STRATEGIC OUTLOOK

Strategic Frontier Management

Q2 2025

A New Dawn in America

Much like President Regan's hopeful *Morning in America*, his 1984 re-election theme, President Trump has begun to execute his *America First* agenda that reflects a policy paradigm shift, which is much broader in scope than during his first term, driving *A New Dawn in America.* Winning the popular vote, President Trump solidified his mandate to fulfill his campaign promises. Economic, trade, energy, and regulatory policies, as well as foreign relations already has radically changed.

President Trump is upending federal policies in an effort to restore economic, fiscal, and financial stability, as well as improve government efficiency, transform energy policy, tame regulatory burdens, and minimize adverse consequences of illegal immigration. Economic, trade, foreign aid, energy, health care, border, and regulatory policies have shifted, while targeting waste, fraud, misappropriation, and corruption of government spending. 2017 Tax reforms sunsetting in 2025 are expected and need to be to be extended. Longer-term these policies seek to significantly reduce both the fiscal deficit and our trade deficit, boosting potential growth and global competitiveness.

Consequences of supply-side policies driving this *New Dawn in America* should improve productivity, potential growth, profit margins, global competitiveness, fiscal and trade deficits, and margins with lower inflation plus a stronger U.S. Dollar. President Trump seeks to transform government and restore merit driven right to *pursuit of happiness*. He seeks to extend sunsetting provisions of the 2017 Tax Reform, increase energy independence, secure our border, reduce our trade deficit, and deregulate, thereby reducing our fiscal deficit and improving government efficiency.

Investors remain concerned about ongoing inflation and economic weakness. Uncertainty about the knock-on effects of new policies have led to increased market volatility across equities, bonds, and currencies—market responses to changes in course may not be indicative of realistic economic consequences that are most critical. While investors struggle to understand implied effects of the policy agenda, it is exhausting to keep track of the policy changes, initiatives and interactions in play.

Reciprocal tariffs seek to level trade barriers and tariffs on U.S. exports, thereby boosting net exports alongside government spending cuts that should narrow deficits. Cutting fraud and waste from entitlements and benefits shouldn't cause a recession if lawful payments remain intact. Import tariffs can increase costs, but are transitional before long-term effects enhance potential growth. Understanding give-and-take in growth and inflation is challenging with so many moving parts, and the President remains seemingly immune, as during his first term, to assumed pollical capital limitations. We believe recession risk is lower now, after years of intermittent recession in weak non-government growth. Transition to a new playbook is often disruptive, but we expect will have positive economic consequences.

We discuss how America is reforming key policies, while rationalizing U.S. Government programs and spending to improving efficiency, productivity, and effectiveness. The goal is to reduce the fiscal deficit by eliminating wasteful or misappropriated spending, while reducing bureaucracy and misguided regulations. America seeks to reduce our trade deficit, tame our borders, and restore basic rights of life, liberty, free speech, rule of law, and the pursuit of happiness with equal opportunity to everyday life. Secular change is not with transitional costs, and change of this magnitude is not without disruption, but this effort will shape global economic, financial, fiscal, and political systems by example. It will root out waste, fraud, and corruption to help balance the budget, slow spending growth, shore up Social Security and Medicare, yet provide an example for improving state and local government. Global efforts to introduce multilateralism seeking a multipolar world order failed.

The U.S. equity market remains overvalued and will struggle to grow into its current valuation multiple: S&P 500 > 29x trailing earnings or 22x forward estimates, as rising equity prices far exceeded earnings growth since Q4 2023. S&P 500 valuations are the most extreme since 2001. We expect Small-cap, Value, and some developed non-U.S. stock markets will outperform. We expect real returns for Long Treasuries remain limited for the next 3-5 years, despite already horrible 5–10-year performance. If CPI Inflation averages 3%, there is little room (≤1%) to cut interest rates much further. We expect the longer run average Fed Funds rate will be 3.5%, which is higher than the historically inconsistent 3.1% Federal Reserve forecast, recently revised from 2.9%. Under these conditions, 10-year Treasuries should average 5-5½%, not 4.3% observed recently.

Reimagining Growth, Prosperity, and Well Being

"Some things are believed because they are demonstrably true. But many other things are believed simply because they have been asserted repeatedly—and repetition has been accepted as a substitute for evidence." – Thomas Sowell

The U.S. balance of power has shifted political control of Congress and regulatory control within executive agencies to Republican hands. The Senate and House were swept in a red wave, albeit majorities are narrow. The president appointed cabinet secretaries to oversee Government agency rule-making and regulations, while filling at least 45 to federal court vacancies. Government workers were ordered back to the office, which should boost productivity. At least 75,000 government workers accepted the buyout offer to resign or retire early. Relinquishing leases or selling empty and underutilized buildings will free up operating costs and property assets at a time of high vacancy rates, which may strain commercial property. This will reduce annual spending in ways and to a degree never thought possible.

What worked well in the last four years across sectors, styles (inc. size), and themes is being unwound in favor of new themes and economic forces. We expect stronger productivity and potential growth with lower cost of commodities, basic resources and energy, which will moderate inflation. US potential economic growth forecast increased from 1.8% to 2.5%, higher productivity, lower inflation with new economic policies. President Trump seeks to extinguish our ***fiscal deficit*** by reducing spending by rooting out waste, fraud, and corruption. Efficiency gains will follow reducing redundancy and unnecessary workers to drive the fiscal deficit below 3% with up to a $1 trillion in annual savings.

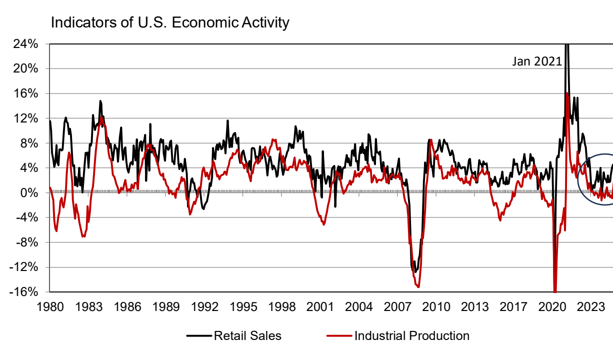
President Trump also withdrew America from the ruinous *OECD Global Tax Deal* featuring a global minimum tax rate of 15% and higher tax rates on foreign sales. Although never ratified, the extraterritorial jurisdiction limited sovereign ability to enact U.S. tax policies as Congress sees fit. The U.S. also has withdrawn from the *Paris Agreement* under the *U.N. Framework Convention on Climate Change*, which imposed costly environmental burdens on the U.S. economy versus other nations.

The recent flurry of activity is remarkable as the Trump Administration re-engineer function, efficiency, and credibility of federal government, while restoring values of free markets, individual liberty, rule of law, and equal opportunity (not equity or diversity quotas) in the right to pursue happiness. Reforming regulatory, trade, energy, financial, banking, fiscal (inc., income tax, foreign aid), and health policies can bolster productivity, potential growth, and margins, while keeping inflation in check and restoring global competitiveness. Uncertainty about new trade policies and spending cuts is not surprising. Negotiating to level trade barriers and tariffs imposed on U.S. exports is worthwhile. Higher tariffs risk boosting inflation, but effects should be transitory if meaningful geopolitical change is realized.

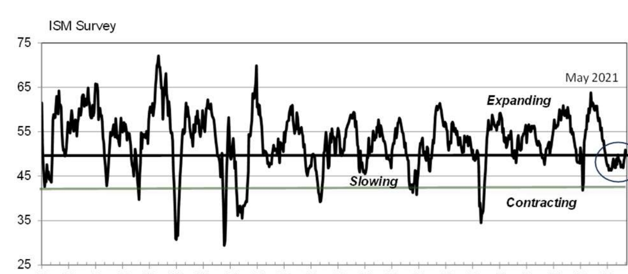
U.S. Policies that undermined global competitiveness, potential growth, productivity, and innovation, also drove higher inflation expectations. Without misguided spending programs and excessive government hiring, GDP would've lagged more with higher unemployment. These stimulus programs were too susceptible to fraud, waste, corruption, and politically enabled grift as revealed in recent audits, requiring improved oversight. America is re-discovering it still is *The Shining City on a Hill*, as President Regan described, seeking greater potential prosperity and higher living standards.

