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INVESTMENT CHRONICLES

A MEMBER BENEFIT *from* PORTER & CO.

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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 Porter & Co. Select 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 *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
May 2024

Note: Quotes, transcripts, and excerpts are generally reproduced as they appear in the original.

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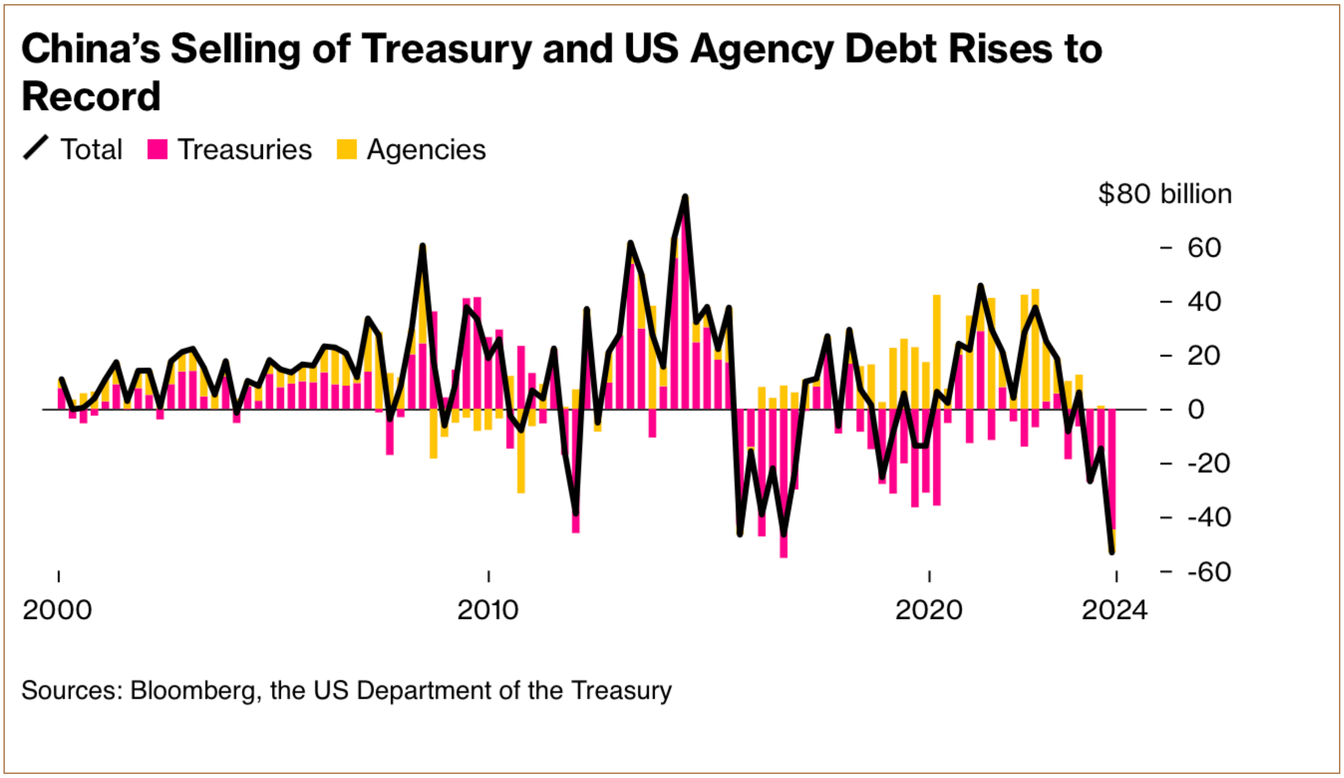
THE FIVE

The Most Important Charts We're Watching This Month

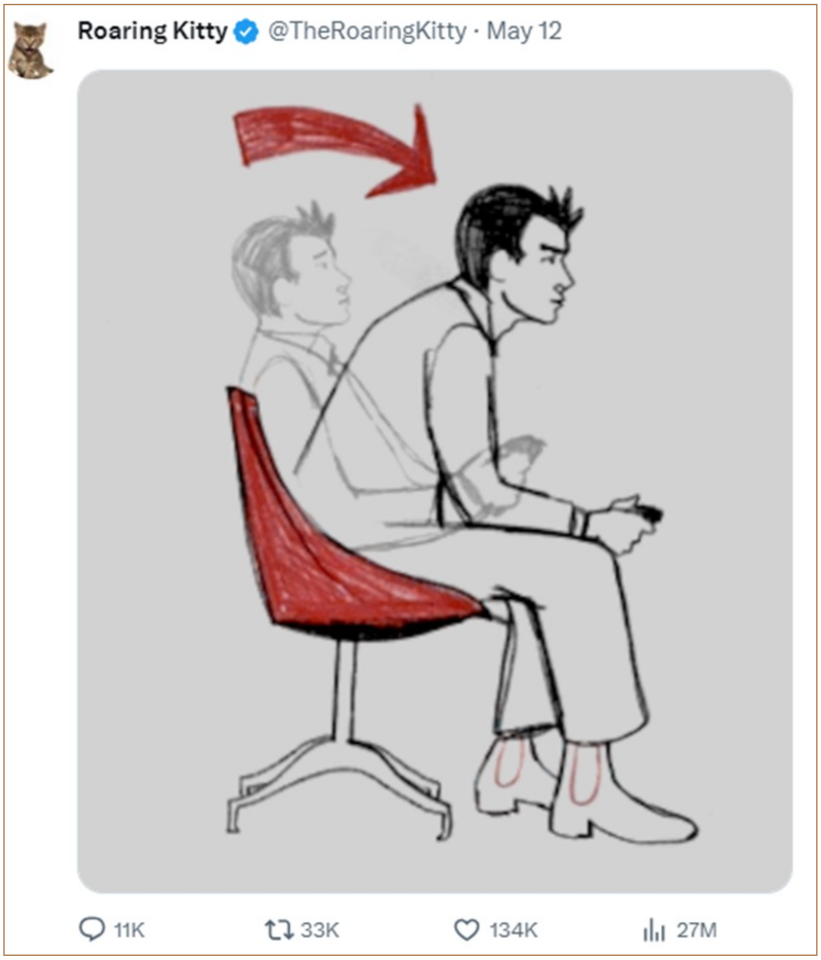
China sold a record amount of U.S. Treasury and agency bonds in the first quarter, as part of its [ongoing move away from U.S. dollar assets and into gold](#) ([from *Bloomberg*](#))...



Silver has broken out, officially closing above $30 for the first time in over a decade (from Otavio (Tavi) Costa via X)...

The meme-stock mania returned in spectacular fashion this month (from Charlie Bilello)...

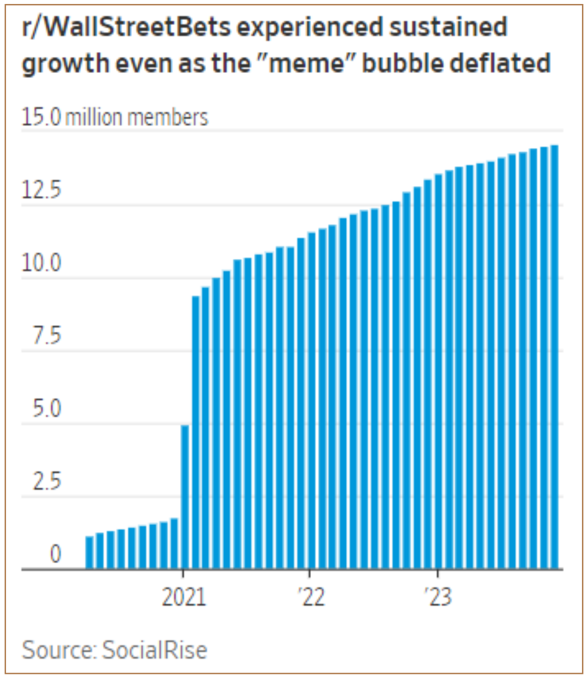
All it took was this tweet from "Roaring Kitty" (real name: Keith Gill) which meme stock acolytes interpreted as a signal to buy. Why? Because it's showing a gamer leaning forward in his chair, which apparently means that he's "getting serious."



If that sounds crazy, this will sound absolutely insane: at their peak levels last Tuesday, GameStop ($GME) was up 271% on the week and AMC Entertainment ($AMC) was up 308%.

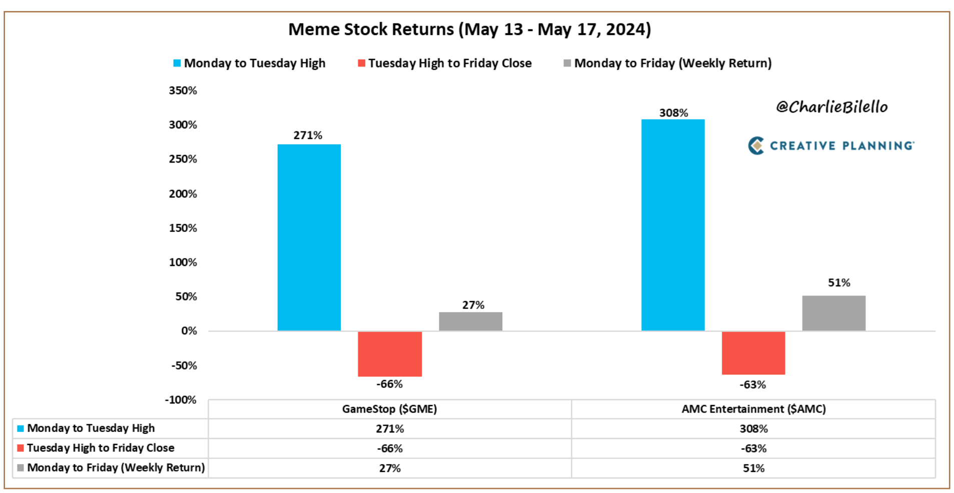
How is that possible? The power of psychology, FOMO, and herd behavior.

While Roaring Kitty disappeared back in 2021, membership in the Reddit message board (r/WallStreetBets) from which he used to post has continued to grow...



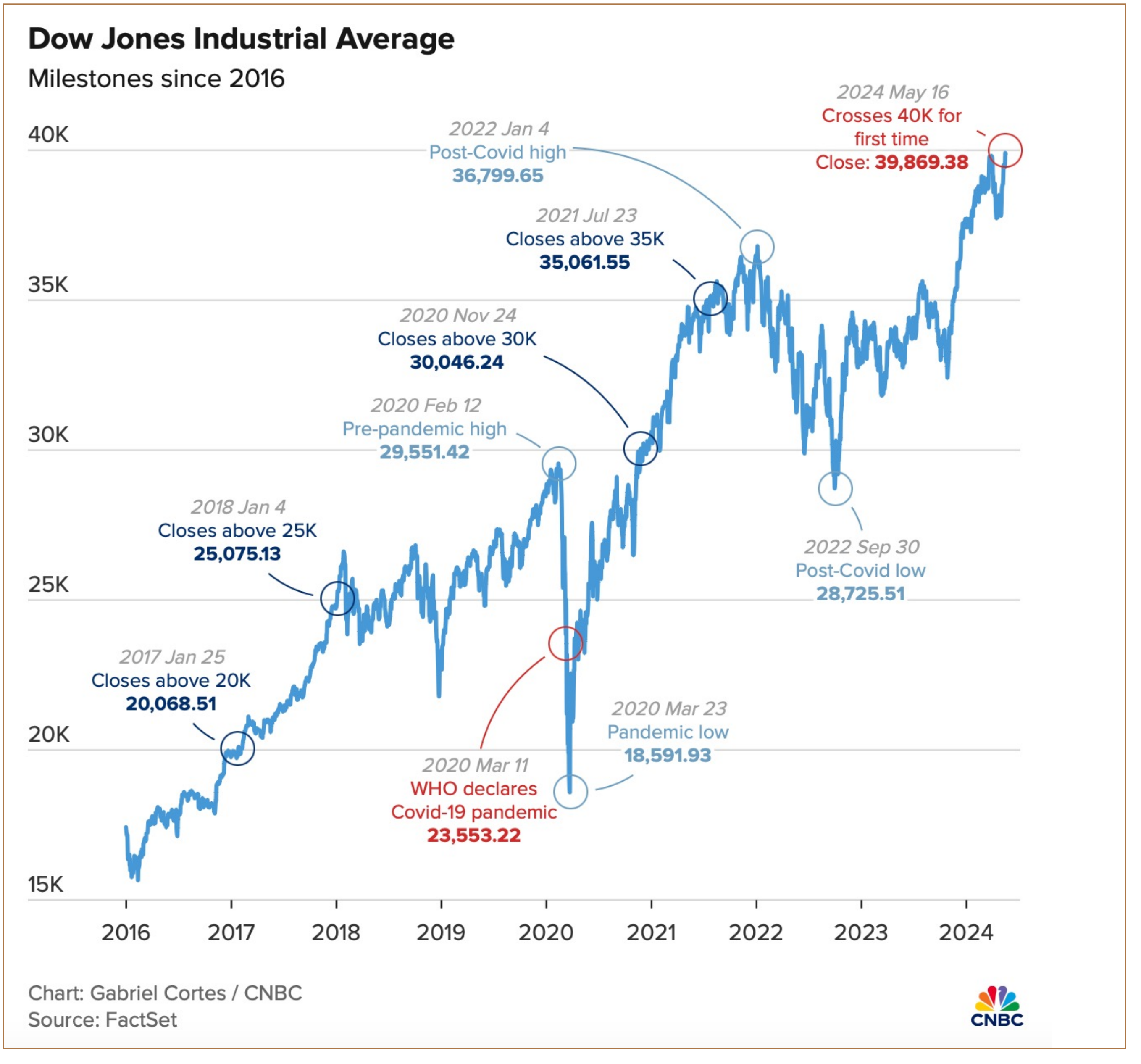
And Roaring Kitty's own influence has grown as well, with 27 million views of the gamer tweet and his follower count rising in the past week from 460,000 to over 1.3 million.

But as we saw in 2021, a meme can only take a stock so far before the fundamental reality sets in. And this time, the party didn't last very long. The tide abruptly turned last Wednesday and both GameStop and AMC would decline over 60% from their peak levels to Friday's close.

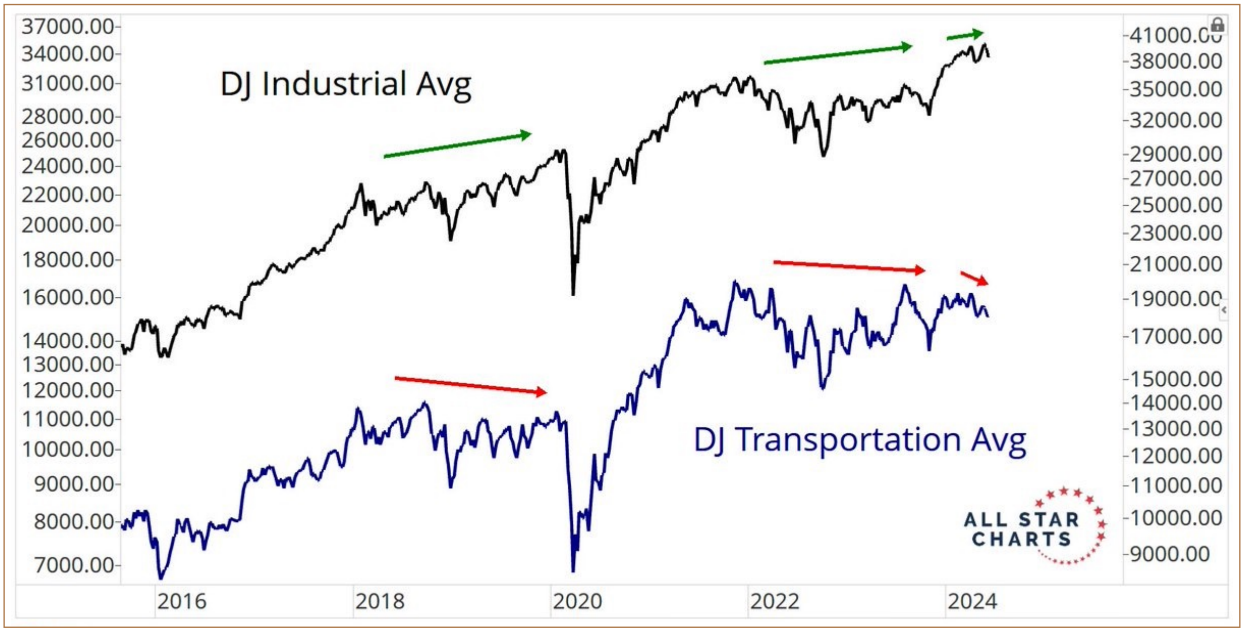


	GameStop ($GME)	AMC Entertainment ($AMC)
Monday to Tuesday High	271%	308%
Tuesday High to Friday Close	-66%	-63%
Monday to Friday (Weekly Return)	27%	51%

This month, the Dow Jones Industrial Average closed above the 40,000 level for the first time ([from CNBC])...



While the Dow Jones Industrial Average and other major market indices have been hitting new highs, the lesser-followed Dow Jones Transportation Average has been lagging. This has created a classic "Dow Theory divergence" – a potentially bearish signal that has preceded significant market tops in the past (from J.C. Parets via X)...

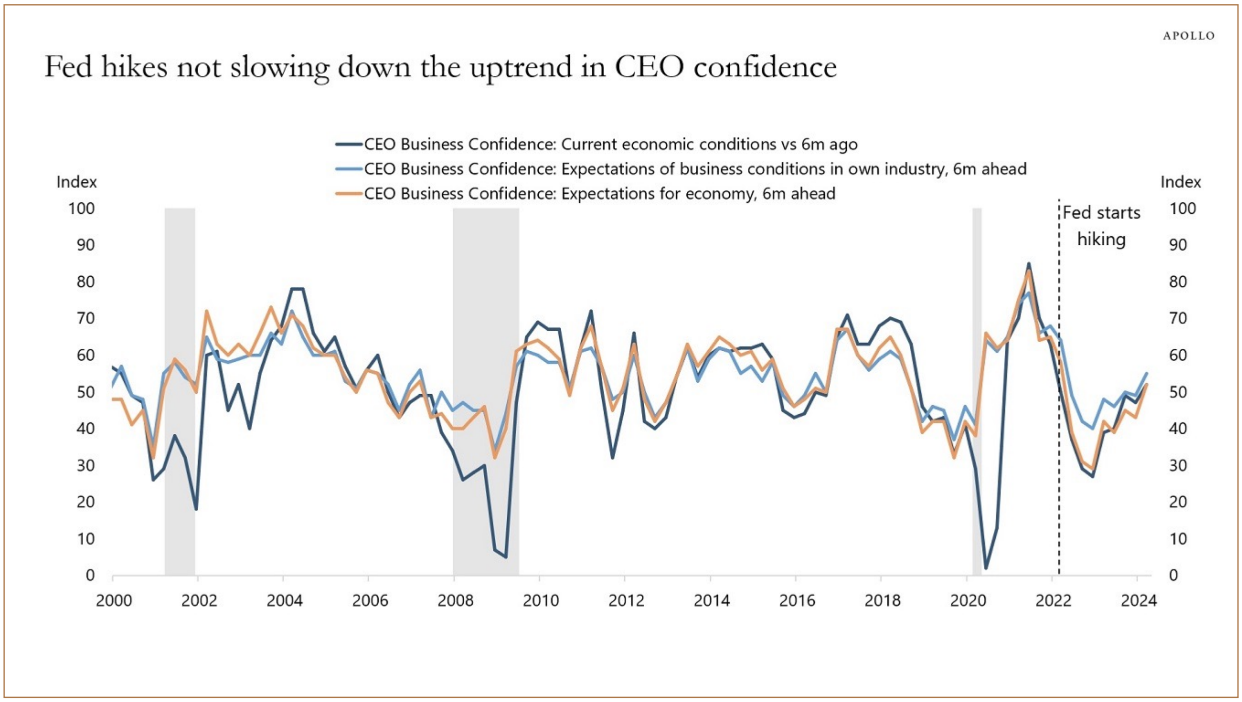


ECONOMICS AND MARKETS

CEOs are more bullish despite potential Federal Reserve hikes ([from The Daily Spark]())...

CEO confidence continues to rebound, and there are no signs of Fed hikes weighing on how CEOs view current conditions, future business conditions, and expectations to the economy, see chart below.

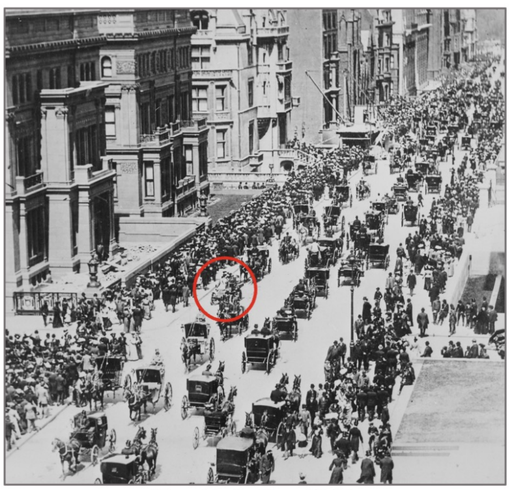
In short, CEOs are becoming increasingly bullish on the outlook for their businesses and the economy. This suggests that r-star may be higher than the Fed currently thinks.



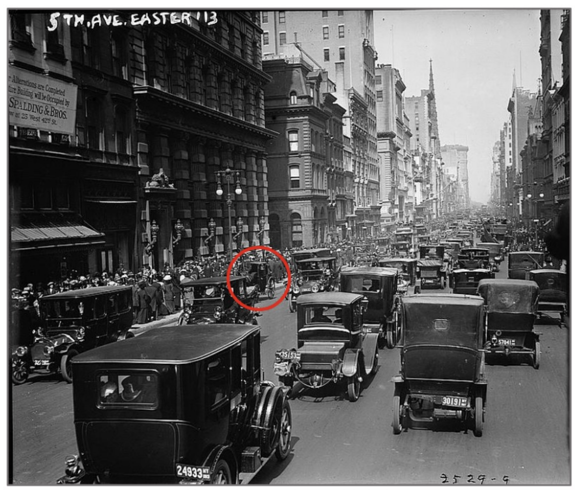
What artificial intelligence ("AI") and robotics could mean for our debt-based economy (from FFTT Tree Rings)...

This time, we are the horses: the disruption of labor by humanoid robots (rethinkx.com)

In the 15 years between 1907 and 1922, horses went from providing 95% of all private vehicle-miles traveled on American roads to less than 20%. In areas like New York City, which led in the adoption of automobiles, the disruption of transportation was swift and transformative – as shown in the images below. In St. Louis, Missouri, the registered number of automobiles exceeded the registered number of horse-drawn wagons by the year 1916.



New York City, 1900



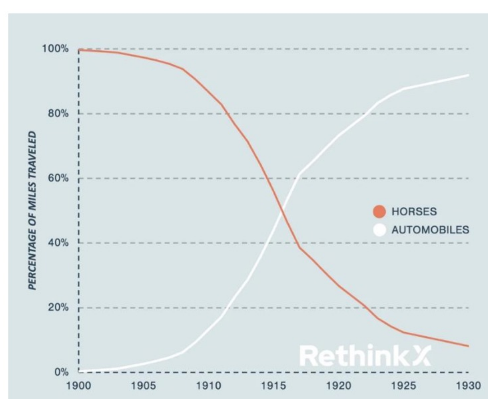
New York City, 1913

Now, we are on the cusp of a new disruption: physical labor performed by humanoid-form robots. Except this time, we are the horses.

Just as internal combustion engines gave automobiles the capability to disrupt horses, a convergence of technologies that together create what we call a labor engine is what gives humanoid robots the capability to disrupt human labor.

Today, we are on the cusp of the most profound disruption of human labor since the advent of electricity and combustion engines over a century ago.

As in many markets, there will be high-end and low-end humanoid robot offerings once deployment begins in earnest. For the purposes of illustration, consider a humanoid robot with a total lifetime cost of $200,000 that works 20,000 hours before decommissioning: its labor would cost $10 per hour.



Even at this relatively high-cost point, humanoid robots are already competitive with human labor in a substantial fraction of the global economy. In reality, lifetime costs of humanoid robots are likely to be far less than $200,000 right from the start.

Humanoid robots will enter the market at a cost-capability of under $10/hour for their labor, on a trajectory to under $1/hour before 2035 and under $0.10/hour before 2045.

Tree Ring: Many people will respond to the article above by saying something like, "*The car and other technological advances that occurred around the same time were ultimately massively positive for mankind – look at how much better our living standards are now v. 1910-13*." This is undeniably true.

However, such comments have the luxury of being made 100-120 years after the fact. Those living through those times of rapid technological advances and the shifts they forced onto global economies and geopolitical events did not have that luxury, especially in certain regions of the world.

Real talk: Yes, automobiles and similar revolutionary technologies adopted 1900-13 drove rapid advancement of human living standards then and over time…AND, the economic and sociopolitical changes those technological advancements forced contributed to the outbreak of two World Wars from 1914-45 in which an estimated 60-80 million people died (out of a global population in 1913 of ~1.8 billion, or ~4% of all humans alive in 1913.)

Critically, such deaths were NOT evenly distributed (very few civilians died in the Americas or Australia, implying that way more than 4% of the population died across swaths of Eurasia.)

Additionally, in 1913, there were four great empires that had existed for centuries: The British, Ottoman, Austro-Hungarian, and Russian Empires…but by 1920, there was only one empire remaining, the British Empire, and even it was critically wounded. It's official time of death is often dated to 1956's Suez Crisis, when the global hegemon baton was passed to the US.

This subject is something we touched on briefly a year ago, and will talk about more in the future, but as we routinely talk about needing a "productivity miracle", this is an important topic: The productivity miracle needs to arrive, but if it arrives either too slowly (debt crisis wins because of not enough productivity boost) or too fast (it sparks a debt crisis by triggering too much deflation too quickly), the global sovereign debt crisis will arrive all the same.

Let's assume labor wages do trend toward $1/hour globally by 2035 for sake of discussion:

- Global labor wage growth will likely fall sharply, leading to mass defaults on houses, cars, and consumer loans of all stripes; this would in turn take down the global banking system and global markets unless Central Banks stepped in with printed money to make the banks and consumers whole.
- Global tax receipts will likely fall sharply, leaving highly indebted sovereigns unable to service their debt without extreme money printing.
- Political instability around the world will likely rise dramatically as the global labor class is disenfranchised by the loss of jobs and then the inflation that would likely result from policymaker attempts to prop up government debt markets and banking systems by printing money; paradoxically, countries that have relatively "good demographics" (the US, Africa, the west more broadly) could see more political instability than countries with relatively "bad demographics" (China, Korea, Japan, Asia), as old people tend to be less prone to protest/riot.

Here's the point: Technological advancement such as humanoid robots that drive labor deflation that even directionally approaches the wage deflation described above (as well as AI and other types of automation) are fundamentally incompatible with the current debt-based and debt-backed monetary system.

It is a virtual mathematical certainty that the current debt-based and debt-backed monetary system will collapse chaotically if projections for humanoid robotics, AI, and automation are relatively accurate.

This would most likely manifest as severe deflation for a relative moment, followed quickly by severe inflation as global Central Banks are forced to hyper-print money in an attempt to preserve the nominal value of the sovereign debt that acts as the collateral that underpins virtually all assets and the current global banking system.

As such, if the potentially radically deflationary hit to global labor markets that could occur over the next 10 years (!!!) due to the above is to be managed well, the system MUST shift from a debt-based system to an equity-based system…i.e., the system must shift to one that is collateralized NOT by unbacked western government debt, but by a neutral reserve asset with an energy link – either physical gold, or BTC.

This transition can occur "the easy way" or "the hard way":

"The easy way" is policymakers proactively shift first Central Bank reserves from sovereign debt to physical gold; next, commercial banks do the same. There are signs that macroprudential authorities for one reason or another have been elevating the treatment of gold such that it can be used in exactly such a manner, but it is not happening fast enough.

"The hard way" is that policymakers do not act quickly enough, and technology forces a secular decline in labor wages, which begins to touch off a global consumer debt and banking crisis; given that global banks have been regulated into holding government debt as their "risk free assets", this quickly morphs into a sovereign debt crisis as well, featuring a spike in interest rates in the midst of a crisis and deflationary labor environment.

Policymakers would likely respond as they always do, moving to stabilize government bond markets and banking systems with printed money, which in the amounts likely needed in this case would likely drive gold and BTC far higher, along with commodity inflation…into secularly weak labor markets, quickly touching off political instability and forcing savers to organically shift their assets into gold and BTC out of necessity.

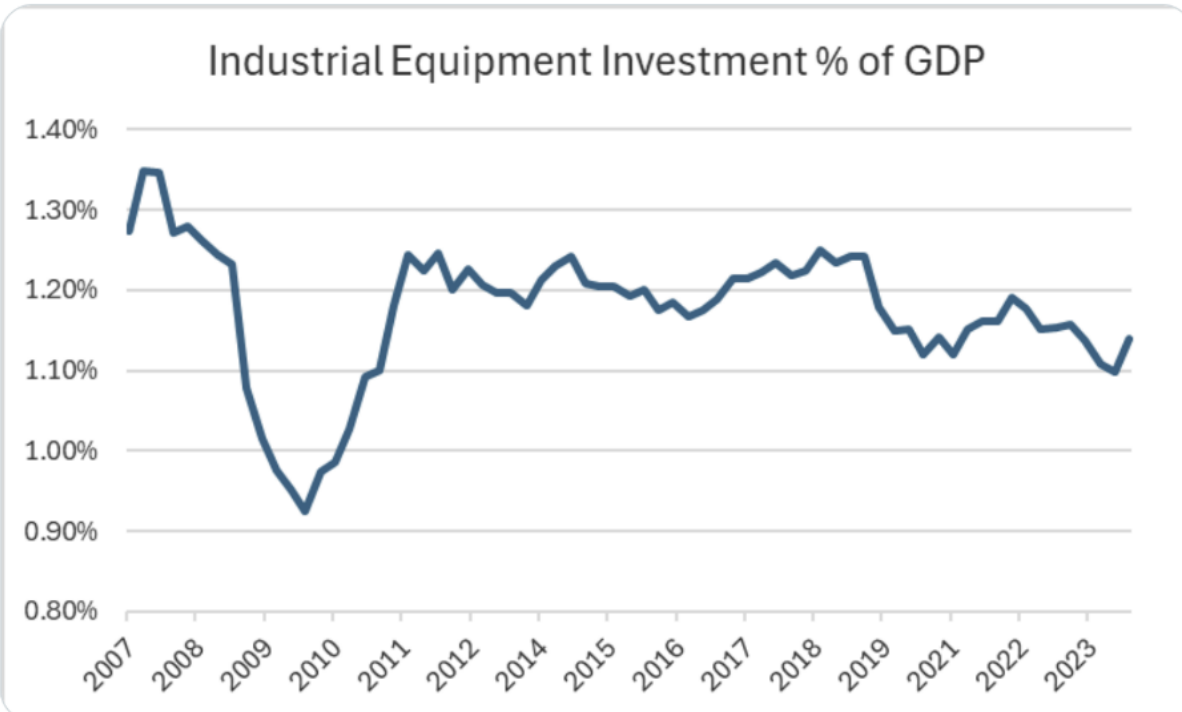
All of this may seem to be far off, but if you pay attention, you can see the early stages of these tensions are already happening. The WSJ is echoing the Biden Administration's complaints about the deflationary "China Shock 2.0":

The rocket fuel behind China shock 2.0: Weak currency, deflation – WSJ, 5/4/24

But David P. Goldman at the Asia Times noted two days after the WSJ article above that the reason **China is in deflation is NOT because of a weak currency per se, but because China has been and continues to "install more industrial robots than the rest of the world combined**."

David P. Goldman
@davidpgoldman

We can talk about de-risking all day, but the biggest risk is that we're not investing in industrial equipment. China meanwhile is installing more industrial robots than the rest of the world combined.



10:17 PM · May 4, 2024 · **14K** Views

i.e., China is cheaper because China is at the forefront of our seemingly-dystopian take we laid out above:

Debunking China's overcapacity myth – Asia Times, 5/6/24

During the past four years, China shifted the preponderance of its exports to the Global South away from developed markets, and at the same time built production facilities across the Global South that re-export to developed markets—circumventing America's 25% tariff on most Chinese goods and other developed-market trade barriers.

There must be some devilry behind China's export achievement, according to the dark murmurings of Western economists: China is in deflation, so it's selling goods on the cheap.

"Foreign officials worry about a repeat of the China shock of the early 2000s, when pro-market reforms in China and its entry into the WTO fueled an export boom that was a boon for consumers but crushed competing industries in the US and elsewhere," warned the Wall Street Journal on May 4.

In 1900-13, the highly productive Germans were eating the UK Empire's lunch; as the Germans began to build out their own navy to ensure the safety of their own trade, it infringed too much upon the UK's Navy (its primary source of power), and events spiraled out of control from there.

Today, the highly productive Chinese are eating the US hegemon's lunch, and building out the Chinese military to ensure the safety of their own supply chains *(in her book "Disorder", Helen Thompson wrote that China began working on what they called their "Malacca Problem" in 2002)*.

Today, it is becoming accepted wisdom that the US and China are moving toward "Cold War 2.0", and the US is implementing tariffs to counteract Chinese capital account and investment restrictions. It is also becoming accepted wisdom that control of technology (Taiwan, AI) is critical going forward. We have been witnessing what Balaji called "the first drone war" in Ukraine, as the Russians outproduced the mighty US defense industrial base.

We do not know the pace or timing of humanoid robot labor disruption from here, but we feel safe saying a) it is already starting in the form of complaints about "China Shock 2.0", and b) that it is unlikely that overlaying humanoid robot labor disruption on top of existing tensions will make things calmer.

One thing we can say with a high degree of confidence: If one thinks that humanoid labor disruption will ever occur, or AI-led white collar wage disruption will ever occur, it will require a significant re-think of what is today conventional investing wisdom around the "60/40" portfolio (60% equities, 40% bonds):

These hyper-productivity enhancers will likely be very good for the very big, very wealthy, and very powerful... while also being very bad for political and monetary stability of the systems in which the very big, very wealthy, and very powerful live...but also very good for the very small, the very productive, and the very creative.

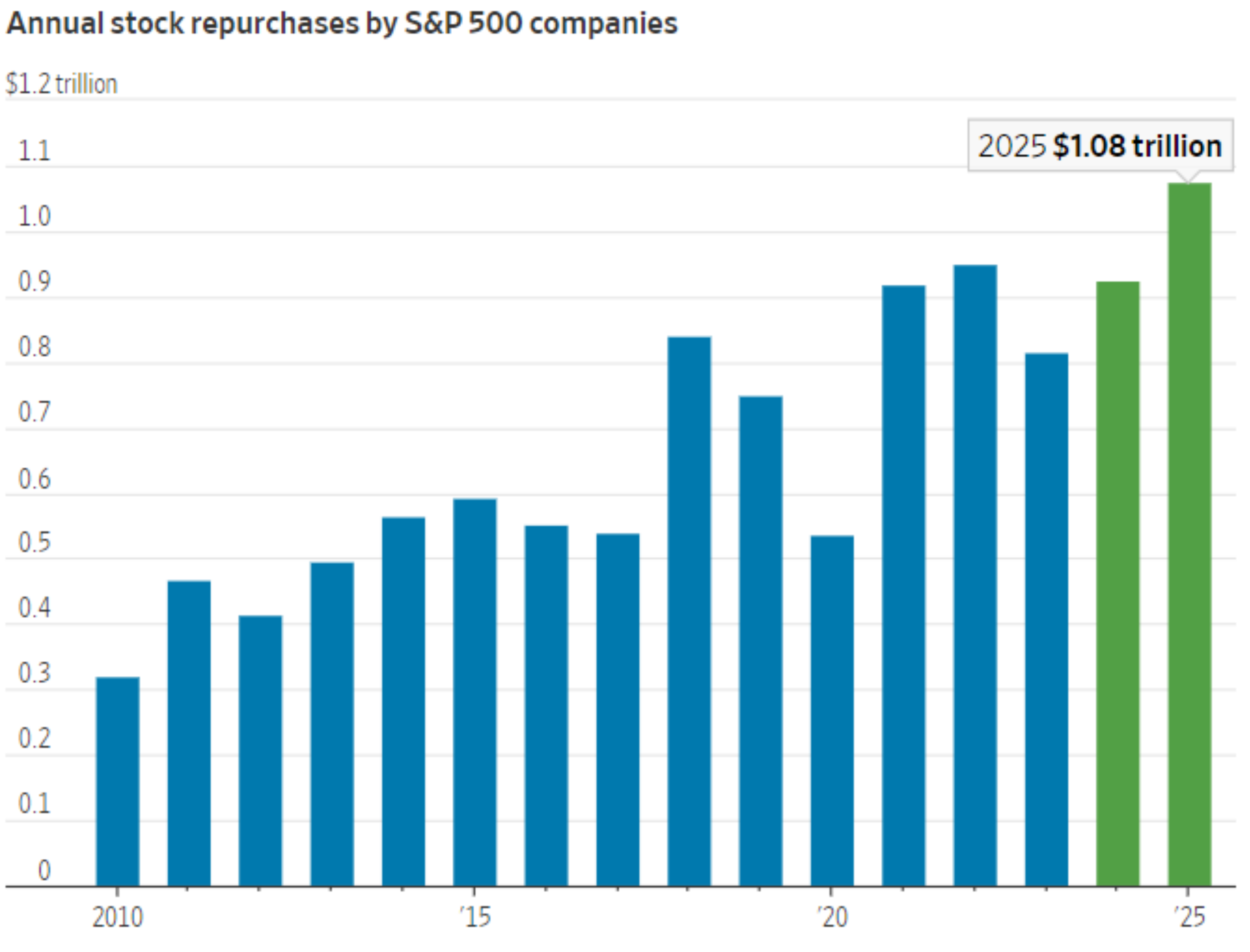
Political and monetary instability is bad for the real value of unbacked sovereign bonds, and long-term debt more broadly...suggesting that the above will likely reinforce and accelerate

the trend of the $130 trillion global bond market flocking into the $65T US equity market, the $14T gold market, and the $1.2T BTC market for safety on a real basis.

Bottom line: As this trend continues, it is likely good for big cap equities, hard assets (luxury real estate), and neutral monetary assets with an energy link (gold and BTC, whose prices would have to rise massively to serve the roles we wrote about earlier in "the easy way," and whose prices will likely also rise massively if policymakers fail and events transpire "the hard way."

Continue reading here *(subscription required)*

S&P 500 stock buybacks are projected to hit a record $1.1 trillion in 2025, a 16% increase from this year's total (from The Week in Charts)...



Note: 2024 and 2025 are projections
Source: Goldman Sachs

Companies that are excluded from the environmental, social, and governance ("ESG") indices significantly outperform the market (from Market Sentiment)...

A 2023 report published in the *Journal of Finance* highlighted that a long-short portfolio that invests in companies with high toxic emissions generates an alpha of 4.42% per annum. This pollution premium could not be explained by any of the existing systematic risks.

A simpler way to expand this concept would be to check the performance of companies excluded from the ESG index. When researchers backtested the firms that were excluded from Norway's Oil Fund (*oh, the irony*), the excluded firms had an alpha of ~5%.

Another interesting finding was that most firms do not change sufficiently to have their exclusions revoked. Only the firms with very high investment needs (*or desperate for liquidity*) were likely to act to get their ESG ratings upgraded. This is reflected in the portfolio performance as firms that improve their ESG ratings subsequently do not exhibit superior performance.

Source:

- *The Expected Returns of ESG Excluded Stocks. Shocks to Firms Costs of Capital? Evidence From the World's Largest Fund (**SSRN**)*
- *The Pollution Premium (**SSRN**)*

Continue reading here

America is running out of money, and nobody cares (from *The Telegraph*)...

An economic specter haunts America. It's also one that many American politicians – Republican and Democrat – say a great deal about but are reluctant to address.

The name of that shadow is the United States National Debt: what the US Treasury Department defines as "the amount of money the Federal Government has borrowed to cover the outstanding balance of expenses incurred over time."

If you go to the Treasury's website, you can see just how big that debt is. In mid-May, it was 34.5 trillion dollars. The pace of the growth in that debt is equally stunning. Approximately 1 trillion dollars is being added to America's National Debt every 100 days.

Historically-speaking, America's National Debt has taken on huge proportions during national emergencies like World War II. Funding such extraordinary measures, as well as more mundane government activities like infrastructure-development, is what the US National Debt has traditionally been used for.

America isn't, however, presently fighting an all-out hot war with an adversary akin to Nazi Germany bent on world-domination. Nor is the Federal Government spending much on infrastructure, judging from the state of America's highways.

The truth is that the rapid growth in America's National Debt is driven by two factors. The first is spending on major entitlement programs like Social Security, Medicare, and what is called Income Security (for example, unemployment benefits).

Taken together, these programs constituted 68 per cent of Federal Government spending in 2023. As the pace of boomers retiring from the workforce accelerates, that figure will grow.

The second factor at work is that US government tax revenues aren't covering government spending. In 2023, the federal government collected almost 4.5 trillion in revenue, but spent 6.16 trillion. That trend has been in place for some time. Since 2000, successive presidents and Congresses have papered over this revenue-expenditure gap by expanding the National Debt.

The economic consequences of this trend are well-understood. First, it impedes economic growth by putting upward pressure on interest rates. As the bipartisan Committee for a Responsible Federal Budget states, "Each percentage point of debt-to-GDP increases interest-rates by about five basis points." That means less productivity and therefore less economic growth.

Second, a growing public debt and higher interest rates on that debt divert more capital away from the private sector and into Treasury bonds. The less-productive public sector thus steadily assumes a bigger role in the economy. That too translates into less economic growth.

Yet another negative effect of a metastasizing public debt is its impact upon individual and institutional investors' faith in the US government's creditworthiness. Few things would be more destructive to the US economy than such confidence being fatally compromised by domestic and foreign investors concluding that the US government cannot meet its debt obligations.

These problems are well-understood by legislators on both sides of America's political divide. Back in October 2023, a bipartisan group of Congressmen proposed creating a bipartisan federal debt commission to try and address the challenge. But for months, this proposal has struggled to gain traction. Why so?

One reason is that legislators from both parties have few incentives to tackle the problem. It's hard to see, for instance, how significantly reducing the pace of the national debt's growth (let alone diminishing the national debt's size in real terms!) can avoid making substantial reductions in entitlement programs. Trying to sell that to the millions of retired and soon-to-be retired progressive and conservative Americans who receive some of their income from these programs is an electoral Mission-Impossible.

Anyone even suggesting that spending cuts are unavoidable would face an electoral backlash from these sizable segments of the American electorate: people, incidentally, far more likely to vote than younger Americans. It's not for idle reasons that both Joe Biden and Donald Trump have ruled out any major cuts in entitlement expenditures.

Continue reading here *(subscription may be required)*

Why making computer chips has become such a big deal (from *Bloomberg*)...

Computer chips are the engine room of the digital economy, and their growing capabilities are enabling technologies such as generative artificial intelligence that promise to transform multiple industries. Their critical role was highlighted when the coronavirus pandemic disrupted chip production in Asia, tipping global technology supply chains into chaos. Small wonder, then, that the devices are now the focus of intense competition between the world's economic superpowers.

1. Why are chips so critical?

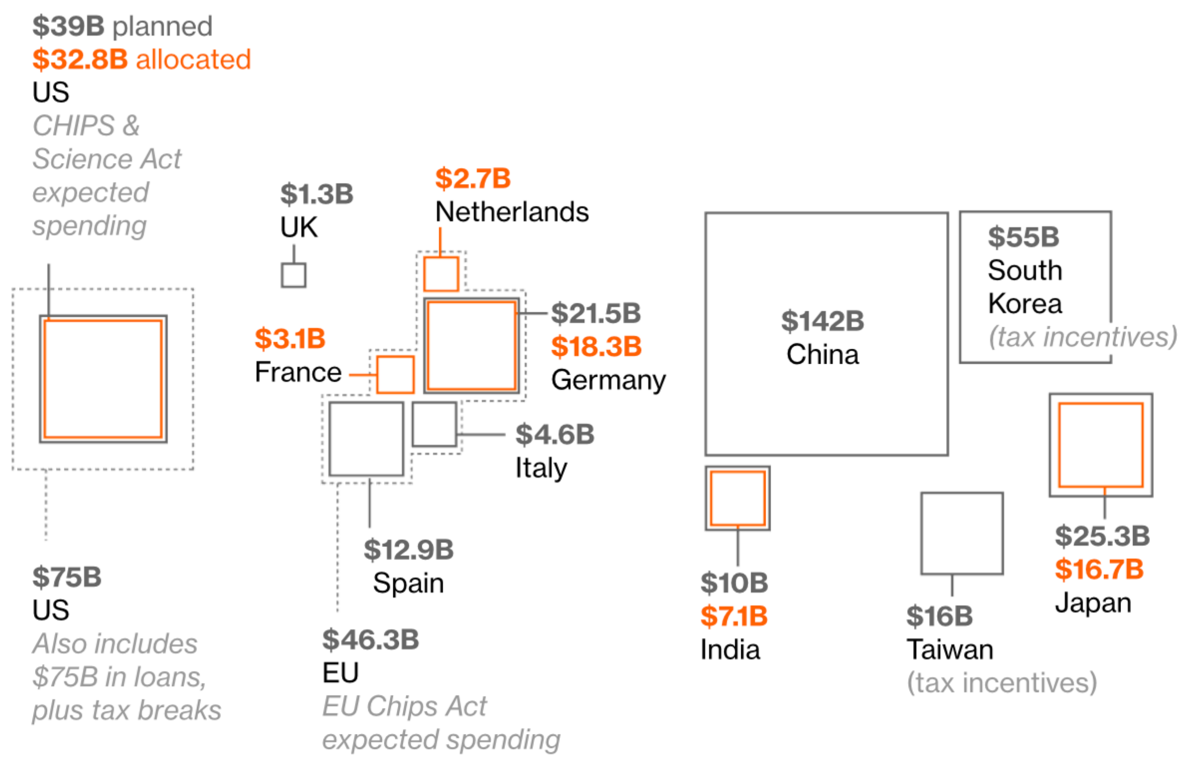
They're what's needed to process and understand the mountains of data that have come to rival oil as the lifeblood of the economy. Made from materials deposited on disks of silicon, chips — shorthand for semiconductors, or integrated circuits — can perform a variety of functions. Memory chips, which store data, are relatively simple and are traded like commodities. Logic chips, which run programs and act as the brains of a device, are more complex and expensive. Access to components such as Nvidia Corp.'s H100 AI accelerator has become linked to both national security and the fortunes of giant companies such as Alphabet Inc.'s Google and Microsoft Corp. as they race to build out giant data centers and steal the lead in what's seen as the future of computing. But even everyday devices are increasingly reliant on chips. Every press of a button in a car full of gadgetry requires simple chips to translate that touch into electronic signals. And all battery-powered devices need chips to convert and regulate the flow of electricity.

2. Why is there a battle over chip manufacturing?

Most of the world's leading semiconductor technology originates in the US, but today it's Taiwan and South Korea that dominate chip manufacturing. China is the biggest market for the electronic components and has a growing desire to make more of the chips it uses itself. That's made the industry a focal point for Washington as it tries to limit the rise of its Asian rival and address what it says are national security concerns. The US is deploying export controls and import tariffs to contain China's chip ambitions. It's also set aside huge sums of government money to bring back physical production of the components, reducing what it sees as a dangerous reliance on a few facilities in East Asia. Several other nations including Germany, Spain, India and Japan are following its lead.

Global Chips Investments

Funding allocated or planned for semiconductors, in US dollars



Sources: Bloomberg reporting and research, Semiconductor Industry Association

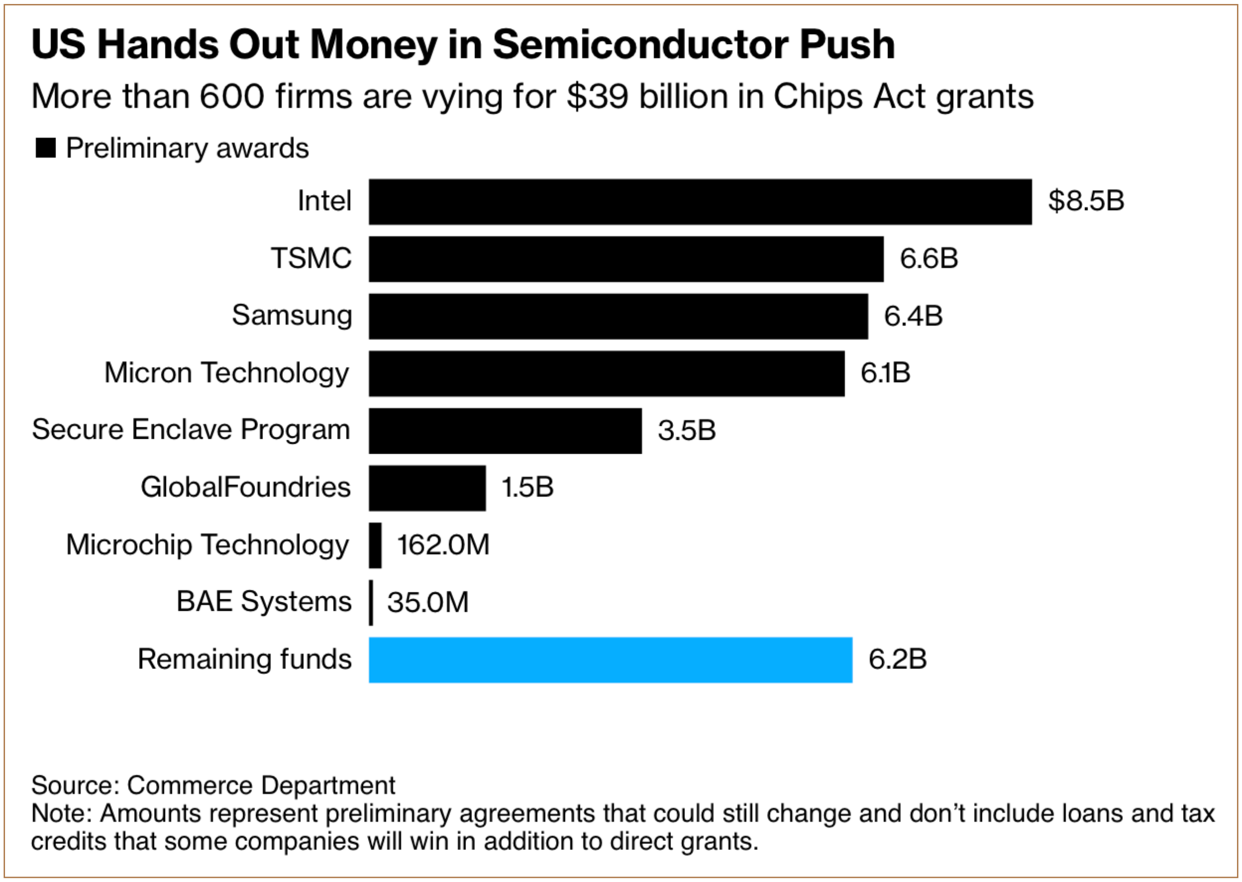
3. Who controls supply?

Chipmaking has become an increasingly precarious and exclusive business. New plants have a price tag of more than $20 billion, take years to build and need to be run flat-out for 24 hours a day to turn a profit. The scale required has reduced the number of companies with leading-edge technology to just three — Taiwan Semiconductor Manufacturing Co. (TSMC), South Korea's Samsung Electronics Co. and Intel Corp. of the US. TSMC and Samsung act as so-called foundries, providing outsourced manufacturing for companies around the world. The world's biggest tech firms are dependent on access to the best manufacturing, most of which is located in Taiwan. Intel used to focus on making chips for its own use, but is also now trying to compete with TSMC and Samsung for contract manufacturing business. Lower down the food chain there's a huge industry that makes so-called analog chips. Companies such as Texas Instruments Inc and STMicroelectronics NV are leading makers of the components that do things like adjust power inside smartphones, control temperatures and turn sound into electrical pulses. This is the area that China, blocked from access to many of the machines needed to make more cutting edge parts, is targeting, investing heavily to boost production and grab market share.

4. How is the chip battle playing out?

Despite the Chinese spending spree, the country's chipmakers still depend on US technology, and their access to overseas chip production technology is shrinking.

- The US imposed tighter export controls in 2023 on some chips and chipmaking equipment to stop China from developing capabilities that Washington regards as potential military threats, such as supercomputers and AI. It's also pressed allies to tighten restrictions on China's access to chip technology, aiming at plugging holes in export controls, and moved to restrict its own imports of Chinese chips.
- Leading Chinese tech companies including Huawei Technologies Co have been placed on a so-called US entity list, meaning American chip technology suppliers must get government approval to sell to these blacklisted companies.
- US politicians have decided they need to do more than just hold back China. The 2022 **Chips and Science Act** set aside $39 billion for direct grants, as well as loans and loan guarantees worth $75 billion, to revitalize American chipmaking.



- China's isn't sitting idle. Huawei is building a collection of secret semiconductor-fabrication facilities across China, a shadow manufacturing network that would let the blacklisted company skirt the US sanctions and further the nation's technology ambitions. In 2023, Huawei unveiled a smartphone powered by a processor with so-called 7-nanometer technology — more advanced than the US rules allow.

- The European Union has forged its own $46.3 billion plan to expand local manufacturing capacity. The European Commission estimates that public and private investments in the sector will total more than $108 billion. The goal is to double the bloc's output to 20% of the global market by 2030.

- India in February approved investments powered by a $10 billion government fund, including a Tata Group bid to build the country's first major chipmaking facility.

- In Saudi Arabia, the Public Investment Fund is eyeing an unspecified "sizable investment" to kick off the kingdom's foray into chips as it seeks to diversify an economy dependent on fossil fuels.
- Japan's trade ministry has secured about $25.3 billion for a chips campaign launched in 2021. Projects include two TSMC foundries in southern Kumamoto and another foundry in northern Hokkaido, where Japan's homegrown venture, Rapidus Corp., aims to mass produce 2 nanometer logic chips in 2027.

5. What's the biggest risk to global chip production?

A potential conflict over Taiwan, which makes most of the world's advanced logic semiconductors and a lot of lagging-edge chips as well.

Continue reading here *(subscription may be required)*

Watch for a September rate cut (from Morgan Stanley Research)...

Key Takeaways:

- The U.S. Federal Reserve will likely start interest rate cuts in September.
- Higher-than-expected inflation in first quarter of 2024 reinforced the Fed's caution and pushed back the rate cuts we previously anticipated in July.
- Slowing inflation in the second half of the year should give the Fed confidence to move.

Investors, consumers and business leaders have been closely tracking the U.S. Federal Reserve's interpretation of economic data, waiting for the moment when the economy has slowed enough to allow the Fed to cut interest rates for the first time since it began raising them in March 2022. So far, they have waited without result: Recent data has shown that economic growth has remained strong. Namely, inflation continues to be stubborn, with a surprising upswing in the price of goods and services in the first few months of the year.

However, despite the first-quarter reacceleration in inflation, price increases should start to slow down as the second half of the year begins, clearing the path for rate cuts. The Fed will need to feel confident that there won't be any inflation surprises before it makes its first move, likely making June or July too early to begin the trim cycle. Morgan Stanley Research expects three cuts this year, of 25 basis points each, starting in September.

Our analysis is based on two factors:

Easing price pressures: Investors who were primed for a March rate cut were disappointed early in the year by inflation data that showed surprising upswings in the prices of goods such as apparel and computer software, as well as for financial services. Indeed, on a three-month annualized pace, the Fed's preferred measure of inflation, core personal consumption expenditures inflation—which includes costs for housing, utilities, healthcare and recreation—accelerated from 1.6% in December 2023 to 4.4% in March 2024.

We expect price inflation in these areas will start to ease, and that rent and car insurance, in particular, will continue to come down. The data over the summer should start to give the Fed more confidence to begin whittling rates starting at the September Federal Open Market Committee meeting.

Coming slack in jobs and growth: A surge in immigration last year boosted the country's labor supply and helped expand the economy. This helped explain the intellectual conundrum of rapid growth despite moderating inflation of 2023—and the resulting **bigger, not tighter, U.S. economy**.

But recent jobs data hint at a softening trend, with weaker hourly earnings, higher unemployment and lower-than-expected payroll prints for April. Demand for workers appears to be slowing and uncertainty over future job prospects is likely to keep employees in place. Fed Chair Jay Powell has indicated material weakening in the labor market would be a reason to trim rates, and Morgan Stanley believes the unemployment rate this year will increase more than the Fed expects, ending at 4.2%. The coming jobs data should support our view for a September start to rate cuts, with two additional cuts in November and December.

This is why the economy has been so strong (from The Daily Spark)...

Why is the economy still so strong?

There are two reasons, lower interest-rate sensitivity and strong demand tailwinds.

Specifically:

A. Lower interest-rate sensitivity:

1. 40% of homeowners don't have a mortgage, and 95% of mortgages are 30-year fixed that are not sensitive to the Fed raising interest rates.
2. During Covid, most firms termed out their debt at very low levels, and with the IG market having grown from $3 trillion in 2009 to $9 trillion today, see the second chart, the interest-rate sensitivity of corporate America has declined.
3. A growing share of capex spending is intangibles (R&D and software), which generally is less sensitive to Fed hikes.

B. Strong cyclical and structural demand tailwinds:

1. Fiscal spending, including the CHIPS Act, Inflation Reduction Act, and Infrastructure Act, is still a strong tailwind to growth.
2. Excess savings have recently started to rise again for higher income households, see the third chart.
3. Immigration has been unusually strong, supporting overall employment growth.
4. The Fed turning dovish in December 2023 has eased financial conditions significantly, which continues to boost consumer spending and capex spending.
5. Higher interest rates give higher cash flow to households that own fixed-income assets.
6. After 14 years of very low interest rates from 2008 to 2022, the demand for higher all-in yields remains extremely strong from insurance companies, pension funds, and retail investors, which has contributed to easy financial conditions that have been offsetting Fed hikes. The AI story has also boosted household wealth and eased financial conditions.

13. Corporates that got into trouble once the Fed started hiking have not been liquidating their assets but instead doing reorganizations and distressed exchanges, and this has kept many firms alive that would otherwise have gone out of business, see the fourth and fifth charts.

