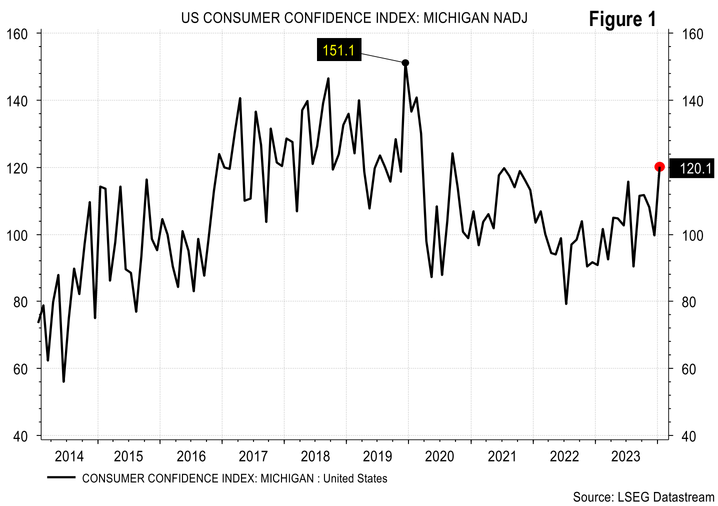
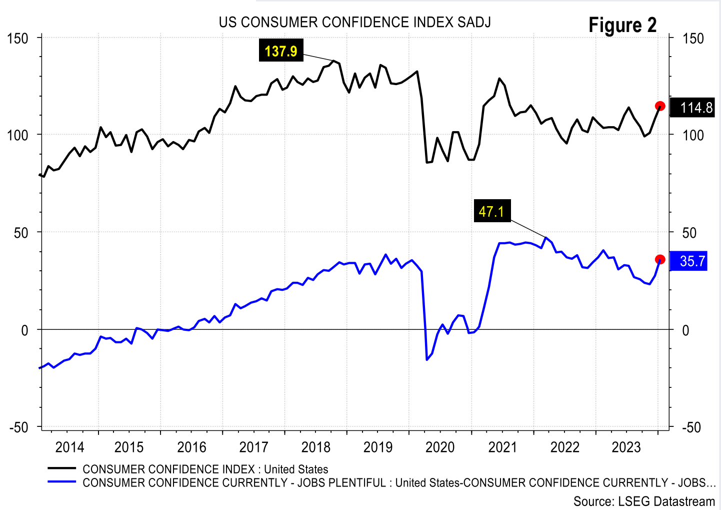
The Bigfoot Recession

93 East Capital Investor Letter

JANUARY 2024

02.04.2024





Priced for Goldilocks

In January, the 93 East Capital fund was up +0.38%. YTD the fund is up +0.38%. Standard deviation is 0.3% and 99.5% VAR 1.1%. The fixed income strategy added 0.2%.

After Q4 2023's strong rally, in January risk assets were mixed but generally stable driven by 1) Ongoing semiconductor sector rally (on 1/19 TMSC jumped +9.8% after announcing earnings) 2) relatively benign moves in US Treasury yields, and 3) US Treasury announcing a small drop in borrowing needs in Q1. 10Y yields sold off to 4.18% before rallying to close at 3.95%. 2s10s curve steepened by +10bps to -28bps. The S&P closed the month +1.6% (+1.6% ytd). The Nasdaq was +1.02% (+1.02% ytd) and the Russell 2K -3.9% (-3.9% ytd). High yield credit spreads widened +20bps (fig. 11,13). Financial conditions were stable with the tightening from the US$ rally offset by higher equities.

The economy continues to deliver upside surprises driven by the consumer and a strong labor market. We have argued for a while that the demand for workers has remained firm, but workers remained on the sidelines in the aftermath of the pandemic for various reasons. Now that labor supply has increased, the demand is absorbing employees as the labor market continues to come into balance. This trend is likely to continue for the next several months or till there is a (yet unknown) shock. Despite the overall strength, some metrics appear detached. Manufacturing ISM has remained in contractionary territory since October 2022. Both measures of consumer confidence, Michigan and Conference Board have not returned to levels seen in 2019 (Fig. 1, 2). If these were to return to normal, it is difficult to see a slowdown.

As reputed fixed income investor Jeff Gundlach noted in his 1/31 post-Fed CNBC interview, *"When I hear the word 'goldilocks,' I get nervous".* We concur with the statement in our *views on risk asset levels.* However, unlike Gundlach, we do not expect a recession in 2024, unless of course, something changes meaningfully. The widely anticipated recession is as elusive as Bigfoot.

PRICED FOR GOLDILOCKS

Markets are priced to perfection on the heels of resilient Economic data and moderating inflation

REVISITING OUR 2022 VIEWS ON THE ANTIFRAGILE LABOR MARKET

Rebound in supply keeps labor market healthy downgrading its characterization from Antifragile to Resilient

MARKETS

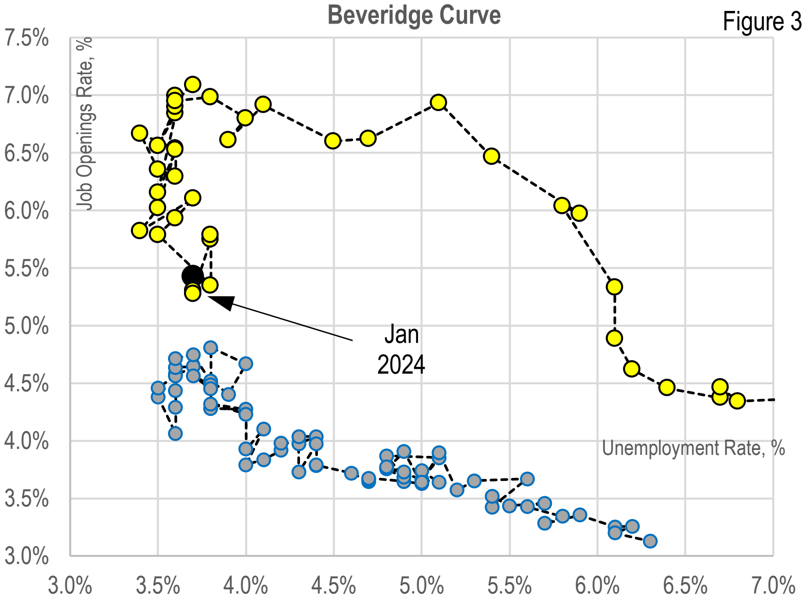
Priced for goldilocks making it vulnerable to a technical pull back

