

Porter
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PORTER & CO. CONFERENCE 2023

End of America Update: What's Next?

Porter Stansberry | Founder, *Porter & Co.*

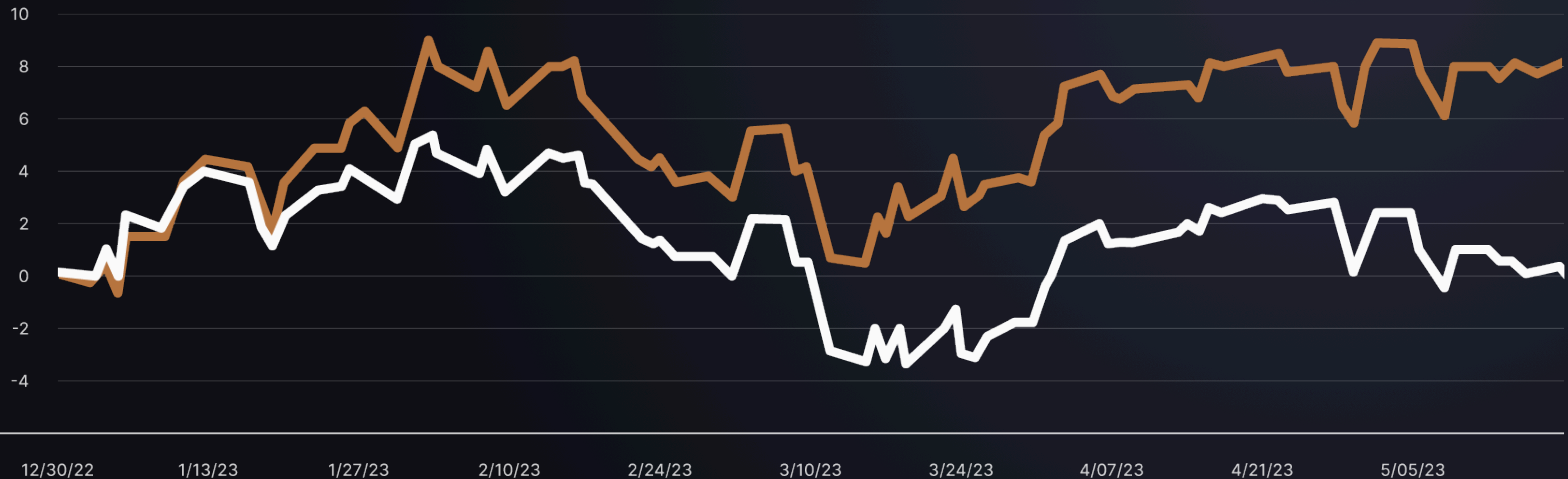
This Year's "Bull Market" **Is a Mirage**

- **It's created by just seven mega-market-cap stocks:**
 - Tesla (70x)
 - Amazon (86x)
 - Nvidia (102x)
 - Apple (29x)
 - Microsoft (32x)
 - Google (27x)
 - Meta (24x)

All numbers are Price to Earnings Ratio (PE)

The S&P 500's 2023 Gains are Largely Due to **Success of 7 Companies**

INDEX VALUE CHANGE CALCULATED FROM DEC. 30, 2022, TO MAY 16, 2023



● S&P 500 ● S&P 500 Minus Select 7 Companies

Source: S&P Global Market Intelligence

Another Way to Measure the **Over inflation of Tech Stocks**

- **NASDAQ 100 vs. Russell 2000**
 - **Peak of last tech stock bubble:** Tech stocks worth 8.1x more than small caps
 - **Right Now:** Tech stocks worth 8.2x more than small caps



