EXTINCT OR ENDANGERED SPECIES

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**	**5.5**	**6.5**	**6.0**
CPI Inflation (Y/Y)	**1.3**	**7.2**	**6.4**	**3.3**	**3.0**	**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**	**5.00**	**4.00**	**3.25**
10y Treasury Notes	**0.91**	**1.50**	**3.83**	**3.87**	**5.00**	**4.75**	**4.50**
S&P 500 Target	**3756**	**4766**	**3840**	**4770**	**4900**	**5300**	**5700**
S&P 500 Total Return %	**18.4**	**28.7**	**-18.1**	**26.3**	**4.2**	**9.6**	**9.0**

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 by higher prices, slowing earnings growth, and higher yields. Global Bonds also overvalued with low real yields, sticky inflation, 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

- Negative bond real returns, delay in cutting rates: U.S. just -1/2% in 2024
- 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 UK pension/US regional banking crises—expect more issues
- Untethered inflation remains problematic, particularly with inflation targets

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

WHAT MATTERS TO INVESTORS?

Great Inflection Point Normalizing Interest Rates and Quantitative Tightening (QT)

- Consequences of ***Explicit Moral Hazard*** of now normalizing central bank policies of low rates, QE and forward guidance that manipulated global bond markets for extended period.
- Stagflation risk with Quantitative Tightening, higher rates for longer, and US fiscal spending cliff
- Global Gov't Bonds overvalued—Global yield curves should steepen with negative bond returns
- Slow growth and higher inflation →lower tax revenue, increasing US debt & fiscal deficits
- Rising interest rates and QT increase bond <u>supply</u>, but investor <u>demand</u> declining (bond sentiment)
- Risk of greater economic volatility and potential ***Global Government Debt Crisis****.*

Asynchronous Global Expansion at a Treacherous Geoeconomic Crossroads

- Forces of *secular disinflation and Fourth Industrial Revolution* taken for granted, but now waning.
- Adverse consequence of US Government policy agenda: reversed US global competitiveness, potential growth: 2.7%→1.8%, profit margins: 10%→5%, CPI inflation 2.2%→3.0%, energy costs.
- *Countries Still Matter*--Greater country dispersion in growth, inflation, margins & currency volatility

US Equity and Bond Valuations Stretched despite as Low Rates Rising

- <u>*Extinct or Endangered Species*</u>: Fundamental Value Investing and other logical risk premiums such as small-cap equity vs. myth of illiquidity premium, term risk premium (inflation/interest rate risk)
- Companies dependent on low rate debt marginalized—exposes Zombie (low/no earnings) stocks
- Global Equities still outperform Bonds, favoring U.S. Value/Dividend Yield/Small-cap, Non-US Eq.
- Emerging Markets, particularly China--still worrisome after significant underperformance

How Policy Asset Allocations should differ?

- *Simpler Smarter Approach to Investing*—Shorter Bonds, Avoid Alternatives (Low return+High fees)
- Alpha-driven Opportunities uncorrelated: Global Tactical Asset Allocation & Currency Mgmt, Hedge Funds, Value + Small-cap, security selection (inc. long/short) with greater return dispersion
- **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-Yr	20-Yr	30-Yr
S&P 500 Index	10.6	10.6	29.9	11.5	15.0	13.0	10.2	10.7
NASDAQ Composite	9.3	9.3	35.0	8.0	17.1	15.6	12.1	12.5
Russell 2000	5.2	5.2	19.7	-0.1	8.1	7.6	8.1	8.8
Russell Value-Growth	-2.4	-2.4	-18.7	-4.4	-8.2	-7.0	-3.6	-1.4
Non-US (World xUS)	5.7	5.7	15.9	5.5	8.0	5.3	6.3	5.9
Emerging Markets	2.4	2.4	8.6	**-4.7**	**2.6**	**3.3**	6.8	5.2
Small-cap Global	5.3	5.3	19.0	2.5	8.6	7.1	8.5	
US 10-Year Treasury	-1.7	-1.7	-2.3	**-4.0**	**-0.3**	**1.3**	3.0	4.4
US Aggregate Bonds	-0.8	-0.8	1.7	**-2.9**	**0.4**	**1.5**	3.0	4.5
BAML High Yield Bonds	1.5	1.5	11.0	**2.2**	**4.0**	**4.4**	6.4	6.8
Short-term Bonds	0.1	0.1	3.2	**-0.4**	**1.1**	**1.2**	2.0	3.3
JPM Non-US Bonds	-3.2	-3.2	-0.7	**-6.9**	**-2.8**	**-1.4**	1.5	3.3
Cash (US T-Bills)	1.3	1.3	5.2	2.7	2.0	1.4	1.4	2.3
US Dollar (TWI)	2.2	2.2	2.6	2.8	1.5	2.6	0.7	0.3
CRB Commodity Index	11.5	11.5	14.3	19.6	11.9	1.0	1.9	5.5
WTI Oil (US$)	16.8	16.8	11.0	12.4	6.9	-1.9	4.4	6.8
Gold (US$)	7.2	7.2	12.0	9.1	11.3	5.6	8.6	6.0
Bitcoin	66.1	66.1	145.5	5.9	76.4	65.4		

Source: Strategic Frontier Mgmt. Returns as of March 31, 2024 in US$. Performance exceeding 1-year annualized.

S&P 500 SECTOR TOTAL RETURNS

- Many interesting comparisons: Growth/Technology dominates, Energy vs Real Estate
- Technology vs Communications and Consumer Discretionary (also, NASDAQ)
- Banks should benefit from steepening yield curve, rising rates
- Rotation from overvalued *Glamourous Growth* to Value, reversing again!

S&P 500 Sector Return	3 mo	YTD	1-Year	3-year	5-year	10-year	20-year	30-year	U.S. Dollars
Communication Services	15.8%	15.8%	49.8%	6.9%	13.7%	9.4%	8.5%	6.9%	SPTELE
Energy	13.7%	13.7%	17.7%	30.0%	12.9%	4.7%	8.8%	9.8%	SPENGY
Technology	12.7%	12.7%	46.0%	19.0%	25.4%	22.0%	14.6%	14.4%	SPINFT
Financials	12.5%	12.5%	33.5%	9.5%	12.8%	11.1%	5.1%	8.9%	SPFINL
Industrials	11.0%	11.0%	26.7%	10.4%	13.0%	11.1%	9.9%	10.2%	SPINDU
S&P 500	**10.6%**	**10.6%**	**29.9%**	**11.5%**	**15.0%**	**13.0%**	**10.2%**	**10.7%**	**SP500RI**
Materials	8.9%	8.9%	17.6%	7.9%	13.3%	9.2%	9.0%	8.5%	SPBASIC
Health Care	8.9%	8.9%	16.1%	10.0%	12.1%	11.7%	10.3%	12.6%	SPHCAR
Consumer Staples	7.5%	7.5%	7.2%	8.0%	10.0%	9.3%	9.3%	10.3%	SPCONS
Consumer Discretionary	5.0%	5.0%	28.7%	4.3%	11.5%	12.6%	10.8%	10.6%	SPCAPG
Utilities	4.6%	4.6%	0.4%	4.1%	5.9%	8.4%	9.0%	7.9%	SPUTIL
Real Estate	2.0%	2.0%	12.3%	3.5%	9.3%	7.9%	9.0%	7.9%	SPREIT
S&P 500 Quality	12.2%	12.2%	29.7%	12.8%	15.5%	13.2%	11.1%	12.1%	Quality
S&P 500 Low Volatility	5.8%	5.8%	8.5%	6.8%	7.2%	9.5%	9.3%	10.5%	Low Vol
S&P 500 Low Vol+Hi Div	5.8%	5.8%	10.5%	5.7%	5.7%	8.8%	10.2%	11.4%	Low Vol + Hi Div
Invesco Revenue Wgt ETF	10.3%	10.3%	25.2%	12.3%	14.7%	11.7%			Rev Weighted
S&P Global Infrastructure	1.3%	1.3%	4.1%	5.5%	4.9%	5.2%	7.8%	9.6%	Infrastructure
S&P Global Property	-0.5%	-0.5%	9.5%	-0.7%	0.6%	3.9%	5.8%	6.3%	Property

Source: Refinitiv DataStream and Strategic Frontier Management
Note: Market returns as of March 31, 2024. Performance longer than 1-year is annualized.

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 headed toward 5¼% - 5½% (+1% in 2023)
- 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.
- SFM believes US Long-run Inflation: 2% → 2.5% (CPI: 3%), expect Long-run Fed Funds: 3½%.
- Extreme Interest Rate Risk with high bond convexity with increased behavioral bias of extended monetary interventions—US Debt + Deficit + QT increase issuance, thus volatility, liquidity issues

Median Forecast										LongRun Forecast	
U.S. Fed %	**2018**	**2019**	**2020**	**2021**	**2022**	**2023e**	**2024e**	**2025e**	**2026e**	**Fed**	**SFM**
GDP	3.05	2.15	-2.40	5.90	0.50	2.60	1.40	1.80	1.90	1.80	1.80
U.Rate	3.70	3.55	6.70	4.80	3.70	3.80	4.10	4.10	4.10	4.10	4.50
PCE	1.85	1.45	3.40	4.20	5.60	2.80	2.40	2.10	2.00	2.00	2.50
Core PCE	1.85	1.50	3.00	3.70	4.80	3.20	2.40	2.20	2.00	2.00	2.50
Implied CPI	2.35	2.00	1.50	3.50	6.10	3.30	2.90	2.60	2.50	2.50	3.00
Federal Funds Avg.	2.38	1.55	0.09	0.13	4.38	5.38	4.70	3.61	2.95	2.73	3.50

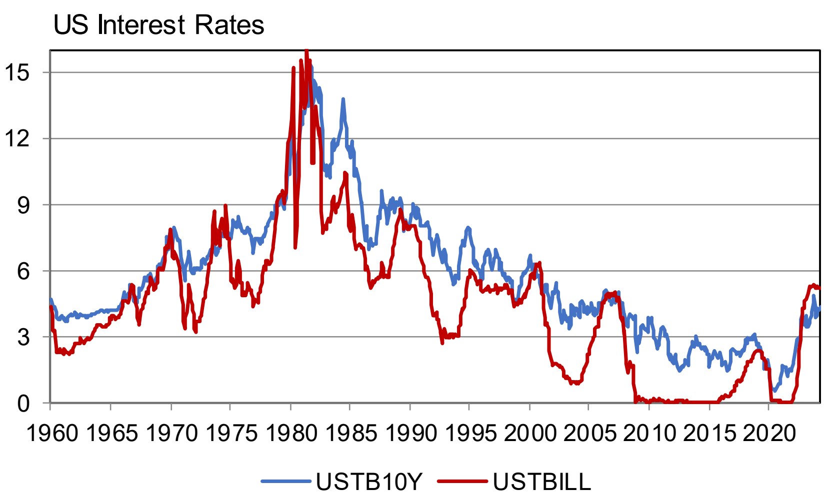
Interest Rates	2018	2019	2020	2021	2022	2023e	2024e	2025e	2026e	Longer Run
FOMC Avg.	2.38%	1.63%	0.13%	0.13%	4.38%	5.38%	4.70%	3.61%	2.95%	2.73%
Forecast[1]	2.50%	1.75%	0.25%	0.25%	4.50%	5.50%	5.00%	4.00%	3.50%	3.50%
Rate Change	1.00%	-0.75%	-1.50%	0.00%	4.25%	1.00%	-0.50%	-1.00%	-0.50%	

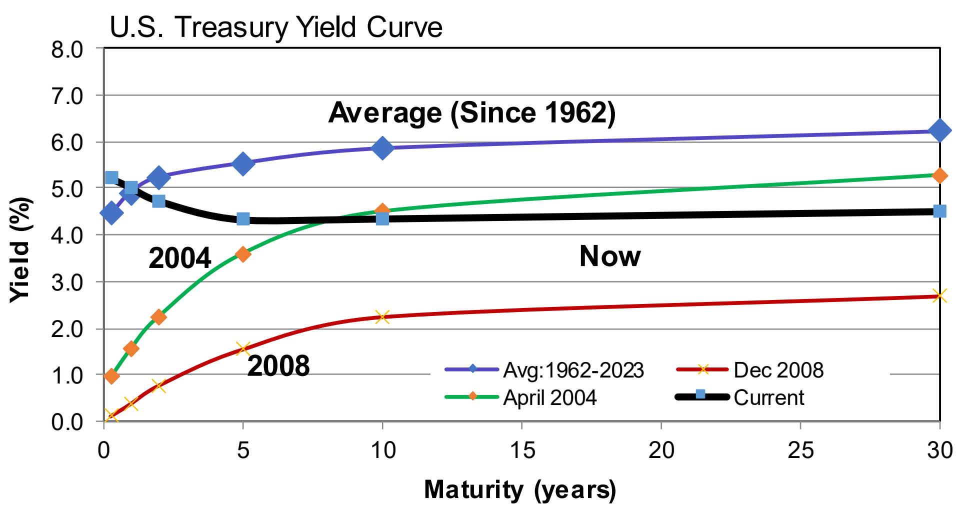
1. Top-end of indicated Fed Funds range

Source: U.S. Federal Reserve (December 2023) and Strategic Frontier Management

INTEREST RATES MUST NORMALIZE

- *Great Inflection Point*: US Treasury yields declined for four decades, but manipulated rates and monetary policy (QE: \$1T to \$9T→ \$2T) unsustainable. Global interest rates too low for too long risk *Explicit Moral Hazard*—misleading investors, business, and consumers
- Interest rate *normalization* is required with rising non-transitory inflation expectations—thus expect negative real bond returns for years, as US/global yield curves steepen
- Central bank QE and forward guidance to "keep interest rates low for an extended period" regrettably induced *moral hazard,* extinguished inflation risk premium, risks crowding out
- Fixed income liquidity an increasing concern as risk variables evolve (μ σ, ρ) with excess leverage, extreme deficit boost debt issuance, manipulation thus extended bond valuation
- Credit spreads tight, so High Yield may not perform with *stagnation* + *crowding out* this time

