July 7, 2023

Dear Valued Vision Point Clients & Friends:

Looking back over the first half of the year, our prior stated concerns regarding slowing economic growth, persistently elevated consumer prices and latent risks emanating from increased interest rates appear mostly on target. The one standout surprise has been the degree of resurgence in large-cap technology share prices. Although our most recent comments expressed a need to focus on quality balance sheet companies in 2023 ("Ideas to Consider", p.15), we also expect that even these "fortress balance sheet" market-leading companies, will ultimately encounter business valuation limits. Perhaps change is in the air.

In the near term, we continue to monitor for further financial system strains as interest rates continue to creep higher. In addition, global central bank balance sheets look to be temporarily shackled and equity market valuations are more vulnerable without their involvement. Nevertheless, global monetary policies tell only part of the story as US fiscal policy also exerts significant influence on economic activity and stock market performance. However, with monetary policy temporarily muted, US economic activity and US corporate earnings appear to have stalled.

If economic activity slows materially, then we expect typical US monetary and fiscal policy implementation involving a variety of US central bank intervention possibly paired with Congressional spending measures. If not, we would expect economic activity to muddle along until global central banks re-engage. For now, we continue to monitor economic activity for possible clues.

Should such an outcome unfold, many will laud the effort for the effects which are "seen". This is understandable, for the visible effect is positive. Many of our business and political leaders have limited their evaluation to these first derivative effects. But this is not the full story. Economic policies are often followed by secondary effects which go "unseen" – not that they are not visible, but because the consequence is indirect. As a result, the full impact is not limited to that which is seen, but includes the effects of that which is unseen – the seen and the unseen effects together. It is this combined impact of global economic policies that will influence not only today, but our future. Today's deficit spending is tomorrow's forced savings. Today's pulled-forward consumption is tomorrow's austerity. Today's magnanimous consolidation of financial profligacy also propels us forward to a stronger likelihood of economic tyranny. As has been said, power tends to corrupt and absolute power corrupts absolutely.

	June 2023	YTD 2023
S&P 500 (broad equity market)	+ 5.43%	+ 15.91%
Nasdaq Comp (tech sector)	+ 5.24%	+ 31.73%
Russell 2000 (small caps)	+ 6.83%	+ 7.24%
Bbg Barclays Agg Bond Index	- 0.67%	+ 0.99%
Int'l Developed Market Stocks	+ 1.09%	+ 10.45%
Int'l Emerging Market Stocks	+ 1.78%	+ 4.38%
WTI Crude Oil	+ 0.78%	- 11.97%
Gold	- 3.45%	+ 5.50%

Furthermore, depending on further stimulus inputs and any shift in ongoing energy supply pressures, we see the potential for an unusually wide range of outcomes in markets. Our ongoing concerns surrounding Russia-Ukraine tensions remain and we see nothing to indicate that continuing escalation will stop. In the meantime, intrigue surrounding the fighting in Ukraine continues to unfold and open military conflict between Russian and Western personnel appears a real risk.

We believe a prudent response to current circumstances centers around a focus on long-term financial planning objectives while reviewing asset allocations to affirm that both erosion of purchasing power and protection of capital are properly balanced in portfolios. In our view, increased exposure to various commodities and many real asset categories should prove beneficial. At the margin, we believe equity allocations should be reviewed and risk monitored where needed to better align with one's specific risk profile. Unless this time is different, we are likely to experience a prolonged period of outperformance in Value over Growth-style investments over the intermediate term.

Of course, new data points continue to emerge and we will continue to monitor developments and keep you updated.

visionpoint ADVISORY GROUP

M. Scott Zachary | Director – Investment Management
Phone: 214.710.1995 | Fax: 214.945-2689 | szachary@castleviewpartners.com

NOTEWORTHY HEADLINES

OPEC+ Plans Compound Thinning US Crude Stockpiles and Softer Outlook for Production

(by McAlinden Research)

Over the weekend, member states of the Organization of the Petroleum Exporting Countries (OPEC), alongside several non-members that work with the cartel under the OPEC+ partnership, gathered in Vienna to discuss the bloc's current and future levels of crude oil production. Through the month of May, an ongoing reduction of Russia's supply, worth 500,000 barrels per day (bpd), as well as OPEC curbs of 2 million bpd announced late last year, the OPEC+ syndicate had already reduced their crude oil production targets by roughly 3.657 million bpd from peak output. According to Reuters calculations, those cuts were equivalent to roughly 3.7% of global demand. After the most recent meeting, OPEC+ producers agreed to extend their ongoing curbs through the end of 2024, taking 1.4 million bpd off of production targets. It's worth noting that, although targets have been reduced, not all OPEC+ members have managed to reduce output to the levels the syndicate laid out on paper.

The other significant announcement from of Vienna last weekend was that Saudi Arabia will unilaterally cut another 1.0 million bpd of production in July, pushing daily output down to just 9.0 million barrels. That is a massive cutback from 11.0 million bpd the country was producing in late 2022 and an even bigger decline from a pre-pandemic peak of 12.0 million bpd. This reduction is subject to extension and may very well become a longer-term arrangement if oil prices continue to trend lower. International benchmark Brent crude oil prices recently dipped near $71.50 per barrel, well below Saudi Arabia's 2023 breakeven price of $80.87. That breakeven represents the average price crude oil needs to sell at for the country to balance its annual fiscal budget and it is critical to maintain this level to fund massive spending throughout its economy.

