Haute Capital Partners.

GOING INTO SUMMER

May 2024

Haute's Q1 Performance

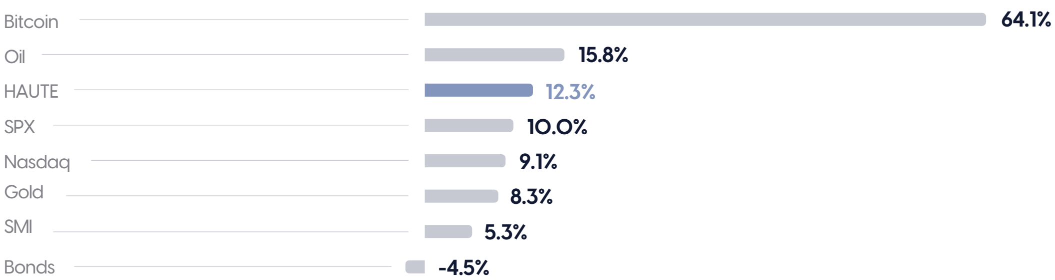
12.3%

Haute's Q1 2024 performance.

Solid Q1 Growth

Q1 PERFORMANCE ACROSS MULTIPLE ASSET CLASSES RELATIVE TO HAUTE ▼

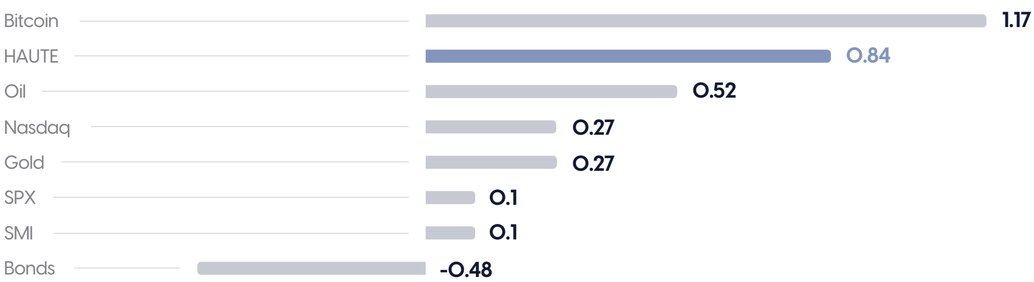
Haute Capital Partners concluded the first quarter of 2024 on a positive note. The company's stock closed at CHF 109.-, marking a 12.3% increase for the quarter, compared to a 10.74% increase for the same period last year. Furthermore, this increase was supported by a traded volume that was up by 141.19% compared to the same quarter in 2023.



Sharpe ratio

Q1 SHARPE RATIO ACROSS MULTIPLE ASSET CLASSES RELATIVE TO HAUTE ▼

When examining the Sharpe ratio, one of the most commonly used indicators in finance for assessing risk-adjusted performance, the company achieved a result of 0.84. This is the best among all major asset classes, with only Bitcoin performing better.



Understanding Office Mortgage Delinquencies

Unveiling the Numbers

The delinquency rate for securitized office mortgages has spiked to 7.4%, primarily affected by floating-rate mortgages where delinquencies have surged to 20%. This shift signals significant changes in the real estate investment landscape, influenced by current economic factors. In the aftermath of the Financial Crisis and the Great Recession, delinquency rates for office CMBS once exceeded 10%. However, those issues were largely due to economic downturns, unlike today's challenges of high vacancies and rising interest rates.

The Impact of Interest Rate Shifts

The trajectory of office mortgage delinquencies correlates strongly with the shifting landscape of interest rates. In the previous era of near-zero policy rates and quantitative easing (QE), delinquency rates for floating-rate office mortgages were below 0.5%. However, with the normalization of interest rates, these rates have escalated dramatically, reaching 20% for floating-rate mortgages and 4.7% for fixed-rate mortgages.

Real-world Implications

The real-world impact of these shifts is significant. For instance, Blackstone's recent decision to relinquish an office tower in Manhattan highlights the financial strain many holders of these securities face. With office availability rates exceeding 30% in some major cities and high vacancies persisting, the reduced cash flows from rents are placing additional pressure on the ability to meet mortgage obligations.

