Porter & Co.
Investment Chronicles

Issue No. 5

August 2023

Porter & Co.

Porter & Co. Investment Chronicles

Welcome to *Porter & Co. Investment Chronicles*, our guide to the most important and interesting stories from the worlds of investing, finance, and economics that's available exclusively to Partners and *Big Secret* Elite members.

Each month, my team and I share the most valuable insights we come across from the hundreds of sources we regularly read and review – 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 when possible, 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 hope you'll come to think of our *Investment Chronicles* as being a 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
Stevenson, MD
August 2023

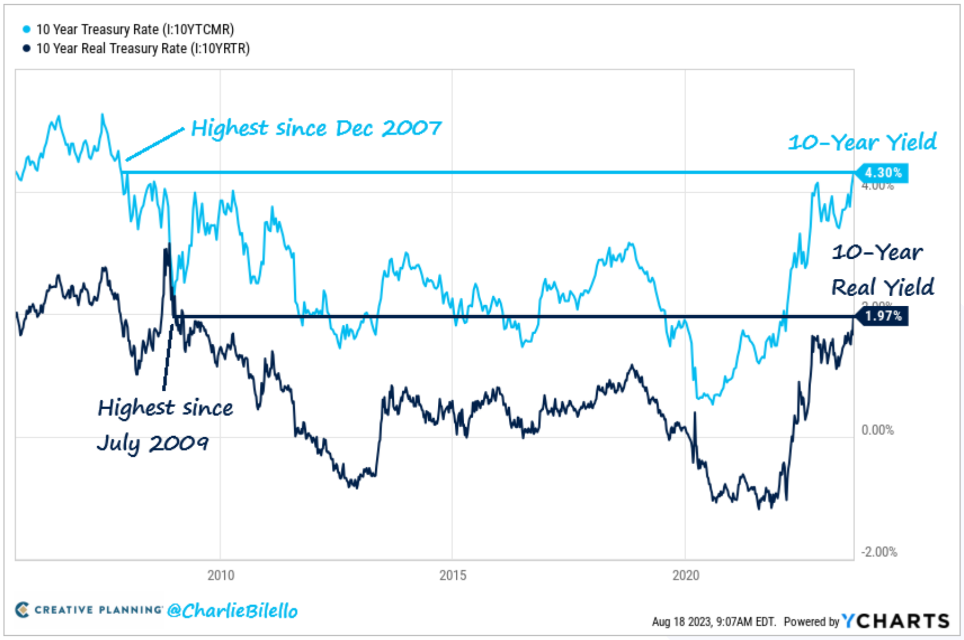
Note: All quotes, transcripts, and excerpts are reproduced exactly as they appear in the original.

Table of Contents

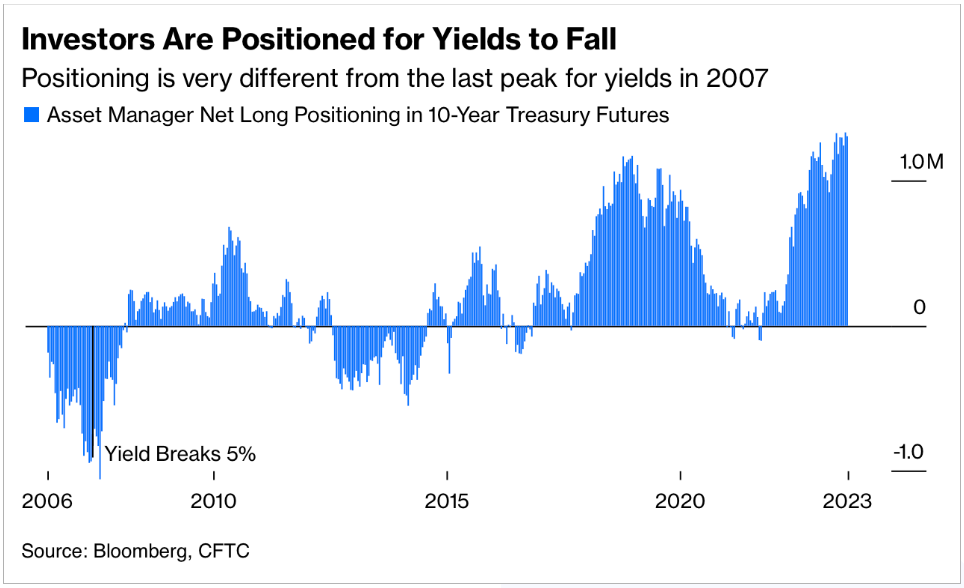
The Five

The Most Important Charts We're Watching This Month

The big story this month was the rise in longer-term Treasury yields (interest rates) following Fitch Ratings' downgrade of the U.S. credit rating. The yield on 10-Year Treasury Notes – in both nominal and "real" (accounting for inflation) terms – hasn't been this high since the Great Financial Crisis ([from Charlie Bilello via Twitter]())...

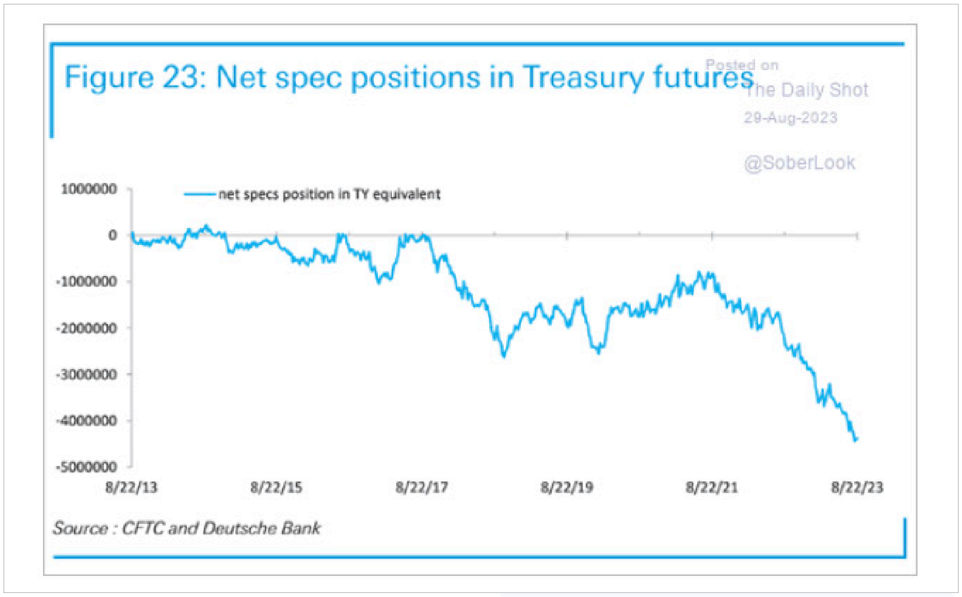


The sharp rise in yields has created a great deal of uncertainty among market participants. On the one hand, asset managers are holding one of their largest net long positions in 10-Year Treasury futures in history (from Bloomberg)...



These folks have tended to be correctly positioned in bonds over the past several years, and were holding a large net long position ahead of the last big rally in bond prices (decline in yields) in 2018. (Though it is worth noting that they were holding a large net short position prior to the big bond rally in 2007, and have been "long and wrong" bonds for much of the past year as yields have trended higher.)

Meanwhile, hedge funds and speculators – who tend to be wrong at extremes – currently hold record net short positions in Treasury futures (from Deutsche Bank Research via The Daily Shot)...



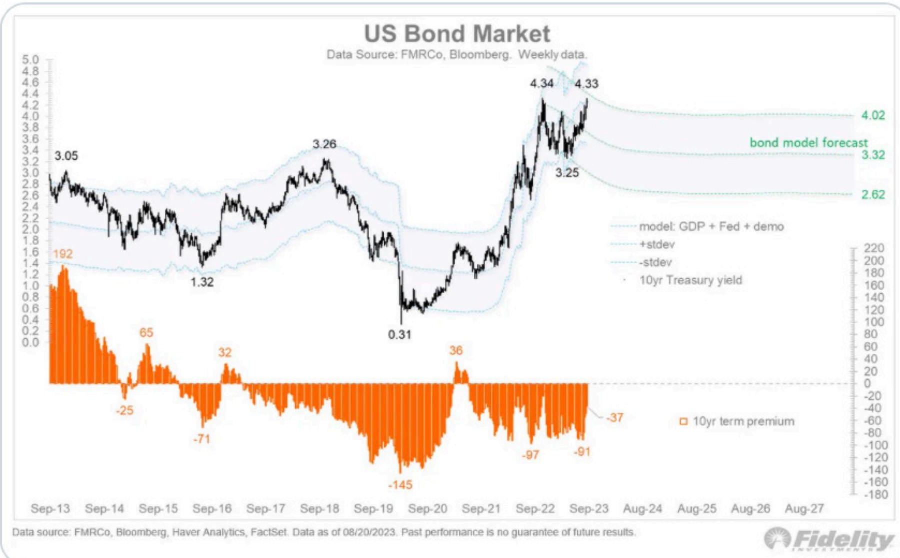
Considered in isolation, these positioning extremes would suggest a rally in longer-term Treasuries is likely in the months ahead.

However, bond term premia – a measure of the extra yield investors require to compensate them for the risk of holding longer-term bonds – also appear to be breaking out of a multi-year downtrend ([from CrossBorder Capital via Twitter]())...

And a continued rise in term premia could easily push long-term Treasury yields significantly higher, even if the Fed stops hiking and real yields begin to fall ([from Jurrien Timmer via Twitter on August 25]())...

Jurrien Timmer
@TimmerFidelity

Eye on bonds: For the long end, the term premium has rallied from -91 bps to -37 bps in just a few weeks. If the premium reverts to its historical tendency to be positive, it could mean a 5-handle for long bonds.



10:36 AM · Aug 25, 2023 · **29.2K** Views

Economics and Markets

Traders were "all in" on the market boom at the end of last month ([from Bloomberg via Yahoo Finance on July 28](#))...

> Industrial shares are on a tear, junk-bond spreads are narrowing, quants are ramping up Treasury shorts and everyone is piling into stocks.
>
> What once was a posture of skepticism among investors has morphed into something approaching euphoria. Cash and hedges are out, replaced by demand for everything from small caps to meme stocks. Fueling the surge is data showing the US economy is thriving amid mounting evidence the Federal Reserve is beating inflation.
>
> All the optimism has sent the S&P 500 to the brink of its sixth advance in seven months and pushed prices in the Nasdaq 100 to almost 35 times profit. It's manna for bulls — even as it leaves them with precious little wiggle room should anything in the economy or monetary policy not unfold as hoped.
>
> "It's dangerous and consensus, but it's late July, so who feels like fighting it?" said Peter Tchir, head of macro strategy at Academy Securities. "We are now at stage where people feel obligated to fully commit capital. Hawkish Fed not an excuse right now, and claiming recession is hard to justify as well."
>
> Economic data keeps defying bearish predictions — everything from gross domestic product to consumer confidence and hiring has beaten forecasts. Reports Friday showed the employment cost index had its slowest advance since 2021 in the second quarter, while the Fed's preferred inflation gauge posted the smallest increase in more than two years.
>
> Good news on the economy is sucking more and more investors into risky assets. A steady expansion in speculative spirits has pushed equity positioning to the highest level since January 2022. Investors have a clear overweight exposure to stocks after long refusing to budge off their underweight positioning, according to Deutsche Bank AG.
>
> At the same time, a wide array of hedging metrics is showing low demand for downside protection. Put premiums for both Invesco QQQ Trust Series 1 (QQQ) and the SPDR S&P 500 ETF Trust (SPY) are hovering around the lowest levels in at least a decade, according to RBC Capital Markets. Additionally, investors are buying more calls to chase the rally while spending less to protect their gains.
>
> "The market is just not ready to let go of the positive narrative. Hedging is outrageously cheap," said Amy Wu Silverman, head of derivatives strategy at RBC Capital Markets. "There's more driving of demand of calls from folks who are underperforming than those who have done well and need to hedge."
>
> While bullish bets are paying off now, all the optimism strikes some as worrisome given the litany of hazards that still face investors. Markets showed their skittishness in Thursday's session when the prospect of a mild policy tightening in Japan knocked the S&P 500 down more than 1% intraday, though the drop was rolled back in the next session.
>
> Count Brent Schutte, chief investment officer at Northwestern Mutual Wealth Management, among those who say the euphoria has been taken too far. He recently revised equity positioning from overweight to neutral while moving to overweight bonds, and says a recession is still well within the realm of the possible.

Continue reading here.

What to make of last month's "landmark shift" by Japan's central bank ([from the Financial Times on July 31]())...

> Japanese government bond yields jumped on Monday as global debt, currency and equity markets began to absorb a landmark shift by the Bank of Japan to allow yields to rise more freely.
>
> Analysts said BoJ governor Kazuo Ueda's decision to loosen the central bank's grip on long-term bond yields marked a significant step towards unwinding decades of ultra-accommodative monetary policy. The benchmark yield on 10-year JGBs rose to a nine-year high on Monday.
>
> The shock decision, which the BoJ denied represented a policy change, was tantamount to calling time on a controversial, seven-year monetary experiment known as yield curve control that set Japan's central bank far apart from global peers, analysts said.

> Ueda's move, which initially stirred investor confusion and was described as "opaque", in effect widened the band within which 10-year JGB yields would be allowed to move to 1 per cent from 0.5 per cent. The bank added that it would officially retain its 0.5 per cent cap on yields as a "reference".
>
> "This is 'de facto' abolishment of yield curve control, at least for the time being," UBS chief Japan economist Masamichi Adachi wrote in a report. "No introduction of the policy rate guidance suggests that the bank left open the near-term policy rate hike optionality."
>
> The decision opened the way for a potential shift in Japan's status and fundamental changes in global investment flows. The practical end of yield curve controls marked what investors said was a definitive step towards policy normalisation after decades of deflation and economic stagnation and seven years of negative interest rates.

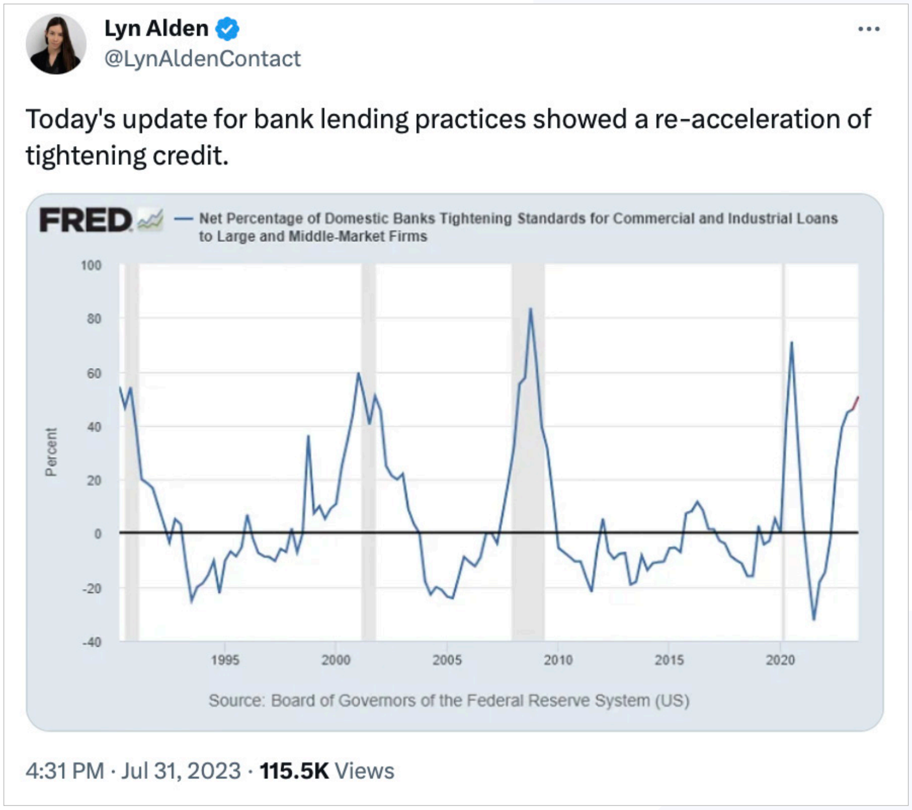
“What is clear to us is that with this change today there will be a repatriation of money from abroad into Japan, which will affect equities as well,” said Luca Paolini, chief strategist at Pictet. “Japan is ending deflation so Japan becomes a more normal place to invest.”

But veteran BoJ-watchers warned against concluding that the central bank was on the brink of tightening. The relaxation of the yield band was intended to signal concern to markets about the rising risk of inflation and the long-term distortion of bond markets.

The BoJ added on Friday that its overnight interest rate would remain minus 0.1 percent — Japan is the only country in the world to maintain negative rates — while calling for more time to settle at its 2 per cent inflation target.

Continue reading here (subscription may be required).

The Federal Reserve’s Senior Loan Officer Opinion Survey (SLOOS) showed banks tightened lending standards on commercial and industrial loans again last month (from Lyn Alden via Twitter on July 31)...



U.S. state and local income taxes are crashing this year ([from Otavio Costa via Twitter on August 1](#))...

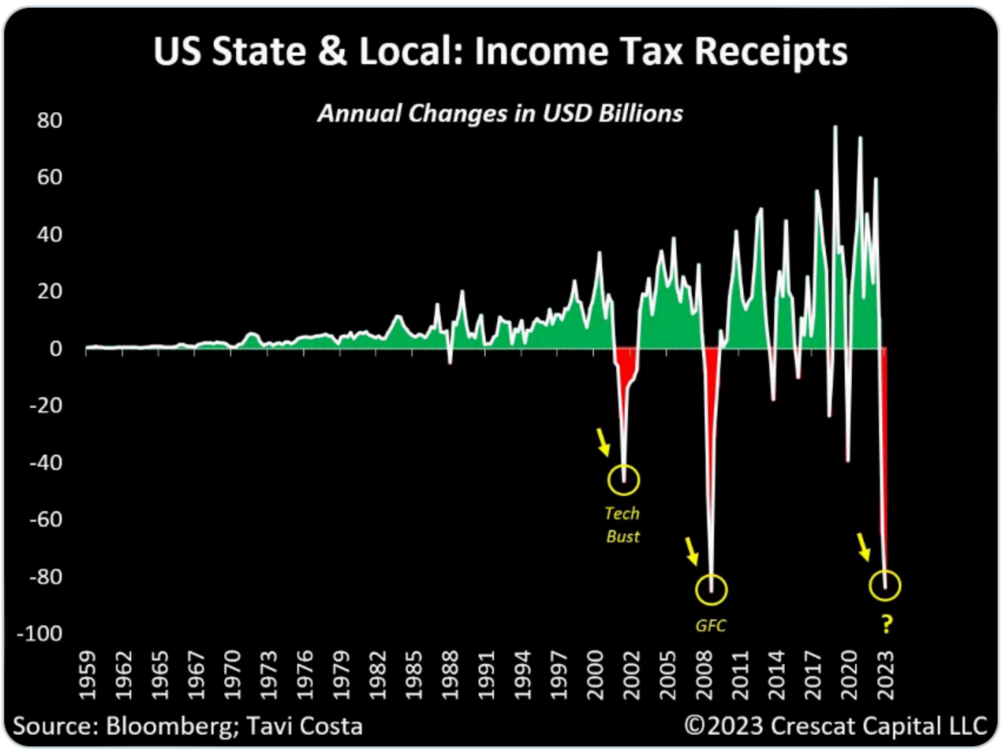
Otavio (Tavi) Costa
@TaviCosta

US state and local governments just experienced the worst decline in income tax revenues ever recorded.

This was the second steepest year-over-year percentage decline in history, with only the GFC having a worse outcome.

Note that Federal tax receipts are also dropped again, now at recessionary levels and approaching -10% on a YoY basis.

This is a clear indication of the continued fundamental deterioration of the economy, which sharply contrasts with overall financial assets that remain at excessively inflated valuations.



11:59 PM · Aug 1, 2023 · **787K** Views

History says the odds of success are not in favor of Nvidia investors today ([from Jeremy Schwartz via Twitter on August 3]())...

Jeremy Schwartz
@JeremyDSchwartz

The Odds Are Stacked Against You

At a 40x trailing and 25 expected Sales, NVDA joined the club of 99 companies with highest P/S multiple within 500 largest stocks in last 60 plus years.

Some stats on winners /losers from these 99 companies that became **THE** highest multiple stock

Next 12M Winners grew sales **84%** while *losers *just 50%**

5-year Winners grew sales **45%/yr** for 5 years, while *losers *just 30%**

10-year Winners grew sales **32.5%/yr** for a decade, *losers just 23.2%* for a decade with median of 0 total return!!

Imagine growing sales almost 20% a year more than typical stock for a decade but still lagging the market by 10% a year on price.

Those are the odds for the companies that reach Nvidia's vaunted status of the focus stock with highest multiple in the market.

Will Nvidia be one of lucky few long term winners from these multiples?

The Highest Multiple Stock: Winners and Losers

Medians		Start P/S		1 Yr					
				Returns		P/S Growth		Sales Growth	
Time Frame	W / L	Stock	Mkt	Stock	Mkt	Stock	Mkt	Stock	Mkt
1 Yr	Winners	23.7	1.3	58.5%	14.6%	-21.3%	5.1%	84.5%	6.6%
	Losers	25.9	1.0	-34.7%	12.3%	-58.3%	0.0%	50.1%	6.5%

Medians		Start P/S		5 Yr					
				Returns		P/S Growth		Sales Growth	
Time Frame	W / L	Stock	Mkt	Stock	Mkt	Stock	Mkt	Stock	Mkt
5 Yr	Winners	25.3	1.3	21.3%	13.3%	-16.7%	32.3%	45.5%	4.6%
	Losers	22.3	1.0	-12.8%	14.1%	-30.9%	25.0%	29.7%	4.4%

Medians		Start P/S		10 Yr					
				Returns		P/S Growth		Sales Growth	
Time Frame	W / L	Stock	Mkt	Stock	Mkt	Stock	Mkt	Stock	Mkt
10 Yr	Winners	23.7	1.3	17.4%	8.9%	-13.1%	16.3%	32.5%	5.0%
	Losers	22.3	1.0	-0.3%	9.4%	-17.9%	32.2%	23.2%	4.7%

Source: Stocks for the Long Run research, 6th edition, Jeremy Siegel with Jeremy Schwartz

6:58 AM · Aug 3, 2023 · **163K** Views

Jeremy Schwartz @JeremyDSchwartz · Aug 3

Similar to Bessminder study of chance of finding long-term winning stocks:

Less than 20% of stocks can out-perform over 20-year horizon, 28% on 10-year horizon.

But at 25x sales, the odds of having a long-term out-performing stock drop by a factor of 3-4x.

P/S	Stock - S&P (Median)				
	1 Yr	3 Yr	5 Yr	10 Yr	20 Yr
All	-1%	-1%	-1%	-1%	0%
> 25	-36%	-30%	-23%	-11%	-7%
> 30	-38%	-33%	-25%	-12%	-11%
30 - 40	-37%	-31%	-23%	-10%	-7%
> 40	-38%	-33%	-26%	-12%	-12%

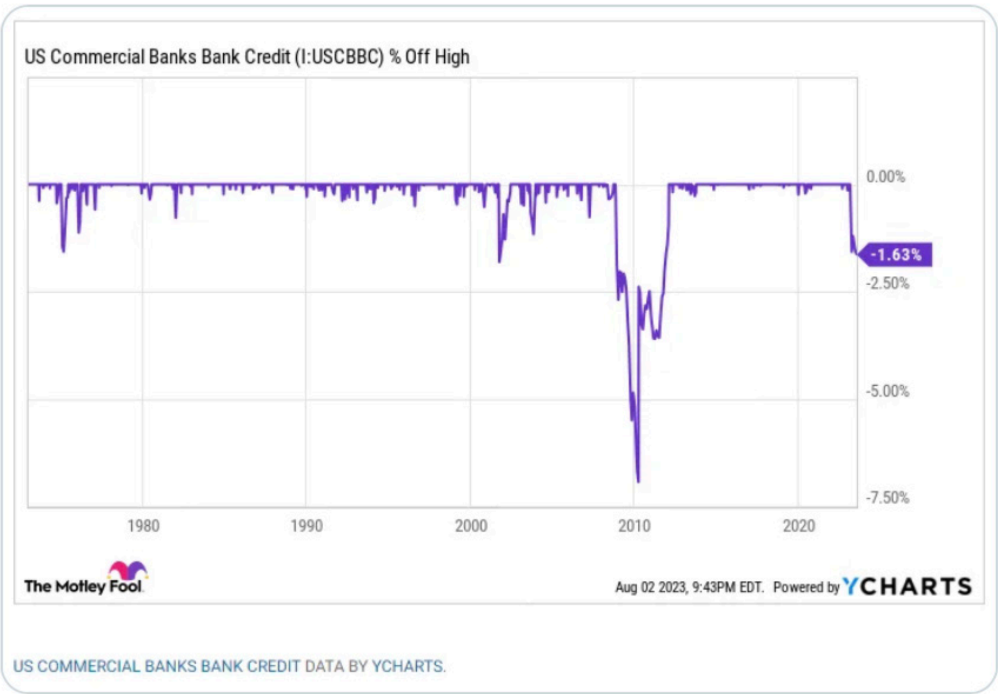
P/S	# Of Companies	% of Time Stock Outperforms Market				
		1 Yr	3 Yr	5 Yr	10 Yr	20 Yr
All	2691	46%	41%	36%	28%	17%
> 25	231	21%	9%	8%	8%	4%
25-30	139	24%	9%	8%	7%	7%
30-40	137	20%	6%	4%	6%	3%
> 40	148	21%	10%	9%	9%	3%

2 38 5,506

The recent decline in commercial bank lending is an ominous sign for the broad stock market ([from Barchart via Twitter on August 7](#))...

Barchart
@Barchart

Commercial Bank Lending has declined by 1.63% from its all-time high which marks only the 4th time (1975, 2001, and 2009-10) in the last 50 years that commercial bank lending declined by more than 1.50%. The S&P 500 lost roughly 50% of its value each of the 3 previous times.



Last edited 6:21 AM · Aug 7, 2023 · **56.2K** Views

The U.S. government is borrowing like never before in history outside of wartime (from The Wall Street Journal on August 8)...

> Congratulations, of a perverse sort, to President Biden and his Congressional comrades. The latest budget figures show that they are breaking peacetime, non-crisis records for spending and deficits. And there's no respite in sight.
>
> The Beltway brethren racked up a deficit of $1.62 trillion for the first 10 months of the fiscal year, according to the Congressional Budget Office's monthly review for July. That's up from $726 billion a year earlier. If not for shifts in the dates of some payments, CBO says the deficit would have been even higher at $1.7 trillion, or a 131% increase.
>
> What's astounding is that this Beltway blowout is happening when the economy is growing, the Covid crisis is past, and there are no domestic emergencies to address. This is when deficits are supposed to decline, as they did during the economic expansions of the 1980s, 1990s and 2000s. Deficits also fell under President Obama after Republicans regained control of the House in 2010.
>
> CBO lays out the gory details. Revenues have fallen about 10%, despite the Democrats' increase in corporate taxes. Individual income-tax revenue is down 20%, or about $442 billion, and CBO speculates one reason is smaller capital-gains realizations. Soaking the rich doesn't work when the rich aren't making money in the financial markets.
>
> Outlays are up 11% so far this year, or $473 billion, and they would have been higher at $536 billion without the shifts in payment timing. Spending lowlights include $71 billion more for Mr. Biden's latest student loan non-repayment plan; $111 billion more for Social Security, largely for cost-of-living adjustments for inflation; and $104 billion for Medicare from higher payments rates and more care.
>
> Taxpayers also doled out $52 billion for the spring bailouts of Silicon Valley Bank and others. CBO says Treasury will get much of that back from asset liquidations and higher premiums for deposit insurance. But the failures wouldn't have cost so much if Biden regulators hadn't been so choosy about which institutions they let bid on the failing banks.
>
> The biggest increase in outlays so far this year has been net interest on the soaring federal debt: a rise of $146 billion to $572 billion, or 34%. That interest total is nearly double all corporate tax revenue so far this year of $319 billion.
>
> Interest on the debt this fiscal year has climbed to 15.5% of all federal revenue, and most of the 10 months through July were well before interest rates hit their current levels. Interest payments will keep soaring as Treasury is scheduled to issue $1 trillion in new debt at higher rates in the current fiscal quarter. Much more debt will be needed to finance the Biden spending binge that has only begun for the Inflation Reduction Act, the Chips Act and the infrastructure bill.
>
> This is a dreadful fiscal show by any measure, or any country for that matter. The next time the U.S. Treasury lectures the Greeks or Italians about their fiscal woes, the southern Europeans should laugh out loud.

Continue reading here (subscription may be required).

Moody's Investors Service cut ratings on 10 small and midsize banks and warned it could downgrade larger banks as well (from Bloomberg on August 8)...

> US bank stocks declined after Moody's Investors Service lowered its ratings for 10 small and midsize lenders and said it may downgrade major firms including U.S. Bancorp, Bank of New York Mellon Corp., State Street Corp., and Truist Financial Corp.
>
> Higher funding costs, potential regulatory capital weaknesses and rising risks tied to commercial real estate are among strains prompting the review, Moody's said late Monday.
>
> "Collectively, these three developments have lowered the credit profile of a number of US banks, though not all banks equally," the rating company said.

Moody's Sees Problems Ahead for US Banks

Rating company issues raft of downgrades, outlook shifts

Downgrades	Review for Downgrade	Negative Outlooks
M&T Bank	Cullen/Frost	Simmons First National
Webster Financial	Bank of New York Mellon	Fifth Third
BOK Financial	U.S. Bancorp	F.N.B. Corp.
Fulton Financial	Truist	Citizens Financial
Pinnacle Financial	State Street	Capital One
Old National	Northern Trust	Huntington Bancshares
Prosperity Bancshares		PNC
Amarillo National		Regions Financial
Associated Banc-Corp		Cadence Bank
Commerce Bancshares		Ally Financial
		Bank OZK

Source: Moody's

> Shares declined for firms that had their ratings cut, including M&T Bank Corp., down 4.6%, and Webster Financial Corp., which lost 3.4%. Moody's also adopted a "negative" outlook for 11 lenders, including PNC Financial Services Group, Capital One Financial Corp. and Citizens Financial Group Inc. Among those, PNC was down 4.6% and Capital One lost 3%.

Continue reading here (subscription may be required).

Expect to hear more about "fiscal dominance" in the months (and years) ahead – it all but guarantees the Federal Reserve will ultimately have to resume quantitative easing (QE) to fund the government's soaring deficits (from Egon von Greyerz via Twitter on August 9)...

> **Egon von Greyerz**
> @GoldSwitzerland
>
> As a June white paper from even the St. Louis Fed recently confessed (and folks like Luke Gromen better explained), the US is approaching a grossly paradoxical point called "Fiscal Dominance," a sober concept of basic math which I boil down to this:
>
> "When a debt-strapped nation with nearly $33T in public debt raises rates to 'fight' inflation, the increased cost of servicing that debt becomes so egregious that the only way to 'pay' for it will come from a re-ignited mouse-click money-maker at the Fed, which is inherently, well: Inflationary."
>
> In other words, at some point (and don't ask me when, but it's looming), the Fed will pivot from dis-inflationary QT to mega-inflationary QE—all to be conveniently blamed on COVID, Putin and/or the climate.
>
> 5:35 AM · Aug 9, 2023 · **61.6K** Views
>
> **134** Reposts **10** Quotes **454** Likes **40** Bookmarks

You can also read the St. Louis Fed's white paper here.

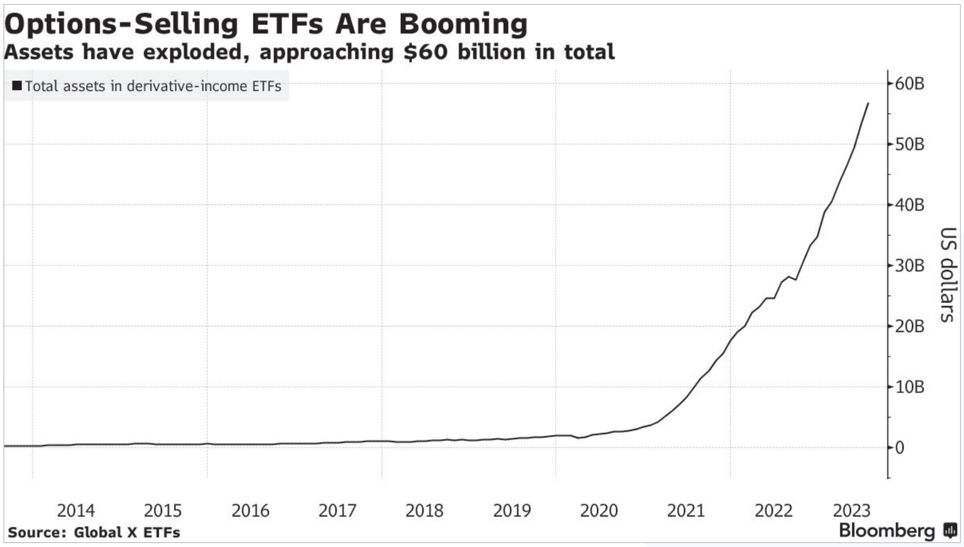
The "short-volatility trade" has become wildly popular again (from Bloomberg on August 11)...

