KANOS
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Fourth Quarter 2019 Investor Letter

Portfolio Comments

Kanos portfolios performed well again this quarter, led by a late surge in precious metals and mining shares while our more defensive positions: REITs, pipelines, Treasuries, etc., were underperformers due to a rising US equity market. Along those lines, our US multinationals, including our pharmaceutical and communications positions, were big beneficiaries of increased investor interest. Our mortgage REITs had a great quarter as the yield curve steepened. We added some extra technology exposure in many portfolios to take advantage of the rising markets. Finally, our energy supermajor positions recovered from prior months' downdrafts, while also benefitting from high yields. Overall, we were happy with the performance of our portfolios.

Market Analysis - Looking Forward

Economy

Investor sentiment concerning the US economy bottomed in early September, as investors were heartened by employment gains improving and manufacturing statistics holding at current levels, a change from the summers' economic deceleration. However, one is hard-pressed to find rapid improvements in the economy. Auto manufacturing, one indicator of economic growth, continues to be anemic, even when including electric and hybrid cars. Rail shipping and trucking continue to show shrinking activity in the US, although economists believe these will pick up with the thaw in trade tensions with China epitomized by the impending signing of the Phase 1 trade deal in mid-January 2020. Ocean shipping rates have continued to weaken, again confirming the weakening of trade highlighted by last fall's US-China trade cold war. All-in-all, the economy didn't seem to get any worse, but it didn't show a lot of "green shoots" either.

In Europe, German manufacturing continues to be in a slump, pulling down demand for unfinished goods from suppliers in Eastern Europe and causing Germans to consume less. The rest of Europe, France, Italy, Spain, etc., have so far avoided outright recession as historically low interest rates continue to allow Europe to limp along at very low growth rates. We don't see any catalyst to reignite growth in Europe currently, so we think the risks are to the downside, especially if France continues to suffer through widespread demonstrations and riots, the UK fails to rapidly untangle itself from the giant EU squid holding onto many pieces of its economy or Asia stops buying from Europe (if there's a Middle East war – which we don't see happening).

In Asia, Japan and China continue to show decelerating growth in their economies, with Japan bordering on recession and China's alleged 6.0% GDP growth the lowest in two decades and looking

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like there could be more risk to the downside (January announcement of car sales showed the 18th drop in the last 19 months). Non-China/Japan Asia (Taiwan, Vietnam, Thailand, Singapore, Malaysia, etc. also known as the "Asian Tigers") is where growth continues to register in the 2-4% range, transmitting economic life preservers to much of the rest of the world, ex-the US. We believe a large slug of their growth has been semiconductor orders (chips, but also machine tools and automation equipment) by China for development of their nascent semiconductor industry, part of the 2025 initiative to become expert in artificial intelligence and other higher tech pursuits. Better and faster semiconductors are deemed to be crucial to advance in these industries, and with the West being wise to Chinese stealing of intellectual property, the Chinese determined they must build a parallel semiconductor development and production capability, to avoid Western boycotts/prohibitions of sales like happened to ZTE and is in progress against Chinese government company Huawei. This economic activity has been a good boost for Asian high tech industries but may be winding down in the next few months, which will then give us a look to see how much organic growth is left in non-Chinese Asia. The corporate transition to Windows 10 from Windows 7 (Microsoft is ending support for 7) has led to a large bump in buying of PCs worldwide for the past year, but again, this short-term trend is ending.

Other emerging markets are still having economic growth like the Asian Tigers mentioned above and the US. A still relatively highly-valued US dollar makes manufactured imported goods expensive, but still-low commodities and energy prices make these economies competitive with growth in the world. We would like to invest in more emerging market equities, but we are worried about the effects a sell-off in the US would have on emerging markets stocks, so we have mostly steered clear of these investments.

Equities

The only real explanation for the meteoric rise in equity markets worldwide is the re-commencement of easy money policies in the US and Europe, coupled with ongoing monetary stimuli in both China and Japan. We examine these conditions in detail at the end of this letter in the Kanos Commentary "Melt-up!"

