



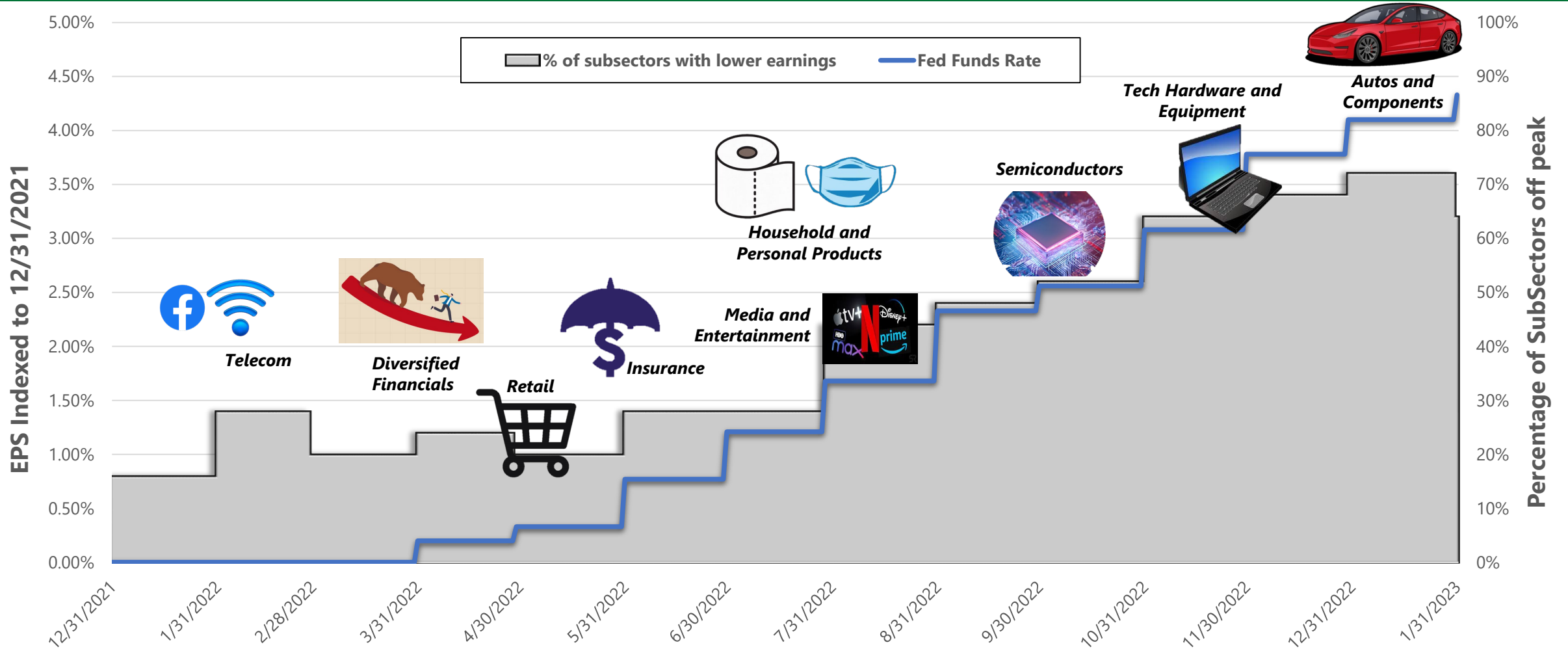
Observations, Opportunities and Risks for 2023 and Beyond

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Observations, Opportunities and Risks

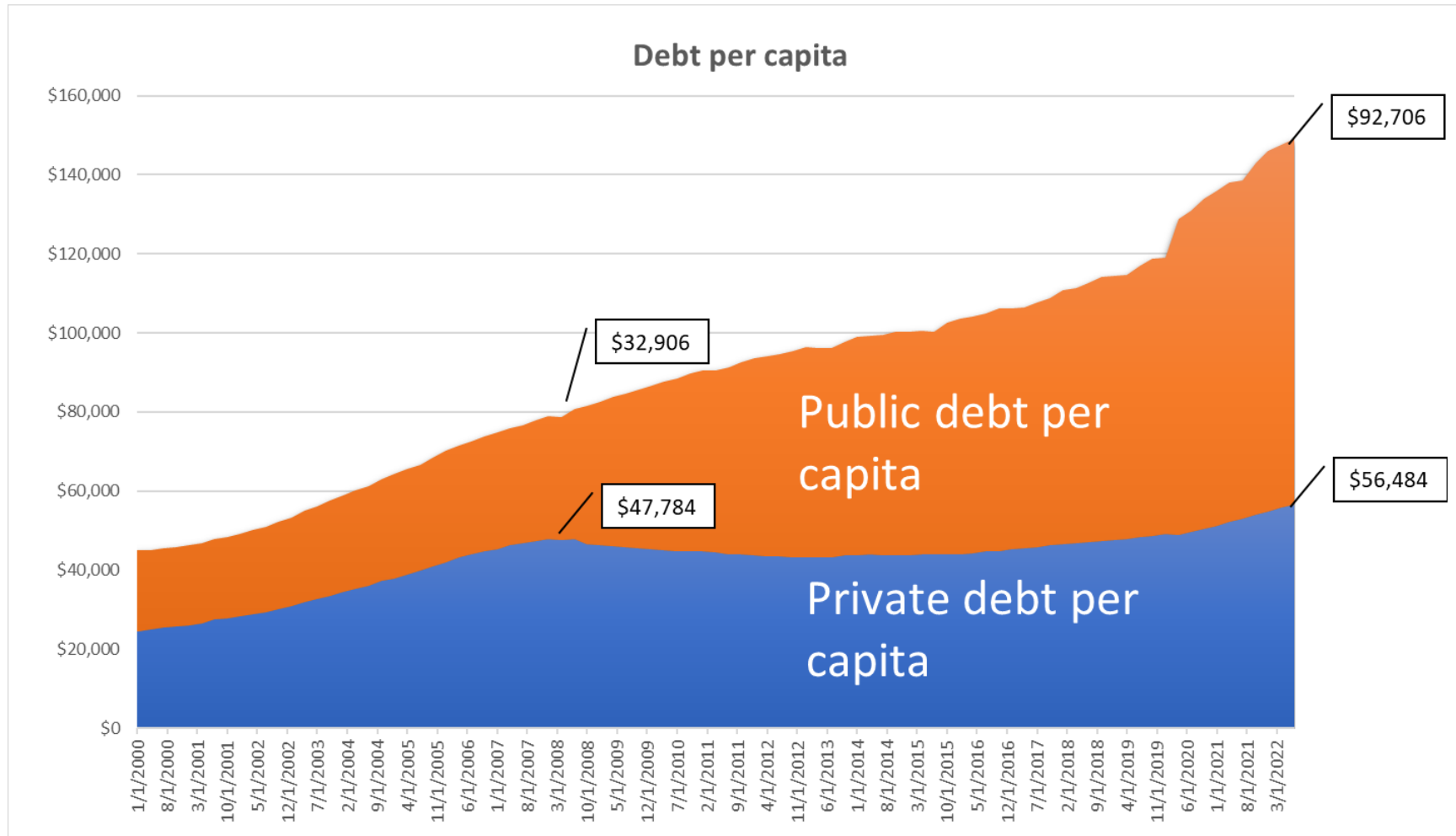
1. Rolling Recession
2. Homebuilders
3. End of Free Money
4. China
5. Electrification
6. Gamification of Markets
7. Obesity Drugs
8. CRISPR
9. Artificial Intelligence

Rolling Recession



Source: Bloomberg data on GICS level 2 subindustries. 12/31/2020 through 1/31/2023. Subindustries are displayed on the chart at the period in which their trailing earnings fell >5% off their high.