OPEC+'s cuts will likely reduce global stockpiles of oil, which are already particularly thin in certain regions. In the US, for instance, Energy Information Administration (EIA) data shows crude oil days of supply in commercial stockpiles have recently fallen to 28.7 days, their lowest level this year. The last time oil in storage was this thin, relative to implied demand, US benchmark WTI crude oil was ranging between $79.00 - $80.50 per barrel – more than 10.1% greater than last week's close around $71.75.

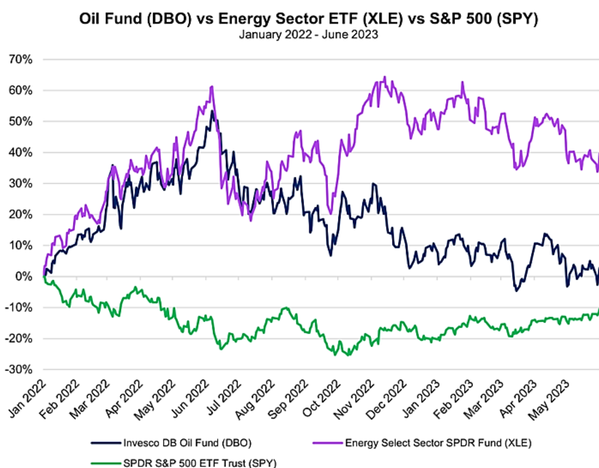
Though crude stocks have been trending lower, falling by a net -21.5 million barrels since mid-March, and now -2% below their five-year average for this time of year, prospects for future demand also appear to be weakening with GDP growth slowing and elevated interest rates continually biting growth. Oil drillers have responded by reducing the number of rigs they're operating, cutting the tally to just 555 last week, the lowest level in over a year. Overall, Baker Hughes data shows active oil rigs have fallen by -63 (-10.2%) since the start of 2023 and that decline has accelerated in recent weeks. Oil stocks will likely need to be drawn on more heavily in coming weeks and months as the summer travel season is just kicking off in the US and US gasoline inventories are at their lowest level so far this year.

An additional concern that MRP has been highlighting for some time is the near halving of the US's strategic petroleum reserve (SPR) since the start of 2021. More than 283 million barrels have been withdrawn from the SPR since then, largely wiping away a significant cushion that the US maintained to hedge against emergencies. The SPR is now at its lowest level in 40 years and sales from the reserve have continued into the new year, with an outflow of more than 16.1 million barrels in 2023. Though the White House announced plans in May to cancel previously mandated sales of oil from the SPR and replenish strategic reserves after completing maintenance work on storage facilities, the administration failed to purchase any in June.

It's unknown whether the administration will continue to purchase oil if prices become resurgent in the wake of OPEC+ cuts. Recently, WTI crude was

M. Scott Zachary | Director – Investment Management
Phone: 214.710.1995 | Fax: 214.945-2689 | szachary@castleviewpartners.com

trading north of $73.00 per barrel, slightly above the $70.00 price point the White House has been targeting to refill its depleted stockpile. For context, the last time the US purchased crude for the SPR in March 2020, the government was able to secure 30 million barrels (as part of a larger purchase of 77 million barrels) with WTI crude prices up to -70% lower, at just $20.00 - $25.00 per barrel.



Dam Destruction and Dry Weather May Devastate Ukrainian Grain Harvest *(by McAlinden Research)*

Grain supplies in Ukraine's most fertile agricultural regions are once again under threat, facing inclement weather, military actions on and off the frontline, and a lack of water supplies resulting from the recent destruction of the Nova Kakhovka dam. Wheat futures had tumbled back toward two-and-a-half year lows near $5.75 per bushel at the end of May, down -27.4% YTD and well-below the prices near $8.00 per bushel prior to Russia's formal invasion of Ukraine kicking off in February 2022.

This downturn is largely due to the Black Sea Grain Initiative managing to stay intact for nearly an entire year thus far – despite Russian protests and threats to end their participation in the deal for several months. As MRP has previously noted, the initiative is a quadrilateral agreement between Russia, Ukraine, Turkey, and the UN to ensure agricultural commodities can safely transit through the Black Sea and through Turkey's Bosphorus Strait, the gateway between the Black Sea and the Mediterranean Sea. There, observers from all parties have a chance to inspect the cargoes before any ship can pass. Unloading of cargo in Ukraine is monitored by a joint coordination center in Istanbul. Russia and Ukraine are among the world's largest exporters of wheat, making the initiative a critical facility for global grain supplies. Through May, Ukraine was able to ship more than 30 million tons of grain products through the Black Sea route since the signing of the deal.

