ASHVA Capital Management LLC

February 2024

Dear Limited Partner,

As I write this letter in early February 2024, it's looking more likely that the Fed is going to do the impossible and achieve a soft landing. The National Bureau of Economic Research (NBER), which is the official arbiter of determining the beginning and ending of recessions in the US, does not explicitly define either a hard or soft landing. Generally, most investors would agree that a soft landing can be defined as a scenario where the Federal Reserve tightens monetary policy to control inflation without causing a recession. Jerome Powell himself has stated, "we still have a ways to go," when asked at a press conference in January 2024, whether the Fed has successfully engineered a soft landing. However, when considering the statements of central bankers, it's often more informative to observe their actions rather than rely solely on their words. Based on my analysis, it appears that the Federal Reserve may have concluded its rate hikes for this cycle.

I know it's hard to imagine but at the beginning of 2023, it was a foregone conclusion that the US economy was headed for a recession. Despite the prevalence of negative forecasts by many Wall Street strategists, I maintained the following perspective in my Q1 2023 investor letter: "As more time passes, I'm becoming increasingly certain that inflation has peaked, the Fed will pause and a recession will never materialize."

In my Q3 2023 investor letter, I wrote the following: "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. This period is often recalled by veteran investors as a model of economic balance – full employment, price stability, and moderate economic growth. (Of course, this scenario ultimately led to the Dotcom bubble, but I digress.)"

It's noteworthy that my reference to the term "Goldilocks economy" was met with significant skepticism from the more bearish segment of the market. My inbox is still full of hate mail, following the publication of that letter. The most common critique was that I was being pollyannish. If you actually read the letter, I wasn't even that optimistic. However, it's clear that a large number of investors and pundits remain ultra-bearish on the outlook for both the US economy and stock market. It's also with a certain amount of schadenfreude that I can state that Goldilocks eventually mauled Wall Street's biggest bear (Mike Wilson), when he announced he was stepping down from Morgan Stanley's investment committee. There will likely be more shifts in market sentiment before this bull market concludes.

The Myth of the Magnificent 7

After producing a 24.2% return in 2023, the S&P500 has shown an increase of 5% year-to-date in 2024. It's become a common belief that the gains in 2023 were solely driven by the Magnificent 7: AAPL, GOOGL, MSFT, AMZN, META, TSLA and NVDA. The top five performing stocks in the S&P500 were not just tech names, and also included the following:

1. NVDA – 239%
2. META – 194%
3. RCL – 162%
4. BLDR – 157%
5. UBER – 149%

Although I sold META earlier than perhaps optimal, we held BLDR (Builders FirstSource) in the portfolio at that time. If you want a more detailed explanation of our thesis for the US housing market, I recommend you read the Q2 2023 investor letter. In summary, my assessment is that a significant long-term consequence of the 2008 housing bubble is an extended period, exceeding a decade, of insufficient housing construction in the US. Thus, the millennials who are now reaching home ownership age face a shortage of housing that could last decades. As result, we owned both NVR and BLDR in our portfolio in 2023.

Our Performance

In 2023, the Ashva Capital LP fund delivered a net return of 16.18%, accounting for fees, while the gross return, prior to fees, stood at 18.53%. Although I was pleased with the performance, I acknowledge that a more aggressive approach could have potentially yielded higher results. I made the correct call that a recession wouldn't materialize and our bet on the housing sector paid off handsomely.

Regrettably, experience has taught that one can perfectly conceive an investment thesis yet not fully capitalize on it due to improper position sizing. I worked at a long/short equity fund during the '08 crisis as the lead financial analyst covering the banking sector globally.

Our analysis led us to conclude that the banks were short candidates after New Century failed in April 2007. We even successfully shorted $WAMU to zero among many other successful trades. On a related note, I would like to acknowledge the IR professional for their exceptional work during that period. You were a consummate professional until the very end. OK, back to the main story.

The reason you didn't hear about our firm and instead Michael Burry was forever immortalized in a Michael Lewis book is that he bought CDS protection. If you actually think about his trade, it's highly questionable. He was buying "insurance" from the same banks that were failing due to their mortgage-related exposure.

We didn't buy CDS because we were worried about counterparty risk. You didn't have to be Warren Buffett, to realize that level 3 assets were going to burn through all shareholder's equity. Burry realized profits because, as it turned out, Paulson and Geithner decided to extend a bailout to AIGFP, the division of insurance giant AIG responsible for issuing CDS against CDOs. At the time the "vampire squid" had $20 b in CDS exposure to AIG, so maybe it wasn't such an arbitrary decision. We can only assume "what if" scenarios at this point. Much like Al Bundy, who scored four touchdowns in a high school game, Burry continues to be recognized for a significant correct call he made over 15 years ago.

Looking Back at the Late 90s

The last time the Fed pivoted from rate hikes to rate cuts without sinking the economy was during the late 90s. The S&P500's 34% increase in 1995 stands as its best annual performance since the 1950s. This situation is familiar to those who have observed historical market patterns. Strong economic growth, a tame inflationary environment and a revolutionary technology that led to significant productivity gains drove the dotcom bubble in the late 90s. Obviously, nobody can predict where the stock market will end up at the end of 2024. However, there is a high likelihood that the current bull market not only charges ahead but also widens out and includes more sectors than just Tech. To borrow a cultural reference from Prince in 1982, the sentiment of the time could be described as "I'm going to party like it's 1999."

Sincerely,

Ankur Shah
Managing Member
Ashva Capital Management LLC

whole or in part, except to any employee named in item (i) in the preceding sentence, (y) to return the Letter to Ashva Capital promptly upon request and (z) to be responsible for any disclosure of the Information by such person or any of its employees, agents or representatives.