Strategic Frontier Management

A NEW DAWN IN AMERICA

INVESTMENT STRATEGY AND CAPITAL MARKET OUTLOOK

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ECONOMIC & MARKET FORECASTS

- ***New Dawn***: US potential economic growth forecast increased from 1.8% to 2.5%, higher productivity, lower inflation with new economic policies after *US Balance of Power shift*
- Correct misguided policies to reverse stagflation while improving competitiveness, productivity, and stabilizing inflation—Fiscal & Trade Deficits narrow, US dollar supported
- ***New Inflation-Yield Paradigm:*** *higher-for-longer* rates with normal inflation of 3% CPI, reverse QE → normalized/steeper yield curves–volatile, lagging bond returns
- *DOGE Audit* of US Government can reduce government spending by $1 trillion, but little GDP effect from eliminating waste, fraud, corruption, and misappropriation
- ***Return to Natural Order*** imply normalizing valuations, steeper yield curve, but higher volatility—favor value & small-cap tilts, avoid Emerging Markets, long duration bonds

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**	**10.2**	**8.6**	**8.7**	**9.4**
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. Target denotes top of published ¼% policy target range

EQUITY & BONDS—A NEW DAWN IN AMERICA

Asset Valuation

- *Curb your Enthusiasm* for Equities and Bonds, inc. US Large Growth
- US Stock valuations remain stretched: higher prices, slow earnings growth, and higher rates. Global Bonds overvalued vs. expected inflation
- Favor US Value, Small-cap, and Non-US (avoid EEM, inc. China, Russia)
- Cash and shorter duration credit preferred

Economic Conditions

- *America First* policies will bolster global competitiveness, reduce trade and fiscal deficits, lower energy and material costs, while increasing productivity, potential growth (inc. net exports), and margins.
- Years of misguided fiscal, regulatory, energy, trade policies, stimulus, immigration, and foreign (aid) policies are being reversed. Savings >$1T.
- Government spending cuts and workforce reductions, while rooting out waste, fraud, misappropriation, and corruption moderating fiscal deficit.
- Trade reforms will reduce trade barriers, and level tariffs, seeking fair trade as US trade deficit moderates

Interest Rates

- Higher inflation expectations, higher-for-longer interest rates. as global yield curves steepen and Central Bank bond holdings (QT) decline.
- *Explicit Moral Hazard* of extended yield curve manipulation distorted risk, fostered yield curve inversion, amplified rate volatility, financial crisis risk.
- Higher interest expense and risk of *Debt Crisis* as bond sentiment wanes

Market Interrelationships

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

ECONOMIC THEMES & CYCLICAL DRIVERS

Drivers of Cyclical Economic Growth Dynamics					
Consumer Demand	Net Export	Housing Starts	Investment	Inventory	Gov't Spending

- America First policies can boost ***U.S. Potential Growth*** from < 1.8% to 2.5% given reduced regulation, lower energy and material costs, extended sunsetting tax reform, narrowing trade deficit, which should bolster global competitiveness, productivity, margins, but moderate inflation.
- ***Monetary Policy Normalization***: Adverse financial and economic consequences of *Explicit Moral Hazard* in Too-Low-Too-Long (TL^2) required rate hikes and Quantitative Tightening (QT). Significant risk remains for extended and leveraged bond holders. Rising inflation expectations *not transitory.*
- ***New Dawn***: New paradigm of Government Reforms: Fiscal spending and workforce rationalization with DOGE (audit, expose, cut spending) rooting out waste, fraud, misappropriation, and corruption, Energy policies increasing independence and security while lowering inflation, eliminate Foreign Aid grift and program ineffectiveness, Extend 2017 Tax Reform to increase global competitiveness and potential growth. National/homeland security & defense spending, Immigration policies increase safety, voting integrity, and reverse entitlement fraud—Cartels designated terrorist organizations
- ***New Order in Global Trade*** *(D.Goerz, TheHill.com, Sept 2018)**: Bilateral* Trade deals, Pragmatism (foreign influence and leverage) and *Art of the Deal: Policies seek to reduce* trade deficit by lowering tariffs, easing trade barriers on US exports. Reciprocal tariffs target other foreign policy issues too.
- ***Future Themes:*** Moderating *Fourth Industrial Revolution* elevating inflation expectation. Automation still increasing with re-shoring driving our competitive edge—Artificial Intelligence + Robotics + Sensors, Communications, Advanced Materials can boost productivity, but security concerns also increasing: Cyber, Defense, Personal, Liberty, and Homeland Security

TURNING POINT: LET'S GET TO WORK

Restoring Common Sense Policies and America First Reforms

- Policy reforms seek to reduce fiscal and trade deficits, healthier lifestyle, improved prosperity
- Expect higher potential growth of 2.5%, up from previous 1.8% given US policy pivot, net exports
- Forces of *Secular Disinflation* taken for granted, but waning as *Fourth Industrial Revolution* slows
- Retreat from *Progressive Socialist* policies, which increased US debt & fiscal deficits
- Senseless recession fears and higher inflation concerns due to trade policies (tariffs) and DOGE-identified spending cuts, but economic uncertainty is rightly on everyone's mind as reform of this magnitude often is.

US Equity and Bond Valuations Stretched with Higher Interest Rates

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

Normalizing Yield Curves vs. Inflation and Quantitative Tightening (QT)

- *Risky Business of Regime Change (4Q/2024)* implies continuation of *Higher-for-Longer* Interest rates
- Inflation/Interest Rate Normalization→3.0% CPI Inflation, 3.5% Fed Funds, 5% US 10yr Treasuries
- Central Bank holdings normalizing after extended period of low rates, QE, forward guidance
- Global yield curves should steepen, increasing risk of *Government Debt Crisis*

How Policy Asset Allocations should differ?

- Alpha-driven excess return uncorrelated: Global Tactical Asset Allocation, Hedge Funds, Value + Small-cap, security selection (inc. long/short) – active managers benefit when small/value favored
- **Private Market Funds/Illiquid 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	-4.3	-4.3	8.3	9.1	18.6	12.5	10.2	10.4
NASDAQ Composite	-9.8	-9.8	5.8	7.7	18.2	14.2	12.4	12.2
Russell 2000	-9.5	-9.5	-4.0	0.5	13.3	6.3	7.5	8.5
Russell 1000 Value-Gwth	**12.1**	**12.1**	**-0.5**	**-3.4**	**-3.9**	**-6.3**	**-4.2**	**-1.3**
Non-US (World xUS)	6.3	6.3	5.9	6.3	12.7	6.0	5.8	5.9
Emerging Markets	3.0	3.0	8.6	**1.9**	**8.4**	**4.1**	6.4	5.9
Small-cap Global	-4.3	-4.3	-1.1	2.0	13.9	6.6	7.6	
US 10-Year Treasury	**4.0**	**4.0**	**4.2**	**-1.8**	**-3.3**	**0.7**	3.2	4.4
US Aggregate Bonds	2.8	2.8	4.9	0.5	-0.4	1.5	3.2	4.5
BAML High Yield Bonds	0.9	0.9	7.6	4.8	7.2	4.9	6.5	6.8
Short-term Bonds	2.0	2.0	5.7	2.8	1.3	1.7	2.3	3.4
JPM Non-US Bonds	**2.9**	**2.9**	**-0.1**	**-4.1**	**-3.7**	**-0.6**	1.0	2.6
Cash (US T-Bills)	1.0	1.0	4.8	4.3	2.6	1.8	1.6	2.3
US Dollar (TWI)	-1.6	-1.6	4.0	3.7	1.0	1.2	1.2	0.7
CRB Commodity Index	5.3	5.3	11.9	6.2	23.8	5.9	1.6	5.2
WTI Oil (US$)	-0.8	-0.8	-14.4	-10.5	28.5	4.2	1.3	4.6
Gold (US$)	19.0	19.0	41.1	17.2	14.2	10.2	10.5	7.2
Bitcoin	-11.6	-11.6	18.1	21.9	66.7	79.0		

