

TOP MARK CAPITAL MANAGEMENT LLC

Report For the Quarter Ended

December 31, 2023

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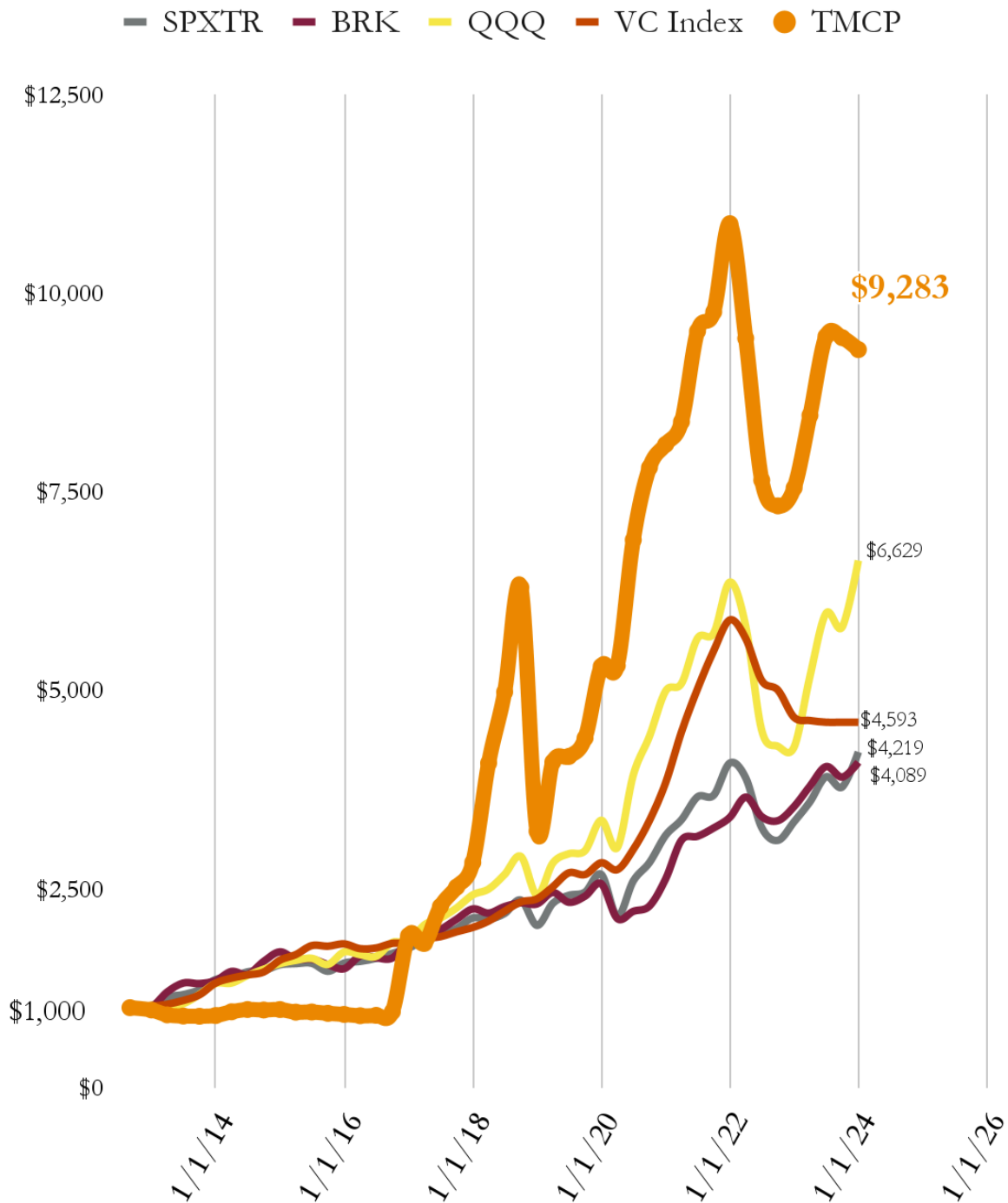
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CUMULATIVE RETURNS ON \$1,000¹



¹ Performance figures are presented net of all fees (i.e., management fees, costs, and performance fees). Please review the Important Disclaimers on Page 28. SPXTR: S&P 500 Total Return. BRK: Berkshire Hathaway Stock. QQQ: Nasdaq 100 Index ETF. VC Index: Cambridge Associates US Venture Capital Index.

