Stamper Capital & Investments, Inc.

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

2023 Market Commentary & Forecasts

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

Last Year – It turned out that our 2022 Market Commentary from last year was pretty much "right on" in many categories – we think it is definitely worth a re-read as most of what it forecasted happened and now after "breathers" (counter-trend moves), we believe the same moves are about to resume. It also explains a lot of things, including different types of inflation and their relationship to interest rates. It is quite an extensive write up. Our opening line on the 2022 "Bottom Line(s)" section is:

> 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.

Yep, the yield on the U.S. Thirty Year Long Bond rose from about 1.9% up to a rebound high (since the all-time low in early 2020) of 4.34% on 10-19-2022. At the short end of the Yield Curve, the yield on the One Month T-Bill rose from 0.05% (essentially zero) up to 4.09% - a whopping move! And, from those yields you can see the Yield Curve definitely inverted. In addition to those, as forecasted, yields on Junk Taxable Bonds and High Yield Municipal Bonds widened out; thus, rising even more. And, correspondingly, the yield on 30 Year Mortgages shot up from 3.77% to a high of 7.41% (6.48% currently).

To us, those rises in various interest rates have been the driver of the economy and asset prices. Thus, according to FORBES ("Are we in a recession?" 1-27-2023), "According to a general definition of "recession"- two consecutive quarters of negative gross domestic product (GDP) – the U.S. Entered a recession in the summer of 2022." We note that the National Bureau of Economic Research (NBER)'s definition is ambiguous, giving them room to consider other factors and they have yet to declare the U.S. Is in a "Recession:" however, their certainly has been general economic weakness and contractions.

As for stock prices, we said,

> 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....**We expect more "drops from the top" to happen. We also believe "The Tops Are In" for stocks**.

And, so far we have seen a lot more "drops from the top" and "'The Tops Are In' for stocks." For example, the S&P500 equity index fell from its all-time high on 12-26-2021 by 24.8% to a low on 9-25-2022. Most equity indices performed similarly.

With respect to real estate (and interest rates, inflation and a contracting economy) we said,

> 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, <u>prices of real estate will fall</u> 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.

This is interesting to us. The price of the "IYR" iShares U.S. Real Estate Fund fell from its all-time high on 12-26-2021 down by about 34% to a low on 10-09-2022. Of course, with the cost of financing more than doubling (detailed above) you would expect prices of real estate to drop quite a lot. However, prices of residential real estate (actual houses) are quoted as hardly dropped, so far. At the same time, sales volumes of housing transactions have dropped considerably. However, we believe that if you actually really want to sell your house, the price will be a lot lower than quoted on Zillow, for example.

Another asset that saw is price fall is Bitcoin (Bitcoin USD). It fell from $47,312 on 12-26-2021 down to $17,727 on 6-12-2022 or by 62.5% before rebounding (currently at $23,130). Not sure if this drop was driven by the cost of money (interest rates) or just the general mood. We also note that many scandals have arisen in cybercurrencies and elsewhere and this escalation, which we expect to continue, may have resulted in the drop in prices of cybersecurities and the stocks that saw "air pocket" drops in 2022.

While we had so many price categories meet our forecasts for 2022, commodities were more of a mixed bag. We speculated that the rise in the costs of financing and the economic contraction we were forecasting would push the prices of commodities downward. However, while there were some divergences by type, they generally chopped upwards then downward and then back upwards.

Our Bottom Line, bottom line for 2022 was

> We believe that all of this information and discussion and more strengthens our forecast that "The Top of the Super Peak is 'In.'" <u>**This means Big Drops and Big Retracements**</u> (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).

And that is what happened – during the 4th quarter of 2022, we had varying counter-trend rallies or retracements of the prior drops. Some were substantial and have “flattened” the price graphs of some indices somewhat. In our blog we have talked about how “the bigger the top, the longer it takes for the prices to drop” at least initially. We do believe 2022 was an “initial period” and that the next drops will be larger and the counter-trend retracements smaller.

Looking Forward into 2023 – We are going to keep this write up much briefer and more concise than last year's.

2023 Bottom Line(s):
Last year (2022) prices of most assets dropped quite a lot but then, mostly during the fourth quarter, they chopped back upwards in partial retracement rallies of differing percentages – however, we believe the long term trends are still downward.

We believe these “breather” counter-trend moves, put us back in the situations we were at back in late 2021/early 2022. Some of these counter-trend moves have been substantial. We believe the large relative rebounds point to the large size of this cycle – they are a testament to its size - **It is, after all, what we are calling “The All Every Thing, All-Time Top!” - it is HUGE!** It takes a while for the downturns from such a large cycle to get going. As we said above, we think 2022 was “an initial period” (i.e. flatter price graphs); accordingly, we think the price drops in 2023 will be larger with smaller counter-trend rebound retracements – the price graphs will be less flat – more vertical, unfortunately.

Correspondingly, we are forecasting a resumption in the rise in interest rates. We do believe the inverted yield curve will be resolved by longer interest rates rising more than shorter interest rates, thus, the longer bonds will see their prices drop more and the cost of mortgage financing will rise notably. We also expect the yields of lower quality assets like junk taxable bonds and high yield municipal bonds will continue to rise faster than those of higher quality bonds – “credit quality yield spreads” will continue to widen. In fact, prices of junk taxable bonds and, especially of high yield municipal bonds were leaders in the general drop of asset prices over the past year (at least in direction) and we would not be surprised to see this again in 2023. The price of Bitcoin has also rebounded partially from its huge drop in a choppy counter-trend rally mostly during the 4th quarter of 2022. Thus, to us, Bitcoin is pretty much in the same situation as prices of the other assets we have discussed, and we think it is also due for an accompanying large percentage price drop.

In summary, we are forecasting major drops in the prices of most assets - stocks, real estate, junk bonds, high yield municipal bonds, high grade bonds and commodities, both industrial and financial with interest rates rising across the board in a stair stepped fashion. Basically, at the simplest: cost of financing up = prices of everything financed down.

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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 1-31-2023)

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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