That initiative could be imperiled once again, however, following an attack on a key ammonia pipeline that stretches from Russia through Ukraine. The Russian Ministry of Defense accused a Ukrainian sabotage and reconnaissance group of blowing up the Tolyatti-Odesa ammonia pipeline near the village of Masyutivka in Ukraine's Kharkiv Oblast. Ukraine responded by claiming Russian artillery was the cause of the damage, as fighting has been picking up recently in the region amid Russian advances south of Masyutivka, toward Syn'kivka. The pipeline was not in operation and was shut down in February 2022, but Kremlin spokesman Dmitry Peskov suggested that the pipeline was "integral" to Russia's involvement in the Black Sea Grain Initiative, and that "This complicates things in terms of continuing the deal." Russia has demanded the pipeline be re-opened so that the country can re-expand its critical role in the global fertilizer trade, but this appears unlikely while damaged.

Damage to infrastructure in Ukraine has become a more pressing concern for agricultural commodity prices recently. As MRP covered earlier this week, the Nova Kakhovka dam in Ukraine's Dnieper River collapsed as a likely result of sabotage. That pushed wheat futures above $6.40 per bushel on Tuesday – a three-week high. The dam and its adjacent power plant are considered to be under Russian occupation, but each side of the conflict blamed the other for the destruction of the structure, which has caused widespread, continual flooding throughout many towns in the Kherson Oblast – particularly those in the lower lying left

M. Scott Zachary | Director – Investment Management
Phone: 214.710.1995 | Fax: 214.945-2689 | szachary@castleviewpartners.com

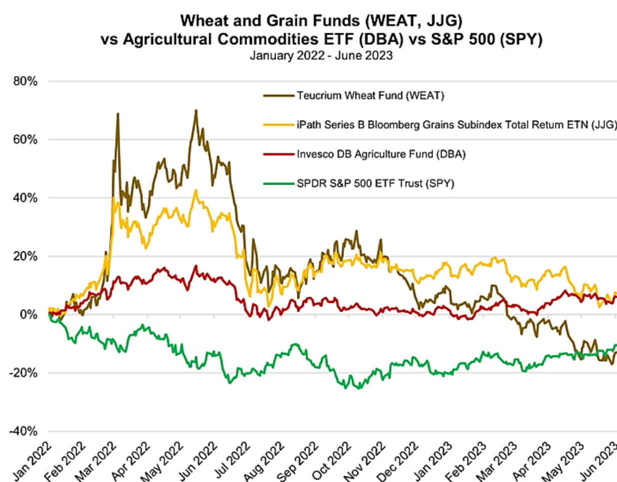
bank to the south of Kherson city – and make any farming or military operations unlikely in the affected areas for the foreseeable future.

Meaningful implications will also be felt in other regions. For example, the Dnieper Reservoir feeds into the North Crimean Canal, the channel which has traditionally supplied 85% of Russian-occupied Crimea's water. Per Reuters, most of that water is used for agriculture, some for industry, and around one fifth for drinking water and other public needs. With the breaching of the Nova Kakhovka dam, water that would usually flow into the canal channel from the reservoir is flushing downstream in the Dnieper and, therefore, has led to significantly lower levels of water in the North Crimean Canal, which also supplies water to western Kherson before flowing down to Crimea. Per The Guardian, satellite imagery of the area directly south of the reservoir, near the canals, shows miles of agricultural land.

Falling water levels will likely occur throughout other upstream water channels in the Zaporizhzhia and Kherson Oblasts. According to the USDA, these regions produce a combined 13% of all Ukrainian wheat supplies. Key affected channels include the Upper Hachynskyi, Kryvyi Rih, and Kakhovskyi canals. Per a statement from the Ukrainian agrarian and food ministry, "The terrorist act at the [Kakhovka hydropower plant] has left 94% of irrigation systems in Kherson region, 74% in Zaporizhzhia, and 30% in Dnipropetrovsk without a source of water." Dry and hot weather in the spring had already been an issue for the upcoming Ukrainian harvest, threatening a -20% decline in grain yield if it continues. Grain output decreased to 53 million tons in 2022 from 86 million tons in 2021. Per Reuters, the Ukrainian government has said that in 2023 the harvest could decline to 44.5 million tons. That downturn could be exacerbated further if sufficient water supplies from the Dnieper dry up and weather patterns remain suboptimal.

An additional risk facing the Ukrainian harvest is the potential encroachment of combat activities on vast farmland of Zaporizhzhia, which looks like it is about to become the staging ground for Ukraine's summer offensive. MRP warned in April that the Zaporizhzhia Oblast would likely be the region of choice for Ukraine's eventual return to an offensive posture, following several months of troop rotations and equipment transfers to the frontlines near Orikhiv, Hulyaipole, and other major areas of transit in southern Ukraine. Newsweek reports the long-awaited assault began this morning, following several days of probing attacks by Ukraine along Russian defensive positions. MRP will continue to follow the development of the conflict.

Images from across Ukraine show vast fields dotted with innumerable craters from the impact of mortar fire, and crisscrossed by the tracks of tanks and similar armored vehicles. Escalation of fighting throughout Ukraine, but in Zaporizhzhia specifically, presents a huge risk for the health of the grain harvest, as well as a tenuous agreement that underlies its shipment through the Black Sea. With wheat futures falling back to levels prior to Russia's invasion of Ukraine, a price resurgence seems likely.