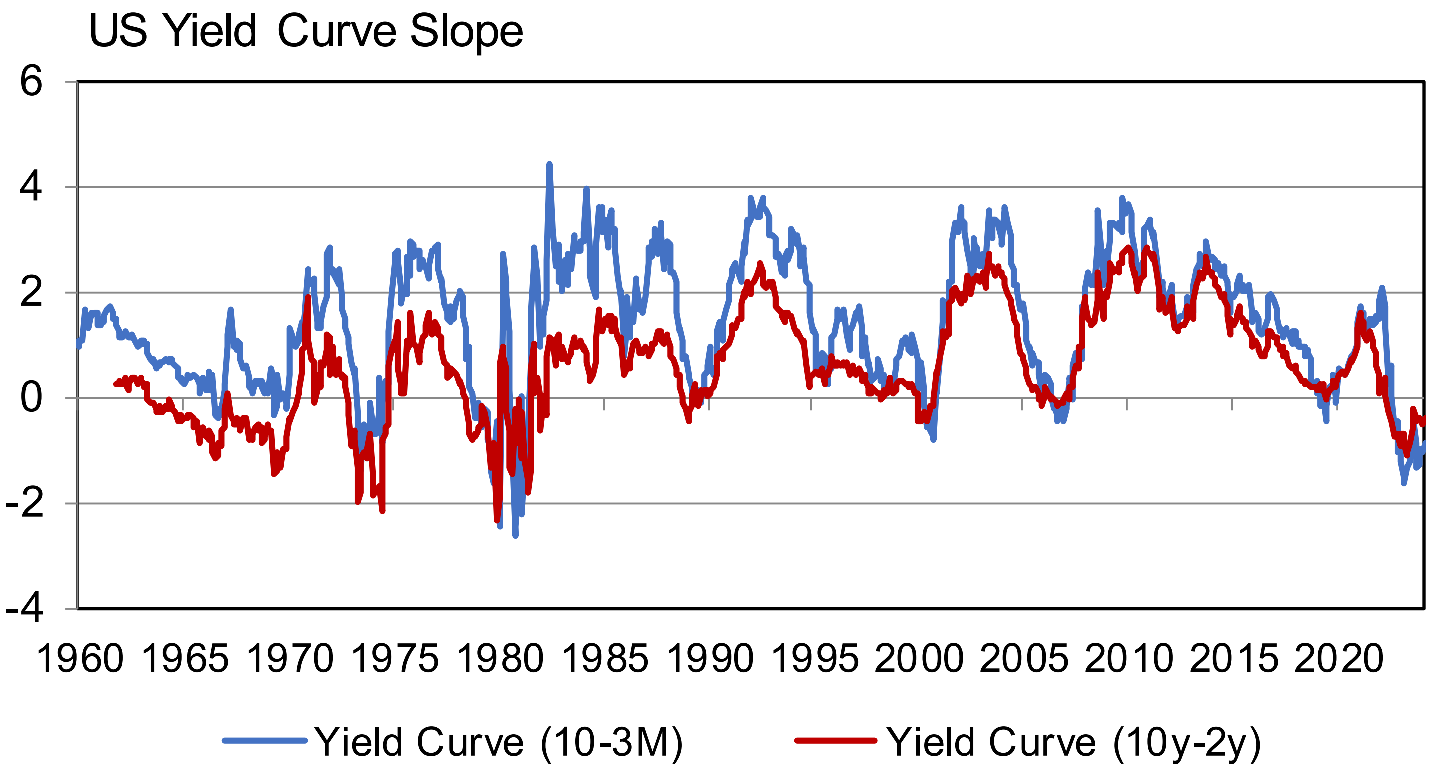




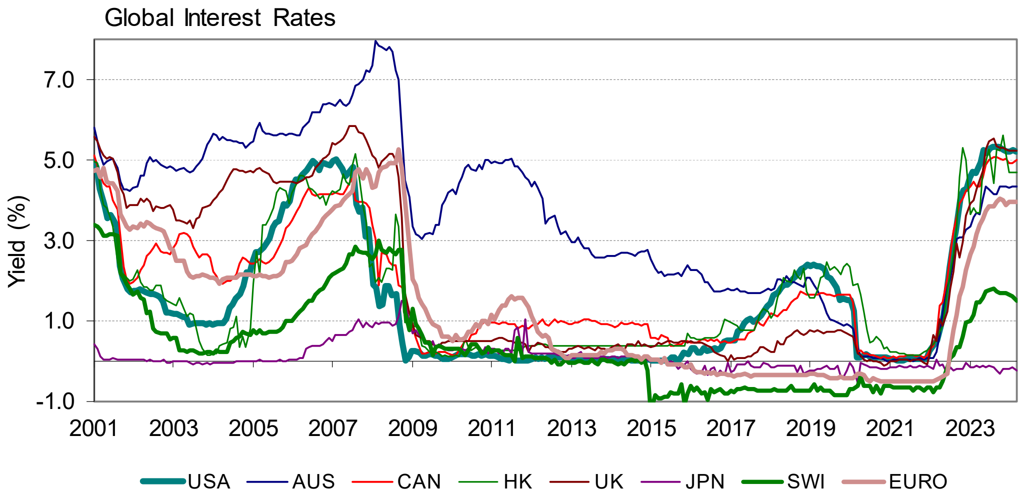
Source: Federal Reserve

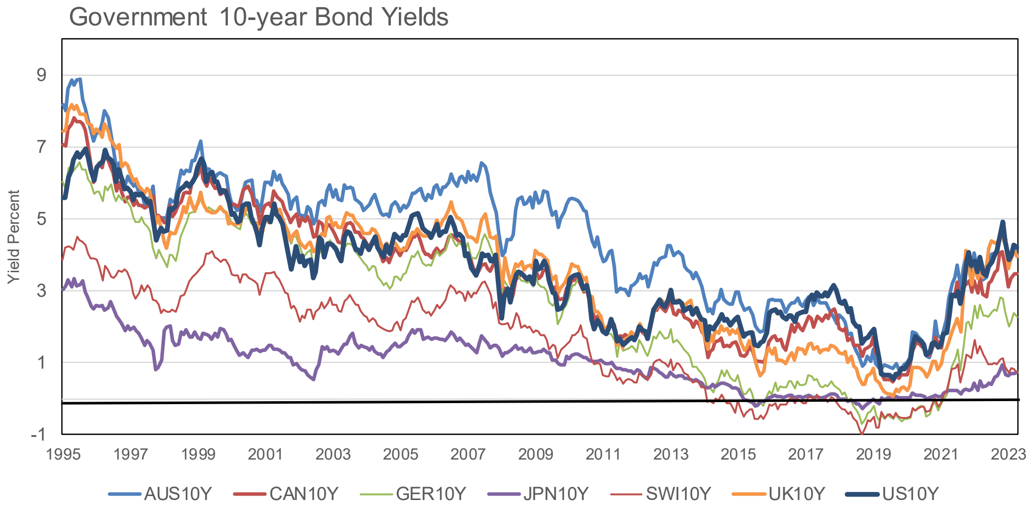
US YIELD CURVE INVERSION UNSUSTAINABLE

This makes no sense and is problematic – investor behavioral biases may be corrupted by explicit moral hazard of extraordinary monetary policies for over a decade by the Federal Reserve, as well as other central banks.



GLOBAL INTEREST RATES





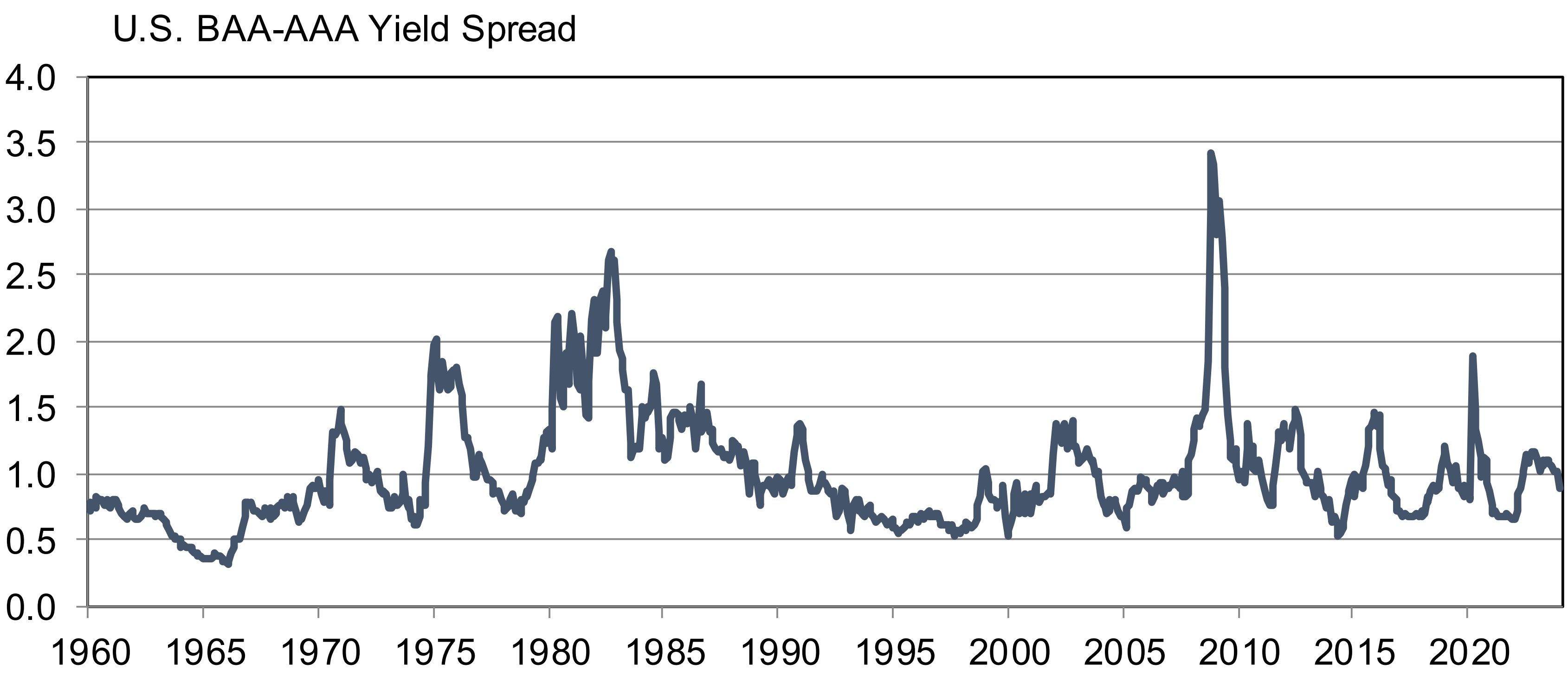
- Global policy interest rates were too low for too long. Reversing QE→QT should steepen yield curves, as global bond volatility increases.
- Adverse consequences of explicit moral hazard, as new US interest rate regime anchored at higher level of 3.5%. US$ still the world's reserve currency.
- No need for *emergency* monetary or fiscal stimulus any more. Extended financial imbalances, so bond yields may overshoot equilibrium.
- Central Banks of U.K., Canada, ECB, and Japan have work to do, including reducing bond holdings (QE).

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 in the last 3-6 months.

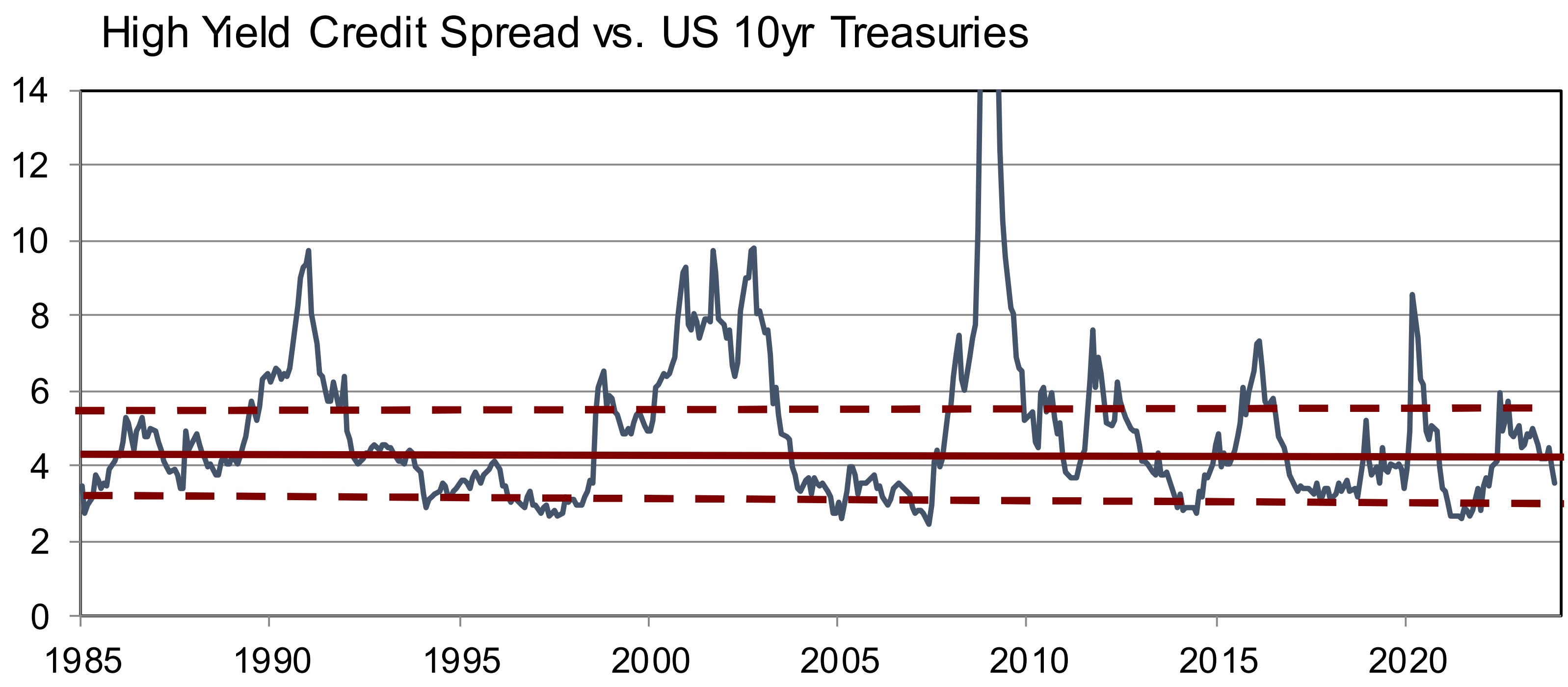
Investors were still chasing yield, at least until rates began increasing. Credit Spreads no longer tight.



Source: Moody's

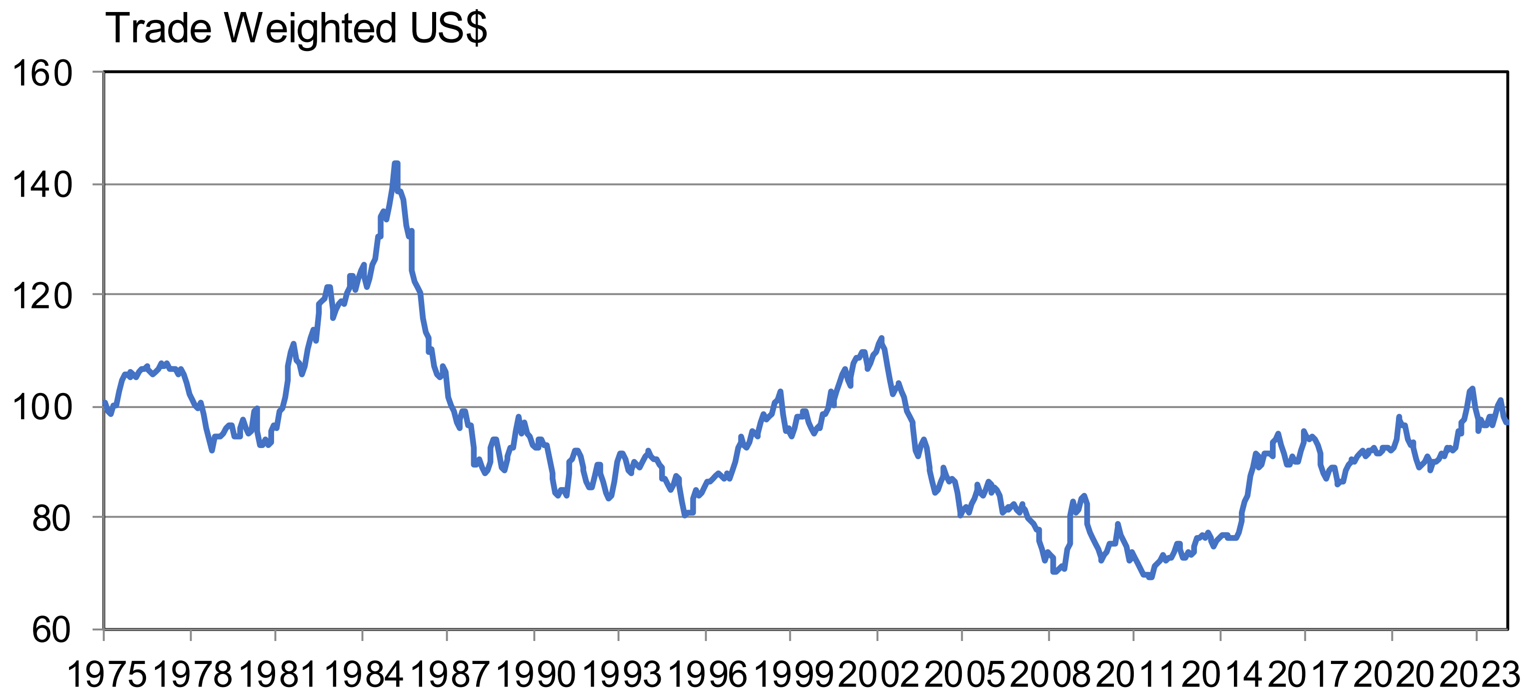
CREDIT SPREAD: HIGH YIELD

Credit spreads can tighten further as recession fears moderate, and demand for credit exposure increases



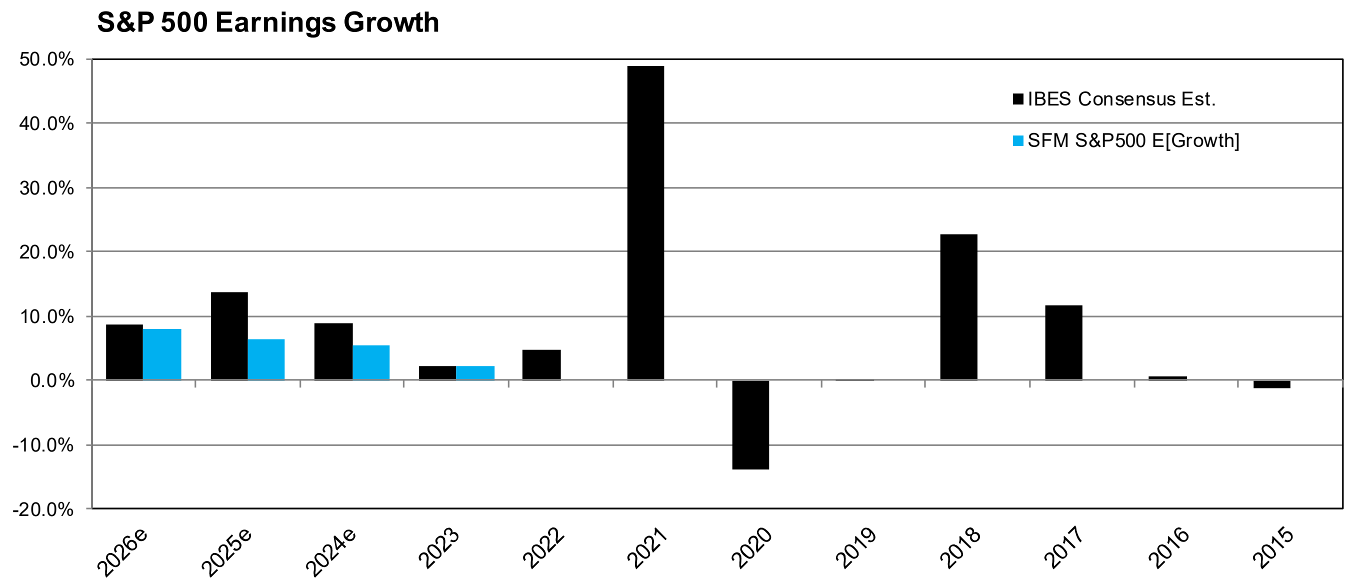
US DOLLAR ADVANTAGE DIMINISHING

- US$ remains world's reserve currency→ foreign investment and lower inflation (imports)
- 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), lowers currency volatility, and increases 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.