Tech vs Treasury Returns... Dislocation

NASDAQ 100 (NDX) VS 10-YEAR US TREASURY RETURN INDEX

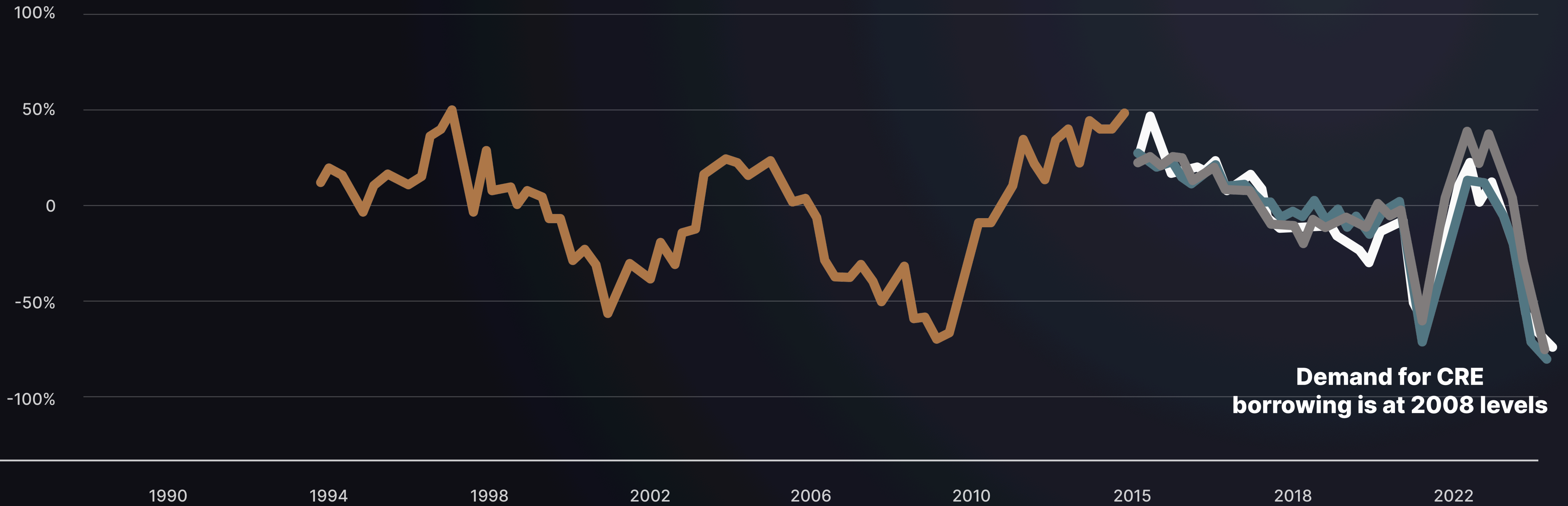


● Nasdaq 100 ● 10-Year U.S. Treasury Return Index (RHS)

A Financial Crisis Is Brewing In Commercial Real Estate

- Tenants can't pay higher interest rates, so buildings are returned to banks with no one to service the loans...
- CRE crashing at "2008 mortgage value" pace
- Over 700 U.S. banks in jeopardy

Demand for Commercial Real Estate Loans **Is at 2008 Levels**

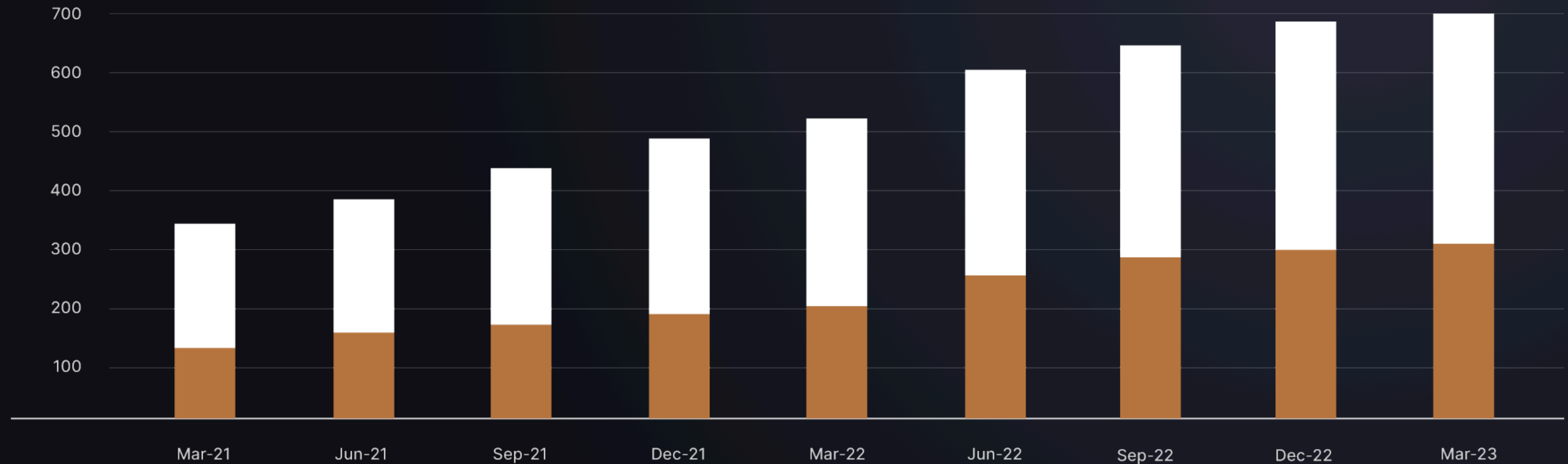


Demand for CRE borrowing is at 2008 levels

- Net % of Dom Resp Reporting Stronger Demand for Commercial Real Estate Loans All
- Stronger Demand for Construction & Land Development Loans
- Stronger Demand for Loans Secured by Multifamily Residential Structures
- Stronger Demand for Loans Secured by Nonfarm Nonresidential Structures

Almost 700 U.S. Banks Exceeded the **2006 CRE Loan Concentration Guidance**

NUMBER OF U.S. BANKS EXCEEDING 2006 LOAN CONCENTRATION GUIDANCE



- CRE Loans at Least 300% of Risk-Based Capital and 36-Month CRE Growth of 50% or Higher
- C&D Loans at Least 100% of Risk-Based Capital