In summary, the economy is strong for two reasons:

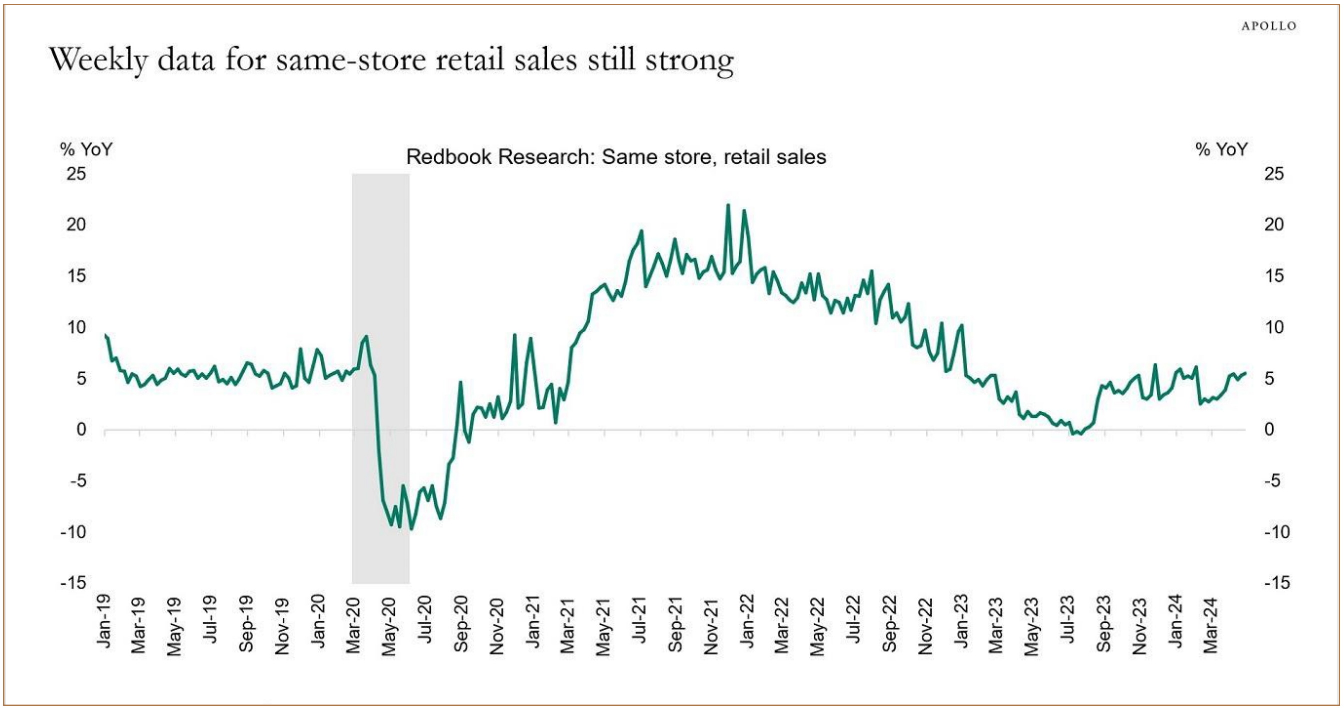
A. Consumers and firms locked in low interest rates during Covid, which made the economy less sensitive to higher interest rates (i.e., bullet points No. 1 to 3 above), and

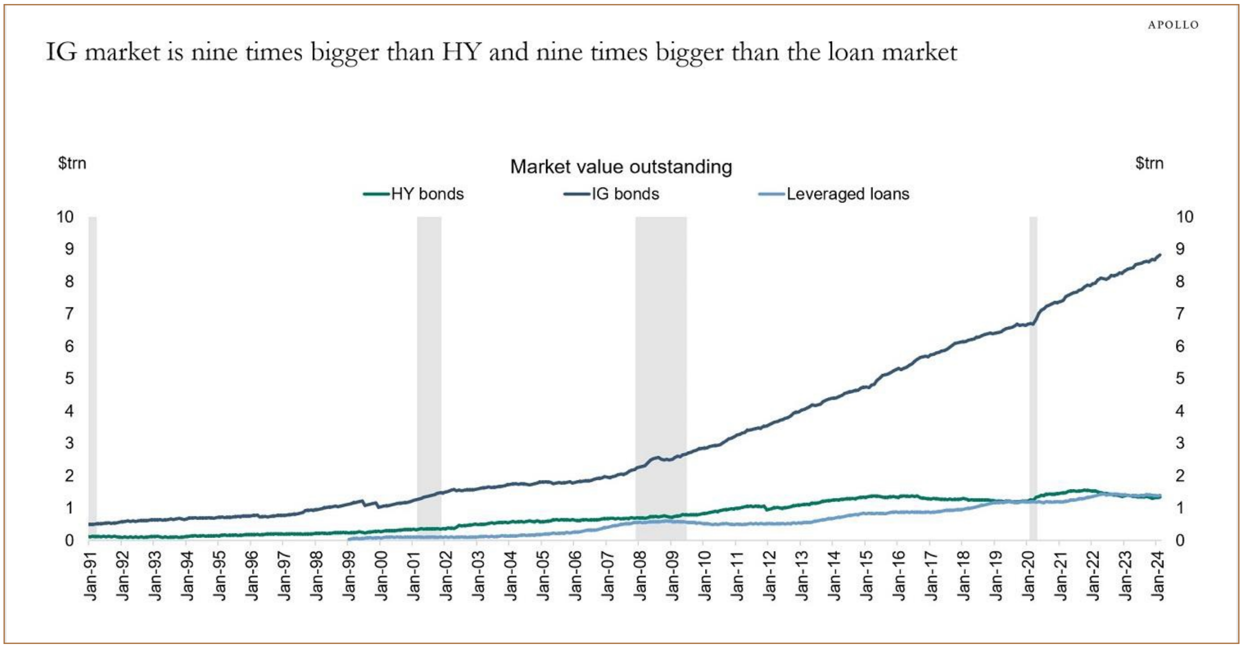
B. Strong demand tailwinds coming from fiscal, excess savings, immigration, and easy financial conditions (i.e., bullet points No. 1 to 7 above).

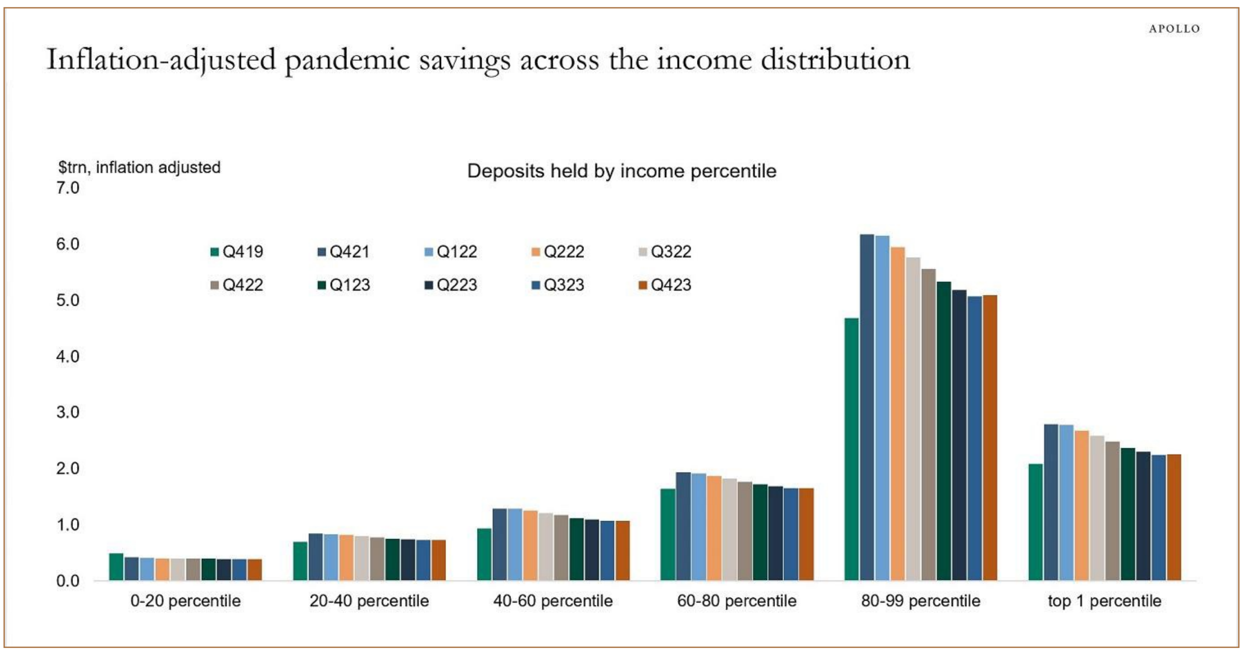
With this backdrop, it is not surprising that inflation and labor costs remain high, and these 10 forces will keep the economy strong for at least several more quarters.

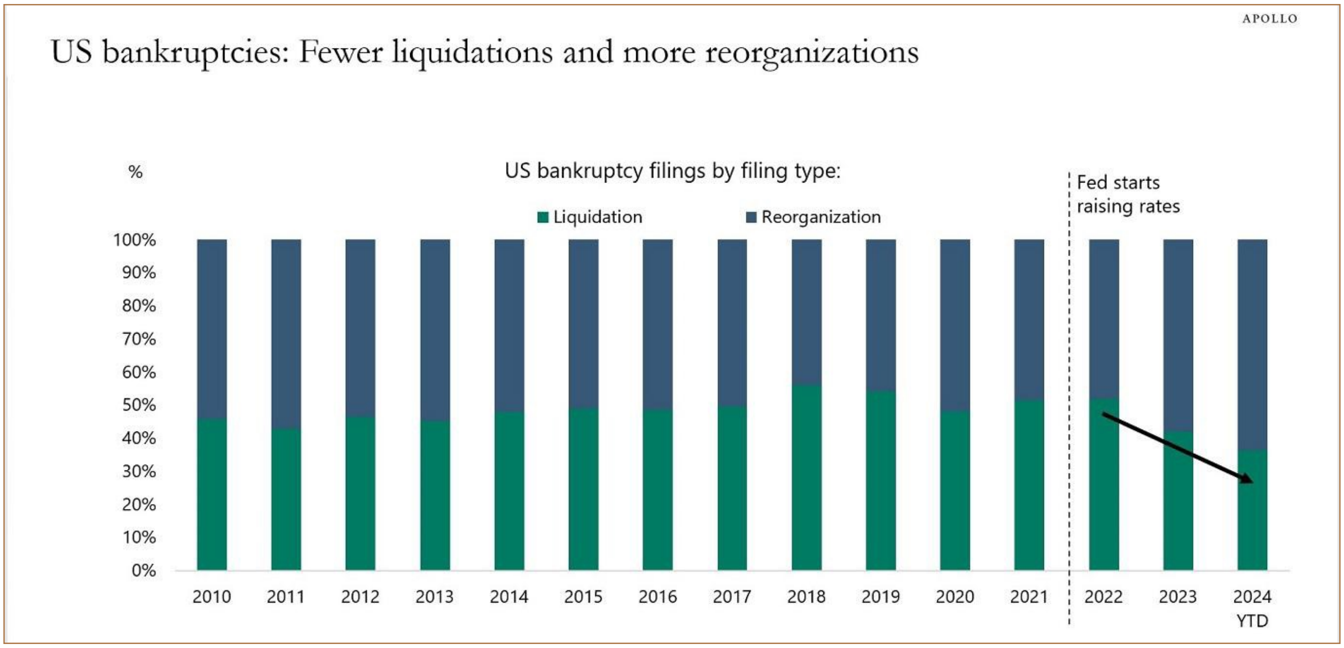
Eventually, the Fed will get inflation back to 2%, but it is increasingly clear that it will require a meaningful slowdown in the labor market and the housing market.

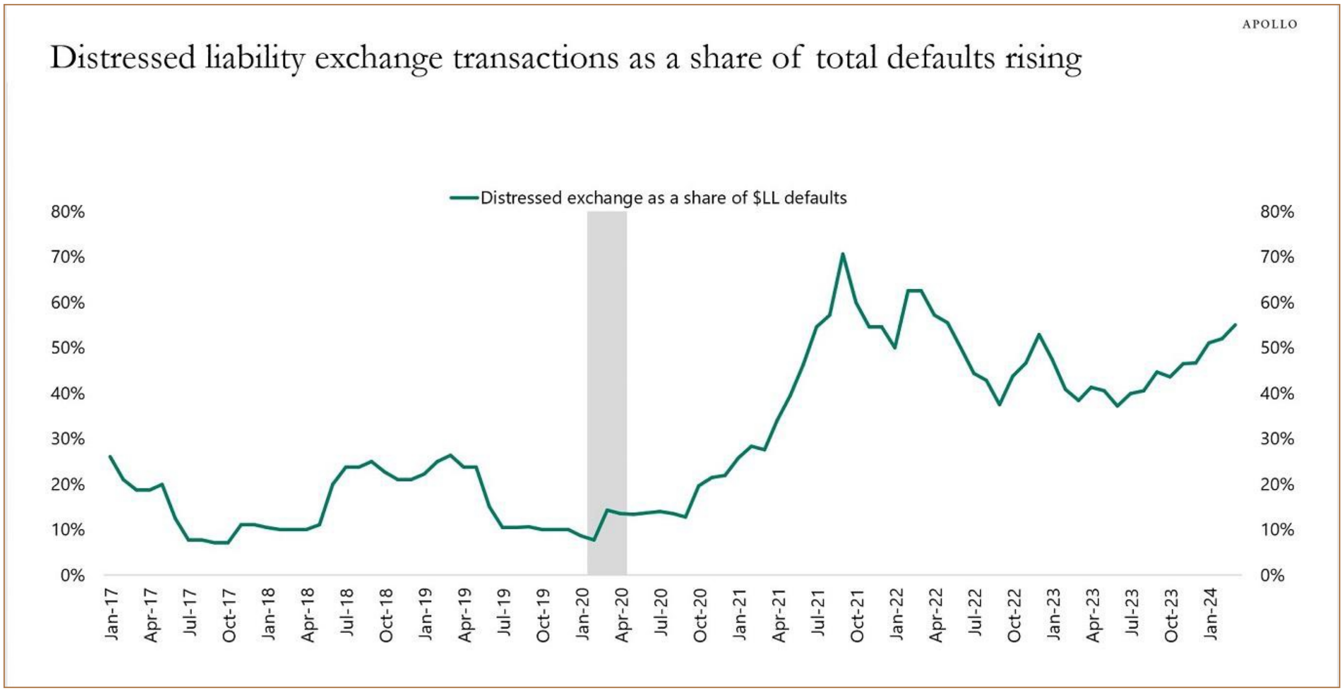
In short, GDP and earnings should remain strong for the rest of 2024.




APOLLO
IG market is nine times bigger than HY and nine times bigger than the loan market
Market value outstanding
$trn
$trn
HY bonds
IG bonds
Leveraged loans


APOLLO
Inflation-adjusted pandemic savings across the income distribution
Deposits held by income percentile
$trn, inflation adjusted
Q419
Q421
Q122
Q222
Q322
Q422
Q123
Q223
Q323
Q423
0-20 percentile
20-40 percentile
40-60 percentile
60-80 percentile
80-99 percentile
top 1 percentile


APOLLO
US bankruptcies: Fewer liquidations and more reorganizations
%
US bankruptcy filings by filing type:
Liquidation
Reorganization
Fed starts raising rates
100%
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
2010
2011
2012
2013
2014
2015
2016
2017
2018
2019
2020
2021
2022
2023
2024 YTD


APOLLO
Distressed liability exchange transactions as a share of total defaults rising
Distressed exchange as a share of $LL defaults
80%
70%
60%
50%
40%
30%
20%
10%
0%
Jan-17
Apr-17
Jul-17
Oct-17
Jan-18
Apr-18
Jul-18
Oct-18
Jan-19
Apr-19
Jul-19
Oct-19
Jan-20
Apr-20
Jul-20
Oct-20
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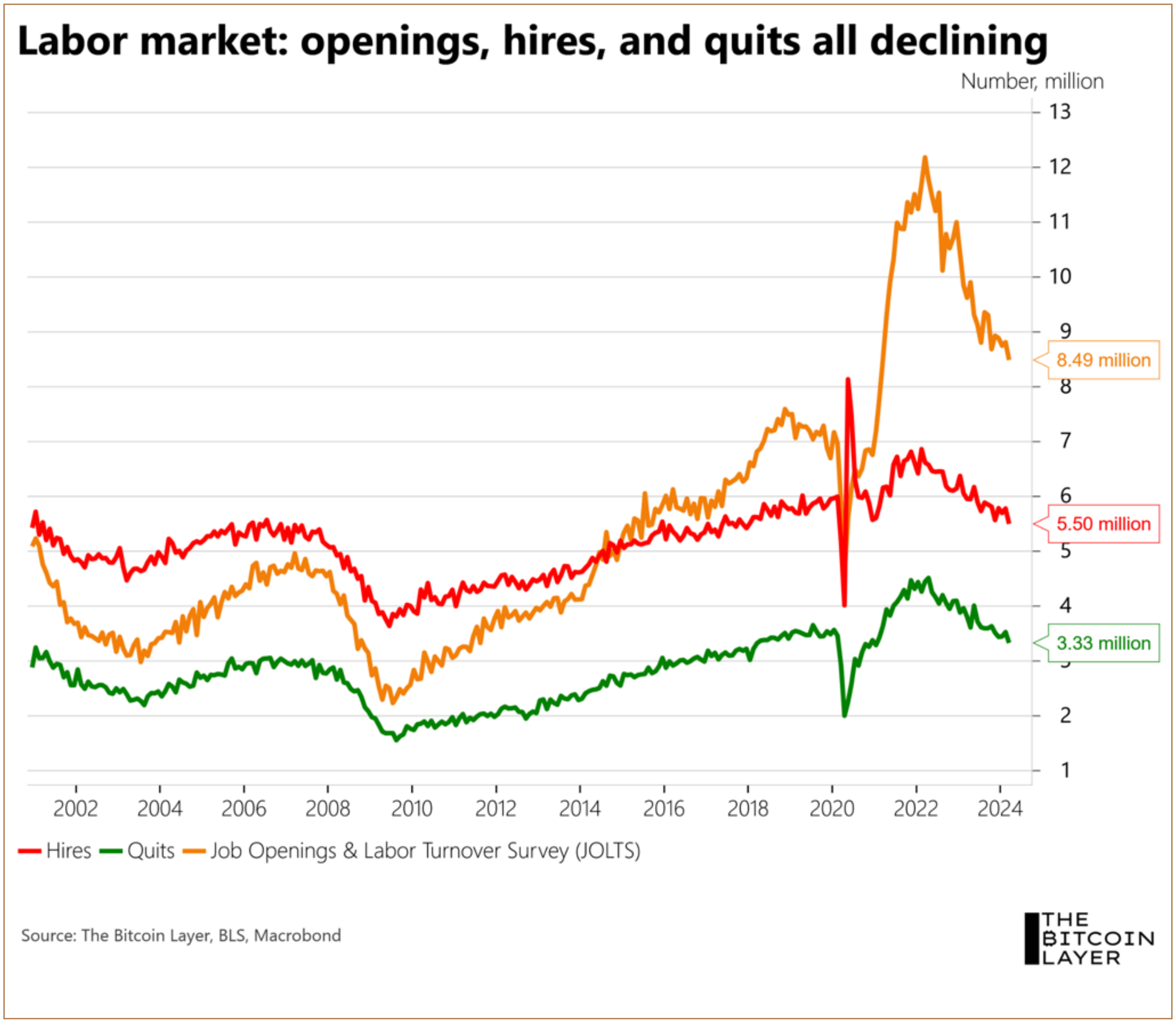
Apr-21
Jul-21
Oct-21
Jan-22
Apr-22
Jul-22
Oct-22
Jan-23
Apr-23
Jul-23
Oct-23
Jan-24

The job market continues to quietly weaken ([from The Bitcoin Layer](#))...

The decline in quits and hires has been persistent, and we believe it shows a labor market that is close to officially turning from healthy to unhealthy. Anecdotally, we see it already, but the BLS's unemployment rate will be the final metric to settle the score:



[Continue reading here](#) *(subscription may be required)*

Woke capitalism isn't going away. It's just being rebranded (from Collapse Life)...

Just a few months ago, **we told you** how corporations were seemingly abandoning Environmental, Social, and Governance (ESG) rules, amidst claims that "woke capitalism" would lead to negative shareholder returns.

The ***Wall Street Journal* reported** that BlackRock's Larry Fink purged the letters from his vocabulary, even though he was once the biggest crusader for the cause:

> *He attempted to use BlackRock's clout as the steward for millions of investors to prod companies toward climate-friendly policies and press them to disclose the social effects of their businesses. He long argued that the world's largest asset manager and its peers could make money and make the world a better place at the same time.*

The sly subtext, however, is that ESG is not going away. It's just getting renamed with terms like "**transition investing**" and "**responsible business**." A rebranding really, to use corporate marketing parlance.

So if you suddenly start hearing that 'Diversity, Equity, and Inclusion' is dead, do us a favor and look for the similar subtext.

DEI isn't over — not by a long shot.

A recent article in the *Washington Post* reports that "a growing number of companies — including language app Duolingo, JetBlue and Molson Coors — are either listing DEI as a 'risk factor' in shareholder reports or removing mentions of diversity goals outright."

A **Bloomberg Law analysis** found that two dozen public companies have incorporated similar risk-factor language into their filings. And several companies, including Kohls, Salesforce and Workday, have dropped references to diversity goals in regulatory filings, the ***Wall Street Journal* reported**.

Conservatives may celebrate this as a win for their side in the culture wars, but that would be naive, at best. The proper analysis is that this is a strategic retreat and the war is far from won.

While corporations are making adjustments on ESG to avoid financial losses, they're shifting their weight on DEI to avoid the risk of being sued for reverse discrimination. That doesn't mean they've changed heart or suddenly believe in meritocracy. It just means they're making their supposed anti-discrimination efforts more superficially "identity-neutral" to ensure they are lawful.

Here's an example: one plank in the DEI platform is for companies to create "workplace affinity groups" or "employee resource groups". The idea is that employees can voluntarily opt-in to a group exclusively based on factors like gender, ethnicity, or sexual identity, and that group will help promote the company's inclusion and diversity goals by serving as an avenue for networking, learning, support and mentorship.

In practice, however, these groups can become divisive and exclusionary and their creation comes with legal risks if they are not structured and managed correctly. "Just because the goal of the affinity group is laudable does not mean that the group is lawful," warned the Society for Human Resource Management in **an article** on affinity group "danger zones."

To avoid these pitfalls, companies are now making workplace affinity groups open to all. Sure, that may make them more lawful, but does it mean woke is winding down? Probably not. Would a straight, Christian white male really be welcome in a LGBTQIA+ group that's open to all employees? It's anyone's guess…

Just as with the language shift on ESG, the words around DEI are changing too, with more emphasis being placed on "inclusion," and with "diversity and equity" morphing to milder words like "belonging and unity."

To be fair, any structural discrimination that limits people's opportunity to compete on merit *should* be challenged. But poorly implemented policies that prioritize identity over merit, practice reverse discrimination, and bend over backwards to accommodate people based on identity characteristics just complicate issues of fairness rather than solve them.

And so, beware the softer, gentler version of DEI that is emerging, particularly here in the US during this election year, when candidates are looking to manipulate and weaponize hearts and minds in the never-ending quest for power.

Continue reading here

This month brought record sentiment readings for stocks (from The Elliott Wave Theorist)...

UAs noted in recent issues of The Elliott Wave Theorist, investors are enamored with stocks that pay little or nothing in the way of dividends. The extent of that bias has now reached an all-time extreme. Figure 1 shows the history of investors' preferences for low vs. high-dividend stocks, on a 20-year return basis. The first peak implied here occurred in 1946, which led to a three-year bear market. A cluster of peaks occurred in 1968, 1969 and 1972, which respectively marked all-time highs in the Value Line Composite index, the OTC stock index and the S&P Composite index (top tick occurred in January 1973), which held well past the bear market low in the Dow/PPI registered a decade later. By this measure, the stock market was a bargain for five years following the crash of 1987.

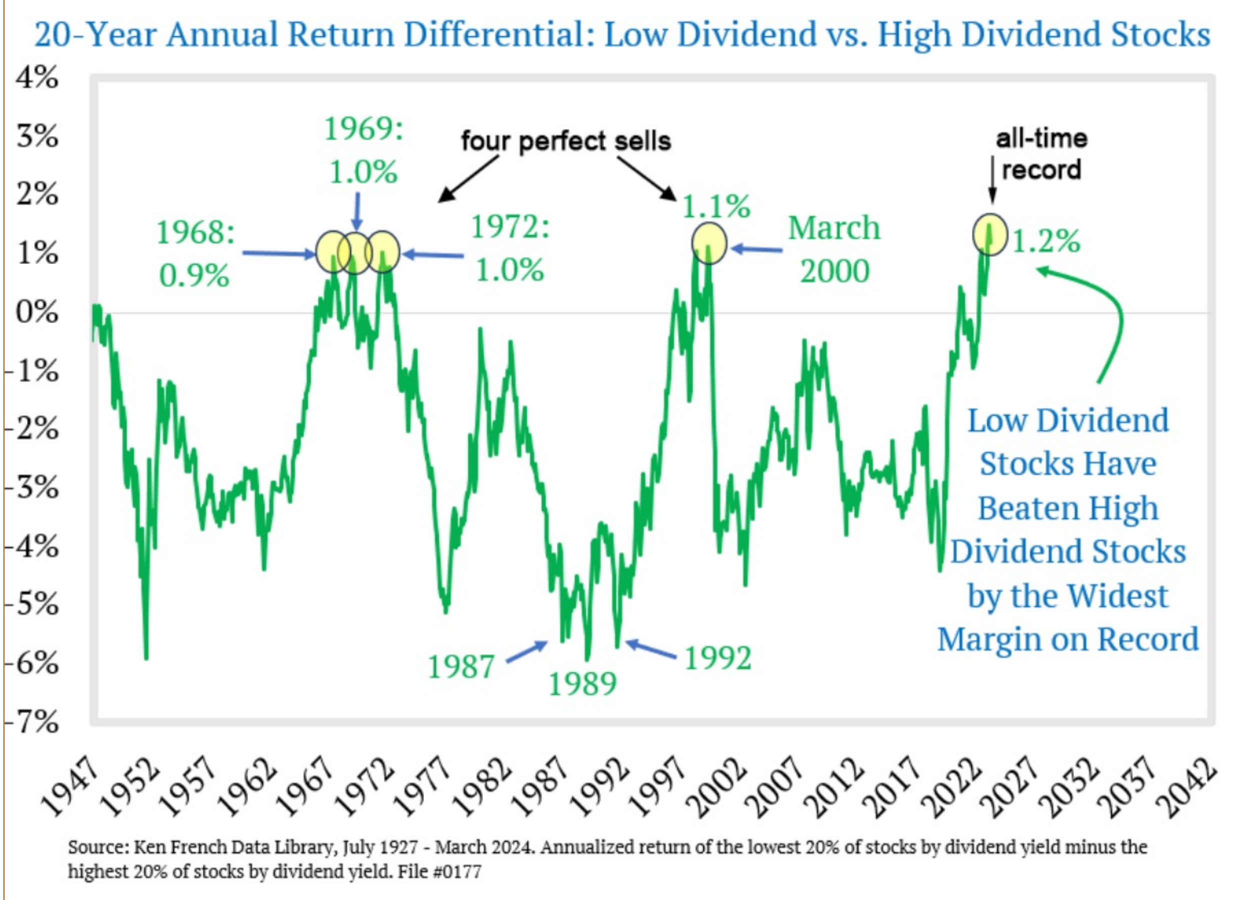
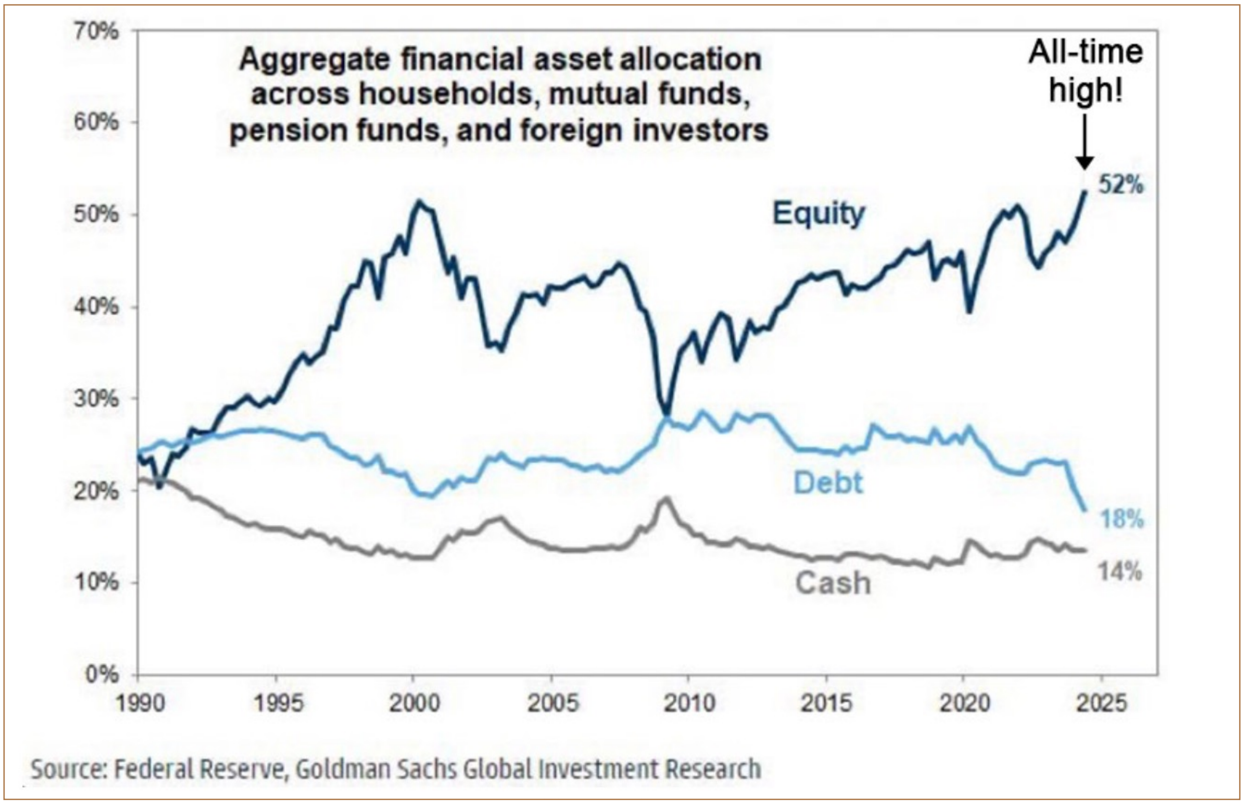
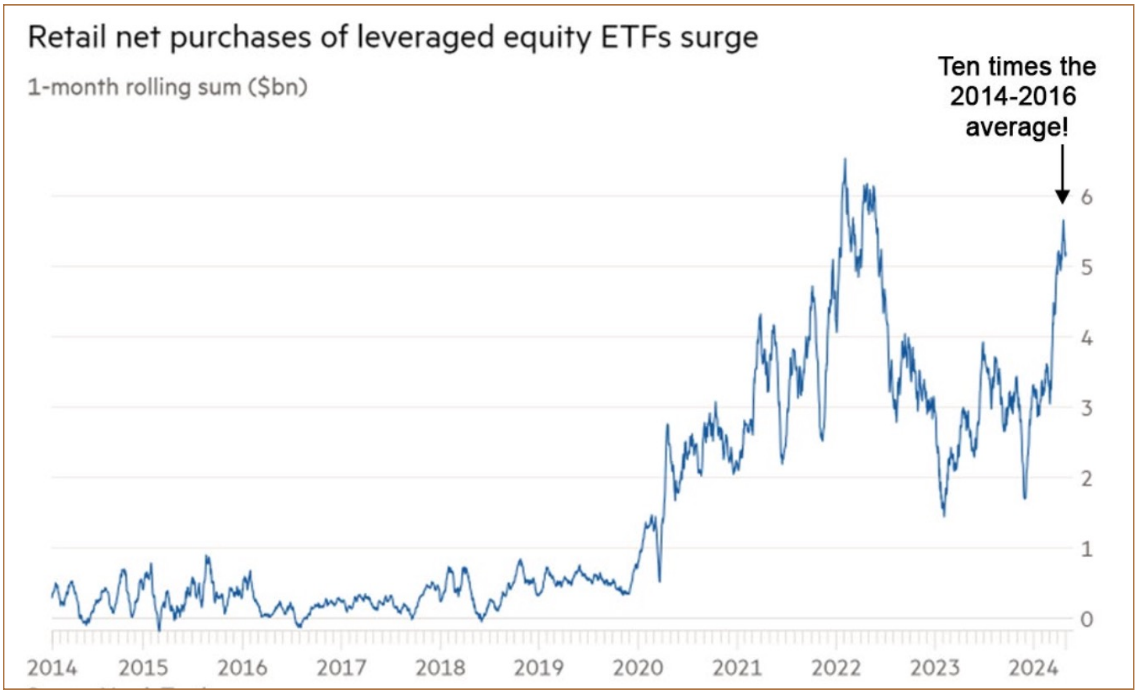


Figure 1

The next major peak for the ratio was in March 2000, when the S&P topped at the start of a flat correction that lasted nine years. That top was more important than most people realize. To this day, the Dow priced in real money (the Dow/gold ratio) remains far below its peak of 1999. Here in 2024, the preference for low-payout stocks over high-payout stocks just established a new record. Each of the last two major peaks in this ratio led to a decade-long bear market. The currently developing top in the stock market will be one for the ages.

On May 15, Goldman Sachs published a chart showing record equity allocation among a broad spectrum of investors. On May 4 and 14, respectively, the Financial Times of London published charts showing that retail investors' gorging on equity ETFs leveraged by two to three times has approached the 2021 extreme, while the total flow of retail money into the stock market has exceeded that of 2021. Figures 2 through 4 tell the story.




Retail net purchases of leveraged equity ETFs surge
1-month rolling sum ($bn)
Ten times the 2014-2016 average!
6
5
4
3
2
1
0
2014
2015
2016
2017
2018
2019
2020
2021
2022
2023
2024


Retail investors have piled into US markets this year
Daily net inflow by individuals ($mn, 21-day moving average)
All-time high!
1400
1200
1000
800
600
400
200
0
2014
2015
2016
2017
2018
2019
2020
2021
2022
2023
Source: Vanda Research
© FT

Retail investors are not the only bulls. Fund managers are matching them bid for bid, as you can see from this report on the latest Bank of America survey of institutional money managers:

Investors 'most bullish' since Nov 2021 – BofA survey

> Reuters
>
> May 14, 2024
>
> Expectations over interest rate cuts rather than earnings optimism **has made investors the "most bullish" since November 2021**, Bank of America's monthly fund manager survey for May showed on Tuesday.
>
> The survey of global fund managers with $562 billion in assets under management f**ound 82% expect the first rate cut** by the Federal Reserve in the second half, while **78% say a recession is unlikely** over the next 12 months.
>
> The survey showed **cash levels fell to a three-year low** of 4% from 4.2% the previous months and **stock allocation reached its highest since January 2022**, a dynamic that typically reflects strong investor confidence.

Look at those dates! Fund managers are the most bullish since November 2021, the month of the all-time high in the Russell 2000 index, and stock allocation is the highest since January 2022, the month of the last major top in the Dow, S&P and NYSE indexes.

Figures 1 through 4 are long term indicators, so they do not say what will happen next week. But they do testify that bullish investors have signed onto a long voyage of misery…

Continue reading here *(subscription required)*

Surprisingly, this sector has been booming this year (from The Week in Charts)...

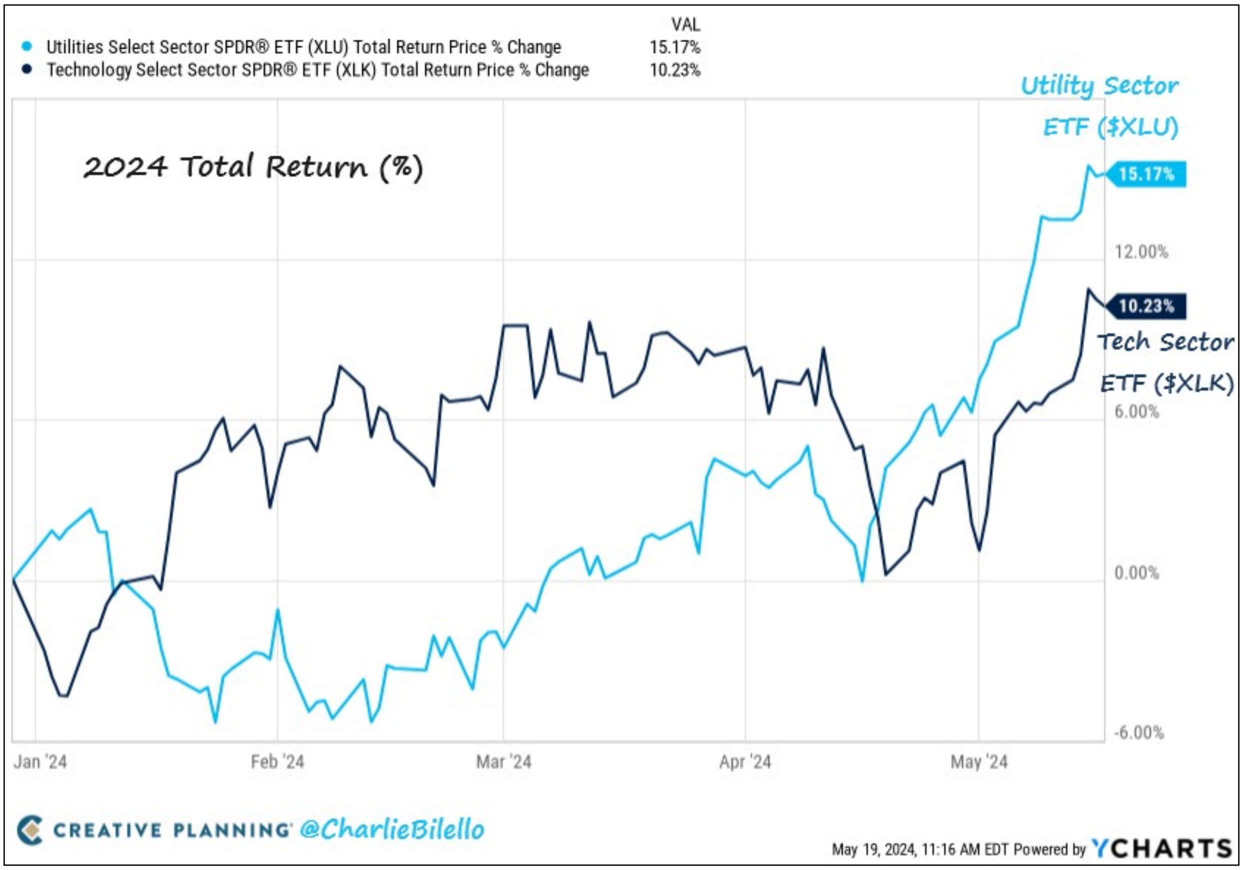
Here's something you don't often see: 3 out of the top 5 stocks in the S&P 500 this year are in the typically boring Utilities industry (Vistra, Constellation, and NRG).

Best Performing Stocks in the S&P 500 (2024 YTD)

Rank	Symbol	Name	Industry	2024 Total Return
1	SMCI	Super Micro Computer Inc	Technology Hardware, Storage & Peripherals	212.4%
2	VST	Vistra Corp	Electric Utilities	145.1%
3	NVDA	NVIDIA Corp	Semiconductors & Semiconductor Equipment	86.8%
4	CEG	Constellation Energy Corp	Electric Utilities	82.7%
5	NRG	NRG Energy Inc	Electric Utilities	61.3%
6	GE	GE Aerospace	Aerospace & Defense	57.0%
7	HWM	Howmet Aerospace Inc	Aerospace & Defense	53.5%
8	MU	Micron Technology Inc	Semiconductors & Semiconductor Equipment	47.0%
9	CMG	Chipotle Mexican Grill Inc	Hotels, Restaurants & Leisure	40.5%
10	ETN	Eaton Corp PLC	Electrical Equipment	38.0%
11	LDOS	Leidos Holdings Inc	Professional Services	37.8%
12	WDC	Western Digital Corp	Technology Hardware, Storage & Peripherals	37.7%
13	TRGP	Targa Resources Corp	Oil, Gas & Consumable Fuels	36.2%
14	ACGL	Arch Capital Group Ltd	Insurance	36.0%
15	ANET	Arista Networks Inc	Communications Equipment	35.8%
16	TT	Trane Technologies PLC	Building Products	35.1%
17	QCOM	Qualcomm Inc	Semiconductors & Semiconductor Equipment	34.7%
18	GRMN	Garmin Ltd	Household Durables	33.6%
19	MRNA	Moderna Inc	Biotechnology	33.6%
20	DVA	DaVita Inc	Health Care Providers & Services	33.5%

CREATIVE PLANNING @CharlieBilello *Data Source: YCharts as of 5/17/24*

With a gain of 15% the S&P 500 Utilities sector is actually outpacing the S&P 500 Tech sector (+10%) on the year.



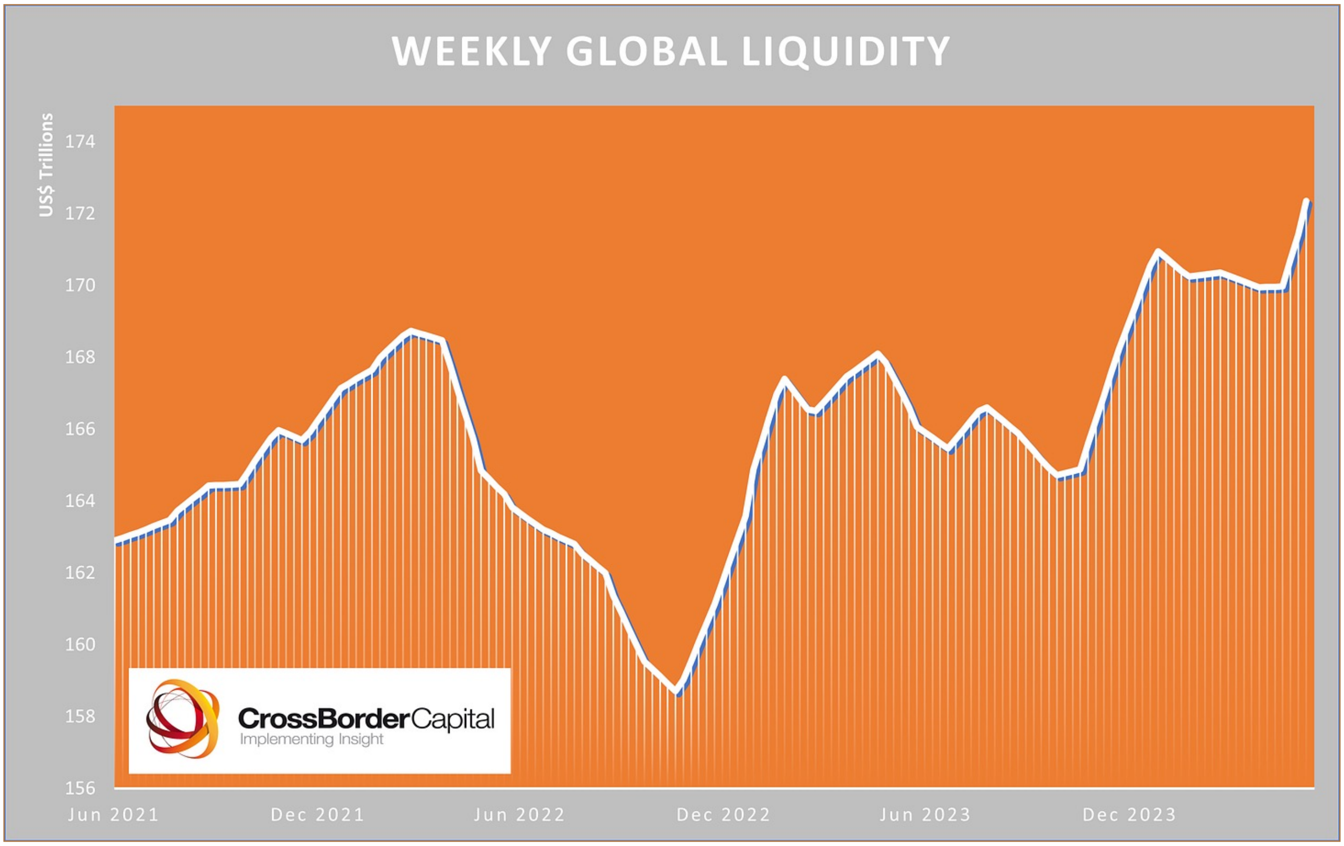
The narrative behind the move: surging demand for electricity. Where from? You guessed it: powering the AI revolution. Goldman Sachs is forecasting a 15% annual increase in data center power demand over the next 7 years, with data centers making up 8% of total US power demand in 2030 (up from 3% today).

Some are comparing the current period to the boom in electricity generation during the 1960s and 1970s which stemmed from the wide adoption of air conditioning.

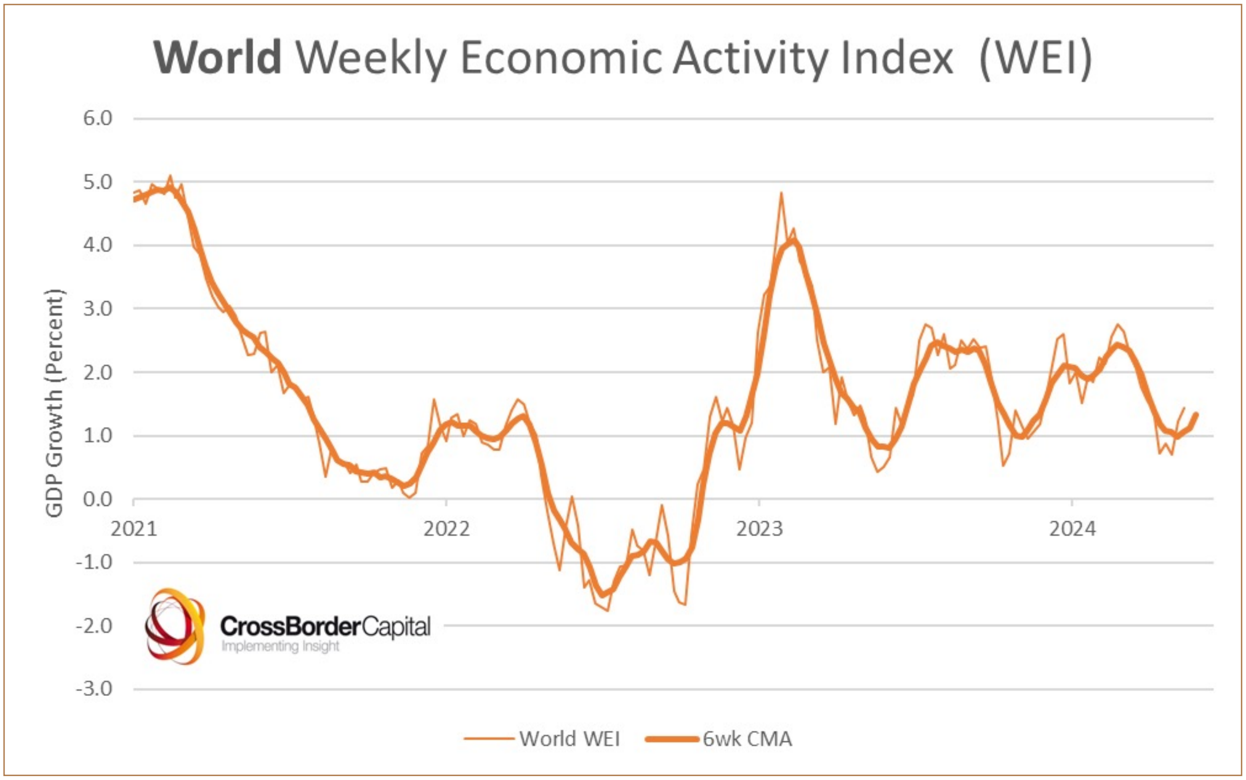
Continue reading here

We may be entering a "goldilocks" period for global liquidity (from Capital Wars)...

AWith widespread uncertainty and the on-going zig-zag of data, it is likely optimistic to talk of a 'Goldilocks' World economy (i.e. not too hot, not too cold). However, from an investment perspective we must be surely closer to the ideal economic state? **The 'best' time for investors is when policy-makers are deliberately trying to revive sluggish economies**. Looking around, many Central Banks would like to cut rates as soon as circumstances allow. Indeed, our weekly estimate of Global Liquidity appears to be tracking higher once again after its recent dip, or brief 'air pocket'.

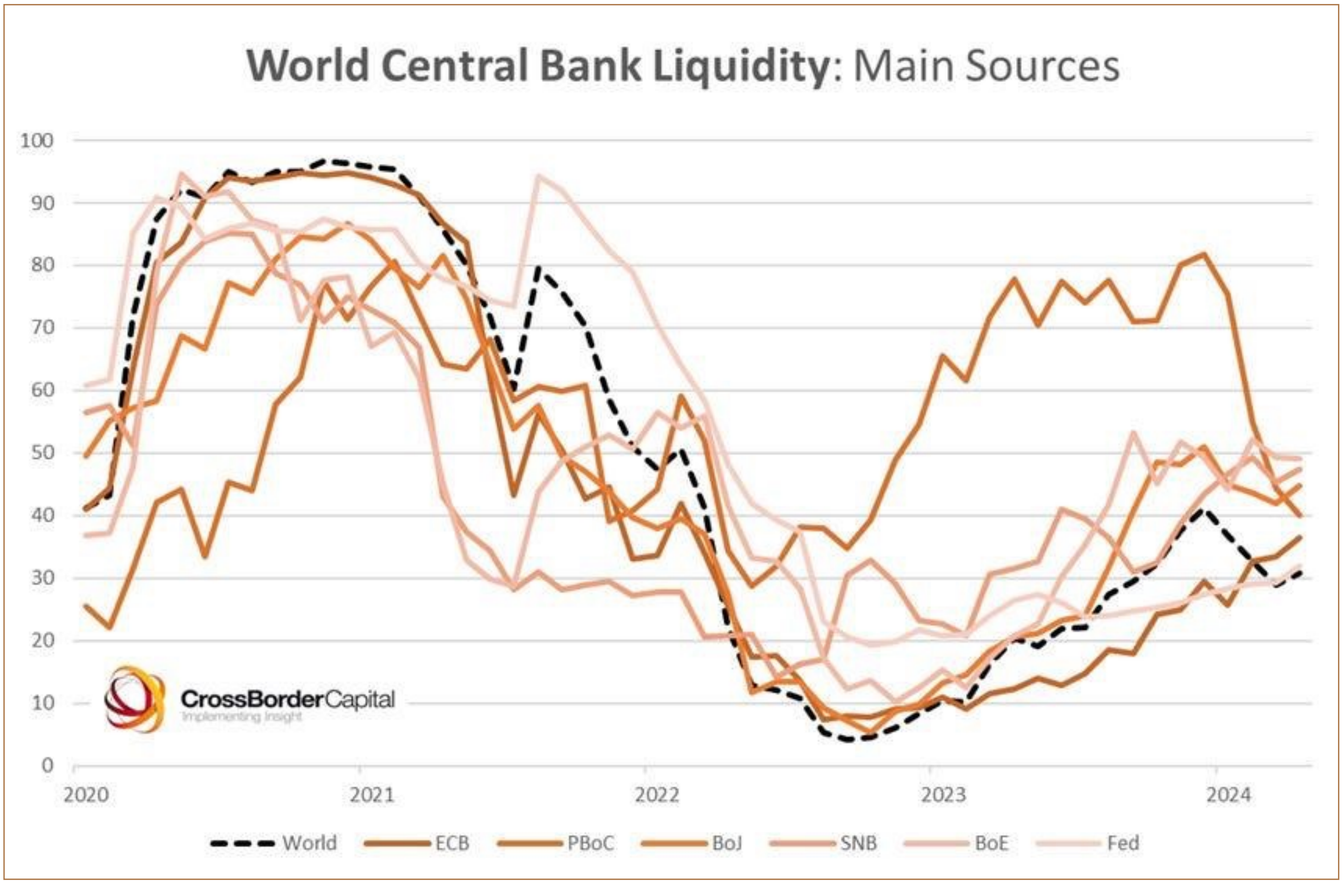


Our in-house measure of weekly World economic activity confirms the sluggish business activity in the chart below. It shows the recent sideways movements of the World economy and, without a typically rampant Chinese economy, World GDP appears to be spluttering at between a 1-2% annual clip, or towards the bottom of its recent post-COVID range. **More stimulus is needed**.

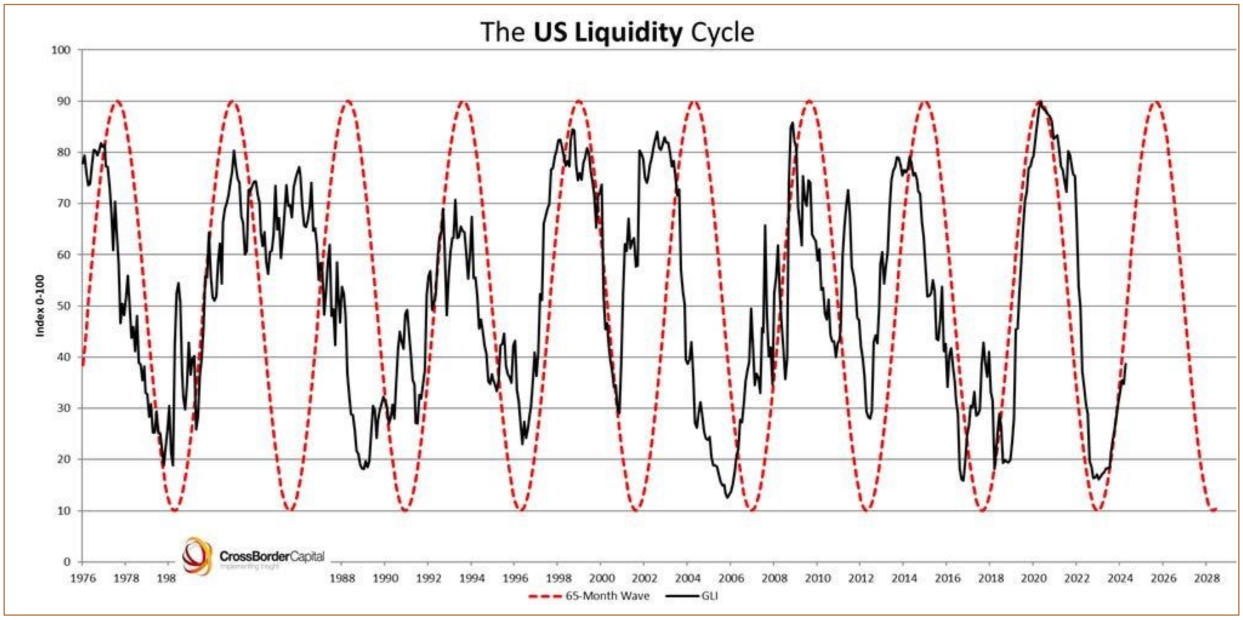


This may come sooner than many expect. Evidence the half-hearted attempts by both China and, particularly, Japan to rein-in their weak currencies. Consider also the publicly stated intention of the ECB to soon cut interest rates, possibly in June, and the British Finance Minister's warning to the Bank of England not to cut rates too quickly! Even the Fed deliberately talks about prevailing Fed funds rates being at a 'peak' in its Press conferences.

Many Central Bank policy makers have already been preparing the ground by expanding their cash injections. Eurozone Liquidity has risen to its highest index reading in more than a year, helped by the ECB, and US Liquidity continues its recent acceleration, fueled again by buoyant private sector cash inflows, and rising support from the US Fed. Nonetheless, unlike past cycles the US Central Bank has been relatively slow to top up liquidity this time. Yet, Treasury Secretary Yellen has great scope to reduce the TGA (Treasury General Account) and boost liquidity over coming months. The QT program has already been tapered. On top, the RRP (Reverse Repo facility) at the Fed is still fairly full, and we should not discount the positive impact of the mooted re-mortgaging blitz by Fannie and Freddie (GSEs).



Despite the recently slow Fed, US private sector liquidity has been remarkably strong. Partly, this is down to rebounding corporate cash flows and still buoyant net capital inflows by foreigners, but it also reflects the growing monetization of the Federal deficit by US credit providers. This, in turn, is influenced by the skew in the US Treasury issuance calendar towards bills and short-dated bonds, which are keenly bought by banks. The resulting ***Total US Liquidity Index*** is shown below. **This appears to be tracing out a 'normal' cyclical recovery. The slated peak is not until next year. Not surprisingly, asset classes, such as commodities are finally beginning to breakout higher, much as we have been predicting**.



Continue reading here *(subscription required)*

S&P 500 companies have been boosting their reported profits by making an increasing number of "adjustments" (from *Bloomberg* via Yahoo Finance)...

Large US companies are bolstering their adjusted earnings per share by excluding items such as litigation expenses and amortization of intangible assets from their net income, even as regulators scrutinize such practices, a new analysis finds.

The analysis, compiled by data provider Calcbench Inc. and Suffolk University, examined about 260 companies that were randomly chosen from the S&P 500. These companies took combined adjustments worth almost $182 billion in 2023, with an average value of $110 million per item, according to data first seen by Bloomberg.

Average adjusted net income in 2023 was nearly $3.1 billion per company, lower than the approximately $4 billion in adjusted net income per company in 2022 and consistent with the overall decline in net income under GAAP, or Generally Accepted Accounting Principles, Calcbench said.

Public companies have to follow GAAP — a set of agreed-upon accounting metrics — when they report their financial results. They can choose to provide non-GAAP measures in addition to that. The Financial Accounting Standards Board plans to ask the public by year-end whether it should define non-GAAP measures, given the inconsistencies that can arise when companies use these alternative accounting metrics.

US regulators in recent years have become increasingly concerned with companies' usage of non-GAAP measures, with the Securities and Exchange Commission sending letters to various businesses asking about the rationale for stripping out certain expenses.

Calcbench found that in 2023, companies reported average non-GAAP income that was $698 million or 29% higher than the GAAP-figure, directly translating into an increase in adjusted EPS. That's less of a boost compared to the prior year. In 2022, non-GAAP net income was higher than GAAP income by an average of $1.095 billion per company.

However, the report lists an average of 6.3 reconciling items per company in 2023, compared to an average of 5.9 items the year before. Among the items that companies adjusted net income for in 2023 were amortization of intangible assets (33.3%), impairments (22.6%), stock-based compensation (14.7%), restructuring (11.3%) and litigation (13.5%).

> *"One thing to keep in mind is that the average number of adjustments in 2023 was higher than in 2022," said Pranav Ghai, chief executive officer at Calcbench. "Non-GAAP is here to stay."*

Continue reading here

Volatility is "dead" (from Lance Roberts via X)...

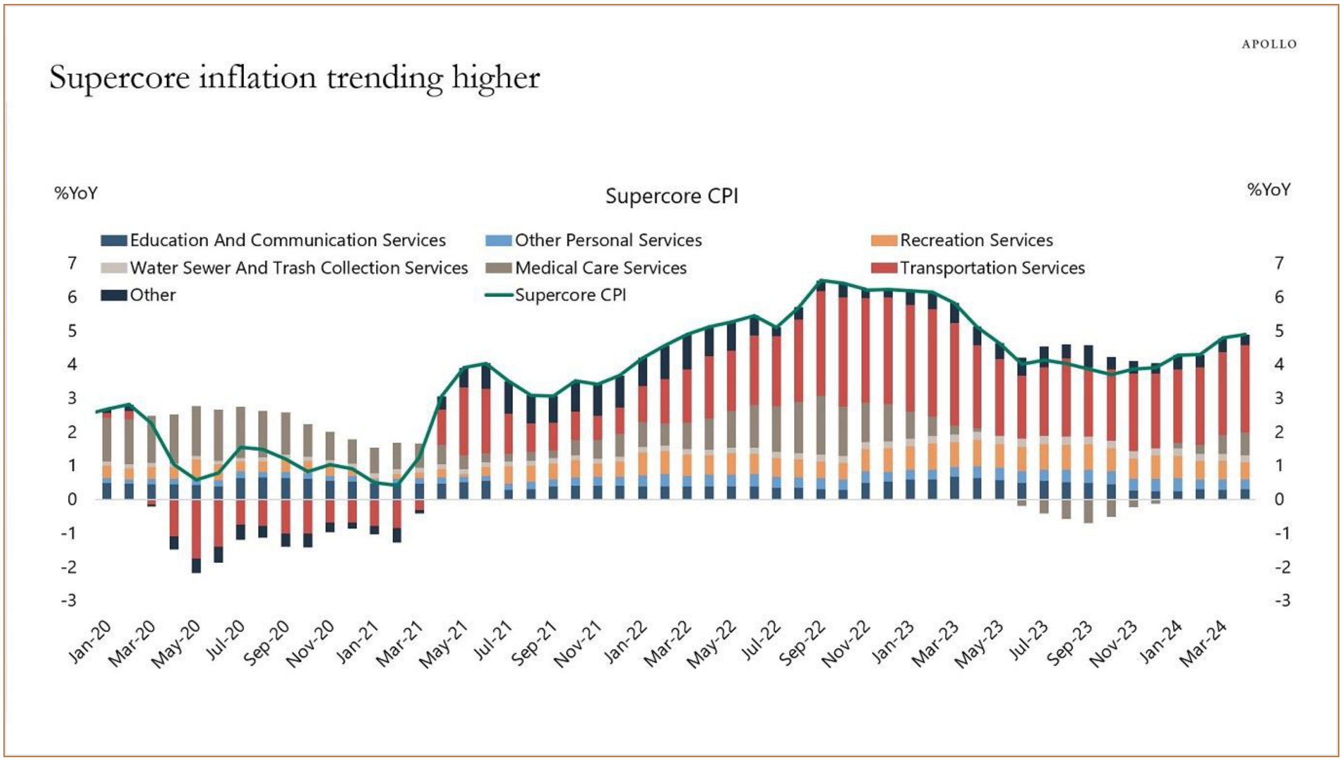
The death of volatility. VIX, VXN, and VXTLT are all printing new recent lows, hitting levels not seen in years. h/t @themarketear

Supercore Inflation – a measure of price inflation in core services excluding housing that the Fed has been watching closely – continues to move higher (from The Daily Spark)...

