AozoraStep Capital LLP

A UK focused Turnaround Value Investment Partnership

www.aozorastep.com

david@aozorastep.com

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2023 MACRO OUTLOOK – HISTORIC ANALOGIES

Comparing the current cycle with cycles of the past by looking at the following indicators:

- 2s10s UST yield curve inversions
- S&P 500
- WTI oil prices
- EURUSD exchange rate

The following time periods are compared:

- 1919-21: Forgotten Depression
- 1978-81: Oil supply shock
- 2000-02: Dotcom bubble
- 2006-08: Global financial crisis
- 2014-15: Russian Crimea invasion

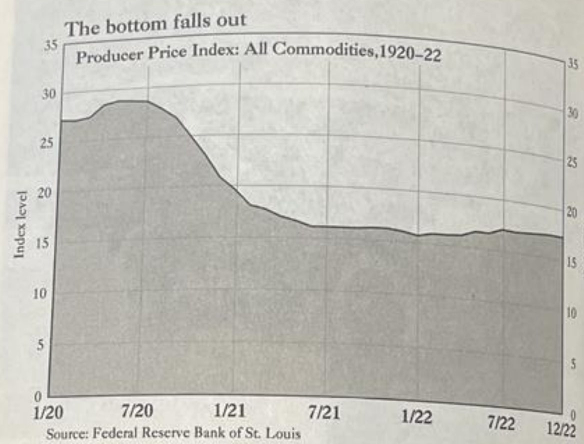
HISTORICAL ANALOGIES – 1919-21

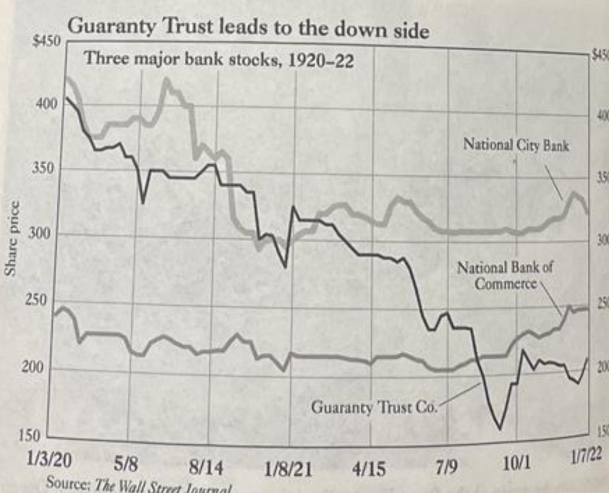
- Forgotten Depression 1920/21 overlay would equate S&P 500 low in August 2023
- In 1921 market bottomed at equivalent of August 2023 in today's time when laying time frames of 1918 Influenza on top of 2020 Covid outbreak
    - Both pandemics had 4 major waves, lockdowns
    - High fiscal and monetary response led to high inflation
    - Market were driven by a high degree of speculation
    - The Fed then fought inflation aggressively
    - De-globalization and extremes from far left and far right were emerging
    - Shift from horse towards ICE vs. from ICE to EV now
    - The US came out stronger, while Europe suffered (e.g. Weimar Republic)
    - The UK was mired in strikes
    - Market top was November 1919 = November 2021

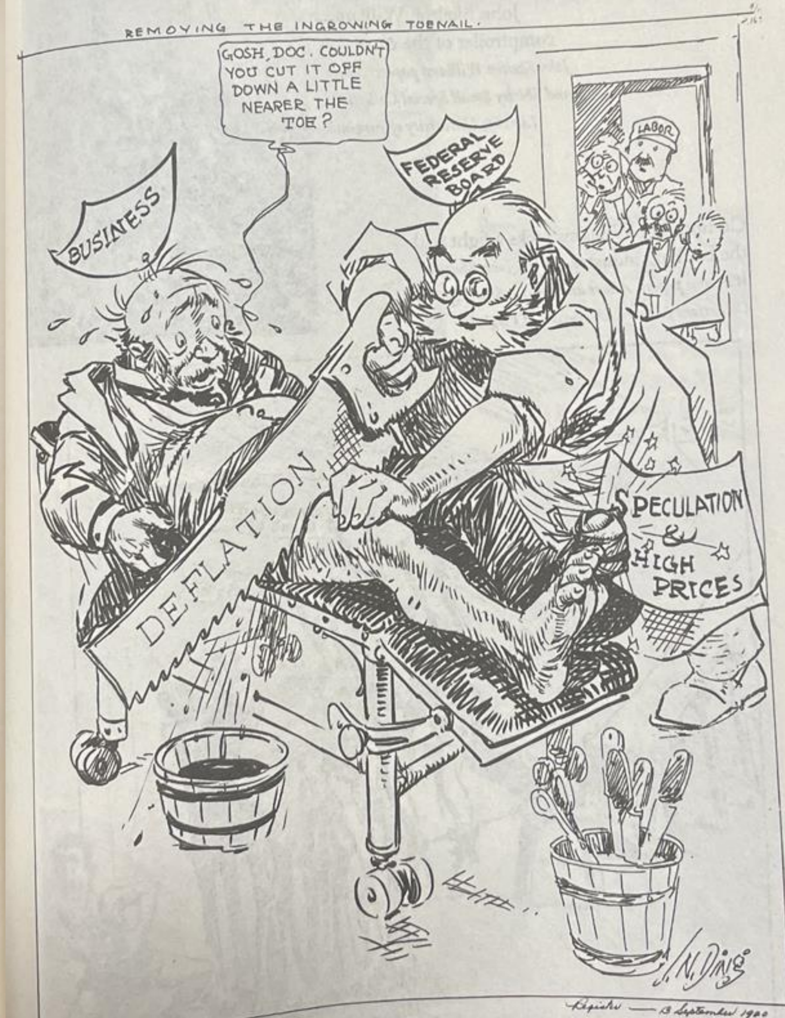
Source: The Forgotten Depression by James Grant

HISTORICAL ANALOGIES – 1919-21

- Forgotten Depression of 1920/21 looks eerily similar to current market developments with 1920/21 equals 2022/23 today



