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THE INVESTMENT CHRONICLES

Issue No. 8 | November 2023

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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, Securities and Exchange Commission ("SEC") filings, investment newsletters, newspapers, X (Twitter) threads, conferences, podcasts, and more – and digest them into one carefully curated, easy-to-read resource.

With 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 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 dig in 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 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
November 2023

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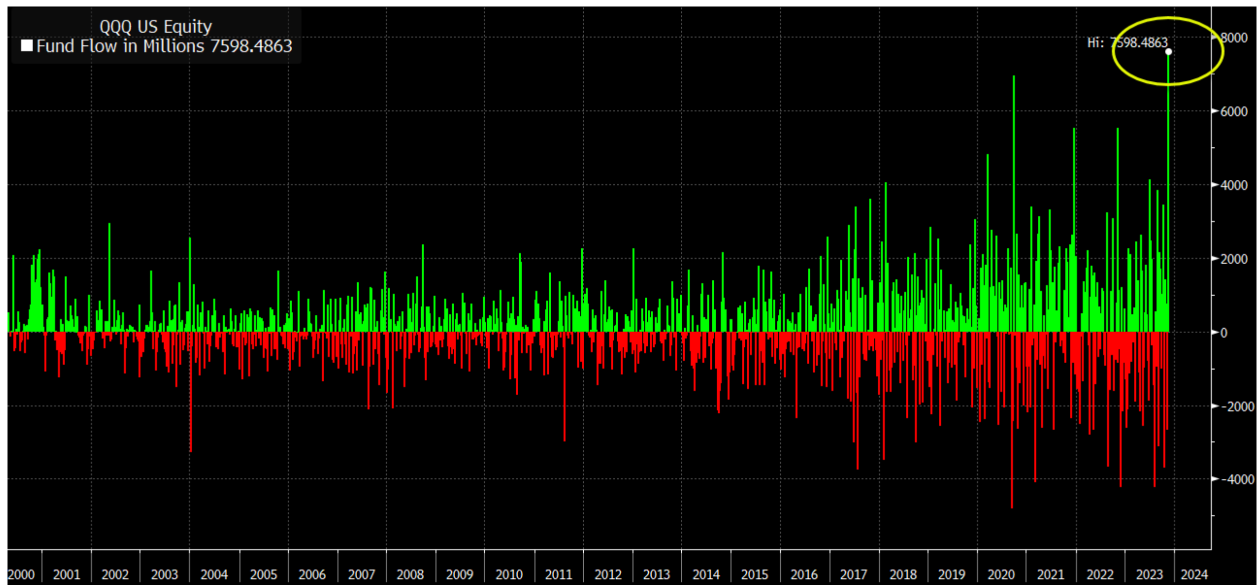
THE FIVE

The Most Important Charts We're Watching This Month

The big story in November was the dramatic return of risk-taking, as easing long-term interest rates and better-than-expected inflation data fueled renewed hopes of a "soft landing." For example, large-cap tech stocks – represented by the Invesco QQQ ETF – saw their largest weekly inflows on record (from Barchart via X)...



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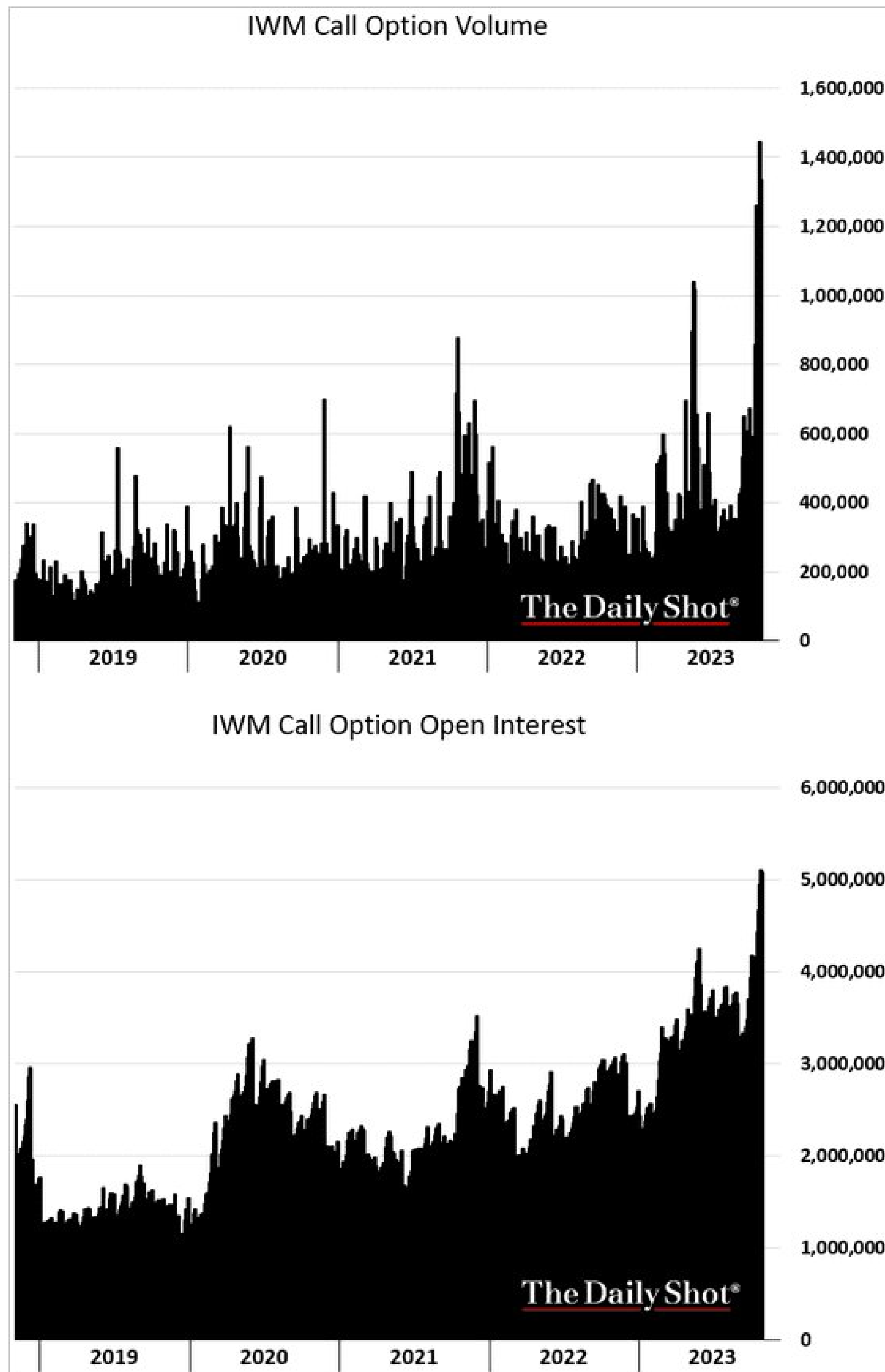
Bullish options bets on small-cap stocks – via the iShares Russell 2000 ETF – also soared to a new record high (from The Daily Shot)...



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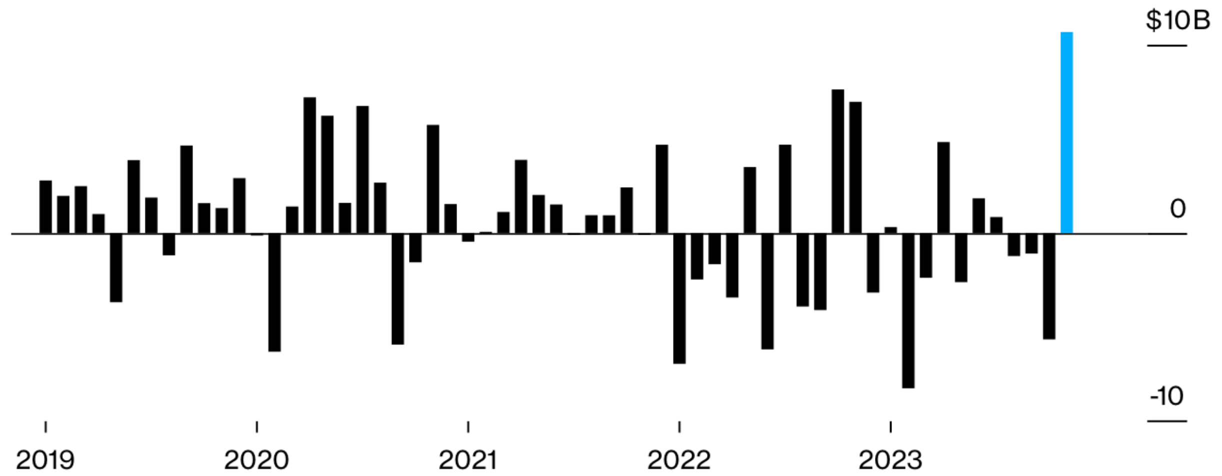
And high-yield corporate bonds saw their biggest monthly inflows in at least five years ([from *Bloomberg*])...



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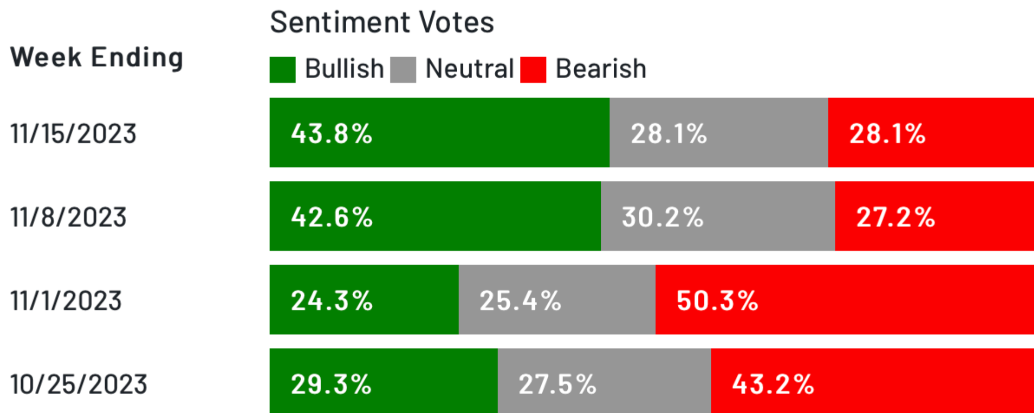
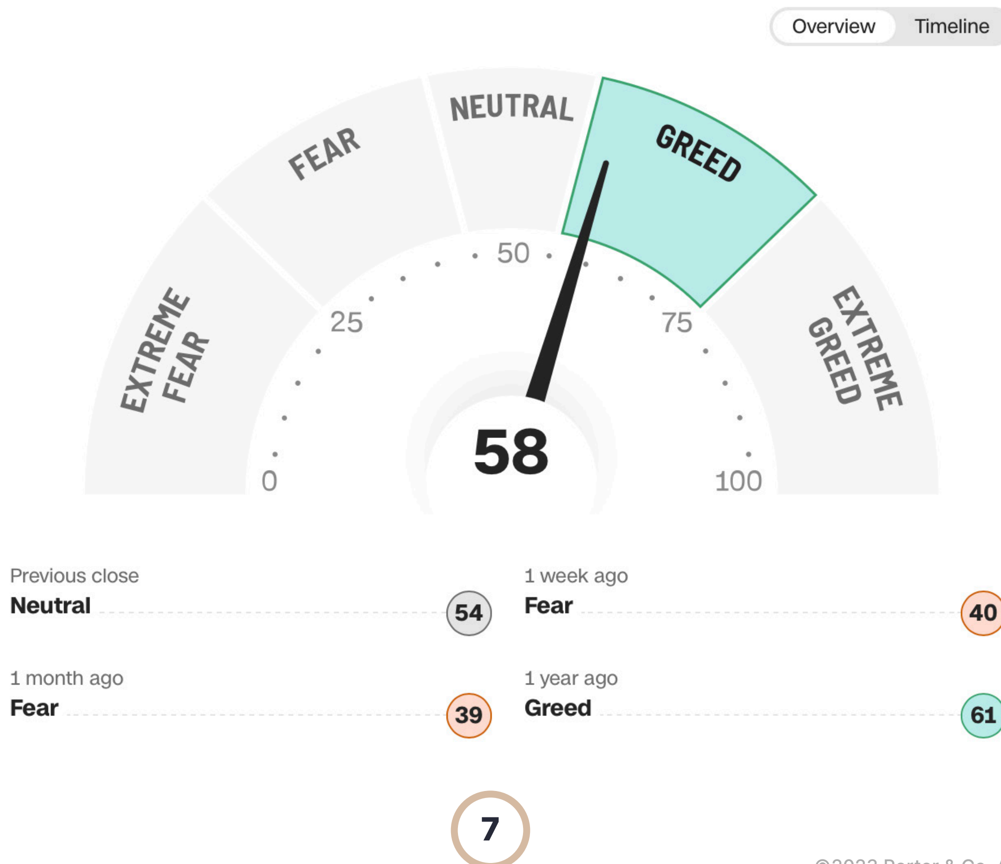
These moves occurred alongside a violent reversal in investor sentiment. This includes the largest one-week decline in bearish sentiment (from 50.3% to 27.2%) in the history of the American Association of Individual Investors ("AAII") weekly survey (from AAII)...



And a return to "Greed" territory in CNN's Fear & Greed Index after a brief dip into "Extreme Fear" last month (from CNN Business)...



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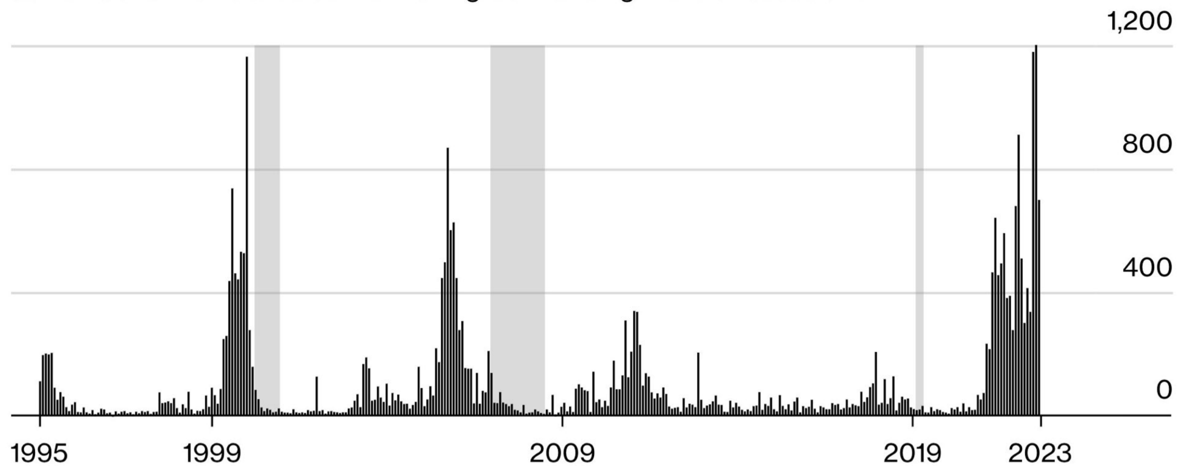
With positive year-end seasonality kicking in (see Economics and Markets below), this rally could certainly continue a while longer. But history continues to suggest those betting heavily on a soft landing are likely to be disappointed (*from Bloomberg*)...



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ECONOMICS AND MARKETS

Japan eased its yield-curve control ("YCC") program this month. Here's why U.S. investors should care (from RIA Advice)...

The Bank of Japan's (BOJ) policy meeting on Tuesday resulted in a shift away from yield-curve control (YCC). Per the BOJ: "With extremely high uncertainties surrounding economies and financial markets at home and abroad, the Bank judges that it is appropriate to increase the flexibility in the conduct of YCC so that long-term interest rates will be formed smoothly in financial markets in response to future developments."

Central banks use YCC to prevent yields from rising above a self-imposed limit. The graph below shows the cap on the 10-year note was at 0.50% until it recently lifted the cap to 1%. To cap rates, the BOJ buys Japanese bonds (QE), which weakens the yen. With the yen plummeting, the BOJ is relaxing YCC in hopes it stops the yen's decline... So why should we care?

If the BOJ left a firm cap on yields, they would have likely been forced to support the yen as it would have weakened further. To do so, they would likely sell U.S. Treasury securities and use those dollars to buy yen.

Given the recent rise in U.S. yields, we presume the U.S. Treasury pressured Japan to relax YCC instead. If the U.S. Treasury and BOJ are working together, the Fed can open currency swap lines so Japan can avoid selling Treasury securities if the yen continues to weaken.

U.S. Treasury yields typically correlate strongly with the yen. Accordingly, the BOJ actions and any they may take in the future have meaningful effects on the broader global asset markets. Therefore, if you own U.S. bonds, the BOJ's action is a positive.

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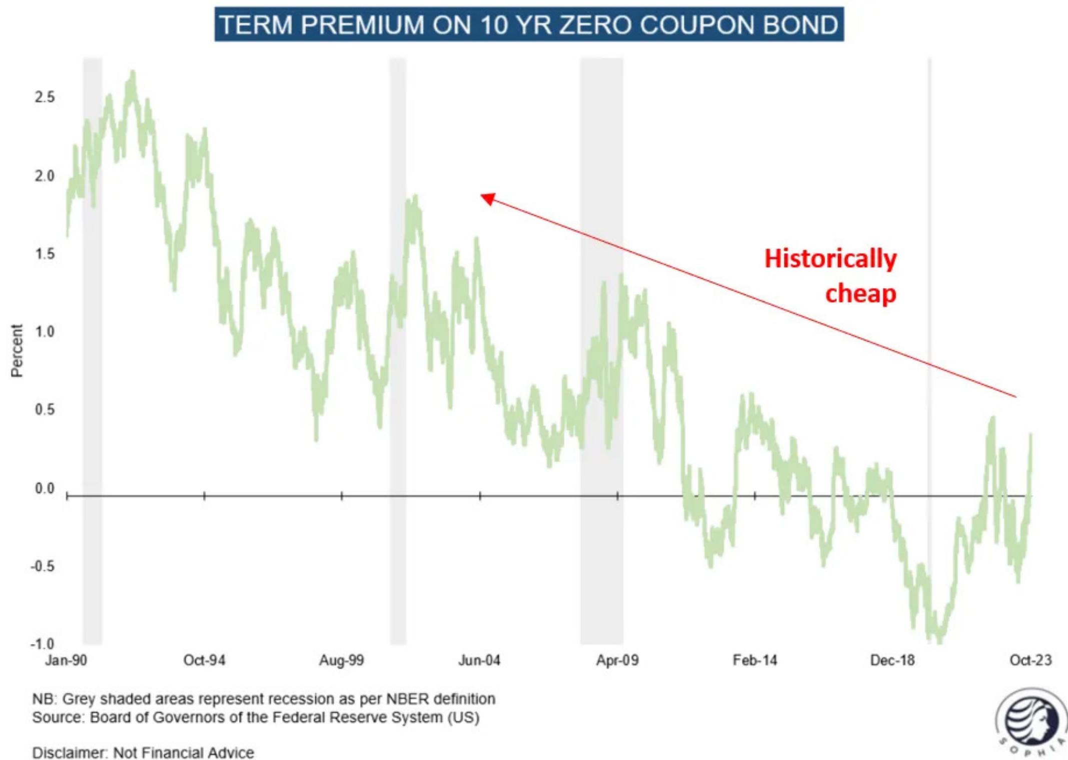
What this month's shift in the U.S. Treasury's Quarterly Refunding Announcement (QRA) means for markets (from The Next Economy by Florian Kronawitter)...

As I have written many times in the past months, the excessive U.S. budget deficit created an issue for both the economy and markets as long-term yields started to rise in a disorderly way. Thus, bond investors tensely awaited yesterday's Treasury's quarterly funding schedule, which breaks down how the larger than expected $816bn funding needs for Q1 were to be financed:

- The Treasury now plans to sell $348bn coupons for the quarter, with the remaining 58% bills. This is much lower than the initially guided $396-$460bn, and only a mere $10bn step up in coupon issuance vs Q4

This is a huge policy decision. Per its own mission statement, the Treasury aims to be regular and predictable and to seek the lowest cost for the taxpayer. In order to stick to these principles, the Treasury would have had to prioritise coupons, which are still historically cheap as measured by their term premia.



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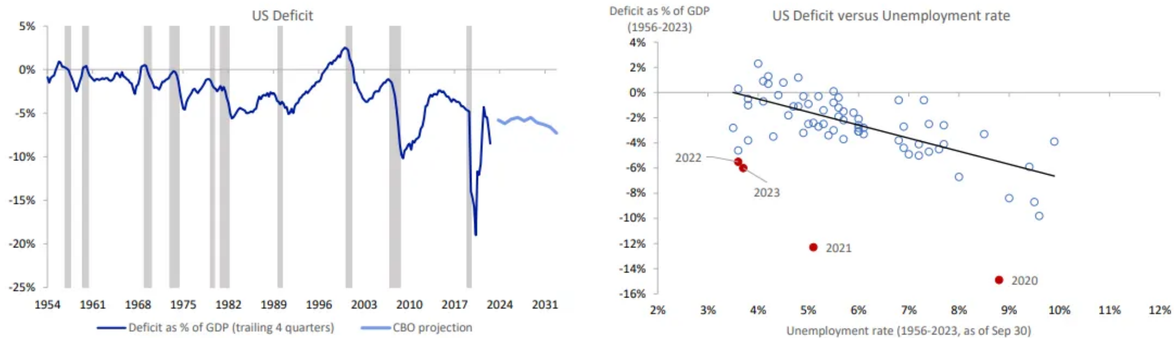
However, the Treasury's private sector advisors ("TBAC") acknowledged in their report that there was just not enough demand for these long duration bonds. This comes as no surprise as every investor in the world can see the deficit wall ahead, with a 6% to 8% budget deficit for years to come.

Large and ongoing deficits have fed expectations of significant supply increases



- The US fiscal deficit is at the top end of its range outside of recession / periods of high unemployment.
- A very high deficit despite a strong economy puts focus on government borrowing.

Source: TBAC charge October '23

Now, the prudent move would be to address the deficit either via revenue raises or spending cuts. Alternatively, the Treasury could let long-end yields drift higher so they can take the sting out of the inflation created by excessive fiscal spending

- The path of least resistance however is a different one. It is a path that has been taken by many inflationary Emerging Markets before: If the market does not want the long end, and no political party is willing to address the deficit, one simply switches to very short-term debt (i.e. bills) instead.

Why is that an issue? With maturities of under a year, bills are akin to an overdraft credit that the Treasury receives from its funders. And as any overdraft, it is more expensive and provides less financial stability than longer dated loans. Per the Treasury's own guidance (!), these should be reserved for emergency funding such as during COVID, when a large sum needed to be rapidly raised.

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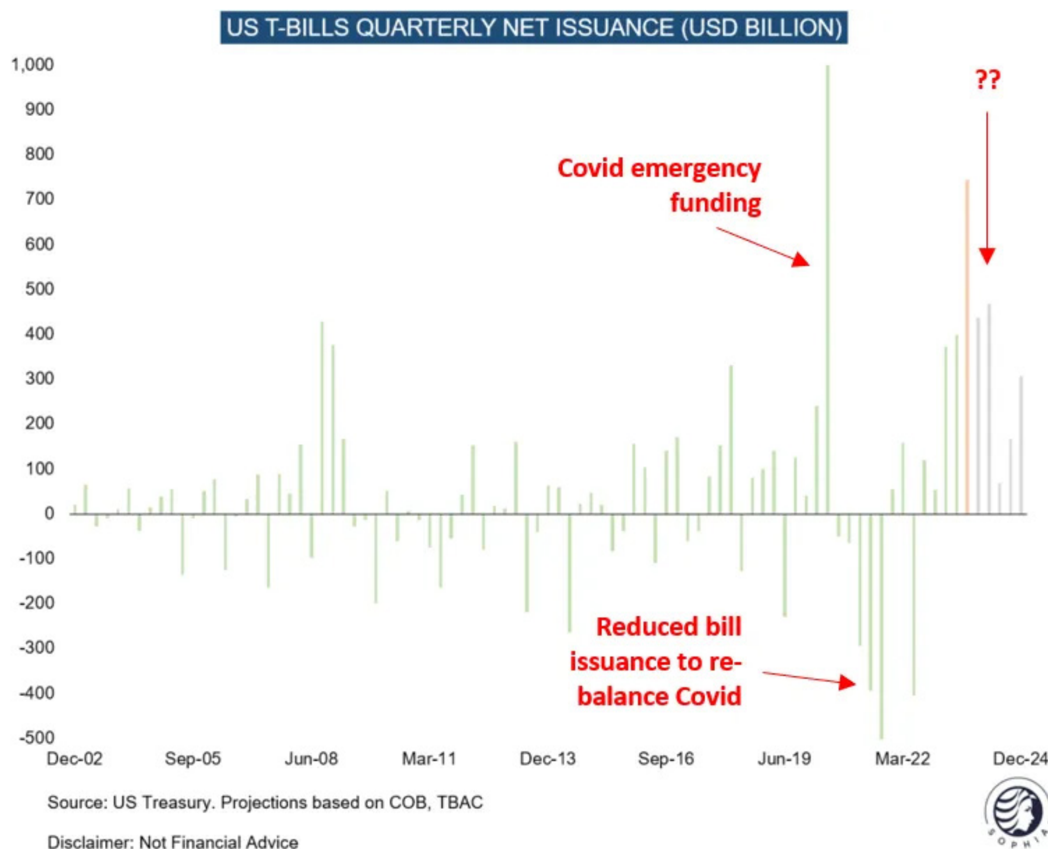

Particularly in an environment of higher inflation, a high share of bills entrenches inflation in a reflexive way. How?

- With very short maturities, bills carry little risk of losing purchasing power. For the private sector these are cash-like, just with interest; they do not translate the market's disciplinary force in case of high inflation. Coupons, on the other hand, require private sector confidence that inflation stays low, given their long duration. By prioritising bills and reducing coupon supply, the Treasury can overlook private sector inflation concerns in its funding. There is no free lunch of course, fewer coupons lower the yield on long-duration bonds, which loosens financial conditions and is thus inflationary. Further, due to their cash-like nature, bills are in fact liquidity-positive and also loosen these conditions. By changing the bill/coupon mix, the Treasury effectively undoes the Fed's work.
- In addition, during a period of structurally rising inflation, the government should prioritise coupons, as it locks in lower rates for a long period of time when interest rates trend up. More so, if it prioritises bills, short term rates need to rise more as the economy is stimulated. This increases interest payments on private sector cash holdings, and with it its spending power

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The proper remedies – letting long-end yields drift higher, cutting the budget, or raising taxes – all involve some degree of pain on the economy: the price to be paid to get inflation out of the system.

- But after a decade of rising inequality amidst the QE-era, there is absolutely no political will for this to occur. Ironically, this is very different to the aftermath of the Great Financial Crisis, where the Tea Party and their radical budget cutting plans had a large following, while instead big spending would have been much more in order back then.

So after several poorly received long-end auctions, the Treasury moved away from its goal to bring the share of short-dated bills down to its historical range of 15% to 20%, and they will make up 58% in Q1.

With ~$340bn quarterly issuance seemingly a hard ceiling, I find it hard to believe that this bill share will not drift ever further away from the 15% to 20% goal. Eventually, the bill/coupon mix probably resembles the 1970s when average maturity was a mere 2.7 years, down from 9 years+ in 1946.

Finally, to rest with my ever-guiding theme of Reflexivity, I think it is quite likely that as a result of yesterday's decisions, over the medium term, long-duration Treasury yields will in fact end up being higher, despite less supply. How so?

- A high share of bills is stimulative to the economy, while a low share of coupon issuance neuters the inflation-taming effect of the long end. Consequently, in an inflationary context, the current policy choice should increase long-term inflation expectations. In turn, these should drive up the yields of long-term bonds.
- Thus, after the current shakeout is over, long-term yields likely drift up again anyway, and we could see poor auctions return, possibly at even smaller auction sizes. Eventually, the coupon issuance size would have to be reduced more and more, and you end up with ever more bills.

But that is of course a process. The loosening of financial conditions comes first, and we likely see that play out in the coming weeks. As a result, my bet is that this chart below continues to drift up, and thus eventually triggers another round of Fed tightening in response to undo the Treasury's work – push and pull.

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Conclusion:

- Yesterday, politics panicked and substantially loosened financial conditions by prioritising bills over coupons in its debt issuance for Q1 24 and very likely beyond.
- [This] likely contributes to entrenching inflation further, and likely, ultimately leads to higher long-end rates.
- In the near term, the loosened financial conditions should stimulate all risk assets. In the long-term, higher inflation will be bearish for them.

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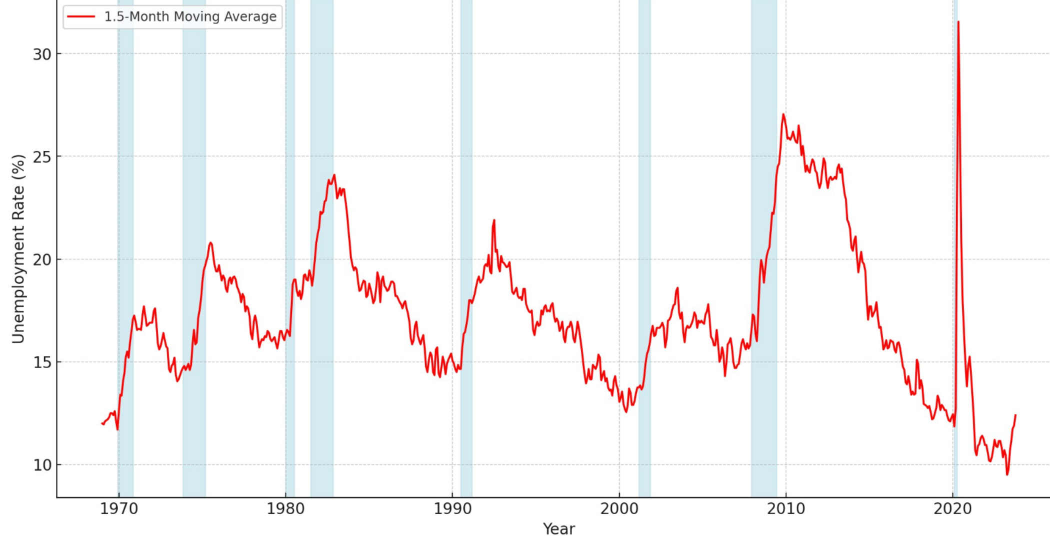
Sharply rising youth unemployment has been an early warning sign of economic weakness in the past (from Don Johnson via X)...



MacroEdge

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Why the Federal Reserve may not be done with interest rate hikes just yet (from *The Wall Street Journal*)...

A top Federal Reserve official said he would err on the side of overtightening monetary policy rather than not doing enough to bring inflation down to the central bank's 2% target.

"Under tightening will not get us back to 2% in a reasonable time," Neel Kashkari, the president of the Federal Reserve Bank of Minneapolis, said in an interview with *The Wall Street Journal* on Monday.

The economy has proven resilient, Kashkari said. But he has concerns about inflation "ticking up again. That's what I'm worried about."

He said that some prices and wages data indicate that inflation could be "settling somewhere north of 2%, and that would be very concerning to me."

The Fed held interest rates steady at a policy meeting last week, and some market participants viewed comments by Fed Chair Jerome Powell as possibly indicating that the central bank may be done raising interest rates with inflation substantially down from the summer of 2022 and the job market seemingly cooling with slightly higher unemployment.

The Labor Department reported on Friday that the U.S. economy added 150,000 jobs in October and that the unemployment rate rose to 3.9%. The government also said the economy didn't generate as many new jobs as previously reported in the prior two months, a signal of a softer job market that the Fed has sought. The August gain was cut to 165,000, from 227,000. A blockbuster September gain was shaved to 297,000, from 336,000.

Along with the potential for higher inflation, the economy also faces threats such as geopolitical turmoil and a potential U.S. government shutdown. Additionally. long-term Treasury yields have risen, and borrowing has become more expensive for consumers and businesses.

Kashkari said that he needed more information to come to a firm decision on interest-rate steps moving forward. "I am not ready to say we are in a good place," Kashkari said.

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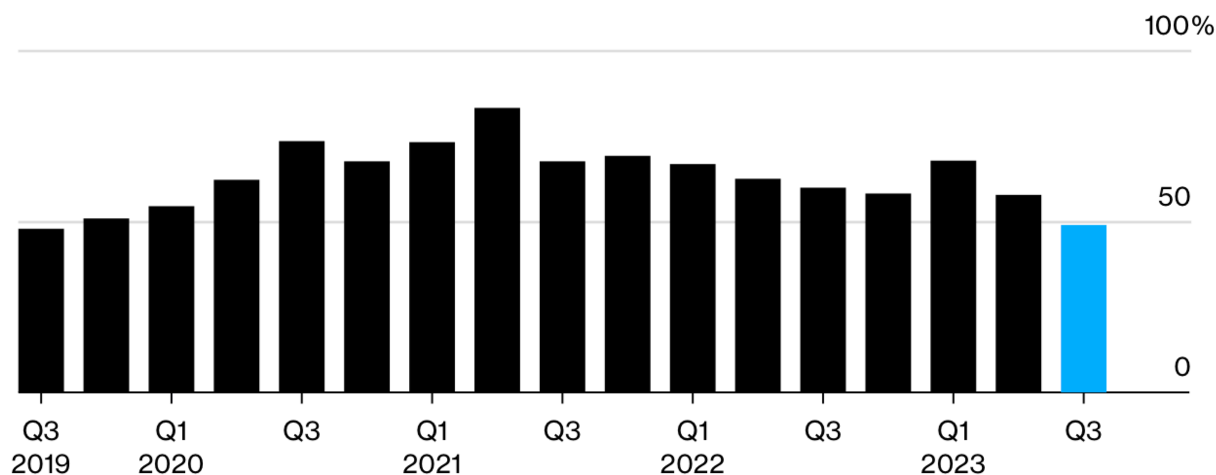
Corporate sales suggest the consumer is finally tapping out (*from Bloomberg*)...

Corporate America is delivering the bleakest sales reports in four years this earnings season, a sign that weakening consumer demand is limiting companies' ability to raise prices further.

With more than 80% of S&P 500 firms having reported, less than half have beaten revenue estimates for the third quarter – the lowest share since the same period in 2019, according to data compiled by Bloomberg Intelligence. The pace of sales growth globally has also moderated to "the lower end of their pre-pandemic ranges," Deutsche Bank Group AG strategists said.



That's overshadowed a surprise increase in quarterly earnings so far, with investors instead focusing on a long list of revenue warnings from the likes of Apple Inc. and Estée Lauder Cos. In Europe, too, the season has been characterized by high-profile cuts including from Remy Cointreau SA.

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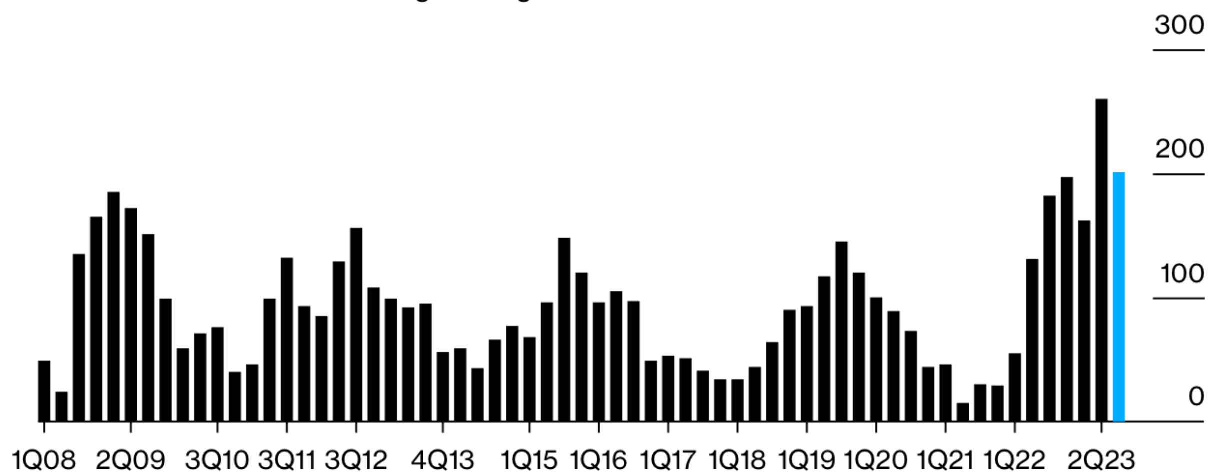
"We heard a lot of caution in managements' guidance during the season and that's exactly what we are watching for – weaker sales and margins compression as pricing power wanes," said Marija Veitmane, senior multi-asset strategist at State Street Global Markets. "For now, consumer and corporates still have access to credit, but it's getting harder and more expensive. Once that dries out, we would see more pain."

Apple warned last week that revenue in the holiday quarter will be about the same as last year, disappointing investors banking on a rebound in growth. Estée Lauder shares tumbled after the owner of the MAC and Tom Ford brands flagged declining sales. Remy Cointreau fell to a three-year low after the French distiller cut its annual sales guidance.

A Bloomberg analysis of earnings call transcripts shows "weak demand" is among the top trending phrases in both the US and Europe. With 20% of companies still to report, these mentions are already the second-highest on record, according to data going back to 2000.



Source: Bloomberg
Note: 3Q 2023 is as of Nov. 3

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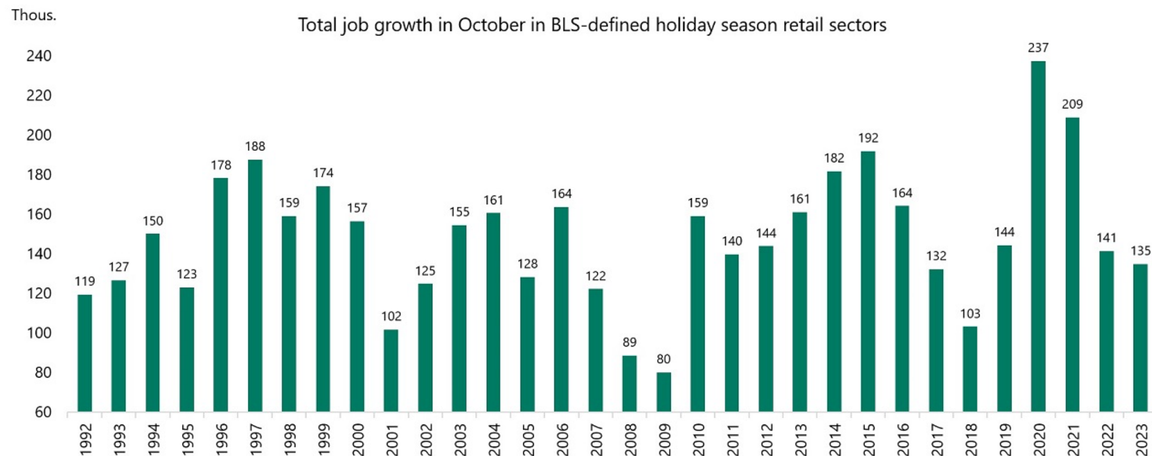
Retailers expect a slowdown in holiday spending (from The Daily Spark)...

Hiring for the holiday season is generally done in October, and adding up new jobs created in the BLS-defined holiday season retail sectors in the latest employment report shows that retailers expect a weaker holiday season, see chart below. This soft outlook is consistent with growing inventories at many retailers. The BLS defines holiday sectors as furniture, electronics, personal care, clothing, sporting goods, general merchandise stores, miscellaneous store retailers (e.g., florists, office-supply stores, gift shops, and pet shops), and non-store retailers (e.g., online shopping and mail-order houses, vending machine operators, and direct store establishments).



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This month's Federal Reserve Senior Loan Officer Opinion Survey ("SLOOS") showed credit continues to tighten significantly (from The Bitcoin Layer)...

Yesterday we had October's release of SLOOS, or the Senior Loan Officer Opinion Survey on Bank Lending Practices, for those of us with acronym aversions. This is one of, if not the most, consequential report about the health of credit markets in the U.S. Trading desks around the world involved in U.S. markets will be poring over SLOOS and positioning themselves according to the data on corporate and consumer lending standards contained within.

Prognosis? Negative.

Banks' loan officers were surveyed on their lending policies over Q3 2023, where respondents answered whether they've tightened, eased, or kept standards unchanged. The too-long-didn't-read gist of the report is as follows:

Banks are in a holding pattern of tightness, at or near-peak credit and loan tightness. Only one domestic respondent surveyed that they'd eased lending standards, with the other 58 banks remaining unchanged in their tightness or exercising further tightening. This tightness will continue to weigh on corporations & consumers – *eventually, the U.S. economy will land on the runway with a smooth descent or a disruptive thud.*

Evidence indicates that this descent has begun as the wind beneath the U.S.' economic wings is now dissipating, thanks in large part to the tight standards that these banks are applying to the businesses and consumers therein.

There was no net easing of loan standards whatsoever across all U.S. banks in Q3. The net percentage of respondents reporting *tighter* standards fell to 33.9% from 51% – not because banks were easing standards, *but because banks were remaining basically unchanged in their tightness, and some 33.9% tightened even further.*

This is how pervasive the tightening impulse was in Q3: across all 56 domestic banks surveyed, just one reported easing standards for C&I (business) loans, and just one reported narrower loan spreads. Anchor-dropping the US economic ship to the ocean floor in perfect unison, are U.S. banks.

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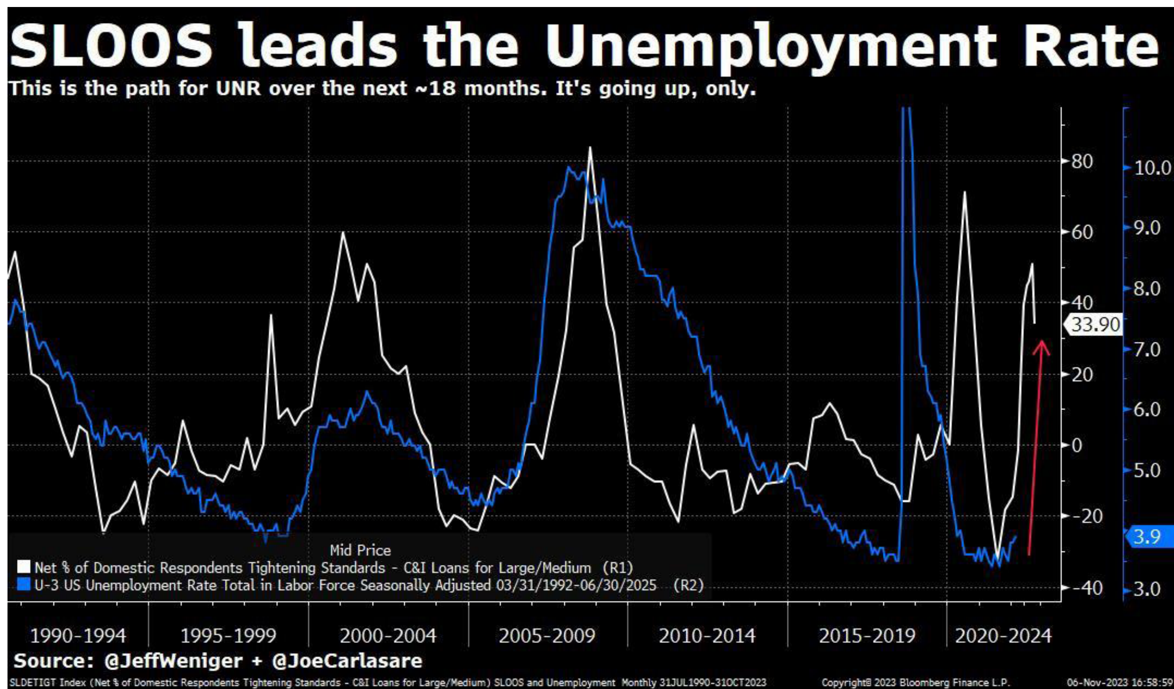
Lending standards are very tight and getting tighter; as time goes on, this cuts off the oxygen to corporates and consumers more and more. Credit is the lifeblood of the U.S. economy – as lending standards tighten, so too does the unemployment rate rise with an ~18-month lag. Coming to a future near you:



This tightness explains Powell's dovishness in last Wednesday's remarks.

Banks' loan standards have been tightening for a few quarters now, but it is now trickling into loan demand.

C&I loans (business loans) have tighter standards and weaker demand this quarter. About 62% of banks remained as tight as they were in Q2, with 35% tightening standards for C&I loans even further. *The direct result of this is a decline in business loan demand—that's exactly what is happening, albeit as some banks lent more to large firms this quarter than last, still a net decline in loan demand:*

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Business loan demand is falling

C&I LOAN DEMAND LARGE FIRMS
C&I LOAN DEMAND SMALL FIRMS

Source: Federal Reserve

On the consumer front, it's pretty much the same picture.

Banks are at or approaching peak tightness and while there are sporadic rises in demand in some sectors, banks still exhibit poor/worsening loan demand on net as a result of their tight/tightening standards. Within this survey, banks reported that they're less likely to approve non-revolving loans for those with low FICO scores than they were at the start of 2023, while credit card standards eased and auto loan standards remained relatively flat:

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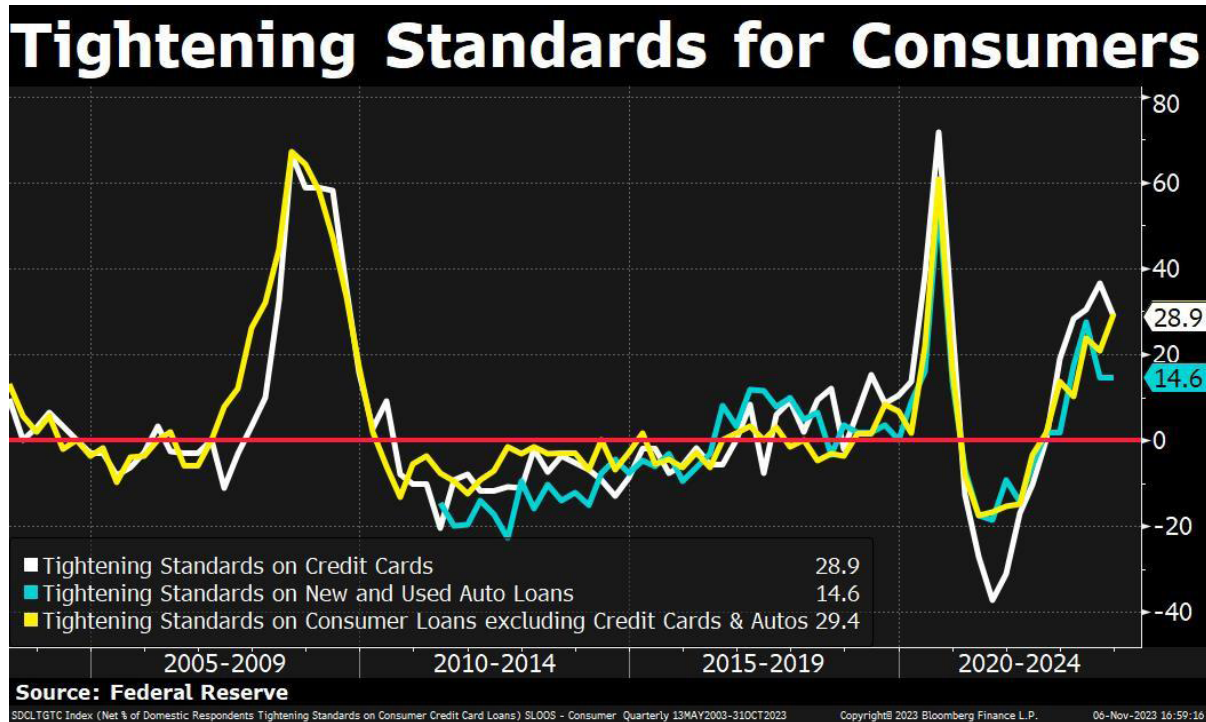

Reasons cited for walking back on larger consumer loans were an uncertain economic outlook, a deterioration in credit quality and collateral value, concerns over funding costs, and reduced risk tolerance amidst the economic uncertainty.

And just as a line of cars forms following a red light, consumer credit and loan demand is drying up as banks tighten their lending standards. Over 61% of banks cited weaker demand for mortgages, rising from 42% last quarter – other types of RRE loan, revolving credit, auto loan, and HELOC demand all fell too.

In a twist of fate from credit reports throughout late summer, excess savings have overtaken new credit card debt as the primary way consumers are spending, *as evidenced by the reduced demand for revolving consumer credit in the Q3 SLOOS data.*

The blow-off top in credit that people don't intend to pay back, which we indicated as the last hoorah for consumers before the brunt of the economic downturn begins, seems to have neared its end. Consumers being less willing to rely on credit to support spending due to rates at 20-year highs, amidst a drought of excess savings, declining wage growth, and layoffs just now picking up, does not bode well for the Q4 growth outlook

Continue reading (subscription may be required).

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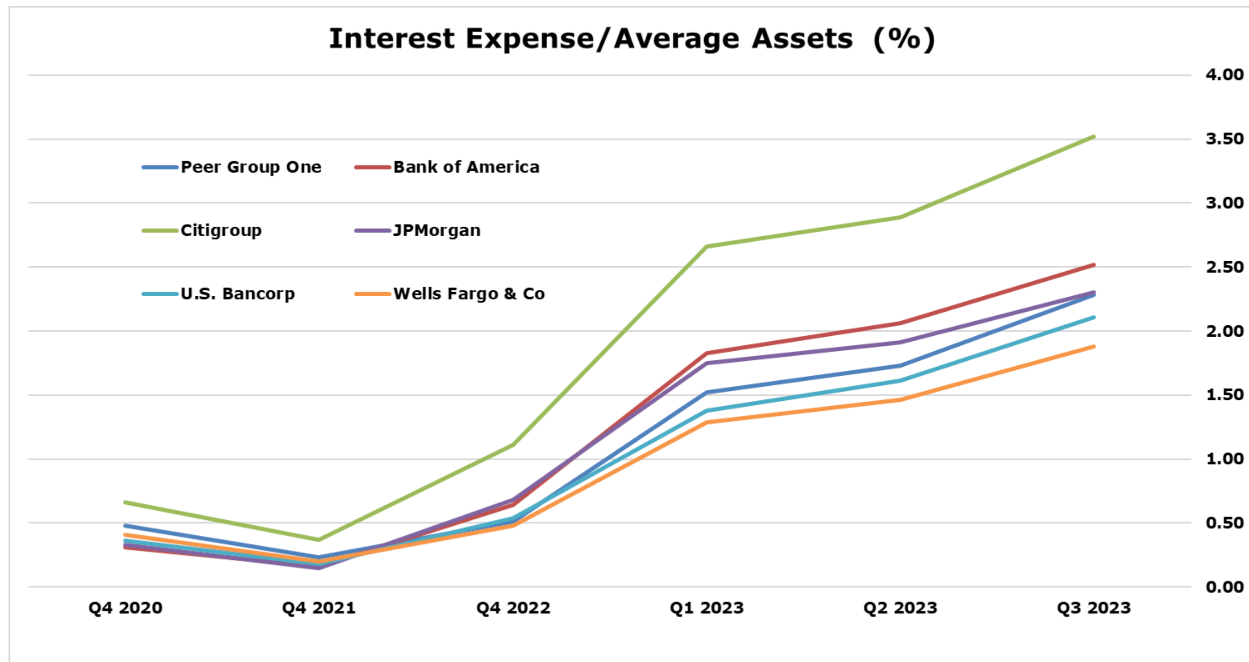
Top bank analyst Chris Whalen confirms our bearish outlook on Bank of America (from Richard Christopher Whalen via X)...

Update: Bank of America | If you conduct a fire sale analysis of BAC's balance sheet as of Q3 2023, the result more than wipes out the bank's tangible equity @FDICgov #FFIEC



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WeWork's November bankruptcy could be the beginning of the "zombie collapse" (from *Business Insider*)...

WeWork's collapse is just the beginning: there's likely a wave of zombie bankruptcies that are about to hit the market, according to Wall Street veteran and investment research firm manager David Trainer.

The New Constructs CEO pointed to the demise of WeWork spanning the past few years, with shares crashing over 99% in value since making their debut on the stock market in 2021.

That led the company to file for bankruptcy this week – a fate will likely be realized for other "zombie companies," Trainer said, referring to firms that are unprofitable, often heavily indebted, and "burn through ridiculous amounts of cash."

"WeWork's bankruptcy is just the beginning and we expect many more zombie companies to claim bankruptcy," Trainer said in a note on Wednesday.

Trainer estimated that there were likely hundreds of so-called zombie firms, many of which went public in 2021, during the stock market's IPO boom.

WeWork was one such company that flashed early warning signs, Trainer suggested. The co-working giant was originally valued at $47 billion in 2019, which made it the "most ridiculous IPO" of the year, Trainer said at the time. Just before going public in 2021, the company's valuation was then slashed to around $10 billion.

His warnings echo that of other Wall Street forecasters, who have warned for a wave of bankruptcies and distressed debt to hit the market as tighter financial conditions and higher interest rates take a toll on over-borrowed zombie firms.

Bond yields, which influence borrowing costs across the economy, have eased since notching a 16-year-high in recent weeks. But investors are still expecting interest rates to stay higher-for-longer, which could spell trouble for heavily borrowed firms.

Bankruptcies and defaults could peak sometime between now and the first quarter of 2024, Charles Schwab estimated. Fitch Ratings forecasted high-yield bond defaults to hit 4.5%-5% by the end of this year, while Bank of America estimated a $46 billion wave of distressed debt coming in 2024 as corporate defaults continue to accelerate.

"WeWork's bankruptcy is just the beginning of the zombie-company collapse," Trainer later added. "Investors need to focus on companies that actually make money and have viable business models. Burning cash is not a business model."

