MCALINDEN RESEARCH PARTNERS | JOE MAC'S MARKET VIEWPOINT

MRP THEMES: A Review of Our Change-Driven Themes

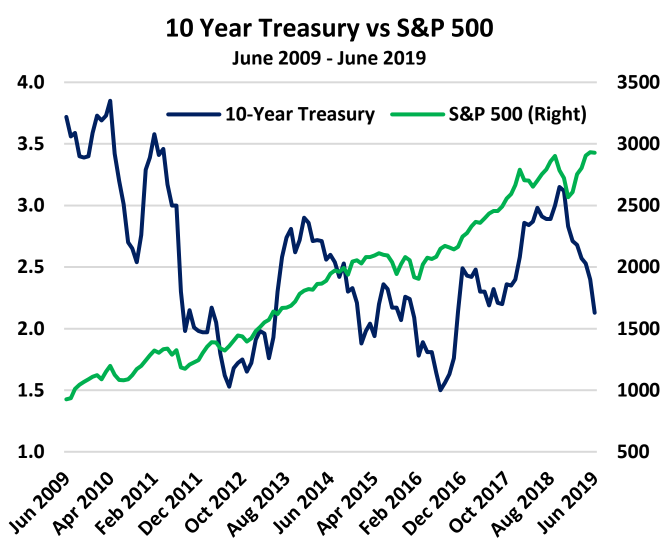
Market Viewpoint: June 28, 2019

Summary: A series of individual reviews for each active MRP theme

U.S. equity markets reached a new all-time high this month, following a short-lived pullback on President Trump's surprise announcement that a potential deal to end the US-China trade war was off the table. His proclamation that 10% tariffs on $200 billion worth of Chinese goods would increase to 25%, after which China reciprocated with equally heightened tariffs on $60 billion of US goods, sent shockwaves through nearly every sector, from retail to technology. Stock prices bounce back on renewed optimism that the Fed would begin leaning toward more accommodative monetary policy, causing traders to begin pricing in rate cuts by year end.

Meanwhile, consumer sentiment remains strong, reaching an 18-year high in June. Other macroeconomic factors are a bit worrying. Q1 GDP growth surprised to the upside, coming in at 3.1% on the final read. However, manufacturing activity is trending downward. U.S. manufacturing PMI (purchasing managers index) came in at 50.1 in June, the lowest level since September 2009, according to IHS Markit. Additionally, orders for durable goods dropped 1.3% last month after declining 2.8% in April. It is worth noting, though, that most of that decline came from the transportation sector – mainly aircraft – due to decelerating production and order activity at Boeing, amidst their ongoing 737 MAX scandal. Core capital goods orders, which are non-defense capital goods excluding aircraft, actually increased 0.4% in June. The Atlanta Fed GDPNow forecasts 1.9% growth in the second quarter.

Investors have responded to softer data by snapping up treasuries and other safe haven bets, pushing the yield on the 10-year down to about 120 basis points below its 2018 high. Additionally, the Fed has begun to pull back on their "patient" stance, noting slowing inflation, which signals that a rate cut could be the next move upcoming.



While the FOMC voted against a rate cut in June, the latest dot plot shows 8 of 17 policymakers now advocate a rate cut by year end, with seven of those forecasting a 50bps fall. Powell noted in his post-FOMC press conference that "Many participants now see the case for somewhat more accommodative policy has strengthened."

In the meantime, professional investors would be well-served to focus on themes. It is the identification of change-driven themes that is our mission at MRP. So, in the face of a rapid change and uncertainty in markets, a review is in order.

Currently, we have a total of 13 that are active, but June has been a month of revamping our outlook on a number of different sectors.

Joseph J. McAlinden, CFA, is the founder of McAlinden Research Partners (MRP) and its parent company, Catalpa Capital Advisors. He has 50 years of investment experience. Mr. McAlinden founded Catalpa Capital in March 2007 after leaving Morgan Stanley Investment Management where he had spent 12 years, serving first as chief investment officer and later as chief global strategist. During his 10 year tenure as chief investment officer, he was responsible for directing MSIM's daily investment activities and oversaw more than $400 billion in assets. As chief global strategist, he developed and articulated the firm's investment policy and outlook. Prior to Morgan Stanley, Mr. McAlinden held positions as chief investment officer at Dillon Read and as President & CEO of Argus Research

We felt it was appropriate to pull our Long ASEAN theme, which had been underperforming, on June 3, 2019. However, we followed it up with a new theme focused in on Southeast Asia's most rapidly growing powerhouse, Vietnam. Elsewhere in Asia, India's general election solidified Prime Minister Modi's regime and created a new opportunity in the rapid reforms of the Indian economy. As such, we have also added Long India to our list of themes.

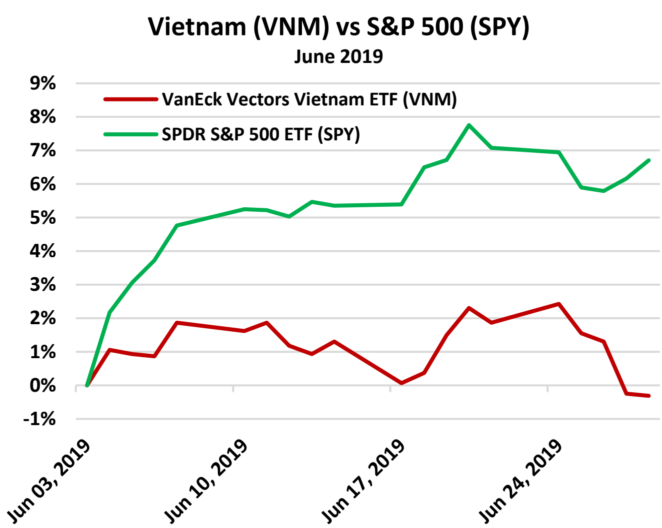
Additionally, we scaled back a couple of commodity calls on lithium and gold:

Although lithium prices remain elevated and demand continues to grow steadily, the market continues to price in heavy quantities of new supply that may keep prices stable over the long term.

Gold and Gold Miners have performed strongly in 2019, with the price of bullion rising to a 5-year high. However, we felt the thematic elements we originally highlighted as part of the theme were no longer guiding the price.

Finally, due to the malfunctions of Boeing's 737 MAX, which resulted in 2 separate crashes, hundreds of deaths, and an ongoing global grounding of the jet that has sent shockwaves across the economy, we have launched Short Aviation and Short Airlines.

A more detailed dive into all of our new themes, as well as ongoing themes, follows:



LONG Vietnam

MRP added Long Vietnam to our list of themes on June 3, 2019 due to the country increasingly becoming an export powerhouse, intensified by a shift by manufacturers to new tariffs on US imports of Chinese-made goods.