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

S&P 500 SECTOR TOTAL RETURNS

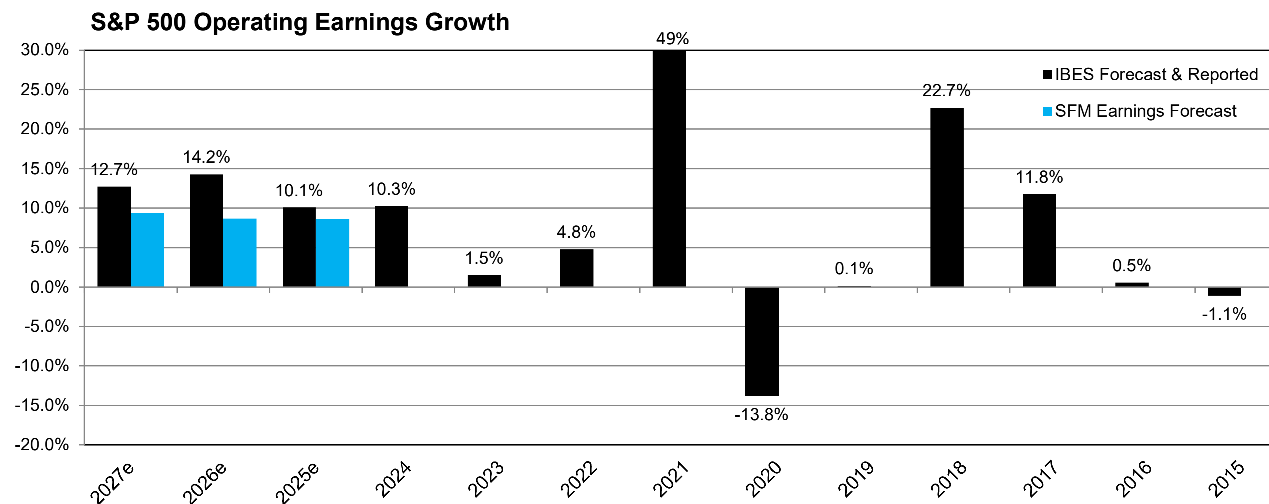
- Many interesting comparisons: Triggered big reversal of US Value-Growth
- Tariff and trade barrier concerns impacting Technology and Consumer Discretionary
- Rotation: Overvalued *Growth* to Fundamental Value, Small-cap still struggling
- Emerging themes: Quantum computing, nuclear energy, reinforcement learning

S&P 500 Sector Return	3 mo	YTD	1-Year	3-year	5-year	10-year	20-year	30-year	U.S. Dollars
Energy	10.2%	10.2%	2.5%	11.1%	31.6%	6.2%	6.8%	9.4%	SPENGY
Health Care	6.5%	6.5%	0.4%	3.9%	12.4%	9.1%	10.3%	11.4%	SPHCAR
Consumer Staples	5.2%	5.2%	12.4%	6.8%	12.7%	8.9%	9.8%	10.0%	SPCONS
Utilities	4.9%	4.9%	23.9%	5.3%	10.8%	9.5%	9.0%	8.7%	SPUTIL
Financials	3.5%	3.5%	20.2%	11.2%	21.5%	12.1%	6.2%	9.2%	SPFINL
Materials	2.8%	2.8%	-5.7%	1.3%	16.1%	8.1%	7.8%	7.9%	SPBASIC
Industrials	-0.2%	-0.2%	5.6%	10.3%	19.3%	10.8%	9.3%	10.1%	SPINDU
S&P 500	**-4.3%**	**-4.3%**	**8.3%**	**9.1%**	**18.6%**	**12.5%**	**10.2%**	**10.4%**	**SP500RI**
Communication Services	-6.2%	-6.2%	13.6%	11.8%	17.4%	10.3%	8.9%	7.2%	SPTELE
Real Estate	-7.2%	-7.2%	-9.0%	-3.3%	13.8%	5.4%	7.1%	7.6%	SPREIT
Technology	-12.7%	-12.7%	5.9%	13.9%	24.3%	20.6%	15.1%	13.7%	SPINFT
Consumer Discretionary	-13.8%	-13.8%	6.9%	3.4%	15.6%	11.4%	10.8%	10.8%	SPCAPG
S&P 500 Quality	-0.8%	-0.8%	11.1%	11.8%	19.2%	12.8%	11.2%	11.8%	Quality
S&P 500 Low Volatility	7.3%	7.3%	15.8%	6.2%	12.3%	9.6%	9.5%	10.6%	Low Vol
S&P 500 Low Vol+Hi Div	5.0%	5.0%	17.4%	6.6%	15.9%	9.0%	10.3%	11.6%	Low Vol + Hi Div
Invesco Revenue Wgt ETF	1.8%	1.8%	7.6%	8.9%	19.7%	11.1%			Rev Weighted
S&P Global Infrastructure	4.6%	4.6%	18.8%	6.1%	13.8%	6.5%	7.5%	9.8%	Infrastructure
S&P Global Property	1.4%	1.4%	5.5%	-2.8%	6.8%	3.0%	5.4%	6.7%	Property

Source: Refinitiv DataStream and Strategic Frontier Management
Note: Market returns as of March 31, 2025. Performance longer than 1-year is annualized.

S&P 500 EARNINGS—KEY TO EQUITY OUTLOOK

- Lackluster growth in 2022-2023, as global competitiveness and productivity were policy limited
- Return of *Supply-Side Economics* by extending tax cuts, more business-friendly policies, terms of trade, and deregulation with incentivized innovation increases productivity, thereby higher margins
- SFM Earnings Forecast lagging behind consensus despite stronger economic growth expected
- Valuation is concerning—returns reflect contracting valuations, but strong Small-cap earnings growth



