CRESCAT CAPITAL®

THE VALUE OF GLOBAL MACRO INVESTING

MACRO PRESENTATION

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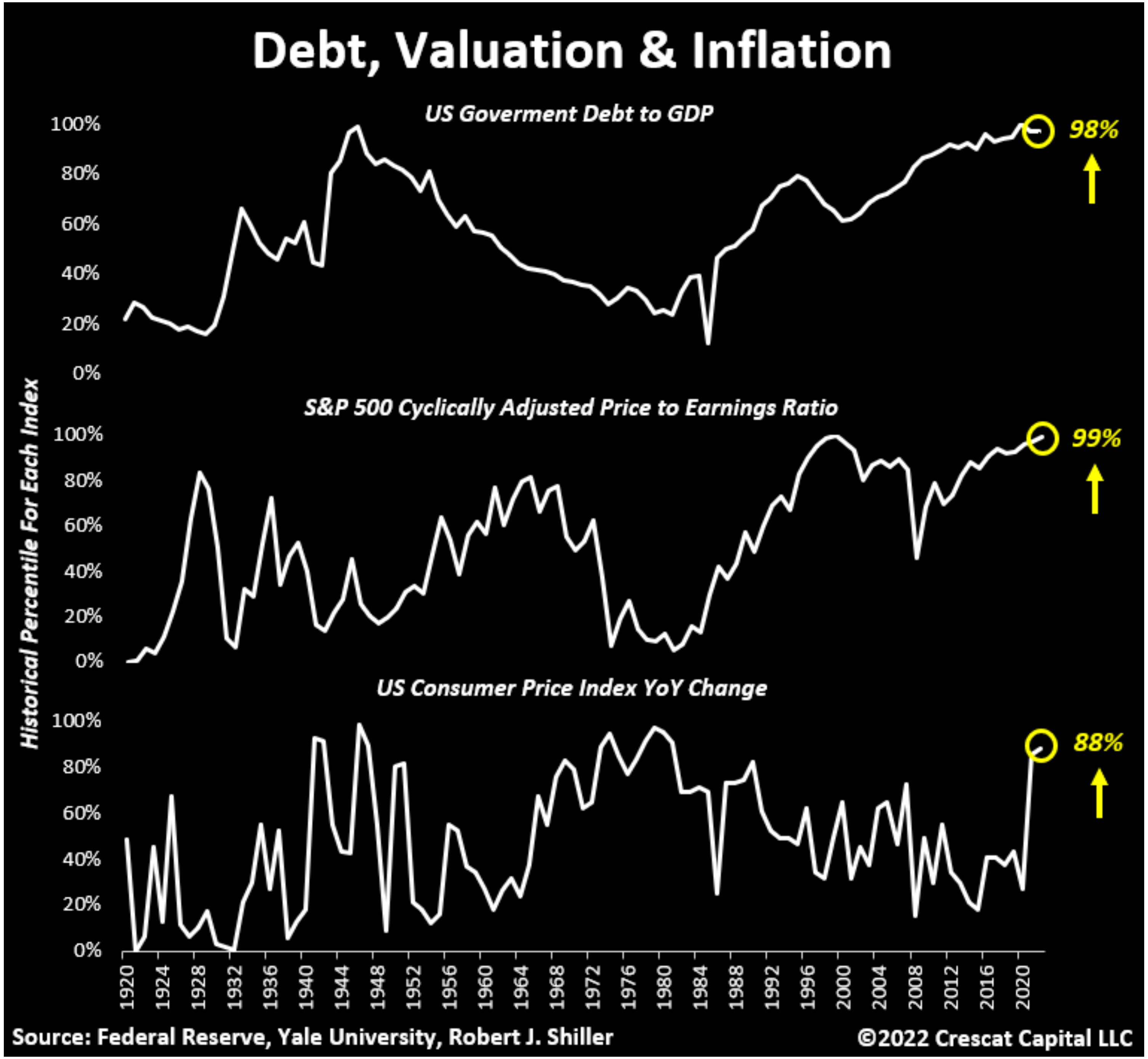
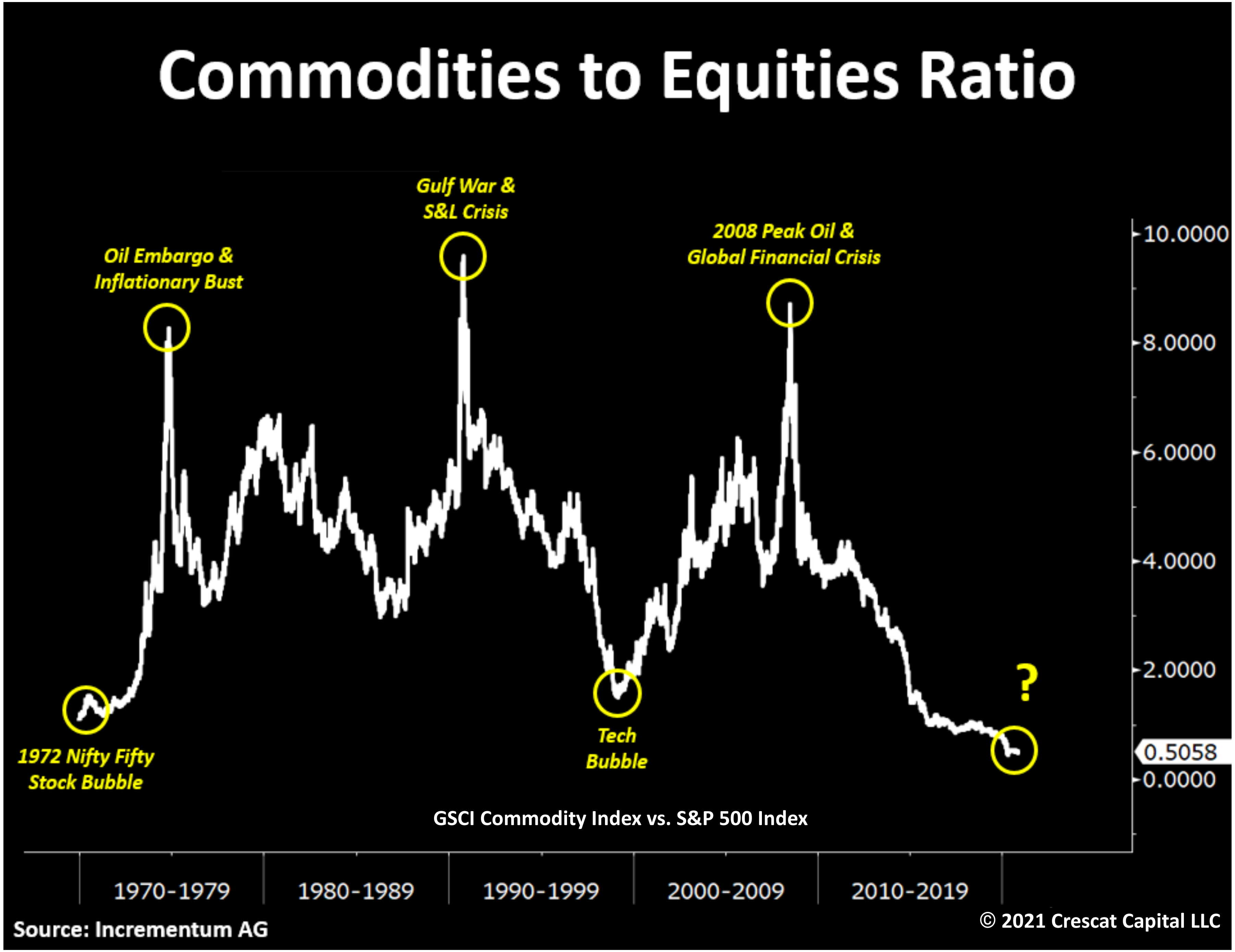


For the first time in history, the US is experiencing a confluence of three macro extremes all at once:

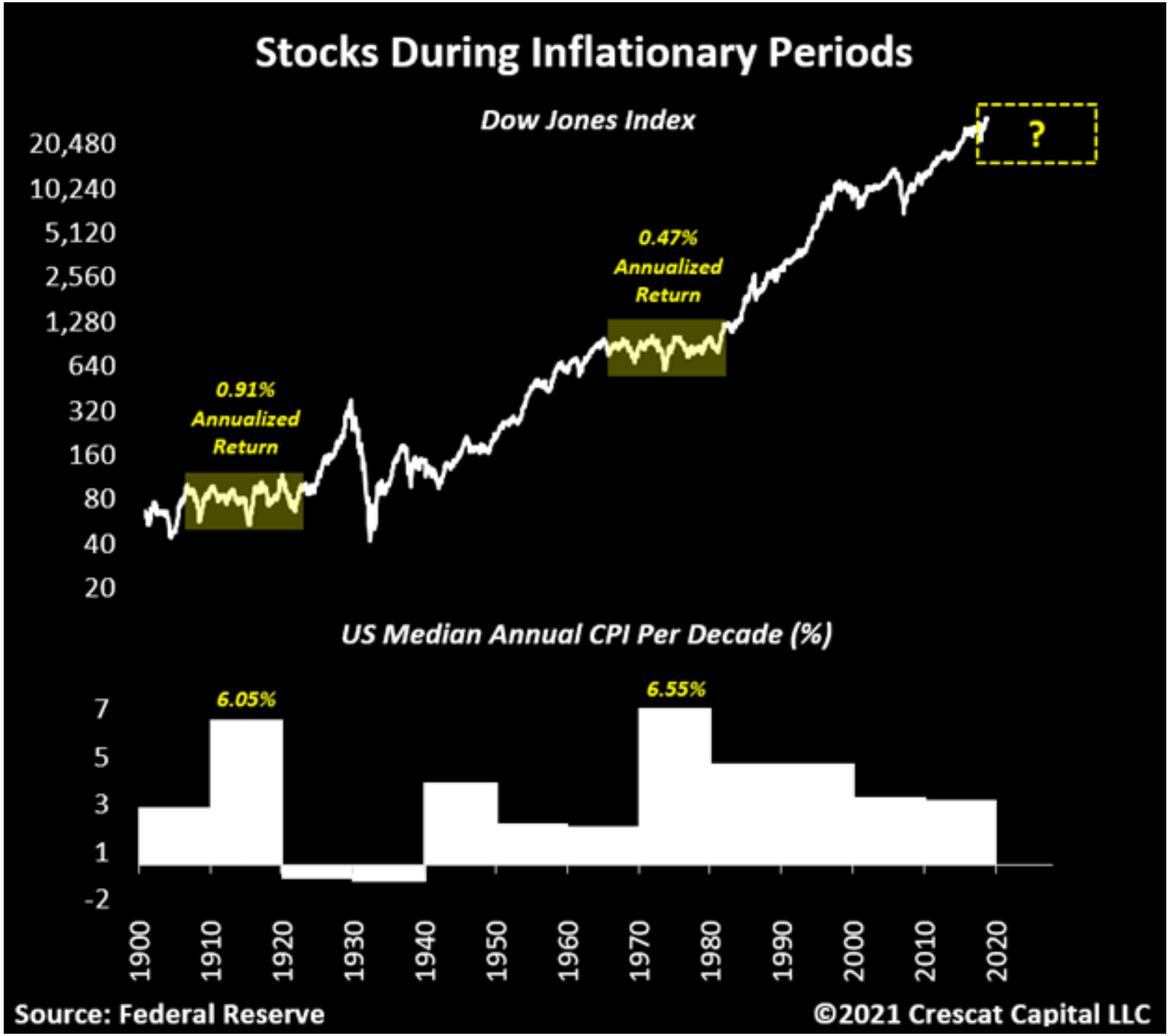
1.High government debt to GDP like the post-war 1940s

2.Excessive stock market valuation on par with 1929 & 2000 bubbles

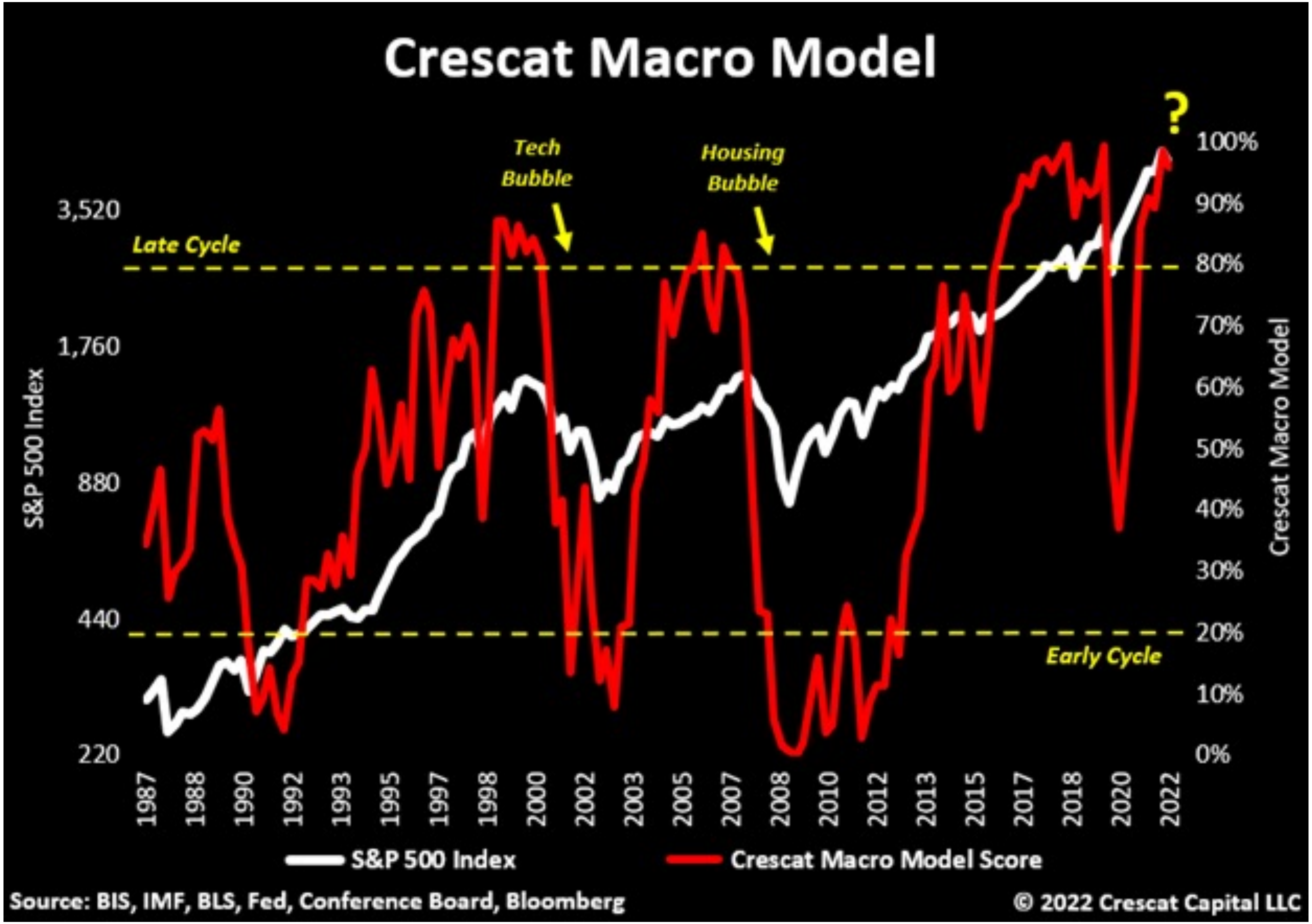
3.A resource-driven inflationary crisis environment comparable to the 1970s



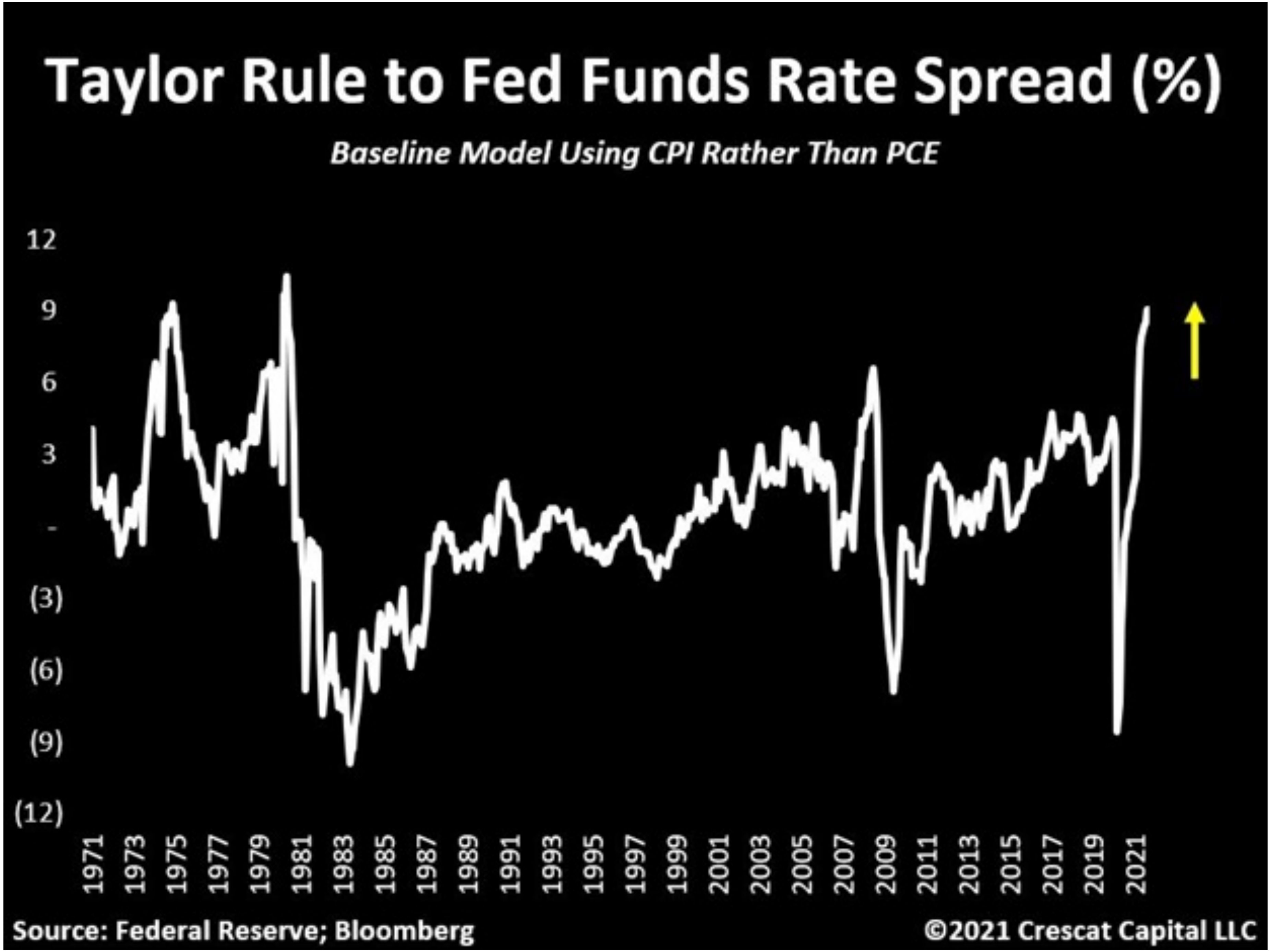
The commodity-to-equity ratio is at a 50-year low. - update



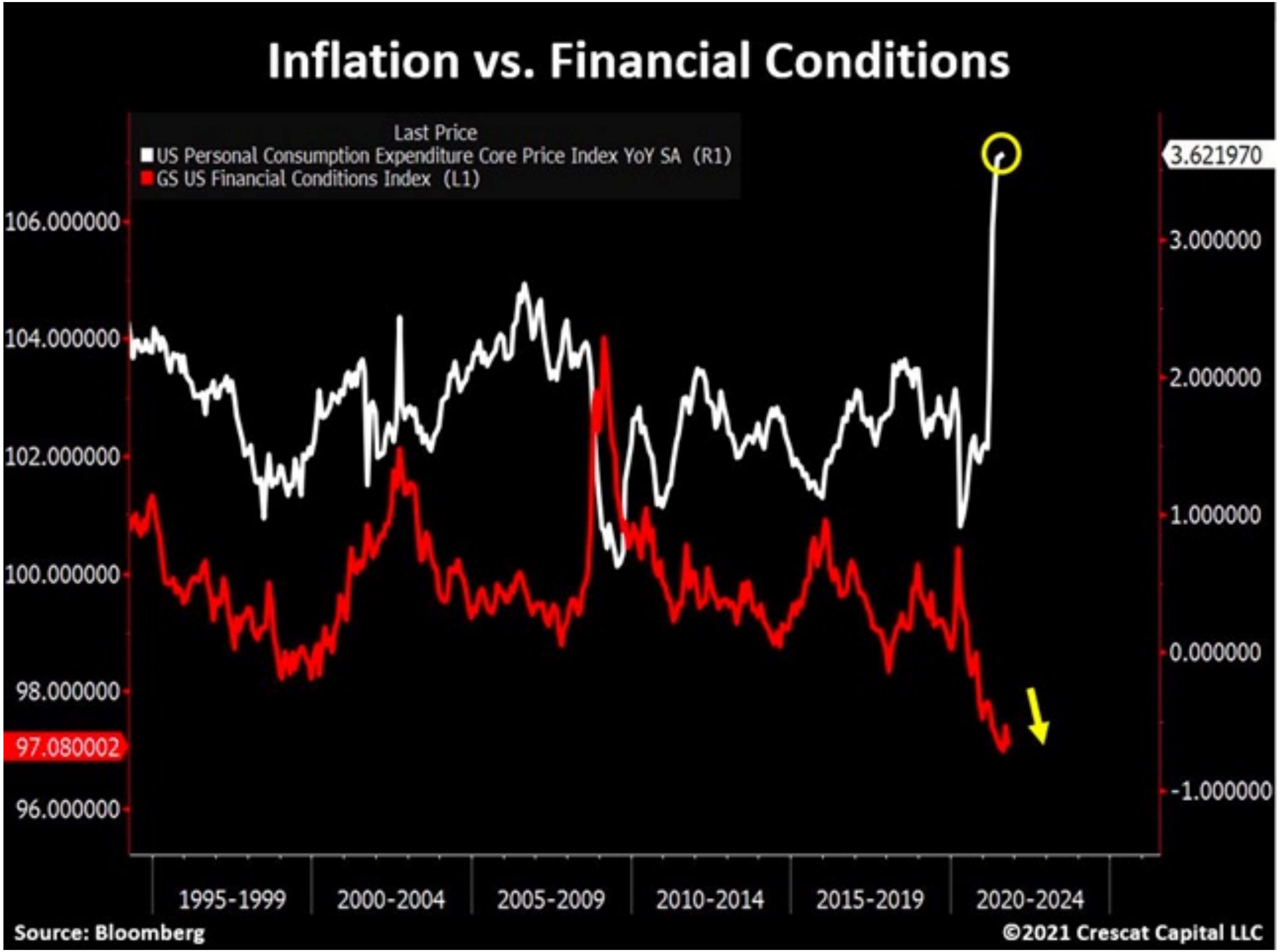
Annualized stock performance during the US's most inflationary decades was negative 5 to 6% on a real basis in the 10s and 70s. Commodities performed exceptionally well.



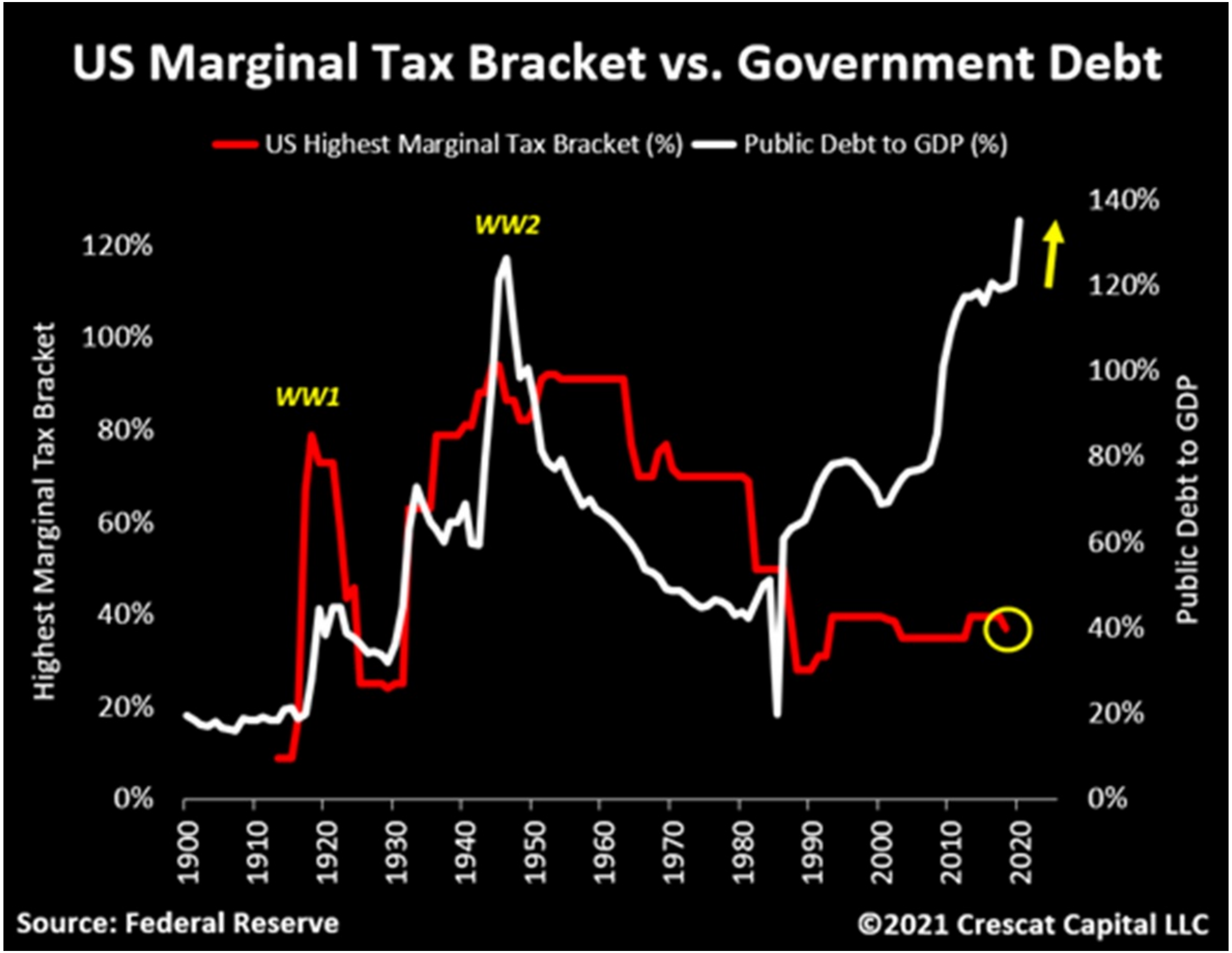
This model encompasses macro, fundamental and technical factors, including some proprietary measurements. Our near-record macro model score is signaling an important bearish signal with current stock prices.



We think the year-over-year growth in inflation is at least two low double digits and, if correct, we are indeed living in the most financially repressive environment in history.



Rising inflation expectations and the Fed attempting to tighten financial conditions are the catalyst for this critical inflection point.



For people calling for the Roaring 20's, back then not only was inflation falling but tax rates were also in a downtrend. There is no way either of those factors will be in play today.

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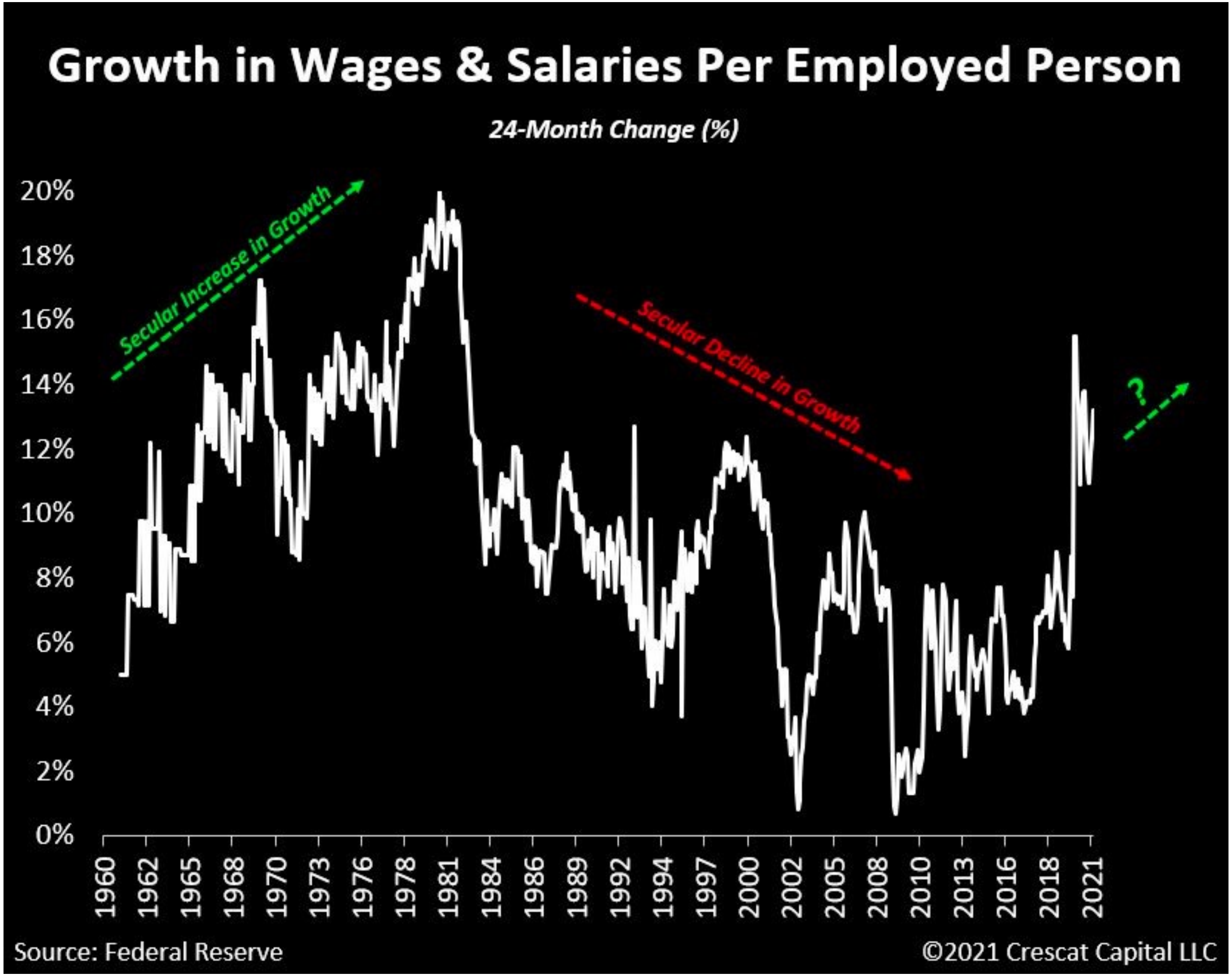
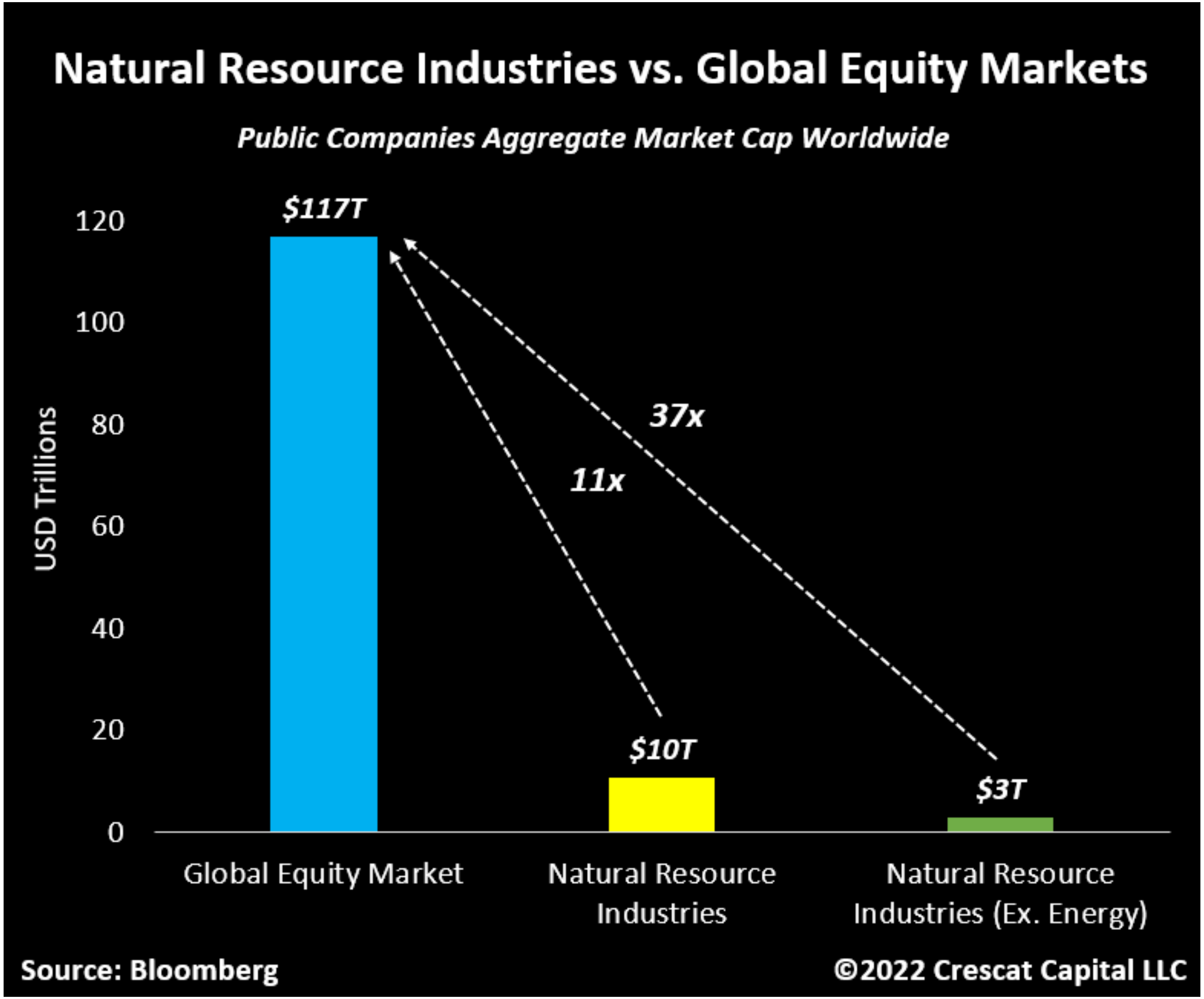
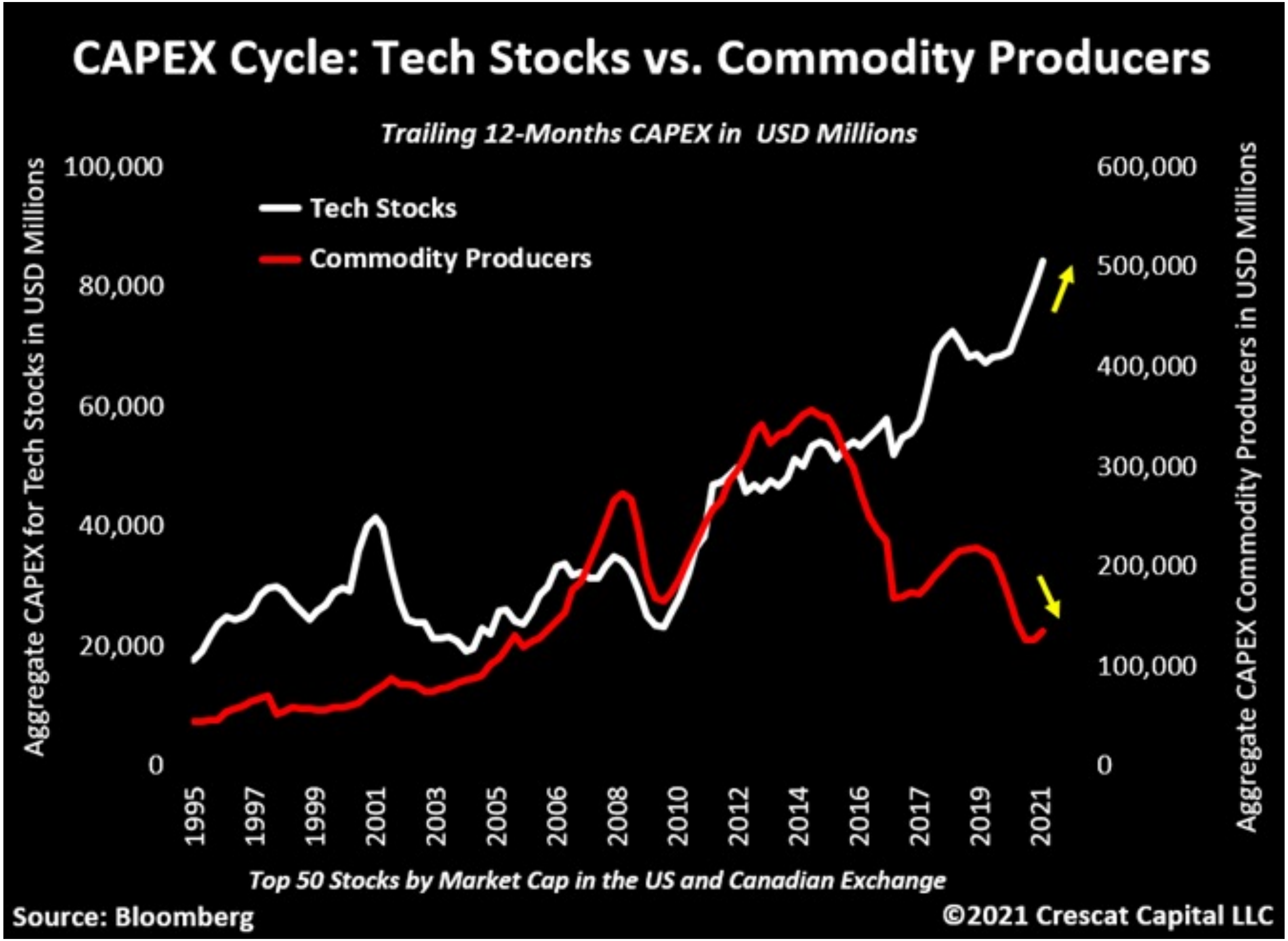
DEBT-TO-GDP RESOLUTION



