

A nighttime photograph of a cityscape, likely Boston, featuring a prominent cable-stayed bridge in the foreground. The city buildings are illuminated, and a large, bright full moon is visible in the dark sky. The entire image is overlaid with a semi-transparent blue filter.

BAGGOT
Investment
Partners

General Update

APRIL 2024

We build and maintain portfolios for clients which address their specific needs

Baggot is a Central bank regulated investment manager. We specialize in designing and monitoring investment strategies that are built using global investment products and assets. Where almost all financial advisors and brokers would simply refer your business to a large external manager, in return for a commission, we use in-house expertise to actively manage your assets.

We offer Investment strategies across various risk profiles. In many cases, we build portfolios in-line with our client's specific needs (CGT focus, Income focus, etc.).

As a principle at Baggot, we do not charge upfront fees or expose our clients to lock-up periods. You can add or withdraw funds at any time and switch between strategies at no extra cost.

If you would like a review of your current investment strategy or to discuss future investment opportunities please contact us.

Call 01-699 1590

Peter Brown
Managing Director

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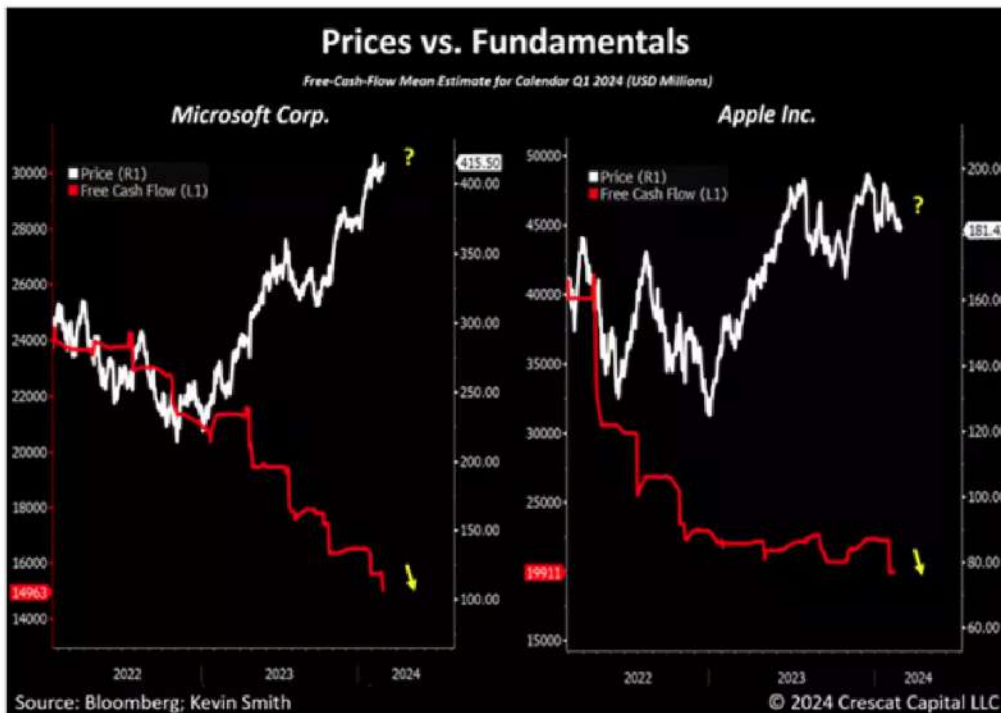
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01.

Portfolio Performance

Before getting into our product returns it should be noted that return numbers include all charges, which is not the case for our peers. Our peers show you returns before taking account of all charges. If we reported our returns before accounting for all charges, our returns look significantly higher than our reported numbers.

BMA 4, our medium risk multi-asset product posted a return of 2.43%, in Q1. Q2 has started well, as of today, year-to-date returns are coming in at 4.5%, the benchmark Irish Life MAPS 4 posted a gain of 5.9% in Q1. BMA 4 underperformed the benchmark by – 3.47% in Q1. We attribute the underperformance in Q1 to our refusal to own mega cap US technology stocks. The benchmark has its largest equity exposure invested in those 7 stocks, because they carry the highest market caps in the global indices. We cannot stomach paying nearly 50x earnings for stock's who's free cash flows look like this;



B“Growth fundamentals for the biggest tech companies have deteriorated substantially and do not support their valuations which still exceed the peak of the 2000 tech bubble. As the chart below shows, analysts’ estimates for Microsoft and Apple’s free cash flow have been trending down for two years, but their stock prices have grossly diverged to the upside. The current quarter could mark the transition from year-over-year growth to a decline in free cash flow at the world’s two largest market-cap companies. It’s a drop of 16.1% at Microsoft and 30.6% at Apple, and no one is paying attention” – Quote from <https://www.crescat.net/a-financially-deglobalized-era/>.

We are as happy to side step this one as we were to avoid long duration bonds when interest rates were at zero. We much prefer high free cash flow assets that can do well in an inflationary environment. Over the long run we expect to dramatically outperform the benchmark because our portfolios are built to do well in inflationary regimes while our peers continue to invest in portfolios that were built for an era of disinflation.

Looking further back, BMA 4 beat the benchmark by just shy of 10% between January 2020 and the end of 2023. A four year period. Conservatively taking account of all charges and costs in the way we do at Baggot, BMA 4 would likely be somewhere in the ballpark of 16% **outperformance** during the prior four year period. An astonishing level of outperformance for a medium-risk portfolio strategy.

BMA 5, our multi-asset product with a medium-high risk profile posted 4% returns in Q1 and 5.5% year-to-date as of today Apr 9. The benchmark Irish Life MAPS 5 posted a gain of 7.05% in Q1. BMA 5 underperformed the benchmark by 3.05% in Q1.

BMA 6, our multi-asset product with a high-risk profile, posted a 10.53% return in Q1 and 13.4% year-to-date as of today Apr 9. The benchmark Irish Life MAPS 6 posted a return of 8.15% in Q1. BMA 6 outperformed the benchmark Irish Life MAPS 6 by 2.38% in Q1. Since the start of 2022, BMA 6 has beaten the benchmark by 25.85%.

BEI, our global equity income focused product (medium-high risk profile) gained 3.6% in Q1 and 4.2% year-to-date as of today Apr 9. The benchmark Setanta Equity Dividend Fund gained 1.3% in Q1. BEI outperformed the benchmark by 2.3% in Q1.

BME, our higher risk profile equity/commodity focused product lost – 6.2% in Q1. The benchmark MSCI World gained 11.48% in Q1. BME underperformed the benchmark by – 17.68%. **Keep in mind that BME outperformed the benchmark by 7.03% over the last 2 years.** Our largest position in Uranium had a 20% correction after posting a huge up year in 2023. Also, relative to the benchmark, the fact that we refuse to buy MAG 7 stocks at ridiculous valuations with FCF falling, has hurt us (see our BMA 4 comments explaining). We currently have large positions in Uranium, Gold and companies that are rationally priced and can do well in inflationary environments.

Before I move on, I'd just say that the five products mentioned would be our more popular investment products but we do have other investment products that have been tailored more to the specific needs of some clients.

For any further information contact pbrown@baggot.ie.

Market Returns Summary

Q1 Asset Class Returns

Asset class return numbers noted below are all based in Euro denominated terms. Data taken from unhedged (currency) European UCITs ETFs, which include costs as well as dividend payments.

For perspective when comparing returns, the EURUSD lost - 2.2% in value in Q1.

Equity Returns (Euro denominated returns)

Q1 Leaders

Q1 Leaders: MSCI Japan, Euro Stoxx 50, S&P 500.

Q1 Laggards

Q1 Laggards: MSCI Latin America, MSCI China A shares, MSCI Asia Pacific ex-Japan.

Q1/YTD Equities Performance (Euro denominated returns)

S&P 500

13%

NASDAQ 100

11.2%

Euro Stoxx 50

13.1%

German DAX

10.4%

Stoxx Europe

600

7.9%

FTSE 100

6.0%

MSCI EM Asia

4.9%

Vanguard

FTSE EM

4.5%

MSCI China

A Shares

2.7%

MSCI Japan

14.0%

MSCI World

11.5%

MSCI Latin

America

-1.8%

MSCI India

9.0%

MSCI Asia Pacific

ex-Japan

4.1%

Bond Returns (Euro denominated returns)

Q1 Leaders

Q1 Leaders: EM Bonds, US Inflation Linked Bonds and European Investment Grade Ultrashort dated Bonds.

Q1 Laggards

Q1 Laggards: German 10+ Year Bund, 10+ Year Treasury Bonds and European Inflation Protected Bonds.

Q1/YTD Bonds Performance (Euro denominated returns)

US 10+ Year Treasury Bond ETF	German 10+ Year Bund ETF	EM Bond ETF
-1.15%	-2.6%	4.3%
Europe Aggregate Bond ETF	US Inflation Protected Bonds	Global Aggregate Bond ETF
-0.3%	2.2%	-0.2%
Europe Inflation Linked Bonds	Europe Investment Grade Ultrashort dated Bond ETF	
-0.6%	1.15%	

Q1 Precious Metals (Euro denominated returns):

Q1/YTD

Gold

9.9%

Silver

6.8%



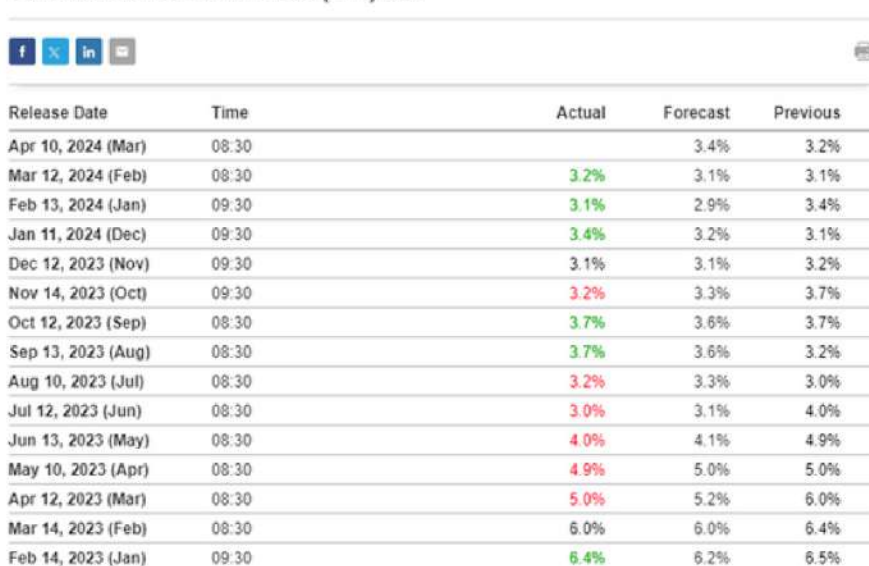
03.