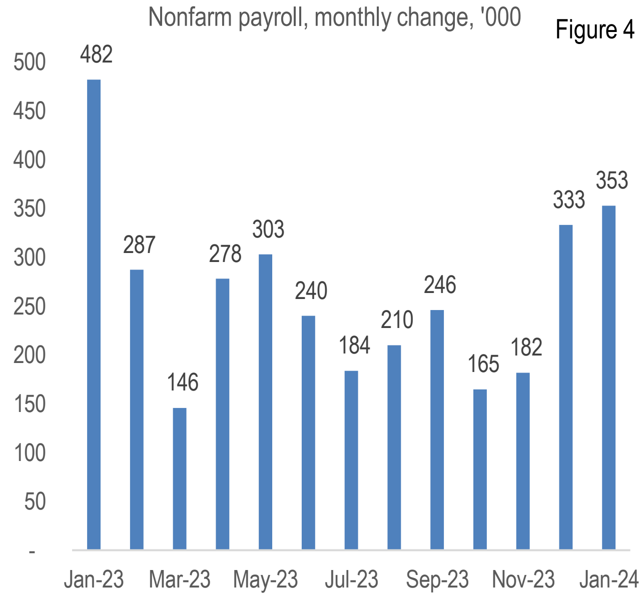
ECONOMY

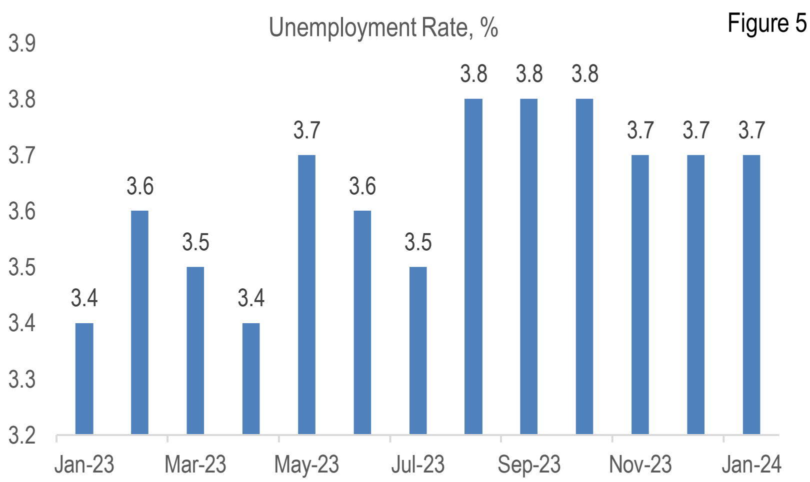
The US Consumer never left the building

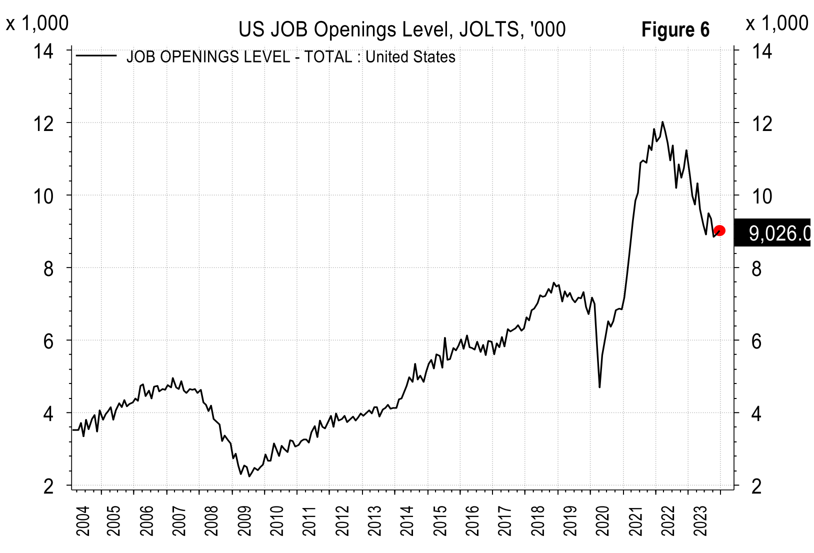
PERFORMANCE AND FORECASTS

Antifragile Labor Market - Redux









Normalization towards resiliency

In our August 2022 investor letter, we characterized the US labor market as 'Antifragile' based on the notion that the post-pandemic fiscal, social, and inflationary dynamics would support job growth in the face of the ongoing aggressive tightening cycle. In the 2012 book Antifragile: Things that Gain from Disorder, Nassim Taleb describes the concept as the property of systems that gain from chaos, stressors, shocks, mistakes, attacks, or failures. *Resilient* systems resist shocks and stay the same; *antifragile* systems get better.

Based on our analysis, the labor market is moving from Antifragile to Resilient. Notably, after a brief pullback to monthly gains of around 200k in 2H 2023, the prior two months moved above 300k (fig. 4). While some of the strength may be overstated due to seasonal factors along with some weakness in hours worked, the underlying trend remains healthy. In 2H 2023, the unemployment rate moved from a 3.5% range to 3.8%. Since then, it has settled at 3.7% for three consecutive months (fig. 5). December's JOLTS report showed that the number of job openings rose from 8.925mil to 9.026mil. This is well below the 12m peak in 2022 but remains well above the pre-