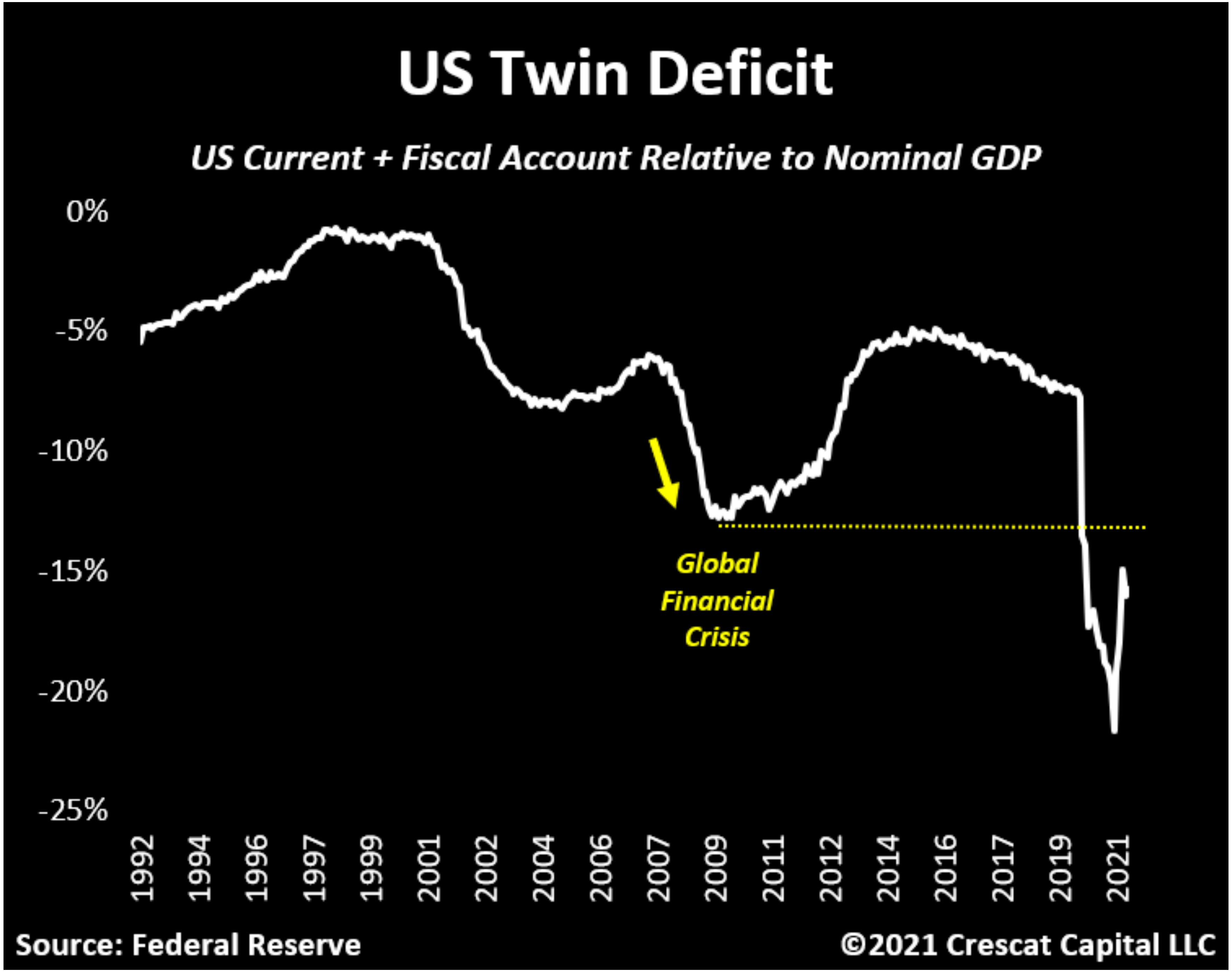
Wages & salaries look to be on a early secular rising growth trend. This takes time to develop but it's one of the key factors that will define how persistent inflation could be in the long run. Ultimately, rising cost of living is what triggers upward pressure in labor cost.



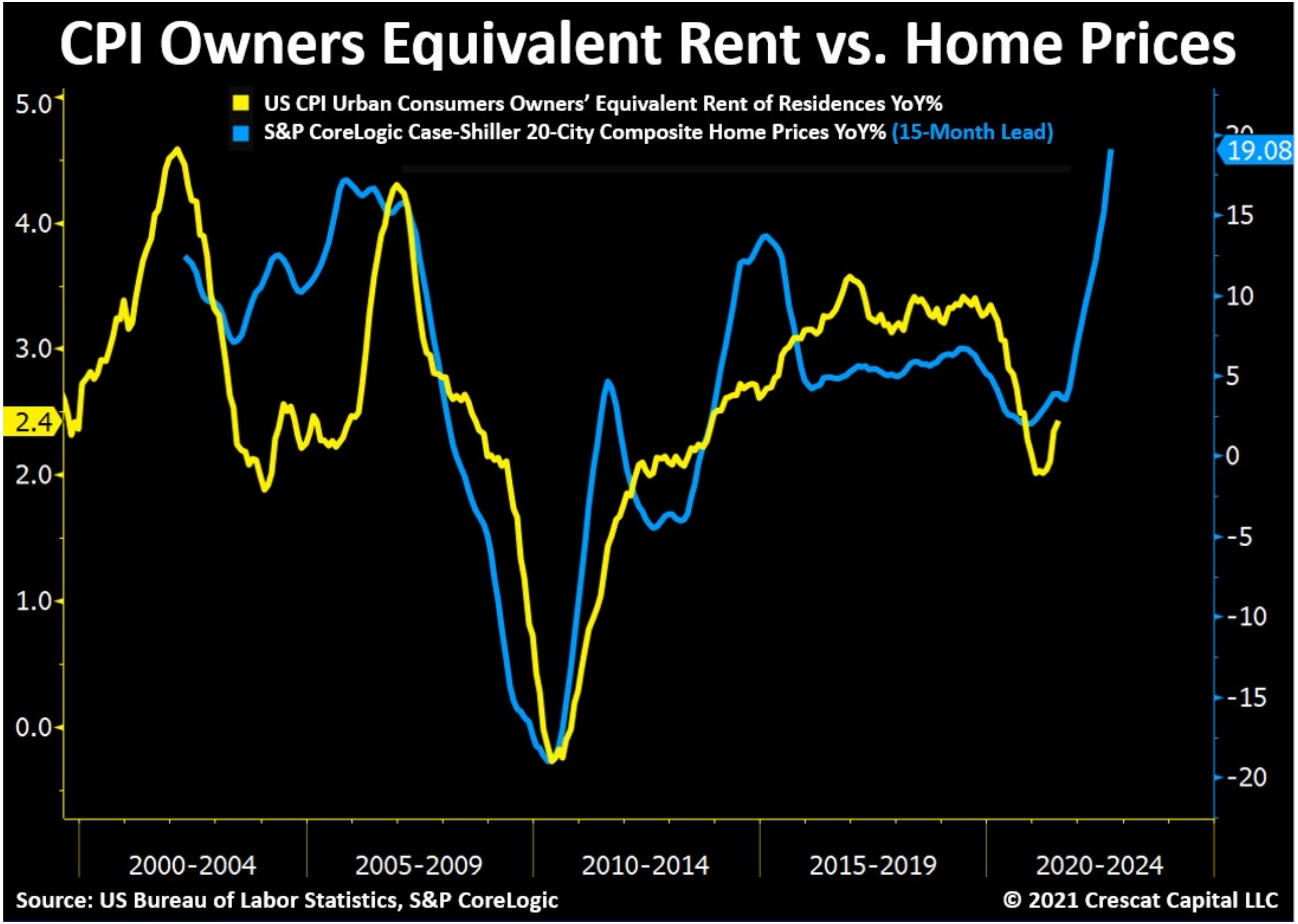
How can we possibly create a greener planet, including the raw materials necessary for clean energy, let alone our basic needs, when we have been minting less and less earth scientists every year?



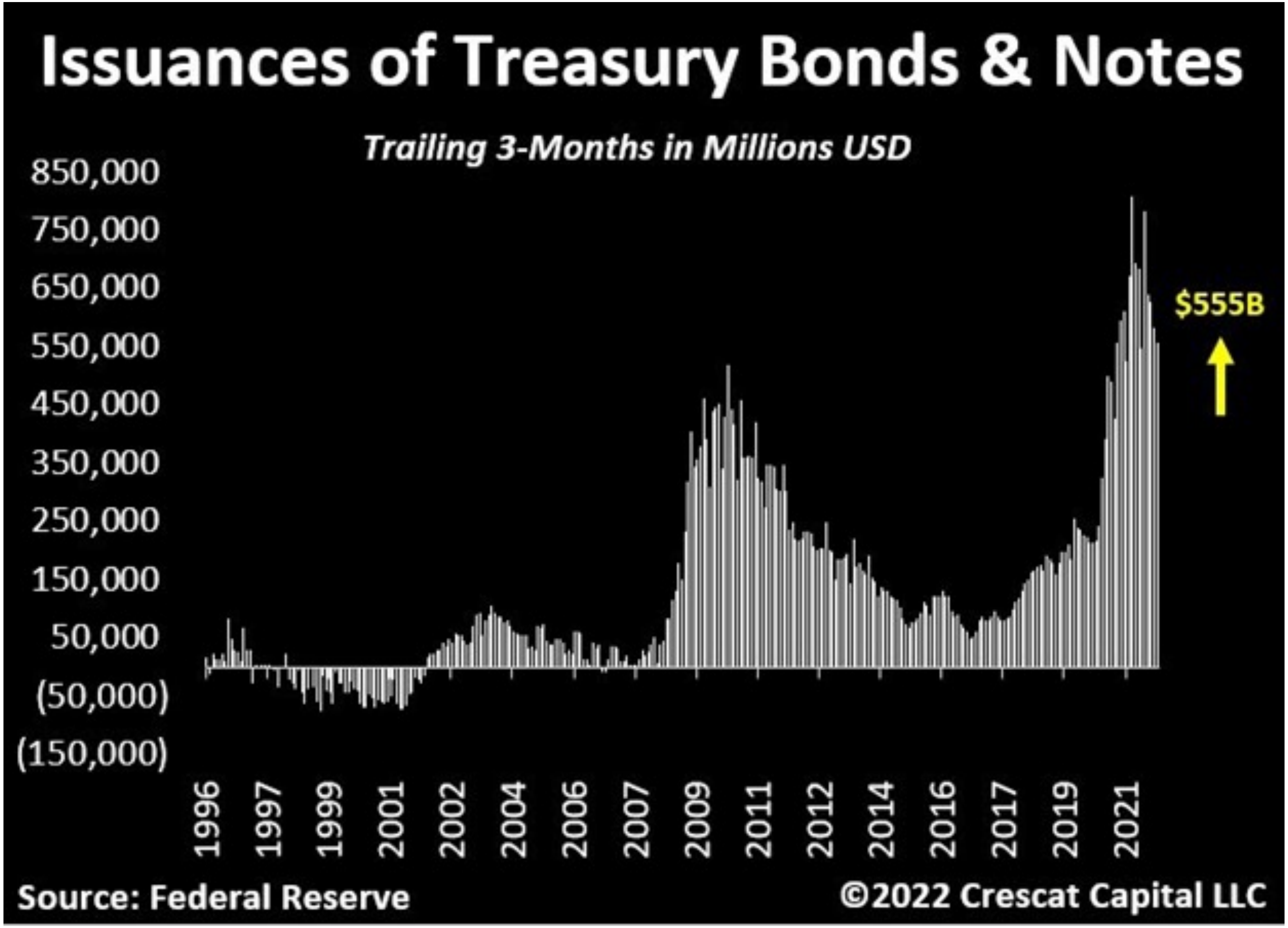
There has been a major divergence between long-term capex of technology companies versus commodity producers. This is a structural imbalance at the core of the supply chain for all goods and services that began in 2015, long before the Covid Recession.



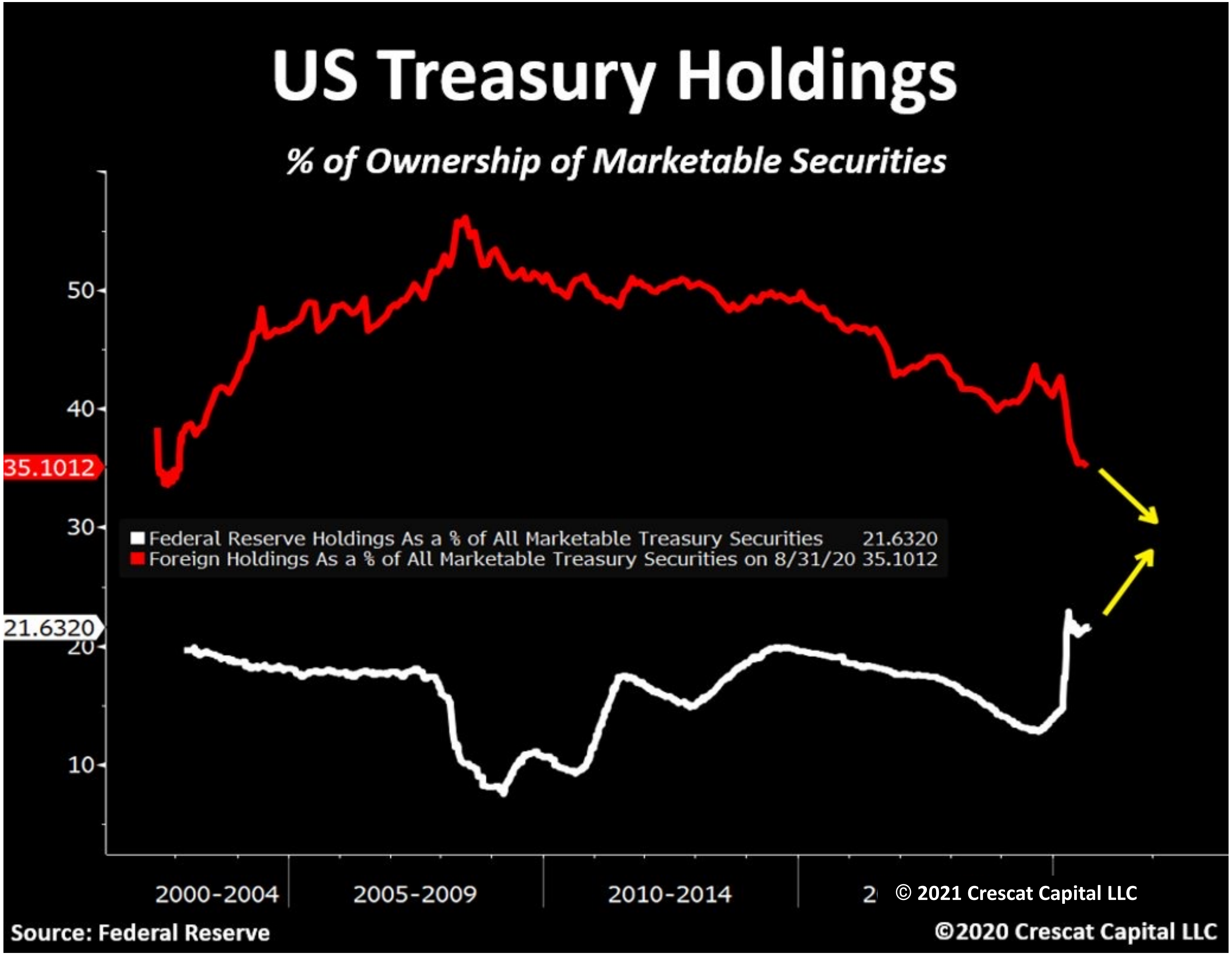
The twin deficit (current account + fiscal) is now close to 15% of nominal GDP, almost three percentage points lower than the worst levels of the Global Financial Crisis.



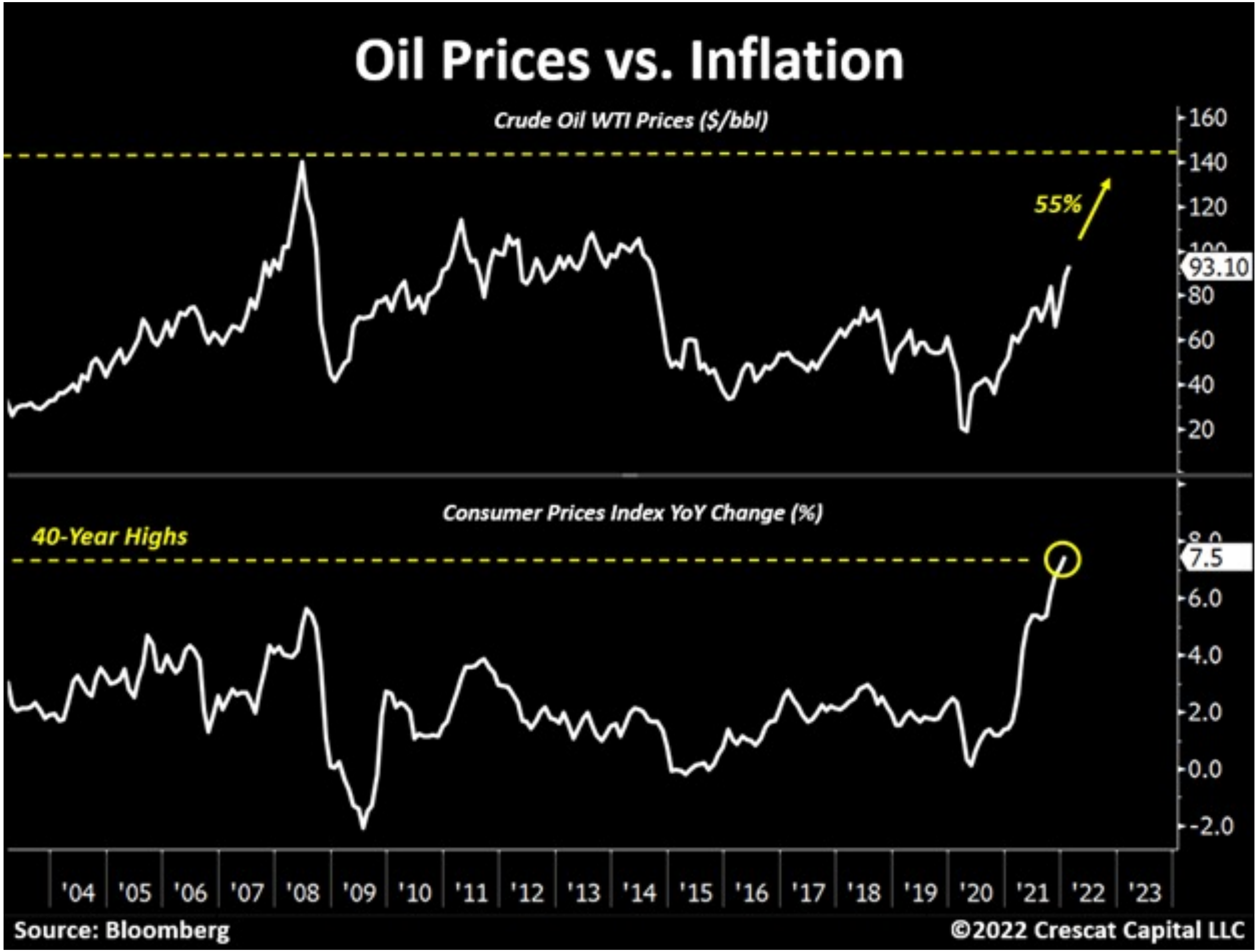
Shelter is a basic necessity, the largest household expense with a 40% weight in core CPI between rent and OER. The BLS incorporates it with a 5-quarter lag and numerous "quality" adjustments. 15 months of historic housing inflation pressure ahead for the econ PhDs to wrestle.



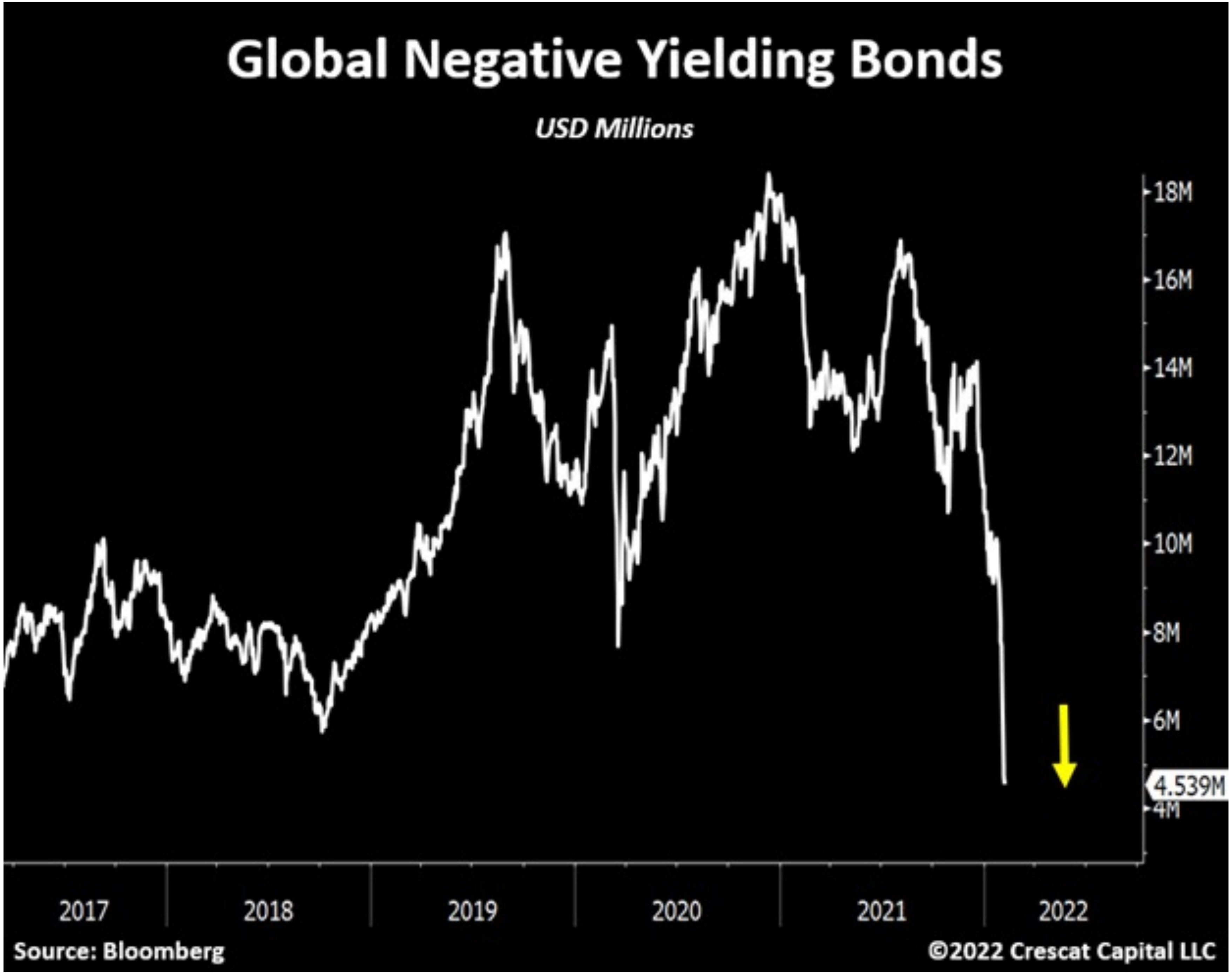
We think the 10-year yield is headed towards 2.5% to 3% and will likely cause major implications for long duration assets.



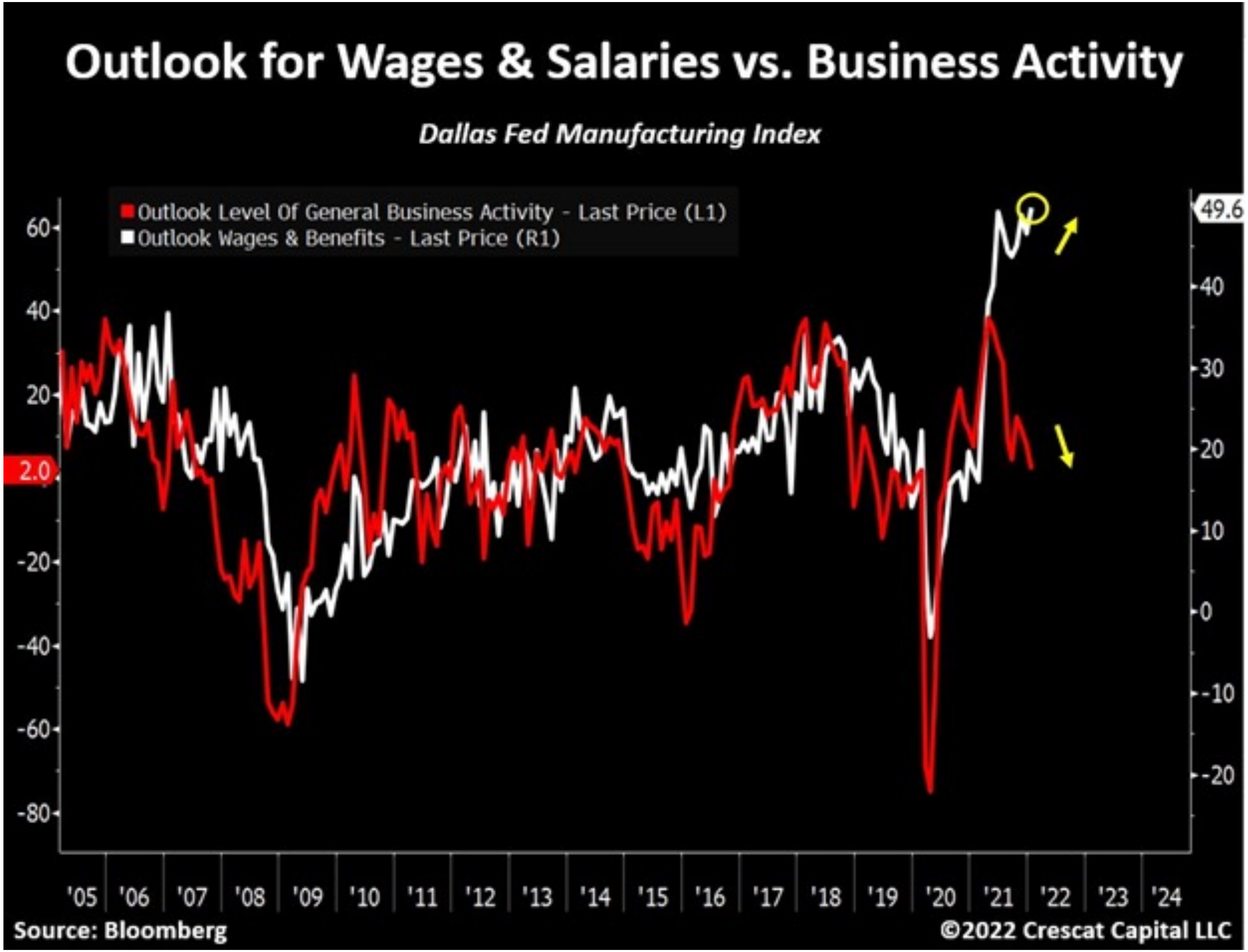
Foreign investors are currently holding the lowest percentage of marketable US Treasuries in 20 years. The Federal Reserve is becoming the buyer of last resort.



It is mindboggling to think that inflation is at 40-year highs, but oil prices are still below their $150 peak in 2008. What will CPI be when oil break out to new all-time highs? Also, recall that steep increases in energy prices have triggered recessions in the past.



See below the outstanding value of negative yielding bonds worldwide has been shrinking massively. From over $18 trillion at its peak to $4 trillion today. We think these instruments will become obsolete soon.



The outlook for wages and salaries just reached new highs while business activity continues to weaken. This is another important development that points to a coming squeeze in corporate profit margins from peak levels.

