



# How to build true Recession Resilience

**Commodity Investment Update, 22. March 2023**

For professional and institutional investors only

**taviscapital**

# Content

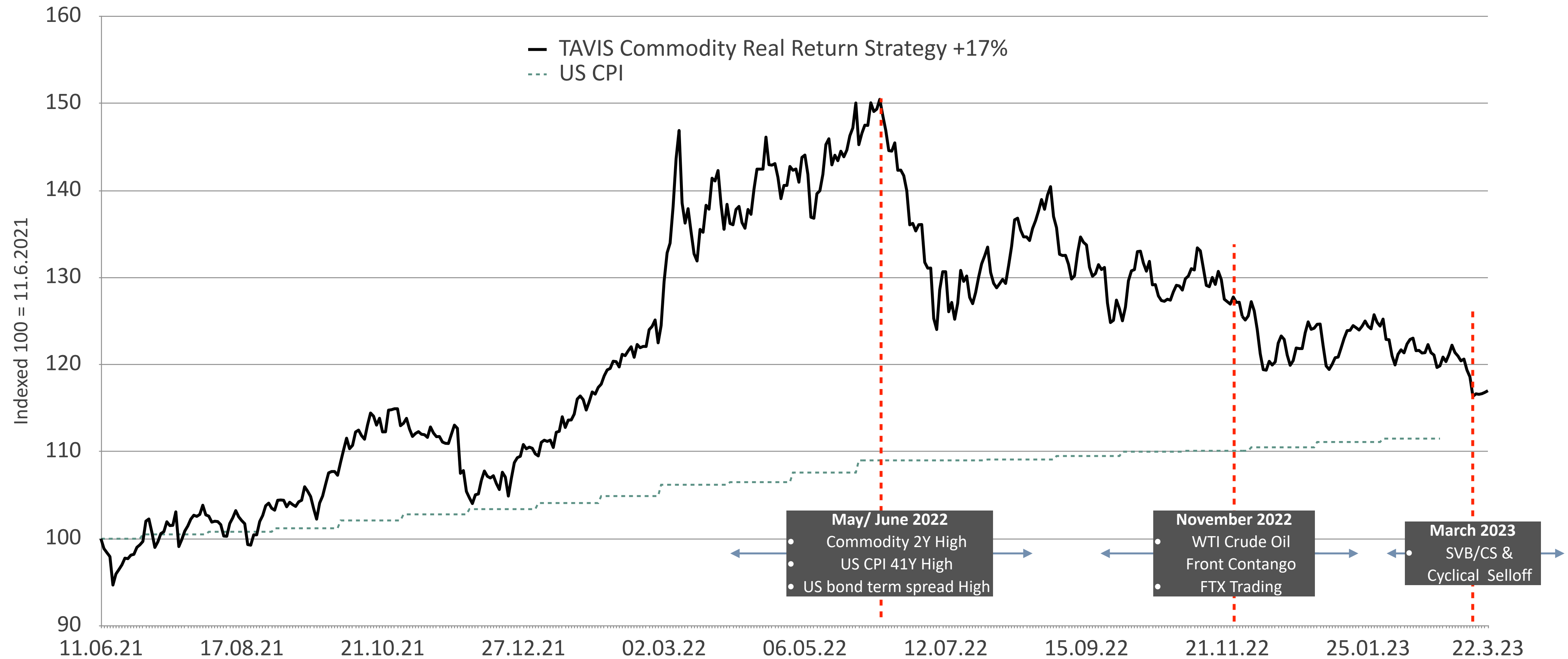
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# I. Performance and commodity markets review

# Performance TAVIS long-only strategy

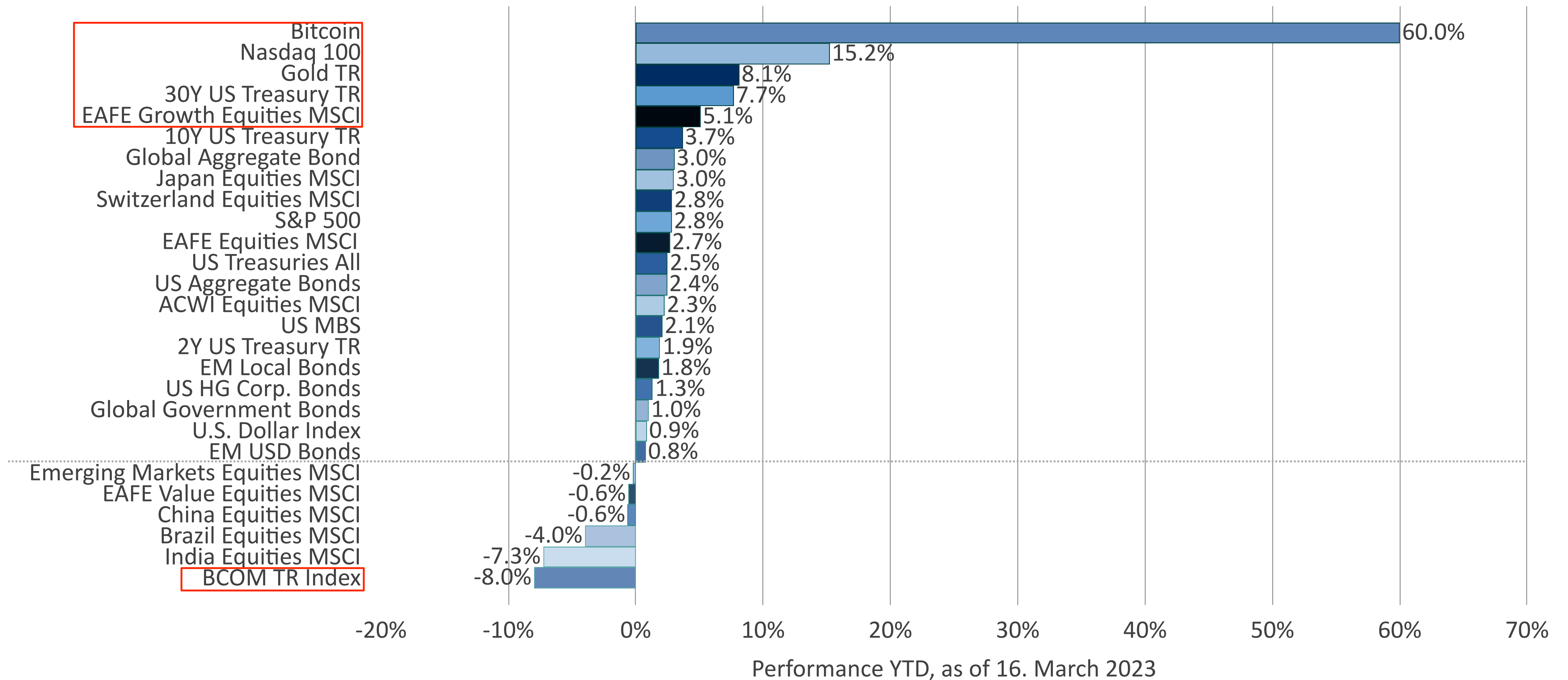
Performance TAVIS Commodity Real Return, since inception, as of 22. March 2023



PAST PERFORMANCE IS NOT NECESSARILY INDICATIVE OF FUTURE RESULTS. INVESTMENT RESULTS MAY VARY SUBSTANTIALLY OVER TIME. THERE CAN BE NO ASSURANCE THAT THE STRATEGY WILL ACHIEVE ITS INVESTMENT OBJECTIVE OR THAT THERE WILL BE ANY RETURN ON CAPITAL.

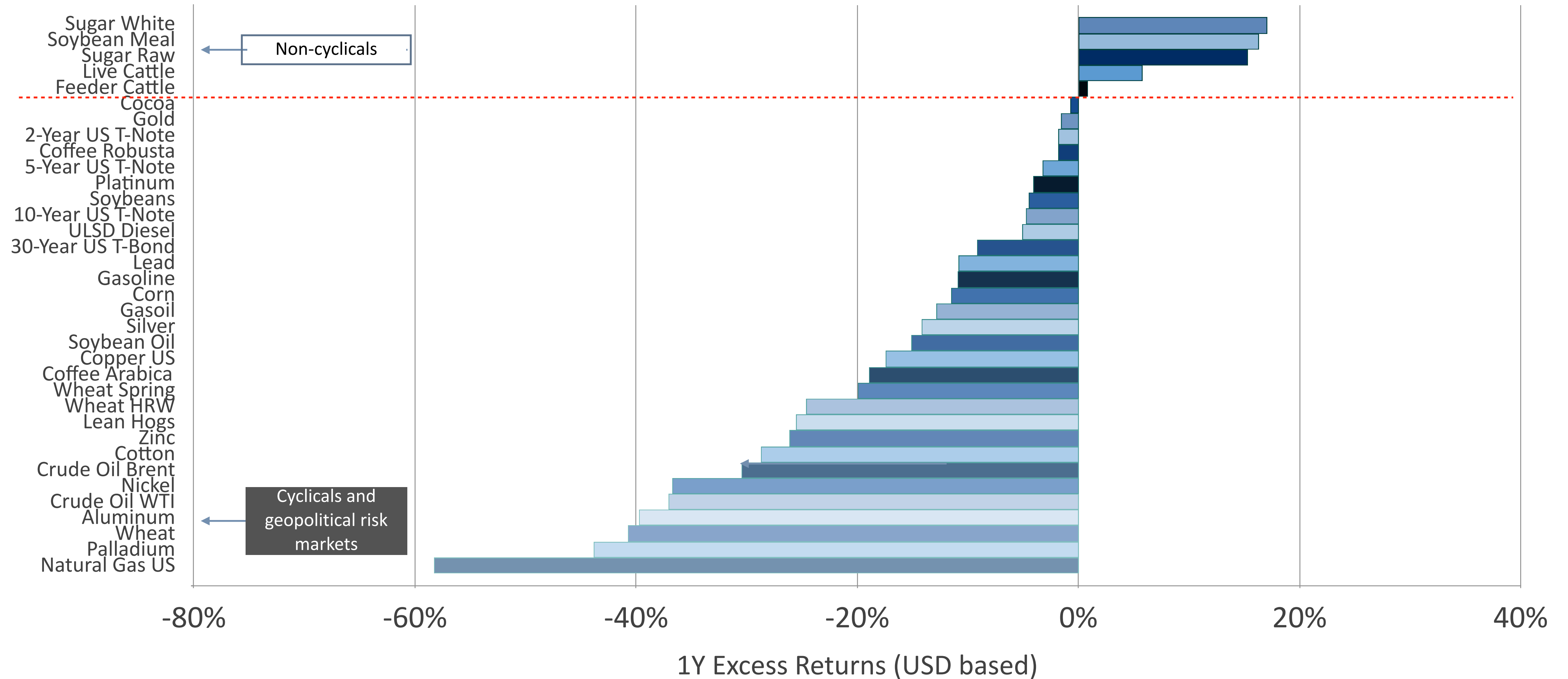
# The pseudo-goldilocks of early 2023 are unlikely to last

