



**Kinetics Mutual Funds  
Second Quarter 2023 Commentaries**



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Dear Fellow Shareholders,

The global economy has been remarkably strong over the past year despite far tighter financial conditions. Global economic growth is tracking at close to 3%, despite China's disappointing growth only slightly above the government 5% "target." U.S. Real GDP grew at a 2.4% annual rate in the second quarter, according to the advance estimate. This is robust growth amidst over a year of rate hikes, but more importantly, the corresponding nominal GDP figure is 23% higher than the pre-pandemic level. Even the EU, which was widely believed to be entering a severe economic contraction last year (in part due to energy prices) is running at a respectable 1% real growth rate. However, Europe is still running at well over 6% inflation (hence 7% nominal growth), largely due to limited domestic resources.

Non-OECD countries are leading global growth, specifically with India, China and Indonesia projected to grow at 6.0%, 5.4% and 4.7% respectively this year. Non-OECD nations' share of global GDP have expanded from 18% of global GDP in 2000 to 32% in 2010, and 40% in 2022. These countries also have broadly superior fiscal balances and debt levels at the national level compared to the OECD world. We expect these countries to drive global economic growth as per capita incomes rise towards the \$54,000 OECD standard, —versus China (\$21,000), Indonesia (\$15,000), and India (\$8,000). This will have substantial implications for resource demand and the global economic mix of services and goods (more on this in the energy section).

Corporate earnings, on the other hand, have been less encouraging: FactSet consensus 2023 earnings for the S&P 500 peaked in May of 2022 at approximately \$250 per share. Estimates now sit at approximately \$220, which is 12% lower than prior peak levels. Yet the market is nearly 8% higher, and trades at over 20x current earnings estimates. Similarly, earnings estimates for 2024 peaked at about \$275 in March of 2022, but have been revised lower to around \$245, which equates to a multiple of roughly 18x.

Our biggest challenge to these estimates is the embedded profit margin assumption. According to FactSet, the bottom-up operating margin for the S&P 500 Index averaged approximately 13% over the prior 25 years, and recently peaked at nearly 15% in 2022. However, the 2023-2025 earnings estimates assume operating margins to be 16.4% for 2023, 17.2% for 2024, and 17.6% for 2025.

The global economy has supported corporate profits and financial asset valuations, continuing to defy the macroeconomic doomsayers. There are various scenarios where OECD countries will enter a recession over the next 6-18 months, but strength from non-OECD countries should keep the global economy in decent—albeit not perfect—shape. Valuations, on the other hand, particularly in equities and certain private markets, appear to discount only the most optimistic future scenarios going forward.

Global economic strength, particularly from non-OECD countries, has supported hard asset prices. However, this has generally not been reflected in hard asset equities, as investors overly discount negative economic scenarios into these companies. The short-term market balances are increasingly sensitive to the Chinese economy, but we believe that the Chinese economy is not nearly as bad as



portrayed in the western media. Thus, hard asset equities represent attractive investments, particularly as compared to the broader market.

Global Fund Top 10 Holdings (%) as of June 30, 2023	
Texas Pacific Land Corp	13.4%
Grayscale Bitcoin Trust	10.4%
Permian Basin Royalty Trust	3.7%
Sandstorm Gold Ltd.	2.0%
GAMCO Investors, Inc. - Class A	1.8%
Associated Capital Group, Inc. - Class A	1.7%
Mesabi Trust	1.5%
Clarkson plc	1.5%
PrairieSky Royalty Ltd	1.4%
Civeo Corp.	1.3%

**Important Risk Disclosures**

***You should consider the investment objectives, risks, charges and expenses of the Fund carefully before investing. For a free copy of the most recent Prospectus, which contains this and other information, visit our website at [www.kineticsfunds.com](http://www.kineticsfunds.com) or call 1-800-930-3828. You should read the Prospectus carefully before you invest. Performance data quoted represents past performance, which does not guarantee future results. Investment return and principal value of an investment may fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please visit <http://kineticsfunds.com/> for the most recent month-end performance data.***

***Portfolio holdings information, if any, is subject to change at any time and is as of the date shown.***

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International investing presents special risks, including currency exchange fluctuation, government regulations, and the potential for political and economic instability. Because smaller companies often have narrower markets and limited financial resources, they present more risk than larger, more well-established companies.

The Fund holds investments that provide exposure to bitcoin. The value of bitcoins is determined by the supply of and demand for bitcoins in the global market for the trading of bitcoins, which consists of transactions on electronic bitcoin exchanges ("Bitcoin Exchanges"). Pricing on Bitcoin Exchanges and other venues can be volatile and can adversely affect the value of the bitcoin. Currently, there



is relatively small use of bitcoins in the retail and commercial marketplace in comparison to the relatively large use of bitcoins by speculators, thus contributing to price volatility that could adversely affect a portfolio's direct or indirect investments in bitcoin. Bitcoin transactions are irrevocable and stolen or incorrectly transferred bitcoins may be irretrievable. As a result, any incorrectly executed bitcoin transactions could adversely affect the value of a portfolio's direct or indirect investment in bitcoin. Only investors who can appreciate the risks associated with an investment should invest in cryptocurrencies or products that offer cryptocurrency exposure. As with all investments, investors should consult with their investment, legal and tax professionals before investing, as you may lose money.

Unlike other investment companies that directly acquire and manage their own portfolios of securities, the Funds pursue their investment objectives by investing all of their investable assets in a corresponding portfolio series of Kinetics Portfolios Trust. You will be charged a redemption fee of 2.0% of the net amount of the redemption if you redeem or exchange your shares 30 days or less after you purchase them.

Please refer to the Fund's prospectus for a complete list of risks and fees.

The Global Fund is a diversified fund. Diversification does not ensure a profit or protect against loss in a declining market.

The iShares MSCI ACWI ETF seeks to track the investment results of an index composed of large and mid-capitalization developed and emerging market equities. The iShares MSCI ACWI ex U.S. ETF seeks to track the investment results of an index composed of large- and mid-capitalization non-U.S. equities. iShares is property of BlackRock.

The *S&P 500<sup>®</sup> Index* represents an unmanaged, broad-based basket of stocks. It is typically used as a proxy for overall market performance. S&P 500 returns assume that dividends are reinvested.

The *MSCI All Country World Index* is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets. Index returns do not include the effect of management fees or expenses. You cannot invest directly in an index.

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