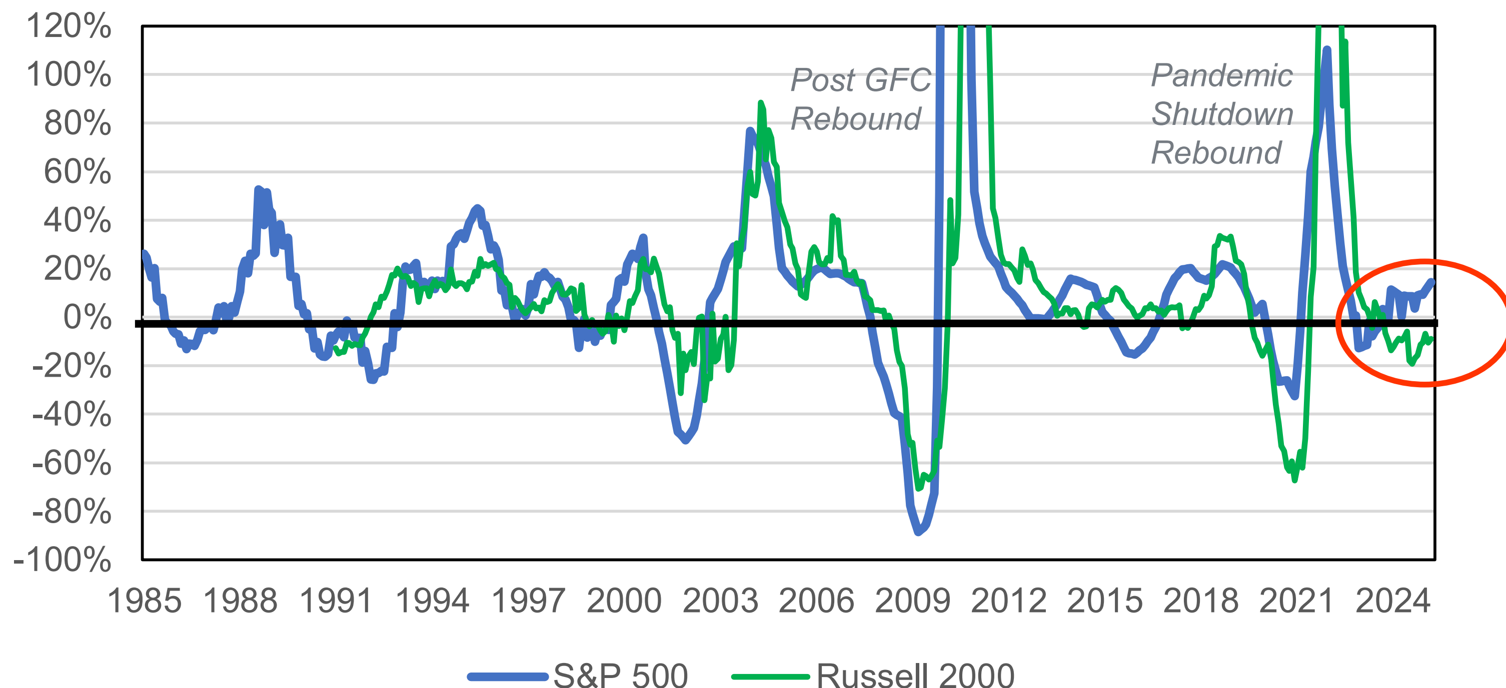
Extreme volatility in U.S. earnings growth since 2007

Operating Earnings	2027e	2026e	2025e	2024	2023	2022	2021	2020	2019
IBES Forecast & Report	12.7%	14.2%	10.1%	10.3%	1.5%	4.8%	49.0%	-13.8%	0.1%
SFM Earnings Forecast	9.4%	8.7%	8.6%						
SFM S&P500 Target	**7000**	**6600**	**6200**	5882	4770	3840	4766	3756	3231
Index Return (no Div)	6.1%	6.5%	5.4%	23.3%	24.2%	-19.4%	26.9%	16.3%	28.9%
Dividend Yield %	1.39	1.35	1.32	1.28	1.47	1.75	1.29	1.48	1.85
Total Return	**7.4%**	**7.8%**	**6.7%**	25.0%	26.3%	12.6%	16.6%	13.9%	13.6%
S&P 500 @18x SFM TE	5670	5184	4770	4392	3984	3926	3746	2515	2919
S&P 500 P/F12 (SFM)	18.9	21.0	21.5	22.2	19.5	17.3	21.9	18.0	23.1

Source: LSEG I/B/E/S and Strategic Frontier Management estimates and actuals as of April 2025

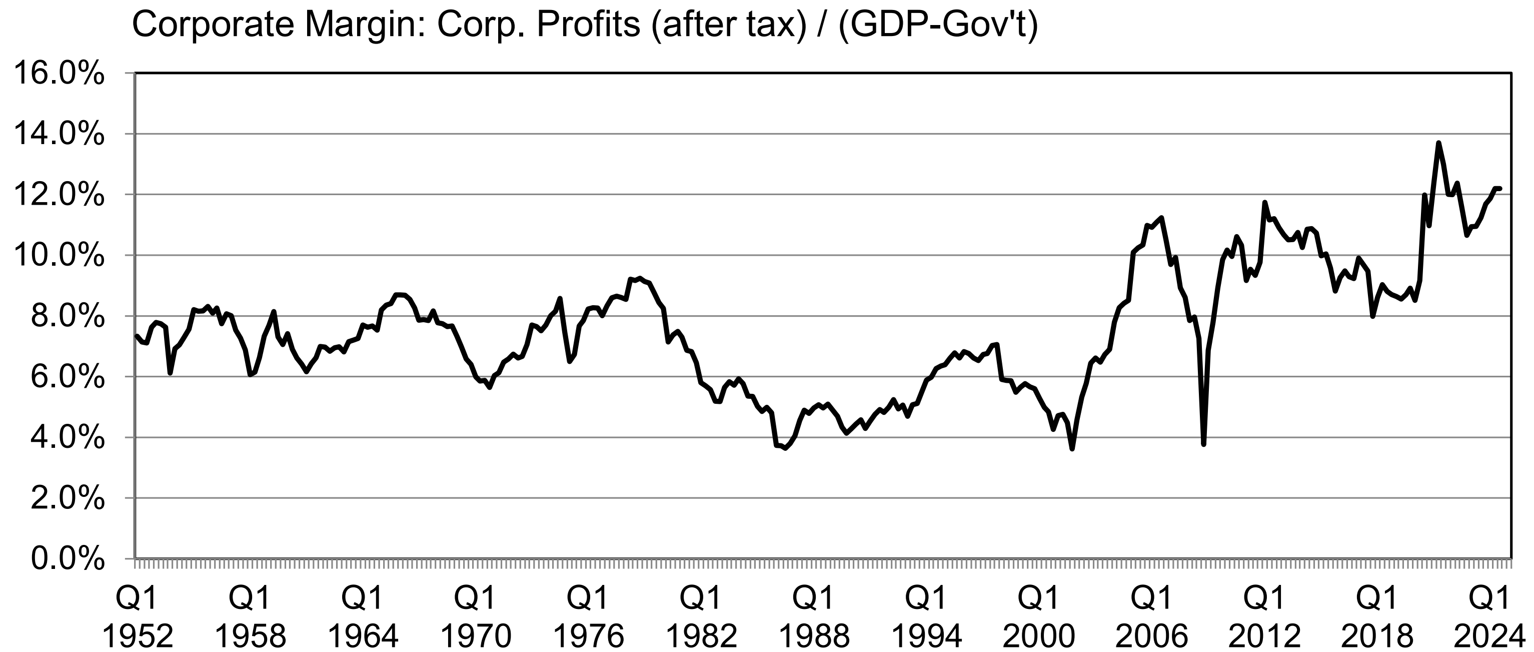
U.S. EARNINGS GROWTH RATE DEPRESSED

- Weaker *Recovery Earnings Growth* consistent with Mild Recession or Stagflation
- Higher GDP growth reflected excessive government spending and hiring, not real activity
- Misguided policy decisions of *Progressive Socialist* ideology consequences—*America First* policies can reverse many of these policies, thus economic effects to increase productivity and potential growth, lower costs, increase competitiveness
- Speculative large-cap growth market returns diverged significantly from real economic profitability since 4Q/2023 resulting in equity market overvaluation, style divergences