Central Banks, Inflation and Interest Rate Policy

We're always more focused on the US than other western world economies because we are global investors and the dollar is the reserve currency of the world, so US inflation and interest rate policy (almost always) has the largest impact on the global economy. Also, we have maintained for quite some time now that the US was the first major developed country/region into the interest rate hiking cycle and that we believed they would be first out of the cycle. In our last quarterly report we noted that the US Federal Reserve (The Fed) had recently paused their rate hiking cycle but that we felt there was no indication they would change course or begin cutting interest rates because inflation had not returned to their target of 2%. As recently as late September the Fed were continuously making statements which included the term "higher for longer", meaning US interest rates would stay higher for longer.

On December 1, everything changed. Chairman Powell gave a speech which made it abundantly clear that the Fed were signalling that they are finished hiking interest rates. At that time US equities and bonds exploded to the upside and the US Dollar sold off. Markets discounted the first interest rate cut in March of this year and a total of 5.5 interest rate cuts in 2024, they have since unwound to an expectation of 3 interest rate cuts this year, the first projected in the summer. We were puzzled by the very quick shift in their stance because inflation is still well above their stated 2% target, currently 3.2%. Also, since July of last year the rate of inflation is no longer trending down, and last but not least, the rate of inflation has surprised (relative to consensus) to the upside in 3 of the last 4 months. See the image below of the US Consumer Price Index over the last year and a bit.

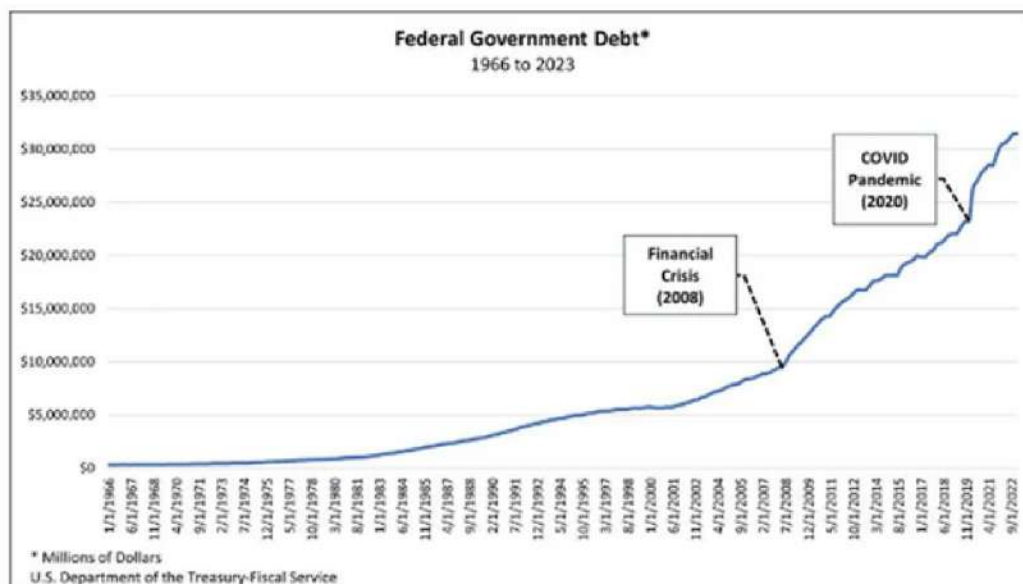
U.S. Consumer Price Index (CPI) YoY



Release Date	Time	Actual	Forecast	Previous
Apr 10, 2024 (Mar)	08:30		3.4%	3.2%
Mar 12, 2024 (Feb)	08:30	3.2%	3.1%	3.1%
Feb 13, 2024 (Jan)	09:30	3.1%	2.9%	3.4%
Jan 11, 2024 (Dec)	09:30	3.4%	3.2%	3.1%
Dec 12, 2023 (Nov)	09:30	3.1%	3.1%	3.2%
Nov 14, 2023 (Oct)	09:30	3.2%	3.3%	3.7%
Oct 12, 2023 (Sep)	08:30	3.7%	3.6%	3.7%
Sep 13, 2023 (Aug)	08:30	3.7%	3.6%	3.2%
Aug 10, 2023 (Jul)	08:30	3.2%	3.3%	3.0%
Jul 12, 2023 (Jun)	08:30	3.0%	3.1%	4.0%
Jun 13, 2023 (May)	08:30	4.0%	4.1%	4.9%
May 10, 2023 (Apr)	08:30	4.9%	5.0%	5.0%
Apr 12, 2023 (Mar)	08:30	5.0%	5.2%	6.0%
Mar 14, 2023 (Feb)	08:30	6.0%	6.0%	6.4%
Feb 14, 2023 (Jan)	09:30	6.4%	6.2%	6.5%

Just because the market is pricing in interest rate cuts this year, does not mean it will happen and we do not see how that could be possible given the current economic landscape. Employment is strong and the economy is currently in decent shape. Usually interest rate cuts happen when the economic data is poor and we don't see how economies can weaken dramatically with all of the fiscal stimulus around (not just in the US, but also in Europe).

I don't usually care about why central banks do what they do, I only care how their actions affect our clients' portfolios. The most important lesson I have learned in my 30 year career is that you should never fight the central bank in your investing framework. If they want to tighten financial conditions, invest according to that playbook and if they want to ease financial conditions, invest according to that playbook. Ultimately I think it is pretty clear that if the Fed want to back off now with an election coming, inflation so far above their stated target and the economy in great shape, what they are telling us is - that if there is no recession (the one people have been calling for, for the last 21 months, which has not happened) they will not hike interest rates....and if there is a recession, they will cut interest rates a lot. So what does that mean? It should be a negative for the US Dollar, it should benefit US companies that have been hurt by the higher interest rate environment over the last 2 years (small and mid-cap companies), it should benefit commodities and it should be very supportive of emerging markets. A weak US Dollar could also be a trigger for foreign capital to leave the US for other developed markets (the most obvious candidate is Japan). I cannot see how it can be supportive of longer dated US government bonds, given the size of the deficit.



Especially not with inflation around 3.2% and US long duration bonds currently yielding 4.35%. Subtract the rate of inflation from the yield and your real yield is 1.15% annually. In fairness, that's a much better proposition than it was a couple years ago when your real yield on US long duration bonds was - 5.5%, but it is no bargain.

Reported inflation in Europe is 2.4% now, which has given the ECB an excuse to halt interest rate hikes and speak of interest rate cuts later this summer. Lagarde signaled earlier in the year that the 2% inflation target is within range and that interest rate cuts could be possible by summer, but that the ECB is "data- defendant and that there is still a level of uncertainty and some indicators that are not anchored at the level where we would like to see them."

Will there be a recession in the US and or Europe, or not? Answering that question is not going to make you any money. The big question that matters is whether we will have an inflationary future or not. Everything already pointed to an inflationary future before you brought war-time spending into the mix.

Oil is the big risk to the global economy. The big risk is a geopolitical event causing the Oil price to spike to say \$100+ and stay there, central banks would likely be forced to become more hawkish on interest rates and this would be very bad for long duration assets such as US Treasury Bonds and Nasdaq 100, Mag 7 names.

On the other hand, the Fed can't be too hawkish for fear of the problems it creates for leveraged commercial property and the banks exposed to the loans. Europe probably has a better chance of seeing interest rate cuts because reported inflation is much closer to the 2% target, but we are sceptical given how strong Oil has been this year.

These next three sections, The World Changed in 2020 and Weaponization of the Dollar (and the Euro) and All Roads Lead to Inflation were all posted in our last Quarterly Update. I've left them in here because I feel they are really important topics which will help you to understand how the world has changed and consequently what that means for your portfolio. If you've read them last quarter, then skip ahead to the Asset Class breakdowns.

04.

The World Changed in 2020

A lot of what I've written in this next section comes from a recent Forward Guidance Podcast with Kevin Muir, publisher of The Macro Tourist newsletter, which is excellent. I haven't quoted him word for word and a lot of my own thoughts are added into what is written but its close enough to what you will hear in a portion of the podcast link below to make it clear. I want to give credit where credit is due. I've put this paragraph in italics so that it is clear what part of this update came from the podcast.

<https://open.spotify.com/episode/2nWbTboYdUX4TvSeCwGd6q>

The world changed in 2020. Every time we had an economic contraction or crisis of some kind, governments tried to fix them with lower interest rates. In 1982 interest rates were cut from what, something like 15% down to 7%, then the next cycle rates rise to something like 10%, then in the next cycle they cut interest rates down to 4%. It was this series of lower highs and lows for interest rates. They were using monetary stimulus to fix the economy, but it was taking lower and lower interest rates with each successive economic contraction/crisis to have the same impact. It comes to 2008 and we get to 0% interest rates and we find out monetary stimulus doesn't work like we think it does.

We find 0% interest rates aren't low enough to generate recovery, so they come up with these ways to synthetically create the effect of having interest rates below zero (Quantitative Easing) and they don't work as well as everyone expects they will. Weird things happen, like long duration government bonds trading at interest rates that are below 0%, meaning investors are now paying government borrowers to lend to them. It also has this effect of penalizing savers and rewarding reckless borrowers. It forces people to take more risk to get a return on their money which pushes valuations in the few sectors of the economy that do benefit from that environment, up to insane levels.

So then covid comes along and all of the sudden we rediscover fiscal stimulus and we go absolutely bonkers with it and do so much of it. In Europe we print money and give it out to people who cannot work due to lockdowns. We give businesses special loans with freshly printed money. In the US they just print money and hand it out to everyone. The US prints Trillions for the Inflation Reduction Act (the name is a big fat lie, it should be called the Inflation Creation Act). Clearly that fiscal stimulus is way more powerful than people expect and it has more of a lasting effect than everyone previously thought it could have. So when you see that interest rates are so much higher than they were few years ago and you wonder why western economies are doing so well, this is why. As long as governments don't care about deficits, they can just print money and spend it in the economy. Always remember that when the government issues debt, which is what the deficit is (a big pile of IOUs), yes that is a government liability, but it is also a credit for the economy. It's easy to forget that. I think this is why western economies are doing so well in spite of significantly higher interest rates and that can continue as long as the political will is there to continue down that path and interest rates are lower than the rate of economic growth is.

Back to my own thoughts; I'm not endorsing this behaviour, I don't really care, I just want to protect our investor's capital and generate returns for them in excess of what they can get elsewhere. This is just the way the world works now and it is an inflationary one. If you are operating on the basis that the world is the same as it was between 1982 and 2020 and these last few years are just a blip on the radar before interest rates go back to zero, that's a different investing template than one that will flourish in the world we live in today. Longer duration Bonds did very well in that environment; whenever the economy contracted during that era and equities went down, long duration Bonds saved your portfolio, they went up in value. Today long duration Bonds are the enemy. If you disagree with me, let me ask you how your 60% Equities/40% Bond portfolio has done for you over the last two years? 2022 was the worst year in history for 60/40s! What worked between 1982 and 2020 is not going to work in the current environment which looks much more like the period that existed between 1968 and 1982. In an inflationary environment where governments are willing to run large deficits in order to do fiscal spending, portfolios more focused on Value Equities, Commodities and Equities in that space, Cyclical, Industrials, those are the things that work. And where you have to hold Bonds, you want to be focused on ultra-short duration Bonds/T-Bills because they track inflation better over time for the investor. I'll give you an example. If you buy a 1 month T-Bill with a 5% interest rate. In one month you get your money back with interest.

