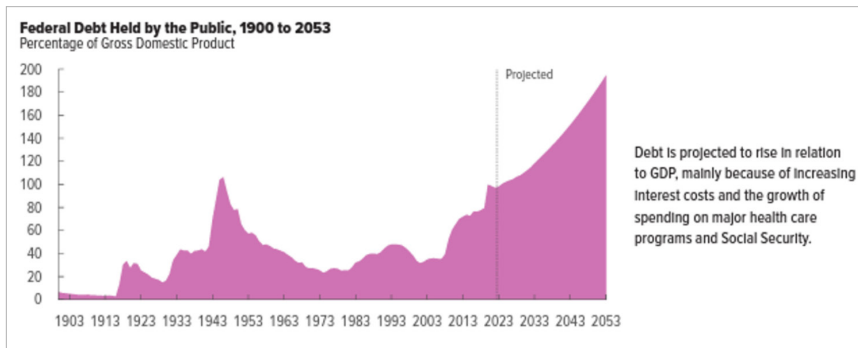
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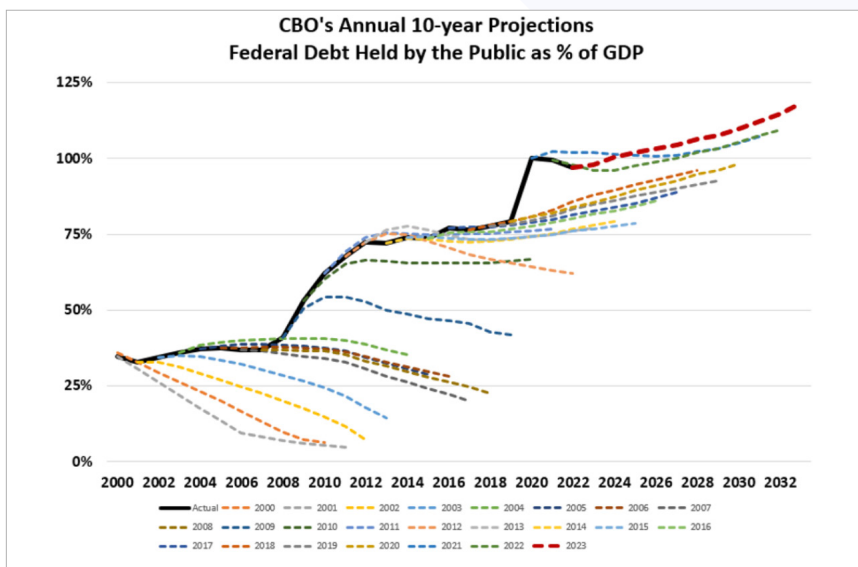
## The Five

### Market-Moving Charts We're Watching This Month

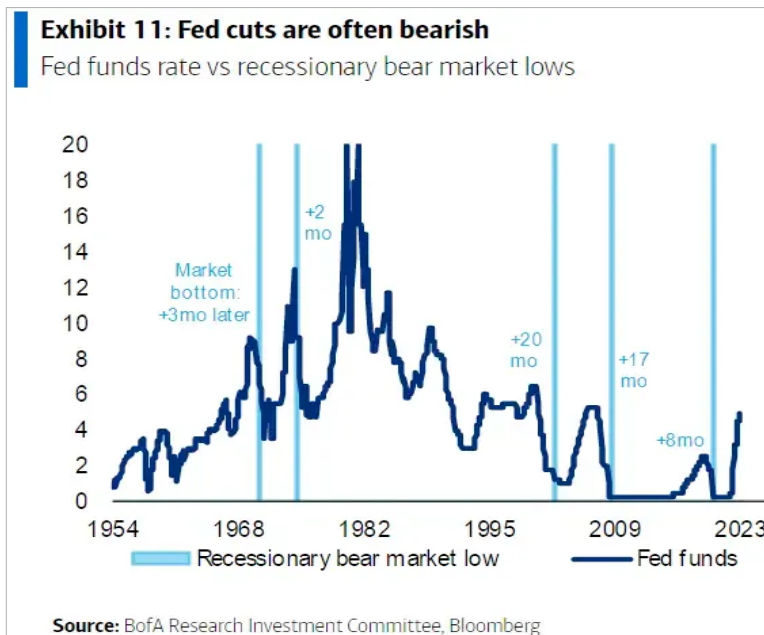
The Congressional Budget Office (CBO) projects U.S. federal debt to grow to an unprecedented 200% of gross domestic product (GDP) over the next 30 years ([from the CBO's February 2023 Budget and Economic Outlook](#))...



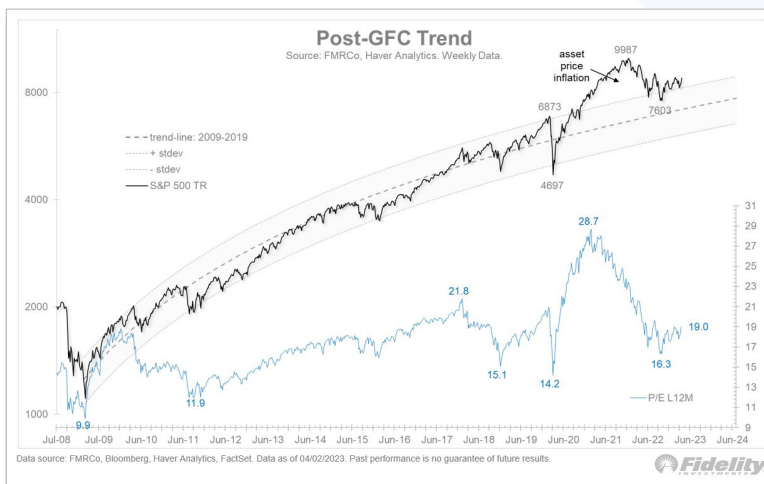
Yet, over at least the past 20 years, these CBO projections – based on the prevailing laws at the time of the forecast – have consistently underestimated the future debt burden by a huge margin ([from Alpha Omega Wealth Management](#))...



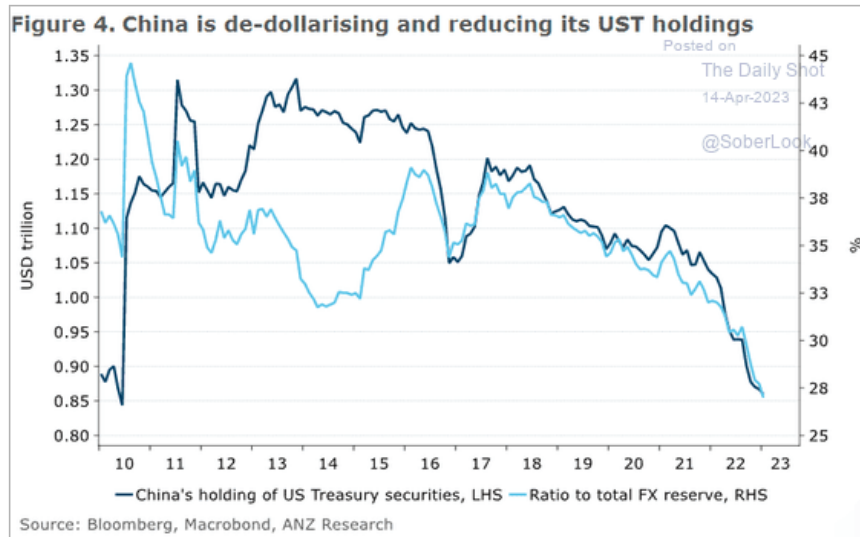
Federal Reserve rate cuts are typically not an immediately bullish catalyst for U.S. stocks. Over the past five recessionary bear markets, stocks have bottomed between 2 months to 20 months after the Fed started cutting rates (from BofA Research via [MacroVisor](#))...



Both the post-Great Financial Crisis trend and valuation suggest the bear market has further to run (from Fidelity Investments/[Jurrien Timmer via Twitter](#))...



China continues to dramatically reduce its holdings of U.S. Treasury debt (from ANZ Research via [The Daily Shot](#))...



## Economics and Markets

Ray Dalio – the founder of hedge fund giant Bridgewater Associates – explains why recent bank failures could be a “canary in the coalmine” for more significant economic and financial troubles to come (from “[What I Think About the Silicon Valley Bank Situation](#)” on March 14)...

Because one man's debts are another man's assets and most people are levered long (i.e., they are holding assets financed by debt), when interest rates rise and money becomes tight, assets fall in value, which hurts debtors, creditors, asset holders, and financial intermediaries, which causes a self-reinforcing contraction and contagion because when money is needed, other assets are sold and when creditors are hurt, they curtail lending. Those financial intermediaries (most importantly banks) that are most leveraged long to the asset bubble that is bursting are particularly affected. It is classic that coming out of an extended period of very low real interest rates and abundant credit, there is an enormous amount of leveraged long holding of assets that are going down due to higher interest rates and tighter money, which is producing this classic dynamic of dominos falling.

Because a) we are in the early stage of the contraction phase of this cycle and b) the amount of leveraged long holding of assets is large, it is likely that this bank failure will be followed by many more problems before the contraction phase of the cycle runs its course.

Before the contraction phase of the cycle ends, history and logic have shown that there will be 1) forced sales of assets at very low prices that require big losses to be reported and cause further contractions in lending, 2) equity dilution, i.e., selling at prices that are at significant discounts to conservative estimates of the present values of their future cash flows, 3) attractive acquisition prices for strong synergistic companies to buy distressed ones, 4) credit problems being a negative for markets and the economy, and eventually 5) the Fed easing and bank regulators providing money, credit, and guarantees because the problem becomes system-threatening.

At this turning point into the contraction, it is too early for the Fed to ease, but I will be watching closely what it does as the trade-offs become tough.

Looking backward rather than ahead, tightening rather than easing seems appropriate. Looking ahead, it's likely that it won't be long before the problems pick up, which will eventually lead the Fed and bank regulators to act in a protective way.

**So I think we are approaching the turning point from the strong tightening phase into the contraction phase of the short-term credit/debt cycle.**

[Continue reading here.](#)

The conventional wisdom says high-growth stocks are “long duration” assets that benefit from low or falling interest rates (and vice versa). Yet, as Cliff Asness – founder of AQR Capital Management – recently reminded investors, [the conventional wisdom is mostly wrong](#) (via [Twitter](#) on March 17)...

**Clifford Asness** ✓  
@CliffordAsness

They just keep repeating this despite our and many others debunking it over and over again (ours: [aqr.com/insights/Persp..](https://aqr.com/insights/Persp..) and [papers.ssrn.com/sol3/papers.cf..](https://papers.ssrn.com/sol3/papers.cf..)).

It's astounding how a simple, but wrong, story is just near impossible to stop in markets (over the short-term — past that it doesn't win) and in the press (over the longer term — without market discipline they can stick with simple but wrong forever). The press just loves a simple, but wrong, soundbite over a complicated, but right, real explanation. OK, maybe not so astounding.

Or, as Winston Churchill (or Mark Twain or someone else) once said: “A lie can travel halfway around the world while the truth is putting on its shoes.”

3:34 PM Fri Mar 17

**Bigger Is Better in Tech Outperformance**

Friday, March 17, 2023 01:48 PM  
By Heather Burke

(Bloomberg) -- Big tech is increasingly becoming the runaway winner this month as falling yields boost interest-rate sensitive stocks, especially the biggest companies.

The Nasdaq 100 may be down today but is still on track for the best week this year. The cap-weighted Nasdaq 100 (NDX) — about 25% Apple and Microsoft — is up about double the amount of the equal-weight Nasdaq 100 (NDXE) this week. The ratio between the cap- and equal-weighted Nasdaq 100 has risen to the highest since late October.

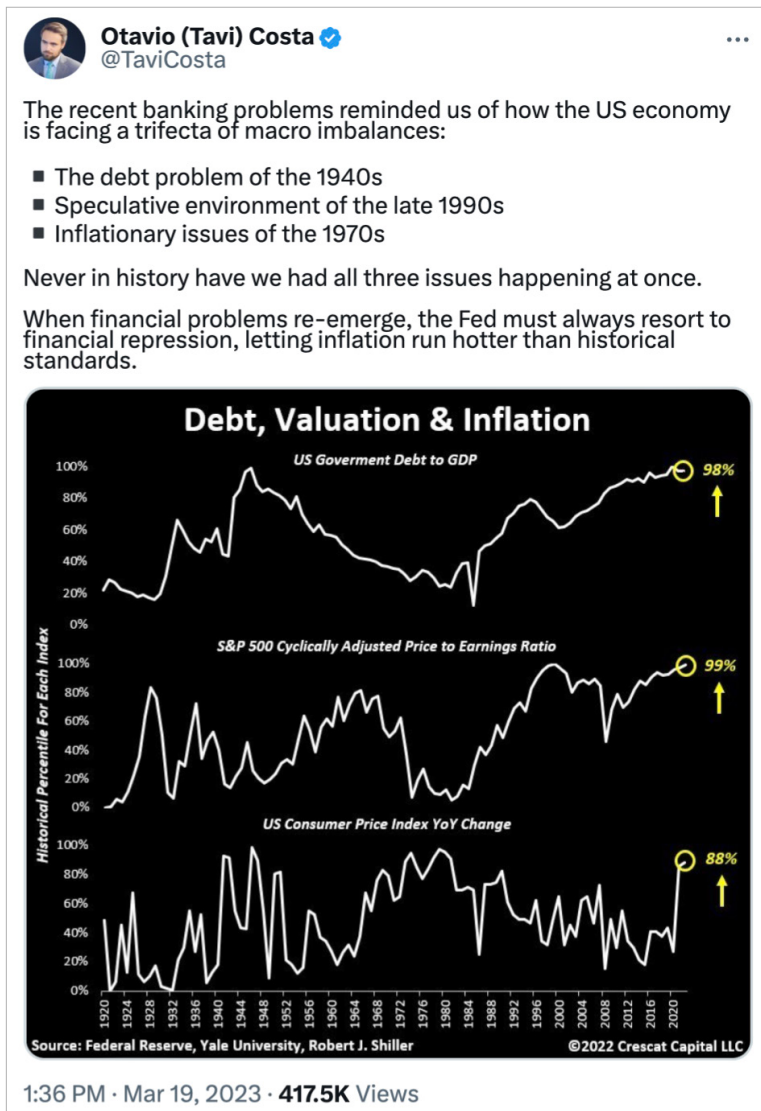
**Big Tech Is Getting Bigger**  
Cap-weight versus equal-weight Nasdaq 100 ratio is rising

Source: Bloomberg

Money is flowing into tech, perhaps as it's now seen as better value and more defensive. At \$800 million, tech-led sectoral inflows in the week through March 15, while materials and energy saw the biggest redemptions, Bank of America said, citing EPFR Global data. And Apple and Microsoft are about to become even bigger in

3:42 PM · Mar 17, 2023 · 104.2K Views

Crescat Capital portfolio manager Otavio Costa – who has earned a massive social media following for his astute “macro” observations – notes that the current market and economic landscape is unlike anything investors have seen before ([via Twitter](#) on March 19)...



Australian investment professional Michael Block explains why basing your investment strategy on the “Goldilocks markets” of the last few decades may not be a wise decision ([via Investor Strategy News](#) on March 24)...

The investment markets have been buoyant for around three decades now. Most investors have seen consistent increases in equity and property prices and decreases in interest rates (at least until just recently). Long gone are the days when home mortgage rates were 17.5 percent.

These Goldilocks investment markets have persisted for so long that most downturns could be simply characterized as “phew, that was a bad dream – now back to the races” and a popular and successful investment strategy has been “buy the dip”. If I’m right, maybe one should rather “sell the rallies”.

An oft-used mantra is that “markets have never failed to surpass their previous peak”. That’s true, of course, but just look how long it took for the Dow Jones Index to return to its 1929 peak. The best part of 30 years! And the past 35 years isn’t a good guide for the future and basing one’s investment strategy on this period gives rise to considerable risk – the most obvious one being that interest rates might rise and equity prices fall for a prolonged period. My reasons for recommending caution are as follows:

- Equity prices are historically high and bond yield are historically low and mean reversion would suggest some reversal of the past 35 years.
- The past 15 years has been influenced by quantitative easing (“QE”) where central banks kept interest rates at artificially low emergency levels. Low rates have led to an asset price bubble where interest-rate sensitive assets were taken to extraordinary heights and risk was mispriced. This is now unwinding.
- Low price volatility and high returns has led to mean-variance optimisation favouring growth assets with little consideration for fundamental analysis and a general complacency that no matter what happens it will all be fixed by central banks, if for no other reason, some institutions are ‘too big to fail’, so called moral hazard.

[Continue reading here.](#)

## Morgan Stanley Wealth Management shares some strategies for investing in a long-term inflationary environment ([on March 29](#))...

The Federal Reserve’s aggressive interest-rate hikes are helping tame inflation—for now. But what if the pressures that sparked last year’s decades-high consumer price inflation stick around longer than expected?

Morgan Stanley’s Global Investment Committee believes it’s important to remember that, despite the last 40 years of falling inflationary pressures in the U.S., the reversal of this trend is entirely possible as well. Indeed, our indicators suggest that the U.S. is in a period of accelerating structural inflation for the first time in decades, and it is plausible that this will continue for the foreseeable future.

That could have significant implications for investors.

Until 2022, a whole generation of investors had grown accustomed to certain assumptions about how bonds, stocks and other asset classes typically behave amid the market’s ups and downs in a lower-inflation environment. But if recent inflationary pressures persist, such longstanding assumptions may no longer apply, and investors may need to rethink their portfolios as a result.

The recent decades of cooling inflationary pressures have not historically been the norm.

Here’s a closer look at how price pressures have fluctuated over time and how spending plans and portfolio construction may need to change if hotter inflation is here to stay.

### **Inflation Has Varied Throughout History**

The recent decades of cooling inflationary pressures have not historically been the norm. The consumer price index (CPI), a key inflation gauge, swung drastically in the early part of the 20th century, pushing the U.S. economy from a Depression-era stretch of slowing growth

and cooling inflation, or “stagnation,” to an inflationary boom of rapid economic growth during and after World War II. In contrast, the late 1970s and early 1980s brought a period of weakening economic growth and accelerating inflation, widely known as “stagflation.”

Altogether, only about 60% of the last century saw slowing inflation; the other 40% saw accelerating inflation.

### Spending Assumptions May Need to Change With the Times

After such a long stretch of cooling inflationary pressures, assuming the future will hold “more of the same” could be a mistake. In particular, it could lead investors to overestimate the sustainability of their existing spending plans or budgets.

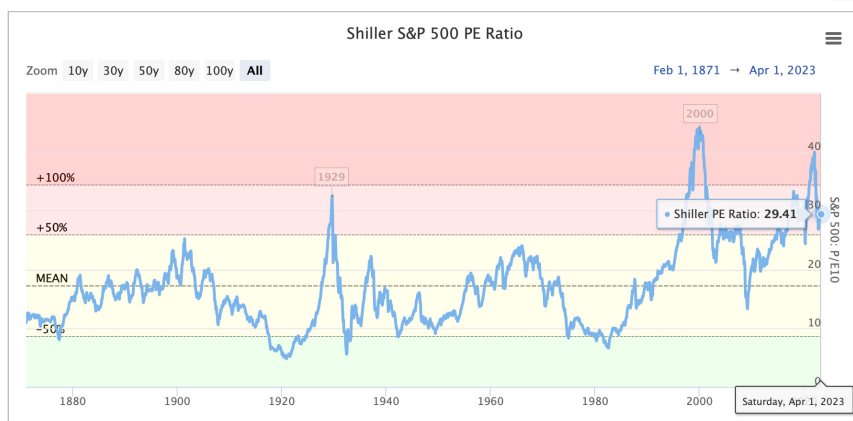
Imagine a 60-year-old with a portfolio of 20% equities, 75% fixed income and 5% cash. Based on our modeling, if we assume that inflation will cool and growth will pick up in the years ahead, we might conclude that this investor can safely withdraw 3.3% of her portfolio annually, with minimal risk of running out of money during her lifetime. However, if inflation instead heats up and the economy slows, a safe withdrawal rate would fall to just shy of 2.9%. Such a difference might seem small, but it in fact represents a reduction of about 12% in her potential spending power.

### Investing During Inflation

Assuming “more of the same” could also lead investors to misjudge the risk, return and diversification potential of their portfolio. Allowing for the historical possibility of structural inflationary pressures, for example, our strategists would recommend smaller allocations to interest-rate-sensitive equities, such as large U.S. growth stocks, than would have been beneficial in prior investing climates.

[Continue reading here.](#)

The Cyclically Adjusted Price-to-Earnings (CAPE) Ratio – which values stocks using a 10-year average of inflation-adjusted earnings to “smooth out” short-term fluctuations – shows the broad market remains historically expensive despite the bear market to date ([via Longtermtrends](#) on April 1)...

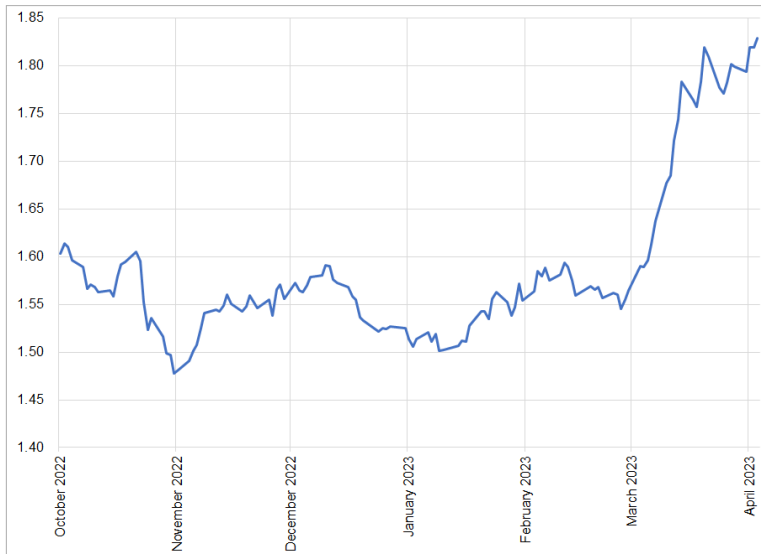


Brent Donnelly, Wall Street veteran and president of Spectra Markets, shares a warning about popular “Big Tech” stocks ([via Friday Speedrun](#) on April 7)...

The story in the stock market is big tech is imitating Icarus and the rest of the market is soiling the sheets. Non-professionals tend to watch the indexes and assume “That’s what the stock market is doing” but when a few stocks dominate an index, the index barely has meaning.

Same thing when one sector is flying while the rest of the market is sucking wind. Here’s the ratio of the NASDAQ (mostly tech) vs. the Russell 2000 Index (mostly smaller public companies).

**QQQ/IWM ratio:**



Looking at the internal performance of various sectors, instead of the big indexes going up and down is often referred to as “looking under the hood.” Try to do that. You will know a lot more about what is going on that way.

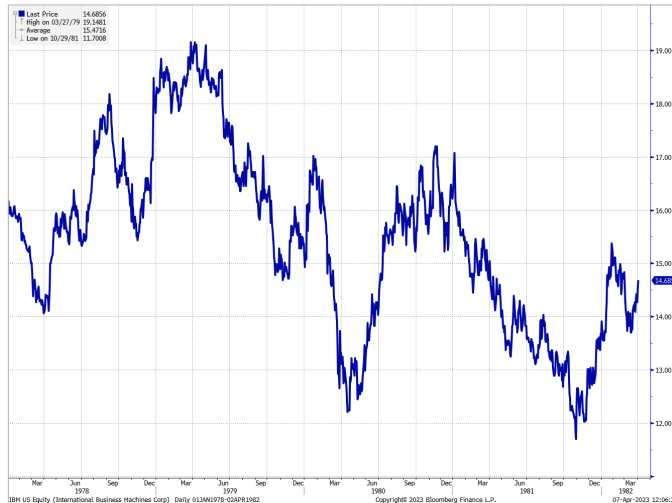
Microsoft (MSFT) and Apple (AAPL) make up more than 13% of the S&P 500. That’s right, two stocks are 13% of a 500-company index. That’s the highest since 1978, back when IBM and AT&T ruled the world.

