SOHN INVESTMENT CONFERENCE

DAVID EINHORN

June 9, 2022

I was hoping that this year the Sohn Conference would be in person. I enjoy the energy in the room and the immediate feedback I get of the more interesting and what I think to be the funny parts, which I only know are funny when I hear you laughing.

Disclaimer

The information contained herein reflects the opinions, estimates and projections of Greenlight Capital, Inc. ® and its affiliates (collectively "Greenlight") as of the date of publication, which is subject to change without notice at any time subsequent to the date of issue, and serves as a limited supplement to a verbal presentation. Greenlight does not represent that any opinion, estimate or projection will be realized. All information provided in this presentation is for informational purposes only and should not be deemed as investment advice or a recommendation to purchase or sell any specific security. Greenlight has an economic interest in the price movement of the securities discussed in this presentation, but Greenlight's economic interest is subject to change without notice. While the information presented herein is believed to be reliable, no representation or warranty is made concerning the accuracy of any data presented.

GREENLIGHT® and GREENLIGHT CAPITAL, INC. with the star logo are registered trademarks of Greenlight Capital, Inc. or affiliated companies in the United States, European Union and other countries worldwide. All other trade names, trademarks, service marks, and logos herein are the property of their respective owners who retain all proprietary rights over their use. This presentation may not be reproduced without prior written permission from Greenlight.

The information contained within the body of this presentation is supplemented by footnotes that identify Greenlight's sources, assumptions, estimates, and calculations. This information contained herein should be reviewed in conjunction with the footnotes.

THESE MATERIALS SHALL NOT CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY ANY INTERESTS IN ANY FUND MANAGED BY GREENLIGHT OR ANY OF ITS AFFILIATES. SUCH AN OFFER TO SELL OR SOLICITATION OF AN OFFER TO BUY INTERESTS MAY ONLY BE MADE PURSUANT TO DEFINITIVE SUBSCRIPTION DOCUMENTS BETWEEN A FUND AND AN INVESTOR.

2

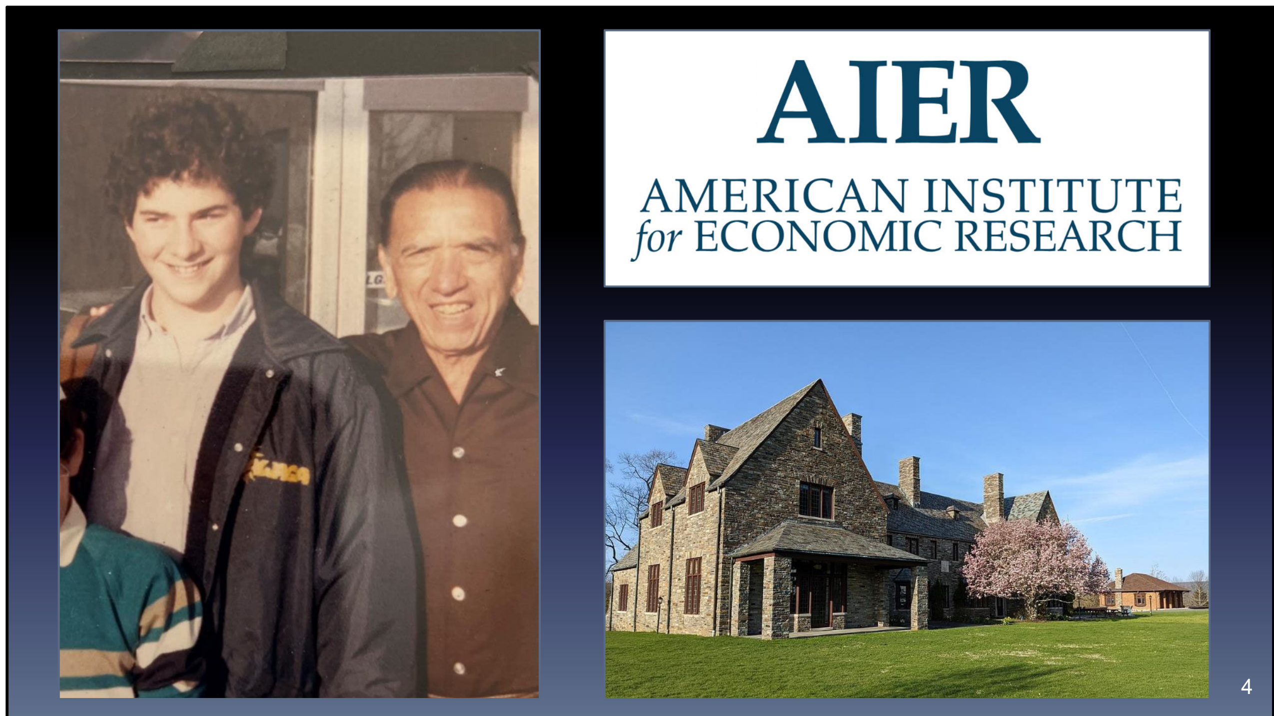
Here is the disclaimer. I'd like to remind everyone that the ideas I'm about to present are existing positions in our portfolio. We may change our positions at any time.

This is my Grandpa Ben and Me. This may look like a 1-year-old birthday, but I have it on good family authority, this was actually my first gold talk. Grandpa Ben was a big gold bug. He believed that replacing the gold standard with fiat money would end with a terrible inflation.

My question was, “When would this happen?”

Grandpa Ben’s answer was, “Eventually.”

Source: Mom



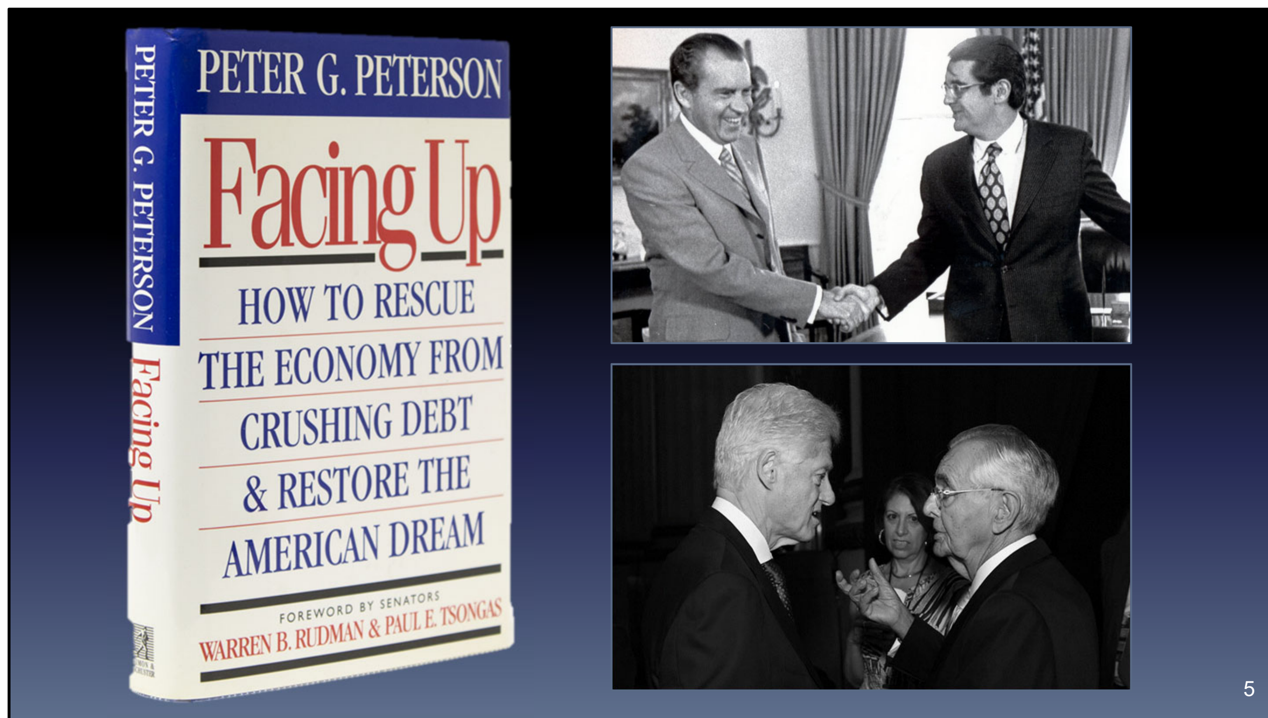
After I began managing money, Grandpa Ben continued to prod me. Here we are at the American Economic Institute, which Grandpa Ben supported, where I went for another weekend of indoctrination about gold.

And, yet, we owned no gold.

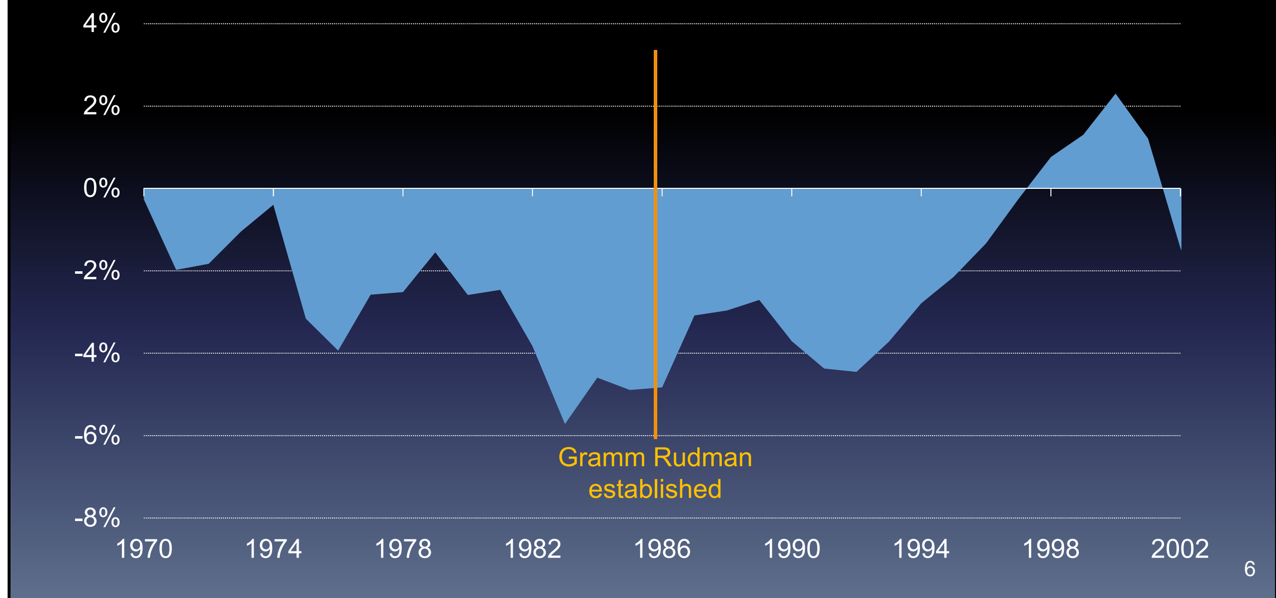
“Eventually” is not a good time horizon for a hedge fund.

