Stamper Capital & Investments, Inc.

"Focusing on Upside Potential and Downside Protection Since 1995."

2022 Market Commentary & Forecasts

(Note: Please see our previous Annual Forecasts and our Blogs
for considerable background on our forecasts)

INTEREST RATES - Highest Quality - U.S. Treasuries: As forecast last year ("We expect these highest quality interest rates to see their rises accelerate") interest rates of the highest quality issuers have gone up and pretty fast but because they started at such minimal levels, the impact on asset prices has been small, so far. Up to date, the belly of the U.S. Treasury yield curve has widened out rather dramatically. While the yield on the One Month Bill has hardly moved (yet), the yield on the Three Month has widened out rather dramatically – from near zero (0.005%) in late May 2020 to 0.40% - so up more than 40x! Yields throughout the belly up to the Ten Year widened out comparably, and all have broken out with higher highs of yields since their record All-Time lows of mid 2020. The yield on the U.S. Treasury Ten Year just broke above 2% this is above its prior high of 1.75% in early 2021. Importantly, its All-Time-Low was 0.54% July 2020 – so it has gone up by a factor of 9x. Only the U.S. Treasury 30 Year yield has failed to put in higher highs since the mid-2020 All-Time yield bottoms. However, the 30 Year has been closing in – Its All-Time yield low was about 1% in mid 2020. Its highest high since then was 2.41% in mid 2021. After a drop it has come back up to 2.25% now and is headng upwards. We do believe "fireworks" could begin when the 30 year yield breaks out above the prior higher high. At that point the entire U.S. Treasury yield curve will be breaking out to higher highs. As for the One Month Bill, we expect it to be pulled up shortly since it is still just above zero and the Three Month just it 0.40% - the One Month is more of a managed rate and we expect the Federal Reserve will be compelled to raise its short lending rates to match the market soon, otherwise they will likely be overwhelmed with borrowings.

Lowest Quality – Junk Bonds: Yields of Junk Bonds also rose - "Thus, we are forecasting a continued rise in both high quality and low quality (high yield/junk) yields." Their widening was both for Junk Taxable Bonds and High Yield Municipal Bonds, both categories of of which we were mutual fund portfolio managers from 1995 through 2010 (see the rest of our website!). Our reasoning, from extensive experience, is that interest rates of lower quality issuers most often rise faster than those of higher quality issuers. Importantly, the price action of high yield bonds are also very often good indicators of where the stock market is going to go – prices of high yield bonds very often lead the credit cycle because not only do their yields go up with those of higher quality bonds but their spreads widen out – and, that is what has been happening, although not to a point where it has affected the stock market much, yet.

In fact, their price action probably displays a more accurate assessment of the economy than the stock markets. Both **"JNK" and "HYG" corporate junk taxable bond ETF mutual funds** peaked in April 2014 coming up from their Financial Crash lows of

January 2009. Importantly, neither of those rebound highs in April 2014 came close to eclipsing their "Housing Bubble" highs of 2006-2008. Later, their prices crashed to "Corona Virus Lows" in January 2020 (note: before stocks bottomed) – these lows were not below their "Financial Crash Lows." They then rebounded to highs that essentially matched the levels they were at just before the "Corona Virus Crash." Those rebound highs were spread out but essentially in September 2021 – that is their most recent top. Since then their prices have fallen by about 6.3% and have recently accelerated downwards. This turndown is likely an early precursor, a "Leader," if you will, of the dowturn that recently started in the stock market.

"HYD" is a high yield tax-free municipal bond ETF mutual fund. In past cycle the high yield municipal bonds have lagged corporate junk bonds in price action but were a bit ahead of the stock market. However, that relationship seems to have changed over the past big cycle. Unfortunately, HYD has only existed since 2-2009 so it started pretty much at the "Financial Crash" lows so we can't use it for earlier data. Importantly, HYD's rebound peak from that huge "Financial Crash" bottom was during the last half 2012 – so about a year and a half before the corresponding peak of corporate taxable junk bonds. (I believe it started down with problems in municipal bonds issued by Puerto Rico.) Later, from a peak in July 2019 its price dove into the "Corona Virus Crash" bottom of March 2020. Note how it was "The Leader" down into that cycle – turning down ahead of junk taxable bonds and also stocks. From those lows it made a partial rebound – it never made it all the way back to the level it turned down from into the "Corona Virus Crash" - that fact, is probably somewhat telling. Remember the taxable corporate junk bonds met their pre-"Corona Virus Crash" price levels and the stock market grossly exceeded them. Ok, also note that HYD's rebound lower high from its "Corona Virus" lows was in July 2021, and from that lower high HYD's price has dropped by 9.3% - so more than the junk taxable price drop of about 6.3% and it peaked a couple of months earlier.

