7th January 2023

2023 Scenario Mapping

The Year Ahead

Black Komodo Investments Limited.
Specialist Research Service

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SRS Snapshot

Macro	Micro*	Positioning*
• Top-down macro views backed by bottom-up research • Understand the Manipulator not the Manipulated • The interplay between Geopolitics and Macro Policies	• Individual Assets and Sectorial Analysis • Bottom-up research backed fundamental analysis • Technical Analysis on market dynamics and effects	• Asset allocation breakup • Macro and Micro effects on current market trends and how that affects your portfolios

* Available through service

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SRS AOW

- AOW – Art of War:
  - Our approach to market research, using a synergy between a physics inspired bottom up research process and a psychological lens to understand the market makers
  - Look where others aren’t
  - Thinking different so we see what others don’t in the same data
  - See through the misdirection and misallocation of the market
  - Understand the manipulators of the market:
    - FED
    - Market Movers

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SRS Focus

- Inflation
  - True Indicators
  - Monetary Policy Cycles

- Recession

- Geopolitics

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SRS Focus

- Inflation

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How did we get here?

- Economies much like other systems have a homeostatic balance between the various levers which make it function

- The most prominent being capital. When an economy prints 40% of all capital within a year and others follow suit with stimulus checks it pushes them off balance

- Inflation is the natural response of the capital system to rebalance the economy

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How did we get here?

- Just like when you get a viral infection, your fever spikes

- Releasing so much capital has a cost, that is all prices must rise in reflection of the inflow of new money supply

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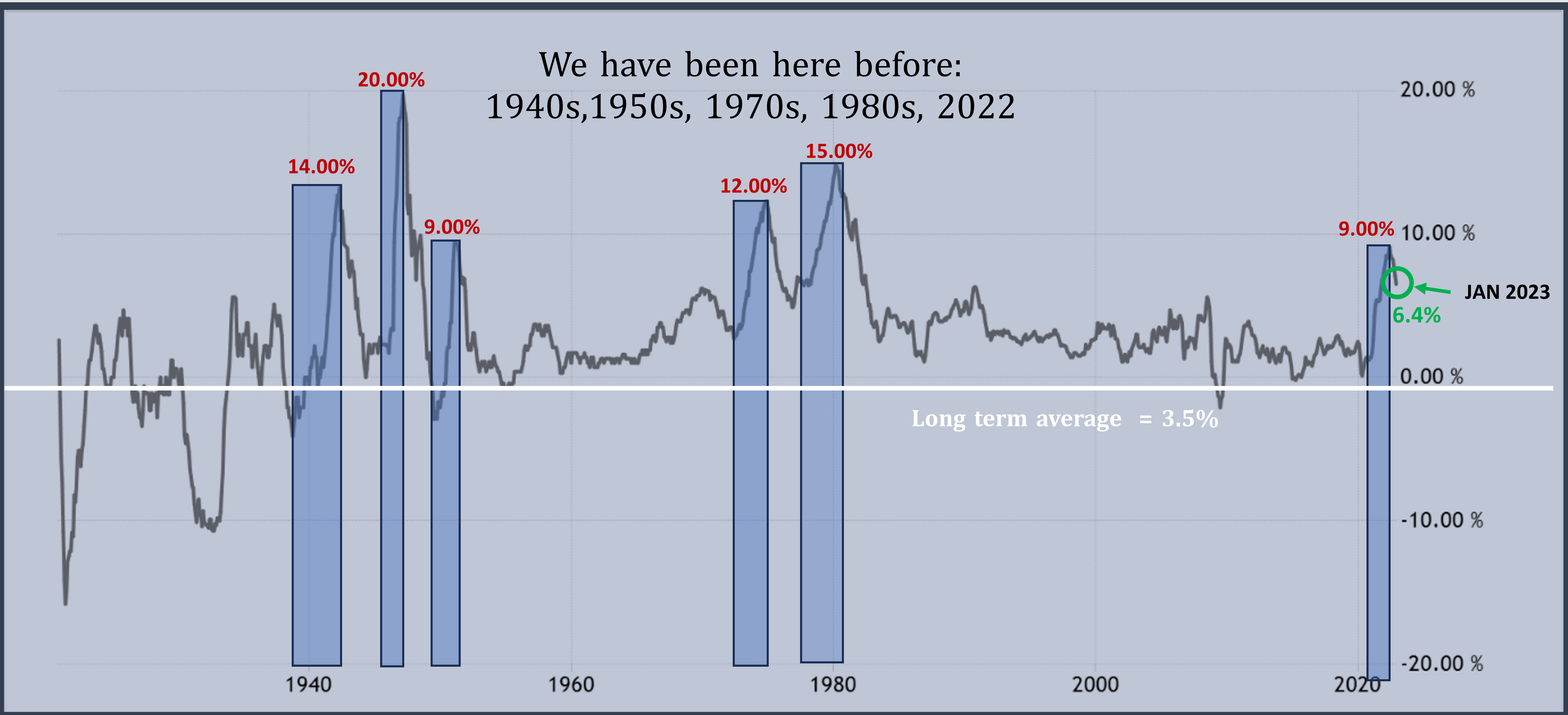
How did we get here?