Economic Outlook

The U.S. economic hangover we anticipated was observed in 2022-2024 despite 2024 Real GDP of 2.5%. Real GDP was positive only due to excessive U.S. government spending and federal employment growth that increased debt to $36 trillion, combined with misguided monetary stimulus for an extended period. U.S. economic growth was rightly characterized as flirting with recession since 2022. While resilience of GDP suggested the U.S. economy technically skirted recession, disappointing growth was observed in weakness of retail sales, industrial production, business sales, and earnings. U.S. consumer sentiment reflected non-government economic weakness, as well.



ISM has been a reliable higher frequency indicator of U.S. growth, and suggests the economy was weaker than GDP implied. ISM stagnated below 50 since Fall 2022, highlighting the dismal policy effects. Never before have we observed such contrasting economic outcomes in growth and inflation due to flip-flopping ideological policy changes of alternating-party Administrations. These last charts paint a challenging indictment of progressive policies during the Biden Administration.



Since economic growth peaked in Spring 2021, private sector real growth slipped, then declined to a negligible level with languishing equity profits over the last three years. Fiscal and monetary stimulus with low interest rates, should've yielded higher growth, but progressive policies worked to opposite effect. We observed clear contrast of cause-and-effect between policy changes and variances in economic conditions oscillating across Bush-Obama-Trump-Biden-Trump Administrations. We tend to focus on stock market performance, rather than potential growth (non-government) and earnings growth are better measures of policy effectiveness. Instead of GDP, we focus more on retail sales, business sales, industrial production, CPI inflation, and ISM.

We expect reversion to a more historically consistent economic regime, including higher inflation and higher unemployment compared to the last decade. Short-term economic discomfort is likely, while economic, market and rate volatility should also be higher as the economy transitions and supply chains are reorganized. Efforts to improve government efficiency and restore global competitiveness will yield improvement in productivity and potential growth. Interest rates will be higher and yield curves will steepen reflecting normalized inflation. Fiscal and trade deficits will decline materially.

Economic Forecasts	**2021**	**2022**	**2023**	**2024**	**2025e**	**2026e**	**2027e**
GDP Growth (Y/Y Real)	**6.1**	**1.4**	**3.3**	**2.6**	**2.8**	**3.0**	**3.0**
S&P500 Op Earnings Gr	**49.0**	**4.8**	**1.5**	**9.7**	**7.6**	**9.7**	**9.5**
CPI Inflation (Y/Y)	**7.2**	**6.4**	**3.3**	**2.9**	**3.0**	**3.0**	**3.0**
Unemployment	**3.9**	**3.5**	**3.7**	**4.3**	**4.5**	**4.6**	**4.8**
Fiscal Deficit (vs.GDP%)	**-7.9**	**-5.3**	**-6.7**	**-7.1**	**-6.0**	**-4.5**	**-3.5**
Fed Funds Target[1]	**0.25**	**4.50**	**5.50**	**4.50**	**4.00**	**3.50**	**3.50**
10y Treasury Notes	**1.50**	**3.83**	**3.87**	**4.57**	**5.00**	**5.20**	**5.25**
S&P 500 Target	**4766**	**3840**	**4770**	**5882**	**6200**	**6600**	**7000**
S&P 500 Total Return %	**28.7**	**-18.1**	**26.3**	**25.0**	**6.7**	**7.8**	**7.4**

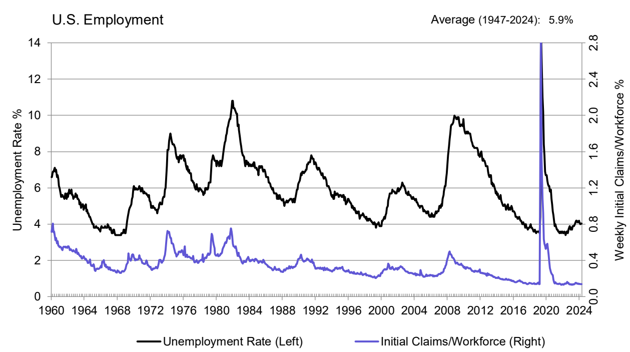
Source: Strategic Frontier Management (Year-end or Y/Y change)
1. Fed Target rate denotes top of published ¼% policy target range

Misguided policies of the previous Administration reduced global competitiveness, potential growth, and profit margins, as well as ushered in higher inflation expectations and years of lackluster (negative real) income growth. Yet, tax revenues grew significantly despite cutting top marginal rates in 2017. President Trump seeks to extend sunsetting tax reforms, and along with other policy reforms, bolster U.S. stronger potential growth and productivity. We expect 1.7x the real growth in GDP expected by the Federal Reserve in 2026-2027. They remain too concerned about adverse effects of trade policy reforms and cuts in government spending.

Extending U.S tax reforms will drive greater innovation and encourage investment. Corporate subsidies were ill-advised and fraud-prone in the *Inflation Reduction Act (IRA), CHIPs & Science Act*[1], and COVID-relief (i.e., *Paycheck Protection Program*). Energy prices rose after years of limiting energy exploration, production, and pipeline infrastructure as IRA was too focused on *Green New Deal* objectives rather than address infrastructure needs from energy and essential services to transportation, including rail, roads, bridges, pipelines, transmission lines, water supply, and ports. Job growth concentrated most in government and health care, rather than industrial, utility, durables, or technology sectors. Waste, fraud, corruption, and misappropriation intensified with lack of spending oversight, auditing, accountability, or payment tracking. Targeting ineffective tax credits, subsidies, and policies should be embraced, not challenged on simply ideological grounds.

In contrast, America First policies incentivized massive U.S. investment commitments, such as: The Stargate Project*:* $500 B, NVIDIA: $500 B, Apple: $500 B, TSMC: $100 B, Eli Lilly: $27 B, Bristol Myers Squibb: $40 B, Roche: $50 B, IBM: $150 B, and many others. This will boost taxable income at no taxpayer cost. Investment is key to boosting potential growth. Commitments already exceed cost of the CHIPs & Science Act, which provided limited, if any, stimulus multiplier increasing activity.

Reducing redundancy and unnecessary programs implies net job loss in the short-run, but will pay-off for years to come. Unemployment has hovered around 4%, and is still well below the 5.9% historic average. The call for government workers to return to their offices can boost productivity, but won't increase recession risk. Unemployment may rise toward 5.0%, but will be only marginally affected by federal job losses.



U.S, fiscal deficits exceeding 6% compounded to a frightening 120% of Debt/GDP. Interest burdens increased with higher interest rates, as issuance soars due to reducing QE holdings and addition of high fiscal deficits as tax revenues lag with slower income growth than necessary. Despite attempts to balance the budget, little effort was given to cutting waste, fraud, and corruption—this time seems different.

The Department of Government Efficiency (DOGE) led by Elon Musk was envisioned to modernize processes, software, data systems, and management controls to increase government efficiency and productivity. A

[1] *Inflation Reduction Act* authorized $891 B for Infrastructure, inc. $400 B for *Green New Deal* objectives, but negligible infrastructure benefit realized (i.e., electricity production, capacity, reliability, or energy refining and distribution). The *CHIPs & Science Act* cost $280 B for various lost causes (inc., Intel: $8.5B, $18.8 B loss in 2024 & Micron: $6.1 B, $5.1 B loss in 2023). Non-US TSMC-$6.6 B and Samsung-$6.4 B.

Government-wide spending and program audit exposed remarkable insights into breathtaking spending irregularities. While some progress is possible at an agency level, recission is needed to change misguided spending and realize savings.