Source: Apollo

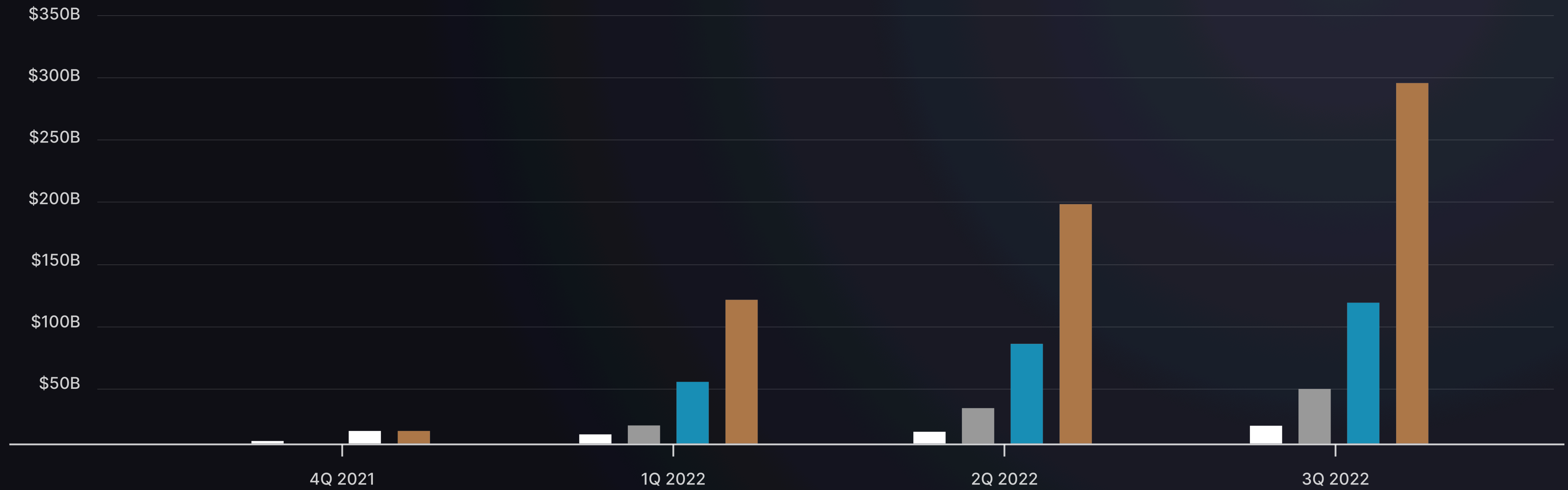
But Banks Have **An Even Bigger Problem**

- Interest rates have risen... so they've taken huge losses on bond holdings
 - Bank of America's \$760 debt portfolio has "unrealized losses" of \$110 billion
 - Bank of America's average portfolio yield is 2.44%... short-term Treasury yield is 5%
 - Creative accounting means the losses "don't count" against BOA's capital base

That's all fine and dandy... until bank depositors want their money... and it's not there

Unrealized Losses

GROWTH IN NET UNREALIZED LOSSES ON HELD-TO-MATURITY DEBT SECURITIES



- SVB Financial
- Wells Fargo
- Bank of America
- KBW Bank INdex

Source: Bloomberg.

What Happens When Depositors Demand Their Money?

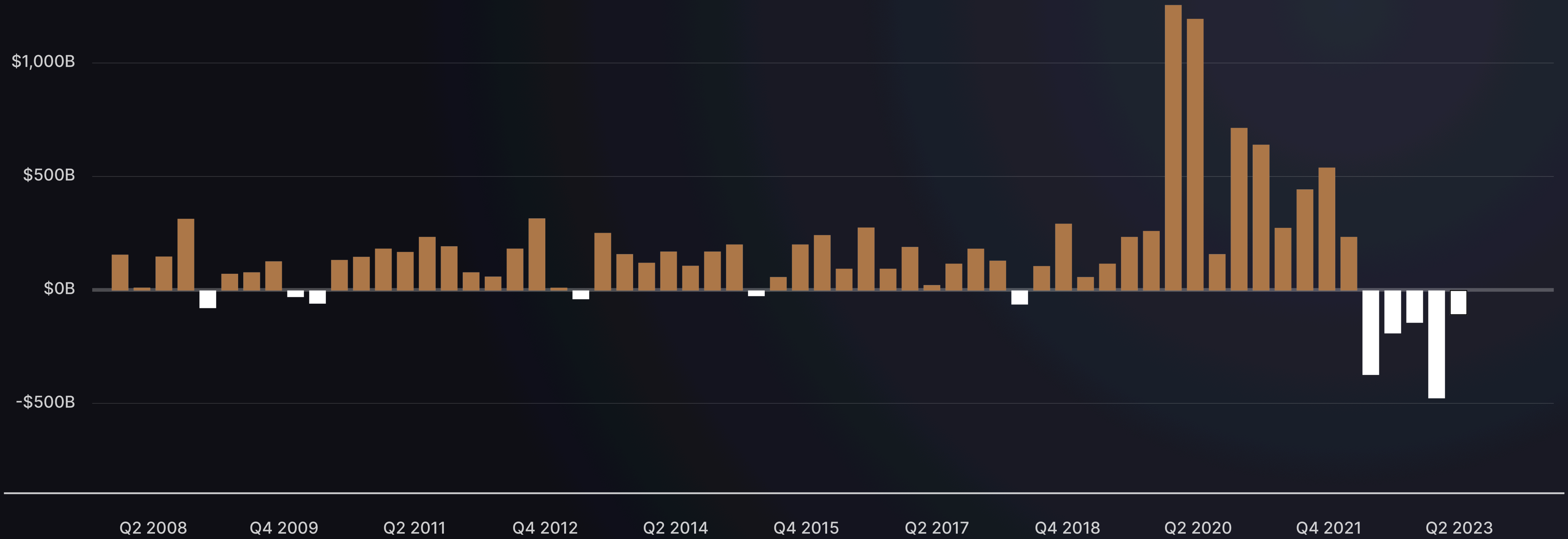
- ***A run on the bank***
 - It's already happened at Silicon Valley Bank
 - Wells Fargo and BOA have bigger unrealized losses than SVB