CyberCurrencies – Prices of Bitcoin and Ethereum both put in All-Time highs on 11-9-2021 (along with several equity indices (see below)). From there Bitcoin plunged, but in a very choppy way, down by almost 48% to a low on 1-23-2022. Similarly, Ethereum plunged by 49% to a low on 1-27-2022. We noted that Bitcoin suffered a "Flash Crash" drop of over 21% on Saturday, 12-5-2021. Wow, that is a lot of volatility for a "currency!" Given the size of those drops we wouldn't be surprised if they take a "breather" (choppy sideways counter-trend rally) for a while, maybe in conjunction with prices of other assets dropping to "catch up."

Equities – Like we alluded to above, stocks rose considerably above their All-Time highs prior to the "Corona Virus Crash" in comparison to corporate taxable junk bonds, which just matched theirs and tax-free high yield bonds whose rebound fell short. Other than that, most equity indices peaked to their All-Time highs around 11-8-2021 with the Dow Jones Industrials, the S&P 500 and the Wilshire 5000, float just eking out new All-Time high in the first week of January 2022. Note: with a top this large, you will have indices prices bouncing up to a curve with a huge circumference; thus, having several seesaw tops all near the same levels but with one (or even more) just eking out the high and that seems to be what is happening for equities. At some point they start breaking down – and, we have seen that in some instances. For example, the Russell 2000 ETF ("RUT" dropped by almost 21% from its All-Time high of 1-8-2021 down to its low on 1-27-2022. A 20% drop is considered a "Bear Market;" however, we've not seen much in the media talking about it. However, during the same period, the Dow Jones Industrial Average fell by only 7% from its 1-3-2022 All-Time high to its recent low on 1-27-2022. It has a ways to go to catch up to the small caps (RUT). Other indices performed pretty much within those two percentage drops during those periods.

From All-Time Tops They Drop – We note that **Netflix** ("NFLX") which has dropped almost 47% from its All-Time top on 10-29-2021 to a low on 1-26-2022. Similar to Bitcoin's "Flash Crash" one day 21% drop **(detailed above) Facebook's** ("FB," recently renamed Meta Platforms, Inc.) stock price plummeted by 26% in one day! on Thursday, 2-3-2022. Since that time it has dropped another 7.7% or so. The Company's stock price had peaked on 9-5-2021 at $379 (closing basis). So, from its All-Time Top it has fallen by 42% – Wow. Of course, these are two of the few "FANG" stocks (spelled a couple of different ways depending upon which few stocks are included) that so prominently inflated the Super Bubble, to the point that another possible name we use the name with (down below) is the **"E-Commerce Bubble;"** however, we think **"Super Bubble/Super Top"** is more accurate and descriptive given how all encompassing this incredible top has been. Given our view on everything, we expect to see "more super drops from All-Time tops," unfortunately.

Inflation - The Big Boogieman – Usually Cuts Both Ways – Inflation, if not too much, can push asset prices upwards; however, if inflation is too much, which almost always eventually happens, it will force interest rates to rise and/or for the economy to "break" - people and companies, etc. will begin to default. So how much is too much? Well, it depends upon how much the markets can absorb before pushing interest rates upwards and/or breaking the economy.

There are a few causes/sources of inflation or prices rising. **"Fiat inflation"** is from the printing press – a straight increase in the money supply – we saw that with the large inflation of the 1970's, which ended with interest rates spiked way up.

Similar to **"printing press inflation"** (but not by a governmental entity) would be from a new type of money – so called, **"Cybercurrencies"** come to mind. Even though "Cybercurrencies" were/are created essentially out of thin air – out of math equations with some electricity, people have given them a lot of value. When their volumes and/or prices are increasing, their owners feel wealthier. If other people value their "coins," they can use them instead of other monies or assets to purchase things. In fact, I do believe you could even take out loans using Bitcoins for collateral (at least you could before the recent huge drop in prices). Cybersecurities just plummeted in "value" by almost 50% (see above). We see that drop as a fiat contraction of the money supply.