Investments Performance, YTD



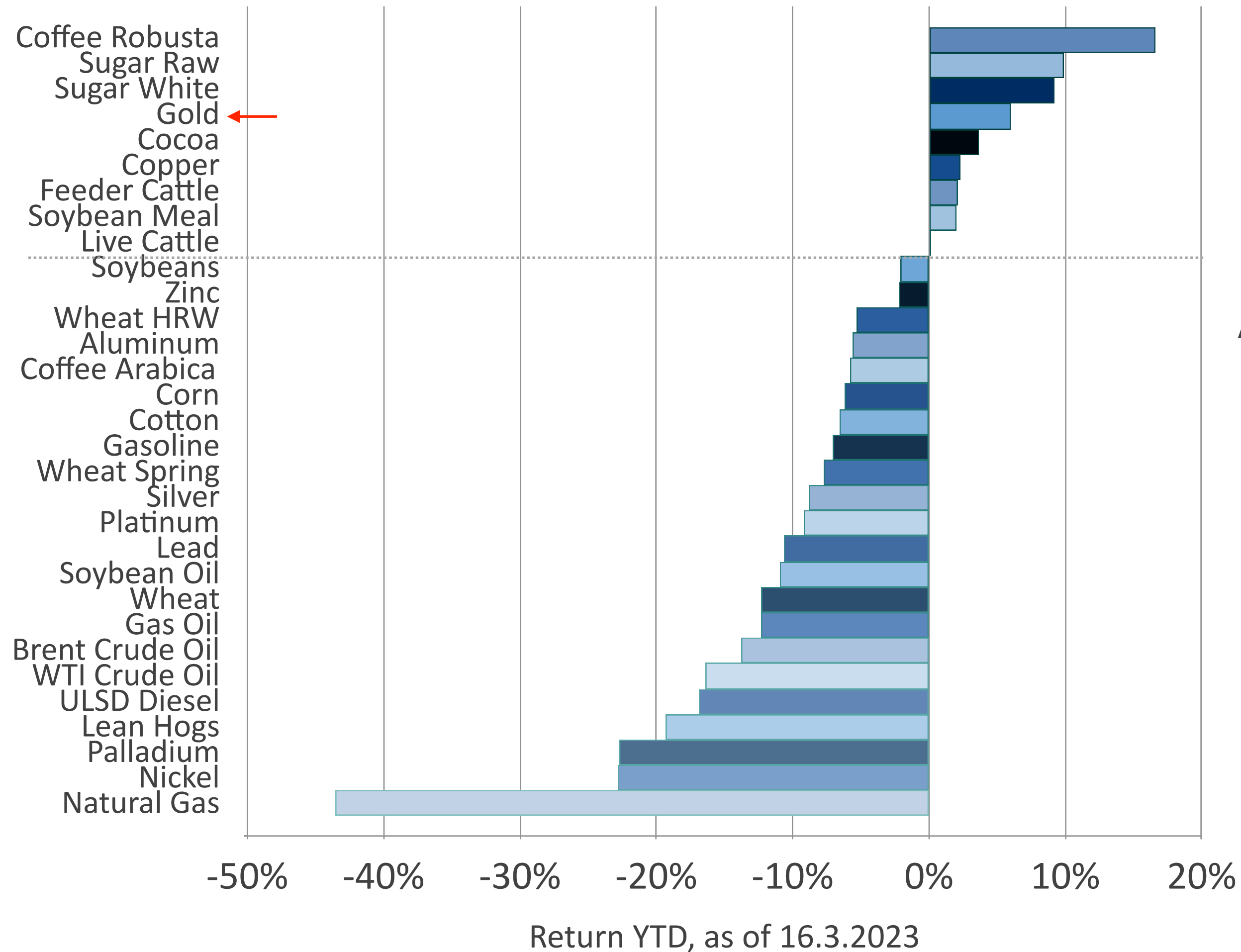
# Commodities' disinflationary momentum signals incoming recession

1Y Performance Commodities - as of 17. March 2023

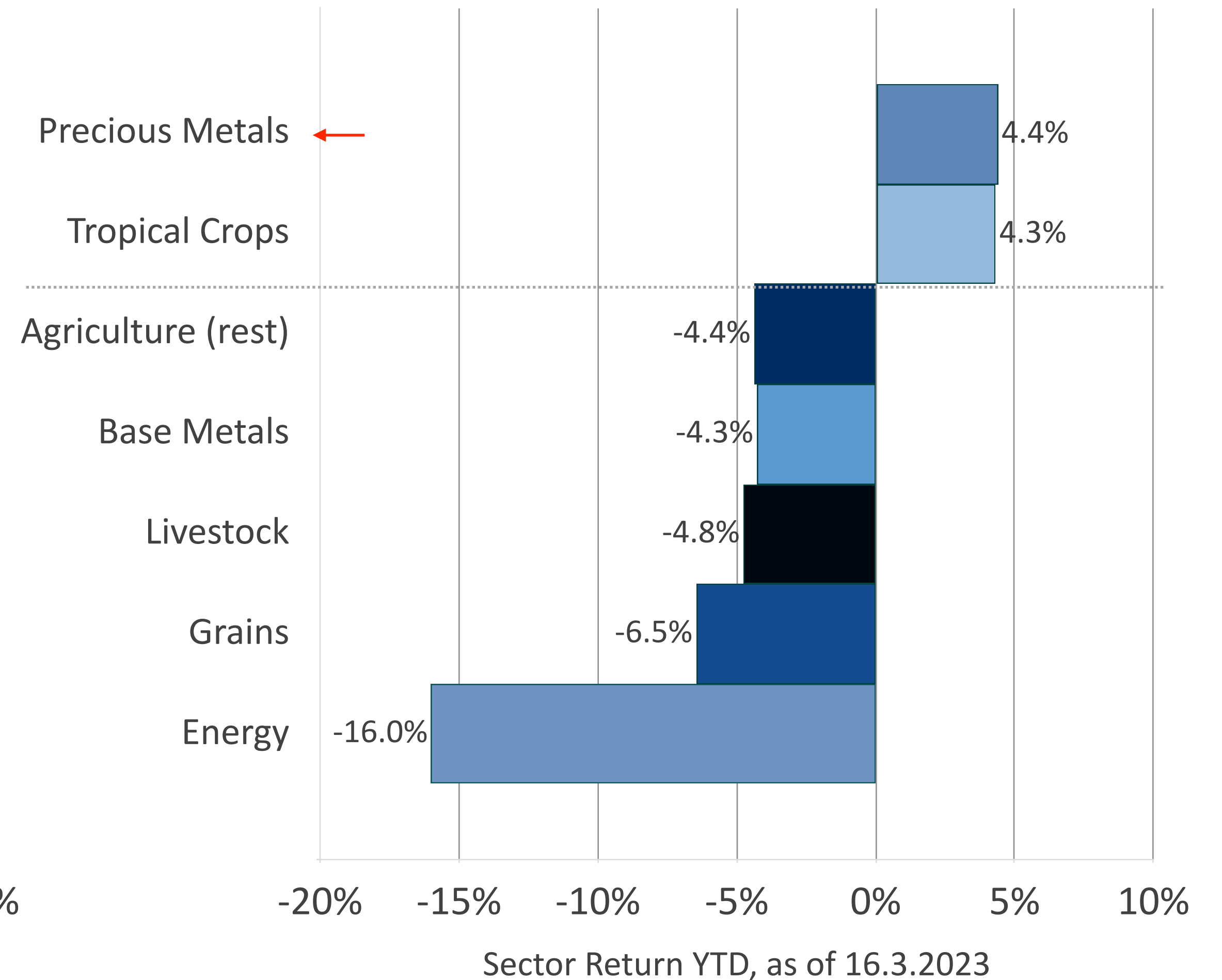


# So far, commodity markets are the mirror image of long-duration markets

YTD performance single commodities, excess return (USD)



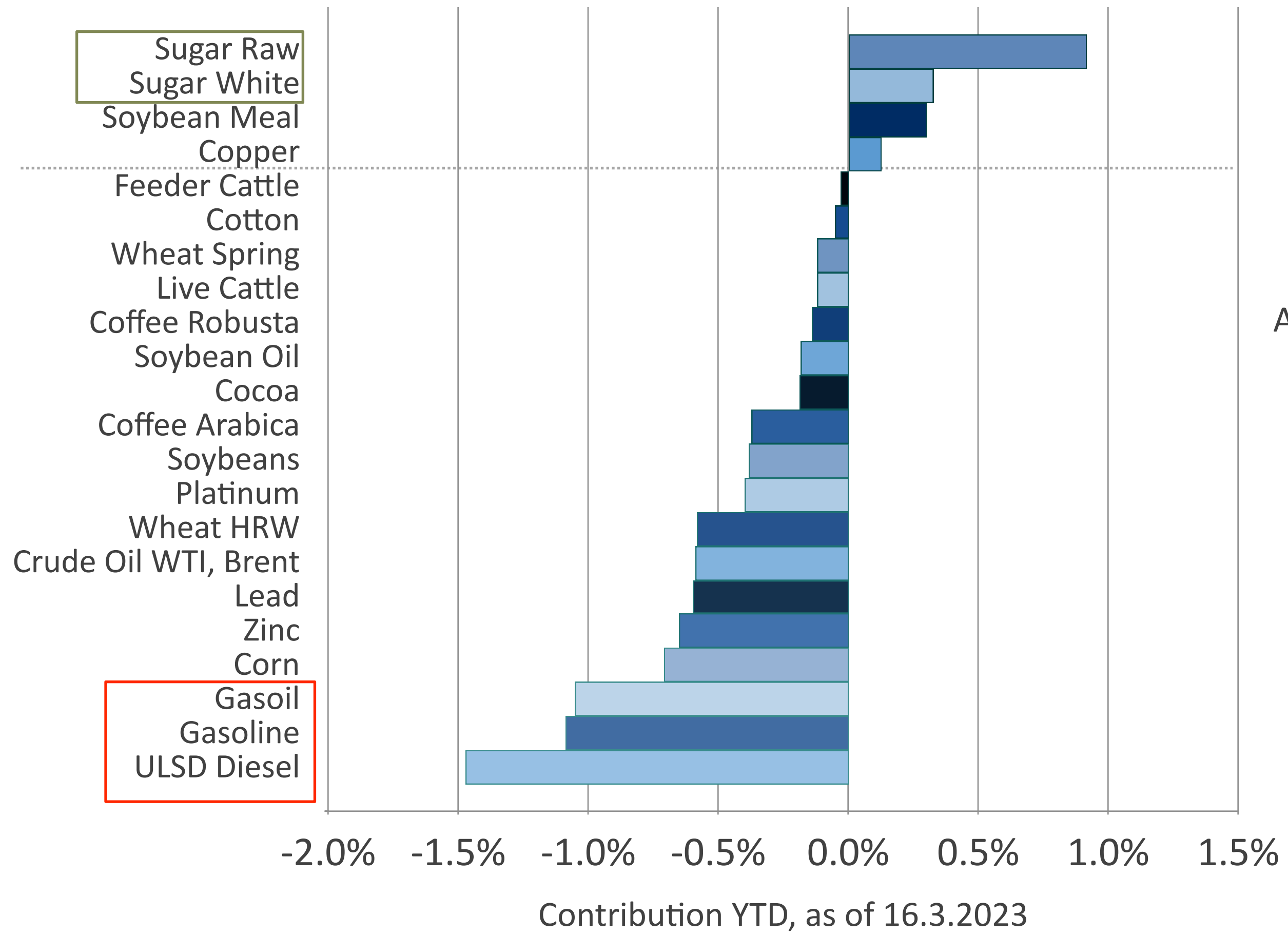
YTD performance commodity sectors, excess return (USD)