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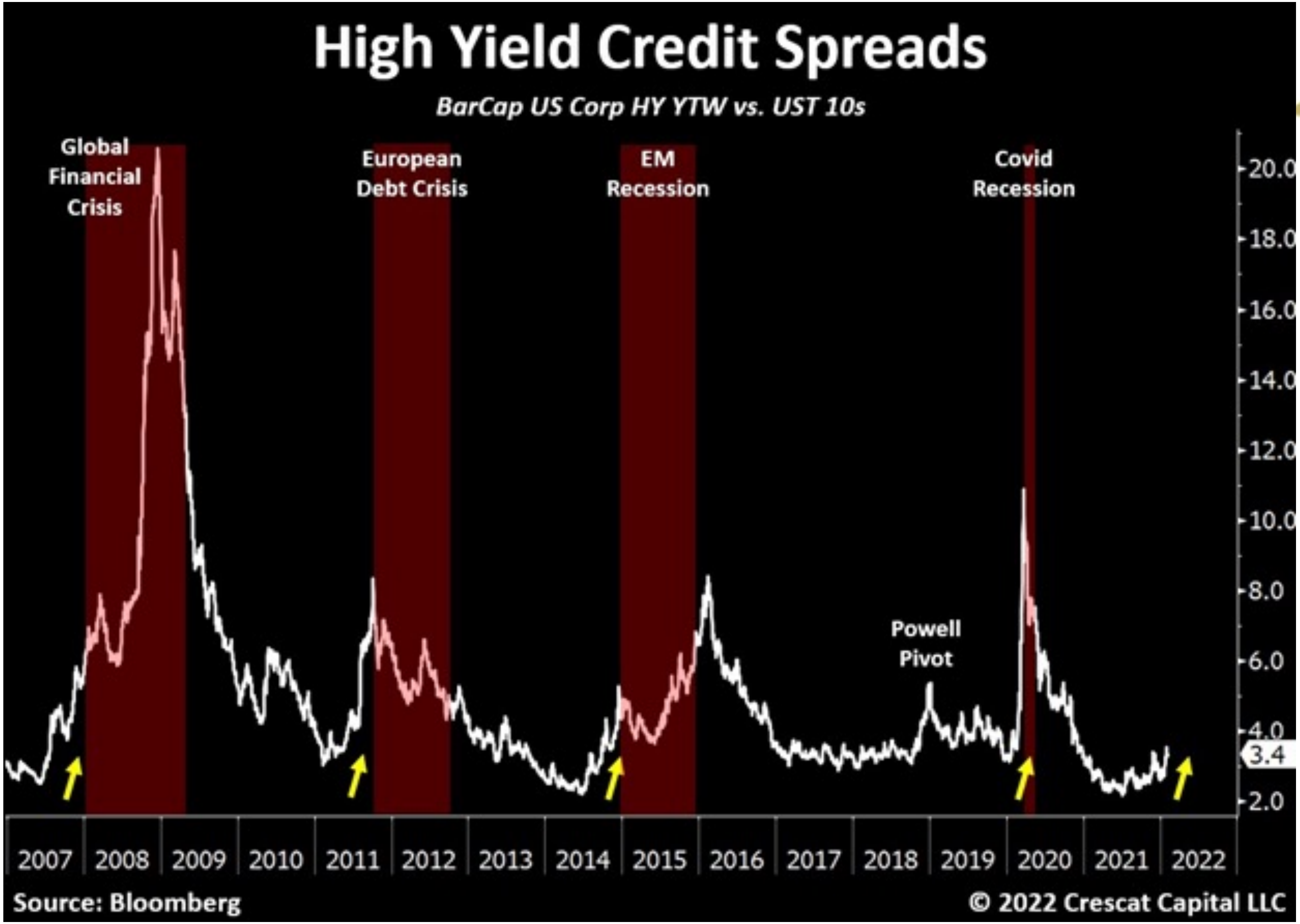
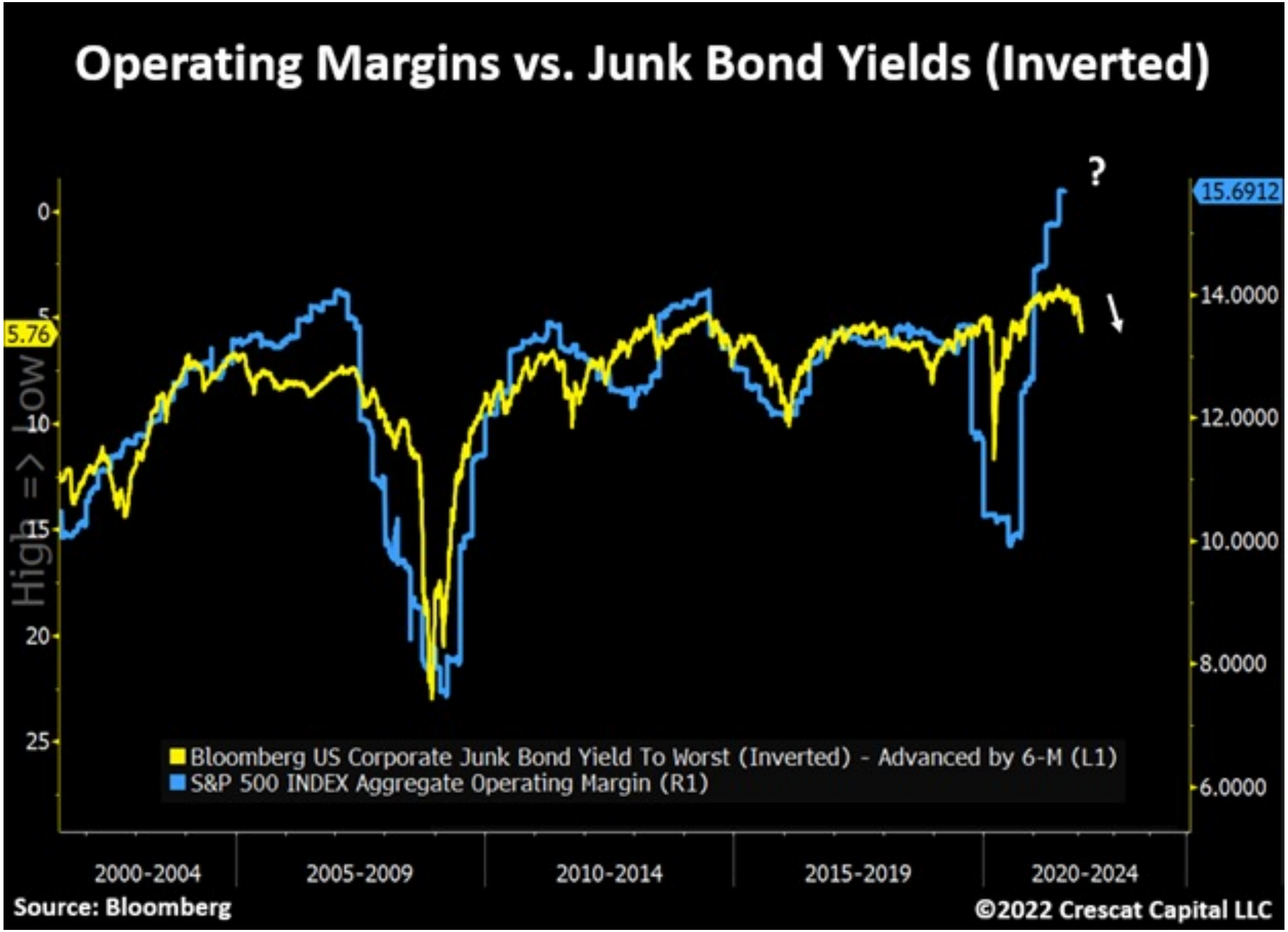
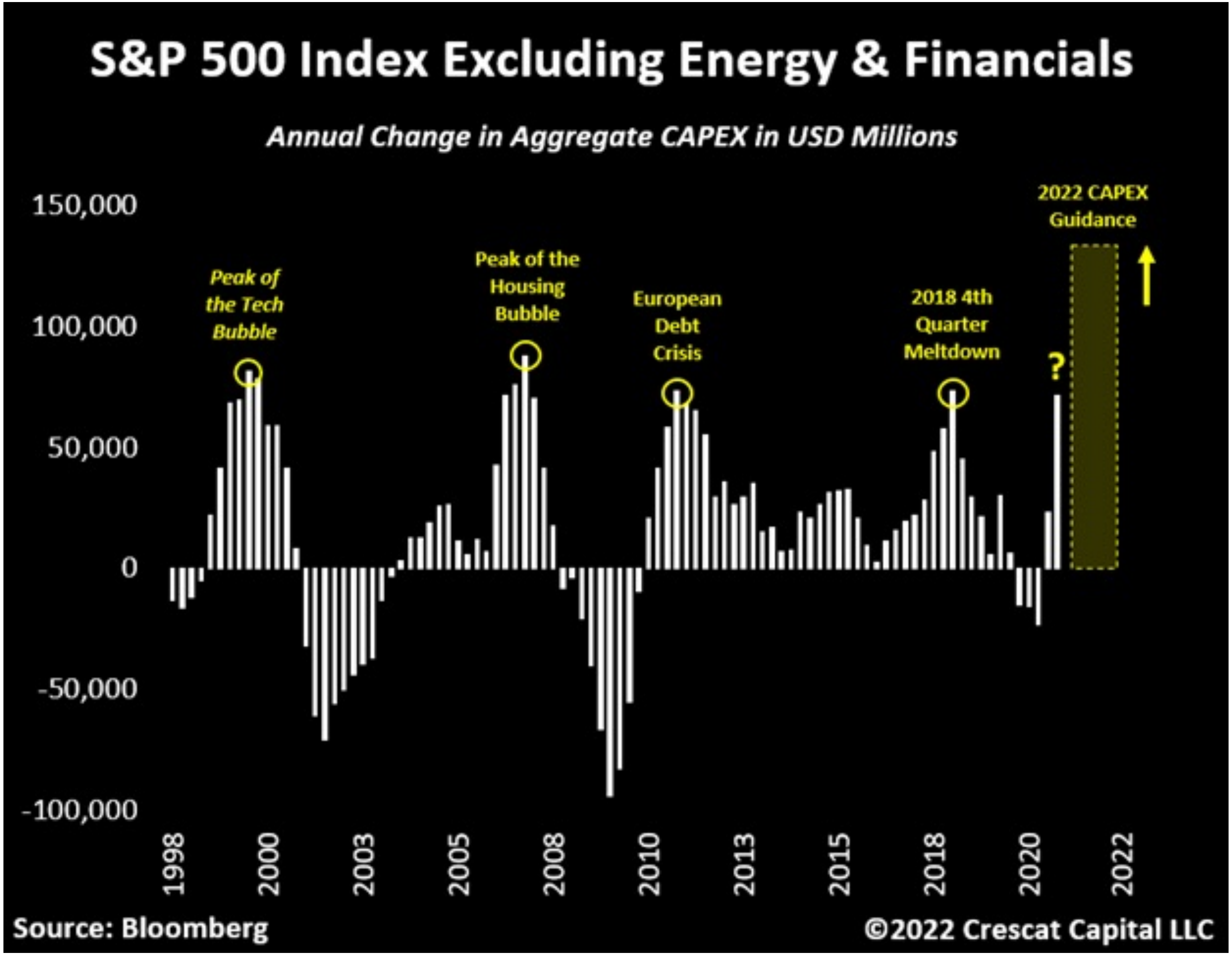
MISPRICED COST OF CAPITAL



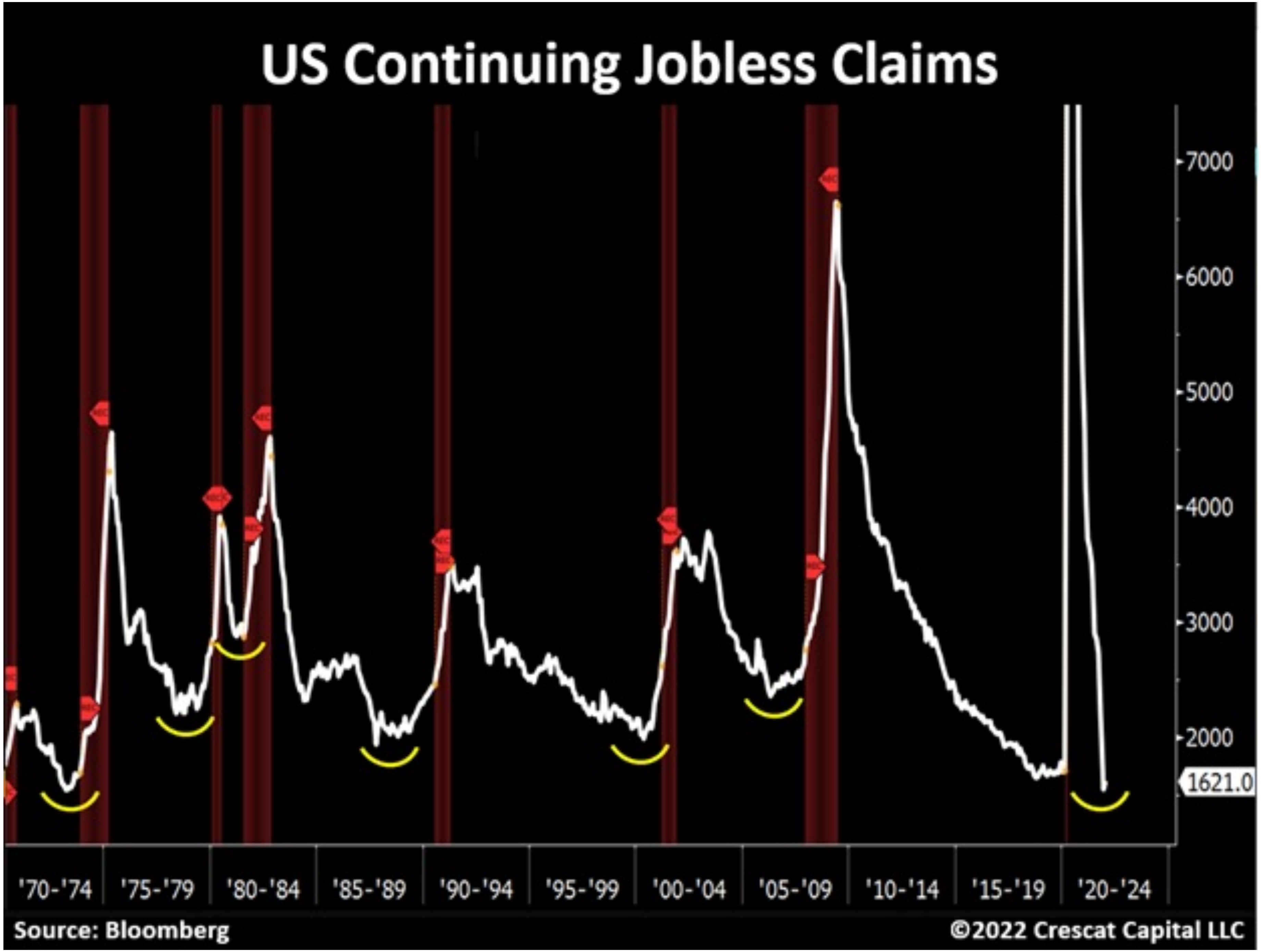
After reaching historic lows, credit spreads are starting to widen again, a foreboding recessionary sign if it continues. update



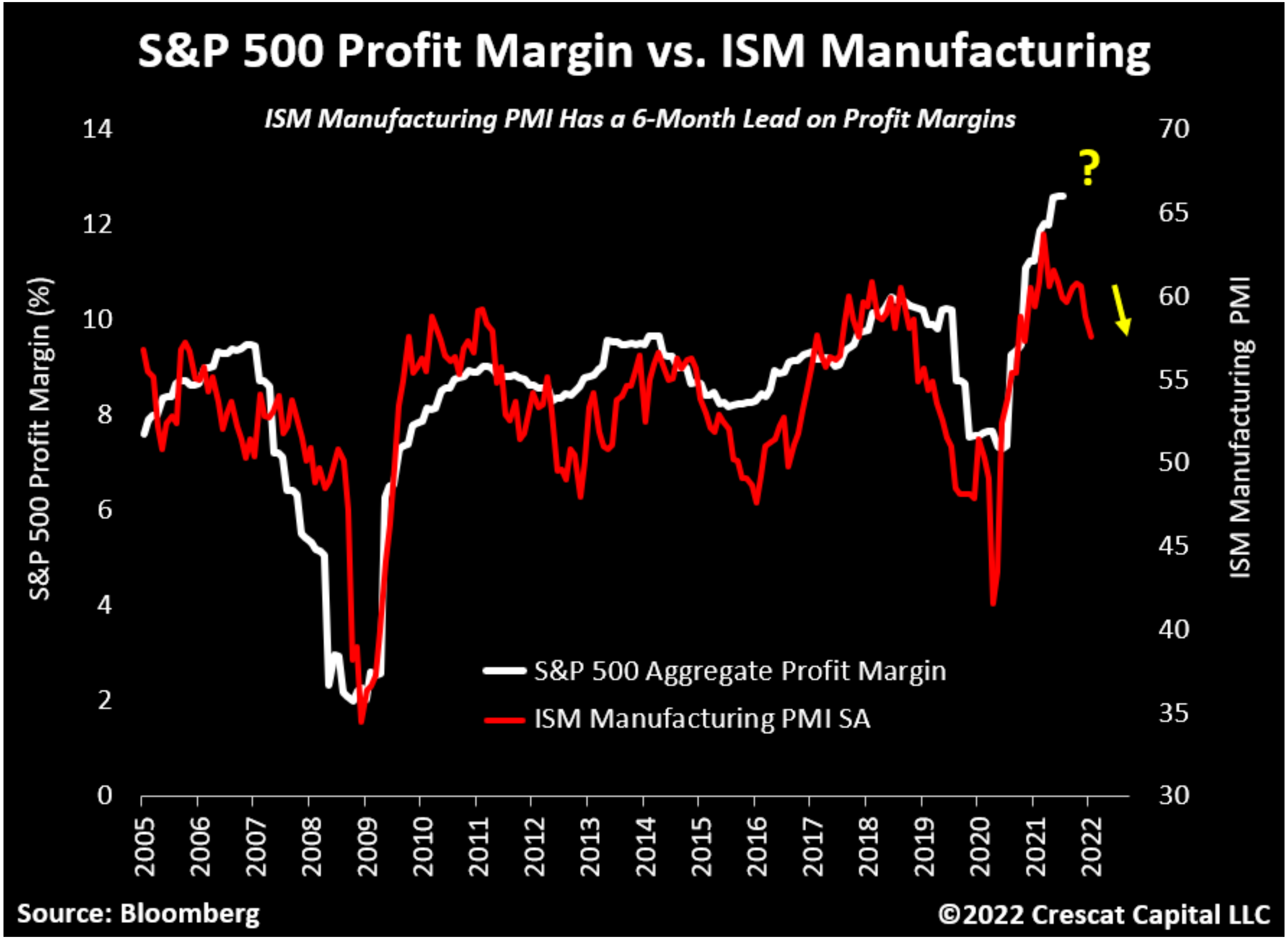
See below a chart of junk bond yields versus profit margins for the S&P 500. Historically, tightening financial conditions lead to profit margin contractions.



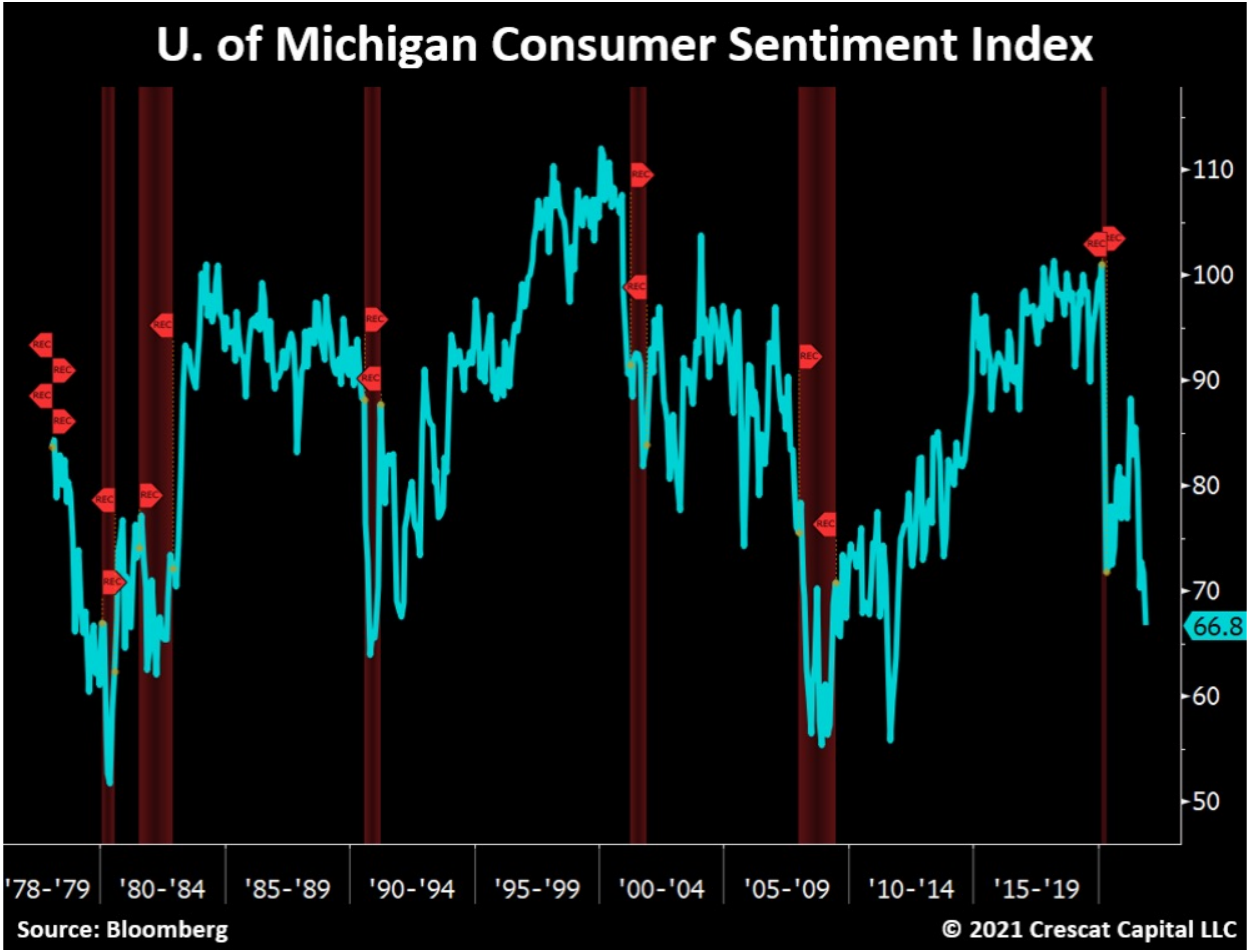
Outside of the tech and housing bubble, or even the meltdown of late-2018, the European Crisis was the only period that did not necessarily coincide with a significant downturn in overall stocks. Instead, the 2011 period was a mid-cycle deceleration.



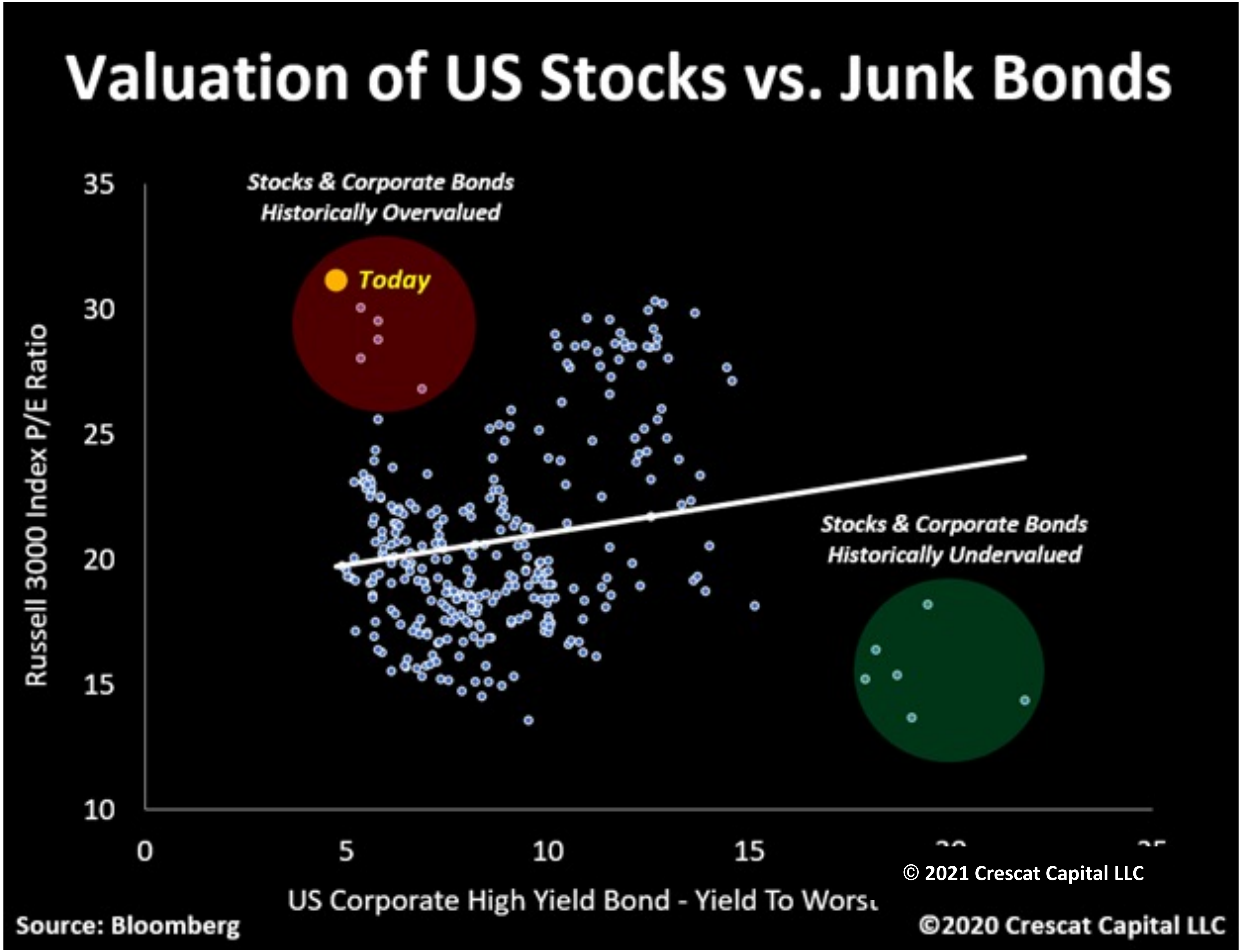
The unemployment rate, one of the best contrarian indicators in history, is now near all-time lows. As shown below, continuing jobless claims are also flashing the same signal.



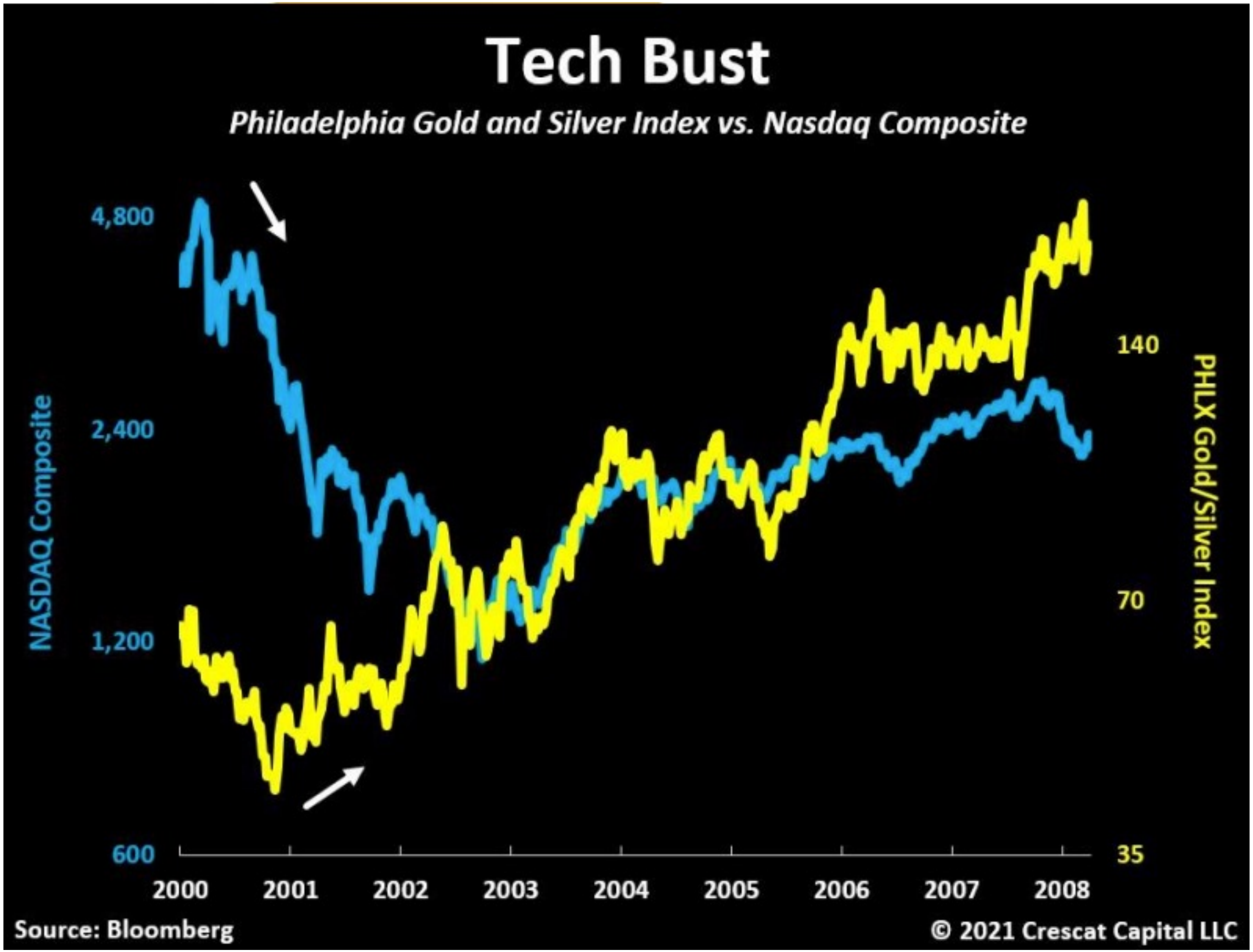
The ISM manufacturing PMI is an economic activity index based on a survey of purchasing managers at more than 300 manufacturing firms.



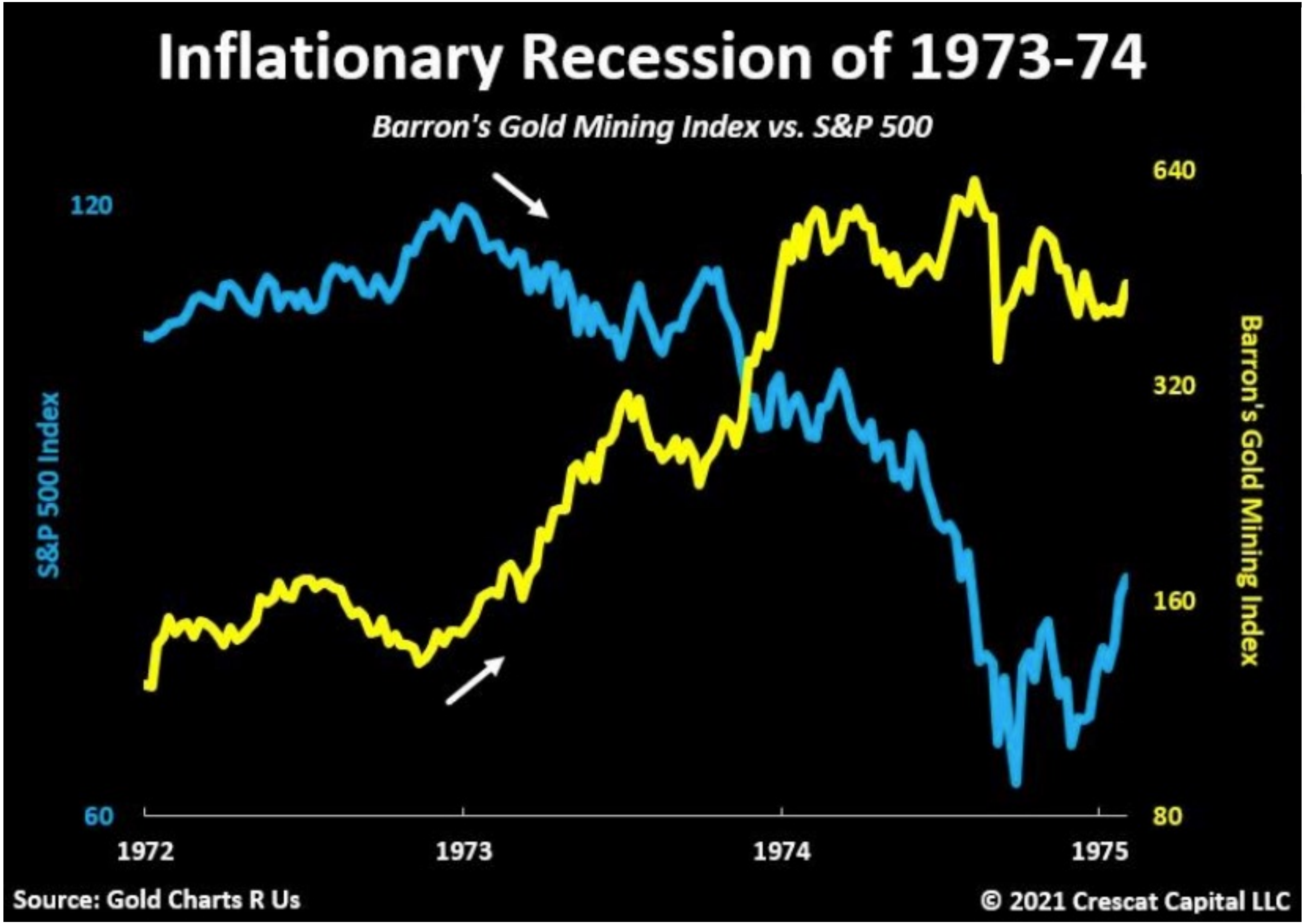
Typically, when consumer sentiment plummets it is a lead indicator of a recession.



For the first time in history, junk bonds and stocks are record overvalued in tandem.



The wake off the tech bust provides another good analog for the Great Rotation. The NASDAQ Composite declined 78% from 2000 to 2002 and was still down through 2008. The Philadelphia Stock Exchange Gold and Silver Index increased five-fold from 2000 to 2008.



The 1973-74 stagflationary recession provides a good analog for the Great Rotation that we foresee. During that time, gold mining stocks increased 5- fold during the while the S&P 500 declined 50%, in just two years.

Gold mining companies acted in counter cyclical fashion to create wealth during the credit deflationary bust of the Great Depression.