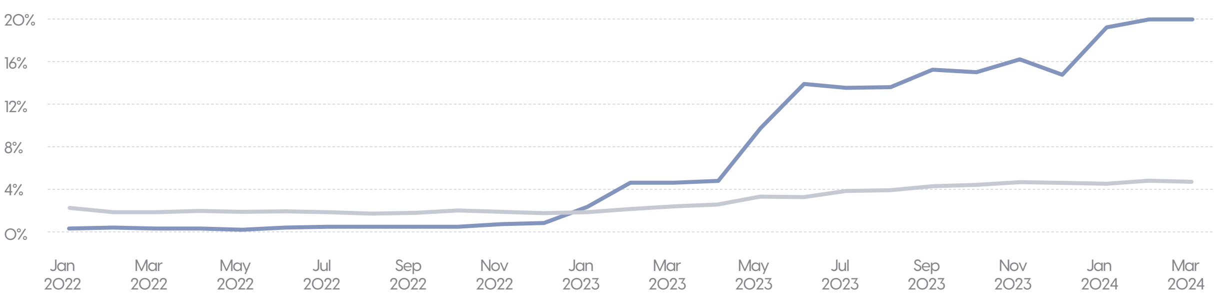
From Fixed-rate to Floating-rate Mortgages

The composition of CMBS office loans has evolved significantly. During the low interest rate period, nearly all office mortgages were fixed-rate. However, as interest rates began to rise, there was a notable shift towards floating-rate loans. Currently, about 37% of CMBS office loans are floating-rate, reflecting this adjustment to a changing economic environment. Despite the challenges faced by the office sector, other segments of the CMBS market, such as multifamily and industrial properties, have exhibited more stability. These segments report considerably lower delinquency rates, showcasing a divergence in performance within the CMBS market.

OFFICE CMBS
DELINQUENCY RATES

Fixed-rate loans
Floating rate loans

Source: Trepp



The Global Trade War Just Got Worse

Strategic Escalation

In a significant policy move, the Biden administration has adjusted tariffs imposed by its predecessor, targeting USD 18 billion worth of goods from China. This adjustment aligns with the U.S.'s strategy to bolster domestic production in critical sectors including energy, technology, and healthcare—sectors where China has recently ramped up its exports, leveraging its extensive production capabilities.

KEY CHANGES INCLUDE ▸

1. Tripling of tariffs on aluminum and steel to 25%;
2. Doubling of semiconductor tariffs by 2025;
3. A substantial increase in electric vehicle tariffs to 100%;
4. Adjustments in tariffs on solar cells and specific medical products.

Broader Economic Impacts

The U.S. is not alone in its stance against China's expanding export capacity. The European Union, Brazil, and India are among those implementing or considering similar tariffs, particularly on high-tech and clean energy products. This collective shift signals a broader reassessment of globalization, with nations prioritizing economic resilience over efficiency in their supply chains.

Navigating New Realities

The unfolding trade tensions and protectionist policies aimed at boosting domestic industries necessitate a strategic reevaluation of investment portfolios. These policies, while designed to protect and enhance local production, may contribute to inflationary pressures, affecting not just goods but also services. The increase in domestic production could lead to higher labor costs, which in turn would feed into service prices. As such, inflation expectations might need upward adjustments, which would influence asset allocations and valuations.

Furthermore, these economic shifts open potential growth opportunities for small- and mid-cap U.S. industrial companies. As trade barriers reduce foreign competition, these firms may find enhanced market positions and profitability.

Strategic Considerations

Investors should consider the potential for rising costs and the reshaping of global trade flows. Opportunities may arise in sectors less exposed to international disruptions and those benefiting from increased domestic production incentives. Additionally, diversifying into commodities and industries less reliant on global supply chains could hedge against geopolitical risks.

US Real Estate

Home Value Trends

In January 2024, the total value of U.S. homes witnessed a significant increase of 6.43% from the previous year, marking the largest gain in 11 months, with a robust 9.52% rise (USD 5.6 trillion) over the past two years.

Drivers of Home Value Increases

A key factor propping up home values is the significant shortage of homes available for sale, driven by homeowners who are reluctant to sell due to the low mortgage rates they currently enjoy. Additionally, the large year-over-year growth can be partly attributed to home values rebounding from a trough at the end of 2022, a period heavily influenced by the shock of surging mortgage rates. Despite this shortage, the increase in new home construction has contributed positively to the overall gain in home value. According to Redfin's analysis, the market now encompasses about 96 million homes, up from 95 million the previous year.