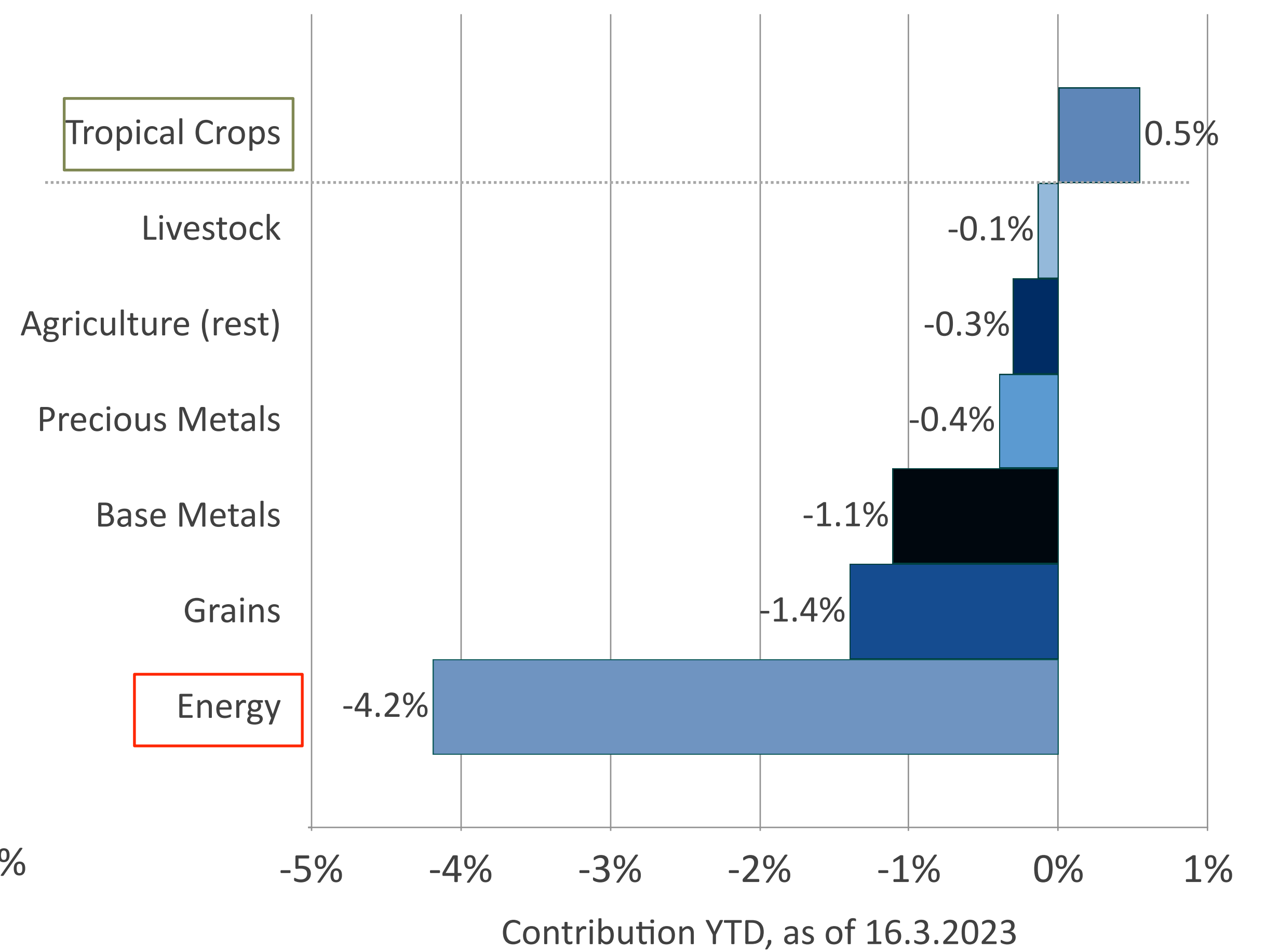
As of 16.3.2023. \*Single commodity and commodity sector performance based on S&P GSCI ER indices

# YTD performance contribution

## Contribution by commodity, YTD



## Contribution by sector, YTD



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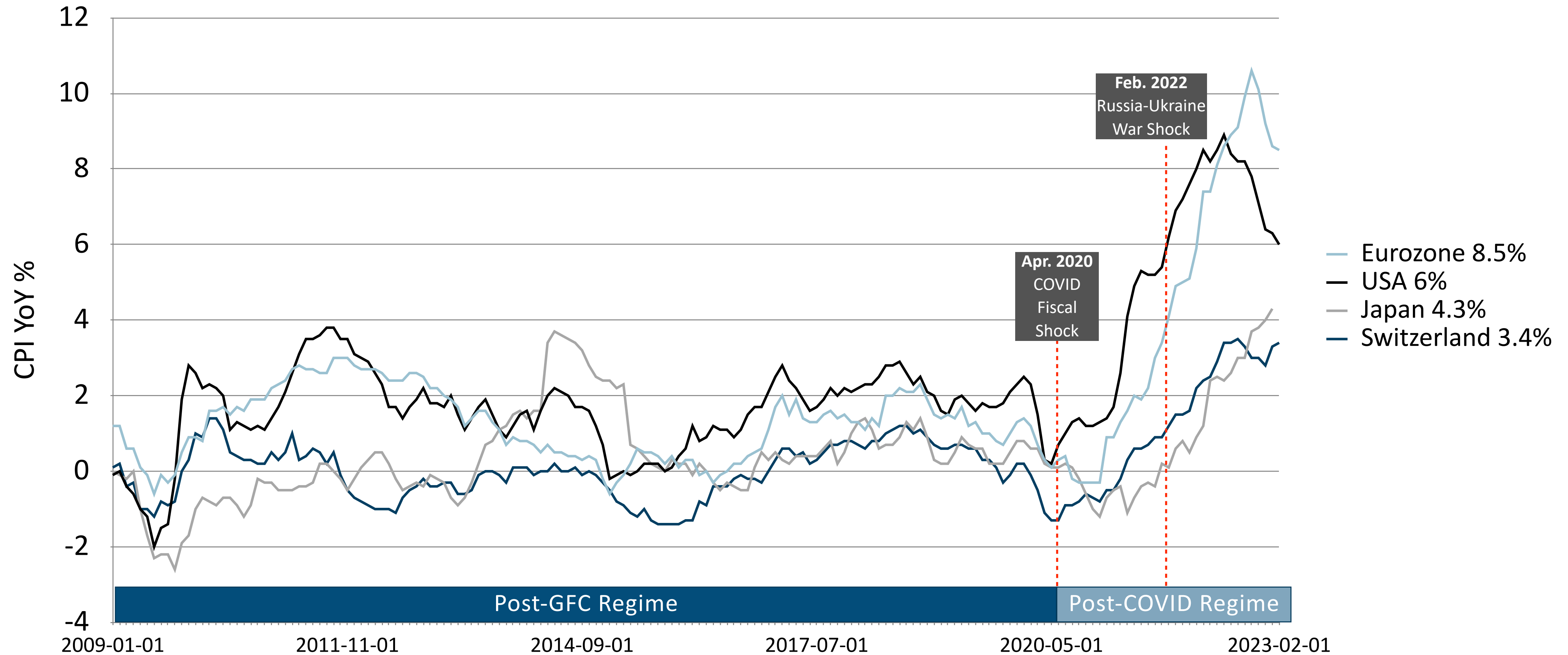




