This is the most unusual business cycle in my lifetime.

It started with Covid lockdowns. Generous government handouts eased the financial burdens of many consumers and businesses.

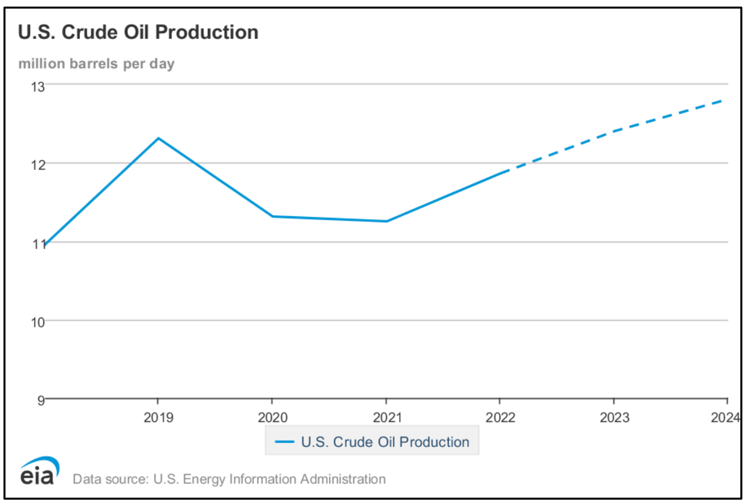
The Fed followed with quantitative easing, which effectively monetized the government debt. Money poured into the stock and real estate markets, making the rich a whole lot richer. Inflation soared.

Supply-chain dislocations breathed new life into American manufacturing. The pandemic and lockdowns exposed the danger of far-flung global supply chains. For the first time in over 70 years, American business de-globalized supply chains. Companies began to move production facilities to America.

Meanwhile, the U.S. energy sector just moves along… expanding ever so slowly. In the typical business cycle, rising demand boosts oil prices and production levels substantially.

Not today! In 2022, crude production barely increased. It averaged 11.86 million barrels per day (BPD), well short of 2019 production (12.33 million BPD.)

Figure 1: U.S. Crude Oil Production

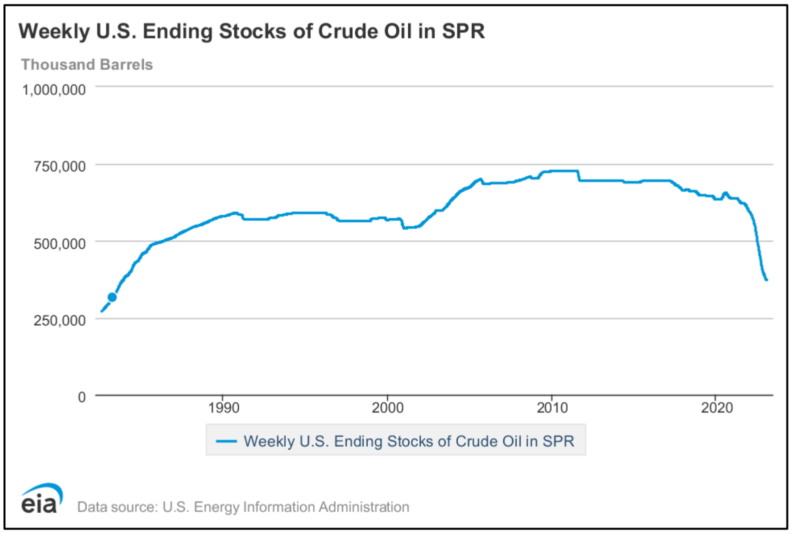


If not for the massive release of crude oil from the Strategic Petroleum Reserve (SPR), shortages would have occurred. Crude prices would have soared. The market would have incentivized more U.S. production. But the government short-circuited the market. Its SPR release suppressed crude prices, oil company profits, and production. In the year ahead, the removal of SPR releases will automatically reduce supply. It limits the risk of a typical end-of-cycle, bear-market glut.

