Dear Tetelestai Capital Investors,

Welcome to 2024! I am starting off this letter by thanking every one of my investors for trusting me to manage their assets with Tetelestai Capital. It is an honor to run this firm, and I love working with each of you to build your wealth and grow God's Kingdom.

2023 was a year of strength for markets across the globe. After a very rough 2022, financial markets sprung back to life on the back of the Artificial Intelligence (AI) hype and the hopes of interest rates dropping back down to match the low rates of the 2010's. Both of these factors pushed up technology-related stocks handsomely while influencing the remaining sectors with positive pressures leading to markets globally having a strong year outside of China.

The portfolios I manage had a good year on an absolute basis and up until the end of October, the majority were outperforming on a relative basis as well. However, November 2023 brought a major boon in equity and bond markets causing the famed 60/40 portfolio to have the best month since 1991, according to Reuters, bringing the index up 9.6% in one month. The client portfolios at Tetelestai Capital had exposure to the market in November and December, but not nearly to the degree that caused a 9.6% move up in one month. This underperformance in the last two months of the year led to most of the portfolios I managed falling behind relative to the All Country World Index (ACWI) and the traditional 60/40 portfolio. Though disappointing, I was pleased with the way the year turned out overall, and I am excited to dive into 2024.

Looking Back At 2023

As I said last year, it is a blessing to manage client assets in an actionable market. 2023 was no different. The year started off extremely well for markets as the hopes of China reopening propped up global markets through March. Then, on a dime, markets turned red. Regional bank collapses that had a total magnitude worse than the 2008 banking crisis hit the markets in a matter of weeks. Stocks gave up all their returns for the year until the U.S. government stepped in to cover bank deposits. This along with the hype of AI pushed markets back up from April to July, even pushing through the United States debt ceiling debacle in June.

Once the summer started to fade, so did the excitement in global markets. What was a multi-month rally in stocks turned again to fears that the government debt in the United States would be unsustainable with interest rates creeping up past 5%. Not only were interest rates spiking, so was the U.S. Dollar and the price of Oil. This "trifecta", as I called it in a blog post back in the beginning of October, has preceded multiple recessions and market downturns over the past few decades. This time seemed to be no different as the market corrected from July to October by over 10% as interest rates, the U.S. dollar, and oil prices rose.

As November rolled around though, the fear of interest rates rising too fast was at its peak. The market was due for a rebound, but the magnitude of the rebound shocked most of the world. November and December brought the markets from a near negative return for the year to ending the year near the all-time high in price for U.S. stocks. This dramatic change of events caught many investors off guard and further added fuel to the rally as investors scrambled to catch up.

Chart 1: S&P 500 Price Chart August – December 2023 (Source: Koyfin)

Even though economic signals, inflation persistence, and geopolitical conflicts were pointing to a lower market price at the end of last year, the market had an aggressive rebound to end the year for investors.

As far as the investment themes I was focused on in 2023 for the actively managed portfolios, I had written up analyses posted on Tetelestai Capital's website for themes in uranium and volatility, but I also had been investing in oil services stocks, Latin America, two-year U.S. government bonds, and other investment themes that added both ups and downs to those portfolios. I will run through my review of my research for each core theme quickly. To be clear, some of these investments are still in play and some of them I put off to the side due to the theme not playing out as planned or better opportunities found elsewhere. Additionally, not all the portfolios I managed had these investment themes in them. Only the actively managed portfolios that these investment themes fit into based on their investment objectives had the selected themes.

