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JEFF D. OPDYKE'S

Global Intelligence

Annual Portfolio Review: How Our Stocks Fared in 2023 and Are Setting Up for 2024

A year ago, I began a tradition with my *Global Intelligence Letter*—using the December issue as a scorecard for the year. Where did our portfolio go right, wrong, or in-between?

Now that we've once again reached December, it's time to look back across 2023 in terms of the *Global Intel* investments we own. And, I'm going to look ahead to what I see on the horizon as 2024 unfolds.

I'll say here at the beginning that we've had some nice moves on the year, mixed with some stocks that have performed poorly, largely because they faced the wrath of Federal Reserve rate hikes.

Our crypto portfolio, long an albatross, has begun to move with great speed as the new bull market in crypto—I predicted this last January—takes hold.

On the stock side of the portfolio, our Edison Series H Preferred shares are up nearly 40% on the year, including dividends, far outpacing the 17% return S&P 500 has seen so far.

Transocean, the deep-water drilling rig company, is up nearly 30%, and Energy Fuels, our uranium miner, has seen a gain of nearly 21%.

But...

Corteva, the agricultural giant, has lost more than 26% as high interest rates have hit farmers and their capacity to spend on crop-protection products like insecticides and such. And Slate Grocery REIT is off 23% because, as a real estate trust dependent on debt (like all REITs), Slate has also fallen victim to the Fed's historically aggressive rate-hike regime over the last year.

That said, we're heading into a new year that is very likely to see the Fed begin to cut rates, and that's going to gin up a positive tailwind across the portfolio.

Below, I've divvied up our portfolio into sectors to more easily manage it and to more clearly define the broader trends affecting the stocks in those sectors.

So, let's dive right in...

Cryptocurrencies: Biggest Financial Story of Q3

I'm starting with crypto because it has been the biggest financial story of the last three months, and it promises to be the biggest story of 2024.

When 2023 began, the mainstream media was still yammering about a crypto winter and the oh-so-popular refrain about "bitcoin's death." All the typical verbal diarrhea that spews from writers and editors who

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haven't a clue about the crypto market or the technological forces fundamentally reshaping everything from personal finance to education to entertainment.

We heard the same (wrong) refrain about the internet in 2001 after the dot-com implosion.

I, on the other hand, came into 2023 sensing a change in sentiment, as I wrote about in daily *Field Notes* dispatches I sent out in January, and in the February issue of *Global Intel*, where I wrote this:

> *We are still down in all of [our crypto] positions. But red ink can turn to black fast in crypto. So, we're going to practice patience. The remainder of 2023 could be bright for our crypto positions.*

I suspected that a bull market was quietly underway.

And that turned out to be a good call.

Crypto has had a very bright 2023 indeed, just as I expected.

As I write this in mid-December, bitcoin is up 165% on the year. Ethereum is up 97%. As a result, those two positions have moved substantially in our favor.

Both bitcoin and Ethereum were down sharply for us—both off about 50% or more at various points. Today, bitcoin is up more than 18% in the portfolio, while Ethereum is now down but a marginal 4%.

We're also down about 16% in the Grayscale Ethereum Trust, a fund that owns Ethereum and is tradeable on the stock market. (I recommended that asset for investors who want exposure to Ethereum in retirement accounts or brokerage accounts, or who didn't want to open a crypto exchange account to buy Ethereum.)

Though down still, that trust is up more than 300% for the year. The funkiness with those numbers relative to plain ol' Ethereum is that as a trust, that asset moves around based on investor sentiments about the trust itself rather than just the price of Ethereum. For many a month, investors were concerned the Securities and Exchange Commission would never allow the trust to convert into a so-called exchange-traded fund, which would then see the value of the asset reflect the underlying value of the Ethereum held.

That concern has begun to fade, as I said it would. The SEC has routinely lost in court in regards to its efforts to block the conversion. Now it's clear a conversion is quite likely. And when that happens, we will see Grayscale Ethereum Trust pop sharply higher.

Our other two cryptos are AAVE and Band Protocol. Both remain deeply underwater. But as you might suspect, I'm not terribly worried about that. They've both begun moving higher. And they should have a great 2024 as the new crypto bull market takes off.