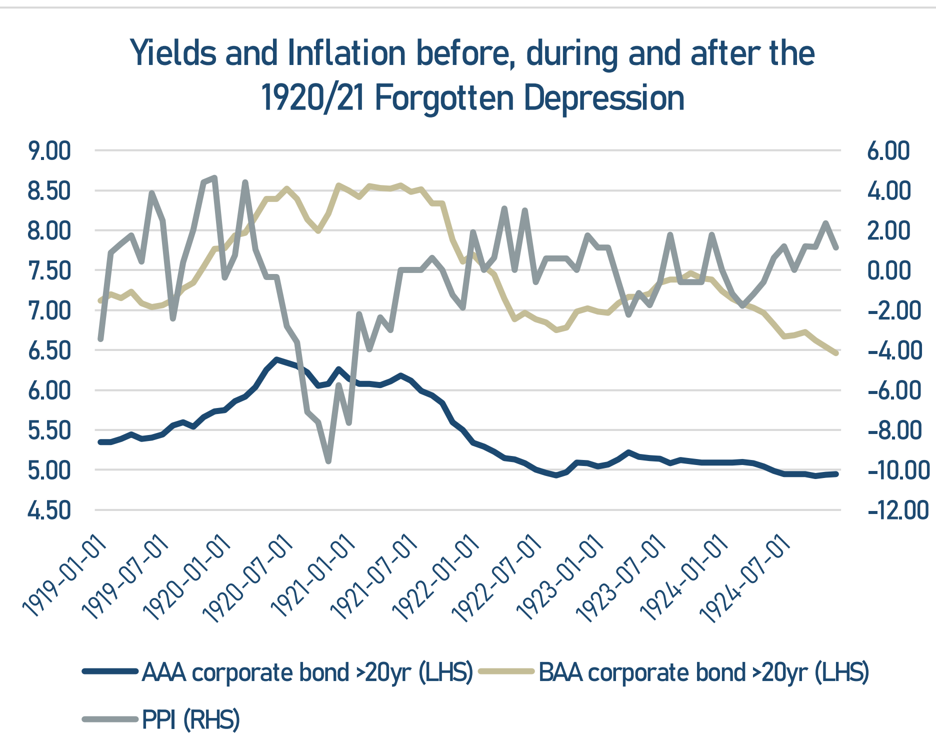


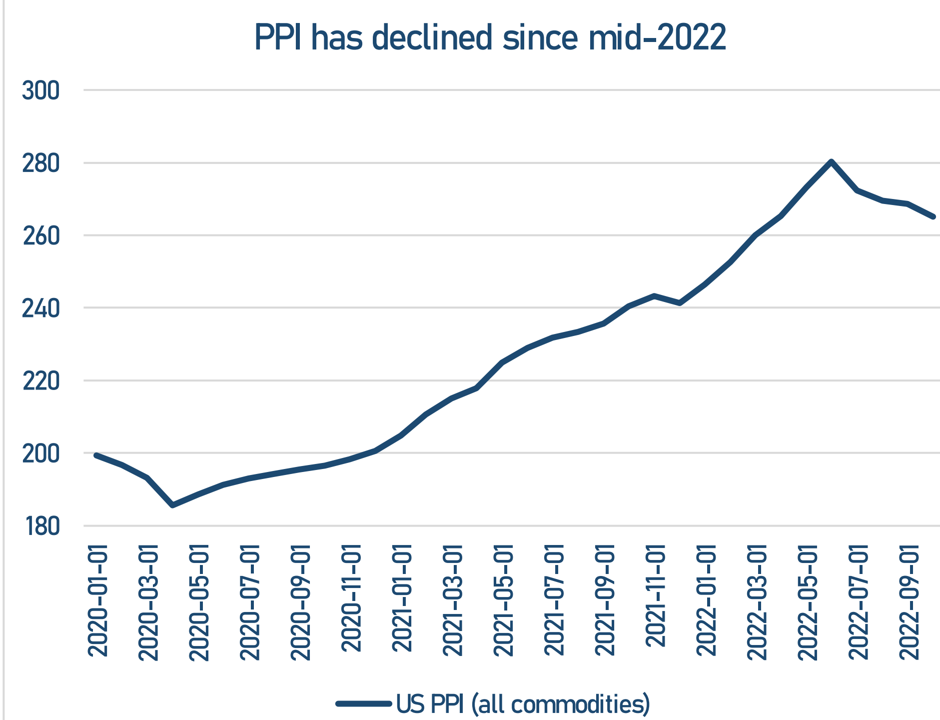


The cartoonist Ding Darling weighs in on the monetary question, September 1920.
Courtesy of the Jay N. "Ding" Darling Wildlife Society

HISTORICAL ANALOGIES – 1919-21 YIELDS AND PPI

- PPI declined abruptly from mid-1920, but yields only really declined from end-1921 (end 2023 equivalent)
- If analogy works with current time, PPI would have started to decline by mid-2022, which is indeed the case…

