



## CAPITAL CREEK STRATEGY – DECEMBER 2023

### The Ten Surprises of 2024

Scott T. Slayton, CFA



## About Scott Slayton

### *Partner, Chief Strategist*

Scott is a Partner of the firm and Chief Strategist. Before joining Capital Creek Partners, Scott was the Head of Asset Allocation at UTIMCO, where he served on the firm's Management, Investment, and Risk Committees. Scott has 35 years of investment experience as a strategist, portfolio manager, and asset allocator. Scott spent most of his career in New York, working at Kidder Peabody, Morgan Stanley, and Tudor Investments. Scott studied at the University of Texas at Austin, where he received a BBA in finance in 1988. Scott is also a Chartered Financial Analyst, CFA.

## About Capital Creek Partners

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We are an investment partner organized to serve the needs of family offices, foundations, endowments, and private investment companies. Established in 2018, Capital Creek Partners was founded as a boutique multi-family office to serve a small number of prominent families. Our firm's culture is rooted in Integrity, Humility, and Excellence.



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*\*ChatGPT was a research assistant in the writing of this report.*



**Austin, TX – December 13, 2023**

*“Concentrate on finding a big idea that will make an impact on the people you want to influence. The *Ten Surprises*, which I started doing in 1986, has been a defining product. People all over the world are aware of it and identify with it. What they seem to like about it is that I put myself at risk by going on record with these events, which I believe are probable, and hold myself accountable at year-end. If you want to be successful and live a long, stimulating life, keep yourself at risk intellectually all the time.”*

*Byron R. Wien  
(1933-2023)*

To honor the memory of my friend and mentor, Byron Wien, I have come up with a list of ten surprises that could impact the investing landscape during the upcoming year. Byron began writing about potential investment-related surprises back in the mid-1980s when he became the Chief US Investment Strategist at Morgan Stanley. At that time, Morgan Stanley was still a partnership, and the research department was run by the legendary Barton M. Biggs. Byron felt he needed to do something different to build his brand in the marketplace. Thus, the *Ten Surprises* were born and became an investment institution for 37 consecutive years.

When I joined Morgan Stanley in 1994, it was considered an unofficial firmwide assignment to read the firm’s weekly publication, *Investment Perspectives (“IP”)*. The IP was considered the best weekly investment publication of its kind on Wall Street because of the quality of the writing and, importantly, because there was no set “house view.” Every contributor to the IP was encouraged to have their own opinion and to be able to articulate and defend it with the written word. It was more than just okay to debate and disagree, it was celebrated. Strategists were also encouraged to innovate and think in unconventional ways. As a twenty-eight-year-old upstart, I was given permission by Byron and Barton to become a contributor to the IP and write about equity derivative markets. This opportunity changed my career, and I will be forever grateful to both of them for giving me this shot.

Byron succeeded with the *Ten Surprises* because it was forward-looking, risk-seeking, controversial, thought-provoking, and highly entertaining. Serious minds on the Street looked forward to reading the *Ten Surprises* and it helped them get a leg up on the coming year. It is in this spirit that I attempt to come up with my own list of surprises for the year ahead. As Byron used to say, the idea is not so much to get every surprise “right” but to help people think through the probabilities of unexpected outcomes taking place. Byron repeatedly told me and others at the firm that “the way to make big money in the markets is to have a non-consensus view that turns out to be correct.”

The planting soil for this year's Ten Surprises is rich and full of nitrogen. Heading into the coming year, investors face perhaps the most complex set of geopolitical and fundamental challenges most of us have ever seen in our careers. The US is facing a highly consequential presidential election. The economy could be slowing significantly with the lagged effects of monetary tightening hitting full force in 2024. Fed policy appears set for substantial easing, but what if inflation surprises and reaccelerates on looser financial conditions? The US and China remain locked in a Thucydian trap of a great power competition. A military accident in the South China Sea or Taiwan Straits could happen any day. The Russia/Ukraine war is set to grind on into its third year with US and European funding very much in question, while the Israeli/Hamas war will almost certainly last well into 2024 and could even expand to a second front. The struggle between Western democracy and Eastern authoritarianism appears early in a decades-long conflict. Add to this the global debt mountain, climate change, the energy transition, numerous consequential non-US elections, political polarization, global populism, and above-target inflation. What a mix! It is enough for me to envision a new "Golden Age of Macro Investing" at our collective doorstep. There are bound to be some profound surprises in the year ahead, so here goes.

We are doing this exercise in memory of Byron, so it is only fitting that we use his rules. To qualify as a surprise, we must believe that the odds are 50% or greater in the outcome coming to pass in the next year. At the same time, we must also believe that the consensus would likely assign only a 33% or lower probability of occurrence. Based upon these ground rules, we present our Ten Surprises of 2024.