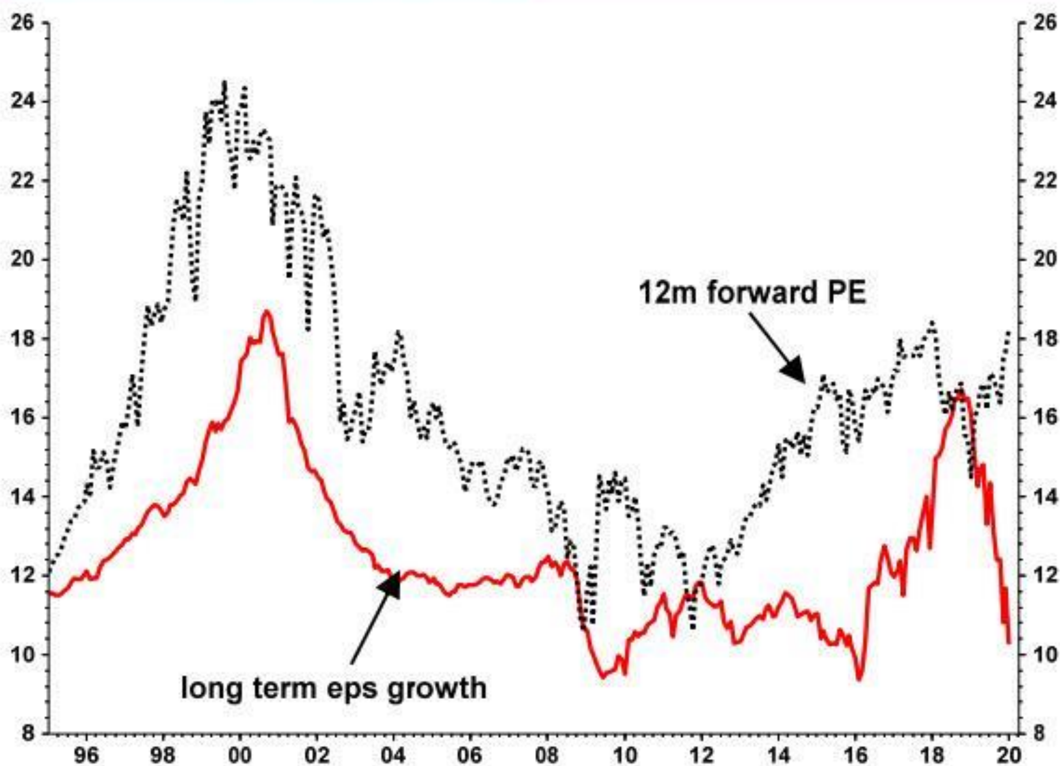
Essentially, we see the Fed as having continued to drive behavior in the equity markets with the progression of rate cuts, the establishment of repo financing facilities (discussed in last quarter's Kanos Commentary) to save the all-important repo market (the daily money market in the US) and the expansion of repo lending, culminating with a Treasury Bill purchase program that approaches the most aggressive monetary stimulus in US history. We see this new liquidity as driving equity markets, and in many cases, all markets higher.

The element that is hard to reconcile with all-time high stock markets is corporate earnings. Third quarter earnings (announced from mid-October through early December) were thought to have grown only a little in aggregate (for the S&P 500), but it turned out that they were slightly lower than last year's third quarter earnings. Result? After a brief pause around Thanksgiving, equity markets resumed their upward move through the end of 2019.

With this environment of increasing monetary stimulus and the market "looking through" earnings disappointments (in aggregate; some companies were punished mercilessly for missing revenue or earnings estimates) to anticipate later economic (and earnings) growth, we felt strongly that we should

maintain our equity exposure and add another tranche of technology holdings to many portfolios. In some aggressive portfolios, we have added exposure to be more than one hundred percent invested. However, we have also maintained our barbell structure of more defensive holdings combined with stocks that will benefit from a rising market or a faster growing economy. We are wary of some stocks that have gotten ahead of themselves (or FAR ahead of themselves) on a valuation and momentum basis and avoided direct exposure to these volatile stocks.

There are reasons to be wary of this market, with some statistics of overvaluation, concentration and questionable underlying earnings. The following graph from Albert Edwards, chief equity strategist at Societe Generale, in his note from mid-January shows a big concern: the valuation of stocks, as represented by the 12-month forward price/earnings (black dotted line) plotted against earnings growth/ shrinking as represented by the long term earnings-per-share growth plot (red solid line) with time (year) as the x-axis. The post-election, tax cut-enhanced corporate profit growth peaked in mid-2018 and earnings growth has been dropping significantly while prices have been rising, thus sending the forward P/E line higher. For an example of what can happen, just look at the left side of the graph where P/E ratios fell as earnings growth fell; that resulted in much lower prices after the dot.com boom deflated. We want to avoid that with your portfolios.