However, my thought today is that “eventually”… is now or, at least it is soon enough, that gold is a buy.

____
Source: Aunt Faith

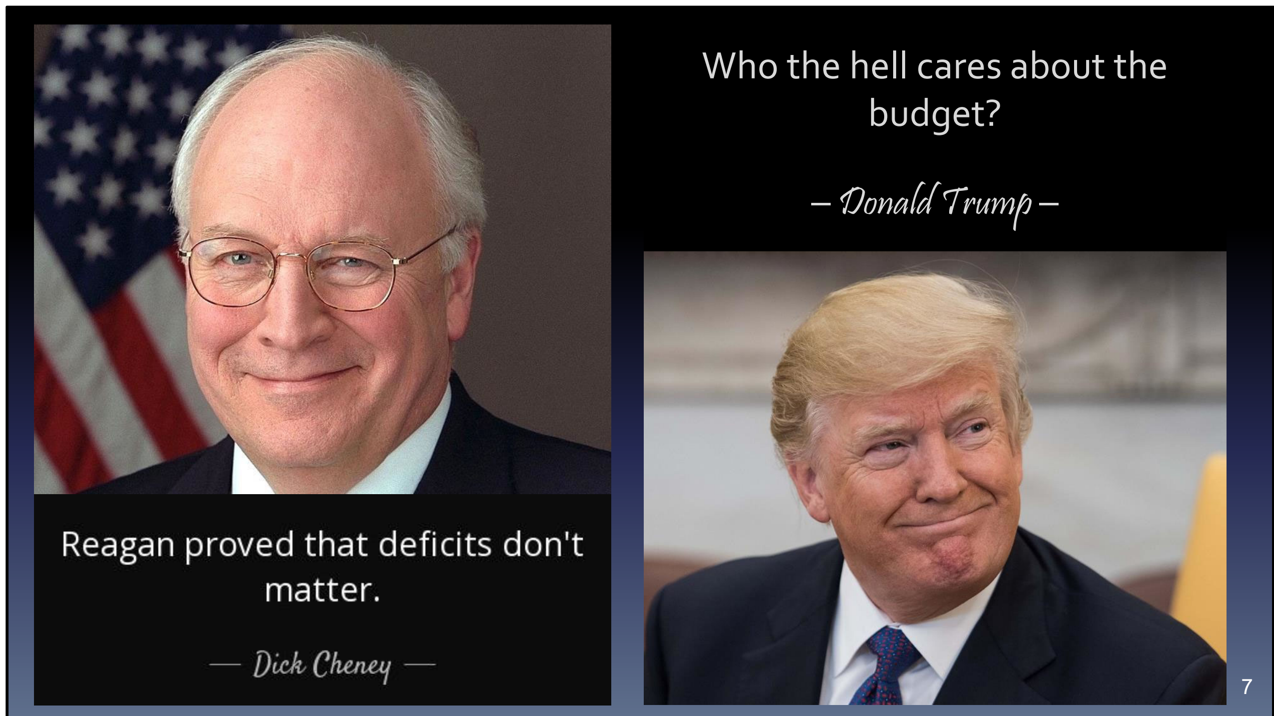


It's no secret that the U.S. has had a deteriorating fiscal situation for some time. Pete Peterson wrote a whole book about our demographic and fiscal situation in 1993. Back then, our long-term problems were visible, but long-term. The rubber would meet the road when the baby boomers retired.

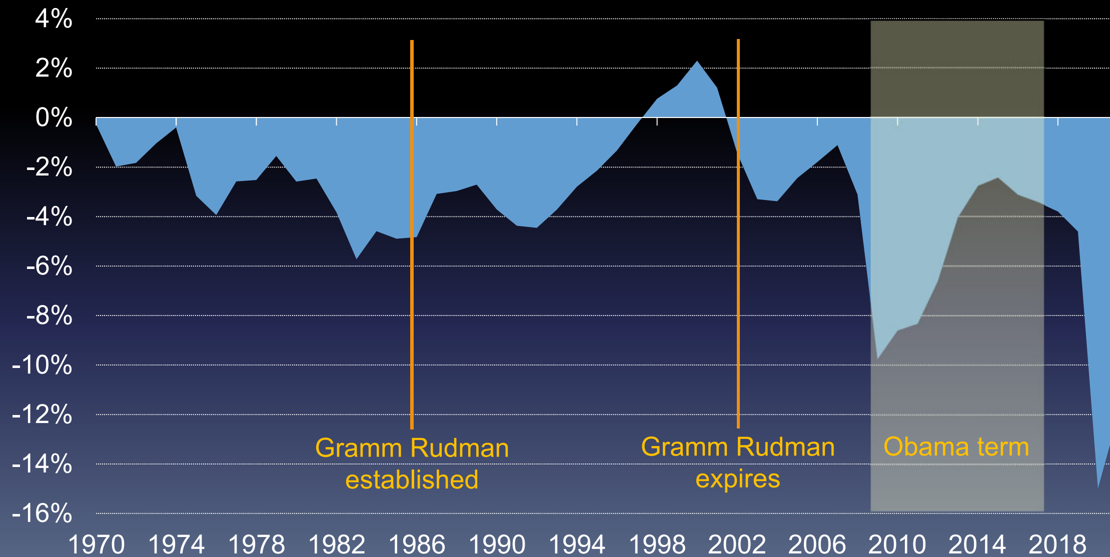


Politicians used to take this seriously. We made some progress along the way. The Gramm-Rudman-Hollings Balanced Budget Act of 1985 set targets for deficit reduction and created sequestration orders to automatically reduce spending if targets weren't met. This led to a balanced budget in 1999. In 2002, Gramm-Rudman expired.

Source: www.usgovernmentspending.com



Since then, fiscal incontinence has been a bipartisan effort. Here we have Dick Cheney, whose boss added a large unfunded new drug benefit for seniors, and Donald Trump, who had the deficit explode during his term, arguing deficits don't matter. They supposedly represent the conservative party of fiscal responsibility.

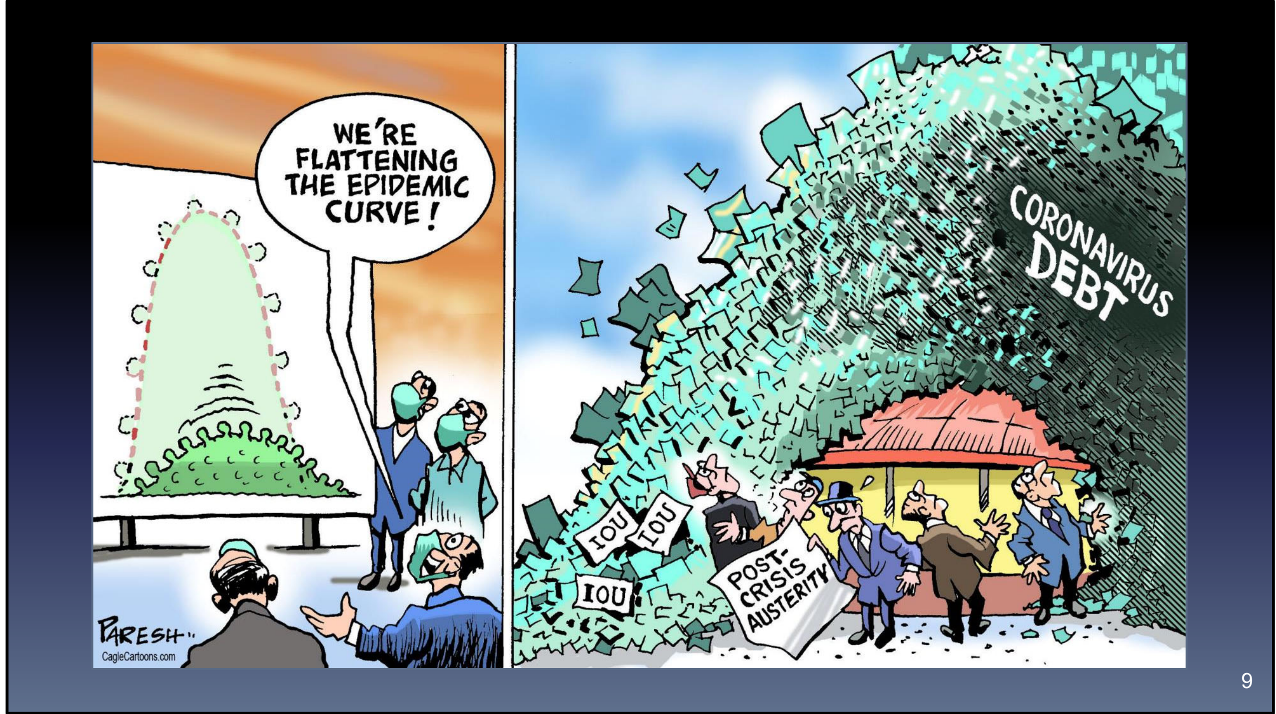


In response to the Great Financial Crisis of 2008, we socialized a lot of the private sector losses and transferred the problem to the sovereign.

The Democrats, believe it or not, have been somewhat better. President Obama entered with an astronomical deficit and left with merely a large one.

Then Covid came, and any remaining fiscal discipline went out the proverbial window.

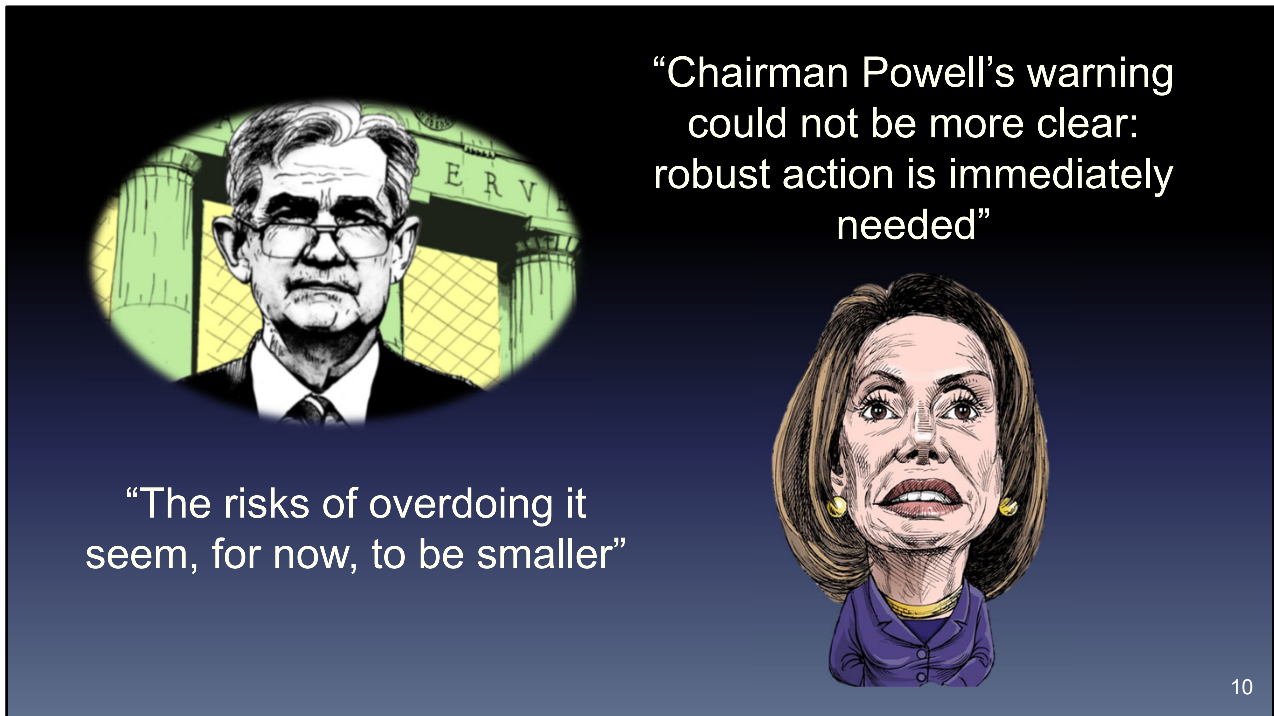
Source: www.usgovernmentspending.com



First came the $2.2 trillion CARES Act in March of 2020. Given the crisis, this seemed completely understandable.

