OYAT ADVISORS – QUARTERLY COMMENTARY

1Q 2024

Investment landscape

In the first quarter of 2024, global equity markets reached record levels, propelled higher by a general perception of 'resilient economic data'.

Just so that readers do not misjudge us for so-called 'permanent bears', let us stress right away that a new high, in itself, is not necessarily a cause for concern, or foreshadowing of an imminent market collapse. As a case in point, over the past 50 years, the S&P 500 achieved new highs for 26% of the time, so it's perhaps a lot more common that one might think[1].

Rather, what is crucial is to assess the reasons why global equity markets have reached new highs. Does it reflect the strong underlying fundamentals of the world economy, and how that may translate into the earnings growth potential of corporations, in which case such market levels may be justified? Or is it driven by misleading or misinterpreted economic data, as well as fear of missing out, that is increasingly fueling a sense of complacency by market participants regarding risk perception?

Let us consider some of the recent economic data that has been either cheered on or ignored by investors.

In the U.S., real gross domestic product (GDP) for the fourth quarter of 2023 surprised on the upside, increasing at an annual rate of 3.4%. So far so good. But looking at the data more closely, one might observe that this was mainly driven by government spending, nonresidential business investments, as well as consumer spending[2].

Government spending increased 4.6% year-on-year (yoy), which wouldn't necessarily be problematic, if it wasn't for the fact that the federal budget deficit totaled $2.0 trillion in fiscal 2023, representing about 7.4% of GDP, larger than any fiscal year in history when the U.S. was not at war, in recession, or facing another major emergency[3].

There isn't much to complain about regarding business investments (up 3.7% yoy), apart that it mostly relates to investments in intangibles rather than real productive assets. But then we turn to consumer spending, which increased by 3.3% yoy. This too would not be worrisome, if not for the fact that a large portion of this spending appears to have been financed by further debt accumulation on the part of households, including credit card debt, which increased by $ 50 billion in 4Q23 to $ 1.13 trillion[4].

What we are trying to highlight here should be rather self-evident. Such economic indicators can be ambiguous at best, and investors would be prudent to recognize that on the surface, they tell us very little about real economic conditions, let alone future economic or investment prospects.

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[1] https://oakmark.com/news-insights/navigating-market-highs-and-avoiding-value-traps-u-s-equity-market-commentary-1q24/

[2] https://www.ey.com/en_us/strategy/macroeconomics/us-gdp-q4-2023-third-estimate

[3] https://www.crfb.org/blogs/deficit-was-20-trillion-over-past-year

[4] https://www.newyorkfed.org/newsevents/news/research/2024/20240206

Another such example relates to employment statistics, which is also concerning because of the widening gap between what the establishment nonfarm payroll data is telling us (that the labor market is still very strong) and what the household survey of employment is conveying (that companies are steadily laying off workers)[5].

Finally, we can point to inflation figures, which are of course a key determinant of central banks' policy decisions regarding interest rates, given that it is key to their mandate. In our [4Q23 commentary](), we voiced our caution regarding the consensus view at the time that the fight against inflation was over and done with, which would pave the way for a significant number of interest rate cuts in 2024. Rather, we suggested that we may be experiencing a temporary phase of disinflation in an overall longer-term period of structural inflation.

Both the January and February U.S. CPI prints proved 'stickier' than expected, and the March report to be released this week might even show a slight re-acceleration of the headline CPI, which will likely raise even more concerns about inflation being solidly entrenched[6]. On the back of these developments, investors have had to reassess their expectations regarding the likely number of interest rate cuts this year, from 6 or 7 cuts (of 25 basis points each) in January to fewer than 3 as of today[7]. Some market observers go as far as arguing that there might not be any interest rate cuts in 2024, as highlighted by a recent Barron's article[8].

In this context, global equities posted strong returns, with the MSCI World up 9% during the first quarter (gross return, in USD). This was especially true in the U.S., where the S&P 500 rose 10.6%, outperforming most of its peers, driven yet again by the exorbitant performance of the 'magnificent seven' stocks. However, the best performing market of the quarter was Japan once again, with the TOPIX up 18.1% in 1Q24, despite the BoJ's announcement to end its negative interest rate policy and yield curve control. Overall, European equities continued to lag the U.S. and Japan, while emerging market equities significantly underperformed their developed market peers, with the MSCI EM Index returning 2.4%, as investors remained concerned about China's growth prospects.