> All of a sudden, the short-volatility trade is back on Wall Street as billions of dollars pour into options-selling ETFs like never before.
>
> With this year's stock rally defying recession warnings and aggressive Federal Reserve tightening, investors have been paying up for defensive strategies that offer income along the way. That's endowed an exotic corner of the exchange-traded fund universe with a record $57 billion of assets.
>
> Among the most popular: Investing styles that go long equities while selling derivatives — wagers that will outperform if the S&P 500 Index trades sideways or simply falls. In so doing, investors are essentially betting against swings in share prices, with demand so hot that funds like JPMorgan Equity Premium Income ETF (ticker JEPI) and Global X Nasdaq 100 Covered Call ETF (QYLD) keep drawing in money despite subpar returns.

That crowded derivatives activity is one reason why the Cboe Volatility Index has stayed curiously low this year. Yet to equity veterans, this flurry of options selling raises flashbacks of past market incidents when wrong-footed wagers on equity calm fueled a rout, by forcing Wall Street dealers to suddenly shift their positions.

Morgan Stanley estimates that the wave of options selling, by one measure at least, broke records in April and again in June. There's no obvious "Volmageddon" redux risk in sight, and proponents argue these funds help provide liquidity. Still to some institutional pros, the current boom spotlights the hidden dangers of the volatility ecosystem for the broader marketplace.

"If you are short volatility and it spikes rapidly, your unwinds could contribute to a short squeeze of sorts," said David Reidy, founder of First Growth Capital LLC, a wealth management firm. "We saw this happen and its impacts on market structure in February 2018. The short-vol covering happened in March 2020 as well."



Continue reading here (subscription may be required).

History suggests a recession is extremely likely, but could still be a quarter or two away ([from Eric Basmajian via Twitter on August 14](#))...

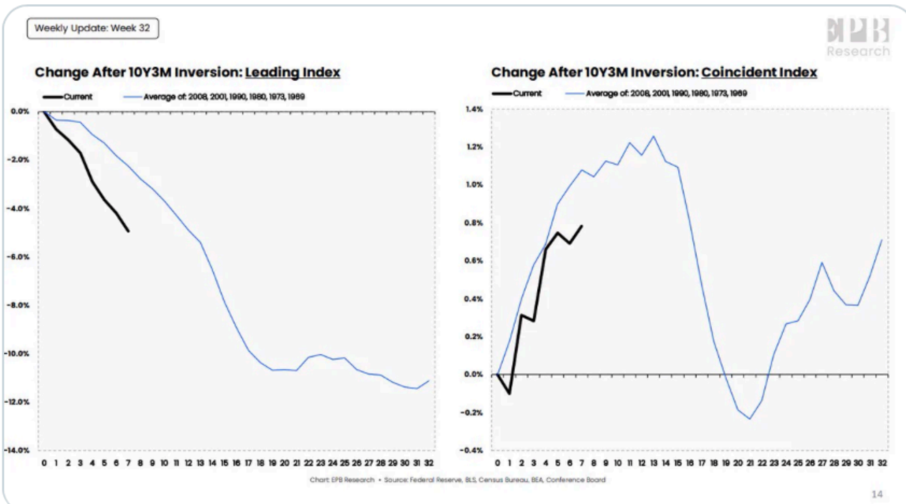
Eric Basmajian
@EPBResearch

This was the most important chart from our last Weekly Update.

Leading Indicators are falling faster than normal post-10YR3M inversion.

Coincident data is following *roughly* the average path so far (slightly weaker).

Will Coincident data hang on for another two quarters?



10:57 AM · Aug 14, 2023 · **80.2K** Views

SEC filings show Michael Burry – the hedge fund manager of "Big Short" fame – made a big bearish bet on stocks in the second quarter (from Unusual Whales on August 14)…

> Michael Burry has just updated his portfolio, up to June 30.
>
> Nearly 51.05% of it is in S&P500, $SPY, puts and 42.54% in $QQQ puts (in notional value in his portfolio, they are worth much less of his total portfolio).
>
> He has about $1.6 billion in puts notionally (not their absolute value).
>
> He liquidated his WFC, BABA, and more.
>
> See full details:

COLUMN 1	COLUMN 2	COLUMN 3		COLUMN 4	COLUMN 5		
				VALUE	SHRS OR	SH/	PUT/
NAME OF ISSUER	TITLE OF CLASS	CUSIP	FIGI	(to the nearest dollar)	PRN AMT	PRN	CALL
CHARTER COMMUNICATIONS INC N	CL A	16119P108		9,184,250	25,000	SH	
COMSTOCK RES INC	COM	205768302		2,320,000	200,000	SH	
COSTAMARE INC	SHS	Y1771G102		1,208,750	125,000	SH	
CRESCENT ENERGY COMPANY	CL A COM	44952J104		2,542,094	243,963	SH	
CVS HEALTH CORP	COM	126650100		6,913,000	100,000	SH	
EURONAV NV	SHS	B38564108		805,138	52,900	SH	
EXPEDIA GROUP INC	COM NEW	30212P303		10,939,000	100,000	SH	
FRANKLIN TEMPLETON ETF TR	FTSE JAPAN ETF	35473P744		811,500	30,000	SH	
GENERAC HLDGS INC	COM	368736104		8,202,150	55,000	SH	
GEO GROUP INC NEW	COM	36162J106		4,296,000	600,000	SH	
HANESBRANDS INC	COM	410345102		1,816,000	400,000	SH	
HUDSON PAC PPTYS INC	COM	444097109		1,055,000	250,000	SH	
IHEARTMEDIA INC	COM CL A	45174J509		2,184,000	600,000	SH	
INVESCO QQQ TR	UNIT SER 1	46090E103		738,840,000	2,000,000	SH	Put
ISHARES INC	MSCI JAPN SMCETF	464286582		923,091	13,500	SH	
ISHARES INC	MSCI JPN ETF NEW	46434G822		619,000	10,000	SH	
ISHARES TR	MSCI JP VALUE	46435U374		372,096	13,600	SH	
LIBERTY LATIN AMERICA LTD	COM CL C	G9001E128		3,879,000	450,000	SH	
MGM RESORTS INTERNATIONAL	COM	552953101		6,588,000	150,000	SH	
NEW YORK CMNTY BANCORP INC	COM	649445103		2,248,000	200,000	SH	
NEXSTAR MEDIA GROUP INC	COMMON STOCK	65336K103		2,498,250	15,000	SH	
NEXTIER OILFIELD SOLUTIONS	COM	65290C105		3,576,000	400,000	SH	
PRECISION DRILLING CORP	COM NEW	74022D407		569,060	11,630	SH	
QURATE RETAIL INC	COM SER A	74915M100		1,484,700	1,500,000	SH	
SAFE BULKERS INC	COM	Y7388L103		415,732	127,525	SH	
SIGNET JEWELERS LIMITED	SHS	G81276100		5,547,100	85,000	SH	
SPDR S&P 500 ETF TR	TR UNIT	78462F103		886,560,000	2,000,000	SH	Put
STAR BULK CARRIERS CORP.	SHS PAR	Y8162K204		3,269,898	184,740	SH	
STELLANTIS N.V	SHS	N82405106		5,700,500	325,000	SH	
THE CIGNA GROUP	COM	125523100		7,716,500	27,500	SH	
THE REALREAL INC	COM	88339P101		3,330,000	1,500,000	SH	
VITAL ENERGY INC	COM	516806205		5,643,750	125,000	SH	
WARNER BROS DISCOVERY INC	COM SER A	934423104		4,702,500	375,000	SH	

For a great breakdown, check: https://twitter.com/stockgeekTV/status/1691128622227116042

S&P Global Ratings downgrades five U.S. regional banks (from MarketWatch on August 22)...

> S&P Global Ratings downgraded the ratings of five regional banks late Monday by a single notch, after a review that focused on risks relating to funding, liquidity and asset quality with an emphasis on office commercial real estate.
>
> The rating agency cut its rating on Associated Banc Corp, Comerica, KeyCorp, UMB Financial Corp, and Valley National Bancorp, and said the outlook on all five is stable.
>
> S&P also affirmed ratings on River City Bank and S&T Bank and revised the outlook to negative.
>
> The agency affirmed ratings on Zions Bancorp and maintained a negative outlook. And it affirmed ratings and a stable outlook on Synovus Financial Corp and Truist Financial Corp.
>
> "We reviewed these 10 banks because we identified them as having potential risks in multiple areas that could make them less resilient than similarly rated peers ," S&P said in a statement. "For instance, some that have seen greater deterioration in funding–as indicated by sharply higher costs or substantial dependence on wholesale funding and brokered deposits–may also have below-peer profitability, high unrealized losses on their assets, or meaningful exposure to CRE."

Continue reading here (subscription may be required).

Nvidia shareholders would be wise to remember the fate of Cisco Systems following the dotcom boom ([from stockgeek via Twitter on August 23](#))...

stockgeek 📈
@stockgeekTV

$NVDA investors: "never seen anything like this"

I have.

$CSCO tripled revenue 1997 to 2000 ($6.4B to $19B) as the internet boom drove rapid networking spend. The stock mooned 10X

Then revenue flatlined 2000-2003 as the boom cooled. $CSCO stock lost 70% in 2001

stockgeek 📈
@stockgeekTV

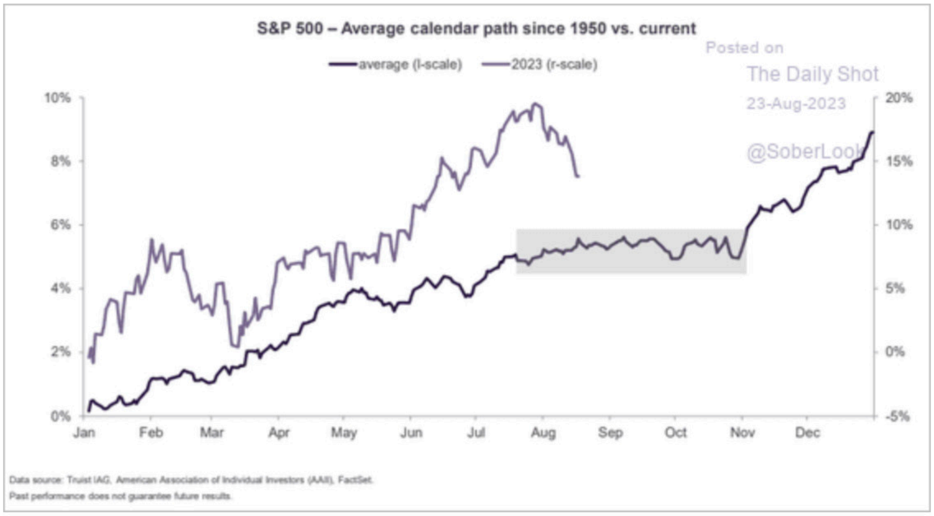
$NVDA's numbers are bonkers, and I'm sure the story will play out somewhat differently

But every investor should have the $CSCO experience in the back of their mind

Demand pull forward looks incredible until it doesn't (many learned this from the pandemic and already forgot!)

5:19 PM · Aug 23, 2023 · **19.6K** Views

“Seasonality” suggests the broad market is likely to face headwinds over the next few months (from Truist Advisory Services via The Daily Shot on August 23)…



Source: Truist Advisory Services

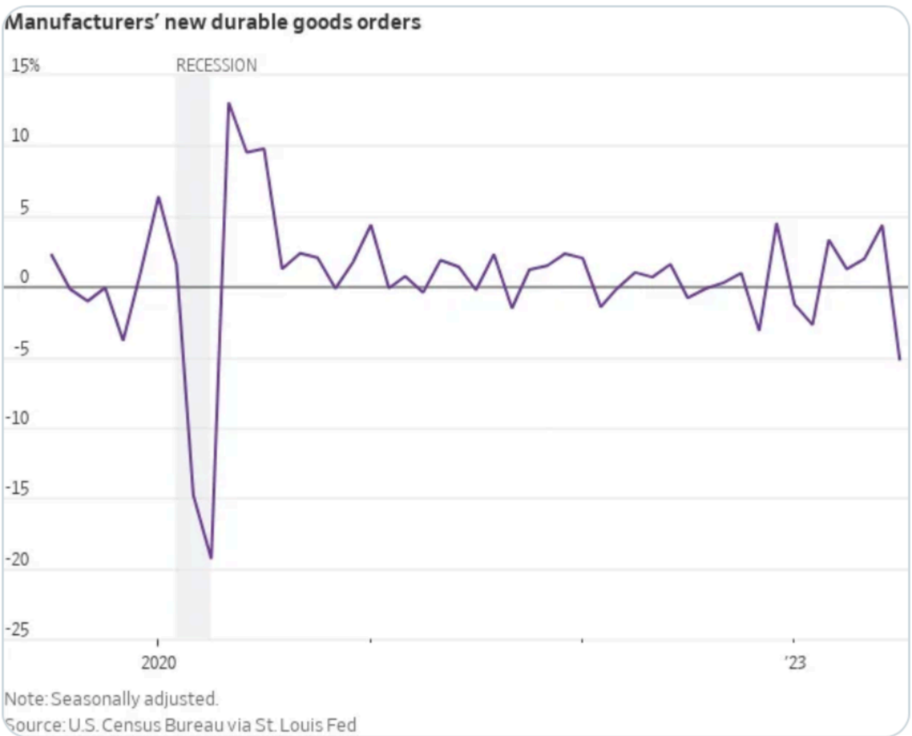
U.S. manufacturing continues to weaken ([from Eric Wallerstein via Twitter on August 24]())...

Eric Wallerstein
@ericwallerstein

U.S. manufacturing hasn't looked this bad since Covid shutdown the economy.

New orders for durable goods fell 5.2% in July, the biggest slump since April 2020.

+ Business activity fell to a 6-month low in August.

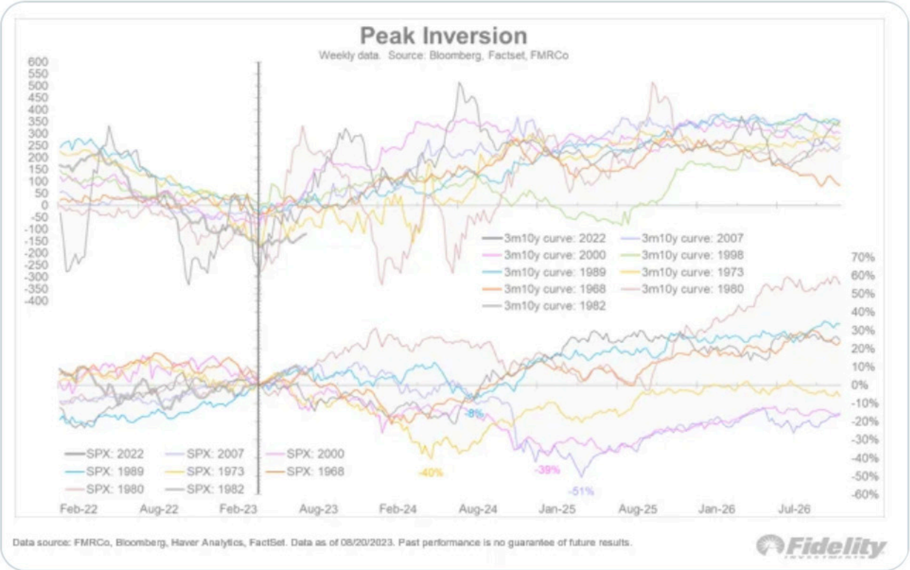


8:46 AM · Aug 24, 2023 · **71.8K** Views

Why earnings are unlikely to be a continued tailwind for the broad market going forward ([from Jurrien Timmer via Twitter on August 24](#))...

Jurrien Timmer
@TimmerFidelity

Even if earnings pivot higher, as expected, remember: The S&P 500 already rallied five P/E-points in expectation of exactly that scenario. We must juxtapose this against the ongoing inversion of the yield curve. Sustained rallies in the face of an inverted curve are very rare.



9:48 AM · Aug 24, 2023 · **23.5K** Views

The "BRICS" nations – Brazil, Russia, India, China, and South Africa – are seeking to expand their global influence (from Bloomberg on August 24)...

> Major emerging market nations invited top oil exporter Saudi Arabia, Iran, Egypt, Argentina, Ethiopia and the United Arab Emirates to join their bloc in a push to expand its global influence.
>
> Leaders from Brazil, Russia, India, China and South Africa agreed to enlarge their BRICS group from Jan. 1 at a summit held in Johannesburg, South African President Cyril Ramaphosa said Thursday. It will be the first expansion since 2010.
>
> The inclusion of Saudi Arabia, the world's largest oil exporter, alongside Russia, Iran, the UAE and Brazil, brings together several of the largest energy producers with the developing world's biggest consumers, giving the bloc outsized economic clout. With most of the world's energy trade taking place in dollars, the expansion could also enhance its ability to push more trade to alternative currencies.
>
> "We have consensus on the first phase of this expansion process and other phases will follow," Ramaphosa said at a joint briefing with the group's other leaders. Agreement had also been reached on the need to overhaul the global financial architecture and key institutions to make the world more equitable, inclusive and representative, he said.
>
> An expanded BRICS would also mean more say for the alliance in world affairs and may lead to a different type of global economy, according to Bloomberg Economics. That's because in comparison to the Group of Seven, the BRICS are less market-oriented.

Continue reading here (subscription may be required).

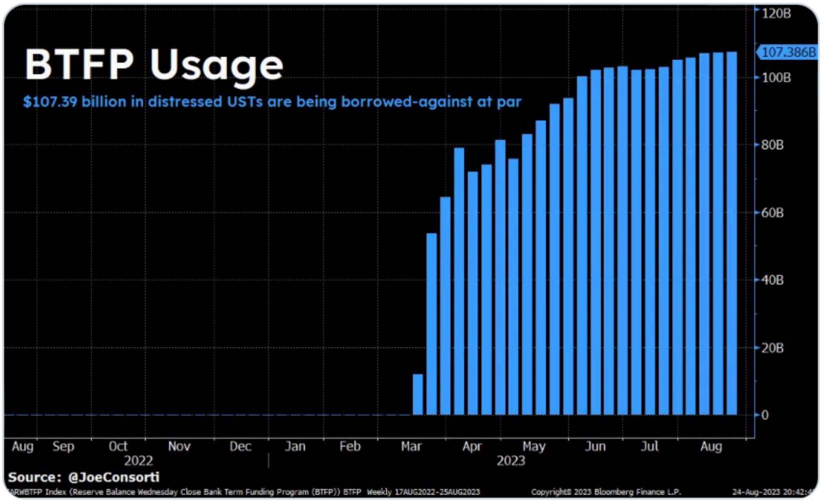
Banks continue to borrow heavily from the Federal Reserve's emergency "Bank Term Funding Program" ([from Joe Consorti via Twitter on August 25](#))...

Joe Consorti ⚡
@JoeConsorti

Total emergency loans from the Fed's BTFP facility have hit a new high of $107.39 billion.

Banks' losses on impaired US Treasuries continue being papered over.

Gm ☕

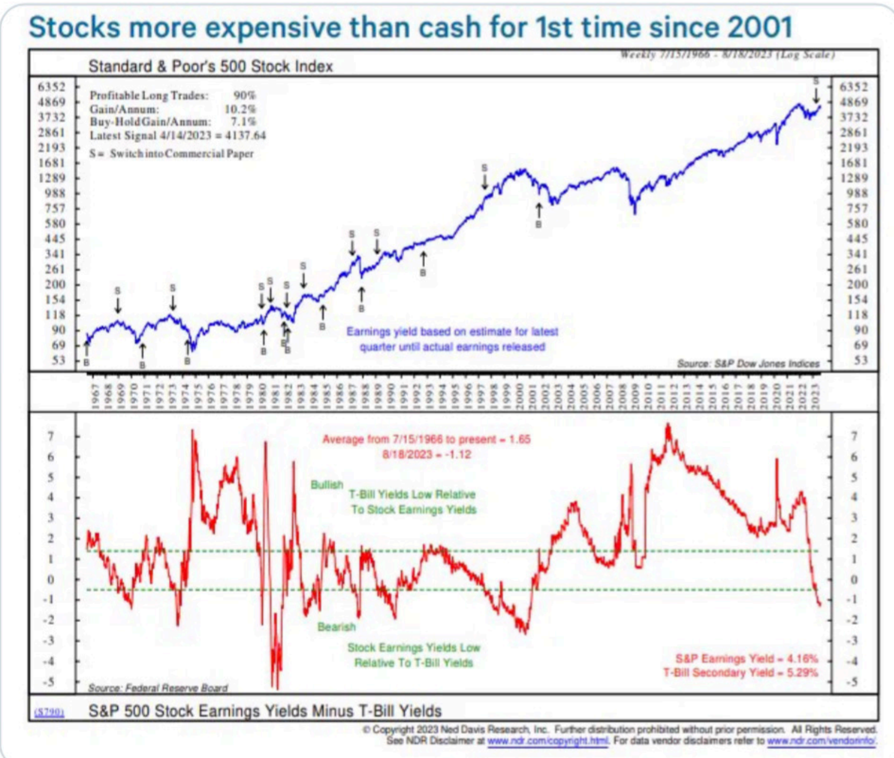


7:35 AM · Aug 25, 2023 · **225.1K** Views

Equities are now more expensive than cash for the first time in more than two decades (from Menthor Q via Twitter on August 25)...

Menthor Q
@MenthorQpro

Equities now more expensive than cash for the first time since 2001. Also Short-term bonds now offer the best alternative to stocks in decades. That could derail equities in long term 👇



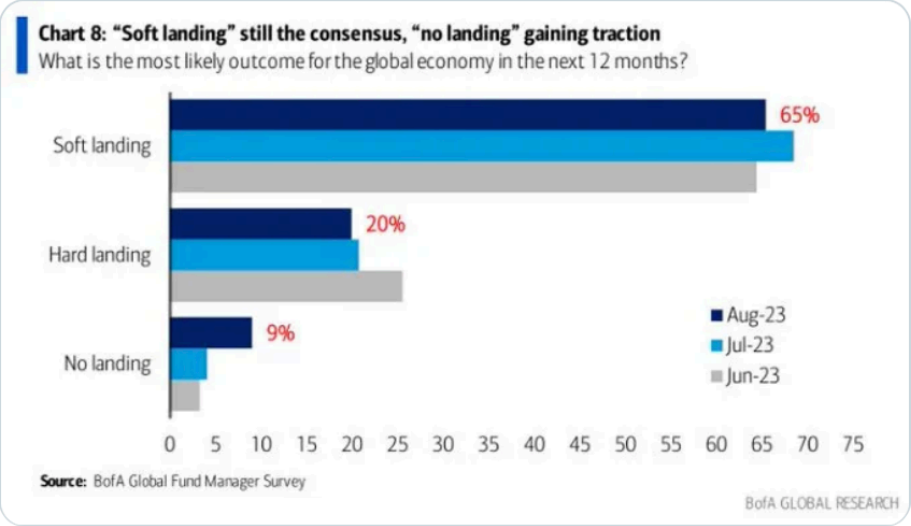
8:22 AM · Aug 25, 2023 · **7,969** Views

The vast majority of global fund managers now believe the economy will avoid a recession (from Bob Elliott via Twitter on August 25)...

Bob Elliott
@BobEUnlimited

The finance world is *all in* on the soft-landing or no landing outcome.

Promoting GDPNow at 6%. '24 Earnings growth expected to be 12%. And this: 75% think either soft-landing or no-landing. Expectations of a good economic outcome this cycle have become extreme.



9:15 AM · Aug 25, 2023 · **170.6K** Views

The Legends Speak

Wisdom and Insight from the World's Greatest Investors

This classic quote from Berkshire Hathaway Chairman and CEO Warren Buffett reminds us that even the best companies aren't always a good investment ([from Investment Wisdom on July 26](#))...

Investment Wisdom
@InvestingCanons

Buffett highlights the difference between a good business and a good investment:

> be an Inevitable, Charlie and I recognize that we will never be able to come up with a Nifty Fifty or even a Twinkling Twenty. To the Inevitables in our portfolio, therefore, we add a few "Highly Probables."
>
> You can, of course, pay too much for even the best of businesses. The overpayment risk surfaces periodically and, in our opinion, may now be quite high for the purchasers of virtually all stocks, The Inevitables included. Investors making purchases in an overheated market need to recognize that it may often take an extended period for the value of even an outstanding company to catch up with the price they paid.
>
> A far more serious problem occurs when the management of a great company gets sidetracked and neglects its wonderful base business while purchasing other businesses that are so-so or worse. When that happens, the suffering of investors is often prolonged. Unfortunately, that is precisely what transpired years ago at both Coke and Gillette. (Would you believe that a few decades back they were growing shrimp at Coke and exploring for oil at Gillette?) Loss of focus is what most worries Charlie and me when we

8:02 AM · Jul 26, 2023 · **32.7K** Views

In his 1977 Shareholder Letter, Buffett shared his four "filters" for finding great investments (from The Investing for Beginners Podcast via Twitter on August 13)...

The Investing for Beginners Podcast @IFB_podcast · Aug 13

In 1965 Buffett started sharing his thoughts in his Shareholder Letters, becoming must read material for every investor.

In his 1977 Shareholder Letter he shared his four filters for finding investments.

They include the idea of moats and intrinsic value, among others.

1 · 7 · 1,913

The Investing for Beginners Podcast @IFB_podcast · Aug 13

The 4 filters:

1. One that we can understand
2. with favorable long-term prospects
3. operated by honest and competent people
4. available at a very attractive price.

These simple ideas set the stage for how Buffett finds quality investments.

So how can we put this in action?

Buffett's 4 Filters from 1977 Shareholder Letter

We select our marketable equity securities in much the same way we would evaluate a business for acquisition in its entirety. We want the business to be ***(1) one that we can understand, (2) with favorable long-term prospects, (3) operated by honest and competent people, and (4) available at a very attractive price.*** *We ordinarily make no attempt to buy equities for anticipated favorable stock price behavior in the short term. In fact, if their business experience continues to satisfy us, we welcome lower market prices of stocks we own as an opportunity to acquire even more of a good thing at a better price.*

1 · 7 · 22 · 2,022

The Investing for Beginners Podcast @IFB_podcast · Aug 13

Filter One:

Find companies where we can understand the economics, ie. how they make money.

Read the 10ks, 10qs, Earnings reports, industry reports, anything.

Pass on those you don't understand, only swing at pitches you can handle, everything else goes in the too hard pile.

1 1 7 1,665

The Investing for Beginners Podcast @IFB_podcast · Aug 13

Filter Two:

Find companies in growing industries with long-term prospects.

For example, screen for companies growing at 5yr CAGRs of 10% or more.

Look for industries with long-term outlooks like Cloud, Trash, Railroads, and Security for example, but stay within your circle.

1 4 1,379

The Investing for Beginners Podcast @IFB_podcast · Aug 13

Filter Three:

Use metrics like ROE or ROIC to find companies with great returns on capital. These metrics can indicate a potential moat, looking for ROE > 15 and ROIC > 20.

Read the proxies to determine shareholder alignment.

Read Glassdoor review to get a sense for culture.

1 7 1,192

The Investing for Beginners Podcast @IFB_podcast · Aug 13

Filter Four:

Use your favorite valuation method to find undervalued companies with a long runway. Relative metrics like P/E, P/FCF, EV/EBITDA can help point you in the right direction.

Or you can use DCF models, or reverse DCFs to find potential biz.

The price we pay matters.

1 3 1,032

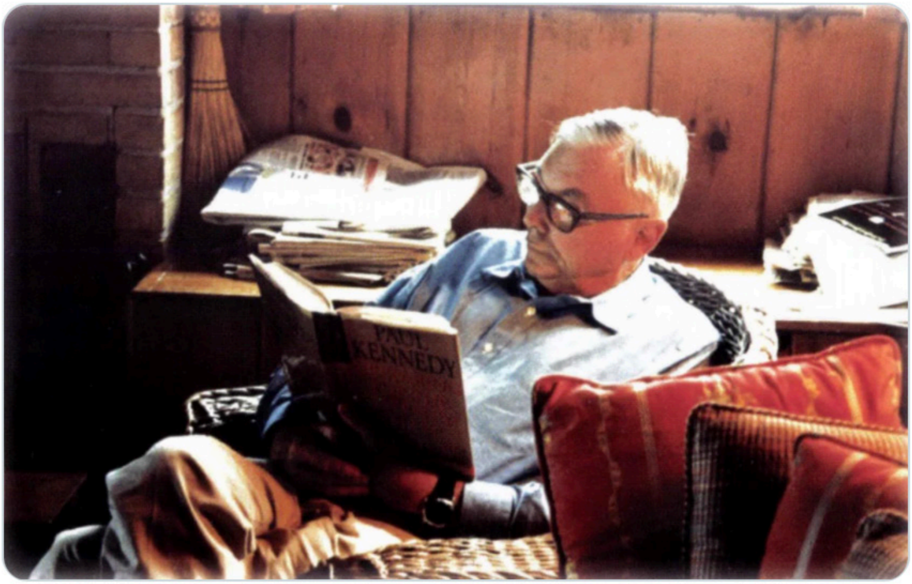
Here are the top book recommendations from Berkshire Vice Chairman Charlie Munger (from Compounding Quality via Twitter on August 14)...

Compounding Quality
@QCompounding

Chalie Munger says that you should keep learning all the time.

"In my whole life, I have know no wise people who didn't read all the time"

Here are Charlie Munger's 11 favorite books:



8:33 AM · Aug 14, 2023 · **145.7K** Views

Compounding Quality @QCompounding · Aug 14
1. Getting to Yes by Roger Fisher

A negotiation guide that emphasizes principled negotiation methods based on interests, focusing on mutual gains and maintaining relationships, rather than positional bargaining.

Compounding Quality @QCompounding · Aug 14
2. The Outsiders by William Thorndike

Explores the leadership and management strategies of eight exceptional CEOs who achieved remarkable business success by prioritizing capital allocation, strategic decision-making, and a long-term focus on shareholder value.

Compounding Quality @QCompounding · Aug 14
3. The Third Chimpanzee by Jared Diamond:

This book examines the biological and cultural aspects of human evolution, exploring how humans share many characteristics with chimpanzees and exploring the implications of our behavior for our past, present, and potential future.

Compounding Quality @QCompounding · Aug 14
4. The Selfish Gene by Richard Dawkins:

The concept of genes as the driving force behind evolution, emphasizing the idea that natural selection operates at the gene level and exploring how behaviors and traits can be understood as strategies for gene survival and replication.

Compounding Quality @QCompounding · Aug 14
5. The Little Book of Common Sense Investing by John Bogle:

Bogle advocates for a straightforward and passive approach to investing, emphasizing the benefits of low-cost index funds and long-term, diversified strategies to achieve consistent and reliable investment returns.

Compounding Quality @QCompounding · Aug 14
6. Only the Paranoid Survive by Andrew Grove:

The importance of adaptability and strategic change in the business world, urging leaders to be vigilant, open to disruption, and willing to make bold shifts to navigate and thrive in rapidly evolving markets.

Compounding Quality @QCompounding · Aug 14
7. Living within Limits by Garrett Hardin:

The challenges of sustainability, focusing on the relationships between ecology, economics, and population dynamics.

There is a high need for responsible resource management and ethical considerations.

Compounding Quality @QCompounding · Aug 14
8. The Autobiography of Benjamin Fanklin:

In his autobiography, Franklin recounts his life story, his accomplishments, his experiments and inventions, and his philosophical ideas.

He shares insights into his personal growth, principles, and practical wisdom

Compounding Quality @QCompounding · Aug 14

9. Outliers by Malcolm Gladwell:

This book explores the factors that contribute to high levels of success, examining how cultural, social, and individual circumstances, along with opportunities and deliberate practice, play a crucial role in shaping exceptional achievements.

Compounding Quality @QCompounding · Aug 14

10 . The Warren Buffett Portfolio by Robert Hagstrom:

Hagstrom outlines the investment principles and strategies of Warren Buffett, offering insights into his approach to stock selection, value investing, and long-term wealth creation.

Compounding Quality @QCompounding · Aug 14

11. Man's Search For Meaning by Viktor Frankl:

A profound exploration of human psychology and resilience, drawing from Frankl's experiences as a Holocaust survivor.

The book examines the importance of finding meaning in life, even in the face of extreme suffering, Investment wisdom from Philip Carret, one of Buffett's personal heroes (from Daniel via Twitter on August 17)…

Daniel
@MnkeDaniel

Buffett referred to Philip Carret as "one of his heroes."

Philip Carret outperformed the market over a 55(!) year period.

This makes him only topped by the legend himself, Warren Buffett.

These are his Investment Rules and Gems 👇

Philip Carret

9 Investment Commandments:

1. Never hold fewer than 10 different securities from five different industries
2. Reassess all your securities at least every 6 months
3. Consider (dividend) yield as the least important factor when analyzing a security
4. Be quick to take losses and slow to take profits
5. Never put more than 25% of your money into securities for which detailed information is not readily available
6. Diligently seek facts, but avoid advice
7. Ignore automated formulas for determining the value of securities
8. Borrow money sparingly and only when stocks are low, interest rates are low and falling, and the economy is depressed
9. Always keep a small portion of your money available to take advantage of long-term stock market opportunities as they arise

6 Gems of Investment Wisdom:

1. More fortunes are made by sitting on good stocks for years than by constantly trading.
2. Buy values, not fancy names.
3. Always be fully invested and keep your portfolio well diversified.
4. Never speculate on credit. I had a margin call in 1924 and vowed never to speculate on credit again. That's one of the main reasons I got through the 1930s.
5. Traders rarely die rich, but patient investors do.
6. How long should you hold a stock? As long as the good things that made you invest in the company are still there.