S&P 500 EARNINGS—KEY TO EQUITY OUTLOOK

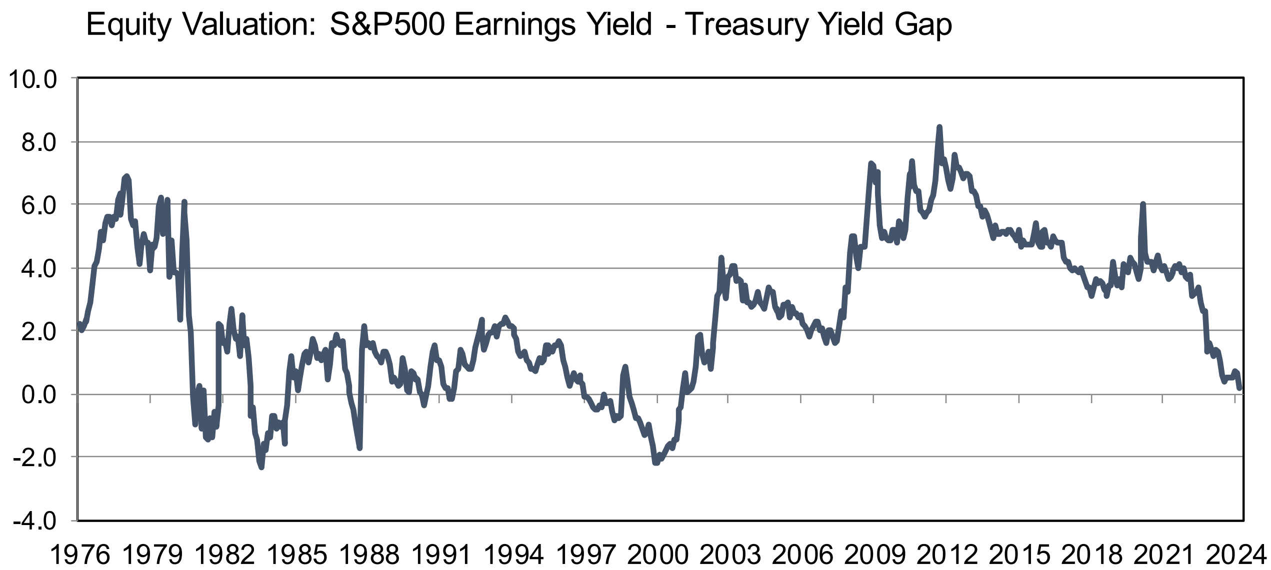
- Slower US Equity earnings growth and productivity as higher inflation limits margin
- US Potential Growth stalling, but Valuation priced for audacious consensus growth
- Policy consequences: Higher inflation, lower potential growth and global competitiveness



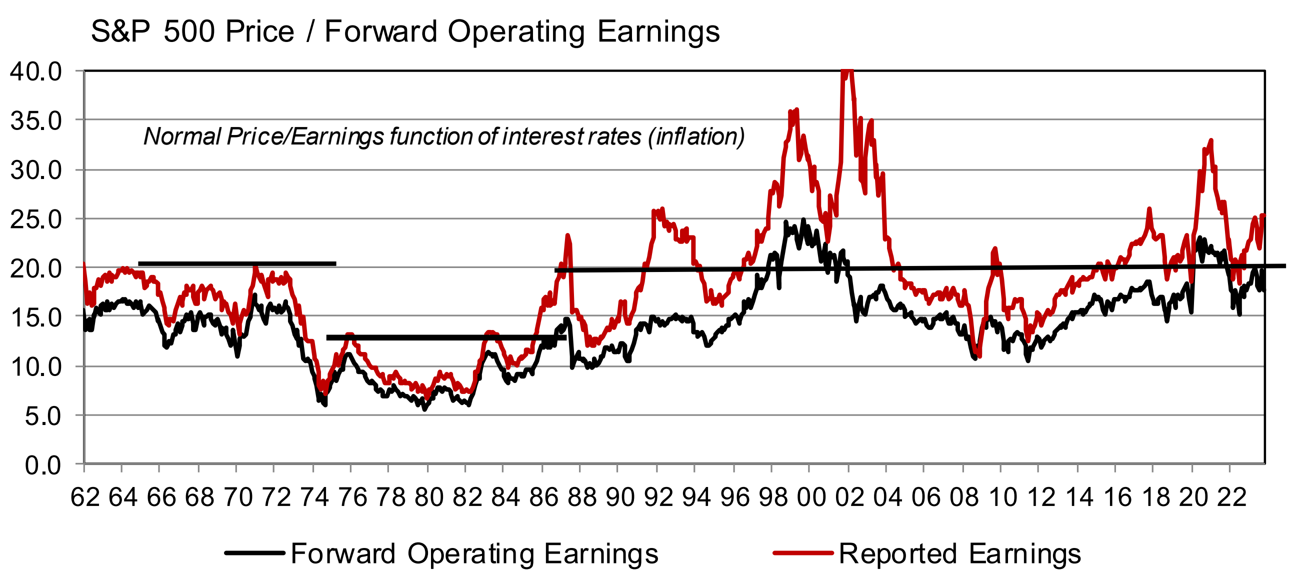
Operating Earnings	2026e	2025e	2024e	2023	2022	2021	2020
IBES Consensus Est.	8.6%	13.7%	9.0%	2.2%	4.8%	49.0%	-13.8%
SFM S&P500 E[Growth]	8.0%	6.4%	5.4%	2.2%			
SFM S&P500 Target	5700	5300	4900	4770	3840	4766	3756
Index Return (no Div)	7.5%	8.2%	2.7%	24.2%	-19.4%	26.9%	16.3%
Dividend Yield %	1.49	1.48	1.51	1.47	1.75	1.29	1.48
S&P 500 @18x SFM TE	4860	4500	4230	4013	3926	3746	2515
S&P 500 P/F12 (SFM)	18.1	17.7	17.7	15.1	17.2	21.9	18.0

Source: LSEG I/B/E/S and Strategic Frontier Management estimates and actuals as of March. 31, 2024

US EQUITY VALUATION DEPENDS ON RATES



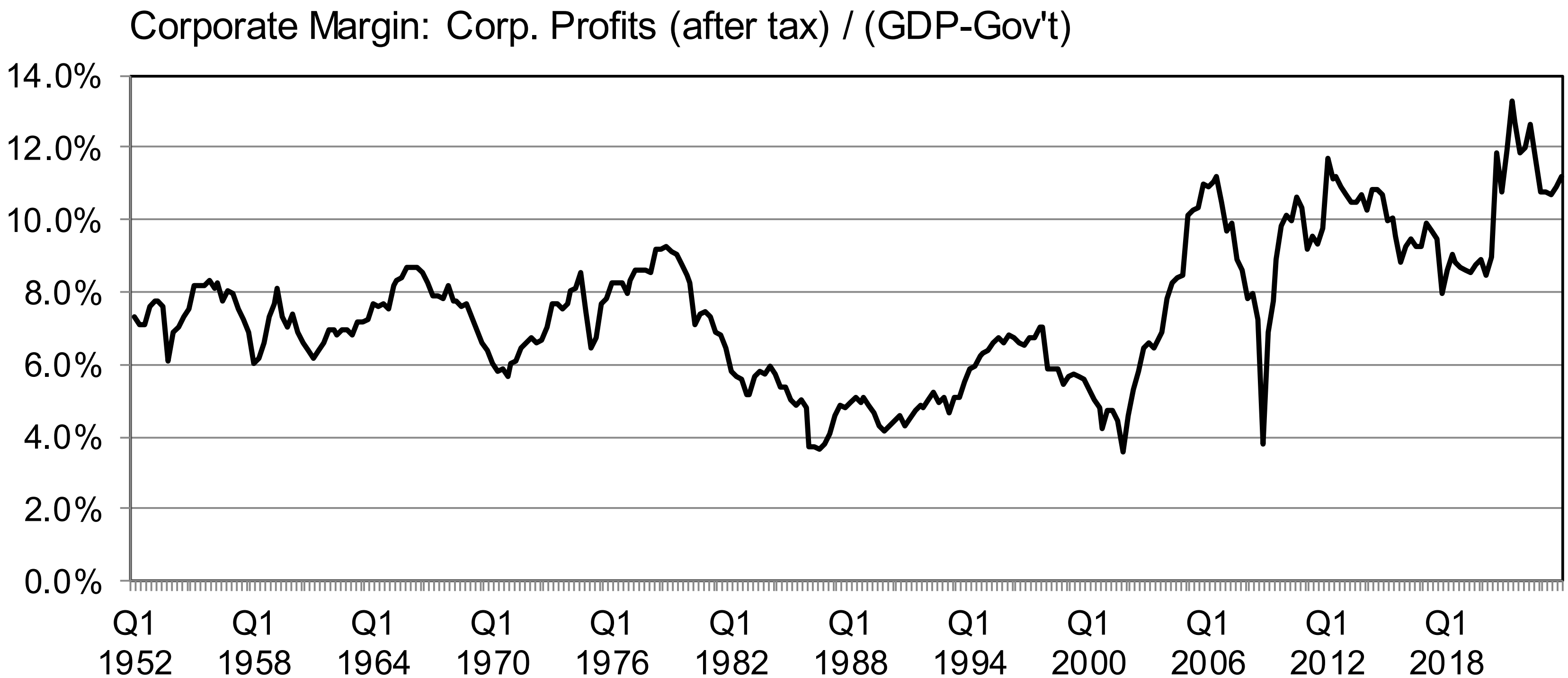
Earnings yield gap (E/P – T10y) declined, now at lowest level since 2008 due to rising yields and little growth in earnings with higher prices.



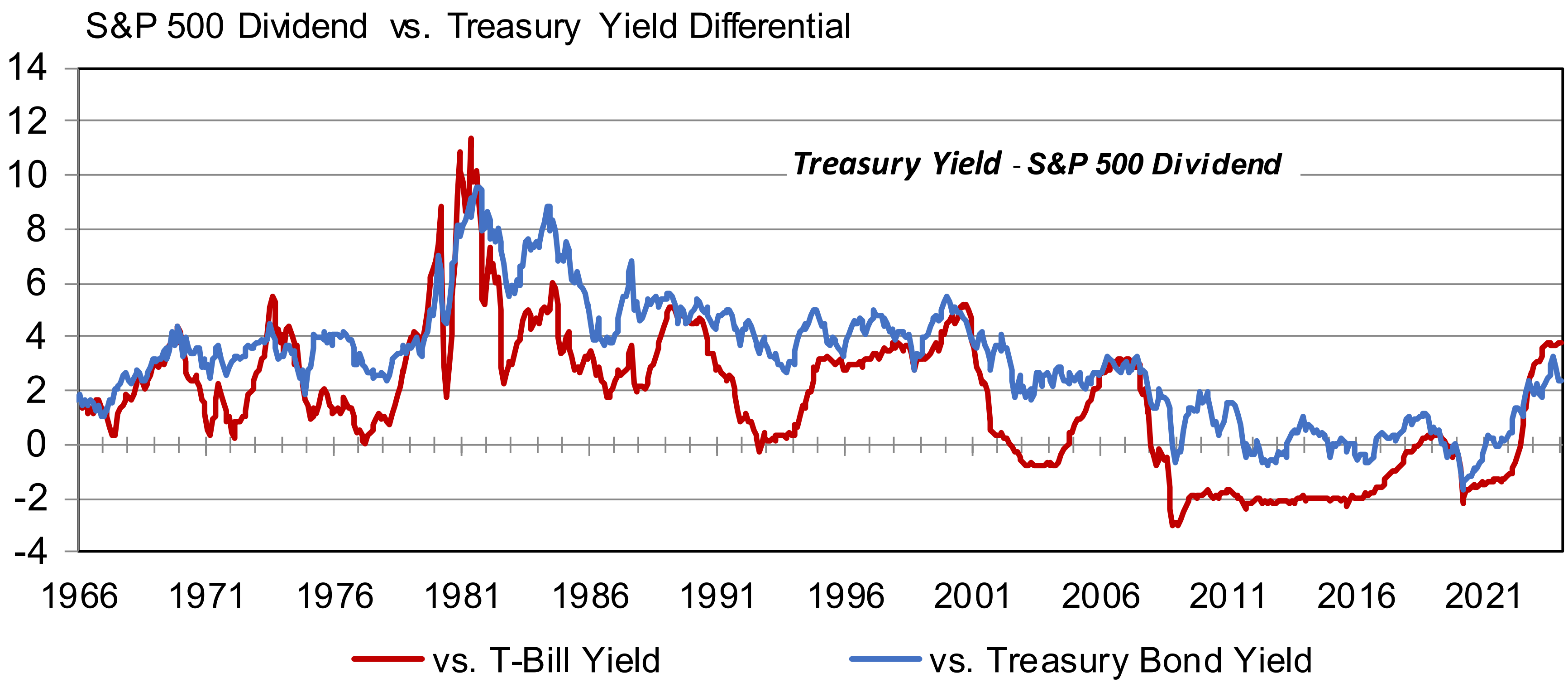
Nominal P/E & P/FE rising again as index prices rise but earnings not following through.