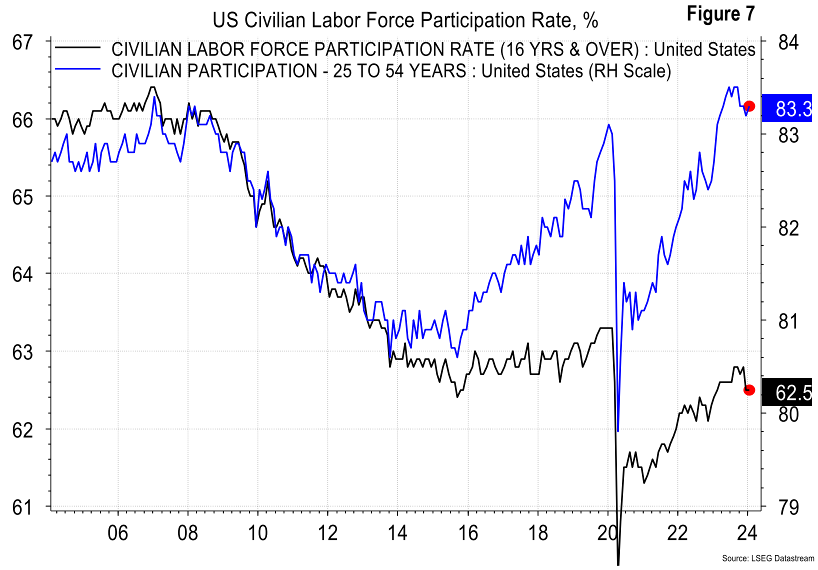


Figure 7

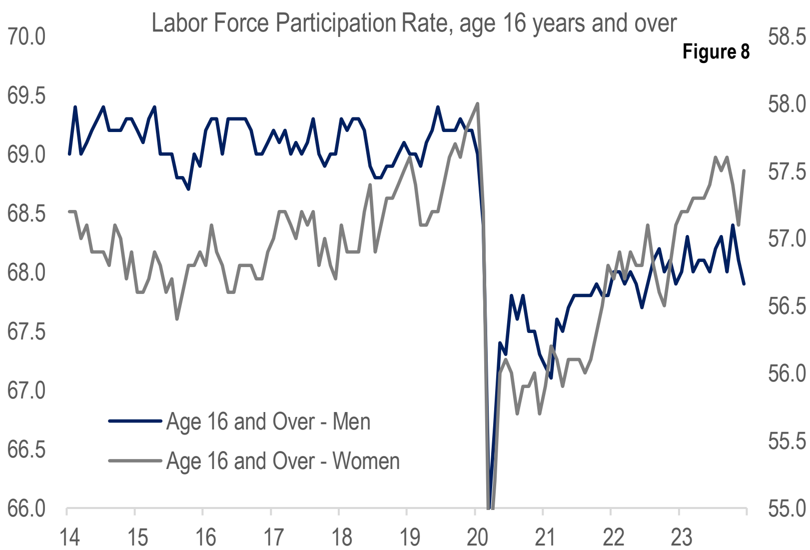


Figure 8

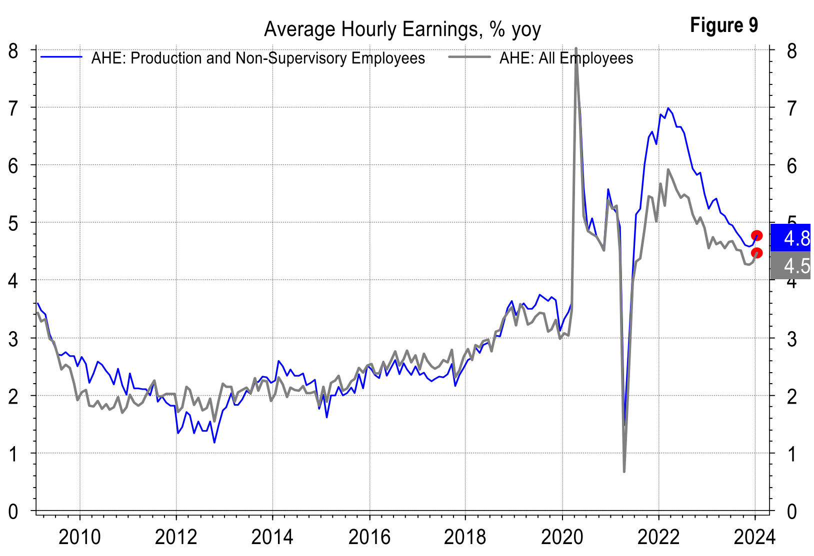


Figure 9

pandemic 7mil range (fig. 6). This continues to show that demand for workers is high, and that is easier for workers looking for jobs. The Conference Board measure of strength in employment, the labor market differential, jumped to 35.7% is consistent with this data (fig. 2). This measure also peaked in 2022 with JOLTS.

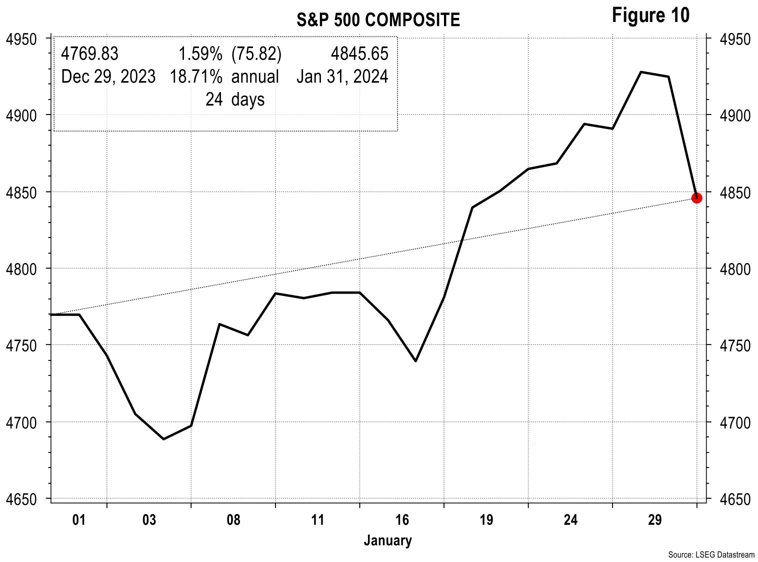
The post GFC labor market was characterized by a structural shift outward in the Beveridge curve (fig 3) driven by a skills mismatch from 1) the overhang of excess workers in the housing market 2) increasing demand for services and technology workers. During that period, higher number of open jobs were required to achieve the same level of unemployment in the post dot economy of the prior expansion. This was a structural shift in the labor market.

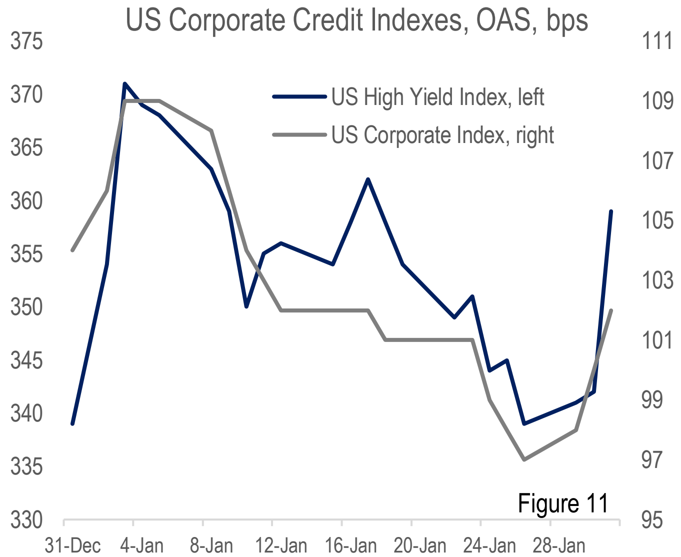
The post-pandemic labor market pushed the Beveridge curve further out – requiring a higher job opening rate to achieve the same level of unemployment during the post GFC years initially driven by healthcare concerns and partly driven by generous fiscal support. A closer examination of the monthly data suggests that the shift this time is not structural and is likely to normalize to the pre-pandemic trend soon. As noted in figure 3, the job openings rate has been falling as the unemployment rate slowly edges higher.

The labor supply response has come from prime-age workers entering the labor force taking the participation rate higher than its prior peak in 2007 (fig. 7) led by a higher recovery in participation rate of women (fig. 8). One possible driver of the increased participation rate is the wage growth experienced by lower wage workers that got to almost 6%yoy in 2022 and remains above the pre-pandemic 3% range (fig. 9). Normalization in wage growth is one factor that will likely result in moderation in the participation rate which should also ease overall price pressures, moving inflation closer to the Fed's 2% target.

At this point, *an external shock, or a change in business behavior (debt shock, rapid fall in demand, etc.) could derail the trend from 'resilient' to 'weak'*. Till then, left on its own, the labor market is likely to remain on a slower, but still healthy trajectory.