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What does this mean?

- So how does one cure this spiking fever? Monetary Policy.

- The Government has a very powerful tool belt, one being monetary policy, they tighten it when the want the economy to cool down and loosen it when they need it to heat up, like a bath.

- They need to find the right mix and get the temperature just right.

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What is the FED and market looking at?

- Inflation Numbers – PCE (delayed data)
    - 2% target
- Unemployment Numbers
- Consumer Spending

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What are the true indicators?

- Long term average inflation (3.5%)
  - Inflation components:(Pre-indicator of inflation, since its live)
    - Oil, gas, milk, corn, wheat (raw materials for majority of consumption)
    - These are indicators of real inflation since they are used to make most of which makes up the daily price burden on the consumer
    - We analyze these as well as other such indicators in a weighted macro tracker to analyze the inflation trend and subsequent FED and market reaction.
- Unemployment Numbers
- Consumer Savings

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What do the indicators say?

The raw materials required to make most foods consumed within most countries has reduced significantly, hence bringing down real inflation

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What do the indicators say?

Both Gasoline and Crude Oil have significantly fallen from their highs reducing the real inflationary strain on the economy and the consumer

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What do the indicators say?

Consumer saving was at the highest it has ever been during the pandemic. Since it was more of a medical and supply chain shock than previous shocks to the system being financial.

This resurgence of savings happened in 2021 again.