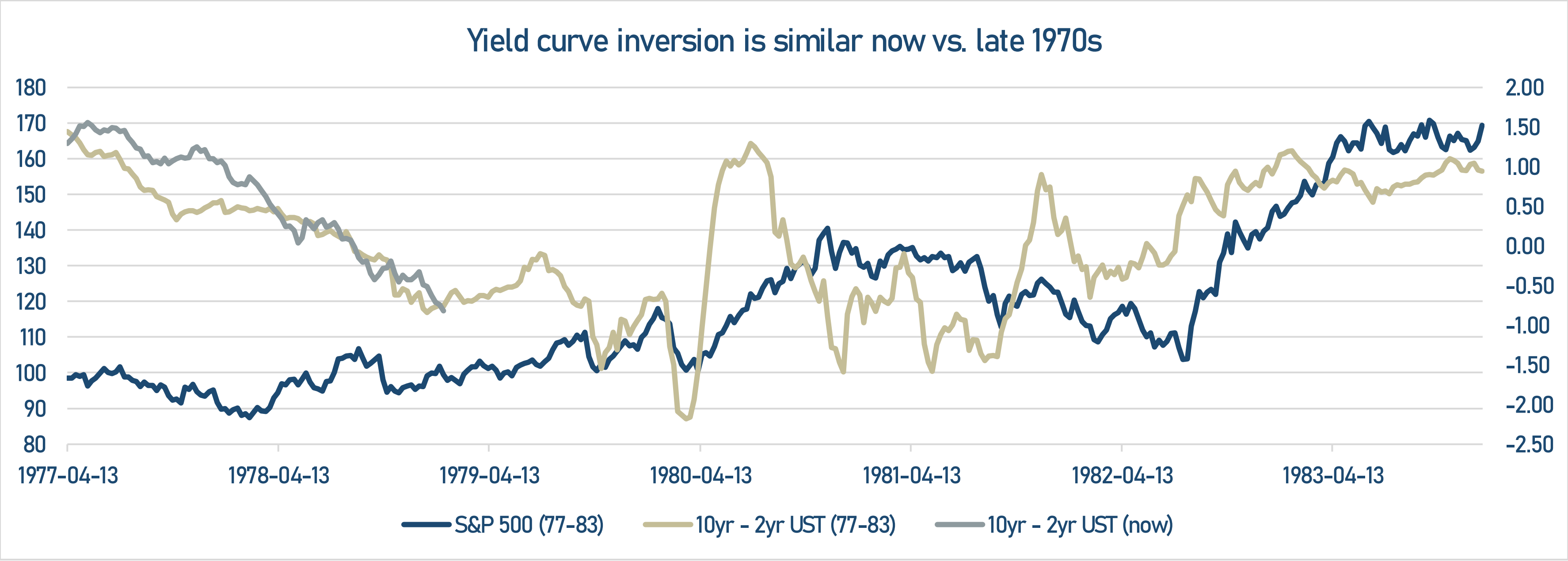




HISTORICAL ANALOGIES – 1978-81 YIELD CURVE INVERSION

Yield curve

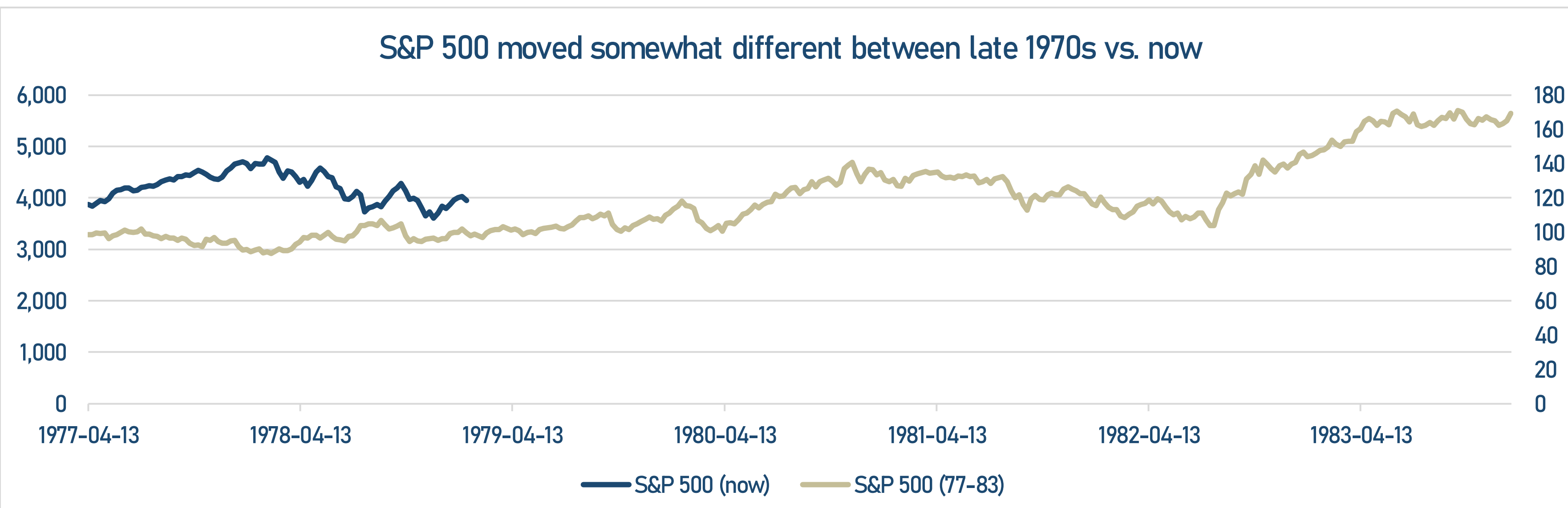
- 1st 2s10s inversion on 23rd August 1978, deepest inversion on 19th March 1980, out of inversion on 7th May 1980, then back in on 17th September 1980, deepest 20th May 1981, our of inversion 28th October 1981
- 1st 2s10s inversion on 8th July 2022, deepest equivalent to 2nd February 2024, end of inversion on 22nd March 2023 equivalent



Source: FRED St. Louis

HISTORICAL ANALOGIES – 1978-81 SUMMARY THOUGHTS

- Interest rates were at much higher initial levels compared to now
- Taxes were much higher then vs. now
- The world was de-globalised then vs. globalised now
- Inflation was purely energy driven vs. lockdown driven now
- The 1970s energy crisis is not a good analogy to the current world order other than Europe being in an energy crisis – all else is different



Source: FRED St. Louis

HISTORICAL ANALOGIES – 2000-02

Yield curve

- 1st 2s10s inversion on 2nd February 2000, deepest inversion on 16th August 2000, out of inversion on 3rd January 2001
- 1st 2s10s inversion on 8th July 2022, deepest equivalent to 20th January 2023, end of inversion on 9th June 2023 equivalent

Equities

- 23rd August 2000 = peak in S&P 500 vs. 12th September 2001 = initial low in S&P 500 vs. 25th September 2002 final low in S&P 500
- S&P 500 peak on 31st December 2021 → 20th January 2023 initial low in S&P 500 vs. 2nd February 2024 final low in S&P 500