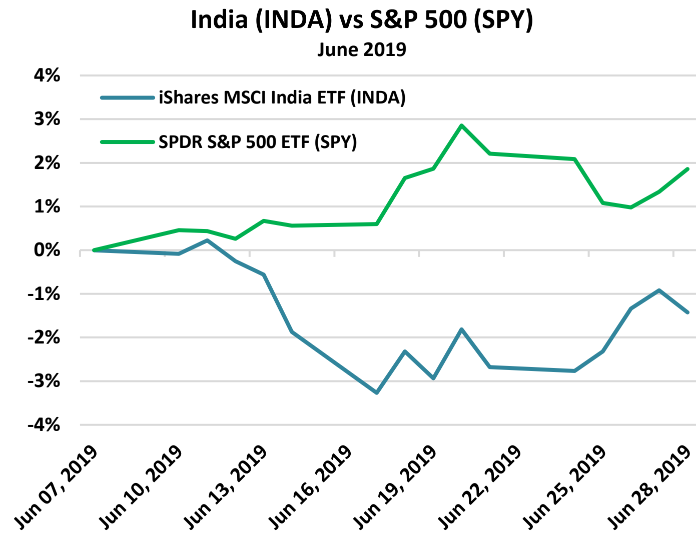
US imports from Vietnam surged 40% in the first quarter of 2019, compared to the previous year, while imports from China fell almost 14%. At that pace of growth, Vietnam could leap from 12th largest supplier of US imports to 7th largest within a year, overtaking France, India, Italy, Ireland and the UK along the way.

Overall exports increased 7.3% in the first six months of the year. The country's GDP grew at a faster pace than economists predicted in the second quarter, clocking in at 6.71%. Economists at Standard Chartered estimate Vietnam could receive an additional 2.8% GDP growth boost if the Trump administration acts on its threat to slap a 25% tariff on an all Chinese imports.

Vietnam attracted $19B of foreign direct investment (FDI) in 2018, a 9% increase from the prior year. One fourth of those disbursements came from Japan alone, with South Korea and Singapore rounding out the top three. Nikkei Asian Review reports that new Chinese foreign direct investment in Vietnam, based on approved projects, swelled 5.6-fold on the year to $1.56 billion between the start of 2019 and May 20. The January-April figure alone surpassed the full-year total for 2018. Should this pace continue, China could lead the full-year list for the first time since Vietnam began disclosing foreign investment data by country in 2007. This month, MSCI will decide whether to upgrade Vietnam to emerging market status. Currently, Vietnam is classified as a frontier market by the major index providers.

Vietnam's parliament is also considering a proposal that would cut corporate taxes for small and medium sized businesses. The proposal, submitted by the Ministry of Finance, seeks to reduce the corporate tax from 20% to 17% for "Small Enterprises".

LONG India



MRP added Long India to our list of themes on June 7, 2019 due to Narendra Modi's surprise showing in India's general elections last May. Many began to doubt that Modi would remain the leader of the second most populous and most rapidly growing country in the world.

Not only does Modi's refreshed mandate provide stability, a very valuable resource in the world today, but it will help India continue the large-scale reform that began when Modi first took office.

In FY 2017-2018, India generated a direct tax-to-GDP ratio of 5.98%, the best in the last 10 years. The finance ministry reported corporate income tax and personal income tax in growth at 17.7% and 18.3%, respectively.

In FY 2018-2019, the total tax to GDP ratio is expected to exceed 12%, also a decade high. The ministry also recorded a continuous increase in the amount of income declared in the returns filed by all categories of taxpayers over the last three assessment years. Greater tax revenue will likely feed directly into Modi's promised $1.44 trillion investment in the country's infrastructure. Bloomberg reports that the government has already set aside $57 billion for spending on roads, railways and airports in the year ending March 2020, but the BJP plans on rolling out more funds for critical electric and plumbing infrastructure.

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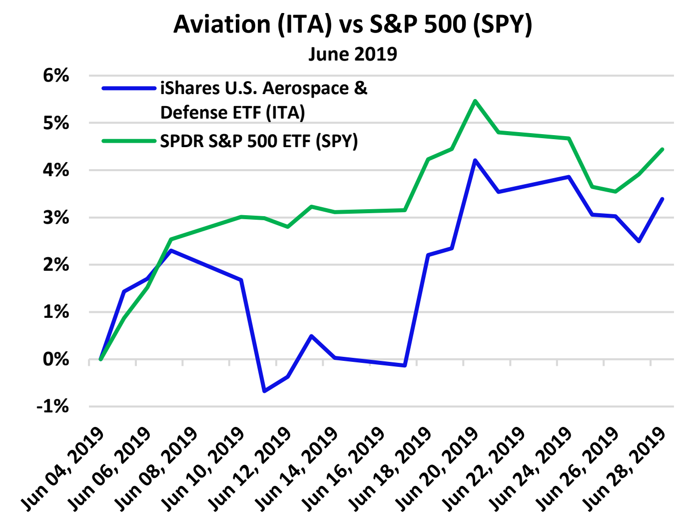
The Nifty-50 index companies' net profit rose only 7% last year, marking the fifth consecutive year of single-digit expansion in earnings. However, we expect more monetary easing by the Reserve Bank of India to boost downstream earnings this year and keep P/Es elevated.

Bank of America Merrill Lynch told Bloomberg that they project India's Nifty 50 earnings to grow 24% in the next financial year. Morgan Stanley expects identical earnings growth for SENSEX companies in the same period. While that growth is expected to be relatively concentrated among financials, therefore making forecasts volatile, an oncoming easing of India's monetary policy is likely to mitigate some of that risk. Just this week, the central bank cut its benchmark interest rate, marking the 3rd month in a row that the Reserve Bank of India cut interest rates – the fastest pace of easing since 2013 – and changed its stance on liquidity from neutral to accommodative.

SHORT Aviation

MRP added Short Aviation to our list of themes on June 4, 2019 due to countries around the world grounding Boeing's 737 Max jets following March 10, after a malfunction caused a second model to crash land less than 5 months removed from a previous, identical incident. Now, 3 months later, no clear timetable exists for getting the 737 MAX back in the air.

In early June, Boeing said it had finished the development of a software fix for the jet, but that update has not yet been certified by the Federal Aviation Administration (FAA), which must happen before the agency allows the plane to fly in the US again. Chief Executive Dennis Muilenburg said at Boeing's annual meeting on April 29 that he expected a test flight required for FAA certification by mid-May. That flight did not happen, and none are currently scheduled.



The consensus from the FAA and its regulatory counterparts from 31 nations has thus far been that it's too early to set any time frame on when the plane may return to commercial service. While Boeing is painting an optimistic picture, others are bracing for the worst. Emirates airline president Tim Clark said the Boeing 737 MAX would probably remain grounded until December because of a lack of co-ordinated action between global aviation regulators.