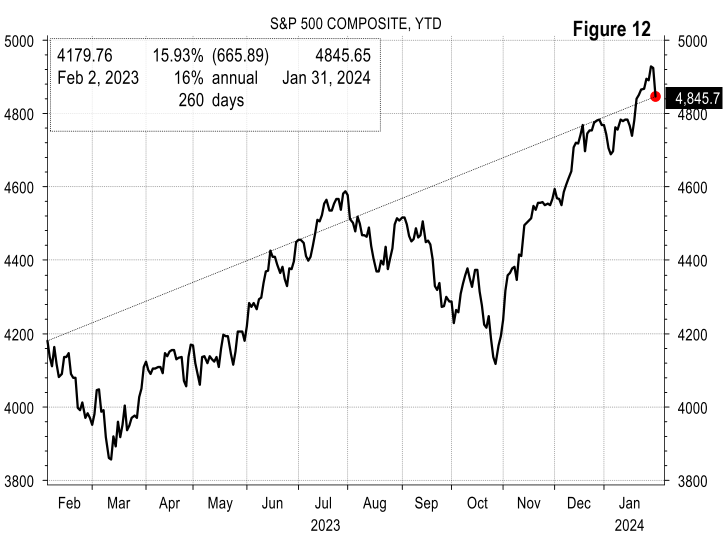
Markets: Pricing Goldilocks

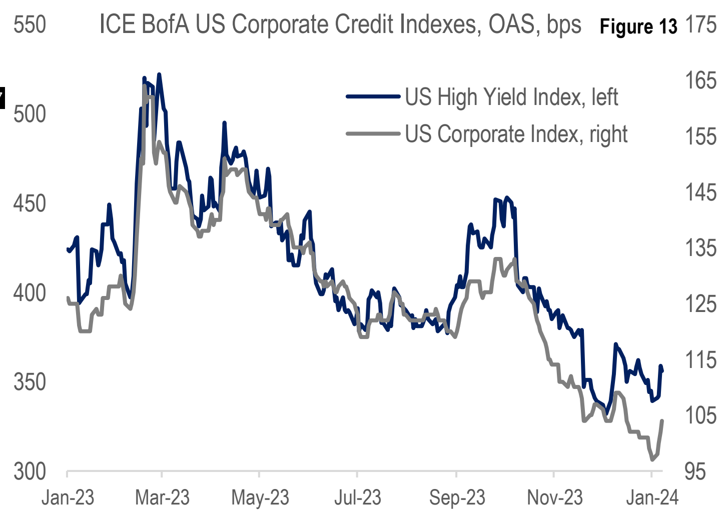


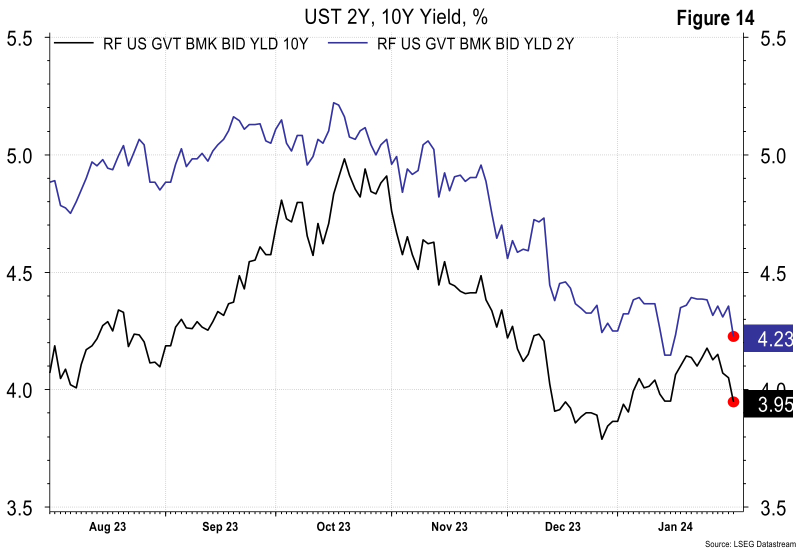


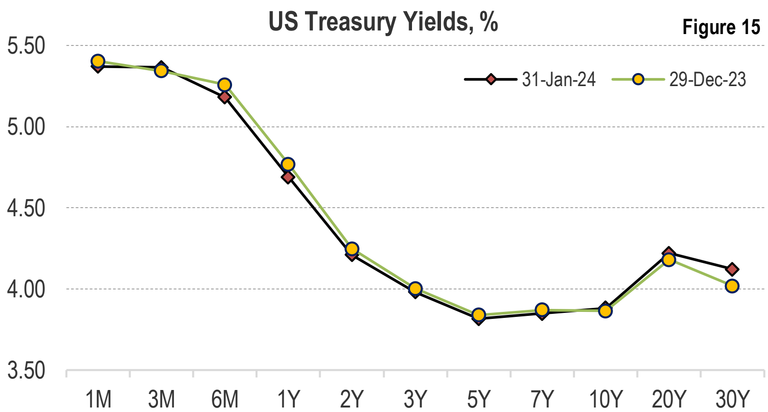
After Q4 2023's strong rally, in January, risk assets were mixed, but generally stable in driven by 1) Ongoing semiconductor sector rally (on 1/19 TMSC jumped +9.8% after announcing earnings) 2) benign moves in US Treasury yields, and 3) US Treasury announcing a small drop in borrowing needs in Q1. The rally was tempered by robust economic data including payroll gains, retail sales and slightly stronger than expected CPI which reduces the pressure on the Federal Reserve to begin cutting rates. Accordingly, on 1/31 chair Powell essentially ruled out a rate cut in March and cautioned that the Fed's struggle to lower inflation is not over, noting "we are not declaring victory, we think we still have a way to go." The S&P rallied to an all-time high 4,928 on Jan 24th before giving up 80pts/-1.6%, (fig. 10) on the last day of the month on Powell's hawkish comments to close the month at 4,845 for a 1.6% gain. The Nasdaq rallied 1.02% (+1.02% ytd) and the Russell 2K was lower by -3.9% (-3.9%% ytd) (fig. 19). High yield credit spreads widened +20bps and IG spreads were flat tightening -2bps (fig. 11,13).

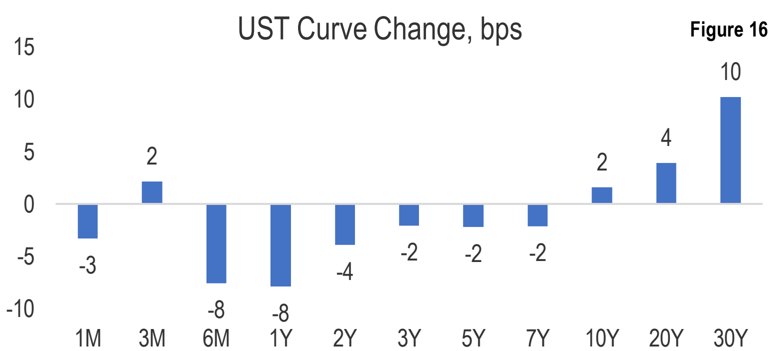
Sovereign yields generally moved higher intra-month led by good economic data (specifically retail sales), but rallied towards the end of the month as tensions in the Middle East increased, US Treasury's announcement of somewhat lower borrowing needs and Chair Powell's hawkish stance at the Fed's press conference. The US curve steepened a bit with a -8bps decline the 1Y and +10bps in the 30Y with the belly of the curve remaining flat (fig. 15,16). In addition to the Fed, market participants welcomed the Treasury's announcement that 1Q borrowing at $760bn would be lower than October's $815bn estimate.