If the interest rate rises between now and next month to 5.25%, you can buy another one month T-Bill and earn the higher interest rate. Compare that to someone who buys a 10 Year Bond with an interest rate of 5%. Let's say interest rates go up to 10% in five years. You're still only getting 5% interest, while the one month T-Bill owner is getting 10%. Sure, it sounds crazy, interest rates going to 10% in five years, but if I told you in 2007 that interest rates would eventually go to zero, that would've sounded pretty crazy too. The world has changed and if you don't invest accordingly, your returns will be poor.

05.

Weaponized of the Dollar (and the Euro)

Let's not forget that there is another inflationary factor here which we have been highlighting for some time now. All this fiscal stimulus is funded by debt that is denominated in Dollars and Euros which has been weaponised. I'm not making a political statement here and I'm not standing up for Putin or Russia. I'm just stating important facts which affect the financial wellbeing of our clients....So Russia invades Ukraine and the West decides that they can confiscate Russian assets that are sitting in Western banks. Not only Russian government assets but it went further than that, they confiscated private Russian assets as well. The rest of the world took notice. The Chinese, the Saudis, India, etc, are thinking – what do you mean you can confiscate my assets if you don't like what I am doing? I mean today it might be Russian assets you are confiscating because they went into the Ukraine, but tomorrow it could be another country (or citizens of that country) whose assets you seize because they aren't woke enough or because they don't have the same moral code as you.

The US weaponised the reserve currency of the world. America consume many more goods and services from these countries than they export to them and consequently the US runs large trade deficits. Historically you buy stuff from China or Oil from Saudi Arabia (everyone needed Dollars to buy Oil, not just Americans), etc and they would take those Dollars and buy safe US assets (mostly US Treasury Bonds) with that money, thereby funding the US deficit. This ensured that there would always be demand for US debt. That game is ending. These countries are now setting up deals to exchange their goods and services to each other in their own currencies. This is really good for Emerging Markets (EM). Let's say you are India and you sell steel to Brazil in return for Brazilian Real. What do you do with the Brazilian Reals? You probably buy Brazilian Government Bonds. Now that is a very simplified example, but the point is, that these countries have taken notice. They do not like the weaponisation of western currencies and they are doing trade deals to cut Dollars (and other western currencies) out of the mix. I cannot stress enough how important of a change that is or how inflationary that is for the western world! Markets have been taking notice as well.

Just look at the difference in performance between Emerging Market Government Bonds and Western Government Bonds last year. It is staggering! Generic EM Government Bond ETFs have dramatically outperformed US & European Government Bond ETFs of similar maturities over the last 2 years. My favourite EM Government Bond Fund, the T Rowe Price Emerging Markets Bond Fund (Euro share class) has an average maturity of roughly 10 years, so very similar to US 10 Year Treasuries or German Bunds in terms of maturity. This fund gained 13.7% last year. What's even more interesting is that this fund has a risk profile of 3.

Risk Rating	Volatility Ranges	
	Equal to or above	Less than
1	0%	0.5%
2	0.5%	2%
3	2%	5%
4	5%	10%
5	10%	15%
6	15%	25%
7	25%+	

US 10 Year Treasuries used to have a risk profile of 2. Now because volatility has increased so much in the last 2 years, the risk profile in US Treasuries is more like a risk profile of 5.

People forget that central banks only control the interest rate at the front of the yield curve. They do not control interest rates in longer durations. The market dictates interest rates in longer durations. The US and some other western nations are running huge deficits and have bitten the hand that finances them (via bond purchases) by weaponising their currencies. Now these buyers are not showing up at Government Bond auctions like they used to. How does this get compensated for by the Bond market? Interest rates at the longer end of the interest rate curve will ultimately have to rise to a level that sufficiently compensates the holder for taking the risk. That's how.

06.

All Roads Lead to Inflation

Now add into this tinder box the fact that Western governments are spending money they do not have, like crazy, during a time when we are not even remotely close to recession type conditions. If they are spending money like that now, what do you think they will do if we actually do have a recession? They'll spend twice as much money, they'll run even crazier deficits and if there is nobody to buy the bonds they'll issue to fund all this spending, they'll just ramp up the printing presses again. They'll do Quantitative Easing again – print money to buy their own bonds, which keeps longer term financing rates down, but also trashes the purchasing power of money. In our humble opinion, all roads in the west lead to inflation. In my view it is much riskier to have lots of cash than it is to own commodities and hard assets because you have this finite supply of assets that are valued in infinitely printable currency which is getting printed in ever increasing volumes.

It's not all bad though. Government issued debt is a government liability, but that liability is someone else's credit. Think about it; Biden does the Inflation Reduction Act (Should have been titled the Inflation Increasing Act because that is what it does – it increases inflation). The estimated cost of this bill is \$1 Trillion Dollars. Much of this money goes to climate change initiatives, which ends up in the private sector. This act is very supportive of the hard assets/commodities that will be needed to decarbonise the US economy. Never mind that it is a bit of a farce. \$4 Trillion has been spent in the last decade on Solar, Wind and other green initiatives. During that same period the world has gone from being 83% dependent on fossil fuels to 81% dependent on fossil fuels! This was during a period of mostly benign inflation as well. If they had spent that money on nuclear power (zero carbon emissions) instead, energy costs would be significantly lower now and the world would be far less dependent on fossil fuels. I digress.....The point is that government liability (debt issuance) is a public credit and this public credit makes its way into corporate balance sheets, wages, commodities, etc and this creates opportunity for savvy investors.

07. Bonds

In our medium to low risk multi-asset products we have to hold euro denominated bonds in order to decrease the overall risk level of the investment product in question. In those investment products we have favoured investment grade, ultra-short duration bonds over long duration bonds, since before the rate hiking cycles began in the US and Europe. This is a stance that has served us very well, relative to some pretty terrible choices in the Bond world. Our position gained 3.46% in 2023 and 1.16% in 2024.

For perspective, let's take a look at how some of the other options have performed. Since 2022 was the worst year in modern history for western government bond markets, we'll look at total returns (%) from Jan 2022 through Mar 2024. The "D" at the bottom of the images shows where dividends have been paid. The % return does take account of these dividends in performance. Hence the term "total return".

Here's our position, the Ultra-short dated European Investment Grade (0 - 1 Yr fixed and 0 - 3 Yr floating rate);



For the period of 27 months, it has gained a total return of 4.25%. At the absolute worst point during the period, it was down - 0.93%. Performance bottomed right around the time the ECB began hiking interest rates in the autumn of 2022.

Here is the Bloomberg 10+ year European Government Bond ETF for the same period;



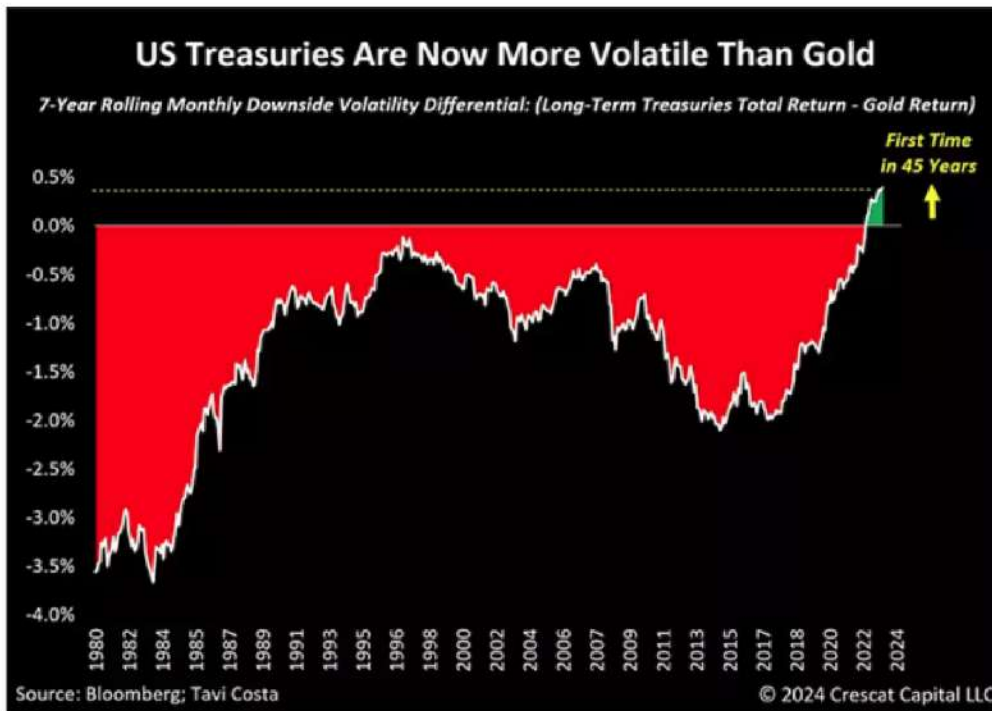
For the period of 27 months, it has had a total return of – 26.06%. At the absolute worst point during the period, it was down – 35.81. That’s the steep price you pay for doing irrational things (like lending governments money at negative interest rates).

Here’s our position for Q1;



It gained 3.46% for the full year 2023 and 1.16% ytd, 4.62% over 27 months. It isn't fully compensating us for inflation but our returns caught up with the rate of inflation faster than pretty much anything else you can own in the European Bond world, and it sure as heck beats sitting on deposit with an Irish Bank earning 0.5% (Don't confuse this with a fixed term deposit where you can get 3% to lock your money up for two years. Our position has no fixed term. We can exit tomorrow if we so choose). Keep in mind these bonds have a very low risk profile.

At the moment there is no incentive to take on long duration bonds when US Treasuries are now more volatile than Gold.



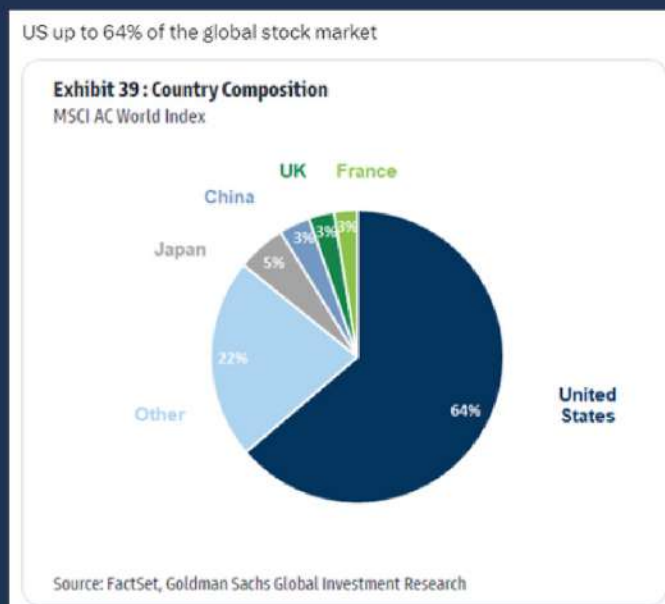
Until that changes, we see little incentive to venture out the risk curve and take on duration risk. The only way the system works with all this money printing is if investors do not get fully compensated after inflation.