The key reasons why supercore inflation remains high are auto insurance and hospital services, and it is a legitimate question to ask whether the Fed keeping interest rates higher for longer will slow down inflation in those two categories, see chart below.

The problem with that logic is that housing inflation is also high, and if the Fed were to lower interest rates, it would put new upward pressure on the demand-driven components of CPI, including housing inflation, airfares, hotel prices, restaurant prices, etc.

The bottom line is that if the Fed, instead of focusing on the overall CPI index, decides to put less weight on housing inflation, auto insurance, and hospital services, it runs the risk that Fed communication about what is important and what is not important becomes very difficult. This challenge is particularly difficult when the Fed is already being asked why it puts no weight on inflation in food and energy.



The Federal Reserve is starting to disclose just how severe last year's banking crisis actually was (from Balaji via X)...

20+ banks had net outflows exceeding 5 standard deviations of historicals. Some banks lost 10% of assets in one day. The crisis was paused only by BTFP on March 12. Swept under the rug — for now. But not forever.

Report to Congress Pursuant to Section 13(3) of the Federal Reserve Act: Bank Term Funding Program

Overview

On March 12, 2023, the Board of Governors of the Federal Reserve System (Board), by the unanimous vote of its six members and with the approval of the Secretary of the Treasury (Secretary), authorized each of the 12 Federal Reserve Banks (Reserve Banks) to establish and operate the Bank Term Funding Program (BTFP) under section 13(3) of the Federal Reserve Act (12 U.S.C. § 343(3)). The BTFP makes funding available to eligible depository institutions to help assure banks have the ability to meet the needs of all their depositors. Under the BTFP, each Reserve Bank will lend, on a recourse basis, to eligible depository institution borrowers for up to one year, receiving eligible collateral, as defined below, in return.

Background on the BTFP

Recent events have resulted in stress to certain U.S. banks. The Board determined that unusual and exigent circumstances existed and approved the establishment of the BTFP.

Depositors withdrawing funds in meaningful amounts must ultimately send that money to another bank.We therefore use confidential Fedwire Funds and Automated Clearing House (ACH) data — two interbank payment systems operated by the Federal Reserve — to identify banks that experience unusually large net outflows in March of 2023. These data are uniquely comprehensive relative to other sources, such as stock prices (since not all banks are public) and weekly balance sheet data from Federal Reserve H8 collection (since only a subset of banks are in the H8 sample). Using these data, we find that the March 2023 runs were fast and large, largely concentrated in two days (Friday, March 10 and Monday, March 13) with some banks' net outflows reaching 10% of assets in a single day.

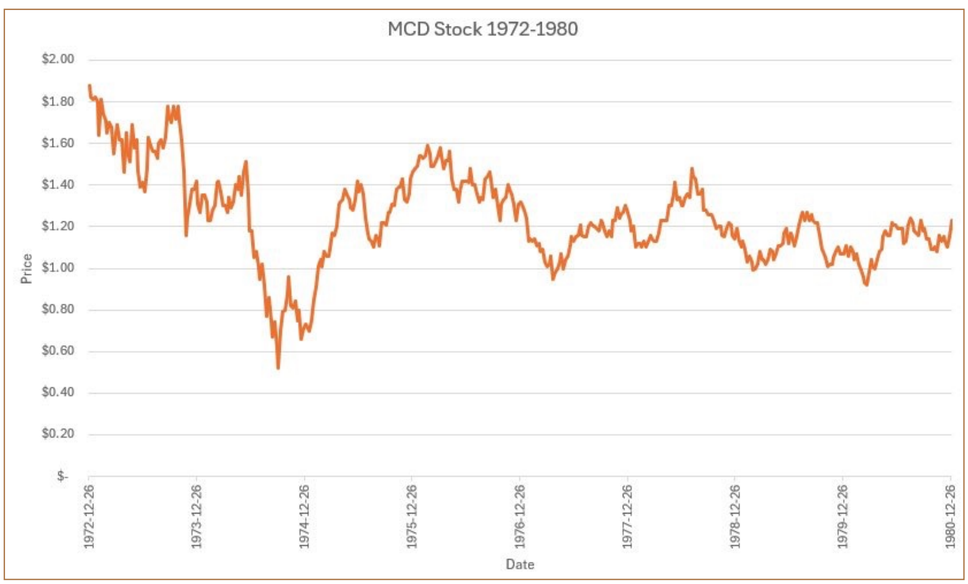
We identify 22 run banks with significant negative net outflows on one of the days between March 9 and March 14, all with net liquidity outflows exceeding 5 standard deviations of their historical net outflows. On the one hand, this implies that over ten times more banks faced a run during this period than failed. On the other hand, runs were less widespread than suggested by the decline in bank stock prices. Moreover, four of the run banks are not public, indicating that using share prices to understand run behavior limits the focus on a subset of run banks.

Many of today's popular stocks could suffer the same fate as the Nifty Fifty (from Brad Dunkley via X)...

Now would be a good time to study the Nifty Fifty. $MCD was the [original] $CMG (kind of ironic since MCD used to own CMG). Check out these annual growth rates:

McDonald's 1972 to 1980 CAGRs (annual growth):	
Revenue	24%
EBITDA	28%
EPS	25%
Store Count	14%
Sales / Store	10%
Systemwide Sales	25%
Share count	0.3%

But a funny thing happened over this glorious 8 year run: the stock price fell by 35% (adjusted for splits and dividends)



It gets worse. The loss wasn't 35%, it was 67% when measured in real terms.

The annual inflation rates in the US from 1973 to 1980 were as follows:

- 1973: 6.2%
- 1974: 11.0%
- 1975: 9.1%
- 1976: 5.8%
- 1977: 6.5%
- 1978: 7.6%
- 1979: 11.3%
- 1980: 13.5%

The cumulative inflation over this period was approximately 96.97%. [>-]

How is this even possible? It's because $MCD ended 1972 trading at 24x fwd EBITDA and 58x PE. By the end of 1980 it was trading at 4x EBITDA and 7x PE.

	FY69	FY70	FY71	FY72	FY73	FY74	FY75	FY76	FY77	FY78	FY79	FY80	FY81
tual Price			$ 73.25	$ 76.38	$ 56.00	$ 29.37	$ 58.00	$ 53.00	$ 52.50	$ 47.13	$ 43.25	$ 46.63	64.75
are Count			38	39	40	40	40	41	41	41	40	40	40
rket Cap			**2,805**	**3,000**	**2,226**	**1,166**	**2,342**	**2,148**	**2,130**	**1,916**	**1,743**	**1,876**	**2,622**
dd: Debt			115	128	250	371	463	512	715	826	1,010	1,009	1,019
btract: Cash			- 41	- 59	- 74	- 69	- 86	- 99	- 119	- 99	- 76	- 86	- 30
			2,879	**3,069**	**2,402**	**1,468**	**2,719**	**2,561**	**2,726**	**2,643**	**2,677**	**2,798**	**3,611**
TDA			68	86	129	180	244	299	381	447	504	601	699
Fwd EBITDA			33.5	23.7	13.3	6.0	9.1	6.7	6.1	5.2	4.5	4.0	
			$ 0.68	$ 0.92	$ 1.32	$ 1.70	$ 2.17	$ 2.72	$ 3.37	$ 4.00	$ 4.68	$ 5.49	$ 6.54
d P/E			79.4	58.0	33.0	13.5	21.4	15.7	13.1	10.1	7.9	7.1	

We are in the midst of a modern-day Nifty-like bubble today. I call it the Compounder Bros Bubble. It's become a religion to buy hi-quality businesses and every dip is always bought…

The qualities of these biz are easy to see (much like $MCD in 1972) and appreciated by all. This has translated into massive multiple expansion. 11x became 14x, 20x became 30x EBITDA over a relatively short period. This is not $COST price chart. It is valuation:

I could show you 50 of these charts. You all know their tickers. This is not going to end well. The growth in EPS will continue but I believe there will be many years of sideways or down. How could I be wrong?

If we soon find ourselves in a world where Big Mac combos cost, say $150, [then] everything goes to the moon. Even these stocks.

THE LEGENDS SPEAK

Wisdom and Insight From the World's Greatest Investors

How a young Warren Buffett earned 50% annualized returns (from Market Sentiment)...

One of Buffett's most controversial takes came from an interview he gave to Bloomberg in '99.

> *"If I was running $1 million today, or $10 million for that matter, I'd be fully invested. Anyone who says that size does not hurt investment performance is selling. The highest rates of return I've ever achieved were in the 1950s. I killed the Dow. You ought to see the numbers. But I was investing peanuts then. It's a huge structural advantage not to have a lot of money.*
>
> *"I think I could make you 50% a year on $1 million.* ***No, I know I could. I guarantee that****."*

Buffett doubled down on this at the 2019 Berkshire Hathaway annual meeting.

> *"I can assure you if Charlie was working with a million, or I was working with a million, we would find a way to make [50% a year] that with essentially no risk, not using a lot of leverage or anything of the sort."*

Buffett ended by stating that the key to making these kinds of returns is to focus on **"little fringe inefficiencies that people don't spot."**

A classic example of such an inefficiency Buffett found was with Bayuk Cigars in 1982. Bayuk was the fourth-largest cigar maker in the U.S. but had been in decline for the past decade. The shareholders voted for the company to liquidate its assets and distribute the proceeds. The expected liquidation value was $27M ($15 a share).

But before the sale could happen, the DOJ blocked the sale of the company to American Maze. Instead of a single sale, Bayuk sold one of their business holdings to Culbro for $10M and hoped to find a buyer for the rest over the next few months.

Buffett started buying Bayuk at $13.50 in March 1982. The idea was that Bayuk would pay $8.00 within weeks (from their sale) and the remaining $4 within the next few months. As Buffett anticipated, Bayuk was able to sell the rest of its business by June for $5M.

BAYUK CIGARS

	Date of cash flow						
	3/31/82 *(purchase)*	4/6/82 *(distribution #1)*	6/29/82 *(distribution #2)*	3/15/83 *(distribution #3)*	12/15/83 *(distribution #4)*	12/15/85 *(distribution #5)*	4/15/86 *(distribution #6)*
Cash flow per share	$ (13.50)	$ 8.00	$ 4.00	$ 1.50	$ 1.25	$ 0.54	$ 0.84
distributions to purchase price		*59%*	*89%*	*100%*	*109%*	*113%*	*120%*

Note: 1985 date and distribution are estimates.

Internal Rate of Return: 50%

Source: Turtlebay.io

Even though the total distribution of $16.13 produced a 20% return on Buffett's $13.50 purchase, the front-loaded payouts pushed Buffett's IRR to 50%!

Continue reading here

Key takeaways from Berkshire Hathaway's 2024 annual shareholder meeting (from Steady Compounding)...

It is certainly not the same without the late Charlie Munger on stage with Warren Buffett. When asked, "If you had one more day with Charlie, what would you do with him?" Buffett's response was poignant.

Don't wait until the last day

He shared, "...calling him was fun back when long distance rates were high and we didn't talk as often as the years in recent years as we used to be on daily for long periods... What you should probably ask yourself is that who do you feel that you'd want to start spending the last day of your life with? And then figure out a way to start meeting them... and meet them as often as you can, because why wait a little last day and don't bother with the others."

Succession plans for Berkshire

Buffett spoke more openly than ever before about his succession plans at this year's AGM. The insurance operations would be handled by Ajit Jain, while the broader business decisions would be handled by Greg Abel, so Berkshire can act quickly when opportunities arise, "I would leave the capital allocation to Greg. And he understands businesses extremely well... And I think the chief executive should be somebody that can weigh buying businesses, buying stocks, doing all kinds of things that might come up at a time when nobody else is willing to move."

Selling down Apple

At 93 years old, Buffett is still making huge moves, except this time he's selling. He reduced a chunk of Berkshire's Apple holdings, selling about 115 million shares, or 13% of its stake for approximately $20 billion. He cited building up cash reserves, tax purposes, and maintains a positive view of Apple as one of his core holdings. My **post** on social media about this sparked quite a debate among investors, starkly dividing Apple shareholders from non-shareholders.

When it comes to Buffett, we have to read between the lines. Berkshire's cash balance was $189 billion as of March 31, and Buffett projected it to reach $200 billion in the second quarter, suggesting further sales are possible. The rationale for building up cash seems unlikely given Berkshire's long standing challenge of excess cash without adequate investment opportunities.

Source: FT

Taking a look at Buffett's other long-term holdings, such as American Express and Coca-Cola, each of which made up over 40% of his portfolio at one point, is instructive. Furthermore, during the 2000 boom, Coca-Cola traded above 60 times its earnings. Amex or Coke were never sold because of valuation, because the company grew too large, or because of tax concerns.

To clarify, trimming the Apple stake is likely a prudent decision, but probably not for the reasons explicitly stated. I**t is more likely due to Buffett's assessment of Apple as a business and its merits as an outsized holding in Berkshire's portfolio.**

And here's my attempt at translating what Buffett is saying, "I like Apple as a business a little less now."

No opportunities in the market for Berkshire

Buffett also addressed the challenges posed by Berkshire's massive cash reserves, noting the current lack of attractive investment opportunities. With his characteristic candor, he explained, "I don't think anybody sitting at this table has any idea of how to use it effectively and therefore we don't use it... **It's just that things aren't attractive**, and there are certain ways that can change, and we'll see whether they do."

It's worthwhile to note that with Berkshire's size, Buffett can only hunt for "elephants," businesses large enough to move the needle in his portfolio. This narrows his investable universe, making the task of finding suitable opportunities even more challenging in the current environment.

Buffett's concerns with Artificial Intelligence

When Buffett was asked about the impact of Artificial Intelligence on traditional industries, his response reflected a cautious understanding of the technology as a double-edged sword. He expressed his worries, "last year I said that we let a genie out of the bottle when we developed nuclear weapons, and that genie has been doing some terrible things lately. And the power of that genie is what, you know, scares the hell out of me. And then I don't know any way to get the genie back in the bottle. And AI is somewhat similar...We may wish we'd never seen that genie or it (AI) may do wonderful things, and I'm certainly not the person that can evaluate that."

Look at stocks as businesses

Buffett reminisced about a pivotal moment in his investment journey, influenced by Benjamin Graham's The Intelligent Investor. He emphasized a critical perspective that has guided his investment philosophy: "If you look at stocks as a business and treat the market as something that doesn't tell you, isn't there to instruct you, but it's there to serve you, you'll do a lot better over time than if you try to take charts and listen to people talk about moving averages and look at the pronouncements and all of that sort of thing."

Advice for investors: Avoid chasing fads

Considering the fluid dynamics of the global market, Buffett emphasized the harsh realities of capitalism, "If you look back, as we did a few meetings ago, as to the top 20 companies in the world at 10-year intervals, you realize the game isn't quite as easy as it looks. But getting a decent result should be reasonably easy if you just don't get talked out of doing what has worked in the past, don't get carried away with fads, and don't listen to people who have different interests in mind."

Competition, innovation, and creative destruction continually reshape the business landscape in a brutal way. For many investors, the allure of quick gains, chasing after stock tips, and succumbing to investment fads often results in worse outcomes.

Continue reading here

Details on the biggest shift in Warren Buffett's career (from The Value Investor)...

Key Takeaways

1. **Adaptation Strategy:** Warren Buffett adapted his value investing approach to include growth factors, responding to evolving market conditions.
2. **Value Investing Foundation:** Buffett's strategy focused on identifying undervalued companies with a strong emphasis on intrinsic value and safety margins.
3. **GARP Introduction:** The Growth at a Reasonable Price (GARP) strategy combines value and growth investing, targeting reasonably priced companies with potential for growth.
4. **Influential Partnerships:** Charlie Munger and other partners influenced Buffett to incorporate future growth potential into his investment evaluations.
5. **GARP Success Examples:** Investments in Coca-Cola and Apple demonstrate successful GARP application, chosen for their potential and reasonable valuations, yielding high returns.

Introduction

Warren Buffett, often known as the "Oracle of Omaha," started out strongly influenced by Benjamin Graham, the father of value investing. His early strategy was all about finding stocks that were priced much lower than what they were actually worth - a method that took a lot of careful analysis and patience but brought him great returns. As time went on, the world of finance and business kept changing, and so did Buffett's methods. He kept his core focus on value but started to include growth factors in his strategy, showing that he understood how these could help boost returns while sticking to his value roots.

The Foundation of Buffett's Strategy

Value investing, the main part of Buffett's investing style, looks simple but is very powerful. It means finding companies that the market has undervalued, understanding their real worth, and making sure there's a safety net. This safety net helps deal with any mistakes in figuring out a company's value or with unexpected market changes, protecting the money invested. Early on, Buffett used this approach very carefully. He chose companies like Berkshire Hathaway, back when it was a textile company, buying them for much less than their true value. His investments in companies with a lot of assets but low prices set a strong base for his future success, showing how well he could use market downturns to his advantage.

What is GARP?

Growth at a Reasonable Price, or GARP, is a way of investing that brings together elements of both value and growth investing. It looks for companies that are priced right but also have good growth potential, making sure there's a good balance between cost and the possibility of earning more in the future. GARP started to get attention when the usual value investment options became less common with market changes and the rise of new industries like technology in the 1980s and 1990s. Buffett's move to GARP was a clever reaction to these changes, letting him make the most of companies that were still undervalued by usual standards but had strong prospects for growth. This shift didn't mean he was moving away from value investing; rather, he was updating his strategy to keep up with the global economic scene and continue his record of great investment success.

"It's far better to buy a wonderful company at a fair price than a fair company at a wonderful price."

Why Buffett Shifted Gears

The investment world changed a lot during the 1970s and 1980s, which led Warren Buffett to add growth elements to his traditional value investing methods. This time was marked by high interest rates, inflation, and more competition worldwide, all of which made it hard to find pure value investments. The companies that did seem undervalued often came with higher risks or problems that could hurt future returns. At the same time, Buffett was influenced by partners like Charlie Munger, who favored a more flexible approach by adding future growth potential into how companies were valued. Munger's push helped Buffett start to look beyond just numbers to the bigger picture of a company's potential, enriching his investment strategy with a mix of value and growth ideas.

Warren Buffett in Action

Some of the best examples of Buffett's GARP strategy are his investments in the Washington Post and GEICO. Both of these companies were undervalued when Buffett invested but had strong potential for growth. In the early 1970s, the Washington Post was priced much lower than its real value, mainly because of short-term problems in the newspaper industry and overall market pessimism. Buffett saw not only the value of its assets but also its potential to grow and lead its sector. GEICO was in financial trouble in the mid-1970s, but Buffett, who knew the company well from earlier investments, saw a chance to invest in a business with strong long-term prospects. He provided the capital needed to stabilize and then grow the company. These investments were based on a solid understanding of the market conditions and financial details that showed both undervaluation and chances for earnings growth, perfectly fitting the GARP approach.

Iconic Investments

Buffett's use of GARP principles shines in his iconic investments in Coca-Cola and Apple. These weren't typical value picks when Buffett invested, but they fit the GARP approach perfectly. When he bought Coca-Cola in 1988, it was promising because of its strong global brand and growth potential, even though its market price didn't look like a bargain. His investment in Apple came much later and followed a similar thinking - although it was already a big name in tech, Buffett saw that it was priced reasonably given its growth prospects and solid profits. Both investments have brought in fantastic returns, showing how well GARP principles can work when used carefully. Coca-Cola and Apple didn't just increase their earnings a lot; they also greatly increased the wealth of Buffett and the shareholders of Berkshire Hathaway, proving the power of combining growth factors with value investing.

Continue reading here

Berkshire reveals its latest mystery stock (from *The Wall Street Journal*)...

Warren Buffett's Berkshire Hathaway unveiled a big investment in Chubb, resolving a mystery that has intrigued followers of the Omaha, Neb., company.

Berkshire's stake in the insurer was worth $6.7 billion at the end of March, according to a regulatory filing made public after the market closed Wednesday. It gave Berkshire ownership of 6.4% of Chubb, according to Dow Jones Market Data. Berkshire amended earlier filings to show it had been building the position in the second half of 2023.

Chubb, one of the world's largest publicly traded property-casualty insurers, is led by Evan Greenberg, the son of former American International Group CEO Maurice "Hank" Greenberg. Chubb was most recently in the news as the insurer of the collapsed Francis Scott Key Bridge in Baltimore.

Insurance is a primary business for Berkshire, which owns auto insurer Geico and a number of other insurance companies. Buffett wrote in his most recent letter to shareholders: "Property-casualty insurance ('P/C') provides the core of Berkshire's well-being and growth."

Chubb's shares have risen 12% this year, slightly outpacing the S&P 500's 11% advance. They rose in after-hours trading following Berkshire's disclosure.

The stock looks cheap: It traded earlier this week at 11.3 times its projected earnings over the next 12 months, compared with 20.6 times for the S&P 500 and 15.3 times for its financial sector, according to FactSet...

nstitutional investors who manage at least $100 million in U.S. stocks and certain other equities must disclose their holdings as of the end of each quarter in Form 13F filings with the Securities and Exchange Commission.

But Berkshire's public filings for the third and fourth quarters of 2023 noted the company had omitted at least one holding for which it was requesting confidential treatment from the SEC. One reason investors can ask to keep a position private is that disclosing it would reveal an ongoing program of buying or selling.

Some observers guessed that Berkshire was buying shares of a financial company because of a clue in its quarterly filings. Berkshire reported that its cost basis had increased for stock investments in the category of banks, insurance and finance.

Continue reading here *(subscription may be required)*

Hunting for multi-bagger stocks: Mohnish Pabrai's "spawners" framework (from Steady Compounding)...

Finding that company which could be the next 10- to 100-bagger is the holy grail of value investing and there're five paths that could lead to the next 100-bagger (or six if you include Gamestop).

1. **Focused Mousetraps.** These are businesses that focus narrowly in one area with long runways. Examples include Costco, which focuses on retail, and Chipotle and McDonald's, which focus on fast food.
2. **Great Capital Allocators.** These companies' management are skilled at reinvesting retained earnings organically or inorganically (i.e., through acquisitions). Examples include Berkshire Hathaway and Danaher.
3. **Uber Cannibals.** These are companies with an intense focus on buying back shares. While their earnings don't grow, your share of the earnings grows. Examples include Autozone and NVR.
4. **Deeply Undervalued Turnarounds or Public Leveraged Buyouts.** These companies generally have a catalyst happening which would unlock value. Examples include Fiat Chrysler and Rain Industries.
5. **Spawners.** These are companies capable of spawning related and unrelated businesses and it's very rare for a company to possess the DNA to be a great spawner. Examples include Amazon, Alphabet, Alibaba, Tencent, and Baidu.

In this article, we will examine what spawners are and how to identify them in your quest for the next 100-bagger.

What Is a Spawner?

A "spawner" is a company with the necessary DNA to incubate new businesses that have the potential to become the next massive growth engine

For this to happen, the company should expect many failures, and must take these failures in its stride. The key is to start small first and scale only when success is found. Jeff Bezos' 2017 letter to Amazon shareholders puts it best, "Staying in Day 1 requires you to experiment patiently, accept failures, plant seeds, protect saplings, and double down when you see customer delight."

The big advantage of spawners is that they use pre-tax earnings to grow. Aggressively investing earnings into growing the business allows the company to grow its intrinsic value without paying taxes.

For example, Amazon hardly reports any earnings and is notorious for barely paying any taxes because of how aggressively they reinvest back into the company. Otherwise, approximately 30% of their earnings would have gone to the government.

Compare this with Uber Cannibals or Great Capital Allocators who use after-tax earnings to buy back shares or for acquisitions—they have to pay taxes on their earnings first before they are able to buy back shares or buy into other companies.

The Different Types of Spawners

Capitalism is extremely brutal. Almost all businesses will mature and die, and spawning helps keep the company alive.

There are five main types of spawners.

1. **Adjacent Spawns.** This group of companies are able to grow by venturing into adjacent markets with related products. An example is Starbucks, who grew from having coffee houses to Frappuccino bottles, Verismo coffee machines, Starbucks Reserve, and Starbucks alcohol.

2. **Embryonic Spawns.** This group of companies are able to acquire new businesses and nurture them into larger businesses. Over the years Facebook has acquired Instagram, Whatsapp, and Oculus VR and grew them into much larger businesses.

3. **Cloner Spawns.** These companies don't innovate, they simply copy successful products. Microsoft is an example, with Explorer, Surface, Azure, and Teams.

4. **Non-Adjacent Spawns.** This group creates or buys businesses in unrelated areas. BYD Company is an example, going from electric vehicles to face mask manufacturing and many others.

5. **Apex Spawners**. These are the best spawners and they deploy the spawning tactics of all the above. Most 10- to 100-baggers belong to this category. Examples include Amazon, Alphabet, Alibaba Group, Berkshire Hathaway, and Baidu.

Non-Spawners

Most companies do not have the DNA to be spawners, even if they're exceptional businesses. They have an intense focus on the core business and view ancillary businesses as potential distractions.

Even if they stumble onto a great business, they tend to get rid of it way too early to avoid the risk of derailing the core enterprise. For example, McDonald's spotted Chipotle early on and took a stake of more than 20%. However, they felt that it was a distraction and divested its Chipotle stake in 2006 even though there was a long runway. Chipotle share price has since appreciated 3200%.

Most of a non-spawner's excess cash is used for paying out dividends or share buybacks, and the earnings would be subjected to corporate income tax.

Pabrai's Rules For Hunting Spawners

There were over 3,700 IPOs in the US over the last 20 years and only nine businesses grew to exceed $100 billion market cap.

In your hunt for a multi-bagger spawner, assume that it will not grow beyond the $50 billion market cap and work backward. If you want a 10-bagger, hunt below the $5 billion market cap and if you are hunting for a 100-bagger, hunt below the $500 million market cap.

While Amazon has been a great apex spawner, it is unlikely to become the next 100-bagger. With a current market cap of $1.6 trillion, it needs to grow into $166 trillion to become a 100-bagger.

When hunting for spawners, look at the history of the business and ask if (1) it has demonstrated strong spawning DNA, and (2) it has a great capital allocator at the helm.

Identifying signs of an apex spawner ideally below $500 million in market cap would likely mean that you've found the holy grail.

Continue reading here

The meme every investor needs to grasp (from The Alchemy of Money)...

How do legends of the money game make their decisions? Do they see a situation and instantly *know* the right move, or do they deliberate and ponder every possible angle? Both? It depends?

Having worked around humans in the investment business, it often feels like people make a snap judgment — upon meeting a founder, seeing a chart, hearing the first seconds of a pitch — and then spend days, weeks, or even months justifying what their unconscious has already decided.

I believe we were granted a rare and unintentionally honest glance at this when Stanley Druckenmiller recently **explained** his investment in Argentina. "I saw [Javier Milei's] speech in Davos," he said, "and ... dialed up Perplexity. 'Give me the five most liquid ADRs in Argentina.'" After skimming the AI search results, he followed "the old Soros rule, invest and then investigate. I bought all of them."

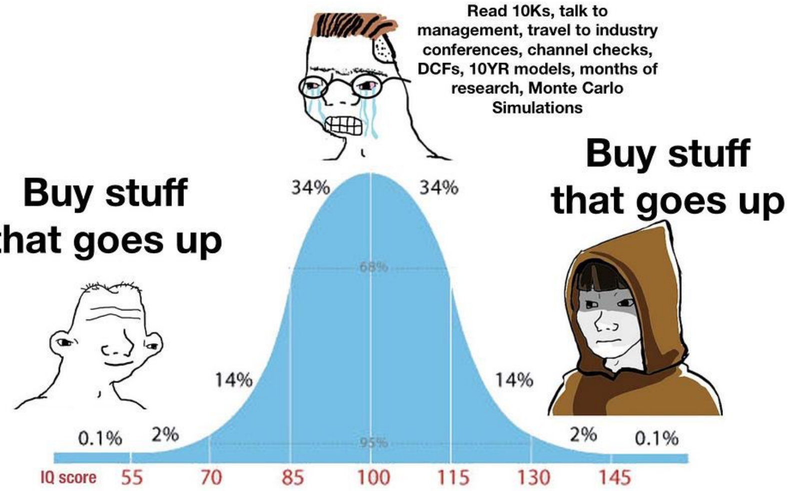
Wait, he did *what*?

Is this why they say you should never meet your heroes? Or was it just a marketing ploy for Perplexity, in which Druckenmiller is an investor?

"There can be as much value in the blink of an eye as in months of rational analysis," Malcolm Gladwell wrote in *Blink*. And yet, have we not been warned over and over again about the danger of trusting intuition? **Michael Mauboussin** points out that pattern recognition fails even experts often in "complex and evolving environments," aka markets.

First off, Druckenmiller is a trader. He changes his mind frequently and could quickly exit if the market turned against him or further research discredited the idea. In recent years, he has commented on markets accelerating and requiring more of this kind of "shoot first, ask questions later" approach. In this case, he matched the situation against his mental library of case studies and jumped on the bandwagon as it took off.

I believe the tension between intuition and analysis is perfectly illustrated by the 'Midwit' meme — via Brandon Beylo:



The left is the land of action without thought.

- "I bought the stock because I like the product."
- "I bought the stock because it's going up."
- "Roaring Kitty is back, meme stocks are back on."
- "People in the chat like the silly coin, I'm long."
- "This smart dude on CNBC bought Argentina and I like what Milei says, I'm in."

This is the domain of memetic investing, trend following, and Peter Lynch-style 'day at the mall' stock picks.

The middle, on the other hand, is the land of struggle. Here, rational analysis is worshiped and intuition overruled. Here, the conscious mind works hard to out-think the market. Inevitably, this is a wasteland of grinding and frustration.

Why not just stay on the left then?

First, you don't have a choice. If you're reading this — if you're reading anything serious about investing at all (possibly if you're reading anything longer than tweets) — you're already in the middle. Sorry.

More importantly, the left is not resilient. The crowd on the left is emotional and lacks a process. There is no feedback loop to learn and improve decisions over time. This can work well during a bull market, but bubbles collapse, trends turn, and for every Monster Beverage there are hundreds of fads, frauds, and simple business failures (**over time, the market does well, the average not so much**.)

No, you want to be on the right. And of course, it's not quite as simple as 'discard research and analysis.'

And yet, even though Druckenmiller and other legendary players use very different approaches, even contradictory ones, they all find themselves in a place of harmony between themselves and the market. They have integrated analysis and intuition.

Nobody would argue that Buffett is an irrational investor. But here is how his biographer Alice Schroeder describes his intuitive decision-making:

> *He has internalized so much information over the years and uses so many mental models that they have coalesced into an almost visceral reaction to an investing situation. And this is what you strive for. It's not mystical, even if you can't verbalize your analysis. Much of his decision-making has sunk to almost the unconscious realm, it is so refined.*

There is a visceral reaction and decision-making has shifted "almost to the unconscious realm."

Or take Bill Miller, another value investor. Miller used to have his analysts build 100-year DCFs. **As the financial crisis unfolded**, Miller held homebuilders and financials (and averaged down). His analysis and study of history led him to buy into "mis-priced cyclicals" and decry the market's volatile and fearful trading. Yet arguably this was a time when intuition could have — George Soros's unconscious famously warned him of risks via spasms of back pain.

After emerging from his brutal setback, Miller simplified his process. “For every company, there are a few key investment variables,” he told William Green in Richer, Wiser, Happier, “and the rest of the stuff is noise.”

This is an idea every investor needs to understand.

First, you need to know your own position on the chart. Second, anyone whose opinion you listen to is somewhere on the chart. Better keep that in mind to understand the likely strengths and weaknesses of their take.

Lastly, you need to see the chart as an imperfect visual of the hero’s journey. Unfortunately, the only way forward is through the messy middle, through a valley of anti-intuition (and, I believe, anti-luck).

Continue reading here *(subscription required)*

More details on Berkshire's purchase of property-and-casualty (P&C) insurance firm Chubb (from Kingswell)...

CHECKING OUT CHUBB: Berkshire Hathaway has purchased 25.9 million shares of Chubb Ltd. over the past three quarters. So what does Warren Buffett and co. see in the Zurich-based insurer?

- In this year's annual report, Buffett reprinted a one-page explainer of Berkshire's insurance operations — in which he pledged that disciplined underwriting will always come first. "All insurers give that message lip service," he wrote. "At Berkshire, it is a religion — Old Testament style." And Chubb certainly seems to be singing off that same hymn sheet. In 2023, Chubb achieved an impressive 86.5% combined ratio in P&C (Property & Casualty) underwriting. Granted, this isn't exactly the most challenging time for the insurance biz, but a mid-80s combined ratio is pretty stellar no matter the season.
- CNBC's Contessa Brewer **lays out** the bull case for CB: "[With Chubb], you have disciplined underwriting which has meant lower catastrophe losses than other insurers, higher interest rates are fueling investment income, and growing life insurance revenue."

MORE CHUBB: While researching the newest addition to Berkshire's portfolio, I came across a few facts and figures about the insurance giant that might be of interest:

- As a result of Chubb's disciplined underwriting, the company's net income rocketed up 72% last year. (Though that was also boosted by a large, one-time tax benefit in Bermuda.)
- Chubb's stock price is up 16.4% so far this year and 26.4% since the start of Q4 2023. Berkshire started buying sometime in the third quarter and amassed 77.5% of its current stake by year end — so it has gotten to ride that wave.
- Another nugget from Contessa Brewer: "More than three-quarters of Chubb's business is in the U.S. and Asia, which the company says it expects to grow about 40% faster than the rest of the global insurance market over the next decade."
- Chubb is also a Dividend Aristocrat. Last week, the insurer raised its quarterly dividend by 5.8% to $0.91 — making this the 31st consecutive year that it has grown its payout.

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INVESTMENT IDEAS

Where investors can find geographic diversification today (from Bridgewater Associates)...

Maximizing the benefits of geographic diversification can be highly beneficial for portfolios. But doing so can be difficult because many economies are closely linked to US conditions, making their markets highly correlated to US assets investors already own. In this report, we walk through some of the markets we see as most diversifying.

Geographic diversification is one of the cheapest ways for investors to make their portfolios more robust. Today, most investors are overly concentrated in US assets, particularly after a decade of US equity outperformance. But even when accounting for this outperformance, a simple geographically diverse portfolio (weighting economies equally) has performed in line with US-dominated portfolios and has been less volatile. While the US could continue to have the best-performing assets in the world for the next decade, past outperformance has now been discounted, raising the hurdle going forward.

But while geographic diversification is desirable in theory, maximizing its benefits can be difficult in practice. The most diversifying markets are those where the key drivers of asset prices—growth, inflation, and monetary policy—are lowly correlated to other economies. But because the US is the largest economy in the world, by far the largest importer of goods, and a large capital provider, it tends to influence those drivers in other markets, limiting their diversification potential.

Below, we show a table that scans through the major global economies, ranking their asset markets by their value as a diversifier to a US-centric portfolio and their size (i.e., investability).

The main takeaways are:

- Europe and the UK are the largest markets outside the US and typically make up investors' largest allocations outside of US assets. But they are not highly diversifying because their conditions are so linked to the US.
- On the opposite side of the spectrum, Chinese assets are extremely diversifying because China has a relatively closed economy and is one of the largest demand centers in the world, leading to largely independent conditions and economic policy. But regulatory and geopolitical pressures have severely constrained most global investors' exposure to China.

- **Because exposure to China is constrained for some investors, Japan represents the largest opportunity for diversification today**. It is a large market (the largest after Europe/UK), with listed companies that sell most of their products domestically, and has lowly correlated inflation and monetary policy.
- India and Brazil are the next most diversifying. Their conditions tend to be less linked to the US, but their market sizes are materially smaller than Japan, and this size difference doesn't reflect the difficulties that many foreign investors face trying to access them (especially in India).
- There are a handful of diversifying but quite small emerging markets in Eastern Europe and Africa, which are more exposed to European growth or global commodity cycles than US conditions.
- Australia and medium-sized Asian economies—Korea, Taiwan—are less liquid and less diversifying than holding the largest Asian economies directly but meaningfully more diversifying than a European allocation. They have a lot more relative exposure to Chinese growth than most alternatives.

Diversification to US Conditions and Asset Performance Across Economies

	CAN	GBR	EUR	AUS	MEX	TAI	SAF	KOR	CZK	PLD	HUN	IND	BRZ	JPN	CHN
Diversification Score	0%	7%	14%	21%	29%	36%	43%	50%	57%	64%	71%	79%	86%	93%	100%
Correlations to US Asset Returns and Economic Conditions (Since 2000)															
Hedged Bond Returns	48%	42%	21%	27%	16%	15%	17%	21%	10%	17%	8%	17%	10%	-36%	-11%
Unhedged Equity Excess Returns	75%	58%	63%	52%	52%	39%	38%	33%	-11%	-9%	-18%	44%	57%	43%	44%
Growth (12m Changes)	93%	88%	92%	77%	86%	50%	87%	53%	74%	84%	77%	65%	69%	78%	34%
Inflation (12m Changes)	65%	34%	43%	28%	26%	23%	32%	45%	53%	41%	38%	2%	29%	-15%	10%
Monetary Policy (12m Changes)	90%	71%	64%	61%	47%	63%	18%	61%	35%	45%	17%	54%	-3%	27%	4%
Domestic Share of Non-Fin Corp Sales	50%	33%	44%	56%	57%	23%	48%	57%	75%	68%	35%	73%	66%	61%	83%
Aggregate Market Size (EUR = 100)	25%	45%	100%	25%	13%	11%	6%	17%	2%	6%	2%	9%	21%	42%	30%

Most developed world assets are very correlated with US conditions

Japan and Brazil are the most diversifying and largest markets outside of China (where some investors are constrained)

While these structural characteristics that determine an economy's diversification properties will change slowly over time, the attractiveness of each market will change more quickly as conditions evolve. When we look at today's macroeconomic conditions and valuations, we see many attractive and diversifying economies—particularly in Japan and Brazil. The table below shows the relative desirability of assets today across economies—i.e., what pricing looks like today and how that balances with economic pressures on policy makers. Markets with a higher number (in green) are those where the balance of conditions are favorable to assets, and vice versa for markets with a lower number (in red).

Equilibrium Conditions by Economy and Asset

	CAN	GBR	EUR	AUS	MEX	TAI	SAF	KOR	CZK	PLD	IND	BRZ	JPN	CHN
Desirability of Assets vs Cash	2%	50%	0%	8%	-30%	-22%	58%	3%	19%	-30%	6%	27%	45%	87%
Equities	13%	59%	10%	20%	-17%	-22%	43%	26%	69%	10%	-1%	35%	59%	89%
Bonds	-9%	41%	-10%	-4%	-43%	-22%	73%	-20%	-31%	-70%	13%	19%	31%	85%
Diversification Score	0%	7%	14%	21%	29%	36%	43%	50%	57%	64%	79%	86%	93%	100%

Some of the most diversifying markets, like Japan and Brazil, also look attractive today

China is both a very diversifying market and one where conditions are aligned to be favorable toward assets, but it is challenging for many global investors from a regulatory and geopolitical perspective. In lieu of Chinese markets themselves, other Asian economies can provide indirect access to Chinese exposure through their large, non-commodity trade exposures to China. Large industrial metals producers, such as Australia and South Africa, can also provide indirect exposure, as historically Chinese growth has been quite metal-intensive (though the composition of this growth may change).

Trade Exposure to Major Demand Centers (36mma)

	CAN	GBR	EUR	AUS	MEX	TAI	SAF	KOR	CZK	PLD	HUN	IND	BRZ	JPN	CHN
Non-CMD Exports (%GDP)	13%	13%	30%	3%	22%	51%	10%	32%	72%	42%	70%	7%	4%	14%	18%
Trade w/US (%Non-CMD)	80%	17%	16%	7%	78%	17%	8%	18%	3%	3%	3%	22%	22%	21%	17%
Trade w/CHN (%Non-CMD)	3%	4%	8%	21%	3%	26%	2%	24%	1%	1%	1%	3%	7%	20%	—
Trade w/EUR (%Non-CMD)	4%	42%	—	3%	4%	6%	25%	7%	57%	55%	54%	16%	12%	9%	13%
Industrial Metals Exports (%GDP)	2%	1%	2%	7%	1%	2%	7%	3%	3%	3%	2%	1%	3%	1%	—
Diversification Score	0%	7%	14%	21%	29%	36%	43%	50%	57%	64%	71%	79%	86%	93%	100%

Some of the Asian economies have high trade exposure to China

In the rest of this report, we walk through the most attractive markets for diversification in more detail.

Continue reading here

The global market for obesity drugs could increase 15-fold over the next five years (from Morgan Stanley Research)...

Key Takeaways:

The global market for obesity drugs could increase by more than 15-fold by 2030 as their use expands beyond weight loss to treat a range of diseases.

Obesity drugs' potential to increase longevity could disrupt healthcare, with investment opportunities in medical technology.

With as much of 9% of the U.S. population taking the drugs by 2035, food and beverage brands will need to adapt with healthier options and smaller package sizes.

Obesity drugs have proved to be a disruptor on a scale matched by few other pharmaceutical innovations. Their emergence, along with a change in the way that obesity and related illnesses are regarded and treated, has put the new class of drugs on a blockbuster path with no signs of letting up.

In light of this surging demand, Morgan Stanley Research has re-evaluated the global market for obesity drugs and is now expecting it to reach $105 billion in 2030, **up from an earlier forecast of $77 billion**—and as high as $144 billion. Sales of branded obesity drugs were $6 billion in 2023.

> *"The obesity drug market is being driven by two key factors. The first is supply. Drugmakers have to keep pace with demand," says Mark Purcell, head of Morgan Stanley's European Pharmaceuticals team, adding that leading drugmakers are expected to spend more than $50 billion to shore up supply chains through 2028 to meet the opportunity to treat a wider range of illnesses.*
>
> *"Second, demand for these medicines could be turbocharged if there's broadening evidence that these drugs improve outcomes in the hundreds of obesity-related ailments."*

Analysts expect a significant increase in the number of people taking these drugs. In the U.S., for example, it could include 9% of the population by 2035—a fivefold increase over today. Investors will want to watch how this staggering change could affect sectors including medical technology, insurance, food and drink, sportswear, and fitness equipment and services.

'Tip of the Iceberg'

Obesity drugs are likely to have a ripple effect in the healthcare sector far beyond weight management. Obesity is responsible for more than half of diabetes cases and can be linked to more than 200 other chronic diseases, including hypertension, heart failure and kidney disease, as well as complications such as sleep apnea, osteoarthritis and possibly Alzheimer's disease.

And it appears that obesity drugs may have an impact in treating not just obesity but preventing the associated diseases: Results from a recent landmark trial called SELECT, which enrolled individuals who were either overweight or obese, found that taking one of the leading obesity medicines provided a 73% reduction in the risk of developing diabetes and a 20% drop in the risk of heart attacks, strokes and cardiovascular deaths.

Expanding these drugs beyond weight management will require additional clinical trials supported by insurance reimbursement to help mitigate costs. But their impact on the healthcare sector could stretch even beyond obesity-related illnesses. "The SELECT trial represents just the tip of the iceberg when it comes to these medicines' potential to expand into new opportunities," says Purcell. "Obesity cuts life expectancy by as much as 10 years, depending on age. If the widespread use of weight-loss drugs has a meaningful impact on longevity, there are a variety of ways that they could disrupt healthcare."

Consider, for example, that while obese people generally spend as much as $3,000 more per year on health care than the general population, it doesn't necessarily mean that lower obesity rates reduce healthcare spending. In fact, if formerly obese people increase their life expectancy, it may actually increase spending, since older adults spend as much as three times more on healthcare than their younger counterparts.

This skew means that Medicare and Medicare Advantage could benefit in the long term as reimbursements increase, though in the short term federal health insurance programs for those 65 and older could face significant costs; expanded coverage requires Congressional approval. Commercial payers, whose members are younger and healthier, are also unlikely to see near-term benefits from the rise of obesity drugs as conditions stemming from obesity are most likely to arise in older adults.

"Amid this realignment, the medical technology sector is expected to offer opportunity for investors, especially makers of cardiovascular devices, such as replacement heart valves that may see demand growth accelerate along with longevity," says Patrick Wood, Morgan Stanley's medical technology analyst. "The outlook for the kidney dialysis sector is less clearcut: Reducing obesity levels may mean there are fewer patients requiring dialysis, but increasing longevity could have a paradoxical effect of extending dialysis time for those patients that still require the treatment."

There are open questions regarding the market for orthopedic devices as well. On one hand, evidence points to a decline in knee replacement procedures among nonobese patients, for example. On the other hand, the risk of fall-related injuries requiring orthopedic surgery increases with age, and increased longevity could lead to a rise in procedures.

Continue reading here

This company is a "completed turnaround hidden in plain sight" (from Dirtcheapstocks Substack)...

- Trades for ***4.36x EV/EBITDA***.
- Spent the last year selling off bad business lines.
- Used sale proceeds to **pay down debt**.
- Remainco has been **profitable for at least 30 consecutive years**.
- Business is now in a **net cash position**.
- **Cash is nearly 40%** of market cap.
- Returning capital via **special dividends**.

Q.E.P. Co., Inc. (Ticker: QEPC)

Valuation Statistics		Income Statement Overview				
Price	26.80		9 Months Ended Nov. 23	FY 2023	FY 2022	FY 2021
S/O	3,286	Revenue	190,058	433,664	445,531	387,597
Market Cap	88,065	COGS	(131,140)	(319,624)	(324,786)	(278,904)
Net Cash	(31,330)	Gross Profit	58,918	114,040	120,745	108,693
Enterprise Value	56,735					
EBITDA	13,000	Opex	(47,491)	(106,340)	(102,714)	(93,092)
EV/EBITDA	***4.36***					
		EBITDA	11,427	7,700	18,031	15,601
		Annualized EBITDA	***13,000***			
		Net Debt (Cash)	***(31,330)***	33,472	33,364	23,367

Business History

> *"And when these new businesses come in, there are huge advantages for the early birds. And when you're an early bird, there's a model that I call "surfing" – when a surfer gets up and catches the wave and just stays there, he can go a long, long time."*
> *– Charlie Munger*

In 1979 a downtrodden businessman named Lewis Gould decided to become an entrepreneur. Lewis liked to tinker. In his free time he played on his ham radio. As an entrepreneur Gould figured he would sell electronics. So, he formed Quality Electronic Products, Q.E.P. for short.

Lewis spent $10,000 developing a product that covered the grout around the edge of a bathtub (not exactly high-tech). His little product gained traction and Lewis converted the family garage into an assembly and packaging line. He'd take the family car out on sales calls, leaving his wife and son in the garage to ship orders. Before long, the business was growing. Distributors wanted more from Lewis. Installers asked Lewis to provide wet saws, tile cutters, trowels, spaces, sponges, and tile nippers. There was only one problem, Lewis knew nothing about these tools. But he mixed three parts ambition with one part ingenuity and slowly rolled out a series of products to meet demand.

After three years the business was starting to work. One day in 1982, Lewis was approached by a gentleman named Bernard. Bernard and a few buddies had recently opened a couple home improvement stores in Georgia. Bernard wanted QEP to produce a packaged tile tooling kit for his store.

Lewis was excited for the opportunity, but there was a problem. Bernard had big orders. Really big orders. Orders that QEP couldn't fill because Lewis didn't have the money to get enough supplies to meet Bernard's request. Being an up-and-comer himself, Bernard recognized hustle. He liked Lewis, so he stepped up and helped QEP get a loan. Then QEP became a supplier to Bernard's store.

Bernard is better known as Bernie – Bernie Marcus. ***Bernie and his friends had just started Home Depot***. And QEP was in on the ground floor.

Once QEP was in Home Depot, it was probably too late to change the name and risk destroying the brand recognition it had built. So the name stayed, although QEP sold no "Electronic" products.

QEP added Lowe's as a customer in 1993. Then another large account in 1996. Lewis took the business public in September 1996, raising $10.2MM in the public offering. By this point, QEP was quite successful in its little floor tooling niche. In 1997, QEP bought Roberts Consolidated Industries, a California based manufacturer of flooring tools and related supplies. The Roberts brand is still a core component of QEP's business today.

QEP's success continued through the early 2000's. the business expanded into Australia, New Zealand and Europe. It even remained profitable (aside from non-cash impairment charges) through the Great Financial Crisis, with Lewis Gould leading the company the whole way.

QEP Finds Trouble

In the late 2010's, Gould – who had made a string of at least a dozen acquisitions at this point – wanted to expand beyond the tooling space. QEP had always struggled to impress Wall Street. It had a nice little business, but it was boring. Worse, QEP had concentration of revenue in big home retailers. Never mind that QEP had a decades' long relationship with Home Depot, Wall Street didn't like it.

So, Lewis decided to branch out from flooring tools to flooring itself. This was a mistake. QEP brands had a dominant position in their niche tooling lines, but flooring itself was a huge market with well-capitalized competitors. The foray into floor manufacturing quickly turned sour. For the first time ever in 2019 QEP produced an operating loss. 2020 was no better.

While 2021 and 2022 were profitable, it was clear that flooring manufacturing was not the ticket. Sales had grown 57% over the last decade, but profits were stagnant. ***The sum total of all acquisitions from the mid to late 2010's were providing $0 of annual net income at best***. Lewis Gould was beginning to slow down, and his son Len was being prepared to take over the CEO role.

QEP Sees the Light

The Gould's are not empire builders. They're running this business to earn a profit. Lewis Gould owns 49% of the business himself. A business that he started in his garage, and one where his family was involved in the earliest stages. ***The Gould's are worth more only if the business is worth more***.

As you may expect, Lewis and Len saw the light. It was time to get back to basics and focus on the products and markets that had always brought the business success. In September 2023, QEP sold its flooring businesses. In October it sold its UK business. Then in March 2024 the Australia and New Zealand businesses were sold.

In February 2023, QEP had $33MM of net debt. By March 2024 it had $31MM of net cash.

QEP earned $11.6MM of EBITDA for the ***9 months*** ended November 2023. For the year ended February 2023, the business generated $7.7MM EBITDA. ***Revenue from continuing operations for the 9 months ended November 2023 was 56% less than the prior fiscal year, yet EBITDA was 50% greater***.

In February 2024, QEPC declared a special dividend of $1.00/share. Now in May 2024, the company is profitable, debt free, and cash rich. So, let's discuss the business a little more.

Customer Concentration and Munger's Surfing Metaphor

Home Depot represents 45% of sales today. That's a lot to sell to one customer. I'd imagine investors take a look at the Home Depot relationship and get a little worried. Without Home Depot, the business would be nowhere near as large and profitable as it is today. And that relationship could dissolve at any point in the future.

The counterpoint is that QEPC and Home Depot have had a profitable relationship for 42 consecutive years. Customers know the QEP brands. Home Depot makes money, QEPC makes money. Everyone is happy. This could change at a moment's notice, but I don't think that's likely. Let's say an investor buying today intends to hold the stock for 3 years. How likely is it that a 42 year relationship dissolves over the time we own the stock? How many 40 year marriages end in divorce?

QEPC largely ***surfed*** the Home Depot wave to mass distribution of its products. Breaking into Home Depot allowed it to break into other channels. ***In 1982, when the relationship began, Home Depot had 8 stores. Today it has 2,335***.

Anyone interested in learning more about the Home Depot culture should listen to this podcast with Ken Langone: **Ken Langone - Invest Like The Best**

The History of Turnarounds

We've all heard Buffett's quote: ***"turnarounds seldom turn"***. And he's right. I don't like to bet on changes in human behavior. A management team's future actions are most likely to resemble their prior actions. The beauty of QEPC is that the turnaround has been completed. And most importantly, there was nothing wrong with the core business. The mistakes were in trying to break through in a new business. The price offered today doesn't seem to reflect a completed turnaround. ***I feel like I'm in a poker hand where the flop has already been turned but I'm the only one who can see the cards***. Management saw the light and got rid of the noncore assets. This reminds me of Buffett's investment in Studebaker in the 1960's, which I wrote about here: **Warren Buffett Case Study - Studebaker**

Just like Studebaker, QEPC got rid of lagging assets and used the proceeds to pay down debt. And just like Buffett did at Studebaker, we can make our investment at a cheap price after the business has been de-risked.

What Happens Next?

To be clear, I don't know what the future holds for QEPC. Len Gould took over the CEO role in December 2023. He had been involved in the business since at least 1999. You could say he's been involved since he was packing boxes in the family garage in 1979. Len was almost certainly involved in the strategic decision to divest noncore assets. This is a major change in strategy, and I'm sure he's been aware of his promotion for quite some time. I like the fact that he's been with the company for several years.

I like that this management team used proceeds from divestitures to pay down debt. I view that as a great use of capital. Now QEPC sits on a war chest of cash. This cash is basically all net cash, as QEPC has $80MM of receivables and inventory to borrow against (with only $8MM advanced on its line of credit at November 2023).

Basically, every step taken thus far has produced value. Selling bad assets, paying down debt, paying a special dividend and letting cash build are all good business decisions. I'm willing to bet on the remaining business that has booked profits for at least 30 consecutive years - especially at 4x EV/EBITDA.

Why Is QEPC Cheap?

QEPC is a turnaround hidden in plain sight. Well, almost. The stock is up considerably since embarking on its journey of divestitures last year. But at 4.36x EV/EBITDA I think it's still materially undervalued.

There are a couple reasons the stock is mispriced:

1. **Recent Changes:** The international and flooring manufacturing businesses were sold in late 2023 and early 2024. Investors haven't noticed because the shift happened so recently. Again, in the last 12 months, QEPC went from having $33MM of net debt, to $31MM of net cash.
2. **Screens Poorly:** Anyone using a screen won't find the stock. Discontinued operations are impacting the bottom line. Investors have to look at segment information to understand the go-forward economics of the business.

Capital Light Business Model

QEPC has historically been a capital light business. It doesn't manufacture its tools. Tools are made in low-cost countries by contract manufacturers. QEPC slaps its brand on the tools and sells them to home improvement stores and distributors. There is not a lot required in the way of capex historically.

Working capital requirements are a bigger problem than capex. But working capital is largely reduced with the sale of the capital intensive, low return flooring businesses. In the floor manufacturing business, QEPC did make its own products. This created larger working capital requirements, which are now gone. As supply chains normalize and QEPC continues to focus on its bread-and-butter tooling business, I'd expect FCF to continue to grow.

EBITDA Calculation

If you don't want to know the nuances of how I calculated EBITDA, just skip to the next section. I figured there would be questions, so I'll try to avert those by spelling it out here.

QEPC sold off its floor manufacturing and UK business segments in FY 2024. The Australian segment was sold in March, or early FY 2025. The consolidated numbers for the 9 months ended November 2023 show $233MM of revenue and a net loss of $3.2MM. The net loss occurs because of losses from discontinued operations (flooring and international).

Note 5 of the November 2023 filing provides a breakout of each business segment.

Segment results were as follows (in thousands):

	For the Three Months Ended		For the Nine Months Ended	
	November 30, 2023	November 30, 2022	November 30, 2023	November 30, 2022
Net sales:				
North America	$ 59,260	$ 55,125	$ 187,462	$ 203,003
Europe	754	1,043	2,596	3,607
Australia/New Zealand	14,561	18,324	42,995	50,293
Total	$ 74,575	$ 74,492	$ 233,053	$ 256,903
Operating income:				
North America	$ 2,528	$ 1,345	$ 10,267	$ 6,218
Europe	207	36	134	81
Australia/New Zealand	(85)	754	(408)	1,431
Total	$ 2,650	$ 2,135	$ 9,993	$ 7,730
Depreciation and amortization:				
North America	$ 335	$ 344	$ 1,007	$ 976
Europe	6	6	19	19
Australia/New Zealand	50	53	142	183
Total	$ 391	$ 403	$ 1,168	$ 1,178
Capital expenditures:				
North America	$ 978	$ 1,178	$ 2,263	$ 3,457
Europe	4	1	18	4
Australia/New Zealand	7	7	42	33
Total	$ 989	$ 1,186	$ 2,323	$ 3,494

Operating income is calculated after depreciation, so I add that back. I've ignored Australia/New Zealand performance as those businesses were sold in March 2024. This gets us to $11.4MM of EBITDA for the remaining business. QEPC typically has a weaker 4th quarter. It's probably safe to assume that QEPC can conservatively earn $13MM of EBITDA for the year ended March 2024. The number could be better, but I'll be conservative.

Expanding Margins?

QEPC may experience expanding margins in its core business in the future. At the least, I'd expect margins to increase as the income statement is cleaned up with the divestiture of noncore assets. There are often expenses that cannot be specifically allocated to "discontinued operations" that disappear when a plant is disposed of. Additionally, without the distraction of flooring, management can focus on the core business and cut excess fat, should there be any.

Valuation Considerations

Investors should note the prices at which QEPC sold its UK and Australian businesses. The UK business, which was unprofitable, sold for ~55% of sales. The Australian business was sold for ~10x EBIT. QEPC's remaining American operations are ***much*** better businesses than the entities that were just sold.

So what's QEPC worth? I'll use another Munger concept - inversion. It's easier for me to say what QEPC is ***not worth***. I don't think 4x EV/EBITDA for a consistently profitable business is the right price. Maybe shares are worth 10x or 8x or 12x. I don't really know. I do know that QEPC is cheap on a relative basis and an absolute basis today. I'll see where shares trade in the coming years. If the price doubled tomorrow, I'd probably sell and go find the next QEPC. The valuation spring is tightly coiled. The multiple is low and I think it's more likely than not that earnings expand in the coming years. If earnings don't expand we're still paying a cheap price.

Summary

QEPC has a nice core business that has enjoyed decades of continuous profits. It had a misstep and learned its lesson. Management sold off the bad businesses and paid down debt. Investors have failed to realize the change that has taken place inside QEPC. Cash is nearly 40% of the market cap. With a clean slate on which to operate its already profitable core business, I expect the company to earn profits for the foreseeable future. QEPC trades at only 4.36x EV/EBITDA. I think it's worth more.