Uranium

There are not many new updates from my original post in October 2022 and my follow-up post in July 2023. I believe nuclear power will be what fuels the green energy boom in a sustainable way. There is no other energy source harnessed by mankind that is as efficient as nuclear power. Even though uranium related investments rewarded investors well in 2023, this is a long-term investment that I expect to be an even larger winner as the world leaves fossil fuels behind. There will be volatile ups and downs in this investment theme, but I believe we are still in the early innings of the price of uranium going parabolic. Below is the chart of the price of uranium in 2023 alone:

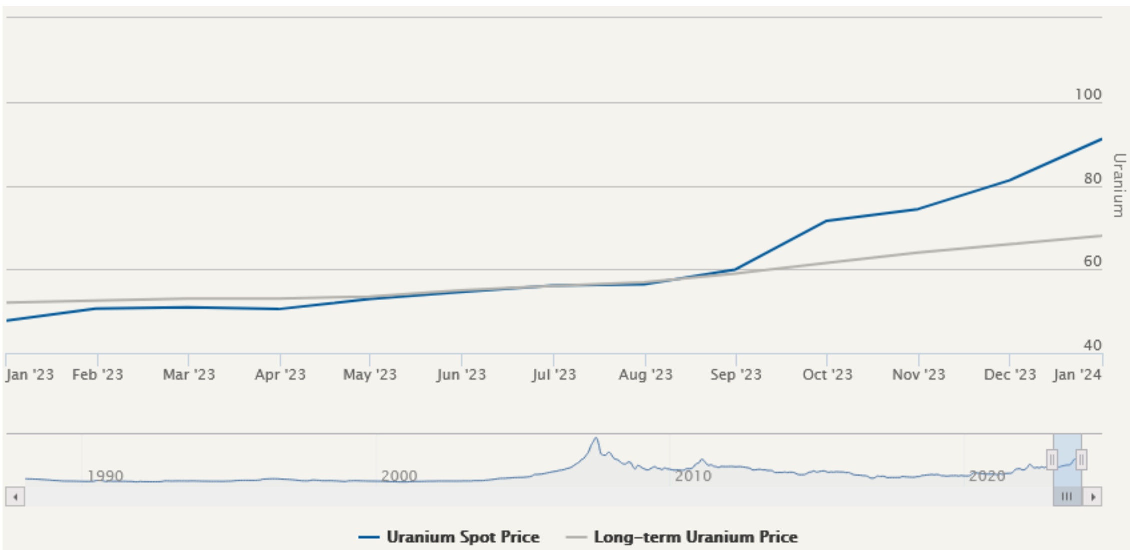

Chart 2: Uranium Spot and Long-Term Price Chart 2023 (Source: Cameco)

As you can see, the price of uranium went from $50 to $90 in a year when almost no one was discussing the topic. Think about how aggressive the price could move when investors start piling into this investment theme as the market has a very low capital base. I did pare down some of the uranium related holdings in the actively managed portfolios I manage to take profits off of the table, but I still hold a core position with exposure to this theme.

Oil Services

The story on oil has not changed since last year. The world is fighting to transition to green energy, but the infrastructure to get there will take years, if not decades to be fully up and running. The world will need fossil fuels (especially oil) to get that infrastructure built. The annual demand for oil across the globe is approximately 100 million barrels of oil per day and growing. Transitioning from this will take time, resources, and concentrated efforts. However, in the meantime oil production has been underinvested in for nearly a decade. As oil producers realize they need to put more capital expenditure dollars in place to keep up with inflation and oil production levels, oil service contracts will continue to re-rate to higher levels. For the companies that own the equipment to drill for oil, especially offshore, the benefits will be increased cash flow on the same set of assets they already own. Investors in the oil services space are building for an inflection in cash flow as old contracts get renewed at higher levels. I believe 2024 and 2025 will be years of significant price increases for these investments.

Long Volatility

As an investment firm with a focus on volatility, 2023 was very challenging. Even though financial markets had been jumping up and down during the summer, volatility metrics in markets remained extremely depressed. The VIX touched low double digits for the first time since 2017, which was the lowest market volatility year in history. My thesis was that the "spring" was being compressed too tightly and any sign of release would cause an overcorrection in the other direction for volatility and markets (similar to what occurred in "volmageddon" at the beginning of 2018). So far, this thesis has not played out and being long volatility was a drag on performance for portfolios in 2023.