“While it sounds like a Twilight Zone comment to many investors, tech stocks have become the new safety trade with big tech names a major beneficiary of this dynamic,” Wedbush analyst Dan Ives said in a recent note.

Pro tip 1: When people say something is a “new safe haven” your first thought should be “That’s probably bullshit.”

Here’s how you did if you bought IBM at that time. [Great companies and great stories can often be terrible investments.](#)

## IBM common stock, 1978 to 1982:



Pro Tip 2: If you see your favorite stock or asset class on the cover of a mainstream magazine... Be afraid. That is very often a sign of a top.



This guy has been selling a ton of Apple stock too.

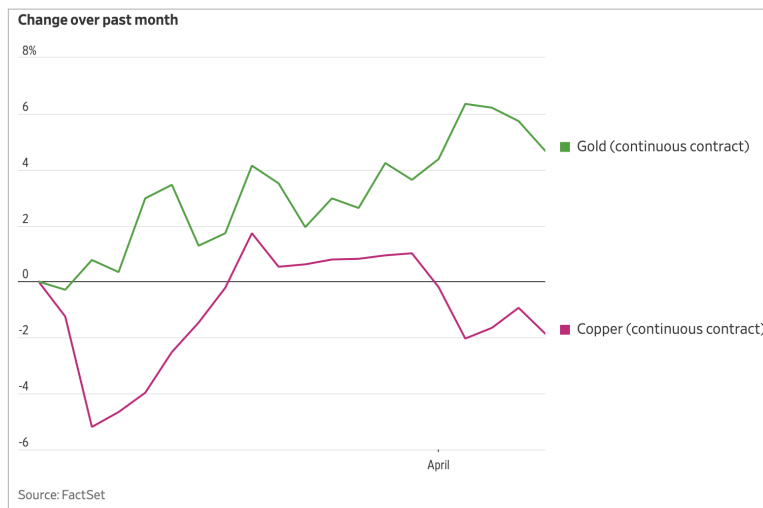
Here's an explanation of why [mainstream magazines are an excellent reverse indicator](#). This is not investment advice and nothing works every time. Good economic forecasting and excellent trading both rely on probabilistic, not deterministic thinking.

[Continue reading here.](#)

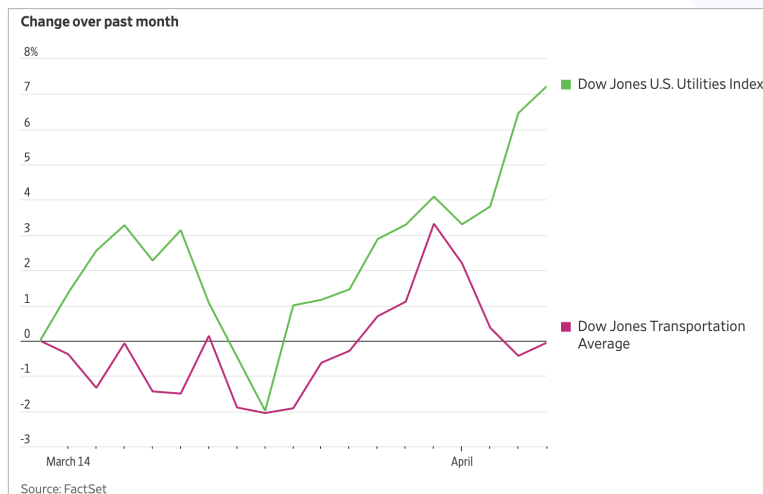
“Intermarket” analysis suggests economic weakness ahead ([from the Wall Street Journal](#) on April 10)...

Stocks have managed to post solid gains so far this year. But beneath the surface, data suggests investors are still feeling nervous about the economic outlook, Strategas says in a research note.

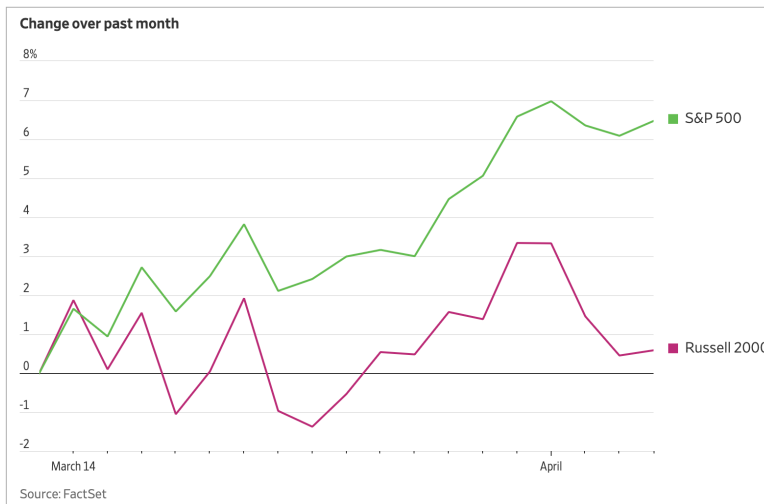
Gold, which investors usually turn to when they're anticipating increased volatility, has run past copper, which typically rises when investors anticipate economic activity increasing.



Meanwhile, utilities stocks—another defensive play—have outperformed transportation stocks. The latter usually does well when investors think growth will pick up in the coming quarters, since airlines, railroads and truckers should see demand for their services increase when the economy is doing well.



Small caps have also underperformed the broader stock market as of late.



Overall, "the equity market's leadership profile looks more consistent with an economic slowdown," writes a group led by Chris Verrone, head of the Strategas' technical and macro research team.

[Continue reading here \(subscription required\).](#)

Economic cycle analyst Eric Basmajian highlights a powerful recession "signaling system" and what it's saying about the economy now ([via EPB Research](#) on April 11)...

Timing and predicting recessions is an important task, not only for traders looking to make a profit but also for policymakers looking to correctly time stimulus measures.

Not many people are against government stimulus measures during difficult times, but the problem is that recessions are difficult to spot in real-time, and policymakers often provide help too late and then offer support for too long.

In 1980, Victor Zarnowitz and Geoffrey Moore, two pioneers of business cycle research, proposed a signaling system that could help alert policymakers to recessions.

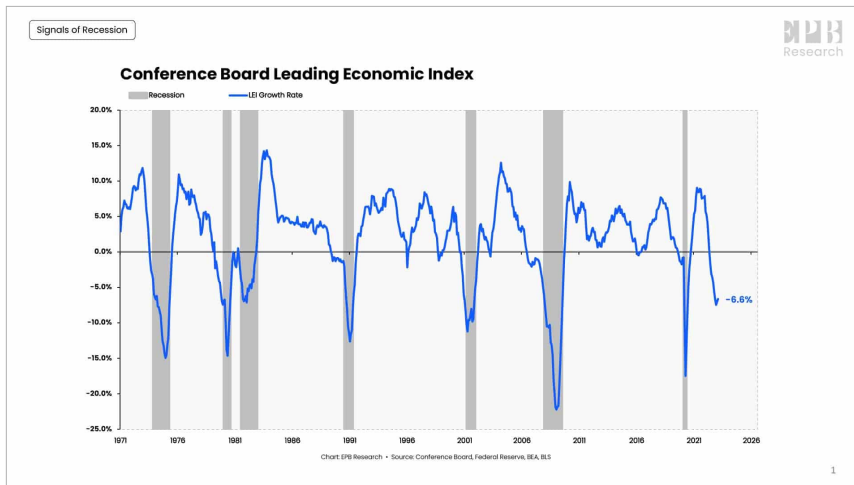
The concept was that policymakers could be alerted to recessionary periods in a series of stages, helping to conduct timely stimulus measures because the effectiveness of any stimulus effort is only as good as the timing.

Most, if not all, government stimulus today is highly reactionary, which has amplified the boom-bust cycle. The government helps boom the booms and bust the busts.

The signaling system outlined by Zarnowitz and Moore, which I have slightly modified, involves tracking leading and coincident indicators of economic growth.

Leading indicators provide advanced warning of where the economy will go in the future.

This chart shows the popular and well-studied Conference Board Leading Index. It's clear that the growth rate turns negative before the economy enters a recession. A few false flags exist, but the proposed three-step signaling process will account for that.

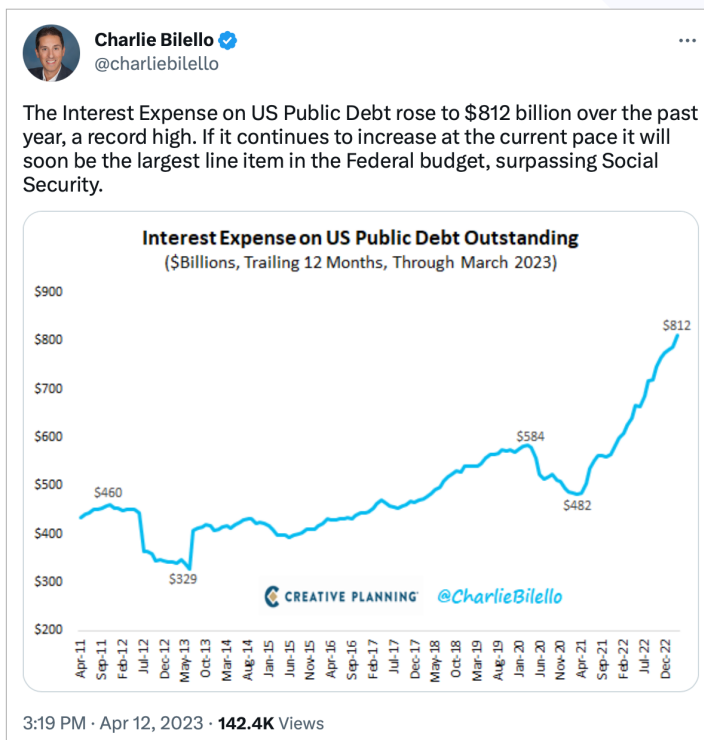


The Aggregate Coincident Index, which is comprised of employment, personal income, personal consumption, and industrial production, defines the economic cycle and recessionary periods.

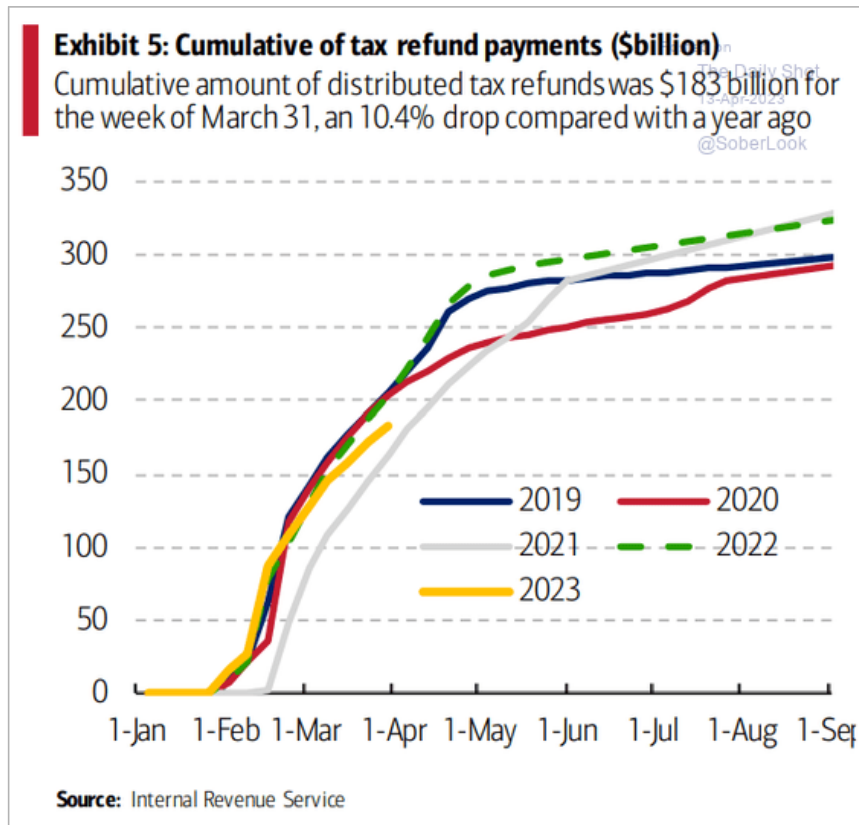
When the Aggregate Coincident Index turns negative, a recession is underway with no exceptions.

[Continue reading here.](#)

The U.S. government's interest expense has been surging ([from Charlie Bilello via Twitter](#) on April 12)...



U.S cumulative tax refunds are running well below the levels we saw in recent years, suggesting the government's deficits could widen even further in the months ahead (from the Internal Revenue Service via [The Daily Shot](#) on April 13)...



Jurrien Timmer – Director of Global Macro at Fidelity Investments – believes the government’s high levels of debt could ultimately force the Federal Reserve to resume quantitative easing (QE) to hold Treasury bond yields artificially low ([via Twitter](#) on April 14)...



# The Legends Speak

## Wisdom and Insight from the World's Greatest Investors

Berkshire Hathaway Chairman and CEO Warren Buffett explains the “secret sauce” to his long-term investment success ([from the Berkshire Hathaway 2022 Annual Report](#)):

At this point, a report card from me is appropriate: In 58 years of Berkshire management, most of my capital-allocation decisions have been no better than so-so. In some cases, also, bad moves by me have been rescued by very large doses of luck. (Remember our escapes from near-disasters at USAir and Salomon? I certainly do.)

Our satisfactory results have been the product of about a dozen truly good decisions – that would be about one every five years – and a sometimes-forgotten advantage that favors long-term investors such as Berkshire. Let’s take a peek behind the curtain.

### The Secret Sauce

In August 1994 – yes, 1994 – Berkshire completed its seven-year purchase of the 400 million shares of Coca-Cola we now own. The total cost was \$1.3 billion – then a very meaningful sum at Berkshire.

The cash dividend we received from Coke in 1994 was \$75 million. By 2022, the dividend had increased to \$704 million. Growth occurred every year, just as certain as birthdays. All [Vice Chairman Charlie Munger] and I were required to do was cash Coke’s quarterly dividend checks. We expect that those checks are highly likely to grow.

American Express is much the same story. Berkshire’s purchases of Amex were essentially completed in 1995 and, coincidentally, also cost \$1.3 billion. Annual dividends received from this investment have grown from \$41 million to \$302 million. Those checks, too, seem highly likely to increase.

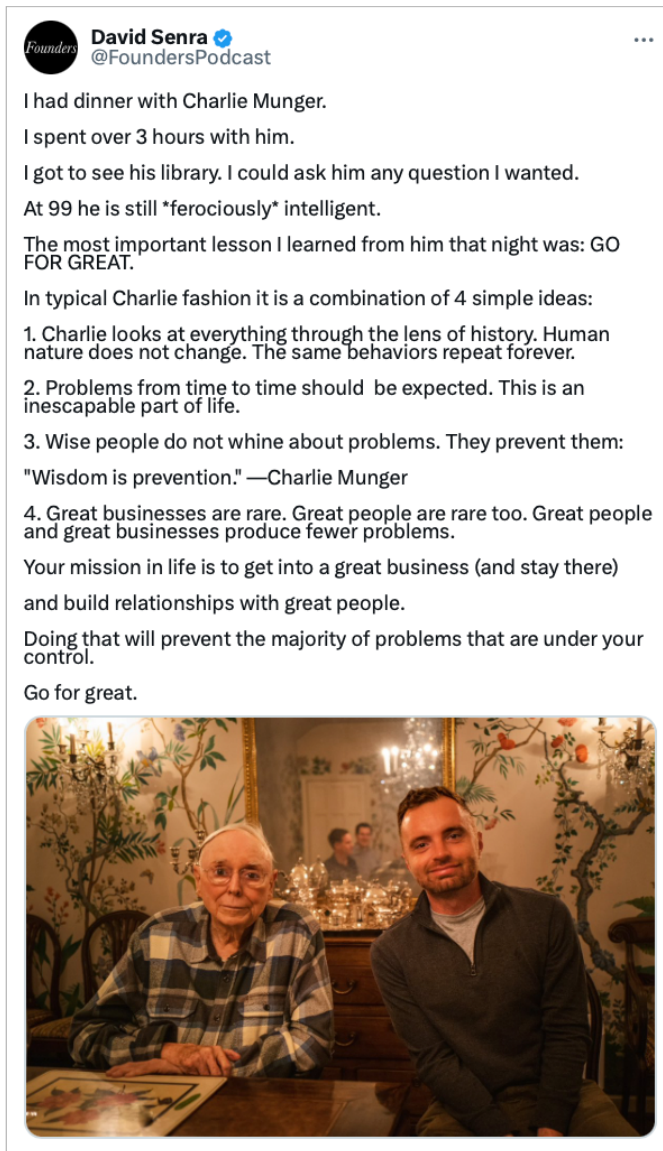
These dividend gains, though pleasing, are far from spectacular. But they bring with them important gains in stock prices. At yearend, our Coke investment was valued at \$25 billion while Amex was recorded at \$22 billion. Each holding now accounts for roughly 5% of Berkshire’s net worth, akin to its weighting long ago.

Assume, for a moment, I had made a similarly-sized investment mistake in the 1990s, one that flat-lined and simply retained its \$1.3 billion value in 2022. (An example would be a high-grade 30-year bond.) That disappointing investment would now represent an insignificant 0.3% of Berkshire’s net worth and would be delivering to us an unchanged \$80 million or so of annual income.

The lesson for investors: The weeds wither away in significance as the flowers bloom. Over time, it takes just a few winners to work wonders. And, yes, it helps to start early and live into your 90s as well.

[Continue reading here.](#)

David Senra, host of the *Founders* podcast, shares the most important lesson he learned from his recent dinner with Berkshire Hathaway Vice Chairman Charlie Munger ([via Twitter](#) on March 21)...



You can also listen to his podcast detailing this experience [right here](#).

## An in-depth look at the benefits of strategic stock buybacks ([from Finding Compounds](#) on March 31)...

Warren Buffett many years ago once got a call from the late Steve Jobs who wanted to find out if he should repurchase Apple shares. Warren asked Jobs two simple questions: Do you have all the money you need to develop the kind of business that you have in your head for the next 5 to 10 years and is your stock selling for less than its worth. Jobs answered “yes” to both these questions, and Warren told him to proceed with the repurchase program.

Let's dial back a little. What are stock buybacks actually? A stock buyback is a form of shareholder remuneration where a company buys its own shares in the open market thus increasing existing shareholders stake in the business. Buybacks have gained popularity in the last two decades with companies spending more than \$1 trillion on buybacks in 2022 according to the WSJ. Buyback announcements are often applauded by the market and are associated with an increase in share price, this can thus give the illusion that all buybacks create shareholder value, however this is not the case.

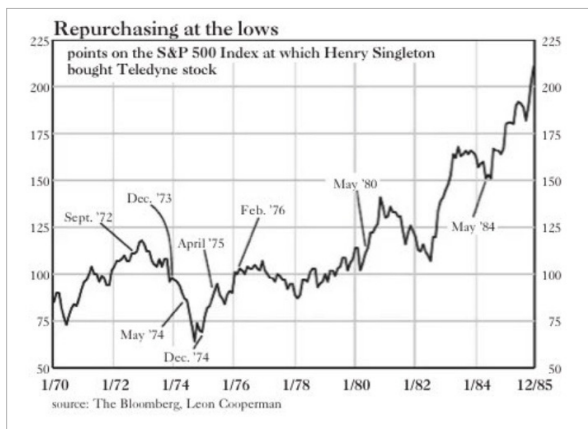
Going back to Warren and Jobs' call: for buybacks to create value, two things should hold true. Firstly, the stock must be selling below a conservative estimate of its intrinsic value. If a company is trading for \$70 but the intrinsic value of the business is \$100, this is equivalent to buying a dollar for 70c. Secondly, the company must have ample cash to take care of the operational needs of the business for a foreseeable period into the future. If these two factors hold true for a company, the buyback program will generate long term shareholder value.

The rules for buybacks seem simple but some management teams will still buyback shares for other reasons other than that the stock is trading below its intrinsic value. If a company buys back stock for any of the following two reasons, they are destroying value:

1. To boost EPS
2. To solely offset [stock-based compensation (SBC)]

Screening for Uber Cannibals – companies that are actively buying back their stock – can result in a quality investing universe to pick from. According to a post on HBR by Alex Edmans, firms that buyback stock subsequently outperform their peers by 12.1% over the next four years. A company that actively decreases their share count over long periods of time shows that management are disciplined capital allocators who are intent on enhancing shareholder wealth, these are the type of people we want running the companies in our portfolio.

Henry Singleton is one executive who used buybacks effectively. Warren Buffett considers Singleton as having “the best operating and capital deployment record in American business.” Henry Singleton was the CEO of Teledyne Inc, and if you bought Teledyne stock in 1966, you would have achieved an annual return of 17.9% over 25 years. How did Singleton achieve such returns? By aggressively buying back stock at low valuations. Between 1972 to 1984 he reduced Teledyne's share count by 90%.



[Continue reading here.](#)

# Here's a list of top business books mentioned at the 2022 Berkshire Hathaway meeting in Omaha (from [Nick Gray via Twitter](#) on April 2)...



**How to Make Friends**   
@nickgraynews

List of business books mentioned at the 2022 Berkshire Hathaway meeting in Omaha

**Trillion Dollar Triage** — Warren Buffett referenced this several times on stage

**The Caesar's Palace Coup** — this was Charlie Munger's pick

**Americana: A 400-Year History of American Capitalism**

**Capital Allocation: The Financials of a New England Textile Mill**

**Margin of Trust: The Berkshire Business Model**

**Running With Purpose: How Brooks Outpaced Goliath Competition**

plus a 17 more. Attached photos of the book list from the Berkshire Hathaway book store



2:58 PM · Apr 2, 2023 · 508.7K Views

A look at why “quality” trumps both “growth” and “value” in equity investing ([from Long Equity via Twitter](#) on April 5)...

**Long Equity** @long\_equity · Apr 5

1/ Quality stocks have beaten both the broader market and growth and value styles for the last 20 years, both internationally and in the US.

1 2 21 6,670

**Long Equity** @long\_equity · Apr 5

2/ Investors perfectly able to time the switch in 2009 from value to growth would have done better if they had just invested in quality all along.

1 11 3,930

**Long Equity** @long\_equity · Apr 5

3/ The durability of a company's competitive advantage is important to long-term returns. Here are the type of advantages to look for 📌

Our research has shown that the durability of a company's competitive advantage is also hugely important to long-term returns. These advantages include:

- Proprietary technology
- Strong network effects
- Valuable brands
- Bank of proprietary, difficult-to-assemble, and valuable data
- Scale
- Large installed base
- Regulatory barriers to entry
- Niche industries
- Producing a critical component at low cost
- Low-cost production

1 3 28 3,682

[Continue reading here.](#)

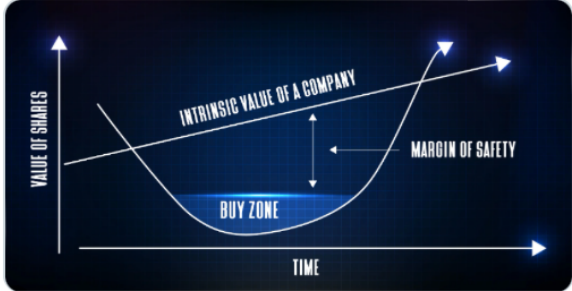
What every equity investor should know about “margin of safety”  
(from [Invest in Assets](#) via [Twitter](#) on April 8)...

**Invest In Quality | Stock Market I...** @InvestIn... · Apr 8 ...  
Margin of safety is one of the most important concepts for investors to understand 🏆📈

The term was popularized by Ben Graham and is often used by top investors such as Pabrai and Buffett

Let's take a closer look at Margin Of Safety 📈👉

=THREAD=



30 351 1,295 282.1K

**Invest In Quality | Stock Market I...** @InvestIn... · Apr 8 ...  
Seth Klarman's definition of margin of safety:

"A margin of safety is achieved when securities are purchased at prices sufficiently below underlying value to allow for human error, bad luck, or extreme volatility in a complex, unpredictable, and rapidly changing world."