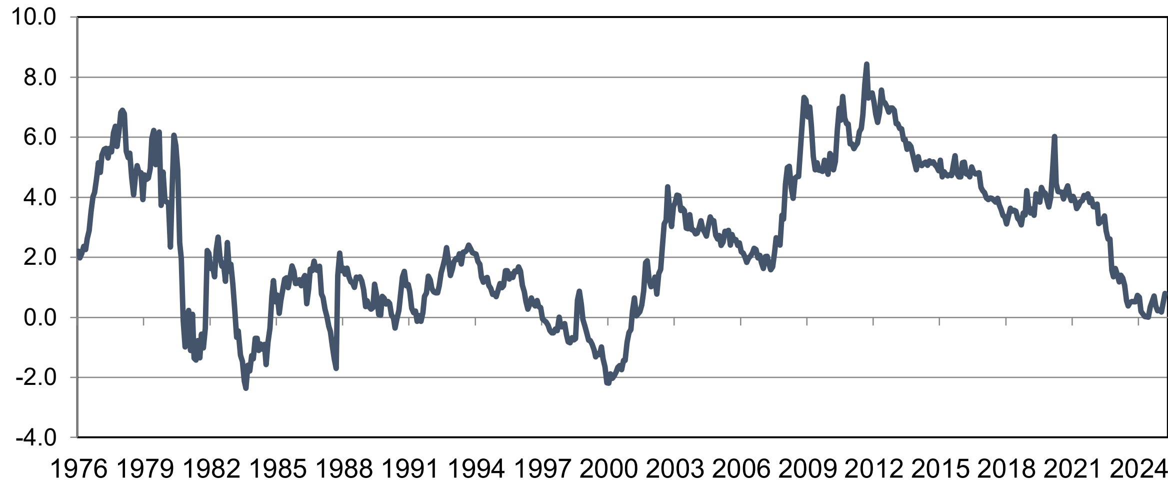


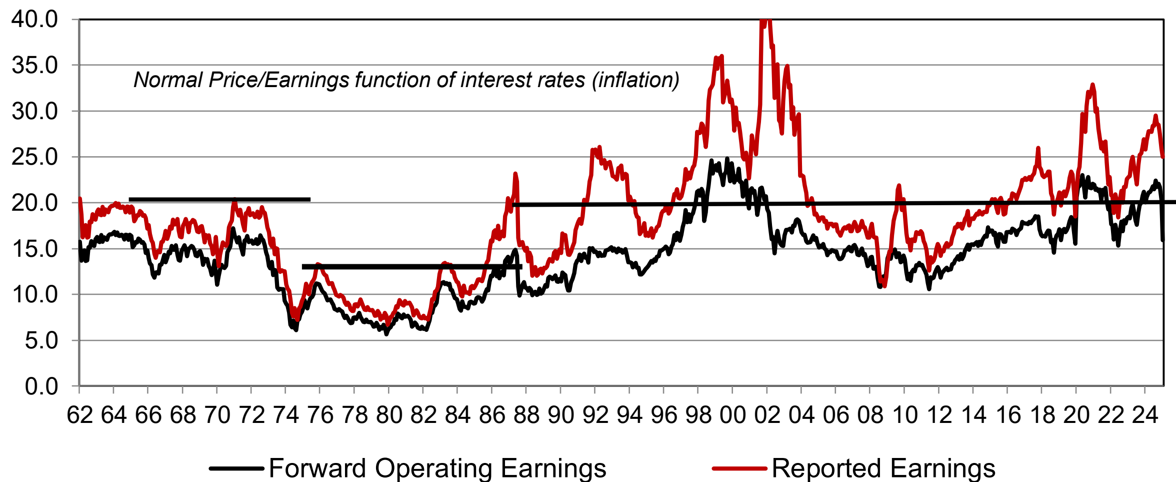
U.S. CORPORATE PROFIT MARGINS

Remarkable recovery in Profit Margins despite higher inflation a year ago



US EQUITY VALUATION DEPENDS ON RATES





Source: Strategic Frontier Management

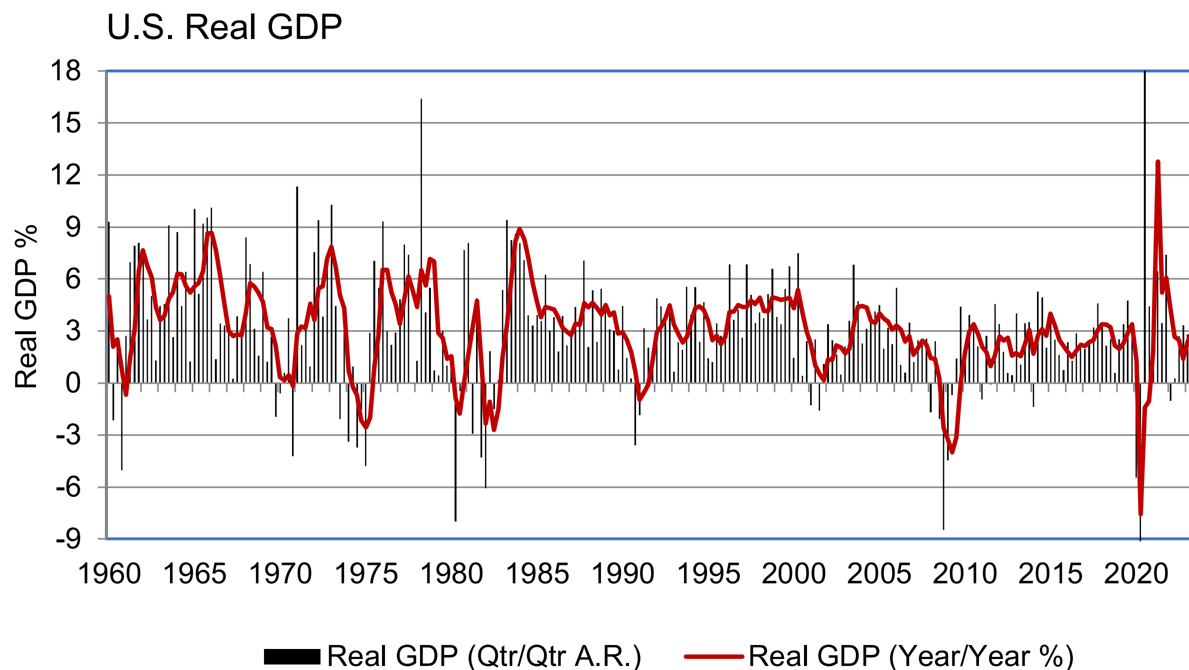
Equity Valuation Worst since 2001—Too many similarities suggest S&P 500 is ripe for a significant correction.

Price/Earnings & P/FE rose as rising index prices outpaced earnings growth.

Concerned that Earnings Growth will likely disappoint vs consensus estimates given macroeconomic conditions and uncertainty.