DOGE shock-and-awe began by auditing spending accounts to root out waste, fraud, abuse, corruption, inefficiency, redundancy, and expose misappropriation to ensure spending is consistent with Congressional intent and the law. Disturbing DOGE findings of fraud and waste require Congress to cut or reprogram misappropriated and wasteful spending. These spending cuts won't cause a recession, and lawful benefits will remain intact. Frivolous or vexatious lawsuits impede the realization of faster results, but efforts to discredit DOGE findings are not aging well with taxpayers, and resistance will prove insufferable for Democrats in the next election.

Promoting fiscal balance requires stimulating real growth with tax and trade reform, encouraging innovation, spending more effectively and efficiently, reducing foreign strategic dependency of supply chains, and restoring energy independence. Beyond economic objectives, we need to secure our borders, harden homeland security, strengthen national defense, and improve health of our citizens. Improving fiscal balance requires rethinking priorities and assumptions about government spending and taxes.

Inflation

The extended era of disinflation and globalization has been winding down with the *Fourth Industrial Revolution* maturing, giving way to rising inflation expectations. We became accustomed to lower inflation and interest rates. Back-to-back Crises (2000 Dot-Com & 2008 Global Financial Crisis) adjusted expectations of normal growth and inflation equilibriums, yet *Risky Business of Regime Change* (Q4/2024) suggested reversion to historical interest rates and inflation averages. Increased volatility and odds that steepening yield curves can overshoot still might trigger a global debt crisis, as we've suggested.

We expect U.S. CPI inflation to normalize around 3% with heightened inflation expectations—inflation is likely to remain above the Federal Reserve's implied target of 2.0% PCE inflation, which slid after more than a decade of disinflation as behavioral recency bias guided it lower as CPI averaged 2.5% over the last decade vs. 3.9% over the last 60 years. Higher-for-longer inflation will result in higher-for-longer interest rates. Reducing the inflation rate only slows price increases, but the economic damage is irreversible. Periods of high inflation are followed by waves of inflation in subsequent years; thus, we shouldn't be surprised to observe waves of inflation exceeding our 3% CPI inflation average.

Inflation was a key issue in the 2024 U.S. Election, and many remain fixated on it as CPI increased 17.5% since January 2021—we expect inflation will be higher for longer than expected. Higher inflation expectations reflected in labor, basic material, and transportation costs are now more difficult to contain. Wage increases will persist, as will unleashed pricing power and contractual price indexing. This is the new inflation paradigm we expect. Accelerating household formation continues to push home prices higher with a shortage of housing keeping inventory low. Higher inflation expectations boost cost-of-living increases, driving sticky inflationary forces on labor costs, housing, health care, and other services. Deflation is no where in sight, but oil prices may settle around $60-70, rather than $70-90.

Jason Furman recently wrote in *Foreign Affairs* that inflation was a consequence of too much government spending and that President Biden's initiatives couldn't live up to promises of increasing productivity. Proponents of *Build Back Better* ignored concerns about money growth, negative real rates, spending stimulus, and other inflationary effects (misguided regulation, energy policy, etc.), yet embraced Modern Monetary Theory. Misplaced beliefs inflation was transitory implied the Federal Reserve could control macroeconomic conditions, so kept rates too low and retained excessive QE holdings. Treasury limited issuance maturities, failing to finance debt at exceptionally low yields as inflation expectations surged. Students of economic history are not surprised inflation is reverting to its long-run average.

We expect this new inflation and interest rate regime should be more consistent with 1981-2000, suggesting 2000-2024 was a transitional anomaly persisting long enough to skew long-term financial and economic normal expectations. Emergence of bizarre risk premiums, including small vs large, value vs growth, or absence of term risk premium in inverted yield curves. Many of these risk premium anomalies were extended by irrational momentum—investors chasing sexy growth, higher yield, or appealing thematic stories well beyond reason. In this new regime we expect reversion to a decade's old paradigm of U.S. economic characteristics.

Hope that inflation will ease into disinflation again is likely wishful thinking given the history following periods of high inflations spikes. We expect the new regime is likely to feature inflation at an uncomfortable level for the Federal Reserve given stickier forces of higher inflation expectations driving energy, resources, transportation, labor, food, and housing costs. Second order effects of delayed labor and contract cost adjustments have yet to take hold, but coming into focus.

Benign inflation is not assured with unleashed higher inflation expectations for reasons we've discussed. Labor cost inflation will be slow to recede as workers, lagging behind inflation, seek to maintain purchasing power, particularly in union contract negotiations. Pricing power was restored as consumers no longer expect relatively constant prices, so inflation expectations will be difficult to contain. Sticky inflation will limit retreat to the Fed's implicit target—we expect inflation to settle higher based on the trends of various key inflation elements.

An atempt to lower gasoline prices by dumping oil from our Strategic Oil Reserve (SPR) proved to be another policy error. Our SPR stockpile is maintained in case of a major supply disruption to imported oil. As oil prices surged above $95/BBL, driving CPI inflation toward 9%, the 727 mBBL SPR was drained to 347 mBBL between Jan 2023 to July 2024. It was assumed releasing oil might drive down oil prices, but as the SPR reached a minimum viable level, market prices rebounded. Refilling the SPR could be costly depending on future oil prices.

Interest Rates

The Federal Reserve remains under scrutiny given its mistaken decisions and forecasts over the last two decades. Terrible policies that unleashed higher inflation expectations require normalizing higher interest rates to 3.5%, rather than 3.1% implied in their forecast. Over 40 years, the Fed Funds rate averaged 4.2% vs. 3.2% CPI inflation. This is much higher than the forecast of 2% PCE inflation (CPI: 2.5%) or 3.1% Fed Funds rate below. We expect the Fed to cut 50 bps in 2025 and similarly in 2026. Our normal longer-term equilibrium remains 3.5%.

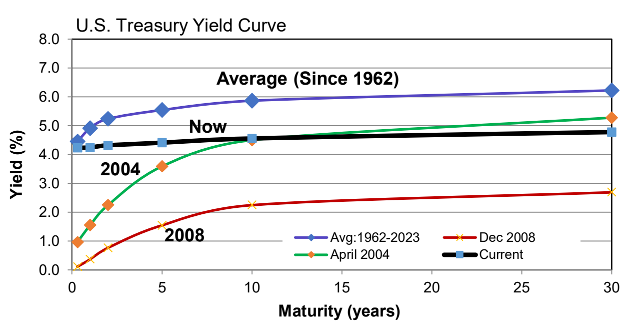
Median Forecast								LongRun Forecast	
U.S. Fed %	**2021**	**2022**	**2023**	**2024**	**2025e**	**2026e**	**2026e**	**Fed**	**SFM**
GDP	5.90	0.50	2.60	2.50	2.10	2.00	1.90	1.80	2.20
U.Rate	4.80	3.70	3.80	4.20	4.30	4.30	4.30	4.10	4.80
PCE	4.20	5.60	2.30	2.40	2.50	2.10	2.00	2.00	2.50
Core PCE	3.70	4.80	2.60	2.80	2.50	2.20	2.00	2.00	2.50
Implied CPI	3.50	6.10	2.80	2.90	3.00	2.60	2.50	2.50	3.00
Federal Funds Avg.	0.13	4.38	5.38	4.43	3.84	3.34	3.21	3.11	3.50

Interest Rates	2021	2022	2023	2024	2025e	2026e	2026e	Longer Run
FOMC Avg.	0.13%	4.38%	5.38%	4.43%	3.84%	3.34%	3.21%	3.11%
Forecast[1]	0.25%	4.50%	5.50%	4.50%	4.00%	3.50%	3.50%	3.50%
Rate Change	0.00%	4.25%	1.00%	-1.00%	-0.50%	-0.50%	0.00%	

1. Top-end of indicated Fed Funds range

Source: U.S. Federal Reserve (Dec 18, 2024) and Strategic Frontier Management

We have highlighted our concerns about longer-term forecasts—specifically, inflation (2% PCE, and which lags CPI by ~ 0.5%). Historically relatable CPI is a better econometric statistic than PCE, and is still a benchmark for cost-of-living and contract price adjustments. The Federal Funds rate has averaged 1% over CPI inflation historically, but we expect this differential will be at least ½%. Thus, we don't expect more than 2-3 interest rate cuts for 2025-2026. consistent with our 3.5% long-run target. Longer 10-year Treasury yields hovered around 4.4%, but expect to settle into a 5-5.5% average yield. The interest burden of higher bond yields compounds federal debt, now driving annual interest over $1 trillion. We recommend continuing to underweight bonds.