2 2 57 7,696

**Invest In Quality | Stock Market I...** @InvestIn... · Apr 8 ...  
MOS has 2 components

- Current share price
- Intrinsic value

The first one is easy to find, and you can view the price in real-time on thousands of free websites

The second one requires a deeper dive. There are several ways to calculate the intrinsic value of a business.

Wall Street Prep

$$\text{Margin of Safety} = 1 - \frac{\text{Current Share Price}}{\text{Intrinsic Value}}$$

1 2 40 7,342

**Invest In Quality | Stock Market I...** @InvestIn... · Apr 8 ...  
There is:

- Liquidation value
- Asset-based analysis
- Discounted cash flow
- Reverse discounted cash flow

I will focus on a simple version of the last 2 in this thread, and use [\\$GOOGL](#) as an example

1 1 22 6,459

[Continue reading here.](#)

## Seven timeless lessons from legendary investor Stanley Druckenmiller (from [Commonstock](#) on April 9)...

Stan Druckenmiller is one of the world's greatest money managers and has traded through market cycles for more than 30 years.

In 2015, he gave what is now a timeless discussion about markets and processes at the Lost Tree Club.

Here are 7 takeaways from his speech.

1. Druck attests that he is not a genius. He was not in the top percentile at school. Instead, he believes that he made his success from three things:

- Passion for the business
- Great mentorship
- Risk management

**Number one** I had an incredible passion, and still do, for the business. The thought that every event in the world affects some security price somewhere I just found incredibly intellectually fascinating to try and figure out what the next puzzle was and what was going to move what. And the fact that I could bet on that interaction, those who know me, I do like to bet.

**The second thing** I would say is I had two great mentors. One I stumbled upon and one I sought out. And I see some young people in the audience and probably some grandparents who have some influence on some young people in the audience, and I would just say this. If you're early on in your career and they give you a choice between a great mentor or higher pay, take the mentor every time. It's not even close.

**The third thing** I'd say is I developed partly through dumb luck, I'll get into that — a very unique risk management system. The first thing I heard when I got in the business, not from my mentor, was bulls make money, bears make money, and pigs get slaughtered. I'm here to tell you I was a pig. And I strongly believe the only way to make long-term returns in our business that are superior is by being a pig. I think diversification and all the stuff they're teaching at business school today is probably the most misguided concept everywhere.

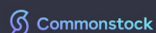
Stanley Druckenmiller at The Lost Tree Club, 2015



2. "The mistake I'd say 98% of money managers and individuals make is they feel like they got to be playing in a bunch of stuff. And if you really see it, put all your eggs in one basket and then watch the basket very carefully".

If you look at all the great investors that are as different as Warren Buffett, Carl Icahn, Ken Langone, they tend to be very, very concentrated bets. **They see something, they bet it, and they bet the ranch on it.** And that's kind of the way my philosophy evolved, which was if you see — only maybe one or two times a year do you see something that really, really excites you. And if you look at what excites you and then you look down the road, your record on those particular transactions is far superior to everything else, but **the mistake I'd say 98 percent of money managers and individuals make is they feel like they got to be playing in a bunch of stuff.** And if you really see it, put all your eggs in one basket and then watch the basket very carefully.

Stanley Druckenmiller at The Lost Tree Club, 2015



[Continue reading here.](#)

A gentle reminder that finding great long-term investments is challenging even for the world's best investors ([from MicroCapClub](#) on April 13)...

Finding a great company early is hard. How hard? You don't have to look much further than your investment heroes. Warren Buffett has owned hundreds of stocks over his career. He's owned some for a few months. He's owned most for a few years. He's owned a dozen or so for 10+ years.

It takes the best investors in the world a few decades of owning hundreds of stocks to find a handful that are worth holding.

Time and turnover.



Most of the best stock pickers of all time were very active under the surface.

[Continue reading here.](#)

Veteran value investor Chuck Akre's "three-legged stool" model for finding stocks with 100-bagger potential ([from The Thinking Investor via Twitter](#) on April 14)...



[Continue reading here.](#)

Legendary investor Peter Lynch's advice on six types of stocks every investor should try to avoid ([from Commonstock via Twitter](#) on April 15)...

**Commonstock**  
@JoinCommonstock

The six stocks that Peter Lynch suggests every investor should try to avoid.

**1. Hot Stuff:** avoid the hottest stock in the hottest industry. If you aren't clever at selling, you'll soon see your profits turn to losses. High growth and hot industries attract smart competitors.

**2. Next Something:** when people tout a stock as the next IBM, it often marks the end of prosperity not only for the imitator, but also for the original.

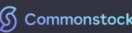
**3. Diworseifications:** instead of buybacks/dividends, a dedicated diworseifier seeks purchases that are a) overpriced, b) beyond the realm of understanding. Every second decade, companies switch between diworseification and restructuring. The 1960's was the greatest decade for diworseification, which ended in the crash of 1973/74. Synergy (2+2=5): theory of putting together related businesses and making the whole thing work, which doesn't always happen. A vigorous buyback is the purest synergy of all.

**4. Whisper Stocks:** long shot companies with whiz bang stories are often on the brink of solving the latest national problem with a solution that's: a) very imaginative, or, b) impressively complicated. The great story has no substance, but it relieves the investor of the burden of checking the financials. If prospects are so phenomenal, then it will be a fine investment next year as well. Wait till the company has established a record.

**5. Beware the Middleman:** company sells large % of sales (20-50%) to a single customer. Short of order cancellation, that customer has enormous leverage in getting cuts and concessions that reduce profits.

**6. Beware the Stock with an Exciting Name:** flashy name of a mediocre company attracts investors and gives them a false sense of security.

Peter Lynch's Stocks to Avoid



4:56 PM · Apr 15, 2023 · 1,459 Views

# Investment Ideas

Here's a look at "one of the world's most important companies" with "spectacular growth, fantastic future prospects, stellar fundamentals, competent management, good capital allocation, wide moat, [and] low debt" ([from \*Invest in Quality\* on March 4](#))...

## The Business

ASML is a company from the Netherlands that produces photolithography which is an important step when producing semiconductors. ASML sells its products to major semi-producers and is considered one of the most important companies in the world.

The drivers for continued growth in the semiconductor market are essentially every technological category: smartphones, cloud computing, computing, 5G, AI/MR, and autonomous vehicles. ASML won't run out of devices to create their photolithography for a long while.

ASML sells most of its products to Asia - specifically the big players from Taiwan, South Korea, and China - only 2% of the US. This creates a concentration risk, and political factors might affect ASML's future earnings.

## The Fundamentals

The company's return on invested capital is 29.7% and has been consistently high for years, ranging from 14-32%. Their free cash flow per share has grown 22.73% CAGR over the last 5 years. ASML's gross margins are currently at 50%.

[Continue reading here.](#)

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Lyn Alden, of *Lyn Alden Investment Strategy*, highlights the bullish case for midstream energy company Enterprise Products Partners ([from the March 5, 2023 Premium Research report](#))...

Blue-chip energy pipelines have basically been my benchmark investment comparison for the past year or more. Enterprise Products Partners LP (EPD) pays a safe 7%+ distribution yield, has a quarter century of consecutive annual distribution growth, is assigned industry-leading BBB+ credit ratings, is trading at below-average valuations, and has significant insider ownership.

In order for a stock to interest me for a five-year holding period from current levels, it has to compare somewhat favorably to EPD on a risk/reward basis, and in my view not many stocks do these days. My base case is that it'll grind sideways-to-up in the years ahead while paying a hefty quarterly distribution along the way.

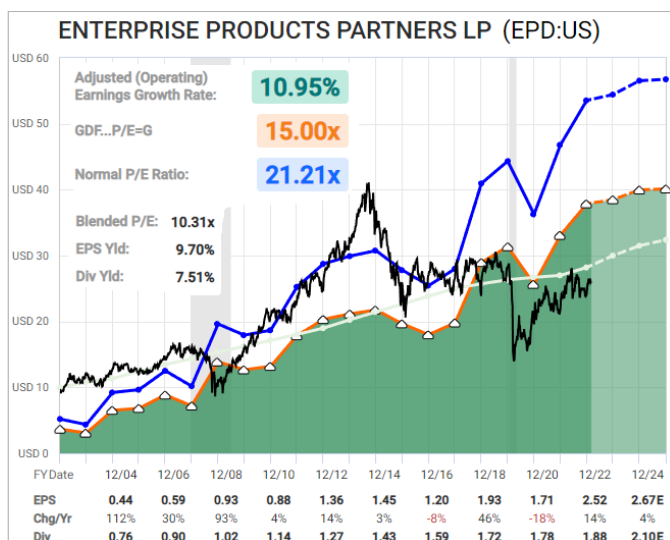
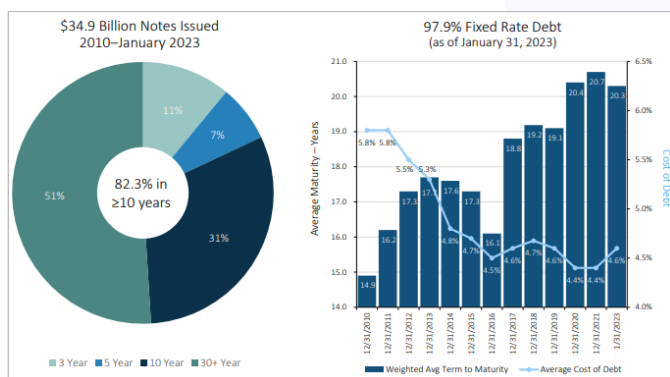


Chart Source: F.A.S.T. Graphs

An important aspect of EPD is that its debt profile is rather low interest and long duration. The average duration is 20.3 years, and the average interest rate is 4.6%. This debt financed their asset side, which consists of hard infrastructure assets (e.g. pipelines) that generally increase their fees each year and have a high cashflow yield. This chart of their debt profile is from their February 2023 investor deck:



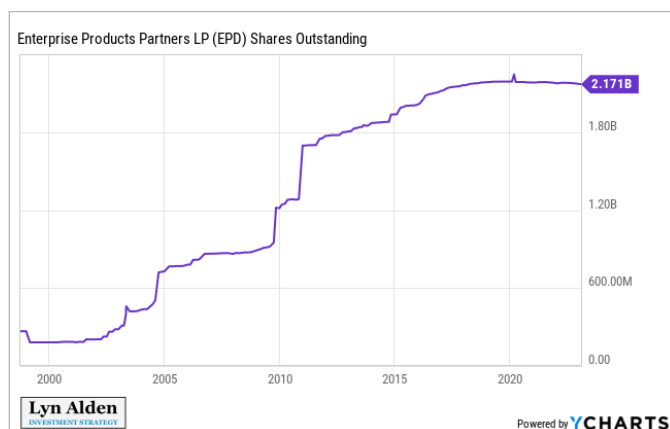
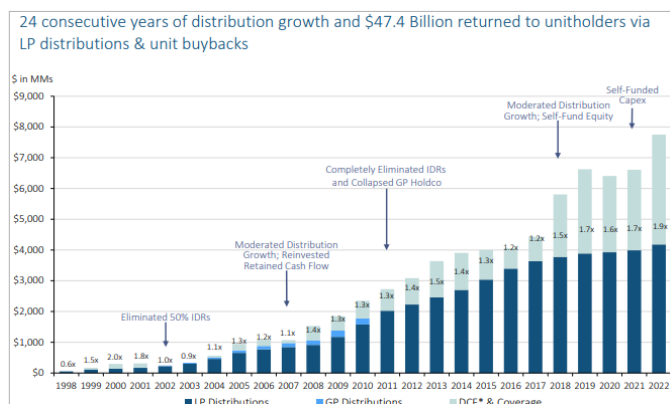
## The Midstream Realignment

Throughout the 2000s and into the 2010s decades, there was a massive energy infrastructure build-out in the United States. This was financed by midstream pipeline companies continually issuing both debt and equity, and paying distributions to existing unitholders out of that ongoing massive debt and equity issuance. Many pipeline companies got over their skis with this approach, and when the 2015 oil crash hit, available capital dried up for the industry, and many of them ran into problems with refinancing this Ponzi-like financing strategy.

When that happened, even though many midstream companies didn't take a very big revenue hit, they did take a huge hit to the total market demand for their debt and equity. In particular, with much lower equity valuations, their strategy of constantly issuing new equity didn't make financial sense anymore. Instead, many pipelines had to abruptly cut their distributions, slow down or eliminate their equity issuance, and become more self-financing in general.

Some of the better-run companies like EPD and MMP had the foresight to do this gradually in advance, and thus sidestepped the problem. They never got over their skis, they bought out their incentive distribution rights before they became a burden for limited partners, and they purposely slowed down their distribution growth to achieve a lower distribution payout ratio, which allowed

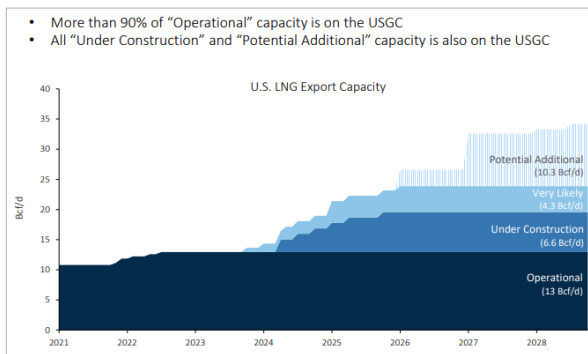
them to limit or eliminate the need for ongoing equity issuance by becoming more self-financing from these existing operating cashflows. Due to this, they've maintained industry-leading credit ratings and never had to perform distribution cuts. At the cost of slower distribution growth during this process, investors now get 1.9x distribution coverage and no more net unit issuance.



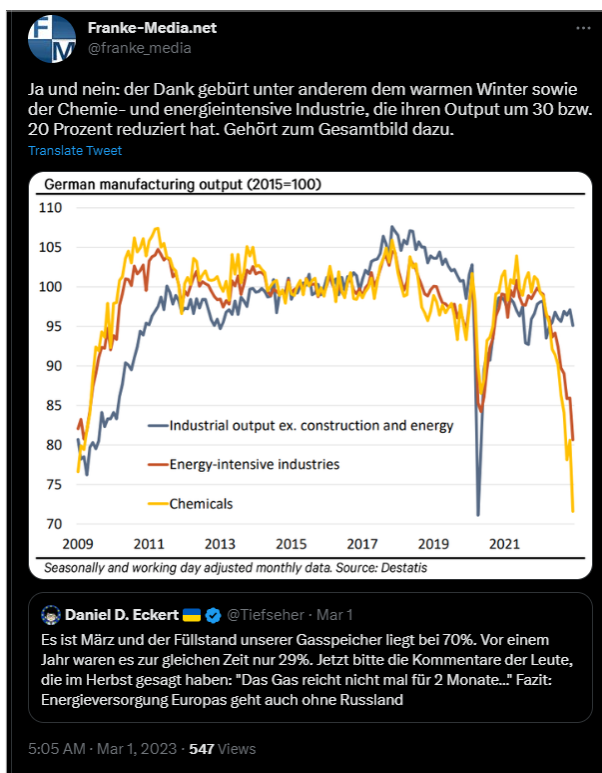
Companies that didn't have the foresight to do this gradually, instead did it the hard way, by cutting their distribution and sharply entering a self-financing type of strategy out of acute necessity. Some of them blew up their distributions in 2015, and other ones held on longer and blew up in 2020. But now, after those blow-ups, the industry is rather washed out, with more attractive valuations and more attractive self-financing capital structures.

The U.S. midstream industry is mature and slow-growing now, more like utilities (but at better valuations and with higher yields). Whenever there are few growth prospects, midstream companies can pay out special distributions or perform some unit buybacks. Whenever there are growth prospects around the margins, they can allocate capital to them for a slow rate of growth.

One of the key areas of remaining growth is export infrastructure for liquified natural gas, because U.S. natural gas trades at a sharp discount to global prices, and so there is a big incentive to arbitrage it and meet that supply/demand difference. Here's a good chart on U.S. LNG export capacity from EPD's February 2023 investor deck:



Europe and many emerging markets very much need this expansion in U.S. LNG exports. After the loss of Russian gas, European countries managed to avert a consumer-level heating crisis this past winter partially due to enjoying unusually warm temperatures, but also because energy-intensive industries in Europe sharply drew down their production into deep recessionary levels:



European countries scrambled for energy imports all through 2022, including bidding for a large share of global LNG capacity, and this squeezed a number of developing markets into rolling blackouts due to an inability to compete with Europeans on price to keep the lights on.

Meanwhile, some of Europe's chemical production and energy-intensive manufacturing is permanently moving elsewhere, and how much will move will depend in large part on the continent's ability to regain cheap energy inputs. As the FT reported a week ago:

BASF is to wind down several of its plants in Germany as the world's largest chemical group by revenue struggles with high energy costs in Europe and plans increased production in China.

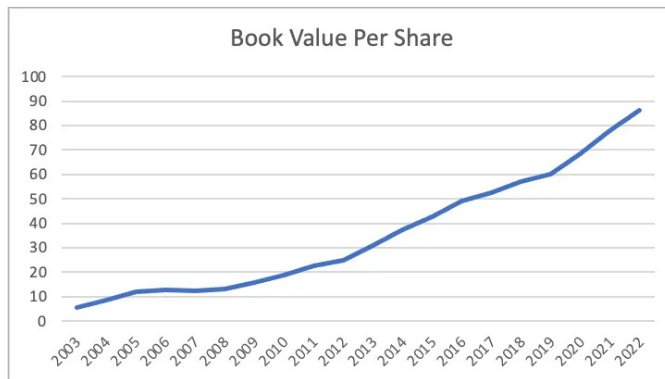
An uptick in U.S. LNG exports is one of the main variables over the next several years to smooth some of this out and prevent severe energy crises from re-occurring each year.

You can learn more about a subscription to Lyn Alden Investment Strategy [here](#).

Aaron Edelheit, founder of Mindset Capital, explains why he's bullish on consumer finance, telecommunications, and educational loan servicing firm Nelnet (NNI) ([from Mindset Value](#) on March 9)...

"It's no secret that Nelnet is complex as we continue to diversify. Our financials reflect short-term "book" gains and losses, and we think and operate using a long-term horizon. Because of this strategy, many areas of value do not appear on today's financials—but we are confident they will down the road as we continue to play the long game." Nelnet CEO Jeffrey Noordhoek

Nelnet's (NYSE: NNI) book value has grown 17% compounded annually since it went public in 2003 and it has never had a year in which it lost money. It is one thing to say a company has grown book value by 17% a year, it is another thing to see it. Here is a visual representation of Nelnet's book value growth:



But here is the most amazing thing: Nelnet is still undervalued, as it still trades near its book value. And it is especially undervalued because the book value understates the true value of its owned businesses, investments, and holdings.

[Continue reading here.](#)

Harris “Kuppy” Kupperman – chief investment officer of Praetorian Capital and founder of Kuppy’s Event-Driven Monitor – shared his bullish thesis on small-cap oil exploration and production company Journey Energy ([JOY.TO/JRNGF](https://www.journeyenergy.com)) on the *Value Hive* podcast ([from Kuppy via Twitter](#) on March 24)...



You can access the podcast directly [right here](#). The Journey Energy discussion begins around the 28:30 minute mark.

## A short-selling thesis for software-as-a-service (SaaS) firm Sprout (SPT) ([from DaRazor via Twitter](#) on April 5)...

**DaRazor** @akramrazor · Apr 5

[\\$spt](#) [\\$cxm](#) SaaS shorts don't get much better than this. Enjoy. [#trusttheprocess](#)

**SPROUT: A SHORT THESIS**



the-razors-edge.ghost.io

**SPROUT: A SHORT THESIS**

"Don't move until you see it."- Searching for Bobby Fischer Sprout Social (ticker:SPT) is one of the best short setups I have come across in a while: despi...

7 25 122 49.3K

**DaRazor** @akramrazor

The Chamath inspired 3 pager for those of you with A.D.D when it comes to deep work.

**Sprout Short Thesis Quick Summary**

- Sprout was an obvious Covid winner turned pressured Covid hangover from SaaS stock. The latter part never happened.
- Salesforce's decision to sunset Social Studio last year put a very mature SaaS client base with revenue caught up on par with the entire Sprout business on the move in 2023.
- This revenue development for Sprout coincided with the greatest collapse in software stocks since the dotcom bubble.
- Despite experiencing a massive slowdown in organic customer growth, Sprout remains SaaS growth has held up due to Social Studio's mature mid-market customer migrations at way higher ACV's.
- Management has used this slow start and the stock has benefited. Thanks to management's aggressive framing, the market has awarded a long-term organic growth multiple to a very one-off and substantial mature client migration.
- I estimate this entire organic premium being attributed to the Social Studio one-off valued at 200% in-market cap today.
- This is fast coming to an end and Sprout is facing a substantial growth cliff.
- Sprout's competitive response further accelerates this.
- A corporate share will fall 50% over the next six months regardless and potentially for more if Sprout's valuation is flawed.

**The Social Studio Cliff**

- Sprout management has provided piecemeal disclosures around the Social Studio migration with respect to customer count and ACV that allow you to easily quantify the potential size of the impact.
- They also have provided key metric disclosures around premium midsize revenue growth and attach rates entirely consistent with the characteristics of the Social Studio migrating customer base.
- The highly transparent nature of all this is further bolstered by how these disclosures contradict other reported facts. Namely, the notable decline in SaaS in 2022 from 120% to 100% as well as their total collapse in organic customer growth both immediately before and after their pricing changes.
- Sprout management deliberately tried their substantial premium midsize price increases to coincide with the Four Q4 Salesforce billing cycle when social studio customers are on.
- Sprout management claims they are earning "more than 80%" their revenue out of mid-size social studio customers coming in through the Salesforce partnership. However, they provide no color on what's gone on outside the partnership (i.e. customers that have migrated separately or other competitors without ever adopting Sprout). This is problematic in my research has shown the Social Studio rollout started long before Salesforce's official August 1, 2022 end of renewals deadline.
- Yes, despite all this, management is telling the street a very aggressive organic growth inflation narrative around their business that just so happened to coincide with an epic software recession in tech.

This is how they responded to a question about future growth on their Q3 earnings call.

This statement is simply impossible to logically reconcile with all their disclosures and the deep work I have done in the space.

One of four things is going on here.

- Management's fully aware of just how much of a one-off benefit Social Studio is providing and that this will turn into a substantial headwind, and simply has no desire to address the cliff right now as they are pretty much the sucker to back and support it.
- Management is doing their own Social Studio and actually believes inorganic takeovers of this magnitude are no different than organic growth and won't translate into substantial headwinds quite rapidly.

Neither are good for shareholders, but I'm leaning towards the latter right now.

**Customer/Industry Insider Calls Further Contradict Management's Recent Commentary**

- Experts continuously say that traditional SaaS in pricing and scheduling has become commoditized that reducing the competing nature of the complexity out of the box sales pitch of Sprout.
- Dynamic changes in social media since the pandemic including the rise of TikTok have created further disincentives in scheduling gaming.
- Social media headwinds have caught up with workflows now, so a tightening budget will create a real competitive threat in immediate and near-term one or two most serious - have some access in SaaS over the last decade.

**Twitter/X Disruption Risk**

- The way Twitter and other Social Media monetization access is rapidly changing. The one of the bedrock of strategies has come to an end. Sprout has a material Social Listening business dependent on Twitter and calls with experts in the space indicate nobody has a clue what Elon's long-term plans are.
- Sprout appears better positioned here based on their leading AI and the fact that Twitter is relying on them internally.
- The timing of Sprout's response combined with the fact they are the well-established market leader in SaaS AI have them best positioned to capitalize on the disruption in the space.
- At best, Sprout is facing substantial platform investment needs going forward and potential structural change challenges to remain competitive in the fast-changing landscape.

**Structural set up extremely unique**

- Sprout has been a fantastic SaaS stock to hold out in during the worst type in software since the tech bubble.
- The timing of the Salesforce Social Studio rollout meant that they became essentially the only company out 120+ public software names demonstrating headline strength on billings and art.
- I suspect that this made it a very popular long for just one driving factor in a tight tech environment. The way it traded in the back half of last year supports this and consequently I imagine its stock coincided with returns.