____

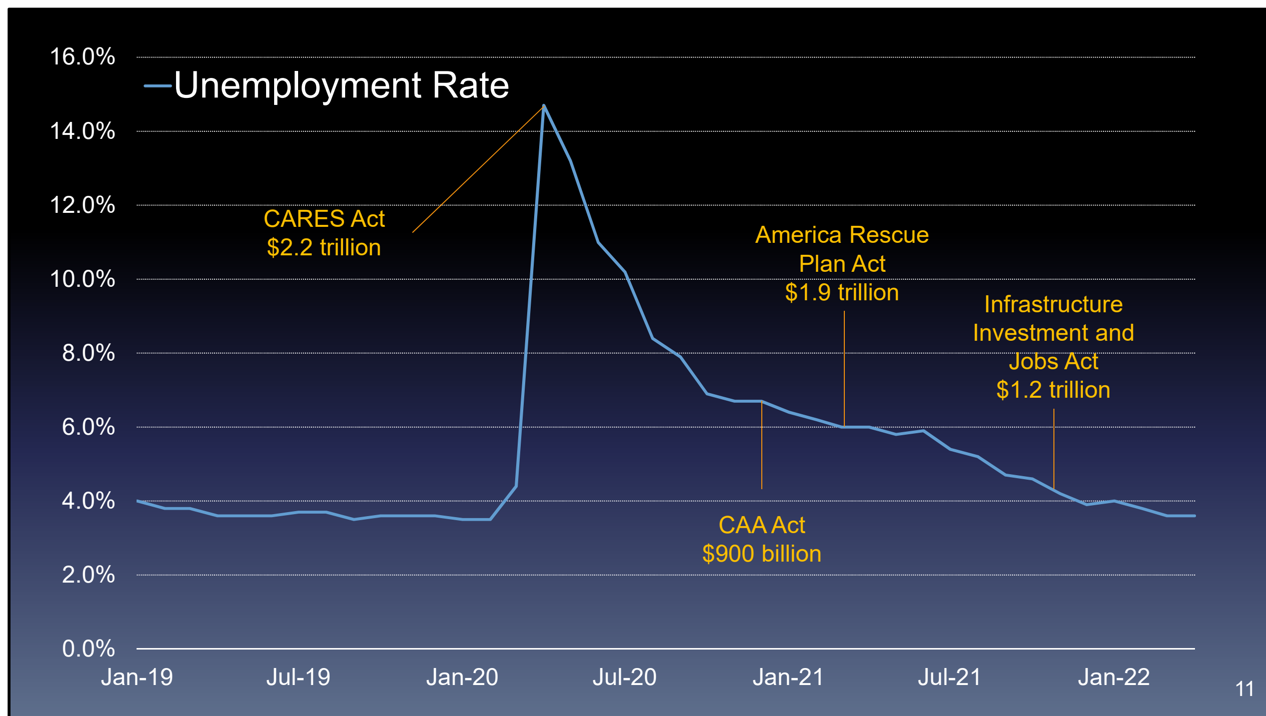
Source: Coronavirus Debt by Paresh Nath, The Khaleej Times, UAE



In October 2020, Powell confidently asserted that when it came to Congress spending more, “the risks of overdoing it seem, for now, to be smaller.” Implicitly, he promised to print whatever was needed to facilitate this.

In a statement right after Mr. Powell’s speech, Nancy Pelosi stood proud and said, “Chairman Powell’s warning could not be more clear: robust action is immediately needed.”

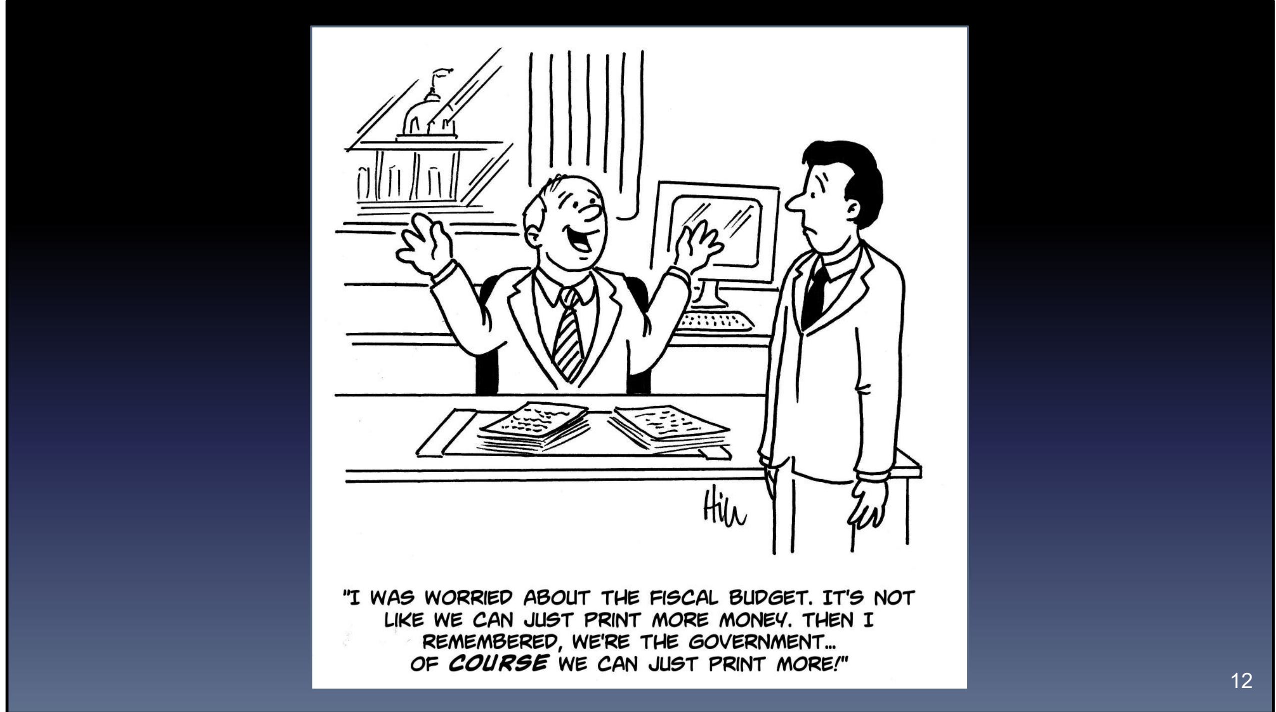
Source: https://www.cnbc.com/2020/10/06/fed-chair-powell-calls-for-more-help-from-congress-says-theres-a-low-risk-of-overdoing-it.html and https://www.speaker.gov/newsroom/10620



This lead to an enormous second $900 billion rescue stimulus in December 2020. In May 2021, Janet Yellen said, and I'm paraphrasing, "Historically low interest rates mean the government can spend now… debt concerns should not keep the government from spending."

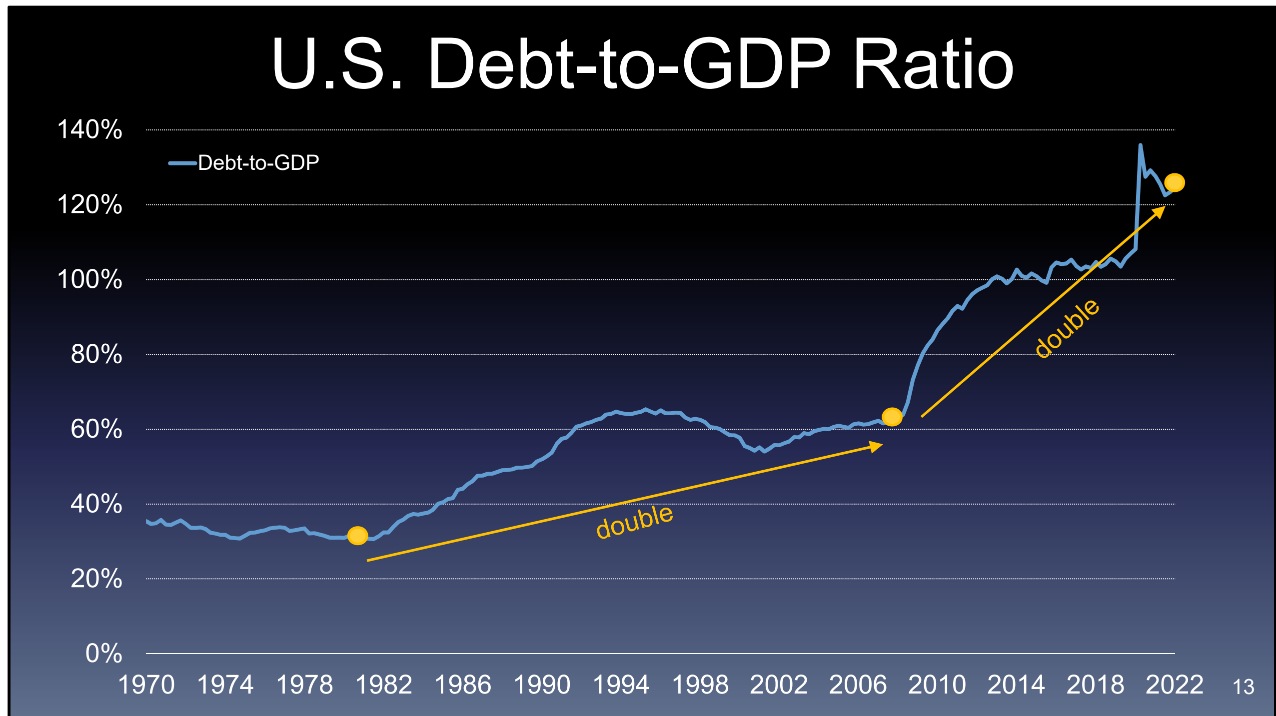
Even though the peak of the crisis had long since passed, we got the $1.9 trillion America Rescue Plan in March of 2021, and with unemployment nearly back to pre-Covid levels, the $1.2 trillion Infrastructure Investment and Jobs Act in November of 2021.