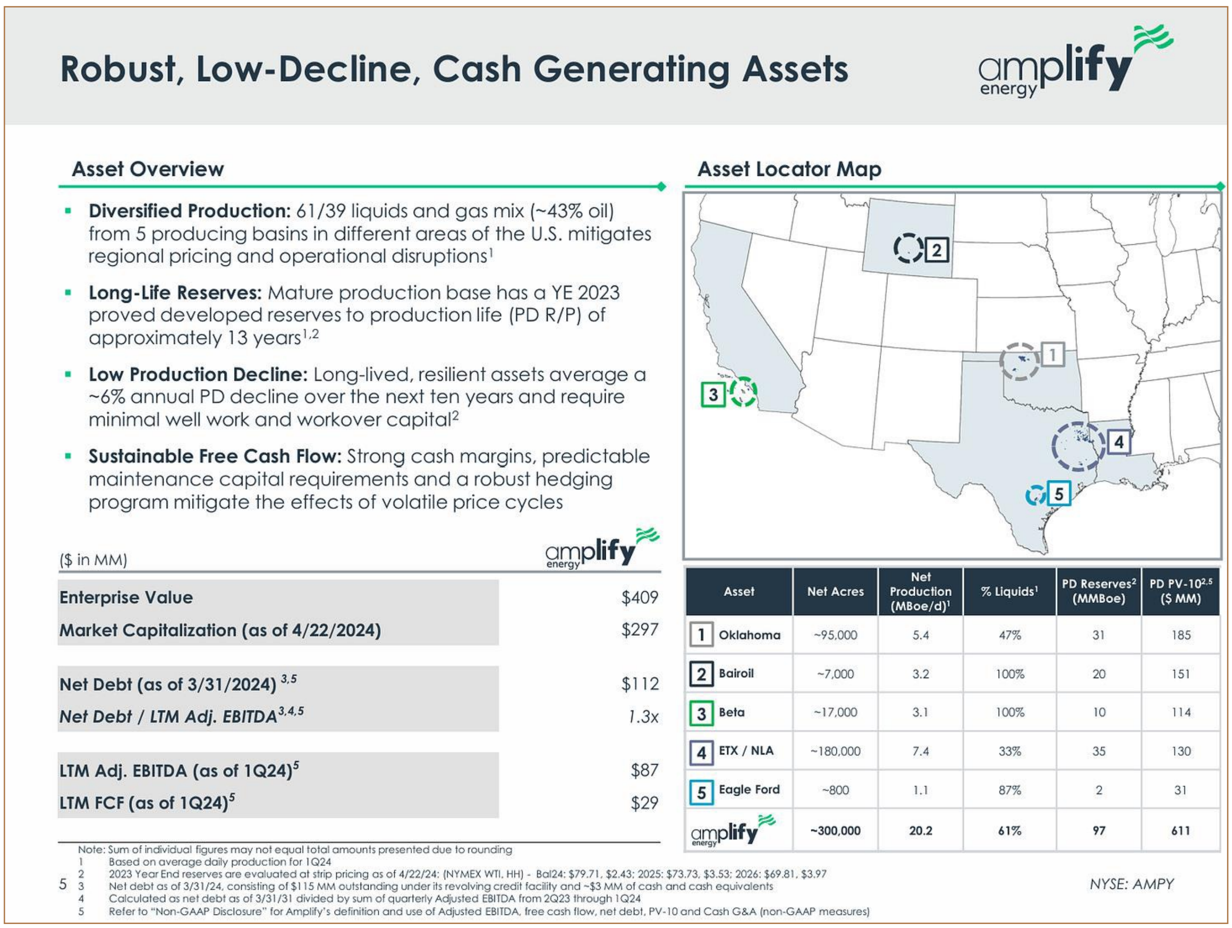
Continue reading here *(subscription required)*

A cheap oil & gas producer on the brink of a surge in cash-flow generation (from Idea Hive)...

Amplify Energy (AMPY)

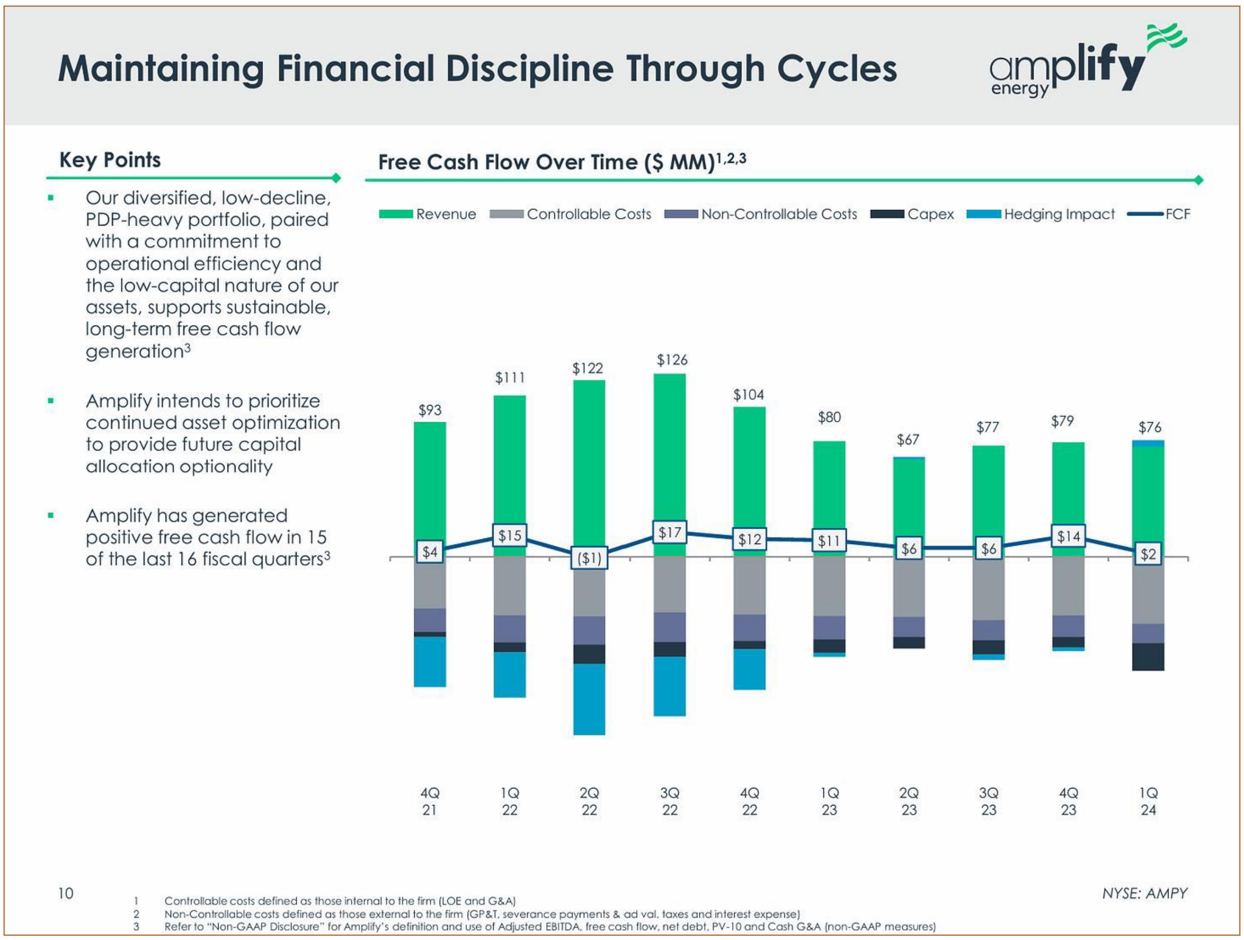
- **Elevator Pitch:** Cheap O&G producer on the brink of a potential surge in cash flow generation, propelled by the development of its key asset.
- **Current Price:** $6.62
- **Target Price:** $35+

Amplify Energy is a $262m market cap company that owns and operates several mature oil and gas assets across the US (see slide below). The company's assets are low-decline, meaning that the rate at which production drops off over time is lower compared to other mature assets.



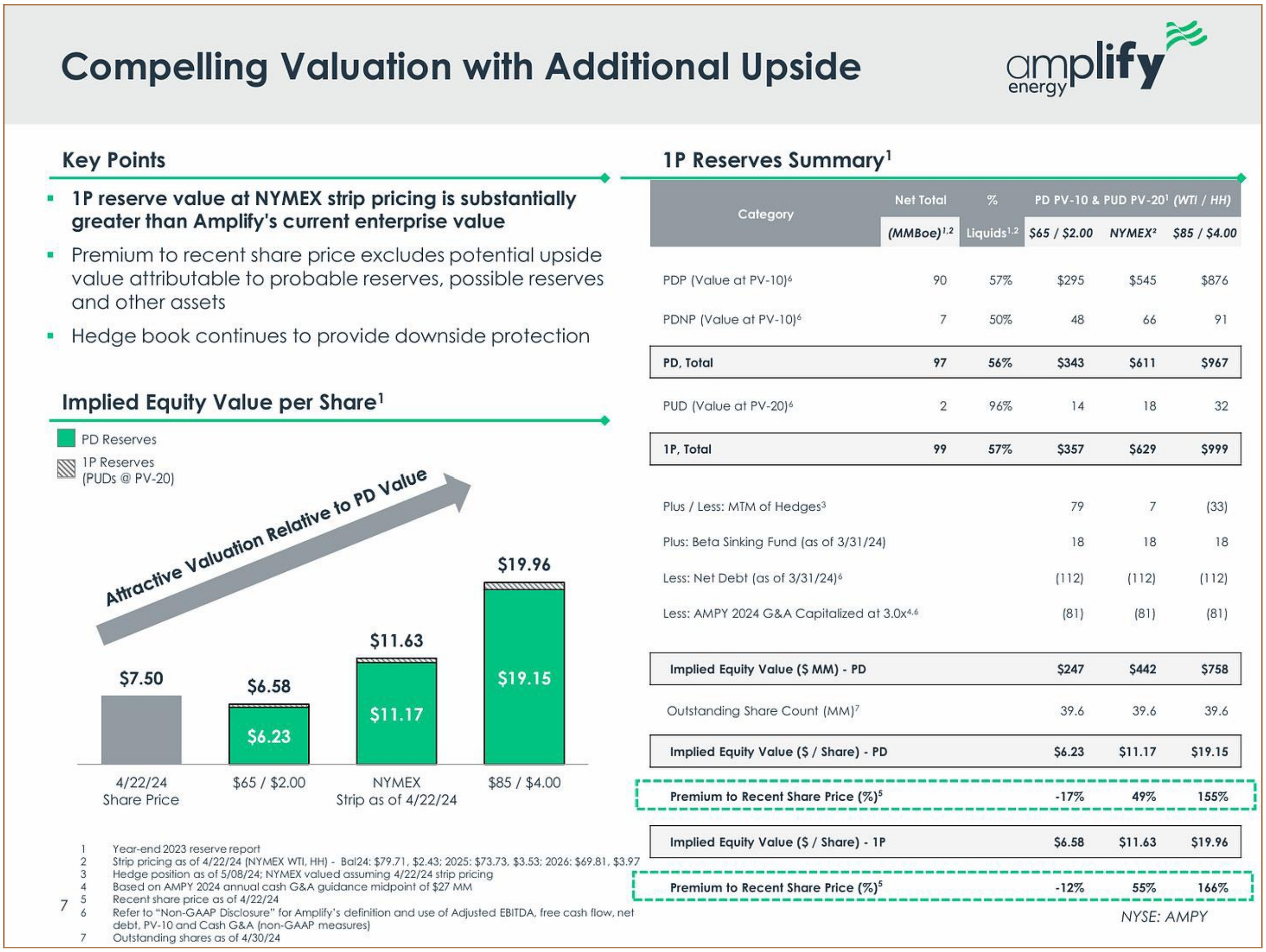
Source: AMPY Investor Presentation, May 2024

AMPY presents an attractive way to invest in the energy space. At current prices, the company is trading at 4.3x TTM EBITDA and 9x FCF. These are not demanding multiples for an O&G producer that operates low-decline, long reserve life assets (proved developed reserves to production life of c. 13 years) and boasts a track record of consistent cash flow generation over recent years (see slide below). AMPY's assets are expected to continue generating substantial cash flows over the coming decade, with high visibility for the next few years, as a large portion of company's near-term production is hedged (85-90% of natural gas and 45-50% of oil production is hedged until the end of 2025).



Source: AMPY Investor Presentation, May 2024

AMPY is also cheap based on the value of company's proven developed reserves. At the recent NYMEX strip price and a 10% discount rate, the present value of AMPY's proved developed reserves would stand at $611m. This would imply equity value of $442m or $11.17/share, 69% above the current share price levels. The NYMEX futures strip includes oil prices of $80/bbl, $74/bbl and $70/bbl oil prices and natural gas prices of $2.43/MMBtu, $3.53/MMBtu and $3.97/MMBtu for 2024, 2025 and 2026 respectively. This compares to the current oil and natural gas prices of $84/bbl and $2.33/MMBtu.



Category	Net Total (MMBoe)[1,2]	% Liquids[1,2]	PD PV-10 & PUD PV-20[1] (WTI / HH) $65 / $2.00	NYMEX[2]	$85 / $4.00
PDP (Value at PV-10)[6]	90	57%	$295	$545	$876
PDNP (Value at PV-10)[6]	7	50%	48	66	91
PD, Total	97	56%	$343	$611	$967
PUD (Value at PV-20)[6]	2	96%	14	18	32
1P, Total	99	57%	$357	$629	$999
Plus / Less: MTM of Hedges[3]			79	7	(33)
Plus: Beta Sinking Fund (as of 3/31/24)			18	18	18
Less: Net Debt (as of 3/31/24)[6]			(112)	(112)	(112)
Less: AMPY 2024 G&A Capitalized at 3.0x[4,6]			(81)	(81)	(81)
Implied Equity Value ($ MM) - PD			$247	$442	$758
Outstanding Share Count (MM)[7]			39.6	39.6	39.6
Implied Equity Value ($ / Share) - PD			$6.23	$11.17	$19.15
Premium to Recent Share Price (%)[5]			-17%	49%	155%
Implied Equity Value ($ / Share) - 1P			$6.58	$11.63	$19.96
Premium to Recent Share Price (%)[5]			-12%	55%	166%

Source: AMPY Investor Presentation, May 2024

But that's not all as I have not yet mentioned the most important part of the story, the planned development of AMPY's key world-class oilfield asset Beta. Management expects to significantly ramp up Beta's production over the coming years driven by new well drilling, including a four-well drilling program initiated in Q1'24. The Beta expansion project is expected to boast impressive unit economics, with first-year free cash flow from each well (c. $7m per well, at $75/bbl oil price) anticipated to exceed total capex ($5m-$6m per well). Assuming the results of the ongoing drilling program are as expected, the company is likely to accelerate the number of wells drilled and this would materially increase AMPY's cash flow generation. The company also expects significant cost savings ($6m-$8m in 2024 vs $29m in TTM FCF) coming from electrification and one-time upgrades of facilities at Beta.

The present value of Beta's development (excluding Beta's currently producing wells) at a 10% discount rate might range between $1bn-$2bn depending on the number of wells drilled annually. This would imply incremental value of $25-$50 per share.

On top of the expected Beta drilling results/production ramp, another catalyst here might be potential divestitures of non-core assets. Management has already launched a sale process for the Bairoil asset (accounts for 25% of AMPY's proven developed reserves PV-10). An update on the sale process will be provided with Q2'24 results. Another asset, Eagle Ford (5% of PD PV-10), appears to be unofficially for sale as well.

So, that's the gist of the investment thesis. There are several risks/uncertainties worth addressing, namely, 1) potential issues/delays associated with Beta development and 2) AMPY management's incentives and potential capital allocation. However, I believe these points are unlikely to derail the investment thesis given the large margin of safety.

- AMPY management's comments suggest that the key risk associated with Beta development is not geological but technical, i.e., the presence of the oil has already been confirmed, and the infrastructure is in place. So the key risks here are higher capital expenditures and/or delays. During the recent conference call, AMPY's management highlighted equipment issues related to the drilling of the first well that has now been delayed until Q4'24. There is a risk that remaining drillings might run into similar issues. However, given how cheap AMPY's producing assets currently are, the margin of safety here seems to be significant, implying a favorable risk-reward.
- As for management's incentives, it is worth pointing out that AMPY's management holds a minimal 1.4% stake in the company. While this might potentially signal limited alignment of interests, AMPY's leadership seems competent and focused

> on shareholder value. Communications between the author of the VIC write-up and the company indicate that management's focus is on asset sales and aggressive buybacks. Another positive is the recent launch of a sale process for the Bairoil asset.

The opportunity seems to exist as AMPY is a sub-scale mash-up of mature/declining O&G assets. Another explanation might be AMPY's recent-year operational issues with its key asset Beta. Back in late 2021, Beta experienced an oil spill which prompted a massive stock sell-off. However, AMPY's share price has since then recovered as the accident turned out to be smaller than expected, and AMPY eventually reached a settlement with the ships that caused the accident and collected insurance proceeds. Beta has come online since then, with production now exceeding pre-spill 2021 levels.

Continue reading here

Is China becoming "investible" again? (from Macro Charts)...

A week ago **I wrote about China's new Bull Market**:

> *"In hindsight, it wasn't until big investors like David Tepper (whom I've never met but has long been an inspiration to me) went on TV sometime in late Q1 2021 and said he liked Energy and OXY... that the conversation changed.*
>
> *It was my top position, and it turns out we had been buying it at roughly the same time. In Q1 2021 it was still very contrarian to go on TV and say you liked Energy.*
>
> *Even after the enormous initial rally and all signs of a new Bull Market being underway, it was still considered too risky. But David Tepper went on the record, and the rest is history.*
>
> *The same setup is likely happening today in China.*
>
> *Maybe it will take a big investor disclosing Longs to help change the narrative. Who knows. To my knowledge this hasn't happened yet."*

Just yesterday:

David Tepper's Appaloosa reported BABA as its largest position (12% of the portfolio).

He was loading up in Q1.

In total, nearly 25% of Tepper's $6.7B disclosed positions are now in Chinese Stocks / ETFs:

Stock	History	Sector	Shares Held or Principal Amt	Market Value ↓	% of Portfolio	Previous % of Portfolio	Rank	Change in Shares	% Change
BABA	History	COMMUNICATIONS	11,250,000	814,050,000	12.05%	5.82%	1	6,900,000	158.62%
AMZN	History	CONSUMER DISCRETIONARY	3,828,000	690,494,640	10.22%	10.36%	2	-122,000	-3.09%
MSFT	History	INFORMATION TECHNOLOGY	1,400,000	589,008,000	8.72%	11.04%	3	-300,000	-17.65%
META	History	COMMUNICATIONS	1,122,500	545,063,550	8.07%	11.31%	4	-727,500	-39.32%
NVDA	History	INFORMATION TECHNOLOGY	442,000	399,373,520	5.91%	6.76%	5	-348,000	-44.05%
GOOG	History	COMMUNICATIONS	2,075,000	315,939,500	4.68%	5.60%	6	-225,000	-9.78%
AMD	History	INFORMATION TECHNOLOGY	1,630,000	294,198,700	4.36%	5.12%	7	-380,000	-18.91%
ORCL	History	INFORMATION TECHNOLOGY	2,300,000	288,903,000	4.28%	2.41%	8	975,000	73.58%
PDD	History	CONSUMER DISCRETIONARY	2,100,000	244,125,000	3.61%	1.96%	9	1,325,000	170.97%
BIDU	History	COMMUNICATIONS	1,800,000	189,504,000	2.81%	1.29%	10	1,175,000	188.00%
ADBE	History	INFORMATION TECHNOLOGY	350,000	176,610,000	2.61%		11	350,000	New
FDX	History	TRANSPORTS	600,000	173,844,000	2.57%	2.84%	12	-50,000	-7.69%
QCOM	History	INFORMATION TECHNOLOGY	990,000	167,607,000	2.48%	2.50%	13	-10,000	-1.00%
INTC	History	INFORMATION TECHNOLOGY	3,750,000	165,637,500	2.45%	3.99%	14	-850,000	-18.48%
FXI	History	FINANCE	6,375,000	153,446,250	2.27%		15	6,375,000	New
MU	History	INFORMATION TECHNOLOGY	1,215,000	143,236,350	2.12%	1.79%	16	No Change	
ET	History	ENERGY	8,644,428	135,976,852	2.01%	2.33%	17	-1,137,448	-11.63%
LRCX	History	INFORMATION TECHNOLOGY	115,000	111,730,550	1.65%	1.60%	18	-3,000	-2.54%
UBER	History	CONSUMER DISCRETIONARY	1,360,000	104,706,400	1.55%	6.38%	19	-4,640,000	-77.33%
CZR	History	CONSUMER DISCRETIONARY	2,300,000	100,602,000	1.49%	1.82%	20	50,000	2.22%
JD	History	CONSUMER DISCRETIONARY	3,649,863	99,969,748	1.48%		21	3,649,863	New
UNH	History	HEALTH CARE	200,000	98,940,000	1.46%	1.82%	22	No Change	
KWEB	History	FINANCE	3,475,000	91,218,750	1.35%		23	3,475,000	New
UPS	History	TRANSPORTS	600,000	89,178,000	1.32%	1.36%	24	100,000	20.00%
ASML	History	INFORMATION TECHNOLOGY	80,000	77,637,600	1.15%	1.05%	25	No Change	
EQT	History	UTILITIES AND TELECOMMUNICATIONS	2,060,000	76,364,200	1.13%	1.38%	26	No Change	
TSM	History	INFORMATION TECHNOLOGY	500,000	68,025,000	1.01%	0.90%	27	No Change	
MSFT PUT	History	INFORMATION TECHNOLOGY	150,000	63,108,000	0.93%		28	150,000	New
AR	History	ENERGY	2,000,000	58,000,000	0.86%	0.78%	29	No Change	
BA	History	INDUSTRIALS	225,000	43,422,750	0.64%		30	225,000	New
SWN	History	ENERGY	4,800,000	36,384,000	0.54%	0.54%	31	No Change	
M	History	CONSUMER DISCRETIONARY	1,400,000	27,986,000	0.41%	1.55%	32	-3,050,000	-68.54%
MPLX	History	ENERGY	660,000	27,429,600	0.41%	0.42%	33	No Change	
BEKE	History	INFORMATION TECHNOLOGY	1,705,000	23,409,650	0.35%	0.48%	34	No Change	
CHKEZ	History		250,000	20,352,500	0.30%	0.28%	35	No Change	
CHK	History	ENERGY	203,000	18,032,490	0.27%	0.27%	36	No Change	
NSC	History	TRANSPORTS	45,000	11,469,150	0.17%	0.18%	37	No Change	
CHKEL	History		150,000	10,800,000	0.16%	0.15%	38	No Change	
LYFT	History	CONSUMER DISCRETIONARY	467,618	9,048,408	0.13%		39	467,618	New

Tickers: BABA, PDD, BIDU, FXI, JD, KWEB, BEKE.

Not to be outdone, Michael Burry has 22% of his portfolio — in just three Chinese Stocks: JD, BABA and BIDU.

Stock	History	Sector	Shares Held or Principal Amt	Market Value	% of Portfolio	Previous % of Portfolio	Rank	Change in Shares	% Change
JD	History	CONSUMER DISCRETIONARY	360,000	9,860,400	9.53%	6.11%	1	160,000	80.00%
BABA	History	COMMUNICATIONS	125,000	9,045,000	8.74%	6.15%	2	50,000	66.67%
HCA	History	HEALTH CARE	25,000	8,338,250	8.06%	5.72%	3	5,000	25.00%
C	History	FINANCE	125,000	7,905,000	7.64%	5.44%	4	25,000	25.00%
PHYS	History	FINANCE	440,729	7,624,612	7.37%		5	440,729	New
SQ	History	INFORMATION TECHNOLOGY	90,000	7,612,200	7.36%	4.09%	6	40,000	80.00%
CI	History	FINANCE	20,000	7,263,800	7.02%		7	20,000	New
AAP	History	CONSUMER DISCRETIONARY	85,000	7,232,650	6.99%	4.52%	8	15,000	21.43%
BP	History	ENERGY	175,000	6,594,000	6.37%		9	175,000	New
VTLE	History	ENERGY	125,000	6,567,500	6.35%	4.21%	10	37,500	42.86%
SBLK	History	TRANSPORTS	250,000	5,967,500	5.77%	4.95%	11	29,792	13.53%
REAL	History	CONSUMER DISCRETIONARY	1,412,692	5,523,626	5.34%	1.39%	12	757,886	115.74%
FSLR	History	INDUSTRIALS	30,000	5,064,000	4.89%		13	30,000	New
BIDU	History	COMMUNICATIONS	40,000	4,211,200	4.07%		14	40,000	New
ACIC	History	FINANCE	251,892	2,692,725	2.60%	2.10%	15	41,524	19.74%
SB	History	TRANSPORTS	400,000	1,984,000	1.92%	1.04%	16	150,000	60.00%

The winds are changing…

Continue reading here *(subscription may be required)*

Details on this month's federal announcement to reschedule the status of cannabis (from Marijuana Moment)...

President Joe Biden has announced that his administration is officially moving to reschedule marijuana under federal law, applauding the "monumental" action that follows an extensive administrative review that he directed.

The Justice Department will soon post its proposed rule to move cannabis from Schedule I to Schedule III under the Controlled Substances Act (CSA) in the Federal Register, a senior administration official said on Thursday. There will then be a 60-day public comment period before the rule is potentially finalized...

The public comment period that will soon open is expected to receive historic attention given widespread public support for broad legalization and competing perspectives about the appropriateness of a Schedule III designation.

On the one hand, many advocates have welcomed the rescheduling determination, given that it represents the first time in over 50 years that the federal government has recognized the medical value and relatively low abuse potential of a plant that's been legalized in some form in the vast majority of states.

On the other hand, activists have emphasized that rescheduling does not federally legalize marijuana or provide corrective relief to people who've been criminalized over it. And, of course, prohibitionists have urged DEA to keep marijuana in Schedule I and are expected to litigate if the agency moves forward with the incremental reform.

DEA Administrator Anne Milgram has also acknowledged the possibility of an administrative hearing to gain further input on the decision before its finalized.

The Congressional Research Service (CRS) has also weighed in on the rescheduling development, saying in a report that while it was "likely" that DEA would enact the policy change, that would not bring state markets into compliance with federal law. It added that Congress still has the authority to address the federal-state cannabis policy gap "before or after" that reform is enacted.

To that end, Senate Majority Leader Chuck Schumer (D-NY) and colleagues have reintroduced legislation to federally legalize cannabis and impose certain regulations. The bill's prospects are dubious in the current divided Congress, however.

Meanwhile, the top Democrat in the U.S. House said that the Biden administration's move to reschedule marijuana is a "step in the right direction," but it should be followed up with congressional action such as passing the legalization bill Schumer filed.

In a recent interview with Fox News, former DEA Administrator Asa Hutchinson said it "absolutely looks like" the agency will follow through with moving marijuana from Schedule I to Schedule III under the CSA.

Continue reading here

Cannabis is "full of alpha" (for now) (from Mindset Value)...

President Biden made the historic announcement that his administration is moving to reschedule cannabis from Schedule 1 to Schedule 3. This announcement is a step in the right direction for cannabis and for our society. I believe cannabis is the **Great Replacement** for what people are already consuming, but it is just a lot less toxic than the alternatives.

If you remember, it felt like I was one of the few people that believed that **Biden was serious and that his administration would move faster on rescheduling than expected back in 2022**. Here is what I wrote:

> *I think the Biden administration has started the process to end the prohibition on cannabis and that the administration will either reschedule cannabis to schedule 3 or lower, or de-schedule cannabis altogether and that it will happen by the end of 2023.*

My timing was off by five months, still not bad.

To me, once cannabis is officially rescheduled (my best guess is by end of September), the real game of investing in cannabis will begin. And the ultimate goal beyond just profits is generating alpha, or outperformance. And right now there continues to be lots of alpha available. It's important to focus on why.

First, due to the Federal illegality of cannabis, there are few institutional investors and few analysts conducting fundamental research.

Second, the few cannabis investors and analysts that do exist tend to focus on the top five largest companies and generally ignore the other companies.

Third, within the small cannabis investing community most investors focus most of their attention on Federal and State government news, technical trading trends, and what the top executives say or tweet.

To a fundamental value investor like me this is music to my ears. I have found little or almost no discussion of unit level economics, Return on Invested Capital (ROIC), sensitivity analysis to different pricing environments, Cost of Goods Sold (COGS), and actual repeatable free cash flow generation.

All of this has led and should continue to lead to alpha because what generates value in the long term is free cash flow growth, companies with COGS advantages and reinvestment runways.

I continue to believe that there is tremendous alpha in cannabis, but with today's news it probably marks the beginning of that starting to change. More investors are likely to get involved and the alpha will slowly but surely disappear over time.

Just remember what Charlie Munger said: *"I have a friend who says the first rule of fishing is to fish where the fish are. The second rule of fishing is to never forget the first rule."*

Right now there are lots of fish and few fishermen. I plan to enjoy it while it lasts.

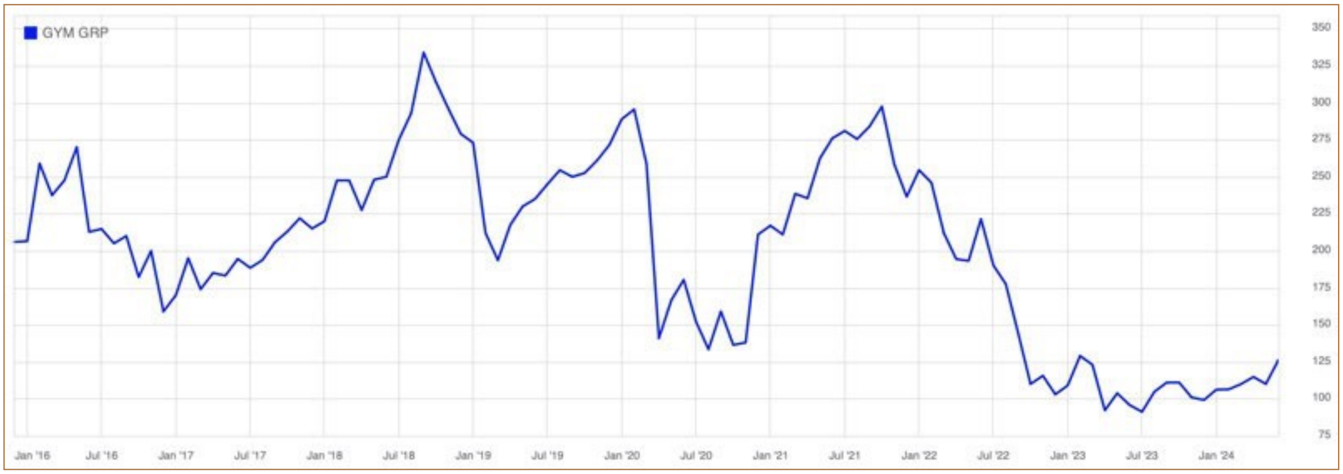
An undervalued small-cap stock with 300% upside ([from Undervalued Shares]())...

Britain has one of the world's cheapest stock markets.

Bids for undervalued companies are coming in hard and fast, including for multi-billion targets.

To snatch the biggest bargains, you now have to look at forgotten stocks among its small- and mid-caps.

Today's Weekly Dispatch features one such candidate. Its stock has already started to move.



The Gym Group.

Britain is back on the menu

Undervalued-Shares.com has long been going on about undervalued British stocks.

The entire theme is not exactly a secret anymore:

"UK's 'staggeringly cheap' stocks trade at record discount to US"

Financial Times, 23 March 2024

"Think UK Stocks Are Cheap? Try Buying a Whole Company."

Bloomberg, 4 April 2024

"British stocks represent golden buying opportunity, says HSBC"

Daily Telegraph, 20 May 2024

The market has also started to move quite a lot recently:

["The FTSE 100 is flying – is it time to buy UK stocks?"]

The Times, 27 April 2024

"UK stocks are finally shining"

Financial Times, 10 May 2024

"Takeover interest in UK companies hits highest since 2018"

Financial Times, 13 May 2024

To find undervalued British stocks with considerable upside, you now have to dig a little deeper.

The #2 national low-cost gym group

One company worth taking a closer look at is The Gym Group (ISIN GB00BZBX0P70, UK:GYM), the UK's second-largest low-cost gym group with 230 outlets nationwide and 900,000 members. The market leader has 300 outlets, but the #3 is a lot smaller.

Like any other gym group, The Gym Group got caught out by pandemic lockdowns. During the March 2020 crash, the stock fell from 300 pence to as low as 138 pence. It subsequently recovered the entire losses, only to then fall to a new low of less than 100 pence by spring 2023.

With gyms closed during lockdowns and fixed costs eating away at the company's balance sheet, The Gym Group had to recapitalise: in 2022, it received GBP 300m from a private equity fund. In comparison, the company's market cap is currently just GBP 227m, but it also has net debt of GBP 670m, making for an enterprise value of nearer to a billion pound.

Now that gyms have reopened, it'd be easy to think that gym usage must be back to where it was before the lockdowns. British gyms now have 20% less members on average, though – just where the previous members have gone is unclear.

A good bet is that these comprised relatively inactive members who had previously kept their gym membership nevertheless. With the cost-of-living crisis biting, many people have by now probably identified their little-active gym membership as an easy saving.

Unexpectedly, users generally didn't trade down their mid-tier gym membership to a lower-cost one. For companies like The Gym Group, the benefit of trading down has thus been minimal.

Still, low-cost gyms are now the only segment of Britain's gym market that is growing.

Cheap valuation

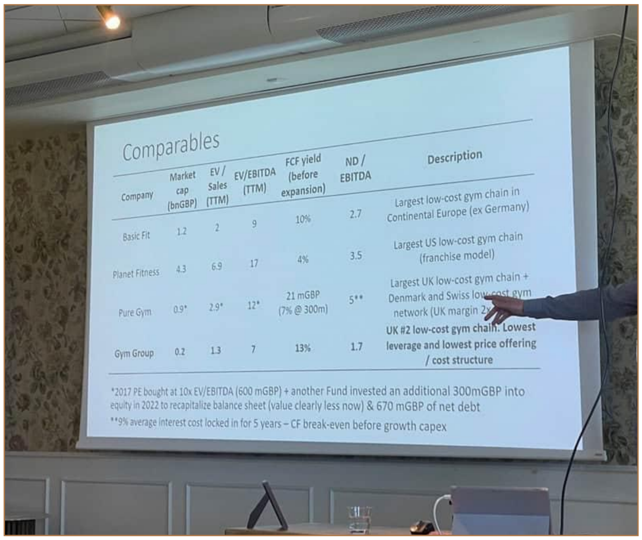
The stock of The Gym Group is currently trading at just 80% of the replacement value of the company's gym equipment. The other 20% of the equipment and the actual business are thrown in for free.

That's the analysis of Kaspar Daljajev, an Estonian value investor who presented at this week's **Nordic Value conference**, an annual invite-only event near Copenhagen.

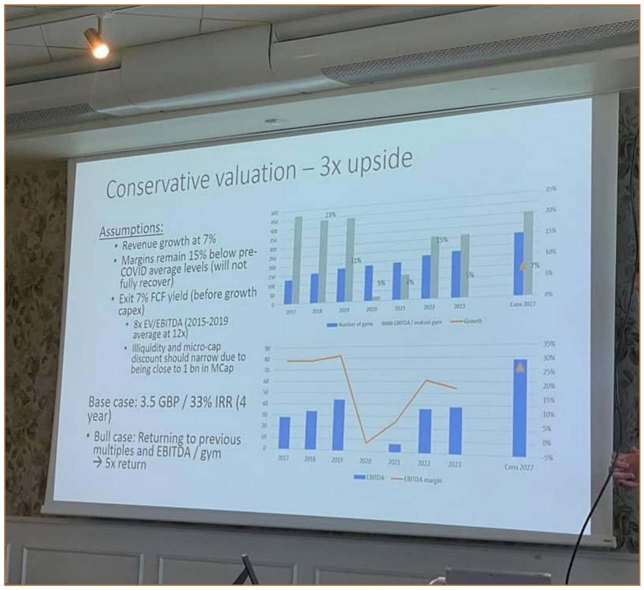
According to Daljajev's analysis, the stock is currently trading at an EV/EBITDA multiple of about 7, even though The Gym Group still has 30% lower margins than before the pandemic.

Improvements seem to be on the horizon. According to Daljajev, *"the Gym Group has the lowest cost base, it is the Ryanair of the gym industry. The top two, including The Gym Group, are taking market share. … "There is a new strategy. The members who did stay are hardcore fans. The Gym Group is now raising prices."*

The stock is currently trading at the lowest valuation multiples among publicly listed European gym companies.



If The Gym Group got back to growing revenues at 7% p.a. and even with margins never recovering to their pre-pandemic levels, the stock would need to rise by 3x to get back to a fair valuation. In a more aggressive scenario, it could even be a 5x candidate, according to Daljajev.



An analysis published on Value Investors Club in August 2023, when the stock was trading at 109 pence, came to a similar conclusion:

> *"We believe this earnings normalization will come in the next 3 to 5 years and, as a result, the market will revalue the company to reflect its currently 'hidden' profitability. Taking this into account, in a scenario where the EBITDA per mature gym returns to close to 2019 levels and the gyms opened over the past two years reach maturity, we would be talking about 0.43m GBP of EBITDA (after rent) per gym times ~240 gyms (assuming 10 net opens), or ~100m EBITDA. Netting 20m in central costs gets us to 80m EBITDA (3x current EV). An exit at 6x, coupled with cash generation until then, would be enough for a ~30% IRR."*

Continue reading here *(subscription may be required)*

SOVEREIGN/GOVERNMENT BONDS AND CREDIT

Former "bond king" Bill Gross: "Don't let them sell you a bond fund" (from Bill Gross)...

They just wanna sell you a bond fund.

No not Pimco — or me (who's marketing an **online compendium** of 46 years of my Investment Outlooks for $9.99) No, I'm talking about investment managers touting bullish forecasts for 4.60% 10-year Treasuries. Pimco's not one of 'em nor am I. Reunited in spirit at least. But many managers are bullish on bonds.

Some background. Vanguard's Total Bond Market Index Fund has provided a negative .1% total return over the last 5 years — includes income plus percentage price change. Now, however, bond bulls cite 2-3% forward inflation and a Fed cut, two, or three to suggest 10-year yields move to 4% which would produce a 7%+ total return for the balance of 2024. Not gonna happen in my view.

This concept of "total return" was a phrase Pimco originated in the depths of the bond bear market in the early 1980's. Such commonsensical brilliance emanated from a 15%, 30-year Treasury yield and the observation that based on rock bottom durations of 6-7 years they could go to 17.5% before an investor would be in the red. Not slam dunk at the time but close. Thus, managers were able to reverse the past reality of "certificates of confiscation" for which they were known at the time and produce a "total return" that was positive. Worked for a long time, until the summer of 2020 when 10-year yields bottomed at 53 basis points and these "investments" came to resemble Sisyphus headed downhill — 2 steps down, one step back up in price. Because yields were near 0%, not 15%, and durations were now in the 20+ year category, total return was dead.

Does this trend continue? Well not in the same magnitude and much depends on future inflation, the Fed's R* (real short rate target), and future supply. It's the future supply of Treasuries that I want to address. The outstanding balance of Treasuries has been increasing at a 10%+ annual rate for the past 18 months — a result of fiscal post-Covid deficits of 2-3 trillion dollars. At the end of 2023's fourth quarter there was nearly 30 trillion of outstanding public debt issued by the Federal government, growing at 10% a year.

Here's my argument — best outlined in my 2013 Investment Outlook "Credit Supernova" — of which I am most proud and available at a bargain rate of $9.99 for the bunch of them. The yield of outstanding total credit (Treasuries, corporates, mortgages, bank loans, etc.) is guesstimated at 5.5% and rising. Quite simply, (but subject to qualifications), the 77 trillion of total credit has to expand at this 5.5%+ rate in order to pay the bills — the 5.5% interest on what has been issued in the past. It has been doing that for some years now. Think of it as M in the Friedman concept MV=PT where V (velocity) is constant and PT = Nominal GDP. Credit, in other words, expands over time, to facilitate the growth of GDP.

Seems logical to me, but here's the rub. Recent growth in credit has primarily been a function of the growth of Treasury debt — 10% annually as previously mentioned. But business/household debt is now growing at 1-2% annually so the Treasury debt (a function of fiscal deficits) has needed to grow at 10% plus to produce credit growth of 5.5% and sustain nominal GDP growth of 5.5% as well.

Bottom line please Bill! The U.S. economy requires fiscal deficits and net increases in Treasury debt of 1-2 trillion or more annually in order for the economy to grow. That's a lot of bonds.

That's a good reason why 10-year Treasuries are at 4.60% instead of .5% in 2020. That's a good reason why the Fed holds FF at 5.25%+ instead of 0: They have to price money to satisfy the "vigilantes" now that QE is history and QT is underway. Look for 5% plus 10-year yields over the next 12 months — not 4.0%. Those that argue for lower rates have to counter the inexorable upward climb in Treasury supply and the likely Sisyphean decline in bond prices. Total Return is dead. Don't let them sell you a bond fund.

Investors are flocking back to fixed-income assets in a major reset for Wall Street (from *Bloomberg*)...

For the first time in nearly a generation, fixed income is living up to its name.

This, at a certain level, is simply the consequence of benchmark rates in the US jumping from 0% to over 5% in a span of two years.

But at a time when all of Wall Street seems fixated on whether the Federal Reserve will actually cut interest rates this year — and heated arguments break out over whether the 10-year US bond should yield, say, 4.5% or 4.65% — it's easy to lose sight of one important fact: That after being held hostage by zero-rate policies for almost two decades, US Treasuries are finally reverting back to their traditional role in the economy.

That is, as a source of income that investors can lock in and rely on, year after year, for years to come — regardless of where yields are at any given moment.

The numbers tell the story. Last year, investors pocketed nearly $900 billion in annual interest from US government debt, double the average over the previous decade. That's set to rise as just about all Treasuries now carry yields of 4% or more. In mid-2020, none did. Because of the higher interest, investors are also better shielded against any jump in yields. Currently, rates would need to go up by over three-quarters of a percentage point over the next year before Treasuries start to lose money, at least on paper.

Over the past decade, that margin of safety at times virtually disappeared.

"With the help of our friends at the Fed, they did put the income back in fixed income," said Anne Walsh, who oversees about $320 billion as chief investment officer of Guggenheim Partners Investment Management. "And fixed-income investors, we get to reap the benefits of higher yield. That's a good thing."

Continue reading here *(subscription may be required)*

The U.S. fiscal situation is becoming critical (from FFTT Tree Rings)...

America's fiscal outlook is disastrous, but forgotten – Economist.com, 5/6/24

IMF chief Kristalina Georgieva calls U.S. debt load 'mind boggling' – Los Angeles Times, 5/6/24

> *International Monetary Fund Managing Director Kristalina Georgieva praised the strength of the U.S. economy but warned its current level of deficit spending was not sustainable and could crimp U.S. and global growth if it's not brought under control, in remarks Monday at the Milken Institute Global Conference.*
>
> *Servicing the U.S debt — now roughly $34 trillion — consumes more than 17% of federal revenue, compared to under 7% in 2015, Georgieva said in an interview that kicked off the annual conference at the Beverly Hilton, which draws thousands of businesspeople, investors and professionals from around the world.*
>
> *"It cannot go like this forever, because the ... burden on the U.S. is going to cripple spending that is necessary to make for servicing the debt. To pay 17-plus percent in debt service is just mind-boggling," Georgieva said. "There is opportunity cost to this money ... it doesn't go to emerging markets where it can finance jobs and business opportunities for American companies.*

Social Security and Medicare finances look grim as overall debt piles up – The Washington Post, 5/6/24

Tree Ring: The articles above from various major "media outlets of record" (The Economist magazine, Washington Post, LA Times) all stating now what has long been obvious feels like a case of senior level policymakers and investment managers [waking up]:

> *The US fiscal situation is getting critical, they are noticing, and they do not know what to do.*

Or, perhaps more accurately, to paraphrase Jean-Claude Juncker, it is not that these policymakers don't know what to do; it's that they don't know how to get re-elected after they've done them. The decision set facing these policymakers is one we have laid out repeatedly:

1. **Slash US Entitlement and Defense spending by ~4-5% of GDP, immediately and permanently** (this would require 27-33% cuts to Entitlements and Defense, immediately and permanently... *and this assumes that the 4-5% drop in GDP this entails would not trigger a new Great Financial Crisis (where GDP fell 3% on an annual basis) that left US deficit/GDP even higher than where it is today.*

2. **A productivity miracle that does not arrive too fast (so that it hurts jobs and tax receipts) but also does not arrive too slowly either.**

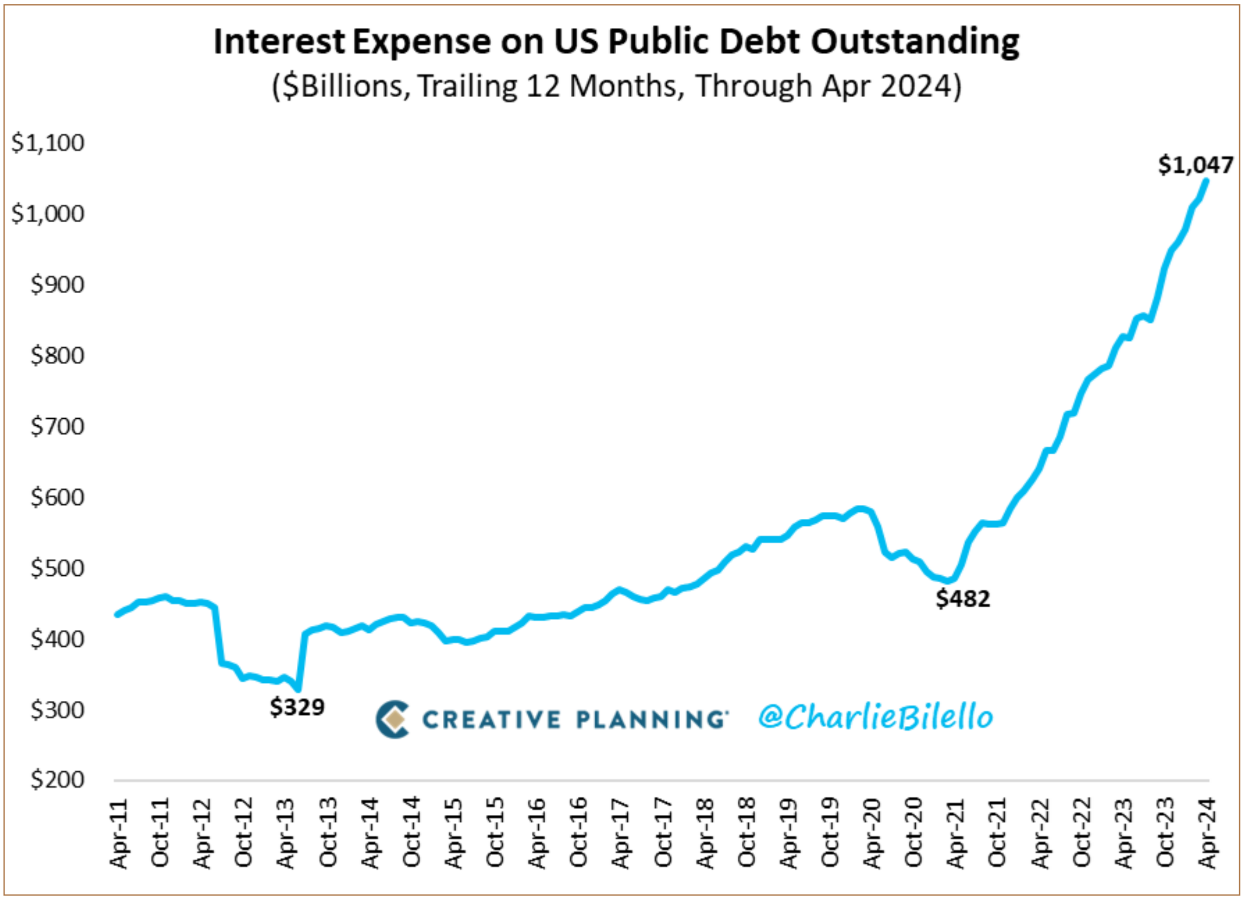
3. **Increase USD liquidity, one way or another, into elevated US inflation and low US unemployment, effectively to finance US deficits.**

Our base case remains #3, because for the past 35 years, we have watched Washington lack the political courage to do #1. We do think #2 is a potential option [via AI and robotics], but it is trickier to pull off – it will require threading the needle.

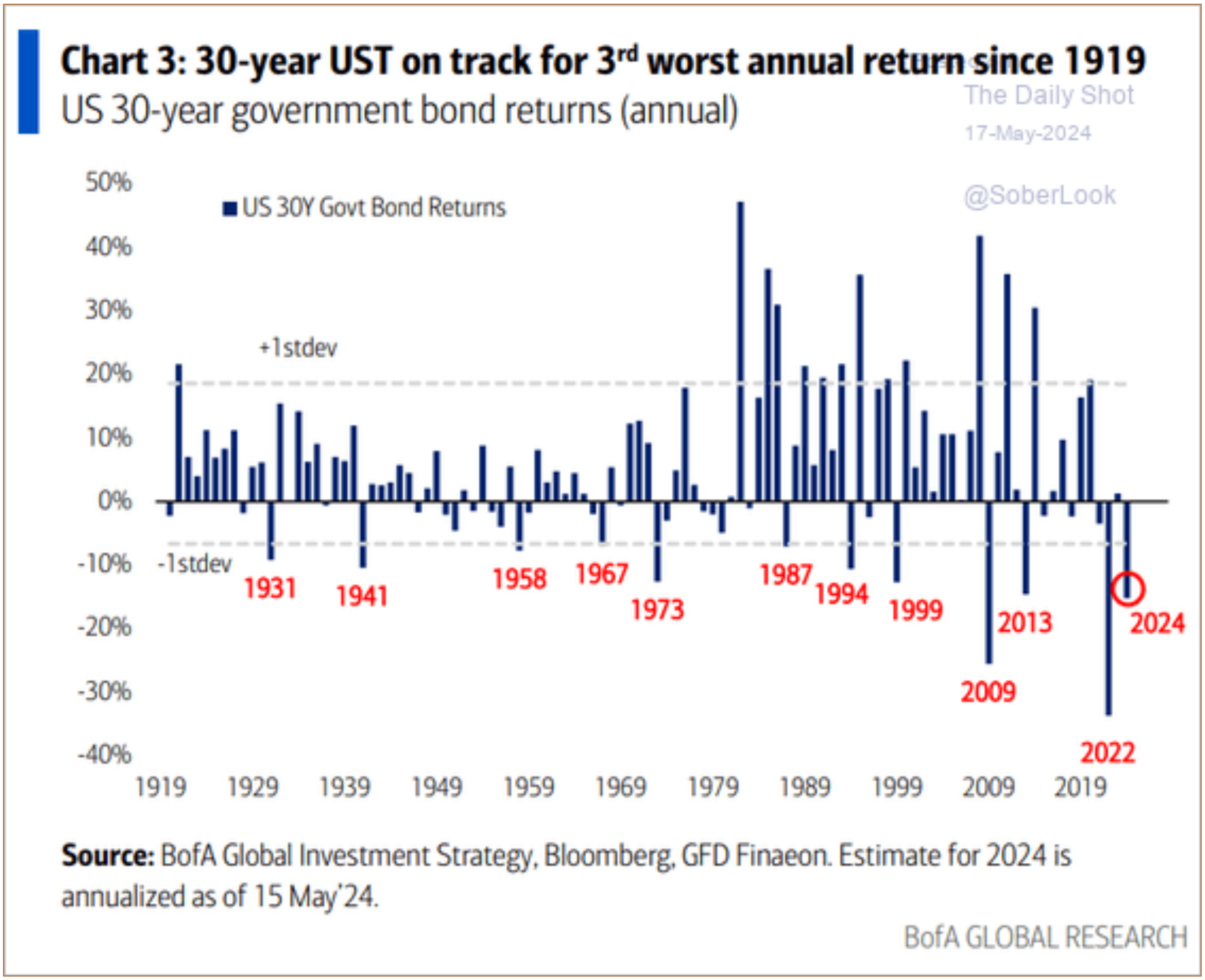
Continue reading here *(subscription required)*

The interest expense on U.S. public debt hit $1.05 trillion over the last 12 months, another record high (from The Week in Charts)...

With debt levels spiraling upward and interest rates set to remain higher for longer, this will continue to escalate.



The 30-year U.S. Treasury bond is on pace for the third worst annual performance in over a century ([from The Daily Shot](#))...



[Continue reading here](#) *(subscription required)*

Japan's 10-year government bond yield tops 1% for the first time in 11 years (*from The Financial Times*)...

Japan's 10-year government bond yield climbed above 1 per cent on Wednesday for the first time in 11 years as investors braced for higher borrowing costs as part of the central bank's historic policy shift.

In recent weeks, investors have increased their bets that the Bank of Japan will lift interest rates further and begin to reduce its purchases of government debt after it ended eight years of negative rates in March.

Benchmark 10-year borrowing costs in Asia's largest advanced economy rose as high as 1.005 per cent on Wednesday, a level not seen since May 2013.

The yield has risen steadily since May 13 when the BoJ surprised markets by buying a smaller than expected amount of five- to 10-year Japanese government bonds during its regular operation.

Japan's borrowing costs hit 11-year high

10-year Japanese bond yield (%)

Source: LSEG
© FT

The central bank in March abandoned its policy of using purchases to cap 10-year borrowing costs, but has continued to buy government debt to avoid causing shocks to financial markets. Governor Kazuo Ueda has previously said the central bank had no immediate plans to change the size of its bond purchases.

But the BoJ has come under pressure to tighten its policy to arrest a slide in the yen to a 34-year low, even as Japanese authorities are thought to have conducted multiple interventions to prop up the currency.

Kaoru Shoji, a rates strategist at SMBC Nikko Securities, said the recent rise in long-term debt yields was a sign of the BoJ loosening its grip on bond markets after spending years capping yields at zero.

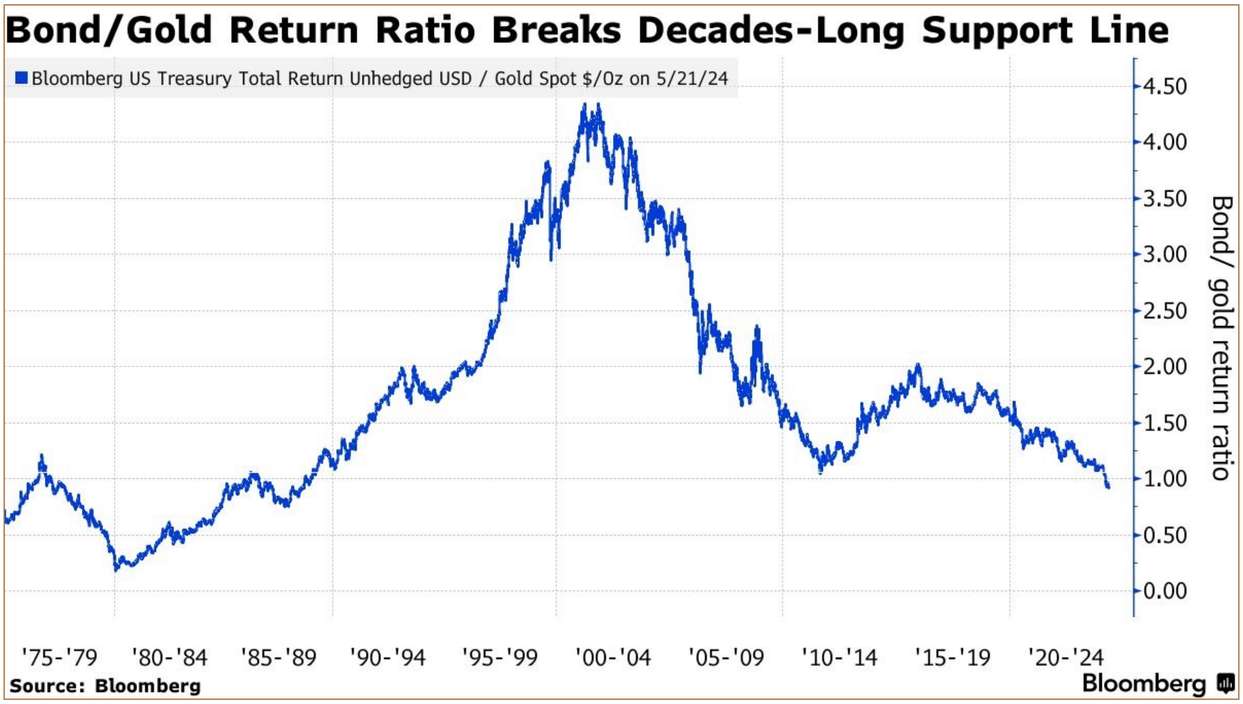
“There is concern that the BoJ will reduce its bond purchases at a faster pace than expected and that is likely to be the main driver for the rise in yields,” Shoji said.

Continue reading here *(subscription may be required)*

Bonds' decades-long lead over gold vanishes as debt worries grow (*from Bloomberg*)...

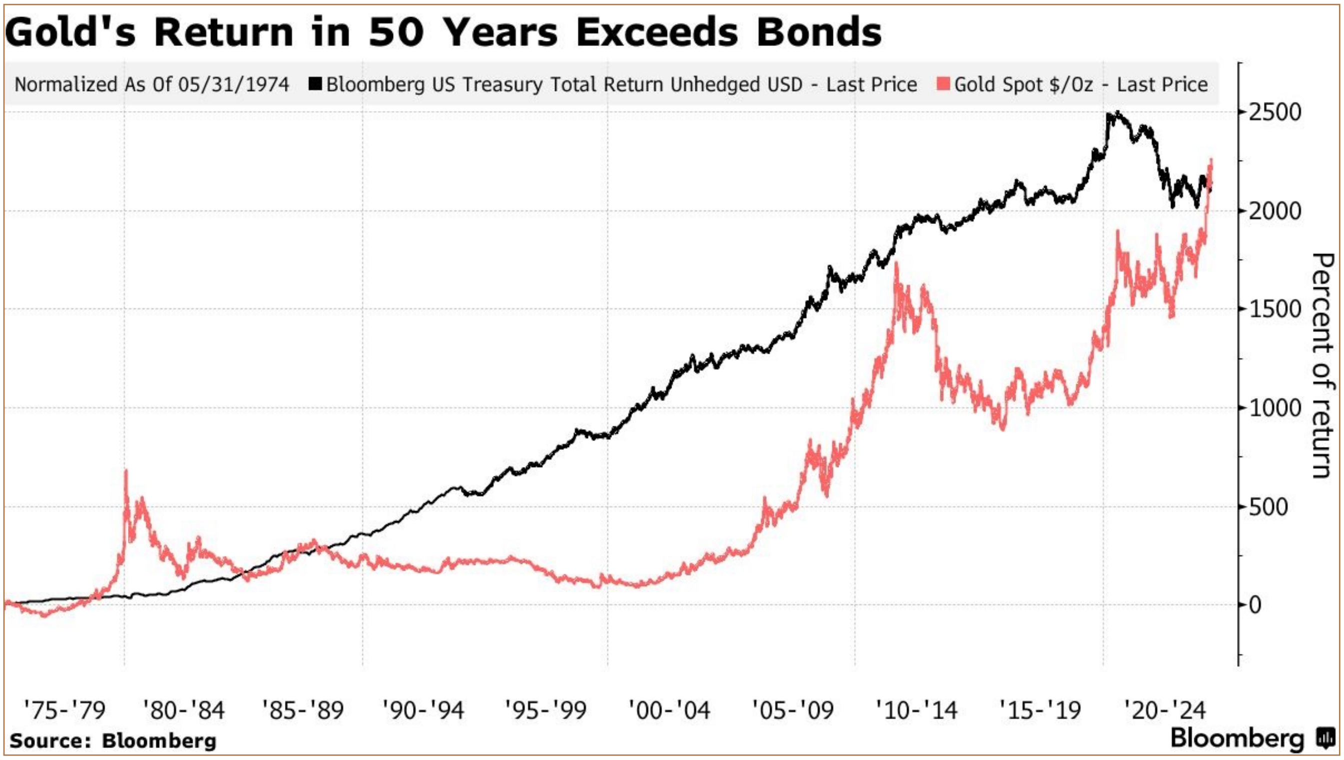
Investors traditionally flocked to US debt as a super-safe investment paying steady income, and backed by the world's economic powerhouse. For buyers ranging from individual savers to sovereign nations, these attributes made it a superior investment to gold, which doesn't generate cash flows as bonds do, though it is still coveted as a scarce commodity and inflation hedge.

