RISKY BUSINESS OF REGIME CHANGE

INVESTMENT STRATEGY AND CAPITAL MARKET OUTLOOK

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ECONOMIC & MARKET FORECASTS

- Expect sub-potential U.S. economic growth of Fiscal and Monetary hangover, and severe policy misfire -- stagflation, sagging productivity →Slow earnings growth, margin
- Global Debt Crisis Risk rising with *higher-for-longer* rates → steepening yield curve
- Bad US policy boost deficits and inflation compounding debt at higher rates, which drive supply of longer maturity Gov't debt as adverse bond sentiment (loss) cut demand
- ***Return to Natural Order*** suggests many imbalances must correct: steeper yield curves, while favoring Value, Small-cap, Non-US Dev Equity tilts
- ***Extinct or Endangered Species***: Fundamental Value Investors (Equity & Bond) – needed at tipping point of passive fund strategies now exceeds actively managed assets

Economic Forecasts	**2020**	**2021**	**2022**	**2023**	**2024e**	**2025e**	**2026e**
GDP Growth (Y/Y Real)	**-1.1**	**5.8**	**0.7**	**3.2**	**1.8**	**2.0**	**2.0**
S&P500 Op Earnings Gr	**-13.8**	**49.0**	**4.8**	**2.2**	**6.2**	**6.4**	**8.0**
CPI Inflation (Y/Y)	**1.3**	**7.2**	**6.4**	**3.3**	**3.1**	**2.8**	**2.5**
Unemployment	**6.7**	**3.9**	**3.5**	**3.7**	**4.3**	**4.5**	**4.5**
Fiscal Deficit (vs.GDP%)	**-15.5**	**-11.2**	**-6.9**	**-5.0**	**-9.4**	**-9.0**	**-7.0**
Fed Funds Target[1]	**0.25**	**0.25**	**4.50**	**5.50**	**4.75**	**3.75**	**3.50**
10y Treasury Notes	**0.91**	**1.50**	**3.83**	**3.87**	**4.50**	**4.80**	**4.80**
S&P 500 Target	**3756**	**4766**	**3840**	**4770**	**5200**	**5300**	**5800**
S&P 500 Total Return %	**18.4**	**28.7**	**-18.1**	**26.3**	**10.3**	**5.2**	**8.7**

Source: Strategic Frontier Management (Year-end or Y/Y change)
1. Target denotes top of published ¼% policy target range

EQUITY & BONDS—DEFIANT RESILIENCE

Asset Valuation

- US Stock valuations stretched: higher prices, slowing earnings growth, and higher rates. Global Bonds also overvalued with rising inflation expectations, and still inverted yield curves, which must normalize
- *Curb your Enthusiasm for Equities and Bonds, inc. US* Large Growth
- Favor Non-US equities, Value, Small-cap

Economic Conditions

- Misguided US fiscal, regulatory, energy, and trade policies undermined financial stability. Economic *hangover* after extended gov't stimulus.
- US Gov't spending illusion of real growth, jobs vs intermittent recession
- Misguided US policies reduced global competitiveness, potential growth and margins → stagflation, lower earnings growth, financial risks
- Stagflation, higher inflation expectations limit margins, productivity growth
- Fourth Industrial Revolution maturing, even if AI bolsters productivity.

Interest Rates

- Interest rates have peaked, but inverted yield curves must steepen
- Reversing bond holdings (QT) and higher rates amplify market volatility, *Debt Crisis* risk, and interest expense as bond sentiment wanes
- *Explicit Moral Hazard* of extended yield curve manipulation distorted risk, fostered unwarranted Yield Curve inversion, financial/banking crises

Market Interrelationships

- Imbalances, reckless policy decisions risk global government debt crisis
- Deteriorating sentiment: US equity, global bonds, global economy
- Geoeconomic risks difficult to manage with less policy flexibility now
- Private markets not insulated from strained public market valuations

ECONOMIC THEMES & CYCLICAL DRIVERS

Drivers of Cyclical Economic Growth Dynamics					
Consumer Demand	**Net Export (Ex-Oil)**	**Housing Starts**	**Investment**	**Inventory**	**Gov't Spending**

- **<u>US Potential Growth</u>** revised lower from 2.7% to 1.8% with poor policy decisions that undermined long-term economic potential: adverse tax, spending, energy, trade, equity agenda, and adverse regulatory policy reforms, which reduced global competitiveness and US margins. Reduced potential growth undercutting profit margin, as higher inflation expectations were not transitory.
- ***<u>Monetary Policy Normalization</u>****:* Adverse financial and economic consequences of *Explicit Moral Hazard* in Too-Low-Too-Long (TL^2) required severe rate hikes and Quantitative Tightening (QT). Inverted yield curve remains odd, so significant risk for extended and leveraged bond holders. Rising inflation expectations *not transitory—expect higher average inflation, higher equilibrium rates*.
- ***<u>Infrastructure</u>****:* Build Back Better *Boondoggle,* although broken up into smaller pieces (i.e., IRA, , has been a tremendous waste of taxpayers' money (> $2T); rest of *social infrastructure* agenda is DOA. (Strategic Insight: *<u>Infrastructure Boondoggle</u>*).
- ***<u>Problematic EM-BRICs</u>***: Waning Globalization, Urbanization & Industrialization, Irrepressible Demand, Slowing Birth Rate, as Competitive Advantages of EMs reversing with onshoring, Geopolitical Conflict and Geoeconomic Instability. China, Brazil, Russia – Large and Problematic.
- ***<u>Future Themes</u>:*** Moderating Fourth Industrial Revolution, which drove higher productivity over the last 15 years. Global Competitiveness undermined by policy initiatives since 2021. Automation still increasing—Artificial Intelligence + Robotics + Sensors, Communications, Advanced Materials, but security concerns increasing: Cyber, Defense, Personal, Liberty, Free Speech, and Homeland.

WHAT MATTERS TO INVESTORS?

Normalizing Interest Rates and Quantitative Tightening (QT) Continuing

- Rising interest rates peaked, but still must normalize central bank holdings after extended period of low rates, QE and forward guidance manipulating global bond markets—explicit moral hazard
- High interest rates and QT increase bond <u>supply</u>, as investor <u>demand</u> declines (bond sentiment)
- Stagflation risk with higher rates for longer, US fiscal spending cliff, and Quantitative Tightening
- Global Gov't Bonds overvalued—Global yield curves should steepen, risk of *Government Debt Crisis*

Stalling Global Expansion at a Treacherous Geoeconomic Crossroads

- Anticipated U.S. economic hangover in the private sector continued in 2024. We expect lower potential economic growth of 1.8% or less given pivot in U.S. policies.
- Forces of *Secular Disinflation and Fourth Industrial Revolution* taken for granted, but now waning
- Adverse *progressive socialist* policy-driven spending consequences: limit US competitiveness, slow potential growth: 2.7%→1.8%, profit margin: 12%→8% with higher CPI inflation 2.2%→3.0% and energy costs resulting in lower tax revenue, increased US debt & fiscal deficits

US Equity and Bond Valuations Stretched with Higher Interest Rates

- *<u>Extinct or Endangered Species</u>*: Fundamental Value Investing and other rational risk premiums such as small-cap equity vs myth of private illiquidity premium, rate term premium (inverted yield curve)
- Companies dependent on low rate debt marginalized—expose Zombie (low/no earnings) companies
- Global Equities still outperform Bonds, but favor U.S. Value/Dividend Yield/Small-cap
- Emerging Markets, particularly China, Brazil, Russia, MENA, etc.--still worrisome, performance lags

How Policy Asset Allocations should differ?

- *Simpler Smarter Approach to Investing*—Shorter duration, avoid illiquid/high cost *Alternatives*
- Alpha-driven Opportunities uncorrelated: Global Tactical Asset Allocation & Currency Management, Hedge Funds, Value + Small-cap, security selection (inc. long/short)
- **Private Market Funds/Liquid Alts** lag: high mgmt fees, crowded sandbox, illiquidity premium myth

CAPITAL MARKETS—MORE REWILDING NEEDED

Total Return	3-mon	YTD	**1-Yr**	3-Yr	5-Yr.	10-Y	20-Yr	30-Yr
S&P 500 Index	5.9	22.1	22.1	36.4	16.0	13.4	10.7	11.8
NASDAQ Composite	2.5	21.4	21.4	38.7	18.6	15.9	13.0	12.6
Russell 2000	9.3	11.2	11.2	26.8	9.4	8.8	8.5	8.9
Russell Value-Growth	6.2	-7.9	-7.9	-14.4	-9.1	-7.3	-4.1	-1.5
Non-US (World xUS)	7.8	13.6	13.6	25.6	8.9	6.2	6.6	6.0
Emerging Markets	8.9	17.2	17.2	**26.5**	**6.1**	**4.4**	7.7	5.1
Small-cap Global	8.0	11.6	11.6	25.4	9.7	7.4	9.0	
US 10-Year Treasury	5.8	3.7	3.7	**10.7**	**0.8**	**1.5**	3.3	4.6
US Aggregate Bonds	5.2	4.4	4.4	**11.6**	**0.3**	**1.8**	3.2	4.7
BAML High Yield Bonds	5.3	8.0	8.0	**15.7**	**4.5**	**5.0**	6.6	7.0
Short-term Bonds	3.5	4.5	4.5	**8.1**	**1.5**	**1.6**	2.2	3.5
JPM Non-US Bonds	9.2	1.6	1.6	**12.1**	**-2.9**	**-0.7**	1.7	3.3
Cash (US T-Bills)	1.3	3.9	3.9	5.2	2.3	1.6	1.5	2.4
US Dollar (TWI)	-2.8	1.8	1.8	-1.2	1.3	2.2	0.7	0.5
CRB Commodity Index	-0.6	12.4	12.4	5.6	13.1	2.0	1.5	5.1
WTI Oil (US$)	-17.0	-4.4	-4.4	-24.3	4.9	-2.8	1.6	4.5
Gold (US$)	13.2	27.5	27.5	41.9	12.3	8.1	9.6	4.5
Bitcoin	5.0	50.4	50.4	135.2	50.1	66.3		

Source: Strategic Frontier Mgmt. Returns as of Sept 30, 2024 in US$. Performance exceeding 1-year annualized.

S&P 500 SECTOR TOTAL RETURNS

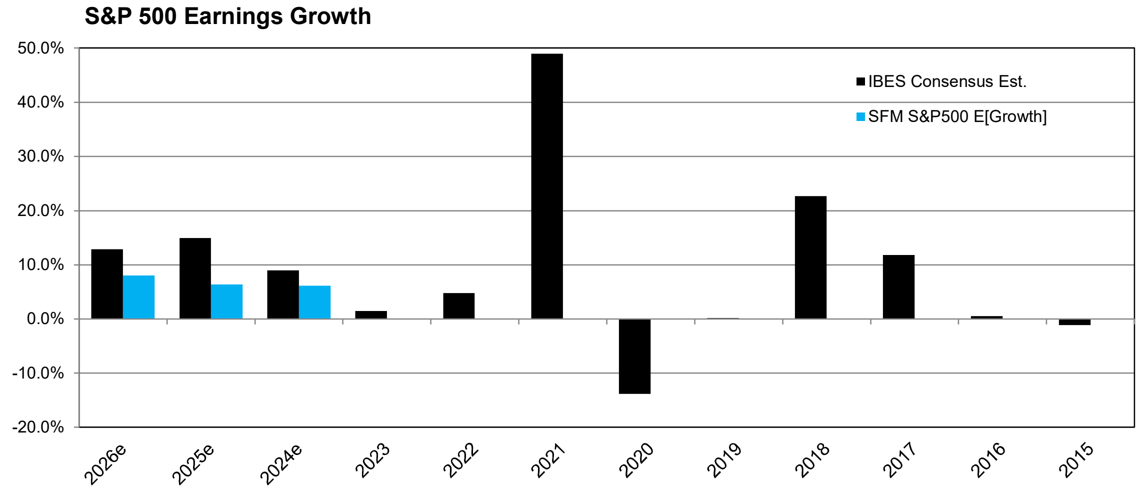
- Many interesting comparisons: Growth/Technology dominates
- Technology vs Communications <u>and</u> Consumer Discretionary (also, NASDAQ)
- Rotation from overvalued *Glamourous Growth* to Fundamental Value
- Emerging themes: Quantum computing, nuclear energy, reinforcement learning

S&P 500 Sector Return	3 mo	YTD	1-Year	3-year	5-year	10-year	20-year	30-year	U.S. Dollars
Utilities	19.4%	30.6%	41.8%	11.7%	8.0%	10.4%	10.0%	9.0%	SPUTIL
Technology	1.6%	30.3%	52.7%	19.9%	26.7%	22.4%	15.9%	14.7%	SPINFT
Communication Services	1.7%	28.8%	42.9%	6.5%	14.6%	9.8%	8.8%	7.1%	SPTELE
S&P 500	**5.9%**	**22.1%**	**36.4%**	**11.9%**	**16.0%**	**13.4%**	**10.7%**	**10.8%**	**SP500RI**
Financials	10.7%	21.9%	39.0%	8.6%	12.4%	11.4%	5.7%	9.1%	SPFINL
Industrials	11.5%	20.2%	35.9%	13.4%	13.8%	11.7%	9.9%	10.6%	SPINDU
Consumer Staples	9.0%	18.7%	25.3%	10.4%	10.0%	9.6%	10.2%	10.4%	SPCONS
Health Care	6.1%	14.4%	21.7%	8.4%	13.4%	11.1%	10.8%	12.1%	SPHCAR
Materials	9.7%	14.1%	25.2%	9.1%	13.0%	9.1%	8.9%	8.2%	SPBASIC
Consumer Discretionary	7.8%	13.9%	28.1%	4.8%	12.1%	13.1%	11.3%	11.0%	SPCAPG
Energy	-2.3%	8.4%	0.8%	24.1%	13.9%	4.0%	7.6%	9.6%	SPENGY
Real Estate	5.7%	2.5%	8.9%	5.2%	9.5%	6.8%	8.4%	8.3%	SPREIT
S&P 500 Quality	6.3%	25.8%	36.5%	13.4%	17.0%	13.8%	11.7%	12.3%	Quality
S&P 500 Low Volatility	11.0%	16.5%	25.1%	8.3%	6.9%	10.1%	9.6%	10.7%	Low Vol
S&P 500 Low Vol+Hi Div	14.9%	22.8%	34.8%	10.8%	8.3%	9.8%	10.7%	11.8%	Low Vol + Hi Div
Invesco Revenue Wgt ETF	6.3%	16.2%	27.5%	12.3%	14.7%	11.7%			Rev Weighted
S&P Global Infrastructure	16.4%	13.6%	30.1%	1.4%	2.5%	5.0%	6.4%	6.7%	Infrastructure
S&P Global Property	13.4%	18.0%	30.9%	9.6%	6.9%	6.3%	8.2%	10.0%	Property

Source: Refinitiv DataStream and Strategic Frontier Management
Note: Market returns as of September 30, 2024. Performance longer than 1-year is annualized.

S&P 500 EARNINGS—KEY TO EQUITY OUTLOOK

Lackluster growth in 2022-2023, as global competitiveness limited, policy-driven slowdown.
Lower earnings growth and productivity: higher inflation + lower potential growth limit margin
U.S. large-cap earnings expectations too optimistic, risk disappointment.
Large Growth priced for audacious consensus earnings growth.



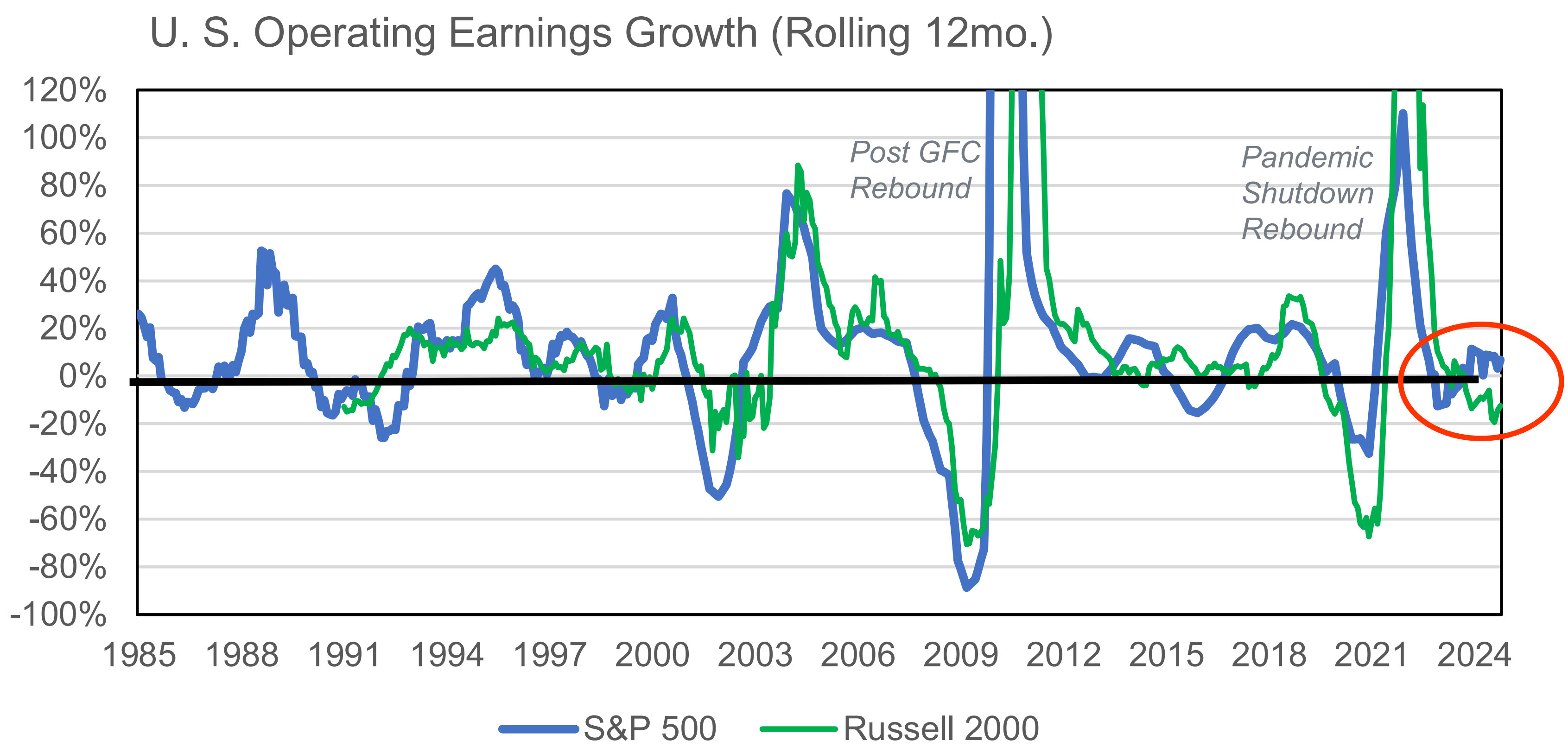
Operating Earnings	2026e	2025e	2024e	2023	2022	2021	2020	2019
IBES Consensus Est.	12.9%	14.9%	9.0%	1.5%	4.8%	49.0%	-13.8%	0.1%
SFM S&P500 E[Growth]	8.0%	6.4%	6.2%					
SFM S&P500 Target	**5800**	**5400**	**5200**	4770	3840	4766	3756	3231
Index Return (no Div)	7.4%	3.8%	9.0%	24.2%	-19.4%	26.9%	16.3%	28.9%
Dividend Yield %	1.33	1.32	1.29	1.47	1.75	1.29	1.48	1.85
Total Return	**8.7%**	**5.2%**	**10.3%**	26.3%	12.6%	16.6%	13.9%	13.6%
S&P 500 @18x SFM TE	4860	4500	4230	3984	3926	3746	2515	2919
S&P 500 P/F12 (SFM)	17.7	17.3	18.8	14.5	17.3	21.9	18.0	23.1