### The Magnificent Seven Bubble

#### **SURPRISE I**

The so-called Magnificent Seven ("M7") technology stocks continue down the road to a full-blown mania in 2024. When you look at this group of large capitalization Technology Titans on calendar 2024 earnings estimates, they do not appear unreasonably valued at a median price-to-earnings multiple of 33x. The surprise is that they become wildly overvalued to the upside next year. The combination of increasing liquidity, positive price momentum, Fed rate cuts, and slowing economic growth will continue to push investors into the cloistered and coveted M7. The continued progress and impact of artificial intelligence (AI) will be the mind-expanding drug that launches the M7 into bubble territory.



### A Stronger Yen

#### SURPRISE II

The heavily traded USD/JPY currency pair makes a significant move lower from 146 to around 130 in 2024. A strengthening Yen is driven by the end of yield curve control in Japan, massive positioning unwinds, and falling US policy rates. Investors become convinced that Japan has finally escaped deflation and want to own Japanese assets of all kinds as Japan becomes the “safe haven” of Asia. Japanese demographic concerns are ameliorated by further progress in “womenomics” (promotion of women into the labor force), robotics, and AI.



### Rebounding Housing Market

#### SURPRISE III

The US housing market rebounds strongly in 2024. There is massive pent-up demand for homes that has been held at bay by low inventories, high prices, and high mortgage rates. Mortgage rates decline, and spreads to Treasuries collapse from historic highs giving borrowers a break. Housing prices rise moderately, but sales of new and existing homes rebound vigorously. Housing-related equities are among the top performers in 2024.



### 2024 Election

#### SURPRISE IV

The incumbent US president glides to re-election in 2024. The opposition party continues to fight among themselves and fails to nominate a compelling alternative. The surprise is that fears of a hung election followed by social unrest and endless litigation fail to materialize. First-term US presidents routinely win re-election if the economy avoids a recession within 12 months of the election date. We envision slowing growth but no recession in the next 10 months.



### US-China Relations

#### SURPRISE V

The budding rapprochement between President Biden and Xi Jinping blossoms further in 2024. China and President Xi need this thawing of the relationship as the US has no doubt been pressuring Chinese growth in myriad ways since the “Great Power Competition” heated up in 2018. China is beset by high youth unemployment, relatively slow growth, deflation, and increasing divestment by Western capital allocators. Chinese equities have become statistically cheap, are under-positioned, and are reviled by most global investors. We were intrigued by the recent Moody’s sovereign debt downgrade warning along with a big headline in last week’s *Wall Street Journal* shouting, “Wall Street Puts a Sell on its China Holdings.” An improving relationship between the US and China spurs some foreign value-oriented money to return to China, helping Chinese and Indian equities to lift emerging market equities to strong returns in 2024.



### **A Crippling Cyberattack**

#### **SURPRISE VI**

A surprise cyberattack hits critical US government, business, or financial infrastructure. The power grid, financial technology such as SWIFT, cash ATMs, or live pricing feeds for securities prices are all possible targets. US banking technology hacks could bring the economy to its knees if consumers are unable to access funds even for a few days. The Internal Revenue Service (IRS), which is well known to have antiquated and vulnerable technology, is an especially ripe target for hackers. The cyberattack will likely be carried out by State actors from Eurasia. A devastating cyberattack would put enormous pressure on the US administration just at the time they are running for re-election. It would likely cause financial assets in the US to temporarily swoon and cause gold and Bitcoin to soar.



### **A Great REIT of Return**

#### **SURPRISE VII**

The US Real Estate Investment Trust (REIT) market makes a significant comeback in 2024. Most investors are blinded to this possibility due to the obviously terrible fundamentals in office, retail, and the increasing supply concerns in multi-family. In my view, fundamentals do not need to be good, they simply need to be less bad for this out of favor asset class to produce unexpectedly solid returns next year. The iShares US REIT ETF (IYR) is currently trading back at 2016 levels. As market interest rates continue to fall and policy rates become more accommodative, this contrarian asset class gains support and investment inflows from yield-oriented investors who want diversification in a relatively uncorrelated asset that has been out of favor for several years.



### **Oil Continues its Downslide**

#### **SURPRISE VIII**

Oil prices surprise market participants again in 2024, this time to the downside. The realities of a significant oversupply situation become manifest next year. North American oil producers surprise the market with their ingenuity and ability to produce more and more oil at lower and lower costs. OPEC unity begins to fray at the margin as Saudi Arabia becomes more frustrated at production cheating from OPEC Plus countries. Russia must overproduce as prices fall to fund its ongoing war with Ukraine. The demand side of the market disappoints in 2024 as the full force of monetary policy tightening slows global industrial and transportation demand. Let's remember that AI is working ceaselessly to increase energy use efficiency and to lower the cost of producing oil. Brent crude oil prices briefly break \$55 to the downside before snapping back.