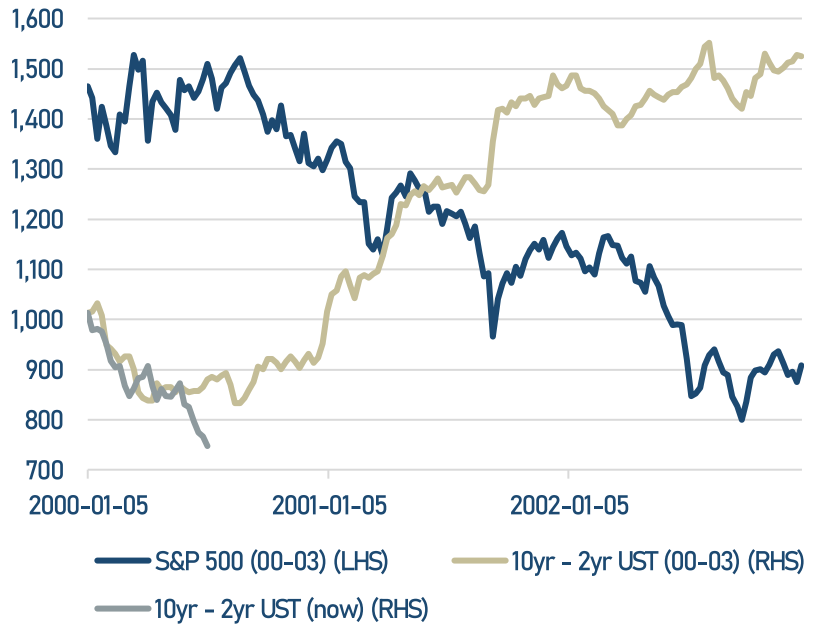
Oil

- 22nd November 2000 = peak oil prices vs. 12th December 2001 = low in oil prices
- Oil prices peaked on 10th June 2022 → 30th June 2023 equivalent low in oil prices

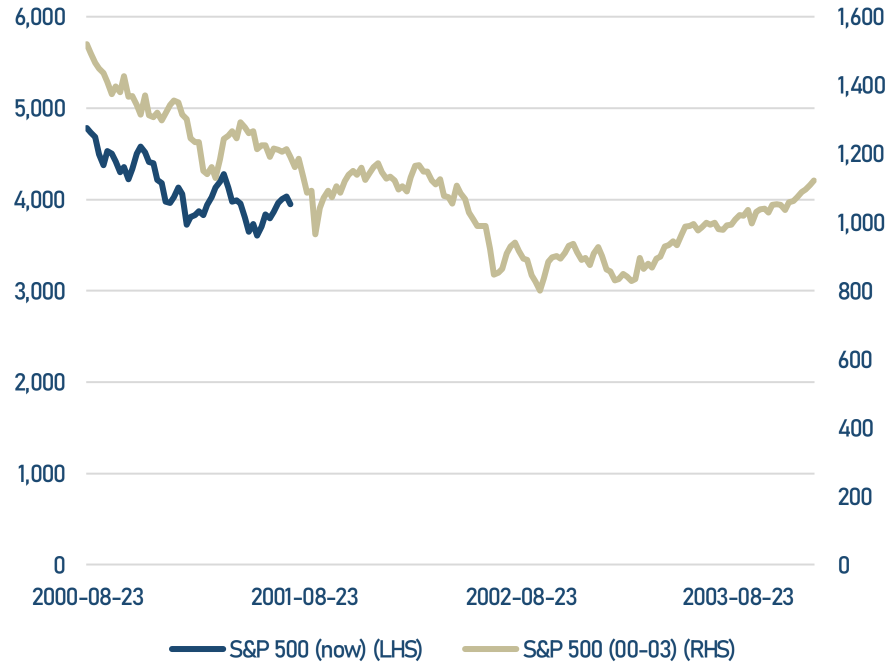
HISTORICAL ANALOGIES – 2000-02 INVERSION VS. EQUITIES

- Yield curve is currently deeper inverted than during 2000-03
- S&P 500 was stable during inversion in 2000, only lost after yield curve steepened
- This time, S&P 500 is losing value during the inversion, however, laying S&P 500 peak of 2000 on top of now, the declines have been relatively similar