Source: LSEG I/B/E/S and Strategic Frontier Management estimates and actuals as of Oct 1, 2024

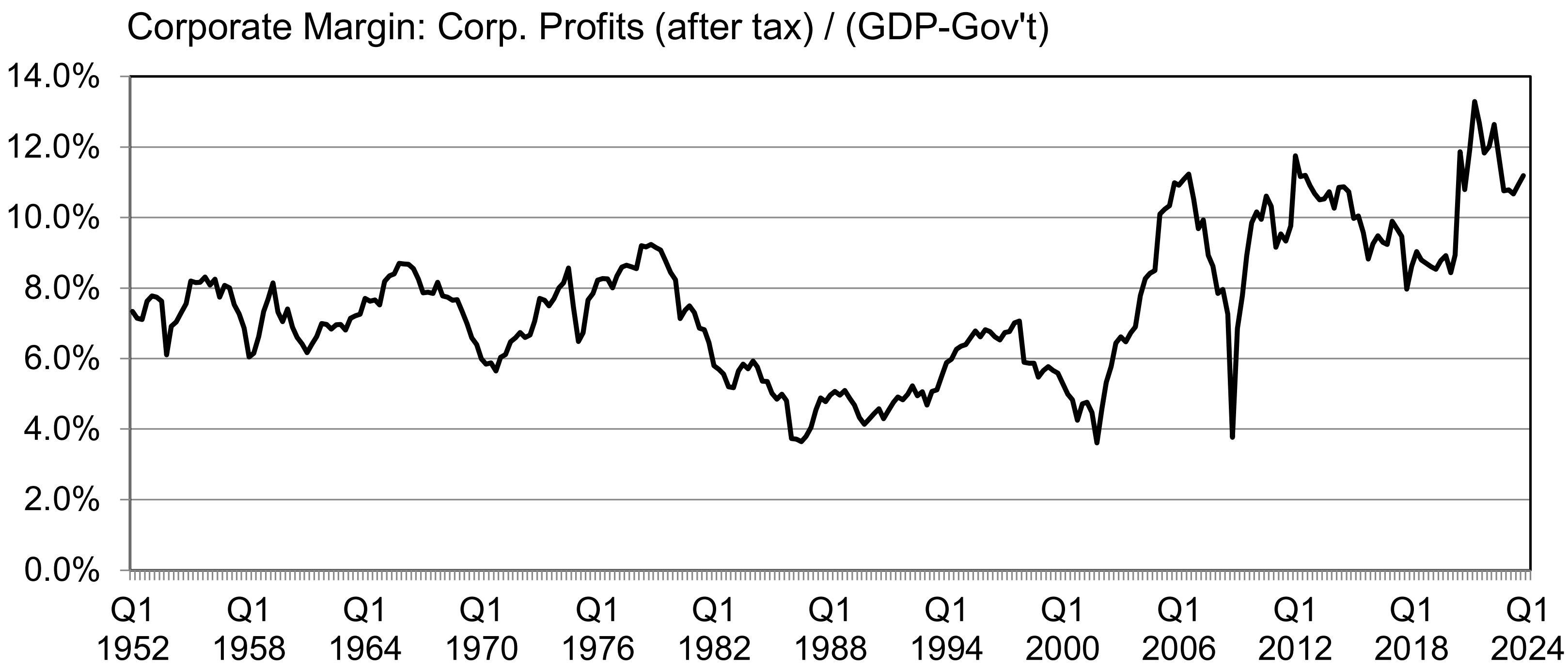
U.S. EARNINGS GROWTH RATE DEPRESSED

Weak Earnings Growth Consistent with Mild Recession or Stagflation

Consequence of misguided policy decisions of *Progressive Socialist* ideology within U.S. Government—inconsistent with recent GDP trend

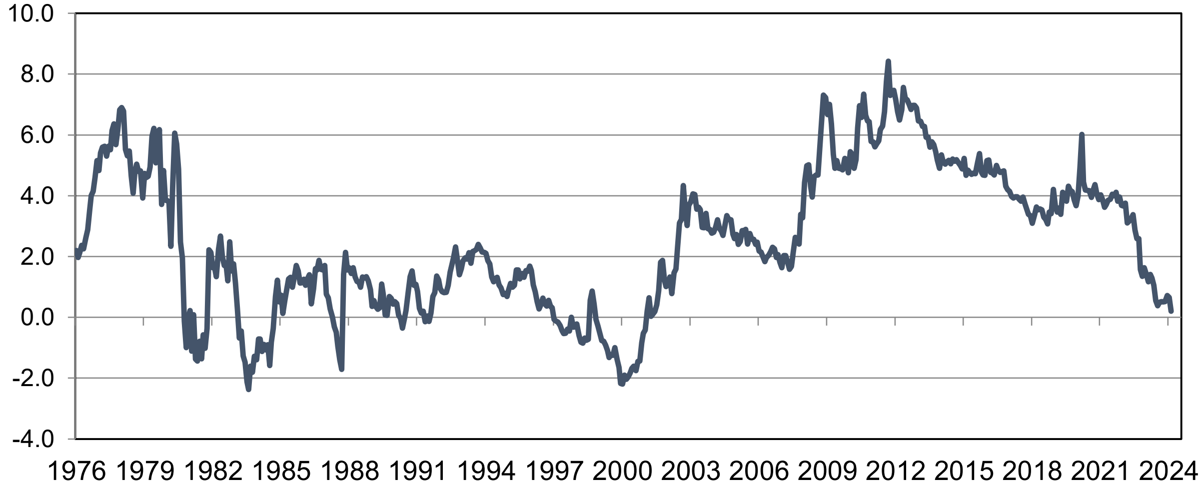


U.S. CORPORATE PROFIT MARGINS

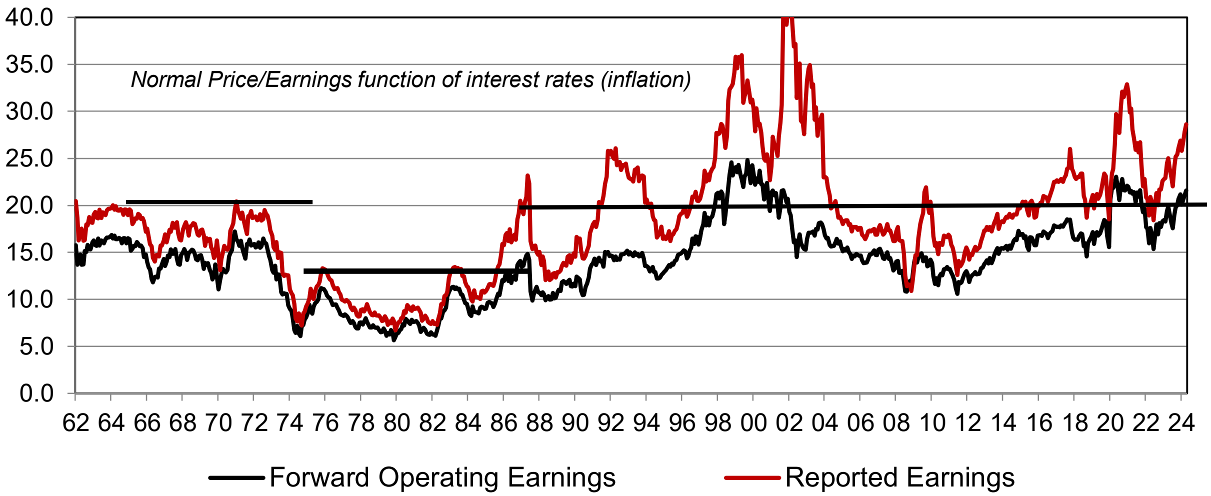


US EQUITY VALUATION DEPENDS ON RATES

Equity Valuation: S&P500 Earnings Yield - Treasury Yield Gap



S&P 500 Price / Forward Operating Earnings



Source: Strategic Frontier Management

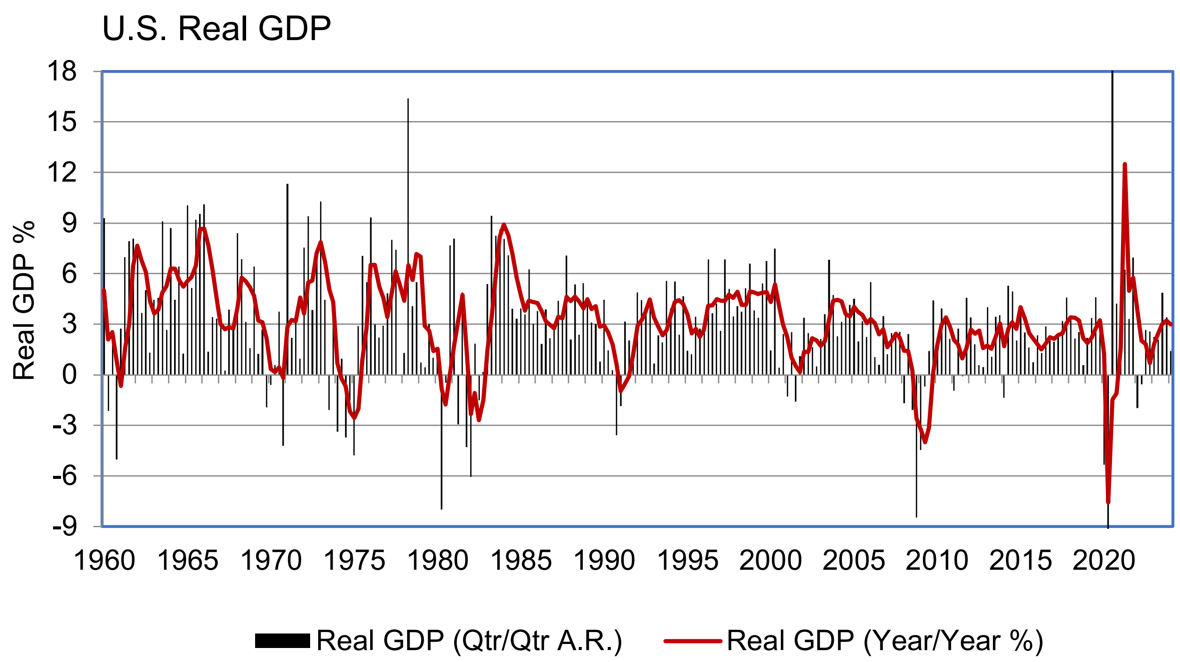
Equity Valuation Worst since 2000—Too many similarities suggest S&P 500 is ripe for a significant correction.

Nominal P/E & P/FE rose as index prices outpaced earnings growth.

Forecast earnings growth is also concerning given macroeconomic conditions, as we saw previously. We forecast disappointment in earnings during 2H/2024.

REAL GROWTH IN GROSS DOMESTIC PRODUCT

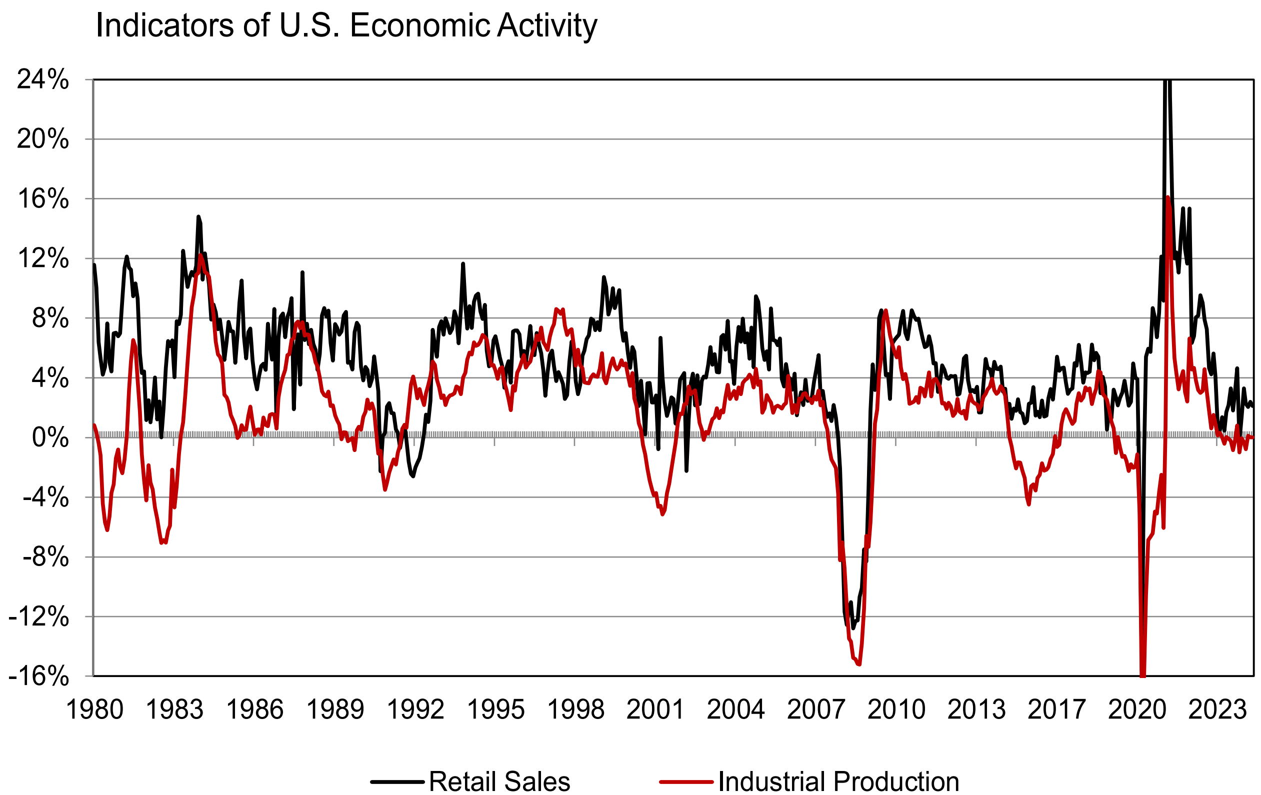
- Poor US policy decisions increase secular stagnation. Potential Growth (2.7% → 2.0%) downgraded given adverse regulatory, fiscal, financial, energy/materials, and trade policy
- Expected ***Economic Hangover*** of declining real economic productivity, competitiveness, profit margins, and earnings growth as excessive fiscal & monetary stimulus retreats.
- Inflation wasn't ***transitory,*** *now expect new higher inflation regime. Higher secular inflation expectations (2% → 3%) requires higher average interest rates (2.5% → 3.5%).*
- Excessive Government Spending bolstered GDP and government jobs, but Private (x-Gov't) lagging. Real fiscal spending must ***decline -0.5%/year*** to extinguish fiscal deficit.



Source: U.S. Government Data

MONTHLY ECONOMIC GROWTH INDICATORS

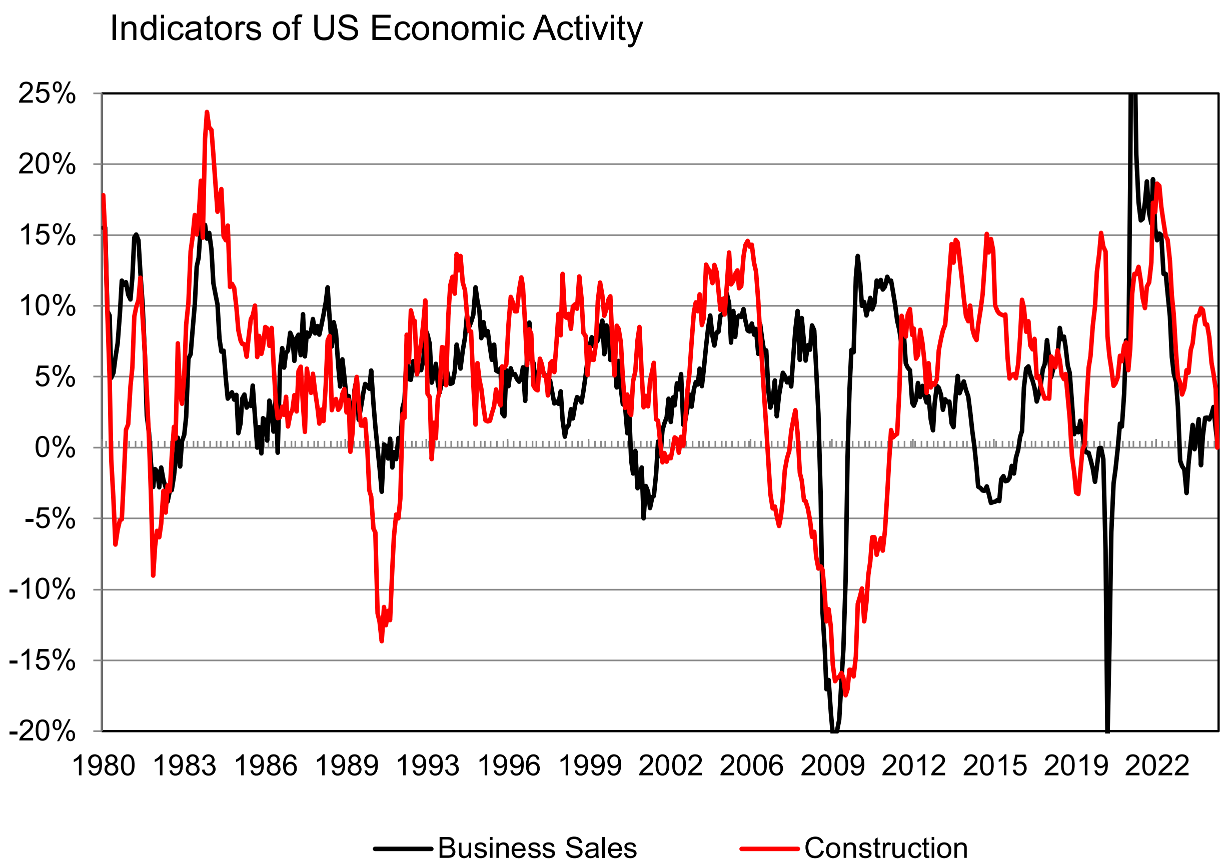
- Terrible fiscal (tax, spend) and regulatory policies undermined US Potential Growth.
- I***ndustrial production*** and ***real retail sales*** suggest US economy near or in recession
- Stagflation hangover visible as excess *Fiscal and Monetary Stimulus rolls over,* which artificially boosted incomes and pulled forward consumption—must impose austerity
- Economic and earnings growth collapsed too. We are not only flirting with recession, an observed real earnings recession is more problematic.



