

More on that below, but first, a review of recent performance for “primary” assets¹ and the Grey Owl All-Season² strategy.

For the third quarter of 2024, US equities were +5.8%. Global equities were +6.4%. Gold was the best performing primary asset class, up +13.1%. For the first time this year, long-dated US Treasury Bonds increased gaining +7.9% during the quarter. Commodities were down -5.2%.

During this period, the Grey Owl All-Season strategy returned +3.4% versus the 60/40 index³ return of +5.9%. For the full year through the end of the third quarter, the Grey Owl All-Season strategy is up +8.6% compared to the 60/40 index return of +12.9%. For the month of October through Friday, October 18th, the Grey Owl All-Season strategy is up approximately +0.5% while the 60/40 index is exactly flat at 0.0%.

Towards the end of the quarter and into October, the Grey Owl All-Season strategy began shifting toward assets that perform well in a stagflationary environment. Stagflation is when economic growth decelerates at the same time inflation accelerates. If you remember the 1970s, you understand stagflation.

While growth is positioned to continue decelerating, we expect it to remain positive. This is an environment where gold, equities, and commodities are set up to do well. As such, we have and are increasing our exposure to commodities for the first time this year. Equity exposure remains diversified across global equities and we are broadening our allocation to emerging markets.

Economic Growth

In our last letter, we noted that the manufacturing sector growth that persisted for nine months through March 2024 had slowed for three consecutive months. It continued to slow in the third quarter and remains well below 50, i.e. in a mild contraction.

Recall that the (PMI) summarizes in a single data point the state of the US economy. The PMI is a “diffusion index” which aggregates survey data from decision makers throughout the

¹ We refer to US equities, long-dated US Treasury bonds, gold, and commodities as “primary” asset classes borrowing the language of HCWE & Company. The idea is that these four assets best capture two variables that explain a significant amount of asset price movement: global growth (explained by investor risk sentiment) and inflation. This framework is the basis for a permanent portfolio, an “all-season” portfolio, risk-parity, etc. US equities and commodities are “risk” assets, while US Treasury bonds and gold are “haven” assets. The market (or asset class) returns are measured on a total return basis using index exchange traded funds (ETFs): SPY for the S&P 500, ACWI for the MSCI All-Country World Index, GSG for the S&P GSCI Commodity Index, TLT for 20+ Year Treasury Bond index (i.e. “long-dated” US Treasury bonds), and GLD for gold.

² Despite the generic and frequent use of the term, we renamed our strategy Grey Owl All-Season after Bridgewater Associates requested we do so claiming it conflicted with a strategy they call All-Weather.

³ 60/40 index refers to 60% MSCI ACWI Index (equity) and 40% Barclays Aggregate Bond Index (bonds).

manufacturing economy. The questions are around the managers' expectations (e.g. "do you plan to acquire more or less inventory next month compared to this month) and are thus a leading indicator of economic activity.

US ISM Manufacturing PMI (I:USPMI)

47.20 for Sep 2024

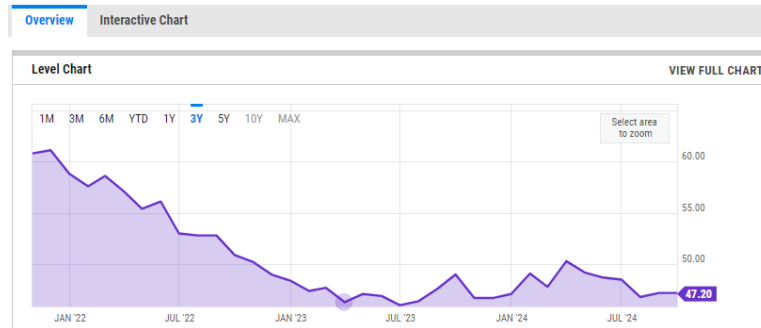


Figure 1 – US ISM Manufacturing PMI monthly
https://ycharts.com/indicators/us_pmi

On the other hand, after the slightest contraction in June, the service sector is again showing positive growth.

US ISM Services PMI (I:ISMNMI)

54.90 for Sep 2024

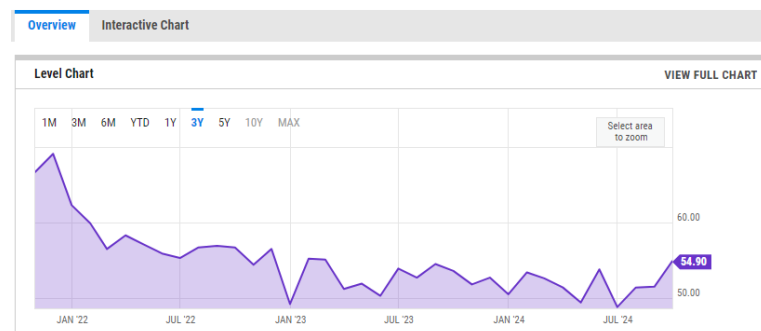


Figure 2 – US ISM Services PMI monthly
https://ycharts.com/indicators/us_ism_non_manufacturing_index

The "soft landing" persists... for now.