Driving that bull market are a few key factors:

1. Bitcoin's fourth halving.

Bitcoin's fourth halving will occur in April. This is a technical event that happens every four years and which is designed to double the difficulty of creating new bitcoin.

Each of the last three halvings saw bitcoin set what were then new all-time highs. I expect the same this go round. I've set my bitcoin price prediction at $185,000.

Thing is, as bitcoin rallies higher, it will carry the rest of the market with it, as it always does.

2. A bitcoin exchange-traded fund.

Numerous U.S. financial-services companies, including Blackrock and Fidelity, have applied for SEC approval to launch a bitcoin ETF tied to the spot-price for bitcoin—the ever-changing daily price. The SEC has forever denied those requests. However, the courts are frowning on the SEC's efforts. As are a host of politicians and financial leaders.

As a result, the SEC has no real options except to grant approval. That will happen—100% guaranteed. And it's likely to happen in the first quarter of 2024. That will set off a rally in bitcoin because ETFs will see trillions of dollars of demand, as institutional and individual investors race to own exposure to the granddaddy of crypto.

3. FOMO.

This is "Fear Of Missing Out," and this bull market is going to induce the mother of all FOMO episodes.

During the last bull market in crypto in 2020-2021, skeptics watched as crypto investors pocketed hundreds of thousands, and often millions of dollars, in profit as their crypto positions mooned in value.

This time, they're not going to want to miss the boat. Once they feel confident that the crypto bull is really here, they're going to pour oodles of money into the crypto-sphere to chase their own riches. ETF approval, as I noted above, will likely be one of the early catalysts.

And if bitcoin, now in the $44,000 range, passes its all-time high close to $70,000 (and particularly if it crosses $100,000 for the first time), we're going to see a rally so epic that it will go down as one the greatest bull markets in history.

So, that's my expectation for crypto as we head into 2024.

Now, onto our stocks...

Energy Sector: All Our Positions Are Up

Tsakos Preferred F, Transocean, Enterprise Product Partners, Tenaris, Global Product Partners Series A, Black Stone Minerals, Equinor

We're up in all of our energy positions. As I write this, our worst performer is Equinor, up a bit more than 5%. Our best performer is Tsakos, up 27%.

The energy markets had a roller-coaster year in 2023.

Oil fell more than 16% through the first quarter. Then it rallied more than 42% between March and September. And it's ending the year down 25% from its highs.

The rally came because daily demand began to exceed daily production and the world was eating into above-ground reserves. OPEC deciding to cut production helped drive that trend. The recent fall off, meanwhile, stems from growing expectations that the world is heading into a recession, and that China's economy is struggling. Both would reduce demand for oil and petroleum products.

What hasn't changed, however, is the overarching reason we want deep exposure to the energy industry: Lack of investment in finding new reserves.

This reality has plagued the industry for several years. Because of green-energy militancy, and because of the impacts COVID-19 had, oil-and-gas exploration companies have not been investing enough in finding new reserves to replace existing reserves that are dwindling by the day.

That's one of the reasons daily demand earlier this year outstripped daily production by about two million barrels. That trend will persist.

Yes, we are very likely to see a recession, but chances are this is going to be a tepid recession. Demand for oil could falter slightly, but it won't fall so sharply that the demand sinks below production by a significant amount. There's simply too much demand growth in emerging economies worldwide, which don't have the financial capacity to invest in expensive green-energy tech.

So while the early part of 2024 could see lackluster activity in the oil market, the later half of the year could be quite bright.

We're going into a presidential election year, and I suspect we're also going into a period where the Federal Reserve will cut interest rates. The Fed does not want to be seen influencing the vote by moving interest rates around close to the election. Thus, I suspect the Fed's rate cuts will happen in the first six or seven months of 2024, and then all goes quiet heading into the election.

Rate cuts would boost the economy by reducing interest costs on consumers and businesses. And that will dampen any worries about a global recession... which will drive oil prices up again.

Barring any internal corporate strife, all of our energy positions should benefit as perceptions of the global economy improve.

Metals, Mining, Commodities Sectors: A Mixed Bag

Southern Copper, Sprott Physical Gold Trust, Energy Fuels, Yara International, MSCI Global Miners ETF, Silver 1oz.

