

# The Year in Review - 2023



## *A Year of Shattered Illusions:*

- (1) Peace is at hand;*
- (2) Govt Debt not a Problem;*
- (3) Sustainable Energy is working;*
- (4) China is an economic Powerhouse;*
- (5) Inflation is just temporary.*

# Noteworthy Events of the Past Year 2014:

Events in the Middle East & Ukraine slow growth, but will resulting drop in oil prices bode well for Investors?

- **With** the chaos in the Middle East and in Ukraine throughout the year, one would have expected oil prices to have risen in '14. Instead in August, oil prices cracked.
- Predictably, the market reacted to the collapse of oil prices from \$100 on 7/30 to \$66 on 11/28 by impacting other industries. Airlines, retailers, transportation companies are up double-digits (AAL +25%, WMT +19%, CSX +23%) since 7/31. The S&P 500 Index rose 7.4% from 7/31 to 11/28; representing 60% of its gain for the year in 4 months. Offshore drillers (DO -35%), coal companies (BTU -33%) and solar companies (FSLR -23%) have all declined. Markets are efficient.
- **So is there** more at work here; are Saudi Arabia, the UAE and Kuwait pumping oil to apply pressure to Russia and Iran?
- What a whacky year for our Federal Gov't. Who saw these terms coming last year: "JV Team; ISIS, Crimea, Ebola, VA scandal, Bowe Bergdahl, 'Grubered', Maryland/ Massachusetts/ Illinois *Republican Governor*, Unaccompanied children at the border, IRS found the tapes?"



# Noteworthy Events of the Past Year 2023:

## Events in Ukraine and the Middle East bring us “Back to the Future”

- Russia’s aggressions in Ukraine are at a stalemate, with Russia perhaps signaling a desire for a negotiated peace. Ukraine appears to have strong leverage within the Biden Admin for continued fighting. The most obvious way to hurt Russia is more US drilling to drop oil prices.
- The Abraham Accords and Israel’s strengthening ties with Sunni Muslim nations is deemed a threat by Iran to their influence in the region. But none of the key Sunni oil-producing nations have broken ties with Israel. The velvet glove realignment of the Mideast that started in 2019-2020 may bring peace to the region.
- In 2014 we asked: **Are Saudi Arabia, the UAE and Kuwait pumping oil to apply pressure to Russia and Iran?** Now there is **no doubt** that was true, and it’s clear what the “teams” are and which country is on which team. *Investors like clarity.*
- Fed Watchers interpreted Fed Chairman Jerome Powell’s November remarks as suggesting rates could be reduced by as much as **2.75%** by March 2024. This may be a result of slowing growth, but it would be good for the real estate market.



## Noteworthy Corporate Events of the Past Year:

- On August 14, a jury found 8-0 that the Cash Sweep put into **FNMA** and **Freddie Mac** in 2012 was illegal. Jury ordered the Govt to pay damages of about \$0.40 a preferred share; but pre-judgment interest could double that.
- On October 16<sup>th</sup> **Rite-Aid** filed for bankruptcy, in large part due to claims due to their selling of opioids. Several years ago the FTC stopped a sale of a majority of stores to Walgreen as anti-competitive.
- **WeWork**, the short-term office rental business once valued at \$47 Billion by the VC crowd, filed for BK on Nov. 6<sup>th</sup>.
- China real estate developer, **China Evergrande**, filed for Bankruptcy in NY on August 17<sup>th</sup>. Evergrande reported debts of **\$335 billion**. How this is resolved will likely lead to Chinese bank write-downs and require time for Beijing to recover from the wealth and economic fall-out. **Country Garden**, a competitor, has nearly 1 million unfinished apartments across China and lacks the capital to finish. Is this China's S&L crisis?



# Comparison of Returns (YTD thru 11/27/23)

• Dow Jones Index (ex dividends)	+ 6.6 %	
• S&P 500 Index (ex dividends)	+ 18.5 %	
• Nasdaq Comp.	+ 36.1 %	
• 10 year Treasuries	- 5.2 %	(3.76% to 4.42%)
• HY Index (S&P)	+ 13.8%	
• Distressed Funds (Eurekahedge)	+ 5.5%	
• Gold	+ 10.4 %	(\$1,824 to \$2,013)
• Oil	- 6.9 %	(high \$91 on 9/27)

Sources: Bloomberg, Yahoo Finance, S&P, Eurekahedge Fund Index.