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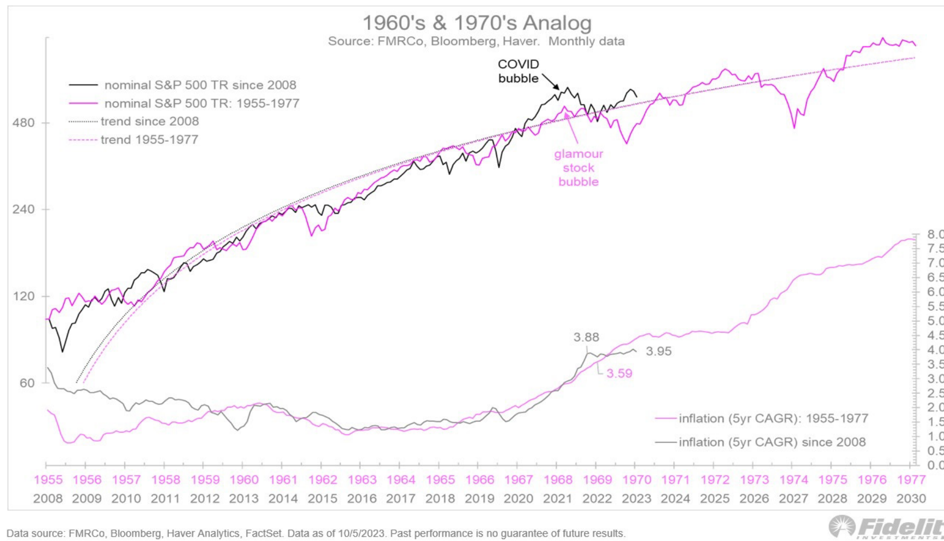
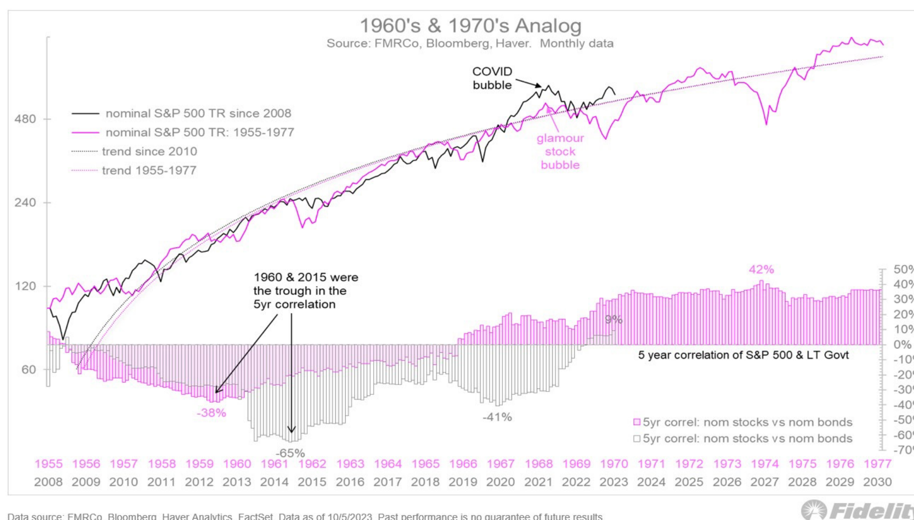
The current market environment looks increasingly like the late 1960s (from Jurrien Timmer via X)...

1960s flashback? The rise in inflation and term premia, plus the change in correlation between stocks and bonds, are reminiscent of the late 1960s. That has implications for stocks.



If we create an analog of the S&P 500 then and now, and line it up based on the acceleration of the five-year inflation rate, we get the chart above. It's more than a passing similarity. As inflation rose after 1966, the slope of the secular advance in equities flattened out.

That secular rise in inflation flipped the stocks-bonds correlation upside down, much like what happened last year.



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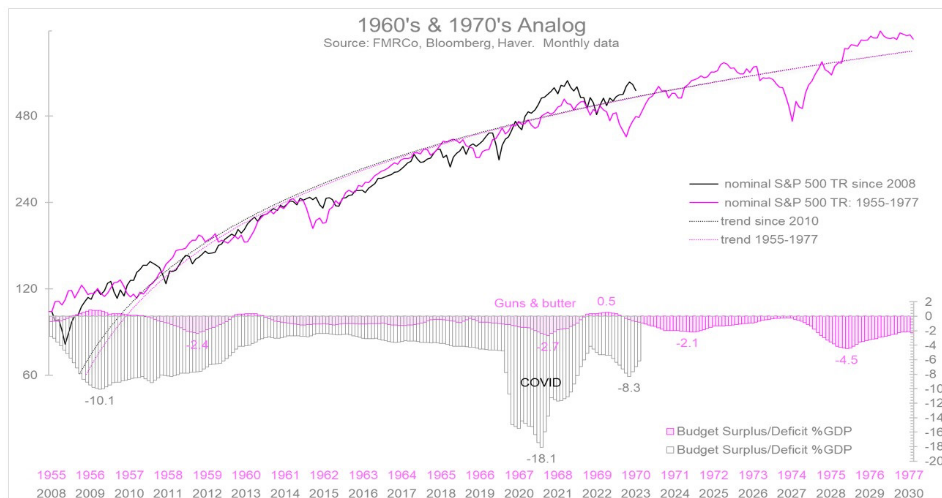
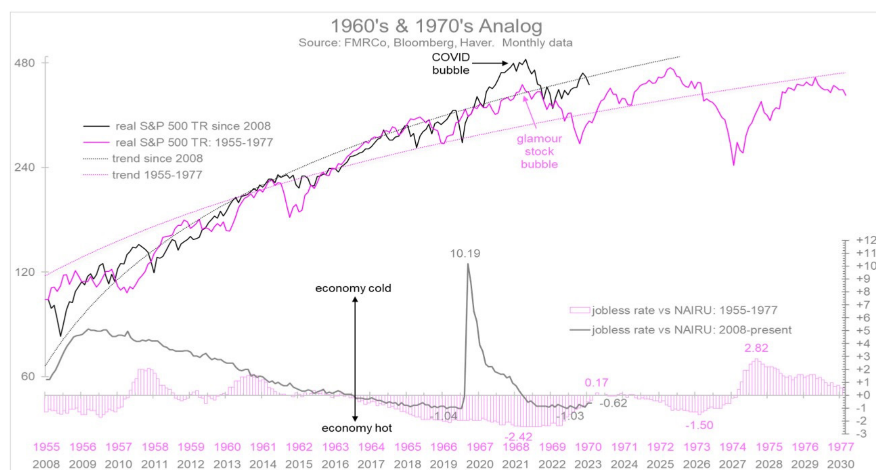
In the late ’60s, we had Guns & Butter – the Vietnam War and the Great Society social programs. This decade, we had the war against COVID and surging social program spending.

Back then, the U.S. was running persistent budget deficits, though much smaller than the ones we have today. Debt/GDP was much lower then, too. Back in 1968, the glamour stock bubble burst; in 2021, it was the meme stock bubble.



Data source: FMRCo, Bloomberg, Haver Analytics, FactSet. Data as of 10/5/2023. Past performance is no guarantee of future results.

Back then the economy was strong, much as it is today. The chart below shows the analog in real terms, which emphasizes the change in slope. In the bottom panel, I show the spread between the jobless rate and the natural rate of unemployment.



Data source: FMRCo, Bloomberg, Haver Analytics, FactSet. Data as of 10/5/2023. Past performance is no guarantee of future results.

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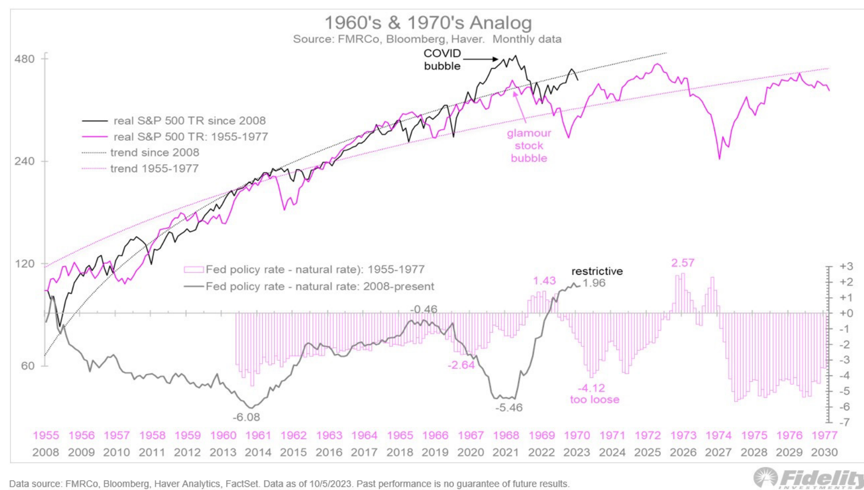
The economy was consistently running beyond capacity (i.e., the spread was negative), which against a backdrop of persistent budget deficits and an accommodative Fed eventually led to structural inflation.

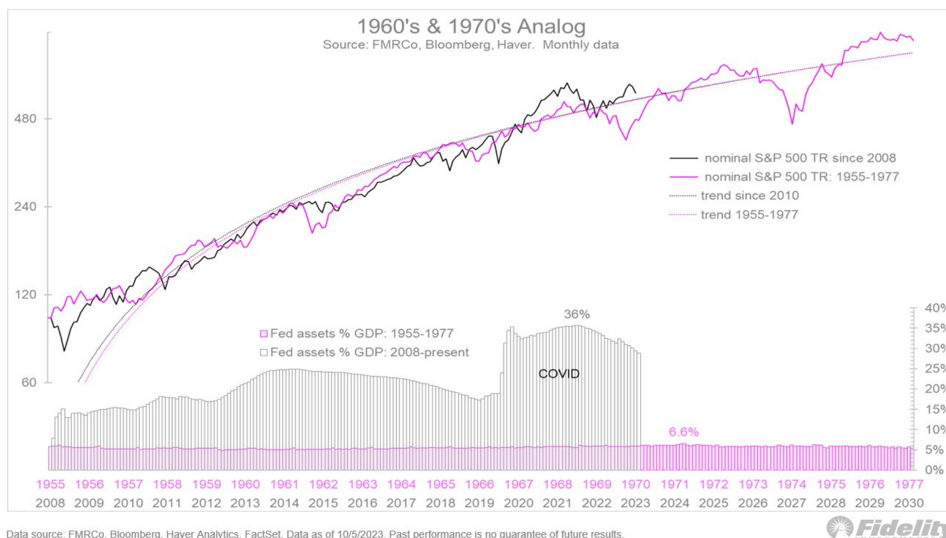
When the economy fell into recession in 1970, the Fed pivoted substantially even as inflation remained a problem. Today's Fed seems to have learned from that mistake by significantly tightening policy and keeping it there.

The chart below shows the spread between the Fed's policy rate and the natural rate of interest (R*), which is a good way of visualizing how accommodative or restrictive the Fed was.



INVESTMENT CHRONICLES

Perhaps that Fed's different tack this time means that our '60s flashback will not last or become a bad trip. On a side note, it's interesting to note that the Fed's balance sheet was not used as a tool during the 1960s-70s.



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The current cycle does indeed have much in common with the '60s, and that gives me pause about a potential regime shift from an era of negative term premia, low inflation, and high multiples.

The question is whether the inflation genie is already out of the bottle, much like it was in the late 1960s.

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This month saw one of the weakest Treasury bond auctions on record (from *Barron's*)...

The Treasury's auction of 30-year bonds on Thursday went about as badly as it could, indicating investors are reluctant to own long-dated government securities.

At the auction of government debt that matures in 30 years, investors were awarded 4.769% in yield, 0.051 percentage point higher than the yield in pre-auction trading. The difference between the two yields – called a tail – indicated a weak auction where the U.S. government had to entice investors with a premium over the market to buy their debt.

Primary dealers, who buy up supply not taken by investors, had to accept 24.7% of the debt on offer, more than double the 12% average for the past year.

"Today's 30 yr auction was outright bad," Peter Boockvar, chief investment officer at Bleakley Financial Group, said in a research note.

The 30-year auction was part of the government's $112 billion debt sale and followed an uneventful 10-year auction on Wednesday.

The 30-year yield ended Thursday at 4.777%, more than 0.12 percentage point higher than at Wednesday's close. The reaction makes sense. When demand is weak, yields typically move higher. It is the inverse when demand is strong.

Stocks didn't like the auction either. The S&P 500 snapped an eight-session winning streak, dropping 0.8% on Thursday while the Dow Jones Industrial Average ended 0.7% lower. The Nasdaq Composite fell 0.9%. All three indexes had wavered between gains and losses before the sale.

Market participants don't usually focus on Treasury auctions, given that the government routinely puts billions of dollars of debt up for sale. But investors started zeroing in late this year as questions surfaced about demand for Treasuries. The national budget deficit grew to $1.7 trillion in fiscal 2023, the 12 months through September, making it about $300 billion more than the year before, according to the Congressional Budget Review, an independent research body.

Year to date through October, Treasury debt issuance was 32% higher than a year earlier, according to the Securities Industry and Financial Markets Association, or Sifma.

If government revenue doesn't rise, higher spending would lead to a further increase in borrowing. Investors are concerned about who will buy the debt.

Continue reading here (subscription may be required).

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Weak demand for Treasury debt suggests YCC could be coming to the U.S., too (from *The Financial Times*)...

When investors are happily pricing in an interest-rate cut by June, it can feel churlish to offer gloomy alternatives. But quiet moments in terms of market action are good ones for thinking outside the everyday. So here's something to chew over: what if adopting yield-curve control becomes a live U.S. debate next year?

Last month, Bank of America's Michael Hartnett mentioned the possibility in passing at the annual gathering hosted by Grant's Interest Rate Observer, home of the bow-tied bear himself, Jim Grant.

It wasn't Hartnett's first mention and it didn't raise many eyebrows in the room. Still, it jarred, to me, with the idea of yield-curve control as part of the economic jump-start toolkit as used by Japan and, even more recently, Australia. That's also the context in which it popped up in U.S. chatter in 2020-21 when the economy was reeling from pandemic lockdowns.

Dust off your textbooks though, because Hartnett is thinking of it in terms of capping government borrowing costs as it was used by the U.S. during the second world war and its aftermath, when the Federal Reserve bought up bonds as needed to keep yields steady.

"The reason YCC can become part of the debate is that investors rather than voters are likely to force fiscal discipline on the U.S. government," he said late last week, even as bond yields fell and rate cuts were quickly priced in.

He's not alone. Société Générale's Albert Edwards, another with a bearish bent, has talked about it too:

> "There's no appetite to get budget deficits under control. If you're trying to do QT [quantitative tightening] in times with extremely loose fiscal policy then yields will rise," he said. "Bond vigilantes have recently woken from their slumber but they can be chloroformed back to sleep, if needed, with YCC."

To get there, we'd need a bond market that worried persistently more about the fiscal over the macro outlook. That would be a big shift. Last month, worries about government finances helped push yields higher only for them to ease again with the first whiff of an economic slowdown and accompanying rate cut hopes.

"The greatest credit event of all would be a recession in which U.S. yields went up, not down," warns Hartnett.

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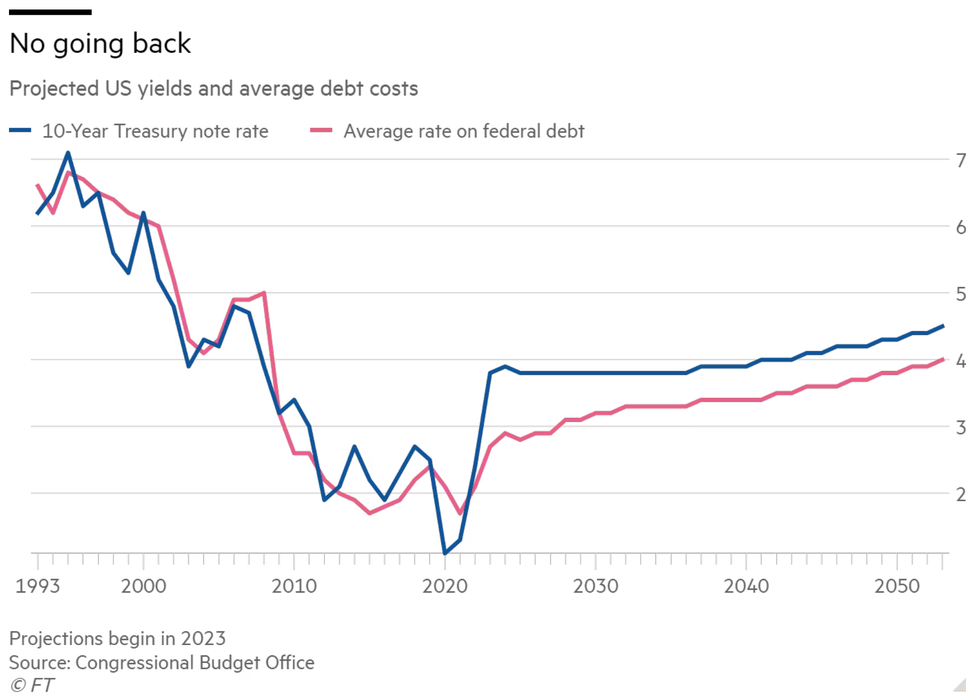
Yikes. So how might we get there? The UK's 2022 gilt-market meltdown is one recent example of what can happen.

Even without the shock of an unfunded spending rise in a weakening economy, higher-for-longer rates could also grind away at the market mood. Bloomberg this week estimated that the U.S. Treasury's annualised interest bill has just passed $1tn.

Granted that's only a big round number, but it is a very big one, even for the U.S. and it has doubled since early 2022. Unless rates return to zero and spending is frozen, those added costs will not entirely subside as formerly cheap borrowing gets refinanced at higher rates, adding to the overall interest cost. Official projections from the Congressional Budget Office, which some argue are too optimistic, look worrying:



Back to Hartnett for how yield-curve control might actually come about:

> "You get to a point where the world just says, 'sorry, we're not doing this anymore,' and you lose the people that are financing the deficit. Then the Fed is going to be forced to come in and buy Treasuries. You could argue, well, they could stop QT first. They could cut rates or they could reintroduce QE. But in extremis, [you could] get a situation where you've got a disorderly rise in bond yields and a disorderly decline in the dollar because the creditworthiness and the credibility of the U.S. government is called into question. Then they'll do what the Japanese did, and institute yield curve control and that's just basically saying, 'we're going to defend this level, we're not going to let interest rates go above it'. And that would obviously be a very powerful thing."

Continue reading here (subscription may be required).

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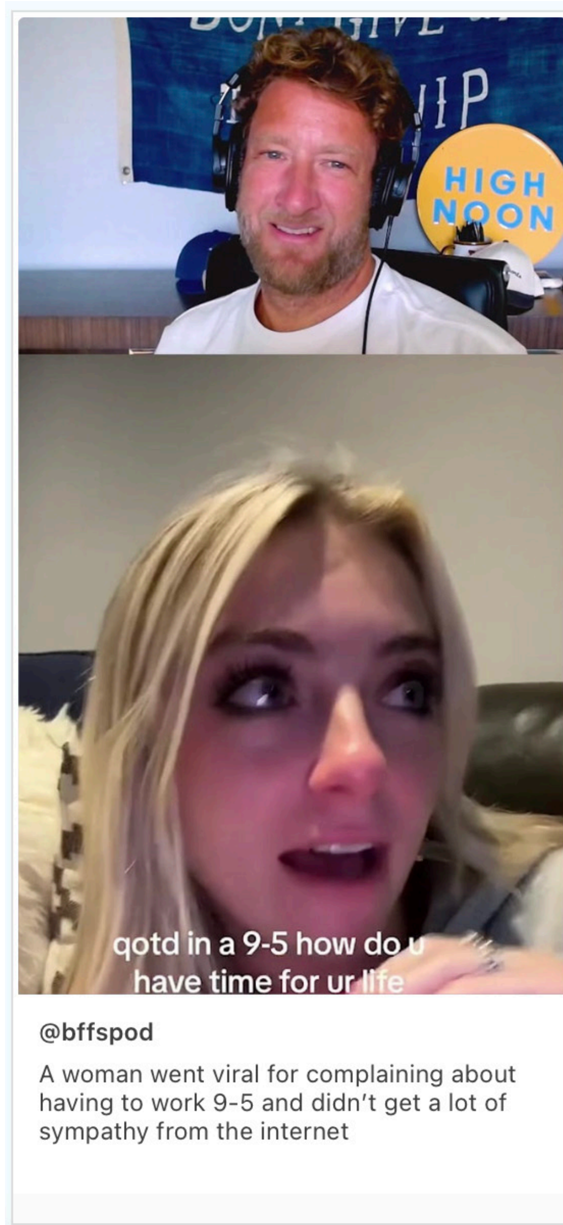
IBM's new retirement plan could have dramatic implications for equities (from Yes, I give a FIG… thoughts on markets from Michael Green)…

As I watch my (increasingly) adult children navigate this world, I question the "obvious" choices available to my generation and wonder if there isn't a better world available to them. The recent viral TikTok of "9-5er girl" has been polarizing. A sizable fraction of my Gen X peers have taken the perspective that, "Hey, that's life cupcake…"



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It doesn't have to be. The resources are increasingly there to consider the same type of fundamental rethink of society that occurred in the late 19th century as governments and businesses attempted to persuade individuals to give up the food security of the farm for the permanent *insecurity* of urban employment. As the demand for employees in urban factory environments (or ex-urban mining) exploded, the competition for workers, particularly skilled/literate workers who could manage the increasingly large teams, exploded. This originated the social insurance schemes we take for granted (or bemoan). And this week, we saw a potentially momentous change in the direction of these plans:

RETIREMENT

Has IBM Built the Next Generation's 401(k) Plan?

The company takes a hybrid approach to retirement benefits.

John Rekenthaler • Nov 9, 2023

It's worth briefly reviewing the history of retirement schemes in order to put this in context. The first corporate pension plans emerged in the United States in the late 19th and early 20th centuries. One of the earliest recorded corporate pension plans was established by the American Express Company in 1875. This was a significant development in the history of retirement benefits, as it marked the beginning of companies providing structured retirement benefits to their employees, a practice that would evolve and expand considerably over the following decades. The concept of corporate pension plans grew in popularity, particularly in the early 20th century, as more companies began to recognize the value of providing retirement security to their workers.

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The American Express Company's first corporate pension plan, among the oldest in American history, established in 1875, had several notable characteristics:

1. **Eligibility:** It was available to employees who were 60 years or older and had been with the company for at least 20 years.
2. **Pension Amount:** The plan provided for a pension that was half of the employee's average salary during the last 10 years of employment, but not exceeding a maximum of $500 per year.
3. **Disability Provision:** The plan also included a provision for employees who were unable to work due to a disability, regardless of their age or length of service.
4. **Funding:** The pension was funded entirely by the company, without any contributions required from the employees.

This plan was groundbreaking at the time and laid the path for future corporate pension plans. It reflected a growing recognition of the importance of providing financial security for employees in their retirement years. It also wasn’t that meaningfully different from the Roman Republic's retirement schemes.

Upon completing their service, which typically lasted 20 to 25 years, legionaries were awarded a retirement package that could include a pension in the form of a lump sum of money (known as the "aerarium militare") and/or a grant of land. This land was often in conquered territories, both rewarding the soldiers and promoting Romanization and security in these regions. This system provided security for retired soldiers and acted as an incentive for recruitment into the Roman military. The promise of a tangible reward upon completion of service was a significant motivator for many men to join and remain loyal to the Roman legions.

When American Express established its pension plan, it was among the elite institutions with more opportunities than employees. Attracting and retaining employees provided a competitive advantage for the fledgling titan. Historically, the introduction of new employee benefits has been the purview of these types of institutions; companies who are struggling rarely seek strategies to attract more employees. Think gourmet cafeterias and metal slides...

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Big giant slide for workers to have fun with at YouTube HQ in San Bruno

Technology companies have always been at the vanguard of corporate pension strategies — from Amex in 1875 to IBM in 1982. In 1982, IBM was among the first major employers to embrace the new innovation of 401Ks. 401Ks were the unintended consequence of a little-noticed executive compensation perk of the 1978 tax reform, Section 401k:

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§ 401. Qualified pension, profit-sharing, and stock bonus plans

(a) Requirements for qualification

A trust created or organized in the United States and forming part of a stock bonus, pension, or profit-sharing plan of an employer for the exclusive benefit of his employees or their beneficiaries shall constitute a qualified trust under this section—

(1) if contributions are made to the trust by such employer, or employees, or both, or by another employer who is entitled to deduct his contributions under section 404(a)(3)(B) (relating to deduction for contributions to profit-sharing and stock bonus plans), or by a charitable remainder trust pursuant to a qualified gratuitous transfer (as defined in section 664(g)(1)), for the purpose of distributing to such employees or their beneficiaries the corpus and income of the fund accumulated by the trust in accordance with such plan;

(2) if under the trust instrument it is impossible, at any time prior to the satisfaction of all liabilities with respect to employees and their beneficiaries under the trust, for any part of the corpus or income to be (within the taxable year or thereafter) used for, or diverted to, purposes other than for the exclusive benefit of his employees or their beneficiaries (but this paragraph shall not be construed, in the case of a multiemployer plan, to prohibit the return of a contribution within 6 months after the plan administrator determines that the contribution was made by a mistake of fact or law (other than a mistake relating to whether the plan is described in section 401(a) or the trust which is part of such plan is exempt from taxation under section 501(a), or the return of any withdrawal liability payment determined to be an overpayment within 6 months of such determination).;[1]

(3) if the plan of which such trust is a part satisfies the requirements of section 410 (relating to minimum participation standards); and

(4) if the contributions or benefits provided under the plan do not discriminate in favor of highly compensated employees (within the meaning of section 414(q)). For purposes of this paragraph, there shall be excluded from consideration employees described in section 410(b)(3)(A) and (C).

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These plans became effective on January 1, 1980. Unfortunately, Paul Volcker was in session, but that didn't stop equity markets from rallying in the first month of 1980 (the classic "January Effect") and once Volcker cut rates, equities exploded higher by 40% only to see them undone with Tall Paul's second reach for the sky.

As noted, this was originally a perk for executives. However a far-seeing benefits consultant, Ted Benna, identified that these plans could replace traditional defined benefit plans. The rest was history. From a standing start, 401Ks grew to roughly $100MM in assets by August 1982. By 2021, they stood at $7.9T. Alongside IRAs (created in 1972 to facilitate defined benefit plan rollovers), they are likely the single most successful pension scheme in history.

Unsurprisingly, companies embraced the idea of a defined contribution with no liability to ensure retirement OUTCOMES. As I have stated before, "Albert Einstein was wrong. Compound interest is not the most powerful force in the universe… liability avoidance is." Today, Defined Benefit plans, particularly the historically common "percent of salary at retirement with COLA" is basically dead. Of the $3.7T in private sector defined benefit plans, approximately $1.3T is in "cash balance plans" which guarantee a modest return on a cash contribution, but offer no guarantee of outcomes relative to income. So apples:apples, Ted Benna's creation has grown to over 3x the size of its predecessor.

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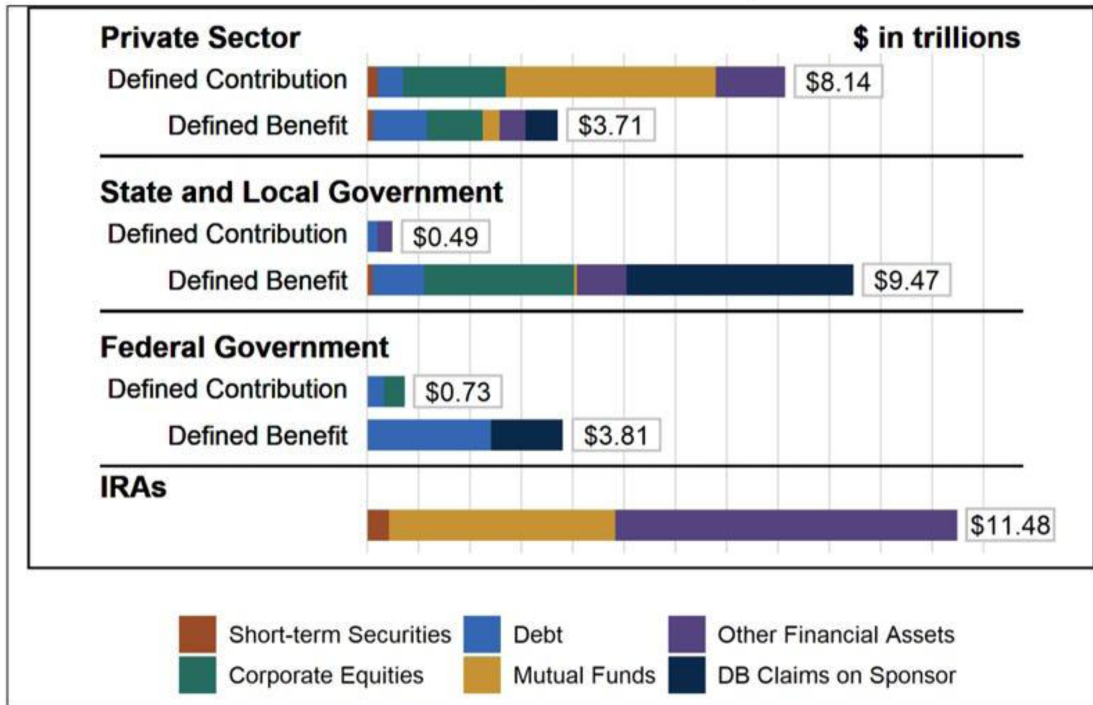
Figure 1. Total Holdings and Components of Financial Assets in U.S. Pension Plans and Individual Retirement Accounts (IRAs)

In Trillions of Dollars, as of December 31, 2022



Source: Figure constructed by CRS from Board of Governors of the Federal Reserve System, *Financial Accounts of the United States*, https://www.federalreserve.gov/apps/fof/FOFTables.aspx. See tables L.118.b, L.118.c, L.119.b, L.119.c, L.120.b, L.120.c, and L.229.

Notes: IRAs include employer-sponsored IRAs and state-administered IRA programs. Mutual funds invest in a variety of assets, including corporate equities and debt. As a result, the total amount of corporate equities and debt held by pension plans likely exceeds the values presented in the Corporate Equities and Debt categories in the figure.

Yeah?

When we see a major corporation change its stripes, it's big news. In a move reminiscent of their early adoption and promotion of 401(k)s in 1984, IBM is making a significant shift in its pension scheme by switching to a guaranteed return tied to the level of the 10yr U.S. treasury bond.

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The organization currently matches the first 5% of salary that employees contribute to their 401(k) accounts, dollar for dollar. Effective New Year's Day, that perk will disappear, replaced by a "Retirement Benefit Account."

The RBA, to abbreviate the term, will receive the 5% of employee salaries that were removed from the 401(k) match program. Those moneys will instead be diverted, regardless of the employee's 401(k) contribution rate, to the RBA. Once inside that account, they will earn a fixed interest rate, which IBM has set for the next three years at 6%. — Morningstar

Much of the discussion of this change has focused on the potential impact to employee incentives. Financial advisors and employees worry that without the incentive of a 401(k) match, employees may save less for retirement. Additionally, the RBA model shifts more risk onto employees and offers less flexibility in investment choices. The guaranteed return rate from IBM is also lower than the historical average inflation-adjusted return of the stock market, which ranges from 6.5% to 7%.

There is also uncertainty about how the RBA will be funded, raising concerns about the security of these retirement benefits. We simply do not have the details to assess this fear, but it's worth noting that a 401K places assets beyond the reach of the employer while a DB plan, even a cash-balance plan, is a liability of the company. The specific form of the assets in the plan are subject to ERISA requirements, but it's not without notice that IBM is currently paying over 6% for some of its debt, while the U.S. government bond is 4.65%. Kinda nice to "borrow" from employees at reduced rates. And I'd further suggest that the reduced benefits perhaps offer us some insight into the state of the labor market. Despite sub-4% unemployment, IBM clearly feels somewhat comfortable telling TikTok girl to "suck it."

However, as readers of YIGAF know, I'm not simply interested in the employment dynamics, but also believe this offers a critical opportunity to examine the implications for asset markets under the lens of the Inelastic Markets Hypothesis by Gabaix and Koijen.

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Inelastic Markets Hypothesis Perspective

The Inelastic Markets Hypothesis posits that markets respond in a highly sensitive, often disproportionate manner to fund flows. This lens is particularly revealing when considering IBM's pension changes. As corporations like IBM shift their pension strategies, they inadvertently channel large flows of funds into different asset classes. As I've highlighted in the past, 401K plans are far more equity-centric than traditional defined benefit plans. Under a G&K model, this should have raised equity valuations.

Implications for Asset Markets from 401Ks

1. **Disproportionate Price Movements**: An influx of funds into equities, could inflate stock prices beyond what fundamental analyses would justify using historical metrics. (Verdict=True)
2. **Investor Behavior and Feedback Loops**: These changes also influence investor behavior. As employees reallocate their retirement savings, it may lead to a feedback loop, with price movements in the market further influencing investment decisions. (Verdict=Buy The DIP!)

And now IBM may very well be leading the corporate pension world back in the opposite direction. This is really important in my view, as IBM's 6% match on 401Ks for its 288K employees would represent something like $2.2B of 401K inflows. Assuming a Target Date Fund-type allocation of 75% equity, that's $1.5B a year of inflows (288,000 x $156K median salary x 6% x 75% = $1.5B). With 401Ks dealing with retiring Baby Boomers creating outflows, any reduction in inflows raises the risks that we flip negative. Remember, despite combined bond and equity markets nearly 6% higher in 2023 than 2020, 401Ks have made very little NET headway over the last several years suggesting roughly balanced flows:

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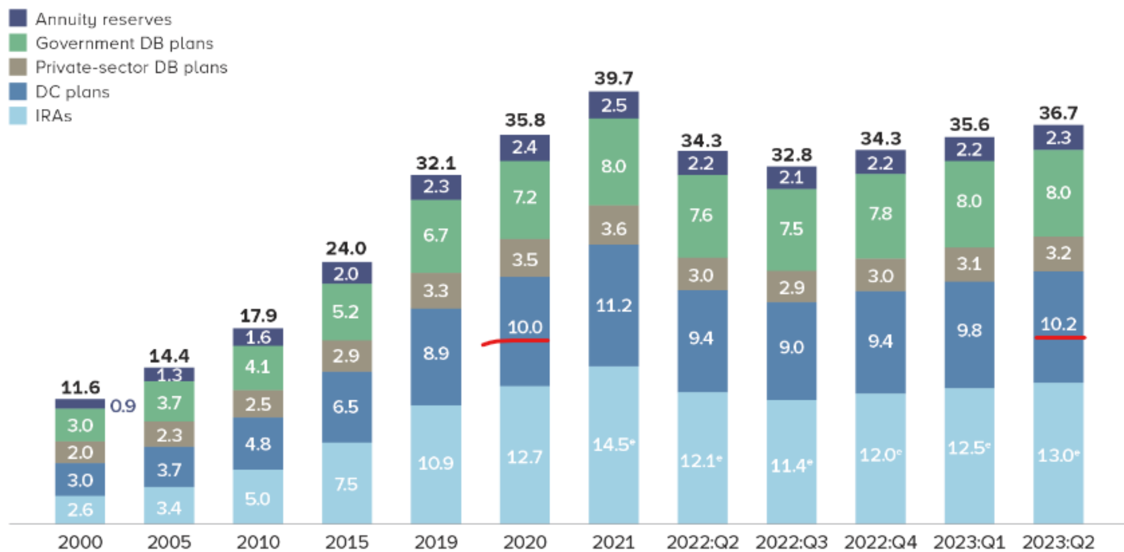
US Total Retirement Market Assets

Trillions of dollars, end-of-period, selected periods



[e] Data are estimated.

Note: For definitions of plan categories, see Table 1 in "The US Retirement Market, Second Quarter 2023." Components may not add to the total because of rounding

Sources: Investment Company Institute, Federal Reserve Board, Department of Labor, National Association of Government Defined Contribution Administrators, American Council of Life Insurers, and Internal Revenue Service Statistics of Income Division

So when IBM announces that it will be ending contributions to 401K plans and switching to a fixed-income variant, I can't help but wonder if the shift from equities has begun. Whether it's because weakening labor markets offer the opportunity to reduce benefits or because there are financing benefits to IBM *or* it's simply IBM looking out for the interests of its employees (low odds on this one), is irrelevant. The flow is the show. Stay tuned.

Continue reading here (subscription may be required).

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These recession "rules" are close to being triggered (from CNBC's The Exchange)...

It's interesting to watch how we've moved from the "debating the yield-curve inversion" phase to the "debating the labor-market slowdown" phase of this dwindling business cycle. The fact that we are even following this progression suggests to me the conditions are still in place for the long-expected downturn.

The talk of the town lately has been whether we have officially triggered the "Sahm rule" or not that marks the actual onset of a recession.

The rule says that **when the unemployment rate rises half a point from the cycle lows, we are in a recession.** And it was actually developed by former Fed economist Claudia Sahm in part as a policy proposal, to trigger the disbursement of stimulus checks that would help stop the recession in its early tracks, as opposed to sending checks after the fact, as is more common but much costlier to society.

As of October, the unemployment rate has officially risen from a low of 3.4% in April to 3.9%. Hence all of the recent discussion. But Sahm herself cautions that it's supposed to be a three-month moving average, so we haven't *technically* triggered it yet. More intriguingly, she also thinks we could "break" the Sahm rule this time and not go into recession at all, which we discussed when she joined The Exchange on Friday.

But as I told her, the reason I like the Sahm rule is that it speaks to a tendency we often experience, which is that the first half-point rise in the unemployment rate rarely "feels" like a big deal, and is typically dismissed. The whole point of her rule is that we should take these moves seriously, and prepare for the worst rather than hoping for the best.

And her rule isn't the only one that's currently flashing a warning sign. Michael Kantrowitz of Piper Sandler has a "10% rule," which is that **when the total number of unemployed people rises by 10%, we've always had a recession.** As of October, we're at 7.7%. Michael Darda at Roth MKM has a similar rule for continuing jobless claims. Anytime they've risen 10% from year-earlier levels, we've been in or about to be in a recession. And currently, **we're up a whopping *30%*.**

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All of which is to say, that while "the inverted yield curve presents the *conditions* for a recession, the employment rules are the *evidence* of one," as Kantrowitz puts it. It's not a great sign that we're close to (or already have been) triggering these indicators. And as Darda warns, we've also seen stock market rallies of more than 20% after yield curve inversions before (in 1989-90 and 2006-07), **but all of them have been more than reversed when the ensuing downturns arrive.**

Another not-so-great sign? California, which is both the largest state by GDP and often a leading indicator, is already in recession, if the Sahm rule holds. Its unemployment rate peaked at 3.8% more than a year ago, and had risen to 4.7% in September, as Chris Rupkey of FWDBonds points out. The October figures are due out Friday.

So yes, it's tempting to dismiss all the jeremiads about recession and be consoled that the labor market for now is "still pretty strong." But in order for it to *stay* strong from here, we'd have to be in the first cycle ever that breaks all of the aforementioned rules. As Sahm herself put it last week, **"when the unemployment rate starts rising, it usually keeps going."**

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This is why "de-dollarization" hasn't happened yet (from Alf via X)...

We have heard about the upcoming de-dollarization for decades now.

But it never really happens.

To understand why and what are the real hurdles to clear for a true de-dollarization of our monetary system...

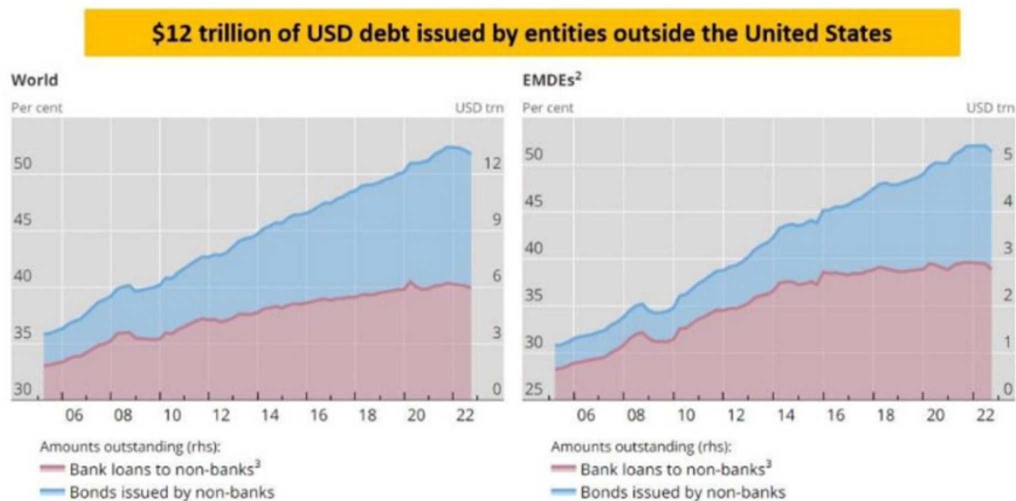
...we need to understand how the USD system works first.

In a globalized economic system you want to trade with as many partners as possible in a seamless way.

When Brazil exports its commodities to China or Japan and the trade happens in USD, Brazil accumulates U.S. Dollars.

In other words, today the USD is the Global (Reserve) Currency of choice: over 80% of global FX transactions and 50%+ of global trades and payments happen in US Dollar.

More importantly, in the last 30 years competitors could not alter this massive USD dominance: why?



Well, it's because being the U.S. Dollar seems fun and an "exorbitant privilege" from the outside.

But fulfilling the role of Global Reserve Currency ain't easy.

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Let's start from the asset side.

When Brazil exports commodities in USD more than spends USD to import stuff from the outside, the country accumulates USD foreign exchange reserves.

These USDs enter the domestic banking system, and ultimately the local Central Bank is responsible...

...for managing this FX reserve buffer – that means keeping these U.S. Dollars safe and liquid.

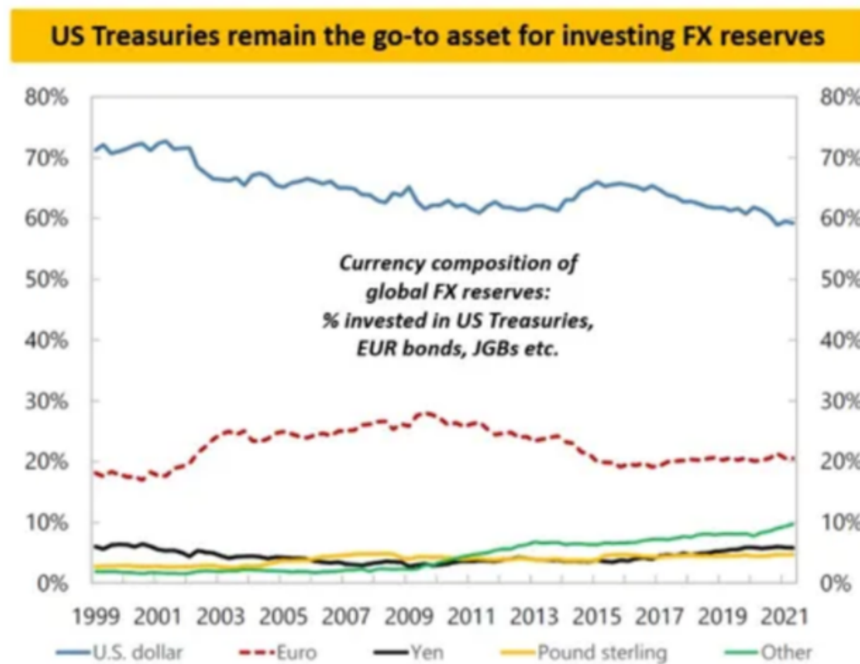
In our monetary system, keeping money "safe and liquid" means avoiding credit risk and investing in deep and liquid markets that guarantee a painless turnover if necessary.

The U.S. Treasury market stands out as the global leader in this field: as big as 20+ trillion in size, liquid and underpinned by a deep repo ecosystem it ticks all boxes.

No capital controls, democratic roots and the rule of law reinforce the case.

Most importantly, an ample supply of U.S. Treasuries (read: deficits) provide to the rest of the world what they need: a safe and liquid asset where to recycle the USD proceeds from their global trades.

As global trades increase, the world needs more Treasuries.



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What's the potential alternative to the USD and USTs?

Japan?

Its government bond market is 60%+ absorbed by the BoJ, and there have been multiple days in a row (!) where no trade happened in the JGBs – how can you store your FX reserves in such an illiquid market?

Europe?

With such a fragile monetary but non-fiscal union, and the only AAA countries potentially able to provide the world with safe collateral (German Bunds) instead sticking to austerity for decades?

China? Brazil? Russia?

You are facing a combination of capital controls (China), lack of democracy/rule of law (Russia), corruption and frequent episodes of double-digit inflation (Brazil)...

...do you want to take these risks when storing your hard-earned FX reserves accumulated from selling your goods and services abroad?

The truth is that U.S. Treasuries don't have a valid competitor as a global vehicle where to invest FX reserves.

Being the USD is not easy: you must provide an ever growing and liquid asset where foreign currency can recycle their FX reserves!

And this is also true for the other side of the coin: debt.

Foreign countries will want to borrow in your currency, too.

USD-denominated foreign debt is huge, and it makes an orderly de-dollarization not more than a fairytale

Entities outside the U.S. have accumulated $12 trn of USD debt: this is because to finance global businesses that sell stuff in USD... well, you need USD debt

I can't stress how important it is to understand this concept: if you want to break this system and "de-dollarize," you need to deleverage a $12 trillion debt system.

Let's say Brazil wants to walk away from the USD global system tomorrow.

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Brazil walking away from USD-denominated trades would hamper its organic inflows of USD, and Brazilian corporates would be choked under USD scarcity as they need to repay and refinance their USD debt.

If they don't sell stuff in USD, where are they getting their USD from?

You see, when you de-leverage a debt-based system you are either bidding up the debt denominator (the USD) or you are witnessing tectonic geopolitical events (e.g. wars) where the world order is at stake.

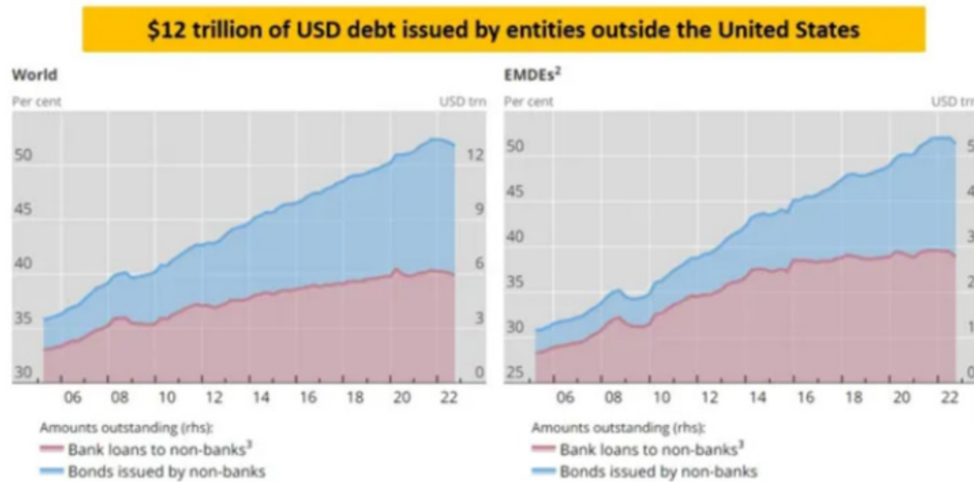
In the case above, either Brazilian corporates would be forced to bid for cash USD to try and keep up with servicing their dollar debt or they would have to default on it hence losing any credibility and access to international credit markets!

An orderly unwind of the U.S. Dollar is a fairytale.

A true de-dollarization of our system can and will happen over time, but it won't be orderly.

It will come with tectonic geopolitical events and the transition to another system will be very painful.

This is why you keep hearing about it, but it never happens.



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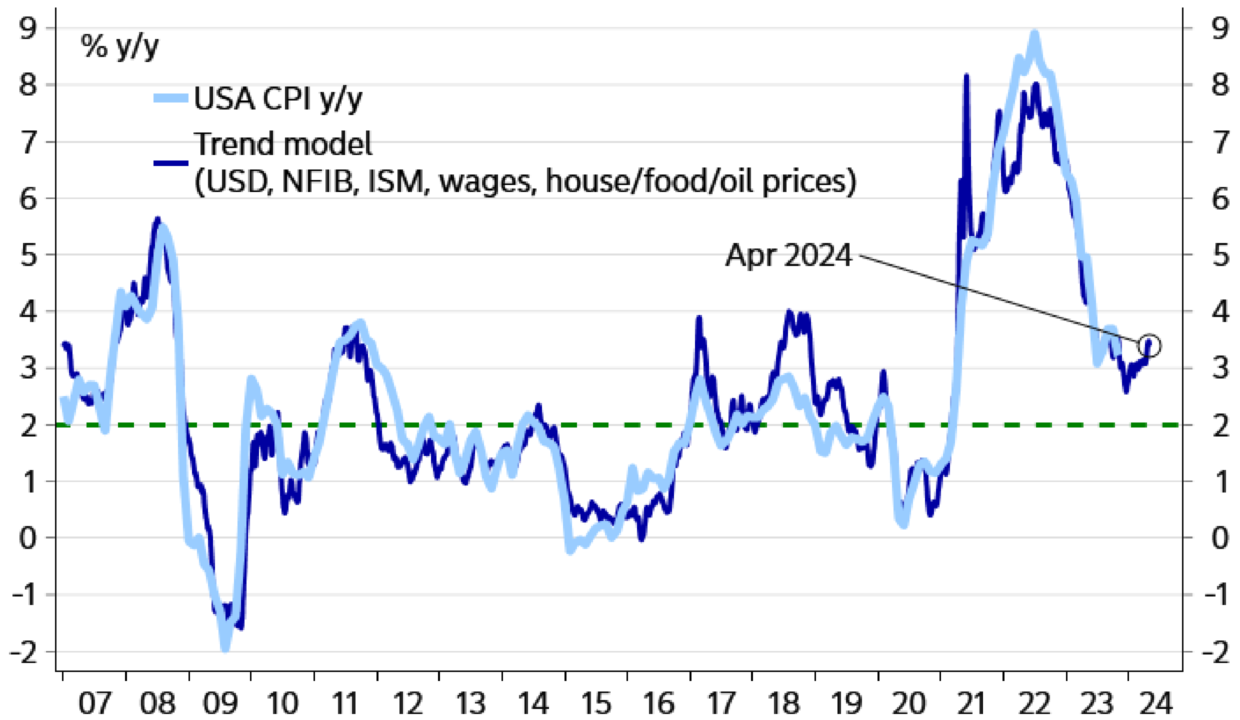
While the Consumer Price Index ("CPI") continues to fall, leading inflation indicators are moving higher again (from Mikael Sarwe via X)...

The market sees the CPI report as benign. Still, I would say that leading inflation indicators are moving slightly in the wrong direction. My CPI model has CPI close to 3.5% y/y in Q2 2024. Too high for the Fed. It's been fairly correct so far...



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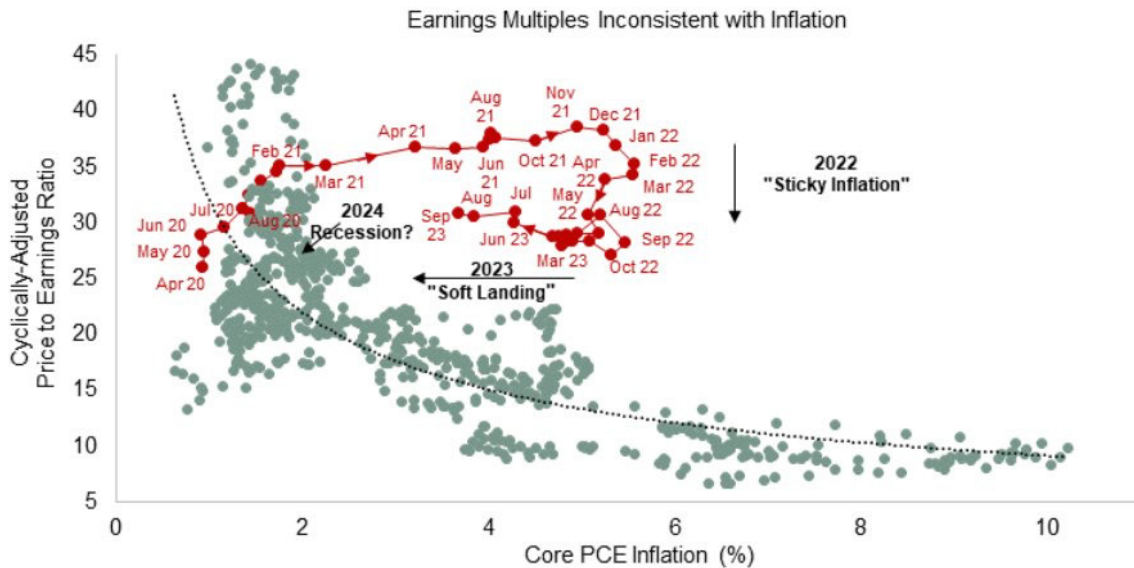
If inflation does prove to be sticky, stock valuation multiples are likely to come down significantly (from Jesse Felder via X)...

"Over time, there's been a relationship, with higher inflation leading to lower multiples (to compensate for the way that inflation would eat into equity returns). Stock investors had better hope that this disinflation is immaculate."



Sources: S&P, BEA, Haver, SMBC Nikko

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The clock is ticking on the Fed's reverse repo market (from Dr. Jeff Ross via X)...

What I'm watching...

The **overnight reverse repurchase ("repo") market** casually dips back below $1T... to $988B today.

This is down from a high of $2.55T at the beginning of 2023.

Why does this matter?

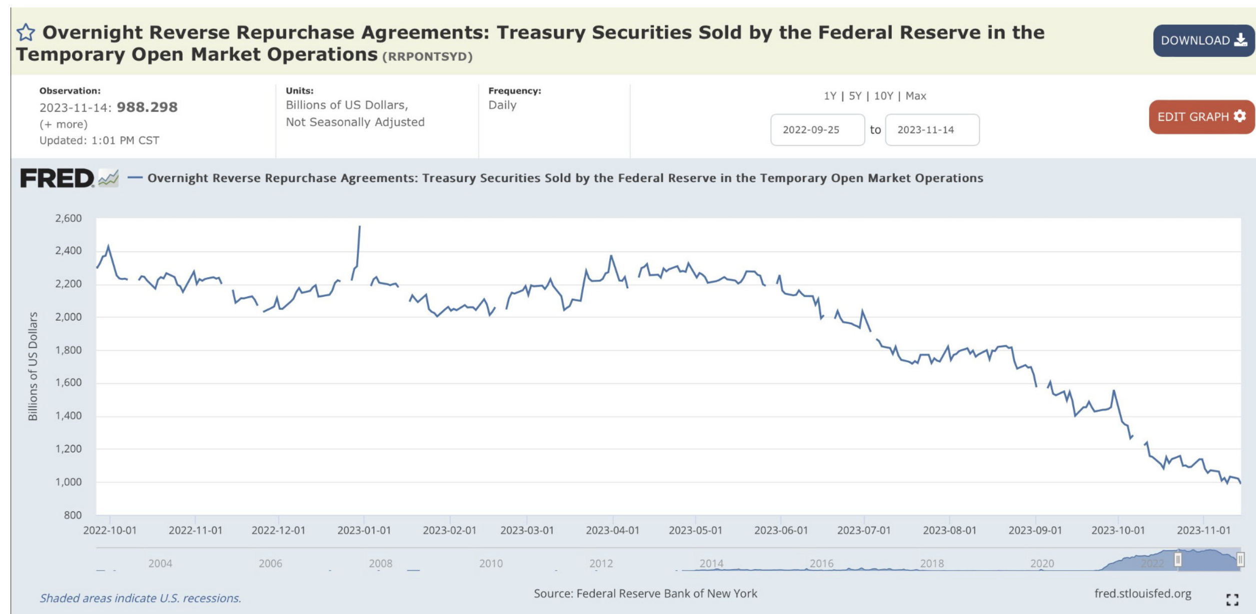
As this large pocket of "Fed liquidity" approaches zero, and assuming that the U.S. government **does not** suddenly assume flagrant austerity measures (it won't), then Treasury market volatility will likely soar... and the Fed may be forced to step in as the *bond buyer of last resort*.

This may have worldwide implications and send shockwaves throughout the monetary and financial systems.

Buckle up for that.

But in the meantime, enjoy the ride.

Cheers.