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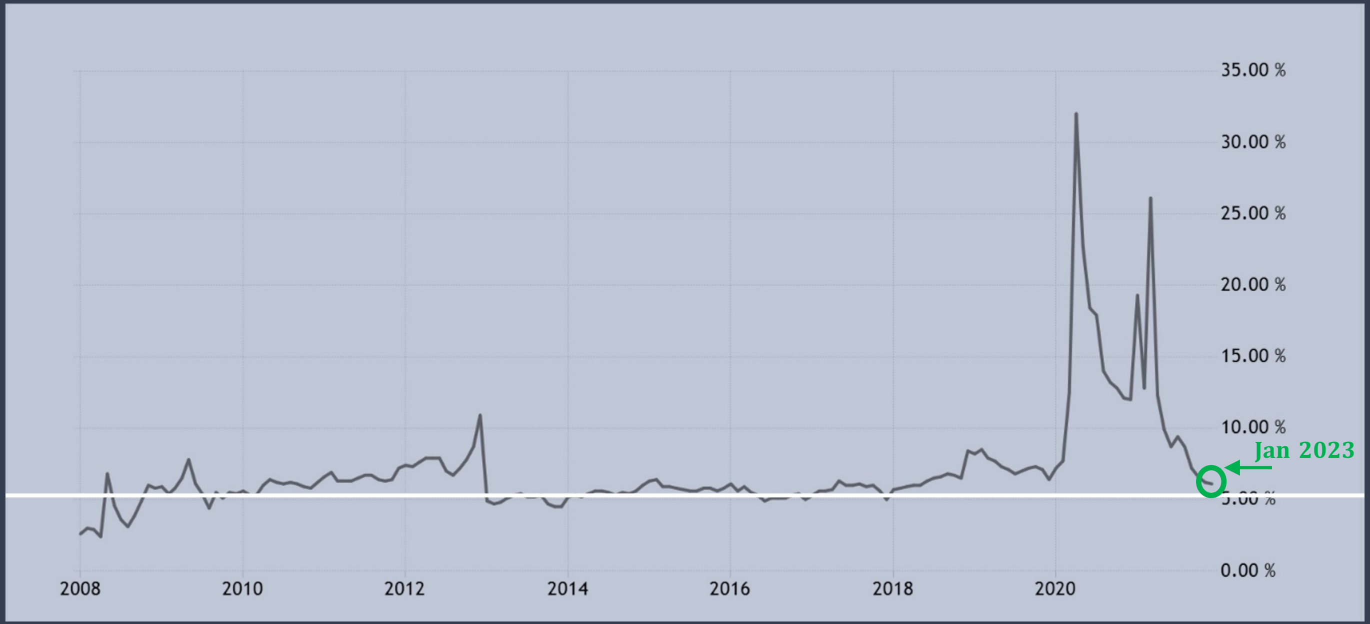
What do the indicators say?



These funds take time to exit accounts and as people have become more aware of the environment, saving remains above