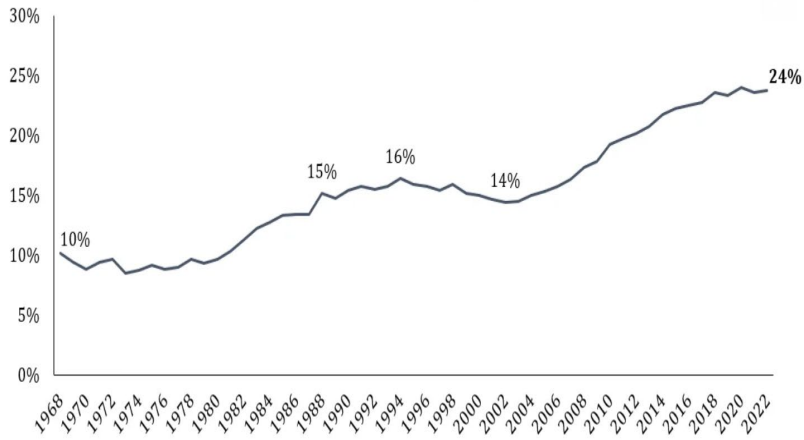
Rolling Recession: The leverage is on the government's balance sheet



Source: FRED, from 1/1/2000 to 9/30/2022, The numbers shown are for 9/30/2008 and 9/30/2022

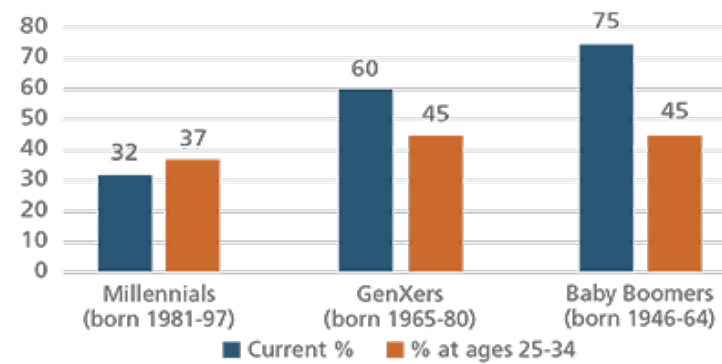
Homebuilders: Very favorable demographics

% of 25 - 29 Year Olds Living with Parent



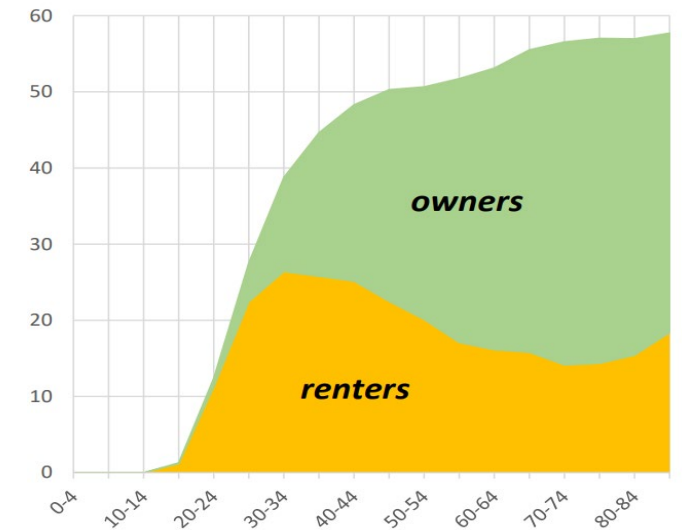
Source: U.S. Census Bureau

Generational Homeownership



Source: The Urban Institute, as of 2015.

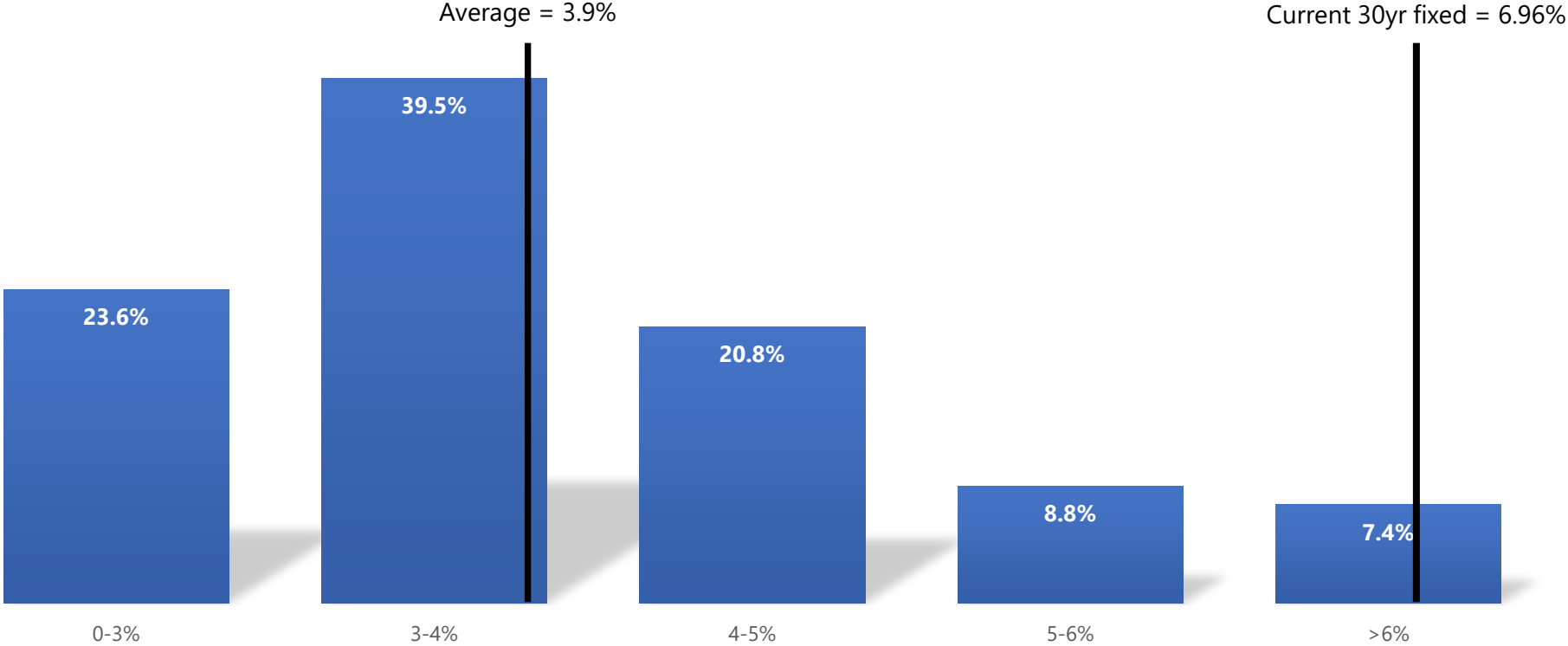
Total Households per 100 people of each age



Source: Left – U.S. Census Bureau via Voss Capital, through 9/30/2022; Center - A Young Professional's Guide to Renting vs. Buying, Matthew Sharp, retrieved from <https://aspiriant.com/fathom/wealth-planning/a-young-professionals-guide-to-renting-vs-buying/>; Right – "When Population Age Waves Crash Into a Slowly Growing Housing Supply" Dowell Meyers Professor of Policy, Planning, and Demography, USC Price, Feb 2022

Homebuilders: Existing homeowners can't afford to move

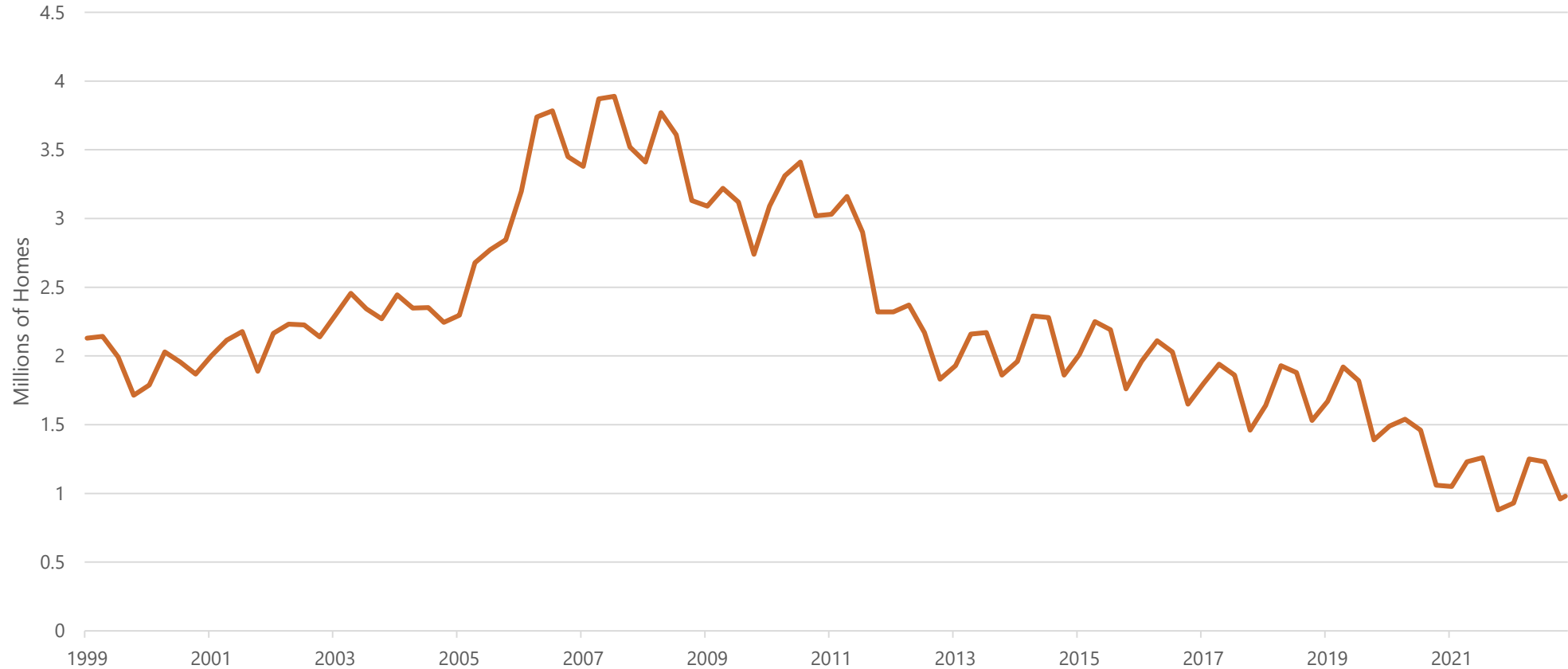
Share of Outstanding Mortgages by Interest Rate