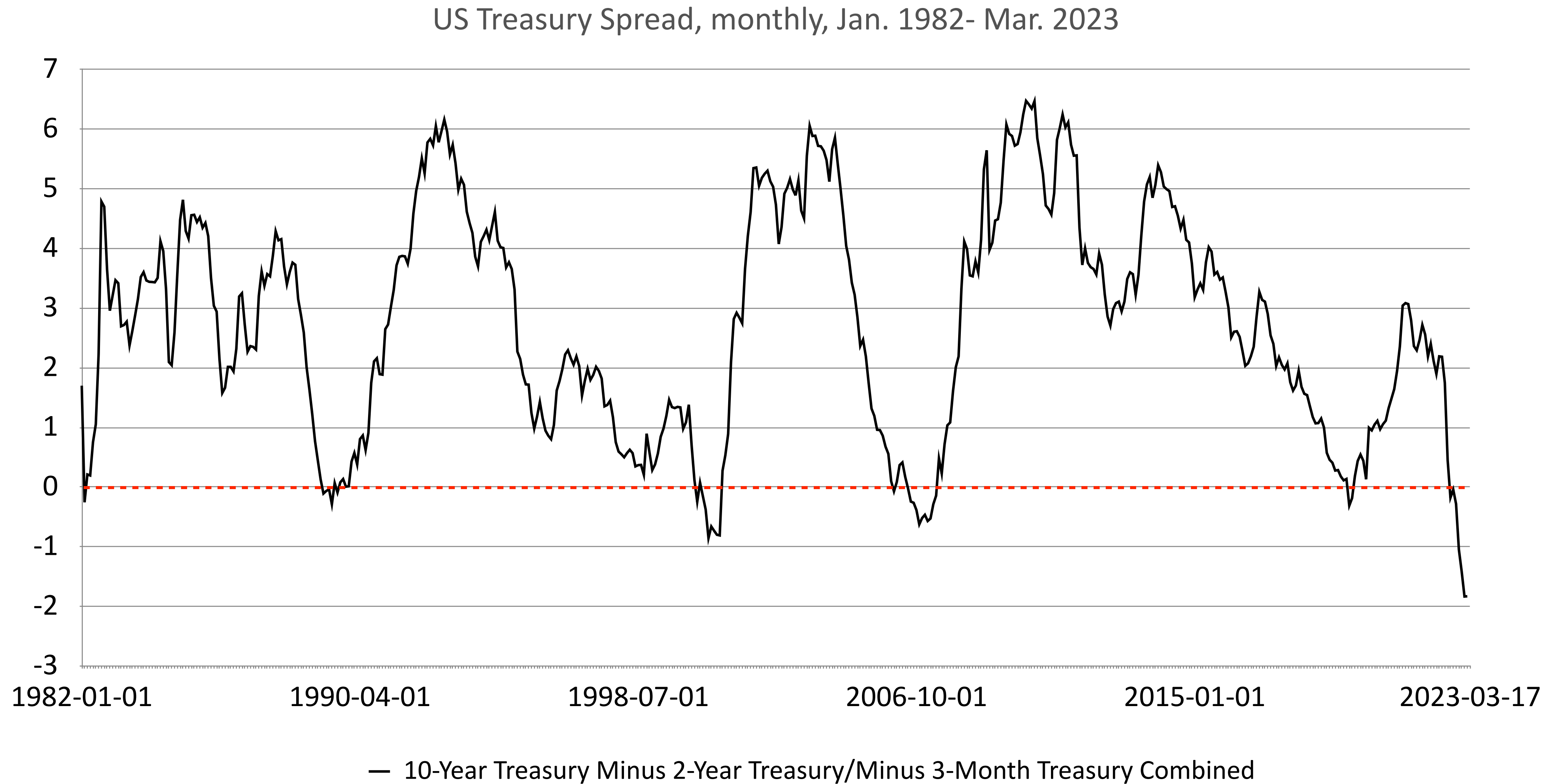
## II. Commodity and macro outlook

# Inflation is still way above average

Inflation rates USA, Eurozone, Japan, Switzerland  
Consumer Price Index, % change from year ago, monthly, Jan 2009- Feb 2023



# However, US term spreads have been signalling recession risk since summer



## Every “fight against inflation” requires adverse events...

- However, the official narrative since Feb. 2022: Interest rate hikes: **Yes**/ Hard landing: **No**
- *How far can central banks **bend** the economy and markets before endangering **X** ?*
- **Silicon Valley Bank (SVB)** and **CS** first traditional OECD victims (after EM/ crypto)
- SVB event corresponds to a **~1.5% increase** in the Fed funds rate i.e. “**constricting credit**”
- At which point will (1) a **recession/job losses**, (2) **another “unrealized” interest rates/liquidity squeeze**, (3) **austerity stress/ fiscal pressures** stop higher rates?  
→ Peak US rates 03. May 2023\*? → Easing US rates 26. July 2023\*? → Recession 3Q2023? → Weaker USD?

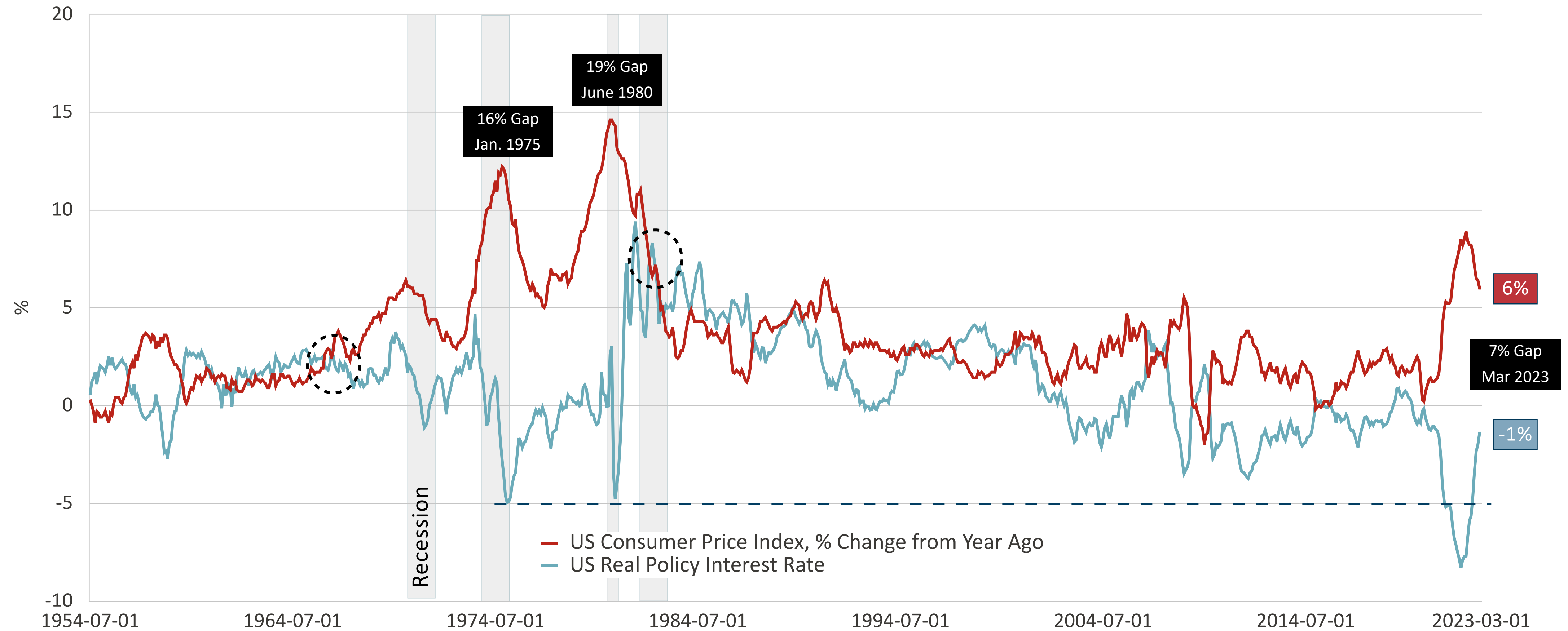
### **Bottom line:**

- **The risk of ‘inflation fight’ fatigue** has increased because the interest rate necessitated by the **anti-inflation** push might be more than today’s **banking system** can stand.

\*Based on CME FedWatch Tool 22.3.2023

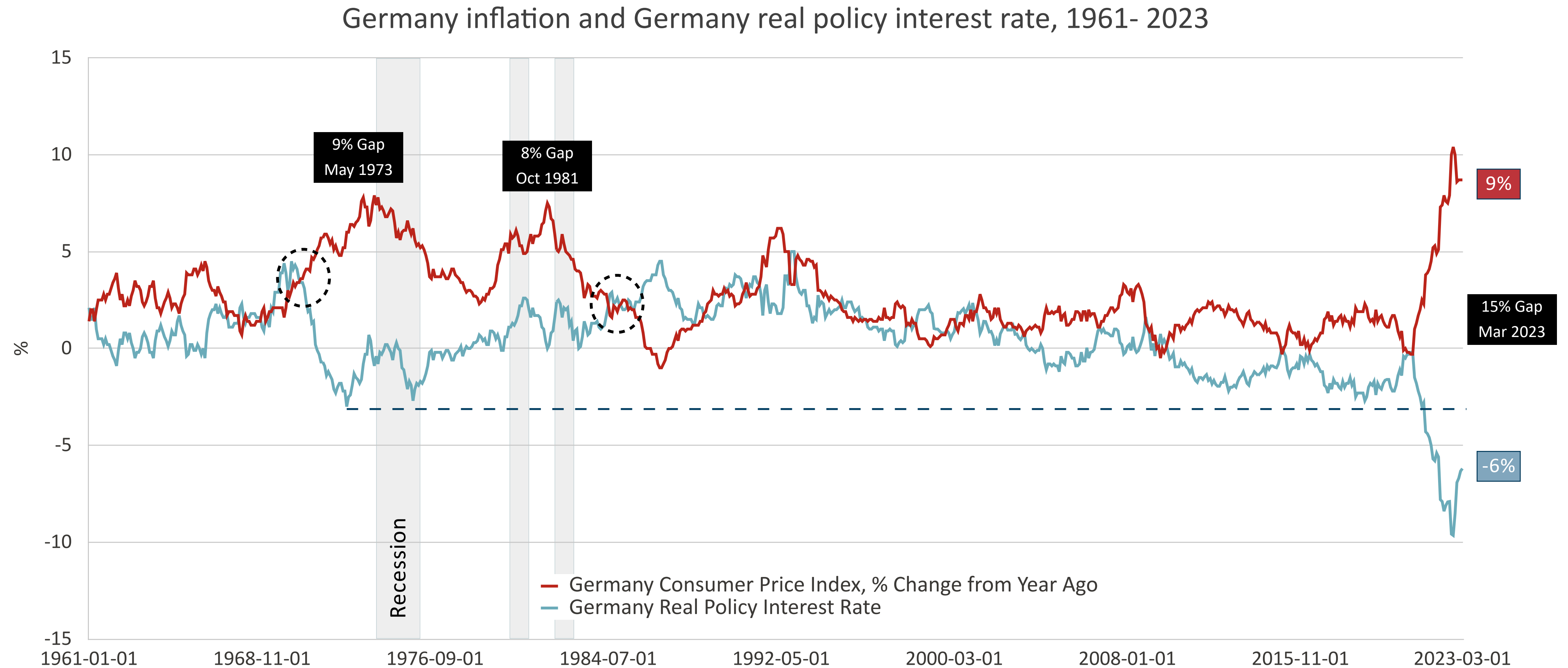
# US real policy rate at -1%

## US inflation and US real policy interest rate, 1954- 2023



The real policy interest rate is the federal funds' interest rate minus US headline inflation over the previous 12 months. Recessions during inflation regime shaded grey. Source: BLS; Board of Governors

# Eurozone real policy rate at -6%



The real policy interest rate is the Bundesbank discount rate (1961-1998)/ ECB Deposit Facility Rate for Euro Area (1999-2023) minus German headline inflation over the previous 12 months. Recessions during inflation regime shaded grey.

