CRESCAT CAPITAL®

THE VALUE OF GLOBAL MACRO INVESTING

MACRO PRESENTATION

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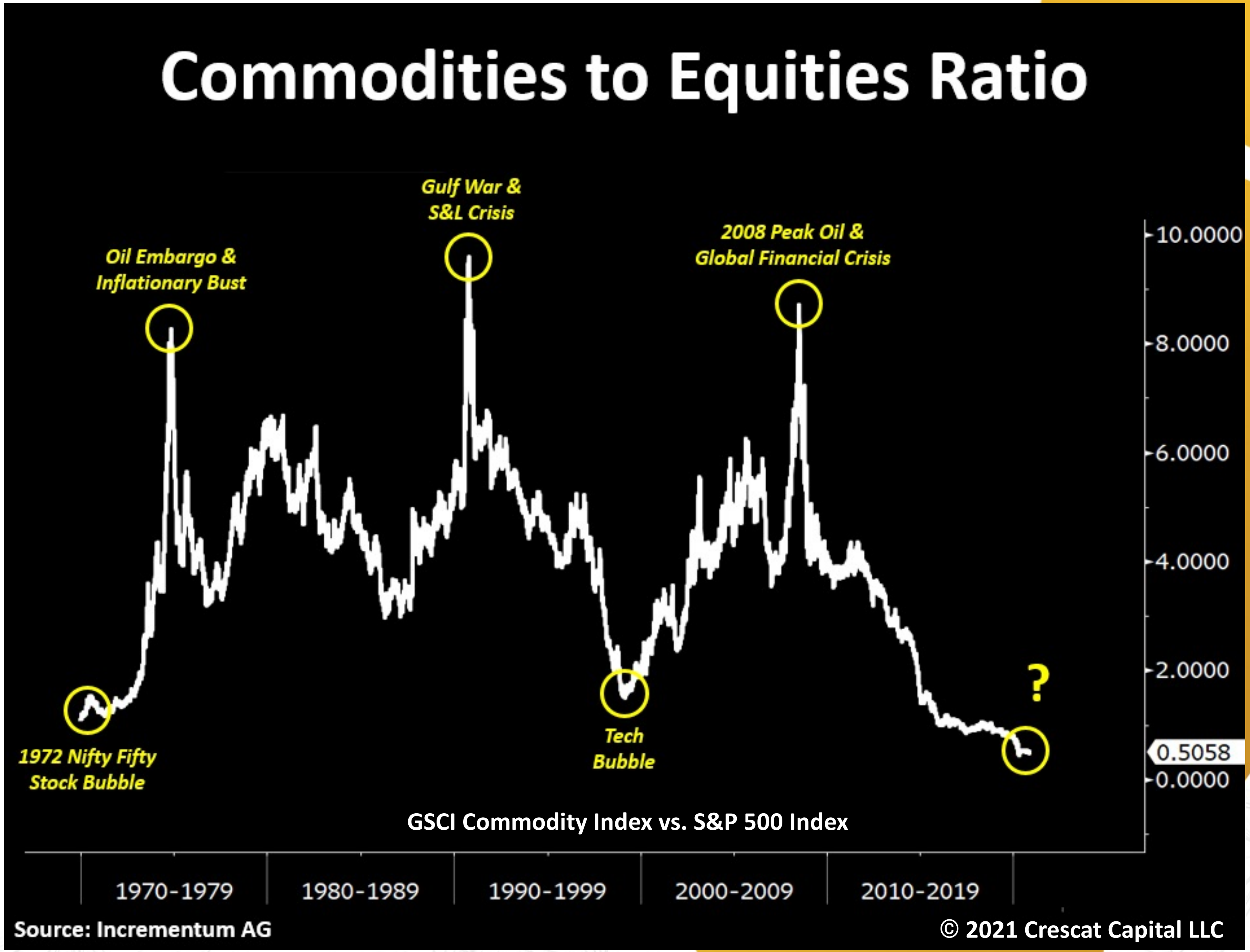
The commodity-to-equity ratio is at a 50-year low.



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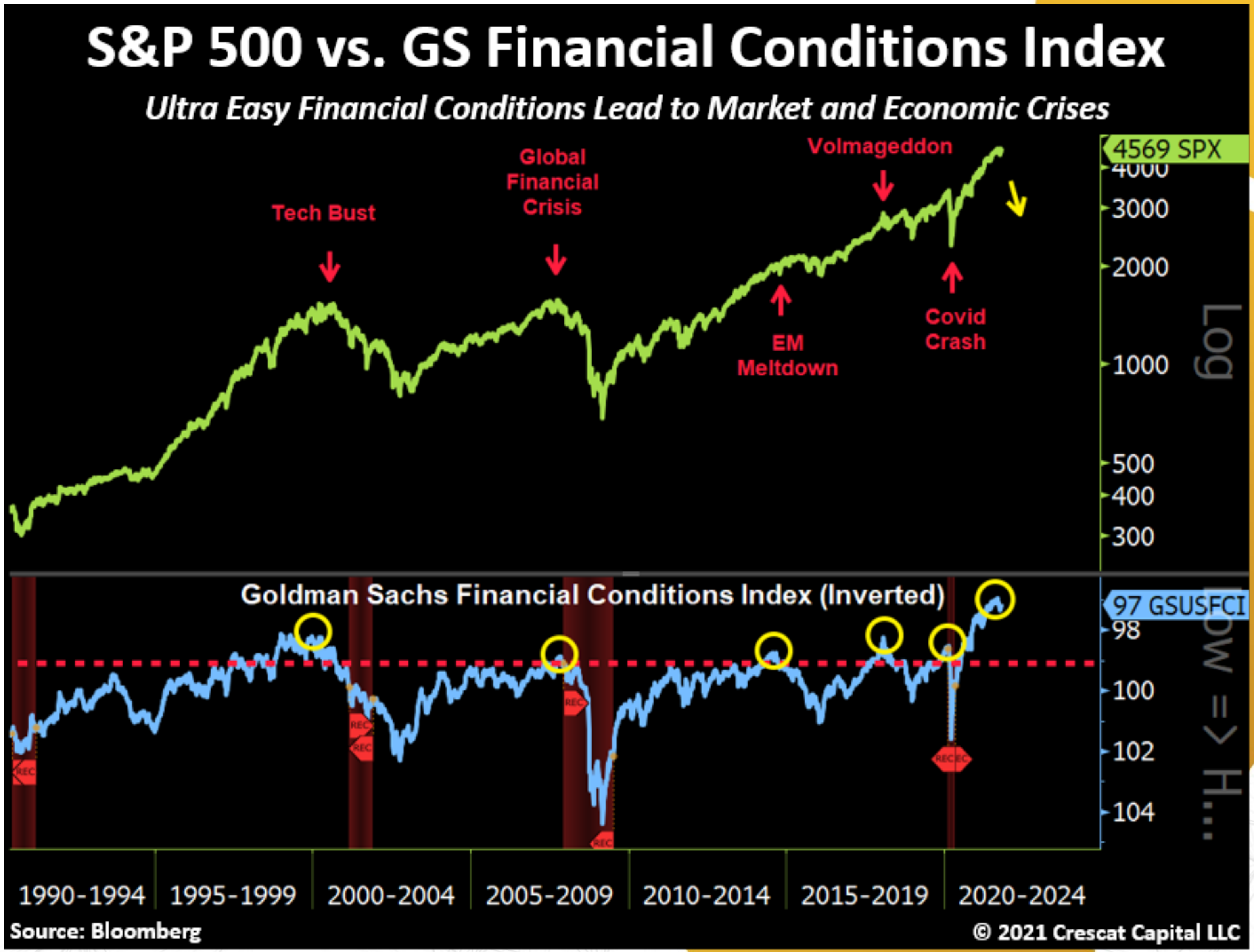
Speculative financial conditions create bubbles in financial markets.



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The 3 Pillars of Inflation

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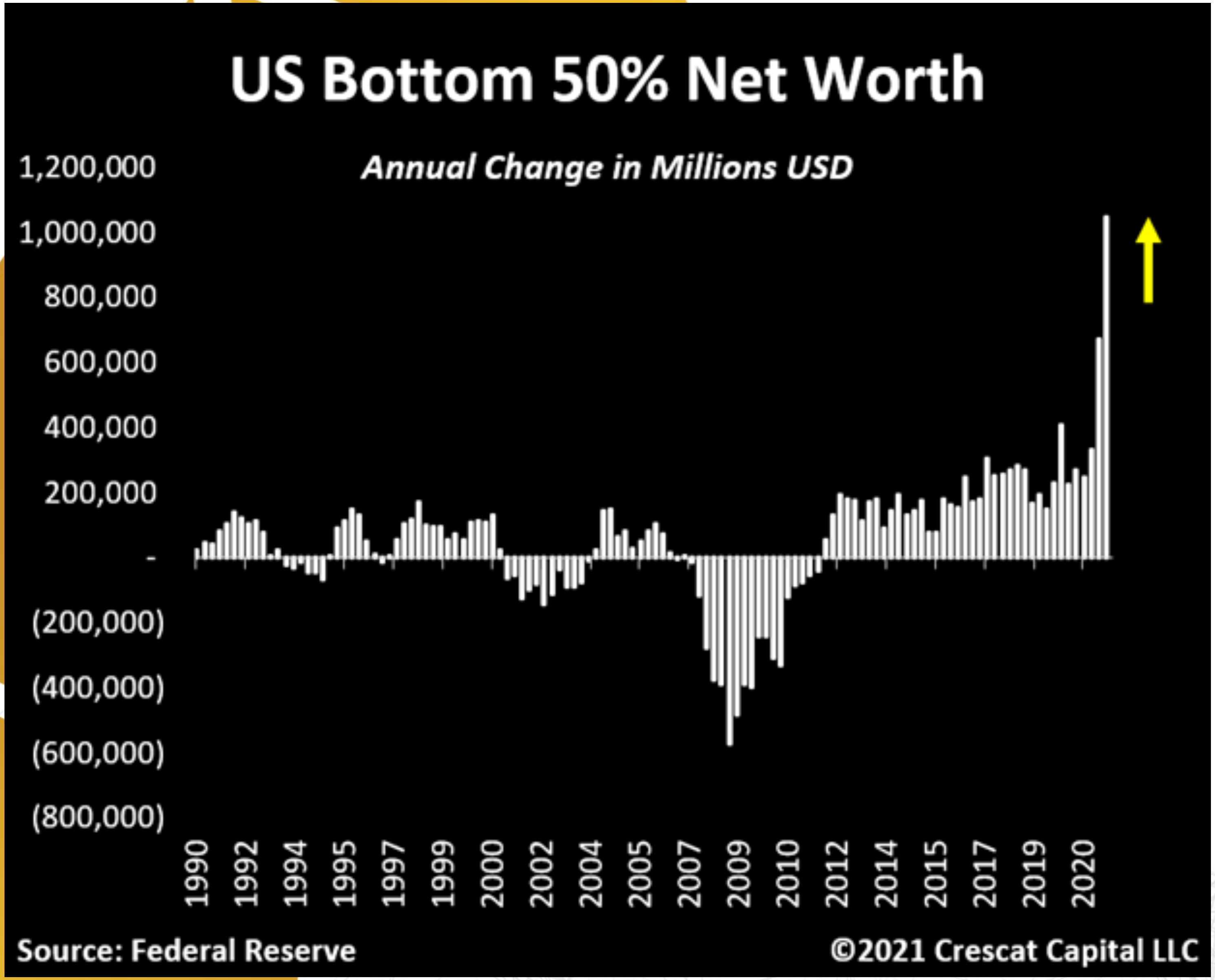

One fourth of the entire wealth accumulated by the US bottom 50% since 1990 was generated just in the last year. Delete other & swap for this.

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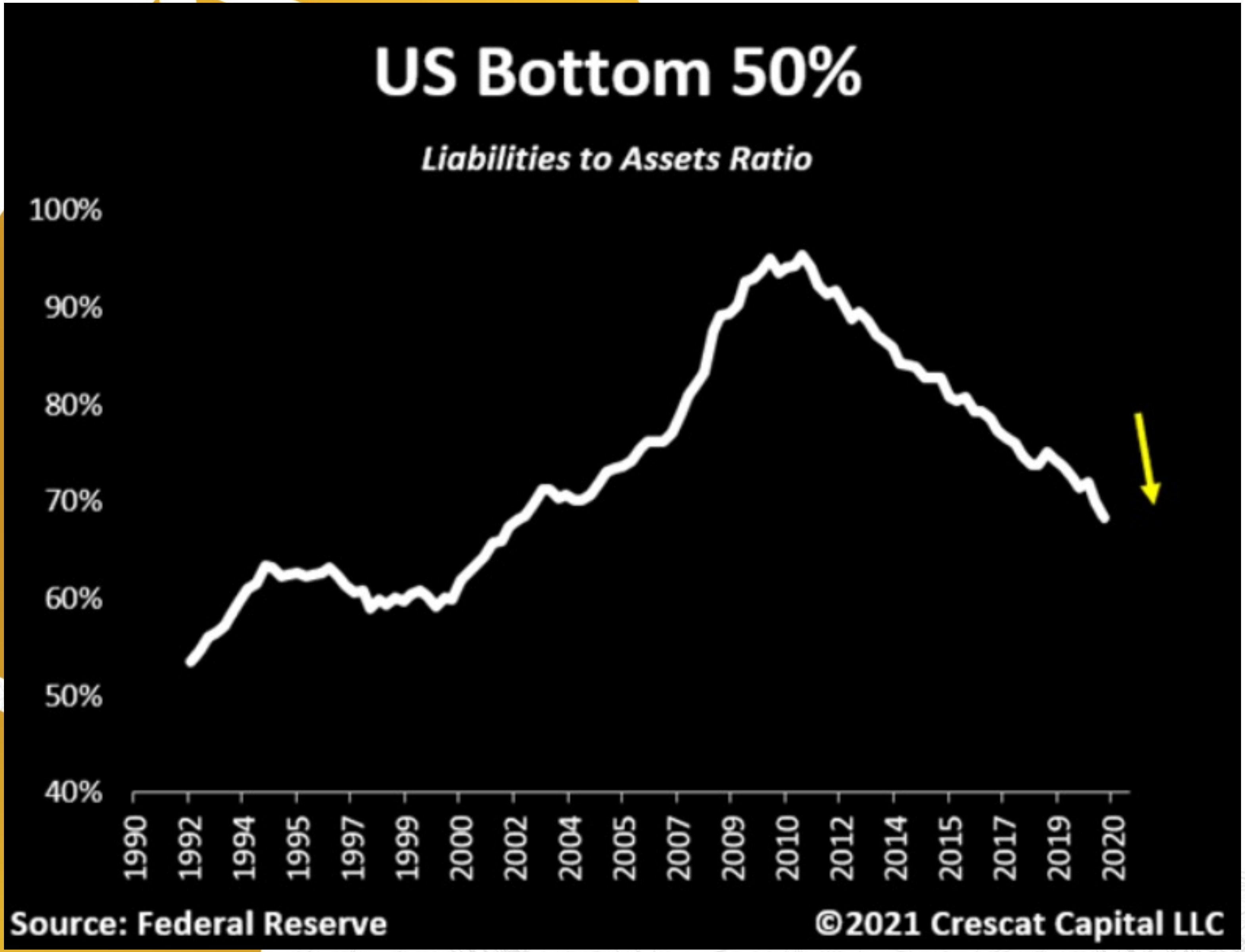

The liability to asset ratio for the bottom 50% is now at its lowest level in over a decade.

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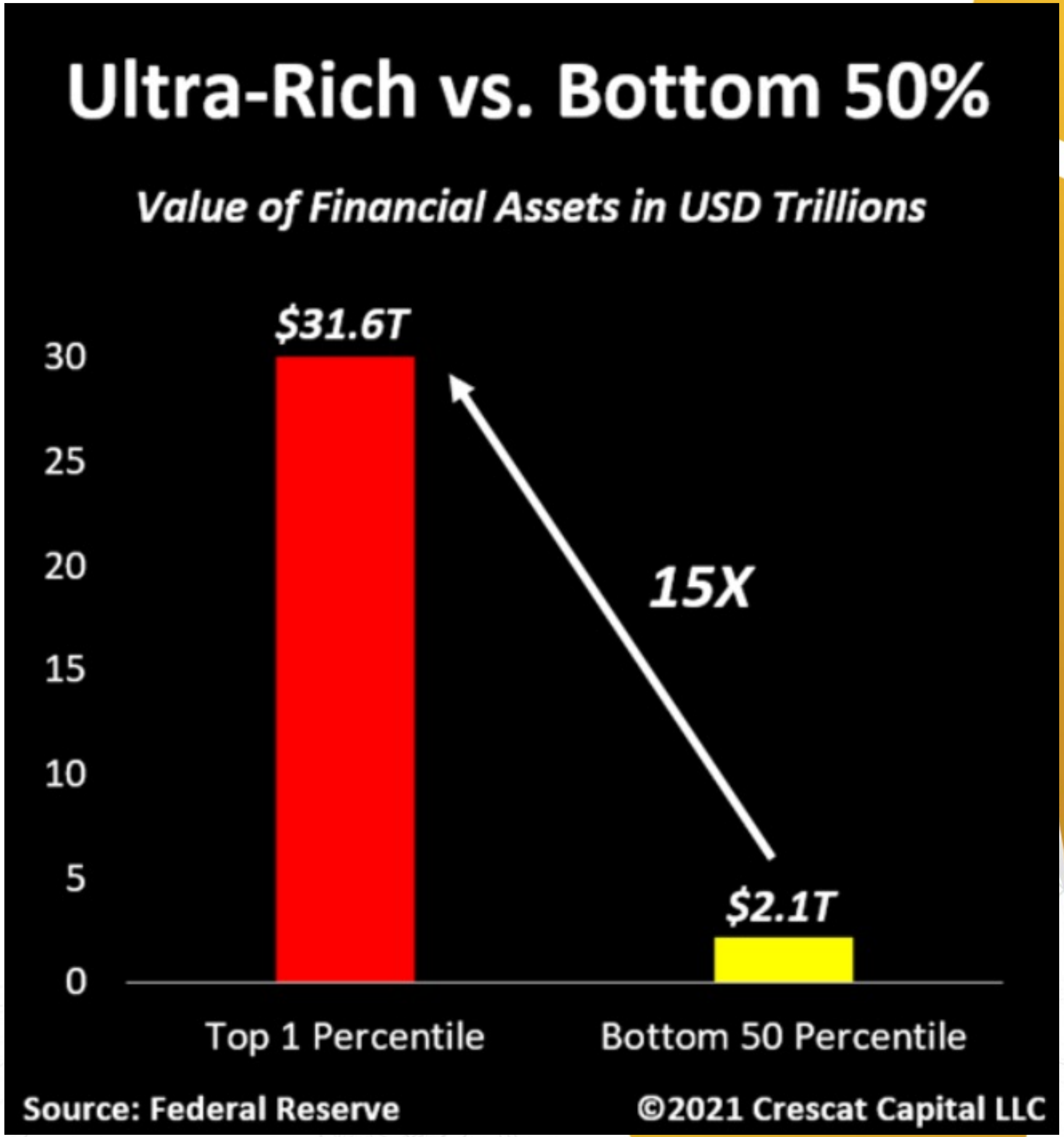
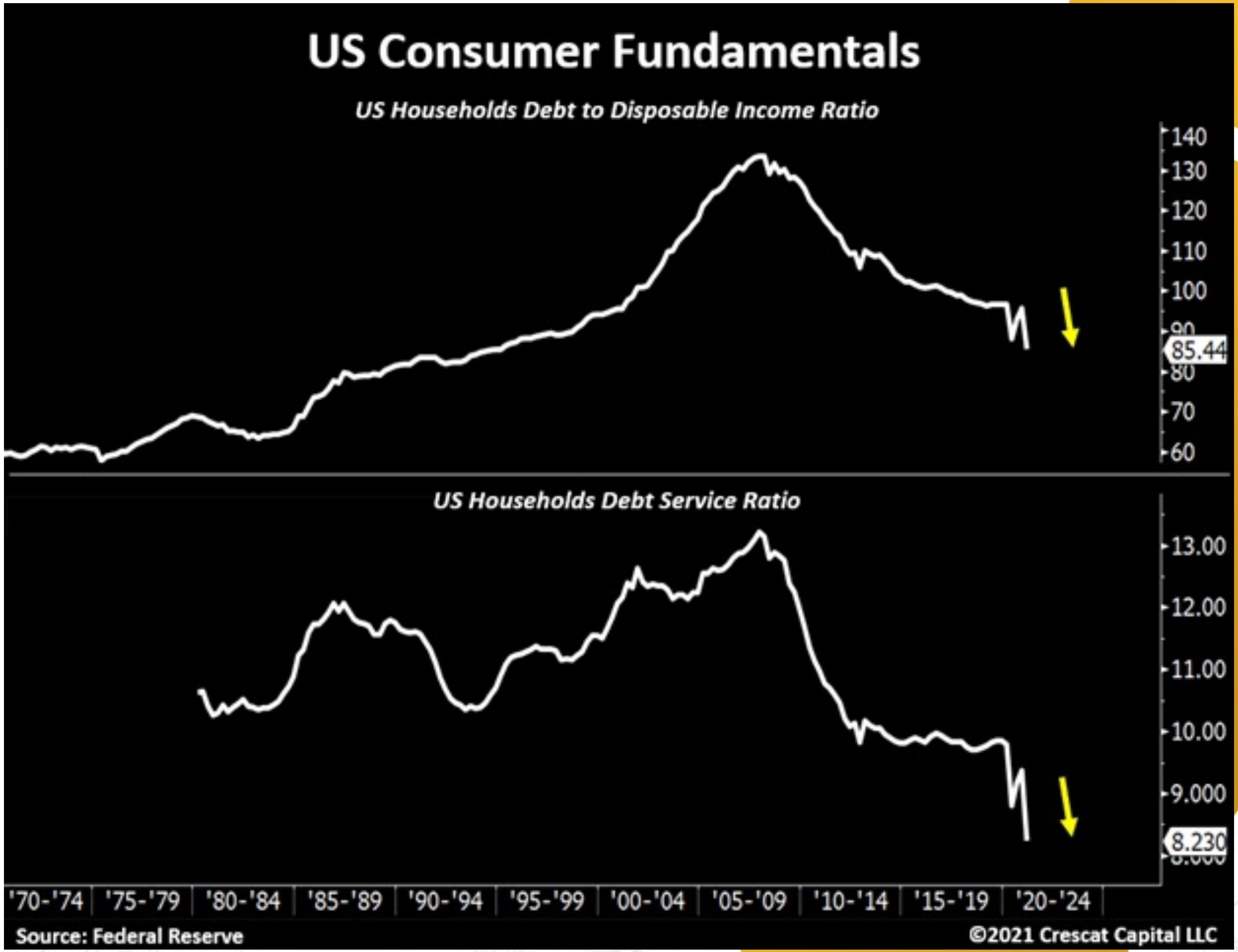
The top 1% still holds over 15x more financial assets than the bottom 50%! They are the ones who have truly benefitted from easy money policies to date.



Household debt to disposable income ratio is now at its lowest level in over 26 years. More importantly, consumers' debt service ratio just plunged to all-time lows.



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Rising costs and wages are a self reinforcing, long-term trending phenomenon and we believe we are only in the early innings.

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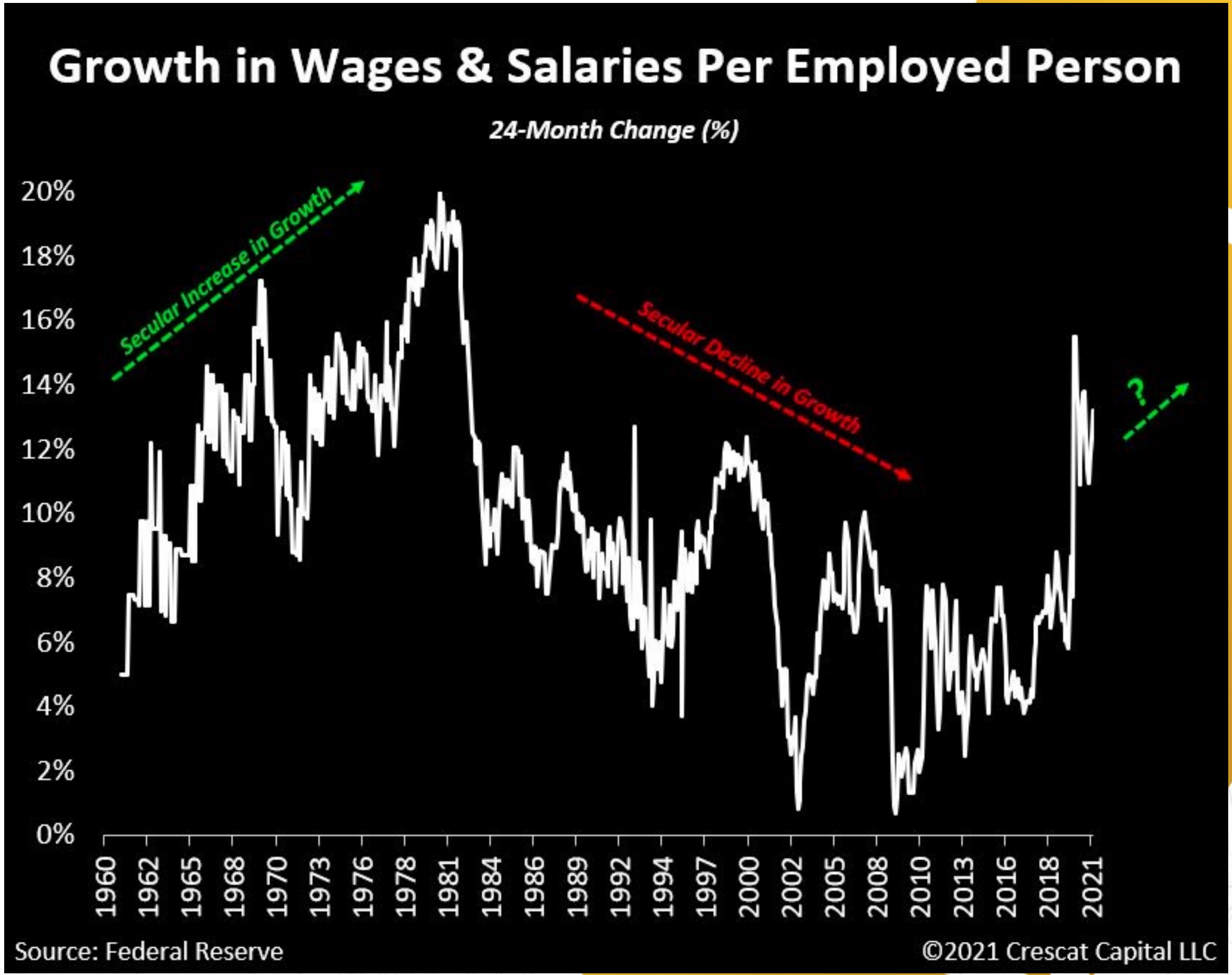
Wages & salaries look to be on a early secular rising growth trend. This takes time to develop but it's one of the key factors that will define how persistent inflation could be in the long run. Ultimately, rising cost of living is what triggers upward pressure in labor cost.



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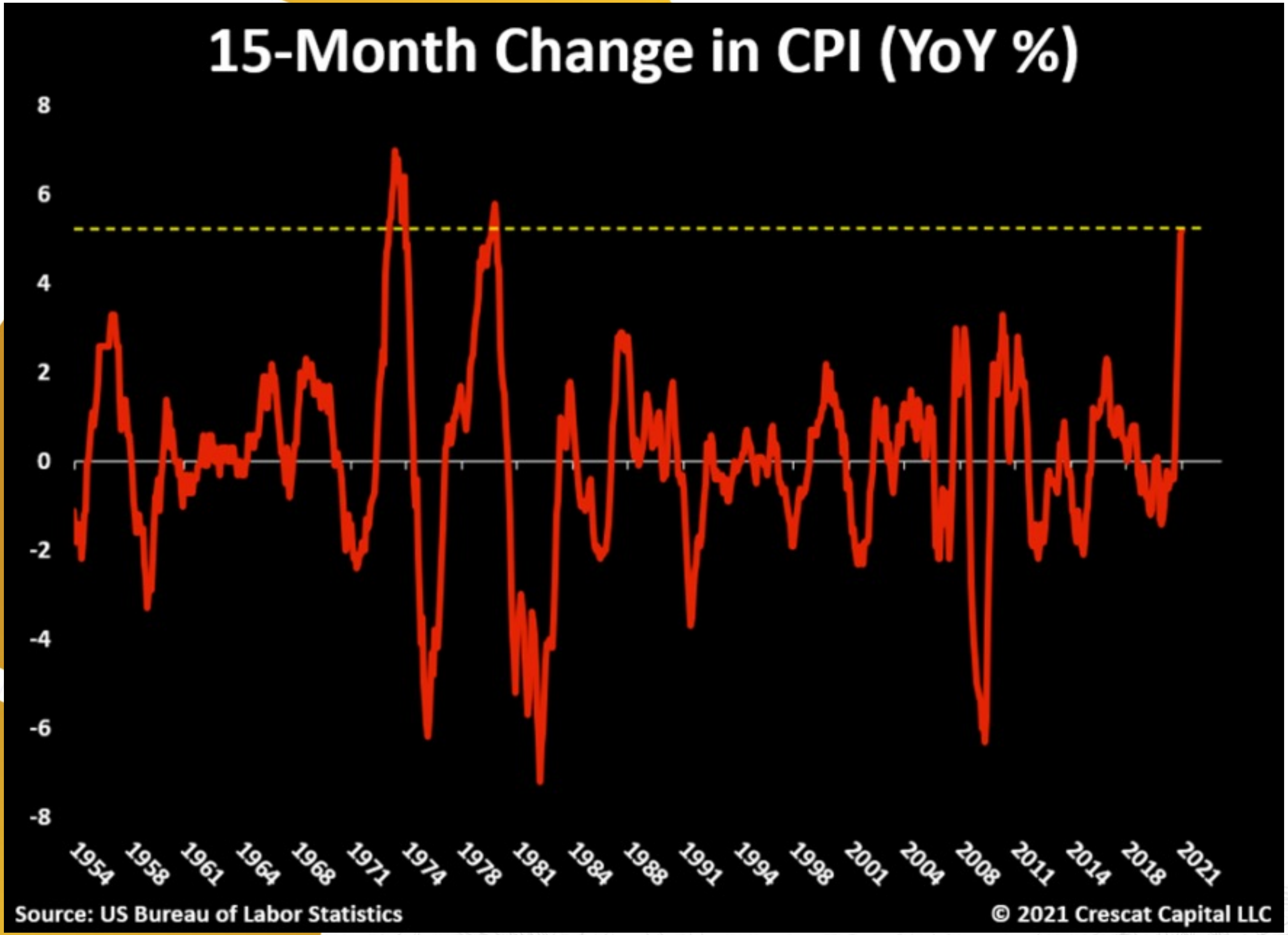

The last two times we saw this big of a rise over this short of a time were in 1973 and 1980, the two most notorious episodes of stagflation and rising gold prices in US history.