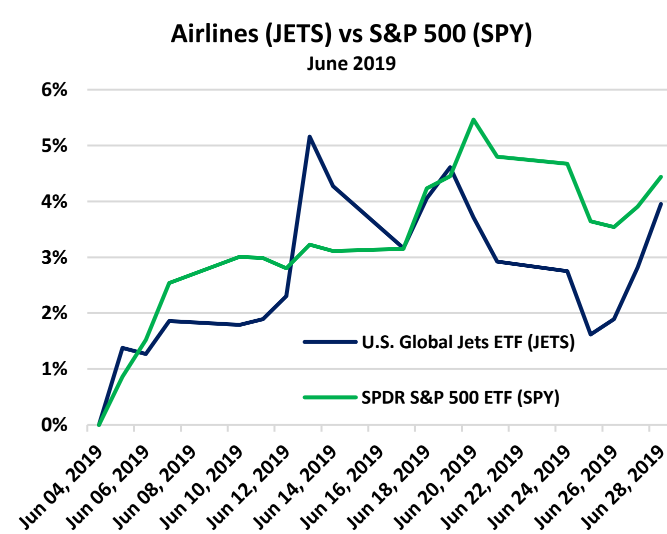
Boeing ran into more hurdles this week as the FAA found a new flaw in the 737 MAX jet's software, unrelated to the malfunction they were already aware of. A company official told Reuters on Thursday that the software issue would take until at least September to fix, which would delay the plane's return until October at the earliest.

Back in April, Garuda Indonesia became the first airline to withdraw purchases of the 737 MAX, cancelling 49 orders. Now, Azerbaijan airline AZAL has canceled a $1 billion contract to buy 10 Boeing 737 MAX planes. These compound a cessation of all new 737 MAX orders that began in March, following a first quarter that saw total 737 deliveries decline by a third, to 89 from 132 a year ago. Even worse for the company, Boeing cut production by almost 20% in April and received no new orders for any of their planes for the month. In mid-May, Boeing said it has lost at least $1 billion since the deadly crashes and that it couldn't predict how much worse the future financial effect of the incidents would be. It also said its core profits fell 21% in the first three months of 2019 compared with the same period last year. Boeing will not bear this major setback alone as many other companies in the aviation sector make components of Boeing jets. Pratt & Whitney, a major engine supplier for Boeing 737s and other engines, is owned by United Technologies.

Worse for Boeing, a number of players in the airline industry, as well as families of 737 MAX crash victims, could bring them to court for compensation.

SHORT Airlines

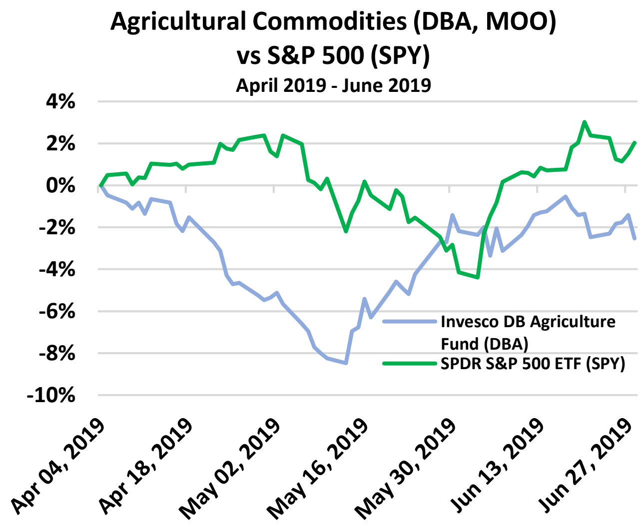
[MRP added Short Airlines to our list of themes on June 4, 2019] due to the International Air Transport Association cutting the global air traffic industry's 2019 profit expectations by more than 21%. Compounding this pressure, airlines who were forced to cancel thousands of flights through early June, due to the grounding of Boeing's 737 MAX jets, have now extended those cancellations all the way to September for United and American Airlines, and October for Southwest Airlines. Each company is heavily dependent on the 737 MAX getting back in the air to return their fleets to full service. While American will attempt to help customers re-book those flights, many passengers may simply seek out other airlines or cancel their trips outright.



As a result of cancellations and reduced capacity, Southwest was forced to cut its revenue guidance for the first quarter, and could see more pressure in the second quarter as a huge jump in unit costs will hit profitability.

The U.S. carriers' trade group, Airlines for America, estimates that a record 257.4 million people will fly from June 1 through the end of August. Airlines are typically expected to be robustly profitable during the summer season, a period when heavy demand keeps fares higher and planes fuller than during other parts of the year. But this year, all bets are off.

Other major airlines who have significant amount of exposure to Boeing's 737 Max through their current fleet or pending orders include flydubai (14 in service, 251 ordered), Norwegian Air Shuttle (18 in service, 110 ordered), United Airlines (14 in service, 137 ordered), SpiceJet (13 in service, 137 ordered), and Ryanair (0 in service, 135 ordered).



LONG Agricultural Commodities

MRP added Long Agricultural commodities to our list of themes on April 4, 2019 due to historic flooding that has devastated the Midwestern US's planting season, as well as African Swine Fever ripping through China's hog population.

Storms have left millions of acres unseeded in the $51 billion U.S. corn market and put crops that were planted late at a greater risk for damage from severe weather during the growing season. Forecasts for even more rain caused Chicago-traded July corn futures contract to jump 11.25 cents, or 2.5%, to settle at $4.5325 per bushel. It represented the highest level since mid-2014, and nearly 21% higher than the $3.75 finish at the end of 2018.

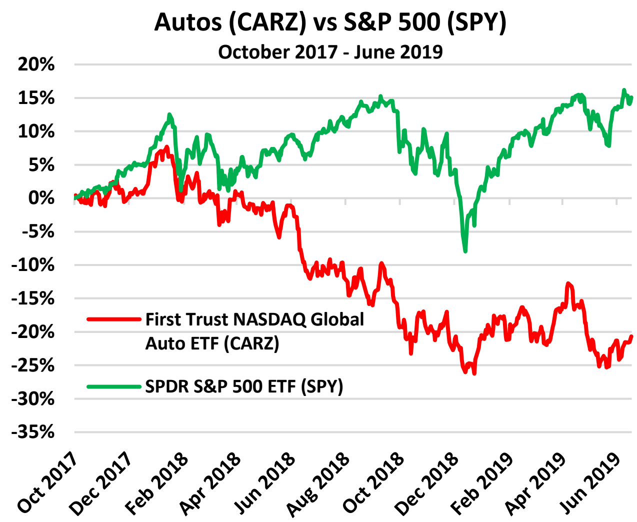
Stalled corn plantings forced the U.S. Department of Agriculture (USDA) to cut its harvest estimates in its June report, only the fourth time since 2000 that the government has taken such action in that month's data. "U.S. corn will be in short supply, but emotions, fears, and hoarding could push it to shortage," according to Agri-Food Value View Report, reported by Barron's. Flooding has also crippled shipping capabilities across major midwestern rivers, blocking tens of thousands of tons of crops from reaching major cities. The "reality of the situation will develop over time, pushing December 2019 corn to $5.05" a bushel by year end. That would be the highest futures price since May 2014.