Source: Data from St. Louis Fed FRED database (UNRATE) retrieved May 31, 2022; https://www.businessinsider.com/inflation-outlook-temporary-infrastructure-spending-plan-economic-recovery-janet-yellen-2021-5



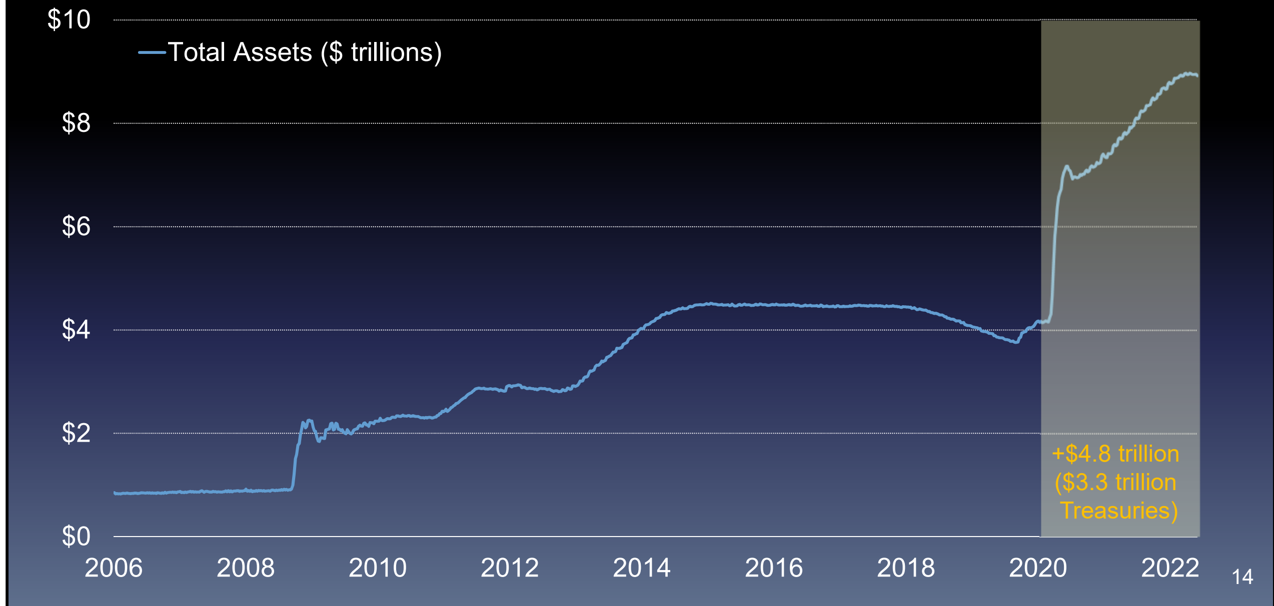
Some people called our spending *modern monetary theory*. Others just called it helicopter money. In any case, the Treasury borrowed and the Fed supported the purchases. Some would call that printing money.

Source: Cartoonist Doug Hill, www.CartoonStock.com



The sum total of this is that U.S. Debt to GDP has exploded. When Paul Volcker raised interest rates to 19% in 1981, the U.S. Debt to GDP was just 30%. Heading into the Global Financial Crisis it was about 60%. Today it is twice that.

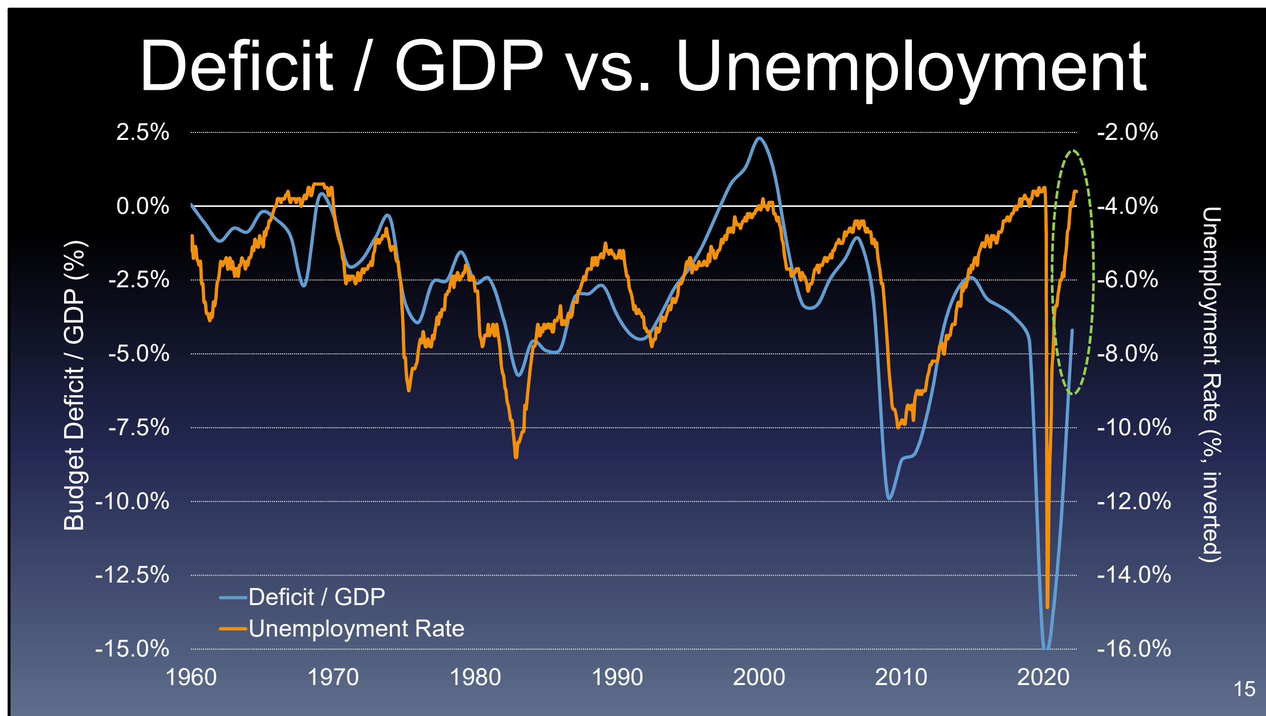
Source: Data from St. Louis Fed FRED database (GFDEGDQ188S) retrieved May 31, 2022



And, much of this new national debt has been purchased by the Fed and sits on its balance sheet.

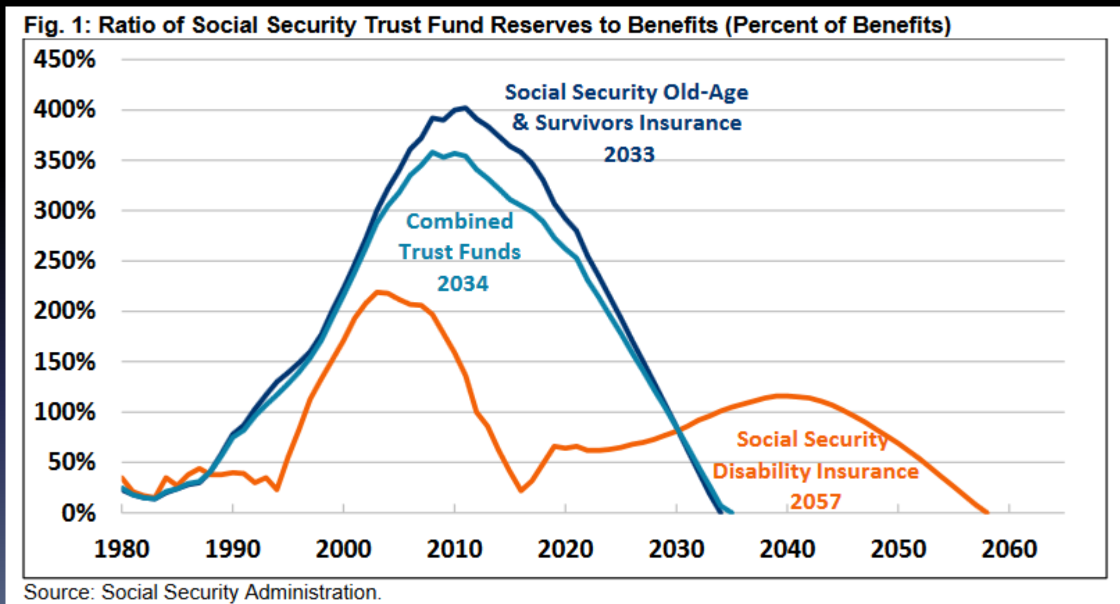
The Fed currently owns over 19% of all outstanding Treasury securities. The $3.3 trillion increase in Treasuries on the Fed balance sheet fully funded the entire deficit and then some.

Source: Data from St. Louis Fed FRED database (WALCL) retrieved May 31, 2022



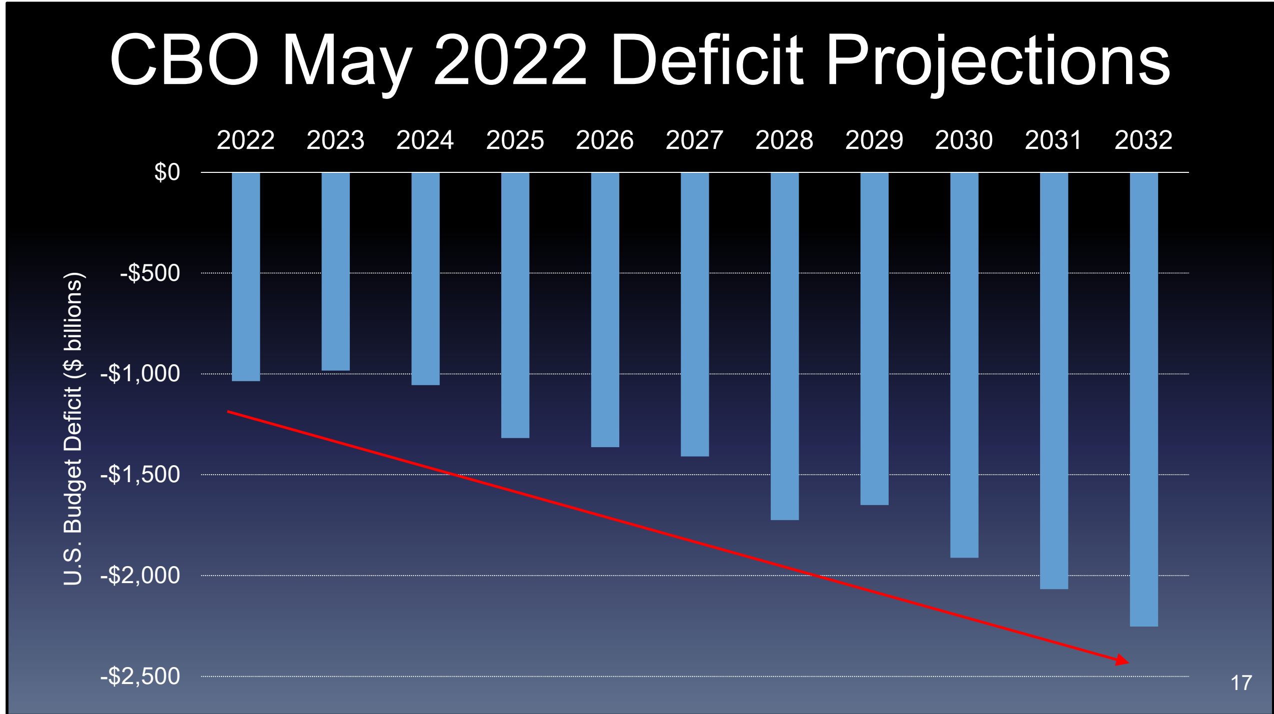
Generally, the deficit tracks the economy. When we have full employment deficits are usually around zero, as taxes are high and social safety net benefits are low. Despite top of the cycle conditions today, which historically created a balanced budget or even a surplus, we will still have a projected deficit of over 4% of GDP this year.