Current yield curve inversion is deeper than in 2000



S&P 500 from its peak in 2000 vs. now

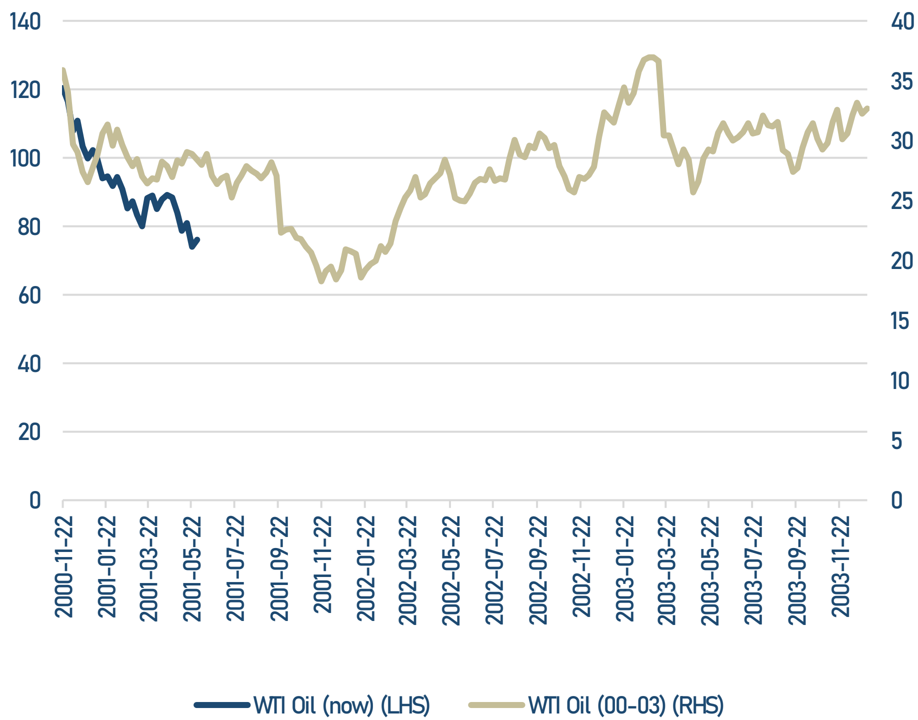


Source: FRED St. Louis

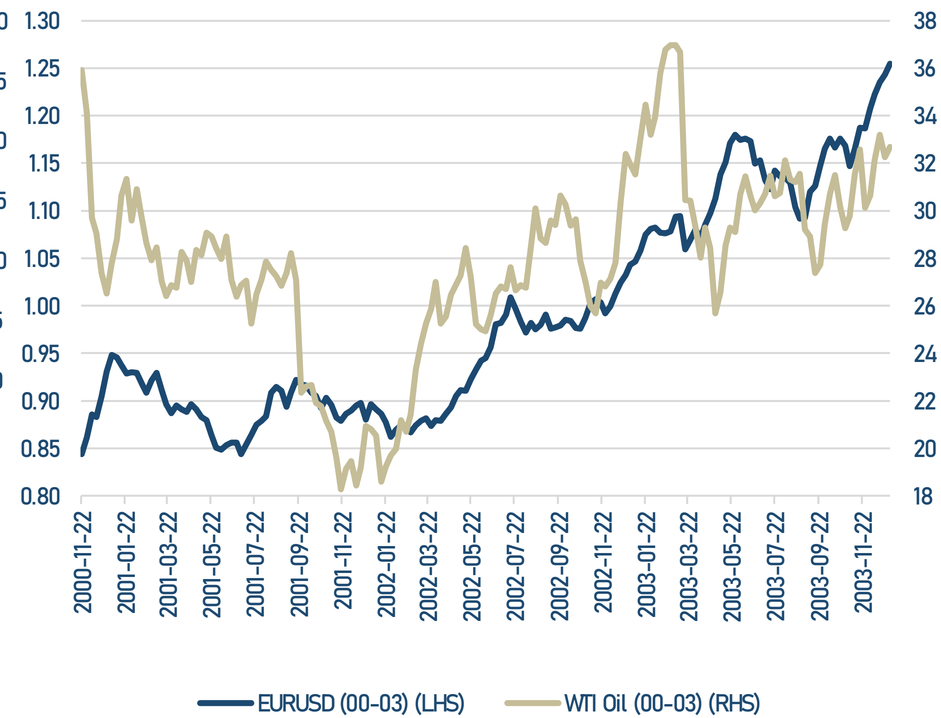
HISTORICAL ANALOGIES – 2000-02 OIL PRICES VS. US$

- Oil prices have fallen faster now vs. in 2000
- From March 2001 oil prices began rising with EURUSD following through with a 2-month delay

WTI oil price from its peak in 2000 vs. now



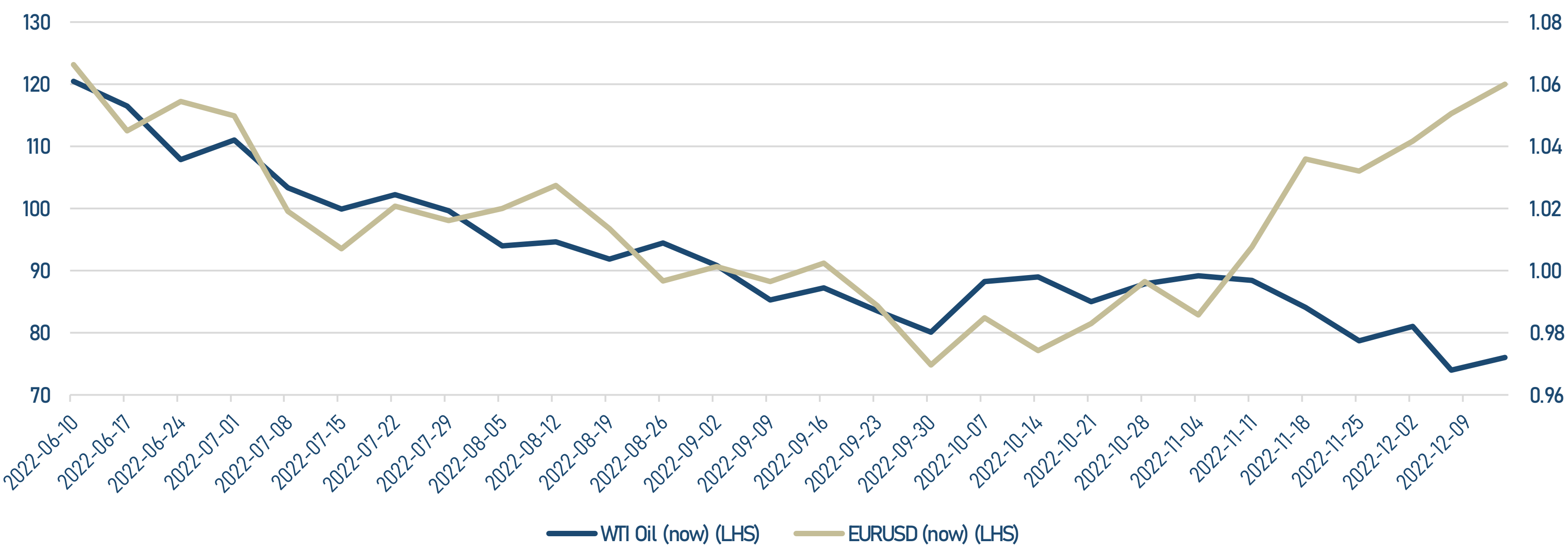
WTI oil price from its peak in 2000 vs. EURUSD



