CRESCAT CAPITAL®

THE VALUE OF GLOBAL MACRO INVESTING

MACRO PRESENTATION

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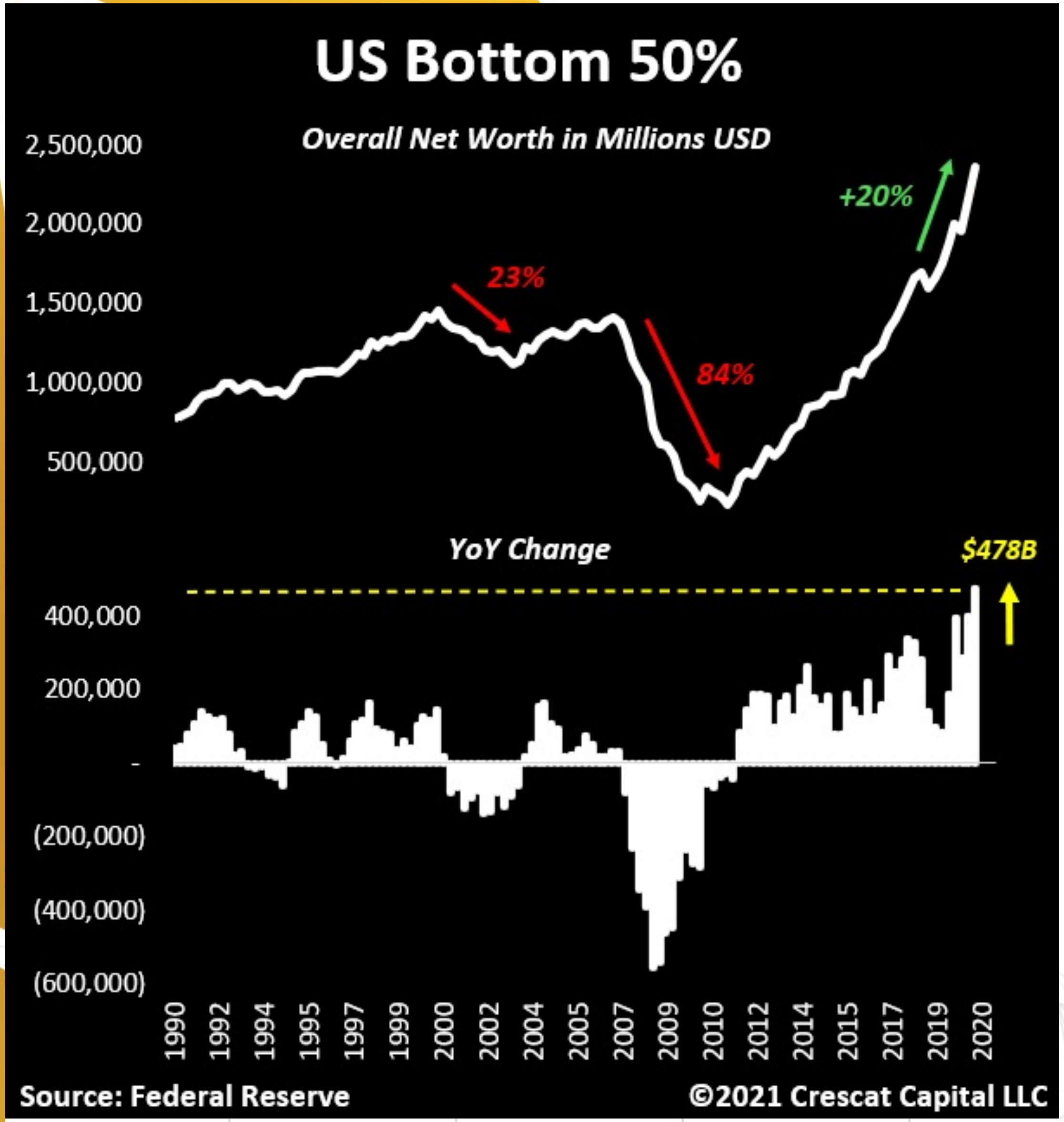

Wealth among the lower classes is at the highest in the history of the data, further charging up a demand-pull inflationary environment. Was the opposite case coming out of the GFC and tech bust.

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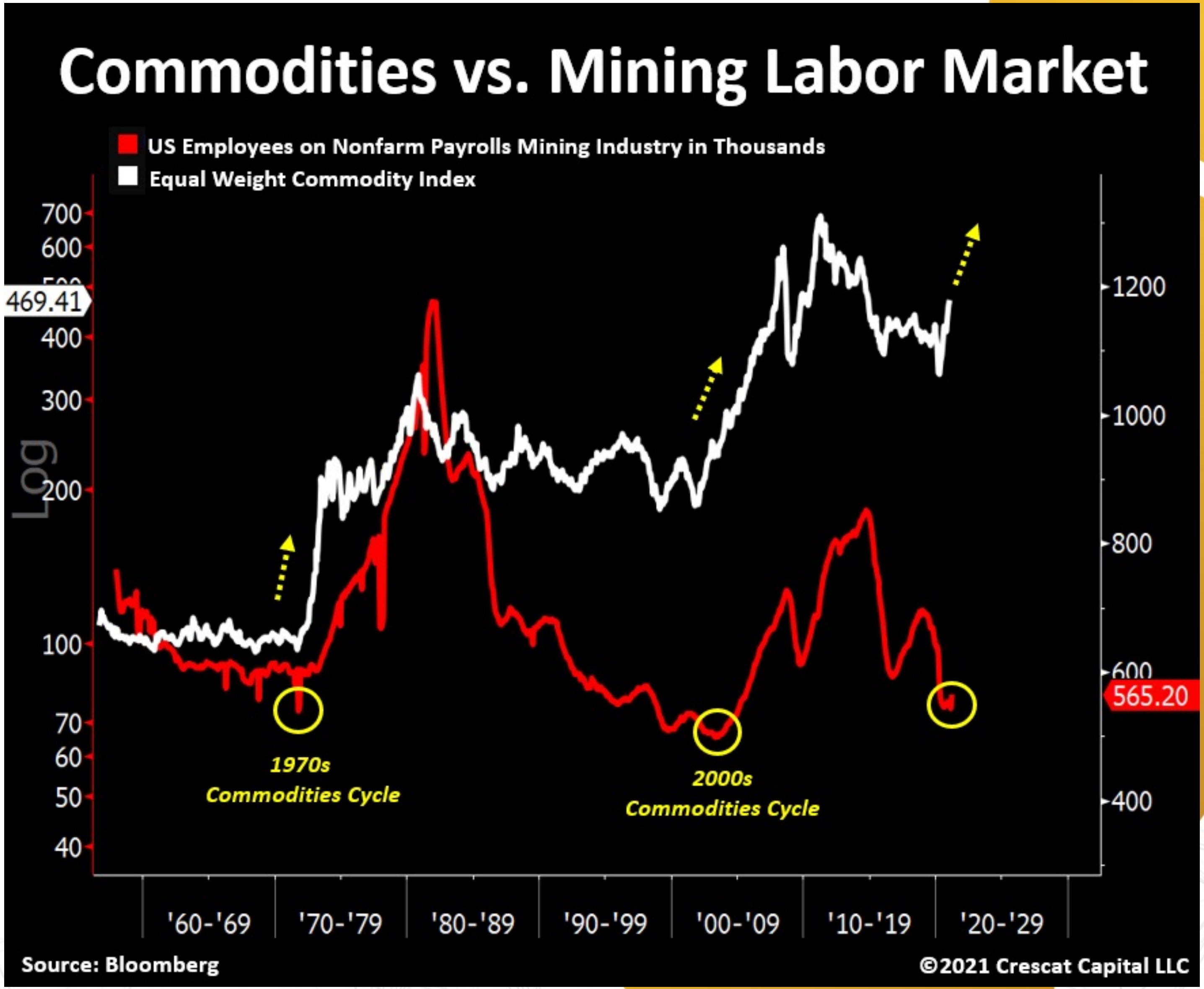
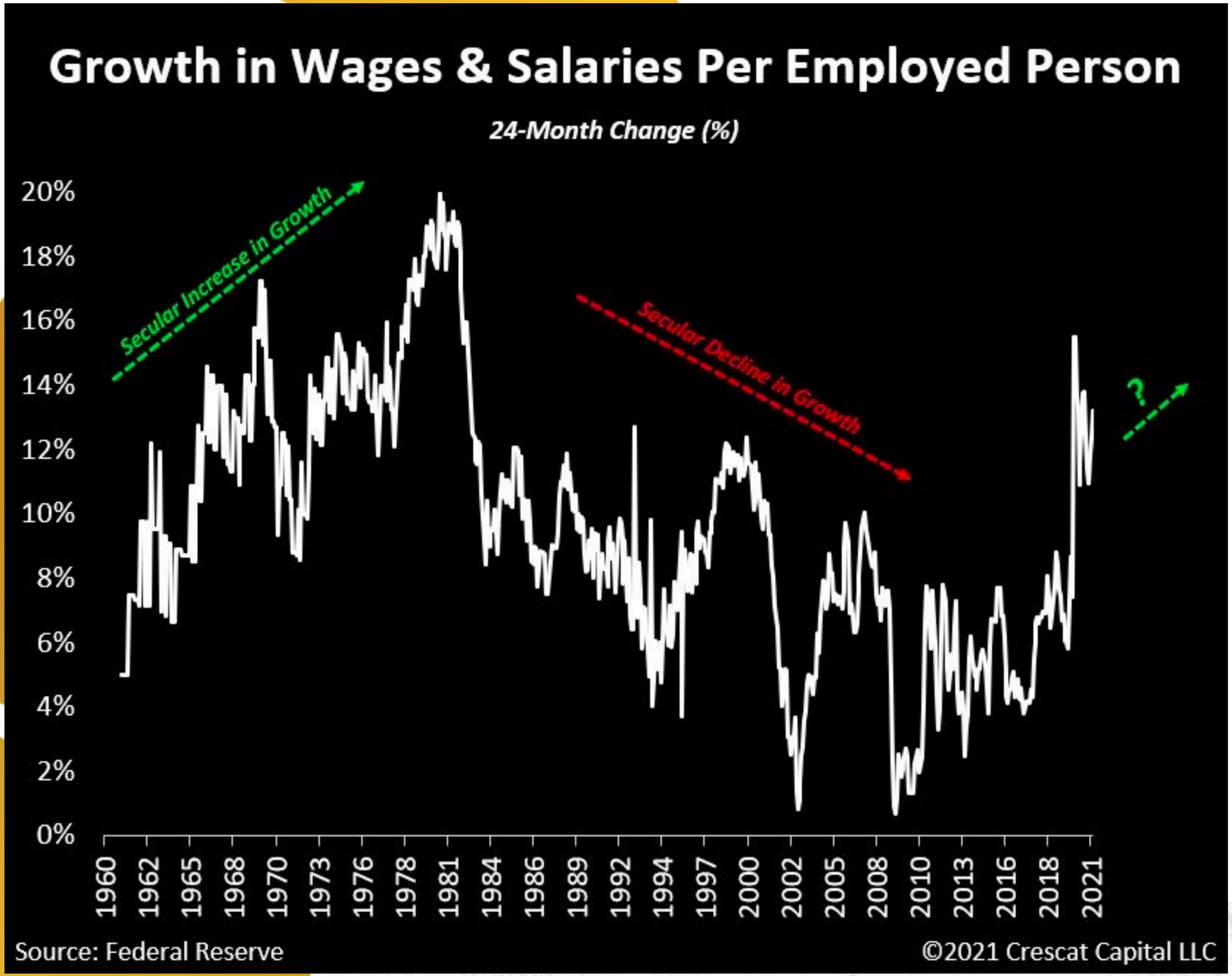
A classic early sign of a commodity cycle. Mining industry nonfarm payrolls near historical lows. Labor & capital constrains are the amplifiers of bull market in resource stocks.





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.

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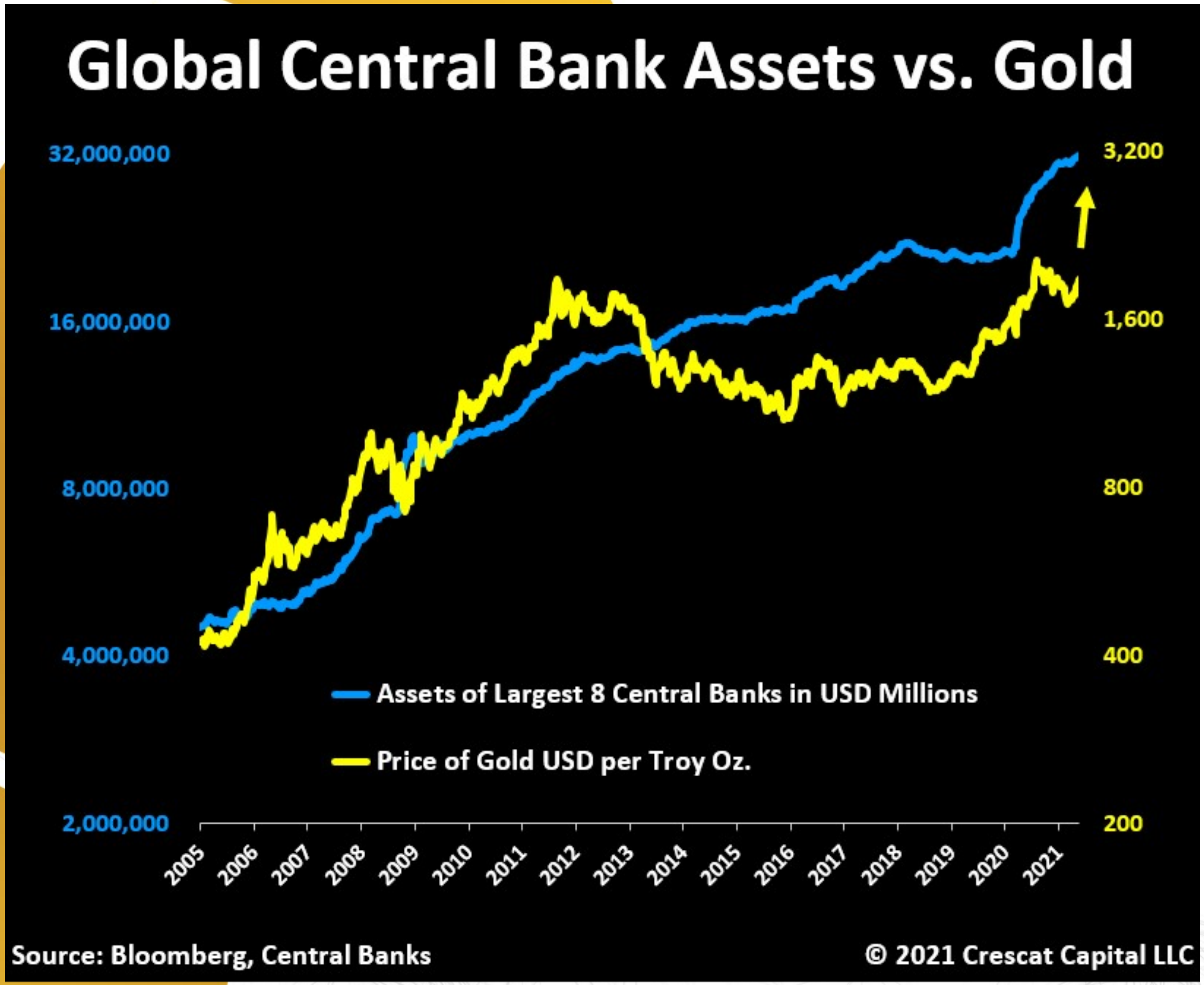

Money printing only supports financial asset bubbles for so long. Ultimately, QE drives flows out of overvalued stocks and credit and into undervalued precious metals.

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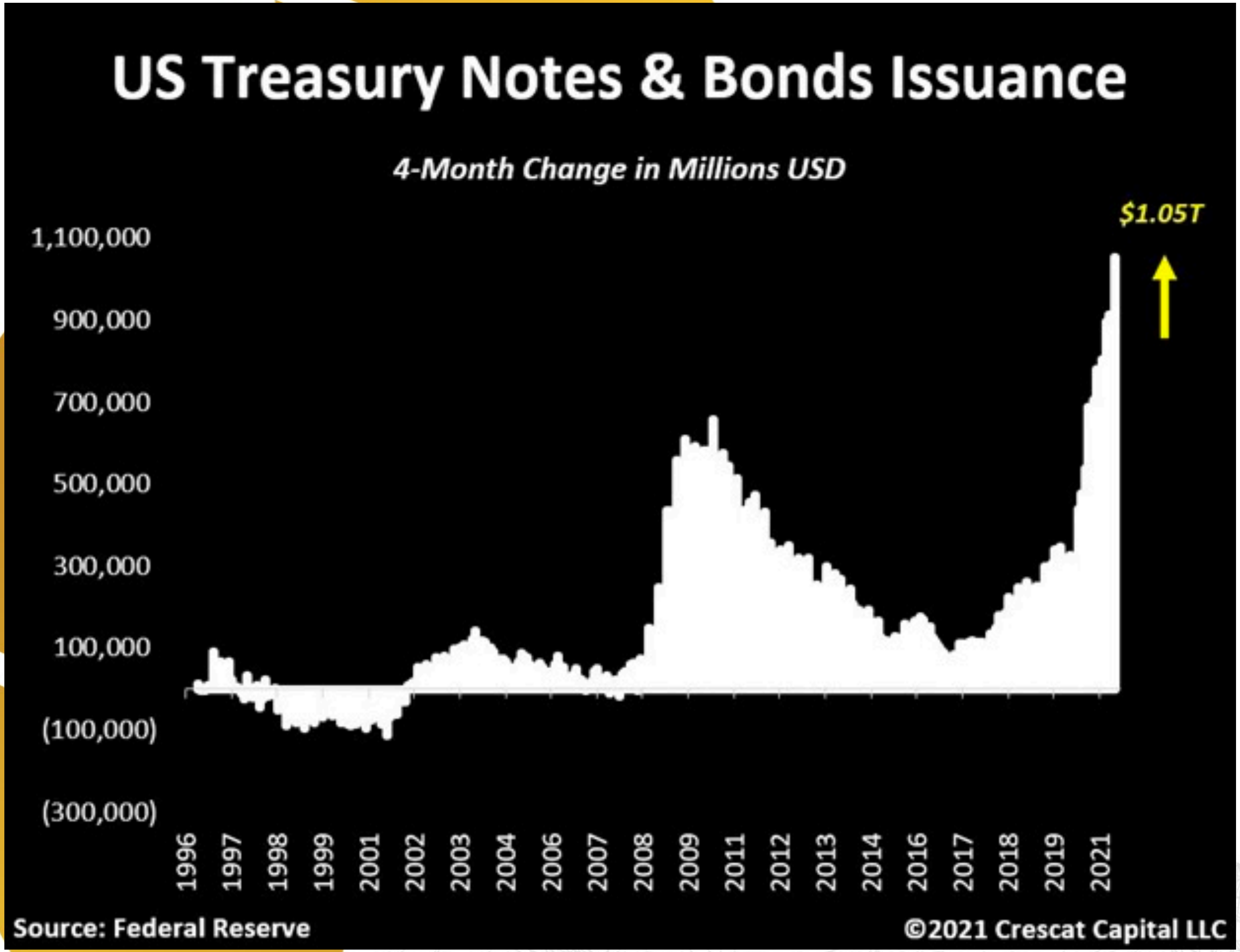

How can the Fed even consider tapering its QE policies when the government is issuing Treasuries such an aggressive pace? They just issued over $1 trillion worth of bonds and notes just in the last four months. That was the largest amount for such a window of time ever recorded in history.

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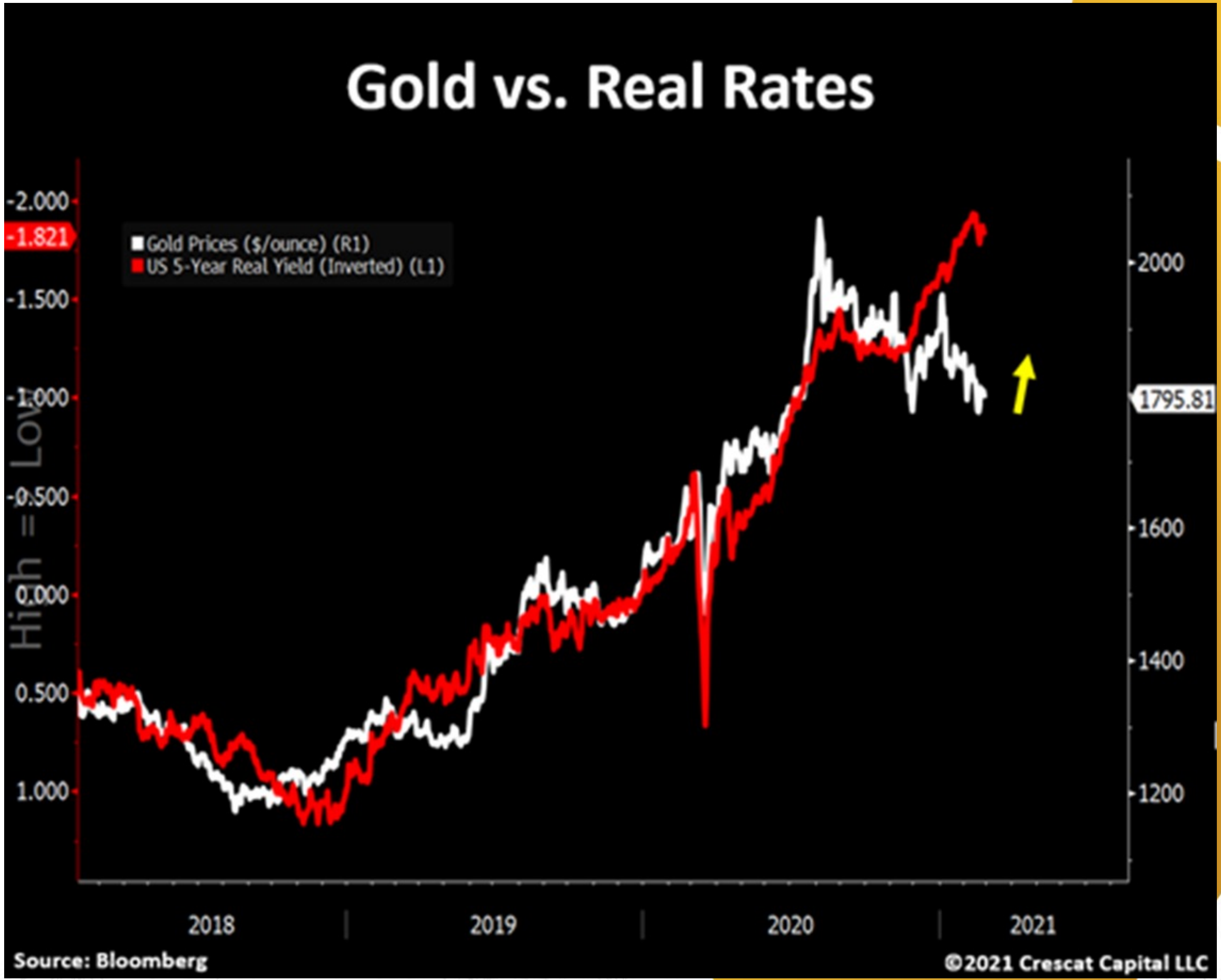
Real rates tend to lead the way for precious metals, particularly gold.



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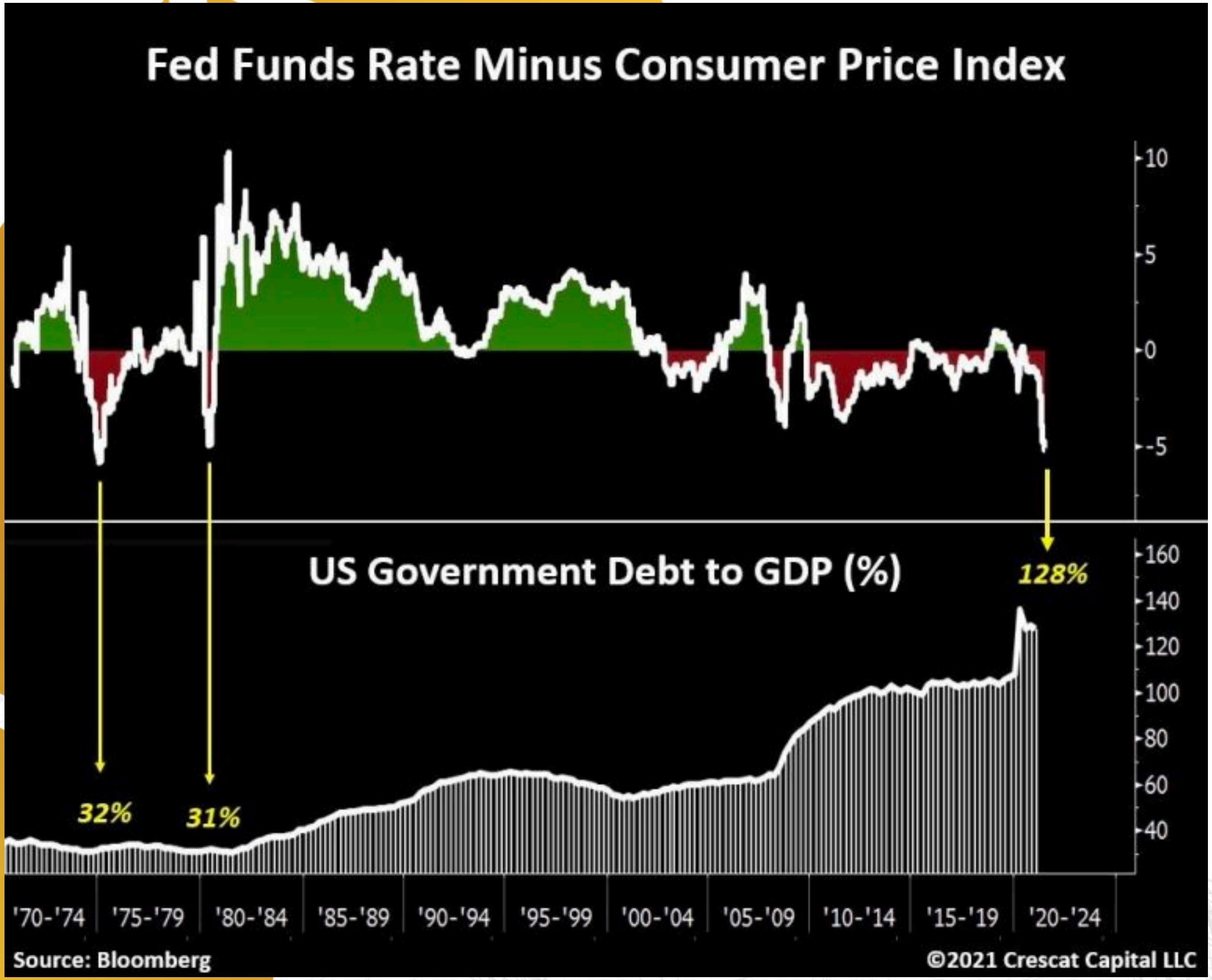

The world believes high asset prices are dependent on low interest rates. Our analysis shows they are even more dependent on low inflation, and that is the Fed's predicament.