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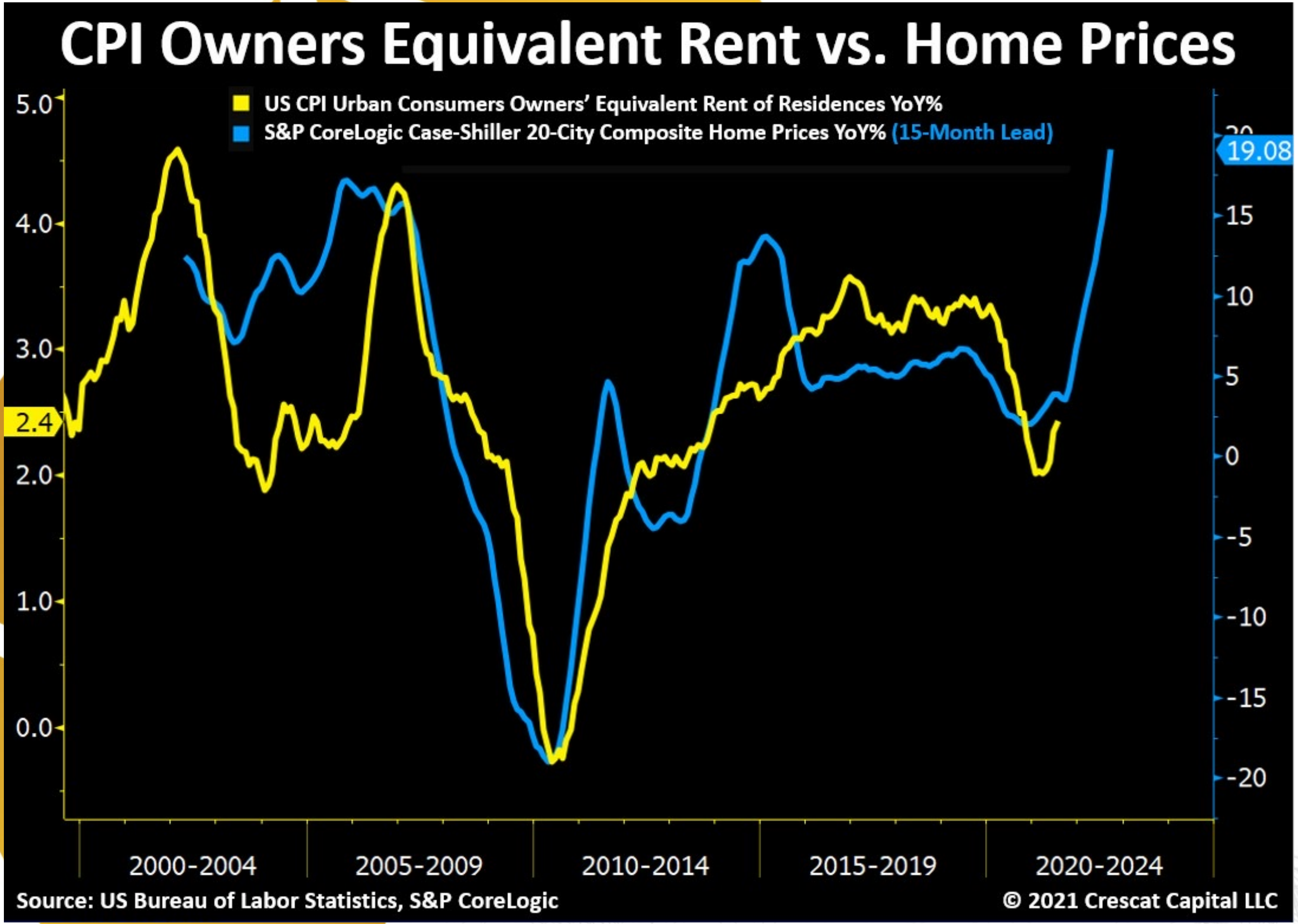

Shelter is a basic necessity, the largest household expense with a 40% weight in core CPI between rent and OER. The BLS incorporates it with a 5-quarter lag and numerous "quality" adjustments. 15 months of historic housing inflation pressure ahead for the econ PhDs to wrestle.

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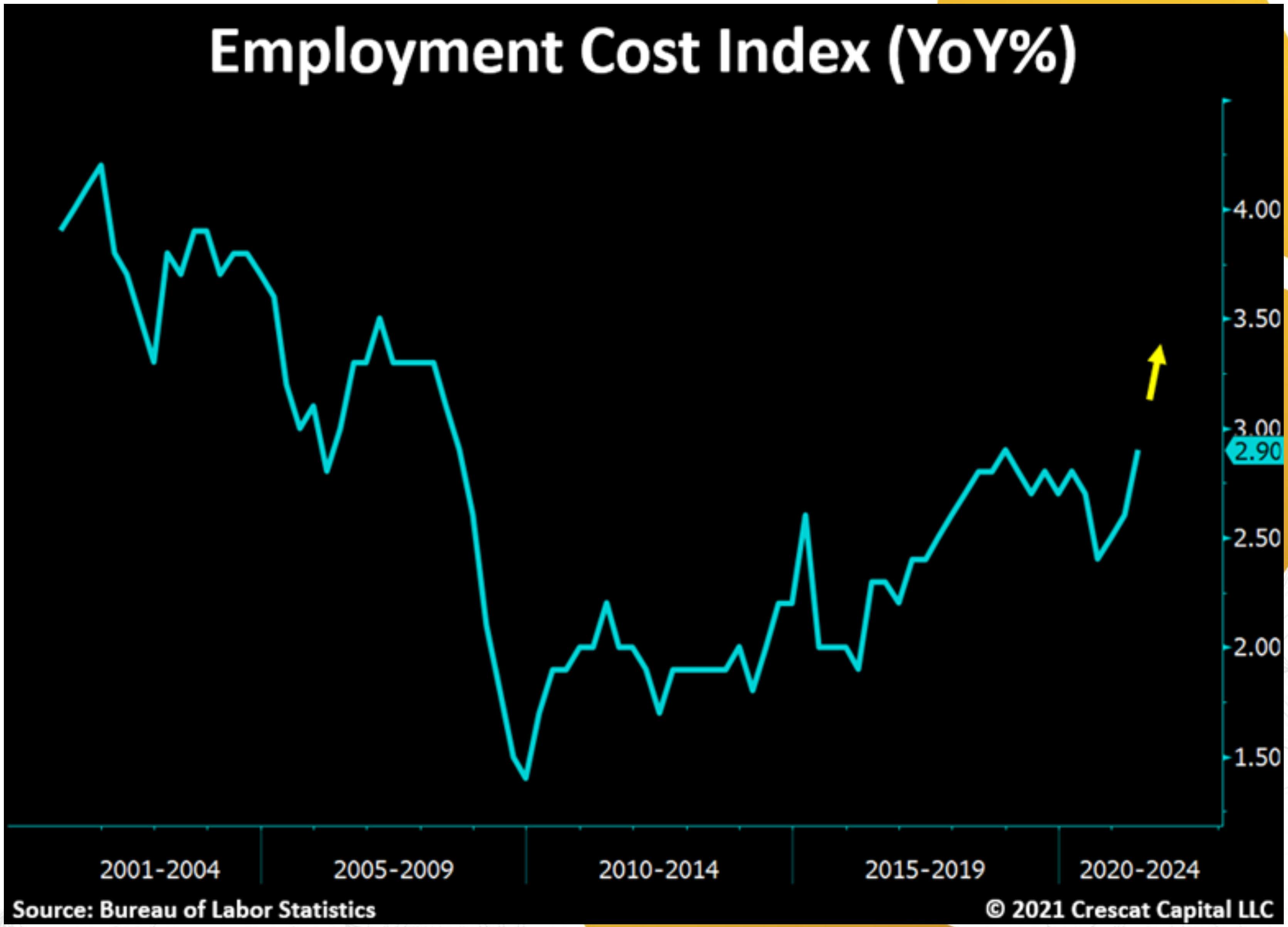
We are likely to see workers at large both demanding and receiving significantly higher wages and salaries contributing to a substantial squeeze to corporate profit margins in the years ahead.



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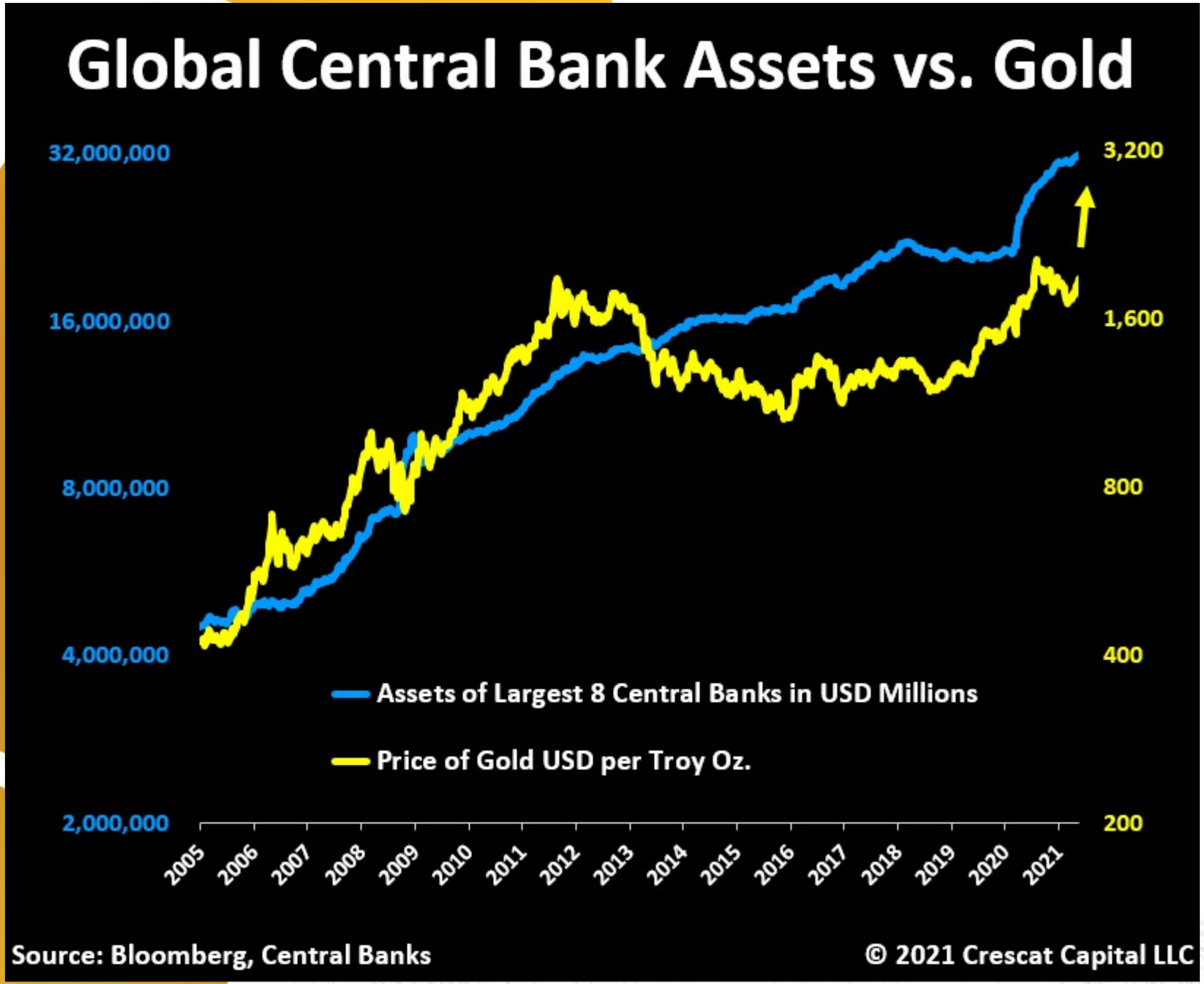

Money printing only supports financial asset bubbles for so long. Ultimately, QE drives flows out of overvalued stocks and credit and into undervalued precious metals.

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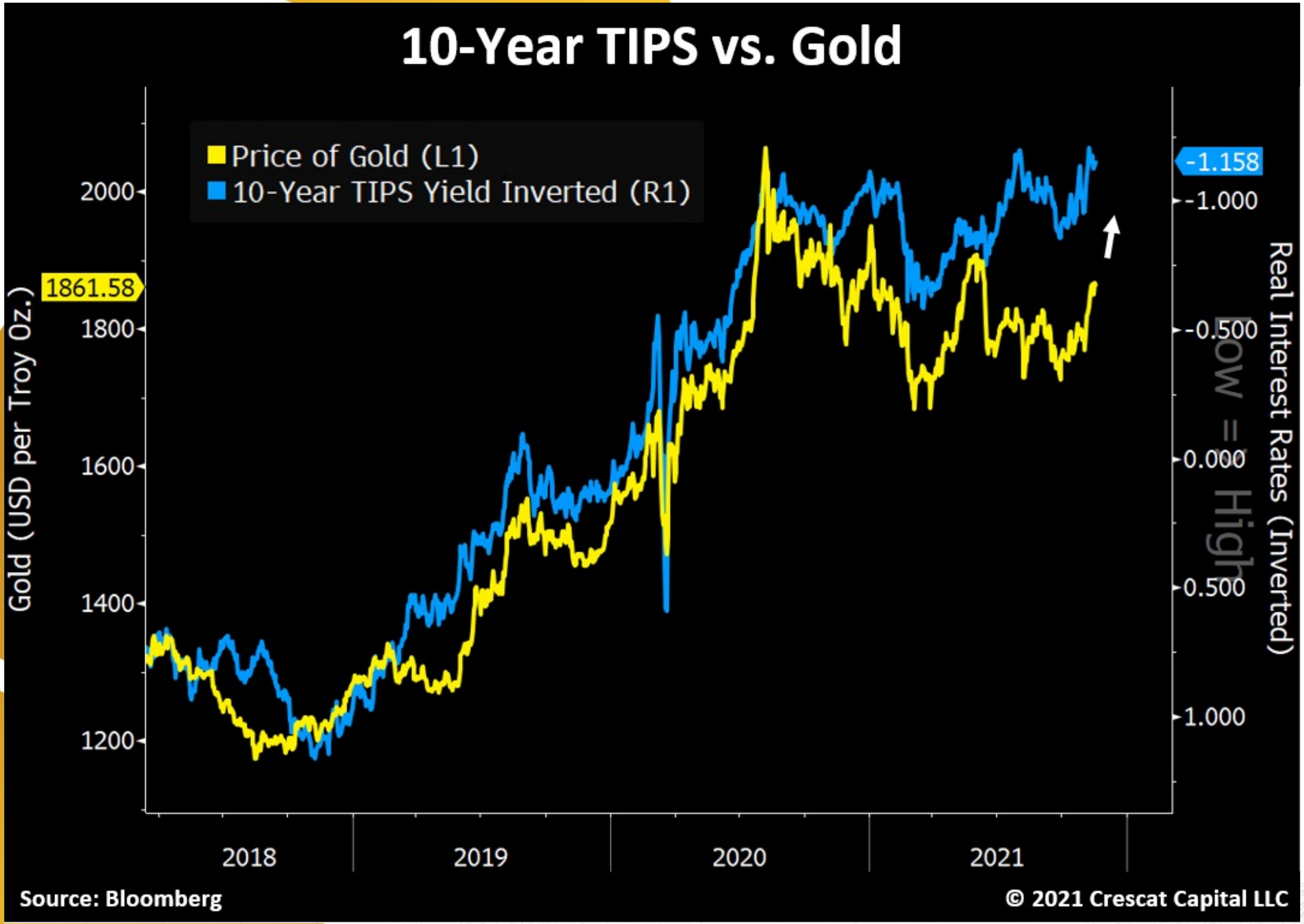

This is gold breaking out while inverted real yields are getting more negative.

The Fiscal Agenda

- The Green Revolution
- An Infrastructure Revamp
- Peak Inequality
- A Fiscal Arms Race with China

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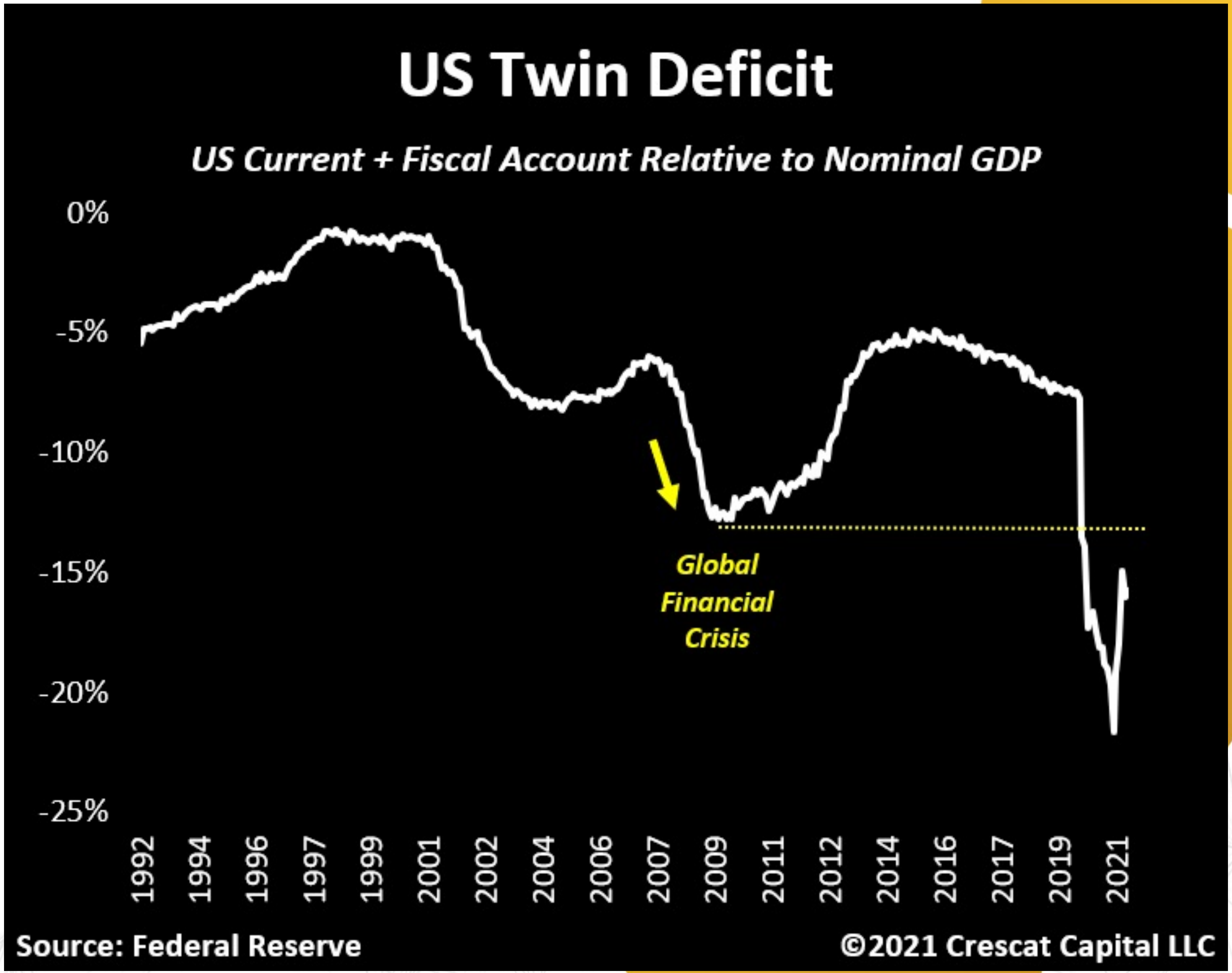
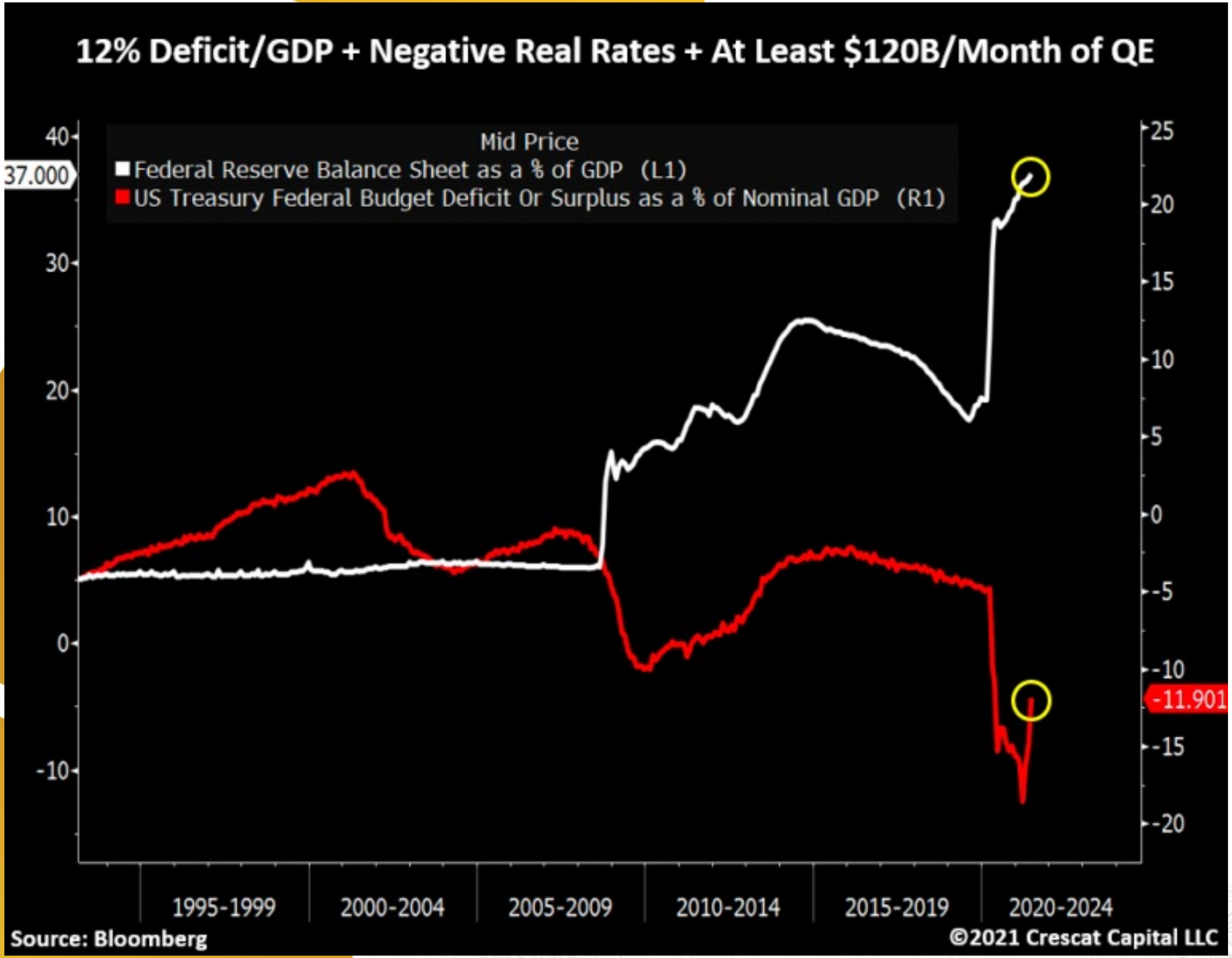
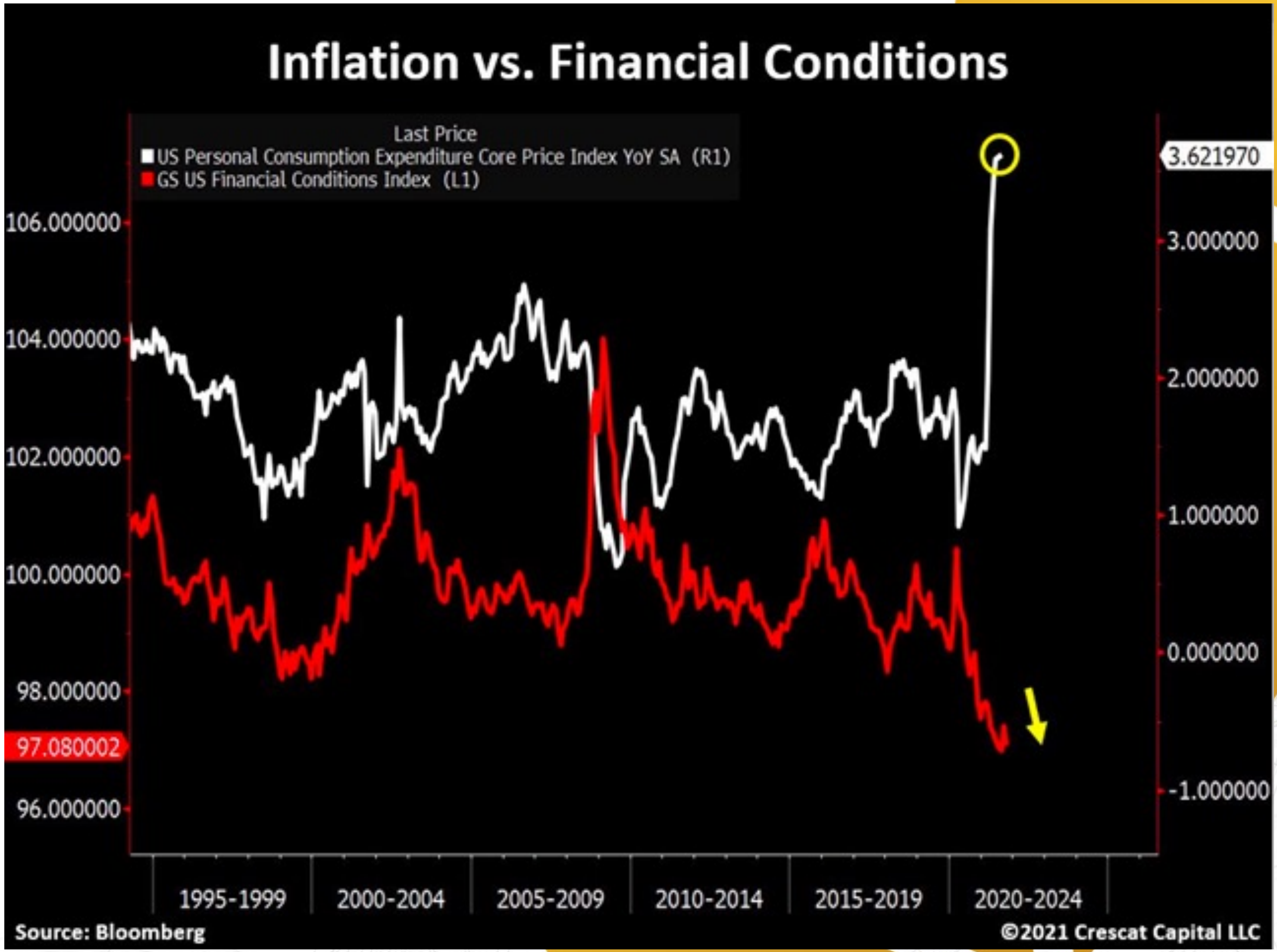
The twin deficit (current account + fiscal) is now close to 15% of nominal GDP, almost three percentage points lower than the worst levels of the Global Financial Crisis.





The macro imbalances today are extreme, and the ultimate inflationary consequences of years of reliance on ever greater monetary and fiscal stimulus as the primary policy tools to solve economic problems are inescapable.

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



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A Flood of Treasury Issuances

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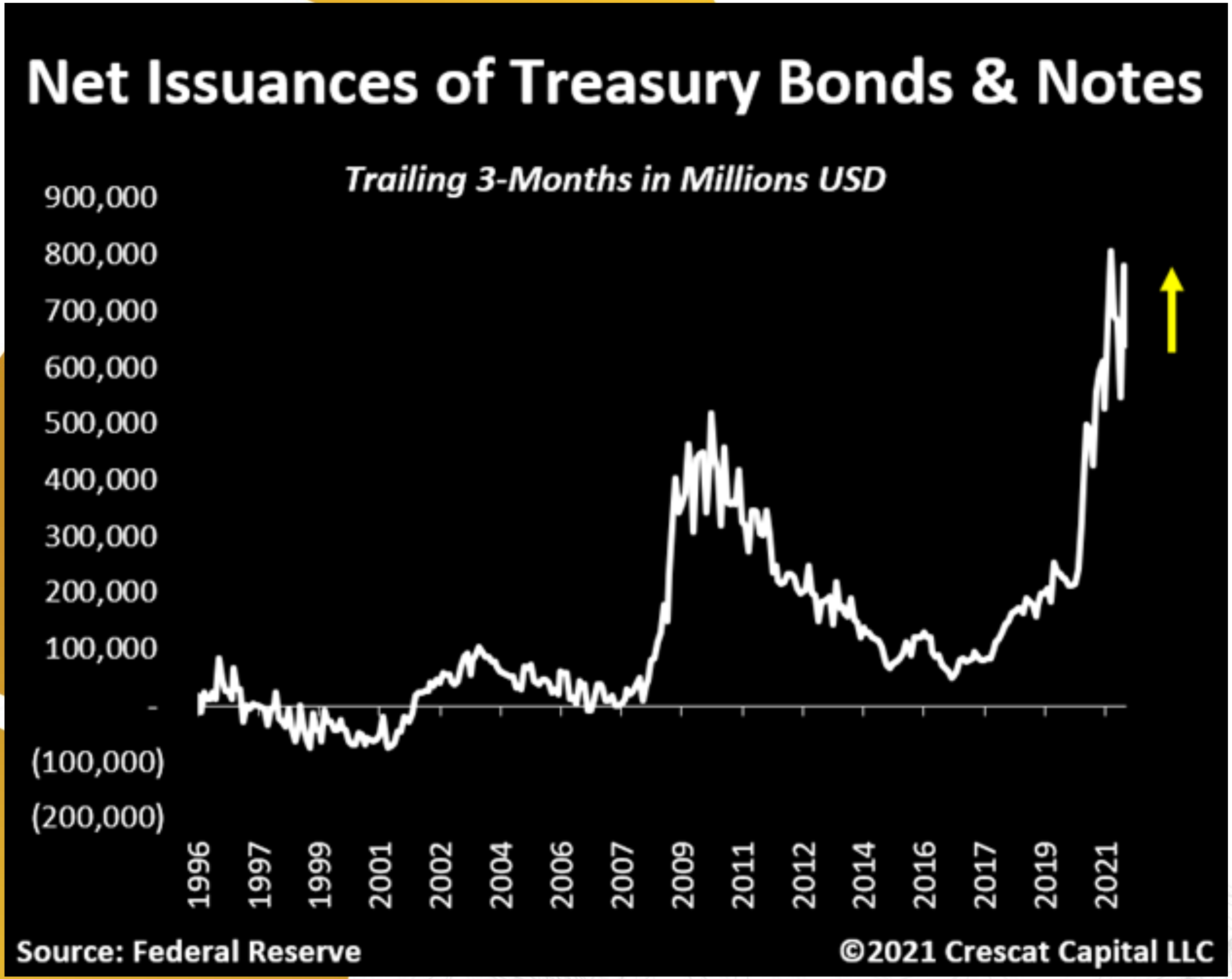

Rates will need to rise to attract new buyers, because nobody in their right mind should want to finance the tsunami of new longer-duration Treasury supply from ongoing fiscal deficits and T-Bills rolling over at today's sharply negative real interest rates.