Source: Data from St. Louis Fed FRED database (FYFSGDA188S, UNRATE) retrieved May 31, 2022



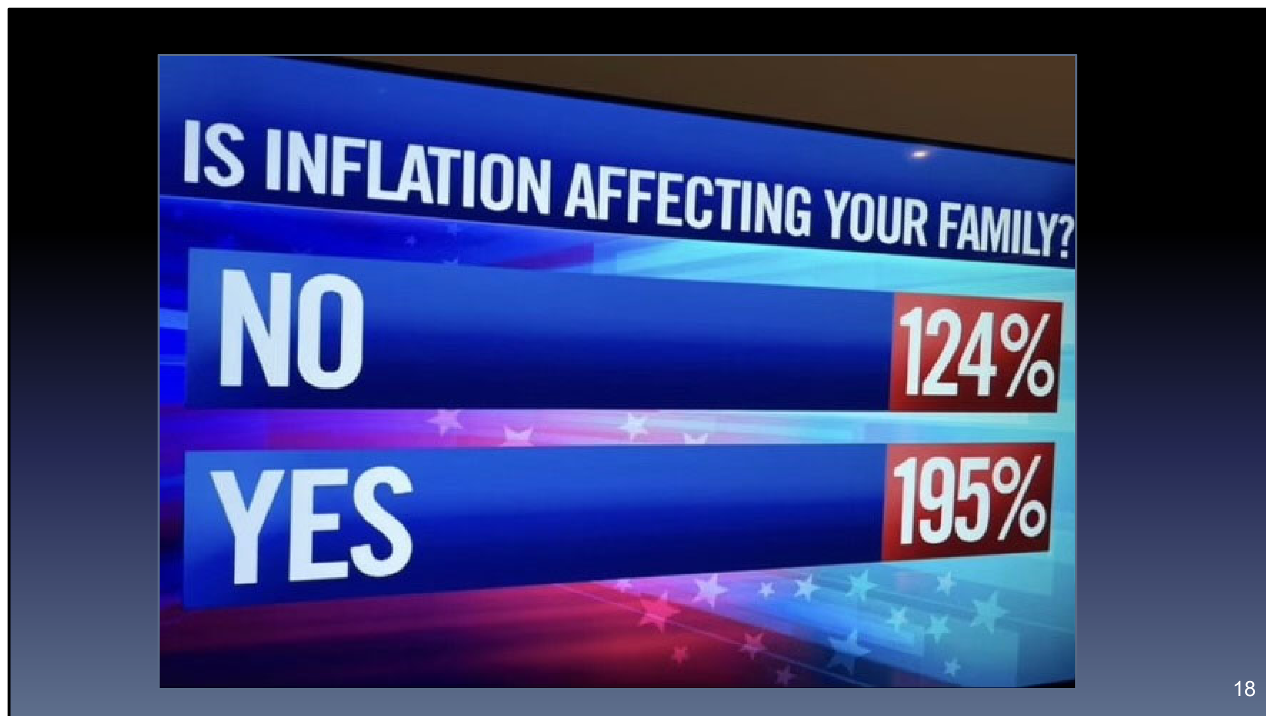
Meanwhile, the U.S. demographic situation is getting more precarious by the day… literally. Every day in the U.S., 10,000 people turn 65, and the Social Security Trust Funds are projected to be used up in just 12 years. Already, the Trust Funds have become a seller of Treasuries.

Source: Committee for a Responsible Federal Budget, August 31, 2021, https://www.crfb.org/papers/analysis-2021-social-security-trustees-report



The Congressional Budget Office projects a 2022 deficit of over a trillion dollars. Demographics will cause this to more than double in a decade. And, these projections don't assume a recession, rapidly rising inflation-indexed benefits such as social security, or high interest rates on the national debt.

Source: Congressional Budget Office, May 2022, https://www.cbo.gov/publication/58147



As everyone knows, we have an inflation problem. I don't have time to discuss all the reasons. It isn't entirely the fault of fiscal and monetary policies. However, those policies are inflationary and have facilitated an environment where inflation could take off.

The ESG movement that has thwarted investment in traditional sources of energy, combined with investor eagerness to throw nearly all growth capital at software is eating the world companies, has driven up the cost of equity for companies that ensure that the world can, in fact, eat.

The current energy crisis isn't causing any change. Rather than stimulate supply, the U.S. is threatening windfall profits tax on producers, and the G7 countries and Japan just pledged to stop most fossil fuel financing by the end of 2022.

Source: https://www.barrons.com/amp/news/g7-nations-vow-to-stop-fossil-fuel-financing-abroad-by-end-2022-01653652507 and https://www.japantimes.co.jp/news/2022/05/27/business/g7-fossil-fuel-financing/

Our supply problems aren't limited to a short-term inability to get goods from China, but extend to a decade of structural underinvestment in capacity in the so called "old economy." For years, there was no real interest in investing in cement, steel, concrete, fertilizer, chemicals, paper, mining, traditional energy, and housing.

Higher prices aren't fueling new capacity. Instead they are fueling buybacks, as investors and managements don't want to underwrite permanently higher prices or margins. Very low P/E multiples in these affected industries don't inspire long-term capital commitments. Normally, high prices generate a supply reaction. Since this isn't happening, all the work to curtail inflation will have to come from the demand side. As a result, prices will have to go much higher to dissuade substantial consumption. As such, inflation is likely to be much more persistent.

As a side note and gratuitous reference to our portfolio, the lack of new supply means that companies in these industries are likely to earn excess profits for an extended period of time, making these sectors attractive long investments.

May 1, 2020

Even so, in a broader sense, we believe the economic shock will turn out to be inflationary. People (and businesses) who aren't working are no longer supplying goods or services. The social response of replacing most or all of the lost income sustains demand (or, if temporarily hoarded as savings, creates pent-up demand). Although both supply and demand are falling, supply is falling more.

22

However, the inflation was completely predictable.

As Greenlight wrote over two years ago in our quarterly letter of May 1, 2020 after Covid started, "[I]n a broader sense, we believe the economic shock will turn out to be inflationary. People (and businesses) who aren't working are no longer supplying goods and services. The social response of replacing most or all of the lost income sustains demand (or, if temporarily hoarded as savings, creates pent-up demand). Although both supply and demand are falling, supply is falling more…"

Source: Greenlight Capital Q1 2020 letter

Page 3

GREENLIGHT®

The inflation is unlikely to appear immediately. Opportunistic price-gouging on toilet paper, hand sanitizer, milk, rice and potatoes is not a signal of broad inflation. However, a country that consumes much more than it produces, financed by ongoing money creation, will have more money chasing fewer goods and services. Once the initial shock wears off and the recovery begins, the inflation will begin to show up – and it probably won't be limited to the

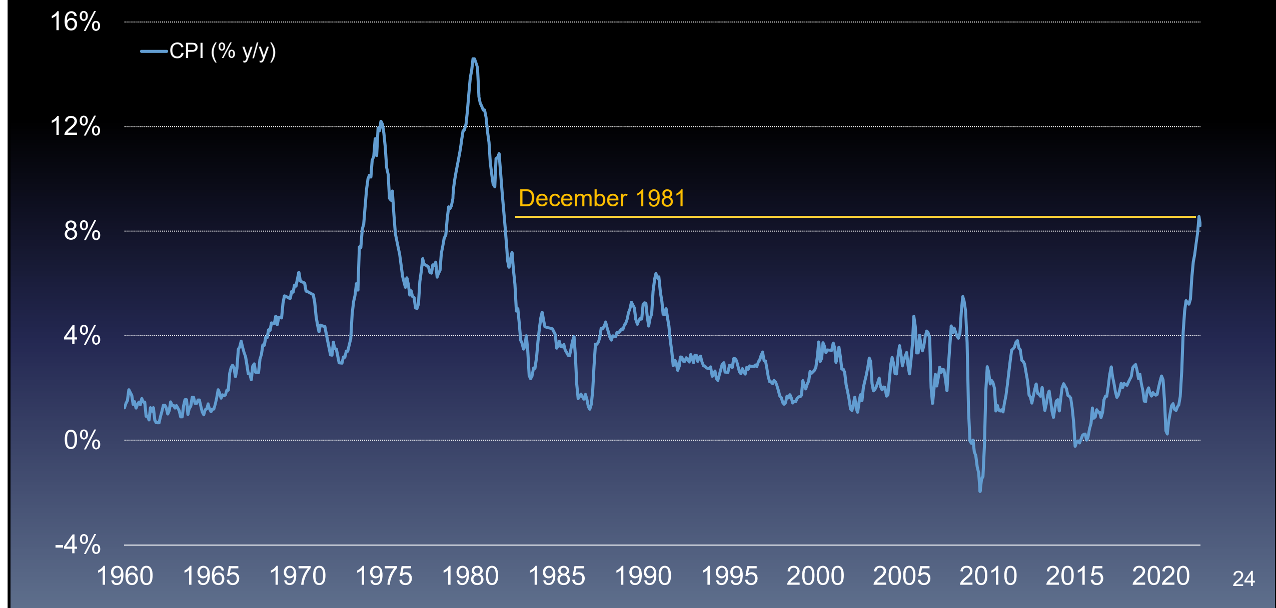
And the U.S. is not alone – it's a global pandemic and a global response. We expect inflation on a global basis. We expect policymakers to target and applaud mid-single digit inflation,

23

"The inflation is unlikely to appear immediately. Opportunistic price-gouging on toilet paper, hand sanitizer, milk, rice and potatoes is not a signal of broad inflation. However, a country that consumes much more than it produces, financed by ongoing money creation, will have more money chasing fewer goods and services. Once the initial shock wears off and the recovery begins, the inflation will begin to show up…"