Source: Federal Housing and Finance Agency, National Mortgage Database. Data through 9/30/2022. Current interest rate for a 30-year fixed rate mortgage is as of 2/22/2023 from Bankrate.com

Homebuilders: New homes are the only supply

U.S. Existing Homes Sales Inventory

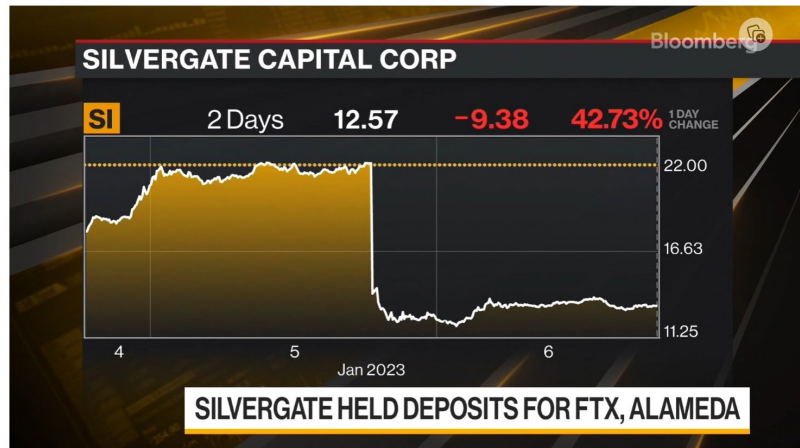


Source: Bloomberg, National Association of Realtors. Data from 3/31/1999 to 1/31/2023

End of Free Money: Unrealized losses on debt securities pose a hidden risk

Crypto Panic at Silvergate Spawns a New Breed of Bank Run

- Depositors from single volatile sector fled amid market tumult
- That unusual danger is seen drawing new regulatory attention



Silvergate Sinks by Record on Deposit Run, Staff Layoffs

By Yueqi Yang and Hannah Levitt

January 6, 2023 at 9:09 AM EST Updated on January 6, 2023 at 12:44 PM

The Federal Reserve has \$1.125 trillion unrealized loss on its portfolio (13% cost)

Bank of America has unrealized loss of \$113.5 B (13%) on debt securities against \$230.9 in equity capital

	September 30, 2022		
	Amortized cost	Fair value	Cumulative unrealized gains (losses), net
Treasury securities			
Bills	\$ 307,878	\$ 307,407	\$ (471)
Notes	3,690,110	3,388,633	(301,477)
Bonds	1,875,722	1,490,506	(385,216)
Total Treasury securities	\$ 5,873,710	\$ 5,186,546	\$ (687,164)
Federal agency and GSE MBS			
Residential	\$ 2,746,855	\$ 2,310,190	\$ (436,665)
Commercial	9,444	7,816	(1,628)
Total federal agency and GSE MBS	\$ 2,756,299	\$ 2,318,006	\$ (438,293)
GSE debt securities	2,590	2,745	155
Total domestic SOMA portfolio securities holdings	\$ 8,632,599	\$ 7,507,297	\$ (1,125,302)

Bank of America Corporation and Subsidiaries Debt Securities

	December 31, 2022			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale debt securities				
Mortgage-backed securities:				
Agency	\$ 25,204	\$ 5	\$ (1,767)	\$ 23,442
Agency-collateralized mortgage obligations	2,452	—	(231)	2,221
Commercial	6,894	28	(515)	6,407
Non-agency residential	461	15	(90)	386
Total mortgage-backed securities	35,011	48	(2,603)	32,456
U.S. Treasury and government agencies	160,773	18	(1,769)	159,022
Non-U.S. securities	13,455	4	(52)	13,407
Other taxable securities	4,728	1	(84)	4,645
Tax-exempt securities	11,518	19	(279)	11,258
Total available-for-sale debt securities	225,485	90	(4,787)	220,788
Other debt securities carried at fair value ⁽¹⁾	8,986	376	(156)	9,206
Total debt securities carried at fair value	234,471	466	(4,943)	229,994
Held-to-maturity debt securities				
Agency mortgage-backed securities	503,233	—	(87,319)	415,914
U.S. Treasury and government agencies	121,597	—	(20,259)	101,338
Other taxable securities	8,033	—	(1,018)	7,015
Total held-to-maturity debt securities	632,863	—	(108,596)	524,267
Total debt securities	\$ 867,334	\$ 466	\$ (113,539)	\$ 754,261

Source: (left) <https://www.bloomberg.com/news/articles/2023-01-06/crypto-panic-at-silvergate-spawns-a-new-breed-of-bank-run>; (right) Individual company presentations and fillings.

End of Free Money: Revolutionary companies from different eras











Founded 1971

Operational 1973

Profitable 1976

Public 1978

Federal Express People and Equipment

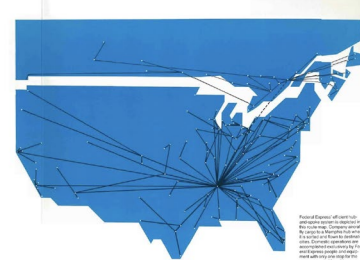
Personnel (Fiscal 1979 Averages)			
Field Pick Up & Delivery Operations	2,371		
Flight & Maintenance Operations	704		
Memphis Package Support Operations	478		
Marketing, Sales & Customer Service	385		
General & Administrative	945		
Aircraft (May 31, 1979)			
Dassault DA-20s	32		
Boeing 727-100s	12		
Boeing 727-100s on order ¹	3		
Boeing 737-200s on order ²	4		
Boeing 737-200s to be leased ²	1		
Supplemental Aircraft under short-term lease.	39		
Vans and Cargo Transport Vehicles (At May 31, 1979)			
Pick Up and Delivery Vans	1,454		
Cargo Transport Vehicles	21		
Ground Service Vehicles	255		
Stations and Convenience Centers (At May 31)			
	1978	1979	Planned 1980
Full-Service Stations	84	119	129
Convenience Centers	4	8	50

	1979	1978	1977	1976	1975
(In thousands except per share amounts)					
Operating Results					
Air freight revenues	\$258,482	\$160,301	\$109,210	\$75,055	\$ 43,489
Operating expenses	216,330	134,024	95,608	65,210	47,613
Operating income (loss)	42,152	26,277	13,602	9,845	(4,124)
Other charges, net	6,329	5,693	5,390	6,210	7,393
Income (loss) before income taxes	35,823	20,584	8,212	3,635	(11,517)
Income taxes	14,400	6,980	4,243	2,032	—
Income (loss) before tax benefit of loss carryforward	21,423	13,604	3,969	1,603	(11,517)
Tax benefit of loss carryforward	—	6,425	4,185	1,982	—
Net income (loss)	\$ 21,423	\$ 20,029	\$ 8,154	\$ 3,585	\$(11,517)
Financial Position					
Current assets	\$ 48,975	\$ 30,370	\$ 20,349	\$14,725	\$ 9,481
Property and equipment, net	123,844	71,813	53,616	55,297	59,276
Total assets	179,823	106,291	75,321	71,229	70,193
Current liabilities	40,067	22,741	18,658	12,954	11,818
Long-term debt	45,729	30,825	46,229	56,186	59,892
Stockholders' investment	91,220	52,725	10,434	2,089	(1,517)

Note: Pro forma earnings per common and common equivalent share have been computed as though the Company's recapitalization and stock offerings in April, 1978, had occurred at the beginning of the 1976 fiscal year. See Notes to Financial Statements for additional information.

Absolutely, Positively Overnight!

Federal Express' Unique Delivery System: In its unique and distinctive, any-where system of package making and delivery, Federal Express never sleeps. It works 24 hours a day, 7 days a week. As depicted below, it works like this: Our delivery vans and trucks come across the country pick-up packages addressed to recipients in any of 10,000 communities in the United States. These packages, vans, and trucks are then transported centrally to Memphis, Tennessee. All packages fly to a central sorting facility at Memphis, where they are sorted by destination and loaded onto Boeing 727-100s and 737-200s. The airplanes return to back to the cities of origin to deliver the packages. Our unique system of package delivery is the only one of its kind in the world. Our "Absolutely, Positively Overnight" service makes sure no package is ever late.



Federal Express' all-overnight, any-where system of package making and delivery is the only one of its kind in the world. Our "Absolutely, Positively Overnight" service makes sure no package is ever late.


Attention: Requirements calls from originators are received by our central sorting facility in Memphis, Tennessee.

Evening: Packages are received, sorted, and loaded onto Boeing 727-100s and 737-200s.

Midnight to 3:00 a.m.: Packages are flown to origin cities.

Before Dawn: Packages are delivered to origin cities.

Before Noon: Packages are delivered to origin cities.