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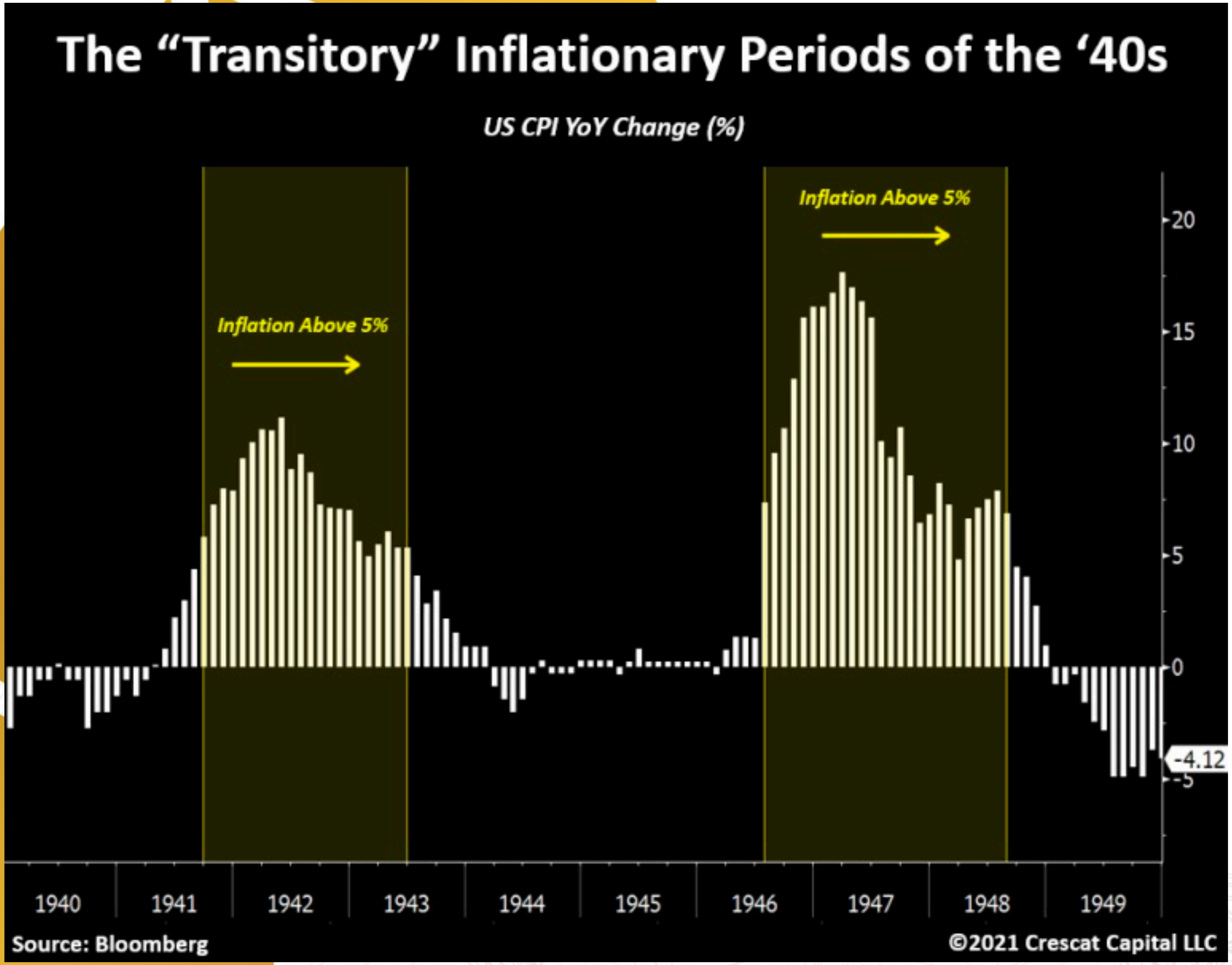

Note that during each of those inflationary spikes, CPI stayed above a 5% YoY rate every month for over two years. To our friends, "the deflationistas", if this is an accurate roadmap to follow, buckle up, the rise in consumer prices is just getting started.

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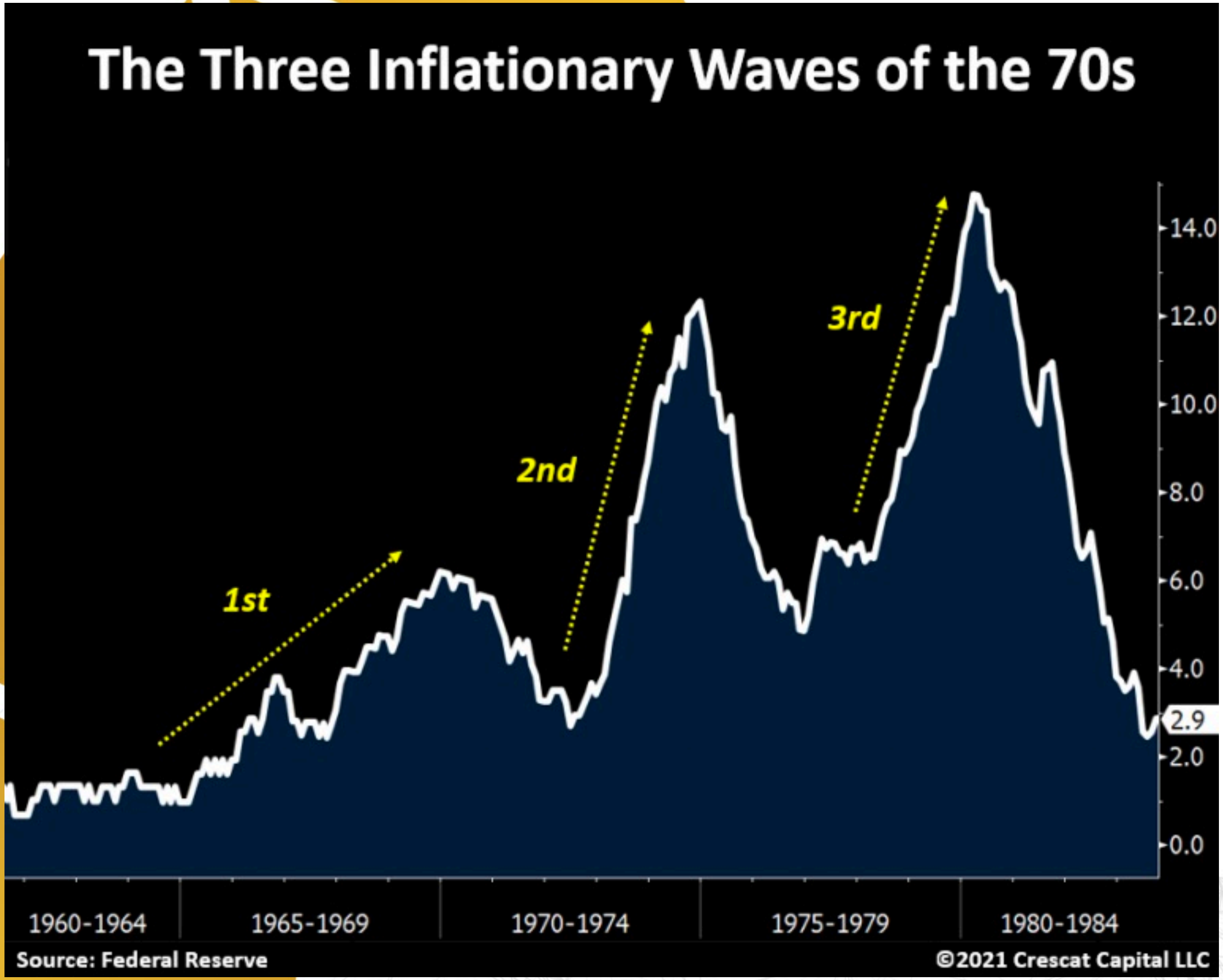

Those years were marked by fierce counter shifts in monetary and fiscal policies that repeatedly changed focus from fostering economic growth to strongly fighting inflation. As a result, financial markets experienced one of the most volatile boom-and-bust periods of history. At that time, the Fed was fortunate to be able to raise rates without triggering a debt crisis. This is a very different setup today.

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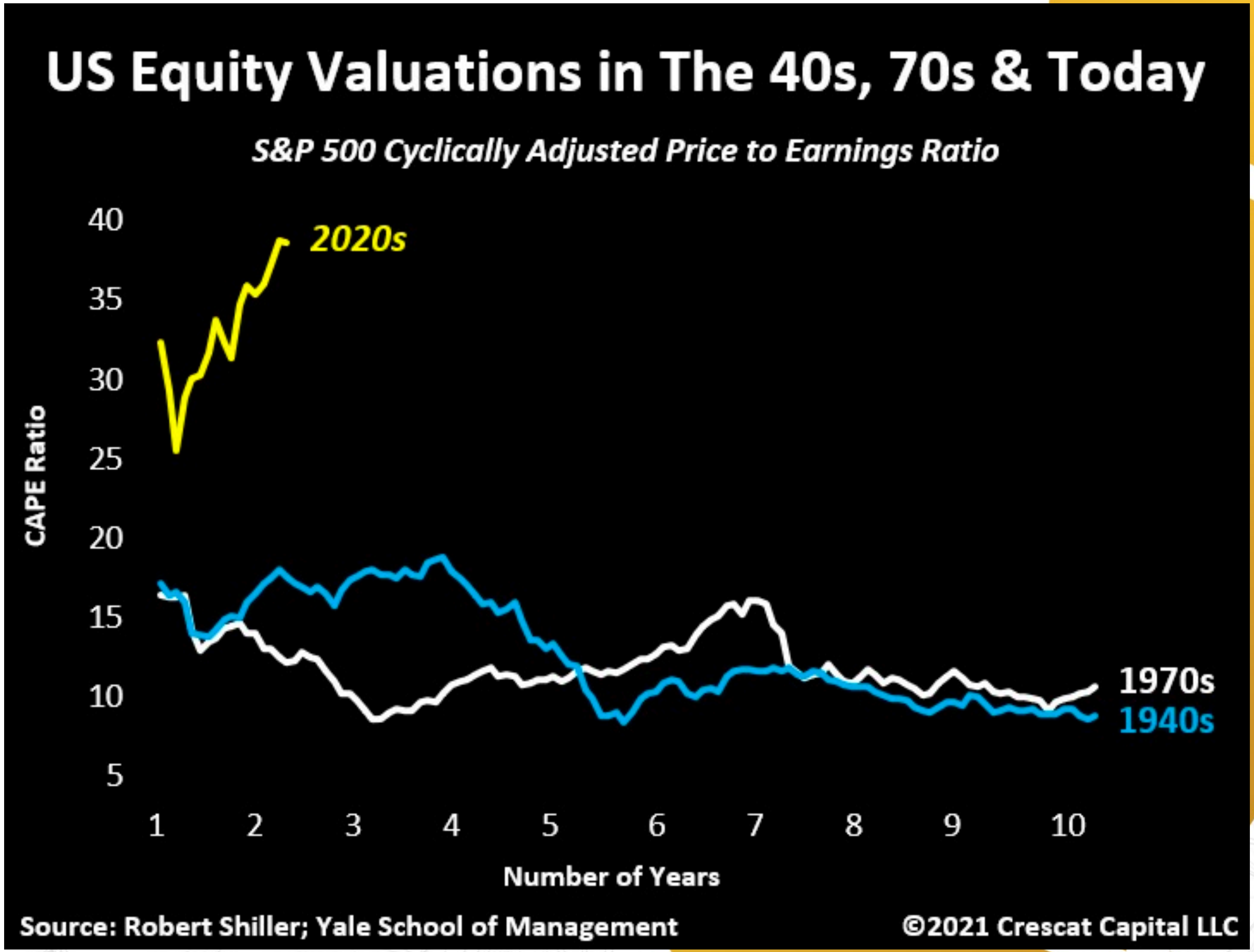
Total debt, including private and public, as a percentage of GDP is almost double the size of the 1940s and 1970s.



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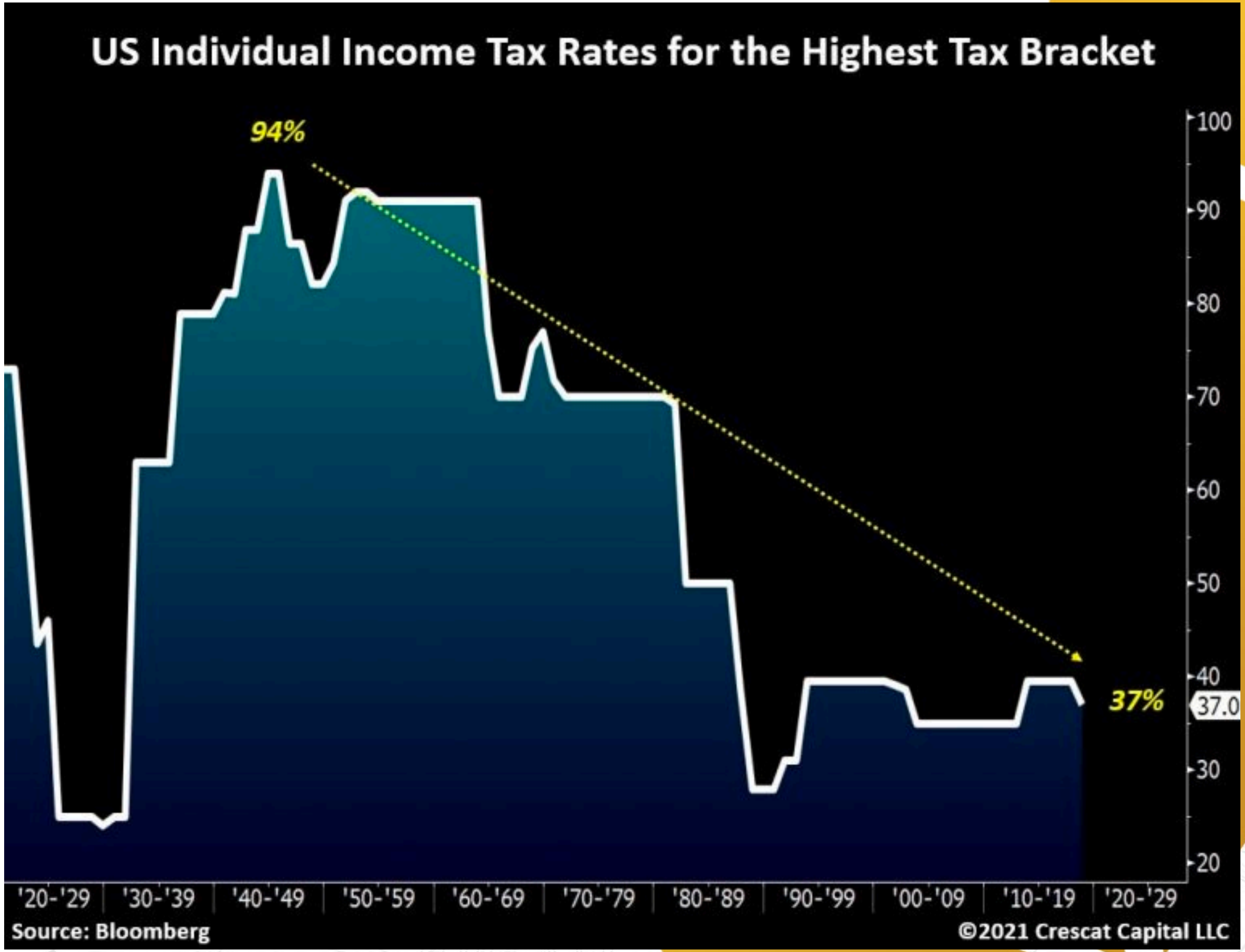
The tax rate for the highest bracket was 82% at its lowest level for the 1940s decade. It reached as high as 94% in 1944, which compares to 37% today.



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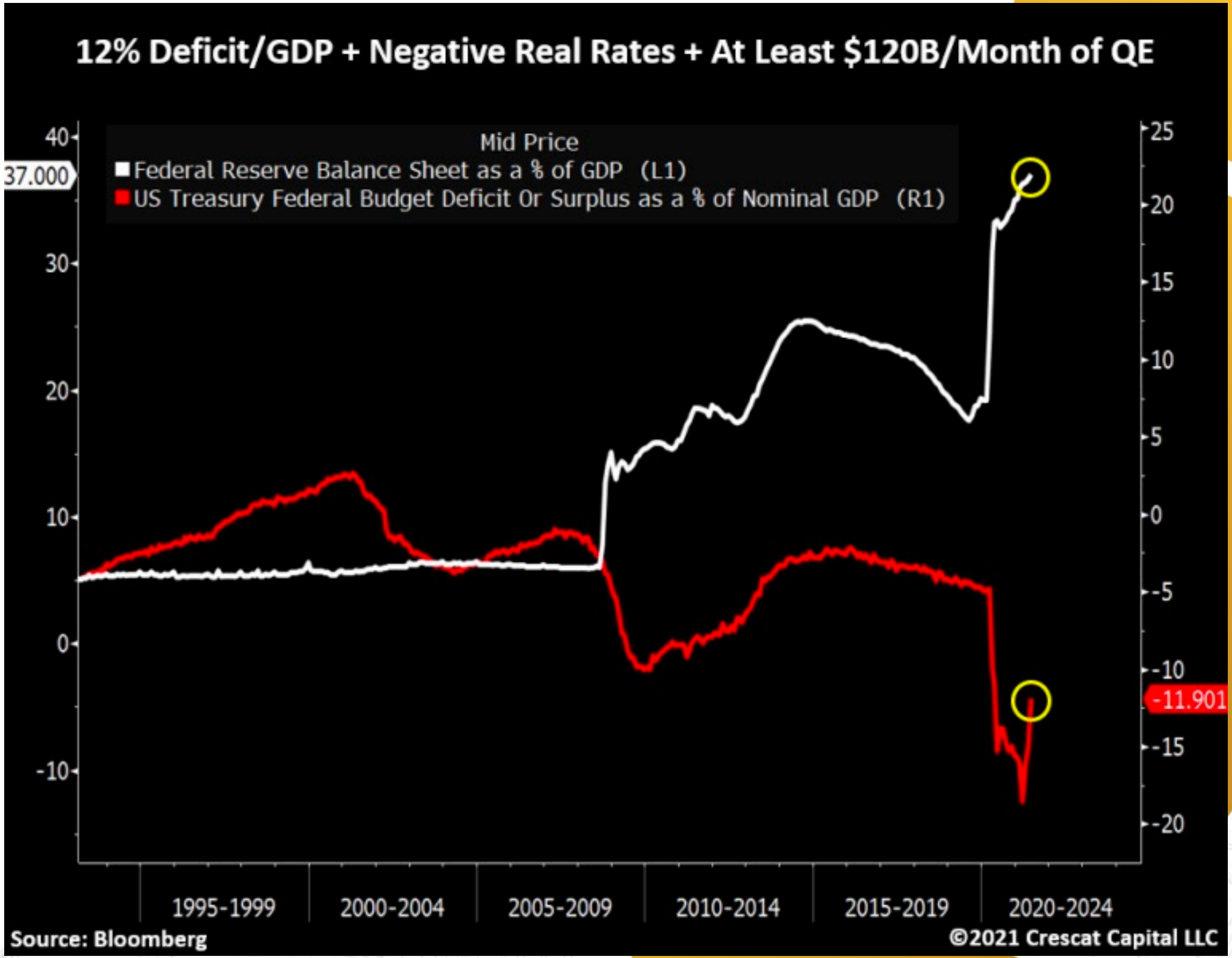

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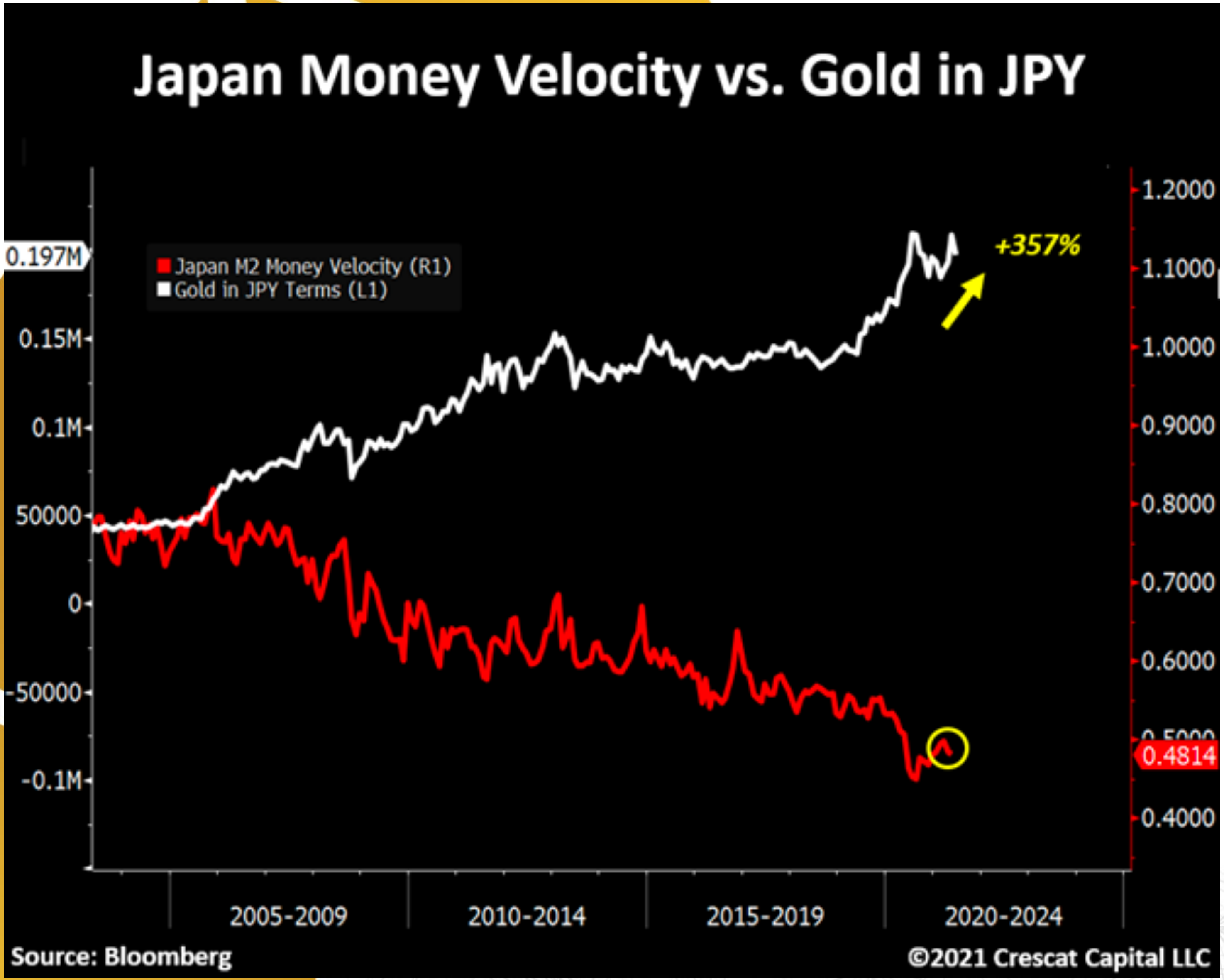

Gold in Japanese yen terms drastically diverged from money velocity, appreciating over 3-fold in the last 2 decades.

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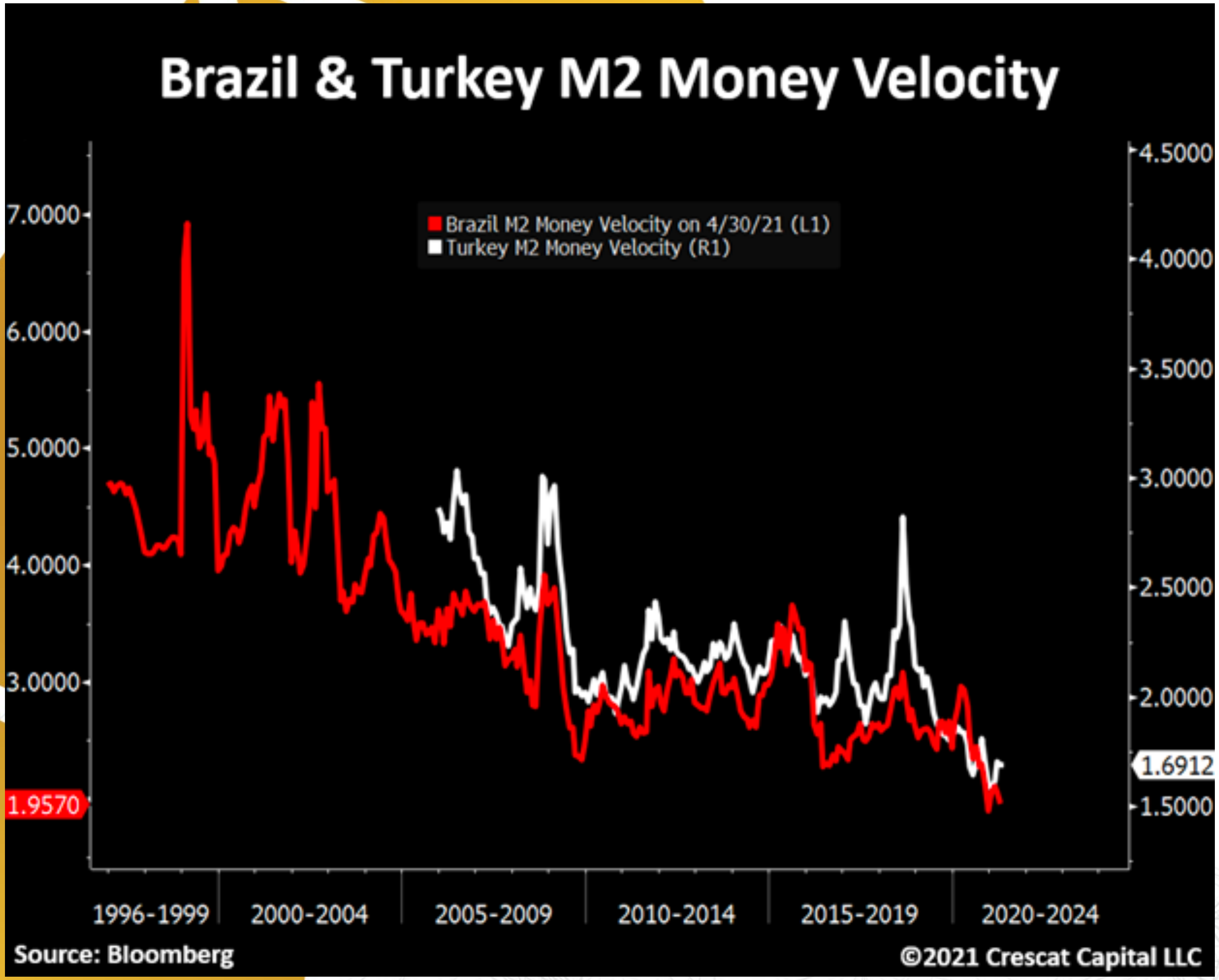

There were plenty of examples in history of other economies that went through similar secular downward trends in money velocity but also faced inflationary problems. Turkey and Brazil would be great examples. Both economies suffered from significant currency devaluations while also experiencing the pressure of a rising consumer price environment.

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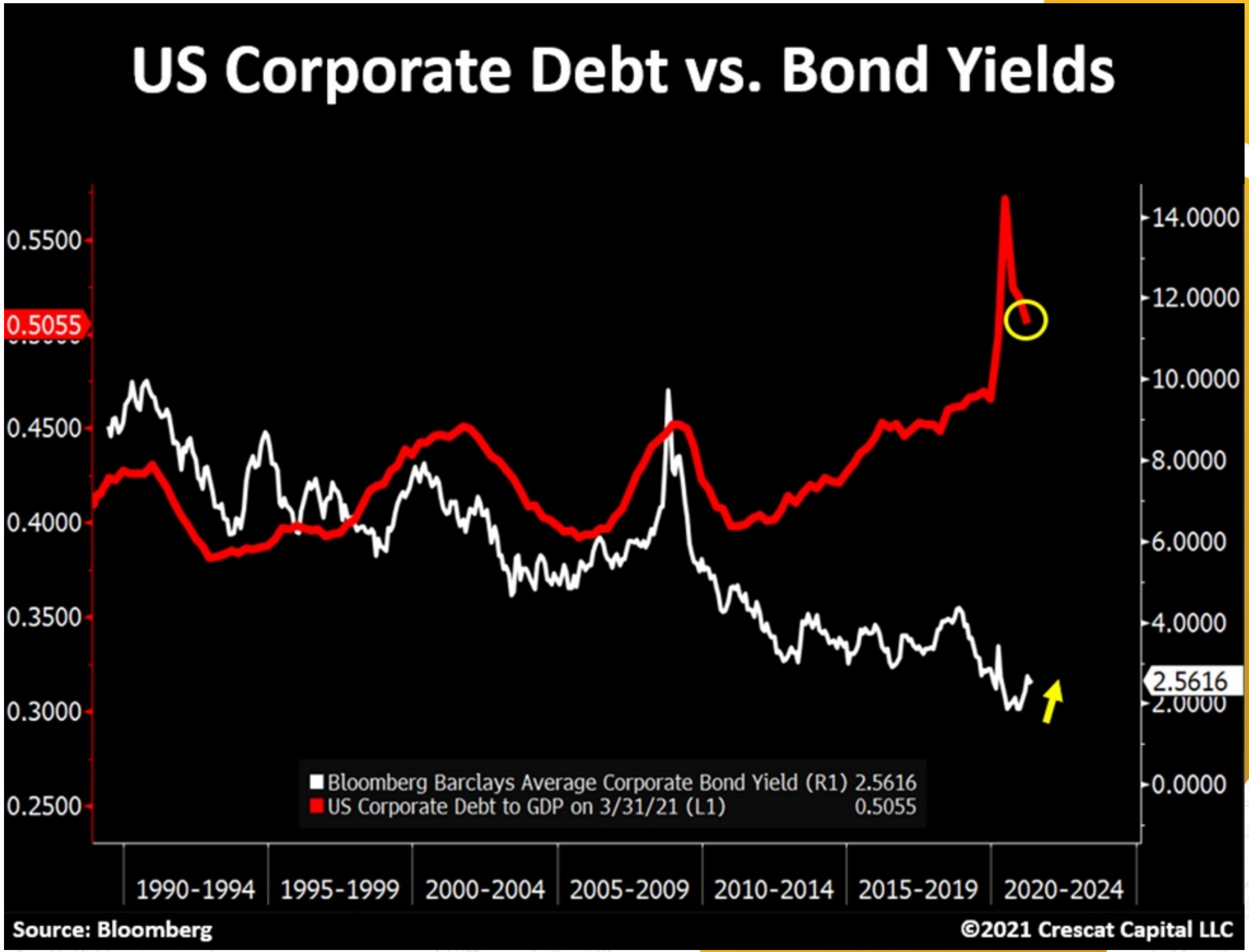
The US corporate bond market has become one the most central bank dependent parts of financial markets today.