We have a mixed bag here.

Southern Copper, our play on the green-energy revolution that will consume more copper than has been produced in the last 100 or so years, is up more than 15% as I write this. But our exposure to raw silver through one-ounce bars and coins is down 14%.

In between, we have gold, uranium, and fertilizer exposure that are also a bit of mixed bag.

Copper: Miners had a robust first half of the year, then stumbled amid economic weakness and vast problems in the housing market as financially weak homebuilders raced toward bankruptcy or collapse. That's been the biggest drag on the copper market.

Nevertheless, the copper industry could very well be moving toward a supply shortage by the middle of this decade and into the end of the 2020s because of the green-energy transition happening with vehicles and electric utilities. Both demand gargantuan sums of copper. Southern Copper, as the world's premier copper miner, is in great position to benefit.

Silver: Silver has struggled to gain footing in the last couple of years, largely because of a drop in investment demand. Industrial demand continues to grow because of silver's use in the production of solar energy as well as electric vehicles.

The Federal Reserve's aggressive rate hikes haven't helped, either. Silver tends not to shine when interest rates are high or rising. But that just means the opposite is also true: Silver tends to do well when interest rates are falling. And we are moving into a period where rates are likely to start coming back down. So, silver enters 2024 with a potential rate-cut tailwind, even as demand grows and supply remains constrained.

I expect 2024 will be a nice year for silver.

Gold: If 2024 will be nice for silver, it will be spectacular for gold. Days before I started writing this, gold hit an all-time high of $2,150 per ounce. I won't be surprised if we see gold hit $2,500 in 2024.

That prediction is predicated on the Fed, of course.

My operating thesis is that we're going to see interest-rate cuts. We have to, otherwise the impact of higher rates on U.S. Treasury debt is going to cause problems for Uncle Sam. Already, the global investment community is shunning U.S. debt because of worries America's fiscal situation looks shaky. If even-higher interest rates exacerbate the country's debt-repayment issue, investors are going to flee the dollar in larger numbers, creating a bigger crisis to come.

So, the Fed has to cut rates. Or it creates a crisis.

My bet is on rate cuts, which will send the dollar lower and gold higher.

But frankly, none of that really matters to me. All I care about is owning long-term, near-permanent exposure to gold because America's fiscal situation is untenable. A reckoning must occur to right the wrongs of the Fed's free-money era. A similar reckoning must occur in much of the Western world, where currencies are trash.

Gold will win the day in the end. And when that day comes, I want to be holding gold.

Uranium: Energy Fuels is our uranium miner, and uranium has had a spiffy 2023.

Uranium prices are up more than 70% on the year. A lot of that is the result of nuclear-plant operators actively snapping up uranium in 2023 because prices weren't very high. And then suddenly prices started to move in mid-July, jumping to more than $80 per pound from the mid-$50s.

Industry experts are saying $70 to $80 now feels like a floor price for uranium, after it spent so many years in the $25 to $45 range—a price too low to fuel new mining. But even now, with higher prices, miners aren't racing to dig for huge amounts of new supply. They're happy dribbling supply into the market from above-ground supplies and smaller-scale production.

Energy Fuels hasn't produced uranium for a while, because the price for the metal simply wasn't financially viable. That's changing now. The company has announced that it's preparing to re-open at least one of its four mines in 2024.

That would be a key catalyst for the stock. Uranium sales would drive revenue and earnings, and ultimately the stick price. We're up about 4% in Energy Fuels at the moment, and if you're risk-tolerant and have some spare, investible cash you want to put to work, Energy Fuels below $8 is a good buy.

Financial Sector, REITS, Currencies: The Road Ahead

Farmland Partners REIT, First Horizon Bank, Swiss Franc Trust, Slate Grocery REIT, Norwegian Kroner

Perhaps no sector of the financial market has been impacted by the Federal Reserve as much as the financials.

Once the Fed began raising rates, banks, real estate investment trusts (REITs), and non-dollar currencies began to weaken. They're all highly sensitive to U.S. interest rates.

For banks, higher rates hurt their investment portfolio. That portfolio is largely comprised of U.S. Treasury debt. But as rates have risen, the value of existing U.S. Treasuries has plunged (that's what killed several banks earlier this year).