We continue to participate in equity markets while trying to protect your money through our portfolio construction, trying to take advantage of loose monetary conditions and equity advances by holding positions that will advance under such conditions but not suffer (at least, as much) during inevitable corrections. We believe this is workable by staying away from high volatility momentum stocks (Nvidia, Netflix, etc.) except in trading positions (held in the largest, most liquid exchange traded funds [ETFs]) that will be sold when the inevitable large downdraft arrives. The defensive side of our portfolios should provide some downside protection as they have during corrective phases over the past few years.

Internationally, we are still leery of putting much money to work as we still believe a correction in US markets will be reflected or even amplified in foreign markets. We believe investors will sell foreign equities because US demand will be judged to weaken after equity weakness, and US demand anchors current world industrial demand. The inability for many basic commodities to rally in the face of extreme monetary looseness speaks portends future weakness in international markets. Also, many equity markets which are not as dependent on the US economy seem to have China as a large customer, which makes us nervous because of the slowing of their economy. So, we continue to limit our international investing, although we constantly look at international conditions and obviously have some foreign exposure in many of our current multinational positions.

Bonds

Bonds are still a bit of a quandary, as some economic statistics point toward further weakness, but monetary policy and renewed equity market enthusiasm point toward more confidence in markets and to a degree, the economy and thus, away from continued economic weakness. The US government's increased spending in the past year (and going forward) continues to introduce a weakening element into the US Treasury market, which could push down prices and thus push up interest rates. However, so far, that has not happened; 10-year Treasury rates, while moving higher from September lows just below 1.50%, have not exceeded 2.00% in months. Current rates at press time are only 1.795%, so there is still a large appetite for fixed income's combination of yield and safety. We believe the rewards of appreciation and dividends in equities with risk control through diversification is a better bet than the lower risk, but meager rewards, not only of US Treasuries but also US corporate bonds, where spreads to Treasuries of both investment grade and high yield bonds are near historical lows. Thus, we have maintained a minimal exposure to Treasuries for safety and some yield, but haven't felt the risk/reward dynamic shift toward bonds.

International bond markets are also less attractive because of volatile currency markets and weak and weakening economies across most of the developed world. Most European government bonds continue to yield far less than US bonds or are negative yielding, making them unattractive for us. Asian bonds still seem to be ultimately betting on the health of the Chinese economy, which is not attractive to us either.

We still see rates moving lower over time, so we may look to beef up fixed income positions in the future for accounts that are under-allocated, but until there is more evidence of flagging investor enthusiasm for equities, we will stay with our current allocations.

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Currencies

The US dollar fell throughout much of the quarter, reflecting an increased supply of dollars (the Fed), the exceedingly acrimonious political situation in Washington DC and the slight improvement of economic conditions in Europe (movements in the euro are the primary determinant in the movement of the dollar). We see the same conditions continuing into 2020, although Phase 1 of the trade agreement between the US and China was just signed, introducing an element of calm into geopolitics, possibly offset somewhat by the continued acrimony between the US and Iran after Soleimani's death.

We observe the movements of currencies on a daily basis but currently don't feel positions in currencies or based on currency situations are particularly compelling at this point.

Energy

Energy continues to be a head-scratcher for investors. The world seems to be awash in oil, and yet crude oil prices continue to hover in the high $50s – low $60s per barrel. Continued high production from the US along with new production coming on from South America (Guyana, Brazil) and Africa is balanced by geopolitical tensions in the Middle East and North Africa, with exports from Iran severely curtailed by US/Western sanctions and Libyan oil a constant wildcard on its availability. Add to that the virtual non-existence of Venezuelan oil exports, and the world has a strange, extremely volatile and nowhere-close-to-stable equilibrium of supply and demand.

Some smaller exploration and production companies have doubled in price off recent autumn bottoms as investor sentiment turned overly bearish earlier in the year. Larger companies and supermajors have not performed as well but had held up much better during last fall's swoon. Average US winter weather has helped give some support to the energy complex, although bulging supplies of gasoline in North America are a bearish factor for oil and gasoline prices. The consensus sees lower oil prices in the future, but prices seem to have a lot of support, falling only grudgingly. At this point, we are agnostic because we thought prices would fall, but we also think that US independent shale producers are bound to run out of drilling financing at some point in the next year or so, which would remove supply in the US, a high demand, low geopolitical risk environment that would be replaced by barrels from the Middle East, a low demand, higher risk production area. Thus, we see prices bouncing around but not moving too far either direction. US natural gas is a different story, as record or near-record oil production produces lots of associated natgas, contributing to the ongoing supply glut of natural gas in North America. Add in a worldwide glut of LNG production capacity (after years of undersupply), and we don't see gas prices rising anytime soon, and we could see prices in North America fall below $2/MMBtu in the spring absent a record cold winter (at press time, current natural gas futures were trading at $1.94/MMBtu even in mid-January!).