End of Free Money: Revolutionary companies from different eras



Founded 2009

Operational 2010

Profitable ?

Public 2019

2022 Operating Statistics

Trips: 7.642 billion (20.9 million trips per day)
Gross Bookings: \$115.4 Billion (\$15.10 per trip)
Revenue: \$31.9 billion (\$4.17 per trip)

GAAP Operating Income: (\$1.832 billion)

Stock-based compensation: \$1.793 billion
Depreciation and amortization: \$0.947 billion

"Adjusted EBITDA": \$1.713 billion

Accumulated Deficit: \$32.7 Billion

End of Free Money: Extremely popular products, mostly extraordinary losses

The Atlantic

The End of the Millennial Lifestyle Subsidy

Something beyond rising energy and labor costs is leading to sticker shock on once-cheap urban amenities.

By Derek Thompson

Company Name	Years Since Incorporated	Revenue LTM (\$MM)	Retained Earnings (\$MM)
UBER TECHNOLOGIES	12.6	31,877	-32,767
SNAP	10.8	4,602	-10,215
LYFT	16.0	4,095	-9,941
RIVIAN AUTOMOTIVE	7.9	55	-6,374
AIRBNB	14.7	8,399	-5,965
ROBINHOOD MARKETS	9.3	1,815	-3,877
DOORDASH	9.8	6,583	-3,846
PELOTON INTERACTIVE	7.9	3,582	-3,711
SPOTIFY TECHNOLOGY	6.3	11,727	-3,647
CHEWY	9.4	8,891	-2,011
WAYFAIR	8.5	13,708	-1,949
SNOWFLAKE	10.6	1,219	-1,919
DOCUSIGN INC	7.9	2,107	-1,438
TWITTER	15.9	5,077	-1,002
YELP	18.5	1,194	-924
RENT THE RUNWAY	14.0	203	-801
WARBY PARKER	13.8	541	-493
SWEETGREEN	15.9	340	-476
STITCH FIX	12.0	2,073	-166
ALLBIRDS	7.8	277	-137
BLOCK (Square)	13.7	17,661	-28
SHAKE SHACK	8.4	900	-21
ZOOM VIDEO COMMUNICATIONS	11.9	4,100	2,048
TESLA	19.7	81,462	12,885

Source: : (left) The Atlantic, <https://www.theatlantic.com/newsletters/archive/2022/06/uber-ride-share-prices-high-inflation/661250/>; (right) Bloomberg, individual company filings. Data from incorporation of each company through 12/31/2022 or the date of the companies most recent quarterly earnings report.

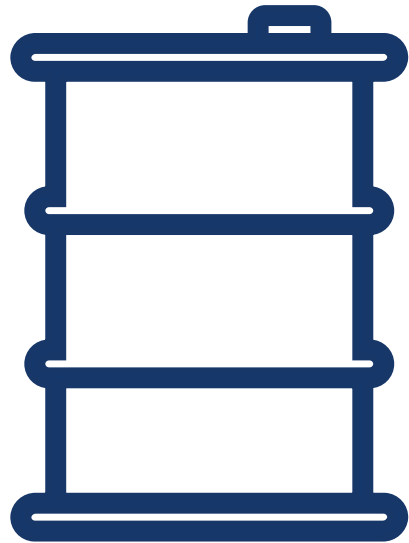
China Impacts

- Re-opening
 - Positive for natural resources, travel and entertainment, luxury goods
- Heighted Nationalism / Cold War?
 - “Not Invented here” mentality (Covid vaccine) poses risk to American exports and multinationals
 - Re-shoring of manufacturing – positive for other Emerging Markets (e.g., India, Mexico, Vietnam)



Electrification: Shifting from gasoline provides growth for all electrical infrastructure

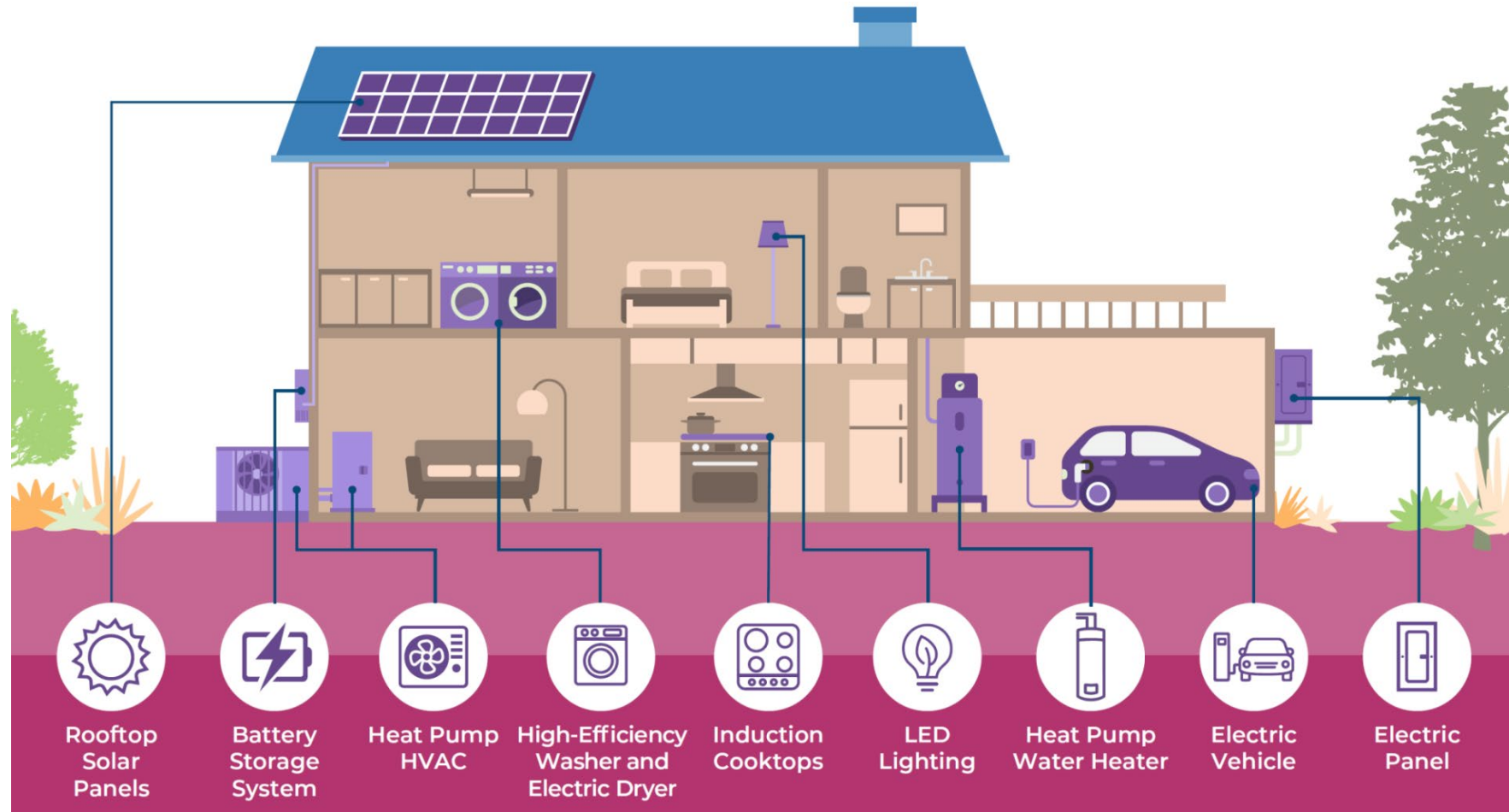
Gasoline Sales: **\$419 Billion**



Electricity Sales: **\$422 Billion**



Electrification: Impacting the entire household



Source: Photo from the City of Palo Alto Utilities. Retrieved from the City of Piedmont, CA. https://piedmont.ca.gov/services__departments/planning__building/about_building_/electrification

Electrification: EVs use more natural resources

E

Minerals in ELECTRIC VEHICLES VS GAS CARS

Electric vehicles require a wider range of minerals for their motors and batteries compared to gas cars.

In fact, an EV can have 6 times more minerals than a gas car and be on average 340 kg heavier.