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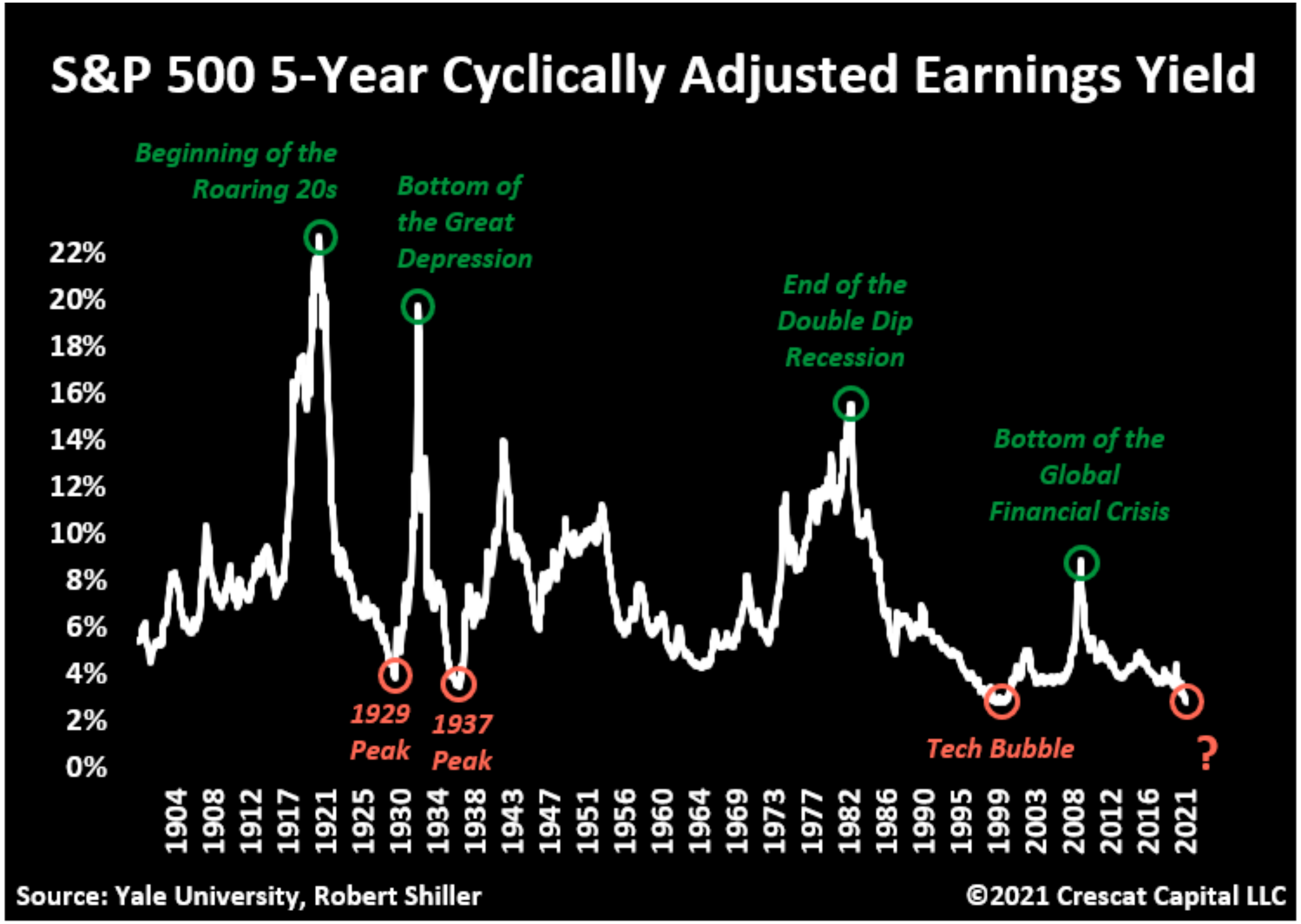
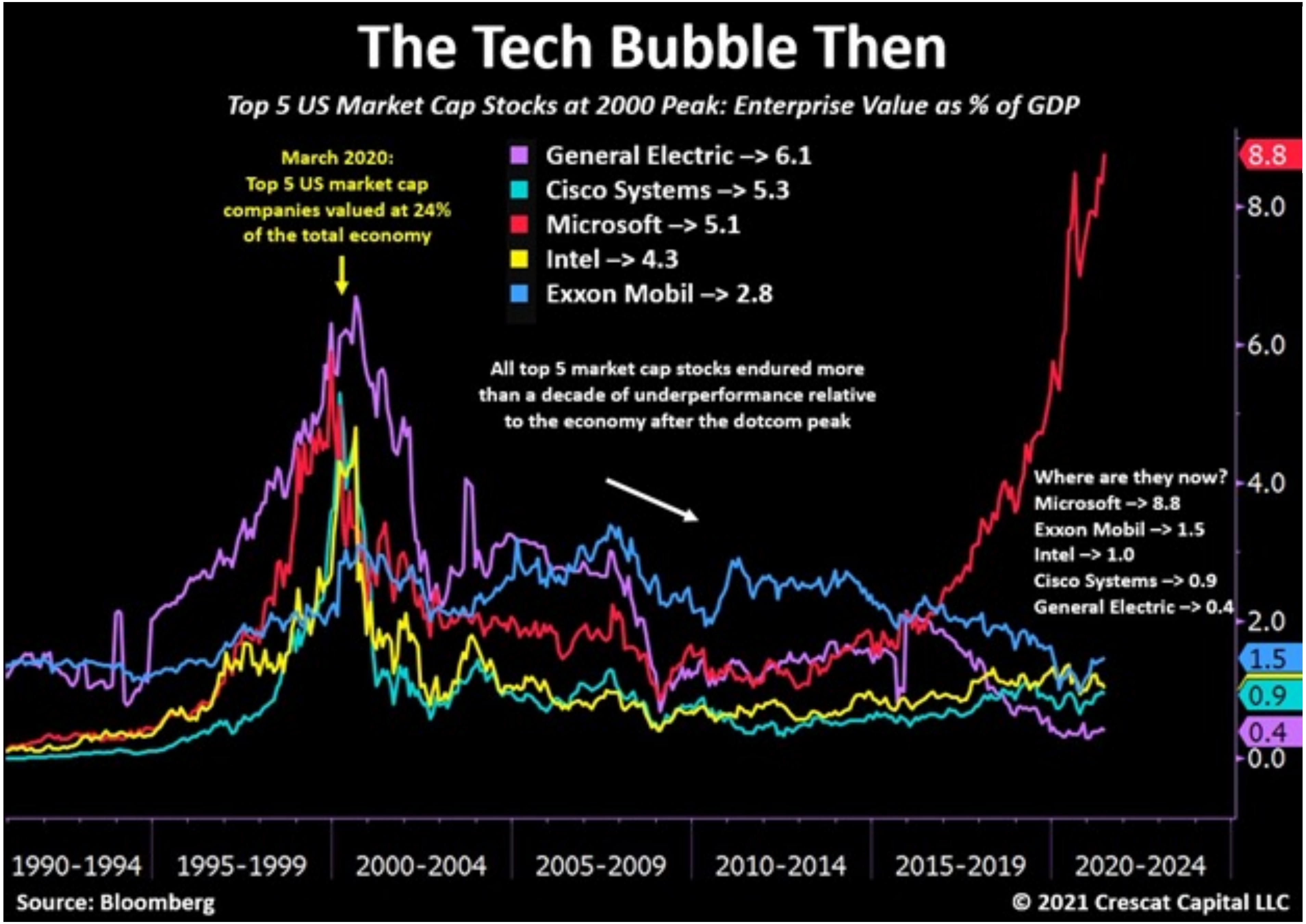
MEGA CAP GROWTH CEILING

Index investing is also highly popular today offering apparently low volatility and high returns by hopping on the momentum train, but it is high risk and large downside return ahead in our analysis.

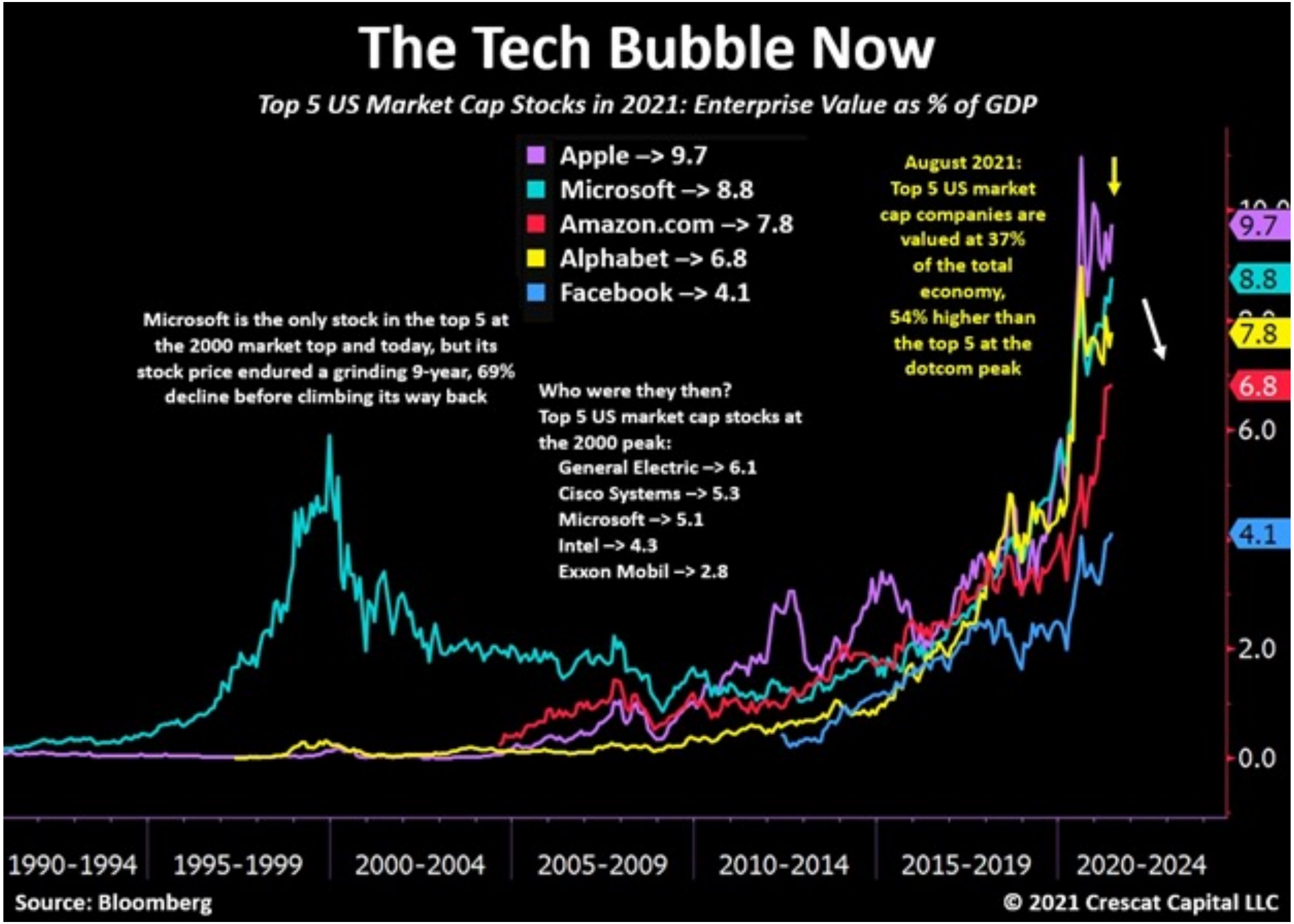


Market Periods	5-Year Cyclically Adjusted Earnings Yield	Subsequent S&P 500 Performance			
		1-Year	2-Year	3-Year	5-Year
1929 Peak	3.8%	-30%	-59%	-84%	-74%
1937 Peak	3.5%	-37%	-29%	-33%	-51%
Tech Bubble	2.8%	-17%	-26%	-43%	-21%
Average at Peak	3.4%	-28%	-38%	-53%	-49%
Today	2.8%	?	?	?	?

Such depressed earnings' yields have always led to very significant market meltdowns.

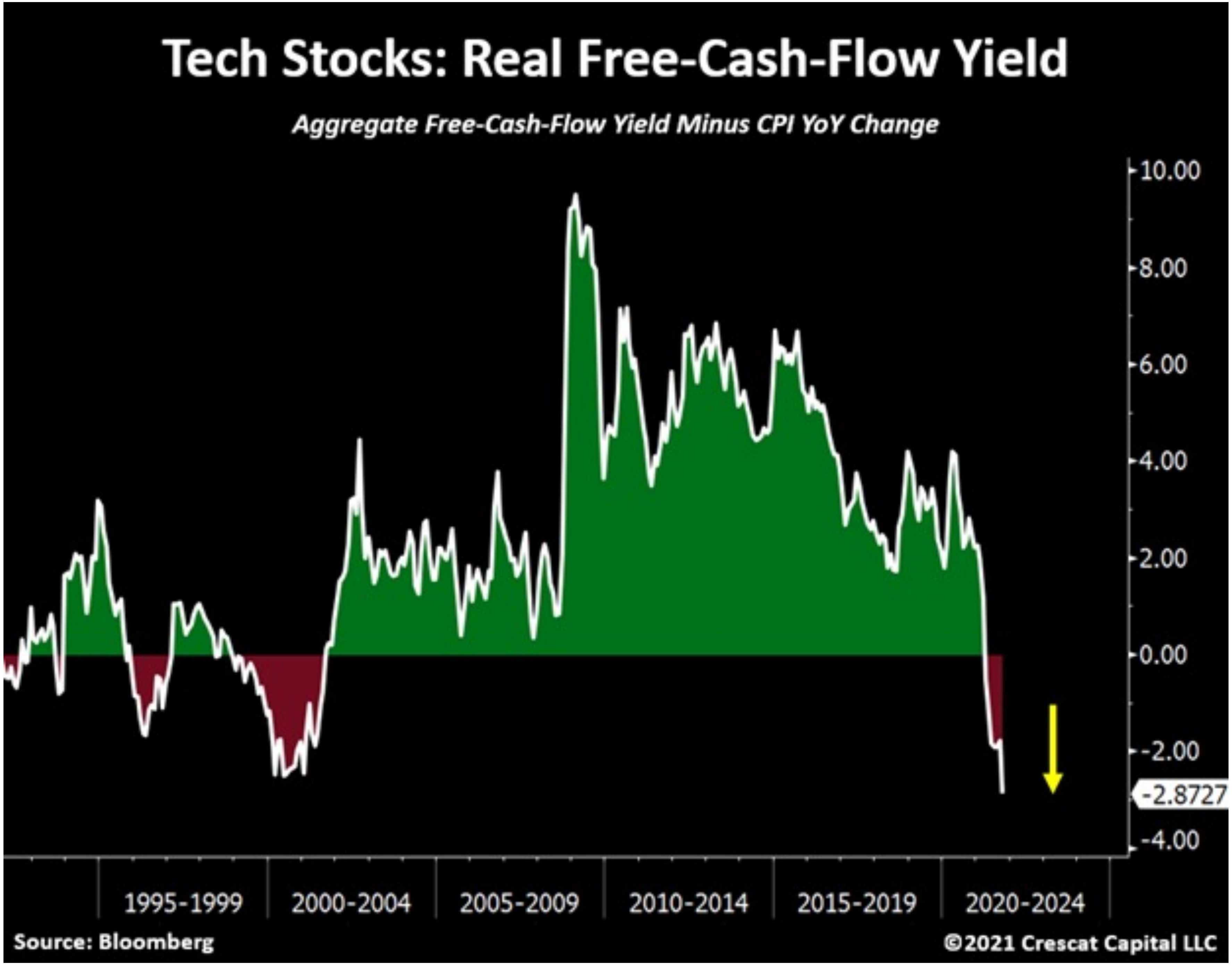


Over the two and a half years of the tech bust in 2000-02, the S&P 500 Index declined 49% and the NASDAQ Composite crashed 78%.



The combined enterprise value of the widely held top five is 37% of GDP, 54% higher than it was for the top five at the 2000 peak.

The median price to earnings ratio of the top 10 largest stocks in the US is now as high as it was at the peak of the Tech Bubble, 37 times earnings. Why would anyone want to pay peak multiples on top of likely peak margins and growth rates?



The real aggregate free-cash-flow yield among tech companies in the S&P 500 is now even lower than it was at the peak of the Tech Bubble.

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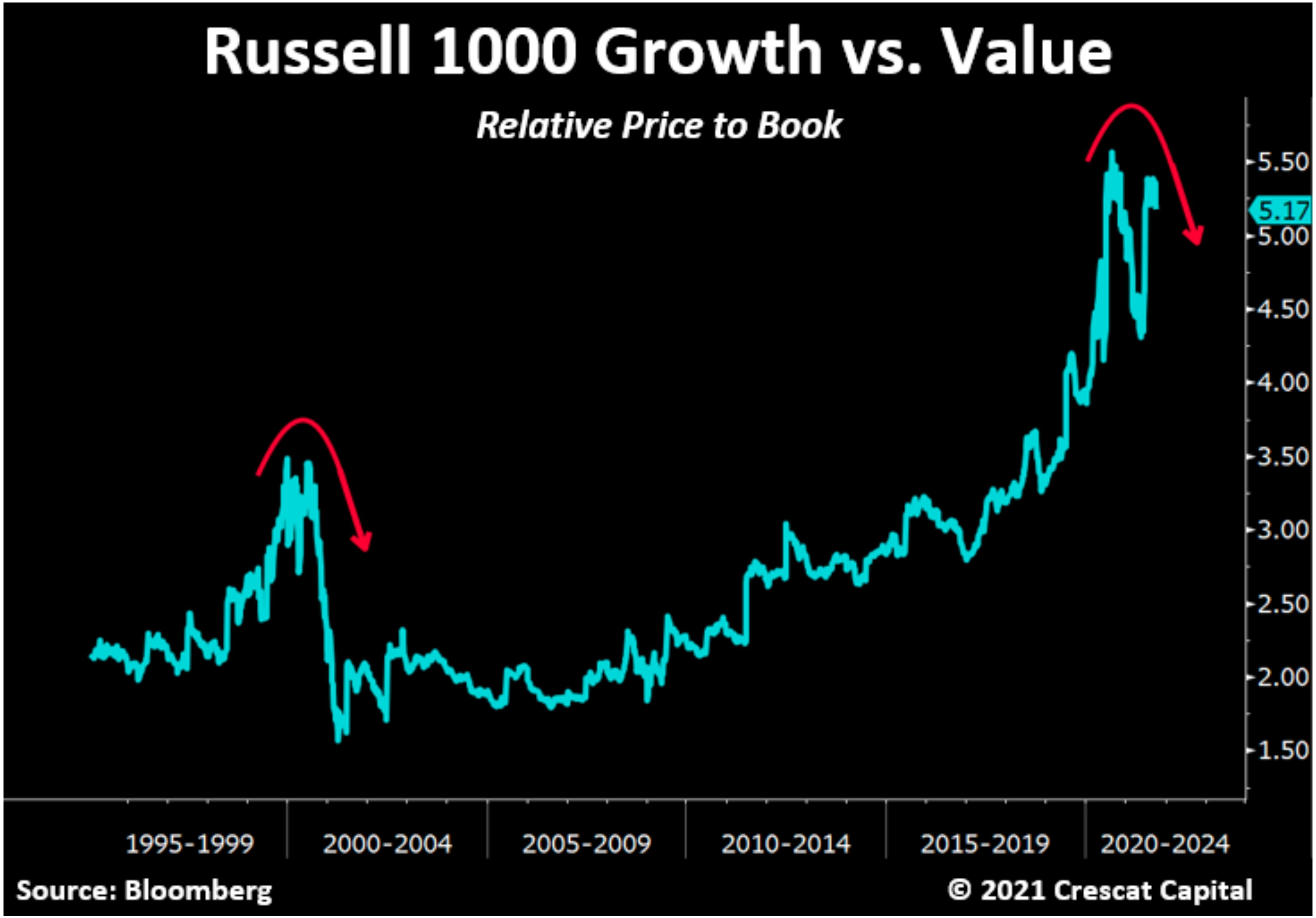
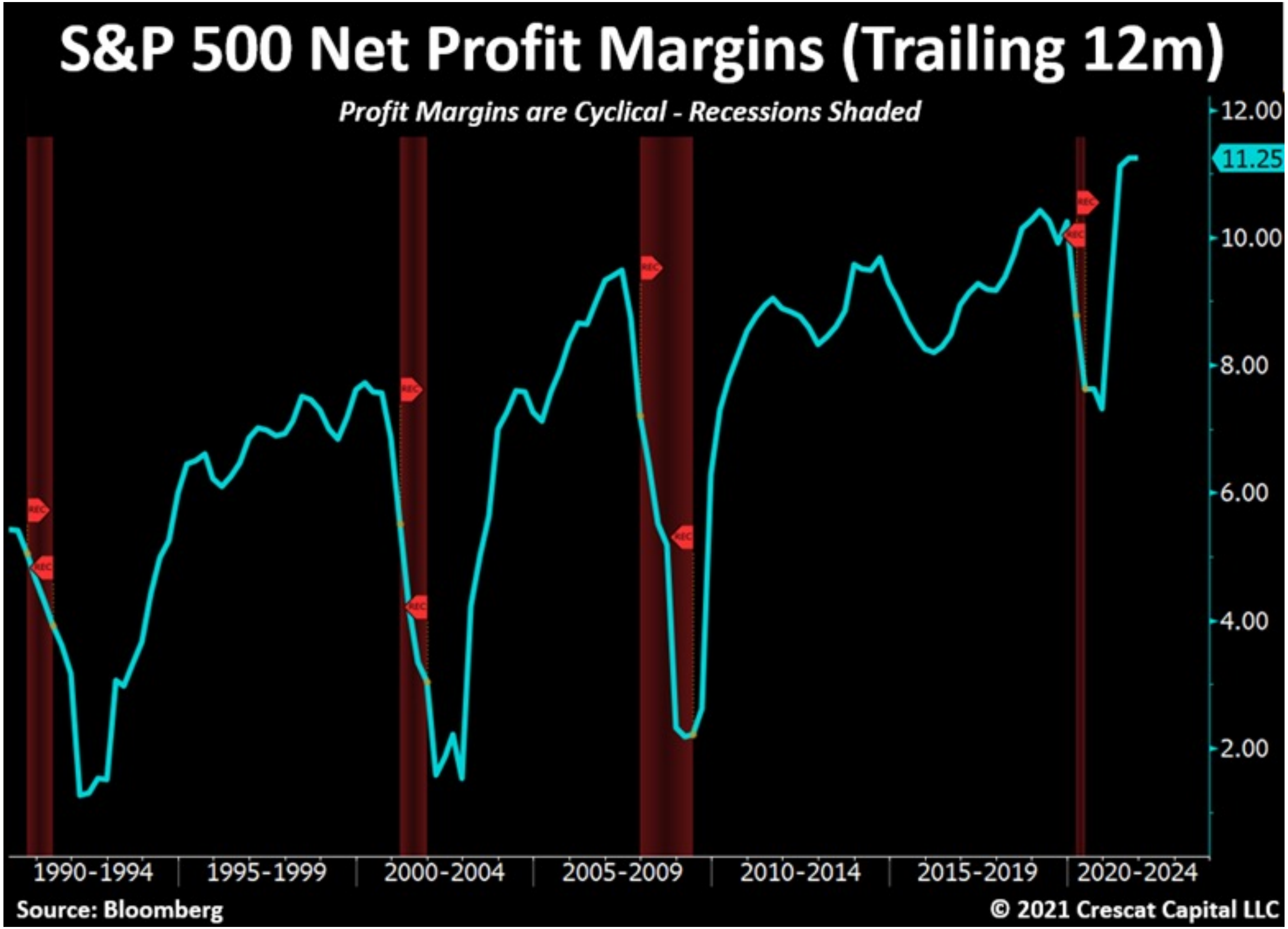
SaaS RATIONALIZATION

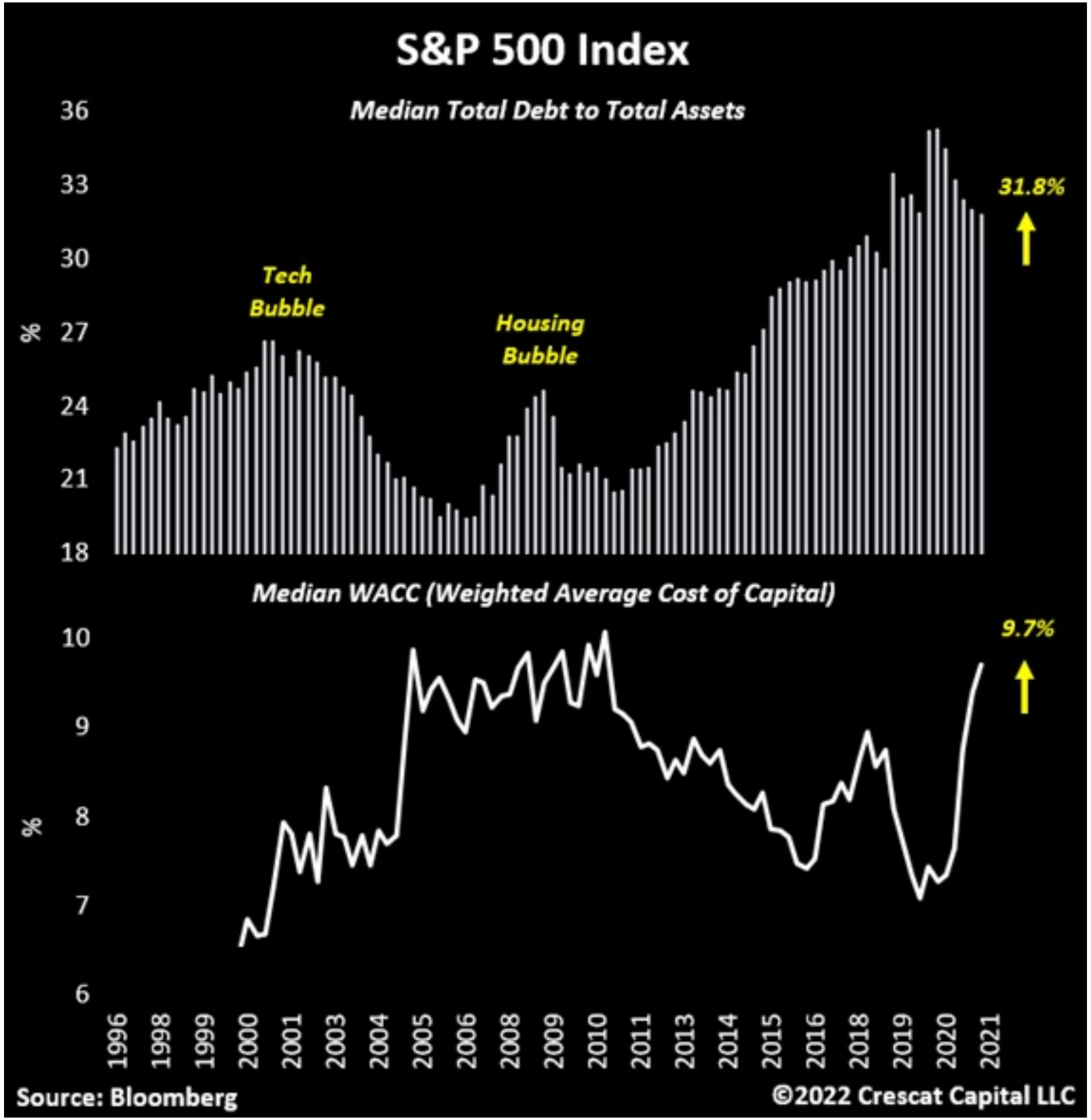
See how the differential of fundamental valuation between growth and value stocks is re-testing the peak tech bubble levels that we saw in 2000.



The relative price-to-book value of the Russell 1000 Growth compared to the Russell 1000 Value indices is about 60% higher than it was at the peak of the tech bubble in 2000, further illustrating the extreme imbalances and market risks along with the set-up for a growth to value rotation.

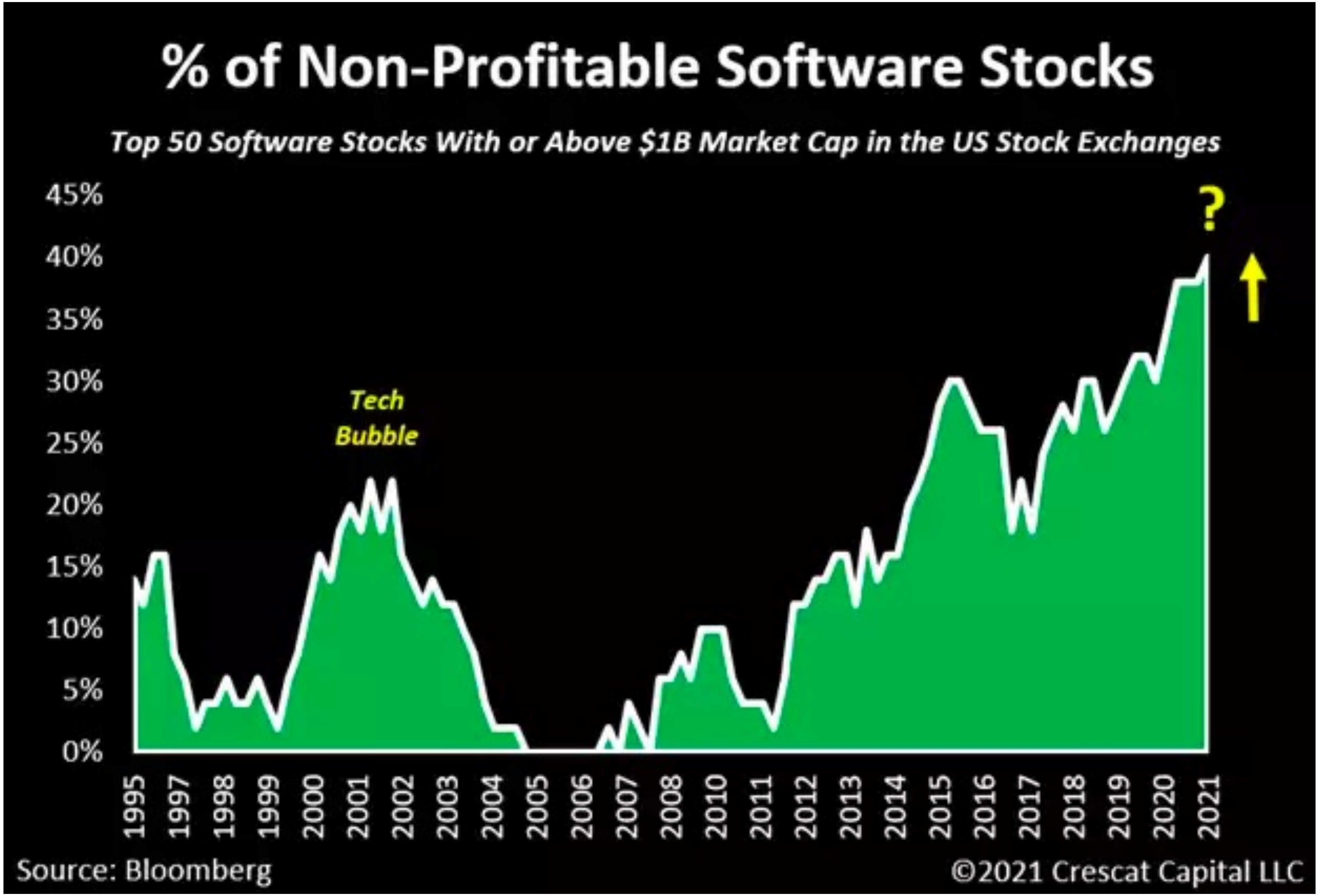


Net profit margins for S&P 500 companies at large are at record highs today, because these firms have been able to pass rising costs onto their customers in the short run.

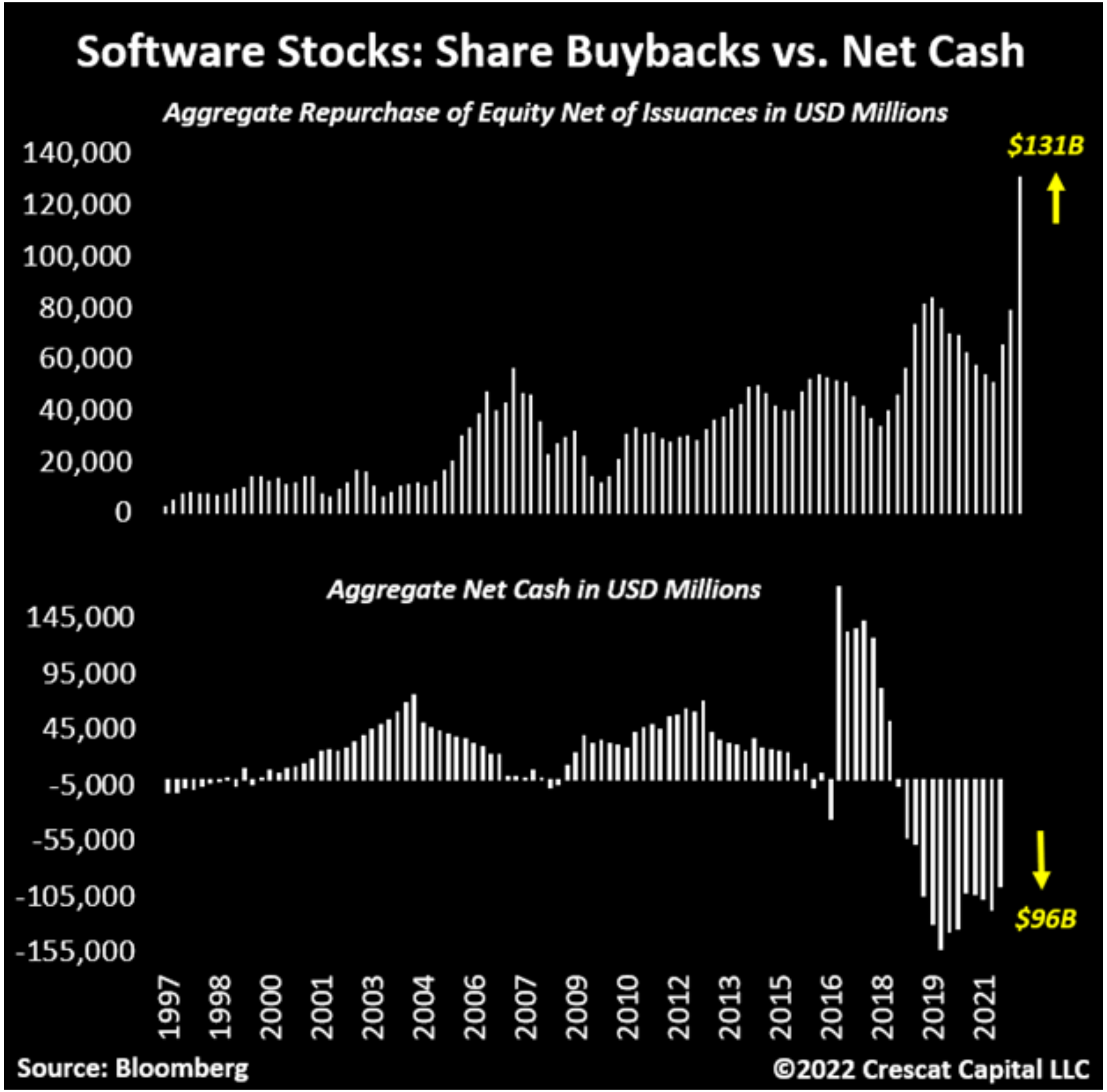


Corporations are significantly more indebted than they were back at the peak of the tech and housing bubble.