Keep in mind, U.S. oil producers, by themselves, have not met demand. Instead, the government released reserves to meet demand. Going forward, as the recession curtails demand, oil producers can avoid production cuts. With no SPR, supply and demand should balance.

Furthermore, the record SPR drawdown left the nation's emergency stockpile at its lowest level in 40 years. The U.S. government desperately needs to replenish this reserve. As such, the Biden Administration has announced it will buy crude to refill the SPR if prices fall below $70.

Figure 2: U.S. Strategic Petroleum Reserve



With a massive buyer below $70, crude prices have little downside risk. Oil production should hold steady until the next economic expansion. Then, oil production will likely resume the moderate growth of the past two years.

In the meantime, oil prices could potentially rally, despite a recession. China is emerging from the perma-lockdown conditions of its zero-Covid policy. As Chinese factories rev up and personal travel resumes, Chinese oil demand will likely increase. An increase in global demand could boost domestic prices.

The prospect of steady oil production sets up a great opportunity in Oilfield Services. Any expansion of output would simply be icing on the cake.

<u>Understanding Oilfield Services</u>

Exploration & Production (E&P) companies (e.g., Chevron, Exxon, Diamondback, Antero) are akin to the general contractor of the construction industry. The E&P company plans a project and gets approvals. Then it hires subcontractors (i.e., Service Companies) to do all the work. It hires one service company to drill a hole and set the pipe, another to cement the pad. Someone else drills long laterals in the shale, another logs geologic data and inserts plugs to isolate sections, and another performs the hydraulic fracturing. Finally, a service company is hired to drill out the frac plugs, to be followed by a "flowback" company to separate the sand, water, oil, and gas that initially flows from the hydraulic fracture.

Then after the well starts producing oil and gas, the E&P company hires other service companies to perform maintenance and repairs throughout the life of the well.

Services – Shrinking Capacity

The 2020 Covid lockdowns brought oil prices below zero and decimated the oilfield services business. Exploration and production activity came to a screeching halt, forcing service companies to shut down. Some went bankrupt. Most service companies held on. However, hungry creditors forced many companies to restructure… to shed equipment and shrink.

Since 2019, service companies have purchased very little new equipment. Between 2019 and 2022, they struggled to break even. Equipment slowly wore out. Without profit, service companies lacked cash to buy new equipment. Making matters worse, the ESG movement scared bankers from financing Oilfield Services. Service companies that needed new sources of financing were left to the mercy of predatory lenders charging interest rates more than 20%.

Consequently, the manufacture of oilfield service equipment slowed to a crawl. Many survived by refurbishing older equipment… sometimes scrapping machinery to provide spare parts for the remainder of the fleet. The industry has been eating its own to survive. As a result, the fleet of service equipment is ageing and shrinking.

So right now, E&P companies cannot substantially boost oil production because service companies lack the capacity to sustain much more production.

To raise production, E&P companies must pay more for services. This would give service companies the financial capacity to replace and expand equipment fleets. For E&P companies to pay more for services crude prices must rise. Only with sustained service price increases will the industry rebuild production capacity.