8:52 AM · Apr 5, 2023 · 44.5K Views

[Continue reading here.](#)

## Nine under-the-radar investment opportunities in “litigation finance, defaulted debt, and expropriation claims ([from Undervalued-Shares.com](#) on April 14)...

Cuban creditors recently achieved a partial win in a court case in London, when a judge confirmed that defaulted debt issued in the 1980s in deutschmarks had to be repaid.

Then came Burford Capital's high-profile win over Argentina, which will unlock billions in decade-old claims from an expropriation case involving American investors.

Progress in cases like these has made a growing number of investors aware of litigation finance, as well as its closely related cousins of investing in defaulted debt and legal claims from expropriation. These are niche areas of the financial market, but they can be highly lucrative – sometimes growing an investment by a high multiple!

Today's Weekly Dispatch takes you on a quick spin through the sector, and briefly introduces two new, little-known stocks from this realm.

### **Cuban creditor with partial win**

In early April 2023, a Cayman Islands-based investment fund achieved a partial win in a London court. CRF I had acquired old claims against Cuba totalling over a billion dollars, and the fund's investors then paid for litigation to force Cuba to repay the debt.

The court ruled that London was not the right venue for the claim, but it did confirm that the debt is legally owned by the investment fund and has to be repaid despite its age – two items that Cuba had previously refuted.

The decision is a partial win for both sides, as this 4 April 2023 article from Deutsche Welle summarises.

The landmark decision will have reverberations across the entire spectrum of remaining Cuban claims, and set the stage for the next round of speculation in Cuban debt.

I've repeatedly written about ancient financial claims against the Cuban government, most notably in a report that is probably the single most extensive piece of research that anyone has ever published about the subject. Nowadays, claims against Cuba are notoriously difficult to get hold of. It used to be possible to buy old Cuban bonds on the New York Stock Exchange, or invest into US-traded stocks like Cuban Electric to participate in restitution claims of companies that lost their assets to the country's expropriation policies. However, almost all of these Cuba-related securities got delisted in the 1990s and 2000s, respectively.

One of the few remaining ways to buy into such claims is to acquire stock of New Jersey-based Francisco Sugar Company (OTCPK:FRAZ), which owns a USD 53m claim relating to a shipment of sugar from the Republic of Cuba to the United Kingdom. It also has a claim to a sugar mill and land on the island, and when it's all added up, the company is one of the biggest remaining Cuba claimants overall. The stock is very difficult to trade, though, because it's part of the "Expert" section of the US OTC market (which few brokers trade in) and also quite simply entirely illiquid. Still, it illustrates that there are quirky options hiding among little-known publicly traded companies.

[Continue reading here.](#)

Here are four high-conviction long ideas from the Value Investing Club, including Delek US Holdings (DK), Dole (DOLE), IAC (IAC), and Danaos Corporation (DAC) (from Dalius - Special Situation Investments via [Twitter](#) on April 15)...

**Dalius - Special Situation Investments** ✓  
@InvestSpecial

**\$DK long**

Catalyst-rich event-driven opportunity. Management is vocal about unlocking the full sum-of-the-parts value. 100% upside.

**Dalius - Special Situation Investm..** ✓ @InvestSpe... · Apr 3

1/ New investment ideas from VIC 📌

Incl: \$DK, \$AUE.SI & \$CEG

**\$DK pitch:**

- Sum-of-the-parts story with a near-term catalyst to unlock substantial value.
- A refiner with 4 refineries in the Gulf Coast area and 79% ownership of \$DLK midstream assets.

... 📌

[Show this thread](#)

|              | DK SOTP         | Per Share       |                     |
|--------------|-----------------|-----------------|---------------------|
| DLK Value    | \$ 1,675        | \$ 23.56        | @ \$48.82 per share |
| Refi         | \$ 2,400        | \$ 33.75        | 4x \$600m/year      |
| Retail       | \$ 525          | \$ 7.38         | 8x LTM EBITDA       |
| Corporate    | \$ (750)        | \$ (10.55)      | ~5x \$150m/year     |
| Net Debt     | \$ (146)        | \$ (2.05)       | Q3'22 number        |
| <b>Total</b> | <b>\$ 3,704</b> | <b>\$ 52.09</b> |                     |

4:44 AM · Apr 15, 2023 · **13.6K** Views

[Continue reading here.](#)

# Bonds and Credit Markets

## Sovereign/Government

Recent research suggests the past four decades of equity-like returns in bonds were an historical exception that's unlikely to continue ([from the \*Financial Times\* on February 25](#))...

Last year was the worst for bond markets in more than a century and marked the end of a four-decade long "golden age" for the asset class which is unlikely to be repeated, according to a trio of academics.

Global bonds lost 31 per cent in 2022, the worst annual performance for fixed income in data stretching back to 1900, Dr Mike Staunton and professors Elroy Dimson and Paul Marsh wrote in Credit Suisse's latest Global Investment Returns Yearbook.

UK bonds fared even worse, returning minus 39 per cent.

Those declines stand in stark contrast to the reliable returns that bonds recorded between 1982 and 2021, when the world bond index provided an annualised real return of 6.3 per cent, the authors said. Global equities returned 7.4 per cent per year over the same period.

But extrapolating the "astonishingly" high bond returns provided in the 40 years to 2021 into the future was "inappropriate" and "foolish", the authors said, noting that since 1900 the average annualised real return for bonds across the 21 countries with continuous data was just 0.6 per cent. "For investors who had grown used to high bond returns and who saw bonds as a safe asset, [2022] returns were truly shocking."

[Continue reading here \(subscription required\).](#)

Former senior Federal Reserve trader Joseph Wang believes U.S. Treasury market “instability” may ultimately require the Federal to resume quantitative easing (QE) to suppress government bond yields via yield curve control (“YCC”) (via [Twitter](#) on March 2)...

**Joseph Wang** @FedGuy12 · Mar 2

I talked a lot about Treasury market instability last year. That went away when recession concerns grew, inflation was perceived to be under control, and the policy path became more certain.

Those factors are reversing now.

7 53 305 200.1K

**Joseph Wang** @FedGuy12

IMO should the market become really instable it would be solved by short term intervention, and in the longer term, some form of YCC.

| Treasury                    |                         | MMF                     |     |
|-----------------------------|-------------------------|-------------------------|-----|
| sues New Bill to Repay Fed) |                         | (Withdraws cash from RR |     |
| sets                        | Liabilities             | Assets                  |     |
|                             | +100 UST Bill due MMF   | -100 RRP                | Sha |
|                             | -100 UST Coupon due Fed | +100 UST Bill           |     |

| Investor                          |                   | MMF                      |     |
|-----------------------------------|-------------------|--------------------------|-----|
| asury Coupon with repo financing) |                   | (Withdraws cash from RRI |     |
| sets                              | Liabilities       | Assets                   |     |
| Coupons                           | +100 Repo due MMF | -100 RRP                 | Sha |
|                                   |                   | +100 Repo Loan           |     |

fedguy.com  
The QT Timebomb - Fed Guy  
Rapid QT both increases the supply of duration and shrinks the cash balances of banks, the marginal buyer of duration. Rates ...

9:32 AM · Mar 2, 2023 · 36.1K Views

U.S. Treasury market volatility was unprecedented in March ([from the \*Financial Times\*](#) on March 30)...

As the screams of agony from macro hedge funds and CTAs have indicated, this month has been, well, mental for the Treasury market. It's incredible what a small sudden banking crisis can do isn't it?

First, some back-story: A weird anomaly about the US bond market is that Treasuries — arguably the single most important cornerstone of the global financial system — have long been one of the most opaque areas.

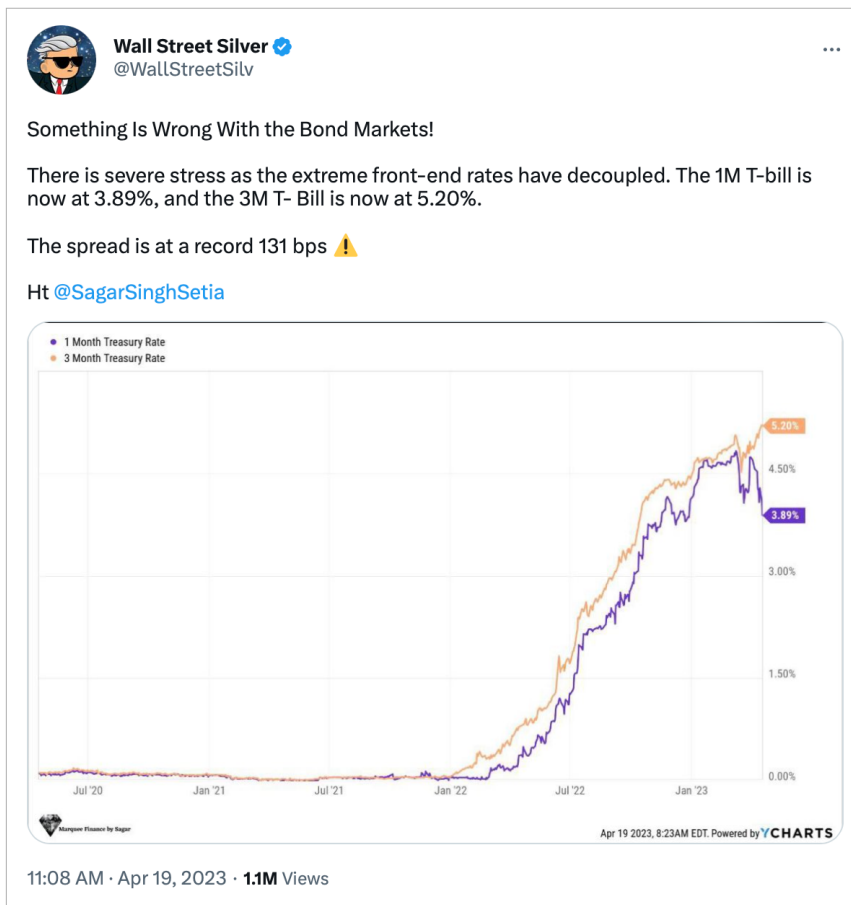
While dealers have long reported all municipal, corporate or agency bond trades within five minutes to the Financial Industry Regulatory Authority — which collects them in “Trace”, or the Trade Reporting and Compliance Engine, and disseminates them publicly — Treasuries were long exempt.

However, after a wild 2014 “flash rally” in Treasuries painfully exposed how little even regulators see in that market, US government debt has been slowly been forced into Trace.

And in a bit of luck, Trace switched from weekly to daily Treasury trading reporting on Feb 13 — just in time for this month's banking crisis. Barclays has pored through the data, and it's wild.

[Continue reading here \(subscription required\).](#)

The yield on 1-month U.S. Treasury bills has plunged over the past few weeks, indicating massive demand for the government's safest, short-term debt ([from Wall Street Silver via Twitter](#) on April 19)...



Most analysts believe this demand for 1-month T-Bills is due to the impending debt-ceiling “showdown” in Washington, D.C. ([from Barron's](#) on April 21)...

Federal tax receipts due April 18 have come in weaker than expected, which could result in the government running out of money before the middle of June unless Congress raises the debt ceiling.

That has prompted strong demand for one-month T bills, which mature before the potential default. The T-bill due on May 23 fell 0.4 percentage point Thursday to 3.26%, Bloomberg data show.

The T-bill maturing on June 20 declined in yield by just 0.05 point Thursday and yields 4.78%. The gap between the one- and two-month maturities is unusually wide—they are normally close to each other. While a government default on debt is considered a low-risk event, investors don't appear to be taking chances and are paying up for government short-term debt maturing before June.

In his daily newsletter Thursday, AGF political analyst Greg Valliere wrote:

“A U.S. default crisis has suddenly gone from a distant threat to an imminent crisis,

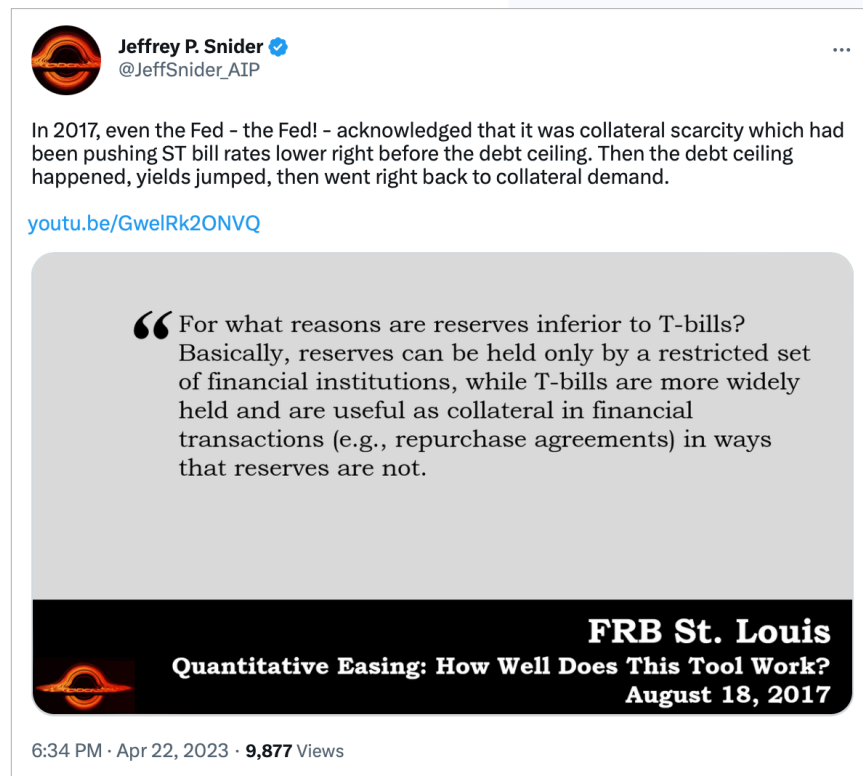
thanks to disappointing (tax) receipt data released by the Treasury Department this week—revenues have grown by much less than anticipated.”

AGF wrote that \$108 billion in receipts were received earlier this week, “far lower than expectations.” One possible reason is the weak stock market last year which may have cut into capital-gains taxes.

Many analysts had estimated, Valliere noted, that the government could make it to August without a potential default. That was the view of analysts at BofA Global Research last week, who saw a mid-August date, but noted that April tax receipts would be key.

[Continue reading here \(subscription required\).](#)

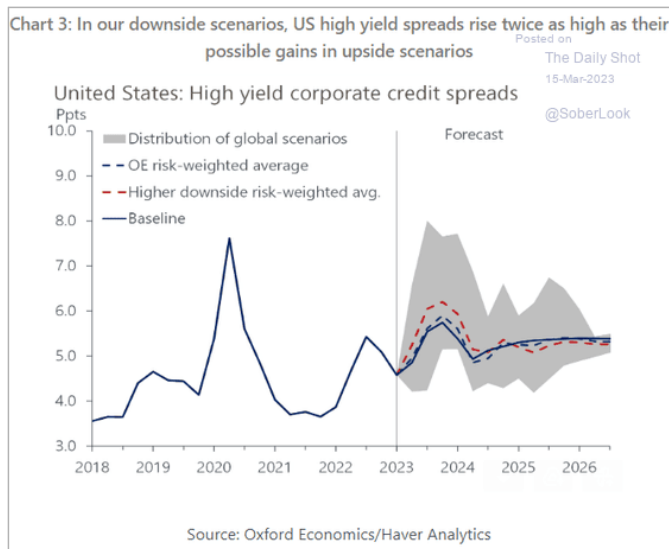
However, some analysts – most notably Jeffrey Snider, Chief Strategist for Atlas Financial and co-host of the popular *Eurodollar University* podcast – disagree. Snider believes this move is actually indicative of a shortage of high-quality collateral in the global financial system ([via Twitter](#) on April 22)...



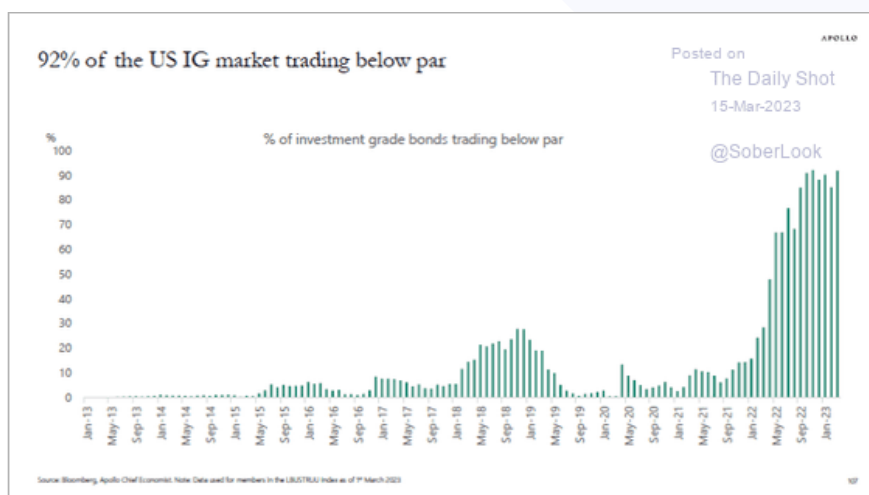
You can watch Snider’s detailed video explanation of this issue [right here](#).

## Corporate

U.S. high yield credit spreads could be headed significantly higher (from Oxford Economics/Haver Analytics via [The Daily Shot](#) on March 15)...



While corporate credit spreads remain relatively low for now, a majority of investment grade corporate bonds are already trading below par (from Torsten Slok/Apollo Global Management via [The Daily Shot](#) on March 15)...



Tightening corporate credit conditions are likely already “baked in the cake” as banks pull back on lending ([from Bloomberg](#) on March 21)...

Global banks are growing wary of risky credits as turmoil envelops the industry, crushing the market for new leveraged finance deals just as it was beginning to regain its footing.

Bank underwriters across the US and Europe are pulling sales and pausing future ones amid tepid demand. Barclays Plc recently shelved a pair of loans for Ineos Enterprises and Russell Investments, while JPMorgan Chase & Co. yanked a deal for Agiliti Health.

“The primary loan market feels like a Scooby Doo ghost town — recently deserted and a bit haunted,” said Scott Macklin, director of leveraged loans at AllianceBernstein.

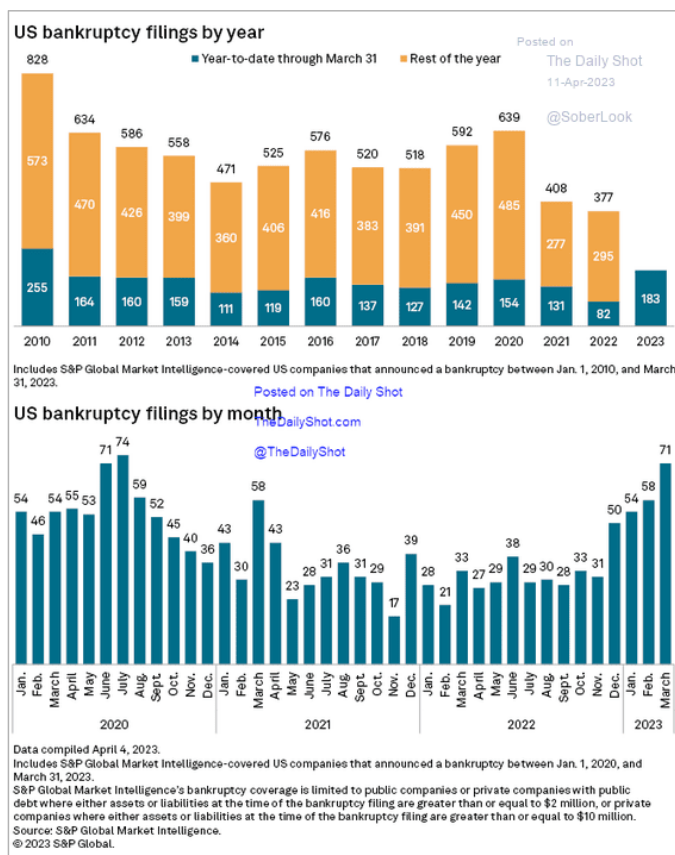
The sudden takeover of Credit Suisse Group AG and the failure of a trio of US regional lenders sparked renewed fears among investors who were already forecasting a recession. The timing could hardly be worse for Wall Street’s lucrative leveraged lending desks, which are still seeking to offload billions of dollars of risky corporate debt stuck on their books to institutional investors following a flurry of mistimed financings last year.

Bankers had found some solace in recent weeks as credit markets started showing signs of recovery, with a bevy of leveraged buyouts announced, including Qualtrics International Inc., Univar Solutions Inc. and Cvent Holding Corp. Yet hopes are quickly evaporating as volatility rips across markets, undermining efforts by banks to ramp up lending and grab back market share from private credit firms.



[Continue reading here \(subscription required\).](#)

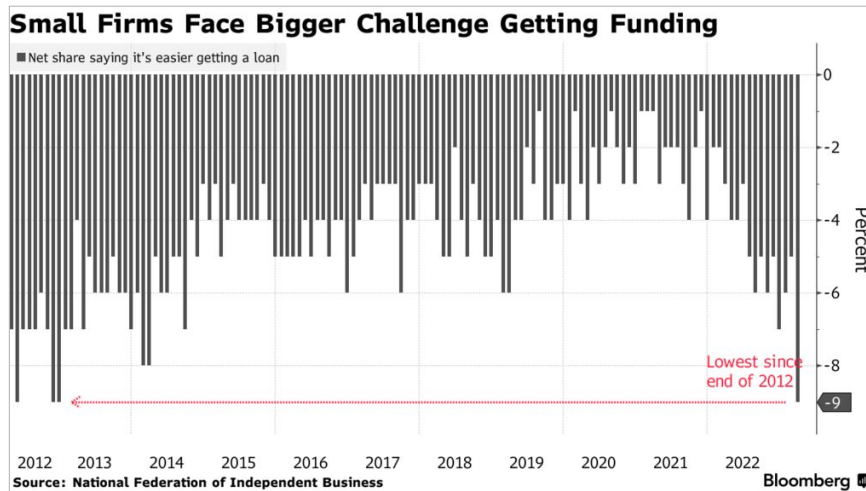
U.S. bankruptcies are on pace for their worst year since the Great Financial Crisis (from S&P Global Market Intelligence via [The Daily Shot](#) on April 11)...



The latest National Federation of Independent Business (NFIB) survey suggests credit conditions for small businesses are tighter than they've been in years (from [Bloomberg](#) on April 11)...

More US small businesses reported having greater difficulty getting a loan in March after multiple bank failures led to a further tightening of credit conditions.

A net 9% of owners who borrow frequently said financing was harder to get compared to three months earlier, the most since December 2012, according to a survey from the National Federation of Independent Business out Tuesday. The same share expects tougher credit conditions in the next three months, matching the highest level in a decade.



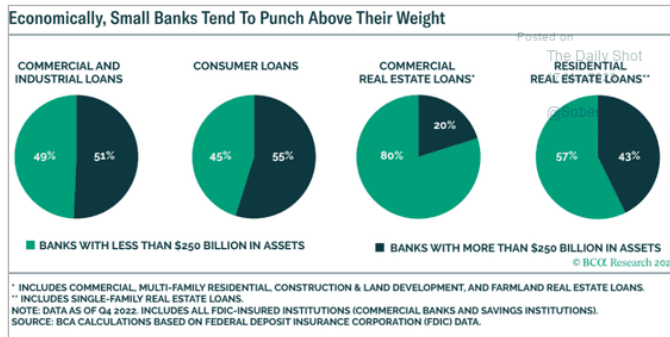
“Small-business owners are cynical about future economic conditions,” Bill Dunkelberg, NFIB chief economist, said in a statement. “There are major uncertainties ahead, most immediate is concern that a banking crisis could develop.”

The collapse of four banks in March, most notably Silicon Valley Bank and Signature Bank, prompted many lenders to tighten standards on business loans. That’s made it even more difficult for smaller firms to borrow, compounding what was already a tough financing environment after a year’s worth of interest-rate hikes from the Federal Reserve.