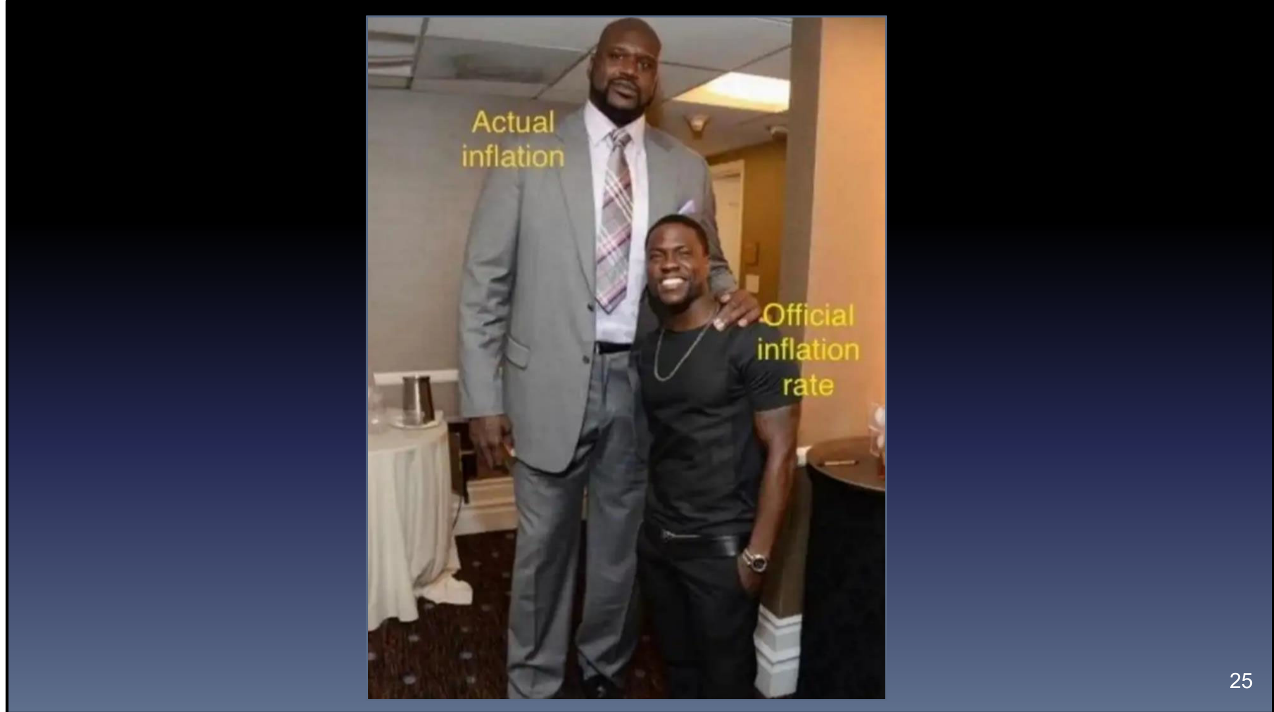
"And the U.S. is not alone – it's a global pandemic and a global response. We expect inflation on a global basis."

Source: Greenlight Capital Q1 2020 letter



And, it has. Current official inflation is now 8.5% – the highest since December 1981. Everywhere you look prices are going up, and the worst part is that despite how shocking it is, this surge of inflation is actually understated.

Source: Data from St. Louis Fed FRED database (CPIAUCSL_PC1) retrieved May 31, 2022



Everyone understands that inflation is even worse than the official reports. Since 1980, the Bureau of Labor Statistics has changed the way it calculates inflation. They have added hedonic adjustments for quality improvement, quirky substitution changes, and importantly, suppressing rising home prices from the calculation.

Larry Summers just published a paper showing that had the methodology not changed just on housing, inflation today rivals the peak from 1980.

Source: National Bureau of Economic Research, “Comparing Past and Present Inflation,” June 2022, https://www.nber.org/papers/w30116

Q: Can you act quickly enough to prevent inflation from getting out of control?

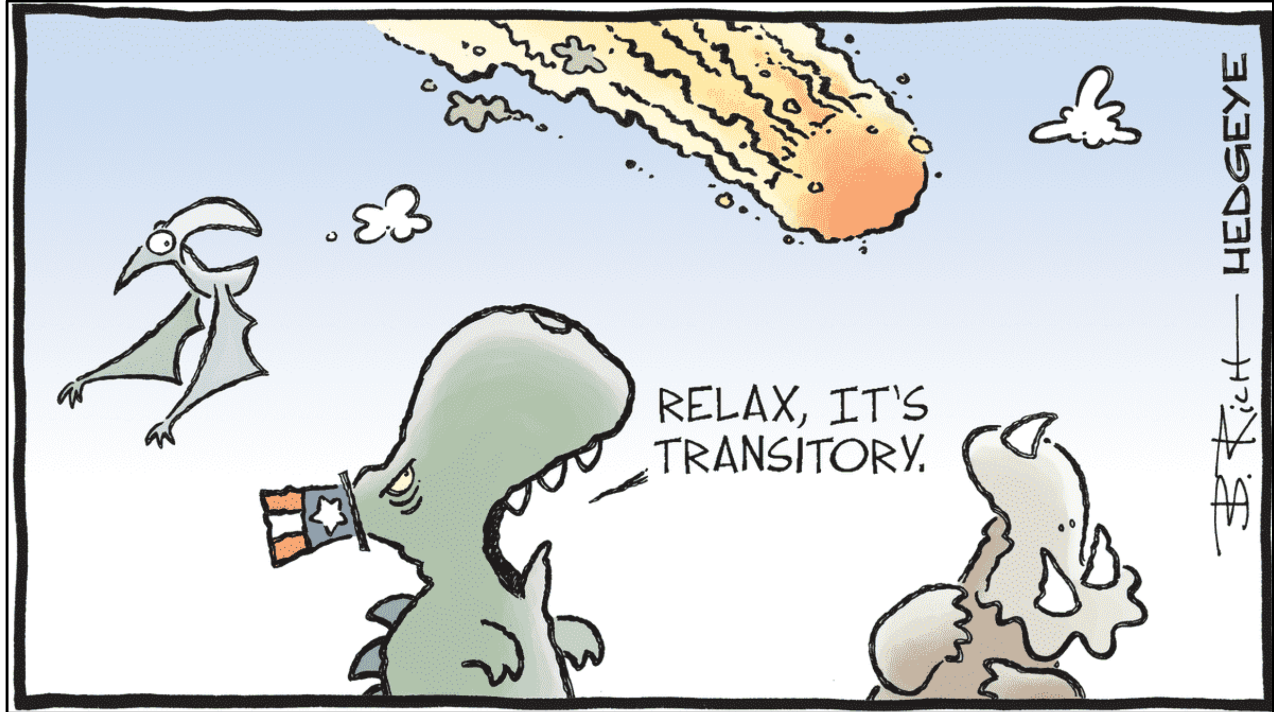
A: We could **raise interest rates in 15 minutes** if we have to. So, there really is no problem with raising rates, tightening monetary policy, slowing the economy, reducing inflation, at the appropriate time. Now, that time is not now.

Ben Bernanke
60 Minutes, Dec. 2010

26

As we watched the Fed implement unconventional monetary policy, the Fed promised it could handle inflation, when and if it occurred. For example, here was Ben Bernanke promising he could raise interest rates in 15 minutes, if needed.

Source: Wall Street Journal, https://www.wsj.com/articles/BL-REB-12697



As it turns out, this wasn’t quite right.

In order to raise rates, the Fed had to first get past its view as of June 2020 that ‘We’re not even thinking about thinking about raising rates.’

A year later, with inflation already reaching 5.3%, the Fed began talking about talking about when to raise rates, and indicated it expected to do so beginning in 2023.

In November, with inflation at 6.8%, the Fed acknowledged an inflation problem and retired the word “transitory” to discuss it.

Source: Hedgeye Risk Management, LLC

And, once they realized there was a problem, the Fed couldn't react in 15 minutes or aggressively at all.

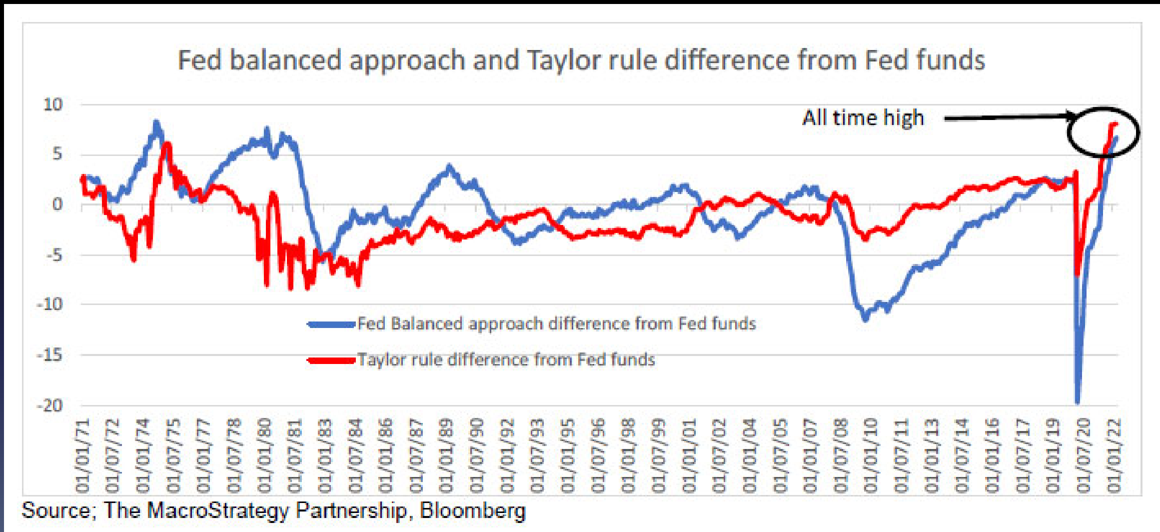
Even with an acknowledged inflation problem, Powell continued to hold rates at zero and print more money.

It took the Fed an additional 5 months of tapering QE before interest rates could be raised.

Finally, in March 2022, with inflation at 8.5%, the Fed raised interest rates by 25 basis points.