Industrial Production: -0.6%
Retail Sales: 1.4%
CPI Inflation: 3.2%

INVESTMENT AND BUSINESS ACTIVITY

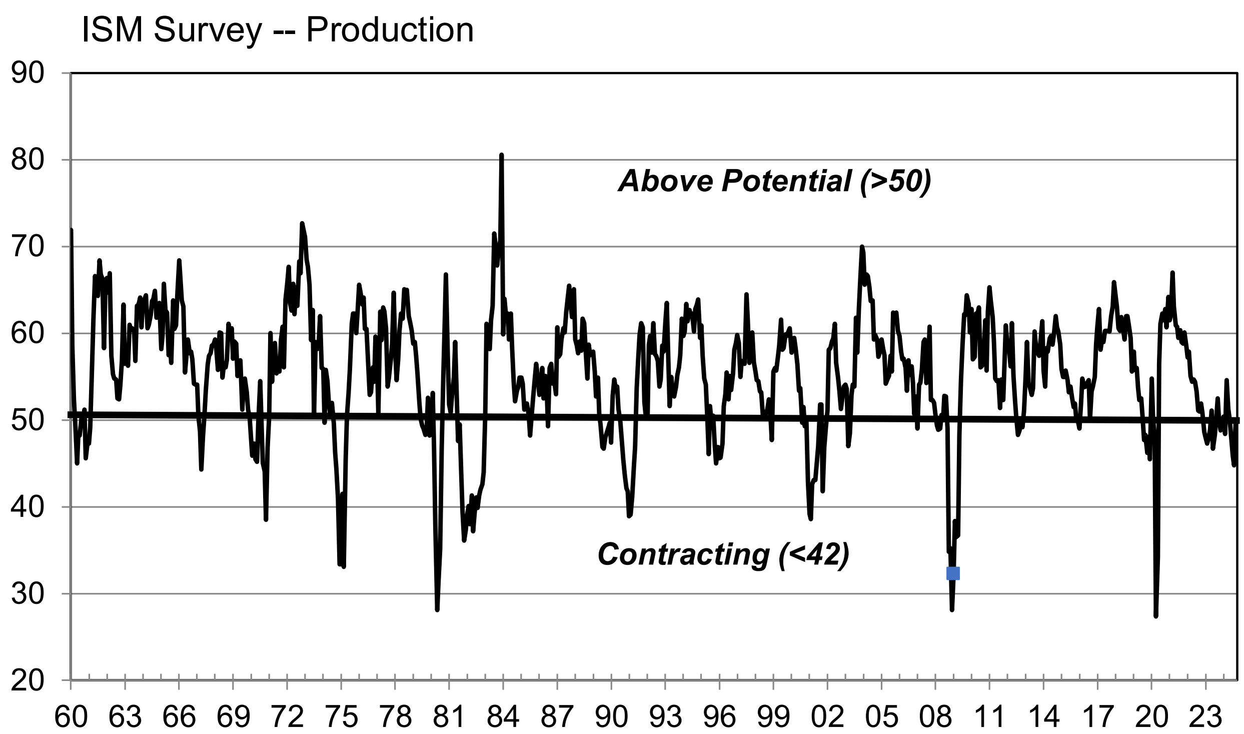
- Higher frequency economic growth indicators, including business sales, are collapsing, which indicate higher risk of US recession, if not intermittent.
- Expect Business Sales and Construction to be more cyclical in 2025



Source: U.S. Government Data

U.S. MANUFACTURING TRENDS

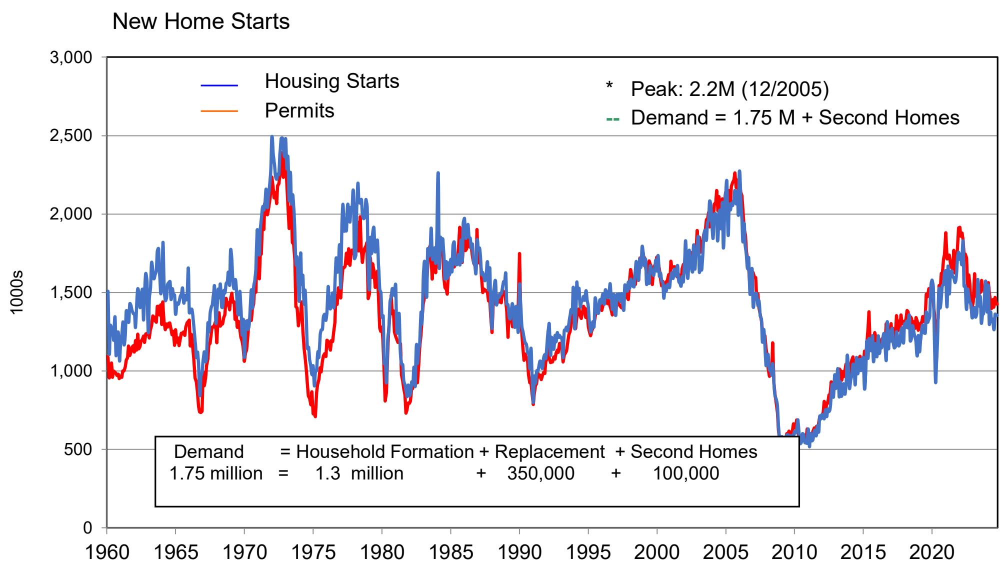
ISM rolled over during the Biden Administration after peaking in 2021. As expected, declining potential growth and productivity with higher inflation is driving lower margins. With higher interest rates and poor policy decisions, lower potential growth anticipated.



Source: ISM

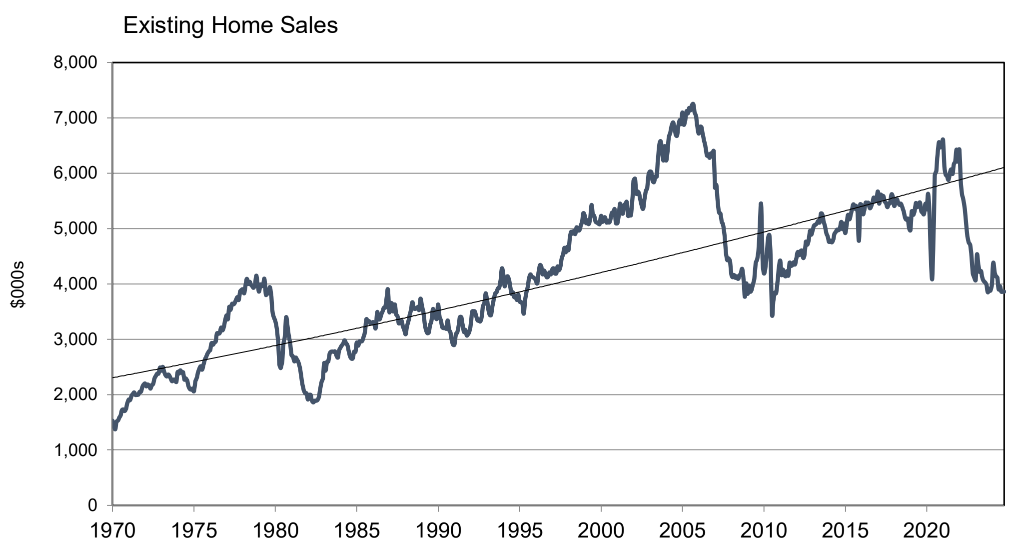
ISM Purchasing Managers Survey is one of the most timely and best predictors of the business cycle. "50" equates to potential growth (~2.7%) over the next year, 50-42 suggests slowing economy, and below 42 suggests contraction or recession.

HOUSEHOLD FORMATION DRIVES HOUSING



Sales and Starts slowed as interest/mortgage rates rose, but supply is still limited. Household formation drive demand.

Limited new starts can't support household formation, plus replacement (fire, flood, old) and second home demand coincides with low house inventory levels.

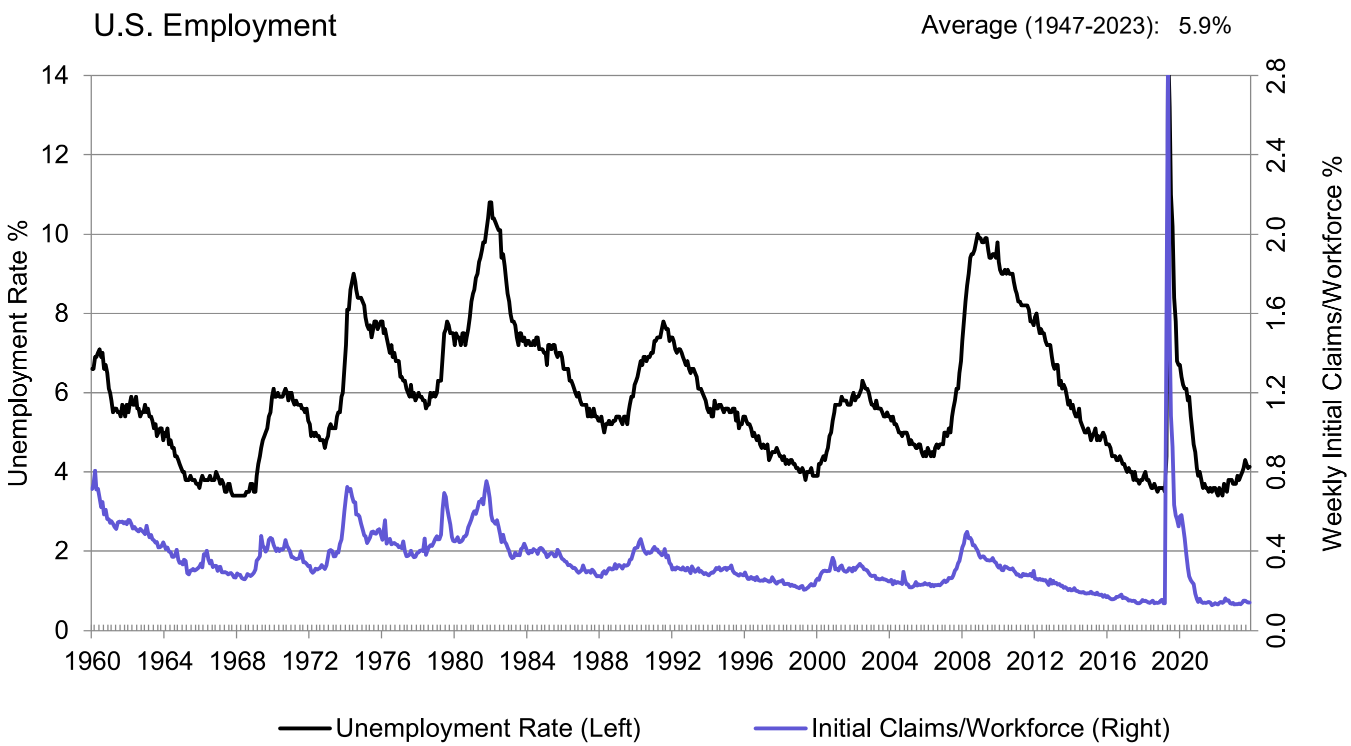


It is not surprising housing cost inflation remains resilient, although prices off 2022 highs. Basic resource inputs, labor costs, energy prices coincide with low inventory of new and existing homes for sale. Rising rents remain high too.

Source: U.S. Government Data

UNEMPLOYMENT KEY TO FED OUTLOOK

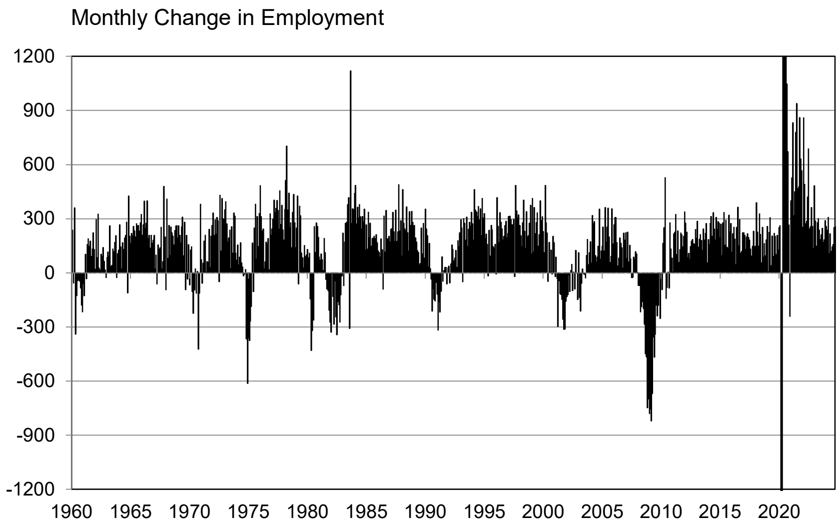
- Unemployment peaked over 14% (April 2020), but now 3.5% vs. 6.0% historical avg.
- Further evidence US Stimulus (2021-2023) was not needed, and fueled higher inflation
- Secular change affected nature of work, also education and evolving skill needs.
- Higher inflation expectations + minimum wage increases drive even higher labor costs. Cheap Energy + Investment vs. Declining Labor Intensity: *Race Against the Machines*

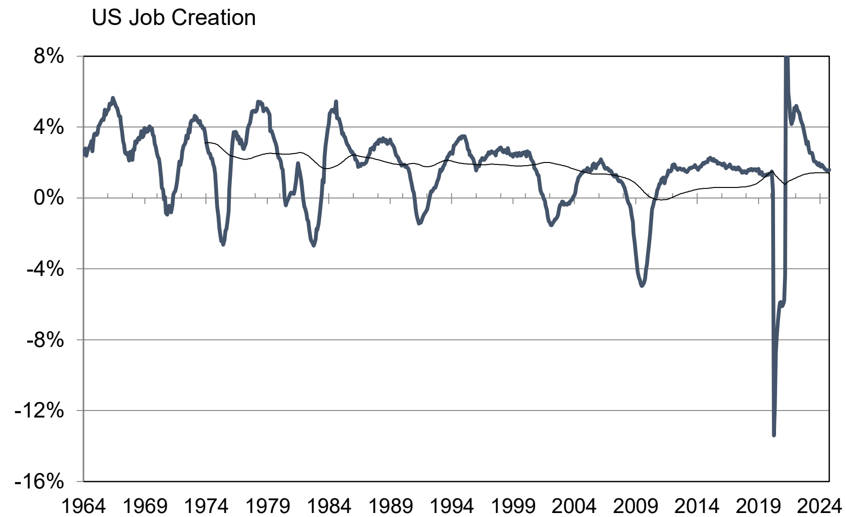


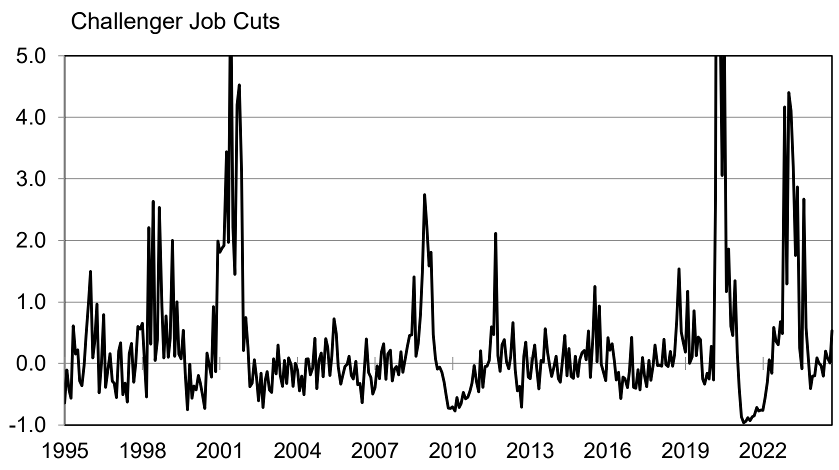
Source: U.S. Government Data

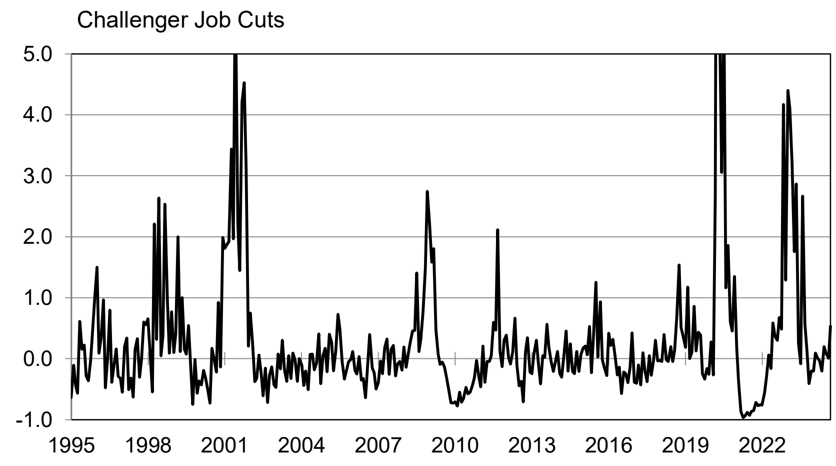
U.S. EMPLOYMENT CONDITIONS

Recession Likelihood Low @3.8% rate, but signs of trouble emerging given declining JOLTS vacancies, subpar new jobs (lagging trend since 2020)





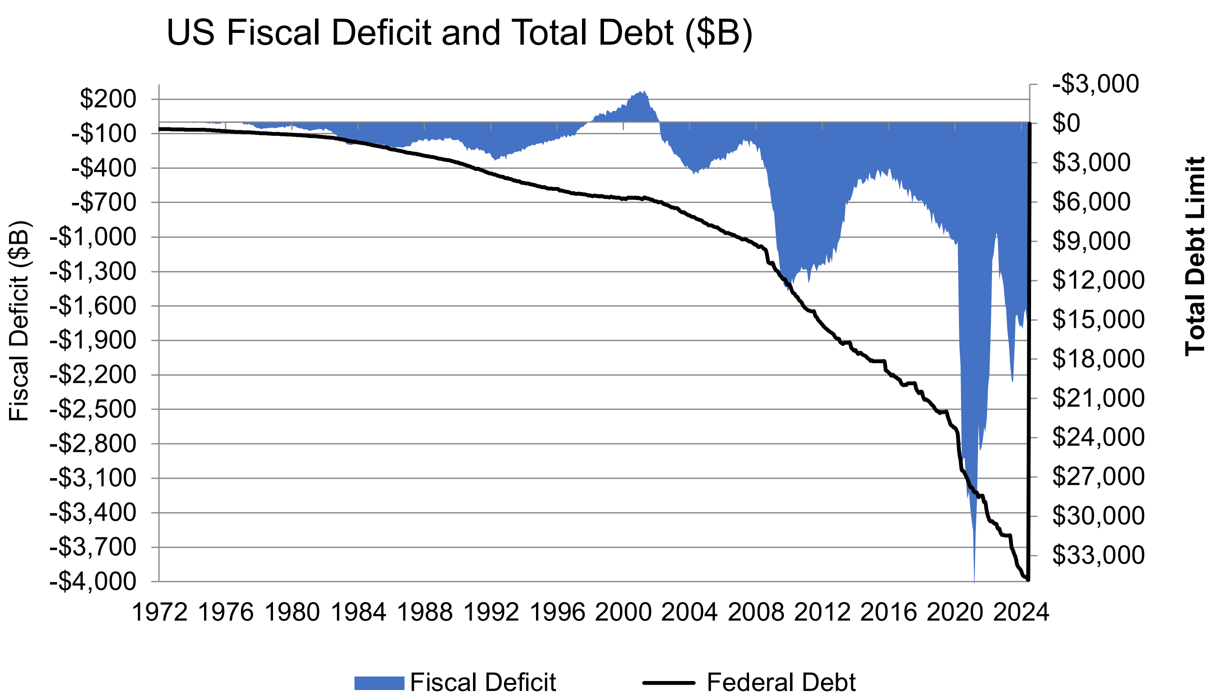




Source: U.S. Government Data

US FISCAL DEFICIT (ROLLING YEAR)