The Federal Reserve raised interest rates since March 16, 2022, peaking at 5¼%. Yet the US 10-year Treasury rose less than that from 1.85% to 4.57% at year end. The yield curve remained inverted for an extended period despite underlying economic conditions or no recession. We expect higher-for-longer interest rates given higher secular inflation (CPI: 3%). Consider how unusual it is for the yield curve have a slope (10yr – 3mo Treasury yield) of less than 1.5%, and generally 1.7-2.0%.

Years of manipulating interest rates and yield curves for an extended period induced explicit moral hazard that is now problematic—investors, borrowers, and businesses expect flatter yield curves and lower rates than should prevail or even the Fed assumes given a generation of failed monetary experimentation. We outline below various ways that U.S. Treasury must extend maturity and increase issuance of bonds from changes in foreign and domestic investor demand to increases in supply with higher interest burdens, refunding Federal Reserve holdings, and the large fiscal deficit.

While interest rates retreated, we have only begun to unwind excess global central bank holdings that requires reissuing trillions in bonds with an already soaring debt burden. Normalizing Federal Reserve holdings requires a $5 trillion reduction over the next couple years to get to a now normal level of just $2 Trillion. U.S. debt exceeding $36 trillion is compounding faster with higher interest rates, thus will spend $1.2 trillion on interest in FY 2024, exceeding 4% of GDP—this is unsustainable.

Investor demand should be more resistant given devastating annualized return of -5.7% for the last three years. Over the last decade a 0.6% annualized return also fell well short of cash with greater volatility. The 6-8% fiscal deficit/GDP, exceeding $2 trillion in FY 2024 increases bond supply. Normalizing Federal Reserve holdings requires an additional $5 trillion reduction over the next 3-5 years to get Fed holdings to a normal level we estimate to be $2 trillion—maturing bonds will roll off, bur these are the shortest duration holdings.

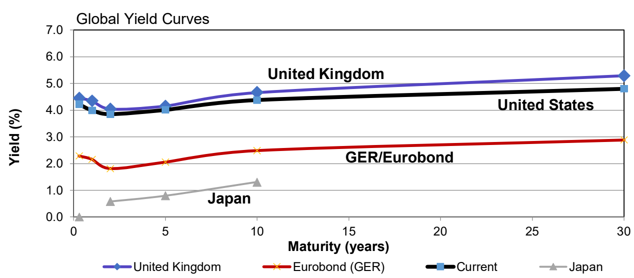
The Federal Reserve relies on regulatory fees and interest from its holdings to support its operating expense. Excess earnings are sent to the U.S. Treasury, but losses must be assumed by taxpayers. Federal Reserve earnings are negative when expenses and IORB (interest on reserve balances) exceed revenues from interest on holdings and collected fees, net of bond losses. Previously, the Federal Reserve didn't pay interest on banking reserves held. This discourages lending if a bank can earn 4.4% risk-free on deposits.

The *Financial Services Regulatory Relief Act of 2006* authorized the Federal Reserve to pay interest on reserve balances beginning in October 2011. The *Emergency Economic Stabilization Act* accelerated the effective date to October 2008 to pay interest on required and excess reserve balances during the Financial Crisis to incentivize holding excess reserves. If Banks pay CD rates of 1-3%, they can earn a risk-free spread of 1.5-3.5% on excess reserves, reducing interest income. There is no need to pay 4.4% on reserves. Given losses piling up as bond yields rise, why not reduce paying interest on reserves? Just because Congress authorized the ability to pay interest doesn't mean it should do so at the Treasury Bill rate now and forever.

Government bonds acquired during the Financial Crisis and Global Pandemic were bought when interest rates were very low. Now bond yields are higher, whereas Federal Reserve losses are not marked-to-market. Only when bonds mature or are sold are losses realized. Greater supply and increased risk of downgrading U.S. Government debt will tend to precipitate further losses.

U.S. Treasury needs to increase issuance maturity to extend outstanding debt. The average maturity of outstanding debt is about 6 years, despite a prolonged inverted yield curve. This was a missed opportunity compounding debt at higher interest rates with 6-8% fiscal deficits since 2020. Treasury Sec. Yellen favored issuing shorter maturities at higher yield, which increased financing costs, interest rate volatility, and refinancing risk. Issuance maturity must be extended at a time of the highest bond yields in a decade.

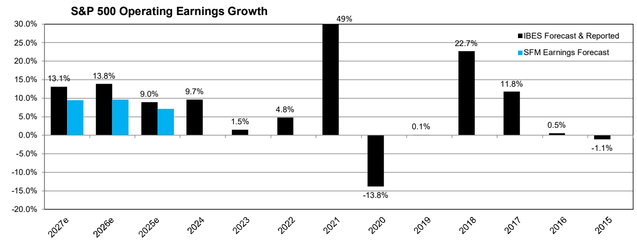
Foreign US Treasury holders have reduced their share of outstanding U.S. debt to 22.4% from 33% in 2015. Japan and China remain the largest foreign holders of US Treasuries, although China's holdings peaked in 2015 and Japan peaked in 2021. Reduced foreign holdings reduces demand, forcing long yields higher. Non-US government bonds persistently underperformed U.S. Treasuries for 1, 3, 5, 10, 20, and 30 years. This persistence is hard for investors to overcome.



Earnings

More realistic long-term earnings growth of 5-7% may be challenging with stretched valuations. We expect 8.6% earnings growth in 2025 vs. consensus of 12.6% as we believe still lingering inflation will impact costs of goods sold, thus margins. Weaker U.S. earnings growth recovery has been consistent with intermittent recession. America First policies can reverse many of these concerns by increasing productivity, potential growth, and competitiveness, while limiting inflation. We expect S&P earnings growth of 7.1% this year, increasing to over 9% in subsequent years. The S&P 500 will still be overvalued, and could be subject to a correction if earnings disappoint as much as we expect.

Operating Earnings	2027e	2026e	2025e	2024	2023	2022	2021	2020
IBES Forecast & Report	13.1%	13.8%	9.0%	9.7%	1.5%	4.8%	49.0%	-13.8%
SFM Earnings Forecast	9.5%	9.6%	7.1%					
SFM S&P500 Target	**7000**	**6600**	**6200**	5882	4770	3840	4766	3756
Index Return (no Div)	6.1%	6.5%	5.4%	23.3%	24.2%	-19.4%	26.9%	16.3%
Dividend Yield %	1.38	1.34	1.30	1.28	1.47	1.75	1.29	1.48
Total Return	**7.4%**	**7.8%**	**6.7%**	25.0%	26.3%	12.6%	16.6%	13.9%
S&P 500 @18x SFM TE	5616	5130	4680	4369	3984	3926	3746	2515
S&P 500 P/F12 (SFM)	18.9	21.2	21.8	22.6	19.7	17.3	21.9	18.0



Source: LSEG I/B/E/S vs. Strategic Frontier Management Estimates

Small-cap earnings are accelerating quickly now, and critical to our overweight in small-cap. IBES consensus growth for Russell 2000 is 28.4% for 2025 and 35.9% for 2026. The current forward P/E is 23.8X, so small-cap stocks are more likely to grow into their valuation than large-cap equities. Small-cap earnings growth has been weak, including negative growth in 2023 (-7.8%) and 2024 (-10.4%). So, it is not surprising that Small-cap stocks lagged, but this is also consistent with the weak U.S. economy flirting with intermittent recession for the last 3-4 years. Sentiment has shifted now.