Mineral content kg/vehicle *Steel and aluminum not included.*

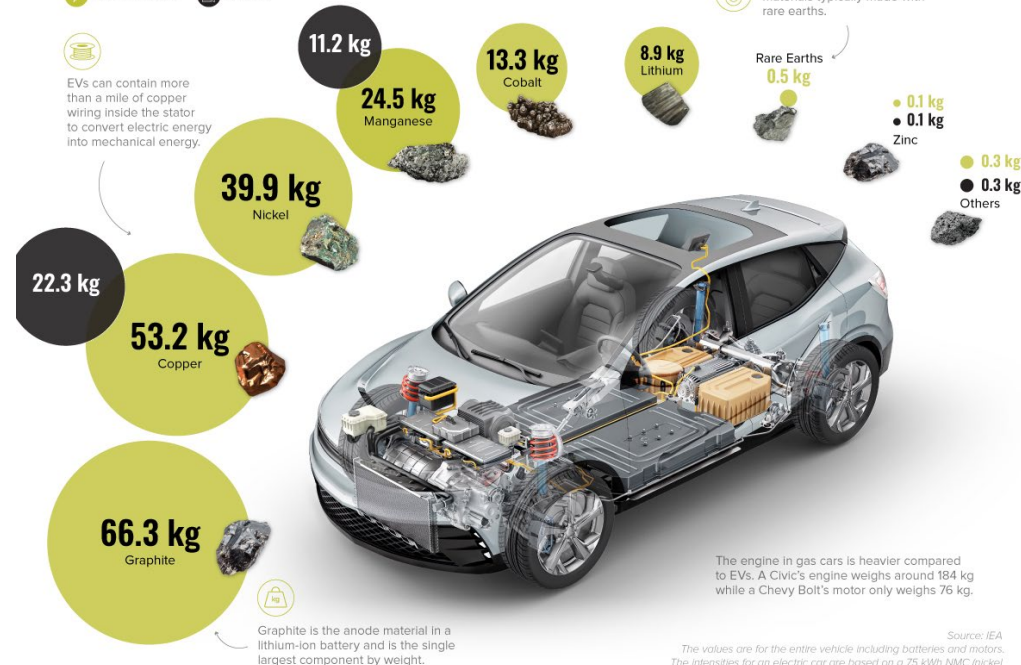
🔌 Electric Vehicle 🚗 Gas Car



EVs can contain more than a mile of copper wiring inside the stator to convert electric energy into mechanical energy.



Many EV motors use magnetic materials typically made with rare earths.



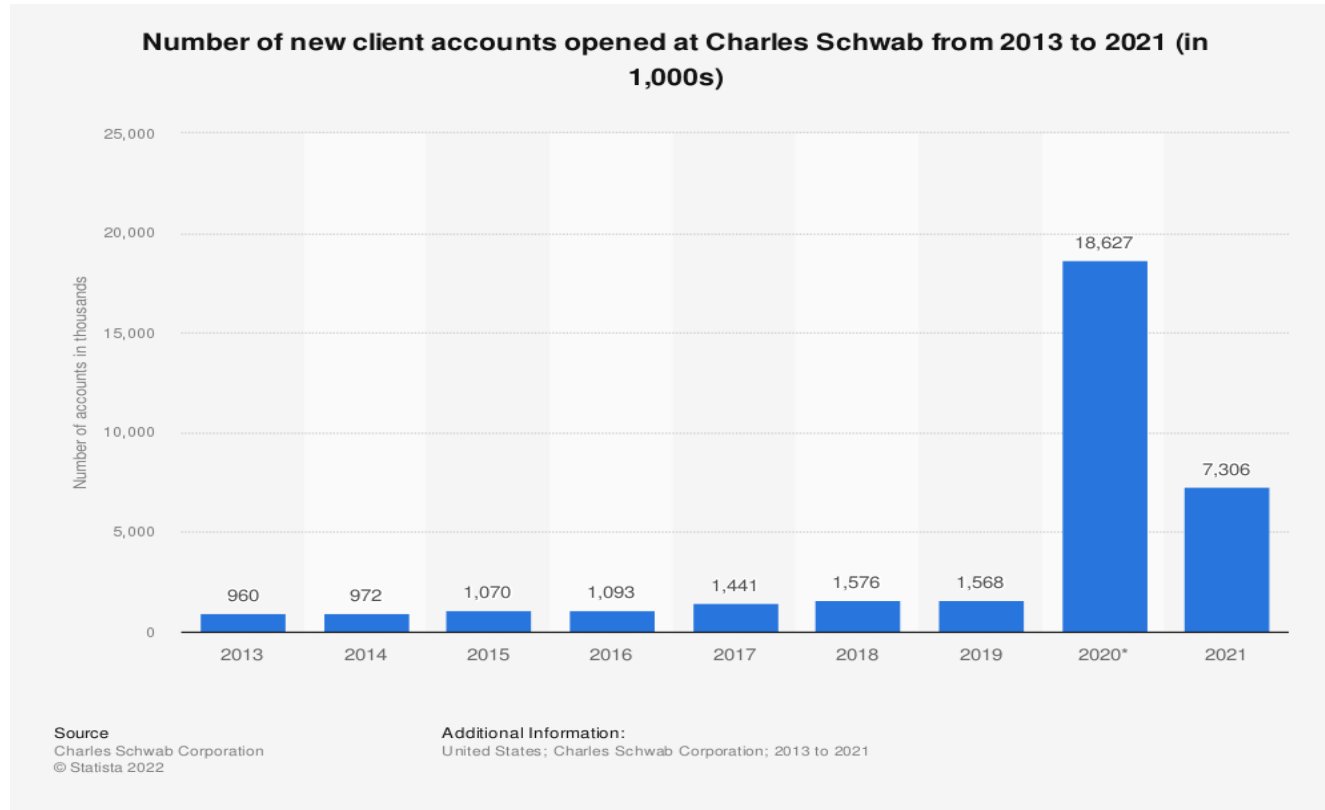
The engine in gas cars is heavier compared to EVs. A Civic's engine weighs around 184 kg while a Chevy Bolt's motor only weighs 76 kg.

Source: IEA
The values are for the entire vehicle including batteries and motors. The intensities for an electric car are based on a 75 kWh NMC (nickel manganese cobalt) 622 cathode and graphite-based anode.

Graphite is the anode material in a lithium-ion battery and is the single largest component by weight.

Source: Visual Capitalist
<https://elements.visualcapitalist.com/evs-vs-gas-vehicles-what-are-cars-made-out-of/>

Gamification: During Covid millions turned to stock trading for fun

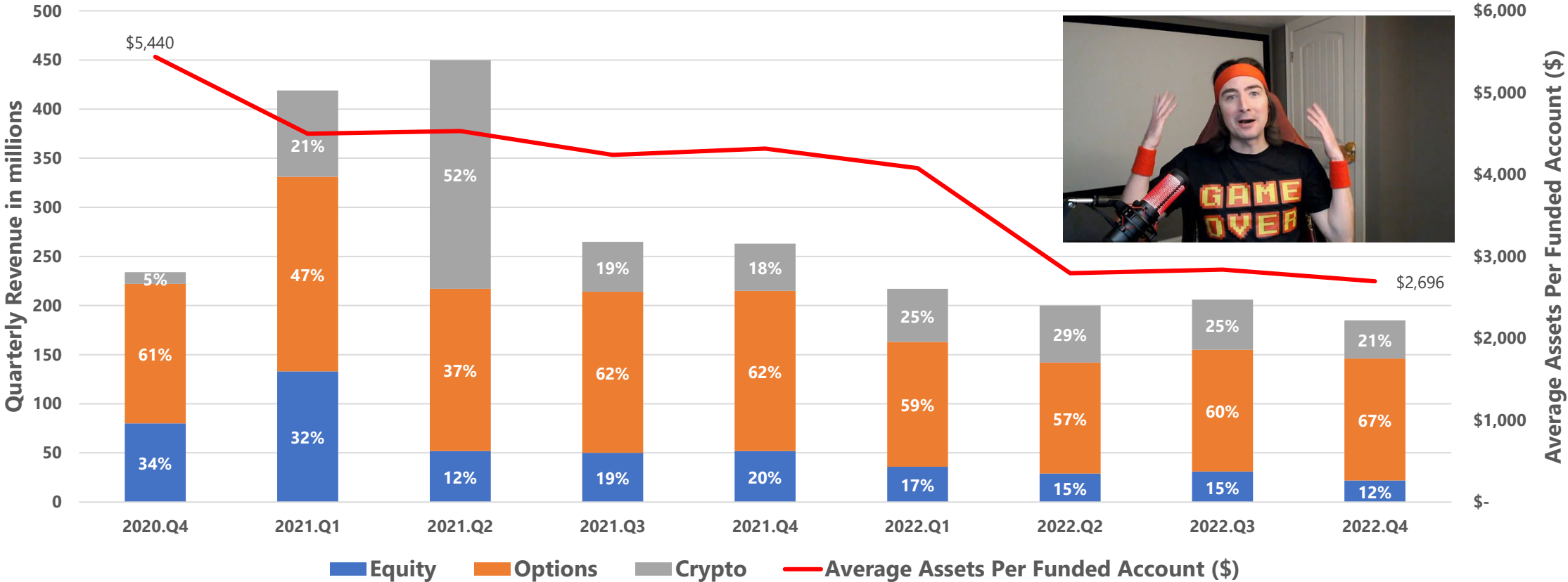


“I’m sure Warren Buffett is a great guy but when it comes to stocks he’s washed up. I’m the captain now.”
Dave Portnoy on Twitter (@stoolpresidente), June 9, 2020

“I have officially sold all my meme stocks. I lost 700k ish. Vlad and company stole it from me and should be in jail.”
Dave Portnoy on Twitter (@stoolpresidente), February 2, 2021