6:05 AM · Aug 17, 2023 · **91.9K** Views

In 2006, value investor Bruce Greenwald invited Li Lu – sometimes referred to as the "Chinese Warren Buffett" – to speak to his Columbia University class about his investment philosophy. Here are highlights from his 90-minute "masterclass" on value investing (from Brandon Beylo via Twitter on August 23)...

Bruce Greenwald invited Li Lu to speak to his class on value investing.

The result is a 90 minute masterclass on how to be a value investor.

If you haven't watched the video, do it now.

If you have, it's worth re-watching.

Here is a list of my favorite quotes from Li Lu 👇

PERSONALITY OF A VALUE INVESTOR

• "Understand who you are as an investor, because you will be tested.
You will have to ask yourself if you truly are a value investor."

• "Value investing goes against our evolution of following the crowds to survive."

• "You will spend most of your time as an investigative journalist. To have insatiable curiosity."

• "You almost have to be curious about everything. Because you
never know where you'll get that one major insight."

INVESTOR CRITERIA

• Is it cheap?

• Is it a good business?

• Why is this opportunity available to me?

"Once you answer those questions, you really have to go for it."

INVESTMENT CASE STUDY 1: TIMBERLAND

• "The first thing I check in a company is its valuation."

• "If you're an investor you don't care where it traded before."

• "What matters isn't the price-to-book ratio itself, but what's in the book value."

• "You want to compare the capital invested in the business to how much
pre-tax cash flow the business generates using that capital."

• "So Timberland generated $100M on $200M in capital
invested. So why does the opportunity exist?"

- Nike, Reebok, all the shoe brands fell off a cliff during the Asian Financial Crisis.

- Founder owns 40% of the stock

- Company was profitable and didn't need financial markets (no sell-side)

- Tons of shareholder lawsuits

• "What would be your conclusion if you were a normal mutual fund hearing this information? That management is milking the company for their own gain."

What does Li Lu do next?

• "I download every file of the shareholder court cases. That's the investigative journalist part."

• "The result was that the founder withdrew guidance and shareholders didn't like it. That was it."

How do you determine if management are decent people?

• "You've got to be an investigative journalist and find the trail of evidence. Go to their community. Introduce yourself to their friends/family/neighbors."

Total Time Commitment: "A couple of weeks of diligent/obsessive work"

• "Investing is intensive work for short bursts of time."

HOW MUCH TO BUY?

• "If you go join a fund, they'll tell you not to risk anything more than 25-50bps."

• "Think about how much effort you put into this work. You have no downside and its trading at 5x profits."

• "So, I put a shitload of money into Timberland. Over the next 10 years it went up 7x. It was never more than 15x earnings."

• "If you're not a good analyst, you'll NEVER be a good investor."

• "When it goes up, you don't have to do a damn thing. You just sit on it and ride with it."

INVESTMENT CASE STUDY 2: KOREAN COMPANY

• "Don't think about per-share numbers. Think of yourself as an owner."

• "$236M in book value, $60M market cap, $25M net earnings."

How do you know it's cheap?

• "You must confirm that the earnings are there, and that the book value is real, liquid, and tangible."

• "They're trading at the cash value in the bank with no debt. They have hotels and department stores that they own outright. They're making $30M+ in pre-tax earnings. And insiders own 50%."

The result: Went up 5-6x

VALUE INVESTING IS NOT NATURAL

• "There's a lot of money in value investing. But it's still unnatural to most people."

• "One thing you have to do, is you have to do the work. You have to do the reps. You can make a ton of money if you really do this stuff."

• "I benefited by listening AND THEN DOING my own work. Making my own investments and mistakes."

WHAT MAKES A GREAT ANALYST

• "You must provide accurate and complete information. If you can't succeed on that, you can't succeed in this business."

• "If you're not confident about your prediction and what you know, you can't put any money when the stock's in free fall."

WHAT PROVIDES THE BIGGEST RETURNS

• "Your biggest returns will come from no more than ten tremendous insights. That's it."

• "The only way to build those insights is intense curiosity, intense study."

INVESTING MISTAKES

• "The biggest mistakes come when you buy before you've done all the work."

• "My biggest mistakes aren't buying and losing money. It's not buying and missing out on 50-60x returns."

HOW MANY COMPANIES SHOULD YOU BUY

• "I don't have any set rules on how many stocks or companies I buy. Opportunities are sporadic and it depends on the environment."

• "I usually have 3-4 big ideas. If the market is exciting, I have more opportunities. Or if the market is boring, I have fewer."

HOW LI LU ALLOCATES TIME

• "Most of the time I spend reading and studying about everything. Learning new companies and industries."

• "If I find an idea that captivates me. I stop everything and obsess over that idea."

• "Besides that, I spend a lot of time with my kid and my wife."

TL;DR:

• Be an investigative journalist.

• Work obsessively in short bursts and spend the rest. of your time learning.

• When you've done the work and have conviction, buy a shitload to make it worth it.

• Before you invest $1, make sure you can answer the three big questions: Is it cheap, is the management team good, and why does the opportunity exist.

• Never stop learning.

• Become a curiosity machine.

Continue reading (and view the full video) here.

Investment Ideas

Why asset-light (or "capital efficient") businesses are among the world's best compounders (from Invest in Quality on July 30)...

An essential part of the analysis of a business, we need to look at the business model. How the business makes money, what the growth drivers are, and whether or not the business model is asset-light or heavy. An asset-light business has several advantages to a capital-heavy one:

1. Lower Capital Requirements

Capital-light businesses require significantly lower initial investments compared to their capital-heavy counterparts. These types of businesses hold less risk, as they are not exposed to having high levels of fixed costs and capital requirements to operate and grow the business. Additionally, less capital requirements free up cash for capital allocation initiatives, such as reinvesting into the business, acquisitions, and stock repurchases.

2. Higher Profit Margins

Due to an efficient cost structure, capital-light businesses boast better margins. Usually, this means focusing its resources on the core business, and out-sourcing segments of the business that are not considered the core. Technology is often leveraged to streamline operations.

3. Flexibility to seize business opportunities

It is crucial for businesses to have a light business model so that they can adapt to an ever-changing market landscape. New technologies are pushing the pace expected from businesses. Those who are not able to keep up will be left behind. As investors, we want to be invested in companies that can adapt to the changes happening.

4. Doesn't need debt to grow and operate the business

By avoiding extensive capital investments, capital-light businesses often carry lower levels of debt and financial leverage. This financial prudence lowers their vulnerability to economic downturns and interest rate fluctuations, offering investors a more stable and secure investment proposition.

5. Focus on innovation, product development, and customer satisfaction

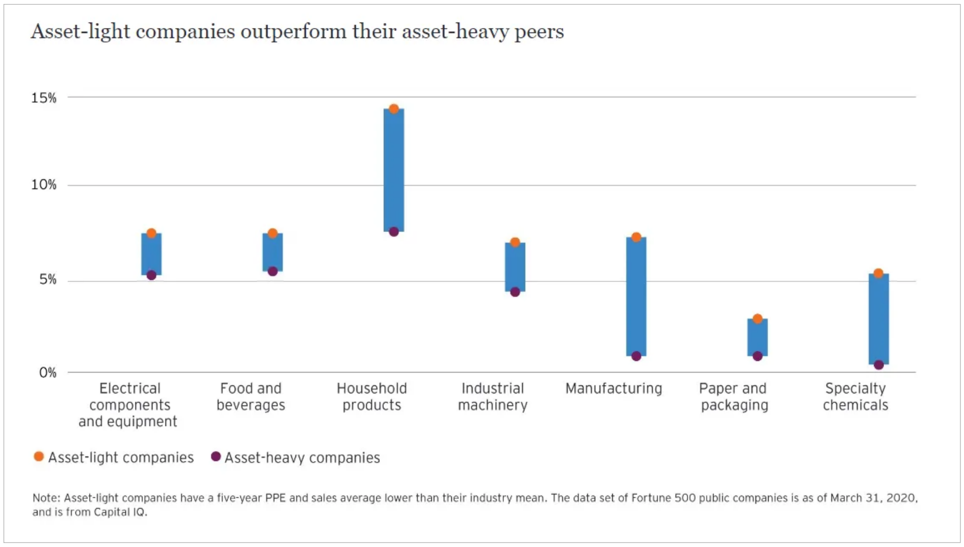
As capital-light businesses have fewer resources tied up in physical assets, they are able to allocate more capital and attention to R&D, in terms of developing the business model, new business segment, and bettering existing products/services.

6. Cash-generating machines

Capital-light businesses typically generate robust cash flows due to their streamlined operations and lower fixed costs. Strong cash flow not only supports day-to-day operations but also enables these businesses to reinvest in growth initiatives, reward shareholders through dividends, and pursue strategic acquisitions when appropriate.

Keep in mind: There will be investing opportunities in capital-heavy businesses, some of these have heavy moats, as it requires much capital to compete with these companies. They are, however, often slow growers, or no-growers, that will pay a decent dividend for a while and might be a good investment at the right price. But we are looking for compounders, and capital-light companies are much more likely to give us favorable returns in the long run.

Consider this study from EY looking at asset light, vs. asset-heavy counterparts.



How to determine if a business is capital-light?

We will use two ratios to determine if a business is capital-light:

- Capital Expenditure/Sales should be lower than 10%
- Capital Expenditure/Operating Cash Flow should be lower than 20%

Note: The lower these numbers, the better.

Let's use Fortinet as an example:

First, we find Fortinet's revenue for 2022 in the Income Statement (Yahoo Finance).

Revenue for 2022 = $4.417 billion

Show: **Income Statement** | Balance Sheet | Cash Flow

Income Statement All numbers in thousands

Breakdown	TTM	12/30/2022	12/30/2021	12/30/2020	12/30/2019
› Total Revenue	4,417,400	4,417,400	3,342,200	2,594,400	2,156,200
Cost of Revenue	1,084,900	1,084,900	783,000	570,000	505,900
Gross Profit	3,332,500	3,332,500	2,559,200	2,024,400	1,650,300
› Operating Expense	2,367,500	2,367,500	1,913,400	1,532,800	1,306,100
Operating Income	965,000	965,000	645,800	491,600	344,200
› Net Non Operating Interest Inc...	-600	-600	-10,400	17,700	42,500
› Other Income Expense	-8,900	-8,900	-7,000	32,400	-7,500
Pretax Income	955,500	955,500	628,400	541,700	379,200
Tax Provision	30,800	30,800	14,100	53,200	52,700
Earnings from Equity Interest Net ...	-68,100	-68,100	-7,600	-	-
› Net Income Common Stockhold...	857,300	857,300	606,800	488,500	326,500
Diluted NI Available to Com Stock...	857,300	857,300	606,800	488,500	326,500
Basic EPS	-	1.08	0.74	0.60	0.38
Diluted EPS	-	1.06	0.73	0.58	0.37

Next we need to find the capital expenditure figure, located in the Cash Flow Statement:

Show: Income Statement | Balance Sheet | Cash Flow

Cash Flow All numbers in thousands

Breakdown	TTM	12/30/2022	12/30/2021	12/30/2020	12/30/2019
> Operating Cash Flow	1,730,600	1,730,600	1,499,700	1,083,700	808,000
> Investing Cash Flow	763,900	763,900	-1,325,100	-72,800	-502,300
> Financing Cash Flow	-2,130,300	-2,130,300	82,800	-1,171,600	-195,600
> End Cash Position	1,682,900	1,682,900	1,319,100	1,061,800	1,222,500
Income Tax Paid Supplemental Data	260,200	260,200	127,400	39,700	58,700
Capital Expenditure	-281,200	-281,200	-295,900	-125,900	-92,200
Issuance of Capital Stock	26,100	26,100	26,000	22,100	49,500
Issuance of Debt	0	0	989,400	-	-
Repayment of Debt	0	0	-19,500	-4,100	-3,700
Repurchase of Capital Stock	-1,991,200	-1,991,200	-741,800	-1,080,100	-145,100
Free Cash Flow	1,449,400	1,449,400	1,203,800	957,800	715,800

Capital Expenditure for 2022 = $281 million or $0,28 billion

Now that we have both figures, we put them together:

Capex/Sales = 0,28 / 4,4 × 100 = 6.3%

Now let's look at Fortinet for the next ratio.

Capex / Operating Cash Flow

Here you can find both in the Cash Flow Statement:

Show: Income Statement | Balance Sheet | Cash Flow

Cash Flow All numbers in thousands

Breakdown	TTM	12/30/2022	12/30/2021	12/30/2020	12/30/2019
> Operating Cash Flow	1,730,600	1,730,600	1,499,700	1,083,700	808,000
> Investing Cash Flow	763,900	763,900	-1,325,100	-72,800	-502,300
> Financing Cash Flow	-2,130,300	-2,130,300	82,800	-1,171,600	-195,600
> End Cash Position	1,682,900	1,682,900	1,319,100	1,061,800	1,222,500
Income Tax Paid Supplemental Data	260,200	260,200	127,400	39,700	58,700
Capital Expenditure	-281,200	-281,200	-295,900	-125,900	-92,200
Issuance of Capital Stock	26,100	26,100	26,000	22,100	49,500
Issuance of Debt	0	0	989,400	-	-
Repayment of Debt	0	0	-19,500	-4,100	-3,700
Repurchase of Capital Stock	-1,991,200	-1,991,200	-741,800	-1,080,100	-145,100
Free Cash Flow	1,449,400	1,449,400	1,203,800	957,800	715,800

Fortinet 2022 operating cash flow = $1.73 billion

Now, let's put it together:

Capex / OCF = 0.28 / 1.73 × 100 = 16.2%

Fortinet is below our requirement for both sales and operating cash flow, which means it is considered a capital-light business.

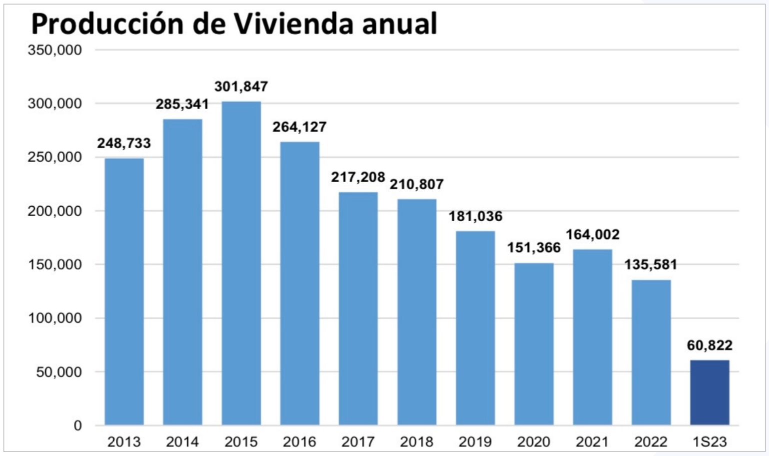
Important caveat: Some companies divide "capex" into "growth capex" and "maintenance capex", while most don't. If you are able to get a number on how much capital expenditure is used for growth, one can argue that you should exclude this from this calculation. This is because, when we calculate using capex, we are interested in how much cash is needed to maintain the business, not grow it.

Examples of capital-light business models:

Paycom
Fortinet
Admicom
Mastercard
Novo Nordisk
Meta Platforms
Constellation Software

Continue reading here.

This tiny homebuilder is arguably among the most undervalued stocks in North America (from Mindset Value on August 2)...



The above chart from Mexico's housing registry, RUV, is quite telling. Mexico has been producing fewer and fewer homes every year and is on track to produce a remarkable 50% fewer homes than was produced in 2013.

The average age in Mexico is 29. The combination of the nearshoring of manufacturing and being the US' largest trading partner has led the Mexican economy to grow at nearly 4% this year.

As we have learned from the past ten years of the US housing market, when supply collapses, pricing surges until producers have enough incentives to go out and really increase supply. That incentive is normally profits and specifically very high margins.

Mexico should be building more homes and the current production is not sustainable. This has led quite predictably to record home price appreciation.

And one of my largest investments, Consorcio Ara (Mexico:ARA), is starting to benefit. Despite building 5.3% fewer homes this year, Q2 sales increased 4.9% thanks to average prices rising nearly 11%.

Mexico needs homebuilders to make more money and for their margins to expand to build more housing. Unlike in the US, there aren't many pure land developers who commit capital and get land developed for homebuilders to build on. That means that homebuilders have to be in a capital position and be truly motivated to develop lots of land.

And after the disastrous ten years from 2011-2021, few are in such a position. It is for this reason, that I expect the coming Mexican housing bull market to last for much longer than investors could imagine. We need Mexican homebuilders to be raking in the cash, so they develop and build much more housing than is currently being supplied to the market.

In 2021, I wrote a deep dive research report on it calling Ara: The Most Undervalued Stock in North America. I followed up with a post last year.

Since my original report, I have been paid about 14% in dividends and thanks to strength in the Mexican peso, my investment has increased by about 20%. A 34% gain in two and half years doesn't set the world on fire, but it is better than a stick in the eye, and a whole lot better than the US markets have done since then.

But now the Mexican housing crunch is reaching a crisis point and Ara is shifting in response. Consorcio Ara is now guiding to 20% revenue growth in the second half of the year as multiple projects come online.

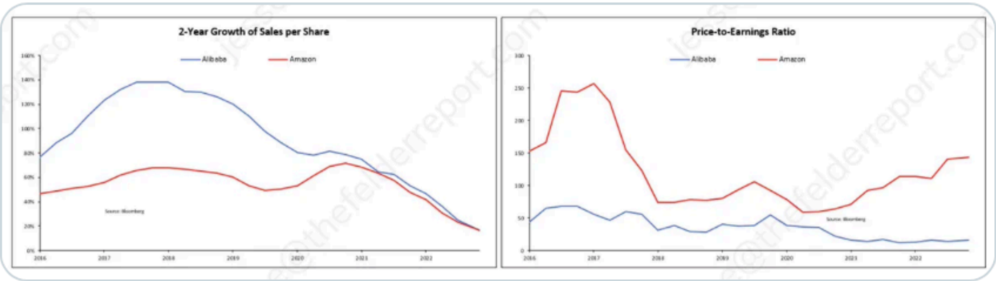
On August 9th, investors will receive a 5% dividend. I'm expecting Ara's dividend to jump by at least 50% next year based on conversations with management and that the company is starting to receive interest about some of the excess beachfront property it owns. Nothing is firm yet, but Mexican brokerage GBM estimates these properties may represent 25% of the company's market cap. Ara management has told me that in the event of a sale, the company would consider special dividends and buybacks.

Continue reading here.

Chinese e-commerce giant Alibaba (BABA) looks incredibly cheap in comparison to Amazon (AMZN) ([from Vincent Deluard and Jesse Felder via Twitter on August 2]())…

Jesse Felder
@jessefelder

'Amazon trades for 143x trailing earnings and 42.7x forward earnings. Alibaba can be bought for 16x trailing and 12x forward earnings. And yet, revenue growth at the two companies has been the same in the past two years.'my.stonex.com/mystonex/marke.. by @VincentDeluard



2:46 PM · Aug 2, 2023 · **22.8K** Views

Two high-conviction ideas to profit from "sticky" inflation (from Kuppy's Korner on August 7)...

Warren Buffett famously told investors that if they wanted to prosper during periods of inflation, then they needed to buy companies with high returns on capital and pricing power. As a result, it should be no secret why a company like Coca-Cola (KO – USA) trades so richly—it's being priced as an inflation resistant Treasury, and investors are crowding into it. As with most things related to Buffett, everyone listens, but then the critical thinking stops.

Sure, if you want to survive during inflation, then you should buy businesses with inflationary pricing power. But what if you want to dramatically outperform during a period of inflation? What do you want to own?

In my mind, I want to own hard assets that are trading at a dramatic discount to their replacement costs. However, I do not want any random assets. I want high quality and scarce assets where the cash flows will eventually justify the replacement cost. Importantly, I want to own assets with minimal recurring costs of maintenance. Along the way, I want cash flow, preferably lots of it. Finally, if I can do this on a slightly levered balance sheet, that should dramatically improve my returns—though excessive leverage could be deadly.

If you follow this thought exercise through to its logical conclusion, I believe you'll end up owning lots of companies like St. Joe (JOE – USA) and Valaris (VAL – USA). I should know, as I did this exercise and ended up with those two being the largest equity positions in my fund.

Let's examine how this works in practice. VAL owns one of the largest offshore fleets globally. I am estimating that the replacement cost of this fleet, based on industry sources, is approximately $25 billion (16 floaters at $1 billion each, 33 modern jackups at $250 million each and 50% of the ARO JV with 7 additional jackups), which admittedly is a very abstract number and may be directionally correct, though likely to be incorrect with any order of precision .

At $76 a share (August 4th, 2023), VAL has an enterprise value (EV) of approximately $5.5 billion. Let's stick with round numbers here and call it a $5 billion EV. Using the above estimations, the company's EV is 20% of replacement cost. Now, let's assume that the replacement cost of the fleet increases by 10% due to hypothetical inflation of structural steel, labor and all sorts of assembly costs. As a result, replacement cost would now be $27.5 billion. Interestingly, that increase of $2.5 billion would be 50% of the EV. If inflation accelerated to a hypothetical 20%, then you'd have a $5 billion increase or 100% of the EV.

As you can see, there's huge leverage to inflation here given how low the EV is when compared to replacement cost. The leverage to inflation certainly appears to be much greater than if Coca-Cola simply raises its pricing by the inflation rate each year.

Of course, the rigs are not currently worth replacement cost, so this is an abstract exercise. Furthermore, you wouldn't want to replace the current rigs, when there are newer designs available. That said, I'm taking a certain leap of faith that at some point in this cycle, dayrates will increase to the point that the existing rigs will actually be worth their estimated replacement cost, and potentially even a premium to replacement cost. Otherwise, how will new rigs enter the fleet and satiate the rapidly increasing demand?? Of course, a wave of newbuildings may obsolete the current fleet. However, in the unlikely case that excessive dayrates spur a round of newbuildings, and eventually obsolete VAL's fleet, this whole exercise has been more than worthwhile as the company will have likely earned at least the replacement cost in free cash flow, and potentially multiples on the replacement cost, before that happened. Meanwhile, on my thin sliver of EV, in our thought experiment I'm making theoretical returns of 50% a year assuming 10% annual inflation in newbuild costs while I await this dream scenario.

I believe that VAL will spew cashflow. Looking at recent industry press releases, dayrates are approaching $500,000 for a floater and $200,000 for a benign jackup. Assuming those dayrates and current utilization rates for the fleet I believe VAL will produce slightly less than $3 billion in pre-tax cash flow annually after maintenance expenses. That's 55% of the current EV of $5.5 billion. More importantly, I suspect that a good chunk of that cash will get returned to me as a shareholder, given that it's highly unlikely for the company to build new rigs, at least not until current values exceed replacement costs. Until then, they'll likely buy back shares at what I think is a massively accretive discount to replacement cost, and potentially pay me a dividend. Eventually, I believe that the shares will accrete to replacement cost, by which time I will have picked up my 5-fold accretion, plus whatever the impact of inflation is on my replacement cost, plus some healthy cashflow too.

This seems like a much better way to play inflation than a consumer product name. Sure, Coca-Cola is a much higher quality business, but everything is relative as an investor, and the goal of this exercise is to get leverage to inflation.

Let's chat about JOE, as it's the largest equity position in my fund. As opposed to VAL where the assets are worth well less than replacement cost today, JOE's land is actually worth current land values. Naturally, I believe this dramatically reduces the risk of owning JOE when compared to VAL.

While precision is difficult when valuing land assets, I believe rather strongly that JOE's current Net Asset Value (NAV) is between $200 and $300 a share. This is calculated using a range of $100,000 to $150,000 of value per acre (our own internal model) and applying it to the approximately 120,000 buildable acres that JOE owns, and then adding in approximately $1.5 billion of cash flow producing real estate, net of debt and cash, divided by the approximately 58.3 million shares outstanding. I realize that $200 to $300 a share is an incredibly broad range of values, but it is simply impossible to fully calculate the value of the assets with any better precision because of the variability in acreage relative to the size of JOE's holdings. Could the NAV be demonstrably higher? Of course. Could it be materially lower? I'd say it's highly unlikely based on where recent transactions have been occurring, but it would be unfair not to remind you of the difficulty in being precise here.

What's far more interesting, is that JOE's landbank appears to be appreciating at somewhere between 10% and 15% a year. This is calculated simply by adding the population growth of their two core counties (Walton at 10.6% and Bay at 5.7% according to company presentations) and the 12-month average of YoY CPI. Of course, it doesn't hurt that every time JOE builds something of value, the land surrounding it also appreciates, as adding population, infrastructure and amenities naturally makes the surrounding land more valuable.

If you use the lower bounds here of $200 a share and 10% growth, you accrete $20 a share from land appreciation. At the higher bound of $300 and 15% growth, you're accreting $45 a share. What's fascinating is that this value creation is all tax free, until a realization even happens for the company. In a strictly numerical sense, based on the current share price of $60 (August 4th, 2023), you're earning between 33.3% and 75.0% annually assuming the same levels of population growth and inflation. As a believer in structural inflation, it's important to note that, every 1% increase in the inflation rate will add somewhere between $2 and $3 a share to the growth of value or 333-500 basis points of annual value appreciation, using the NAV bands calculated above. See how the multiplier works on an asset that is trading at a huge discount to NAV??

Continue reading here.

CNBC host and former hedge fund manager Jim Cramer has finally "thrown in the towel" on PayPal (PYPL) after repeatedly recommending the stock at much higher prices over the past three years. One more reason to buy? (from Inverse Cramer via Twitter on August 14)...

Real Estate Investment Trusts (REITs) have been "left for dead" by investors ([from Callum Thomas via Twitter on August 15](#))...

Callum Thomas
@Callum_Thomas

Chart Of The Day - Retail Investor REIT Allocations

Retail investors are refusing to invest in REITs -- omen or opportunity?

Yesterday I shared a chart on Twitter (well, what is now called "X", but as I've been on it since 2009 I still call it Twitter) — it showed fund managers reporting the most significant underweights to REITs since 2008 (...you know, real estate blowing up the world's financial system 2008).

But it turns out they are not alone, ***retail are also shunning REITs***, with the implied allocations to REIT ETFs by US investors tracking at the lowest level on record.

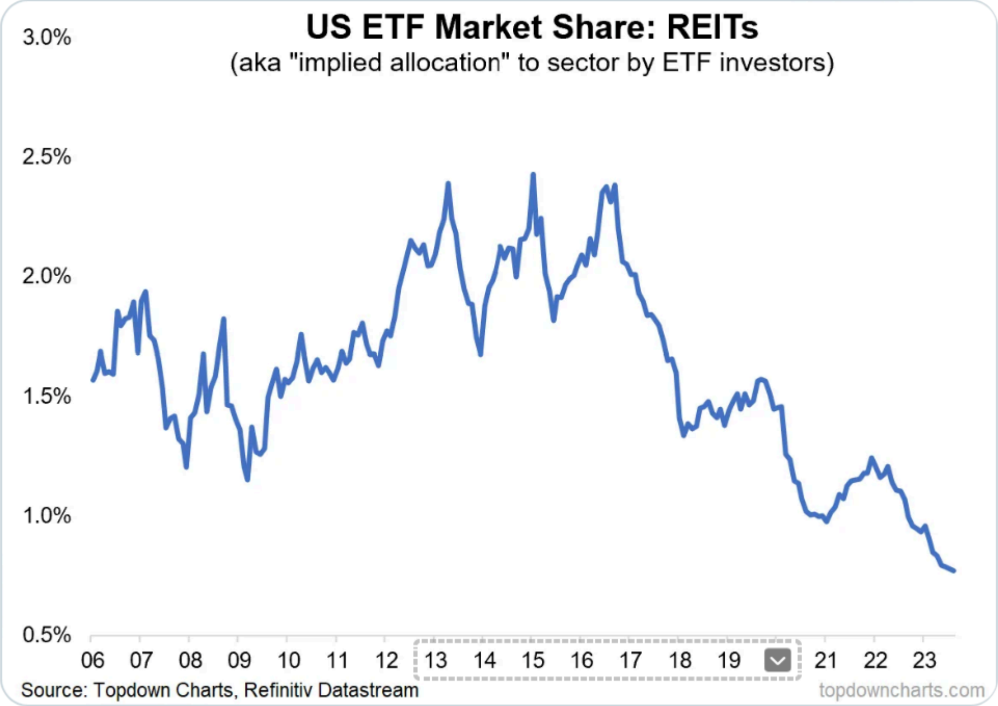
First a technical note: this chart shows the "market share" of REIT ETFs (assets in REITs vs all ETF assets) — which loosely translates to the implied portfolio allocations to the sector (and is basically confirmed by other survey data).

Second, just to pre-address; this chart will show declines in allocations simply by virtue of other ETFs gathering more assets or putting in better price performance, but then that's also kind of the point — if this one goes down it means investors are either actively or passively pivoting away from REIT ETFs as an investment relative to other alternatives (because they don't see it as a good opportunity).

As to implications, we always want to pay attention when a chart or indicator shows an extreme, **and this is definitely an extreme.**

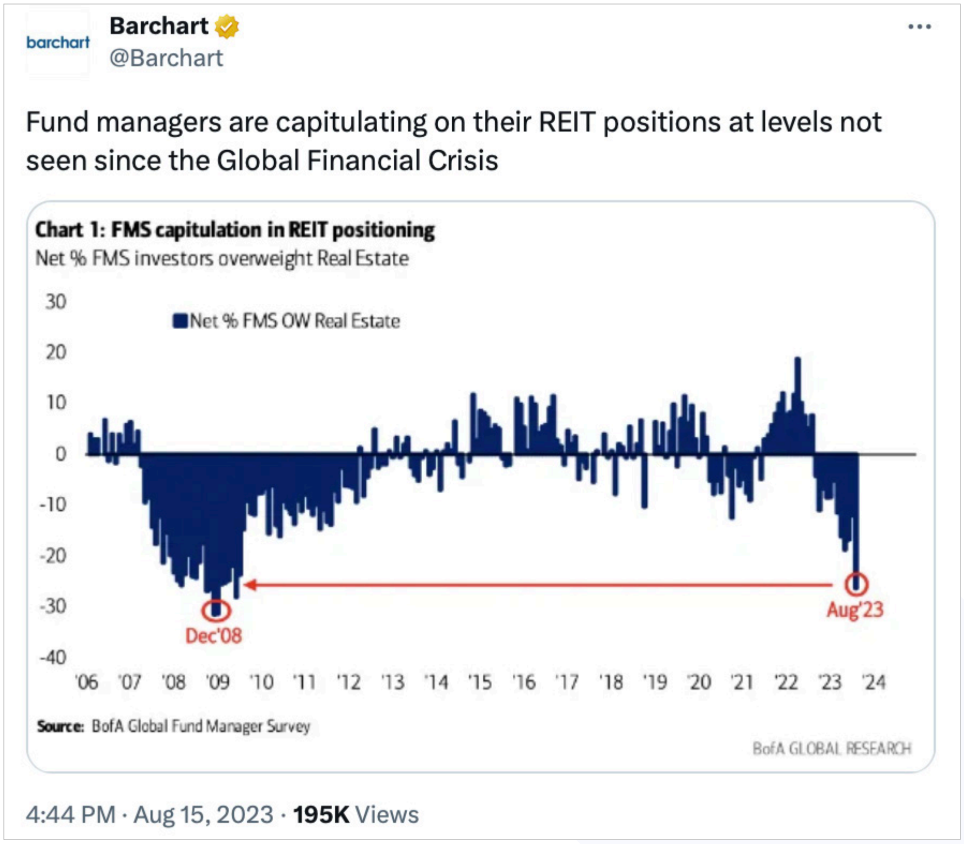
From my work, REITs as a group are not really cheap yet in terms of absolute valuations (albeit no longer expensive), and still face real challenges and macro headwinds — but at this point everyone seems to already understand this and have adjusted accordingly.

So you might argue at this point if REITs simply avoid 2008-style apocalypse (when REITs fell ~75% top-to-bottom(!) [which compares to declines of just over 30% last year for US REITs]), it could be an interesting contrarian bull setup...



5:00 PM · Aug 15, 2023 · **56.8K** Views

Fund managers are also more bearish on REITS than anytime since the Great Financial Crisis ([from Barchart via Twitter on August 15)]...



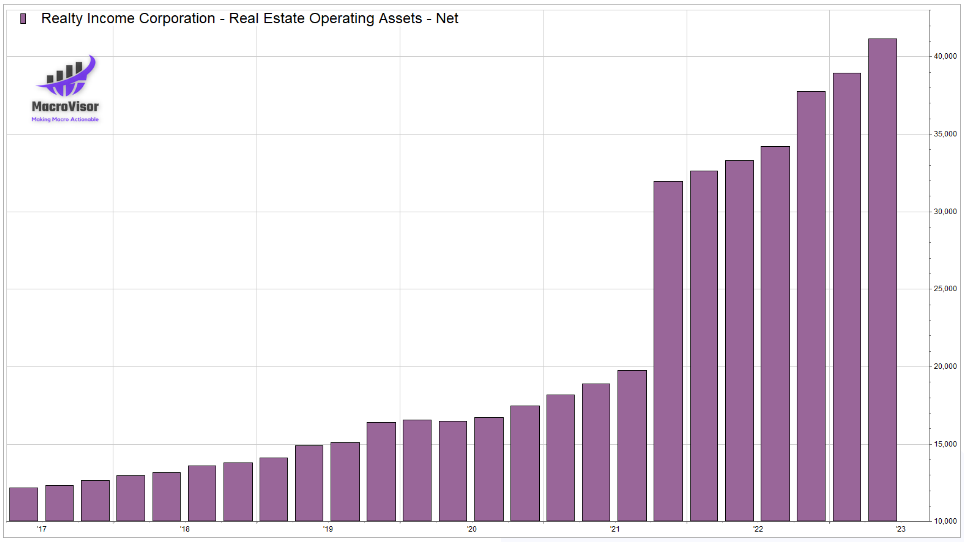
Here's one REIT in particular that may be worth consideration today (from MacroVisor on August 23)...