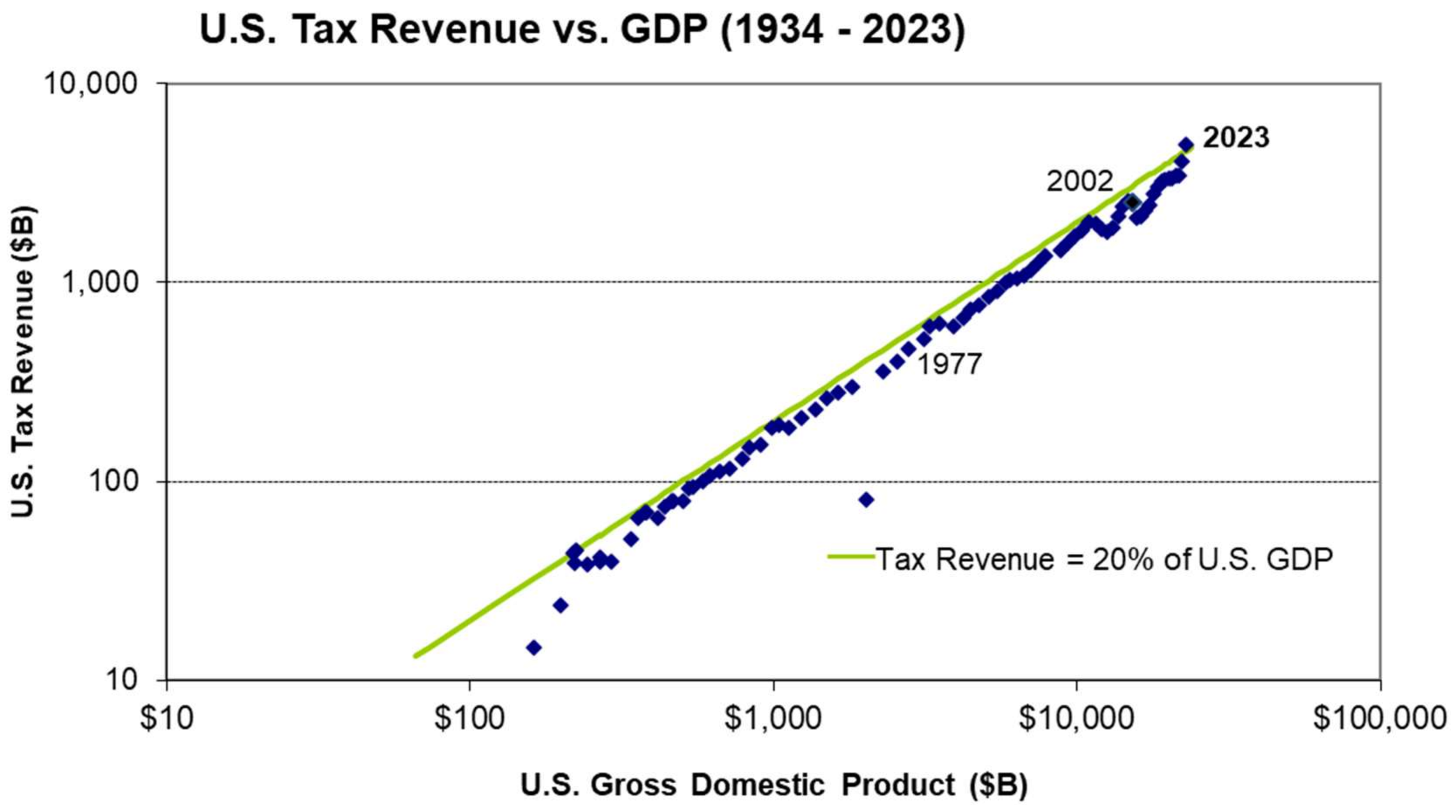
- US Fiscal Deficit is Unsustainable with soaring nondiscretionary liabilities on top of reckless, wasteful, unnecessary, and inefficient stimulus spending programs
- Rising interest rates boosting Fiscal Deficits--$1.8 trillion on Federal Debt of $36 trillion
- Republican House control able to limit spending somewhat (Build Back Better was broken up into smaller pieces, but still significant wasteful and egregious spending.



Source: US Government, OMB

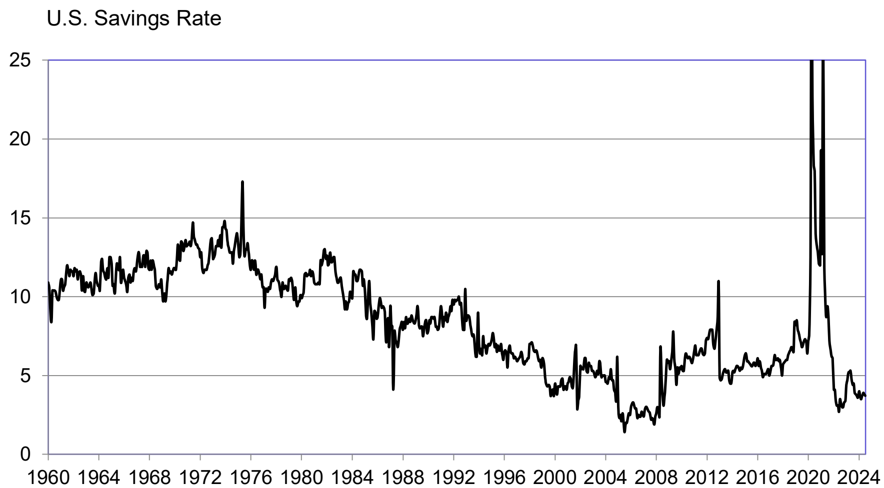
HAUSER'S LAW

- Empirical observation that U.S. Government never exceeded revenue collection of 18-20% of GDP since 1934, irrespective of varying individual tax rates (35-90%).
- Raising tax rates never boosted tax revenue, because it slows economic growth and earnings, which reduces growth in tax revenue.
- Similarly, cutting tax rates increases real growth and productivity, thereby boosting tax revenue—rather than reducing tax revenue.



Note: Total U.S. Tax Revenue includes: Individual, Corporate, Social Security, Exise & Other Sources

HOUSEHOLDS: LESS SAVINGS -- RISING COSTS



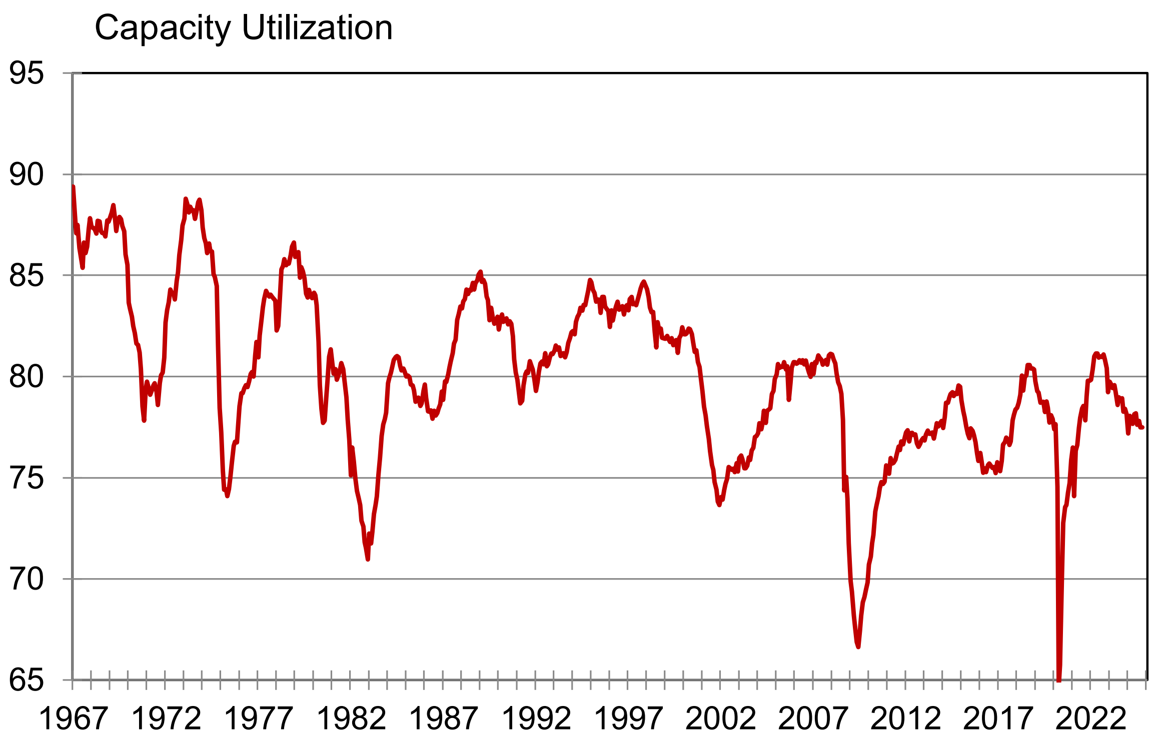
<u>Not Your Father's Household Balance Sheet</u>

- *Household Net Worth increased to **$177Trillion***
- *Financial Assets increased to **$118 Trillion***
- *2022 was brutal on retirement savings*
- *Net worth has been growing faster than inflation*
- *Worrisome Savings Rate declining to 2008 lows*

Household Balance Sheet ($Bs)	*2016*	*2017*	*2018*	*2019*	*2020*	*2021*	*2022*	*2023*	vs. 2003	vs. 2013	*1-Year*
Total Assets	109,817	119,100	120,177	133,358	148,842	169,084	164,597	176,743	5.5%	6.4%	7.4%
Households: Real Estate	27,883	29,936	31,647	33,397	36,665	43,403	47,118	49,093	4.8%	8.0%	4.2%
Financial Assets (inc. retirement)	76,203	83,267	82,388	93,576	105,352	117,865	108,953	118,832	5.9%	5.9%	9.1%
Pensions	24,318	25,916	25,795	28,006	29,794	31,560	28,921	30,964	4.7%	3.3%	7.1%
Investments	38,298	43,960	42,634	51,809	58,380	68,622	64,299	60,048	6.7%	5.9%	-6.6%
Deposits (Bank Acct + Money Fund)	11,432	11,869	12,298	13,360	16,351	18,061	17,938	18,031	5.8%	6.4%	0.5%
Change in Financial Assets%	4.7%	9.3%	-1.1%	13.6%	12.6%	11.9%	3.4%	0.8%			
Liabilities	14,385	14,929	15,388	15,883	16,509	18,141	19,228	19,751	3.7%	3.8%	2.7%
Home Mortgages	9,659	9,929	10,204	10,476	10,919	11,927	12,697	13,053	3.2%	3.3%	2.8%
Consumer Credit	3,636	3,831	4,007	4,192	4,185	4,549	4,894	5,020	4.4%	5.0%	2.6%
Household Net Worth	94,836	103,565	104,177	116,857	131,717	150,233	144,628	156,214	5.8%	6.8%	8.0%
Growth Rate (y/y)	7.0%	8.6%	0.6%	11.2%	12.0%	12.6%	9.0%	4.0%			
Disposable personal income (NIPA)	14,322	15,022	15,946	16,626	17,596	18,664	19,178	20,523	4.4%	4.9%	7.0%
Growth Rate (y/y)	3.2%	4.9%	6.2%	4.3%	5.8%	6.1%	9.0%	10.0%			
Financial Assets/Total Assets	69%	70%	69%	70%	71%	70%	66%	67%			
Source: Federal Reserve, US Financial Accounts --	*(Z1-Table B.101)*										

RISING CAPACITY UTILIZATION

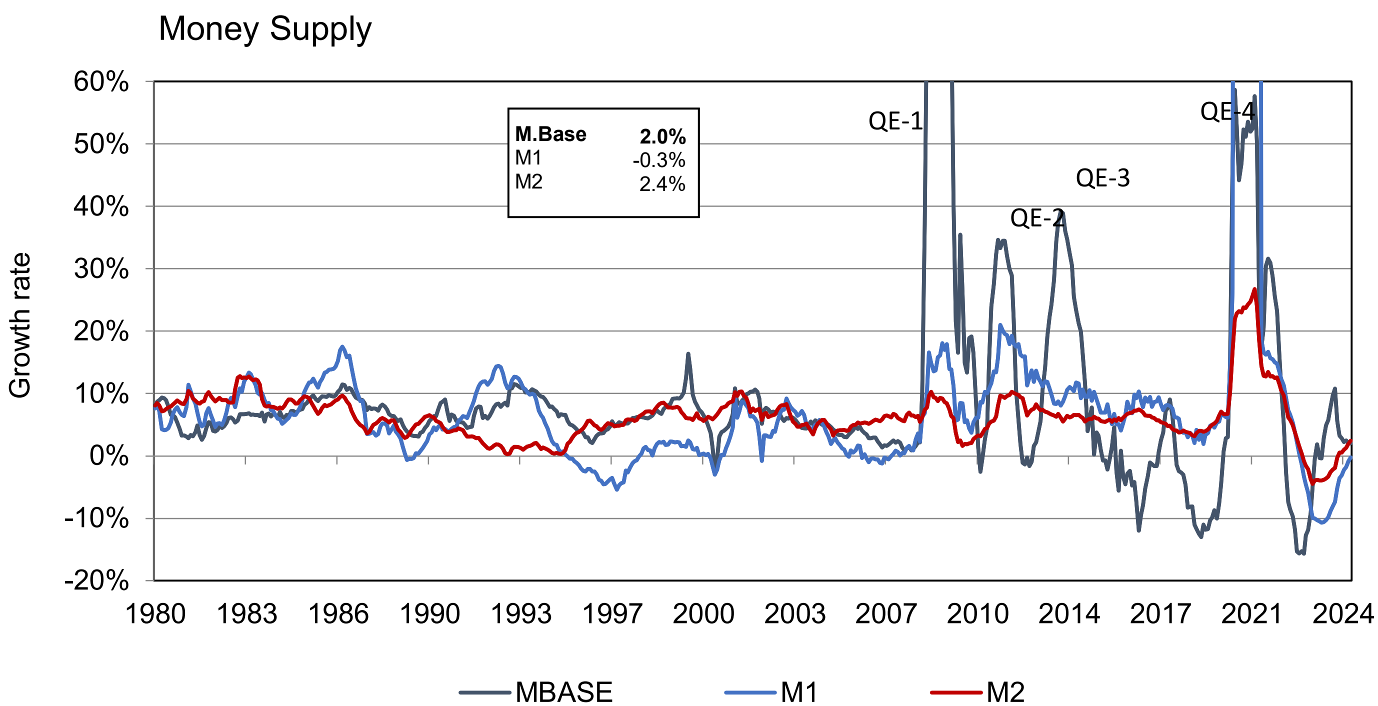
- Higher Capacity Utilization Drives Inflation and Investment, yet forces of secular disinflation and *Fourth Industrial Revolution* long taken for granted, are now waning.
- 80% Capacity Utilization: Offshoring/globalization trends reversing with automation reducing labor intensity.
- Transportation, energy, basic material costs more critical than labor costs, thus competitive advantages playing a greater role, affecting China and others most.



Source: U.S. Government Data

MONEY SUPPLY VOLATILITY INCREASES EQUITY VOL, BUT HARDLY HELPS ECONOMY

- Excessive money growth and low rates for an extended period manipulated bond markets and increased *explicit moral hazard*—thus, many adverse consequences
- Normalization of monetary policy needed to restore financial stability, but volatility and low growth in money supply can wreck havoc, as will faltering liquidity, yield volatility.
- Reversing QE (central bank bond holdings) as rates increase will slow money growth (hangover effect)--ability to respond to the next financial crisis remains compromised



Assets GDP%
BoJ 134%
ECB 67%
Fed 36%
PBOC 33%

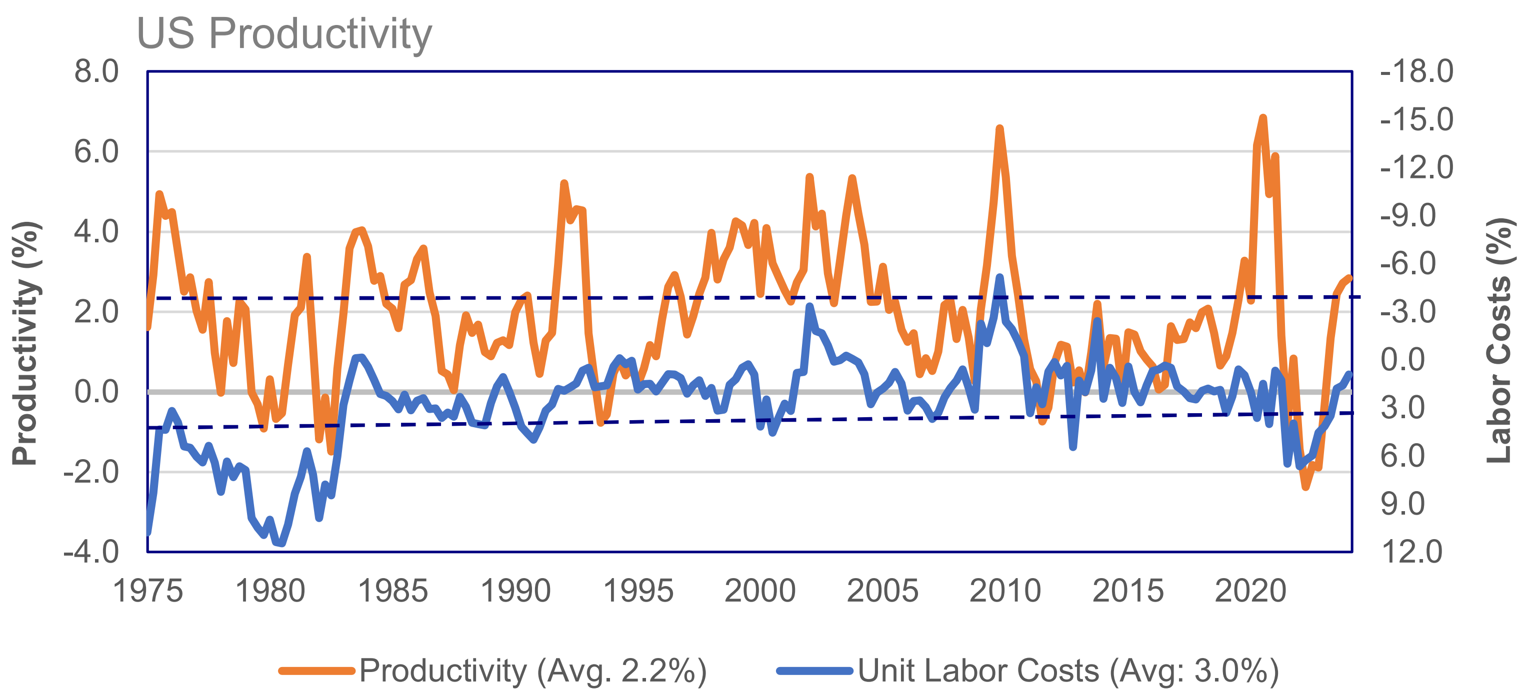
ECB (9.6 T)
Fed (8.9 T)
PBOC (6.4 T)
BOJ (6.2 T)

Source: U.S. Federal Reserve

PRODUCTIVITY AND UNIT LABOR COSTS

Real GDP = Gov't + Consumption + Income + Trade = Workforce Growth + Productivity

Labor Costs undermining productivity, combined with slowing economic real growth.

