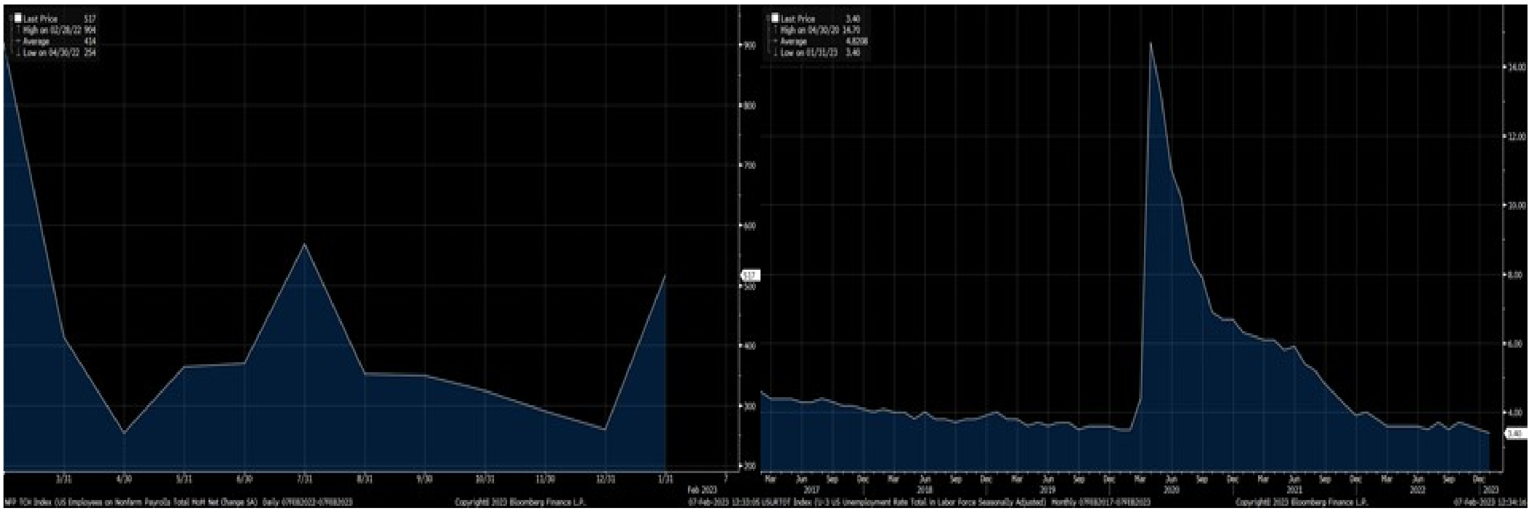
DAVIS COMMODITIES LLC

January 2023 Macro Commentary

At the risk of sounding repetitive, the economy is in a state of flux moving from high inflation into something lower. Manufacturing and housing portions of the economy are slowing, but the services sector (roughly 54% of the economy) is still growing. Perhaps the most important near-term input has been the jobs report. On February 3, the US reported jobs growth of 517,000 and the unemployment rate down to 3.4%. As you can see in the chart below, the growth in jobs was the largest since July, 2022 and the unemployment rate is even lower than it was prior to the Covid shutdowns.



Both of these numbers were outside the range of expectations. In addition, the services index continues to show growth. While roughly half of the economy is showing lower levels of inflation, the other half continues to grow. The strength of the jobs report and service sectors indicate that the Federal Reserve is not done raising rates. The other important issue is how long the Fed will keep rates at an elevated level. As of now, the market expectations indicate that the Fed will start cutting rates by September. At this point, that notion appears to be optimistic.

As far as macro themes are concerned, not much has changed for the program. Energy is still a core idea that will be accumulated on dips. Base metals, especially copper, are getting close to levels that are attractive. Over time, the yield curve will steepen. Stocks still appear to be richly valued based on historical standards. With the high amount of volatility seen lately, positioning is being kept small in the portfolio right now. While capital appreciation is certainly the second goal, capital preservation is the first.

Sincerely,

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