Listings and Sales

In April 2024, U.S. newly listed homes witnessed a 16.3% year-over-year increase, marking the largest rise in nearly three years. For the first time in nine months, the number of active listings remained stable compared to a year ago, halting a trend of declining total numbers of homes for sale. However, the combination of high mortgage rates, around 7%, and still elevated home prices continue to dampen sales. The typical mortgage payment now stands at USD 2'671, hovering near the record high set last October. These high costs have resulted in an 8% drop in pending sales, the most significant decrease in five months, and a consecutive four-week decline in mortgage-purchase applications.

Dylan Figueiredo
Head of Multi-Asset Management
at Haute Capital Partners

"The American economy is in a precarious position. Asset prices are soaring, inflation is more persistent than expected, and interest rates are set to remain in the 3% area for the longer end. The average consumer appears to be barely managing, spending unprecedented amounts on credit cards, and the dollar has devalued nearly 20% since the start of 2020."

US Real Estate

Policy Implications and Critiques

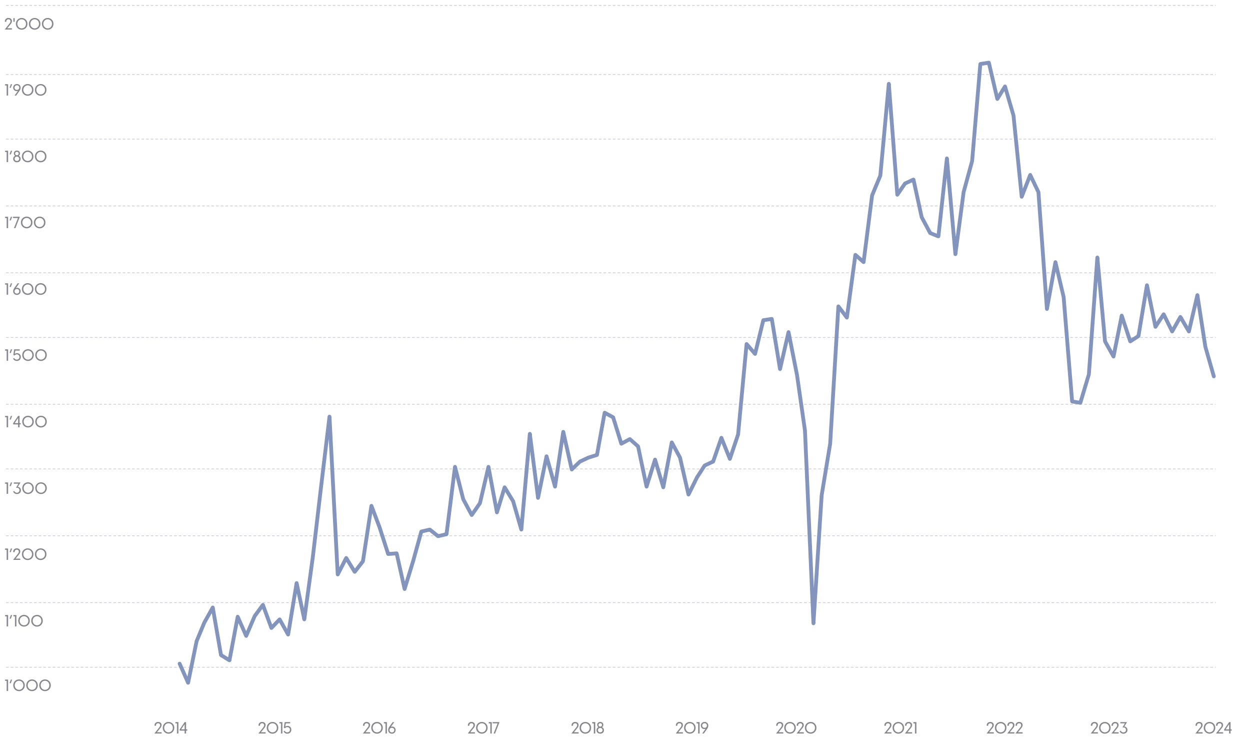
The Biden administration unveiled a plan aimed at supporting home buyers and renters. This initiative seeks to lower the cost of purchasing a home and to crack down on rental junk fees. However, critics argue that the plan might increase demand without meaningfully addressing the limited supply of homes for sale, potentially exacerbating the affordability crisis. Critics like former Federal Housing Finance Agency head Mark Calabria and Ed Pinto from the American Enterprise Institute, have expressed concerns that the administration's measures might inadvertently drive prices up further, primarily because homebuilders are constrained by still-high interest rates.