**A run on banks has
already started...**

My advice: Don't Wait

Q2 Change in Bank Deposits All FDIC-Insured Institutions



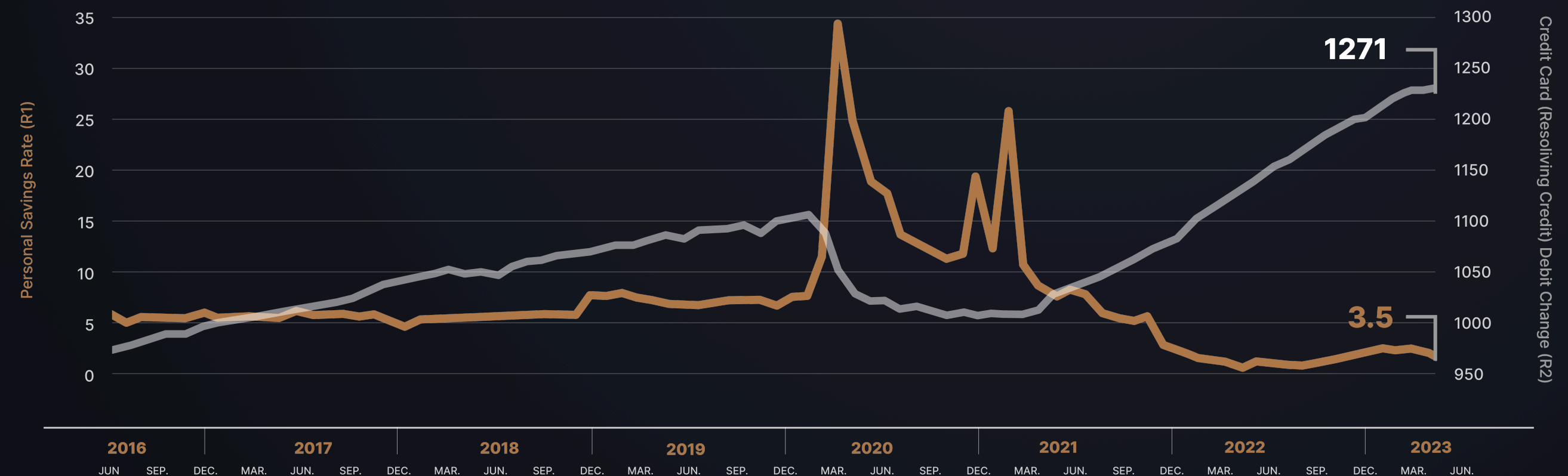
Source: FDIC.

Just As A New Financial Crisis Hits

U.S. consumers will start defaulting on massive piles of "COVID debt"

- Massive increase in credit card balances since mid-2021...

Massive Increase to **Credit Card Balances Since Mid-2021**



The U.S. Consumer Is **More Indebted Than Ever Before**

- Record \$16.5 trillion in household debt
- Record \$11.9 trillion in mortgages: Total mortgage debt is now more than double the 2006 peak
- Record \$1.6 trillion in auto loans
- Record \$986 billion in credit card debt: 36% of Americans have more credit card debt than savings

**These debts can't be sustained
or repaid: defaults will soar over
the next 12 months.**

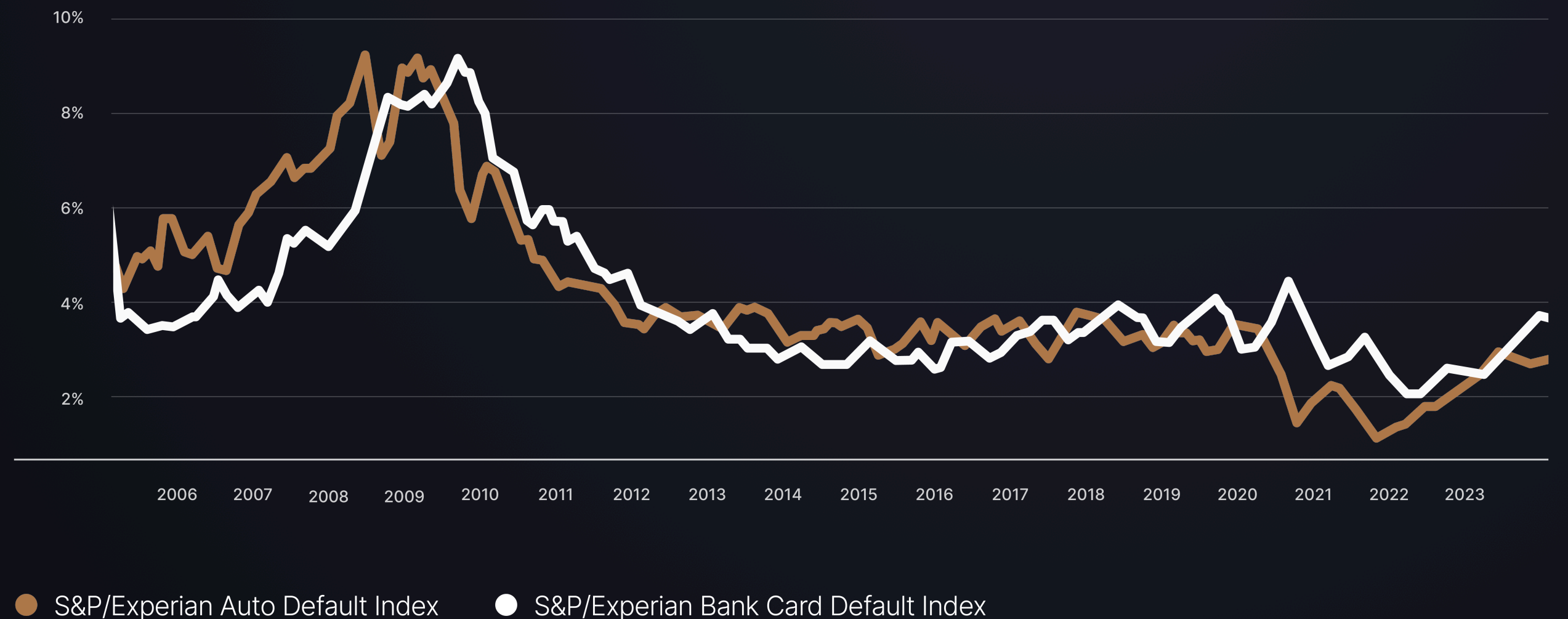
And it's already started...