### Gold Rush

#### SURPRISE IX

After going sideways for over three years, gold embarks on the next leg of a secular bull market. The bull market is fueled by heavy Central Bank buying, Indian, Russian, and Chinese retail demand, increasing global liquidity, along with a much weaker US dollar. Investment demand for gold remains robust as investors and consumers want a hedge against a potential echo wave of inflation. After touching \$2,075 three times in the last four years, gold sails through \$2,100 on its way to \$2,500 in 2024.



### Curve Disinverts

#### SURPRISE X

The US 2s-10s Treasury yield curve bull steepens meaningfully in 2024. Inflation continues to trend lower; the US economy slows as the long and variable lags of policy tightening begin to bite. The Fed ends up cutting rates by more than the market anticipates. The 2s-10s curve regains its positive slope and vaults from current levels of -50 basis points to +100. We do not believe this outcome requires a traditional economic recession. In our view, slowing growth combined with falling inflation will be enough to return the curve to its normal upward slope in 2024.

Byron always had a few Honorable Mention surprises, the valuable scraps left on the shop room floor. These were potential surprises that did not make the Top 10 but were nonetheless valuable for provoking thought. Here are a few of mine that did not make the cut.



### Terrorist Attack

#### HONORABLE MENTION I

After years of growing complacency, the US experiences the first major coordinated terrorist strike on American soil since 9/11/2001. The porous US border situation has allowed numerous unknown people to enter the country over many years. Easy entry into the US has allowed terrorist cells to gain critical mass inside the country. The attack could take numerous different forms and would negatively impact financial markets and the economy. The US elections could be severely impacted by such a terrorist event. This surprise did not make the cut because I could not convince myself that the probability of occurrence was anywhere close to 50%.



### China Invades Taiwan

#### HONORABLE MENTION II

It turns out that Chinese President Xi Jinping was using a budding detente with the US as a smokescreen for his ambitions to reunite China and Taiwan politically. Knowing that his country is facing secularly lower growth and negative demographics, he decides to strike while the US is highly polarized and distracted in both Ukraine and Israel. Xi makes a calculated bet that the Biden Administration will be unwilling to respond militarily to yet another conflict during an election year. To blunt overt military opposition, China embarks on a gradual naval blockade of Taiwan to slowly choke the island nation into compliance with Beijing's dream of reunification. This one did not make the cut because I think the odds of occurrence are well below the 50% threshold.



### The Resurgence of Crypto

#### HONORABLE MENTION III

After being decimated and discredited during all of 2022, it looked like digital currencies might simply disappear. Instead, they have been reborn in 2023 and Bitcoin has increased in value by over 150%. This is just the beginning of another digital currency cycle that is likely to take Bitcoin and Ethereum to all-time highs. The likely advent of a spot exchange-traded product (ETF) from a credible counterparty like Blackrock will bring in the speculators and the long-term investors who believe in a digital form of value for Web 3.0 and the new AI economy. The Bitcoin "halving," which takes place around April of 2024, will be another positive catalyst for digital tokens. In an era of AI, blockchains fueled by digital tokens are likely to become highly useful in helping to verify identities and authenticate ownership. I ultimately decided against this surprise because it seemed too obvious.



### Labor Pushes Back Against AI

#### HONORABLE MENTION IV

American labor is newly ascendent on the back of a secular labor shortage and the 2021-2023 period of high inflation. Labor's newfound strength is about to be concentrated to push back on corporations turning to AI to create content, cut costs, and consume jobs previously done by blue and white-collar workers. The coming marriage of AI and robotics could replace large swaths of low, medium, and highly skilled-workers. The Hollywood actors/writers strike of this year is a harbinger of what we can expect in 2024. The investment concern here is that the corporate adoption of AI could be elongated by labor stonewalling. A slower uptake of AI could reduce future productivity gains. I decided to pass here because I was not convinced that this surprise would be impactful enough. Labor vs. corporate AI is more of a longer-term theme than a surprise.





## Cowboys Win Super Bowl LVIII

### HONORABLE MENTION V

In a rematch of Super Bowl VI in January of 1972, the Dallas Cowboys win a thrilling Super Bowl over the Miami Dolphins in early 2024. The Championship ends a franchise record twenty-eight-year drought for the Cowboys. To the delight of Cowboys fans, Stephan A. Smith issues a live mea culpa on ESPN. This surprise shows that, like Byron, I still have a sense of humor. 😊

I want to give a special note of thanks to my colleagues and friends who helped me during this process of generating surprises. These include Robert Gauntt, Mike Miller, Jonathan Prather, Isaac Arnold, Jordi Visser, Richard Castellano, Jay Pelosky, and Doug Terreson.

For those who are interested in some sage advice on how to live a long, full, and productive life, click the button below for Byron Wien's *Twenty Life Lessons*.

[Byron Wien's Twenty Life Lessons](#)

We wish everyone a happy and healthy holiday season!