HISTORICAL ANALOGIES – 2000-02 SUMMARY THOUGHTS

- The Dotcom bubble can be compared to the Crypto bubble
- Equities have so far shown a similarly sized sell-off, but the yield curve inversion is much deeper now
- Oil prices are lagging behind recent US$ weakness, while oil prices led US$ weakness in 2002

Oil price vs. EURUSD from WTI oil price peak in June 2022



HISTORICAL ANALOGIES – 2006-08

Yield curve

- 1st 2s10s inversion on 14th May 2006, deepest inversion on 15th November 2006, 6th June 2007 no inversion anymore
- 1st 2s10s inversion on 8th July 2022, deepest equivalent to 9th January 2023, end of inversion on 31st July 2023 equivalent

Equities

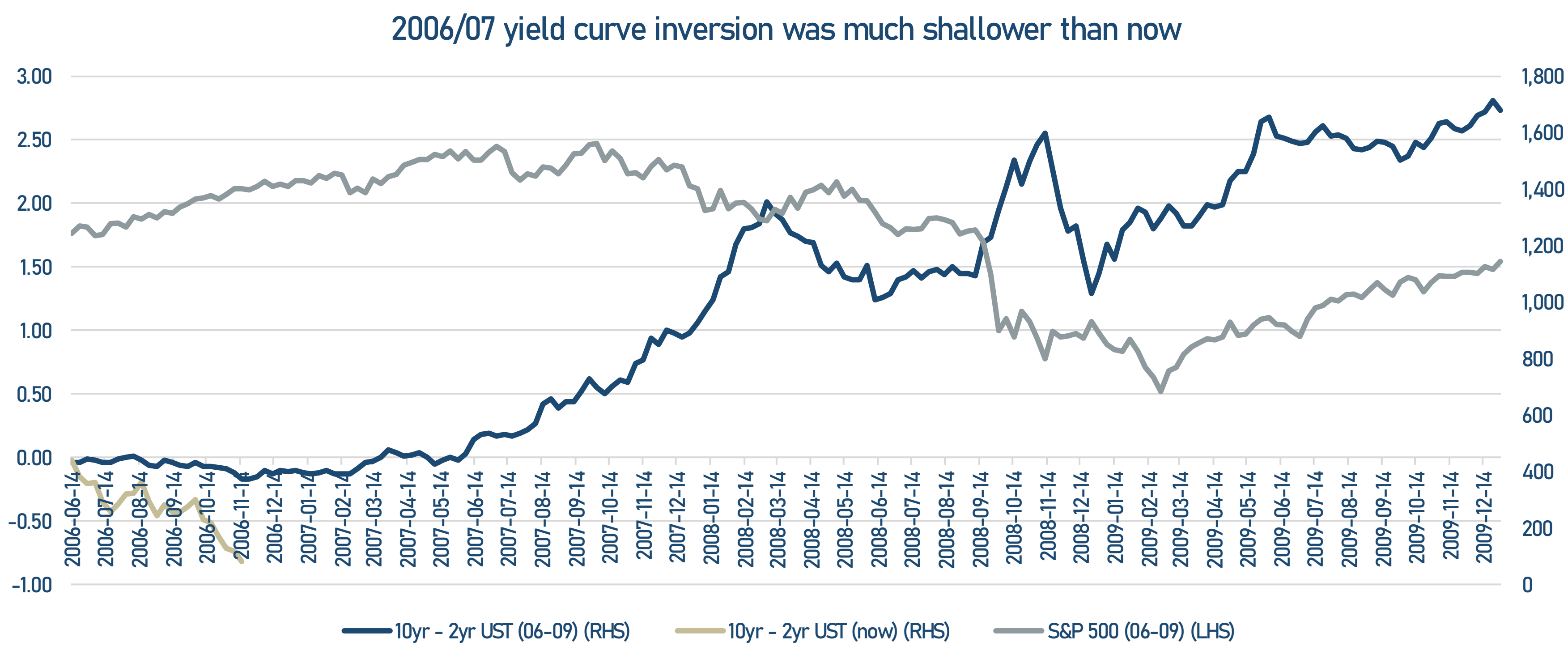
- 4th July 2007= peak in S&P 500 vs. 18th February 2009 = low
- S&P 500 peak on 31st December 2021 → 18th August 2023 low in S&P 500

Oil

- 2nd July 2008 = peak oil prices vs. 24th December 2008 = low in oil prices
- Oil prices peaked on 10th June 2022 → 2nd December 2022 equivalent low in oil prices