Dear Partners and Prospective Partners,

I hope this message finds you and your loved ones in good health and high spirits. Reflecting on 2023, Top Mark Capital Partners (TMCP) achieved a 23.1% return after all fees and expenses. Since our journey began in September 2012, TMCP has yielded an impressive 21.7% annualized return. Our newer venture, Top Mark Health Partners (TMHP), initiated in the second quarter of 2023, gained 5.3%. The ensuing pages delve deeper into both partnerships' performances².

For those seeking long-term outperformance, our approach has demonstrated quite satisfactory returns. We're always here for a deeper conversation about either partnership and appreciate referrals to individuals who share our investment philosophy.

As our Partner, expect these quarterly letters, offering insights into our investment strategies and performance. Top Mark's administrator, Formidium Fund Management Services, will continue to provide quarterly account statements and annual audited financials. Please alert us if any communication has not reached you.

Our commitment to long-term success means less frequent updates might actually serve you better, avoiding the noise of short-term fluctuations. However, for those eager to hear from us more often, Jason and I share our thoughts weekly on the Telltales podcast. Subscribe at [telltales.us](https://www.telltales.us) for episode notifications.

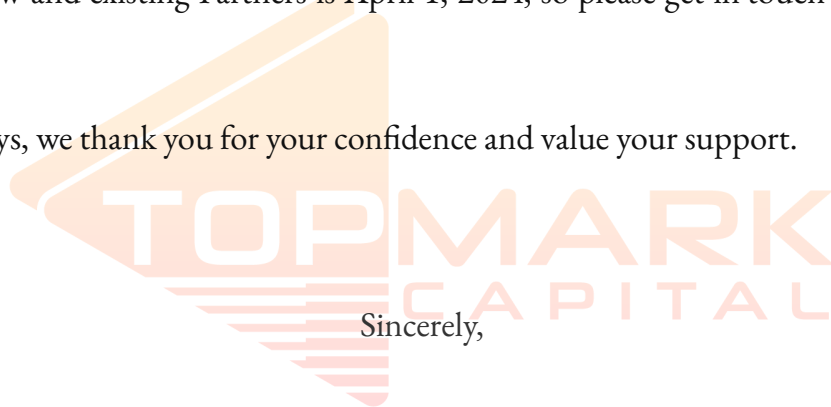
² Performance figures are presented net of all fees (i.e., management fees, costs, and performance fees)

Our edge lies in two areas: our capital allocation acumen and your patience as investors. It's this forward-looking perspective that sets us apart from the short-term crowd, defining our Partnership's essence.

When it comes to patience, we are fortunate to be surrounded by like-minded, long-term investors. Only by looking further out than the short-term crowd can we expect to outperform them. We are an investment partnership, not a hedge fund, and the relationship we seek with our Partners is different.

In the event that you share our temperament and perspective, we invite you to consider subscribing to one of our partnerships. The next contribution window for both new and existing Partners is April 1, 2024, so please get in touch and start the process.

As always, we thank you for your confidence and value your support.



Michael Nicoletti

Jason Wallace

TOP MARK CAPITAL PARTNERS LP

Partnership Letter

For the Quarter ended December 31, 2023



PARTNERSHIP LETTER & PERFORMANCE UPDATE³

TMCP CUMULATIVE RETURNS TO DATE

To: 12-31-2023, From:	TMCP % Net Return⁴	S&P 500 Total Return⁵	Relative Results
12/31/2022	23%	26%	-3%
12/31/2021	-15%	3%	-18%
12/31/2020	15%	33%	-18%
12/31/2019	75%	58%	18%
12/31/2018	188%	107%	81%
12/31/2017	228%	98%	130%
12/31/2016	387%	141%	246%
12/31/2015	915%	170%	744%
12/31/2014	851%	174%	677%
Since Inception ⁶	828%	321%	507%
<i>Annualized Since Inception</i>	21.7%	<i>13.5%</i>	<i>8.2%</i>

³ Please review the Important Disclaimers on Page 28

⁴ Performance is net of all fees (i.e., management fees, costs, and performance fees) and rounded to the nearest whole percentage.

⁵ S&P 500 total return, i.e. dividends reinvested.

⁶ September 1, 2012

In 2023, Top Mark Capital Partners (TMCP) delivered a solid 23% return⁷, which, while commendable, fell slightly short of the S&P 500's 26%. Since our inception in September 2012, we've seen our capital grow at an impressive annualized rate of 21.7%, significantly outstripping the S&P 500's 13.5%. To date, TMCP's total return stands at 828%, dwarfing the S&P 500's 321%.