REAL GROWTH IN GROSS DOMESTIC PRODUCT

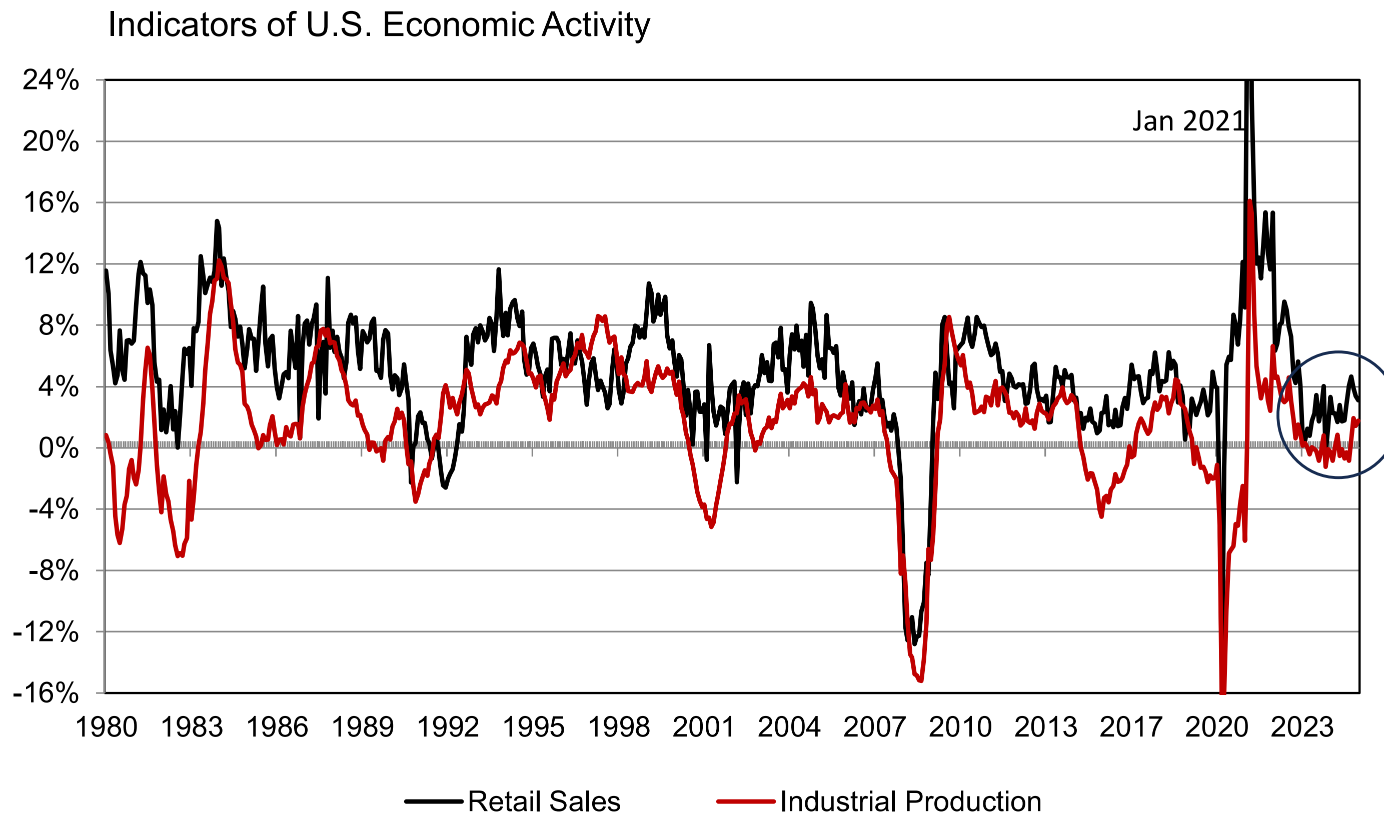
- Observed expected ***Economic Hangover*** of declining real economic productivity, competitiveness, profit margins, and earnings growth due to years of poor US policy decisions, and eventual reversal of excessive fiscal & monetary stimulus.
- Upgrading Potential Growth: 1.8%→2.5% due to fiscal, regulatory, energy, trade reforms
- Inflation wasn't ***transitory,*** *but expect new higher inflation regime. Higher inflation expectations (2% → 3%) requires higher average interest rates (2.5% → 3.5%).*
- Excessive Government Spending bolstered GDP and government jobs, but Private (x-Gov't) lagging. Real fiscal spending must ***decline -0.5%/year*** to extinguish fiscal deficit.



Source: U.S. Government Data

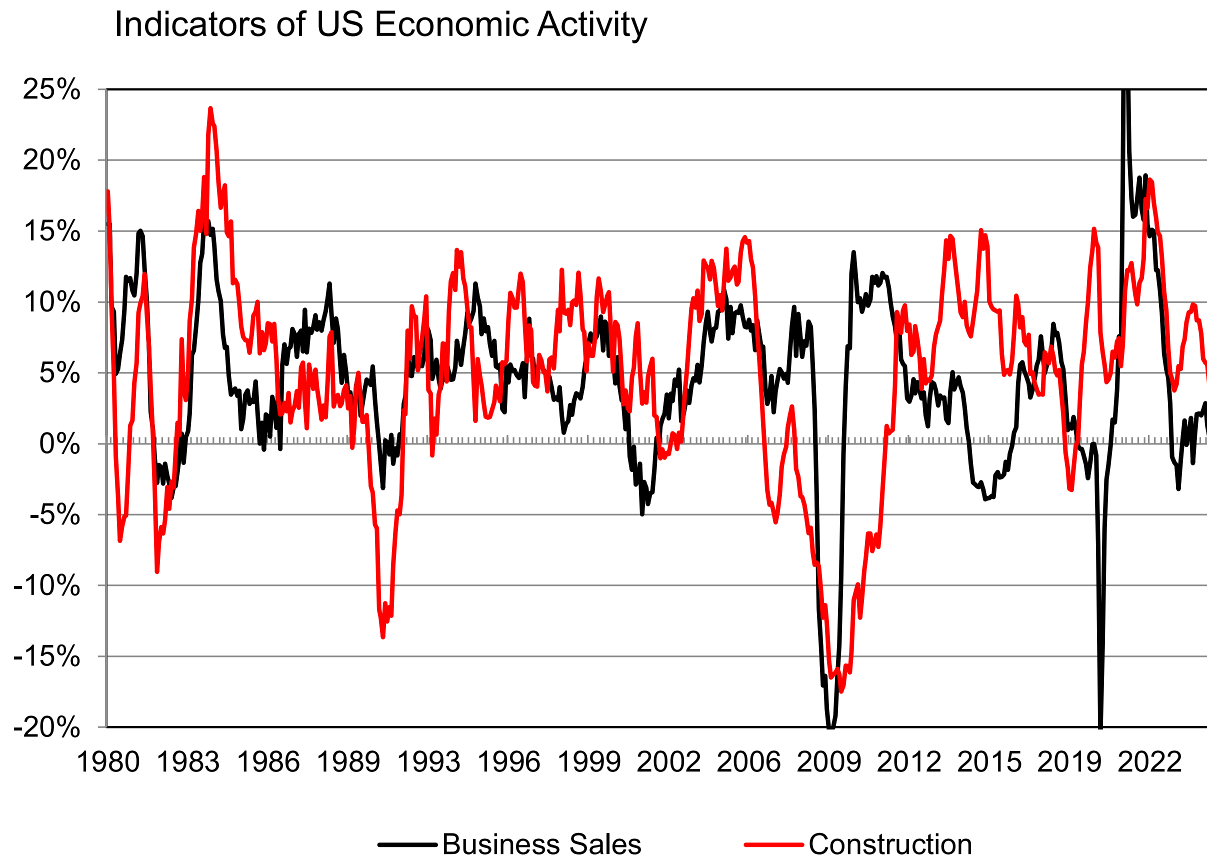
MONTHLY ECONOMIC GROWTH INDICATORS

- Terrible fiscal and regulatory policies undermined US Potential Growth—***real retail sales*** **and** ***industrial production*** suggest economy was flirting with recession for years
- Hangover of excessive spending and monetary stimulus reversing, which artificially boosted incomes and pulled forward consumption
- Recession risk *diminished* with new U.S. fiscal, trade, energy, and regulatory policies



