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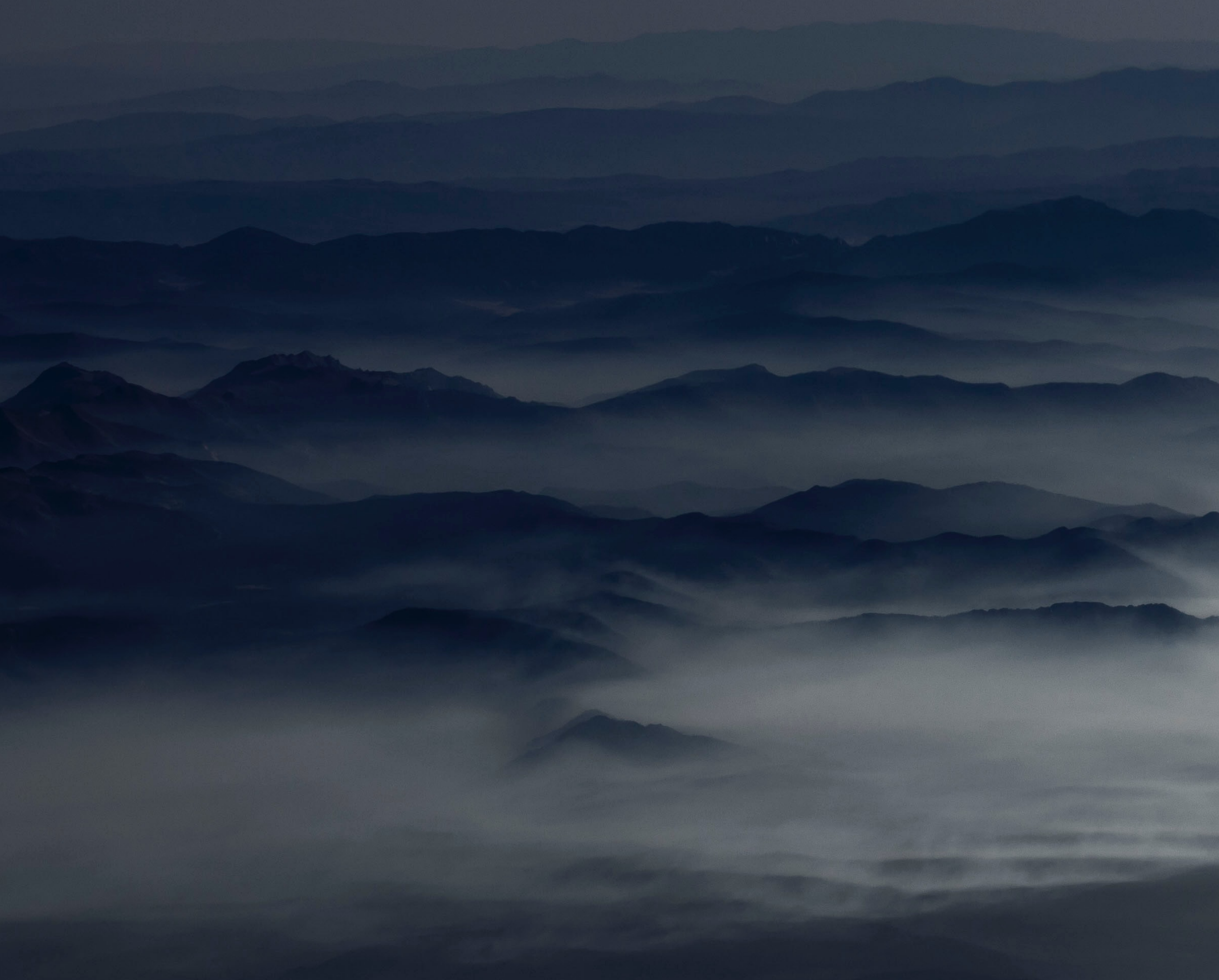


Outlook 2023:

On the cusp of unmitigated change

Structural ailments, systemic defects

Looking Ahead

Every year presents a set of challenges. In 2020, the world as we know it faced a secular shift in order due to the emergence of a global pandemic and consequent disruption in global supply chains. In 2021, the much-anticipated reopening of economies and trading blocks signaled some sense of hope for growth and the return to more normal patterns of life. However, that hope faded quite rapidly in the last days of that year.

Most recently in 2022, some unforeseen headwinds emerged in the global financial system and economies around the world. We specifically mention the yield curve inversions and their alarming depths, the gradual rise of the U.S. dollar against major trading pairs and the subsequent disruption to global trade, and the prevalent geopolitical strife that returned to Europe and the Far East.