Our 2023 results neither elate nor disappoint us. It's natural for us to occasionally lag behind the indices—expected about 30-40% of the time. We advocate for a long-term perspective when assessing performance. Short-term fluctuations are less indicative of our investment strategy's effectiveness than the compounded returns over time. The table above illustrates this point, showing how our approach has excelled over extended periods.

The S&P 500 Total Return Index is included, not as an explicit benchmark, but as a simple gauge against another investment you could have made, with returns presented the right way (cumulatively). Our expectation is that our disciplined process will, in the long run, yield superior returns to broad market indices like the S&P 500. On page 3, we've also included returns from Berkshire Hathaway, the Nasdaq 100, and the Cambridge US Venture Capital Index for a broader context.

We are acutely aware of the myriad of investment choices available to you and do not take lightly the responsibility that comes with managing your capital. Our commitment to this responsibility is reflected in the fact that the majority of our liquid net worth is invested alongside yours in TMCP.

For those who prefer to review annual returns, we've included a table on the next page. While this data provides context, we stress the importance of cumulative

⁷ Performance is net of all fees (i.e., management fees, costs, and performance fees) and rounded to the nearest whole percentage.

evaluation for a true reflection of our performance. Focusing solely on short-term periods can lead to misconceptions about the success of an investment strategy.

TMCP ANNUAL RETURNS DATA

Year	TMCP % Net Return ⁸	S&P 500 Total Return ⁹	Relative Results
2023	23%	26%	-3%
2022	-31%	-18%	-12%
2021	34%	29%	6%
2020	53%	18%	34%
2019	64%	31%	33%
2018	14%	-4%	18%
2017	48%	22%	26%
2016	108%	12%	96%
2015	-6%	1%	-8%
2014	8%	14%	-5%
2013	-7%	32%	-40%
2012 ¹⁰	-3%	2%	-5%

⁸ Performance is net of all fees (i.e., management fees, costs, and performance fees) and rounded to the nearest whole percentage.

⁹ S&P 500 total return, i.e. dividends reinvested.

¹⁰ From Inception, September 1, 2012

PORTFOLIO UPDATE & COMMENTARY

<u>Theme</u>	<u>% of Portfolio</u>			<u>Dividend /</u> <u>YTM</u>	<u>Free</u> <u>Cash</u> <u>Yield %</u>
	<u>12/31/2023</u>	<u>3/31/2024</u>	<u>Change</u>		
Software is Eating the World	31%	35%	3.8%	1.0%	2.8%
Health	28%	27%	-0.8%	1.0%	2.1%
TIIA	14%	12%	-2.0%	1.0%	2.1%
Open RAN, 5G, & the Future of Wireless Networks	5%	5%	-0.4%	1.0%	2.8%
Semiconductors are the Teeth	8%	2%	-5.9%	1.0%	2.7%
Metals Powered Economy	2%	2%	-0.4%	1.0%	2.1%
Yield Curve Inversion	<u>-3%</u>	<u>0%</u>	3.0%		
Stocks, Convertible Bonds, & Private Credit	85%	82%	-2.7%	0.8%	
<u>Cash</u>	<u>15%</u>	<u>18%</u>	2.7%		
Total Partnership	100%	100%			

The table above outlines our Partnership's thematic allocations as of March 31, 2024¹¹. The following pages detail our allocations and activity for each theme.

NOTE: Non-Partners will find the following section redacted. If you'd like to have a serious discussion about our joining our partnership, please reach out to us directly.

¹¹ If you are unfamiliar with our process and philosophy, please review our [2022 Annual letter](#), or reach out to us directly to request a copy

Software is Eating the World

	<i>% of Portfolio</i>			<i><u>Dividend /</u></i>	<i><u>Free</u></i>
	<i><u>12/31/2023</u></i>	<i><u>3/31/2024</u></i>	<i><u>Change</u></i>	<i><u>YTM</u></i>	<i><u>Cash</u></i>
					<i><u>Yield %</u></i>
Nvidia	13%	20%	7.0%	1.0%	3.0%
Microsoft	9%	9%	-0.1%	1.0%	3.0%
Amazon	5%	5%	-0.2%	1.0%	3.0%
Snowflake	1%	1%	0.1%	1.0%	3.0%
Hubspot	2%	0%	-2.0%		
Theme Total	30%	35%	4.8%	0.0%	

Updates on our positions follow:

Nvidia continues to be the pick and shovel of the AI industry, generating \$11.5 billion in free cash flow in the quarter ending 4/30/2024. That is up from \$11.5 billion in the previous quarter. Our previous discussions on Nvidia, particularly in our 2023 Q3 letter¹², provide deeper insights.