[Continue reading here \(subscription required\).](#)

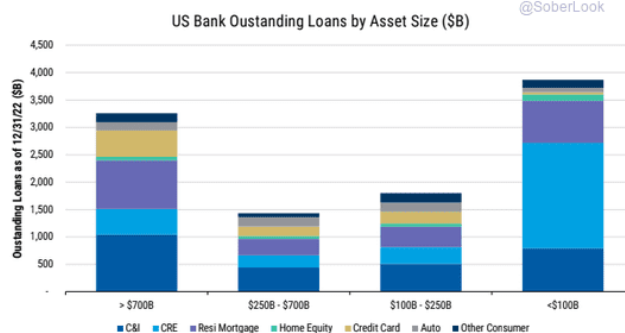
## Consumer

Recent problems in smaller banks could have an outsized effect on consumer credit (from BCA Research and Morgan Stanley Research via [The Daily Shot](#) on March 17)...



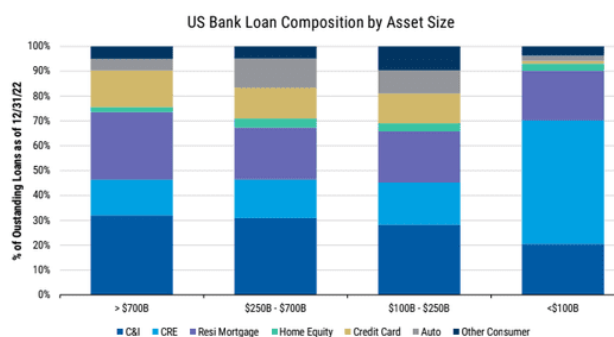
### Exhibit 10: \$ of Loans Held by US Banks by Asset Size

The Daily Shot  
17-Mar-2023  
@SoberLook



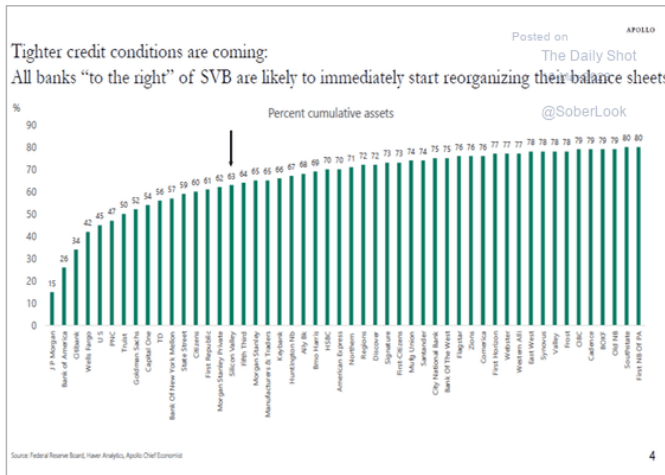
Source: Company data, Morgan Stanley Research

### Exhibit 11: % of Loans Held by US Banks by Asset Size

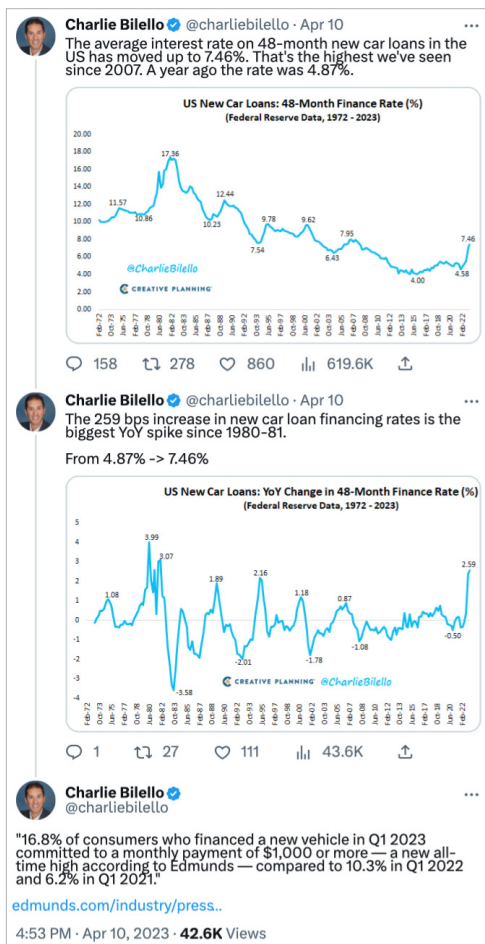


Source: Company data, Morgan Stanley Research

Following last month's turmoil, smaller banks will likely be reorganizing their balance sheets, leading to tighter credit conditions in the U.S. This development ultimately makes a recession much more likely (from Torsten Slok/Apollo Global Management via [The Daily Shot](#) on March 21)...



Rates on new car loans have soared over the past year, warning of potential trouble ahead if the economy slows (from [Charlie Bilello via Twitter](#) on April 10)...



Data suggest consumer credit card spending has slowed significantly in recent weeks ([from JHump via Twitter](#) on April 11)...



**JHump**  
@hump\_bear

Barclays card data just dropped. Looks like significant YoY weakness, especially goods and especially amounts high income cohorts (1/4)



Cross Asset Research  
11 April 2023

Investment Sciences & Data Science Digest  

### Sharp Pullback on Goods Spending

In our weekly digest, we provide insights into one hot topic using alternative data. This week, we update the signals from our credit card data set, flagging a sharp pullback in goods spending, particularly for the high-end consumer. We also highlight recent publications from our teams.

This week, we highlight that aggregate credit card spending has fallen below the previous year's level for the first time since 2021, in what could be a worrisome sign for US economic strength. The negative year-on-year spending consists of a sharp pullback in goods spending, while services spending at just 2% above last year's level could not make up for the negative goods spending growth.

The high-end consumer accounts for the sharpest declines in spending, possibly indicating that this consumer group feels most affected by current economic headwinds and is in a position to reduce non-necessary expenditures, particularly on goods (9% below last year's level).

Scroll down for excerpts from recent reports published and co-authored by the Investment Sciences and Data Science teams.

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8:36 AM · Apr 11, 2023 · **78.6K** Views

[Continue reading here.](#)

A recent survey suggests a growing number of Americans are turning to “buy now, pay later” apps to purchase basic necessities ([from Bloomberg](#) on April 18)...

US consumers are increasingly using such installment loans to pay for everyday items like groceries, highlighting the financial pain wrought by the worst inflation outbreak in four decades. Grocery prices jumped 8.4% in the year through March, according to the Bureau of Labor Statistics. Almost half of Americans have used BNPL apps, and of those, about 1 in 5 rely on such apps to buy groceries, according to a recent survey from LendingTree Inc. Some 27% of users use the loans as a bridge to their next paycheck.



BNPL apps have also become more popular as benefits that were extended during the pandemic, such as food stamps and Medicaid, expire for many beneficiaries. BNPL can be the last option to tide consumers over after other financing choices are exhausted, or the only viable route for those unable to gain access to traditional credit.

[Continue reading here.](#)

## Real Estate

U.S. housing affordability is the worst on record ([from Bloomberg](#) on March 2)...

The US housing market has softened a bit after years of soaring prices and frantic bidding wars, but there's little reprieve for buyers trying to crack into the market.

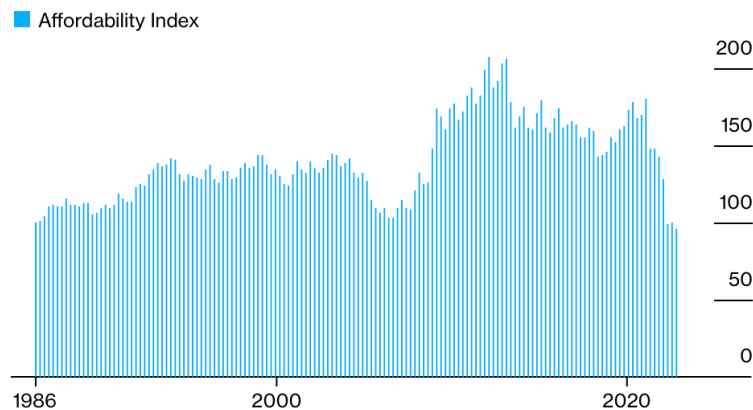
First-time buyers made up the smallest share of sales on record last year, at 26%, even as home values started to cool, according to the National Association of Realtors. And rising borrowing costs and still-high prices have pushed housing to the most unaffordable levels in records going back almost four decades.

With the spring homebuying season approaching — a time young families often try to find houses before summer and a new school year — scant inventory means the market is still tight. That's pushing the American Dream of a single-family house with a yard, or even just a simple starter condo, increasingly to people who already have an economic advantage — be it high-paying jobs, a lot of cash or access to the bank of mom and dad. The rest are left out of a key opportunity to build wealth.

"We're far from affordability for the masses," said Nicole Bachaud, senior economist at Zillow Group Inc. "The scales are shifted toward homebuyers with higher incomes and a better financial background. This will be the norm until we get more inventory in the market."

### First-Time Buyers Face the Least Affordable Market on Record

Housing affordability has reached the lowest in data going back to 1986



Source: National Association of Realtors

The average rate for a 30-year, fixed mortgage climbed for a fourth straight week, reaching 6.65%, Freddie Mac data released Thursday show.

[Continue reading here \(subscription required\).](#)

Office vacancies are soaring in many cities, suggesting commercial real estate (CRE) delinquencies and defaults could continue to climb ([from the Wall Street Journal](#) on April 6)...

Prices of bonds backed by commercial mortgages have recently dropped to levels not seen since the early days of the pandemic, pointing to a growing economic threat stemming from office vacancies and rising interest rates.

A small corner of the U.S. bond market, so-called commercial-mortgage-backed securities, or CMBS, have taken a beating for over a year owing to fears that owners of business parks, high-rises and other office properties could default on loans extended at a time of different work habits and lower financing costs.

That stress only deepened recently after Silicon Valley Bank's collapse, which raised concerns that regional banks might scale back their risk-taking and become more reluctant to make commercial real-estate loans—making it harder for property owners to refinance existing debt.

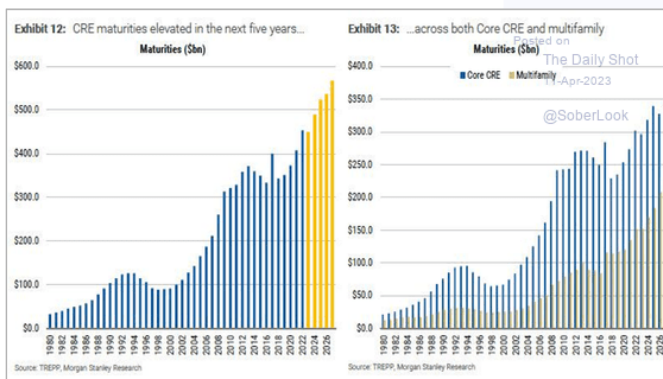
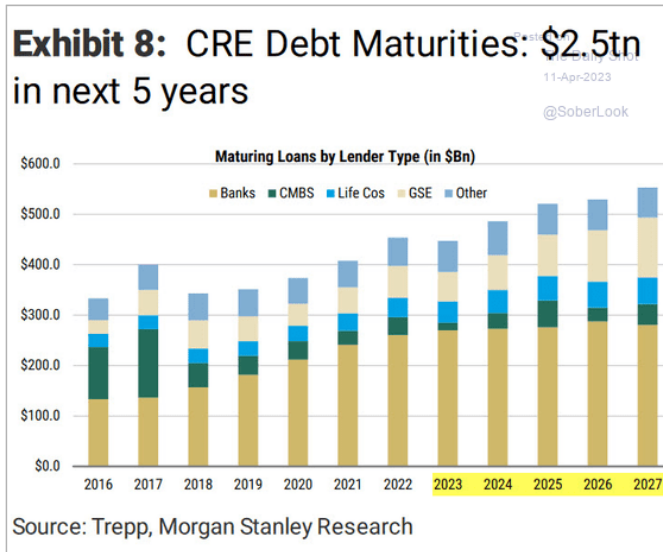
As of Wednesday, the average extra yield, or spread, above U.S. Treasuries that investors were demanding to hold CMBS with a triple-B rating—the lowest broad investment-grade tier—was 9.52 percentage points, according to an ICE BofA index. That was up from 7.6 percentage points at the end of February and approaching the 10.8 percentage point level reached in March 2020, when local authorities were issuing stay-at-home orders. The average price of the bonds has dropped to around 75 cents on the dollar from roughly 89 cents a year ago.

Investors and analysts care about CMBS prices in large part because of what they signal about a much larger universe of commercial real-estate loans that aren't sliced into securities. At the end of last year, only about 9% of the \$5.4 trillion in outstanding commercial real-estate loans were bundled into private-label CMBS, according to an analysis of Federal Reserve data by BofA Global Research.

Banks are by far the largest lenders in the sector, holding 46% of all commercial real estate debt. Banks, though, typically don't have to cut the value of the mortgages they hold on their books until borrowers have trouble making their debt payments. The CMBS market, therefore, can signal what the true value of those assets might be, a suddenly burning question for investors.

[Continue reading here \(subscription required\).](#)

A massive wall of CRE debt is due to mature over the next few years (from Trepp/Morgan Stanley Research via [The Daily Shot](#) on April 11)...



Dan McNamara – a veteran commercial real estate investor and founder of Polpo Capital – recently joined the *Forward Guidance* podcast to explain why he believes the CRE default cycle has only just begun ([from Forward Guidance](#) on April 12)...

You can listen [here](#) or watch on YouTube using the timestamps below:

- [00:00](#) Intro
- [08:01](#) Office Properties Could Decline by 50% Or More
- [15:25](#) Defaults Will Lead To Forced Selling
- [20:03](#) Why Rising Interest Rates Has Imperiled Many Commercial Real Estate Deals
- [23:25](#) Regional Banks Are Curbing Lending After Fall of Silicon Valley Bank (SVB)
- [30:01](#) Differences Between This and The Great Financial Crisis (GFC) And "The Big Short"
- [35:03](#) Shorting Tranches of Commercial Mortgage-Backed Securities (CMBS)
- [42:09](#) Views on Highly-Rated Tranches (AAA- and AA-)
- [45:03](#) Interest Rate Risk (Duration) Of Commercial Mortgage-Backed Securities (CMBS)
- [47:45](#) "We Are Pretty Market Neutral"
- [50:17](#) "We Think The Credit Curve Is Still Too Flat"
- [54:44](#) The "Refinancing Game" Is Over
- [01:11:54](#) If McNamara Is Right About Commercial Real Estate, How Systemic Will This Be?

More on why CRE could be in serious trouble ([from KEDM.com via Twitter](#) on April 12)...



## Pension giant Calstrs is among the first to warn of losses in CRE ([from the Financial Times](#) on April 18)...

One of the biggest public pension plans in the US is preparing to write down the value of its \$52bn real estate portfolio in the latest sign that higher interest rates and the recent turmoil in the banking sector are causing pain in the property sector.

The \$306bn California State Teachers' Retirement System (Calstrs) has ploughed an increasing share of its assets into real estate in recent years in a bid to diversify away from stocks and bonds, and benefit from the superior returns on offer to buyers of private assets.

But the fund's chief investment officer told the Financial Times that he was now bracing for writedowns in the value of assets in its property portfolio amid growing evidence that the Federal Reserve's rapid monetary tightening over the past 12 months has knocked valuations in the sector.

"Office real estate is probably down about 20 per cent in value, just based on the rise of interest rates," Christopher Ailman said. "Our real estate consultants spoke to the board last month and said that they felt that real estate was going to have a negative year or two."

Calstrs is not alone in its worries. State Street chief executive Ron O'Hanley told the Financial Times on Monday that the US custody bank's biggest concern was "what happens with commercial real estate, particularly offices".

He predicted that commercial real estate woes would contribute to a "gentle slowdown" in the US economy.

For Calstrs, the concerns about property mark a departure for one of the fund's best-performing asset classes. Real estate had provided double-digit returns over a 10-year period for the 1mn-member plan, according to an update in March. It reported an overall 6.7 per cent loss across its entire portfolio in 2022, in a year that saw both bond and stock markets suffering heavy losses.

Real estate makes up 17 per cent of Calstrs' overall assets. Its holdings include a \$240mn investment in 300 West Sixth, a 23-storey office building in Austin, Texas, and a \$1bn holding in a Blackstone European property fund.

Offices have emerged as a key worry for the global real estate market as the combined impact of rising rates, the shift to hybrid working and pressure to upgrade buildings' energy efficiency hits landlords.

US office values could see peak-to-trough falls of about 30 per cent, according to a forecast by consultancy Capital Economics, while prices in the worst-hit cities like San Francisco could halve.

[Continue reading here \(subscription required\).](#)

## Special Situations

### Activist Investing, Spinoffs, Arbitrage, Mergers & Acquisitions (M&A), and more

Six corporate “spinoff” opportunities to consider now ([from Barron's](#) on April 12)...

Barron's reached out to Jim Osman, founder of research firm the Edge, which identifies opportunities in special situations, including spinoffs, mergers, management changes, and shareholder activism.

Spinoffs, in particular, have been fertile ground in the past. Osman has been tracking them for 20-plus years and found that companies involved in spinoffs beat the market in the one- and two-year periods following the spins.

He highlighted six companies involved in spins that can generate above-average returns in coming years. Buying shares of the six now look attractive to Osman. They are: Madison Square Garden Entertainment (MSG), Bausch Health (BHC), Lions Gate (LGF/B), Kellogg (K), 3M (MMM), and Danaher (DHR).

The event coming soonest is Madison Square Garden Entertainment, which is due to spin off its live entertainment assets. The newly formed live entertainment company will take on the name Madison Square Garden Entertainment and will include a diverse collection of performance venues, the entertainment and sports bookings business, and the Christmas Spectacular Starring the Radio City Rockettes production. The remaining company will be called Sphere Entertainment and will be comprised of the Sphere in Las Vegas, MSG Networks, and the Tao Group Hospitality businesses.

Madison Square stock has slid a net 25% over the past 12 months, but that includes a gain of 25% in the latest three months, which reflects optimism as the Sphere spinoff approaches. The transaction “is a key catalyst in allowing the value behind MSG's assets to be properly [realized],” adds Osman.

Bausch Health was once branded as Valeant Pharmaceuticals, and the stock trades for about two times estimated 2023 and 2024 earnings per share. Shareholders are suing to block a spinoff of the eye-care business, announced in 2020. It's been a long time coming, and if the spinoff is allowed to proceed, the stock should rise.

Lions Gate Entertainment is due to split into two companies by the end of 2023: one focused on streaming and the other on television and movie production. “Separating the streaming service from the movie and TV production studios helps to make the two businesses more attractive for potential post-Spin acquisitions,” says Osman.

Lions Gate isn't a household name. Kellogg is—literally. The breakfast giant announced in mid-2022 plans to break up into two companies. The spin should be done by the end of 2023. Its global snacking business will be named Kellanova. The North American cereal business to be called W.K. Kellogg Co.

It's “a great choice for investors who wish to invest in different parts of the traditional larger business,” says Osman. “The global snacking company has world-class brands and a higher growth segment.”

3M isn't such as straightforward as Kellogg. (sic) The industrial conglomerate has been beset by legal troubles tied to potentially faulty earplugs sold to the military as well as chemicals it produced that were found in water supplies. Its shares are down about 60% from record highs reached in early 2018.

That performance has CEO Mike Roman in the hot seat and feeling pressure to generate shareholder value, says Osman. A spin might be able to do it. 3M announced plans to spin off its healthcare business in July.

Danaher isn't a struggling business. Many view it as the gold standard for running a conglomerate. It's due to spin off its water and environmental-related businesses by the end of 2023.

"Danaher has a history of worthwhile transactions for investors," says Osman. It isn't a bad idea to hold Danaher stock and stick around for the ride.

Investors' interest might be piqued by some or all of the six spin situations. Still, a screen is only the beginning of an investment process. Digging into a company's situation after identifying it as a candidate is the next step along the way.

[Continue reading here \(subscription required\).](#)

## Why three tech giants could be the next to "break up" ([from Forbes](#) on April 12)...

Of all sectors, big tech hasn't succumbed to breaking itself up as it chose to get larger and larger. With size come problems. (sic)

Tech companies are facing multiple challenges as they grow in different phases: Meta is rolling out its roadmap for handsets and wearables through 2027; TikTok is facing regulatory scrutiny from the US, EU, and Canada; and Twitter's declining performance post-takeover (earnings fell -40% in Dec 2022). Additionally, META's enormous investments in the Metaverse might not suit investors' current interests as investment returns in the Metaverse are expected in the long-term. We at The Edge believe these external factors are forcing big tech to think differently, such as Alibaba's plan to reshape its empire through the exploration of a six-way split of its business units. [JD.com](#) has also recently followed Alibaba's strategy through its own separation of its Property and Industrials units. Alibaba's successful restructuring will stand as a great example for other big tech conglomerates on value creation through break-ups.

### Regulatory Scrutiny

What I've found over the years is the bigger and more powerful the company is, the reluctance to break-up is stronger. However, they could be forced to.

Although the size and impact of major tech corporations like Google GOOG -3.3%-3.2%, Meta, Apple AAPL -0.1%-0.1%, and Amazon AMZN +0.5%+0.5% have come under growing scrutiny and criticism, breaking them up would require significant legal and regulatory action, which has not yet appeared, but watch this space. The momentum is building.

Having said that, a few recent events have the potential to result in more regulation of major digital firms. To address concerns about data privacy, competition, and other issues, new legislation has been proposed as well as antitrust actions that have been brought against some of these businesses.

Ultimately, several variables, such as public sentiment, political pressure, and legal changes, will determine whether large digital businesses are broken up. It may not take much to get there in the current political and social environment and if the economy takes a downturn, these businesses will be under more pressure to act.

Spinoffs can unlock the value of the FAANG stocks. The probability of Spinoffs

increase as we see regulatory interference in big tech companies. Governments across the globe are considering new regulations that limit how big tech companies can treat their smaller competitors. Most recently, on January 24, 2023, the US Justice Department sued Google for monopolizing digital advertising technologies.

Furthermore, the Federal Trade Commission (FTC) pursued changes in August 2022 to how big tech (Amazon, Apple, Facebook, and Google) handles consumer data. They aim to focus on any actual harm caused by data collection, whether through data breaches, ad targeting, or algorithmic discrimination, and how big tech companies' automated decision-making systems might impact consumers without their knowledge.

To answer these factors, we believe Spins are a way FAANGs can boost investors' confidence, create shareholder value, and protect their interests.

[Continue reading here.](#)

Jonathon Pollock – head of global situational investing for renowned activist investment firm Elliott Management – shares his approach to successful investing ([from \*A Letter a Day\* on April 15](#))...

Today's letter is the transcript of an interview with Jonathon Pollock conducted by 13D Monitor for their magazine The Activist Report. In this interview, Jon discusses Elliott's approach to and process for activist investing, opportunities in tech, getting board representation, engaging international companies, buying out companies, and more...

**13DM: You oversee Elliott's \$26 billion portfolio. How does activism fit into your overall investment strategy?**

Jon Pollock: There is an activist element to many of the areas in which we invest whether it's in equities, credit (stressed or distressed), private equity or direct real estate. In all of these positions we seek to hedge out as much market risk as possible leaving us exposed to the idiosyncratic risks of a given situation. These include both the risks we have identified through our due diligence process and those that we either did not or could not identify. Through direct involvement in our positions, we attempt to positively shape investment outcomes while minimizing our exposure to these idiosyncratic risks. Equity activism fits well with our strategy of deep involvement in our positions with the goal of driving returns.

**13DM: Elliott has a very thorough process with respect to its activist investments. Tell us about that process.**

Jon Pollock: Elliott has always been drawn to investments whereby "manual efforts" can both mitigate risk and create profitable outcomes. Activism falls into that category and, over the past decade, our U.S. equity activist team, headed by Jesse Cohn, has developed a process that we believe is unique and repeatable. The process is rooted in our detailed diligence effort and centers on a three-pronged test:

1. Value: Each prospective investment must have a clear path to create value. This means that there must be value in the business that is currently being obscured due to poor execution, corporate structure or some other reason, and that the value is sufficient to warrant the expenditure of time and resources.
2. Pathway: There must be a way for us to achieve the value result we see. This ranges from a conversation with a constructive management team to a proxy contest or even a bid for the company, but we must be able to draw a line from thesis to realization of value.
3. Case: There has to be some level of frustration or a general awareness

that the company is missing out on the value opportunity.