Reiterating our point from last quarter, the trend in weekly initial jobless claims amplifies the idea of economic stagnation. Claims continue to climb. We are still a way from the 300k “threshold” where jobless claims have historically been followed by a rapid drop in payrolls, but this trend bears watching.



Figure 3 – US Initial Jobless Claims (Weekly)
<https://www.tradingview.com>

Further, when viewed over the period since 2021, payrolls continue to grow at a slower and slower pace. Again, amplifying the idea that the economy is stagnant. Job creation has been decelerating for the past four years.



Figure 4 – Nonfarm Payrolls (Jobs Created) – (Monthly)
<https://www.tradingview.com>

Inflation

The 5-Year Breakeven⁴ rate is starting to show a modest increase in inflation expectations.



Figure 5 -5-Year Breakeven www.tradingview.com

Commodity prices are more ambiguous. Are they moving sideways, or is there an upward bias?



Figure 6 – GS Commodity Index ETF www.tradingview.com

⁴ From TradingView: “The 5 Year TIPS/Treasury Breakeven Rate is calculated as the difference between the 5 year treasury rate and the 5 year treasury inflation-indexed security rate. Market participants use this value as what they believe the expected inflation should be in the next 5 years, on average.”

Most importantly, the forward-gold price (a concept created by David Ranson at HCWE⁵), a longer-term indicator, continues to point toward increasing, unrelenting inflation.

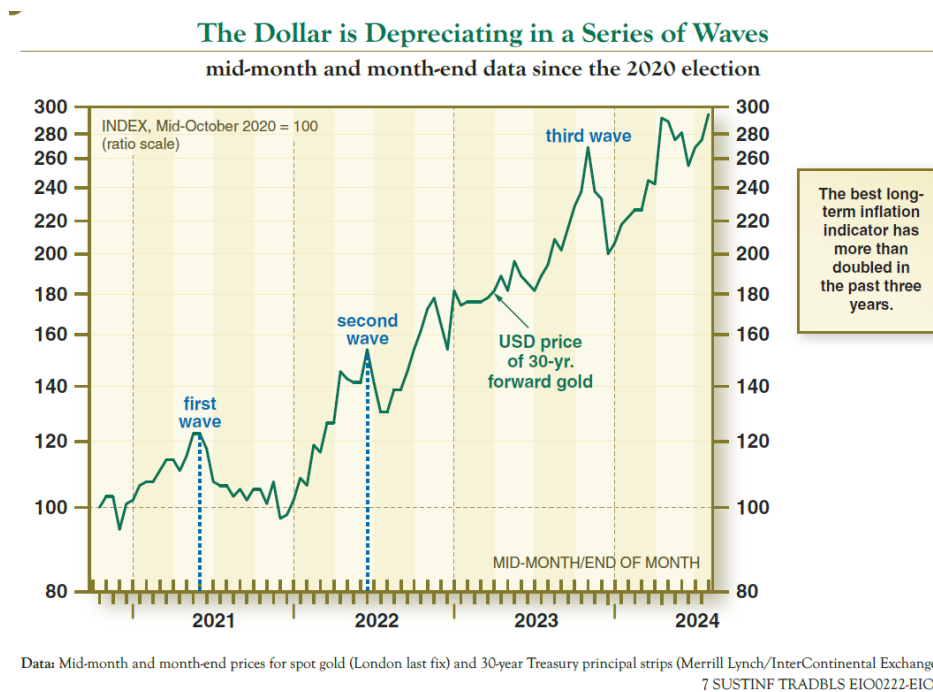


Figure 7 – Forward Gold, HCWE (www.hcwe.com)

In the short-term, Hedgeye’s Monthly Inflation Nowcast is forecasting September as the cycle low in inflation. Reacceleration higher starts in October.

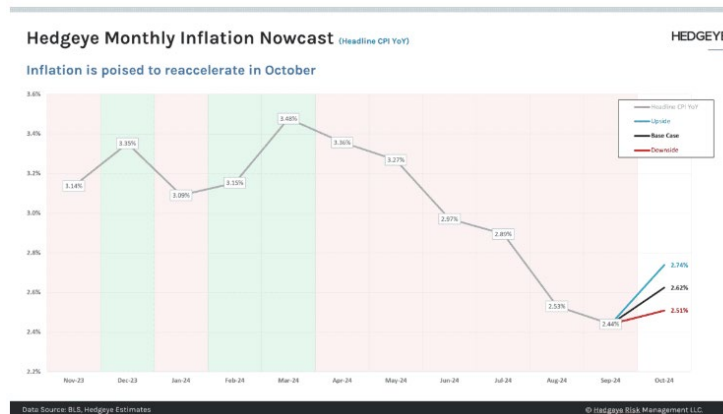


Figure 8 – Monthly Inflation Nowcast (www.hedgeye.com)

⁵ Ranson’s theory is that gold has both a flight-to-safety and monetary (inflation) component. If you divide gold by long-dated Treasury bonds, you isolate the forward price markets are willing to pay for the more pure inflation component.