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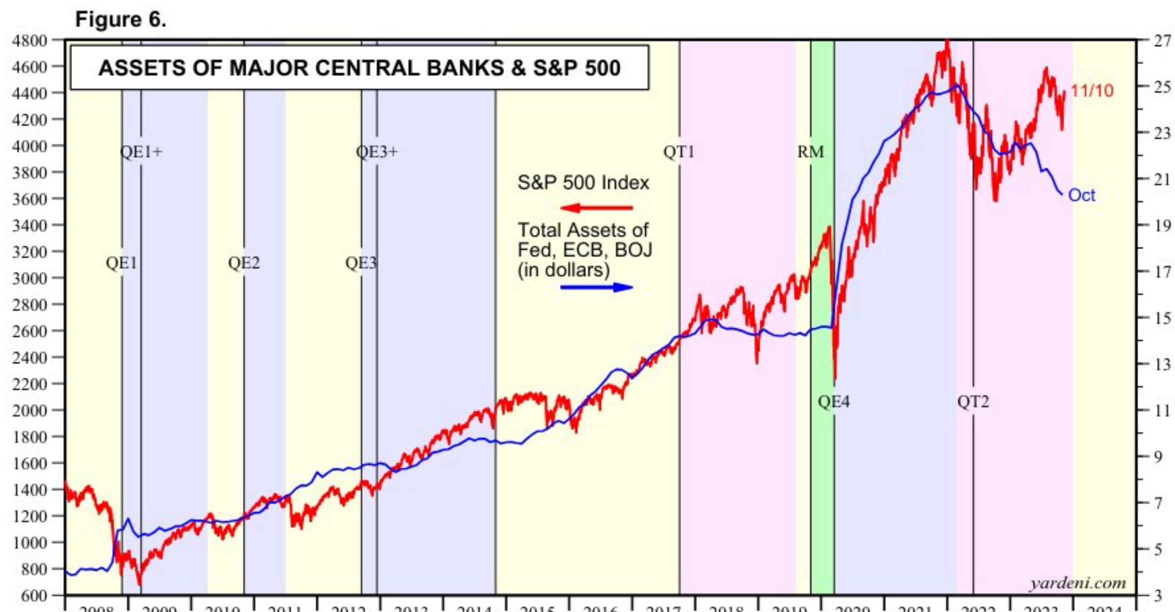
Central-bank liquidity and the S&P 500 are diverging significantly (from Markets & Mayhem via X)...

Will it matter?



* Averages of daily figures for weeks ending Wednesday. Securities held by Fed include US Treasuries, Agency debt, and mortgage-backed securities. Note: QE1 (11/25/08-3/31/10) = $1.24tn in mortgage securities; expanded (3/16/09-3/31/10) = $300bn in Treasuries. QE2 (11/3/10-6/30/11) = $600bn in Treasuries. QE3 (9/13/12-10/29/14) = $40bn/month in mortgage securities (open ended); expanded (12/12/12-10/1/14) = $45bn/month in Treasuries. QT1 (10/1/17-7/31/19) = balance sheet pared by $675bn. RM (11/1/19-3/15/20) = reserve management, $60bn/month in Treasury bills. QE4 (3/16/20-infinity). QT2 = balance sheet pared by $95 billion per month. Source: Federal Reserve Board.

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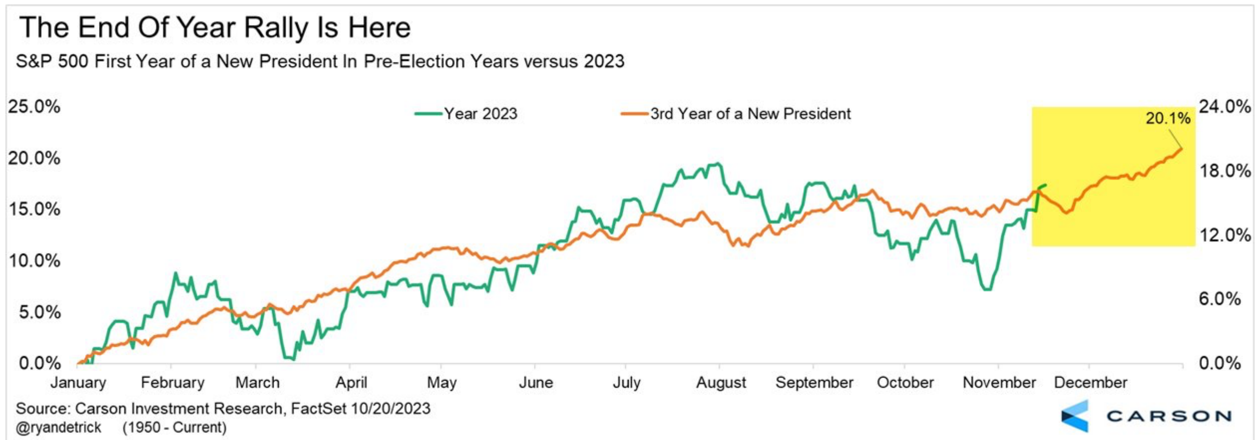
The market has been following the presidential cycle relatively closely this year (from Ryan Detrick via X)...

Pre-election years under a new President have looked a lot like what we've seen so far in 2023.

Should this continue, expect higher prices by year-end.

In fact, a 20% year isn't out of the question.



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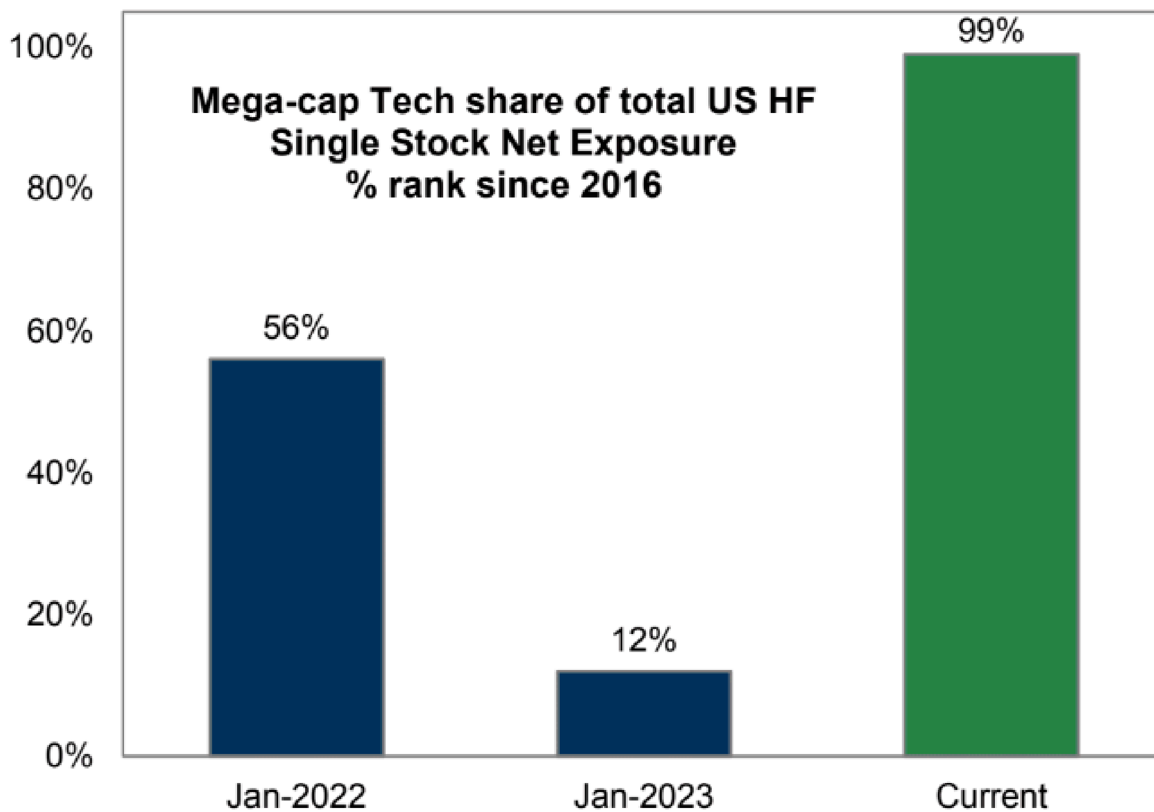
Hedge funds have now gone "all in" on mega-cap tech (from Daily Chartbook via X)...

Hedge fund exposure to mega-cap tech is in the 99th percentile. At the start of 2023, exposure was in the 12th percentile.



Source: GS Prime Services, Goldman Sachs Global Investment Research

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U.S. equity concentration just hit a new record high (from The Kobeissi Letter via X)...

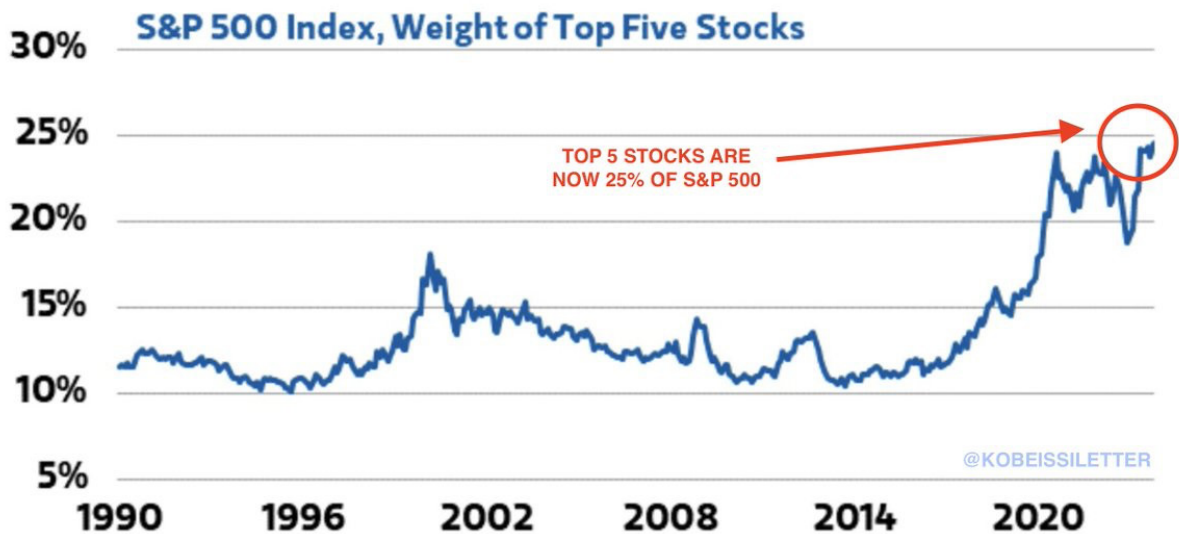
The top five stocks in the S&P 500 now account for 25% of the entire index.

Meanwhile, these same five stocks currently account for ~70% of the Nasdaq's gain this year.

Technology stocks now reflect a record ~26% of all equity fund assets.

Just eight years ago, technology stocks only reflected just ~9% of all equity fund assets.

A few stocks are driving the entire market.



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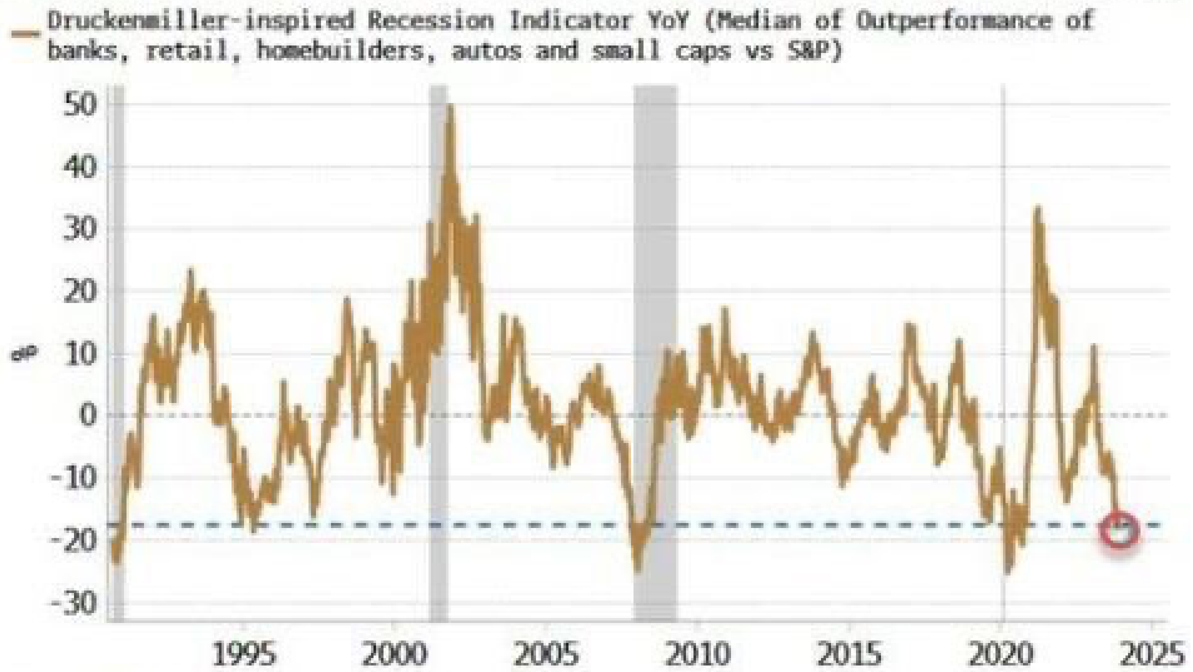
The "internals" of the stock market are now signaling a recession (from Albert Edwards via X)...

Druck Index: As hope of a soft-landing soars, the recession is just arriving.

H/T Simon White Bloomberg Macro Strategist, via @dailychartbook



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The market loves Mondays and Fridays this year (from The Kobeissi Letter via X)...

The annualized return for stocks on Mondays in 2023 is at an incredible 72.7%.

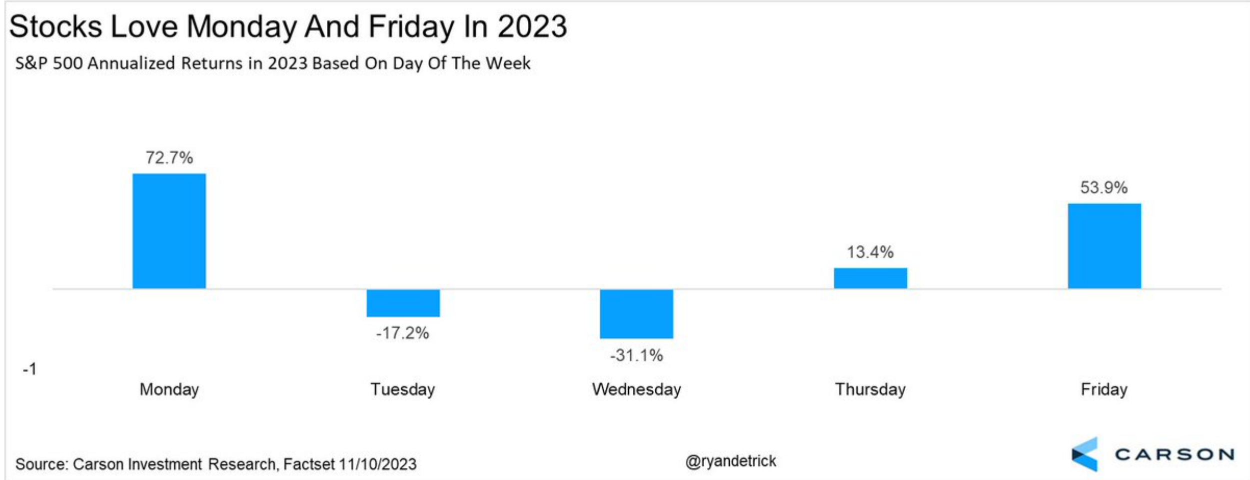
This is the best Monday return since World War II.

Fridays have been great as well, with an annualized return of 53.9% in 2023.

The worst day?

Wednesday, at -31.1%, which also happens to be the day of Fed interest rate decisions.

The market has not been a big fan of the Fed.



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Stocks and bonds remain highly correlated today (from ZeroHedge)...

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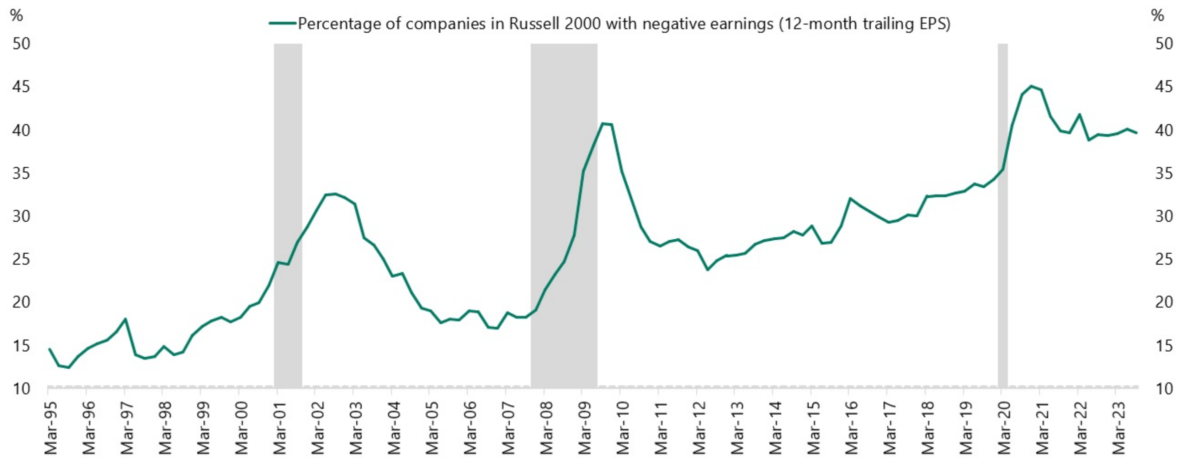
Two out of five Russell 2000 companies have negative earnings today (from The Daily Spark)...

During recessions, the share of unprofitable firms rises. This is not surprising.

But even before the economy has entered a recession, the share of companies in the Russell 2000 with no earnings is at 40% (see chart below).

The bottom line is that if the economy enters a recession, a lot of middle-market companies will be vulnerable to the combination of high rates and slowing growth.



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What the soft-landing proponents are missing (from Luke Gromen at FFTT)...

"Soft landing" has become a common phrase on Wall Street again, but in our view, it is critical to take a step back: The past 120 years of history strongly suggest that once a country gets to 120% Federal debt-to-GDP (as the U.S. is), unless one experiences a productivity miracle, one cannot avoid a hard landing, only choose where the hard landing occurs – either in the economy (austerity), or in the currency (inflation.)

Historically, very few countries that could print their own currency choose to weaken the economy to preserve the real value of their fiat currency... but as always, path matters (i.e., policymakers may attempt to avoid weakening the currency for a time before capitulating to math and political expediency... indeed, in our view, this is the story of monetary policy January 2022-October 2023.)

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Legendary short-seller Jim Chanos is "hanging it up" (from *The Wall Street Journal*)...

Wall Street's best-known bear is going into hibernation.

After nearly four decades, Jim Chanos is shutting down hedge funds he manages that wager against companies he believes are overpriced or fraudulent. His career as a short seller spanned a contrarian bet against Enron that paid off when the energy trader collapsed as well as yearslong, money-losing campaigns against Tesla and AOL.

More recently, Chanos has struggled to turn his pessimistic positions into profits while markets generally moved higher. His firm, Chanos & Co., manages less than $200 million today, down from $6 billion in 2008, and its funds are down 4% so far this year, while the S&P 500 is up 19%, including dividends. Shares of Tesla are up about 90% this year, and the electric-vehicle maker is one of the world's most valuable companies.

"The marketplace for what I do has changed," Chanos, 65, told *The Wall Street Journal*. He expects to return most of his investors' cash by December 31.

Chanos will continue to operate his firm but will focus on doing advisory and research work for select clients and running certain separately managed accounts. He says he's lately been shorting high-price data-storage companies and real-estate investment trusts, which he says will be hurt as interest rates stay elevated.

He also plans to keep posting on Twitter, the social-media platform now known as X, where his account, @WallStCynic, broadcasts criticisms of what he sees as analysts' and investors' overexuberance to over 133,000 followers.

Chanos first made a name for himself as a bearish junior analyst at Gilford Securities in 1982 when he urged clients to bet against Baldwin-United, a high-flying maker of pianos that had expanded into insurance, months before it filed for bankruptcy.

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He assumed an unusually public role as a stock-market scold. Though other short sellers preferred to operate below the radar, Chanos seemed to enjoy the spotlight. He regularly took to television and industry conferences, including his own "Bears in Hibernation" gatherings.

Targets of Chanos were so bothered that they sometimes hired private investigators to dig up dirt on him and complained to the Securities and Exchange Commission. "People think I have two horns and spread syphilis," Chanos told the *Journal* for a 1985 story.

Continue reading here (subscription may be required).

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Billionaire hedge-fund founder Ray Dalio warns the U.S. is approaching a debt "inflection point" (from CNBC)...

Soaring U.S. government debt is reaching a point where it will begin creating larger problems, Bridgewater Associates founder Ray Dalio said Friday.

The hedge fund titan warned during a CNBC appearance that the need to borrow more and more to cover deficits will exacerbate the political and social problems the country is facing.

"Economically strong means financially strong," Dalio said on *Squawk Box*. "Financially strong means: do you earn more than you spend? Do you have a good income statement as a country? And do we have a good balance sheet?"

The U.S. is $33.7 trillion in debt, a total that exploded by 45% since the COVID pandemic in early 2020, according to Treasury Department data. Of that total, $26.7 trillion is owed by the public. Last year, the government rang up a $1.7 trillion deficit as it sought to keep up the pace of spending.

As the debt built up and the Federal Reserve raised interest rates to try to tamp down inflation, the government spent $659 billion on net interest costs in fiscal 2023 to finance the debt.

Dalio said that is a recipe for trouble.

"The worse that gets, the more we are going to have that long-term problem," he said. "You can see it in the numbers. It's just a matter of numbers. We are near that inflection point."

Along with the basic budget issues, Dalio also cautioned that foreign buyers, who make up about 40% of demand for U.S. Treasurys, have been backing off, creating a supply-demand problem.

Data through January indicates that foreign holdings of U.S. government debt total $7.4 trillion, down $253 billion, or 3.3% over the past year. China in particular has cut its holdings strongly, pulling back 17% during the period.

"You want to keep spending at the same level, there is the need to get more and more into debt. The way that works, it accelerates," Dalio said. "We are at the point of that acceleration, which creates the supply-demand problem. It's made worse by the other issues that we're talking about, the internal political issue, the internal social conflict issue."

Continue reading here.

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This Thanksgiving-week indicator could provide a clue to the market's performance next year (from Wayne Whaley via X)...

Thanksgiving weeks matter – The Whaley Thanksgiving Barometer. I provide this type of analysis each week for my commentary subscribers on 13 different markets.

Define the TGV Wk as the 4 day S&P performance for the wk of TGV, Friday to Friday. Since 1950 if TGV wk was up at least 2%, the following 13 mts, Nov30-Dec31, were up at least 10% for a gaudy avg 13 mt gain of 23.2%. I use 13 mts because TGV is part of my Holiday Barometer combo setup for the following yr. There have been three 50% Bear Markets in my lifetime, 73-74, 2000-2002 and 2008. TGV wk was negative in 73, 99 and 2007.

THE FOLLOWING 13 MONTHS WHEN THANKSGIVING WEEK IS GREATER THAN 2%

waynewhaley.witterlester@gmail.com waynewhaley.com Nov 18, 2023

2% THKGV SETUP			THE FOLLOWING THIRTEEN MONTHS (DECEMBER – DECEMBER) PERFORMANCE													
#	YEAR	THKGV	DEC	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	DEC-DEC
01	1950	2.3	4.7	6.0	0.6	-1.5	4.4	-4.1	-2.6	6.9	3.9	-0.1	-1.4	-0.3	3.9	21.8
02	1954	3.3	5.1	1.8	0.4	-0.5	3.8	-0.1	8.2	6.1	-0.8	1.1	-3.0	7.5	-0.1	32.8
03	1957	2.1	-4.1	4.3	-2.1	3.1	3.2	1.5	2.6	4.3	1.2	4.8	2.5	2.2	5.2	32.3
04	1962	2.3	1.3	4.9	-2.9	3.5	4.9	1.4	-2.0	-0.3	4.9	-1.1	3.2	-1.1	2.4	20.5
05	1963	2.2	2.4	2.7	1.0	1.5	0.6	1.1	1.6	1.8	-1.6	2.9	0.8	-0.5	0.4	15.7
06	1970	2.6	5.7	4.0	0.9	3.7	3.6	-4.2	-0.9	-3.2	3.6	-0.7	-4.2	-0.3	8.6	17.1
07	1981	2.8	-3.0	-1.8	-6.1	-1.0	4.0	-3.9	-2.0	-2.3	11.6	0.8	11.0	3.6	1.5	11.3
08	1998	2.5	5.6	4.1	-3.2	3.9	3.8	-2.5	5.5	-3.2	-0.6	-2.9	6.3	1.9	5.8	26.3
09	2003	2.2	5.1	1.7	1.2	-1.6	-1.7	1.2	1.8	-3.4	0.2	0.9	1.4	3.9	3.2	14.5
10	2008	12.0	0.8	-8.6	-11.0	8.5	9.4	5.3	0.0	7.4	3.4	3.6	-2.0	5.7	1.8	24.4
11	2012	3.6	0.7	5.0	1.1	3.6	1.8	2.1	-1.5	4.9	-3.1	3.0	4.5	2.8	2.4	30.5
12	2020	2.3	3.7	-1.1	2.6	4.2	5.2	0.5	2.2	2.3	2.9	-4.8	6.9	-0.8	4.4	31.6
	#UP-DWN=		10-2	9-3	7-5	8-4	11-1	7-5	7-5	7-5	8-4	7-5	8-4	7-5	11-1	12-0
	3%MOVES=		6-2	6-1	0-3	7-0	9-0	1-3	2-0	5-3	5-1	2-1	5-2	4-0	6-0	12-0
	AVG%CHG=		2.3	1.9	-1.4	2.3	3.6	-0.1	1.1	1.8	2.1	0.6	2.2	2.1	3.3	23.2

This model, as are most, is not infallible and I consider a small piece of the puzzle but was a tremendous help to us in 2021 when it came in -2.2% prior to the 19.4% negative 2022, especially at a time when we were already nervous about Ukraine and inflation.

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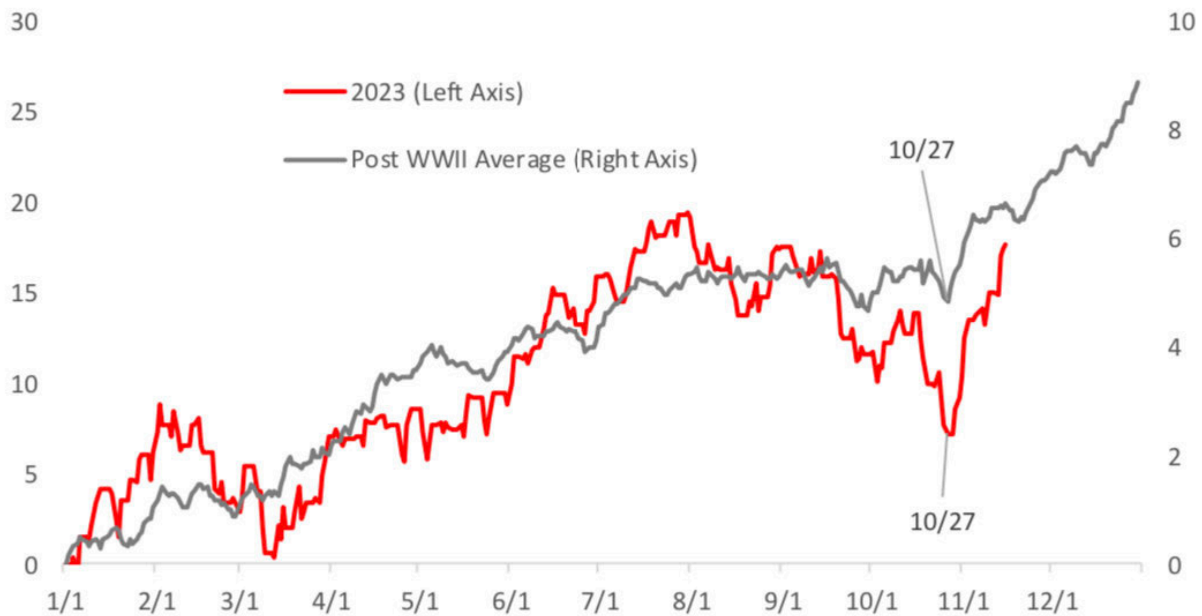
The market has also been following its long-term seasonal pattern closely this year (from Bespoke via X)...

Amazing how closely the S&P's 2023 pattern has resembled the average seasonal pattern since WW2. So far...



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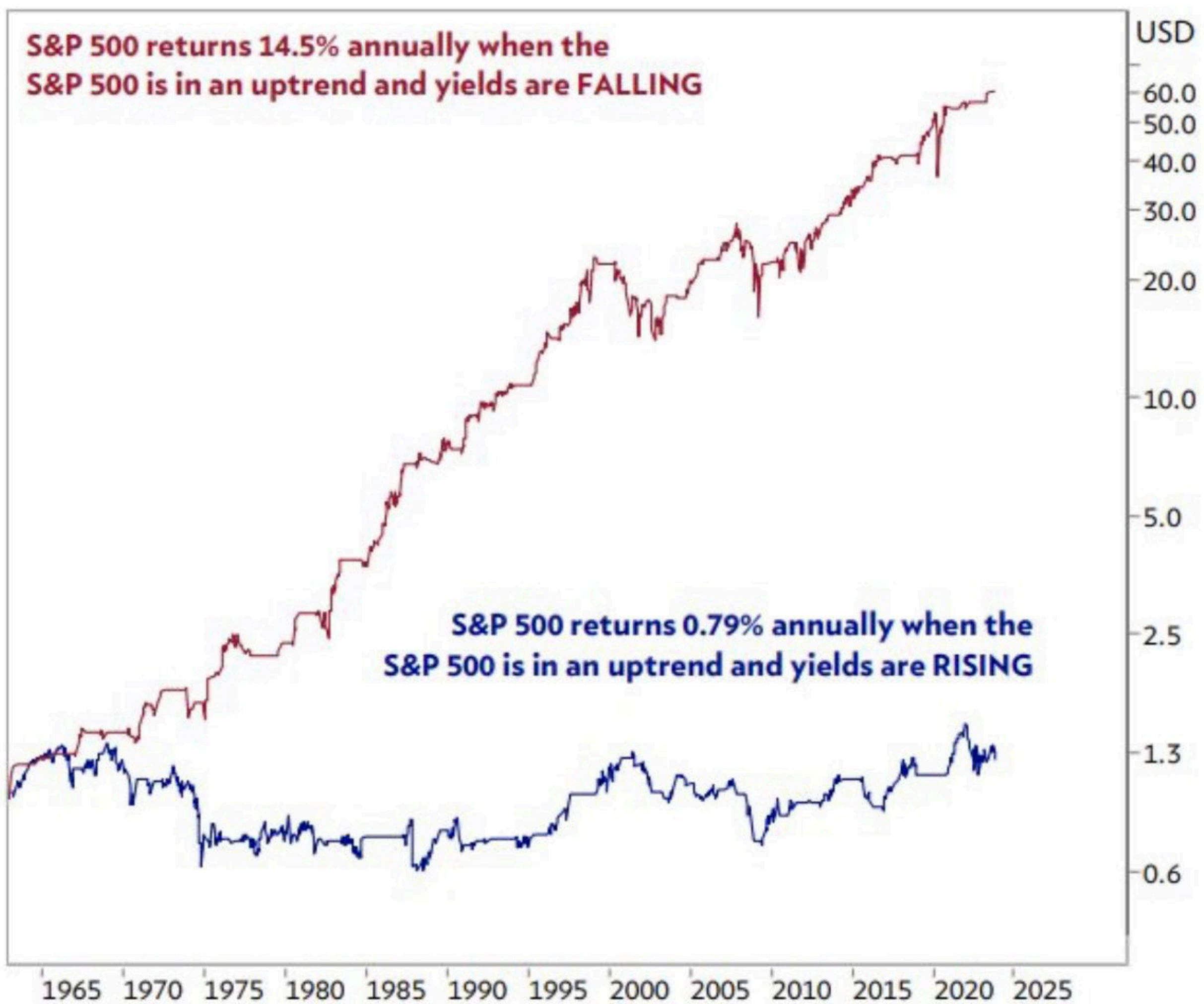
Interest rates matter for stocks (from Jim Bianco via X)...

Taking a simple calculation using the 10-week moving average as a signal, we can see the following results for the S&P 500: investing in the S&P 500 when it was in an uptrend and rates were falling would have returned 14.5% annually. Compare that to the meager 0.79% per annum when the S&P 500 was in an uptrend, but interest rates were rising.

Thus, we can say that in the past 50 years almost all the returns in the S&P 500 have been achieved when rates were falling.



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THE LEGENDS SPEAK

Wisdom and Insight from the World's Greatest Investors

This should be required reading for all individual investors (from Idea Hive via X)...

Shelby Davis is probably the least-known great of value-investing school.

Davis started investing at 38 years old with just $50,000. By the end of his career, he turned that into $900 million!

He averaged 23.2% annual returns over 47 years!

$1 compounded at 23.2% over 47 years amounts to $18,143!

Shelby Davis' returns are arguably the best long-term returns ever. Only comparable to Warren Buffett or maybe Walter Schloss.

If Davis began investing earlier in life, he would likely be the greatest of all-time.

Davis was perhaps the best example of investing within your 'circle of competence'.

His incredible returns were generated from investing in almost exclusively insurance companies. Prior to investing he worked for the state's insurance department.

Davis liked the insurance industry for a few key reasons:

1) The industry changes very slowly

2) Insurance float is very valuable

3) Good management in insurance is a competitive advantage

Of course he also understood the industry well, he had an edge.

Shelby Davis was yet another disciple of Benjamin Graham to achieve incredible things. He was a big believer in "margin of safety."

In 1947, Shelby Davis was elected president of Benjamin Graham's stock-analysis organization.

Davis invested in profitable and growing companies with low P/E and P/B ratios.

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He called his approach the Davis Double Play. Returns were driven by EPS growth and multiple expansion.

Read more about it here.

Shelby Davis also utilized leverage within his portfolio. He was typically ~50% leveraged.

Interestingly, the other greatest long-term investors, Warren Buffett and Walter Schloss, also used leverage through their investing journey.

Davis purchased a seat on the New York Stock Exchange for $33,000, which gave him access to lower margin rates than the typical investors.

The interest payments on his margin were tax deductible, which helped him save money on taxes.

Davis was a long-term investor. Some of his largest positions were held his entire career.

“Long-term investing helps investors compound wealth because it minimises frictional costs and lets you reap the maximum amount of reward from your best ideas" - Shelby Davis

Davis would also talk to management teams. His favourite question to ask was: “If you had one silver bullet to shoot a competitor, which competitor would you shoot?”

He would then research that company. Finding the best companies and management teams in the industry.

Here is my summary of Shelby Davis’ approach to achieve 23.2% annual returns:

- Circle of competence
- High quality management teams
- Growing EPS and low P/E
- Margin of safety
- Leverage (don’t over leverage)
- Long-term investments
- Take advantage of market downturns

Additional fun fact: Shelby Davis’ grandson Chris Davis is on the board of $BRK. The value investing tradition was passed through generations in the Davis family.

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Highlights from a rare interview with Berkshire Hathaway Vice Chair Charlie Munger (from Kingswell)...

In the Spotlight: Charlie Munger on *Acquired*

Well, this was a nice surprise.

On Monday morning, the excellent *Acquired* podcast released an hourlong interview with Charlie Munger – which dove deep into the legendary investor's career and his unique outlook on life.

And, as always, the 99-year-old minced absolutely no words.

I've pulled out many of his best comments down below, but I'm particularly struck by how often Munger returned to the idea that it's *really* hard to find great investments. And that, if anything, it's only getting harder.

So, on that upbeat note, let's dive in...

On safety vs. leverage:

Warren still cares more about the safety of his Berkshire shareholders than he cares about anything else. If we had used a little bit more leverage throughout, we'd have 3x as much now. And it wouldn't have been that much more risk, either. We just never wanted to [have] the least chance of screwing [this] up.

On how Berkshire treats its subsidiaries:

Our people know that we're not trying to discard them to the highest bid. If some asshole investment banker offers us 20x earnings for some lousy business, we don't sell. If it's a problem business that we've never been able to fix, we'll sell it – but if it's a halfway decent business, we never sell anything. That gives us this reputation [for] staying with things, which helps us.

On the increasing difficulty of finding great investment opportunities:

There was a lot of low-hanging fruit in the early days of our operation. You don't have any low-hanging fruit that's easy [to find] right now.

The low-hanging fruit for the idiot is not gone, but it's very small.

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On betting big on your best ideas:

You may find [a once-in-a-lifetime company] five years after you bought it. These things might work into it or your own understanding may get better. But when you know you have an edge, you should bet heavily. They don't teach that in business school. It's insane – of course you've got to bet heavily on your best bets!

On the types of companies that he likes to study:

I only study two kinds of companies:

(1) I'm enough of a Ben Graham follower that if something is really cheap, even though it's a crappy company, I'm willing to consider buying it – for a while, anyway. I do that occasionally. I've done it with great success a time or two ... but it's not like I've done it a hundred times.

(2) The great brand companies, of course, are good – [if] you can get them at the right price. The whole trick is to get them on the few rare occasions when they're really cheap.

Munger also dished on some Berkshire Hathaway holdings of the past and present.

- **See's Candies:** "We found out fairly quickly that we could raise the price every year by 10% and nobody cared. We didn't make the volumes go up or anything like that. [We] just made the profits go up. So we've been raising the price by 10% a year for all these forty years or so."
    - "It's been a very satisfactory company. [See's] required very little new capital. We had two big kitchens and a bunch of rental stores when we bought it — and, now, it's [still] got two big kitchens and a bunch of rental stores."
- **BYD:** "I may be a big fan [of BYD], but I'm sort of hanging onto my hat as they lurch around the track. They make me nervous. It's so aggressive."
- **Sogo Shosha:** "That [was] a no-brainer. Something like that, if you're as smart as Warren Buffett, maybe two or three times in a century you get an idea like that. The interest rates in Japan were half a percent a year for 10 years... so you could borrow for 10 years ahead and buy the stock [that comes with] 5% dividends. So there's a huge flow of cash with no investment, no thought, no anything. How often do you do that?"
    - "It took [Warren] forever to get $10 billion invested, but it was just like God opening a chest and pouring money [into it]. It was awfully easy money."

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- **Apple:** "Everybody needs some significant participation in the 12 companies that do better than everybody else. You need two or three of them, at least. If you have that mindset, Apple was the logical candidate ... We couldn't find anything else [and] it got cheap. It got down to about 10x earnings when Warren bought in."
- **Salomon:** "If [Salomon Brothers] had all blown up and gone to zero, we would have written it off and gone on and done pretty well."

Many thanks to Ben Gilbert and David Rosenthal over at *Acquired* for facilitating such a wonderful and thought-provoking discussion!

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Legendary investor Stanley Druckenmiller on how his former partner George Soros kept beating him while working 10% of the time (from Ian Cassell via X)...

> What I learned from George Soros is when you see it, to bet big… When I took over Quantum, I was running Quantum and Duquesne. He [Soros] was running his personal account, which was about the size of an institution back then, by the way, and he was focusing 90% of his time on philanthropy and not really working day to day. In fact, a lot of the time he wasn't even around. And I would say 90% of the ideas came from me, and it was very insightful and I'm a competitive person, frankly embarrassing, that in his personal account working about 10 percent of the time he continued to beat Duquesne and Quantum while I was managing the money. And again, it's because he was taking my ideas and he just had more guts. He was betting more money on my ideas than I was.

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Six lessons from one of the most successful CEOs of all time (from Kyle Grieve via X)...

One of the most impressive runs a CEO has ever had: Roberto Goizueta.

He took Coca-Cola's market cap from $4 billion to $156 billion, a 25.4% compound annual growth rate.

Here are six lessons from his shareholder letters (to make you a better investor and business person):

Understand how a business creates value

Understanding this allows you to focus on what matters.

"Solid unit case volume growth is the foundation for generating economic profit, which, experience teaches us, is the key to increasing the value of [our shareowners' investment]."

Long-term thinking

Don't allow the uncertainty of the short term to steal your focus from what really matters: the long term.

This may mean sacrificing short-term results in order to boost long-term results.

> The Long-term. Tough economic times breed fear and often cause business people to compromise their long-term judgment. We will not allow ourselves to sacrifice even a tiny portion of our long-term future on the altar of short-term expectations.

Superb capital allocation

Roberto understood that he had to maximize resources for projects that had the highest returns on invested capital.

This seems obvious, but too many managers get distracted by less important areas of the business (with lower returns).

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> Our primary objective will continue to be the maximization of shareholder value. We will manage our business to generate earnings growth and improved returns. We plan to reinvest a greater portion of our resources in projects and investments that strategically augment and leverage our operationsinvestments where the long-term cash returns on invested capital exceed our overall cost of capital. In making such investments, we have no plans to venture outside our three lines of business, as there are significant growth opportunities in these businesses

Pay dividends only when it makes sense

He decreased dividends as he saw better reinvestment opportunities.

99% of businesses are unwilling to do this.

Roberto realized they'd lose shareholders in the short term by doing this, but it was the right long-term decision.

> With a pristine balance sheet, we began prudently using debt to make investments in our business that offered returns significantly in excess of the cost of that debt. We began increasing our annual dividend at a rate slower than our earnings growth, lowering our payout ratio from 65 to 40 percent, this freeing up $3.4 billion since 1983 to invest in our operations. We also put out financial resources to work in repurchasing our own shares, which continues to be one of the wisest investments we can make.

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Intelligent buybacks

Coca-Cola's buyback program was incredible.

It boosted returns to shareholders in a very meaningful way, from 1984 to 1995, it boosted the EPS growth rate to 18% vs 14% if no buybacks had been utilized.

Buybacks are powerful when done in a meaningful way.

> The 1995 letter had noted the following:] Since 1984, we have purchased 483 million shares at an average price, adjusted for stock splits, of $18.21, capturing some $17 billion in value and accelerating our average annual earnings per share growth rate over that period to 18 percent. Had we not purchased those shares, the rate would have been 14 percent.

A good understanding of the fluctuations in stock prices

The key here is to know that prices and values diverge and converge.

In the short term, it diverges, in the long term it converges.

When a CEO understands this, they allow themselves to think long-term.

> We understand that some years our business will outperform our stock, and other years our stock will outperform our business. But we believe the two will never wander too far from each other, and over the long-term-they will track each other very closely.

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Key takeaways from a fantastic interview with Berkshire Hathaway Director Chris Davis (from Wall Street Gunslinger)...

In October 2021, Chris Davis was named to the board of Directors of Berkshire Hathaway.

If you need a seal of approval in the world of business, this is it.

But for someone who comes from a family with investing in their blood, holds a large personal stake, and has a proven track record for being an incredible steward of capital for families, he was made for it.

The investing started with his grandfather, Shebly Callum Davis, who turned $50K, which he borrowed from his wife, into a $800M fortune over his lifetime.

His father Shelby Davis, started David Advisors where Chris is currently the chairman. If you had invested 10K into the Davis New York Venture Fund at inception in 1969 it would be worth ~$3.3M today vs $2.2M if the same amount was invested in the S&P.

Their family is the subject of the biography, *The Davis Dynasty*, which chronicles five decades of investing and is a favorite book in value investing circles.

Chris sat down for a podcast interview with William Greene and spoke about a wide array of topics and if you have the time I encourage you to listen to the entire thing.

But for those who want just the pearls, here are my favorite takeaways.

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Sitting In a Boardroom With Buffett

We all see the happy grandfather-like figure on stage at the annual meeting. But what is he like behind closed doors?

The way a board meeting works at Berkshire is a little opposite to the annual meeting. During the AGM, shareholders get to pose questions for Warren to answer. During a board meeting, it's the other way around. He tells you what he is thinking or surfaces any problem with a subsidy that the board should know about.

Chris outlines two big benefits of giving the mic to Warren and letting him go:

"One, Warren tells you what he is focused on and he thinks in this moment, at this meeting, these are the issues that he thinks are very important for Berkshire. He obviously takes questions as long as anybody has them."

"The second thing that I would say is... from the outside that there is no CEO in America that thinks about risk in a more profoundly broad way than Warren and Charlie."

We have seen in the annual meeting Warren touches on the tones of ordering the affairs of Berkshire in a way that they can sustain any eventual reality but it is always with a soft touch.

During a board meeting, you get it straight.

Warren talks about capital markets shutting down, nuclear weapons, and bioterrorism for example. The low-probability events that don't take up much thought from the CEO are front and center in the mind of Buffett.

He wants Berkshire to be resilient in all situations.

"it is an incredible privilege to just see that mind at work in that way."

Berkshire has been able to thrive during the market meltdowns because it focuses on the downside and prepares accordingly. If Warren wasn't so focused on it their growth would not be anything like it has been.

I think we could all prepare a little more for downturns so when they arrive we can make the most of them.

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The Job of Berkshire's Board After Buffett

What Warren and Charlie have built will not be replicated.

It would be irrational for the board to continue to try and match the past performance. An impossible feat that even the maker might not be able to do over again.

With this in mind, the focus shifts to preservation and protection.

A large number of investors have most of their net worth in Berkshire Stock which influences the partnership ethos of the company that will outlive its creators.

If this was their only asset what plans would they put in place to protect it?

"John D. Rockefeller was bigger, larger than life..... But you didn't need another one after that. What you needed was people that were protective of the assets and the culture. And I think that is how I think of Berkshire, and how I think of the board's job and the management's job."

How to Architect a Life Around Weakness

One of the biggest lessons Chris has learned from Warren and Charlie has been to make the effort to know yourself and then architect your life so your weaknesses do not slow you down.

He relates it to a story about Tiger Woods.

Woods had a reputation for not doing well in sand traps. With the British Open on the horizon, a course known for having the worst bunkers, Woods went to the range and practiced his drives and low irons.

The press wanted to know why he was practicing his irons and drives instead of his sand shots. To which he replied,

"I don't want to go into the sands."

Woods went on and played the entire British Open without hitting a bunker one time.

We can observe this type of mental framework from Warren and Charlie too.

As Chris observes it, Charlie is known for his bluntness.

But this trait might not have served him well as the CEO of a Fortune 500 or manager of a ton of people. This role could have proven to be difficult for Munger, which is why Charlie has structured his life the way it is.

Warren has done the same.

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He is an amazing communicator and exudes warmth and love. But he has a hard time with the hard conversations of firing or replacing people. So he rarely does it.

They both have structured their lives to minimize the effect of their weaknesses.

"I think there's a very powerful lesson for people to carry out is not to necessarily obsess on your weaknesses but to do your best to structure your life so that you can avoid a lot of them."

Carnegie Is Not Dead

There is a portion of the world that believes the famous book, *How to Win Friends and Influence People* conveys a message that lacks integrity.

Chris disagrees.

A major principle of effective communication is to make sure you are not giving someone a message you did not wish or intend to communicate to them. You might win an argument but in the process, you humiliated the other person and now they resent you. Was this effective?

Effective communication is about building goodwill with the person you are working with.

Warren learned how powerful this "goodwill" can be by watching his father, a congressman, work his way around the world attempting to build it.

"Imagine the record that he's achieved with almost no enemies. Can you name another fortune that was built where there wasn't a significant consensus or a significant view in the world?"

It is not a joke when Warren shows off his Carnegie certificate to others.

It is one thing to be a good investor. But, the hidden variable in the success of Warren and Berkshire has been his ability to communicate effectively. One does not build a business around "picking up the phone" unless you cultivate the relationships around you to the point where they want to become your partner.

This type of outcome wouldn't happen if Warren wasn't a student of Carnegie.

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Trust Is a Superpower

Business doesn't operate in a vacuum.

It is a world built on handshakes and relationships. Without this underlying virtue for one another bureaucracy grows, there are extra costs, and every move made is double-checked to make sure one is not taking advantage of the other.

Imagine the energy wasted.

"I think Berkshire is an example that all of the foregone due diligence trips and investment banking and auditors and so on would not have produced an outcome that would have raised returns or avoided fraud. In a way, trust ended up being a superpower on it."

Cultivating this web takes a lifetime and the way to do it is by going first.

The best way to be trustworthy is to deserve to be trusted and then go trust someone else. It is in the nature of man to want to reciprocate.

We can see how this has played out with Berkshire as they operate with a tiny number of people at headquarters, delegating the majority of the day-to-day decisions to the operating managers.

Imagine if Warren wanted to be involved in all of the decision-making. It would be impossible and slow everyone down.

A large amount of bureaucracy in the system equates to a low level of trust. Berkshire is built with the complete opposite view in mind.

A Life Well Lived

"I was riding a bike and had a little flashlight and I was coming up to the house and the lights were all on inside. So I could see in the windows and, what I saw was my three kids and their significant others and some friends of theirs and they're all sitting at our dining-room table laughing and carrying on and that moment of feeling like I'd almost don't need to go in.

I would mark it at that particular moment. One of the happiest moments of my life, just looking in that window and seeing all that."

I hope one day to be in the same situation.

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A simple checklist to invest like Warren Buffett (from Brian Feroldi via X)...

A Warren Buffet styled "Investment checklist"	Is it covered?
Business tenets	
1. Is the business understandable?	❑ Yes ❑ No
2. Do you know how the money is made?	❑ Yes ❑ No
3. Does the business have a consistent operating history?	❑ Yes ❑ No
4. Does the company have favourable long term prospects?	❑ Yes ❑ No
5. Is there a big moat around the business (a high threshold of entry) ?	❑ Yes ❑ No
6. Is it a business that even a dummy could make money in?	❑ Yes ❑ No
7. Can current operations be maintained without too much needing to be spent?	❑ Yes ❑ No
8. Is the company free to adjust prices to inflation?	❑ Yes ❑ No
9. Have you read the annual reports of the main competitors?	❑ Yes ❑ No

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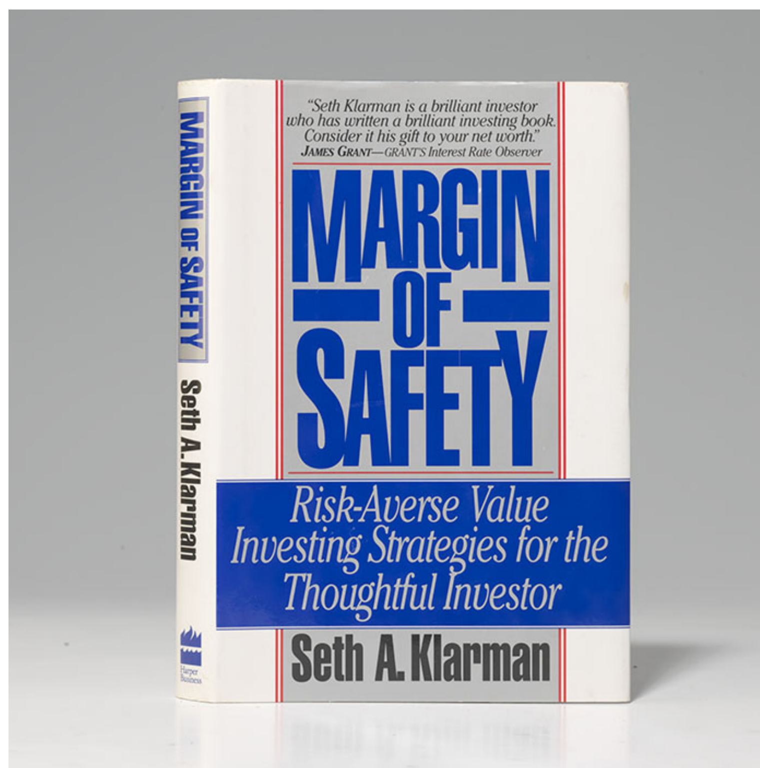
Five critical ideas from one of the world's greatest investment books (from Daniel via X)...

Margin of Safety is one of the best investment books ever written. Unfortunately, it is out of print and costs over $2,000. I've read it and here are [5] of the most important points.



1. Bottom-Up Investing

Value investors do not base their decisions on macro forecasts (Top-Down). Instead, they research company after company and evaluate them on their business fundamentals. Top-down views are only considered in their effect on prices.

> By contrast, value investing employs a bottom-up strategy by which individual investment opportunities are identified one at a time through fundamental analysis. Value investors search for bargains security by security, analyzing each situation on its own merits. An investor's top-down views are considered only insofar as they affect the valuation of securities.

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2. Absolute Performance

"You cannot, after all, spend relative performance." - Seth Klarman

Too many investors focus on beating the market. Instead, they should chase good absolute returns. Absolute returns extend your time horizon and minimize your near-term risk tolerance.

term perspective than relative-performance-oriented investors. A relative-performance-oriented investor is generally unwilling or unable to tolerate long periods of underperformance and therefore invests in whatever is currently popular. To do otherwise would jeopardize near-term results. Relative-performance-oriented investors may actually shun situations that clearly offer attractive absolute returns over the long run if making them would risk near-term underperformance. By contrast, absolute-performance-oriented investors are likely to prefer out-of-favor holdings that may take longer to come to fruition but also carry less risk of loss.

3. Risk and Return

Most investors equate risk with volatility. Value Investors emphasize the risk of making overpriced, ill-conceived, or poorly managed investments. The risk of investing is the permanent loss of capital, not price fluctuations.

Unlike return, however, risk is no more quantifiable at the end of an investment than it was at its beginning. Risk simply cannot be described by a single number. Intuitively we understand that risk varies from investment to investment: a government bond is not as risky as the stock of a high-technology company. But investments do not provide information about their risks the way food packages provide nutritional data.

Rather, risk is a perception in each investor's mind that results from analysis of the probability and amount of potential loss from an investment. If an exploratory oil well proves to be

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4. Opportunity of Price Fluctuations

Temporary price fluctuations actually offer lots of opportunities for value investors. Eventually, stock prices reflect the value of the underlying company. If Mr. Market decides to sell them for less in the meantime, take advantage of it.

If you are buying sound value at a discount, do short-term price fluctuations matter? In the long run they do not matter much; value will ultimately be reflected in the price of a security. Indeed, ironically, the long-term investment implication of price fluctuations is in the opposite direction from the near-term market impact. For example, short-term price declines actually enhance the returns of long-term investors.[1] There are, however, several eventualities in which near-term price fluctuations do matter to investors. Security holders who need to sell in a hurry are at the mercy of market prices. The trick of successful investors is to sell when they want to, not when they have to.

5. Contrarianism

"Value Investing by its very nature is contrarian." - Seth Klarman

Value mostly exists in what the herd is selling. However, being against something doesn't make you right. Contrarianism isn't an end in itself. Only act, when you can expect real upside.

Value investing by its very nature is contrarian. Out-of-favor securities may be undervalued; popular securities almost never are. What the herd is buying is, by definition, in favor. Securities in favor have already been bid up in price on the basis of optimistic expectations and are unlikely to represent good value that has been overlooked.

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What every investor should understand about economic "moats" (from Eagle Point Capital)...

Everyone talks about "moats" but almost no one talks about how moats change. Moats get a little bit wider or narrower every day. A widening moat is even more valuable than a wide moat. A moat's direction is more important than its width.

Why? A widening moat implies longevity. It's one thing to have high returns on equity. Plenty of businesses do. Long-term investors care about how much capital a business can invest at a high rate and for how long.

Nick Sleep's insight wasn't that Amazon had a wide moat. Amazon was losing money when he first invested. It only had a kernel of a moat. Sleep's insight was that the company's "scale economies shared" business model was self-reinforcing and its moat would perpetually widen.