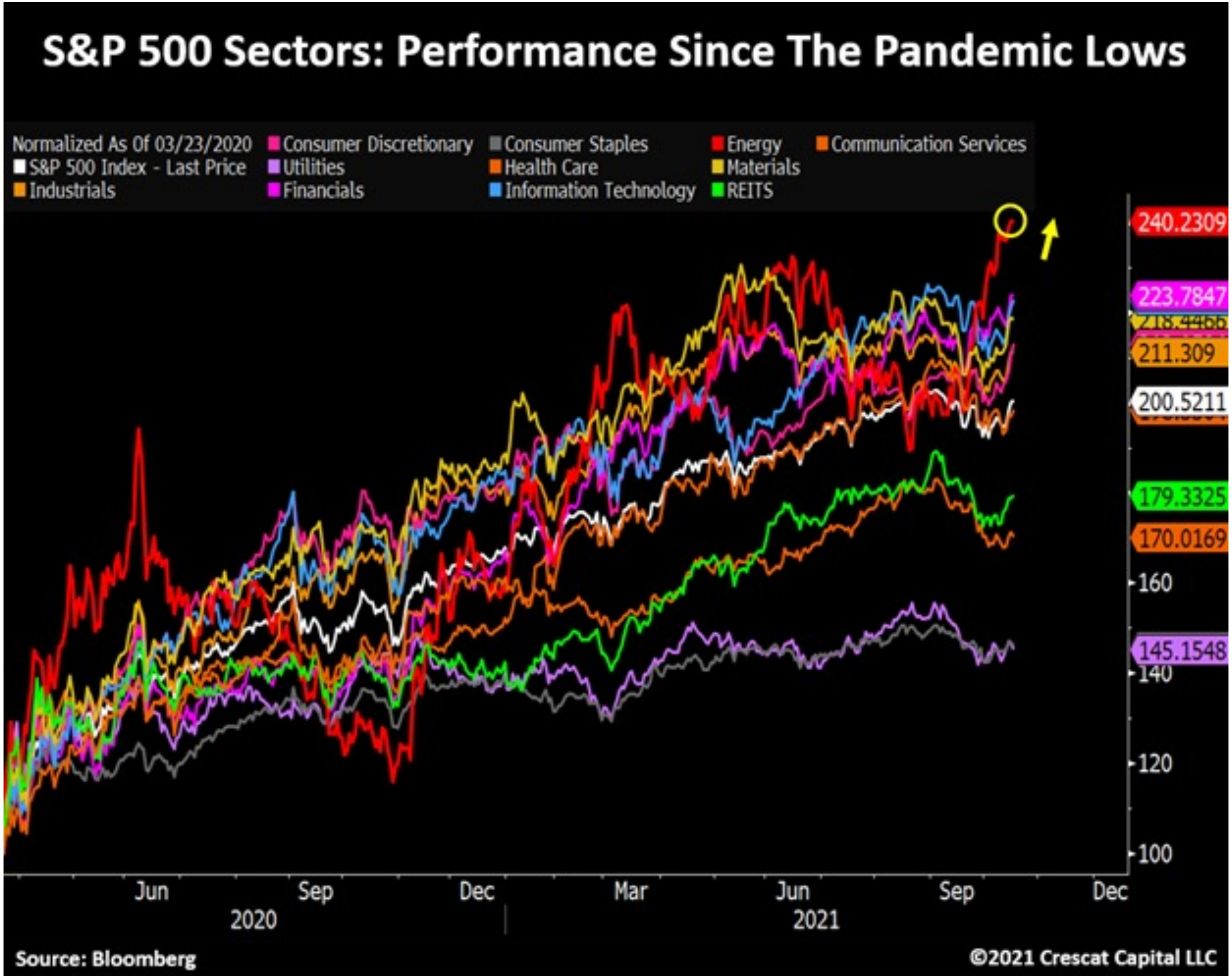
These stocks have now underperformed the S&P 500 index by almost 30% since February 2021. This is an important sign that investors are starting to transition away from hyped and overvalued assets as part of the Great Rotation we have been calling for.



Today we have the largest percentage of non-profitable software stocks in the history of this industry. This proportion is almost twice what it used to be at the peak of the tech bubble. This is a direct reflection of too many likely undifferentiated companies all trying to be disruptors by competing on low price.



It is interesting how software companies just did their largest share buyback in history at these still highly elevated valuations and their stocks continue to selloff. As shown in the second panel of this chart, overall the industry increased debt to help finance equity repurchase programs.



Oil and gas companies had the strongest returns since the pandemic lows and are almost 20 percentage points ahead of information technology and financials.

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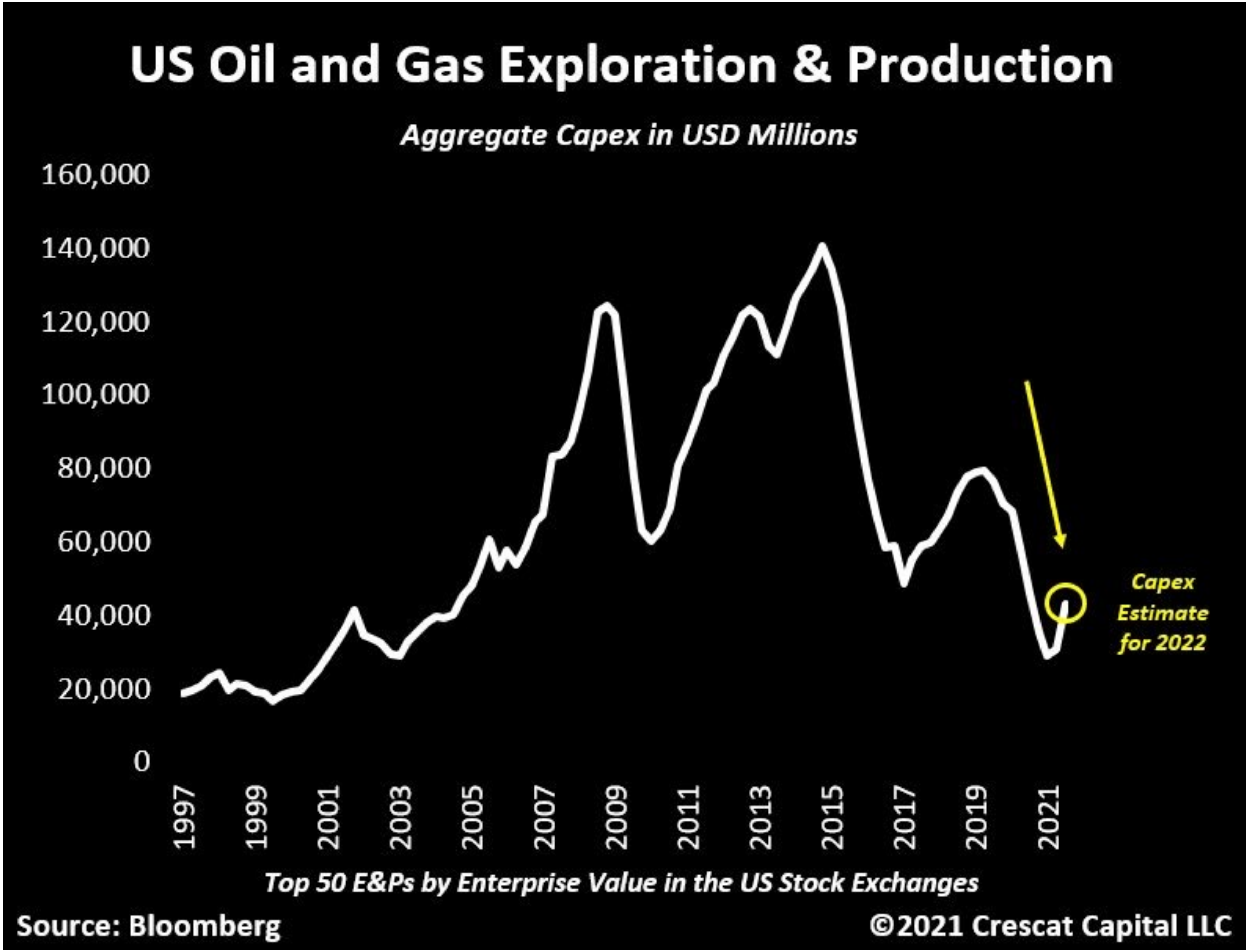
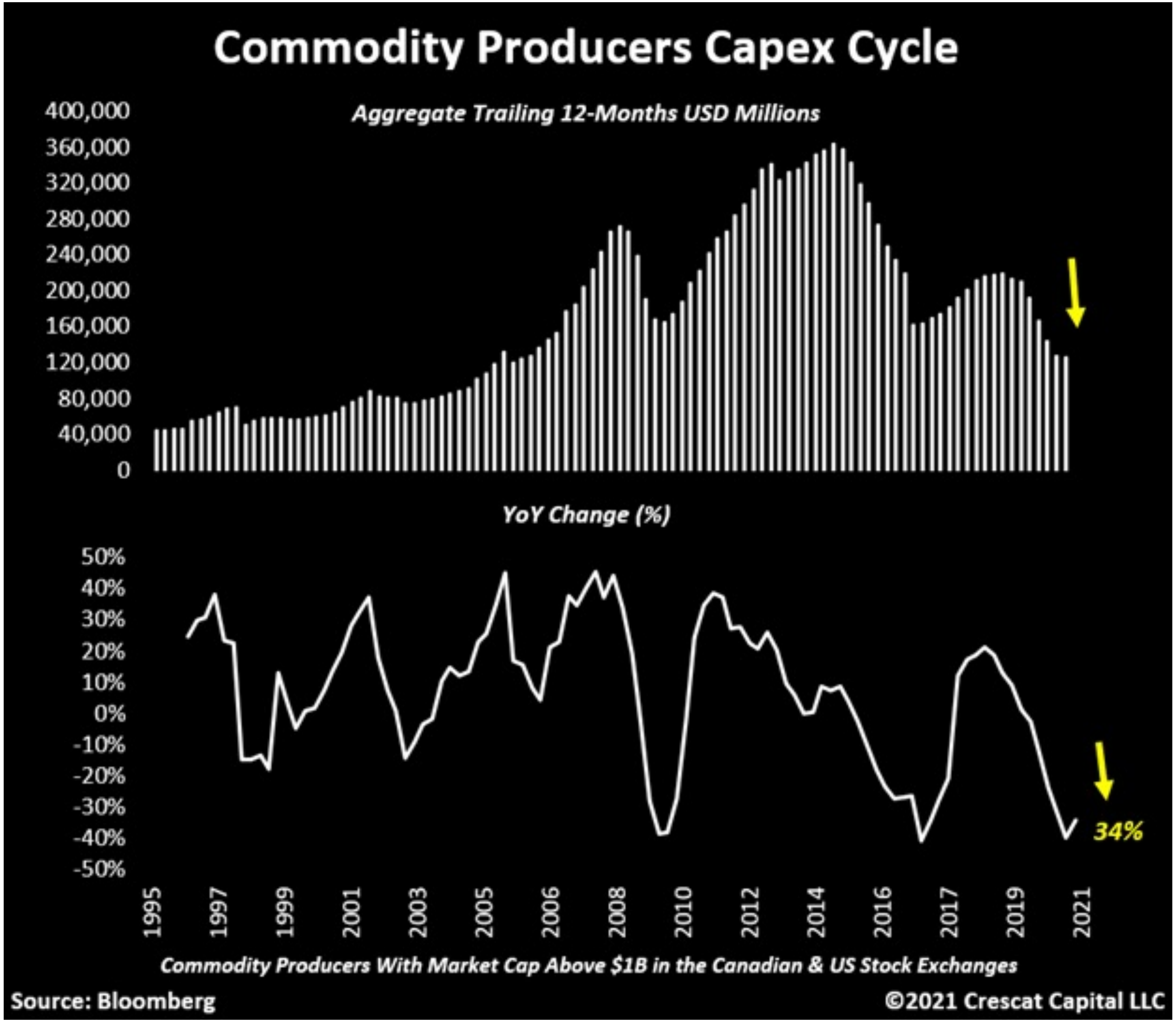
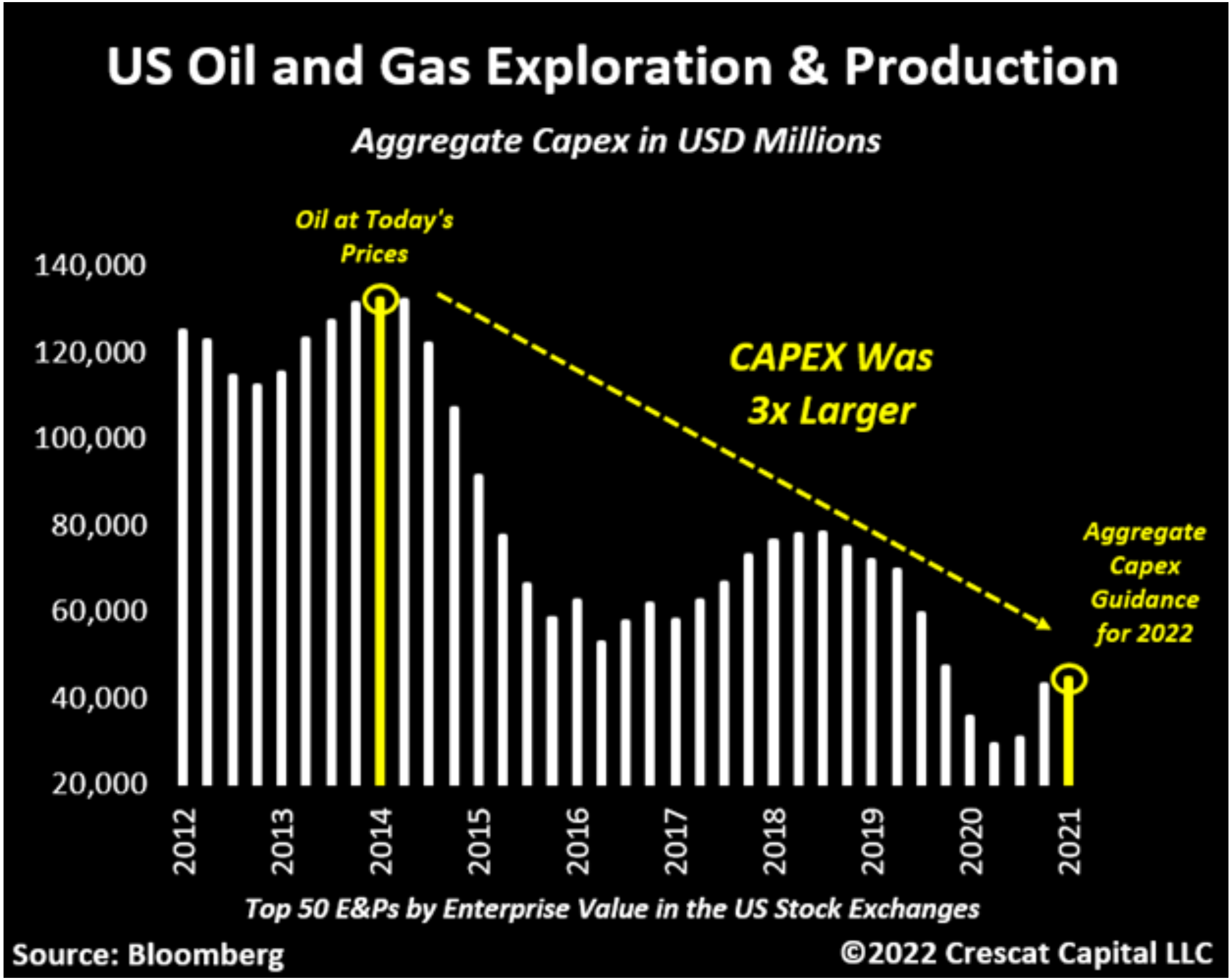
ENERGY TRANSITION



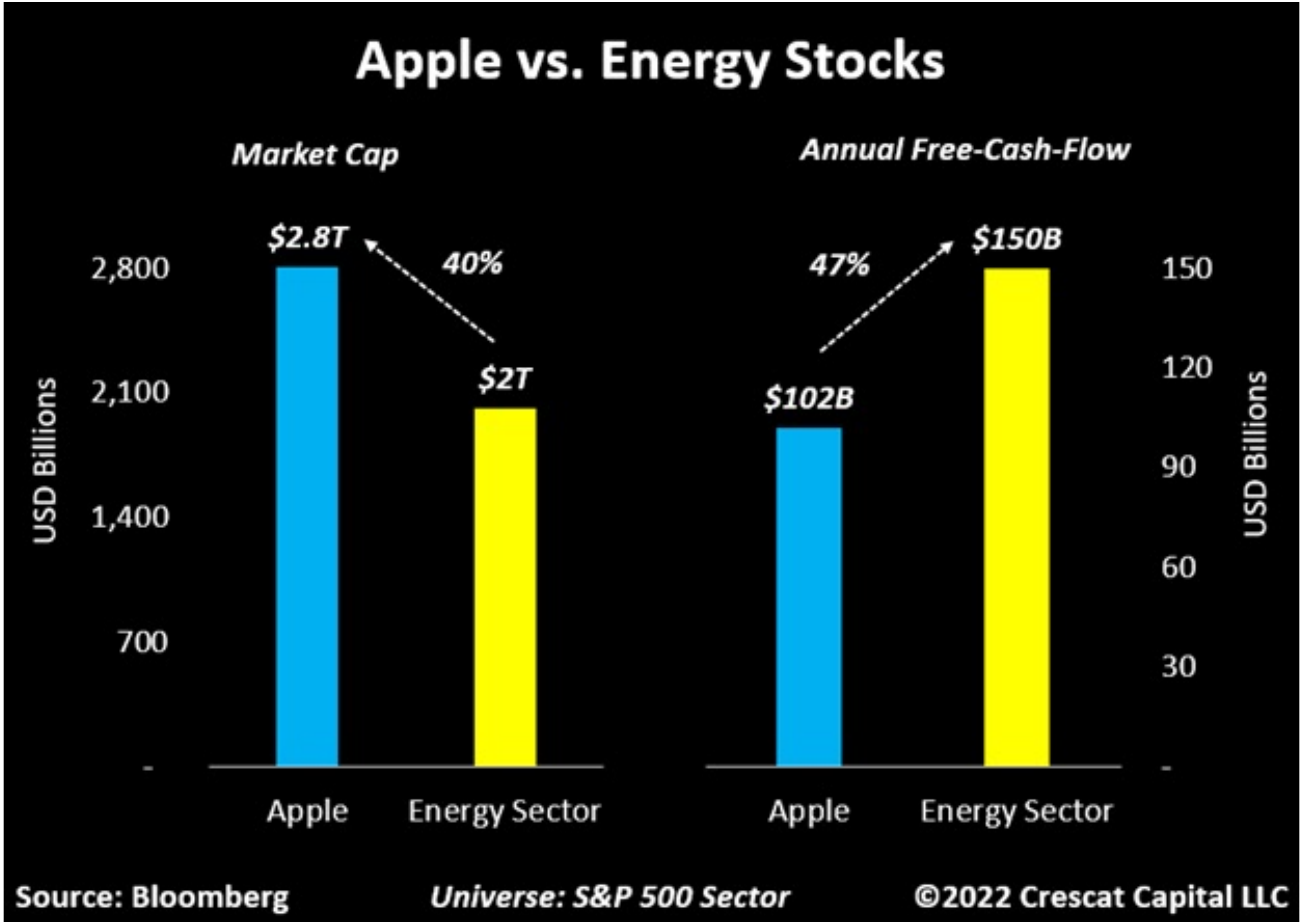
What's intriguing about oil markets today: Regardless of how energy commodities are surging, the Capex estimate for E&Ps still is near all-time lows. This is not an indication of a market at its peak.



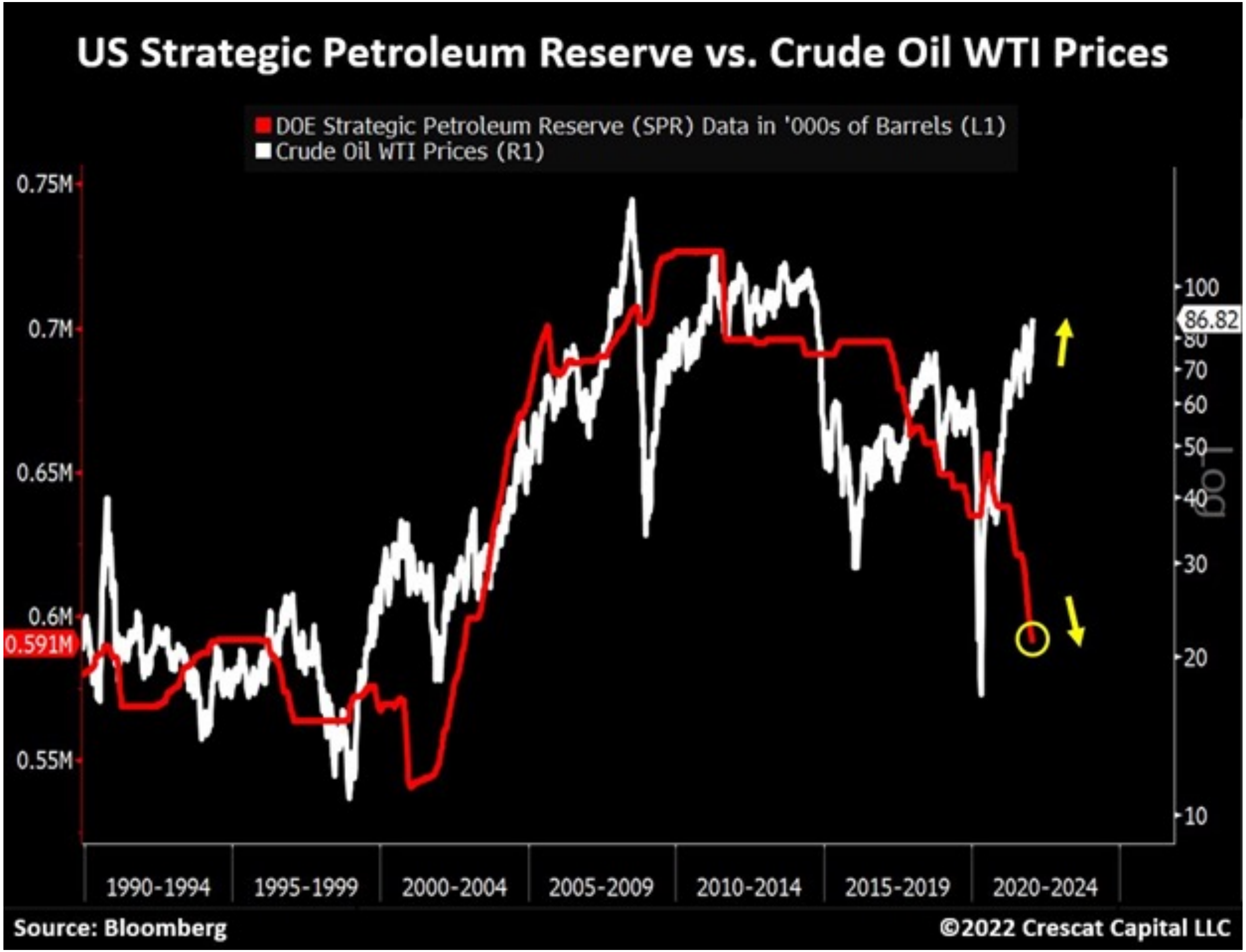
Note on the chart that even though commodity prices have been surging, producers' capex is now declining by 34% on a year-over-year basis.



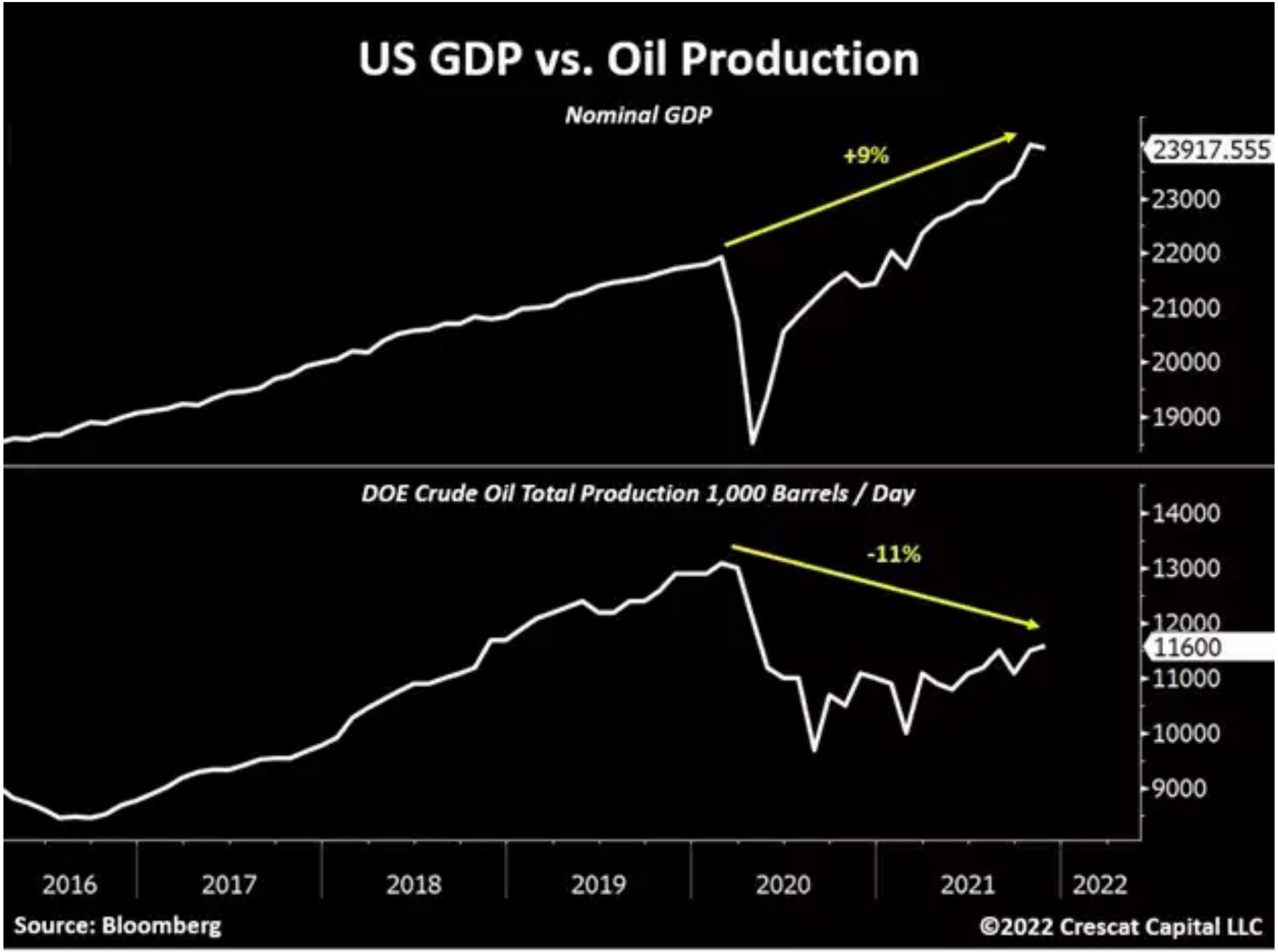
Last time oil prices were at today's prices, aggregate CAPEX for exploration and production companies was three times larger.



Today, for instance, Apple's market cap is 40% larger than the entire energy sector. While most people justify this disparity due to fundamental differences, it is important to note that energy stocks generate almost 50% more in annual free-cash-flow than Apple.

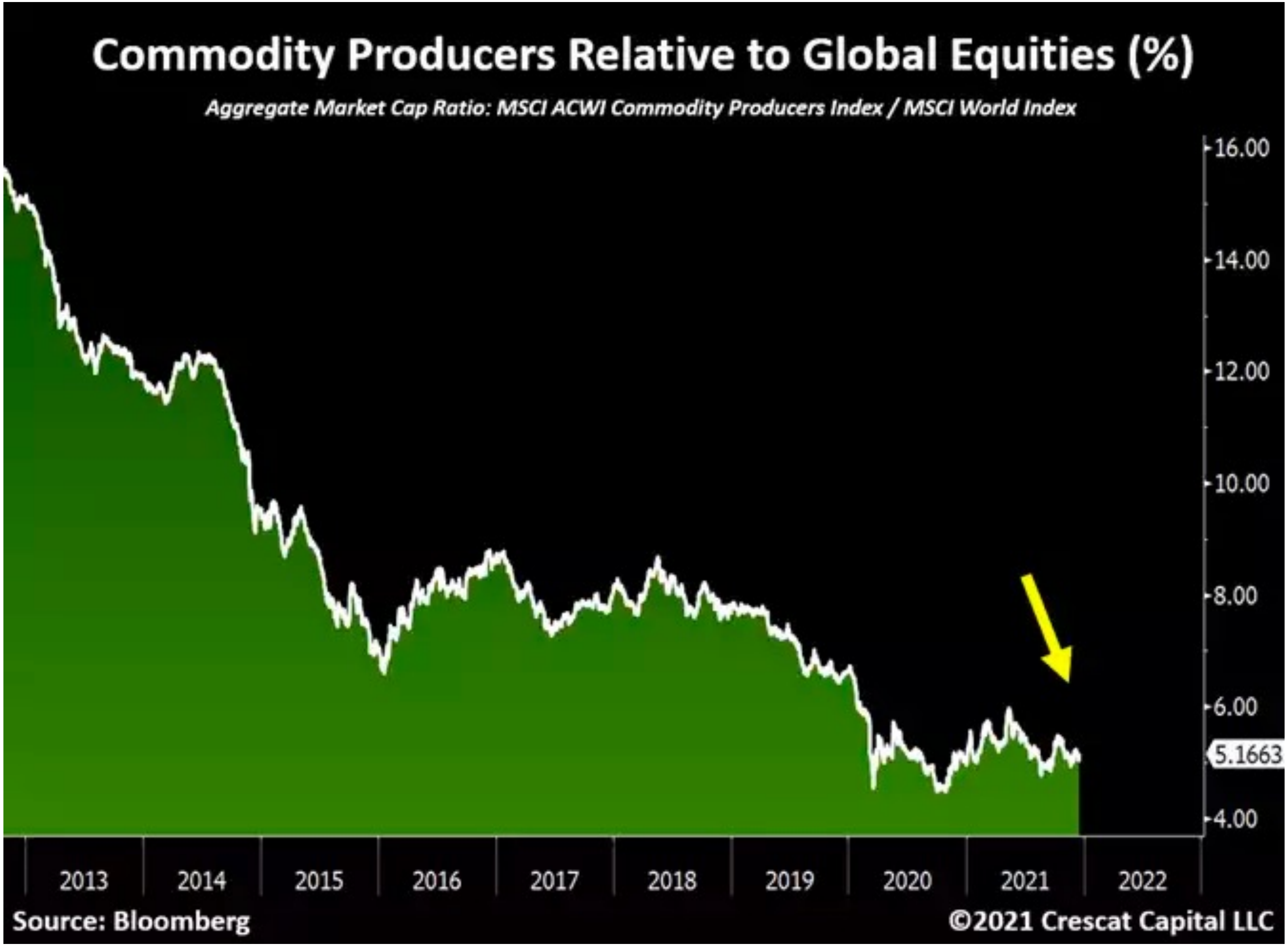


Oil is now at its highest price in seven years while SPR is at its lowest level in almost 20 years illustrating that there is little true “strategic” planning at all going in our government regarding our country’s energy supply and demand. update

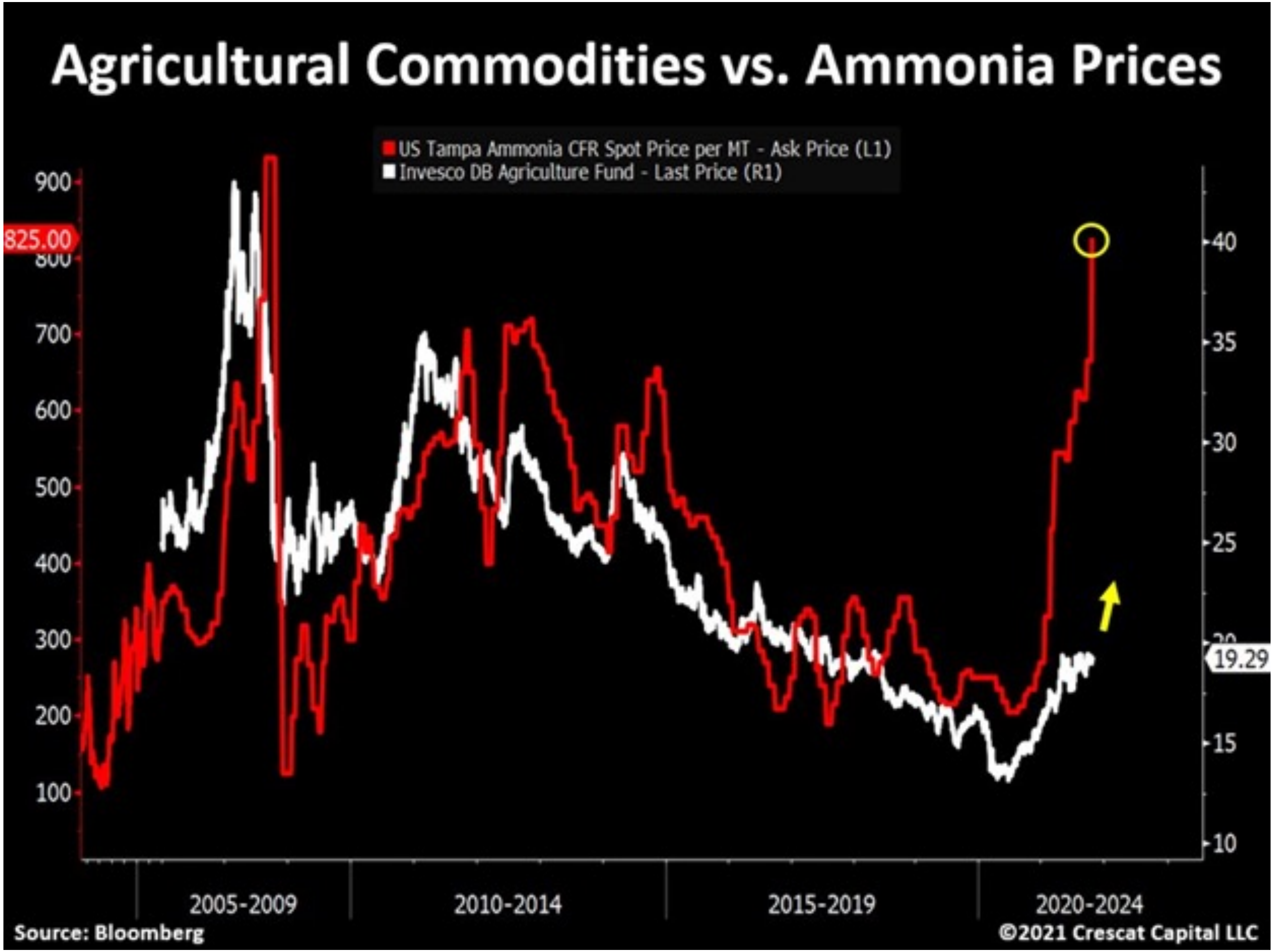


Since the end of Q1 of 2021, natural gas and oil are up 85 and 55% each. In addition, we are yet to see the increase of owner's equivalent rent in CPI after the largest house prices' increase in 30 years. That doesn't look like peak inflation to us.