This relationship has been shifting lately, with recent trends moving in gold's favor. The benchmark Bloomberg Treasury Total Return Index is on track for its third annual decline in four years, extending its loss from a peak in 2020 to 11%. In comparison, gold set a fresh record this week to clock in a 15% return so far this year alone.



... "The safe haven asset class of choice has become gold rather than Treasuries," said Hooper. "The bigger theme is just the concern about a lot of debt and concern that the fiscal situation in the United States is unsustainable."

The diverging performance means gold has jumped ahead of US government debt as a long-term investment. A dollar invested in gold 51 years ago is now worth $2,314, $172 more than the return pegged to the Bloomberg Treasury index, which had its debut in 1973. (The comparison doesn't factor in the storage costs for holding gold.)



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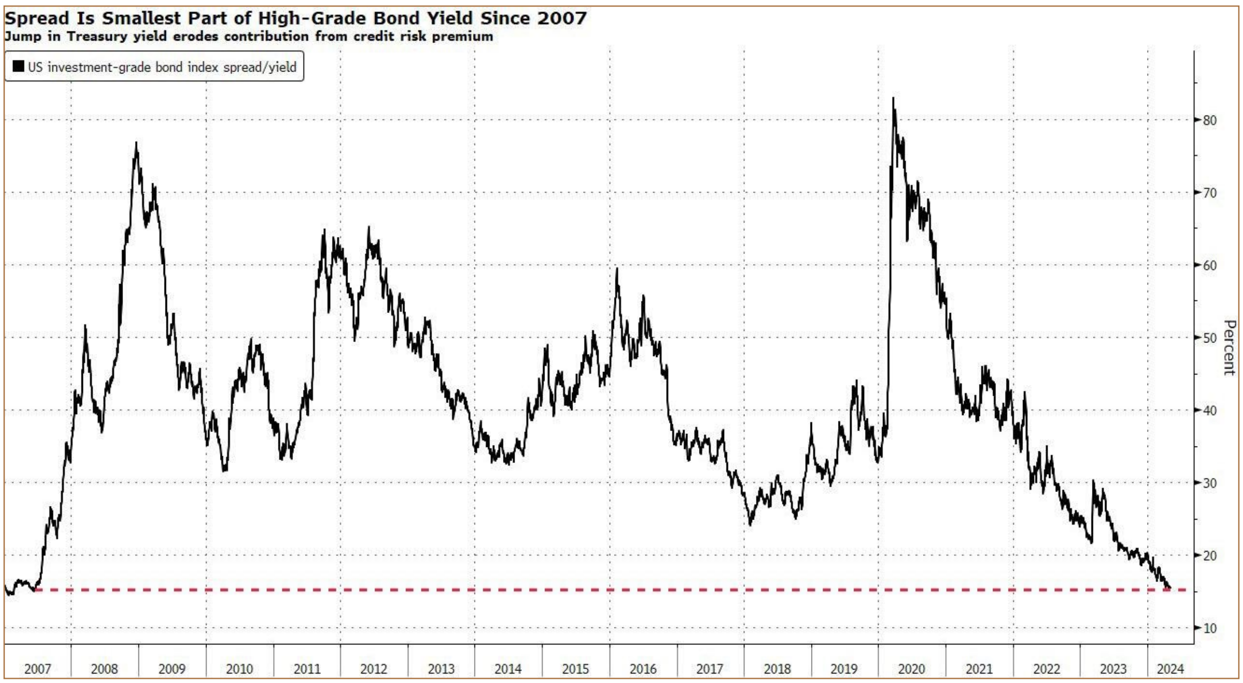
CORPORATE BONDS AND CREDIT

Credit smacks of complacency as spreads continue to narrow (from Zero Hedge)...

Wafer-thin spreads on corporate debt don't matter — until they do. There are several potential triggers for risk premia to flare, denting credit portfolios.

Spreads have collapsed across the board, from investment-grade and junk bonds to collateralized loan obligations. **The extra yield investors get for owning US high-grade corporate debt instead of government bonds is the lowest in two-and-a-half years.**

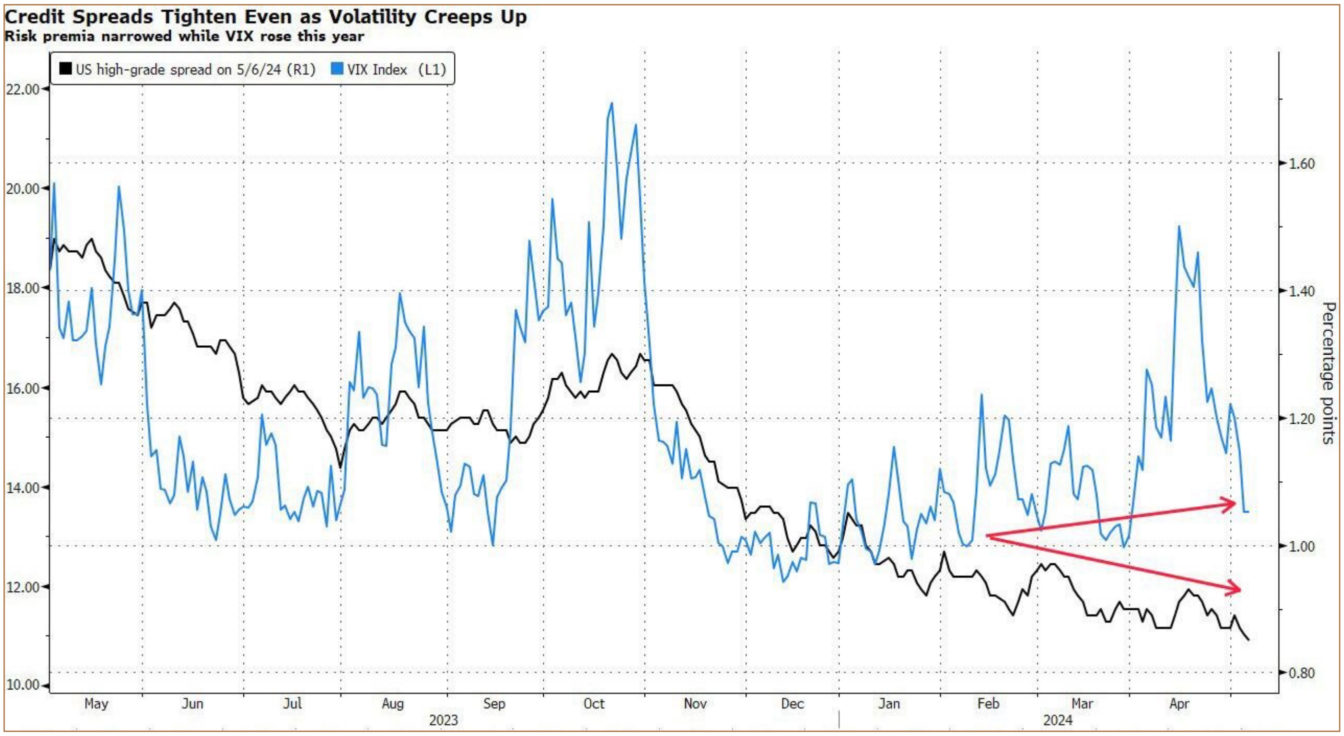
At less than 90 bps, that's far below the five-year average of about 120 bps. As a percentage of all-in yield, it's the least since 2007.



Such narrow risk premia reflect booming demand for limited net new supply of corporate bonds, plus a general lack of concern about the macroeconomic outlook. **And since the Federal Reserve bailed out corporate bonds during Covid, there's a perceived central bank backstop underpinning the debt**.

Buyers have been lulled into thinking this is the new normal, but such a paltry yield pickup doesn't adequately reflect rising corporate credit risk. **So when volatility returns to jolt investors from their slumber, expect credit risk premia to flare, slamming portfolios**.

Credit typically tracks broad measures of volatility, with spreads widening when markets get choppy. But since December, when corporate bond buyers were bulled up on the idea of six 2024 rate cuts and a soft landing in the US, they've diverged.



There are eerie similarities with the period just before the global financial crisis — not least high-grade spreads and bond yields at around the same levels. **After that particular bubble popped, investment-grade risk premia spiked above 600 bps**.

Other credit blow-ups occurred during the 2011 European sovereign debt crisis, a 2016 rout in the banking sector and oil prices, as well as during the global economic shutdown when the coronavirus spread in 2020.

War, geopolitics and elections are reasons to believe the VIX Index will rise closer to its five-year average above 20, from less than 14 currently. That should rattle credit investors, who are increasingly exposed by accepting less cushion for rising risk.

In addition, credit's vulnerable to a sustained exodus of funds fleeing negative returns — high-duration corporate bonds lose money when yields rise — in search of better options at more generous yield spreads. **Plus there's the threat of policy error — or even a hike — from the Fed, and a US recession can't be ruled out**. Both would throw debt portfolios for a loop.

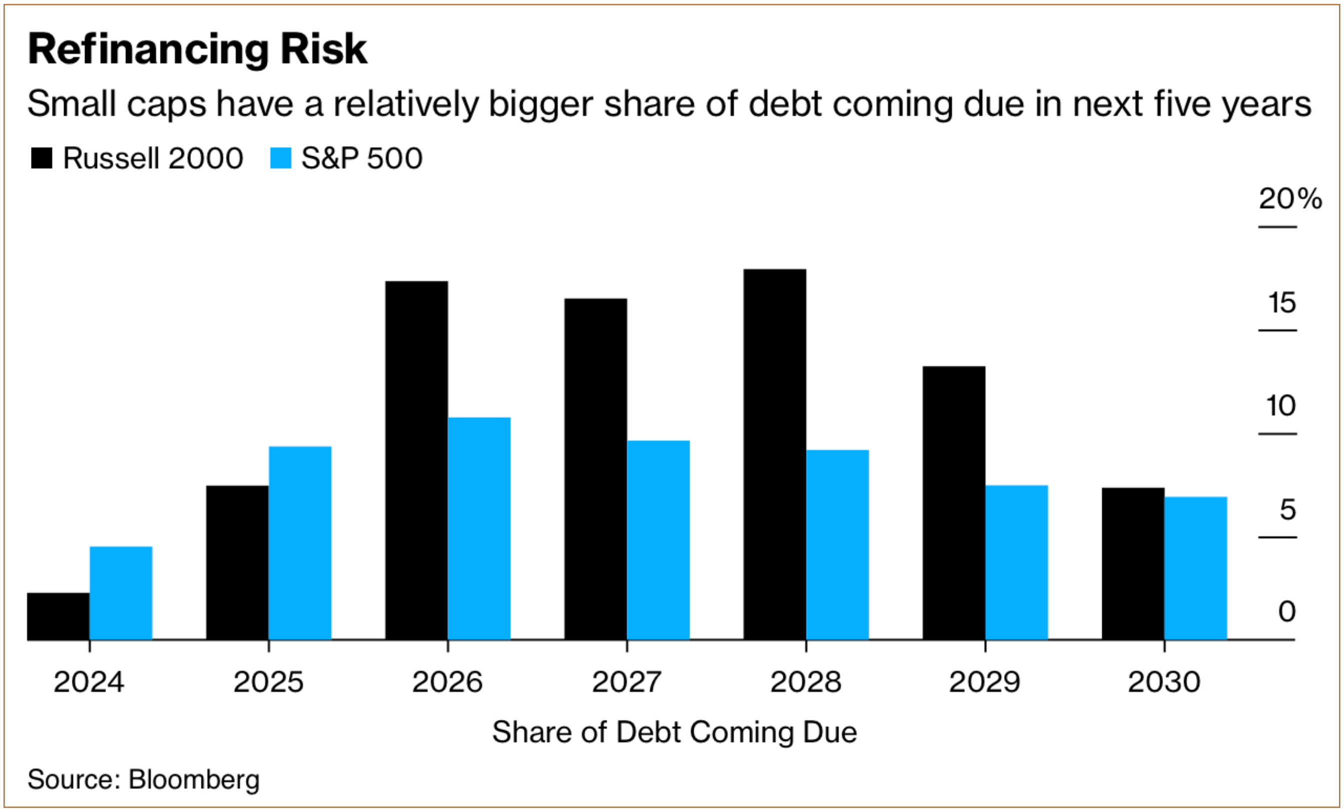
Credit's set up for a fall after rallying hard at the end of 2023. Investment-grade US bonds booked the best returns since 2008 in November and December, when investors raced to price in a whopping six rate cuts for this year. **Barely any of that's been given back — even as those dovish hopes have crumbled**.

Continue reading here

A $600 billion wall of debt looms over the market's riskiest stocks (*from Bloomberg*)...

US small-cap stocks are as cheap as they've been in decades, but with a more than half-trillion dollar mountain of debt looming over the next five years, it's going to take a significant risk-on signal from the Federal Reserve to entice investors.

Firms in the small-capitalization Russell 2000 Index hold a total of $832 billion in debt, 75% of which — or $620 billion — needs to be refinanced through 2029, data compiled by Bloomberg shows. For comparison, companies in the big-cap S&P 500 Index have just 50% of their obligations due by then.



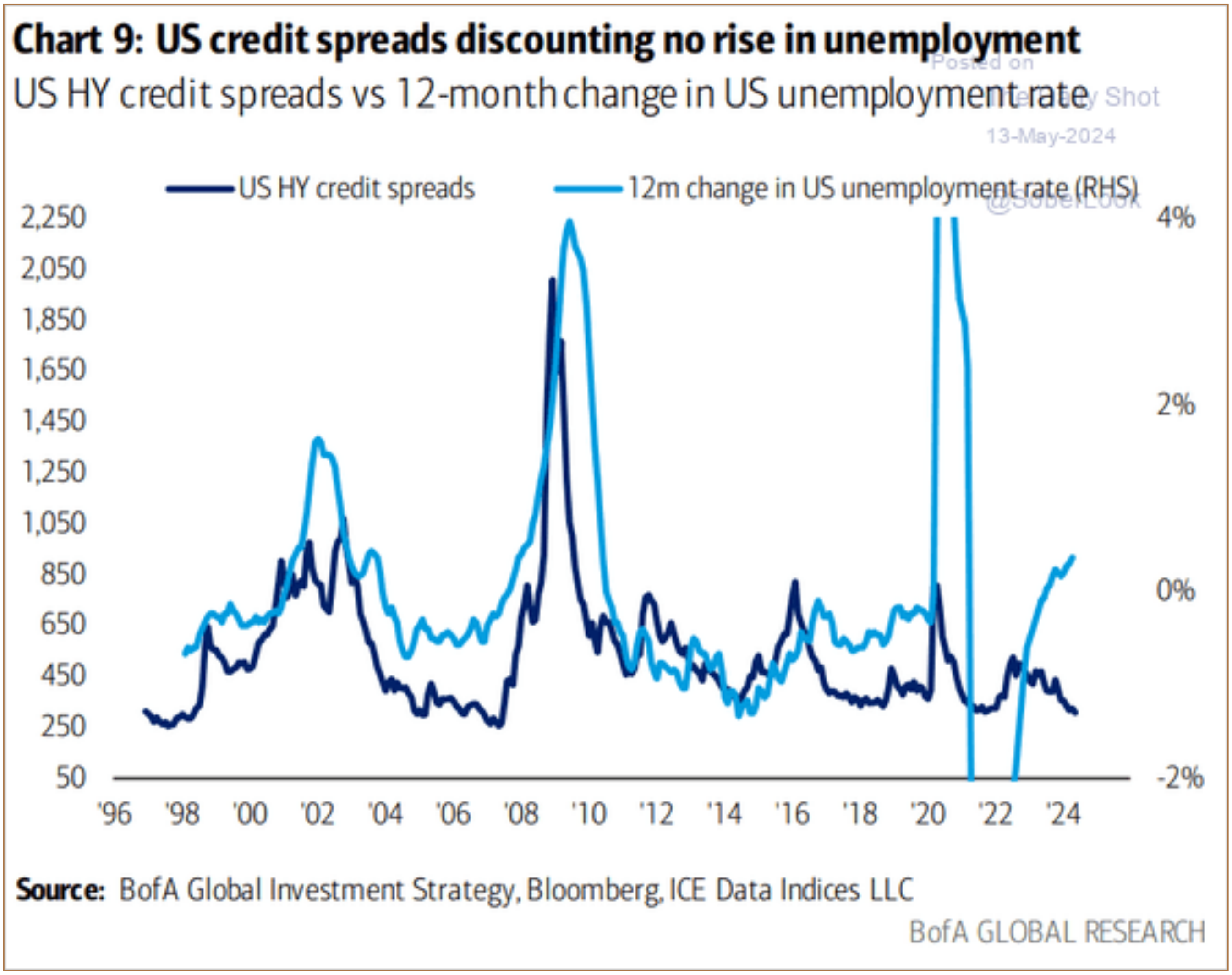
"No, despite attractive valuations, we won't be buying yet," said Marija Veitmane, senior multi-asset strategist at State Street Global Markets. "We don't like small caps as they are much more sensitive to an economic slowdown, have much higher cost of funding, and margins are likely to be squeezed more."

In particular, smaller companies tend to have a considerable amount of floating-rate debt, usually in the form of loans, because they often aren't big enough to borrow in the bond market. That means their interest expenses often reset higher soon after the Fed hikes rates, while a bigger company with fixed-rate bond debt may wait longer before higher rates have a significant impact on their borrowing costs.

In addition, the performance of small companies typically is tied to how the overall economy is doing. So with economic conditions in flux and uncertainty the theme in markets at the moment, Wall Street pros are skeptical of buying into the riskiest stocks — even at seemingly bargain valuations.

Continue reading here *(subscription may be required)*

Rising unemployment suggests junk-bond spreads could widen significantly (from The Daily Shot)...



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The riskiest high-yield bonds are already showing subtle signs of weakness (from EWI Global Rates and Money Flows)...

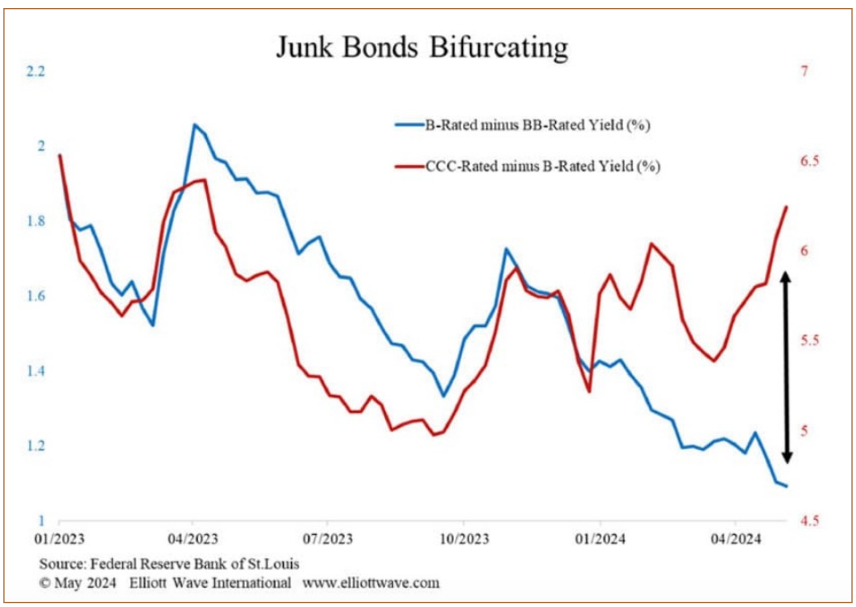
The chart below replicates one I spotted from Bank of America which highlights an interesting development in the junk bond market.

The red line is the yield spread between an index of corporate bonds rated CCC or below and of those rated one notch higher on the credit spectrum, B-rated. The blue line shows the yield spread between B-rated bonds and one notch higher than that, BB-rated.

There has been an obvious divergence indecent weeks with the spread between CCCs and Bs widening markedly whilst the spread between Bs and BBs has continued to narrow.

Clearly, CCCs are starting to underperform other junk bonds, and this could be a sign of investor nervousness over upcoming refinancing which is going to prove a big challenge for many corporates.

The subtle sign of bifurcation in the junk bond market could be an indication of broader issues in corporate debt that will come to light in the next few months.



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Similarly narrow credit spreads have not been bullish omens in the past (from David Rosenberg via X)...

Credit spreads have only been as tight as they are today twice before – in 2000 and 2007. Bottom decile of all time. High-Yield priced for no defaults even though business bankruptcies have surged +35% in the past year to the highest level since 2020Q3.

CONSUMER CREDIT

U.S. consumers pulled back sharply on credit-card use in March (from *MarketWatch*)...

The numbers: Total consumer credit rose at a much slower pace in March, the Federal Reserve reported [this month].

Consumer credit rose at a 1.5% annual rate, down from a 3.6% rate in the prior month.

That translates into a $6.3 billion monthly gain in March, following a $15 billion gain in the prior month.

In the first quarter, credit rose at a 3.2% clip, faster than the 2.4% rate in the final three months of 2023.

Key details: Credit-card borrowing rose a slight 0.1% in March after a 9.7% gain in the prior month. That's the slowest pace since April 2021. Nonrevolving loans, mainly student and auto loans, rose 2% after a 1.4% gain the February.

Looking ahead: The sharp pullback in consumer borrowing raises red flags, said Will Compernolle, macro strategist at FHN Financial. More data was needed before making any sweeping statements about the health of the consumer, he added.

Continue reading here *(subscription may be required)*

Americans are racking up phantom debt that Wall Street can't track (from *Bloomberg*)...

It's hard enough for central bankers and Wall Street traders to make sense of the post-pandemic economy with the data available to them. At Wells Fargo & Co., senior economist Tim Quinlan is particularly spooked by the "phantom debt" that he can't see.

That specter lurks behind buzzy "Buy Now, Pay Later" platforms, which allow consumers to split purchases into smaller installments. The major companies that provide these so called "pay in four" products, such as Affirm Holdings Inc., Klarna Bank AB and Block Inc.'s Afterpay, don't report those loans to credit agencies.

Time and again, they've resisted calls for greater disclosure, even as the market has grown each year since at least 2020 and is projected to reach almost $700 billion globally by 2028. That's masking a complete picture of the financial health of American households, which is crucial for everyone from global central banks to US regional lenders and multinational businesses.

Consumer spending in the world's largest economy has been so resilient in the face of stubbornly high inflation that economists and traders have had to repeatedly rip up their forecasts for slowing growth and interest-rate cuts. Still, cracks are starting to form. First it was Americans falling behind on auto loans. Then credit-card delinquency rates reached the highest since at least 2012, with the share of debts 30, 60 and 90 days late all on the upswing.

There are signs that consumers are struggling to afford their BNPL debt, too. A recent survey conducted for Bloomberg News by Harris Poll found that 43% of those who owe money to BNPL services said they were behind on payments, while 28% said they were delinquent on other debt because of spending on the platforms.

Continue reading here *(subscription may be required)*

Credit scores got artificially higher during COVID. Now many borrowers can't pay their debts (*from MarketWatch*)...

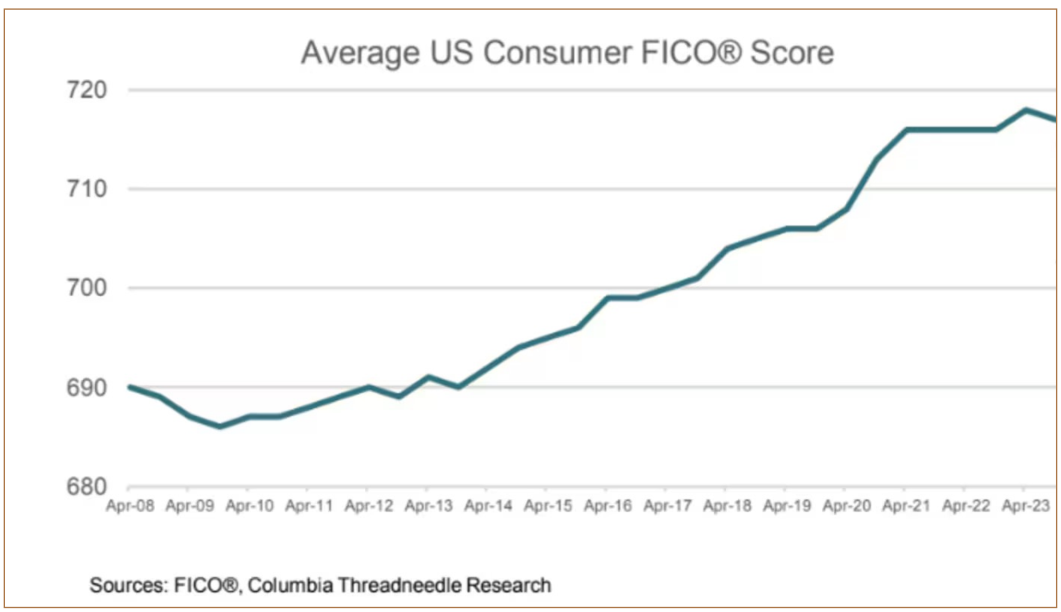
Credit scores have been a flashpoint on Wall Street since at least the subprime-mortgage meltdown some 15 years ago.

Back then, a major problem was "NINJA" home loans — or "no income, no job, no asset" mortgages that were originated based on credit scores, rather than the more traditional route of verifying a borrower's ability to repay.

Now, four years since the onset of the COVID-19 crisis, credit scores have re-emerged as a focal point, as consumer-debt delinquencies climb and the Federal Reserve's inflation-fighting interest-rate hikes take a toll.

Borrowers back in 2020 were "flush with stimulus," benefiting from low rates, ample credit availability and muted levels of cash leaving consumer balance sheets, said Dan Liesener, senior research analyst of structured assets at Columbia Threadneedle Investments.

That backdrop, in hindsight, also appears to have led to "artificially higher" credit scores, Liesener said. He noted that climbing consumer delinquencies across the income and credit spectrum point not only to an affordability squeeze resulting from higher rates, but also to lenders "overestimating" the creditworthiness of borrowers during the pandemic.



The rate of 30-day-past-due loans was pegged above 16% in March, up from 6% three years ago, according to BofA Global, when looking at debt packaged into bond deals.

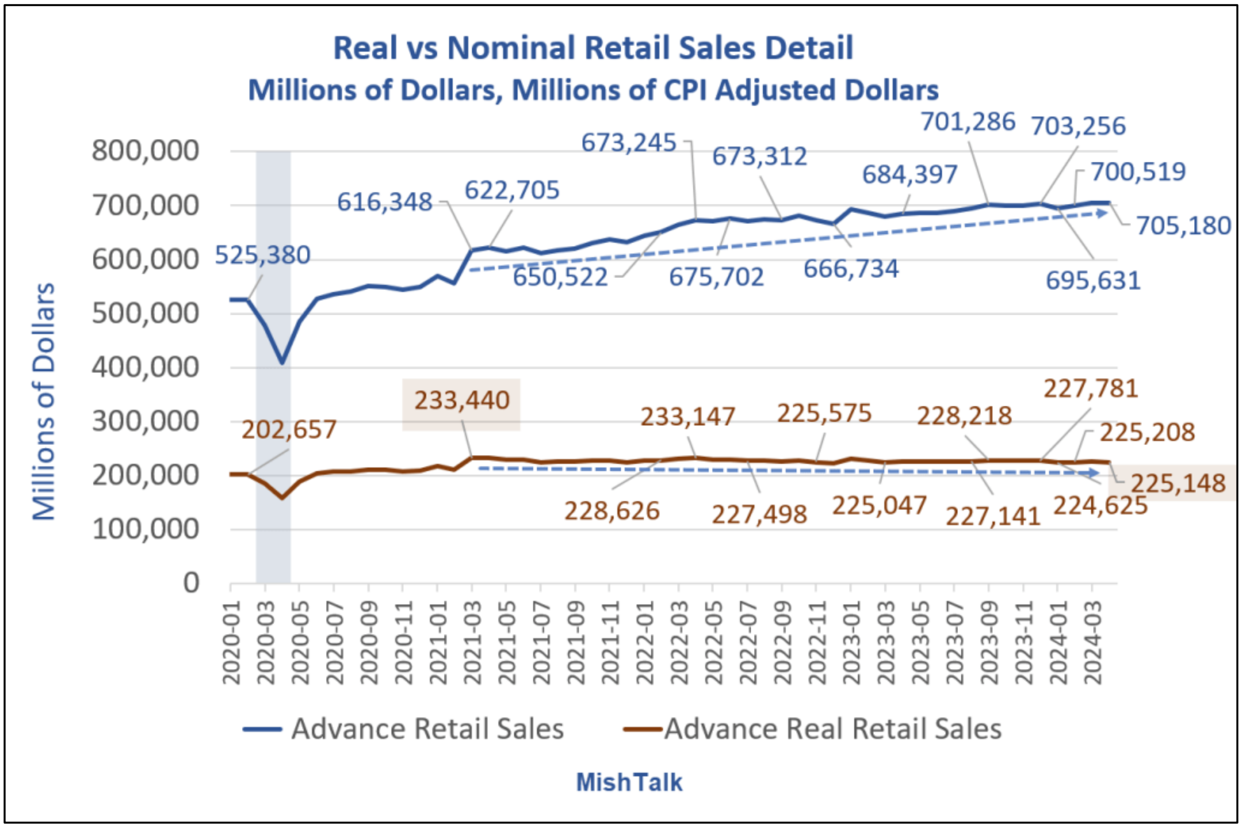
“The headlines are right,” Liesener said of news reports pointing to a deterioration in auto loans and other forms of consumer credit. “We’ve observed weakness for several quarters.”

Columbia Threadneedle — which at the end of last year managed $79 billion in structured assets, including bonds tied to auto loans and mortgage debt — expects delinquencies to steadily march higher in the coming months.

Continue reading here *(subscription may be required)*

With retail sales flat, consumers may be throwing in the towel (from Mish Talk)...

Caution. Every time I suggested consumers may throw in the towel, it didn't happen. Counter caution, real (inflation-adjusted) spending is negative year-over year for 12 out of the last 17 months.



Data from the Commerce Department, chart by Mish.

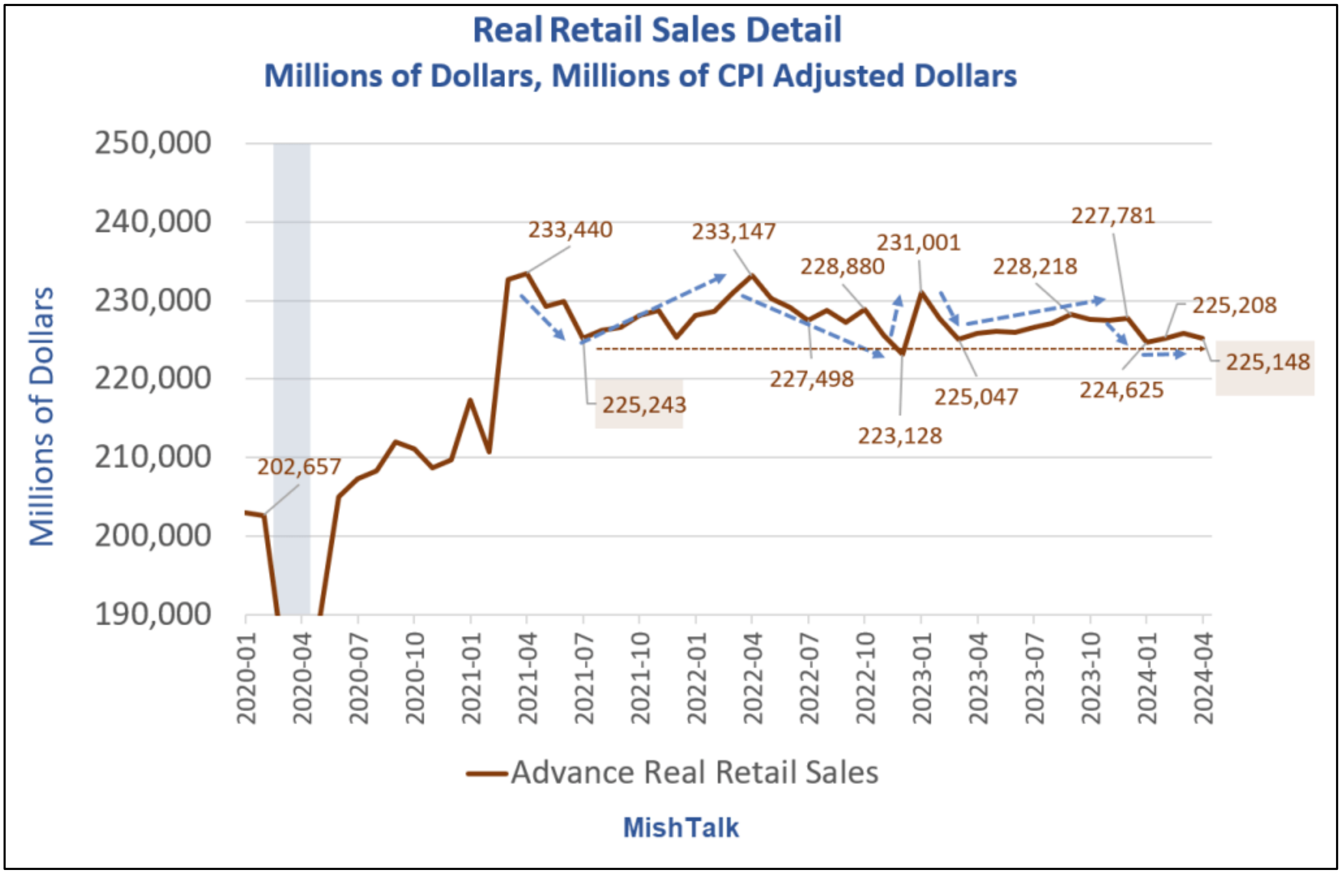
Please consider the **Advance Retail and Food Services Sales** report for April 2024.

Retail Sales Key Points

- Advance Estimates of U.S. Retail and Food Services Advance sales for April 2024, *adjusted for seasonal variation and holiday and trading-day differences, but not for price changes*, were $705.2 billion, virtually unchanged from the previous month, but up 3.0 percent above April 2023.

- Total sales for the February 2024 through April 2024 period were up 3.0 percent from the same period a year ago.
- The February 2024 to March 2024 percent change was revised from up 0.7 percent to up 0.6 percent.
- Retail trade sales were virtually unchanged om March 2024, but up 2.7 percent above last year.
- Nonstore retailers were up 7.5 percent from last year, while food services and drinking places were up 5.5 percent from April 2023.

The key phrase is "adjusted for seasonal variation and holiday and trading-day differences, but not for price changes.". Adjusted for inflation (real) sales are much lower than three years ago.



Real retail sales are down 3.6 percent from April of 2021, three years ago. But if we ignore the spike peak, real sales have been flat since July of 2021...

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The White House announced more student-loan forgiveness this month (from The Bitcoin Layer)...

Biden Widens Student Loan Relief to More than 10% of Borrowers (BBG)

- *What does this mean?* The Biden administration announced its latest package valued at $7.7 billion as part of its student debt relief measure, making it so that now more than 1 in 10 Americans with federal student loans have been approved for some measure of debt relief.
- *Why is this important?* After the **Supreme Court canceled Biden's $400 billion plan to cancel or reduce debt for millions of Americans** in June 2023, the Department of Education began consistently unveiling changes to regulations of existing federal programs to allow more Americans to qualify for debt relief. **Student loan debt currently stands at $1.75 trillion**, with federal student loans accounting for almost 92% of the total amount of $1.6 trillion, owed by 43 million borrowers.
- *Why are we watching this?* TBL is closely watching the news around student loan forgiveness because of its many **implications on the economy**—*debt forgiveness would worsen inflation in theory* as lessening a financial burden for consumers could have the welcome effect of increased spending ability. Student loan forgiveness also means higher budget deficits. Finally, we believe that student loan forgiveness could affect certain pockets of the securitized sector within fixed income.

Continue reading here

REAL ESTATE

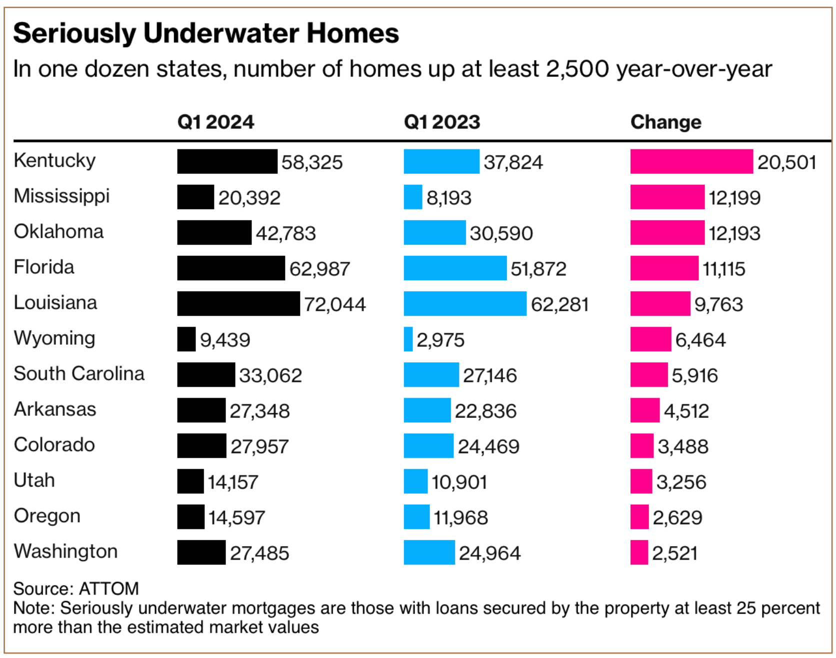
The number of seriously underwater home mortgages ticks up across the U.S. (*from Bloomberg*)...

Roughly one in 37 homes are now considered seriously underwater in the US and that share is much higher across a swath of southern states, according to data out Thursday.

Nationally, 2.7% of homes carried loan balances at least 25% more than their market value in the first few months of the year. That's up from 2.6% in the previous quarter, according to the first-quarter 2024 US Home Equity & Underwater Report from ATTOM, a real estate data firm.

While the share of these homes is ticking up, it remains much lower than before the pandemic, when the rate was more than twice as high.

Mortgages can generally become seriously underwater when someone overpays for a home, or when it is purchased with a small downpayment that doesn't provide a sufficient buffer if the property falls in value...



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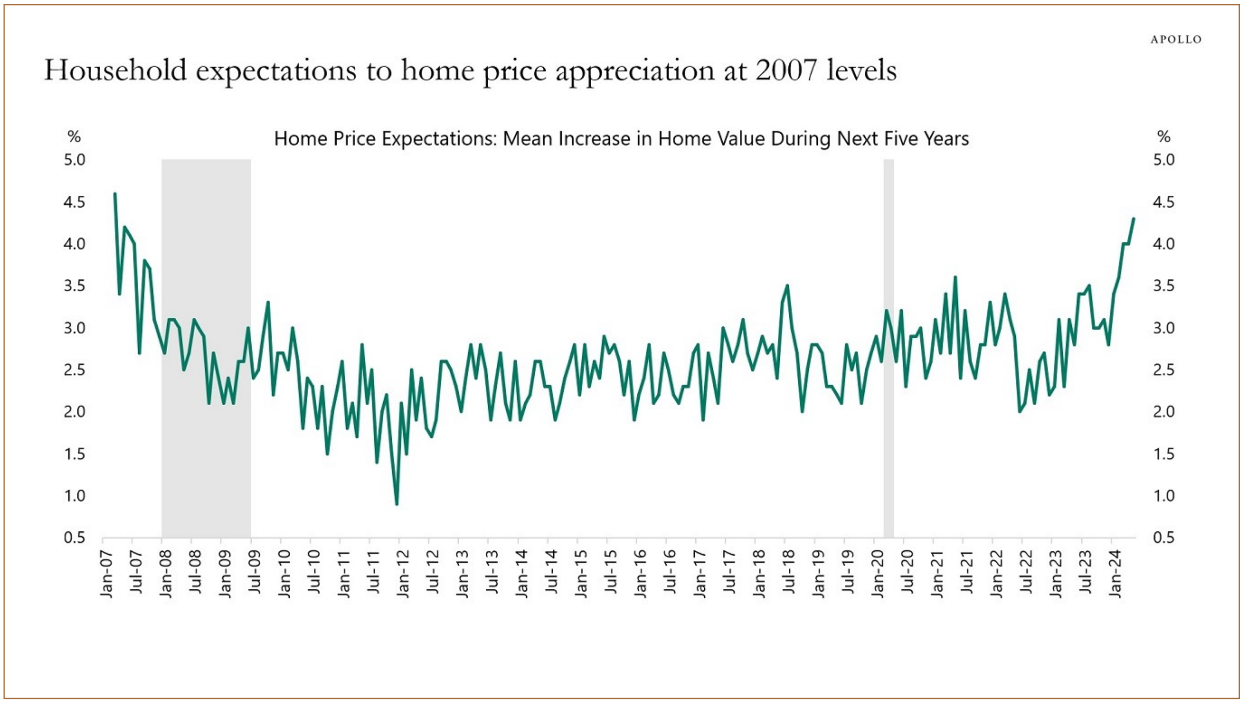
U.S. households are extremely bullish on home prices (from The Daily Spark)...

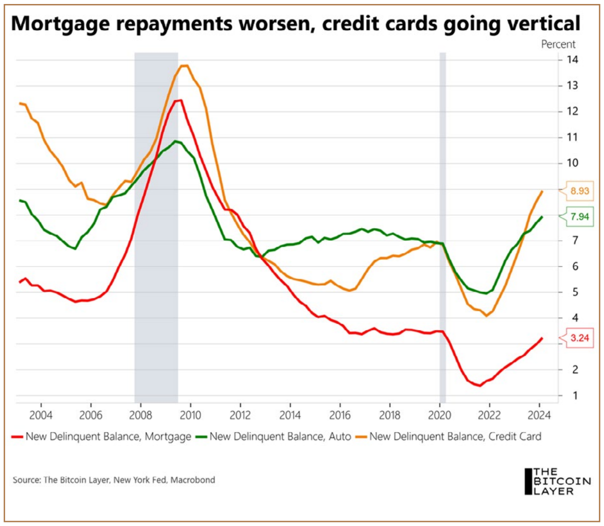
Household expectations to future home price appreciation are currently at the highest level since 2007, see chart below.



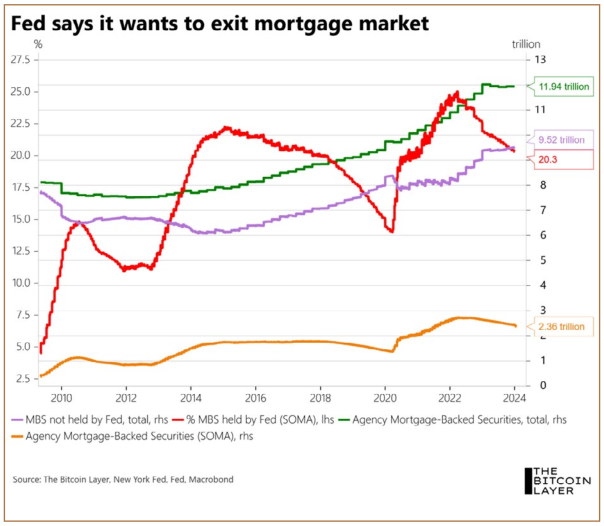
Source: University of Michigan, Haver Analytics, Apollo Chief Economist

The Fed says it wants to exit the mortgage market, but can it? (from The Bitcoin Layer)...

Even though the Fed says they want to exit the mortgage market, does anybody really believe they can? Here are delinquency rates, now updated for Q1 2024. The numbers are getting scary:



Currently, the Fed owns 20% of agency MBS outstanding. What happened each of the last two times it dipped to 10-15%? More QE. We are watching this extremely closely, and while the Fed said it will try to run off all its mortgage holdings, we will not be even the slightest bit of surprised if the Fed reinstitutes MBS purchases to some degree during the next stimulus wave:



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Freddie Mac and its Biden regulator want to guarantee second mortgages. What could possibly go wrong? (from *The Wall Street Journal*)...

Housing godzillas Fannie Mae and Freddie Mac are threatening the countryside again, and better hide the children. It's not enough that taxpayers stand behind their $7.5 trillion in mortgages. Now Freddie wants taxpayers to back second mortgages—i.e., de facto consumer loans. What could go wrong?

Higher interest rates have slowed the housing market and reduced cash-out refinancing following the pandemic boom. This has crimped the businesses of mortgage lenders and Fannie and Freddie, the government-sponsored enterprises (GSEs) that buy and guarantee home loans. At the same time, Americans are paying more to borrow for cars and other things.

Enter Freddie, which wants to counter higher interest rates by guaranteeing closed-end second mortgages. Similar to cash-out refinancing, second mortgages allow homeowners to tap equity in their home. The big difference is homeowners don't have to refinance their entire outstanding loan at a new interest rate.

As the Freddie and Fannie regulator, the Federal Housing Finance Agency (FHFA), explains, "only the smaller, second mortgage would be subject to the current market rate, as the original terms of the first mortgage would remain intact." Homeowners who bought homes or refinanced during the pandemic wouldn't have to give up their uber-low rates to tap equity.

The FHFA offers the example of a homeowner with an original $150,000 loan and a current unpaid balance of $120,000. By the agency's calculations, he would save $136.77 a month and $112,797 in total interest by borrowing $30,000 with a second mortgage versus a cash-out refinancing.

It gets better. Second mortgages typically carry lower interest rates than consumer loans. So borrowers could consolidate their auto and personal loans into a lower-interest second mortgage. If Freddie were to guarantee the second mortgage, its implicit government backstop would further reduce their interest rates.

Freddie and home lenders would profit from a new line of business. Consumers—at least the fortunate ones who bought homes before prices skyrocketed and who have built up equity—would have more spending power.

A Bank of America research team estimates that homeowners could extract about $1.8 trillion in equity if Fannie copies Freddie's idea. That's more than three times as much as the $512 billion in outstanding second loans and home equity lines of credit. By increasing market liquidity, the GSEs would encourage more lenders to make second mortgages.

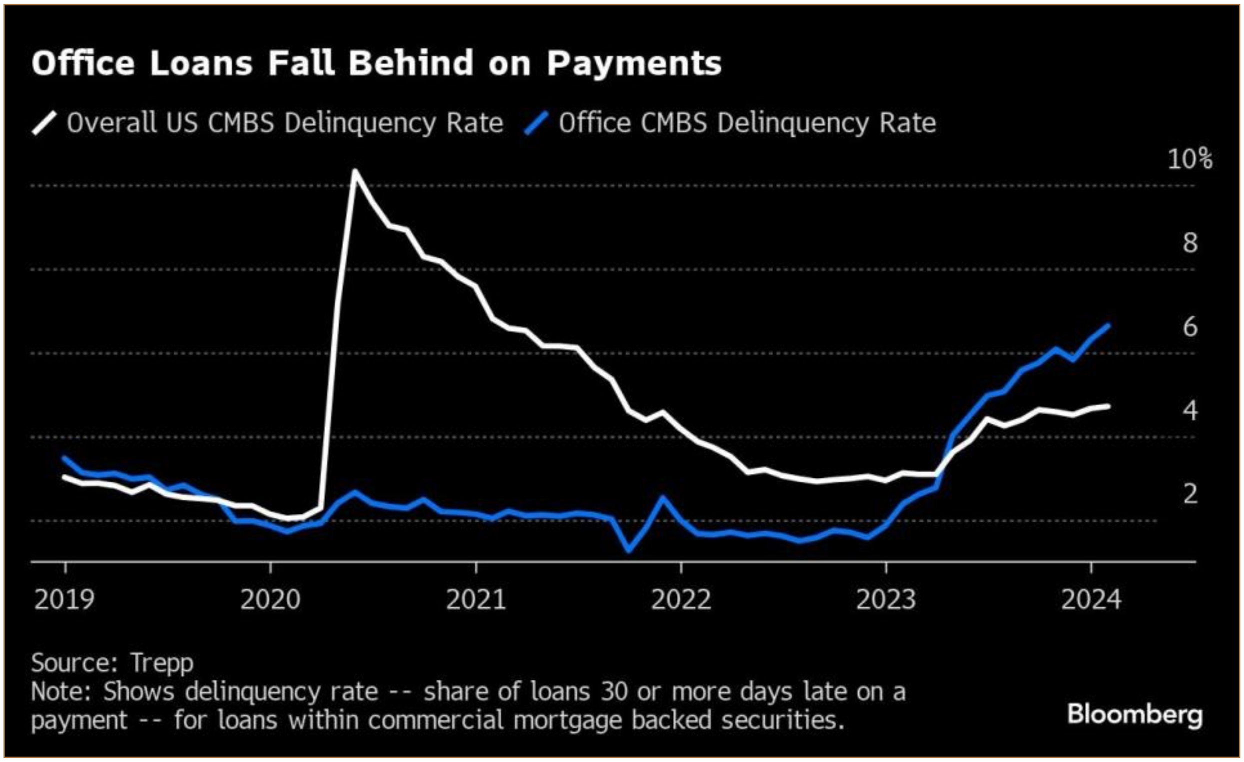
As usual, the likely losers would be taxpayers. One risk is that home prices fall, causing some homeowners with second mortgages to default. An equity buffer helps reduce defaults, which is one reason foreclosure rates remain near record lows. A reduction in equity would make defaults and foreclosures more likely.

Former Democratic Rep. Brad Miller testified in a 2015 hearing on the 2008 financial crisis that "the subprime mortgage model was to lend to people who already owned their own homes—70% were refinances and had a lot of equity in their home—and the mortgages were designed to catch them in a cycle of borrowing and borrowing again."

He blamed banks for being greedy, but they were merely responding to incentives created by the government and Fannie and Freddie. If Fan and Fred buy and guarantee second mortgages, this will also create new risks in the financial system.

Continue reading here *(subscription may be required)*

Losses pile up in top-rated bonds backed by commercial real estate debt (from *Bloomberg* via Yahoo Finance)...



For the first time since the financial crisis, investors in top-rated bonds backed by commercial real estate debt are getting hit with losses.

Buyers of the AAA portion of a $308 million note backed by the mortgage on the 1740 Broadway building in midtown Manhattan got less than three-quarters of their original investment back earlier this month after the loan was sold at a steep discount. It's the first such loss of the post-crisis era, according to Barclays Plc. All five groups of lower ranking creditors were wiped out.

Market watchers say the fact the pain is reaching all the way up to top-ranked holders, overwhelming safeguards put in place to ensure their full repayment, is a testament to how deeply distressed pockets of the US commercial real estate market have become.

Bonds backed by single mortgages and tied to older office buildings dominated by one anchor tenant — like 1740 Broadway — are especially vulnerable, they say. Some analysts are already predicting further losses as more loans get sold for a fraction of their former value.

"Now that we've seen the first commercial mortgage backed securities get hit, other AAA bonds are bound to see losses," said Lea Overby, a CMBS strategist at Barclays. "These losses may be a sign that the commercial real estate market is starting to hit rock bottom."

With about $700 billion of non-agency CMBS outstanding and another $3 trillion of commercial mortgages on bank balance sheets, even a modest uptick in losses could weigh on the financial system for years.

To be clear, no one is predicting a repeat of 2008, when bad mortgages, mostly residential, nearly brought down the financial system.

Yet the risk isn't simply confined to a handful of underperforming buildings, either.

Continue reading here

A $10 billion real-estate fund is bleeding cash and running out of options (*from The Wall Street Journal*)...

A giant commercial real-estate fund is scrambling to escape a looming cash crunch caused by the long line of investors who want their money back.

The $10 billion fund from Starwood Capital Group has been trying to preserve its available cash and credit by limiting investor redemptions. In the first quarter, the fund was hit with $1.3 billion in withdrawal requests but satisfied less than $500 million of them, according to regulatory filings.

Even with these limitations, the fund's liquidity, consisting of cash, marketable securities and a bank line of credit, has been drying up. It totaled $752 million at the end of April, down from $1.1 billion at the end of last year. It was $2.2 billion at the end of 2022, according to filings.

"They don't have a lot of liquidity left," said Kevin Gannon, chief executive of Robert A. Stanger, an investment bank that specializes in real-estate funds.

These developments have left the Starwood Real Estate Income Trust, known as Sreit, with three options—none of them appealing. It could take on more debt. It could sell properties into a tough market. Or it could halt completely or limit further redemptions, a move that would greatly impair the fund's ability to raise new money. Unless it takes one of these three steps, Sreit looks poised to run out of cash and credit before year-end if the current pace of redemptions continues.

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SPECIAL SITUATIONS

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

A dramatically undervalued software-as-a-service ("SaaS") company primed for a buyout (from Multibagger Monitor via Stock Narratives)...

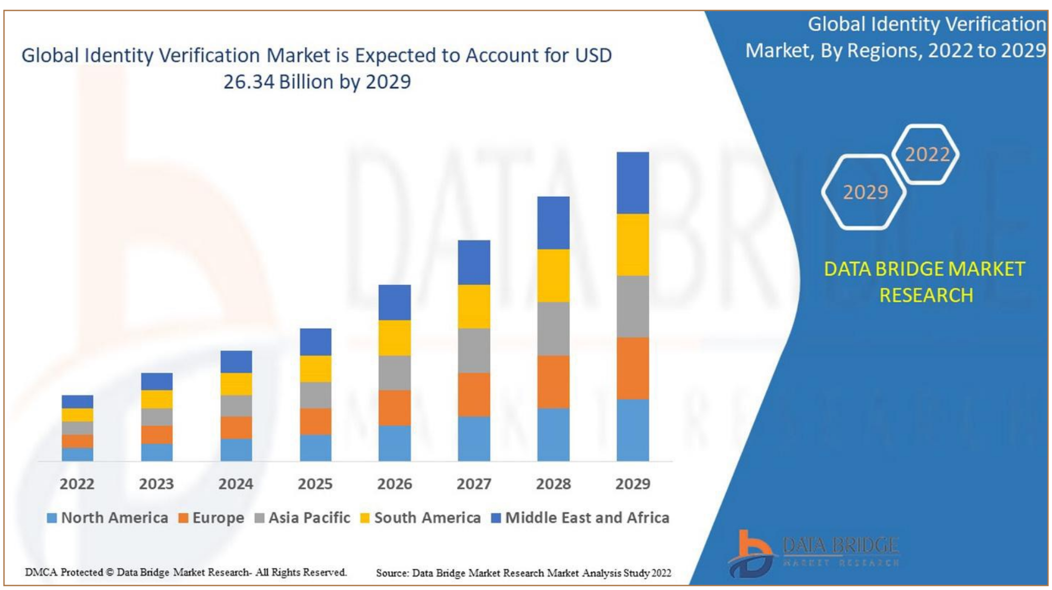
Introduction

Aware is provider of biometric identification solutions for the border management, financial, enterprise, law enforcement, testing, and gaming industries. Biometrics are unique physical characteristics that serve as personal identifiers, allowing for physical and virtual access control. They avoid failure points inherent in traditional authentication methods like passwords, PIN codes, and access cards. Biometrics are anti-fragile—a "necessary evil" in an ever less trusting world.

CEO Bob Eckel's turnaround efforts have transformed Aware from an enterprise software company with lumpy, fluctuating revenue to a SAAS company with predictable recurring revenue. Aware recently became OCF positive—and per management guidance will soon be EPS positive as well. The company has no long-term debt. With $1.44 per share in net cash and shares ~$1.75, the company trades at ~.72x EV/OCF, which is a drastic mispricing for a company growing both total revenues and ARR by >15% YoY. I believe **AWRE 0.00%↑** will be acquired at a significant premium within the next few years. If Aware management chooses to stay independent, shareholders will still be rewarded through organic growth and ongoing buybacks.

Biometrics

We are in the era of new threat vectors—cyber attacks, deepfakes, border insecurity. As these threats increase so does the need for biometrics. In one notable recent example, a Hong Kong finance worker wired out $25m after being defrauded by a deepfaked "CFO". Biometrics is a $50 billion industry today and is projected to grow at a 15% CAGR over the next several years.



Company Overview

Aware was founded in 1986 in Boston, Massachusetts. It focuses on face, fingerprint, voice, and iris identification solutions. The company holds 80+ patents supporting its products. The 5 main product lines are as follows:

AwareID

- SaaS offering providing identity verification and continuous authentication
- Leverages Knomi for face/voice matching, liveness detection, document validation
- Typically SaaS with usage/transaction pricing, also available on-premises

Knomi Mobile Framework

- Mobile biometric authentication framework built on optimized SDK components and server
- Enables strong, multi-factor, password-free authentication from mobile devices
- Sold as fixed term subscription license or perpetual license

AwareABIS

- Automated biometric identification system (ABIS) for large-scale identification and deduplication
- Sold as fixed term license based on system size or subscription model

AFIX

- Used for small-scale law enforcement focused biometric identification
- AFIX Tracker supports fingerprint, palmprint, latent print ID for 15k-2M identities
- Sold as perpetual license or fixed term subscription based on system size

BioSP - Biometric Services Platform

- Biometric integration platform-as-a-service (iPaaS)
- Enables biometric data processing, management in web services architecture
- Sold as perpetual license or fixed term based on users, transactions, enterprise

Notes on Moats

One might intuit that biometric identification is a commodity and that companies will inevitably price-compete until margins are eroded. While there are significant competitors like Thales and Idemia and an influx of new entrants, Aware's position in the biometrics landscape is better than the market is giving credit for.

Switching Costs

Aware is quite sticky with over 90% renewal rates per its 10-k. When one has integrated a software or hardware system, particularly one which involves in-situ components or software installed on employee devices (in the case of Knomi) it is quire a hassle to switch to another provider.

Winners(s)-Take-Most Dynamics

Biometrics is the very definition of an unforgiving industry. A 99.999% success rate is worth multiples more than a 99% success rate, because one finsec/cybersec failure can cost millions of dollars (think of **MGM's recent hack**). In the case of border security, failures can be even more costly. Given this, the market structure tends toward oligopoly with the best performing products dominating the landscape. The NIST often releases reports on differing performance of biometric systems and Aware is consistently ranked as a top performer.

Table 1. Top Performers - Use Case: detectImpersonationPA - Media Type: stills

PA Type	Description	Algorithm	(Convenience) APCER @ BPCER=0.01	Algorithm	(Security) BPCER @ APCER=0.01
PA Type 1		kakao-001	0.07	iproov-000	0.069
PA Type 3	Flexible Silicone Face Mask	stcon-001	0.0	stcon-001	0.0003
PA Type 4		cyberlink-002	0.13	aware-001	0.200
PA Type 7		cyberlink-002	0.012	cyberlink-002	0.012
PA Type 8	Photo Print/Replay Attack	alice-001 idemia-011 idrnd-000 idrnd-001	0.0	idrnd-001	0.0001
PA Type 8 (zoomed)	Photo Print/Replay Attack (zoomed)	idrnd-001	0.005	idrnd-001	0.006

Beyond product performance, Aware importantly is a full-service identification provider; it has no process outsourcing, e.g. sending data to another company's server for evaluation. Additionally, Aware's profitability means that it can invest around $7m into annual R&D.

Demographic Considerations

Racial and age considerations are key when it comes to biometrics. Customers are loathe to create situations where they may be sued or disparaged for erroneously questioning employee credentials. Aware has been in biometrics since 1993 and has a vast database—beyond most competitors—of biometric information. Its models outperform on racial disparity tests.

Geographic and Reputational Advantages

Unlike in other technological spaces (e.g. EVs) it is unlikely that new entrants from countries like China will undermine the economics of current players. Aware is an American company that has spent over 30 years forging relationships with over 100 commercial lenders and 80 government agencies. Its clientele are not going to trust non-Western entities without a very good reason to do so.

Financial Overview

With the 2019 appointment of CEO Bob Eckel, Aware began transitioning to a subscription based, ARR-focused company. Previously, Aware was mired by lumpy revenues as a result of selling its products via one-off enterprise contracts that had to be continuously renewed. ARR is now growing at a 20% CAGR; it comprises a majority of revenue. ARR is greater than total revenues when Bob joined.