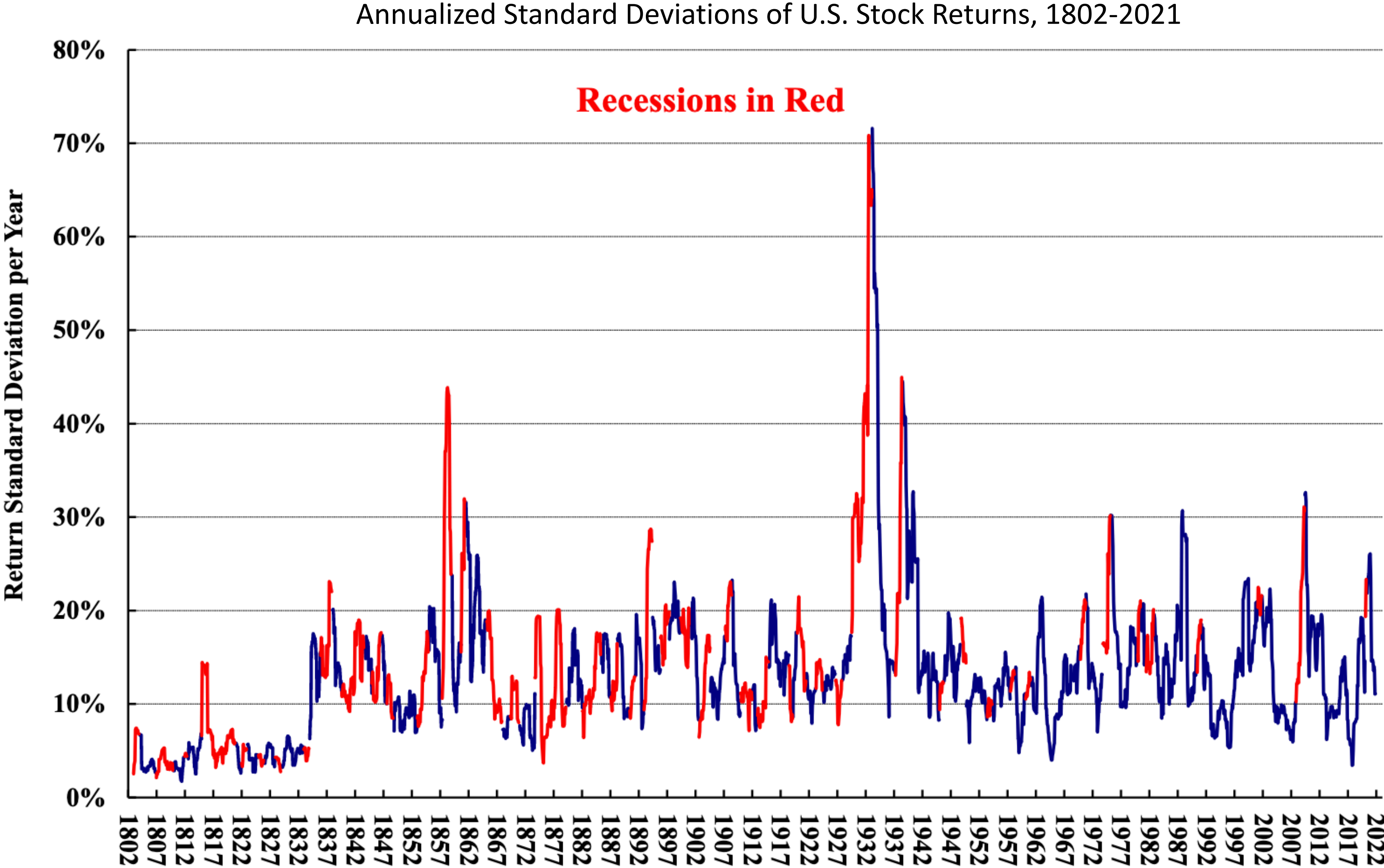
Source: Deutsche Bundesbank, ECB

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Tavis Capital Corporate Presentation

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# Yield curve inversion will ultimately force equities to reprice



Source: <https://www.billschwert.com/recessions.pdf>

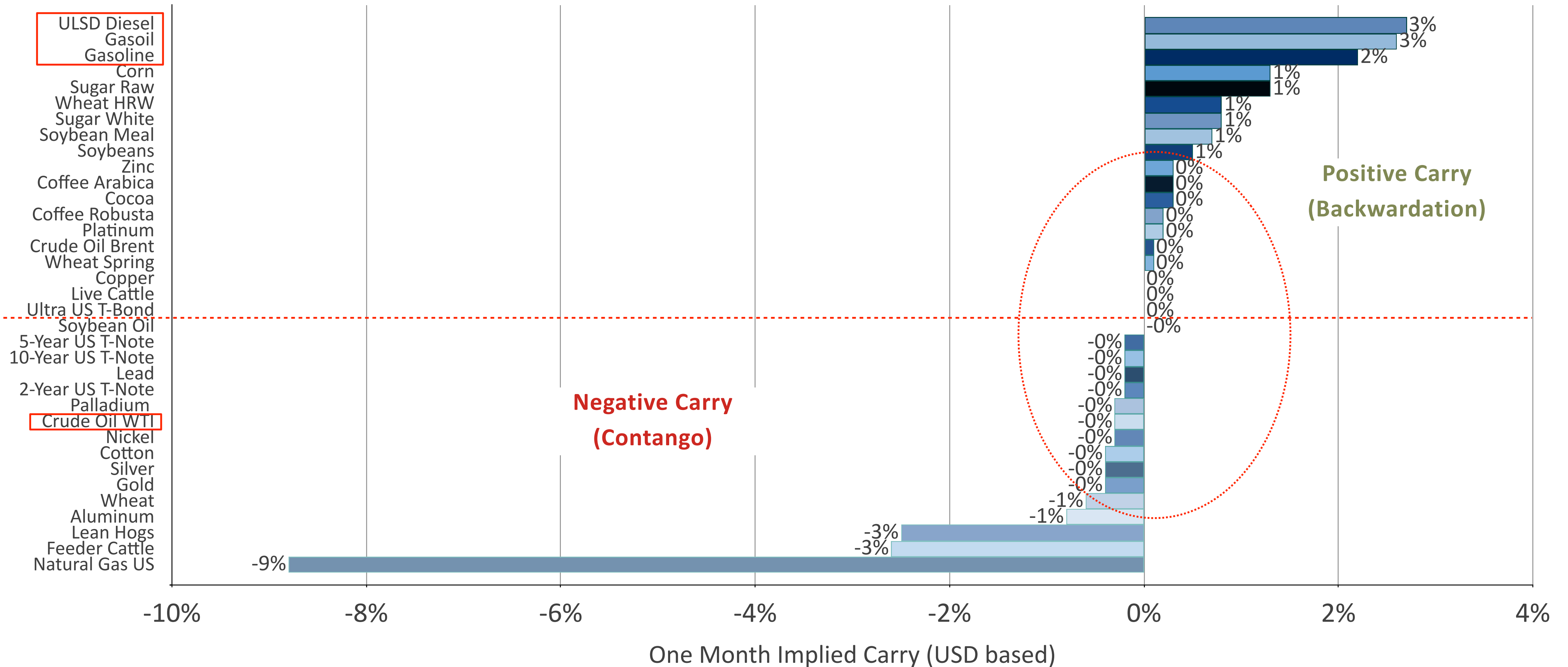
# YTD's pseudo-goldilocks will give way to which type of recession?

	US Recession Start	US Recession End	Yield Curve Inversion Start	Fed Fund Rate Change in Recession	CPI YoY Change in Recession	Oil Price in Recession	Non-Energy Prices in Recession	Gold Price in Recession	S&P 500 % Loss	S&P500 Bear Market Start	S&P500 Bear Market End
∅				-4%	-1%	-3%	-3%	5%	-35%		
1	December 1969	November 1970	July 1969	-3%	-0%	-1%	-1%	6%	-36%	November 1968	May 1970
2	November 1973 <b>Inflationary Recession</b>	March 1975	June 1973	-5%	2%	159%	3%	88%	-48%	January 1973	October 1974
3	January 1980 <b>Flat Price Recession</b>	July 1980	September 1978	-5%	-1%	22%	-2%	-5%	-17%	February 1980	March 1980
4	July 1981	November 1982	September 1980	-10%	-6%	-5%	-18%	1%	-27%	November 1980	August 1982
5	July 1990 <b>Flat Price Recession</b>	March 1991	March 1989	-2%	0%	7%	-1%	0%	-20%	July 1990	October 1990
6	March 2001	November 2001	June 2000	-3%	-1%	-28%	-5%	5%	-49%	March 2000	October 2002
7	December 2007	June 2009	February 2006	-4%	-5%	-24%	-13%	18%	-57%	October 2007	March 2009
8	February 2020	April 2020	August 2019	-2%	-2%	-67%	-6%	5%	-34%	February 2020	March 2020
(9)	<b>3Q 2023 ?</b>		August 2022						(-18%)	December 2021	



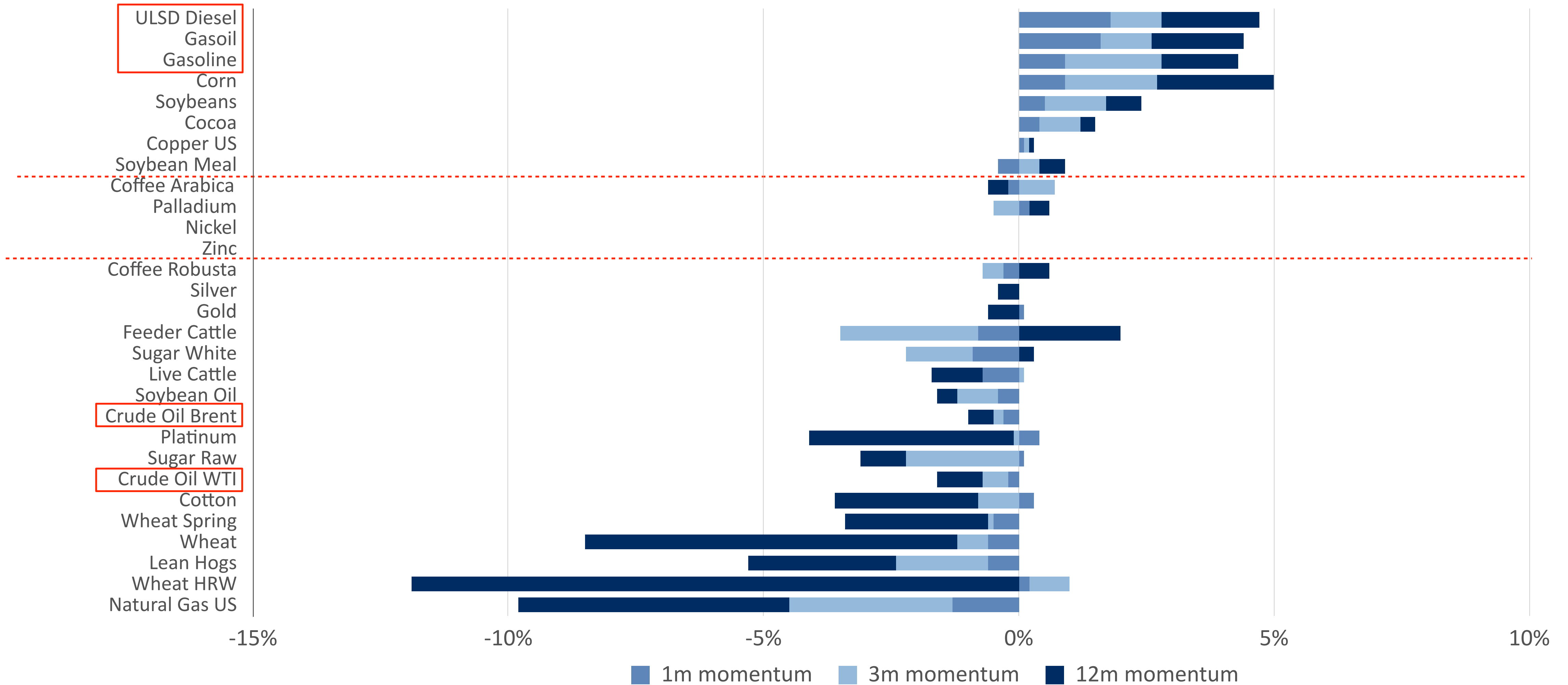
# Average commodity carry at zero continues to signal recession

