ASHVA Capital Management LLC

November 2023

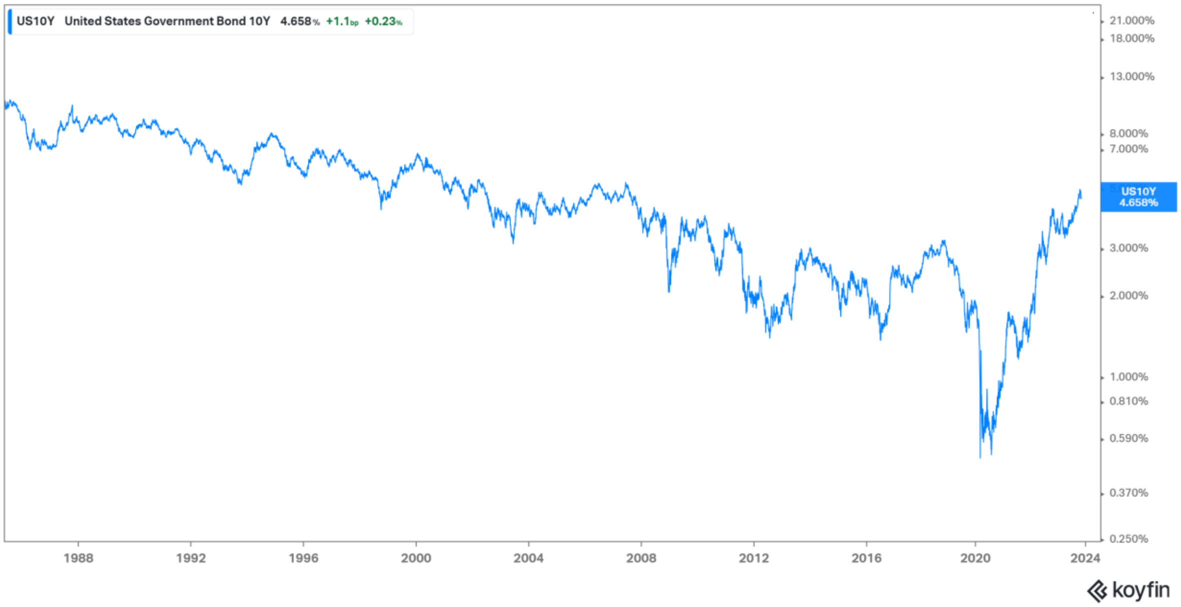
Dear Limited Partner,

The term "Goldilocks Economy," coined by Salomon Brothers Chief Equity Strategist David Shulman in the early 90s, often brings to mind the US economy at the end of the 90s. It was a period many veteran investors recall as the archetype of economic balance – full employment, price stability, and moderate economic growth. (Of course, this scenario ultimately led to the Dotcom bubble, but I digress.)

The recent news of Matthew Perry's untimely death has prompted me to reflect on the 90s, particularly the ethos captured by the TV show "Friends." This show was symbolic of the late 90s' carefree hedonism, a period when maintaining a job seemed to require minimal effort and offer abundant leisure time. Although the show was of course fictional, it mirrored a broader cultural sentiment of "ease" that defined this era. In stark contrast, today's twenty-something professionals face pressing concerns like climate change, soaring real estate prices, (finding enough surplus for) retirement savings, and broader social issues. Back then, these were all less pronounced in the public consciousness.

The Goldilocks Economy

While it's tempting to wax nostalgic about the 90s, it's also crucial to recognize the significant disparities between the "Goldilocks economy" of the era and current market dynamics. The most considerable difference remains the path of interest rates. The 90s marked the beginning of a bond market supercycle, with interest rates on a gradual decline. Over a 40-year period starting in the 80s, the yield on the 10-year US Treasury bond soared to around 16%, then subsequently plummeted to almost zero, and has since risen to 4.65%.