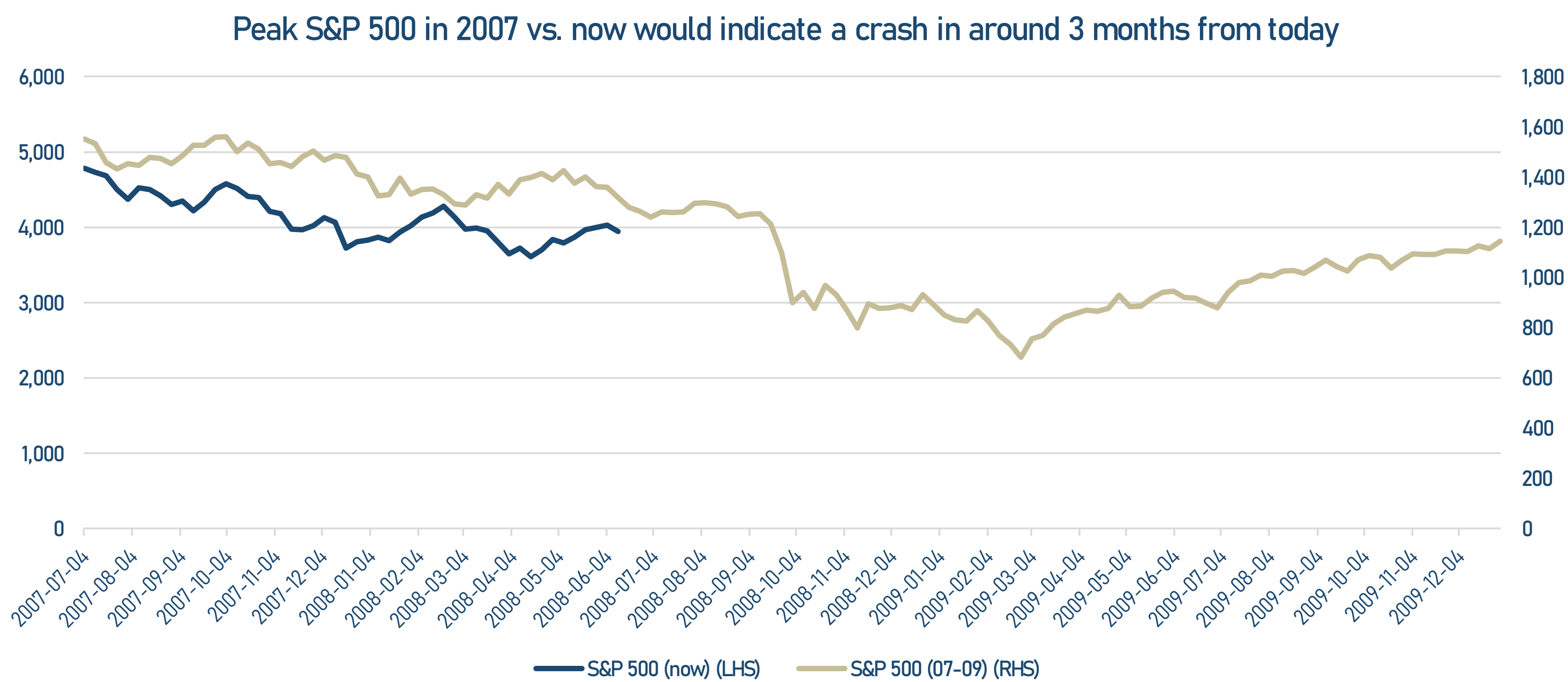
HISTORICAL ANALOGIES – 2006-08 INVERSION VS. EQUITIES

- Hiking cycle was very different in 2006-08, as interest rates we steadily, continuously hiked vs. now rapidly
- Equities were climbing until yield curve came out of inversion and began falling when 2s10s steepened rapidly above 50bps



HISTORICAL ANALOGIES – 2006-08 EQUITIES

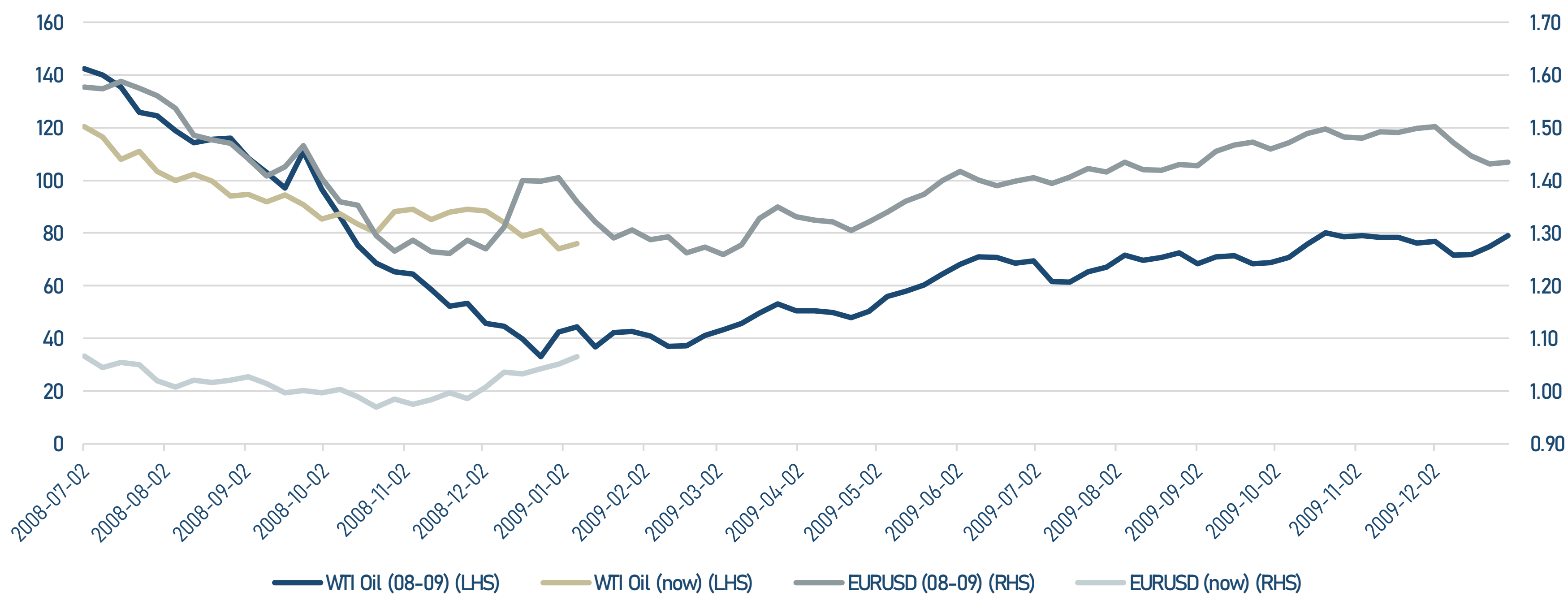
- Comparing the peak of S&P 500 in 2007 with the November/December 2021 peak, the decline has been similar
- If correlation continues, we could see a panic in around 3 months from now



HISTORICAL ANALOGIES – 2006-08 OIL PRICES VS. US$

- The oil decline and US$ appreciation in 2008 has been similar to that of 2022
- The US$ reached its peak strength in 2008 at around the same time as now, around 4 months from the peak in oil prices
- Different to 2008, the weakening US$ has led oil prices to depreciate slower

Oil price decline from peak have been more rapid in 2008, as US$ appreciated more