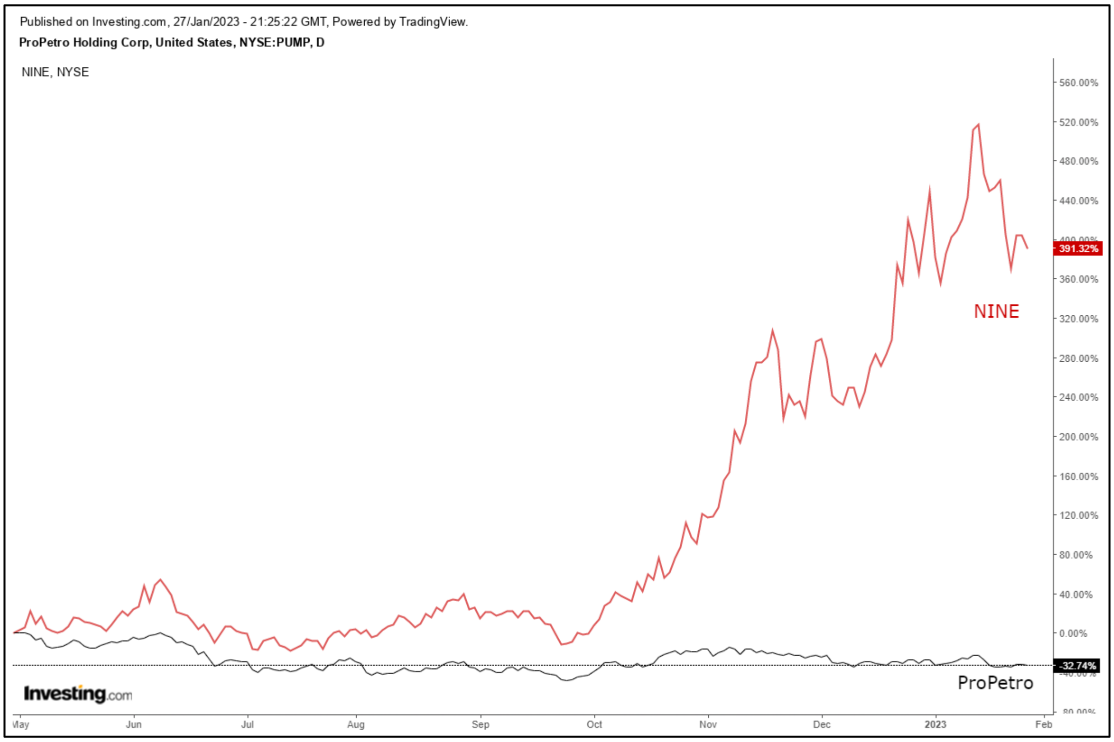
Switching Horses

Over the past year, Oilfield Service companies have returned to profitability, and *Vigilante Investor* has benefited. *Vigilante Investor* invested in Nine Energy last April at a price of $2.77. Nine shares have since appreciated over 380%… not bad for a 9-month holding period.

Now it is time to switch horses. I still like Nine Energy. But I don't like it as much at $13 as I did at $3.

We are looking to another, similar-sized service provider, ProPetro (PUMP). Its stock price declined more than 30% since last April, despite a business recovery that is similar to Nine Energy.

Figure 3: Nine Energy vs. ProPetro – past 9 Months



ProPetro's principal business is hydraullic fracturing services in the Permian Basin. ProPetro recently aquired Silvertip Completion Services. Silvertip performs wireline and pumpdown services (performed just prior to hydraullic fracturing.) Silvertip's business is complementary and additive to ProPetro. The Silvertip acquisition is accretive to ProPetro shareholders. The combined company (ProPetro with Silvertip) is a Permian services powerhouse… with the safest balance sheet imaginable.

In comparison, Nine Energy trades at a 6.0x forward PE multiple. ProPetro trades at a cheaper 4.6x PE. The valuations difference should be reversed considering ProPetro's lower risk profile. Nine is financed mostly by debt, but ProPetro is financed entirely by equity.

Table 1: ProPetro 1/27/2023

Ticker	PUMP	**EPS**	-$0.30	**EV/EBITA**	10.90
Price	$9.51	**EPS Forecast**	$2.10	**Forward P/E**	4.6
Book/Share	$7.96	**Market Cap**	$1.07 B	**Credit Rating**	No Debt
Dividend Yield	NA	**Enterprise Value (EV)**	$1.07B	**Debt/EV**	1%

Sources: Finviz.com, Yahoo Finance

Nine Energy has enjoyed a nice run. It has been riding the tidal wave of profits, along with the rest of the oilfield services sector. Nine's stock performance has received an extra boost from a short squeeze. But the short squeeze will not continue indefinitely. For these reasons, *Vigilante Investor* is switching horses.

Strategy Recommendation: Sell NINE. Scale into a full position of ProPetro (PUMP). Buy half of a position at current prices. Buy the remainder if the stock price sinks below $8 per share.