# The Macro Environment 2023

Russia's ability to sell oil to China has helped both economies.

	<u>GDP % '22</u>	<u>GDP % '23</u>	<u>Δ '22/'23</u>
China	3.0 %	5.0 %	+ 166.7 % <sup>1</sup>
India	7.2 %	6.3 %	- 12.5 %
Euro Zone	3.3 %	0.7 %	- 78.8 %
<b>U.S.</b>	2.1 %	2.1 %	+ 0.0 %
Japan	1.0 %	2.0 %	+ 100.0 %
Russia	- 2.1 %	2.2 %	+ 200.0 %

<sup>1</sup> - Forecast likely did not include fall-out from China Evergrande BK.



# Oil Questions

*Are Any of our Illusions Shattered?*

- Yes/No: Saudi Arabia is the largest Oil Producer?
- Yes/No: Russia is Not in the Top 5 Oil Producers?
- Of these 3 countries X, Y or Z who is the #1 Oil producer?
- Yes or No – Venezuela is a Top 5 Oil Producer?
- World Oil Production has gone Up/Down since Alternate Energy progressed from 2013?



# Oil Production – *Are Illusions of Top Producers Shattered?*

*OPEC 2022 Production data* (Source: OPEC) (1,000 bbls)

Country	2013 Daily Bbls	2019 Daily Bbls	2022 Daily Bbls
Saudi Arabia	9,637	9,808	12,136
Iran	3,575	2,356 <sup>1</sup>	3,822
Iraq	2,980	4,576	4,520
Kuwait	2,925	2,678	3,028
UAE	2,800	3,058	4,020
Venezuela	2,790	1,013	731
Nigeria	1,755	1,737	1,450
Angola	1,700	1,373	1,190
Algeria	1,200	1,023	1,474
Libya	995	1,096	1,088
Qatar / Ecuador	<u>1,250</u>	<u>1,126</u>	<u>2,249</u>
Total OPEC	31,600	31,600	35,708
USA	7,441	12,232	17,770 <sup>2</sup>
Russia	<u>10,147</u>	<u>10,625</u>	<u>11,202</u>
Total World	72,842	75,262	93,848

<sup>1</sup> - Sanctions.

<sup>2</sup> - Incl sales from Strat. Oil Reserve.







# Shattering Illusions: Distressed Industry has *World-Class People*

- David Friedman, former Sr. Partner at Kasowitz, Benson, Torres & Friedman, one of USA's top Bankruptcy attorneys was appointed Ambassador to Israel by President Trump. He was one of the architects of the Abraham Accords.
- The Trump Admin developed the unique theory that the real split was not between Arabs and Israelis, but instead between Sunni's and Shia's.
- The Abraham Accords sought to bring peace to the Middle East by aligning Israel, the innovative democracy, with the wealthy Sunni oil-producers and the large Sunni population countries.



# Is OPEC a Monolith — *or is this Illusion shattered?*

## *OPEC 2022 Production vs. Country Population*

Country	2022 Daily Bbls	Shia or Sunni	Population (mil)
Saudi Arabia	12,136	Sunni (80%)	35.8
UAE	4,020	Sunni (85%)	10.1
Kuwait	3,028	Sunni (65%)	1.5 (4.5)
Qatar	1,768	Sunni (90%)	2.7
Algeria	1,474	Sunni (99%)	44.2
Libya	1,088	Sunni (90%)	6.8
Indonesia	644	Sunni (90%)	273.8
Pakistan	83	Sunni (76%)	240.5
Egypt	<u>568</u>	<u>Sunni (90%)</u>	<u>102.9</u>
Totals	24,809		718.3
Iran	3,822	Shia (90%)	86.5
Iraq	<u>4,520</u>	Shia (61%)	<u>44.5</u>
Totals	8,342		131.0



# Shattering the EV Illusion

## Map of US Charging Stations

You Ready to drive X-Country in your EV car?