Commodity and US Treasury Carries - as of 17. March 2023



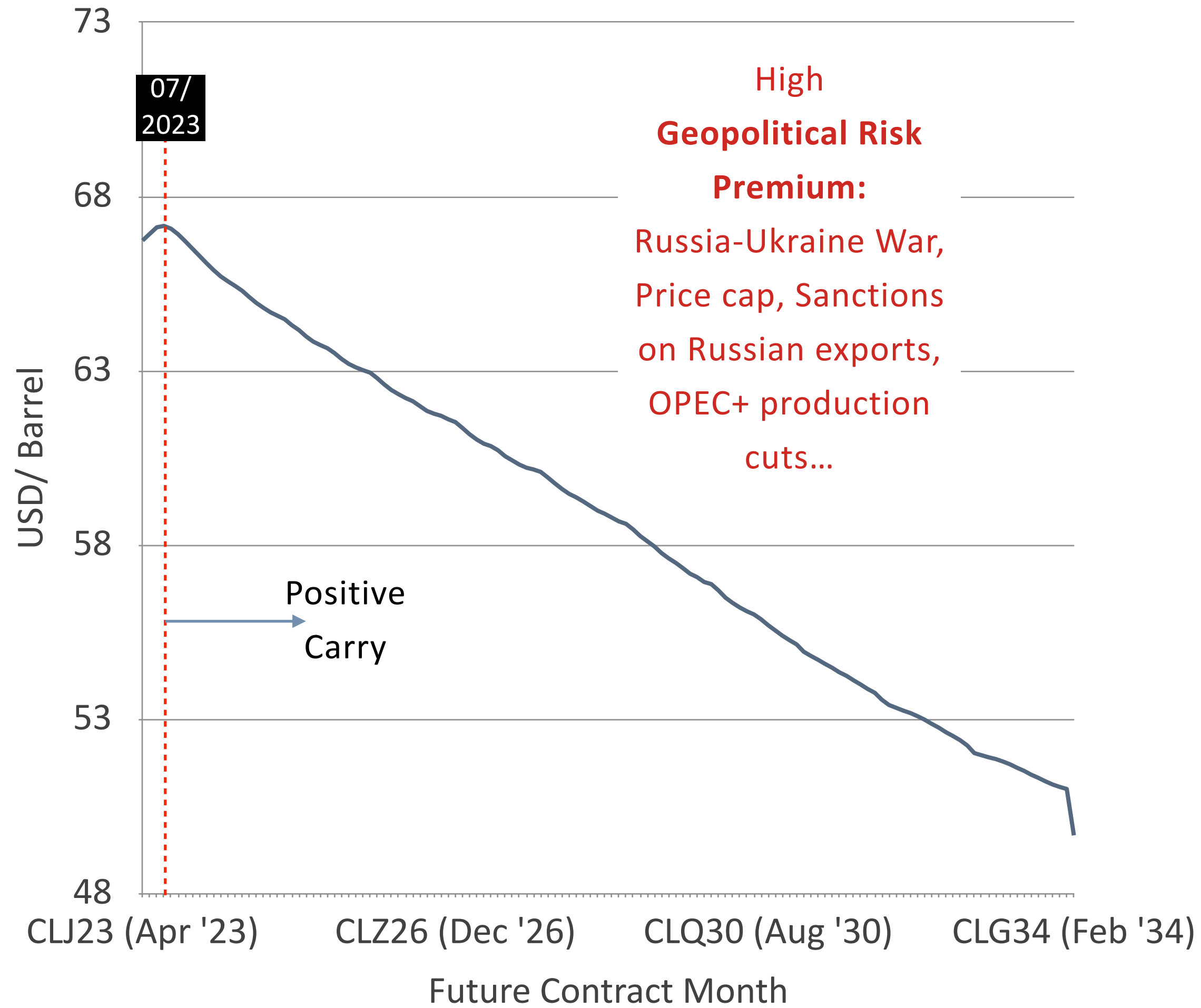
# Decreasing commodity carries indicate further disinflation