Figure 4: ProPetro 01/27/2023

Source: Finviz

The Economy and Markets

Barry Sternlicht, CEO of Starwood Capital, calls the current economic condition a "Rich-Cession." He explains that the usual sandboxes of the so-call "Rich"… technology, private equity, investment banking, real estate… are collapsing… but the rest of the economy is still doing fine.

Indeed, the tech sector is struggling. Tech layoffs accelerated in the past two months. In November, Meta cut 11,000 jobs. In January, Amazon laid off 18,000, Microsoft 10,000, Google 12,000, IBM 3,990, and SAP 3,000. Technology is contracting. Other sectors that are dominated by wealthy investors… real estate, private equity, investment banking… are struggling as well.

However, old-fashioned manufacturing is still growing. Ditto for service businesses. Low-tech, boring, middle-class industries are keeping the economy afloat, for now.

But make no mistake, the U.S. economy is stagnating. *Vigilante Investor's* growth indicators – by a score of 4 to 1 - signal that an economic contraction will occur. It is just a matter of time until the lone remaining growth indicator, the Fed Signal, turns negative too.

Table 2: Vigilante Investor Scorecard of Economic Conditions January 27, 2023

Score	Positive	Neutral	Negative
Growth 1 Contraction 4	Fed Signal +2.8%	US Real GDP +1.0% YOY	US Non-Manf PMI 49.6 Global Comp PMI 48.2 US Productivity -1.4% US 2-10 Spread -0.69%
Inflation 3 Deflation 1	CPI +6.5% YOY US Wages +4.6% YOY Gold / Euro +9.0%YOY	Gold +4.8% YOY US Dollar +5.8% YOY	Crude Oil -14.6% YOY
Positive $ 2 Negative $ 0	US-Ger2YR Spread +1.65% US-Ger10YR Spread+1.29%		

Sources: Tradingeconomics.com, St. Louis Fed, and Investing.com

A qualitative review of the indicators is even more ominous. Our #1 growth indicator, the ISM Non-Manufacturing Purchasing Managers Index (PMI), forecasts recession. This indicator has a perfect record. All prior recession forecasts… in 2001, 2007, and 2020… were spot on!

The other highly accurate indicator, the 2-Year - 10-Year U.S. Treasury Note Yield Spread, also reliably foretells a recession. This foolproof (yield-curve inversion) indicator always foretells a recession, albeit with a long and variable lag.

Meanwhile, Vigilante Scorecard favors inflation by a score of 3 to 1. This assures that the Fed will continue to raise rates. Furthermore, the Fed will probably maintain relatively high interest rates indefinitely, even after the economy begins to contract.

Has The Stock Market Found A Bottom?

Doubtful.

Inflation is falling, but it remains far above the Fed's 2% target. The Fed will continue to raise interest rates. Analysts argue whether rates will peak at 4.75% or 5% or 5.25%… but they really have no idea. Considering the nature of this business cycle, odds favor rates going higher… and staying high for longer… than generally expected.

Nevertheless, investors have poured money into the stock and bond markets for the past month, pushing stock prices higher… and bond yields lower. Why? Maybe they know something that I don't. Or maybe, because the Fed has failed to materially shrink its bloated balance sheet, investors are inflating the financial markets with their excess liquidity.

Currently, the stock market trades around historical aveage value. The long-term log chart of the S&P 500 (Figure 5) shows that stocks are near the middle of the value range.

Figure 5: S&P 500 Long-Term Log Chart

Note the strong tendency – for the stock-market average to move from lower left to upper right of the chart. It makes sense for investors with a long-term horizon to invest excess cash at historic average value.

But stagflation alters the opportunity set. If excess inflation remains in the economy, stagflation will eventually supress asset prices. Stocks would fall to historically cheap levels, as in the 1970s. If the Fed doesn't stick to its guns and kill inflation now, stagflation will kill the markets later. The stock market either pays the Fed a little now…or a lot more later.