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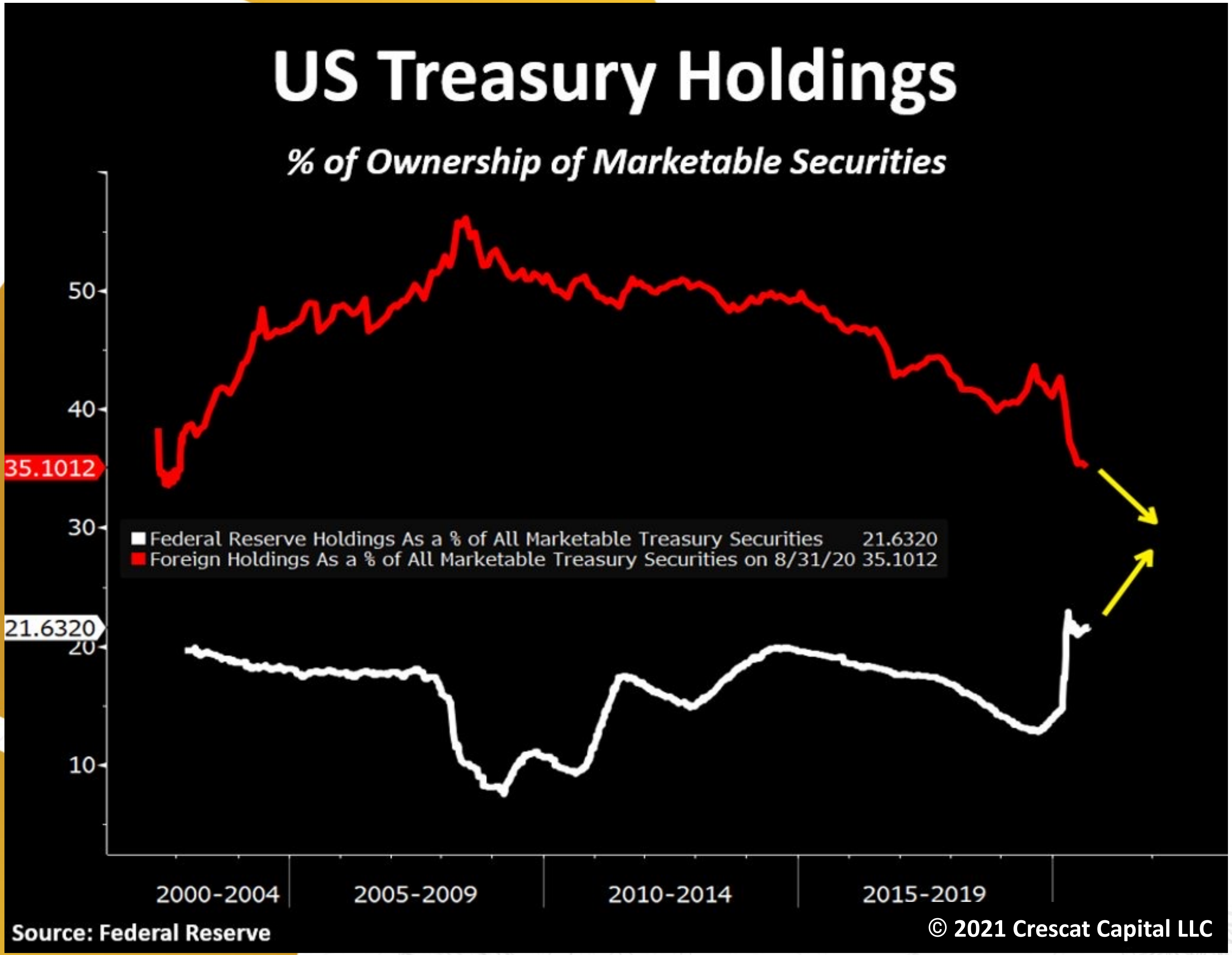
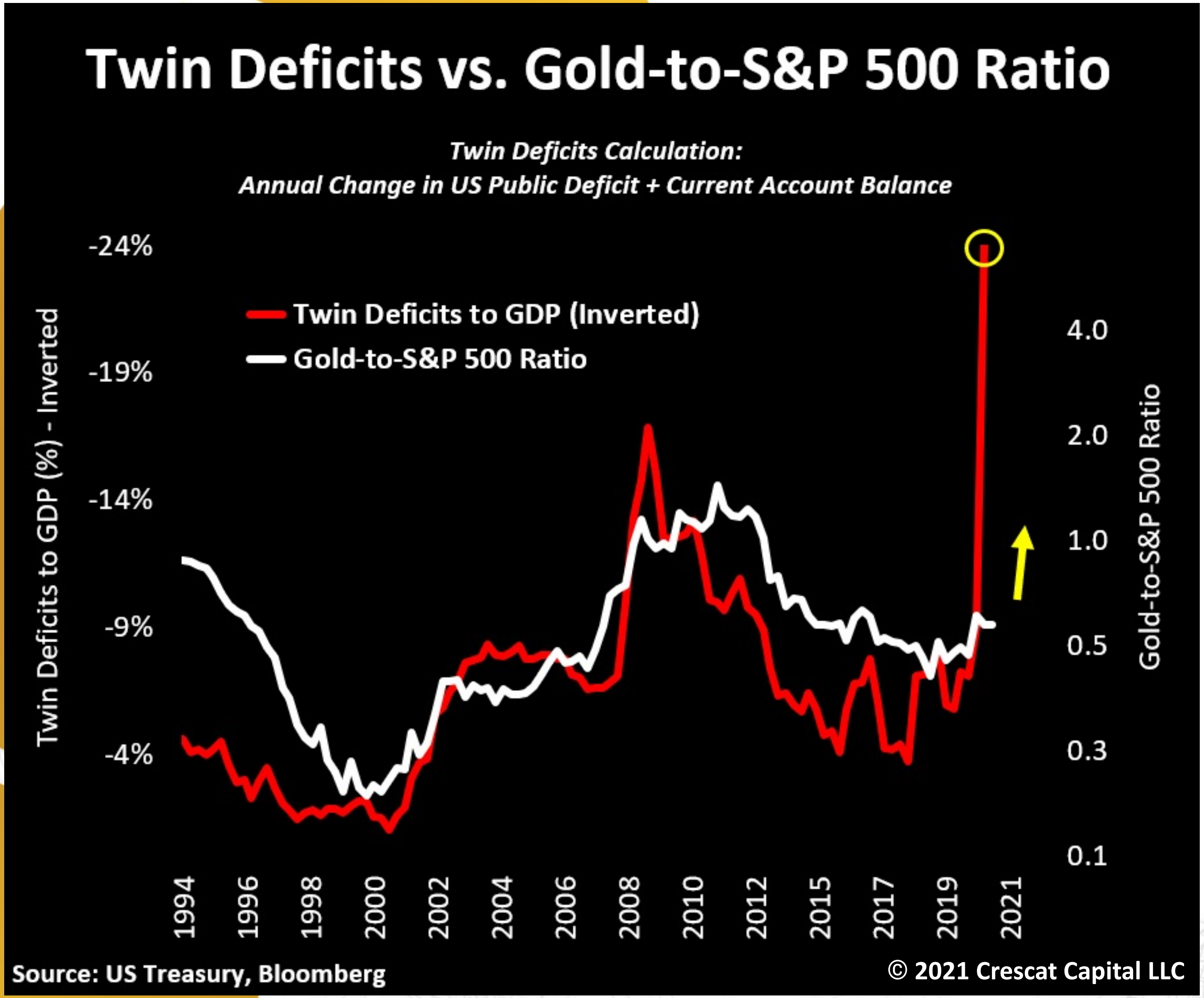


Foreign investors are currently holding the lowest percentage of marketable US Treasuries in 20 years. The Federal Reserve is becoming the buyer of last resort.



History has proven during times of fiscal disorder gold tends to outperform equities. Inverted twin deficits suggests a massive upward move in the gold to S&P 500 ratio is still ahead.

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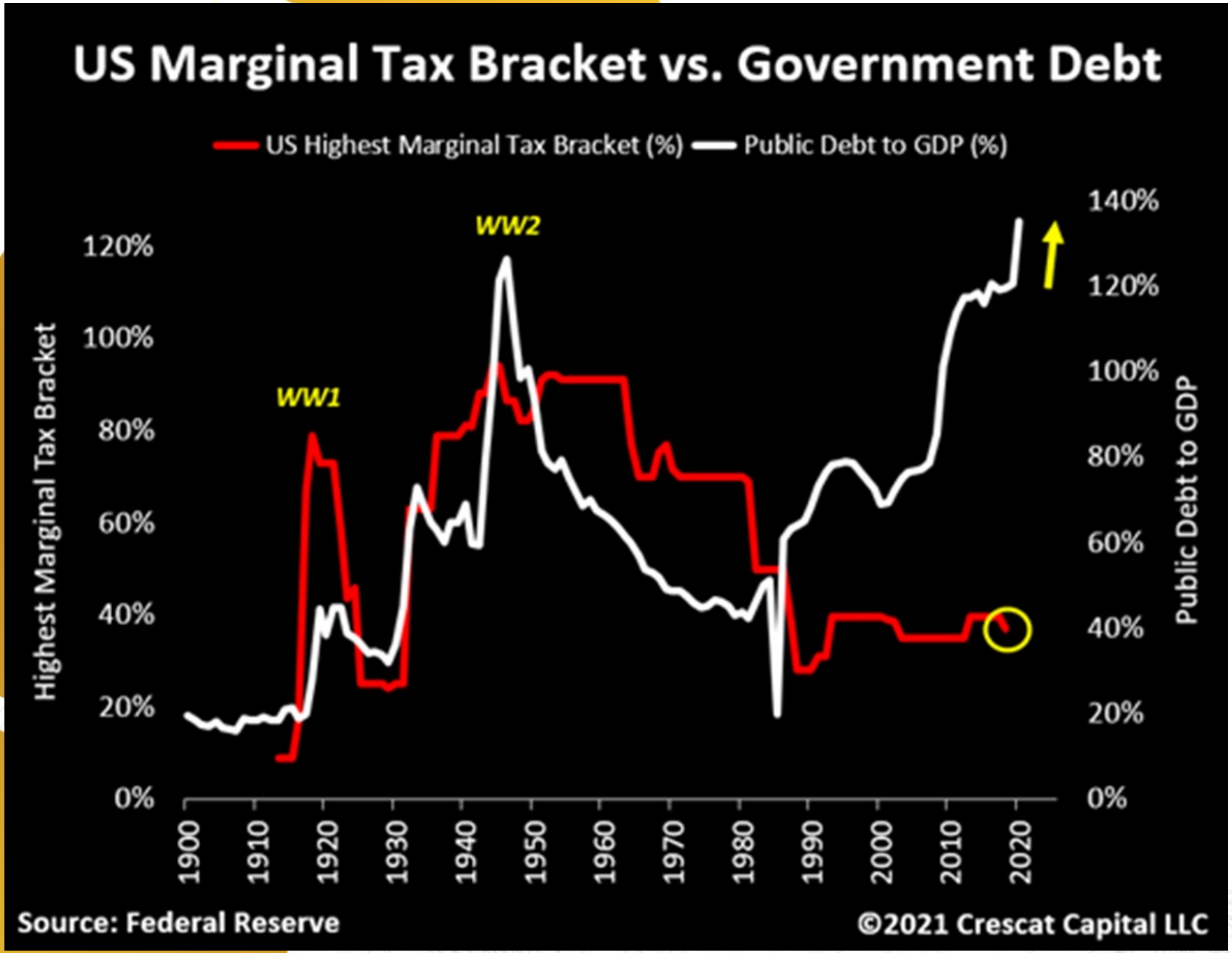

For people calling for the Roaring 20's, back then not only was inflation falling but tax rates were also in a downtrend. There is no way either of those factors will be in play today.

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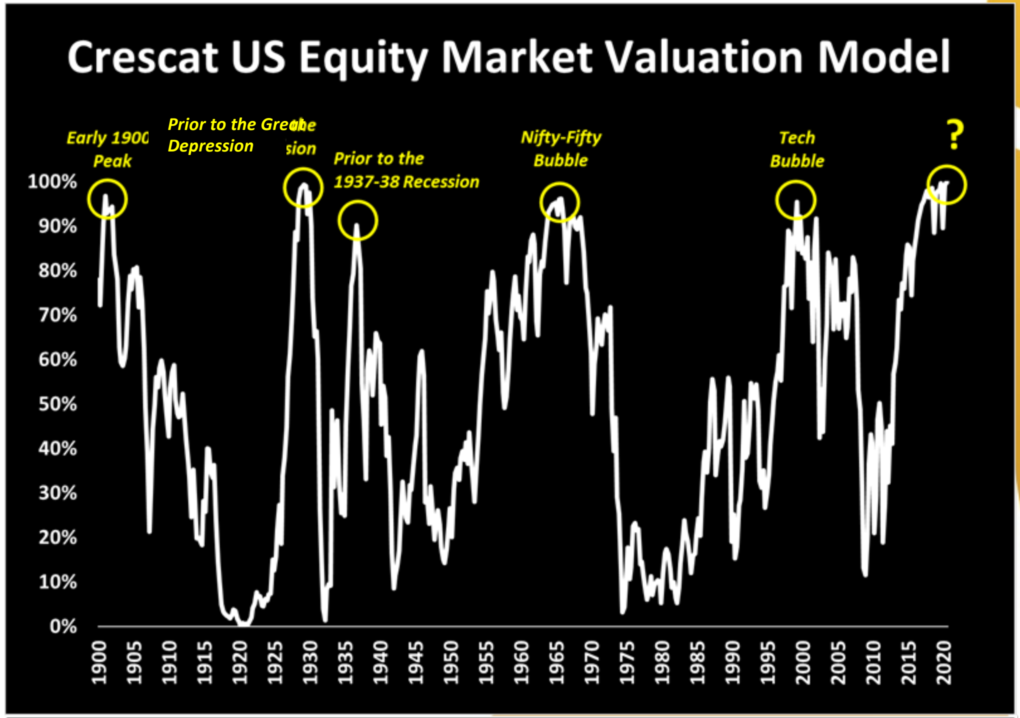
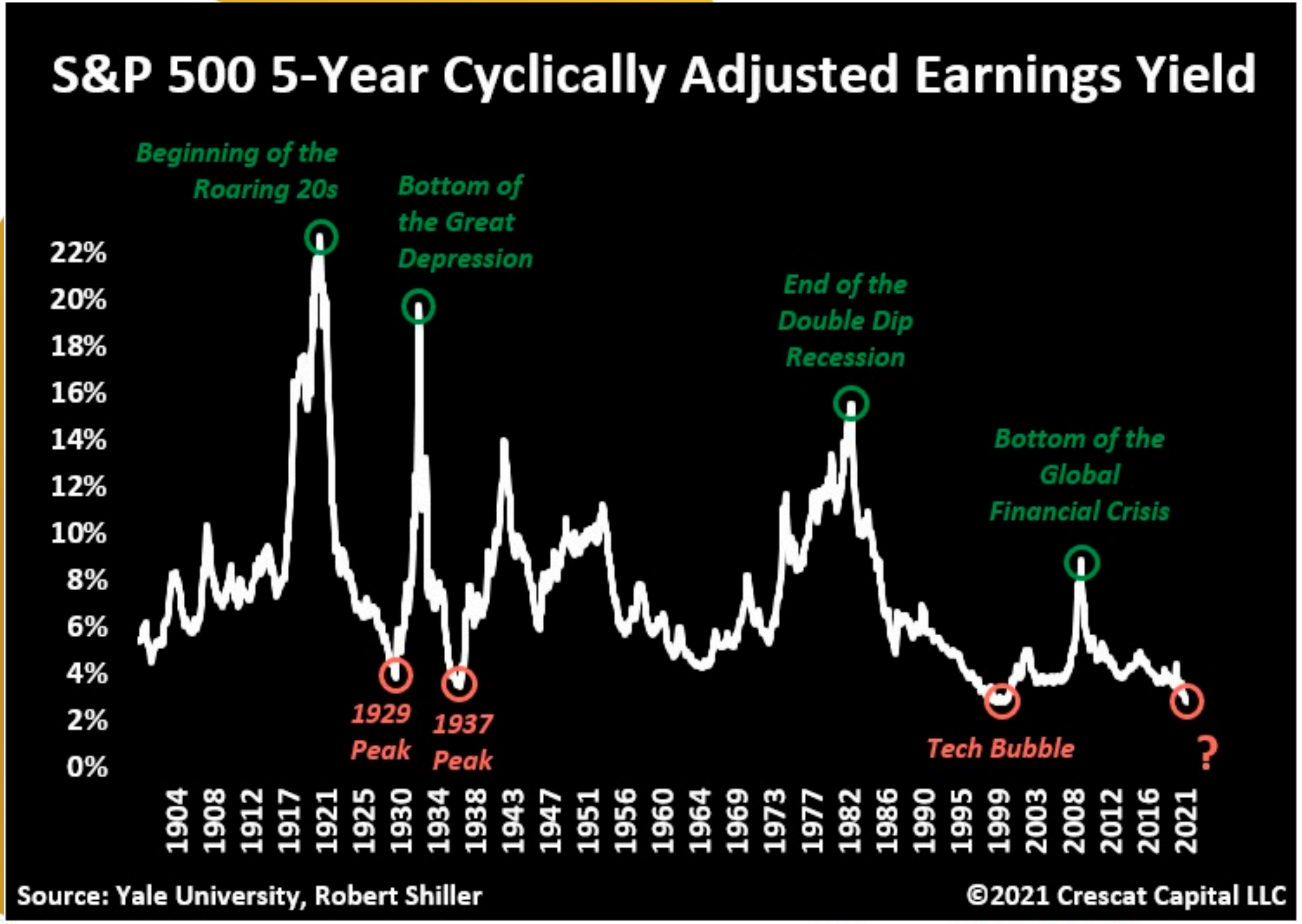
Crescat's 15-factor valuation model is at record levels with 11 out of 15 fundamental metrics in the 100th percentile historically.



Model Factors	Most Recent Value	Historical Percentile
Median EV to Sales (Ex-Financials)	4.0	100%
US Total Market Cap to GDP	170%	100%
EV to Free Cash Flow Margin-Adjusted (Ex-Financials)	48.8	100%
Median Price to Sales	2.8	100%
Median Price to Book	3.9	100%
Median EV to EBITDA (Ex-Financials)	15.0	100%
Aggregate EV To Sales	3.0	100%
Aggregate EV to Trailing 12M EBITDA	17.5	100%
Aggregate EV to 2021 EBITDA Estimate	15.9	100%
Aggregate Price to 2021 Book Value Estimate	3.8	100%
Aggregate Price to Tangible Book Value	12.8	100%
Aggregate Price to Earnings	27.9	98%
Cyclically Adjusted P/E (CAPE)	32.9	97%
Aggregate Price to 2021 Earnings Estimate	25.6	97%
Aggregate Price to Book	3.9	91%

Source: Bloomberg, Yale/Robert Shiller, John Hussman *Numbers as of December of 2020



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.

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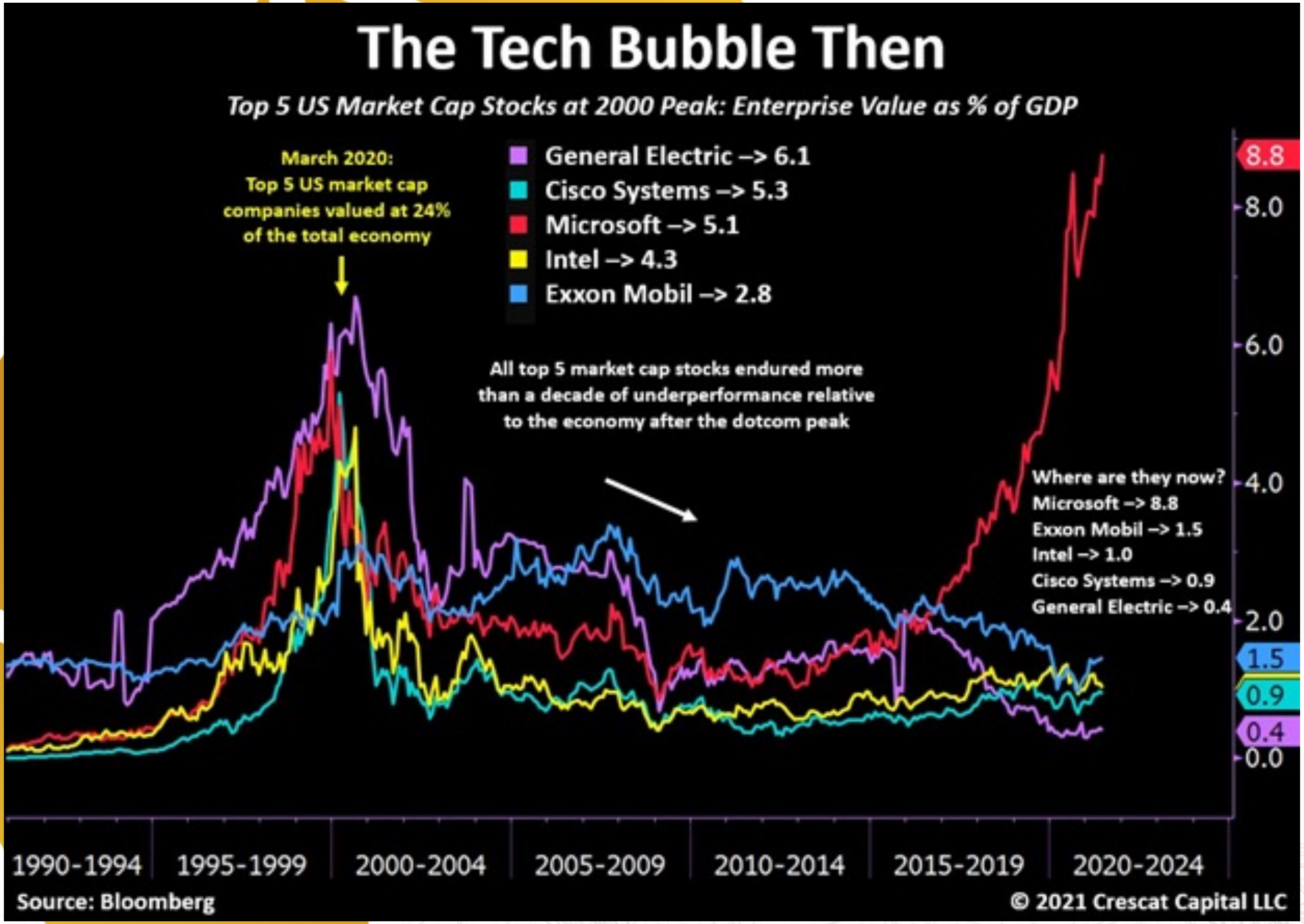

Over the two and a half years of the tech bust in 2000-02, the S&P 500 Index declined 49% and the NASDAQ Composite crashed 78%.

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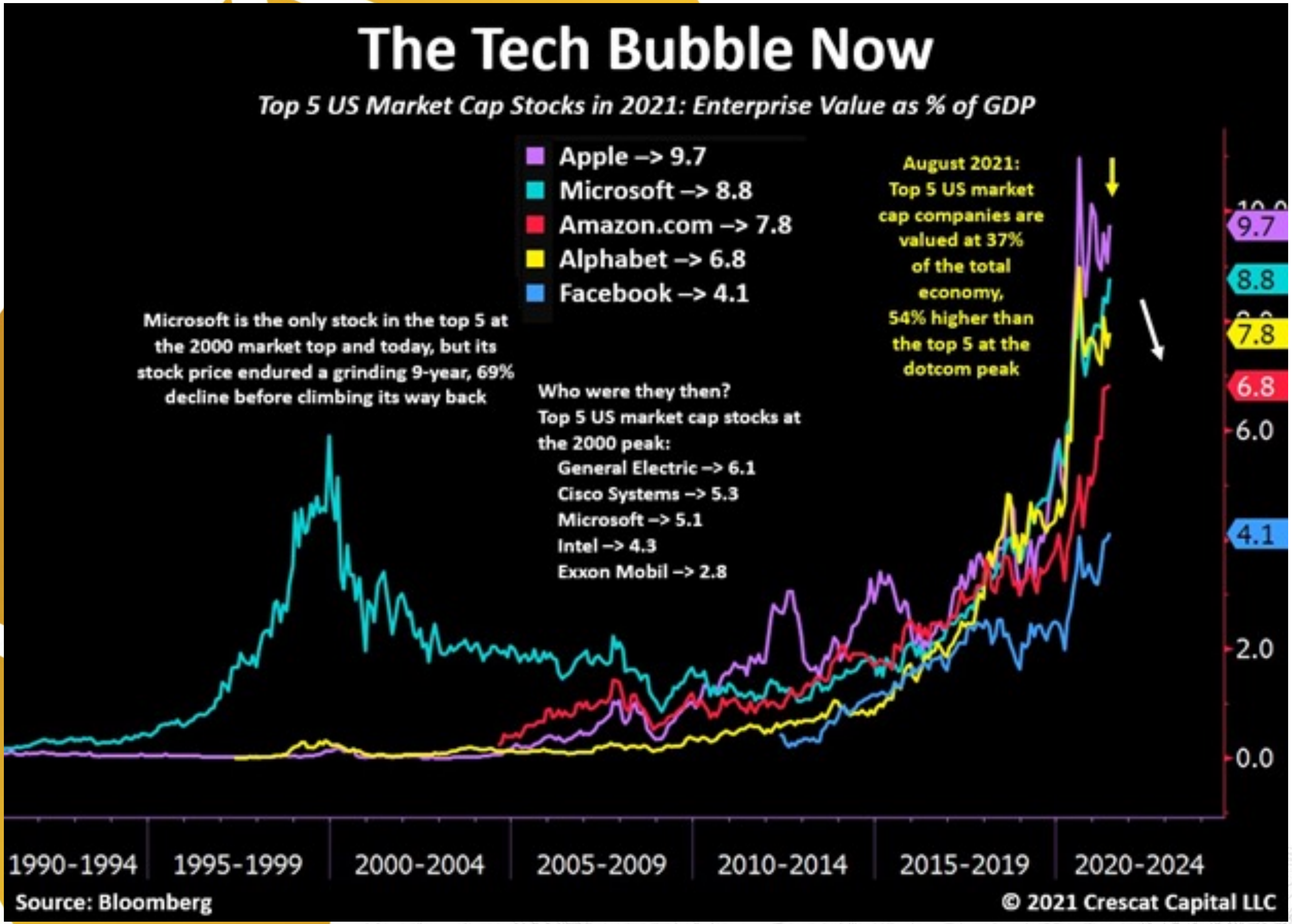

The combined enterprise value of the widely held top five is 37% of GDP, 54% higher than it was for the top five at the 2000 peak.

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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.