Of these components, the value criterion is always required and it is nearly always necessary to have multiple paths to create value. We may evaluate opportunities where the pathway or case is less clear, but ultimately the optimal scenario contains all three.

[Continue reading here.](#)

## A case for 100% to 200% upside in a company that recently filed for bankruptcy (from [Junk Bond Investor](#) on April 12)...

On April 11, 2023, National Cinemedia, LLC filed for Chapter 11 bankruptcy protection. You can find the bankruptcy docket with all the filings [here](#). I wrote about the company back in 2020 and while the thesis didn't play out at all, the writeup should give you good overview of the business...

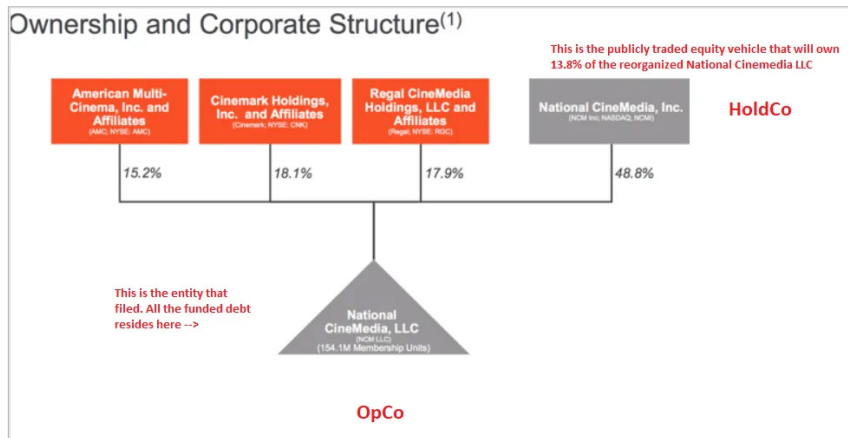
While I haven't explicitly followed the company since 2020, the huge runup in the stock this week prompted a second look. And despite the rally, there still seems to be some juice remaining in the NCMI equity!



There also seems to be much investor confusion as it relates to the stock price movement. The top tweets on Twitter actually have no understanding of the situation. Rather, price movement seems to be blamed on bankruptcy itself which the WSB / Reddit "YOLO" crowd seems to favor buying!



Let's set the record straight. As part of the restructuring support agreement ("RSA"), all funded debt (\$1.15bn) is to be equitized. In a restructuring, lenders typically get paid ahead of equity holders. However, this is where details and structure matter. The entity that filed Chapter 11 is NCMI, LLC ("OpCo"). This is where all of the funded debt resides. NCMI, Inc. ("HoldCo") is the holding company that owns units in OpCo. HoldCo publicly trades on the Nasdaq exchange. Ignore the ownership percentages (as they are stale figures) but the org chart below should give you a high level overview of the structure.



Importantly, as part of the contemplated restructuring, HoldCo will receive 13.8% of the post re-org equity in lieu of a \$15mm capital contribution - see below. This means that the equity at HoldCo is NOT a zero like one might typically expect.

[Continue reading here.](#)

## Precious Metals

Daniel Oliver, founder of Myrmikan Capital, explains why the government's response to recent bank failures could ultimately be incredibly bullish for gold ([from Myrmikan's March 2023](#) letter)...

The bailout was arranged by the Federal's Reserve new facility, the BTFP (Bank Term Funding Program). Under the program, Banks can borrow 100% of the face value of U.S. Treasuries, agency debt, and mortgage-backed securities for up to a year at no cost. In other words, although the market now properly prices long-dated Treasuries at 70 cents on the dollar, the Fed will lend a full dollar for up to year. The idea is that if depositors are assured that banks can meet their withdrawal requests despite large mark-to-market losses on the banks' balance sheets, they will leave their deposits in place.

The Fed's actions may solve a liquidity problem temporarily, but it does nothing to address the cash flow and solvency problems. According to FDIC data, the national interest rate on checking accounts currently is 0.06%. For savings accounts it is 0.35%. This means that even banks that bought 10-year bonds yielding 1.63% are still making positive margin.

The 1-month Treasury bill is currently yielding 4.6%. Imagine you are running a farm equipment distributor or similar company in Kansas or Oklahoma: you have uninsured deposits; you see a left-wing regime bail out left-wing oligarchs, but you have no confidence the same treatment will apply to you; it's true that most banks are not in as bad shape as SVB, but you are forgoing 4.3% interest on your cash in order to accept the solvency risk of your regional bank. The Fed's BTFP program does mean you do not need to withdraw your funds in a panic today, but as soon as the paperwork is complete, you move your cash to a money-center bank or Treasuries.

This is already happening: the *Financial Times* reports that "large US banks are being inundated with requests from customers trying to transfer funds from smaller lenders." And, of course, the large banks are more than happy to grab additional market share: "JPMorgan Chase, Citigroup and other large financial institutions are trying to accommodate customers wanting to move deposits quickly, taking extra steps to speed up the normal sign-up or 'onboarding' process, according to several people familiar with the matter."

Let's think about what happens next: to meet the withdrawals, smaller banks will have to pledge their underwater bonds to the Fed for cash. The large banks will get deposit inflows, enabling them to keep their interest rates low while using the funds to purchase high-yielding, short-term Treasuries, boosting their market share and profitability.

What could entice deposits back to small banks? Banks cannot raise deposit rates without locking in negative cash flow. What happens after a year if banks cannot repay the BTFP facility, especially as their loan book deteriorates due to the looming recession? Perhaps the BTFP should be called Schrodinger's QE: if the banks do not need to draw on or repay the facility, then it is not- QE; if the banks fail, then a year from now it will be seen that the Fed was purchasing Treasuries and MBSs at prices that imply 1.5% interest rates, not 5%.

The market has, of course, anticipated all this already. In a single day, the yield on the 6-month Treasuries plunged from 5.17% to 4.81%. Even more impressive, the 2-year plunged from 4.6% to 4.0%. These movements anticipate that the Fed is done hiking though also take some of the pressure off mark-to-market losses.

Consider, however, the macro implications of deposits—the core reserve of the banking system—fleeing to the Treasury market. It means that the government will stay well funded to make transfer payments to the indigent, fund Raytheon and Zelensky in Ukraine, and pay rising interest costs on its debt. But businesses—real businesses, not

just innovation ventures—will find it that much harder to access capital. The real burden of government, as Milton Friedman taught, is measured by how much it spends.

These events are setting gold up for another epic run. The banking crises of 2008 and 2020 forced the Fed to hyper-print dollars and sent gold vertical. The market perceived that the recent inflation would prompt the Fed to tighten monetary conditions; gold softened, though not nearly as much as it might have. Now inflation is still running at 6%, yet the Fed has already rolled out Schrodinger's QE to support bank balance sheets. The oncoming recession, caused by liquidating malinvestments made during the boom, will put even more pressure on the banking system. And at some point insurance companies and pension funds will start to fail if the Fed keeps rates high.

From a geopolitical perspective, only U.S. banks are eligible to use the BTFP. Non-U.S. banks active in the eurodollar market who may be in a similar situation as SVB are on their own. Notably, Credit Suisse has been teetering on failure for the past few months, if the market for its credit default swaps are at all accurate. Its shares traded down 29% this morning as the market bets it will not survive, which would all but force the Fed to reopen massive swap lines with the ECB. . The U.S. rates market, which last week was projecting the fed funds rate would be 0.6% higher by September, is now pricing in 0.6% of cuts by then.

Nor should it be lost on the market that the Fed itself is essentially a giant SVB: it purchased trillions of dollars of fixed-rate securities at ridiculously low interest rates and is now carrying enormous unrealized losses. Since its own deposit rate—what it pays on reserves and on its reverse repo facility—reflects the Treasury rate, it also has large operational losses, previewing what is in store for the private banking system.

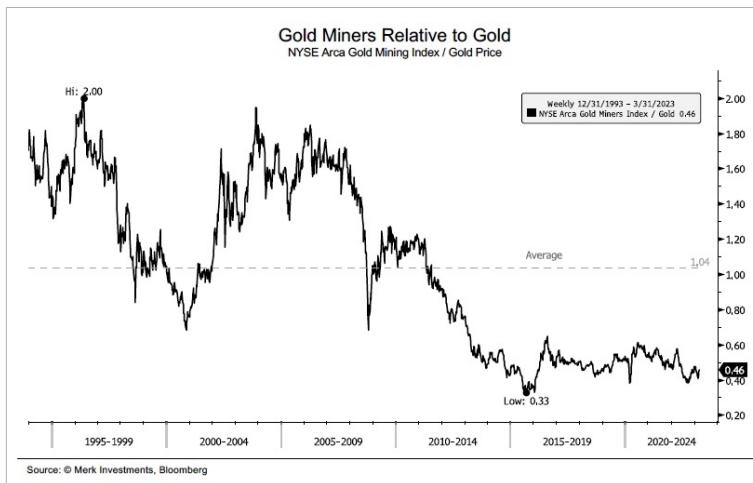
Powell has lost. Like Arthur Burns in the 1970s, he has discovered that abruptly higher rates threaten stability long before retail prices stop rising. At this point, it is hard to know which is better for gold: more rate hikes that accelerate a major banking crisis or a pivot to more money printing now.

[Continue reading here.](#)

Gold stocks remain historically cheap versus both gold and the broad stock market ([from Mining.com](#) on April 4)...

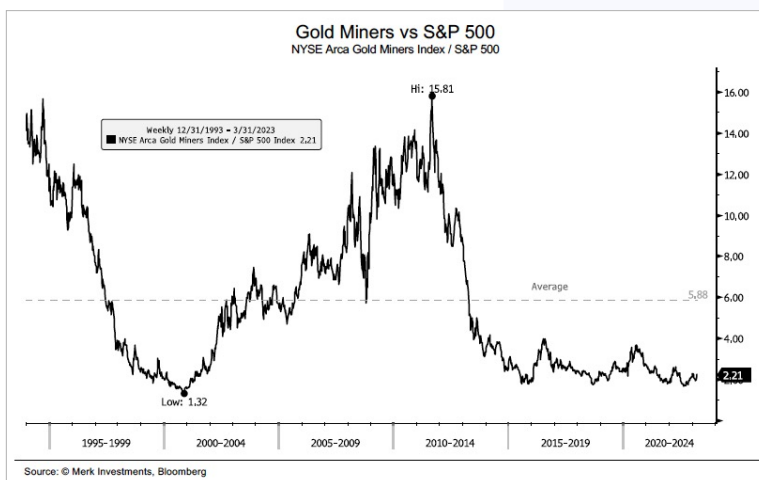
The current ratio between the metal and gold stocks as represented by the NYSE Arca Gold Mining Index, is not that far off historic lows struck in 2015 and shows that gold stocks have been underperforming gold for more than a decade.

If the price of gold stays stable at today's levels, gold stock valuations would have to more than double to bring it in line with the historical average since the early 1990s.



Balance would also be restored should the gold price halve of course, but there is no scenario where gold dipping into triple digits does not bring carnage to equities.

At the same time, despite the gold market's rude health, gold mining stocks have also been deeply discounted when compared to the broader market in the form of the S&P 500.

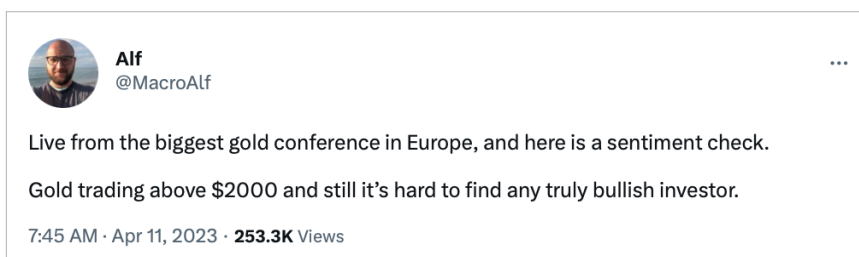


[Continue reading here.](#)

Despite the big rally in precious metals recently, sentiment among investors still appears to be relatively muted ([from Jared Dillian via Twitter](#) on April 4)...



Alfonso Peccatiello, founder of The Macro Compass, recently noted similar sentiment at a major gold conference ([via Twitter](#) on April 11)...



Gold tends to perform very well after the U.S. Treasury yield curve “inverts,” as it did last fall ([from MacroMicro via Twitter](#) on April 13)...



Gold also tends to outperform the broad market following yield curve inversion  
([from Otavio Costa via Twitter](#) on April 13)...



**Otavio (Tavi) Costa** ✓  
@TaviCosta

It is fascinating how the gold-to-S&P 500 ratio continues to track its historical performance once again after major distortions across the US Treasury curve.

Our empirical analysis suggests that today's outperformance of precious metals relative to the overall equity market is still in its initial phase.

To be precise:

Going back to 1970, this ratio tends to appreciate on average by 72% for the next two years after the US Treasury curve inverts by more than 70%.

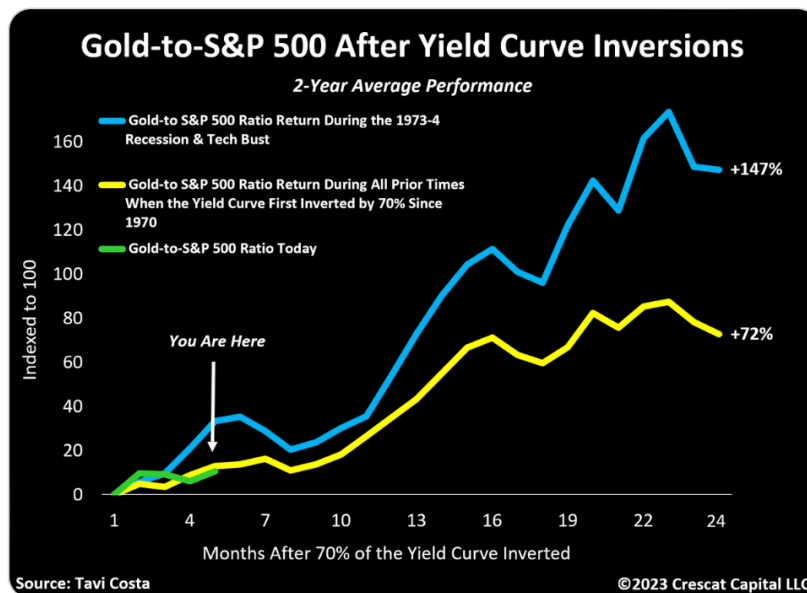
This indicator officially flashed a warning signal in November 2022.

As shown in the yellow line, note the strong acceleration in return initiating at the 8th-month mark, which would imply the end of July in today's scenario.

Given how historically expensive financial assets are, particularly versus commodities and gold, it is highly probable that both legs of this trade could work, i.e. precious metals rise as equity markets fall.

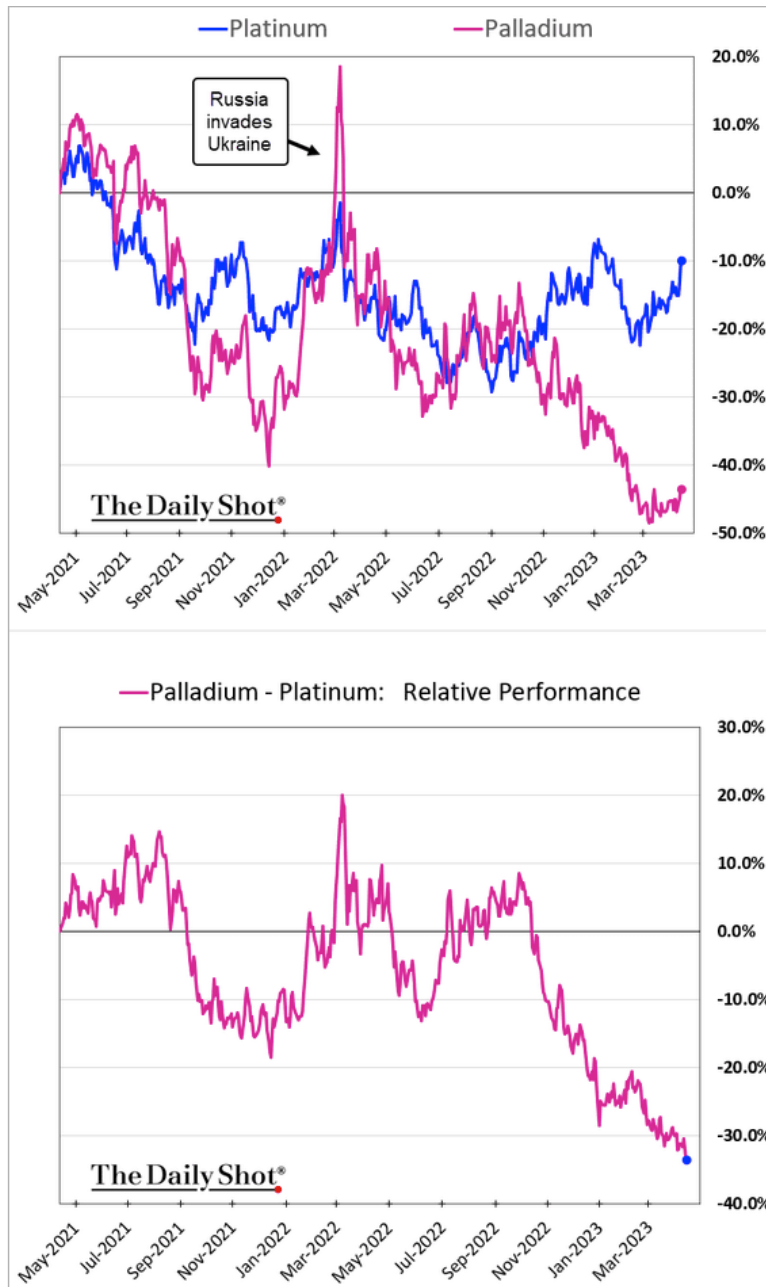
To recall, this was also the case during the 1973-4 stagflationary crisis and the tech bust, which in my strong view resembles the current environment.

As shown in the blue line below, the performance of the gold-to-S&P 500 ratio during these two specific cases was almost twice as strong as it was when including all the other periods.



1:28 AM · Apr 13, 2023 · 233.4K Views

The gap between platinum and palladium continues to widen  
(from [The Daily Shot](#) on April 14)...



Notes from the 2023 Denver Gold Forum Europe (from [ByteTree](#) on April 14)...

It was a privilege to attend the 2023 Denver Gold Forum Europe in Zurich earlier this week with a keynote speech. Due to the pandemic, it was the first time we had been able to meet since 2019, and with the price of gold back above \$2,000, there were high spirits in the room.

Some of the keynotes were given by social media gold and macro gurus such as Ronnie Stoeferle, Alf Peccatiello, Lawrence Lepard, and Brent Johnson. There were two excellent panels and 46 presentations from the participating gold and silver companies.

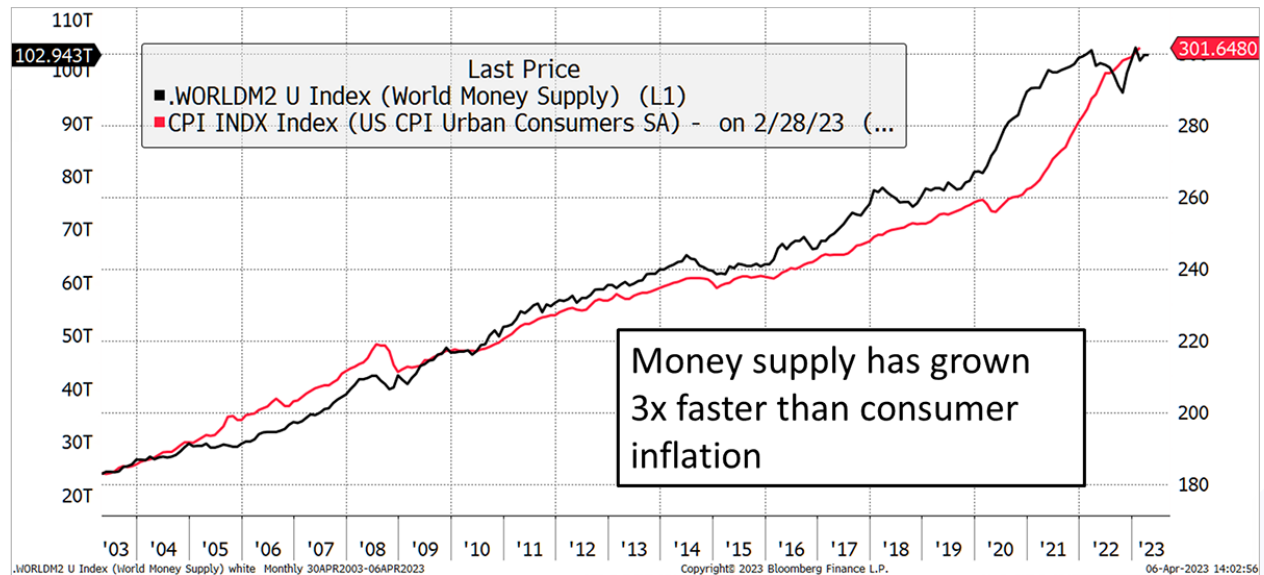
All presentations can be seen on the Denver website's event schedule, and I'll give the link at the end. In this note, I will summarize the seven keynote presentations...

## BITCOIN AND GOLD ARE KEY TO SURVIVING AN INFLATIONARY ENVIRONMENT

**Charlie Morris, Founder & CIO, ByteTree**

The G20 Money Supply now exceeds \$100 trillion, and most of that money has boosted asset prices. Nevertheless, consumer prices have also been rising, especially since the pandemic. The money supply appears to lead consumer prices, which means when the central banks print more money, which they inevitably will, the risk is that consumer prices keep on rising.

### The Money Supply and Inflation



Source: Bloomberg

Inflation hedges should be physical and liquid. Commodities are highly liquid, but since they are generally owned via futures contracts, they are not physical. Houses, art, farmland and diamonds are physical but not liquid. The world's two most liquid physical assets are gold and bitcoin.

[Continue reading here.](#)

Both gold and silver are on the verge of massive long-term technical breakouts  
([from Gold Ventures via Twitter](#) on April 16)...



# Energy

Warren Buffett's Berkshire Hathaway has [been buying millions of additional shares of Occidental Petroleum \(OXY\)](#) over the past several months. Energy-focused investment firm Bison Interests explains why this is a bullish long-term omen for oil and gas stocks ([via Twitter](#) last summer)...

**Bison Interests** @BisonInterests · Jun 21, 2022

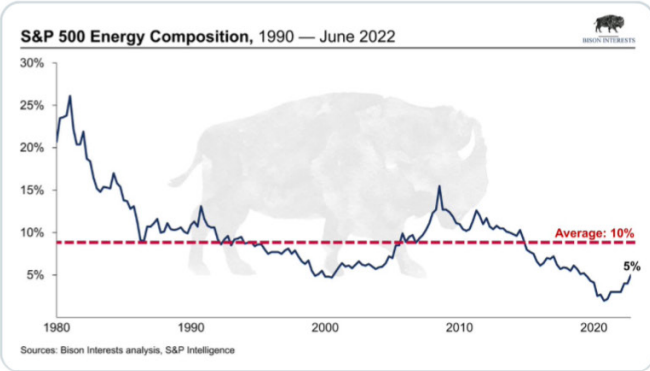
Warren Buffett is buying #oil stocks: He recently revealed purchases of \$26B of \$scvx and \$soxy. Below an analysis of Warren Buffett's history with oil and gas investments, and why recent purchases may indicate the best is yet to come for oil and gas equities. 📊



53 506 1,722

**Bison Interests** @BisonInterests · Jun 21, 2022

(1/24) Buffett's recent purchases of major stakes in oil and gas companies are an indicator of his optimism for the sector. General sentiment and positioning in oil and gas has lagged, as indicated by energy's small portion of the overall equity market versus historical levels:



Sources: Bison Interests analysis, S&P Intelligence

5 14 149

[Continue reading here.](#)

## Harris “Kuppy” Kupperman explains why 2023 could finally be the year the uranium bull market takes off (from [Kuppy's Korner](#) on January 25)...