Wheat Prices Surge as Dam Devastation and Intense Combat Wilt Hopes for Resilient Ukrainian Harvests

(by McAlinden Research)

It has been just over two weeks since the likely sabotage and subsequent collapse of the Nova

visionpoint ADVISORY GROUP
M. Scott Zachary | Director – Investment Management
Phone: 214.710.1995 | Fax: 214.945-2689 | szachary@castleviewpartners.com

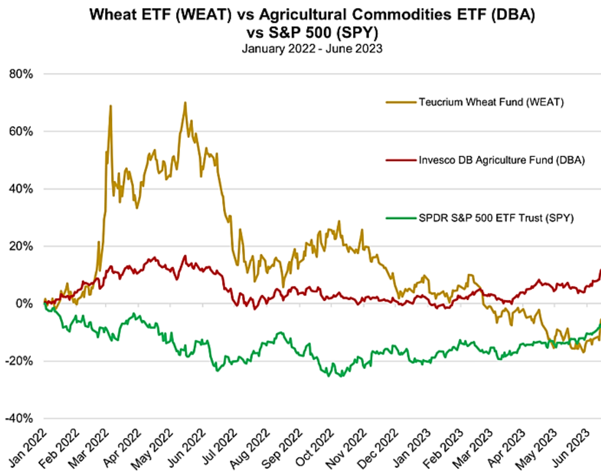
Kakhovka Dam in southern Ukraine which, at the time, flooded downstream areas in the Kherson Oblast and left many upstream farming territories throughout the eastern Kherson and Zaporizhzhia regions without a reliable source of water. As MRP noted earlier this month, several key canal systems in those Oblasts are meant to tap the Dnieper River and the water that accumulates in its Kakhovka reservoir for irrigation and drinking water. According to the USDA, the two regions produce a combined 13% of all Ukrainian wheat supplies. With reservoir waters now being flushed downstream, affected channels like the Upper Hachynskyi, Kryvyi Rih, and Kakhovskyi Canals are likely to experience diminished flows. In the immediate aftermath of the dam's destruction, the Ukrainian agrarian and food ministry reported that "94% of irrigation systems in Kherson region, 74% in Zaporizhzhia, and 30% in Dnipropetrovsk" were without a source of water.

Per the BBC, about 5,840 sq km (584,000 hectares) of cropland on both sides of the Dnieper river could potentially be serviced by the canals, with more than half the area reliant on irrigation systems. These areas yielded about two million tons of grain and oil seeds in 2021, according to the Ukrainian government. Recent satellite imagery from Planet Labs shows that water levels in the reservoir have fallen so far that many portions of the riverbed are visible and completely dry. Recent footage appears to show that the lack of water in the reservoir has been exacerbated by the shuttering of dams even further upstream, including the Dnieper hydroelectric power station in the city of Zaporizhzhia, which remains well-within Ukrainian-controlled territory. Additionally, an ongoing bout of sunny, warm weather has kept the reservoir particularly dry. A 10-day forecast from Weather.com shows meaningful precipitation is not expected in the area of the reservoir for several days. Some have speculated that vast portions of the reservoir and the Dnieper riverbed will either be so shallow, or even totally devoid of water, that forces on both sides of the ongoing conflict could attempt a crossing on foot and initiate an incursion.

A hotter than expected spring season had already been an issue for the upcoming Ukrainian harvest, threatening a -20% decline in the grain yield if it were to persist. Grain output decreased to around 53 million tons in 2022 from 86 million tons in 2021. Per Reuters, the Ukrainian government has said that in 2023 the harvest could decline to 44.5 million tons. That downturn could be exacerbated further as sufficient water supplies from the Dnieper are dried up and weather patterns remain suboptimal.
If we look downstream of the inoperable Kakhovka dam, the devastation is different in nature, but equally as destructive. Flooding has obliterated entire towns in the western portion of the Kherson Oblast – particularly those in the lower lying left bank to the south of Kherson city. Ukraine's Agriculture Ministry estimated 10,000 hectares of farmland were underwater in the territory of Kherson controlled by Ukraine last week. However, "many times more than that" would be impacted in territory occupied by Russia. Along with rushing floodwaters likely wiping away crops, Voice of America writes that unburied landmines, destroyed weapons and ammunition, and 150 tons of machine oil have been swept up across land and toward the Black Sea. Contaminates and explosives will continue to impact the potential for Ukraine's southwestern farmlands for the foreseeable future.

In addition to an apparently indefinite lack of water for irrigation, an array of fortifications and minefields spanning a distance of nearly 140km throughout the Zaporizhzhia Oblast is currently the site of bitter fighting amid Ukraine's ongoing summer offensive in the region. That operation kicked off on or around June 4 and is likely to continue for a period of several more weeks or even months, depending on the Ukrainian military's objectives and success. MRP has noted for many months going back to 2022 that the Zaporizhzhia region would be the site of a long-awaited counterattack by the Ukrainians, which may further hinder the country's agricultural output.