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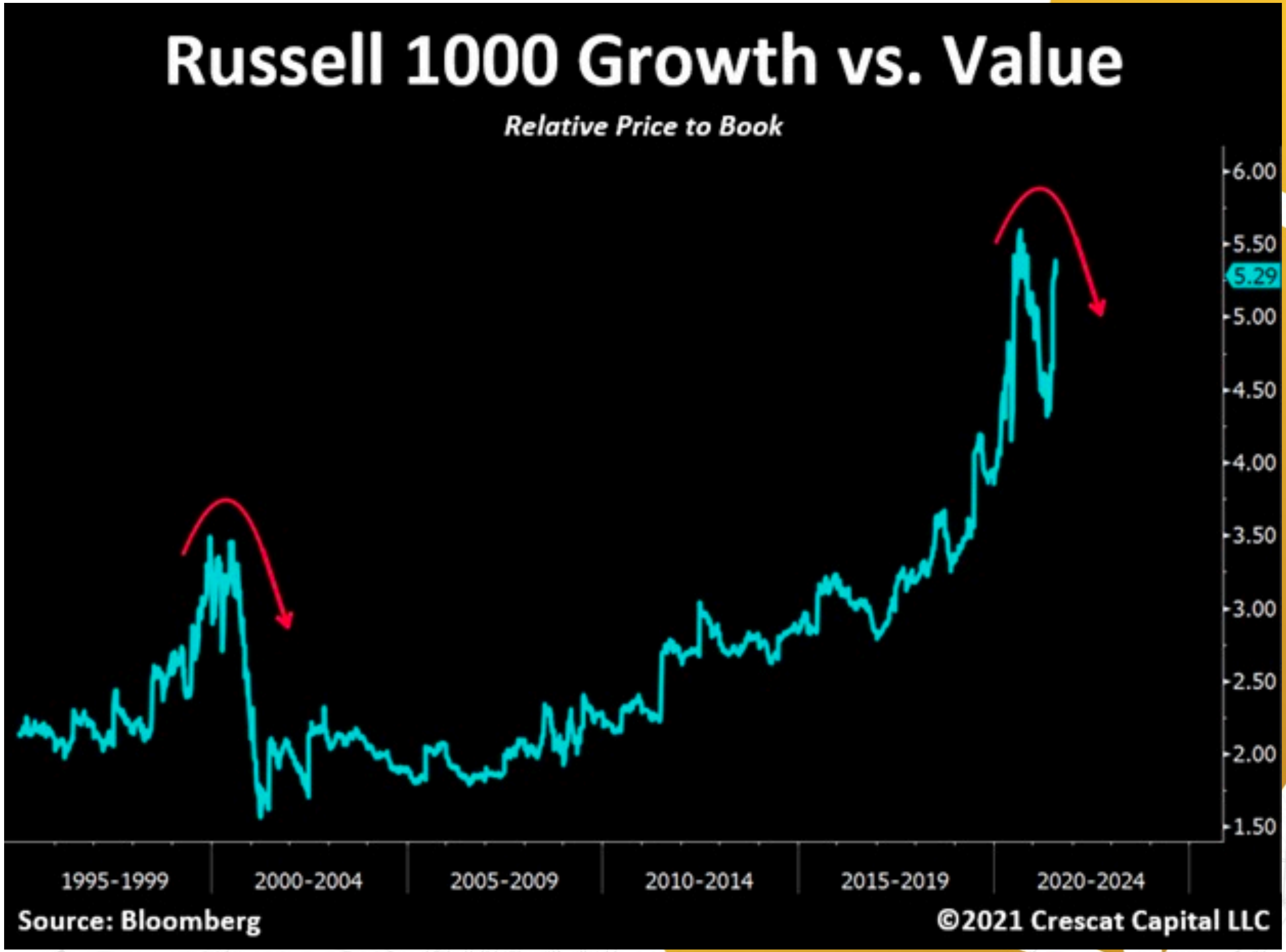
Our analysis shows that rising inflation is likely to be persistent, not a transitory problem. It is a consequence of years of reliance on ever greater monetary and fiscal stimulus as the primary policy tools in attempts to solve economic problems.



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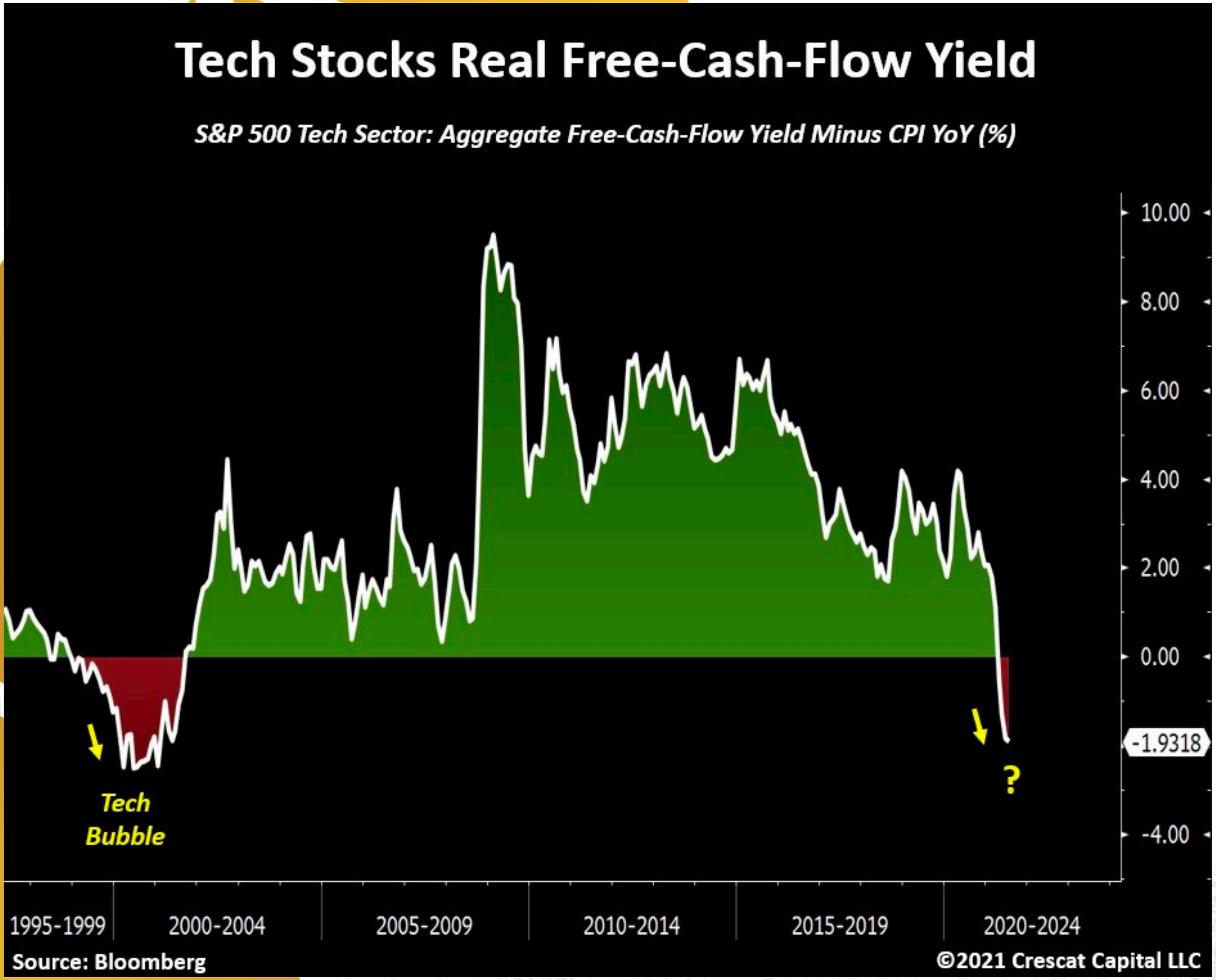

Real free cash flow yield for tech companies is now at its most negative since the bubble.

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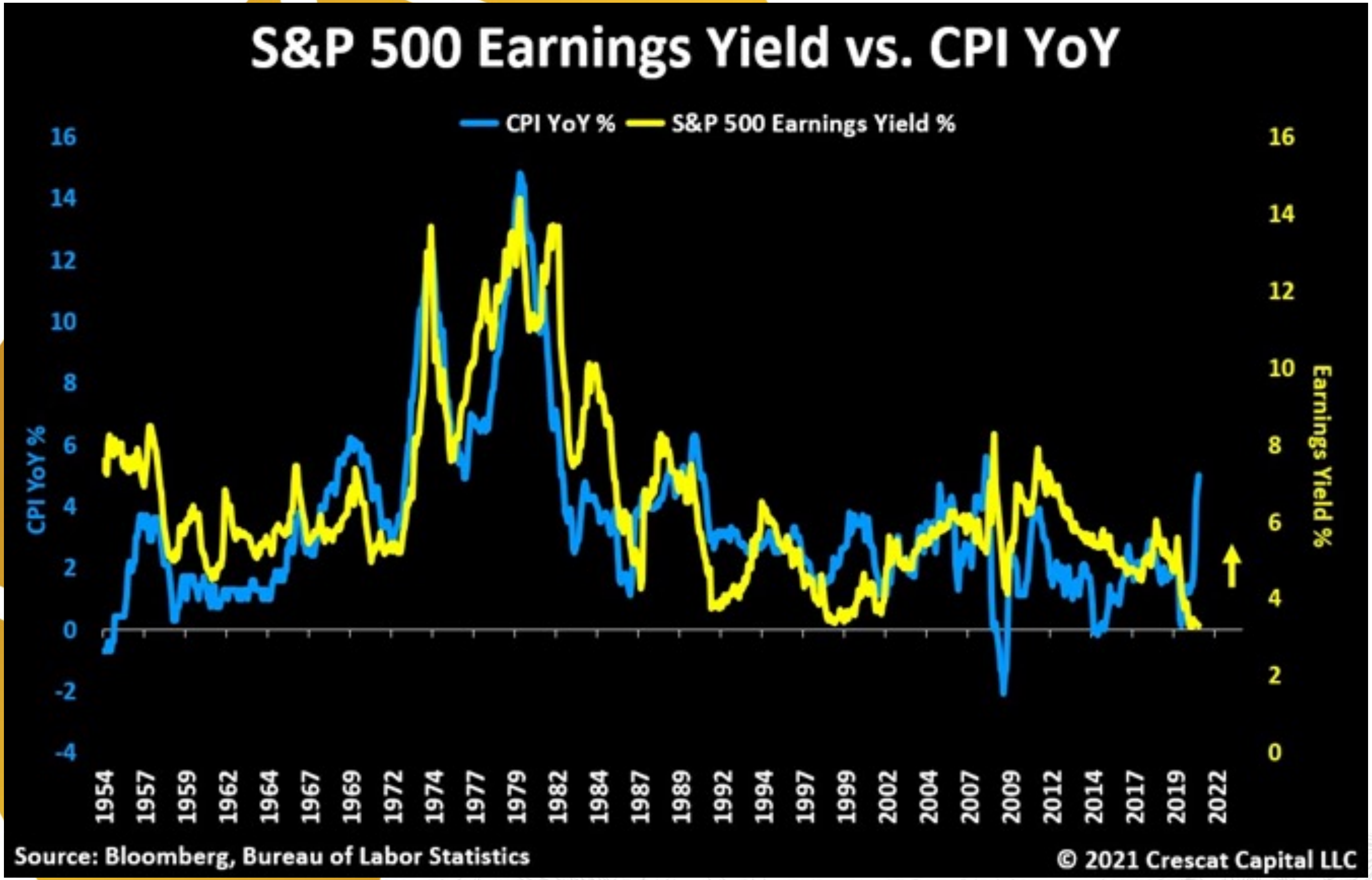

For proof that inflation deflates P/E multiples, look at the strong relationship between CPI and the earnings yield (inverse of P/E) of the S&P 500 Index over the last seven decades of data.

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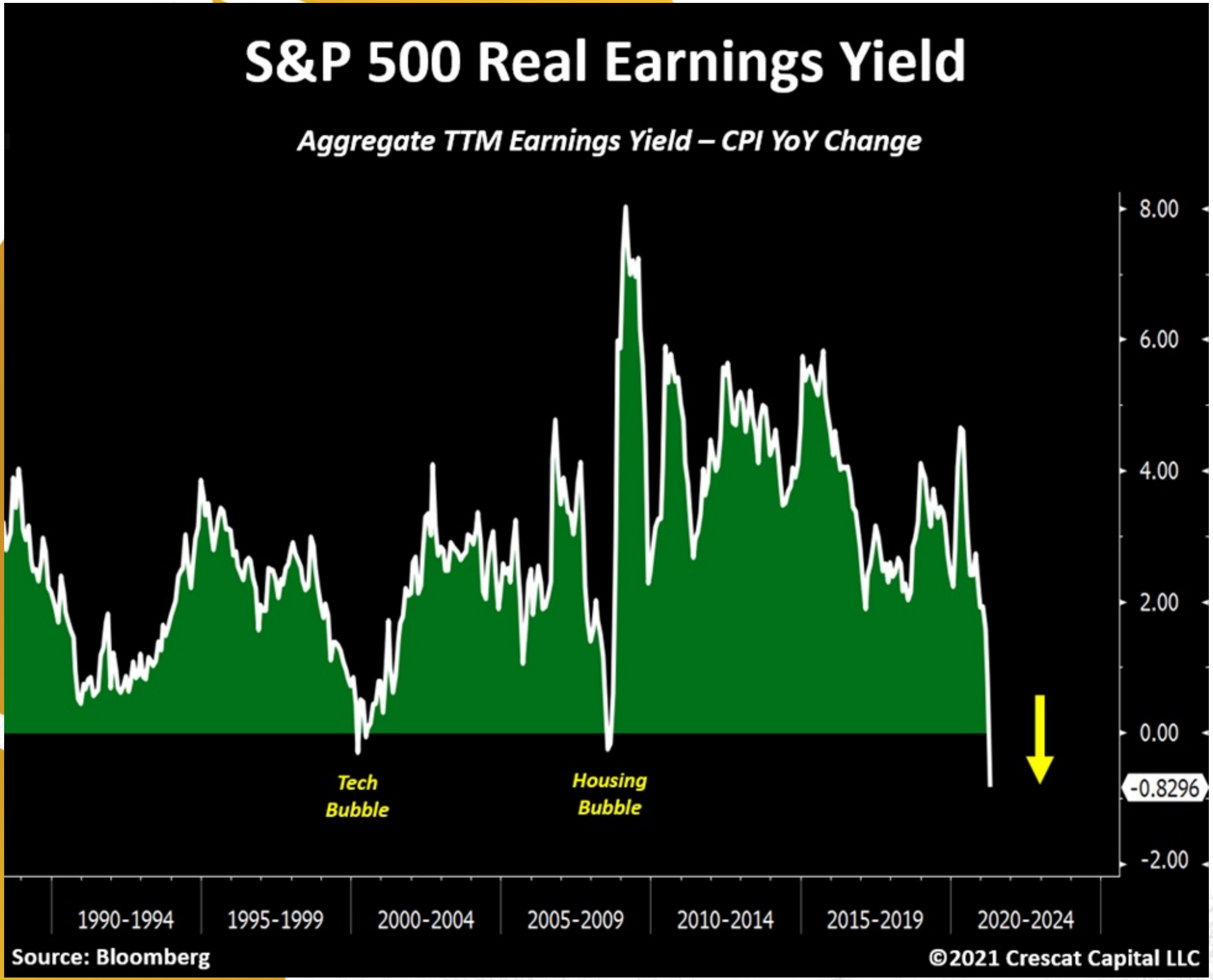
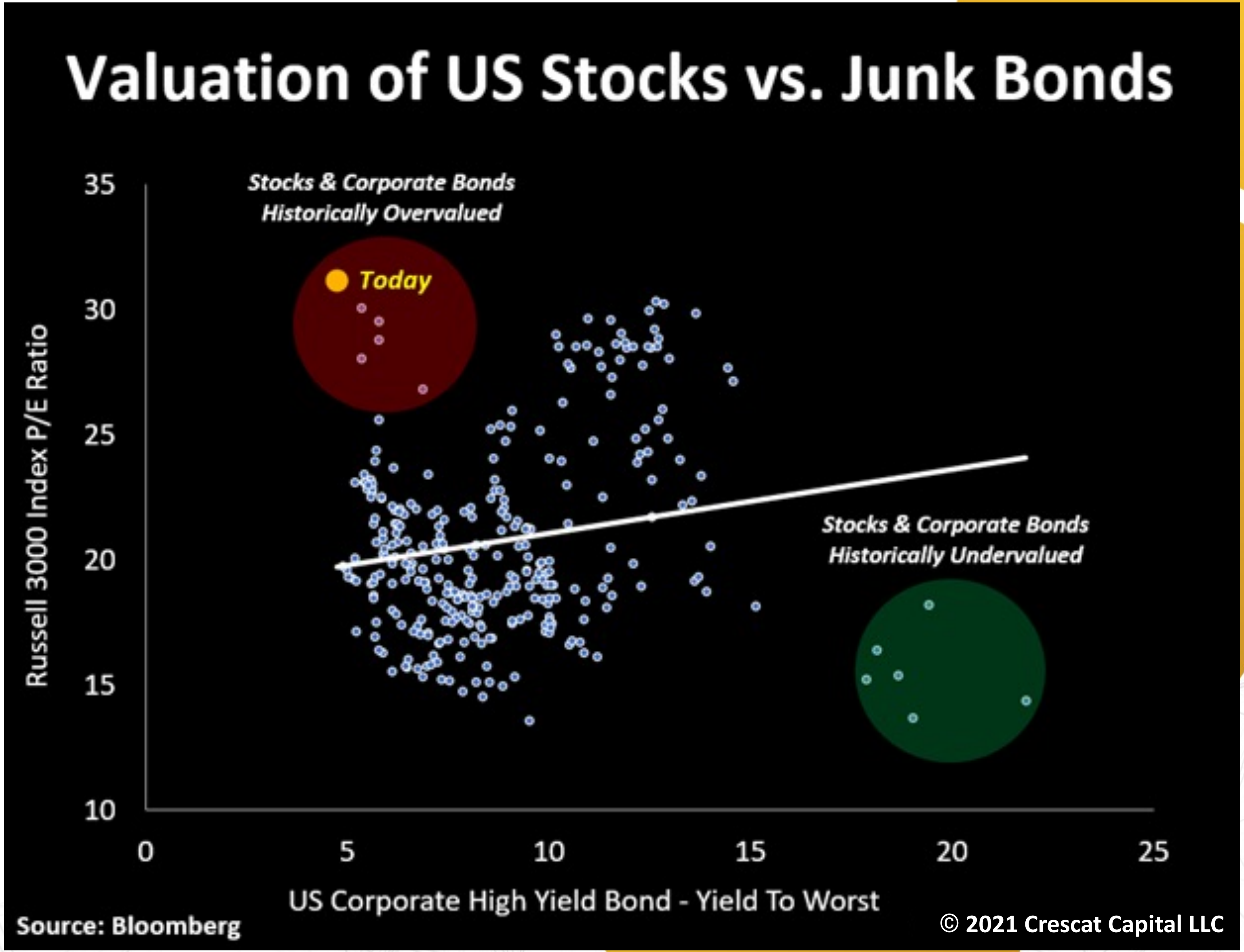
Corporate bonds now yield less than inflation expectation for the first time in history.



The S&P 500 earnings yield adjusted for CPI is now at its worst level in 30 years.



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

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

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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.

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.

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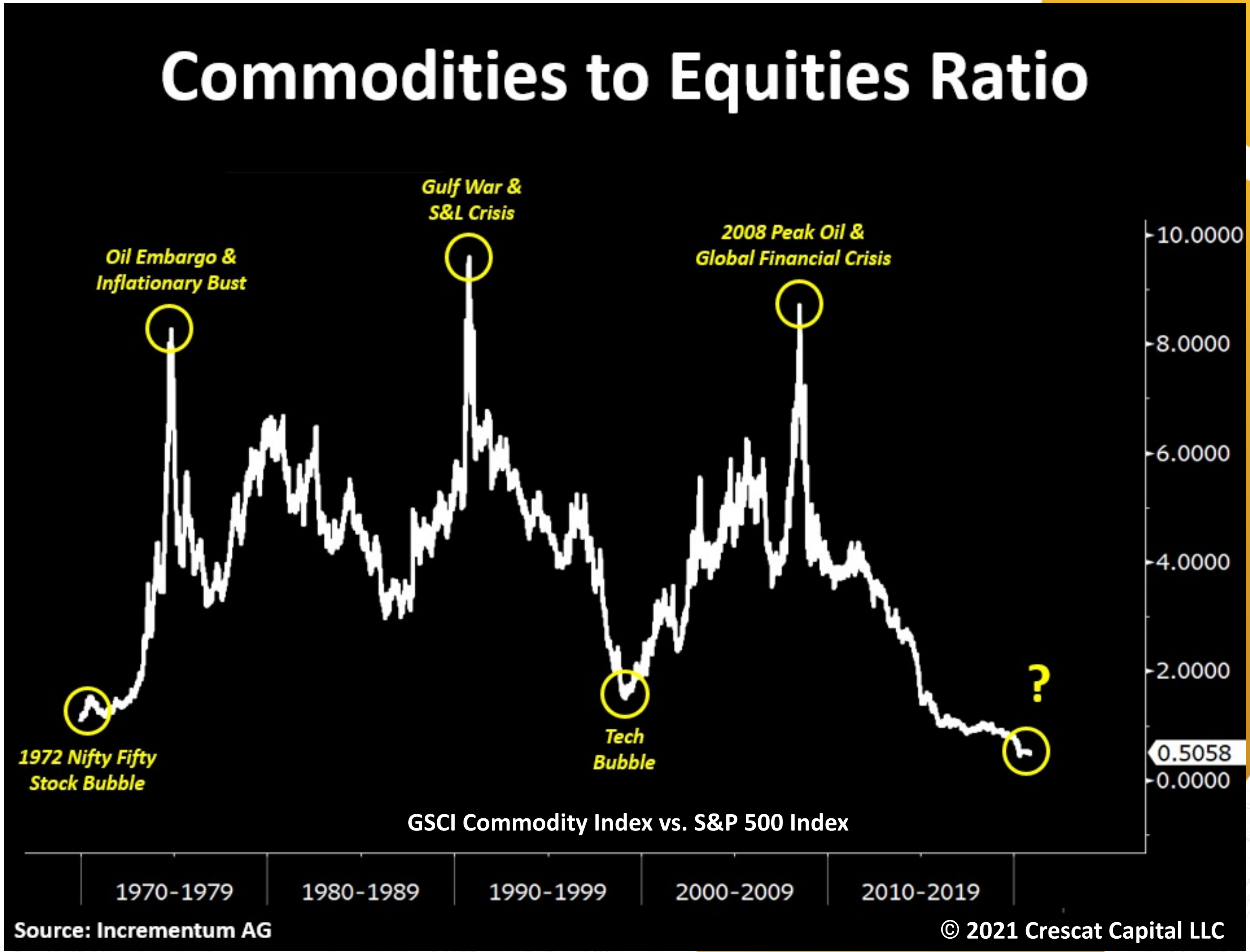
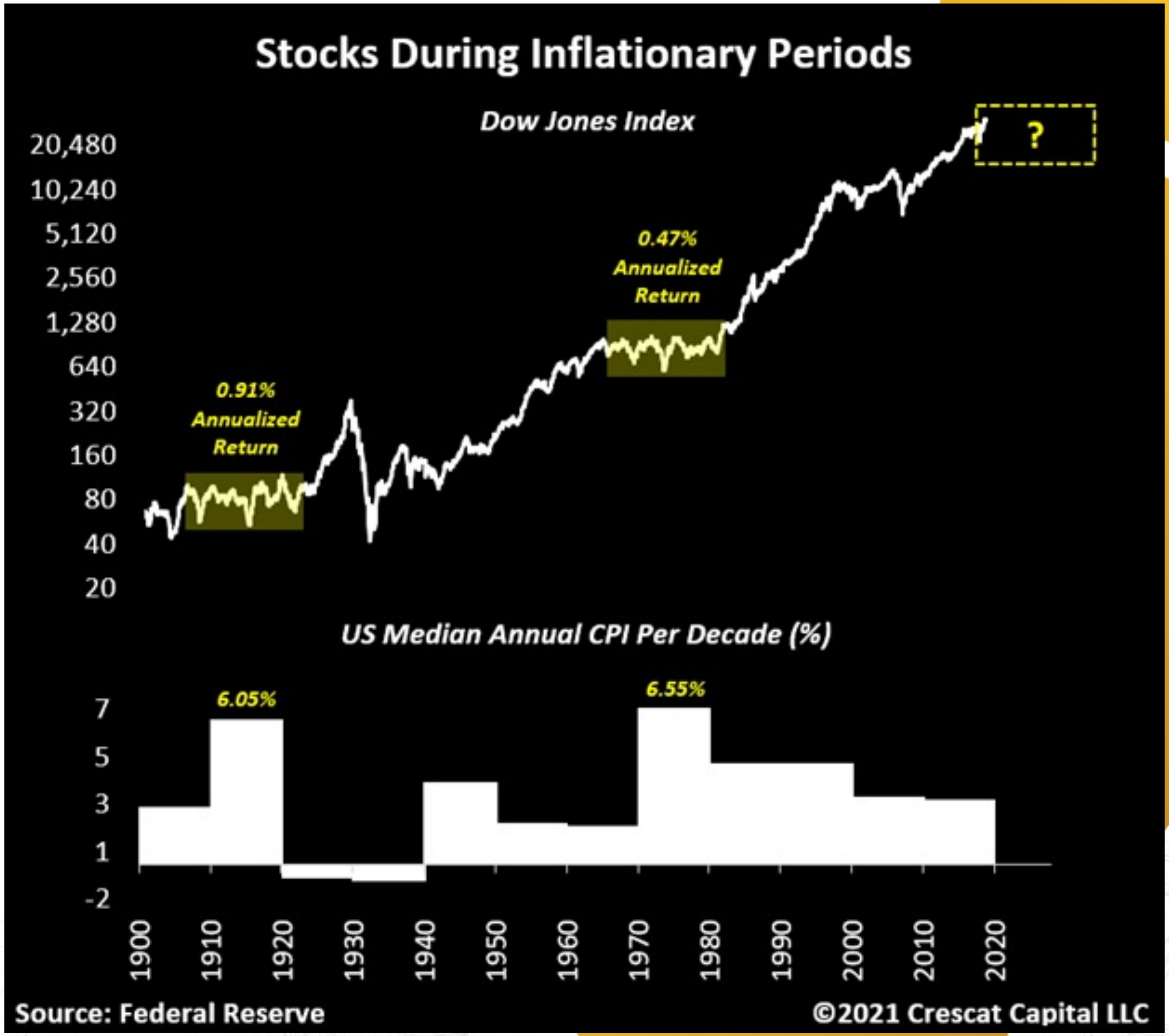
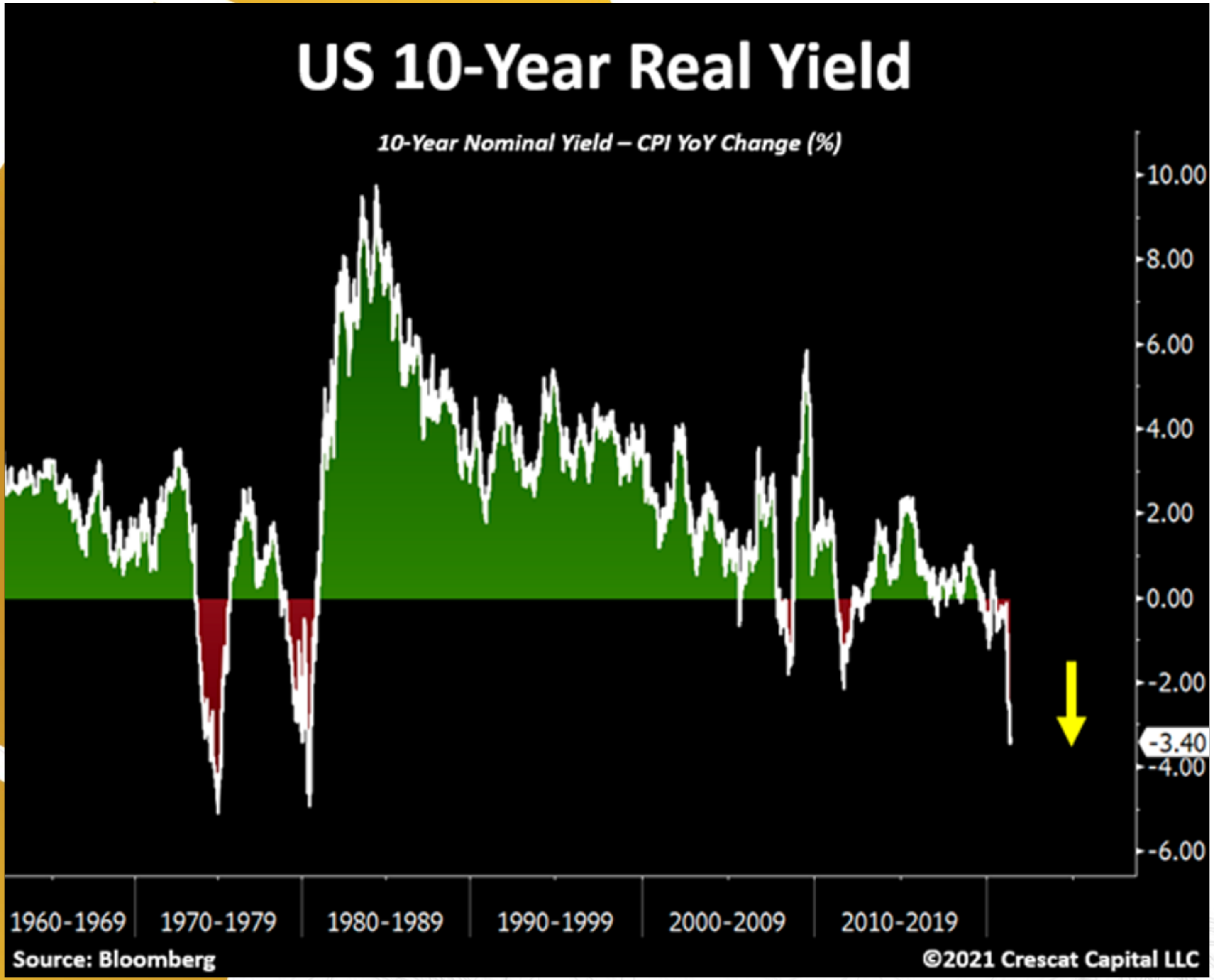
The commodity-to-equity ratio is at a 50-year low.



