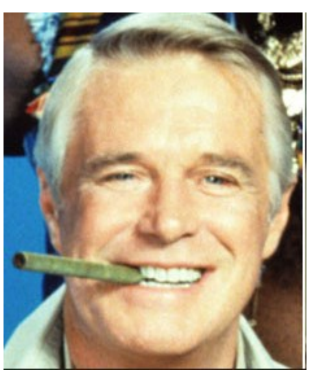
MRP CAPITAL INVESTMENTS, LLC

4th Quarter 2023 Client Newsletter

Capital Market Update

"I love it when a plan comes together." -Colonel John Smith A-Team

Inside this report:



2023 was one of the most satisfying years in our money management careers. With the markets coming off a terrible 2022, the majority of the investing community had a negative and bearish bias. However, all of our research led us to believe that 2022 over-sold every asset class by a significant amount. And the 4th quarter rally in '22 made very little change to that over-sold and under-valued situation. Adding in the fact that 2023 was historically the best time to make money in the markets, given that it was the year before a Presidential election, bolstered our optimism.

As the dust settled and we closed out 2023, we saw 4th quarter price gains of 11.24% on the S&P 500. This put yearly gains at 24.23% for the market.

S&P 500 2023 Chart Supplied by Trading View

We expect that 2024 will be more choppy than 2023. We do think gains are likely to be made and we will try to use the expected chop and volatility as a way to enhance returns for clients. But it is important for everyone to understand that the bulk of the returns in a Presidential election year, historically, come after the election. Until then, be prepped and ready for some turbulence as we navigate the 2024 markets.

2023 Recap

Throughout our 25+ year careers of managing money, we have had a pretty good sense of where markets are and where markets might move to next. That "sense" has come through a lot of hard work. In fact, this is the basis of our extraordinarily long winded slogan for MRPCI, **"To be at peace with your position in the Capital Markets, you must put in constant and diligent effort to comprehend what makes the markets move."**

Last year our hard work led us to believe the markets would generate some pretty nice returns and we formally laid out our thoughts on what the market might have in store for us in our newsletters. In the Q4 2022 newsletter, we laid out our 2023 Bearish, Base, and Bullish forecasts for the S&P 500. Those price levels were:

<u>Consolidated Numbers</u>

Bear 3,460

Base 4,073.35

Bull 4,599

We continued on to list a few things we thought might influence the market positively and wrapped it up with the following comment: ***"Altogether, these things lead us to believe that <u>our Base Case may lean towards our Bullish Case</u>. As these outcomes are not currently priced into the market and we believe some are likely to occur."***

As the markets skyrocketed 7.03% in the first quarter of last year, we, essentially, reiterated that comment when we said the following in our Q1 2023 newsletter: ***"we considered the Bullish Scenario, listed above, as being the most likely scenario to unfold."***

By the end of the 2nd quarter, in which the market shot up another 8.3%, it appeared that others might start to get on our Bullish bandwagon and we wrote the following in our Q2 2023 newsletter:

"If the Bullish trend continues, history suggests that more and more investors will begin to shift their mindset away from being overly conservative. This generally means cash balances will decline and equity allocations will increase. As a result, this should push up stock prices. However many sophisticated investors are not simply holding cash, they are also short the market. If stock prices continue to rise, these shorts will need to be covered. This, in addition to cash moving off the sidelines, has historically had a very large impact on market pricing."

The 3rd quarter did bring about a pullback in market prices. We labeled that pullback a "much needed pullback" in our 3rd Quarter newsletter. We went on to say: ***"November looks to be the prime candidate for a hike. However, if that doesn't come and/or Powell has dovish comments about the outlook for future rate hikes; hold on to your hat! We could see a 1982 type of pop in the markets."*** *

As time has now passed, we see that Powell did not raise rates in November and he was dovish in November and December. As we suspected, the market loved it! In fact, the S&P 500 has risen 16.32% from the low it made prior to Powell pausing rate hikes in November.