U.S. growth in services outpaced manufacturing since the mid-1990s, but we expect manufacturing growth to increase under *America First* policies with incentives to promote productivity from lower taxes and regulatory costs to eliminating trade barriers and leveling tariffs, while leveraging comparative advantages to accelerate reshoring. This will support tilts toward value and small-cap equities. Market returns diverged from earnings growth over several years, resulting in equity market overvaluation and extreme equity style divergences.

Re-engineering Government

In the 1980s, Tom Peters and Peter Drucker advocated "re-engineering" as a means of improving performance by radical redesign and optimizing organizational or business processes to enhance efficiency, productivity, and effectiveness. America has enjoyed high margins despite higher relative corporate tax rates, regulatory costs, tariffs or protectionist barriers on U.S. exports, and a strong U.S. dollar, impeding global competitiveness. Meanwhile, other countries devalued their currencies.

Downsizing Government programs and employment combined with re-engineering to be more efficient, cut waste and fraud, while slashing inefficient regulations provides the first real opportunity in a generation to improve fiscal balance. The pace of policy changes and breadth of impact on the real economy is unprecedented. We expect greater economic integration with receding trade barriers given the most meaningful reform of Government in the post-war era.

DOGE was established as a temporary federal agency thru July 4, 2026 by reorganizing and renaming the United States Digital Service. Its purpose is to modernize Government technology and software services to maximize efficiency and productivity. DOGE is re-engineering accounting, and audit systems, which increased visibility and rapidly exposed waste, fraud, corruption, redundancy, and abuse of federal spending. Enabling pass-through non-profit NGOs to direct slush funds of foreign aid for little, if any, national benefit—rolling USAID into the Department of State can provide greater oversight of foreign aid. Misappropriation, redundancy, corruption, and fraud of hundreds of billions of dollars already has been exposed.

We can hope cleaning up this government mess might realize up to a $1 trillion in annual savings, while reducing the workforce to a 2019 level. The private sector learned that a RIF (reduction in force) once-in-awhile can eliminate unproductive functions and personnel. Elon Musk knows well how to deploy technology for efficiency gains. Upgrading government systems could provide the greatest return on invested capital witnessed, after being neglected for decades. The effort at DOGE is indeed focused on auditing current budget expenses, as well as fraudulent application payments or misappropriated. We expect this effort to increase visibility toward balancing the federal budget.

Claw backs and indictments can recover fraudulent claims of $100 billion or more within entitlement programs (i.e., Medicaid, welfare, unemployment, etc.), while Social Security Administration Rolls apparently failed to remove deceased individuals for decades and has added millions of ineligible individuals over the last 4 years with broad budget effects. SSA identification numbers are used for benefit eligibility, tax collection, financial transactions, as well as many other uses. However, identity theft has soared using social security numbers for both private and government use. Correcting these issues can extend budget viability and slow SSA, Medicare, and Medicaid benefit growth.

The federal government has spent US taxpayers' money recklessly, particularly since the Global Pandemic. Fiscal deficits approaching $2 trillion far exceeded 3% of GDP, considered an upper limit of prudence. With Debt/GDP exceeding 125% on $36.5 trillion in debt, reducing the nondiscretionary budget growth requires exposing excessive waste, fraud, and abuse talked about, but never addressed for over 50 years. We should expect better oversight and auditing, but the U.S. Government has relied on trust without much control or verification, and accountability for the federal budget, relying instead on each Department to manage its own budget.

The U.S. Government budgeted to spend $6.75 trillion in FY2024 (ending Sept 30th). Fiscal spending averaged $6.82 trillion over the last four fiscal years, which is 24.6% higher than FY2019 spending of $5.47 trillion. If we assumed 2.5% growth due to inflation since 2019, the baseline budget should be no more than $6.02 trillion. This difference versus FY2024 implies we should be able to cut at least $750 billion from the budget. We believe ***cutting $1 trillion*** from the FY2026 vs. FY2024 baseline budget should be possible once various agency and department audits expose recurring waste, fraud, abuse, and redundancy, as well as rationalize staffing and re-engineer systems to modernize government functions. We expect DOGE should be able to ***identify and recover up to $500 billion*** in misappropriated funds over the last 4-10 years, including certain funds that are yet to be disbursed.

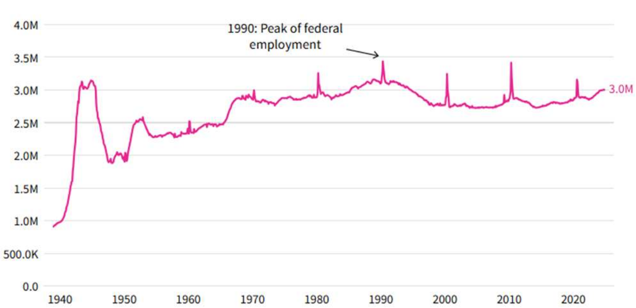
Eliminating waste, fraud, corruption and abuse from spending should have little impact on those legitimately receiving Medicaid, welfare, and other entitlements, as well as Social Security (SSA) and Medicare benefits. Recent estimates suggest that up to 20% of entitlement and Social Security or Medicare payments are fraudulent claims. Social Security benefits cease upon death, and payments received after death must be returned. The government has done a poor job of purging the SSA database when individuals are diseased, or investigating identity theft. It is illegal to secure benefit or entitlement payments, or claim tax credits using another's identity. The SSA is the primary database to validate citizenship requirements, whereas some states raced to pass Motor Voter laws to register applicants that facilitated non-citizen voting. State issued drivers' license offers access to many services that require government identification.

Entitlement program eligibility relies on SSA information. If deceased individuals are not identified in a timely way, then benefits may continue to be fraudulently paid out. Stolen SSA numbers may be used for fraudulent IRS filings of refunds or tax credits. SSA data integrity is a DOGE target to identify waste, fraud, and corruption.

Civilian Government jobs, excluding post office, military and intelligence, has not increased much for over 50 years, except for addition of temporary census workers every 10 years. Yet during the last Administration, U.S. government jobs increased 8.2%.

Federal employment peaked in May 1990 at 3.4 million.

Monthly number of federal government employees, Jan 1939–Nov 2024



Federal, state, and local government was a significant contributor of new jobs surpassed only by health care. The folly of an increasing government workforce since 2021 is a sharp contrast to falling labor intensity and increasing efficiency over the last two decades. A federal workforce can be just 2.8 million or 1.8% of nonfarm payrolls. Even a 10% reduction in the federal workforce would have little effect on the unemployment rate.

U.S. defense spending of 3.5% of GDP should remain at least constant, surely not decline as some expect. Stocks have been volatile on speculation. Chronic Department of Defense financial auditing issues must be fixed so programs and outlays can be evaluated for efficiency and mission effectiveness. This will improve lethality of our National Defense, and strategic allies too, even as wasteful and ineffective programs are addressed. However, these are not zero-sum games.

Tariffs, Sanctions, and Trade Deficits

Sweeping changes in U.S. trade policies are underway. Tariffs, sanctions, export controls, along with other means of leverage, are expected to play a central role in coercing and negotiating with other countries to reduce our trade deficit in goods, strategic foreign supply chain dependency, and theft of intellectual property. America's manufacturing base has eroded as China leveraged its comparative advantages and imposed other trade barriers. America excelled at Services and Technology, leveraging engineering and intellectual property that can then be manufactured overseas more cheaply at a cost of product quality in materials and workmanship. We are paying the price in re-piping homes after 10-15 years (instead of 50-70 years) or replacing parts, fixtures and appliances that fail after years, rather than decades.

Threat of tariffs, sanctions, and other coercive actions are leverage to negotiate *new* deals that can reshape the global economy. Countries with a trade surplus versus the U.S. have more to lose if the U.S. pursues tariff reciprocity, but a lower trade deficit will boost potential growth and manufacturing share, aided by a shift toward increased automation, robotics, additive manufacturing, and advanced materials. Businesses will grapple with greater economic uncertainty for a while, but fear of trade devolving into a 1930s-like spiral is dubious.