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.





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.

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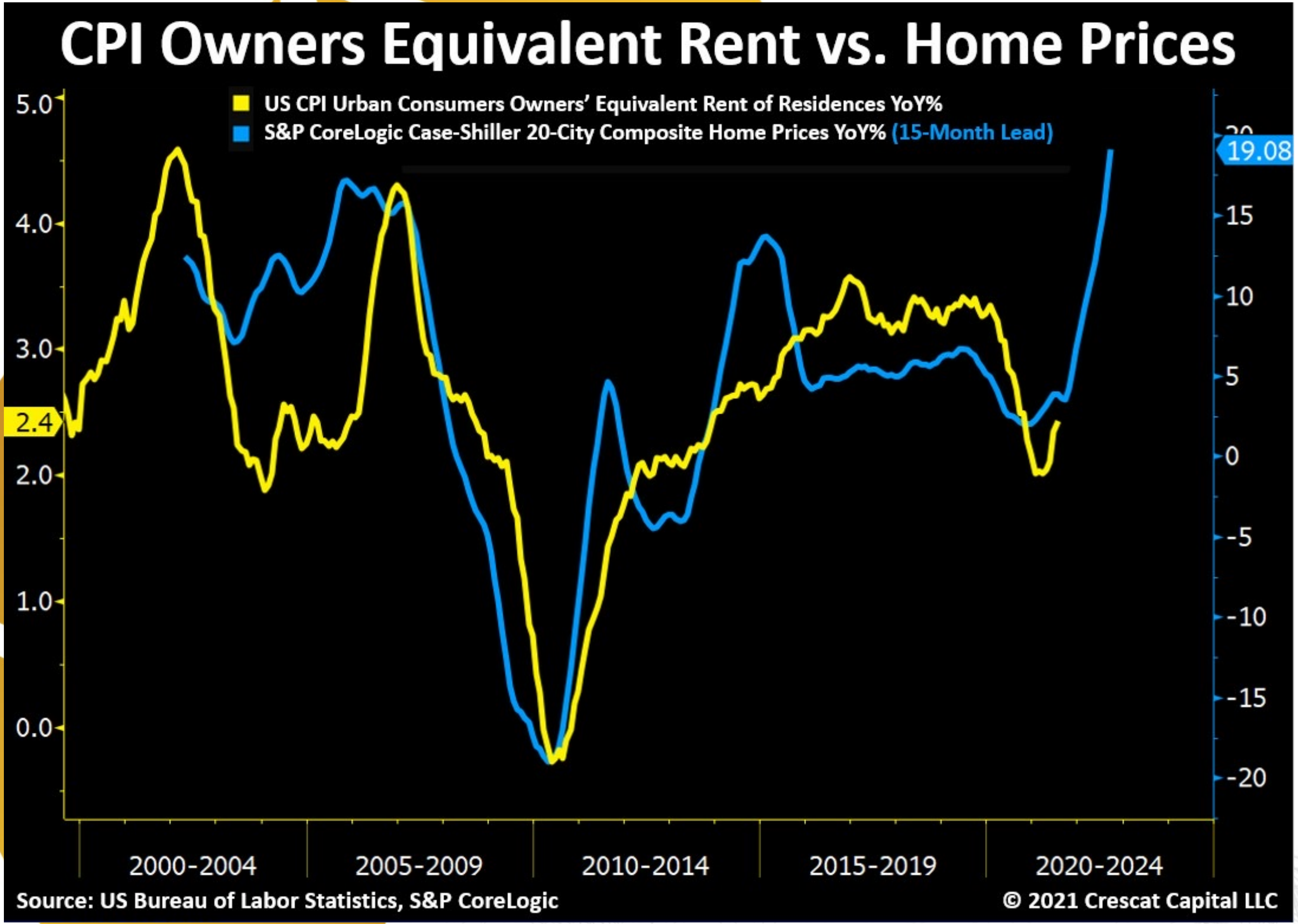

Shelter is a basic necessity, the largest household expense with a 40% weight in core CPI between rent and OER. The BLS incorporates it with a 5-quarter lag and numerous "quality" adjustments. 15 months of historic housing inflation pressure ahead for the econ PhDs to wrestle.

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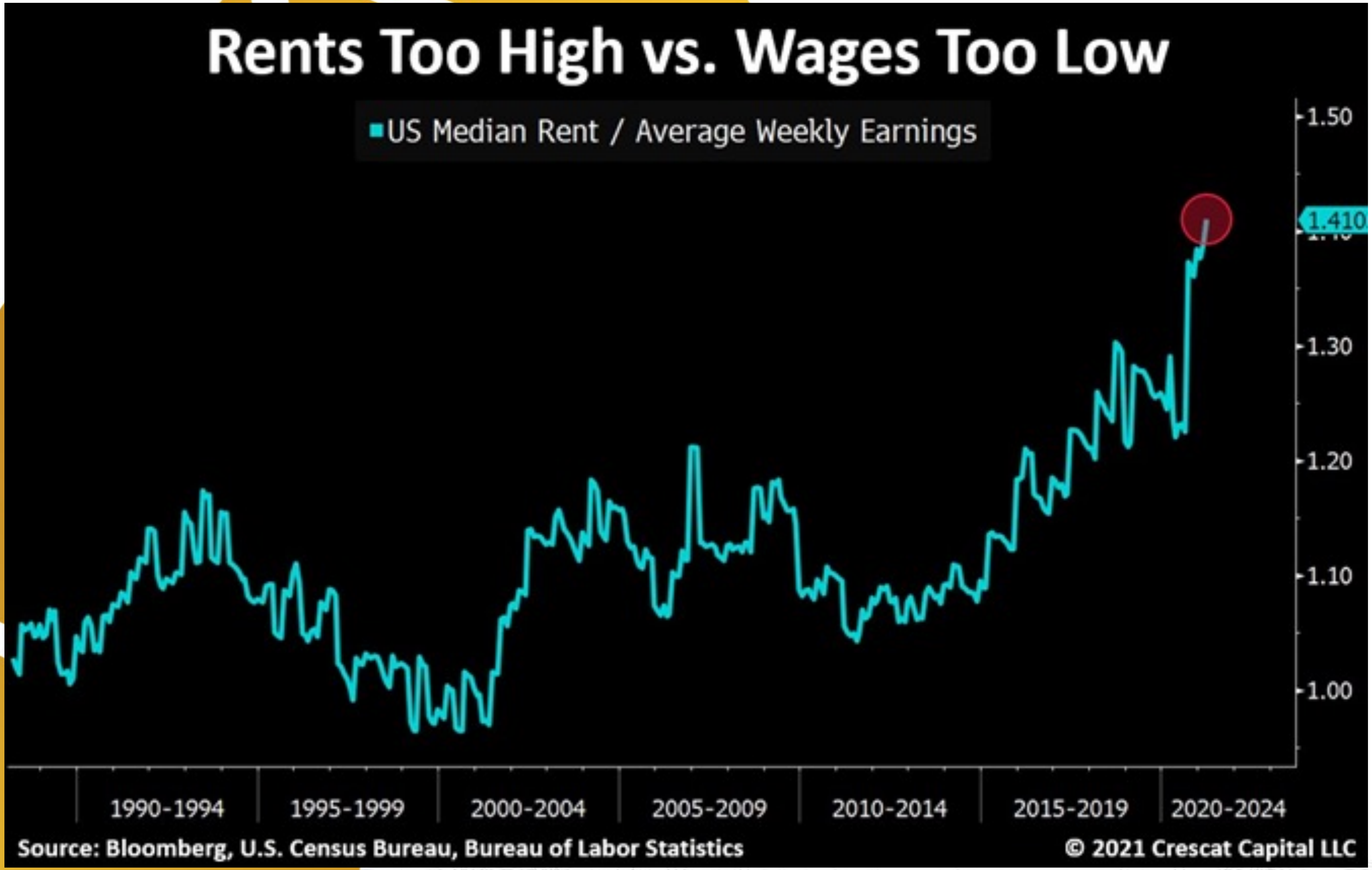

Worker remuneration is much more likely to rise (than rents or house prices fall) to cure this imbalance due to acute labor shortages.

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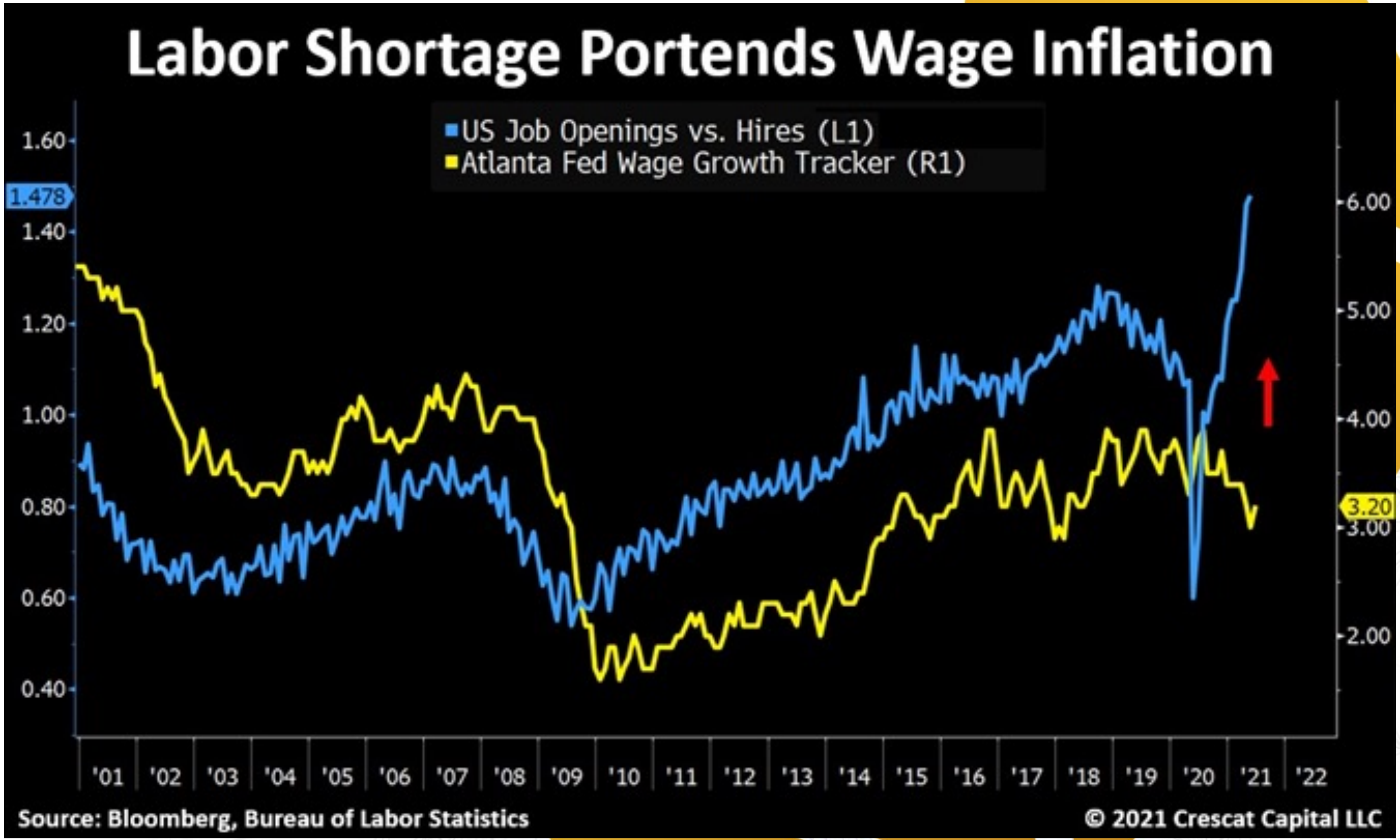
When it comes to macro indicators of a tight labor market, the ratio of job openings vs. new hires is at a record high. Even with waning government handouts post pandemic, wages will likely need to increase to incentivize people to go to work.



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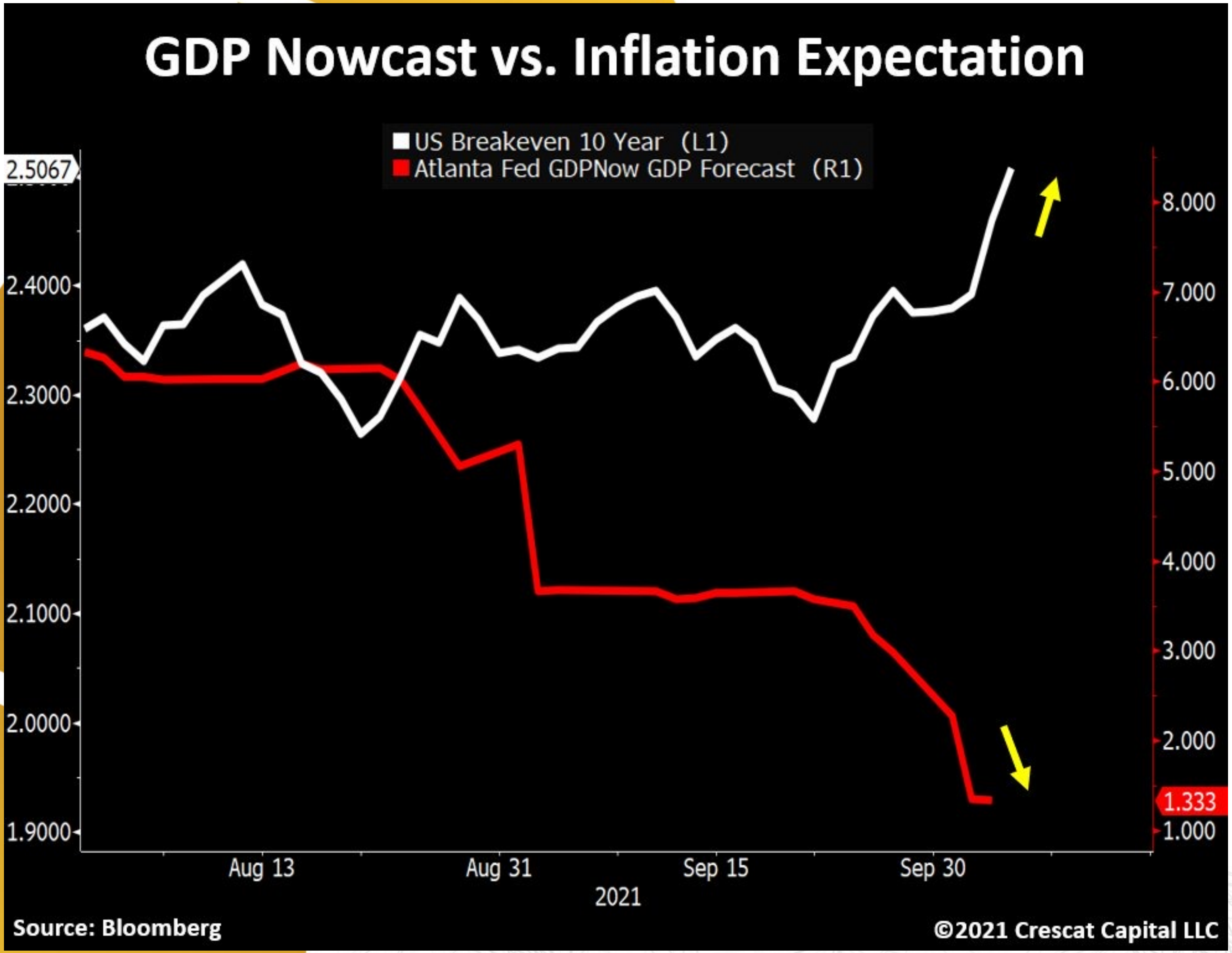

The Fed is trapped.

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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.

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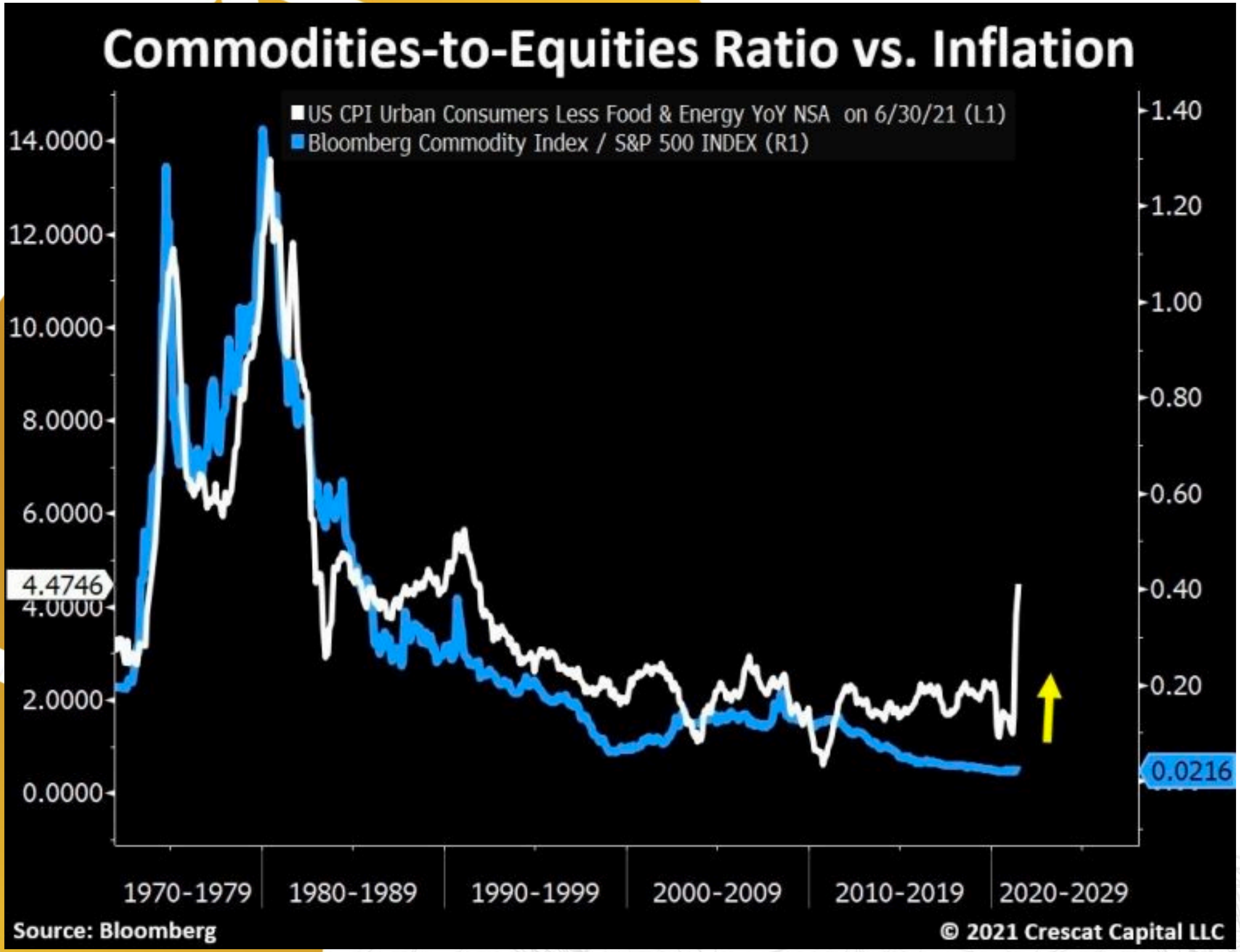

Given our strong views about the likely longer-lasting inflationary consequences in the economy, we believe this is the time for investors to be long tangible assets and short hyper-overvalued stocks while also avoiding bonds. Keep in mind, commodities remain under-allocated by institutions while stocks now have negative real earnings yield just like bonds.

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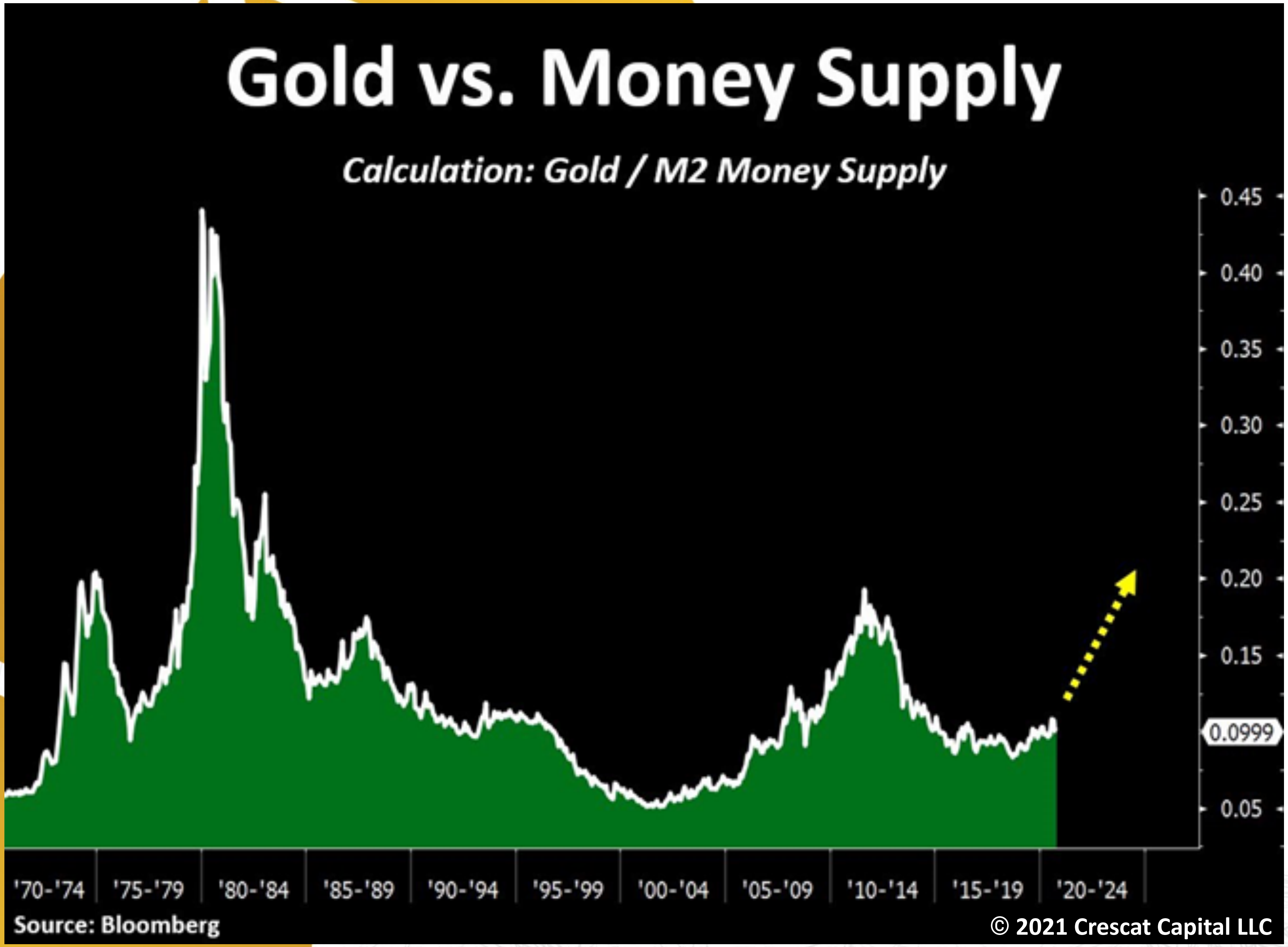
Silver remains historically undervalued relative to money supply.



Price of gold relative to M2 money supply still looks historically attractive with significant upside likely ahead.

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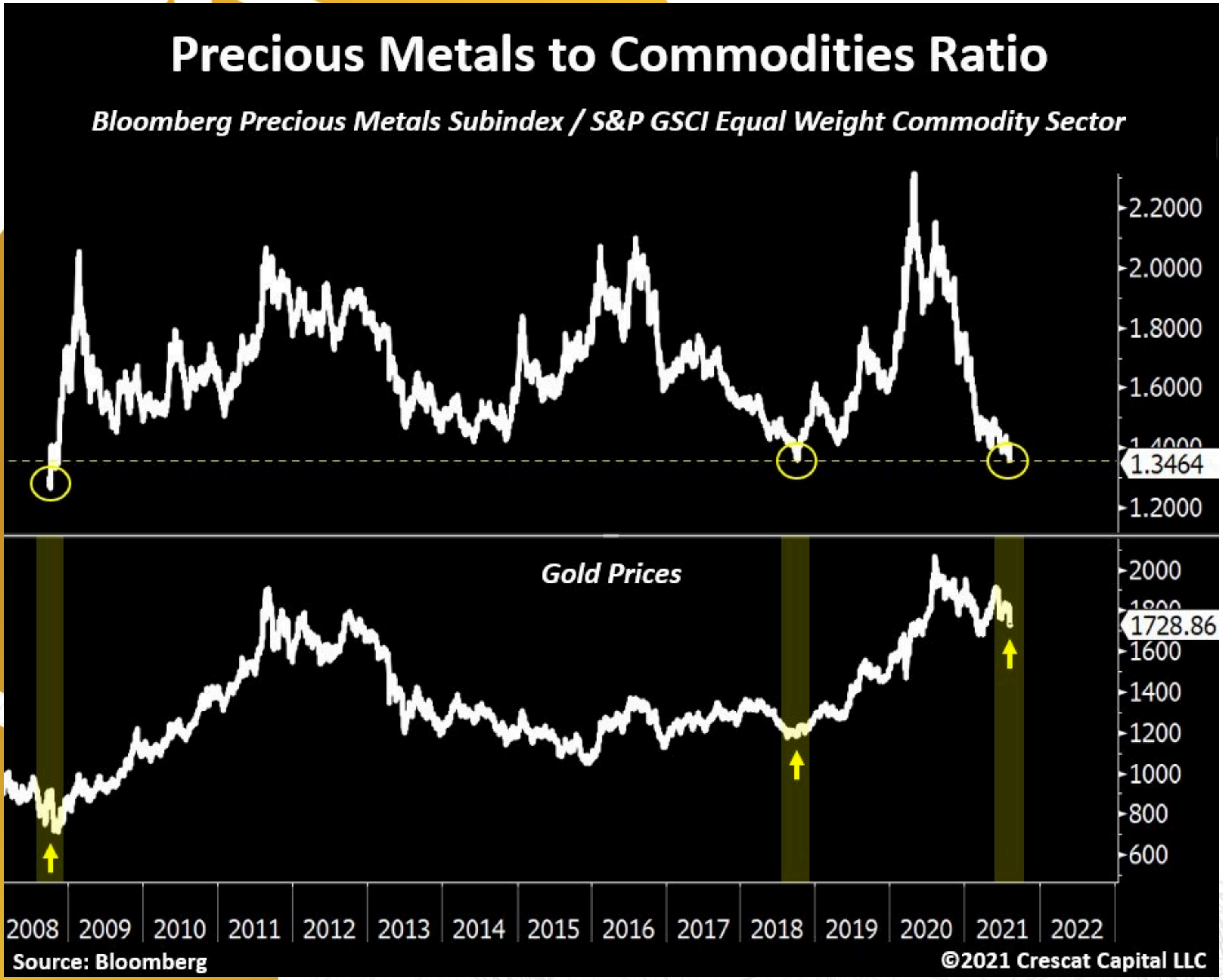

Precious metals are now at their cheapest levels relative to other commodities since 2009. The other 2 times this ratio reached such depressed levels also marked incredible buying opportunities.