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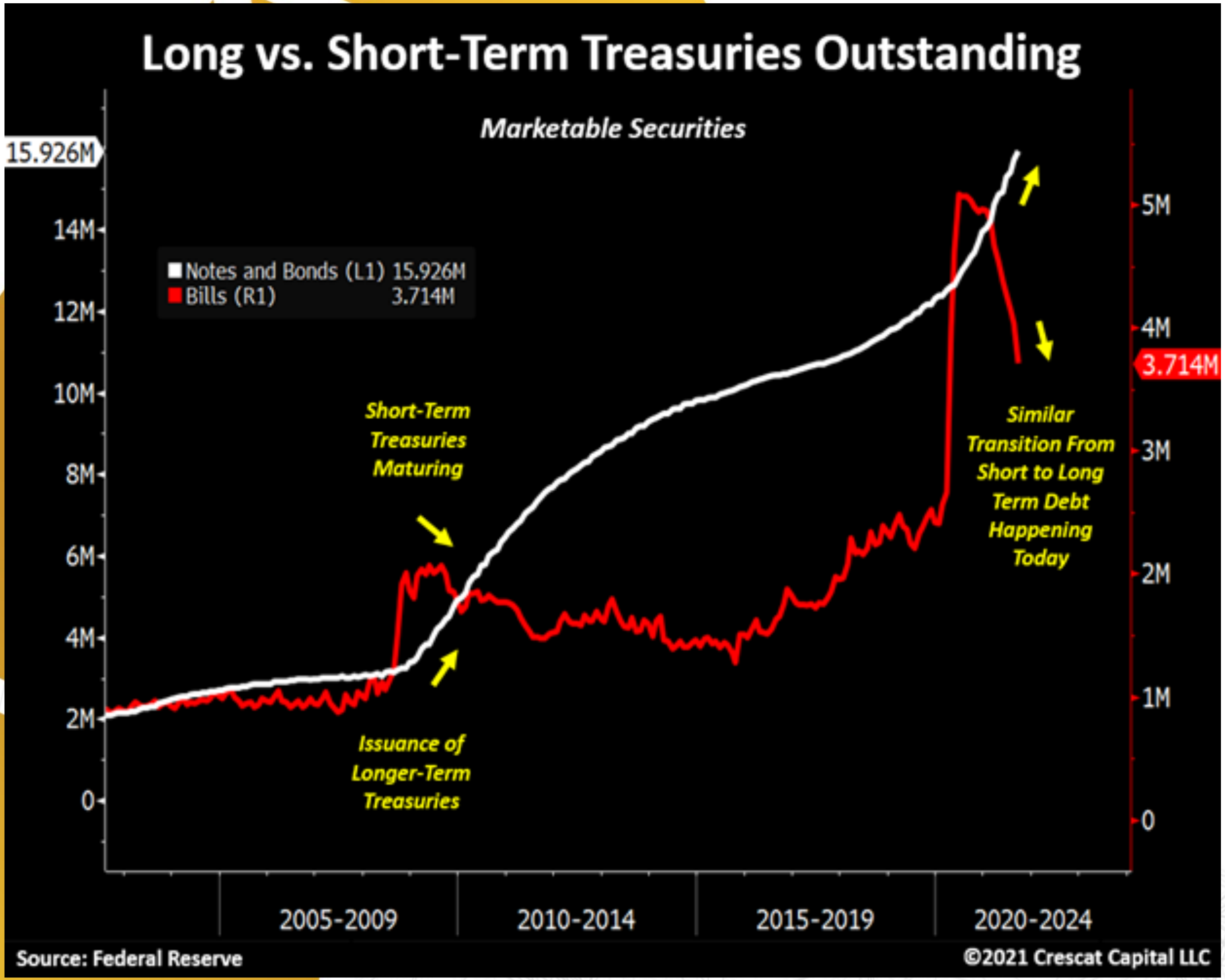

Back then, these shorter-term instruments matured and, rather than rolling them, the government issued bonds and notes to extend the maturity of its debt outstanding. This transition is precisely what is happening today.

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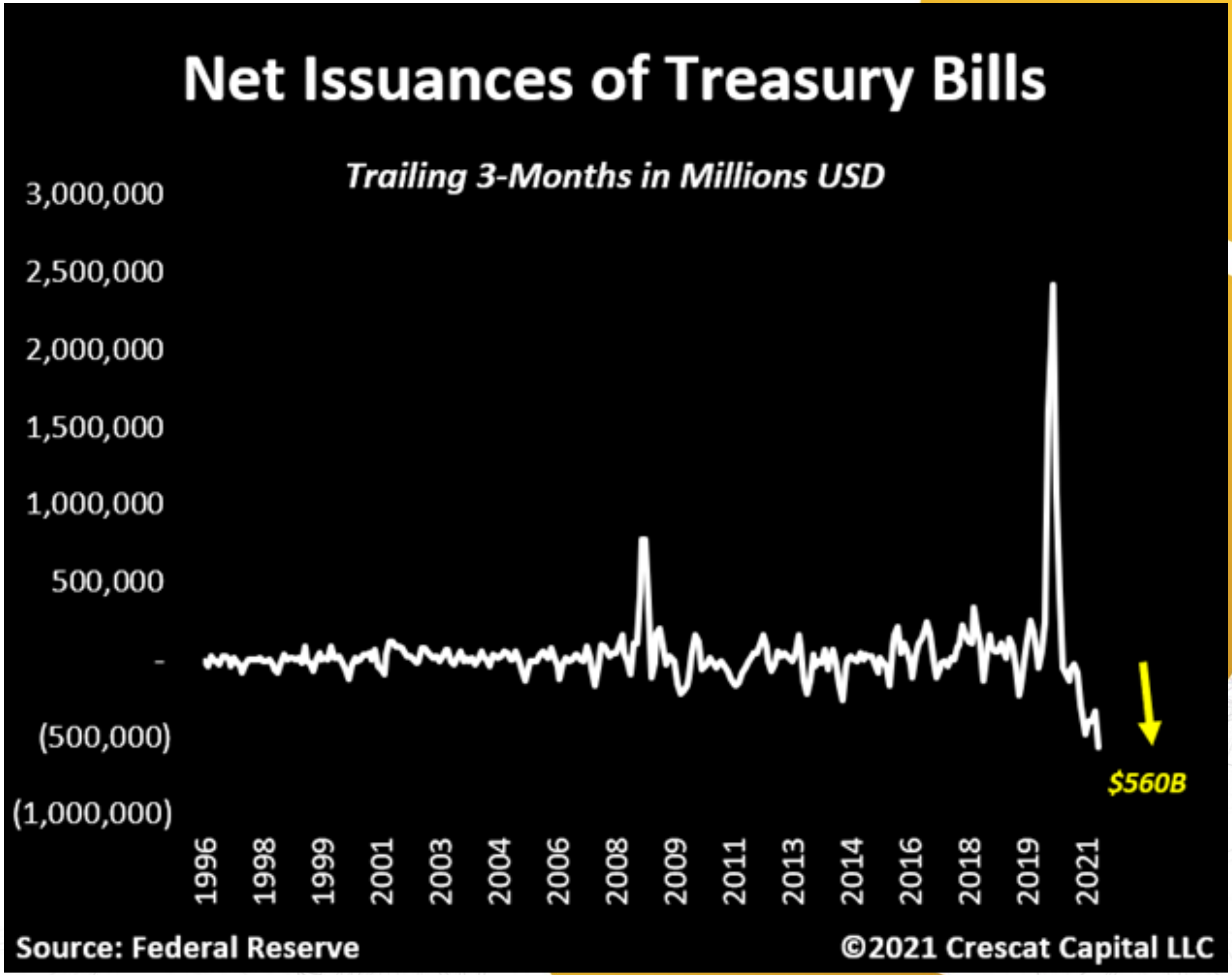
In the last three months, we have seen over $560 billion of short-term government instruments mature. This is the largest decline in outstanding T-Bills ever recorded in history.



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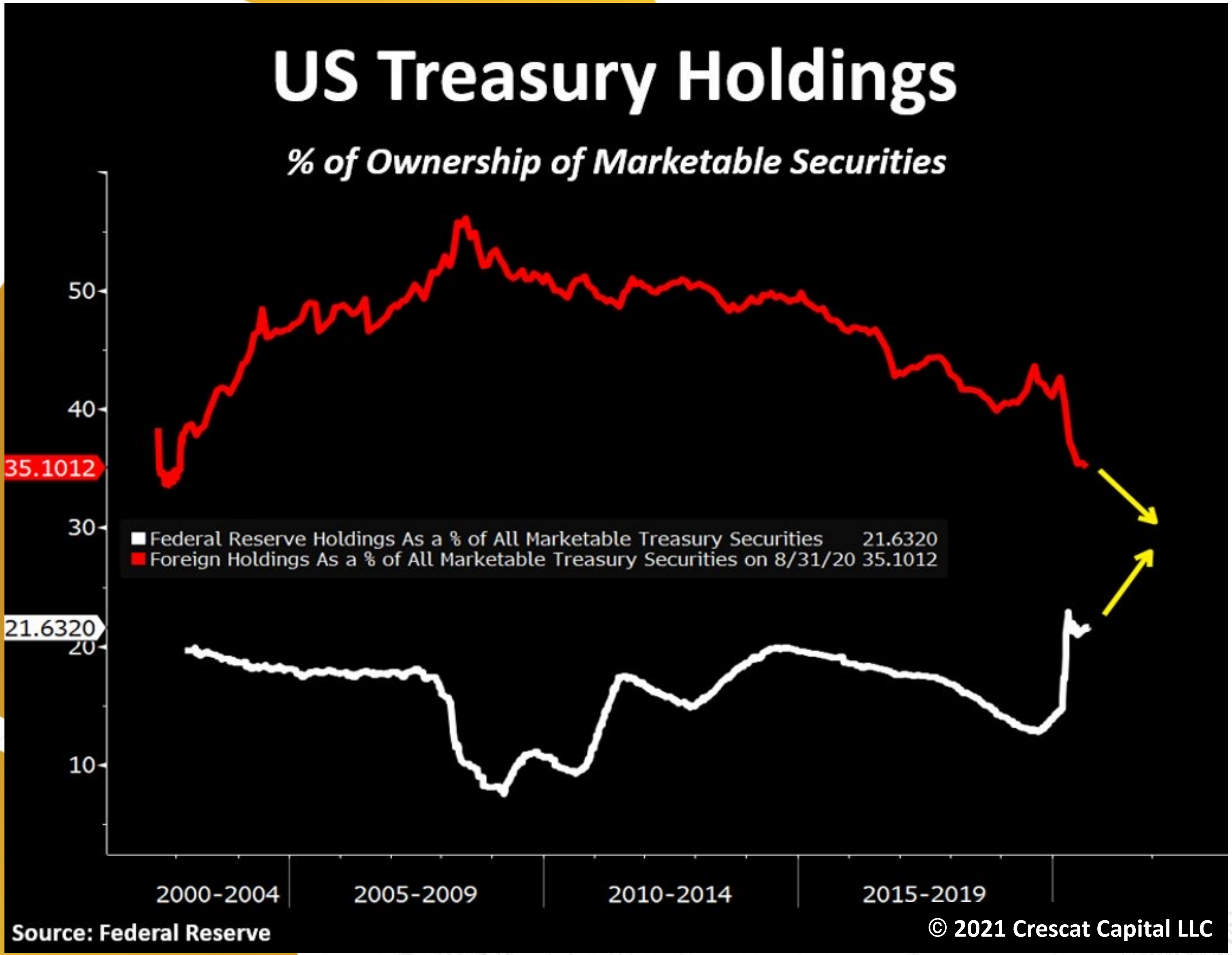

Foreign investors are currently holding the lowest percentage of marketable US Treasuries in 20 years. The Federal Reserve is becoming the buyer of last resort.

By looking at the Eurodollar curve, the market already expects the Fed to be raising rates to 1.25% in the next two years. If policy makers would pursue that as a plan, the Treasury curve would almost certainly invert today, triggering a recession signal. It is necessary for the Fed to allow long-term yields to rise to even consider hiking short-term rates.

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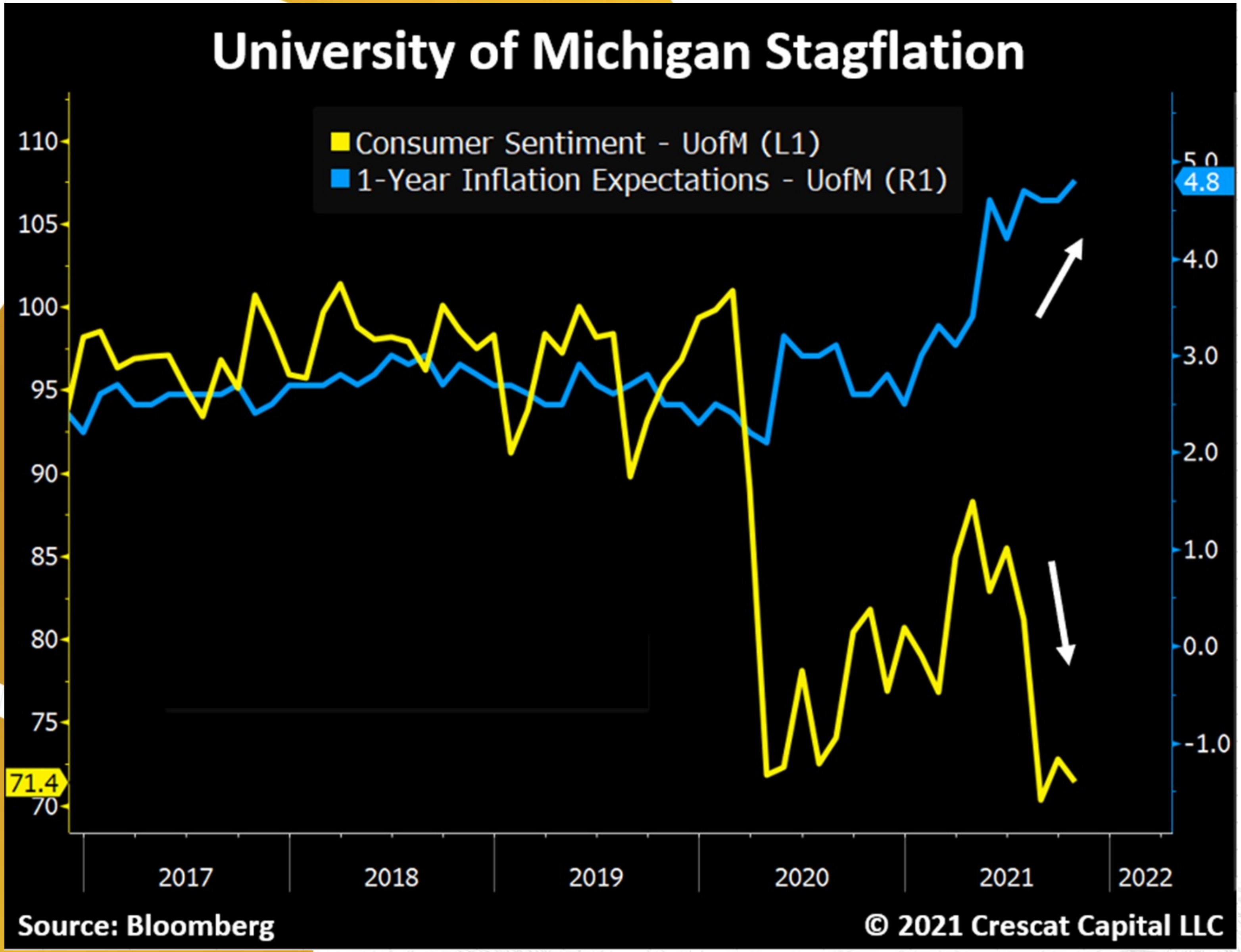
Stagflation

Note the tight correlation between the real-time Atlanta Fed's macro quantitative measure of real GDP growth and actual subsequently reported economic growth after inflation.



A sign of stagflation: rising inflation expectations along with consumer sentiment plummeting.

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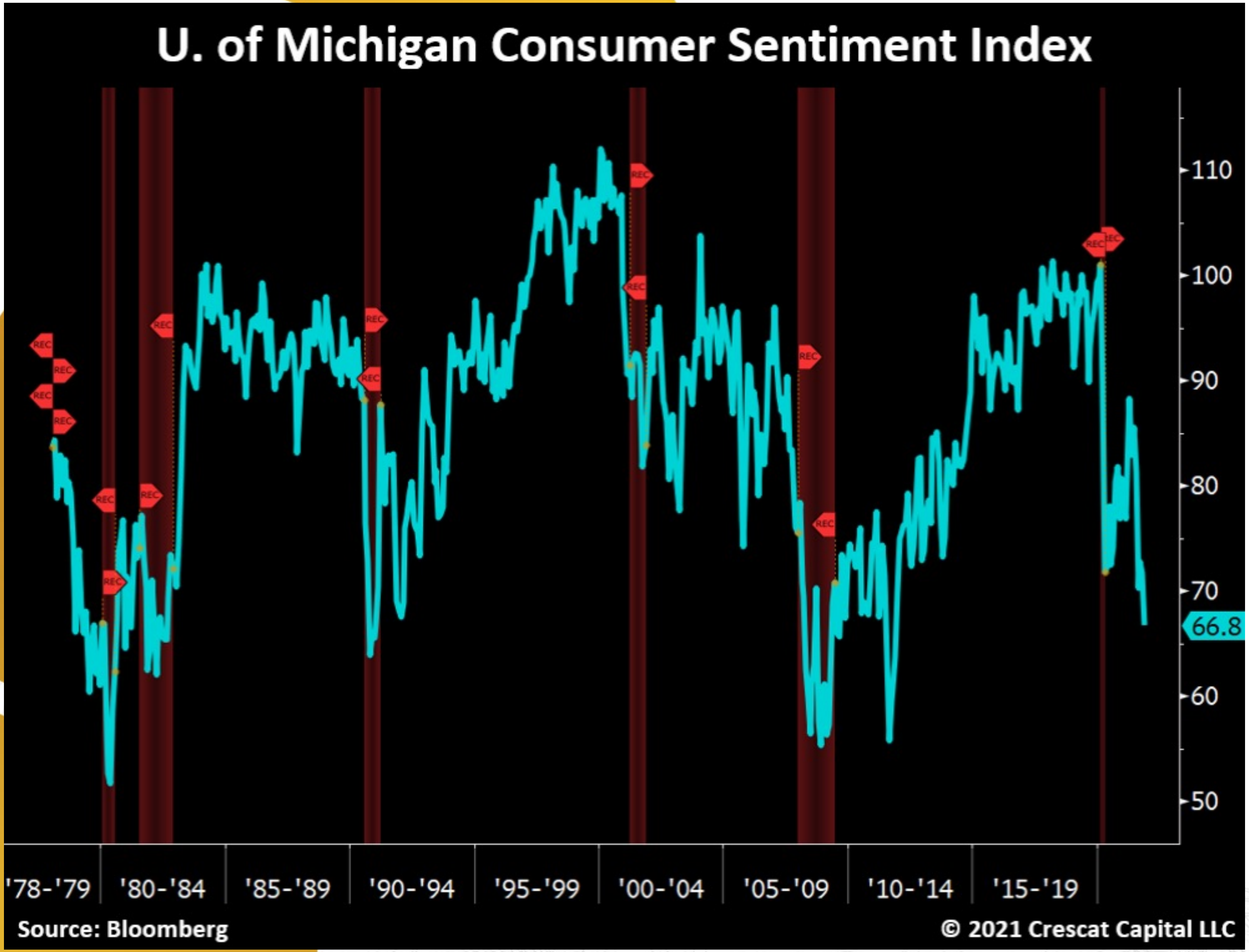

Typically, when consumer sentiment plummets it is a lead indicator of a recession.

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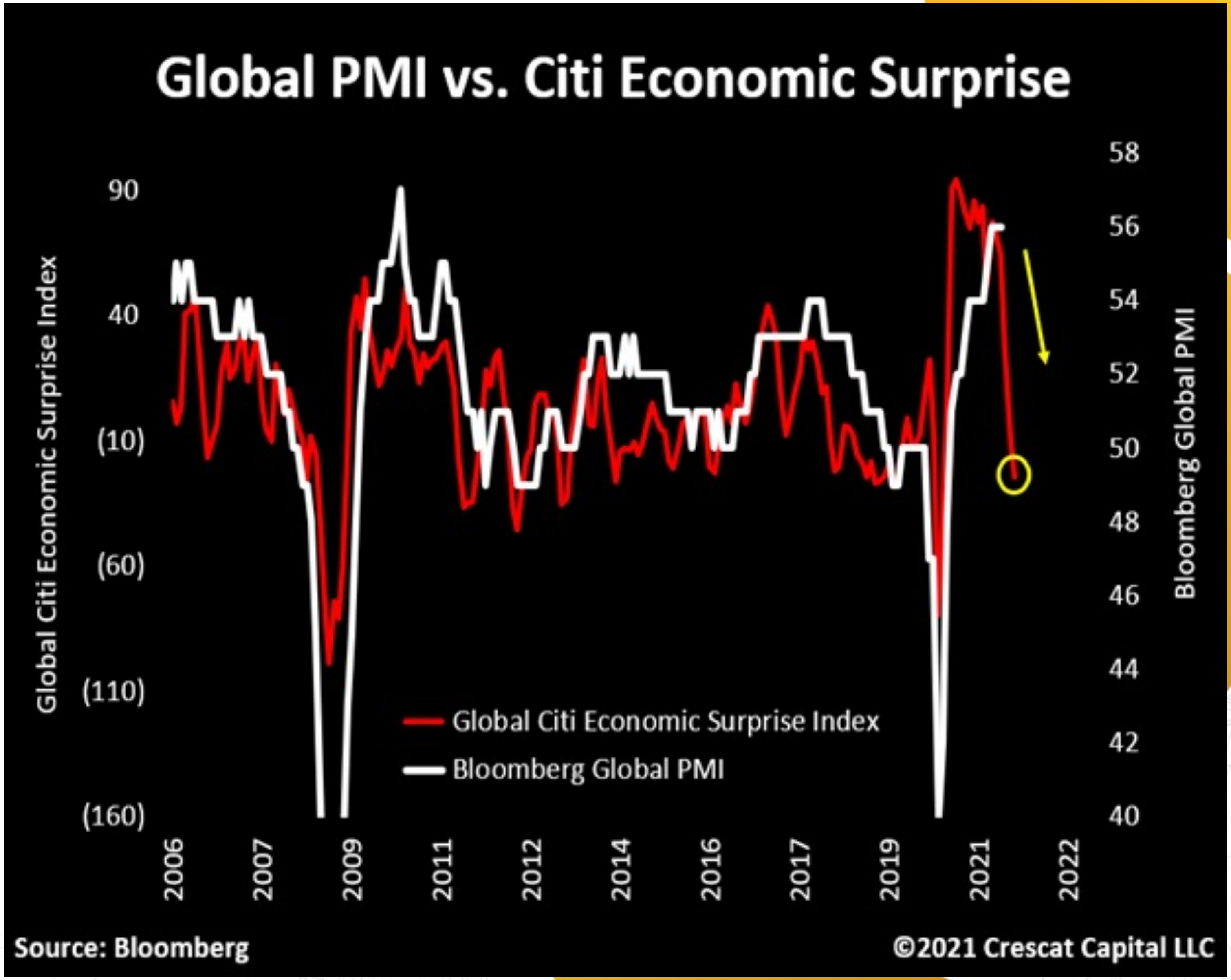
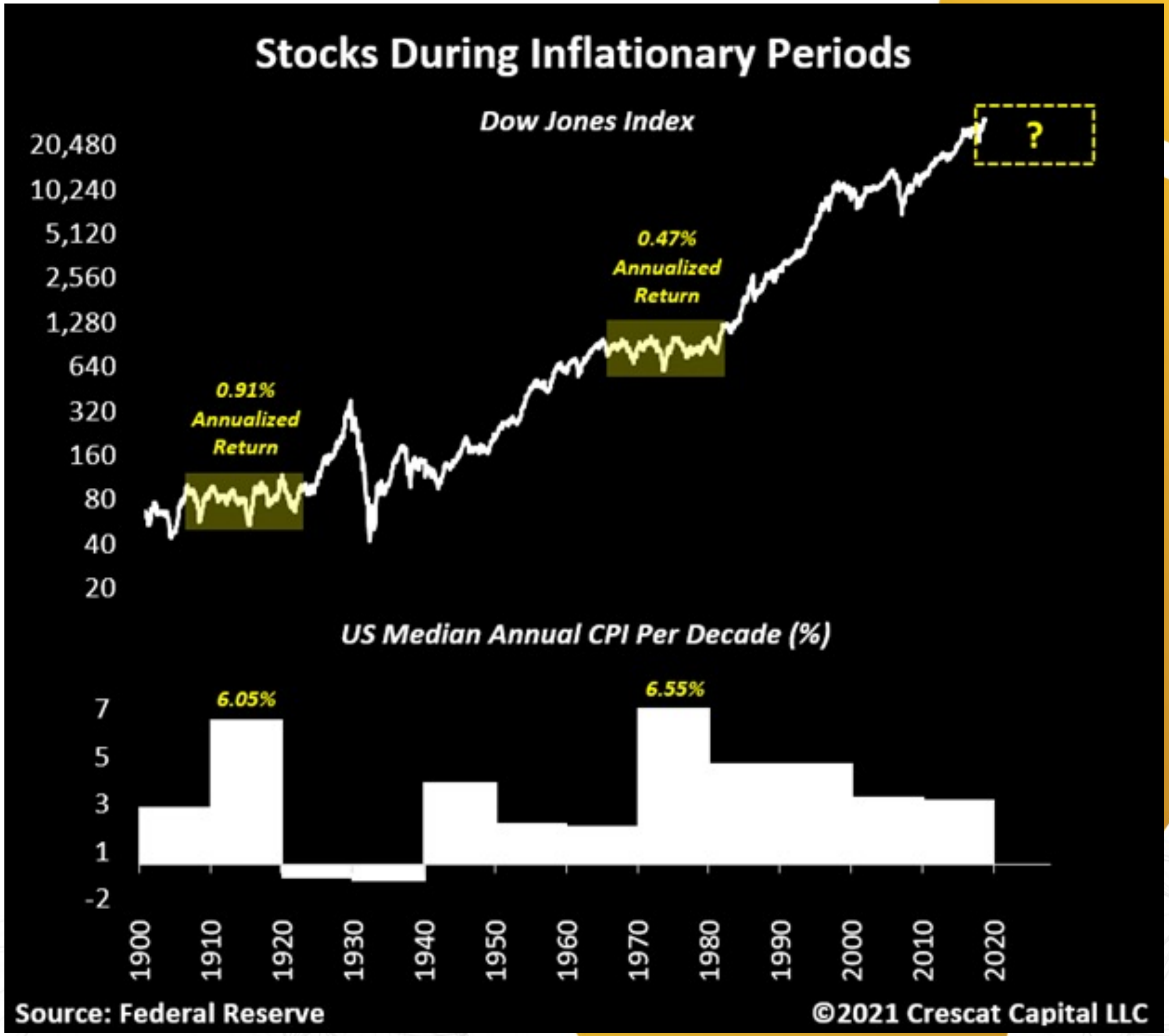
So now we ask, if economic growth continues to decelerate while inflation remains historically elevated, what will the Fed do?

The set of monetary and fiscal policies needed to fix one problem would worsen the other.



Inflationary Decades

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.



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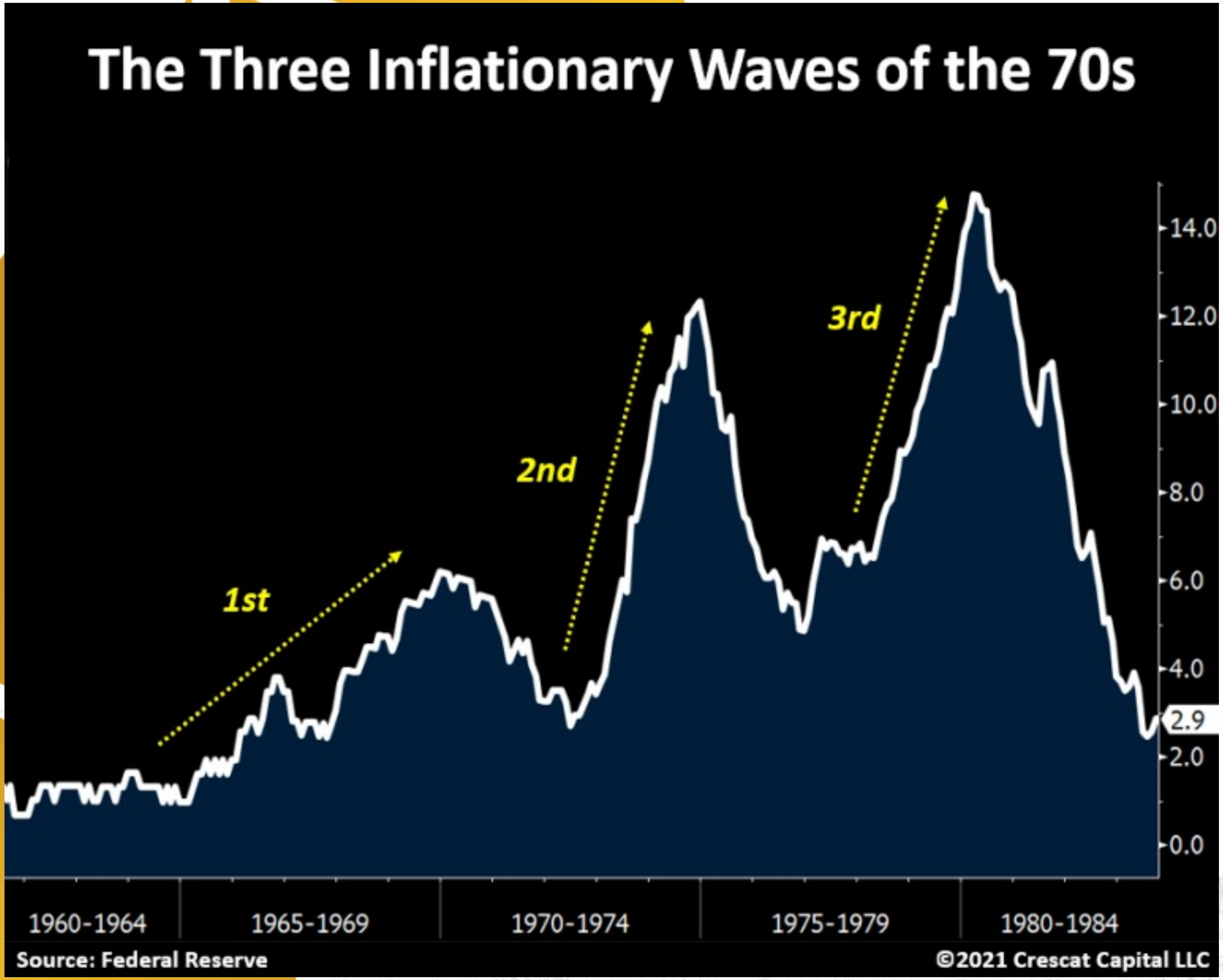

Those years were marked by fierce counter shifts in monetary and fiscal policies that repeatedly changed focus from fostering economic growth to strongly fighting inflation. As a result, financial markets experienced one of the most volatile boom-and-bust periods of history. At that time, the Fed was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

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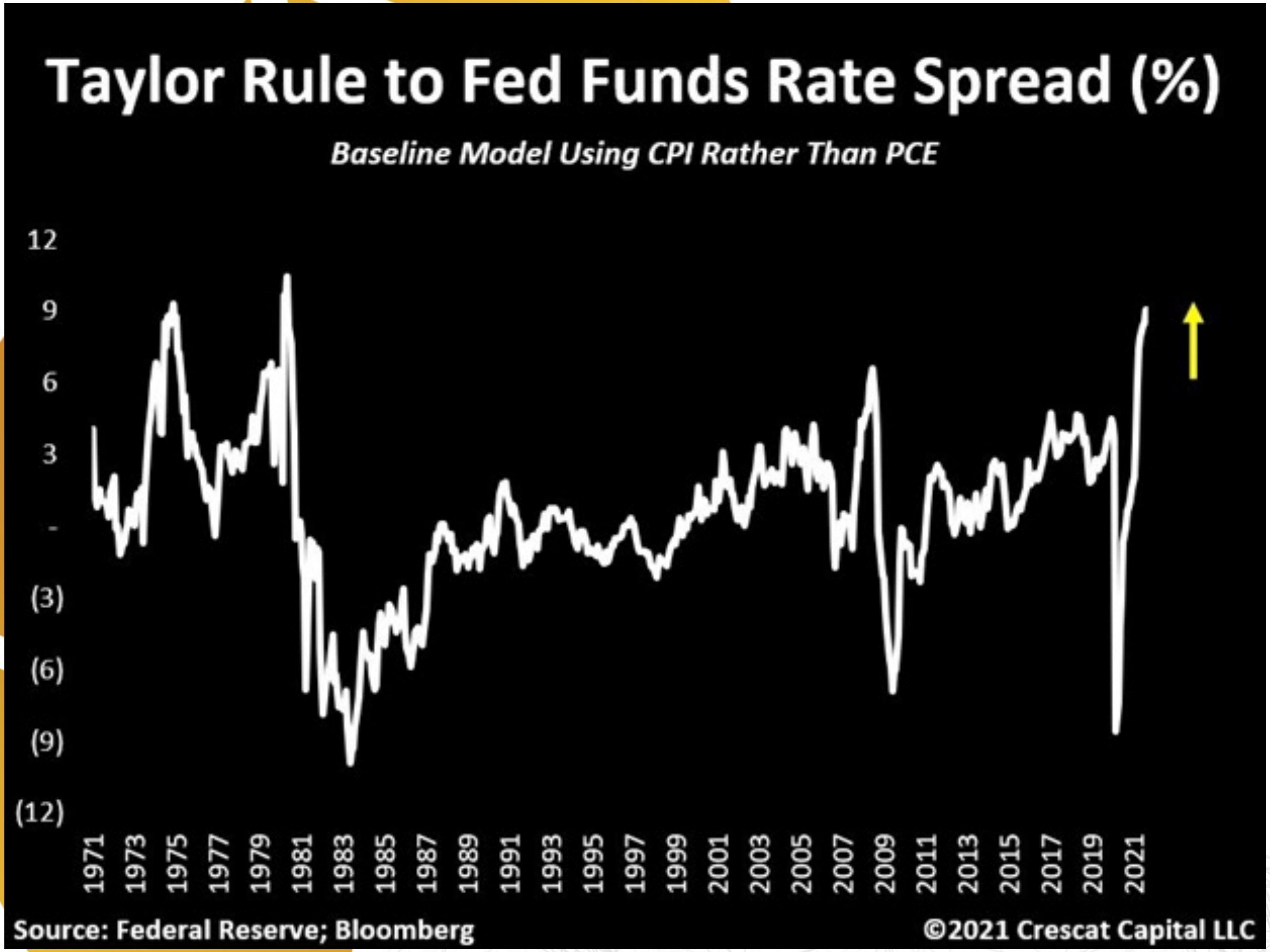

We think the year-over-year growth in inflation is at least two low double digits and, if correct, we are indeed living in the most financially repressive environment in history.