Recession Red Flag #1:

Auto Defaults On the Rise

- 17% of car loans now require monthly payments larger than \$1,000
- Will trigger more defaults if unemployment grows

Default Rates for Auto Loans and Credit Cards Moving Higher

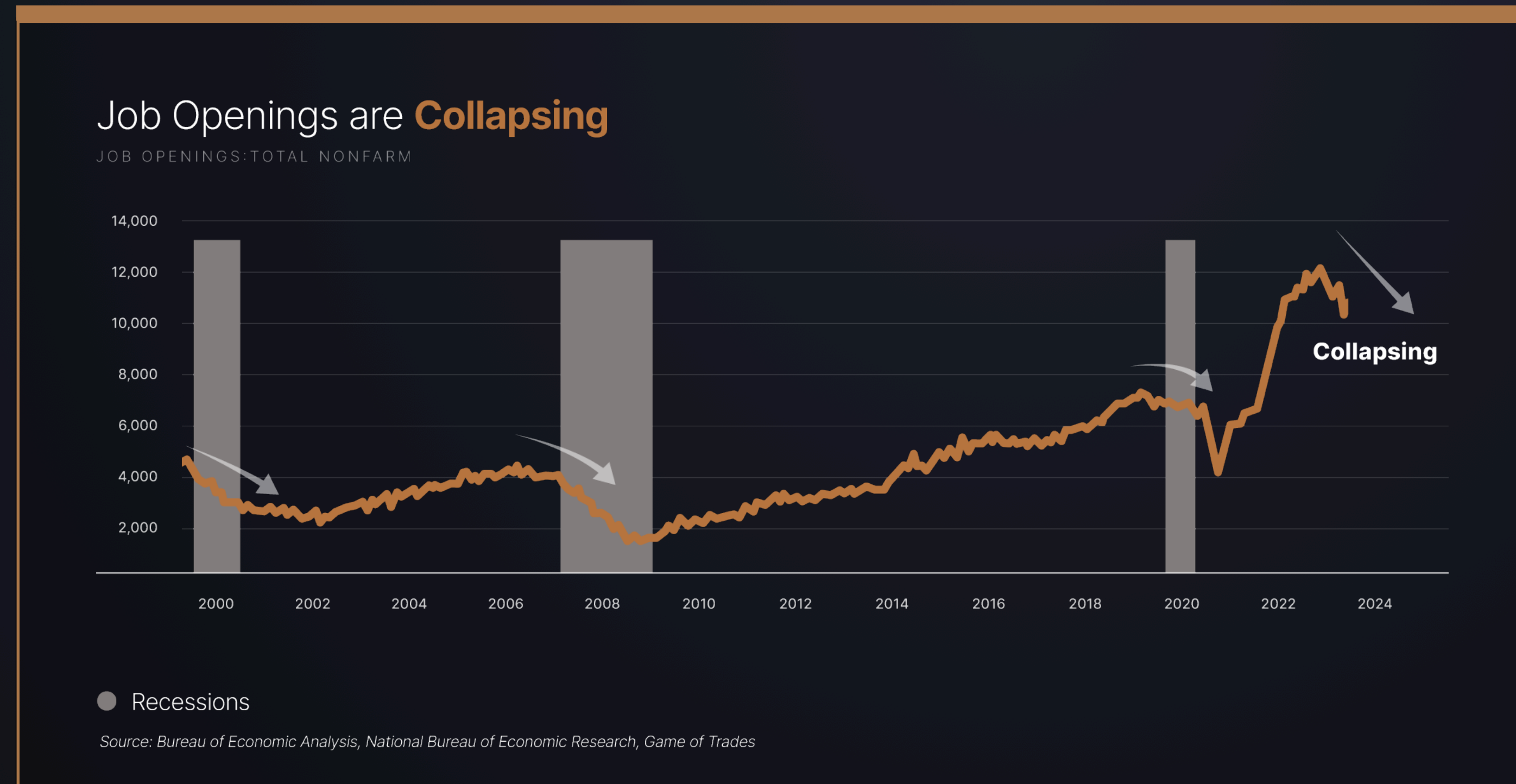


Source: Apollo

Recession Red Flag #2:

Fewer Jobs Available

- Employment still strong, but job openings are collapsing
- Unemployment will soon follow



Recession Red Flag #3:

Home Prices Falling Sharply

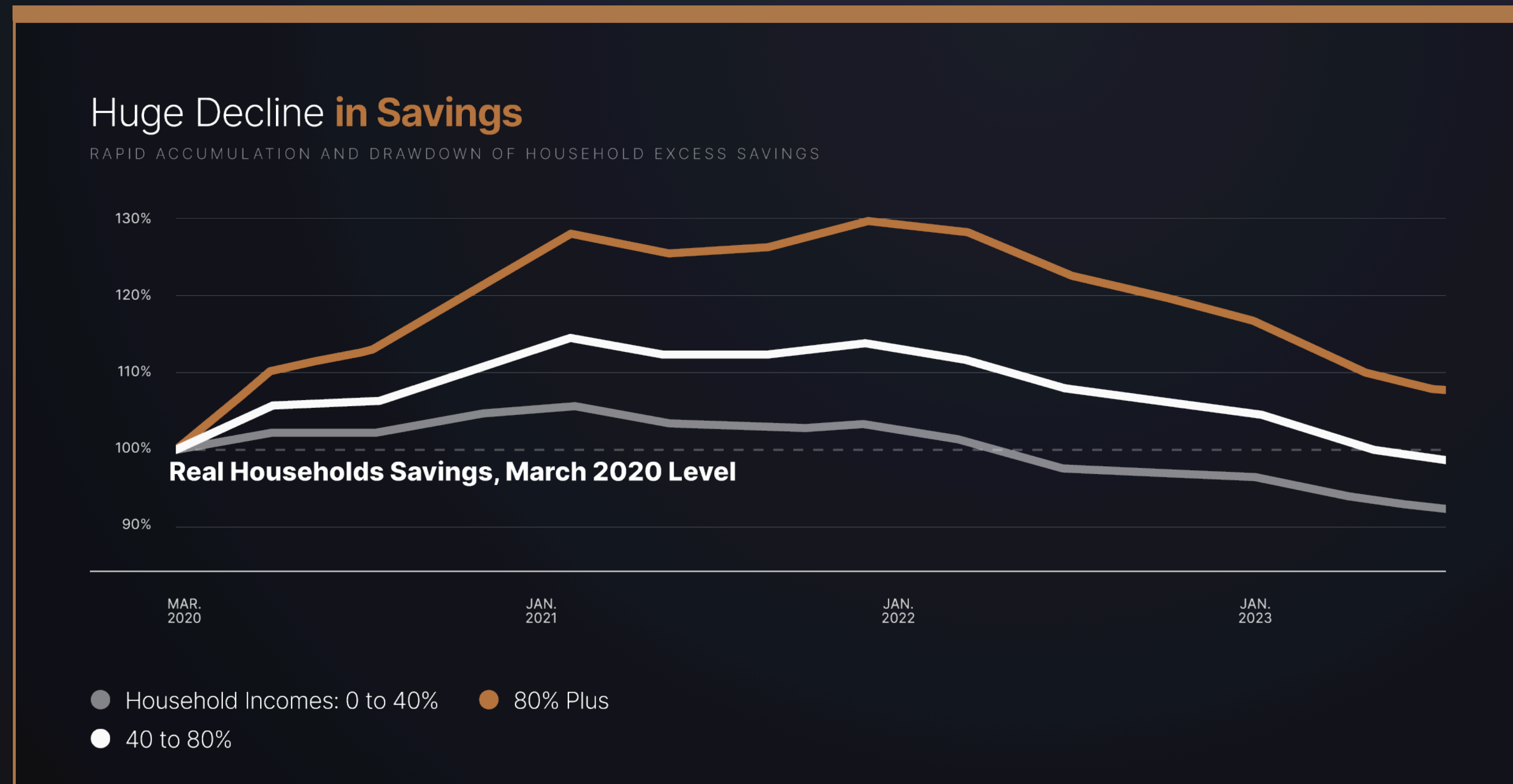
- Strong sign of recession
- Homeowners won't be able to borrow against their homes
- Won't be able to move due to higher mortgage rates



Recession Red Flag #4:

Huge Decline in Low-Income Consumer Retail & Entertainment

- Americans outside the wealthiest 20% of the country have run out of extra savings and now have less cash on hand than they did when the pandemic began



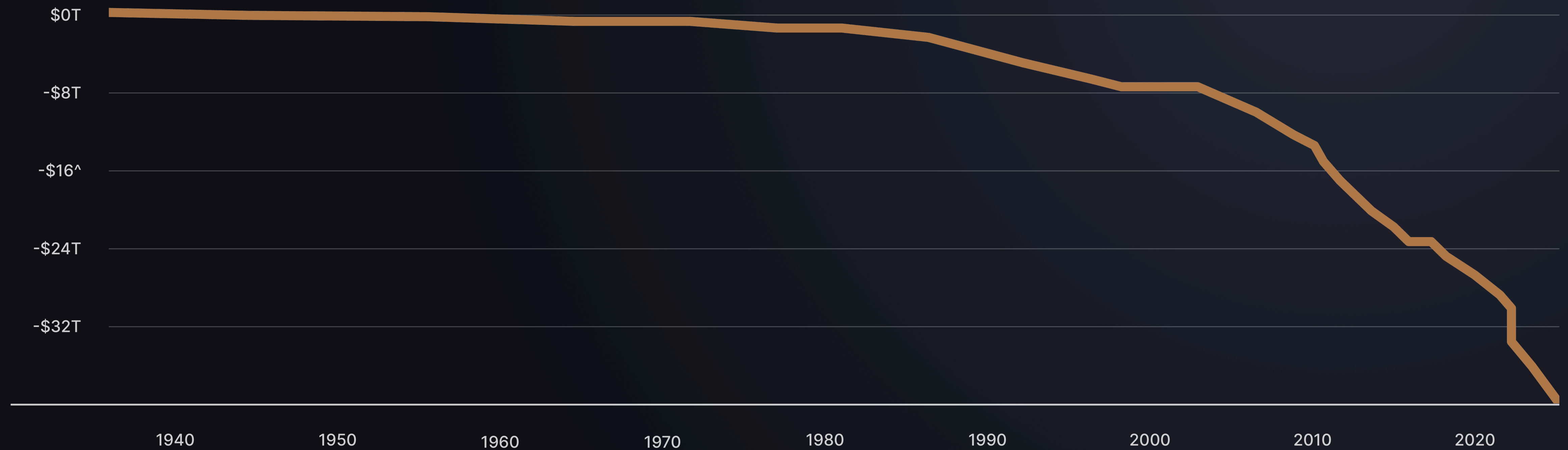
Uncle Sam Can't Bail Everyone Out This Time