M. Scott Zachary | Director – Investment Management
Phone: 214.710.1995 | Fax: 214.945-2689 | szachary@castleviewpartners.com



Uranium at Risk Again as Russia and Ukraine Accuse Each Other of Plotting Imminent Nuclear Plant Attack *(by McAlinden Research)*

The war in Ukraine has once again foisted the world's attention toward the Zaporizhzhia Nuclear Power Plant (ZNPP), Europe's largest nuclear powerplant, which sits on the left bank of the Dnieper River and has remained firmly under Russian control since March 2022. MRP has published multiple extensive reports on conditions at the ZNPP going back to August of last year, as Russian and Ukrainian positions are separated by just 5km to 14km of river, well-within striking range of each side's artillery, making them common targets. Several media reports have suggested that Russia stores military equipment within the plant and may even be firing artillery from the campus. Ukrainian counterbattery fire has struck the plant many times and previously damaged some of the facility's critical infrastructure.

More specifically, previous reporting shows that explosives have damaged a radioactive waste storage building at the ZNPP. Shelling has also hit a cooling pond, pipelines that are responsible for transporting water for cooling, a cable to one reactor, and a bridge to another. ***External power to the plant has been totally cut seven times and only one of the plant's original four 750 kilovolt (kV) power lines is currently operational.*** Though the ZNPP has been the target of at least one failed raid by Ukrainian special forces, Kiev denies responsibility for damage to the ZNPP and has repeatedly accused the Russian government of preparing a sabotage operation at the plant. The International Atomic Energy Agency (IAEA), which serves as the UN's nuclear watchdog, has been on the ground at the ZNPP for several months to help inspect and maintain facilities as best as they can. In response to questions from France 24 regarding potential preparations for an attack on the plant by the Russian military, including the stationing of vehicles charged with explosives and the mining of the cooling pond, Rafael Grossi, the Director General of the IAEA, ***stated that he did not want to argue with Ukrainian President Volodymyr Zelenskyy about this issue, but "I can only say that I was there and did not see it"***.

Despite Grossi's account of the situation, Zelenskyy and the Ukrainian government have stepped up accusations within the past 24 hours, stating that foreign objects "resembling explosive devices" have now been placed on the outer roof of the third and fourth reactor buildings. Per Politico, Ukrainian military intelligence suggests that Russian troops, as well as Russian-backed nuclear power plant workers, were gradually leaving the plant in recent days. Reporting from The Guardian suggests that Zelenskyy's allies are taking the situation seriously, noting that he has briefed French President Macron on "dangerous provocations" at the ZNPP.

The Russian government has not only fired back at these accusations, but openly stated that they expect the Ukrainian military to strike the power plant with "bombs loaded with radioactive waste" soon. Renat Karchaa, an adviser to the director general of Russia's Rosenergoatom nuclear power engineering company, told media outlet TASS that Ukraine would deliver a strike using "high-precision long-range weapons and kamikaze drones".
With both sides of the conflict hurling accusations of an imminent attack on this critical piece of infrastructure, the environment is reminiscent of that which preceded the recent collapse of the Nova

Kakhovka Hydroelectric Power Plant and dam. ***In the months leading up to its ultimate destruction, both Russia and Ukraine repeatedly stated that the opposing side would soon target the dam***, a result which came to fruition on June 6, when explosions shattered the dam and sent floodwaters rushing downstream into the Kherson Oblast. As a result, the implications have been vast for the southern Ukraine's rich agricultural industry, global commodity markets, and the layout of the frontline.

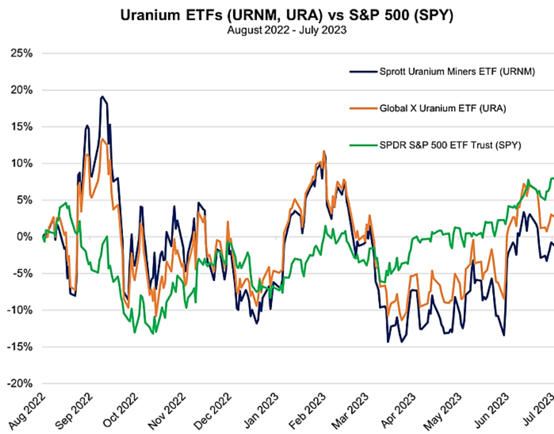
The Nova Kakhovka dam blast occurred less than 140km downstream from the ZNPP, and has ramped up speculation that the sprawling power plant may be next on the list of targeted infrastructure. In a way, the dam's destruction was almost like a warning shot in itself, threatening the ZNPP, as the subsequent drainage of water from the nearby Kakhovka basin could have also drained the plant's cooling pond to dangerous levels. Per the IAEA's Grossi, it would become impossible to keep pumping water from the reservoir to the plant if its water level dropped below 12.7 meters. At the moment, measures to keep the pond's depth relatively unchanged from June 6 levels at roughly 16.6 meters have been successful. As of our most recent reporting, five of the six reactors on the ZNPP campus were already in cold shutdown before the dam blast, which means they're essentially turned off completely with temperatures below 93°C. These conditions require significantly less water for cooling. One reactor had remained in hot shutdown, kept at 200°C – 250°C (pressurized light water nuclear reactors like ZNPPs heat up to 300°C during full operation) so it would be easier to restart if conditions allowed, but after the collapse of the dam, it was reportedly also put into cold shutdown.