Source: Image from The Trumpet/Melissa Barreiro

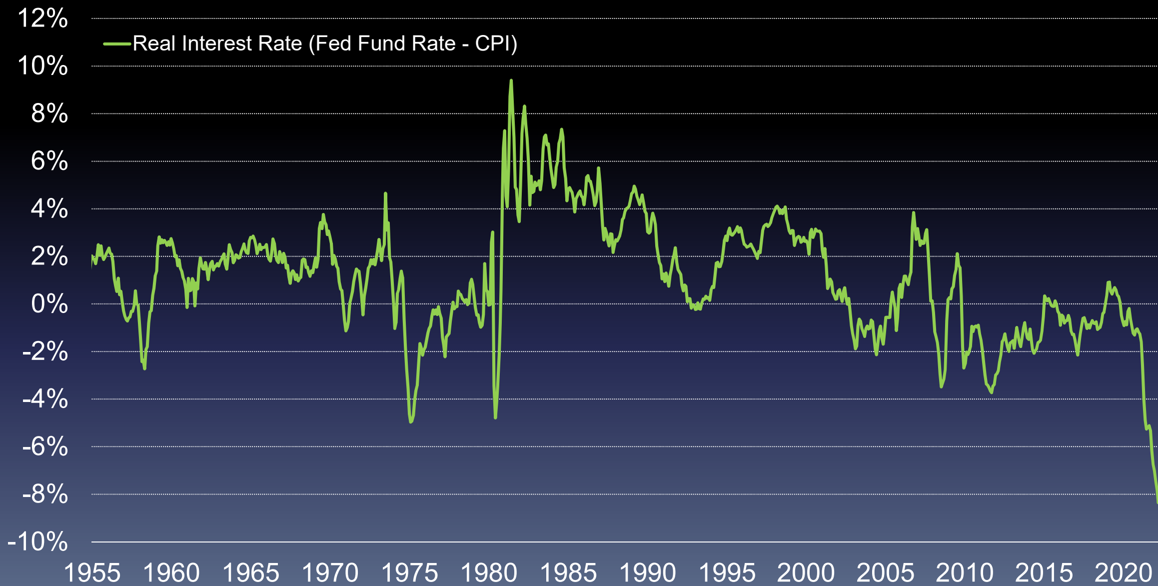
We are now on a path to raise rates at 0.5% at a time until rates reach an arbitrarily determined neutral level of around 2.5 – 3.5%. This gentle response is akin to trying to clear your snow-covered driveway with an ice cream scooper.



With inflation running at about 8%, it's hard for us to understand why an interest rate around 3% would be neutral.

If the Fed were to continue using the Balanced Approach Rule that it regularly cited under Chair Yellen, a "neutral rate" today would be about 7%.

Source: The MacroStrategy Partnership



It is monetary policy 101 that to defeat inflation, you need positive real interest rates. In 1980, Volcker raised rates to 19% to combat 14% inflation. Greenspan raised rates in 1990 to 8.5% to fight 6% inflation. Even Burns raised Fed Funds to 13% in 1974 to fight 11.5% inflation, but retreated too quickly to get the job done.

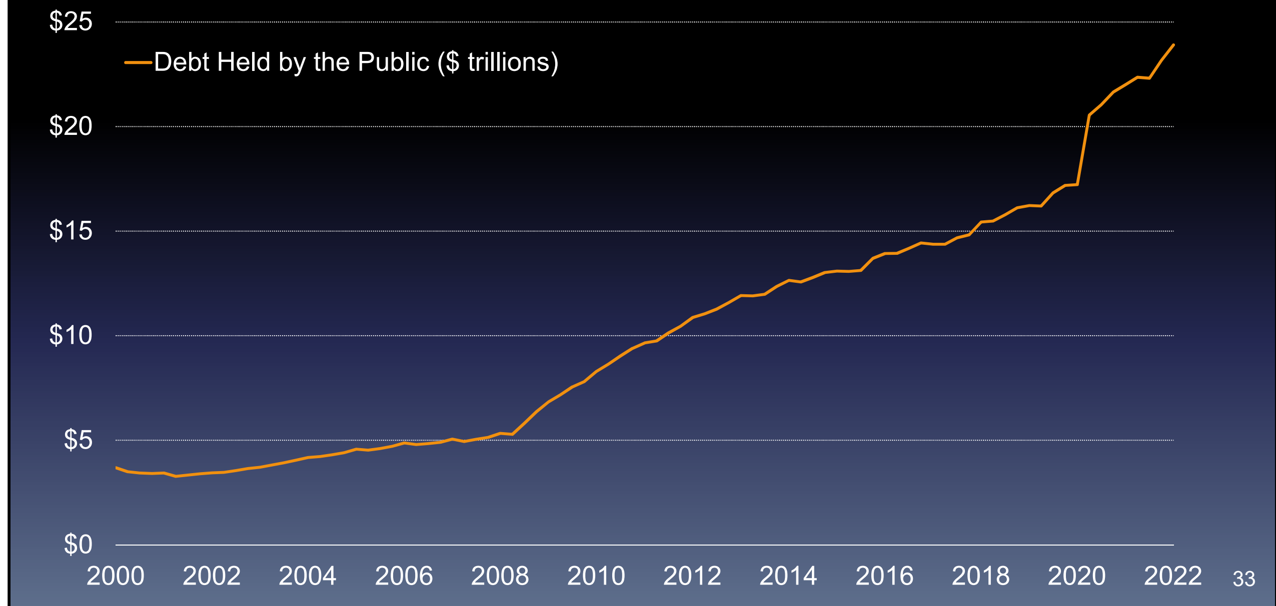
Today, we have real interest rates at the most negative levels of the last 70 years.

The idea that tightening a percent or two from here will beat inflation is hardly credible.

Source: Data from St. Louis Fed FRED database (CPIAUCSL_PC1_FEDFUNDS) retrieved May 31, 2022

The Fed claims it has powerful tools to fight inflation. At this stage, those consist of raising rates and running down the balance sheet.

Source: Hedgeye Risk Management, LLC



However, the Fed is limited in raising rates. Powell faces a problem that Volker didn't have. We have $24 trillion of debt held by the public, which is up over 6 times in the last 20 years.

Approximately $7 trillion has to be rolled in the next year. Every 1% increase in rates adds $70 billion to the deficit annually. So, raising rates to 4% would be an additional $280 billion, 8% would be $560 billion, and a full Volker 19% would be $1.3 trillion… and that's just the first year.

Raising short rates will also cause a strain on the Fed's financials, where assets are of long duration and the funding is at overnight rates. $5 trillion of overnight liabilities costs an extra $50 billion per percent increase in interest the Fed will pay on reserves. I will let you figure out the rest of the math for bigger increases.

The fiscal situation has limited the Fed's flexibility.

Source: Data from St. Louis Fed FRED database (FYGFDPUN) retrieved May 31, 2022

And, that doesn't take into account the impact of a slowdown that is likely to follow peak employment. An average recession could easily add another $700 billion to $1.4 trillion to the deficit.

So, while the Fed can raise rates, it isn't clear it can raise them enough to get the job done.

Source: Cartoonist Bob Mankoff, www.CartoonStock.com

As for running off the balance sheet, this may also be limited.

Last year, the Fed essentially bought all the excess supply offered by the Treasury. This year, the Treasury will borrow and the Fed plans to run off its balance sheet, adding more supply.

But, there is now another factor to consider…

Source: Cartoonist Bob Mankoff, www.CartoonStock.com; quote modified by Greenlight

“The illegitimate freezing of some of the currency reserves of the Bank of Russia marks the end of the reliability of so-called first-class assets. In fact, **the US and the EU have defaulted on their obligations to Russia**. Now everybody knows that **financial reserves can simply be stolen**. And many countries in the immediate future may begin – I am sure this is what will happen – to convert their paper and digital assets into real reserves of raw materials, land, food, gold and other real assets which will only result in more shortages in these markets.”

Vladimir Putin
March 16, 2022

36

If it wasn’t clear prior to February 24 that a new world order is imminent, it’s blindingly clear now with Russia’s invasion of Ukraine.

For decades, countries feared a day when the U.S. would weaponize the dollar, and that day has come. In order for an asset to be a reserve asset, it has to be a safe asset, which means that it has to be available when you need it. While we consider freezing Russian central bank reserves as sanctions, Russia sees it as our default.

Source: https://russiaeu.ru/en/news/russian-president-vladimir-putin-situation-around-ukraine-international-relations-and

“The actions of U.S. politicians to freeze the national assets of Russia will cause serious damage to the credibility of the U.S. government and even more damage to the post-war international financial order and the financial system. **The backlash and consequences of these actions will be clear for all to see over a period of time.**”

Xu Wenhong
Global Times
March 17, 2022

37

The Chinese press has noticed and warns, “the backlash and consequences of these actions will be clear for all to see over a period of time.”

Source: https://www.globaltimes.cn/page/202203/1255112.shtml

“Now a new problem has emerged. After the Russian-Ukrainian conflict, the United States’ freezing of $300 billion in Russian banks has seriously damaged the credit of the United States. Such a measure against a nuclear power was unthinkable in the past. **The status of the U.S. dollar as an international reserve currency has been further impacted by geopolitical factors**, which is the current situation facing the international monetary system.”

Yu Yongding
May 20, 2022

38

Suddenly, in the wake of Russia’s reserves being frozen, China, India and Saudi Arabia could perceive that their hundreds of billions in dollar reserves could be condemned to a similar fate. The Chinese are wondering what to do with their $1.1 trillion of U.S. Government debt.

Yu Yongding is a widely recognized influential Chinese economist who served on the Monetary Policy Committee of the People's Bank of China.

Source: https://www.guancha.cn/YuYongDing/2022_05_20_640575_s.shtml

“If I lend money to a creditor who is more powerful than me, he may not repay the debt. Being a creditor is very embarrassing under the current geopolitical conditions.”

Yu Yongding

May 20, 2022

39

I would not expect foreign countries to announce that they are selling their U.S. Debt.

It’s not like they can go to J.P. Morgan and get a bid on a trillion or so.

Source: https://www.guancha.cn/YuYongDing/2022_05_20_640575_s.shtml

In other words, the current deficit, combined with the Fed's Quantitative Tightening plans, combined with the possible selling or running off of U.S. Treasuries by foreign central banks who are worried their reserves could be frozen, could create a supply / demand imbalance in the Treasury market.

This would lead to much higher rates and frustrate the Fed's ability to run off its balance sheet.