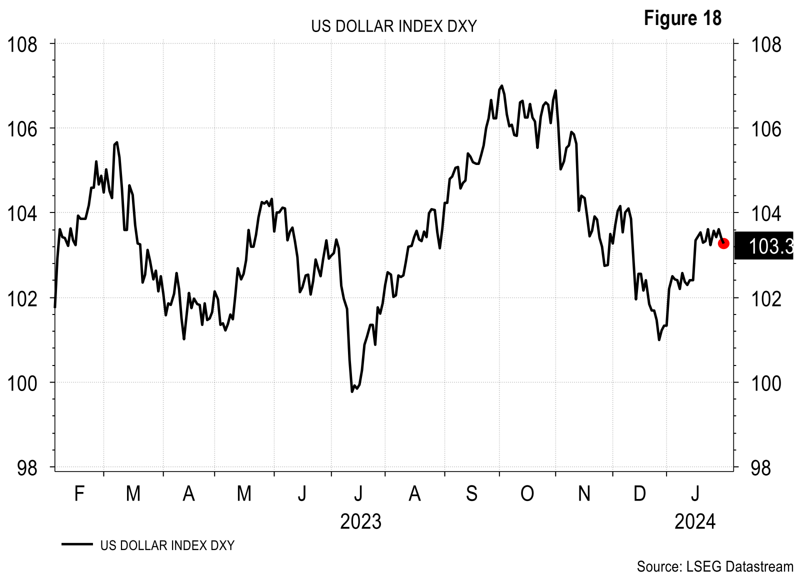
With monthly supply now 40% higher than July 2023, the borrowing trajectory of the US is most unsustainable in the longer term, but the announcement that there are no plans to raise coupon auction sizes further (after gradual increases from now to April) was a welcome relief for markets.

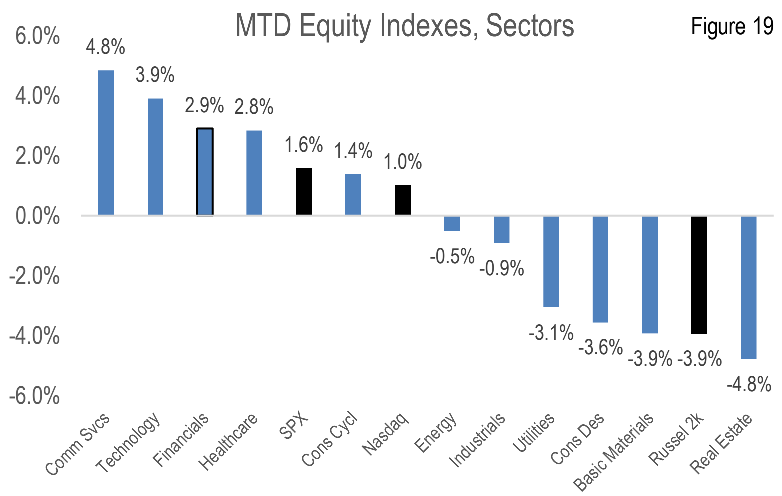
Decent US data followed by the Fed's hawkish bent pushed the **DXY dollar index** well above 103, to the highest since the December Fed's 101 level (Fig. 17). The DXY was strong across G10 currencies with the JPY weakening from 141 to 147 reversing all the gains since November.

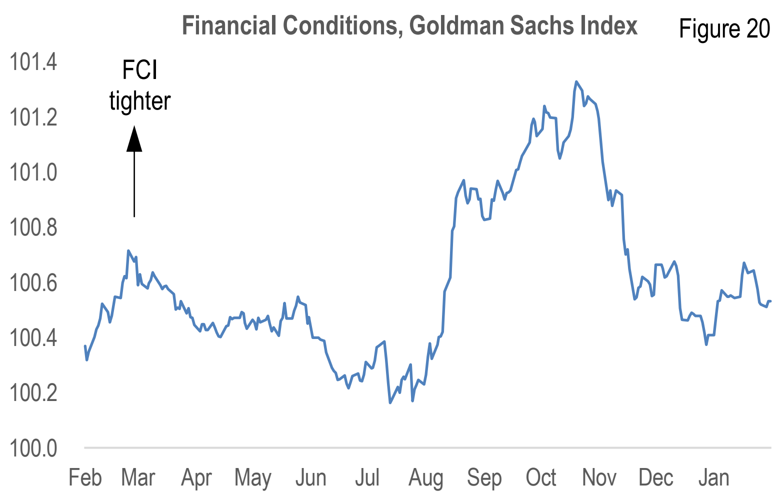
The move higher in **Gold** that began with the geopolitical uncertainty after the attack by terrorist group Hamas on Israel, largely held up in January. After peaking at $2,078/oz in December, the asset scaled back to $2,010/oz but recovered to close the month at $2,048/oz, holding above the $2k psychological level. The month-end rally came on the heels of rising tensions in the Middle East as the US considered a response to the first deadly strike on its forces in the Middel East since the attack on Israel.

WTI crude continued to rally higher from December's below $70/bbl to close the month at $76/bbl (fig. 17) as supply jitters from simmering tensions in the Middle East offset weak data from China. The upward move was also driven by falling US crude inventory and a late January announcement by the Chinese central bank's reduction of it reserve rate and hopes of a revival in demand from China.

Equities were mixed in January with upside led by Communication Services +4.8%, Technology +11.8%, Financials +9.6% and Healthcare +%. Real Estate -4.8% and small caps -3.9% were the laggards (Fig. 19). US Banks reported mixed earnings with JPM reporting its best-ever annual profit and increasing NII 2024 guidance from $86bn to $90bn. Citi posted a $1.8bn loss from one-off charges and announced 20k in job cuts. The big news was the collapse in US Regional Bank stocks after NYCB announced steep losses in its CRE portfolio. United Health shares closed down -3.34% after it reported higher medical services costs. Investors also punished Microsoft and Alphabet when were







down -2.7% and 7.5% after earnings with high demand for generative AI powered products offset by heavy costs from investments being made in servers, data centers, and research.

With risk assets mixed, **financial conditions** were slightly tighter in January after the significant easing from October to December 2023 (fig. 20) with most of the tightening coming from the US$ rally in and higher rates which was offset by easing from the equity rally and credit spreads. Of the 8bps tightening, +9bps came from the trade weighted dollar and +5bps came from long end rates moving higher. -4bps of easing was from equities and -2bps bps from credit spreads. Relative stability in credit continues to keep financial conditions easy.

With equities generally higher but also experiencing intra month selloffs, the **VIX** Index moved off the December lows to make its way back to the 13-14 range from the prior month's 12-13 range spiking in the mid-month selloff and on 1/31 when the S&P was lower by 1.6% (fig. 10,12).

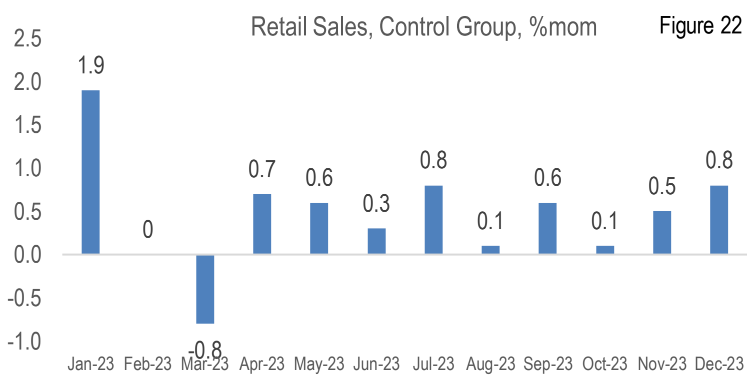
Credit: 5Y UST -2bps, 10Y UST +2bps and IG spread -2bps and HY +20bps (fig. 11, 13) resulted in excess returns of +183bps in IG and +40bps in HY in January. Performance by rating was mixed, with higher quality credit outperforming with the Ba index returns +7bps and Caa -66bps. Among sectors, the best performers were retail, Banks and oil field services. Lagging sectors were cable satellite, wirelines and wireless.

