

2023 Scenario Mapping 2

The Year Ahead

**Black Komodo Investments Limited.
Specialist Research Service**

SRS Snapshot



Macro

- Top-down macro views backed by bottom-up research
- Understand the Manipulator not the Manipulated
- The interplay between Geopolitics and Macro Policies

Micro*

- Individual Assets and Sectorial Analysis
- Bottom-up research backed fundamental analysis
- Technical Analysis on market dynamics and effects

Positioning*

- Asset allocation breakup
- Macro and Micro effects on current market trends and how that affects your portfolios

* Available through service



- **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

SRS Focus



- Update on Year and Overview
 - Inflationary and policy outlook
 - Recession outlook
 - Geopolitical outlook
- Supply Chain Issues
 - Raw Materials and Commodities



- Update on Year and Overview

What has happened so far?



- Inflation: Inflation has continued to fall as the FED continued their hiking cycle.
- Recession: Scenario 2 from the year outlook we had given has arisen where company earnings proved to remain strong, inflation helped their topline and labour cuts, reduced their costs. However, heavy levered firms especially in the renewable space are yet to recover due to the high rate environment. A recession is not coming. As we mentioned we have already been there.

What has happened so far?



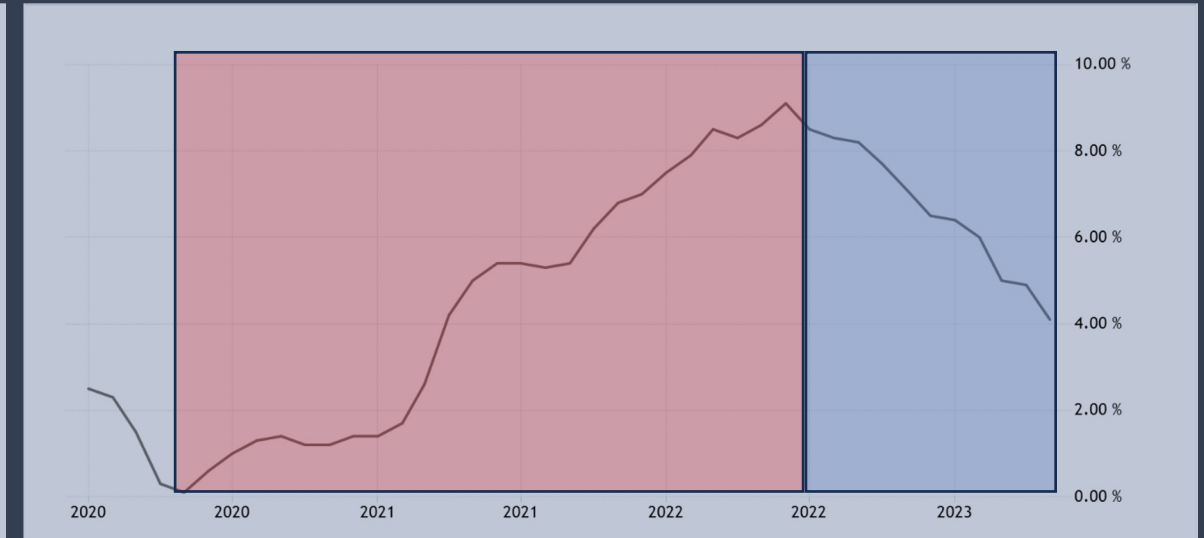
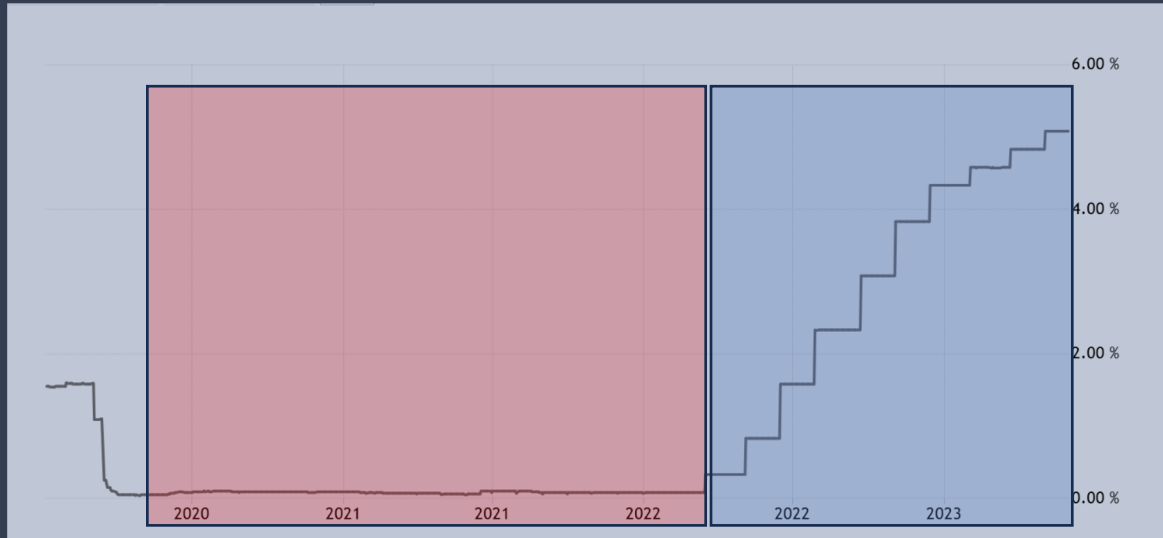
- Geopolitics: The Ukraine-Russia war is still ongoing. US-China tensions arise with trade wars on chip manufacturing taking place. Tensions in the middle east are rising with the regional wars escalating.
- The market: The market has rallied close to 10% reaching back to August 2022 levels. Recovering slightly with several headwinds due to rate hikes with the added global tensions.