While equity investors cheered supposedly strong economic data, for fixed income investors it was a more challenging quarter. Stickier inflation prints, 'resilient' economic activity, and the Fed back-pedaling somewhat on its dovish December tone combined to drive negative returns for bonds. Overall, the Bloomberg Global Aggregate Index fell -2.1% last quarter as yields increased.

Finally, looking at investors' risk perception, there are clear signs of complacency, with one notable exception. On the one hand, many markets appear increasingly priced for perfection, as high valuation levels would indicate. Concentration levels are also high, and still rising throughout the first quarter of 2024, despite greater market breath. Volatility remains low, with the VIX averaging around 14 over the period. Investors' use of margin debt is on the rise once

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[5] https://www.morningstar.com/economy/despite-strong-jobs-report-fed-still-seen-track-cut-rates
[6] https://www.fxstreet.com/analysis/us-cpi-data-unlikely-to-ease-sticky-inflation-worries-but-will-markets-care-202404081352
[7] https://www.ft.com/content/9499ab2e-e562-4c46-9cb1-c8a1d990035b
[8] https://www.barrons.com/articles/interest-rate-cuts-fed-inflation-economy-d3d3e345

again[9]. Looking at corporate credit, U.S.[10] and EU[11] high-yield spreads have continued to decline, and currently stand at 3.2% and 3.6% respectively. As such, the level of insurance against default that investors demand for junk bonds is rapidly moving back towards all-time lows. These are but some of the signposts that might give some indications about risk perception.

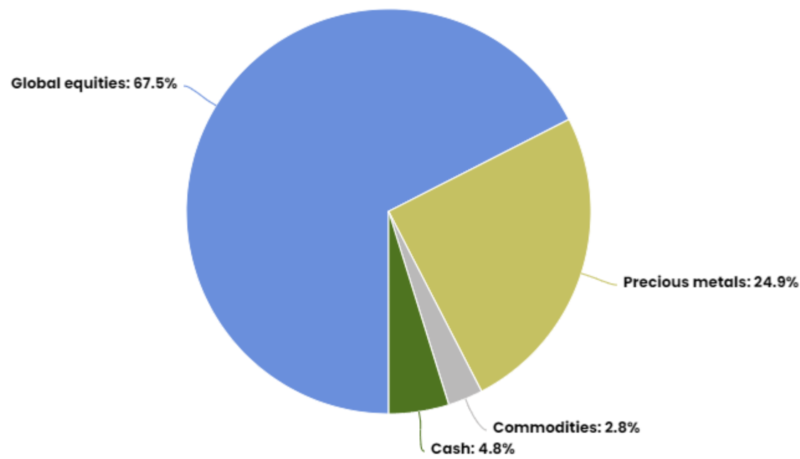
On the other hand, physical gold, traditionally a risk-off asset, begs to differ with the notion that all market participants are increasingly complacent. Throughout the first quarter of 2024, the performance of the yellow metal likely surprised many investors, nearly matching the performance of the S&P 500. The breakdown of the long-standing relationship between gold and real interest rates remains a puzzlement to many, who struggle to recognize that while gold does indeed not possess a yield, it offers many other advantages, as we've described in detail in numerous prior writings.