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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.

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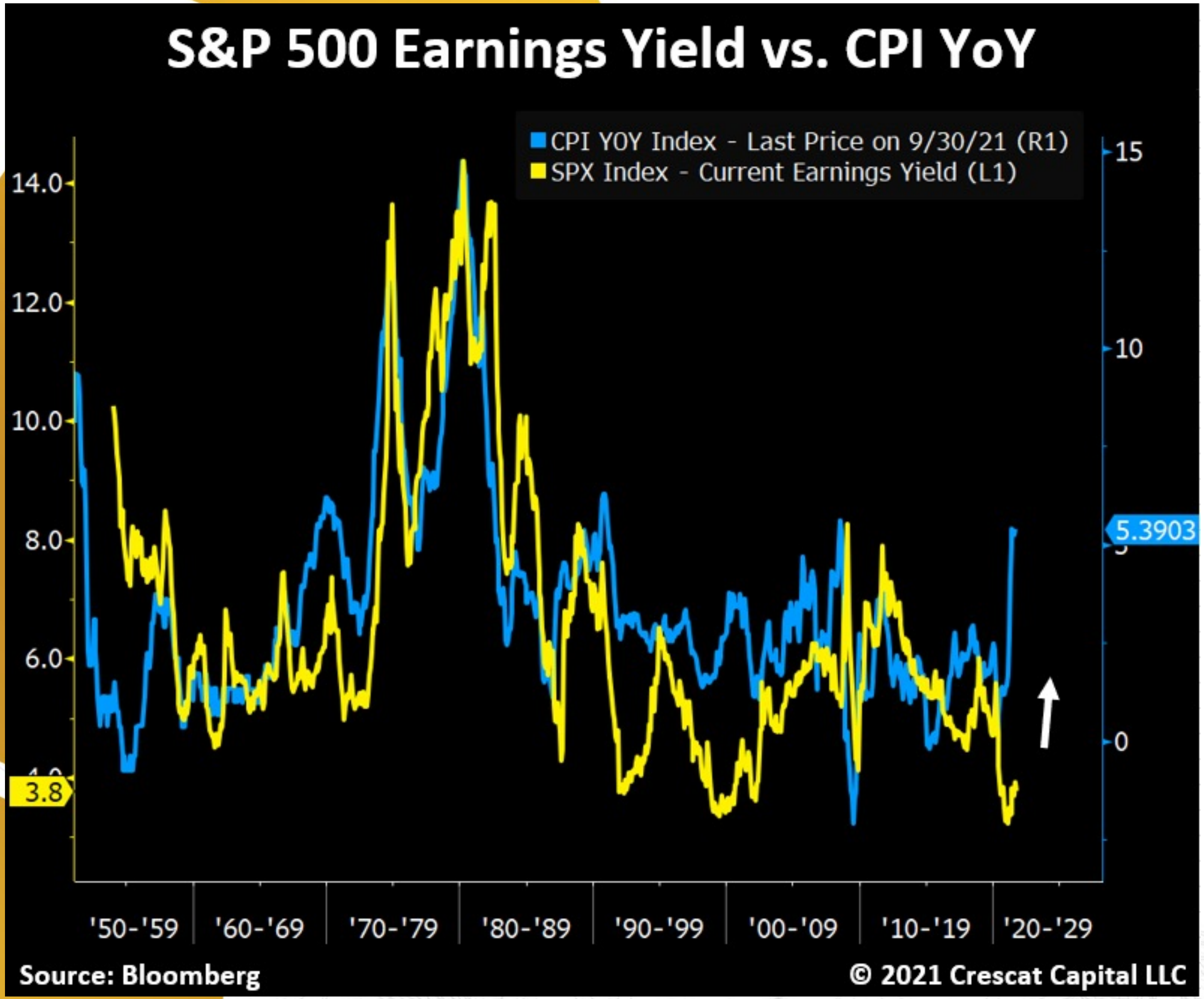

For proof that inflation deflates P/E multiples, look at the strong relationship between CPI and the earnings yield (inverse of P/E) of the S&P 500 Index over the last seven decades of data.

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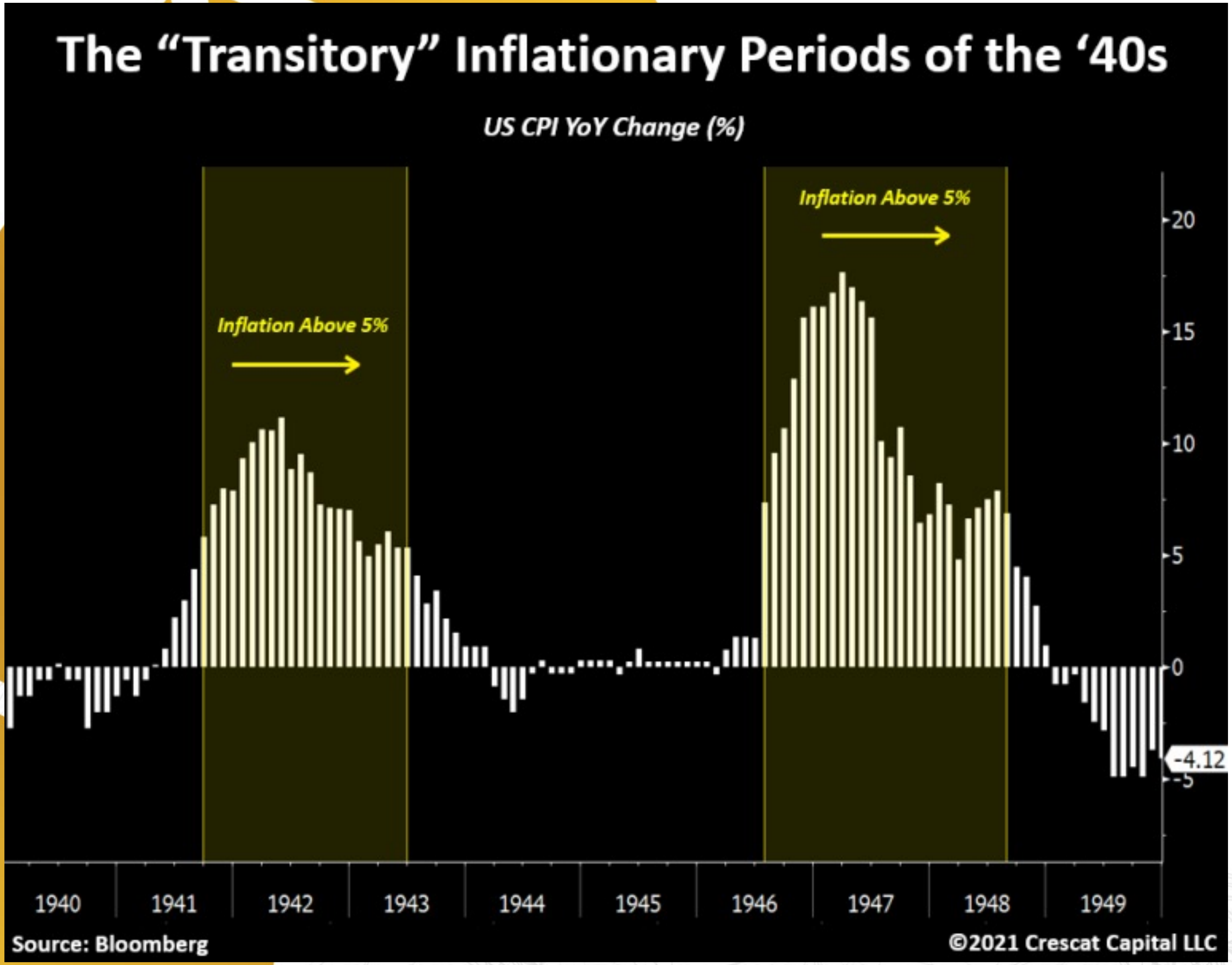

Note that during each of those inflationary spikes, CPI stayed above a 5% YoY rate every month for over two years. To our friends, "the deflationistas", if this is an accurate roadmap to follow, buckle up, the rise in consumer prices is just getting started.

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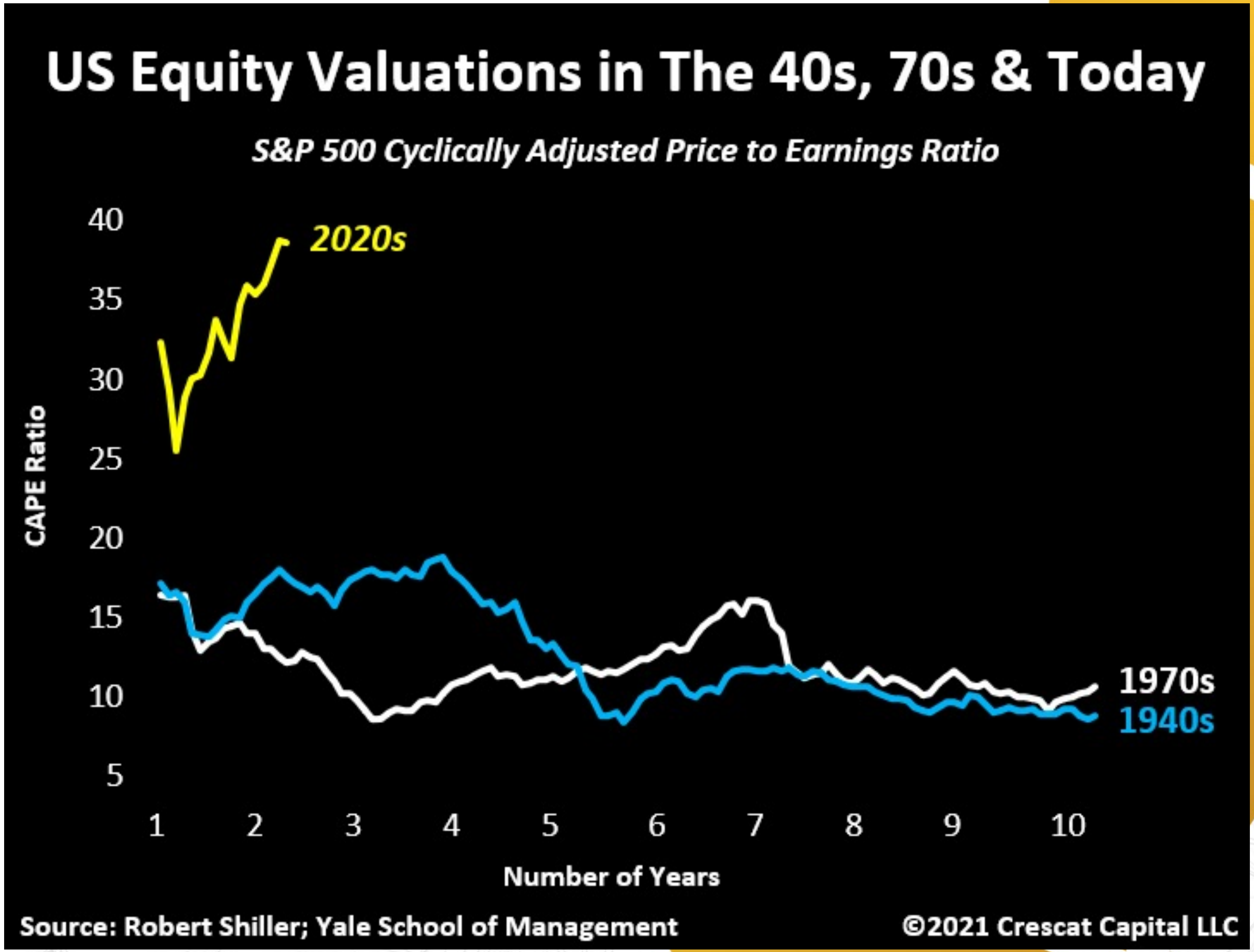
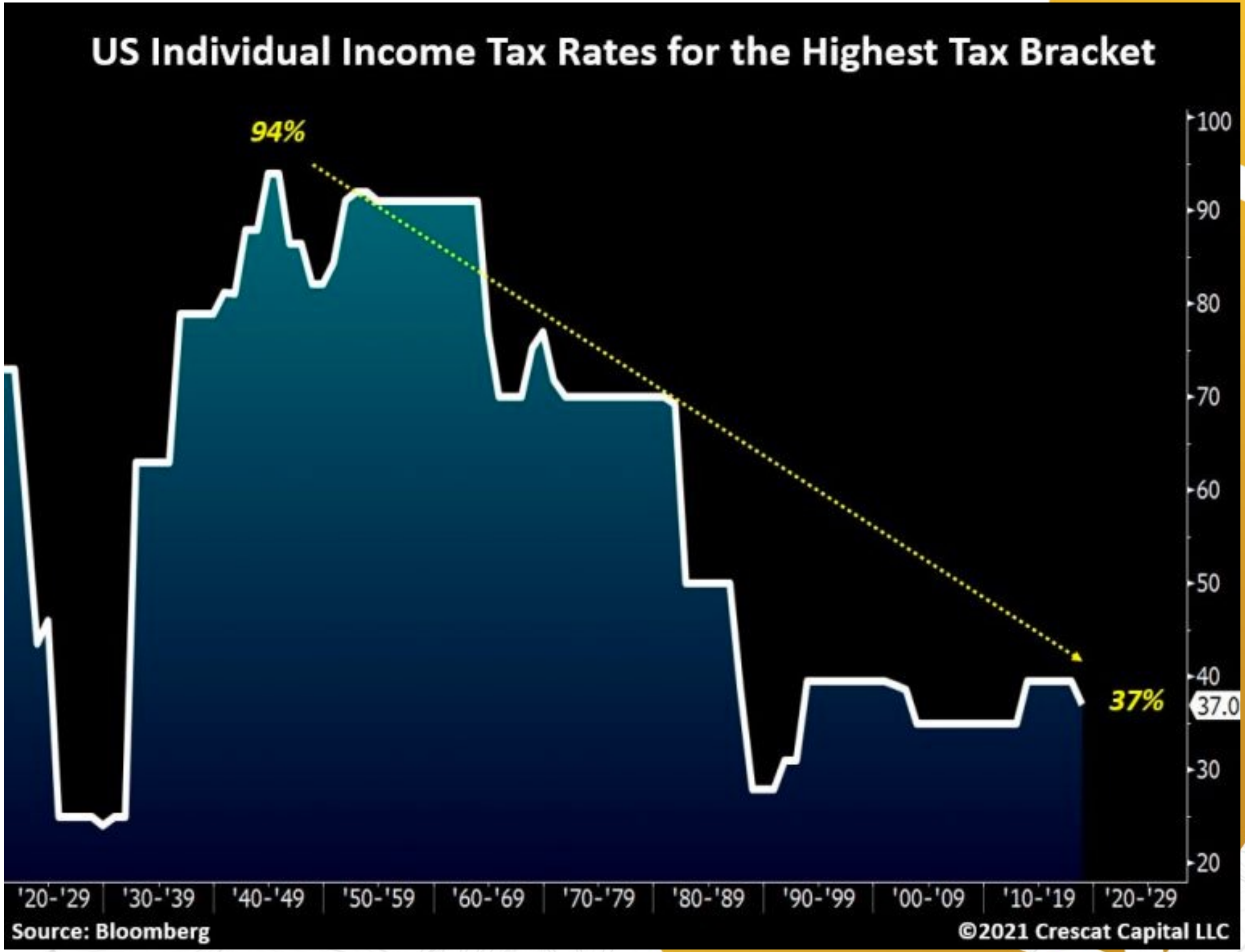
Total debt, including private and public, as a percentage of GDP is almost double the size of the 1940s and 1970s.



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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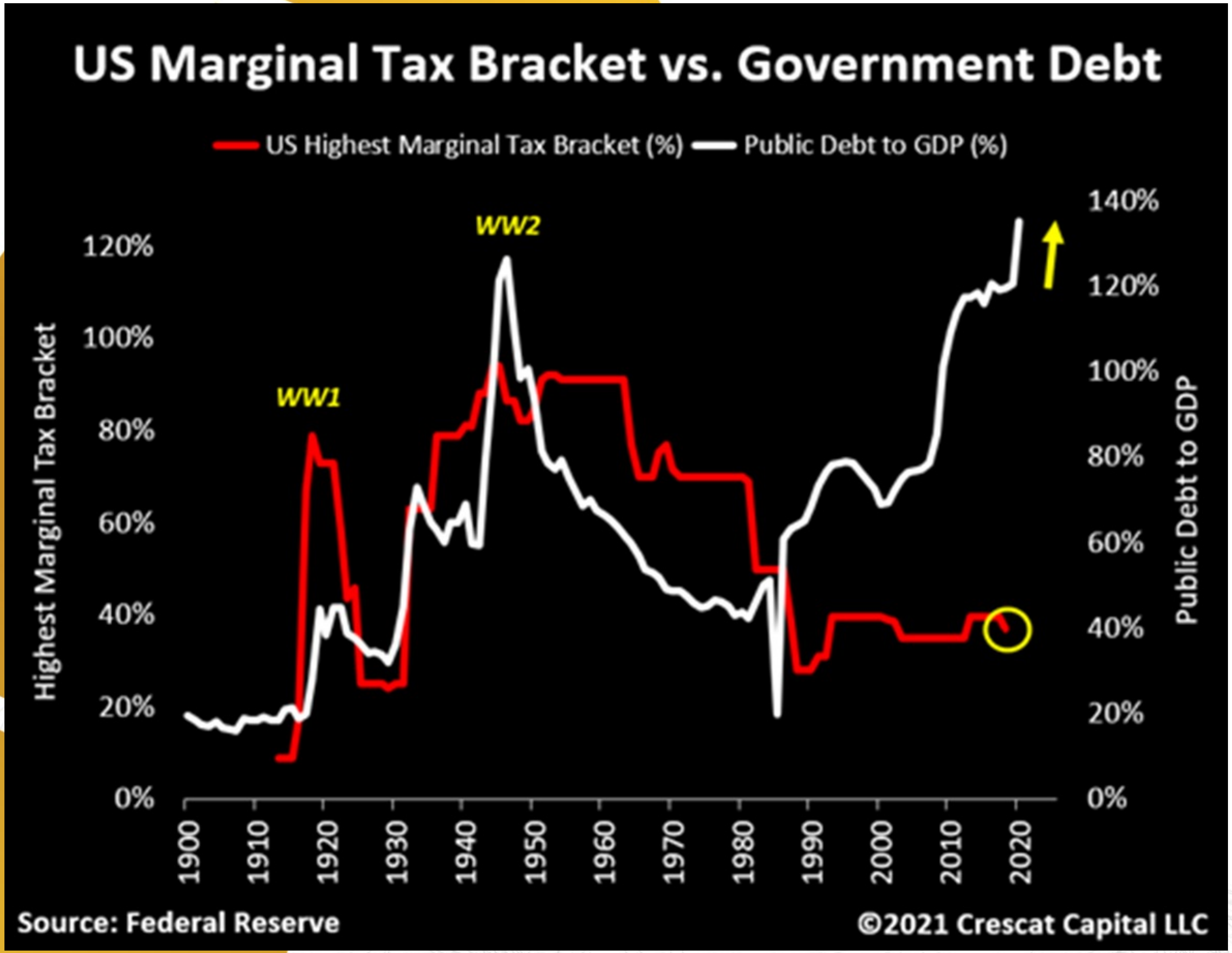

For people calling for the Roaring 20's, back then not only was inflation falling but tax rates were also in a downtrend. There is no way either of those factors will be in play today.

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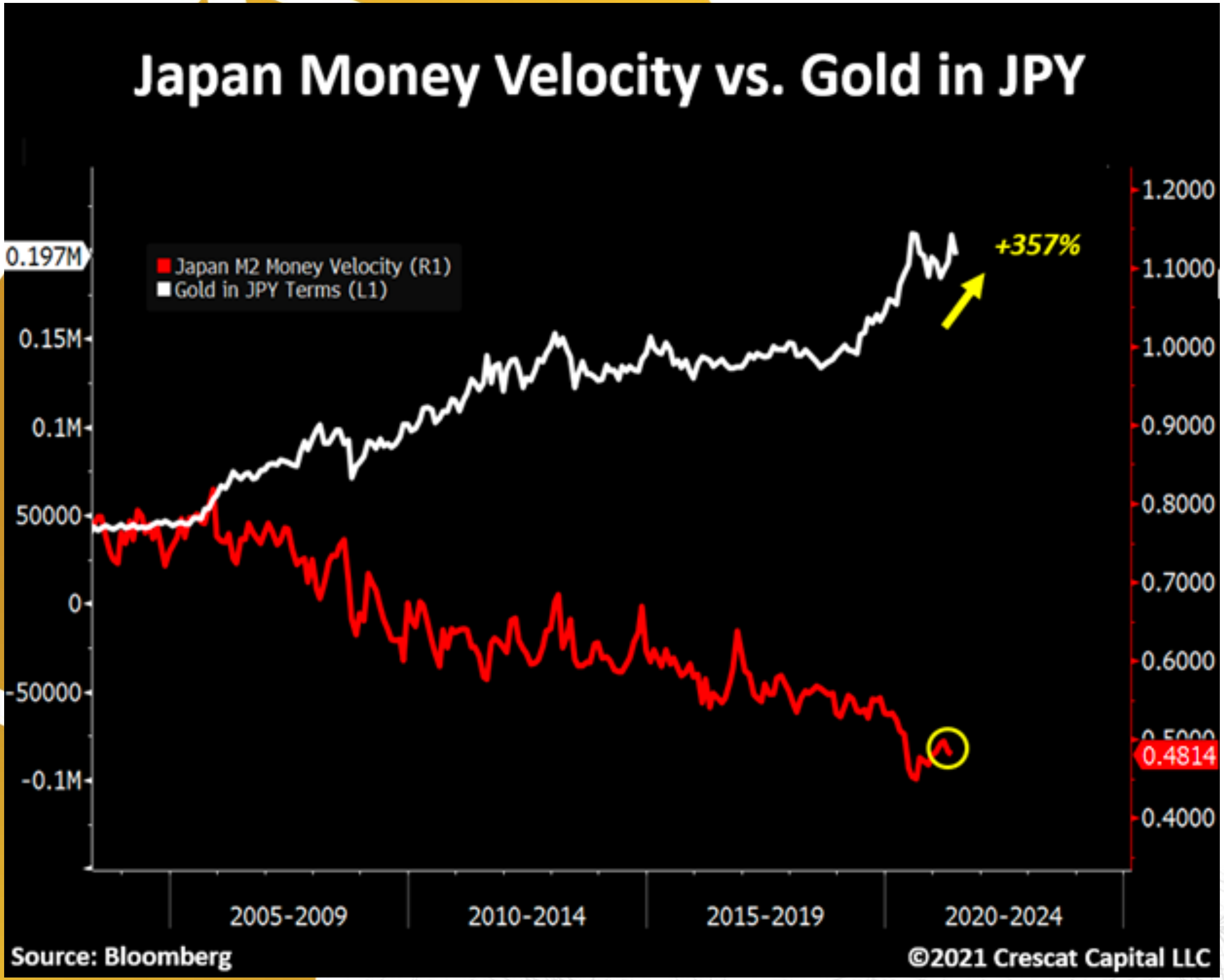
The Deflation Thesis
&
Optionality For Gold



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

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

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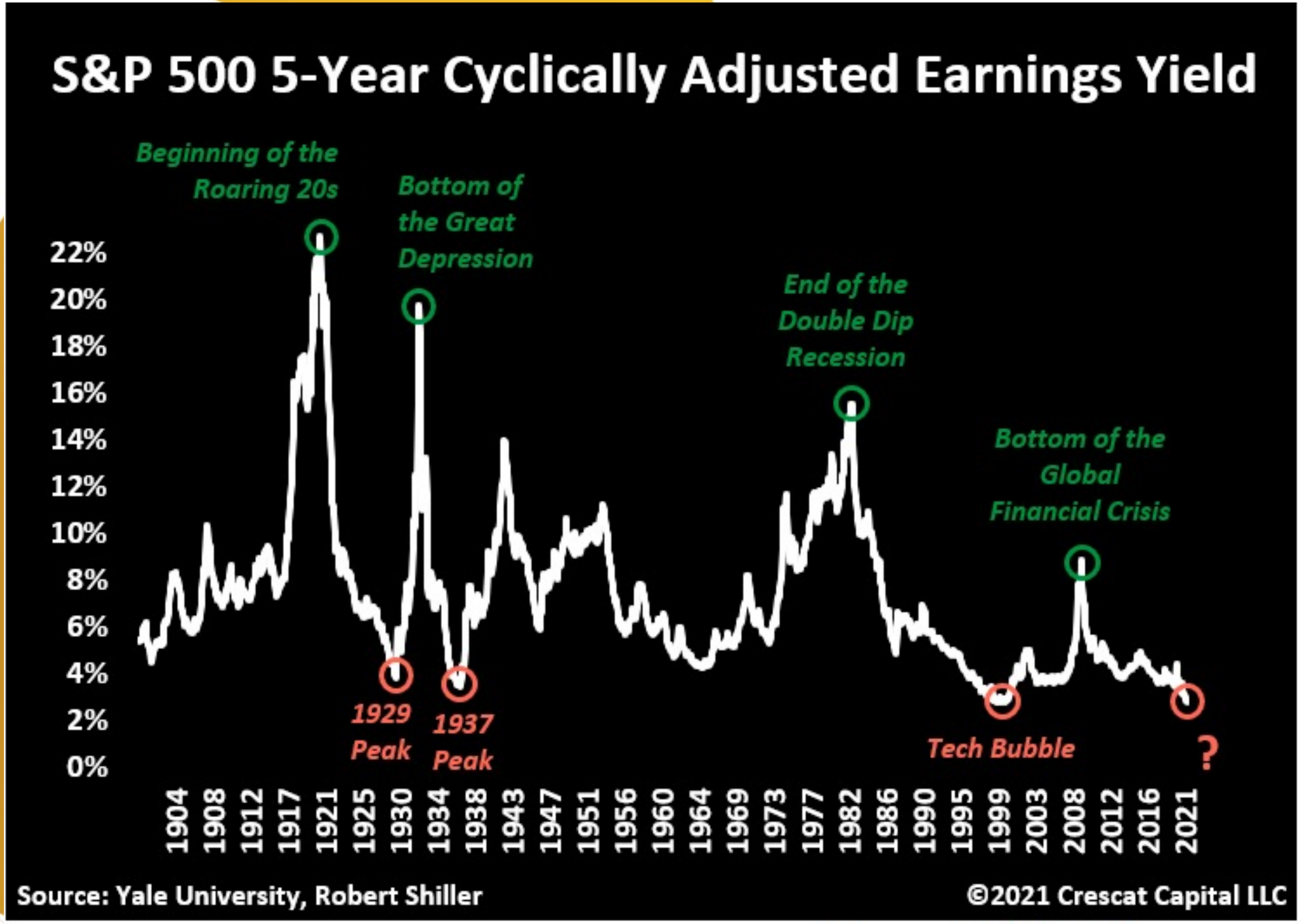

Market Periods	5-Year Cyclically Adjusted Earnings Yield	Subsequent S&P 500 Performance			
		1-Year	2-Year	3-Year	5-Year
1929 Peak	3.8%	-30%	-59%	-84%	-74%
1937 Peak	3.5%	-37%	-29%	-33%	-51%
Tech Bubble	2.8%	-17%	-26%	-43%	-21%
Average at Peak	3.4%	-28%	-38%	-53%	-49%
Today	2.8%	?	?	?	?