Charlie Munger likes Costco for the same reason. Costco's business model and culture produce positive feedback loops and lead to insurmountable scale advantages that perpetually widen its moat.

At Berkshire's 2000 annual meeting Buffett commented:

> So we think of the – we think in terms of that moat and the ability to keep its width and its impossibility of being crossed as the primary criterion of a great business.
>
> And to our managers, we say we want the moat widened every year. You know, that does not necessarily mean that the profit is more this year than last year, because it won't be sometimes. But if the moat is widened every year, the business will do very well.
>
> When we don't have a – when we see a moat that's tenuous in any way – getting back to your question – it's just too risky. We don't know how to evaluate that, and therefore we leave it alone.

Buffett doesn't invest in businesses with "tenuous" or narrowing moats anymore because they're too risky and too hard to evaluate. He learned his lesson from Berkshire's original textile mills.

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Berkshire's 2005 letter to shareholders explains that widening the moat is Berkshire's number one priority:

> When our long-term competitive position improves . . . we describe the phenomenon as "widening the moat." And doing that is essential if we are to have the kind of business we want a decade or two from now. We always, of course, hope to earn more money in the short-term. **But when short-term and long- term conflict, widening the moat must take precedence.**

At the 2022 Graham & Dodd Annual Breakfast Todd Combs recalled the first time he met Charlie Munger. Munger asked what percentage of S&P 500 businesses would be a "better business" in five years. Combs said less than 5%. Munger thought less than 2%.

By their math 10 to 25 companies in the S&P 500 are getting better and 475 to 490 are getting worse. Technology has increased the rate of "creative destruction" which has made widening moats an endangered species.

Buffett asks Combs almost daily "if the moat is wider or narrower on any of their businesses." Combs admitted it is a tough question but so important that they consider it often.

Companies with wide but narrowing moats can be value traps. Kodak once looked as dominant at Coca-Cola, Buffett told students at University of Florida:

> They've [Kodak] lost some of that. They haven't lost it all... but they let that moat narrow. They let Fuji come and start narrowing the moat in various ways. They let them get into the Olympics and take away that special aspect that only Kodak was fit to photograph the Olympics. So Fuji gets there and immediately in people's minds Fuji becomes more on parity with Kodak. You haven't seen that with Coke. Coke's moat is wider now than it was 30 years ago. You can't see the moat day by day, but every time... the infrastructure gets built in some country that isn't yet profitable for Coke but will be 20 years from now, the moat is widening a little bit.

Changes in a moat are hard to quantify in the short term because widening a moat can depress margins, earnings, and returns on equity.

When Nick Sleep was buying Costco, analysts were lamenting its structurally low margins. What Sleep understood to be a key feature of Costco's moat looked like a bug to everyone else.

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Costco widens its moat by foregoing higher margins in the short term to maximize profit dollars in the long term. It's deferred gratification. A company neglecting its moat, like Kodak, can report higher earnings in the short term by scaling back advertising and cutting R&D. Instant gratification. In the long-term it will pay the price, as Kodak did.

Combs said 98% of what he and Buffett discuss is qualitative. That's not to say Combs and Buffett aren't quantitative. They keep their quantitative analysis simple and work through it quickly.

Combs explains: "If something is 30x earnings you can calculate what it will have to do to get to run rate earnings." Since they don't build giant complicated DCF models, they can afford to spend 98% of their time thinking about the qualitative.

This is what Munger means when he says, "People calculate too much and think too little."

Understanding the direction of a moat requires a deep understanding of the business. Investors that stick with stocks for decades focus on KPIs that indicate whether the moat is widening or narrowing. They're not focused on traditional metrics like EPS or P/E ratios, and certainly not adjusted EBITDA.

For example, in Berkshire's 1986 letter to shareholders Buffett wrote:

> "The difference between GEICO's costs and those of its competitors is a kind of moat that protects a valuable and much-sought-after business castle. No one understands this moat-around-the-castle concept better than Bill Snyder, Chairman of GEICO. He continually widens the moat by driving down costs still more, thereby defending and strengthening the economic franchise."

Buffett compares GEICO's expense ratio to its competitors to gauge whether its moat is widening or narrowing. He's not focused on GEICO's quarterly earnings or premiums written. Those will ebb and flow, even if its moat is widening over time. If he's right about GEICO's expense advantage, GEICO's EPS and premiums written will eventually take care of themselves.

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Focusing on a widening moat can allow investors to stick with a stock through a drawdown or period of lower earnings. For example, Dollar General's margins, earnings, and stock are all well off their highs. But the company continues to invest in initiatives that widen its moat: new stores, more cooler doors, an in-house distribution fleet, etc.

A widening moat implies a long-lived moat. Time is their friend. Investors in widening-moat stocks tend to stick with their pick for decades. Sleep did with Amazon, Munger with Costco, and Buffett with GEICO. That's why Munger said to find Costco's, not exits:

"I'm no good at exits. I don't like even looking for exits. I'm looking for holds. Think of the pleasure I've got from watching **Costco** march ahead. Such an utter meritocracy and it does so well, why would I trade that experience for a series of transactions? I'd be less rich not more after taxes. The second place is a much less satisfactory life than rooting for people I like and admire. So **I say find Costco's, not good exits.**"

Some Examples

So, what are some stocks with widening moats? They're surprisingly tricky to find. It's easy to confuse a moat that is wide but stable or narrowing with a moat that is widening but might not yet be wide.

Here are a couple of brief ideas about companies with widening moats.

Network effects are self-reinforcing which should make businesses that benefit from them a fruitful hunting ground. But just because a business has network effects doesn't mean it has a widening moat. eBay has network effects, but its moat has undoubtedly narrowed. Visa has a very wide moat, but is it widening? I don't know.

Old Dominion operates a hard-to-replicate network of LTL freight terminals which allow it to offer better service (on-time, undamaged, etc) than its rivals. Its higher returns on equity and higher profits allow it to invest more than its rivals, widening its moat.

Copart operates a digital network which benefits from self-reinforcing network effects. The more cars Copart auctions, the more buyers it attracts. More buyers produce higher prices, which attracts more sellers. Copart also owns junk yards near major metropolitan areas which are hard to replicate because of zoning and NIMBY-ism. Copart owns its real estate outright, unlike its primary rival, which leases. Higher interest rates and inflation enhance the advantage of Copart's owned real estate.

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Hilton and Marriott operate loyalty programs which have network effects. A large selection of hotels incentivizes customers to use the loyalty program, which makes hotel owners want to become franchisees to access their demand.

Economies of scale can be self-reinforcing too. AutoZone and O'Reilly have leading positions in a highly fragmented industry which gives them significant relative scale advantages over their mom-and-pop competitors. Alimentation Couche-Tard is in the same position in the convenience store industry. These businesses earn higher returns and profits than their peers which allows them to reinvest to widen their advantage.

I like looking for companies with a **leading position in a fragmented but consolidating industry**. Watsco's relative scale advantage in HVAC distribution allows them to stock more inventory and invest in better technology. Fergusson is similar, but in plumbing. Cintas has leading scale and route density, which allows them to serve incremental customers at a lower cost then rivals. The same goes for Rollins and Terminix.

Standards-based moats, like Moody's and FICO, widen as their standards gain adoption and are written into regulations. These spread and reinforce themselves like network effects.

Prestige and nostalgia take decades to incubate and cannot be quickly replicated. Luxury brands like Hermes and Ferrari offer prestige, which partially derives from their long brand histories. American Express isn't a luxury brand in the same vein as Hermes, but Millennials and Gen Z seem to like it.

Nostalgia applies to lower priced brands like Coca-Cola and Hershey's. We grew up with these brands, and have fond memories of them and positive associations with them. These feelings grow with time and are hard to replicate quickly.

The largest **alternative asset managers**, like Brookfield, Blackstone, and KKR, tend to get the biggest inflows. Their brands have prestige and they have sufficient scale to accept massive checks. The big keep getting bigger.

GEICO and Progressive have a cost advantage over their rivals. Progressive seems to have a data advantage over GEICO, but that moat is narrowing as GEICO catches up in telematics. While I consider both to have a wide moat, I am unsure if they're widening or merely stable.

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Putting It All Together

The direction of the moat is more important than the width of the moat. Widening moats imply longevity and high incremental returns on capital.

It's more important to track the width of a moat than quarterly EPS. If a company's moat is widening, earnings will follow. Tracking a moat can insulate investors from the inevitable ups and downs of a business's earnings and stock price. A widening moat should give investors conviction, staying power, and what Tom Russo calls "a capacity to suffer."

Stocks with widening moats benefit from time. Investors fortunate enough to own one should not be quick to sell it. As Munger says, look for Costco's, not exits.

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Investment wisdom from a market legend you've probably never heard of (from Kyle Grieve via X)...

Anthony Bolton has one of the most legendary track records of all time: His fund compounded at 19.5% annually over 28 years!

Here are the simple keys to his success:

- Ask yourself if the business will be around in 10 years' time, and if it will, it will be more valuable than it is now.
- Look for cash flow as the primary "truth teller" of a business. If the business isn't producing cash, don't buy it, regardless of what management, other analysts, or the market is saying.
- Management often signals the future with what they do on the open market. Pay close attention to this.
- If management gives you a sliver of doubt, avoid the company.
- People don't change, so invest in managers who are already trustworthy, you'll make a lot fewer mistakes this way.
- Every business you own has an investment thesis, update it regularly to make sure it's still valid.
- Forget the price you paid for the shares, if the thesis changes for the worse, you're better off selling at a loss rather than stubbornly holding onto a broken thesis.
- Think in terms of level of conviction rather than price targets.
- Perception is as important as reality.
- Position sizing should reflect the conviction you have in an idea.
- Your portfolio should reflect a "start from scratch" portfolio where your highest conviction ideas make up the highest weighting other ideas decrease from there.
- Avoid at all costs becoming emotionally attached to an idea.
- Winning in investing means you don't lose very much when you are wrong, the rest will take care of itself.

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- Always compare new ideas to what you already own.
- Bolton's biggest mistakes were nearly always a result of a poor balance sheet. Avoiding highly leveraged balance sheets is one of the simplest ways to reduce risk.
- Avoid momentum-based stocks that lack fundamental value, your chances to get out a profit before the herd does is much lower than you think.
- Always read the notes in financial statements, there is often very good information contained in them.
- Buying cheap shares gives you a margin of safety.
- Use relative evaluation methods such as comparing current PE to its historical numbers.
- Valuation anomalies are more likely in medium-sized and small companies.
- Some of Anthony's best-performing ideas were in stocks he felt uncomfortable buying.
- Look for opportunities with asymmetric pay-offs, you win big when you're right and lose little when you're wrong.
- Use technical analysis as a cross-check to your fundamental analysis.
- The market is a great discounter of the future, use this to your advantage.
- Look at what is being assumed in the price of a company's shares rather than the outlook of the business.
- Don't be afraid of going against the market.

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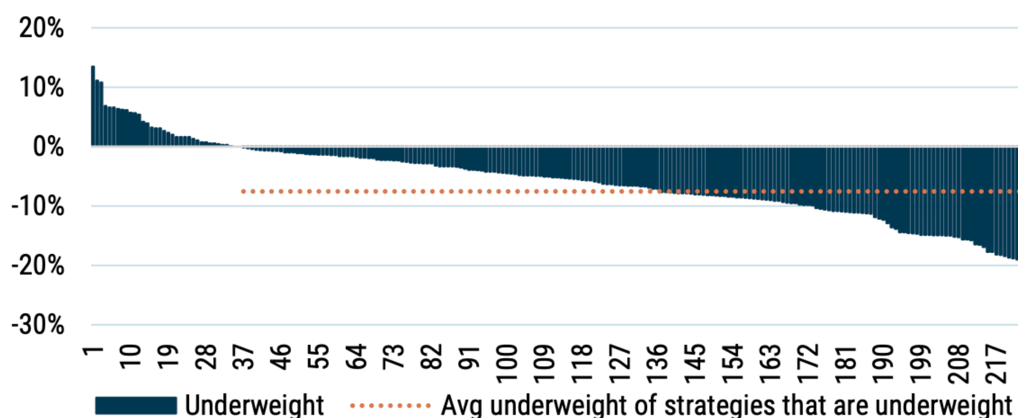
INVESTMENT IDEAS

Japanese stocks look compelling today (from GMO Equity Insights)...

- Investors have been chronically underweight Japan for the past three decades, and rightly so given Japan's weaker relative fundamentals and underwhelming commitment to corporate reform through much of the 1990s and 2000s.
- But conditions on the ground have changed meaningfully. Improving fundamentals and governance reforms are increasingly evident to investors speaking directly with companies and policymakers in Japan, as our Usonian Japan Equity team does. EPS growth has been relatively strong in Japan for years, distributions of excess capital have increased, and policymakers continue to push for more competitive and capital-efficient companies.
- Nonetheless, most international equity strategies remain materially underweight Japanese equities. Of 225 actively managed strategies in the eVestment database that list the MSCI EAFE index as their preferred benchmark, 84% are underweight Japan by an average of 7.5% as the chart below indicates.

MSCI EAFE ACTIVE MANAGER OVER/UNDERWEIGHTS TO JAPAN (BY STRATEGY)



As of 6/30/2023 | Source: eVestment

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- In our view, the reasons so many active managers are underweight Japan stem from firm structural issues and biases, rather than fundamental analysis:
    - Following the burst of Japan's asset bubble, both the sell side and buy side significantly cut resources in Japan. To cover Japan, investment managers based in global financial centers, like New York and London, must endure extremely inconvenient logistical challenges (time zone differences and travel times), cultural challenges (language and otherwise), and idiosyncratic structural quirks of doing fundamental research and investing in Japanese equities. Most opted to allocate research resources to other markets. To the degree that managers have Japan exposure, they tend to do so through ADRs and "gaijin favorites." Very few are pounding the pavement to speak with management of small-to-mid cap listed Japanese companies, which is where we find most of the exciting opportunity.
- We have seen renewed interest in Japanese equities this year which has led to foreign inflows, but most of it has been indiscriminate purchases of futures and ETFs. Many investors we speak with are underweight Japan but looking to close the gap. Those relying on their developed market equity managers to do so may be disappointed though, because most do not have the structure capable of navigating Japan's market nuances.
- Perhaps this underweight Japan bias among MSCI EAFE managers will dissipate. Any increase in institutional flows would be a welcome tailwind as our research suggests trailing inflows portend good things for near-term sentiment and subsequent returns. But investors may miss an attractive opportunity as they wait.
- At GMO, we've already been positioned for the good news we expected. The GMO International Equity Strategy is among the most overweight to Japan in the category with a 3.4% overweight and GMO's more flexible Global Equity Allocation and International Equity Allocation Strategies have similar or larger overweights of 6.5% and 4.2% relative to their respective benchmarks.

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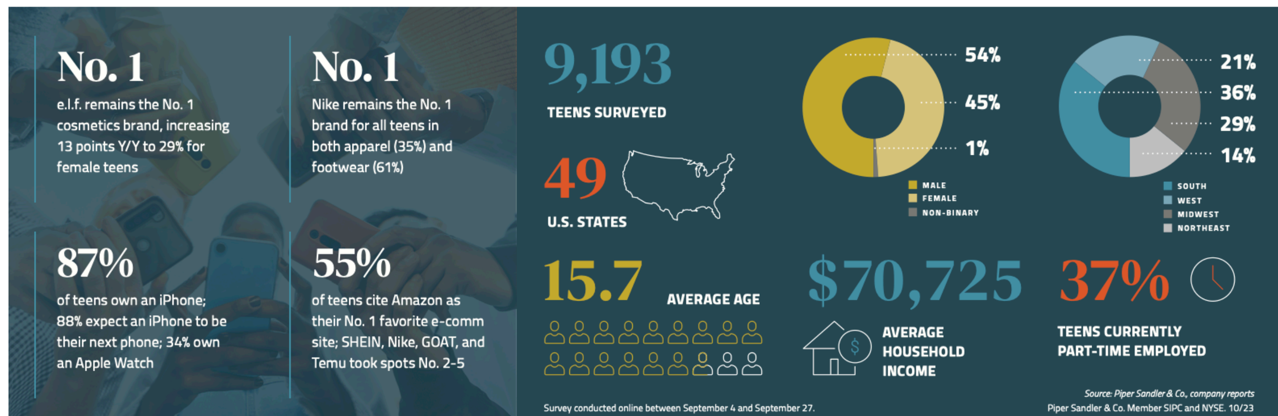
What U.S. teens are buying today (from Piper Sandler's 46th Semi-Annual Taking Stock With Teens Survey, Fall 2023)...

PIPER | SANDLER

46th Semi-Annual Taking Stock With Teens® Survey, Fall 2023

- Teen "self-reported" spending was down 1% Y/Y to $2,316, and down 4% vs. from spring '23; parent contribution was 62% vs. 60% last spring '23
- Males led the increase in teen spending, with upper income male spend up 11% Y/Y and up 11% vs. spring '23, while female spend was down 8% Y/Y and down 2% vs. spring '23
- Female fashion spend was down 7% Y/Y with lower spend across apparel (-9% Y/Y) and shoes (-5% Y/Y), offset by strength in accessories spend (+8% Y/Y)
- For upper-income teens, food was the No. 1 wallet priority for male spending at 25% share, while clothing remains at the top of the female wallet share at 28%, down 260 bps vs. last fall '22 when female clothing wallet share peaked at 30%
- Since fall '22, shopping channel preferences have shifted toward off-price (+545 bps Y/Y) and online only e-tailers (+121 bps Y/Y) and away from specialty, discount, and outlet dropped (-162 bps Y/Y, -440 bps Y/Y, and -81 bps Y/Y, respectively)
- The core beauty wallet (cosmetics, skincare, fragrance) stood at $324/year (+23% Y/Y), led by cosmetics (+33% Y/Y)
- Cosmetics held the highest priority of beauty spending at $127, the highest level seen since '19
- Weekly usage of VR devices declined to ~10% from ~14% in spring '23. But 31% of teens now own a VR device, up from 29% spring '23
- Video games are 11% of male teen wallet share (vs. 12% fall '22), and 33% expect to purchase a NextGen console within two years
- SQ's Cash App ranked No. 1 for most preferred peer-to-peer money transfer app at 50% vs. PYPL's Venmo at 36%
- For BNPL, teens said they used PayPal "Pay in 4" most frequently, followed by SQ's Afterpay
- Apple Pay ranked No. 1 for payment apps used within the last month at 42%; followed by Cash App at 27%
- New Balance surpassed Vans as the No. 4 favorite footwear brand, New Balance gained ~200 bps of mindshare Y/Y while Vans lost ~350 bps of mindshare Y/Y
- Crocs ranked No. 6 and Hey Dude ranked No. 7 favorite footwear brand among all teens, gaining ~30 bps and ~50 bps of mindshare Y/Y respectively
- On Running and Hoka One One were the No. 8 and No. 13 favorite footwear brands respectively for all teens, and the No. 5 and No. 3 favorite athletic footwear brands for upper income teens respectively
- Specialty retail for beauty purchases reached the highest level yet at 79%, and mass/dept/drug reached a new low of 11%
- Sephora surpassed Ulta for the No. 1 preferred beauty shopping destination (Ulta at No. 2) and held the strongest loyalty membership at 67% (Ulta at 60%)
- Chick-fil-A remains the No. 1 favorite restaurant at 16% share, followed by Starbucks (13%), and McDonald's (9%)
- Teens that consume or are willing to try plant-based meat hits all time low with 35% in fall '23 vs. 49% in spring '21
- Teens report highest intentions to eat more or the same amount of MDLZ's Clif Bar; CPB's Goldfish remain most preferred snack brand
- Monster (28%), Red Bull (23%) and Celsius (16%) are teens' favorite energy drink brands; Celsius at 16% is well above its ~10% market share
- 70% of teens have used Spotify over the last six months (up from 68%), with 46% of teens opting to subscribe/pay for Spotify (up from 44%)
- TikTok improved slightly as the favorite social platform (38% share) by 80 bps vs. spring '23. SNAP was No. 2 with 28% share, followed by Instagram (23%)
- Teens spend 28.7% of daily video consumption on Netflix (-220 bps vs. spring '23) and 29.1% on YouTube (+100 bps vs. spring '23)
- Mobile device remains the No. 1 preferred method for customer service interactions (50% share); Text/SMS shows the best multi-year gains



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CLOTHING & FOOTWEAR

Top Shopping Websites

Website	Share
Amazon	55%
SHEIN	12%
Nike	7%
GOAT	2%

Top Clothing Brands

#	Brand	%
1	Nike	35%
2	lululemon	6%
3	American Eagle	4%
4	SHEIN	3%
5	PacSun	3%

Top Footwear Brands

#	Brand	%
1	Nike	61%
2	Converse	9%
3	adidas	7%
4	New Balance	3%
5	Vans	3%

Top Handbag Brands

#	Brand	%
1	Coach	19%
2	Louis Vuitton	11%
3	Kate Spade	10%
4	Michael Kors	8%
5	Chanel	6%

BEAUTY

Top Beauty Destinations

#	Destination	%
1	Sephora	37%
2	Ulta	32%
3	Target	9%
4	Amazon	5%
5	Walmart	5%

Top Cosmetics Brands

#	Brand	%
1	e.l.f.	29%
2	Rare Beauty	13%
3	Maybelline	6%
4	Charlotte Tilbury	5%
5	L'Oreal	5%

Top Skincare Brands

#	Brand	%
1	CeraVe	37%
2	The Ordinary	9%
3	La Roche-Posay	5%
4	Cetaphil	5%
5	Glow Recipe	4%

Top Fragrance Brands

#	Brand	%
1	Bath & Body Works	31%
2	Sol de Janeiro	17%
3	Victoria's Secret	11%
4	Ariana Grande	5%
5	Dior	4%

Top Haircare Brands

#	Brand	%
1	Olaplex	8%
2	SheaMoisture	6%
3	Amika	5%
4	Not Your Mother's	5%
5	Mielle	5%

SOCIAL CAUSES

Cause	%
Environment	18%
Inflation	9%
Racial Equality	7%
Abortion	5%
Economy	3%

FOOD

Top Restaurants

#	Restaurant	%
1	Chick-fil-A	16%
2	Starbucks	13%
3	McDonald's	9%
4	Chipotle	8%
5	Raising Cane's	3%

Top Snacks

#	Snack	%
1	Goldfish	13%
2	Lays	13%
3	Cheez-It	9%
4	Doritos	6%
5	Cheetos	5%

ENTERTAINMENT

Top Celebrities

1. Taylor Swift
2. Adam Sandler
3. Drake
4. Ryan Reynolds
5. Kanye West

Top Influencers

1. Alix Earle
2. Mr. Beast
3. Taylor Swift
4. Drake
5. Sam Sulek

TECHNOLOGY & SOCIAL MEDIA

Daily Video Consumption

Platform	%
YouTube	29.1%
Netflix	28.7%
Hulu	7.7%

Top Social Media Platforms

Platform	%
TikTok	38%
Snapchat	28%
Instagram	23%

Sr. Research Analysts

Edward Yruma – Global Lifestyle Brands, Retail & Digital Disruptors
Abbie Zvejnieks – Global Lifestyle Brands, Athletic & Footwear
Korinne Wolfmeyer – Beauty & Wellness
Michael Lavery – Consumer Staples
Tom Champion – Internet
Harsh Kumar – Semiconductors
James Fish – Cloud Automation Software
Kevin Barker – Financial Technology
Jason Bednar – Orthodontics
Matt Farrell – Vertical Marketplaces
Brian Mullan – Restaurants

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This company is an unexpected winner of the oil-field services boom (from Bison Interests)...

This month we are sharing another Bison portfolio position: Weatherford International (NASDAQ: WFRD). Weatherford is a storied global oil-field services provider that emerged from bankruptcy in July 2019. Everyone has heard of them, but few are familiar with their current positioning or their strong financial performance, despite the stock rising since COVID lows. This has already been a high performing investment for Bison, and we are happy to share our thesis as we see more potential upside from here.

While consensus estimates and news headlines continue to suggest that the oil market will be well-supplied, forward-looking oil & gas companies are predicting the opposite and are ramping up drilling, exploration, and development activity across the globe. Bison first discussed the possibility of an oil-field services boom in March 2022, and it has now become evident that one is already well underway: E&P capital budgets have rebounded dramatically since their 2020 nadir, DUC inventories have been depleted, and resultantly, services day rates rose dramatically in late 2022 and early 2023.

There also remain critical shortages: parts, equipment, and skilled labor needed to drill and maintain oil and gas wells, driving significant cost inflation for E&Ps and supporting higher oil prices versus pre-COVID levels. In our view, recent strong earnings reports from the three major oil-field services companies, Halliburton (NYSE: HAL), Schlumberger (NYSE: SLB), and Baker Hughes (NASDAQ: BKR), and optimism amongst their management teams, confirm that we are in the early innings of a multi-year oil field services & equipment boom.

Offshore Services Activity

There is uncertainty surrounding where the world's future oil supply will come from: the most easy-to-access, low-cost and economic oil reserves have already been depleted. Additionally, shale productivity has been declining in the U.S, the political environment for oil and gas extraction is becoming increasingly challenging in Western countries, and there's been material underinvestment across the global oil value chain since the prior cycle.

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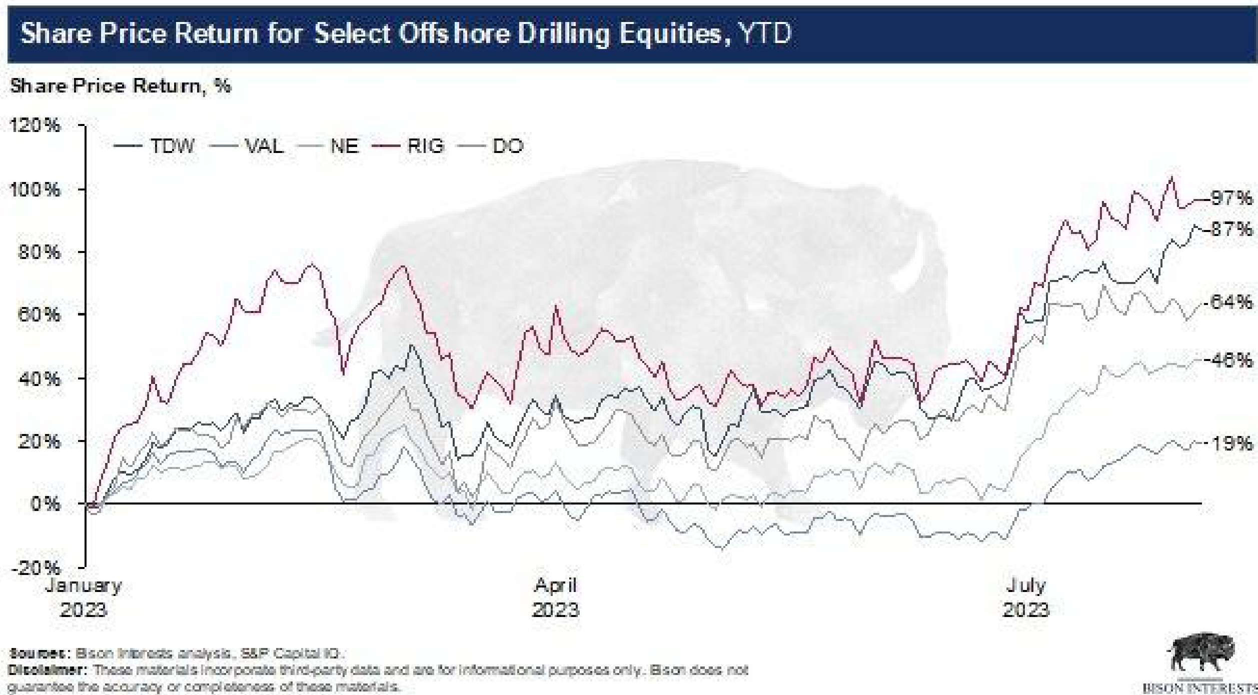
Given these realities, it is no surprise that exploration activity has been accelerating, day rates and utilization on drilling rigs and drill ships have been surging, and many of the major companies—including some that emerged out of bankruptcy—have seen their share prices soar:



The recent ramp-up in offshore drilling activity also reflects the world's skepticism that OPEC+ has sufficient spare capacity remaining to be the "supplier of last resort". With the prospect of higher prices due to limited future supply, oil and gas companies are undertaking capital-intensive and complex offshore exploration and drilling projects in hopes of finding major discoveries, such as in Guyana.

It is likely that most of the world's incremental oil may come from offshore sources, which are more expensive to drill and support structurally higher oil prices. With higher offshore demand, day rates and utilizations for offshore rigs, particularly drill ships and jack ups, have been rising:

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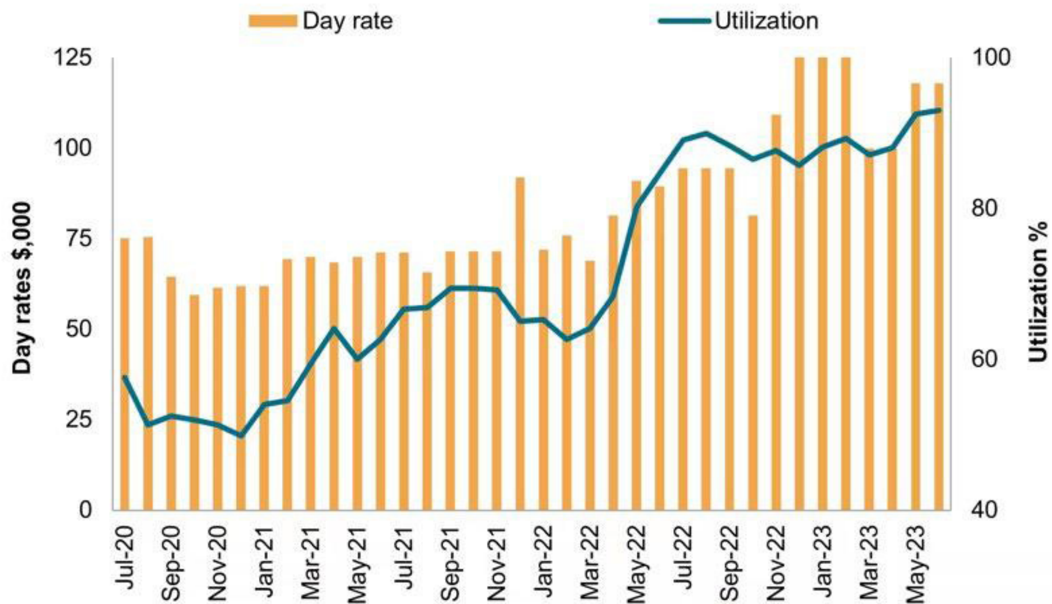

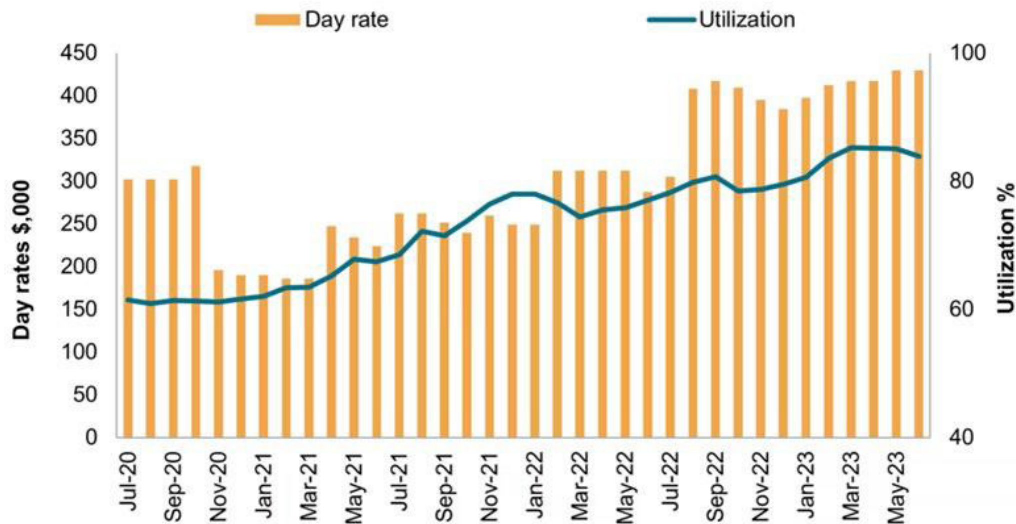

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Weatherford International: Compelling Investment Opportunity

Bison has been investing in equities that stand to benefit from increased offshore and international drilling and development activity and higher day rates. One that remains oddly under the radar is Weatherford International (NASDAQ: WFRD), the forgotten fourth largest global oilfield services company behind Halliburton, Schlumberger, and Baker Hughes.

Weatherford also recently reported strong quarterly earnings. Following excellent second quarter results, it is projecting double digit revenue growth in 2024 on the back of higher international revenues, particularly in the Middle East. The investment case for WFRD is compelling: revenue and margins should continue to expand faster than peers as it continues to secure multi-year contracts, to invest in oil-field technologies with a better margin profile, and as lower equipment utilization results in operating leverage. And despite these tailwinds, WFRD continues to trade at a material discount to peers, offering upside to a re-rate.

Differentiated Services Driving Higher Margins

Weatherford offers a broad range of services, albeit not as broad as Halliburton and Schlumberger. WFRD successfully competes for the same business, as the #1 or #2 in multiple major services lines. And Weatherford has long-term contracts with state-owned supermajors Saudi Aramco and Brazilian Petrobas.

	OFFERINGS	WFRD TECHNOLOGY	WFRD	PEER 1	PEER 2	PEER 3	COMMERCIAL AWARDS
DRE	Managed Pressure Drilling	Victus™, Modus™	Green	Yellow	Red	Yellow	• 3-Year joint operations contract from Saudi Arabian Chevron and Kuwait Gulf Oil Company • 2-Year MPD award from Shell • 2-year MPD award from Asia Operator • Contract extension from IOC in Gulf of Mexico
+	Drilling Services	High Temp LWD, Magnus®	Green	Green	Green	Green	• 3-year million contract with Aramco for drilling services • 5-year contract from PTTEP for offshore drilling campaign • 4-year contract with European operator for high complexity wells
WCC	Tubular Running Services	Vero®, Soloist™	Green	Red	Yellow	Red	• Contracts from Transocean and ENI to deploy Vero® for deep-water operations • 3-year five-rig deep water contract from bp Azerbaijan • 6-year commercial contract from Chevron to deliver TRS in Thailand • 5-year TRS award from Saudi Aramco
+	Cementation Products	V0 stage tools, SSR Plugs	Green	Red	Red	Red	• 3-year contract from Shell for cementing products in the Gulf of Mexico • 3-year contract to provide cemented liner hangers from bp in Azerbaijan
PRI	Intervention Services & Drilling Tools	QuickCut™, Alpha	Green	Red	Green	Red	• 2-year Fishing contract from major Asia operator • 3-year Intervention Services contract from major Asia operator

UNIQUE COMBINATION OF DIFFERENTIATED TECHNOLOGIES;
DIGITAL OFFERINGS & INTEGRATED SERVICES ACCELERATE GROWTH

Green: Comprehensive offering
Yellow: Offering not comprehensive
Red: Not offered

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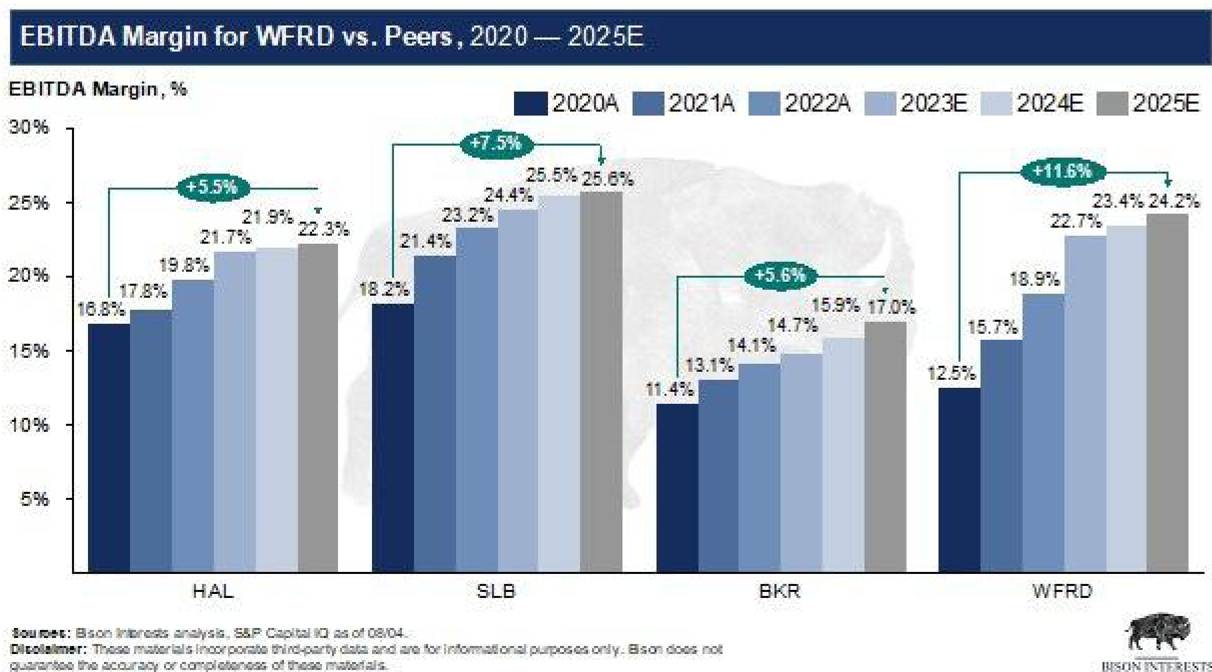
While Weatherford competes with the big three in traditional lines of business, it also continues to invest in technology to grow its specialty services offerings. Weatherford made notable technological advancements in the second quarter, such as growth in the VERO offering and the launch of StingGuard in their tubular running services business, both which enhance safety and efficiency, and the commercialization of Modus in their drilling and evaluation segment. It is also worth noting that Weatherford's higher margin integrated projects offering – a full-scale project management service – has delivered impressive yearly and sequential revenue growth of 289% and 68% respectively.

Weatherford is at the forefront of technology focused growth segments, yet the market is valuing its business as an undifferentiated competitor. In reality, Weatherford has pricing power from high levels of industry utilization, a differentiated service offering with higher margins, and excess capacity to meet incremental market demand. As the oil exploration cycle progresses, we expect Weatherford to capture market share from competitors and to continue to deliver higher margins and cash flow.

In that regard, Weatherford has been growing in line with competitors, but its margins are improving faster and projected to be on the higher end of the peer set by 2025:



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Despite its growth and profitability being in line with peers, and its well differentiated service offering, Weatherford remains out of favor with investors resulting in a compressed valuation:

Company	BKR	HAL	SLB	Average	WFRD
	Trailing & Forward Estimates Oil Field Services Comparables[1]				
Stock Information					
Share Price[2]	$ 36.11	$ 39.94	$ 58.13	**N/A**	$ 83.68
Market Cap (in $MM)	35,903	35,070	81,677	**50,883**	5,974
Enterprise Value (in $MM)[2]	38,901	42,075	92,299	**57,758**	7,407
EV/EBITDA					
TTM	11.6x	8.2x	13.7x	**11.2x**	6.9x
NTM	9.5x	7.9x	10.7x	**9.4x**	5.9x
Levered FCF Yield, %					
TTM	5.5%	4.4%	1.9%	**3.9%**	7.0%
NTM	5.0%	6.0%	4.4%	**5.1%**	5.7%
Net Debt/EBITDA[3]					
TTM	0.9x	1.4x	1.5x	**1.2x**	1.2x
NTM	0.7x	1.3x	1.2x	**1.1x**	1.0x

Sources: Bison Interests analysis, Analyst Consensus Estimates.
1. Estimates as of 07/27. 2.Share prices as of 08/03. 3. Calculated based on current net debt and forward EBITDA estimates.

As can be seen above, Weatherford has traded at a ~60% discount to peers over the last twelve months on an EV/EBITDA basis, despite generating 80% more free cash flow with similar levels of leverage. On a forward basis, this implies ~80% upside to Weatherford's equity if it were to trade in line with peers. And given Weatherford's rapid growth and better margin profile, we contend that it should command a valuation premium to peers.

Weatherford Is Best Positioned to Benefit from the Oil-Field Services Boom

Another underappreciated driver of Weatherford's historical and projected margin growth is the relative under-utilization of its equipment and services compared to peers. There has been considerable tightness of supply for oil field equipment, we believe Weatherford has more capacity to service incremental demand than peers.

Weatherford does not disclose utilization rates for its equipment in its public filings. Instead, we proxied its equipment and crew utilization rate relative to peers by determining the contribution of capital expenditure relative to EBITDA growth. We found Weatherford's capital efficiency to be substantially higher than peers in this regard:

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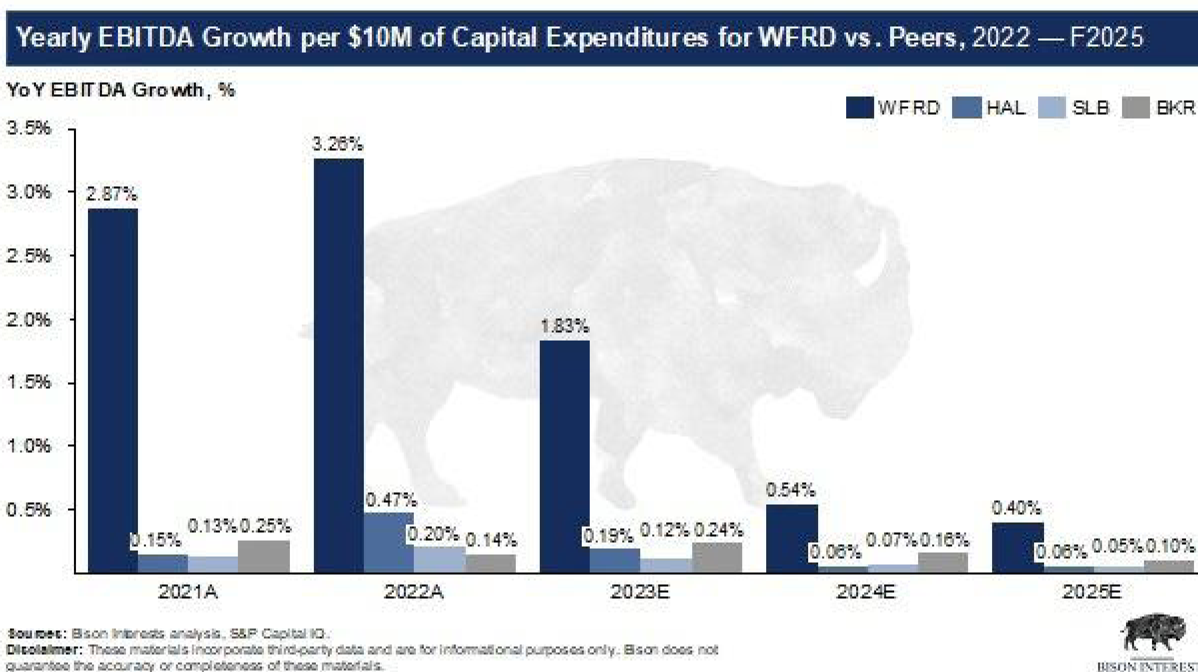

Day rates for rigs and various other services have risen substantially since the start of the oil field services boom, and some of those contracts are locked in at a fixed price over multiple years. With more spare equipment and services capacity, Weatherford is in a unique position to be able to service incremental demand better than competitors at a higher market price, which may be a driver of Weatherford's further outperformance over time.

Risks & Mitigating Factors

The most prominent risk for Weatherford is a slowdown in global oil drilling and exploration activity, for which the most likely catalyst is a recession-induced drop in oil prices.

We have discussed recession concerns extensively in prior white papers. While a recession is possible, key economic indicators suggest that it may not come as soon as consensus expectations. And even if a recession does materialize, it isn't immediately clear that oil demand would drop sufficiently to balance a market which is already undersupplied. It is also worth noting that Weatherford secures its revenue primarily via multi-year contracts, which dampens the effects of short-term commodity price fluctuations on its revenues.

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As with all undervalued securities, there is always the risk that Weatherford's equity valuation discount persists even as profitability improves, implying that it might take longer to re-rate than expected. In our view, an investment in Weatherford has multiple paths to a successful outcome: even if the shares continue to trade at a discount to peers, Weatherford is expected to more than double its free cash flow in 2023 to ~$500MM from $217MM. The implication is that there is always room to retire stock or institute a dividend to close the valuation gap in public markets.

Conclusions/Takeaways

The oil-field services boom is already well underway, and Weatherford is the most likely beneficiary given its higher margin services and spare equipment capacity. Weatherford has fallen out of favor with investors following its bankruptcy in 2019, and few seem to have taken notice of its improved balance sheet, rapid growth and rapidly improving margin profile.

Despite these improvements, consensus estimates show Weatherford trading at a ~40% discount to peers. This presents an opportunity to invest in a well-run and capitalized competitor in the oil field services business, whose profitability is rapidly improving, at a fraction of the price.

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What you should know before investing in U.S. cannabis companies (from Mindset Value)...

"It's good to learn from your mistakes. It's better to learn from other people's mistakes." – Warren Buffett

Running a Multi-State Operator (MSO) cannabis business sounds impossibly complex. Imagine running a business in which you are a farmer, manufacturer, distributor, wholesaler, operate kitchens, operate retail stores, and try to create brands in what is effectively multiple countries with wildly different regulatory rules and where you can't send products across borders because it is against the law. How could any organization possibly hope to succeed?

But this wasn't my realization when I first started investing in cannabis. It wasn't clear with MSOs, which had limited competition and abnormally high cannabis pricing in limited license states, that the sheer complexity was a problem. Cash flows were soaring, growth seemed endless and cannabis companies were in a race to build out or acquire their geographic footprints in different states.

The cracks started showing, however, once limited license states became more competitive. Suddenly cash flow growth started to disappear, and companies seemed to be on a hamster wheel of a new market replacing the disappearing cash flow from previous hot markets. And now we can see it in the numbers of almost every large MSO.

And few companies epitomize this problem more than AYR Wellness (Canada: AYR, OTC: AYRWF).

The problem for AYR and many other MSOs is that the company moved too fast and acquired a bunch of disparate companies and licenses. Worse yet, AYR financed many of its acquisitions with debt and without fully appreciating the complexity of managing such an unwieldy enterprise. When competition increased in AYR's markets, EBITDA stopped growing and the forecasted jump in cash flow and the arrival of actual free cash flow never materialized.

And when interest rates jumped and cannabis reform was pushed out, capital became very tight at the same time AYR was wrestling with the indigestion of too many acquisitions. With a heavy debt load, AYR's share price plunged from a 2021 high of $35 per share to as low as $0.80 a share earlier this year.

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It was learning from the mistake I made investing in AYR that led me to hunt for those companies who could be narrowly focused and could prove to me that they could win in the most competitive states. I wanted companies which were laser focused on operational excellence, and this led me to investing in Grown Rogue (Canada: GRIN, OTC: GRUSF), which is the best performing cannabis stock this year.

Consider that instead of racing to expand into limited licenses, Grown Rogue first set out to win in one of the toughest cannabis markets: Oregon. With very low flower prices, a discerning customer and unlimited competition, if you don't make fantastic products for a low cost, you will go out of business in Oregon. Grown Rogue is now the #1 flower in Oregon and free cash flow positive. They then entered Michigan for $4 million and are now a top 5 indoor flower.

And Grown Rogue just announced they are entering New Jersey for what looks like an all-in cost of $5-$6 million, a far cry from the $101 million AYR spent not two years ago.

Disciplined, step by step growth based upon operational execution is the Grown Rogue way and I believe it is helping them stand out.

In addition to being all in with Grown Rogue, I also just made a very exciting investment in a private California company focused solely on manufacturing excellence in pre-rolls and edibles and I'm very excited to announce that investment soon. Our investment will enable this company to bring its operational excellence in manufacturing to more limited license markets.

But coming back to AYR, I'm not the only one who was taught a lesson. AYR itself has been licking its wounds from its own experience. The company has been forced to pull back and painfully restructure. First, it took losses and exited Arizona and then it withdrew from expanding into Illinois. It has gone through a few rounds of layoffs and has a new CEO.

And just last week, it announced a debt restructuring which included pushing debt maturities out and issuing equity to debt holders and finally infused new debt capital into the company. As painful as these announcements are to existing equity holders, they are necessary and are the start to giving the company room to turn things around, allow it to optimize existing assets and give the company time for three of its markets, Ohio, Pennsylvania, and Florida to go from medical- to adult use-states. Ohio just approved adult use and it looks like it will launch by September 2024.

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Finally, it appears that 280e taxation will go away when the Federal government reclassifies cannabis from a Schedule 1 drug to Schedule 3. This could mean an improvement in free cash flow of more than $40 million a year to AYR.

I think there is potential in AYR's turnaround, and that the medicine they have taken should serve them well. And it is for this reason that my fund has been buying debt in AYR as I continue to hunt for opportunities in cannabis where there is yield plus equity upside. AYR's debt is senior secured and the restructuring means debt holders will be receiving shares in AYR. Earning a 20%+ yield with equity upside in a senior secured instrument in a company with multiple potential catalysts on the horizon is simply too good of a risk/reward to ignore.

AYR will not be the last MSO to restructure, and rationalization of the industry is a good thing that should lead to a healthier, more sustainable sector. Despite the lack of capital and the hardships in the industry, I think AYR's restructuring is good news, and its debt is a pretty good value right now. And the more restructurings and the more rationalization that take place in cannabis the more bullish I become.

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A potential low-risk, high-return opportunity in a boring, low-tech industry (from Voss Capital)...

While the market has been focused on GPU chips and AI scripts, our attention has been on cement blocks and crushed rocks. We've enthusiastically made CRH one of our largest positions ever at cost due to what we believe is very limited downside for a best-in-class operator with multi-year earnings growth visibility. CRH is among the largest aggregates and infrastructure companies in the United States and Europe and recently relisted to the NYSE from the LSE, which we believe will be a catalyst for a re-rating upwards towards peer valuations as the stock represents undeniable value hiding in plain sight.

Company Overview

In 1970, Cement Limited and Roadstone Limited, two Irish infrastructure-focused companies, combined to form Cement and Roadstone Holdings, or "CRH." An investment of $1 million into CRH upon its founding 53 years ago would have turned into $1.5 billion by mid-year 2023, an annualized total return to investors of 15.0%, a high rate of compounding we think can continue.

Half a century of success at CRH has been driven by disciplined operations and capital allocation that we believe derives from a company culture built around appropriate financial incentives. CRH's M&A playbook has proven to be successful as an acquisitive company like CRH can't compound at a rate of 15% over 50 years unless acquisitions and divestitures have been executed at attractive prices. Over the last five years, CRH has spent $10.3 billion on acquisitions while receiving $10.5 billion in proceeds from divestitures across dozens of transactions, with the average acquisition multiple ranging from 7x – 8x EBITDA and the average exit multiple clocking in at 11x EBITDA.

The Company reports under four segments split by geography and product category: Europe Materials, Europe Building Solutions, North America Materials, and North America Building Solutions.

Approximately 75% of EBITDA is generated from the North American divisions (10% higher than the average S&P 500 company) with the company guiding for this to rise to 90% by the end of the decade.

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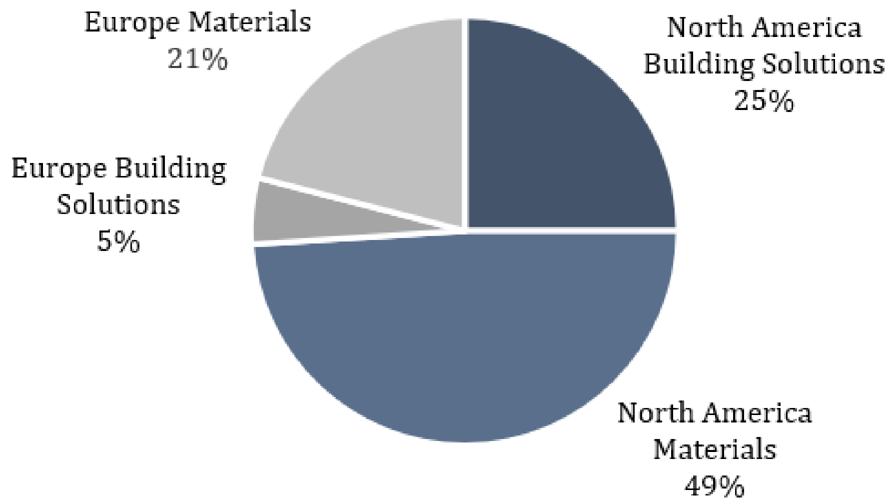
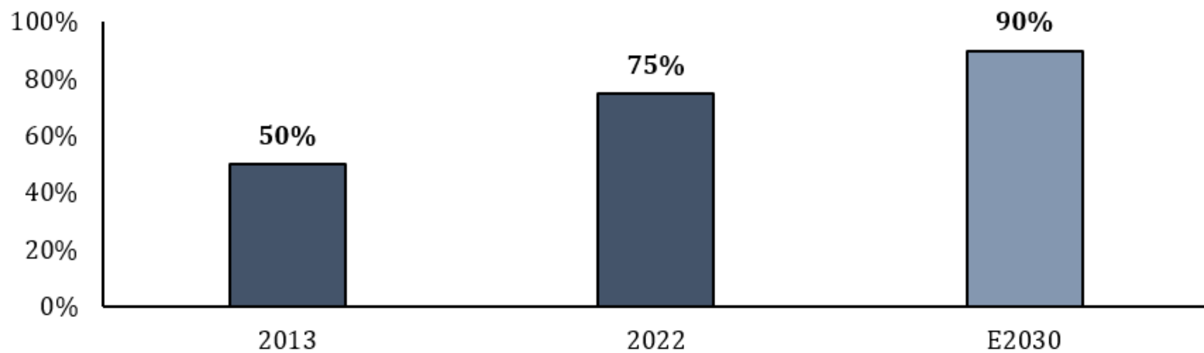


Source: Company filings



Source: Company filings and management commentary

Infrastructure represents the largest end market for CRH at 40% of revenue and Repair, Maintenance and Improvement accounts for just over half of end market use.

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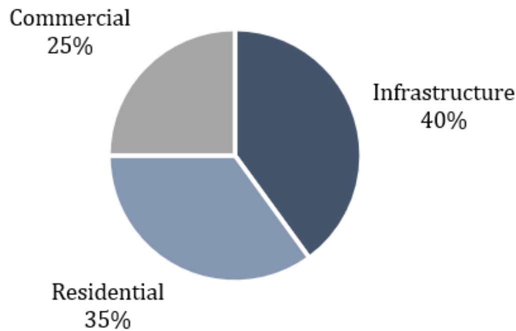

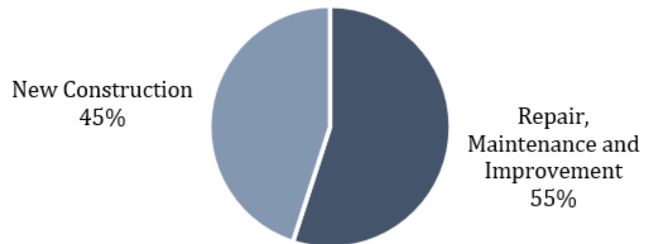

Source: Company filings

Materials

The Materials segments are vertically integrated as CRH produces and supplies aggregates, cement, ready-mix concrete, and asphalt, as well as providing related services such as road paving.