At the front of the interest rate curve our bond yields can rise with inflation over time. If inflation continues to rise our yields go up. These bonds have a risk profile of 2 vs US 10 Year Treasury Bonds or European equivalent, those bonds now have a risk profile of 5. Gold is a risk profile 5. Pre-Covid US, 10 Year Treasury Bonds or European equivalent had a risk profile of 2. For risk profile of 5, we much prefer Gold obviously, which we will talk about in when we get to Commodities.

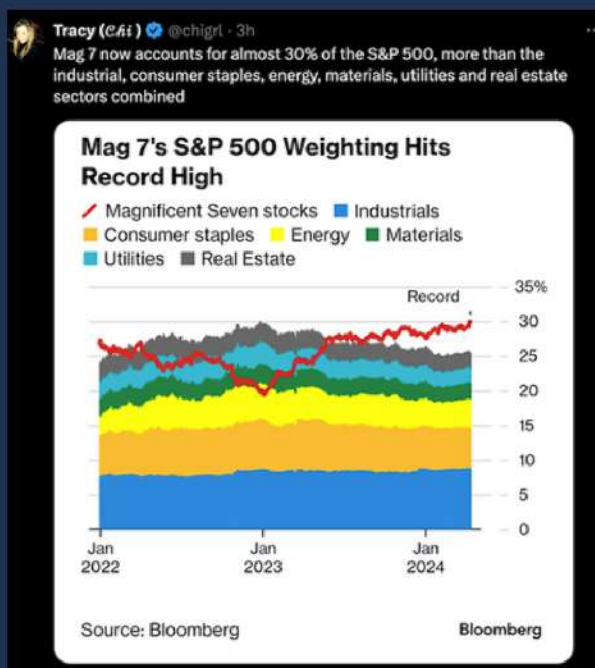
08.

Equities

From a longer term perspective we remain bullish on value equities and particularly areas of the market where you have high free cash flow leading to buybacks and dividends. We also like equities with exposure to commodities. We continue to be bearish the Dollar and pretty much all other western world currencies, due to reckless fiscal policies and the weaponisation of the Dollar and other western currencies (which we've already spoken about in this piece). A weaker Dollar is usually good for global trade, so we continue to favour non-US equities, particularly Emerging Markets. Within Emerging Markets we find India and Latin America to be the greatest long term opportunities. Between Jakarta and New Delhi (ex-China), 3.8 Billion people are entering the global economy over the next 5 – 10 years. The world, and particularly commodities markets, are unprepared. Among Developed Markets, we think you come out way ahead if you cut US exposure relative to other Developed markets. There is too much exposure in US indices to the group known as the Magnificent 7 or Mag 7. Apple, Microsoft, Amazon, Meta, Google, Nvidia and Tesla. That group of stocks trades on an avg P/E ratio of 46! If you buy that group of stocks you are paying 46 years' worth of current earnings for it today. Paying a high price for something isn't always a bad thing. You have to look at the price of a company relative to its growth rate to see if there is any real value on offer or not. If you buy a company at 50x earnings but it is growing at 150% then it is cheap relative to its growth rate. If you pay 50x earnings for a company growing at 25% then it is expensive relative to its growth rate. This group of stocks is grotesquely overvalued and it is in a vast majority of pensions.



You cannot invest in those stocks at those valuations and expect to come out ahead.



There is a huge potential wave of selling that could hit this group of stocks when you consider this;



A lot of foreign holdings in the US are Japanese, what happens when Japan hike interest rates as we cut interest rates? You have the potential for huge repatriation of money out of the US and back home to Japan, which is a much smaller market. You have the same setup with other countries. In general much of the world looks relatively cheap vs US indices.

US equity indices have the largest market cap in the world, so they get the highest allocation for that one reason alone. Price is what you pay, but value, (or lack thereof) is what you get. When you pay a lower price for something, there is a higher margin of safety built into the investment.

Let's look at one example, of many. The MSCI Latin America trades on a P/E of 10.07% and pays a dividend yield of 6.02%, and let's not forget that inside a pension wrapper that dividend income is tax free.

INDEX PERFORMANCE – GROSS RETURNS (%) (MAR 29, 2024)	ANNUALIZED								FUNDAMENTALS (MAR 29, 2024)			
	1 Mo	3 Mo	1 Yr	YTD	3 Yr	5 Yr	10 Yr	Since Dec 31, 1987	Div Yld (%)	P/E	P/E Fwd	P/BV
	MSCI EM Latin America	1.09	-3.90	23.35	-3.90	11.04	4.14	2.06	13.20	6.02	10.07	9.00
MSCI Emerging Markets	2.52	2.44	8.59	2.44	-4.68	2.61	3.33	9.52	2.83	15.61	12.13	1.71
MSCI ACWI	3.20	8.32	23.81	8.32	7.46	11.45	9.22	8.28	1.92	21.11	17.77	3.07

Source: <https://www.msci.com/documents/10199/5b537e9c-ab98-49e4-88b5-bf0aed926b9b>

The MSCI USA Index trades on a P/E of 26.2 and pays a dividend yield of 1.35%. We would much rather have exposure to Latin America than we would the US right now.

INDEX PERFORMANCE – GROSS RETURNS (%) (MAR 29, 2024)	ANNUALIZED								FUNDAMENTALS (MAR 29, 2024)			
	1 Mo	3 Mo	1 Yr	YTD	3 Yr	5 Yr	10 Yr	Since Dec 31, 1987	Div Yld (%)	P/E	P/E Fwd	P/BV
	MSCI USA	3.18	10.41	30.26	10.41	10.80	15.02	12.88	11.22	1.35	26.20	21.42
MSCI World	3.27	9.01	25.72	9.01	9.13	12.63	9.97	8.48	1.82	21.97	18.72	3.36
MSCI ACWI	3.20	8.32	23.81	8.32	7.46	11.45	9.22	8.28	1.92	21.11	17.77	3.07

Source: <https://www.msci.com/documents/10199/67a768a1-71d0-4bd0-8d7e-f7b53e8d0d9f>

You basically get 2.6 units of the MSCI Latin America, for the price of one unit of the MSCI USA. There's also the added kicker that Latin America index has exposure to assets that tend to do well during inflationary environments. This is most certainly not the case for the big US indices.

Europe is cheap vs the US;

INDEX PERFORMANCE – GROSS RETURNS (%) (MAR 29, 2024)	ANNUALIZED								FUNDAMENTALS (MAR 29, 2024)			
	1 Mo	3 Mo	1 Yr	YTD	3 Yr	5 Yr	10 Yr	Since Dec 31, 1987	Div Yld (%)	P/E	P/E Fwd	P/BV
	MSCI Europe	3.86	5.39	14.83	5.39	6.85	8.61	5.06	8.21	3.14	15.12	13.74
MSCI World	3.27	9.01	25.72	9.01	9.13	12.63	9.97	8.48	1.82	21.97	18.72	3.36
MSCI ACWI	3.20	8.32	23.81	8.32	7.46	11.45	9.22	8.28	1.92	21.11	17.77	3.07

As is Japan;

INDEX PERFORMANCE – GROSS RETURNS (%) (MAR 29, 2024)	ANNUALIZED								FUNDAMENTALS (MAR 29, 2024)			
	1 Mo	3 Mo	1 Yr	YTD	3 Yr	5 Yr	10 Yr	Since May 31, 1994	Div Yld (%)	P/E	P/E Fwd	P/BV
	MSCI Japan	3.16	11.16	26.20	11.16	4.08	8.16	7.06	2.25	1.92	16.87	15.94
MSCI World	3.27	9.01	25.72	9.01	9.13	12.63	9.97	8.31	1.82	21.97	18.72	3.36
MSCI ACWI IMI	3.22	7.83	23.04	7.83	6.81	11.10	8.98	7.88	1.94	21.32	17.62	2.84

09. China Technology

One area we've avoided since Jan 2022 has been China. It has a lot of problems in real estate and banking tied to real estate and we would continue to avoid those areas, but Chinese technology companies are dirt cheap relative to their growth rates, too cheap to ignore.

A few facts;

- Chinese retail web sales totalled \$2.1 Trillion in 2023, compared with \$1.1 Trillion in the US.
- China's internet population reached 1.09 Billion in 2023, which is 77% of the market. The US internet population reached 311.3 million people which is 93% of the market in 2023.
- Total Chinese retail sales reached \$6.5 Trillion in 2023.
- Online shopping accounted for 32% of retail purchases in China in 2023.

1.Data from Statista as of 3/31/2024. Note: Figures converted from Chinese Renminbi to USD.

2.Data from U.S. Department of Commerce as of 3/31/2024.

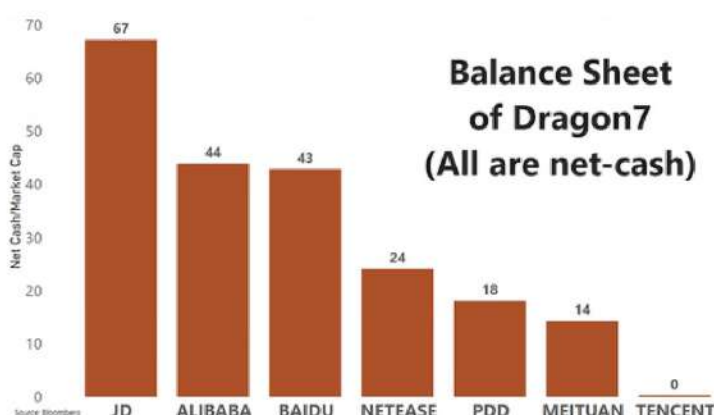
3.Data from Statista and the World Bank as of 3/31/2024.

See below from the excellent YWR (your weekend reading – I highly recommend) substack, Erik wrote a piece entitled Unleash the Cash Dragons!

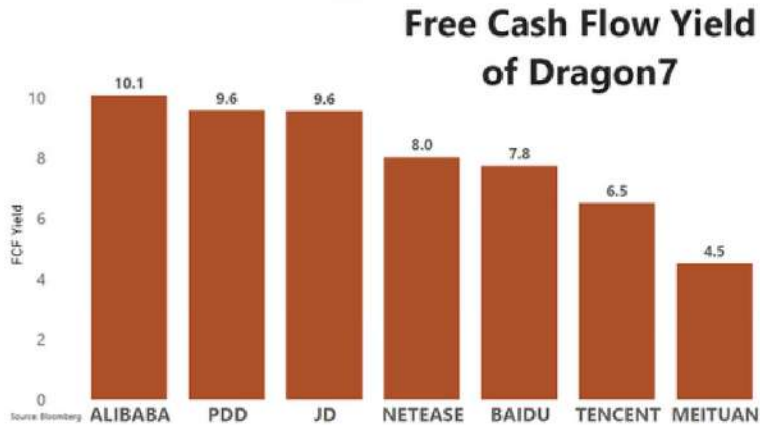
Cash Dragons:

The Dragon 7 companies are a cash oasis, in stark contrast to the levered property sector.