Outlook

Despite the challenges, there is optimism that pending sales may improve if mortgage rates stabilize and new listings continue to rise. Buyers who can afford current rates are encouraged to enter the market to potentially negotiate better prices or obtain concessions from sellers.

UNITED STATES
BUILDING PERMITS ▼

Source: Census Bureau



Tesla's in Trouble Waters

Q1 Performance Overview

Tesla Inc. shares fell more than 30% since the start of the year at time of writing following a first-quarter performance that did not meet expectations. The electric vehicle (EV) maker reported that it delivered 386'783 vehicles, missing the anticipated 457'000, according to FactSet, and lower than the 423'000 delivered in the same quarter the previous year. This shortfall was attributed to several production challenges, including the ramp-up of the updated Model 3 at the Fremont factory and disruptions from external events like the Red Sea conflict and an arson attack at the Gigafactory in Berlin.

Inventory and Demand Concerns

Despite these challenges, Tesla's production numbers were higher than deliveries, with 433'371 units produced, indicating an inventory buildup which suggests not just production issues but potentially deeper demand concerns in the U.S. market. We believe this discrepancy hints at a significant demand problem, which could be a critical factor moving forward.

Competitive Landscape in China

We are also concerned about Tesla's ability to adapt to increasing competition, especially from Chinese manufacturers. For example, BYD Co. Ltd. significantly outperformed Tesla in China with sales topping 300'000 units in March, indicating robust growth in the Chinese EV market where Tesla's sales remained flat.

Strategic Initiatives and Market Adaptation

In the midst of these market challenges, Tesla is focusing on strategies to boost future sales, including offering promotions like one month of free Full Self-Driving access. This initiative aims to attract more customers to the showroom and possibly enhance the attachment rates for Tesla's advanced driver assistance features. Additionally, Tesla's future plans include the introduction of more affordable EV models by early 2025, potentially increasing its market share and accessibility.

