MONTHLY NEWSLETTER BY MAURIZIO NOVELLI

January 31st, 2023

Historical performance data is not a guarantee of future returns

Fund	Jan	Feb	Mar	April	May	June	July	Aug	Sept	Oct	Nov	Dec	YTD
2007	0.73%	0.21%	0.83%	2.06%	0.61%	0.40%	-0.22%	-0.79%	2.23%	1.29%	-0.42%	-1.50%	**5.44%**
2008	2.98%	-0.21%	0.32%	2.14%	-0.87%	-1.64%	-0.33%	1.26%	-2.14%	0.16%	0.83%	1.54%	**4.00%**
2009	-1.64%	0.68%	-0.09%	1.53%	2.27%	0.43%	3.23%	1.41%	2.44%	0.98%	0.91%	-0.65%	**11.98%**
2010	0.64%	0.34%	1.73%	-0.02%	1.01%	1.75%	-0.70%	2.09%	0.46%	1.47%	0.47%	0.37%	**10.00%**
2011	-1.47%	1.06%	0.53%	1.02%	0.51%	-0.37%	-0.02%	3.04%	-2.67%	1.57%	-1.16%	0.90%	**2.85%**
2012	2.73%	0.93%	-1.49%	0.19%	-0.13%	-0.01%	0.40%	0.67%	0.84%	0.36%	0.27%	0.58%	**5.40%**
2013	0.58%	-0.19%	0.04%	-1.01%	-1.28%	-0.86%	-1.44%	-0.99%	0.09%	1.17%	-0.88%	0.35%	**-4.37%**
2014	-0.42%	0.49%	0.43%	0.28%	-0.01%	-0.07%	0.48%	0.81%	-0.74%	4.01%	-2.62%	1.80%	**4.40%**
2015	1.90%	-3.19%	-0.40%	0.33%	-1.56%	-1.18%	-2.49%	4.73%	-0.34%	-1.30%	-2.79%	-1.47%	**-7.74%**
2016	6.79%	2.72%	0.79%	1.76%	-2.07%	1.24%	0.00%	-0.92%	-0.17%	0.68%	1.13%	-0.88%	**11.36%**
2017	-0.43%	-1.06%	-0.61%	0.13%	-0.05%	0.65%	0.32%	0.02%	-2.50%	-3,06%	- 0.38%	-0.31%	**-7.11%**
2018	-0.86%	1,63%	0,60%	-3.18%	-1.15%	-0.25%	-3.36%	0.98%	-0.74%	6.11%	-0.16%	1.74%	**1.04%**
2019	-0.46%	-2.27%	0.56%	-3.99%	6.17%	-0.84%	0.22%	5.22%	-4.68%	-0.37%	-2.86%	0.85%	**-2.99%**
2020	2.11%	2.89%	7.21%	3.09%	-2,81%	-044%	3.18%	-1.93%	-0.69%	0.82%	-3.97%	0.55%	**9.91%**
2021	-0.08%	-2.12%	-2.44%	-1.93%	1.30%	-3.44%	-1.24%	-2.44%	2.12%	-3.68%	-0.26%	-7.50%	**-19.97%**
2022	1.87%	6.37%	-2.42%	1.48%	-2.02%	6.71%	-3.96%	1.58%	3.02%	-5.32%	-3.25%	4.47%	**7.92%**
2023	-5.44%												**-5.44%**

Lemanik Global Strategy Fund pro forma Class R data - Above performances are gross of any fiscal effect and are based on the last month end