Gamification: New "Investors" prefer options and crypto

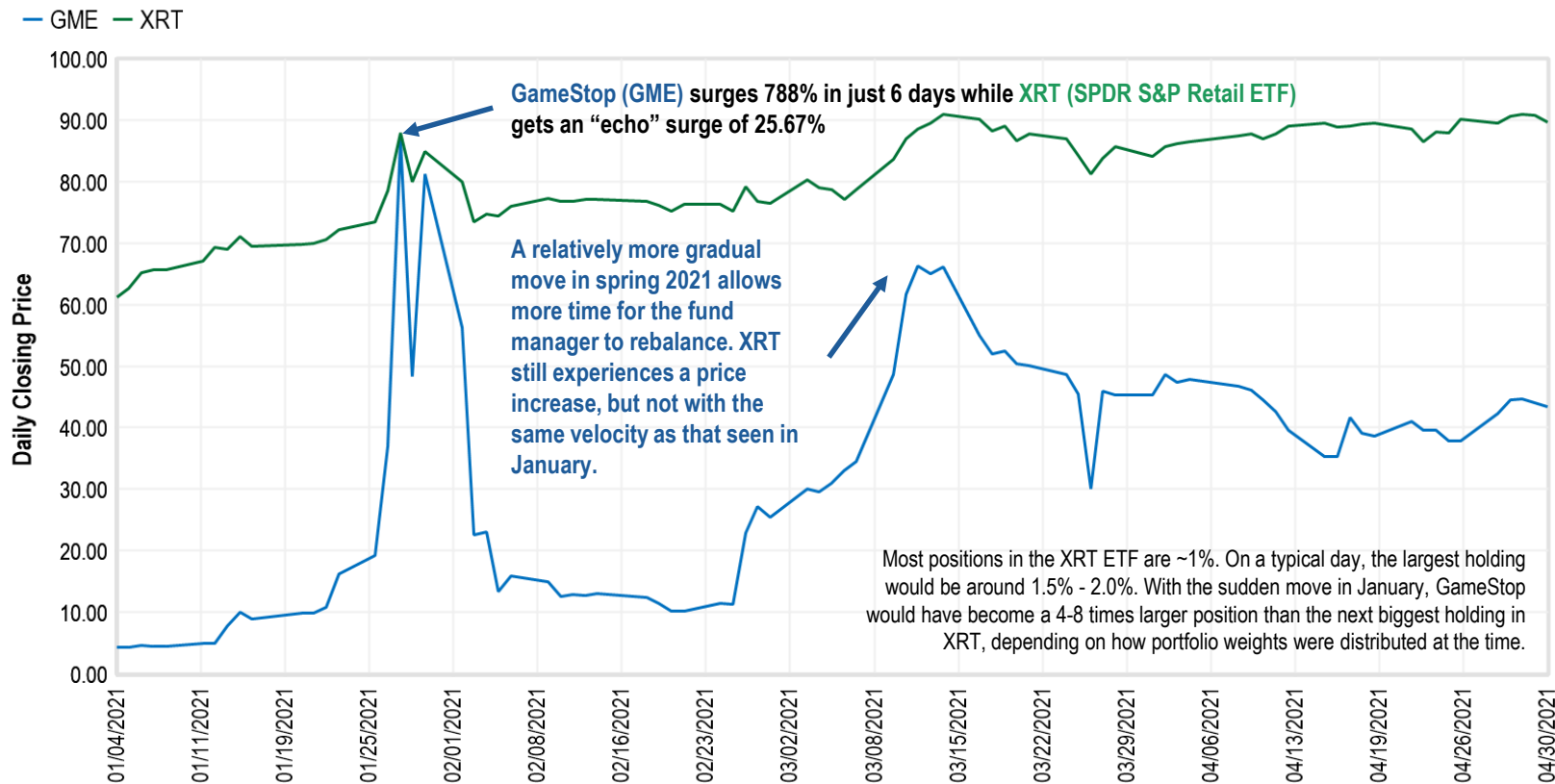
Robinhood Markets Transaction-Based Revenues



Source: Robinhood financial statements

Gamification: Be aware of ETF composition

Daily Closing Price During Meme Stock Boom



Source: Internal analysis of daily options data obtained from Delta Neutral, an option data service, and price data obtained from Bloomberg. Observations regarding XRT weighting scheme derived from recent Morningstar Report accessed 2/7/2023.

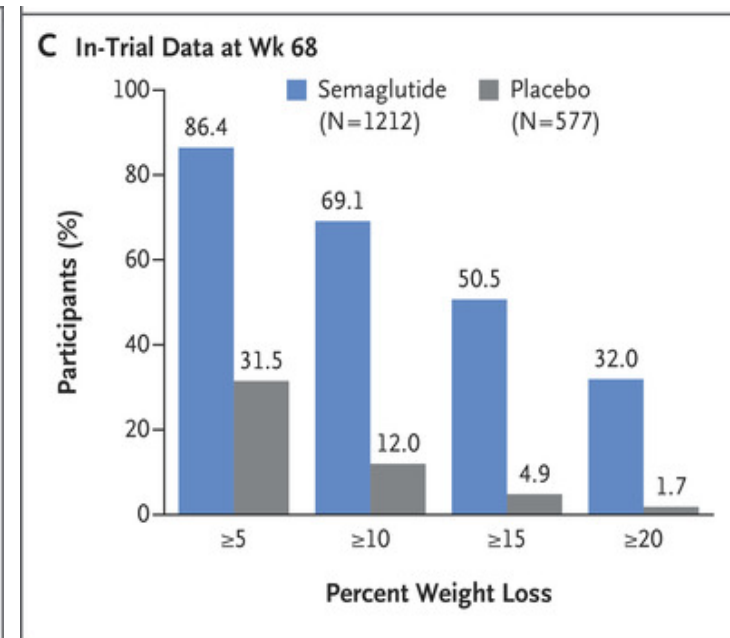
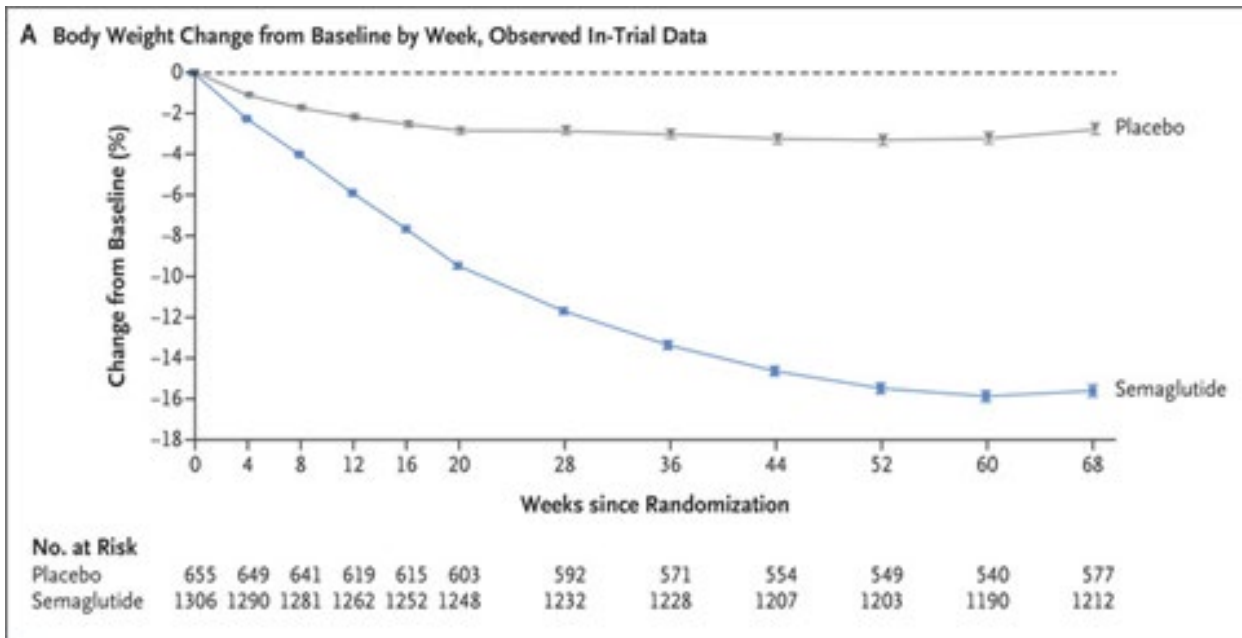
Obesity Drugs: GLP-1 Receptor Agonists

Addressing Unmet Need for Obesity Medication Patients effortlessly lose 15% of body weight in 1 year