S&P 500 Chart provided by Trading View

For the year, the S&P 500 started at 3,818 and ended up at 4,769. This represents a 24.23% gain in market price. And, interestingly enough, this closing value of the market slightly exceeded our Bullish price target for the year. Our bullish forecast, which many people mocked when we initially made it, proved to be a fairly accurate prediction and allowed us to capture big gains for our clients in 2023.

*In late 1982 (and into 1983) the S&P 500 saw a 44% rally in only 3 months. That rally ended up lasting 9 months and saw the index rise 70%.

Additionally, it seemed that everyone was hyper-focused on **<u>interest rates</u>** last year. The Fed began raising rates in 2022 and continued on with that program into 2023. The market seemed to twist and turn on every call for the Fed to be done raising rates and/or every call for the Fed to keep hiking rates.

Our thoughts on rate hikes in 2023 can be summed in a snippet from our 3rd quarter newsletter in the *Higher for Longer* article in response to a question on 'when will rates be coming down?' We said the following,

"to answer this question, we will look at what Powell said during the FOMC meeting…*the committee "projects that the appropriate level of the federal funds rate will be 5.6 percent at the end of this year, 5.1 percent at the end of 2024, and 3.9 percent at the end of 2025."*

Again to summarize, with the Fed Funds rate currently at a range of 5.25% to 5.5%, <u>he is saying that, maybe, they will raise one more time to get the rate to 5.6%. Then they will cut once or twice in 2024 and they will cut between 4 and 6 times in 2025.</u>

<u>Hmmm….seems as though this game of rising rates will end pretty darn soon.</u>

<u>That is, unless it is already over."</u>

With the latest Fed comments and "pauses" in November and December, it looks like the Fed is, indeed, done raising rates just like we outwardly pondered in that quote from the 3rd quarter newsletter.

For the year, the yield on the 10 year Treasury started at 3.83% and closed the year at 3.87%. Those numbers make it sound like a boring and flat year for the 10 year, but in-between going nowhere, it dropped to 3.25% and rose to 5.02%

10 yr. Treasury Yield Chart provided by Trading View

Of course, the driver of those rising interest rates was inflation. Inflation caused by excessive government spending in response to the COVID crisis. In our 3rd quarter newsletter we had the following comments on the inflation in our system (referenced chart included),

"To be quite frank, this inflation fear seems to be a bit overdone. Below you see a chart regarding inflation. Yes, it is higher than a number of years ago, but the reading is SUBSTANTIALLY lower then when inflation mania shocked the markets."

US Inflation Chart provided by Trading View

It seems our thoughts had the concept correct as inflationary pressures continued to subside from the time we wrote that article. At the beginning of the year, CPI stood at 6.4% and as the year came to a close it was at 3.1%.

Perhaps the biggest, yet underplayed, issue of 2023 centered on **geo-political issues**. Russia is still engaged in War with Ukraine. Hamas attacked Israel to begin their War. China and U.S. tensions continue to build. Iran-backed Houthi rebels started attacking cargo ships in the Red Sea. And there are many countries designing and implementing currencies and international payment platforms in attempts to circumvent U.S. controlled payment methods and currencies.

To get a sense of how these events have impacted the markets, let's consider that:

The Vanguard Developed Markets ex US Fund *rose* 14.2% in 2023

The Morningstar China Index Fund ***declined*** 11.13%

The Dollar Index ***declined*** 2.04%

And Bitcoin *rose* 156%

The numbers highlight the fact that these geo-political issues need to be watched very closely.

2024 Outlook

The first thing we need to realize about the upcoming year is that it is a Presidential election year. There is always a lot of chatter surrounding these years that focus on how bad these election years are for investment returns. However when I dug into the numbers surrounding these election years, the data doesn't paint that pessimistic of a picture.