Cross-border trade increases availability of competitively priced goods and services, which tends to keep global inflation in check. Countries will tend to specialize in producing goods, resources, or services where they have *comparative advantages*. The United States leads the world leveraging innovation, intellectual property, and lower cost of capital operating under rule of law, which yield higher profit margins.

China's comparative advantages of cheap labor, circumventing stricter regulations, and stealing stolen intellectual property is waning now. China is the world's most unbalanced economy observing its current account, trade surplus, and per capita GDP. Its no wonder China is struggling to respond—its economy is in recession and margins are already compromised, while loan defaults are increasing. Monetary and fiscal stimulus aren't helping much. Rising unemployment (5.2%, 16-17% among 16-24 year olds) is sowing discontent. Chairman Xi can cut rates, increase debt (financing, subsidies, and unemployment benefits), and depreciate their currency, but can't forestall stagflation. Global automation and robotics undermine comparative advantages in labor costs and regulations. Eventually China must engage with the United States, then Europe, and the rest of the world on its trade imbalance.

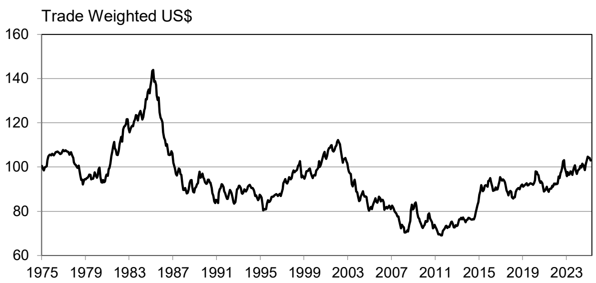
There are no winners in a trade war, but countries with severe trade deficits, such as the United States, have much less to lose than exporters like China. We don't expect trade negotiations resetting geoeconomic world order will result in a U.S. recession. It may cause global disruption in supply chains, depending how long it lasts, and economic uncertainty will increase—but there is no other way to achieve needed change required.

Concern about tariffs boosting inflation is exaggerated, we believe. Such effects should be transitory, reversing once our trade balance improves. Tactical and reciprocal tariffs are designed to reduce existing tariffs and trade barriers on U.S. exports, among other objectives. Inflationary impact will be transitory, but the lasting economic consequences of improving our trade balance will impact global supply chains and reduce strategic dependency. Tariffs and trade barriers should recede.

Lower overall global trade barriers and tariffs—which is the goal—will tend to reduce America's trade and fiscal budget deficits resulting in greater potential growth. Policies that bolster growth, limit inflation, and reduce the fiscal deficit will tend to further support the U.S. dollar, although we expect the upward trend to level out.

Many trade deals arose out of leveraging the bargaining power of America from USMCA (successor to NAFTA) to deals with the United Kingdom, European Union, Japan, Korea, and China during Trump's first term. Strategic coercion is a *Means* to an *End* for President Trump. Policy changes, should increase potential growth and limit inflation, as well as improve our trade and fiscal deficits. There is little discussion about the persistent strength in the U.S. dollar, but it kept import inflation in check. Countries devaluing their currencies for short-term gain eventually pay a long-term price.

The Euro may be the only plausible alternative reserve currency, but Europe has been unable to lift potential growth or foster much innovation, being too reliant on trade barriers, tariffs, and subsidies. The European Union was, built on the principle of political cooperation between countries, requiring compromise of national interests. Economic union is characterized by a common market, free movement of goods, services, capital, and people, but political union is allusive as countries retain control over their fiscal, regulatory, and economic policies. Thus, the Euro can't be a reserve currency, and the U.K.'s decision to leave the EU, and forgoing EMU.



Source: Federal Reserve

In 2018, we published [***Trump's New World Order on Trade Holds Promise for the US***]() in The Hill (Sept 13, 2018. In summary, game theory suggests non-cooperative players seeking to establish negotiating leverage might strategically embrace economic threats. Under *Mutually Assured Economic Destruction* (MAED) the desire to negotiate increases if both players are incentivized to avoid negative consequences. President Trump expressed a preference for bilateral agreements, rather than complex multilateral agreements, such as the Trans-Pacific Partnership (U.S. withdrew in 2017).

Defending America, including our friends and allies, is very expensive. Yet, reliance on foreign manufacturers increased, compromising national security. Competition for new technology is dominated now by non-defense companies, many based elsewhere. U.S. government labs are no longer pre-eminent as we reduced basic research funding for defense contractors. NATO remains reliant on the military strength of the United States and the United Kingdom, as Continental Europe and Canada struggle to increase military funding. The number of countries exceeding NATO's 2% of GDP target recently jumped from 14 in 2023 to 23 in 2024. Canada spends just 1.4% of GDP on national defense. Increasing NATO and ally defense spending will benefit American defense contractors' export growth. India is considering buying Lockheed's F-21 (upgraded F-16), , as U.S. allies buy F-35s, Blackhawk/Apache helicopters, and M1 tanks.

Fiscal Policy and Taxes

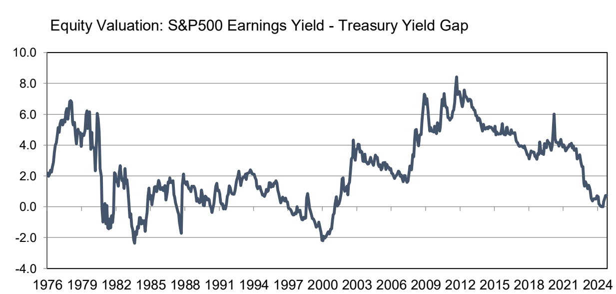
President Trump asked Congress to extend provisions of the Tax Cuts and Jobs Act (TCJA) of 2017 set to expire Dec. 31, 2025, including pass-through (small) business deductions. Without extension, individual marginal tax rates will revert to pre-TCJA levels with the top rate increasing from 37% to 39.6%. This is critical to the Administration's economic agenda. Cutting $100 billion this year is over $1 trillion savings over a 10-year budget cycle before interest, and programs shutting down now will produce twice the savings next year.

There is discussion of how much government spending could be reduced without affecting current benefits and entitlements. Total net spending was $6.8 trillion in FY 2024 vs. $4.4 trillion in FY 2019—spending increased $2.4 trillion or 55% in just 5 years! Tax revenues over this period increased $1.4 trillion or 40%--also remarkable after an income tax cut. So clearly, we have a spending problem, not a tax revenue problem under current policy, including the 2017 TCJA tax reform. A 55% increase in spending, initially justified by the global pandemic, surely can be scaled back at least by half, given the identified egregious waste, fraud, and inefficiencies exposed by DOGE, accelerating for over a decade. Thus, $1 trillion in annual savings is possible, we believe. Mandatory spending, including Social Security, Medicare, and Medicaid, is now $4.1 trillion or 60% of total outlays. Yet this is where significant fraud of ineligible recipients and wrongful claims exists. We are in the middle of FY2025, so DOGE savings can double in annual recurring items.

We believe state income and property taxes paid should not be taxed at the federal level, which is what the SALT (State and Local Taxes—inc., property and income taxes) deduction threshold limits do. Before 2017, taxes paid to state and local government were federal income deductions. Congress is discussing increasing the SALT deduction threshold from $10,000, if not eliminating it. In 2026, the standard deduction will fall to pre-TCJA levels, if TCJA is not extended. Current exemptions from estate and gift taxes will also revert to pre-TCJA levels, as will the *child tax credit.* States with higher cost of living often pay more in property and income taxes, whereas many states have no state income tax (ex: Florida, Texas, Nevada, Tennessee, Wyoming). while others have low income tax rates. California's top marginal income tax rate is 13.3%--New York: 10.9% (New York City: +3.876%), New Jersey & DC: 10.85%, Oregon: 9.9%.