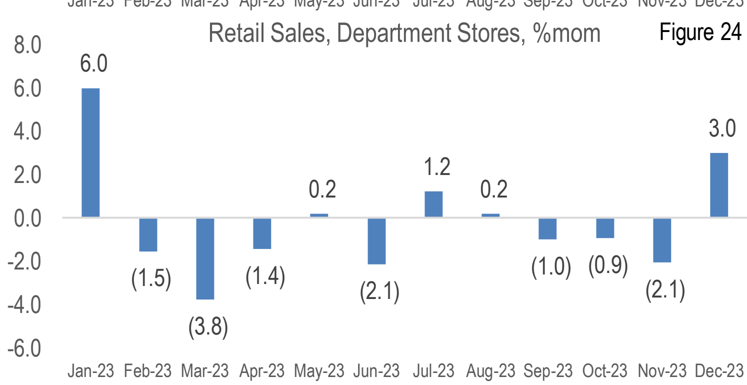
Monthly inflows of high yield mutual funds and ETFs were $2.8bn and IG +5.9bn according to EPFR data. 25 new issuers added $21.3bn with a $1.9bn Hudson Pacific Properties fallen angel. This was offset by $2.4bn in maturities, $5.7bn in called issues, $0.7bn rising stars and $0.55bn defaults. January issuance is off to a good start with HY supply of $28bn compared to a total issuance of 177bn in 2023 suggesting a healthy appetite for risk and a belief in the fundamentals of the corporate sector.

Economy: The US consumer never left the building

Growth, Inflation and Employment Forecasts (Figure 21):

1/31/2024	2023					2024				
93EC	Q1E	Q2E	Q3E	Q4E	2023E [2]	Q1E	Q2E	Q3E	Q4E	2024E [2]
Real GDP, % qoq saar	2.2%	2.1%	4.9%	3.3%	2.5%	1.4%	0.8%	0.7%	1.7%	1.7%
Inflation (Core PCE) [1], % yoy	4.6%	4.5%	3.9%	3.2%	3.2%	2.8%	2.5%	2.4%	2.5%	2.5%
Inflation (Core CPI) [1], % yoy	5.6%	5.2%	4.4%	4.0%	4.0%	3.4%	3.0%	3.0%	2.8%	3.1%
Unemployment [1], %	3.5%	3.6%	3.8%	3.7%	3.7%	3.9%	4.0%	4.2%	4.3%	4.1%
NFP Change [1], ('000) sa	305	274	213	289	3,244	124	89	74	93	1,141
Forecast Probability	100%	100%	100%	100%	100%	70%	60%	50%	50%	60%
(1) Average for period, (2) GDP: % q4/q4 ; Unemployment % q4 avg										
US Federal Reserve, median 12/13/2023										
Real GDP, % q4/q4					2.6%					1.4%
Inflation (Core PCE), % q4/q4					3.2%					2.4%
Unemployment, % q4 avg					3.8%					4.1%



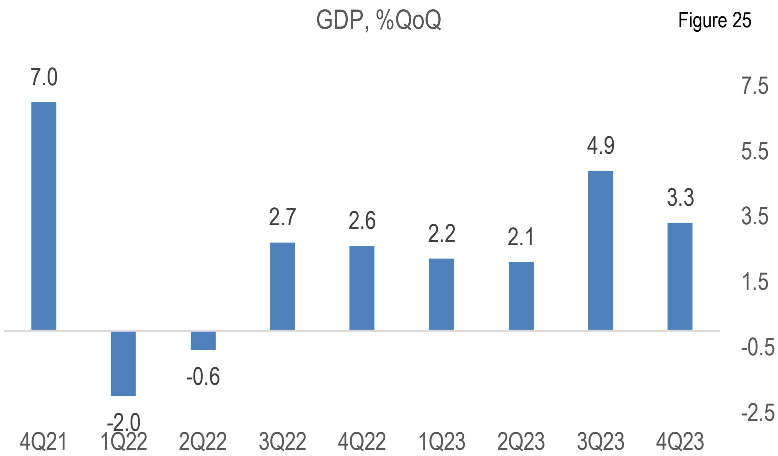


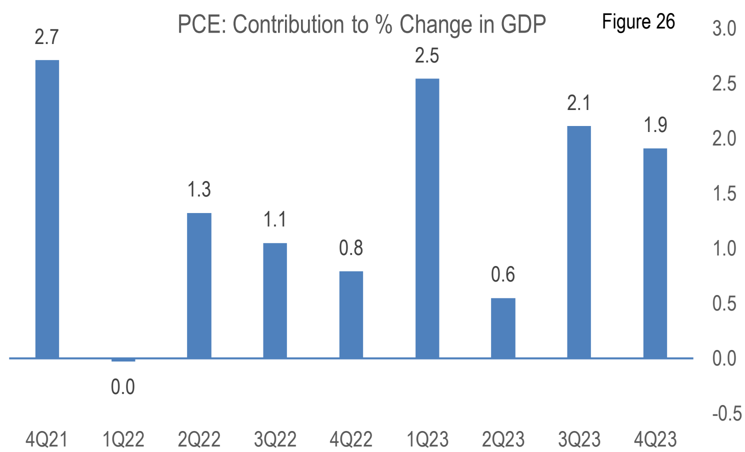
Strong Retail Sales boosts Q4 but seasonal factors could weigh on Q1

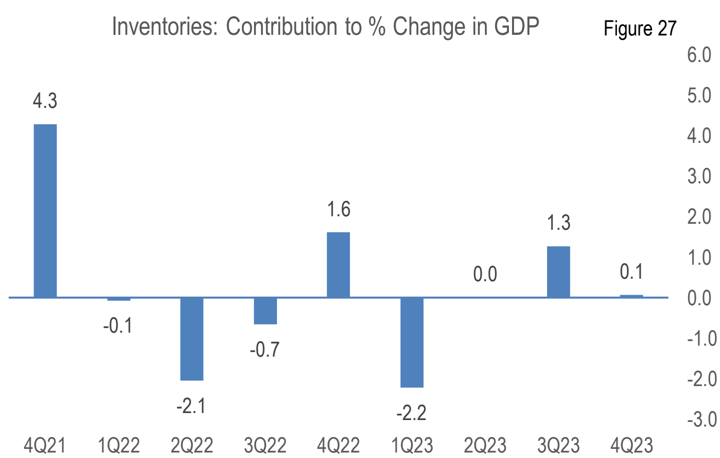
One upside surprise to our prior estimate of 1.7% Q4 GDP growth was evident in the robust retail sales data for December. **Retail sales** control group +0.8%mom handily exceeded the 0.2% expected with net revisions to the prior two months netting out to 0.0% (fig. 22). Control group retail sales has increased for the ninth consecutive month showing that the US consumer, boosted by a healthy labor market and increasing confidence, is in no mood to pull back on spending. That said, the ongoing expansion of the holiday shopping season from December to the combination of November- December likely caused a favorable shift in the seasonal factors as they catch up to the new paradigm. This means that the seasonal factors could reverse in January resulting in some give back. Within the data, nine of the thirteen categories that we track showed an increase. Nonstore retail (+1.5% mom), (fig. 23), and Department Stores (+3.0% mom), (fig. 24), contributed to more than half of the increase vs. Drug Stores lower by -1.4% and Gas and Furniture -1.0% suggesting the influence of the seasonal factors on the data in the holiday shopping categories. Auto parts increased +0.7%mom,

