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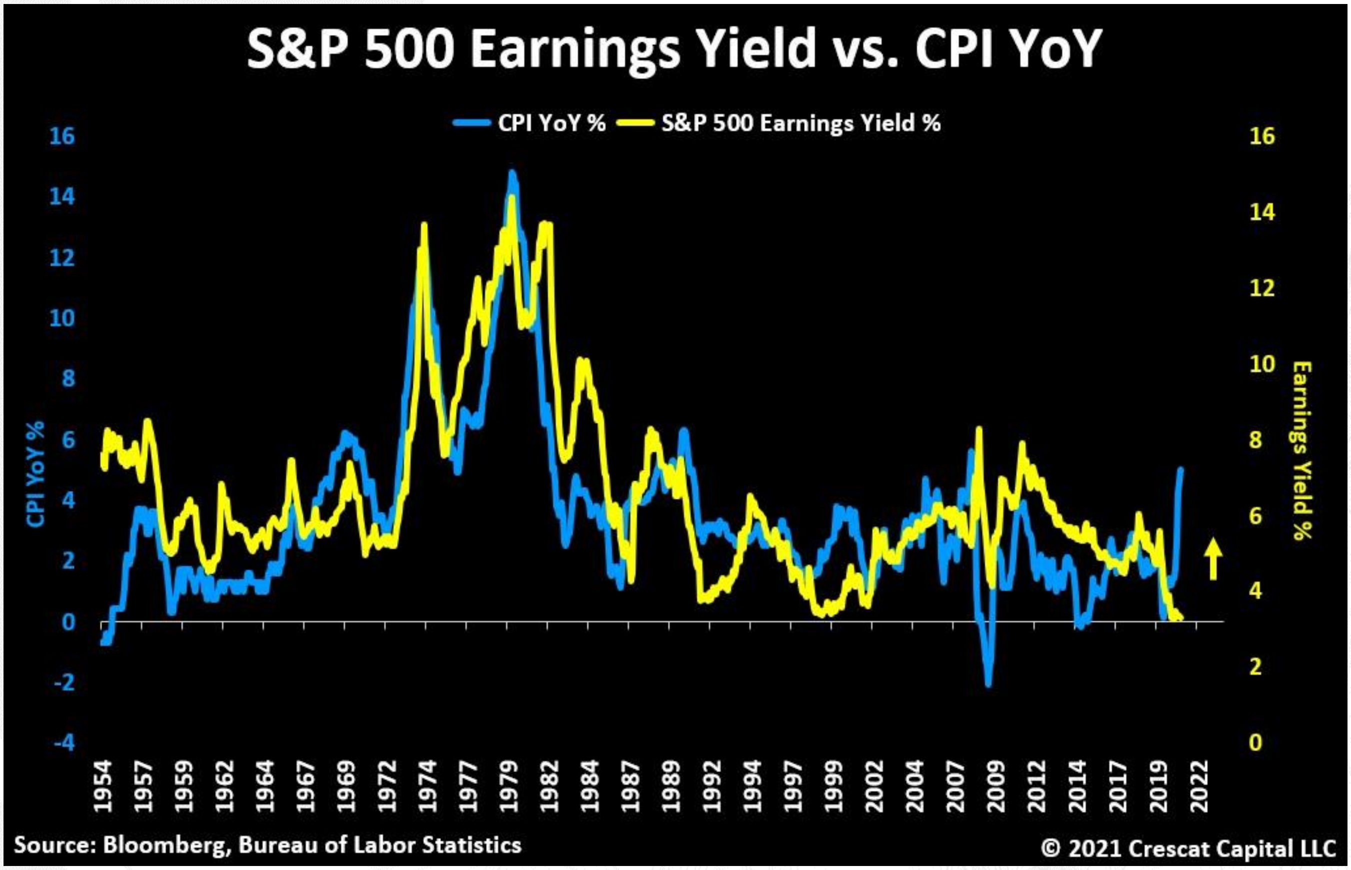
Dear Investors:

US Stock Market at Risk of P/E Deflation

The US stock market is 51% overvalued and at risk of a 34% decline. The catalyst is inflation which has arrived in spades and is likely to stay for a while. We think shrewd investors should be getting positioned now for the Great Rotation to both protect against and profit from this critical macro shift. Inflation is likely to be one of the defining characteristics of this decade, and anything but short-term, as the Fed's recent spate of "transitory" bluster would have trusting souls believe. An enduring trend of rising wholesale and consumer prices is likely to topple today's stock market by deflating its historically high price-to-earnings ratio. For proof that inflation deflates P/E multiples, look at the strong relationship between CPI and the earnings yield (inverse of P/E) of the S&P 500 Index over the last seven decades of data in the chart below.



Most importantly, note the high near-term risk to the S&P 500 posed by the sharpness of today's upward inflationary divergence. While the stock market can be a good hedge against inflation over the long term, keep in mind that in overvalued markets, rising inflation can be a killer. As we have shown in prior research letters, the stock market is as expensive as it was at major market tops in 1929 and 2000 and is just as speculatively over-owned and overbought. Combine all the above with bearishly diverging market internals as flagged by deteriorating market breadth, and we have a panoply of ingredients that should be a blaring siren of a probable market downturn ahead.

S&P 500 Price Target: 2,903

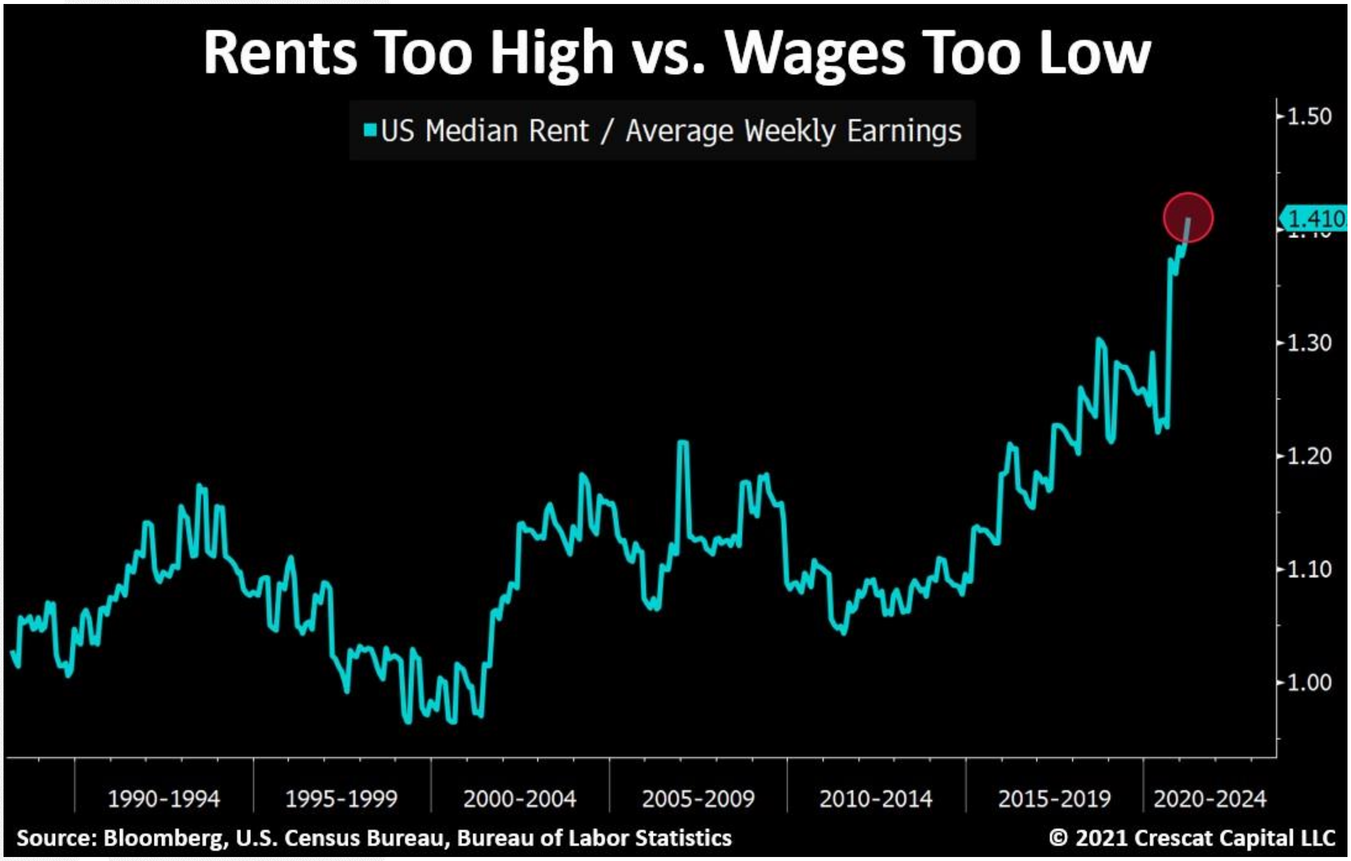
At the current inflation rate of 5%, the target earnings yield for the S&P 500 is 6.6% based on the historical regression of earnings yield and CPI. This equates to a P/E of 15.2, far from its 3.3% earnings yield and 30.3 P/E today. To arrive at our S&P 500 destination price, apply the target 15.2 multiple to Wall Street analysts' current calendar year 2021 EPS estimates of $191, and voilà, Crescat's current valuation-based target for the S&P 500 is 2,903. This compares to today's all-time high price of 4,370 for the same index. This is not sensationalism, but macro realism based on history, economic data, current fundamentals, and math. Keep in mind that it is a moving target based on these same factors.