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

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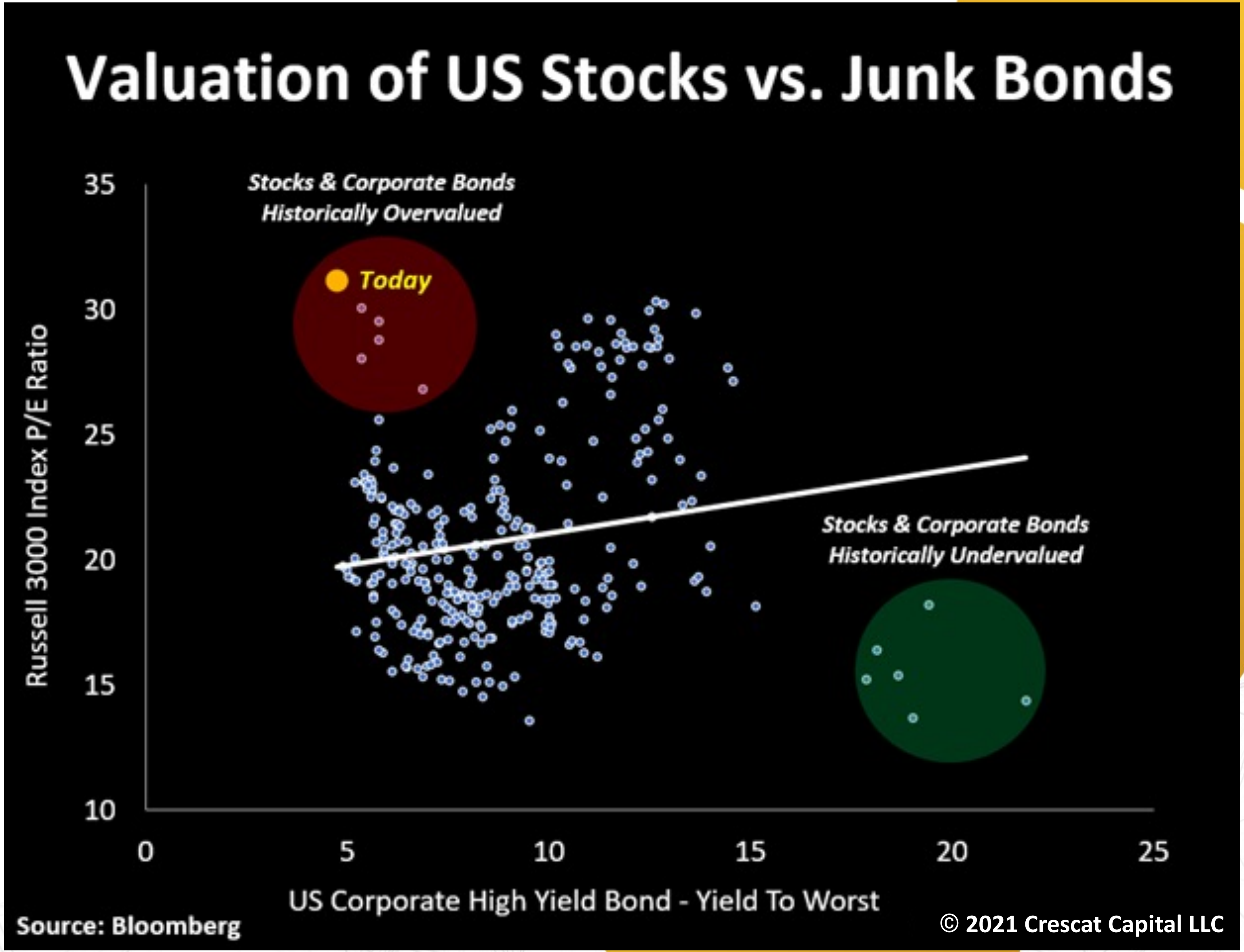
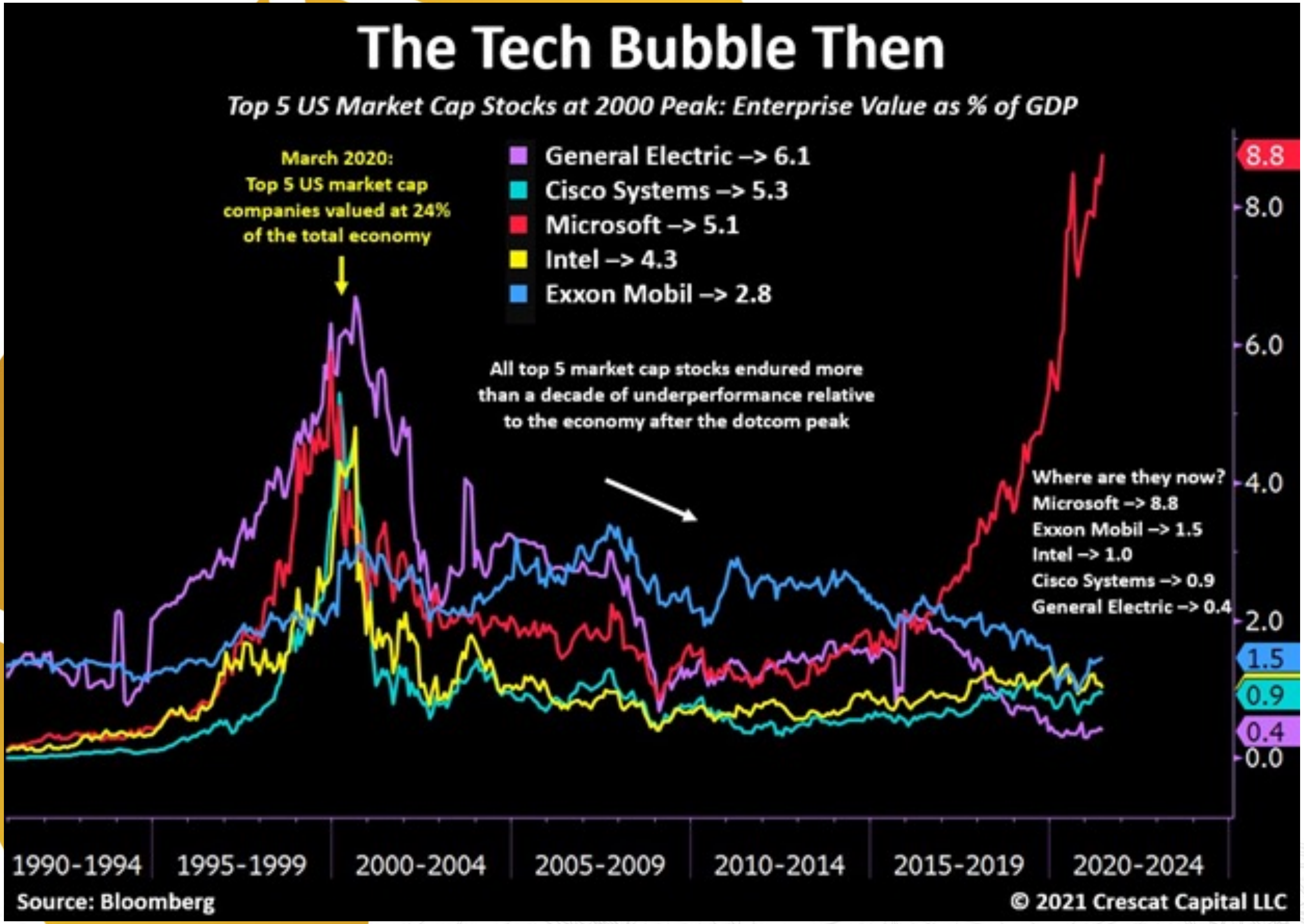
For the first time in history, junk bonds and stocks are record overvalued in tandem.



Tech Bubble Comparisons



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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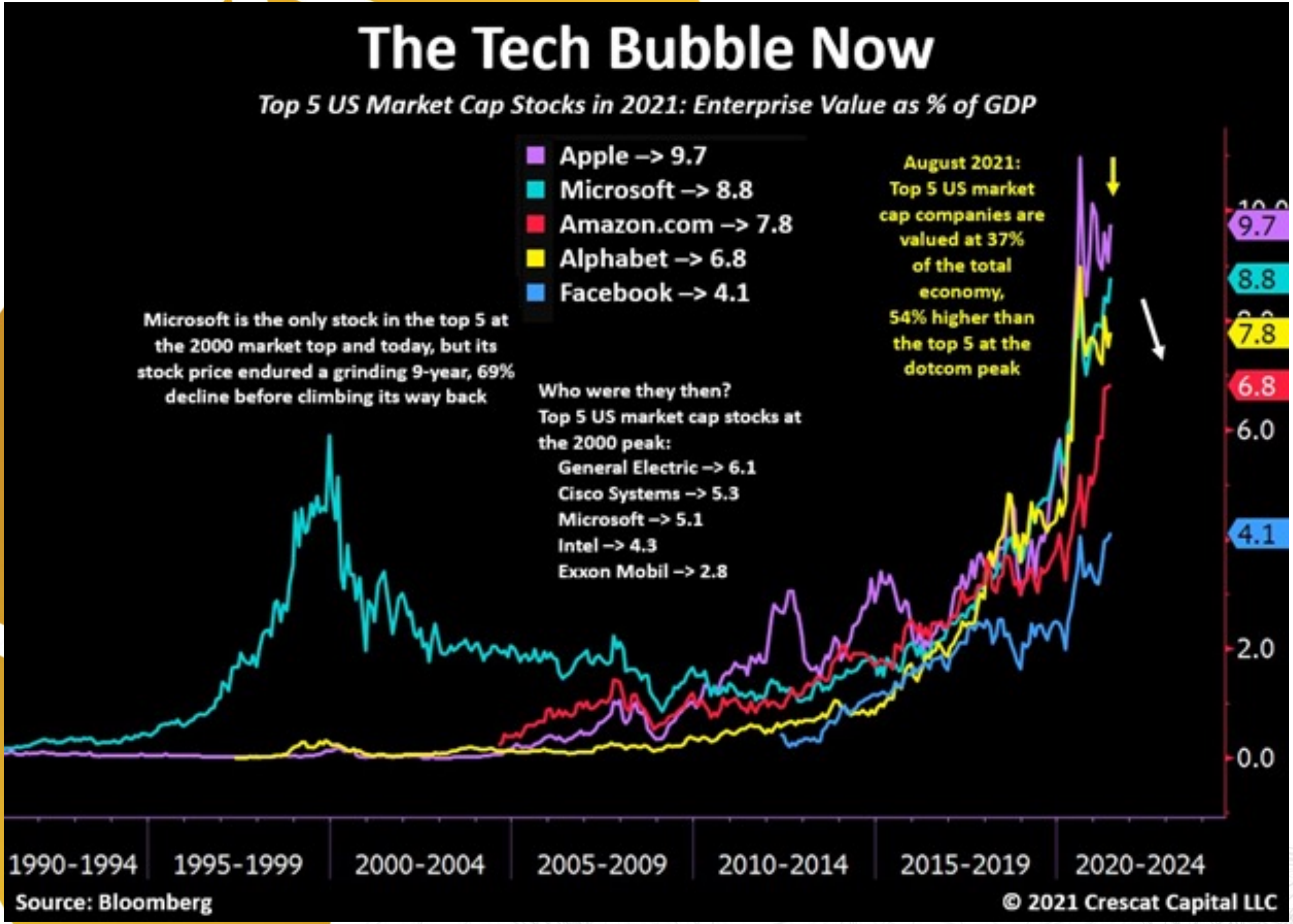

The combined enterprise value of the widely held top five is 37% of GDP, 54% higher than it was for the top five at the 2000 peak.

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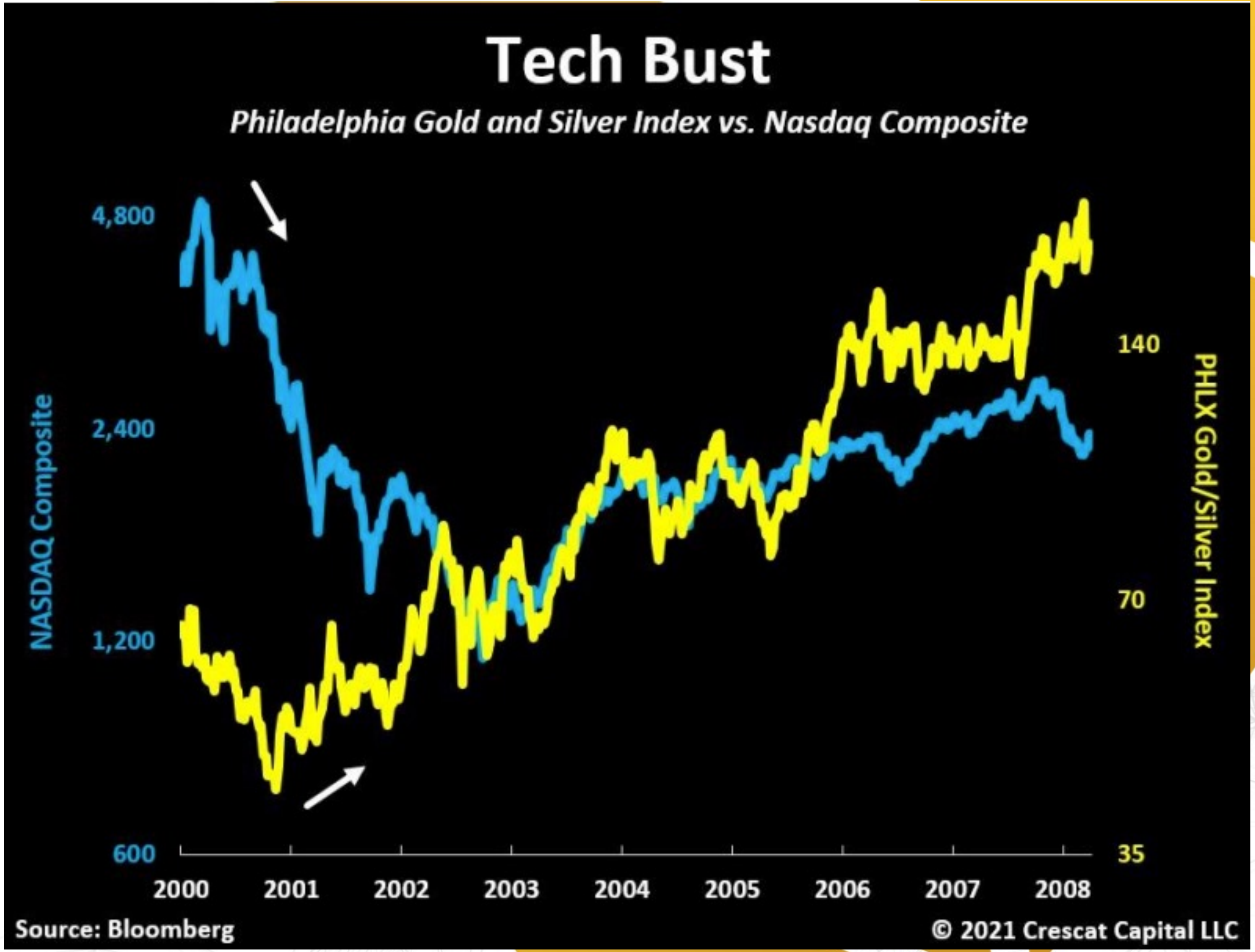
The wake off the tech bust provides another good analog for the Great Rotation. The NASDAQ Composite declined 78% from 2000 to 2002 and was still down through 2008. The Philadelphia Stock Exchange Gold and Silver Index increased five-fold from 2000 to 2008.



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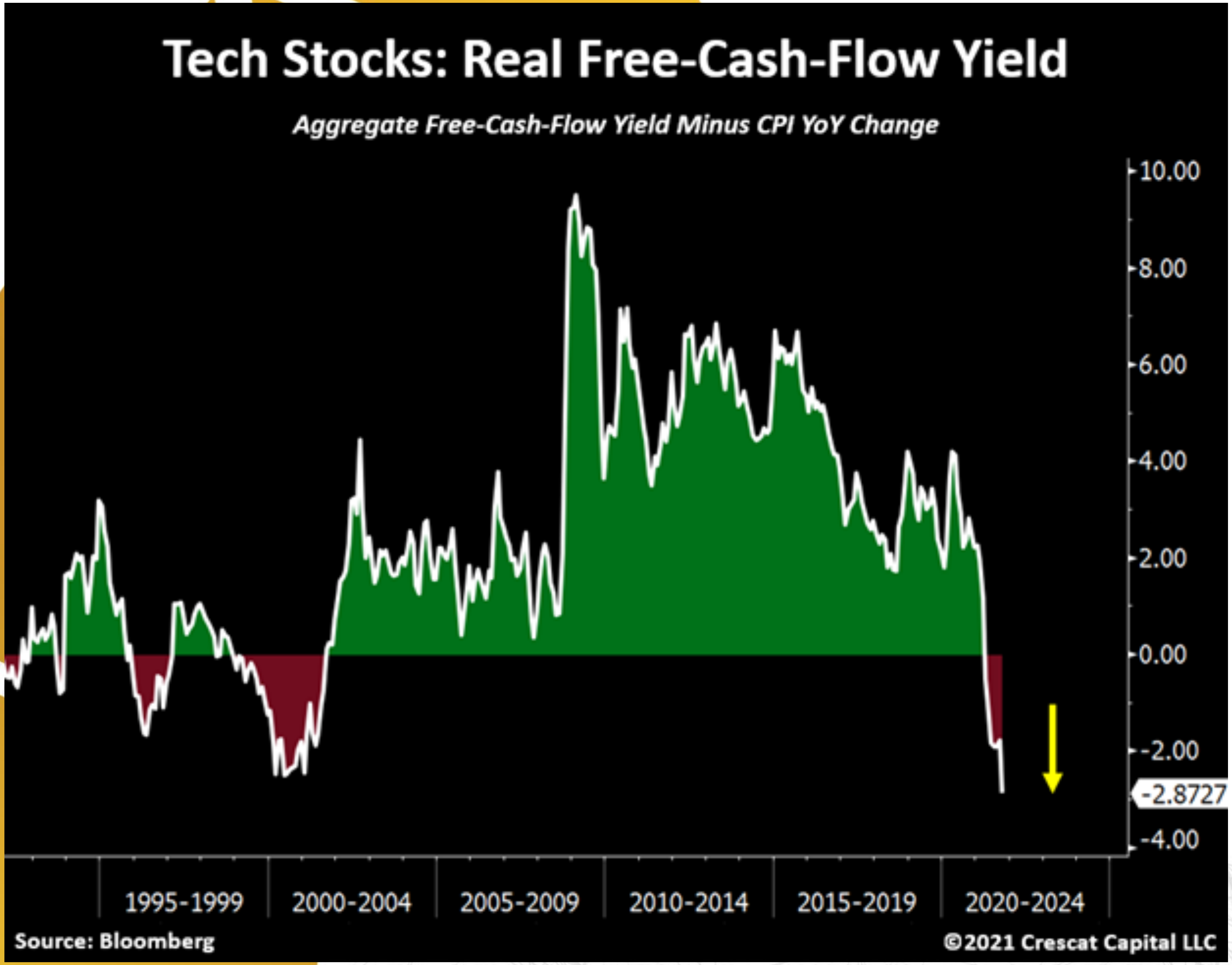
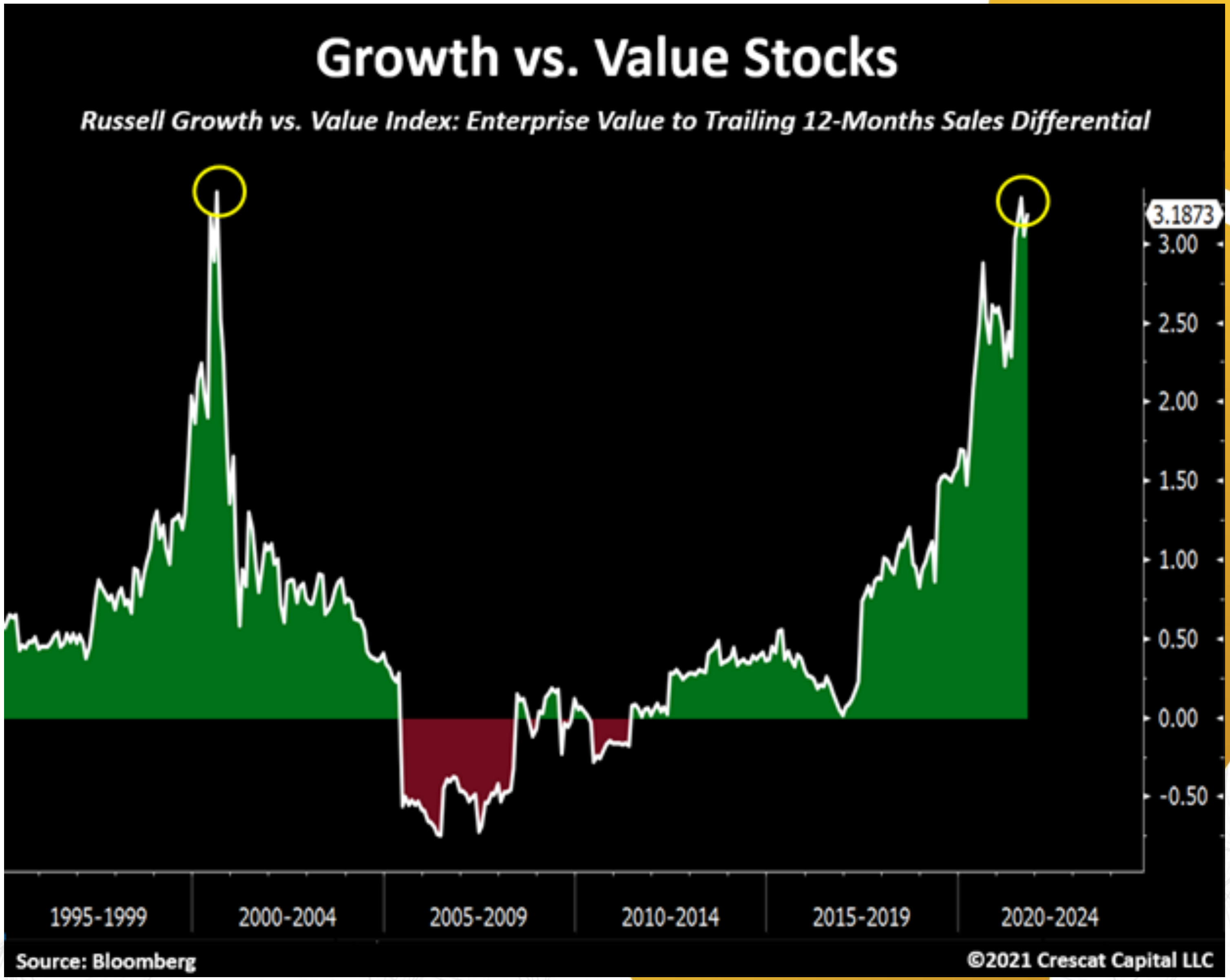


The real aggregate free-cash-flow yield among tech companies in the S&P 500 is now even lower than it was at the peak of the Tech Bubble.

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.



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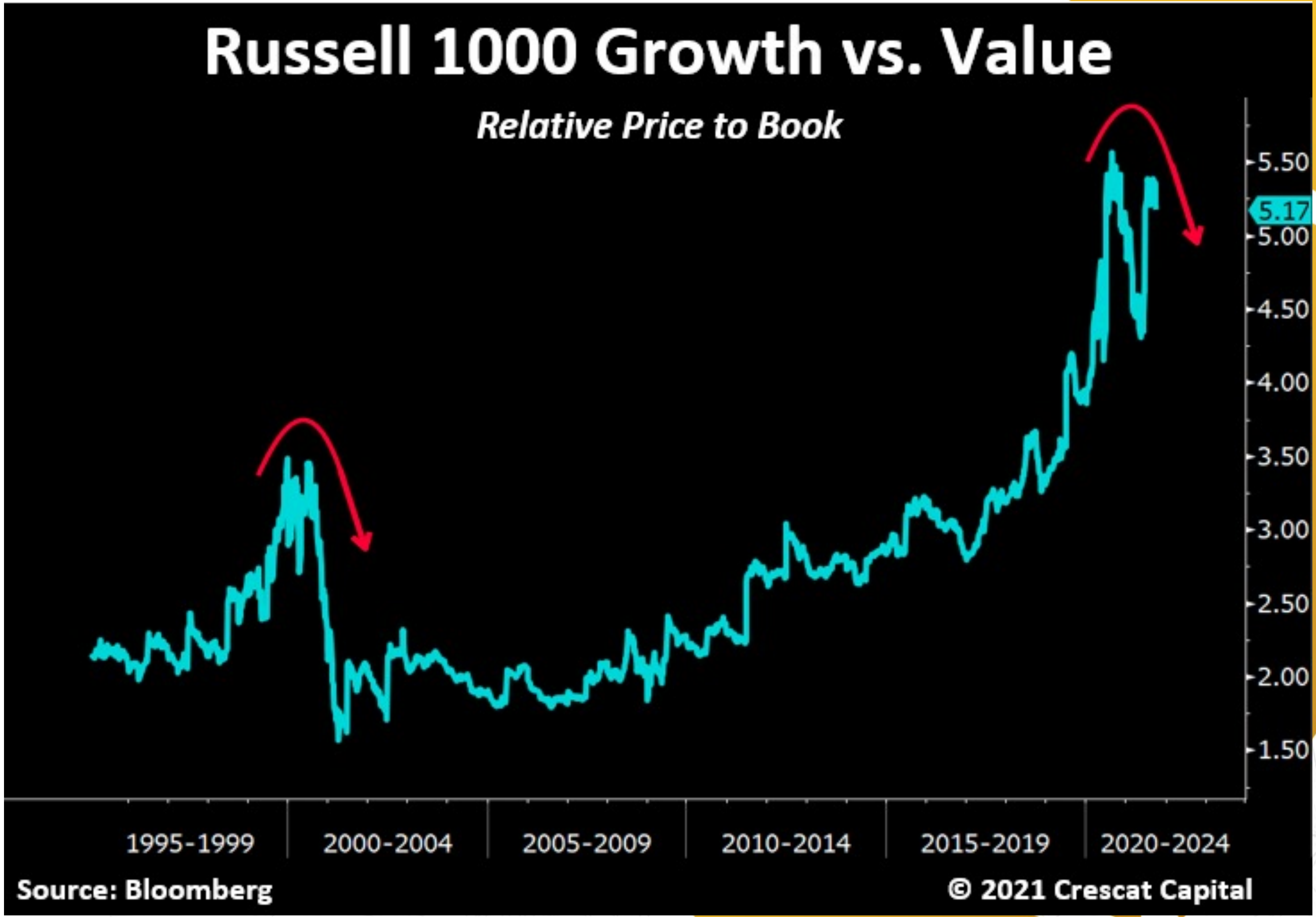
The relative price-to-book value of the Russell 1000 Growth compared to the Russell 1000 Value indices is about 60% higher than it was at the peak of the tech bubble in 2000, further illustrating the extreme imbalances and market risks along with the set-up for a growth to value rotation.



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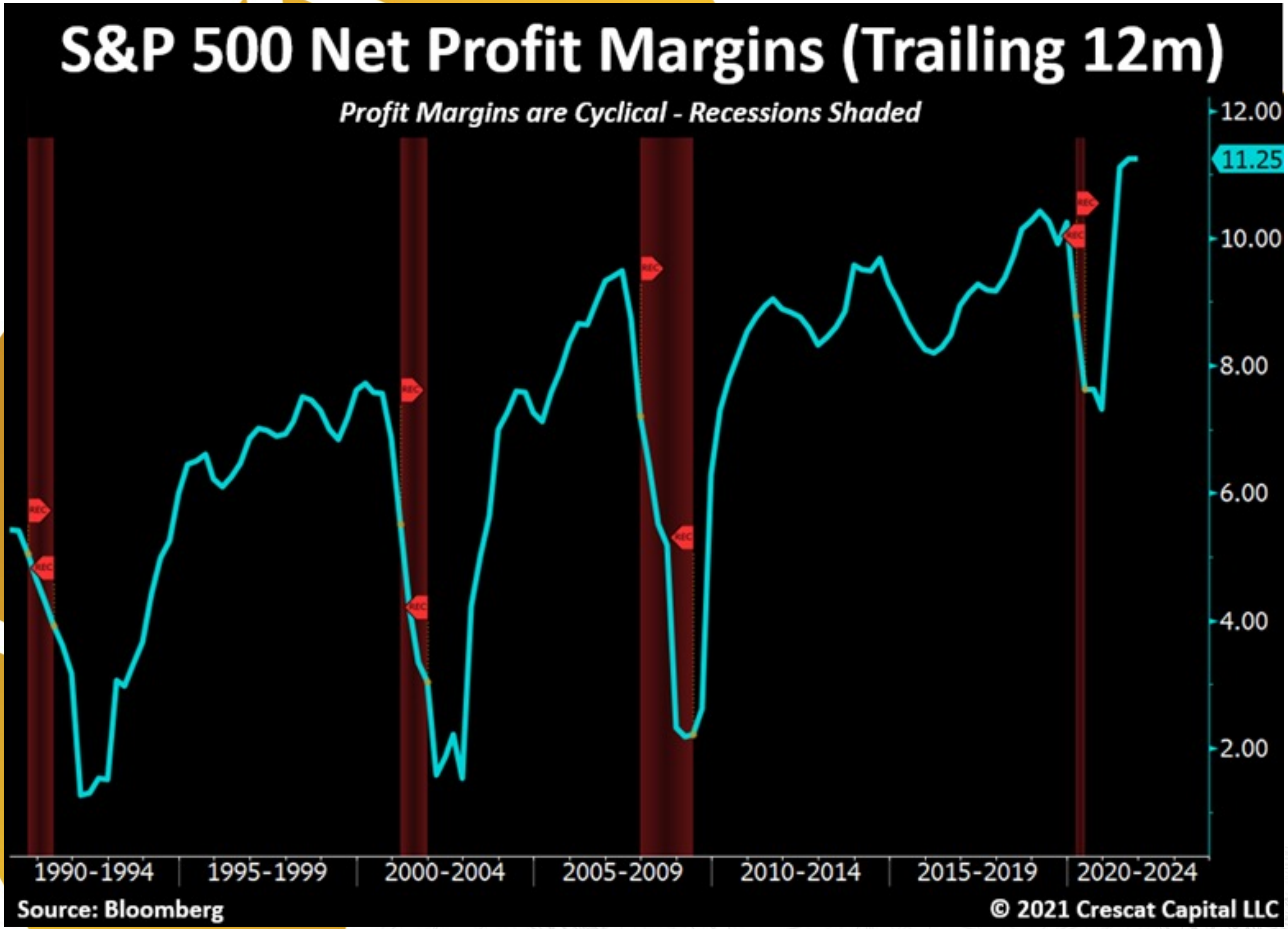

Net profit margins for S&P 500 companies at large are at record highs today, because these firms have been able to pass rising costs onto their customers in the short run.

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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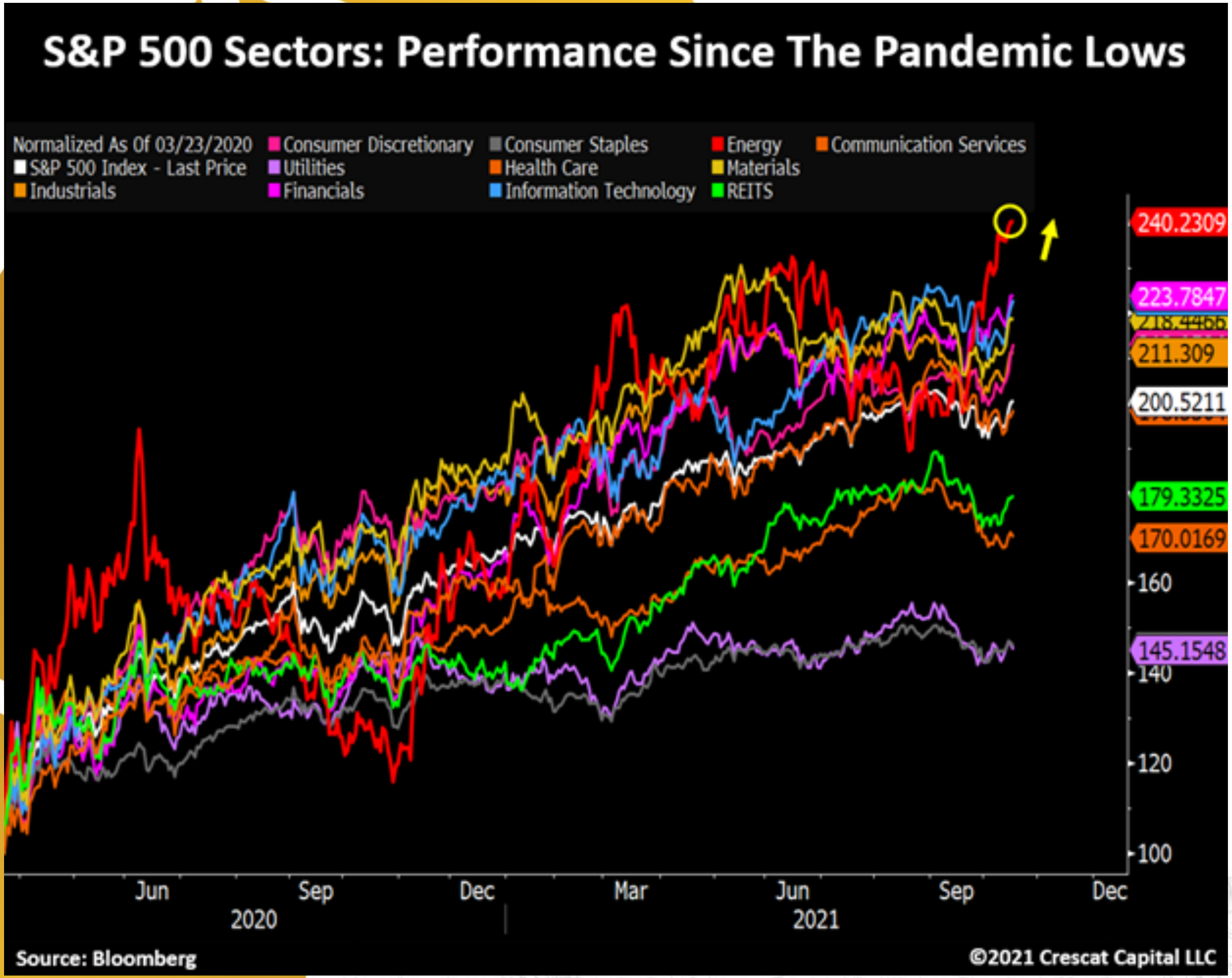
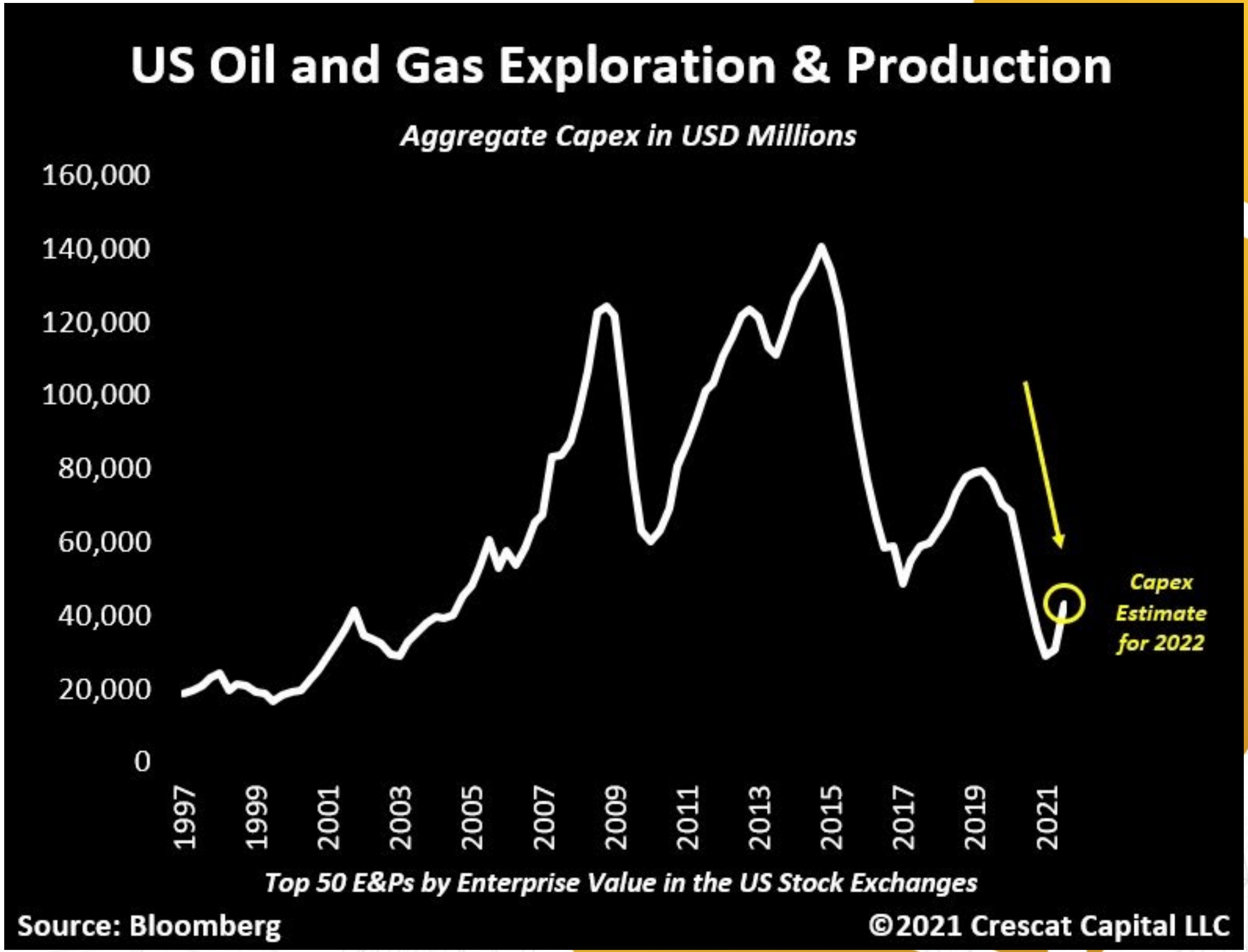


Oil and gas companies had the strongest returns since the pandemic lows and are almost 20 percentage points ahead of information technology and financials.