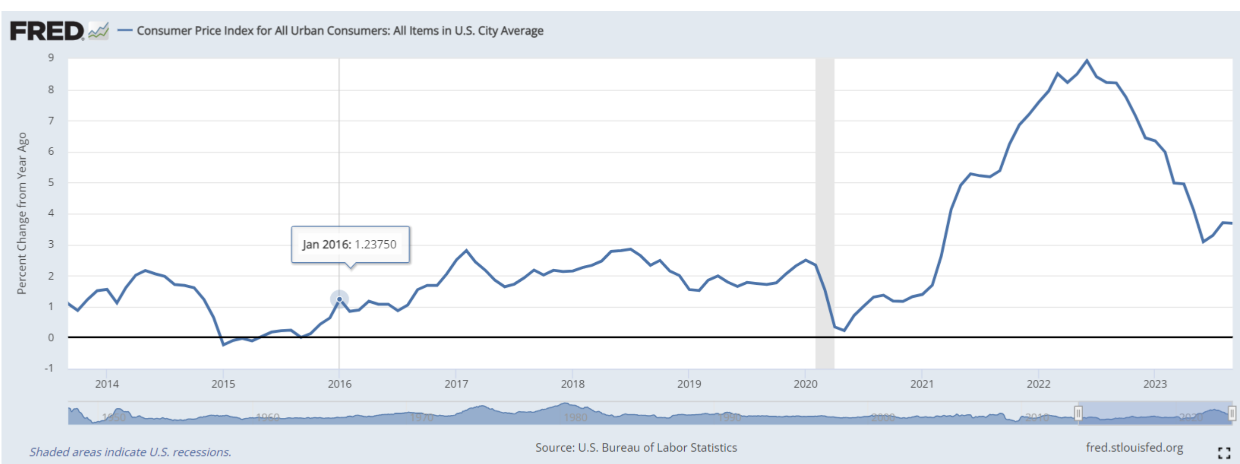


In my view, the likelihood of witnessing another bond supercycle in my investment career seems slim. Currently, the world's developed economies are grappling with towering public debt, massive fiscal stimulus, and a retreat from globalization. These factors will likely lead to elevated inflation and higher interest rates.

The US economy continues to show strength, with American consumers demonstrating remarkable resilience. In September 2023, US retail increased by 0.7% month-over-month, building on an upwardly revised growth of 0.8% in August and exceeding forecasts of a 0.3% gain.

US consumer spending is robust, bolstered by labor market vitality, with the unemployment rate remaining below 4% for 22 consecutive months. A combination of high post-Covid savings rates and job security has fueled an unexpected burst in consumer spending, confounding most economists' predictions for a 2023 recession.

Finally, as inflation continues to decline and GDP growth hovers around 2.0%, I see a strong foundation for a (sustained) multi-year bull market in equities.



<u>Our Performance</u>

The S&P500 had a rough September and was down 4.87% over the month. Despite this, the index has gained 11.68% year-to-date (YTD) through Q3 2023. In contrast, the Ashva Capital LP fund increased by 6.91% net of fees over the same period. I continue to believe in our portfolio's selection of high-quality businesses that are trading at what we think are reasonable to underpriced valuations, poised for outperformance throughout the business and market cycles.

For further insights, I’ve included my commentary from the Q2 2023 investor letter below.

> In my view, there is an extremely low probability that the US economy falls into a recession in the remainder of 2023. My base case assumption is that the US economy is most likely headed into a sustained expansion.
>
> Ankur Shah – Ashva Capital Management LLC, Q2 2023 Investor Letter

In summary, I believe that the US economy is on track for a prolonged expansion, and it’s a view that seems to be bearing out. Our portfolio’s strategic positioning mirrors this positive outlook and reflects our confidence in the continued growth of both the equity market and broader economy as we head into 2024.

Sincerely,

Ankur Shah
Managing Member
Ashva Capital Management LLC

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