As MRP has previously detailed, a meltdown in the core of a reactor, resulting in some sort of "explosion", like the world witnessed at Chernobyl in 1987, is unlikely due to the modern precautions taken to protect nuclear plants' reactors. The greatest risk to the general public lies in the environmental implications of radioactive material or hazardous waste products escaping containment, contaminating local ecosystems and water supplies. For example, according to an OECD report from 2021, the Dnieper makes up 80% of all water resources in Ukraine and ***supplies drinking water to two-thirds of the country's population***. Accidental spillage of radioactive contaminants or similar materials into the river would be a disaster, likely conjuring up memories of the meltdown at Japan's Fukushima Daiichi Nuclear Power Plant in 2011 and re-igniting fears surrounding the adoption of nuclear power. This could have significant implications for the price of uranium, as well as shares of uranium miners and firms who manufacture components for nuclear power plants.

An outside risk regarding the escape or destabilization of nuclear material at the ZNPP would be a heavy-handed response by NATO if radiation was to travel through the air began impacting member states in Western Europe. In June, US Senators Lindsey Graham (R-SC) and Richard Blumenthal (D-CT) introduced a resolution which stated that any use of a tactical nuclear weapon by Russia, Belarus or their proxies, or the destruction of a nuclear facility that disperses radioactive contaminants into NATO territory would be viewed as an attack on NATO itself, requiring an Article V response. The Article V statute demands all treaty organization members to take military action to assist a fellow NATO ally that has been attacked – an attack against one is an attack against all.

The Graham-Blumenthal resolution has not been passed by Senate and, even if it were, resolutions are non-binding and do not hold authority over NATO as a whole. However, it does show there is support among some American lawmakers for a strong response to any further targeting of the ZNPP. Despite Russia's relentless bombing campaigns targeting the Ukrainian electricity grid, Russia has yet to carry out military operations against any of the other three operational nuclear power plants within Ukraine.

M. Scott Zachary | Director – Investment Management
Phone: 214.710.1995 | Fax: 214.945-2689 | szachary@castleviewpartners.com



Weekly Crypto Wrap – June 16th

(by McAlinden Research)

Digital asset markets held onto a $1 trillion market capitalization this week, but virtually all cryptocurrencies were rocked by the Federal Reserve's latest meeting and the ongoing hangover from last week's SEC enforcement actions against Binance and Coinbase. Though the Fed took a break from rate hikes for the first time in ten consecutive meetings, projections for their appropriate policy path implied two more rate hikes are still likely this year before the upper limit on the Fed Funds rate hits a peak of 5.75%, up from 5.25% today (if subsequent hikes continue at a pace of 25bps).

With inflation continuing to subside, now rising at a rate of 4.0% in the US and well-below the short-term rate set by the Fed, it remains to be seen how necessary more hikes will end up being. It is worth noting that the US Dollar Index (DXY) declined in the aftermath of the Fed's decision to forgo a hike this week, slipping to its lowest level in more than a month. Combined with a virtually unchanged yield on the 10-year US Treasury throughout the end of the week, that suggests market participants may be somewhat skeptical of more hikes ahead.

In any case, cryptocurrencies like Bitcoin (BTC), the largest crypto asset by market cap, continued their downtrend on the news from the Fed. As MRP mentioned earlier this month, cost pressures from a surging hash rate, high electricity costs, and sagging price growth among digital assets, has caused an acute wave of selling among Bitcoin miners. That trend continued, as data from Glassnode showed miners or entities minting coins by verifying transactions on the blockchain moved 6671.99 BTC ($174 million) to exchanges from May 31 – June 13. Cointelegraph notes that the 14-day average of miner transfers to exchanges increased to 489.26 BTC over that span, the most since March 2021.

In addition, BTC's unit price in USD terms slipped below $25,000 for the first time since March. It appeared the week of June 16 would be another period of dismal news until the world's largest asset manager offered a reprieve. On June 15h, Blackrock filed a Form S-1 with the SEC to register and launch their iShares Bitcoin Trust. That helped BTC recover the $25,500 threshold by the next morning.

Though technically referred to as a trust in official documentation, much like the SPDR Gold Shares (GLD) ETF, this product will be structured as a commodity-backed spot Bitcoin ETF. Though BTC is not a physical commodity, it is widely viewed as a digital commodity – particularly among those whose opinion matters most. As MRP has highlighted several times, SEC Chairman Gary Gensler has been open about his position that the regulatory body considers Bitcoin as a commodity and, therefore, outside the purview of a securities regulator.

That's not to say the SEC hasn't been skeptical of Bitcoin being packaged into exchange traded products, however. Though several ETFs tracking BTC futures contracts (linked to CFTC-regulated indices) have received the SEC's stamp of approval the past few years, dozens of applications for BTC-backed ETFs been rejected from several different firms including WisdomTree, Fidelity, ARK Invest, VanEck, and Grayscale. In fact, the SEC is currently being sued by Grayscale over the commission's rejection of its application to convert the Grayscale Bitcoin Trust (GBTC) into an ETF last June. The SEC's rejections have not focused on issues related to the potential ETF issuers or sponsors themselves, but about market manipulation within cryptocurrencies and

M. Scott Zachary | Director – Investment Management
Phone: 214.710.1995 | Fax: 214.945-2689 | szachary@castleviewpartners.com

the lack of a surveillance-sharing agreement (SSA) between a "regulated market of significant size" and a regulated exchange.