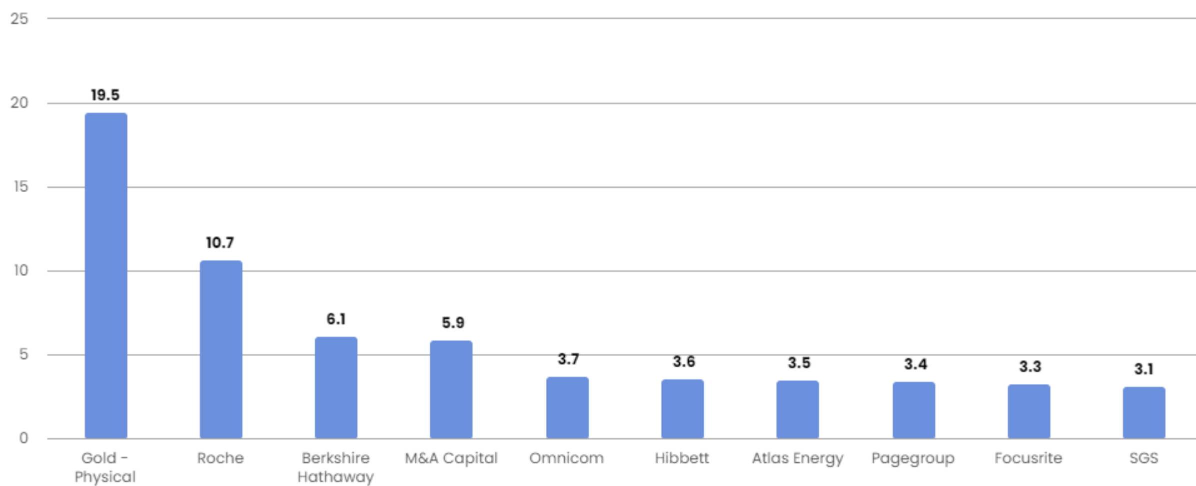
In conclusion, it is with a sense of humility that we say again, as we've stated many times in the past, that the crystal ball is foggy at best. We do not know what will happen in the near-term. But that doesn't necessarily mean that our chosen pathway to strive for resilient wealth creation is any less clear. In a world of monetary abundance, we want to mainly focus on owning scarce and productive assets, focusing on 'quality' businesses trading at reasonable prices, often found in fairly mundane places. We also want to maintain some level of optionality by holding liquid reserves, predominantly in the form of physical gold.

[9] https://realinvestmentadvice.com/margin-debt-surges-as-bulls-leverage-bets/
[10] https://fred.stlouisfed.org/graph/?g=hyqE
[11] https://fred.stlouisfed.org/graph/?g=hyqH

Asset allocation

The graphs below display the Oyat Investment Fund's allocation of capital across asset classes, as well as the Fund's top-10 positions:





Performance

Performance as of March 31, 2024, in CHF

	3m	1yr	3yrs p.a.	5yrs p.a.	Since inception p.a.
Oyat Investment Fund	7.1%	6.6%	-	-	5.5%
MSCI World	16.7%	23.9%	-	-	18.1%

Annual performance as of March 31, 2024, in CHF

	2022*	2023	2024	Cumulative*
Oyat Investment Fund	-2.4%	3.0%	7.1%	7.6%
MSCI World	-5.0%	13.3%	16.7%	25.6%

**Inception Date: November 10, 2022*

In the first quarter of 2024, the Oyat Investment Fund returned 7.13% in CHF, versus 16.7% for the MSCI World Index. Since inception, the Fund's total return stands at 7.64% vs. 25.6% for the aforementioned reference index.

The Fund's largest performance contributor this past quarter was physical gold, which increased by a substantial 14.9% in CHF (up 8.4% in USD). The yellow metal, which we consider as the ultimate reserve asset, given it scarcity, permanence, and the fact that it carries no counterparty risk, appreciated steadily throughout the start of the year, and then sharply starting in March. It is not entirely clear what prompted this move precipitously higher at this particular moment in time, apart from the long-standing usual suspects: high debt levels and budget deficits, monetary policies that remain far from highly restrictive, growing worries about inflation, and rising geopolitical tensions. Perhaps more significantly, robust buying from a number of central banks such as the China's continued unabated, as has been the case ever since the sanctioning of Russian reserve assets at the start of the invasion of Ukraine[12]. Interestingly, the rally in gold appears to have occurred without much enthusiasm from the investment community, as measured by gold ETF flows which have declined marginally year-to-date[13], whereas inflows in the newly-launched crypto ETFs have surged[14]. Overall, physical gold is continuing to fulfil its

[12] https://www.wsj.com/economy/central-banking/gold-hits-fresh-highs-as-central-banks-ramp-up-purchases-7149ae68

[13] https://ingoldwetrust.report/gold-compass/monthly-gold-compass-april-2024/?lang=en

[14] https://www.investopedia.com/spot-bitcoin-etf-winners-and-losers-as-net-inflows-top-usd12b-in-q1-2024-8621721

function in our portfolio construct admirably, and the time has not yet come for us to consider exchanging a portion of it for other assets.