Commodity Carry (1 month ahead) Momentum, as of 17. March 2023

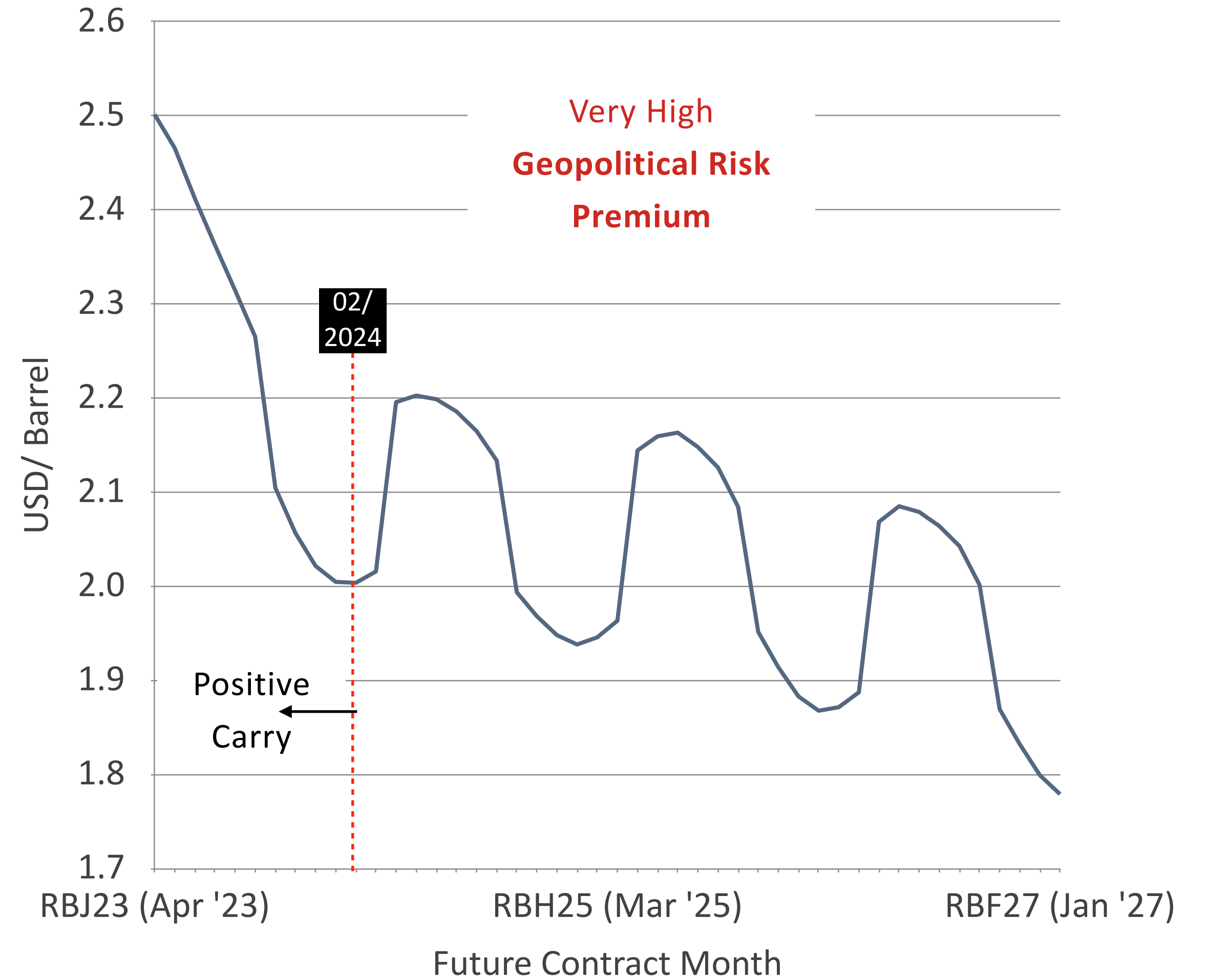


# But the war has not disappeared

WTI Crude Oil Contract Curve, as of 17.03.2023

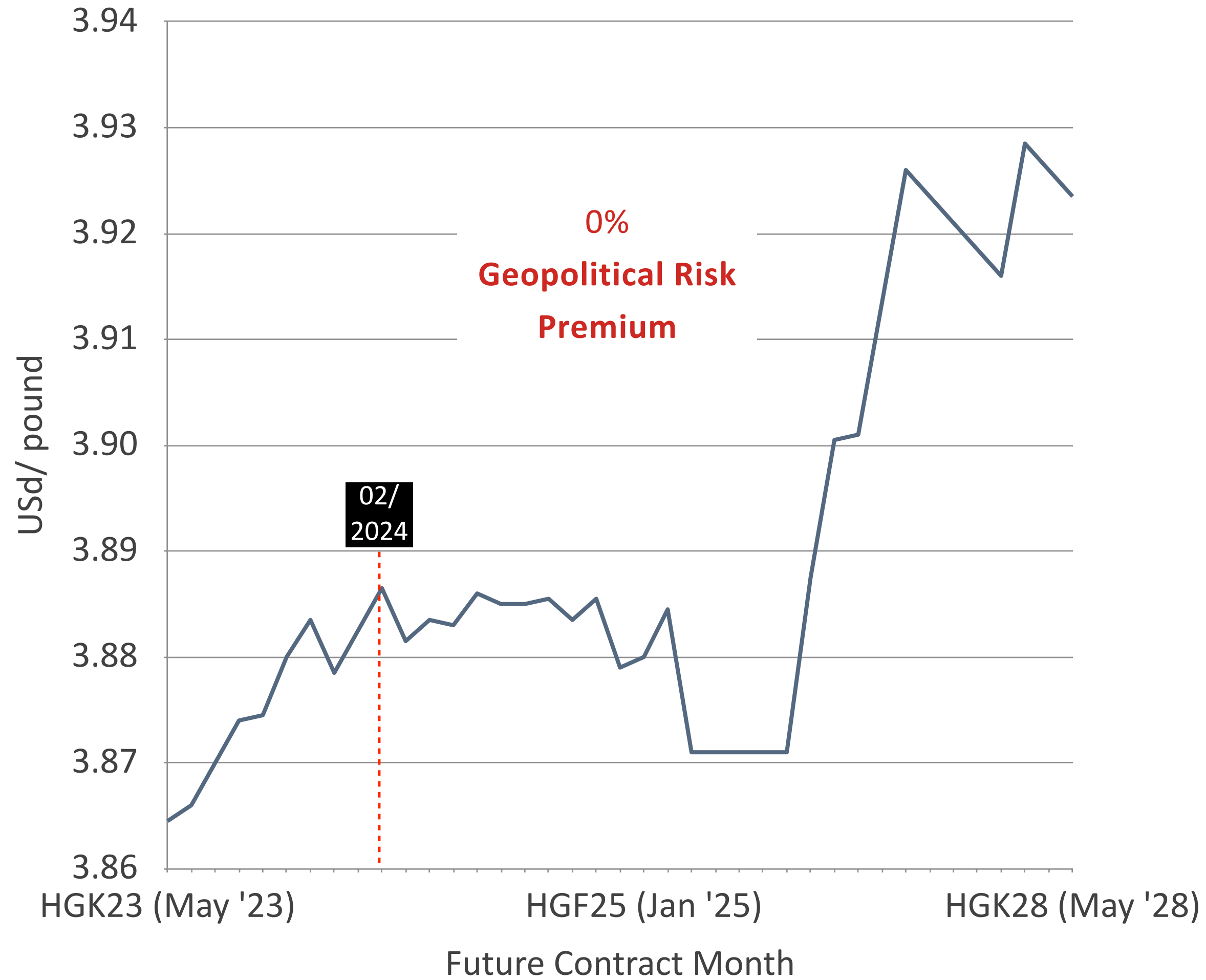


Gasoline Contract Curve, as of 17.03.2023

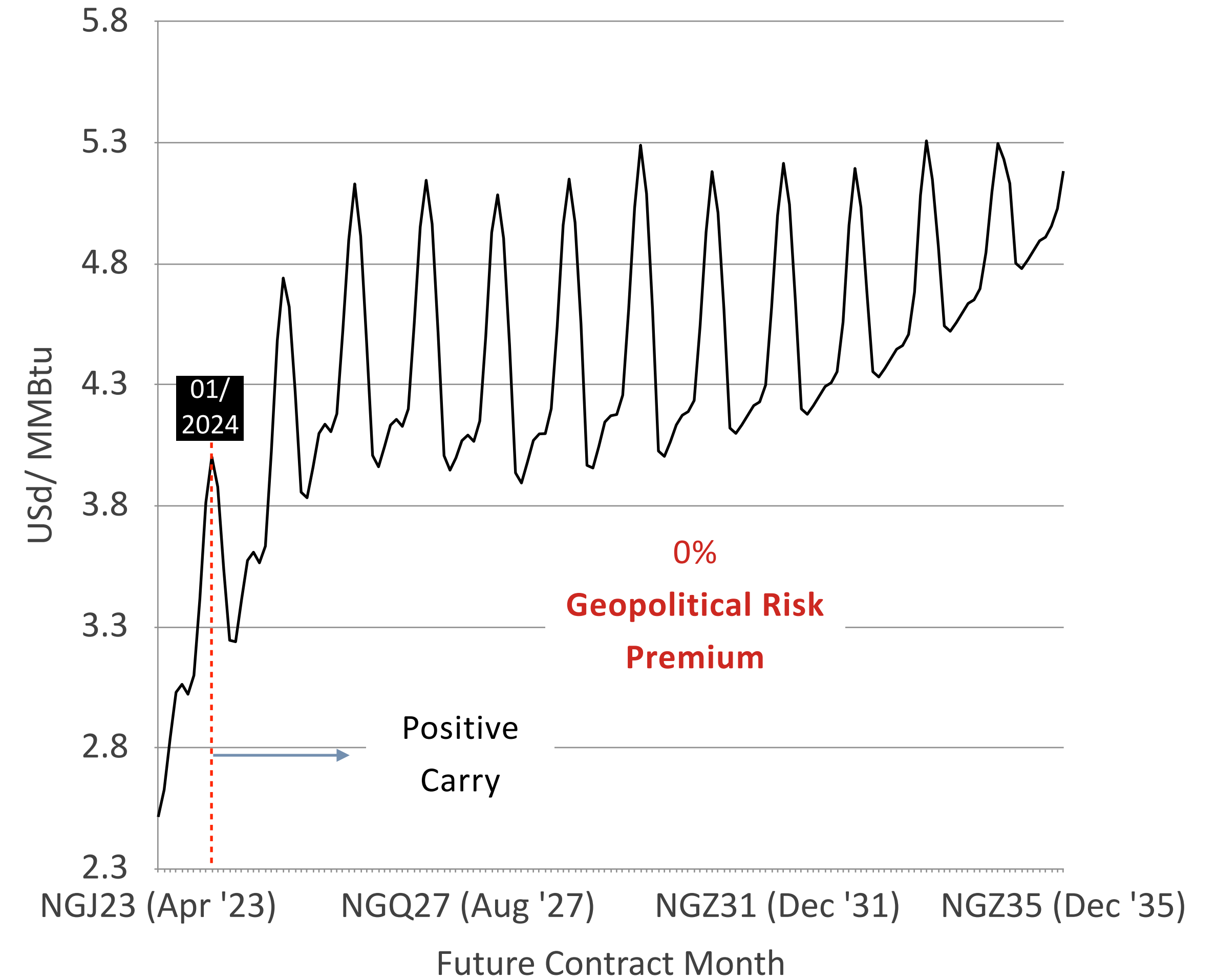


# Some cyclical forward curves continue to signal disinflation

Copper NY Contract Curve, as of 16.03.2023

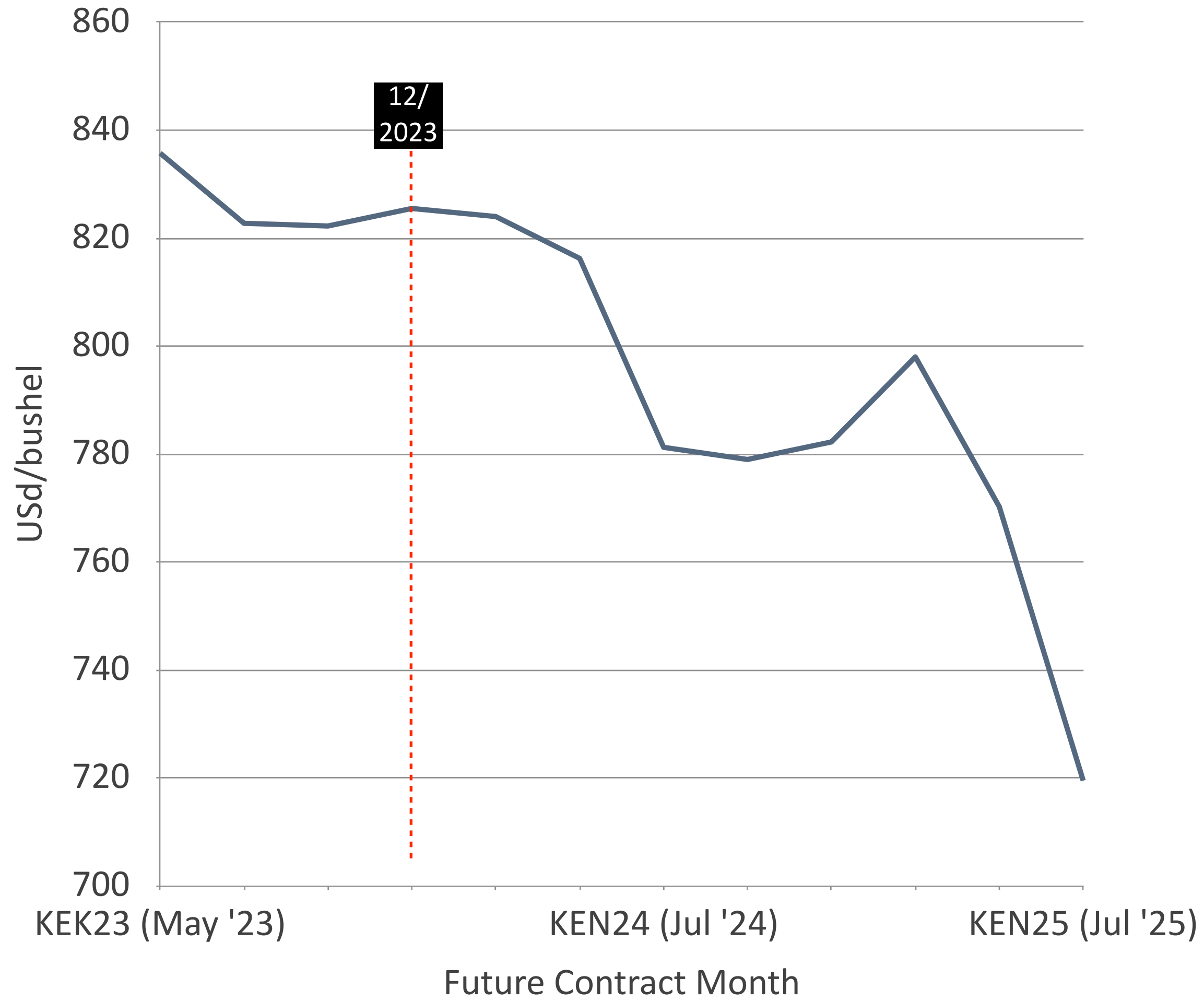


US Natural Gas Contract Curve, as of 16.03.2023

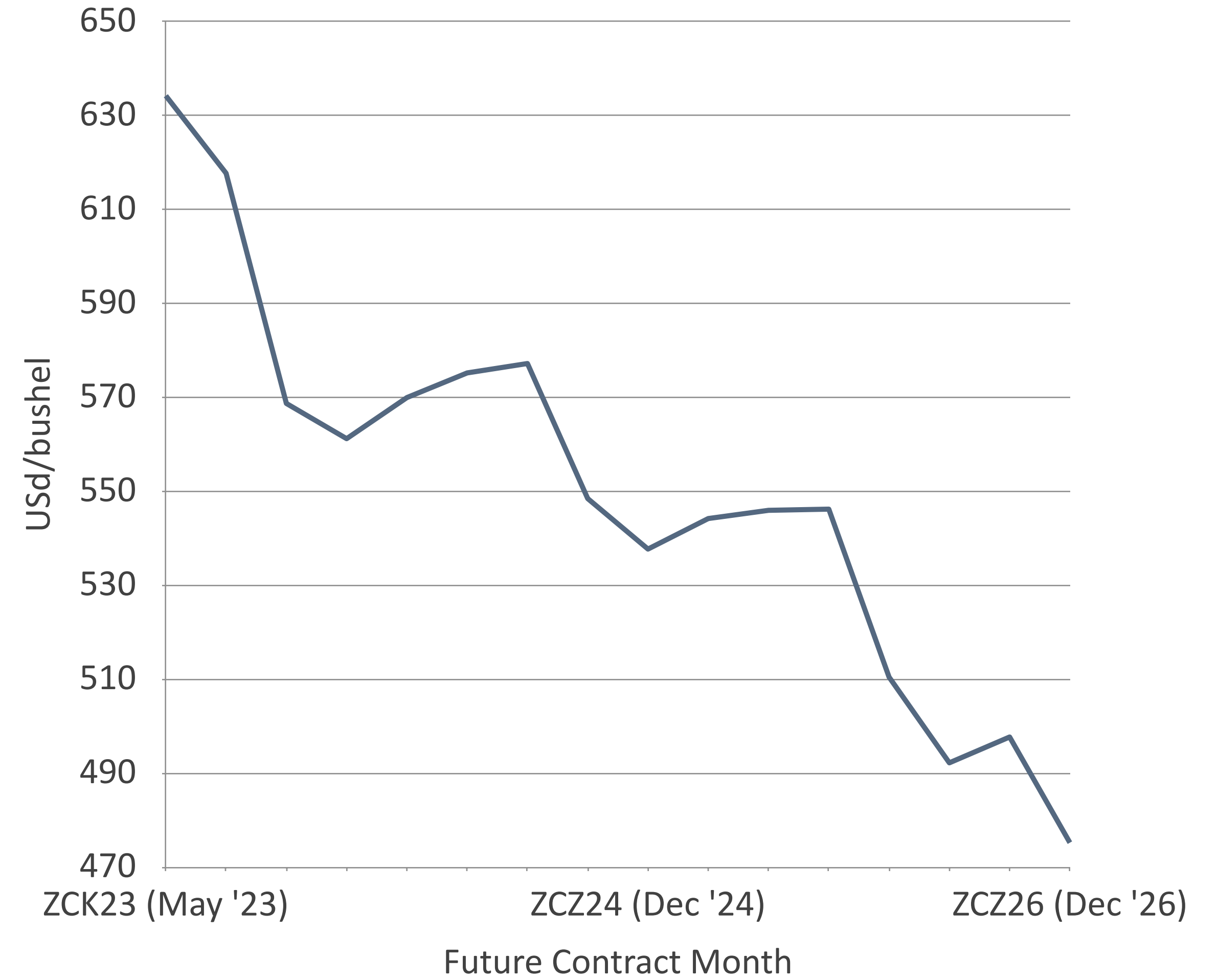