Where are we now?



- We are approaching the highest and quickest rate hikes in over 40 years, with close to 5% and inflation at 4% down from 9%, one of the quickest turn arounds in cooling a hot economy and bringing it under the long term average.
- A tough economic environment as the high rates set in both in personal credit loans as well as firms with high leverage affecting their profits
- Earnings are still in the spotlight as the environment gets tougher, firms have a harder climb
- Markets are looking for signs of a recovery or a crack in the system currently still in a bear market.

Where are we now?



The above graphs, with the fed funds rate on the left and the inflation numbers on the right show that when the rates were at 0%, inflation spiked, this happens due to the effect of causality of events taking place leading to a reaction by the system. Once the rates were raised inflation has come down, significantly.

We are now at a point where either the system can recalibrate itself or further tightening is required to get the temperature right. At this point it would be prudent for the FED to pause to see what that would lead us to.

Where are we going? – Scenario Mapping



- If hikes continue, this could put excessive pressure on the economy as well as firms within it, which could potentially have a harmful impact causing a potential recessionary environment leading to markets falling further.
- If the hiking cycle is paused to give the system some breathing space, this will be a point of litmus to test whether further hikes are needed or the FED can begin the pause to pivot. Which will then decide and set up the rest of the year for the market.
- We are leaning towards this scenario as inflation has fallen 56% from its peak within a year, to make this the quickest turn around to stabilize the economy. From our models, real inflation for June looks to be lower around 3%-3.5%, proving the FED method by Chair Powell is working.