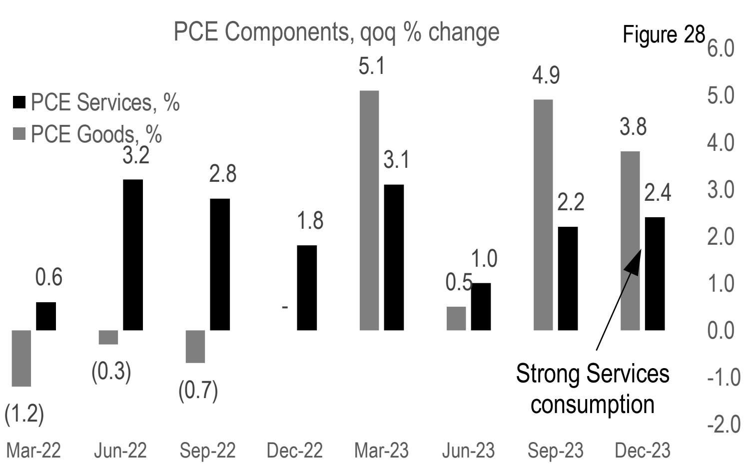
Figure 27

Figure 28









the fourth consecutive month - supportive of the Services sector and payroll growth. Other categories including miscellaneous retailers, general merchandise and sporting goods were also strong with weakness in Electronics and Appliances. This data did not significantly change our Q1 growth forecast due to the give back we are expecting from the seasonal factors discussed above.

The first print of Q4 2023 **Real GDP** rose at 3.3% saar, well ahead of the upwardly revised 2.0% expected and at the second highest pace since the 2021 pandemic reopening (fig. 25). With Inventory contribution of only 0.07% (fig. 27), or +$83bn, the change appears to be driven by underlying demand as opposed to inventory accumulation. As a comparable, in 1Q23's +2.2% (fig. 27) the -2.2% contribution from inventory change was offset by a strong +5.1% increase in goods and +3.1% services consumption (fig. 28). With Q4 driven by a +3.8% increase in goods and +2.4% services consumption, from a pure comparable perspective, the underlying composition of 4Q was bit weaker.

Elsewhere in the report, consumer spending was lower but still strong: goods spending decelerated from 4.9% to 3.8% qoq and spending on services accelerated from 2.2% to 2.4% (fig. 28). Government spending rose +3.3% in Q4 from +5.8% in Q3, contributing 0.6% to the headline with the contribution evenly split between state and local governments and the federal government. Residential investment rose +1.1% after Q3s +6.7% which was the first increase since the rate hikes began in 2021. Capex was the key area of strength: equipment spending increased at +1%qoq after a -4.4%qoq decline in Q3.

Overall 4Q's +3.3% growth confirms ongoing strength despite falling inflation. This is a solid combination. This puts our Q1 growth forecast at 1.4% with upside risk and on a decent trajectory for 2024.

Performance

Figure 29

Macro Fund Performance and Metrics		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
Net Performance, % (1, 2)	2021			1.56%	6.83%	1.32%	-2.98%	-2.18%	4.15%	0.04%	6.89%	-3.59%	1.75%	13.85%
	2022	-4.56%	-3.30%	-1.88%	-4.72%	0.65%	-5.69%	4.48%	-1.08%	-4.67%	7.02%	3.53%	-3.35%	-13.59%
	2023	4.94%	-3.84%	-4.08%	0.19%	-2.39%	3.02%	2.72%	-1.02%	-1.12%	-3.34%	5.67%	4.46%	4.62%
	2024	0.38%												0.38%
VAR (1,3)		1.08%												
Std Dev (1,3)		0.3%												
# of Positions (1,3,5)		41												
% Levered (1,3,4)		1.2%												

* Preliminary. Subject to revisions by Fund Administrator   Inception Date: 3/30/2021   (1) As of month-end close on 01/31/2024

(2) Net Performance: Gross Performance Less Management Fee and Incentive Fee. YTD assumes Jan 1st investment   (3) Data for current year   (4) Levered ETFs

Data provided by Interactive Brokers and NAV Consulting   (5) Thematic strategies with several underlying securities are reported as one position

Fund Administrator: NAV Consulting

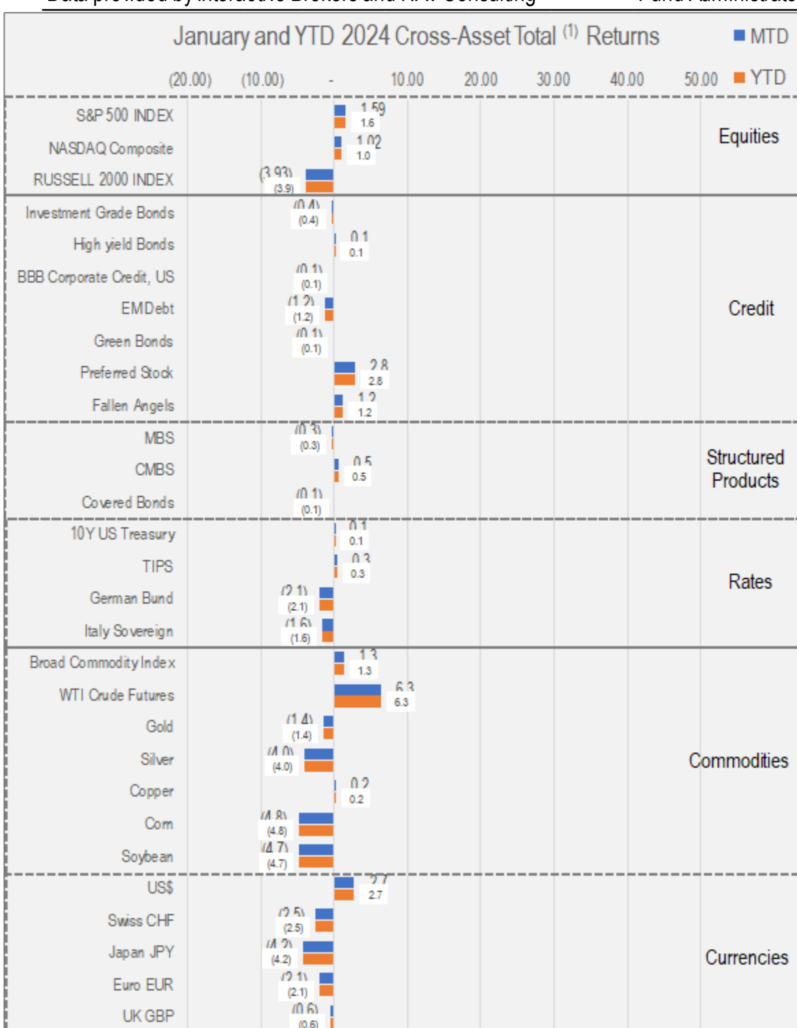
Figure 30

Income Strategy Performance		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
Net Performance, % (1, 2)	2022												0.23%	0.23%
	2023	0.37%	-0.42%	0.70%	0.34%	0.05%	0.35%	0.56%	1.82%	-0.21%	-0.68%	2.74%	2.56%	8.42%
	2024	0.20%												0.20%