For this reason, *Vigilante Investor* is maintaining 38% "cash"…about half in true cash, and the other half in Treasury Inflation Protected Securities (TIPS).

In addition to the change of positions in the Oilfield Service sector, as detailed earlier, *Vigilante Investor* recommends selling America's premier steelmaker, Cleveland Cliffs (CLF). This holding has delivered solid gains, but the valuation is no longer compelling. Furthermore, a weaker macro environment could spell trouble for steelmakers. The icing on the cake is China's reopening. If China revs up its massive steelmaking capacity, steel prices and profit margins could collapse.

Table 3: The Vigilante Model Portfolio as of 1/27/2023

Sector	%	Selections	Symbol	Initial Price	Price Jan 27
5G	4%				
		Qualcomm Inc.	QCOM	$164.40	$133.40
Low-Tech America					
Steel	0%	Cleveland Cliffs Inc.	CLF	$16.58	$21.62
Financials	16%				
		Chubb	CB	$165.98	$337.33
		Aflac	AFL	$53.38	$72.91
		AIG	AIG	$47.54	$63.33
		WR Berkley	WRB	$53.58	$69.22
Transportation	0%				
Energy	28%	ProPetro	PUMP	$9.50	$9.50
		Diamondback Energy	FANG	$61.33	$150.96
		Black Stone Minerals	BSM	$17.36	$16.44
		Coterra (Formerly Cabot)	CTRA	$18.69	$25.33
		Southwestern Energy	SWN	$4.06	$5.56
		Antero Resources Corporation	AR	32.67	29.28
		Nine Energy	NINE	$2.72	$13.02
		Plains All American Pipeln	PAA	$9.02	$12.96
		Cameco Corp	CCJ	$12.73	$27.63
Real Estate	0%				
Agriculture	4%	Mosaic Co	MOS	$28.67	$49.51
Emerging	0%				
Precious Metals	10%	Junior Gold Miners ETF	GDXJ	$46.02	$39.49
		Gold Miners Index	GDX	$29.30	$32.31
		Pan American Silver	PAAS	$21.13	$18.58
		Silver Miners ETF	SIL	$42.00	$30.81
		Newmont Mining	NEM	$53.32	$53.32
TIPS	18%	VG ST Infl Protected Sec ETF	VIPSX	$12.90	$12.11
Cash	20%	Broker Money Fund			

Table 4: Vigilante Investor ETF Model Portfolio 1/27/2023

All ETF Portfolio	%	Selections	Symbol	Initial Price	Price Jan 27
Broad Market	4%	VG Mid-Cap Value ETF	VOE	$122.88	$143.92
	4%	VG Large-Cap Value ETF	VTV	$121.81	$143.55
Financials	4%	VG Financials	VFH	$88.21	$88.32
	14%	iShares U.S. Insurance	IAK	$84.25	$93.88
Energy	24%	First Trust Revere Nat Gas	FCG	$19.01	$25.48
Real Estate	0%				
Precious Matals	5%	VanEck Vectors Gold Miners	GDX	$32.75	$32.31
	5%	Global X Silver Miners	SIL	$39.51	$30.81
	20%	VG ST Infl Protected Sec ETF	VIPSX	$12.90	$12.11
Cash	20%	Broker MoneyFund			

Gold and Precious Metals

Over the past three months, most mining stocks have rallied along with precious metals prices. Our holdings are doing better, but they still trade cheap relative to silver and gold bullion. One mining stock, Newmont Mining, bucked the recovery trend. It now represents an extreme bargain. Therefore, *Vigilante Investor* is adding Newmont to the precious metals' basket… which increases the precious metals allocation from 8% to 10% of the portfolio.