- Supply Chain Issues

Shortages



- Shortages happen in two ways, one is a shortage of demand and one is of supply, both are equally detrimental
- The raw material supply chain was hit with considerable shortages as the scarce materials such as Lithium and natural gas are becoming more scarce and mining is becoming harder, leading to higher costs and lower supply
- This affects various industries such as the electric vehicle battery production, semiconductor space which affects technology as a whole and the exploration and production energy sector

Innovation – Pressure makes Diamonds



- This pressure of the shortage of materials leads to a fast-forward in the timeline of innovation, bringing innovation in battery technology much further along with the long awaited sodium ion batteries becoming possible earlier than previously thought
- Additionally, the manufacturing issues in China created an opportunity for a sleeping giant to ramp up its absorption of this excess demand, with India becoming a center for manufacturing

Supply Chain Outlook

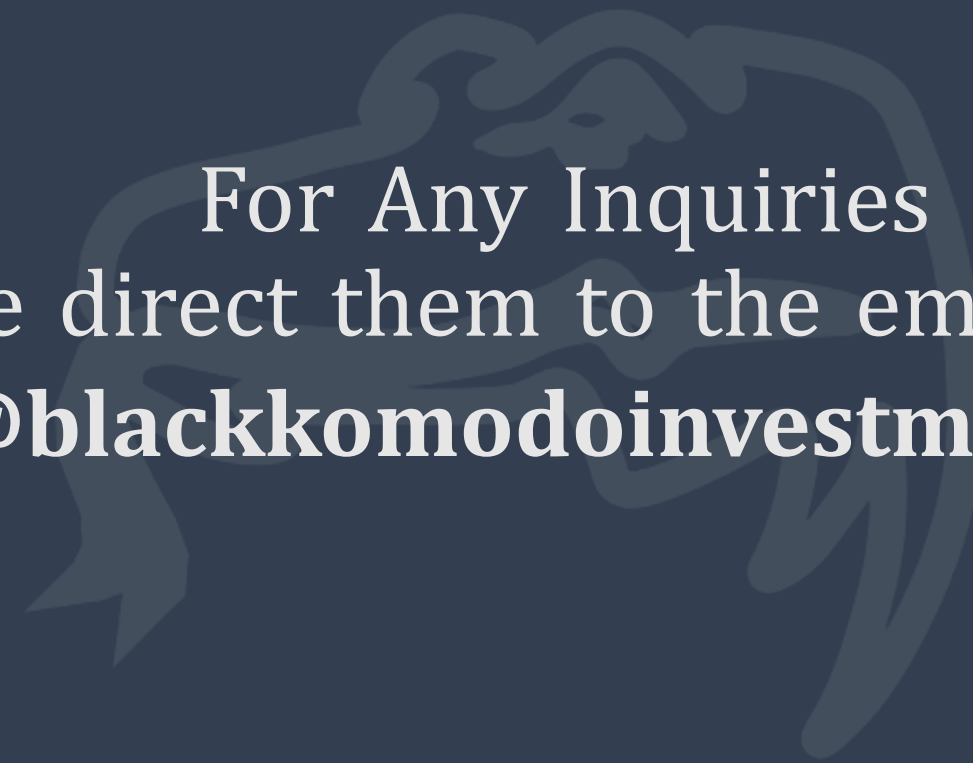


- The supply chain shortages we have had in the past and the forced innovation which has come to it has led to novel solutions that create new avenues for exploration, which seems to be the case now as well. This is described by the well known Moore's law, which seems to be coming to its tail end.
- Moore's law is a model for the growth in hardware complexity with the doubling of the number of transistors on a microchip every year, exponentially scaling innovation. However, to determine the rate or path of innovation, this is coupled with the growth of software complexity since software innovation is the leader through the digitization of the world

Supply Chain Outlook



- Development and application of technology such as AI, Deep Learning which has been happening for over two decades has reached a point of widespread usage, which propels the rate of innovation creating solutions for previous hurdles.
- India's manufacturing ability has improved and have been ready for an opportunity as such and will be the center for several firms moving their manufacturing to the nation. This has been slowly moving for the last 6 years with Apple beginning manufacturing there in 2017. It is likely for the timeline to be brought forward with other firms following suit.



For Any Inquiries
please direct them to the email below
srs@blackkomodoinvestments.com