The Capex Cycle for Commodities

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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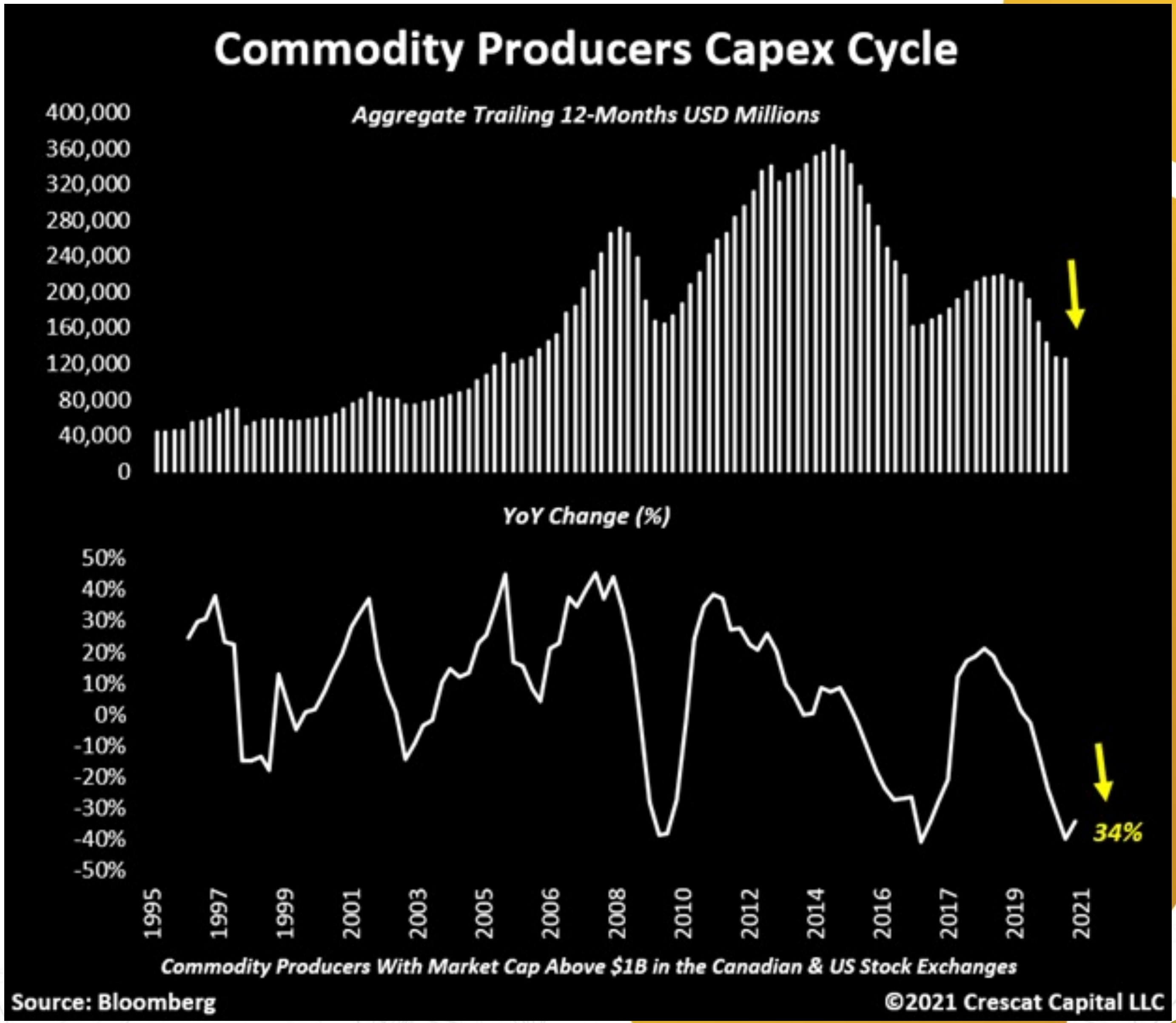

Note on the chart that even though commodity prices have been surging, producers' capex is now declining by 34% on a year-over-year basis.

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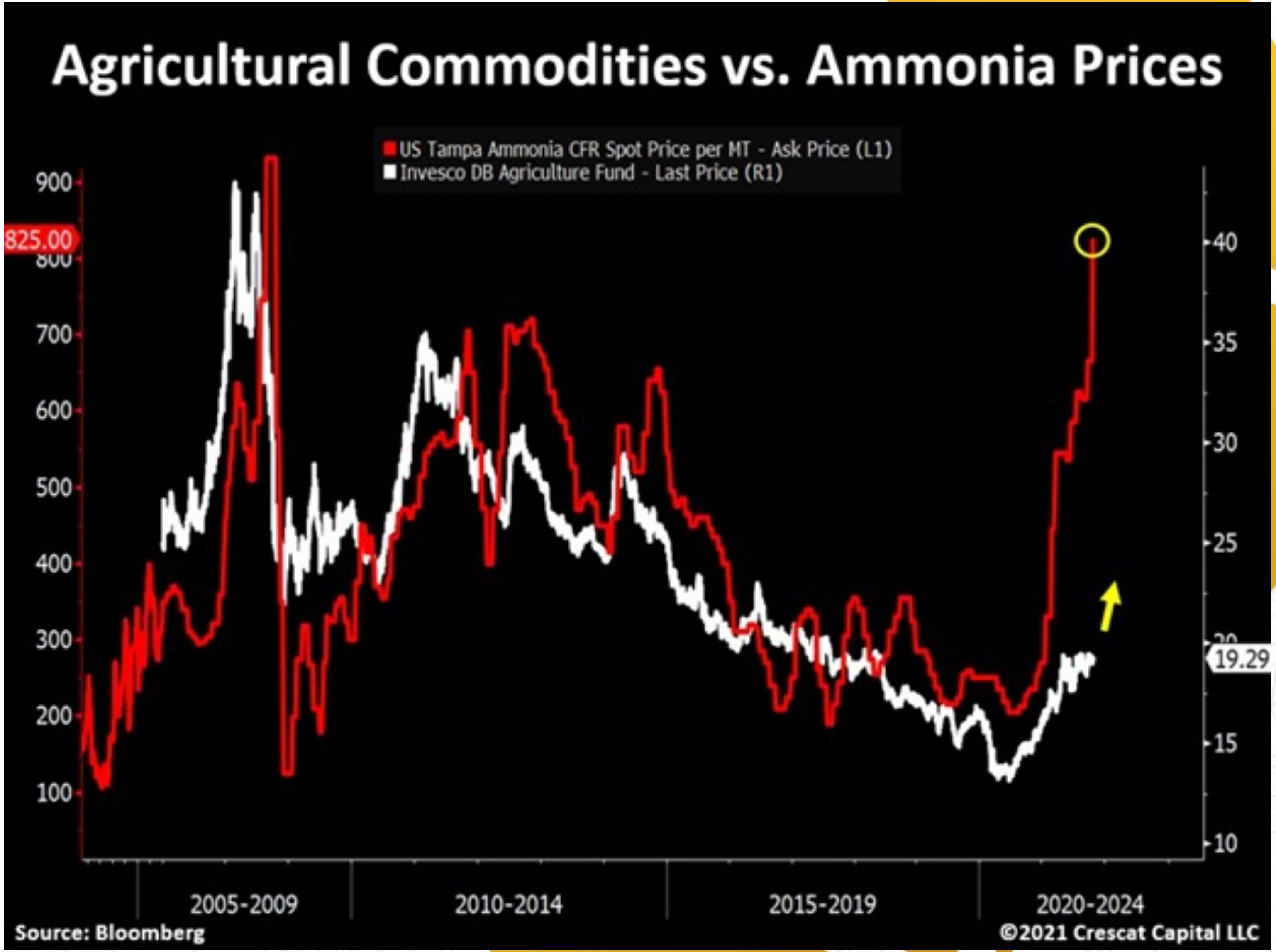
If we look at ammonia prices, a key ingredient in fertilizer, agricultural commodities are a whole new set of commodities likely to be spiking next, potentially creating food shortages.



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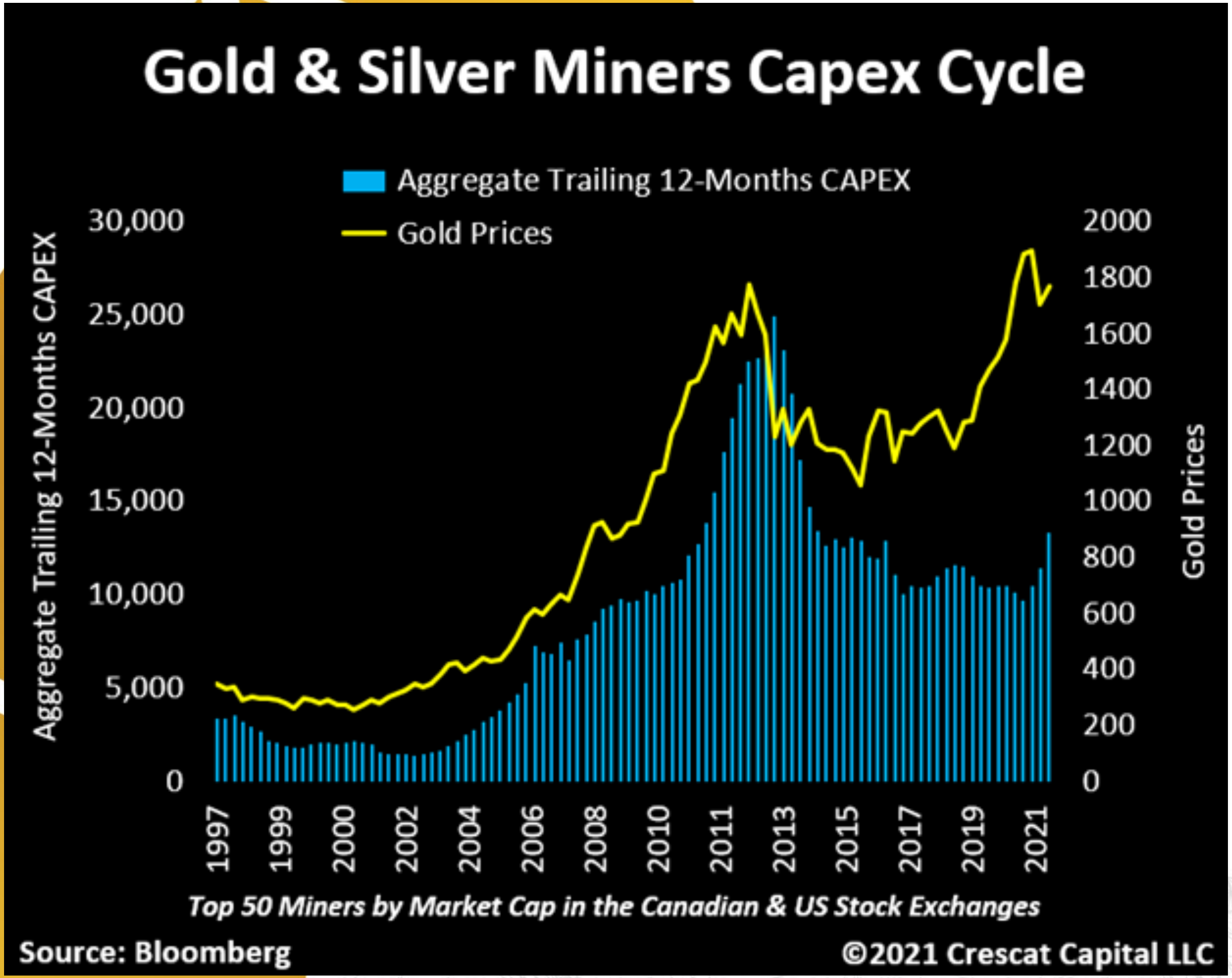
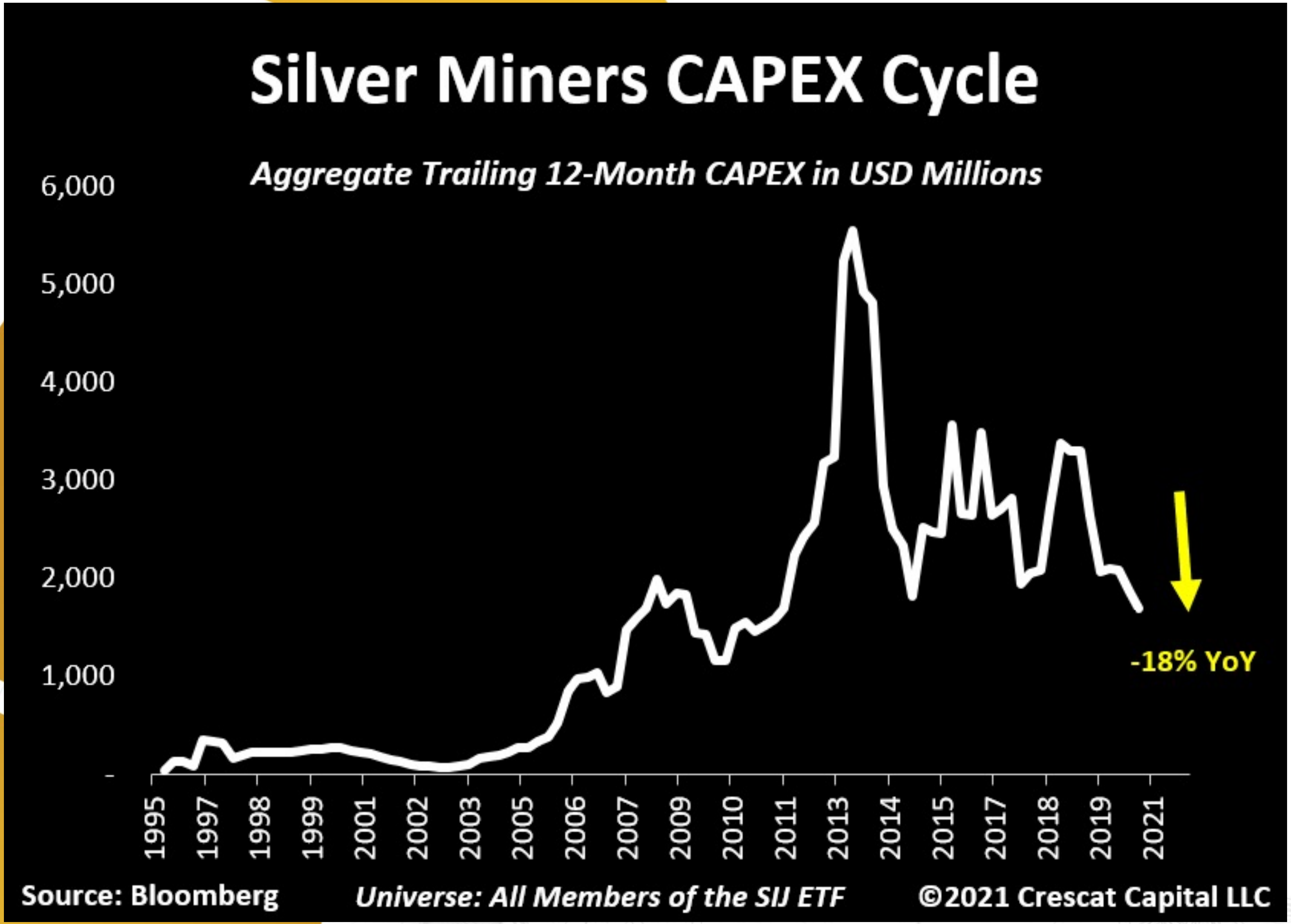


Miners have been reluctant to spend capital even though gold prices have been moving higher. Thus, supply is constrained, an incredibly bullish fundamental backdrop for gold and silver.



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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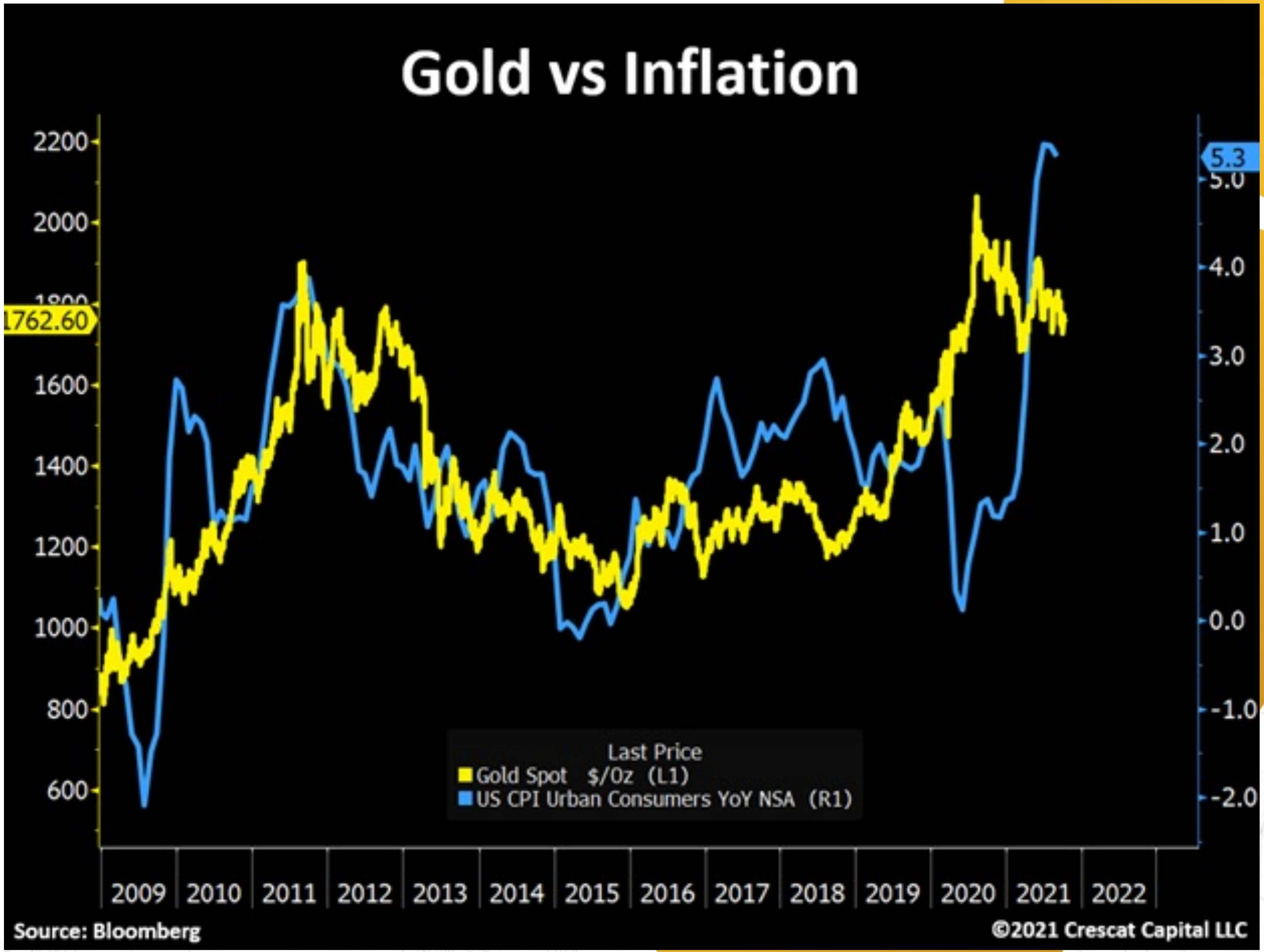
The Precious Metals Cycle

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



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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.

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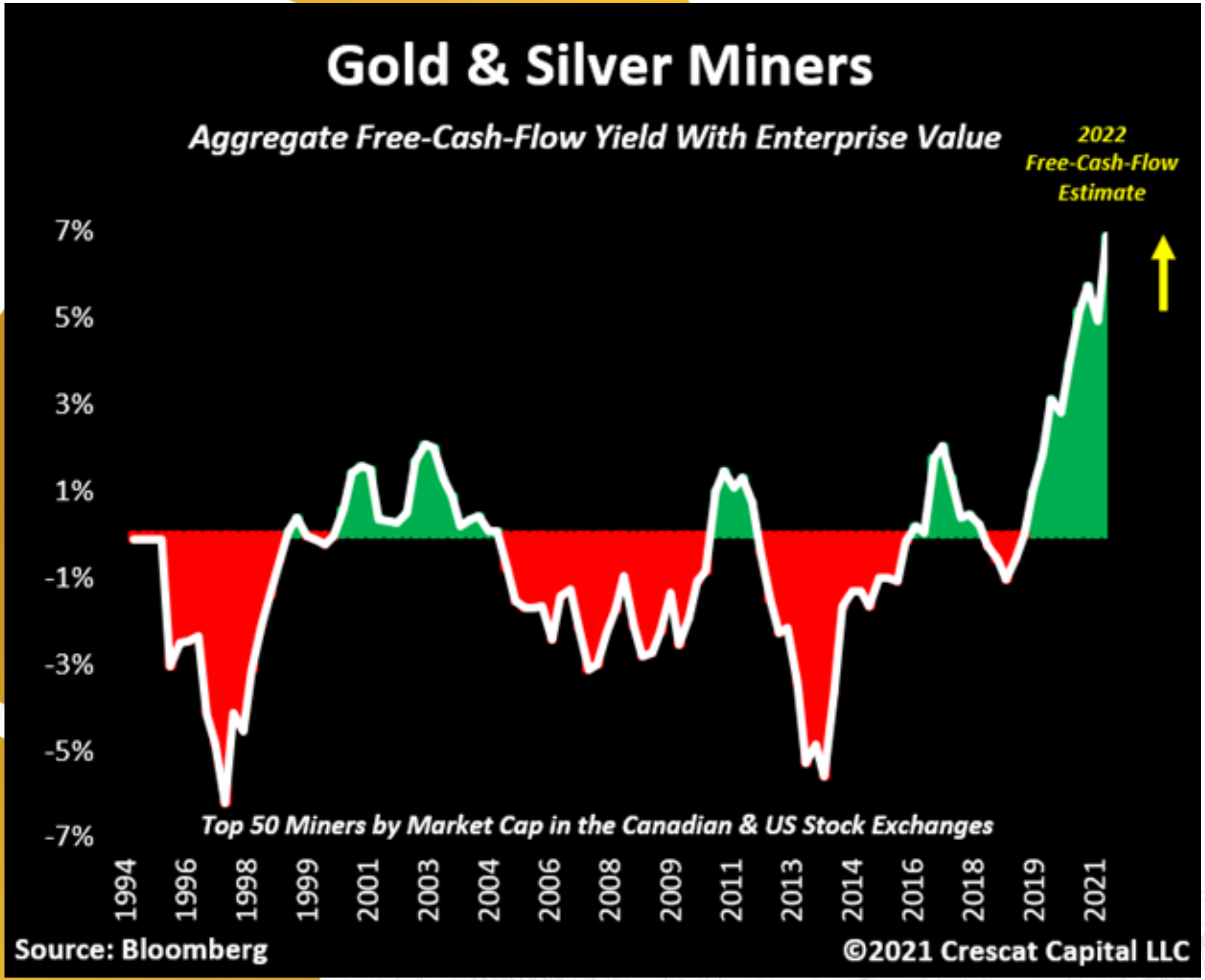
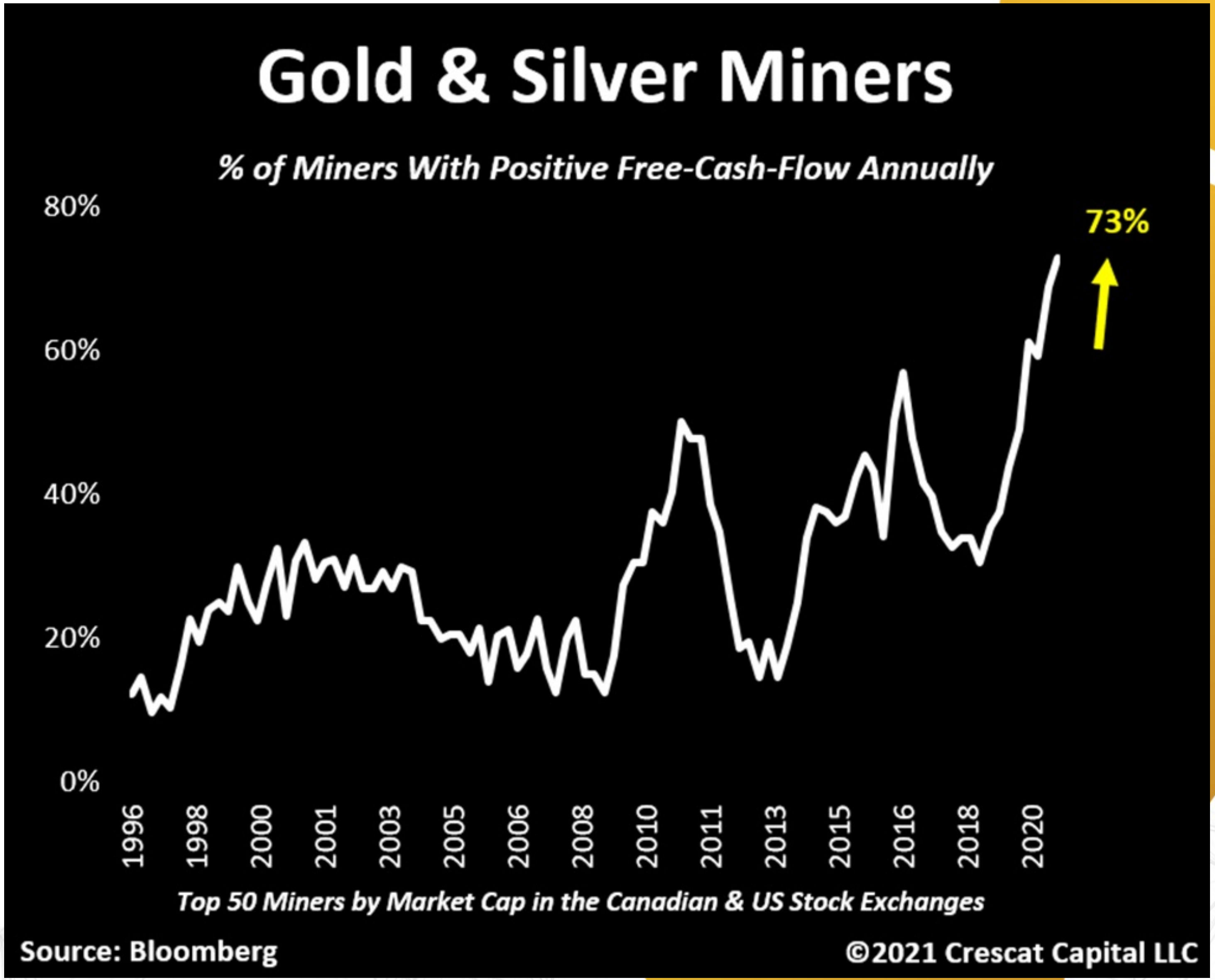
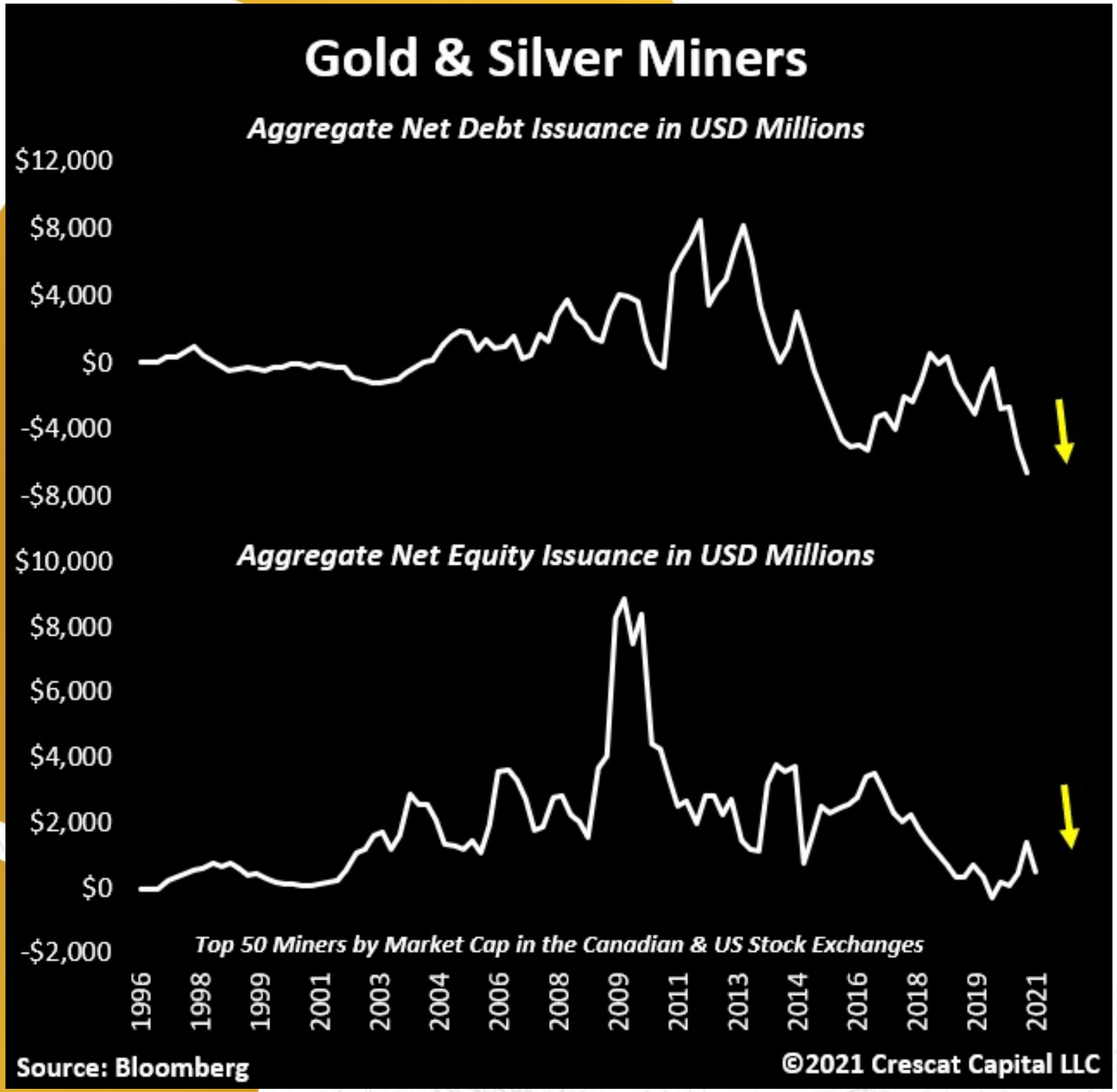