Analysts Underestimating Rising Wage Pressure

We believe that we are being generous in using Wall Street analysts' aggregate expected S&P 500 EPS of $191 as this would indeed be a new high for US large cap companies. Such earnings are not yet in the bag and could disappoint. Analysts are bullish on the prospects for the Covid-19 stimulus-led recovery translating into record earnings. We are concerned that these expectations are too high because analysts do not appear to be factoring in rising inflation's likely squeeze on corporate profit margins. In the coming months and quarters, businesses are not only likely to continue to face rising costs of intermediate goods and services, but also rising wage pressures. We are particularly concerned about the underappreciated outlook for rising labor costs, a non-transitory inflationary force that, in our analysis, is only getting ready to take off.

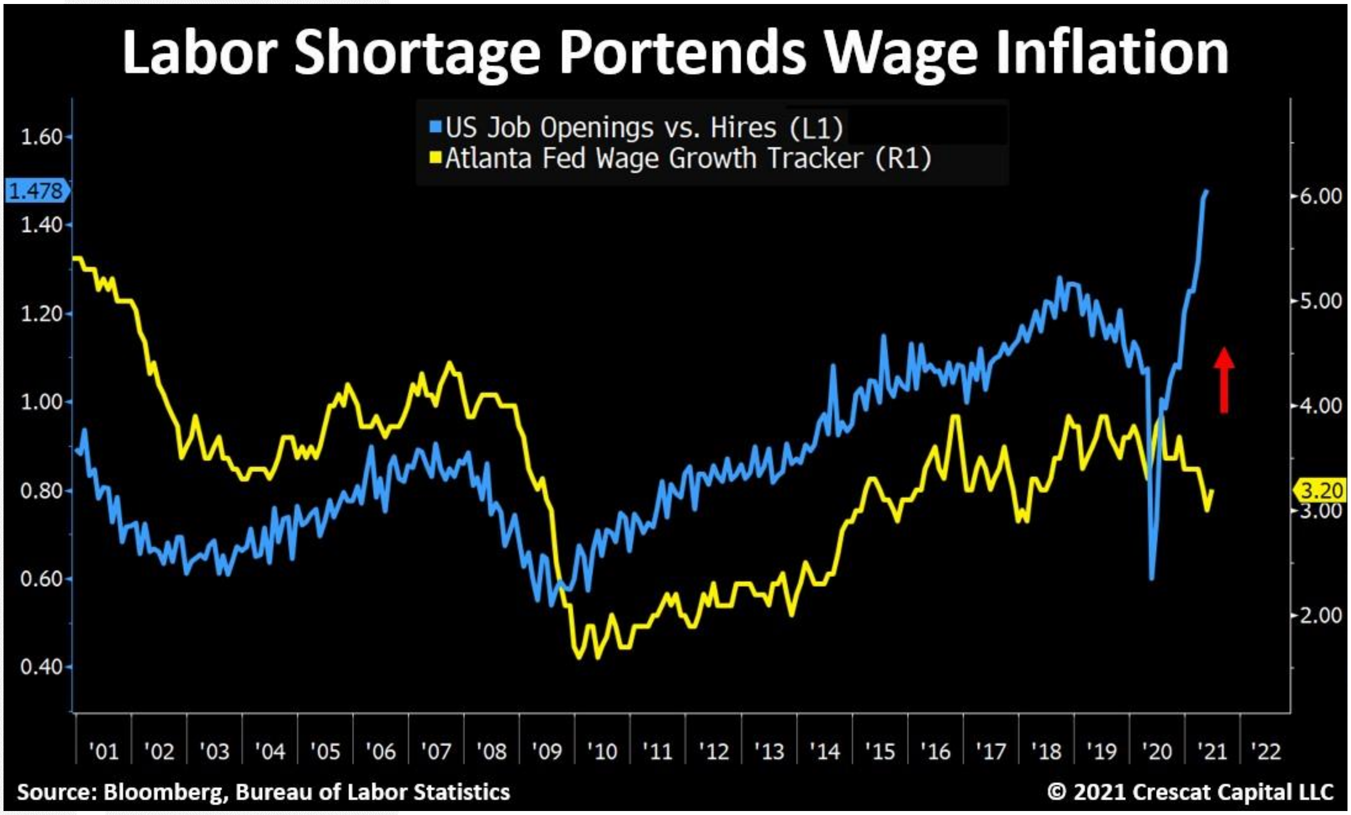
Rent Affordability at Historic Extreme

US rent affordability is the worst it has ever been relative to wages. Similar near-record imbalances are evident with respect to housing prices. Worker remuneration is much more likely to rise (than rents or house prices fall) to cure this imbalance due to acute labor shortages.



Tight Labor Market

When it comes to macro indicators of a tight labor market, the ratio of job openings vs. new hires is at a record high. Even with waning government handouts post pandemic, wages will likely need to increase to incentivize people to go to work.



Other macro diffusion indices, such as the NFIB Small Business Job Openings Hard to Fill and Conference Board Jobs Plentiful vs. Jobs Hard to Get also show levels of historic labor imbalances that signal a coming jump in wage inflation.

Wage-Price Spiral

Ultimately, it is the economic phenomenon known as the "wage-price spiral" a reflexive loop that can keep inflation surprising to the upside for years that makes true inflationary cycles anything but short-lived. Investors will need to look to the decade of the 1970s for guidance. Such economic reality has been deemed irrelevant by the investing behemoths that dominate the markets today. Too many investors have capitulated to the four-decade disinflationary trend and the over-used narrative that has come along with it based on advances in technology, globalization, and an aging population. Congratulations to those who have profited from it by staying long and strong in stocks and bonds, particularly in the S&P 500 Index and the large cap growth and mega cap tech stocks that dominate it today. In our analysis, the disinflationary trend is unsustainable, has been way overdone, and is at major risk of reversing under a new regime that we call the Great Rotation. The catalyst for this regime is rising inflation combined with investors looking out for their best interests in typical fear and greed fashion. We believe investors should get positioned ahead of what we view as a highly probable if not inevitable stampede.