OZEMPIC[®]
semaglutide injection 0.5mg, 1mg, 2mg



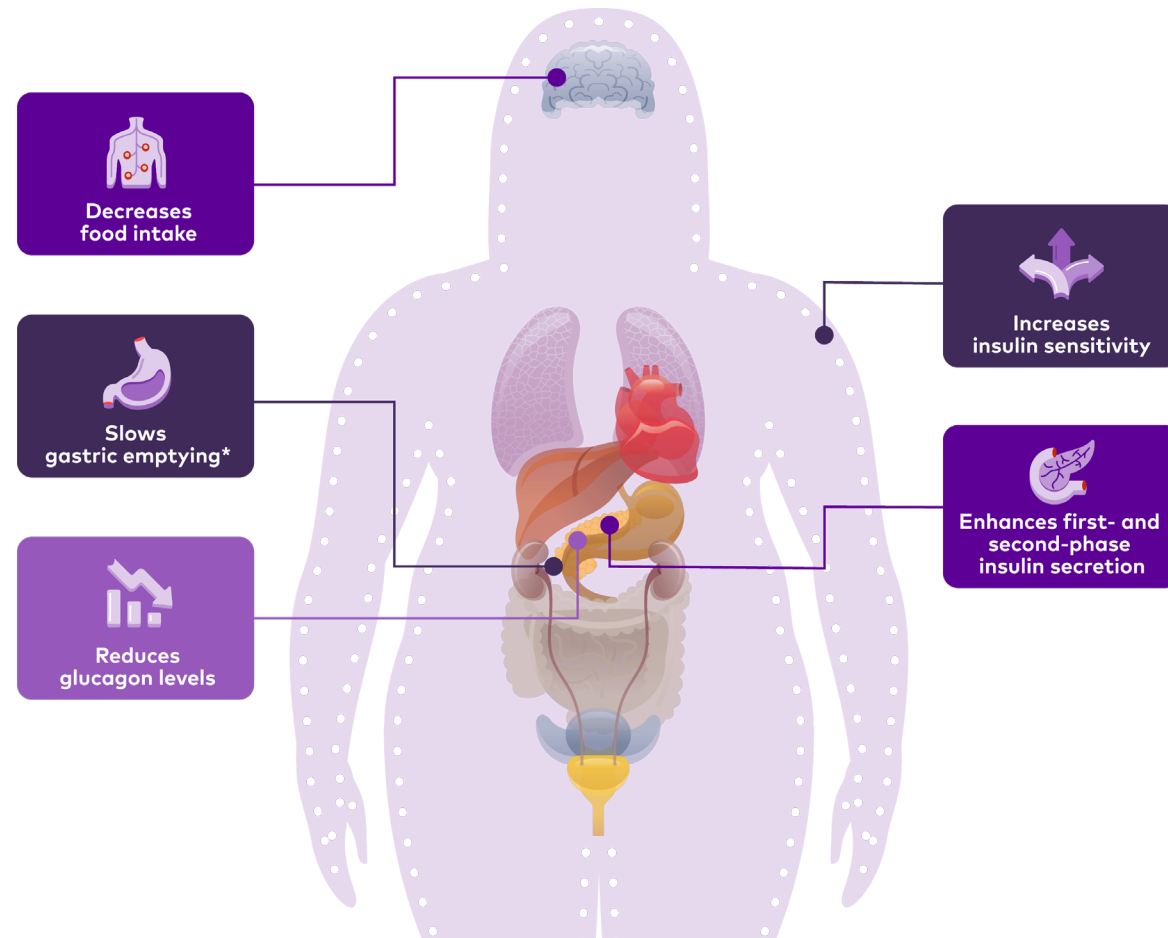
once weekly
mounjaro[®]
(tirzepatide) injection 0.5 mL
2.5 mg | 5 mg | 7.5 mg | 10 mg | 12.5 mg | 15 mg



Source: John P.H. Wilding et al, "Once-Weekly Semaglutide in Adults with Overweight or Obesity", The New England Journal of Medicine, Vol. 384 No. 11, March 18, 2021.

Obesity Drugs: GLP-1 Receptor Agonists

How Mounjaro Causes Weight Loss



Obesity Drugs: GLP-1 Receptor Agonists

Reducing Obesity Has Immeasurable Benefits for Individuals and the Economy

- Obesity Rates in US ~ 30%
- Comorbidities: diabetes, high blood pressure, heart disease, arthritis, depression, liver and kidney disease, many types of cancer
- Significant societal costs ~ \$384 billion annually according to Society of Actuaries
- Mental health and quality of life

Source: Amy Alves et al, "Obesity Trends and the Impact on Morbidity and Mortality Costs: A look at the latest trends in obesity and an estimate of the impact of obesity on mortality and morbidity costs in the US and Canada". Society of Actuaries Research Institute, December 2021. <https://www.soa.org/4af04f/globalassets/assets/files/resources/research-report/2021/2021-obesity-morbidity-mortality.pdf>

Obesity Drugs: GLP-1 Receptor Agonists

Miraculous weight loss stories on social media spurring insatiable non-diabetes demand.

The New "Hunger Games"

HEALTH NEWS ✓ Fact Checked

Weight-Loss Drug Shortages: Access Now Limited to Diabetes Medication Mounjaro (tirzepatide)

HEALTH NEWS DEC. 1, 2022 / 4:00 AM

Supply can't meet demand as diabetes drugs' use surges for weight loss

Source: Twitter and Health News.

← Tweet

 **Eva McMillan** ❤️ 🔒 @EvasTeslaSplaid · Oct 1, 2022 ...
Hey, @elonmusk what's your secret? You look awesome, fit, ripped & healthy. Lifting weights? Eating healthy?



2,028 1,357 34.7K

 **Elon Musk** 🔒 @elonmusk · Oct 1, 2022 ...
Replying to @EvasTeslaSplaid
Fasting

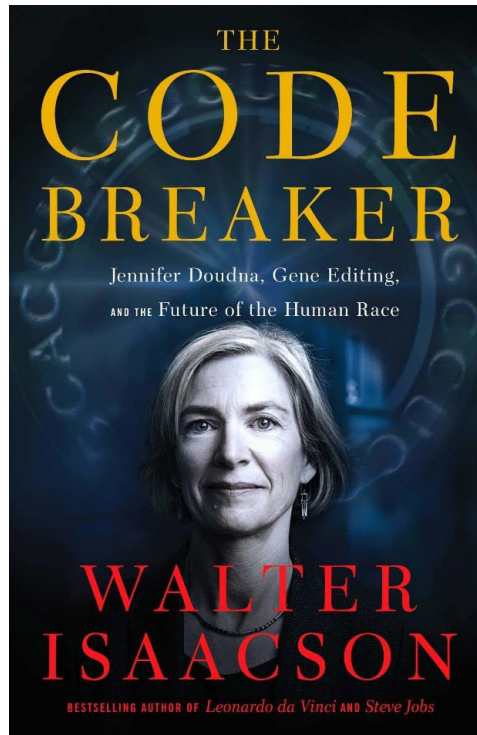
4,747 5,126 94.9K

 **Elon Musk** 🔒 @elonmusk ...
Replying to @elonmusk and @EvasTeslaSplaid
And Wegovy

8:26 PM · Oct 1, 2022

CRISPR: Nobel Prize in Chemistry 2020

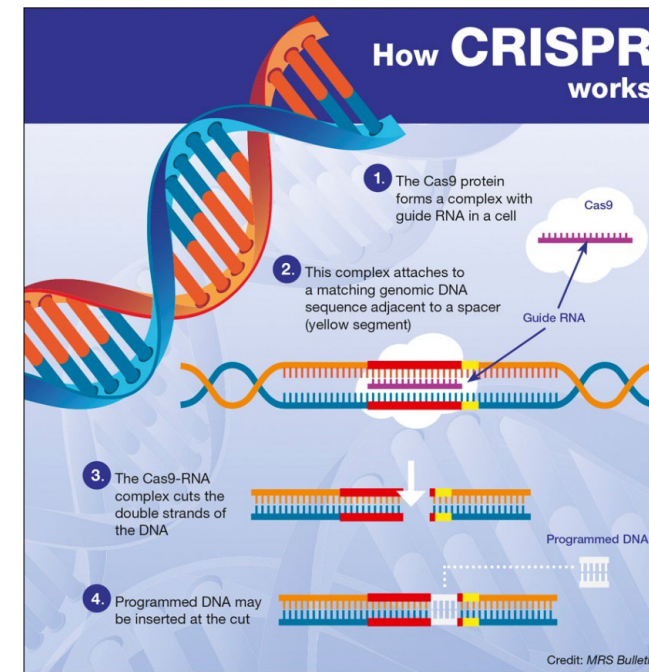
Jennifer Doudna and Emmanuelle Charpentier



Source: The Code Breaker, <https://www.simonandschuster.com/books/The-Code-Breaker/Walter-Isaacson/9781982115852>; CRISPR-Cas9 graphic from <https://www.youtube.com/watch?v=qc6xgb4VXI0>; "How CRISPR works" graphic from MRS Bulletin, Genome Research Limited.









CRISPR ~ Bacterial defense systems that have inspired gene editing



CRISPR: Gene editing applications

Agriculture

Crop	Trait
 Banana	Disease resistance (BXW, Fusarium wilt, BSV)
 Cassava	Disease resistance (BB)
	Food safety (cyanide-free)
	Quality (waxy starch)
 Maize	Disease resistance (MLN)
	Weed resistance (<i>Striga</i>)
 Potato	Disease resistance (PVY ^a , late blight)
 Rice	Disease resistance (BLB, RHB)
	Food safety (low arsenic and cadmium)
	Nitrogen remobilization, and methane emission reduction
	Insect resistance ^a (BPH)
 Wheat	Disease resistance (rusts, mildew) ^a

FDA Approves First CRISPR Cows For Beef

MAR 23, 2022

Shea Swenson

The genome-edited cattle were bred to endure climate change, and their offspring will be used in meat production.