Another type of inflation is from an increase in credit - **"Credit Inflation"** – we saw that with the Housing Bubble – credit quality lending standards were lowered resulting in an increase in lending/debt/credit which was used to bid up asset prices – prices rose. Most simply, when the amount of debt under the new lending standards was maxed out, that was the top of the cycle. Of course, there were other debt instruments in that up cycle that got maxed out (like derivatives, etc.). Then the economy "broke" - it couldn't go up any more and several borrowers could not pay lenders and the whole situation began to unravel into the "Financial Crash."

Importantly, **usually there is a combination of those two main causes/sources of inflation – fiat and credit/debt.** We have been pretty much at record debt levels for quite a while; however, **it seems the markets can no longer absorb/issue more debt or increase the money supply without interest rates rising** – we've already seen this with U.S. Treasury yields rising across the curve and with yields of junk bonds rising even more with their "credit quality yield spreads" widening out. To us, the rise in interest rates of lower quality borrowers is a credit contraction.

Prices have risen in lots of categories over the past year, we think largely because of the **government stimulus and subsidy and deferment programs** in implementing programs in response to the Corona Virus. However, not everyone has participated equally in the current bubble/expansion. Importantly, for many people this was a one-shot injection. No more stimulus checks are planned and most subsidy programs and deferment programs have recently ended. Further stimulus checks and/or subsidies, etc. would likely push prices upwards which would push interest rates higher faster. We see cessation of those programs as a contraction of credit/money. Thus, we think it is likely now that the economy will have some of its aspects "break" as the large group of people who did not participate in the boom will likely not be able to pay higher prices nor debt service on previous obligations. Because of this, it seems to us that we are seeing that price increases are unable to stick. To us, this situation is a credit contraction not further inflation.

We believe record debt levels across essentially all areas will now make it very difficult to "print money" without pushing interest rates upwards, which we have seen over the past six months. Printing money and other stimulus and subsidies are now pushing up prices in a tighter cause and effect linkage, resulting in a rise in interest rates. Thus, it seems we are walking on a tightrope where nothing can really be done to keep the financial markets from contraction at the best, and from breaking at the worst. This situation is likely so because the economy has already gone through a huge contraction over the past couple of years because of the shut down programs that were implemented in the hope of stopping the Corona Virus.

Finally, while **industrial commodity prices** have risen quite a lot recently, they are still far below their All-Time highs. And, the prices of precious metals have been mostly chopping sideways to downward for several years now. At least in the short term, we expect their prices to drop.

Thus, we do not expect a continuing inflation. If this forecast is correct, then, when people realize what is happening prices of **real estate** and other assets whose price is often related to inflation (like **gold and silver**) will most likely drop. Of course, if our forecast for a continued rise in interest rates and a widening out of credit quality yield spreads (yields of junk bonds rising even more) is correct, the accompanying credit contraction will be a drying up, at least some what, of lending to purchase such assets which will cause their prices to drop.

Bottom Line(s) – High quality interest rates have been heading upwards, especially the vast belly of the yield curve. We think the yield on the 30 Year U.S. Treasury is about to bust out to new highs. Remember, for bonds, yields up equals prices down. We think rising rates continue and will start to have a much larger negative effect on the economy and asset prices, especially those which are highly leveraged/mortgaged.

Yields on high yield junk bonds have gone up even faster than U.S. Treasury yields as their credit quality yield spreads have widened – thus, their prices have dropped more. Their prices turned down in July 2021 for tax-free municipals and in September 2021 for taxable corporate bonds. Their price turns have very often preceded that of U.S. Equities and we think that will turn out to be the case this time too.

Cybercurrencies peaked with All-Time Highs along with most equity categories in early November 2021, but have plummeted considerably more - by almost 50% to their current lows.

Most equity prices saw All-Time highs in early November 2021 with some in early January 2022. Small Cap stocks (RUT) have fallen by over 20% which is considered a Bear Market. The creation of those peaks included some of the FANG stocks, that the inflated the bubble, popping. NetFlix is down 47% from its All-Time high and Facebook (now called Meta Platforms, Inc.) is down 42% and had a one-day "Flash Crash of 26%! The premier Cybercurrency, Bitcoin, also experienced of Flash Crash (since its November 2021 All-Time high) of 21% in one day! We expect more "drops from the top" to happen. We also believe "The Tops Are In" for stocks.