Source: Strategic Frontier Management

U.S. CORPORATE PROFIT MARGINS

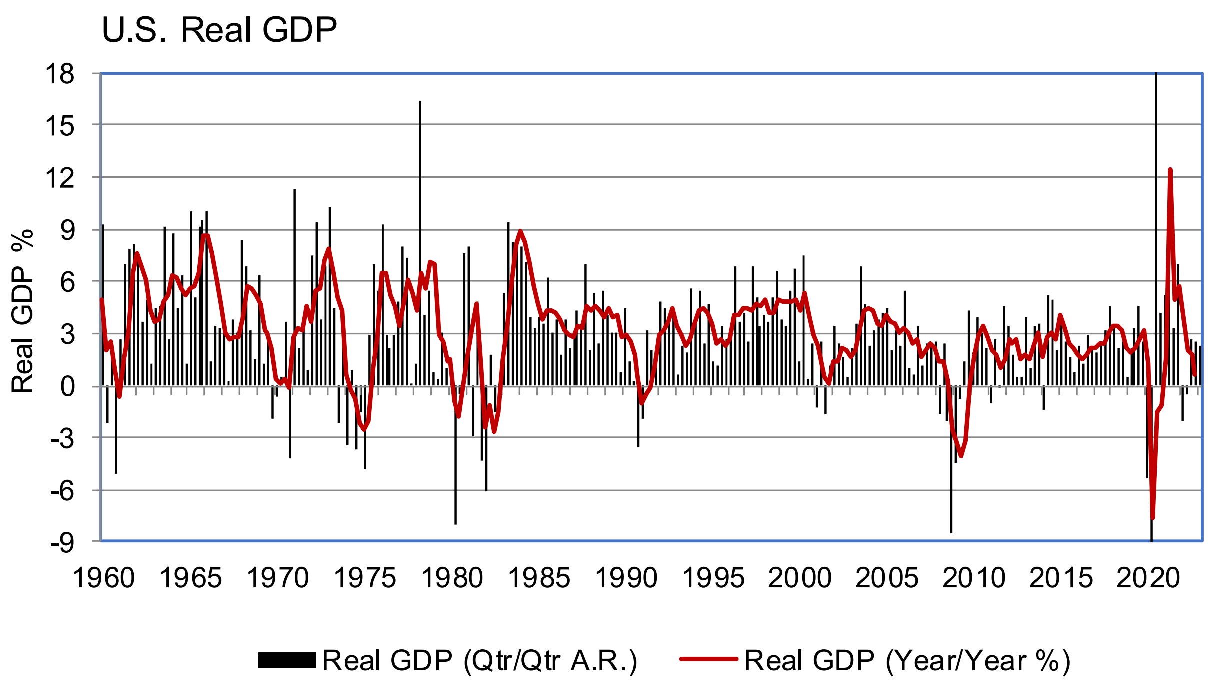


TREASURY VS DIVIDEND YIELDS NORMALIZING



REAL GROWTH IN GROSS DOMESTIC PRODUCT

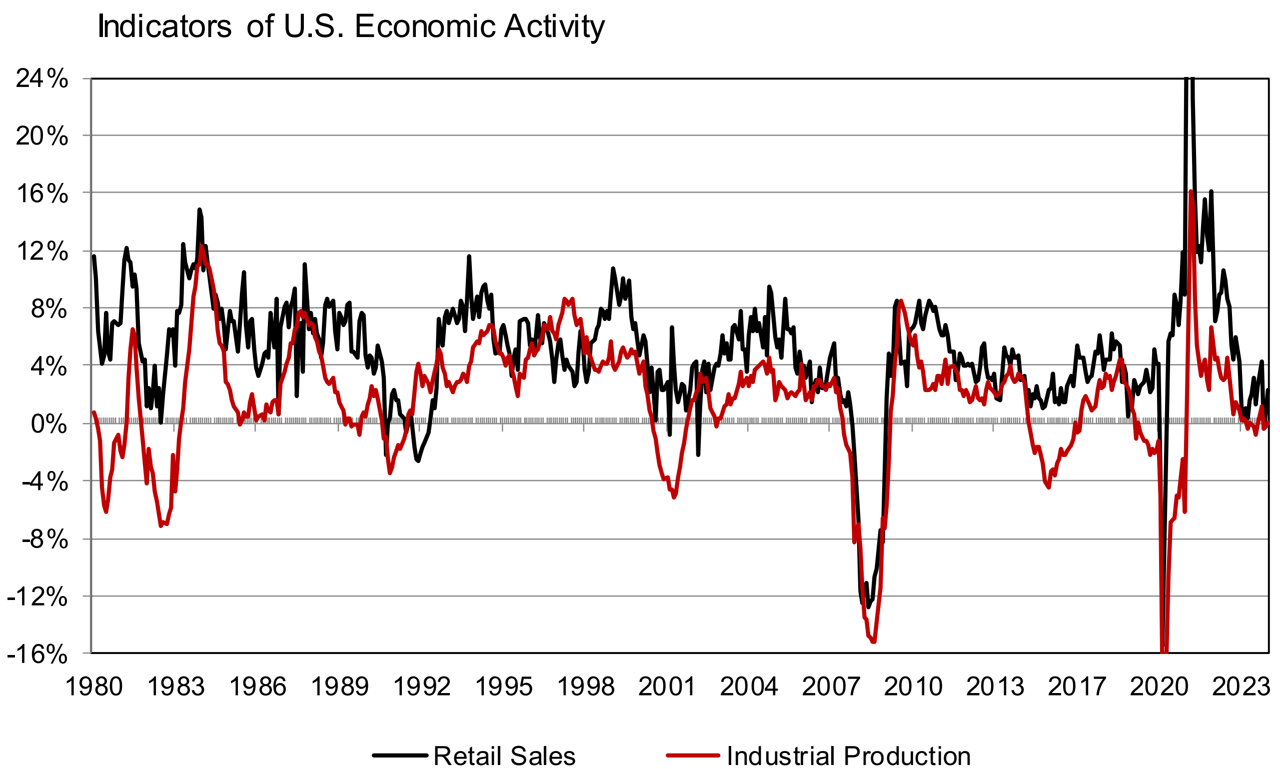
- Expect ***Economic Hangover*** of declining economic and earnings growth (declining profit margins) from pullback of excessive fiscal & monetary stimulus. Negative money growth, poor US policy decisions. Secular stagnation if not stagflation risk increasing.
- Inflation wasn't ***transitory,*** *now expect new higher inflation regime. Higher secular inflation expectations (PCE: 2%→ 2.5%), requires higher average interest rates (2.5% → 3.25%), which likely will depress real economic and corporate earnings growth.*
- *US Potential Growth* downgraded (2.7% → 2.0%) with regulatory, fiscal, energy, trade policy changes in 2021-22, undermining US competitiveness, productivity, profit margins.



Source: U.S. Government Data

MONTHLY ECONOMIC GROWTH INDICATORS

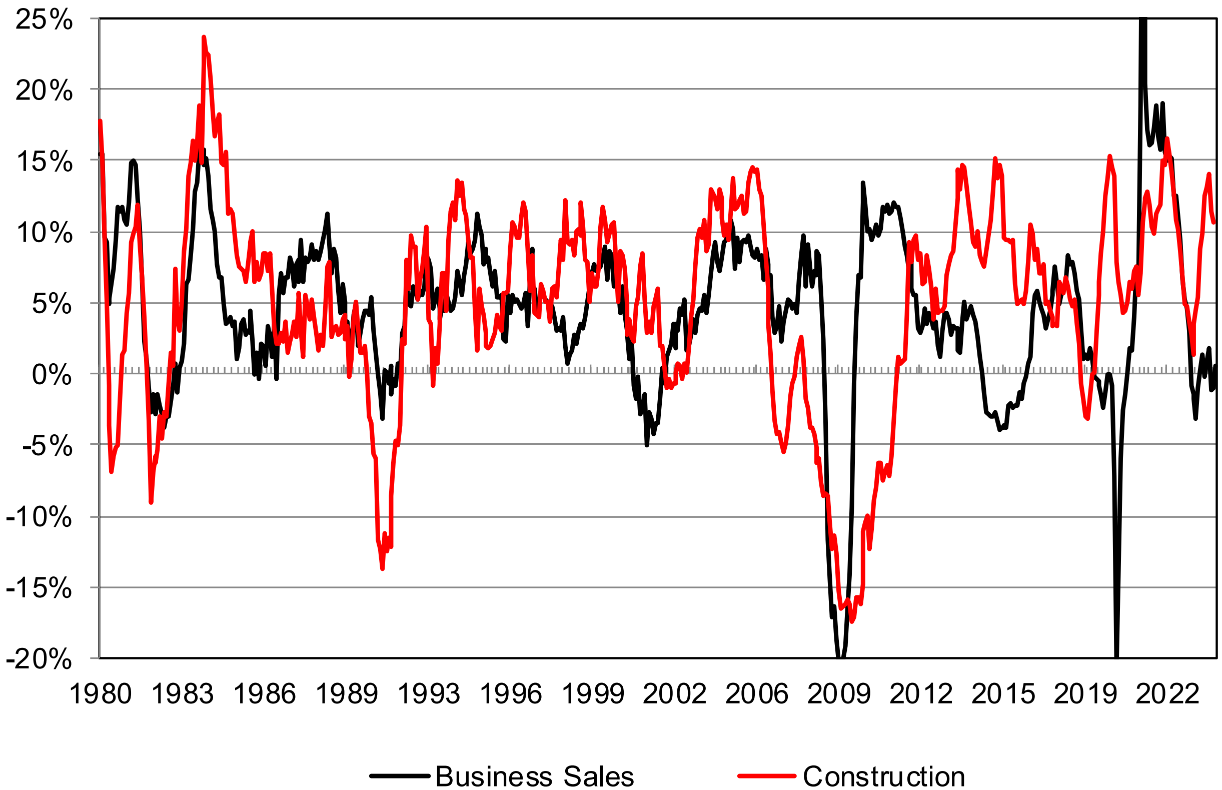
- Terrible fiscal (tax, spend) and regulatory policies undermined US Potential Growth.
- I***ndustrial production*** and ***real retail sales*** suggest US economy near or in recession
- Stagflation hangover visible as extended excess *Fiscal and Monetary Stimulus rolls over,* which artificially boosted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



INVESTMENT AND BUSINESS ACTIVITY

- Higher frequency economic growth indicators, including business sales, are collapsing, which indicate US recession, albeit intermittent.
- Expect Business Sales and Construction to be more cyclical in 2023-24

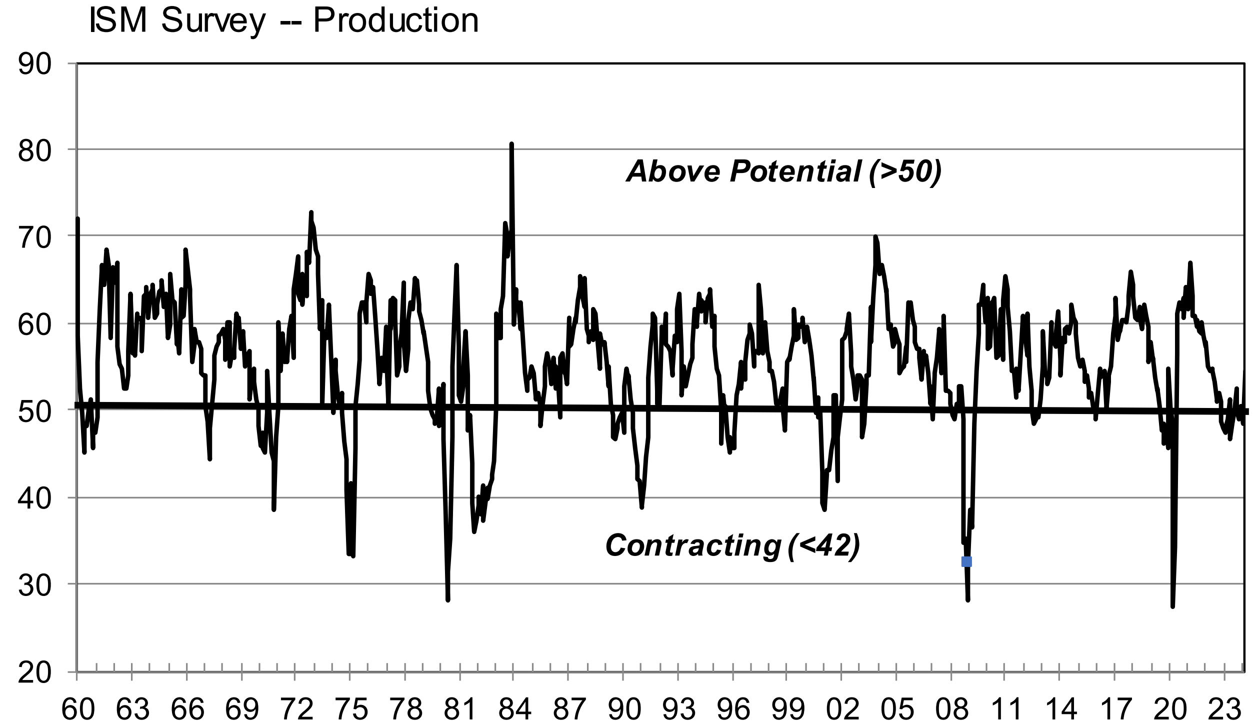
Indicators of US Economic Activity



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.

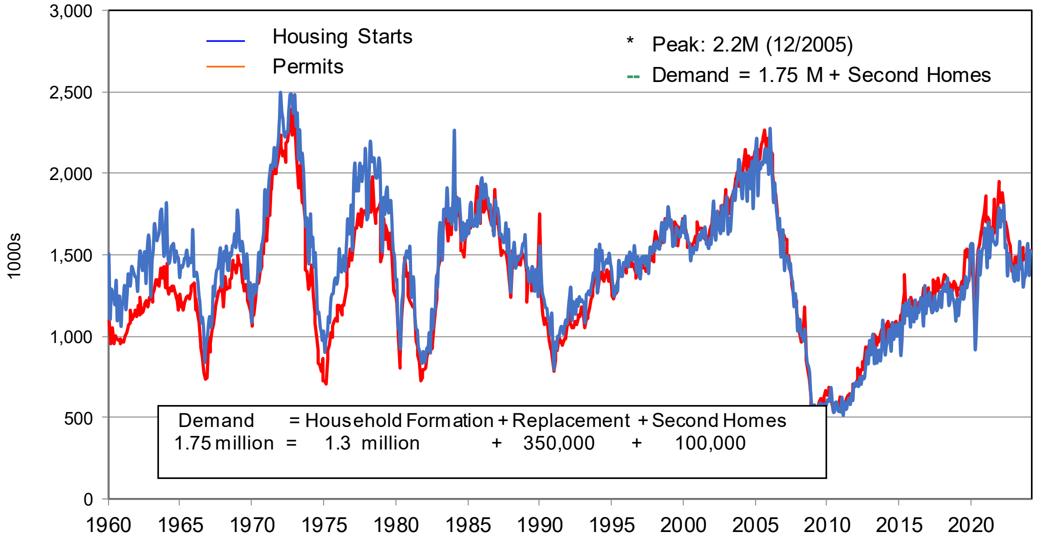


Source: ISM

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

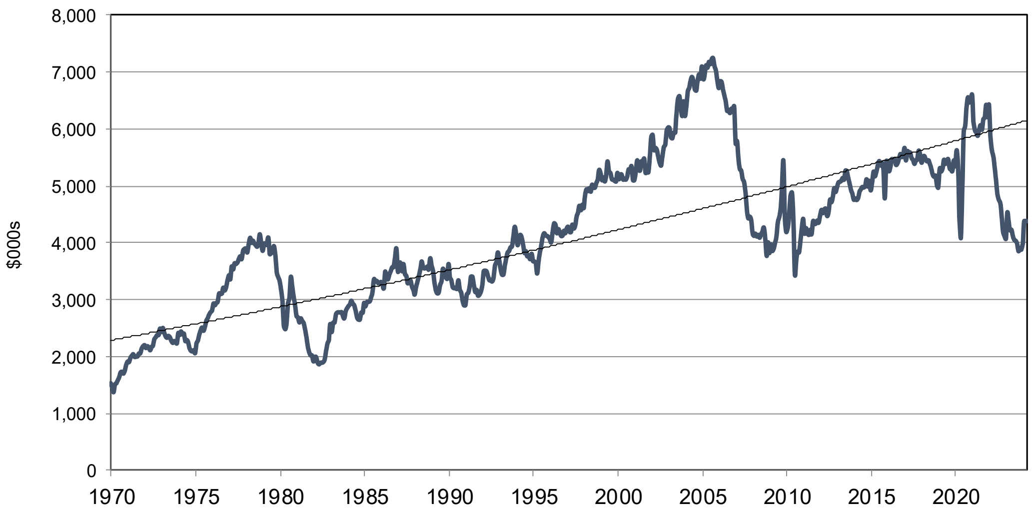
New Home Starts



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.

Existing Home Sales

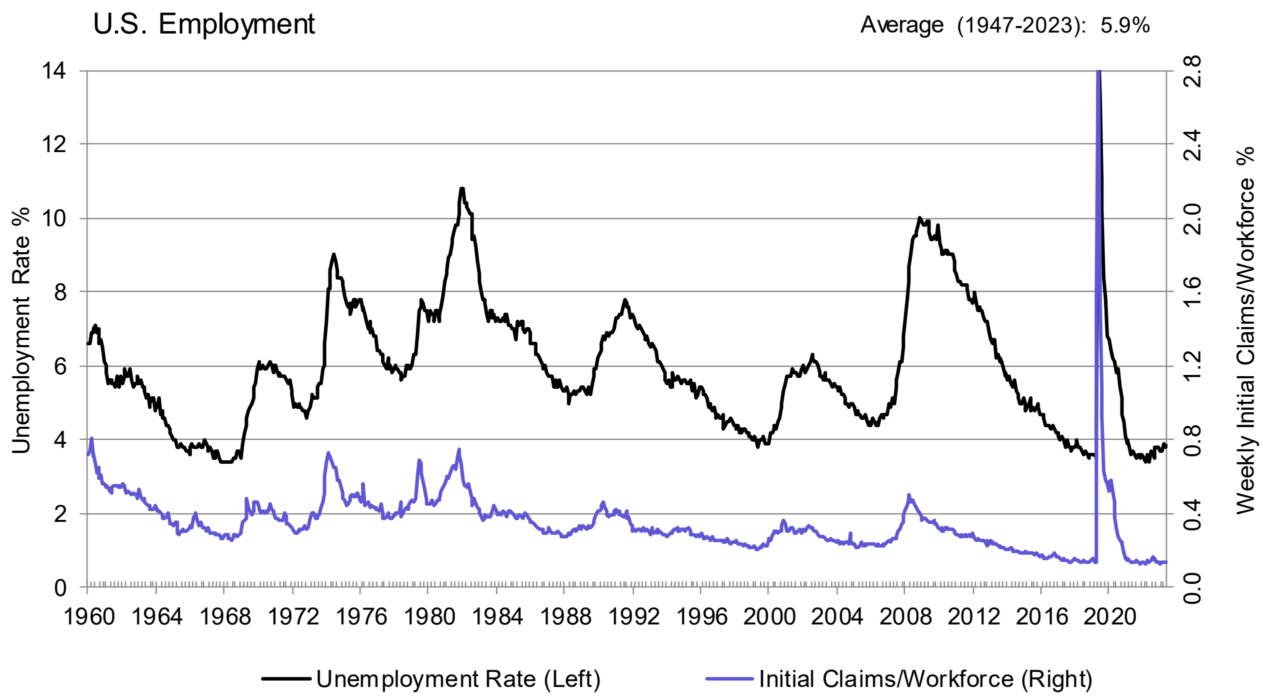


It is not surprising housing cost inflation remains resilient, although prices off 2022 highs. Basic resource inputs, labor costs, energy prices coincide with low inventory of new and existing homes for sale. Inventory for sale limited by rate lock. Rising rents remain high too.