In addition to corn, soy and wheat have been hit by the flooding, sending futures on both commodities higher in recent weeks. From May 2018 to April 2019, an average of 36.20 inches of precipitation fell across the Lower 48 states, 6.25 inches above the 20th century mean. In fact, it was the nation's wettest 12-month period on record, regardless of which months are chosen.

Nationwide, farmers are expected to harvest the smallest corn crop in four years, according to the USDA. The agency last week reduced its planting estimate by 3.2% from May and its yield estimate by 5.7%. As of zzjune 16, farmers had planted 83% of the corn crop, well below the five-year average of 99%, according to the USDA. The soybean crop was 60% planted, down from the 88% average. Final planting dates have now passed for all of the major midwestern crop producing states.

Pork prices have already been spiking in 2019 due to the ongoing wave of African swine fever that has decimated the Chinese hog population. Hog shortages in China would create higher prices for other meat products as well. Because pork will be in short supply, it will become more comparatively expensive to higher quality meats. Therefore, imports of beef, seafood, poultry and sheep meat from outside of China are likely to continue rising.

SHORT Autos



MRP added Short Autos to our list of themes on October 12, 2017 due to rising default rates and negative equity in auto loans, falling new car sales, as well as elevated inventories. By this February, a record 7 million Americans were 90 days or more behind on their auto loan payments and annual US car sales for 2019 may fall below 17 million for the first time in 5 years.

Overall, across the industry, April sales were down 2.3%. Looking at the full-year trend, Cox Automotive estimates when all available sales figures are in, the seasonally adjusted annual selling rate (SAAR) will fall to the mid-16 million range, well below the 17.5 million SAAR in March and 17.2 million last April.

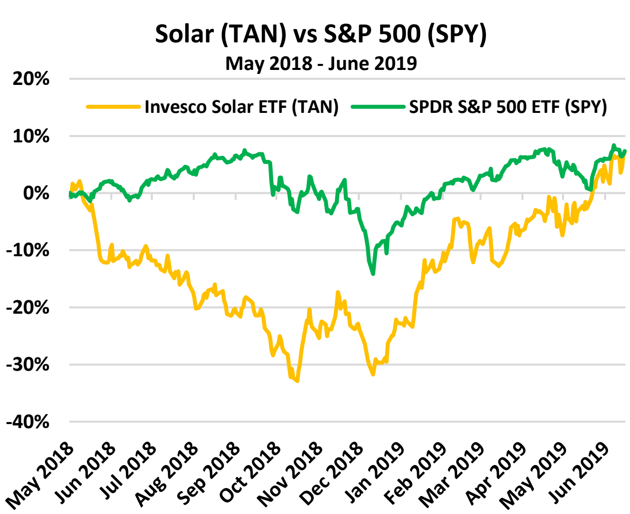
Auto sales in China have declined for 11 consecutive months through May after annual sales of passenger cars fell 4% in 2018, the first decline in nearly 30 years. Nomura Securities Co. maintains its forecast that Chinese auto sales will decline 5% this year. Although stimulus is expected to be robust, CAAM still believes overall growth likely would be flat this year.

GM reports sales figures quarterly and Q1 saw a dismal 7% decline in U.S. new-vehicle sales. Fiat Chrysler Automobiles saw declines in YoY sales for every one of their brands, minus Dodge, in April, reporting an overall 6% sales decline from a year ago.

Germany's Center for Automotive Research (CAR) now expects 2019 global auto sales to dive by more than 5% to 79.5 million from 83.7 million last year, and won't recover to 2018's levels until 2022 when sales will rise back to 84 million. Bank of America Merrill Lynch now projects a 30% decrease in sales for the US auto industry over the same period.

Although auto sales continue to slip, affordability continues to decline as well. Kelly Blue Book reports the average transaction price for a new vehicle in April was up 2% from April, 2018 at $36,843, mainly due to the continuing popularity of pricey pickups and SUVs. With interest rates at a post-recession high, the average APR on a new car was also up to 6.28% last month, compared to only 5.58% last year.

Going forward, market share is at risk of being cannibalized by tech companies entering the auto-making business, and by ride-sharing companies reducing the need for people to buy cars. Then there is the current scramble to produce electric vehicles and autonomous vehicles which means expensive retooling of factories and processes



LONG Solar

MRP added Long Solar to our list of themes on May 14, 2018 due to continually strong deployment trends and improving cost-competitiveness.

Although many analysts were expecting a decline in demand relative to the prior year, 2018 proved to be a breakout year after all, with the industry crossing the 100 gigawatts (GW) barrier. Last year saw 104.1 GW of new solar installations, beating 2017's 96 GW. China, meanwhile, is purportedly preparing to launch its previously shuttered national solar subsidy program for both utility-scale and distributed/residential solar sectors.

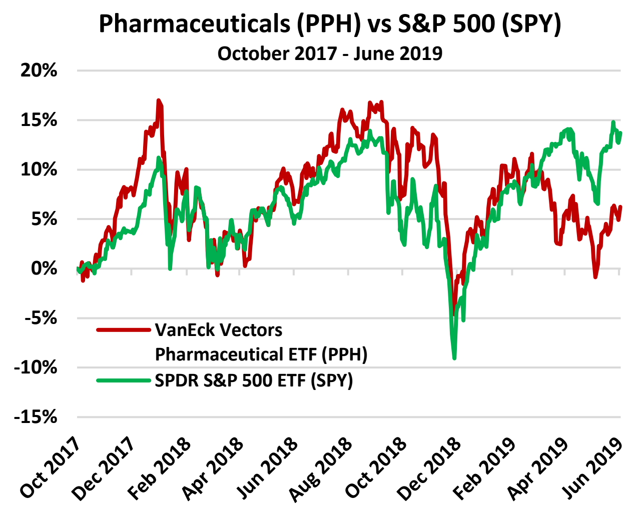
Reports suggest that the country's National Energy Administration (NEA) is considering an initial quota of 3 GW for 2019, which would amount to nearly 600,000 household systems qualifying for a subsidy.