> Realty Income (O) is by no means a novel idea, but it is a good one. I've liked this company for a long time and it would seem that now we're coming to a zone where we could look at adding some. That $55 zone is a nice area and I think if the company can hold that level and bounce from there we can consider the stock.

The Macro says that this is not the best time to buy REITs. The reason is that when interest rates go up you get a tough environment because:

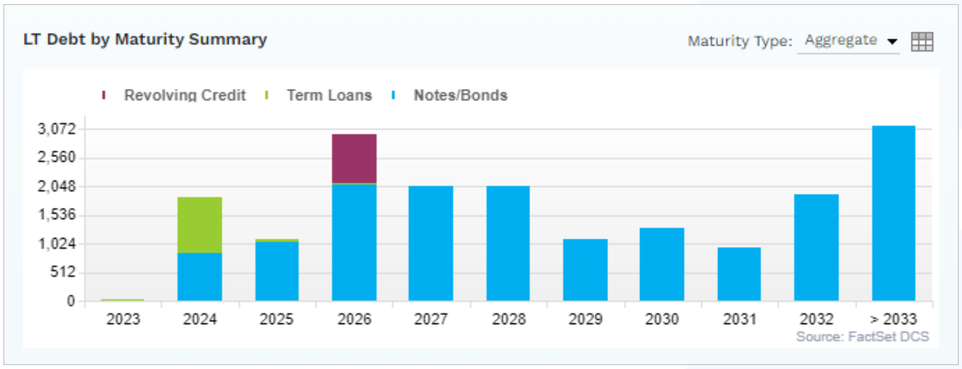
Asset Valuations

REITs own properties and as interest rates go up, property values come down so your balance sheet becomes weaker. Their total property value stands at $41B and you can imagine what happens if the value of these properties start to fall.



Debt

REITs also tend to have a significant amount of debt against those properties. Usually up to 50%. So obviously when it comes to refinance that debt or if they are floating rate loans, they're getting killed. Their total debt stands at $21B and I said they have maturities along the way.



Quality of Tenants

Quality of income becomes a major issue. The tenants for the REIT property are important, [especially] in an environment where the Fed is trying to destroy demand... Here's where Realty is in a relatively better position. They have a lot of defensive tenants.

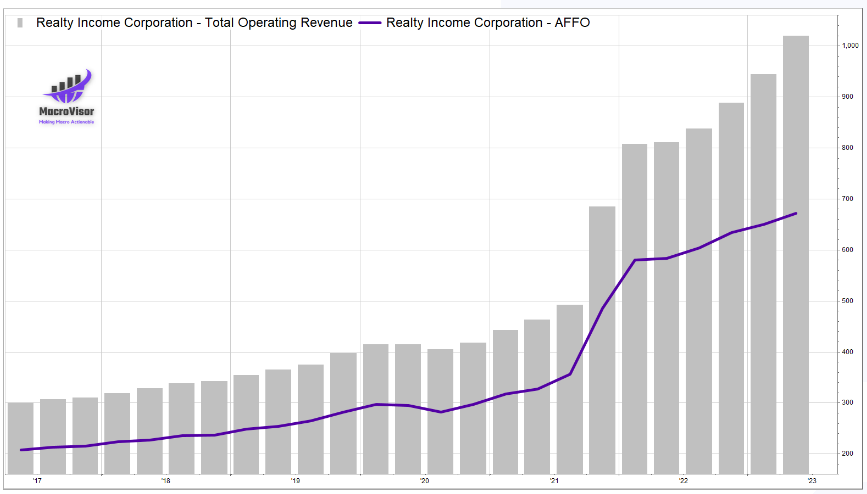
Top 20 Tenants

Ticker	Tenant Name	As Reported Name	Revenue %	# of Stores
DG-US	Dollar General Corporation	Dollar General	3.8	1,579
WBA-US	Walgreens Boots Alliance, Inc.	Walgreens	3.8	362
FDO-US	Family Dollar Stores, Inc.	Dollar Tree / Family Dollar	3.3	1,162
SE.XX1-US	7-Eleven, Inc.	7-Eleven	3.2	634
0BFHDC-E	EG Group Limited	EG Group Limited	2.7	414
WYNN-US	Wynn Resorts, Limited	Wynn Resorts	2.7	1
FDX-US	FedEx Corporation	FedEx	2.3	79
05SGFM-E	B&Q Limited	B&Q (Kingfisher)	1.9	45
SBRY-GB	J Sainsbury plc	Sainsbury's	1.9	35
060QGW-E	Fitness International, LLC	LA Fitness	1.8	73
BJ.XX10-US	BJ's Wholesale Club, Inc.	BJ's Wholesale Clubs	1.6	33
0647W2-E	CVS Pharmacy, Inc.	CVS Pharmacy	1.5	192
LTM.XX1-US	Life Time Inc.	Lifetime Fitness	1.5	22
05LJCK-E	Sam's West, Inc.	Wal-Mart / Sam's Club	1.5	67
TSCO-US	Tractor Supply Company	Tractor Supply	1.4	184
AMC-US	AMC Entertainment Holdings, ...	AMC Theaters	1.3	35
TSCO-GB	Tesco PLC	Tesco	1.3	20
00G06R-E	Red Lobster Management LLC	Red Lobster	1.2	200
LOW-US	Lowe's Companies, Inc.	Lowe's	1.1	40
REGL.XX9-US	Regal Cinemas Corporation	Regal Cinemas (Cineworld)	1.1	35

Top Landlords reflect latest available data within the last 12 months of the selected reporting period.

Source: FactSet

Realty Income is triple net lease. This means that the tenant pays all the expenses of the property, including real estate taxes, building insurance, and maintenance. The most important one being maintenance. So the income we see for Realty is income free of encumbrances. Unlike most other REITs we don't need to adjust the income for maintenance expenses.



REITs pay 90% of their income out as dividends. So most people tend to buy them as income vehicles. According to Yahoo Finance, Realty Income has increased its payout 121 times since its public market listing in 1994, including for the past 103 straight quarters. That's an impressive record!

Realty Income has a dividend yield of 5.5%, but I don't like quoting yields because that can change with price. What I do like seeing are the statistics above. They've increased dividends and we can see the growth in the Adjusted Funds Flow from Operations (Net Operating Income).

[Continue reading here (subscription required).]

Research suggests value stocks are set for another strong period of outperformance ([from Vanguard on August 23](#))...

Once again, Vanguard research suggests opportunity in value stocks—shares marked by lower prices in relation to their enterprise book or accounting values, lower expected and historical growth rates, and relatively high dividend yields.

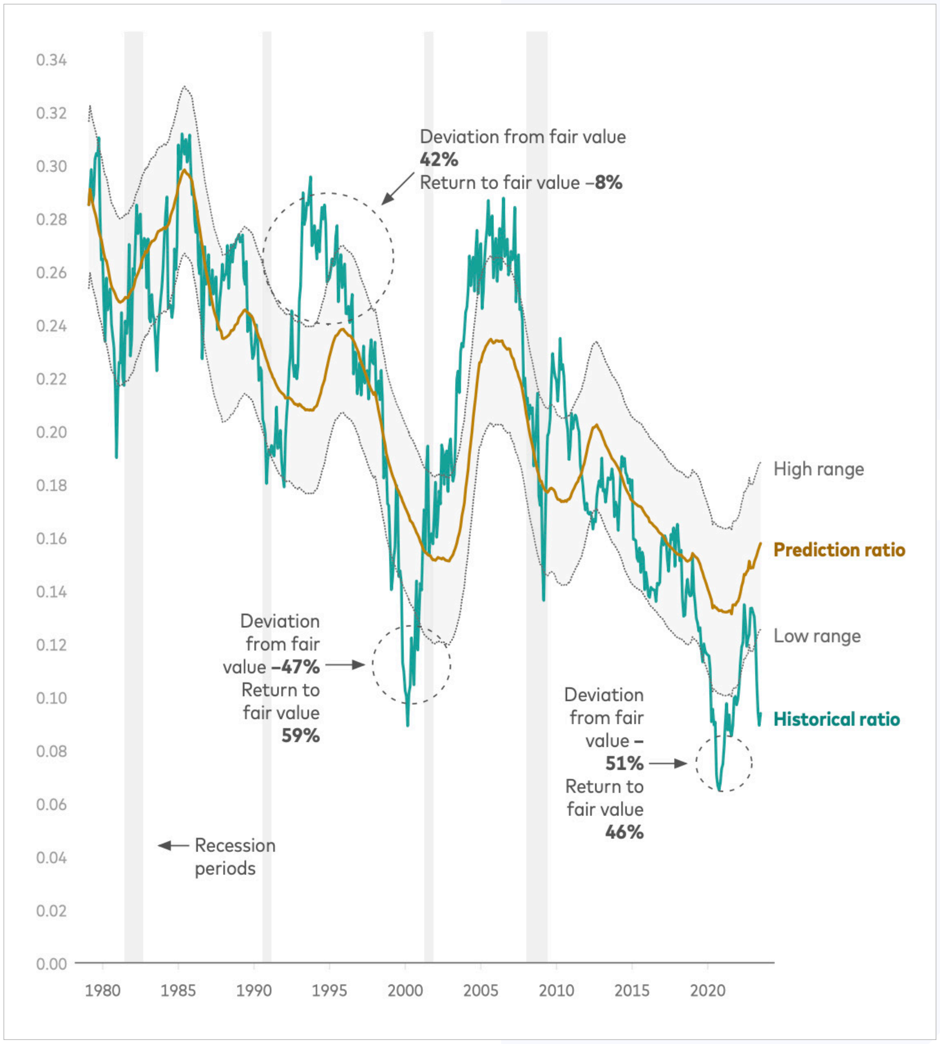
We've been here before—not long ago

"The value/growth relationship is at an extreme very similar to 2020," said Kevin DiCiurcio, CFA, head of the Vanguard Capital Markets Model® research team. "Now, as then, investors in aggregate are very enthusiastic about growth stocks—notably, technology shares—and seem to have limited interest in value stocks, including financial, industrial, and health care companies."

The interactive chart that follows presents our estimates of the fair value of value stocks relative to growth stocks.2 When the historical, actual ratio exceeds the upper limit of our estimated fair-value range, the chance for market-beating returns appears to be larger in growth stocks. When that ratio is below the lower limit of the range, such opportunity appears to be larger in value stocks.

Value stocks appear depressed, even in the context of a long-running decline in their relative value

Value stocks' aggregate price/book ratio divided by growth stocks' aggregate price/book ratio



Notes: To assess the performance of investable value and growth portfolios, we constructed market-capitalization-weighted indexes of companies in the bottom and top thirds of the Russell 1000 Index, sorted by price/book ratios and reconstituted monthly. The valuation ratio is projected based on a vector error correction model (VECM) describing the statistical relationship between cointegrated time series. The VECM is a dynamic model of the first differences of the variables used in the cointegrating regression that includes a disequilibrium term to correct deviations from the long-term equilibrium. Monthly data begin with January 1979 and end with June 2023.

Sources: Vanguard (methodology and calculations, based on data from FactSet Research Systems) and the National Bureau of Economic Research (for U.S. recession dates).

The chart highlights the returns that value stocks recorded, relative to growth stocks, in the wake of a trio of their most extreme valuations.

- Following an overvaluation in 1993, value stocks underperformed growth stocks by a cumulative 8 percentage points on their way back to our predicted ratio (the median of our estimated fair-value range). It took three years to get there.
- An undervaluation near the peak of the tech bubble in 2000 preceded an instance of value outpacing growth by 59 percentage points before reaching fair value in about a year.
- In 2020, another undervaluation preceded a return advantage of 46 percentage points in about 20 months. Value stocks never quite got back to our median fair-value estimate before sagging again to a similar state of investor apathy.

It's well-known, as our chart suggests, that asset prices can stray meaningfully from perceived fair values for extended periods. However, as we explained in research published in 2021, deviations from fair value and future relative returns share an inverse and statistically significant relationship over five- and 10-year periods.

Our outlook for value stocks—a solid relative performance edge

Since we issued our 2023 economic and market outlook [61-page PDF], our forecast of the return advantage for U.S. value stocks over U.S. growth stocks has risen by more than 1 percentage point, to 3.8 percentage points, annualized, over a 10-year period.3

Our expectation for a performance edge for value reflects a rotation back to growth stocks this year. Indeed, following a rebound in the relative performance of value stocks in the latter stages of 2021 and 2022, value stocks have lagged growth stocks across the U.S. market's capitalization spectrum in 2023. The Russell 3000 Growth Index, for example, returned 32% year-to-date as of July 31—more than three times the 9% return of the Russell 3000 Value Index.

Continue reading here.

Chinese stocks could be a fantastic trade based on extremely bearish sentiment alone (from Paulo Macro via Twitter on August 25)...

Paulo Macro @PauloMacro · Aug 25

Ok - I don't reflexively trade every single Economist cover as a high conviction contra, but last week's cover (left) and this week's cover (right) is just impossible to ignore.
1/3

39 · 107 · 665 · 447.7K

Paulo Macro @PauloMacro · Aug 25

Just as the whole world was bullish and long NVDA, the entire world - everyone - is negative on China. But remember how Kovner said we should "look for a consensus the market is not confirming?"

I had assumed KWEB would be at fresh lows with today's sentiment...
2/3

5 · 10 · 169 · 23.9K

Paulo Macro @PauloMacro · Aug 25

... so the question is, what do you think happens to the market should the worst case scenario not materialize?

The absence of bad news will catch people out. Or as @hkuppy likes to say, the most money is made when something goes from hopelessly fuct to just sorta shitty.
/Fin

19 26 325 26.4K

Paulo Macro
@PauloMacro

I mean - it's blaring "the future is hopeless for young Chinese workers and oh the economic model is an epic fail and Xi is galloping on a SNAIL"... IN BACK TO BACK WEEKS... I mean good fricking god. I am prob nowhere near long enough, now that I really process this.

> **Paulo Macro** @PauloMacro · Aug 25
> Ok - I don't reflexively trade every single Economist cover as a high conviction contra, but last week's cover (left) and this week's cover (right) is just impossible to ignore.
> 1/3

10:21 PM · Aug 25, 2023 · **180.1K** Views

Bonds and Credit Markets

Sovereign/Government Bonds and Credit

Why Treasury bonds may no longer be a "safe haven" when the next crisis hits (from Kuppy's Korner on July 23)...

> Emerging Markets (EMs) are highly fragile. This is due to the fact that usually when there's a recession, capital flees, the currency melts, inflation increases and interest rates explode, choking businesses, and making the situation far worse than it would otherwise be. To fight this, the local Central Bank often aggressively raises rates, which defends the currency and reduces inflation, but often makes the economic situation even worse. Recessions are not kind to EMs.
>
> You may ask why it is that interest rates climb during an EM crisis. It comes down to the fact that during a recession, the government's fiscal situation worsens, deficits expand and frequently the government will resort to money printing to fill the gap, leading to accelerating inflation and a weakening currency. Even if the government in question tries austerity, the budget deficit expands so rapidly that investors still panic.
>
> On the other hand, Developed Markets (DMs) have this unique privilege where during a recession, capital returns home and seeks out the perceived safety of government bonds. This reduction in interest rates, spurned on by the Central Bank, is a salve to corporates who can lower their funding costs and better survive the pullback in economic activity. Sure, DMs have widening deficits and excessive money printing, but the flow of inbound capital tends to overwhelm that, and the bond market rallies anyway. Meanwhile, the appreciation of the currency allows the Central Bank to aggressively print money, almost without consequences, allowing for a fiscal response.
>
> Of course, not every situation is the same, but these appear to be the rules, as best as the market understands them. This rulebook has been in play for decades now. DMs do not realize how lucky they've been.
>
> In fact, this state of affairs is so well known, that traders tend to crowd into bonds when they suspect a recession is coming. During a market crash, many traders not only offset the decline in equity markets, but frequently make stupendous sums by leveraging their long positions in bonds. This Pavlovian response is now so well ingrained, that in my opinion, duration is currently the most over-owned asset class amongst aggressive funds.
>
> I bring this all up as I worry that the playbook may have changed. What if during the next crisis, the US acts more like an EM than a DM? What if investors are spooked by 8% deficits during the boom, suggesting double-digit deficits during the downturn??
>
> What if investors become disgusted by what I believe is rampant corruption, incompetence, nepotism and kleptomania at play in Washington?? Of course, our government has always cheated a bit—that's not new—however the scale of the grifting has become unnerving.
>
> What if investors wonder about rule of law after we nationalized Russian yachts, cut off SWIFT and froze various assets of private citizens?? I don't care if you hate Trump or not, the US had a long tradition of leaving past Presidents alone. Arresting your political opponents on dubious charges is almost emblematic of becoming an EM.

Finally, what if investors now have other options, liquid options that can absorb capital and provide safety?? What if during the next time down, the US bond market rolls over, and acts more like Turkey's bond market, instead of the US of old?? What is the financial outcome that would destroy the most speculators??? Probably this outcome.

A year ago, in my Fed Is Fuct series, I asked these questions out loud. I asked them because no one, except a few goldbug doomers, could even contemplate this possibility. At the time, I thought the risk was remote, but I was still troubled enough by the possibility that I wanted to put it out there.

Today, I believe the odds are much higher that bonds roll over during the next crisis. In fact, bonds rolling over may actually initiate the next crisis.

Sure, the Fed will probably try yield curve control—they'll utilize "Operation Twist." However, I think this just accentuates the money printing and accelerates the inflation that's leaning down on the bond market. Markets can be manipulated, but they yearn to be free. Zimbabwe couldn't hold their bond market inline forever. Neither can we—markets are bigger than governments.

Real investors don't trade [the iShares 20+ Year Treasury Bond ETF (TLT)], that's for retail. However, I've cued in on it as the $100 level seems so material.

It's bounced off of that level a few times now. However, TLT seems to slowly be leaking lower. Each bounce has less energy, simply less of a bid to it. TLT feels tired. I'm increasingly of the view that a clear break below $100 sets off the scenario I detailed above.

In the end, everything comes back to incentives. Seriously—who wants to lend this government money for 10 years and earn less than 4%?? Especially when deficits are running at nearly twice that rate and inflation appears to be structural, as opposed to cyclical. The buyers today, are buying because they think bonds rally during the next recession. If bonds keep leaking, these buyers all become sellers. Then, who's left to buy?? At 6% on the 10-year, which sort of sounds inevitable to me, I think most CUSIPs die. What if the 10-year doesn't stop at 6%?? What if it shoots through it and keeps on going??

What's the proximate cause of this?? Could it be a rally in oil?? Inflation isn't dead, it's just obscured by the decline in oil. What about a political scandal?? If our leaders are corrupt like African leaders, we get African interest rates. What if another bailout is needed as banks, private equity, venture capital, real estate and every other sector that gorged on cheap credit suddenly seizes up, now that rates are slowly normalizing with historic US interest rates?? I can think of many scenarios that lead to the floor at $100 giving way. I'm not saying it's inevitable, but I'm saying that if you aren't terrified, you aren't doing your job as a risk manager.

For me, I've taken exposure way down. There's something about how TLT recently knocked on the door of $100 and only gingerly bounced back above it. There's something about how everyone appears crowded into this same trade, often with obscene levels of leverage. There's something about how the regional banking crisis doesn't seem over. It seems to have barely even started. There's something about how all sorts of non-traded assets are marked to model, yet it's obvious that they're impaired. Investors frequently suspend disbelief if their friends do the same, but they always panic together.

Once again, this isn't my only roadmap, but it increasingly seems like the most likely one...

Continue reading here.

A detailed explanation of bond "term premium" and why it matters for bond investors today (from Ben Davies via Twitter on August 4)...

Ben Davies @BenjamDavies · Aug 4

Long Bonds & Term Premium (TP)

Long-dated bond yields are comprised of two parts:

1. Returns expectation compared to short-dated bonds over the same period (same credit)

2. TP the extra yield investors require to compensate them for the risk of holding longer-dated bonds.

1 1 353

Ben Davies @BenjamDavies · Aug 4

TP can be split further into two parts:

a. Real risk premium - compensation for variable short-term real interest rate risk

b. Inflation risk premium - risk due to future inflation

1 1 322

Ben Davies @BenjamDavies · Aug 4

Assessing TPs involves statistical modelling over various tested inputs. It's not easy.

For example, TP models include:

- Short-term IR expectation surveys
- Macro-indicators: inflation, the output gap
- Market-priced nominal and real yields (TIPs)
- Impacts of Zero Lower Bound

1 324

Ben Davies @BenjamDavies · Aug 4

US TP has been negative?

Why no compensation for holding long-end rates in an era of rising inflation?

From 2008 to 2020, TP was low to negative, and Bonds took on an insurance-like quality.

The tail risk hedge to economic slowdowns.

3 329

Ben Davies @BenjamDavies · Aug 4

Flight to safety:

1. Fed | Policymakers' response and fwd guidance lowered short-term rate expectations

2. As banks, pension funds, and insurers require long-term bonds, this guidance emboldened them.

In effect, they became price-inelastic purchasers.

1 282

Ben Davies @BenjamDavies · Aug 4

3. Tighter Regulatory changes, yield chasing and M2M accounting changes presaged banks into buying even longer-dated bonds

4. USD reserve currency status /US-Asian BoP imbalance exacerbated by higher global liquidity from CB QE drove demand for US longer-dated bonds

1 272

Ben Davies @BenjamDavies · Aug 4

Official holdings of UST bonds suppressed term structures and TPs (as well as other sovereign bonds)

Why are long-end rates now rising, and how much is a TP impact?

And this is where I am less empirical and more subjective.

1 266

Ben Davies @BenjamDavies · Aug 4

Markets have a memory, and they echo past behaviour with intransigent habits.

There has been an inverse 'preferred habit' theory at play whereby long-term bonds were held for yield in the ZLB era and a perceived safe haven from exogenous shocks like 2008| many waiting for again.

1 1 259

Ben Davies @BenjamDavies · Aug 4

Usually, one would prefer short-term rates.

- Of course, with MMF offering 5%+ in an inverted YC environment, people have slowly begun to switch

- But old habits die hard, significantly when the FED BTFP reinforces the notion of a safety net on longer-dated bonds

1 259

Ben Davies @BenjamDavies · Aug 4

The switch flipped on perceptions, and like inflation expectations rising, momentum becomes powerful.

1. Japan YCC change and JGB 30yr rates to 1.60% is the beginning of some Jap overseas repatriation | the carry trade unwind (normalisation)

2. Fitch's downgrade reminded us...

1 1 295

Ben Davies @BenjamDavies · Aug 4

That US has too much debt, $ 1tn in debt interest payments annually

And higher interest payments create fiscally driven inflation (Bernholz)

3. Commodities are stabilising and rising again

4. Deglobalisation is real. The BRICs may not create a new currency, but they will...

1 257

Ben Davies @BenjamDavies · Aug 4

And are settling trade with combo of gold, RMB and commodity exchange

The US is onshoring protectionism. EU and UK are but to a lesser extent

1 244

Ben Davies @BenjamDavies · Aug 4

Term Premium is going to return with a vengeance globally. The FED can stymie that with forms of intervention in time, but at 5% CPI without completely socialising price discovery?

Why do I think it's coming?

1. Fiscal incontinence
2. Bond Supply (refunding) has accelerated

1 248

Ben Davies @BenjamDavies · Aug 4

3. The higher rates go, the higher the IR payments

4. The faster the inflationary feedback mechanism of higher levels of borrowing. Wage demands embed, corporate margins will narrow (AI productivity aside but may be the saviour)

5. Polarisation is rife. 50% of people do not...

1 222

Ben Davies @BenjamDavies · Aug 4

..trust the executive and legislators (it will flip to the other 50% when the other side gets in)

6. The Clowns 🤡 are running the show and are the scary, dangerous type. (Thats on both sides of ponds)

1 218

Ben Davies @BenjamDavies · Aug 4

7. Debasement and inequality go hand in hand

8. Inequality goes hand in hand with populism and despotism. It's already unfolding.

Final page - next

1 218

Ben Davies @BenjamDavies · Aug 4

#Gold gains positive risk premia (ie higher prices than real rates would imply as an opportunity cost of carry), a statement of sovereign debt solvency.

#Longendrates sovereign solvency thus requires a higher premium relative to short-end rates in a world of 5% CPI.

1 237

Ben Davies @BenjamDavies · Aug 4

So even if rates get cut in 2024 (+they will), long-end rates are highly unlikely to have the TiLT factor they once had as economic catastrophe insurance.

I'd rather buy TIPs here at a 3%+ real rate

TPs moving -0.6% to +3.5% av. will put US 30yr rates higher than a 5-handle!

2 394

U.S. government debt is set to rise at a mind-boggling rate over the next decade ([from The Kobeissi Letter via Twitter on August 6]())...

The Kobeissi Letter
@KobeissiLetter

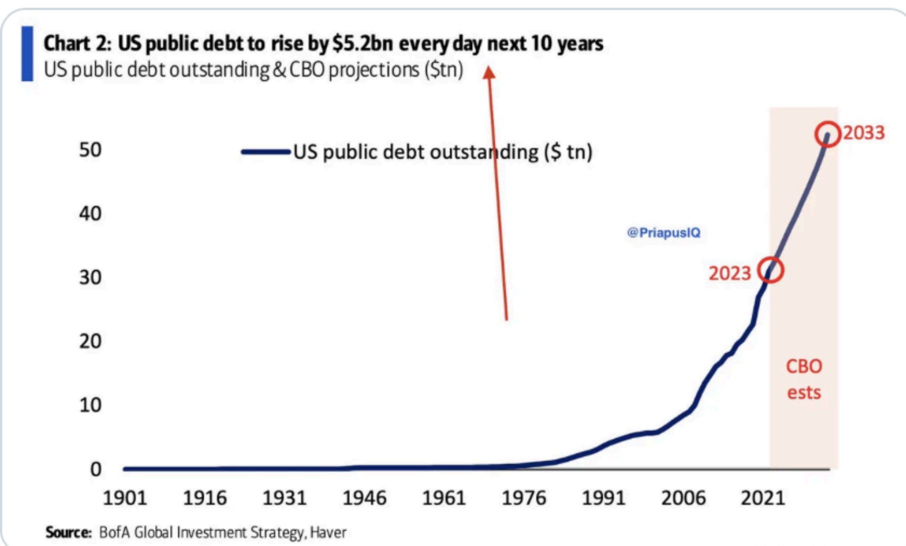
US debt is now on track to rise $5.2 BILLION per DAY for the next 10 years.

By 2033, US debt is projected to hit a record $50 trillion.

Over 20% of government revenue will go toward interest expense ALONE.

These estimates are from the US CBO directly.

How can this end well?



11:31 AM · Aug 6, 2023 · **704K** Views

Fitch Ratings stripped the U.S. of its AAA credit rating this month. Unlike the similar 2011 downgrade by Standard and Poor's, this one could "matter" (from The Wall Street Journal on August 9)...

> Fitch Ratings' decision to strip the U.S. of its triple-A credit rating last week was widely dismissed as meaningless. After all, Standard & Poor's had done the same back in 2011 and bond yields declined—implying more, not less, appetite for Treasury debt.
>
> This time, though, bond yields rose. That suggests Fitch's action deserves our attention, not because it tells us anything new but because it joins the stack of evidence of how profoundly different, and risky, the nation's fiscal situation is now.
>
> The risk isn't of a debt crisis that locks the U.S. out of the markets, as happened to Greece in 2010 or Mexico in 1994; that is virtually impossible for a mature country that borrows in its own currency. The risk, rather, is of deficits and interest rates feeding back on each other at growing cost to both economic growth and taxpayers.
>
> Federal budget deficits can't be viewed in isolation. When S&P downgraded the U.S. back in 2011, the deficit was equivalent to 8.4% of gross domestic product, close to a post-World War II high. But in the wake of the 2007-09 recession, such deficits were both easy to finance and necessary. Private investment was subdued, unemployment at 9%, underlying inflation below the Federal Reserve's 2% target and interest rates stuck at around zero.
>
> Without federal borrowing, all of that—a combination later labeled "secular stagnation"—would have been worse.
>
> Today's circumstances are just the opposite. Private investment is healthy, unemployment near a 53-year low at 3.5%, and interest rates above 5% as the Fed combats inflation roughly double its 2% target. No one talks about secular stagnation now. This is when spending restrictions... should be in vogue.
>
> Instead, the Congressional Budget Office on Tuesday upped its estimate of this year's deficit to $1.7 trillion, or 6.5% of GDP, compared with 5.5% last year. In May, President Biden struck a deal with House Republicans that barely alters the trajectory of rising debt.

Continue reading here (subscription may be required).

A huge percentage of outstanding Treasury debt is set to mature in the next few years (from Charlie Bilello via Twitter on August 13)...

> **Charlie Bilello**
> @charliebilello
>
> Roughly 75% of outstanding Treasuries will mature within the next 5 years. When new bonds are issued they will likely be at significantly higher yields, driving the interest expense on national debt much higher.

Two of the biggest buyers of U.S. Treasury debt over the past several decades are no longer buying (from Lisa Abramowicz via Twitter on August 16)...

Lisa Abramowicz
@lisaabramowicz1

Saudi Arabia's stockpile of US Treasuries has fallen 41% since early 2020, to the lowest level in more than six years. China sold $11.3 billion of the debt in June to bring its holdings of US Treasuries to the lowest level since mid-2009.

bloomberg.com
Saudi Hoard of US Treasuries at Six-Year Low in Embrace of Risk
Saudi Arabia's stockpile of US Treasuries fell to the lowest level in more than six years, as the kingdom allocates more of its oil wealth to riskier assets.

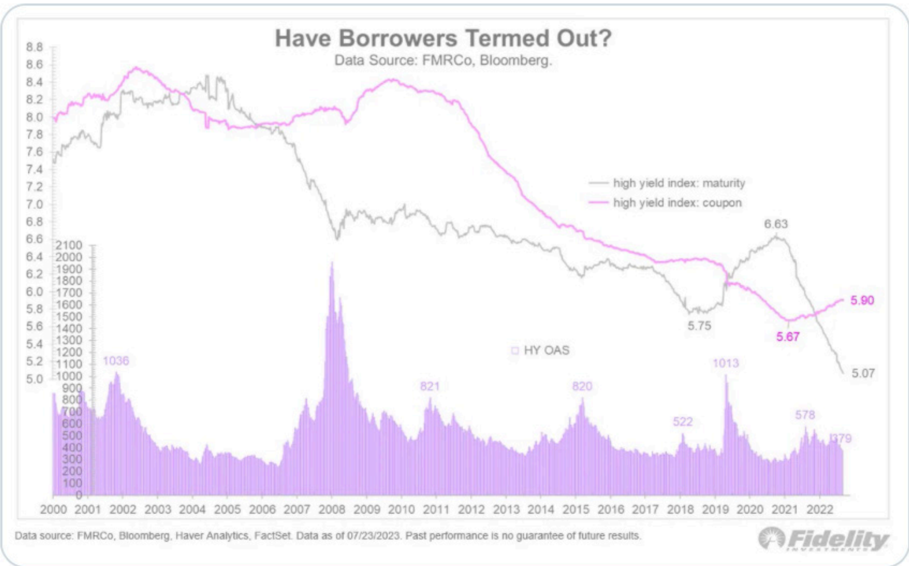
5:03 AM · Aug 16, 2023 · **448.2K** Views

Corporate Bonds and Credit

The Fed’s rate hikes have had limited impact on corporate debt so far (from Jurrien Timmer via Twitter on July 28)...

Jurrien Timmer
@TimmerFidelity

Like homeowners who took out mortgages when rates were low in 2020-21, the Fed's rate increases have had only limited impact on corporates. However, the wall of maturities is looming, as indicated by the rapidly falling index maturity.

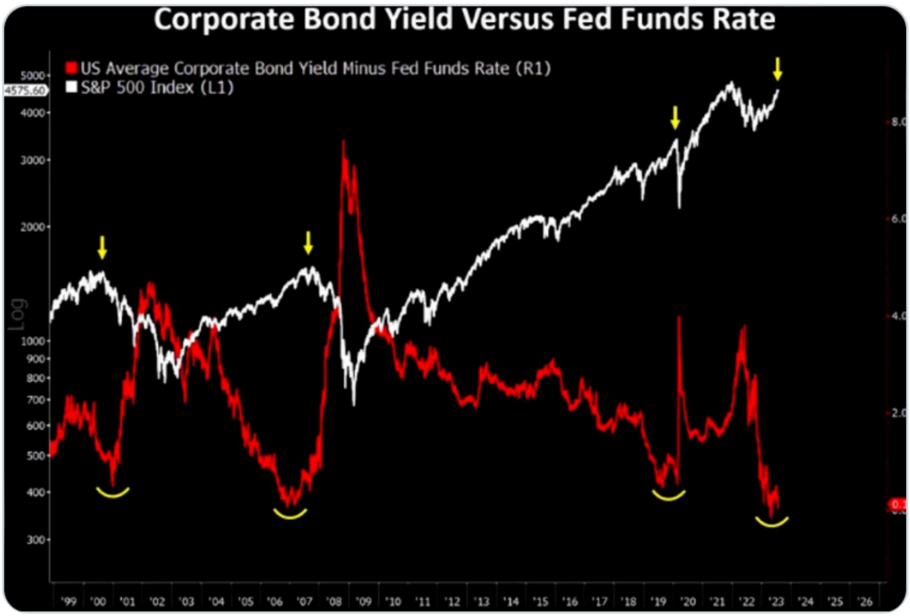


8:34 AM · Jul 28, 2023 · **113.9K** Views

History shows today's record-low corporate bond spreads are a bearish signal for the economy ([from Lance Roberts via Twitter on July 31](#))...