Source: U.S. Government Data

UNEMPLOYMENT KEY TO FED OUTLOOK

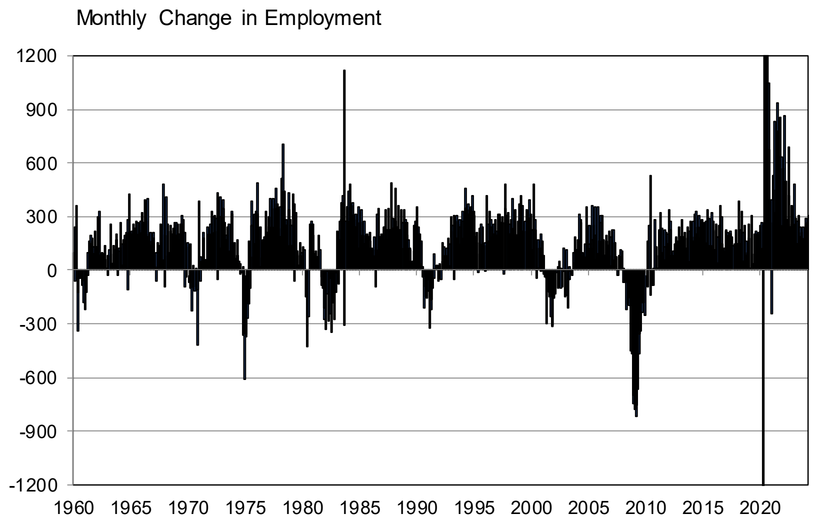
- Unemployment peaked over 14% (April 2020), but now 3.5% vs. 6.0% historical avg.
- Further evidence US Stimulus (2021-2023) was not needed, and fueled higher inflation
- Secular change affected nature of work, also education and evolving skill needs.
- Higher inflation expectations + minimum wage increases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

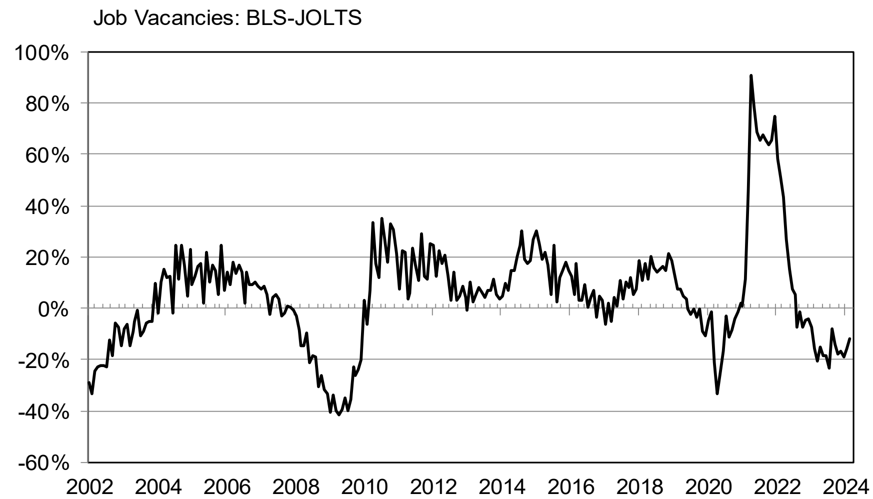


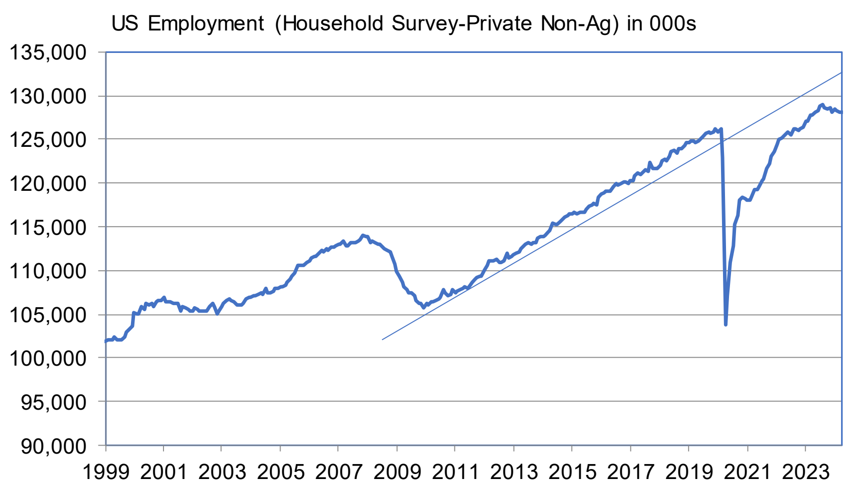
Source: U.S. Government Data

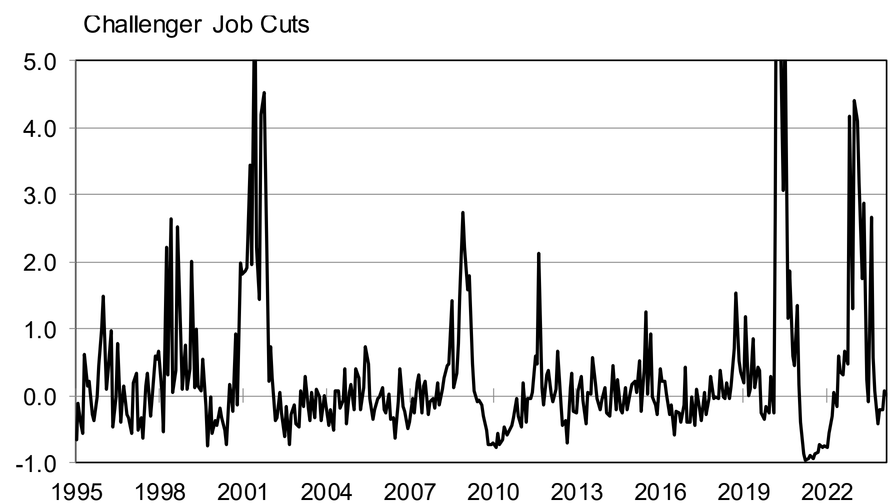
U.S. EMPLOYMENT CONDITIONS

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





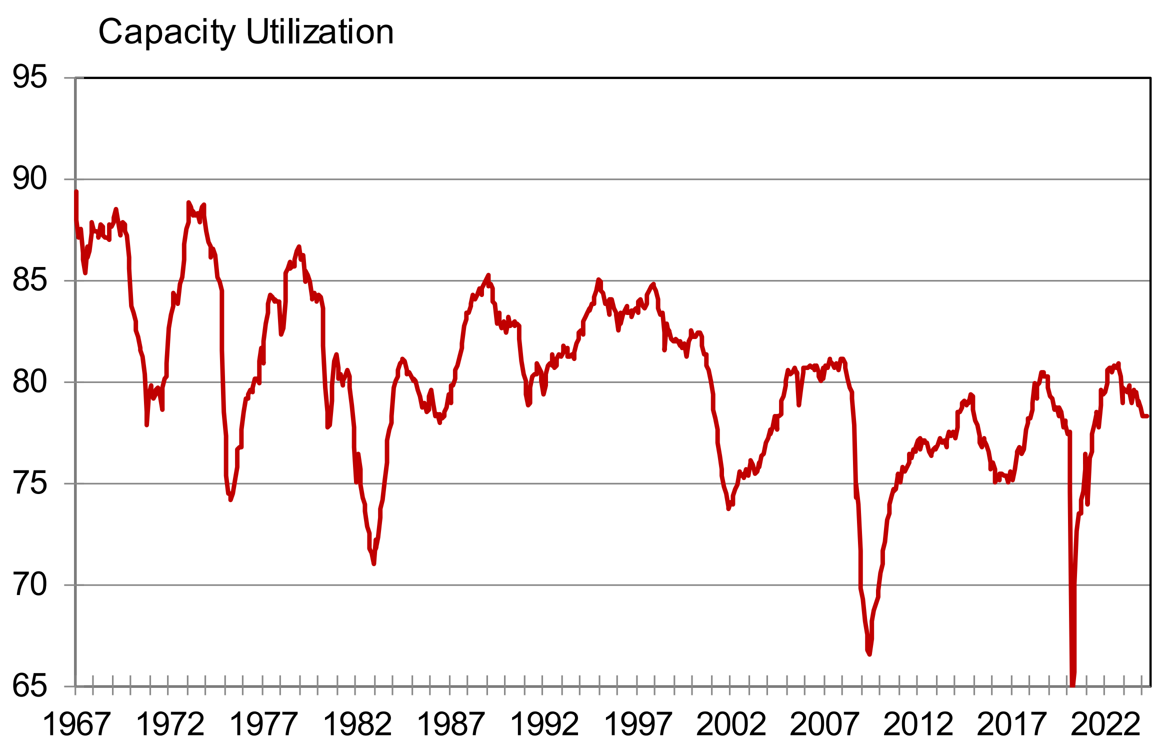




Source: U.S. Government Data

RISING CAPACITY UTILIZATION

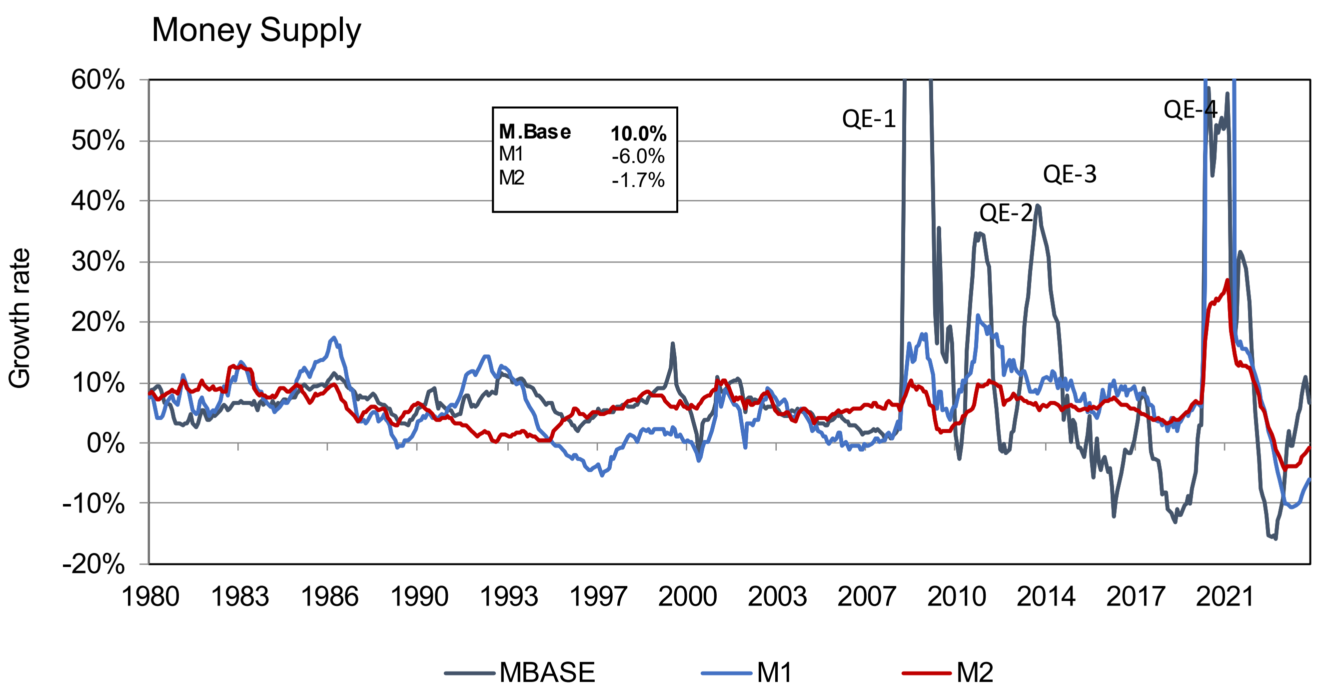
- Higher Capacity Utilization Drives Inflation and Investment, yet forces of secular disinflation and *Fourth Industrial Revolution* long taken for granted, are now waning.
- 80% Capacity Utilization: Offshoring/globalization trends reversing with automation reducing labor intensity.
- Transportation, 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 minimize imbalances, including inflation, but volatility in money supply will wreck havoc globally, as will higher bond yields (curve)
- Reversing QE (central bank bond holdings) as rates increase will slow money growth (hangover effect), and ability to respond to the next real 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)

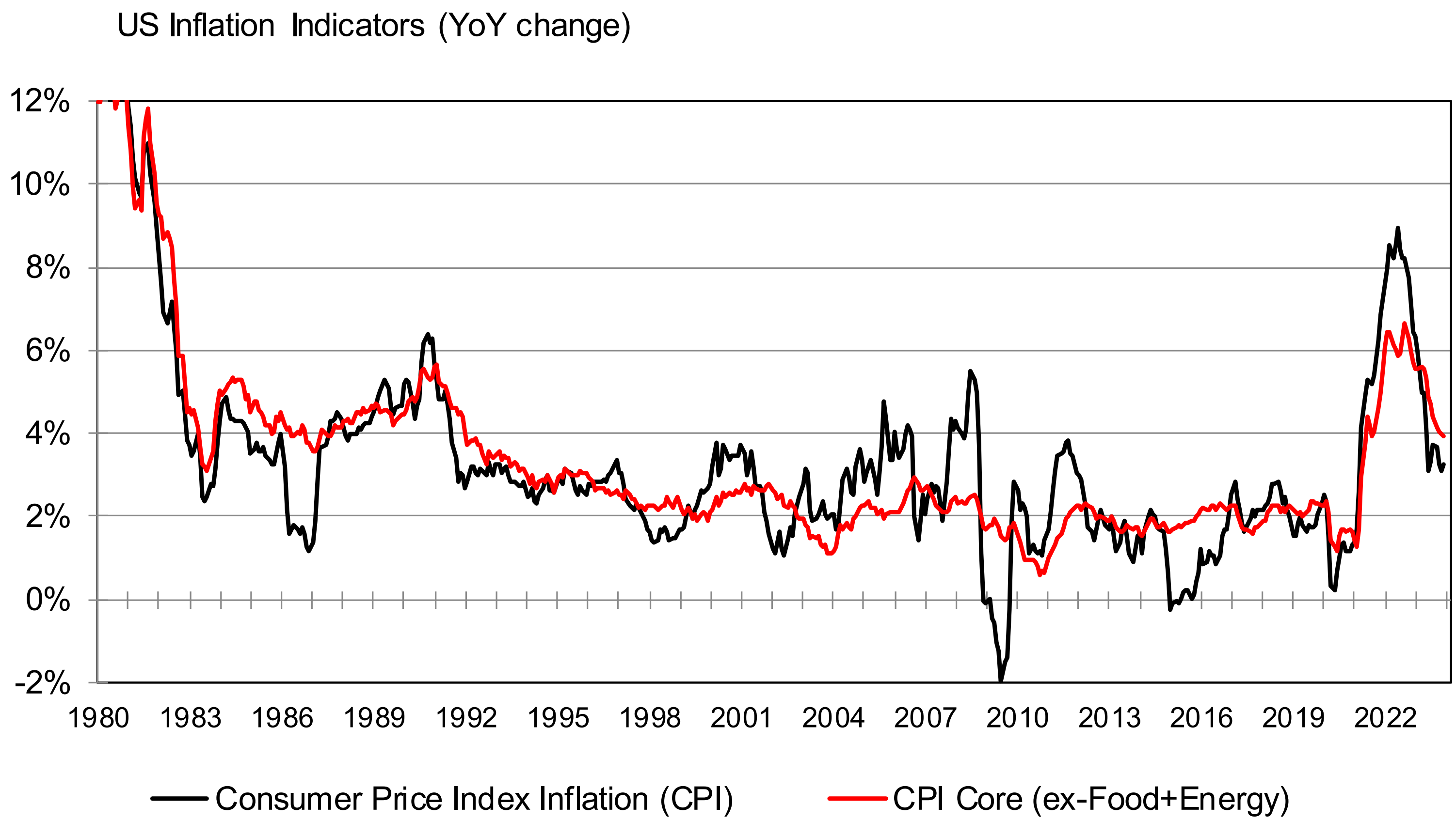
Source: U.S. Federal Reserve

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)
- Fiscal fantasy of benign debt and fiscal deficits (inc. Modern Monetary Theory) is ruinous -- higher yields expose interest burdens, leverage, compromise zombies
- Inflation rate persists, but irreversible damage was done to living standards with monetary moral hazard and poor policy-driven decisions (inc: energy, labor, etc.)
- We've only started unwinding central bank holdings (QE→ QT), which requires low to negative money growth for years to come.