According to Wood Mackenzie Power & Renewables and the Solar Energy Industries Association (SEIA), the number of solar installations in the United States has officially surpassed 2 million. Green Tech Media reports that Wood Mac has also boosted their US solar market forecast for the year, as unexpectedly rapid growth in solar markets like Florida and Texas will now set the U.S. solar market up for 13 gigawatts of new capacity in 2019 (25% growth compared to last year's 10.6 gigawatts) in what would be its second biggest year of all time.

The US Energy Information Administration (EIA) has forecasted that, while total US electricity generation across all fuels will fall this year and remain flat in 2019, the amount of electricity generated from utility-scale solar will grow by 10% in 2019 and by 17% in 2020.

Goldman Sachs projects about 50% growth in the US utility-scale sector this year over 2018, and 15% total growth globally.

SHORT U.S. Pharmaceuticals



MRP added Short Pharma to our list of themes on October 27, 2017 due to President Trump's declaration of the opioid crisis as a National Health Emergency, indicating his administration would be taking a hard line on reigning in big pharma. Additionally, a number of huge lawsuits have been brought by states against major opioid producers including Purdue Pharma and Johnson & Johnson; these now threaten to become the largest civil litigation in US history.

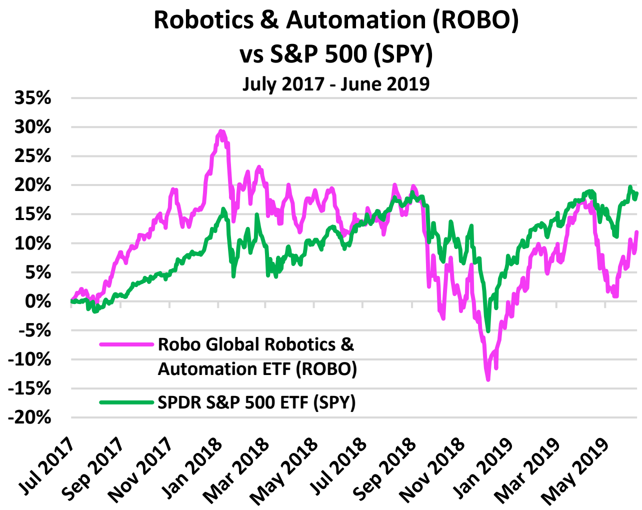
On top of requiring companies to disclose the prices of drugs they feature in their commercials and new guidance for Medicare Advantage plans, which gives 20 million seniors leverage to negotiate lower prices from drug makers via prior authorization, Trump plans to move forward on more sweeping bipartisan legislation.

We're also beginning to see alternatives to name brand drugs finally begin to effect pricing as the FDA continues ramping up their efforts to deregulate the space, following 2018's banner year for new drug approvals. Generics (considered equivalent to name-brand) saw a record-breaking 971 full or tentative approvals from the FDA, while Biosimilars (drugs that are not equivalent but have the same clinical effect as a generic or patent-protected drug) also broke the previous approval record, receiving 7 approvals. While the latter figure doesn't seem like much, it nearly doubled the size of the FDA's list of total approved biosimilar products; and there at least 60 more projects in the pipeline.

Not only can generics hurt big pharma in the form of cutting down prices, but they can pass on the pain to retailers as well. Earlier this month, Walgreens Boots Alliance Inc. cut its 2019 earnings forecast, following the company's "most difficult" quarter since 2014. and reported a disappointing quarterly profit in the face of stubbornly low generic drug prices in a crowded market.

The most dangerous trend for pharmaceutical companies, though, could be lurking overseas.

For example, AbbVie reported that US sales of their premiere immunosuppressive drug, Humira, were up 7.1% YoY in Q1, they were 27.9% lower in international markets. Declining demand abroad will likely be a continuing trend for American Pharma companies as many nations around the world gear up to start their own domestic biosimilar production – where US patent protections have no authority. This coming competition will soon be strongly felt in China, where the country's $137 billion pharmaceutical market accounted for 11.4% of all global sales.



LONG Robotics & Automation:

MRP added Long Robotics & Automation to our list of themes on July 20, 2017 due to wide-scale automation finally taking hold across several significant industries. According to International Data Corporation (IDC), 60% of the world's 2,000 largest companies will have deployed autonomous mobile robots by 2021.

While many investors are familiar with the 100,000 robots working to take over Amazon warehouses, those same technologies are taking hold in Sandvik's mines where the company and Resolute Mining are currently working together to fully automate an underground mine in Mali, West Africa. The company expects to have close to 400 machines operating autonomously by the end of 2018. Transporting mined materials is also getting a robotic overhaul as Rio Tinto is rolling out the world's first heavy freight driverless rail network in the Pilbara.

By 2023, 25% of leading retail stores will have explored or deployed in-store robots to relieve human workers from repetitive tasks. These robot deployments could increase worker productivity by up to 40%. Walmart is now testing robots that roam store aisles to check inventory and tell workers where to find goods, but fetching items is next.

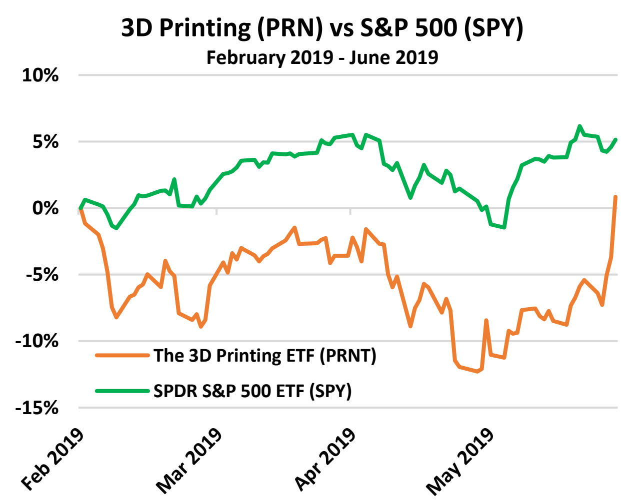
Yum! Brands Inc.'s Pizza Hut and Dominoes have experimented with robots as well. Beyond Pizza, chain brands like Subway and McDonald's, have been rolling out plans to transform thousands of restaurant locations nationwide, boasting new designs and layouts of stores. The marquee upgrades, however, are the addition of self-serve kiosks. McDonald's recently announced plans projecting an investment of roughly $84 million to modernize 90 Connecticut restaurant locations over the next couple years, which is part of a two-year, $6 billion effort to improve most U.S. locations. Getting out ahead of the curve, nationwide fast food chain CaliBurger plans to deploy Flippy, a robotic arm that flips burgers, preparing between 150 and 300 patties per hour, in 50 locations by 2019.

From E-commerce to mining to food service and beyond, we have finally reached the automation age.