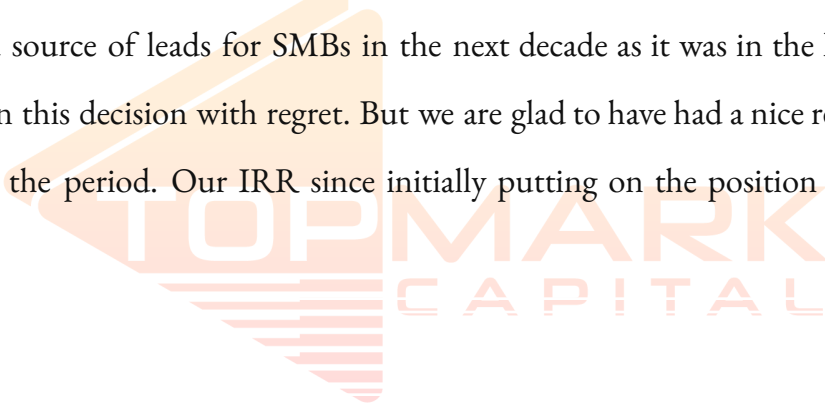
Microsoft continues to chip away at our free cashflow forecast. As of the quarter ended XX, they doing 75bn in run rate free cash flow. Thats up from XX when we first entered the position in XX. We anticipate these investments will help Microsoft reach \$90 billion in annual free cash flow.

Amazon's AWS continues to invest heavily in AI infrastructure. Stiff competition on low cost items from China has emerged from Temu (a Pin Duo Duo company), but any share caputred has been easily eclipsed by Amazon's increasing share of wallet that has resulted from heavy investments in logistics that provide its customers with delivery times.

¹² The 2023 Q3 Letter is available [here](#), or reach out directly to request a copy

Snowflake plays a pivotal role in data analysis, acting as a beacon of truth in an otherwise probabilistic landscape. We believe the rise of AI and Large Language Models (LLMs) will provide a significant boost to Snowflake - even though all the focus today is on the latest new model from OpenAI, Anthropic, Google, or Meta. As AI evolves towards more modular solutions, Snowflake's importance in AI training and tailored applications is expected to increase.

Hubspot. They say you don't really know a company till you own it. We sold a large portion of our position in opportunistically in 2022, but held on to this small portion until this Q1. We decided to exit the position as we feel its fate is indexed to the importance of the open web to SMBs. It is not clear to us that the open web will be as important a source of leads for SMBs in the next decade as it was in the last. We may look back on this decision with regret. But we are glad to have had a nice return on our capital over the period. Our IRR since initially putting on the position in 2021 was xx%.



Health

	<i>% of Portfolio</i>			<i><u>Dividend /</u></i>	<i><u>Free</u></i>
	<i><u>12/31/2023</u></i>	<i><u>3/31/2024</u></i>	<i><u>Change</u></i>	<i><u>YTM</u></i>	<i><u>Cash</u></i>
Lantheus	20%	17%	-2.7%	1.0%	3.0%
Celsius	8%	10%	1.9%	1.0%	3.0%
Theme Total	28%	27%	-0.8%	0.0%	

Our health theme contains positions that otherwise are in Top Mark Health Partners (TMHP). Our positions include Lantheus Holdings and Celsius. For a deeper dive into these investments, refer to the Top Mark Health Partners section of this report.

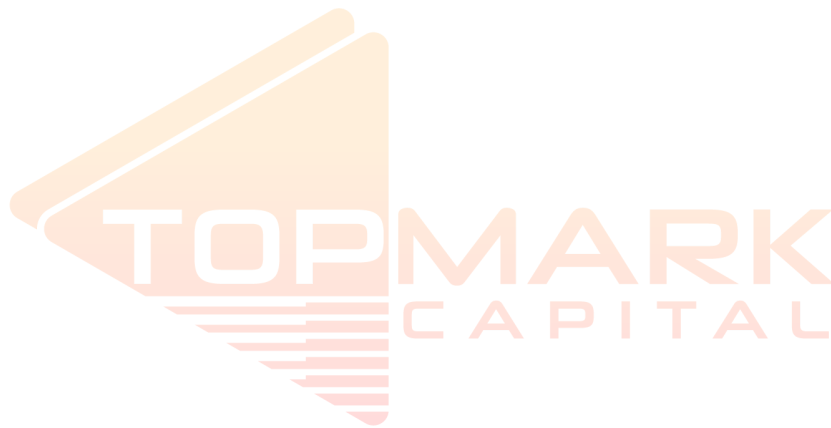
There is an Alternative (TIAA)