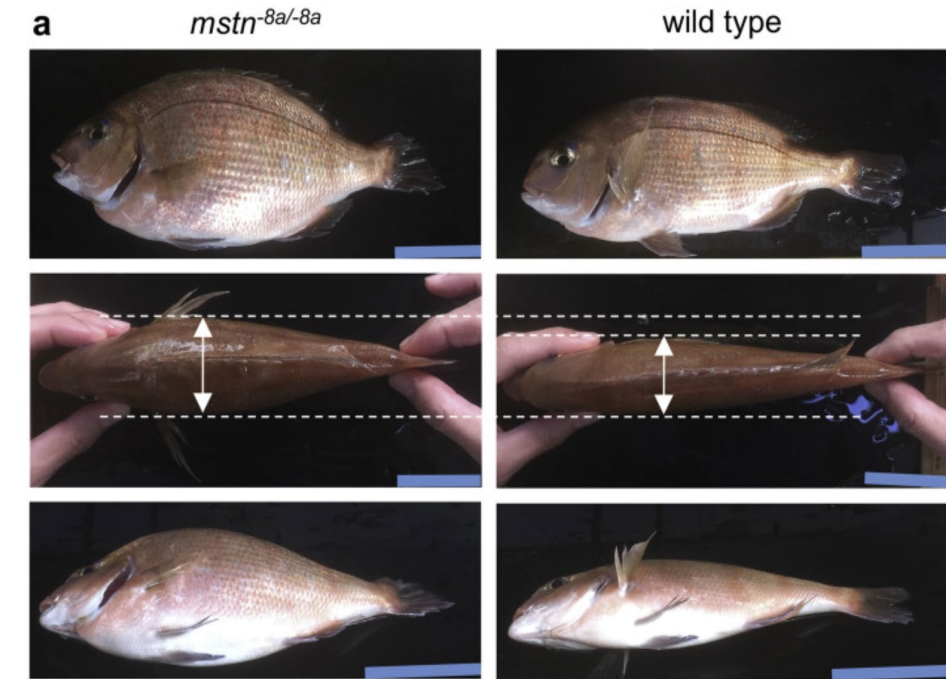


Slick-coat cattle (left) vs. nonslick cattle.

Photography courtesy of Nature Communications.

Aquaculture

Gene-edited red sea bream from Japan.



Source: Left - Pixley, K.V., Falck-Zepeda, J.B., Paarlberg, R.L. et al. Genome-edited crops for improved food security of smallholder farmers. Nat Genet 54, 364–367 (2022). <https://doi.org/10.1038/s41588-022-01046-7>; Center - <https://modernfarmer.com/2022/03/fda-crispr-cows-for-beef/>; Right - <https://www.freethink.com/science/gene-edited-fish>

CRISPR: Gene editing applications

Diagnosics Cell and Gene Therapy Reproductive Medicine



About Lulu and Nana: Twin Girls Born Healthy After Gene Surgery As Single-Cell Embryos

The He Lab
3.93K subscribers

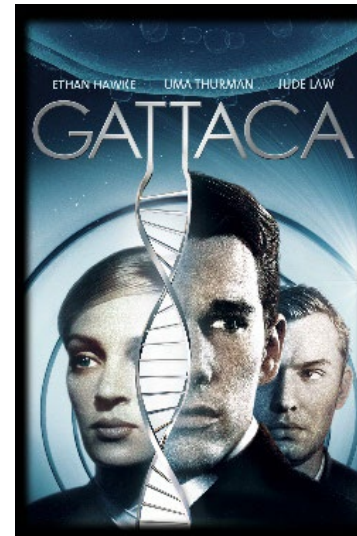
679,800 views Nov 25, 2018

Two Chinese girls, who we'll call Lulu and Nana to protect their privacy, were born healthy a few weeks ago. Their mother Grace started her pregnancy by regular IVF with one difference: right after sending her husband's sperm into her eggs, an embryologist also sent in CRISPR/Cas9 protein and instructions to perform a gene surgery intended to protect the girls from future HIV infection. The surgery reproduces a natural genetic variation shared by more than 100 million people of primarily European origin that confers strong resistance to initial HIV-1 infection and disease progression. While CRISPR/Cas9 has been studied in human cells and in early clinical trials, gene surgery in embryos intended for pregnancy has not previously been reported. Safety remains a key concern, particularly for unintended changes to the genome. To assess the girls' genomes for safety after the surgery, multiple whole genome and targeted deep sequencing techniques were used before implantation, during the pregnancy, and now after birth. These data indicate the girls' genomes were changed as intended by the gene surgery, but no off-target editing or large deletions occurred. Further assessments to confirm these findings will be conducted over the next year. We will publish our full data soon.


Email: He.Jiankui.ab@gmail.com
He Jiankui Lab Website: <http://www.sustc-genome.org.cn>
License: [Creative Commons Attribution license \(reuse allowed\)](#)



[Photo: courtesy of Sherlock Biosciences]




Blood disorders caused by mutations in the β -globin gene



Sickle Cell Normal Cell β -thalassemia

Significant worldwide burden

ANNUAL BIRTHS



300k 60k

Sickle cell disease β -thalassemia

Source: "About Lulu and Nana" from <https://www.youtube.com/watch?v=th0vnOmFltc>; Gattaca image from Movies Anywhere; Covid test image from Sherlock Biosciences; Cell Therapy image (far right) from CRISPR Therapeutics & Vertex

AI: New consumer facing breakthroughs



- Large Language Models
 - Chatbot / personal assistant
 - Text generation
 - Contextual search



- Diffusion Models
 - Image and data denoising
 - Realistic image generation
 - Image translation



AI: Impacts the entire technology ecosystem

Infrastructure

Technology

Applications

aws

DeepMind

co:here

GitHub Copilot

tsmc

AI21 labs

Microsoft Teams

Microsoft Azure

Meta

stability.ai

Jasper

Figma

nvidia

Google Cloud

OpenAI

grammarly

AI: Uses for financial firms

Automatic Meeting Notes

- Microsoft Teams

Text Summarization

- AI21labs Wordtune Read

Personal Assistant

- OpenAI ChatGPT

The screenshot shows a Microsoft Teams meeting titled "Sales Analysis Review". The interface includes a video grid with participants: Serena Davis, Aadi Kapoor, Ray Tanaka, Daniella Booker, and Krystal. A sidebar on the right displays "Meeting content" with files like "Sales report Q4...", "Capacity stats list...", and "VanArsdelPitchDe...". Below this, there are tabs for "Notes", "AI Notes", "Mentions", "Transcript", and "Chat". The "AI Notes" section shows "Suggested notes" and "Suggested tasks" generated by AI, such as "Serena wants to look at the sales report before she and Beth spend more budget on the campaign." and "Beth explains that they are on track for new product release in December." The "Suggested tasks" section includes "Beth will follow up on advertisement budget." and "Jon Shammass will double check with Amanda regarding the ETA for the release of the new product."

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The BCM Decathlon Tactics strategies are predictive, algorithm driven and use pattern recognition technology (PRT) to rank a population of ~130 handpicked ETFs in which it will "invest" in the 10 most promising based on upward price movement and defined volatility levels. The algorithm re-evaluates the population of ETFs and typically 'rebalances' once a sufficient number of securities have fallen far enough in the rankings to justify the resulting trades. The portfolio manager maintains full investment discretion. In Q3 2020, the methodology for BCM Decathlon Tactics was refined to trade dynamically rather than every 25 trading days. BCM Decathlon Growth Tactics targets volatility and maximum drawdown at 16%, BCM Decathlon Moderate Tactics targets volatility and maximum drawdown at 12% and BCM Decathlon Conservative targets volatility and maximum drawdown at 7%. In October 2019, BCM Decathlon Conservative Tactics' maximum equity limit changed from 80% to 50%. Decathlon's process is subject to ongoing research and enhancement, with the goal of continuous improvement. The algorithms used by the system are usually optimized on a quarterly basis. Performance shown is based on the then current algorithms/system used.

In October 2019, the benchmarks for all three BCM Decathlon tactics portfolios changed to better reflect the strategy's composition and risk profile. BCM Decathlon Conservative Tactics changed its benchmark from the Dow Jones Conservative Allocation Index to 20% MSCI ACWI / 80% Bloomberg Barclays U.S. Aggregate Bond Index; BCM Decathlon Moderate Tactics' benchmark changed from 50% Dow Jones Moderately Conservative Allocation / 50% Dow Jones Moderate Allocation Index to 50% MSCI ACWI / 50% Bloomberg Barclays U.S. Aggregate Bond Index; and BCM Decathlon Growth Tactics' benchmark changed from Dow Jones Moderate Allocation Index to 70% MSCI ACWI / 30% Bloomberg Barclays U.S. Aggregate Bond Index.

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APPENDIX