Source: Cartoonist Wiley Miller, www.CartoonStock.com

Gold as % of Total Reserves

Germany	67.7%
Russia	22.4%
India	7.8%
Saudi Arabia	4.3%
China	3.6%
Brazil	2.3%

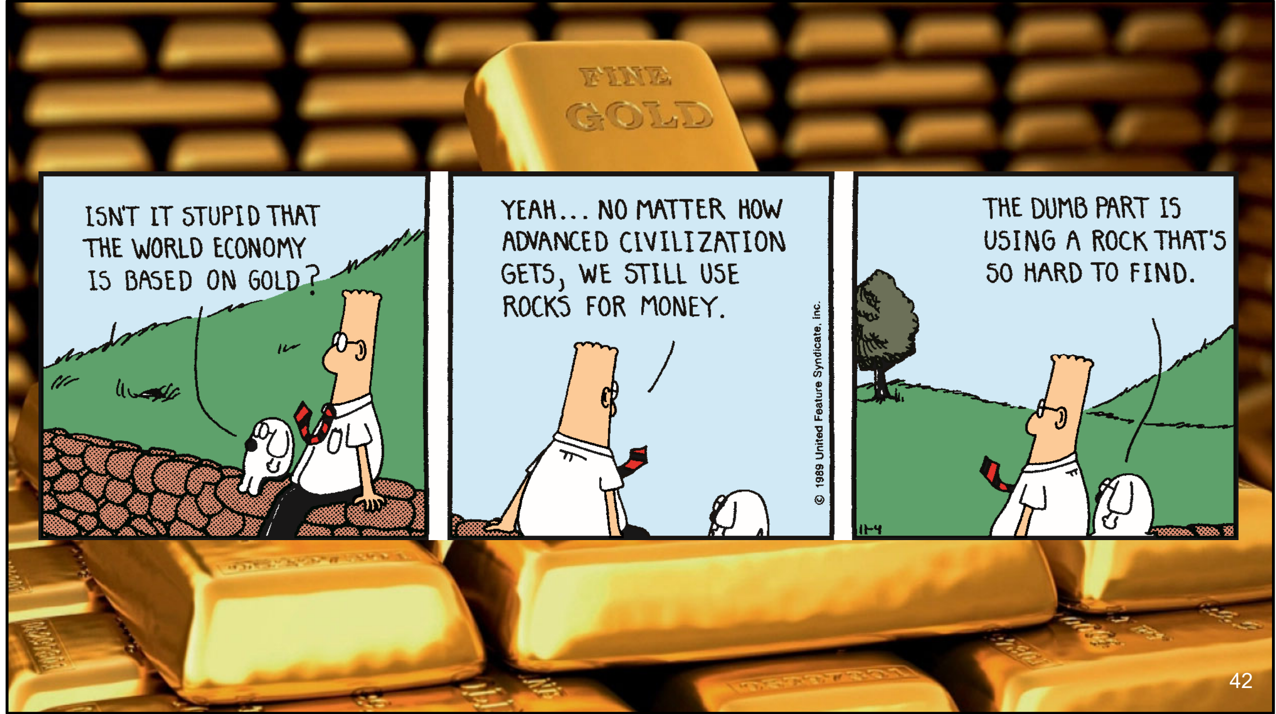
41

Putin thought the U.S. might act against him and began selling Russia's Treasuries after it illegally annexed Crimea in 2014. Since then, Russian gold holdings have tripled to 22% of total reserves.

When countries don't trust each other over bonds and currencies, gold becomes the ultimate reserve asset. And, I say gold, rather than crypto, because Gold is already recognized as a globally acceptable central bank reserve asset.

Gold as a percentage of total reserves remains staggeringly low. India is at 8%; Saudi Arabia and China are at 4%.

Source: World Gold Council data retrieved May 31, 2022, https://www.gold.org/goldhub/data/gold-reserves-by-country

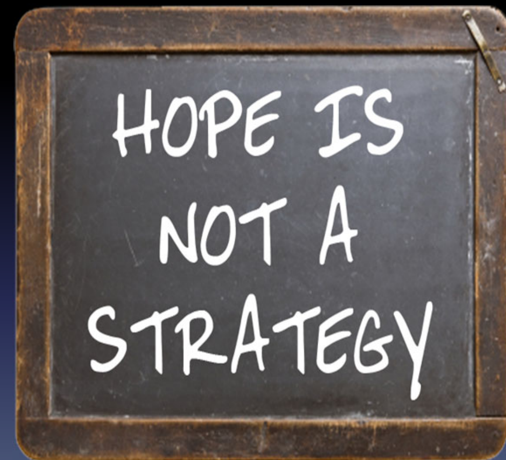


The question is whether there is enough gold to back currency reserves. The answer is for the price of gold to go higher. Perhaps, much higher.

Source: DILBERT ©1989 Scott Adams. Used By permission of ANDREWS MCMEEL SYNDICATION. All rights reserved.

Mr. Powell was asked if the Fed was prepared to do whatever it took to control inflation — even if it meant harming growth, as Mr. Volcker did.

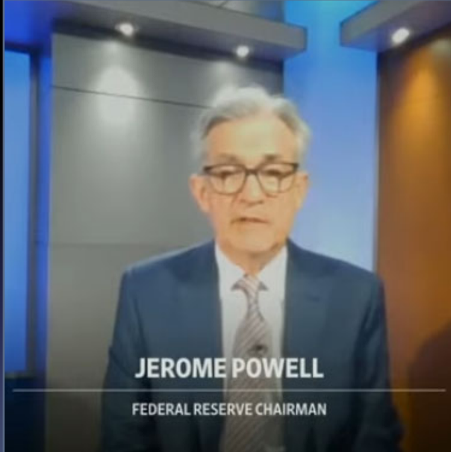
"I hope that history will record that the answer to your question is yes," the Fed chair replied.



43

When Powell was asked if he would do whatever it takes to fight inflation, he deflected by saying, "I hope that history will record that the answer to your question is yes." I interpret this mean that he will to whatever he can… and hopes that it will be enough.

Source: New York Times, https://www.nytimes.com/2022/03/14/business/economy/powell-fed-inflation-volcker.html



"We have both the tools and the resolve to get inflation back down. Nobody should doubt our resolve in doing that… What we need is to see growth moving down from the very high levels that we saw last year… that will give the supply side a chance to catch up and a chance for inflation to come down as we get supply and demand back together."

WSJ Conference, May 17, 2022

44

Powell says he has powerful tools to fight inflation and the resolve to slow down the economy.

Source: Wall Street Journal "The Future of Everything Festival," May 17, 2022, https://www.youtube.com/watch?v=BwYrbCG_C_U

"It is more than uncomfortable; I am trying to think of a word that is even more severe than that. It is a very, very difficult place for us to be. To forecast 10% inflation and then say, as we were saying a few minutes ago, 'There's not a lot we can do about 80% of it' is, I can tell you, an extremely difficult place to be. We have to recognize the reality of the situation we face."

Andrew Bailey,
Governor of the Bank of England

This contrasts with Andrew Bailey at the Bank of England, who admits the central bank feels helpless.

Source: U.K. Treasury Committee hearing, May 16, 2022, https://www.youtube.com/watch?v=uoL4cIZWmd4

"The Fed simply does not have the tools to fix supply problems… I believe inflation is based on some big macro policy changes that had good intentions but the unintended consequences are more inflationary… I could see a scenario where we're going to be muddling along for the next year or two right along this level."

Larry Fink, CEO of BlackRock

46

Larry Fink says he doesn't believe the Fed has the tools…

Source: "Bloomberg Markets: The Close," June 2, 2022, https://www.youtube.com/watch?v=BnNbZmE3beA

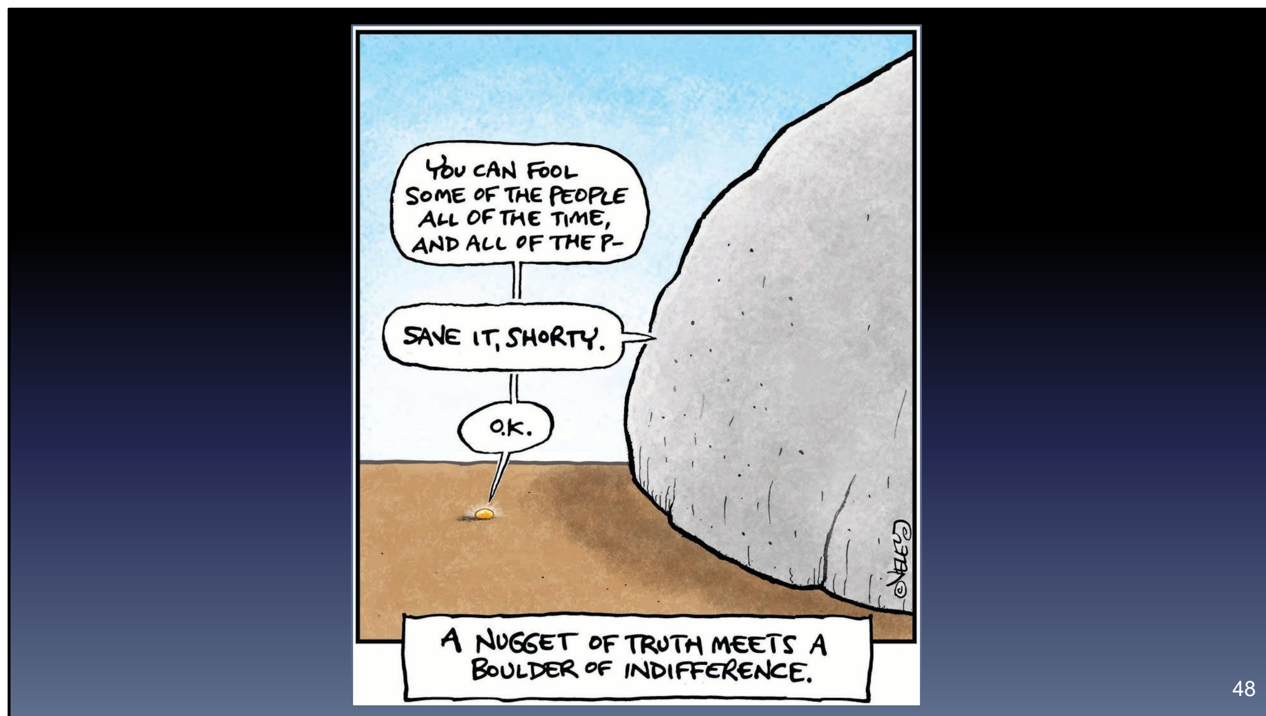
So, let me conclude with this. The Fed is bluffing…

Powell says he has strong tools. But, the world has changed. From 1980 to 2020 we had structural deflation. Now we have structural inflation.

In a deflationary environment, the Fed raising rates causes a slowdown. Here, inflation is the cause of the slowdown. The Fed raising rates might perversely increase the inflation by having a bigger impact thwarting supply than on demand. Meanwhile, higher rates mean more interest income for savers… which can trigger more demand.

And, of course, this responsibility is being placed squarely on the Fed. Policy makers are not even discussing fiscal austerity to combat inflation. To me, this means inflation ain't going away so fast.

Source: iStock – 174689456 kbwills, modified by Greenlight to add Chair Powell.



The Fed doesn't really have the tools to stop the inflation. That doesn't mean it can't do anything. It will do what it can. And, maybe it will work.

We probably won't know this year. This year they can raise rates a few times and run down the balance sheet a bit.

But, next year, the rubber will likely meet the road. As rates cross 3 or maybe 4%, either the inflation will come down or the Fed will have to recognize it is out of bullets and capitulate to the inflation. It simply can't do much more because it must unfortunately ensure the Treasury can fund itself.

When the Fed has to choose between fighting inflation and supporting the Treasury, I think it has to pick the Treasury.

Some are criticizing the Fed for tightening into a downturn. Just wait until they are forced to loosen into an inflationary spike to support the Treasury.

At that point, it's best to have some gold. That's what Grandpa Ben taught me.

Source: Cartoonist Bradford Veley, www.CartoonStock.com

Thank you for having me at this year's Sohn Conference. I said last year that I expected we could do it live this year. I do hope that 2023 is the year!