Market Signals

US Equity market performance remains resilient and has broadened significantly since 2023. In addition, global equities are now broadly trending positive. This includes the large markets of both China and Japan. Market internals remain constructive as summarized by the positive spread between buying power and selling pressure via CFRA Lowry Research depicted in the chart below.

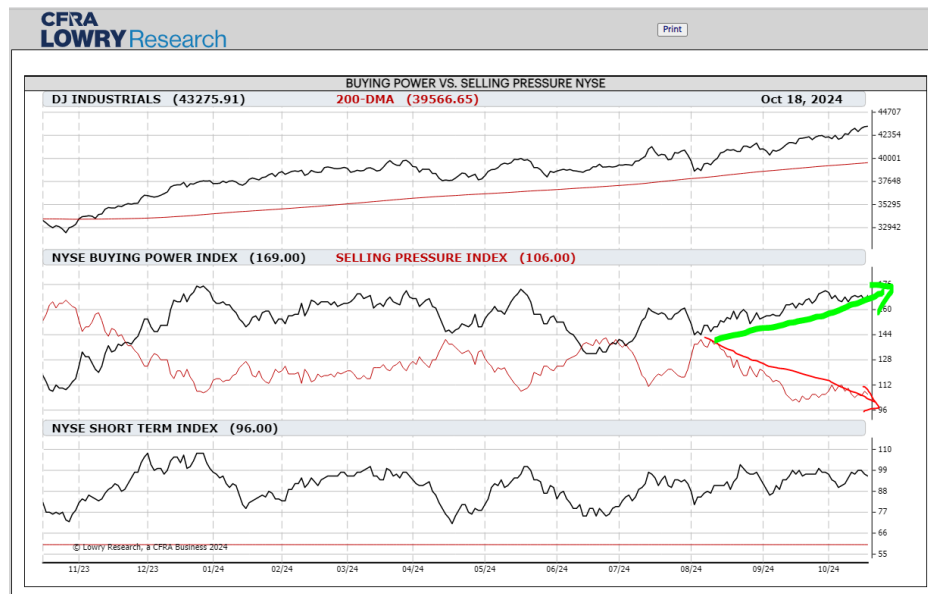


Figure 9 – <https://www2.lowryondemand.com/members/markets/marketchart.cfm>

Current Positioning

Our current positioning remains constructive. We have exposure to idiosyncratic risk-assets including gold, momentum, and emerging markets. We have recently added more exposure to commodities, commodity equities, and additional emerging markets. We have decreased exposure to fixed income. Our cash position is low.

The US economy has held up better and longer than most believed possible. While the evidence points to unsustainable government borrowing as the most likely explanation, it is impossible to say when it would truly become unsustainable. For the next several months and quarters, the spending is set to continue to take capital from the productive private sector. With a weak dollar (relative to gold), inflation is poised to reassert itself. Stagflation is the most likely outcome.

As always, if you have any thoughts regarding the above ideas or your specific portfolio that you would like to discuss, please feel free to call us at 1-888-GREY-OWL.

Sincerely,

Grey Owl Capital Management
Grey Owl Capital Management, LLC

This newsletter contains general information that is not suitable for everyone. The information contained herein should not be construed as personalized investment advice. Past performance is no guarantee of future results. There is no guarantee that the views and opinions expressed in this newsletter will come to pass. Investing in the stock market involves the potential for gains and the risk of losses and may not be suitable for all investors. Information presented herein is subject to change without notice and should not be considered as a solicitation to buy or sell any security. Any information prepared by any unaffiliated third party, whether linked to this newsletter or incorporated herein, is included for informational purposes only, and no representation is made as to the accuracy, timeliness, suitability, completeness, or relevance of that information.

The stocks we elect to highlight each quarter will not always be the highest performing stocks in the portfolio, but rather will have had some reported news or event of significance or are either new purchases or significant holdings (relative to position size) for which we choose to discuss our investment tactics. They do not necessarily represent all of the securities purchased, sold or recommended by the adviser, and the reader should not assume that investments in the securities identified and discussed were or will be profitable. A complete list of recommendations by Grey Owl Capital Management, LLC may be obtained by contacting the adviser at 1-888-473-9695.

Grey Owl Capital Management, LLC ("Grey Owl") is a Virginia registered investment adviser with its principal place of business in the Commonwealth of Virginia. Grey Owl and its representatives are in compliance with the current notice filing requirements imposed upon registered investment advisers by those states in which Grey Owl maintains clients. Grey Owl may only transact business in those states in which it is notice filed or qualifies for an exemption or exclusion from notice filing requirements. This newsletter is limited to the dissemination of general information pertaining to its investment advisory services. Any subsequent, direct communication by Grey Owl with a prospective client shall be conducted by a representative that is either registered or qualifies for an exemption or exclusion from registration in the state where the prospective client resides. For information pertaining to the registration status of Grey Owl, please contact Grey Owl or refer to the Investment Adviser Public Disclosure web site (www.adviserinfo.sec.gov).

For additional information about Grey Owl, including fees and services, send for our disclosure statement as set forth on Form ADV using the contact information herein. Please read the disclosure statement carefully before you invest or send money.