* Preliminary. Subject to revisions by Fund Administrator   Inception Date: 12/15/2022   Income Fund: 12/22 to 12/23; SMA: 01/24 onwards

(1) As of month-end close on 1/31/2024   (2) Net Performance: Gross Performance Less Management Fee and Incentive Fee. YTD assumes Jan 1st investment

Data provided by Interactive Brokers and NAV Consulting   Fund Administrator: NAV Consulting



(1) Total Return including dividends and coupon payments

Figure 31

Monthly Performance

As of 1/31/2024:

Returns, Macro Fund (Net performance[1]):

January: +0.38%
2024 YTD: +0.38%

Other metrics:

Standard Deviation: 0.3%

Leveraged ETF allocation: 1.2%

VAR (99.5%): 1.1% drawdown

93 East Capital operates on a total return mandate with no specific benchmark. For reference, S&P in January: +1.6%

Returns, Fixed Income Strategy (Net performance):

January: +0.20%

2024 YTD: +0.20%

Macro Fund, gains were led by long sector exposure to Insurers, Technology and Senior loans in the fixed income portfolio. This was offset by losses in sector exposure to regional banks, oil services and short US$ and downside put protection

[1] Net Performance: Gross Performance less Management Fee and Incentive Fee. Assumes January 1st investment.

Market Forecasts:

Figure 32

Asset Class	Current 1/31/2024		YTD, %	52 Wk Hi	52 Wk Lo	Base Case Yr-end	Base Case 1Y Fwd	Total Return, Base Case [1] Yr-end	Total Return, Base Case [1] 1Y Fwd	Bear Case Yr-end	Bear Case 1Y Fwd	Bull Case Yr-end	Bull Case 1Y Fwd
Funds Rate	**Level**		**YTD, %**	**Level**						**Level**			
	5.375					4.375	4.375			5.375	3.875	5.625	6.125
Equities	**Level**		**YTD, %**	**Level**						**Level**			
S&P 500	4,846		1.6%	4,959	3,856	5,000	5,000	3.2%	3.2%	3,950	3,950	5,500	5,500
2024 EPS						*234*	*234*			*222*	*222*	*246*	*246*
2025 EPS						*250*	*250*			*220*	*220*	*263*	*263*
2024 Multiple						*20.0x*	*20.0x*			*18.0x*	*18.0x*	*21.0x*	*21.0x*
2025 Multiple						*19.2x*	*19.2x*			*18.2x*	*18.2x*	*20.2x*	*20.2x*
Nasdaq	15,164		1.0%	15,629	11,139	16,200	16,200	7.0%	7.0%	14,600	15,400	17,000	17,300
Russell 2K	1,947		-3.9%	2,066	1,637	2,100	2,100	8.0%	8.0%	1,900	2,000	2,200	2,250
Credit [2]	**Spread, bps**	**Yield, %**	**YTD, %**	**Spread, bps**						**Spread, bps**			
IG Credit [2]	102	5.16	0.15	164	104	120	120			150	150	90	90
HY Credit [2]	359	7.59	0.02	522	332	445	445			515	515	415	415
BBB Credit [3]	126	5.36	0.26	198	129	160	160			190	190	130	130
EM Debt Agg, USD [2]	243	6.39	0.25	321	244	290	290			340	340	260	260
Green Bonds [3]	90	3.72	(0.42)	126	92	100	100			130	130	70	70
Fallen Angels [3]	283	6.92	0.58	372	269	300	300			330	330	270	270
Covered Bonds [3]	77	2.98	(0.19)	100	72	80	80			100	100	50	50
MBS [2]	56	4.86	(0.41)	-	-	45	45			95	95	15	15
CMBS Fixed Rate [2]	209	6.21	1.49	276	172	250	250			400	400	150	150
Rates	**Yield, %**			**Yield, %**						**Yield, %**			
UST 3M	5.38			5.52	4.46	4.30	4.30			4.80	4.80	3.80	3.80
UST 2Yr	4.23			5.22	3.78	3.70	3.70			4.70	4.70	2.70	2.70
UST 5Yr	3.87			4.95	3.31	3.80	3.80			4.60	4.60	3.00	3.00
UST 10 Yr	3.95			4.98	3.30	4.00	4.00			4.70	4.70	3.40	3.40
UST 30 Yr	4.21			5.11	3.55	4.40	4.40			4.90	4.90	4.10	4.10
3M-10Y, bps	(143)			(53)	(116)	(30)	(30)			(10)	(10)	(40)	(40)
5Y-10Y, bps	8			3.10	(1)	20	20			10	10	40	40
10Y Bund	2.16			2.97	1.90	2.00	2.00			2.50	2.50	1.50	1.50
10Y UK	3.80			4.75	3.06	3.70	3.70			4.20	4.20	3.20	3.20
Commodities	**Level**		**YTD, %**	**Level**						**Level**			
Oil, WTI, USD/bbl	75.9		6.3%	94	66	75	75	-0.7%	-0.7%	60	60	90	98
Gold, COMEX, USD/T.oz	2,048		-0.7%	2,082	1,809	2,080	2,080	1.5%	1.5%	1,870	1,870	2,500	2,500
Silver, USD/T.oz	23.1		-3.4%	26	20	26	26	13.1%	13.1%	23	23	29	29
Copper, USD/MT	8,501		0.4%	9,184	7,824	9,200	9,200	8.2%	8.2%	8,280	8,280	10,120	10,120
Wheat, Usd/bu	595		-5.2%	792	534	570	570	-4.2%	-4.2%	460	460	630	630
Corn, Usd/bu	448		-4.9%	685	440	460	460	2.6%	2.6%	410	410	510	510
Soybean, Usd/bu	1,222		-5.5%	1,562	1,189	1,230	1,230	0.6%	0.6%	1,110	1,110	1,350	1,350
FX			**YTD, %**							**Level**			
DXY	103.3		1.9%	107	100	102	102	-1.2%	-1.2%	97	97	112	112
JPY	147		4.2%	152	131	142	142	3.3%	3.3%	156	156	128	128
EUR	1.08		-2.0%	1.12	1.05	1.10	1.10	-1.4%	-1.4%	1.21	1.21	0.99	0.99
CHF	0.86		2.3%	0.94	0.84	0.87	0.87	-1.2%	-1.2%	0.96	0.96	0.78	0.78
CNY	7.18		1.1%	7.3	6.8	7.1	7.1	0.5%	0.5%	7.85	7.85	6.4	6.4
INR	83.1		-0.1%	83.4	81.7	82	82	0.8%	0.8%	91	91	74	74

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