RESOURCE UNDERINVESTMENT

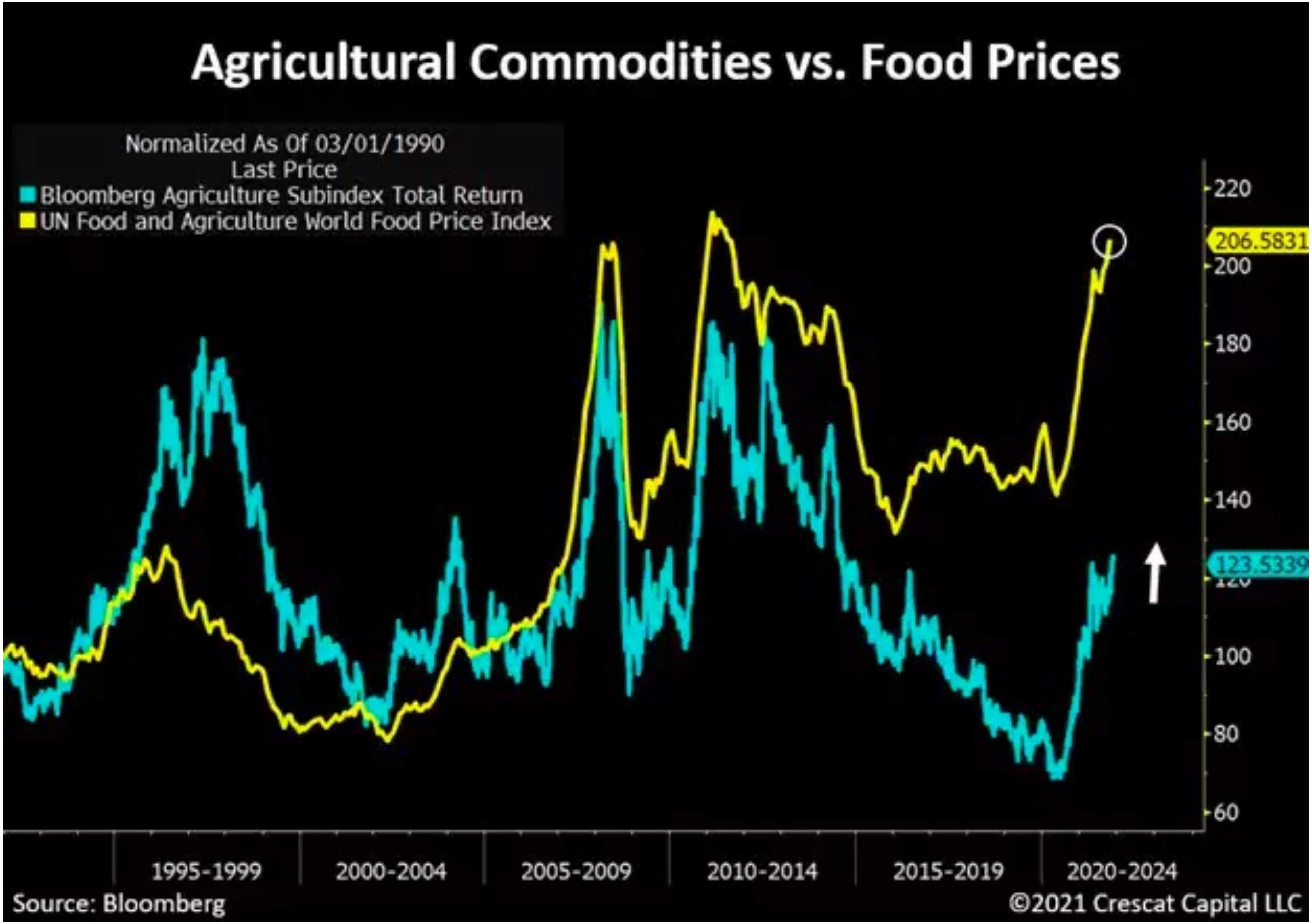


For every dollar that has been invested in the global equity markets today just about five cents of it are flowing into commodity producers.

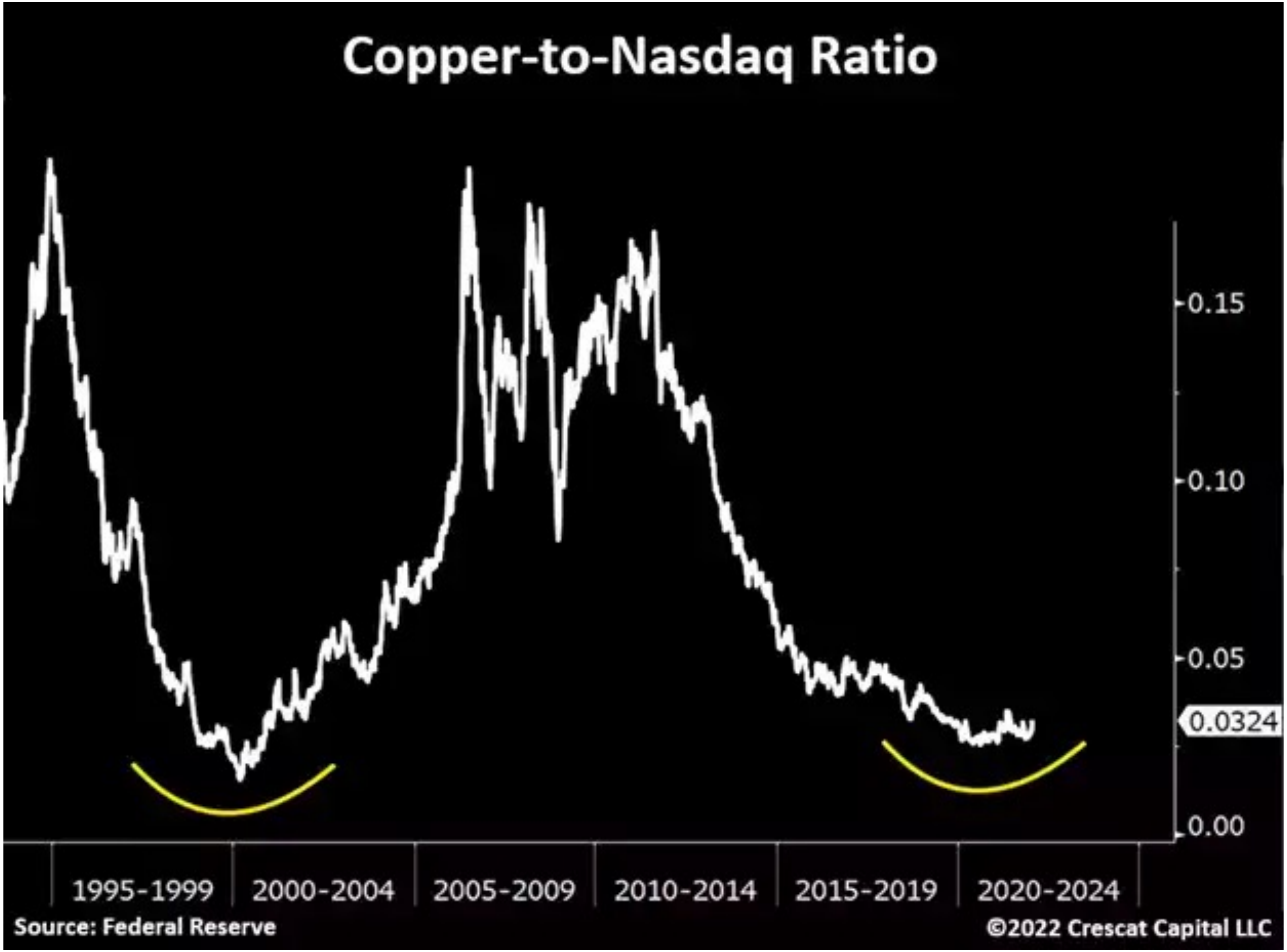


If we look at ammonia prices, a key ingredient in fertilizer, agricultural commodities are a whole new set of commodities likely to be spiking next, potentially creating food shortages.

Agricultural commodity prices are being propelled higher by soaring global fertilizer prices that in turn have followed a surge in its key feedstock, natural gas.



The DBA ETF, which tracks soft commodity prices, still is about 35% from their prior highs. We believe there is still a lot of potential for food prices to rise from here and it will likely become the next chapter of the inflation narrative.



We would much rather own copper than Nasdaq, an undervalued, supply-constrained clean energy metal vs. a historically expensive index. The nice-looking double bottom formation in the Copper-to-Nasdaq ratio is just the cherry on top.

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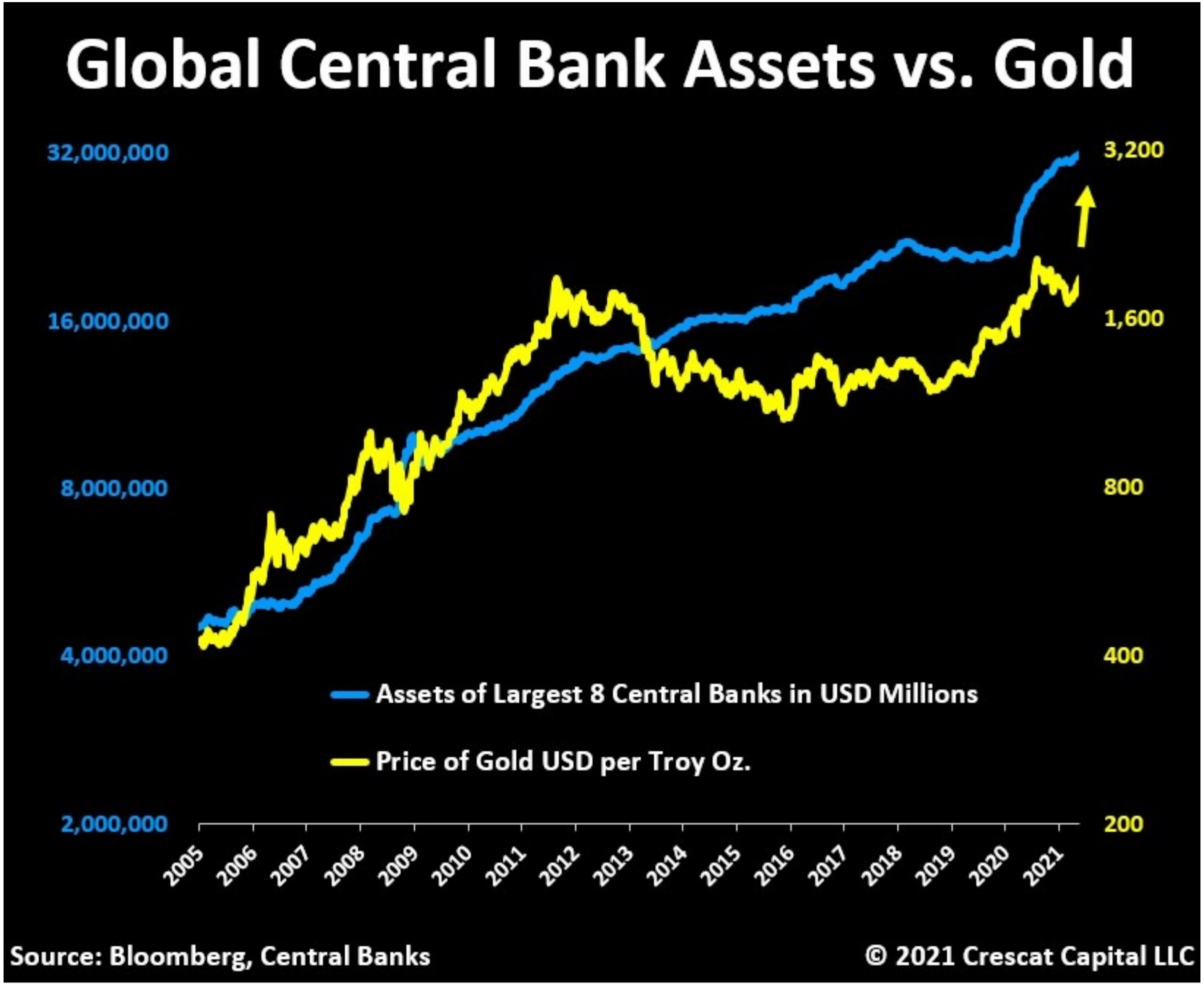
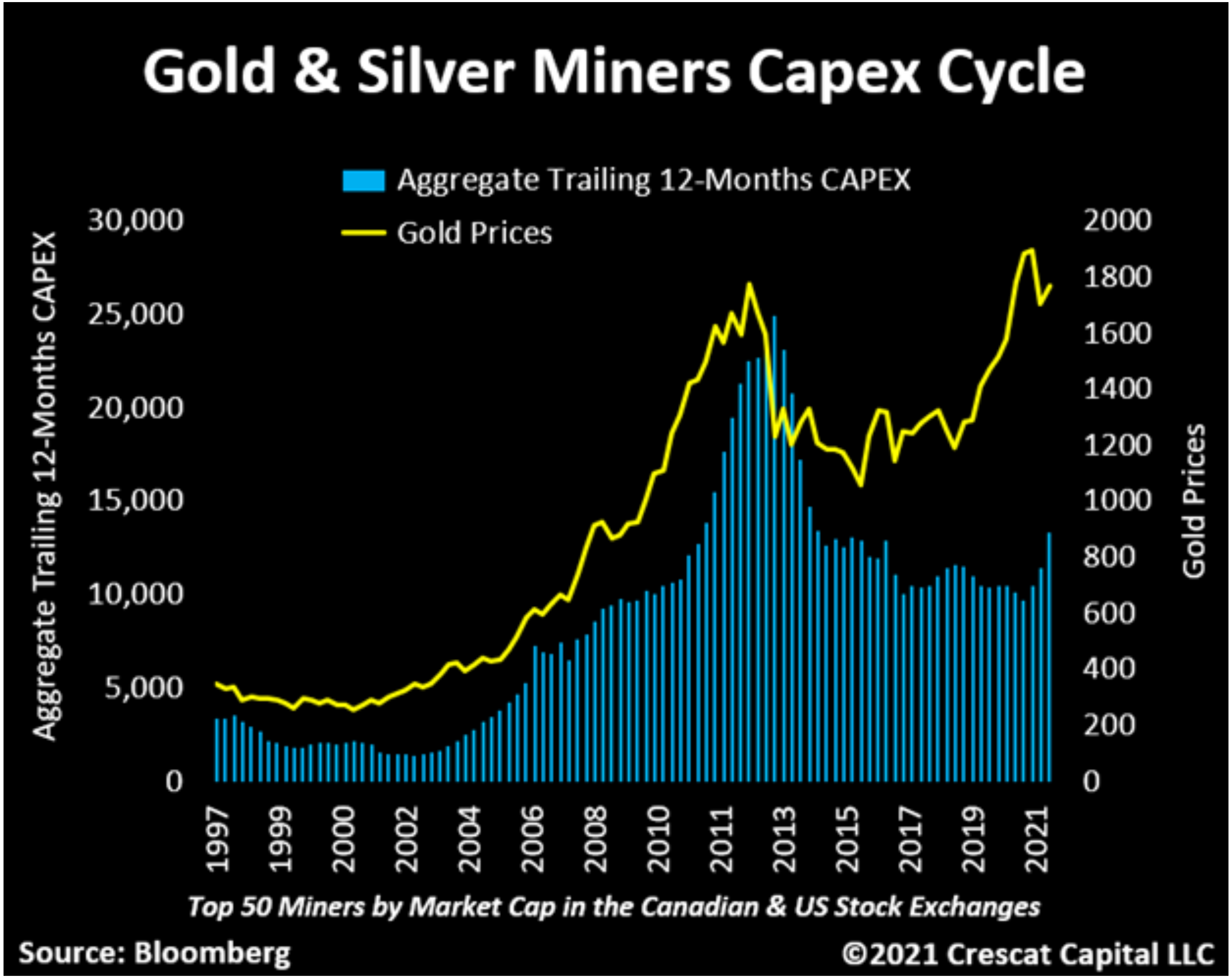
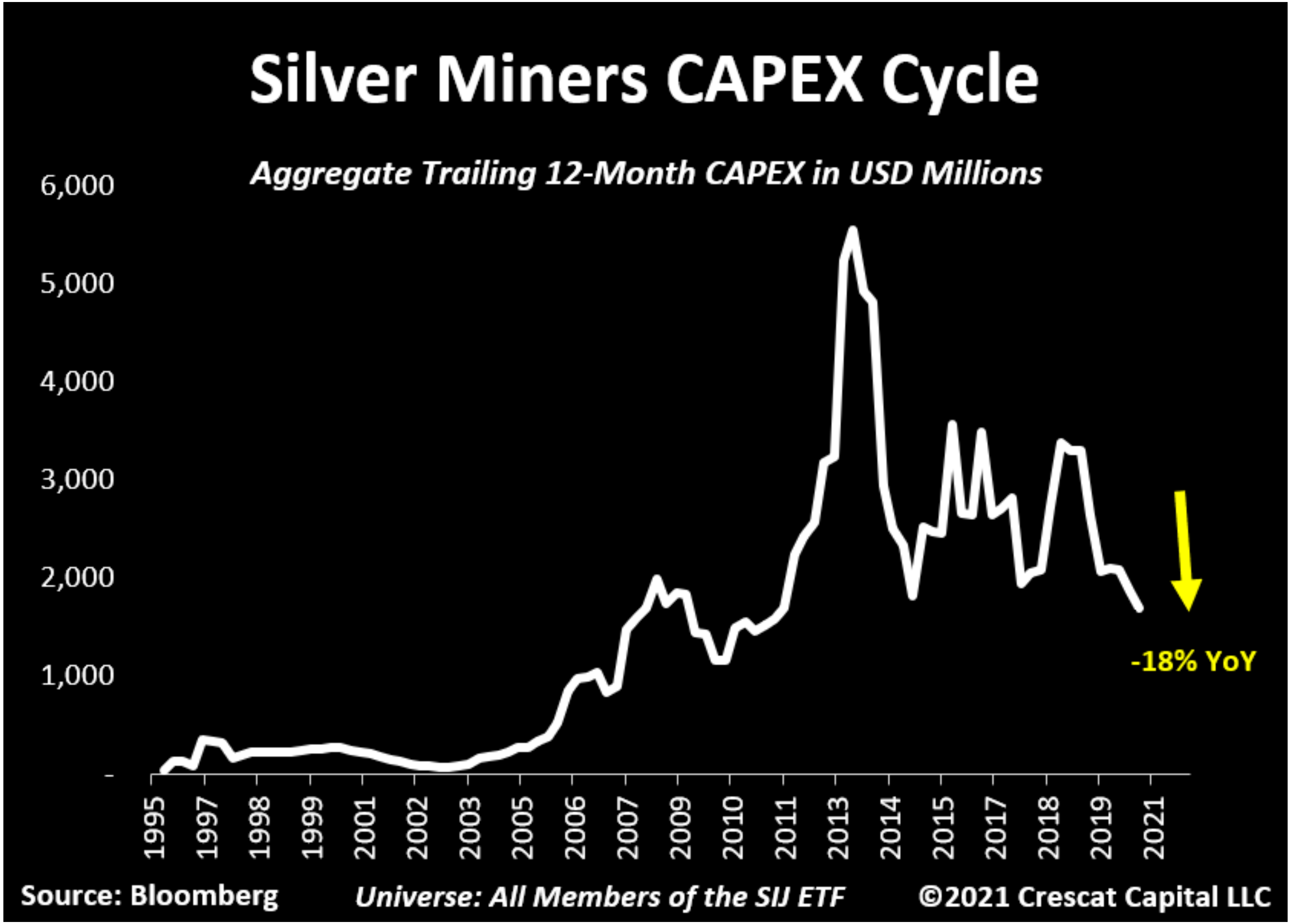
GLOBAL FIAT CURRENCY DEBASEMENT



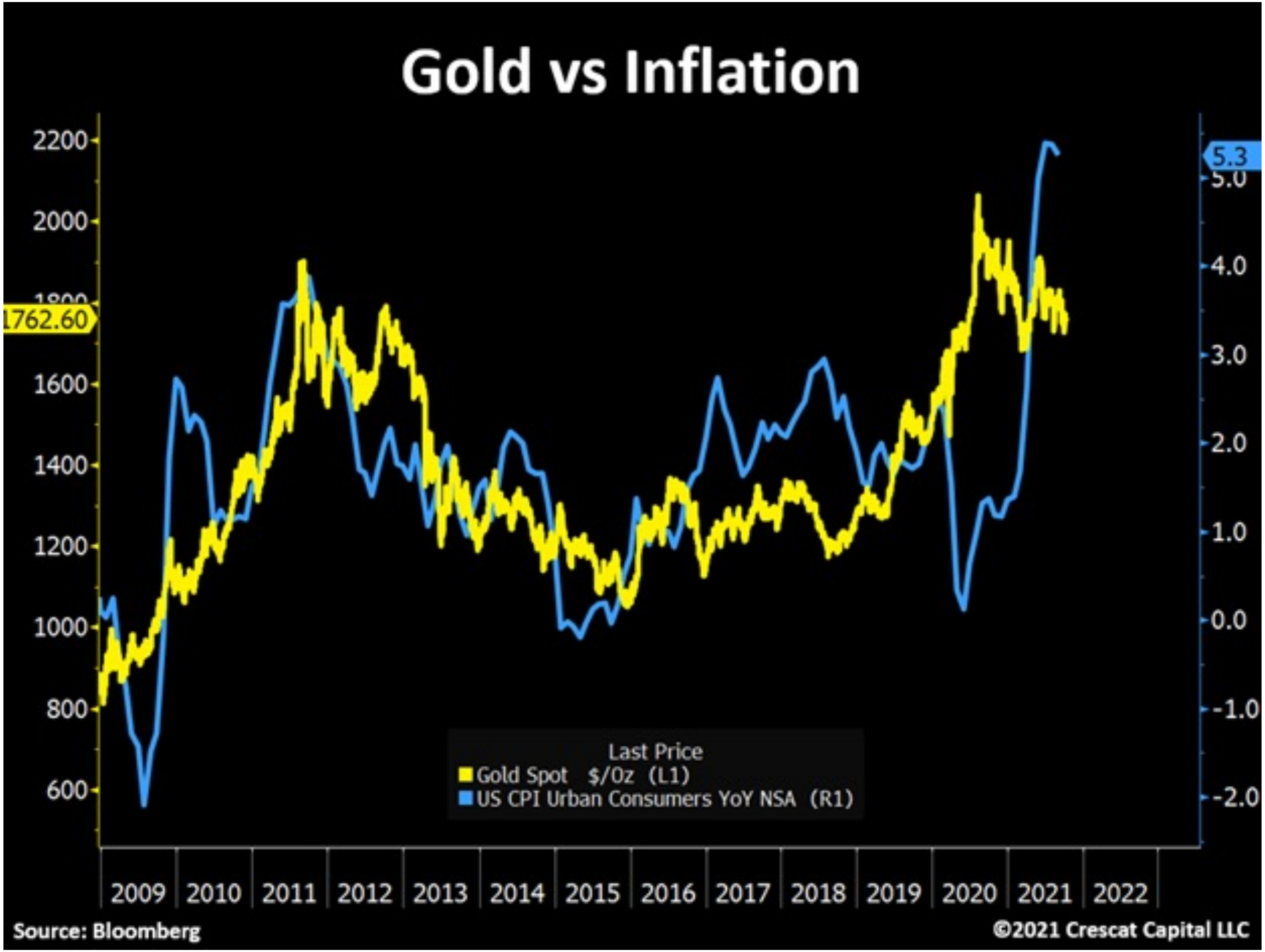
Money printing only supports financial asset bubbles for so long. Ultimately, QE drives flows out of overvalued stocks and credit and into undervalued precious metals.



Miners have been reluctant to spend capital even though gold prices have been moving higher. Thus, supply is constrained, an incredibly bullish fundamental backdrop for gold and silver.

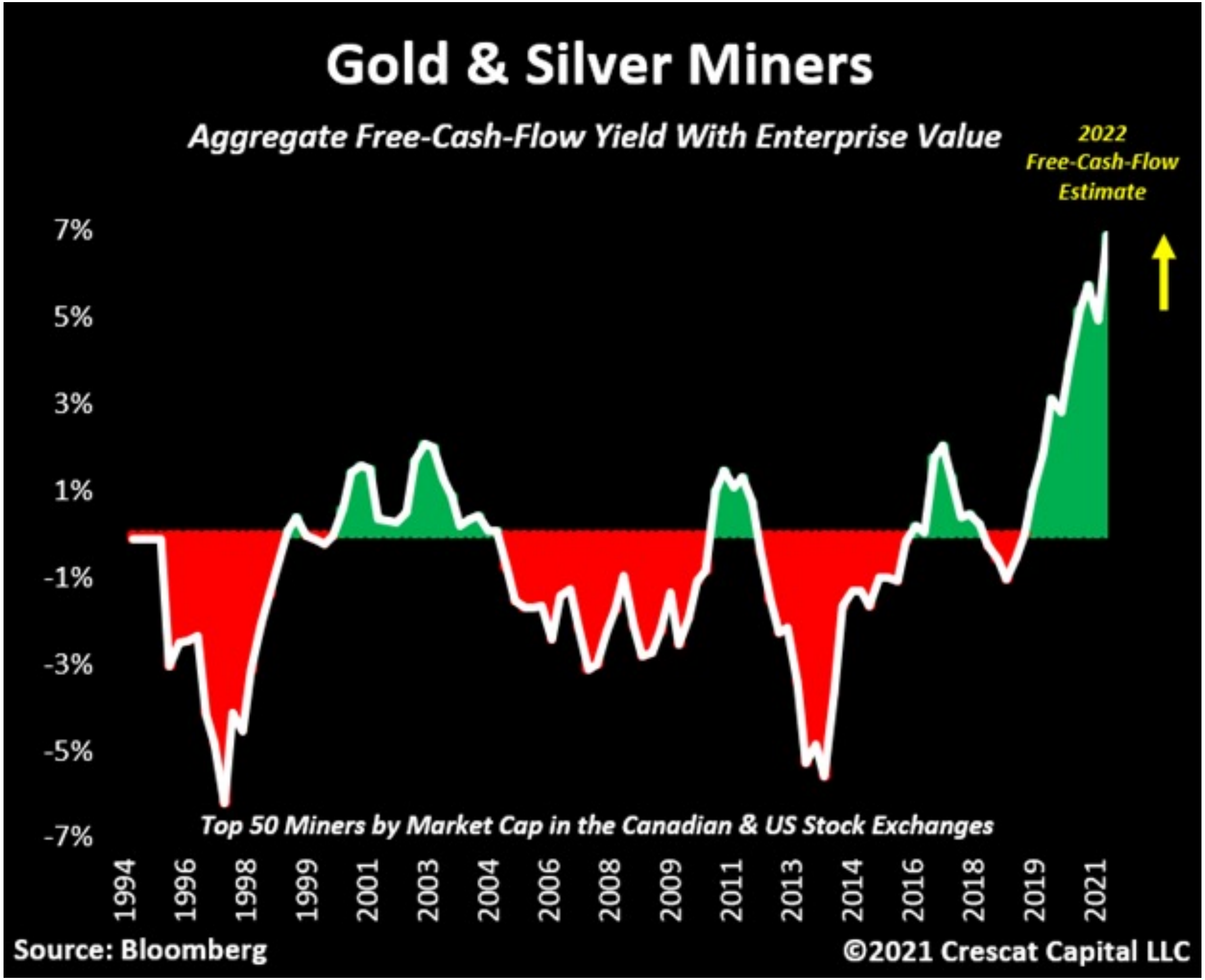


Silver miners CAPEX is at a decade low while, in the last 12 months, $25T of newly issued debt worldwide, $9T of monetary stimulus by central banks, and $18T of negative yielding bonds.

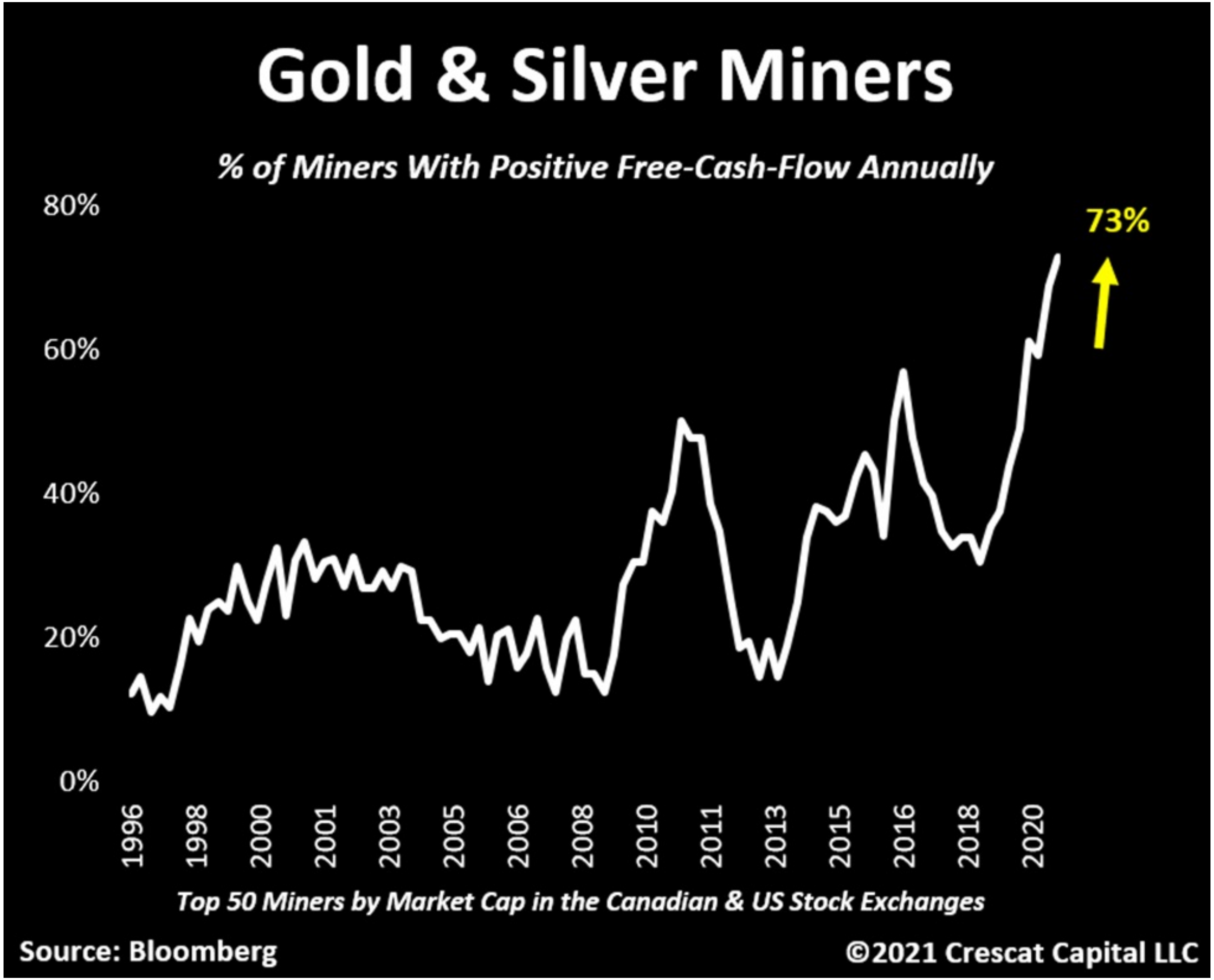


We should all know by now that the true cost of goods and services is growing at a drastically faster pace than CPI.