I do a lot of investing in industries that are tied to supply and demand of some commodity or service, as I have found supply and demand to be one of the most basic concepts, yet one of the hardest for Wall Street to accurately model or price. This is because most investors, even most participants in that industry, anchor their expectations to the recent range of prices. Even the most bullish prognosticators rarely think that something can exceed a narrow band of outcomes, as for most of their careers, such thinking has proven accurate. They simply cannot foresee tail scenarios. When these scenarios do arrive, even the industry participants tend to get caught unprepared—many of them getting run over by events.

Fortunately, for a successful investment, I don't have to predict the ultimate peak price. All I have to know is that there is indeed a supply and demand imbalance. From there, I need to then predict future imbalances and understand the drivers on both the supply and demand side. Are there new sources of supply? Is there an expected change in demand? Are there price levels that lead to switching, on either the supply or demand side? I basically ask myself what can adjust my math. That's all I need to know. Whereas most investors fixate on a price target—I simply focus on the trend and let the price evolve on its own.

On this site, I've previously detailed the bullish thesis for uranium. What I haven't spoken about is how strong the incremental data-points have been since then. When I first bought uranium in September of 2021, I saw a supply and demand imbalance, along with a mechanism to sequester uranium, furthering that imbalance. Since then, nearly every datapoint was unexpected and positive. Some of those datapoints were extreme in terms of how positive they were. Oddly, I think that investors have simply missed the magnitude of what's happening here. As a result, I'm going to spell it out as best as I can...

[Continue reading here.](#)

Goldman Sachs analysts famously called the bottom in copper when they “threw in the towel” and turned bearish on prices last summer. They may have recently done the same for crude oil ([from Paulo Macro via Twitter](#) on March 19)...

**Paulo Macro**  
@PauloMacro

Can't help think back to this GS's downward revision note on July 11th last year in copper, basically on the lows. Not a total contra by any means, but this move frequently happens after clients been yelling at you:

**Copper: How low can we go?**

**Copper pricing fundamentals over fundamentals.** Since October 2020, we have been seeing for a continuous bull market in copper, centered on tightening supply, sustained global growth and rapidly growing Asian demand. However, since Q3-21, copper has increasingly deviated from our expected price path which is now 40% below our prior forecast for this point. Yet the fundamental trends at the heart of our bullish call offer limited explanation for the degree of underperformance. So far this year, our refined copper balance has softened by only 77kt less than 1% of global demand, reflecting a demand downgrade of 285kt offset by a 208kt reduction in supply. Our projected metal deficit for the year is only modestly smaller as a result (GSe 119kt vs. 197kt forecast in Dec 21' equivalent to 5% downside in price), while our high frequency inventory tracking shows no surplus inflation. As the movement in price is both larger and more persistent than fundamentals suggest, we view the majority of copper's recent downside as down to macro financial flows, best characterized by rapid dollar appreciation, as compared to our initial expectation for a stable dollar and a continued risk-on macro environment. As tightness across certain-based commodities, food and fuel worsens global growth prospects, the resulting flight to safety has forced a sharper repricing in copper than in other parts of the commodity complex. This is exacerbated by the greater variable costs in metals supply than energy, reinforcing the deflationary effect of weakening FX on dollar-denominated fair value. Whilst a counterfactual, if the dollar had trended as expected, all else being equal, we would expect copper to be 32% higher than today's level, and close to our initial expectation.

**Recession risk means price stagnation in H2.** As we look ahead, in light of deteriorating OIA growth projections particularly for Europe, we now project the copper market to be in a **modest deficit** in 2022 (119kt) followed by a balanced market in 2023 (GSe 171kt deficit vs. 120kt deficit previously). This reflects our **baseline** case, given the elevated uncertainty over economic path ahead, we also model copper market scenarios into 2023 for both OIA recession (170kt surplus) and global recession (354kt surplus). On today's copper price, we estimate the market is discounting a 400kt softening market swing into 2023, which implies a balance path in line with our global recession scenario. The market's

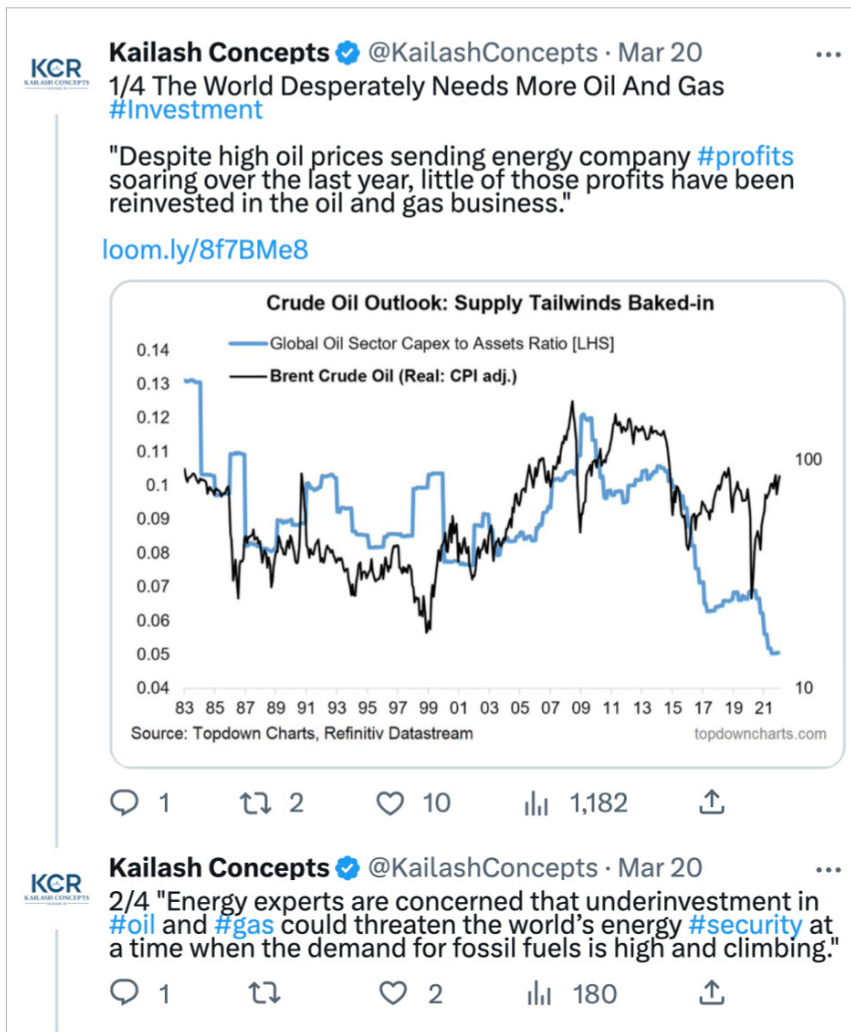
balance scenario it is likely copper would have to trade below \$6,000/t. On mine supply, the significant cost input inflation that has emerged in the sector over the past 2 years means that at a copper price of \$7500/t close to 300kt of mine supply is now loss making. A year ago, to achieve the same degree of cost curve intersection would have required a copper price of \$6,270/t. Cost curve intersection does not equate though to immediate mine cuts; historically those have taken at least 1-2 quarters to emerge. Importantly, scrap supply adjusts in much more abrupt manner to lower price. We estimate as much as 75kt lost per \$1,000/t of sustained move lower in price on annual basis, meaning as much as a 150kt tightening adjustment into next year.

**Structural tightness limits trough duration.** Whilst there are number of macro and micro factors that are key to determining the current sell-off path, there remains the question of the recovery trajectory. It is observable that every abrupt sell-off in copper in the 2000's - during the China urbanisation-focused bull market - was followed by a short sharp reversal higher in price. In comparison, during the 2010's when the market largely lacked structural drivers, the sell-offs were more extended and faced prolonged troughs

**Disruptor** @DisruptorStocks · Mar 19  
Oil demand outlooks getting revised lower  
[bloomberg.com/news/articles/...](#)

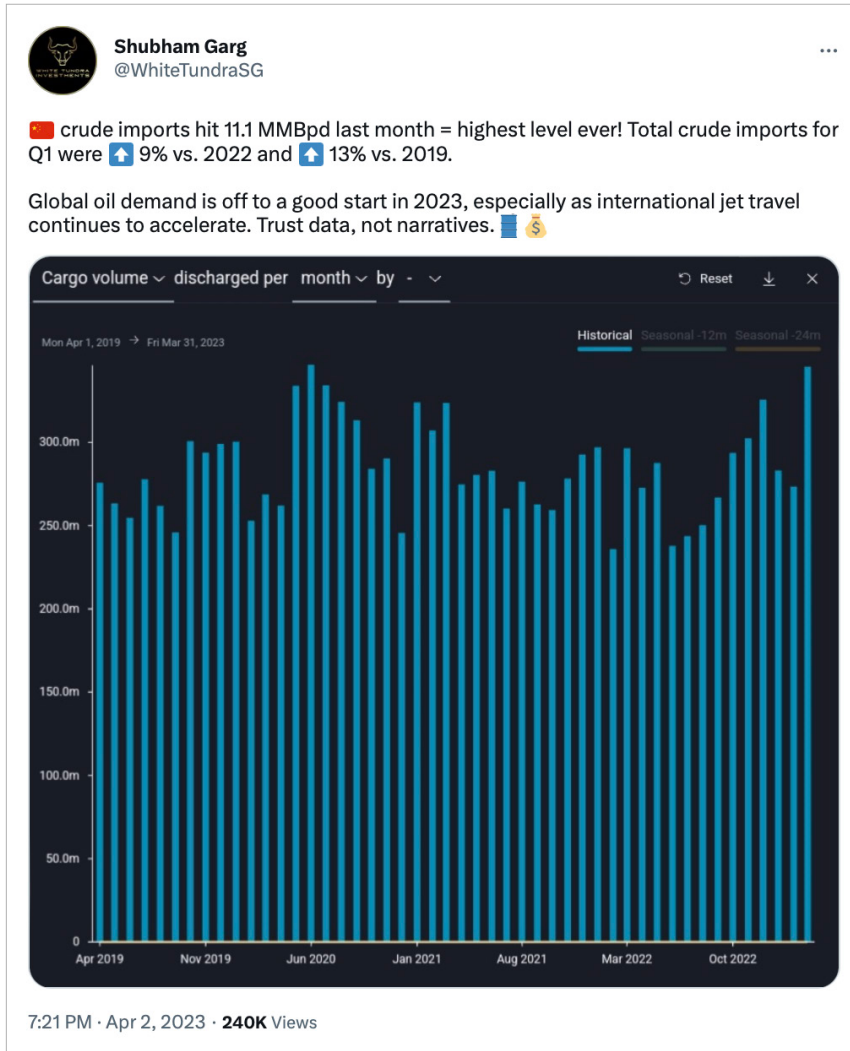
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This is the fundamental reason oil and gas prices are likely to move significantly higher in the years ahead ([from Kailash Concepts via Twitter](#) on March 20)...

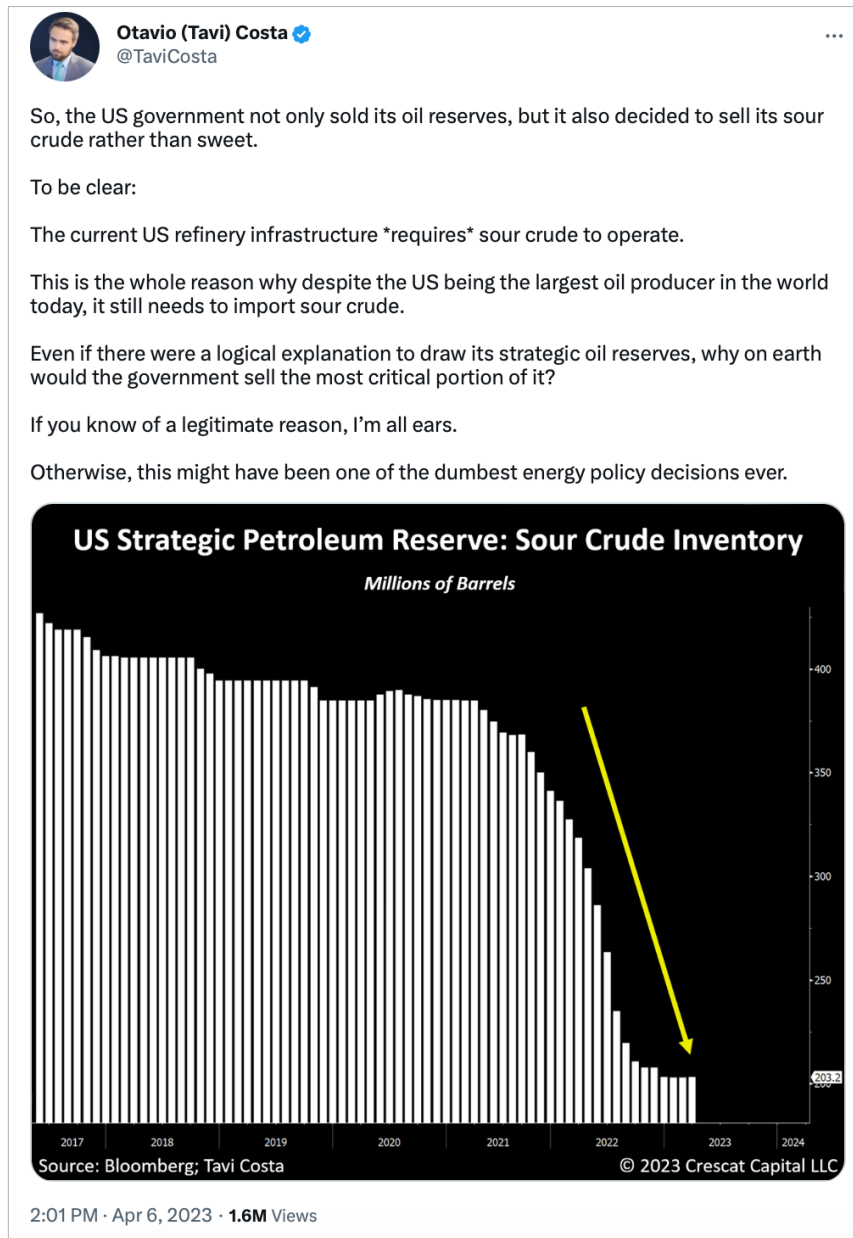


[Continue reading here.](#)

Chinese crude oil imports just hit a new all-time high in March ([from Shubham Garg via Twitter](#) on April 2)...



The White House isn't just selling off our country's oil reserves... it's selling off our country's most critical and valuable oil reserves ([from Otavio Costa via Twitter](#) on April 6)...



This recent multi-billion-dollar oil deal implies significant upside for smaller energy stocks ([from Bison Interests](#) on April 7)...

Ovintiv (NYSE: OVV) is acquiring oil and gas assets in the Permian Basin from three private companies backed by Encap, a private equity firm: Black Swan Oil & Gas, Petrolegacy Energy & Piedra Resources. Ovintiv is buying approximately 75,000 Boepd of production (80% liquids) and 65,000 net acres with an estimated 1,050 net undrilled well locations. The deal price is disclosed by Ovintiv as \$4.275B, including \$3.125B in cash and 32.6MM OVV shares.

## Ovintiv Acquisition and Implications

Ovintiv discloses that it is buying these Permian assets at \$57K/Boepd, or 2.8x NTM EBITDA. Upon initial review, this transaction looks expensive compared to recent similar deals in the Permian, but the deal could make financial and strategic sense for Ovintiv as it extends Ovintiv's low-cost inventory life by a few years.

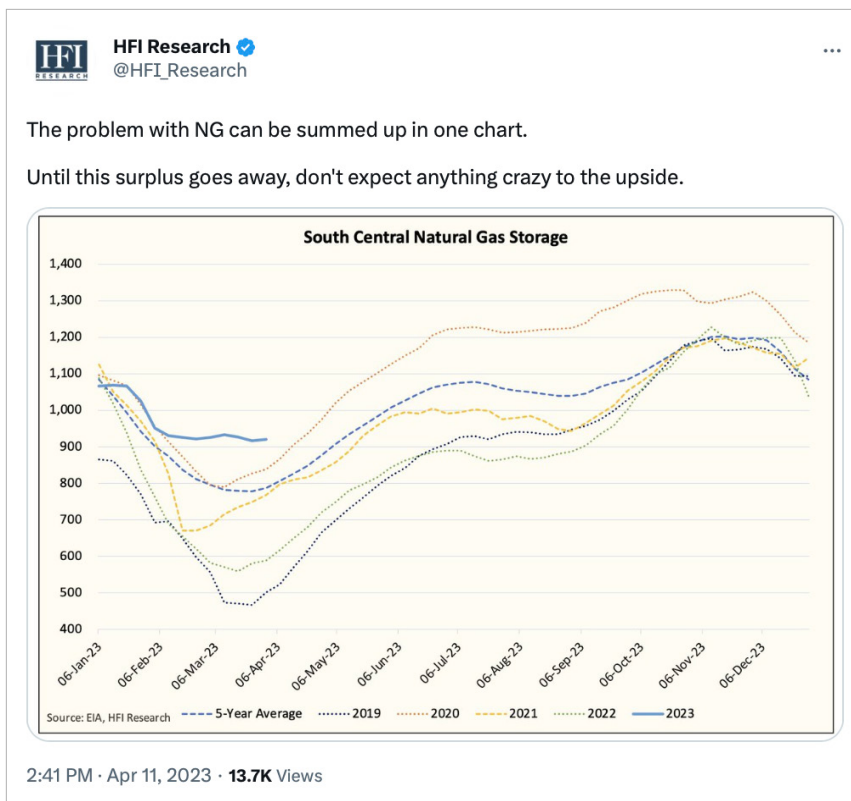
The stock market seems to like the deal, and OVV shares rose 11.1% on the day of the announcement. Positive market reactions to acquisitions at rising multiples indicate that transaction values may continue to rise further as the cycle progresses, and bodes well for many smaller public companies trading at significantly lower valuations than those implied by these acquisitions.

### The Deal is More Expensive Than It Looks

However, the deal price may be higher than it appears in transaction disclosures. Specifically, OVV's simultaneous sale of a Bakken asset to Encap at a significantly lower-than-recent comparable transaction price implies foregone value by Ovintiv, which should be considered in this analysis. This implies an even higher Permian acquisition value, which means the transaction market may be even hotter than consensus expects.

[Continue reading here.](#)

This is the simple reason natural gas prices have struggled recently ([from HFI Research via Twitter](#) on April 11)...

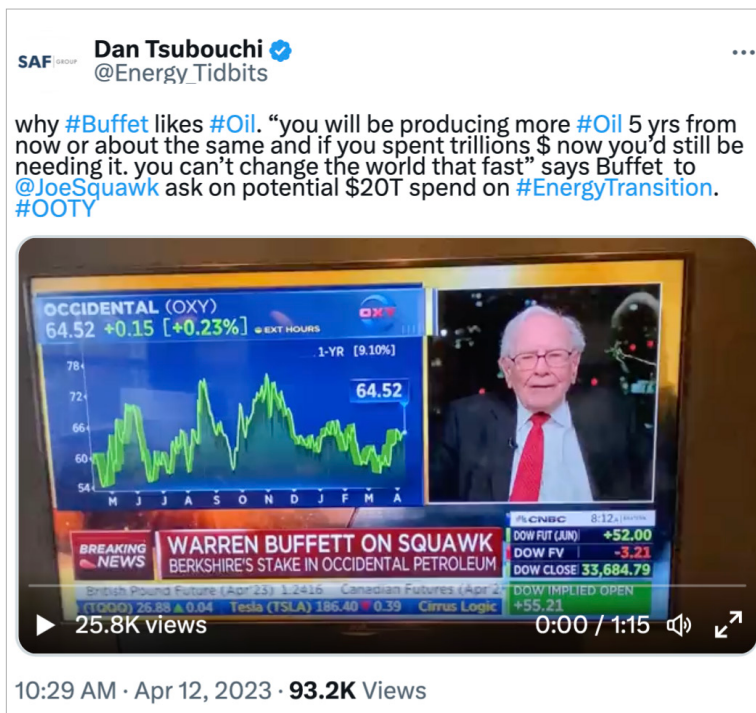


Larry McDonald – founder of The Bear Traps Report – believes [oil giant Exxon Mobil's \(XOM\) reported buyout offer for Pioneer Natural Resources \(PXD\)](#) is a super-bullish sign for the energy sector ([from the Macrovoices podcast](#) on April 13).

In short, McDonald says this offer likely signals the start of a massive consolidation in the sector that could reset valuations of other companies significantly higher – particularly smaller companies that are currently trading near historic lows relative to reserves.

You can listen to the podcast [right here](#). The energy discussion begins around the 22:00 minute mark.

Warren Buffett explains why he's so bullish on oil today ([from Dan Tsubouchi via Twitter](#) on April 12)...



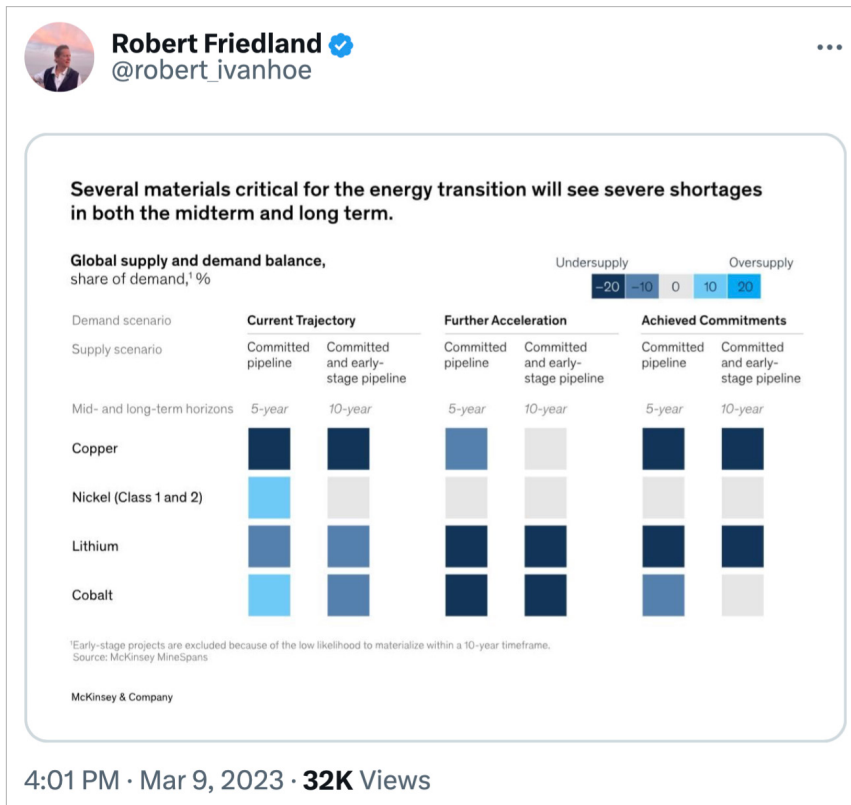
[Listen to the short video clip here.](#)

Downside momentum in natural gas has weakened over the past month, which could signal a rebound in prices (from Aazan Habib/Paradigm Capital via [The Daily Shot](#) on April 14)...



## Other Commodities

Ivanhoe Mines founder Robert Friedland highlights the huge potential shortages we're facing in metals necessary for any "green energy" transition ([via Twitter](#) on March 9)...



The London Metals Exchange – ground zero for [a massive “short squeeze” in nickel, which ultimately saw the exchange cancel an unprecedented \\$3.9 billion in trades last fall](#) – was just “rocked” by a new nickel scandal last month ([from Bloomberg](#) on March 17)...

The London Metal Exchange has discovered bags of stones instead of the nickel that underpinned a handful of its contracts at a warehouse in Rotterdam, in a revelation that will deliver another blow to confidence in the embattled exchange.

The amount of metal represents just 0.14% of live nickel inventories on the LME, worth about \$1.3 million at current prices, so the immediate impact on metals markets is limited.

But the shock announcement has much wider implications: in an industry riddled with scandals, the LME's contracts are viewed as unquestionably safe. The news that even a few of them have been compromised will raise fresh questions about its systems and procedures while the 146-year old exchange is still wading through the fallout of its last nickel crisis.