These factors continue to support maintaining at least a small position in the supermajors. We like the financial heft, the diversified operations (both upstream and downstream), the dividends and the geographic diversity. In a more defined rising-price environment, we would look at well-run independents as attractive ways to invest in energy.

Commodities/Precious Metals

As we discussed in our last Kanos letter, some commodities have been rallying, driving a widely-watched general commodity index, the Bloomberg Commodity Index (DJP, the ETF which mimics the index shown below) above its bottoming range of the last few months toward the end of 2019.

As you can see, the index has retraced some of its late year strength, but most technical analysts consider such a revisiting of recent prices healthy, as some early longs sell at a profit and some late longs liquidate their losses, but buying comes in and supports prices at higher levels than in the recent past. We will see what happens soon, but the signing of the US-China trade pact is supposed to relieve some trade reticence and bottlenecks, hopefully leading to increased economic activity in both countries and their trading partners. Increased trade is now expected to re-start economic growth, which would increase demand in many products, commodities most acutely.

In contrast to commodities in general, precious metals prices rallied to six-year highs in the fall of 2019 before retracing some of their advances. As we said in our last letter: technically, gold looks set to resume its upward movement in the near future. We showed a chart, inspired by a chart originally in The Gartman Letter, showing gold forming a third "bull flag" pattern during the fall of 2019 in which prices correct in a downward sloping channel (as marked by the blue lines) until the price breaks out to the upside. Similar technical analysis structures occurred in the gold market in mid-2018 and early 2019, both of which resolved themselves with higher prices (signaling continued bullishness). Below is an update to that chart:

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Just as we had expected (without knowing the timing, which is unknowable), we thought the "bull flag" would resolve itself higher, and it has. Gold has broken upward in price once again, pausing around the $1,550/oz level as late buyers look to buy into the rally, supplied by early bulls taking profits on positions taken at lower price levels. Gold did spike up above $1,600 around the US-Iran dust-up after Soleimani's death, but it fell right back to its perceived support levels; thus, we don't consider that spike a significant determinant of future prices, as the pattern in the above graph helps point out.

We remain heartened by a number of significant investors who have identified gold in the past few months as an essential investment to be added to underweighted portfolios. In the past few months, legendary futures trader Paul Tudor Jones, iconic hedge fund heavyweights Stan Druckenmiller and Jeff Gundlach. Now, other mainstream commentators are predicting higher gold prices: in addition to Goldman Sachs commodity research analysts in recent research pieces, the largest hedge fund in the world, Bridgewater Associates, has joined the gold bandwagon in a big way. Its legendary founder, Ray Dalio, has been touting gold as a needed additional to portfolios since July. However, now the investment heavyweight ($160 billion under management) has put a target range on the gold price of between $1,750/oz and $2,000/oz. In a January 14, 2020 interview with the Financial Times, Greg Jensen, co-chief investment officer of Bridgewater (with founder Ray Dalio), said they see gold reaching $2,000/oz possibly by the end of 2020, which would only be a 30% advance from current $1,550/oz levels. Jensen is quoted as saying he "believe[s] the Federal Reserve, in particular, would let inflation run hot for a while and there will no longer be an attempt by any of the developed world's central banks to normalize interest rates. That's a big deal." He added, "There is so much boiling [geopolitical] conflict…[p]eople should be prepared for a much wider range of potentially more volatile set of circumstances than we are mostly accustomed to." He adds, "Gold should be considered as a 'cornerstone of investors' portfolios.'" The article adds that Jensen "would not rule out the possibility that the Fed could slash rates to zero this year as it looks to avoid recession and disinflationary pressures." He sees all these scenarios as beneficial for gold prices because Jensen, as Bridgewater co-CIO, has traditionally been a more traditional investor but he can put to work such a large amount of

investments. We agree with his views and believe that the lack of sell-offs in financial markets in response to geopolitical happenings in 2019 may give way to more price movements in 2020, especially in precious metals and other stores of value. See our Commentary below for why the Fed could let inflation "run hot" for a while.