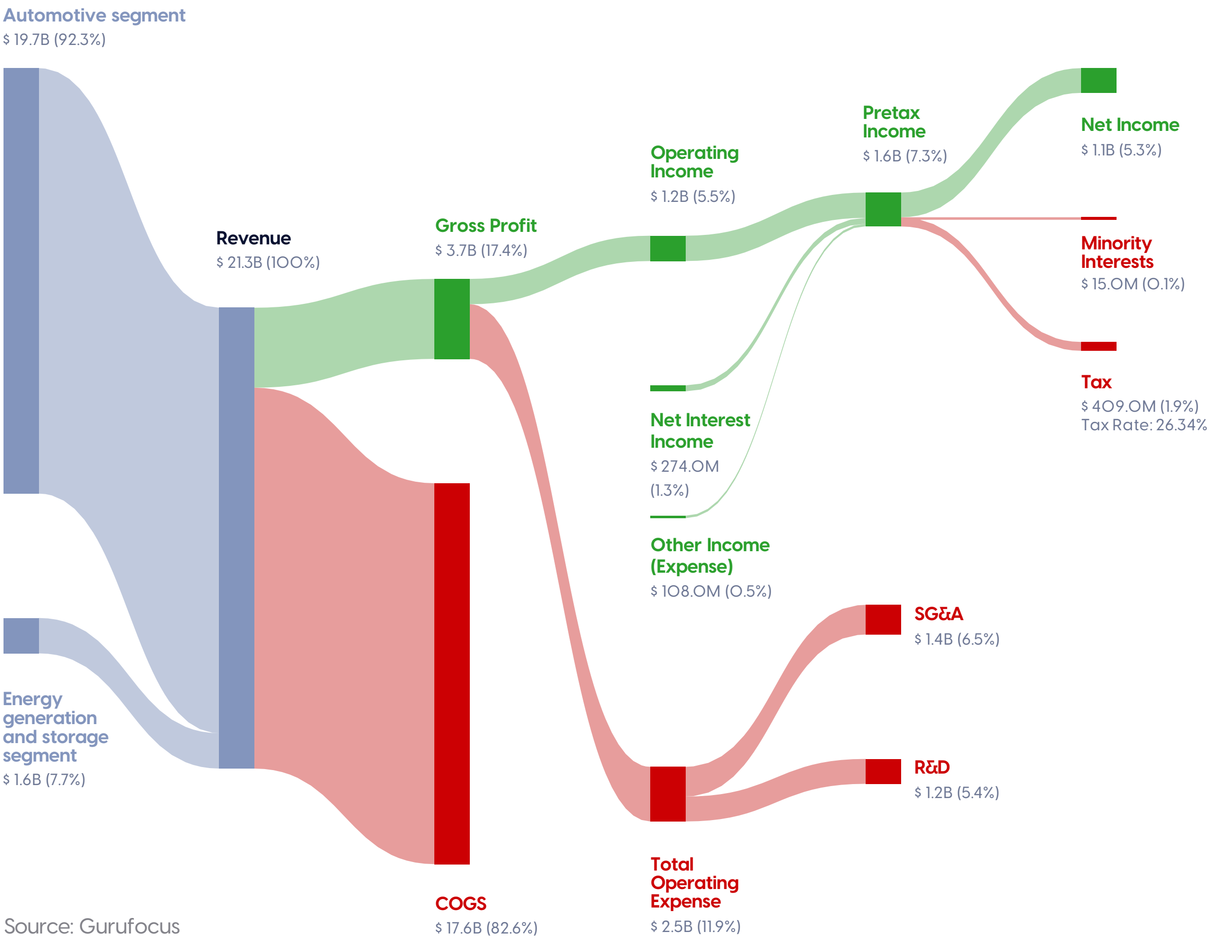
Tesla's in Trouble Waters

Future Prospects and Economic Factors

Tesla's ambitious manufacturing and innovation plans, particularly in AI and autonomous driving technologies, are crucial for its strategy to maintain a competitive edge. However, these advancements come with challenges, as Tesla also announced significant workforce reductions and faced executive departures, adding to the uncertainty about its short-term prospects. As Tesla navigates these hurdles, the broader economic factors such as potential interest rate cuts by the Federal Reserve could positively influence auto sales, providing a favorable environment for Tesla and the auto industry at large.

In summary, while Tesla faces significant challenges in production, competition, and market demand, its strategic initiatives focusing on affordability and technological advancement could be key to its recovery and future growth in the evolving EV landscape.

TESLA Q1 2024 INCOME STATEMENT BREAKDOWN ▾



Source: Gurufocus

A New Era for Cryptocurrency

Bitcoin Halving

The recent Bitcoin halving event, which occurred at block 840'000 late on April 19, 2024, has ushered in significant changes for the cryptocurrency landscape. This halving reduced the reward for mining a Bitcoin block from 6.25 BTC to 3.125 BTC, marking a pivotal moment that aims to reduce the rate at which new Bitcoins are generated, further underscoring its deflationary nature.

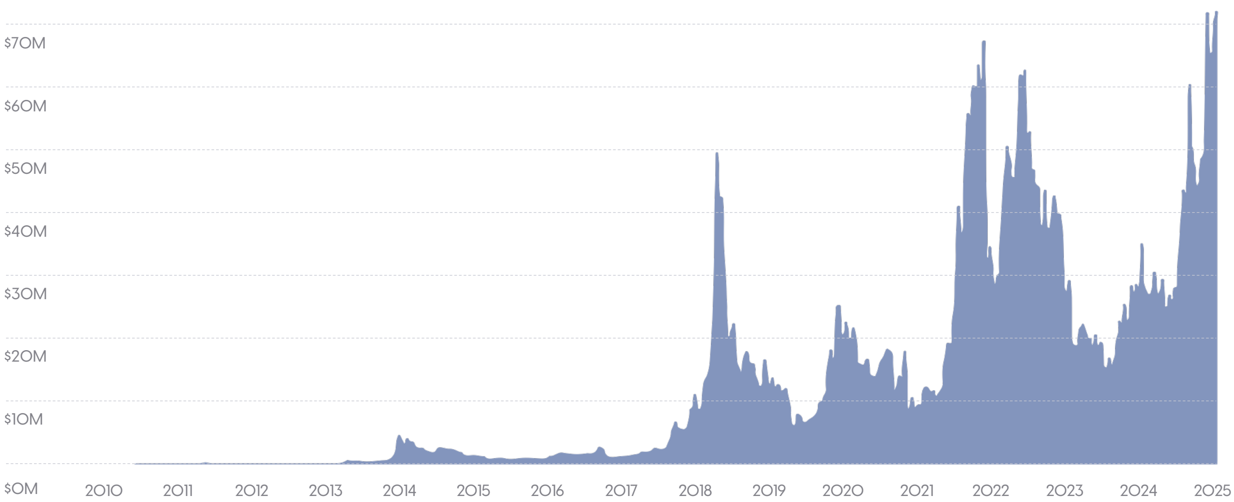
Market Response and Future Predictions

Despite the major milestone, the immediate response in Bitcoin's price has been relatively stable. This stability post-halving suggests that much of the event's impact may have already been priced into the market. However, we remain optimistic about the long-term appreciation potential, driven by Bitcoin's reinforced scarcity and a growing interest from institutional investors, particularly with the recent approval and success of spot Bitcoin ETFs in the U.S. and Hong Kong. These ETFs have seen substantial inflows, suggesting a strong and sustained demand for Bitcoin.