This begs the question of why anything different would be expected from BlackRock's application. For one, it should be noted that BlackRock doesn't seem to make ETF applications that it feels won't be approved, considering the company has a record of 575 ETF approvals and only one rejection. Plus, a new rule filing from Nasdaq (SR-NASDAQ-2023-016), where Blackrock will list their proposed ETF, notes that the exchange expects to "enter into a surveillance-sharing agreement with an operator of a United States-based spot trading platform for Bitcoin", directly addressing the SEC's key concern regarding a spot Bitcoin ETF. The Nasdaq filing explicitly highlight its intention to list BlackRock's proposed iShares Bitcoin Trust and is likely pursuing SEC approval for its SSA plan as a precursor to the commission's future decision on the Bitcoin ETF.

Weekly Crypto Wrap – June 30th

(by McAlinden Research)

It was a more modest week for most digital asset prices, but continuing strength has helped the cryptocurrency market close in on a positive month. Throughout the past seven days, CoinMarketCap data indicated that the combined market cap of all cryptocurrencies surpassed $1.2 trillion for the first time since early May. Bitcoin (BTC), the largest cryptocurrency by market cap, has rallied strongly this month, rising by 10.7% in the month to date as of Friday morning. As we noted last week, that outperformance has helped to boost Bitcoin's market dominance to more than 50.0% for the first time in more than two years. Though gauges of the full crypto market cap vary, CoinMetrics has pegged recent BTC dominance as high as 58%.

The surge in interest in Bitcoin has likely been spurred on by a sudden rush of asset managers and other investment service firms reviving a race to list first spot Bitcoin ETF, set off by a surprise filing by BlackRock two weeks ago. Along with increased trading volume of BTC on exchanges, CCData shows that the average daily aggregate volumes of digital asset investment products snapped a two-month downturn to rebound with a 6.8% jump to $223 million in June. AMB Crypto writes that the volume of Grayscale's Bitcoin Trust (GBTC), the industry's most traded product, increased 80% in June.

MRP covered the BlackRock filing for a spot Bitcoin ETF in our June 16 Crypto Wrap, noting that it was paired with a first of its kind rule change filing from Nasdaq (where Blackrock will list their proposed ETF), which will allow the exchange to "enter into a surveillance-sharing agreement with an operator of a United States-based spot trading platform for Bitcoin." This change directly addresses the Securities and Exchange Commission's (SEC) oft-cited reason for denying every application for the establishment of a similar fund thus far.

Rejections have not focused on issues related to the potential ETF issuers or sponsors themselves, but rather, concerns about market manipulation within cryptocurrencies and the lack of a surveillance-sharing agreement (SSA) between a "regulated market of significant size" and a regulated exchange. Paired with BlackRock's successful listing of 575 ETFs, with just one denial on its record, this filing looks to be different in character than others. Other firms and exchanges, including Cboe BZX Exchange and ARK Investment management, are now following BlackRock's example, amending earlier filings and trying to beat the world's largest asset manager to the punch. Thus far, at least 10 previous applications have been recently re-filed.

However, a new Wall Street Journal report, published recently, claimed that the SEC was not satisfied with these details of these recent filings and returned them to the potential ETF issuers because they didn't name the crypto exchange(s) with which they are expected to have an SSA or provide enough information about the details of those surveillance arrangements. That is not a death blow to hopes for an ETF, and asset managers will

M. Scott Zachary | Director – Investment Management
Phone: 214.710.1995 | Fax: 214.945-2689 | szachary@castleviewpartners.com

still have plenty of time to update the language and refile. MRP has previously covered the long-standing race for a spot Bitcoin ETF, as well as its implications for the digital asset industry.

Pushing aside issues within the US's regulatory framework, on-chain metrics suggest continuation of some key BTC trends we've been highlighting.

First, Bitcoin miners continue to send loads of their BTC yield to exchanges. On June 27, Glassnode reported a spate of Bitcoin miner revenues being sent to exchanges (in USD terms), wherein miners had transferred a record $128 million worth of BTC to exchanges throughout the prior week. That was equivalent to 315% of their daily revenue. With Bitcoin's hash rate remaining near all-time highs, miners are likely dealing with higher costs associated with mining Bitcoin, meaning they likely do not have sufficient margins to stockpile mined BTC on their balance sheets. When there is greater competition among miners (reflected in a rising hash rate), the network's mining difficulty rises automatically according to an algorithm that is meant to maintain a 10-minute duration for finding new blocks. More difficulty means higher costs and higher costs typically mean lower margins.