We can't afford interest, or future payments, on our current debt load:

- CBO projects net interest costs will total \$663 billion in 2023
- That's 5x more than interest costs in 2020
- 31% (\$10 trillion) of national debt must be refinanced at higher rates through 2024

Our Government Is Bankrupt. *We Just Haven't Acknowledged It Yet.*

U.S. NATIONAL DEBT (AS OF EOY '22)



What's Next?

Financial pressure means the Fed will have to print massive amounts of money...

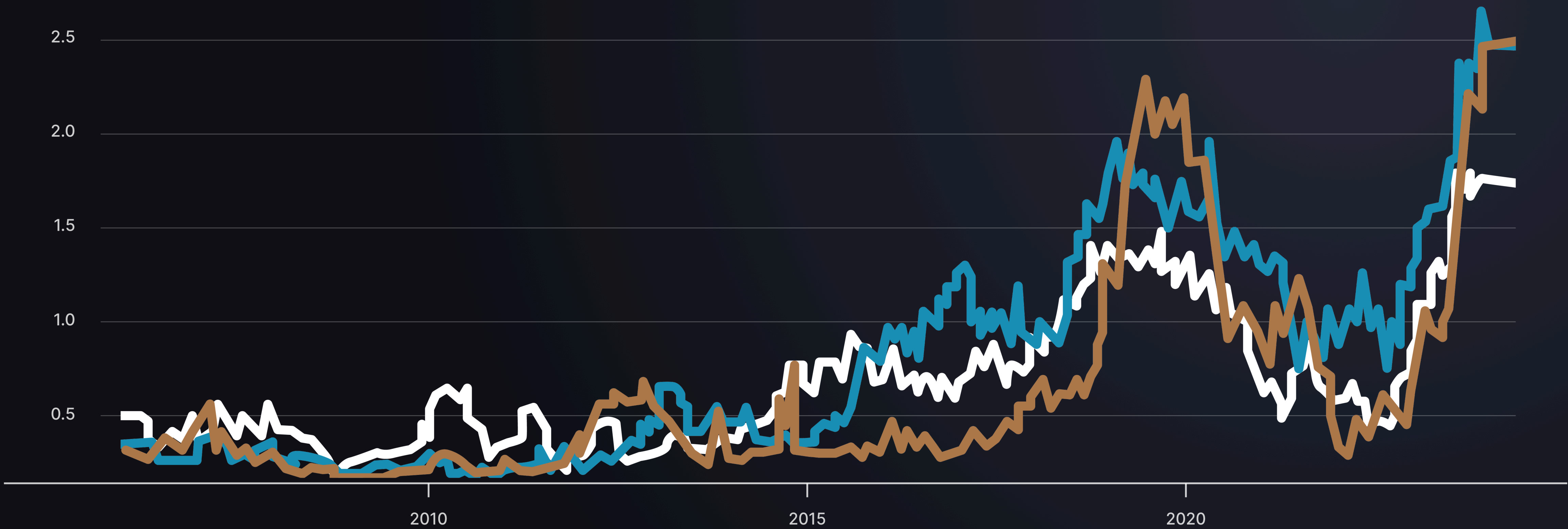
As a result, hedge funds are now making huge, leveraged bets against the Treasury market:

- Hedge funds' short positions in Treasury futures reached an all-time high of ~\$900bn in Aug.
- Fed says these bets pose a "financial stability vulnerability"

That will lead to a massive run out of Treasuries...

...And the collapse of the world's banks and financial markets.

Leveraged Funds' **Short Positions**



● Two-Year ● Five-Year ● Ten-Year

Source: CFTC.