Electrify America's Ultra-Fast EV Charging Network Features Two Cross-Country Routes





# Shattering the EV Illusion

*The World is Not Ready for the EV transition  
EV-related Stocks in Steep Decline during Biden Admin.*

	<u>11/17/21</u>	<u>11/17/23</u>	<u>Δ %</u>
Rivian Auto (RIV) <sup>1</sup>	\$ 160.88	\$ 16.70	- 89.6 %
Fisker Inc. (FSR)	\$ 22.89	\$ 2.43	- 89.4 %
Lucid Grp. (LCID)	\$ 56.20	\$ 4.25	- 92.4 %
Nikola Corp (NKLA)	\$ 13.14	\$ 1.04	- 92.1 %
Sunrun Inc. (RUN) <sup>2</sup>	\$ 55.52	\$ 11.67	- 79.0 %
Sunpower (SPWR)	\$ 31.16	\$ 4.57	- 85.3 %
Plug Power (PLUG) <sup>3</sup>	\$ 43.15	\$ 4.00	- 90.7 %
EVgo Inc. (EVGO)	\$ 14.81	\$ 2.95	- 80.1 %

<sup>1</sup> - Electric Vehicle companies

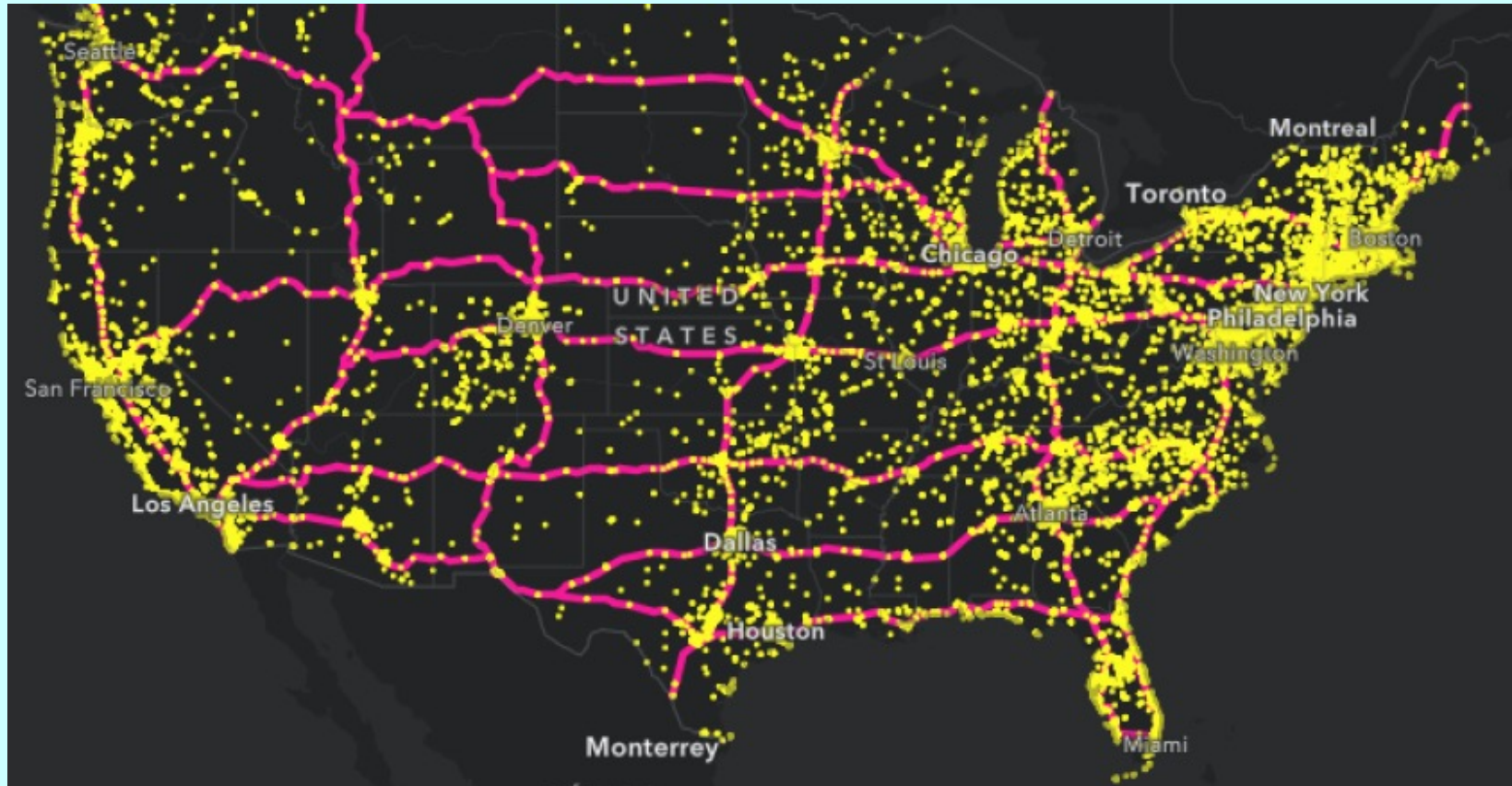
<sup>2</sup> - Solar companies

<sup>3</sup> - Plug-in companies



# Map of “Every” US Charging Station

source: US Department of Alternate Energy and Esri



\* - There are 26,000 EV charging stations vs. 168,000 gas stations in US. source: Energy5





# Federal Debt & Inflation Illusions

*What is the Risk-Free Return Demanded  
by World Investors?*

- Economists have said for decades that investors demand a 2.00% +/- risk-free rate of return on lent or invested capital.<sup>1</sup>
- Proof of this concept was that during Covid, with 0% inflation, 30-yr US Treasuries were trading around 2.00%.
- So what does the Bond Market demand when inflation is:
  - 2.5% Inflation:  $2.00\% R_f + 2.50\% = 4.50\%$  risk free return
  - 5.0% Inflation:  $2.00\% R_f + 5.00\% = 7.00\%$  risk free return
  - 7.5% Inflation:  $2.00\% R_f + 7.50\% = 9.50\%$  risk free return

<sup>1</sup> – Journal of Finance, circa 1974, per Wharton School of Finance curriculum.



# The Federal Reserve's Dilemma: Keeping Refinancing Costs Down

	<u>Actual 2023</u>	<u>Scenario 1*</u>	<u>Scenario 2*</u>
Total US Debt	\$ 33,170 B <sup>1</sup>	\$ 40,000 B	\$ 40,000 B
Interest Rate	3.75%	5.00%	8.00%
Total Interest Cost	\$ 1,244 B	\$ 2,000 B	\$ 3,200 B
US Revenues (IRS)	\$ 3,500 B	\$ 3,800 B	\$ 4,200 B
US Govt Mandatory	\$ 2,700 B	\$ 3,500 B	\$ 4,500 B
Interest: % Mandatory	46.1%	57.1%	71.1%
* - Assume 2028 Debt	<sup>1</sup> - \$25B in '19		



**With these Scenarios all too possible, you'd think the Fed would  
Act more responsibly. Argentina, Venezuela anyone??**





## *How Much House can You Buy at a Given Interest Rate*

*For a Fixed \$2,100 a month what can you Buy?*

*(Are High Interest Rates evaporating Home Ownership Wealth)*

	<u>Mortgage Rate</u> <sup>1</sup>	<u>Mo. Paymt</u> <sup>2</sup>	<u>House Value</u>
2019	<b>3.00%</b>	\$ 2,100	<b>\$500,000</b>
2022	<b>5.50%</b>	\$ 2,100	<b>\$370,000</b>
Oct 2023	<b>8.80%</b>	\$ 2,100	<b>\$266,000</b>

<sup>1</sup> - Golden Gate Homes closing data.

<sup>2</sup> - Assumed 30-yr Monthly Mortgage payment w/out Property taxes or HOA fees.