AGGREGATES
#1 Aggregates Producer in North America

ASPHALT & ROAD PAVING
#1 Road Paver in the United States
#1 Asphalt Production

CEMENT & CONCRETE
#3 Cement Producer in the US
#3 Ready Mix Concrete Producer

Source: Company filings

The aggregates business in particular has terrific economics as most operate as local oligopolies or monopolies. If you are a user of aggregates, you will almost certainly use quarry closest to your project given the costs to transport are so high. Given this dynamic, the industry has historically enjoyed stable annual pricing increases and over the last 52 years, aggregate annual pricing has only dropped in three of those years (and only -1.5% on average). CRH is sitting pretty with the largest aggregated mineral reserves in North America at 19 billion tons – comfortably more than Martin Marietta (17 billion tons) and Vulcan Materials (16 billion tons).

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On the cement side of the business, industry dynamics are much like Greg Focker's portfolio – strong to quite strong – and CRH has about 11% market share across its 12 plants in North America. It is very difficult to add cement capacity in the United States because of stringent environmental regulations so the domestically produced supply is maxed out at around 100M metric tons per year. At the same time, even with depressed residential development as of late, US demand is currently running at ~120M metric tons per year. Excess demand is supplied by imports, which come at a significantly higher cost than domestically supplied cement. To state the obvious, this supply/demand dynamic has been very favorable for cement pricing, a trend we see continuing.

CRH is also among the largest asphalt manufacturing and paving companies in the United States and has clear advantages of scale that help the Company produce best-in-class margins on its product. Bitumen is a key component in producing asphalt and due to CRH's massive size, they have a "winter-fill" program that allows the Company to acquire bitumen cheaply in the winter months and store it for use during warmer construction months. Smaller competitors lack access to the kind of infrastructure needed to do this.

Building Solutions

The Building Solutions segments manufacture and supply outdoor products such as hardscapes, fencing, railing, masonry, packaged products, lawn and garden, pool finishes, and composite decking, in addition to concrete infrastructure, precast products, drainage systems, water management, and other construction components.

Source: Company filings

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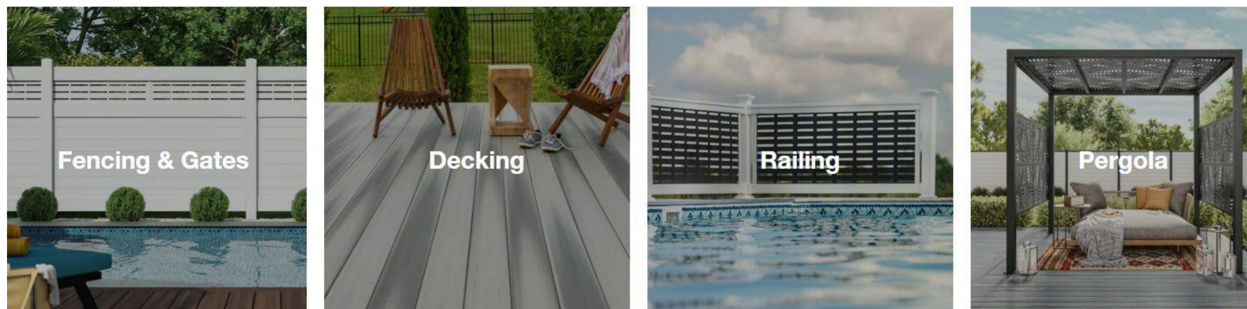
The first subsegment of Building Solutions is the Outdoor Living business. This business has one of the broadest offerings of products for public and private outdoor spaces including Pebble Tech pool finishes, MoistureShield composite decking, Barrette railing and fencing, and Belgard paver stones and outdoor kitchens. If you have recently remodeled your backyard, it is highly probable that you've installed at least one of their products.



Source: Barrette Outdoor

The other subsegment of the Building Solutions segment is the Building & Infrastructure business. This business provides critical infrastructure for connecting, protecting, and transporting water, energy, and telecommunications infrastructure. This segment thrives on large complex projects.

The key differentiator for CRH is its vertical integration. Materials produced in the upstream aggregates and cement business are supplied as components to downstream businesses like asphalt and ready-mix concrete.

Rock to road … capturing value through the chain … ~4x more profitable vs. 3rd party sales

Source: Company filings

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This integration between the Materials business and the Building Solutions business provides customers with end-to-end solutions whereby they only must deal with one vendor instead of multiple. This helps projects get completed on time and on budget. CRH can construct components off-site and deliver them on an as needed basis, reducing labor on-site and idle time from unorganized logistics scheduling between disparate third party vendors.and as mentioned, is fully integrated with the upstream Materials business. CRH is heavily involved early in a project's lifecycle, beginning with the design phase, and they develop customized solutions given their expertise and broad capabilities.

U.S. Infrastructure Tailwinds

As one of the largest building materials businesses in North America, CRH may be the single largest beneficiary of the recent unprecedented government infrastructure spending programs, including the Infrastructure Investment and Jobs Act (IIJA), CHIPS and Science Act (CHIPS), and the Inflation Reduction Act (IRA). For instance, of the $1.2 trillion in IIJA funds, about $350B is allocated to Highway funding, and CRH is the #1 road paver in the U.S. Throughout the 5- year life of the spending bill, it is estimated that annual federal spending on highways will increase by 50% above the baseline 2021 spend from $47 billion per year to north of $70B per year. The IIJA has been touted as the most transformative public investment program since the 1930's.

Perhaps equally as important as the IIJA spending is the onshoring of manufacturing that is occurring in the United States, with the support of the CHIPS and IRA. This has led to $200B+ of major commercial projects that have already been announced to bring critical manufacturing back to the US. These "mega projects" are squarely in the sweet spot for CRH, and they offer significant visibility for the infrastructure business through 2030. The Company has quantified the expected increase in annual manufacturing-related spending in the US as 2.5x higher than previous levels.

Below are estimates from TRG Research on the combined increase in annual spend across the three major bills by vertical.

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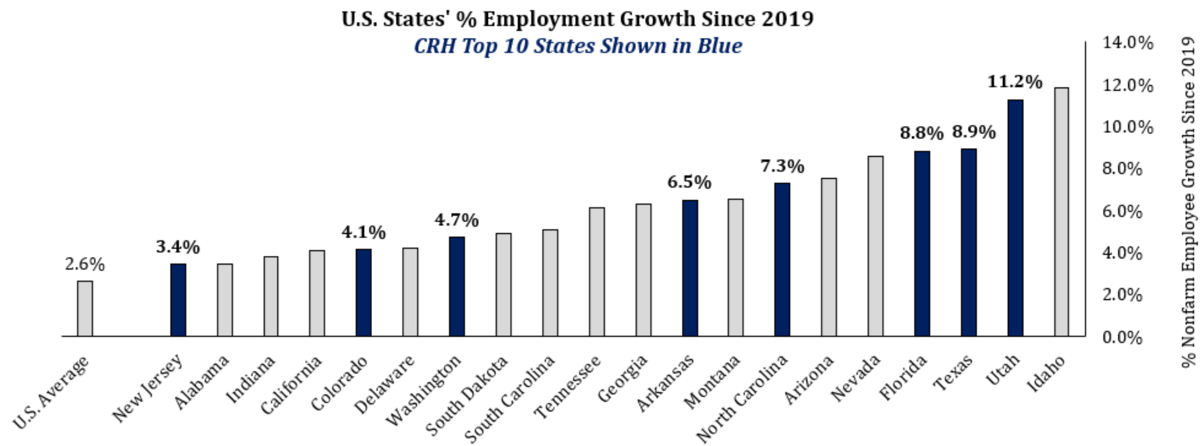
Non-Residential Put-in-Place Construction Spending for CRH Relevant Verticals

Vertical	Annualized March 2023	+ Contribution from IIJA, CHIPS and IRA	+ Organic	Est. Annualized Next 7 Years	**Δ in Annual Spend**
Transportation	$61	$26	$2	$89	**46%**
Communication	$25	$13	$2	$40	**60%**
Power	$114	$61	$2	$176	**55%**
Highway & Street	$123	$22	$2	$147	**20%**
Sewage & Waste	$38	$5	$2	$45	**19%**
Water Supply	$25	$15	$2	$41	**67%**
Manufacturing	$147	$29	$3	$179	**22%**

Source: TRG Research

Additionally, many of CRH's top markets are benefiting from ongoing interstate migration and strong job growth, with three of CRH's top states ranking among the top four in terms of employment growth since 2019. Not only will strong local economies help to keep state budgets flush at their current record levels, but this growth necessitates increased infrastructure investment, and a significant piece of IIJA funding will go to these states.



Source: BLS

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Q3 2023 Comments from Competitors

We can also look to recent commentary on Q3 earnings calls from CRH comps to get a sense for what the public infrastructure side is looking like heading into 2024.

Vulcan Materials

- "On the public side, leading indicators remain supportive of continued growth in both highway and infrastructure. **Trailing 12-month highway starts are up 18%, and 2024 state budgets are at record levels.** We continue to expect **accelerating growth in public construction activity into next year and continued growth for the next several years.**"

Summit Materials:

- " Let's start first with what we know, and that is **2024 is setting up to be another strong year for pricing."**
- " For public [end markets]... our **leading indicators for future activity are flashing green**. Fiscal 2024 DOT budgets for our top five public states are up 14%, lettings on a trailing 12-month basis are up nearly 26%... our public backlogs in key markets are nearly double prior year, as **demand is robust and accelerating for infrastructure projects.**"
- "I always use Texas as our bellwether state on how we're doing on backlogs. They're nearly double what we had last year and they're building. So bottom line for all that data I gave you was public [infrastructure] is very strong. We continue to see that into 2024."

Martin Marietta

- "The value of state and local government highway, bridge and tunnel contract awards a leading indicator for our future product demand is meaningfully higher year-over-year. These **infrastructure contract awards grew 18% to a record $114 billion** for the 12-month period ending September 30, 2022"

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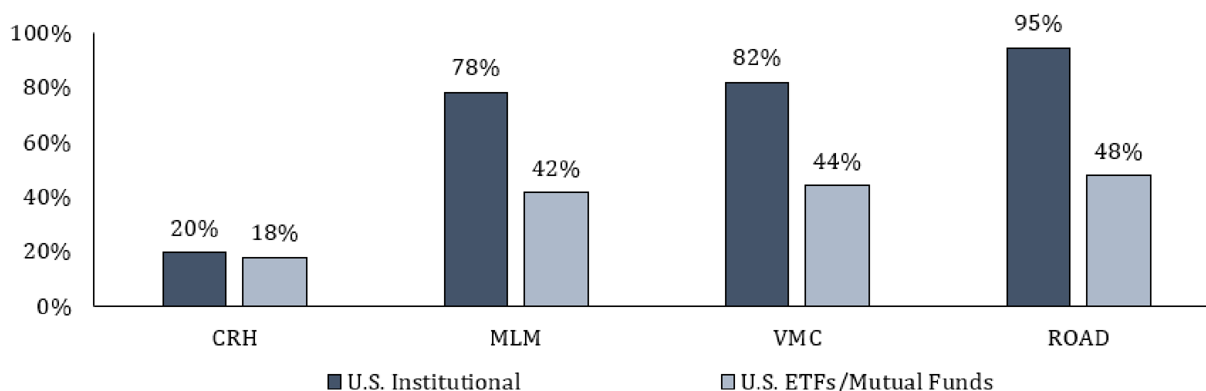
Relisting

As noted above, CRH completed a relisting to the US on September 25th and now maintains a primary listing on the NYSE, with a secondary listing on the London Stock Exchange. This relisting will entice more investors over the coming year to rerate the stock much closer to US peer valuations rather than languishing at European peer valuations. Once the sell side and US-based investors grow familiar with the name, we believe the inexplicable valuation gap will be too hard to ignore and the market will do its job of appropriately valuing CRH as the best-of-breed operator within an advantageous industry.

In addition to increased investor awareness, the Company has cited increased business opportunities as CRH will appeal more to customers who favor dealing with US-based companies, not the least of which are state and local governments. It will also provide better opportunities on the M&A side through better visibility and a strong currency in US company stock for potential acquirees.

CRH aims to be well represented in U.S.-based indices and once the Company files its 2023 10-K around March 2024, it will be eligible to be included in the S&P 500, which provides another major catalyst from passive flows and index-constrained active managers alike. As of Q2 2023, prior to the re-listing, CRH's ownership base included a fraction of the amount of U.S. institutions and funds relative to U.S. listed comps.



Source: Factset

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Valuation

We believe the current valuation of CRH provides for limited downside and is significantly cheaper than peers despite being a best-in-class operator across all the business segments the Company competes in. CRH trades at an 11.5x P/E based on the '24 consensus and 7.0x EV/EBITDA (6.4x our estimate). As shown below, the most relevant peers are trading around 10x - 15× 2024 EV/EBITDA and around 18x - 28x on an earnings basis.

	Company	Ticker		EV	Rev. Growth '24/'23	2024E EBITDA	EBITDA Margin	Net Leverage	'24 EV/EBITDA	'24 P/E
Construction Materials	Martin Marietta	MLM	$	30,462	8.2%	2,280	28.5%	2.3x	13.4x	20.4x
	Vulcan Materials	VMC	$	30,564	8.3%	2,230	24.9%	1.9x	13.7x	24.3x
	Summit Materials	SUM	$	4,966	5.9%	614	23.1%	2.0x	8.1x	18.5x
	Eagle Materials	EXP	$	6,512	6.0%	872	35.7%	1.3x	7.5x	10.3x
Building Products	Masco Corporation	MAS	$	14,077	3.3%	1,492	17.8%	2.0x	9.4x	12.7x
	Trex Company	TREX	$	6,335	12.1%	359	28.4%	1.2x	17.6x	25.9x
	The AZEK Company	AZEK	$	4,342	8.8%	342	22.9%	1.7x	12.7x	24.5x
	Advanced Drainage Systems	WMS	$	9,735	7.0%	911	28.7%	1.3x	10.7x	16.8x
Construction Services	Granite Constructions	GVA	$	1,597	7.0%	362	7.8%	0.2x	4.4x	8.5x
	Construction Partners	ROAD	$	2,404	10.6%	205	10.1%	2.3x	11.7x	28.3x
	Quanta Services	PWR	$	27,820	9.4%	2,150	9.9%	2.0x	12.9x	19.6x
	Median		**$**	**6,512**	**8.2%**	**872**	**23.1%**	**1.9x**	**11.7x**	**19.6x**
	CRH		**$**	**43,283**	**7.9%**	**6,750***	**18.1%**	**0.8x**	**6.4x**	**10.8x**

* Voss estimates

Source: Capital IQ and Voss estimates

CRH currently trades at this significant discount despite having much lower leverage as well as better cash flow conversion and higher ROIC than the materials-only pure plays given CRH's vertically integrated business model.

Materials only ("Pure-play")	
EBITDA Margin	~25%
Cash Conversion	~70%
Returns	~9%

Vs.

CRH Americas integrated offering		
EBITDA Margin	~20%	… lower margin
Cash Conversion	~80%	… but higher cash
Returns	~15%	… and greater asset utilization

Source: Company filings

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It is also worth highlighting the fact that the Company has provided guidance for **$35B of cash generation over the next five years, an amount equal to >90% of the company's current market cap**. We estimate this is comprised of $25B of FCF generation and $10B from re-levering the balance sheet from 0.8x net debt/EBITDA to about ~2.0x.

Our price target, based on our 2025 estimates, uses a 10.3x EV/EBITDA multiple, which implies a ~20x P/E multiple. ***This equates to a ~$120 per share value (including dividends received), which is ~118% above the current price of $55.***

These assumptions are conservative relative to historical comparable company valuations of around 20x – 30x NTM P/E.

We think U.S. investors will soon recognize that a company with this level of stability, cash flow generation, capital allocation track record, and robust earnings growth visibility is a value too great to ignore at 11x earnings.

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The healthcare sector appears to be consolidating for a significant long-term move (from Seth Golden via X)...

Something about the longer the base, the higher in space.

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The case for international diversification today (from Market Sentiment)...

In the 2018 Berkshire Hathaway shareholder letter, Warren Buffett brilliantly explains how *The American Tailwind* was instrumental in the success of Berkshire.

> *On March 11, it will be 77 years since I first invested in an American business. The year was 1942, I was 11, and I went all in, investing $114.75 I had begun accumulating at age six. What I bought was three shares of Cities Service preferred stock. I had become a capitalist, and it felt good.*

Buffett highlights that if he had invested it into a no-fee S&P 500 index fund, it would have grown to $600K+ by 2019 — **a gain of 5,288x in 77 years.**

> *Our country's almost unbelievable prosperity has been gained in a bipartisan manner. Since 1942, we have had seven Republican presidents and seven Democrats.*
>
> *In the years they served, the country contended at various times with a long period of viral inflation, a 21% prime rate, several controversial and costly wars, the resignation of a president, a pervasive collapse in home values, a paralyzing financial panic and a host of other problems. All engendered scary headlines; all are now history.*
>
> *Christopher Wren, architect of St. Paul's Cathedral, lies buried within that London church. Near his tomb are posted these words of description (translated from Latin): "If you would seek my monument, look around you."*
>
> *Those skeptical of America's economic playbook should heed his message.*

Yet, in the end, Buffett acknowledges the importance of investing in other countries apart from the U.S. *[emphasis by author]*

> *There are also many other countries around the world that have bright futures. About that, we should rejoice: Americans will be both more prosperous and safer if all nations thrive.* ***At Berkshire, we hope to invest significant sums across borders.***

Buffett soon walked the talk by buying up shares in a series of Japanese Conglomerates[1] in 2020. Charlie Munger went on record to say that the investment was a no-brainer as they could borrow money in Japan for as low as 0.5% and then buy high-quality stocks that paid 5% dividends[2].

> *If you're as smart as Warren Buffett, maybe two or three times a century, you get an idea like that. — Charlie Munger on Berkshire's Japanese investments.*

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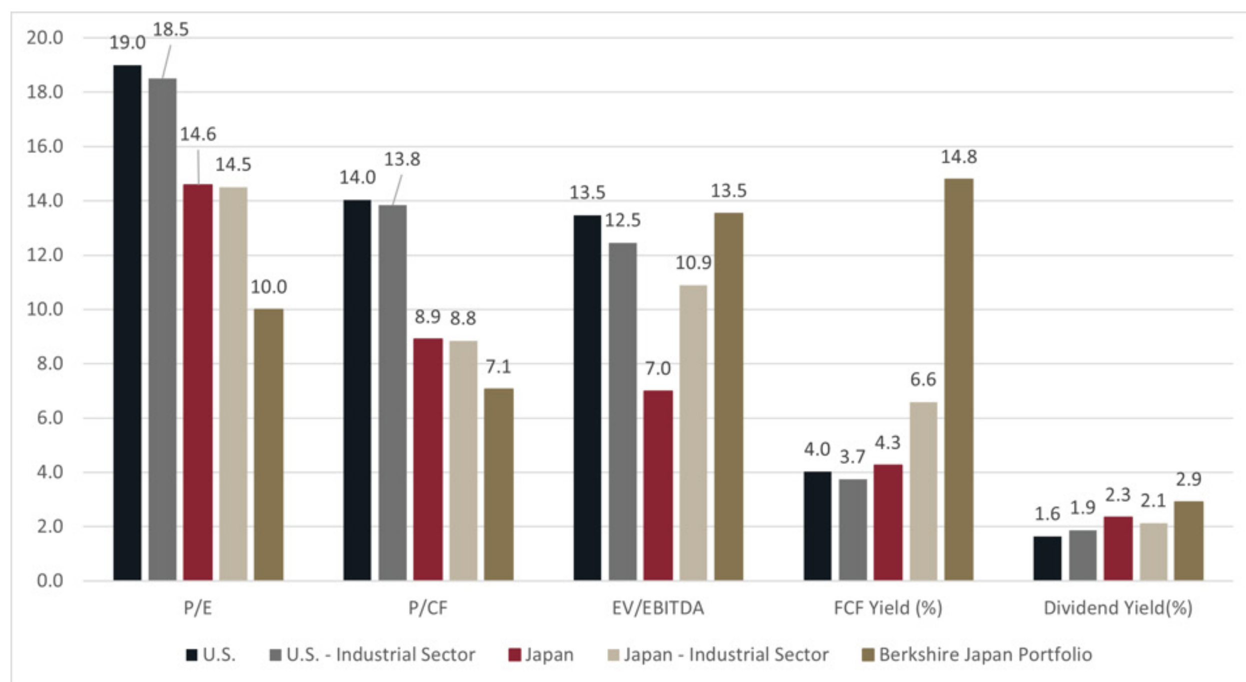
The investments have paid dividends – literally! In just three years, the $6 billion investment has grown to $17 billion, a ~3x return in three years. Buffett remains a value investor at heart, investing in companies trading at a sizable discount to U.S. and Japanese market valuations.



Valuation measures for Buffet's Japanese investments | *Source:* Forbes

In investing, there is a well-known phenomenon known as the home country bias. It's where investors favor companies from their own country and tend to be either pessimistic or indifferent toward foreign markets. Expecting your country to outperform all other markets is definitely patriotic, but it sure isn't rational.

The U.S. Story

For a generation of investors, investing in the U.S. market has been a winning experience:

- The U.S. accounts for 58% of the world stock market capitalization.
- From 1900 to 2021, the U.S. market outperformed non-US by 2.1% annualized[3].
- For the last 12.6 years, US equity has outperformed International equity[4].

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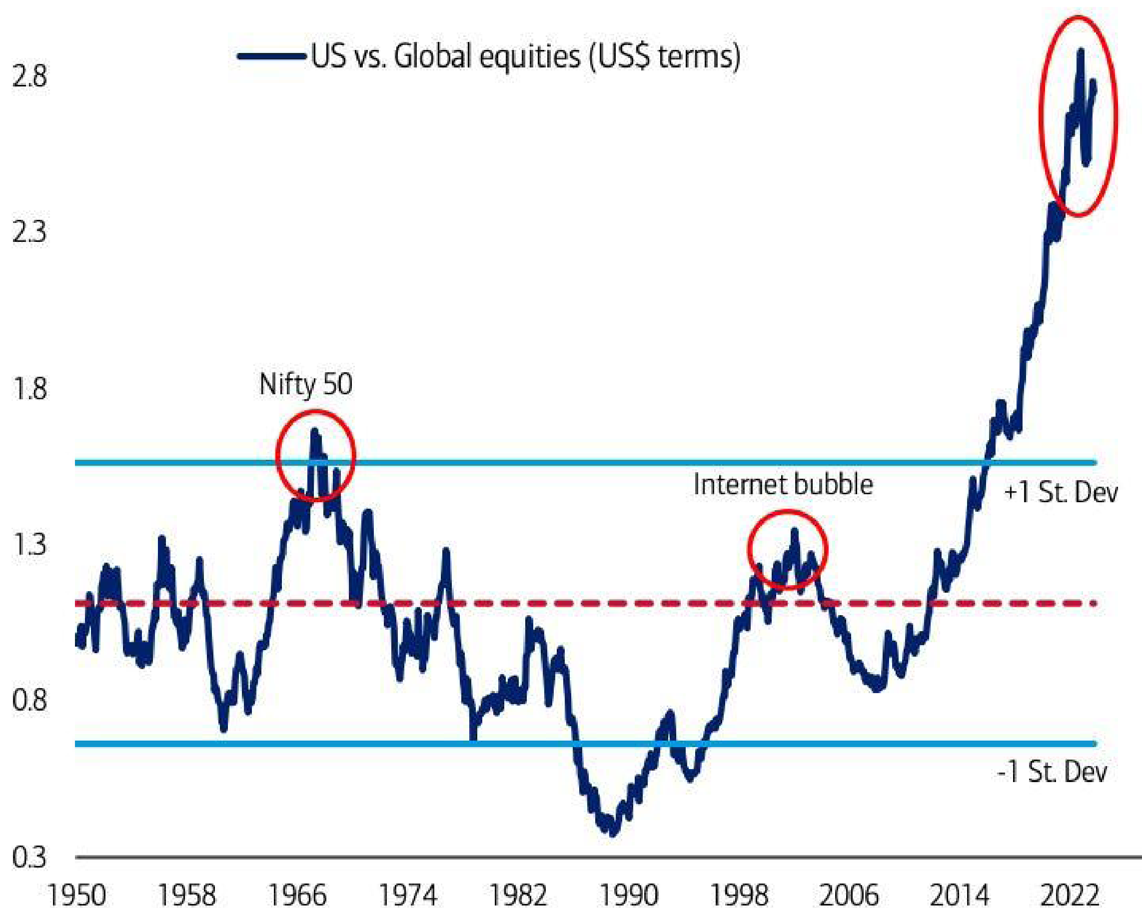
This incredible outperformance has caused virtually all U.S. investors to overweight U.S. stocks in their portfolios. This continuous outperformance and the expectation of outperformance have caused some worrisome trends to emerge:

1. U.S. equities are now trading close to ATH vs the Rest of World stocks

BofA recently put out this stunning chart showing how U.S. equities are trading compared to Global equities. The U.S equities reached an all-time high against the "rest-of-world" stocks in October 2022, and now we are trading at 5% below the high.

This outperformance over the last 15 years is chiefly due to a dominance in technology and large amounts of liquidity injected by the central bank during the COVID-19 crisis. If we are betting on the U.S. market, it means that we are betting on continued *U.S. exceptionalism*.



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2. Tech stocks contribute more to the S&P 500 than they did during the dot-com bubble

As of October 30, 2023, the S&P 500 gained 8.5% this year, but the equal-weight S&P 500 index was down 4%! The top 7 tech stocks[5] are contributing close to 28% of the index, and investor excitement about Artificial Intelligence is driving up tech stocks. The last time we saw such a significant outperformance in tech stocks was during the dot-com bubble.

Monthly data; Note: Computer Hardware sector index was used prior to 1990
Source: BofA Global Investment Strategy, Global Financial Data, Bloomberg

BofA GLOBAL RESEARCH

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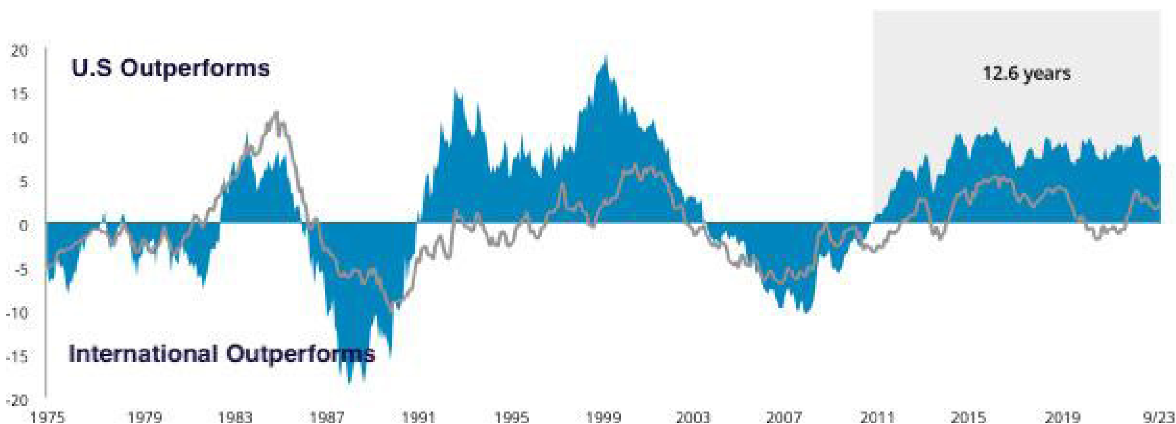
3. The majority of U.S. market outperformance comes from valuation change and not fundamental improvements

AQR research recently published a report in which they argued that the U.S. outperformance was mainly driven by valuation changes rather than fundamental improvements in the economy *[emphasis ours]*:

> *Since 1990, the vast majority of the U.S.'s outperformance versus the MSCI EAFE Index (currency hedged) of a whopping +4.6% per year, was* ***due to changes in valuations.***
>
> *The culprit: In 1990, U.S. equity valuations (using Shiller CAPE) were about half that of EAFE; at the end of 2022, they were 1.5 times EAFE. Once you control for this tripling of relative valuations, the 4.6% return advantage falls to a statistically insignificant 1.2%.*
>
> *In other words,* ***the U.S. victory over EAFE for the last three decades—for most investors' entire professional careers—came overwhelmingly from the U.S. market simply getting more expensive than EAFE.***

Almost everyone considers the U.S. to be the best market, which in turn pushes the prices of securities upward. As value investing teaches us, **winning simply because the other person is willing to pay more is not a sustainable strategy.**

Finally, if you invest long enough, you will encounter one of the stock market's most pervasive phenomena: **Mean Reversion.** No outperformance lasts forever, and markets tend to revert to their long-term averages over time. Going back two decades, we can see that international markets outperformed the U.S. market from 2003 to 2011. If history is any guide, it's only a matter of time before international stocks have their day in the sun.



INVESTMENT CHRONICLES

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U.S. Equity vs. International Equity five-year monthly rolling returns | *Source: hartfordfunds.com*

In the words of Howard Marks from his book *The Most Important Thing [emphasis ours]*:

> *I think it's essential to remember that just about everything is cyclical.*
>
> *There's little I'm certain of, but these things are true:* ***Cycles always prevail eventually****.* ***Nothing goes in one direction forever.*** *Trees don't grow to the sky. Few things go to zero. And there's little that's as dangerous for investor health as insistence on extrapolating today's events into the future.*

Continue reading (subscription may be required).

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Brazilian stocks could be on the verge of a big move higher (from Otavio Costa via X)...

The significance of this chart is growing by the minute. Brazilian equities just poked their head above a 13-year resistance, likely marking a key breakout.

From my perspective: Companies operating in resource-rich economies present a compelling macro, value, and even technical proposition at their current price levels.

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Billionaire value investor Mohnish Pabrai is super bullish on these coal companies (from Special Situation Investing)...

The consensus says coal is dead. We, on the other hand, believe coal investments will outperform.

Our curiosity behind this conviction led to multiple coal company write-ups throughout 2023. In February, we published our first piece of many on Natural Resource Partners. In March, we did a short write-up on Teck Resources. In June, we put out a piece called *The Cannibal Coal Company* on CONSOL Energy and in August we wrote-up Alpha Metallurgical Resources in the piece *A Buyback Monster*. Most recently, we did a piece on the little-known coal company, Beaver Coal.

Interest in CONSOL Energy (CEIX) and Alpha Metallurgical Resources (AMR) specifically was peaked because of large positions initiated by two investors we respect—David Einhorn purchased of CONSOL and Mohnish Pabrai bought both CONSOL and Alpha. After digging in for ourselves, we argued both companies had upside potential based on the combo of high cash flows and aggressive share repurchases. For example, about CONSOL, we wrote:

> [It] could buy back somewhere between 23% and 34% of the company's market cap over the next year. This in turn...could lead to a return of 30% to 51%. So as we can see, CONSOL is set up to potentially literally force a solid return simply by allocating its strong FCF to share buybacks.

Both securities are up about 50% over the last six months after commencing their respective buyback plans as shown in the chart below.

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CEIX (black) and AMR (green) | barchart.com

In this piece we'll provide an update on the buyback programs of the coal companies in Pabrai's portfolio—two old and one new—and then share an insight into his decision to buy.

The Update

As 13F filings trickled in over the last couple weeks, we were curious to see how these two investors adjusted their coal positions in Q3. The results were mixed.

Possibly reacting to CONSOL's price rise, Einhorn trimmed his position approximately 15%, but the company remains his second largest position at 14% with a value of $250 million.

On the other hand, Pabrai increased his stakes in CONSOL and Alpha and initiated a new position in Arch Resources (ARCH).

History	Stock	% of Portfolio	Recent Activity	Shares	Reported Price*	Value	Current Price	+/- Reported Price	52 Week Low	52 Week High
☰	AMR - Alpha Metallurgical Resources Inc.	67.60	Add 21.75%	441,510	$259.73	$114,673,000	$245.65	-5.42%	$129.46	$267.60
☰	CEIX - CONSOL Energy Inc.	24.53	Add 94.90%	396,570	$104.91	$41,604,000	$100.50	-4.20%	$48.47	$112.49
☰	ARCH - Arch Resources Inc.	7.87	Buy	78,238	$170.66	$13,352,000	$154.27	-9.60%	$102.23	$175.10

Mohnish Pabrai Q3 Holdings | *dataroma.com*

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Note that even though Pabrai doubled his holdings in CONSOL and only increased his position in Alpha by 22%, the latter company remains his largest position at 68%. CONSOL takes second place at approximately 25% of his portfolio and his new position in ARCH is only 8%. Out of all the companies on the U.S. market, it still fascinates us that this savvy investor only found three coal companies worth taking a position in.

While 13F's don't necessarily represent current holdings, it is fascinating to see Pabrai buck the consensus now for two quarters. It appears he still believes these dirty coal companies represent an intriguing risk-to-reward probability. In our previous pieces on Alpha and CONSOL, we described them as uber cannibals—companies that are aggressively buying back their own shares. A review of the duo's quarterly reports confirms they have lived up to the name.

Alpha Metallurgical Resources

Despite the negative impact over the last quarter of a mechanical failure at its loading terminal, Alpha made impressive progress on its repurchase program. It bought back 545,000 shares, or just over 4% of its market cap, at a cost of $102 million. This brings Alpha's total repurchases since the inception of the program in March 2022 to $940 million. Something worth noting is that Alpha's Q3 dividend will be its last and this should slightly add to the amount of cash flow available for buybacks in the future. The company's repurchase program authorization was increased by $300 million to a total of $1.5 billion, of which approximately $560 million remains available for further repurchases.

If Alpha continues allocating $102 million per quarter to buybacks over the next year, it could repurchase $404 million worth or 13% of its current market cap. All else remaining constant, that would lead to a 15% return.

CONSOL Energy

CONSOL also had a solid quarter producing $120 million in free cash flow. With 77% of this free cash flow, the company repurchased 976,000 shares of its common stock for $93 million, totaling 3% of its market cap. Over the first three quarters of 2023, the company repurchased 4.1 million shares of its common stock for $292 million which equates to 13% of its current market cap (annualized).

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CONSOL also paid down $24 million in debt in Q3 and, as a result, reached its goal of $200 million in gross debt. Year-to-date it had allocated $183 million to debt repayment. It's now likely more free cash flow will be allocated to buybacks in the future. In fact, the CEO said as much in the quarterly conference call. As such, we expect buybacks to pick up steam in the next quarters.

If CONSOL continues to allocate what it put towards repurchases and debt repayment in Q3 ($93 million plus $24 million) over the next year, it could buy back 15% of its current market cap. All else remaining constant, that would lead to a 18% return.

Arch Resources

The new company in Pabrai's portfolio is Arch Resources. It's a coal producer based in the United States with a setup and investment thesis similar to the two other companies. As of this quarter, Arch is following a new capital allocation plan which targets returning 25% of the prior quarter's discretionary cash flow via a dividend and directing the remaining discretionary cash flow to share repurchases or capital preservation. The company had this to say about its capital allocation in its latest 10Q:

> During the quarter just ended [Q3], the company deployed $28.2 million to repurchase 215,551 shares at an average price of $130.83 per share. In total, Arch has now used common stock and convertible notes repurchases to manage and reduce potential dilution by approximately 4.3 million shares. Arch ended Q3 with 18.8 million shares outstanding on a fully diluted basis.
>
> In keeping with its capital return formula, the board has declared a total quarterly cash dividend of $21.6 million, or $1.13 per share, which is equivalent to 25 percent of Arch's third quarter discretionary cash flow. The December dividend—which includes a fixed component of $0.25 per share and a variable component of $0.88 per share—is payable on December 15, 2023, to stockholders of record on November 30, 2023.
>
> Arch has now deployed a total of $1,208.2 million under its capital return program since its relaunch 20 months ago—inclusive of the just-declared December dividend—including $661.8 million, or $35.77 per share, in dividends and $546.4 million in common stock and convertible notes repurchases. Since the second quarter of 2017...Arch has now deployed a total of more than $2.1 billion under its capital return program. As of September 30, 2023, Arch had $220.7 million of remaining authorization under its existing $500 million share repurchase program.

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This excerpt reveals Arch is pivoting to buybacks as its preferred method of shareholder returns. This is logical for a company trading at a low single digit PE ratio. But the company also appears to be an outlier among the three as it plans to maintain a dividend payout of 25% of discretionary cash flow.

To provide a comparison to Alpha and CONSOL, if all of Arch's discretionary cash flow had been applied to share repurchases, and the Q3 number was annualized, the company could buyback 12% of its current market cap. All else remaining constant, this would lead to a 14% return.

While these hypothetical returns through brute force of buybacks alone are solid, they aren't as impressive as they once were. Back when we wrote out first piece on CONSOL, a similar calculation projected the company could repurchase 23% to 34% of its market cap. But these companies would still meet the criteria to be on the uber cannibal list Pabrai maintains on his website. But as we recently found out, the companies uber cannibal status is not precisely why he's buying them. For him, it's all about the cash flows.

Why Pabrai Is Buying

Ever since Pabrai's Q2 13F revealed his positions in Alpha and CONSOL, we've listened to every interview he's done since hoping to hear him explain his rationale behind his purchases. It took a while but we found it.

When a guest on the Meb Faber Show podcast, Pabrai explains, through a lengthy but educational story, why he liked these coal companies. He compares the setup in these stocks to a similar situation years ago. The precise information we are interested in is at the very end, but we included the entire story for its entertainment and educational content. Pabrai explained:

> The thing is that what I have always found interesting is the anomalies. For example, I remember in 2004, there was a steel company based in Canada called IPSCO. IPSCO had no debt. It had $15 a share in cash, and it had given guidance that the next two years' earnings were going to be $15 a share each for the next two years. There were $30 earnings coming in, and the stock was at $42.

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The reason they gave the guidance was that they used to make these tubular steel pipes where they had contracts with these pipelines where they wanted to deliver. The pipelines had given them purchase orders, and so they were going to deliver these pipes, and the cash flows were guaranteed. It's not like they were giving guidance based on future sales to be made. These were sales that had already been made. I said, "Okay, I don't know what will happen after two years, but I know that after two years, there'll be $45 of cash on the balance sheet, no debt, and the stock price currently is $42." I said, "I just want to see what the stock price is two years from now. I want to see what Mr. Market does with this." I just bought it based on that notion.

A year later, the company announced that we had one more year of visibility, and we had another $15 a share in earnings for one more year. Now the stock is at about $70 or $80. It's gone up a bit, It's a steel company, it's a very cyclical business. Then it starts drifting close to $90, and I'm thinking of taking it off. As I said, double in 15 months is good, so let's move on. I woke up one morning and the stock was at $157 and some Swedish company offered to buy them at $160. About five minutes after that, I downloaded the stock. I said, "We don't need to wait for the last $3. We're done."

Recently, the two stocks I found in the US, which I got very excited about, are like that. I never thought I'd find that again, where it's this kind of anomaly where **the guaranteed cash flows are exceeding the market cap** and all of that.

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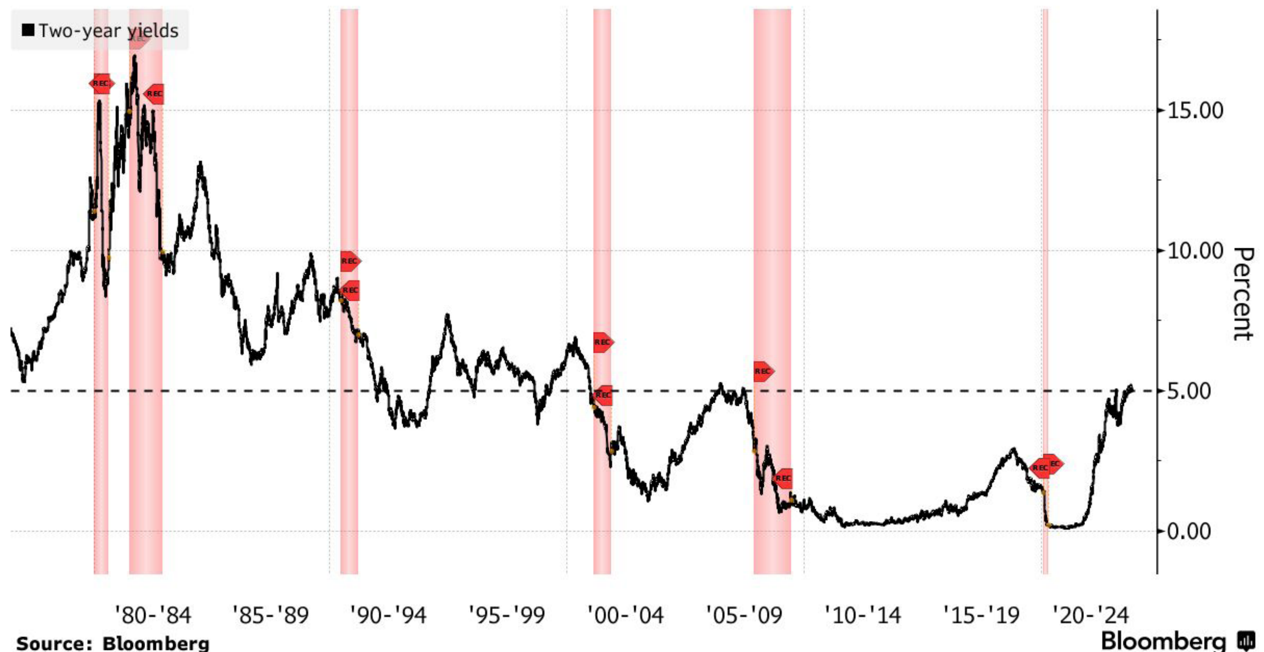
SOVEREIGN BONDS AND CREDIT

Stanley Druckenmiller made a "massive" bullish bet on two-year Treasury notes this month (*from Bloomberg*)...

Billionaire investor Stan Druckenmiller said he's bought "massive" bullish positions in two-year notes, as he's become more worried about the economy.

In recent weeks, "I started to get really nervous," Druckenmiller, founder of Duquesne Family Office, said in an interview with hedge fund manager Paul Tudor Jones at a conference last week. "So I bought massive leveraged positions" in the short-term notes, he said.



Druckenmiller has joined a number of prominent investors, including Bill Ackman and Bill Gross, in sounding the alarm about the economy lately. Ackman, founder of Pershing Square Capital Management, said this month that he's unwound bearish bets on 30-year Treasuries, because "there is too much risk in the world."

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Unlike Ackman, Druckenmiller said he's keeping bearish wagers on longer-term bonds because he's concerned about swelling government-debt issuance. But with the new bullish bets on two-year notes, overall he is long fixed income for the first time since 2020, he said at a Robin Hood Foundation event in New York. A video of the interview surfaced on social media this week.

Druckenmiller, who managed money for George Soros for more than a decade, has been predicting a hard landing for the US economy for some time. He has said that corporate profits could fall by 20% to 30%, and that the value of commercial real estate will tumble.

In the interview with Tudor Jones, Druckenmiller said he's observed anecdotal evidence that "on the margin, things are getting softer" as pandemic stimulus is "running down rapidly." Historically, the simultaneous increases in interest rates, oil and the dollar have been negative for the economy, he added.

Steepener Bet

His paired long-short bond bets means that he's expecting the yield curve to steepen, a move that typically happens when the Federal Reserve cuts interest rates. Yields on two-year Treasuries jumped to almost 5.3% this month, the highest in more than a decade, as investors absorbed Fed Chair Jerome Powell's pledge to keep rates high for an extended period.

"Powell talks a good game, but let's see what kind of game he's talked about if the unemployment rate is 4.5% and going north," he said. The rate was 3.8% in September.

If he's right about the economy, Druckenmiller said two-year yields could fall to 3%, while 10-and 30-year yields remain at the current levels of roughly 5%.

"I am confident the yield curve will normalize," he said. "That's a trade I expect to have for some time."

Druckenmiller said his call for recession hasn't panned out because a lot of corporates and households are shielded from higher rates as they locked in lower borrowing costs in previous years. But as they move to refinance in the next two years, "you have to be open-minded about something breaking," he said.

Continue reading here (subscription may be required).

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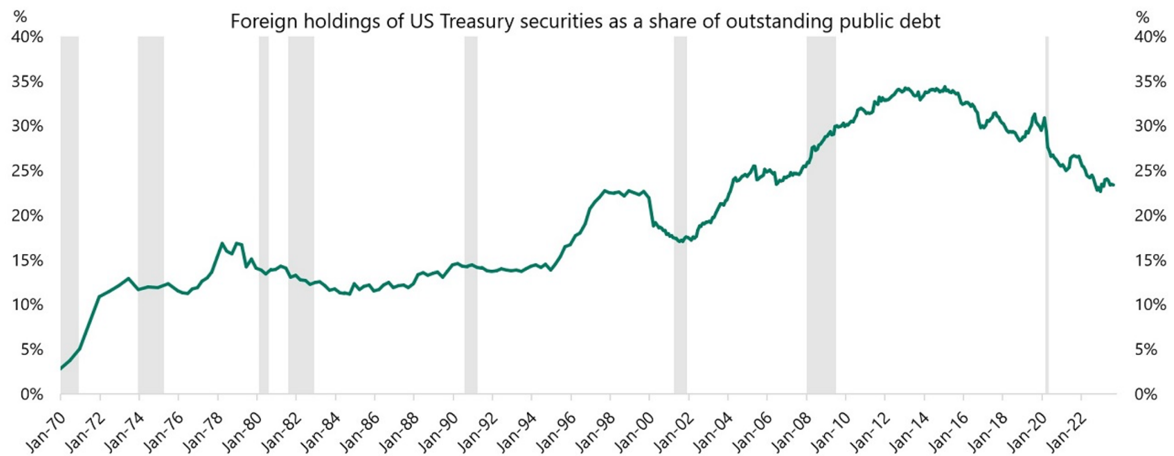
Foreigners are no longer buying U.S. Treasury bonds like they used to (from The Daily Spark)...

A decade ago, foreigners owned 33% of U.S. government debt. That number has now declined to 23%, see chart below.



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Why the Treasury's recent QRA shift is unlikely to be a long-term "fix" for the government's funding problem (from Joseph Wang)...

The Quarterly Refunding Announcement sparked a sizable decline in Treasury yields, but the rally may not last. The announcement was well received because it guided towards just one more increase in coupon sizes, a compositional skew towards medium term tenors, and a potential for further increases in the share of bills. These developments were positive relative to expectations, but the situation remains dire. The bond bear market may resume shortly as historically high levels of coupons will still be issued at a time when private demand appears weak and the Fed is not in the market. Treasury's shift towards a higher share of bill issuance is easing some pressure, but will not be enough. This post walks through the Treasury's funding problem, a likely path forward, and suggests a couple events on the horizon that may potentially help.

The $2.5t Problem

Further upward pressure on yields is likely as private investors must absorb $2.5t in issuance in the coming fiscal year. Privately held marketable borrowing is a function of the fiscal deficit and quantitative tightening, where Fed Treasury holdings are refinanced by private investors. The annual fiscal deficit is currently estimated at $1.8 trillion, though estimates have been steadily increasing. Rising interest rates and additional war related spending could lead to upward revisions in the coming months. Treasury QT is proceeding at a maximum annual pace of $720b. Both the deficit and QT are subject to change, but at the moment they together imply $2.5t in private borrowing for the 2024 fiscal year. Private borrowing is estimated to be lower in subsequent years, but that is only on the assumption of an end to QT.

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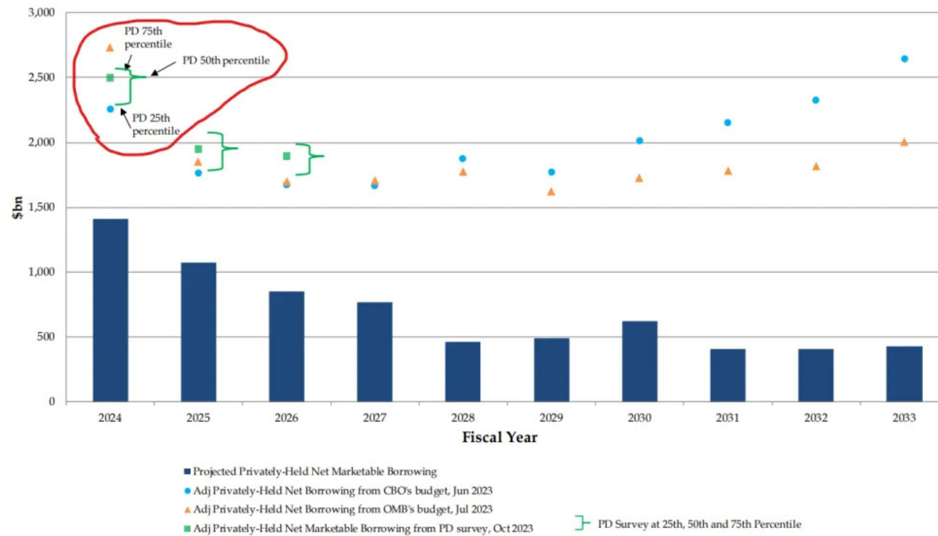

The Treasury has responded to this challenge by raising coupon auction sizes and also shifting debt composition towards bills. The Treasury began raising coupon auction sizes in August and signaled additional increases over the next quarters. The recent November refunding announcement further increased auction sizes, but guided towards just one more quarter of increases. The Treasury was advised in August to increase their share of bills towards 22.4%, which is above its historical guidelines of a 15 to 20% share. Recent issuance has indeed been skewing towards bills, which are more easily digested by the market. Treasury was further advised in November to allow bills to "meaningfully" deviate from its historical guidelines. But coupon issuance is expected to remain large even with higher bill issuance.

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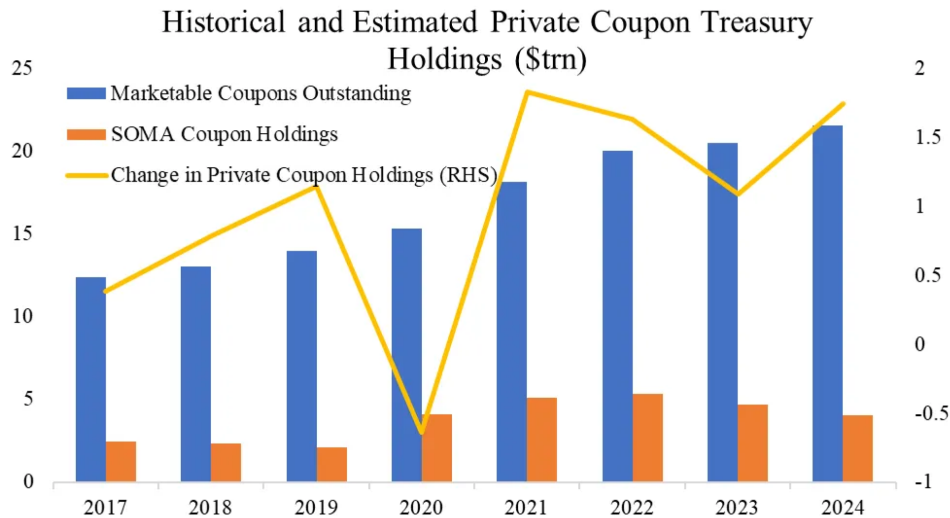

Source: Treasury, FRBNY, Author's calculations. 2024 estimated based on TBAC recommendations and assumes no change in QT. Treasury Fiscal year, which begins in Oct.

Huge Coupon Sizes

The share of bills is set to gradually rise next year, but the trajectory of the increase may not be aggressive enough to support the market. Under Treasury Borrowing Advisory Council's recommendation, the amount of new money raised next calendar year through coupons would be around $1.8t. Assuming $2.5t in privately held borrowing for 12 calendar months, net bill issuance next year looks to be around $700b. This would take some pressure off the market by increasing the share of bills to around 22% of marketable debt outstanding. TBAC's guidance appears to indicate bill share could continue to rise beyond next year into the medium term, but that does not provide immediate relief. Private coupon holdings next year is still expected to increase at a historically high rate.

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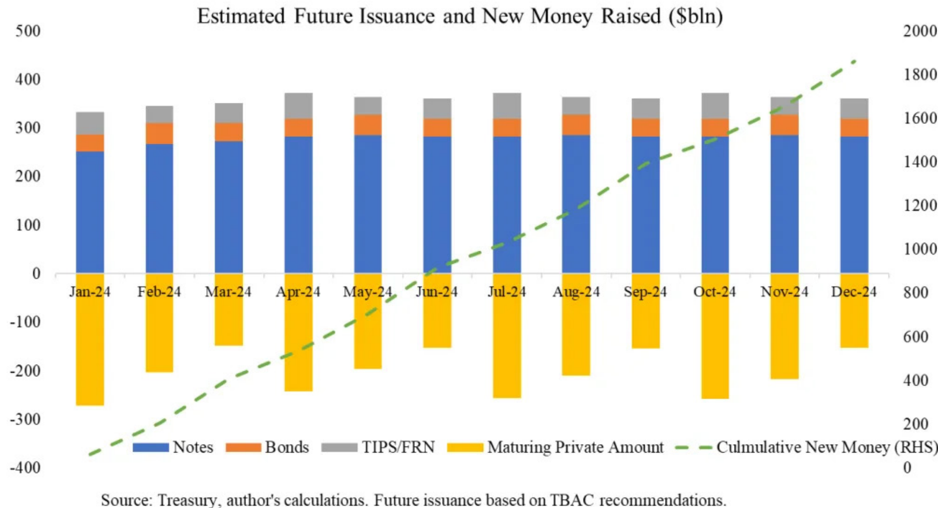

The level of coupon issuance may still overwhelm the market even as the share of bills rises. TBAC is recommending gradual increases in coupon sizes over the next months until April 2024. At that time, the monthly pace in coupon issuance would be $100b higher than July 2023, just prior to recent increases. The Treasury is mindful of potential market pressure and is skewing increases towards the more liquid belly of the curve, but issuance in less liquid longer dated tenors looks to still gradually increase to record levels. The recent bond rout suggests current demand for Treasuries is not strong, so the on-going increases in issuance may not be well digested. Treasury yields are likely to resume their climb unless investor demands picks up significantly.

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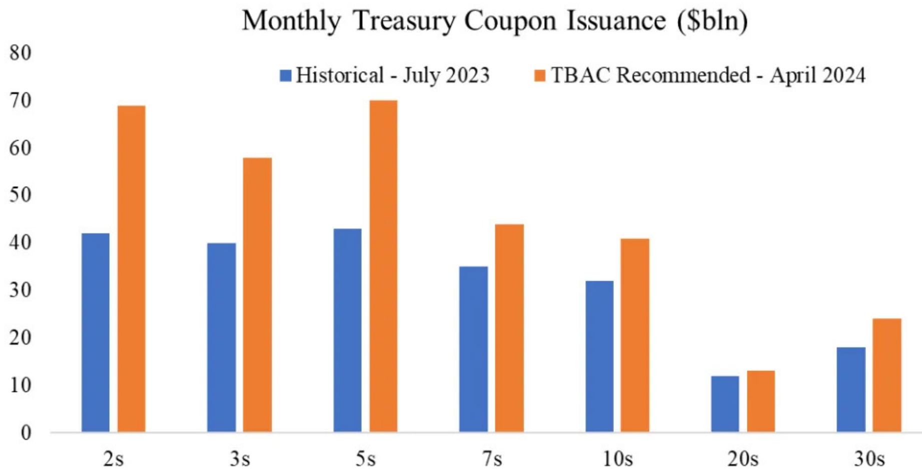

Hope Is On the Way

Treasury coupon demand next year could be boosted by Fed rate cuts or a moderate recession, both of which are reasonably likely. Fed rate cuts would steepen the curve and offer investors more reason to invest further along the curve. It would also make Treasuries more attractive to FX-hedged foreign investors. The Fed has already guided towards two cuts next year, and rising longer dated yields may produce enough tightening to prompt more. A recession usually increases demand for Treasuries as investors become risk averse, though it also implies lower tax revenue and thus higher issuance. A recession and rate cuts would likely boost Treasury demand, but current U.S. economic strength suggests they are more likely to occur later next year after the market is forced to digest a significant amount of issuance. The more likely sequence may be a sharp rise in yields that then leads to both a recession and rate cuts, which together finally create strong demand for Treasuries.