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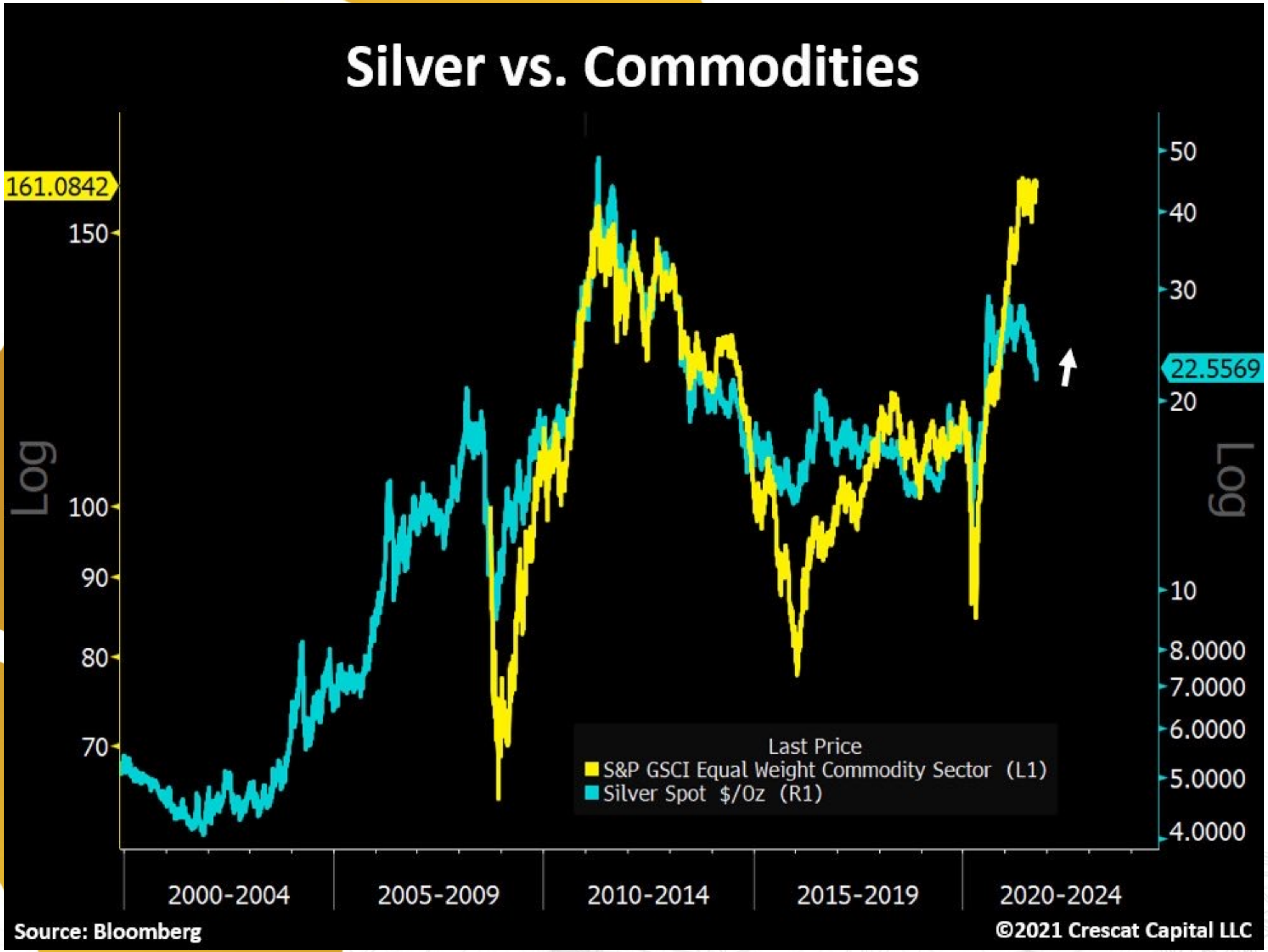

Silver has some major catch up to do. Overall commodities are leading the way and look ready for another big move to the upside after consolidating.

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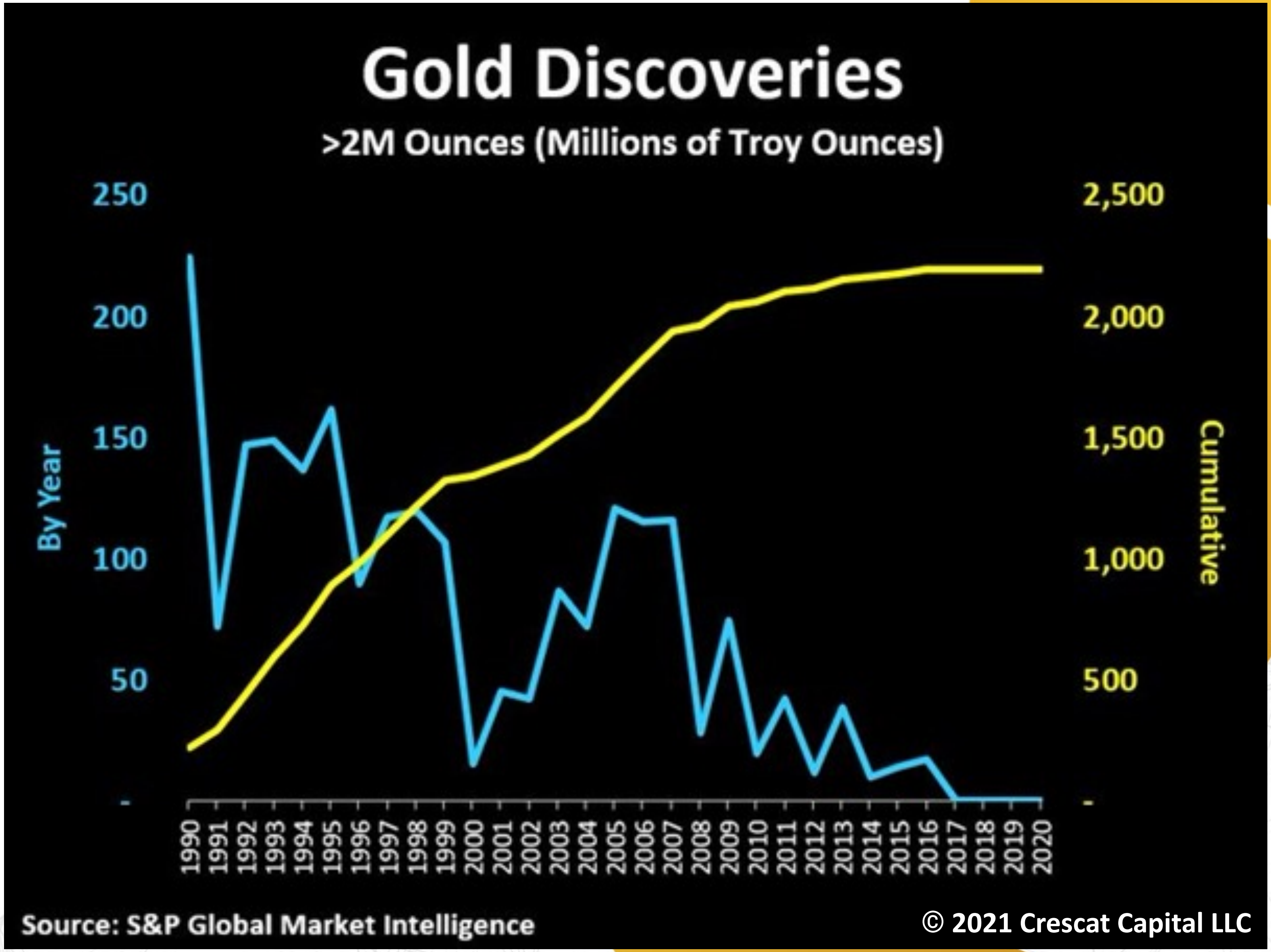
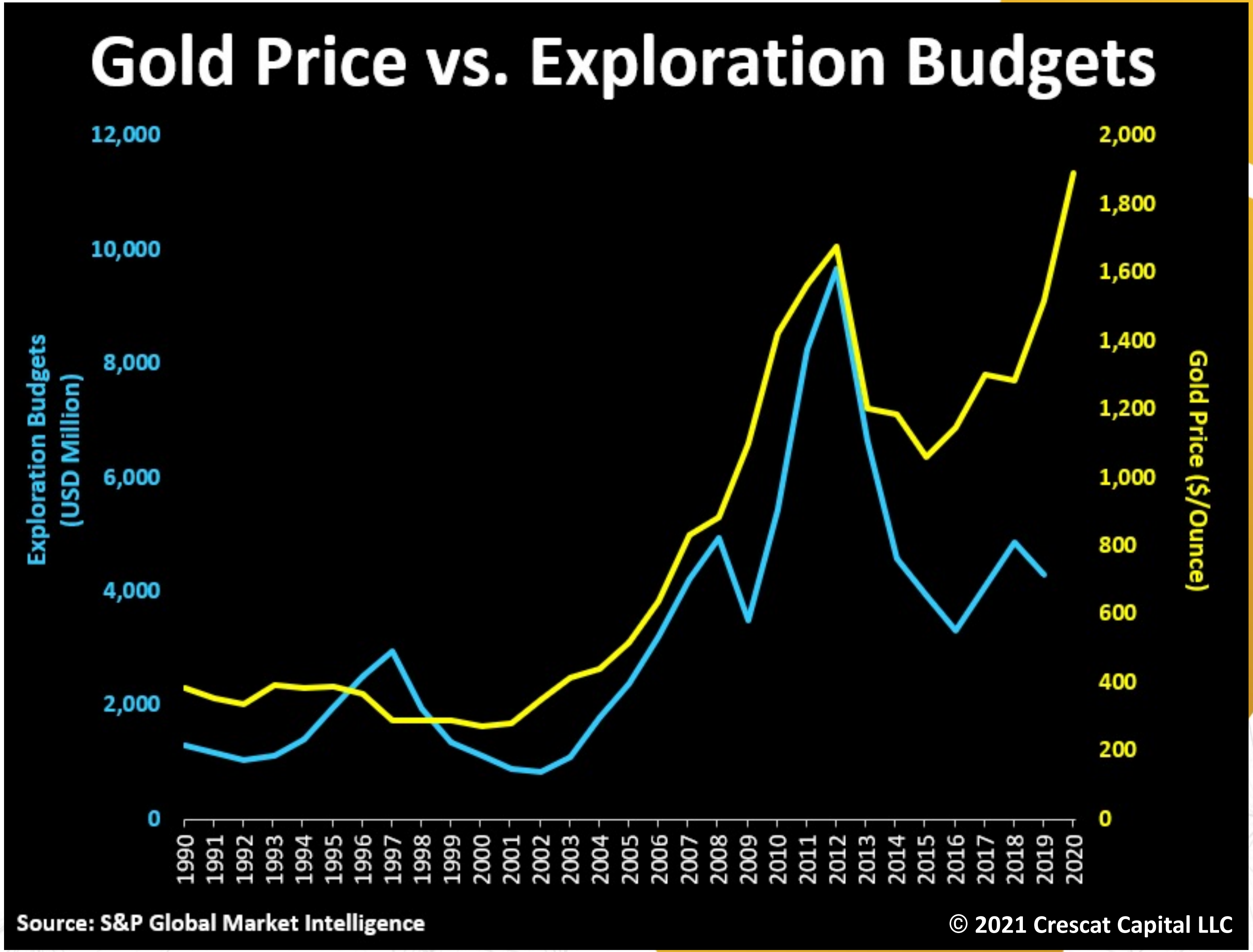
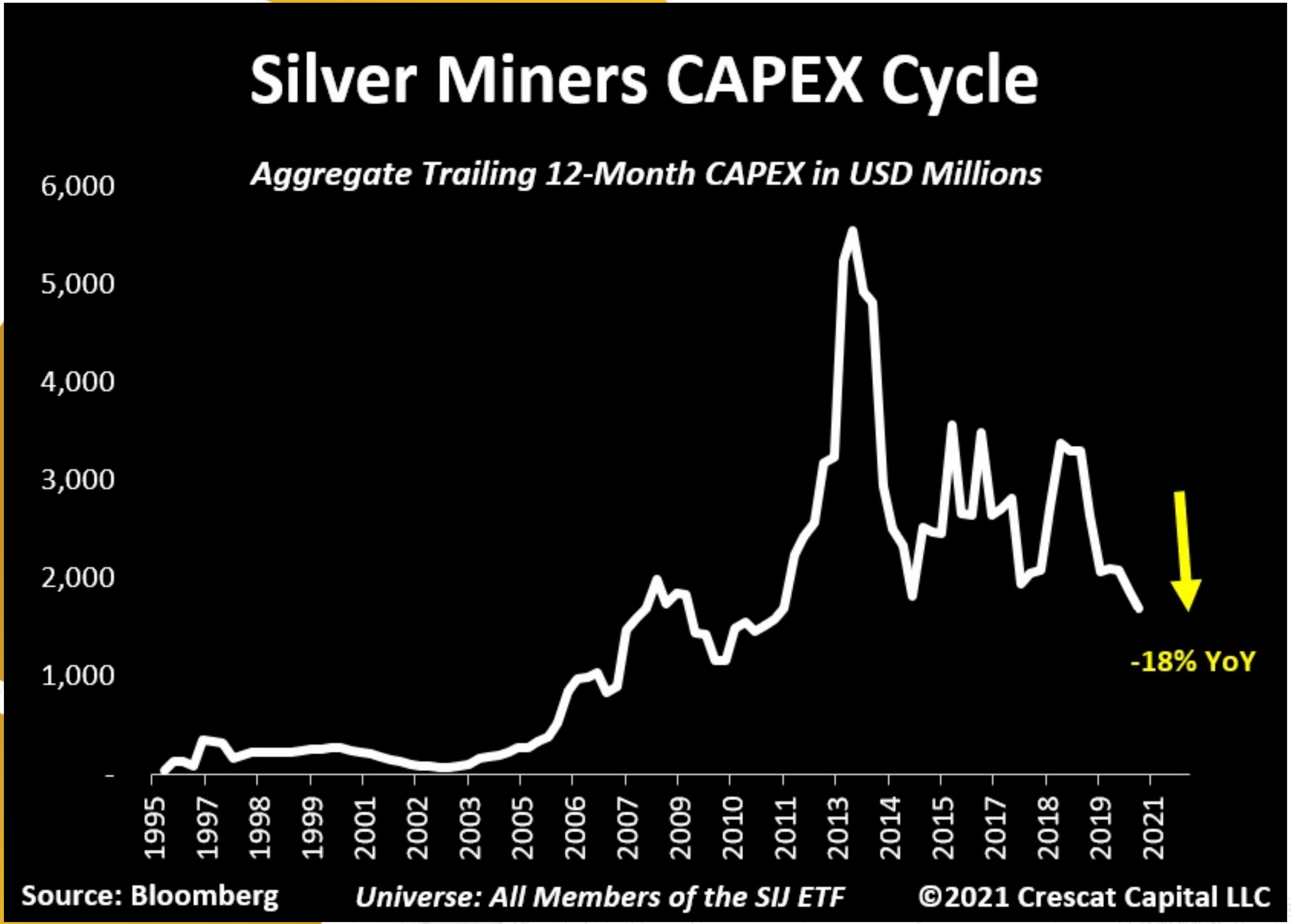
Because of a decade of exploration underinvestment, there have been no major new gold discoveries in the last four years.



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





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.

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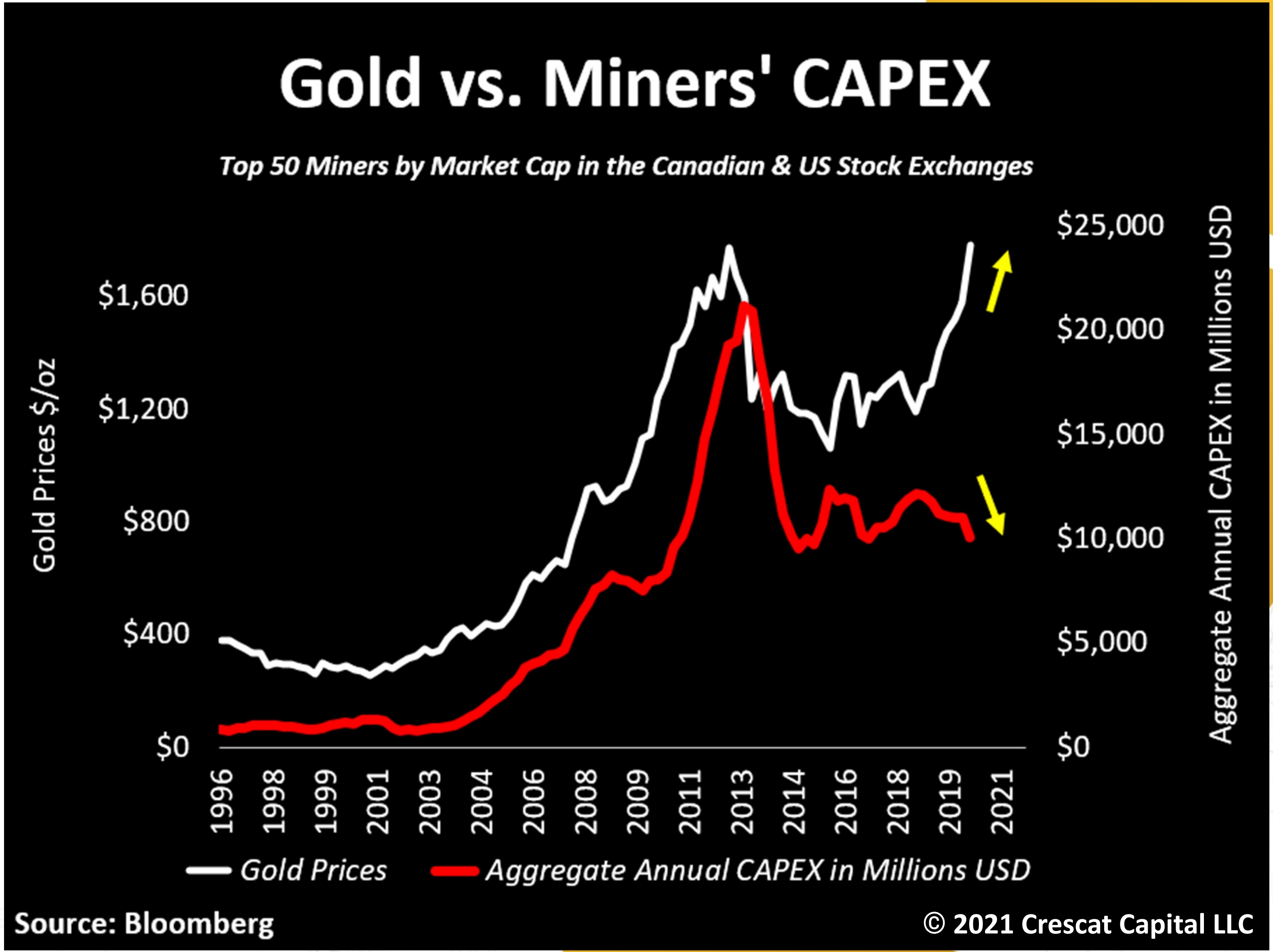
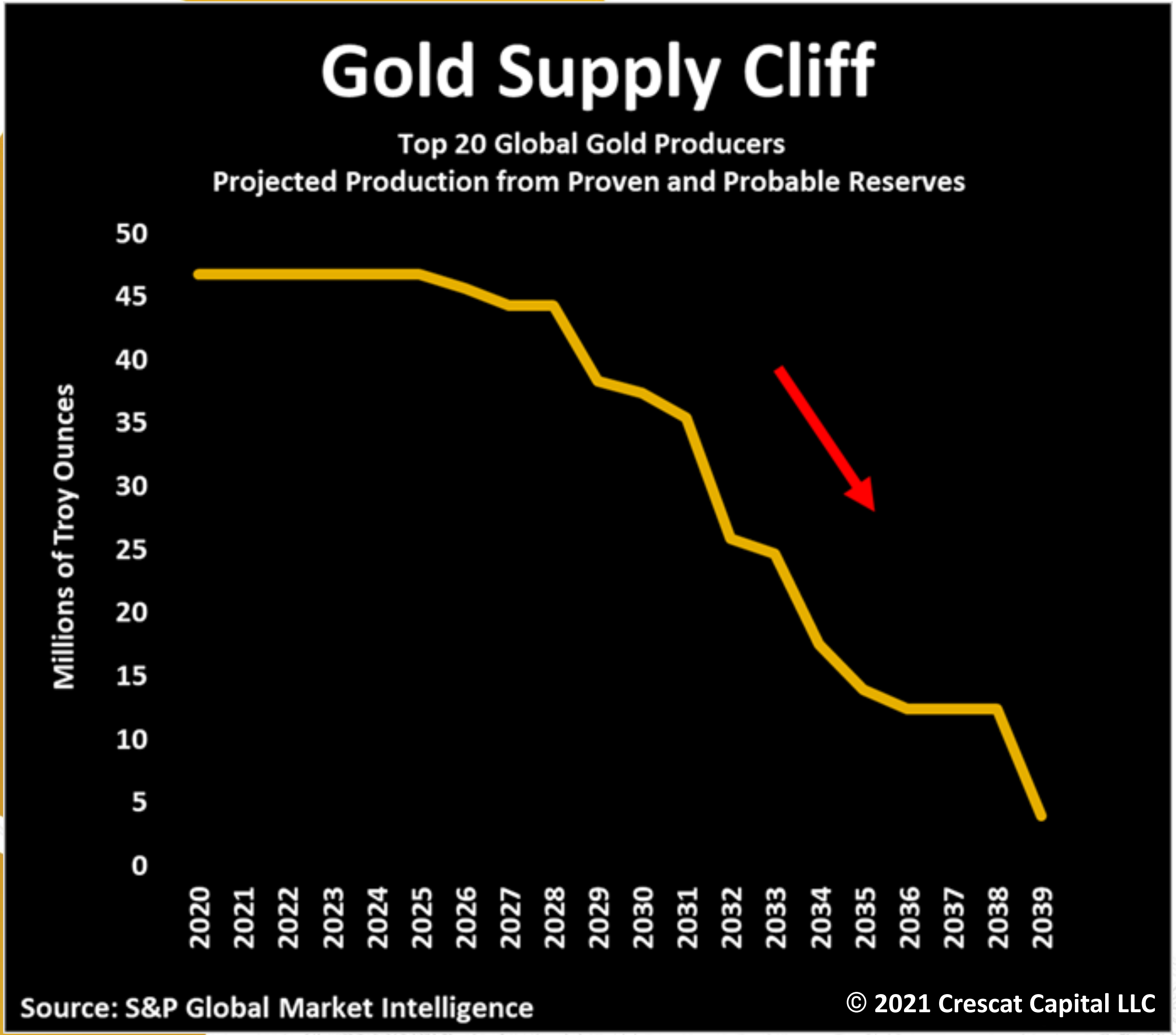
Miners have been reluctant to spend capital even though gold prices have been moving higher. Thus, supply is constrained, an incredibly bullish fundamental backdrop for gold and silver.





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

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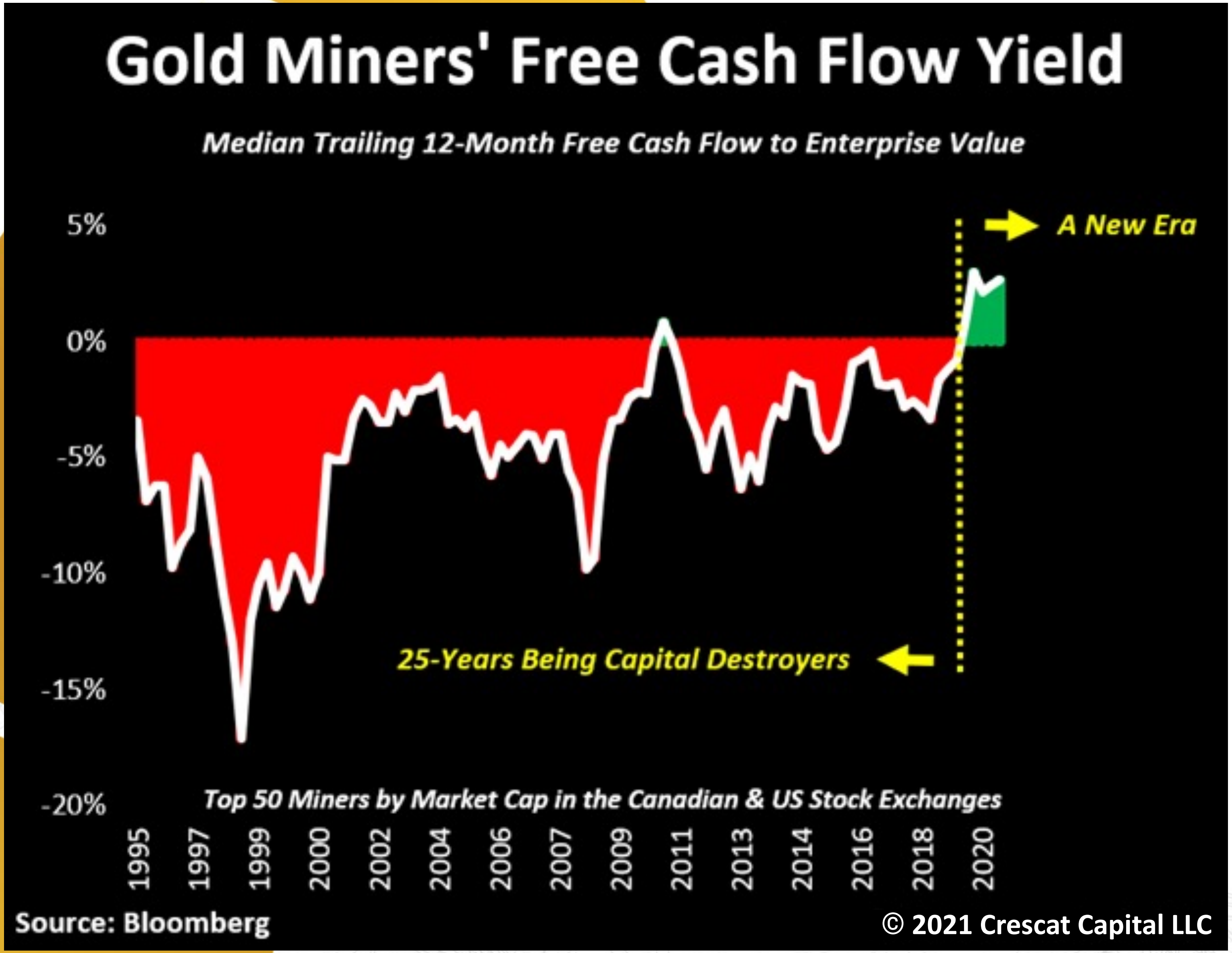

Free cash flow has been positive for the last seven quarters for the top 50 gold miners.