Matt Glover

Thanks, David. The next question. The sale of Aware's Knomi system to PeopleCert seems to be fully implemented. Was this brought online during the Q4 quarter? Is this a onetime sale with residual annual maintenance recurring revenue stream? Is there potential revenue growth with this relationship?

Craig Herman

Yes, great question, [John]. PeopleCert did go live in Q4. This is not a onetime sale, but a subscription-based engagement, that will grow as their business and the use of Aware grows. We are very excited by the opportunity for future growth that we have with them and partners like this that are part of our recurring revenue growth model.

It should also be noted that Aware trades ~$1.75 and has $1.44/share in cash on the balance sheet. It is unlikely they will need to dilute in the foreseeable future. Management has not been dilutive and is using excess cash to buyback shares. Over the past year, they bought back 299,780 at $1.67 per share. The current float is ~14.9m.

Last quarter's net income was negatively impacted by a one-time, $2.7 million write-off related to a March 2022 investment in Omlis Limited. Still, Aware generated $3m in OCF and has been OCF positive for two quarters. It is guiding towards sustained OCF profitability from here.

With little CAPEX spend, it seems reasonable to use EV/OCF as a valuation metric. Annualizing, Aware is trading at an EV/OCF of ~.72x. For a company that has 61% recurring revenues, and is growing these revenues at a 20% CAGR this is simply too cheap.

The fact SG&A has grown in line with revenues jumps out. To conclude that this means Aware can only scale insofar as it scales its sales team—and thus does not deserve a "SAAS multiple"—is naive. ARR alone is growing at 10% more than SG&A spend. With strong renewal rates, Aware could stop actively growing its sales force/efforts and begin generating far more cash. However management is investing aggressively in sales today to enhance future recurring revenue. Margins should increase as SG&A tops out over the next several years.

Acquisition/PE Target

I would be surprised if Aware were not taken out by PE within the next few years:

1. The transition to a SAAS has not just resulted in "fairer" pricing for customers, allowing them to pay for only the services rendered, but has ameliorated the revenue lumpiness that the company long suffered from. A sponsor can better model future financial performance now.
2. The company has no debt and a strong cash position, meaning that it can sustain significant leverage during an acquisition.
3. Interest payments would be manageable. Further, a sponsor with a biometric PortCo likely could achieve significant SG&A synergies by combining Aware with the already held company.
4. Aware's IP is highly valuable and puts owners in contact with numerous branches of government and several financial firms.

Continue reading here

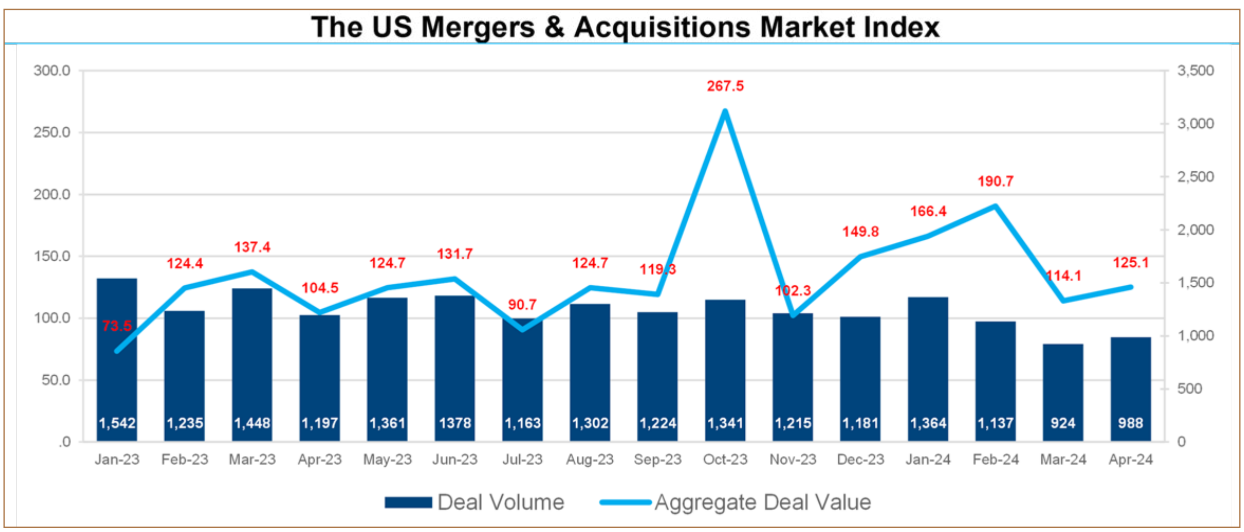
A review of U.S. M&A activity in April (from FactSet)...

U.S. M&A deal activity increased in April, going up 6.9% with 988 announcements compared to 924 in March. Aggregate M&A spending increased as well. In April, 9.6% more was spent on deals compared to March.

In terms of M&A deal activity, 3 of the 21 sectors tracked by FactSet saw an increase in M&A deal activity over the past three months relative to the same three-month period one year ago: Non-Energy Minerals (67 vs. 52), Miscellaneous (12 vs. 4) and Consumer Durables (50 vs. 48).

On the other hand, 17 of the 21 sectors tracked by FactSet saw a decrease in M&A deal activity over the past three months relative to the same three-month period one year ago. The five sectors that witnessed the largest declines in M&A deal volume were: Finance (489 vs. 745), Consumer Services (209 vs. 309), Technology Services (596 vs. 673), Health Services (95 vs. 163) and Distribution Services (163 vs. 230).

Topping the list of the largest deals announced in April are: Johnson & Johnson agreeing to acquire Shockwave Medical Inc. for $12.6 billion; Schlumberger NV agreeing to acquire ChampionX Corp. for $7.7 billion; International Business Machines Corp.'s agreement to acquire HashiCorp Inc. for $7 billion; Blackstone Inc.'s deal to acquire Apartment Income REIT Corp. for $5.7 billion; Prysmian SpA's deal to acquire Encore Wire Corp. for $4.6 billion.



Sector By Activity

Target Sector	L3M 4/30/24 Deal Count	L3M 4/30/23 Deal Count	Difference
Non-Energy Minerals	67	52	15
Miscellaneous	12	4	8
Consumer Durables	50	48	2
Government	0	0	0
Electronic Technology	63	65	(2)
Communications	24	29	(5)
Consumer Non-Durables	76	88	(12)
Energy Minerals	13	26	(13)
Process Industries	72	85	(13)
Health Technology	89	106	(17)
Utilities	57	84	(27)
Transportation	70	97	(27)
Industrial Services	192	222	(30)
Producer Manufacturing	157	197	(40)
Retail Trade	92	135	(43)
Commercial Services	445	497	(52)
Distribution Services	163	230	(67)
Health Services	95	163	(68)
Technology Services	596	673	(77)
Consumer Services	209	309	(100)
Finance	489	745	(256)
Total	**3,031**	**3,855**	**(824)**

Top U.S. Deals Scoreboard

Rank	Seller (Unit Sold) Financial Advisor *Legal Advisor*	Buyer Financial Advisor *Legal Advisor*	Transaction Value** ($Mil)	Seller Sector
1	**Discover Financial Services** Morgan Stanley PJT Partners, Inc. *Cravath, Swaine & Moore LLP* *Sullivan & Cromwell LLP*	**Capital One Financial Corp.** Centerview Partners Advisory Holdings LLC *Davis Polk & Wardwell LLP* *Wachtell, Lipton, Rosen & Katz*	$35,043.9	Finance
2	**ANSYS, Inc.** Qatalyst Group LP *Goodwin Procter LLP* *Morrison & Foerster LLP* *Skadden, Arps, Slate, Meagher & Flom LLP*	**Synopsys, Inc.** Evercore, Inc. *Cleary Gottlieb Steen & Hamilton LLP* *Paul, Weiss, Rifkind, Wharton & Garrison LLP*	$32,106.0	Technology Services
3	**Endeavor Energy Resources LP** Goldman Sachs & Co. JPMorgan Chase & Co *Paul, Weiss, Rifkind, Wharton & Garrison LLP* *Vinson & Elkins LLP*	**Diamondback Energy, Inc.** Citigroup Jefferies LLC *Skadden, Arps, Slate, Meagher & Flom LLP* *Wachtell, Lipton, Rosen & Katz*	$25,794.1	Energy Minerals
4	**SRS Distribution, Inc.** Goldman Sachs & Co. Jefferies LLC UBS Group AG *Latham & Watkins LLP*	**The Home Depot, Inc.** JPMorgan Chase & Co *Weil, Gotshal & Manges LLP*	$18,250.0	Distribution Services
5	**Catalent, Inc.** Citigroup JPMorgan Chase & Co *Cravath, Swaine & Moore LLP* *Jones Day LP* *Skadden, Arps, Slate, Meagher & Flom LLP*	**Novo Holdings AS (Denmark)** Evercore, Inc. Morgan Stanley *Davis Polk & Wardwell LLP* *Goodwin Procter LLP* *Linklaters LLP* *Sullivan & Cromwell LLP*	$16,276.0	Health Technology
6	**Equitrans Midstream Corp.** Barclays PLC Citigroup *Latham & Watkins LLP* *Shearman & Sterling LLP*	**EQT Corp.** Guggenheim Securities LLC RBC Capital Markets *Akin, Gump, Strauss, Hauer & Feld LLP* *Gibson, Dunn & Crutcher LLP* *Kirkland & Ellis LLP*	$13,754.7	Industrial Services
7	**Juniper Networks, Inc.** Goldman Sachs & Co. *Paul Hastings LLP* *Skadden, Arps, Slate, Meagher & Flom LLP*	**Hewlett Packard Enterprise Co.** Citigroup JPMorgan Securities LLC Qatalyst Partners LP *Covington & Burling LLP* *Freshfields Bruckhaus Deringer LLP* *Sullivan & Cromwell LLP* *Wachtell, Lipton, Rosen & Katz*	$13,500.1	Technology Services
8	**Global Infrastructure Management LLC** Evercore, Inc. *Debevoise & Plimpton LLP* *Herbert Smith Freehills Australia LLP* *Khaitan & Co. LLP* *Kirkland & Ellis LLP*	**BlackRock, Inc.** Perella Weinberg Partners *AZB & Partners* *Clifford Chance LLP* *Fried, Frank, Harris, Shriver & Jacobson LLP* *Skadden, Arps, Slate, Meagher & Flom LLP*	$12,511.3	Finance
9	**Shockwave Medical, Inc.** Perella Weinberg Partners LP *Fenwick & West LLP* *Kirkland & Ellis LLP*	**Johnson & Johnson** JPMorgan Chase & Co *Freshfields Bruckhaus Deringer US LLP*	$12,312.7	Health Technology
10	**JBB Advanced Technologies LLC (Tronic LLC (Texas))** *Bell Nunnally & Martin LLP*	**Tronic Ventures**	$12,250.0	Technology Services

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

SPIN-OFFS (and related)

- **Inhibrx (INBX US)**. Will spin-off 92% of its subsidiary Inhibrx Biosciences on May 29 (record date May 17) on a pro-rate basis. Might be interesting to keep an eye out.

STRATEGIC ALTERNATIVES (potential take-outs, asset sales, M&A, etc.)

- **BGSF (BGSF US)**. Initiated a process to evaluate strategic alternatives 'to maximise shareholder value given the continued dislocation of BGSF's market valuation'. Interestingly, BGSF shares are down >20% since the announcement (at earnings). The company is trading at ~6.5x annualised Q1 24 ebitda with decent b/s.
- **Altantica Sust. Infra. (AY US)**. Exploring strategic alternatives. Controlling shareholder (AQN, ~40%) likely to push for a sale. AQN is also pressured by an activist to sell its renewable assets business, including the stake in AY, so the likelihood of a sale seems to be high here. Also Bloomberg reporting discussions with Energy Capital. Relatively low valuation. H/t @InvestSpecial for the idea.
- **OCI (OCI NA)**. One of the most interesting opportunities on our screens for 2024 in the larger mid-cap space. OCI is trading at 2.5-3x ev/ebitda on a pro-forma basis after the announcement of two large division sales. Peers are trading at 5-7x (on what I would argue are low multiples).

  UPDATE (May 21, 2024) This first special divided of EUR 4.5 p/s was announced (~18% yield). Roughly EUR 9 more to come. Improving operations and continued ongoing strategic review. OCI now mentions significant inbound interest in the continuing operations.
- **Sharecare (SHCR US)**. Evaluating strategic alternatives. Sharecare is actively engaging with parties interested in acquiring the company. Sharecare has a strong net cash b/s (though relatively high cash burn). Little share price reaction so far. UPDATE (May 6, 2024) We note the recent write-up on VIC (45 day waiting period for non-members).

UPDATE (May 21, 2024) In a recent update (May 9), Sharecare notes that it is in active discussions with multiple bidders and 'expects to bring the process to a conclusion within 30 to 45 days'.

- **Xperi (XPER US)**. Rubric Capital (7.6% owner) pushing for strategic alternatives for the company's AI unit. Officially announced to be evaluating strategic alternatives (of Perceive business). Based on Bloomberg ccs, XPER will grow very quickly over the next few years and is trading at <3× 25e ev/ebitda. Co has a solid balance sheet (net cash). UPDATE (March 15, 2024) Activist Rubric Capital nominated two independent Directors. Rubric also taking increasingly strong stance. UPDATE (May 6, 2024) Launched a $100m buyback, c. 21% of s/o (May 6). Also, Rubric Cap sent quite the spicy letter to shareholders.

  UPDATE (May 21, 2024) The strategic review (of Perceive) 'is progressing and expected to be completed by the end of summer 2024'.

- **Reneo (RPHM US)**. The third on this week's list of net-cash, busted biotechs, reviewing strategic alternatives.

  UPDATE (May 21, 2024) Announced an all-stock transaction with Onkure.

NOTICEABLE LARGE BUYBACKS

- **Seer (SEER US)**. Busted (massive) net cash biotech Seer authorized an open-market share repurchase program of up to $25m, roughly 19% of current market cap (May 20).
- **Akamai Technologies (AKAM US)**. Authorised a $2bn buyback, ~14% of market cap (May 21).
- **Tandy Leather Factory (TLF US)**. Authorised a $5m buyback, ~13% of market cap (May 21).
- **Seadrill (SDRL US)**. Seadrill expanded its buyback program by another $500m, roughly 13% of its market cap (May 21). SDRL has a clean b/s. To note, Elliott has been steadily increasing its stake and now owns ~12% (May 21).
- **Thinkific (THNC US)**. This Canadian software company announced a substantial issuer bid to purchase up to $35m shares at $3.72 per share. That'll be c. 16% of the current market cap. Ignoring the horrible name, Thinkific screens interesting, with high growth, a net cash position of ~40% of its market cap (May 21) and ebitda inflection in FY24.

INTERESTING INSIDER PURCHASES

- **Telos (TLS US)**. Quite some open market purchases from insiders in Telos. Telos has a very strong b/s (roughly 30% of market cap in net cash at Q1 24) and seems on the verge of operating earnings inflection. Ebitda improved sequentially over the past three Qs and is rapidly approaching break-even. Still some cash burn ahead but might be interesting is inflection is indeed reached over the next year or so.
- **Treace Medical Concepts (TMCI US)**. We note the very large insider purchases. Treace's share price has been an absolute dog over the past years (was expected looking at the insider sales), but management now seem to think it's a good opportunity to buy. Strong net cash b/s (though still some cash burn).
- **Vestis (VSTS US)**. Strong insider buying here after the large correction.
- **B&G Foods (BGS US)**. Strong insider buying here as well after a large correction. B&G is a pretty levered producer of shelf-stable foods. Should be able to generate quite some cash flow going forward. Based on BB ccs for cash flow generation, given B&G's high leverage the equity could rerate ~20% p.a. on the current base (May 20).

'INTERESTING' SITUATIONS (but not exactly event-driven or special sit.)

- **Westaim (WED Canada)**. Very interesting looking trade with a great risk / reward. Pro-forma the full sale of their Skyward (SKWD) position Westaim will have ~90% of their market cap in net cash. Management intends to decrease the discount to NAV (C$ BV 5.44 vs C$ 4.00 stock price (May 17)). Company has a history of paying out excess cash.
- **Clearvise (ABO Germany)**. Share price derated on worsening fundamentals. Current share price might trigger an acquisition of EQT which already owns ~30%. Sector has seen consolidation with KKR acquiring Encavis. H/t @absreturnchaser for the idea.
- **Itafos (IFOS Canada)**. Phosphate fetilizer company, trading at <2x ev/ebitda on 2024e. Strongly reduced debt. Strategic review ongoing (since roughly a year). Just seems too cheap.

  UPDATE (May 21, 2024) Ended strategic review without a sale. Itafos is trading at <2x FY24e ev/ebitda with a solid balance sheet and cash flow generation.

- **Tripadvisor (TRIP US)**. Shares fell >30% after the company announced it would not sell itself. Tripadvisor is now trading below the pre-announcement level; shares trading at <7x FY24e ev/ebitda (May 17) for 10-15% annual ebitda growth over the medium-term and a net cash balance sheet.

- **Enhabit (EHAB US)**. Ongoing review of strategic alternatives, including full sale of the company. Sector deals have been performed at mid-teens ebitda multiples (50-100% upside).

  UPDATE (May 21, 2024) Ended strategic review without a sale. Despite the disappointing result (for some) the LT case remains compelling, with a potential sale still the outcome (imo) in a year or two. Co's performance is steadily improving. Also, activist investor AREX Capital Management (4.8%) brought a proxy fight to replace seven board members. Current trading at ~10x ev/ebitda (May 17) indicates 50-100% upside.

- **XL Media (XLM UK)**. We note this very interesting thread by @Symmetry_Invest on XL Media. Pro-forma the sale of certain sports betting & gaming assets, XLM will be trading around net cash. High potential upside if you believe that the proceeds will not be wasted on M&A and that the company will be taken out.

- **James River (JRVR US)**. Rumored take-over of James River for $15 p/s vs current share price of $9.36 (19/04).

  UPDATE (May 21, 2024) Global Indemnity Group (GBLI) mentioned talks have paused. JRVR shares trading at (almost) ATL (May 17).

MISCELLANEOUS (liquidations, merger arb., out-of-bankruptcy, uplistings, etc.)

- **Ferrellgas (FGPR US)**. Publicly traded post-reorg MLP with an unusually complex capital structure. Various scenarios to reduce complexity and/or sale could lead to substantial upside. We highlight the interesting thread on X by our friend @marginofdanger.

- **Superior Industries (SUP US)**. Highly levered Superior is restructuring its operational footprint which will increase and stabilise earnings and cash flow generation. Actions to improve the capital structure are ongoing and news is expected soon. Superior guides for an exit rate of $190m adj ebitda by YE. Shares trading at ~4x ev/ebitda on this guidance. Strong rerating of equity possible. H/t @BitMoreLeverage for the idea.

- **Carecloud (CCLS US)**. Recently received (and rejected) an unsolicited offer for $5 p/s vs. current share price of $2.51 (May 17).
- **Equity Commonwealth (EQC US)**. C. $2.2bn net cash on $2.1bn market cap (May 17). Company committed to either do deal or liquidate. Interesting to keep an eye on. H/t @RealAssetsValue for the idea.
- **Mytheresa (MYTE US)**. Rumored to be working with investment bankers on two fronts, pitching investors on a buyout that would take the company private and looking at acquiring Net-a-porter. Mytheresa is trading at ~12.5x FY24e ev/ebitda (May 17) for >40% ebitda growth pa over the next few years + clean b/s.
- **Ashford (AINC US)**. Ashford approved plan to terminate stock registration. Stockholders with <10,000 shares would receive $5.00 per share in cash. Directors and officers owning 37.9% of shares are expected to vote in favor of the transaction. Stock trading at $4.66 (April 5). Plan expected to be executed in 'the summer of 2024'.

  UPDATE (May 21, 2024) We note that very large insider purchase (almost $1m).
- **SmartRent (SMRT US)**. Shareholder Land & Buildings Investment Management is pushing SMRT to explore a sale of the company. L&B believes that SMRT could fetch up to >1005 premium. Though growth has decelerated, SMRT is still growing quite nicely and appears to have reached earnings and cash flow break-even. SMRT has c. 40% of its market cap in net cash (May 21).
- **Vanda Pharma (VNDA US)**. Rejected (another) offer from Future Pak. The latest offer was ~$7.5 per share, vs current share price of $5.1 (19/04). Vanda is a net cash biotech ($390m net cash on $293m market cap (April 19)), BUT actually has $190m revenues, is profitable (after interest income) and has relatively low cash burn.

  UPDATE (May 21, 2024) Future Pak came back and sweetened the offer with CVRs.
- **Blackbaud (BLKB US)**. It seems that Clearlake is once again getting ready to bid on Blackbaud, according to the usual 'people familiar with knowledge of the matter'. The last offer was (rejected) at $71 p/s (current share price $76 (19/04)).

  UPDATE (May 21, 2024) Blackbaud rejected the Clearlake offer, '$80 is too low'.

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PRECIOUS METALS

China is buying gold like there's no tomorrow (*from The New York Times*)...

As gold surged this year to its highest price ever, Xena Lin joined the frenzy by making monthly purchases of gold "beans," pebble-like morsels of the precious metal.

For Ms. Lin, a 25-year-old administrative worker in southern China, the $80 beans — small enough to rest on a fingertip and weighing about one-thirtieth of an ounce — were an affordable way to buy into the gold excitement without splurging for jewelry, gold bars or coins. She had dabbled with investing in stocks in the past, but she said buying gold, especially in this fun way, inspired her to continue investing. "I'm still working hard to save more," Ms. Lin said.

Often considered a safe investment during times of geopolitical and economic turmoil, gold has soared in price in response to Russia's invasion of Ukraine and the war in Gaza. But gold's climb to highs above $2,400 per ounce has proved more resilient, and lasted longer, because of China.

Chinese consumers have flocked to gold as their confidence in traditional investments like real estate or stocks has faltered. At the same time, the country's central bank has steadily added to its gold reserves, while whittling away at its holdings of U.S. debt. And throwing fuel on the fire are Chinese speculators betting that there is still room for appreciation.

China already held considerable sway in gold markets. But the country's influence has become more pronounced during this latest bull run — a nearly 50 percent increase in the global price since late 2022. It continued to scale new heights despite factors that traditionally make gold a comparatively less appealing investment: higher interest rates and a strong U.S. dollar.

Last month, gold prices vaulted higher even after the Federal Reserve signaled that it would keep higher interest rates for longer. And it has continued to appreciate even as the dollar has risen against almost every major currency in the world this year.

Prices have pulled back to around $2,300 per ounce, but there is a growing sentiment that the gold market is governed no longer by economic factors but by the whims of Chinese buyers and investors.

"China is unquestionably driving the price of gold," said Ross Norman, chief executive of MetalsDaily.com, a precious-metals information platform based in London. "The flow of gold to China has gone from solid to an absolute torrent."

Continue reading here *(subscription may be required)*

"Most central bank gold buying is unreported": In a stunning new report, Goldman Sachs predicts "significantly higher" gold prices (from Zero Hedge)...

While a ravenous appetite by China for all things gold is certainly one of the main pillars behind the explosive move higher in gold, it's not the only driver: indeed, as we first pointed out last month, it all started with the US response to the war in Ukraine, whereby the weaponization of the dollar led to a historic flight by various central banks out of the US reserves and into gold, and has led to an unprecedented divergence between the price of gold and monetary gold as measured by ETF holdings, as increasingly the price of gold was set not through financial instruments such as ETFs (which can be easily manipulated by western banks and the BIS) but rather by physical gold itself.

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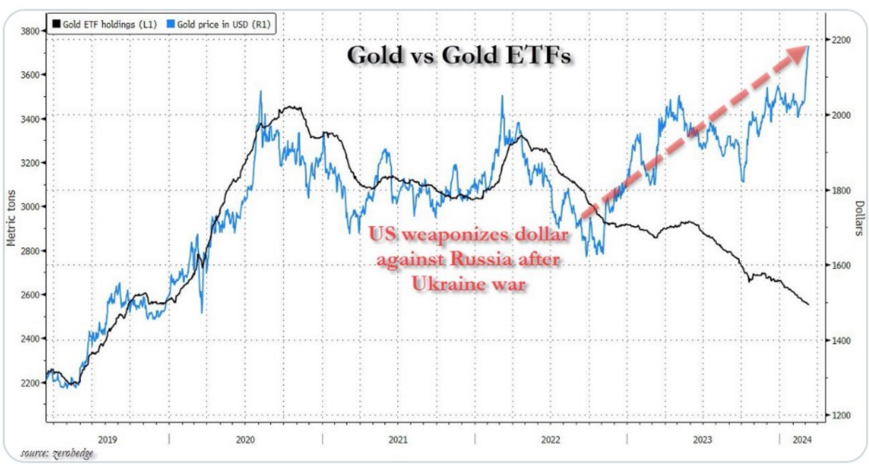
why oh why did gold decouple from gold ETFs in 2022, just as central banks unleashed a record gold buying spree



11:47 PM · Apr 16, 2024

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The staggering demand by central banks for gold - and not dollars - has reached such nosebleed levels, that even Goldman was compelled to discuss this phenomenon, and in a note by the bank's commodity analyst Line Thomas titled "Banking on Gold's Geopolitical Upside," she picks up where we left off with our April 16 chart above, and writes that "we show that central banks drive the increase in gold demand since mid-2022, and that new geopolitical or financial shocks may push gold prices significantly higher."

While we excerpt the most notable points from the note below, here are the two key highlights:

- First, Goldman agrees with us that central banks, and especially Emerging Markets central banks, have driven the gold rush. To wit, global central bank gold purchases have tripled since Russia's invasion of Ukraine. And while Goldman reminds us that "most central bank gold buying is unreported", six EM central banks—China, Poland, Turkey, Singapore, India, and Qatar—drive all reported net monetary buying since mid-2022. Of course, this still means that most of the gold buying by central banks is, well, unreported.
- Second, Goldman believes that geopolitical and financial shocks drive central bank demand, which they clearly do. "Surveys and history show that EM central banks buy gold as a hedge against geopolitical and financial shocks" writes Goldman, and adds that based on an index of US financial sanctions and US credit default swaps spreads, "our model finds that fears of geopolitical shocks and fears of shocks to US sovereign debt or the financial dollar system explain central bank gold buying well."

Taking a step back, Goldman begins by tracing the price of gold which reached an all time high on April 19 of nearly $2,400/toz "despite sharp increases in US interest rates and the dollar over the past three years, which traditionally predict falling gold prices" as **we discussed extensively one month ago**.

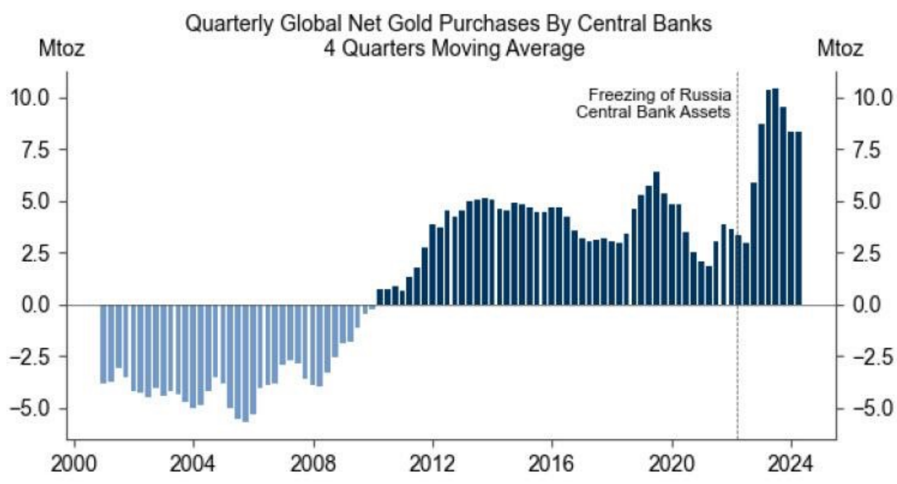
Exhibit 1: The Price of Gold Has Set New All Time Highs

Shaded areas indicate periods of US recessions.

Source: COMEX, Goldman Sachs Global Investment Research

The bank then focuses on central banks because "the tripling in their gold purchases to about 10 Million Troy ounces (Mtoz) per quarter since mid-2022" is a key feature of the new "unshakeable bull gold market."

Exhibit 2: Central Banks Turned into Net Gold Buyers After GFC and Their Purchases Have Tripled Since Mid-2022

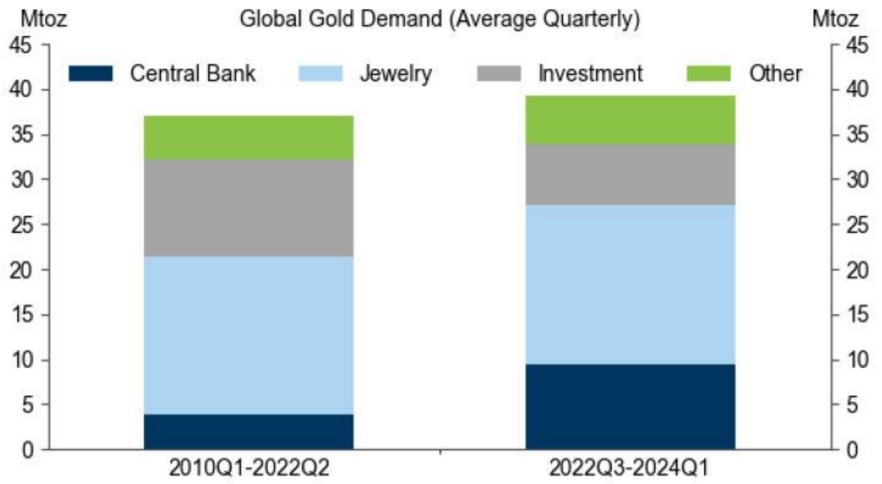


Net purchases/sales include both reported and unreported data. The World Gold Council sources quarterly central bank demand data from Metals Focus, whose estimates of total net gold purchases incorporate data from the IMF (reported), as well as international trade data and private sources (unreported).

Source: World Gold Council, Metals Focus, Goldman Sachs Global Investment Research

Goldman then cuts to the chase, by first showing that central bank purchases fully explain the increase in global gold demand since 2022H2 (relative to 2010-2022H1) as jewelry demand has remained stable, while investment demand has fallen (i.e., the plunge in ETF holdings we first showed above).

Exhibit 3: Central Bank Gold Demand Tripled Since Mid-2022



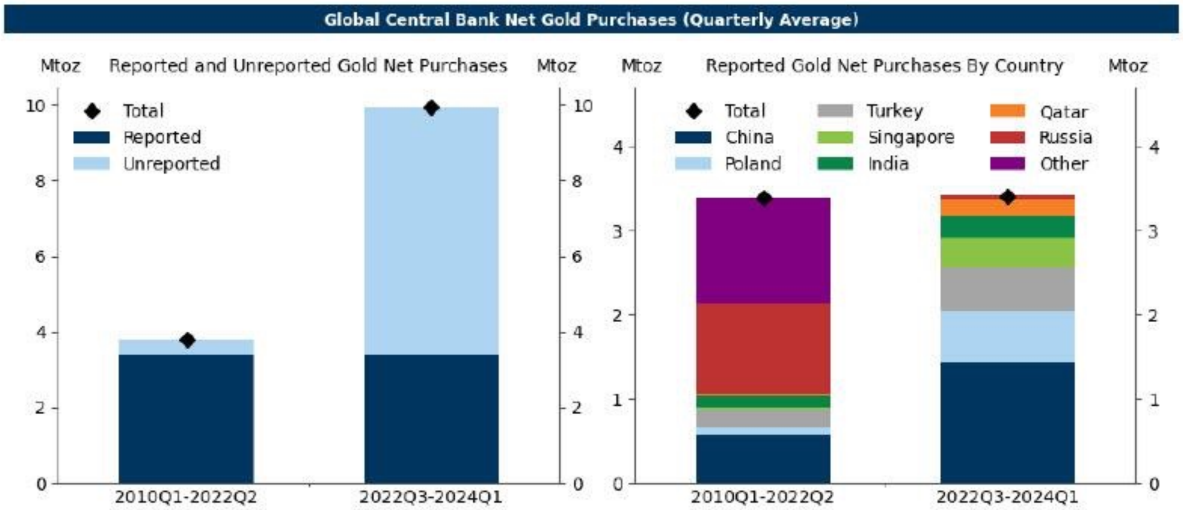
Central bank gold demand covers both reported and unreported net purchases by central banks and other official sector institutions.

Source: World Gold Council

The bank then models central bank gold purchases based on measures of fears of geopolitical or financial shocks. Finally, it estimates the potential further significant boost to gold prices from new geopolitical or financial shocks via increased central bank buying.

Taking a closer look at the first point, Goldman notes that the **rise in unreported purchases fully explains the tripling in global central bank gold purchases since mid-2022** (relative to 2010-2022 H1), while reported purchases have been stable (chart below, left). And as noted above, while most central bank gold buying is now unreported, six EM central banks—**China, Poland, Turkey, Singapore, India, and Qatar**—drive all of reported net monetary purchases since mid-2022 (chart below, right panel).

Exhibit 4: While Most Central Bank Gold Buying is Now Unreported, Six EM Central Banks Drive All of Reported Net Monetary Gold Purchases Since 2022H2



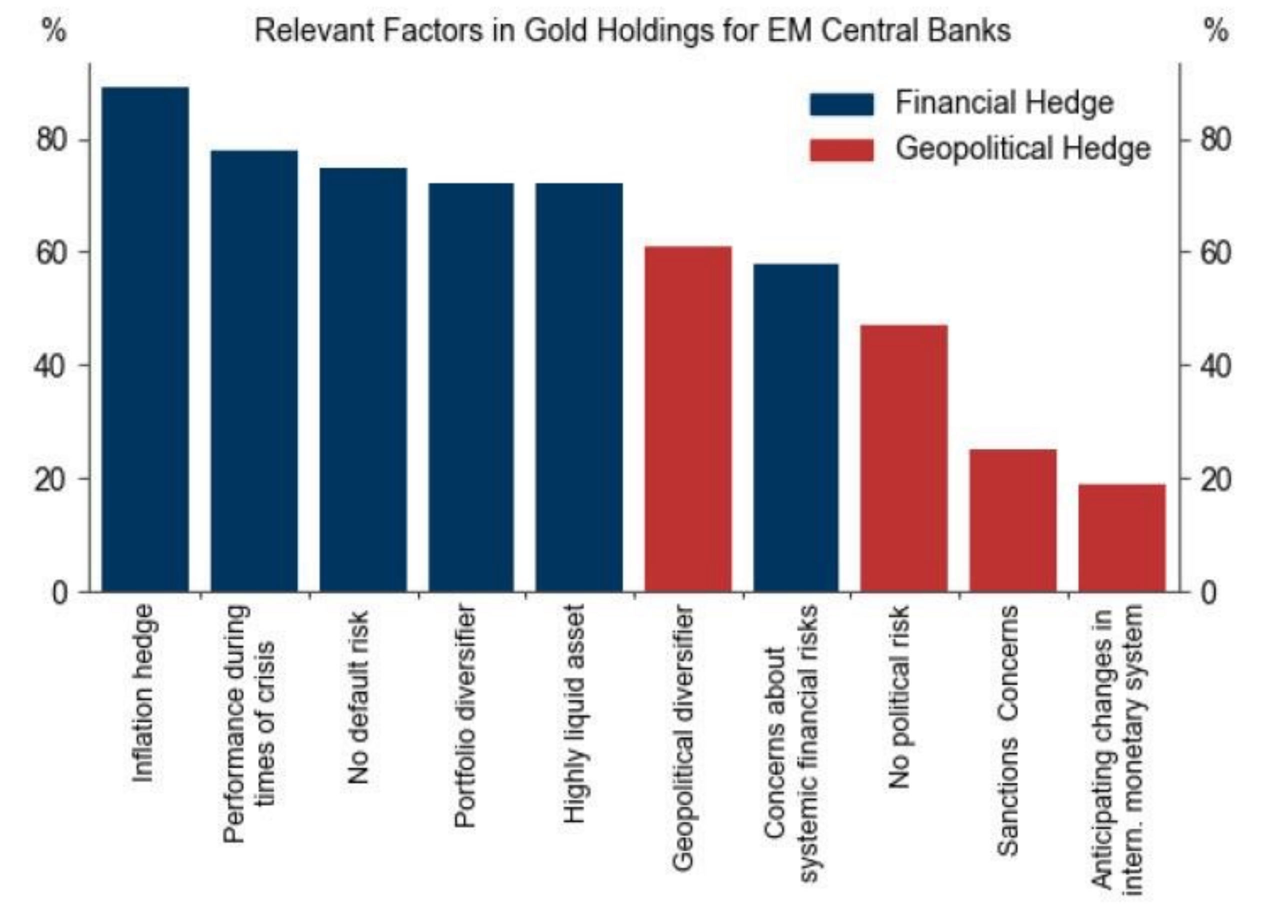
Source: World Gold Council, Goldman Sachs Global Investment Research

Earlier this week, the World Gold Council stated that global central banks purchased 9.3M troy oz of gold on net in 2024 Q1, with only 2.8M troy oz of reported net purchases and the largest reported net purchases by Turkey (1Mtoz) and China (0.9Mtoz). Here, Goldman cautions that despite the significant increase, **EM official gold holdings likely have further room to grow as their 6% average share of official reserves remains about 50% lower than the 12% share in DMs**

Goldman next shows that central banks buy gold as a **hedge against geopolitical and financial shocks combining survey, historical, and statistical evidence**.

In a 2023 World Gold Council survey, 37 EM responding central banks cited financial and geopolitical factors as key influences on their gold holding decisions. The most cited relevant factors for holding gold are **'inflation hedging'**, **'performance during times of crisis'**, and **'no default risk'** on the financial front and 'geopolitical diversification', 'no political risk', and 'sanctions concerns' on the geopolitical front. However, the most likely reason behidn the flood of EM gold purchases is also the simplest one: as the Russian example showed so vividly, if "your" money is held by some other banks, or is contained in the Dollar payment system (SWIFT), it is not really your money. As such, gold - **which is the only counterpart and liability-free currency (and as J.P.Morgan himself would testify before Congress in 1912, "Money is gold, and nothing else"**) - is what has quickly emerged as the preferred form of reserve storage, as much as the Keynesians among us would like to claim otherwise.

Exhibit 5: EM Central Banks Report Buying Gold As a Financial and Geopolitical Hedge



The chart shows the percentage of EM central banks that considered the factors to be 'highly relevant' or 'somewhat relevant' in their gold holdings decisions. 37 EM central banks were surveyed between 7 February and 7 April 2023 as part of the Central Bank Gold Reserves survey.

Source: World Gold Council, Goldman Sachs Global Investment Research

History also suggests that financial and geopolitical shocks drive EM central bank gold purchases.

Goldman admits that "many EM central banks see a financial hedge in gold, as they have partly diversified their reserves away from the US dollar after the global financial crisis and subsequent US debt ceiling debates." To illustrate, the **Chinese Prime Minister voiced**

concerns in 2009 about China's US investments: **"We have lent a huge amount of money to the US. Of course, we are concerned about the safety of our assets."** Subsequently, the PBoC head proposed a shift from the dollar as a reserve currency, and official China gold reserves have more than tripled since 2008.

On the geopolitical front, sanctions and especially freezing of central bank assets have often coincided with gold price spikes:

- The gold price spiked to $2,767/toz in today's dollars around the 1979 freezing of assets of the Iranian central bank.
- Gold rose to $2,472/toz in today's dollars in 2011 around the freezing of Libyan central bank assets.
- The first round of sanctions on Russia in 2014 led to a gold reserve buildup as the Central Bank of Russia anticipated scenarios similar to those in Libya and Iran, with a member of the board of governors noting that gold cannot be 'arrested or frozen'.
- The 2022 freezing of Russia's Central Banks' assets prompted many central banks, including Poland's, to re-think what they consider to be risk-free. The Polish Central Bank's head, Glapinski, noted gold's enduring value, even when access to the global financial system is cut off, and the central bank plans to lift its gold holdings from 13% to 20% by 2025.

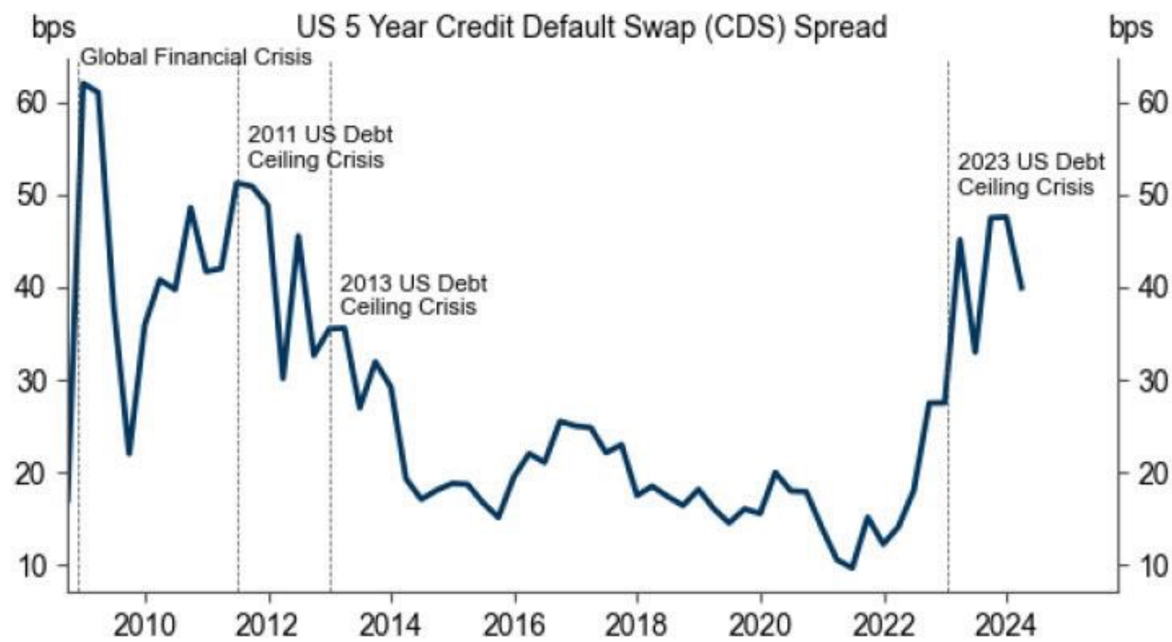
Exhibit 6: Central Bank Asset Freezes Have Often Coincided With Gold Price Spikes

Inflation-adjusted COMEX gold prices to today's USD using the March 2024 PCE index. Dotted lines mark a selection of times the US froze central bank assets: Iran's on November 14, 1979, Libya's on February 25, 2011, and Russia's on February 28, 2022.

Source: COMEX, Haver Analytics, Goldman Sachs Global Investment Research

Next, Goldman models global central bank gold purchases based on measures of fears of sanctions and fears of financial and geopolitical shocks. It uses the US 5-year CDS spread as a proxy for fears of shocks to US sovereign debt or the to the broader global financial dollar system. The US CDS spread remains significantly wider since the 2023 debt ceiling and US regional banking crises than in the 2014-2021 period, perhaps as a result of a large structural US budget deficit, high interest rates, and uncertainty about fiscal policy after the elections.

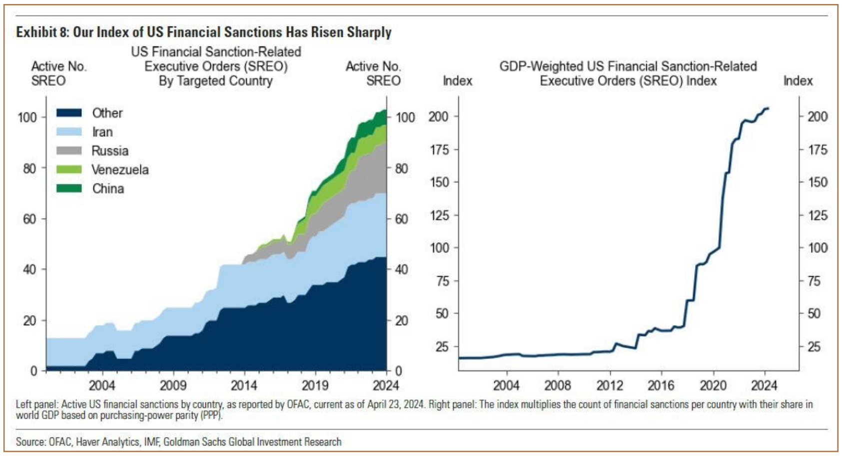
Exhibit 7: The US Credit Default Swap—a Proxy for Fiscal and Financial Fears—Remains Higher Than in the Prior Decade



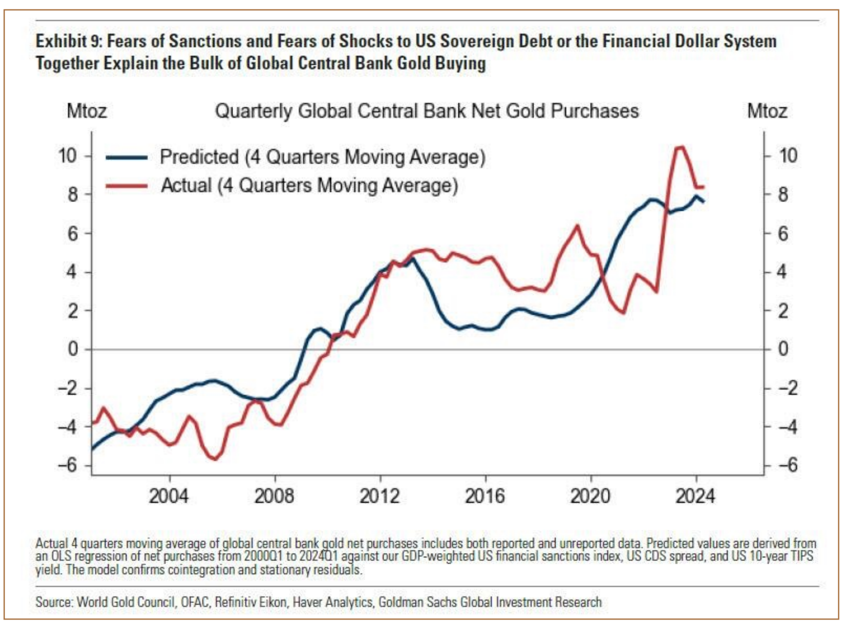
Data is at the quarterly frequency.

Source: Refinitiv Eikon

To quantify geopolitical shocks, the bank then constructs a US financial sanctions index in two steps. First, it identified financial executive orders from the US Office of Foreign Assets Control (OFAC) by targeted country (chart below, left panel). Second, it weighed each US financial sanction based on the target country's share in global GDP share to capture the greater impact when larger economies are sanctioned. The US financial sanctions index has risen sharply since 2016 with new sanctions on Russia, Venezuela, and China (chart below, right panel).



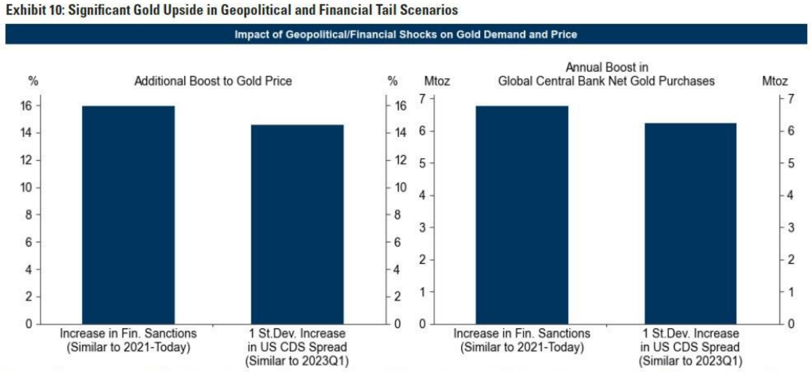
The model regresses global central bank net purchases of gold (including unreported purchases) on the US CDS spread and Goldman's US financial sanctions index, and controls for the 10-year US real interest rate in a quarterly sample starting in 2000 Q1. The bank finds highly significant positive effects of the US CDS spread — the proxy for financial fears — and the sanctions index — the proxy for geopolitical fears — on global central bank gold purchases. As the next chart shows, the model explains the swings in global central bank gold buying quite well. Using this model, Goldman can quantify the upside to gold prices in adverse geopolitical and financial scenarios.



Putting it all together, Goldman reiterates its base-case price target for gold to $2,700/toz by year-end (up 17%) **"driven by strong demand from EM central banks, Asian households, and lower US interest rates."** But that is just the beginning: based on the bank's model of central bank gold buying, and Goldman's prior estimates of the price elasticity of gold supply and gold demand, Goldman estimates upside to its base case gold price forecasts in two hypothetical tail scenarios.

- First, the bank estimates that a further rise in US financial sanctions equal to the rise seen since 2021 would **boost the gold price by an additional 16% (to $3,130/toz) on the back of additional central bank buying of 7Mtoz annually**. Such an increase in the US financial sanctions index would be akin to the hypothetical addition of roughly two or more US financial sanctions on China or six financial sanctions on India.
- Second, Goldman estimates that a **one standard deviation (13bps) widening in the US-5 year CDS spread would raise gold prices by an additional 14% (to $3,080/toz) via extra central bank gold purchases of 6Mtoz per year**. For context, such a hypothetical 13bp increase in the US CDS spread would be similar to the increase seen in 2023 Q1 around the US debt ceiling debate, and would lead to a CDS level similar to the one observed in the 2011 debt ceiling crisis.

Exhibit 10: Significant Gold Upside in Geopolitical and Financial Tail Scenarios



We quantify financial sanctions as the GDP-weighted count of related US executive orders and simulate a rise in our index by 48 points, similar to the increase from 2021 to present. This is akin to two additional sanctions (as defined in footnote 9) on China or six on India. We use the US 5-year CDS spread as a proxy for US debt or global financial dollar system fears, and simulate a one standard deviation increase, which corresponds to 13bps, that persists for one year. This rise mirrors the spike in 2023Q1 around the US debt ceiling debate, and would lead to a CDS level similar to the one observed in the 2011 debt ceiling crisis. Note that our base case remains $2,700/toz by year-end, driven by strong demand from EM central banks, Asian households, and Fed adjustment cuts.

Source: Goldman Sachs Global Investment Research

Of course, Goldman can hardly be viewed as urging its clients - and sovereign nations for that matter - to dump their fiat or equity holdings and to rush to buy gold: that's our job. And yet reading between the lines of this latest, rather shocking report, that's precisely what Goldman is saying: after all, if gold indeed rises from $2,350 where it is now to $3,100, the return would far surpass Goldman's stock market forecast, where the bank expects the S&P to actually close the year effectively unchanged at 5,200. It's also why the conclusion to the Goldman report says it all: "***To be clear, the geopolitical, fiscal, and financial outlooks, and their exact impact on central bank gold demand and gold prices are all highly uncertain. That said, our exercise underscores the hedging value of gold against adverse geopolitical or financial scenarios, in which equity-bond portfolios would likely suffer.***"

Continue reading here

Gold and silver are quietly outpacing stocks (from The Elliott Wave Theorist)...

Precious metals remain in the early stages of a big move. Gold is at $2400, up from $1614.96 a year and a half ago, and silver just hit $31.60/oz., up from $17.56 in the summer of 2022 to reach its highest level in over eleven years. These are gains of 50% and 80%, respectively. The Dow and S&P have been on a tear from lows made around the same time, but their gains are less, at 40% and 50%. Stocks are overpriced and overowned, whereas the metals are still cheap and off nearly everyone's radar. The metals should continue to rise after stocks top out.

It is remarkable how uninterested investors are in owning precious metals. Despite a surge in price writers are focused on the negative, as in this article:

Gold in decline after biggest one-day drop in two years.

Geopolitics and higher-for-longer rates are weakening demand.

> April 23, 2024
>
> By Bloomberg News
>
> The precious metal fell toward $2,300 an ounce after slumping 2.7% on Monday as concerns the conflict between Israel and Iran would escalate faded. With markets continuing to temper expectations for monetary easing this year, the precious metal may be forced to reckon with the prospect of a higher-for- longer rate environment, a scenario that would typically be a headwind for gold as it doesn't pay interest.

The brief decline to which the article refers is barely discernible on a weekly chart, yet it prompted a philosophically negative writeup. This attitude is dramatically opposed to the endless cheerleading in the stock, bond and bitcoin markets.

An article titled "Inside the 21st Century Gold Rush" in The Wall Street Journal on May 11 questioned the reasons for the mysterious rise in gold. It contains some amusing observations:

> The climb has at times perplexed analysts, because it didn't coincide with a typical feature of prior rallies: mounting bullish bets in futures, options and ETF markets. Also, gold pays no income, and generally becomes less attractive to investors when rising interest rates drive up the payouts from other relatively safe assets, like bonds. Yet the metal's sharpest ascent occurred between this past February

> and April, just when the Fed started signaling that rates might stay higher for longer than Wall Street expected.
>
> The acceleration in central bank and consumer buying has broken a traditional tendency of gold prices to fall when inflation-adjusted interest rates rise, said [a] senior commodity strategist at BNP Paribas. Prices would be about $1,000 lower were it not for all the metal being accumulated [You don't say!], according to his modeling.

Commentators' impulse to shun gold is a feature of a trend not near its end. Perplexity is a psychological condition of a trend not near an end. The lack of "bullish bets in futures, options and ETF markets" is a feature of a trend not near its end. Prices going higher than people expected is a feature of a trend not near its end.

When gold and silver finally top, articles will be offering a dozen reasons why you should go out and buy it. That's what happened in 1979-1980 and 2011-2012, and it will happen again.

Continue reading here *(subscription required)*

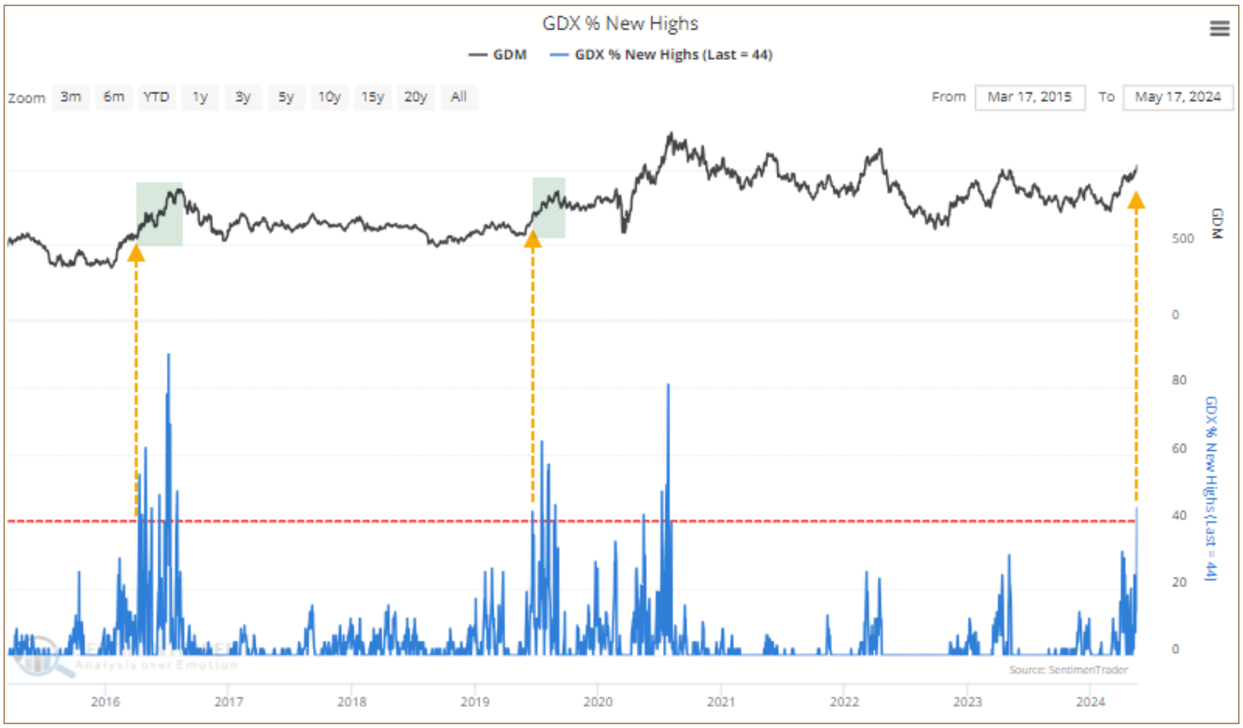
The last time this happened, silver rallied 16x (from Jesse Felder via X)...

"A potential breakout of the Silver/S&P 500 ratio is taking place. The last time this occurred from oversold conditions, Silver rallied 16x (from $3 to $50)." @KimbleCharting

This is a super-bullish signal for gold mining stocks (from SentimenTrader via X)...

More than 40% of gold mining stocks hit a 52-week high [this month]. This was the first reading over 40% in over a year - the last couple of instances marked the nascent stages of impressive rallies.

Over the past 30 years, when gold mining stocks have seen cycles in selling and buying pressure similar to the past few months, they showed gains 2-3 months later almost every time.



ENERGY

Research in focus: Energy's surprise rally (from Janus Henderson Investors)...

Research Analyst Noah Barrett, from the Global Research Team, explains what's behind the recent rise in energy stocks and what investors should consider moving forward.

Last year, markets worried that faltering demand for oil – whether as a result of slowing economic growth or the green energy transition – would weigh on shares of carbon-focused energy companies. But in 2024, energy has been among the top-performing sectors in the S&P 500® Index, keeping pace even with high-flying tech stocks.

The reason: crude prices. In the early weeks of April, Brent crude traded around $90 per barrel, up nearly 30% from its 2023 low, helping to boost the revenues of oil-and-gas companies. And the pressure on prices could continue for much of the year as a result of supply/demand dynamics. Tensions in the Middle East and the ongoing Russia/Ukraine war, for one, have raised concerns about a supply shock. The Organization of the Petroleum Exporting Countries also extended its 2.2 million barrels-per-day cut in oil production through the second quarter of 2024. On the demand side, oil consumption has been surprisingly resilient, thanks to the strength of the U.S. economy.

Investor takeaway

In a tech-dominant market, the energy sector could offer investors a way to add diversification to a portfolio – at an attractive price. The sector trades at 12.3 times the next 12 months of estimated earnings, nearly half that of the S&P 500 Index. Furthermore, chastened by the U.S. shale-boom days of excess spending, many oil and gas companies are now focused on returning capital to shareholders via generous dividends and stock buybacks, rather than growing at any cost. And should interest rates stay higher for longer in the U.S., these healthy cash balances could make energy stocks appealing. Indeed, energy has traditionally been viewed as a hedge against inflation, which is another feather in the sector's cap, given upward pressure on prices in the U.S.

All that being said, energy shares are notoriously volatile. While we believe there's still room for potential upside, investors will want to keep in mind that a sudden drop in crude prices can result in energy stocks also falling. (Indeed, we have seen an easing in oil prices and energy stocks in recent weeks.) In addition, some areas of the sector have not participated in this year's rally, in many cases for good reason. For example, services companies – those firms that provide equipment and services for oil producers – are facing the double whammy of higher labor and input costs and falling demand as oil production stays generally flat.

As such, we believe investors should focus on upstream oil and gas producers. In addition to benefiting from elevated oil prices, many of these firms have free cash flow yields that are double that of the S&P 500 while trading at a discount to the Index. Importantly, as discussed earlier, a significant portion of that cash is being returned to shareholders via dividends or stock buybacks, helping mitigate concerns of reinvestment in unwarranted supply growth. Balance sheets for most producers are also strong, which should provide support if we see oil prices retrace from recent highs.