Continue reading here (subscription may be required).

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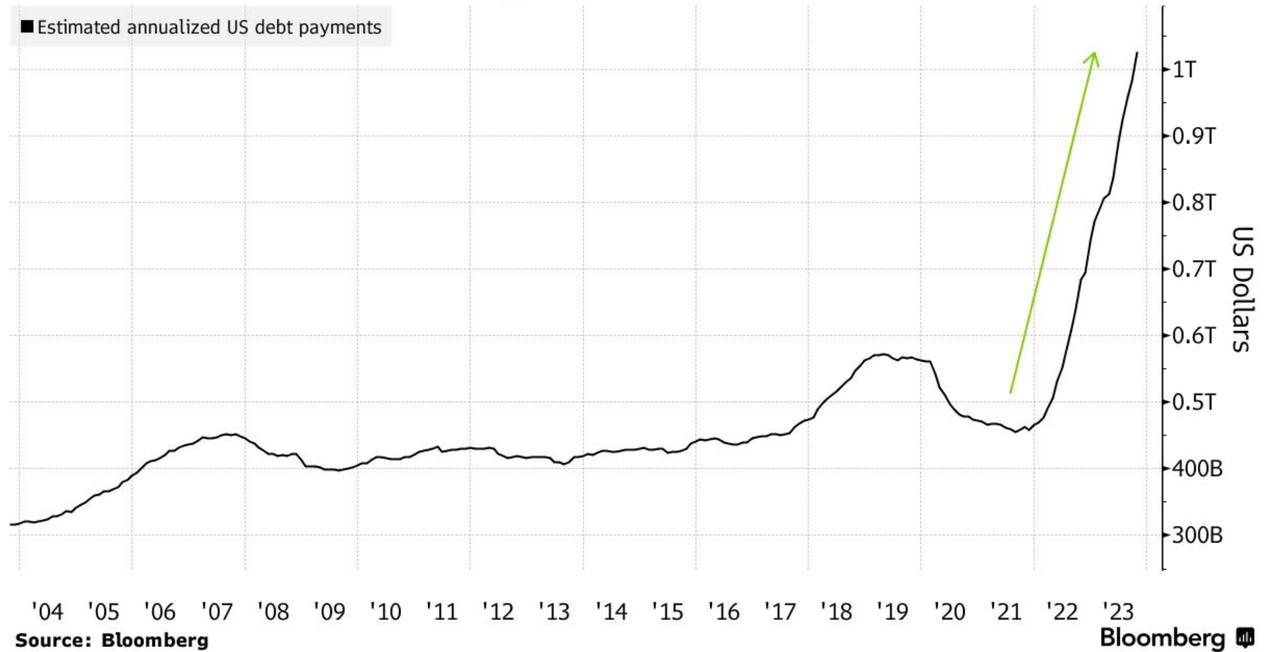
The government's debt-service costs continue to soar (from Jesse Felder via X)...

Estimated annualized interest payments on the U.S. government debt pile climbed past $1 trillion at the end of last month. That amount has doubled in the past 19 months, and is equivalent to 15.9% of the entire Federal budget for fiscal year 2022.



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Moody's Investors Service cut its ratings outlook on U.S. debt this month (from CNBC)...

Moody's Investors Service on Friday lowered its ratings outlook on the United States' government to negative from stable, pointing to rising risks to the nation's fiscal strength.

The ratings agency has affirmed the long-term issuer and senior unsecured ratings of the U.S. at Aaa.

"In the context of higher interest rates, without effective fiscal policy measures to reduce government spending or increase revenues," the agency said. "Moody's expects that the US' fiscal deficits will remain very large, significantly weakening debt affordability."

Brinkmanship in Washington has also been a contributing factor, Moody's said.

"Continued political polarization within U.S. Congress raises the risk that successive governments will not be able to reach consensus on a fiscal plan to slow the decline in debt affordability," the ratings agency said.

As far as keeping the nation's ratings at Aaa, Moody's said that it expects the U.S. to "retain its exceptional economic strength." "Further positive growth surprises over the medium term could at least slow the deterioration in debt affordability," the agency said.

"While the statement by Moody's maintains the United States' Aaa rating, we disagree with the shift to a negative outlook," said Deputy Secretary of the Treasury Wally Adeyemo in a statement. "The American economy remains strong, and Treasury securities are the world's preeminent safe and liquid asset."

Moody's move to cut its outlook arrives as Congress faces the looming threat of a government shutdown once more. For now, the government is funded through Nov. 17, but lawmakers in Washington remain at loggerheads over a bill ahead of the deadline.

Continue reading here.

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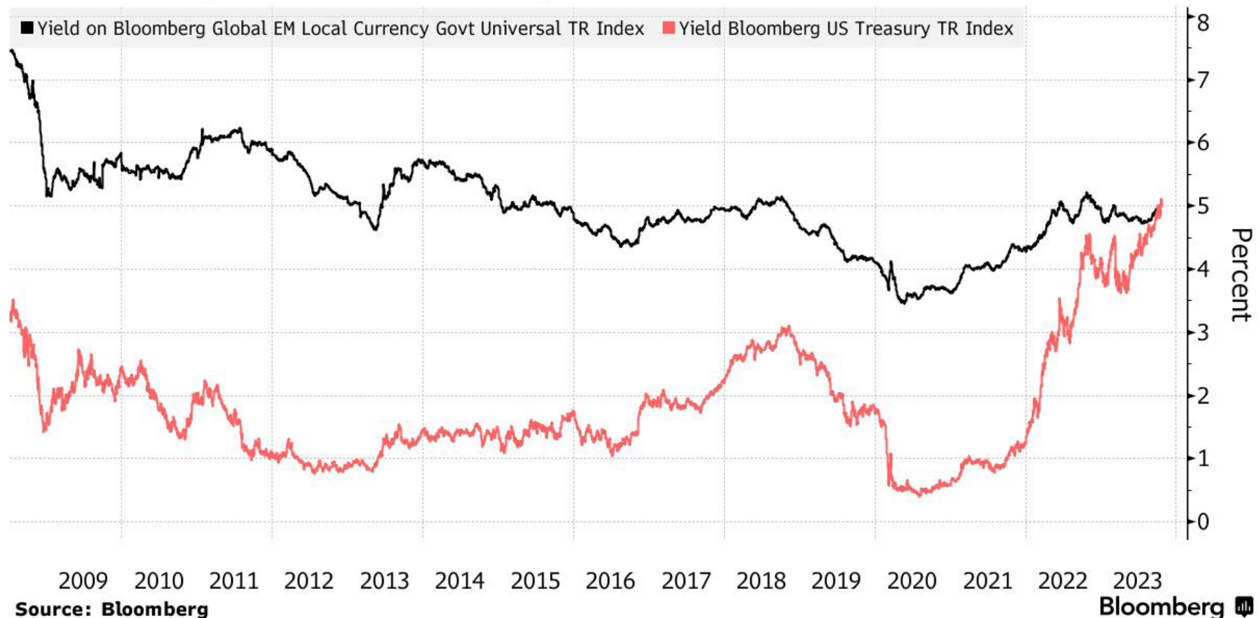
Yields on emerging-market bonds fell below those on U.S. Treasury bonds for the first time in history this month (from Jesse Felder via X)...

An unlikely aberration has taken place in global bond markets for the first time on record: yields on emerging-market bonds in local currencies have fallen below US Treasuries.

A selloff in U.S. government debt since May has sent borrowing costs for the world's largest economy soaring to an average yield of 5%. But local-currency sovereign yields haven't matched that pace and are also trading around 5%, causing the classic "risk premium" expected in emerging markets to all but vanish.



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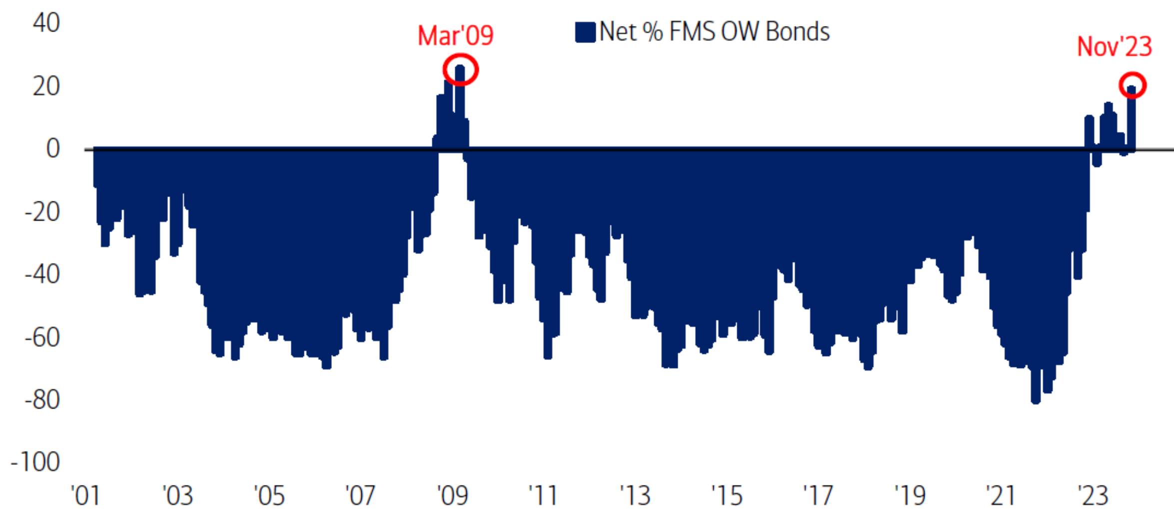
Fund managers are wildly bullish on Treasury bonds (*from Bloomberg*)...

Investors turned the most bullish on bonds since the global financial crisis on "big conviction" that rates will move lower in 2024, according to the latest Bank of America Corp. fund manager survey.

The monthly survey showed investors were dumping cash to hold the biggest overweight position in bonds since 2009. BofA's Michael Hartnett said the "big change" was not the macro outlook, but expectations that inflation and yields will move lower in 2024.

Global stocks and bonds have advanced in November after slumping for the past three months amid concerns that interest rates would move higher and stay elevated for an extended period of time, denting the economy further. The Federal Reserve's latest meeting somewhat eased these worries, allowing assets to rally.



Source: Bloomberg

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The BofA survey showed the conviction of peak U.S. interest rates is now the strongest since the poll began asking investors to time the end of the rate hiking cycle.

That view got further reinforced after US inflation broadly slowed in October, which markets cheered as a strong indication that the Federal Reserve is done hiking. Swap contracts used to hedge future Fed actions marked down the odds of another rate increase to almost nil, shifted the timing of an anticipated cut to June.

Participants in the survey whose cash levels to 4.7% from 5.5%, also flipped their positioning on equities to overweight for the first time since April 2022. Respondents were the most net overweight on pharmaceuticals, technology and telecommunications stocks while most net underweight on utilities, materials and discretionary.

"Investor playbook for 2024 is soft landing, lower rates" and a weaker dollar, the strategist wrote. The survey saw investors increase allocation to U.S. and Japanese stocks and decrease exposure to euro area and UK equities.

The poll was conducted between November 3 to November 9, spanning 225 participants with $553 billion in assets under management.

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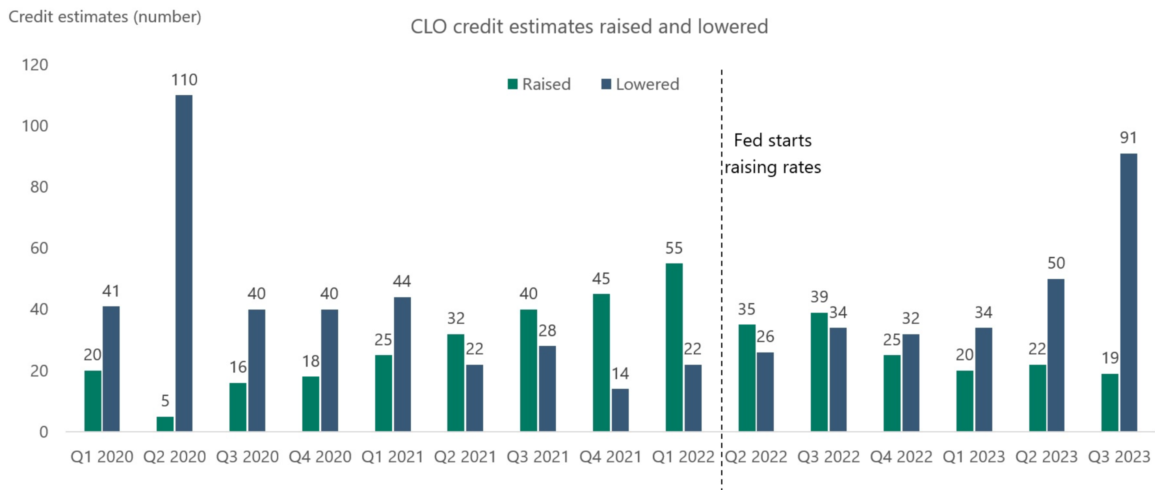
CORPORATE BONDS AND CREDIT

The Fed's rate hikes are finally starting to weigh on weaker corporate credits (**from The Daily Spark**)...

Fed hikes are having a more negative impact on companies with higher leverage, lower coverage ratios, and weaker cash flows. Specifically, the latest data for the third quarter shows that downgrades by S&P of CLO collateral have surpassed upgrades by a ratio of 4:1, see the first chart below.

The bottom line is that Fed policy is working exactly as the textbook would have predicted. Higher rates are biting harder and harder on middle-market corporates with poor credit metrics...



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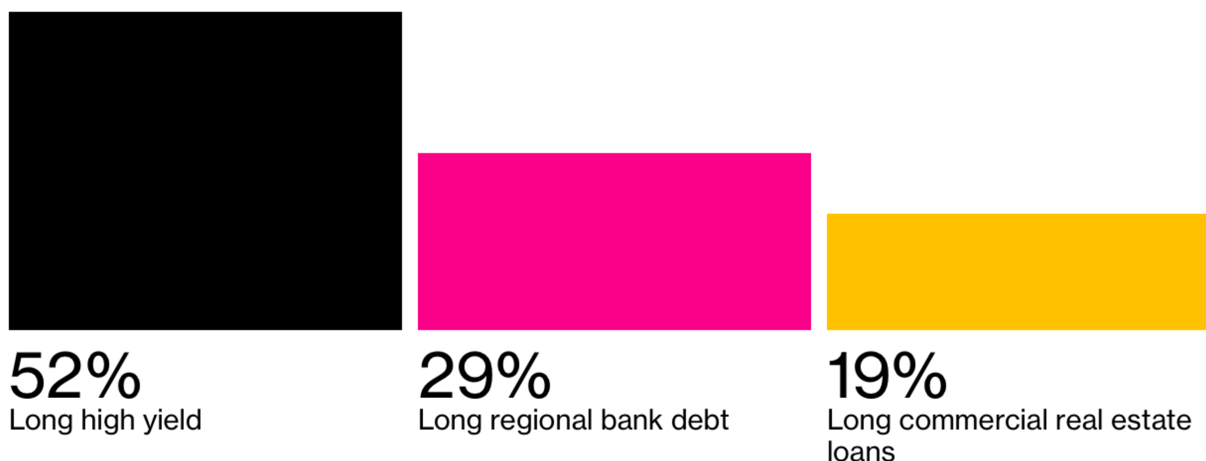
A recent survey finds junk bonds are the most popular "contrarian" bet among investors today (from *Bloomberg*)...

Worries about an economic downturn aren't enough to dissuade market participants from being bullish on risky debt as their top contrarian trade, according to the latest Bloomberg Markets Live Pulse survey.

Despite heavy outflows in 2023 and countless warnings about the health of heavily indebted companies, 52% of 506 respondents see opportunities in high-yield bonds, while remaining more cautious on some of this year's laggards including regional bank debt and commercial real estate loans.



The results are a sign of trust in the balance sheets of corporate America, even as the Federal Reserve looks to squeeze growth to rein in inflation. Technical catalysts may be another reason otherwise cautious investors still see opportunities in junk bonds. The global high-yield market has shrunk more than 20% since its 2021 peak to $1.94 trillion, according to Bloomberg data. Less supply has already helped fuel a gain of more than 6% in the asset class this year.

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The first big wave of corporate debt is coming due next year (from *Bloomberg*)...

Some of the largest U.S. companies face billions of dollars in additional interest costs and hits to their profit if they refinance their 2024 maturities at current rates, with a third of them lacking the cash to repay upcoming debt.

Non-financial companies in the S&P 500 have a combined $107.7 billion in debt coming due next year, with an average interest rate of 2.8%, according to a Calcbench analysis seen first by Bloomberg News. Refinancing at 5.44% – the rate of the one-year Treasury bill in early November – would add another $3.09 billion in collective interest expense, the financial research firm said in its analysis. Calcbench focuses on debt disclosures and analysis of financial statements.

Using companies' trailing twelve-month earnings per share ending with the second quarter as a baseline, that higher interest expense would reduce average EPS at 57 businesses with maturing debt in 2024 by $0.11, or 2.92%, Calcbench said. Still, for many of these firms, refinancing or raising money by selling assets is necessary to deal with upcoming debt maturities, especially if they don't have enough cash.

"Depending on the nature of the company and the strength of its balance sheet, this is significant," said Pranav Ghai, the founder and chief executive of Calcbench.

Companies are impacted by higher financing costs differently, with about two thirds of businesses holding enough cash to pay down their 2024 debt. The rest – or 19 companies out of the 57 – didn't hold enough cash by the end of the second quarter to extinguish all debt coming due next year, and those numbers have further updated in the most recent quarter.

"We found numerous companies where higher interest expense was greater than available cash the companies had on hand, which implies that those companies must refinance or sell off assets to raise more cash," Ghai said. "They can't otherwise pay off the debt."

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Despite rising risks, this indicator says there's still no fear in the corporate debt markets (from Global Rates and Money Flows)...

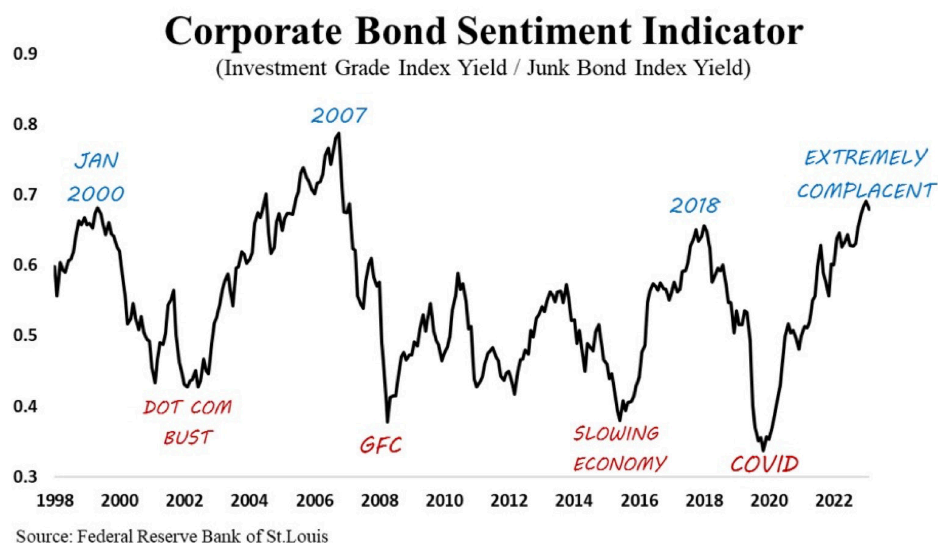
No fear here... In fact, it's just the opposite.

One way of measuring sentiment is through the relationship between junk bonds and higher quality (investment grade) corporate bonds. The well-worn method of doing this is by looking at the difference in yield between the two, commonly known as the spread.

Junk bonds yield more than investment grade bonds. If the yield spread is narrow by historical standards, junk bonds are outperforming, and sentiment is considered bullish. On the other hand, if the yield spread is wide, sentiment is bearish. Currently, the yield spread is showing positive sentiment, but not extremely so.

However, what if we look at the yield ratio instead? This makes sense because it essentially normalizes the relationship to take account of the movement in "risk-free" yield levels. Nominal corporate bond yield spreads when a 10-year U.S. Treasury Note is yielding 1% will have an underlying compression compared to when the T-Note is yielding 5%.

The chart below shows the ICE BofA investment grade bond index yield divided by the junk bond index yield. It reached nearly 0.8 in 2007 when sentiment peaked prior to the Great Financial Crisis. Hovering around 0.7 now, this metric is showing just how complacent the corporate bond market is and how teed up it is for a junk bond implosion.



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CONSUMER CREDIT

A growing number of Americans are pulling money from their 401(k) plans to make ends meet (from CNN)...

The number of 401(k) plan participants taking hardship distributions increased by 13% between the second and third quarters, according to an analysis by Bank of America of its clients' employee benefit programs.

That figure now stands at 18,040, the highest level in at least the past five quarters since Bank of America started tracking this data.

The growing reliance on 401(k) plans as a source of urgent cash is further evidence of consumer financial stress heading into the 2024 election year.

Despite high GDP and low unemployment, some Americans are clearly facing a cash crunch and struggling to pay the bills.

Lisa Margeson, managing director of Bank of America's retirement research and insights group, said the rising number of 401(k) hardship distributions could be caused by high inflation and the rising cost of living.

As Covid-era savings shrink, more and more consumers are turning to a costly way to borrow: Credit cards. Despite record-high rates, credit card balances have swelled by $148 billion over the past year to $1.08 trillion, according to a report from the New York Federal Reserve released Wednesday.

The same report also found that the share of households newly delinquent on credit cards is at the highest level in a dozen years.

Others are leaning on their retirement accounts for cash.

Bank of America said the number of 401(k) participants taking hardship distributions increased by 27% from the first quarter of this year. The average withdrawal amount was steady at $5,070.

Continue reading here.

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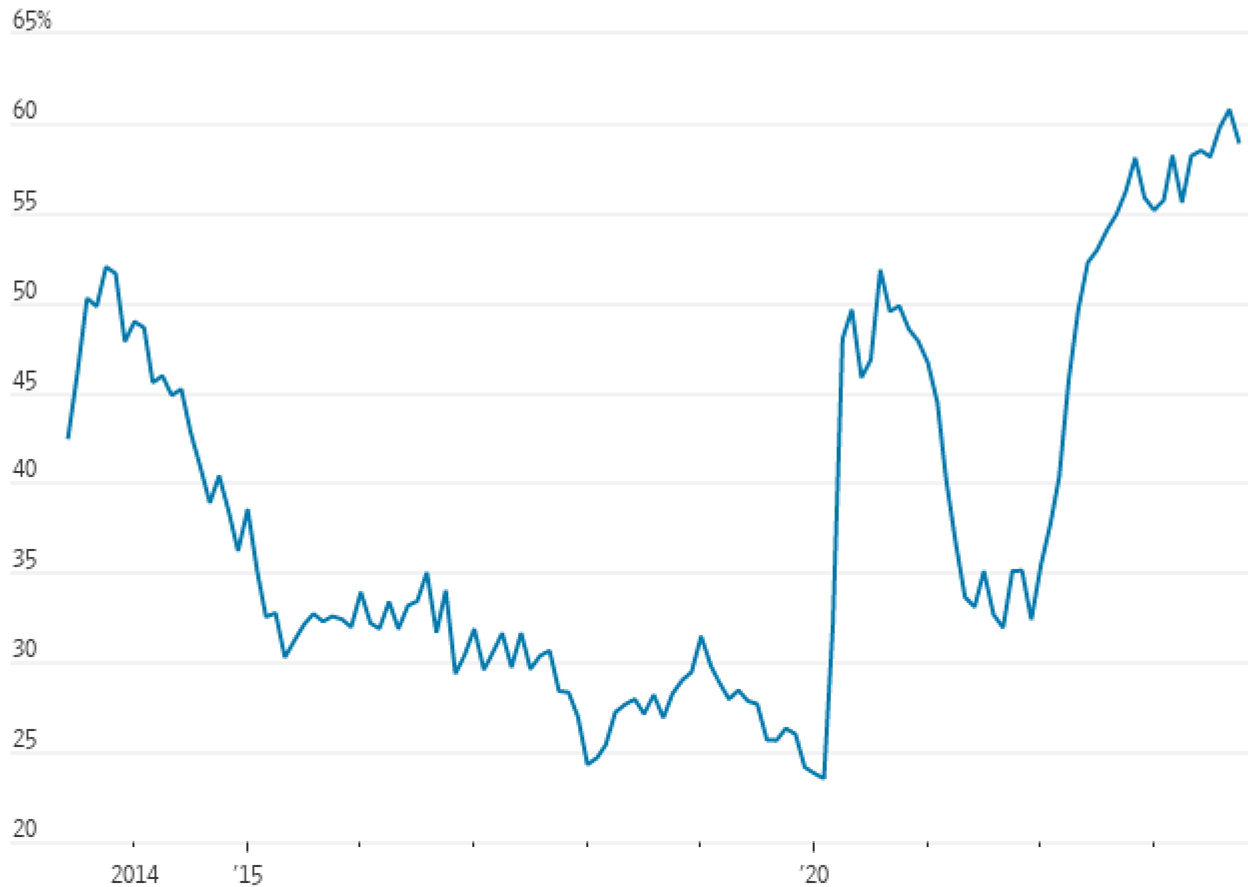
More households than ever are reporting it's more difficult to access credit (from Nick Timiraos via X)...

The share of U.S. households reporting that it's harder to obtain credit than one year ago is hovering near the high in the New York Fed's consumer survey, which is around 10 years old.



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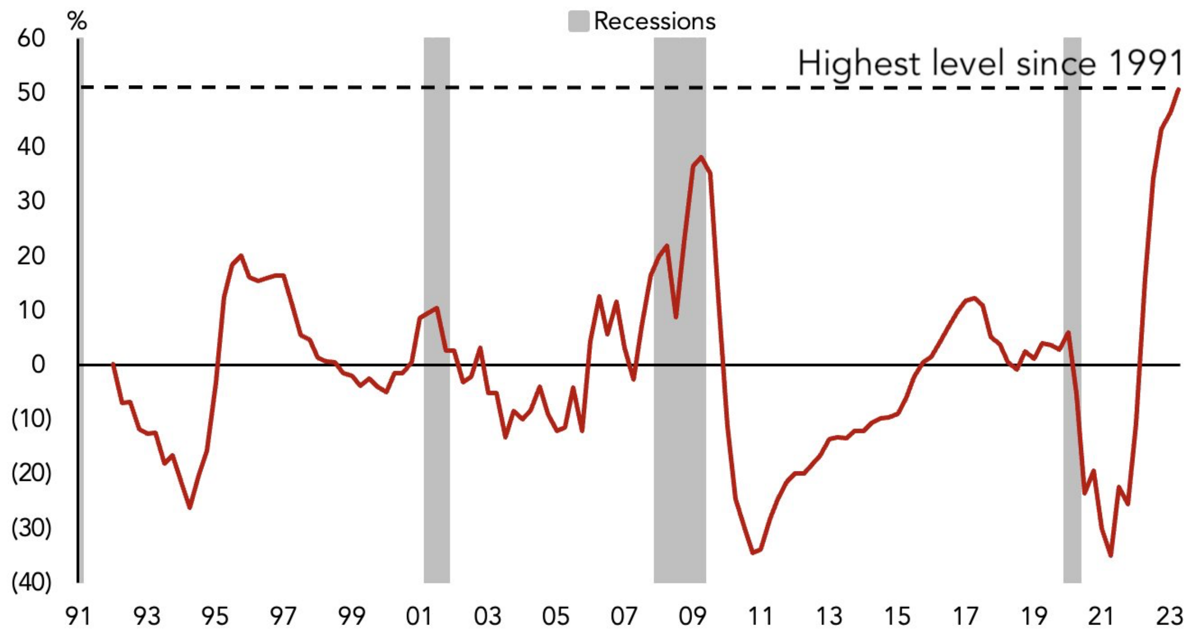
Credit card defaults are now rising faster than during the Great Financial Crisis (from Game of Trades via X)...



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Walmart warns of weakening consumer spending (from CNBC)...

Walmart on Thursday topped Wall Street's fiscal third-quarter earnings estimates as sales rose, but the big-box retailer struck a cautious tone with its outlook after it saw consumer spending weaken at the end of the period.

The company's shares slid more than about 8% on Thursday after they touched an all-time high the previous day. Walmart gave a slightly lower-than-expected forecast for the year as it enters the critical holiday shopping season...

In a separate interview with CNBC, Chief Financial Officer John David Rainey said consumers are "leaning heavily" into major promotions as they watch their spending and search for deals. As customers hold out for lower prices, the company has seen a drop in purchases before and after a sales event.

"Our events have been strong," he said. "We've been pleased with those. Halloween was good overall. But in the last couple of weeks of October, there were certainly some trends in the business that made us pause and kind of rethink the health of the consumer."

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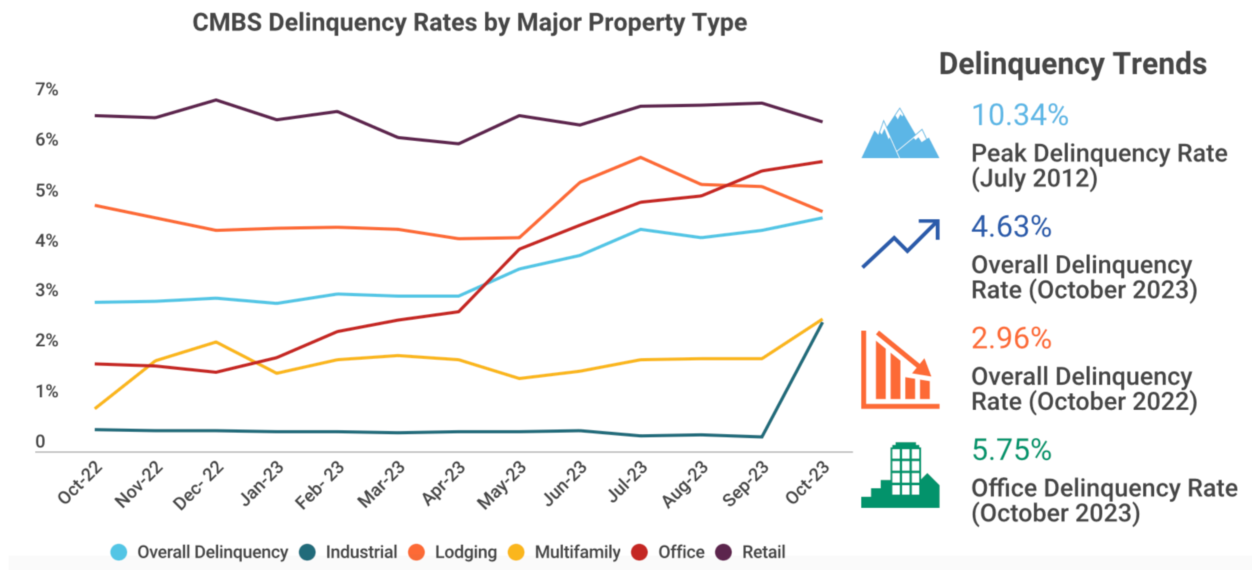
REAL ESTATE

Commercial mortgage-backed securities ("CMBS") delinquencies hit a new post-COVID high last month (from Trepp)...

The Trepp CMBS Delinquency rate moved higher again in October 2023, but there were a lot of moving pieces in the latest report. Overall, the delinquency rate rose 24 basis points in October to 4.63%. That is the highest reading since the end of the COVID-19 pandemic.

However, one large industrial delinquency influenced the numbers considerably and blew up what was previously an incredibly low delinquency rate for that segment. Trepp has more to share on that in our full report here.

In the heavily watched office segment, delinquencies rose another 17 basis points and the rate for that segment is now 5.75%.



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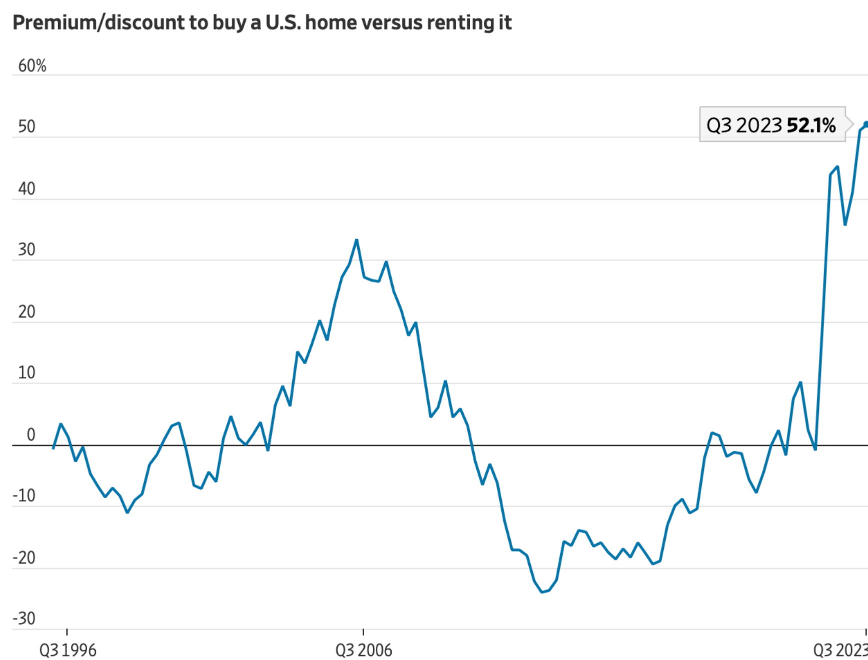
There has never been a worse time to buy a home instead of rent (from *The Wall Street Journal*)...



Getting on the property ladder has rarely been tougher for first-time buyers. But a tight housing market isn't turning out to be a bonanza for landlords either.

The cost of buying a home versus renting one is at its most extreme since at least 1996. The average monthly new mortgage payment is 52% higher than the average apartment rent, according to CBRE analysis. The last time the measure looked out of whack was before the 2008 housing crash. Even then, the premium peaked at 33% in the second quarter of 2006.

In theory, buying and renting costs should be roughly matched, according to Matt Vance, head of multifamily research at CBRE. Although owners benefit when house prices go up, they also put more cash into their homes than tenants for things such as repairs and refurbishments...

A person taking out a 30-year mortgage today on a $430,000 home with a 10% down payment would fork out around $3,200 in monthly repayments, 60% more than if they had bought the same house three years ago. Rents have risen by a less-blistering 22% over the same period, though this was still moderately ahead of wider U.S. inflation...

Continue reading here (subscription may be required).

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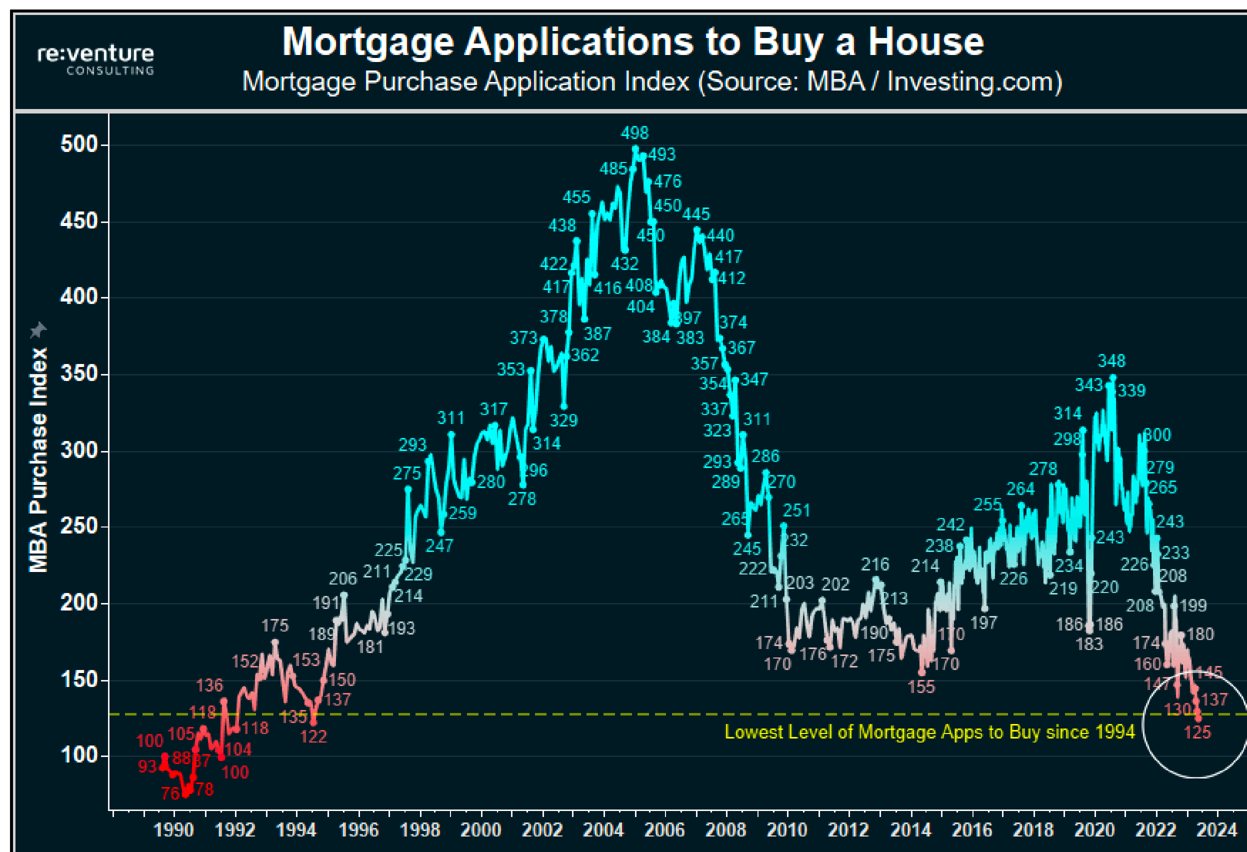
Mortgage demand has cratered (from The Kobeissi Letter)...

Mortgage demand is now down 50% from pre-pandemic levels and at its lowest level since 1994.

From its peak in 2021, mortgage demand is down ~64%. Current mortgage demand is ~75% below the 2005 peak.

The most incredible part of this?

Mortgage rates are still only at their historical average. Housing market activity is coming to a halt.



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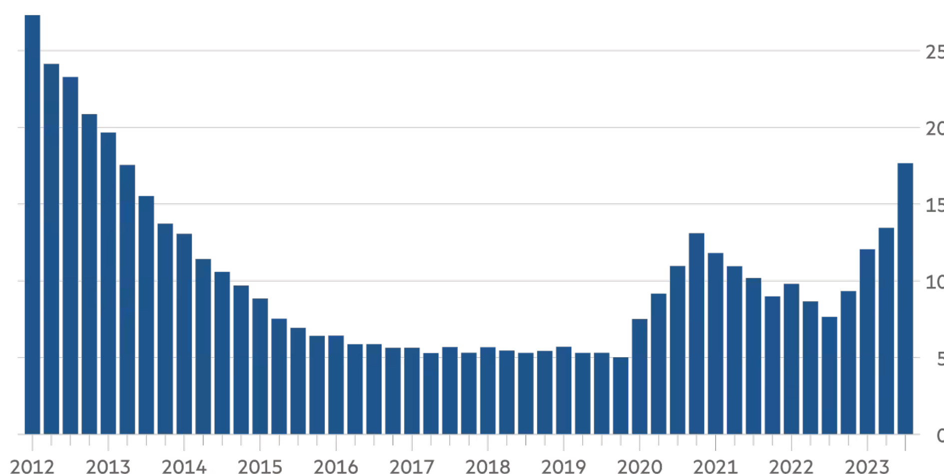
Overdue commercial property loans hit 10-year high at U.S. banks (*from The Financial Times*)...

Delinquent commercial real estate loans at U.S. banks have hit their highest level in a decade, as higher interest rates, an uncertain economy and the rise of remote working pile pressure on building owners.

The volume of past-due loans in which owners of properties rented to others have missed more than one payment jumped 30 per cent, or $4bn, to $17.7bn in the three months to the end of September, according to industry tracker BankRegData. The figure had risen by $10bn in a year.

Bank lending remains in historically good shape and even after the recent jump, just 1.5% of commercial property loans were past due. Nonetheless, industry watchers said the number of properties under pressure was likely to continue to rise, especially in the office sector.

Bill Moreland, who runs BankRegData, told clients that commercial real estate lending was "getting ugly fast." "It's not a hiccup – it's not COVID and then recover," said Leo Huang, the head of commercial real estate debt at Ellington Management Group, an asset manager. "Property prices are going to come down and loan delinquencies are going to keep going up."



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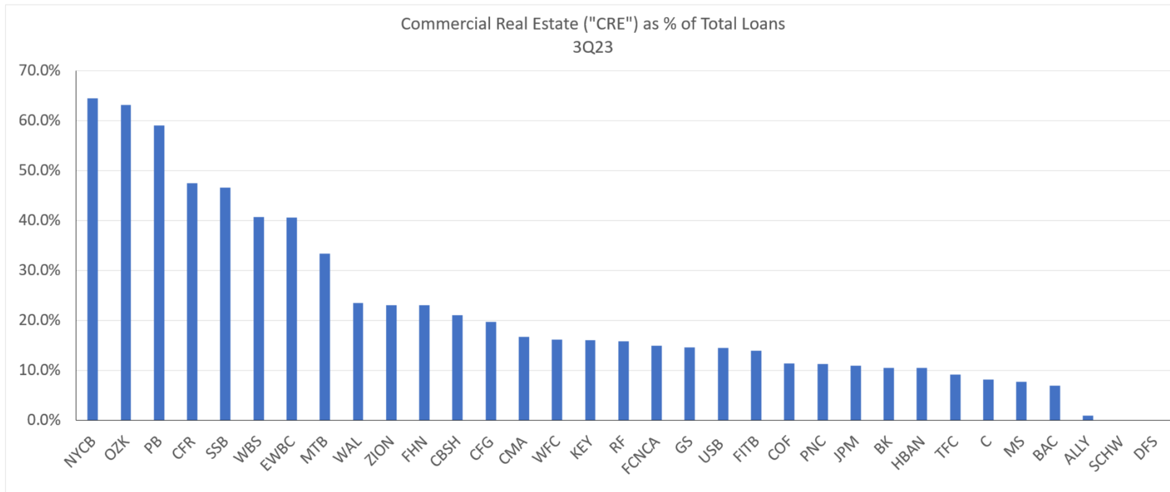
These banks have the highest exposure to commercial real estate ("CRE") debt (from The Spread Site)...

In terms of commercial real estate ("CRE"), we show exposure to this category as a percent of total loans. We then show "Office" and "Multifamily" as CRE subsectors.

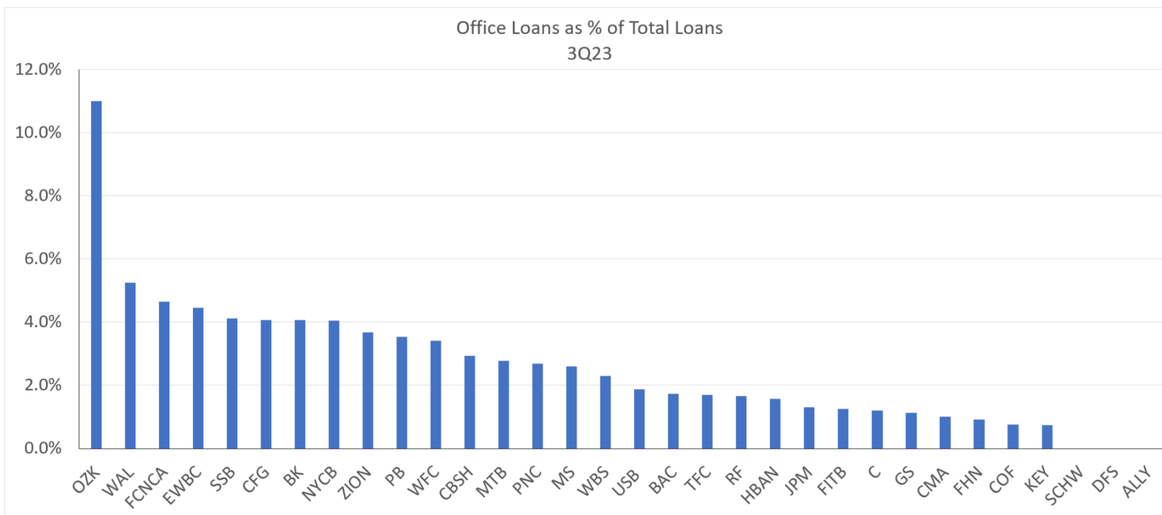
Exposure to Commercial Real Estate



Note: "NYCB" does not categorize Multifamily as CRE, but we include it to give equal comparison across names

Source: Company Filings, TheSpreadSite.com, @SpreadThread1

Exposure to Office



Note: Cullen & Frost ("CFR") does not provide quarterly Office exposure. However, as of 12/31/22, their exposure was 22.5% of total loans

Source: Company Filings, TheSpreadSite.com, @SpreadThread1

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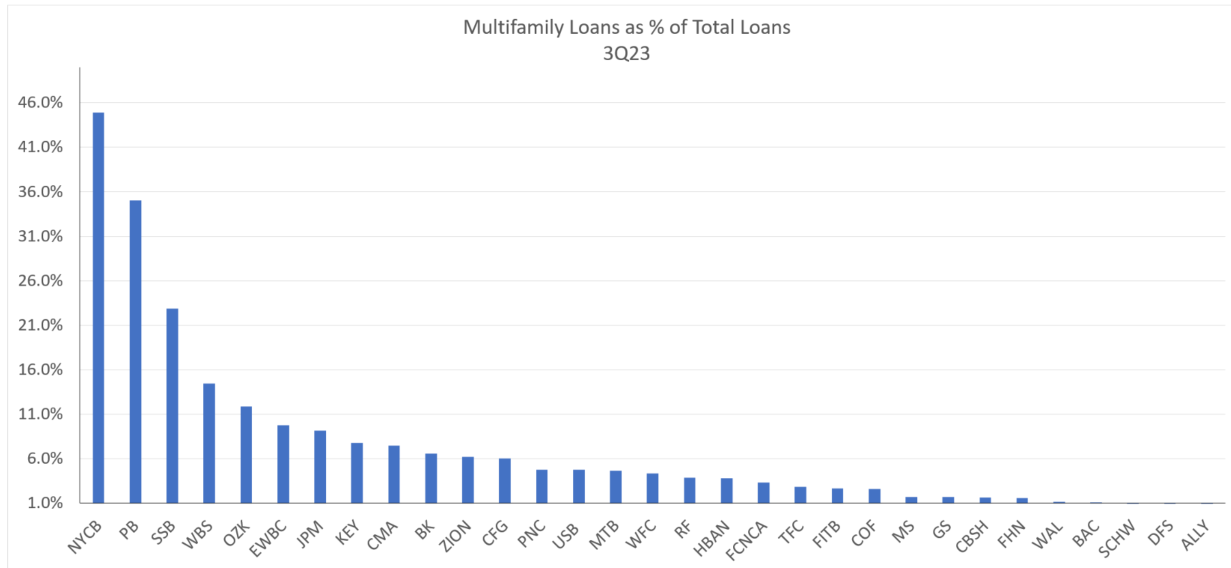
Exposure to Multifamily



Notes:
1) Cullen & Frost ("CFR") does not provide quarterly Multifamily exposure. However, as of 12/31/22, their exposure was 6.5% of total loans
2) Citigroup does not provide multifamily exposure

Source: Company Filings, TheSpreadSite.com, @SpreadThread1

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The multifamily segment of the CRE market – which has been a relative bright spot – is reportedly now showing signs of slowing, too (from m. stanfield via X)...

The music is slowing. Here's what I'm seeing out there.

Owners who need to sell, for a variety of reasons, are in trouble. The market has changed, and they're trying to recoup their equity, which ain't happening.

Active price discovery.

Brokers who haven't been in the business long are panicking because their business has virtually stopped. They're reaching out to these troubled owners and overpromising on pricing to try and get listings.

We call this "buying the listing."

Brokers know the deal is worth 70% of what they're telling the seller. They're hoping to bring a deal to market and manage the seller's expectations down to hopefully transact. Gotta keep the lights on.

This "fee-seeking" bullshit is only delaying the inevitable.

Soon, the market has seen all the troubled deals and realized many of them are worth less than the loan balance.

The buyers don't need to overpay and the seller's aren't going to pay to close. So nothing changes hands.

The lenders are watching this happen. Like a freight train they can't stop, headed for a bridge that isn't there.

They're reluctant to foreclose and manage the asset, and they will avoid marking their positions as long as possible.

But defaults are coming, many are already happening, and the truth will be laid bare.

- the equity is gone

- the loans are below par

- the assets are impaired

The first lender forced to mark their positions has a real problem. Many of their top people will be fired because "someone should be held accountable."

But once that first lender marks, hell begins breaking loose.

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Sellers who were trying to recoup all of their equity are suddenly happy with 10%, so they flood the market.

You do *not* want to be the last seller.

Trouble is, the buyer pool isn't that deep.

The lenders who waited for the first lender to implode, all quickly mark their positions and blame "the market."

Which causes debt to become even more scarce, which thins out the buyer pool more, which pushes asset prices down.

I say this as a full market participant. We are buyers, sellers, and holders depending on the assets.

I think it's going to get much worse before it gets better, but what do I know? I'm just an anonymous idiot.

Be careful out there.

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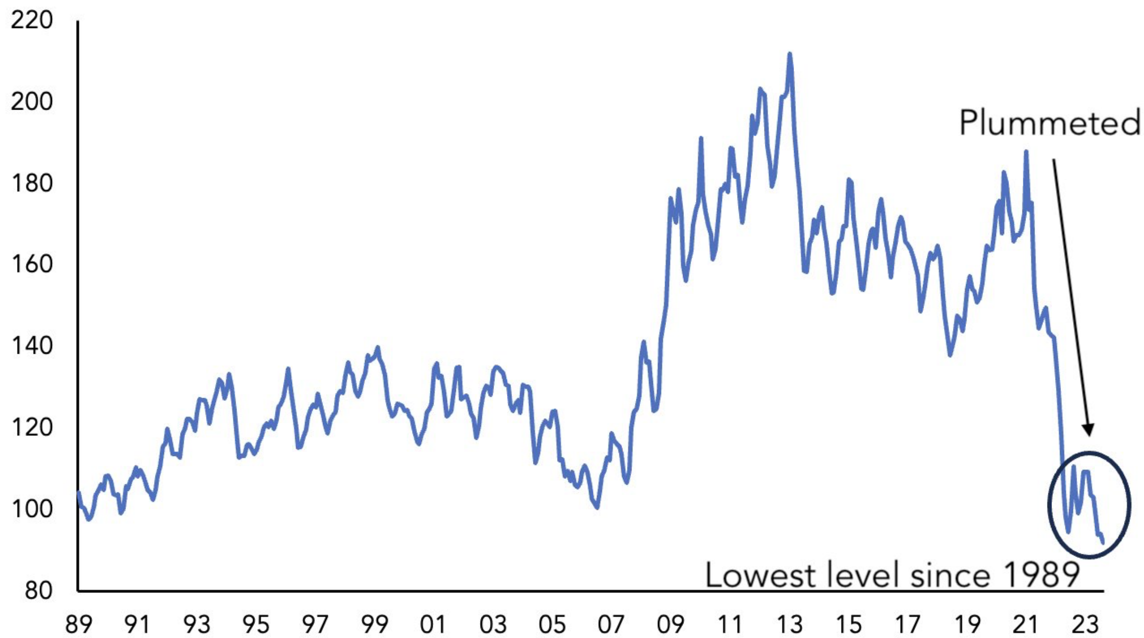
This is the most unaffordable housing market in 30-plus years (from Game of Trades via X)...



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SPECIAL SITUATIONS

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

Two overlooked "spinoff" stocks that could be ready to soar (from *Forbes*)...

I speak a lot about hidden values in spinoffs, but this is a great place to hunt for value that a few key investors investigate. Spinoffs are sometimes called 'orphan securities.' The definition pertains to a stock or other financial instrument that industry analysts do not routinely monitor or cover. As a result, these securities typically receive less attention and may be undervalued compared to more well-known or popular stocks. The lack of coverage can be due to various reasons, such as the company being too small, operating in an unpopular sector, or being new to the market. Spinoffs fit into that category. They are given to existing shareholders, whether they like them or not and thus are generally sold, which can make them cheap. The more important point to highlight is that these misunderstood, under-covered fractional shares that investors find themselves holding because they hold the parent company mean they are the first things to be sold in a falling market, which could make them some of the best value names around as the selling can usually be indiscriminate. Here are [two] names that you should take a closer look at.

Sphere Entertainment Co. (SPHR)

Madison Square Garden is a legendary entertainment venue. Madison Square Garden Entertainment Corp. spun off Sphere Entertainment to focus on its core live entertainment business. The Sphere in Las Vegas is a cutting-edge entertainment venue located near the Las Vegas Strip. It is the world's largest spherical structure, and its 16K resolution wraparound LED screen is the world's largest high-resolution display. The Sphere's massive sound system employs beamforming and wave field synthesis technologies to provide concertgoers with a genuinely immersive experience. The Sphere is a versatile venue that can be used for a wide variety of events. It is sure to play a major role in the future of live entertainment. The venue is the next level of entertainment, very much like the early days of MSG. There is huge potential and the owners plan to put these around the world. One has already been scheduled for London.

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Drone Shot of the Sphere in Las Vegas.GETTY

The Future

- The LED screen and music equipment in The Sphere will be utilized to produce virtual reality concerts that take audience members to other planets. Concertgoers, for instance, may be taken to the cabin of a spaceship or the peak of a mountain.
- The venue in the future might play host to competitions like basketball games and ice hockey matches. Fans could be immersed in the action thanks to the LED screen, which could provide highlights and statistics, and the high-quality sound system.
- The Sphere could play host to ceremonies like the Grammys and the Oscars. The sound system and LED screen could be used to set the mood for the event with music or dramatic sound effects.

Overall, the Sphere in Las Vegas is a groundbreaking entertainment venue with the potential to change the future of live entertainment. The Sphere's immersive experiences, new types of events, and global reach will make it a must-visit destination. The investment is a slightly higher risk/reward play because it's still at the early stages but could reward handsomely.

With the recent commencement of operations and limited information, we have analyzed SPHR's value based on its EV/Sales, i.e., the potential revenue it can generate at 85% occupancy with an average rate of 3 shows per day running for 360 days in a year and an average ticket price of $90 per show. As per the calculations, the potential revenue that can be generated at Sphere could be in the range of $1,300 to $1,500, depending upon various elements.