HISTORICAL ANALOGIES – 2006-08 SUMMARY THOUGHTS

- The interest rates dynamics were completely different between 2006-08 and now, therefore can't draw any conclusions from what happened in 2006-08
- From the peak in S&P 500 valuation, the drawdown has been very similar currently compared to 2007/08, and if correlation continues we will see a panic in around 3 months
- Oil prices have peaked at around the same season, but different from 2008, the weakening US$ has helped oil prices decline slower
- House prices have fallen a lot slower in 2006/07 than they are currently. However, they have also risen much slower

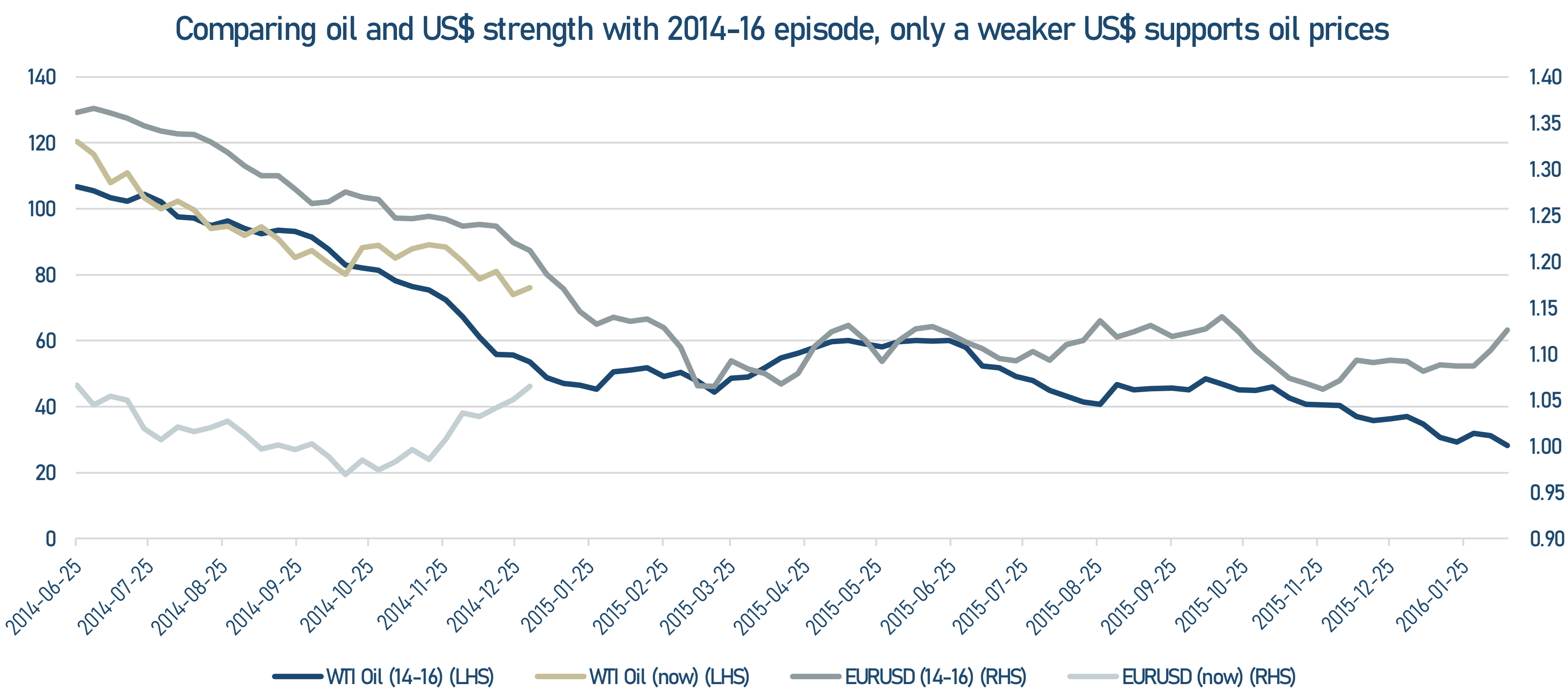
- The 2006-08 crisis is not a good analogy as peaks occurred at different times in the cycle

HISTORICAL ANALOGIES – 2014-15 OIL PRICES VS. US$

- 25th June 2014 = peak in oil prices vs. 18th March 2015 = initial low in oil prices followed by rally until 24th June 2015 before reaching a new lower low on 12th February 2016
- Oil prices peaked on 10th June 2022 → 3rd March 2023 equivalent initial low in oil prices followed by rally with high on 9th June 2023 and final low on 28th January 2024

HISTORICAL ANALOGIES – 2014-15 OIL PRICES VS. US$

- Similar to 2014, oil prices declined as the US$ strengthened
- Different to 2014, the US$ then weakened and kept oil prices from falling further
- Current oil prices and US$ strength are not in equilibrium yet…



HISTORICAL ANALOGIES – SUMMARY THOUGHTS

- 1919-21 period most similar to current period with PPI and equity valuations matching month-on-month
- 1978-81 period only has yield curve inversion in common with the current period
- 2000-02 period saw a less deep yield curve inversion than currently. S&P 500 has declined in similar speed from its peak back then as is currently the case. Oil prices were relatively stable in 2000-02 compared to now
- 2006-08 period had very different interest rates dynamics compared to today. However, S&P 500 moved similarly back then compared to now from its peak and if correlation continues, expect a crash in 3 months. Oil prices declined faster in 2008 compared to now
- 2014-15 period was similar to now when it comes to oil prices. However, the weakening US$ is now supporting oil prices

HISTORICAL ANALOGIES – SUMMARY THOUGHTS

- 2s10s yield curve inversion is most similar to 1978-81 period
- S&P 500 is most similar to 2000-02 and 2006-08 period
- Oil prices and US$ strength is most similar to 2014-15 period

- Overall, the 1919-21 period is most similar to now, but don't have data to back it up (other than James's Grant book "The Forgotten Depression")

Based on the above, the following conclusions could be drawn (purely technically):

- 2s10s yield curve inversion is at its temporary peak-depth
- S&P 500 appears vulnerable for further sell-off
- Oil prices are close to their bottom
- US$ strength has already peaked