Last quarter, we mentioned central banks' purchases of gold as contributing to our bullishness; we want to update the tally as central banks continued to be busy buying gold in the fourth quarter. In the January 9, 2020 article "Central Banks Continue "Remarkable" Gold-Buying Spree," the World Gold Council has tallied that central banks bought another net 27.9 tons of gold in November, bringing net purchases for 2019 to 570.2 tons for the year, 11% higher than central bank purchases in 2018, which had the second largest amount of yearly buying (651.3 metric tons) in history, behind only 1967, just before the US closed the "gold window," suspending the convertibility of US dollars directly into gold. Individually, Turkey led the world in central bank gold purchases in November, buying 17 tons, making their 11-month total 181 tons of gold purchased in 2019, the world leader. Russia bought 9.7 tons in November, bringing its 2019 year-to-date total of 149 tons, after they added 274 tons in 2018. In third, Kazakhstan bought 4.6 tons in November. Quite a tailwind for our precious metals positions!

In our portfolios, we will maintain overweighted precious metals and precious metals-mining investments, mixing newer growth investments with some of our long-owned value plays. For reference, the largest ETF for gold miners was up 38.8% for the year, besting every S&P sector in 2019 (except technology) and the S&P 500 itself. We are weighing expanding well-financed smaller companies in some higher risk portfolios. We have also added some smaller companies that are prime candidates for takeovers, as happened in the fourth quarter to two of our current portfolio holdings, Detour Gold (merging with Kirkland Lake Gold) and Leagold (merging with Equinox Gold), both of which expanded strongly in reaction. We think our knowledge of the industry and mix of research sources allows us some insights into attractive investments that may also be future M&A candidates.

We are also following US agricultural commodities which we believe have attractive fundamentals especially with the trade deal being signed. We have soybeans, sugar, cotton and coffee on our radar screen as possible new investments. They all have ETFs if we determine that the opportunity looks very attractive.

Kanos Quarterly Commentary

Melt-Up!

The Fed's response to the repo/money market near lock-up discussed in our Commentary last quarter was all too typical: throw money at the problem and hope it goes away. But there was another effect too; as we observed the Fed increase its easing in September/October, we noticed the near lock-step move higher in equity markets mirroring the building Fed Balance Sheet. It is illustrated vividly in the following graph.

The chart below is from the January 17, 2020 ZeroHedge article, “"Neel Kashkari Appeals to ‘QE Conspiracists,’” and shows the S&P 500 (green line) plotted versus the total assets of all Federal Reserve banks, aka the Fed Balance Sheet (red line). One can see that the Fed started injecting more liquidity starting in mid-September (where the red line rises nearly vertically), but once the QE-like T-Bill buying and large new repo lending facilities were announced on October 11th, the track of the US stock market has been virtually up almost every day (as indicated by the dashed green line).

Why has this liquidity been pushed into the markets? We examine the reasons below.

Causes

The ECB, in its transition from the leadership of Mario Draghi to the new leadership of Christine Lagarde, decided to end its pause in quantitative easing on September 12th. The sluggish German economy, coupled with slowing economies in France, Italy and other European countries, convinced Draghi, at his last meeting as President of the ECB, to implement an additional rate cut and resumption of quantitative easing. The cut took the ECB deposit rate down to -0.50% and restarted QE at 20 billion euros per month on November 1st. That kick-started the easing, although liquidity was delayed until November.

The Fed is the real actor here, when it decided to fight an unexpected dearth of funds in the US repo market, the essential marketplace for daily money supplies in the US financial economy. The repo market, where money market funds and other cash holders lend money to banks, hedge funds, mutual funds, REITs and other serial borrowers had nearly locked up in mid-September due to a lack of available cash. The Fed fought this market chaos with a firehose of money. Ultimately, the Fed supplied somewhere north of $400 billion to these essential money markets to keep the repo market from having problems during the end-of-the-year when most financial companies hoard cash to put their

best faces forward for regulatory reviews that utilize year-end financials. This hoarding of cash often drives the demand for overnight cash in the repo markets to push up interest rates, similar to the mid-September episode which drove the typically 1.50-1.90% range of repo rates (over the last few months) to spike to 10%.