“LME warehouse warrants used to be the gold standard of warehouse warrants around the world, treated as a near-cash equivalent,” John MacNamara, chief executive officer of Carshalton Commodities Ltd. and a veteran commodity trade finance banker, wrote on LinkedIn. “Something has gone horribly wrong at the LME.”

[Continue reading here \(subscription required\).](#)

Ironically, it turns out the missing metals (rocks) in question were owned by none other than JPMorgan Chase, which itself played a role in the prior scandal and has long been rumored to manipulate metals markets (from [Bloomberg](#) on March 20)...

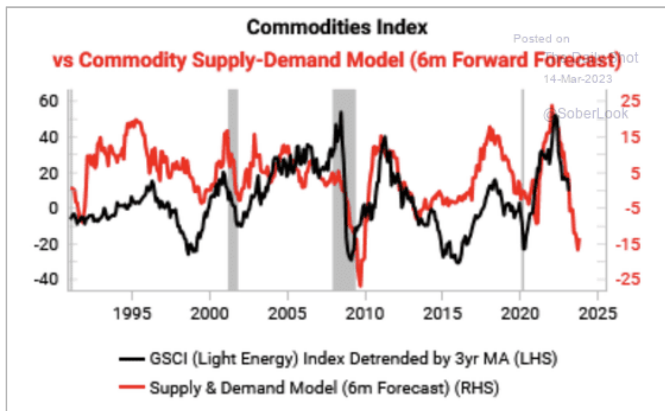
JPMorgan was the owner of the nine invalidated contracts, according to people familiar with the matter. The bank registered the bags of material as being deliverable against LME contracts in early 2022, said the people, who asked not to be identified discussing private information.

There's no suggestion that JPMorgan did anything wrong. The material was already inside Access World's Rotterdam warehouse when the bank bought it several years ago, according to one of the people.

Still, its central role in another nickel crisis will be a headache for the bank. JPMorgan's commodities business has been under scrutiny since last year's nickel short squeeze on the LME, where it played a key part as the largest counterparty to Chinese tycoon Xiang Guangda's short position.

[Continue reading here \(subscription required\).](#)

Commodities could face further near-term price pressures in the months ahead (from Variant Perception via [The Daily Shot](#) on March 14)...



But the longer-term outlook remains incredibly bullish ([from Otavio Costa via Twitter](#) on March 21)...



Copper is the “missing ingredient” of the anticipated “energy transition” ([from The Economist](#) on March 30)...

At 76, Richard Adkerson is an elder statesman of the copper industry. For two decades he has been CEO of Freeport-McMoRan, one of the world's biggest copper producers, valued at \$55bn. He has seen it all, from short-term booms and busts to the China-led supercycle, and from industry fragmentation to consolidation. Freeport itself has pioneered some of the trends. In 2007, when it paid \$26bn for Phelps Dodge, an Arizona-based company dating back to the Wild West days of the 19th century, it was the biggest mining transaction ever. It was also a masterstroke. Not so the company's ill-fated diversification into oil and gas less than half a decade later, which he says was not his idea. That caused a near-death experience and had to be swiftly unwound after both energy and metal prices crashed in 2016.

Appropriately for a mining-industry executive, he has a gravelly voice, which he uses to conjecture about a potential copper crunch. The pressures of industrial development in the emerging world, as well as progressing electrification and decarbonisation as part of the energy transition, are likely to turbocharge demand for the red metal. S&P Global, a consultancy, expects copper consumption to double to 50m tonnes between now and 2035. Yet unless prices rise sharply, supply is unlikely to keep up. Besides new copper mines coming on stream in Mongolia and the Democratic Republic of Congo, such projects are thin on the ground, Mr Adkerson says. Concerns about the environment and indigenous rights make it harder to win approval for them. Moreover, in both Chile and Peru, which together produce nearly 40% of the world's copper, mining is vulnerable to national politics. As Mr Adkerson puts it, this is not a supply problem that money alone can solve. “There is just a scarcity of actionable investment opportunities in the world today,” he says. Wisely, he does not go as far as suggesting the world is running out of copper. Instead, he tells a story dating back to the days early in his career when he was a consultant to the oil industry...

The comparison between the oil and copper businesses is useful. It helps illustrate the complexities of mining the metal. It also hints at how shortages may be overcome. Start with the differences between the two commodities. As Mr Adkerson explains, the technology for finding copper is not as effective as the seismic testing used to identify hydrocarbon reservoirs because copper deposits are spread over vast areas. Years of exploratory drilling are required. Moreover, a lot of oil exploration is done in the ocean, but as yet deep-sea mining is nascent and environmentally sensitive. Mr Adkerson notes that Lockheed Martin, an American armsmaker that had thrown its weight behind deep-sea mining, has just sold a subsidiary with licences to explore part of the Pacific Ocean. In effect, it is quitting the venture.

There are also stark differences in production. Not only is copper mining more concentrated by region than oil drilling. Whereas it takes years to go from licensing to operating an oil well, it can take a generation to develop a “greenfield” copper mine. The consolation prize is that copper mines do not deplete as quickly as oil wells. Some of Freeport's mines date back more than 100 years.

[Continue reading here \(subscription required\).](#)

Western governments’ “net zero” initiatives would require a metals mining boom ([from the Wall Street Journal](#) on April 12)...

California made a stunning decision last year—that by 2035 all new cars sold in the state must have at least 2½ times as much copper as conventional cars today. That's not literally what the mandate said, of course, but it's the practical effect of ordering

all cars to be electric in the next 12 years. “Big Shovel” will compete with “Big Oil” as mining ramps up to supply the vast increase in a wide range of minerals that energy transition requires. But getting everything that will be needed will be tough.

The drive toward energy transition will increase demand for lithium, cobalt and other minerals many times over. An offshore wind project uses nine times the minerals of a natural-gas-fired power plant of the same generating capacity.

As countries roll out targets for “net zero” carbon emissions by 2050, it’s becoming clear how difficult it will be to source this huge increase in minerals. The U.S. and Japanese governments, the European Union and a host of multilateral organizations have issued alarming reports about the magnitude of the challenge. The International Monetary Fund warns that striving to achieve net zero by 2050 will “spur unprecedented demand for some of the most crucial metals,” leading to price spikes that “could derail or delay the energy transition itself.”

Consider a recent S&P Global study on copper. Much of the energy transition is predicated on electrifying as much as possible, as fast as possible. That will require a huge amount of copper, as it is the “metal of electrification.” The report concludes that translating the 2050 net zero goals into the equipment and technologies that will be needed—electric-vehicle batteries and charging stations, offshore wind, onshore wind, solar panels, battery storage, etc.—adds up to a doubling of the need for copper by the mid-2030s.

[Continue reading here \(subscription required\).](#)

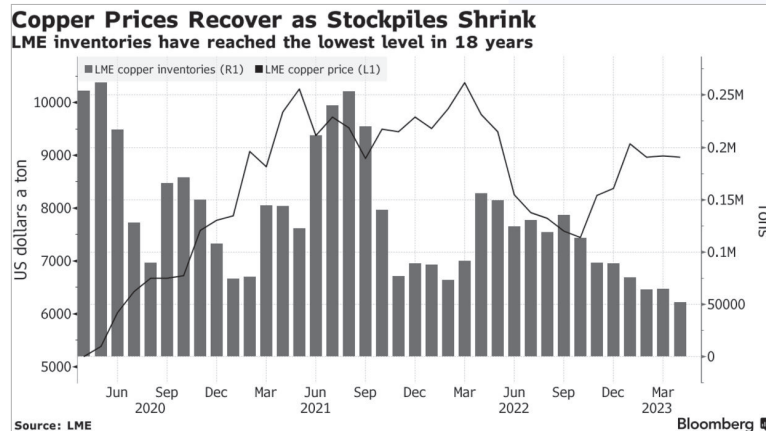
Copper supplies have fallen to 18-year lows despite the recent tightening in credit conditions ([from Bloomberg](#) on April 16)...

The copper industry isn't letting tightening credit and slowing growth kill the buzz heading into one of its biggest annual gatherings.

Underpinning the quiet confidence of executives, bankers and traders drifting into the Chilean capital for CESCO Week are the lowest stockpiles of the metal in 18 years — standing at less than a week's worth of consumption. It's a measure that speaks to China's reopening and supply-side stumbles and is a big reason why prices have held up better than most to the uncertainties sweeping through global markets.

"In terms of near-term outlook, I can say that demand for our production continues to be strong," Richard Adkerson, chief executive officer of top publicly traded producer Freeport-McMoRan Inc., said in an interview.

The longer-term outlook is even more auspicious, with CRU Group, the consulting firm running the main conference in CESCO Week, predicting copper will move above \$10,000 a ton from about \$9,000 now.



[Continue reading here \(subscription required\).](#)

# Bitcoin and Crypto

Bloomberg Intelligence Senior Macro Strategist Mike McGlone believes Bitcoin may finally have reached an “inflection point” versus stocks ([via Twitter](#) on March 21)...

**Mike McGlone**  
@mikemcglone11

Relative strength vs most assets may portend #Bitcoin's inflection toward global digital collateral and potential to trade more like #gold, US Treasury #bonds. Central banks still tightening despite plunging #commodities and a #BankingCrisis adds to severe economic-reset risks

**1. Has Bitcoin Reached Its Inflection vs. Stocks?**

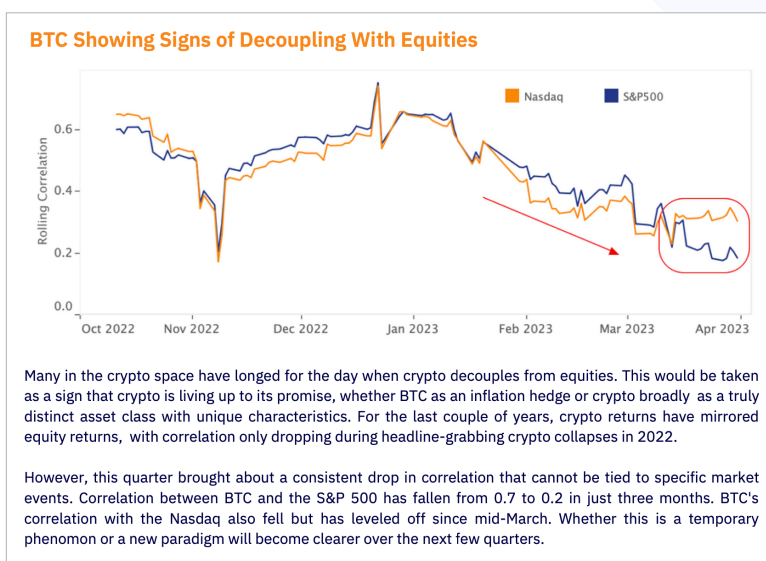
Relative strength vs. most risk assets as futures anticipate a Federal Reserve pivot is the current Bitcoin trajectory, and may mark acceleration of its evolution to becoming the benchmark measure of digital collateral in a world headed that way. Federal funds futures in one year (FF13) appear to have troughed (rates peaked), signaling recovery for Bitcoin, but it's the catalyst -- the global banking calamity -- that may mark Bitcoin's maturation from its birth following the great financial crisis.

Our graphic shows the KBW Bank Index breaking down and Bitcoin recovering above pivotal \$25,000 resistance. It's a question of duration, and the fact that banks are suffering about a year after the start of one of the most aggressive tightening periods in history may suggest early days for the rule of long and variable lags. (03/21/23)

Source: Bloomberg Intelligence

7:36 AM · Mar 21, 2023 · 6,001 Views

Bitcoin's correlation with the broad stock market has fallen sharply over the past several months (from Kaiko Research's [Q1 2023 Quarterly Market Report](#))...



Joe Consorti, analyst for *The Bitcoin Layer*, and Dylan LeClair, analyst for *Bitcoin Magazine*, share a Bitcoin-centric perspective on the recent banking crisis and explain why they're more bullish on Bitcoin than ever ([from the Swan Signal podcast](#) on March 16).

You can listen [here](#), or watch on Youtube via the timestamps below:

[00:00:00](#) "Swan Signal" Intro  
[00:01:26](#) Introducing Dylan and Joe  
[00:02:36](#) Silvergate Banking Collapse  
[00:07:00](#) Chokepoint 2.0  
[00:09:23](#) Issues with Liquidity/Settlement Time in Crypto Trading due to Signet Failure  
[00:15:30](#) Is This an Attack on Crypto Banks?  
[00:19:55](#) Who's to Blame?  
[00:31:24](#) Problems with Bailouts and Zombie Companies  
[00:40:00](#) Is it Fair to Call this a "Bailout"?  
[00:45:43](#) Privatized Gains and Socializing Losses  
[00:47:37](#) Will they Continue to Raise Rates?  
[00:51:23](#) How the Fed is Sending the Wrong Message  
[00:55:48](#) Future Outlook on Bitcoin  
[01:01:10](#) "I've Never Been as Bullish as I am Now"  
[01:01:48](#) Where to Find Dylan and Joe  
[01:02:40](#) "Swan Signal" Outro

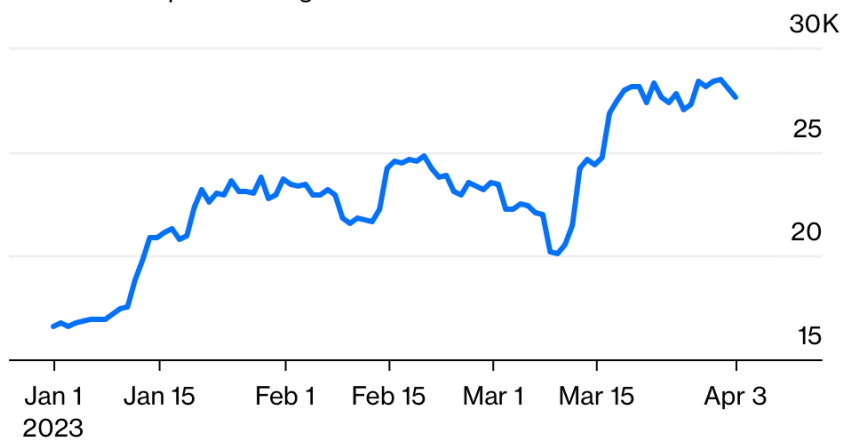
Why Bitcoin deserves a spot in every investor's portfolio ([from Bloomberg](#) on April 5)...

Financial advisers' takes on whether to invest in Bitcoin yield answers ranging from "Don't mistake several months of positive performance with a long-term trend. (Remember Enron?)" to "It represents a wealth creation opportunity that we haven't seen in 35 years."

### Bitcoin's Bull Run

The biggest digital coin has continued to rally, hitting a 10-month high at the beginning of April.

✕ XBTUSD Spot Exchange Rate - Price of 1 XBT in USD



Source: Bloomberg

The question takes on even more significance following the disastrous performance last year of the traditional 60/40 investing model, leading to a rethink of the six-decade-long tradition of retail investors allocating 60% of their portfolios to stocks and 40% to bonds (or some type of combination between the two).

There's no one-size-fits-all answer here. I'm neither a bull nor a bear when it comes to bitcoin, but it's hard to argue with adding a small allocation as an opportunistic growth play.

Let's take a look at the numbers. According to Morningstar Inc. calculations, an investor who had a 1% allocation to Bitcoin in a traditional 60/40 portfolio (with the Bitcoin allocation pulled from the equity bucket), would have had slightly worse returns over the past year — a decline of 8.93% versus an 8.77% drop for a traditional 60/40 portfolio. Those numbers aren't terrible considering Bitcoin tanked close to 40% during that time period.

Over longer periods, the 1% allocation to Bitcoin would have boosted returns dramatically. For the 10 years ending in March, the 1% Bitcoin portfolio handily beat the traditional 60/40 portfolio — 13.3% to 7.8% annually. A slightly larger 2% allocation delivered a slightly worse performance for the past year (a decline of about 9%), but gains of almost 18% annually over a 10-year period.

[Continue reading here \(subscription required\).](#)

Raphael Zagury – Chief Investment Officer at [Swan](#) – explains why Bitcoin is still wildly undervalued today ([via Twitter](#) on April 5)...

**Alpha Zeta** @alphaazeta · Apr 5

Nakamoto Portfolio Theory

Schrödinger's Coin Model 🐱

Valuing Bitcoin as a Store of Value

How #Bitcoin 🐱 will demonetize other assets and why it's significantly undervalued by 13x today

This is quite the thread. Hang tight 🐱📺

[@SwanBitcoin @samcallah](#)

Nakamoto Portfolio Theory

**Bitcoin's Schrödinger Model 🐱**

|                    |                  |                |
|--------------------|------------------|----------------|
| <b>\$ 379,823</b>  | <b>\$ 28,554</b> | <b>↑ 13x</b>   |
| Model Result       | Current          | Upside to Fair |
| Bitcoin Price (\$) | Price (\$)       | Value (today)  |

53 272 838 164.7K

**Alpha Zeta** @alphaazeta · Apr 5

This model considers Bitcoin's potential to capture the monetary premium of traditional assets like real estate, stocks, and bonds, leading to a shift in capital allocation and reevaluation of their worth 📺

1 5 74 9,201

**Alpha Zeta** @alphaazeta · Apr 5

Central banks, flooded with excess currency, have fundamentally broken the value of money, leading investors to seek protection against the negative effects of money printing. This phenomenon has resulted in the financialization of the economy and huge monetary premiums 📺

1 5 73 8,673

[Continue reading here.](#)

Bitcoin-mining firm Riot Platforms responds to the [New York Times' "politically driven" attack](#) on Bitcoin mining ([from Riot Platforms](#) on April 10)...

Amid yet another banking crisis, Bitcoin offers consumers and businesses much-needed optionality for storing value, and the ability to take custody of their own assets. Bitcoin mining operations are also providing jobs, tax revenues, and many other benefits to rural communities, including grid stability and incentives for alternative energy production.

That is why we were especially disappointed to read a false and distorted view of our Company and our industry in the Article published by The NYT. Worse still, The NYT chose to publish the Article with information its authors knew to be false and misleading, ignoring the factual information that we provided to them.

To be clear, our Bitcoin mining operations do not generate any greenhouse gas emissions, similar to any other data center for Facebook, Amazon or Google – yet we have been singled out. Our data center uses electricity from the Texas grid, which is the cleanest and most renewable energy-sourced grid in the United States.

We also proudly participate in various programs that help to stabilize the electric grid and actually reduce power prices, despite what critics incorrectly assume. Unlike other industries, we can shut down at a moment's notice, making power available to other users and critical infrastructure during extreme weather events, while offsetting losses from curtailing our operations.

We are especially proud to be the largest employer in Milam County, Texas, and that our dynamic and talented workforce is spurring economic activity that is strengthening the local economy.

This reporting appears to be driven by fringe political interests, but we will not be deterred from our core mission of helping to build a global, universally accessible network for Bitcoin and supportive, resilient communities where our operations are located.

In that spirit, we are compelled to publish here, our full responses to the NYT questions we received in the weeks prior to publication. As anyone can see, accurate information was blatantly ignored because it did not fit the narrative the NYT was trying to spin.

We wish to highlight below for the public and our shareholders the truth compared to some of the story's most glaring deficiencies, which include at least the following:

**1. NYT Distortion:** The NYT compares electricity usage of Bitcoin mining data centers to peoples' homes. That is an arbitrary, inflammatory, and political choice. It is very telling that they compare Bitcoin miners to "another New York City's worth of residents." The NYT appears unaware that this statement admits condescension towards Americans who choose to inhabit rural areas in the middle of the country. The obvious implication by the NYT is that New York City residents should be allowed to consume electricity; data centers in rural America should not.

**Reality:** The fact is that nearly any industry that uses electricity, i.e., manufacturing, other data centers, iron and steel, chemicals, or even home air conditioners, use orders of magnitude more electricity, generated by a higher percentage of fossil fuels, than Bitcoin mining data centers. (See: Cambridge Bitcoin Electricity Consumption Index (CBEI) ([ccaf.io](https://ccaf.io)).) The NYT appears to have singled out this industry because the NYT has tied itself to political interests opposed to decentralization of authority. Choosing who can and cannot use energy based on political considerations is a dangerous path inconsistent with the values of a free society.

[Continue reading here.](#)

Preston Pysh – host of the *Bitcoin Fundamentals* podcast – explains “why everything’s changing” in the global economy today, and why those changes are super bullish for Bitcoin ([via Twitter](#) on April 14)...

When building an economy on top of a global settlement layer, that currency or bedrock cannot deflect. For the past 40 years, that bedrock has been the US treasury market (it's massive – tens of trillions of dollars). And for 40 years, anyone who saved their retained earnings in that bedrock saw the value continue to appreciate in buying power.

Everyone knows that when bond yields go down, prices go up. The chart below showing the drop in yield (up in price) is why this form of savings worked so well for the world. However, this only works if the bedrock doesn't start to deflect.

In financial terms, the bedrock of bonds will deflect if inflation cannot be controlled. As any engineer understands, if the bedrock is deflecting, EVERYTHING built upon it starts to crack and break down. Why does inflation cause the bedrock to deflect? Because investors in bonds need to have a higher yield than inflation, or else they are guaranteed to lose buying power. If inflation is 5% and the bond yields 3%, then you'll lose -2% in buying power if those yields remain persistent.

So, why are we seeing inflation? I'd argue inflation manifests itself through three main ways.

The first and obvious way is just increasing the amount of monetary units in the overall system – everyone understands this one. What a lot of people don't understand is that you can add monetary units into a system, but they might not “nest” themselves in areas that most people see or expect.

For example, trillions of monetary units were added into the system since 2008, and most of those monetary units “nested” themselves in the capitalization rates of stocks and bonds. You didn't see the CPI gage ever go up. But if you're a person who doesn't own stocks and bonds, well, you wouldn't see that capital appreciation in your day-to-day life.

The second way is through supply destruction.

Imagine you were on a remote island that was fairly self-sufficient and a tropical storm destroyed a bunch of infrastructure. Through that event, everyone on the island quickly needs to preserve and own essential supplies like energy and food.

What you would find while supply chains are damaged is a bidding of prices on desirable goods and services. With enough time, as long as a free and open markets were allowed to persist, the supply chains will naturally self-correct, and prices will return to normal (as long as the other two means of creating inflation weren't exercised).

Finally, the third way inflation can happen is through supply destruction caused by manipulated incentives via public policy decisions.

When policymakers create incentives for growth in infrastructure, what they rarely talk about is what they AREN'T incentivizing through that action.

The economy is massive, and one small incentive for sector XYZ seems harmless as a singular event. But when policy after policy is exercised by government bureaucrats, the things they AREN'T incentivized really add up and create a false sense of “free and open” markets. The next thing you know, people are incentivized (due to policy) to build things that are less efficient and less constructive to society than what a REAL free and open market would produce.

If you take these policy decisions far enough and long enough without the free and open market being able to experience creative destruction, then supply chains at large become completely dysfunctional and fragile.

When we look at what happened with COVID, we literally have all three of these things playing out: manipulation of the money supply, 40 years of horrific policy decisions that have created hyper-fragile supply chains, and a global pandemic that disrupted organic activity.

In addition to all of that (and maybe BECAUSE of that), countries that are net-producers are at war, or reconstructing trade agreements, with countries that are net-consumers.

People might think the war between Russia and Ukraine is a localized situation, but it's actually much broader and strategic than that. In short, the net producers of the world don't want to give up their physical goods for the paper promises that net-consumers INSIST they accept as payment. The net-producers understand the bedrock is deflecting.

The net-producers understand that the math behind these impaired bonds will remain impaired. Why? Because for the supply chains to actually become less fragile, the decades of poor incentives that were brought about through compounding poor policy decisions isn't going to end anytime soon. In fact, the problem is being amplified because net-consumers are trying to offset the bad policy decisions by adding more monetary units into the system (see #1 for creating inflation).

So, what CAN the world build upon that doesn't deflect? Well, anyone who follows my account probably already knows my opinion: Bitcoin.

[Continue reading here.](#)

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Why even gold investors should consider an allocation to Bitcoin ([from Bytetrete Asset Management](#) on April 19)...

The firm's "[Bitcoin and Gold Chart Book](#)" shows a strategically-balanced portfolio of gold and bitcoin can actually outperform either asset alone.

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