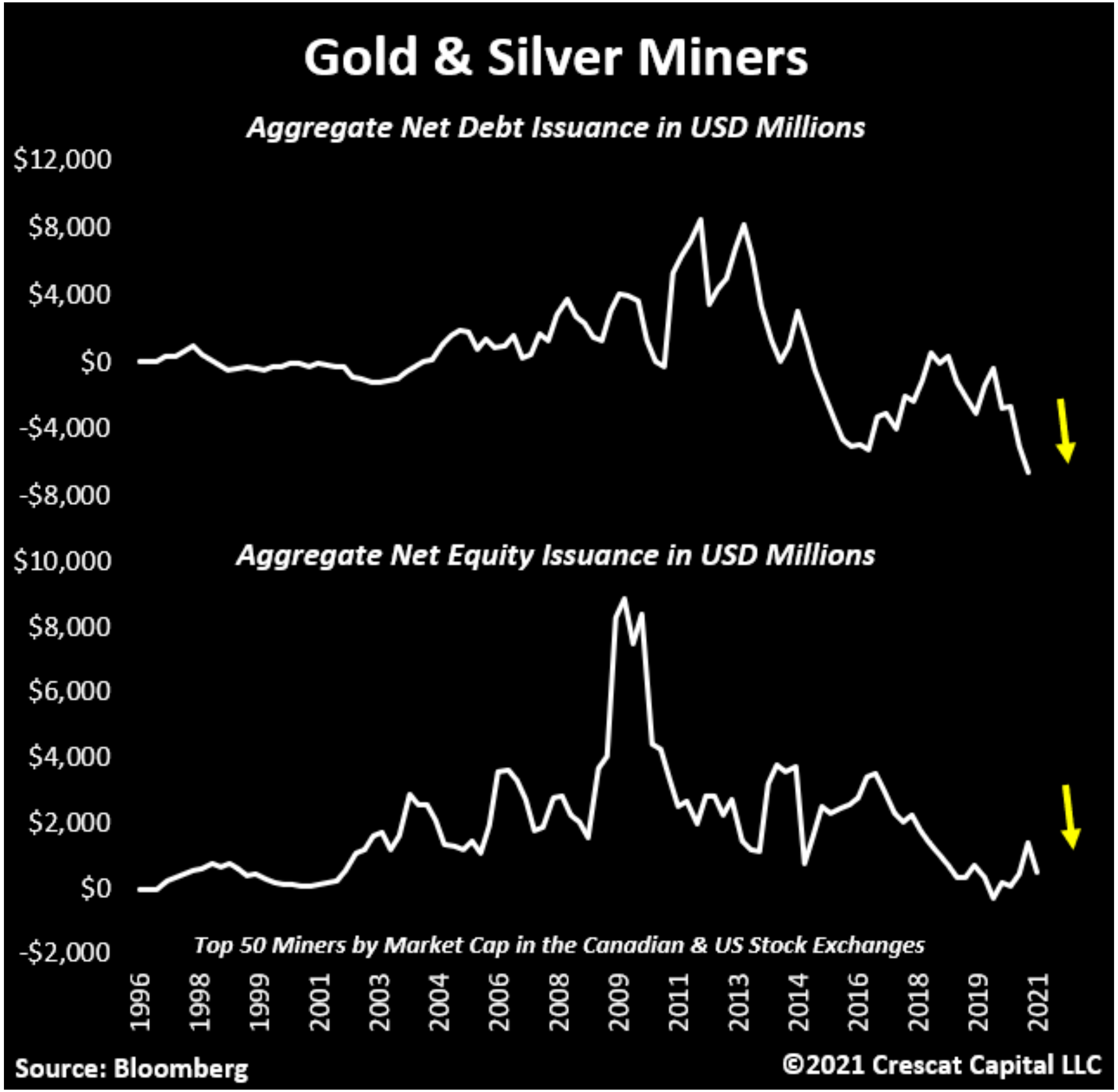
In July 2020, gold broke out to record levels and kept moving higher for another two weeks. The price is now 14% lower, and the entire financial media already claims that gold is dead.



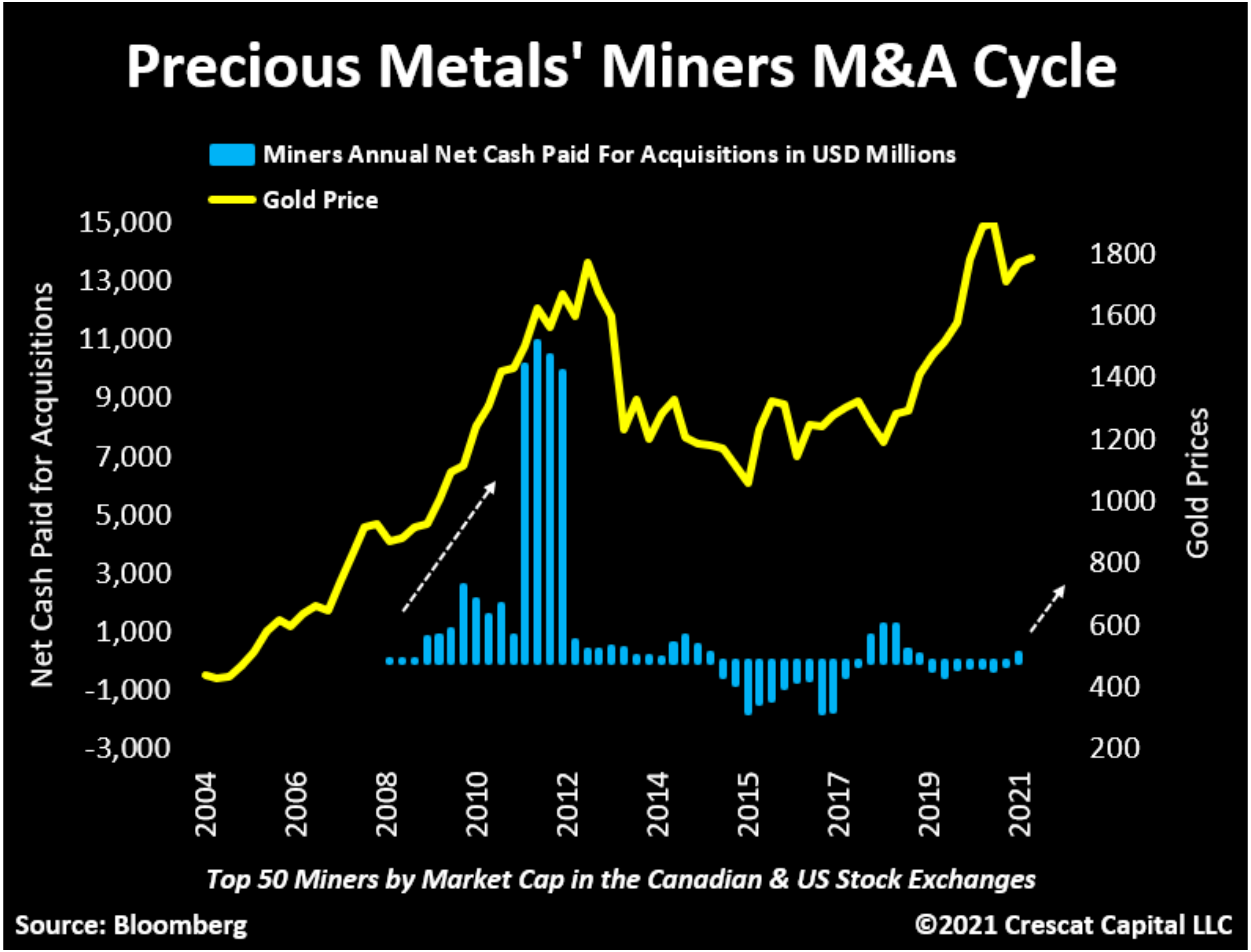
Note that in aggregate terms, the same basket of companies also trades at its highest free-cash-flow yield in history.



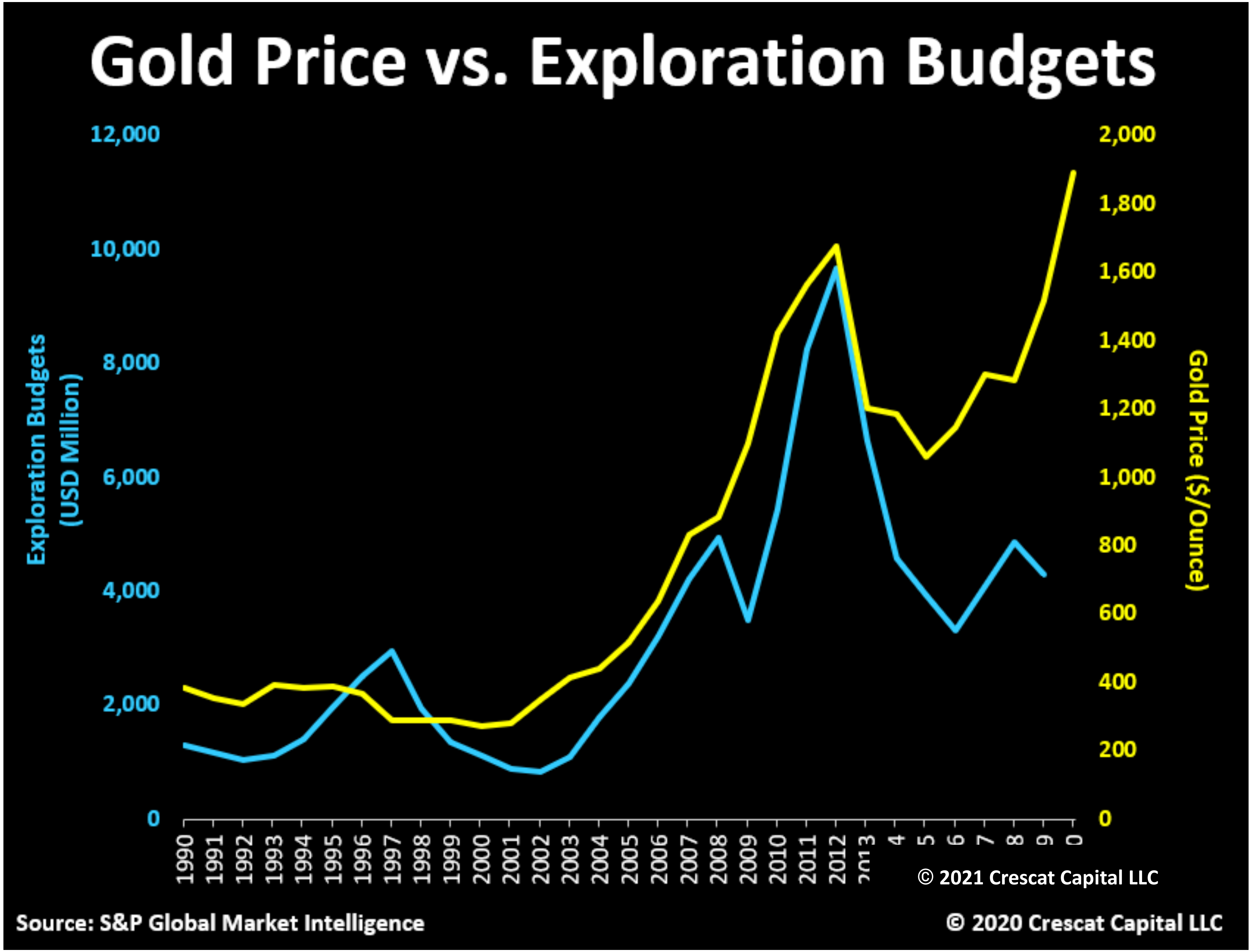
Believe it or not, today, 73% of the top 50 gold and silver miners are profitable on a free cash flow basis. That is the highest level we have ever seen.



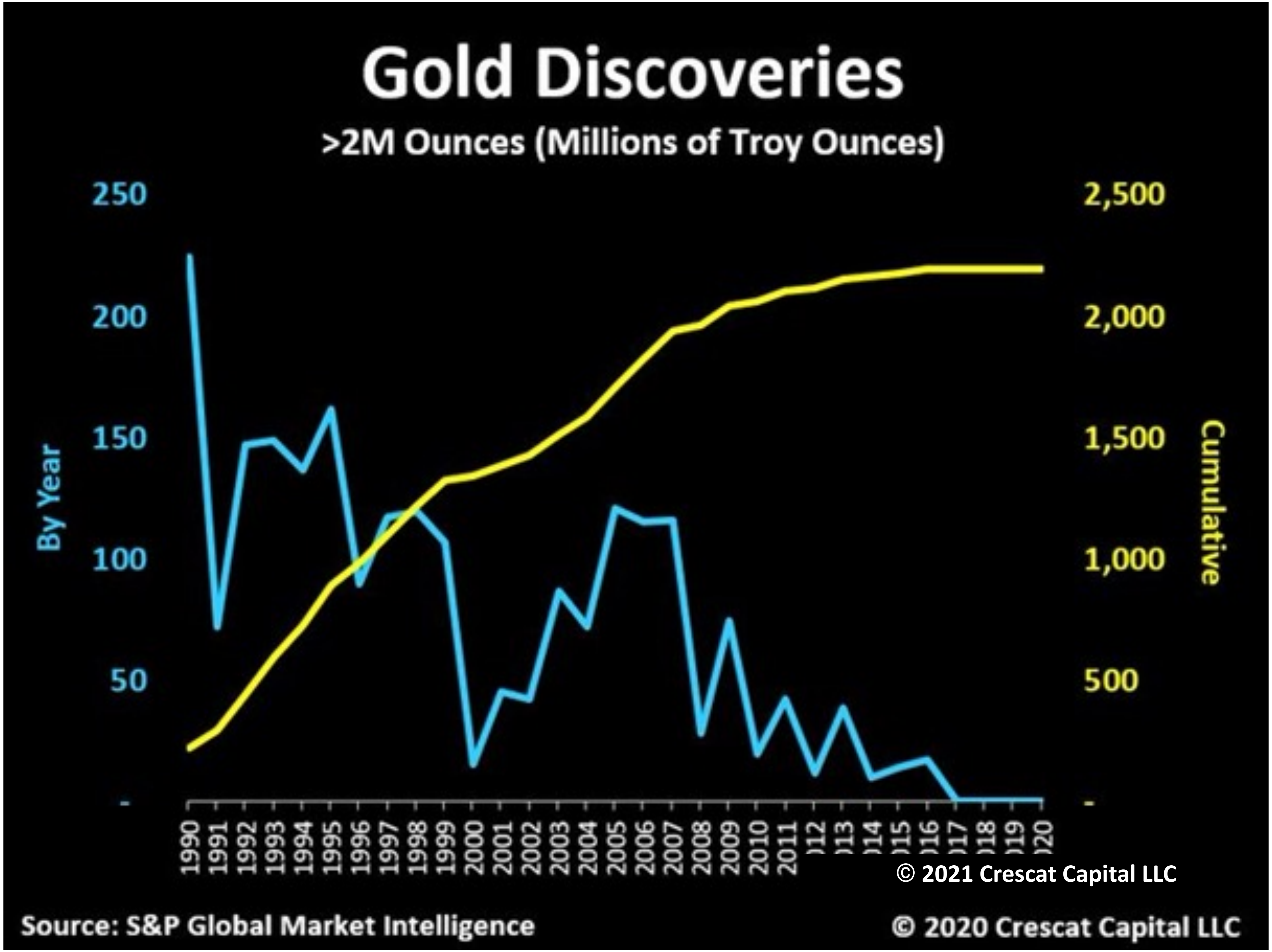
Gold and silver miners just repaid the largest amount of debt in the last 25 years.



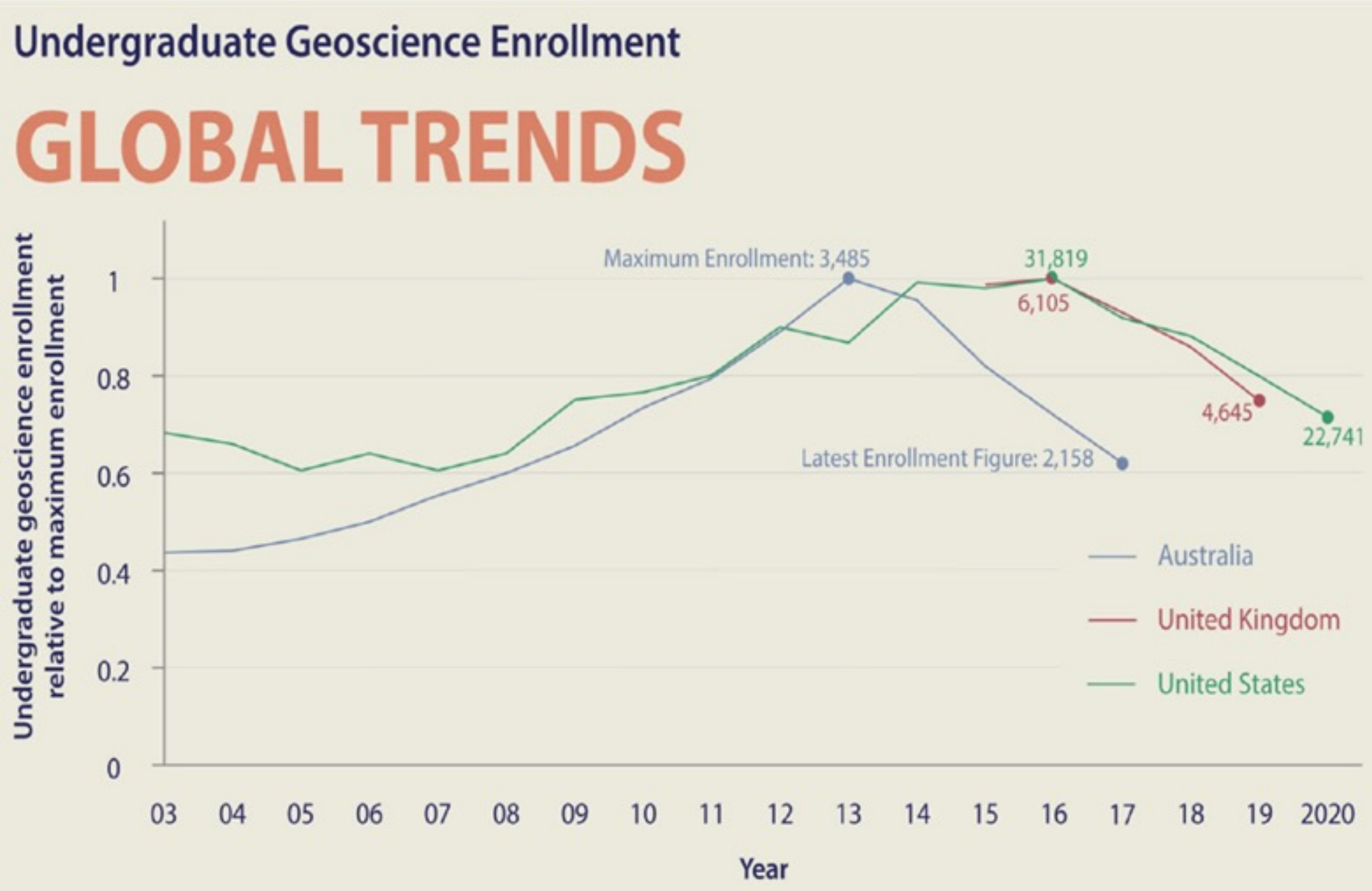
Remember, mining companies tend to overpay for deals at the peak of the cycle. We are barely seeing any deals being done today.



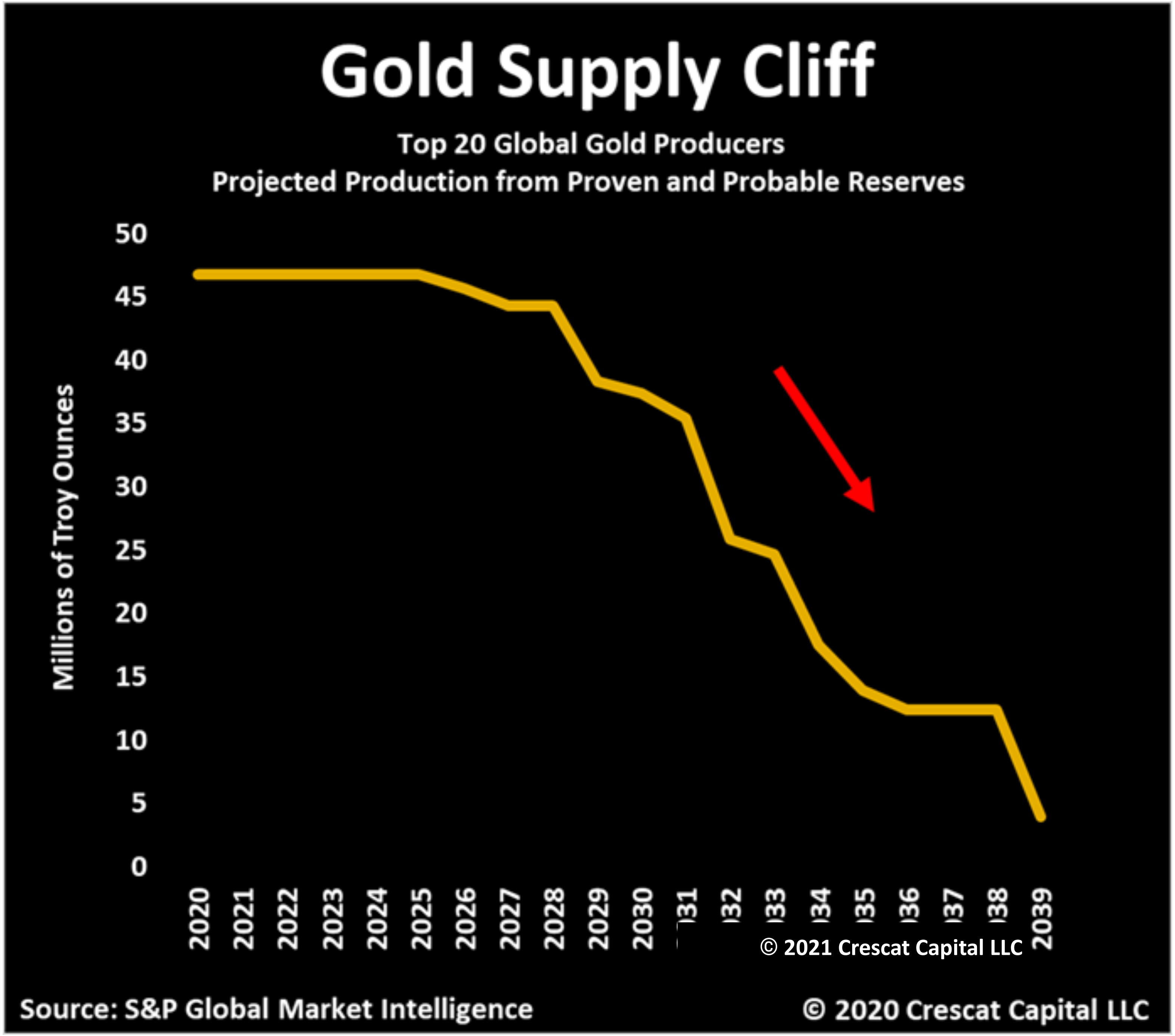
The gold mining industry has underinvested in exploration for the last decade.



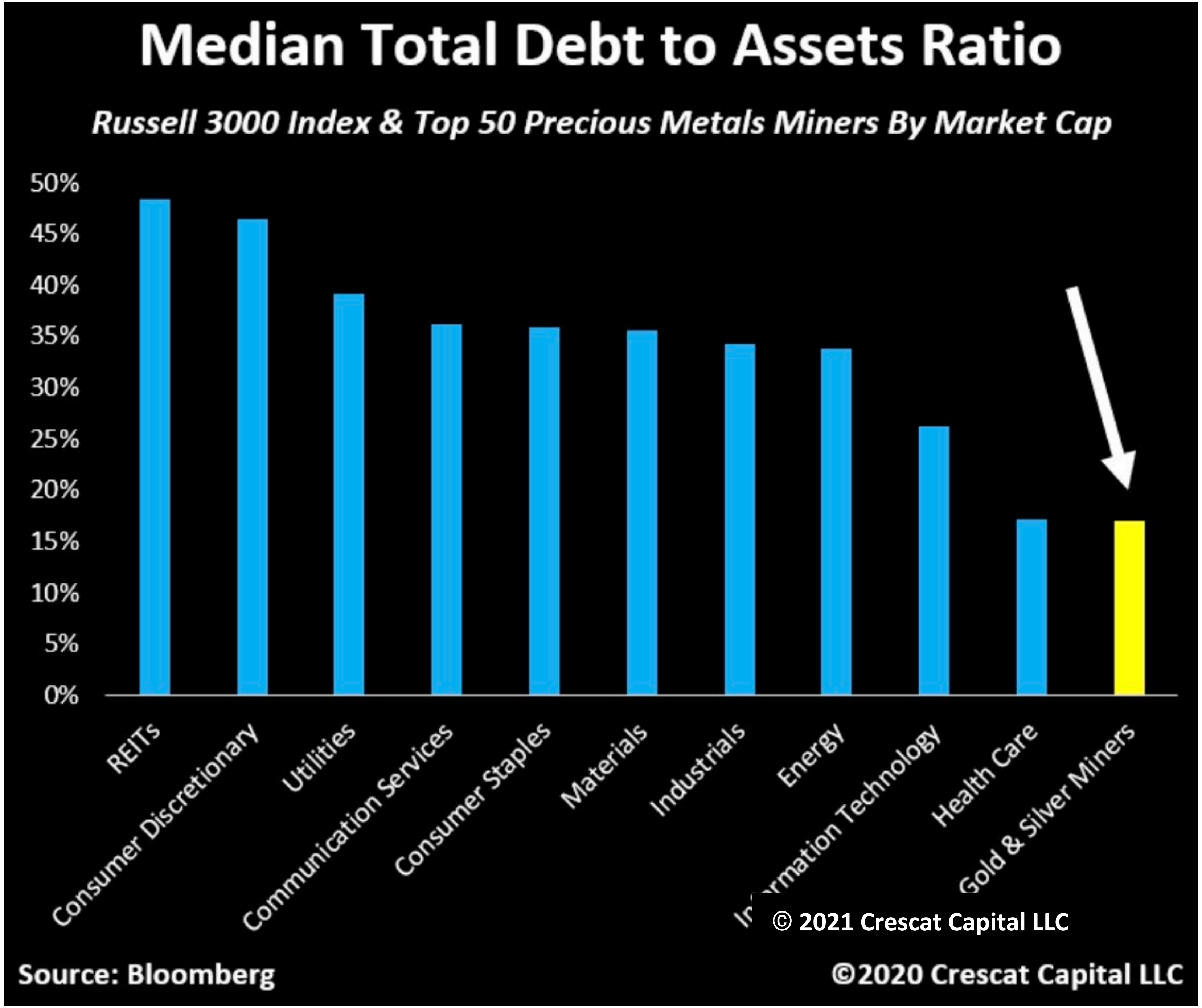
Because of a decade of exploration underinvestment, there have been no major new gold discoveries in the last four years.



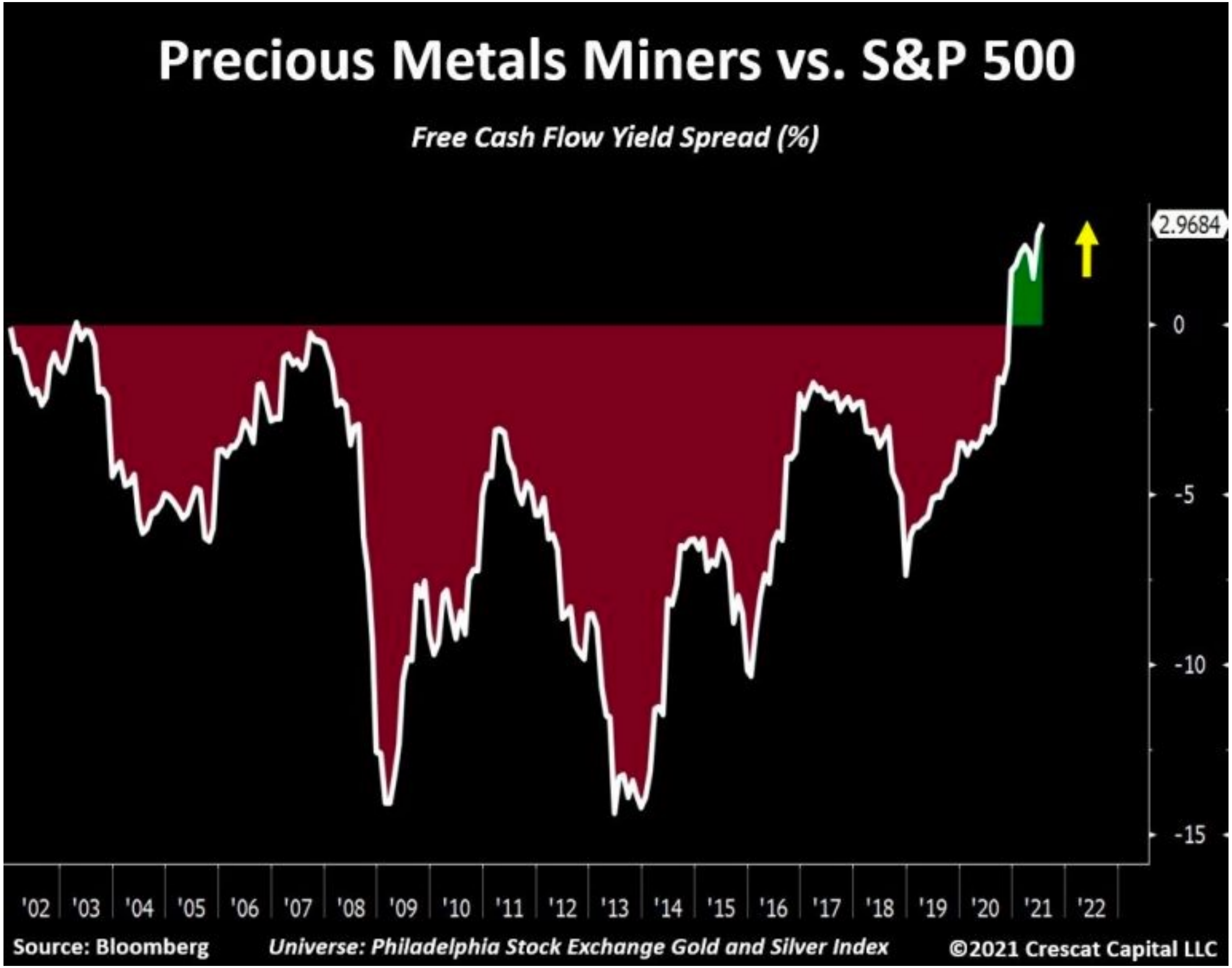
A decade of declining college enrollment in geosciences worldwide is one of the long-term structural imbalances affecting the oil and gas and mining industries.



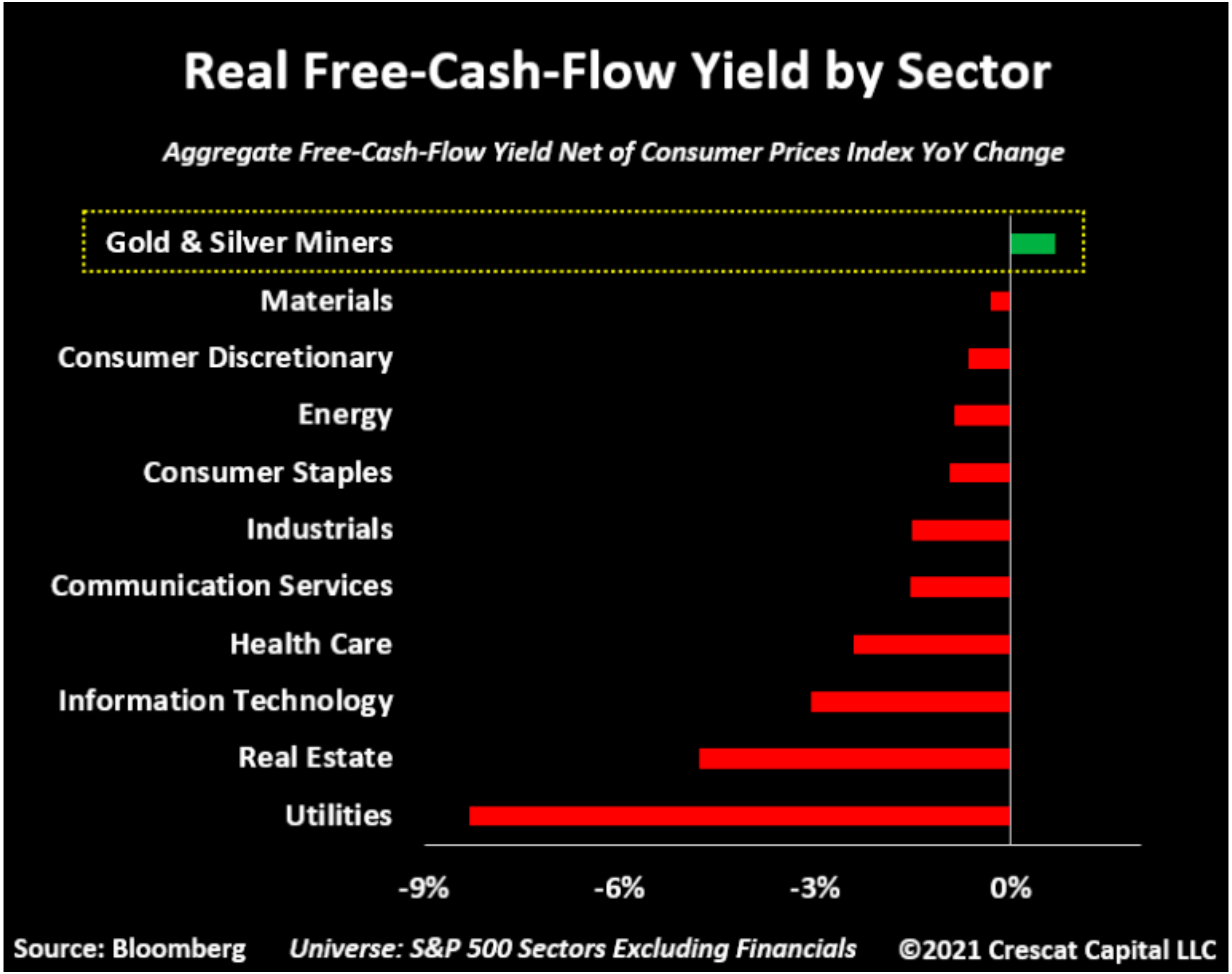
The majors have not been replacing their reserves. The industry is facing a supply cliff.