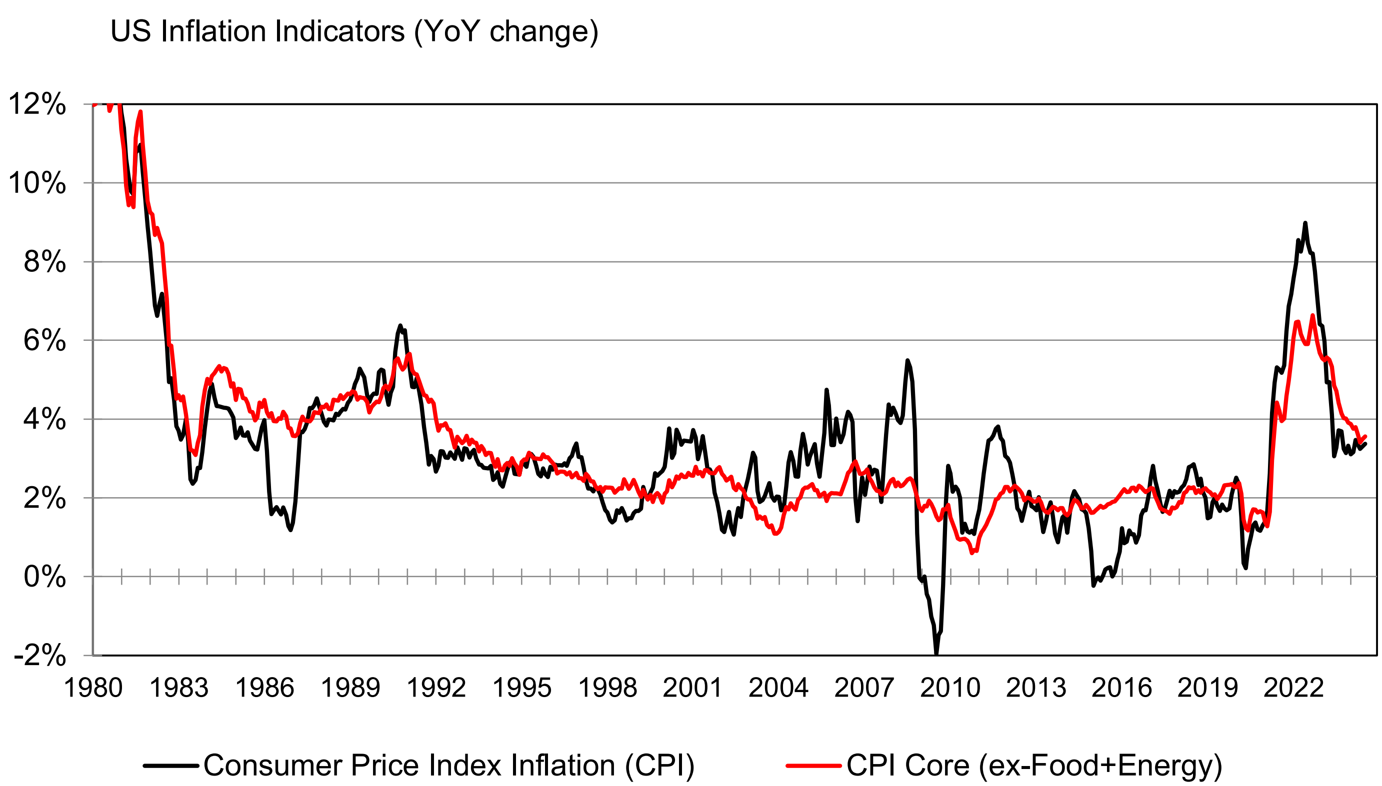


G = Gov't Spending
C = Consumption
I = Investment
T = Net Exports (Trade)

Source: U.S. Government Data

US CPI INFLATION WILL SETTLE HIGHER ~3%

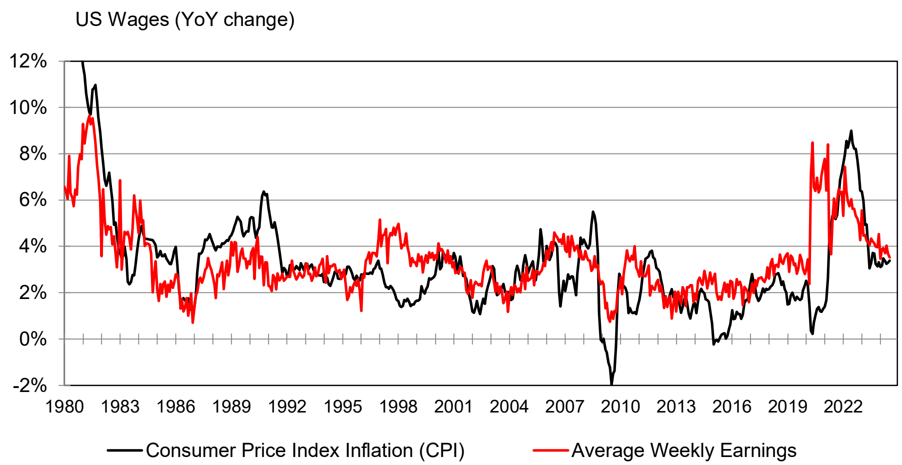
- Inflation rates finally rolled over, but many inflationary forces still remain (housing, labor)
- Higher *inflation expectations* persist, supporting labor, housing and transportation costs
- Oil, natural gas, fuels, electricity, and basic resources volatility helped, but can hurt too
- Irreversible damage was done to living standards with monetary moral hazard
- *Secular disinflationary forces* are receding (innovation, comparative advantage, creative destruction), but it is *as good as it gets* without limiting inflation expectations

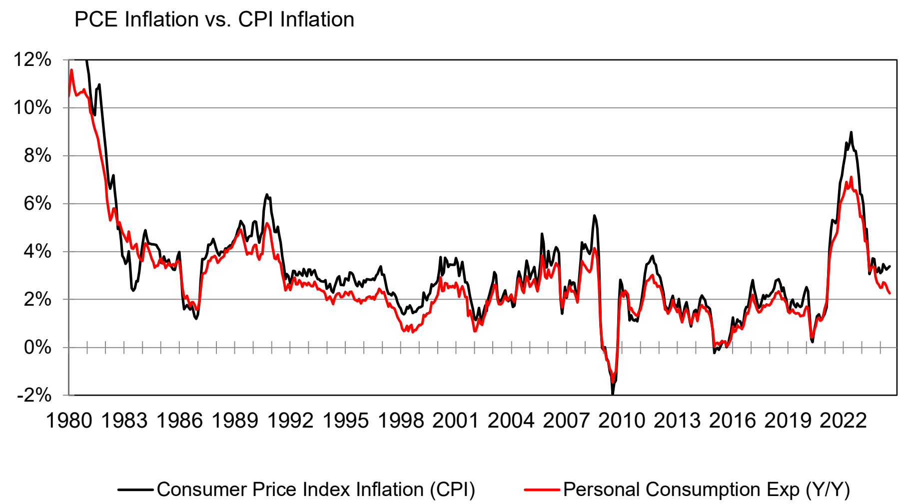


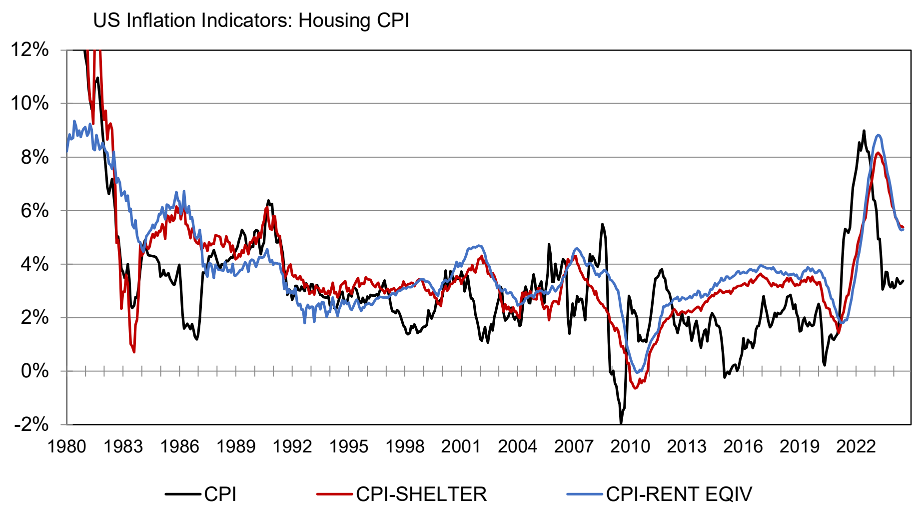
Source: U.S. Government Data

BROAD-BASED INFLATION SPREADING GLOBALLY

Broad-based US Inflation accelerated since Jan. 2021, and spread globally. Clearly wasn't transitory, impacting energy, basic resources, and commodities cyclically. Rising inflation expectations embedded in labor and housing.





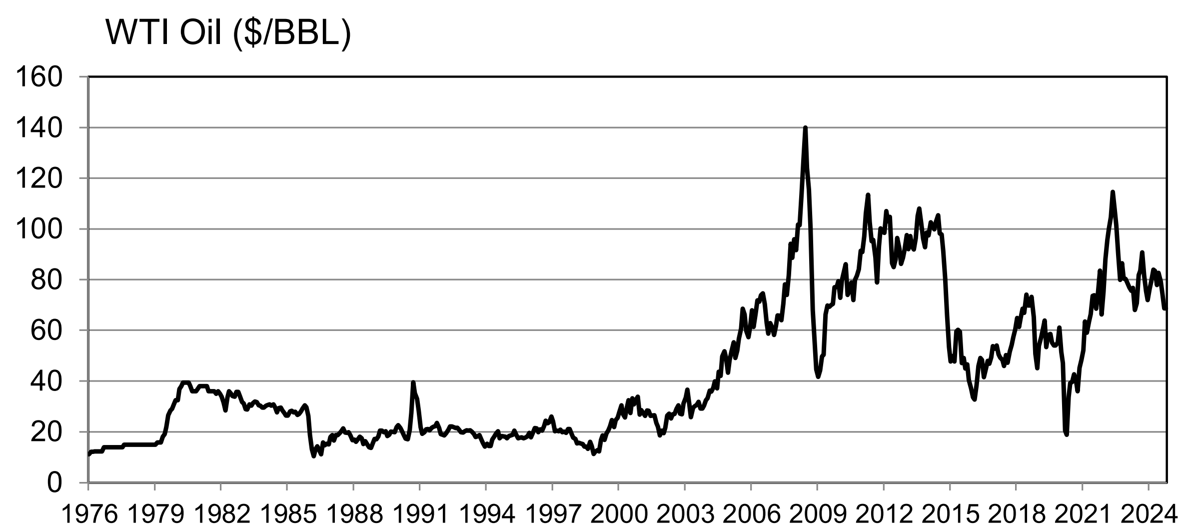


Global Inflation Tracking (CPI)	
United States	3.5%
Europe (EMU)	2.4%
United Kingdom	3.9%
Japan	4.1%

WHAT IS THE EQUILIBRIUM OIL PRICE?

Natural demand destruction from *Conservation, Substitution, and Innovation* (C-S-I), and declining energy intensity

.
- Efforts to limit exploration, production, and pipelines (transport) drive higher prices
- Energy Innovation: new engines, lighter vehicles, greater efficiency, and alternative formulation can lower emissions faster than EV push, natural gas appliance restriction
- Growth in oil consumption limited despite new abundance of natural gas/oil supply, limitation on export of natural gas
  - Alternative power still expensive, unreliable, and growing more slowly than needed
  - Increasing US CAFE standards educed overall demand, even with growth (miles/yr)
- Draining SPR was a dangerous, foolish short-sighted idea

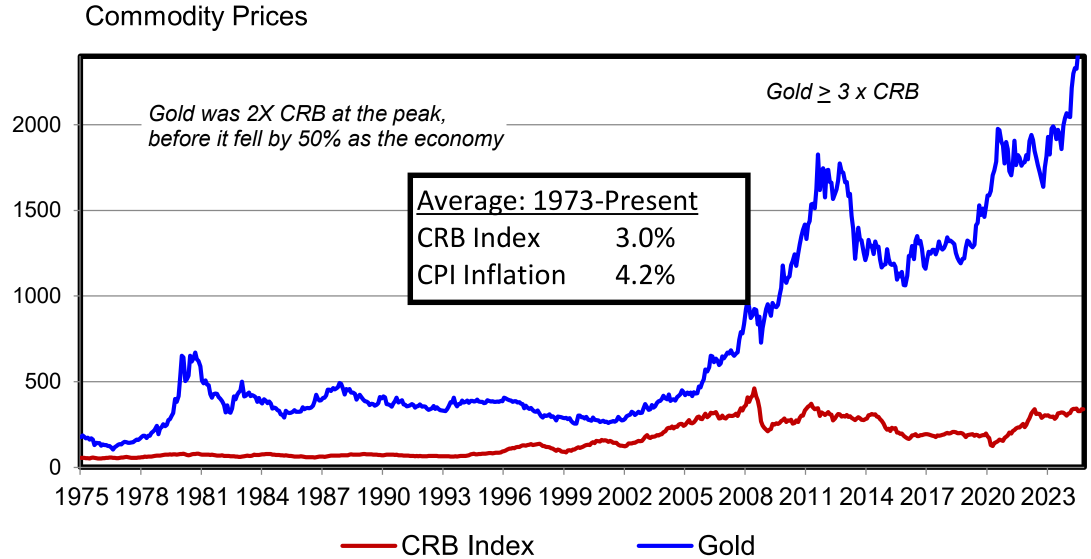


Source: EIA

Normal equilibrium price for WTI was $55-60 thru 2020, but now is likely ***$65-75*** with more regulation and reduced energy infrastructure investment

BASIC RESOURCE INTENSITY DECLINING

- However, supply and distribution are being restricted, resulting in higher prices
- Input costs can't exceed output prices, thus commodity returns can't exceed inflation. Commodity return = Inflation – Holding costs, so given volatility are not a prudent strategic allocation. Exposure adds to portfolio risk more than is diversified.
- Gold too volatile to be *store of value* and will likely lag inflation as interest rates rise.
- *Cash* is a better store of value and better market hedge than Commodities *or Crypto*.



Correlation	Commodity	Gold
S&P 500	18%	1%
UST 10yr	-24%	3%
Cash	-9%	-3%
Inflation	25%	21%

Note: Monthly returns for 1s3-2017 CRB Index

Commodity Returns:
1871 – 2007: Goldman/The Economist/IMF: Real return = -0.4%
1900 – 2020: Credit Suisse 2.6% vs. 2.9% inflation Real return = -0.3%
1973 – 2009: 4.75% vs. 4.5% (inflation) Real return = 0.25%

Source: Refinitiv DataStream & Strategic Frontier Management

EXTINGUISHING EMERGENCY MONETARY POLICY RISKS HIGHER BOND VOLATILITY, DEBT CRISIS

- Federal Reserve regime pivot from QE, low rates, forward guidance to normalization of interest rates, holdings, and inflation expectations--Fed Funds cut ¼% in 2024,
- New secular regime of higher inflation and interest rate expectations as disinflation of *Fourth Industrial Revolution* moderates. of Emerging Markets competitive advantage diminish.
- *Inflation targeting* problematic, as is Fed's continued forward guidance (i.e., dot-plots, *published forecasts* ritual). ECB, BoJ, BoE, SNB, RBA required to follow hiking rates with targeting inflation.
- Unwinding central bank holdings (QE→ QT) results in low to negative money growth for years.
- SFM believes US Long-run Inflation: 2% □ 2.5% (CPI: 3%), expect Long-run Fed Funds: 3½%. US Debt + Fiscal Deficit + QT increase issuance, thus macro/financial volatility, liquidity issues

Median Forecast									LongRun Forecast	
U.S. Fed %	2020	2021	2022	2023	2024e	2025e	2026e	2026e	Fed	SFM
GDP	-2.40	5.90	0.50	2.60	2.00	2.00	2.00	2.00	1.80	1.80
U.Rate	6.70	4.80	3.70	3.80	4.40	4.40	4.30	4.20	4.10	4.50
PCE	3.40	4.20	5.60	2.30	2.10	2.00	2.00	2.00	2.00	2.50
Core PCE	3.00	3.70	4.80	2.60	2.20	2.00	2.00	2.00	2.00	2.50
Implied CPI	1.50	3.50	6.10	2.80	2.60	2.50	2.50	2.50	2.50	3.00
Federal Funds Avg.	0.09	0.13	4.38	5.38	4.51	3.09	3.06	2.99	2.91	3.50

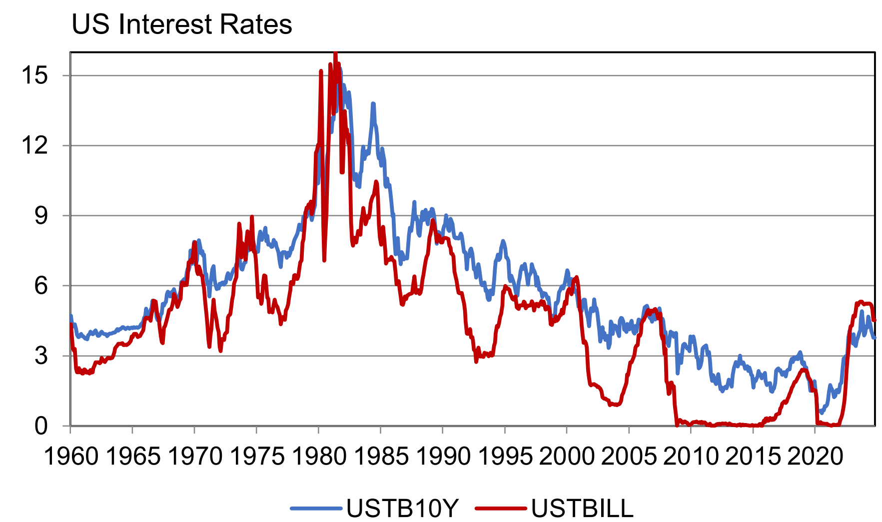
Interest Rates	2020	2021	2022	2023	2024e	2025e	2026e	2026e	Longer Run
FOMC Avg.	0.13%	0.13%	4.38%	5.38%	4.51%	3.09%	3.06%	2.99%	2.91%
Forecast[1]	0.25%	0.25%	4.50%	5.50%	4.75%	3.75%	3.50%	3.50%	3.50%
Rate Change	-1.50%	0.00%	4.25%	1.00%	-0.75%	-1.00%	-0.25%	0.00%	