<i><u>There is an Alternative (TIAA)</u></i>	<i>% of Portfolio</i>			<i><u>Dividend /</u></i>	<i><u>Free</u></i>
	<i><u>12/31/2023</u></i>	<i><u>3/31/2024</u></i>	<i><u>Change</u></i>	<i><u>YTM</u></i>	<i><u>Cash</u></i>
CLI Studios	6%	5%	-1.3%	1.0%	3.0%
Altria	4%	4%	-0.2%	1.0%	3.0%
Lifelink	3%	3%	-0.3%	1.0%	3.0%
Zan Compute	1%	1%	-0.3%	1.0%	3.0%
Theme Total	14%	12%	-2.0%	1.0%	3.0%

There were no changes to our positions in this theme during the quarter and fluctuations in weighting were due to returns in other themes. Updates follow.

Private Credit. CLI Studios has been our best performing credit and we opted to increase our loan commitment and extend the term to 12/31/2026. That deal was

solidified mid Q2. We will receive an increased interest rate and warrant. Ammortization will be suspended until XXX 2025. There are no significant updates to Zan Compute, except that the company contines to meet its obligations and the loan is ammortizing. The Lifelink loan presented some challenges at maturity (3/31/2024), but all were resolved and the loan was repaid on April XX. This loan fetched us an IRR of XX and we retain a warrant with a put right. While we had discussed syndicating future loans to our partners, we've seen very little activity and as of this writing we are planning to do another, very small participation.



Open RAN, 5G, & the Future of Wireless Networks

<u><i>Open RAN, 5G, & the Future of Wireless Networks</i></u>	<u><i>% of Portfolio</i></u>			<u><i>Dividend /</i></u>	<u><i>Free</i></u>
	<u><i>12/31/2023</i></u>	<u><i>3/31/2024</i></u>	<u><i>Change</i></u>	<u><i>YTM</i></u>	<u><i>Cash Yield %</i></u>
Dish Network (now Echostar)	1%	1%	-0.4%	1.0%	6.0%
Dish Convertible Bonds due 2025	4%	4%	0.0%	1.0%	3.0%
Theme Total	5%	5%	-0.4%	1.0%	

Our "Open RAN, 5G & the Future of Wireless Networks" theme is focused on leveraging the transformative power of 5G and the evolving landscape of wireless networks. In this arena, patience is key. Our investment thus far was Dish Network - a position in both the a perferred bond and the stock. Neither investment has played out quite as planned, though we are still confident in Charlie Ergen's leadership (and ownership), which aligns with our long-term interests. For a deeper dive into this theme, our 2022 Q2 letter¹³ offers more insights.

Semiconductors are the Teeth

<u><i>Semiconductors are the Teeth</i></u>	<u><i>% of Portfolio</i></u>			<u><i>Dividend /</i></u>	<u><i>Free</i></u>
	<u><i>12/31/2023</i></u>	<u><i>3/31/2024</i></u>	<u><i>Change</i></u>	<u><i>YTM</i></u>	<u><i>Cash Yield %</i></u>
Taiwan Semiconductor	2%	2%	0.1%	1.0%	3.0%
ASML	6%		-6.0%		
Theme Total	8%	2%	-5.9%	0.0%	

We closed our ASML position XX. Glut of trailing edge capacity has us concerned about the the company's abilty to hit its targets. Comined with the fact that the

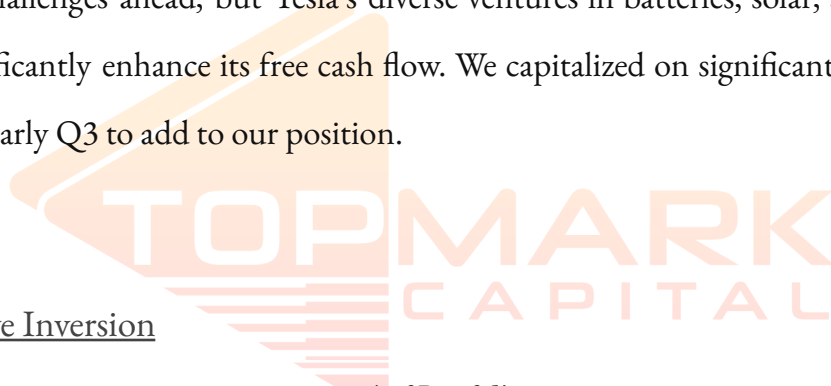
¹³ The 2022 Q2 Letter is available [here](#), or reach out directly to request a copy

valuation was within striking distance of our target 2 years early, we were happy to exit the position with an xx% IRR.