They are sitting on a cash mountain of \$204 billion, nearly a third of their total market cap of \$955 billion. JD leads the pack with net cash holdings equivalent to about 67% of its market value.



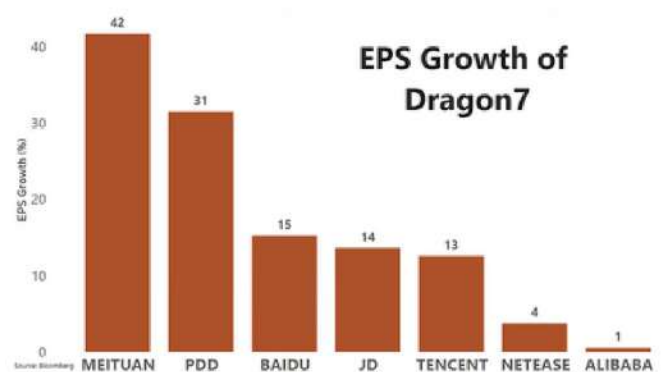
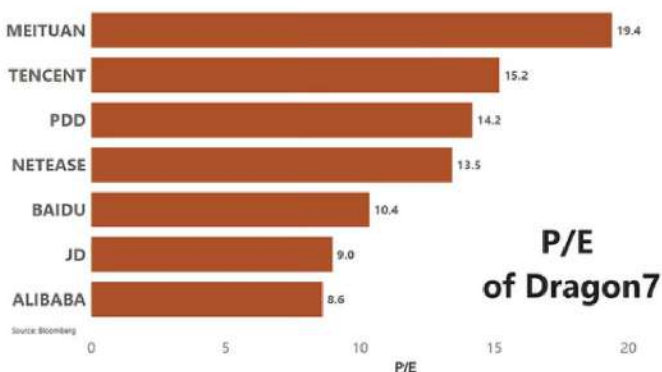
Not only are these companies flush with cash, but they're also raking in cash. On average, their free cash flow yields stand at 8.0%, with Alibaba topping the charts at an impressive 10.1%.



As a vote of confidence, these companies are increasing their share buybacks. Alibaba, for instance, increased their share buyback by an additional \$25 billion (for a total authorised of US\$ 35bn over next 3 years), while Tencent doubled its buyback for 2024 to HK\$100 billion (US\$12 billion). Baidu has a \$5 billion buyback with \$4.3 billion remaining. JD.com announced an additional \$3bn buyback with their Q4 results on top of the \$1.5bn remaining on the existing plan (so \$4.5bn over next 3 years).

Furthermore, these companies are trading at a modest 12.9x P/E, in spite of a robust 17% EPS growth projected for FY2024. This represents a bargain valuation at just 0.7x PEG. Alibaba stands out with the lowest P/E of 8.6x, while Meituan boasts the highest expected EPS growth of 42%.

With such a compelling valuation and robust balance sheet, investing in the Dragon7 companies offers limited downside risk and presents an attractive opportunity for investors.



Generational Dragons:

Back on February 13th, I introduced the idea of a generational pair trade between the Magnificent 7 and Dragon 7 stocks. At that time, the difference between the two groups was at a multi-year high of 2.89.

Since then, this gap widened even further, reaching a peak of 3.18 before settling back to 3.04 currently.

Nevertheless, with strengthening fundamentals, this pair trade still looks promising for investors and could be a rare opportunity that comes once in a generation.



We really like adding China technology exposure to portfolios right now. In our view, this area of the market is insulated from the issues in Banking and Property, it is also important to the government that it succeeds because unemployment levels are high in China and tech is an area that can generate growth.

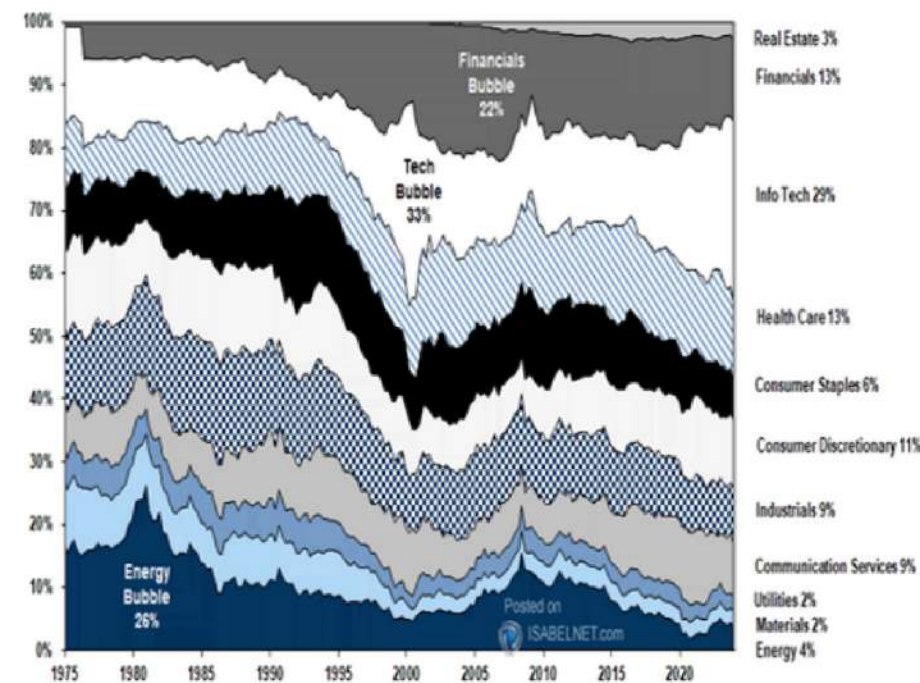
We spoke earlier about how 3.8 Billion people (ex-China) between Jakarta and New Delhi are entering the global economy in the next 5-10 years. We are focused on returns in that area via an ETF which seeks out companies in the region that have strong free-cash-flow (FCF) pay dividends, do share buybacks and pay down debt and also screen well for value and quality factors. The ETF holds 100 companies and has a P/E of 8.3 vs the MSCI EM Equity index which trades at around a P/E of 15. The ETF has produced avg annualised returns of 9.4% since inception vs the MSCI EM benchmark which produced 5.4% avg annualised returns for the same period.

We continue to like Biotech from a long term perspective (don't confuse it with Pharma). We expect solid long term growth in the sector and valuations are more reasonable, with some companies trading below cash. The cost of financing has risen a lot as rates have gone up, but we think this is a sector that will benefit greatly from AI productivity led gains in the very near future.

We find it incredible that the Energy sector is just 4% of the S&P 500 but it produces 10% of the S&P 500's profits.

Energy is Under-Owned

Exhibit 8: Sector composition of the S&P 500 by equity capitalization, 1975-2023
as of December 29, 2023



Source: Compustat, FactSet, Goldman Sachs Global Investment Research

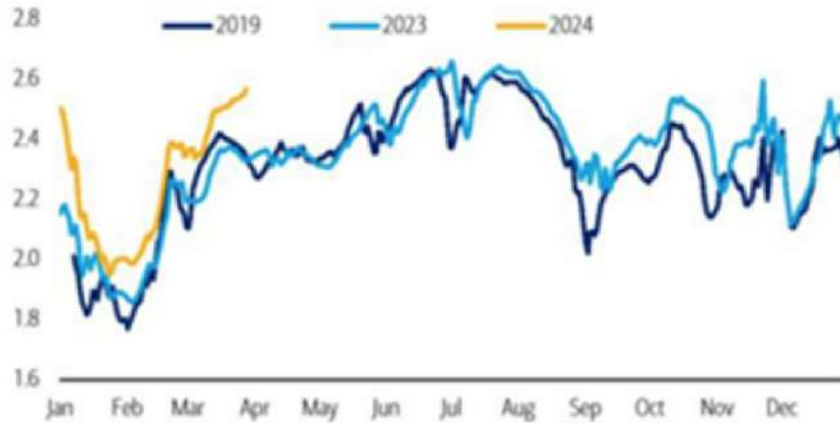
The Energy sector trades at around 11X earnings vs 24X earnings for the MSCI USA, 28X earnings for Info Tech Sector and as noted above, 46X for the group known as the Magnificent 7.

We love the Energy sector. Global demand is at all-time highs. Travel is healthy, which obviously feeds into demand.

The “travel spirits” are live and well for 80% of the economy

Exhibit 1: TSA throughput (seven-day moving average, millions of passengers)

Air traffic has been “off the charts” this year



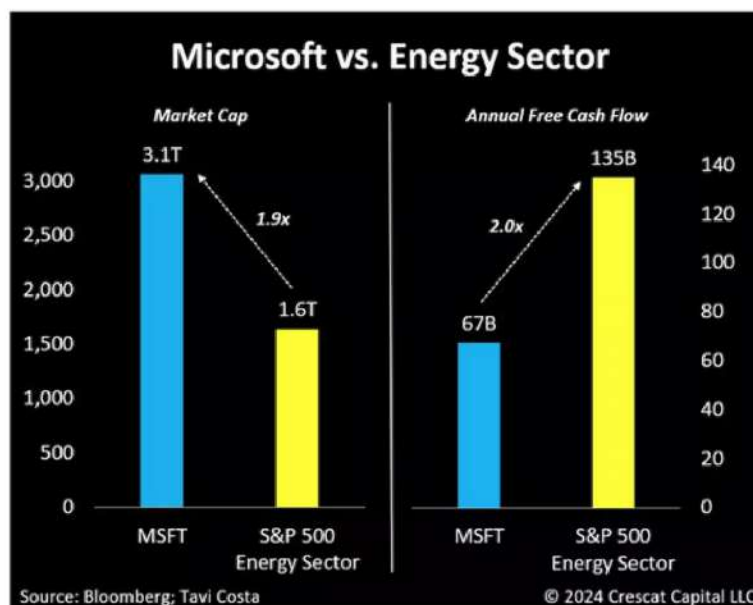
Source: TSA

BofA GLOBAL RESEARCH

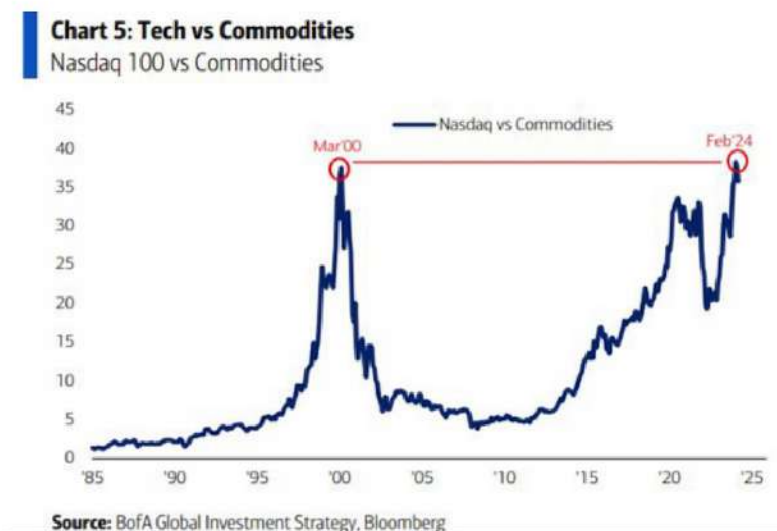
BofA GLOBAL RESEARCH

BofA SECURITIES

The Energy sector is generating record profits, using free cash flow to do buybacks (drives earnings per share higher) and it pays great dividends. Normally you would have free-cash-flow going into drilling at the wrong point in the cycle and destroying shareholder value, but in this case because they are told they won't be in business by 2035, they don't do cap-ex to drill for more oil, they do buybacks which drive earnings per share (eps) higher. They also throw off solid dividends.