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Considering the MSG Network's weakness in margins coupled with the decline in subscribers, we expect network business to trade at 4.1x EV/EBITDA FY25E, a 15% discount to its blended peers. At the group level, SPHR is to be trading at ~1.2x EV/Sales FY25E compared to its peers, MSG Network at 4.1x EV/EBITDA FY25E. This brings the total to approximately $2.3 billion at the enterprise value level, with a net debt of $860 million (excluding MSG's 17% stake, which is worth ~$250 million). We believe that given the Dolan Family's business acumen and successful track record of MSG Garden transformation, they possess the correct recipe to make The Sphere a successful project. Further, the company aims to build smaller sphere structures across the globe by exploring an asset-light model.

Phinia Inc. (PHIN)

BorgWarnerBWA +1.8% is a pioneer in technological advancements for cars and trucks all around the world. The corporation creates cutting-edge air management systems and propulsion and drivetrain technologies. Everything from personal vehicles to large commercial trucks and buses to construction and mining machinery uses BorgWarner products.

To better serve its core automotive propulsion and drivetrain business, BorgWarner divested itself of PHINIA in 2023. PHINIA is the industry standard for commercial vehicles, industrial applications, and light vehicle fuel systems and aftermarket parts.

The spinoff, according to BorgWarner's thinking, would let each company concentrate on what it does best. PHINIA could concentrate on creating and commercializing fuel systems and aftermarket parts for a wide range of applications, while BorgWarner could devote more resources to researching and commercializing sophisticated propulsion and drivetrain technology.

Phinia is a global leader in fuel systems and aftermarket parts for commercial vehicles, industrial applications, and light vehicles. The company designs, develops, and manufactures a wide range of products, including fuel injectors, fuel pumps, fuel rails, fuel filters, and aftermarket components. Original equipment manufacturers (OEMs), suppliers, and distributors are just a few of the customers who use PHINIA's products.

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Going Forward

PHIN is poised to establish itself as a prominent leader in fuel systems, starters, alternators, and aftermarket distribution, with a particular emphasis on commercial vehicles. Given the challenges associated with implementing battery electric vehicles (BEVs) in commercial vehicles, industrial settings, off-highway operations, and long-haul trucking, there is a strong possibility that the aftermarket business will remain relevant in the coming years. Thus, the aftermarket business cannot be completely ruled out for the next few years. More importantly, PHINIA's FCF yield stands at ~13%, with management guiding for 20–25% (or ~$50 million) of FCF towards a dividend pay-out, which implies a dividend yield in the range of 2%–3%.

Thus, the aftermarket business cannot be completely ruled out for the next few years. It's worth noting that PHINIA, with a current market capitalization of $1,220 million, is trading at 3.3x EV/EBITDA FY2024E, which is a ~27% discount compared to its peers. Also, PHINIA has a free cash flow yield of about 16%, and management has stated that they plan to allocate 20–25% (or ~$50 million) of FCF towards a dividend payout. This implies a dividend yield ranging from 3.5% to 4.1%.

Phinia currently has comfort leverage (net debt/EBITDA FY2023E) of 1.1x, which is half of the industry average of 2.2x. This gives Phinia a margin of safety and we believe that even a small increase in EBITDA and FCF, in the low double digits, could lead to a re-rating.

Continue reading here.

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Here's a list of event-driven trade ideas that are potentially actionable today (from ToffCap)...

- ***Wärtsilä (WRT1V Finland)***. Wärtsilä decided to initiate a strategic review of its Energy Storage and Optimizations (ES&O) business. On a twelve-month rolling basis, the ES&O net sales by the end of Q3 2023 amounted to € 983m. On the same twelve-month rolling basis, the business turned to profitability. Could be an interesting SOTP case.
- ***Telephone and Data Systems (TDS US)***. TDS owns >70% of US Cellular (USM US). Strategic review launched by Carlson family (controlling) potentially leading to a sale of companies, at >values than currently implied.
- ***Cellectis (CLLS US)***. Cellectis received a $25m up-front payment from Astrazeneca, and a $80m equity investment at a $365m valuation. Cellectis' market cap is ~$170m (10 November).
- ***Primo Water (PRMW US)***. Primo Water is selling its International business for ~$900m. Primo is trading ~10x ev/ebitda on FY23 for a much clearer b/s; peers trading at ~15x.
- ***Bragg Gaming (BRAG Canada)***. Peer GAN to be taken out at >100% premium. Bragg is higher quality and profitable, trading at large discount to implied (similar) deal valuation. H/t puppyeh1 for the idea.
- ***Ascential (ASCL UK)***. Ascential to sell two divisions after a strategic review. Remainco valued at ~5x ev/ebitda; peers trading at >10x. H/t Clark Square Capital's Ultimate Value for idea and write-up.
- ***Worthington Industries (WOR US)***. To spin Worthington Steel (ticker WS). Record date 21 November, 1-1 share ratio.
- ***PetMed Express (PETS US)***. Decent insider purchases in online pet pharmacy PetMed. Stock clobbered ytd; net cash b/s (about 1/3 of market cap), ~17% dividend yield (if sustainable).
- ***Cohbar (CWBR US)***. To commence liquidation. Cohbar has ~$9m in cash and cash equivalents on the b/s, with ~$1.5m in accrued liabilities (hence negative EV).

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- ***Shyft Group (SHYF US)***. Strong insider buying in this beaten up small-cap. BBccs is at 100% ebitda growth next two years; trading at c. 11x ev/ebitda on FY23 ccs.
- ***Western Digital (WDC US)***. Western Digital is back to planning the spin of its Flash and HDD franchises after the busted deal talks with Kioxia. Original timing was Q4 2023; now H2 24.
- ***SITE Centers (SITC US)***. SITE Centers announced that its intends to spin-off its Convenience assets into a separate publicly-traded REIT to be named Curbline Properties ('CURB'). Interesting, unique growth company. Will list with a net cash (debt free) balance sheet. Timing H2 24.
- ***Howard Hughes (HHH US)***. Ackman (Pershing Square) continues to buy HHH; added >650k shares since last TMM. Company recently announced it would spin off its Seaport and other related assets. ~90% upside to NAV (according to HHH).
- ***National Bank of Greece (NAGF Germany, FF listing)***. The Greek government is about to sell a 20% stake in the National Bank of Greece. Could be interesting buying opportunity; NAGF has been doing very well operationally.
- ***Flutter Entertainment (FLTR UK)***. Will list on the NYSE in Q1 24. Trading at ~13x ev/ebitda on 2024e. Might be interesting to keep an eye out.
- ***Zynex (ZYXI US)***. To review strategic alternatives. If BB consensus is anywhere near correct, Zynex is trading at ~11x ev/ebitda on 2023e for >50% ebitda cagr over the next few years. Also, already cash flow positive.
- ***ON24 (ONTF US)***. Continues to buy back shares (like crazy). Roughly 70% of the market cap is cash (no debt).
- ***ContextLogic (WISH US)***. Exploring strategic alternatives. WISH has ~$440m net cash on the b/s for a market cap of $120m. Plus, activist shareholder involvement.
- ***REGENXBIO (RGNX US)***. To explore strategic alternatives. Roughly 50% of market cap in net cash.
- ***El Pollo Loco (LOCO US)***. Company acquired ~10% of shares outstanding, another $20m lined up. Plus, new CEO.
- ***Peabody (BTU US)***. Buyback machine. Company acquired ~10% of shares outstanding, and has $700m left (and on the bank!) on its program; or >20% of the market cap.

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- ***Brink (BCO US)***. Recently increased its buyback authorization to ~$700m (>20% of the market cap).
- ***Phillips 66 (PSX US)***. Bought back c. 3m shares on a total of 36m during the last quarter. Continues to increase buyback authorization.
- ***Barnes Group (B US)***. Big insider purchases after a >30% sell-off of the stock.
- ***Summit Midstream Partners (SMLP US)***. Reviewing strategic alternatives. Alternatives include sale of assets, refinancing parts or the entirety of its capital structure, sale of the Partnership.
  ***UPDATE*: Mentioned continued level of interest from third parties.**

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And here's a list of notable executive resignations and departures in November (from The Bear Cave)...

1. CFO of Nikola (NASDAQ: NKLA — $1.06 billion) resigned after eight months "to pursue other opportunities." In August, the company's CEO departed after nine months and the company's President of Energy resigned after one year. In addition, four board members have departed this year.
2. CFO of SmartRent (NYSE: SMRT — $595 million) resigned after one and a half years "to pursue new opportunities" and a board member resigned after three years as well. In September, Bleecker Street Research called the company "a mess with a broken culture" and in February Guasty Winds Musing, an anonymous Substack, showed that "the company's largest customers appear to be LPs in one of the company's largest VC shareholders." The company is down ~70% since its August 2021 SPAC merger.
3. CFO of Perimeter Solutions (NYSE: PRM — $628 million) resigned "pursuant to a mutual agreement" after one and a half years. The company's prior CFO also resigned "pursuant to a mutual agreement" after three years and in April 2022 Kevin M. Stein, the CEO of TransDigm, "decided not to continue as a director" of Perimeter Solutions after only five months. Perimeter went public through a "reverse takeover" of a London-based acquisition vehicle in November 2021 and has since fallen ~70%.
4. CEO of The Beauty Health Co (NASDAQ: SKIN — $300 million) "separated" after almost two years and also departed the board. In February, The Bear Cave published on the company and highlighted "lackluster leadership, high executive turnover, internal accounting issues, and a dubious customer base." The company is now down ~80% since its May 2021 SPAC merger.
5. CEO of Perdoceo Education (NASDAQ: PRDO — $1.19 billion) resigned "effective immediately" after almost two years and also departed the board as well.
6. CFO of DigitalBridge Group (NYSE: DBRG — $2.73 billion) resigned after about three and a half years. In September, the company's Chief Accounting Officer also resigned after nearly three years "to pursue other opportunities."
7. CEO of ProKidney Corp (NASDAQ: PROK — $285 million) was "terminated without cause" after five years. The company is down ~90% since its July 2022 SPAC merger.

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8. CEO and CFO of ChargePoint Holdings (NYSE: CHPT — $727 million) resigned "at the request of the board" after thirteen and six years, respectively. In September, Sunshine Research said the company faced competition from the Tesla supercharging network and the company is down ~80% since its February 2021 SPAC merger.

9. Quarterback Drew C. Brees, board member of Business First Bancshares(NASDAQ: BFST — $533 million), resigned after two and a half years "to devote his time to various [other] business ventures."

10. CFO of MarketAxess Holdings (NASDAQ: MKTX — $8.45 billion) resigned after two and a half years "to accept a position at a private company that provides technology solutions within the commercial bank sector." In April, the company's CEO departed after 23 years and two board members have departed this year as well.

11. CEO of Air Transport Services Group (NASDAQ: ATSG — $979 million) departed "effective immediately" after three and a half years and was replaced by the company's Chairman, Joseph Hete. The company is down ~50% in the last year.

12. CEO of Bumble (NASDAQ: BMBL — $1.95 billion) departed after four years and will become Executive Chair. In addition, a board member resigned and the company has fallen ~80% since its February 2021 IPO.

13. CFO of Array Technologies (NASDAQ: ARRY — $2.12 billion) "separated" from the company after four and a half years. In April, the company switched auditors from BDO LLP to Deloitte and in September 2022 Jehoshaphat Research criticized the company for its "bill-and-hold revenue recognition policy in which a company books revenue on product that is still sitting in the seller's possession, or even in a third party supplier's warehouse." In October 2022, the company's Chief Operating Officer also departed after just one year.

14. CFO of StepStone Group (NASDAQ: STEP — $2.90 billion) "retired" after four years. The company is roughly flat since its September 2020 IPO.

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15. Both co-CEOs of BRC Inc (NYSE: BRCC — $689 million) announced upcoming departures at the end of this year. The company's CFO, Chief Operating Officer, Executive Chairman, and Chief Retail Officer have all departed this year as well. The company is down ~65% since its February 2022 SPAC merger and was previously mentioned in The Bear Cave as a notable advertiser on Rumble (NASDAQ: RUM).

16. CFO of eXp World Holdings (NASDAQ: EXPI — $1.88 billion) resigned after five years "to pursue other opportunities." In April 2022, The Bear Cave raised concerns about the company's "dubious accounting, regulatory snafus, an SEC subpoena, high insider selling, and a questionable recruiting pipeline promoted by a prominent Scientologist."

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A summary of two special situation investment opportunities with near-term catalysts (from Idea Hive)...

Ocean Wilson (OCN:L, £350m)

Ocean Wilson is an investment company with two key holdings: OWIL, a fund of funds, and a 57% stake in publicly-listed Wilson Sons, one of the largest providers of maritime services in Brazil. OCN is currently trading at a 50%+ discount to NAV. However, unlike in a regular [sum of the parts (SOTP)] discount play, there is a clear catalyst here that could help unlock the underlying value.

In June, OCN launched a strategic review for its stake in Wilson Sons shortly after media rumors that shipping giant MSC Group has been in talks to acquire the subsidiary. Wilson Sons sale seems likely given the significant M&A activity in the maritime services industry in the past couple of years, including several acquisitions completed by MSC Group.

While it is not clear what OCN would do with the potential sale proceeds, there is a chance that the company could pursue a liquidation. This might be likely, given that after a potential Wilson Sons sale, OCN's major shareholder/investment manager Hansa Investment Company would own/control two similar listed funds of funds.

A full OCN liquidation would allow Hansa to simplify the corporate structure and eliminate duplicative listing/board costs. A liquidation scenario would imply a 100%+ upside. The potential downside seems minimal, given that OCN is currently trading at a historically wide discount to NAV of 50%+ versus a historical average of 32%. Full OCN:L write-up on Value Investors Club (free guest account is required).

EML Payments (EML:AX, A$440m)

EML Payments is an Australian fintech company primarily operating single-load gift card (G&I) and reloadable gift card (GPR) businesses. EML's share price has declined significantly over recent years following the value-destructive acquisition of PFS, a diversified European fintech, in 2020. Under EML's ownership, the PFS business has encountered regulatory issues, with authorities pushing for increased compliance and AML apparatus, among other things. Driven by endless cost escalation due to regulatory demands, EML's operating expenses have spiraled out of control. This has led to a substantial deterioration in profitability, with consolidated EBITDA declining from A$33m-A$44m in FY20-22 to -A$3m in FY23.

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However, there are reasons to believe that the operational issues are likely to be fully resolved in the near term, revealing the value of the remaining highly cash-generative and capital-light gift card businesses. In early 2023, reputable activist investor and EML's second-largest shareholder, Alta Fox, successfully revamped EML's management team. With new management at the helm, EML has nearly completed remediation work at one of PFS's subsidiaries, PFS UK, while the remaining subsidiary, PCSIL, seems likely to be either sold or wound down in the near term. During the latest earnings release, EML announced the separation of PCSIL from the remaining PFS segment. Moreover, in mid-September, all of PCSIL's directors resigned, with no intentions to replace them.

While EML's share price has already increased substantially since early 2023, there appears to be substantial upside remaining. In a scenario where the PCSIL segment is wound down, the remaining company is likely to generate A$80m+ in annual EBITDA vs. the current EV of c. A$500m. Valuing the gift card segment at 10x EBITDA, i.e., at the lower end of peer/comparable transaction valuations, and the remaining business at 6x would imply a price target of $1.77/share or a 51% upside.

The opportunity exists as EML is a small and under-covered name that has historically destroyed a significant amount of shareholder value. The stock has also been pressured by several legacy shareholders selling down their stakes. Full EML:AX pitch from Jeremy Raper on Twitter.

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This upcoming spinoff could unlock significant value for shareholders (from ToffCap)...

I'm looking with much interest into the upcoming Solvay split. On December 11, Solvay will split its business in a commoditized chemicals part (maintaining the name Solvay) and a 'specialty' chemicals part (to be called Syensqo). I believe the split could unlock significant value as the market seems to greatly underestimate the current SOTP value.

I've written (quite a few times) on the chemicals sector in general, and why it has been suffering over the past few years; you can find comments on my Twitter feed. Sentiment became so bad recently, that pretty much all chemicals companies' stocks were thrown out of the window. While many companies suffered for good reasons (China double whammy, supply chain issues, bad end-market demand, etc etc), there are quite a few buying opportunities as some are valued like the down cycle will never end. People forget that these are cyclical businesses, during very bad times.

A good part of Solvay's business has been hurting, and will continue to hurt in 2024. Looking out a few years and seeing many market trends, the specialty part of the business (Syensqo) might actually become an interesting 'growth' company ('growth' for a chemical, so to speak).

Syensqo is exposed to big themes like electrification, sustainability (lower fuel consumption, green hydrogen, lighter materials, etc), aging population, etc. The new company will consist of a Materials division (~75% of ebitda at c. 32% margin) and a Consumer & Resources division (at roughly 20% margins).

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Growth is expected to accelerate given promising ongoing projects, strong secular market trends and a step up in capex and R&D. There are many other projects that will push growth even after 2028. 2024 will be a relatively tough year, but Syensqo management is confident it will be able to retain strong pricing given a good supply / demand balance in many of its markets.

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Management recently presented 2028 guidance where it targets 5-7% revenue growth pa, some ebitda margin expansion and >€3.2 bn free cash flow generation over this period.

The targets would imply c. €650m free cash flow pa on average for Syensqo. That's a lot! I estimate ~€550m free cash flow for 2024 on roughly €1.7bn ebitda. We'll see if these targets are reached, but just the exposure to growing markets should be enough to generate some growth.

The current opportunity is the consequence of the cyclical downturn of the cycle, the overall horrible sentiment in the chemicals sector, and the big swings and currently relatively low visibility of Solvay's earnings generation over the past and the next few years. For Solvay pre-split (hence excl. dyssynergies and various other costs) I estimate c. €2.8bn ebitda for 2024, which makes Solvay currently trading at 5x ev/ebitda. Solvay today is currently valued as an ex-growth crappy business.

Let's look at valuation in two ways.

I estimate that the legacy Solvay business will generate ~€380m free cash flow next year (way below the implied average €475m pa that the company has guided for over 2024 - 2028). At a 10% yield (I would argue a very conservative valuation), that would result in an implied valuation for Syensqo of <6× 2024e ev/ebitda. Syensqo peers are trading at c. 12-17x. **That's >100% upside, on relatively conservative cash flow estimates.**

Otherwise, on a baseline Syensqo ebitda of €1.7bn for 2024e and 2.0bn net debt (incl. pension and environmental liabilities), **a conservative forward multiple of 9x results in €13.3bn equity value, higher than Solvay's current market cap, pre-split.**

I believe that the current market circumstances and poor sentiment are providing us with a very interesting entry point in what will be a strongly cash generative company, with increased focus, exposed to secular growth trends, a strong innovation pipeline and a management that has a good track record of cost efficiency.

Continue reading here.

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PRECIOUS METALS

China led record central-bank gold buying over the first nine months of the year (from *The Financial Times*)...

China has spearheaded record levels of central bank purchases of gold globally in the first nine months of the year, as countries seek to hedge against inflation and reduce their reliance on the dollar.

Central banks have bought 800 tonnes in the first nine months of the year, up 14% year-on-year, according to a report by the World Gold Council, an industry group.

The "voracious" rate of buying has helped bullion prices defy surging bond yields and a strong dollar to trade just shy of $2,000 a troy ounce.

Surging consumer prices and depreciating currencies in many markets has triggered a rush to gold as a store of value, while the yellow metal has also historically been held when global inflation rises.

The rush to gold by central banks is also driven by countries' desire to weaken their dependence on the U.S. dollar as a reserve currency, after Washington weaponised the greenback in its sanctions against Russia.

China has stood out as the largest purchaser of gold this year as part of a 11-month buying streak. The People's Bank of China has reported snapping up 181 tonnes this year, taking gold holdings to 4% of its reserves.

Poland, at 57 tonnes, and Turkey, with 39 tonnes, followed as the next largest buyers in the third quarter. A further eight banks purchased more than 1 tonne.

The continued rapid rate of central bank buying has taken market analysts by surprise, who had been expecting an easing of purchases from last year's all-time high.

Those concerns will have been further stoked by the conflict that has erupted in the Middle East between Hamas and Israel, which has lifted the safe haven asset almost 10 per cent in 16 days.

John Reade, chief market strategist at the WGC, said that it expected the annual total of official purchases of gold to "get close to or exceed" last year's 1,081 tonnes.

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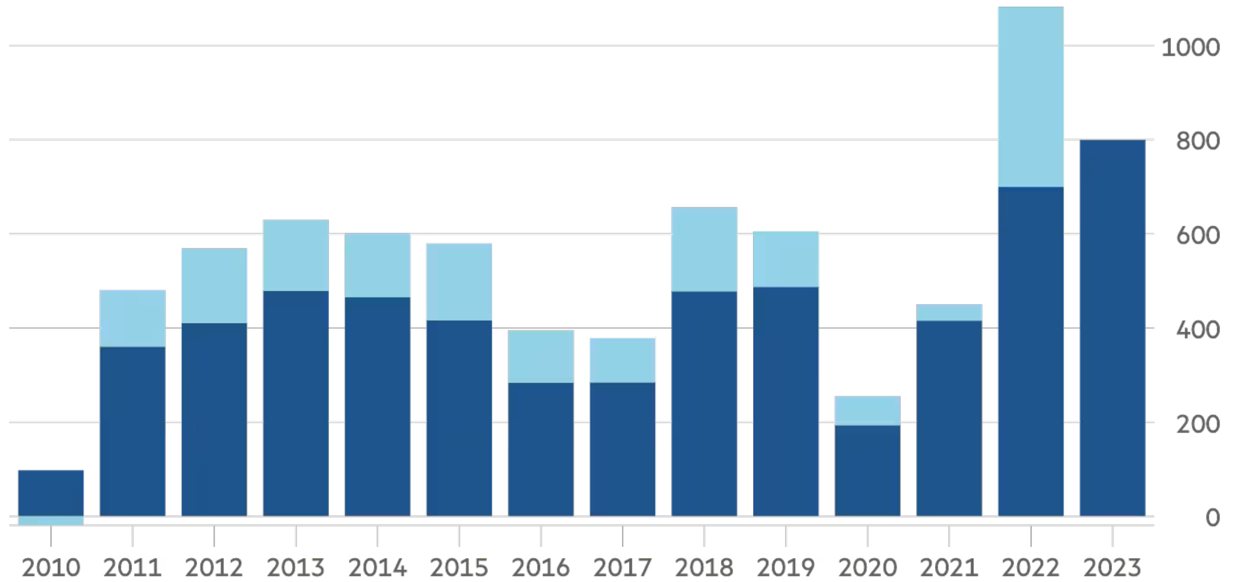

Purchases reported to the IMF
Sources: Metals Focus, Refinitiv GFMS, World Gold Council
© FT

Continue reading here (subscription may be required).

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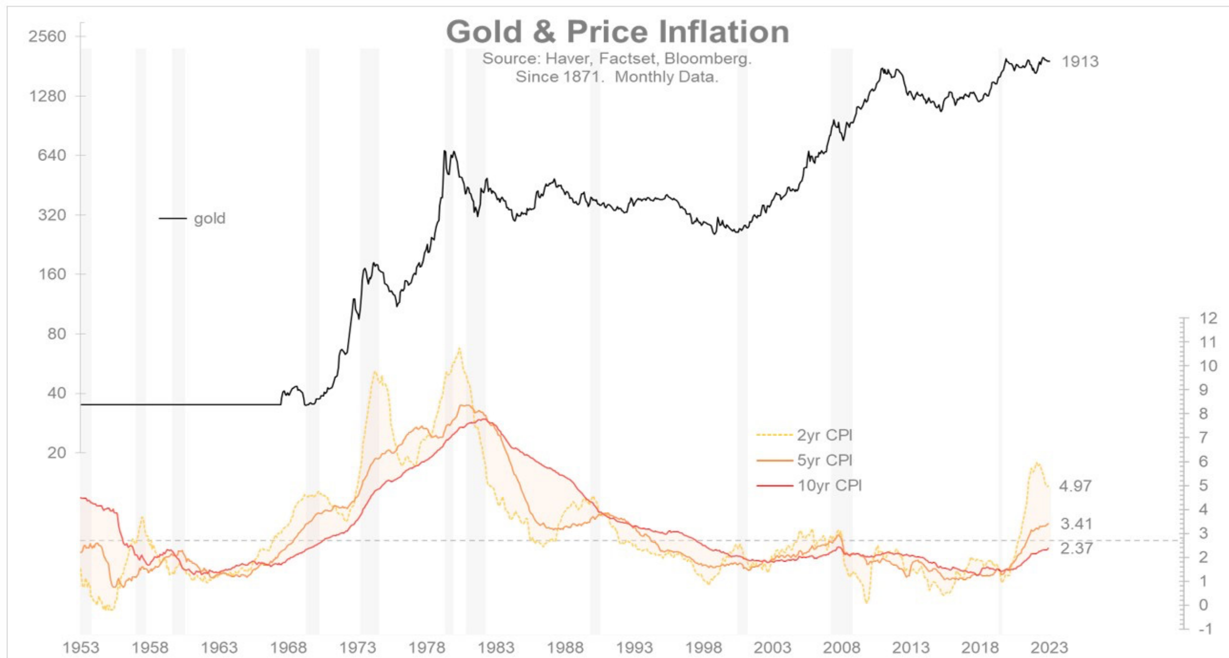
This may be why gold has held up so well despite falling inflation (from Jurrien Timmer via X)...

The year-over-year change in the headline inflation data is improving, but longer-term rates of inflation are heading higher, much like they did during the late 1960s/early 1970s. Maybe that's why gold is ignoring the rise in real rates and remains near all-time highs.



Data source: FMRCo, Bloomberg, Haver Analytics, FactSet. Data as of 10/5/2023. Past performance is no guarantee of future results.

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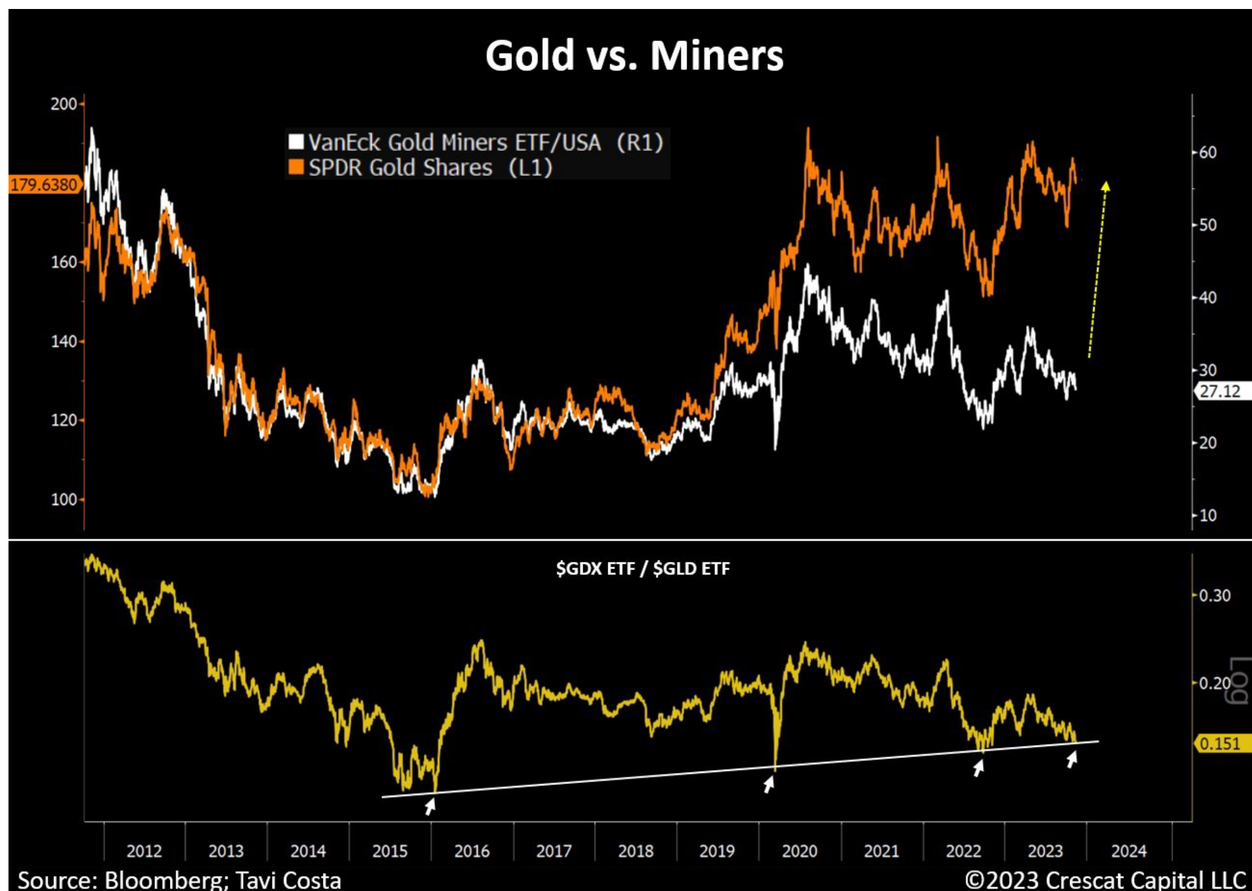
This chart suggests gold miners are among the most undervalued stocks in the market today ([from Otavio Costa via X])...

The growing gap between gold and mining companies is about to gain significance as the precious metal gears up for a major breakout, likely marking the beginning of a new long-term cycle for precious metals.

Although mining companies are complex capital intensive businesses, there are historical periods when this industry proves to be exceptionally profitable investments.

If we are indeed on the verge of a secular move in gold prices, miners are arguably one of the most undervalued companies in financial markets today.

In an environment where inflation remains higher than historical standards and hard assets excel, these stocks have the potential to yield significant returns, possibly becoming multi-baggers.



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David Einhorn – president of hedge fund Greenlight Capital – just made another big investment in gold (from MarketWatch)...

David Einhorn's Greenlight Capital cut its stakes in its top two holdings, U.S. housebuilder Green Brick Partners and Pennsylvania coal miner Consol Energy , and instead plowed millions into gold in the third quarter, the New York hedge fund's 13F filings show.

The hedge fund, which was founded by David Einhorn in 1996, increased its investment in the SPDR Gold Trust GLD by 89.22% in the third quarter, as he channeled $34.9 million into the exchange traded fund which tracks the price of gold bullion.

Greenlight first bought shares in the SPDR Gold Trust in the second quarter of 2020, during a gold price rally driven by investors seeking to protect themselves against the economic chaos wrought by COVID-19. Any investments in gold through futures contracts wouldn't show up in this regulatory filing.

The investment fund, which is famous for successfully shorting Lehman Brothers in the runup to the 2008 crash, now has a bigger stake in the SPDR Gold Trust than at any prior point, as gold prices have again started to rally in recent months.

Investments in gold are widely considered to offer a safe haven for investors in the face of volatile markets and high levels of inflation, meaning gold prices generally rise during periods of uncertainty.

Greenlight's gold investments came as the hedge fund sold off millions worth of shares in the two stocks that make up more than two-fifths of its holdings, Green Brick Partners and Consol Energy.

Continue reading here (subscription may be required).

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Despite Warren Buffett's famously negative view of gold, he clearly understands its value during periods of rampant government money-printing (from Luke Gromen via X)...

Warren Buffett, on investing through the prior episode of U.S. government "Guns and Butter" deficits:

> *One friendly but sharp-eyed commentator on Berkshire has pointed out that our book value at the end of 1964 would have bought about one-half ounce of gold and, fifteen years later, after we have plowed back all earnings along with much blood, sweat and tears, the book value produced will buy about the same half ounce. A similar comparison could be drawn with Middle Eastern oil. The rub has been that government has been exceptionally able in printing money and creating promises, but is unable to print gold or create oil.*
>
> **-Warren Buffett, 1979 Berkshire Hathaway Annual Letter**

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ENERGY

Warren Buffett's Berkshire Hathaway continued to buy more shares of Occidental Petroleum (NYSE: OXY) last month (from Kingswell)...

Last week, Warren Buffett bought 3.92 million more shares of Occidental Petroleum at prices above $60 per share. But that's not the only thing we learned from that October 25 filing. OXY has now redeemed over 15% of the preferred shares that Berkshire received in 2019 as part of the Anadarko deal.

Back in August, OXY reported the preferred share count as 88,312 – and now it has dropped to 84,897 (as of September 29). That means 3,400+ of these high-yielding shares have since been redeemed at $110,000 a piece. From this, I believe we can infer that higher oil prices led to enough Q3 share repurchases to keep OXY above the $4 mandatory redemption line.

Any time OXY distributes more than $4 per share to stockholders over the trailing 12 months, it triggers a mandatory dollar-for-dollar redemption of the preferred shares.

Continue reading here.

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Thanks to the government's idiotic energy policies, the U.S. may be one major conflict away from an existential crisis (from Huntsman via X)...

Fun theoretical exercise I'm currently working on for the @fortisanalysis side of things:

U.S. refineries (total) only store about 40 million gallons of military-grade jet fuel at any given time, or about 36,400 flight hours for an F/A-18E/F Super Hornet launched from an aircraft carrier.

For 40 x -18's per carrier, this is about 910 flight hours. A carrier holds roughly 3 million gallons of fuel for its wing, about 68 flight hours per bird.

Now consider that a notional mixed complement of 20 x F-35's and 20 X F-15EX's operating out of Kadena AFB would consume about 62,400 gallons per hour combined. Thus, just a single carrier wing and a single AFB wing's complement of fighters (80 combined) theoretically all operating at once would drink 106,400 gal/hr.

So...

The net stores of military jet fuel immediately available from U.S. refiners above the global contingency supplies managed by the Defense Logistics Agency at any time represents about 375 net flight hours for one carrier and one air wing...less than 16 days of high intensity air operations by far fewer assets than the US would throw into an all-out theater conflict in the Pacific Rim.

DLA Energy ended FY2022 with 1.68 billion gallons of on hand inventory of jet fuel to serve the entire DOD combined inventory of 14,000+ aviation assets - cargo, fighter, rotary wing, bombers, drones, tankers, and recon.

Which begs the question: How fast would two theaters of conflict burn through all contingency supplies of fuel? And what does DOD do when the well runs dry?

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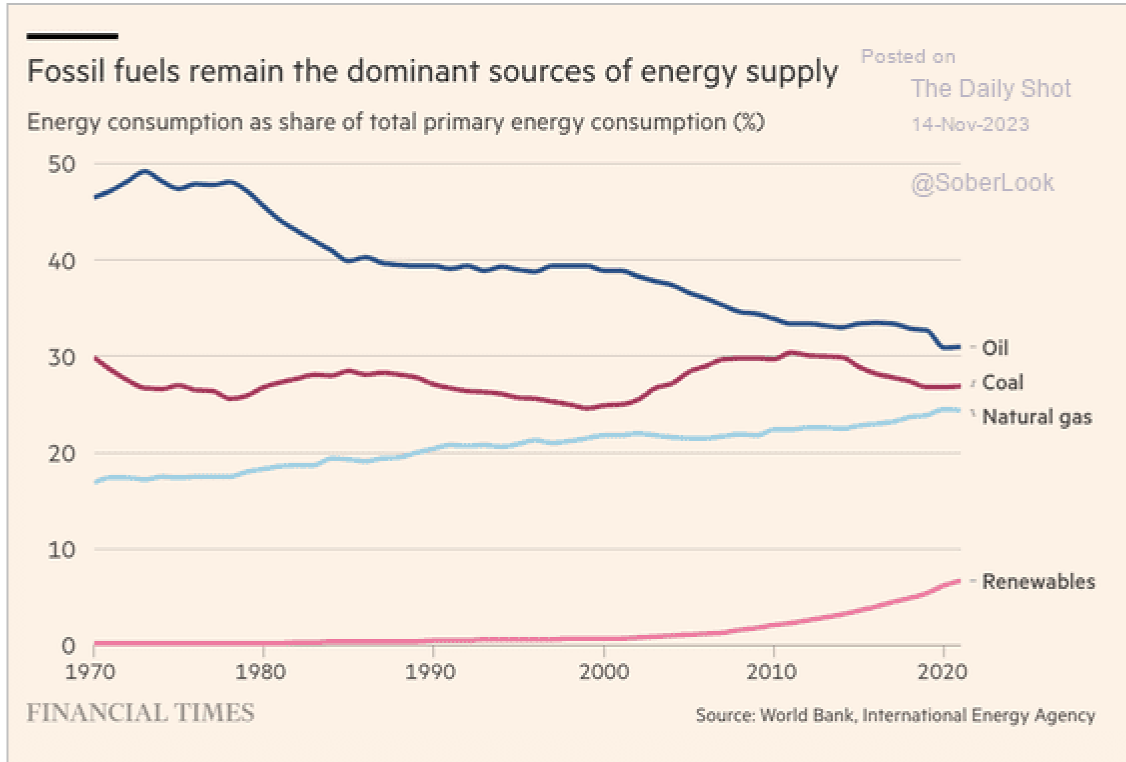
Fossil fuels continue to dominate the global energy supply (from The Daily Shot)...



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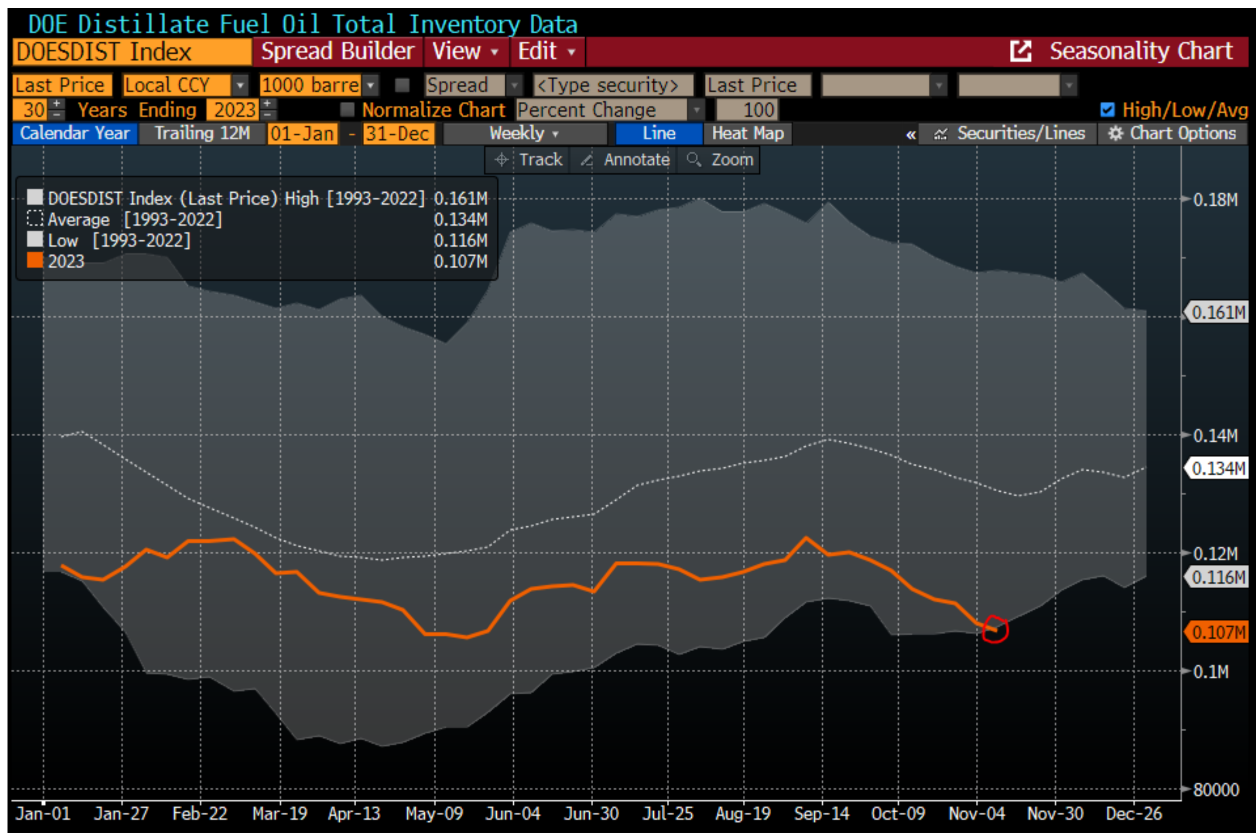
U.S. stocks of diesel and heating oil are at their lowest seasonal levels in 40 years (from Javier Blas via X)...

Let's hope the U.S. economy is truly slowing down – particularly manufacturing – and that the winter is mild. U.S. stocks of distillate fuel (diesel and heating oil) are ending the fall season at their lowest **seasonal** level in data since 1982 | #OOTT



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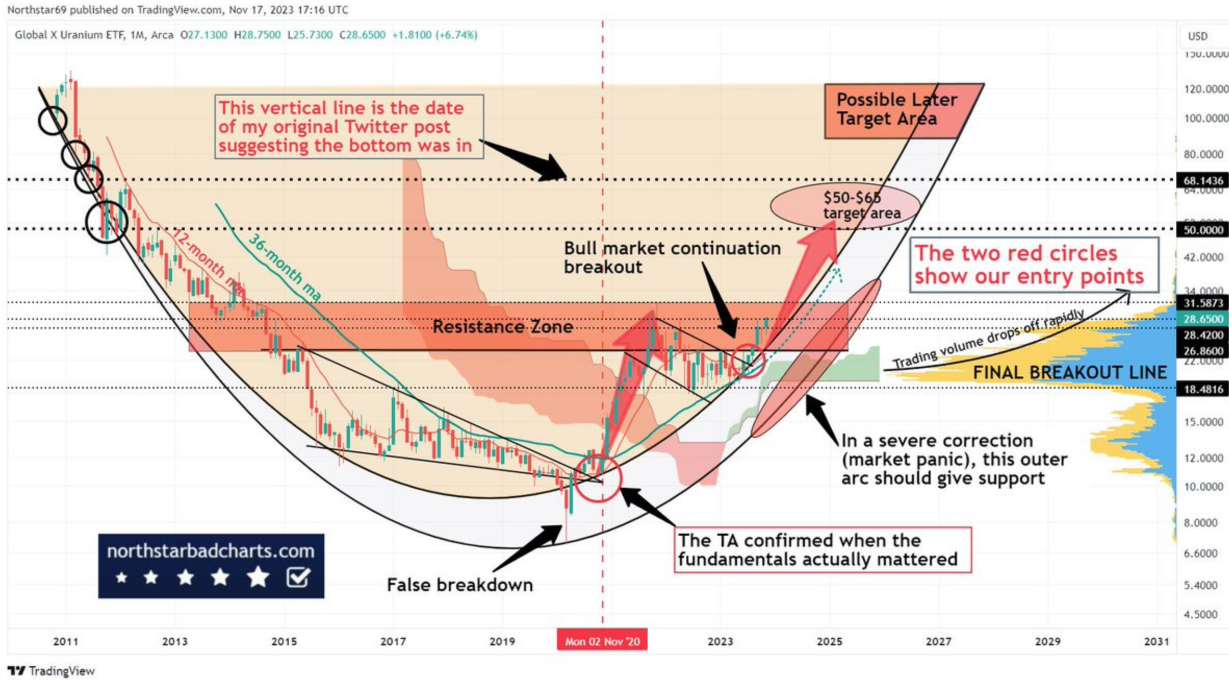
Uranium continues to follow this bullish "roadmap" (from Northstar via X)...

U-R-A-N-I-U-M: The roadmap laid out three years ago, at the breakout, continues to be followed. There's no reason to change the plan #Commodities #gold #Silver #Uranium



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Fundamentals also suggest uranium prices could be headed much higher from here (from Kyle Horn via X)...

This week saw a monumental gap up in spot uranium. After observing the details around price action and commentary with uranium this week, this exact moment reminds me of when #rhodium shot through $10,000/oz in early 2020, where there was no technical resistance alongside no physical supply.

Rhodium kept going and topped out around $30,000/oz one year later, where it was just $600/oz five years earlier in 2016. The pricing fundamentals are the same for both commodities: the utility of the material supersedes the price, where both are price inelastic.

This week could be the start of the parabola for spot uranium. There's no supply and there's no supply coming online to meet demand. There's no generalist money in the trade yet and it's being heavily mentioned on select news outlets.

The commentary out of WNA two months ago, where it was suggested there's no reason for spot to not be at $100 by end of year, doesn't seem unrealistic, and seems increasingly likely. I have no crystal ball of course, but the circumstances are in place for uranium to go on a real tear here.

This is the physical supply of a commodity that's responsible for the modern daily material standard of humankind, and it's in hopeless supply deficit with real time price discovery.

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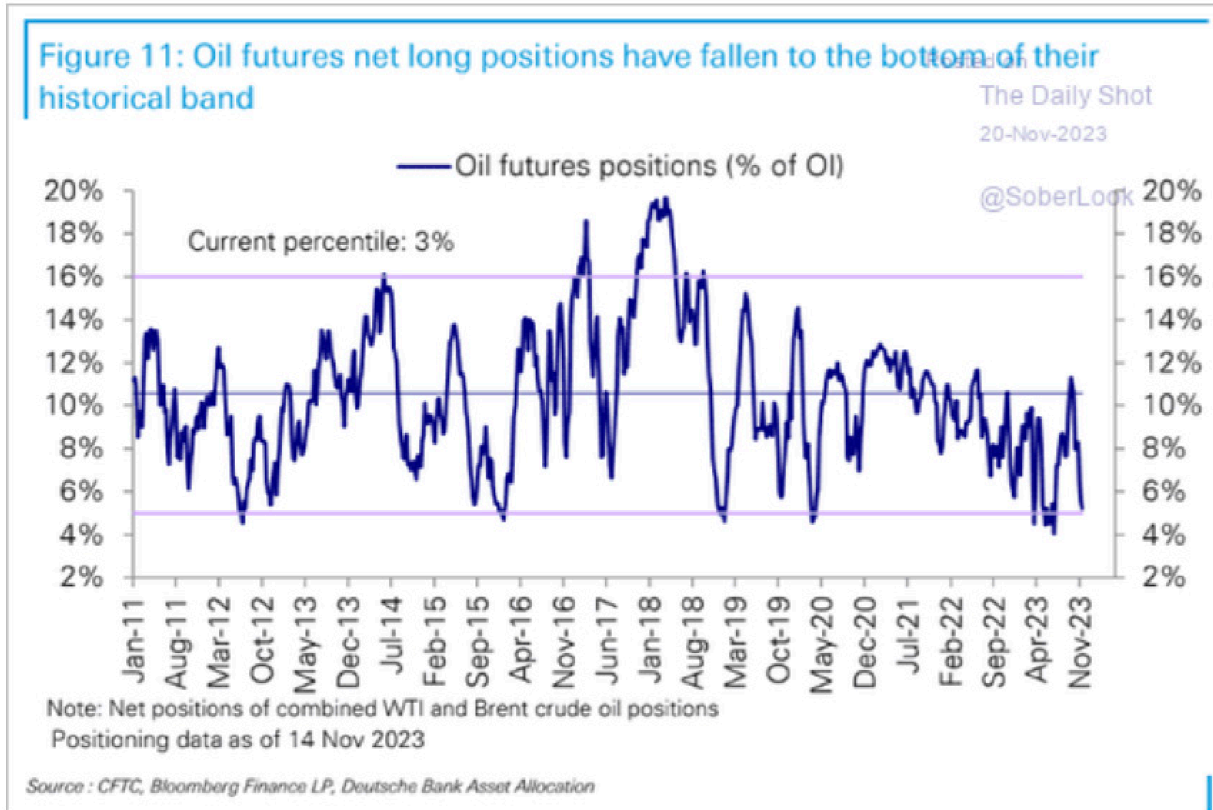
Oil futures positioning is extremely bearish again, setting the stage for a rebound in prices ([from the Daily Shot]...)



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Here's a look at the current state of the offshore oil industry (from Tommy Deepwater via X)...

$OIH $RIG $VAL $TDW $NE $BORR $DO $SDRL A few thoughts on (1) Outlooks from 3Q23 calls, (2) the Oilfield Services industry and (3) Long-Cycle Supply/ Demand.

(1) Outlooks from 3Q23 earnings affirmed belief in a multiyear upcycle although focus has been short-term softness. Offshore experienced a painful 7-8 year downturn and these memories are not easily erased. The downturn was based on poor offshore demand, a large new orderbook and US shale growth. Today is the opposite - offshore demand is growing, there's no new orders and US shale growth has meaningfully reduced.

(2) Oilfield services is an inherently volatile industry. Unlike US shale, Offshore is a "long cycle" investment cycle considering it takes years to build projects that produce 100k bpd in the ocean at >1,000m water depth. It requires patience and the E&P/IOC's have been communicating their investment continues as long as oil does not fall sustainably below $60-$65/bbl. Watch OPEC+

(3) Given the dark days of 2015-2021, the offshore industry has not yet earned the benefit of the doubt from most. It is not something you can prove in a couple quarters given its long-cycle nature. Multiple companies expect incremental floater demand of 10 or more in 2024 and further growth in 2025 (and beyond). If that materializes, there will be a shortage of rigs. $NE has a great slide below. If everyone believed the offshore thesis, you could not buy these cash flow producing assets for 35%-50% of replacement value. It is not without risk given oil's volatile nature and equity exposure, but offshore's costs have meaningfully reduced and is likely to account for growing proportions of E&P/IOC/NOC capex budgets in coming years.

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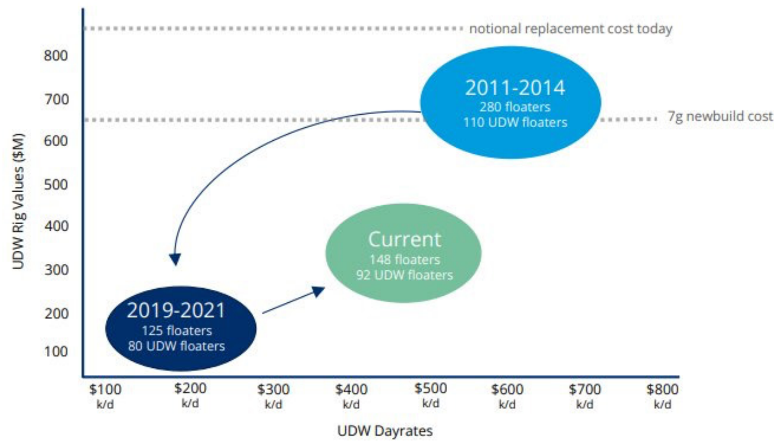
Unprecedented industry setup



Present Characteristics

- >90% utilization, $400-$500 k/d dayrates, climbing
- Limited sideline capacity, newbuilds far off the radar
- Driller equities trading <50% of replacement

Prior Upcycle Characteristics

- >90% utilization, $600-$650 k/d peak dayrates
- ~200 floater newbuild orders 2004-2014
- Driller equities frequently trading above replacement

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OTHER COMMODITIES

Corn prices continue to drift lower after the government reported farmers are set to produce the largest crop in history this year (from The Daily Shot)...

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This is yet another tailwind that could push metals prices higher in the years ahead (from Brandon Beylo via X)...

The U.S. Military appears to be short on ammunition.

NATO Military Committee Chair, Rob Bauer recently said:

"The bottom of the barrel is now visible. We started to give away from half-full or lower warehouses in Europe."

You need *a lot* of metals to replenish these stocks.

US military inventory replacement times for key systems

	Number transferred to Ukraine	Production rate (year)	Manufacturing lead time (months)	Production time (months)	Total time to rebuild (months)
155 mm ammunition (recent rate)	1,074,000	93,000	Inventory rebuild not possible because of U.S. training requirements		
155 mm ammunition (surge rate)	1,074,000	240,000	12–18	44	59 (5 years)
155 mm precision munition—Excalibur (recent rate)	5,200	1,000	22	56	84 (7 years)
155 mm precision munition—Excalibur (surge rate)	5,200	2,400	22	23	48 (4 years)
Javelin (recent rate)	8,500	1,000	24	12	149 (~8 years)
Javelin (surge rate)	8,500	2,100	24	12	56 (~5.5 years)
HIMARS (recent rate)	20	20	26	12	37 (3 years)
HIMARS (surge rate)	20	72+	26	5	30 (2.5 years)
GMLRS (recent rate)	"Thousands"	5,000	17+	?	?
GMLRS (surge rate)	"Thousands"	10,000+	17+	?	?
Stinger (recent rate)	1,600	100?	24+	192	216 (18 years)
Stinger (historical rate)	1,600	350?	24+	55	79 (6.5 years)

Unlikely to rebuild inventories within five years

Inventory replacement within five years at low risk

Rebuilding timeline unclear but substantial risk of low inventories and long replacement cycles

Source: CSIS (author's analysis based on multiple sources)

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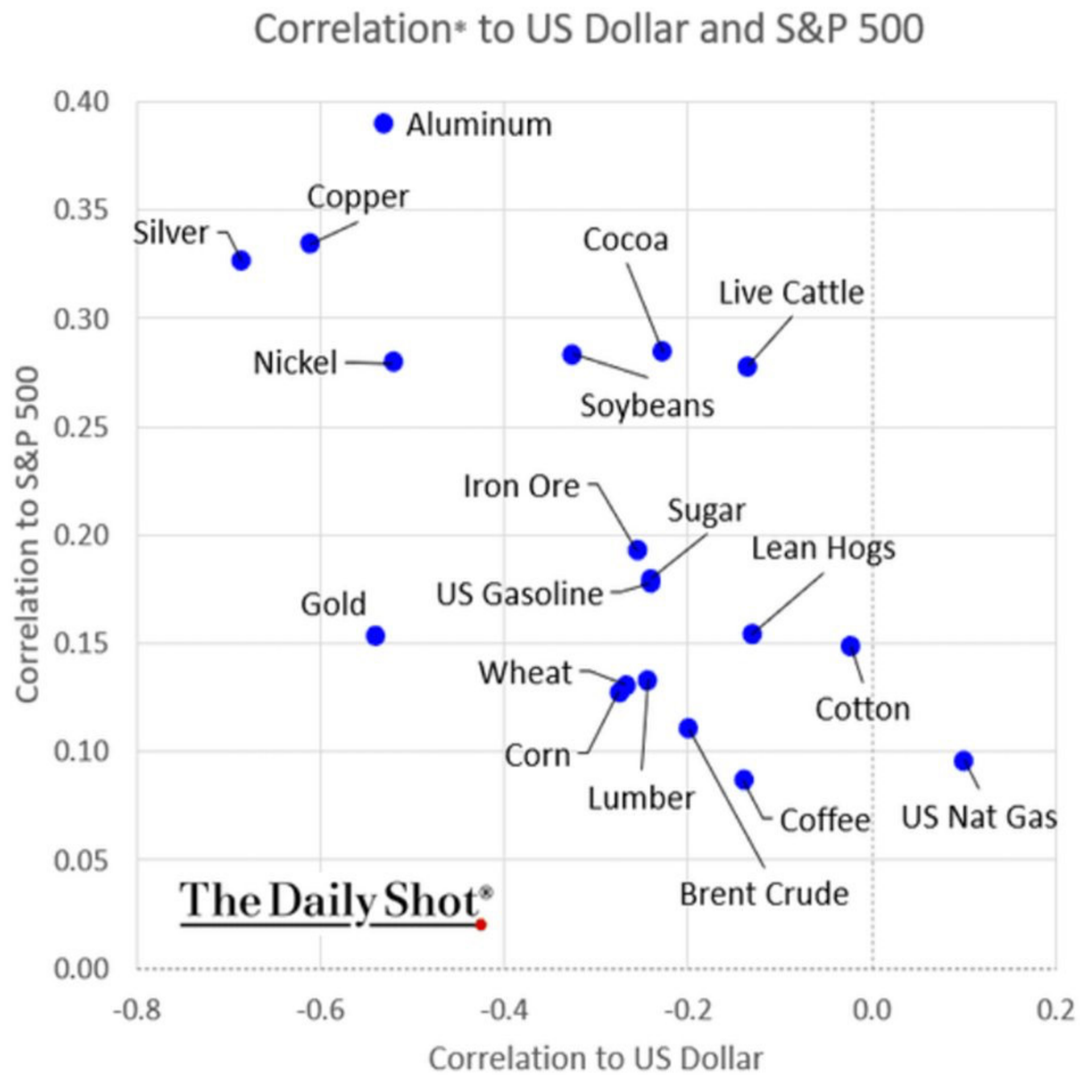
Commodities can provide valuable diversification in a traditional portfolio (from Bob Elliott via X)...