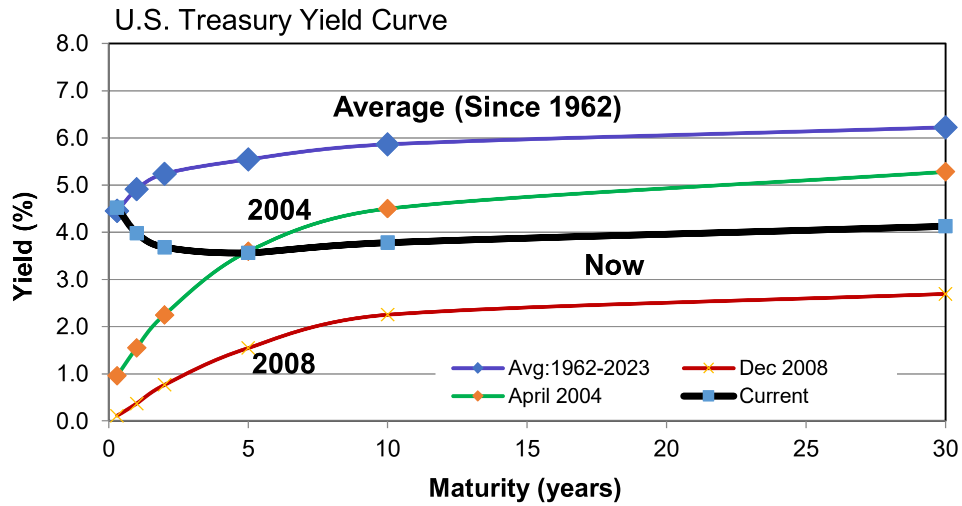
1. Top-end of indicated Fed Funds range

Source: U.S. Federal Reserve (June 2024) and Strategic Frontier Management

INTEREST RATES MUST NORMALIZE

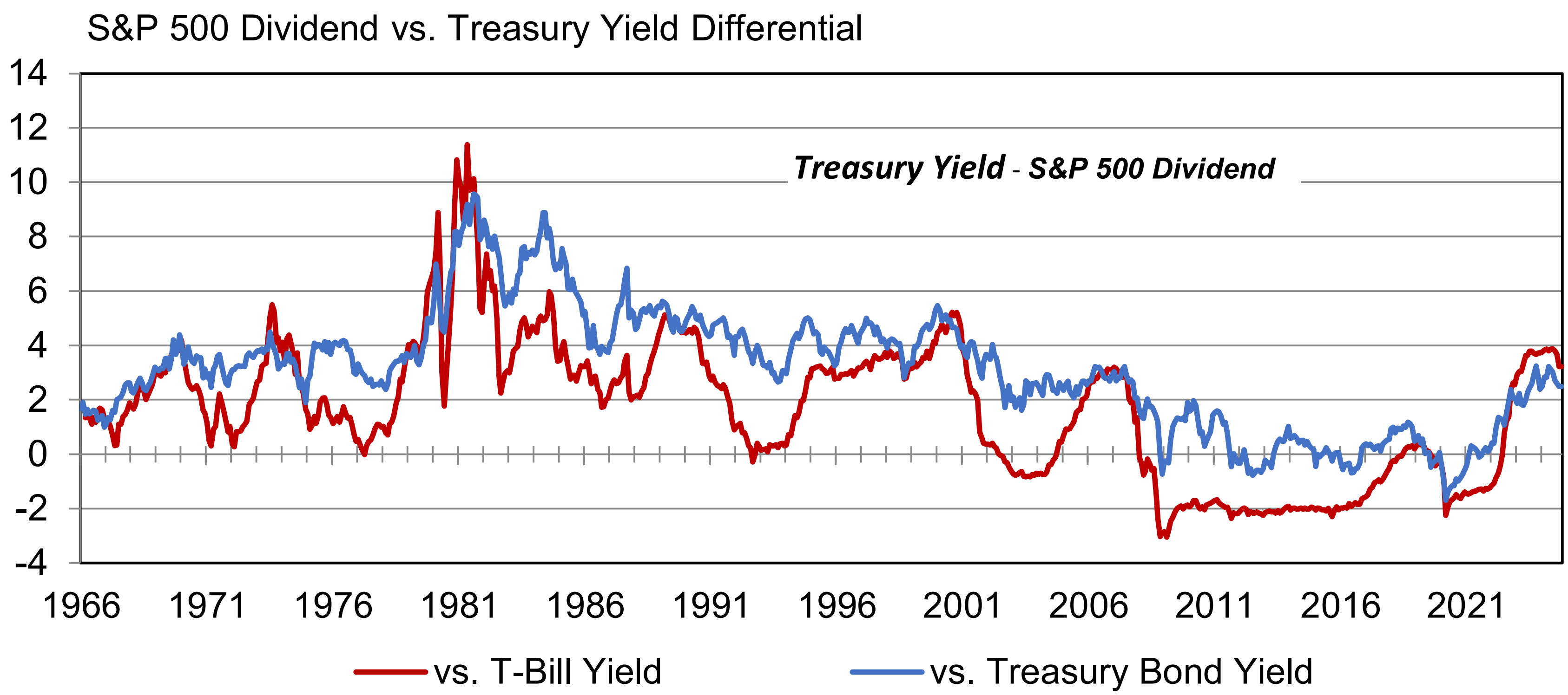
- Global interest rates manipulated with unsustainable monetary policy, inc. QE: Too Low for Too Long induced *Explicit Moral Hazard and* extinguished the inflation risk premium.
- Mislead investors, business, and consumers boosted non-transitory inflation expectations—Expect negative real bond returns for years after US Treasury yields declined for 4 decades.
- Fixed income liquidity an increasing concern as risk variables evolve with excess leverage, extreme deficit boost debt issuance, manipulation thus extended bond valuation.
- Fiscal fantasy of benign debt and fiscal deficits (inc. Modern Monetary Theory) is ruinous -- higher bond yields will increase interest burdens, risk financial crisis, and compromise zombies
- Credit spreads tight, so High Yield may underperform with *stagnation* + *crowding out*





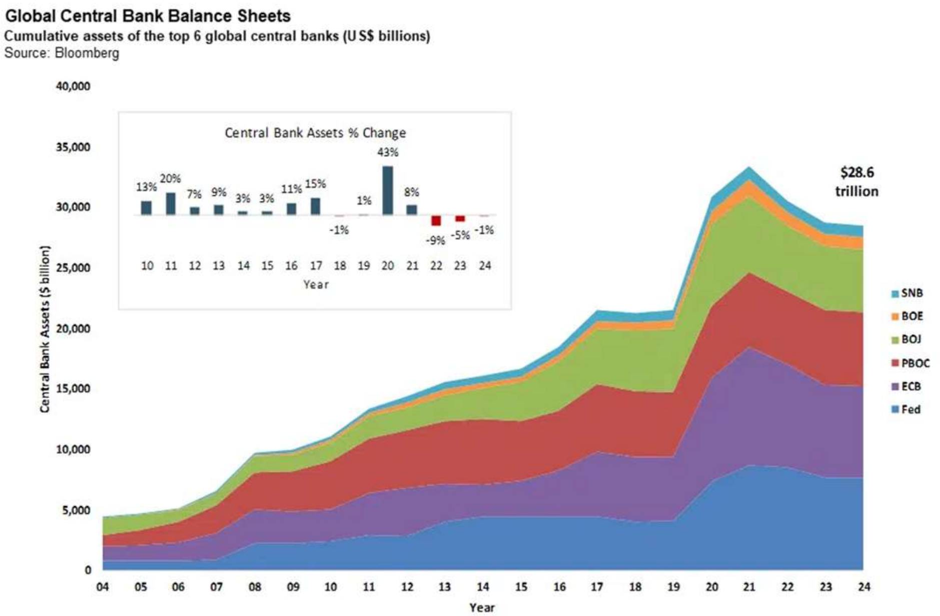
Source: Federal Reserve

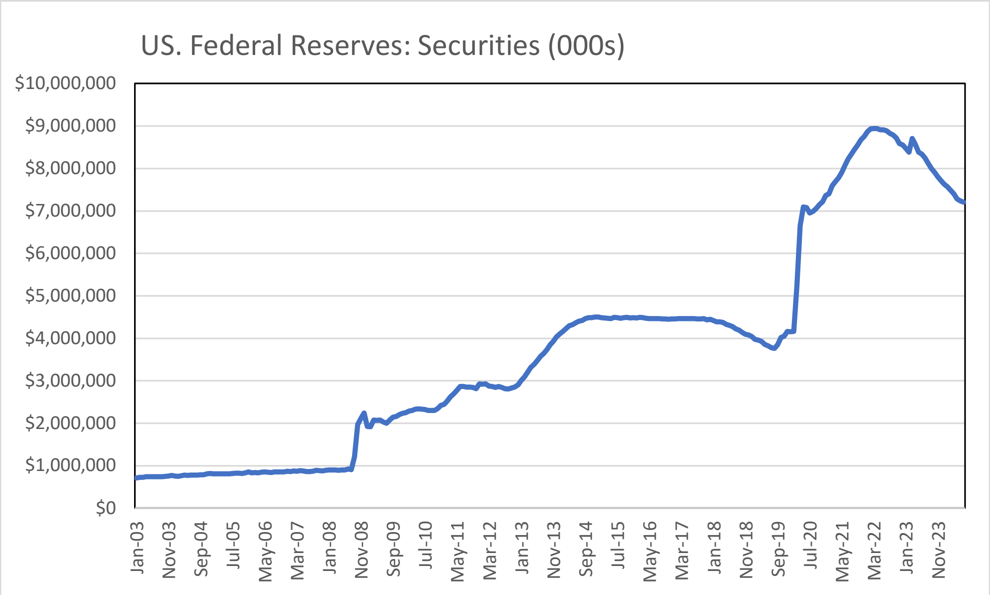
TREASURY BILLS EXCEED VS DIVIDEND YIELD



THE PROBLEM: INFLATION & MONEY GROWTH

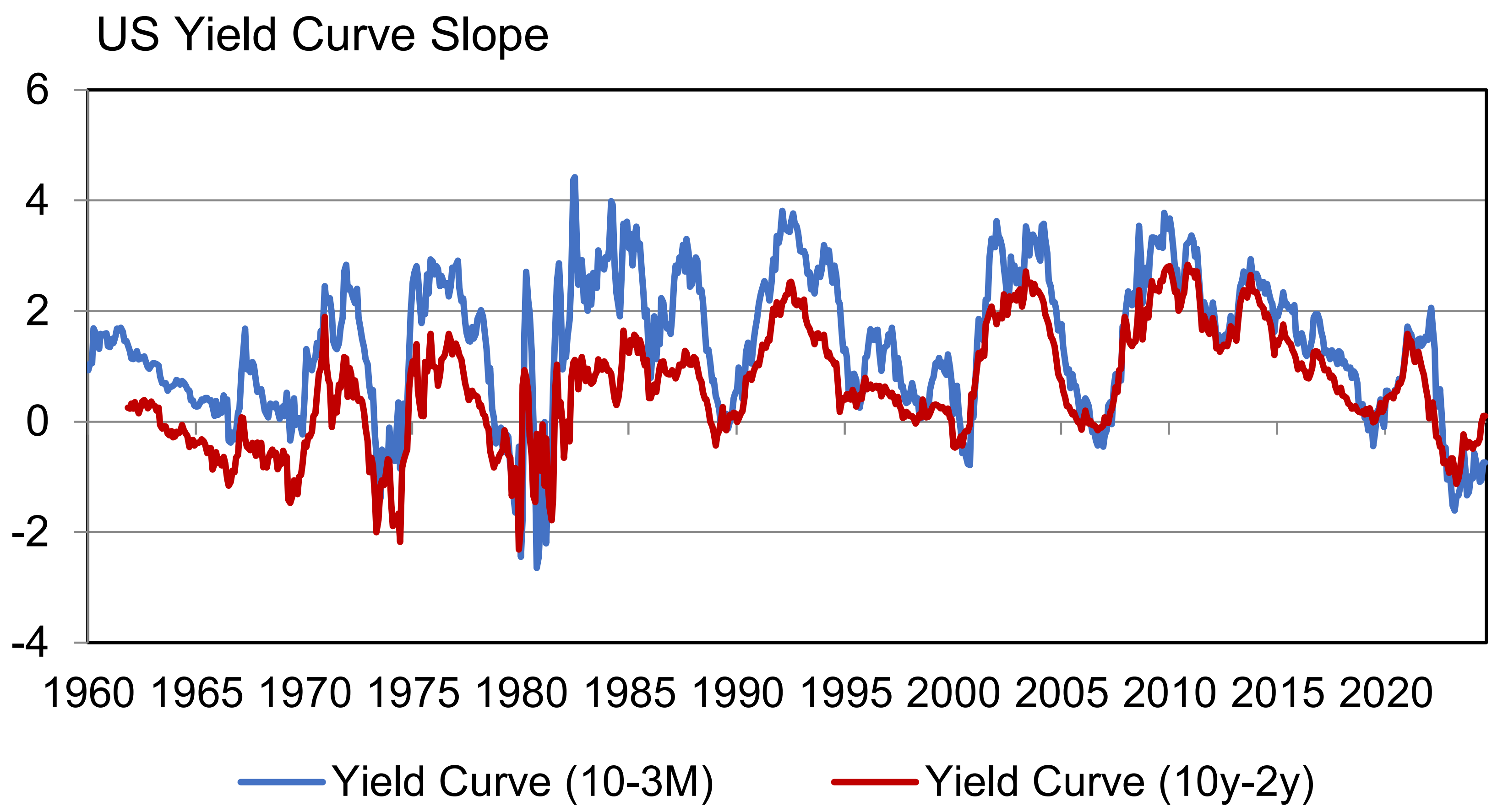
- Massive money growth and low rates for an extended period increased explicit ***moral hazard***, but monetary normalization is now very difficult (QT particularly)
- United States, Japan, European Central Bank, and China hold similar balances
- Federal Reserve needs to unwind QE holdings of about $5 trillion at a time of high fiscal deficit ~$2 trillion, with higher interest rates on $35 trillion (120% Debt/GDP)
- Unwinding central bank balances will be a global drag on money growth for years, notwithstanding the volatility observed in money supply.



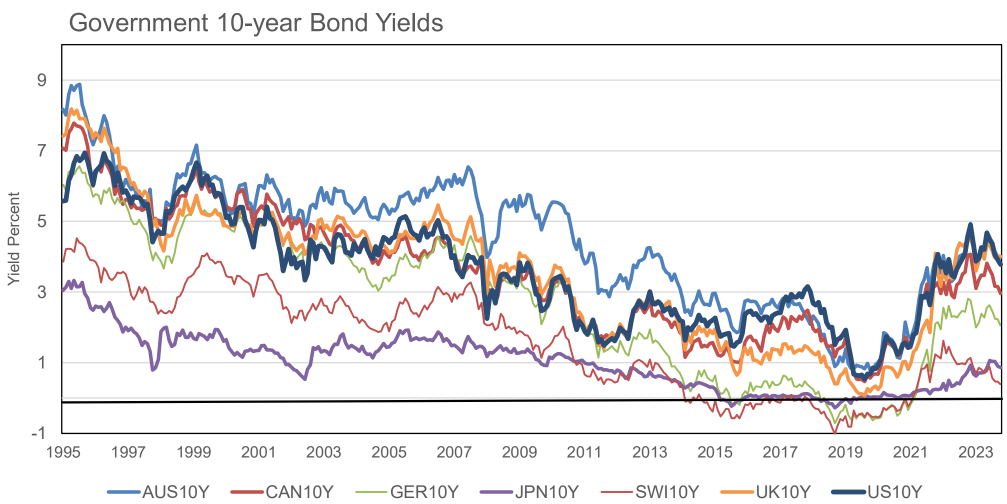


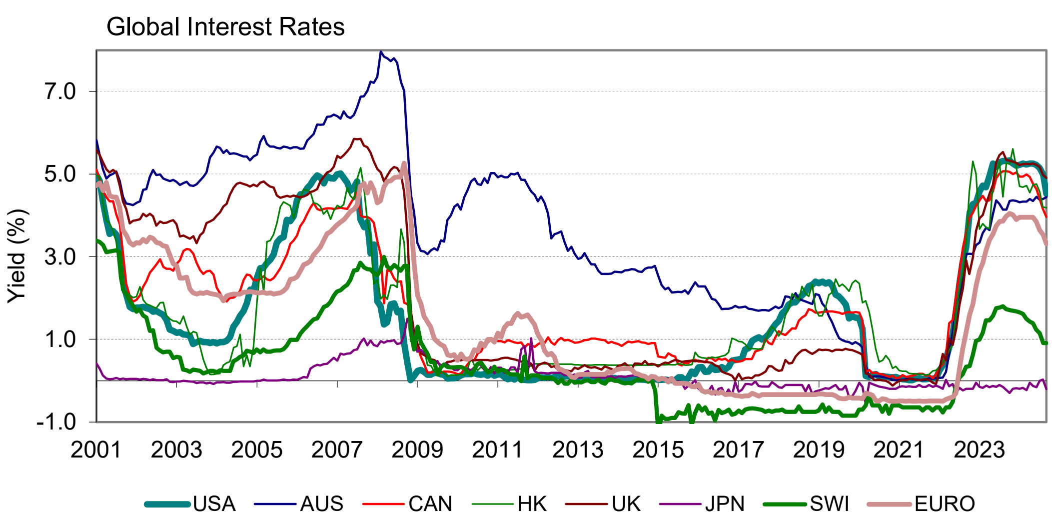
US YIELD CURVE INVERSION UNSUSTAINABLE

This makes no sense and is problematic – investor behavioral biases a result of *explicit moral hazard* induced by extraordinary monetary policies.



GLOBAL INTEREST RATES





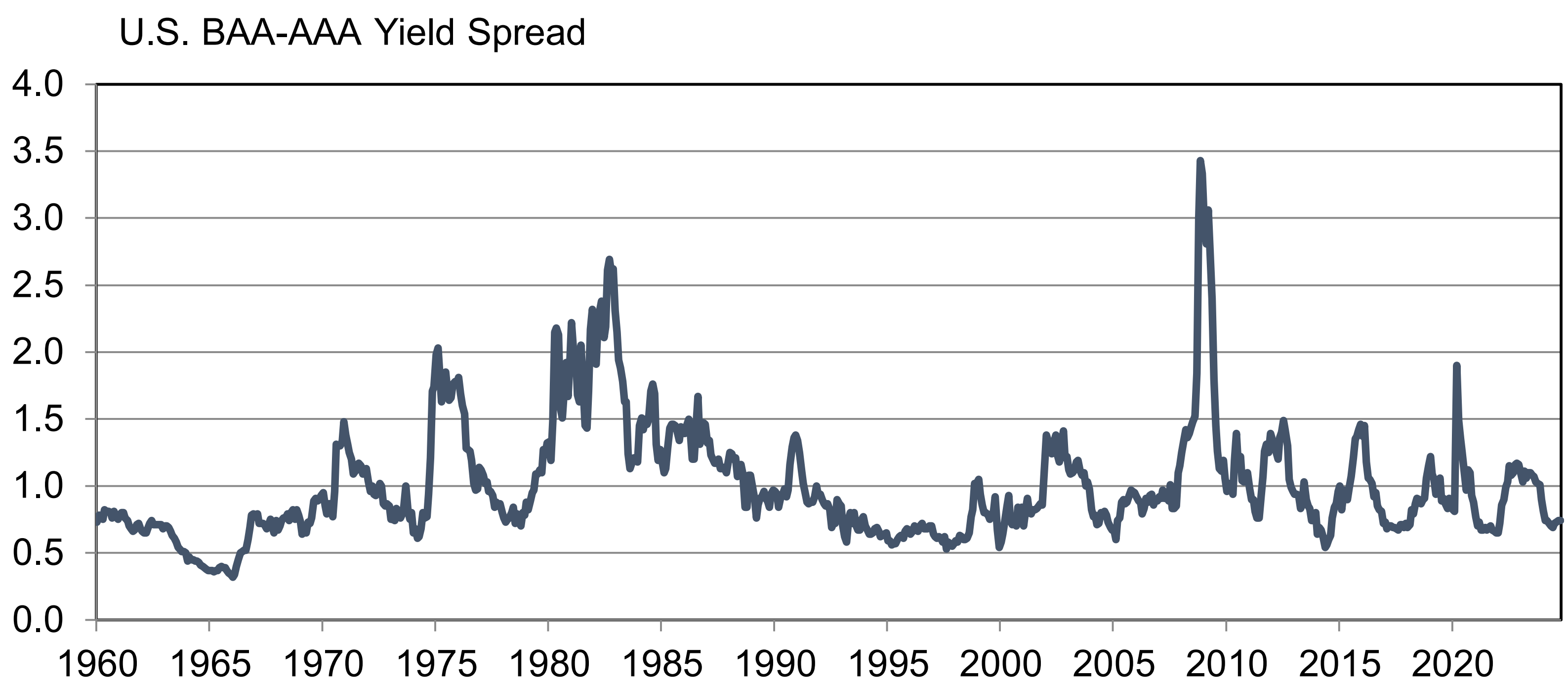
- Global policy interest rates were too low for too long. Reversing QE→QT should steepen yield curves, as global bond volatility increases.
- Adverse consequences of explicit moral hazard, as new US interest rate regime anchored at higher level of 3.5%. Extended financial imbalances suggest bond yields may overshoot equilibrium.
- Central Banks -- including U.S Fed, U.K. BoE, Bank of Canada, ECB, and Bank of Japan -- all still have work to do reducing bond holdings (QE). This will force higher bond yields even if interest rates are cut.