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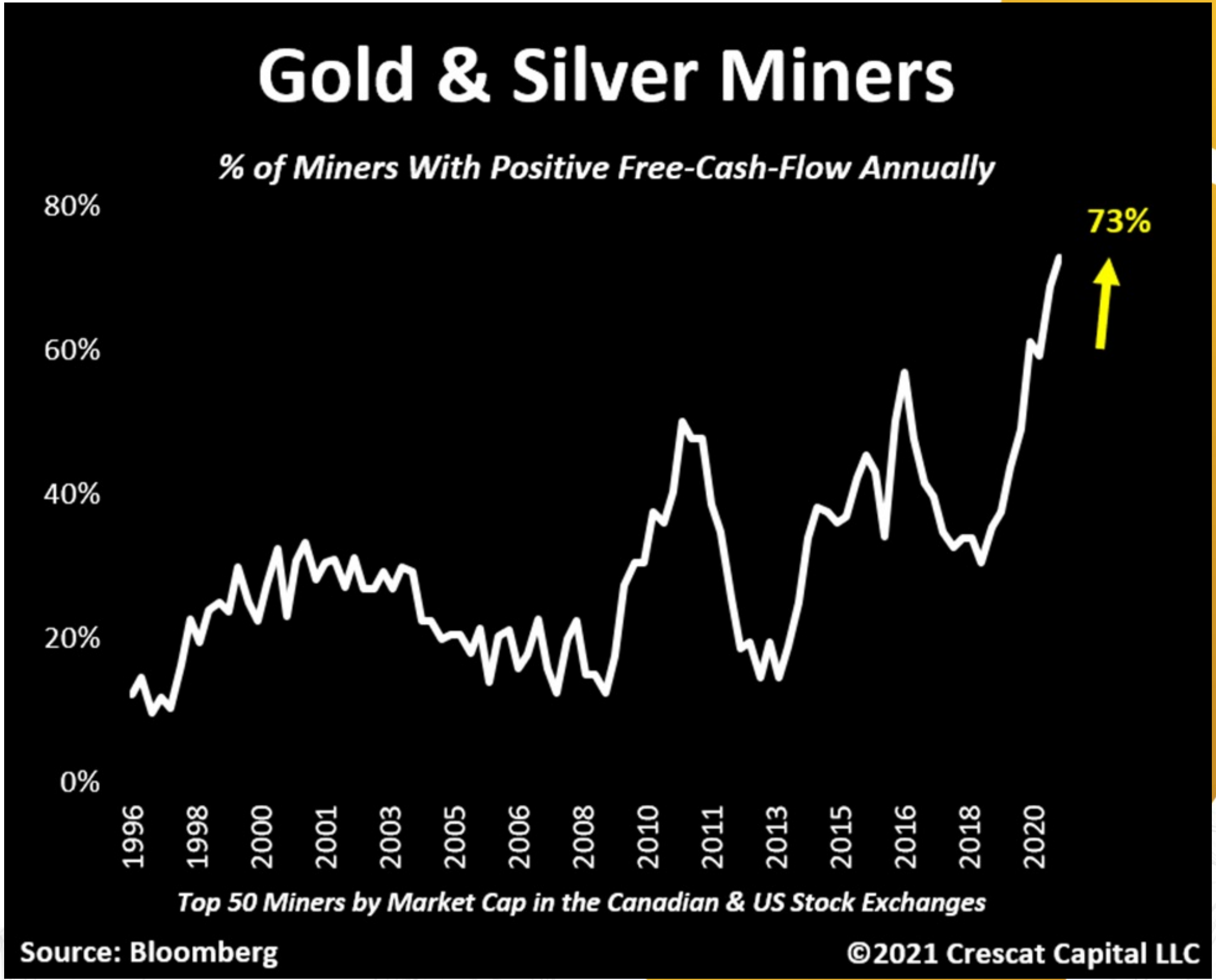
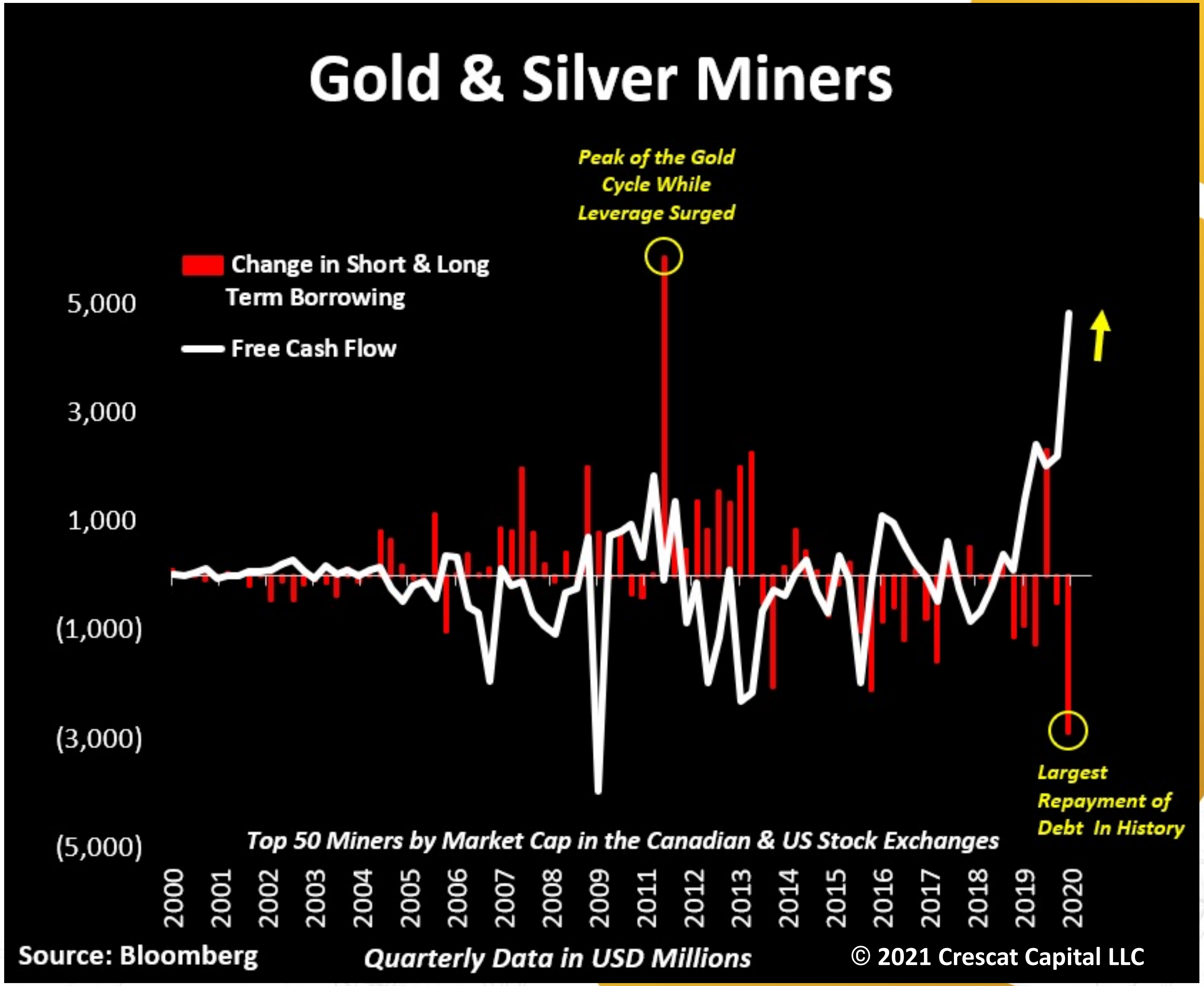
Believe it or not, today, 73% of the top 50 gold and silver miners are profitable on a free cash flow basis. That is the highest level we have ever seen.



Gold & silver stocks just did their largest repayment of debt in history. They have never generated this much FCF in a quarter.



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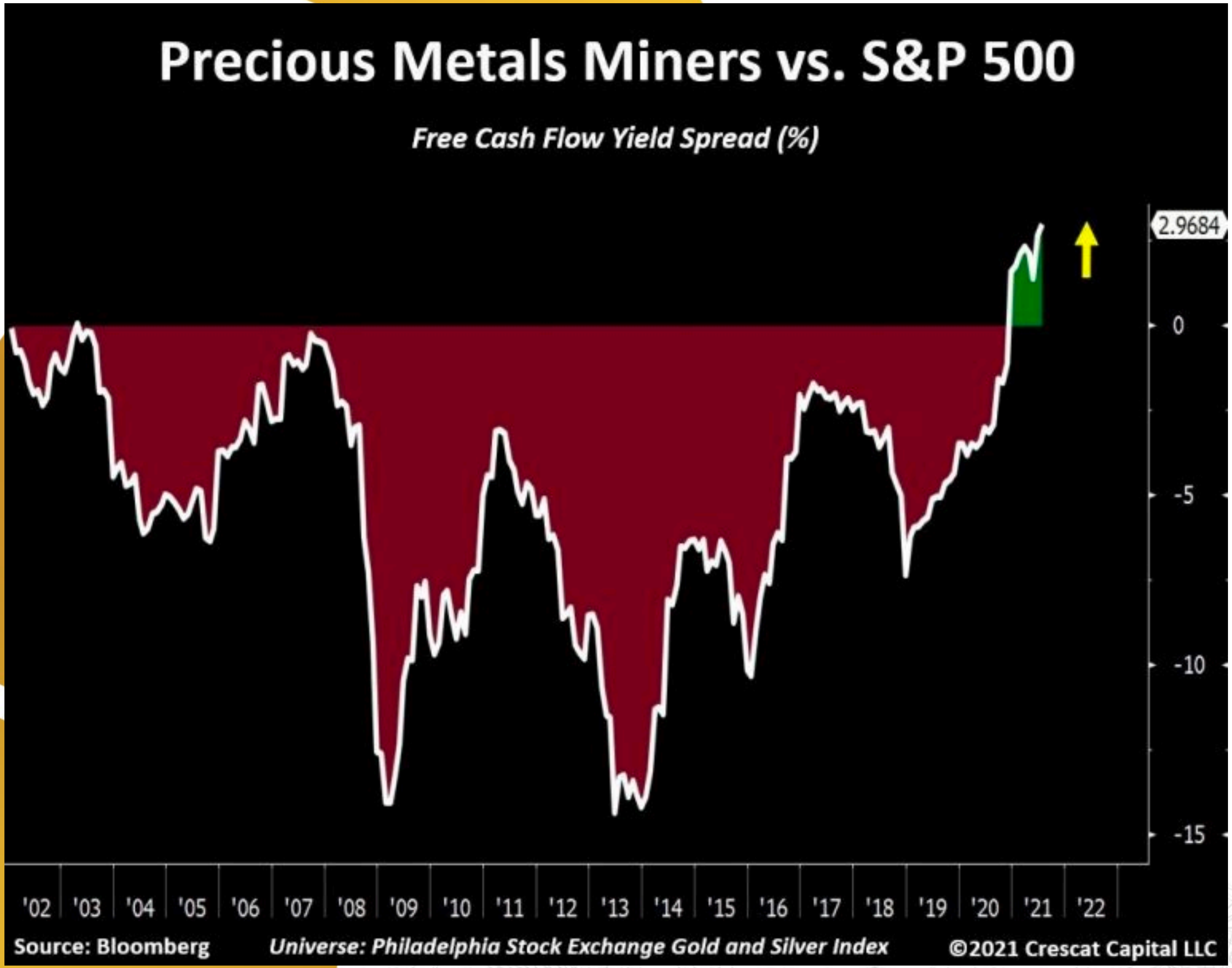

Gold and silver miners have never looked this cheap relative to the S&P 500. Their free-cash-flow yield is almost twice the overall market. The value and growth proposition embedded in miners today is unmatched by any other time in history.

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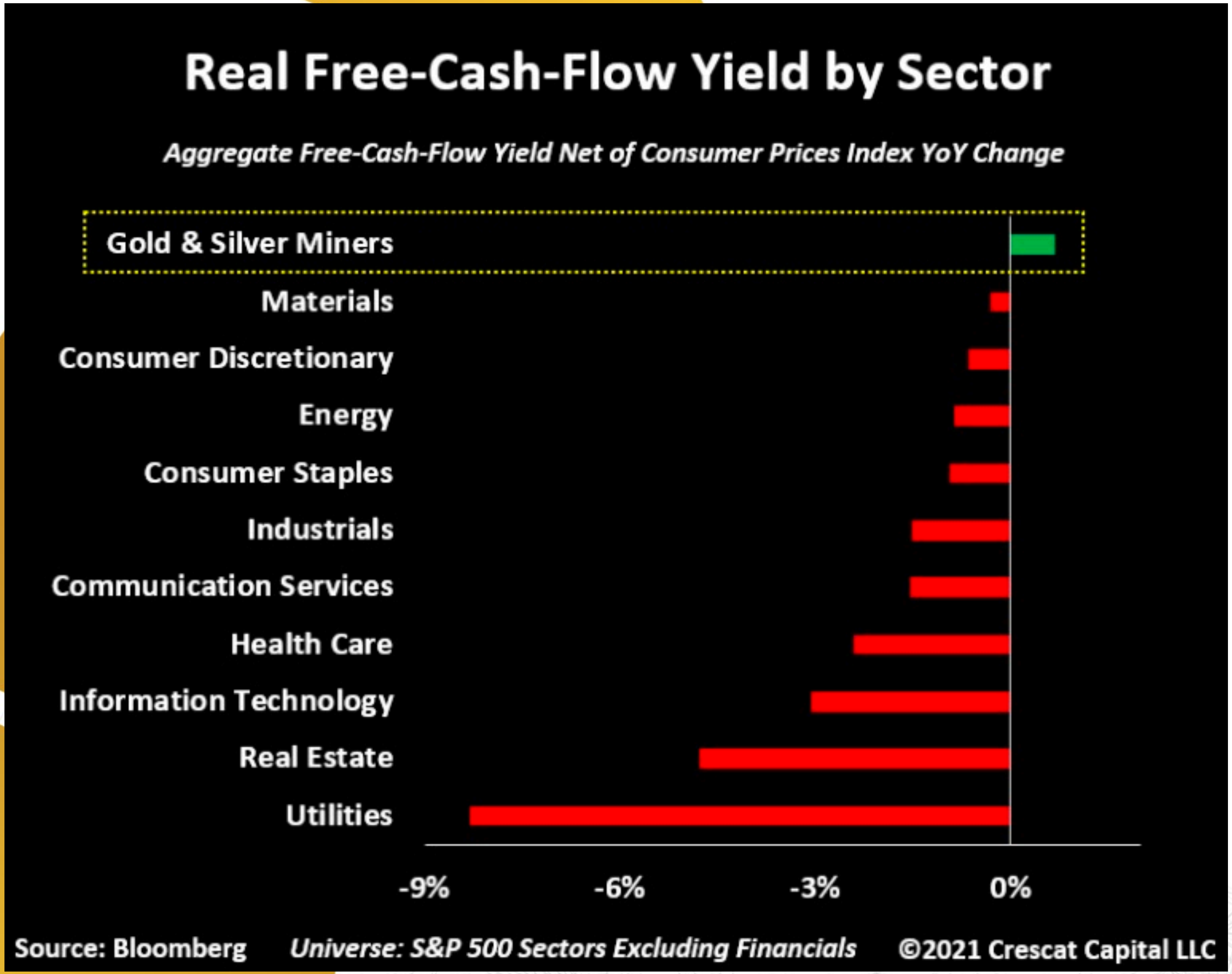

If gold and silver miners were considered a sector, it would be the only part of the economy today that generates higher free-cash-flow yield than inflation.

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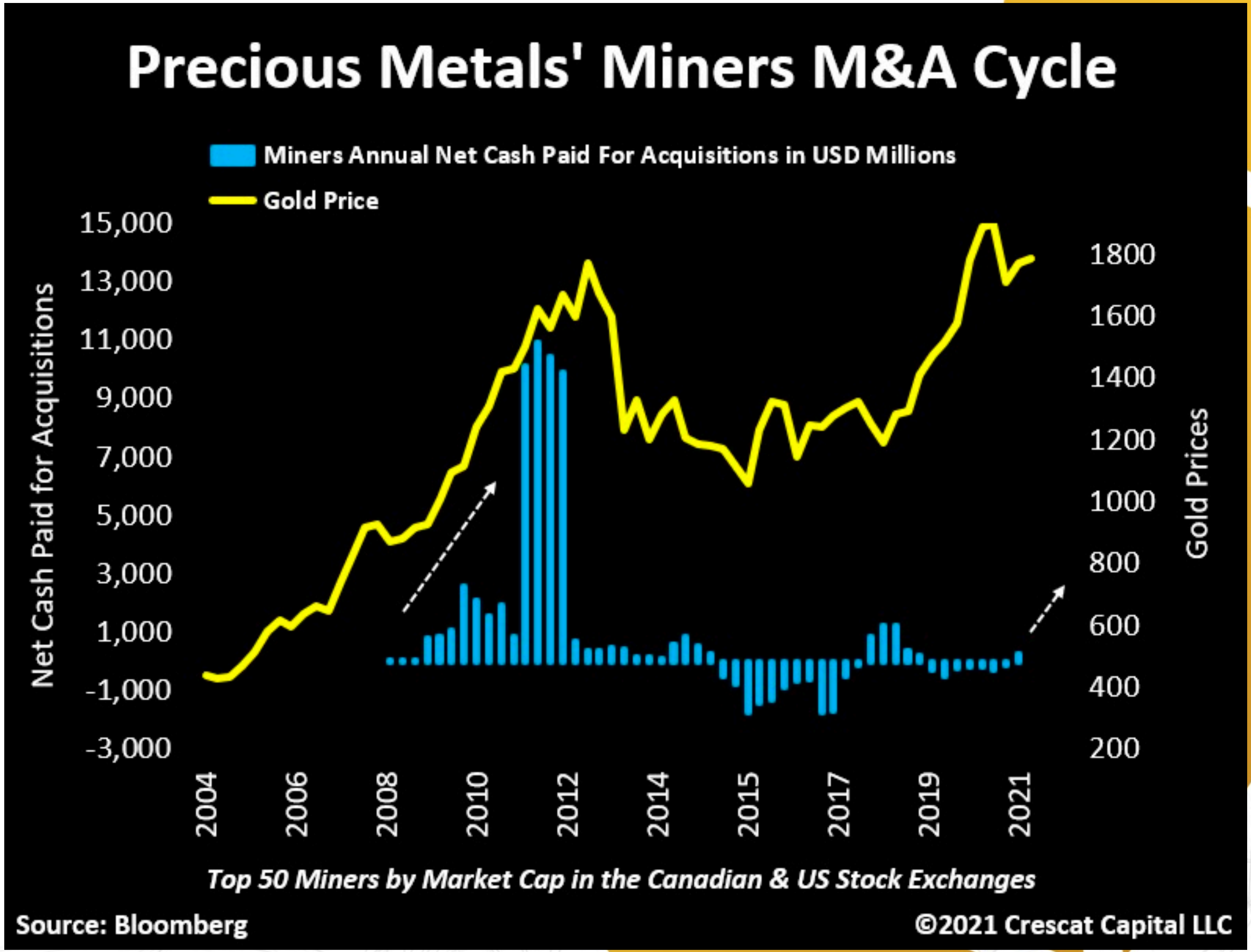
The precious metals M&A cycle hasn't even started yet. Miners have become true free-cash-flow machines at these metal prices.



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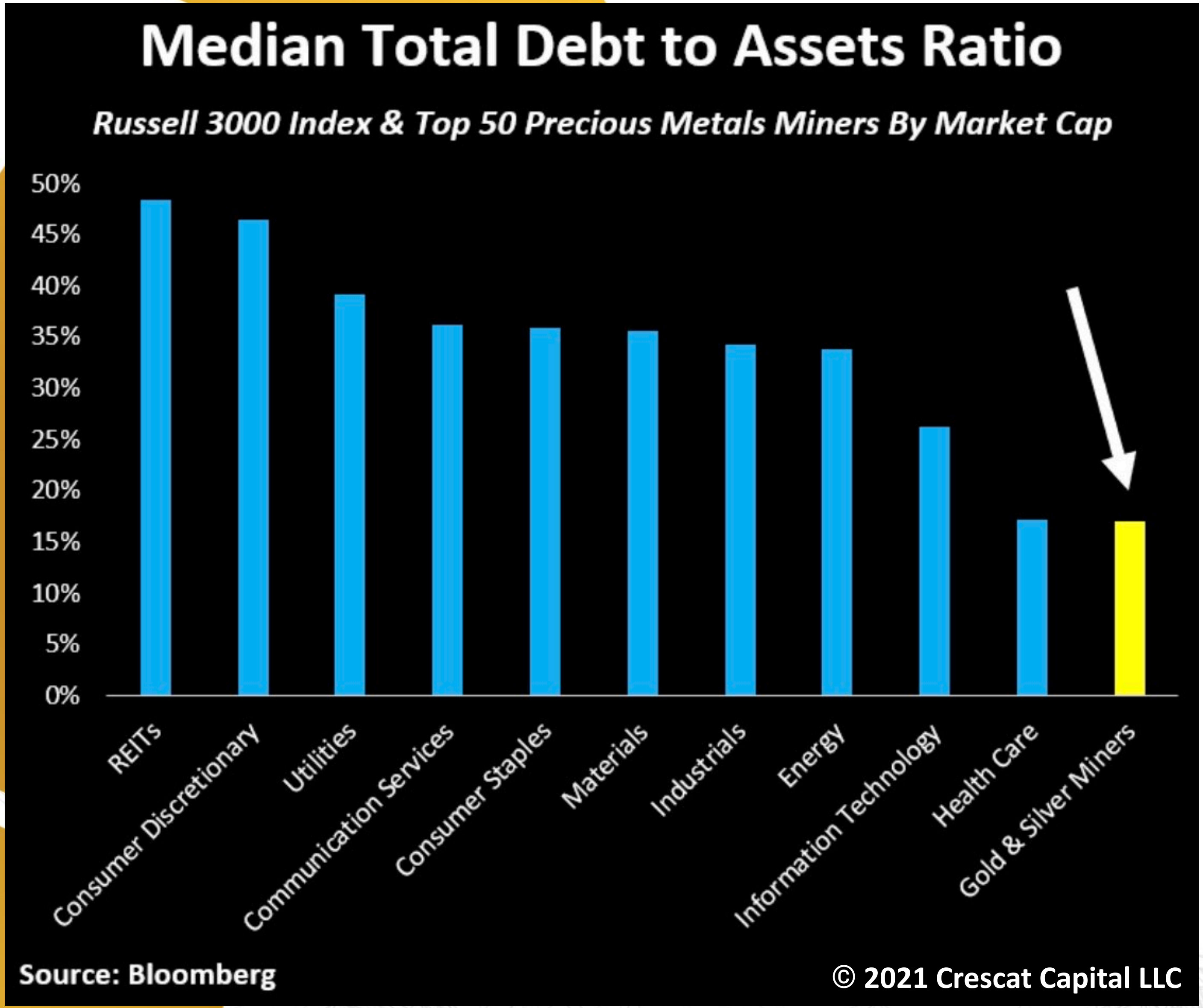
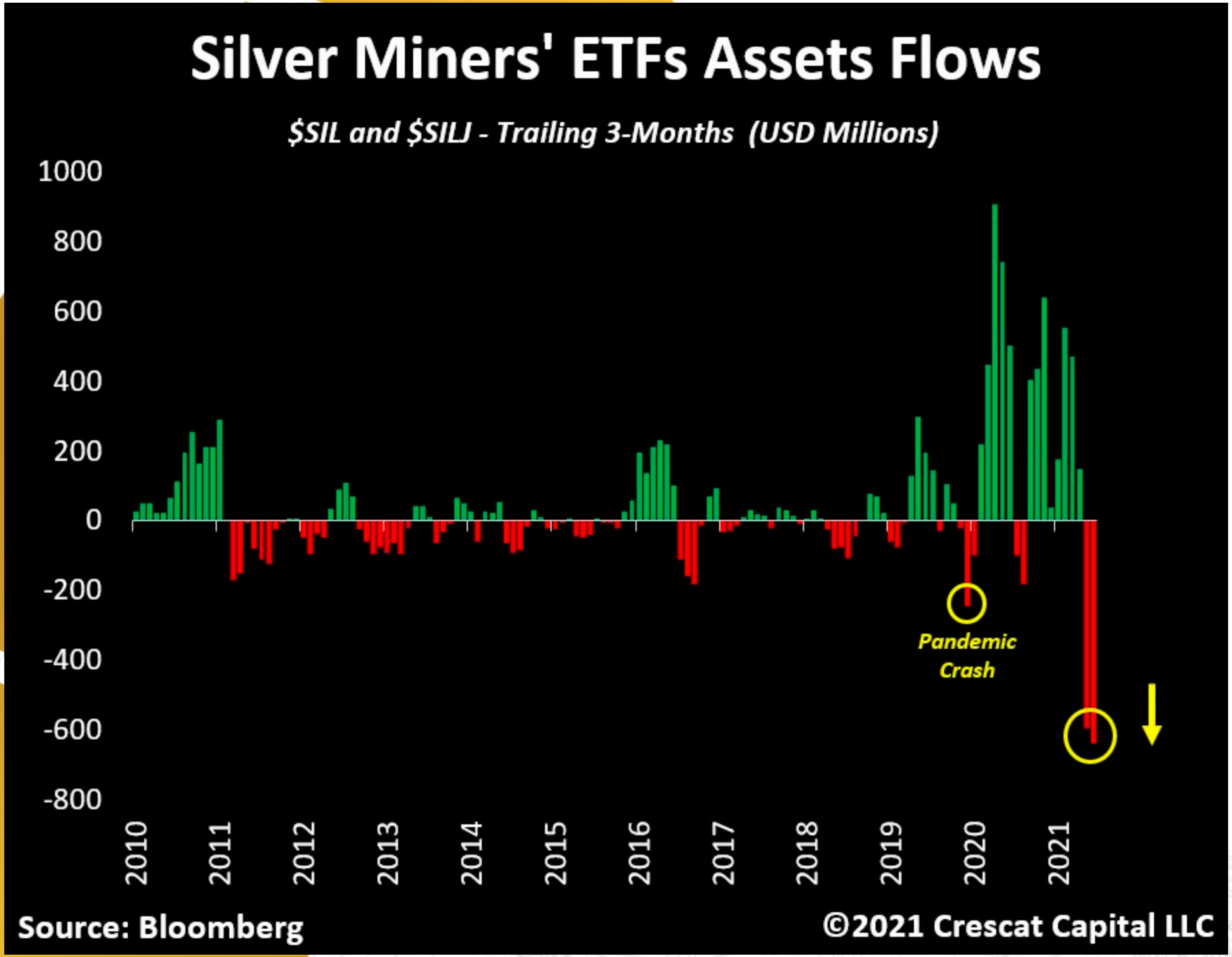


If precious metals stocks were a sector, they would have the cleanest balance sheets of them all.



Total capitulation. Silver miners' ETFs just had their worst quarterly outflows ever. Almost 3x as much as what we saw during the pandemic crash. These companies have become insane deep-value opportunities. Time to step up.

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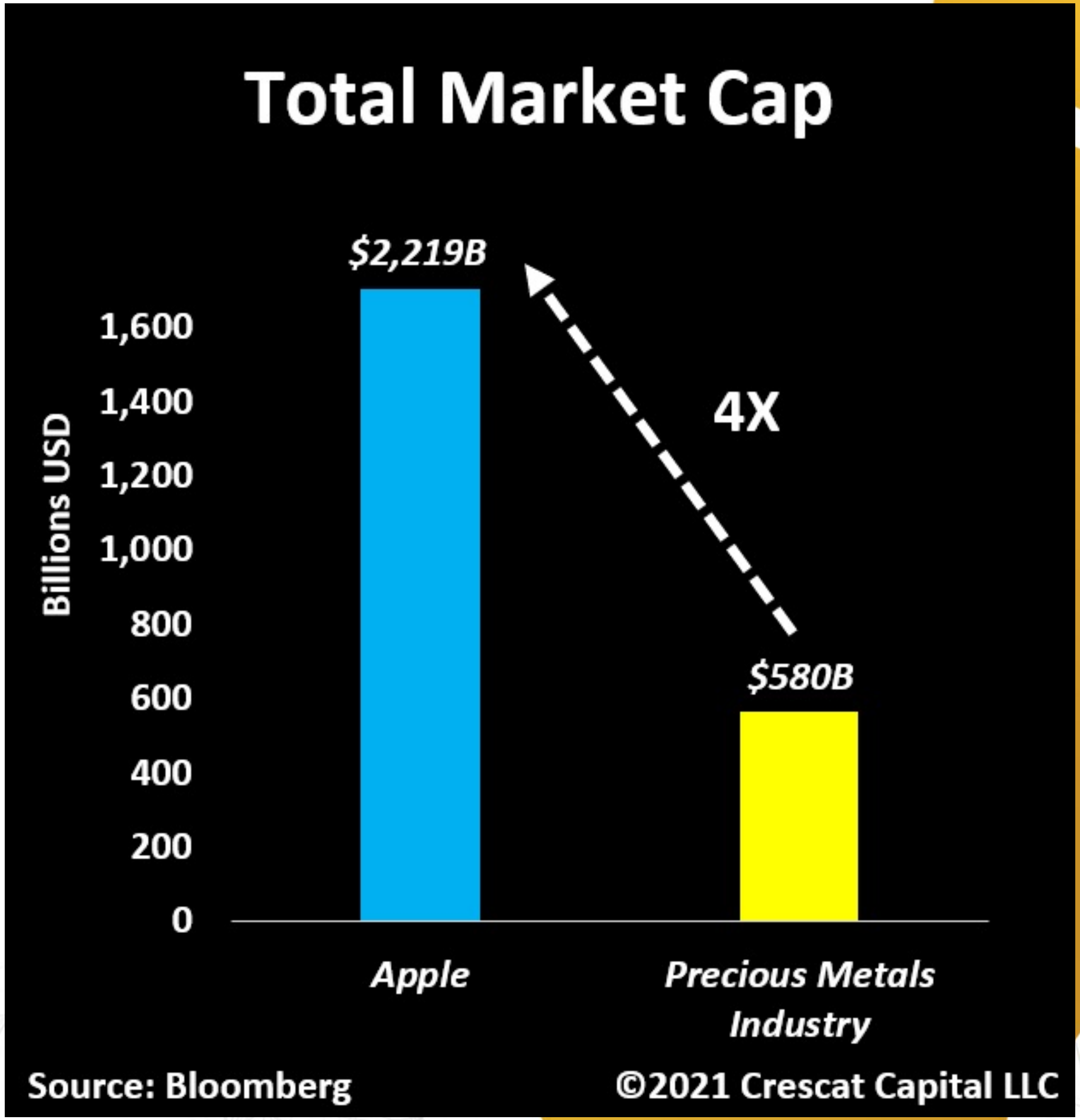
The entire precious metals industry is dirt cheap. Apple's market cap is 4 times the size of the whole precious metals industry.