Lance Roberts
@LanceRoberts

Corporate #bonds now yield only 0.12% above the Fed Funds rate. The lowest level since 2007, preceding the Global Financial Crisis. Every time #creditspreads were at historically suppressed levels, a #hardlanding scenario followed.
h/t @themarketear



6:57 AM · Jul 31, 2023 · **65.2K** Views

But high-yield and investment grade credit spreads may finally be starting to move ([from Thomas Thornton via Twitter on August 17]())...

Thomas Thornton
@TommyThornton

High Yield and Investment Grade CDX spreads are widening slightly. Not setting off alarm bells for some and when things get unruly that's when people will panic.

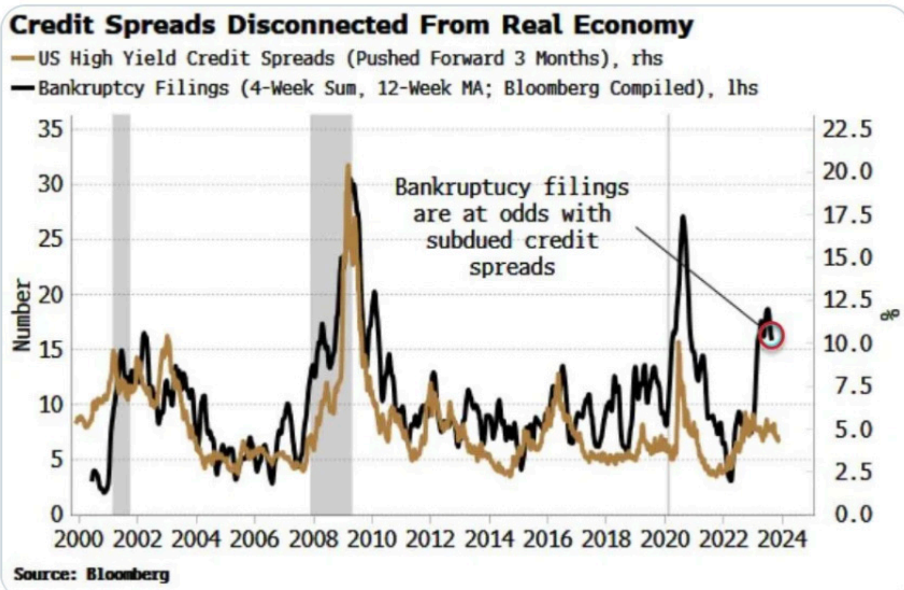
9:16 AM · Aug 17, 2023 · **6,833** Views

Bankruptcy filings suggest there is plenty of room for high-yield spreads to move higher ([from Markets & Mayhem via Twitter on August 24](#))...

Markets & Mayhem
@Mayhem4Markets

US corporate bankruptcy filings are at odds with subdued HY credit spreads

Will concern return, particularly as we see rates rising and stress growing, particularly in riskier areas of the market? 🤔



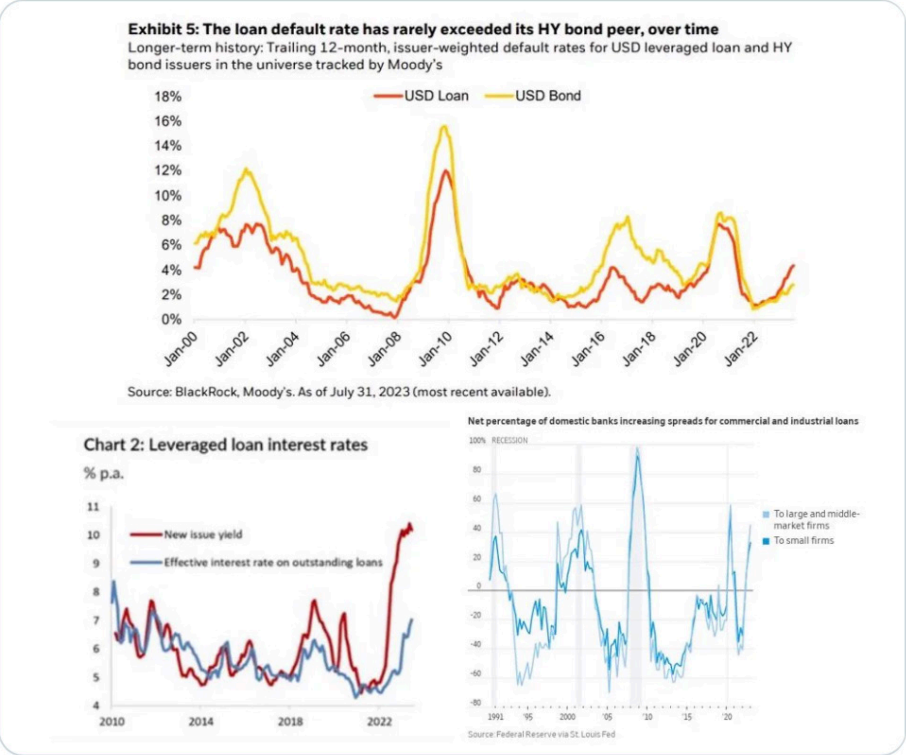
11:35 AM · Aug 24, 2023 · **9,222** Views

Additional evidence suggests the credit default cycle may be starting (from The Long & Variable View via Twitter on August 25)...

The Long & Variable View
@HayekAndKeynes

The credit cycle may just be getting started

-defaults are finally ticking higher
-floating rates haven't even reset yet
-lending standards keep tightening



1:57 PM · Aug 25, 2023 · **12K** Views

Consumer Credit

New survey finds more than one in three U.S. adults now owes more on credit cards than they have in savings (from The Spectator Index via Twitter on August 2)...

The Spectator Index
@spectatorindex

🇺🇸 US adults with more credit card debt than total savings

2021: 21%

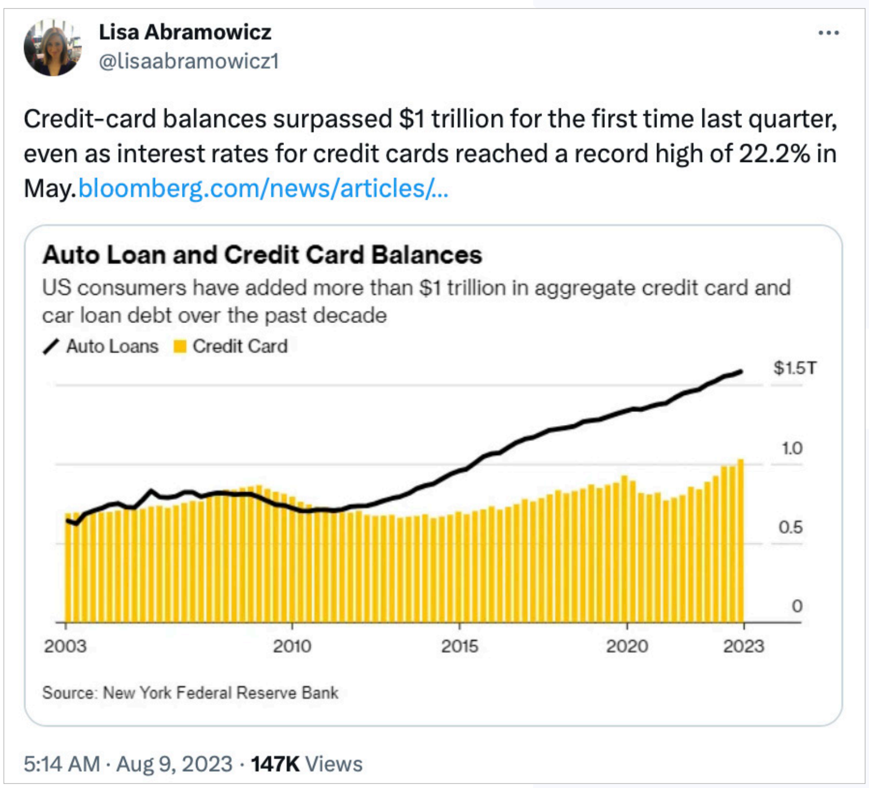
2022: 27%

2023: 36%

(Source: Bankrate)

2:00 PM · Aug 2, 2023 · **886.8K** Views

In related news, credit-card balances just hit a notable milestone in the second quarter (from Lisa Abramowicz via Twitter on August 9)...



Lisa Abramowicz
@lisaabramowicz1

Credit-card balances surpassed $1 trillion for the first time last quarter, even as interest rates for credit cards reached a record high of 22.2% in May.bloomberg.com/news/articles/...

5:14 AM · Aug 9, 2023 · **147K** Views

Both auto loan and credit card delinquencies have now surpassed their pre-pandemic levels ([from The Kobeissi Letter via Twitter on August 18]())...

The Kobeissi Letter
@KobeissiLetter

For the first time ever, both auto loan and credit card delinquencies are above pre-pandemic levels.

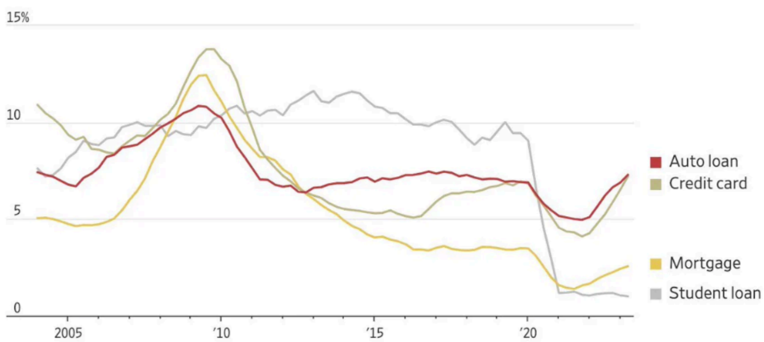
Stimulus has worn off and higher interest rates are being felt.

The average new car payment is now nearing a record $800/month.

The average household has nearly $8,000 in credit card debt.

Borrowing has gotten out of control.

Percentage of U.S. consumer balances moving from current to 30-days-plus delinquent during the quarter, by loan type



Note: Annualized by four-quarter sum.
Source: Federal Reserve Bank of New York's Quarterly Report on Household Debt and Credit

10:34 AM · Aug 18, 2023 · **373.8K** Views

This month brought more "ominous" signs for the auto loan industry ([from The Wall Street Journal on August 21]())...

> Five years ago, there were a dozen models of new cars that sold for less than $20,000. In 2023, there was only one: the spartan Mitsubishi Mirage hatchback, which accounted for about 5,300 of the 7.7 million new vehicles sold in the U.S. in the first half of the year.
>
> If you are willing to spend more than $100,000, you can choose from 32 models. For the average American, paying off a new car at current prices demands 42 weeks of income, according to data from Cox Automotive, up from around 33 before the pandemic.
>
> Bargains have been hard to come by on the used-car lot as well, where the average vehicle listed for about $27,000—up more than 30% from prepandemic levels, according to Cox's data.
>
> Higher interest rates have made the situation more difficult for buyers. Today's average new car loan has a monthly payment north of $750, with an interest rate of 9.5%. For used cars, the average rate is above 13.7%, according to Cox. The average term for loans issued over the past three years is nearly six years, according to data from

Experian.

These numbers could explain a mystery bedeviling auto lending. Seasonalized rates of severe delinquency for auto loans are the highest since at least 2006, but the jobs market is strong.

"Usually you get the default spikes when unemployment spikes—it's the biggest correlation in consumer credit," said Clayton Triick, a fund manager at fixed-income investor Angel Oak Capital Advisors. "To see them go up that much while unemployment is still low is not typical."

Automakers leaned into their pricing power during the pandemic, giving priority to selling more expensive vehicles and features as supply-chain issues constrained inventories and shoppers had more savings from pandemic stimulus packages. They have continued to boost prices. General Motors said last month that the average price paid by its buyers rose 3% quarter over quarter, to $52,000.

So far, higher prices have been a positive for automakers and dealers. Share prices for public dealership groups have surged this year. Automakers have generated profits that they can put toward their expensive transition to electric vehicles. The large dealerships have made big profits from their parts and service businesses as drivers hold on to cars for longer.

But there are signs that the market might already be struggling to sustain itself. If consumers rebel against the higher prices, sales—which so far have been stronger than expected—could slow, particularly among the pricey vehicles that have been generating most of the industry's profits. And consumers who want to trade in their vehicles might be disappointed with the prices they get.

And among those who braved the market at its highest prices last year, many are already struggling to keep up with their payments. The performance of loans issued in the first half of last year at the peak of the price surge has been especially poor.

Defaults and missed payments on pools of auto loans made in the first half of last year to people with subpar credit are matching or outpacing those issued in 2008, according to an analysis published last week by S&P Global that called the data "ominous."

Continue reading here (subscription may be required).

Two notable retailers issued significant warnings about consumer spending this month (from The Wall Street Journal on August 22)...

> Dick's Sporting Goods and Macy's shares traded sharply lower Tuesday after the retailers posted weaker quarterly earnings and provided tepid forecasts for the remainder of the year, signals that the recent strength in consumer spending has its limits.
>
> The sporting-goods chain slashed its profit targets for the year after missing Wall Street forecasts for the second quarter. Sales slowed after a pandemic-fueled surge for outdoor gear, leaving it with excess inventory. Executives said thefts of merchandise were also higher than they expected.
>
> Macy's reported declining sales in the June quarter and warned that more shoppers are late on their credit-card payments. Delinquencies are viewed as a proxy for consumer health, and missed payments endanger a key source of revenue for the department-store chain.
>
> "We expect the pressures consumers are under to continue through the balance of the year," said Macy's Chief Executive Jeff Gennette, adding that additional challenges will come once students and graduates resume repaying their federal student loans. He added that international tourism has yet to return to prepandemic levels.
>
> "Consumers still have good savings, but they are being more judicious in how they spend," Gennette said. "More of their money is going to services and experiences."
>
> Sales at Macy's were down 8% to $5 billion from a year earlier and the company swung to a net loss in the recently completed period. Apparel categories including activewear, casual and sleepwear had challenges, while others such as fragrances and prestige cosmetics as well as women's career sportswear performed well, according to Macy's.
>
> Shares of Dick's plunged more than 24% in Tuesday trading, its largest single-day percentage decline as a public company, according to Dow Jones Market Data Group. Macy's fell 14% and a number of other retail stocks closed lower as investors gauged the health of consumer spending.

Continue reading here (subscription may be required).

Dollar Tree reported more than half of its new customers over the past year have six-figure household incomes ([from The Transcript via Twitter on August 24]())...

The Transcript @TheTranscript_

Dollar Tree CEO: "In the past year, we have added nearly 5 million new customers across both segments. With 2.6 million of these customers, having a household income over $125,000"

$DLTR

DOLLAR TREE

The Transcript
Weekly Quotes From Earnings Calls

New customers are the lifeblood of retail and a critical part of driving traffic and market share. **In the past year, we have added nearly 5 million new customers across both segments with 2.6 million of these customers, having a household income over $125000.** Importantly, our research tells us that a very high percentage of these new customers come back visiting an average of five times in the year. Following their initial trip in fact, we now rank in the top 10 retailers measured by annual new customer Activations. These positive traffic and new customer trends are leading to strong market share gains. For the second quarter in a row, both segments gained market share in consumables as our unit volume grew while the market unit volume shrank. According to Nielsen data, our second quarter consumable unit volume growth outpaced the market by over 1100 basis points at dollar tree and 530 basis points at family dollar with both segments extending their margin of outperformance from last quarter.

Dollar Tree CEO Richard Dreiling

The Transcript @TheTranscript_ · Aug 24

$DLTR CEO: "In this environment, consumers from all income levels are increasingly seeking value. We are well positioned to capture incremental share of wallets with higher-income consumers respond to our strong price value proposition..." twitter.com/zerohedge/stat...

DOLLAR TREE

The Transcript
Weekly Quotes From Earnings Calls

Regarding the industry-wide shift in consumer purchasing behaviors to consumables, we believe this is reflective of the current macroeconomic environment and continuing rotation to a pre-pandemic balance after years of elevated spending. Across discretionary categories. We believe we are winning in consumables as more customers come to see Dollar Tree and Family Dollar as compelling destinations for value. At Dollar Tree, our multi-price strategy provides flexibility to respond to changing customer needs. At Family Dollar, our improved price image and wide range of merchandising initiatives are clearly resonating with consumers. **In this environment, consumers from all income levels are increasingly seeking value. We are well positioned to capture incremental share of wallets with higher-income consumers respond to our strong price value proposition and when lower-income customers concentrate their spending on needs-based consumables.** This is particularly true across food and other consumables, we're value-oriented retailers are taking unit and dollar share. As a result, food categories are disproportionately driving sales momentum across the value retail landscape.

Dollar Tree CEO Richard Dreiling

Last edited 8:32 AM · Aug 24, 2023 · **10K** Views

Real Estate

Warren Buffett's Berkshire Hathaway is bullish on homebuilders (from The Wall Street Journal on August 14)...

> Warren Buffett's Berkshire Hathaway made a fresh bet on U.S. homebuilders in the second quarter.
>
> The company unveiled new positions in D.R. Horton, NVR, and Lennar, together worth more than $800 million at the end of June.
>
> The changes in Berkshire's stock portfolio were disclosed after the market closed Monday, when the company released its latest 13F filing. The filing lays out investors' equity holdings as of the end of the most recent quarter, as well as the size and market value of their positions.
>
> Homebuilders have seen a boom in business since mortgage rates shot up last year. Elevated rates have kept homeowners from selling, leaving new construction as the most appealing option for many buyers. Homebuilder stocks have rallied, with the S&P Homebuilders Select Industry stock index up 39% this year.
>
> Berkshire Hathaway's own dominance in real estate also lends credibility to the conglomerate's new position in homebuilder stocks. The company operates a residential real-estate brokerage and a large network of real-estate brokerage franchises.
>
> Net earnings from Berkshire's real-estate brokerage business declined $50 million in the second quarter from the year prior.
>
> "Because of their real-estate services and some of their manufacturing business, they have a good pulse on what's going on in the housing market," said Cathy Seifert, a CFRA Research analyst. "It's an interesting hedge to the Berkshire real-estate services group that has been hurt by limited supply."
>
> Among other moves, Berkshire trimmed its positions in Chevron, Activision Blizzard and General Motors. It boosted its bets on Occidental Petroleum and Capital One Financial.

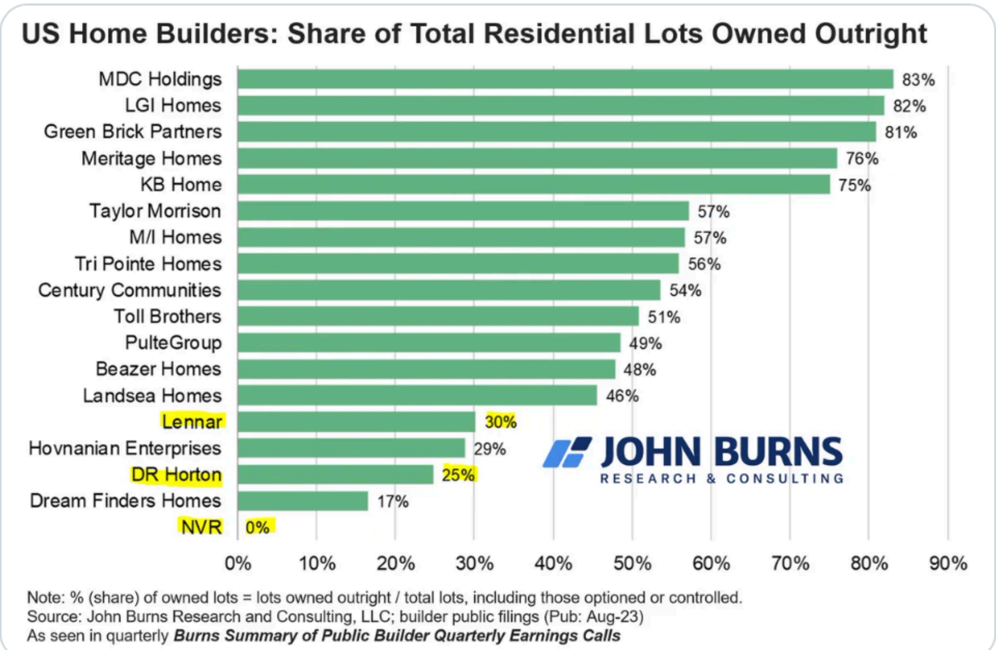
Continue reading here (subscription may be required).

As longtime Porter & Co. readers might expect, Berkshire's investments are focused on some of the most capital efficient companies in the industry ([from Rick Palacios Jr. via Twitter on August 15](#))...

Rick Palacios Jr.
@RickPalaciosJr

Warren Buffett clearly prefers home builders that limit land exposure via options.

$NVR has always been the trendsetter there, but both $LEN and $DHI have moved that direction in recent years.



4:51 PM · Aug 15, 2023 · **57.9K** Views

New York City unveils plan to encourage the (extremely costly) conversion of vacant offices into residential housing (from Bloomberg on August 17)...

> New York City is rolling out a plan to convert vacant offices into as many as 20,000 new housing units by creating a multi-agency group to help developers cut through red tape and rezoning a section of Manhattan known as Midtown South.
>
> The moves come after Mayor Eric Adams and Governor Kathy Hochul's quest for an ambitious program to address the state's housing shortage was rebuffed by fellow Democratic lawmakers in Albany earlier this year. Much of Adams's plan will still need state approval.
>
> "We could not just sit back and just lick our wounds," Adams said at a news briefing on Thursday. "We will roll out what we can do here in the city."
>
> New York, Boston, San Francisco, and other major US cities are struggling with the dual challenges of what to do with office buildings emptied by the shift to remote work and an affordable housing crisis that's driving up rents. Converting offices to housing is complicated and expensive, so city officials are looking at tax breaks, speeding up approvals and other incentives to facilitate the process.
>
> Under New York City's plan, parts of which were announced previously, the city would make office buildings built before 1990 eligible for conversion to housing, an update from the existing cutoffs of 1961 and 1977, depending on the area. The proposal would cover an additional 136 million square feet, roughly the same amount of office space as in the entire city of Philadelphia, officials said.
>
> The plan would also allow office-to-housing conversion in any area of the city where residential construction is allowed.
>
> "We could definitely use more housing in the city," Bess Freedman, chief executive officer of real estate brokerage Brown Harris Stevens, said Thursday on Bloomberg Television. "It would be a great thing to do."
>
> The new Office Conversions Accelerator will be made up of officials from several city agencies, including the Department of Buildings, the Department of City Planning and the Board of Standards and Appeals. The team will assist owners with projects by analyzing feasibility and helping to secure necessary permits.
>
> The plan for Midtown South, an area below Times Square, envisions a live-work mixed-use neighborhood between 23rd Street and 40th Street, bounded by Fifth Avenue and Eighth Avenue. Residential building, including affordable housing, would be allowed in four areas that were zoned for manufacturing 50 years ago.
>
> City officials conceded that state approval will still be necessary to create a substantial amount of new homes through office-to-residential conversions. Adams called on the state to create a tax incentive for office conversions. The legislature let a tax incentive for constructing affordable housing, known as 421-a, expire last year and have not replaced it.

Continue reading here (subscription may be required).

Soaring costs suggest buying a home is now a "luxury" many Americans can no longer afford ([from The Kobeissi Letter via Twitter on August 23](#))...

The Kobeissi Letter
@KobeissiLetter

The monthly mortgage payment based on a median existing home is now at a record $2,322/month.

This is double the $1,200 peak seen in 2008.

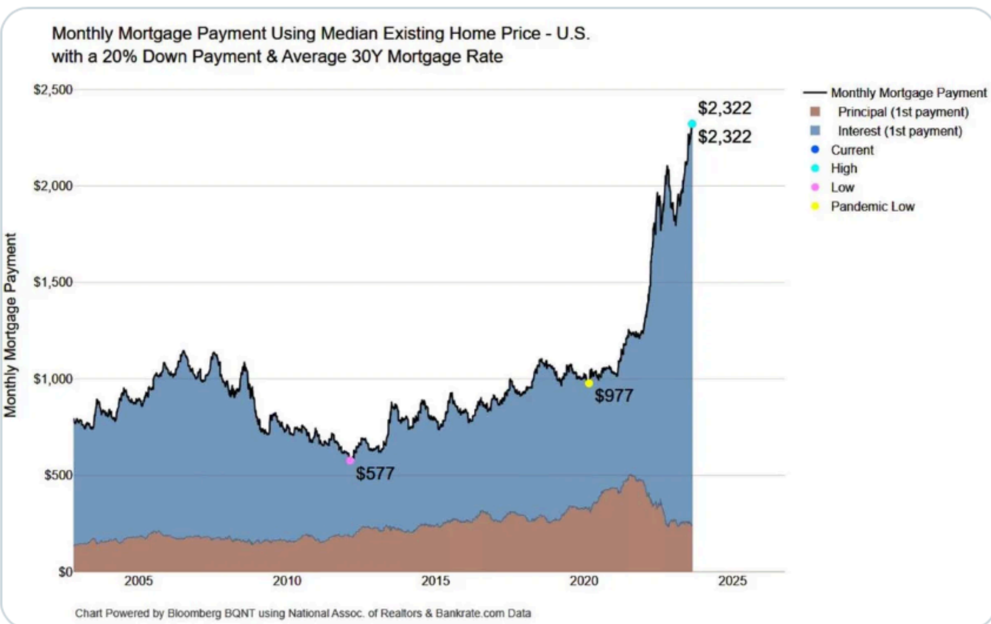
Keep in mind, $2,322/month does not include taxes, insurance or any other costs associated with buying a home.

If you add in taxes and insurance, the median is nearly $3,000/month.

That's $36,000/yr or 51% of the median household PRE-TAX income.

On a post tax basis, the median new homebuyer is spending close to 70% of their income on monthly payments.

Buying a home is now a luxury.



1:41 PM · Aug 23, 2023 · **577.1K** Views

The rising cost of homeownership has not led to an increase in rental activity, suggesting rental prices are also too high for many Americans today (from Anthemos Georgiades via Twitter on August 23)...

Real-estate marketplace firm Zillow is now offering 1% down payments to entice homebuyers (from Bloomberg on August 24)...

> Zillow Group Inc. is offering mortgages with just a 1% down payment as it tries to attract house hunters facing the most-unaffordable market in almost four decades.
>
> The 1% down payment program is even lower than Freddie Mac's best of 3%, with Zillow offering to pay 2% of the down payment at closing, according to a statement Thursday.
>
> It comes after mortgage rates in the US hit a 22-year high Thursday, further squeezing would-be homebuyers. The average for a 30-year, fixed loan was 7.23%, the highest since May 2001 and up from 7.09% last week, Freddie Mac said in a statement Thursday.
>
> The 1% offering comes as Zillow looks to grow its customer base and may "even the playing field with larger competitors," Bloomberg Intelligence said, but it will likely hurt margins and paying 2% at closing could prove costly in the long term.

Continue reading here (subscription may be required).

Mortgage rates just hit another fresh two-decade high (from Steve Burns via Twitter on August 24)...

> **Steve Burns**
> @SJosephBurns
>
> The average 30-year mortgage rate jumped to 7.23% this week, up from last week's 7.09%, according to Freddie Mac on Thursday. That is the highest rate point since June 2001 when rates were at 7.24%. (Yahoo) 🏡 🏠
>
> 12:10 PM · Aug 24, 2023 · **11.8K** Views

Special Situations

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

Last month we cited a short thesis on "green" battery tech firm Enovix (ENVX) – which also happens to be a current long investment position of famed short-seller Marc Cohodes. Now, Cohodes has responded with the bullish case (from Marc Cohodes via Twitter on July 25)...

Marc Cohodes @AlderLaneEggs

Subscribe

If $envx executes every skeptic will be in the ground @joceyreyes209

LOOP CAPITAL

July 25, 2023
Estimate Changes

RATING: **BUY**
Price Target: **$100.00**

Technology Hardware, Storage & Peripherals

Enovix Corp. (ENVX - $18.92)

ENVX's Upcoming Event Path Could Be "Electric"

Download the Full Report:

Ananda Baruah
Managing Director
Ananda.Baruah@loopcapital.com
Tel: 212-823-1314
Loop Equity Trading: 312-913-4908

STOCK DATA	
Price	$18.92
Price Target	$100.00
Market Cap ($M)	$2,990
52-Week Range	$6.50-$26.30
Shares (M)	158.1
ADTV (000)	6,833
Enterprise Value ($M)	$2,786
Dividend Per Share	$0.00
Debt To Capitalization	0%

FINANCIAL DATA	2022A	2023E	2024E
EBIT Margin	(1,559.0%)	(46,844.1%)	(1,070.6%)
EV/Revenue	NM	NM	NM
EV/Sales	NM	NM	NM
P/E Ratio	NM	NM	NM

*Financial data in $ millions except per share.

REVENUE ($M) FY December	2022A	2023E	2024E
Q1	0.0	0.0A	0.3E
Consensus	—	—	2.5E
Q2	5.1	0.0E	0.6E
Consensus	—	0.1E	3.2E
Q3	0.0	0.1E	2.4E
Consensus	—	0.3E	5.6E
Q4	1.1	0.1E	11.8E
Consensus	—	0.5E	8.6E
FY Prior	—	1.5E	25.0E
FY	6.2	0.3E	15.1E
Consensus	—	0.9E	17.4E

OPERATING EPS ($) FY December	2022A	2023E	2024E
Q1	(0.13)	(0.20)A	(0.22)E
Consensus	—	—	(0.25)E
Q2	(0.13)	(0.17)E	(0.24)E
Consensus	—	(0.22)E	(0.26)E
Q3	(0.15)	(0.19)E	(0.25)E
Consensus	—	(0.22)E	(0.26)E
Q4	(0.19)	(0.20)E	(0.21)E
Consensus	—	(0.23)E	(0.26)E
FY Prior	—	(0.72)E	(1.03)E
FY	(0.59)	(0.76)E	(0.91)E
Consensus	—	(0.93)E	(1.03)E

Source: FactSet, Loop Capital Markets estimates

Summary

We continue to be increasingly encouraged ENVX's execution against what we've previously published is a very attractive and favorable "event path" (We're Starting To Get "Charged Up" About Consistent Execution). We lay this out below, while highlighting ENVX had a handful of key achievements through the Q which served as well deserved stock catalysts.

Key Points

ENVX reports Jun Q EPS on 7/26 AMC - notable Intra-quarter catalysts included the following:

- **ENVX positive pre-announced Jun Q production volumes, marking the second consecutive Q in which they've exceeded their expectations** (Enovix Achieves Quarterly Milestone Early, Producing 18,000 Cells).
- **New CFO Mr. Farhan Ahmad is seemingly a very strong fit for the current leg of ENVX's journey** (Enovix Announces Farhan Ahmad as Chief Financial Officer).
- **ENVX received a purchase order from the U.S. Army with the intent of moving into full production** (Enovix Receives Purchase Order to Produce Battery Cells for U.S. Army). Specifically, we believe ENVX has an opportunity to go into production volume in 1H CY2024.
- **For the first time ENVX announced "general availability" (GA) of its standard IoT and wearable cell** — Enovix Announces General Availability of Its Standard IoT and Wearable Cell.

Loop Capital Supply Chain Analyst John Donovan believes that ENVX is making very good progress at Dell for use in its high-end XPS laptop design... and that volume could be shipping in 2024. His work also suggests that ENVX has been 're-qualified' at AAPL (rated Hold by Ananda Baruah), which basically means they have a time-window (which we believe could be 12 months) to move their process forward with AAPL.

Event-path could be taking on an even more elegant form than what we'd anticipated in 2022. Simplistically, we believe the following highlights can include:

- Fab 2 Gen 2 (Malaysia) shows good progression (metrics) through 2023 and is ready for both large volumes (wearables) and form-factors (phones) in 2024.
    - Factory Acceptance Testing (FAT) in August.
    - Agility line delivery in Freemont in November / December 2023.
- ENVX places name-brand consumer product into the marketplace in 2023.
- Watch (wearables) revenue should be shipping by the end of 2023, into 2024 for at least one if not more watch vendors. We believe ENVX is officially qualified on at least three vendors (two of which we believe to be Samsung and Garmin). 2024 could see multiple watch vendors shipping at increasing volumes through the year.
- We believe ENVX is targeting the announcement of at least one EV MOU in 2023.
- Initial phone revenue could occur exiting 2024 (our work suggests a possible Tier 2 vendor, potentially Xiaomi).
- Perhaps most excitingly for 2025 our work suggests Samsung phone potential.

Valuation

Our $100 PT is 20x our normalized $750 - $800M EBIT run-rate we believe ENVX can achieve. We expect ENVX to have a normalized EBIT multiple at least in line with peer comps of 20x.

A recent spin-off has created an opportunity in a little-known commercial property & casualty insurer (from Sohra Peak Capital Partners on August 9)...

Executive Summary

- American Coastal Insurance Corporation ("American Coastal" or "AmCo") is a commercial property & casualty insurance carrier in the state of Florida that exclusively insures garden-style condominium and homeowner association properties against hurricanes and other catastrophe risks.

- American Coastal is a gem of a business hiding in plain sight. Since its founding in 2007, American Coastal has dominated its niche and captured 40% of its TAM. It has also delivered an average ROE of 23.1%, has demonstrated exceptional loss and profitability ratios, and has never had an unprofitable year despite withstanding several major hurricanes.