Table 5: *Vigilante Investor* Precious Metal Scorecard[1] as of 1/27/2023

Precious Metal ETF	Price	Ratio	Hist Avg	Rating
GLD	179.22			
SLV	21.68	8.27	6.08	2
Stocks vs GLD	**Price**	**Model**	**vs. Model**	**Value Rating**
Newmont Mining (NEM)	$53.32	$65.82	-12.50	1
Sandstorm Gold (SAND)	$5.87	$7.53	-1.66	2
Jr. Gold Miners ETF (GDXJ)	$39.49	$48.30	-8.81	2
Barrick Gold (GOLD)	$19.67	$23.65	-3.98	2
Gold Miners ETF (GDX)	$32.31	$36.20	-3.89	3
Newcrest Mining (NCM)	$15.91	$19.04	-3.13	3
Wheaton Precious Metals (WPM)	$45.66	$46.47	-0.81	5
Royal Gold (RGLD)	$128.16	$119.87	8.29	6
Yamana Gold (AUY)	$6.09	$5.52	0.57	7
Stocks vs SLV	**Price**	**Model**	**vs. Model**	**Value Rating**
Pan American Silver (PAAS)	$18.58	$26.49	-7.91	1
Silver Miners ETF (SIL)	$30.81	$37.80	-6.99	2
Hecla Mining (HL)	$6.24	$5.42	0.82	7

Have a great quarter!

Steve Koomar

January 29, 2023

Sign up to receive free quarterly issues by email - https://www.vigilanteinvestor.com/sign-up-1

Disclosures

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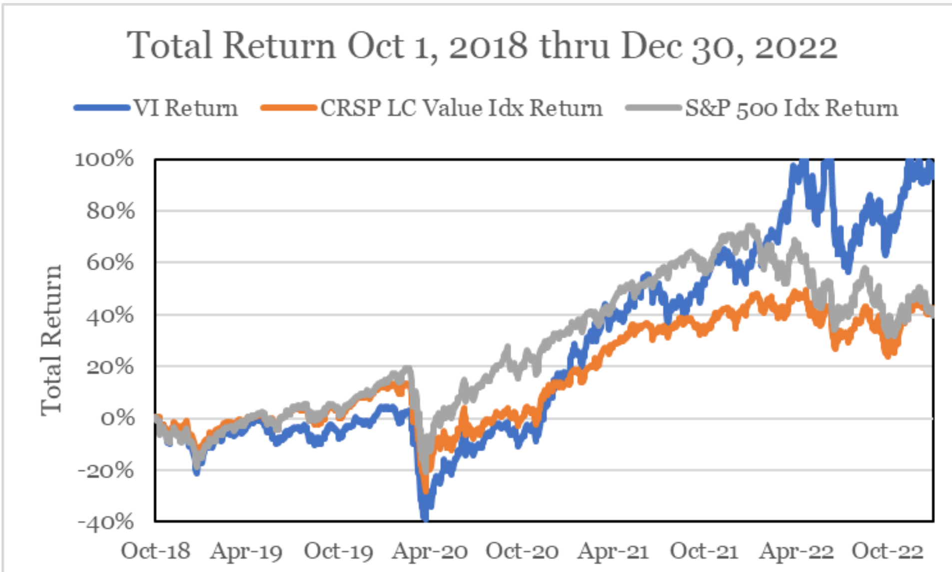
[1] The Vigilante *Investor* Scorecard rates large and mid-sized miners, streaming companies, and ETFs. The cheapest securities have the lowest Value Ratings, color coded in green. Fair Value is yellow, and expensive stocks are red. The scorecard also rates SLV, the iShares Silver Trust, relative to gold bullion.

Performance Addendum

Starting in October 2018, the author began managing an investment portfolio, relying on the newsletter research to allocate capital. The historical performance is graphed below - along with comparisons to the S&P 500 index and the CRSP Large-Cap Value Index.



During the past 4 ¼ years, The Vigilante Investor portfolio earned a 97.97% total return, more than double the relevant indices (42.14% for the CRSP LC Value Index and 41.90% for the S&P 500 Index).

The table below provides a regression analysis of daily returns.

Regression Analysis Oct 1 2018 - Dec 30, 2022		
VI Daily Returns	**CRSP LC Value Index**	**vs. S&P 500 Index**
Intercept	0.03%	0.04%
Slope	107.88%	96.63%
Correlation	85.34%	80.79%