US CPI INFLATION WILL SETTLE HIGHER ~3%

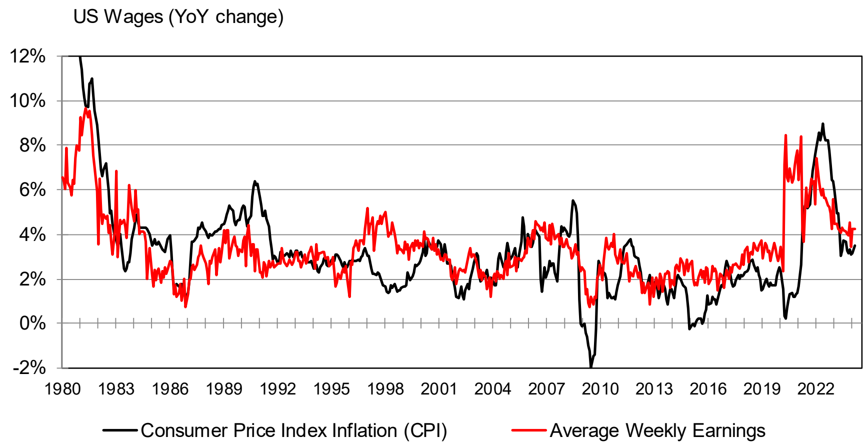
- Inflation rate has rolled over, but many inflationary forces still remain (housing, labor)
- Higher *inflation expectations* persist, supporting labor, housing and transportation costs
- Oil, natural gas, fuels, electricity, and basic resources volatility helped, but can hurt too
- *Secular disinflationary forces* receding (innovation, comparative advantage, creative destruction), but *as good as it gets* without decline in policy-driven inflation expectations

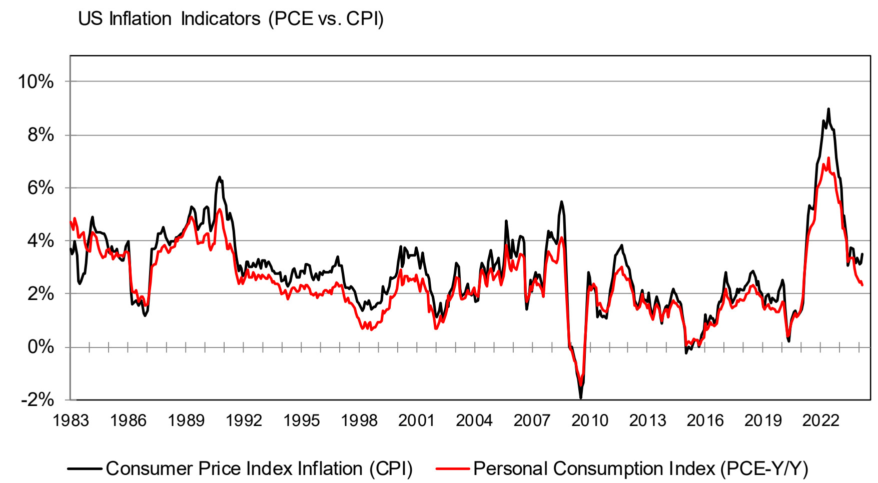


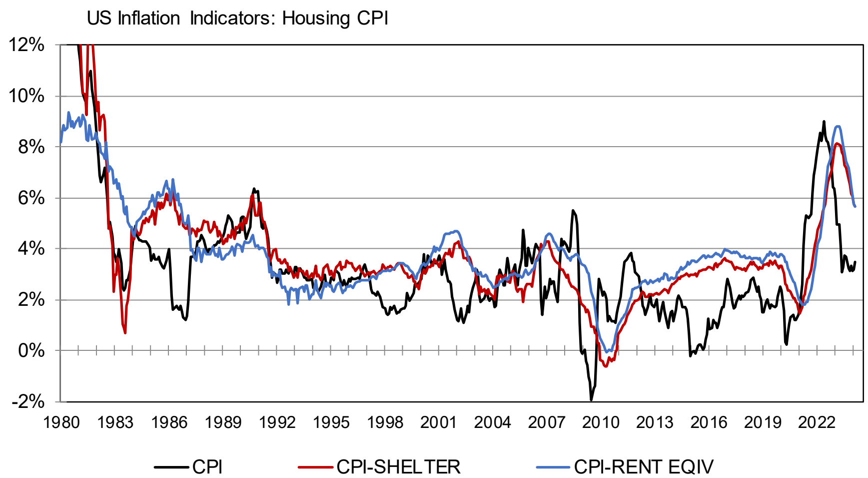
Source: U.S. Government Data

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.





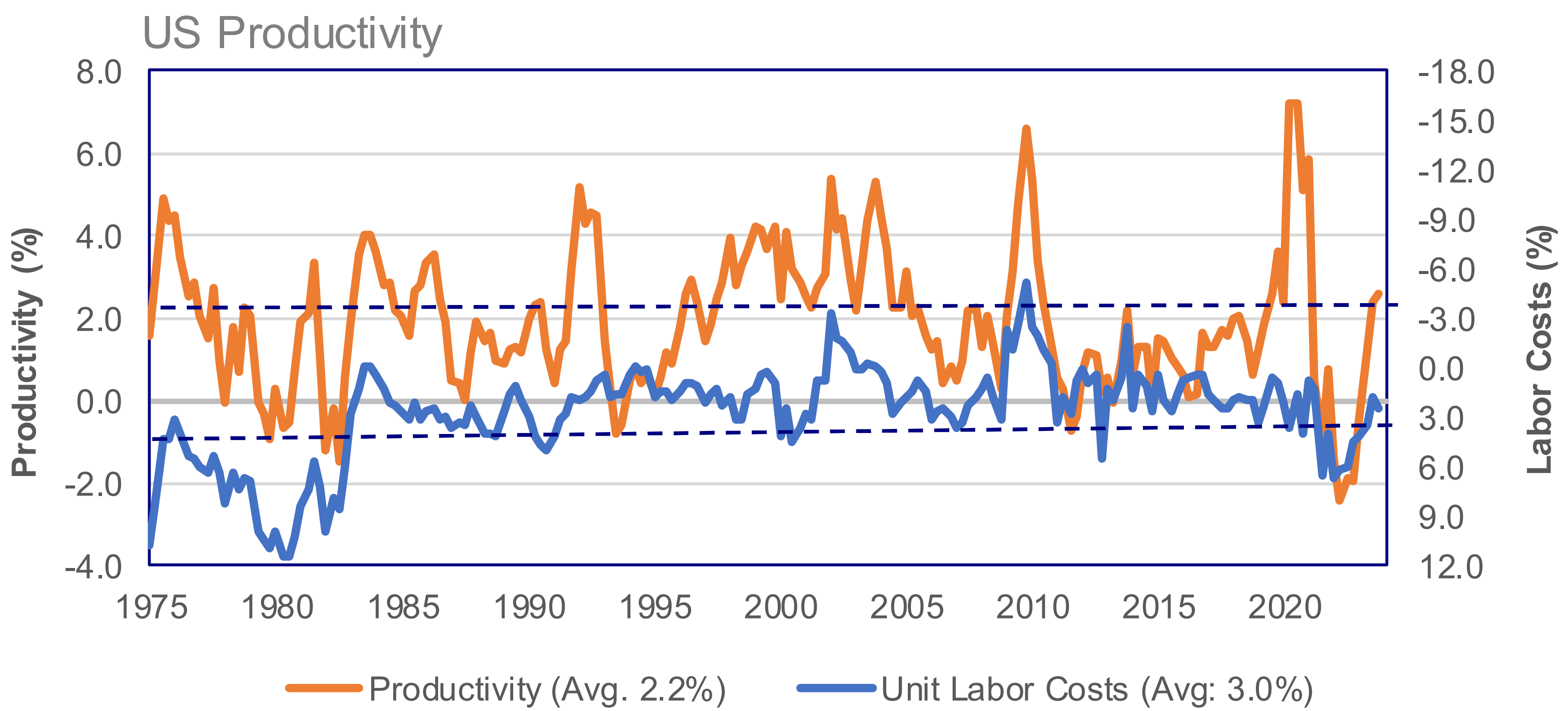


Global Inflation Tracking (CPI)	
United States	3.5%
Europe (EMU)	2.4%
United Kingdom	3.9%
Japan	4.1%

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.



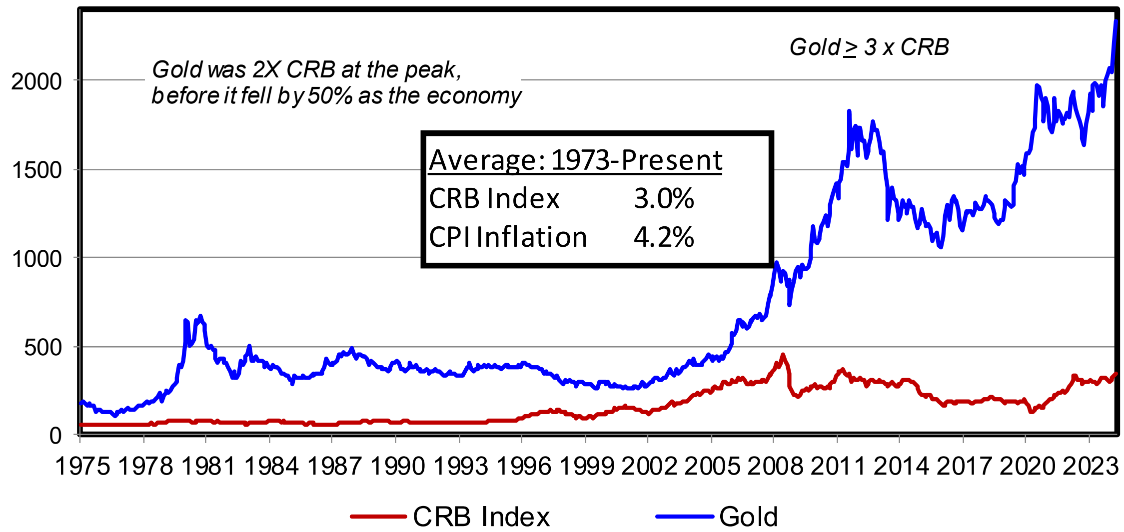
G = Gov't Spending
C = Consumption
I = Investment
T = Net Exports (Trade)

Source: U.S. Government Data

BASIC RESOURCES INTENSITY DECLINING

- Gold too volatile to be *store of value* and will likely lag inflation as interest rates rise.
- 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.
- *Cash* is a better store of value <u>and</u> better market hedge than Commodities *or Crypto*.

Commodity Prices



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

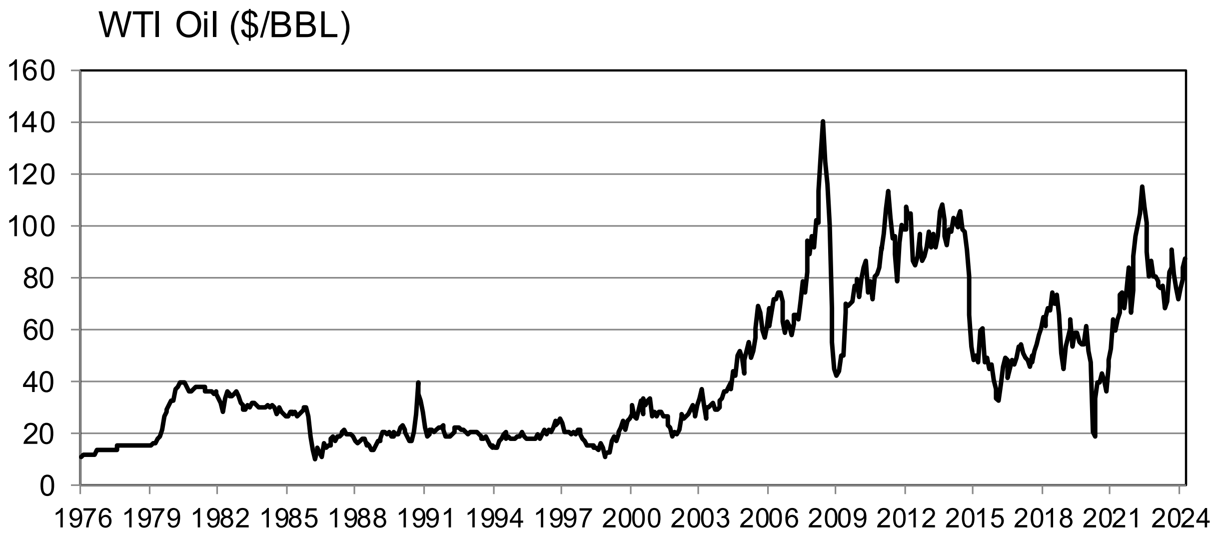
<u>Commodity Returns:</u>
1871 – 2007: Goldman/The Economist/IMF: Real return = -0.4%
1900 – 2020: Credit Suisse 2.6% vs. 2.9% inflation Real return = -0.3%
1973 – 2009: 4.75% vs. 4.5% (inflation) Real return = 0.25%

Source: Refinitiv DataStream & Strategic Frontier Management

WHAT IS THE EQUILIBRIUM OIL PRICE?

Balancing global growth and peak oil concern vs. offsetting demand destruction from triple threat of *Conservation, Substitution, and Innovation* (C-S-I).

- 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 envisioned EV push and similar agenda
- Growth in oil consumption limited by CSI and declining energy intensity
  - Conservation efforts reduce energy intensity, as fracking increased gas/oil supply
  - Alternative power + extraction efficiency lower energy costs, increase capacity
  - Increasing US CAFE standards educed overall demand, even with growth (miles/yr)
- Draining SPR was a dangerous, foolish short-sighted idea—unless opportunistic intent

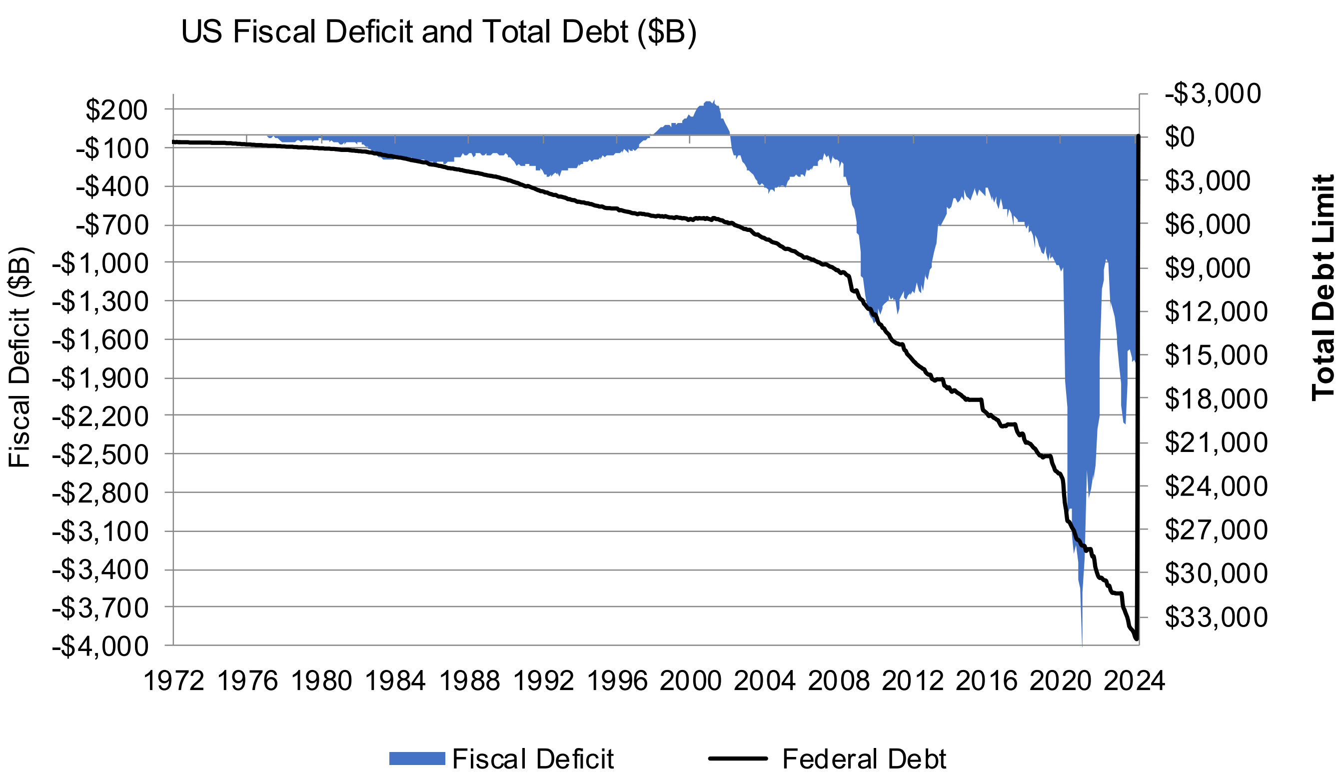


We believed normal equilibrium price for WTI was $55-60 thru 2020, but now is likely ***$60-70*** with more regulation and reduced investment.