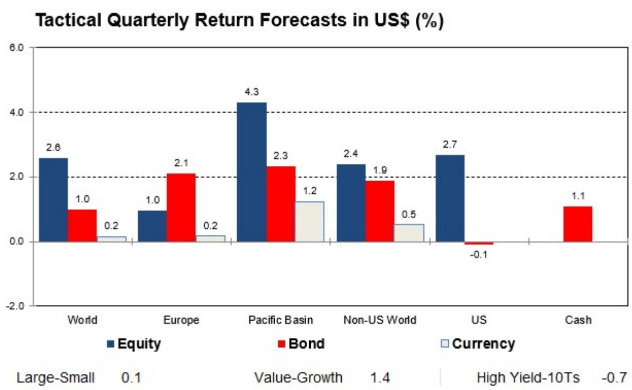
Global Tactical Asset Allocation Strategy

The key question for equities—can sufficient earnings growth restore favorable valuations or will a market correction be required. The equity market may be able to muddle along for a few years with subpar returns, but it is more likely equities will need to correct—and, if so, corrections tend to overshoot creating new investment opportunities. Valuations should be consistent with slower earnings growth observed. Relative market relationships are behaving more like 1998-2000 (Dot.com era) than any time since.



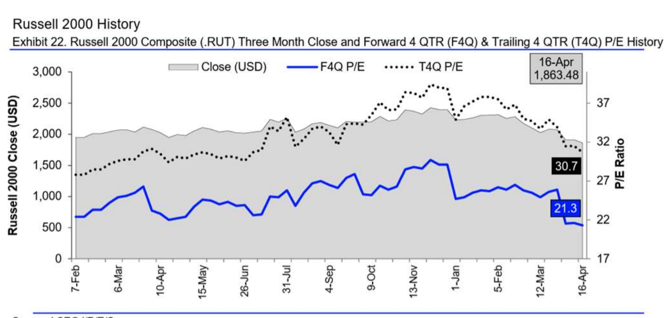
Our Global Tactical Asset Allocation forecast model output is summarized below. These quarterly forecasts are designed for tactical use relative to strategic asset allocation with a decade-long horizon. Increasing debt, leverage, debt, interest burdens, loan delinquencies, and bankruptcies with rising bond yields increase risk of a global bond crisis, which also could trigger a U.S. equity correction due to stretched valuations. We favor U.S. value and small-cap, although they seem out-of-step with momentum and AI/technology centric sentiment.

Equities look tactically more attractive than bonds, but there isn't much excess return for global bonds over cash. U.S. bonds are an outright sell now given sticky inflation driving lower real yields. Our currency model suggests the U.S. dollar will struggle, but is also boosting return forecasts of non-U.S. equities. European equities are cheap, and the U.K. is probably the most compelling, but we would also favor Japan—particularly if they are able to sign a trade deal earlier rather than later.



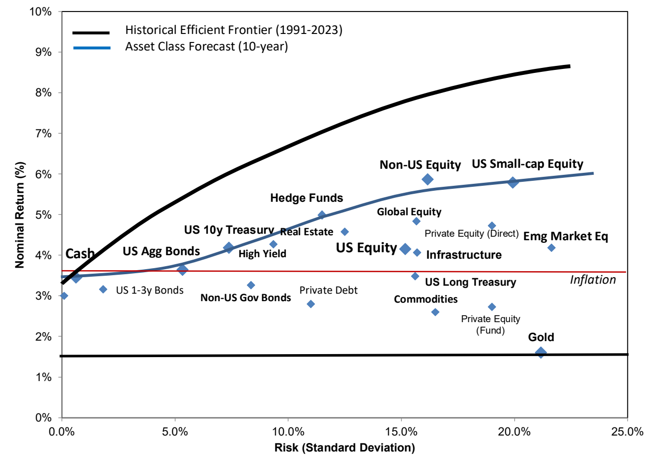
Source: Strategic Frontier Management

Higher short-term interest rates raise the hurdle rate for volatile We continue to expect higher-for-longer interest rates and normalizing (higher) inflation, which increases concern about the global bond market's ability to absorb rapidly increasing government bond supply from high fiscal deficits and unwinding $6 trillion of Treasuries purchased (QE) by the Federal Reserve. Other central banks must reduce their holdings too, so global bond issuance must increase. Treasury Secretary Yellen favored shorter maturity issuance despite the yield curve being inverted with low interest rates—the U.S. missed an opportunity to extend, now longer maturity issuance must increase, risking a steeper yield curve.



Rising 10-year yields are converging toward our long-run forecast of 5.0-5.5% yield given our 3.5% Fed Funds normal. We aren't surprised by yield curve steepening recently. We believed that manipulating interest rates and forward guidance to drive bond yields lower would lead to *explicit moral hazard*, apparent in a dreadful 10-year Treasury return of 0.6% annualized over the last decade. Bond yields could overshoot dramatically and there is risk of a *Government Debt Crisis*, triggered by a *liquidity crunch* from shifting bond sentiment, soaring debt burdens, and realization of higher-for-longer rates.

Strategic Asset Allocation Forecasts



Source: Strategic Frontier Management (October 2024)

We avoided Emerging Market Equities, and particularly China, for over three years, with further economic and geopolitical concerns about China, Russia and Brazil. Only India and South Korea seem to be on a credible path with sufficient potential growth. Marginalization of China's comparative advantages of low-cost labor, energy, and resources with limited regulation continues, as supply chains reorganize and transportation costs rise resulting in lower margins for exports. Basic resource exports declined since the post-pandemic backlash regarding strategic dependency.

Total Return	YTD	**1-Yr**	3-Yr	5-Yr.	10-Yr	20-Yr	30-Yr
S&P 500 Index	-4.3	8.3	9.1	18.6	12.5	10.2	10.4
NASDAQ Composite	-9.8	5.8	7.7	18.2	14.2	12.4	12.2
Russell 2000	-9.5	-4.0	0.5	13.3	6.3	7.5	8.5
Russell 1000 Value-Gwth	**12.1**	**-0.5**	**-3.4**	**-3.9**	**-6.3**	**-4.2**	**-1.3**
Non-US (World xUS)	6.3	5.9	6.3	12.7	6.0	5.8	5.9
Emerging Markets	3.0	8.6	**1.9**	**8.4**	**4.1**	6.4	5.9
Small-cap Global	-4.3	-1.1	2.0	13.9	6.6	7.6	
US 10-Year Treasury	**4.0**	**4.2**	**-1.8**	**-3.3**	**0.7**	3.2	4.4
US Aggregate Bonds	2.8	4.9	0.5	-0.4	1.5	3.2	4.5
BAML High Yield Bonds	0.9	7.6	4.8	7.2	4.9	6.5	6.8
Short-term Bonds	2.0	5.7	2.8	1.3	1.7	2.3	3.4
JPM Non-US Bonds	**2.9**	**-0.1**	**-4.1**	**-3.7**	**-0.6**	1.0	2.6
Cash (US T-Bills)	1.0	4.8	4.3	2.6	1.8	1.6	2.3
US Dollar (TWI)	-1.6	4.0	3.7	1.0	1.2	1.2	0.7
CRB Commodity Index	5.3	11.9	6.2	23.8	5.9	1.6	5.2
WTI Oil (US$)	-0.8	-14.4	-10.5	28.5	4.2	1.3	4.6
Gold (US$)	19.0	41.1	17.2	14.2	10.2	10.5	7.2
Bitcoin	-11.6	18.1	21.9	66.7	79.0		

Source: Strategic Frontier Mgmt. Returns as of March 31, 2025. Performance exceeding 1-year annualized.

Cryptocurrencies, Bitcoin, and Regulation

Cryptocurrencies are not currencies, financial securities, or a store of value, but instead are speculative *virtual commodities* without intrinsic value, nor even a real asset (inflation hedge) comparable to gold or other commodities. Cryptocurrencies lack strategic importance that would justify inclusion in a sovereign reserve. Reasons for a government owned oil reserve are obvious, such as the SPR (as discussed above), what justification is there for a strategic crypto reserve?

A U.S. sovereign reserve is not necessary to be a leader in blockchain technology. We don't think development of a central bank digital currency (CBDC) or US$ stablecoin is necessary either. President Trump may seek to make America a *crypto superpower* or the *crypto capital of the world,* but such leadership in is not essential to improving *our banking and payment system,* or *promoting greater privacy, safety, security and wealth*. Such policies may seem to enrich holders of Bitcoin, but it is foolish to think that being a *cryptocurrency superpower* is a reality. Those following President Trump's lead in this regard are likely on a fools' errand.