An Inflationary Agenda

Our government is incentivized to underreport systemic inflation so that they can collect extra tax revenues on nominal growth while also containing inflation-indexed expenses. The Fed is a branch of government that supports it in these goals. Inflation also helps reconcile historic debt-to-GDP burdens by boosting nominal instead of real GDP. But investors must figure these things out for themselves. They should not blindly trust Fedspeak or the conflicted mainstream financial media with its incessant parade of stock and bond market apologists. These pundits can sound so smart and authoritative at times, but they do not always necessarily have an agenda that aligns with investors' best interests. The Fed will not tell you that inflation is likely to be a problem, because then it is more likely to get completely out of its control. Similarly, your broker or financial advisor will not tell you that the stock or bond market is overvalued, because then you are more likely to close your account. Meanwhile, the financial media must keep their money management customers happy, so you are not likely to hear the bear case from them too often.

It is not always easy, but good investors need to be able to cut through the smokescreen and discern some things for themselves. The truth is that a lot of what has worked investment-wise in favor of stocks and bonds over the disinflationary last four decades is not likely to work in this decade.

The Great Rotation

We believe forward-thinking investors will increasingly be selling historically expensive stocks and fixed income securities and buying true inflation-hedge assets, including commodities in scarce supply and high demand, and stocks in a narrow group of sectors such as energy and materials that offer both low valuation and high cyclical near-term growth prospects. This is what we call the Great Rotation.

From a macro standpoint, in our analysis, the opportunity for our activist precious metals strategy has never been brighter. Inflation expectations are only beginning to take off. The Conference Board's 1-year forward inflation expectation survey just hit 6.7% the highest since March 2011, a time when the leading junior gold mining ETF was 236% higher. As the chart below shows, it is still early in what is likely to be a rip-roaring bull market for gold and silver mining and especially our expertly crafted exploration-heavy portfolio.

For those who would like some short exposure to the current at-risk over-valued stock market at large, in addition to our activist long gold portfolio, we encourage you to look at Crescat's global macro and long/short hedge funds.

Performance Estimates for June

Crescat Strategies Net Return Estimates through June 30th, 2021

CRESCAT STRATEGIES VS. BENCHMARK (Inception Date)	JUNE	YTD	ANNUALIZED TRAILING 1-YEAR	3-YEAR	SINCE INCEPTION	CUMULATIVE SINCE INCEPTION
Global Macro Hedge Fund (Jan.1, 2006)	**-6.4%**	**8.4%**	**44.7%**	**20.2%**	**13.3%**	**591.6%**
Benchmark: HFRX Global Hedge Fund Index	0.4%	3.7%	12.0%	4.2%	1.3%	22.6%
Long/Short Hedge Fund (May 1, 2000)	**-6.7%**	**8.0%**	**53.3%**	**20.9%**	**8.8%**	**491.2%**
Benchmark: HFRX Equity Hedge Index	1.2%	7.9%	20.4%	4.1%	2.7%	74.5%
Precious Metals Hedge Fund (August 1, 2020)	**-3.7%**	**26.2%**	**-**	**-**	**-**	**238.0%**
Benchmark: Philadelphia Gold and Silver Index	-13.8%	-1.3%	-	-	-	-7.5%
Large Cap SMA (Jan. 1, 1999)	**-6.2%**	**7.1%**	**7.5%**	**10.3%**	**10.6%**	**861.2%**
Benchmark: S&P 500 Index	2.3%	15.3%	40.8%	18.7%	7.7%	435.5%
Precious Metals SMA (June 1, 2019)	**-5.8%**	**29.0%**	**74.8%**	**-**	**85.1%**	**260.7%**
Benchmark: Philadelphia Gold and Silver Index	-13.8%	-1.3%	10.6%	-	41.4%	105.9%

In June, we had a pullback in the Great Rotation trade after the Fed's aggressive "inflation is transitory" campaign. In our view, it sets up an incredible entry point now for those who are not yet positioned in our strategies. Please note, our strategies were down substantially less than the Philadelphia Gold and Silver Index in June and have exceedingly outperformed that index year to date. The precious metals benchmark was unbelievably down 13.8% last month. What a great buying opportunity.