Despite strong miner flows to exchanges recently, the total amount of Bitcoin held on exchanges tracked by MacroMicro plummeted to its lowest level this year at less that 273,000 BTC (worth approximately $8.2 billion). Moreover, CryptoSlate notes that the exchange balance as a percentage of BTC's total supply fell to a five-and-a-half-year low of just 11.71% in recent days. Lower exchange balances typically indicate greater demand for digital assets among long-term adopters who plan to hold their digital assets in a privately-held wallet device or other form of self-custody.

IDEAS TO CONSIDER

Similar to comments expressed over the past few quarters, and our expectation for continued uncertainty and volatility in financial markets in 2023, we continue to recommend to clients of the firm to stay diversified and scrutinize your long-term financial planning objectives. It is these planning objectives formulated in close consultation with the expertise of your advisor that should largely dictate your asset allocations.

Our current outlook continues to recognize the need for investors to defend against both rising prices and higher than average valuations within many domestic equity segments. To defend against rising prices, an increased allocation to intermediate goods and raw materials may best be reflected in natural resource sector exposure as well as commodities. I continue to expect interest rates to peak in 2023 (think YCC) and, if coupled with the all-too-familiar fiscal and monetary financial policies that follow, this could spur another round of financial asset inflation later in the year and 2024. What transpires between now and then remains a significant wildcard in my humble opinion.

Finally, as we look ahead, and as personal circumstances dictate, it may be worth considering a larger tilt toward value-oriented and international (DM and EM) equities, high-quality intermediate duration fixed income, as well as an increased allocation to what are often times referred to as "alternative investments" (commodities, tactical and/or hedged equity strategies as well as selective private debt and equity strategies). Monitoring balance sheet strength may prove key in 2023.

In closing, on behalf of the entire Vision Point Advisory Group team, we are grateful for your continued trust and confidence.

Sincerely,

Scott

M. Scott Zachary

Director – Investment Management

Past performance is no guarantee of future results. Diversification does not guarantee investment returns and does not eliminate the risk of loss. Bonds are subject to interest rate risks. Bond prices generally fall when interest rates rise.

M. Scott Zachary | Director – Investment Management
Phone: 214.710.1995 | Fax: 214.945-2689 | szachary@castleviewpartners.com

The price of equity securities may rise or fall because of changes in the broad market or changes in a company's financial condition, sometimes rapidly or unpredictably. Equity securities are subject to "stock market risk" meaning that stock prices in general may decline over short or extended periods of time.

International investing involves a greater degree of risk and increased volatility. Changes in currency exchange rates and differences in accounting and taxation policies outside the U.S. can raise or lower returns. Also, some overseas markets may not be as politically and economically stable as the United States and other nations. Investments in emerging markets can be more volatile.

Real estate investments may be subject to a higher degree of market risk because of concentration in a specific industry, sector or geographical sector. Real estate investments may be subject to risks including, but not limited to, declines in the value of real estate, risks related to general and economic conditions, changes in the value of the underlying property owned by the trust and defaults by borrower.

Investments in commodities may have greater volatility than investments in traditional securities, particularly if the instruments involve leverage. The value of commodity-linked derivative instruments may be affected by changes in overall market movements, commodity index volatility, changes in interest rates, or factors affecting a particular industry or commodity, such as drought, floods, weather, livestock disease, embargoes, tariffs and international economic, political and regulatory developments. Use of leveraged commodity-linked derivatives creates an opportunity for increased return but, at the same time, creates the possibility for greater loss.

Derivatives may be riskier than other types of investments because they may be more sensitive to changes in economic or market conditions than other types of investments and could result in losses that significantly exceed the original investment. The use of derivatives may not be successful, resulting in investment losses, and the cost of such strategies may reduce investment returns.

There is no guarantee that the use of long and short positions will succeed in limiting an investor's exposure to domestic stock market movements, capitalization, sector swings or other risk factors. Investing using long and short selling strategies may have higher portfolio turnover rates. Short selling involves certain risks, including additional costs associated with covering short positions and a possibility of unlimited loss on certain short sale positions.

Vision Point Advisory Group, L.L.C. does not provide tax or legal advice. Accordingly, any discussion of U.S. tax matters contained herein (including any attachments) is not intended or written to be used, and cannot be used, in connection with the promotion, marketing or recommendation by anyone unaffiliated with Vision Point of any of the matters addressed herein or for the purpose of avoiding U.S. tax-related penalties.

This presentation is a compilation of articles we think our clients and friends will find interesting. We did not write these articles and have provided credit to the originator of the content. You should not construe this presentation or any other communication received in connection with Vision Point Advisory Group, LLC ("Vision Point") as legal, accounting, tax, investment, or other advice; you should always consult with your advisor and your legal and tax counsel before acting on anything you might read in one of these articles. Information contained herein is believed to be accurate and/or derived from sources which Vision Point believes to be reliable; however, Vision Point disclaims all liability for the completeness or accuracy of the information contained herein and for any omissions of material facts.

These materials do not constitute an offer to sell, nor a solicitation of an offer to buy, any interest in any security. Any such offer may only be made at the time a qualified offeree receives the confidential private offering memorandum or other appropriate disclosure materials.

M. Scott Zachary | Director – Investment Management
Phone: 214.710.1995 | Fax: 214.945-2689 | szachary@castleviewpartners.com