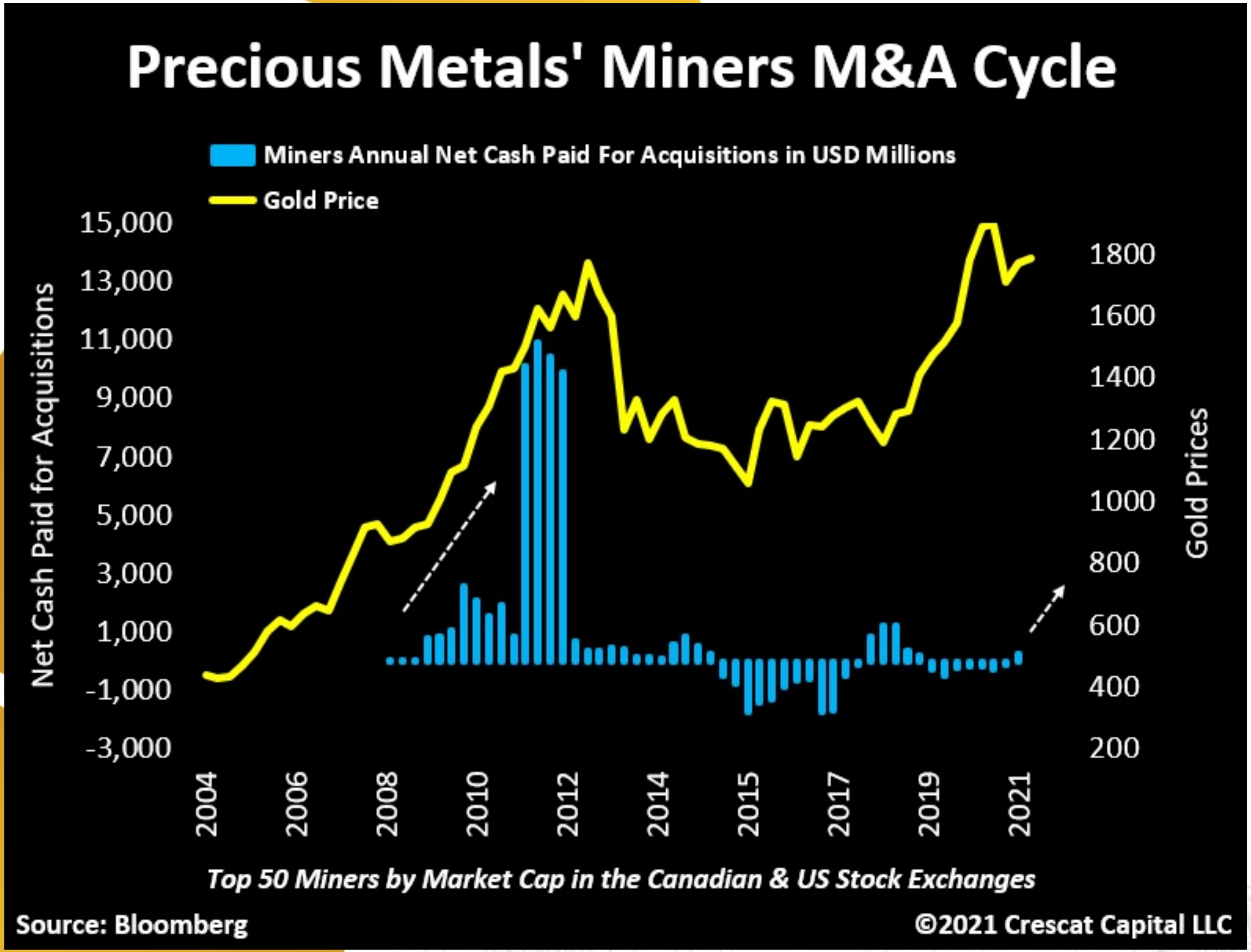
Note that in aggregate terms, the same basket of companies also trades at its highest free-cash-flow yield in history.

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.

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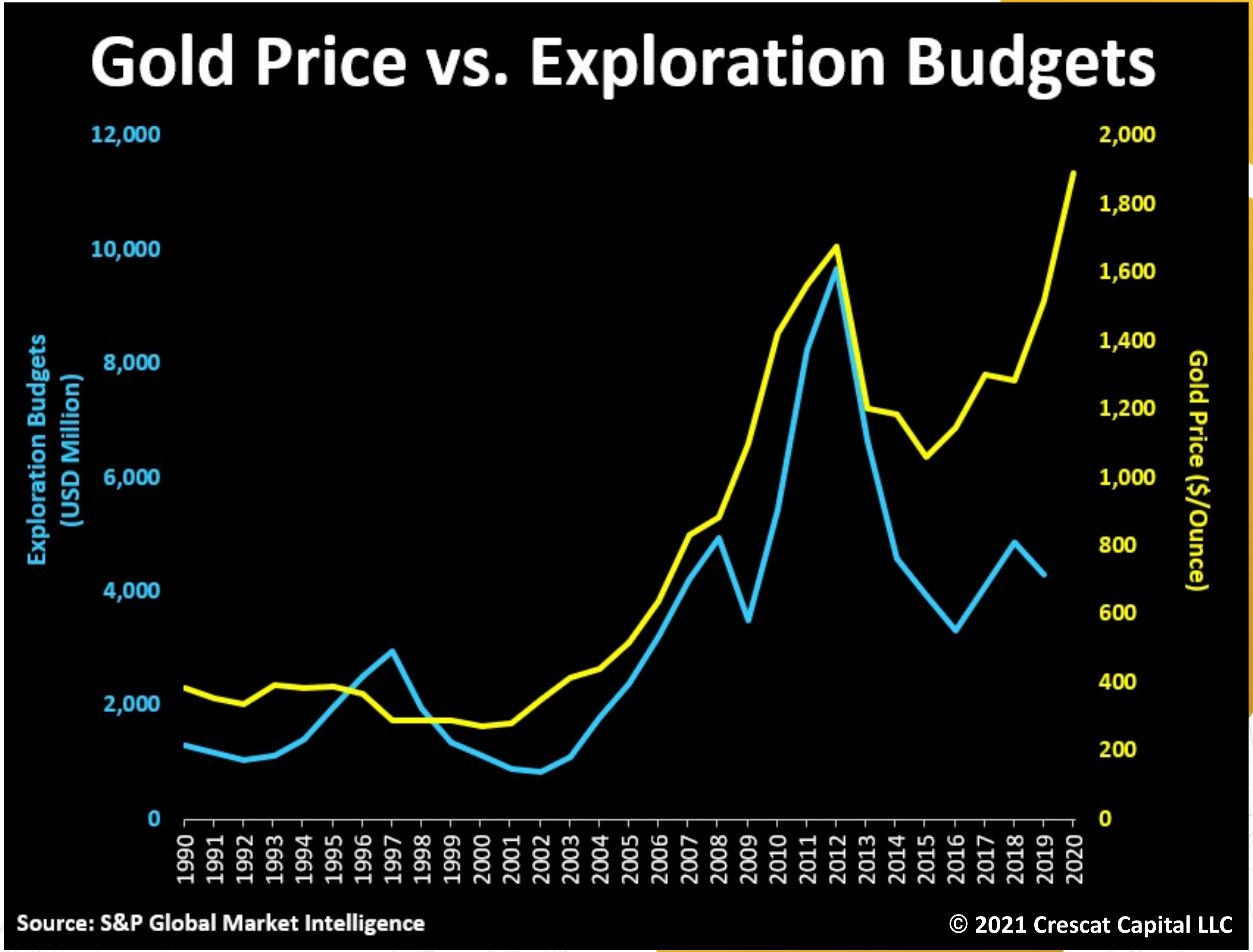
The gold mining industry has underinvested in exploration for the last decade.



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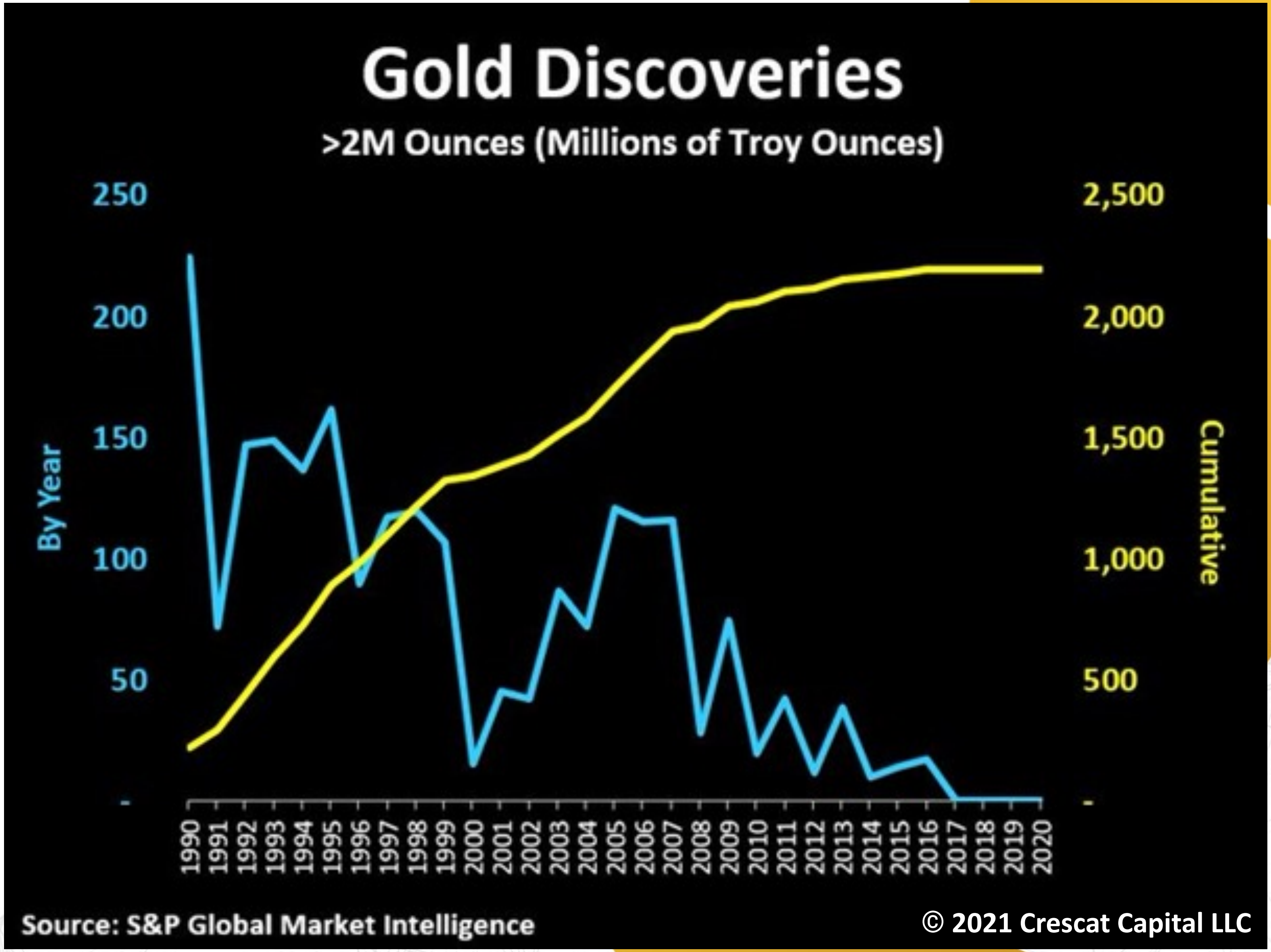
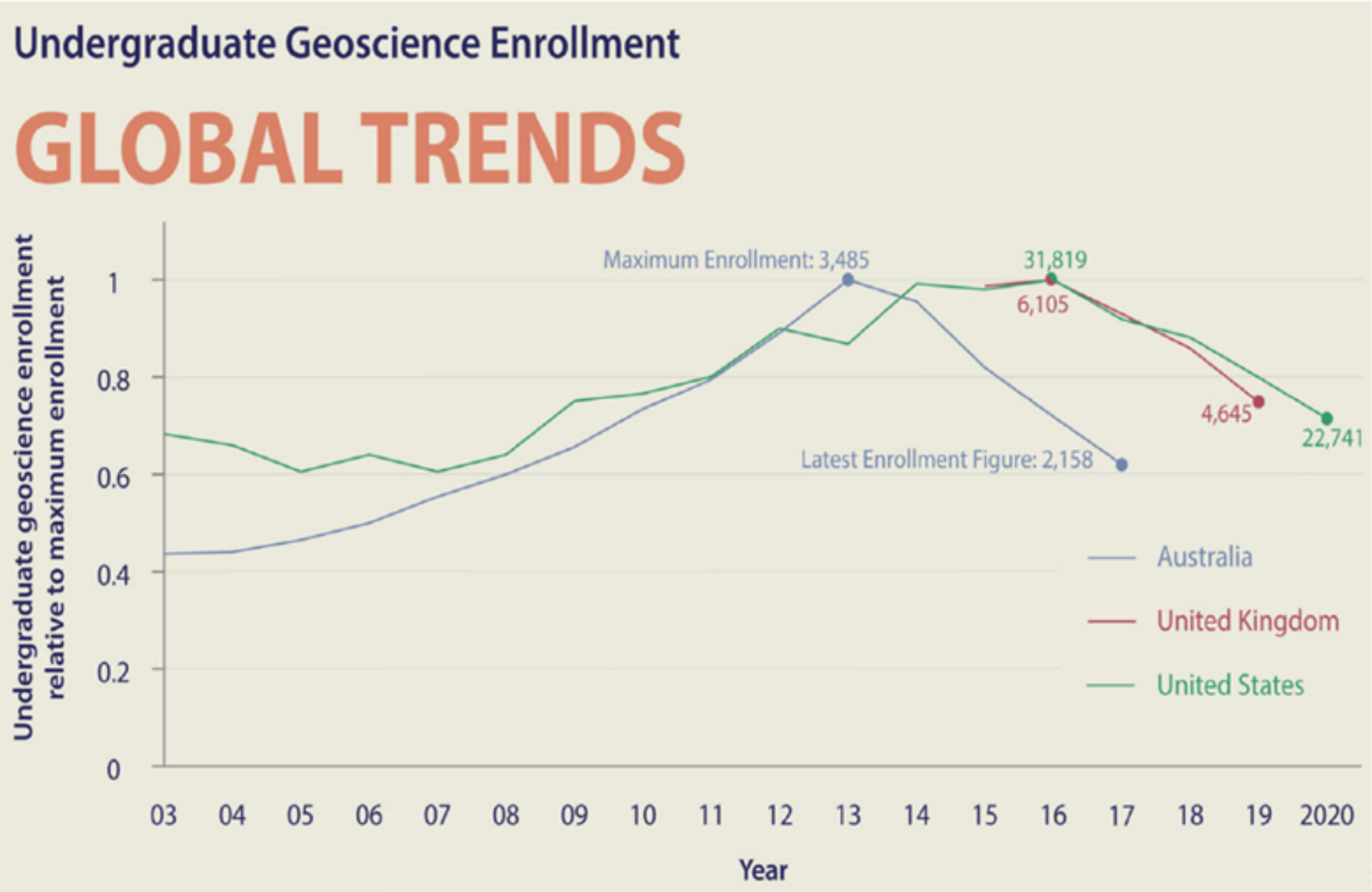
Because of a decade of exploration underinvestment, there have been no major new gold discoveries in the last four years.





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.

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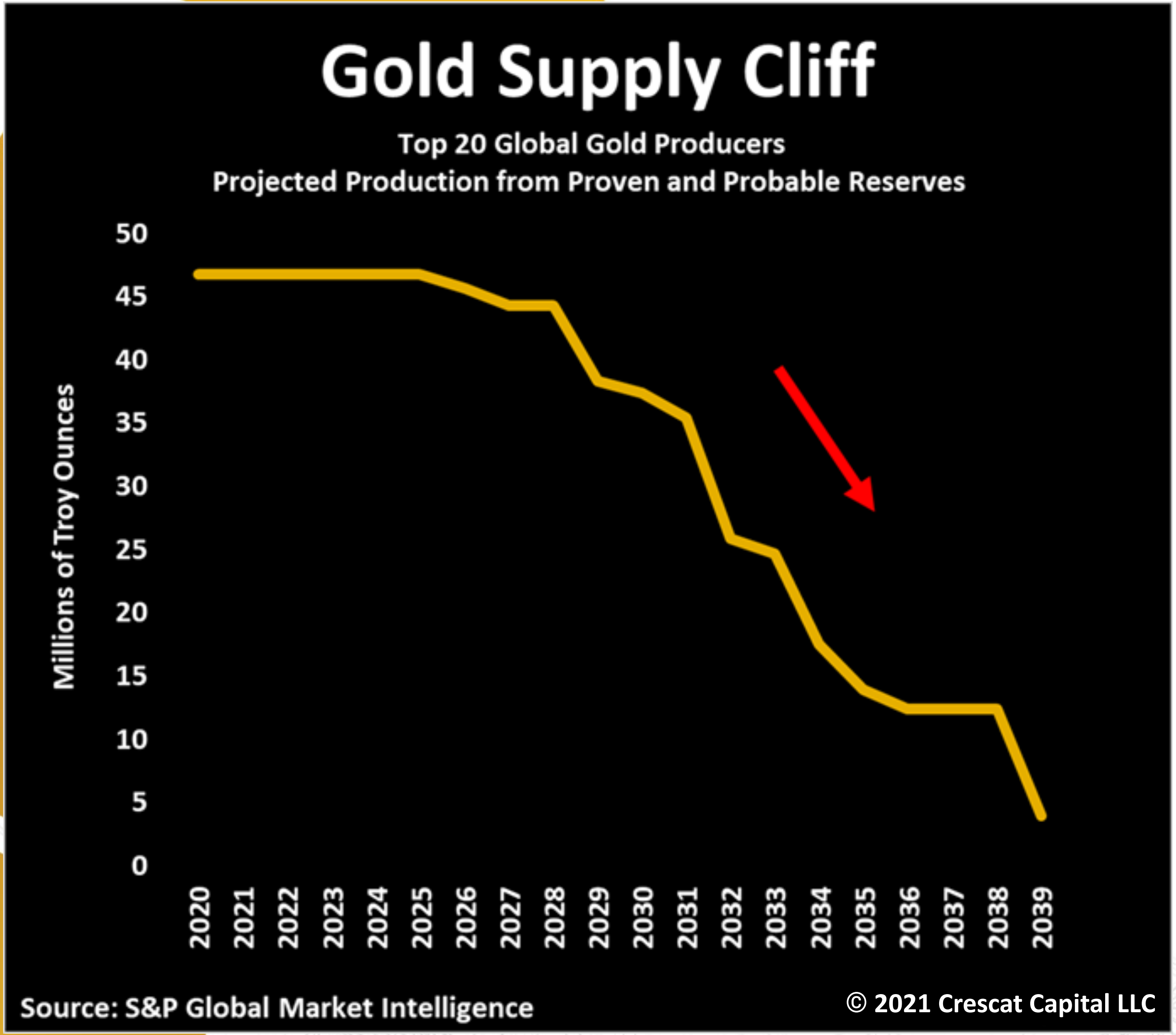

The majors have not been replacing their reserves. The industry is facing a supply cliff.

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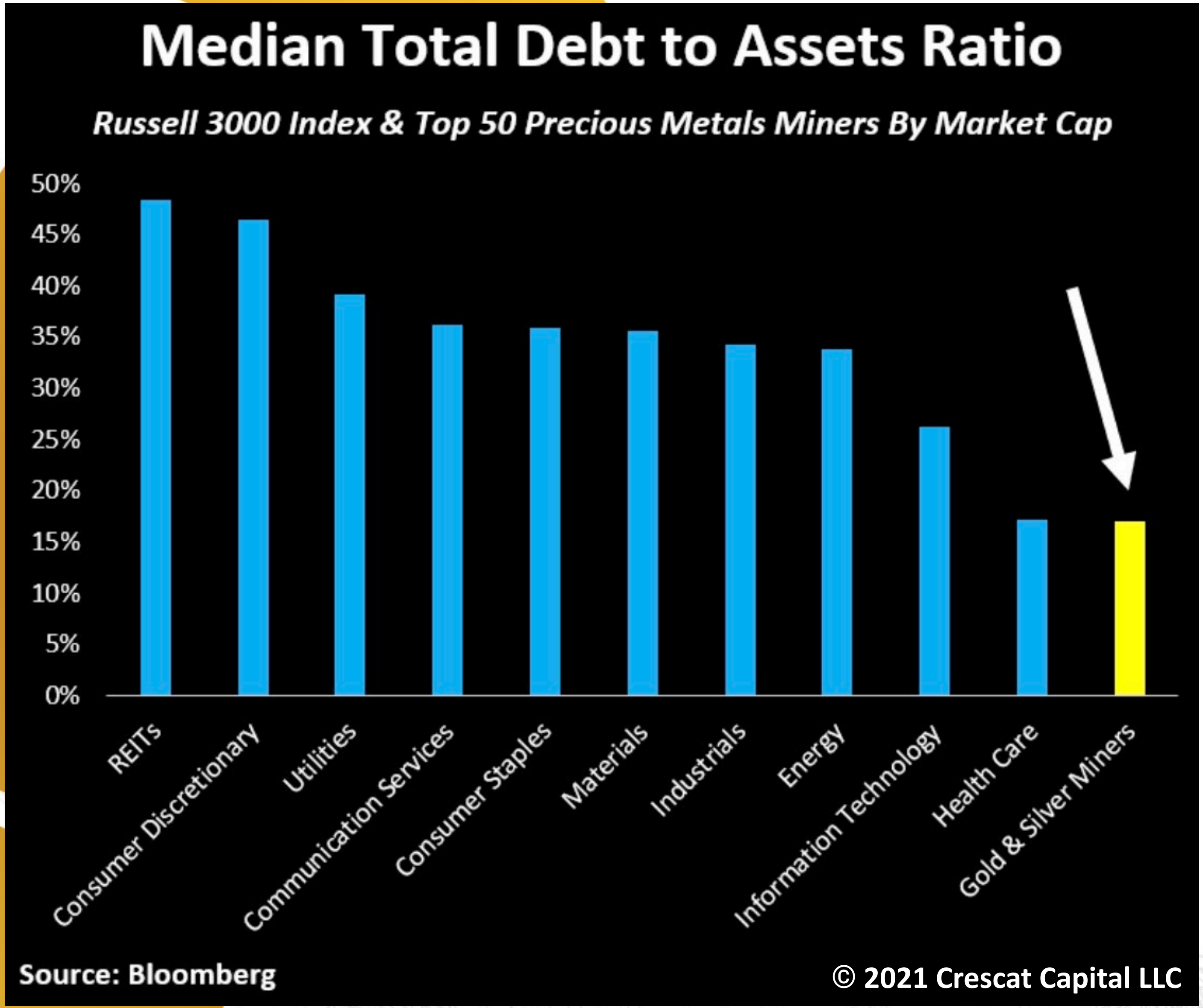
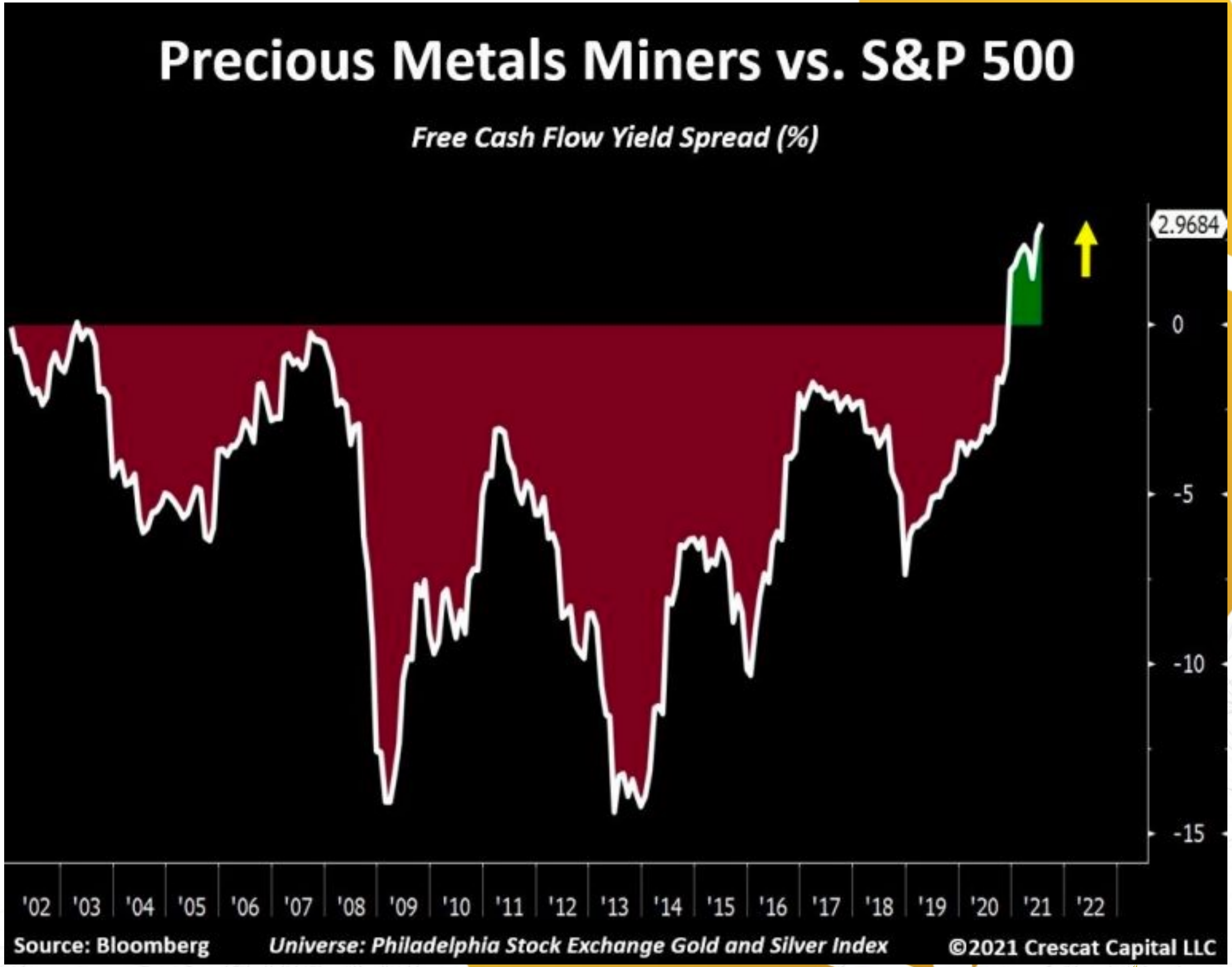


If precious metals stocks were a sector, they would have the cleanest balance sheets of them all.

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.



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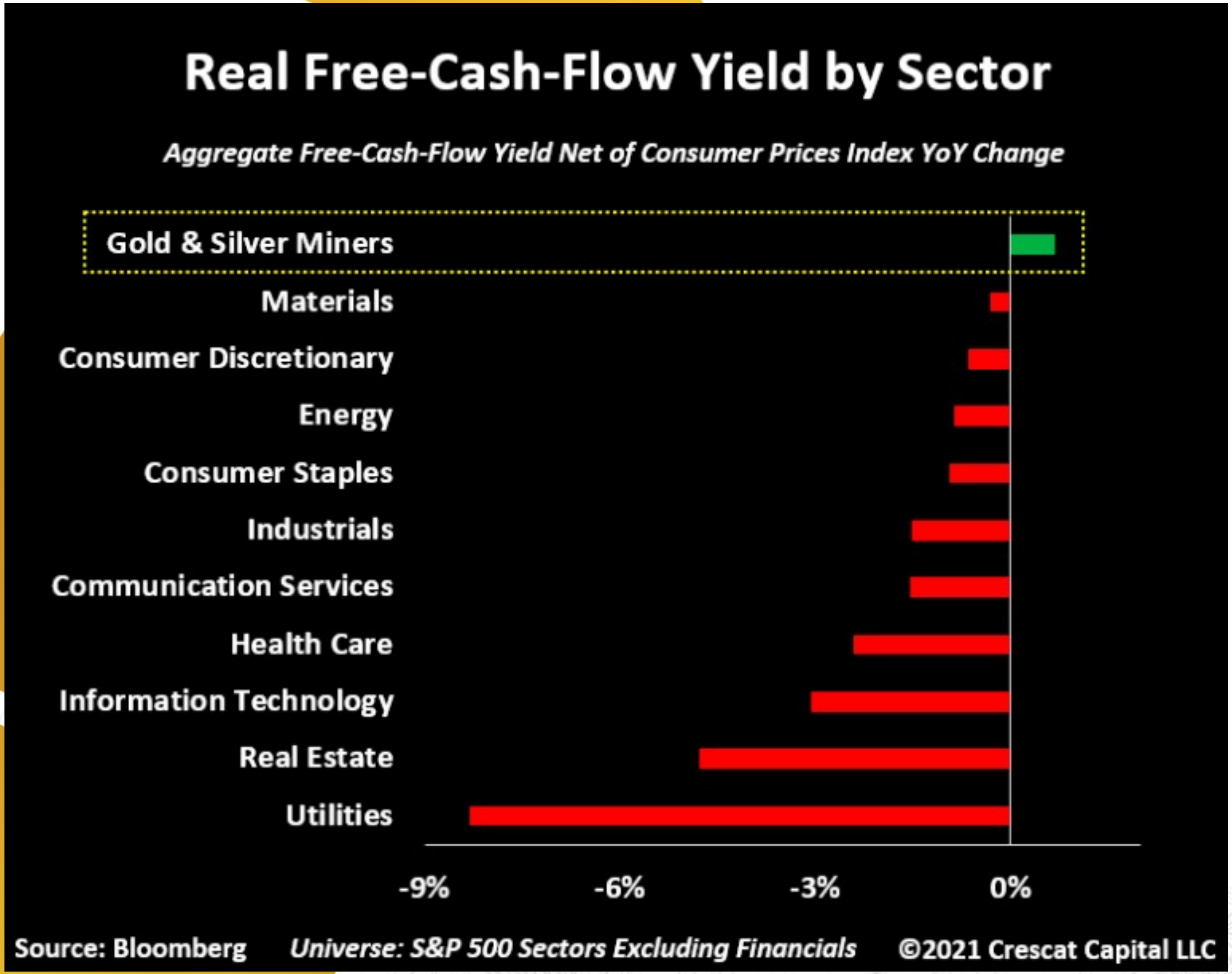

If gold and silver miners were considered a sector, it would be the only part of the economy today that generates higher free-cash-flow yield than inflation.