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Mining Stocks have taken a beating over the past few months. Today, the Junior Miners index has just 11% of its members sitting above their 200-day moving average. The point where most investors are scared out has been an opportune buying point in the past.

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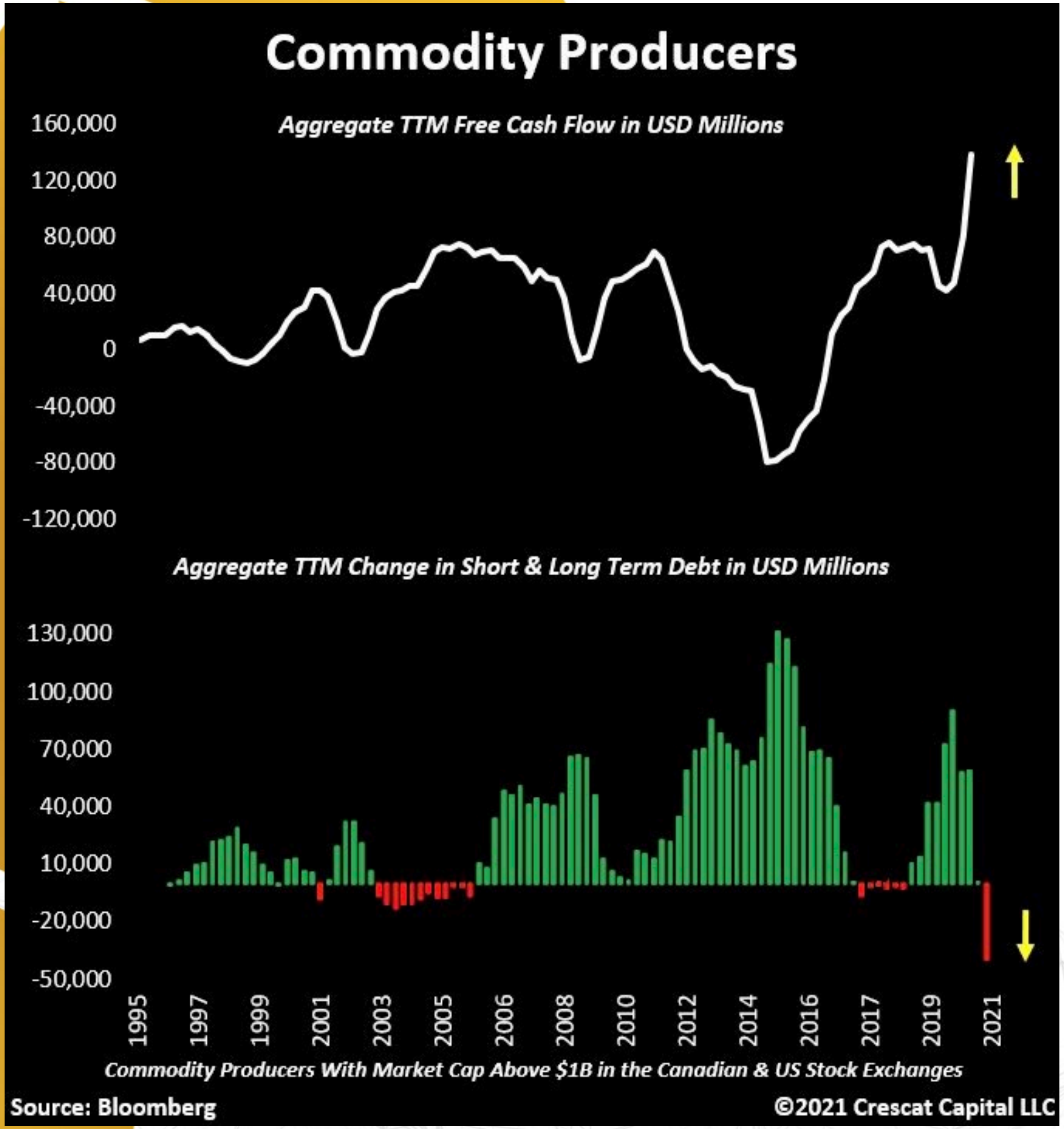

Aggregate free-cash-flow for commodity producers more than triple in the last 12 months.

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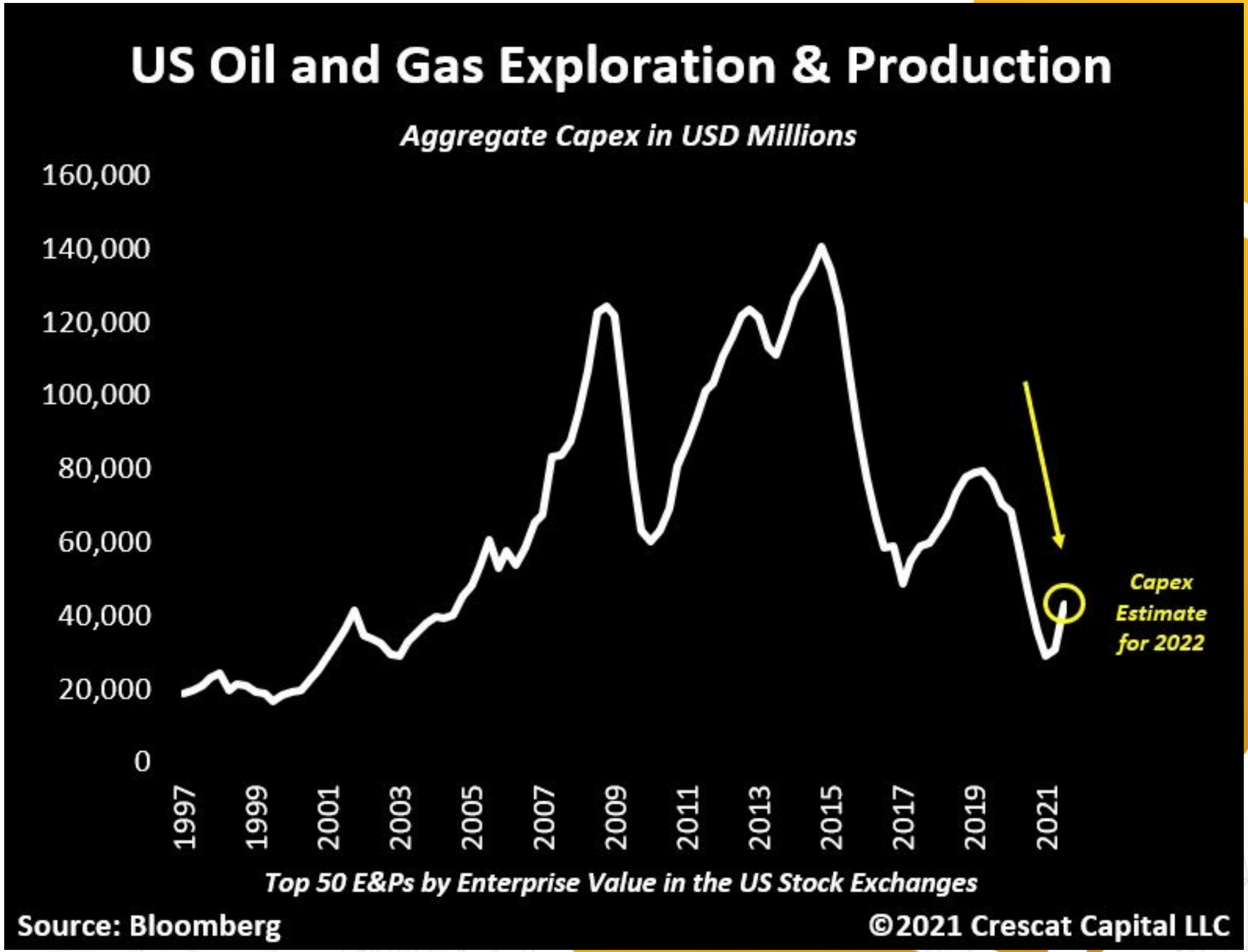
What's intriguing about oil markets today: Regardless of how energy commodities are surging, the Capex estimate for E&Ps still is near all-time lows.   This is not an indication of a market at its peak.



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

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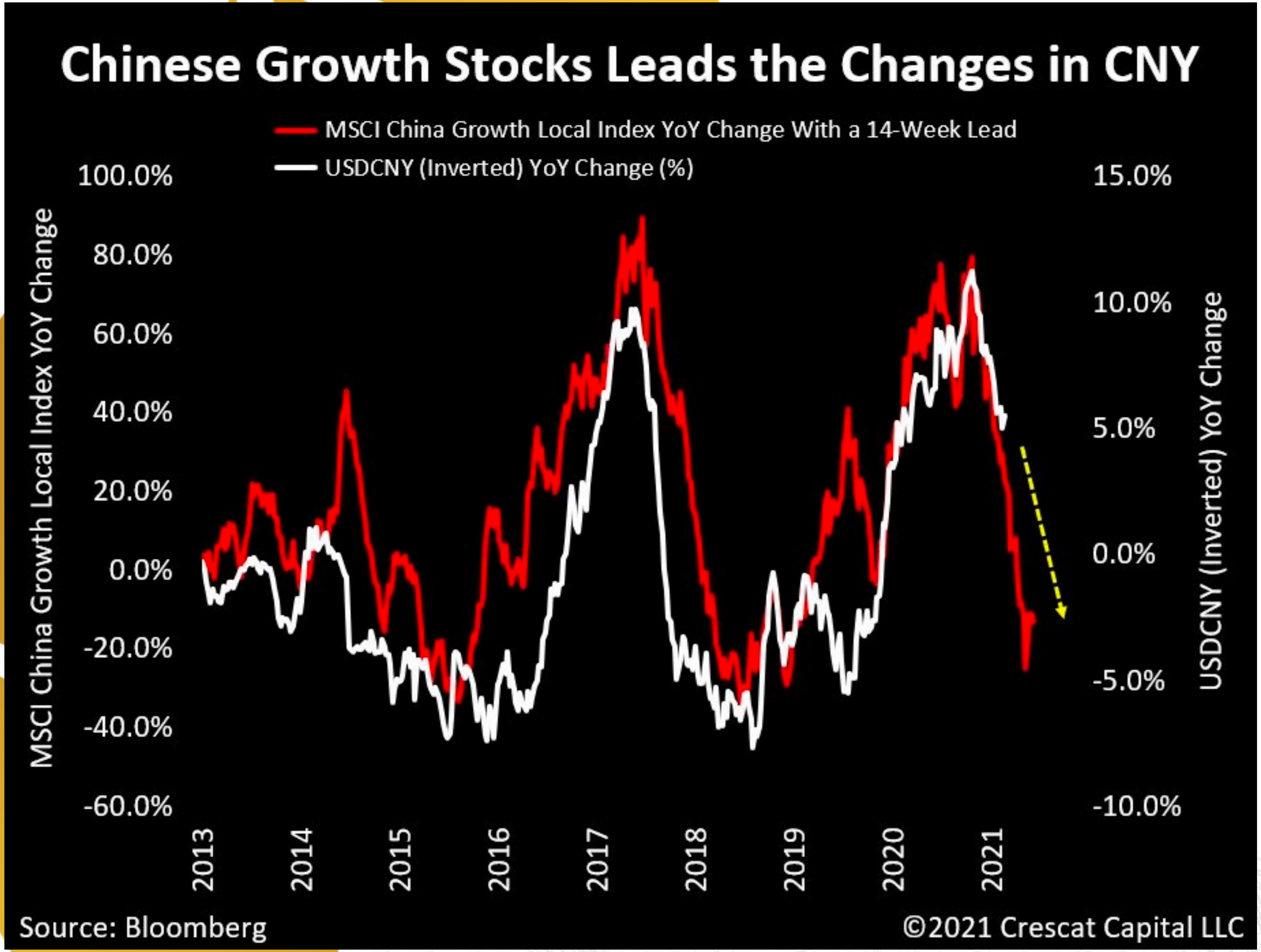
Notice in the chart how recent yuan devaluations have followed Chinese equity market meltdowns. As the Chinese stock market downturn has recently morphed into a more serious decline, we have just significantly increased our yuan put option exposure in the Crescat Global Macro Fund.



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.

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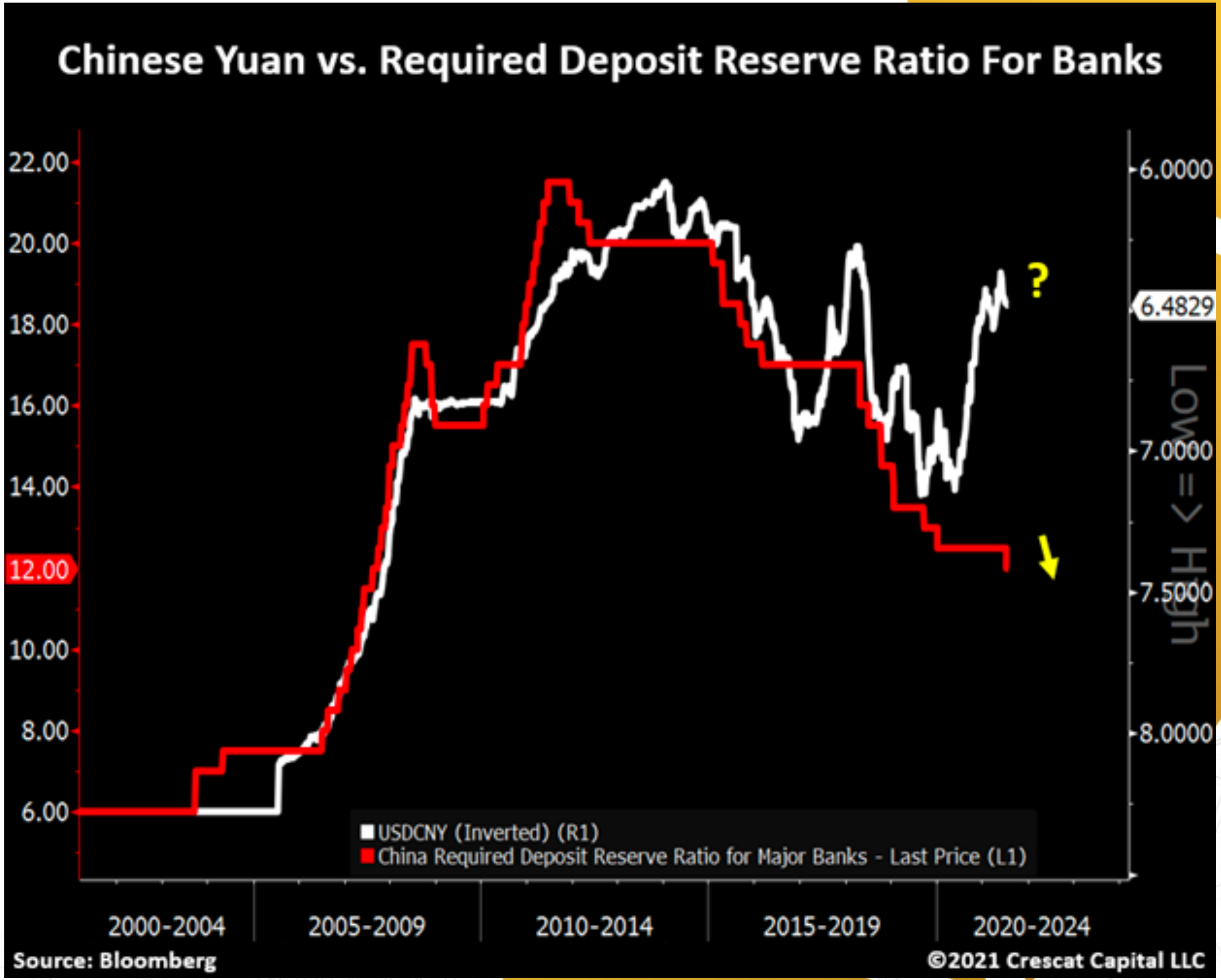
China’s steady decrease in its banks’ reserve requirement ratio is another long-building macro divergence and indicator for an impending currency devaluation.



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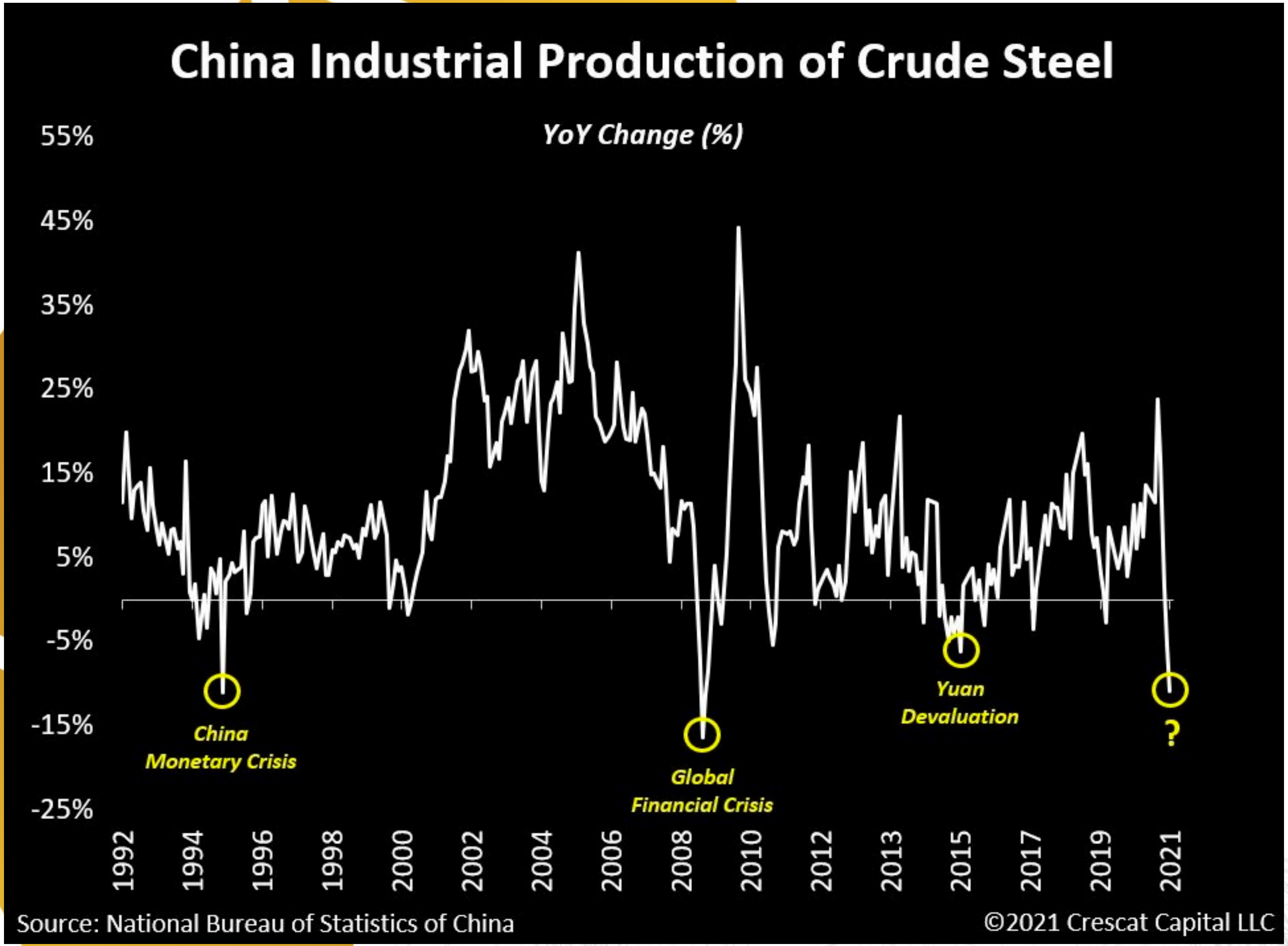

You know something is wrong in China when industrial production of steel is at its lowest levels since the Global Financial Crisis. This is much more serious than the meltdown of a massive property developer. These are the signs of a countrywide debt problem now unravelling.

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

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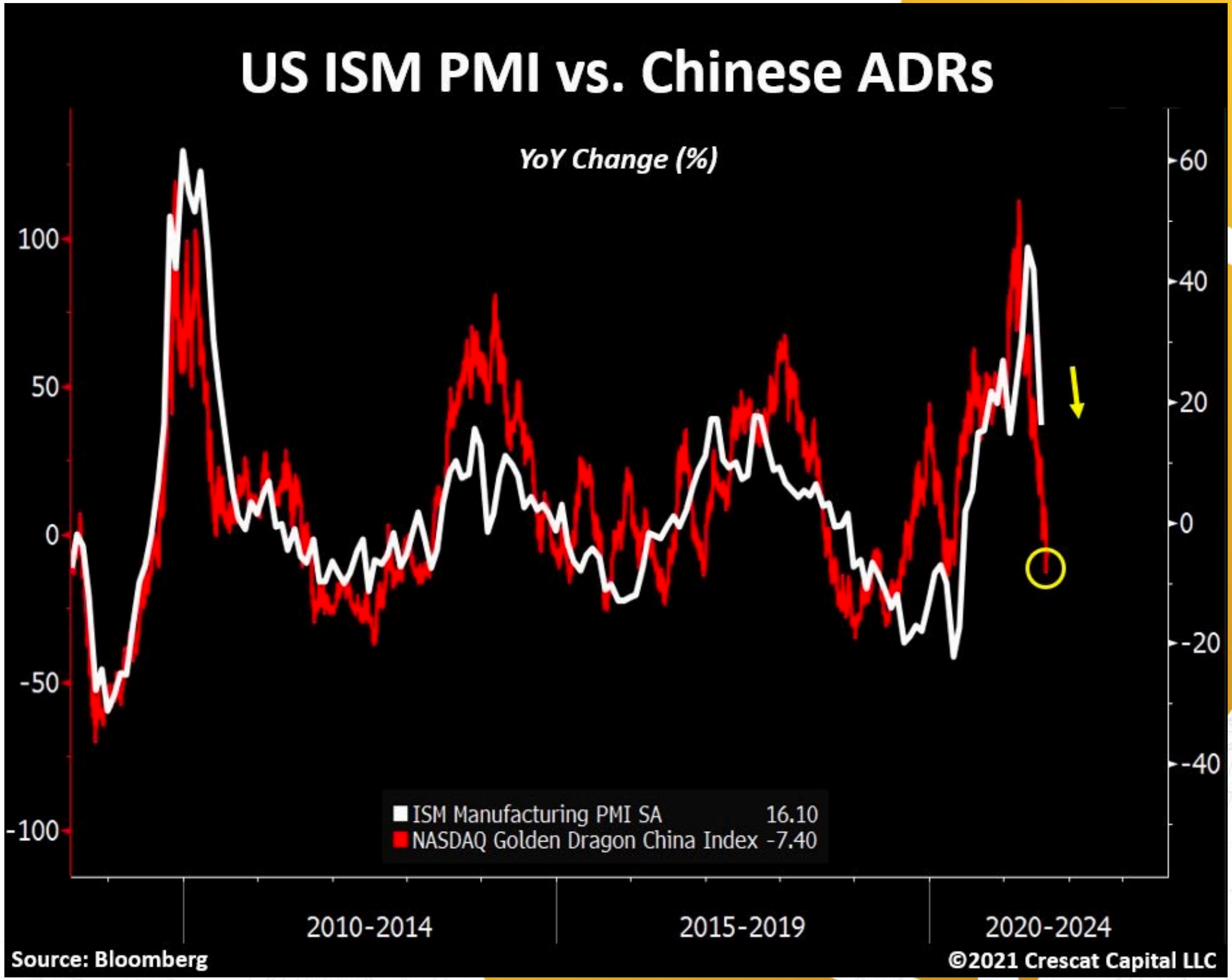
The recent collapse in Chinese ADRs suggests significant deceleration in US PMI in the near future. Note: We had one of the strongest economic environments in history in the last 6 months. Now, growth seems to be mean reverting.



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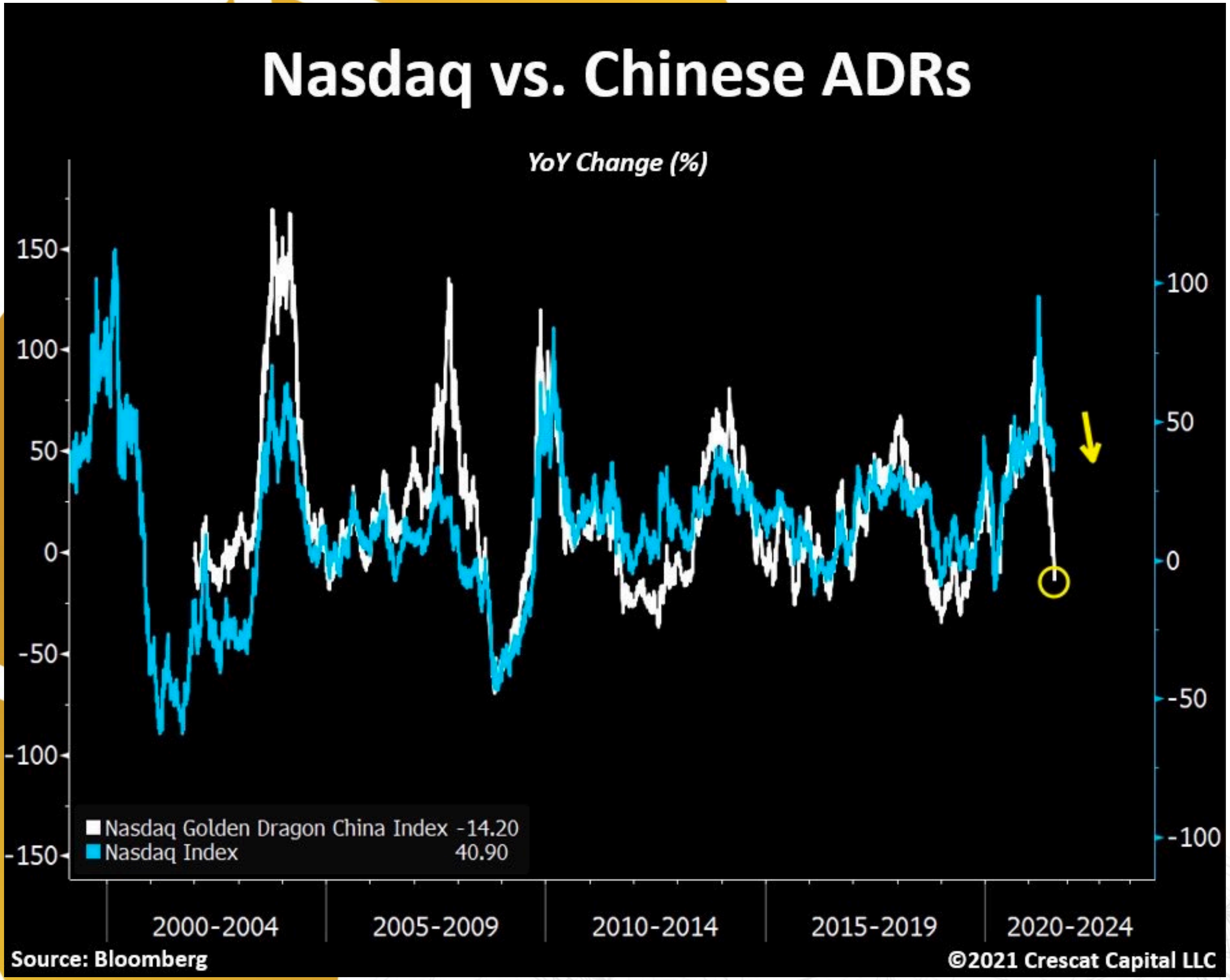

It's hard to believe that a major downward move in Chinese equities wouldn't spill over on the rest of the world. Here is the same Chinese ADRs vs. Nasdaq Index.

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