We believe that credit/debt has already begun to contract as evidenced by junk bond prices dropping (yields rising). We also believe printing press fiat inflation is "handcuffed" because of the currently very tight linkage to rising prices (i.e. causing inflation) and to interest rates rising. Thus, we do not believe price inflation will be able to continue.

If our forecast for rising interest rates and a contracting economy is correct and that inflation will turn out to be a non-issue or even turn into deflation, prices of real estate will fall and other inflation and interest-rate sensitive assets like financial commodities gold & silver will fall. A weakening economy and rising interest rates and mitigated inflation will also result in falling industrial commodity prices.

We believe that all of this information and discussion and more strengthens our forecast that “The Top of the Super Peak is ‘In.'” This means Big Drops and Big Retracements (but smaller retracements than the drops) ahead, with “net” large negative returns in almost all assets similar to what was experienced in the “Tech Wreck” (2000-2003) in the NASDAQ and, in general, in “The Financial Crash” (2007-2009).

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Please review our previous Annual Forecasts and Blogs if you want to get considerable background information why we are making these forecasts.

As always, we at Stamper Capital will continue to focus on the upside potential and downside protection of the assets we manage.

Thank you for your patronage,
Stamper Capital & Investments, Inc.

“'Safety' was our Watchword” starting in 2001, at the beginning of “The Tech Wreck” down into 2003/2004 bottom. Then again for the Housing Bubble to the Financial Crash “Safety was our Watchword.” And, unfortunately, “'Safety' is our Watchword” yet again for this Super Bubble Top, until we get to the final bottom, which we believe is much much lower.

(Posted 2-11-2022)

FOOTNOTES:

Stamper Capital Composite Return Calculation Footnote:
Returns are presented in United States Dollars. Composite returns are calculated monthly using a Monthly Discounting Model. No cash carve outs are made. Quarterly returns are time-weighted rates of return calculated by geometrically linking the composite’s monthly returns. Annual returns are time-weighted rates of return calculated by geometrically linking the composite’s quarterly returns. Gross Returns are after transaction costs but are before management fees; Net Returns are after Stamper Capital management fees. Investment advisory fees will reduce client’s returns. Fees are hypothetically taken out of non-fee paying accounts when reporting net-of-fee returns. Other costs reducing returns are custody account fees and possibly ticket charges, which can vary depending upon the custodian used. Also, see Disclaimer, below.

Morningstar & Lipper Total Returns Calculation Footnote:
Returns - Figures quoted are total returns calculated for the share class and time periods shown. Performance includes the reinvestment of income dividends and capital gains distributions. Performance does not reflect the deduction of taxes that a shareholder would pay on a fund distribution or the redemption of fund shares. Please go to Morningstar's and/or Lipper's website for more information.

Calculation of Risk-Adjusted Performance Returns Footnote:
Statistical Standard Deviation is the measure typically used, and we are using, as a proxy for risk. Standard Deviation is measured versus a composite's or competitor's own returns. Importantly, Standard Deviation is an attempt to measure risk that has been experienced; however, there may or may not be other risks that were taken on (by our clients or our competitor's clients, etc.) that were not experienced and/or that were not measured by Standard Deviation. Importantly, those risks will likely ultimately, at some time, be realized as we saw in the financial collapse of 2008. Stamper Capital's Upside Potential/Downside Protection Analysis and Implementation attempts to consider these risks and we believe is, in a large part, responsible for our historical outperformance during more unusually volatile periods. Of course, past performance is not necessarily and indication of future success.

Morningstar Risk-Adjusted Star Rating Footnote:
For each fund with at least a 3-year history, Morningstar calculates a Morningstar Rating based on a Morningstar Risk-Adjusted Return measure that accounts for variation in a fund's monthly performance (includeing the effects of sales charges, loads and redemption fees), placing more emphasis on downward variations and rewarding consistent performance. The top 10% of funds in each category reveive 5 stars, the next 22.5% receive 4 stars, the next 35% receive 3 stars, the next 22.5% receive 2 stars and the bottom 10% receive 1 star. Please go to Morningstar's website for more information.

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