Moreover, higher rates slow demand for corporate and consumer loans. Thus, bank balance sheets and bank income statements are weakened by higher rates.

Lower rates, however, represent the opposite. They stimulate loan demand.

For REITs, higher interest rates are a drag on earnings for a different reason. REITs rely heavily on debt to grow their business of buying real estate, and for funding their operations. Higher rates make that business model much costlier.

But lower rates? Well, they reduce operational costs, which fattens a REIT's profit margins. And given that 90% or more of REIT profits go to shareholders in the form of a dividend, lower interest rates spur interest in owning REIT shares.

For currencies, higher interest rates generally mean the U.S. dollar is rising relative to foreign currencies. That's exactly what we saw throughout 2021 and into the fall of 2022. The dollar rose against a basket of world currencies because the Fed was raising rates. (It's known as the "carry trade." Investors sell lower-yielding currencies to buy a higher-yield currency. In doing so, they profit from the interest-rate spread between the two currencies.)

Since September 2022, however, the dollar has largely been in decline—a long-running expectation that the Fed has overshot the mark in its fight against inflation and that U.S. interest rates must come down.

If my thesis is correct that 2024 will see declining interest rates in the U.S., then banks, REITs, and currencies should have a boisterous year.

The first time the Fed cuts rates, we're going to see banks and REIT stocks surge. I'm not the only one who thinks that. Just recently, as I noted in a *Field Notes* column, Bill Gross, co-founder of financial-services giant PIMCO, sent out a tweet stating that he's now a fan of regional bank stocks because of the rate-cut tailwind he sees coming. More specifically, he explicitly highlighted First Horizon as one of the regional banks he likes.

We're up about 8% in First Horizon as I write this. But we're still below my $14 buy limit. So, as with Energy Fuels, if you have some spare cash you want to put to work in the markets, First Horizon is a worthy destination. I expect we're going to see this stock back in the $25 to $30 range. (Canadian banking giant TD Bank was set to snap up First Horizon earlier this year at $25, but that fell through only because of U.S.

regulatory concerns about potential weaknesses in TD Bank's anti-money laundering efforts. Clearly, First Horizon is worth mid-$20s, at the very least.)

We're also going to see REITs pop higher. Some are already moving in anticipation of rate cuts. This month, I sent out a flash alert to buy KIMCO Realty Corp. (KIM) at prices up to $23.50—a medium risk buy—that I added to our portfolio. So, check your email inbox if you missed it.

On the currency front, there's not much to say really. We own Swiss francs for the same reason we have near-permanent exposure to gold: an insurance policy against the dollar. We're up marginally in the franc—about 2%—but that's neither here nor there for me. This is purely insurance.

The Norwegian kroner, meanwhile, has sold off relative to the dollar simply because oil prices are down again. The kroner is an oily currency because so much of Norway's economy is tied to oil exports. The kroner remains a hold for us, however, because oil will see bigger prices ahead and the kroner will strengthen on those higher prices. Plus, the kroner is among the very best managed currencies in the world these days. It's a safe currency to hold.

Consumer Sector: Ups and Downs

Pizza Pizza Royalty Corp., Centene Corp., Sanofi, Mueller Water, British American Tobacco, Generac Holdings

This is a motley bunch of stocks to wrap into the "consumer" heading, but all of them are serving the consumer. So it makes sense to lump them together.

Three of our positions are up; three are down.

Pizza Pizza Royalty, our Canadian pizza chain/dividend machine is up nearly 14%—and almost all of that comes from the string of dividends we've been receiving. Given that we're looking at what's likely to be slowing economies in 2024, I suspect demand for fast food will strengthen, even if marginally. That will serve Pizza Pizza well.

And given that Pizza Pizza's share price remains below my buy limit, I'd say this is a good stock to grab (or add to your position) if you want an income-generating asset in your portfolio. The yield is a solid 6.5%, and the dividend has been rising. It started the year at $0.07 per share per month, and, as of November, it's at $0.775 per share, a nearly 11% increase in less than a year.

Centene and Sanofi are, collectively, our exposure to consumer healthcare. Centene is one of America's largest insurance companies, focused primarily on government-sponsored plans. Sanofi is a French drug giant. Both are doing well for us, 9.6% and 6.7%, respectively.