Two-Year Government Bonds

Many of the most well-known investors in history made large returns on investing at the turn of economic cycles. Their preferred method of investing in these turns is short-term government bonds, specifically two-year U.S. government bonds. This trade pays interest as you wait for the turn in the market, it can be levered up due to the relatively stable nature of U.S. government bonds, and when interest rates get cut, the rate cuts usually impact the short end of the yield curve the hardest. All these factors are reasons why I have positioned clients in short-term government bonds as we enter 2024. The position has done moderately well as 2023 ended with rate cuts getting priced into the market, but I believe there is more room for this trade to run.

Latin America

With the world heavily skeptical on China over the last several years and after being burned by supply chains in 2020, global leaders scrambled to find more diversification in their product manufacturing. China was the go-to supplier for decades due to their low cost of labor and ease of access. Looking across the globe, there are few areas where this theme is more prominent than Latin America. The countries that make up Latin America have a young workforce, strong resources, and are primed to experience rapid growth. This investment theme will have volatility, but being positioned to profit from the global trend should reward investors long-term.

Charity Update

After successfully completing the second year in business, Tetelestai Capital was once again able to contribute to multiple causes to further God's Kingdom and increase the greater good in the world.

The first of these was with Kindway. Kindway is a ministry that assists men and women in prison to help them know God and grow as productive individuals for the world with the goal of transitioning them into society as the best versions of themselves. I had the pleasure in 2021 to go into Marion Correctional Facility with Kindway and meet the members of the Kindway class. This was a very transformative experience, and it gave me a completely different perspective on the men and women behind bars. Part of the donations for 2023 went to help clothe the men being released from prison earlier in 2023. Most of these men came out of prison with nothing. A new wardrobe provided them with work clothes and some clothes to live in until they get on their feet.

The next area of focus was Her Song, which is part of the Tim Tebow Foundation. Her Song was created to help women who are survivors of human trafficking with residential support programs and spiritual growth opportunities. The program employs an evidence-based theory of change to help the women move from a survival-based existence to purposeful, self-sufficient living. Her Song began operations in Columbus, Ohio in 2022 and had their first class of women rescued from human trafficking start up in 2023. Her Song had asked me to teach the women a financial literacy course starting in November 2023. This class has brought me so much joy as I get to assist the women in developing actionable skills and financial discipline for their new life. The first class is about to graduate from the financial literacy course this month! I am very excited to continue to work with Her Song as they continue to grow in their outreach in Ohio and beyond.

What I Am Watching In 2024

The start of 2023 had the world completely focused on a recession in the United States and globally. This did not end up panning out as anticipated, causing many investors (including myself) to be wrongfooted going into the year. Now entering 2024, investors are gearing up for the opposite. The consensus has been for no recession and a strong economy that will weather the higher interest rate environment. This is an entirely plausible scenario, but what I have learned in markets is when everyone is on one side of the market, the other side is the more likely scenario to play out.

I posted on LinkedIn a few weeks ago about how impactful interest rate cycles are in modern history. The next leg of this current interest rate cycle will determine the next major market movement. I calculated that thirty-four months is the average length of time from when the Federal Reserve started to increase interest rates before the interest rates peaked and started to decline over the course of the last 25 years. There have been three full cycles during this time, and we are currently entering the final stages of the fourth cycle.