- This opportunity exists chiefly because until several months ago, American Coastal was a subsidiary within publicly traded United Insurance Holdings Company ("UIHC"), whose primary business was selling personal homeowner's insurance policies under its main subsidiary United Property & Casualty Insurance Company ("UPC"). In April 2023, The Florida Department of Financial Services memorialized the "GoodCo-BadCo" deconsolidation of UIHC and took "BadCo" UPC into receivership, leaving shareholders today with "GoodCo" American Coastal.

- American Coastal's #1 market share position is firmly protected by a set of competitive advantages and barriers to entry that are borne from its exclusive relationship with AmRisc, the largest catastrophe-focused MGA in the U.S. and with whom for all intents and purposes American Coastal is vertically integrated.1 These competitive advantages translate to pricing power over competitors, strong customer retention rates, higher margins, and high customer switching costs.

- Shares appear exceptionally undervalued based on our EPS estimates of $1.89-$2.86/share over FY24-29 vs. today's share price of $5.63. Our estimates imply a FY24E P/E of 2.9x, FY25E P/E of 1.9x, and a P/BV and P/TBV of <1x by mid-FY25 while delivering 53% ROE.1 From FY25 onward, with a healthy capital surplus, American Coastal should return 100% of its incremental net profits to shareholders, which at today's price would imply a ~50% dividend yield and/or significant share repurchases.1 We see an asymmetric path for American Coastal's share price to appreciate from $5.63 today to $16.00 – $22.00 over the next 24-36 months.

- Founder and CEO Dan Peed owns 48% of shares outstanding and has an impressive track record of not only building American Coastal, but also co-founding AmRisc in 2000 which is the nation's largest catastrophe-focused MGA. Based on our channel checks, Dan has an excellent, revered reputation in the industry. Notably, now that the UPC deconsolidation is finally complete, management appears eager to launch a new MGA under the American Coastal public company, which we view as a free call option that could be valued at $400MM in and of itself by FY27.

Continue reading here.

Here's a potential biotech liquidation offering up to 30% upside (from Dalius - Special Situation Investments via Twitter on August 11)...

Dalius - Special Situation Investments @InvestSpecial · Aug 11
1/ Quick pitch on $MEIP

Recently, a busted biopharma MEIP failed to complete a value-destructive reverse merger after investors voted it down. These same shareholders will likely pressure the company into liquidation. There is around a 30% upside in such a scenario. 👇

MEI Pharma

4 2 25 13.7K

Dalius - Special Situation Investments @InvestSpecial · Aug 11
2/ The main risk is the continuation of early-stage pipeline development if activists fail. However, considering the recent voting results and the combined 15% stake held by two activists, Cable Car and Anson Advisors, a successful outcome appears much more likely today.

1 1 754

Dalius - Special Situation Investments @InvestSpecial · Aug 11
3/ As a side note, Cable Car and Anson attempted to buy MEIP for $8/share in cash + CVR representing the right to receive an 80% of the net proceeds. The offer was promptly rejected by MEIP management. My liquidation value estimate is not far off from this offer at $9/share.

1 4 2,627

Dalius - Special Situation Investments
@InvestSpecial

4/ For more information, see the full pitch on SSI:

SSI Special Situation Investmen

specialsituationinvestments.com
Quick Pitch: MEI Pharma (MEIP)
MEI Pharma (MEIP) – Potential liquidation – 29% Upside Mei Pharma's disastrous stock-for-stock merger with Infinity ...

4:44 AM · Aug 11, 2023 · **2,521** Views

Activist short seller Hindenburg Research alleges fraud at online brokerage Freedom Holdings (from Hindenburg Research on August 14)...

- Freedom Holdings is a $4.6 billion market cap online brokerage business, founded in 2008, formerly based in Moscow and later moved to Kazakhstan. Its multi-billionaire Chairman & CEO, Timur Turlov, owns over 70% of the company's shares and has since inception.
- Since listing on Nasdaq in 2019, Freedom shares have rocketed over 450%, luring investors in with the image of a quickly growing firm led by a young, tech-savvy founder.
- Our investigation into the company, undertaken over the course of a year, has included a review of extensive international corporate and regulatory records, interviews with former employees and industry analysis.
- Our research has unveiled a laundry list of red flags including evidence that Freedom (i) brazenly skirts sanctions (ii) shows hallmark signs of fake revenue (iii) commingles customer funds then gambles assets in highly levered, illiquid, risky market bets (iv) and displays signs of market manipulation in both its investments and its publicly traded shares.
- Prior to Russia's invasion of Ukraine, Freedom made it clear that both countries, with a combined population of 188 million people, would be key pieces to its growth strategy going forward.
- Following Russia's 2022 invasion of Ukraine, Freedom fire-sold its Russian business to a Freedom employee for $140 million in order to avoid sanctions. Turlov still secretly controls the entity, according to a former executive we interviewed.
- The move didn't fool Ukrainian authorities: Ukraine suspended Freedom's brokerage license and froze its assets. Chairman & CEO Timur Turlov was also personally sanctioned by Ukrainian President Volodymyr Zelensky due to his Russian ties.
- Despite ostensibly losing both markets, Freedom now claims its rapid, uninterrupted revenue growth has been fueled by Kazakhstan, a country of just 19 million people with a GDP per capita of $10,373.
- We found that Freedom still does business in the Russian market, and that the company has openly flouted sanctions along with anti-money laundering (AML) and know-your-customer (KYC) rules.
- On August 4, 2023, 11 days ago, the company openly admitted it provided "brokerage services to certain individuals and entities who are subject to sanctions imposed by OFAC, The European Union or the United Kingdom," in its latest annual report.
- This admission of sanctions evasion follows a long history. Four months after U.S. sanctions against Russia following its 2014 invasion of Ukrainian Crimea, Freedom Chairman & CEO Turlov established his own private entity in Belize ("FFIN Belize"), admitting in later filings that the entity helps Russians sidestep "restrictions" to access U.S. markets.
- In 2015, as a newly listed U.S. company, Freedom expanded its business further when it bought a bank from Vladimir Putin's Former Chief of Staff, a sanctioned Russian oligarch nicknamed "Darth Vader".
- Freedom Finance in Russia and Kazakhstan has also helped divert funds from sanctioned banks. For example, in April 2022, the U.S. hit Alfa Bank with the most severe international "full blocking sanctions", along with an asset freeze. Days later, Freedom openly advertised an easy-to-use service to help clients shift assets out of Alfa Bank.

- Four of Russia's "financial elite" tied to Alfa Group, including its founder, were sanctioned by the U.S. Treasury just days ago on August 11, 2023. Despite this, FFIN Belize still advertises the ability to send rubles via Alfa Bank, allowing customers to easily funnel rubles via a sanctioned Russian bank right into the U.S. stock market.

- Several months after "full blocking" sanctions were imposed on VTB bank, its customers shared tips over a telegram channel on how to transfer money through Freedom Finance in Kazakhstan.

- Similarly, Tinkoff Bank, on EU, UK and U.S. sanctions lists, also advised its premium customers to open accounts remotely with Freedom Bank Kazakhstan, according to Forbes Russia.

- Former employees described the open flouting of sanctions, along with AML & KYC rules. "This is violating almost every country's anti-money and anti-terrorist financing laws…I've personally seen suitcases with $2.5 million brought in cash by a client", a former Freedom executive told us.

- Another former Freedom executive told us: "I have never seen an organization so unstructured and just blatantly like I'm sorry for my words, but taking a shit on regulations and rules and basically everything as much as this."

- The U.S. government has enforced sanctions through an intensive global campaign. Overall, we find it surprising that a publicly-traded company in our own backyard has worked to brazenly undermine those efforts for years.

- Beyond sanctions evasion, Freedom seems to be engaged in a broad variety of corporate malfeasance involving the same Belizean entity privately owned by its Chairman & CEO.

- From 2018-2020, in the lead up to Freedom's 2019 Nasdaq uplisting, unnamed related parties drove Freedom's revenue growth, accounting for 67.5% of total reported revenue by 2020.

- The lack of related party disclosures resulted in Freedom's auditors later being barred and fined by the Public Company Accounting Oversight Board (PCAOB) for violating audit standards.

- A 2021 exposé first revealed the extent of Freedom's dealings with its key unnamed related party driving revenue growth, FFIN Belize, resulting in the entity publishing its first and only set of financials.

- FFIN Belize's lone set of published financials reported $2.5 billion in both trade receivables and payables, but just $5.4 million in cash, a hallmark of circular or fake revenue transactions.

- Freedom has reported an increase of 306% in related party revenue from FFIN Belize since 2020. It reported fee and commission revenue of $196.3 million from FFIN Belize in FY 2023. Freedom has directed this money back to FFIN Belize with $289 million in margin loans to the entity.

- 25% of Freedom's reported revenue comes from this related party in Belize, as of Freedom's most recent annual financials. FFIN Belize has not provided financials of its own since 2020, despite being run by Freedom's Chairman & CEO.

- Beyond sanctions evasion & signs of fake revenue, FFIN Belize also commingles customer assets, placing them at extreme risk. Buried in FFIN Belize's risk disclosures is mention of a "special brokerage account" saying it can commingle client funds and essentially do whatever it wants with them for its "own interests".

- One selling point for Freedom's customers has been Turlov's claim that its clients have access to hot IPO allocations through FFIN Belize, which obtains the stakes from an unnamed hedge fund. "No one knows" who the hedge fund is, one former told us. "My suspicion is there is no actual IPO [allocation]."

- The entity has also offered high 'guaranteed' return products to lure in customers. In October 2021, Kazakhstan's financial market regulator blacklisted FFIN Belize for 'signs of illegal activity' relating to such products.

- "...we found out that they don't actually execute trades. So where the money goes, nobody knows," a former Freedom executive told us, explaining that FFIN Belize received funds through offices in Russia but wasn't actually trading the securities as promised.

- "I wouldn't even be surprised if all of this was all manipulated and they weren't even investing in stocks," another former told us.

- All the while, Freedom has used funds to take on high leverage and market risk. While it claims it has "conservative risk management" and "limits the amount of credit exposure to any one issuer", SEC filings show Freedom invested 35% of its gross principal trading balance, or $835 million, in the debt of just one Kazakh issuer. The position is larger than Freedom's shareholder equity balance of $777 million.

- Freedom also disclosed that as of March 2023 its $2.4 billion in trading securities were financed with ~$1.5 billion in short term liabilities with maturities under 30 days. Meanwhile, the bonds are extremely illiquid with a 30-day average volume of just $16.6 million. Freedom's position represents a full 50 days of trading volume.

- Those same Kazakh bond investments yield lower returns than the short-term rates used to finance them. We estimate Freedom loses $0.5 million to $33 million per year on this concentrated, leveraged, negative carry trade.

- Freedom aggressively increased its position in the bond issuer from $297 million in December 2021 to $720 million in December 2022, during a period of seemingly artificially inflated prices. In January 2023, Kazakhstan's financial regulator reported that the issuer's bonds were being manipulated.

- In brief, Freedom seems to be relying on short term, expensive leverage to hold a massive, illiquid, money losing position in bonds that have likely been propped up by Freedom's own purchases. This poses an existential risk for Freedom and any commingled customer assets.

- We also uncovered hallmarks of market manipulation in Freedom's own stock, including inexplicably steady trading volume and price, seemingly impervious to both market-wide events and company specific negative news.

- Over the last 1.5 years, over 59% of trading in Freedom's stock has been driven by two tiny brokerage firms with ties to Freedom: (1) Lek Securities, accounting for over 59% of trading volume in 2022 despite accounting for just 0.06% of trading volume on NASDAQ and (2) Vision Financial Markets, accounting for ~17% of YTD 2023 reported trading volume in Freedom despite comprising only 0.03% of NASDAQ volume.

- Both Lek and Vision have clearing arrangements with Freedom, indicating a close relationship. Lek was charged with manipulative trading by the SEC in 2017 alongside a Ukrainian brokerage firm. Its founder was barred from the securities industry in 2019.

- Vision was barred by the National Futures Association in 2014 but relaunched. Subsequently, it has accumulated a rap sheet of 26 regulatory sanctions over issues including a lack of effective AML procedures and a "failure to prevent and detect potentially manipulative trading activity", according to FINRA and Nasdaq enforcement actions.

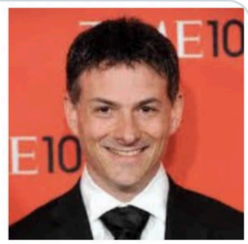
- A former Vision executive summed up the brokerage's business model: "the takeaway—and I talked about 'dodgy'—is that Vision's operating in areas that other firms don't want to operate in." He described Vision's business as "a little bit dangerous" and confirmed Freedom is its "biggest customer".
- Finally, Freedom itself has been subject to multiple regulatory sanctions. Four Freedom entities in Kazakhstan have accrued 244 penalties, resulting in 121 sanctions, over allegations ranging from money laundering to terrorism financing.
- Freedom has also failed to disclose an ongoing SEC investigation since at least October 2021, according to reporting by Disclosure Insight.
- All told, Freedom Holding has exhibited a startling array of red flags relating to virtually every category of financial malfeasance worthy of investigation.

Continue reading here.

Hedge fund legend David Einhorn on the opportunity in "stealth high quality" stocks today ([from John Huber via Twitter on August 10](#))...

John Huber
@JohnHuber72

This is a really interesting idea that Einhorn has been talking about recently. I've noticed many companies (what I'd call stealth high quality; Japan is one of numerous examples) where the stocks are so cheap and there is just "no one home" as a friend likes to say.
What's great about these is the capital returns can provide tremendous CAGR's on their own. Takes a little digging, but there are such things at 2 P/E's, 25% dividend yields, and other extreme values; and some of them have very high quality economics. @dirtcheapstocks, @dsmoak98 and @natstewart5 are a few of the best at finding such ideas.
In general, I'm noticing more opportunities on my watchlist than I have in years. Seems many quality investment ideas get lost among the higher profile companies that fit a specific set of narratives



DAVID EINHORN: "We're not doing what we were doing anymore. What we're doing now is we're saying, what do we have to do to make a good return if a tree falls in a forest and nobody is there to hear it? What happens if there aren't other investors who are going to bid up the stocks and figure out what we have figured out after we figured it out? Because that's what we used to do. The result of this though, is that you have this enormously bifurcated market. Where there's this wasteland of companies where literally nobody is paying attention and nobody is following. And maybe there's sell side analysts but sell side analysts don't matter - they don't have any money... The point is that there's no buyers, and so you can have these companies that are essentially at a wasteland valuation." Money Maze Podcast (YouTube) - July 21, 2023

Last edited 10:22 PM · Aug 10, 2023 · **361.6K** Views

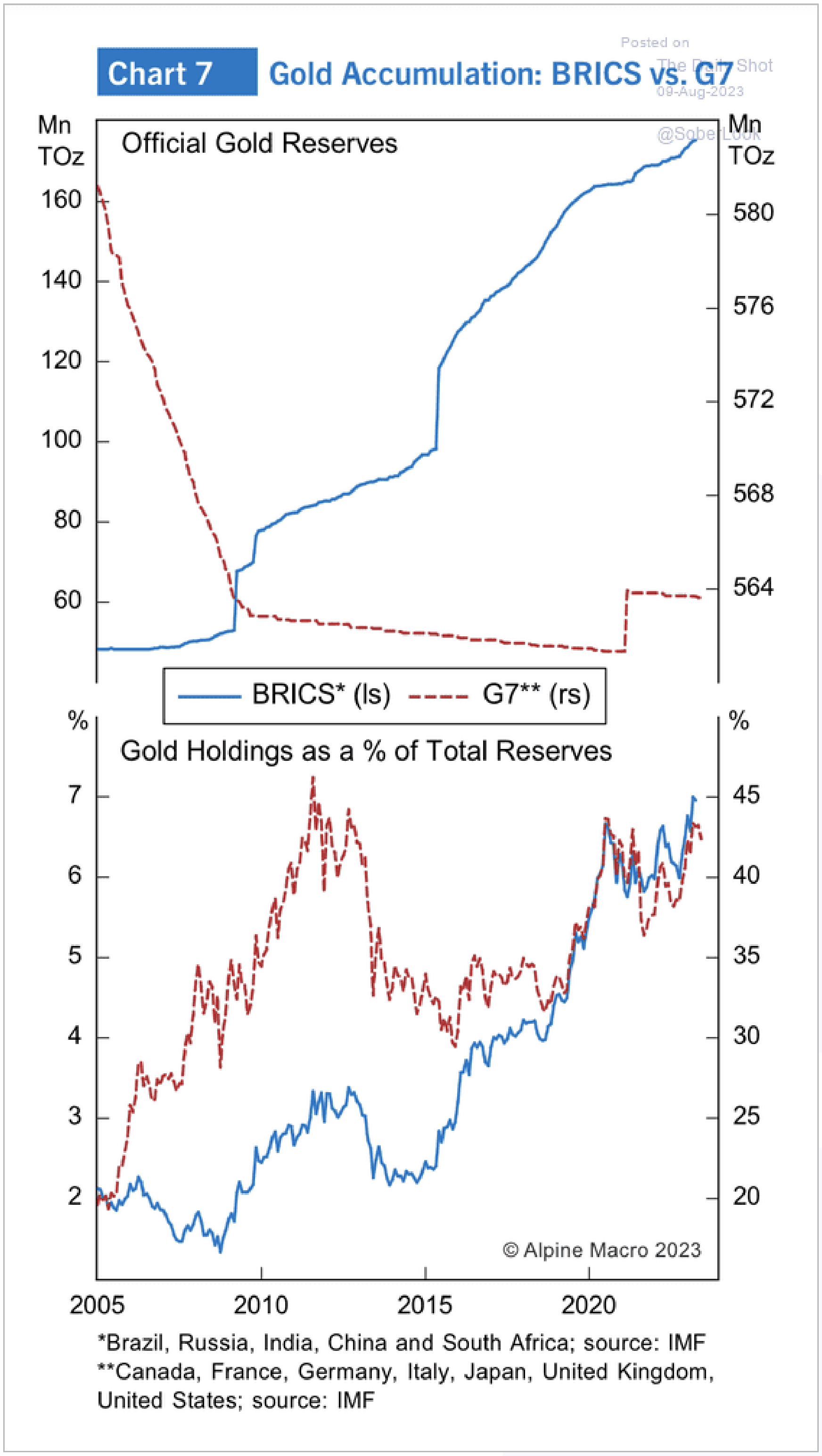
Precious Metals

China's central bank continued to load up on gold in July, pushing its "shopping spree" to nine consecutive months (from Kitco News on August 8)...

> China continues to put the world on notice that it intends to challenge the U.S. dollar's role as a reserve currency after the nation's central bank bought more gold in July, pushing its current shopping spree to nine consecutive months.
>
> Krishan Gopaul, senior analyst at the World Gold Council, reported on social media that the People's Bank of China bought 23 tonnes of gold last month. Gopaul noted that so far this year, China has purchased 126 tonnes of gold, increasing its official reserves to 2,136 tonnes.
>
> China's ongoing gold purchases have put renewed focus on the growing de-dollarization trend as nations around the world reduce their exposure to the U.S. dollar. Although China has become a leading buyer in the precious metal market, some analysts say that the central bank is just getting started.
>
> "When you buy gold, it's a direct vote against the U.S. dollar," said Willem Middelkoop, creator of the Commodity Discovery Fund. "China is sending a message to the White House that they don't support the global financial system backed by the U.S. dollar."
>
> Thorsten Polleit, chief economist at Degussa, said he also sees China's sustained gold purchases as a vote of no-confidence in the greenback.
>
> "China is sending an unmistakable signal to the world for all eyes to see: It reduces its US-dollar holdings and, at the same time, increases its gold reserve stock," he said. "Like many other non-western countries, China wishes to reduce its dependence on the greenback, and physical gold is the greenback's natural substitute."
>
> Polleit added that as aggressive as China has been in the last nine months, the central bank still has a long road ahead.

Continue reading here.

But China isn't alone... Many of BRIC's central banks have been buying gold like crazy (from Alpine Macro via The Daily Shot on August 9)...



Gold is entering its strongest seasonal period of the year, and the setup appears particularly bullish this year ([from Fred Hickey via Twitter on August 19]())...

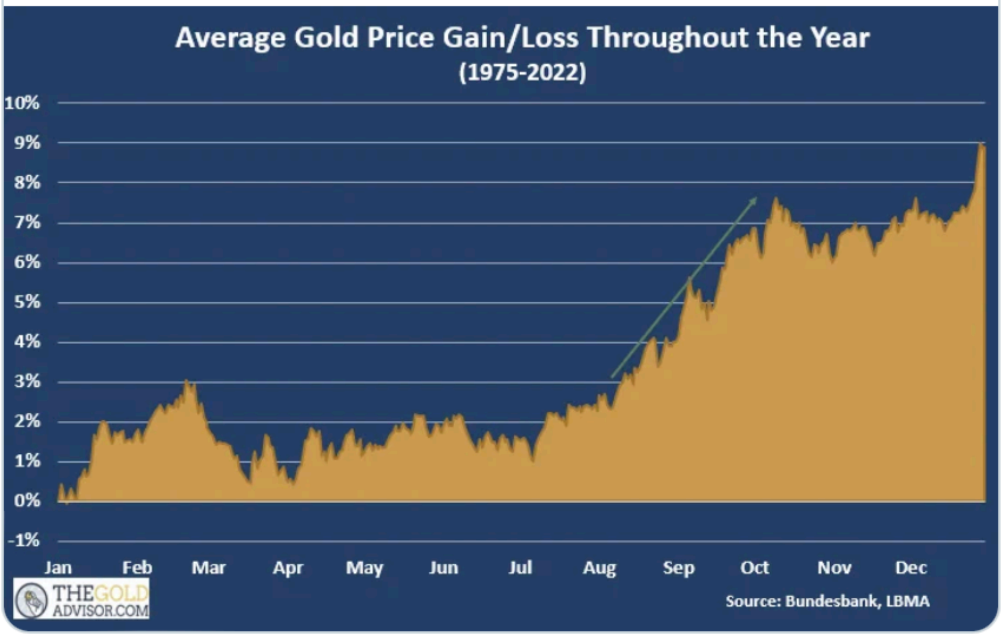
fred hickey
@htsfhickey

Seasonal strength for gold - demand related to Indian harvests & upcoming holiday & wedding season as well as dealer buying in front of end-of-year holiday buying) doesn't always work, but given everything else (sentiment, positioning etc.), it certainly makes for a nice setup.

Jeff Clark @TheGoldAdvisor · Aug 18

Something for the weekend...

The next 2 months, based on the 48-year average, is #gold's best performing period of the year:



9:38 AM · Aug 19, 2023 · **25.9K** Views

Gold just hit a new all-time high when priced in the Japanese yen, which means it's likely just a matter of time before it does the same in dollar terms ([from Tom McClellan via Twitter on August 17]())...

Tom McClellan
@McClellanOsc

American Trader: "Gold is in a downtrend since May."

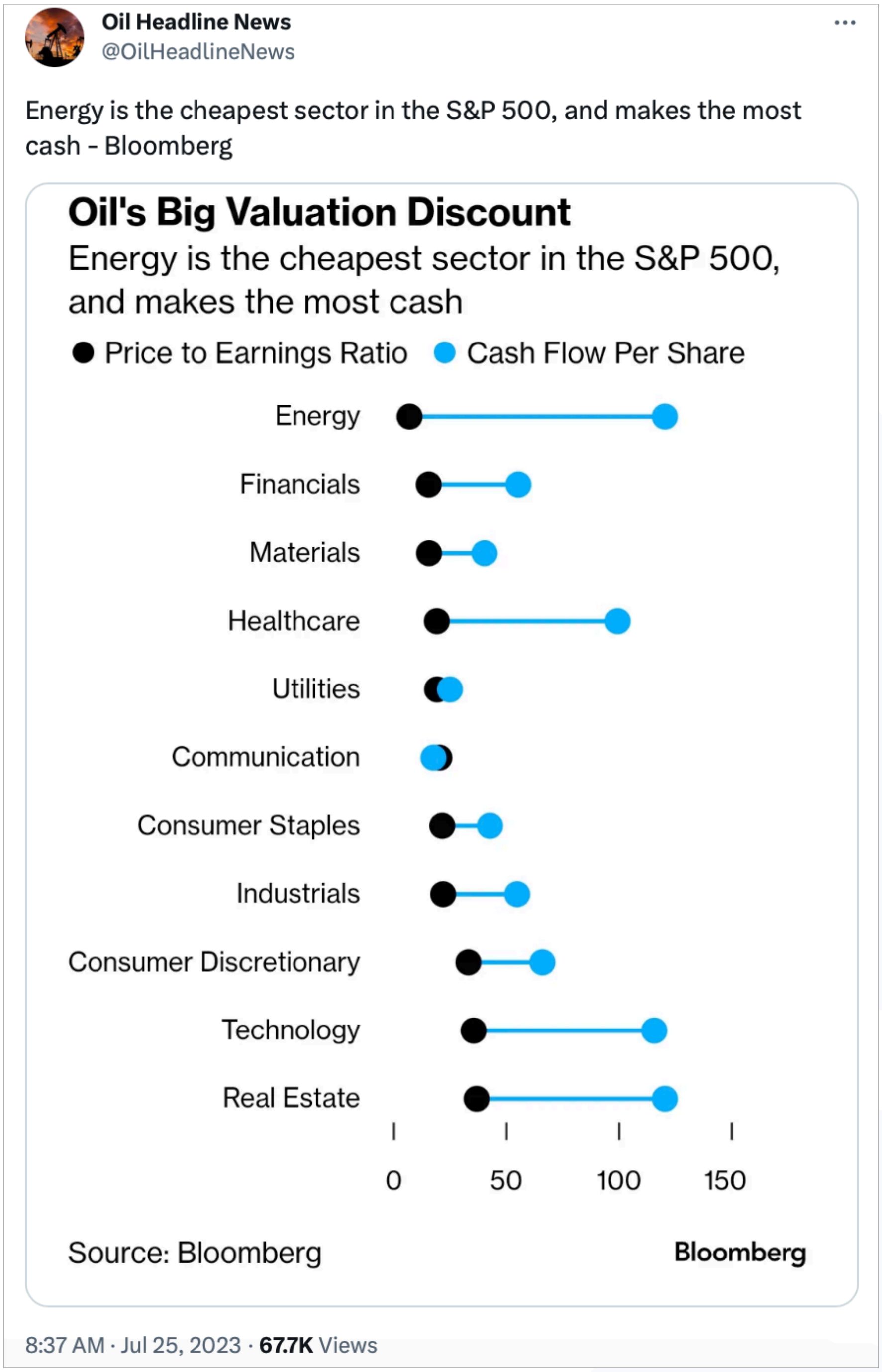
Japanese Trader: "What do you mean? Gold is still in an uptrend for the past several years."

Both of them are correct. The interesting point is that when the two plots disagree, the yen-priced plot is usually correct.

9:11 PM · Aug 17, 2023 · **92.9K** Views

Energy

Energy is the cheapest sector in the S&P 500, yet generates more cash flow than any other (from Oil Headline News via Twitter on July 25)...



Data suggest we could see a "deal frenzy" in the oil industry this year (from the Wall Street Journal on July 28)...

> Exxon Mobil and Chevron collectively banked nearly $14 billion in second-quarter profits Friday, down from last year's record-breaking levels but adding to their war chests as they eye acquisitions in the oil patch.
>
> Exxon said it earned $7.9 billion in the second quarter, extending its run of strong quarters though its profit was down from the company's $17.9 billion haul in the same time last year, when Russia's invasion of Ukraine skyrocketed energy prices. Chevron said it collected $6 billion in profit, dropping from a quarterly record of $11.6 billion in the same period last year.
>
> The profits follow multibillion-dollar deals by both companies in recent months, and the oil giants have said they aren't done shopping.
>
> Exxon scooped up pipeline operator and oil producer Denbury for $4.9 billion in July and Chevron agreed in May to buy shale driller PDC Energy for $6.3 billion. Both transactions were all-stock, low-premium deals that showed the companies could still make big bets despite a push by Wall Street for austerity.
>
> Exxon CEO Darren Woods said the company is actively on the hunt for acquisition targets that are a good match.
>
> "We're continuing to look for that, but we're not going to compromise our expectation of generating returns and growing value for shareholders," he said in a conference call with investors.
>
> Chevron CEO Mike Wirth said in a recent TV interview his company is open to more deals following the PDC acquisition.
>
> In picking off two smaller companies, Exxon and Chevron revealed some of their strategy to investors who have asked how they plan to grow as they sit on historically large piles of cash in the wake of last year's energy price hikes.
>
> Exxon and others have eyed potential deals in the Permian basin of West Texas and New Mexico, the most active U.S. oil field. In April, The Wall Street Journal reported that Exxon had held preliminary talks with Pioneer Natural Resources, a giant shale company in West Texas.
>
> Conditions are ripe for a deal frenzy in the oil patch this year. The shale industry has shifted from the rapid growth it pursued for more than a decade to a mature business underpinned by fiscal restraint and hefty shareholder payouts. Drilling for new oil discoveries has fallen out of favor with investors, leaving many companies with few options other than to acquire rivals to extend their runway.
>
> The continued run of profitable quarters has helped Exxon and Chevron improve their balance sheets while increasing dividends and buybacks, potentially giving them more leeway with shareholders to pursue deals. Analysts and investors expect Exxon and Chevron to eventually play a big role in scooping up the dozens of smaller shale companies that constitute the industry.

Continue reading here (subscription may be required).

Harold Hamm – founder and chairman of Continental Resources – explains why the U.S. government has energy production "all wrong" (from The Wall Street Journal on August 6)...

> Gasoline prices had their biggest one-day increase in a year on July 25, rising to an eight-month high, while oil passed $80 a barrel. More than half a century of experience working in the oil industry tells me that with the Organization of the Petroleum Exporting Countries doing all it can to keep prices high, the only way to prevent them from rising higher is to produce more oil and gas here at home.
>
> President Biden has pursued the opposite strategy. Instead of increasing production, he wants to mandate that Americans use less—by banning or restricting the use of gas stoves, gas heat, air conditioning and even cars with combustion engines. That is a recipe for lower living standards, higher prices and a waning of America's geopolitical leadership.
>
> Every time government intervenes in unpredictable energy markets, politicians get it wrong. Take the Fuel Use Act of 1978. The young Sen. Joe Biden and Rep. Al Gore were among those who championed the act, which mandated the use of coal to generate electricity because so-called experts were sure the U.S. was running out of oil and natural gas.
>
> Then in 1980 the Carter administration spent billions of dollars on renewable-energy subsidies and even a business called Synthetic Fuels Corp. that went bankrupt six years later. When Ronald Reagan let the market work by deregulating energy, oil production soared and prices tumbled. No one worried about running out of oil anymore.
>
> That is, until Barack Obama came into office. In 2011, when gasoline prices rose, Mr. Obama said that "we can't just drill our way out of the problem." He worried that America was going to run out of places to drill and that energy companies would want to drill on the Washington Mall. So instead Mr. Obama spent millions on now bankrupt propositions such as the solar-energy company Solyndra.
>
> The politicians weren't paying attention to the amazing shale revolution driven by such oil and natural gas companies as Continental Resources. Horizontal drilling exploded in the late 2000s in the Bakken Shale in North Dakota, the Marcellus Shale in Pennsylvania, and later in the Permian Basin in Texas. America has doubled its oil and gas output in less than 15 years.
>
> Yet Mr. Biden still says wind and solar are the future. Let's be honest. We've spent trillions of dollars on wind and solar, and the technology is maxed out. The blades are about as big as they can get, and the panels are going to become essentially worthless in years to come because of new technologies. We can go on shaping policy over pipe dreams and flawed math, or we can choose to put America on a path toward energy independence and dominance.
>
> We can safely harvest American energy while protecting our environment too. In the past 20 years, despite large increases in oil and gas production, annual U.S. carbon-dioxide emissions from such sources have decreased, according to the Energy Information Administration. Such technologies as horizontal drilling have also allowed a single well on less than an acre to reach oil fields miles away in all directions.
>
> I like to call the shale revolution the "trillion-dollar swing." It's money that stayed in the U.S., was invested here, and produced a bounty of clean, affordable American energy. We're not going to run out, not for 100 years or more.
>
> Politicians over the past 50 years have had a rotten record of predicting the next big thing in energy...

Continue reading here (subscription may be required).