Metals Powered Economy

<u>Metals Powered Economy</u>	<u>% of Portfolio</u>			<u>Dividend /</u>	<u>Free</u>
	<u>12/31/2023</u>	<u>3/31/2024</u>	<u>Change</u>	<u>YTM</u>	<u>Cash</u>
Tesla (including options)	2%		-2.0%	3.0%	9.0%
Theme Total	2%	0%	-2.0%	3.0%	

We added to Tesla, our sole remaining investment in this theme. The EV industry may face challenges ahead, but Tesla's diverse ventures in batteries, solar, and robotics could significantly enhance its free cash flow. We capitalized on significant drawdowns in Q1 and early Q3 to add to our position.



Yield Curve Inversion

<u>Yield Curve Inversion</u>	<u>% of Portfolio</u>			<u>Dividend /</u>
	<u>12/31/2023</u>	<u>3/31/2024</u>	<u>Change</u>	<u>YTM</u>
QQQ Hedge	-3%	0%	3.0%	0.0%
Theme Total	-3%	0%	3.0%	0.0%

We first discussed the Yield Curve Inversion in our Q1 2023 letter¹⁴. Our hedges finished out of the money, leaving us with a loss. That said, we remain vigilant about the underlying risks, which we elaborated on in the follow-up article, "A Yield Curve Inversion Follow-Up," in our 2023 Q4 Letter. We are actively monitoring this event and are considering another hedge.

¹⁴ The 2023 Q1 Letter is available [here](#), or reach out directly to request a copy

TOP MARK HEALTH PARTNERS LP

Partnership Letter

For the Quarter ended December 31, 2023



PARTNERSHIP LETTER & PERFORMANCE UPDATE¹⁵

This Q4 letter marks Top Mark Health Partners' first calendar year in existence, through three quarters of performance. In that time, the partnership has opened three full positions, two research positions, two workouts (from the "Working Out With the FTC" theme, namely Seagen and Applied Molecular Transport), and held a substantial portion of the portfolio in Treasury Bills while we continue to look for opportunities to deploy capital. The partnership returned 5.3% for the calendar year, which compares identically to the 5.3% gain in the S&P 500 Healthcare Sector index (and the risk-free rate of return, coincidentally). TMHP's performance must be taken in context: a short-term result towards a long-term portfolio. We feel strongly that the current wave of innovation across the life sciences industry will provide significant opportunities for returns over the long-run.

Broadly speaking, the biotech sector has not enjoyed the exuberance that the market had as a whole through 2023. Early in the pandemic, excitement built for advancements in diagnostics, vaccine infrastructure, and the use of mRNA coming to fruition. The S&P Biotech index appreciated 49% in 2020, only to give that up (and then some) over the next 18 months. Today the index sits below levels last reached in 2018. Meanwhile, as science advances, several areas of research are poised to shake up the current standard of care.

A brief survey of these developments begins with the recent approval of the first CRISPR gene editing therapy. Humans can now edit our own genetic code and cure previously incurable genetic disease.

¹⁵Please review the Important Disclaimers on Page 28

A separate flood of precision therapies are coming our way in the next few years by way of antibody-drug conjugates and radiopharmaceuticals. In both cases a protein is used to target specific cell types, usually cancers, with the goal of delivering a drug or radioisotope treatment in a very localized manner.

Cancer vaccines are coming to fruition with data from recent studies showing they can be very effective.

Finally artificial intelligence models are successfully simulating organic chemistry - ultimately accelerating the drug development process. The pace of innovation in healthcare is accelerating, and innovation brings opportunity.

What we look for in a company

Our ideal investment in the health fund will have a number of the following characteristics:

- Growing cash flow. This translates to having a product in the market that is gaining share and/or pricing power. By definition, this excludes clinical stage biopharma companies and the associated risks. The classic example is the single asset biotech, where no matter how promising their treatment seems, a single misstep in the clinical or regulatory process can spell doom for the company.
- A competitive moat. A moat gives us a reasonably high expectation that the company has found a secure revenue stream. This results in the ability to successfully fend off competition and maintain pricing power. In healthcare, this is often provided by patent protection on a compound, a process, or a product. Even then, a problem may be solved utilizing completely different methods. Therefore, the moat must also include some other aspects that make it undesirable to compete

against, such as a highly effective treatment or a pipeline of follow-on research to build upon the original product.

- Financing R&D out of cash flows. We like to see efficient capital allocation, which as it relates to TMHP, means disciplined and effective allocation. Ideally a company has to spend no more than 50% of free cash flow to fund research that could provide a substantial benefit to the business.