Energy & Materials make up 6% of the S&P 500 vs InfoTech & Communications which make up 38% of the index. It is fair to say that Energy & Materials would best represent commodity focused Equities. Here is what we are looking at in valuation differences;



The last time we were at these levels was just before the Tech Wreck in 2000. The following 2 years, the Nasdaq 100 dropped 82% while Berkshire Hathaway (quintessential value) rose by 40%.

In the long run, the odds are heavily stacked in favour of energy, materials and industrials relative to tech.

10.

Commodities

Regarding commodities we remain broadly very bullish from a longer term perspective for a few reasons. Firstly, almost all commodities are exceptionally cheap relative to Equities and Bonds. The image below plots the price of commodities as measured against the US stock market going back to 1900. When it is rising, commodities are outperforming equities and when it is falling equities are outperforming commodities. See this from Incrementum's once per year "In Gold We Trust" report (page 111 in the link posted under the image below);

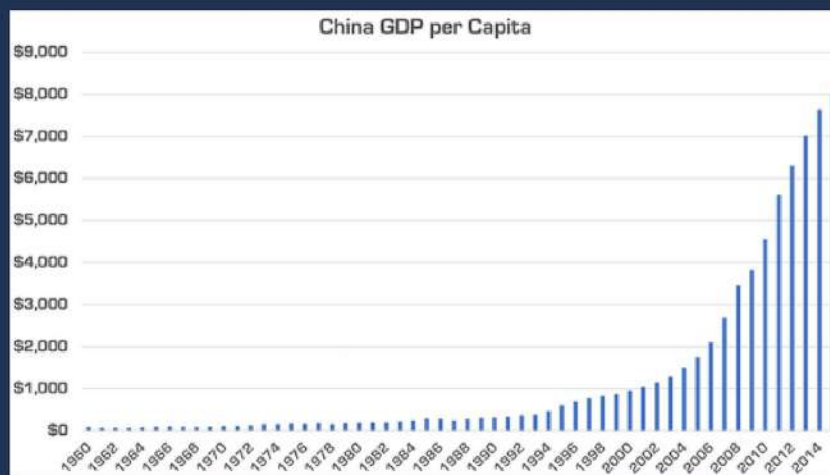
"Now let's look at the performance of commodities relative to the stock market. Loyal readers know that the following chart has been by far the most-cited chart of the In Gold We Trust reports in recent years. It impressively shows that the relative valuation of commodities compared to equities remains historically extremely cheap and has just stabilized at this historically low level over the past few years. Compared to the S&P 500, the GSCI Commodity Index (TR) has barely recovered from its historical low of April 2020, and it has not yet been able to break out of the phase of extreme weakness since 2015. The ratio currently stands at 0.87, which is miles away from the highs and still well below the long-term median of 3.98."



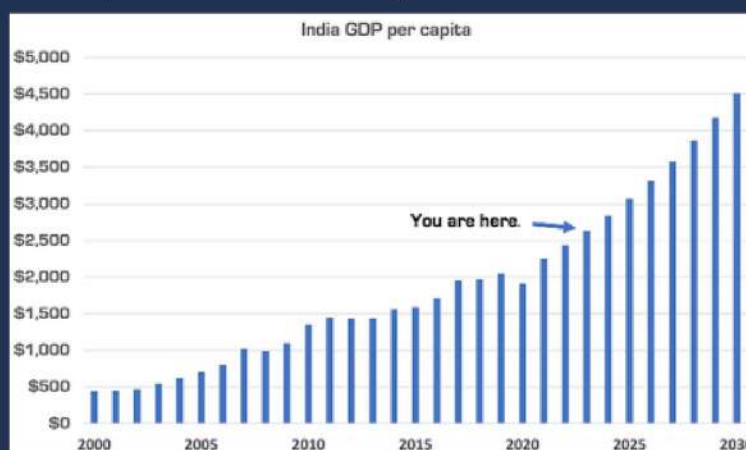
Source: <https://ingoldwetrust.report/wp-content/uploads/2023/05/In-Gold-We-Trust-report-2023-english.pdf>

Just because something is cheap does not mean it will rise in price but it does mean that you get a higher margin of safety built into the price. Also, the supply of a broad majority of commodities is constrained relative to longer term demand. Why? Because getting the stuff out of the ground is very capital intensive. Capital goes where it is treated best and before this interest rate hiking cycle began, nobody wanted to invest in capital intensive businesses when they could invest money in mega cap companies that could borrow money for nothing and use that money to buy back stock, synthetically driving stock prices higher. Before interest rates went up dramatically this phenomenon left many commodity companies out in the cold starved for capital. It takes years to turn a Copper, Cobalt, Nickel, Lithium, etc, deposit into a producing mine. You can't just press a button. There is a serious time lag. This virtually guarantees that there will be a shortage of supply of many commodities relative to demand in the coming years. Third, Dollar weakness is broadly supportive of commodities.

Another really important factor which we think will drive the commodity super cycle in a way that the world is unprepared for, is India. China drove the last commodity super cycle. As Chinese GDP per capita growth took off in the early 2000's, so too did demand for commodities. This makes total sense. As people become wealthier they consume more energy and commodities.



Around 2005, Chinese average GDP per capita had a big jump, crossing \$2000 for the first time as 1.3 billion people joined the global economy. In inflation adjusted terms that equates to something around \$3000 now.

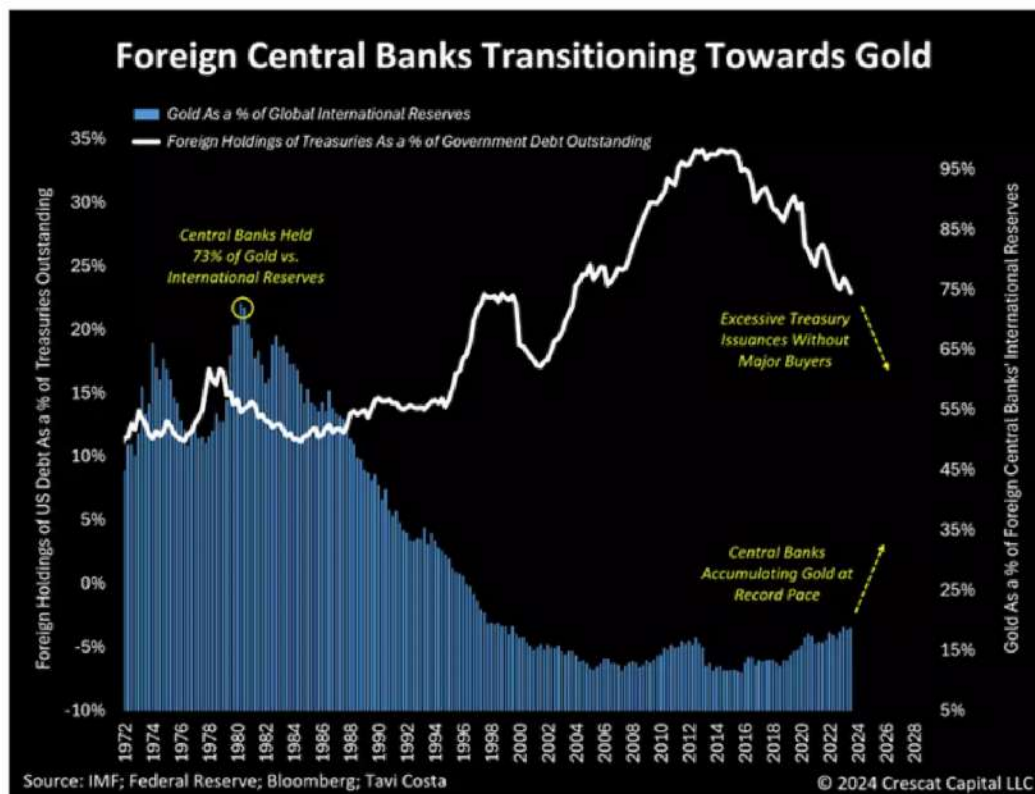


Never in history has there been more people entering the energy intensive part of the economic development cycle. Fact! In the next couple years India will cross the Rubicon and 1.4 Billion consumers will join the global economy. We are going to see another commodity super cycle and the world is unprepared for it. The supply just does not exist because there hasn't been any capex. Commodities are very capital intensive, you can't just decide to build a Uranium, Copper, Lithium, Cement, etc, mine and expect new supply to come online in a year. It takes years to bring most of the commodities that all these new consumers will need to market. As you have seen with Uranium which we've had in portfolios for years now (it has doubled in price since our last bullish update in August), when you have little supply of something and huge demand for it, the only way the market can incentivize new supply to come to market is via dramatically higher prices.

11.

Gold

Gold has broken of a range it had been in since 2011. The longer something stays range bound the bigger the eventual breakout. As long as \$2000 is the new floor, then it is likely that we are in the early innings of a precious metals bull market. As confidence in US Treasuries has declined via the weaponisation of the US Dollar Swift system it has caused countries to seek assets that have less perceived risk of confiscation. There is no real competitor to the US Dollar as the reserve currency of the world, so what countries are doing is either trade deals, say where China for example holds Reals and reinvests Reals in Brazilian Government Bonds and Assets, thereby creating financing for the local economy. Or maybe it's a transaction with Angola, maybe China prefers Gold instead of USD. Gold is replacing US Treasuries as a reserve asset. Central Banks are accumulating.



I want to share an excerpt from Tavi Costa's piece at Crescat Capital;
<https://www.crescat.net/a-financially-deglobalized-era/>

In it he tells us his macro case for inflation below and thoughts on a commodity super-cycle;

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The Next Big Short: Fiat Debasement

From an investment standpoint, it's difficult to imagine that all these economies will be able to effectively revamp their manufacturing capabilities without significantly increasing the importance of the metals and mining industry beyond its current market size. Therefore, at historically undervalued prices, we believe mining companies currently offer a highly compelling value and macro proposition for investors.