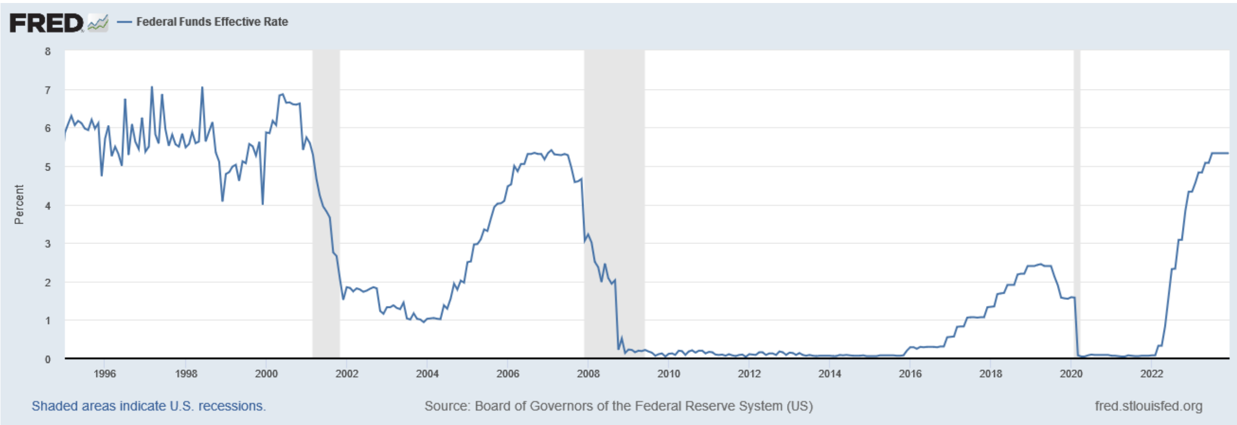

Chart 3: Federal Funds Rate 1995-2023 (Source: FRED)

As you can see in the below chart above from the St. Louis Federal Reserve, rates peak roughly three years after financial conditions start to tighten (interest rates rising). After which, there is a lull period followed by a sharp decline in rates. This makes sense intuitively as financial tightening causes an eventual slowdown in the economy. The process takes approximately three years to fully play out. I missed this in my analysis coming into 2023. Once the slowdown occurs, it starts off small and then escalates causing the Federal Reserve to step in and aggressively cut rates to help support the economy. Also, I would like to point out that rates decreased prior to the recession that followed the last three cycles. Once the recession unfolded though, rates dropped significantly.

As we enter the third year of the rate hiking cycle by the Federal Reserve, let's not forget what history teaches us. Thirty-four months is the average time before rates are forced down in the last 25 years. This timetable puts us at the fall of 2024. Every time this event occurred a recession happened shortly after. Just because the "Magnificent Seven" has held up global markets does not mean markets are calling off the recession. After the first rate cut, markets tend to collapse as economic conditions worsen, causing additional rate cuts. The positive news is we are going into an election year. The U.S. is going to be very risk averse in letting economic issues play out. I expect 2024 to be volatile, but any market weakness should be met quickly with easier financial conditions as the Democratic party will pull any string to stay in office. This is the buying opportunity I am positioning clients for going into 2024.

Tetelestai
CAPITAL

Focusing on the Race Ahead

Over the last year, my focus and vision for Tetelestai Capital have both reached new levels. My excitement entering each year continues to grow as the business and relationships with my clients both develop. I have prayed a lot for what 2024 and beyond holds for Tetelestai Capital, and I am ready to continue this race forward.

In ending this letter, I would like to draw on a few verses that are reminders to us all for the calling God has given us:

“But you, take courage! Do not let your hands be weak, for your work shall be rewarded. “

2 Chronicles 15:7

“Whatever you do, work heartily, as for the Lord and not for men”

Colossians 3:23

“The least one shall become a clan, and the smallest one a mighty nation; I am the Lord; in its time I will hasten it.”

Isaiah 60:22

Whatever you are called for, keep working for the Lord. You never know the impact you will be able to make no matter where you currently stand in the race.

Have a wonderful 2024, and as always, please feel free to reach out with any thoughts you may have for the New Year!

Additionally, I am collecting testimonials from my current clients. If you would like to share your experience with Tetelestai Capital so far, please send your testimonials to client_support@tetelestaicapital.com and I will add them to the firm’s marketing materials.

Blessings,

Evan J Glover

Evan J. Glover

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