There are few assets that can provide meaningful diversification benefit in a portfolio, particularly from a real return / purchasing power standpoint.

In an environment where stocks and bonds are so highly correlated, notable to see the low correlation across commodities.



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The copper market is in extreme contango, suggesting slowing near-term demand (from The Daily Shot)...

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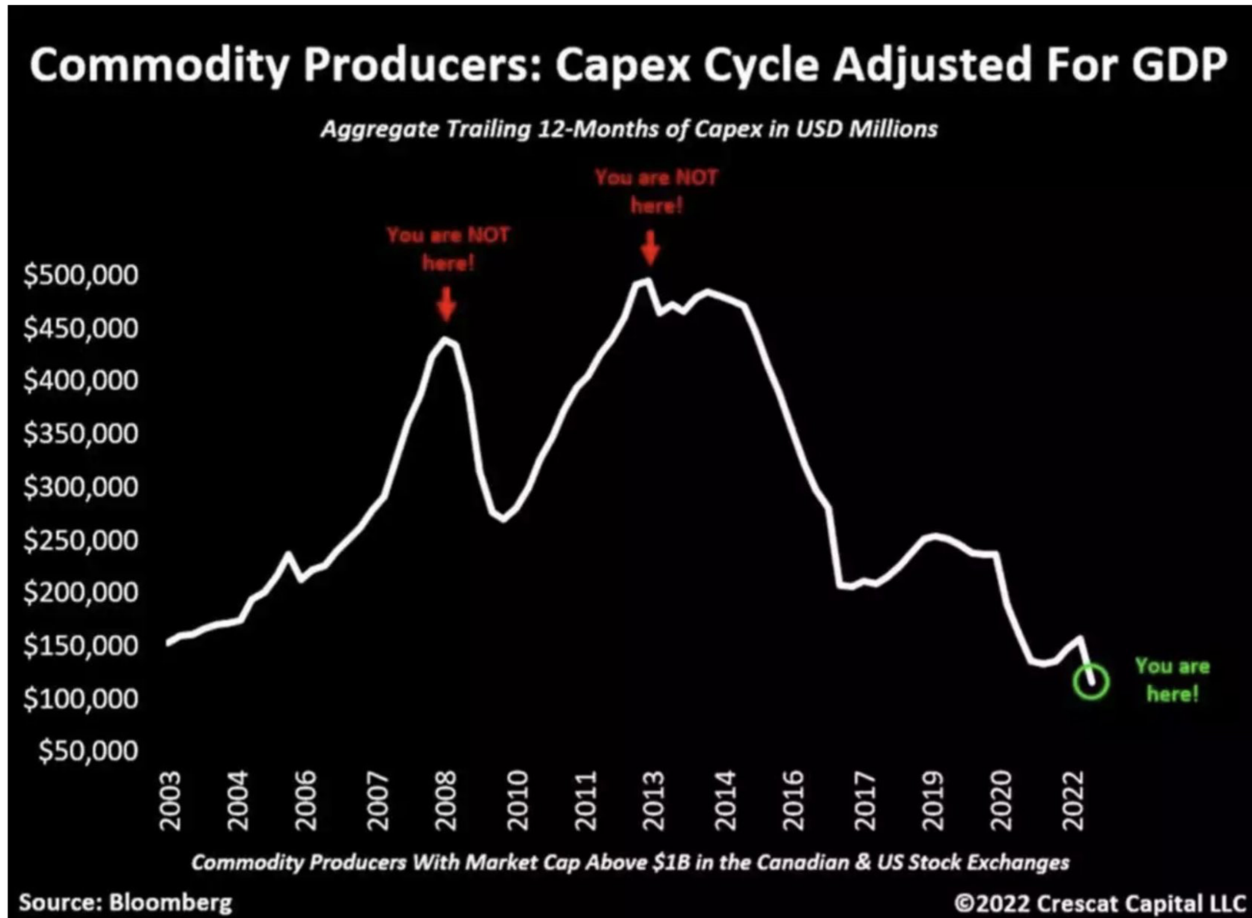
Years of underinvestment have set the stage for a massive long-term bull market in commodities (from Robert Friedland via X)...



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BITCOIN AND CRYPTO

FTX founder Sam Bankman-Fried was found guilty of seven counts of fraud. Here's an inside look at the trial (from Flesh/Markets)...

The Sam Bankman-Fried trial finished up yesterday, and boy are my arms tired.

Literally. I filled eight notebooks over the four weeks of the trial. I've also been getting to the SDNY courthouse as early as 2 am some mornings to line up for one of the coveted seats inside the courtroom itself.

I'm still recovering, and glad to be sitting on a couch instead of a church pew right now, but there's no rest for the wicked. On Twitter and among a few lonely obsessives, at least, the natural next question is already making the feverish rounds:

How long will Sam Bankman-Fried spend in prison?

I haven't talked to experienced lawyers about this yet, but to get it out of the way, the consensus among serious trial watchers and veterans of financial fraud cases is that the likely range is something like 20 to 50 years.

That's out of the total possible maximum for the charges, which adds up to 110 years. Sam is likely facing some very high victim impact numbers, but it's also likely some parts of the seven-count sentence will be served concurrently. Hopefully we can hone in on something more precise between now and his actual sentencing hearing, which isn't until March 28 of next year.

But there's a much more interesting discussion to be had than a dissection of Federal sentencing guidelines.

How much prison time does Sam Bankman-Fried, in a broader and deeper sense, *deserve*?

Crimes (Because) of the Future

My interest in getting into the courtroom was undeniably a bit ghoulish: what I paid closest attention to through the entire proceeding was Sam's parents, Joe and Barbara. They're the real linchpin of this entire affair – of one of the largest financial frauds in American history.

That's not just because of their direct involvement in the scam. They matter because Sam Bankman-Fried's particular madness was very clearly rooted in a specific and articulated set of ideologies – of ways of thinking about the world, about other human beings, and about justice and ethics, in particular.

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I don't want to oversimplify this. Many people believed the things that Sam Bankman-Fried did (in the general vicinity of "Effective Altruism" but not without affinities to certain strains of what I like to call "Fedora Rationalism") and did not become megalomaniacal embezzlers and influence-peddlers the way SBF did. To my way of thinking, his underlying and unique brain chemistry and, to be blunt, apparent sociopathy were reagents in a deadly runaway chemical reaction with EA, like mixing bleach and ammonia.

But nonetheless: the just-concluded trial included extensive and specific evidence that Bankman-Fried thought about his crimes, at every step of the way, in terms of the theories of utilitarianism and the "expected value" oddsmaking that Michael Lewis says he learned at Jane Street, but was adopted as a kind of mantra for the FTX inner circle of "effective altruists."

As Ed Ongweso and I discussed on This Machine Kills, these people thought they had invented psychohistory: the mythical predictive science of Isaac Asimov's *Foundation* series. Implicit in the entire EA movement is the idea that *certain people are better than others,* specifically because they can calculate the outcome of their actions, including over absurdly long periods of time. It is an ideology built not just on that obvious absurdity, but on a deeper longing for hierarchy and control. It is not just undemocratic and deeply un-American, it's more than a little bit fascistic.

In fact, Ed beat me to another incredible sci-fi metaphor: Sam Bankman-Fried was the Effective Altruist Kwisatz Haderach. Raised by utilitarians, molded by trading desks, addicted to coin flips – willing to take massive risks, including with other people's money, on the bone-deep presumption that he is the one who can ride the sandworm of fate, master randomness through rigorous underwriting, hedge everything against everything else and skim billions off the top.

That mindset, that set of aspirations and assumptions, is absolutely deadly for a democracy. Hell, for that matter, for any rule of law. And it must be annihilated root and branch from the business culture of the United States of America, because it is an ethical license for fraud.

This isn't just me bloviating (though it is that). It is likely to play some role, however subtle, in the sentencing phase following Sam Bankman-Fried's conviction. The sentencing section of the U.S. criminal code includes "promoting respect for the law" and "adequate deterrence to criminal conduct" are among the purposes that should be considered when imposing a sentence.

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In this case, respect for the law must be promoted specifically against the tenets of the expected-value, extinction-risk brand of Effective Altruism.

Of course, what really matters here is that this all manifested in massive fraud on customers, investors, and lenders. The court's main point in sentencing is indisputably going to be something like "you can't borrow customer deposits and lie to them about it." But even if the thought never enters Judge Lewis Kaplan's mind, the message embedded in the sentence will also be "you are not a God. You are not even a genius. You're just like the rest of us."

Continue reading here (subscription may be required).

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Trading on OpenSea – the biggest non-fungible token ("NFT") marketplace – has collapsed (from chartr)...

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Not Fully Thriving

OpenSea, the self-proclaimed "first and largest" marketplace for Non-Fungible Tokens (NFTs), is reportedly laying off 50% of its current staff, as the platform looks to cut costs and reorganize amidst the continued fall of the digital tokens.

The days of tweets selling as NFTs, "crypto punks," and celebrities going on Jimmy Fallon to talk about their "bored apes", are now a very distant memory. Indeed, NFT sales on OpenSea have fallen almost 99% from their trading volume heights of ~$4.9 billion, hitting less than $50m in October. That's the lowest figure on record since January 2021 – suggesting that we're well past "peak NFT".

Tokenistic

At the height of NFT-mania, everyone from Paris Hilton and Eminem to Twitter's founder / ex-X exec Jack Dorsey seemed to be getting involved in buying, selling, and shilling the buzzy tokens. When digital artist Beeple sold an NFT for $69m, it spurred a flood of digital music, art, games, and meme assets that quickly oversaturated the market – which wasn't helped by high-profile scam allegations.

Although the tokens seem to still hold some cultural worth – they featured heavily in the latest Halloween Simpsons special last night – the diminished standing of the technology seems to have proven the original naysayers right: NFTs were **a solution looking for a problem**.

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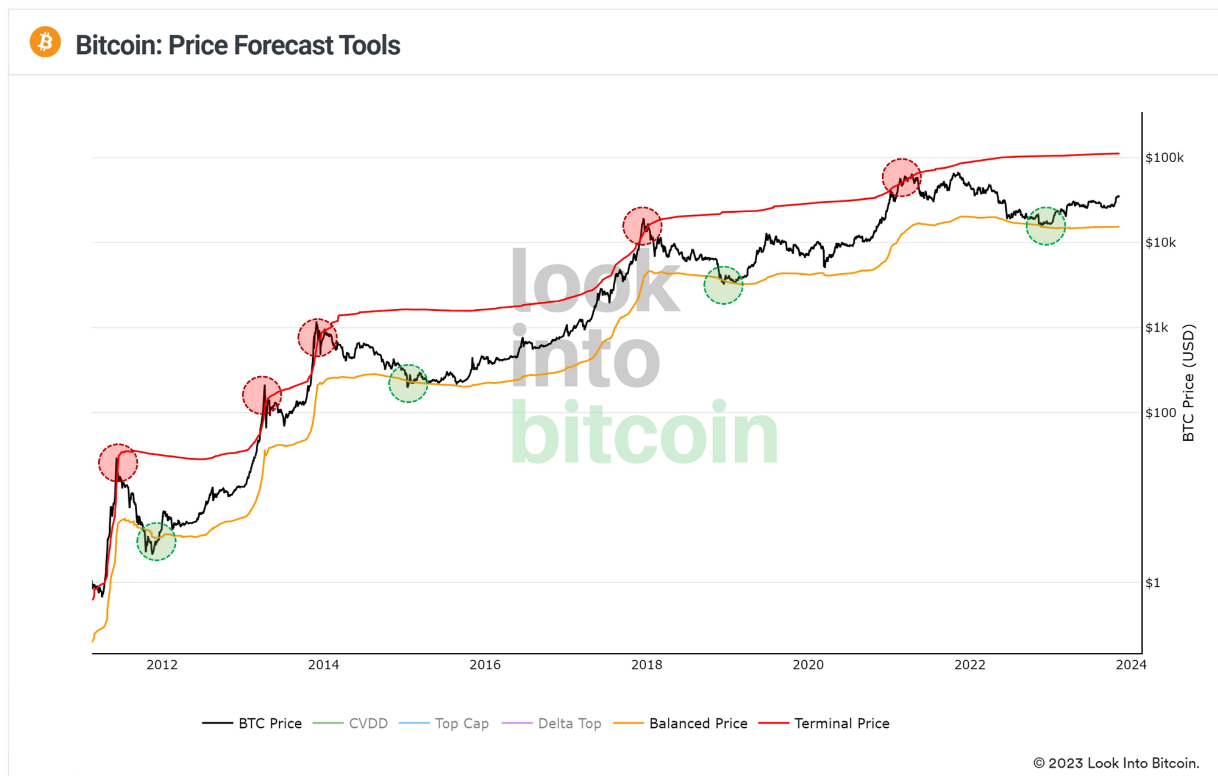
This simple strategy has almost perfectly timed Bitcoin's major tops and bottoms ([from Philip Swift via X](#))...

Buy near Balanced Price, sell near Terminal Price.

Could it be that simple?

#bitcoin cycles.



Track this chart for free at Look Into Bitcoin: https://www.lookintobitcoin.com/charts/bitcoin-price-prediction/

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History suggests a Bitcoin spot ETF could be very bullish for prices (from Bitcoin for Freedom via X)...

Reminder that this happened when the Gold Spot ETF was approved:

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The U.S. Securities and Exchange Commission ("SEC") hasn't approved a Bitcoin spot ETF, but signs suggest it's simply a matter of time (from Eric Balchunas via X)...

Hearing chatter SEC's Trading & Markets engaged w/ exchanges this week on spot bitcoin ETF 19b-4s, is advising them they'd like the ETFs to do cash creates (vs in-kind), and has asked them to get in amendments in [the] next couple [weeks]. This isn't unexpected but [is a] good sign nonetheless.

Cash creates makes sense [in my opinion because] broker dealers can't deal in bitcoin, so doing cash creates puts onus on issuers to transact in bitcoin and keeps broker dealers from having to use unregistered subsidiaries or third party firms to deal [with] the btc. Less limitations for them overall.

Only 2-3 filers had planned cash creates, the rest wanted to do in-kind. So [they] may have to adjust or risk [a] delay [in approval]. Anyway, this doesn't change our 90% odds [of approval] up or down, but [it is a] good sign [that] the process [is] marching and [the] SEC has a path [forward] in the plumbing that they are comfortable with.

Quick clarification here: my point on cash creates was that I could see the SEC's [point of view] for wanting it, but from investor's [point of view] in-kind [is] arguably better in terms of the spread and taxation. So [it's possible] we see some issuers push for in-kind (perhaps successfully) in engagement w/ Staff.

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Notable Institutional Buying

From SEC Form 13F Filings by Top Investment Managers and Concentrated Hedge Funds This Month

Institution or Fund	Manager	Date of Filing	Stock Purchased/Sold	Ticker	Shares Owned	Value of Holdings	% of Portfolio	Change in Shares	% Change in Shares	Average Transaction Price	Purchase Value
NewGen Asset Management	David Dattels	11/1/2023	Enerflex	EFXT	1,836,200	$10,521,426	7.48%	1,836,200	New	$5.73	$10,521,426
NewGen Asset Management	David Dattels	11/1/2023	Brookfield Renewable	BEPC	385,400	$9,226,476	6.56%	385,400	New	$23.94	$9,226,476
Moneda USA	Paulo Cirulli	11/2/2023	Vale S.A.	VALE	1,315,234	$17,624,136	32.31%	380,767	40.75%	$13.40	$5,102,278
Moneda USA	Paulo Cirulli	11/2/2023	Sociedad Química y Minera de Chile S.A.	SQM	92,449	$5,513,483	10.11%	64,570	231.61%	$59.64	$3,850,832
Origin Asset Management	Nishil Patel	11/2/2023	PDD Holdings	PDD	860,547	$84,393,844	28.09%	292,000	51.36%	$98.07	$28,636,440
Origin Asset Management	Nishil Patel	11/2/2023	Vipshop Holdings	VIPS	3,547,530	$56,795,955	18.90%	1,193,500	50.70%	$16.01	$19,107,935
Origin Asset Management	Nishil Patel	11/2/2023	Trip.com Group	TCOM	697,230	$24,382,133	8.11%	697,230	New	$34.97	$24,382,133
Top Ace Asset Management	Siu Wah Chung	11/2/2023	Baidu	BIDU	80,000	$10,748,000	42.42%	40,300	101.51%	$134.35	$5,414,305
Top Ace Asset Management	Siu Wah Chung	11/2/2023	Yum China Holdings	YUMC	40,100	$2,234,372	8.82%	40,100	New	$55.72	$2,234,372
Top Ace Asset Management	Siu Wah Chung	11/2/2023	NIO	NIO	208,800	$1,887,552	7.45%	208,800	New	$9.04	$1,887,552
Top Ace Asset Management	Siu Wah Chung	11/2/2023	MINISO Group Holding	MNSO	57,700	$1,494,430	5.90%	57,700	New	$25.90	$1,494,430
UG Investment Advisers	Ming-Pey Wang	11/3/2023	QUALCOMM	QCOM	2,677,723	$297,387,916	55.32%	2,001,847	296.19%	$111.06	$222,325,128
Pathway Capital Management	Milt Best	11/6/2023	CrowdStrike Holdings	CRWD	50,883	$8,516,797	20.29%	50,883	New	$167.38	$8,516,797
Pathway Capital Management	Milt Best	11/6/2023	Sprinklr	CXM	264,778	$3,664,528	8.73%	264,778	New	$13.84	$3,664,528
Pathway Capital Management	Milt Best	11/6/2023	JFrog	FROG	108,684	$2,756,226	6.57%	108,684	New	$25.36	$2,756,226
Norwood Investment Partners	Tom Tom	11/7/2023	Distribution Solutions Group	DSGR	935,404	$24,320,504	20.33%	467,079	99.73%	$26.00	$12,144,054
Trivest Advisors	Jenie Fung	11/7/2023	Alphabet	GOOGL	740,000	$96,836,000	7.14%	740,000	New	$130.86	$96,836,000
Trivest Advisors	Jenie Fung	11/7/2023	Adobe	ADBE	178,000	$90,762,000	6.69%	167,160	1542.07%	$509.90	$85,234,696
Trivest Advisors	Jenie Fung	11/7/2023	Luckin Coffee	LK	1,955,100	$68,449,000	5.05%	1,955,100	New	$35.01	$68,449,000
Compass Rose Asset Management	Todd Duffy	11/8/2023	Verizon Communications	VZ	1,126,000	$36,493,660	20.98%	1,126,000	New	$32.41	$36,493,660
Compass Rose Asset Management	Todd Duffy	11/8/2023	Ford Motor	F	800,000	$9,936,000	5.71%	800,000	New	$12.42	$9,936,000
Compass Rose Asset Management	Todd Duffy	11/8/2023	General Motors	GM	300,000	$9,891,000	5.69%	300,000	New	$32.97	$9,891,000
Oakview Capital Management	James Malone	11/8/2023	Dollar Tree	DLTR	151,231	$16,098,540	7.13%	151,231	New	$106.45	$16,098,540
Broadcrest Asset Management	John Burden	11/9/2023	EVI Industries	EVI	338,000	$8,389,160	9.02%	338,000	New	$24.82	$8,389,160
140 Summer Partners	Kevin Arps	11/13/2023	Progressive	PGR	438,600	$61,096,980	11.92%	438,600	New	$139.30	$61,096,980
140 Summer Partners	Kevin Arps	11/13/2023	Humana	HUM	66,100	$32,158,972	6.27%	66,100	New	$486.52	$32,158,972
Antipodean Advisors	Eric Chen	11/13/2023	Occidental Petroleum	OXY	100,000	$6,488,000	33.24%	45,000	8182.00%	$64.88	$2,919,600
Antipodean Advisors	Eric Chen	11/13/2023	Philip Morris International	PM	50,000	$4,629,000	23.72%	50,000	New	$92.58	$4,629,000
Chicago Capital Management	Steven Gerbel	11/13/2023	Activision Blizzard	ATVI	86,334	$5,090,850	13.42%	86,334	New	$58.97	$5,090,850
Chicago Capital Management	Steven Gerbel	11/13/2023	Intercept Pharmaceuticals	ICPT	185,781	$4,611,565	12.16%	185,781	New	$24.82	$4,611,565
Chicago Capital Management	Steven Gerbel	11/13/2023	Cheesecake Factory	CAKE	2,623,000	$2,170,205	5.72%	2,623,000	New	$0.83	$2,170,205
Dynamo Administracao de Recursos	Emerson Melo	11/13/2023	Nu Holdings	NU	4,263,315	$30,909,034	51.33%	3,938,914	1214.21%	$7.25	$28,557,127
Dynamo Administracao de Recursos	Emerson Melo	11/13/2023	MercadoLibre	MELI	2,603	$3,300,292	5.48%	2,405	1214.65%	$1,267.88	$3,049,252
First Beijing Investment	Huang Xiang	11/13/2023	Sea Limited	SE	1,761,068	$77,398,939	14.90%	1,564,041	793.82%	$43.95	$68,739,602
First Beijing Investment	Huang Xiang	11/13/2023	ZTO Express (Cayman)	ZTO	1,685,677	$40,742,813	7.85%	1,685,677	New	$24.17	$40,742,813
First Beijing Investment	Huang Xiang	11/13/2023	SharkNinja	SN	831,317	$38,539,856	7.42%	831,317	New	$46.36	$38,539,856
Green Court Capital Mgt	Terry Stothard	11/13/2023	ZTO Express (Cayman)	ZTO	8,406,244	$202,926,730	71.92%	331,635	4.11%	$24.14	$8,005,669
Green Court Capital Mgt	Terry Stothard	11/13/2023	Trip.com Group	TCOM	2,079,475	$72,698,446	25.77%	2,079,475	New	$34.96	$72,698,446
Indus Capital Partners	Laura Ferchak	11/13/2023	TAL Education Group	TAL	4,445,880	$40,501,967	27.44%	4,445,880	New	$9.11	$40,501,967
Indus Capital Partners	Laura Ferchak	11/13/2023	Sea Limited	SE	914,668	$40,199,659	27.23%	914,668	New	$43.95	$40,199,659
Indus Capital Partners	Laura Ferchak	11/13/2023	Cognizant Technology Solutions	CTSH	420,063	$28,455,068	19.28%	404,333	2570.46%	$67.74	$27,389,518
Kite Lake Capital Management	Rupert Booth	11/13/2023	UBS Group	UBS	952,883	$23,615,494	27.24%	352,883	58.81%	$24.78	$8,745,571
Prime Capital Management Co	David Yu	11/13/2023	NVIDIA	NVDA	299,540	$130,296,905	25.29%	144,766	93.53%	$434.99	$62,971,763
Prime Capital Management Co	David Yu	11/13/2023	Airbnb	ABNB	381,173	$52,300,747	10.15%	381,173	New	$137.21	$52,300,747
Quaker Capital Investments	Mark Schoeppner	11/13/2023	DISH Network	DISH	2,458,668	$14,407,794	5.56%	2,458,668	New	$5.86	$14,407,794
Ramsey Quantitative Systems	Bradley Robinson	11/13/2023	Ready Capital	RC	1,233,778	$12,473,000	17.59%	1,233,778	New	$10.11	$12,473,000

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Rivulet Capital	Barry Lebovits	11/13/2023	Canadian National Railway	CNI	775,000	$83,955,750	5.26%	775,000	New	$108.33	$83,955,750
Stockbridge Partners	Sharlyn Heslam	11/13/2023	Thermo Fisher Scientific	TMO	638,855	$323,369,235	7.19%	638,855	New	$506.17	$323,369,235
Turiya Advisors Asia	Maria Tordesillas	11/13/2023	Advanced Micro Devices	AMD	533,000	$54,803,060	22.94%	533,000	New	$102.82	$54,803,060
Turiya Advisors Asia	Maria Tordesillas	11/13/2023	Philip Morris International	PM	505,000	$46,752,900	19.57%	505,000	New	$92.58	$46,752,900
Turiya Advisors Asia	Maria Tordesillas	11/13/2023	Petrobras	PBR	2,000,000	$29,980,000	12.55%	2,000,000	New	$14.99	$29,980,000
Wishbone Management	John Harris	11/13/2023	Elevance Health	ELV	190,000	$82,729,800	29.38%	55,000	40.74%	$435.32	$23,948,100
Working Capital Advisors	Wai Kwok	11/13/2023	Funko	FNKO	6,819,199	$52,166,872	35.10%	2,100,528	44.52%	$7.65	$16,069,039
Working Capital Advisors	Wai Kwok	11/13/2023	Open Lending	LPRO	6,430,295	$47,069,759	31.67%	3,017,554	88.42%	$7.32	$22,088,495
Politan Capital Management	Quentin Koffey	11/14/2023	Azenta	AZTA	4,519,003	$226,808,761	15.37%	2,519,003	125.95%	$50.19	$126,428,761
3G Capital Partners	Flavio Montini	11/14/2023	Analog Devices	ADI	157,500	$27,576,675	15.33%	109,500	228.13%	$175.09	$19,172,355
3G Capital Partners	Flavio Montini	11/14/2023	PDD Holdings	PDD	205,000	$20,104,350	11.18%	155,000	310.00%	$98.07	$15,200,850
3G Capital Partners	Flavio Montini	11/14/2023	Remitly Global	RELY	700,000	$17,654,000	9.82%	700,000	New	$25.22	$17,654,000
59 North Capital Management	Michael Bilger	11/14/2023	AerCap Holdings	AER	2,872,302	$180,007,166	20.85%	1,588,196	123.68%	$62.67	$99,532,243
Acacia Research Corporation	Jason Soncini	11/14/2023	ZimVie	ZIMV	323,279	$3,042,055	21.55%	241,379	294.72%	$9.41	$2,271,376
Adams Street Partners	Sara Dasse	11/14/2023	PDD Holdings	PDD	298,150	$29,239,571	10.21%	298,150	New	$98.07	$29,239,571
Ancient Art	Patricia Rench	11/14/2023	Ally Financial	ALLY	1,552,802	$41,428,757	8.89%	1,552,802	New	$26.68	$41,428,757
Athyrium Capital Management	Andrew Hyman	11/14/2023	Biora Therapeutics	BIOR	10,929,762	$23,717,584	20.89%	9,235,28	545.02%	$2.17	$20,040,560
Atlantic Investment Mgt	Alexander Roepers	11/14/2023	The Timken Company	TKR	520,093	$38,221,635	19.04%	213,000	69.36%	$73.49	$15,653,370
Atlantic Investment Mgt	Alexander Roepers	11/14/2023	Ashland	ASH	280,112	$22,879,548	11.40%	280,112	New	$81.68	$22,879,548
Avala Global	Janine Krause	11/14/2023	Endeavor Operating Co	TKO	693,594	$58,303,512	5.66%	693,594	New	$84.06	$58,303,512
BlueSpruce Investments	Edward Ludwig IV	11/14/2023	Thermo Fisher Scientific	TMO	757,625	$383,487,046	6.99%	757,625	New	$506.17	$383,487,046
Boone Capital Management	Paul Bottinelli III	11/14/2023	Globus Medical	GMED	428,452	$21,272,642	6.71%	428,452	New	$49.65	$21,272,642
Condire Management	Anthony Federici	11/14/2023	Gatos Silver	GATO	5,674,915	$29,396,060	5.00%	5,139,112	959.14%	$5.18	$26,620,600
Darlington Partners Capital Mgt	Mina Iskander	11/14/2023	Endeavor Operating Co	TKO	1,798,280	$151,163,417	9.31%	1,798,280	New	$84.06	$151,163,417
Darsana Capital Partners	Chris Ferrante	11/14/2023	Constellation Brands	STZ	875,000	$219,913,750	10.78%	650,000	288.89%	$251.33	$163,364,500
Darsana Capital Partners	Chris Ferrante	11/14/2023	Bank of America	BAC	6,500,000	$177,970,000	8.73%	6,500,000	New	$27.38	$177,970,000
Darwin Global Management	John Legge	11/14/2023	Immunovant	IMVT	1,818,371	$69,807,263	24.57%	1,818,371	New	$38.39	$69,807,263
Dumac	Joshua Schoedler	11/14/2023	Rigel Resource Acquisition	RRAC	1,000,000	$11,420,000	30.65%	1,000,000	New	$11.42	$11,420,000
Dumac	Joshua Schoedler	11/14/2023	LanzaTech Global	LNZA	1,048,956	$4,898,625	13.15%	1,048,956	New	$4.67	$4,898,625
Elliott Investment Management	Paul Singer	11/14/2023	Energy Select Sector SPDR Fund	XLE	17,500,000	$1,581,825,000	12.24%	10,500,000	150.00%	$90.39	$949,095,000
Enstar Group Limited	Matthew Kirk	11/14/2023	JPMorgan Equity Premium Income ETF	JEPI	1,743,376	$93,375,219	30.92%	965,028	123.98%	$53.56	$51,686,900
Euclidean Capital	Joseph Cosmai	11/14/2023	SPDR Gold Shares	GLD	1,062,500	$182,165,625	39.76%	507,500	91.44%	$171.45	$87,010,875
Flight Deck Capital	Erin Lavelle	11/14/2023	Nu Holdings	NU	1,168,133	$8,468,964	10.34%	768,133	192.03%	$7.25	$5,568,964
Flight Deck Capital	Erin Lavelle	11/14/2023	Roblox	RBLX	211,700	$6,130,832	7.49%	211,700	New	$28.96	$6,130,832
Flight Deck Capital	Erin Lavelle	11/14/2023	Datadog	DDOG	52,700	$4,800,443	5.86%	52,700	New	$91.09	$4,800,443
HSG Holding	Neil Shen	11/14/2023	Structure Therapeutics	GPCR	1,065,226	$53,708,695	5.76%	1,065,226	New	$50.42	$53,708,695
Inclusive Capital Partners	Philippe Pradel	11/14/2023	Exxon Mobil	XOM	1,827,000	$214,818,660	21.23%	650,000	55.23%	$117.58	$76,427,000
Keyframe Capital Partners	John Rapaport	11/14/2023	PBF Energy	PBF	145,000	$7,761,850	6.23%	145,000	New	$53.53	$7,761,850
Keywise Capital Management	Fang Zheng	11/14/2023	Palantir Technologies	PLTR	5,285,700	$84,571,200	14.00%	4,011,100	314.69%	$16.00	$64,177,600
Keywise Capital Management	Fang Zheng	11/14/2023	Taiwan Semiconductor Manufacturing	TSM	899,800	$78,192,620	12.95%	736,500	451.01%	$86.90	$64,001,850
L1 Capital Pty	Joel Arber	11/14/2023	CRH	CRH	2,416,033	$132,229,486	11.26%	2,416,033	New	$54.73	$132,229,486
Mason Capital Management	John Grizzetti	11/14/2023	Activision Blizzard	ATVI	1,833,194	$171,641,954	14.77%	1,306,494	248.05%	$93.63	$122,327,033
Mason Capital Management	John Grizzetti	11/14/2023	Vmware	VMW	883,093	$147,017,323	12.65%	495,903	128.08%	$166.48	$82,557,932
Masterton Capital Management	Daniel Agranoff	11/14/2023	Equity Residential	EQR	111,600	$6,552,036	6.63%	111,600	New	$58.71	$6,552,036
Masterton Capital Management	Daniel Agranoff	11/14/2023	Camden Property Trust	CPT	67,000	$6,336,860	6.42%	67,000	New	$94.58	$6,336,860
Masterton Capital Management	Daniel Agranoff	11/14/2023	Agree Realty Corporation	ADC	90,500	$4,999,220	5.06%	90,500	New	$55.24	$4,999,220
Medina Value Partners	Andrew Rosenthal	11/14/2023	Tronox Holdings	TROX	631,296	$8,484,618	5.48%	631,296	New	$13.44	$8,484,618
Medina Value Partners	Andrew Rosenthal	11/14/2023	Tecnoglass	TGLS	249,888	$8,236,308	5.32%	249,888	New	$32.96	$8,236,308
MIC Capital Management UK	Rodney Cannon	11/14/2023	Neumora Therapeutics	NMRA	4,460,700	$62,940,478	14.35%	4,460,700	New	$14.11	$62,940,478
Nine27 Capital Management	Rushin Shah	11/14/2023	Starbucks Corporation	SBUX	100,000	$9,127,000	15.15%	100,000	New	$91.27	$9,127,000

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Nine27 Capital Management	Rushin Shah	11/14/2023	The Home Depot	HD	20,000	$6,043,200	10.03%	20,000	New	$302.16	$6,043,200
Nine27 Capital Management	Rushin Shah	11/14/2023	Advance Auto Parts	AAP	100,000	$5,593,000	9.28%	100,000	New	$55.93	$5,593,000
Nine27 Capital Management	Rushin Shah	11/14/2023	Target	TGT	50,000	$5,528,500	9.18%	50,000	New	$110.57	$5,528,500
Nine27 Capital Management	Rushin Shah	11/14/2023	Dollar General	DG	50,000	$5,290,000	8.78%	50,000	New	$105.80	$5,290,000
One01 Capital	Susan Hallgren	11/14/2023	Charter Communications	CHTR	12,213	$5,371,522	6.53%	12,213	New	$439.82	$5,371,522
One01 Capital	Susan Hallgren	11/14/2023	Vmware	VMW	25,800	$4,295,184	5.22%	25,800	New	$166.48	$4,295,184
Palantir Technologies	David Glazer	11/14/2023	Surf Air Mobility	SRFM	2,020,874	$3,294,025	33.89%	2,020,874	New	$1.63	$3,294,025
Palantir Technologies	David Glazer	11/14/2023	Rubicon Technologies	RBT	1,391,604	$2,894,536	29.78%	1,391,604	New	$2.08	$2,894,536
Palantir Technologies	David Glazer	11/14/2023	MSP Recovery	LIFW	9,038,838	$1,988,544	20.46%	6,873,651	317.46%	$0.22	$1,512,203
Palo Duro Investment Partners	Dave Nietfeldt	11/14/2023	Permian Resources	PR	3,962,428	$55,315,495	15.23%	3,962,428	New	$13.96	$55,315,495
Palo Duro Investment Partners	Dave Nietfeldt	11/14/2023	Devon Energy	DVN	645,236	$30,777,757	8.47%	645,236	New	$47.70	$30,777,757
Partners Value Investments	Kathy Sarpash	11/14/2023	Brookfield Corporation	BN	133,722,910	$4,181,515,396	78.52%	133,722,910	New	$31.27	$4,181,515,396
Partners Value Investments	Kathy Sarpash	11/14/2023	Brookfield Asset Management	BAM	30,527,862	$1,017,798,919	19.11%	30,527,862	New	$33.34	$1,017,798,919
Paulson & Co	Stuart Merzer	11/14/2023	Horizon Therapeutics	HZNP	2,103,046	$243,301,392	21.77%	1,603,046	320.61%	$115.69	$185,456,392
Paulson & Co	Stuart Merzer	11/14/2023	Anglogold Ashanti	AU	3,833,492	$60,569,174	5.42%	3,833,492	New	$15.80	$60,569,174
Phase 2 Partners	Rachael Clarke	11/14/2023	Envestnet	ENV	541,275	$23,832,338	10.53%	295,788	120.49%	$44.03	$13,023,546
Phase 2 Partners	Rachael Clarke	11/14/2023	Bill.com Holdings	BILL	132,761	$14,413,862	6.37%	108,930	457.09%	$108.57	$11,826,530
Phase 2 Partners	Rachael Clarke	11/14/2023	Invitation Homes	INVH	398,046	$12,614,078	5.57%	398,046	New	$31.69	$12,614,078
Sachem Head Capital Mgt	Michael Adamski	11/14/2023	International Flavors & Fragrances	IFF	8,730,639	$595,167,661	27.80%	2,066,800	31.02%	$68.17	$140,893,756
Sachem Head Capital Mgt	Michael Adamski	11/14/2023	Humana	HUM	268,700	$130,727,924	6.11%	268,700	New	$486.52	$130,727,924
Sassicaia Capital Advisers	John Thurber	11/14/2023	Soleno Therapeutics	SLNO	8,655	$255,409	12.02%	8,655	New	$29.51	$255,409
Sassicaia Capital Advisers	John Thurber	11/14/2023	Pfizer	PFE	7,500	$248,775	11.70%	7,500	New	$33.17	$248,775
Sassicaia Capital Advisers	John Thurber	11/14/2023	Femasys	FEMY	71,931	$214,354	10.09%	71,931	New	$2.98	$214,354
Soapstone Management	Jed Nussdorf	11/14/2023	Knife River Holding Company	KNF	435,000	$21,241,050	9.82%	229,863	112.05%	$48.83	$11,224,210
Soapstone Management	Jed Nussdorf	11/14/2023	Kenvue	KVUE	595,000	$11,947,600	5.52%	595,000	New	$20.08	$11,947,600
Stadium Capital Management	Alexander Seaver	11/14/2023	Sleep Number	SNBR	1,600,768	$39,362,885	35.46%	901,542	128.93%	$24.59	$22,168,918
Stadium Capital Management	Alexander Seaver	11/14/2023	GoDaddy	GDDY	396,291	$29,515,754	26.59%	63,940	19.24%	$74.48	$4,762,251
Starboard Value	Jeffrey Smith	11/14/2023	Bloomin' Brands	BLMN	8,341,000	$205,105,190	5.25%	8,341,000	New	$24.59	$205,105,190
SW Investment Management	Stephen White	11/14/2023	Garmin	GRMN	150,000	$15,780,000	7.02%	150,000	New	$105.20	$15,780,000
Tarsadia Capital	Julian Sale	11/14/2023	Sunstone Hotel Investors	SHO	1,548,011	$14,473,903	75.39%	1,548,011	New	$9.35	$14,473,903
Tarsadia Capital	Julian Sale	11/14/2023	Cue Health	HLTH	10,684,791	$4,725,883	24.61%	10,684,791	New	$0.44	$4,725,883
Third Point	Daniel Loeb	11/14/2023	Meta Platforms	META	1,100,000	$330,231,000	5.01%	1,100,000	New	$300.21	$330,231,000
Trian Fund Management	Peter May	11/14/2023	The Walt Disney Company	DIS	32,868,307	$2,663,976,282	40.52%	26,443,257	411.56%	$81.05	$2,143,225,980
Trian Fund Management	Peter May	11/14/2023	Allstate	ALL	3,643,618	$405,935,481	6.17%	3,643,618	New	$111.41	$405,935,481
Tyndall Capital Partners	Jeffrey Halis	11/14/2023	Cyclerion Therapeutics	CYCN	147,712	$505,175,000	100.00%	147,712	New	$3,420.00	$505,175,000
Untitled Investment	Neeraj Chandra	11/14/2023	Floor & Decor Holdings	FND	179,785	$16,270,543	5.77%	179,785	New	$90.50	$16,270,543
V3 Capital Management	Alissa Fox	11/14/2023	First Industrial Realty Trust	FR	1,419,950	$67,575,421	26.04%	939,750	195.70%	$47.59	$44,722,703
V3 Capital Management	Alissa Fox	11/14/2023	National Retail Properties	NNN	516,800	$18,263,712	7.04%	516,800	New	$35.34	$18,263,712
venBio Partners	David Pezeshki	11/14/2023	RayzeBio	RYZB	5,158,162	$114,511,196	32.47%	5,158,162	New	$22.20	$114,511,196
VK Services	Vinod Khosla	11/14/2023	Maplebear (Instacart)	CART	5,599,589	$166,251,797	22.15%	5,599,589	New	$29.69	$166,251,797
Yorktown Energy Partners VIII	Bryan Lawrence	11/14/2023	Riley Exploration Permian	REPX	1,075,254	$34,182,325	23.68%	1,075,254	New	$31.79	$34,182,325
Impala Asset Management	Tom Sullivan	11/15/2023	Ero Copper	ERO	1,836,510	$31,661,432	27.66%	344,410	23.08%	$17.24	$5,937,628
Impala Asset Management	Tom Sullivan	11/15/2023	The Buckle	BKE	476,564	$15,912,472	13.90%	180,581	61.01%	$33.39	$6,029,600
Impala Asset Management	Tom Sullivan	11/15/2023	Teck Resources	TECK	145,000	$6,248,050	5.46%	145,000	New	$43.09	$6,248,050
TAM Capital Management	Tsachy Mishal	11/15/2023	Activision Blizzard	ATVI	266,049	$24,910,167	16.43%	266,049	New	$93.63	$24,910,167
TAM Capital Management	Tsachy Mishal	11/15/2023	Horizon Therapeutics	HZNP	94,873	$10,975,857	7.24%	94,873	New	$115.69	$10,975,857
JANA Partners Management	Jennifer Fanjiang	11/16/2023	New Relic	NEWR	3,215,426	$275,304,774	20.15%	3,215,426	New	$85.62	$275,304,774
JANA Partners Management	Jennifer Fanjiang	11/16/2023	Freshpet	FRPT	3,254,480	$214,405,142	15.70%	3,254,480	New	$65.88	$214,405,142
JANA Partners Management	Jennifer Fanjiang	11/16/2023	TreeHouse Foods	THS	4,907,689	$213,877,087	15.66%	4,907,689	New	$43.58	$213,877,087
JANA Partners Management	Jennifer Fanjiang	11/16/2023	Fidelity National Information Services	FIS	3,736,326	$206,506,738	15.12%	3,736,326	New	$55.27	$206,506,738
JANA Partners Management	Jennifer Fanjiang	11/16/2023	Mercury Systems	MRCY	4,705,249	$174,517,685	12.78%	4,705,249	New	$37.09	$174,517,685
JANA Partners Management	Jennifer Fanjiang	11/16/2023	SPDR S&P 500 ETF Trust	SPY	307,033	$131,250,467	9.61%	307,033	New	$427.48	$131,250,467
JANA Partners Management	Jennifer Fanjiang	11/16/2023	Frontier Communications Parent	FYBR	8,279,176	$129,569,104	9.49%	8,279,176	New	$15.65	$129,569,104
Pantechnicon Advisors	Kathy Jackson	11/27/2023	Nabors Industries	NBR	125,000	$15,392,500	6.65%	125,000	New	$123.14	$15,392,500
Autonomy Capital	James Ryan	11/28/2023	Irsa Inversiones y Representaciones SA	IRS	468,597	$2,745,978	6.53%	468,597	New	$5.86	$2,745,978

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Notable Insider Buying

From SEC Form 4 Filings by Top Executives and 10% Owners This Month

Stock Purchased/Sold	Ticker	Total Buy Value	Total Sell Value	Total Buy Filings	Total Sell Filings
Sculptor Capital Management Inc.	SCU	$376,743,296	$0	1	0
OCCIDENTAL PETROLEUM CORP	OXY	$246,408,336	$0	1	0
Howard Hughes Holdings Inc.	HHH	$96,538,066	$0	9	0
BlackRock Innovation & Growth Term Trust	BIGZ	$63,348,287	$0	13	0
BlackRock ESG Capital Allocation Term Trust	ECAT	$45,736,853	$0	13	0
BlackRock Health Sciences Term Trust	BMEZ	$44,585,050	$0	12	0
CARGO Therapeutics Inc.	CRGX	$29,999,986	$0	2	0
Energy Transfer LP	ET	$26,860,000	$0	2	0
BlackRock Capital Allocation Term Trust	BCAT	$23,754,994	$0	11	0
TALOS ENERGY INC.	TALO	$23,695,192	$0	2	0
STAAR SURGICAL CO	STAA	$21,600,428	$0	3	0
IMPINJ INC	PI	$19,780,844	$121,749	6	1
Janux Therapeutics Inc.	JANX	$14,965,929	$0	3	0
Aeva Technologies Inc.	AEVA	$14,455,501	$0	1	0
Aura Biosciences Inc.	AURA	$14,040,000	$70,145	1	2
ClearBridge MLP & Midstream Fund Inc.	CEM	$13,500,639	$0	8	0
Lexeo Therapeutics Inc.	LXEO	$12,499,982	$0	3	0
NUVEEN NEW JERSEY QUALITY MUNICIPAL INCOME FUND	NXJ	$11,360,862	$0	7	0
ASA Gold & Precious Metals Ltd	ASA	$10,440,319	$0	11	0
Enstar Group LTD	ESGR	$10,223,100	$0	1	0
BIOLIFE SOLUTIONS INC	BLFS	$10,374,976	$663,899	1	2
ALPINE IMMUNE SCIENCES INC.	ALPN	$9,375,000	$0	2	0
Repare Therapeutics Inc.	RPTX	$9,071,242	$0	2	0
ClearBridge Energy Midstream Opportunity Fund Inc.	EMO	$8,691,326	$0	9	0
Ambrx Biopharma Inc.	AMAM	$9,139,542	$616,598	1	2
Learn CW Investment Corp	LCW	$7,700,000	$0	1	0
Citi Trends Inc	CTRN	$6,993,418	$0	2	0
RXO Inc.	RXO	$6,662,642	$0	4	0
Asana Inc.	ASAN	$6,309,835	$186,300	2	1
Neumora Therapeutics Inc.	NMRA	$6,111,296	$0	6	0
ProFrac Holding Corp.	ACDC	$6,103,193	$0	2	0
Augmedix Inc.	AUGX	$6,048,500	$0	2	0
Aligos Therapeutics Inc.	ALGS	$6,004,149	$0	1	0
Presto Automation Inc.	PRST	$6,000,000	$0	2	0
NUVEEN PENNSYLVANIA QUALITY MUNICIPAL INCOME FUND	NQP	$5,613,198	$0	6	0
Air Products & Chemicals Inc.	APD	$5,432,020	$0	2	0
EATON VANCE CALIFORNIA MUNICIPAL BOND FUND	EVM	$4,047,136	$0	8	0
EATON VANCE NEW YORK MUNICIPAL BOND FUND	ENX	$3,935,577	$0	7	0
BLACKROCK CALIFORNIA MUNICIPAL INCOME TRUST	BFZ	$3,234,665	$0	8	0
Groupon Inc.	GRPN	$3,069,745	$0	1	0
Invesco Trust for Investment Grade New York Municipals	VTN	$2,943,202	$0	10	0
Spectrum Brands Holdings Inc.	SPB	$2,668,700	$0	1	0
FORTRESS BIOTECH INC.	FBIO	$2,664,776	$0	1	0
BARNES GROUP INC	B	$2,621,980	$0	1	0
Sight Sciences Inc.	SGHT	$2,495,828	$0	4	0
American Strategic Investment Co.	NYC	$2,339,703	$0	3	0
Expensify Inc.	EXFY	$2,264,696	$64,680	2	2
PIONEER MUNICIPAL HIGH INCOME FUND INC.	MHI	$2,124,288	$0	8	0

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Stock Purchased/Sold	Ticker	Total Buy Value	Total Sell Value	Total Buy Filings	Total Sell Filings
Lazydays Holdings Inc.	LAZY	$2,053,032	$0	2	0
Sarepta Therapeutics Inc.	SRPT	$2,001,800	$0	1	0
SINGING MACHINE CO INC	MICS	$2,000,000	$0	2	0
ALIGN TECHNOLOGY INC	ALGN	$1,999,817	$0	2	0
Black Stone Minerals L.P.	BSM	$1,966,025	$0	2	0
Ameresco Inc.	AMRC	$1,873,621	$0	3	0
HEARTLAND EXPRESS INC	HTLD	$1,685,594	$0	2	0
MFS INVESTMENT GRADE MUNICIPAL TRUST	CXH	$1,661,186	$4,824	1	1
Life Time Group Holdings Inc.	LTH	$1,644,940	$0	2	0
TILE SHOP HOLDINGS INC.	TTSH	$1,665,486	$111,397	5	1
Lumen Technologies Inc.	LUMN	$1,519,450	$0	2	0
UNIVERSAL ELECTRONICS INC	UEIC	$1,488,952	$0	3	0
Kronos Bio Inc.	KRON	$1,470,395	$0	1	0
Amalgamated Financial Corp.	AMAL	$1,447,818	$0	1	0
WK Kellogg Co	KLG	$1,445,502	$0	2	0
NORTHERN TRUST CORP	NTRS	$1,414,219	$0	2	0
OPKO HEALTH INC.	OPK	$1,266,933	$0	1	0
Kennedy-Wilson Holdings Inc.	KW	$1,232,000	$0	1	0
ARBOR REALTY TRUST INC	ABR	$1,214,150	$0	6	0
CENTERPOINT ENERGY INC	CNP	$1,143,937	$0	2	0
authID Inc.	AUID	$1,050,000	$0	2	0
Iridium Communications Inc.	IRDM	$1,036,280	$0	1	0
CHARLES RIVER LABORATORIES INTERNATIONAL INC.	CRL	$1,000,641	$0	1	0
GrowGeneration Corp.	GRWG	$993,868	$0	1	0
Great Elm Group Inc.	GEG	$965,359	$0	3	0
Sezzle Inc.	SEZL	$947,725	$0	2	0
Ondas Holdings Inc.	ONDS	$945,622	$0	4	0
Invesco Pennsylvania Value Municipal Income Trust	VPV	$915,998	$0	1	0
BLACKROCK MUNIYIELD PENNSYLVANIA QUALITY FUND	MPA	$895,264	$0	4	0
EMERSON ELECTRIC CO	EMR	$881,963	$0	1	0
Federated Hermes Premier Municipal Income Fund	FMN	$869,909	$0	6	0
FOMO WORLDWIDE INC.	FOMC	$869,000	$0	22	0
AES CORP	AES	$844,076	$0	2	0
AVIENT CORP	AVNT	$839,589	$0	1	0
CVD EQUIPMENT CORP	CVV	$820,782	$0	1	0
SR Bancorp Inc.	SRBK	$677,828	$0	2	0
BRC Inc.	BRCC	$653,440	$0	1	0
Yum China Holdings Inc.	YUMC	$647,615	$0	1	0
EATON VANCE CALIFORNIA MUNICIPAL INCOME TRUST	CEV	$623,828	$0	2	0
DWS STRATEGIC MUNICIPAL INCOME TRUST	KSM	$616,132	$0	8	0
Rocky Mountain Chocolate Factory Inc.	RMCF	$615,791	$0	15	0
Sound Financial Bancorp Inc.	SFBC	$610,486	$0	11	0
DENTSPLY SIRONA Inc.	XRAY	$594,000	$0	2	0
MARTIN MIDSTREAM PARTNERS L.P.	MMLP	$589,644	$0	9	0
Topgolf Callaway Brands Corp.	MODG	$578,267	$0	3	0
INTRUSION INC	INTZ	$562,599	$0	4	0
M&T BANK CORP	MTB	$555,218	$0	1	0
SoFi Technologies Inc.	SOFI	$544,549	$0	3	0
ClearBridge MLP & Midstream Total Return Fund Inc.	CTR	$540,723	$0	2	0
BYLINE BANCORP INC.	BY	$535,390	$0	4	0
SHERWIN WILLIAMS CO	SHW	$504,890	$0	1	0
MSP Recovery Inc.	LIFW	$500,000	$0	1	0
agilon health inc.	AGL	$497,739	$0	1	0
Extra Space Storage Inc.	EXR	$496,482	$0	1	0
PERRIGO Co plc	PRGO	$464,750	$0	2	0
BUTLER NATIONAL CORP	BUKS	$417,327	$0	21	0

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Stock Purchased/Sold	Ticker	Total Buy Value	Total Sell Value	Total Buy Filings	Total Sell Filings
OmniAb Inc.	OABI	$405,517	$0	1	0
PureCycle Technologies Inc.	PCT	$388,037	$0	3	0
SYNCHRONOSS TECHNOLOGIES INC	SNCR	$387,224	$0	4	0
Collective Audience Inc.	CAUD	$385,900	$0	1	0
ENTRAVISION COMMUNICATIONS CORP	EVC	$385,000	$0	1	0
Quest Resource Holding Corp	QRHC	$377,973	$0	5	0
Aaron's Company Inc.	AAN	$361,150	$0	1	0
RE/MAX Holdings Inc.	RMAX	$353,535	$0	1	0
ZEBRA TECHNOLOGIES CORP	ZBRA	$350,480	$0	2	0
Rise Gold Corp.	RYES	$350,400	$0	3	0
DORCHESTER MINERALS L.P.	DMLP	$350,143	$0	2	0
Local Bounti Corporation	LOCL	$325,751	$0	10	0
CommScope Holding Company Inc.	COMM	$323,882	$0	2	0
ATN International Inc.	ATNI	$311,100	$0	1	0
Sow Good Inc.	SOWG	$300,001	$0	2	0
Custom Truck One Source Inc.	CTOS	$299,164	$0	2	0
Bluerock Homes Trust Inc.	BHM	$291,725	$0	2	0
Babcock & Wilcox Enterprises Inc.	BW	$290,340	$0	3	0
ULTRALIFE CORP	ULBI	$283,358	$0	3	0
ASSEMBLY BIOSCIENCES INC.	ASMB	$282,100	$0	1	0
TRUIST FINANCIAL CORP	TFC	$280,480	$0	1	0
TILLY'S INC.	TLYS	$273,302	$0	1	0
Great Elm Capital Corp.	GECC	$271,350	$0	1	0
PEOPLES FINANCIAL CORP	PFBX	$266,507	$0	8	0
HARROW INC.	HROW	$261,560	$0	2	0
Paragon 28 Inc.	FNA	$259,555	$0	1	0
Real Good Food Company Inc.	RGF	$258,500	$0	1	0
KBR INC.	KBR	$257,675	$0	1	0
Globalstar Inc.	GSAT	$256,088	$0	1	0
COMMERCIAL METALS Co	CMC	$249,860	$0	1	0
INTEL CORP	INTC	$249,333	$0	1	0
Marpai Inc.	MRAI	$238,680	$0	1	0
Glatfelter Corp	GLT	$234,018	$0	1	0
CLEARONE INC	CLRO	$229,787	$0	3	0
KEMPER Corp	KMPR	$216,000	$0	1	0
Envista Holdings Corp	NVST	$215,253	$0	1	0
loanDepot Inc.	LDI	$214,770	$0	2	0
HERON THERAPEUTICS INC.	HRTX	$213,569	$0	2	0
AMREP CORP.	AXR	$208,364	$0	5	0
iHeartMedia Inc.	IHRT	$205,950	$0	1	0
Firsthand Technology Value Fund Inc.	SVVC	$205,824	$0	8	0
Hyliion Holdings Corp.	HYLN	$205,046	$0	2	0
Arcutis Biotherapeutics Inc.	ARQT	$200,000	$0	1	0
Signing Day Sports Inc.	SGN	$200,000	$0	2	0
BRP Group Inc.	BRP	$199,655	$0	1	0
Zivo Bioscience Inc.	ZIVO	$199,600	$0	1	0

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