Source: EIA

US FISCAL DEFICIT (ROLLING YEAR)

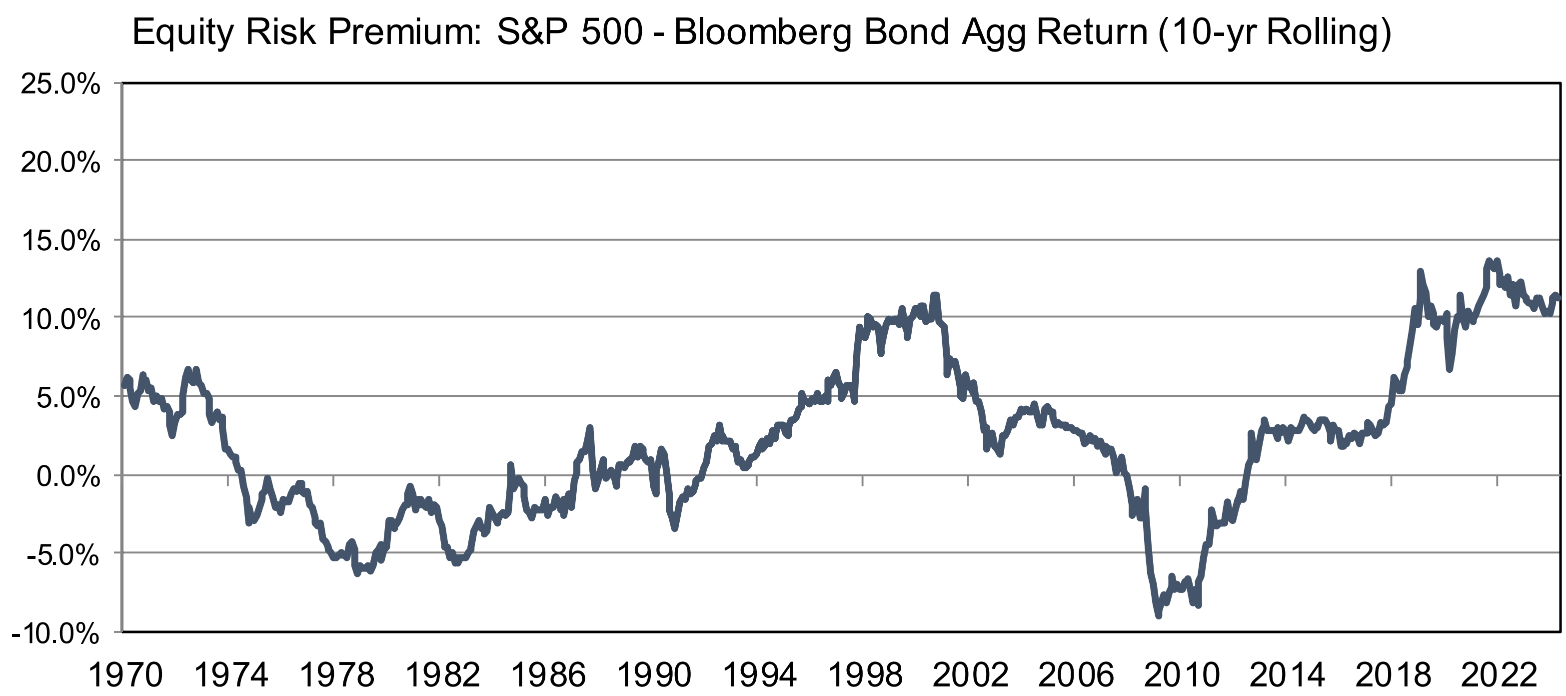
- US Fiscal Deficit is Unsustainable with soaring nondiscretionary liabilities on top of reckless, wasteful, unnecessary, and inefficient stimulus spending programs
- Rising interest rates boosting Federal Debt & Deficits, as interest expense soars.
- As we expected, Republican House control provided leverage for spending changes--increasing debt ceiling provides opportunity for budget compromise, 2024 in crosshairs.



Source: US Government, OMB

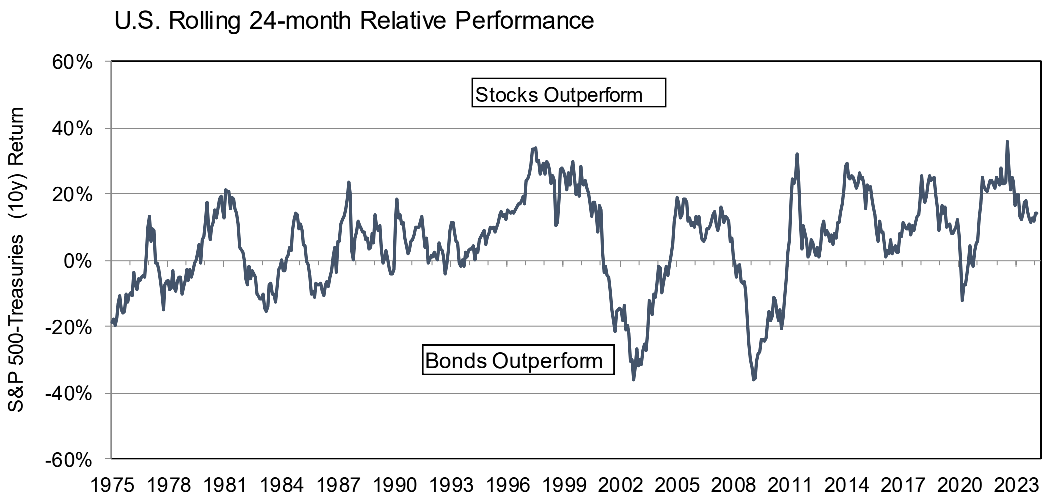
ROLLING 10-YR STOCK VS. BOND RETURN

- 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?



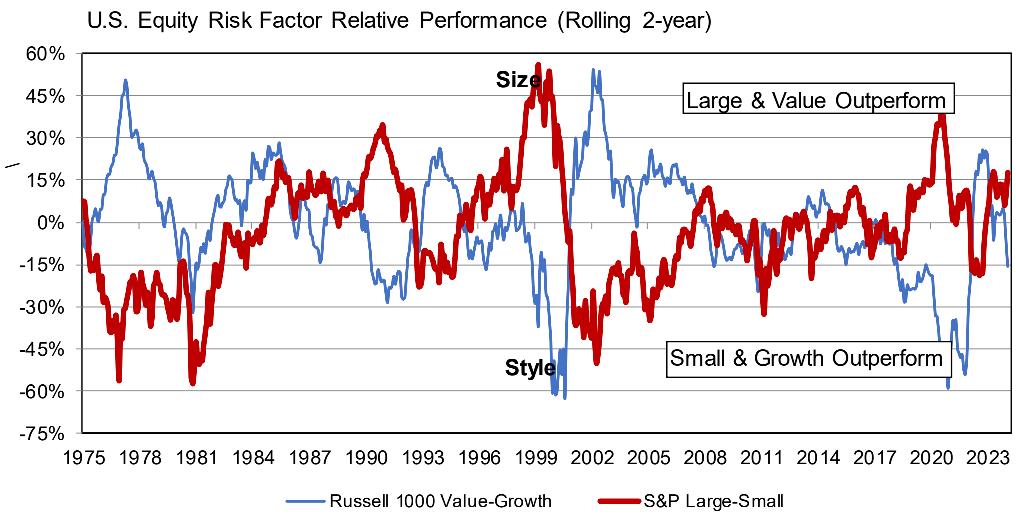
Source: Strategic Frontier Management, Standard & Poor's, Bloomberg-Barclays Indices

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

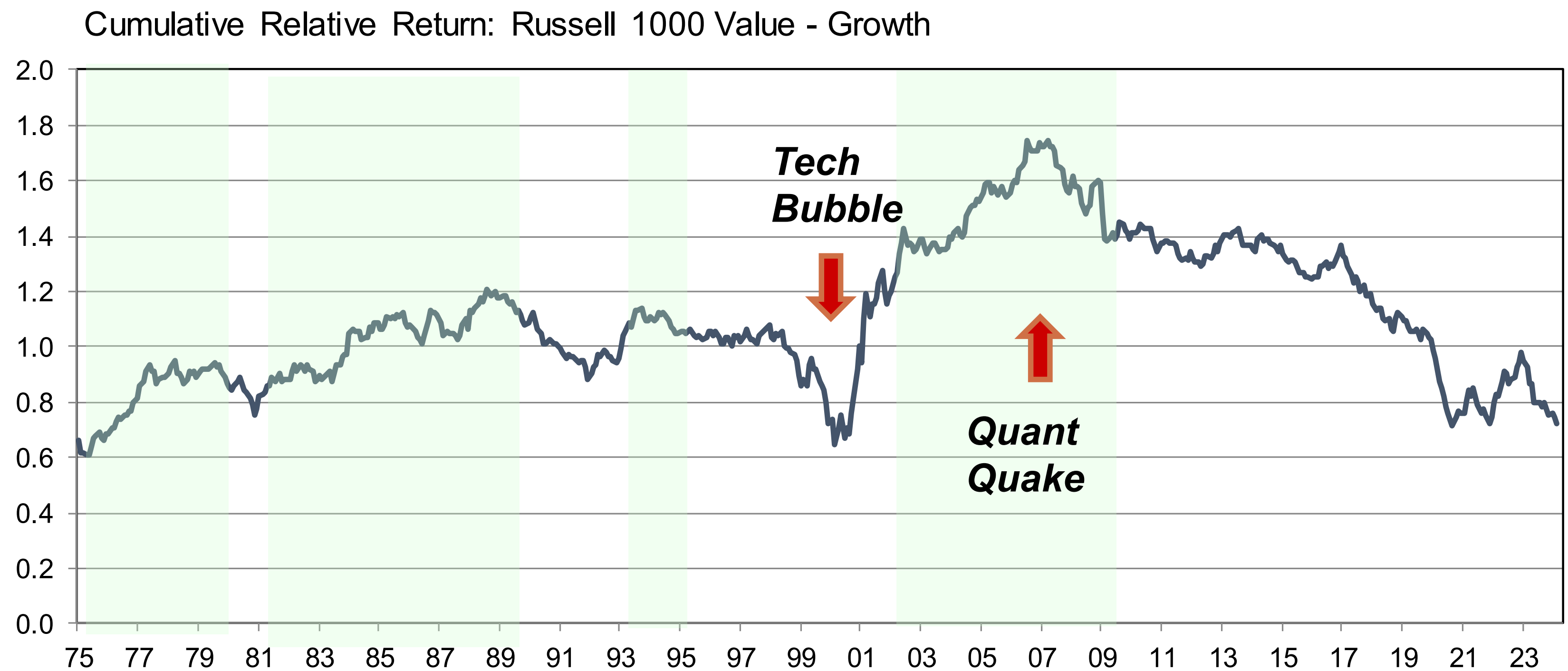
Equity style investing can benefit from differential returns, and often cycles are not synchronized—small-cap is expected and has begun to rebound

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

Source: Refinitiv DataStream & Strategic Frontier Management

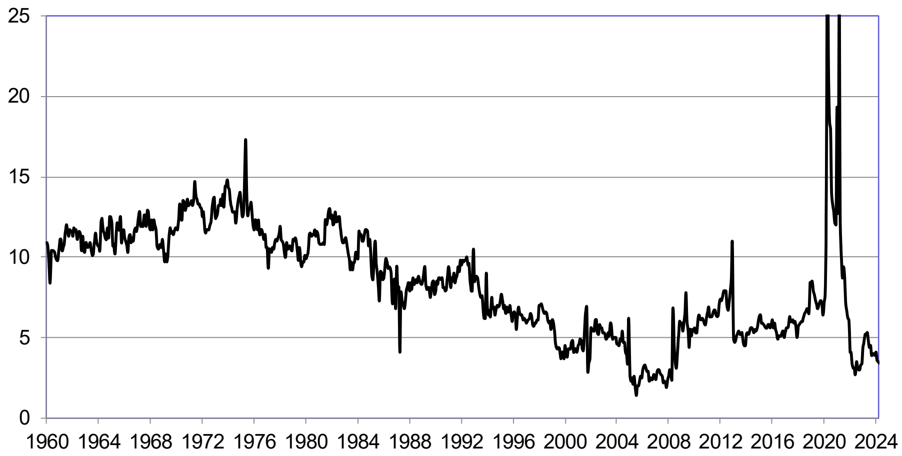
VALUE INVESTING MIA SINCE 2007-QUANT QUAKE

- 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.