LONG 3D Printing

MRP added Long 3D Printing to our list of themes on February 28, 2019 due to the increasing availability of industrial-scale additive manufacturing which will push revenues from 3D printing to $35 billion in 2020, up from only $3 billion in 2013.

Some automakers, including Ford, have decided to undertake an in-house solution for their own 3D printing needs, already outfitting their redesigned Mustang Shelby GT500 with two 3D printed brake parts and prototyping many more, including air intakes and aero bits. The designs with the most potential were 3D printed in a matter of days, speeding development time compared to traditional manufacturing processes.

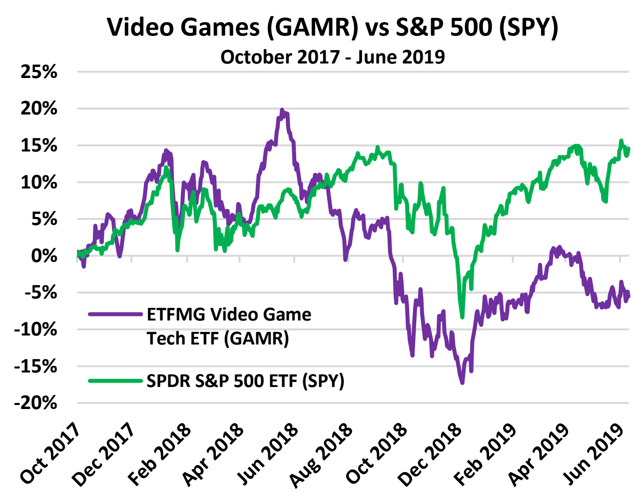


HP works closely with automotive industry leaders who are adopting 3D printing technology, such as BMW, Daimler Trucks North America, and Volkswagen, as well as new additive manufacturing-based suppliers including Advantage Engineering Inc. and Linear AMS.

3D printing is also gaining strong traction in aerospace by dramatically changing the economics associated with the one-off manufacture of precision components. In fact, Boeing is now using 3D printed components in its 787 model planes. The technology has even has a chance to transform the new space race, now that NASA has installed a 3D printer on the International Space Station (ISS) so astronauts can produce, on-demand, materials and parts suitable to a micogravity environment.

Bioprinting of implants, organs, and other tissues is one of the more unprecedented advantages of additive manufacturing. More and more patients are becoming the recipients of 3D printed jaws, ribs, spinal implants and more, leading to faster and more successful surgeries and less need for future revisions. 3D printed spinal cord scaffolds, which are filled with neural stem cells before implantation, have the potential to improve nerve growth across spinal cord injuries thus restoring lost nerve connections and functions. In rat testing, the 3D printed spinal scaffolds showcased their ability to support tissue regrowth, stem cell survival and the expansion of neural stem cell axons—the threadlike extensions on nerve cells that connect to other cells—in the host's damaged spinal cord. If the same could be done for humans, customizable models for spine shape and size, as well as type and severity of injury made possible by 3D printing the structure, would be a revolution in modern neurosurgery.

LONG Video Gaming



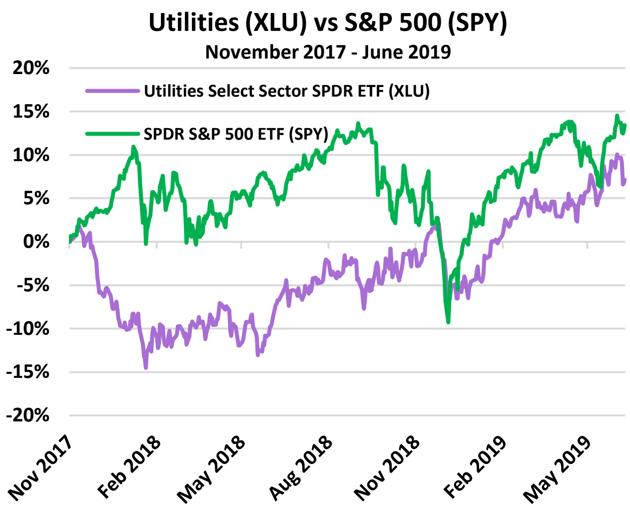
MRP added Long Video Gaming to our list of themes on October 19, 2017 due to impressive growth in the popularity of mobile gaming, exploding popularity in emerging markets, and the advent of cloud and subscription-based gaming. In 2018, video games officially became the world's most popular form of entertainment, according to Reuters.

While video games have long been played on a console or PC, the advent of mobile gaming on smart devices has been transformative, and now, 60% of players are gaming on their smartphones. The Entertainment Software Association (ESA) reports that the average gamer is spending 20% more on games than a year ago and 85% more than in 2015. This growth has been largely driven by a new business model for gaming called games-as-a-service (GaaS).

Traditionally, gamers of the past primarily bought console hardware and then discs, for a one time price, that would be played on the console. However, GaaS, similar to software-as-a-service, provides video games or game content on a continuing revenue model, monetizing games either after their initial sale, or to support a free-to-play model through in-game purchases, also called microtransactions. Essentially, a game is offered for free or for a low price, but players make in-game content purchases to expand the game.

Last year, US spending on gaming hardware, software and accessories & game cards tracked by NPD Group touched \$16.67 billion. However, subscriptions and microtransactions revenue managed to amass a total of \$26.73 billion. As in-game spending alone could approach 50% of total industry revenue by this year, it is becoming abundantly clear that post-launch revenue streams are on their way to becoming a key growth engine for traditional gaming companies. UBS recently found that, on average, more than half of the gamers who said they've already bought or planned to buy at least one of 15 top games in 2018 planned to purchase downloadable content for the game.

Additionally, according to Piper Jaffray, all video games could be 100% digital by 2022. This is especially significant for investors since an all-digital revenue future for video games could increase the operating margins of companies like Activision Blizzard and EA by 10%. "Applying modest (5% or less) top line growth and the positive margin impact mentioned above, 2022 publisher earnings per share would be more than double what each just reported for 2017," they wrote.



LONG Electric Utilities

[MRP added Long Electric Utilities to our list of themes on November 20, 2017] due to an impending explosion in power consumption, mainly due to the electrification of transportation, the proliferation of digital data from IoT and cloud computing, and advances in energy industry technologies.