the average for the last 15 years and rising, giving the consumers more runway to spend and the economy more resilience

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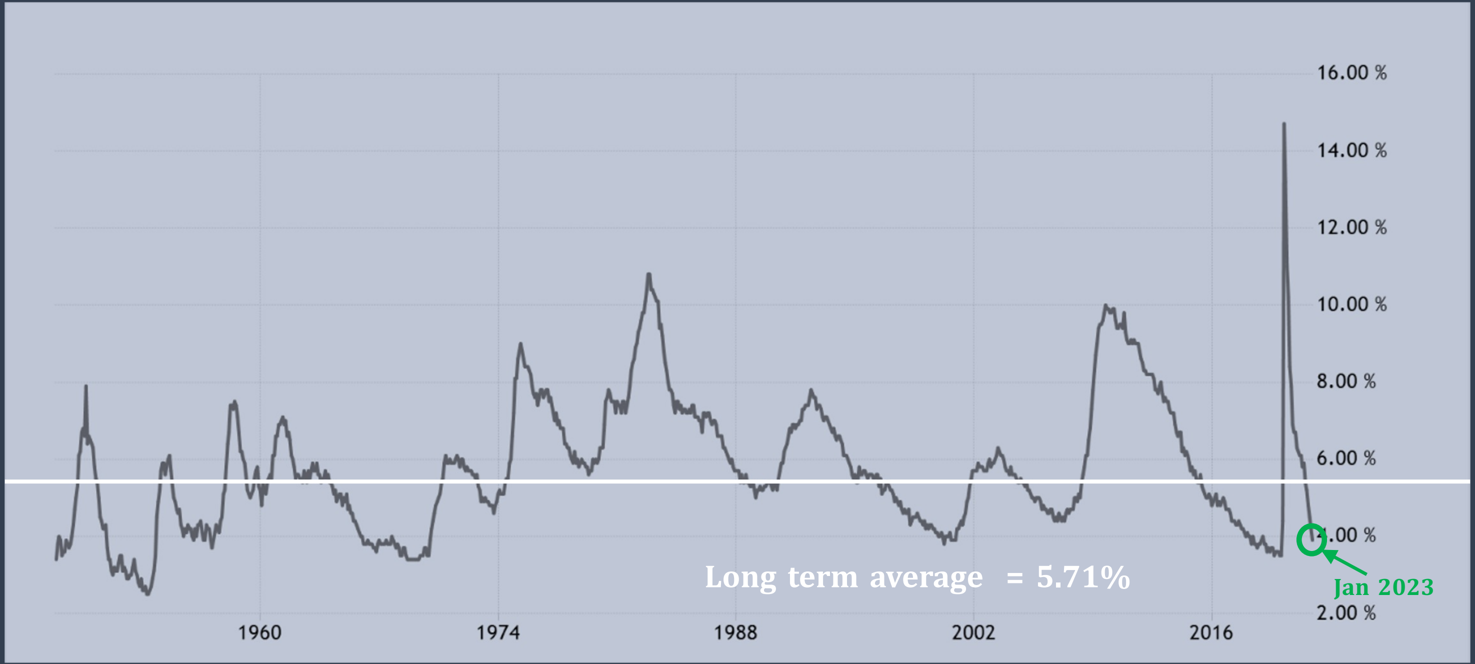
What do the indicators say?