Source: Refinitiv DataStream & Strategic Frontier Management

CREDIT SPREAD: INVESTMENT GRADE

Investor demand for yield can drive credit spreads to lower levels, but credit spreads have widened given recession concerns.

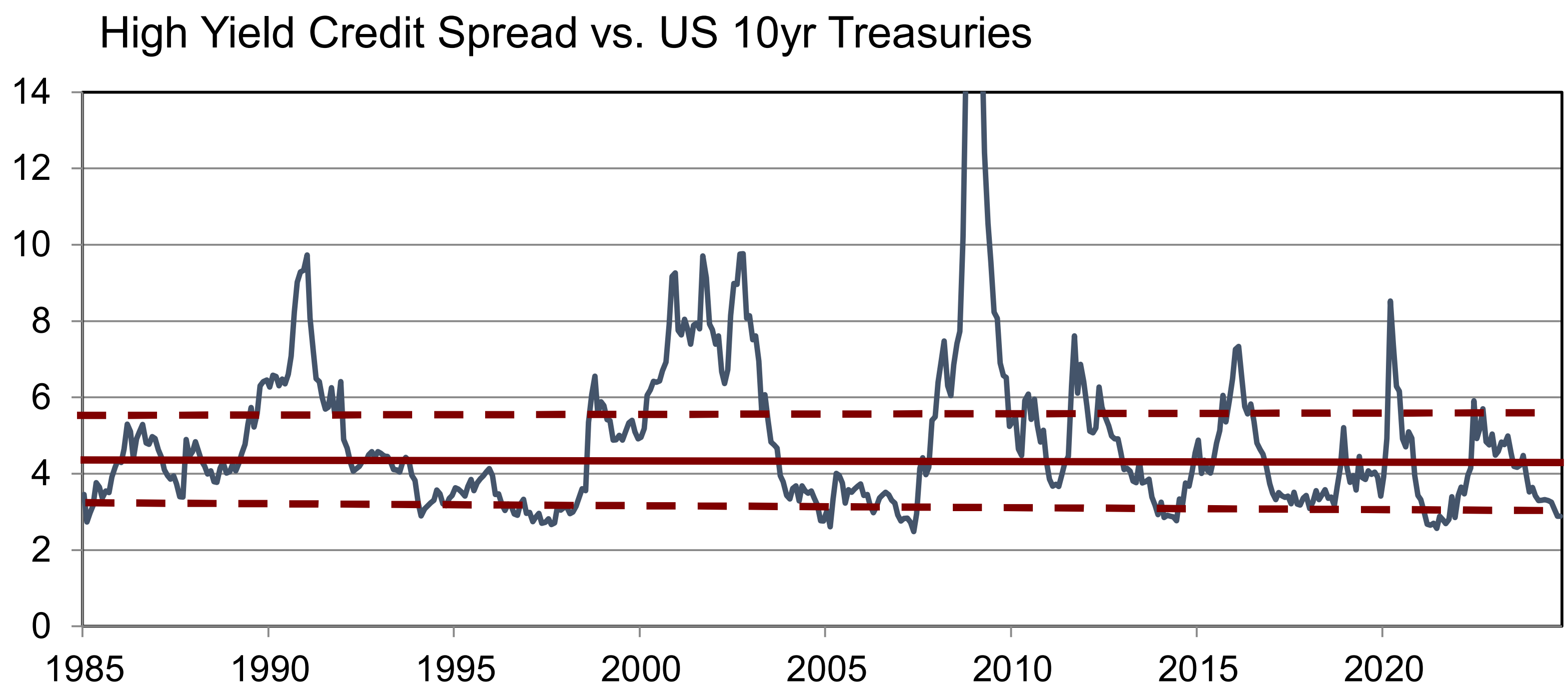
Yet, investors were still chasing yield, and credit spreads are tight again.



Source: Moody's

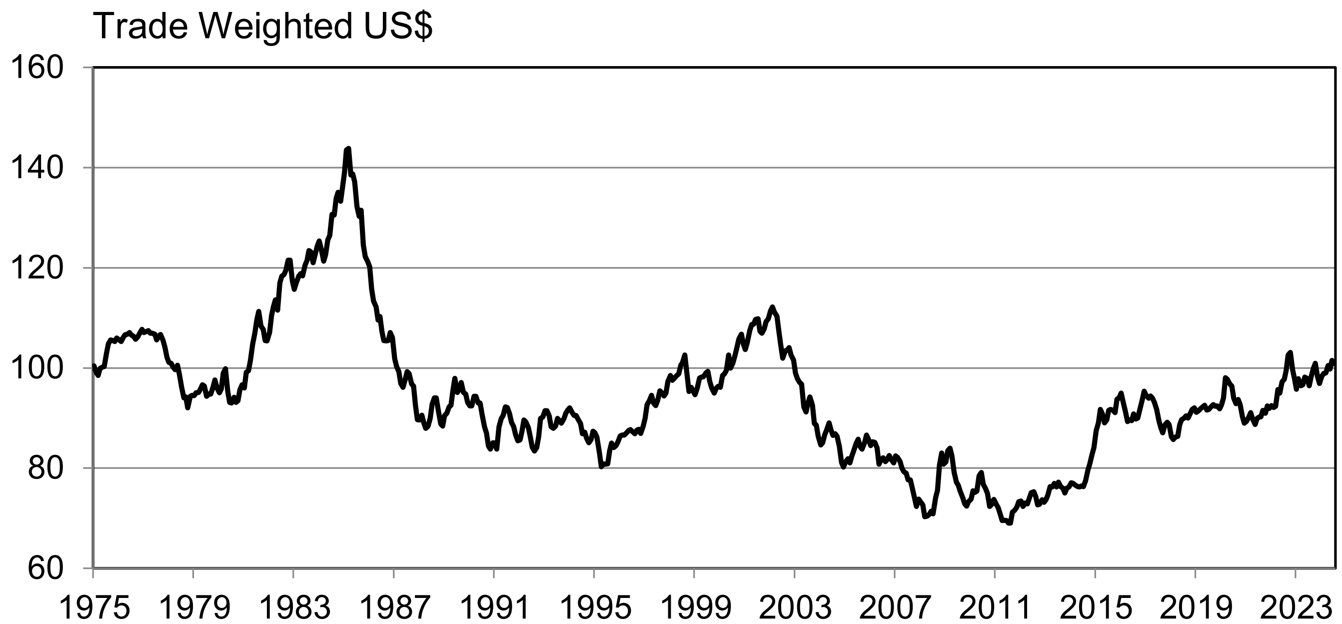
CREDIT SPREAD: HIGH YIELD

Credit spreads are too tight, particularly given recession fears. Stagflation is still possible as debt burdens are soar (government and corporate), and bankruptcies increase.



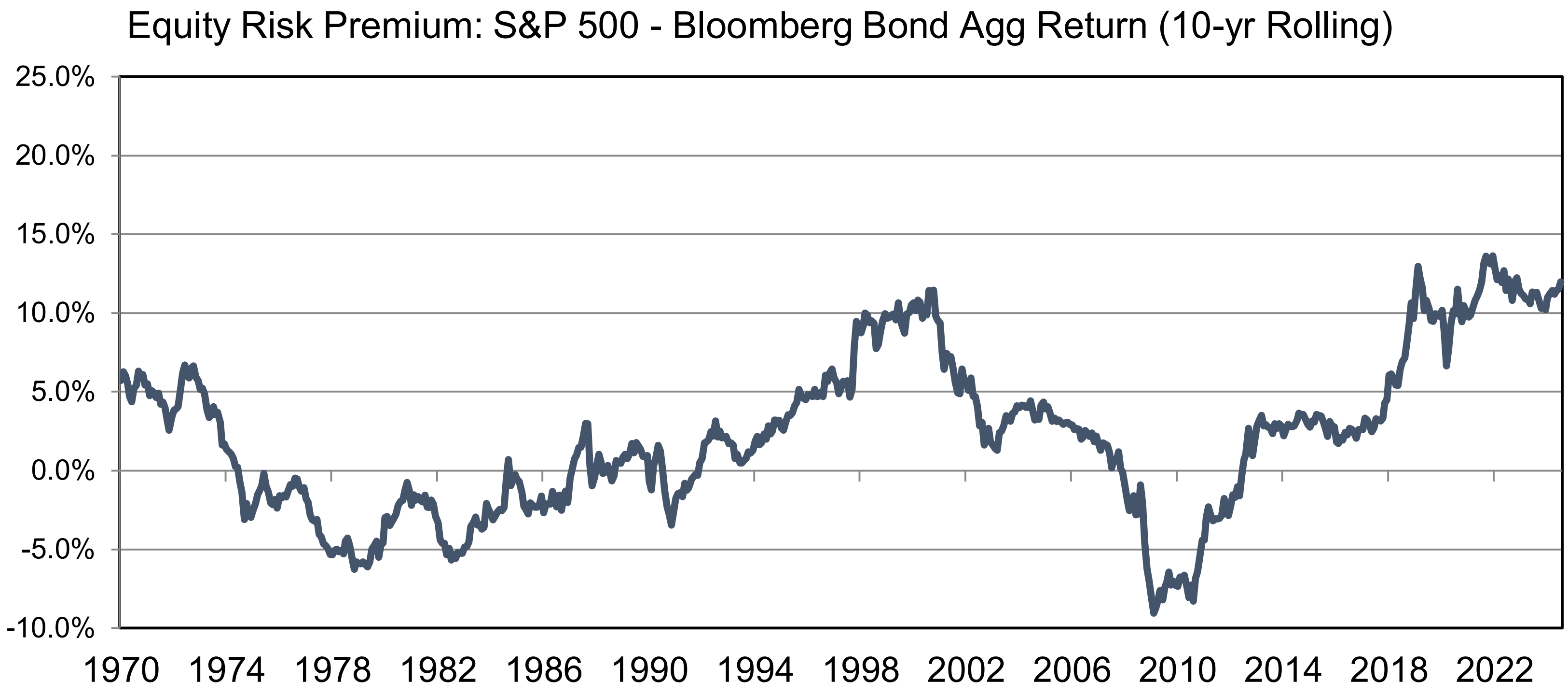
US DOLLAR ADVANTAGE DIMINISHING

- US$ remains world's reserve currency—which as been trending higher since 2012.
- U.S. potential growth still exceeds Japan and Europe (ex-UK), although declining.
- US Treasuries have least currency volatility and best liquidity for quasi-linked currencies (inc., China, LatAm, MENA), lowers currency volatility, increasing foreign UST demand
- General upward trend supporting US dollar over the last decade should be waning. This could further benefit cheaper non-US equities if the US$ enters secular decline.



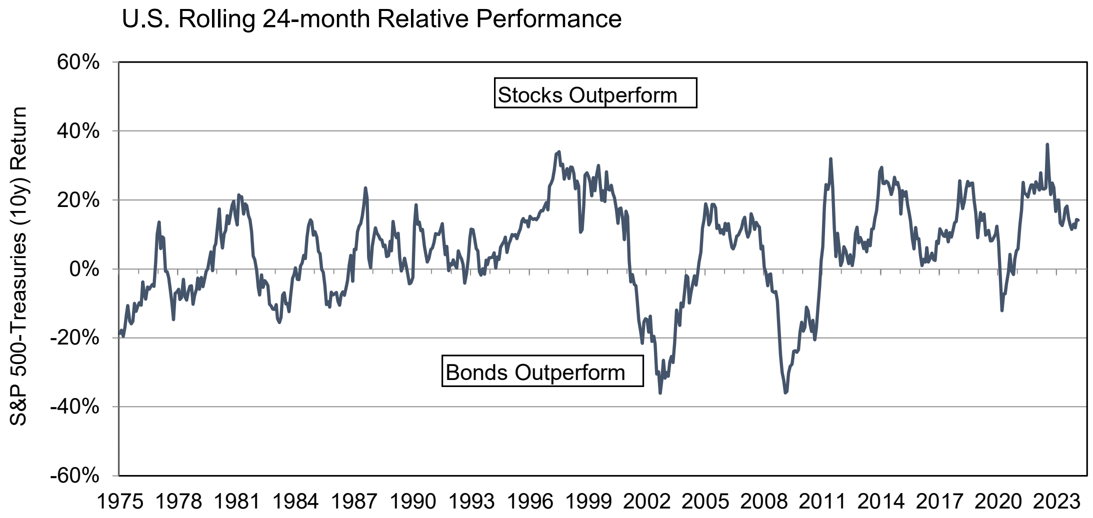
ROLLING 10-YR STOCK VS. BOND RETURN

- Outperformance of equities reinforces equity sentiment, similarly so for large-cap and growth equity tilts despite relative valuation extremes
- US Treasuries overvaluation can trigger an Asset Allocation rotation. But what happens when both equities and bonds decline?



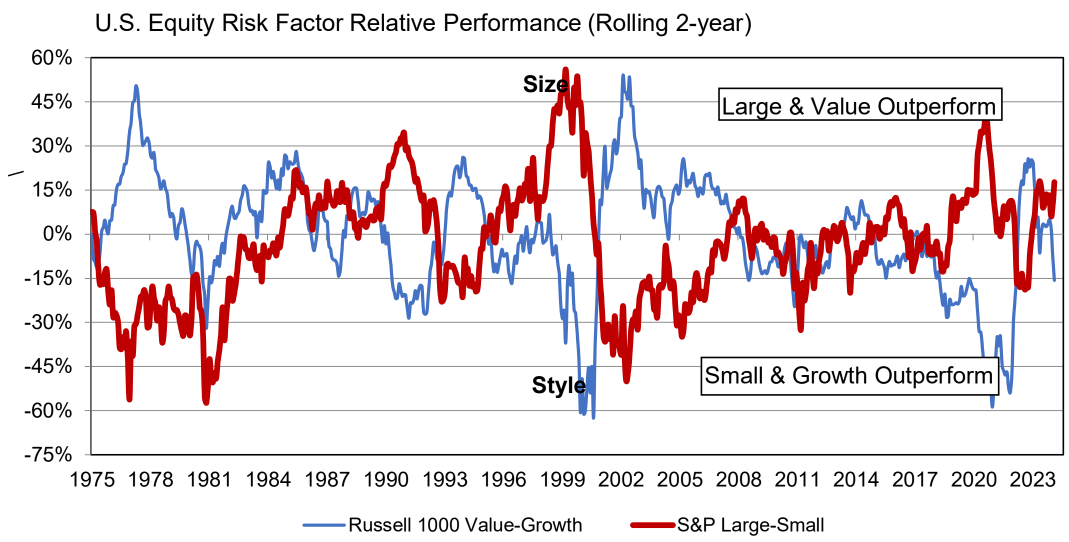
Source: Strategic Frontier Management, Standard & Poor's, Bloomberg-Barclays Indices

RELATIVE ROLLING 2-YR PERFORMANCE



U.S. Stocks vs. Bonds

Returns diverge and risk varies, but Stocks outperform Bonds over long term horizons.



U.S. Equity Styles

Equity style investing can benefit from differential returns, and often cycles are not synchronized—small-cap is expected and has begun to rebound

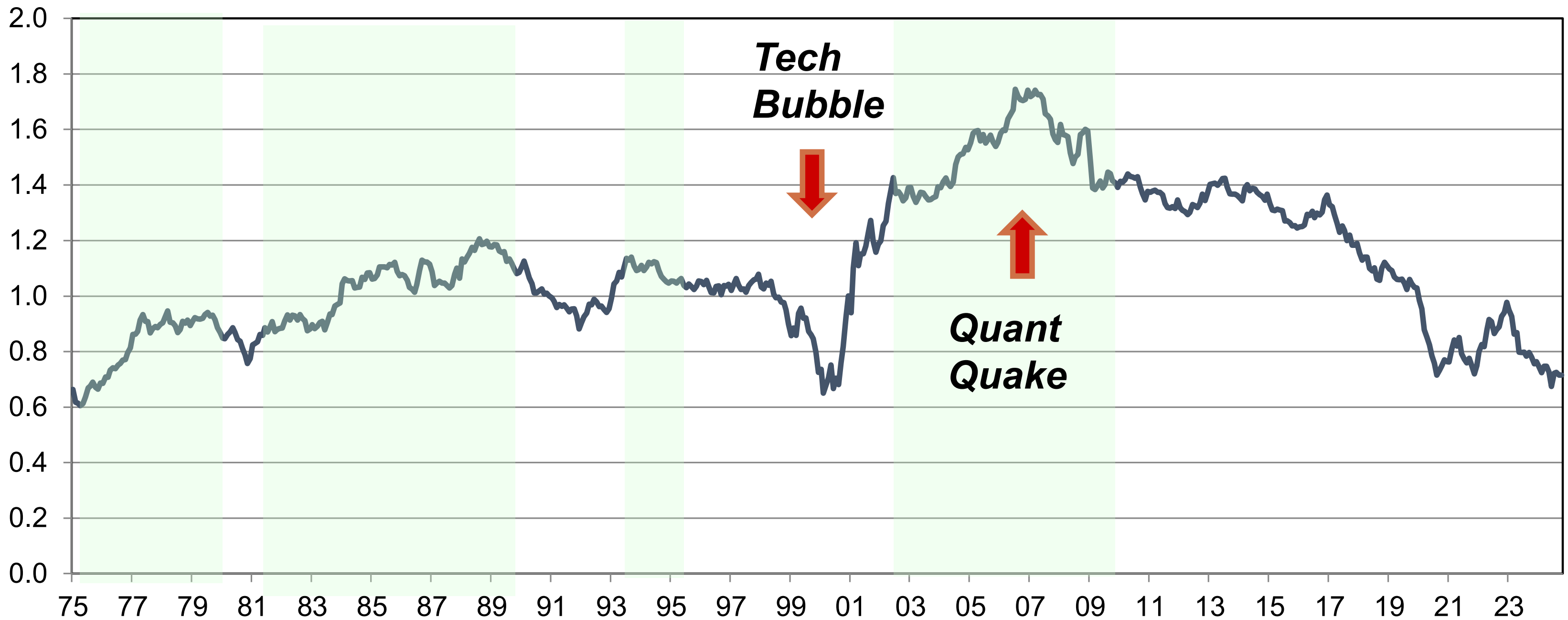
Value and Small-cap tilts have outperformed over the really long-run

Source: Refinitiv DataStream & Strategic Frontier Management

VALUE INVESTING MIA SINCE 2007-QUANT QUAKE

- Extinct or Endangered Species (Fundamental Value Investor): Historical advantage of a tilt toward *Value* absent since Financial Crisis…Value (plus, small-cap risk premium) must rebound for fundamental ***active management*** to be revived.
- Long-term risk premiums such as Value-Growth and Small Size (large vs. small) are logically biased (investors should be paid for undiversified risk) are cyclical, but also can be exploited tactically. Other risk factors similarly cyclical.