The Fed's spigot of money prevented the repo market from spiking, and as part of the solution to the ongoing need for funds, the Fed started a program of buying Treasury Bills (less than three months maturity) to provide more ongoing liquidity to these markets. This program is very similar to quantitative easing (QE) except the maturities of QE purchases were much longer, meaning the bonds stayed on the Fed's balance sheet longer. This new program was rolled out in mid-October along with the schedule of enhanced repo facilities to get the money markets through year-end, although very little has been said about WHY this liquidity squeeze happened. When Fed Chairman Powell introduced this T-Bill purchase program, he emphasized that this was "not-QE." He differentiated by saying that these Fed purchases were not long-term, and although they are planned through April 2020, that they are "temporary," whereas QE was longer term. The graph below from: "Powell In 2014: 'A Large Balance Sheet Might Prove A Magnet For Trouble Over Time'" published on ZeroHedge.com on 01/12/2020 shows how the enhanced repo facilities plus the "Not QE" T-Bill purchase program impact the Fed's Balance Sheet. The graph below has the size of the Fed Balance Sheet on the right axis in trillions of dollars; the size of the Balance Sheet grew during the purchases of "QE3" during 2013-14 (left side of graph), which ended at the end of 2014. The 2019 programs look just like QE3 did, although at arguably an even faster rate (steeper slope of recent purchases), moving from $3.77 trillion to $4.17 trillion in only one quarter!

As our first chart on page 9 showed, the equity markets have treated these "non-QE" and repo financing programs just like QE, with US stocks, especially Nasdaq stocks (led by the "FANGs" and other large tech stocks) rising steadily for the last three months. No doubt, the expanded repo facilities and the T-

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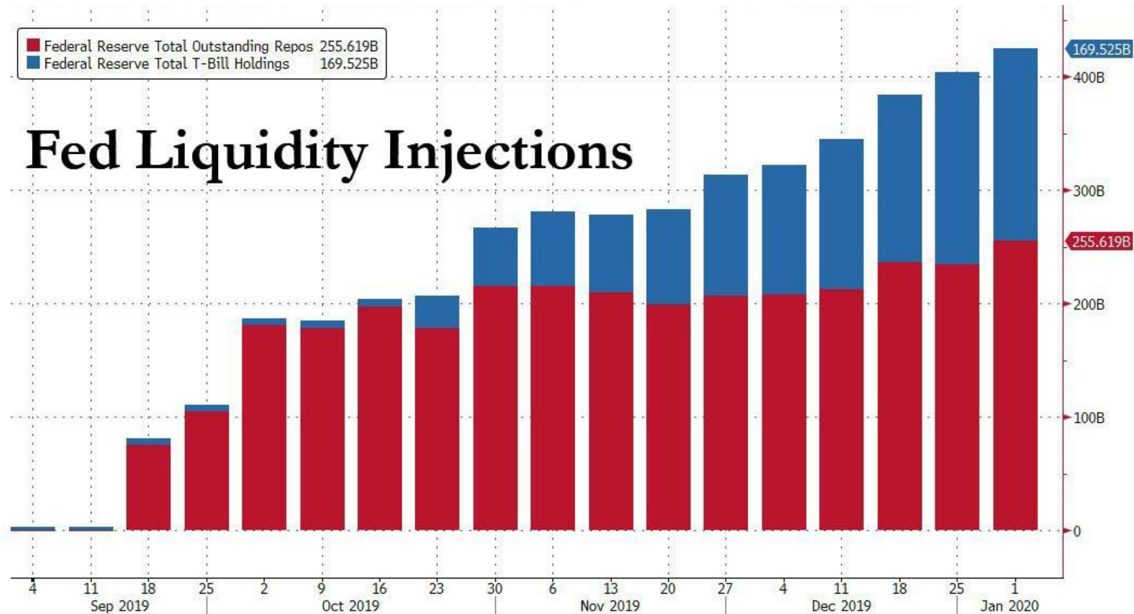
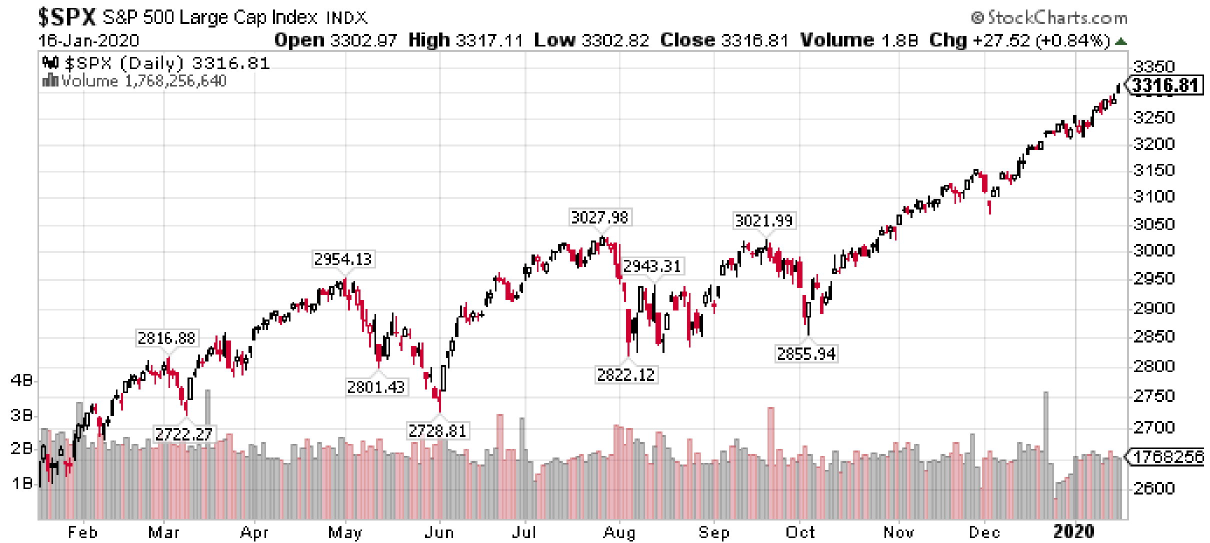
Bill purchase program provided a lot of extra financing, much of which appears to have found its way directly into US equity markets. One more view shows the extent of the new liquidity; from "Fed Injects $82BN In Liquidity As Term Repo Is Most Oversubscribed In One Month" on ZeroHedge.com on 01/14/2020. The following graph shows the repo facilities (red bars in the graph) and the T-bill purchases (blue bars in the graph) that together total almost $425 billion of extra financing injected into US financial markets, roughly the same amount we saw in the graph above on page 10.