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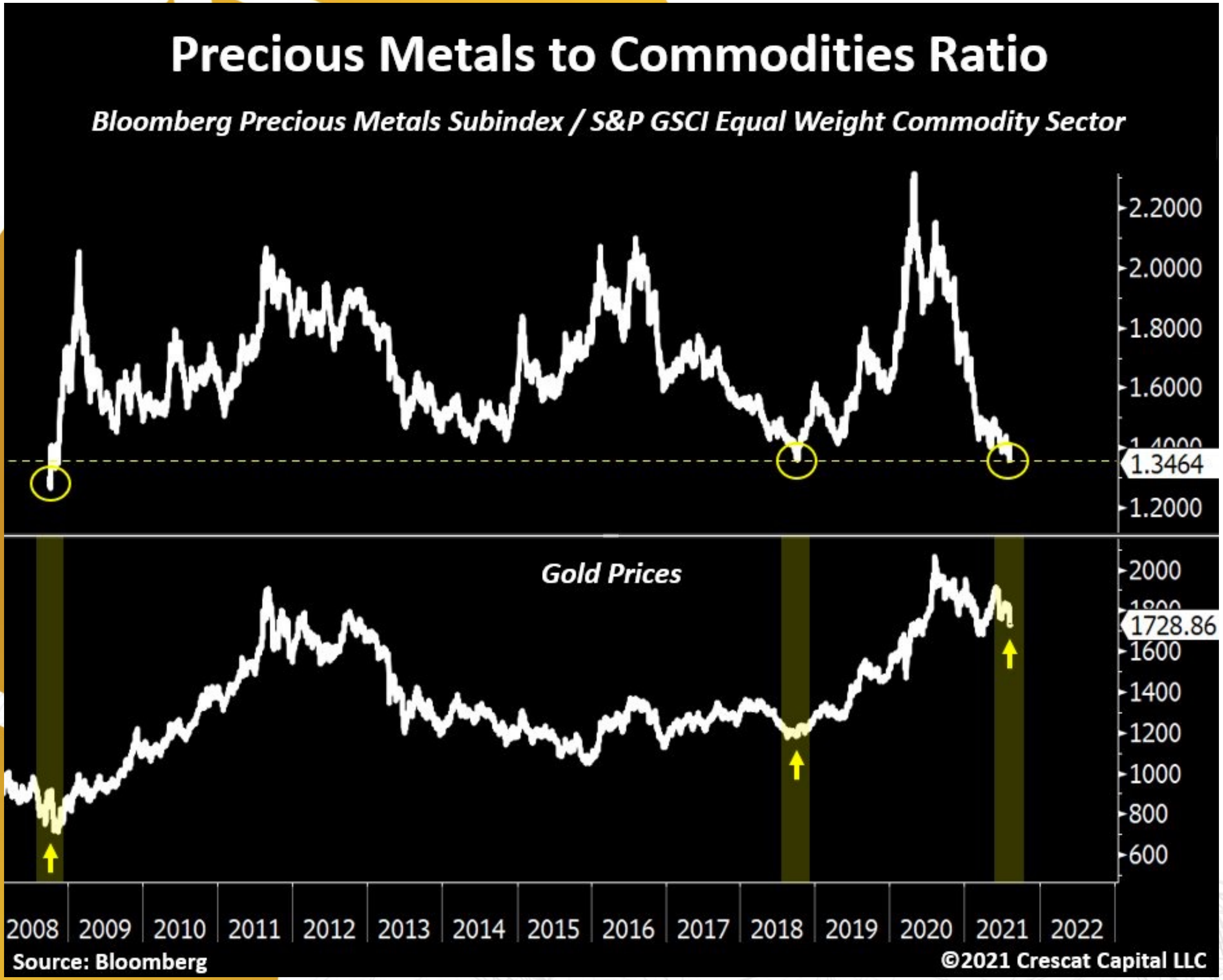

Precious metals are now at their cheapest levels relative to other commodities since 2009. The other 2 times this ratio reached such depressed levels also marked incredible buying opportunities.

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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.

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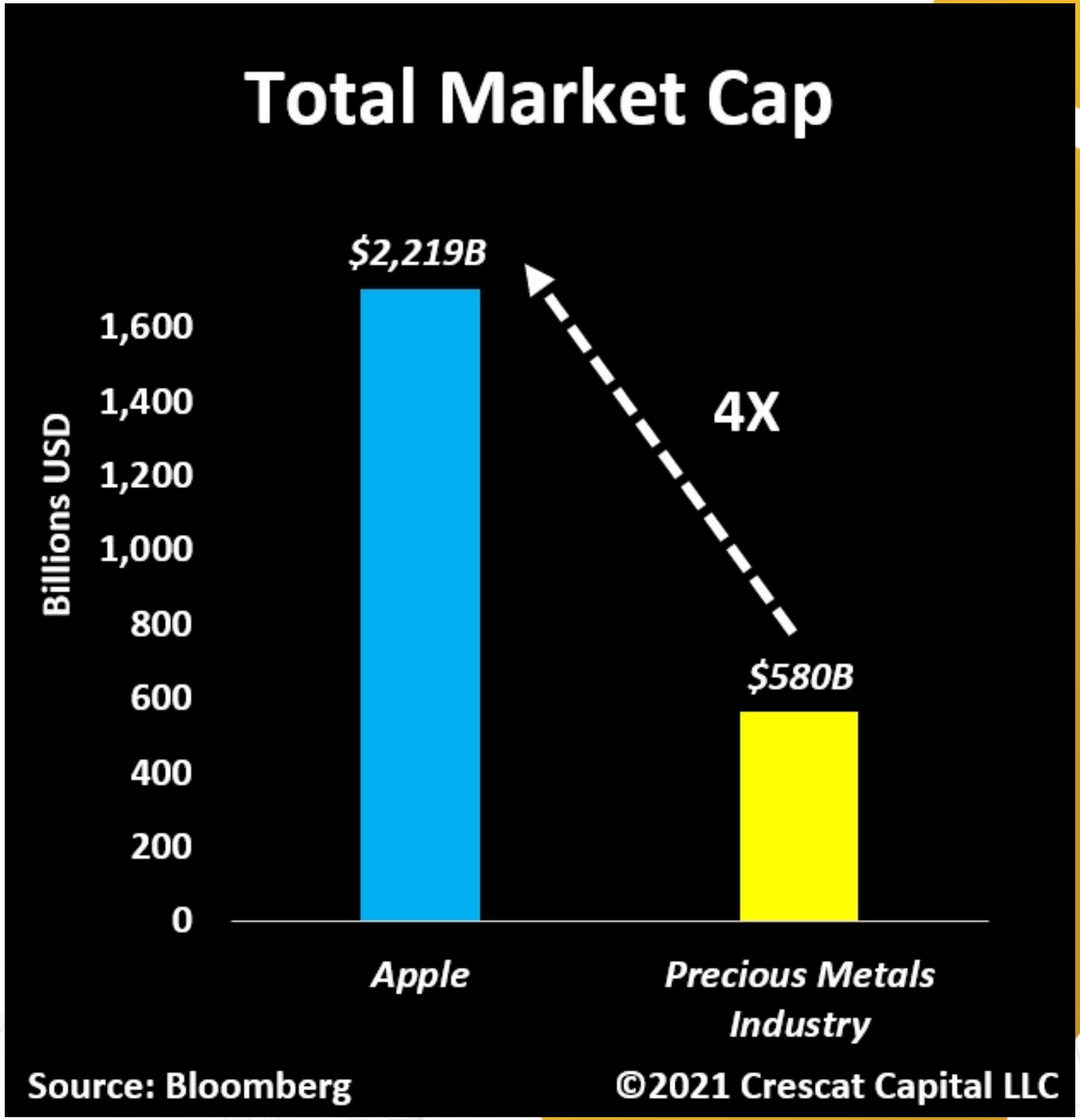
The correlation between inverted real interest rates and silver is strong and indicates that silver is due for a jump.

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.



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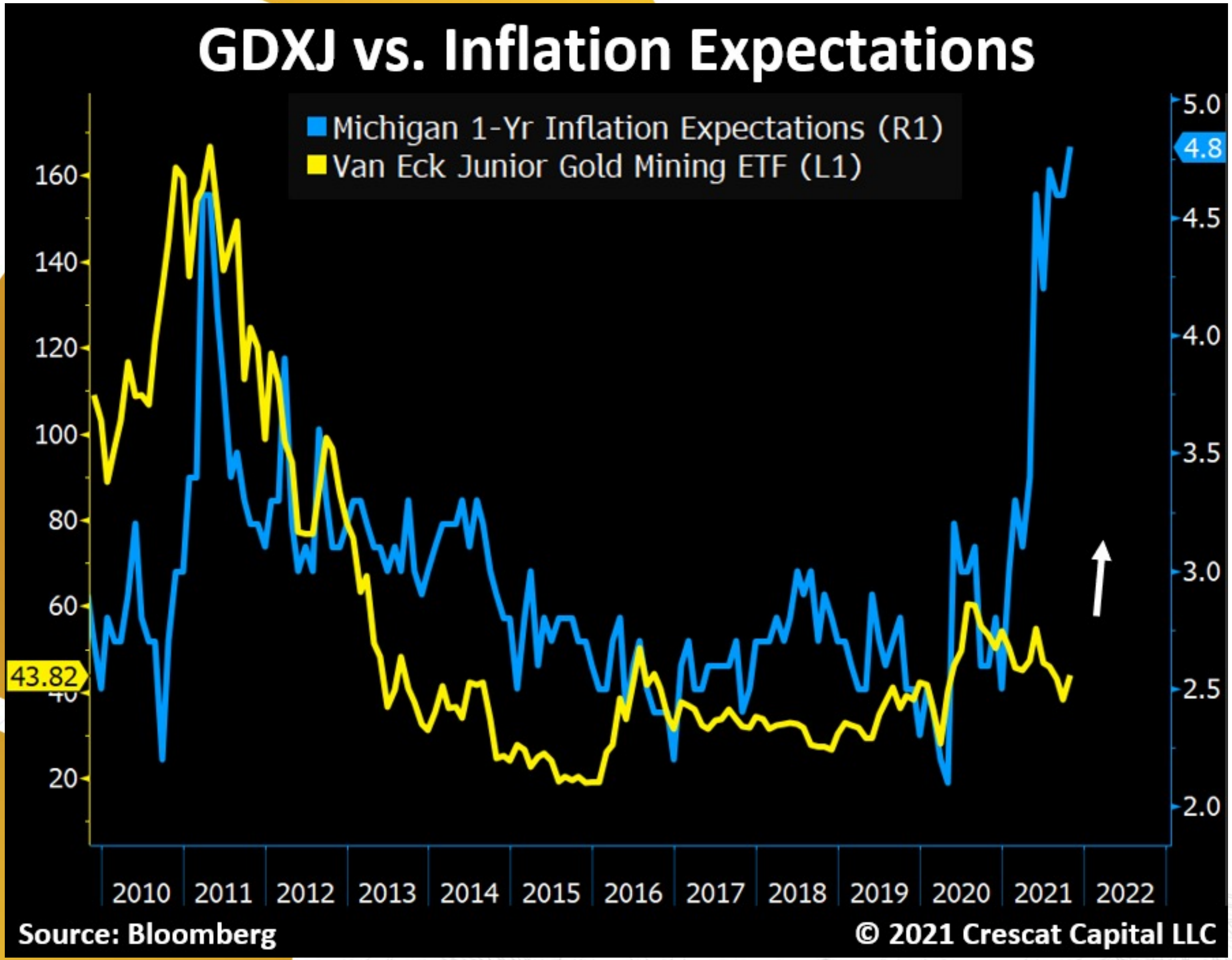
Silver remains historically undervalued relative to money supply.



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

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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.

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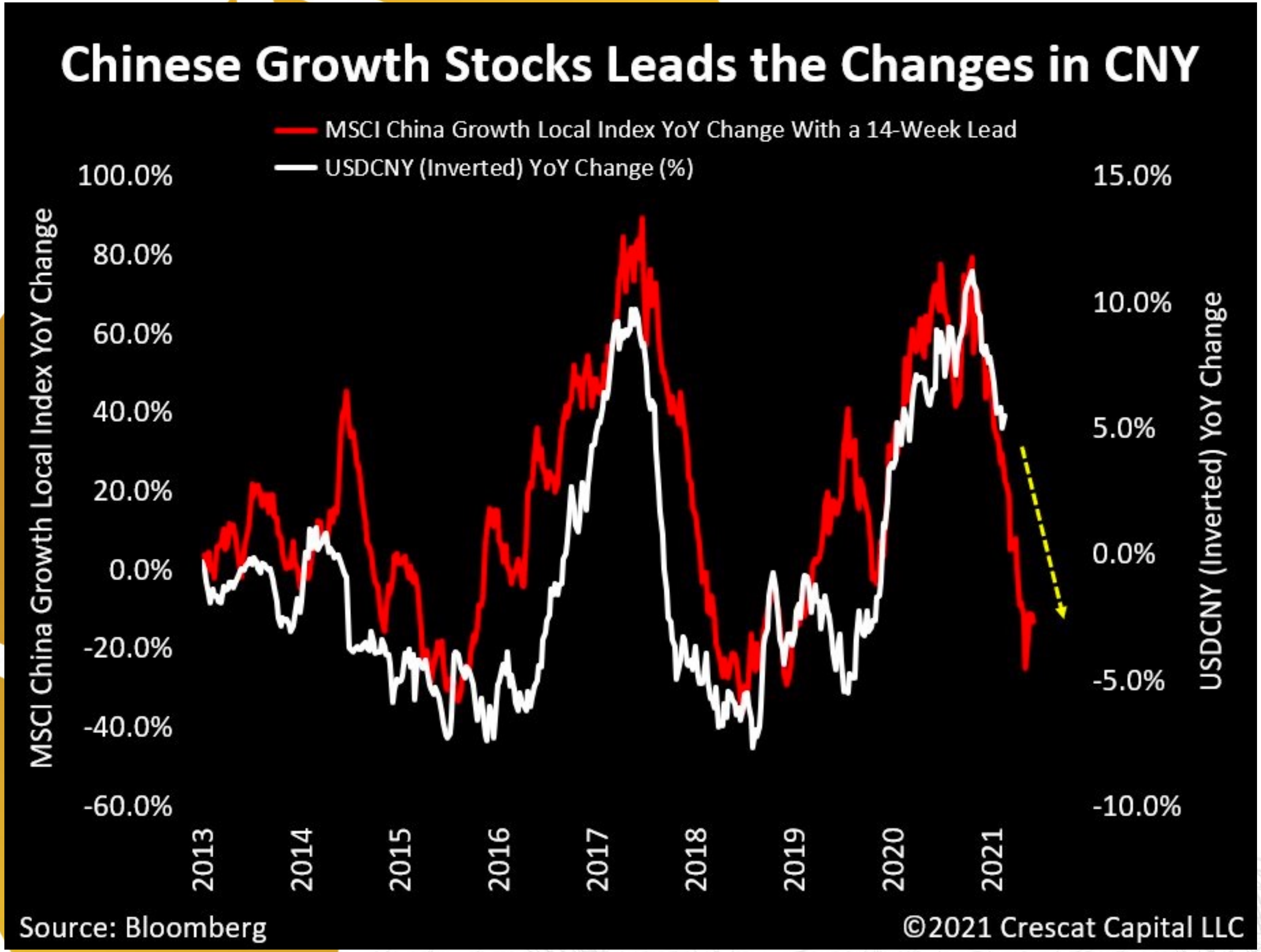

Chinese growth stocks have led the changes in CNY. It now suggests that a yuan devaluation is still ahead. An illustration of how the shock in the financial markets of a highly levered economy tends to be the precursor of further monetary disorder.

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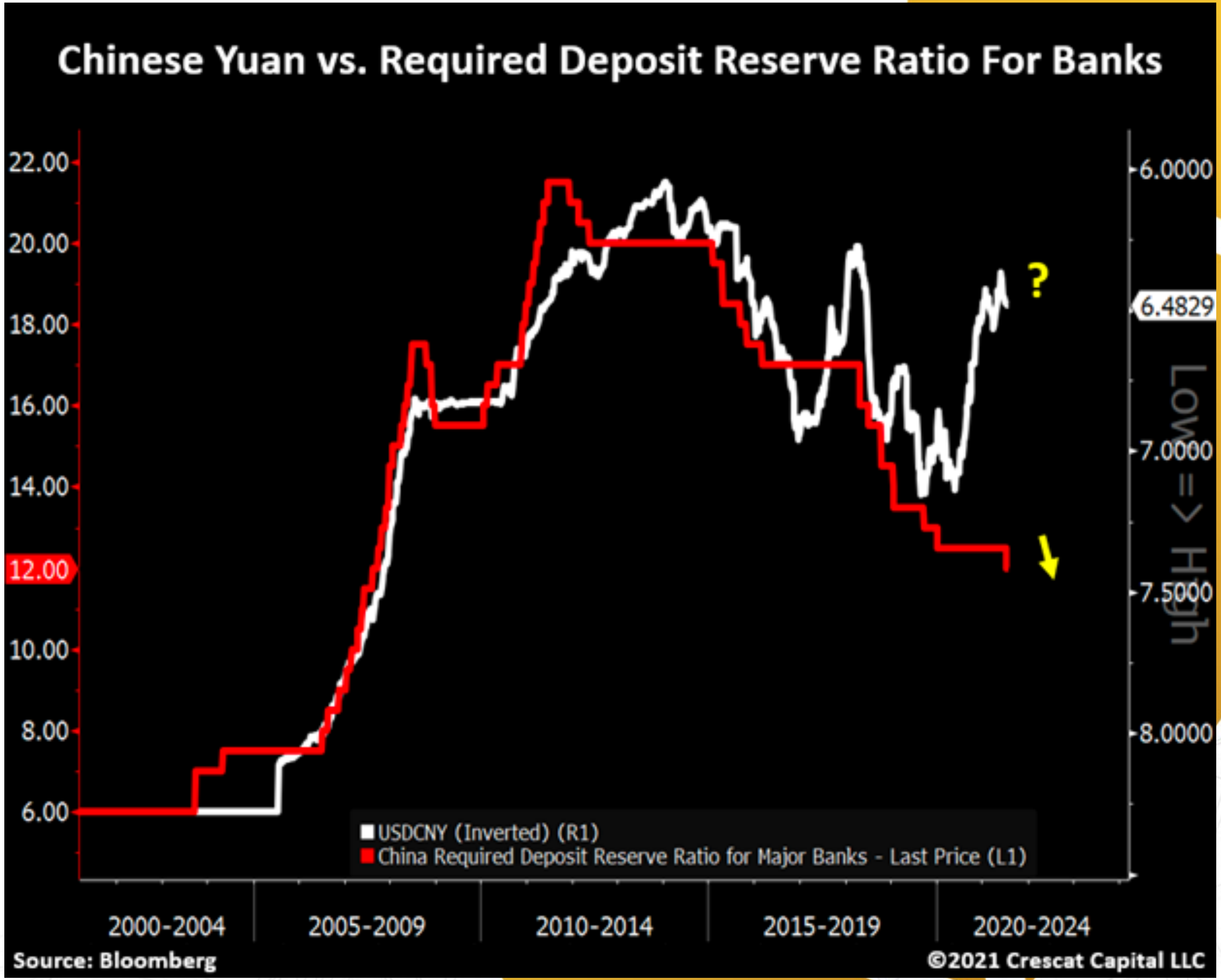
China's steady decrease in its banks' reserve requirement ratio is another long-building macro divergence and indicator for an impending currency devaluation.



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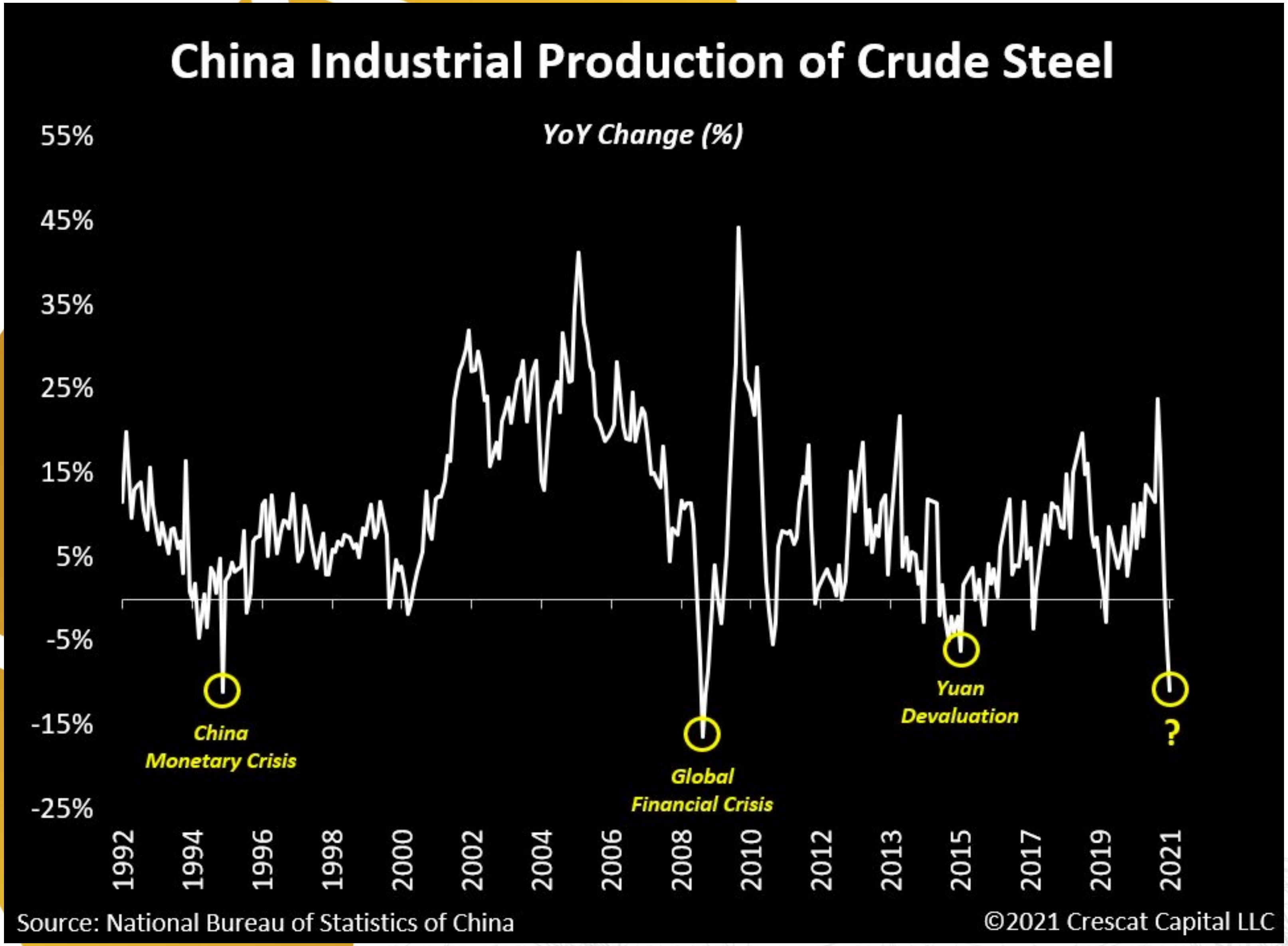

You know something is wrong in China when industrial production of steel is at its lowest levels since the Global Financial Crisis. This is much more serious than the meltdown of a massive property developer. These are the signs of a countrywide debt problem now unravelling.

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

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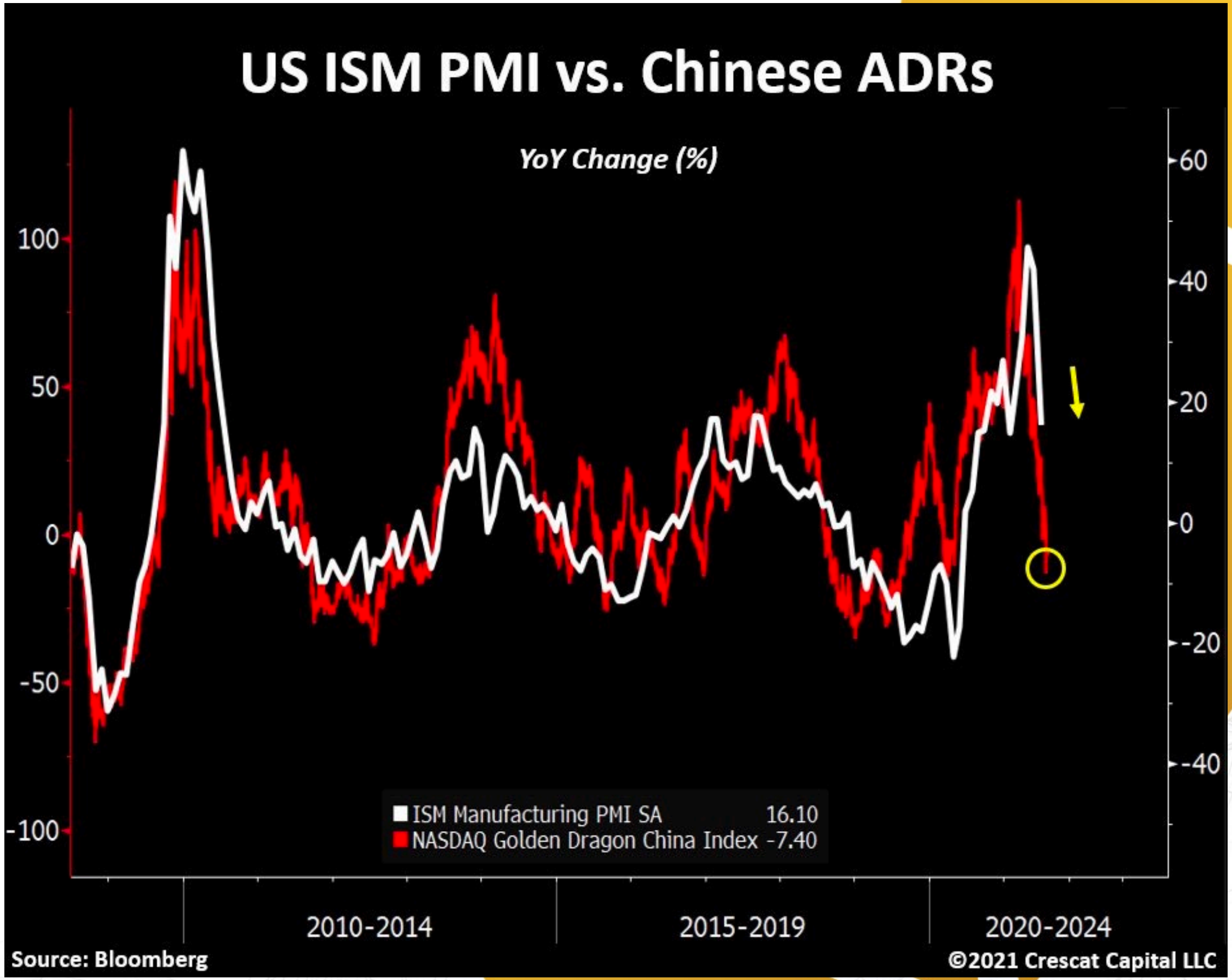
The recent collapse in Chinese ADRs suggests significant deceleration in US PMI in the near future. Note: We had one of the strongest economic environments in history in the last 6 months. Now, growth seems to be mean reverting.



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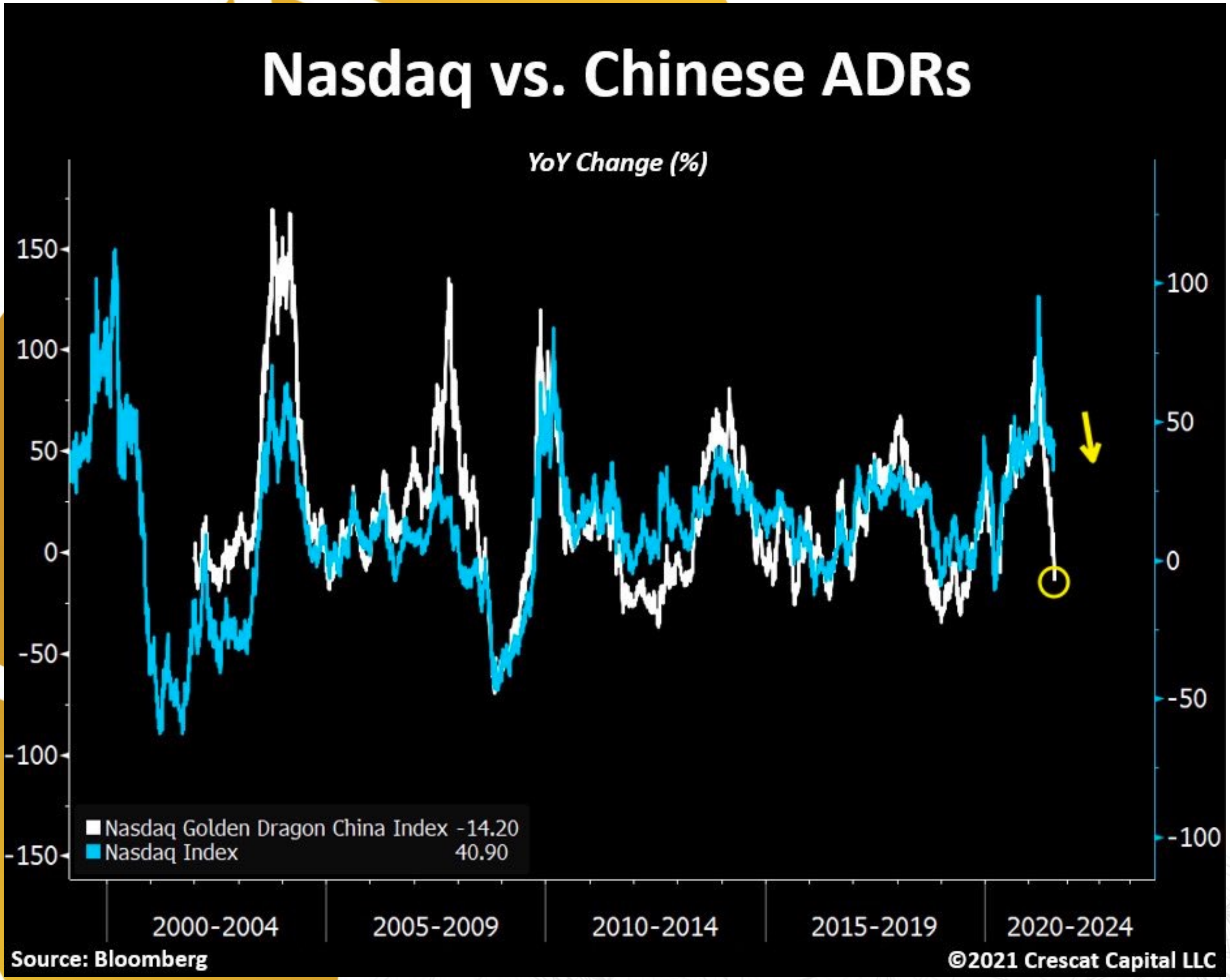

It's hard to believe that a major downward move in Chinese equities wouldn't spill over on the rest of the world. Here is the same Chinese ADRs vs. Nasdaq Index.

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