INVESTMENT AND BUSINESS ACTIVITY

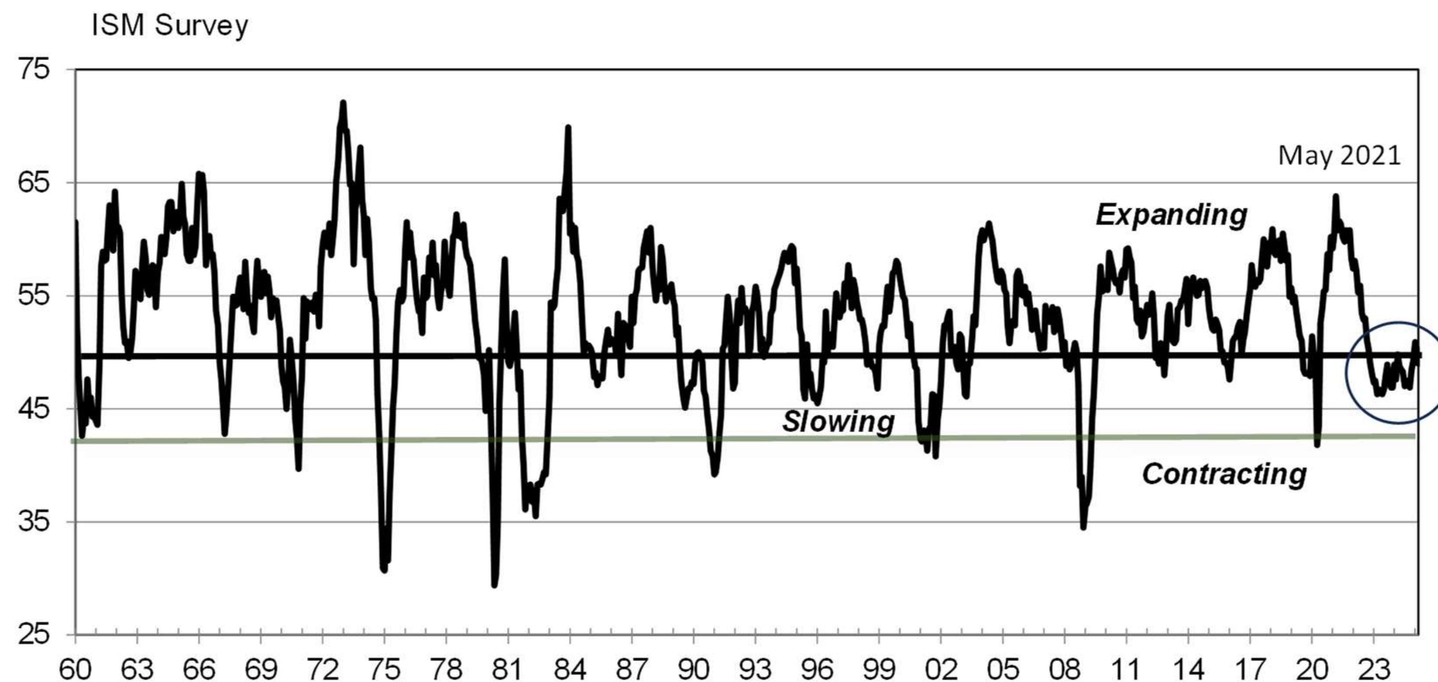
- Higher frequency economic growth indicators, including business sales and construction also suggested risk of intermittent recession in the U.S.
- Expect Business Sales and Construction also to be more cyclical in 2025



Source: U.S. Government Data

U.S. MANUFACTURING TRENDS

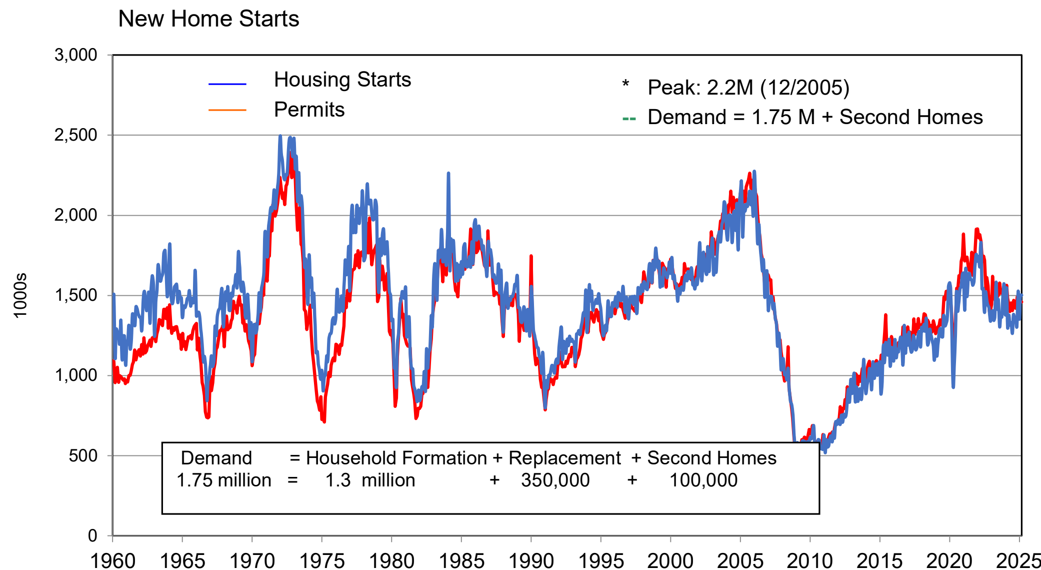
- After peaking in 2021, ISM (<50) retreated during the Biden Administration as was anticipated due to higher interest rates and consequences of poor policy decisions.
- Expect a rebound in economic forward looking ISM Survey indicator in 2025.