With the drill season in full swing in Canada and Alaska, we expect a lot of positive news from our activist precious metals long holdings over the summer and fall. Our companies' continued discovery progress should drive strong performance in the weeks and months ahead. We think we will be able to continue to deliver substantial alpha in our portfolio of companies that are making big high-grade discoveries at low valuations. What we are doing is buying highly economic gold in-the-ground for pennies on the dollar. Based on our research, the new secular bull market for precious metals is still in its infancy while the overall stock market is substantially overvalued and at risk of a major bear market.

Crescat Capital is a global macro asset management firm. Our mission is to grow and protect wealth over the long term. Our goal is industry leading absolute and risk-adjusted returns over complete business cycles with low correlation to common benchmarks. We encourage you to reach out to a Crescat representative to learn more about any of our five strategies. You can find both Marek Iwahashi and Cassie Fischer's contact information below.

Sincerely,

Kevin C. Smith, CFA
Member & Chief Investment Officer

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For more information including how to invest, please contact:

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Important Disclosures

Performance data represents past performance, and past performance does not guarantee future results. An individual investor's results may vary due to the timing of capital transactions. Performance for all strategies is expressed in U.S. dollars. Cash returns are included in the total account and are not detailed separately. Investment results shown are for taxable and tax-exempt clients and include the reinvestment of dividends, interest, capital gains, and other earnings. Any possible tax liabilities incurred by the taxable accounts have not been reflected in the net performance. Performance is compared to an index, however, the volatility of an index varies greatly and investments cannot be made directly in an index. Market conditions vary from year to year and can result in a decline in market value due to material market or economic conditions. There should be no expectation that any strategy will be profitable or provide a specified return. Case studies are included for informational purposes only and are provided as a general overview of our general investment process, and not as indicative of any investment experience. There is no guarantee that the case studies discussed here are completely representative of our strategies or of the entirety of our investments, and we reserve the right to use or modify some or all of the methodologies mentioned herein.

Separately Managed Account (SMA) disclosures: The Crescat Large Cap Composite and Crescat Precious Metals Composite include all accounts that are managed according to those respective strategies over which the manager has full discretion. SMA composite performance results are time weighted net of all investment management fees and trading costs including commissions and non-recoverable withholding taxes. Investment management fees are described in Crescat's Form ADV 2A. The manager for the **Crescat Large Cap** strategy invests predominatly in equities of the top 1,000 U.S. listed stocks weighted by market capitalization. The manager for the **Crescat Precious Metals** strategy invests predominantly in a global all-cap universe of precious metals mining stocks.

Hedge Fund disclosures: Only accredited investors and qualified clients will be admitted as limited partners to a Crescat hedge fund. For natural persons, investors must meet SEC requirements including minimum annual income or net worth thresholds. Crescat's hedge funds are being offered in reliance on an exemption from the registration requirements of the Securities Act of 1933 and are not required to comply with specific disclosure requirements that apply to registration under the Securities Act. The SEC has not passed upon the merits of or given its approval to Crescat's hedge funds, the terms of the offering, or the accuracy or completeness of any offering materials. A registration statement has not been filed for any Crescat hedge fund with the SEC. Limited partner interests in the Crescat hedge funds are subject to legal restrictions on transfer and resale. Investors should not assume they will be able to resell their securities. Investing in securities involves risk. Investors should be able to bear the loss of their investment. Investments in Crescat's hedge funds are not subject to the protections of the Investment Company Act of 1940. Performance data is subject to revision following each monthly reconciliation and annual audit. Current performance may be lower or higher than the performance data presented. The performance of Crescat's hedge funds may not be directly comparable to the performance of other private or registered funds. Hedge funds may involve complex tax strategies and there may be delays in distribution tax information to investors.

Investors may obtain the most current performance data, private offering memoranda for a Crescat's hedge funds, and information on Crescat's SMA strategies, including Form ADV Part II, by contacting Linda Smith at (303) 271-9997 or by sending a request via email to lsmith@crescat.net. See the private offering memorandum for each Crescat hedge fund for complete information and risk factors.