Implications

The Fed has repeatedly said these facilities, while lasting for many months, are temporary and just to "tide over" the temporary imbalance of demand over supply of funds in the repo market. However, prior actions by this Fed show a "sturm und drang" (back-and-forth stressing) of policies which have lurched from tight, which caused the US stock market drop in October, November and December last year, to extremely loose, with recent rate cuts in a time of decades-low unemployment, newly-hit all-time highs in US stock markets and relatively steady long-term interest rates in 2019 and now 2020. This all leads to the big question: what happens next?

For the present, the current plan the Fed is following indicates that liquidity will be maintained and not experience any drop for at least a month because the planned additional T-bill purchases (currently planned to end in April 2020) will offset repo facilities that are not to be renewed in February. The market continues to blissfully keep going on this pillow of available money, as you can witness from the chart on the next page of the S&P 500 as of this week (remember the "Not QE" and enhanced repo facilities were announced on October 11th).

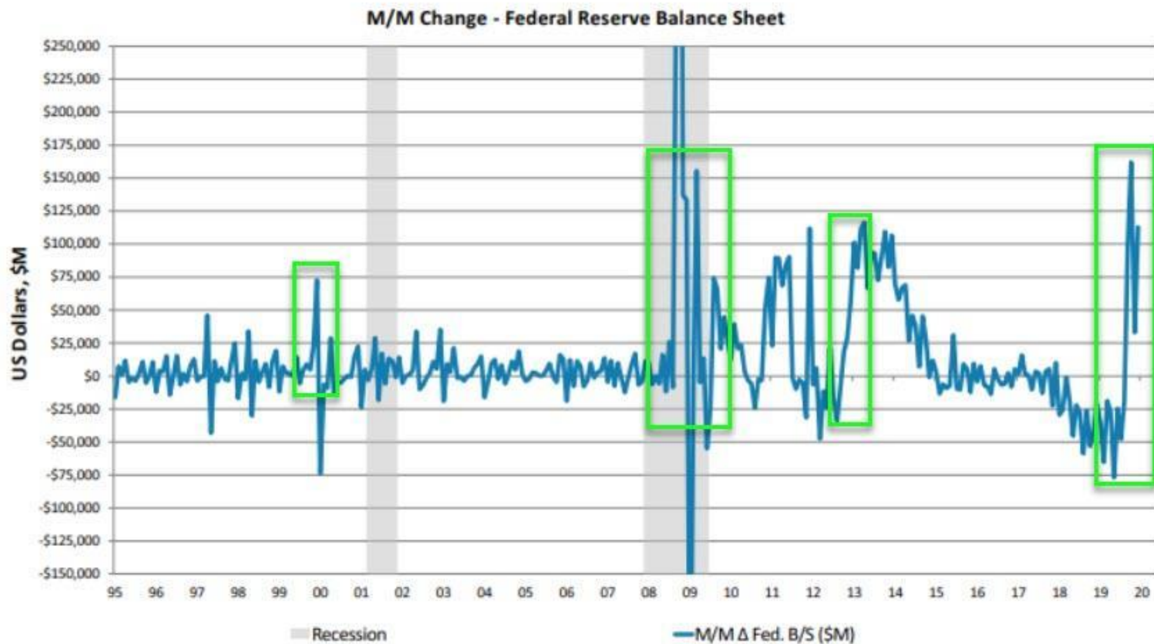


What happens in February, when the increases in liquidity plateau? What happens when the Fed is scheduled to withdraw liquidity? The market and President Trump threw a fit in the fall of 2018 when the Fed was considered "too tight," but the Fed also has to consider the implications of its actions, whether that means increased inflation (possibly to a point where it is unwanted) or the blowing of a real asset bubble (which many believe has already happened).