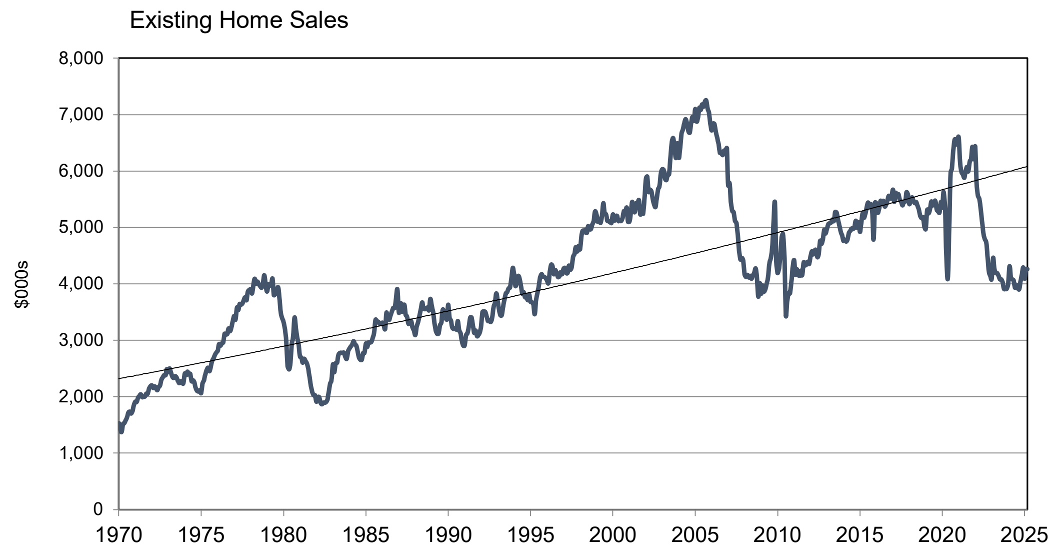


Source: ISM

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

HOUSEHOLD FORMATION DRIVES HOUSING





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

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

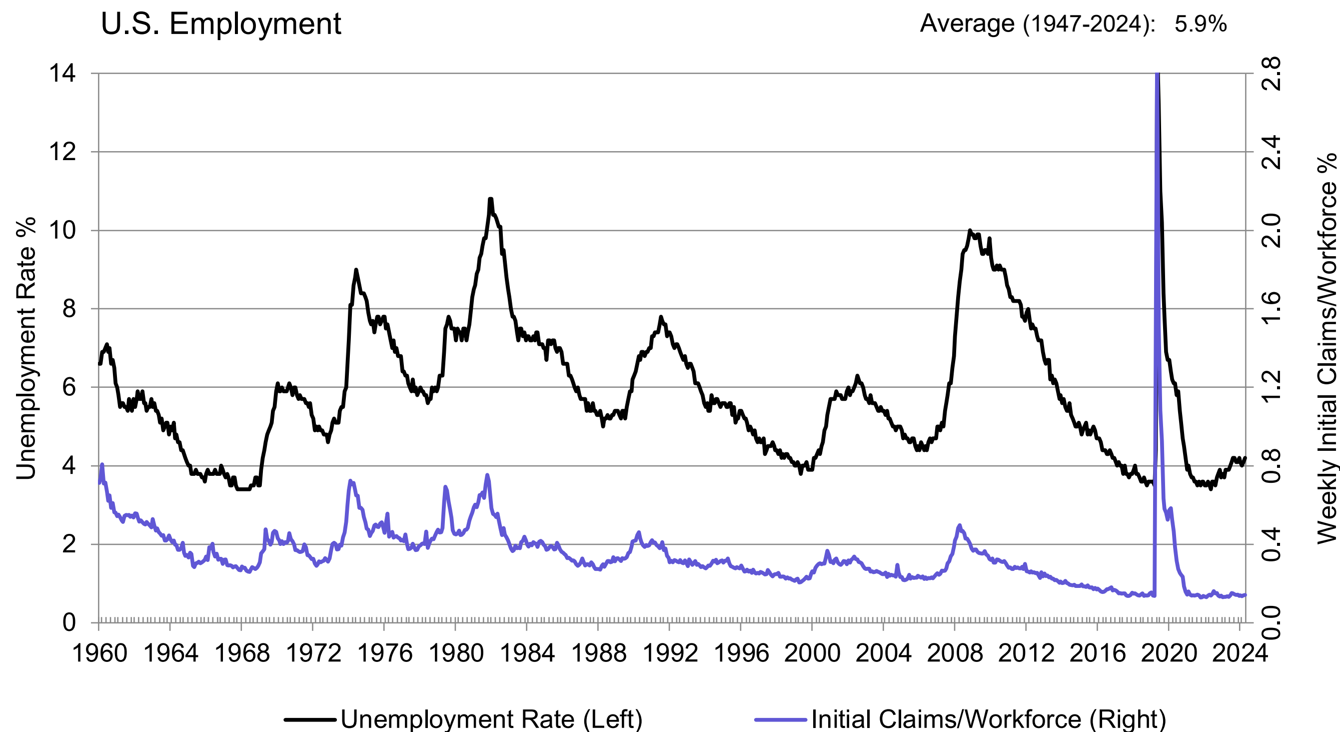
It is not surprising housing cost inflation remains resilient, although home prices off 2022 highs. Rent remains high too.

High basic material, labor, and energy prices coincide with lower starts and still low inventory of new homes for sale.

Source: U.S. Government Data

UNEMPLOYMENT KEY TO FED OUTLOOK

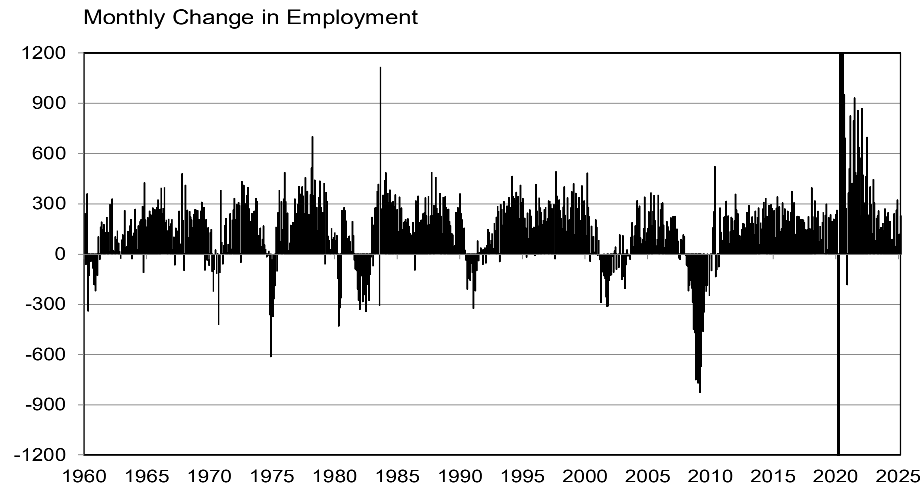
- Unemployment peaked over 14% (April 2020). Now 4.1%, up from 3.5% low vs. 5.9% historical average. Secular change affected workforce needs (future of work theme)
- Higher inflation expectations + minimum wage increases drive higher labor costs. Cheap Energy + Investment vs. Declining Labor Intensity: *Race Against the Machines*
- Strong evidence US Stimulus (2021-2023) was not needed, and fueled higher inflation