Many refiners are also generating sizable cash flows, thanks to healthy refining margins (the difference between the value of petroleum products that refiners produce and raw input costs). As such, these companies have been able to increase dividends and repurchase shares, helping drive growth on a per-share basis. Disruptions caused by the Russia/Ukraine war create a near-term tailwind for refiners, but we also believe mid-cycle margins for U.S. refiners have structurally moved higher compared to prior cycles, thanks to improved operations and cost advantages. And while new refining projects are due to come online in Mexico and Nigeria in the next few years, this incremental supply is unlikely to outpace global growth in oil consumption, as forecast by the U.S. Energy Information Administration.

By the numbers – S&P 500 Energy Sector*

- 3.07% – Average annual dividend yield over the trailing 12 months.
- $91/barrel – So far, this year's peak price in Brent crude (5 April). Some analysts believe prices could go higher as a result of strong demand and geopolitical tensions/production cuts.
- 12.3x – Forward price to earnings ratio, compared to 19.9 for the S&P 500 Index.
- 7.14% – Free-cash-flow yield. By contrast, the S&P 500 Index yields only 3.4%.

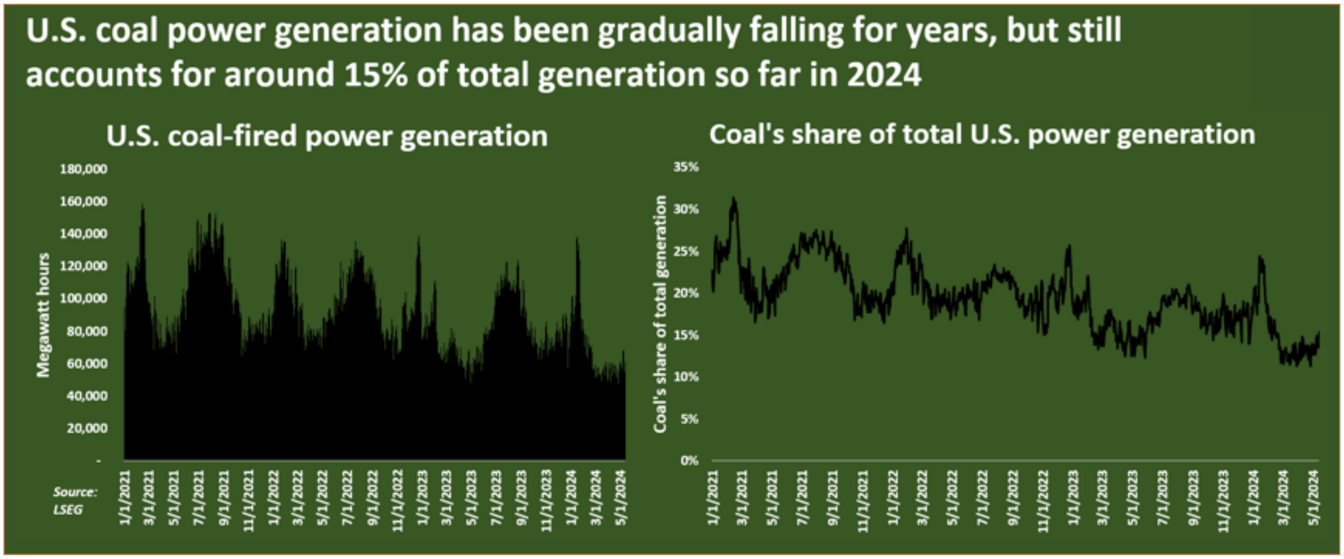
**Source: Bloomberg, as of 23 April 2024 unless otherwise noted.*

Continue reading here

Coal is proving hard to dislodge from the U.S. power system (from Reuters)...

U.S. coal-fired power generation over the first four months of 2024 shrank to its lowest total in four years, but retained a more than 15% share of the national power mix despite widespread efforts to transition energy systems away from fossil fuels.

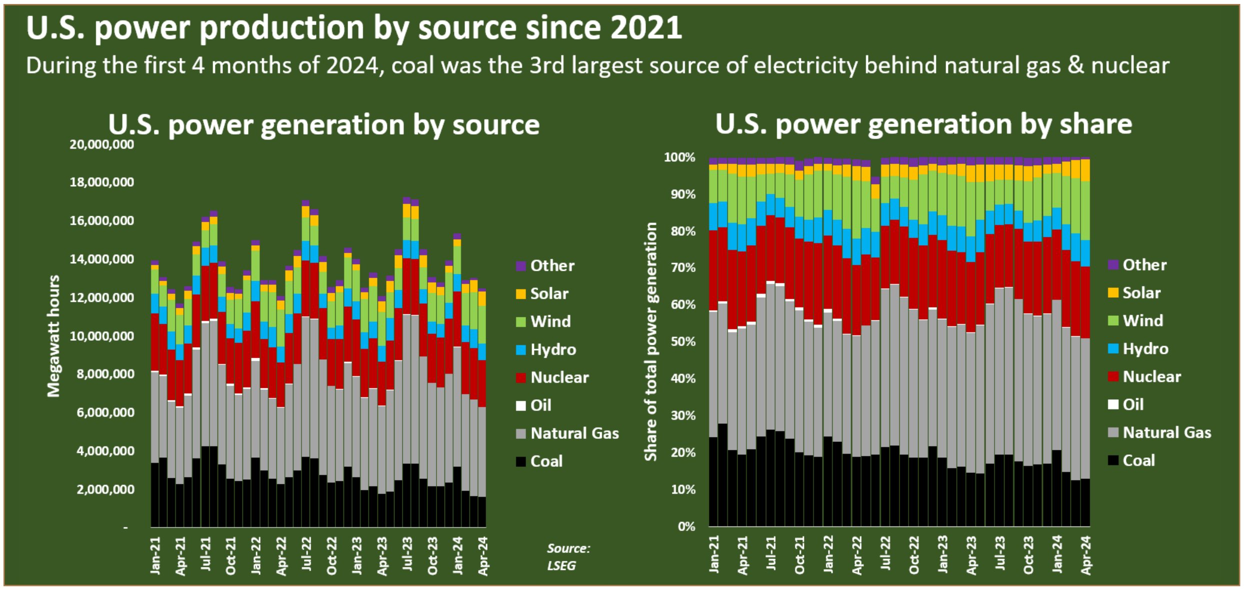
Coal power output was 8.3 million megawatt hours (MWh) through April, compared to 8.5 million MWh during the same period in 2023, according to LSEG data.



U.S. coal power generation has been gradually falling for years, but still accounts for around 15% of total generation so far in 2024

That 1.8% drop in coal-fired output from the year before extends coal's steady decline in U.S. power generation, and the output total marks a 30% fall from the same four months of 2021.

However, coal accounted for an average share of 15.6% of total U.S. power generation through April, which is down from a 16.4% share through April 2023 but is still larger than the power share of any form of renewable energy during that period.



During the first 4 months of 2024, coal was the 3rd largest source of electricity behind natural gas & nuclear

In addition, coal-fired generation routinely climbs from now through September as power firms must boost supplies to meet elevated electricity demand for air conditioning during the hottest months of the year.

This means that coal's share of the U.S. power mix will almost certainly climb further over the coming months, resulting in elevated power sector emissions across several states.

Continue reading here

U.S. to start $3.4 billion buy-up of domestic nuclear reactor fuel (from *Bloomberg*)...

The US will ask suppliers next month to bid on contracts for as much as $3.4 billion of domestically produced nuclear reactor fuel, according to a government notice.

Around $2.7 billion of the funding comes from a broader plan to wean the nation off nuclear fuel imported from Russia and forms part of a strategy to help restart domestic nuclear fuel production by making direct purchases of the low-enriched uranium used in reactors. That cash was unlocked after President Joe Biden signed a ban on imports of enriched uranium from Russia, which provides about a quarter of the reactor fuel in the US, making it the country's top supplier.

The US was once a leading supplier of enriched uranium but lost its edge in the industry decades ago. The country now has just one commercial enrichment facility in New Mexico, owned by Urenco Ltd., a British, Dutch and German consortium.

Bethesda, Maryland-based Centrus Energy Corp. has said it will compete for the funding. The fuel supplier, which currently gets the majority of its uranium from Russia, plans to produce its own low-enriched uranium and has reported securing about $900 million in conditional sales commitments. Centrus also began production in October at a pilot plant that makes specialized, highly enriched uranium to be used in the new breed of advanced reactors.

In addition to Centrus, companies that could benefit from the spending include ConverDyn, a joint venture between Honeywell International Inc. and General Atomics that provides uranium conversion services, and Global Laser Enrichment, jointly owned by Silex Systems LTD and Cameco Corp.

Domestic uranium mining companies could see a benefit from the funding as well, said Scott Melbye, president of the Uranium Producers of America, which represents such companies as Cameco Corp., Energy Fuels, Inc., Ur-Energy, Inc., and Uranium Energy Corp.

Continue reading here *(subscription may be required)*

How the EPA's power-plant rule will destroy our electrical grid (from Energy Talking Points by Alex Epstein)...

4 reasons EPA's power plant rule will destroy our grid:

- Our grid is in crisis
- EV + AI demand will make things far worse
- EPA's rule will shut down almost all our coal plants and prevent new natural gas replacement plants
- Unreliable solar and wind can't make up the difference

EPA United States Environmental Protection Agency

Greenhouse Gas Standards and Guidelines for Fossil Fuel-Fired Power Plants

Rule Summary

EPA has issued final carbon pollution standards for power plants that set carbon dioxide (CO2) limits for new gas-fired combustion turbines and CO2 emission guidelines for existing coal, oil and gas-fired steam generating units, securing important climate benefits and protecting public health.

These rules will significantly reduce greenhouse gas (GHG) emissions from existing coal-fired power plants and from new natural gas turbines, ensuring that all long-term coal-fired plants and base load new gas-fired plants control 90% of their carbon pollution. Existing coal-fired power plants are the largest source of GHGs from the power sector. New natural gas-fired combustion turbines are some of the largest new sources of GHG being built today and these final standards will ensure that they are constructed to minimize their GHG emissions.

1. **Our grid is in crisis**

- **Premature shutdowns of reliable fossil fuel plants without sufficient reliable replacements have plunged our grid into crisis nationwide.**

  Most of North America is at elevated/high risk of electricity shortfalls between 2024-2028.1

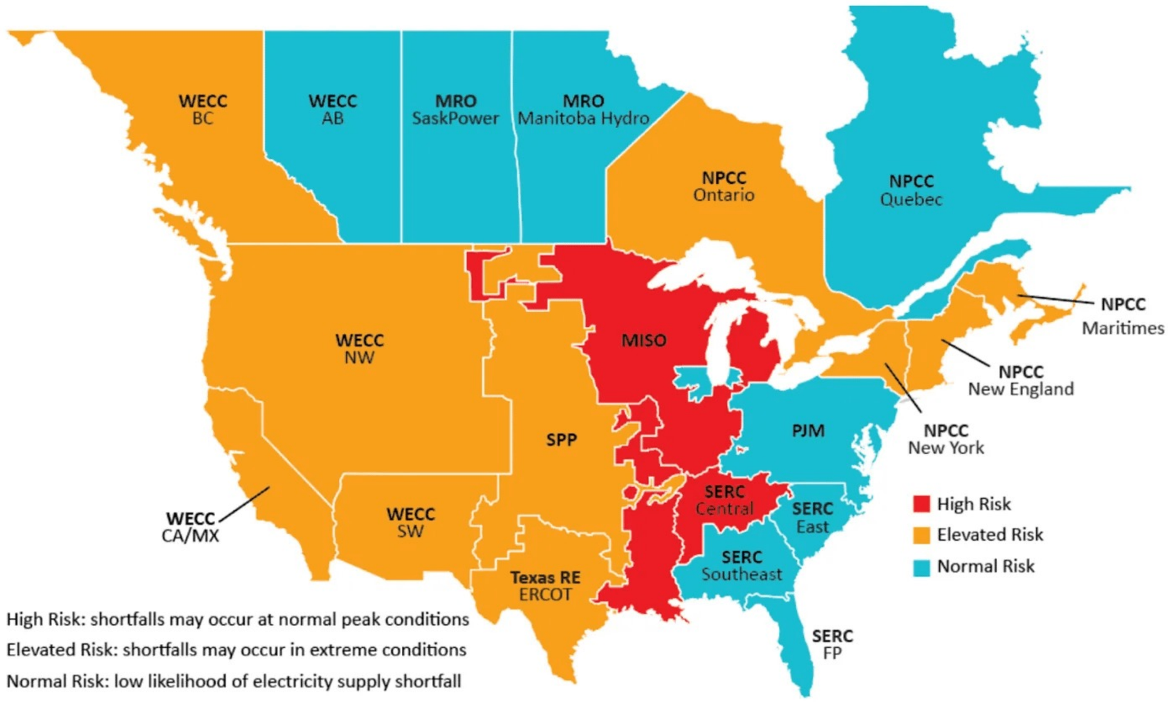


Figure 1: Risk Area Summary 2024–2028[8]

2. **EV and AI demand will make the electricity crisis far worse**

- At the same time that demand from data centers is projected to skyrocket in order to power energy-hungry AI, the Administration has pledged to add massive artificial demand through EV mandates.

- Due in large part to EVs and AI, official 10-year projections for the US have summer and winter peak demand rising by over 79 gigawatts and over 90 gigawatts. 90 gigawatts is equivalent to adding the entire power generating capacity of California (!)2

- With EVs and AI set to catapult demand, doing nothing risks making our grid a Third-World one.

  But EPA is not simply doing nothing; **it is passing a rule that will, if not stopped, shut down virtually all remaining coal and jeopardize the most cost-effective replacement: natural gas**.

3. **EPA's rule will shut down almost all our coal plants and prevent new natural gas replacement plants**

- By mandating that existing coal plants and new natural gas plants meet impossible standards, **the EPA is destroying 1/6 of our reliable power and preventing it from being replaced**.
- The EPA couldn't get away with saying: "Our response to today's growing electricity crisis is to order all coal plants to shut down and prohibit new natural gas plants from replacing them."

  But EPA is doing exactly this by mandating that these plants do the impossible.
- **EPA's new rule says that by 2032, existing coal power plants plus new natural gas power plants used >40% of the time must commit to retiring pre-2039 or capture 90% of their CO2 emissions**—something that exactly zero power plants do today.3

United States Environmental Protection Agency

Greenhouse Gas Standards and Guidelines for Fossil Fuel-Fired Power Plants

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- EPA claims that fossil fueled power plants will be able to capture 90% of their CO2 emissions by 2032 via carbon capture and sequestration/storage (CCS).

  But even with massive government support, no CCS facility is cost-effectively capturing anywhere close to 90% CO2 emissions.

> United States Environmental Protection Agency
>
> preamble. For sources that intend to operate past January 1, 2039, the EPA concludes that the BSER is CCS with 90 percent capture of CO_2. The EPA believes that this control measure is appropriate because it achieves substantial reductions at reasonable cost, as described in section VII.C.1 of this preamble.

- Per the Clean Air Act, **EPA must pass rules based on "adequately demonstrated and available" tech.** If this means anything, it's that there are commercial plants that meet the rules' standards ("demonstrated") and do so cost-effectively ("available"). **Neither is remotely the case**.

> United States Environmental Protection Agency
>
> deployment of CCS and other GHG emission control technologies. As explained later in this preamble, these developments support the EPA's conclusion that CCS is the BSER for certain subcategories of new and existing EGUs because it is an adequately demonstrated and available control technology that significantly reduces emissions of dangerous pollution and because the costs of its installation and operation are reasonable. Some companies have already made plans to

- **Of the >3000 fossil fuel power plants in North America, exactly two of them—one in Saskatchewan and another in Texas—have generating units that currently use CCS on a commercial scale**. Both units capture far less than 90% of their emissions, and do so at enormous cost.

- Over its 9 years of operation, the coal-fired Boundary Dam Unit 3 in Saskatchewan was able to use CCS to capture 57% of its total CO2 (and 0% of the CO2 from the other two units in the plant), never once reaching its goal of 90%.4

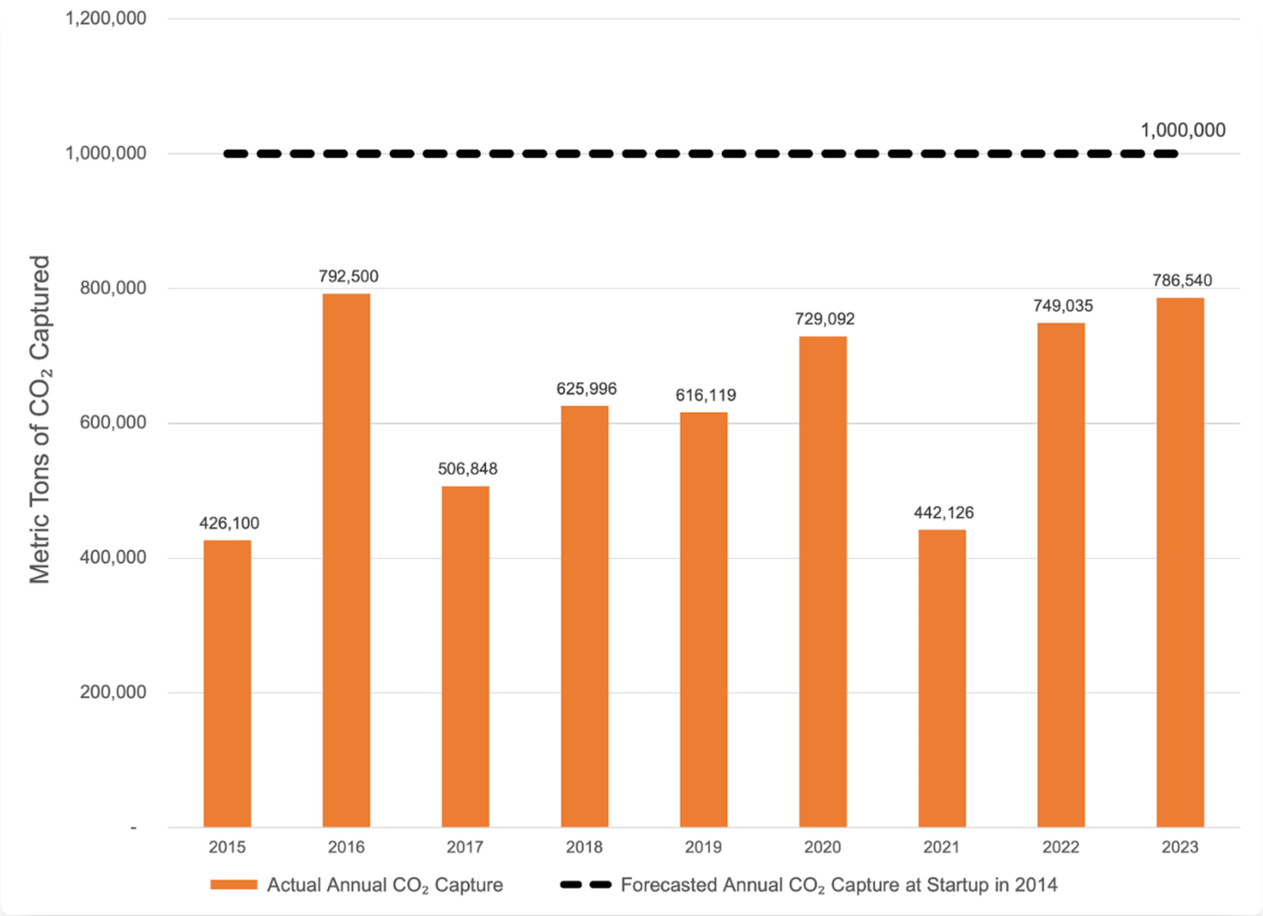


Figure 1: Boundary Dam 3 Annual CO2 Capture from January 2015 to December 2023

Sources: SaskPower monthly and quarterly Boundary Dam 3 Status Updates.

- From 2017-2019, the "Petra Nova" project in Texas captured 26% of the CO2 from Unit 8 of the W.A. Parish plant (by capturing 70% of its own technical capacity)—excluding emissions from gas-powered Petra Nova itself.

The project failed in 2020 and was recently revived by subsidies.

U.S. DEPARTMENT OF ENERGY | NATIONAL ENERGY TECHNOLOGY LABORATORY

CCS CO_2 CAPTURE METRICS			
YEAR	PLANNED CO_2 CAPTURE (SHORT TONS)	ACTUAL CO_2 CAPTURE (SHORT TONS)	PERCENT OUTPUT VS. PLAN OF 85%
2017	1,635,919	1,180,594	72%
2018	1,392,300	1,122,050	81%
2019	1,613,300	1,529,174	95%

Translation: % of CO2 captured, of 85% (planned) of Petra Nova's 37% portion of Unit 8's CO2 emissions

- **Not only have neither of the 2 existing plants using CCS been able to capture close to 90% CO2 emissions, but neither has been cost-effective even at far lower levels.**

  E.g., the Boundary Dam project in Canada has an estimated cost of about $100/ton and required heavy subsidies.6

- A ton of coal for electricity might cost $40. It will produce about 1.76 metric tons of CO2 and at the subsidy price of $85/ton as per the "Inflation Reduction Act," carbon capture would cost 3-4X the price of the fuel, which would make coal use prohibitively expensive at scale.7

- **Reducing CO_2 by 90%**—a standard that has never been met and is too cost-prohibitive to scale even at lower levels of CO_2 emissions reduction—is not "adequately demonstrated."

  And CCS tends to be more and more costly the closer CO_2 reductions get to 100%.

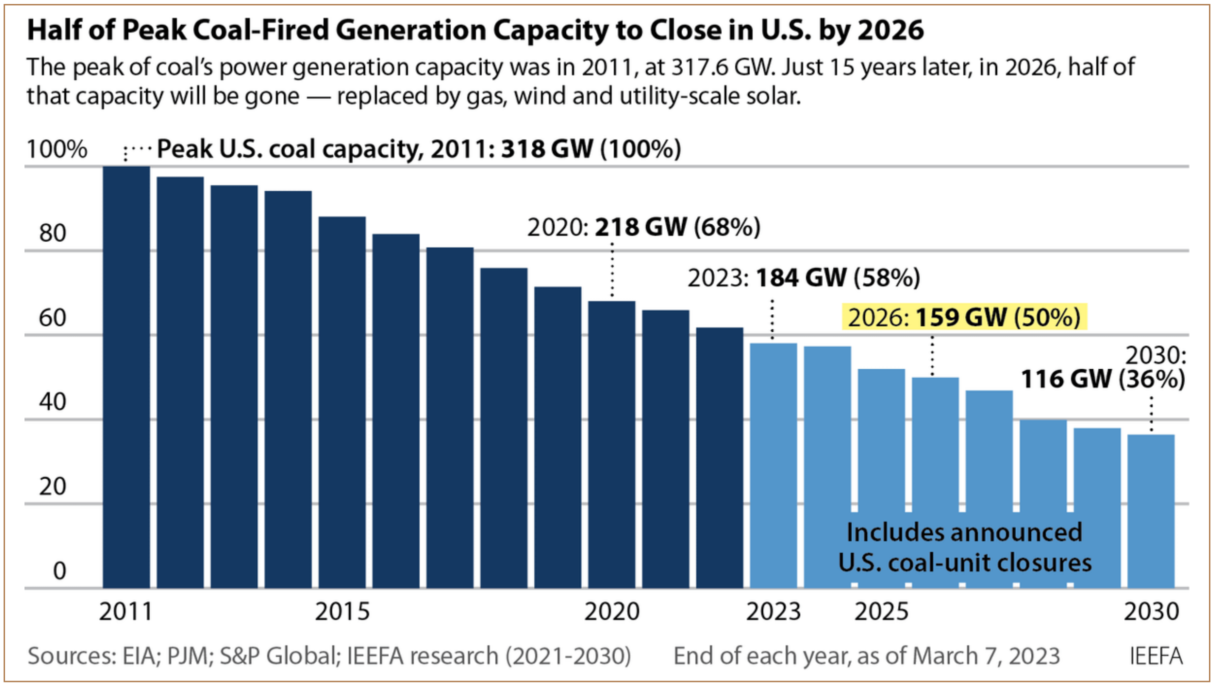
- **What EPA is demanding of power plants would require a revolutionary scientific/economic breakthrough in <10 years** that makes CCS far better on a far larger scale at a far cheaper rate, and that can be applied to hundreds of plants.

  EPA may as well mandate that unicorns exist.

- **The EPA rule, if not stopped, will have disastrous consequences.**

  The rule's impossible standards will force nearly all of America's coal fleet (which is 1/6 of our electricity) to retire. The only reliable replacement would be new natural gas, which the rule's standards also prevent.

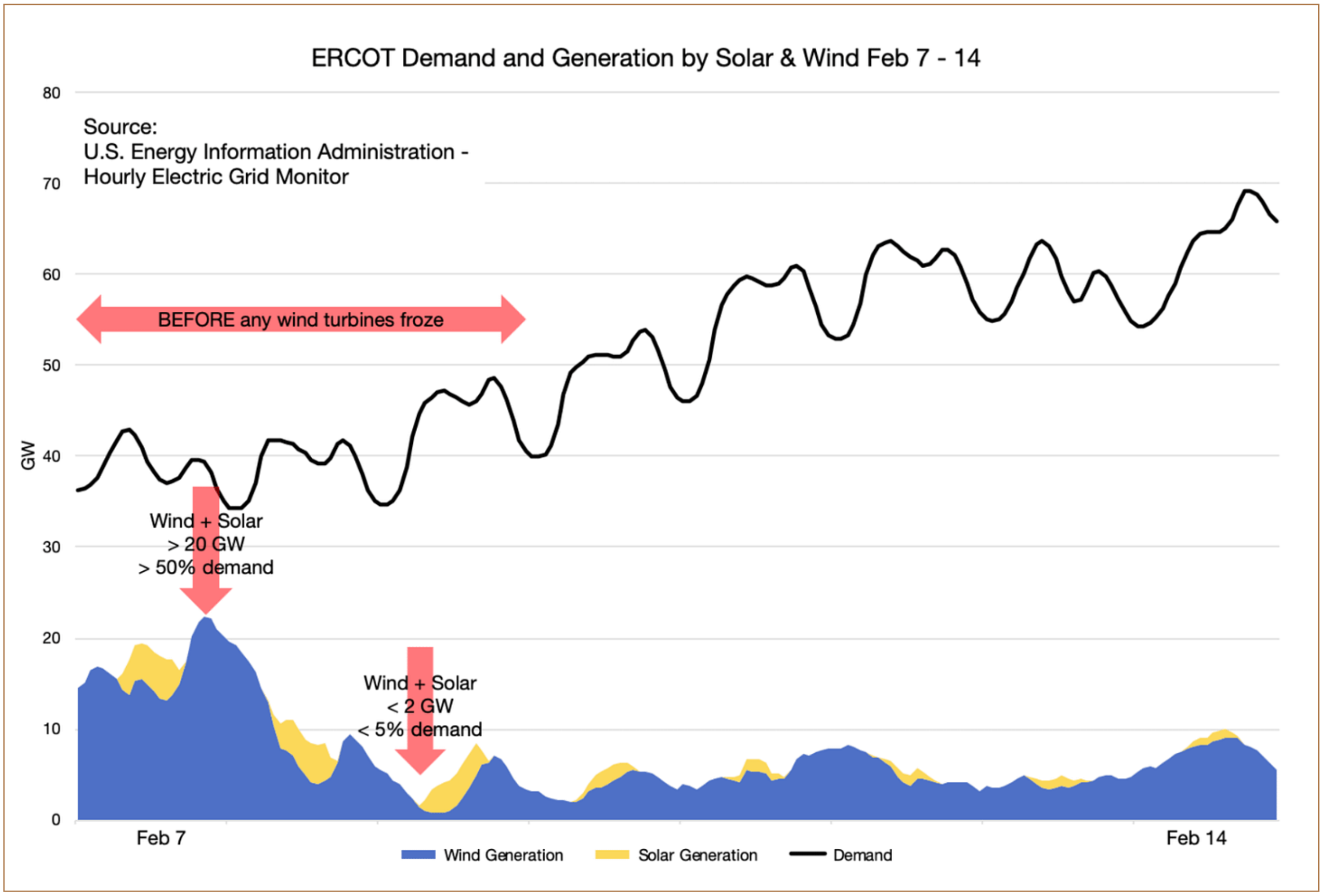
- Of America's ~184 GW coal fleet, which provides ~16% or 1/6 of our electricity, ~68 GW were already set to close by 2030—in no small part due to past EPA rules. **Now EPA's power plant rule means death for most or all of the remaining ~116 GW.**



- Despite premature coal plant shutdowns, prior to EPA's power plant rule it might have been possible to save the grid by cheaply replacing the retiring coal plants with reliable natural gas plants. But no longer—because **EPA's rule essentially disallows new natural gas plants**.
- Modern natural gas turbines have an average utilization rate of 57%. Since EPA's rule subjects new natural gas plants operating >40% of the time to the same impossible 90% GHG emissions reduction standard as coal, **new natural gas plants will be immensely costly or never built at al**l.
- **Can natural gas plants stay open by switching to lower-emissions "green" hydrogen? No—this is far too expensive.**
- Compared on the basis of energy content, "green" hydrogen at its subsidy price of $3/kg costs $26/MMBtu, making it >13X more expensive than natural gas (priced at <$2/MMBtu).

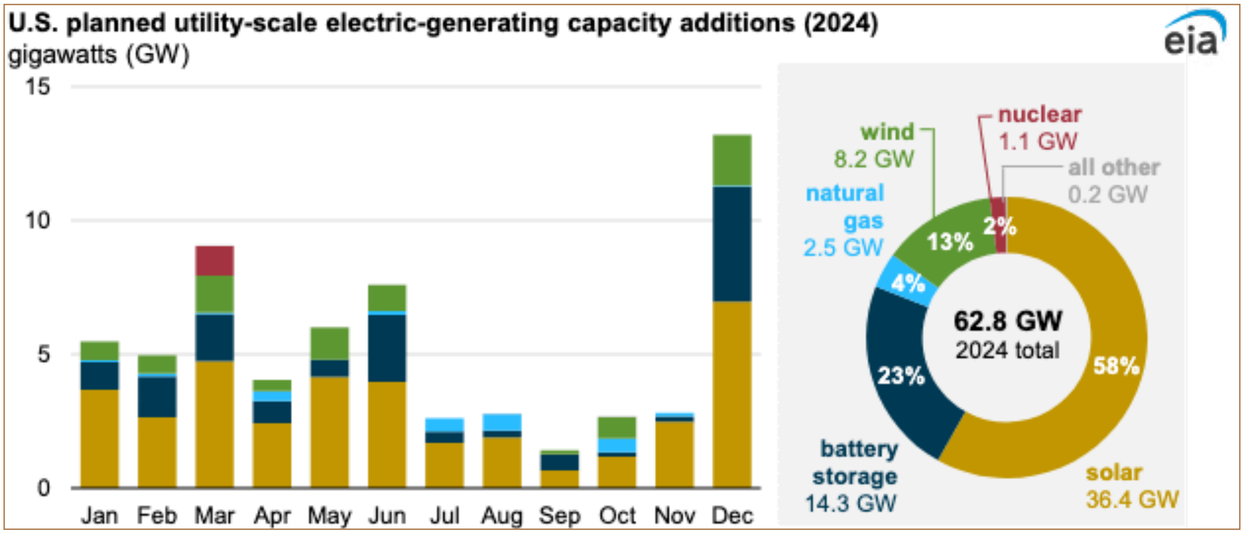
4. **With coal gone and new natural gas out of the question, unreliable solar and wind can't make up the difference**

- Replacing reliable power with solar and wind at a small scale is what caused our current electricity crisis—and doing this at the scale EPA's rule requires **would crater our grid**.
- **Since at any given time solar and wind can go near zero, using them as replacements for reliable power plants doesn't work**. For example, Texas's February 2021 disaster was caused by solar and wind disappearing and inadequate investment in reliable power plants and their weatherization.11



- The overwhelming majority of new capacity planned in the US comes from solar and wind, not nuclear or hydro, which the US has no near-term ability to scale.

  Thus **replacing fossil fuel power means replacing it with a huge amount of solar and wind**.



- Will batteries make unreliable solar and wind reliable? No. **Battery storage is expensive and can only provide a given "capacity" (e.g., 1 GW) for a few hours, and only then if fully charged.** Planned batteries are nowhere near enough to compensate for solar and wind's unreliability.
- Given nuclear, hydro, and battery realities in the US, **shutting down reliable fossil fuel power plants means destroying the grid**.
- This would be devastating in normal circumstances, but in the face of skyrocketing electricity demand from AI and EVs, it's straight up suicidal.

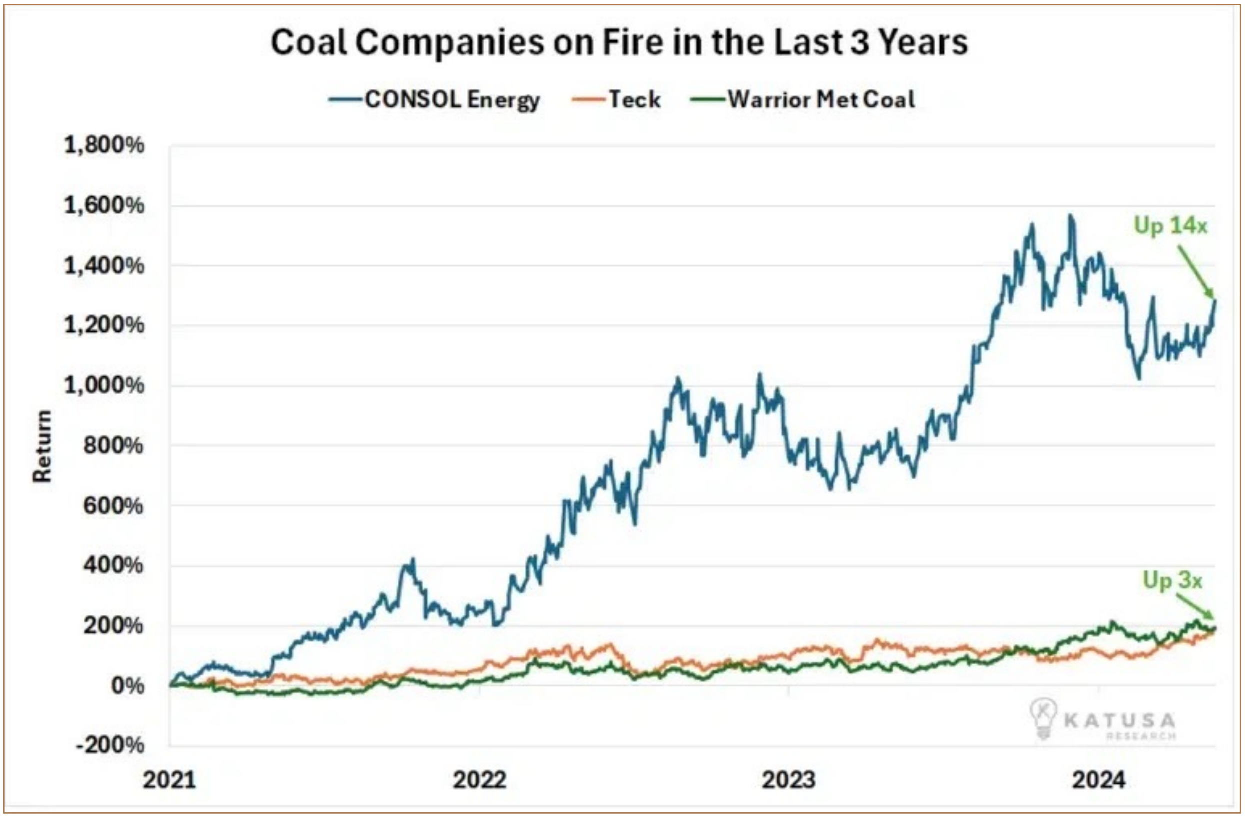
Continue reading here

Coal stocks are soaring ([from Katusa Research via X](#))...

Coal stocks are rocking.

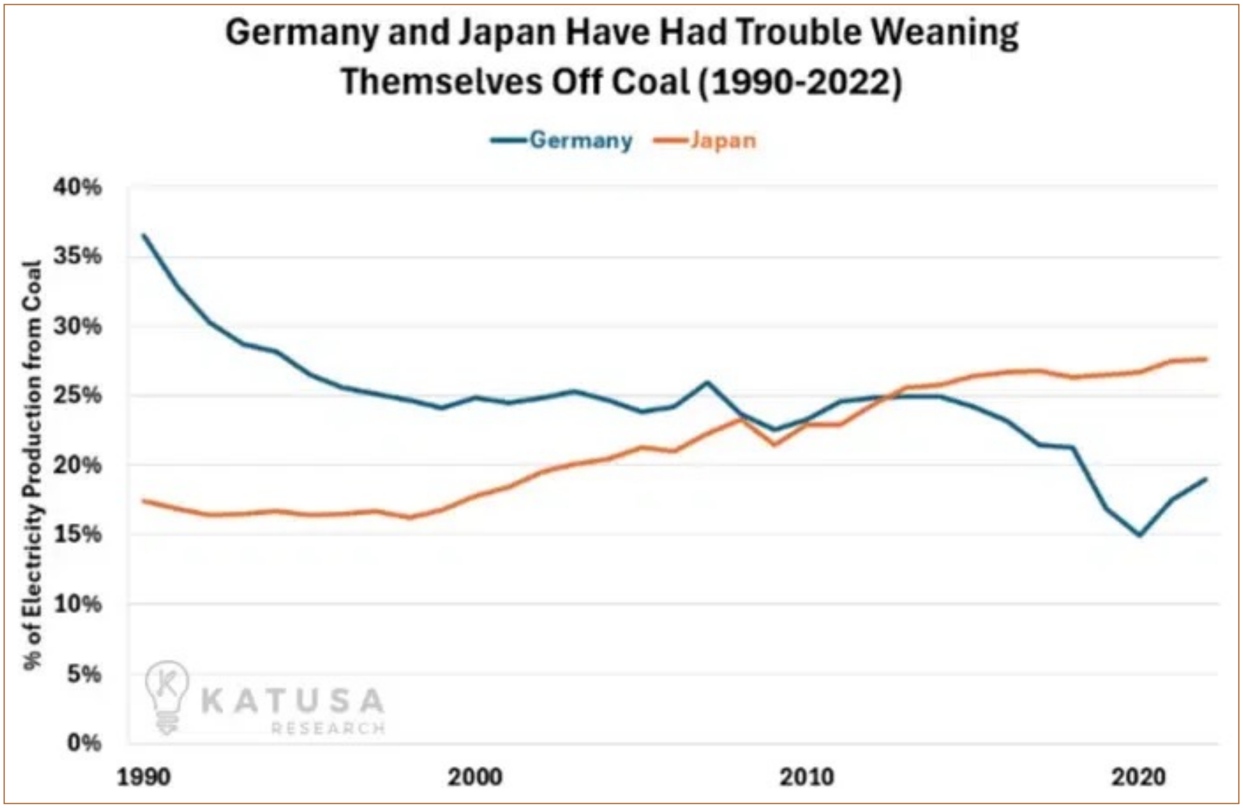
Despite the fact that coal is the single largest source of carbon dioxide (CO2) emissions, and nearly every western country wants to phase out coal. But demand keeps climbing and is expected to reach a fresh demand record in 2024 according to several forecasts.

All despite the anti-coal coalition.



While some like France and the UK are basically already there (the UK's last coal plant, Ratcliffe-on-Soar, is scheduled to close in September), You have Japan and Germany on the other end of the spectrum...

It's particularly worth noting that Japan and Germany were the two countries that reacted most harshly to the 2011 Fukushima incident, with both seeing marked shifts in energy policy away from nuclear power immediately following the disaster.



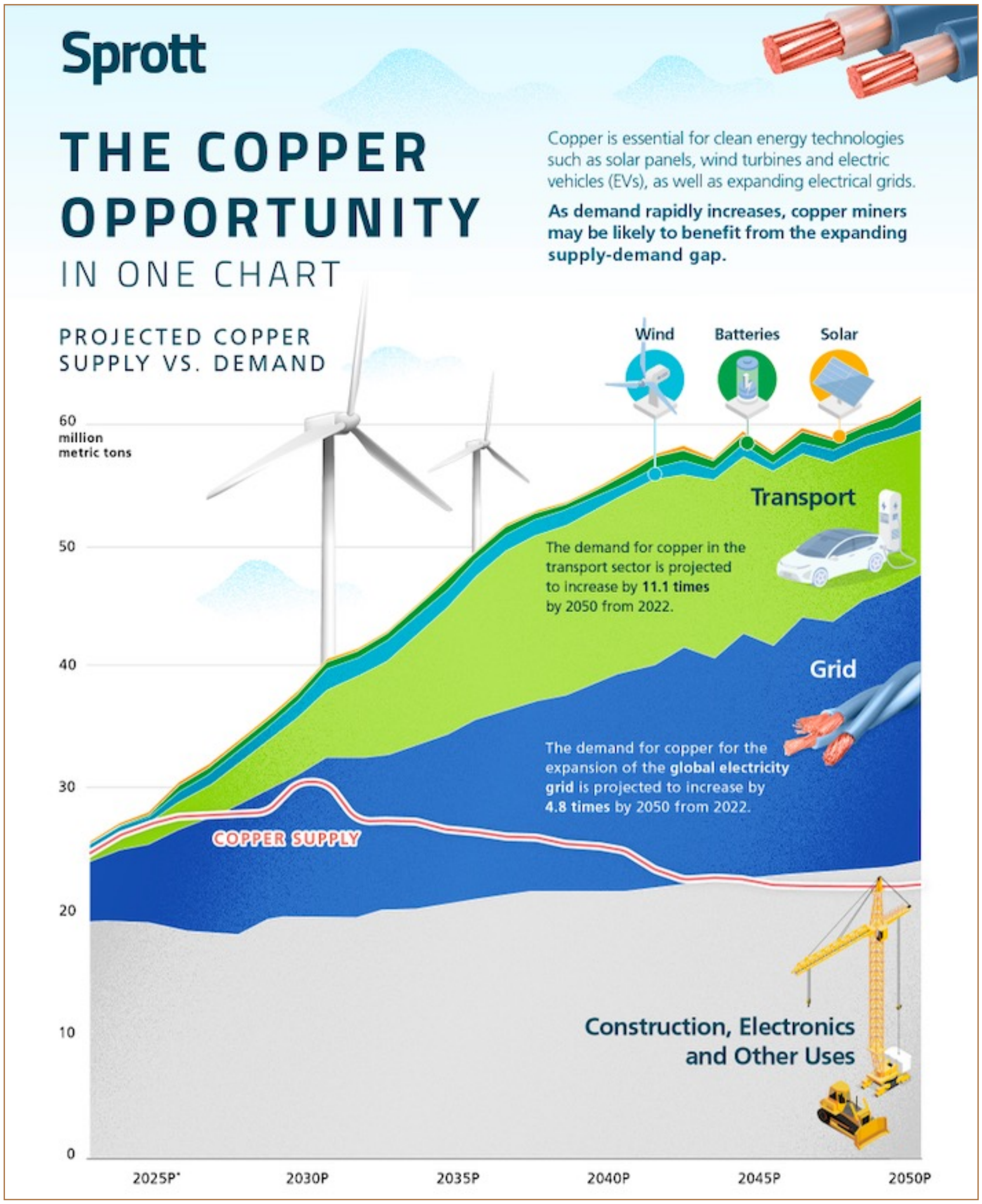
Germany has successfully reduced its coal dependency, pivoting sharply towards renewables post-Fukushima. In stark contrast, Japan remains entangled in its fossil fuel reliance, with energy production from these sources soaring from 81.1% to 93.5% after the disaster.

Today, coal's role in Japan's energy mix is not just persisting but increasing.

Japan is so entrenched in coal that instead of phasing it out, it's doubling down with carbon capture initiatives and co-firing green ammonia. While Germany leads the G7 in renewable energy, producing over half its power sustainably, Japan appears stalled, likely to continue coal imports well beyond the 2035 deadline.

OTHER COMMODITIES

The copper opportunity in one chart (from Visual Capitalist via Sprott)...



Why the world has gone wild for copper (*from The Wall Street Journal*)...

After one of the world's top copper producers recently hit a financial crunch, the Biden administration started huddling with potential investors about taking a stake in the company's Zambian mines worth as much as $3 billion.

The search isn't restricted to American companies, with entities from the United Arab Emirates, Japan and Saudi Arabia—all viewed as friendly to U.S. interests—expressing interest in the stake in First Quantum Minerals' FM 0.33%increase; green up pointing triangle assets, according to people familiar with the matter.

The goal is simple: to keep it out of Chinese control and prevent the Asian superpower from tightening its grip over the global supply of crucial metals and minerals.

The bidding, expected to be concluded later this year, is part of a global rush to acquire more copper, a key component in everything from electric cars to transmission lines and the data centers powering the AI revolution.

BHP Group's record nearly $43 billion takeover bid for Anglo American, which was rejected Monday, puts a fresh spotlight on the intense demand for copper. While London-listed Anglo produces a range of commodities, from diamonds to nickel, Australia's BHP has made clear that it most prizes the company's copper assets. Anglo rebuffed BHP's first offer last month, and other companies are believed to be weighing rival bids.

On Tuesday, Anglo announced its own turnaround plan, saying it would get out of its platinum, diamond and steelmaking coal businesses—effectively pitching investors on a strategy that makes copper even more central to the company's future.

Chief Executive Duncan Wanblad said on a media call that the company would look at growing its copper business both organically and from potential mergers and acquisitions, such as taking greater stakes in assets it already owns.

"Copper of course is the story of the day," he said.

While the U.S. government doesn't have any oversight over a proposed deal, officials have communicated to Anglo executives that they are concerned consolidation could limit the overall supply of copper, said people familiar with the matter. The U.S. is also concerned that China could put pressure on BHP to sell some assets or agree to sell more of its copper to the country to address potential anticompetitive concerns.

Continue reading here *(subscription may be required)*

Commodities veteran Jeff Currie says copper is the best trade he's seen in his career (from *Bloomberg*)...

The world is going to need a lot more copper to power everything from electric vehicles to updated grids and data centers. At the same time, getting new mines online is an extremely slow process, one that's made all the more difficult by political and environmental concerns.

The mismatch between rapidly-growing demand and sluggish supply has already helped push copper prices to more than $10,000 a ton in London trading this week.

But according to commodities veteran Jeff Currie, the metal still has more room to run. In a new episode of the Odd Lots podcast, the chief strategy officer of the energy pathways team at Carlyle Group Inc, says long copper represents "the most compelling trade I have ever seen in my 30-plus years of doing this."

Currie, who was the longtime global head of commodities research at Goldman Sachs Group Inc. before joining Carlyle last year, has been banging the proverbial copper drum for a long time. He uses the acronym "RED" to summarize the three big structural tailwinds driving more demand.

The 'R' stands for redistribution policies: As he argues, lower-income groups have been consuming "a greater share of commodities than the higher-income groups. That's very much alive and kicking. You look at the low unemployment rate, who's the biggest benefactor of that? It is the lower-income groups, and policies still very much in play all over the world right now reinforcing these lower-income groups in the consumption of commodities."

The 'E' stands for environment policy, which Currie describes as having been "turbocharged" in recent years.

"You have the IRA, the REPowerEU, China," he says. "Now, part of the reason why copper's rallied recently [is that] China's growth was over 100% in green CapEx last year, 30% this year. So everywhere you look in the world, we see environmental policy through green CapEx stimulating demand for commodities."

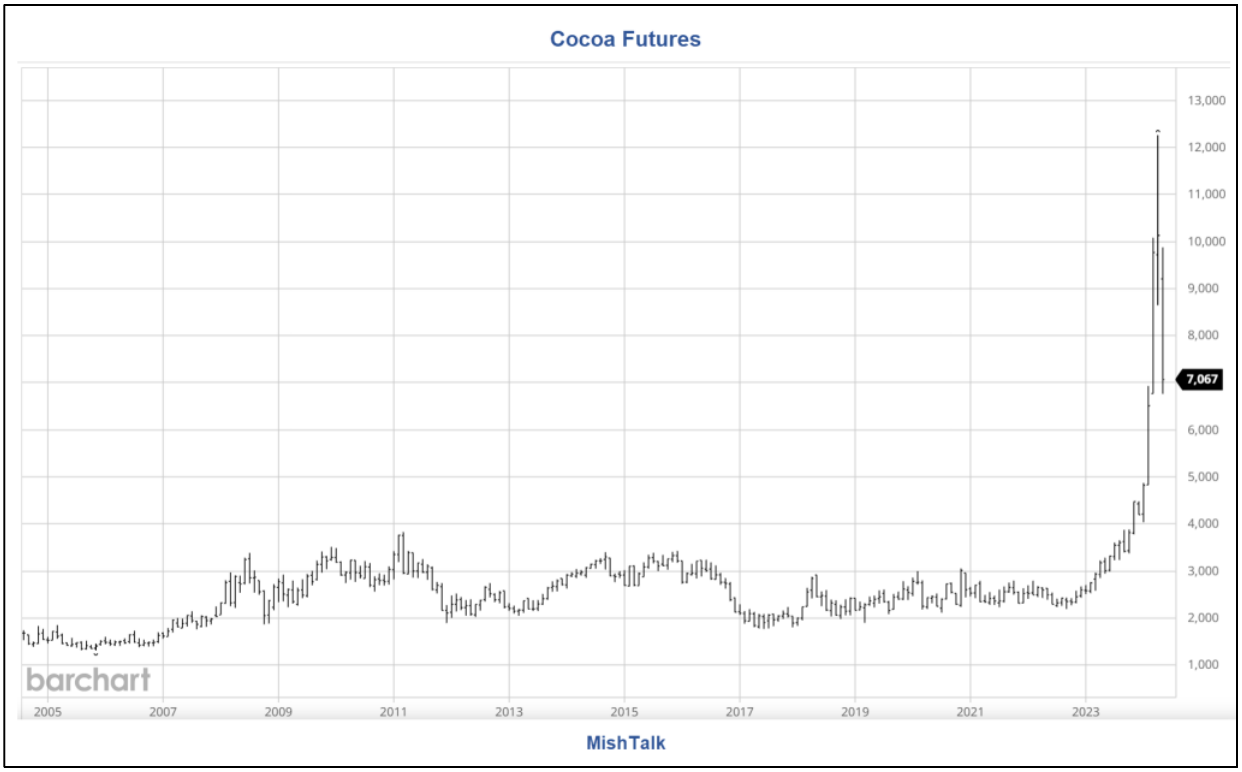
And finally, the 'D' stands for deglobilization, though it could also stand for defense.

"Look at the potential military spend in the US — $95 billion on munitions," he says. "We look at what's going on in places like Germany, $100 billion dollars of military spend. So you've got all three going much stronger than what we would've thought two-to-three years ago."

Continue reading here *(subscription may be required)*

The price of chocolate is skyrocketing (from Mish Talk)...

Like Chocolate? Who doesn't? But expect to pay more. There are two reasons, and one reason will spread to other crops, even minerals.



Cocoa futures image courtesy of Barchart

A European Union law that aims to make chocolate more sustainable has left farmers racing to map their plots.

The Wall Street Journal reports **Chocolate Prices Have Soared. A New Law Threatens to Keep Them High**.

A new European Union law seeks to protect the world's rainforests, which have shrunk dramatically in recent decades due to the expansion of land used to grow cash crops like cocoa, palm oil and coffee, or to herd cattle. Because the EU is the world's largest chocolate market, importing more than half of the world's cocoa beans, the law will also apply to global confection giants like U.S.-based Mars, the maker of M&M's, or Switzerland-based Nestlé.

Starting from Dec. 30, chocolate makers that sell or produce in the EU will have to show that the cocoa they use wasn't grown on land cut from forests since the end of 2020. In practice, it means that each morsel of cocoa that makes its way into the bloc will need to be linked to the GPS coordinates of the farm where it was harvested.

The EU initiative is part of a growing movement to make raw materials—including agricultural products and minerals used in smartphones and electric cars—traceable, with the goal of reducing the potential harm they inflict on the environment and local populations.

By 2022, the 36 signatory companies, which account for 85% of global cocoa use, said they had mapped 567,264 farms in Ivory Coast and were able to trace about 85% of their directly sourced beans in Ivory Coast and Ghana.

That effort doesn't translate easily to the EU initiative. There is no central database for the various mapping initiatives. Some farms may have been mapped multiple times while others have never had their coordinates recorded.

Another snag is the level of detail of the required GPS longitude and latitude coordinates. The EU deforestation legislation requires cocoa farms to provide GPS coordinates that have at least six digits after the period, such as 6.113647, -3.850584. Previously, farmers and organizations under the Rainforest Alliance's certification program shared GPS coordinates with only four decimal points.

That means potentially tens of thousands of farms that have been mapped will have to be mapped again—quickly. "We did this job in three years," said Jean-Marc Gouda, a team manager at the Rainforest Alliance. "The challenge is to tell them to do it again in six months."

The EU also requires larger farms to submit GPS coordinates of their entire borders, rather than just a single point within the farm, and provide a digital representation of the farms' boundaries. Officials say they might use satellite images and on-the-ground inspections to check the supplied data is accurate.

Many farmers are only now finding out about the new EU requirements.

Even if the mapping is completed in time, the system where companies will need to upload the GPS data is still under development, raising concerns over a last-minute scramble to log millions of coordinates.

"This regulation will have a cost," said Michel Arrion, chief executive of the International Cocoa Organization, which represents 52 cocoa-importing and exporting countries. "There will be a lot of documentation and bureaucracy."

For consumers, the EU law couldn't have landed at a worse time. Unseasonably hot and dry weather during the rainy season and wet weather during the dry season as well as cocoa-tree diseases have hit harvests across West Africa, the source of 70% of the world's cocoa beans...

Why Stop With Cocoa?

Well, they won't. This idea may rapidly spread to coffee, sugar, and bananas.

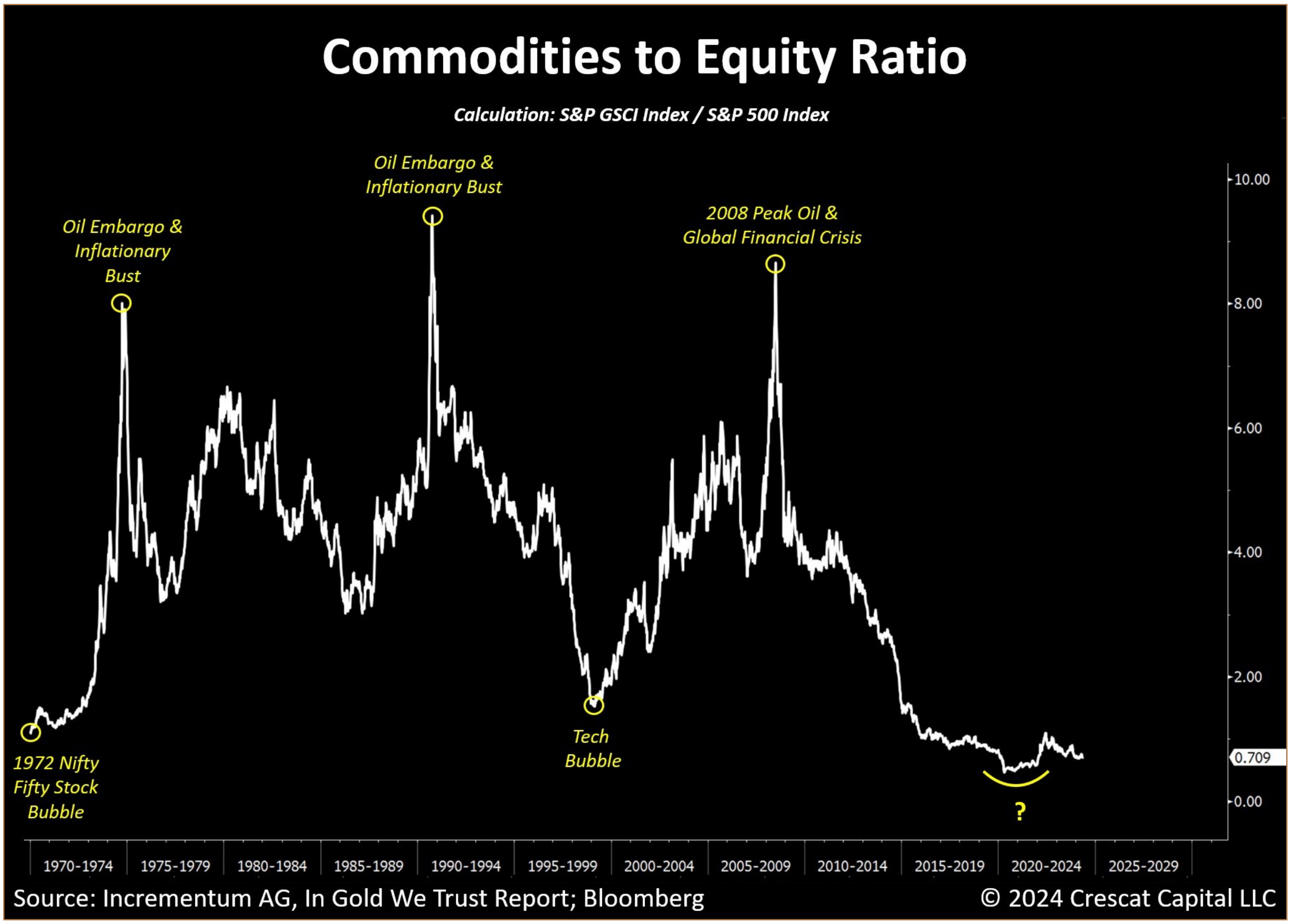
And why not platinum, silver, and the entire gamut of rare earth minerals? Why not cows? I fear we will need to eventually track everything.

Continue reading here

Commodities still look poised to dramatically outperform stocks in the years ahead (from Otavio (Tavi) Costa via X)...

Undoubtedly, still one of the most important macro charts of the upcoming decade.

None of us own enough hard assets.



Commodities companies are also historically cheap relative to the underlying commodities they produce (from Graddhy - Commodities TA+Cycles via X)...

This ratio chart shows how historically undervalued commodities companies are vs the commodities index CRB. This chart is setting up a hugely profitable move...

BITCOIN AND CRYPTO

The latest quarterly U.S. Securities and Exchange Commission ("SEC") filings show a huge wave of institutional capital is now investing in Bitcoin (from Bitcoin Magazine Pro)...

Institutional Involvement: 13F Filings Reveal Major Positions

One of the most significant shifts in fundamentals was revealed by the recent wave of 13F filings from major institutions and funds reporting Bitcoin ETF positions just before the May 15th deadline. These filings detail substantial allocations into Bitcoin ETFs by major institutional investors. The significance of these filings cannot be overstated. The list of participants is lengthy: UBS, Bank of Montreal, Scotia Bank, Toronto Dominion Bank (TD Bank), US Bancorp (a Rothschild firm), BlackRock, Millennium Management, Bracebridge Capital, Hightower Advisors (the #2 RIA firm in the US), Cambridge Investment Research, Sequoia Financial Advisors, Integrated Advisors, Brown Advisory, Pine Ridge Advisers, Boothbay Fund Management, and even the State of Wisconsin.

Hedge fund Millennium Management, with over $64 billion in AUM, disclosed holding approximately $2 billion (>3% AUM) across several Bitcoin ETFs. Other notable allocations include Bracebridge Capital holding $434 million, and the State of Wisconsin Investment Board (the state's pension fund and 9th largest in the country) revealed a $163 million stake in the Bitcoin ETFs. Wisconsin was the biggest surprise in the filings, as a government pension fund allocating 0.5% of their portfolio to Bitcoin. Other pension funds, endowments, and sovereign wealth funds will likely follow, especially considering **earlier this month** Blackrock announced talks with these types of investors.