An even better (and rarer yet) situation would be for the company to spin out promising research into separate companies. The parent company will place IP and seed capital into the new business and let the more risk-tolerant investors, such as venture capitalists, select and fund the winners. Besides large equity positions, the parent company typically retains royalties on the IP that could one day turn into a new revenue stream. This scenario allows the company to avoid the large R&D spend of pushing treatments through clinical trials, and ideally focus on returning capital to shareholders.

- Innovation in a segment of the market that has been stagnant. R&D spent developing new therapies / diagnostics / products in markets, ideally large markets, that have not seen innovation in quite some time has a greater potential to be impactful for patients and the business.
- Asymmetric upside. The factors above combine to provide an investment with asymmetric upside. The potential gains from cash flow well-allocated into research will significantly outweigh the downside. That research could transition into a new line of business for the company. Whereas if that research failed to materialize into anything of value, the company can fall back on its growing cash flows which in all likelihood, grow further with the reduction in R&D spend.

PORTFOLIO UPDATE & COMMENTARY

<u>Position</u>	<i>% of Portfolio</i>		
	<u>9/30/2023</u>	<u>12/31/2023</u>	<u>Change</u>
Vertex Pharmaceuticals	20%	23%	3%
Lantheus Holdings	15%	22%	7%
Celsius Holdings	9%	9%	-1%
AMTI-CYTH Merger Arb	-1%	0%	2%
Seagen	5%	0%	-5%
Stocks	48%	54%	6%
<u>Cash</u>	<u>52%</u>	<u>46%</u>	-6%
Total Partnership	100%	100%	

In our Q3 letter¹⁶, we discussed the patience required to see new drugs through the clinical research and regulatory pathways. In Q1 2024, we anticipate greater clarity on some of the phase 3 research conducted by two of our investments: Lantheus Holdings and Vertex Pharmaceuticals, down 26% and up 22% respectively from Q2. While the data from previous studies appears promising, the outcomes remain uncertain.

The thing we like most about these two companies is their ability to finance research out of free cash flow. They both have strong, profitable drug or diagnostic franchises, providing a margin of safety in the event the research fails and new drug programs are canceled. However, if management invests that capital wisely, it has the ability to pay off with asymmetric upside. This very much aligns with the investment blueprint described above.

¹⁶ The 2023 Q3 Letter is available [here](#), or reach out directly to request a copy

Vertex Pharmaceuticals

In the fourth quarter we received data on the pipelines of two of our holdings. The first announcement came from Vertex Pharmaceuticals, receiving FDA approval of exa-cel, now branded as Casgevy, for the treatment of sickle cell disease. This was a watershed moment not just for patients suffering from severe sickle cell disease, but for medicine, as we've now entered a period where we can safely cure disease with CRISPR gene editing. Sticker shock occurs at first hearing of the \$2.2m price tag on Casgevy. However, in context, a sickle cell patient will incur roughly \$6m in lifetime treatment costs. Not to mention the decades that will be added to the lives of these people. It's an easily justifiable price.

Looking ahead, this coming quarter holds another significant milestone for Vertex Pharmaceuticals. They are expected to announce the data readout of their phase 3 study results for VX-548, their non-opioid painkiller. This combination of phase 3 studies may give Vertex enough data to request the FDA approve the drug for the broad use of postoperative acute pain, rather than specific, narrow indications. We believe the prospects for approval are strong considering the competitive drugs are opioids. VX-548 will open an entirely new class of pain treatment. The phase 2 data show VX-548 is roughly comparable in pain relief to opioids. Even if this overstates its effectiveness, there is a clear need for a strong painkiller without addictive properties.

Lantheus Holdings

The second piece of anticipated news this quarter came from Lantheus Holdings. They provided the data readout for their phase 3 study of the PNT2002 radioligand therapy for treatment of metastatic castration-resistant prostate cancer (mCRPC). The study met its goal of showing a statistically significant improvement in staving off the

progression of the disease. However, and similar to Novartis' competing research, the study failed to collect enough data on the overall survivability of patients receiving the treatment. In both studies, nearly 9 out of 10 patients who were enrolled in the control arm requested radioligand therapy once the disease progressed. This caused both companies to collect too little overall survivability data, requiring them to continue studies and delay submission to the FDA. While this is a setback in timing, we do not believe this invalidates any part of our investment thesis.