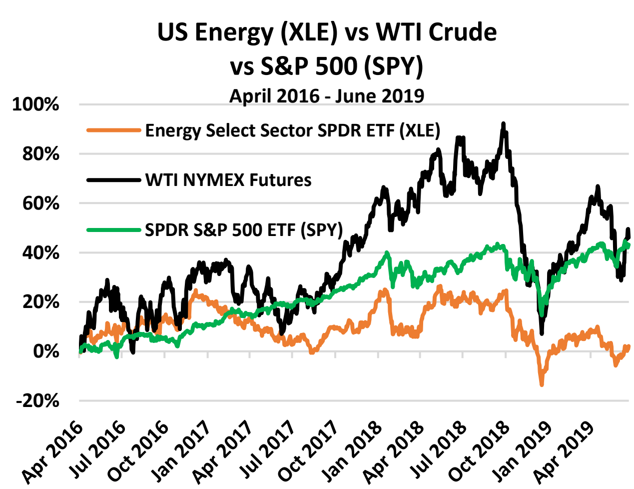
According to the National Resources Defense Council (NRDC), electricity consumption is projected to increase to roughly 140 billion kilowatt-hours annually by 2020, the equivalent annual output of 50 power plants, costing American businesses $13 billion annually in electricity bills. CISCO predicts the number of connected devices on the Internet will exceed 50 billion by 2020 (from just 8.4 billion this year), then rise to 1 trillion by 2022, and 45 trillion in 20 years. Increasing use of wireless devices and telecommunications will also play a huge role as wireless technologies consume more energy than wired technologies such as fiber, cable or DSL: 3G technologies use 15 times more energy than wired connections, 4G consumes 23 times more energy, and new 5G will require even more.

Accelerating rollout of electric vehicles will drive a huge amount of electric consumption. The EII-IEIA says U.S. households with an electric car could see a 50% increase in its electricity usage. So, for a standard two-car American household, the electricity bill would double if they switch to EVs. 5 million charging ports will be needed by 2025.

In 2018, [U.S. energy consumption hit a record high]. Overall energy consumption reached 101.2 quadrillion BTU (or "quads"), exceeding the previous record of 101.0 quads set in 2007 (about 3,400 BTUs equals 1 kWh. The EIA reported wholesale electricity prices were generally higher across the country for the first time in years and the Utilities Select Sector SPDR ETF (XLU) was the 2nd best performing sector ETF for the year.

LONG Oil & US Energy

[MRP added Long Oil & US Energy to our list of themes on April 8, 2016] due to Collapsing Global Investment following a devastating fall in prices, operational headwinds like labor shortages and weak financing, as well as an upturn in demand and a weaker dollar. At the time, the price per barrel of WTI crude was below $30. Shortly thereafter, MRP made the contrarian prediction that crude prices would rise to the $60-80. Since then, oil prices have gone on a wild ride, reaching as high as $75. While prices have pulled back from those levels, reaching almost $50 per barrel, June was crude's best month since January and spot prices are now just shy of $60.



While production plays a role, especially since US shale producers may finally see a slowdown in growth in 2019, the biggest story in crude over the last 2 years, however, has been OPEC's desire to cut supply and stabilize prices.

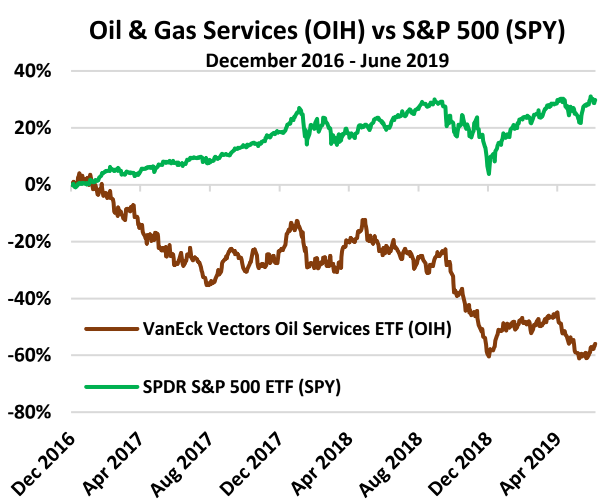
In late 2018, OPEC, Russia and other non-member producers, an alliance known as OPEC+, agreed to reduce output by 1.2 million barrels per day (bpd) from Jan. 1 for six months, a deal designed to stop inventories building up and weakening prices.

Saudi Energy Minister Khalid al-Falih said a possible rollover in the second half of 2019 of output curbs by OPEC and non-members was the main option discussed at a ministerial panel meeting this month. United Arab Emirates Oil Minister Suhail Mohammed Al Mazrouei had a similar view, stating that "the job is not complete… We are still seeing some inventory buildup and we need to attend to it."

Venezuela continues to experience what seems like an unending production decline. In May, the country's output fell by 35,000 bpd, plunging to 741,000 bpd for the month, the lowest total in about a half century. Output is down from 1.2 million b/d at the beginning of the year.

While Venezuela has flirted with open military and civil conflict, Libya has already been there for more than half a decade. Libya (who is exempt from the OPEC+ output cuts) has been working to boost their crude output for years, but intensifying armed conflict between groups vying for control of Libya is putting the country's lifeblood oil and gas industry at risk of almost total collapse, just as production is beginning to recover from years of war, the head of the country's state oil company, Mustafa Sanalla, said this month. Libya is currently pumping almost 1.3 million bpd, but Sanalla says that investment is being hamstrung by the fighting, and if it continues, he fears up to 95% of production is at risk. Outages have been frequent over the past couple of years and, recently, some international oil companies, such as Eni, have already begun evacuating staff from Tripoli, due to the fighting, some of which is occurring close to key oil and gas infrastructure.

The greatest fear factor, though, has been spawned by US-Iran tensions – which have escalated to the point of President Trump threatening "the end of Iran" if the two nations were to escalate the conflict. The situation was sparked when the US slapped sanctions on Iranian crude oil (Tehran's main source of income), banning any nation from purchasing their exports. Most previous buyers have now chosen to comply and Iranian crude exports fell in May to 500,000 bpd or lower, less than a fifth of the more than 2.5 million bpd that Iran shipped in April 2018, the final month before the sanctions went into effect. Reuters reports that output in Iran and Venezuela, due to U.S. sanctions, has fallen by more than that of other OPEC members party to a supply cut pact.



LONG Oil & Gas Services

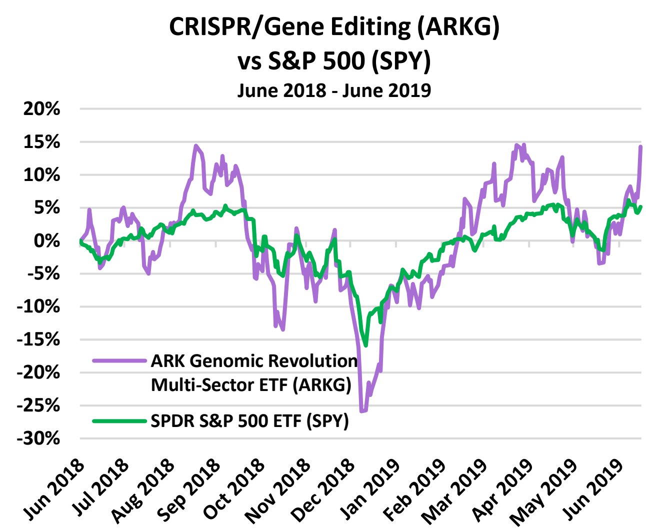
MRP added Long Oil & Gas Services to our list of themes on December 23, 2016 due to then President-elect Trump promising to use his mandate to "unleash an energy revolution". Specifically, his website stated that the new administration's vision is to unleash America's $50 trillion in untapped shale oil and natural gas reserves, shifting our focus toward companies that specialize in the exploration, drilling, transferring of oil, and oil-related product (e.g. LNG, gasoline), as well as companies that manufacture oil-related equipment.