We have opposed strategic allocations to Bitcoin or other cryptocurrencies because they are too volatile to be considered a store of value, provide little portfolio diversification, nor are they an inflation hedge. As with currencies, the expected return of cryptocurrency is 0%, therefore inferior to cash, particularly on a risk-adjusted basis. Higher interest rates increase the cash yield hurdle for cryptocurrencies, so Bitcoin will tend to lag as interest rates rise. Thus, if higher inflation drives up interest rates, this will tend to drive Bitcoin lower. Cryptocurrencies can't hedge inflation.

Blockchain technology has many potential financial and asset use cases, but cryptocurrencies are only one use-case of a much larger future theme. It can't be controlled or driven top-down by any country seeking to "govern" such intellectual property—such notions should be chilling to founders and investors globally that any nation would seek to control the future of any technology.

The lack of a global unified regulatory framework for Cryptocurrencies has created uncertainty for businesses and financial institutions. We need to have clarity in this regard, but we don't need government sponsorship or promotional gimmicks like creating a strategic reserve or standing up cryptocurrencies. Supporting blockchain related technology can be accomplished as we would any other technology from Artificial Intelligence to Quantum Computing or Applied Material Science, including Additive Manufacturing, for instance.

The need for clear, global standards and banking regulation is more pressing than ever, but it is our opinion it must begin with designating an appropriate regulatory agency to oversee cryptocurrency---as we would any other new type of security or traded commodity. We have suggested the Commodity Futures Trading Commission (CFTC), focused on ensuring the integrity of derivative securities and commodity markets, have jurisdiction over digital assets being classified as commodities, including Bitcoin and Ethereum. Regulatory efficiency might be achieved by also rolling up the CFTC under the Securities and Exchange Commission (SEC). We have too many overlapping and/or redundant regulatory agencies, particularly in banking and financial services. Developing a unified regulatory environment for digital assets to define prudent rules and regulation is a useful role for government. There is no regulation needed of blockchain technology or Artificial Intelligence—its just Applied Math, so says the Applied Mathematician.

Crypto-related market failures are too easily forgotten, including collapse of FTX/Alameda Research, BlockFi, Terra, and Luna, as well as Celsius, and Three Arrows hedge fund. Needing a place to store or even trade cryptocurrencies requires wallet or application, which creates vulnerability to hackers and theft. While Bitcoin's blockchain may be presumed unbreakable, and even untraceable—various teams of computer scientists have identified techniques to *follow the money*. Putting Bitcoin in cold storage or untethered from the internet may be the only way to secure it, but then for what purpose would cryptocurrencies exist, if not accessible?

Restoring American Dreams and Values

The *America First* agenda seeks to reset U.S. policies, including fiscal spending, tax, energy, regulatory, trade, health, and border policy to restore competitiveness and economic prosperity. This will bring down our fiscal and trade deficits, while rebuffing multilateralism championed by adversarial countries, including Russia and China. Asserting a new world order embracing Socialist and Marxist values was never going to be a viable approach, nor were attempts to unseat the U.S. dollar as the world's reserve currency.

Transformational Change in the way Government works will provide savings to reduce our fiscal deficit and slow our increasing debt burden. Understanding constructive real economic forces, budgeting, and fiscal consequences of policies is key to long term prosperity. We have now embarked on a remarkable opportunity to improve efficiency and effectiveness of government, which can be a model for the States and other nations to improve similarly, or else fall behind.

With experience of an incumbent, there is extraordinary opportunity for President Trump to rebuild his Administration and drive desired conservative policies. Washington D.C. is not prepared to work at this pace or breadth that is required. President Trump has never subscribed to the rules of limited political capital, so he wages his assault across the far reaches of every snake pit of the political swamp. The dramatic transformation of economic, regulatory, fiscal (tax and spending), energy, trade, national defense, border/immigration, and foreign policy is underway. Efforts to restore meritocracy and individual liberty (inc., free speech, free association, etc.) to drive a re-emergent very American culture wrapped by ascendant patriotism, conservative values, incentivized entrepreneurial spirit, and the right to pursue happiness (inc., equal opportunity) over social justice, and now discredited Diversity, Equity & Inclusion.

Recession fears and higher inflation concerns due to changing U.S. trade policy (seeking to rebalance trade) and DOGE-identified spending cuts are senseless, but economic uncertainty is rightly on everyone's mind triggering volatility in equity, bond, commodity, and currency markets. Reform of this magnitude often is disruptive, but should be transitory. Its consequences are nothing short of an old-fashioned economic reset, and for other nations to keep up, they will have to adapt. And that is unsettling to politicians, although they appear too busy right now reacting to the gauntlet unleashed.

American Capitalism was built upon founding principles of free markets, property rights, individual liberty, rule of law, democracy, equal opportunity, and right to pursue happiness as enshrined in the U.S. Constitution. These fundamental values incentivize innovation and growth to bolster prosperity and make America the exceptional nation it is—belief in restoring these values seems to be what the country desires after a shift in the balance of power. We long advocated for free markets and free trade. Progressive Socialism proved once again to be a bankrupt ideology—and politicians embracing this ideology will fail in spectacular fashion.

Efforts to enshrine a multi-polar world failed due to China, Russia, and other inefficiently organized countries around Socialist or Marxist values being unable to build admired societies other countries would want to follow. Observe the ideological contrast between the wreckage of P*rogressive Socialism* and *Marxism* to *Communism* versus *Free-market Capitalism*. Contrasting geoeconomic policy outcomes can't be ignored any longer but how do we make sense of the turbulent and uncertain times of 2025?

The world is at an inflection point over growing fears about economic interdependence and globalization. Since globalization peaked around 2008, economic integration has retreated. Countries erected trade barriers that disrupted supply chains, to overpower natural comparative advantage. Low labor costs allowed China to become a primary source of many labor-intensive critical staples and basic needs, from medical supplies to pharmaceuticals, disposable goods and basic resources, as well as cheap electronics to appliances, and other household goods. Since the global pandemic, developed nations sought to reduce strategic dependency on critical imported goods which were sourced from single country dominated supply chains. In turn, China has sought greater self-sufficiency in technologically-advanced sectors (inc., computer hardware, vehicles, robotics, and equipment) dominated by the United States and Europe.

U.S. increased its trade surplus in services since the 1980s, including financial services, transportation, audit/accounting, consulting, telecommunications, travel, education, and information technology. Yet, services account for only about 30% of U.S. exports, and maintains a much larger trade deficit in goods, which account for over 75% of total global trade. Of course, with the growth of mobile apps and ASP software, it is difficult to fully track exported value.

Leveraging America's trade bargaining power is more than about just reducing our trade deficit and leveling the playing field of global competitiveness. It is also being used to reap concessions on other foreign policy issues, such homeland security (drug trade inc. fentanyl, trafficking minors, criminal gang interdiction) and illegal immigration overwhelming social safety nets. The budget for misappropriated foreign aid is being targeted, just as misdirected (inc., fraud, waste, etc.) entitlements, benefits, tax credits, and subsidies. President Trump has attracted notable foreign investment supporting business friendly policies—we expect this to continue.

Given expected policy changes, A *New Dawn in America* can bolster productivity and global competitiveness, thereby restoring higher potential growth and profit margins. Efforts to promote global fair trading seek to lower trade barriers and tariffs imposed on U.S. exports. Reciprocal tariffs should not be permanent and also lead to only a transitory inflation rate impulse that rolls off over time. Only if countries are unresponsive would these tariffs likely persist for a longer period. Creating an *External Revenue Service* or suggestion that tariff revenues could be significant enough to replace a meaningful share of business or individual income tax seems farfetched and unlikely to us, assuming the goal is to restore global fair trade and U.S. competitiveness without trade barriers and tariffs erected over time.