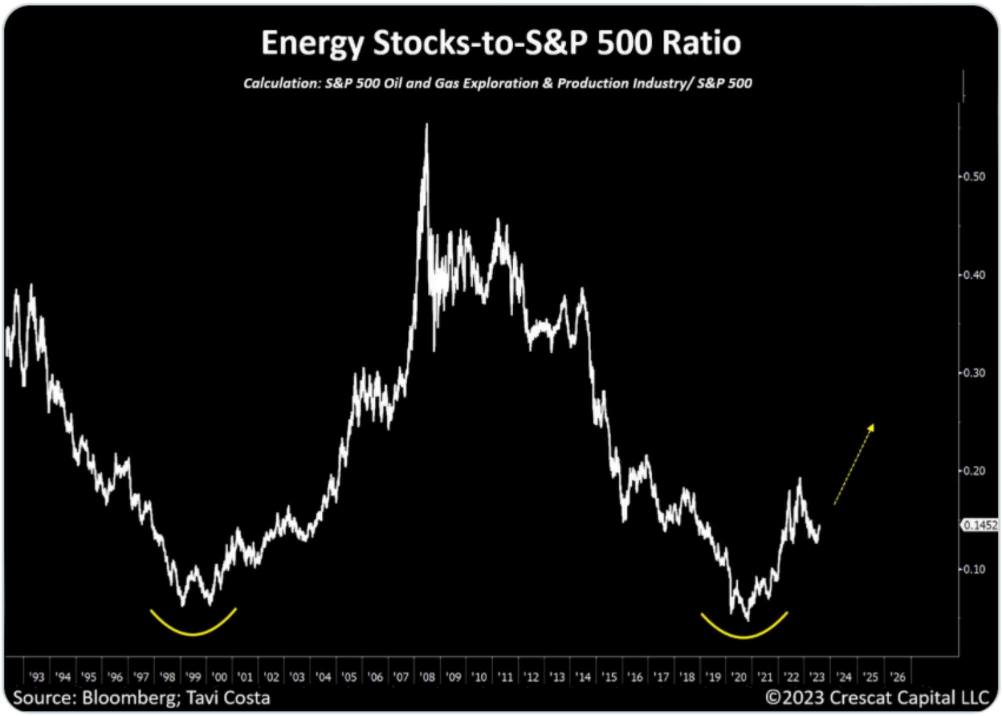
Energy stocks are leading the market higher again, but the rally could have much further to run (from Otavio Costa via Twitter on August 9)...

Otavio (Tavi) Costa
@TaviCosta

After nearly 9 months of underperformance, energy stocks are once again starting to outpace the overall market.

From a historical standpoint, this trend remains at its early stages with the valuation of oil and gas businesses currently at one of its most attractive levels in the last 30 years.

The growth to value rotation appears to be resurging at full steam, coinciding with inflation rates potentially in the process of bottoming.



1:29 PM · Aug 9, 2023 · **244.5K** Views

Global oil demand hit a new all-time high this month (from Gurgavin via Twitter on August 11)...

GURGAVIN
@gurgavin

JUST IN : GLOBAL OIL DEMAND JUST HIT A NEW ALL TIME HIGH

WORLD FUEL USE AVERAGED 103 MILLION BARRELS PER DAY FOR THE FIRST TIME EVER

4:02 AM · Aug 11, 2023 · **218.1K** Views

264 Reposts **49** Quotes **1,510** Likes **34** Bookmarks

New study shows shale oil wells are declining faster than originally expected (from Bloomberg on August 15)...

> The steep drop in output from US shale wells is turning out to be worse than expected, forcing oil drillers to work even harder to keep production from slipping, research firm Enverus said in its latest report.
>
> The firm's conclusion that there won't be a surge of American oil production comes after the amount of crude extracted from US shale wells doubled in the past decade. The falling output rate over time highlights a fact of life for US shale explorers: oil wells are most prolific in early months of production, with gushers quickly turning to trickles. That reality is why oil output boomed during the shale revolution of the 2010s as companies chased production growth at all costs.
>
> Now, however, most of the land is already owned or leased, offering few opportunities to drill new areas with vast oil reserves. Companies are considering a range of drilling and production strategies to maximize what they get out of each well such as drilling wells closer together, which makes the shale patch a more dense and difficult place to increase the rate of production.
>
> "Summed up, the industry's treadmill is speeding up and this will make production growth more difficult than it was in the past," said Dane Gregoris, managing director at Enverus Intelligence Research and author of the report published Tuesday.

Continue reading here (subscription may be required).

And this decline could be a very big deal for the markets going forward (from Luke Gromen via Twitter on August 16)...


Luke Gromen @LukeGromen · Aug 16

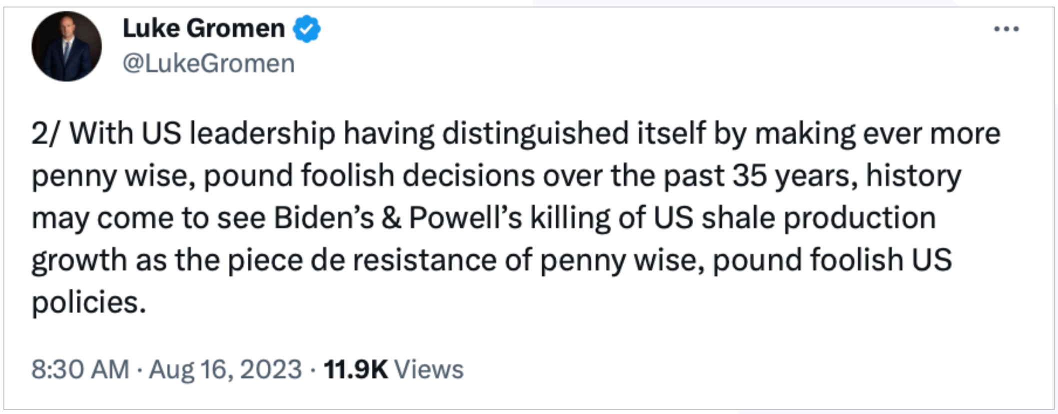
Biden's SPR releases & Fed rate hikes killing US shale production growth is by far the most important story in markets right now, by a wide margin.

Hard to overstate the importance of this for global markets & geopolitics.

Lyn Alden @LynAldenContact · Aug 16

Shale Wells Are Losing Oil Output Faster Than Expected, Study Says bnnbloomberg.ca/shale-wells-ar...

61 225 898 157.6K


Luke Gromen @LukeGromen

2/ With US leadership having distinguished itself by making ever more penny wise, pound foolish decisions over the past 35 years, history may come to see Biden's & Powell's killing of US shale production growth as the piece de resistance of penny wise, pound foolish US policies.

8:30 AM · Aug 16, 2023 · **11.9K** Views

Berkshire Hathaway continued to buy shares of Occidental Petroleum (OXY) this month. It now owns more than 25% of the company (from Barchart on August 28)...

> Berkshire Hathaway (BRK.B) recently reported on a 13-F filing that it had raised its stake in Occidental Petroleum Corp. (OXY). It now owns over 25% of OXY's shares, including warrants to buy at $59.624 per share.
>
> For example, Buffett's company reported on Aug. 13 that it had bought 13.179 million shares. That brought its total to 224.129 million shares, which apparently includes 83.858848 million warrants allowing Berkshire to buy shares at $59.624 per share.
>
> As a result, since OXY stock trades today at $62.42 per share, its warrants are "in-the-money." That means that it is profitable for Berkshire to exercise those warrants and buy OXY stock at a reduced price of $59.624.
>
> Now, since OXY recently reported on Aug. 2 that it had 884.681888 million shares outstanding, that puts Berkshire's stake at over 25% (i.e., 224.129mshs/884.6819mshs = 25.33%.

This may mean that effectively Berkshire controls Occidental Petroleum under certain securities laws and rules. It may mean that Berkshire is considered a beneficial owner that is able to exercise a controlling influence on Occidental.

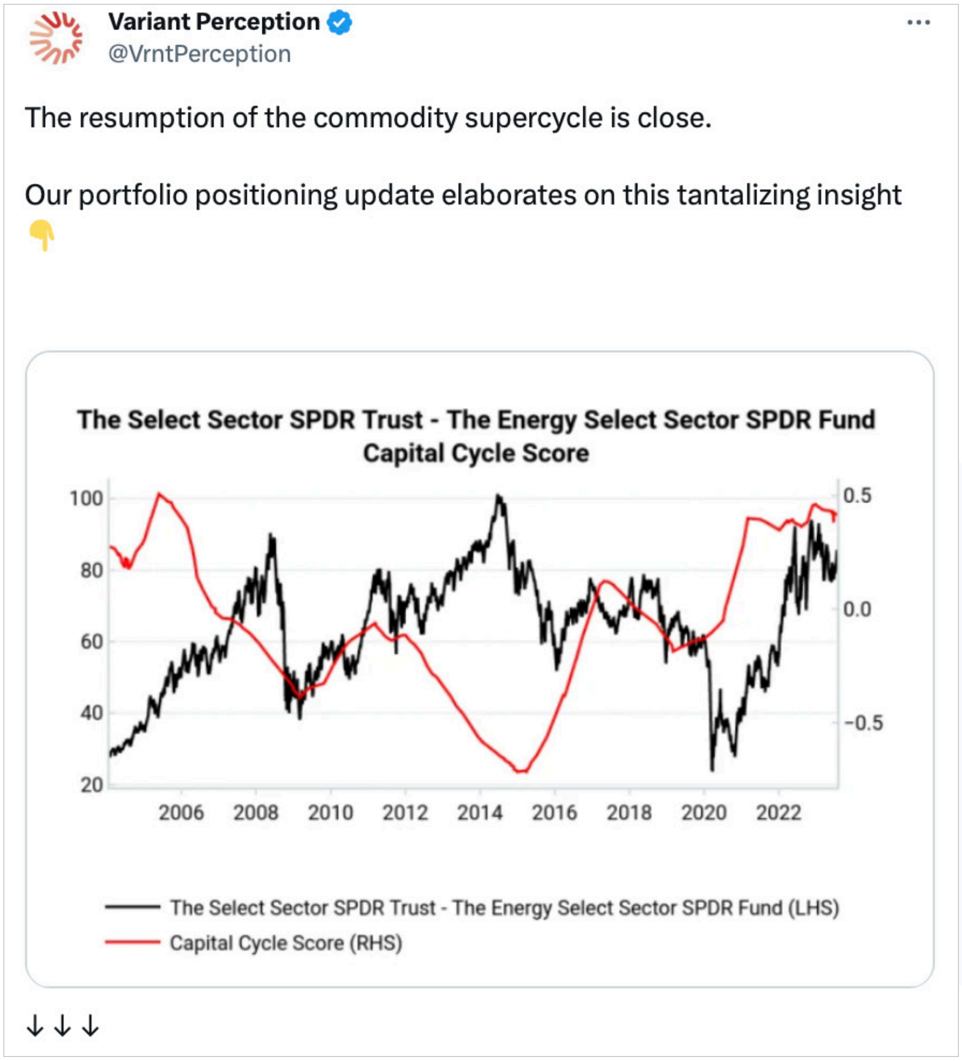
This is also on top of $8.621 billion of Occidental preferred stock that Berkshire Hathaway owns. Those preferred shares pay Buffett's company 8% interest annually. Berkshire has begun liquidating those preferred shares by selling them back to Occidental, but it can keep them until 2029. This is based on Note 5 to Berkshire's recent quarterly filing.

That is also when the warrants to buy OXY stock must be exercised or they will expire one year later after the preferred stock is redeemed. In other words, Berkshire still has until 2030 (7 years) to buy OXY stock at this very attractive price.

Continue reading here.

Other Commodities

Data suggest the "commodity supercycle" could be about to resume ([from Variant Perception via Twitter on August 2](#))...



We entered an intermission for the supercycle in May 2022 when cyclical conditions turned negative, offsetting the positive structural capital cycle.

However, the structural story never went away...

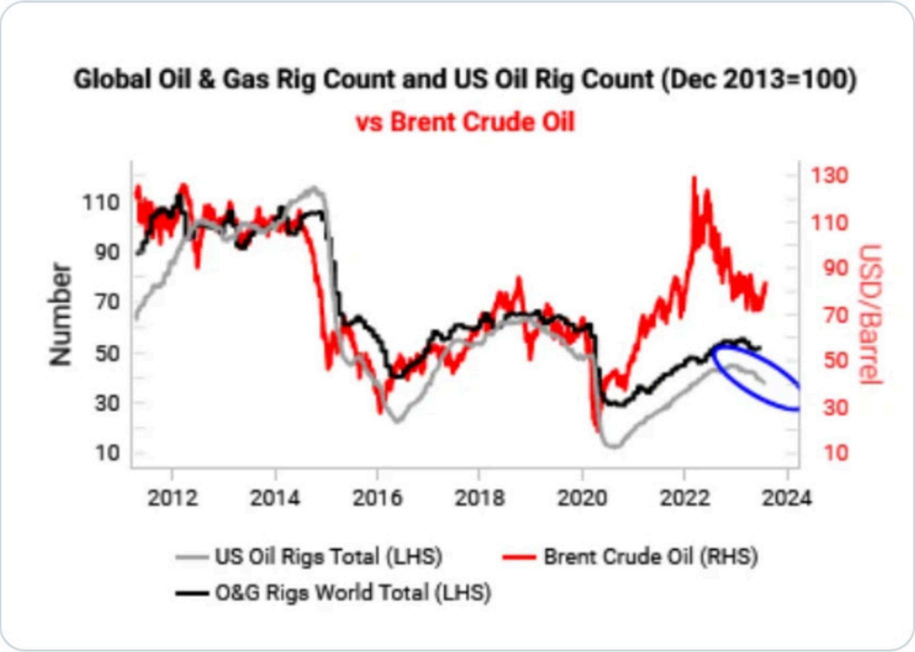
Longer-term supply indicators now show alignment for a bullish turnaround.

Reasons?

1. US oil and gas rigs are at their lowest since March 2022.

2. Producers have significantly cut back on energy equipment and services.

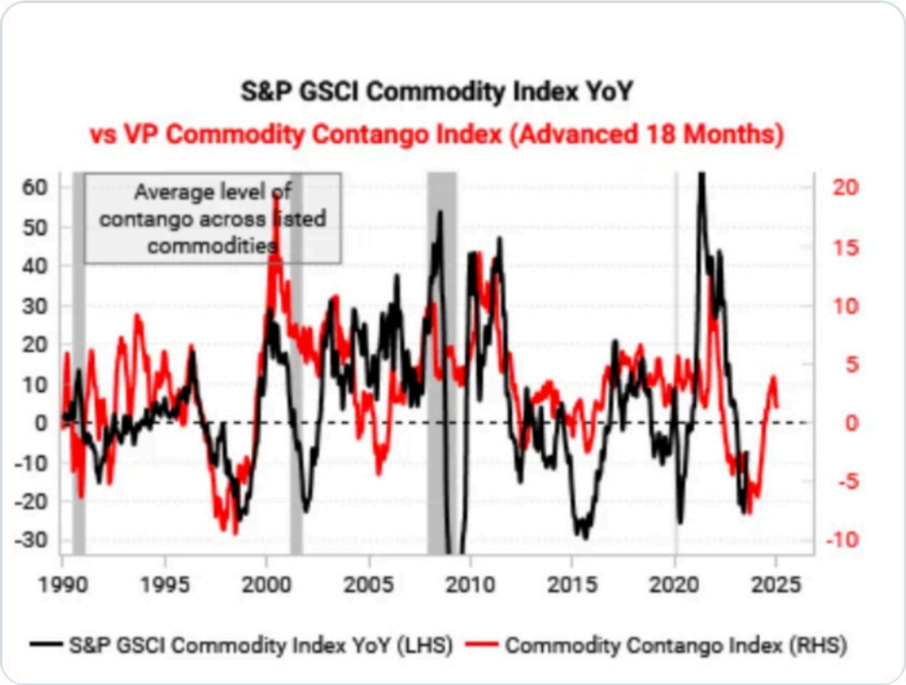
3. Helmerich & Payne's CEO expects rig count activity to bottom in Q3, oil > $80



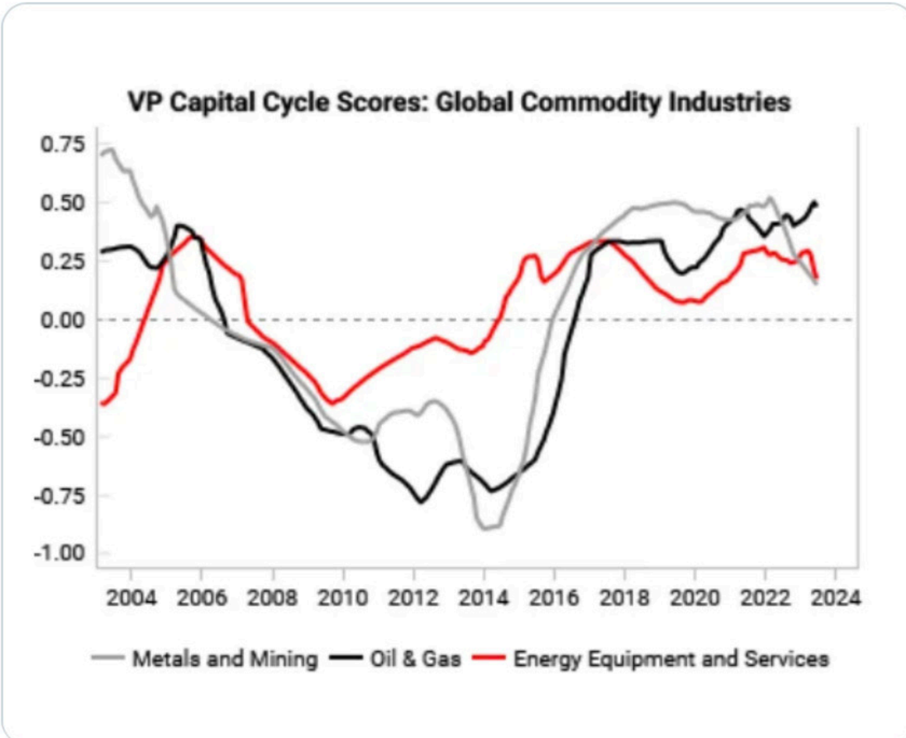
↓↓↓

Commodity curves being back in contango points to short-term supply gluts more evident now.

Historically this leads producers to tighten supply, laying the groundwork for potential future disruption (fuel ⛽ for Oil prices)



Our capital cycle scores for commodity industries remain strongly positive. Energy stands out as the top industry...



In a world where stability in commodity markets feels elusive, our data-driven insights paint a clear picture of opportunity and alignment:

portal.variantperception.com/research

9:35 PM · Aug 2, 2023 · **38.6K** Views

New research highlights how commodities typically perform during recessions ([from The Wall Street Journal on August 4]())...

> Investors often look to commodities to protect their portfolio in a recession or downturn.
>
> But which commodities actually preserve wealth during adverse economic conditions? And is it better to hold a mutual fund or ETF that tracks the commodity or to hold the physical commodity itself?
>
> The short answer: Gold is the only commodity (of the eight categories we tested) that had a positive average return during recessions both in terms of the fund tracking the commodity and the actual commodity itself. For all other types of commodities tested, returns for both types of investment were negative during economic downturns.
>
> To study this, Melvin Reyes and Alberto Vergara, my research assistants, and I pulled data on all commodity mutual funds and ETFs going back 25 years (when commodity ETFs first appeared). We then organized them by the eight main categories: generic commodity fund, gold, silver, agriculture, palladium, platinum, copper and oil. Each was constructed based on having at least 10 usable observations.

Next, we looked at the average returns to each commodity-fund category in and out of recession. To define recessions we used the National Bureau of Economic Research's definition of recession, which included three such events over the past 25 years: March to November 2001; December 2007 to June 2009; and February to April 2020.

We then looked at how these commodity funds performed in comparison with the actual physical commodity spot price. We also looked at how each grouping performed when not in recession, as a secondary control.

The average monthly return for selected commodities during a recession and out of a recession

Source: Derek Horstmeyer, George Mason University

The first interesting finding is that only gold had a positive return during recessions (an average return of 0.18% a month for gold funds). All other funds tracking commodities had negative returns during recessions (see chart), averaging a monthly return of -1.33%. Over the past 25 years, when we are not in a recession, all commodity funds had positive returns and had an average monthly return of 0.49%.

The next interesting finding is that in general the physical commodity did slightly better than the funds tracking the commodity. In all eight categories, the spot price return of the commodity did better than the fund tracking the commodity when not in a recession.

During a recession, the results are a little murkier. Only five did better on a spot-price basis compared with a fund basis during a recession. For instance, while it is definitely good to hold a gold fund during a recession, it is even better to hold the physical gold itself. The average gold fund delivered a return of 0.18% a month during recessions, but the return based on the spot price of gold was 1.30% during recessions.

Continue reading here (subscription may be required).

Latin America could become a “commodities superpower” in the decades ahead (from The Economist on August 10)...

> Over five centuries Latin America and its 2bn hectares of land have been a vital source of food, fuel and metals for the world. First looted by colonisers for gold, silver, cotton and sugar, it later supplied rubber and oil to Europe and the United States. Now Latin America faces a chance to become the 21st century’s commodity superpower. This time, it must use that chance to boost development at home.
>
> The transition to clean energy will spark decades of demand for the metals needed to multiply solar and wind parks, power lines and electric cars. Latin America holds more than a fifth of the global reserves for five critical metals. It already dominates the mining of copper, pervasive across green technologies, and holds nearly 60% of the world’s known resources of lithium, used in all main e-vehicle battery types. It is also rich in silver, tin and nickel. And it will benefit even if the green transition sputters, thanks to recent discoveries of oil that could see it quench 5-10% of the global demand by 2030.
>
> As the world goes greener it will also become more populous. By 2050 it may have nearly 10bn mouths to feed, up from 8bn now. That will fuel demand for the carbs, proteins and delicacies that Latin America produces aplenty. It already supplies more than 30% of the world’s corn, beef, poultry and sugar, and 60% of the world’s soyabeans. Eight out of ten cups of the world’s Arabica coffee are made from the region’s beans. By 2032 its net food exports may exceed $100bn, the largest in the world by far.
>
> The region’s draw as a trading partner will be accentuated by superpower rivalries. As the West scrambles to diversify away from China, it wants more deals with Latin America, a largely neutral and peaceful region. As monied rivals also eye its riches, a new great game is under way: just last month Vale, a Brazilian mining company, sold 13% of its green-metal arm to Saudi-owned entities for $3bn; China earmarked $1.4bn to develop lithium production in Bolivia; and Europe pledged to invest €45bn in Latin American green projects.
>
> The problem is that Latin America’s affair with commodities has rarely been happy. Past struggles over the spoils have catalysed coups, inequality and populism. Hugo Chávez, a Venezuelan despot, squandered his country’s oil boom, spending lavishly while underinvesting in the industry and stuffing it with cronies. Oil windfalls in Colombia and Ecuador led to premature deindustrialisation. As export receipts have surged, so have domestic currencies, strangling other export industries and tying the region’s fate to a volatile market. Latin America has endured countless booms and busts. Local economies are lopsided: on average, 80% of its countries’ exports comes from the export of raw materials.
>
> To do better this time round, Latin American countries must get several things right. First they need to make sure the boom does indeed take place. At present, politics is holding it back. As left-wingers and populists have gained power, many countries in the region have passed or threatened laws that would raise taxes, nationalise reserves or shut out foreign investment. It is right and proper that governments want to maximise their rents, especially given how often they have been robbed in the past. But if they seek to take too much, or keep changing their minds, their reserves will not soon be tapped.

Continue reading here (subscription may be required).

Q2 investor letter highlights from one of the top resource investing firms (from Brandon Beylo via Twitter on August 17)...

Brandon Beylo
@marketplunger1

Subscribe

Goehring & Rozencwajg Investor Letters are a MUST-READ for any Natural Resource Investor.

They cover everything from oil to natural gas, base and precious metals, and agriculture.

Here's a thread on the most important insights from their Q2 2023 Investor Letter ... 🧵

SECOND QUARTER 2023 -- August 15th 2023
Goehring & Rozencwajg
Natural Resource Market Commentary

Managing Partners:
LEIGH R. GOEHRING
ADAM A. ROZENCWAJG

GOLDEN FORESIGHT: WHEN SPECULATION MEETS HISTORY

Table of Contents

Picture it, if you will: December of 2029. In a dimly lit private dining room, the sound of cutlery clinking blends with spirited conversation. Gathered at this stately round table is a diverse group of investors. Some wear the hard-fought wrinkles of significant gains, while others wear the furrowed brows of regrettable losses. What stratagems, one wonders, divided the winners from the less fortunate?

To call the 2020s volatile might be akin to calling the sun slightly warm. Consider 2020, with the globe in the clutches of COVID-19. Then there was the inflationary flare of 2022, a fire stoked by Russia's move on Ukraine. Central banks, as reactive as ever, escalated rates in a dramatic fashion, prompting many to toast to the Federal Reserve's apparent mid-2023 success. Alas, as the hypothetical scene suggests, the party might have been premature.

The prevailing wisdom of 2023 still held that oil demand had seen its heyday in late 2019. How baffling, then, that by the end of the decade, demand kept reaching new unexpected

GOEHRING & ROZENCWAJG
Natural Resource Investors

1

Brandon Beylo @marketplunger1 · Aug 17

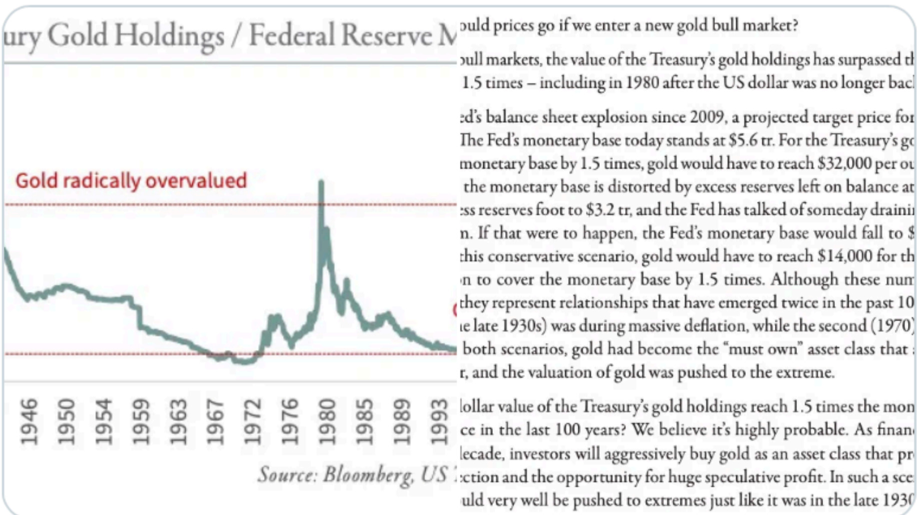
1/ Upcoming Gold Bull Market: How High Will It Go?

G&R believe gold is radically undervalued today.

"Gold, relative to the size of the Fed's balance sheet, is more undervalued today than in the
late 1960s or 1990s."

How high could gold go?

G&R see $14,000-$32,000/oz!



3 8 55 7,729

Brandon Beylo @marketplunger1 · Aug 17

2/ The Uranium Bull: Defying Trends & Redefining Energy Markets

Over the past 12M, every energy commodity has declined EXCEPT for Uranium.

"Our models suggest Uranium's strong performance has just started."

G&R explain why Uranium is entering its fifth "Bull Period." Cont...

The Uranium Bull: Defying Trends and Redefining Energy Markets

Why has uranium rallied while every other energy commodity has collapsed? Over the past twelve months, spot uranium advanced 12% while oil, natural gas, and coal all fell anywhere from 30-70%. Our models suggest uranium's strong performance has just started. Uranium has likely reached a pivotal inflection point that could force the price higher by as much as three- to four-fold over the next several years. For the first time in history, uranium has slipped into a persistent and widening deficit. We believe the results will be dramatic. Uranium is much less transparent than other commodity markets; in this essay, we will help shed light on the forces driving uranium over the course of the decade.

From the start of the nuclear age in 1945 until 2019, the uranium industry has gone through four distinct periods. Each period has been unique in terms of supply and demand, leading to wild price swings that lasted decades. The market has now definitively entered its fifth major period, likely defined by persistent severe deficits.

1 6 40 6,680

Brandon Beylo @marketplunger1 · Aug 17

Uranium Period 1: 1945-1969

Demand Drivers: Govt stockpiling for weapons programs and nuclear power advancement.

Supply Constraints: Persistent supply shortage during Manhattan Project which led to national security supply issues.

Supply during that time: 900Mlbs

Period 1: 1945-1969

The first period took place between the mid-1940s and the late 1960s. Governmental stockpiling, for both weapons programs and nuclear power advancement, drove demand. Following the Trinity test in Los Alamos and the subsequent bombings of Hiroshima and Nagasaki in 1945, attention quickly turned to nuclear's commercial applications. The USSR and England inaugurated the first two nuclear power stations in 1954 and 1956, with England's being the first truly commercial reactor. Despite these early reactors, commercial demand remained extremely low. Throughout the Manhattan Project, a persistent shortage of uranium (along with enrichment bottlenecks), presented ongoing challenges. Protection of supply remained a pivotal point of national security after the war as first the US and then the USSR built up their atomic arsenals. Between 1945 and 1969, Nuclear Engineering International estimates global uranium mine supply totaled 900 mm lbs of triuranium octoxide (U3O8). Roughly half of this material was purchased by the US Atomic Energy Commission (AEC), while 40 mm lbs was purchased by the nascent commercial nuclear energy industry. Although the remaining 226 mm lbs was officially unaccounted for, it likely made its way to a combination of American, British, French, and Soviet government stockpiles.

1 3 20 5,884

Brandon Beylo @marketplunger1 · Aug 17

Uranium Period 2: 1970-1983

G&R: "The Uranium market changed in early 70s as nuclear gained commercial adoption."

The private sector started buying uranium and became main demand source.

Energy crisis meant commercial buyers WANTED excess inventories.

Price hit $40/lb.

Period 2: 1970-1983

The uranium market began to change in the early 1970s as commercial nuclear power gained adoption. Private sector utility buying became a dominant source of demand. Total installed capacity grew from 1 GWe in 1960 to 10 GWe by 1970 and 100 GWe by 1980. The arrival in earnest of the nuclear age also stoked a speculative boom in uranium mining. Production in the US peaked in 1980 at nearly 45 mm lbs of U3O8 per year. Despite the widespread adoption of nuclear power, mine supply actually grew faster than reactor demand throughout

Goehring & Rozencwajg
Natural Resource Market Commentary

the decade. The 1970s were a period of rolling energy crises and insecurity. As a result, commercial buyers were more than happy to build up excess uranium inventories. From 1970 to 1983, mine supply exceeded reactor demand by 450 mm lbs of U3O8, all of which ended up in commercial inventories. Adding to the glut, the AEC reclassified approximately 100 mm lbs of its stockpiles from "governmental" to "commercial," making it available to the nuclear power industry. By 1983, commercial inventories were 550 mm lbs – enough to cover reactor demand for nearly eight years. Prices peaked in 1982 at nearly $40 per pound and started a decades-long collapse.

1 3 18 5,434

Brandon Beylo @marketplunger1 · Aug 17

Uranium Period 4: 2011-2020

The period started with demand destruction from Fukushima and European Decommissioning.

Supply also grew for the first time in decades. Kazakhstan production grew by 50%.

Thta's a bad combo.

Prices tanked and traded around $25/lb.

FIGURE 4 Uranium Inventory Over Time

	Changes Comm Inv. Increase	Changes Comm Inv. Decrease	Comm Inv.
Phase 1: 1945-1969			
Mine Supply	876		
AEC Purchase		613	
Other Countries		226	
Commercial Inventory			**37**
Phase 2: 1970-1983			
Surplus	413		
Reclassification	100		
Commercial Inventory			**550**
Phase 3: 1984-2010			
Deficit		1,100	
Secondary Sources	630		
Reclassification	75		
Commercial Inventory			**155**
Phase 4: 2011-2020			
Surplus	265		
Commercial Inventory			**420**
Phase 5: 2021-2023			
Deficit		100	
Financial Buyer		80	
Commercial Inventory			**240**
Phase 6: 2023-2030(est.)			
Deficit		240	
Commercial Inventory			**0**

1 3 18 4,908

Brandon Beylo @marketplunger1 · Aug 17

Uranium Period 5: 2021-Present

G&R believe Uranium's structural deficit has accelerated since 2021.

US & Europe are reversing decomm actions. Plus you have a financial buyer w/ Sprott.

The result: 180Mlb deficit.

The last time deficit was that high, prices hit $145/lb.

Period 5: 2021-Present

Uranium's structural deficit has accelerated dramatically since 2021. Reactor demand bottomed in 2020 at 161 mm lbs of U3O8 and is expected to reach 188 mm lbs this year. After spending a decade decommissioning its nuclear reactors, Europe and the US appear to have finally reversed course. We have long argued that wind and solar simply cannot provide efficient base-load carbon-free electricity. We warned that grid instability and energy insecurity would soon follow. Russia's invasion of Ukraine in 2022 put Europe's natural gas supply at risk, bringing renewables' shortcomings to the fore. Primary uranium production remained depressed through 2022 at 120 mm lbs – a multi-decade low. Secondary supply averaged only 22 mm lbs. leaving a deficit of nearly 30 mm lbs in 2021 and 2022.

A new source of demand burst onto the scene in 2021 as well: the financial buyer. Led by the Sprott Physical Uranium Trust, financial vehicles have acquired between 25 and 30 mm lbs each year in 2021 and 2022. Unlike open-ended funds such as the GLD, the financial uranium vehicles are closed-ended, meaning the material cannot readily flow back into the commercial market. Once material is purchased it is permanently locked up.

As a result, the uranium market experienced a deficit of nearly 180 mm lbs between 2020 and 2023. The deficit was met by materially depleting the commercial inventories that had accumulated following Fukushima. By the end of this year, we expect commercial inventories will be back to 250 mm lbs, covering reactor demand by less than 18 months. The last time commercial inventories reached these levels in the mid-2000s, prices spiked to their all-time highs of $145 per pound. We expect the same now.

1 7 31 5,681

Brandon Beylo @marketplunger1 · Aug 17

4/ What Investors Miss About Oil Setup?

G&R believe investors remain fixated on demand. But they neglect the supply problem.

Permian depletion has accelerated.

"Despite higher oil prices, producers dropped 14 rigs in the Permian over the past 3 months."

That's not good.