To prepare for the opening year of 2023, we lay out our expectations for what we believe to be crucial subjects and topics that may tell us something about what is to come. With a heavy focus on the post-2008 global monetary order, for which intricacies and complexities can never be ignored, we see the global economy, without omitting "globalism" as a sacred feature, **on the cusp of unmitigated change** for this year.

Plenty of risks and opportunities are yet to be identified. We rely on the profound evidence for the structural ailments and systemic defects that plague our global financial/monetary system. We urge investors to pay close and careful attention to these details as we believe such underlying monetary factors are grossly overlooked in the mainstream financial media.

In turbulent times like these, we rely on each other and on the relationships we have created over time. We are honored to stand by your side.

Thank you for your continued trust and confidence in CapB.

Sincerely,

George Al Bcherraoui
Founder

Contents & Highlights

Unforeseen, Unexpected & Damaging Change

Practically all mainstream expectations for the preceding year of 2022 fell short of materializing. This is no surprise since such spokesmen lack proper and complete understanding of the current monetary paradigm.

Indeed, many asset classes, and market players alike, suffered from the unexpected downturn of 2022. However, some select few of the aforementioned had managed to avoid such a misfortune, let alone exceed expectations.

1. Deflation; Base Case

In the context of moderating Consumer Price inflation, we expect this year's consecutive prints, both in advanced and emerging economies, to show a mild slowdown in the prevailing trend to a point where outright disinflation, and even deflation, may assume the case. Therefore, our base case is for a broad non-inflationary force.

Looking into some of the world's largest retailers and wholesalers, we have already witnessed a massive buildup in inventory. If one were to assume that a weakening trend in retail sales (MoM) would persist (which currently holds), then this would not reflect positively onto the ensuing deceleration in order placement and production, hence the recent low PMI prints.

Check:
U.S. Manuf. PMI '22
U.S. Retail Sales '22

Our Expectations:
Disinflation by end-H1
Deflation by H2
(@ 2% to -1.5% MoM)

2. U.S. Dollar; Prime Rise

Seeing what havoc the rise of the USD, and the subsequent selloff in U.S. treasuries, had caused to the global economy throughout 2022, especially in mid-October and onwards, we would remark that such a phenomenon is not all too improbable from occurring once again this year. The reasons behind such a recurring event, post-2008, are simple but largely unacknowledged.

The offshore and seemingly shadow banking system is “risk averse.” By adding this fact to reality, wherein the most efficient monetary and clearing mechanism rests upon the USD, we end up with a system “starved” of lubricating credit, plagued with systemic defects.

Check:

U.S. Finl. Accs. (Z1): Total Credit
B.I.S. Cross-Border Mov. of Capital

Our Expectations:

DTWEXBGS @ [125 - 133]
DXY @ [113 - 118]
(by end-‘23)

3. Deep Inversion; Risk Ahead

We assume that among the soundest reasons to believe that risk (and a lot of it) lies ahead of us is to pay close attention to the Eurodollar curve. *(Note: The U.S. treasury curve ranks second in importance in our view)*

As trillions upon trillions, in notional value, of financial instruments, contracts, and products are traded over the "essential" LIBOR rate, we prefer to focus on its importance for navigating the global monetary and economic landscape. Ever since the minuscule inversion of December 1, 2021, we have witnessed a continuing and defiant trend of a deepening inversion; that alone signals no hope for prosperity.

In 2023, we see plenty of monetary and financial risks emerging, leaving no room for organic economic growth for all economies.

Check:

Eurodollar Curve; LIBOR Rate

U.S. Treasury Curve; 6mo til 30yr

Our Expectations:

EUD Curve Inversion: -176 bps

U.S. T-Curve Inversion: -157 bps

(6mo - 10yr) (By end-H1)

4. Scarcity & Liquidity

The issuance of private credit fuels the economic machine of trade, commerce, and finance. Since 2008, following the "Great Financial Crisis," the abundance of credit issuance from private correspondent entities has turned scarce. As it were in its aftermath, such a condition persists until this day with continuously worsening effects on economic growth.

Until this day, we see no suitable replacement for our current monetary order, which is dominated by the offshore dollar (therefore Eurodollar), and thus expect weakness, for this year, in market liquidity, credit provisioning, and risk-taking behaviors as the same systemic defects remain.

Check:

B.I.S. Global Derivatives

TIC - U.S. Banking Data

5. AE vs. EE; Growth

Classifying each nation as an "advanced" or "emerging" economy seems simple if taken upon conventional understanding. In the following, we present our brief expectations, for 2023, for the noted economies as to GDP growth and overall economic performance:

U.S.A.