# Is China *Really* an Economic Superpower or an *Enigma* wrapped in a Potemkin Village

- The Dow has held up well despite now TWO Wars; China is dealing with a real estate crisis that was over a decade in the making.

Index	Dec. 30, '22	Nov. 27, '23	% Change
Dow Jones	33,147	35,333	+ 6.6%
Hang Seng	19,781	17,526	- 11.4%

- The Hang Seng Index is basically flat from last year's Conference date, and gave back its gains from last December. US Buying Power vs China is relatively flat from last year after gaining +12% against the Yuan in 2022. China's economy may be the most fragile it has been this century.

Currency	Nov. 25, '22	Nov. 28, '23	% Change
USD to Yuan	7.1625	7.0800	+ 1.2%



# Industry Bell Weathers of 2023

A Transition Market, expectations of lower interest rates benefit some, while economic slowdown hurts others.

<b><u>Industry Sample</u></b>	<b><u>12/30/22</u></b>	<b><u>11/28/23</u></b>	<b>% IRR</b>
Oil: XOM (Exxon-Mobil)	\$110.30	\$103.90	- <b>5.8 %</b>
Nat Gas: DVN (Devon)	\$ 61.51	\$ 44.82	- <b>27.1 %</b>
Fertilizer: MOS (Mosaic)	\$ 43.87	\$ 36.28	- <b>17.3 %</b>
Radio Broadcast: CMLS	\$ 6.21	\$ 5.00	- <b>19.5 %</b>
Lumber: IP	\$ 34.63	\$ 34.26	- <b>1.1 %</b>
Homebuilder: TOL	\$ 49.92	\$ 84.43	+ <b>69.1 %</b>
Steel: X (formerly known as US Steel)	\$ 25.05	\$ 35.42	+ <b>41.4 %</b>
Retail: WMT	\$141.79	\$158.64	+ <b>11.9 %</b>
Hospitals: HCA	\$239.96	\$246.65	+ <b>2.8 %</b>
Insurance: ALL	\$135.60	\$136.43	+ <b>0.6 %</b>



# Tech Titan Stocks

The S&P Special-7 reclaimed all lost ground from '22

	<u>12/30/22</u>	<u>11/28/23</u>	<u>% IRR</u>
Apple (AAPL)	\$ 129.93	\$ 190.40	+ 46.5%
Amazon (AMZN)	\$ 84.00	\$ 147.00	+ 75.0%
Facebook (FB)	\$ 120.26	\$ 339.00	+181.9%
Google (GOOG)	\$ 88.73	\$ 138.62	+ 56.2%
Microsoft (MSFT)	\$ 239.82	\$ 382.70	+ 59.6%
Nvidia (NVDA)	\$ 146.14	\$ 478.21	+227.2%
Tesla (TSLA)	\$ 123.18	\$ 246.72	+100.3%

# What to Watch For in 2024:

- It's Baaaaaaackkk! Another Presidential Election year. Election years usually good for the stock market.
- Can the Federal Govt stop its spending binge? With so much evidence of such spending being wasteful, will Congress act? Not a split Congress.
- The data shows that Russia and Iran are producing oil at their peak rates. Where are the sanctions? Sanctions create leverage if you want to use it.
- The fallout from China's Keynesian economic mismanagement should just be starting. Building empty buildings is not economic progress; it is wasteful, delusional spending that hurts productivity. China Evergrande and other real estate development companies backed by the Chinese Govt will have an effect on China's bank liquidity and their federal budget.
- Will nations reverse course and bring back nuclear power production? The cleanest form of electricity production needs a 2<sup>nd</sup> honeymoon. The alternative is more coal, as "renewable energy sources" are starting to have their flaws identified. (Killing birds, whales, changing wind patterns, etc.).



# In Conclusion:

*Hang on to your hats.*

*There are reasons to be optimistic and real fears that events can get out of control. Putin, Xi and Iran seem to be leading events; need Western leaders to step up.*

*We expect 2024 to see an easing of interest rates as the Biden Admin seeks to stay in power. But how can interest rates stay low w so much debt?*

Best wishes for Good Investing, Steve Gidumal