# Also, grain curves do not indicate a return of food-inflation until late 2023

### Wheat HRW Contract Curve, as of 17.03.2023



### Corn Contract Curve, as of 17.03.2023

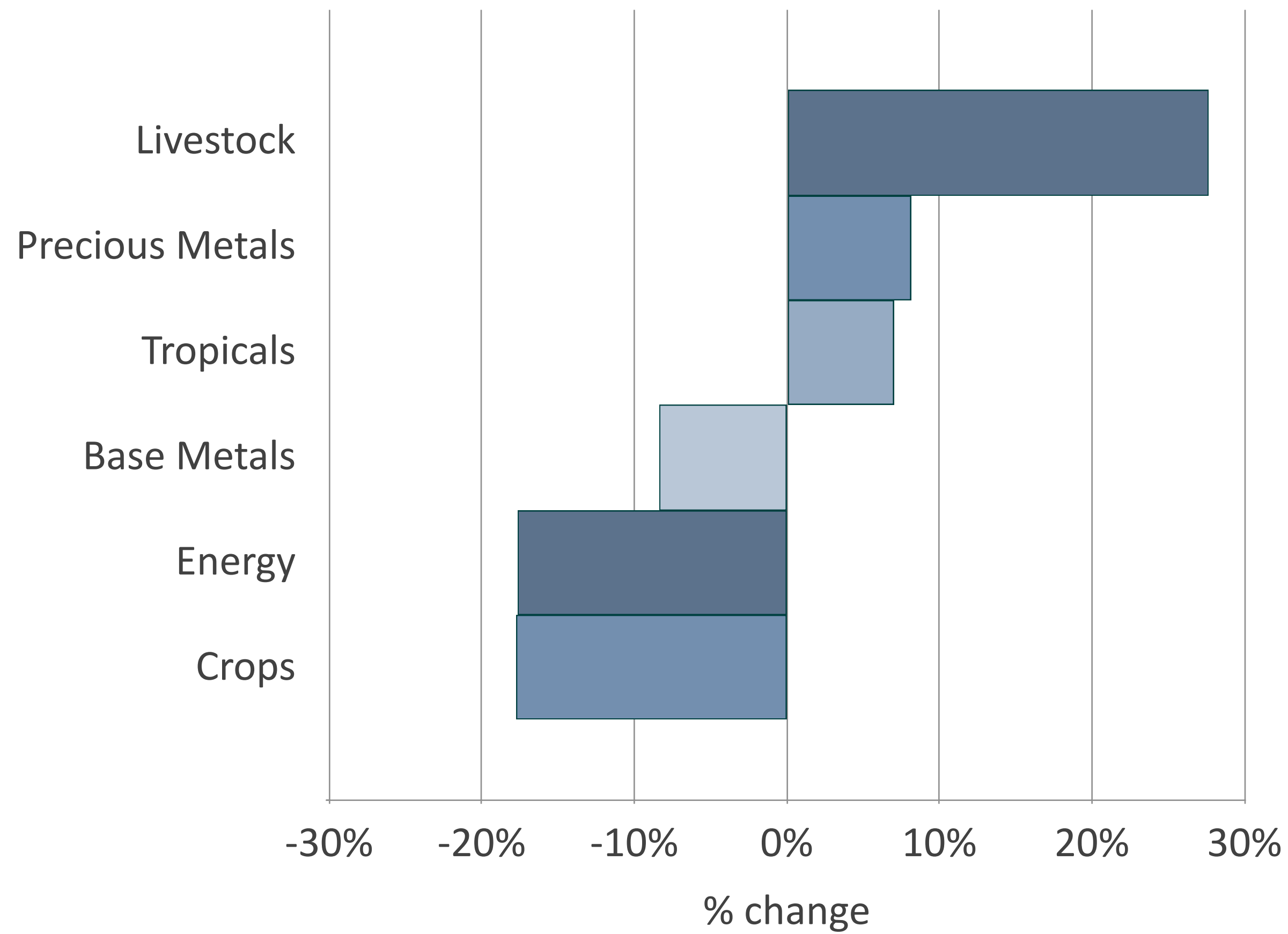




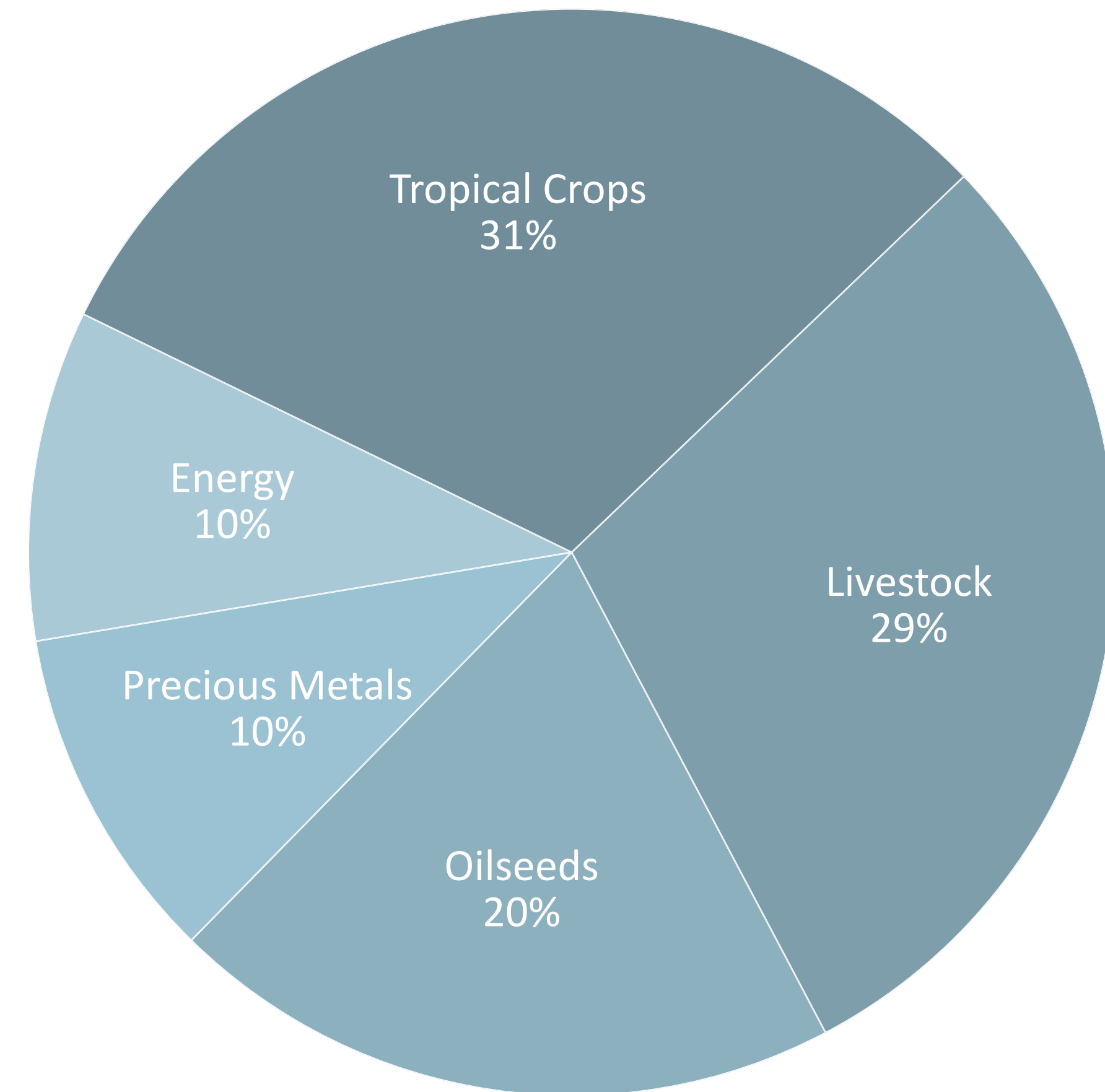
### III. Positioning changes and current allocation

# Switching from cyclicals/ temperate crops to soft commodities/ precious metals

YTD weight changes by sector  
(today compared to 30. Dec. 2022)



Allocation, 21. March 2023



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