According to **Matt Hougan**, CIO at Bitwise, this list is just the beginning, with many professional investors expected to increase their holdings significantly over the next six to twelve months. Hougan noted that the pattern of due diligence typically leads to broader platform-wide allocations, dramatically increasing Bitcoin's potential institutional investor base. Hougan suggested the number of 13Fs with Bitcoin could rise to 700+ firms by the next filing deadline. Hougan highlighted the Bitcoin ETFs far surpassed the early performance of the gold ETF in 2004.

ETF Inflows and the Veblen Good Effect

All those 13F filings were for Q1 flows into the ETFs, how do they affect current flows? We might already be seeing the beginnings of this second wave of ETF buyers. After flows had been negative for 10 of the last 13 days, each day this week has been a positive flow day.

Bitcoin ETF Flows and Stats

Date	Blackrock IBIT	Fidelity FBTC	Bitwise BITB	Ark ARKB	Invesco BTCO	Franklin EZBC	Valkryie BRRR	VanEch HODL	Wisdomtr BTCW	Ex-GBTC	Grayscale GBTC	Total
24-Apr	0	5.6	0	4.2	0	0	0	0	0	9.8	-130.4	-121
25-Apr	0	-22.6	-6	-31.3	0	1.9	-20.2	0	0	-78.2	-139.4	-218
26-Apr	0	-2.8	-3.8	5.4	0	0	0	0	0	-1.2	-82.4	-84
29-Apr	0	-6.9	6.8	-31.3	0	1.8	2.7	0	0	-26.9	-24.7	-52
30-Apr	0	-35.3	-34.3	3.6	-2.4	0	0	0	0	-68.4	-93.2	-162
1-May	-36.9	-191.1	-29	-98.1	-5.4	-13.4	-9.7	-6.5	-6.2	-396.3	-167.4	-564
2-May	0	0	0	13.3	1.5	3.4	2.3	0	0	20.5	-54.9	-34
3-May	12.7	102.6	33.5	28.1	33.2	60.9	35.6	8.7	0	315.3	63	378
6-May	21.5	99.2	2.1	75.6	11.1	1.8	0	1.8	0	213.1	3.9	217
7-May	0	4.1	0	2.8	6	0	0	0	0	12.9	-28.6	-16
8-May	0	0	11.5	0	0	0	0	0	0	11.5	0	12
9-May	14.2	2.7	6.8	4.4	2.2	1.8	0	0	0	32.1	-43.4	-11
10-May	12.4	5.3	0	0	0	0	0	0	0.6	18.3	-103	-85
13-May	0	38.6	20.3	0	0	0	0	7.1	0	66	0	66
14-May	0	8.1	0	133.1	5.5	1.8	1.2	1.7	0	151.4	-50.9	101
15-May	0	131.3	86.3	38.6	4.6	1.9	3.7	7.5	2.1	276	27	303
TOTAL	15,503	8,201	1,872	2,417	296	356	476	495	62	29,678	-17,720	11,958

In $millions, *$billions, Source: Farside Investors, Tradingview — *Bitcoin Magazine Pro, Bitcoin & Markets*

Bitcoin exhibits a unique relationship with price that differentiates it from typical goods. In the case of most goods, demand decreases as the price rises. However, Bitcoin behaves like a **Veblen good**, where demand actually increases as the price rises. This phenomenon is crucial in understanding the potential impact of the recent 13F filings revealing large, well-respected firms allocating to Bitcoin.

The investors and amounts disclosed in the 13Fs are likely to spark inflows, which will tip the price higher and begin an upward spiral for Bitcoin. As major companies publicly reveal their substantial Bitcoin holdings, other large investors reevaluate their positions. Seeing respected institutions allocate to Bitcoin can lean the internal due diligence processes of other firms in favor of making similar investments. This causes the price of Bitcoin to rise, which in turn convinces yet more allocators to buy Bitcoin, thus creating a self-reinforcing cycle.

This powerful feedback loop is a price/inflow spiral that can lead to significant price movements for Bitcoin. As we move into the second half of Q2, this dynamic is likely to play a crucial role in shaping Bitcoin's market trajectory, driven by these institutional endorsements and the inherent Veblen good characteristics of Bitcoin.

Continue reading *(subscription required)*

This includes the Wisconsin Investment Board, which became the first state pension to officially invest in Bitcoin (from Bitcoin Magazine)...

Today, the State of Wisconsin Investment Board (SWIB) has revealed its substantial investments in Bitcoin Exchange-Traded Funds (ETFs) through a recent filing with the Securities and Exchange Commission (SEC). According to the filing, SWIB holds nearly $100 million worth of BlackRock's spot Bitcoin ETF (IBIT).

Bitcoin Magazine
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JUST IN: 🇺🇸 State of Wisconsin Investment Board discloses it holds almost $100 million of BlackRock's spot #Bitcoin ETF.

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10:29 AM · May 14, 2024

5.4K Reply Share

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This disclosure marks SWIB as the first state-level institution to publicly announce its holdings in spot Bitcoin ETFs, signaling a notable step in the integration of Bitcoin into traditional investment portfolios.

"Wow, a state pension bought $IBIT in first quarter. Normally you don't get these big fish institutions in the 13Fs for a year or so (when the ETF gets more liquidity) but as we've seen these are no ordinary launches," Bloomberg Senior ETF Analyst Eric Balchunas commented on the news. "Good sign, expect more, as institutions tend to move in herds."

SWIB also disclosed in the filing that it holds over $63 million of Grayscale's spot Bitcoin ETF (GBTC), totaling over $162 million between these two holdings.

Continue reading here

Ethereum ETFs were approved in an abrupt SEC policy about-face ([from Decrypt](#))...

In a stunning reversal, the U.S. Securities and Exchange Commission (SEC) announced on Thursday that it has **approved eight applications for spot Ethereum ETFs**, effectively green-lighting Ethereum trading on Wall Street.

The following funds were approved in the filing: the converted Grayscale Ethereum Trust, the Bitwise Ethereum ETF, iShares Ethereum Trust, VanEck Ethereum Trust, ARK/21 Shares Ethereum ETF, Invesco Galaxy Ethereum ETF, Fidelity Ethereum Fund, and Franklin Ethereum ETF.

When will the spot Ethereum ETFs begin trading? It won't be tomorrow. Bloomberg ETF expert James Seyffart **suggested in a tweet** that it could be a "couple weeks" before the fund managers' S-1 documents are approved to enable trading.

James Seyffart · May 23, 2024
@JSeyff · Follow
Replying to @JSeyff @PhoenixTrades_ and @EricBalchunas
TO BE CLEAR: This does not mean they will begin trading tomorrow. This is just 19b-4 approval. Also needs to be an approval on the S-1 documents which is going to take time. We're expecting it to take a couple weeks but could take longer. Should know more within a week or so!

James Seyffart
@JSeyff · Follow

Going to add here. Typically this process takes months. Like up to 5 months in some examples but @EricBalchunas and I think this will be at least somewhat accelerated. #Bitcoin ETFs were at least 90 days. Will know more soon.

5:29 PM · May 23, 2024

462 Reply Share this post

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Just one week ago, most financial experts and crypto industry leaders had written off such an outcome as **increasingly unlikely**. For one, the SEC had offered little indication that it planned to move forward with any spot ETH ETF applications prior to a looming May 23 deadline.

What's more, just weeks prior, a lawsuit filed by Ethereum software company Consensys against the SEC alleged that the regulator has **secretly considered** ETH to be an illegal, unregistered security for over a year. (Disclosure: Consensys is one of 22 investors in Decrypt.)

If the SEC formally labeled ETH a security, then Ethereum ETFs would need to be approved via a different process than the one currently underway.

Thus, in approving spot ETH ETFs today, the SEC has tacitly conceded that ETH is not a security in and of itself. Such an outcome is a major victory for crypto advocates, given ETH's crucial role in underpinning the Ethereum network—upon which many of the industry's most prominent projects and services are built.

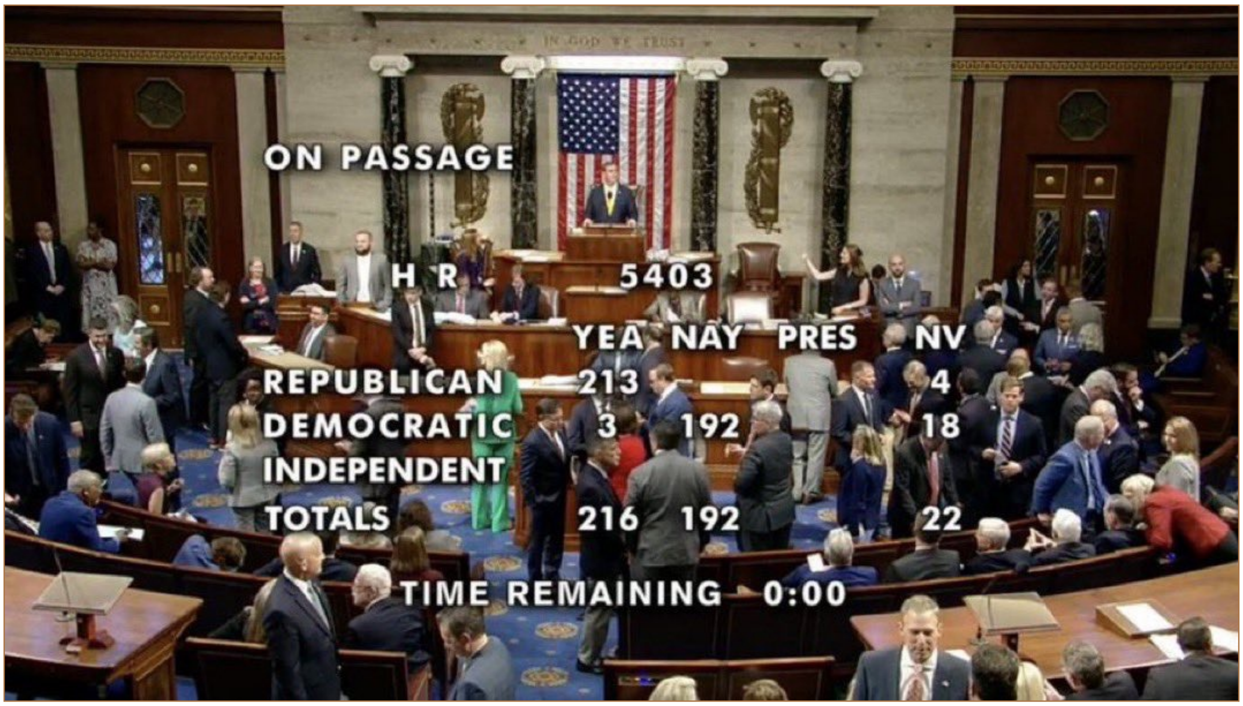
Crucially, however—in a bid to get over the finish line—several ETH ETF issuers **dropped language** from their applications this week regarding the staking of customer ETH. Ever since Ethereum transitioned to a proof of stake system in **September 2022**, ETH holders have been able to deposit their funds with the network to accrue rewards. The SEC has long taken the **view** that when a financial intermediary offers staking services, it is engaging in an illegally unregistered securities scheme.

Spot Ethereum ETFs—unlike ETH futures ETFs, which track derivatives contracts and were approved by the SEC **in October**—involve issuers actually buying and storing ETH on behalf of their clients. Now that spot ETH ETFs have gained approval, traditional financial institutions and investors will soon be able to gain exposure to ETH without holding any crypto themselves.

Continue reading here

The U.S. House just passed a bill banning the Federal Reserve from establishing a Central Bank Digital Currency (CBDC) (from DC_Draino via X)...

CBDC is one of the greatest threats to our freedom b/c the gov't could track every dollar you spend and even "turn off" your money



Bitcoin and the right to self-custody have become important voting issues to many Americans (from The Daily Bitcoiner)...

Former U.S. President and presidential contender Donald Trump **delivered a speech** at the Libertarian National Convention in Washington, D.C., over the weekend and made headlines over his comments about Bitcoin and the crypto industry...

> *"I will also put an end to Joe Biden's efforts to stifle crypto. We're going to halt it. I will ensure that the future of crypto, including Bitcoin, remains rooted in the USA, not outsourced overseas."*
>
> *"I will uphold the right to self-custody," he continued.*
>
> *"To the nation's 50 million crypto holders, I assure you: with your support, I will shield your Bitcoin from Elizabeth Warren and her allies, and I will vehemently oppose the introduction of a central bank digital currency [CBDC]."*

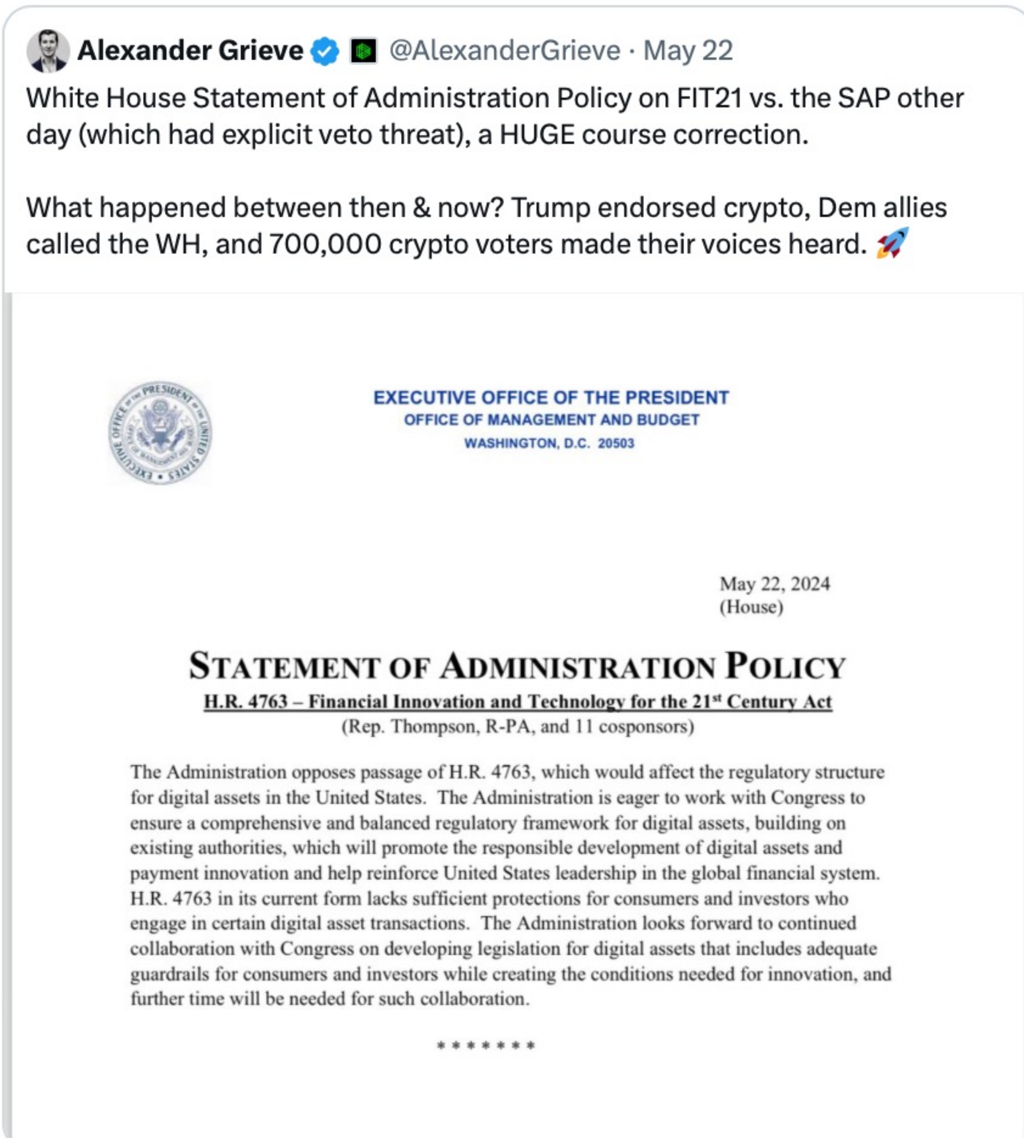
Trump also announced: *"If you elect me, on my first day, I will commute Ross Ulbricht's sentence to time already served. He's spent 11 years behind bars. We're bringing him home."*

Continue reading here

Surprise, surprise... The White House just had a sudden change of heart about Bitcoin and crypto (from Two Comma Pauper via X)...

Absolutely love watching the Dems bend the knee to crypto.

All their years of vitriolic rhetoric, scaremongering, and blatant lying vaporized by a couple of polls and Trump saying "crypto gud."



Alexander Grieve @AlexanderGrieve · May 22

White House Statement of Administration Policy on FIT21 vs. the SAP other day (which had explicit veto threat), a HUGE course correction.

What happened between then & now? Trump endorsed crypto, Dem allies called the WH, and 700,000 crypto voters made their voices heard. 🚀

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

May 22, 2024
(House)

STATEMENT OF ADMINISTRATION POLICY

H.R. 4763 – Financial Innovation and Technology for the 21st Century Act
(Rep. Thompson, R-PA, and 11 cosponsors)

The Administration opposes passage of H.R. 4763, which would affect the regulatory structure for digital assets in the United States. The Administration is eager to work with Congress to ensure a comprehensive and balanced regulatory framework for digital assets, building on existing authorities, which will promote the responsible development of digital assets and payment innovation and help reinforce United States leadership in the global financial system. H.R. 4763 in its current form lacks sufficient protections for consumers and investors who engage in certain digital asset transactions. The Administration looks forward to continued collaboration with Congress on developing legislation for digital assets that includes adequate guardrails for consumers and investors while creating the conditions needed for innovation, and further time will be needed for such collaboration.

* * * * * * *

NOTABLE INTITUTIONAL BUYING

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Institution or Fund	Reporting Manager	Report Quarter	Stock Purchased/Sold	Ticker	Shares Owned	Value of Holdings (Average Price)	% of Portfolio	Change in Shares	Purchase Value
AIP LLC	Stanley Edme	2024Q1	TITAN INTL	TWI	11,921,766	$148,545,204($12.46)	13.78%	11,921,766(New Position)	$148,545,204
Alta Fundamental Advisers LLC	Jeremy Carton	2024Q1	PUB SVC ENTERPRISE GROUP INC	PEG	200,000	$13,356,000($66.78)	6.73%	200,000(New Position)	$13,356,000
AMANSA CAPITAL PTE. LTD.	Sameer Chawla	2024Q1	ICICI BANK LTD ADS	IBN	4,092,159	$108,073,919($26.41)	37.12%	52.43%(1,407,509)	$37,172,312
AMANSA CAPITAL PTE. LTD.	Sameer Chawla	2024Q1	COGNIZANT TECH SOLUTIONS CORP	CTSH	600,000	$43,974,000($73.29)	15.11%	50.00%(200,000)	$14,657,927
AnglePoint Asset Management Ltd	Jerry Jiang	2024Q1	ISHARES BITCOIN TR SHS	IBIT	229,493	$9,287,582($40.47)	17.45%	229,493(New Position)	$9,287,582
AnglePoint Asset Management Ltd	Jerry Jiang	2024Q1	MAXEON SOLAR TECHNOLOGIES PTE	MAXN	2,177,435	$7,250,859($3.33)	13.62%	2,177,435(New Position)	$7,250,859
AnglePoint Asset Management Ltd	Jerry Jiang	2024Q1	PDD HOLDINGS INC. AMERICAN DEP	PDD	21,838	$2,538,668($116.25)	4.77%	21,838(New Position)	$2,538,668
APPALOOSA LP	Michael L Palmer	2024Q1	ALIBABA GROUP HLDG LTD SPONSOR	BABA	11,250,000	$814,050,000($72.36)	12.22%	158.62%(6,900,000)	$499,284,004
APPALOOSA LP	Michael L Palmer	2024Q1	ADOBE INC	ADBE	350,000	$176,610,000($504.60)	2.65%	350,000(New Position)	$176,610,000
BARINGTON CAPITAL GROUP L.P.	James Mitarotonda	2024Q1	TRIMAS CORPORATION COM	TRS	583,000	$15,583,590($26.73)	15.34%	33.11%(145,000)	$3,875,850
BARINGTON CAPITAL GROUP L.P.	James Mitarotonda	2024Q1	MATTHEWS INTL CORP	MATW	326,000	$10,132,080($31.08)	9.97%	41.10%(94,952)	$2,951,108
BARINGTON CAPITAL GROUP L.P.	James Mitarotonda	2024Q1	MATTEL INC	MAT	475,000	$9,409,750($19.81)	9.26%	227.59%(330,000)	$6,537,300
BARINGTON CAPITAL GROUP L.P.	James Mitarotonda	2024Q1	AMERICAN VANGUARD CORP	AVD	425,000	$5,503,750($12.95)	5.42%	844.44%(380,000)	$4,921,000
BAUPOST GROUP LLC	James F. Mooney III	2024Q1	EAGLE MATERIALS INC	EXP	262,000	$71,199,000($271.75)	2.01%	262,000(New Position)	$71,199,000
BERKSHIRE HATHAWAY INC	Marc D. Hamburg	2024Q1	CHUBB LTD COM	CB	25,923,840	$6,717,644,786($259.13)	2.03%	28.97%(5,823,840)	$1,509,131,688
Bracebridge Capital LLC	John N. Spinney Jr.	2024Q1	ARK 21SHARES BITCOIN ETF SHS	ARKB	4,327,380	$307,157,432($70.98)	61.27%	4,327,380(New Position)	$307,157,432
Bracebridge Capital LLC	John N. Spinney Jr.	2024Q1	ISHARES BITCOIN TR SHS	IBIT	2,486,750	$100,638,773($40.47)	20.08%	2,486,750(New Position)	$100,638,773
Bracebridge Capital LLC	John N. Spinney Jr.	2024Q1	GRAYSCALE BITCOIN TR	GBTC	419,910	$26,525,715($63.17)	5.29%	419,910(New Position)	$26,525,715
CAS Investment Partners LLC	CLIFFORD SOSIN	2024Q1	CAPITAL ONE FINANCIAL CORP	COF	645,252	$96,071,570($148.89)	9.00%	20.96%(111,792)	$16,644,711
CAS Investment Partners LLC	CLIFFORD SOSIN	2024Q1	CARDLYTICS INC	CDLX	6,373,676	$92,354,564($14.49)	8.00%	17.68%(957,560)	$13,875,044
Context Capital Management LLC	Grace Brescia	2024Q1	ISHARES BITCOIN TR SHS	IBIT	443,000	$17,928,210($40.47)	99.78%	443,000(New Position)	$17,928,210
Corvex Management LP	Keith Meister	2024Q1	TKO GROUP HLDGS INC	TKO	801,429	$69,251,480($86.41)	3.52%	801,429(New Position)	$69,251,480
Corvex Management LP	Keith Meister	2024Q1	VESTIS CORP COM	VSTS	3,328,409	$64,138,441($19.27)	3.26%	3,328,409(New Position)	$64,138,441
CRCM LP	Kelvin Koo	2024Q1	ISHARES BITCOIN TR SHS	IBIT	2,388,715	$96,671,296($40.47)	73.53%	2,388,715(New Position)	$96,671,296
CRCM LP	Kelvin Koo	2024Q1	ISHARES GOLD TRUST ISHARES	IAU	813,165	$34,161,061($42.01)	25.98%	813,165(New Position)	$34,161,061
Crestview Partners II GP	Ross A. Oliver	2024Q1	VICTORY CAP HLDGS	VCTR	11,612,144	$492,703,273($42.43)	84.68%	0.01%(1,458)	$61,821
CROSSLINK CAPITAL INC	Mihaly Szigeti	2024Q1	MERCADOLIBRE INC	MELI	21,422	$32,389,207($1,511.96)	4.61%	77.69%(9,366)	$14,161,017
CTC Alternative Strategies Ltd.	Joseph Harriman	2024Q1	ISHARES IBOXX $ INVESTMENT GRA	LQD	345,100	$37,588,292($108.92)	27.65%	130.07%(195,100)	$21,250,292
CTC Alternative Strategies Ltd.	Joseph Harriman	2024Q1	ISHARES BITCOIN TR SHS	IBIT	685,364	$27,736,681($40.47)	20.41%	685,364(New Position)	$27,736,681
CTC Alternative Strategies Ltd.	Joseph Harriman	2024Q1	ISHARES TR MBS	MBB	200,000	$18,484,000($92.42)	13.60%	200,000(New Position)	$18,484,000
CTC Alternative Strategies Ltd.	Joseph Harriman	2024Q1	CALLON PETE CO	CPE	200,034	$7,153,216($35.76)	5.26%	200,034(New Position)	$7,153,216
Duquesne Family Office LLC	Sue Meng	2024Q1	COHERENT CORP COM	COHR	2,525,070	$153,070,000($60.62)	4.11%	2,525,070(New Position)	$153,070,000
Dynamo Intl Gestao de Recursos Ltda	Emerson A.F. Melo	2024Q1	MERCADOLIBRE INC	MELI	101,057	$152,794,142($1,511.96)	25.09%	70.51%(41,789)	$63,183,295
Elliott Investment Management L.P.	*Paul Singer*	*2024Q1*	*SUNCOR ENERGY INC*	*SU*	*52,670,800*	*$1,944,079,220($36.91)*	*20.40%*	*426.71%(42,670,800)*	*$1,574,979,221*
Elliott Investment Management L.P.	*Paul Singer*	*2024Q1*	*TRANSOCEAN LTD*	*RIG*	*9,751,026*	*$61,236,443($6.28)*	*0.64%*	*9,751,026(New Position)*	*$61,236,443*
Elliott Investment Management L.P.	*Paul Singer*	*2024Q1*	*HDFC BK LTD ADS*	*HDB*	*555,242*	*$31,076,895($55.97)*	*0.33%*	*555,242(New Position)*	*$31,076,895*
Elliott Investment Management L.P.	*Paul Singer*	*2024Q1*	*ISHARES BITCOIN TR SHS*	*IBIT*	*296,010*	*$11,979,525($40.47)*	*0.13%*	*296,010(New Position)*	*$11,979,525*
FAIRHOLME CAPITAL MANAGEMENT LLC	*Erica K. Kapahi*	*2024Q1*	*ENTERPRISE PRODS PARTNERS LP*	*EPD*	*5,436,600*	*$158,639,990($29.18)*	*10.50%*	*4.38%(228,200)*	*$6,658,876*

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FengHe Fund Management Pte. Ltd.	Charlie Quek	2024Q1	WESTERN DIGITAL CORP	WDC	1,331,331	$90,850,025($68.24)	11.44%	557.77%(1,128,931)	$77,038,181
FengHe Fund Management Pte. Ltd.	Charlie Quek	2024Q1	CADENCE DESIGN SYS INC	CDNS	275,000	$85,602,000($311.28)	10.78%	275,000(New Position)	$85,602,000
FengHe Fund Management Pte. Ltd.	Charlie Quek	2024Q1	TAIWAN SEMICON MFG LTD	TSM	616,700	$83,902,037($136.05)	10.57%	119.39%(335,600)	$45,658,381
FengHe Fund Management Pte. Ltd.	Charlie Quek	2024Q1	SYNOPSYS INC	SNPS	144,900	$82,810,350($571.50)	10.43%	144,900(New Position)	$82,810,350
FengHe Fund Management Pte. Ltd.	Charlie Quek	2024Q1	LUMENTUM HLGDS INC	LITE	1,472,909	$69,742,241($47.35)	8.79%	294.99%(1,100,009)	$52,085,424
FengHe Fund Management Pte. Ltd.	Charlie Quek	2024Q1	FUTU HLDGS LTD SPONSORED ADS	FUTU	933,712	$50,560,505($54.15)	6.37%	933,712(New Position)	$50,560,505
Fortress Investment Group LLC	David Brooks	2024Q1	ISHARES BITCOIN TR SHS	IBIT	1,325,000	$53,622,749($40.47)	9.42%	1,325,000(New Position)	$53,622,749
Greencape Capital Pty	Hannah Crabbe	2024Q1	ZILLOW GROUP INC	Z	1,632,790	$79,647,496($48.78)	31.94%	92.96%(786,600)	$38,370,347
GREENLIGHT CAPITAL INC	Daniel Roitman	2024Q1	ALIGHT INC	ALIT	9,241,670	$78,831,446($8.53)	3.85%	9,241,670(New Position)	$78,831,446
GREENOAKS CAPITAL PARTNERS LLC	Patrick Lai	2024Q1	KLAVIYO INC	KVYO	2,511,796	$64,000,562($25.48)	5.28%	2,511,796(New Position)	$64,000,562
Helikon Investments Ltd	Paul McLernon	2024Q1	IAMGOLD CORP	IAG	32,861,554	$109,428,972($3.33)	9.53%	250.47%(23,485,183)	$78,205,658
Hound Partners LLC	Steven Lapkoff	2024Q1	ISHARES BITCOIN TR SHS	IBIT	614,881	$24,884,234($40.47)	7.42%	614,881(New Position)	$24,884,234
Hound Partners LLC	Steven Lapkoff	2024Q1	WILLSCOT MOBILE MINI HLDGS	WSC	380,022	$17,671,023($46.50)	5.27%	380,022(New Position)	$17,671,023
ICAHN CARL C	Jesse A. Lynn	2024Q1	INTL FLAVORS & FRAGRANCES	IFF	3,750,000	$322,462,492($85.99)	2.71%	481.84%(3,105,490)	$267,041,078
ICAHN CARL C	Jesse A. Lynn	2024Q1	CVR PARTNERS LP	UAN	3,892,000	$305,872,280($78.59)	2.57%	3,892,000(New Position)	$305,872,280
ICAHN CARL C	Jesse A. Lynn	2024Q1	JETBLUE AIRWAYS CORPORATION	JBLU	17,727,029	$131,534,555($7.42)	1.10%	17,727,029(New Position)	$131,534,555
Impala Asset Management LLC	Tom Sullivan	2024Q1	CENTURY ALUMINUM CO	CENX	705,000	$10,849,950($15.39)	9.78%	464.00%(580,000)	$8,926,200
Impala Asset Management LLC	Tom Sullivan	2024Q1	DELTA AIR LINES INC	DAL	116,128	$5,559,047($47.87)	5.01%	116,128(New Position)	$5,559,047
Impala Asset Management LLC	Tom Sullivan	2024Q1	DEVON ENERGY CORP	DVN	110,000	$5,519,800($50.18)	4.98%	110,000(New Position)	$5,519,800
Impala Asset Management LLC	Tom Sullivan	2024Q1	RIO TINTO PLC ADS	RIO	75,000	$4,780,500($63.74)	4.31%	75,000(New Position)	$4,780,500
Impala Asset Management LLC	Tom Sullivan	2024Q1	HARLEY DAVIDSON INC	HOG	90,000	$3,936,600($43.74)	3.55%	90,000(New Position)	$3,936,600
IvyRock Asset Management (HK) Ltd	Yongshan DUANMU	2024Q1	COINBASE GLOBAL INC	COIN	142,799	$37,858,871($265.12)	18.00%	142,799(New Position)	$37,858,871
IvyRock Asset Management (HK) Ltd	Yongshan DUANMU	2024Q1	ISHARES BITCOIN TR SHS	IBIT	460,800	$18,648,576($40.47)	9.00%	460,800(New Position)	$18,648,576
JANA Partners Management LP	Jennifer Fanjiang	2024Q1	WOLFSPEED INC	WOLF	4,557,881	$134,457,490($29.50)	7.35%	4,557,881(New Position)	$134,457,490
Juniper Investment Company LLC	John A. Bartholdson	2024Q1	ALLIENT INC	ALNT	758,652	$27,068,704($35.68)	13.47%	12.23%(82,679)	$2,949,987
Kimmeridge Energy Management Company	Richard Sproll	2024Q1	SOUTHWESTERN ENERGY CO	SWN	24,619,292	$186,614,231($7.58)	8.92%	33.99%(6,245,000)	$47,337,100
Kohlberg Kravis Roberts & Co. L.P.	Lew Breckenridge	2024Q1	BRIGHTSPRING HEALTH SVCS INC	BTSG	81,339,986	$884,165,648($10.87)	27.00%	81,339,986(New Position)	$884,165,648
Kontiki Capital Management (HK) Ltd.	Scott Henderson	2024Q1	SEA LTD ADR	SE	3,744,416	$201,112,580($53.71)	22.18%	1.87%(68,900)	$3,700,619
Kontiki Capital Management (HK) Ltd.	Scott Henderson	2024Q1	TRIP COM GROUP LTD	TCOM	4,523,780	$198,548,701($43.89)	21.89%	1.87%(83,200)	$3,651,604
Kontiki Capital Management (HK) Ltd.	Scott Henderson	2024Q1	COUPANG INC	CPNG	8,693,468	$154,656,804($17.79)	17.05%	1.87%(159,900)	$2,844,621
Kopernik Global Investors LLC	Sarah L. Bertrand	2024Q1	NEWMONT CORPORATION	NEM	2,357,388	$84,488,786($35.84)	8.87%	182.24%(1,522,134)	$54,553,247
Lynx1 Capital Management LP	Weston Nichols	2024Q1	MERUS N V COM	MRUS	1,509,007	$67,950,583($45.03)	17.61%	32.93%(373,782)	$16,831,403
Lynx1 Capital Management LP	Weston Nichols	2024Q1	GH RESH PLC	GHRS	3,310,563	$35,290,601($10.66)	9.15%	80.06%(1,471,946)	$15,690,933
MAK CAPITAL ONE LLC	Michael Kaufman	2024Q1	HEIDRICK & STRUGGLES INT'L INC	HSII	734,825	$24,734,210($33.66)	4.91%	734,825(New Position)	$24,734,210
Matrix Capital Management Company LP	Gregory A. Brown	2024Q1	QUALCOMM INC	QCOM	6,919,764	$1,171,516,045($169.30)	10.88%	6,919,764(New Position)	$1,171,516,045
Medicxi Ventures Management (Jersey) Ltd	Giles Johnstone-Scott	2024Q1	PHATHOM PHARMACEUTICALS INC CO	PHAT	7,464,572	$79,273,754($10.62)	17.65%	98.48%(3,703,703)	$39,333,325
MILLENNIUM MANAGEMENT LLC	Gil Raviv	2024Q1	ISHARES BITCOIN TR SHS	IBIT	20,859,447	$844,181,820($40.47)	0.74%	20,859,447(New Position)	$844,181,820

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MILLENNIUM MANAGEMENT LLC	Gil Raviv	2024Q1	FIDELITY WISE ORIGIN BITCOIN	FBTC	12,997,749	$806,640,303($62.06)	0.71%	12,997,749(New Position)	$806,640,303
Miura Global Management LLC	Joseph Luca	2024Q1	APPFOLIO INC	APPF	25,000	$6,168,500($246.74)	5.26%	25,000(New Position)	$6,168,500
Miura Global Management LLC	Joseph Luca	2024Q1	EMCOR GROUP INC	EME	14,000	$4,902,800($350.20)	4.18%	14,000(New Position)	$4,902,800
Moerus Capital Management LLC	Julie Smith	2024Q1	ENERFLEX, LTD	EFXT	4,514,762	$26,292,438($5.82)	8.24%	11.59%(468,970)	$2,731,122
Monolith Management Ltd	YANG Xing Jie	2024Q1	NVIDIA CORP	NVDA	70,250	$63,475,090($903.56)	25.18%	266.84%(51,100)	$46,171,916
Monolith Management Ltd	YANG Xing Jie	2024Q1	TAIWAN SEMICON MFG LTD	TSM	182,000	$24,761,100($136.05)	9.82%	182,000(New Position)	$24,761,100
Monolith Management Ltd	YANG Xing Jie	2024Q1	ISHARES BITCOIN TR SHS	IBIT	603,300	$24,415,551($40.47)	9.69%	603,300(New Position)	$24,415,551
Monolith Management Ltd	YANG Xing Jie	2024Q1	DIGITAL REALTY TRUST	DLR	120,000	$17,284,800($144.04)	6.86%	120,000(New Position)	$17,284,800
Monolith Management Ltd	YANG Xing Jie	2024Q1	VERTIV HLDG CO	VRT	210,500	$17,191,535($81.67)	6.82%	210,500(New Position)	$17,191,535
Nellore Capital Management LLC	Zohaib Mardhani	2024Q1	KASPI KZ JSC SPONSORED ADR	KSPI	250,119	$30,777,289($123.05)	4.76%	250,119(New Position)	$30,777,289
OCO Capital Partners L.P.	Samuel Martini	2024Q1	ONEMAIN HLDGS INC	OMF	450,000	$22,990,500($51.09)	22.00%	5.88%(25,000)	$1,277,250
OGBORNE CAPITAL MANAGEMENT LLC	David Greer	2024Q1	NETFLIX COM INC	NFLX	110,000	$66,806,302($607.33)	17.26%	100.00%(55,000)	$33,403,151
OGBORNE CAPITAL MANAGEMENT LLC	David Greer	2024Q1	CELSIUS HOLDINGS INC	CELH	638,449	$52,940,190($82.92)	13.68%	43.47%(193,449)	$16,040,791
OGBORNE CAPITAL MANAGEMENT LLC	David Greer	2024Q1	THE TRADE DESK INC	TTD	300,000	$26,225,999($87.42)	6.77%	28.83%(67,136)	$5,869,029
OGBORNE CAPITAL MANAGEMENT LLC	David Greer	2024Q1	ON HLDG AG	ONON	658,365	$23,292,954($35.38)	6.02%	31.04%(155,949)	$5,517,440
OGBORNE CAPITAL MANAGEMENT LLC	David Greer	2024Q1	PDD HOLDINGS INC	PDD	185,000	$21,506,250($116.25)	5.56%	184.62%(120,000)	$13,950,000
ONCE CAPITAL MANAGEMENT LLC	Luca Maria Bellati	2024Q1	GRAYSCALE BITCOIN TR	GBTC	107,700	$6,803,409($63.17)	3.98%	107,700(New Position)	$6,803,409
Ovata Capital Management Ltd	Nicholas Bloom	2024Q1	FIDELITY WISE ORIGIN BITCOIN	FBTC	419,004	$25,935,719($61.90)	16.66%	419,004(New Position)	$25,935,719
Ovata Capital Management Ltd	Nicholas Bloom	2024Q1	GRAYSCALE BITCOIN TR	GBTC	342,200	$21,616,774($63.17)	13.89%	342,200(New Position)	$21,616,774
Ovata Capital Management Ltd	Nicholas Bloom	2024Q1	BITWISE BITCOIN ETF TR SHS	BITB	440,392	$16,989,222($38.58)	10.91%	440,392(New Position)	$16,989,222
Ovata Capital Management Ltd	Nicholas Bloom	2024Q1	ISHARES BITCOIN TR SHS	IBIT	269,068	$10,889,182($40.47)	6.99%	269,068(New Position)	$10,889,182
Ovata Capital Management Ltd	Nicholas Bloom	2024Q1	TRIP COM GROUP LTD ADS	TCOM	226,900	$10,010,081($44.12)	6.43%	226,900(New Position)	$10,010,081
Oxbow Capital Management (HK) Ltd	Vishal Tourani	2024Q1	ICICI BANK LTD ADS	IBN	1,590,000	$41,991,900($26.41)	16.77%	1,590,000(New Position)	$41,991,900
Oxbow Capital Management (HK) Ltd	Vishal Tourani	2024Q1	PDD HOLDINGS INC. AMERICAN DEP	PDD	257,000	$29,876,250($116.25)	11.93%	257,000(New Position)	$29,876,250
Oxbow Capital Management (HK) Ltd	Vishal Tourani	2024Q1	NETEASE INC ADS	NTES	245,000	$25,350,150($103.47)	10.12%	245,000(New Position)	$25,350,150
PAULSON & CO. INC.	Stuart Merzer	2024Q1	MADRIGAL PHARMACEUTICALS INC	MDGL	1,775,000	$473,996,015($267.04)	32.74%	60.53%(669,259)	$178,718,929
PECONIC PARTNERS LLC	Wook Lee	2024Q1	QUANTA SERVICES INC	PWR	5,598,565	$1,454,507,119($259.80)	66.27%	1.27%(70,200)	$18,237,959
PECONIC PARTNERS LLC	Wook Lee	2024Q1	DYCOM INDS INC	DY	3,596,582	$516,217,410($143.53)	23.52%	10.13%(330,900)	$47,494,077
PECONIC PARTNERS LLC	Wook Lee	2024Q1	UTILITIES SECTOR SPDR	XLU	1,611,484	$105,793,925($65.65)	4.82%	1,611,484(New Position)	$105,793,925
PECONIC PARTNERS LLC	Wook Lee	2024Q1	MICRON TECHNOLOGY INC	MU	775,000	$91,364,750($117.89)	4.16%	675.00%(675,000)	$79,575,750
Permian Investment Partners LP	Britton Brown	2024Q1	ARAMARK	ARMK	6,386,049	$207,674,316($32.52)	26.80%	109.49%(3,337,731)	$108,543,014
Permian Investment Partners LP	Britton Brown	2024Q1	GRIFOLS S A SPON ADR	GRFS	12,839,299	$85,766,517($6.68)	11.07%	12,839,299(New Position)	$85,766,517
Permian Investment Partners LP	Britton Brown	2024Q1	GE AEROSPACE	GE	542,173	$75,951,831($140.09)	9.80%	542,173(New Position)	$75,951,817
Pine Ridge Advisers LLC	Baldo Fodera	2024Q1	FIDELITY WISE ORIGIN BITCOIN	FBTC	1,504,733	$93,383,730($62.06)	10.92%	1,504,733(New Position)	$93,383,730
Pine Ridge Advisers LLC	Baldo Fodera	2024Q1	ISHARES BITCOIN TR SHS	IBIT	2,055,185	$83,173,337($40.47)	9.72%	2,055,185(New Position)	$83,173,337
Pine Ridge Advisers LLC	Baldo Fodera	2024Q1	BITWISE BITCOIN ETF TR SHS	BITB	756,095	$29,268,437($38.71)	3.42%	756,095(New Position)	$29,268,437
Pinpoint Asset Management Ltd	Eleanor Chan	2024Q1	ISHARES BITCOIN TR SHS	IBIT	1,483,578	$60,040,401($40.47)	12.00%	1,483,578(New Position)	$60,040,401
SailingStone Capital Partners LLC	Jishnu Guha	2024Q1	ANTERO RESOURCES CORPORATION	AR	1,188,646	$34,470,734($29.00)	12.51%	14.67%(152,073)	$4,410,088
SailingStone Capital Partners LLC	Jishnu Guha	2024Q1	RANGE RESOURCES CORP	RRC	966,965	$33,292,605($34.43)	12.08%	21.77%(172,843)	$5,950,985

NOTABLE INTITUTIONAL BUYING

From SEC Form 13F Filings by Top Investment Managers and Concentrated Hedge Funds This Month

Institution or Fund	Reporting Manager	Report Quarter	Stock Purchased/Sold	Ticker	Shares Owned	Value of Holdings (Average Price)	% of Portfolio	Change in Shares	Purchase Value
SailingStone Capital Partners LLC	Jishnu Guha	2024Q1	COMPASS MINERALS INTERNATIONAL	CMP	1,089,951	$17,155,829($15.74)	6.22%	1,089,951(New Position)	$17,155,829
Sassicaia Capital Advisers LLC	John Thurber	2024Q1	ISHARES BITCOIN TR SHS	IBIT	64,000	$2,590,080($40.47)	11.00%	64,000(New Position)	$2,590,080
Sassicaia Capital Advisers LLC	John Thurber	2024Q1	SPDR GOLD TR, SPDR GOLD SHS	GLD	9,400	$1,933,768($205.72)	8.00%	9,400(New Position)	$1,933,768
Sassicaia Capital Advisers LLC	John Thurber	2024Q1	COINBASE GLOBAL INC	COIN	4,300	$1,140,016($265.12)	5.00%	4,300(New Position)	$1,140,016
Sassicaia Capital Advisers LLC	John Thurber	2024Q1	GRAYSCALE BITCOIN TR	GBTC	17,600	$1,111,792($63.17)	5.00%	17,600(New Position)	$1,111,792
SHANDA ASSET MANAGEMENT	Tianqiao Chen	2024Q1	ALPHABET INC	GOOGL	3,000,000	$452,789,978($150.93)	33.68%	20.00%(500,000)	$75,464,996
Soapstone Management L.P.	Jed Nussdorf	2024Q1	CONSTELLIUM SE SHS USD	CSTM	925,000	$20,451,751($22.11)	11.42%	15.63%(125,000)	$2,763,750
Soapstone Management L.P.	Jed Nussdorf	2024Q1	SENDAS DISTRIBUIDORA	ASAI	1,000,000	$14,780,000($14.78)	8.25%	24.54%(197,032)	$2,912,133
Soapstone Management L.P.	Jed Nussdorf	2024Q1	HDFC BK LTD	HDB	195,000	$10,914,150($55.97)	6.09%	195,000(New Position)	$10,914,150
SOROS FUND MANAGEMENT LLC	John DeSisto	2024Q1	CEREVEL THERAPEUTICS HOLD. INC	CERE	1,940,201	$82,012,296($42.27)	3.20%	1,940,201(New Position)	$82,012,296
Starboard Value LP	Jeffrey C. Smith	2024Q1	ALIGHT INC	ALIT	39,807,000	$392,098,950($9.85)	8.15%	39,807,000(New Position)	$392,098,950
Steadview Capital Management LLC	Ravi Mehta	2024Q1	APPLOVIN CORP COM	APP	302,500	$20,939,050($69.22)	6.19%	302,500(New Position)	$20,939,050
STEGINSKY CAPITAL LLC	Andrew Steginsky	2024Q1	ALPHABET INC	GOOG	644,377	$98,112,838($152.26)	23.62%	3.66%(22,780)	$3,468,483
STEGINSKY CAPITAL LLC	Andrew Steginsky	2024Q1	MARKEL GROUP INC	MKL	38,407	$58,435,482($1,521.48)	14.07%	3.22%(1,199)	$1,822,733
SVB FINANCIAL GROUP (SIVBQ)	Nicholas Grossi	2024Q1	ROBINHOOD MARKETS INC	HOOD	655,808	$13,201,415($20.13)	7.00%	655,808(New Position)	$13,201,415
Symmetry Investments LP	Michael B. Robinson	2024Q1	HESS CORPORATION	HES	1,206,926	$184,225,000($152.64)	19.28%	1,206,926(New Position)	$184,225,000
Symmetry Investments LP	Michael B. Robinson	2024Q1	ISHARES BITCOIN TR SHS	IBIT	1,519,700	$61,502,000($40.47)	6.44%	1,519,700(New Position)	$61,502,000
Third Point LLC	Daniel S. Loeb	2024Q1	ALPHABET INC	GOOGL	3,000,000	$452,790,000($150.93)	5.79%	3,000,000(New Position)	$452,790,000
Third Point LLC	Daniel S. Loeb	2024Q1	CORPAY INC	CPAY	650,000	$200,551,000($308.54)	2.57%	650,000(New Position)	$200,551,000
Titan Global Capital Management USA LLC	Niki Dillman	2024Q1	ISHARES BITCOIN TR SHS	IBIT	1,619,926	$65,558,395($40.47)	10.35%	1,619,926(New Position)	$65,558,395
Versant Venture Management LLC	Max Eisenberg	2024Q1	SKYE BIOSCIENCE INC	SKYE	2,007,702	$31,400,459($15.64)	30.45%	2,007,702(New Position)	$31,400,459
Voyager Global Management LP	Evans Apeadu	2024Q1	CHARTER COMMUNICATIONS INC	CHTR	1,010,000	$293,536,300($290.63)	14.19%	112.63%(535,000)	$155,486,762
Voyager Global Management LP	Evans Apeadu	2024Q1	MASTERCARD INCORPORATED	MA	230,000	$110,761,100($481.57)	5.35%	230,000(New Position)	$110,761,100
Yong Rong (HK) Asset Management Ltd	Erwin Tsui	2024Q1	NVIDIA CORP	NVDA	55,695	$50,324,000($903.56)	13.00%	55,695(New Position)	$50,324,000
Yong Rong (HK) Asset Management Ltd	Erwin Tsui	2024Q1	ISHARES BITCOIN TR SHS	IBIT	1,127,561	$45,633,000($40.47)	12.00%	1,127,561(New Position)	$45,633,000
Yong Rong (HK) Asset Management Ltd	Erwin Tsui	2024Q1	PALANTIR TECHNOLOGIES INC	PLTR	1,595,700	$36,718,000($23.01)	10.00%	1,595,700(New Position)	$36,718,000
Yong Rong (HK) Asset Management Ltd	Erwin Tsui	2024Q1	MICRON TECHNOLOGY INC	MU	298,800	$35,226,000($117.89)	9.00%	298,800(New Position)	$35,226,000

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
Oxford Lane Capital Corp.	OXLC	$50,004,000	$0	2	0
Coupang Inc.	CPNG	$20,389,446	$194,568	1	2
Shift4 Payments Inc.	FOUR	$8,270,573	$723,391	2	1
Churchill Capital Corp IX	CCIX	$7,250,000	$0	1	0
GLOBAL PARTNERS LP	GLP	$4,829,800	$0	4	0
PROSPECT CAPITAL CORP	PSEC	$4,399,885	$0	2	0
HEARTLAND EXPRESS INC	HTLD	$3,083,797	$0	2	0
Sable Offshore Corp.	SOC	$2,748,300	$0	2	0
TREACE MEDICAL CONCEPTS INC.	TMCI	$2,694,345	$0	3	0
MACERICH CO	MAC	$2,093,180	$0	2	0
AKAMAI TECHNOLOGIES INC	AKAM	$2,038,960	$0	1	0
INTEGRA LIFESCIENCES HOLDINGS CORP	IART	$1,499,979	$0	1	0
Ryman Hospitality Properties Inc.	RHP	$1,468,265	$0	1	0
Immunome Inc.	IMNM	$1,388,072	$0	1	0
Claros Mortgage Trust Inc.	CMTG	$1,298,202	$0	3	0
HERTZ GLOBAL HOLDINGS INC	HTZ	$1,114,100	$0	1	0
OmniAb Inc.	OABI	$1,059,840	$0	1	0
Corvus Pharmaceuticals Inc.	CRVS	$1,034,624	$0	2	0
AlTi Global Inc.	ALTI	$1,126,109	$112,849	3	3
CLEVELAND-CLIFFS INC.	CLF	$1,005,666	$0	1	0
SKYWORKS SOLUTIONS INC.	SWKS	$1,002,780	$0	1	0
Bowhead Specialty Holdings Inc.	BOW	$1,000,008	$0	1	0
Traeger Inc.	COOK	$997,874	$0	2	0
HEXCEL CORP	HXL	$993,763	$0	1	0
Lumen Technologies Inc.	LUMN	$959,850	$0	1	0
MDU RESOURCES GROUP INC	MDU	$923,970	$0	1	0
Compass Diversified Holdings	CODI	$850,561	$0	5	0
Warner Bros. Discovery Inc.	WBD	$830,000	$0	1	0
GLOBE LIFE INC.	GL	$716,083	$0	5	0
SoFi Technologies Inc.	SOFI	$598,232	$0	3	0
Goosehead Insurance Inc.	GSHD	$580,650	$0	1	0
Nikola Corp	NKLA	$540,000	$0	1	0
ISSUER DIRECT CORP	ISDR	$507,599	$0	1	0
PIMCO Flexible Real Estate Income Fund	REFLX	$500,000	$0	1	0
Comstock Inc.	LODE	$500,000	$0	1	0
TRUPANION INC.	TRUP	$499,663	$0	1	0
Verve Therapeutics Inc.	VERV	$475,760	$0	1	0
USCB FINANCIAL HOLDINGS INC.	USCB	$454,185	$0	4	0
Shutterstock Inc.	SSTK	$679,522	$233,387	2	1
Enphase Energy Inc.	ENPH	$416,972	$0	1	0
Medalist Diversified REIT Inc.	MDRR	$397,401	$0	6	0
DORCHESTER MINERALS L.P.	DMLP	$393,993	$0	2	0
SHENANDOAH TELECOMMUNICATIONS CO	SHEN	$388,800	$0	3	0
BIOCRYST PHARMACEUTICALS INC	BCRX	$368,691	$0	2	0
NB Bancorp Inc.	NBBK	$365,481	$0	3	0

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
Alset Inc.	AEI	$361,976	$0	1	0
OPKO HEALTH INC.	OPK	$338,132	$0	2	0
Clough Global Equity Fund	GLQ	$317,900	$0	1	0
Sabre Corp	SABR	$315,800	$0	2	0
National Vision Holdings Inc.	EYE	$299,200	$0	1	0
908 Devices Inc.	MASS	$293,400	$0	5	0
PPG INDUSTRIES INC	PPG	$274,615	$0	1	0
LESAKA TECHNOLOGIES INC	LSAK	$269,429	$0	1	0
TELOS CORP	TLS	$253,750	$0	2	0
Calamos Long/Short Equity & Dynamic Income Trust	CPZ	$253,668	$0	1	0
Sunoco LP	SUN	$252,516	$0	1	0
PROKIDNEY CORP.	PROK	$251,666	$0	1	0
EVgo Inc.	EVGO	$250,750	$0	1	0
PENN Entertainment Inc.	PENN	$249,997	$0	1	0
INTEL CORP	INTC	$249,846	$0	2	0
Clough Global Opportunities Fund	GLO	$247,000	$0	1	0
Offerpad Solutions Inc.	OPAD	$227,109	$0	1	0
HireQuest Inc.	HQI	$214,550	$0	4	0
HAIN CELESTIAL GROUP INC	HAIN	$207,911	$0	3	0
Identiv Inc.	INVE	$204,322	$0	4	0
Hillenbrand Inc.	HI	$202,511	$0	2	0
Vestis Corp	VSTS	$201,321	$0	1	0
LUXURBAN HOTELS INC.	LUXH	$200,000	$0	1	0
ATN International Inc.	ATNI	$198,800	$0	1	0
Ouster Inc.	OUST	$197,283	$0	1	0
Rekor Systems Inc.	REKR	$196,839	$0	5	0
WillScot Mobile Mini Holdings Corp.	WSC	$192,200	$0	1	0
ALBANY INTERNATIONAL CORP	AIN	$190,294	$0	2	0
ENVIRI Corp	NVRI	$189,750	$0	1	0
SYNOVUS FINANCIAL CORP	SNV	$1,120,700	$942,101	1	1
Scilex Holding Co	SCLX	$178,373	$0	3	0
AMERICAN VANGUARD CORP	AVD	$159,318	$0	1	0
BLACKLINE INC.	BL	$149,650	$0	1	0
Limbach Holdings Inc.	LMB	$149,449	$0	2	0
NewtekOne Inc.	NEWT	$148,331	$0	2	0
Energy Recovery Inc.	ERII	$141,288	$0	1	0
Epsilon Energy Ltd.	EPSN	$139,313	$0	1	0
ECB Bancorp Inc.	ECBK	$132,587	$0	3	0
EAGLE BANCORP INC	EGBN	$127,993	$0	2	0
ASCENT INDUSTRIES CO.	ACNT	$125,614	$0	2	0
Heritage Insurance Holdings Inc.	HRTG	$122,550	$0	2	0
RETRACTABLE TECHNOLOGIES INC	RVP	$118,912	$0	6	0
Custom Truck One Source Inc.	CTOS	$118,356	$0	2	0
Postal Realty Trust Inc.	PSTL	$115,363	$0	1	0
BK Technologies Corp	BKTI	$113,649	$0	1	0

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
Vivakor Inc.	VIVK	$113,143	$0	1	0
Aqua Metals Inc.	AQMS	$112,125	$0	2	0
NEPHROS INC	NEPH	$112,050	$0	1	0
DocGo Inc.	DCGO	$110,050	$0	2	0
Marygold Companies Inc.	MGLD	$107,760	$0	1	0
ENERGY FUELS INC	UUUU	$107,491	$0	2	0
STONERIDGE INC	SRI	$102,180	$0	1	0
Earth Science Tech Inc.	ETST	$101,666	$0	6	0
ASTEC INDUSTRIES INC	ASTE	$100,860	$0	2	0
ACACIA RESEARCH CORP	ACTG	$100,303	$0	1	0
Forestar Group Inc.	FOR	$99,991	$0	1	0
PAPA JOHNS INTERNATIONAL INC	PZZA	$99,579	$0	1	0
LOGITECH INTERNATIONAL S.A.	LOGI	$99,560	$0	1	0
180 DEGREE CAPITAL CORP.	TURN	$98,337	$0	4	0
PENNS WOODS BANCORP INC	PWOD	$98,141	$0	2	0
XAI Octagon Floating Rate & Alternative Income Trust	XFLT	$97,923	$0	2	0
EASTERN CO	EML	$96,636	$0	1	0
Mobile Infrastructure Corp	BEEP	$94,127	$0	7	0
Proficient Auto Logistics Inc	PAL	$93,975	$0	1	0
ProFrac Holding Corp.	ACDC	$88,500	$0	1	0
Great Elm Group Inc.	GEG	$88,200	$0	1	0
Pulse Biosciences Inc.	PLSE	$85,600	$0	1	0
CuriosityStream Inc.	CURI	$84,760	$0	2	0
Palladyne AI Corp.	PDYN	$82,261	$0	5	0
HARTE HANKS INC	HHS	$79,703	$0	2	0
NEW PEOPLES BANKSHARES INC	NWPP	$79,277	$0	1	0
EXAGEN INC.	XGN	$77,570	$0	1	0
CHART INDUSTRIES INC	GTLS	$75,186	$0	1	0
Apple Hospitality REIT Inc.	APLE	$73,900	$0	1	0
Clearfield Inc.	CLFD	$72,800	$0	1	0
Qurate Retail Inc.	QRTEA	$71,878	$0	1	0
Granite Ridge Resources Inc.	GRNT	$63,000	$0	2	0
MidWestOne Financial Group Inc.	MOFG	$62,883	$0	2	0
FIRST FINANCIAL BANKSHARES INC	FFIN	$60,950	$0	2	0
BGSF INC.	BGSF	$59,544	$0	2	0
U.S. GOLD CORP.	USAU	$59,516	$0	3	0
Meridian Corp	MRBK	$59,085	$0	3	0
SR Bancorp Inc.	SRBK	$55,181	$0	2	0
Thryv Holdings Inc.	THRY	$52,775	$0	1	0
Carmell Corp	CTCX	$51,227	$0	3	0
LENZ Therapeutics Inc.	LENZ	$49,988	$0	1	0
WD 40 CO	WDFC	$49,593	$0	1	0
Zevia PBC	ZVIA	$49,005	$0	1	0
FIRST BUSEY CORP	BUSE	$45,831	$0	3	0
HAWTHORN BANCSHARES INC.	HWBK	$44,774	$0	1	0

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
B&G Foods Inc.	*BGS*	*$44,667*	*$0*	*1*	*0*
Orion Group Holdings Inc	*ORN*	*$43,546*	*$0*	*2*	*0*
CF BANKSHARES INC.	*CFBK*	*$43,378*	*$0*	*1*	*0*
CEL SCI CORP	*CVM*	*$41,700*	*$0*	*1*	*0*
Innovid Corp.	*CTV*	*$41,490*	*$0*	*1*	*0*
MYERS INDUSTRIES INC	*MYE*	*$39,000*	*$0*	*1*	*0*
AIM ImmunoTech Inc.	*AIM*	*$37,501*	*$0*	*2*	*0*
LANTRONIX INC	*LTRX*	*$36,602*	*$0*	*1*	*0*
Zomedica Corp.	*ZOM*	*$35,200*	*$0*	*2*	*0*
PLUS THERAPEUTICS INC.	*PSTV*	*$35,000*	*$0*	*2*	*0*
CION Investment Corp	*CION*	*$34,978*	*$0*	*3*	*0*
Marpai Inc.	*MRAI*	*$33,174*	*$0*	*2*	*0*
Mobile Infrastructure Corp	*BEEP*	*$32,719*	*$0*	*1*	*0*
Third Coast Bancshares Inc.	*TCBX*	*$31,980*	*$0*	*1*	*0*
iPower Inc.	*IPW*	*$30,900*	*$0*	*1*	*0*