Running a mining company is a complex and capital-intensive venture fraught with potential pitfalls. Owning only best run of these is critical at all times. Knowing when to overweight the industry in one's portfolio is also important. There are stretches of time when mining stocks at large can outperform the broad market, as experienced in the 1940s, the 1970s, and the 2000s providing important diversification to investor portfolios these prosperous times are frequently associated with prolonged inflationary periods and/or commodity cycles, a trend we strongly believe we are currently entering.

At Crescat, we are contrarians at heart. We cannot think of a segment of the market that is as universally disparaged as mining today, especially gold mining. Perhaps the coal industry experienced similar scorn three years ago, only to then have one of its biggest run-ups in history in 2021 and 2022. However, having a contrarian stance solely for its own sake is not enough. For us, there needs to be a substantial macro case for both inflation and mining investment, which we believe we have. Here is brief but non-exhaustive summary:

- 1. Unsustainably high government debt to GDP*
- 2. An inflationary fiscal agenda driven by deficit spending and infrastructure projects*
- 3. Accommodative, financially repressive global central banks*
- 4. Commodity supply-and-demand imbalances including declining gold production*
- 5. A geopolitical climate driving de-globalization and near-shoring of supply chains*
- 6. Increasing wage-inflation pressures*
- 7. A populist political climate*
- 8. Global central bank gold accumulation*

For us, these reasons provide a strong case for gold to embark on a secular bull market. If this holds true, it's likely to unlock numerous opportunities across other metals and businesses engaged in the exploration, development, and production of these commodities.

The last two gold bull markets spanned approximately a decade each. If this marks the commencement of a new long-term trend, mining companies represent one, if not the most, undervalued opportunities in today's markets. More importantly, historically, there has never been a bull market in gold that is not accompanied by a notable re-rating of valuations among the miners.

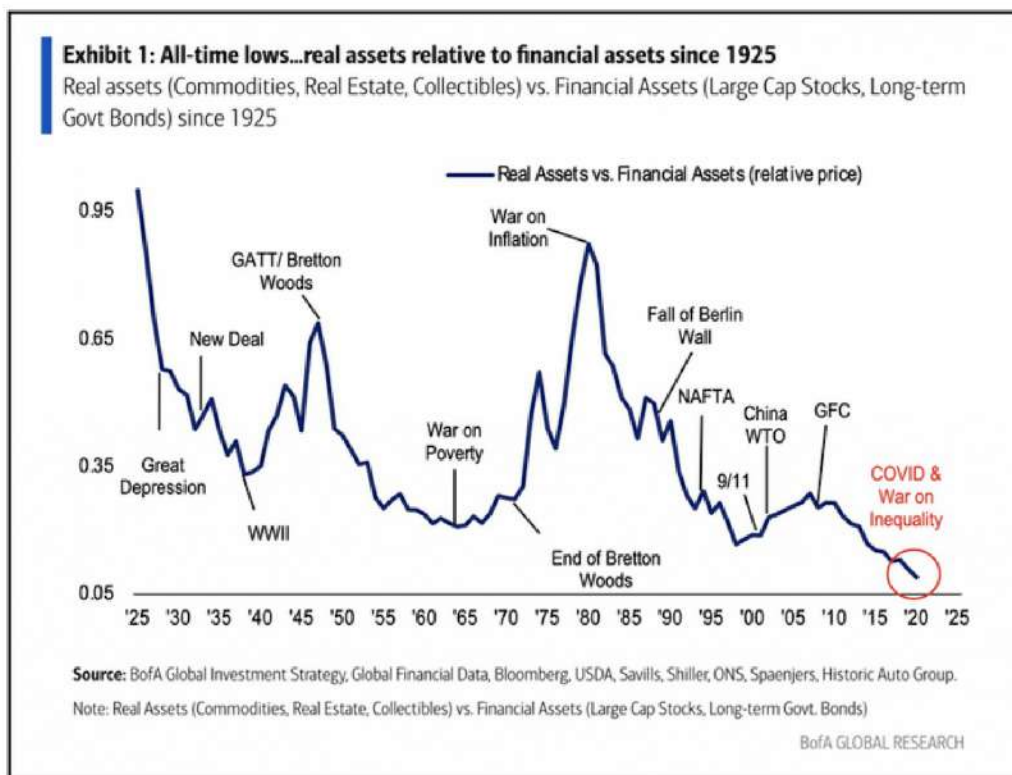
Additionally, the present inflationary backdrop, coupled with the increasing deglobalization pressures at its core and nations facing an urgent need to rebuild their infrastructure, creates an exceptionally favourable environment for overall miners from our perspective. Let us not forget that even the advancements in artificial intelligence are likely to fuel the construction boom with significant developments in data centres that are crucial for providing the computing power for this technology to embed itself in the economy.

Global data centre investment to date is about \$1 trillion, according to Nvidia CEO, Jensen Huang, and is expected to double globally over the next four to five years. The Chips and Science Act has appropriated \$56 billion to help with this cause but most of the money is expected to come from industry. This amount dwarfs the current size of the semiconductor industry, which sold about \$527 billion worth of chips globally last year. Sam Altman, CEO of OpenAI, according to a recent Wall Street Journal article is calling for future semiconductor industry and data centre investments in the range of \$5 to \$7 trillion to power his AI ambitions. Where could such capital possibly come from and how could it not be inflationary?

The irony lies in the fact that the extensive infrastructure necessary to harness artificial intelligence as a significant force for reducing inflation in the long run and advancing societal productivity will be more likely to increase inflationary pressures in the next five years during the required hardware expansion phase.



The sheer magnitude of the current macro imbalances is laying the groundwork for one of the most bullish environments for owning hard assets that we have seen in quite some time. According to Bank of America Global Research, real assets are currently at their most undervalued compared to financial assets in history. The continued influx of capital into technology, growth stocks, and long-duration assets, has created one of the most speculative asset valuation environments since the tech bubble. This a point we have been making at Crescat for the last few years, yet this imbalance has only become more extreme. We believe it is ripe for a sharp reversal. We are calling for an investor-led Great Rotation out of financial assets and into real assets and believe it will emerge soon and could be extremely powerful like it was in the 1970s as one can see in the chart below. It's worth noting that real assets have historically outperformed financial assets during inflationary decades like the 1940s and 1970s and also in construction-led commodity bull markets like the 2000s. We anticipate both of those environments directly ahead.



Loosening Monetary Conditions With Rising Inflation

The argument for owning real hard assets becomes even more compelling when taking into account the Federal Reserve's commitment to initiating interest rate reductions amid a noticeable uptick in inflation.

Three months ago, it was undoubtedly more challenging to predict the potential emergence of a second wave of inflation. However, with agricultural commodities reaching recent peaks, a surge in global freight costs, gold prices breaking out to record levels, recent upticks in oil prices, growing pressure on shelter costs due to a surge in illegal immigration population, and rising breakevens, it is becoming increasingly clear that a second wave of inflation is now unfolding.

In the meantime, before the anticipated policy shift by the Fed, monetary conditions have already declined to the lowest point in one and a half years, concurrent with an ongoing rise in breakeven rates. We believe this macro scenario presents an ideal environment for commodities to perform well.

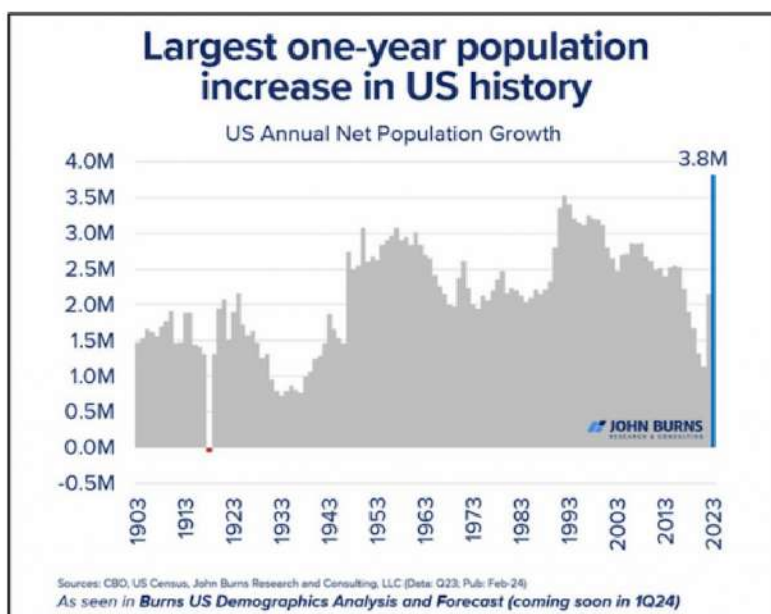


A Fifth Pillar of Inflation

At Crescat, we traditionally assessed inflation through the lens of four main pillars: excessive fiscal spending, persistent underinvestment among natural resource industries, the wage-price spiral, and perhaps most crucially, the recent surge in deglobalization trends.

However, a new factor is emerging: the recent uptick in the US population, largely driven by a surge in illegal immigration.

This is an important factor that is likely to exacerbate the already rising house and rent prices. Not only is this the largest component of inflation metrics, but it also impacts consumers the most. The increase in shelter costs resembles the inflationary trends of the 1970s, suggesting a potential long-term trend rather than a short-term phenomenon.

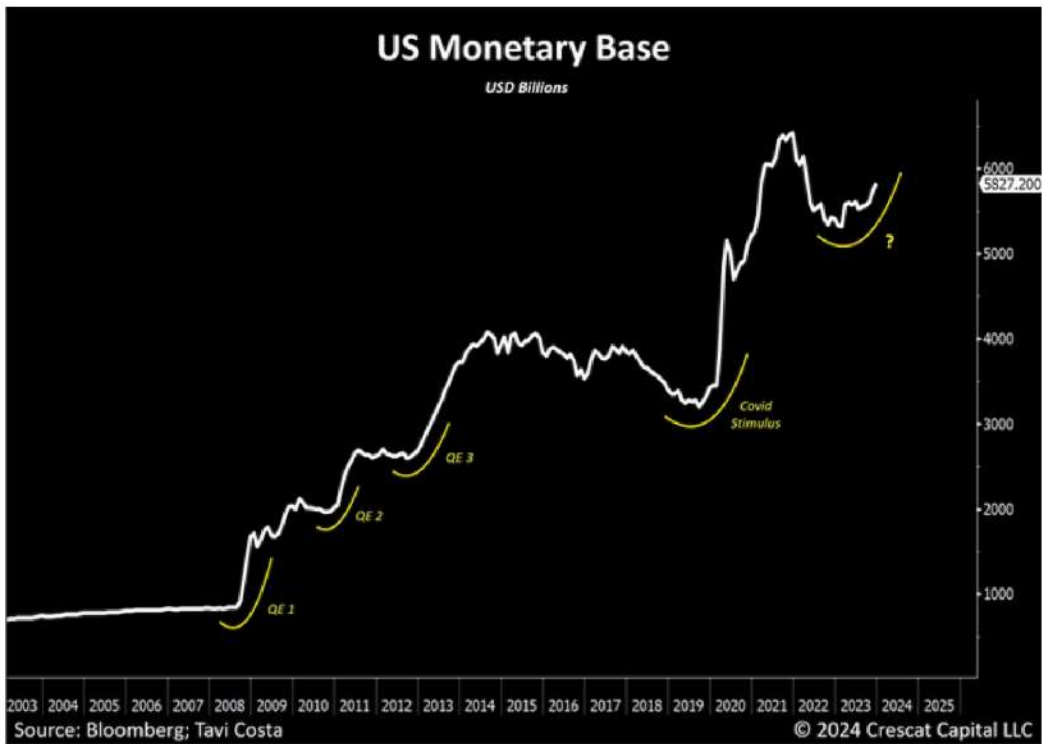


“Not QE”

If the monetary base is increasing despite one of the most restrictive monetary policies in history, what should one expect in a recession? We probably all know the answer to that.