In a rare bit of openness, in a January 15, 2020 Bloomberg.com article titled "Fed Fuels Rise in Assets Via 'Derivative' of QE, Kaplan Says," Federal Reserve Bank of Dallas President Robert Kaplan acknowledges that the new liquidity has positively affected the stock market:

> "The Federal Reserve's low interest rates, the perception that there is a high bar to future increases and expansion of its balance sheet are helping to lift asset prices, Federal Reserve Bank of Dallas President Robert Kaplan said ... "All three of those actions are contributing to elevated risk-asset valuations," Kaplan told Michael McKee in an interview Wednesday on Bloomberg Television. "And I think we ought to be sensitive to that." And later: "My own view is it's having some effect on risk assets," Kaplan said. "It's a derivative of QE when we buy bills and we inject more liquidity; it affects risk assets. This is why I say growth in the balance sheet is not free. There is a cost to it."

Exhibit 11: The Fed's Recent Balance Sheet Expansion Looks Extreme vs History



Source: Bloomberg, Morgan Stanley Research.

The above graph, produced by Morgan Stanley and referenced from "The Fed 'Just Let The Cat Out Of The Bag', Admits Being Forced To Fuel Asset Bubble" published on 1/16/2020 on ZeroHedge.com, shows the extent of the liquidity facilities and, more importantly, their month-on-month changes, or a type of velocity of money injection. The four green boxes show large Fed injections: from left to right, the "Y2K" injection in 2000, "QE1/QE2" in 2008-2010 (the huge spike is the initial December 2008 injection), "QE3" in 2012-2014 and the "Repo-calypse" of 2019/2020. Velocity-wise, you can see this latest episode "shoved" the liquidity into the markets faster than all other injections except for December 2008's QE1 after the stock market meltdown that year. It's no wonder this amount of monetary injection has caused a melt-up. How do we think the Fed reacts in the future?

First, and unfortunately, the "repo crisis" has not gone away, even after the turn of the year, which is generally considered the time when the most cash is required to be sitting on corporate/fund balance sheets. According to Curvature Securities' Scott Skyrm, who writes a daily Repo Market Commentary note, the total overnight/term Fed repo operations on Friday, January 10th were greater than at year end, $255.95 billion versus $258.9 billion on Friday. This points toward a permanent repo facility that would take the place of the piecemeal ones currently in effect. This has been suggested by many observers, so such a facility would not be surprising, unless it was very large (maybe as large or larger than $150 billion).

The Fed, however, does not want to be seen as "too loose" and also wants to moderate any longer term additions to the Fed Balance Sheet, just like they were trying to do in 2018 when they were shrinking the balance sheet and raising interest rates. Thus, we think they will also stop the purchase of T-Bills, saying the amount bought was enough to "re-liquify the system" and will be rolled over on an ongoing basis for

the foreseeable future. This will leave basically all the liquidity in the system, but not increase it anymore.

Finally, and very importantly, the Fed absolutely does not want to be seen as tightening policy during an election year, especially with Donald Trump currently in the White House, "ready, willing and able" to tweet up a storm to pressure easier monetary policy starting this spring. Our guess is that they maintain policy as-is as long as possible, resisting the President's entreaties for easier money by leaving liquidity plentiful to hopefully not deprive markets of the "fuel" they've used to advance in the past.

The risk, of course, is that the lack of increasing monetary fuel will cause markets to "re-evaluate" their recent advances, either pausing (the Fed's hoped for 'downside scenario') or dropping due to the lack of impetus for further advance (the fundamentals are not nor are they expected to be favorable for another leg up in the stock market in early-to-mid 2020). If they start to fall back, we believe this Fed will "knuckle under" and provide some kind of further stimulus. By the way the market is currently acting (continuing to rise, even after some catalysts like the US-China trade deal have already happened), the market seems to be coming to the same conclusions we are.

As always, please stay tuned!

The Managers of Kanos Capital Management
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