

MARKET INSIGHTS

JANUARY 2024



PARK EDGE

US equities had a strong recovery in 2023 reversing double digit losses incurred during a challenging 2022 with the S&P 500 finishing close to all-time highs. As readers know, this is surprising given the macroeconomic regime score pointing to a risk off environment most of the year.

While 2022 was dominated by Federal Reserve action, 2023 was clearly dominated by the Treasury's actions. Market liquidity flipped positive to start the year and lasted through July. As we called out early in the year, the Debt Ceiling halted Treasury issuance (halting a negative liquidity impulse) and caused it to spend down its bank account (activating a positive liquidity impulse). The net effect more than offset ongoing tightening by the Fed (via steady Quantitative Tightening). With positive net liquidity, risk assets rallied, albeit with poor breadth.

Following the Treasury's July 31 announcement of hefty new bond issuance with the debt ceiling suspended, the liquidity impulses noted above each reversed course, amplifying the Fed's tightening. With negative liquidity, risk assets sold off. That is, until the next scheduled Treasury announcement of October 31, where it surprised markets by shifting the composition of issuance away from long duration bonds to Treasury Bills, the funding of which does not drain liquidity the way long duration bonds do. This positive liquidity surprise sparked a broad rally that lasted into the year's end.

With markets now pricing in a near 75% probability of a soft landing, there is little margin for error. Not only are leading indicators and a yield curve inversion still pointing to a hard landing, the next scheduled Treasury announcement (Quarterly Refunding Announcement) is January 31 and is a likely catalyst to define first-half market behavior not just for stocks but bonds as well. Will they kick the can down the road again by issuing a large dose of Treasury Bills, as they did last quarter? Or will they take advantage of low (negative) term premiums and issue longer duration bonds, even if it negatively impacts liquidity? Rather than predict what the Treasury will do, we are prepared to read and react to what they actually do.

Fixed income was a bright spot for Park Edge in 2023. As the year began, we correctly identified that the risk-free rate (3M T-bill > 5%) would offer the most attractive risk adjusted return and took advantage of this in our bond positioning throughout the year. Many bond investors who have continued to invest in longer duration Treasuries over the past 3 years have endured extremely high volatility. For example, the ever-popular TLT (iShares 20+ Year Treasury Bond ETF) which saw 23.07B of inflows throughout the year has a total return of only +2.77% with a max drawdown of -14.31% for 2023. This is considered a very poor risk adjusted return. While we think there are attractive opportunities to extend the duration in our fixed income portfolios into the belly of the yield curve (3-7 year) to start the year we think it is too early to make the determination to extend out into longer term Treasury bonds. We will continue to provide timely updates on our yield curve analysis in future market insight notes.

Commodities were a mixed bag over the past year. Broadly speaking, the energy markets finished the year negative. Oil had a pronounced move higher in the third quarter, seeing double digit gains, only to give them back (and then some). The agriculture complex and metals (see Gold below) finished the year in positive territory. In short there have been commodity markets to be long and others to be short (or avoid). For now, we expect the turbulent path for commodity prices to persist as uncertainty around long term inflation expectations and supply/demand imbalances remain elevated.

Finally, 2023 was an interesting year for currencies with the Japanese Yen having another challenging year against the US Dollar. The Yen/US Dollar exchange rate finished down over -7% for the year while being down -13% along the

way. Lately a potential change in the Bank of Japan's monetary policy has been a topic de jour in the investment community and we do believe this is important to watch over the next 6-12 months. However, for now our signal remains bearish on the Yen. As some of you know, at Park Edge we consider Gold a currency which along with the S&P 500 closed the year near all-time highs finishing up +12.69%. Although the shiny yellow metal had its ups and downs, we stuck with our view that Gold remained consistently bullish in 2023 and expect continued strength into the new year.

ASSET CLASS SIGNAL STRENGTH:

ASSET CLASS	JANUARY 2024	DECEMBER 2023	JANUARY 2023
EQUITIES	OFFENSIVE LONG	DEFENSIVE LONG	DEFENSIVE SHORT
FIXED INCOME	DEFENSIVE LONG	DEFENSIVE SHORT	DEFENSIVE SHORT
COMMODITIES	DEFENSIVE SHORT	DEFENSIVE LONG	DEFENSIVE LONG
US DOLLAR	DEFENSIVE LONG	OFFENSIVE LONG	OFFENSIVE LONG
RFR (3M TBILL)	OFFENSIVE LONG	OFFENSIVE LONG	OFFENSIVE LONG

MODEL SNAPSHOT:

MODEL	EQUITIES		FIXED INCOME	
	JANUARY 2024	DECEMBER 2023	JANUARY 2024	DECEMBER 2023
BOND	NO POSITION	NO POSITION	DEFENSIVE LONG	DEFENSIVE LONG
PEA CORE STOCK	OFFENSIVE LONG	OFFENSIVE LONG	NO POSITION	NO POSITION
MODERATE ARM	OFFENSIVE LONG	DEFENSIVE LONG	DEFENSIVE LONG	DEFENSIVE LONG
DIVIDEND INCOME	OFFENSIVE LONG	DEFENSIVE LONG	DEFENSIVE LONG	DEFENSIVE LONG
MOD L/S ARM	DEFENSIVE LONG	DEFENSIVE SHORT	DEFENSIVE LONG	DEFENSIVE LONG
RME	DEFENSIVE LONG	DEFENSIVE SHORT	DEFENSIVE LONG	DEFENSIVE LONG
RME FOCUS	DEFENSIVE LONG	NO POSITION	DEFENSIVE LONG	DEFENSIVE LONG
Special Situation Equity	DEFENSIVE LONG	DEFENSIVE LONG	NO POSITION	NO POSITION

MACRO & ECONOMIC REGIME OUTLOOK:

Quadrant	MACRO REGIME	ECONOMIC REGIME	
	Current % Share	3 Month % Probability	6 Month % Probability
GOLDSLOCKS / Quad 1	43%	28%	29%
REFLATION / Quad 2	25%	11%	15%
INFLATION / Quad 3	5%	18%	19%
DEFLATION / Quad 4	27%	43%	37%

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