While we have not seen nearly as much of a boom as anticipated, President Trump has made some moves to clear the way for some large-scale projects like the Keystone XL pipeline and other pipelines via his signing of two executive orders in April that will expedite construction. However, many oil and gas infrastructure deployments have been, and continue to be, challenged in the US judicial system, which has led to a massive lack of pipeline capacity from Texas to Canada.

However, relief could be on the way. Although more than half of oil and gas executives that responded to a Dallas Fed's survey said that the dramatic fall in oil prices at the end of 2018 caused them to "lower expectations for capital spending" in 2019, prices have had a strong rebound since then. If crude prices can sustain themselves at higher levels, we believe companies will begin raising capex on pipeline projects to address the aforementioned shortfalls in US energy infrastructure, providing a boon for oil and gas services. In the Permian shale basin alone, producers will need $300 billion in capex over the next 5 years to keep pace with growth projections.

Offshore equipment and service companies are also beginning to open the taps on spending. Transocean Ltd, a top supplier of drilling vessels, said in September that rates for its new high-spec vessels in the North Sea are now fetching $300,000 per day. IHS Markit now expects 2020 global offshore rig demand to average 521 units, up from a 2018 estimate of 453 units. According to Rystad, 2017 saw a 50% increase year/year in the number of offshore projects sanctioned with 62 financial investment decisions, followed by similar growth this year, with close to 100 projects likely to be sanctioned. Coupled with annual service price inflation of 5%, offshore oilfield service purchases are projected to grow by 11% per year toward 2022.

LONG CRISPR



MRP added Long CRISPR (clustered regularly interspaced short palindromic repeats) to our list of themes on June 14, 2018 due to expanding successes and applications for the molecular gene-editing technology, which allows scientists and doctors to snip out undesired bits of genetic material and, sometimes, replace it with preferred DNA. Using CRISPR, researchers have been able to cure mice of deadly genetic conditions like hemophilia B, Lou Gehrig's disease, and Huntington's disease.

Editas Medicine, for example, recently won FDA approval of its IND application for its LCA 10 (an eye disorder, caused by a mutation in the CEP290 gene) candidate EDIT-101, enabling future clinical trials for what could emerge as the first in vivo (involving embryonic subjects) CRISPR genome editing treatment. People with this disorder typically have severe visual impairment beginning in infancy. EDIT-101 is designed to eliminate that mutation by using CRISPR to cut out that nucleotide and surrounding DNA, thus restoring normal protein expression and function of remaining photoreceptor cells.

Gene therapy's first blockbuster treatment may now be on tap, following the US Food and Drug Administration's approval of Novartis's gene-replacement therapy called Zolgensma. A blockbuster is any drug with more than $1 billion in sales each year. The treatment, which costs a hefty $2 million per dose, offers a one-time fix for a neuromuscular disease that kills children within two years of their birth.

Earlier this year, the first confirmed CRISPR gene editing clinical trial to take place outside of China officially got underway, with pharmaceutical companies CRISPR Therapeutics and Vertex revealing a human patient had been administered the experimental treatment targeting a rare blood disease. This month, the University of Pennsylvania confirmed that they had also begun human trials, treating two cancer patients with the technology.

CRISPR could also see mass adoption in agriculture. Plant biologists recently made headlines in late 2018 when they edited genes in the groundcherry fruit to produce a more compact plant with 25% heavier fruit. The new, bushier variety of groundcherry took only two years to develop using CRISPR, compared to five years or more using conventional plant breeding methods, reinforcing the notion that gene editing could transform the market for fruit crops in the future. In livestock, CRISPR has been applied to create tuberculosis-resistant cattle in China, and to rid farm pigs of Porcine Reproductive and Respiratory Syndrome (PRRS), a harmful disease that has devastated the U.S. pork industry in the past. Gene edited food is now being served, in the form of a low-fat soybean oil, at a restaurant chain in the Midwest.

Conclusion

The US and China have been entrenched in this trade war for a year now and very few industries have seen any real systemic damage from duties already levied against a huge portion of American and Chinese imports. While 25% is a lot different than 10%, its still likely that this escalation is meant to bring an agreement between the two nations sooner than later. President Trump himself has remarked that the ongoing trade war could be over quickly and that he plans to see President Xi at this weekend's G20 meeting.

Just at the end of last year, it looked like markets around the world were heading into prolonged bearishness due to some softer data and a bond market sell-off sent the S&P 500 tumbling toward a rapid 20% decline. At the time, many in the financial media were stoking the flames by running recession-themed headlines around the clock. Cooler heads though, like those at MRP, ultimately prevailed. We noted back then that equities are more of a 50/50 predictor of actual economic downturn and, with employment and wage growth as strong as it was, we were unlikely to see the downturn in valuations spread to the broader economy. Stocks eventually bounced off of their bottom on Christmas eve and came back to new highs after investors stopped panicking and had some time to digest the situation. That could have been the case once again over the past month

The surge to new highs has been mostly a "bad news is good news" rally. In the face of earnings that are not growing, share prices have risen as the discount rate applied to future earnings has dropped precipitously and treasury bond yields plummeted on expectations that the Fed would slash rates.

Traders have grown used to the central bank continually capitulating and resetting its trajectory for interest rate normalization. And sure enough, the Powell Fed has already capitulated and has suggested rates will be held steady this year and possibly cut once in 2020, depending on the data. The most recent FOMC decision to not cut or raise rates was a 10-0 vote. The Fed will also be ending its balance sheet drawdown in September.

But traders are still not fully buying the Fed's new projections. According to futures prices, they expect the FOMC to be even more dovish, and are looking for a 1.6% effective Fed Funds rate, down from its current range of 2.25% – 2.5%, by year end.

By contrast, MRP believes the cyclical rise in rates will be back on the table before year end.

While MRP is always prepared to react when fundamentals shift (see "The Facts Changed (For Now)"), we remain committed to our themes.

Joe Mac

For MRP's research disclaimer, please go to www.mcalindenresearchparters.com/disclaimer.html