When unemployment reaches closer to average levels, this will be a signal to the FED to pause rate hikes as the economy will begin to stabalize again.

The long term unemployment rate average is 5.71%. We are much lower than that at 3.82%. This proves the economy to be resilient and hence the rate hikes must continue, since this will push inflation higher as the exchange of hands for money increases.

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What is the FED’s plan?

- Just like with a stalling plane, they have to let it fall before restarting the engine and pushing the throttle
- Hike interest rates, cool the economy from overheating
- Sell Treasury Bills from their reserves
- Buy up USD from the market to reduce the money supply in the system

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Where do we go from here?

- There will be several rate hikes to reduce the supply of money in the system as well as treasury yields will spike and the USD will get stronger since demand is rising while supply is falling

- This is in an effort to slow the economy, to realize this, we will look to company earnings, which will be held in the spotlight

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SRS Focus

- Recession

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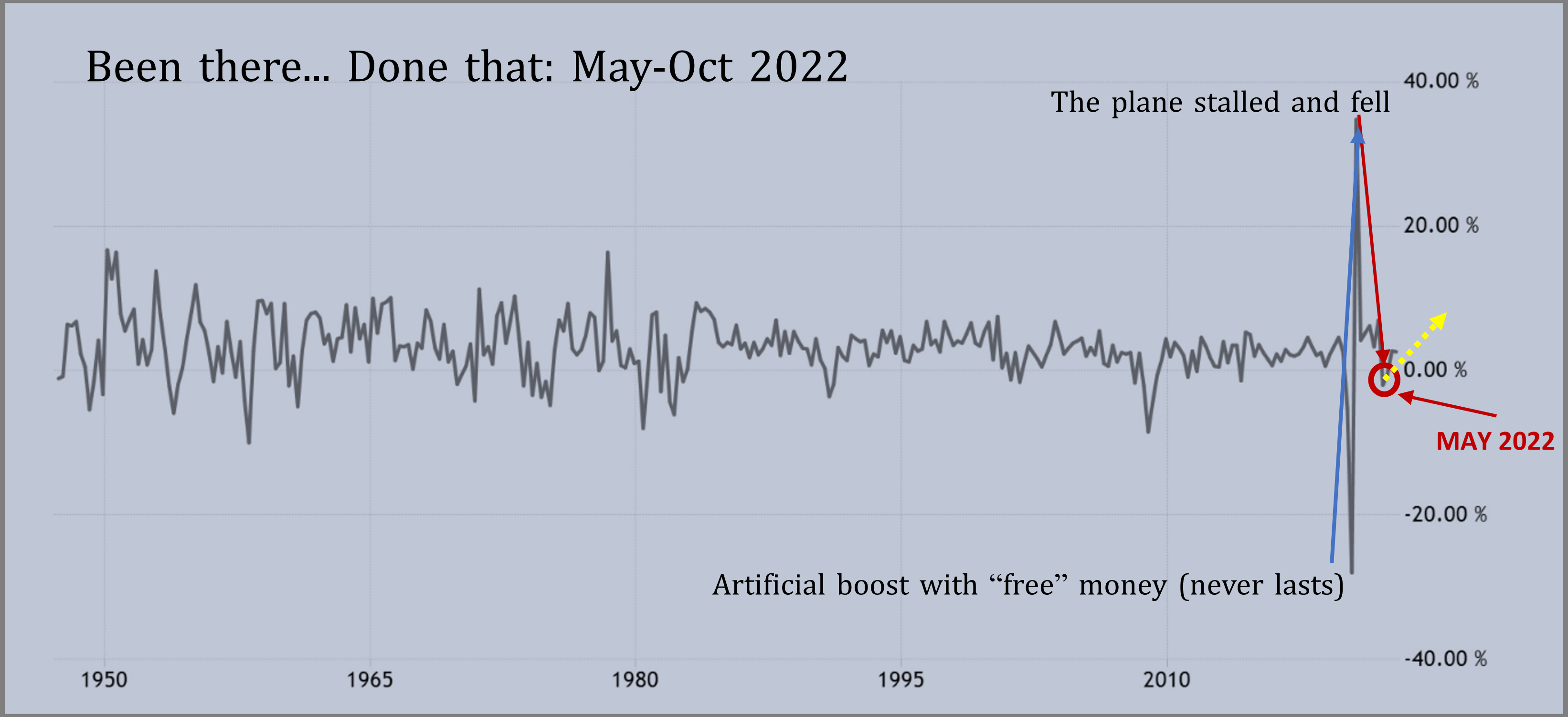
What is a recession?