There's not a lot to say here other than the fact that demand for health insurance and medications is a never-ending necessity. Centene is active in what's known colloquially as Obamacare, and that marketplace continues to grow.

Sanofi, meanwhile, has seen its share price suffer because it has announced a spinoff of its consumer healthcare segment, which will impact 2025 earnings. That spinoff will happen in 2024, and when it does we will end up with a consumer healthcare company that makes and sells over-the-counter products, and a pure biotech company looking for and designing new drugs for a variety of ailments and afflictions.

I haven't looked at Sanofi's consumer healthcare business yet, so I do not have any immediate thoughts. But once that spinoff completes, I will alert you, and I will update the portfolio to reflect that we own a new company by way of the spinoff. We might decide to keep the new stock, or sell it and recoup some of our original investment in Sanofi.

Separately, Sanofi shares should have a currency tailwind in 2024. As the dollar declines relative to the euro, Sanofi's share price in dollar terms will rise out of necessity, since the euros that Sanofi is priced in will buy more dollars.

Mueller Water had a recent cybersecurity incident that caused a delay in the company releasing quarterly financial results. The market freaked out in response and sent the stock lower. So, we're down about 4%.

A cybersecurity incident isn't ideal, but the company's business is on solid footing. It's supplying a host of water-system products to municipalities around the country that are in desperate need of upgrading their water infrastructure. That upgrade cycle is a multiyear process, with a great deal of it tied to the Biden Administration pouring trillions of dollars into infrastructure spending. Mueller is a beneficiary of that and should reap the rewards in 2024 and beyond.

Generac is our worst performer in the bunch. It's down 17%. The primary reason is that the company has reported weaker results in 2023—which were totally expected after the blockbuster years it had during the COVID-19 lockdowns, when everyone and their dog were buying generators for their homes amid the work-from-home phase.

But 2024 is looking brighter. The inventory issues that built up are going away. And if the Fed rate-cut thesis holds true, mortgage rates will drop, housing sales will pick up, and home-equity loan rates will drop—all bullish signs for Generac.

As people buy more homes, they'll want back-up generator power for their new houses amid the increasing amount of climate-related power outages, as well as the increasing number of power outages related to America's antiquated utility infrastructure.

Lower home-equity loan rates also make borrowing costs cheaper, which allows homeowners to upgrade and remodel their houses, which includes adding back-up generator power.

All in, I suspect 2024 will be a good year for Generac and its stock price.

As for British American Tobacco, we've only owned it for a month, so there's not much to say. The stock has fallen because the company said its U.S. business for traditional cigarettes is slowing, which is nothing new, really. But the markets are in no mood for anything other that good news, and the stock sold off.

As with Pizza Pizza, if you want to add a big income generator to your portfolio, British American Tobacco now yields 9.75%—and it's not like the entire world is kicking the nicotine habit. Sure, Americans might by smoking less, but demand for smoke-free products and other forms of nicotine delivery by way of vapes and e-cigarettes is growing. The sell-off in the stock is simply a buying opportunity.

Looking Ahead to 2024

With that, we come to the end of the December issue of *Global Intel* and the end of another year.

This past year has been fraught with challenges, but the activity I see in the stock, bond, and crypto markets tells me that they're all excited about 2024. They, too, expect Fed rate cuts are coming, and they are already moving on those expectations.

If they're wrong—if the Fed raises rates—we're going to see a pullback across all asset classes, housing prices will tumble, and a meaningful recession will play out.

But I don't think that's our path at this point.

I think the broader markets are right—that rate cuts are inevitable, and possibly as early as January. If not then, then I expect they'll come in March at the Fed's second meeting of the year.

All of which means that our *Global Intel* portfolio, which has been holding up quite well, should have a blockbuster 2024. That's particularly true for crypto. We could see multi-hundred percentage point gains in our crypto positions.

But we will assess all of that a year from now.

In the meantime, have a fantastic Christmas and a fabulous New Year's celebration. I'll be chatting with you through my daily *Field Notes*.

And as always, thank you for being a subscriber for another year. Your support allows me to do what I truly love—rooting through the world of assets to find those that I think offer great opportunities to grow our wealth together.

Jeff D. Opdyke

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