What I found was that:

Since 1948, an average year in the S&P 500 has seen the price rise by 9.08%. The best years for making money are the pre-Presidential election years, such as 2023, which averages 16.79%.

The next best year for returns is the year after the Presidential election, which averages 8.34%. Then comes the Presidential election years and the mid-term election years, which average 6.84% and 4.89% respectively.

So, yes, Presidential election years are not the very best years for investors, but you usually make money. It is the mid-term years that are historically the worst, but money is usually made in those years as well.

With this as our basis for entering 2024, we should feel pretty confident that money can and should be made this upcoming year. And a pretty decent amount of money at that.

Looking deeper into the numbers of Presidential election years, we noticed that a lot of them that see early year sell offs.

Since 1958, there have been 18 Presidential election years.

-13 of those years saw a January pullback in the stock market.

-Of those pullbacks,

-8 started immediately as the new year began,

-2 started a few weeks into the new year, and

-3 started as January was winding down.

-The average size of those pullbacks is about 7%. With the largest being 12% and the smallest being 1.5%. And the rallies before the early January and late January pull backs averaged 3.75%.

Regarding the 5 years that didn't see a January pullback, 4 saw no significant pullback for the entire year and 1 saw a pullback in March.

Looking at that historical data regarding market movements, we can say that we have:

- a 72% of a January pullback in the markets of about 7%. And we have

- a 62% chance that those January pullbacks will begin immediately. However, there is

-a 22% chance we won't see a serious pullback all year.

Additionally, in Presidential election years there is a tendency for the market to sell off prior to the election. Of the 18 election years we looked at only one year did not experience a pre-election sell off. The remainder of the years saw selloffs averaging 7.62% and, on average, the selloffs began on September 1st and ended on October 15th.

However, there is one interesting thing to note. If you only look at the years that had a January pullback, the numbers regarding the pre-election pullback change to an average pullback of 8.05% that begins on September 15th and lasts until November 13th . This information seems to highlight the fact that years in which there is been a January pullback, there has also been a fairly significant pre-election sell off too.

To finish off this data review of Presidential election years, there is a pretty consistent 20% rally from the lows of the pre-election selloff until the end of the year.

This historical information regarding Presidential election years gives us a foundation of understanding upon which to build our forecast. Now we need to add in our current market's fundamentals to see what is most likely to unfold in 2024.

2023 saw rates, finally, roll over and begin their move downwards. This happened because we also saw inflation fall big time as the year progressed. We are of the mindset that these trends should continue. In fact, **deflation** seems to be in the cards for the later parts of 2024. An argument can be made that we are already in a deflationary environment due to the lags in data inputs used to calculate very large sectors of CPI, specifically housing data. But, for now, the data is still showing inflationary pressures within our economy..

December saw **Consumer Sentiment** jump 14%. There is no question that **falling interest rates,** a dovish Fed, a rallying stock market, and continuing robustness in housing prices contributed to this jump in sentiment. Our work suggest this rebound in sentiment can continue throughout the 2024.

This improvement in the consumer's mindset can be bolstered if the Fed begins to stimulate the economy, rather than restrict economic growth with tight monetary policy like it did throughout 2022 and 2023. We think **stimulus** can be the Fed's mantra in 2024 for a number of reasons. The biggest is the rapid pivot in tone we saw from Fed Chair Powell during the December FOMC meeting. His flipping from hawk to dove so rapidly reminds us a lot of what he did in 2018/2019. In that time period he was hellbent on raising rates to normalize the credit markets, when, WHAM!, he switched and began cutting rates in early 2019. I am not so sure he will cut as quickly as he did then, but the vibe he gave off remind us of that time frame. Heck, maybe he sees the deflationary threat that we see too.

Putting all of this together, helps us put reasonable price targets for the markets in place. Which of course, helps us make asset allocation and sector weighting decisions. The more risky the market, the more defensive we need to be and, vice-versa, the more upside we foresee in the markets helps us allocate in a manner that seeks to maximize returns.