GDP Forecast 2023:
2.3% to 2.7%

Recession Severity:
Soft-to-Mild

Overall Performance:
Slightly Positive

Euro Zone:

GDP Forecast 2023:
-1.1% to 0.3%

Recession Severity:
Mild-to-Severe

Overall Performance:
Negative

China:

GDP Forecast 2023:
-2.5% to -2%

Recession Severity:
Very Severe

Overall Performance:
Very Negative

Switzerland:

GDP Forecast 2023:
0.9% to 1.6%

Recession Severity:
Soft-to-Mild

Overall Performance:
Positive

Brazil:

GDP Forecast 2023:
-1.8% to -1.3%

Recession Severity:
Severe

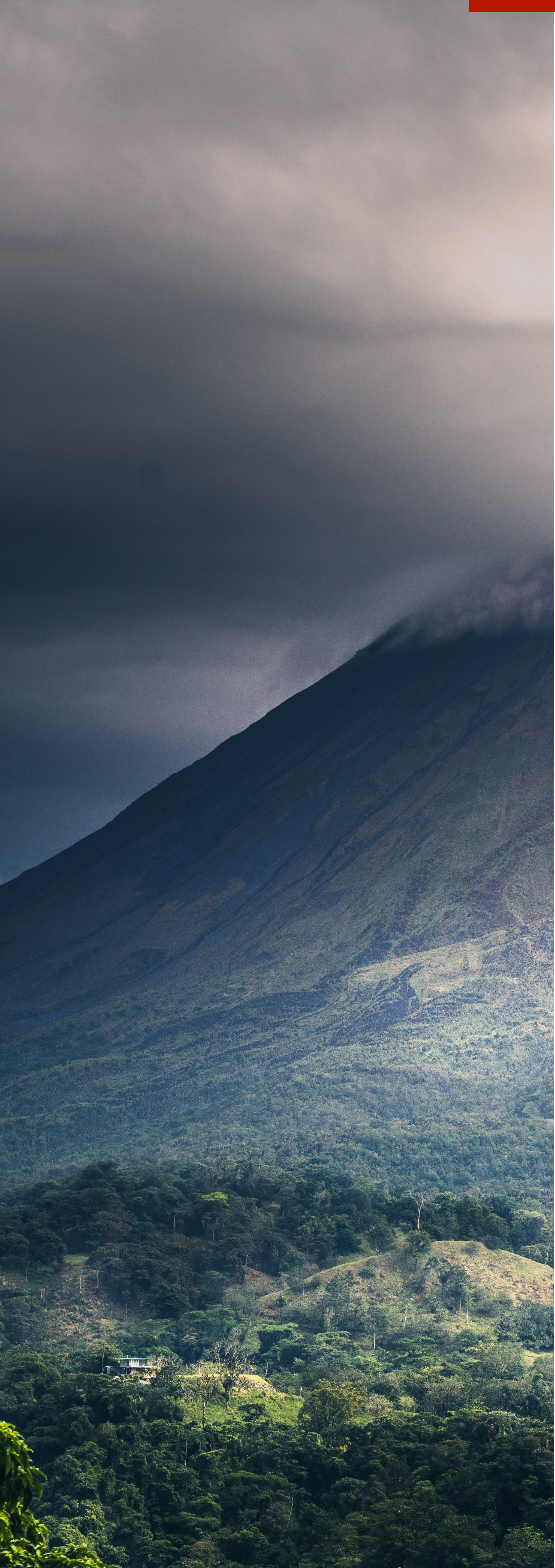
Overall Performance:
Negative

Australia:

GDP Forecast 2023:
0.6% to 1%

Recession Severity:
Mild

Overall Performance:
Neutral



6. Wrapping Up & Advice

2022 tested the resolve of many investors and market participants alike; this could probably be attributed to their incomplete, but not wholly inaccurate, understanding of the financial and monetary system. Nevertheless, it would be of their service if further non-mainstream insights were encouraged and promoted.

As per our outlook, attempting not to cast a sense of pessimism over this year's anticipated events, we advise investors to prepare for all kinds of financial risks associated with the current economic environment; before matters take an unfavorable turn. Yet, more importantly, we recognize that some of our pretexts, premises, and assumptions may seem alien to some of our new readers; therefore, we encourage all to educate themselves on the history and workarounds of the current monetary order.

We believe that if the basis of trade, commerce, and finance is well understood and recognized, then navigating booms and busts becomes a job of its own.

Here & Onwards

What constitutes the most optimal approach to crafting a certain macroeconomic view are three essential characteristics that which one must embody: **Intrigue** and **boldness**.

Getting the **right call** in global markets is similar to playing any rule-based game, with three basic abstract steps.

The first and foremost is to **understand** the game, and its *rules*, the second is to **play** by its rules, and ultimately the third is to **manipulate** its rules to your own private benefit.

Motto

The Dominance
Within Free Enterprise

Promises

Held

Privately

B

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