Maurizio Novelli
Portfolio Manager Lemanik
Global Strategy Fund

The U.S. and Germany recently released growth data for the fourth quarter of 2022, strangely enough, despite all the calamities plaguing the world economy, the economy seems to show abnormal resilience to recession. However, many doubts about the veracity of these data remain. First, the real U.S. GDP growth at 2.9% in 4Q was calculated by applying an inflation rate of 3.5% while the known inflation is at 6.8%. If we were to take 3.3% more inflation out of real GDP, 4Q GDP would be -0.4%. The exact same thing was done with the calculation of third-quarter GDP, which came out with known inflation at 4 percent while it was at 7 percent. Even then the real GDP would have been negative. In fact, it is rather strange that while all PMIs are in negative territory, consumption is sagging and profits of listed companies (ex-energy) are down an average of 7 percent, the U.S. GDP is so strong. Germany's economy is also surprising in its abnormal resilience. Despite the biggest energy crisis in the country's history, a halt in automobile production, and a collapse in exports, the economy avoids recession and closes 2022 with zero growth. Going into the reasons for this anomaly, the German government's statistics office points to the strong performance of domestic consumption, which would have been decidedly tonic after Covid. Strange, since the monthly survey of retail sales data published by the same bureau shows an annual trend at -3.9 percent. We have evidently entered the last phase of defending a failed economic system that is now trying to "invent" data that threatens to undermine the credibility of institutions. All to continue to defend to the bitter end a system based on past choices made by economic and monetary policies that were never sustainable and are now showing the structural damage caused. We have criticized China for years for unreliable macro data but now we have aligned ourselves with the methods of the planned economy that can never afford a recession. Even the Soviet Union, before its economic collapse, had never had a recession. We are thus entering a new "virtual" world where inflation is always "transitory," recession is always "technical," and profits of listed companies always "beat estimates." If we need a "soft landing" we will have it, if we need inflation at 2 percent we will have it, if profits of listed companies contract, they will beat estimates. But the reality is that the system is already in recession now, profits will continue to contract and consumption will as well. The fact that the system cannot afford a recession depends on the stock of speculative (and unrepayable) debt that has been accumulated during these years of zero rates. The stock of potentially problematic debt cannot face a rollover in a recession, and the default shock would be unbearable. We are therefore implementing the Japanese strategy of initiating a long-term deleverage because we cannot afford a rapid "cleaning" of the system. This phase will be very long and confirms the obvious risk of Balance Sheet Recession that I have discussed extensively in previous notes. The recession scenario can be avoided through accounting tricks but we will soon find that the quagmire we have got ourselves into will not be easily removed from the wheels of the economy. The U.S. potential growth rate is 1.5 percent. That means if you want to grow more than your potential you risk creating inflation, but worse, to grow beyond that you must leverage further. Europe has a potential growth rate of 1 percent, exactly the same as Japan has had for about thirty years. The collapse of the potential growth rate has been countered with expansionary monetary and fiscal policies that have, however, led to very concentrated benefits in a limited segment of the population, accentuating the fall in purchasing potential of the middle and lower-middle classes. Despite the blatant failure of such policies we are still trying to restart from the same methods, projecting "temporary" inflation, rates that will come back down to support speculative finance, and business cycle insensitive to any event. The underlying problem is the holding of real incomes, which will be eroded by "programmed" inflation and higher rates on debt needed to buy real estate and support consumption. The situation is very critical for countries that have no domestic savings (the U.S., U.K., Canada, and Australia) and that are facing a Balance Sheet Recession without the stock of savings that Japan had. China, Japan and Europe are better able to withstand the long-term crisis in the world economy, but we do not know how the U.S. will come out of it, since managing the world's reserve currency is likely to be a double-edged sword. In fact, it is an advantage to have it to finance the debt you need to grow but it becomes a disadvantage when the cycle of financial flows reverses (1971, 1994, 2001). When that happens, the flight from the dollar accentuates the credit crunch just when you would need those inflows instead. If you lower rates to mitigate the credit crunch you accentuate the currency crisis; if you raise them to defend the Dollar, you worsen the financial environment. That is why, every time we have entered such situations, we have only come out of them with an agreement between Central Banks on the new "defensible" level of Dollar, after an acute international currency crisis. In essence, the international economic picture is not easily solved by saying that inflation is only "transitory," recession always "technical," and profits always "beat estimates." For this reason, the winds of optimism that characterized January will not be able to hold and are simply part of a strategy to drive a controlled descent of systemic risk appetite. While investors' approach always seems to lean toward "buy on dips," I believe that, in reality, the expected scenario is more consistent with "sell on rallies." Long-term instability will be a feature of the new economic scenario that will struggle to find a new sustainable growth path without the monetary policies of zero rates.

Lugano, January 31st, 2023
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