Celsius Holdings

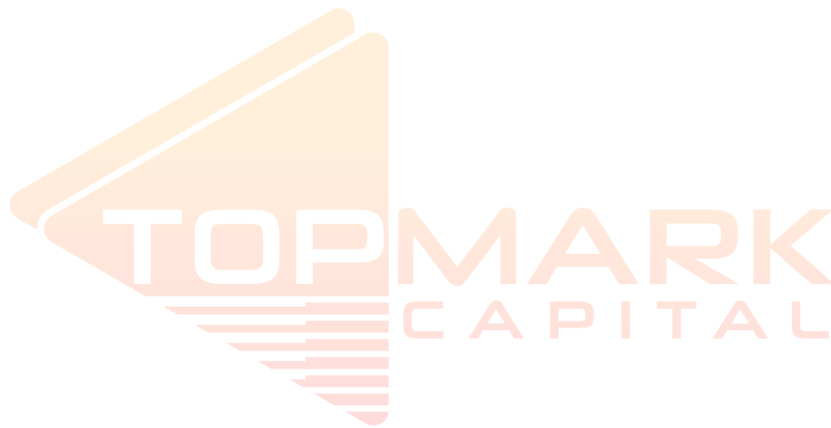
Celsius, up 103% from where we opened the position in April, is the maker of Celsius branded "fitness drinks", sugar-free energy drinks marketed towards people with active lifestyles. Initially introduced to the market as a pre-workout beverage, Celsius has now achieved prominence in the broader energy drink category as a healthier alternative.

While we tend to think of energy drinks as a relatively new category, not much change has occurred since the Red Bull / Monster duopoly was solidified more than a decade ago. Celsius, with its natural flavors, sugar-free formula, brighter branding, and female forward marketing has introduced a new customer to the category: women. The total addressable market for Red Bull and Monster was considered 100% of men, and only 33% of women ages 18 to 34. Celsius broadened that aperture to 100% of men and 100% of women ages 18 to 44, more than doubling the total addressable market.

Earlier this year we reached the comfort level needed to open positions in this company. Celsius has demonstrated the ability to generate consistent free cash flow, negotiated a national distribution deal with PepsiCo, and has now captured 10% of the

energy drink market, a threshold not achieved by any product not adorned with a monster claw or a bull.

Given Celsius became the #1 energy brand on Amazon in the third quarter, and holds 24% market share in their home territory of South Florida, we believe it's possible that Celsius ultimately becomes the second largest energy brand in the US.



A YIELD CURVE INVERSION FOLLOW-UP

In Q1 of 2023 we published an essay titled *A Brief History of Yield Curve Inversions* where we analyze the timelines involved from an inversion to a recession. While not all yield curve inversions result in a recession, all recessions have been preceded by yield curve inversions. And as far as the magnitude of an inversion goes, the present is as deep as they generally get.

Today, the commentary in the finance community is largely that we've threaded the needle with the economy achieving a soft landing. It certainly appears to be the case given our most recent inflation and GDP readings. However, when it comes to recessions, things often appear great right up until they're not.

While conducting research for that essay, we took a trip down the street to the San Diego Central Library where we found copies of business journals from 1990. The thing that stuck out the most was the general commentary leading up to, and during, the month that the recession actually began was of the tone "mission accomplished", a soft landing had already been achieved. When I hear those words today, I can't help but think back to those articles.

Recently, when you find one headline describing how strong the economy is, beside it you will find another announcing a round of layoffs. The first indication we've seen where this is showing up in the economic data is from the December jobs report. In it, if you dig beyond the headline numbers, you will find that the full-time employment month over month declined by 1.53m jobs. This was a big reversal of an upward trend and we'll be paying close attention to what the numbers say going forward into 2024.

Why bring up the first potential cracks in the economy? Because in our analysis of past yield curve inversions, January 15th of 2024 marked the mean time of recession onset based on the date of initial inversion. Within one standard deviation, the recessionary window is from May 15th, 2023 to Sept 16st, 2024. Another metric analyzed was the duration between the peak of inversion to recession onset. That duration was roughly 10 months on average. Our current yield curve inversion peaked twice at the same level on March 8, 2023 and again on July 3, 2023.

In the prior essay we looked at market reactions to those past inversions. No surprise, the current one is tracking to expectations. From initial inversion, the S&P 500 averages a 25.3% gain before the economy begins contracting. As of January 15th, the S&P has gained 24.8%.

Finally, I'd like to point out Mr. Market's current cognitive dissonance. The general consensus is that the Fed made misstep after misstep in their handling of the post-pandemic years (and the use of the word "transitory"). Simultaneously, there is also consensus that the Fed has engineered an economic soft-landing, a miraculous feat that history shows is incredibly difficult. Time will tell if the FOMC performed their duties wonderfully or woefully.

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