Technological and Economic Implications

The halving is expected to have profound technological and economic impacts. Miners are now incentivized to improve the efficiency of their operations to maintain profitability with lower rewards. This could accelerate innovation in mining technology, leading to more energy-efficient and powerful mining setups. Economically, the reduced pace of new Bitcoin creation is likely to enhance its appeal as "digital gold" akin to real gold's role as a hedge against inflation and currency devaluation.

BITCOIN MINING REVENUE ▾
In dollar terms (7 day moving average)



Source: Glassnode

A New Era for Cryptocurrency

The Role of Cryptocurrencies in Modern Finance

Cryptocurrencies offer a compelling alternative to traditional financial systems by proposing a model where the monetary supply is predetermined and mostly insulated from political and economic disruptions. For economies experiencing high inflation like Argentina or Turkey, cryptocurrencies could serve as a potential safeguard, preserving value in a way that fiat currencies may not.

Moreover, the decentralization aspect of cryptocurrencies means that they are not bound by the economic decisions of any single country, offering a globalized form of money that can act as a medium of exchange and store of value across borders.

Environmental Considerations and Industry Trends

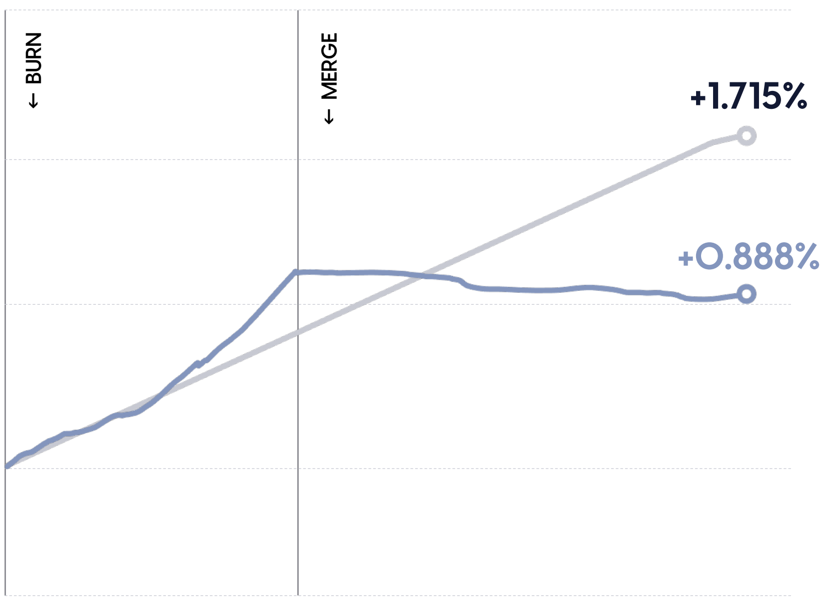
In an era where financial stability is paramount, cryptocurrencies such as Bitcoin (BTC) and Ethereum (ETH) offer unique inflationary dynamics that contrast sharply with traditional fiat currencies.

Bitcoin maintains a remarkably stable inflation rate due to its capped supply of 21 million coins. This stability makes it an attractive hedge against fiat currency inflation. On the other hand, Ethereum has seen a significant reduction in its inflation rate following the Merge, transitioning to a more deflationary model. This is primarily due to the lower issuance of new ETH and the introduction of mechanisms like EIP-1559, which burns a part of transaction fees.

BITCOIN & ETHEREUM INFLATION RATES ▸

Since the burn update, which happened on August 5, 2021, until May 31, 2024.

● Bitcoin
● Ethereum



Source: Ultra Sound

Haute®
Capital
Partners.

CONTACT

E-mail: info@haute.capital
Phone: +41 32 321 35 35

Haute Capital Partners SA
Hans-Hugi-Strasse 2a
CH-2502 Biel/Bienne