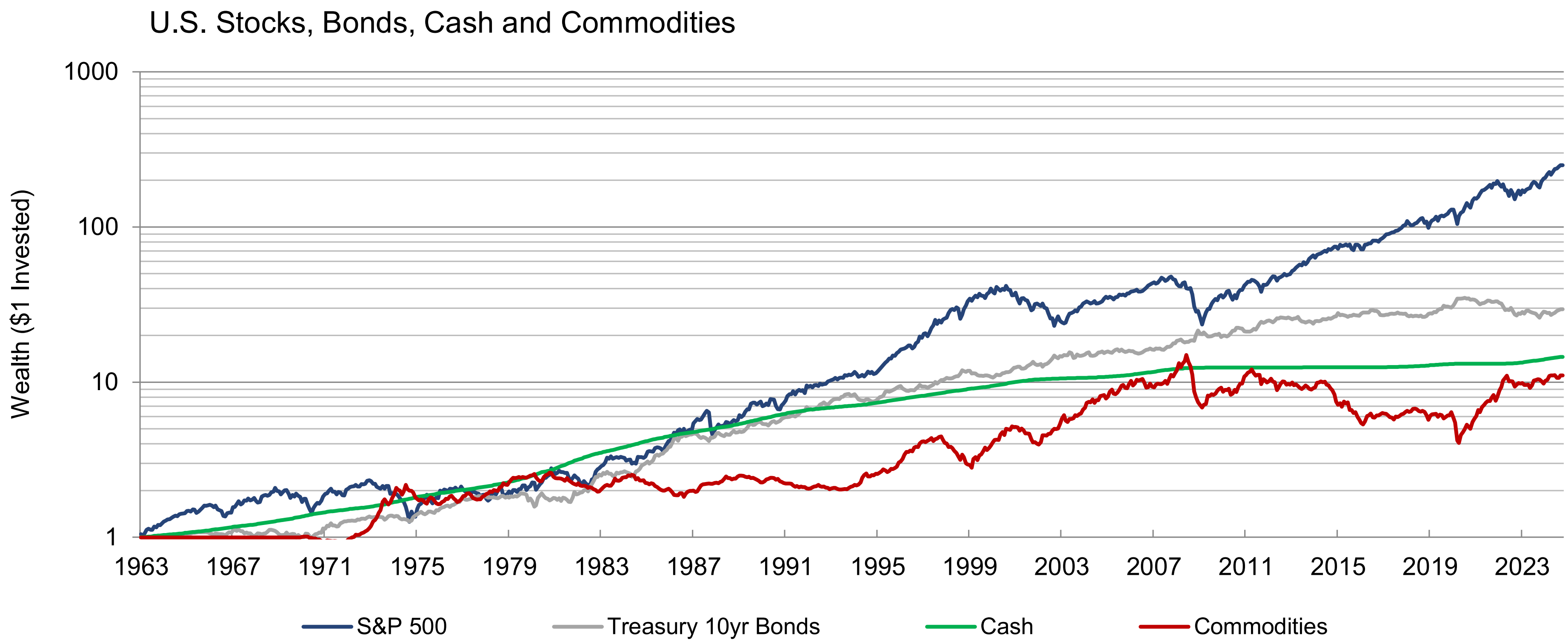
Cumulative Relative Return: Russell 1000 Value - Growth



Source: Refinitiv DataStream & Strategic Frontier Management

LONG-TERM ASSET CLASS RETURNS

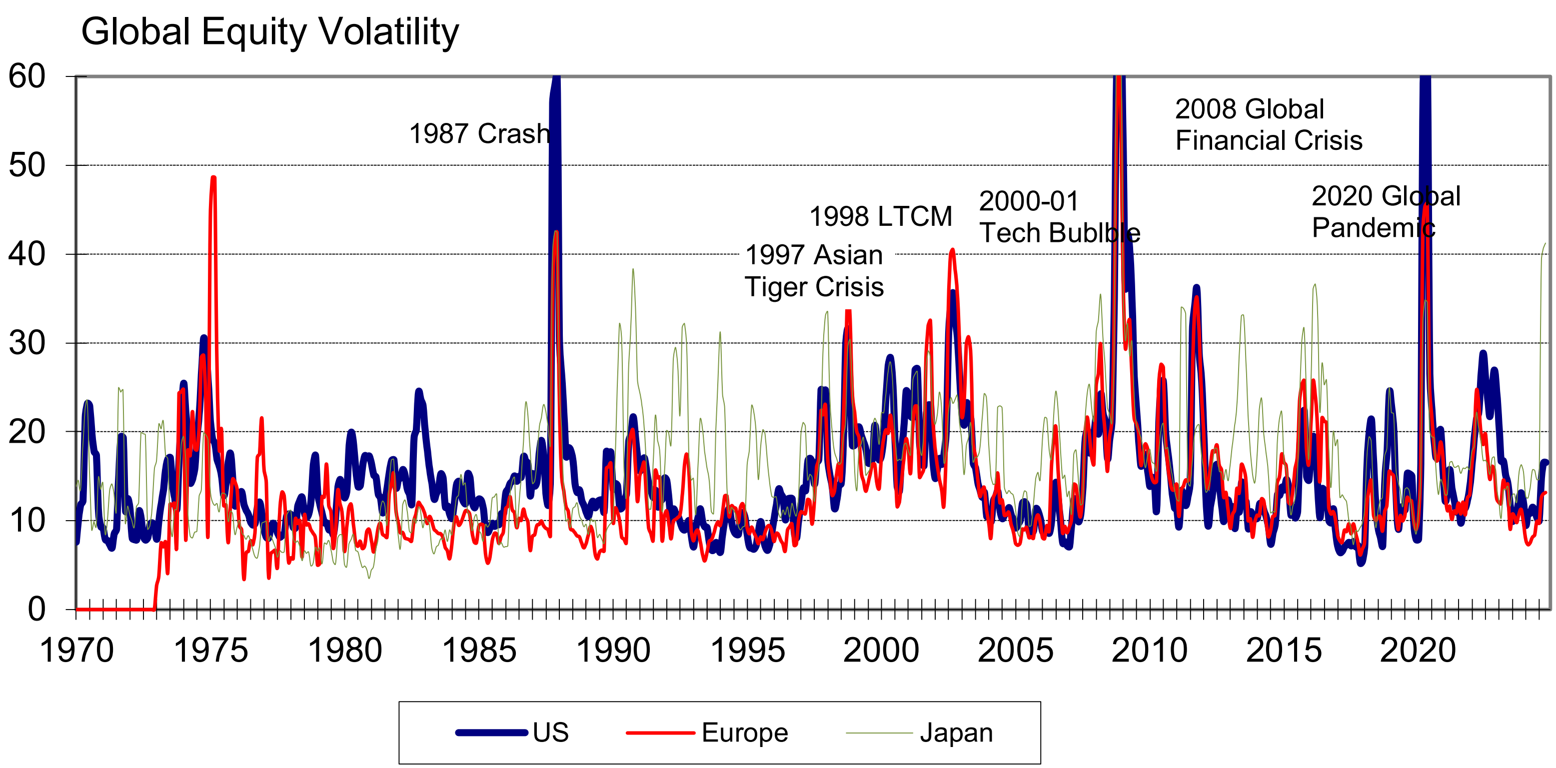
- Global Equity is the best way to stay ahead of inflation, particularly as overvalued bonds struggle with normalization (raising rates, reducing bond holdings)
- Commodities lag both cash and inflation by definition over longer horizons.
- Cryptocurrencies are speculative commodities, and too volatile to be a store of value, without benefit of yield (interest), intrinsic value, or inflation support.
- Cash is and has been a better store of value than volatile Gold or Commodities (inc.



Source: Refinitiv DataStream and Strategic Frontier Management

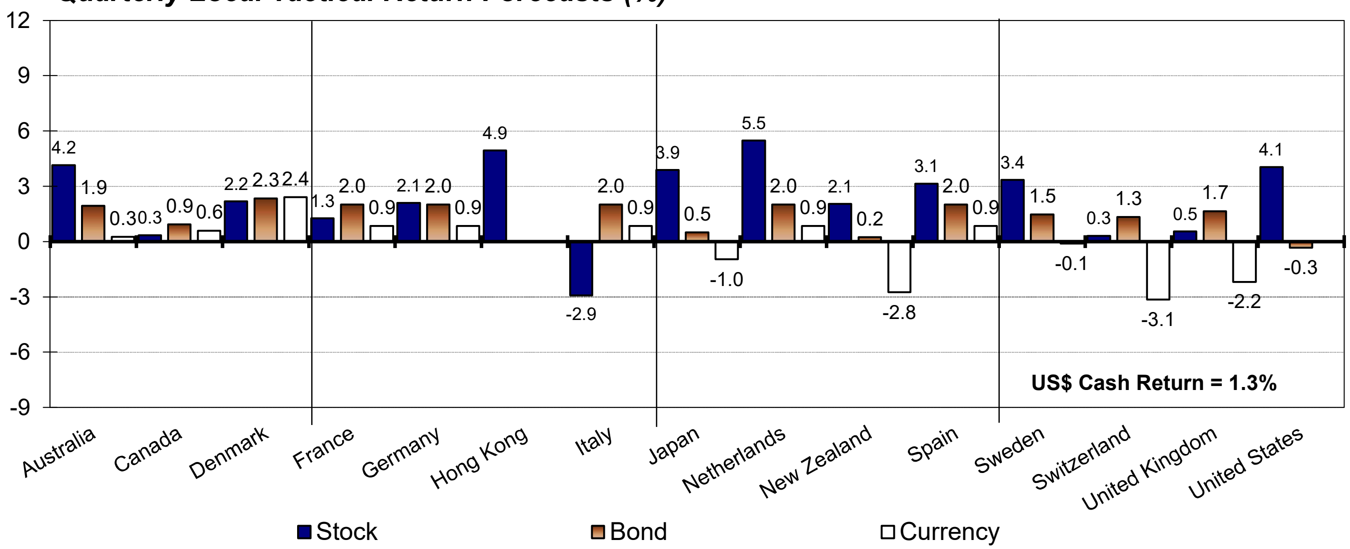
GLOBAL EQUITY MARKET VOLATILITY

- 2024 Risks: Persistent elevated inflation, higher for longer rates, declining productivity and profit margins →limited or no earnings growth and higher capital costs
- Risk of global debt crisis—interest burdens, greater defaults, leverage, margin calls
- Higher volatility in Equities, Bonds, Commodities & Currencies
- Market volatility too low again, should normalize: Expect US Equity: 14-17, not 10-12.



Source: Strategic Frontier Management

GLOBAL TAA FORECASTS FAVOR EQUITIES, LOW RETURNS EXPECTED OVERALL



Global Tactical Asset Allocation Quarterly Forecasts(%)

			Local Markets		In (US$)		US$
MSCI	WrldGvt	Apr 2024	Equity	Bond	**Equity**	**Bond**	Currency
100%	100%	World	3.5	0.7	**3.4**	**0.6**	-0.1
17%	34%	Europe	1.5	1.9	**1.3**	**3.0**	-0.3
10%	19%	Pacific Basin	4.0	0.6	**3.3**	**-0.2**	-0.7
30%	55%	Non-US World	2.2	1.5	**2.0**	**1.4**	-0.2
70%	45%	US	4.1	-0.3	**4.1**	**-0.3**	
		Cash		1.2		**1.2**	

	Lg-Sm	Va-Gr	High Yield - 10yT
US Style	0.9%	-0.3%	-1.0%
	Large -	*Growth*	*10yTs*

Source: Strategic Frontier Management - Global TAA Models (Oct 1, 2024)

ASSET CLASSES: LONG-TERM (10-YEAR) RETURN

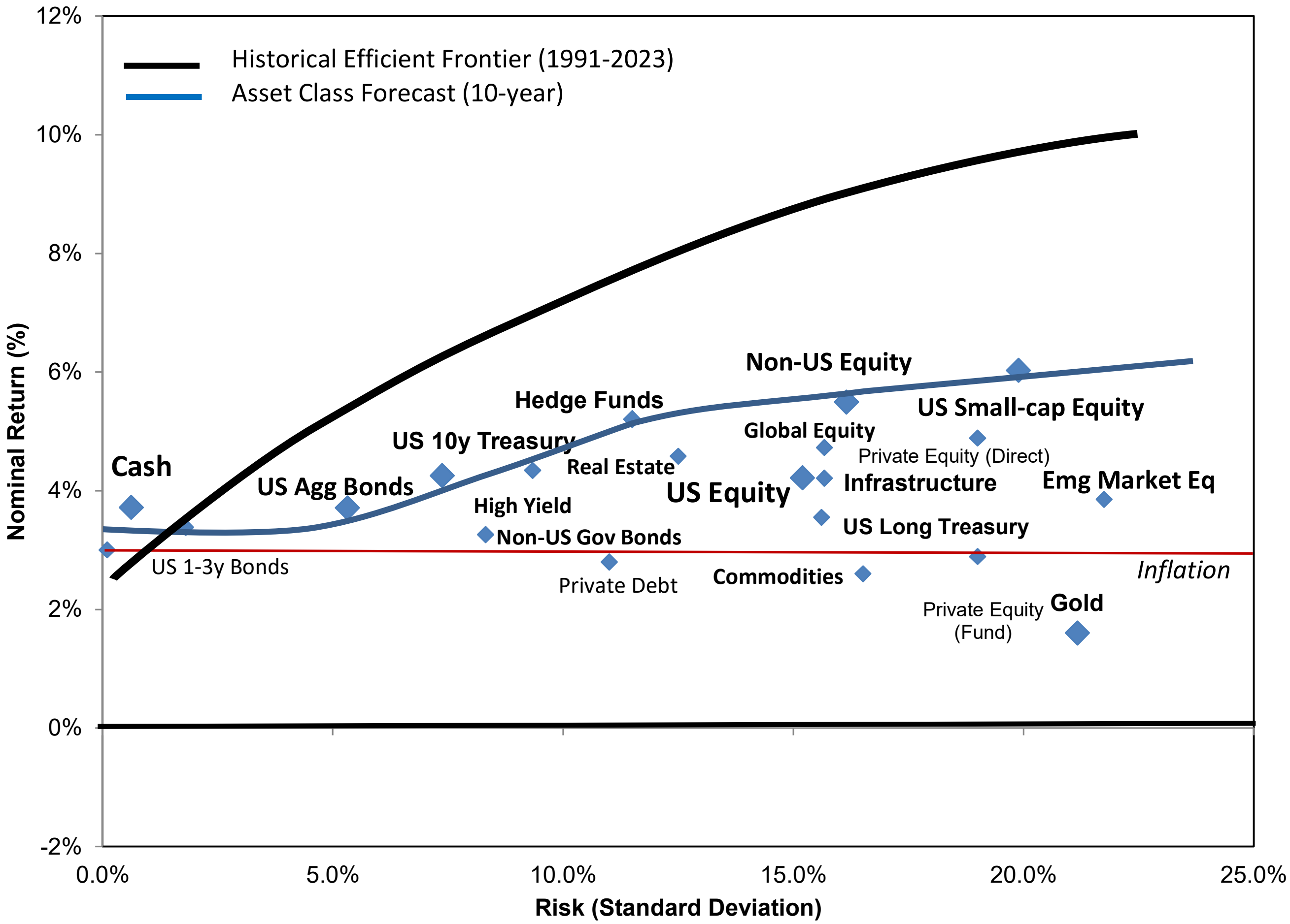
		10-year Returns[3]		30-Year Returns[3]		1900-2022[2]	10-year Forecast		Sharpe
Ref Index	Asset Class	Return	Risk	Return	Risk	LT Return	E[Return][1]	Risk	Ratio
S&P 500	U.S. Stocks (S&P 500)	13.4%	13.5%	10.8%	15.2%	12.2%	4.2%	15.2%	0.05
Russell 2K	U.S. Small-cap	8.8%	18.9%	8.9%	19.9%	8.0%	5.8%	19.9%	0.12
MSCI Wx	World (ex-US)	6.2%	15.0%	6.0%	16.2%	5.4%	5.9%	16.2%	0.15
MSCI EEM	Emg. Market Equity	4.4%	17.7%	5.1%	21.6%		4.2%	21.6%	0.03
US10Y Treasuries	U.S. 10Yr Treasury	1.6%	7.5%	4.6%	7.4%	1.1%	4.2%	7.4%	0.10
US BBG Agg	US BBG Agg Bond	1.8%	4.9%	4.7%	4.1%	-.-	3.6%	5.3%	0.04
US BBG G/C 1-5	US BBG Gov/Cr 1-3y	1.6%	2.2%	3.5%	1.8%	-.-	3.2%	1.8%	-0.16
BoA/ML HY	US High Yield (ML/BoA	5.0%	7.7%	7.0%	8.5%	-.-	4.3%	9.3%	0.09
JPM Non-US Bond	JPM Non-US Bond	-0.7%	8.3%	3.3%	8.4%	-.-	3.3%	8.4%	-0.02
CRB	Commodities (CRB)	2.0%	17.2%	5.1%	16.5%	-0.1%	2.6%	16.5%	-0.05
Gold	Gold (US$)	8.1%	13.7%	6.5%	15.4%	2.2%	2.5%	16.9%	-0.06
3m Tbills%	Cash (T-Bills)	1.7%	0.5%	2.4%	0.6%	0.9%	3.5%	0.6%	0.00
CPI	US Inflation (CPI)	2.9%	1.1%	2.5%	1.0%	2.7%	3.0%	1.0%	
Global 60/35/5	Global Multi-Asset	6.5%	12.6%	6.9%	13.7%	5.2%	4.5%	13.7%	0.08
MSCI World Infra	Infrastructure	6.3%	16.1%	10.0%	15.7%		4.1%	15.7%	0.04
Private Equity	Private Equity[4]	9.1%	18.9%	7.9%	19.9%		3.0%	19.0%	-0.03
	Small-cap Equity	-4.6%		-1.9%		-.-	1.6%		
	Stock-Bond	11.8%		6.2%		11.2%	0.0%		
	Stock-Cash	11.7%		8.4%		11.4%	0.7%		
	Bond-Cash	-0.1%		2.2%		0.2%	0.7%		

(1) Expected return refers to long-term return over an investment cycle, typically averaging 7 years
(2) 1900-2022 Strategic Frontier Management & annualized data from Credit Suisse Global Investment Returns Yearbook
(3) Periods greater than 1-year are annualized.

Source: Strategic Frontier Management October 1, 2024

STRATEGIC 10-YEAR EXPECTED RETURNS

- Disappointing Gov't Bond returns in near term with normalizing interest rates, reversing QE
- Cash is preferred low risk store of value, not Crypto-commodities or Gold
- Emerging Market, Commodity, Gold forecasts suggest inefficient risk-adjusted allocations
- More normal *strategic frontier* (in 3 years) after global correction in equities, bonds, and rates



Forward looking information and forecasts contained herein are the opinion of Strategic Frontier Management. Future market returns may differ significantly from our expectations. As of Oct, 2024 .

RECOMMENDED GLOBAL ASSET ALLOCATION

- Global economic and market valuation headwinds with higher inflation expectations
- *Risky Business of Regime Change*, including need for higher-for-longer interest rates, raises concerns about the global bond market's ability to absorb rapidly growing long government bond supply.
- Risk of a U.S. Government Debt Crisis is high given potential for rapidly steepening yield curves, even as central banks begin to cut rates, downgrade of U.S. debt, or a liquidity crunch. Expect negative real bond returns for US/Global bonds for 2-3 years at least.
- Higher secular inflation, lower growth, weak profit margins aggravated by adverse U.S. fiscal, regulatory, energy policies with tightening monetary conditions, inc. negative money supply growth with QE → *Quantitative Tightening* for foreseeable future.
- Enacted elements of *Build Back Better* boondoggle misappropriated $4 trillion in imprudent spending driving a higher fiscal deficit of $2.3 trillion ($8.2% deficit/GDP) over FY2024 thru Sept 30th—cutting $2.5 trillion to extinguish the fiscal deficit → fiscal cliff. There is no fiscal flexibility to manage any crisis for foreseeable future now.
- Regime Change will require greater fiscal austerity from Congress to bring down the unsustainable debt burden, now >120% debt/GDP, exceeding post-World War II peak.
- Favor US/Global small-cap and Value tilts, Non-US Developed equities. Non-interest rate sensitive, but also avoid communications/Media mega-tech (social networks, etc.)
- Best hedge for inflation, normalizing monetary policy : *<u>Cash</u>* & *Alpha (inc: hedge fund).* Avoid Gold, Cryptocurrencies, illiquid private funds (high fees, lower returns).

DISCLOSURES