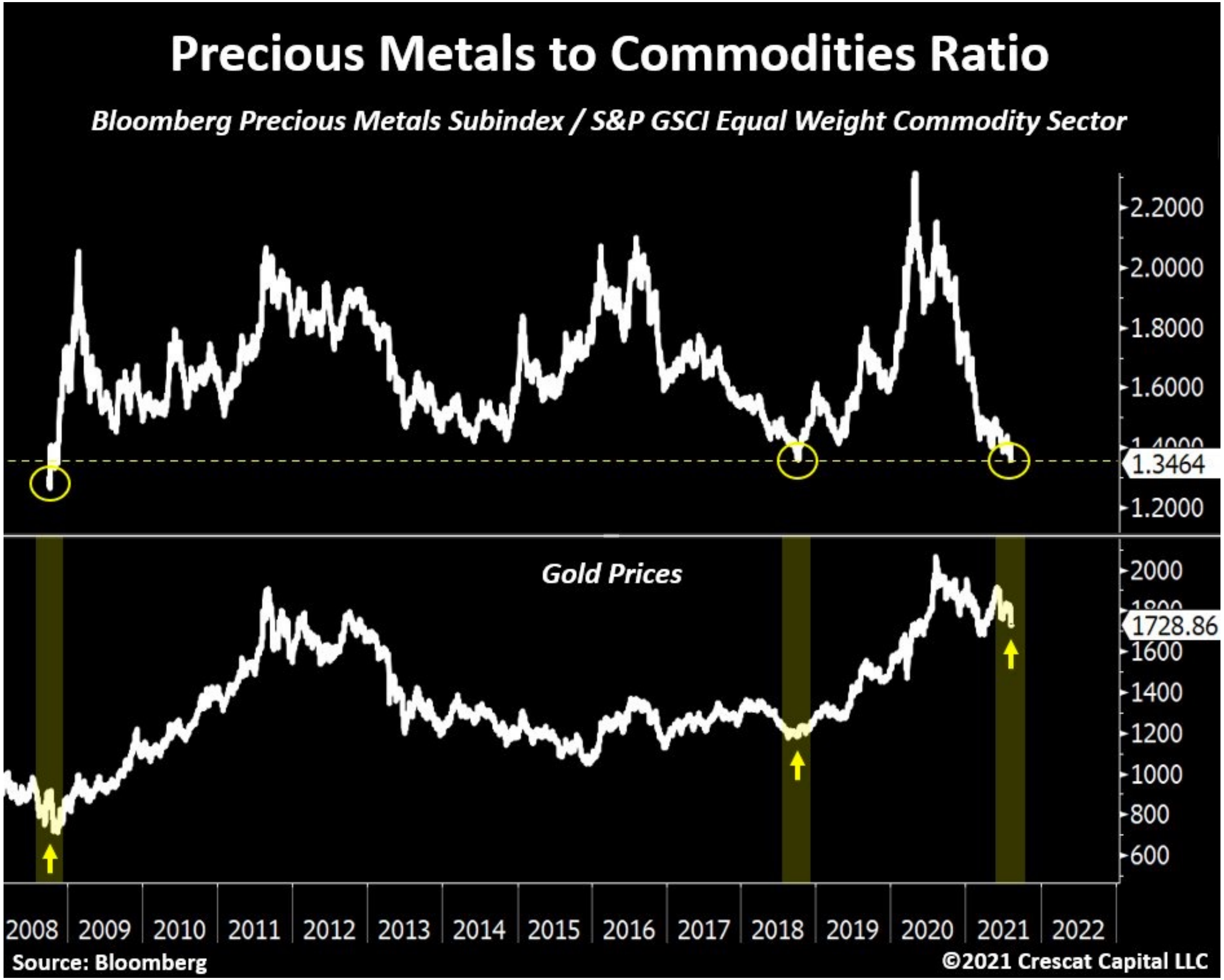
If precious metals stocks were a sector, they would have the cleanest balance sheets of them all.



Gold and silver miners have never looked this cheap relative to the S&P 500. Their free-cash-flow yield is almost twice the overall market. The value and growth proposition embedded in miners today is unmatched by any other time in history.



If gold and silver miners were considered a sector, it would be the only part of the economy today that generates higher free-cash-flow yield than inflation.



Precious metals are now at their cheapest levels relative to other commodities since 2009. The other 2 times this ratio reached such depressed levels also marked incredible buying opportunities.

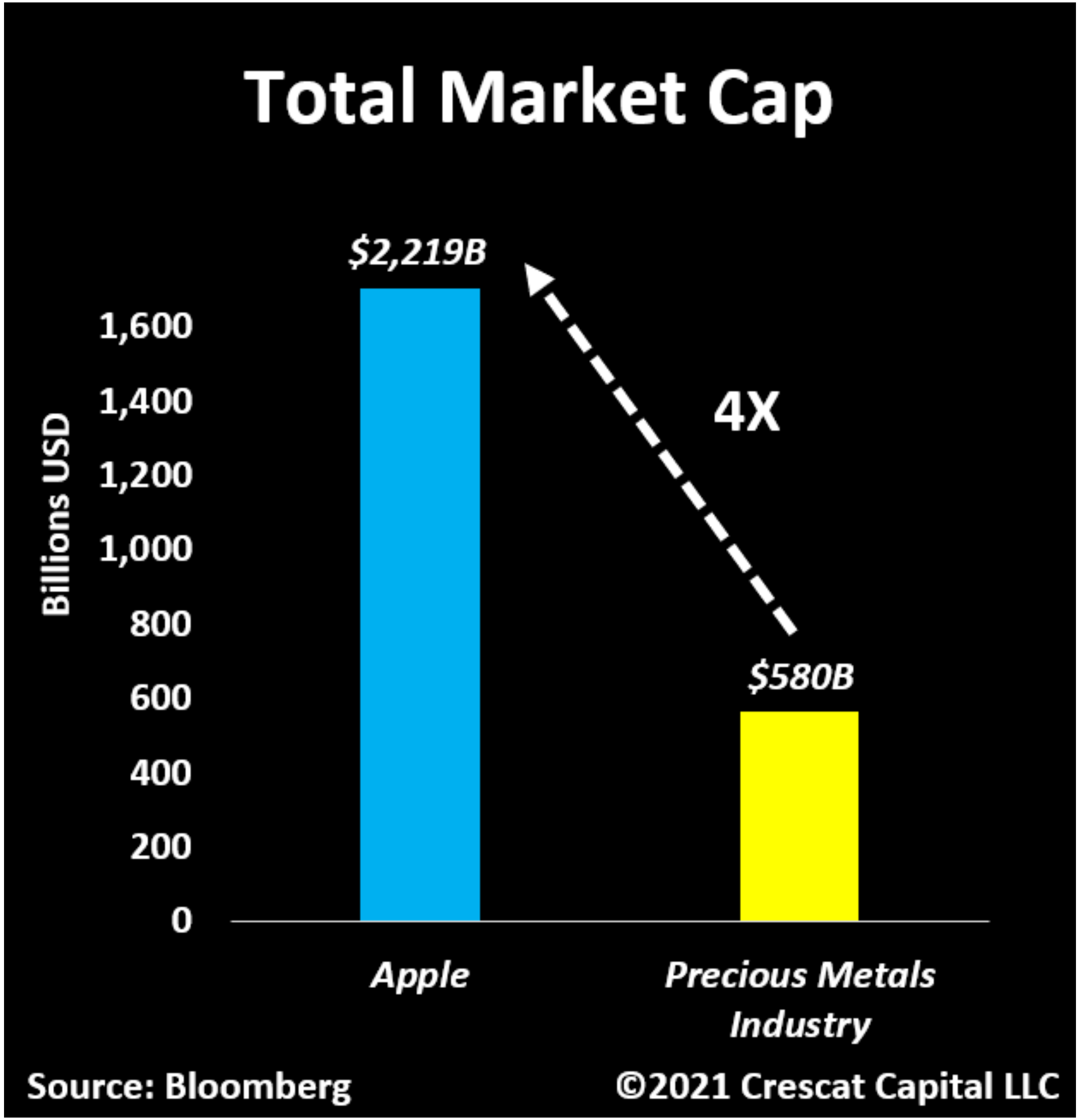
The gold-to-silver ratio usually reaches historical lows when miners are near peak cycle. Yes, this ratio was higher during the Covid crisis, but the current levels are almost as low as it was during other major bottoms.

Miners also look technically oversold. The last times we had such a divergence between the Philadelphia Gold and Silver index relative to its 200-day moving average, it marked two important bottoms.

Junior miners in the precious metals industry have started to outperform the seniors. These are important signs that a bottoming is taking place. Ideally, one wants to see the riskier parts of the market not only holding up their values but perhaps even leading the way to the upside.

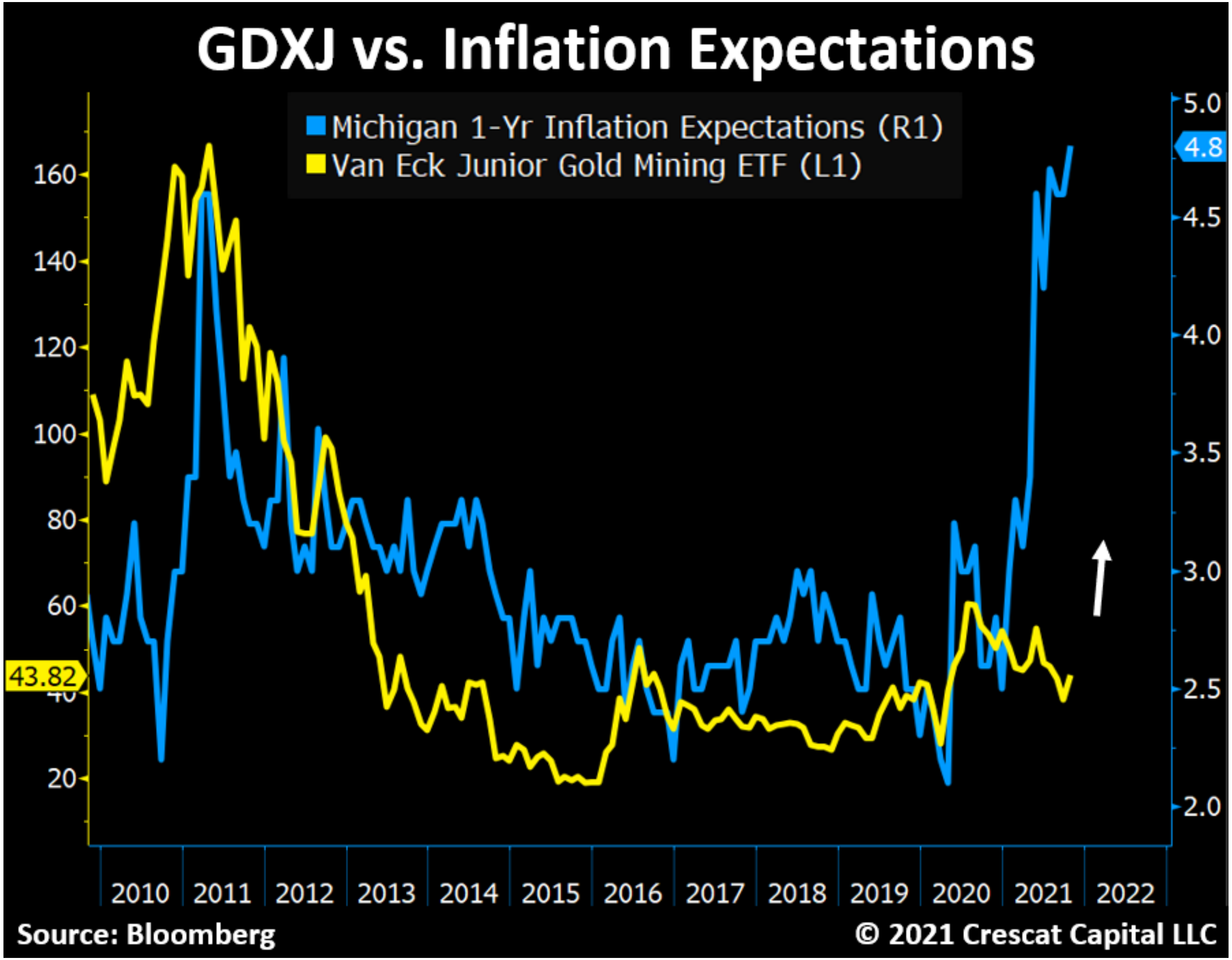
The correlation between inverted real interest rates and silver is strong and indicates that silver is due for a jump.

Owning gold in the ground in a carefully constructed portfolio of these firms is one of the most asymmetric reward-to-risk opportunities we have ever seen.



The entire precious metals industry is dirt cheap. Apple's market cap is 4 times the size of the whole precious metals industry.

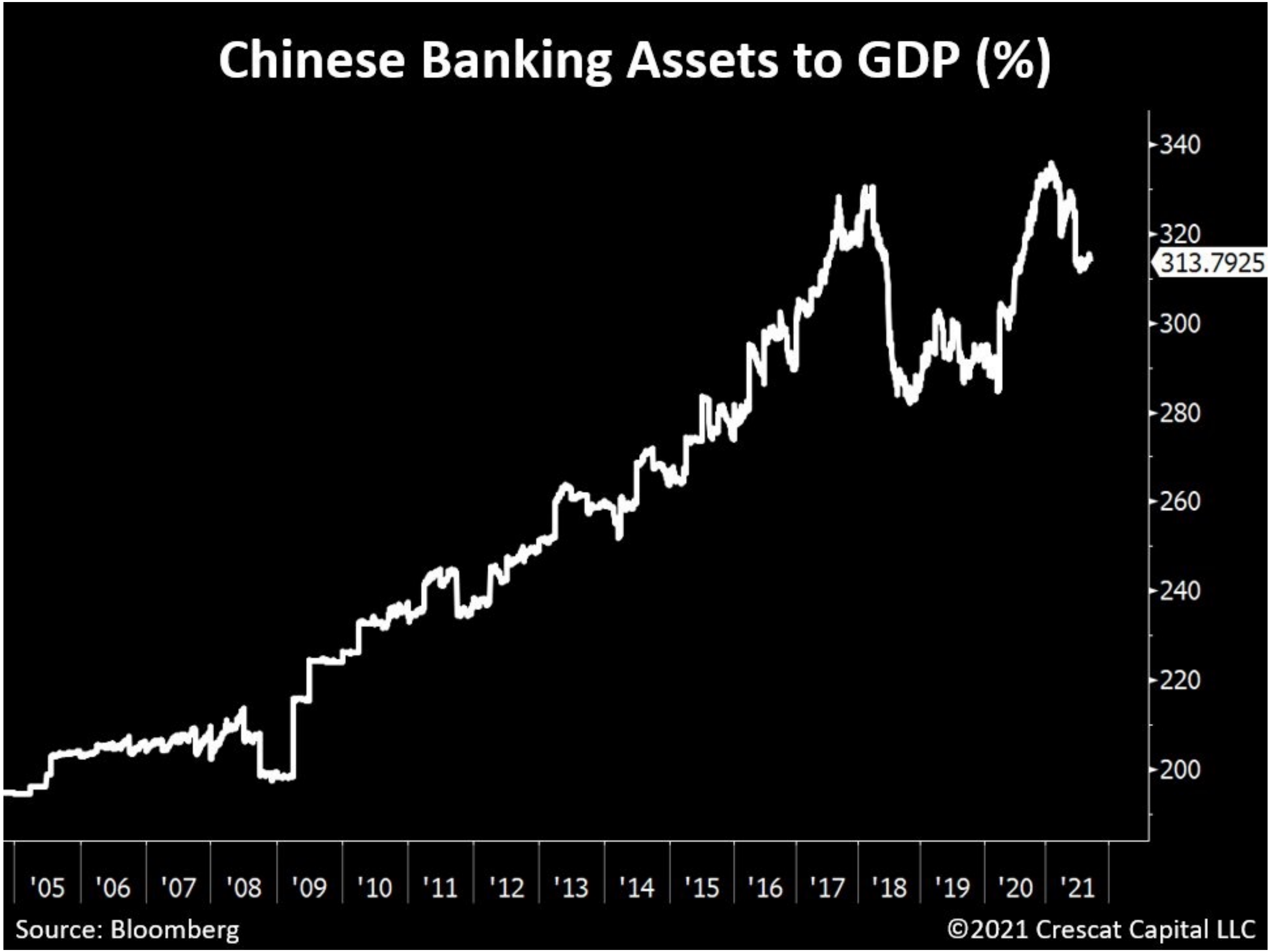
Silver remains historically undervalued relative to money supply.



Gold exploration stocks tend to follow changing inflation expectations. Should be exciting times ahead for the premier juniors starting from today's depressed valuations.

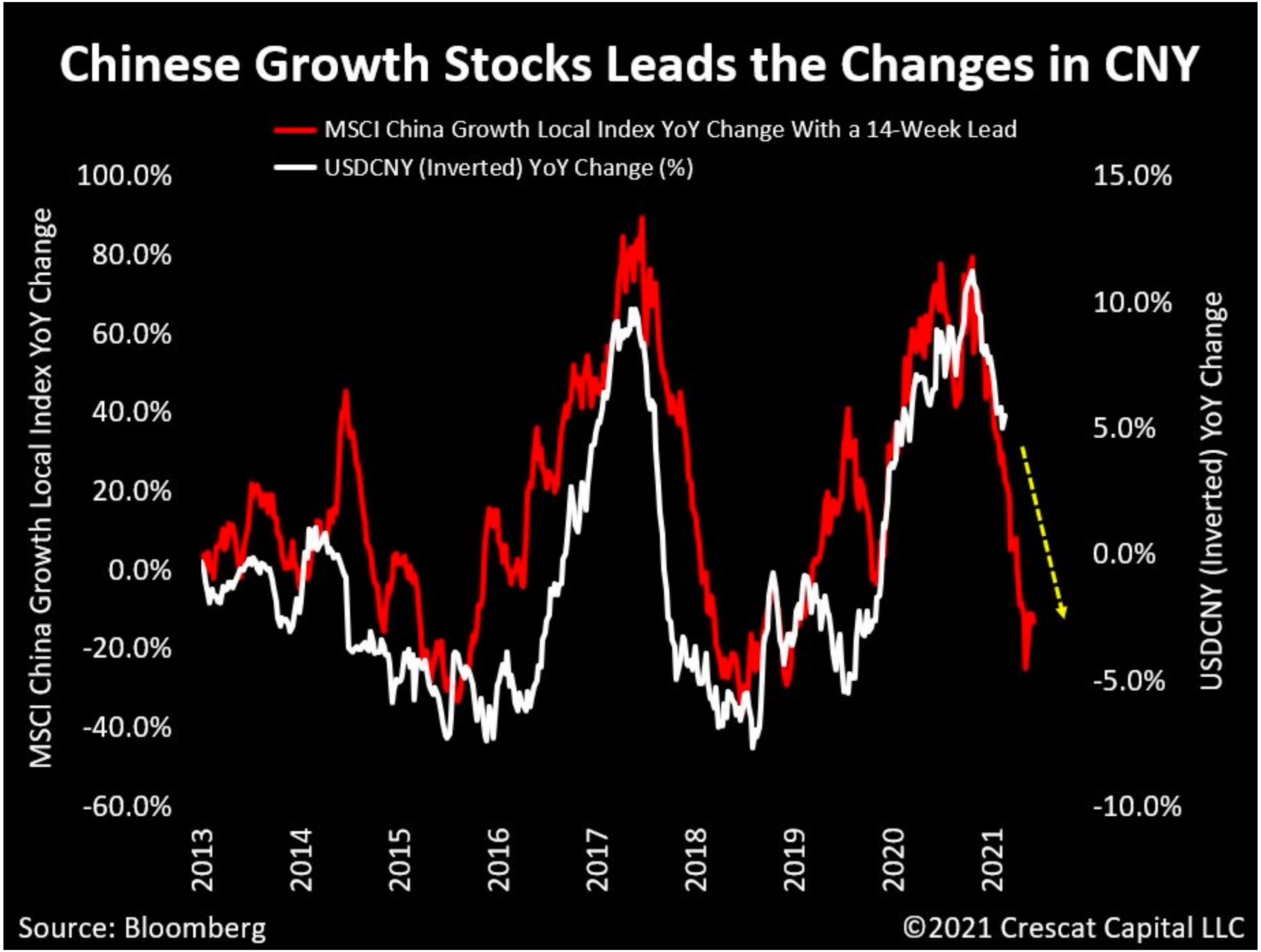
CRESCAT CAPITAL®
THE VALUE OF GLOBAL MACRO INVESTING

CHINA CURRENCY DEVALUATION



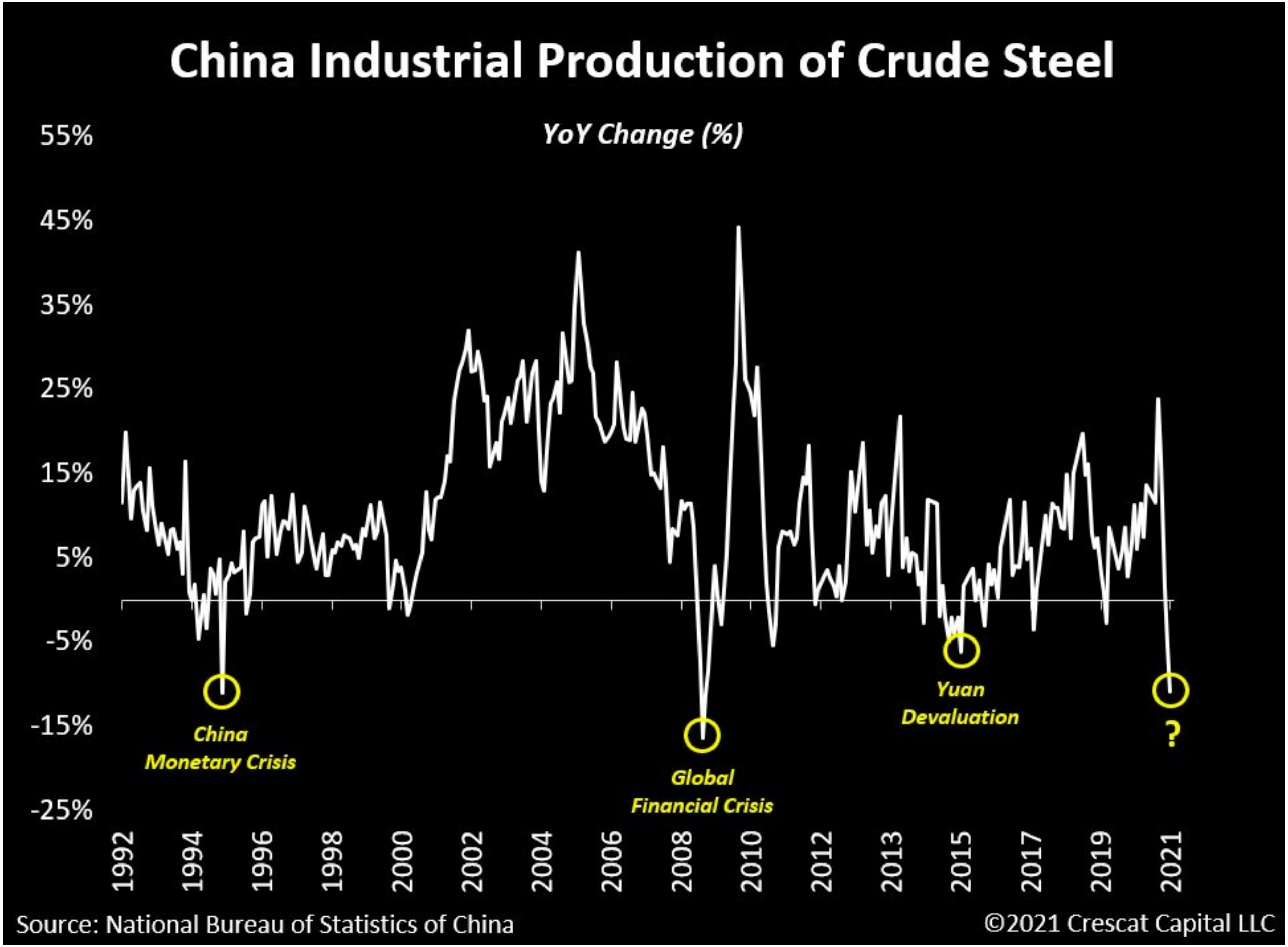
China's Minsky moment at 314% banking assets to GDP.

Notice in the chart how recent yuan devaluations have followed Chinese equity market meltdowns. As the Chinese stock market downturn has recently morphed into a more serious decline, we have just significantly increased our yuan put option exposure in the Crescat Global Macro Fund.



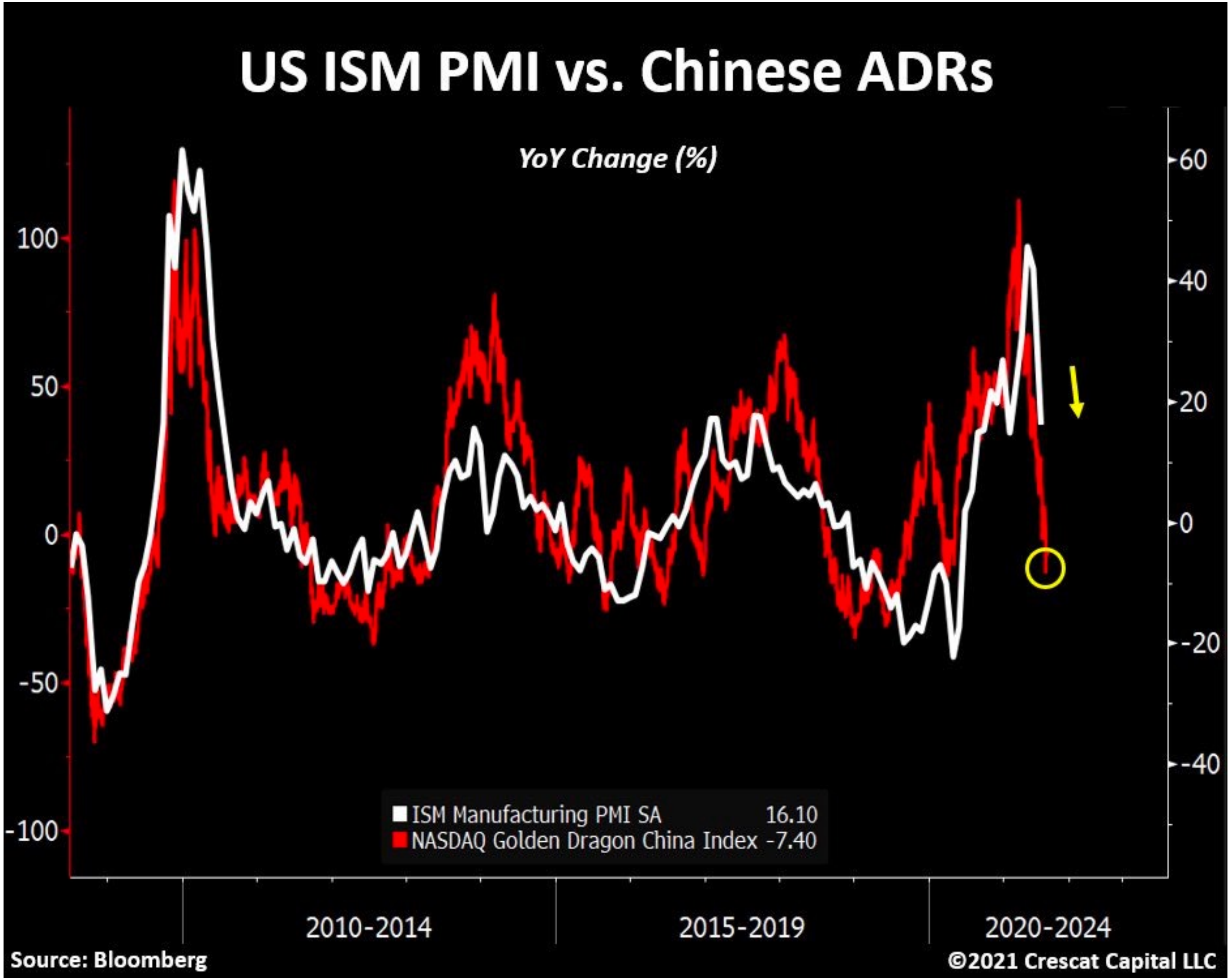
Chinese growth stocks have led the changes in CNY. It now suggests that a yuan devaluation is still ahead. An illustration of how the shock in the financial markets of a highly levered economy tends to be the precursor of further monetary disorder.

China's steady decrease in its banks' reserve requirement ratio is another long-building macro divergence and indicator for an impending currency devaluation.

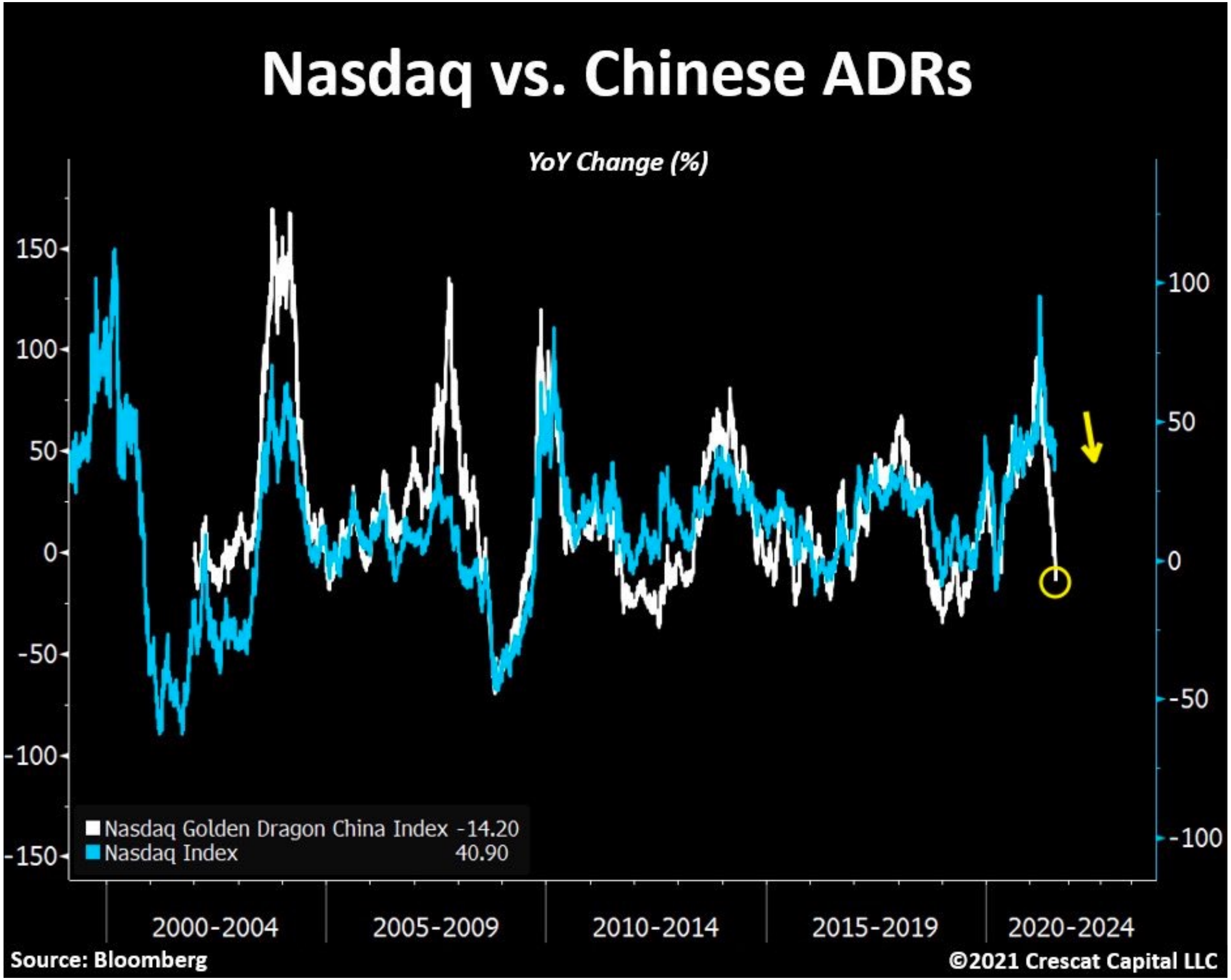


You know something is wrong in China when industrial production of steel is at its lowest levels since the Global Financial Crisis. This is much more serious than the meltdown of a massive property developer. These are the signs of a countrywide debt problem now unravelling.

Major decline in Asian stocks suggests a systemic selloff in global equities ahead.



The recent collapse in Chinese ADRs suggests significant deceleration in US PMI in the near future. Note: We had one of the strongest economic environments in history in the last 6 months. Now, growth seems to be mean reverting.



It's hard to believe that a major downward move in Chinese equities wouldn't spill over on the rest of the world. Here is the same Chinese ADRs vs. Nasdaq Index.

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