What we have in place for 2024, is a Presidential election year that could have a couple of sell offs. Nevertheless, the year should end up profitable for our investments. We have identified a few concepts that might provide the foundation for those gains. The slowing rates of inflation should keep interest rates low. Lower rates equate to higher asset valuations. Low rates and higher asset prices could continue to push up consumer sentiment, which would give people and businesses the confidence to keep spending. And this, in turn, keeps corporate revenues and earnings growing. Which support higher equity prices.

The next step we need to take to put the finishing touches on our 2024 forecast is to apply our findings to our current market pricing levels.

We know that the market closed 2023 at 4,850. We also know that 72% of the time the market sells off an average of 7% in January, then is in a trading range until the pre-election sell off of 8%, and finally it, historically, rallies about 20% the close out the year.

That would mean the market starts the year at 4,850, drops to 4,510, bounces around that figure, until it drops to 4,333 and then runs up to 5,200 to close out the year.

We will call this scenario the **<u>"Average Presidential Year Scenario"</u>**

We also know that 22% of the time, there is no pullback in the 1st quarter. During those years, on average, the market goes up a fairly smooth and easy 15.25%.

We will call this scenario the **<u>"Smooth Sailing Scenario."</u>**

That leaves us 6% of wiggle room. When looking at the returns for election years, we noted that (aside from the Great Financial Crisis of '08) the worst Presidential election year saw the markets fall 10.2%

We will make this our final scenario and we will call it the **<u>"Oh s**t! scenario."</u>**

When we take the returns associated with the scenarios and apply their probability of occurring, we derive a price level for the S&P 500.

(5,220*0.72)+(5,589.6*0.22)+(4,365*.06)=5,250.01

This will serve as the base case for our 2024 market forecast. We will use the number from the Smooth Sailing Scenario as our Bull case and the Oh s**t Scenario as our Bear Case.

To summarize, our forecasts for the S&P 500 in 2024 are:

Bearish Forecast 4,365...down 10%

Base Forecast 5,250….up 8.25%

Bullish Forecast 5,589...up 15.24%

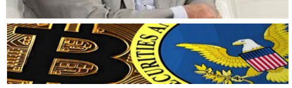
Cryptocurrency Update

If someone thought the stock and bond markets were interesting in 2023, then the crypto markets must have been to intense for them to watch.

For starters the cornerstone of crypto, bitcoin, rallied 156% in 2023 and 256% from its November 2022 low.

Additionally, the Securities and Exchange Commission (SEC) loaded up their staff with attack dogs set to go after the crypto industry. However, when they went on the offensive and began legal procedures, they LOST the key cases in the courts.

These losses in the court of law set up the 235% rally in the Grayscale Bitcoin Trust and opened to door for players, like Blackrock and Fidelity, to begin the process of offering spot bitcoin ETFs that can be purchased at any mainstream brokerage house.



Furthermore, mass adoption of crypto and, more specifically, bitcoin kept barreling forward and breakneck speed.

-The daily volume of transactions on the Decentralized Exchanges rose 300% during 2023 from $1 billion to $4 billion per day.

-FASB (Financial Accounting Standards Board) changed the accounting rules for digital assets. They are now accounted for using market value of the assets, just like stocks are, and this should have a big impact on institutional usage of digital assets.

-JPM is currently using their own crypto coin, the JPM Coin, to facilitate international currency transactions. It has been reported that that coin is moving $1 billion a day in international transactions, but overtime should do a much higher volume.

-There are heavy, late round, conversations between Saudi Arabia, Russia, and Iran concerning conducting oil sales in bitcoin.

-After learning about this, Qatar is considering investing a substantial portion of their $500 billion Sovereign Wealth Fund into bitcoin.