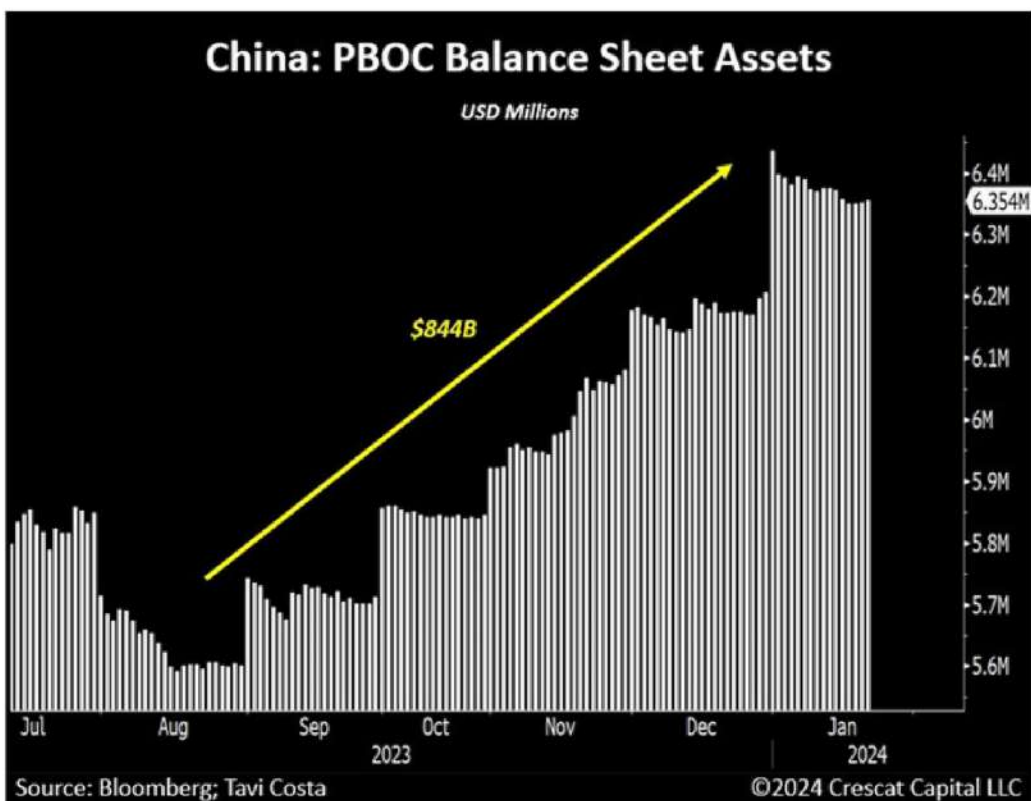
The US monetary base has been rising significantly recently. In the last 12 months alone, there has been a rise of \$420 billion, primarily fueled by bank reserves. Although the current Fed policies are supposedly not considered QE, they unmistakably echo the patterns of previous periods of monetary stimulus following the Global Financial Crisis.

The economy’s reliance on easy-money policies has become akin to an addiction, rendering it incapable of sustaining itself without them. These are fundamental policy constraints that have yet to drive the value of hard assets significantly higher.



China's Printing Press is Busy

Having observed this pattern consistently over the past few decades, it is evident that whenever economic issues arise, central banks inevitably resort to additional liquidity injections. This was evident during the US regional banks crisis in March 2023, and now it's happening with China. Given China's deepening debt crisis, it's unsurprising that the PBOC has been active. The Chinese central bank just added \$150B to its balance sheet in December. This brings the total increase to almost \$850B just in the last 5 months.



Another Commodity Cycle Likely Underway

As central banks find themselves increasingly constrained by political pressures stemming from the exponential growth in overall debt, these institutions are likely to feel compelled to utilize monetary policy as a means of funding to uphold the financial stability of their respective government securities markets. Consequently, the debasement of fiat currencies is likely to emerge as a significant macro theme worldwide, particularly as a hard asset cycle is unleashed, especially when compared to historically expensive financial assets, more meaningfully than in prior decades.

Courtesy of our associates at Incrementum AG, the following chart offers a comprehensive historical perspective. Over the past century, we have witnessed four notable commodity cycles. Among these, three occurred during inflationary periods: the 1910s, 1940s, and 1970s. The fourth cycle unfolded in the early 2000s, coinciding with China's entry into the World Trade Organization and its ascendancy as the manufacturing hub of the global economy, catalysing one of the most extensive construction booms in history. Presently, we believe we stand on the brink of witnessing two macro tailwinds concurrently favouring commodities:

- *The probable onset of another long-term inflationary cycle.*
- *A global upsurge in manufacturing across G-7 economies.*

In our view, another commodity cycle is underway.

Again, that was from Tavi Costa @ Crescat Capital in the US. From here; <https://www.crescat.net/a-financially-deglobalized-era/>.

We can't agree more. We've recently increased our exposure to Carbon Credits for the first time in quite a while. We see value at current levels and see potential for 30-40% upside in the next 9-12 months. The market isn't going away and governments are very supportive as it can be an important source of tax revenue.

We continue to be very bullish on Uranium. It was our biggest winner last year for multi-asset and higher risk accounts. The reality is that there is that the market is very tight, there is little accessible supply right now to meet demand.

See the excerpt below from Sprott;

Growing Supply Uncertainties

Recent headlines on uranium mine restarts mask an important fact. Current uranium mine supply is significantly below the world's uranium reactor requirements. Furthermore, the secondary supplies (predominantly commercial inventories) that have filled in the gap historically are no longer available for sale. We believe further setbacks to uranium supply may reenergize the uranium markets, especially given lingering geopolitical considerations. Most recently, France and Mongolia made headlines with the delay of their \$1.6 billion uranium mining deal.⁸ France is the world's third-largest uranium consumer, and rising tensions with the East may have jeopardized the deal. Mongolia is landlocked between Russia and China, and Russia has become increasingly opposed to Western influence on its neighbours. The deal was set to be signed at the end of 2023, with France noting that it could provide Mongolia with "the means to benefit from greater strategic sovereignty" in the face of "two extremely powerful neighbours." A cancelled deal would represent another hit to Orano, but an agreement is not likely until after France's and Mongolia's June elections.

U.S. efforts to diminish reliance on Russia represent another geopolitical risk to uranium markets. A hearing entitled "Going Nuclear on Rosatom: Ending Global Dependence on Putin's Nuclear Energy Sector" was scheduled for February 15 but then was postponed. The Prohibiting Russian Uranium Imports Act (the Act) passed the U.S. House in December and is still pending a vote in the Senate. The Act would limit imports of Russian supply to 2027 and ban them after that. However, Tenex, a Russian state-owned uranium company, has warned American customers that if this Act were to pass, Russia might pre-emptively bar exports of its supply to the U.S., further exacerbating supply uncertainty, especially in the U.S.

Steady Flow of Positive Nuclear Energy News Supports Sector

We believe that governments' continued support for nuclear energy helps bolster the uranium market and uranium miners. The most recent developments include:

- *China:* Continues to showcase exemplary long-term demand for nuclear. The Chairmen of China National Nuclear Corporation (CNNC) stated that the country can add as many as 10 reactors per year.
- *Japan:* Added uranium to its critical minerals list, allowing the allocation of more funds and resources for uranium-related research. This furthers the country's U-turn in nuclear policy, where it has restarted 11 reactors and has another 16 at various stages in the process of restart approval.

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- **South Korea:** Has fully reversed its nuclear phase-out policy and expanded its program. Bloomberg reported recently that the country may need to increase nuclear energy for 45% of the electricity supply. Currently, nuclear power accounts for about 30% of the country's electricity consumption, and South Korea still relies on fossil fuels for 60%.
- **United States:** Continued its push for domestic enrichment capabilities by unveiling a bill with \$2.7 billion earmarked for the industry. The funds are part of a broader plan to buy domestically produced enriched uranium.
- **Canada:** Issued its first nuclear-inclusive green bonds. At C\$4 billion, the debt raises funds to support the nuclear power sector and paves the way for similar issuances from companies. The issuance showcases that nuclear is, in fact, "green".

Potentially Attractive Entry Point

We believe uranium's recent pullback from the triple digits may be an attractive entry point in the overall uranium bull market. A longstanding primary supply deficit and renewed interest in nuclear energy highlight the real challenges to bring the market back into balance. With no meaningful new supply on the horizon for three to five years, we believe this bull market has further room to run. While last year's multi-year record in long-term uranium contracting was celebrated, the overall numbers disguise a bifurcated market. Some utilities are well covered, while others have ignored the powerful market signals and adapted their procurement strategies to the new market realities.

With global uranium mine production well short of the world's uranium reactor requirements, the supply deficit building over the next decade, and near-term supply inhibited by long lead times and capital intensity, we believe that restarts and new mines in development are critical. The uranium price target as an incentive level for further restarts and Greenfield development is a moving target, and we believe that we will need higher uranium prices to incentivize enough production to meet forecasted deficits. Over the long term, increased demand in the face of an uncertain uranium supply may likely continue supporting a sustained bull market.

<https://sprott.com/insights/sprott-uranium-report-uranium-bull-market-takes-a-healthy-pause/>

We're very bullish and we see the Sprott Physical Uranium Trust currently presenting excellent value trading at a - 7.62% discount to NAV. After shaking off a lot of speculators earlier in the year we believe the discount to NAV shows you how much froth has come out of it, yet the case for Uranium is stronger than ever. We see potential for 30-40% upside from current levels over the next 12 months.

Generally speaking it is difficult not to like broad based commodity exposure. They're historically extraordinarily cheap vs Bonds and Equities and many parts of the commodity complex have been acting well including oil, precious metals, uranium and copper. These are assets that can perform well in spite of an inflationary or stagflationary environment.



12.

Conclusion

To conclude, we remain confident in the way our portfolios are constructed. Our multi-asset portfolios provide true diversification when you really need it, in an uncertain world.

Please do let us know if you wish to discuss your portfolio at any time. We appreciate your faith and trust in us.

Kind Regards,

Kind Regards,
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