- The technical definition is two quarters of negative GDP growth



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Will it happen?

- We have already had a technical recession last year.
- This year will be recovery of the business cycle, the plane has fallen and now its time for the engines to ignite.
- Subject to earnings from companies, which have been strong relative to the environment, the question is will they continue?

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Scenario Mapping

- If earnings are weak, the high rate environment is effecting the sale of products, consumer spending as well as putting pressure on levered firms:
  - Recessionary scenario will persist and be imminent

- If earnings are strong and improving since the job cuts, will lower costs, inflation raises the top line, earnings should reflect strength:
  - Recessionary scenario is out of the picture

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SRS Focus

- Geopolitics

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Where are we now?

- Russia-Ukraine Conflict: Tensions are very high, and don't seem to be subsiding
- China-Taiwan: It is suspected that China wants military action to be taken on Taiwan
- Middle East: Iran Nuclear deal, Syria-Yemen and Israel-Palestine is seen to escalate

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Consulting History- Cautionary Tales

- 1940s – World War, High Inflation, High tensions
- 1950s – Post World War, Deflationary Measures and Easing
- 1970s – Vietnam War, High tensions, High Inflation
- 2022-2023 – Wars, High tension, High Inflation

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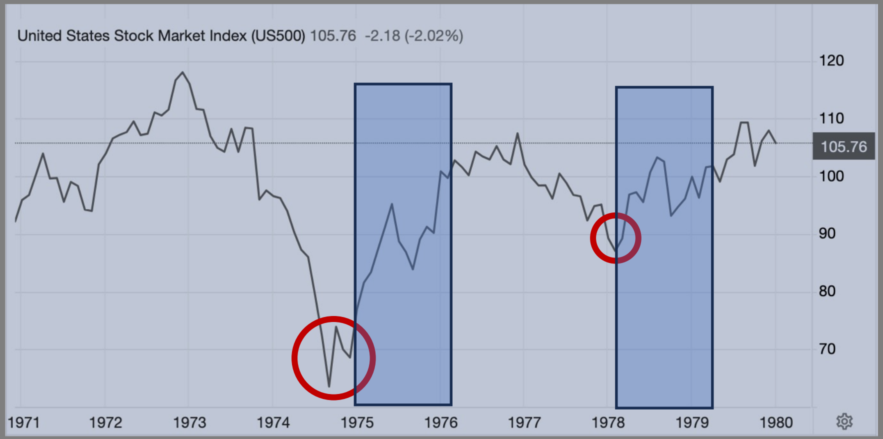
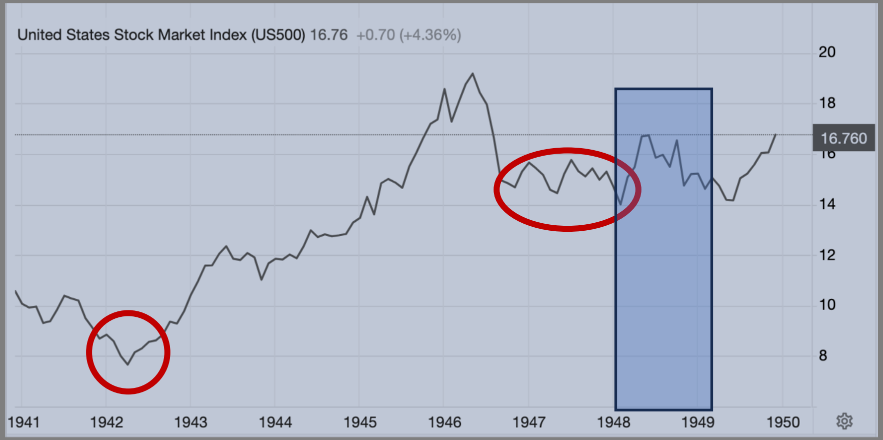
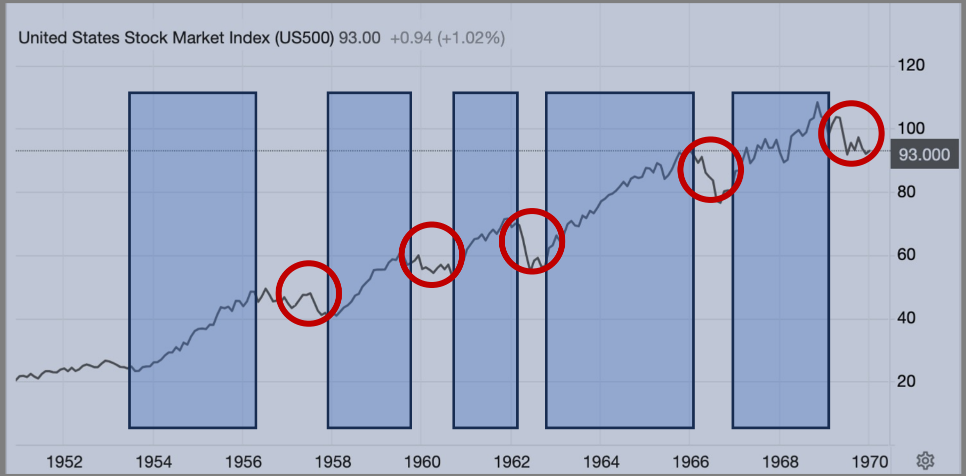
Effects on the market





After a period of extremely high inflation and raising rates to combat it, when the fed pauses and begins to cut, markets rebound due to lower strain on leverage and lower inflationary pressures causing increased spending and hence higher growth in firms, pushing the market higher.



Cutting and Raising Cycles: When the FED cut rates the market rebounded, when they raised them it pulled back, but over the long run, there was a period of growth.

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Where do we go from here?

- Focus on earnings growth and increasing unemployment as these will be indicators to show that the economy is resilient and the hiking cycle has come to an end, with a continued downtrend in inflation crossing the long term average.

- On average over the years, stock markets tend to be unaffected by geopolitical events over the long run unless a drastic change in supply or demand is affected.

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For Any Inquiries

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