QIA
جهـــاز قطـــر للاستثـــمـــار
QATAR INVESTMENT AUTHORITY

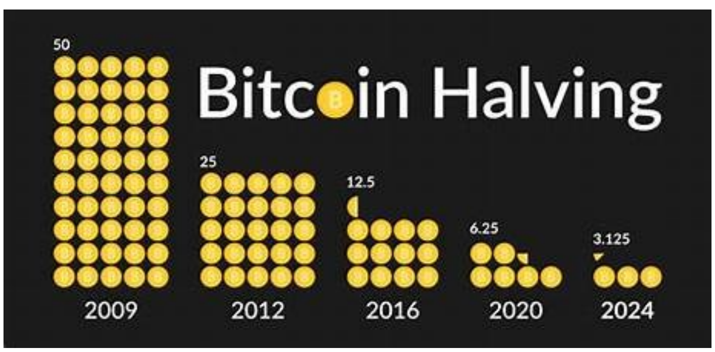
-The BRICS currency that Brazil, Russia, India, China, and South Africa are putting together for international transactions, in an effort to be less reliant on the U.S. dollar, are considering using bitcoin as one of the sources of collateral.

-Russia is setting up a major bitcoin mining facility in Ethiopia.

-El Salvador has made bitcoin legal tender. Furthermore, they paid off $800 million in debt ahead of schedule. This prompt their debt to be one of the best performers during 2023. And they have established Bitcoin City with the hub being a bitcoin mining facility powered by the thermal energy produced by the volcanoes in El Salvador.

Looking forward to 2024, there are a few really important things occurring. The first is the offering of a spot bitcoin ETF. This will allow brokers and financial advisors to offer bitcoin to their clients in a manner in which they have grown accustom to seeing with the other investments. And that is, in a mutual fund or exchange traded fund wrapper that can be bought and sold on a daily basis. This opens avenues of investment that were previously closed off to bitcoin.

And finally, it is a halving year for bitcoin. Every few years, the Bitcoin network reduces the amount of bitcoin that miners receive for validating transactions on the Bitcoin network's blockchain. This reduction is a 50% reduction and has historically been associated with massive price increases during the year of, and the year after, the halving.



There was never a dull moment in 2023 for the crypto markets. I am sure 2024 will be the same. Mass adoption seems to be on the way as regulations are solidifying and accounting standards are being formalized. Time will tell how all this shakes out and rest assured we have our popcorn ready.

Non-Financial Events occurring this quarter

This quarter saw Hamas attack Israel

Javier Milei elected President of Argentina

Texas Rangers win the world series

Houthi rebels attack cargo ships

And the first eye transplant.

INFORMATION AND DISCLOSURES

This publication is a snapshot of the research and opinions of MRP Capital Investments, LLC. And with that, the opinions and predictions set forth in our publications are our professional beliefs at the time of publication. We are not under duress or pressure from any of the corporate entities mentioned, nor do we intend to do business with them on the investment banking or advisory side of things. This report is not a solicitation or inducement to take action, whether buying or selling, based upon the opinions presented.

Although MRP Capital Investments, LLC is an investment advisor, these publications are not to be construed as investment advice. We strive to be as impartial, insightful and accurate as possible. We do base our opinions, analysis, and calculations on information and analysis that we believe to be reliable, but we cannot guarantee that they are either accurate or complete. We may change our minds about any item mentioned and we will not necessarily update them in print.

Please contact MRP Capital Investments, LLC if there are any changes in your financial situation or investment objectives, or if you wish to impose, add or modify any reasonable restrictions to the management of your account. Our current Form ADV Part 2A disclosure brochure is available upon request.

MRP Capital Investments, LLC and/or its officers or employees, may have a position in the securities mentioned in this report, and may purchase or sell such securities from time to time.

Finally, we must disclose that investments have the potential for profit and loss and that PAST PERFORMANCE DOES NOT GUARANTEE FUTURE RESULTS.

MRP CAPITAL INVESTMENTS, LLC

8440 Holcomb Bridge Road, Suite 520

Alpharetta, GA 30022

404-274-7851

www.mrpci.com