REYL OVERSEAS

STRATEGY OUTLOOK

January 2024

Key takeaways-

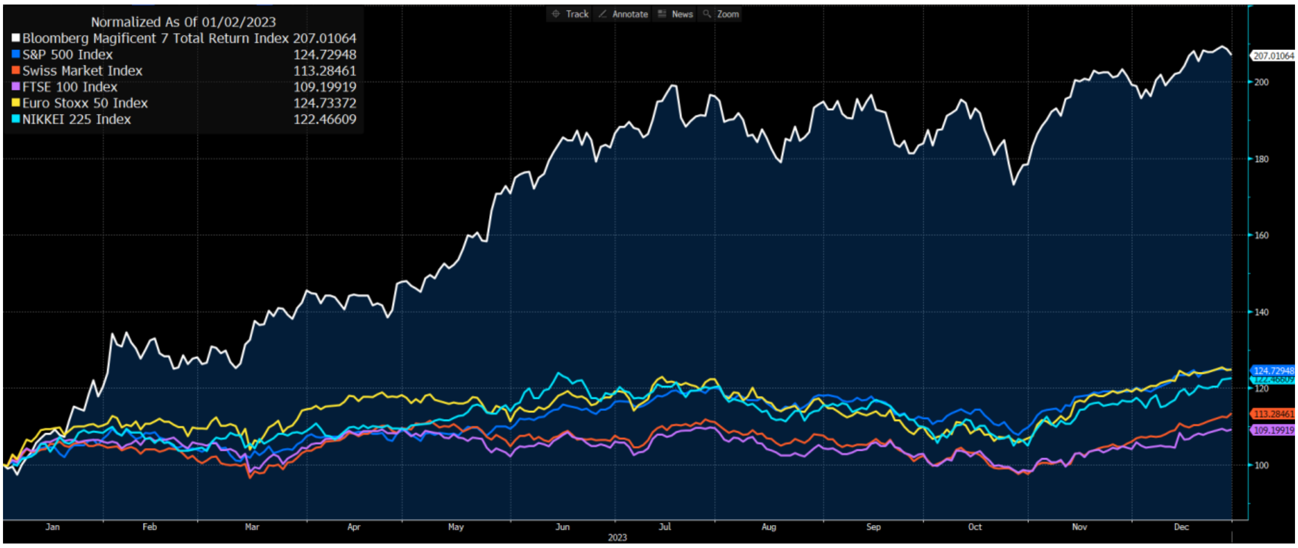
- Last year was chaotic but positive for markets.
- This year growth & politics will take center stage.

2023 saw a bit of everything. Recession fears gave way to a growth spurt, inflation threatened then fell, geopolitics raised its head and, overall, markets were positive, led by anything AI related.

Bonds continued to struggle from 2022 despite record positioning. The fiscal situation in the US began to, rightly, be talked about by investors and authorities. **This really is pivotal to markets looking forward**. There are no easy choices, and the government is past the point of no return. Neither the government nor politicians are able or willing to cut entitlements/ defense, both immediately and permanently. The only way out is to ease financial conditions via the USD and interest rates to make it easier for the world to finance US deficits. **Ultimately, the Fed will have to expand their balance sheet once again, and combined with the election, the likelihood is that rates will be eased in 2024.**

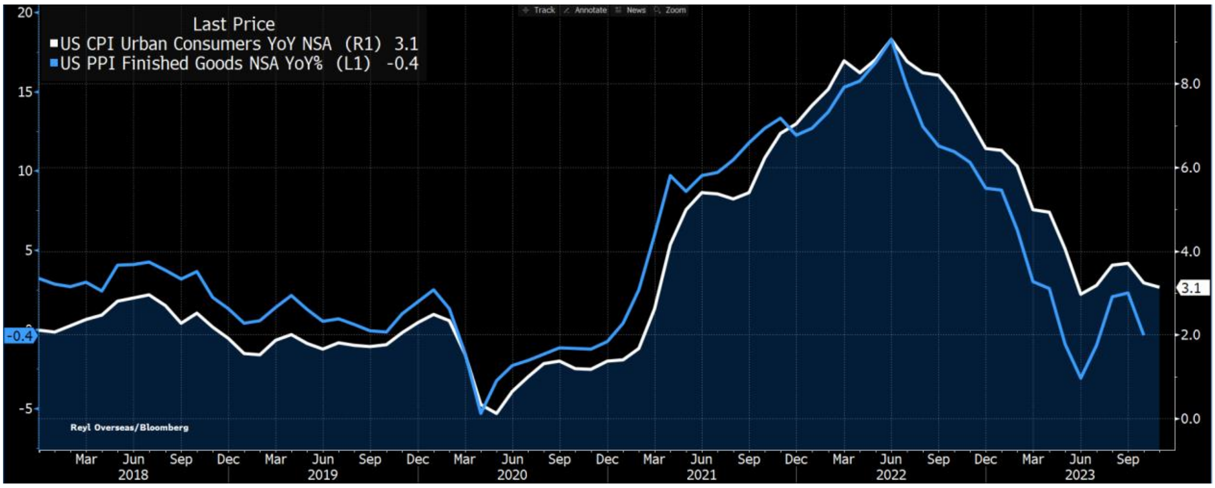
The year past saw the following asset performance, all in USD:

- S&P + 24%
- Nasdaq +54%
- SMI +13.7%
- Euro Stoxx 50 +27%
- FTSE 100 +9.3%
- FTSE MIB (Italy) +32%
- Japan +16.3%
- China -8.9%
- S. Korea +26.5%
- India + 19.3%
- Hong Kong -13.7%
- Emerging Markets +6.9%
- Nvidia +245%
- Google +60%
- Novo Nordisk +53.4%
- Bitcoin +174%
- Ethereum +96.4%
- Gold + 13.1%
- Bonds - US government +4 %.
- Bonds - US corporate IG +8.5%
- Bonds - US high yield + 13.5%
- Oil WTI -10.7%



Looking forward into 2024.

As we finish 2023, most investors remain concentrated on the probability of a recession in 2024. Indeed, bond positioning is the largest it's been since the GFC, and with S&P valuations on the rich side, positioning remains cautious. **We were fooled a couple of times in 2023 into thinking that a recession was imminent,** only for it to be snatched away by the powerful upward forces of fiscal policy. It's an election year in 2024, and so politicians and Government will be very sensitive to the threat of a recession or any negative economic headlines. Weak payrolls = interest rate reductions from the Fed.



Growth could well surprise on the upside this year, just as it has last year. Indeed, the risk/reward, given current positioning and sentiment, is to bet it does. Bonds in this environment would be under pressure again. Inflation, too, has been written off and should, based on the current narrative, just fall back to 2%. Currently it's 3.1% yoy (see second graph) and may fall more, but it's likely to remain sticky out with a recession.

The US fiscal situation isn't going anywhere and will continue to be the **elephant in the room.** Ultimately, the US has a problem. **Who will buy all the US government bonds that are being issued?** Foreign buyers are cautious, and indeed, inflows into gold have offset the decrease in Treasury purchases.

This year we will have a US election. Again, ultimately, the question is **where is the silent majority in November 2024? Commentators completely missed where the silent majority was with Brexit and 2016 with Trump.** The Fed will likely want to stay as politically inconspicuous by trying to prevent a recession in an election year.

Opportunities in 2024

Our long-term themes remain the energy transition, the future of food, digitalization, de-dollarization, global compartmentalization, and hard money. Within these themes, any asset that has a finite supply should perform well, especially given the fiscal situation in the US and globally. We remain cautious on government bonds but more positive on high yield, particularly those with limited duration. Out with a recession, stocks should continue to outperform bonds, however, with 5% still available from money market funds, the lure to take limited risk will keep a lot of assets in cash accounts. **We are positive on stocks, yet aware that US valuations aren't cheap.**

Oil disappointed at the tail end of 2023 as the geopolitical premium unwound. Going forward, there remains **no other substitute,** and unless a recession does materialize, should bounce. If anything, the Electric Vehicle revolution seems to have slowed, and people seem to be wakening up to nuclear again as the only truly dependable source of energy.

The year won't run smoothly, it never does. There will be issues, but also opportunities that come out of left field. Ultimately, economies and society are still dealing with the effects of shutdowns and stimulus programs from 2020/2021. These will eventually lag, but the starting point should always be to take nothing for granted and that 2024 will be another challenging year.

We would therefore like to wish you and your families a healthy and prosperous 2024.

"Time is the most valuable asset you don't own" **M.Cuban.**

J. Loudoun

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