Source: Refinitiv DataStream & Strategic Frontier Management

HOUSEHOLDS: LESS SAVINGS -- RISING COSTS



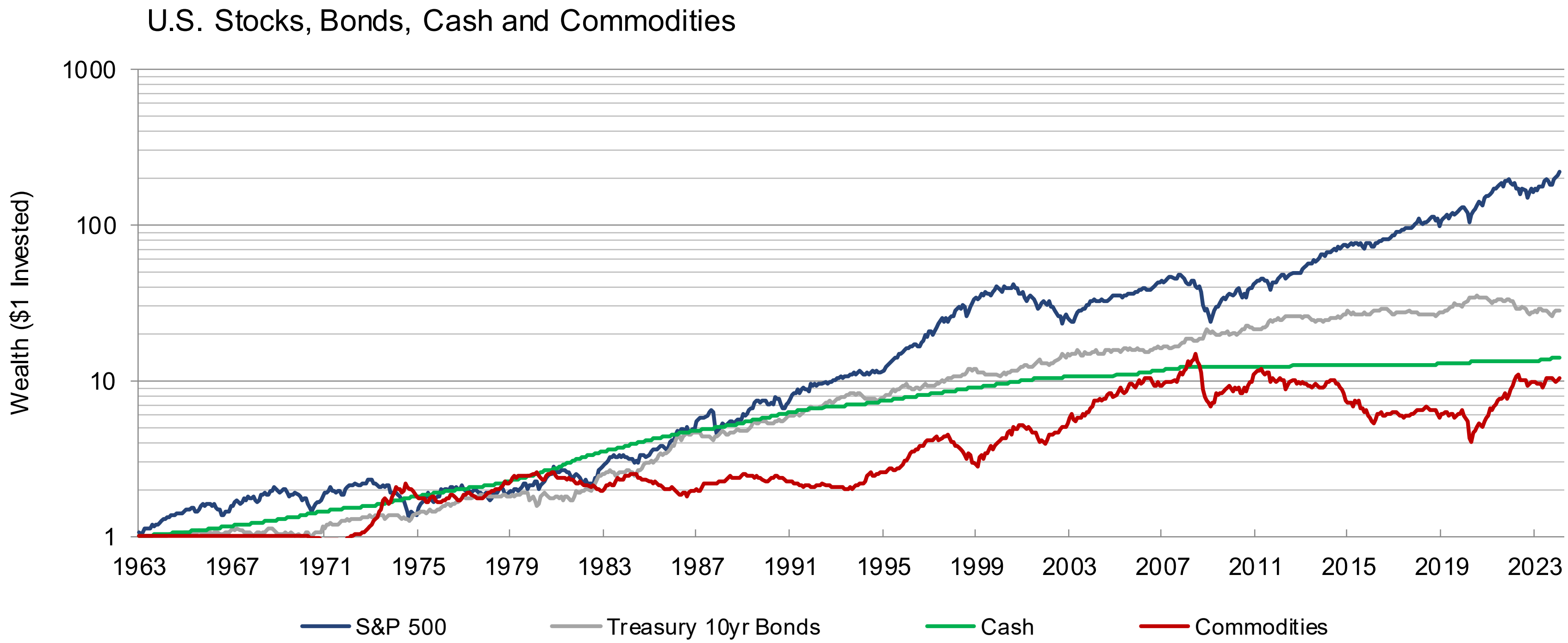
Not Your Father's Household Balance Sheet

- *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)*									

LONG-TERM ASSET CLASS RETURNS

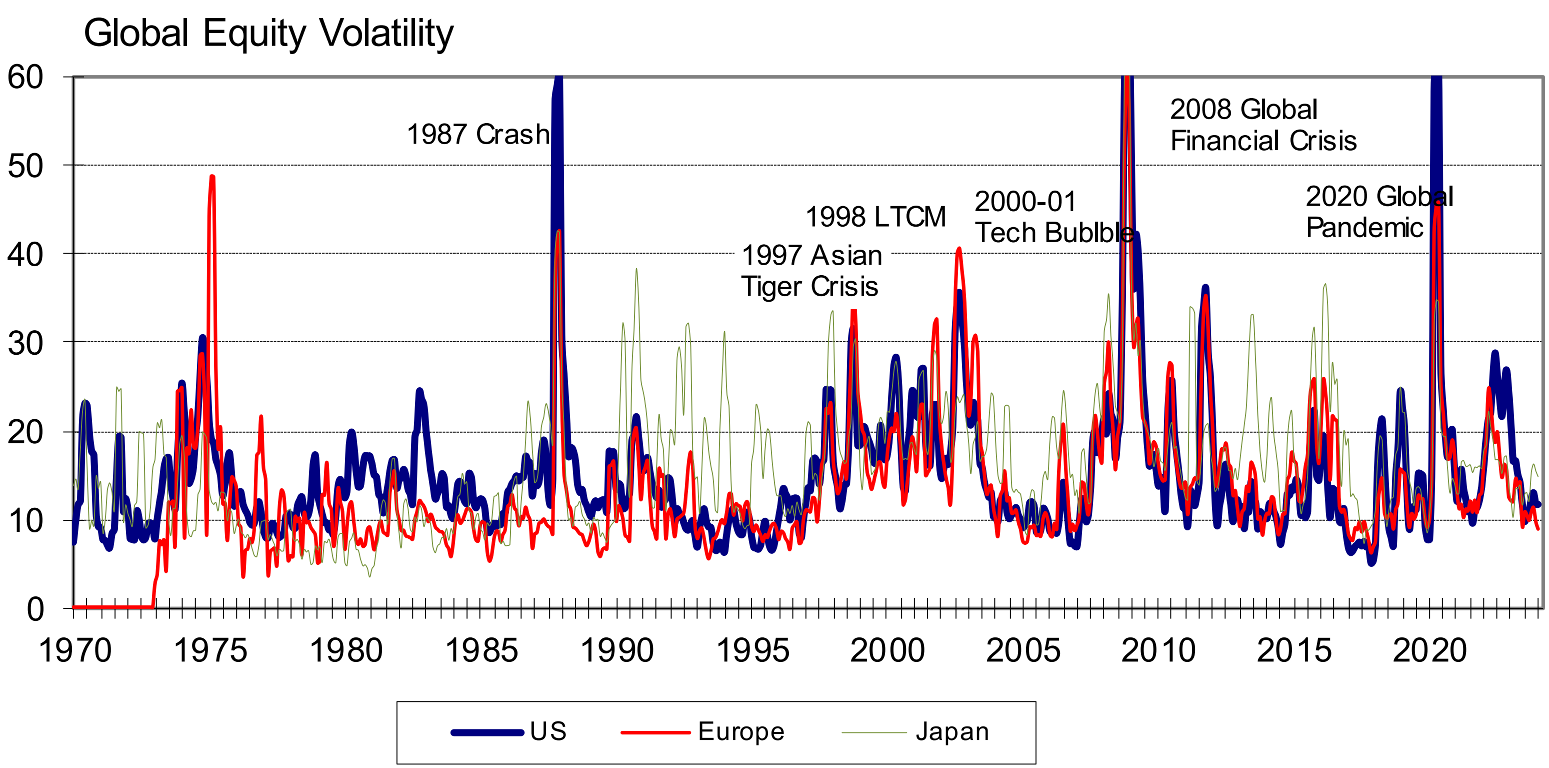
- Global Equity is the best way to stay ahead of inflation, particularly as overvalued bonds struggle with normalization (raising rates, reducing bond holdings)
- Commodities lag both cash and inflation by definition over longer horizons.
- Cryptocurrencies are speculative commodities, and too volatile 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. cryptocurrencies, with better risk-adjusted return and liquidity than alternative assets.



Source: Refinitiv DataStream and Strategic Frontier Management

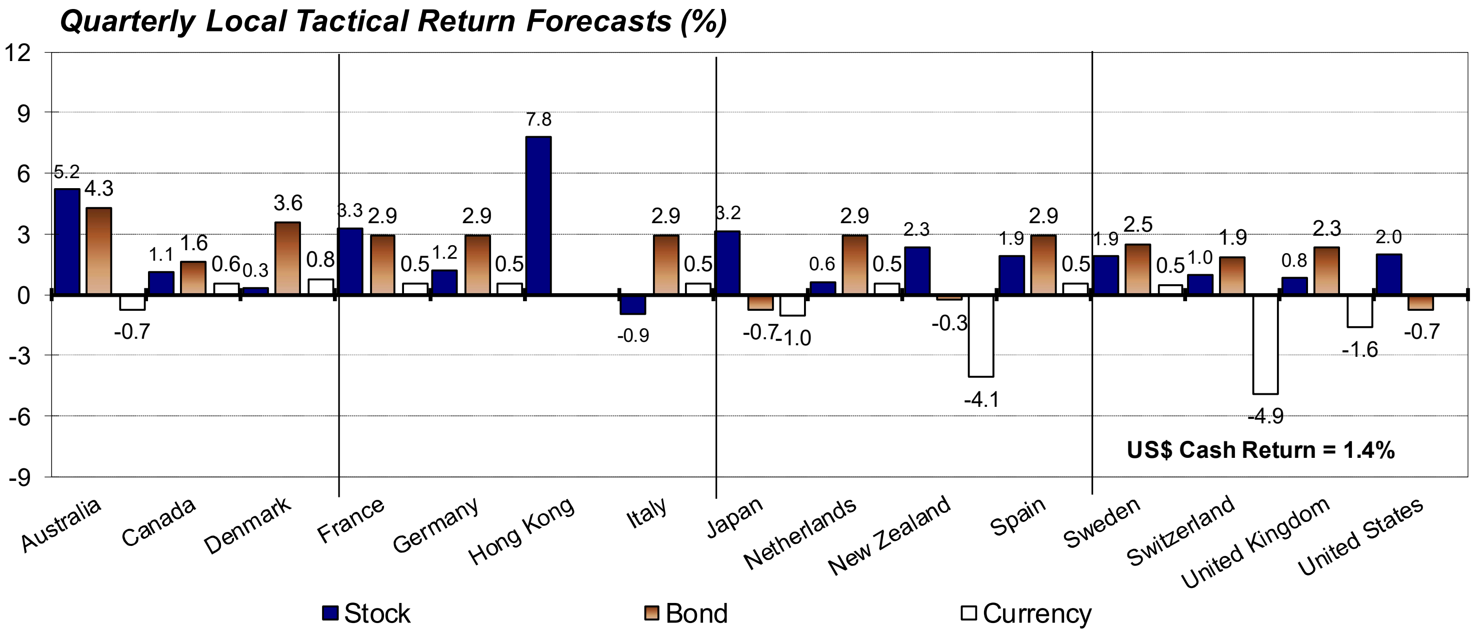
GLOBAL EQUITY MARKET VOLATILITY

- 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, GREATER RETURN DIVERGENCES EXPECTED



Global Tactical Asset Allocation Quarterly Forecasts(%)

			Local Markets		**In (US$)**		US$
MSCI	WrldGvt	Apr 2024	Equity	Bond	**Equity**	**Bond**	Currency
100%	100%	World	2.0	0.6	**1.9**	**0.5**	-0.1
19%	34%	Europe	1.5	2.8	**0.9**	**3.9**	-0.6
9%	19%	Pacific Basin	4.1	-0.4	**3.3**	**-1.4**	-1.0
31%	55%	Non-US World	2.2	1.7	**1.7**	**1.5**	-0.5
69%	45%	US	2.0	-0.7	**2.0**	**-0.7**	
		Cash		1.3		**1.3**	

	Lg-Sm	Va-Gr	High Yield - 10yT
US Style	1.8%	-0.3%	-1.8%
	Large -	*Growth*	*10yTs*

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

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

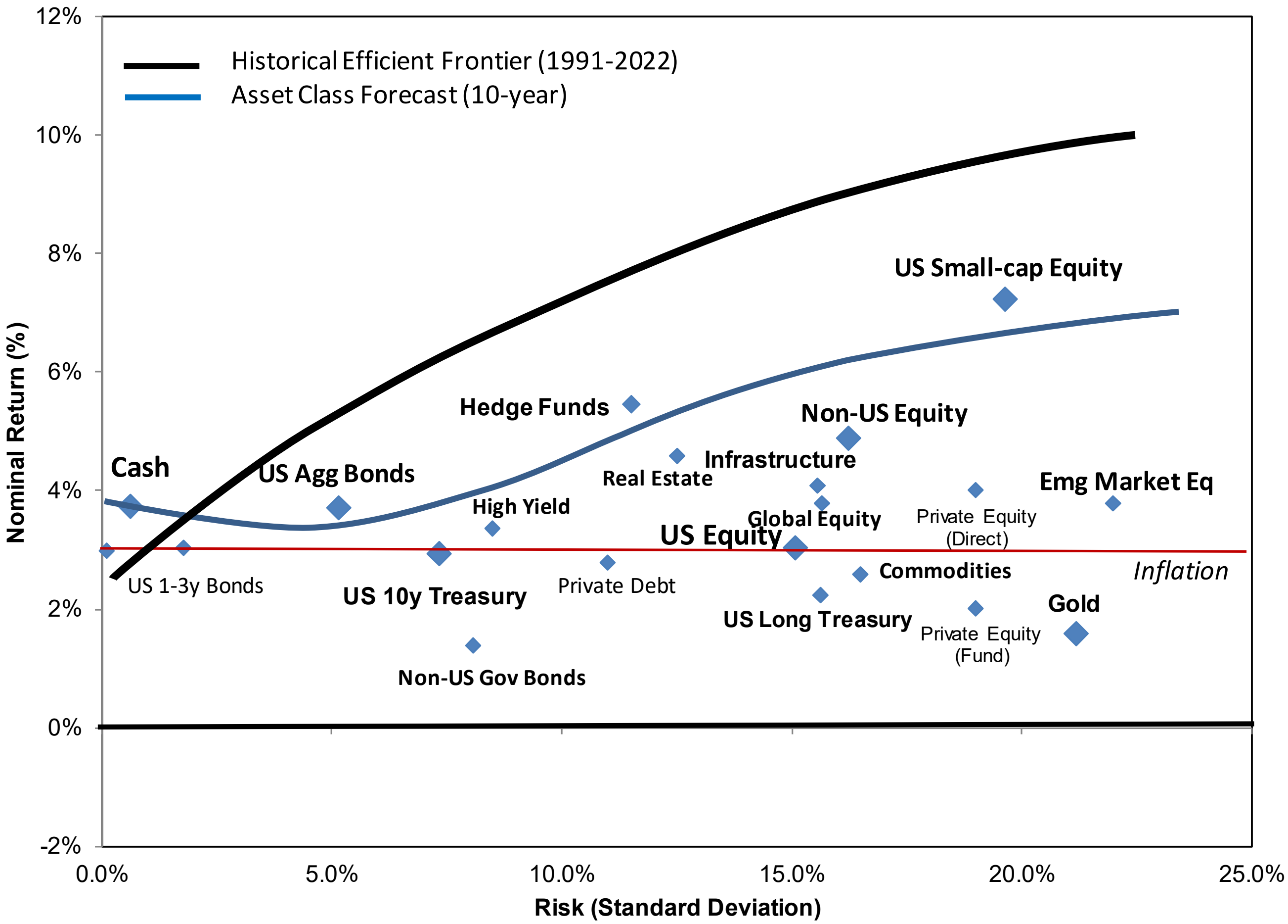
Asset Class	10-year Returns[3] Return	10-year Returns[3] Risk	30-Year Returns[3] Return	30-Year Returns[3] Risk	1900-2022[2] LT Return	10-year Forecast E[Return][1]	10-year Forecast Risk	Sharpe Ratio	2022
U.S. Stocks (S&P 500)	11.9%	13.5%	9.8%	15.1%	12.2%	3.0%	15.1%	-0.05	-18.1%
U.S. Small-cap	6.6%	18.9%	8.2%	19.6%	8.0%	7.2%	19.6%	0.18	-20.4%
World (ex-US)	4.4%	15.0%	5.5%	16.2%	5.4%	4.9%	16.2%	0.07	-13.8%
Emg. Market Equity	2.5%	17.7%	5.5%	22.0%		3.8%	22.0%	0.00	-19.7%
U.S. 10Yr Treasury	0.9%	7.4%	3.9%	7.3%	1.1%	2.9%	7.3%	-0.11	-17.0%
US BBG Agg Bond	1.1%	4.3%	4.2%	4.0%	-.-	3.7%	5.1%	0.00	-13.0%
US BBG Gov/Cr 1-3y	0.9%	1.9%	3.2%	1.8%	-.-	3.0%	1.8%	-0.39	-5.5%
US High Yield (ML/BoA	4.2%	7.5%	6.5%	8.5%	-.-	3.4%	8.5%	-0.04	-11.2%
JPM Non-US Bond	-1.8%	8.0%	3.1%	8.1%	-.-	1.4%	8.1%	-0.29	-18.3%
Commodities (CRB)	1.1%	17.2%	5.6%	16.5%	-0.1%	2.6%	16.5%	-0.07	22.0%
Gold (US$)	3.4%	13.8%	5.7%	15.3%	2.2%	2.5%	15.3%	-0.08	-0.4%
Cash (T-Bills)	1.2%	0.5%	2.4%	0.6%	0.9%	3.7%	0.6%	0.00	2.2%
US Inflation (CPI)	2.8%	1.1%	2.5%	1.0%	2.7%	3.0%	1.0%		6.4%
Global Multi-Asset	5.1%	12.6%	6.3%	13.6%	5.2%	4.1%	13.6%	0.03	-14.6%
Infrastructure	5.1%	16.2%	9.0%	15.5%		4.1%	15.5%	0.02	-0.2%
Private Equity[4]	7.3%	18.9%	7.0%	19.6%		3.1%	19.0%	-0.03	
Small-cap Equity	-5.3%		-1.6%		-.-	4.2%			-2.3%
Stock-Bond	11.0%		5.9%		11.2%	0.1%			-1.1%
Stock-Cash	10.7%		7.5%		11.4%	-0.7%			-20.3%
Bond-Cash	-0.3%		1.6%		0.2%	-0.8%			-19.2%

(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, April 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 April 1, 2024.

RECOMMENDED GLOBAL ASSET ALLOCATION

- Global economic and market valuation headwinds with higher inflation expectations
- *Curb Your Enthusiasm in US Equities and Global Bonds*---likelihood balanced portfolios exceed 4-5% is slim→negative real returns. Expect negative returns in 2024 for US/Global bonds, if not neg. real returns for 2-3 years at least.
- Higher inflation, lower growth, weak profit margins aggravated by adverse U.S. fiscal, regulatory, energy policies with tightening global monetary conditions, including negative money supply growth with QE → *Quantitative Tightening* for the foreseeable future.
- Increasing regulatory risk in Communications (Google, Facebook, Twitter, etc)
- Avoid Risk Parity, LDI, Gold & Crypto-commodities
- Less negative about Emerging Markets/China particularly—underperformed for years, as expected. Not ripe for overweight, but neutral to marginal underweight generally.
- 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 : *Cash* & *Alpha (inc: hedge fund).* Avoid Gold, Cryptocurrencies, illiquid private funds (high fees, lower returns).

DISCLOSURES