Since we last wrote, Permian depletion has accelerated. Last year marked the first time Permian productivity per lateral foot decreased year-over-year, falling by 7%. For the first three months of 2023, productivity per foot fell by a further 4% compared with 2022. According to the Energy Information Agency (EIA), by August, the Permian will be growing by only 360,000 b/d year-on-year, compared with nearly 700,000 b/d as recently as February. Our models suggest that year-on-year Permian growth will be less than 100,000 b/d by year-end and turn negative in early 2024. Although the next few months may be bumpy, we believe the Permian will definitively roll over sometime in 2024 as companies run out of their best drilling prospects. Despite high prices, producers dropped fourteen rigs in the Permian over the past three months, potentially signally inventory exhaustion. The other US shales are not faring any better. Shale production outside the Permian has not grown in nearly three years, despite oil rallying from $20 to $75 per barrel. The only material source of non-OPEC+ growth over the past fifteen years is about to peak.

The IEA meanwhile predicts non-OPEC+ production ex-US to grow by 400,000 b/d this year. However, we believe this is too optimistic. Since first releasing their projections last summer, the IEA has systematically revised non-OPEC+ ex-US production lower by 300,000 b/d and we believe this trend will continue.

1 8 41 5,415

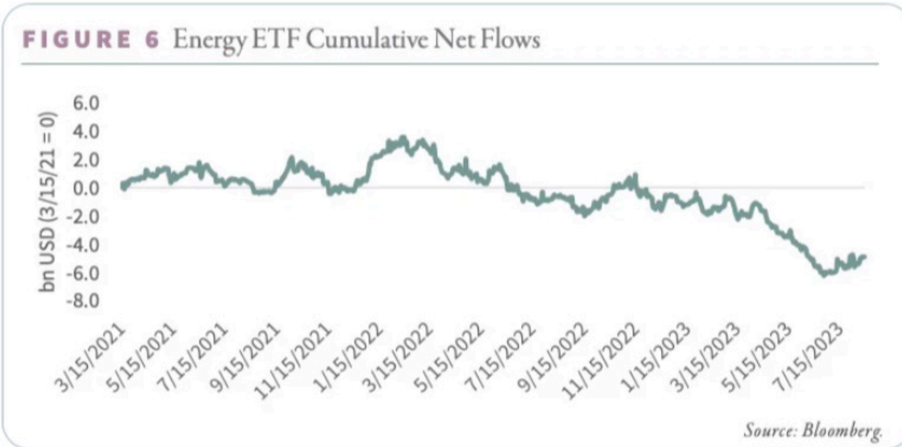
Brandon Beylo @marketplunger1 · Aug 17

5/ Investor Apathy For Oil Is Staggering

G&R is amazed at investor disinterest in oil.

"Despite three years of market-leading performance, funds continue to flow out of significant energy ETFs."

For example, the past 6 months saw lowest levels of energy IPOs in 25yrs.



1 4 27 4,392

Brandon Beylo @marketplunger1 · Aug 17

6/ Natural Gas: On The Verge

G&R believes Natty Gas is at a turning point. Here's why:

• The Marcellus represents 25% of all US dry gas supply and has not grown in nearly two years.

• Declining productivity across Permian suggests sustained growth will be difficult.

In our last letter, we explained how the same depletion issues plaguing the oil shales are also at work in the gas shales. The Marcellus represents 25% of all US dry gas supply and has not grown in nearly two years. Production peaked in late 2021 at 26.5 bcf/d – almost one bcf/d higher than current levels. The Permian produces natural gas alongside oil, but declining productivity across the basin suggests sustained growth will be difficult.

The Haynesville surged to nearly eight bcf/d by 2011 before declining by half through 2017. Renewed interest led to a second period of growth, until by late 2022, production peaked at 14.3 bcf/d. Unfortunately, production has now been flat for eight months. The Haynesville is deep and highly over pressured, resulting in elevated drilling and completion costs. Companies raced to lay down rigs as prices fell from $7.00 per mcf in December 2022 to $2.00 by February 2023. After peaking at seventy-two rigs in December, there are now only forty-four rigs operating in the play, with most of the decline occurring in June. Production often follows drilling with a several-month lag. If seventy-two rigs cannot produce much growth in the first few months of 2023, then production will likely fall from here. High prices would likely incentivize increased drilling in Haynesville, similar to what happened in 2017. However, the field had only produced 20% of its reserves back then compared with nearly 50% presently. It will likely be more challenging—if not impossible-- to boost production this time once basin-level declines take hold, considering it is a much more mature play.

2 7 26 4,379

Brandon Beylo @marketplunger1 · Aug 17

7/ Copper Inventory Not Signaling Recession

G&R sees bullish outlook for copper:

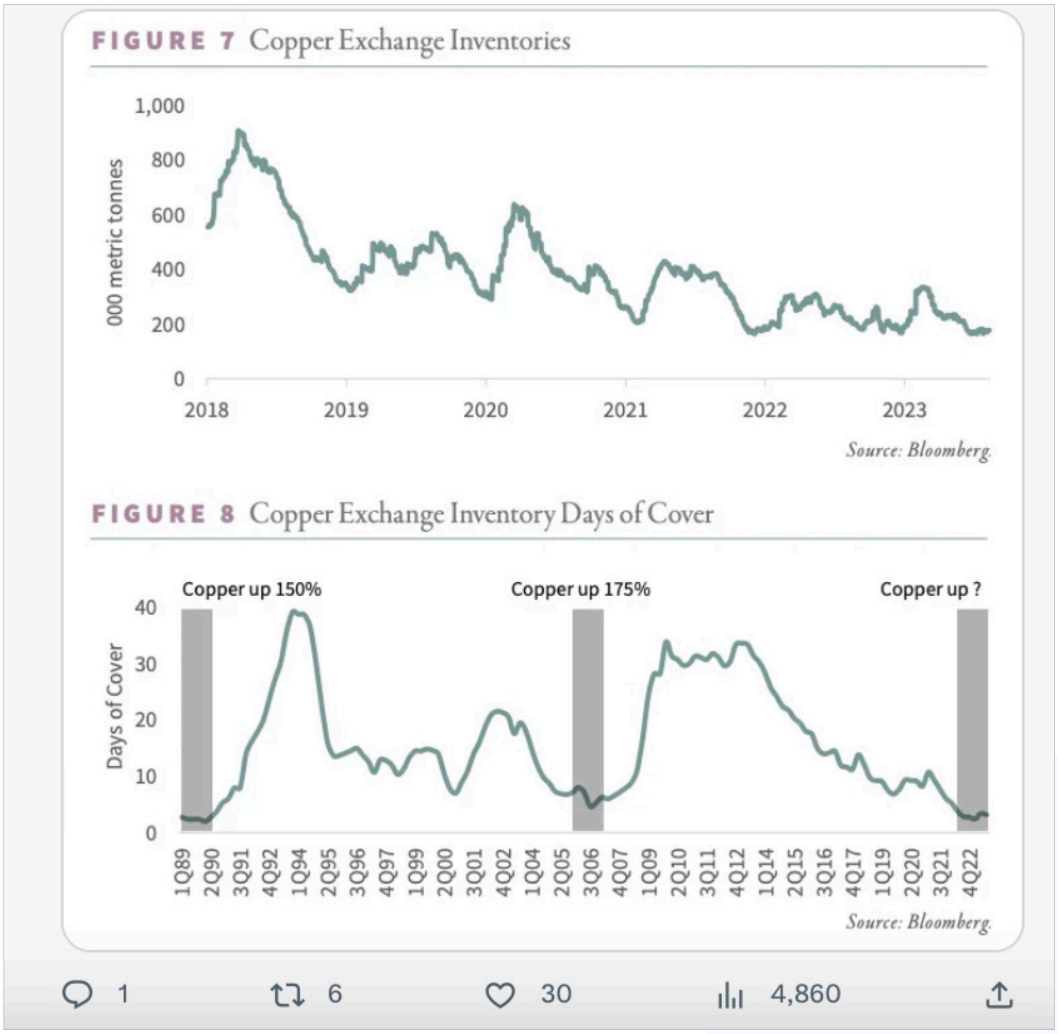
• Supply disappointed again in first 4M of 2023

• Chilean production continues to have problems

• Grades are declining/cost inflation

Yet demand remains robust.

Inventories are the tell.



[You can also read the full report here.]

While only gold has historically shown positive absolute returns during economic downturns, a diversified portfolio of stocks, bonds, and commodities has delivered better risk-adjusted returns than traditional portfolios across market environments ([from David Rosenberg via The Financial Post on August 24])…

> In the past two years, the GSCI commodity index has generated a net positive return of 31.6 per cent, while the S&P 500 has delivered a total that barely touches one per cent and the 10-year U.S. Treasury has lost 18.9 per cent.
>
> With that in mind, we decided to see how risk-adjusted returns could be improved if investors tweaked their traditional 60/40 stock/bond asset mix benchmark (which triggered a combined net loss of minus 16 per cent last year) in favour of a model that targeted a 50/25/25 equity/bonds/commodity mix.

We ran iterations on the asset allocation for portfolios across the years and found that commodities are a formidable diversification tool, no matter the season in the financial world.

There are a few key economic reasons why commodities offer a good hedge.

First, commodities are a diversified bunch within themselves: energy commodities and base metals are driven by supply-demand cycles in the economy and hence tend to go up during expansionary cycles. Precious metals such as gold behave more like a safe haven, and everyone flocks to them when things aren't going well, thus leading to all-season protection from commodities.

Second, commodities provide a decent inflation hedge as well, with a historic near-20-per-cent positive statistical relationship. But the real beauty is that commodities have virtually no correlation with the direction of equity markets and have historically commanded an inverse correlation to the movement in bond prices, hence the critical diversifying characteristics.

In essence, the resource or materials sector acts differently than stocks and bonds. The only risk to owning commodities is if the global economy enters a deflation phase as it did in 2001-02 and in 2008-09, but this is why you also want to hedge with a same-sized exposure to Treasury bonds.

Owing to those reasons, there is no single year going back to 1974 (that's how far the data history goes) when all three asset classes simultaneously ended the year in red. That is very interesting and underscores the need to limit concentrated bets and focus on diversification at all times.

There is no such thing as a sure thing, and you never want to put all your eggs in one basket. And, critically, what this analysis proves is that true diversification means being involved in more than just two asset classes that, as we saw in 2022, can go down in tandem and rather sharply. Commodity returns in a tough 2022 investing environment were a solid 26 per cent and this gets very little attention.

To understand how portfolios with and without commodities behave during different economic phases, we ran iterations on the classic 60/40 equity/bond portfolio and 50/25/25 equity/bond/commodities portfolio. The results weren't surprising. Getting commodities in the mix means better returns across most economic phases.

Continue reading here.

The case for copper as the top "bullish energy transition trade" (from Barron's on August 24)...

Copper could be the metal to pick for investors who want to ride the shift away from fossil fuels and into renewable energy.

The metal, sometimes called Dr. Copper because it is so widely used that the price offers signals about the economic outlook, faces headwinds. Demand from China, the world's second-largest economy and the top copper consumer, is sputtering.

But the metal is also central to the shift to renewable energy. Electric vehicles, wind farms, and solar panels all rely on copper as an essential component.

Analysts at Citi say the metal is "THE bullish energy transition trade" within commodities. According to the bank, the price can rally regardless of the global economic cycle.

"Copper can still go up even if the cyclical demand sectors, including China property, remain weak through 2025," Citi said in a recent report. "Were global cyclical demand to remain weak during 2025, copper's supply and demand fundamentals disappoint, we find it entirely plausible that investor and consumer futures buying, together with solid decarbonisation-related demand, sees prices at or above current levels."

Citi said copper has three characteristics that underpin the bullish outlook over the next 18-24 months. First, it offers investors exposure to the energy transition because demand will be driven by EVs, solar and wind power generation, and related infrastructure over the coming years.

Another factor in copper's favor is that the metal is "ESG-friendly," Citi said, referring to its environmental, social, and governance credentials. The authors noted that the metal helps lower global emissions as copper, nickel, aluminum, lithium, and steel are net-negative greenhouse-gas emitters. As such, they are the main drivers of global decarbonization and climate-change mitigation.

Also, metals, including copper, underpin the world economy as copper contributes to electrification, which in turn drives power consumption and thus global growth. This helps to alleviate poverty, according to the report.

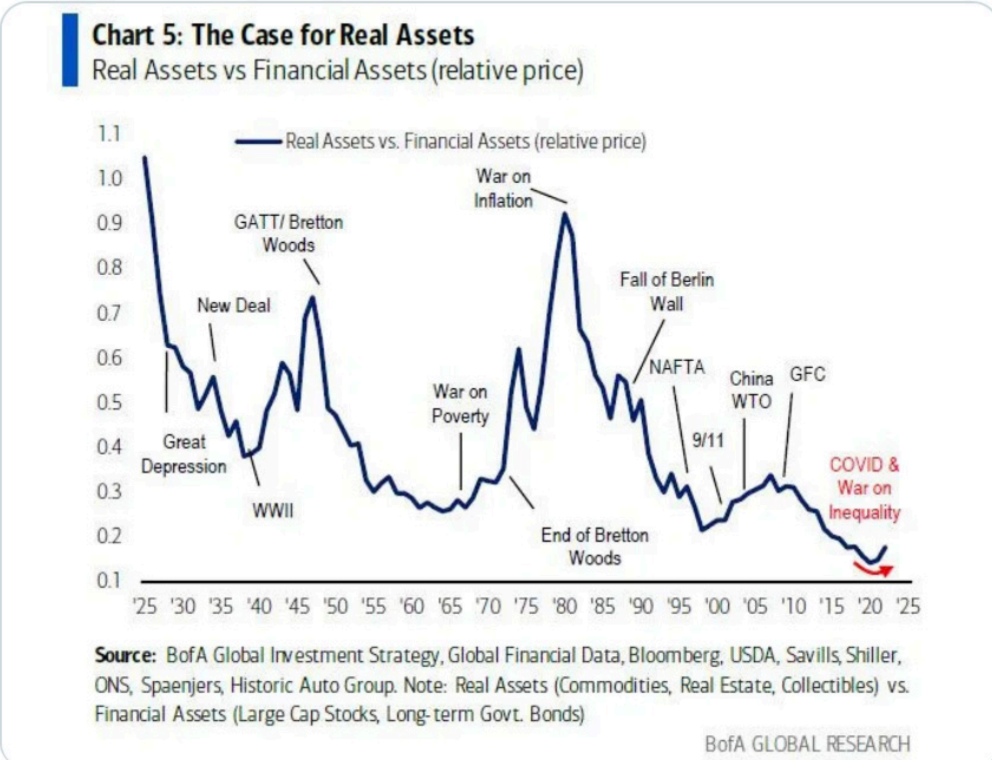
Finally, Citi said copper is the most liquid commodity with a bullish exposure to the energy transition. The metal is traded on three exchanges: the London Metal Exchange, Comex, and the Shanghai Futures Exchange.

Continue reading here (subscription may be required).

Real assets look poised to dramatically outperform financial assets again (from Markets & Mayhem via Twitter on August 26)...

Markets & Mayhem
@Mayhem4Markets

Maybe it's time for real assets to perform again



7:38 AM · Aug 26, 2023 · **204.9K** Views

Copper appears to be on the verge of a big long-term breakout ([from Brent Donnelly via Twitter on August 28]())...

ʎllǝuuop ʇuǝɹq
@donnelly_brent

Copper has traced out a perfect triangle over the past three years. One vertex is at the COVID lows, one at the China reopening highs in March 2022 (just before SIVB tanked), and the third vertex is right here, right now.

This is a good chart to keep an eye on.

With China sentiment burning in the dumpster out back just as Chinese officials push back via a series of micro-interventions in FX, stocks and interest rates...

Plus gold breaking out higher, and commodity exporter stocks like BHP, FCX and WDS all holding in very nicely, I would bet the three-sided polygon in copper breaks up, not down. Not investment advice.

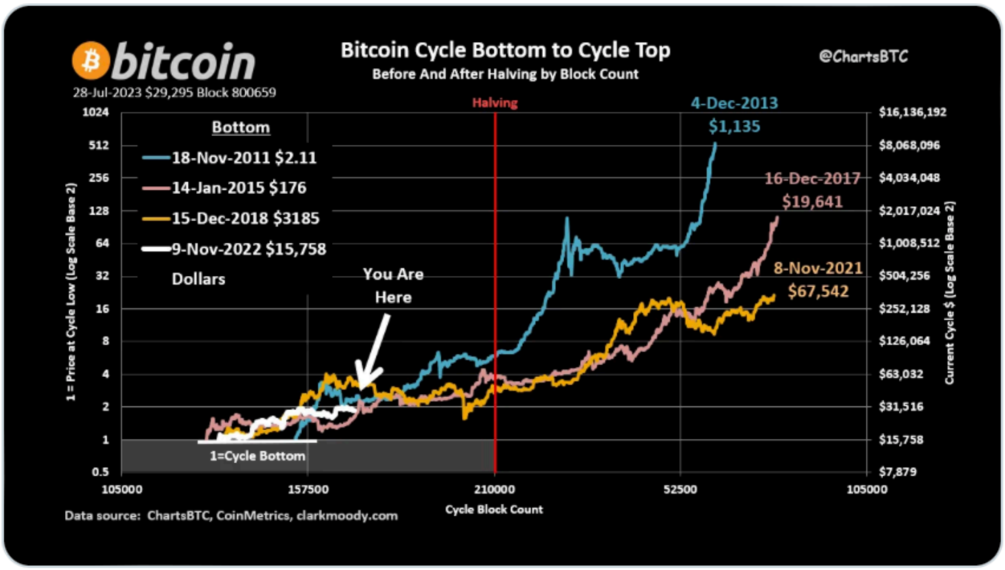
4:12 PM · Aug 28, 2023 · **13.2K** Views

Bitcoin and Crypto

History suggests Bitcoin is likely to trade well into six figures before this cycle peaks (from ChartsBTC via Twitter on July 28)...

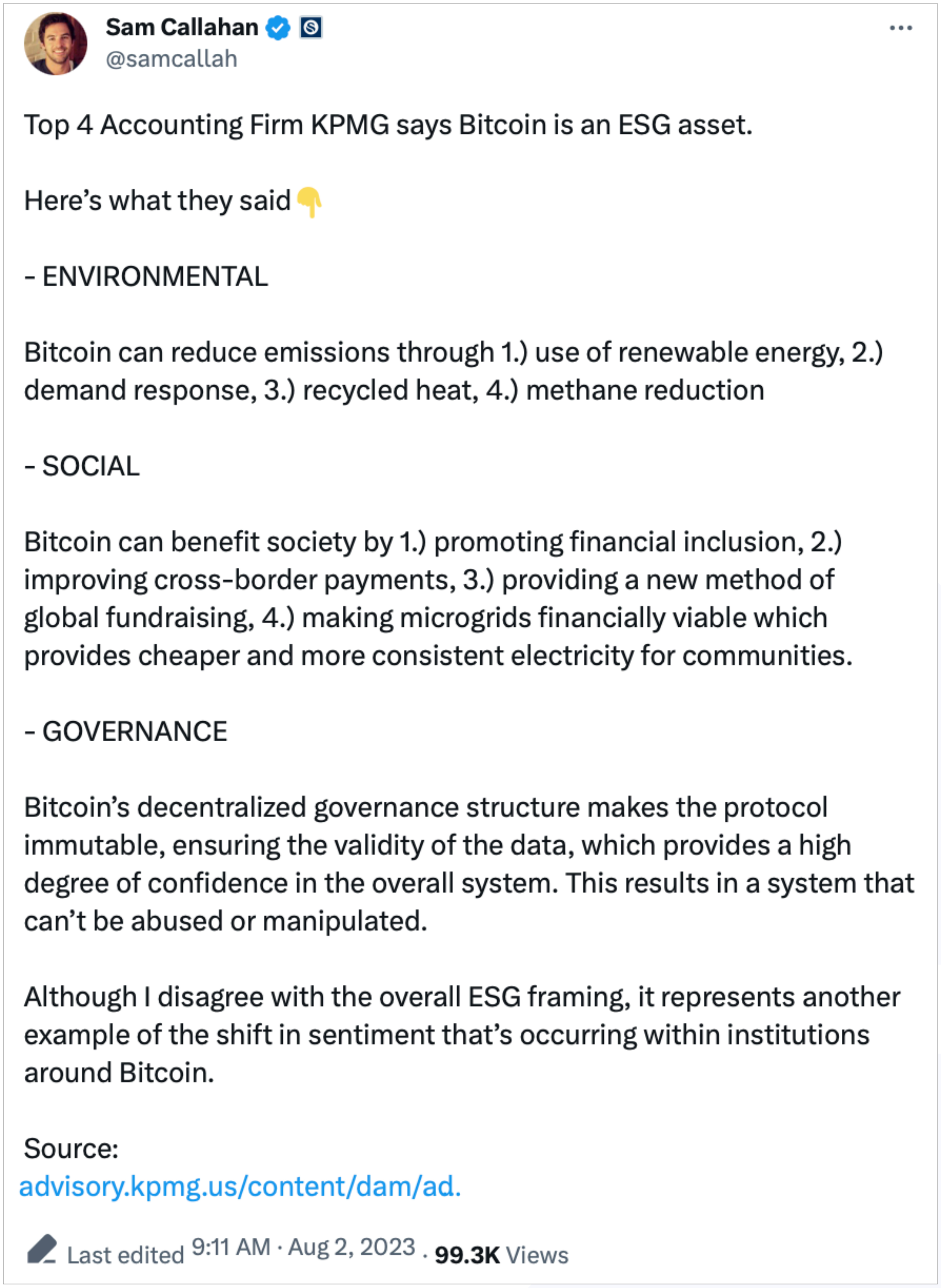
ChartsBTC
@ChartsBtc

Calling a #bitcoin top years in advance is impossible but why let that stop us? Put me down for $250k



1:40 PM · Jul 28, 2023 · **47.6K** Views

Big 4 accounting firm KPMG says Bitcoin meets the definition of an “ESG asset” (from Sam Callahan via Twitter on August 2)...



Sam Callahan
@samcallah

Top 4 Accounting Firm KPMG says Bitcoin is an ESG asset.

Here’s what they said 👇

- ENVIRONMENTAL

Bitcoin can reduce emissions through 1.) use of renewable energy, 2.) demand response, 3.) recycled heat, 4.) methane reduction

- SOCIAL

Bitcoin can benefit society by 1.) promoting financial inclusion, 2.) improving cross-border payments, 3.) providing a new method of global fundraising, 4.) making microgrids financially viable which provides cheaper and more consistent electricity for communities.

- GOVERNANCE

Bitcoin’s decentralized governance structure makes the protocol immutable, ensuring the validity of the data, which provides a high degree of confidence in the overall system. This results in a system that can’t be abused or manipulated.

Although I disagree with the overall ESG framing, it represents another example of the shift in sentiment that’s occurring within institutions around Bitcoin.

Source:
advisory.kpmg.us/content/dam/ad.

Last edited 9:11 AM · Aug 2, 2023 · 99.3K Views

You can also read the full report here.

The current Bitcoin bear market has already been worse than those of 2015 or 2018 ([from Will Clemente via Twitter on August 3](#))...

Will Clemente
@WClementeIII

Congrats if you've survived and preserved capital this long

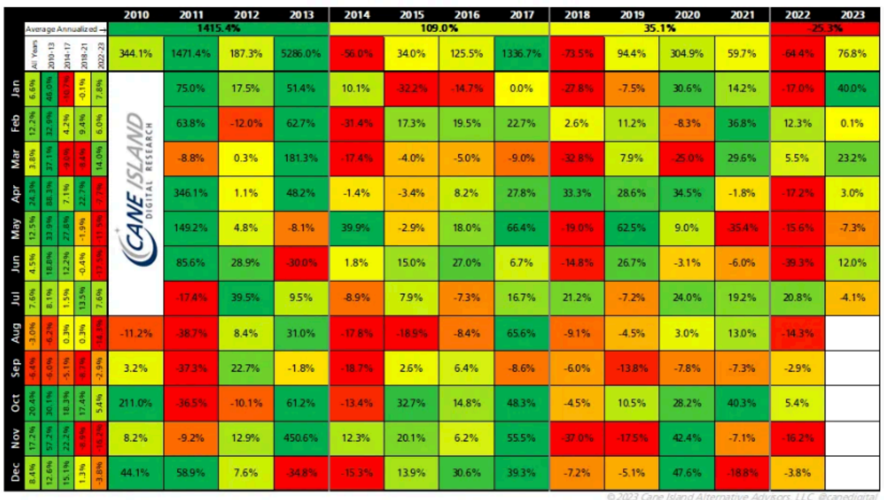
In terms of realized cap drawdowns, this Bitcoin bear market was worse than both 2015 and 2018 -- meaning a ton of losses were realized from those that bought at the top of the previous market cycle.

11:08 AM · Aug 3, 2023 · **225.1K** Views

August and September have historically been negative for Bitcoin ([from Timothy Peterson via Twitter on August 7](#))...

Timothy Peterson, CFA CAIA
@nsquaredcrypto

This is the full #bitcoin heatmap. August and September have been consistently - but not always - bad.



BITCOIN HEATMAP

	All Years	2010-13	2014-17	2018-21	2022-23	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Average Annualized →						1415.4%				109.0%				35.1%				-25.3%	
						344.1%	1471.4%	187.3%	5286.0%	-56.0%	34.0%	125.5%	1336.7%	-73.5%	94.4%	304.9%	59.7%	-64.4%	76.8%
Jan	6.6%	46.0%	-10.7%	-0.1%	7.8%		75.0%	17.5%	51.4%	10.1%	-32.2%	-14.7%	0.0%	-27.8%	-7.5%	30.6%	14.2%	-17.0%	40.0%
Feb	12.2%	32.9%	4.2%	9.4%	6.0%		63.8%	-12.0%	62.7%	-31.4%	17.3%	19.5%	22.7%	2.6%	11.2%	-8.3%	36.8%	12.3%	0.1%
Mar	3.8%	37.1%	-9.0%	-8.4%	14.0%		-8.8%	0.3%	181.3%	-17.4%	-4.0%	-5.0%	-9.0%	-32.8%	7.9%	-25.0%	29.6%	5.5%	23.2%
Apr	24.3%	88.3%	7.1%	22.7%	-7.7%		346.1%	1.1%	48.2%	-1.4%	-3.4%	8.2%	27.8%	33.3%	28.6%	34.5%	-1.8%	-17.2%	3.0%
May	12.5%	33.9%	27.8%	-1.9%	-11.5%		149.2%	4.8%	-8.1%	39.9%	-2.9%	18.0%	66.4%	-19.0%	62.5%	9.0%	-35.4%	-15.6%	-7.3%
Jun	4.5%	18.8%	12.2%	-0.4%	-17.5%		85.6%	28.9%	-30.0%	1.8%	15.0%	27.0%	6.7%	-14.8%	26.7%	-3.1%	-6.0%	-39.3%	12.0%
Jul	7.6%	8.1%	1.5%	13.5%	7.6%		-17.4%	39.5%	9.5%	-8.9%	7.9%	-7.3%	16.7%	21.2%	-7.2%	24.0%	19.2%	20.8%	-4.1%
Aug	-3.0%	-6.2%	0.3%	0.3%	-14.3%	-11.2%	-38.7%	8.4%	31.0%	-17.8%	-18.9%	-8.4%	65.6%	-9.1%	-4.5%	3.0%	13.0%	-14.3%	
Sep	-6.4%	-6.0%	-5.1%	-8.7%	-2.9%	3.2%	-37.3%	22.7%	-1.8%	-18.7%	2.6%	6.4%	-8.6%	-6.0%	-13.8%	-7.8%	-7.3%	-2.9%	
Oct	20.4%	30.1%	18.3%	17.4%	5.4%	211.0%	-36.5%	-10.1%	61.2%	-13.4%	32.7%	14.8%	48.3%	-4.5%	10.5%	28.2%	40.3%	5.4%	
Nov	17.2%	57.2%	22.2%	-8.9%	-16.2%	8.2%	-9.2%	12.9%	450.6%	12.3%	20.1%	6.2%	55.5%	-37.0%	-17.5%	42.4%	-7.1%	-16.2%	
Dec	8.4%	12.6%	15.1%	1.3%	-3.8%	44.1%	58.9%	7.6%	-34.8%	-15.3%	13.9%	30.6%	39.3%	-7.2%	-5.1%	47.6%	-18.8%	-3.8%	

2:05 PM · Aug 7, 2023 · **4,240** Views

Ethereum's "lowest price forward" is painting a bullish picture today (from Timothy Peterson via Twitter on August 9)…

Most Westerners don't fully appreciate the value of Bitcoin today... but they likely will in the years ahead ([from Sam Callahan via Twitter on August 12](#))...

Sam Callahan
@samcallah

A recent audit of the Bank of Lebanon showed:

1.) Officials likely embezzled over $300 million to family members and close associates
2.) They implemented a nationally-regulated Ponzi scheme to explode the national debt
3.) They hid $76 billion in losses from the Ponzi scheme by cooking their books, failing to meet basic accounting standards

Meanwhile, the Lebanese pound has lost 98% of its value against the dollar, inflation sits at 254% YoY, and many Lebanese have been driven into poverty.

#Bitcoin ₿ is a monetary system that can't be controlled, manipulated, or abused by a small group of central bankers. Stories like this will soon be a thing of the past.

Lebanon + Add to myFT

Long-awaited auditor report slams governance at Lebanon central bank

Report describes an institution mired in opaque practices, bad governance and lacking adequate risk management

11:13 AM · Aug 12, 2023 · **319.3K** Views

Bitcoin is even scarcer than you probably realize (from Bitcoin_apex via Twitter on August 13)...

Bitcoin_apex
@bitcoin__apex

0.002625 Bitcoin.
262,500 Satoshi.
$77 (block time: 802979).

This is the amount of #Bitcoin and the price of it in U.S. dollars that each person would have if all Bitcoin were distributed equally.

Sounds like little and like an amount to have lying inconsequentially somewhere on a software wallet, but if we look to the year 2064, this will be roughly the amount of fresh Bitcoin per new block.

Year 2064: 0.00305175 Bitcoin every ~10 minutes. 305,175 Satoshi. In about 40 years, each block will emit roughly the amount of Bitcoin that a human can own on average. Just one person every ~10 minutes.

A global, gigantic participation of people with immense infrastructure, energy, time, work and power will spend their resources to bring this amount of Bitcoin on the stage of our world, so that just one human could own the average.

With $77 today, which you can't even refuel your car with in some parts of the world, the next generation gets a complete blocksubsidy of a Bitcoin block that becomes scarcer every four years.

If you have 0.002625 Bitcoin sitting in a wallet, in 40 years that will be the most valuable asset for many people. Realize this.

Buy Bitcoin, be the owner of a block reward and hold.

1:32 PM · Aug 13, 2023 · **285.4K** Views

This is what drives Bitcoin's "parabolic" rallies (from Joe Burnett via Twitter on August 14)...

Joe Burnett ( )³ @IIICapital · Aug 14

1/ Previously, Bank of America estimated that during certain periods in #Bitcoin 's history buy-side pressure resulted in a 1:118 multiple on the market price of BTC.

This is exactly why BTC experiences parabolic bull runs.

When buyers come in, there are no sellers.

Bloomberg | Subscribe

Markets | Cryptocurrencies

Have $93 Million? You May Be Able to Boost Bitcoin's Price by 1%

- BofA says flows affect Bitcoin more than gold, Treasuries
- Biggest owners of the cryptocurrency are seen as holding on

34 54 370 55.5K

Joe Burnett ( )³ @IIICapital · Aug 14

2/ Few #Bitcoin holders want to sell their coins for another investment.

Immutable absolute scarcity was the ultimate economic discovery for humanity.

21,000,000 in a non-negotiable limit.

2 4 50 2,107

Joe Burnett (🔑)³ @IIICapital · Aug 14

3/ This lack of sell side pressure is how I think about the #Bitcoin ₿ halving.

Today ~ $10B worth of BTC is mined and sold by miners annually to cover their operating expenses.

The current net demand flow is also likely ~ $10B, enough to keep the price stable at $30k.

2 3 28 2,002

Joe Burnett (🔑)³ @IIICapital · Aug 14

4/ Now when the halving occurs we see the block subsidy get cut in half, weak miners are forced to capitulate, and only the strong miners remain.

The annualized block subsidy may drop from $10B to $7B-3B, depending on the size of the miner capitulation.

3 3 21 1,937

Joe Burnett (🔑)³ @IIICapital · Aug 14

5/ Now there's an offset in supply and demand flows assuming demand remains the same.

There may be $5B of annual sell-side flow, but still $10B of annual buy-side flow.

This is where the 1:118 ratio comes in.

3 3 24 1,872

Joe Burnett (🔑)³ @IIICapital · Aug 14

6/ All of the sudden, buy-side flows overwhelm natural sell-side flows.

The only source of additional sell-side flows is from holders, and the only way to get their coins is to bid a much higher price.

2 7 26 3,007

Joe Burnett (🔑)³ @IIICapital · Aug 14

7/ This is one reason why we see a 7x - 100x increase in the price of BTC after a halving.

Buy-side flows don't get sliced in half at the halving.

My bear case for 2024 and 2025 is $100k BTC.

6 8 41 2,985

"On-chain" data show 75% of all Bitcoin in circulation is held by long-term holders (LTH). The last time this was the case was in late 2015, when Bitcoin went on to soar nearly 8,000% over the next two years (from Root via Twitter on August 14)...

Root 🥕
@therationalroot

HODL'ers are relentless, 75% of all coins in circulation are Long-Term Holders, levels not seen since 2015. #Bitcoin ₿

4:15 PM · Aug 14, 2023 · **96.8K** Views