Berkshire Hathaway was also a significant performance contributor, up approx. 26% in CHF in the first quarter of 2024. In late February, the company reported better-than-expected 4Q23 results, yet again demonstrating many of its desirable attributes: a decentralized business model, broad business diversification, high cash-generation capabilities, and an unmatched balance sheet strength. With the stock trading closer to fair value, we took the opportunity to trim our large holding in the stock in March to reinvest proceeds into other investment opportunities.

GQG Partners also performed strongly, up approx. 37% in CHF. The global asset management firm continued to impress with its very rapid growth in AuM, with both net inflows and the stellar performance of its funds contributing. Moreover, some of the concerns that emerged about the firm's investment in India, which in our view created a buying opportunity when we first purchased the stock in 3Q23, have gradually dissipated as these investments have proven very shrewd thus far[15].

Last, our newly-initiated position in Atlas Energy Solutions Inc. this past quarter already contributed positively to the Fund's performance, being up approx. 26% in CHF. Atlas is a leading provider of mission-critical supplies and logistics services to the oil & gas industry within the Permian Basin of West Texas and New Mexico, the most active basin in North America. The company was founded by Bud Brigham, whose track record is nothing short of exemplary, and who owns nearly a fifth of the firm following its IPO in early 2023. Together with the rest of the management team, including its current CEO John Turner, Atlas had a vision to innovate and greatly improve the efficiency of supplying sand-based proppants to oil & gas producers, notably regarding logistical organization. Over the past 6-7 years, they accomplished this vision by investing a large amount of capital to acquire control over top-quality resources, build two modern production plants, build up logistics assets, and break ground on the Dune Express. This is a 42-mile conveyor system that originates at the company's Kermit facility and stretches into the middle of the Northern Delaware Basin. Upon completion in 4Q24, it will be capable of transporting 13 million tons of product annually, and is designed to have more than 84,000 tons of dry storage within the system. Crucially, it is expected to deliver a 95% reduction in miles driven for the supply of sand-proppant to a typical Permian basin well. Getting trucks of the road is something that we can all get behind, with demonstrable economic, social, and environmental benefits. Lastly, in late February, Atlas announced that it was acquiring certain production and logistics assets from Hi-Crush Inc., which we view positively as it reinforces the firm's market leading position, and ensures the high utilization rate of the Dune Express once it comes online. While our investment in Atlas is slightly riskier than the kind of investments the Fund typically undertakes, we believe that there is a favorable risk/return asymmetry, as assessed by the level of free cash flow we expect the firm to generate come 2025-2026. Our margin of safety has shrunk marginally following the strong stock price performance, but we still see the company as a solid hold at current levels.

Moving on to the less positive news and performance detractors. In absolute terms, our largest performance detractor was Focusrite, which declined by approx. 40% in CHF, as the company

[15] https://www.bnnbloomberg.ca/rajiv-jain-led-gqg-s-10-billion-india-bet-has-winning-picks-beyond-adani-1.2009915

continued to be impacted by inventory destocking following the huge boost in business it experienced throughout the COVID crisis, as well as inflationary pressures. Additionally, the launch of some higher-end Scarlett Generation 4 products, originally planned to begin shipping in April, has now been delayed, which will impact sales for the current fiscal year. Having said that, we believe that the company remains in a solid competitive position, and that the sales level of its Focusrite and Novation segments are more or less back on a normalized trendline. On the Audio Reproduction side of the business, the company's results remain robust. Overall, we took the opportunity of the steep stock price decline to increase our position in the company.

Other small performance detractors in absolute terms include M&A Capital and Roche, which both experienced modest declines throughout the period. In relative terms, we experienced very significant negative contributions from Nvidia, which nearly doubled in price (in CHF) last quarter. Microsoft, Amazon, Meta, and Eli Lilly also contributed significantly to the gap that grew between the Fund's performance and the MSCI World.

We refer you to a recent discussion in our 4Q23 commentary (pg. 8) regarding a number of important facts that may help readers contextualize relative performance.

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