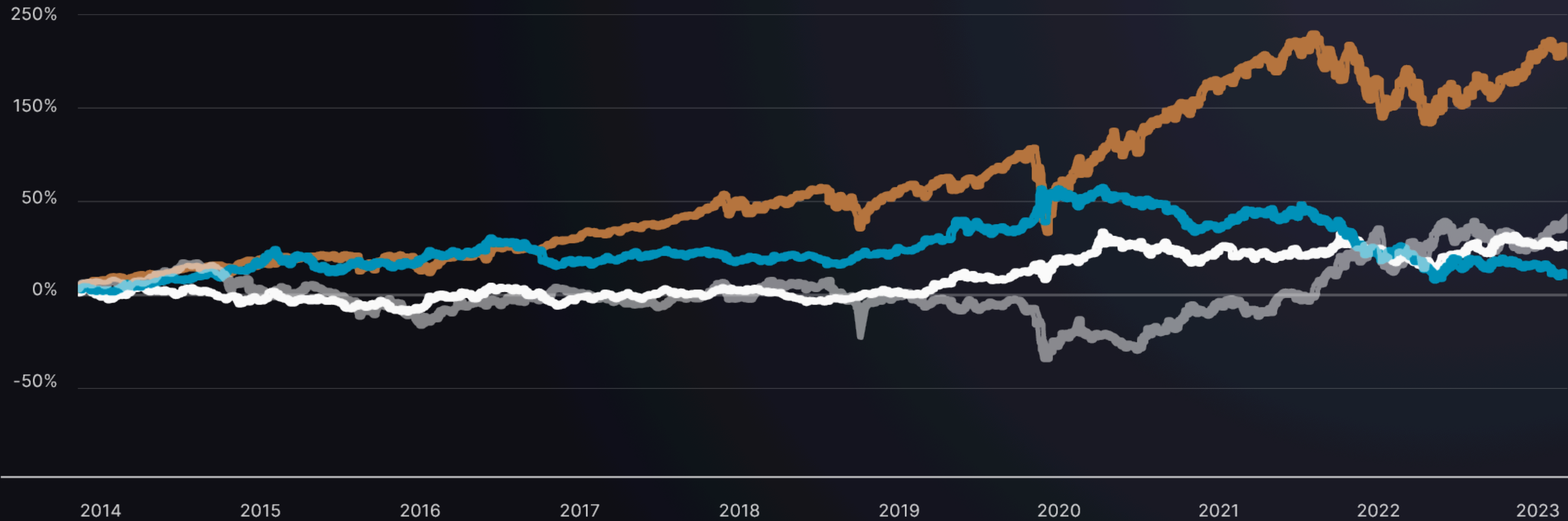
5-Year Total Returns



- SPDR Gold Shares
- iShares 20+ Year Treasury Bond ETF
- SPDR S&P 500 ETF Trust
- Energy Select Sector SPDR Fund

Source: Bloomberg

10-Year Total Returns



- SPDR Gold Shares
- iShares 20+ Year Treasury Bond ETF
- SPDR S&P 500 ETF Trust
- Energy Select Sector SPDR Fund

Source: Bloomberg

Carnival



Company	Symbol	Earnings	New Debt	Total Debt	New Interest	Old Interest	Market Cap
Carnival Corp.	CCL	\$ (24.4)B	\$ (24.8)B	\$42.7B	\$1.8B	\$180M	\$16.8B

All data is in billions except old interest.
Source: Bloomberg

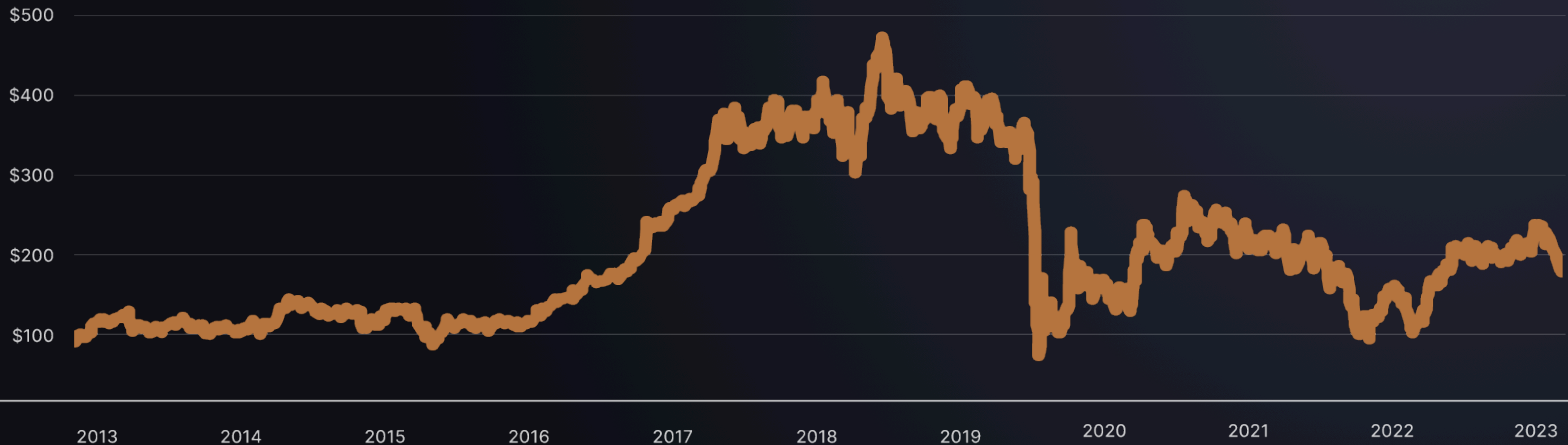
Royal Caribbean



Company	Symbol	Earnings	New Debt	Total Debt	New Interest	Old Interest	Market Cap
Royal Caribbean	RLC	\$ (6.1)B	\$ 13.0B	\$29.3B	\$1.4B	\$300M	\$22B

All data is in billions except old interest.
Source: Bloomberg

Boeing



Company	Symbol	Earnings	New Debt	Total Debt	New Interest	Old Interest	Market Cap
Boeing	BA	\$ (21,9161)B	\$ 34.0B	\$150.0B	\$2.4B	\$364M	\$112B

All data is in billions except old interest.
Source: Bloomberg

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