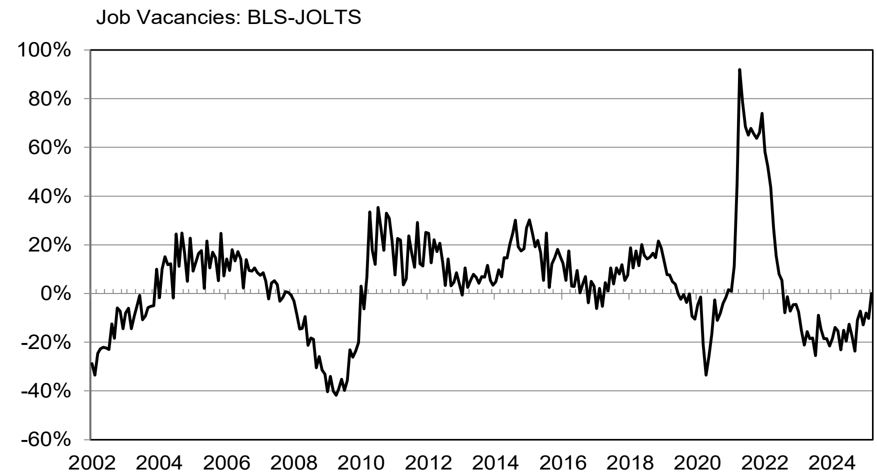


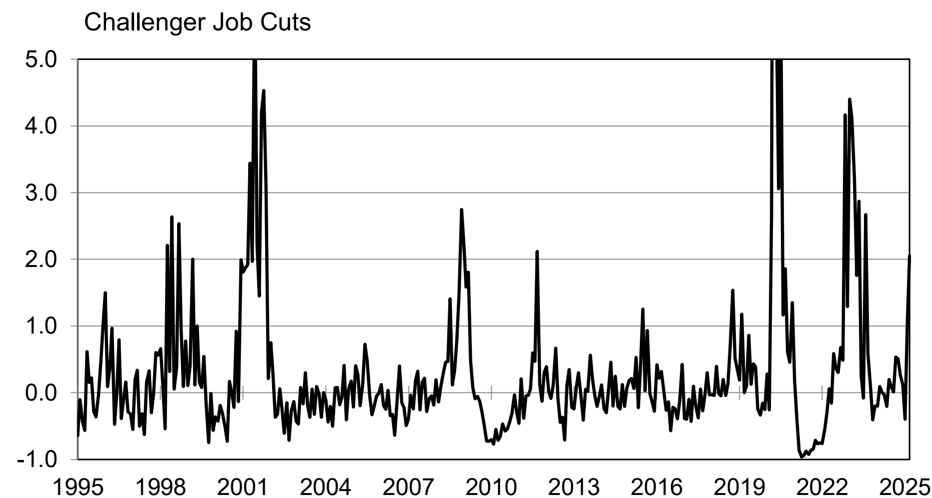
Source: U.S. Government Data

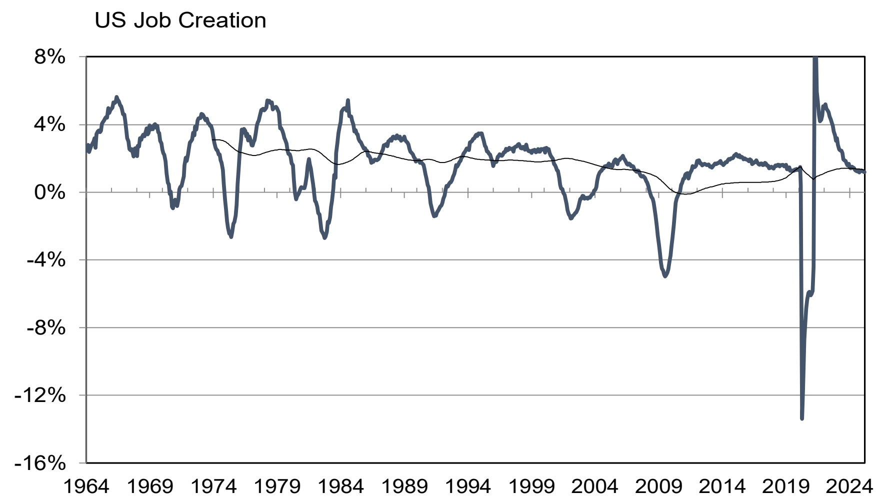
U.S. EMPLOYMENT CONDITIONS

Low Recession likelihood at 4.2% unemployment, expect rate to drift higher as government job growth reverses, offset by immigration and trade policy reform





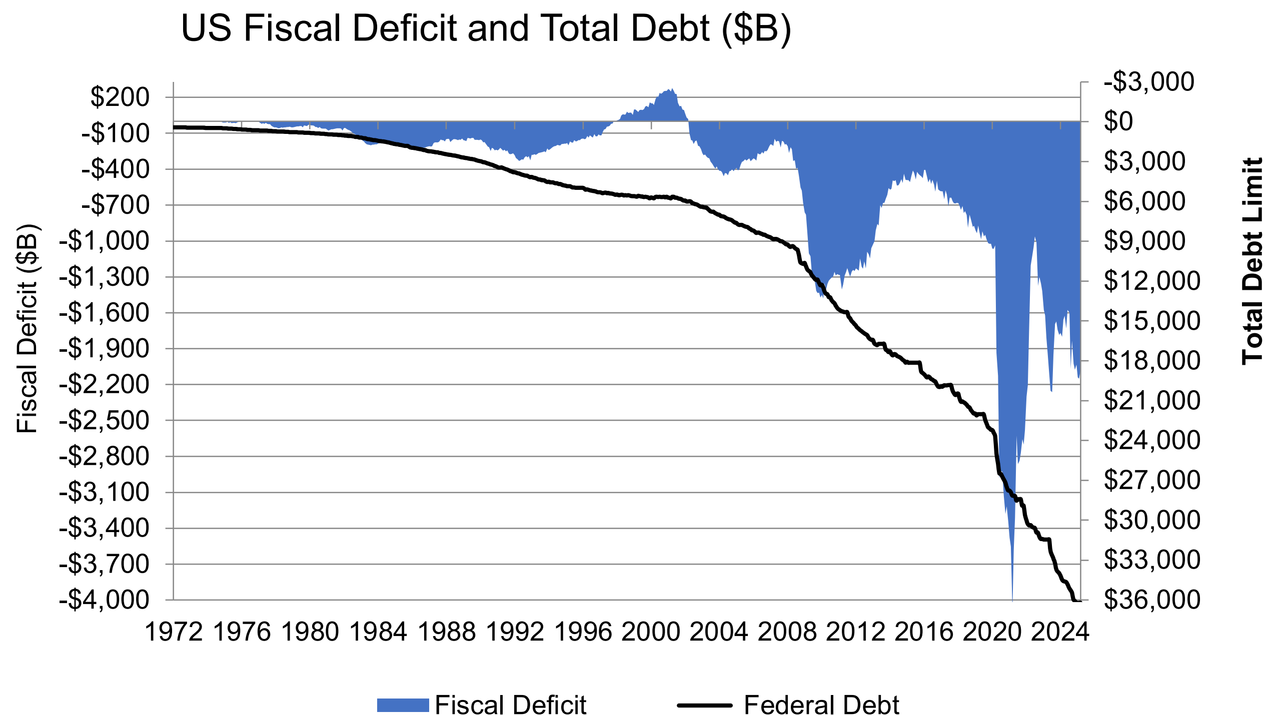




Source: U.S. Government Data

US FISCAL DEFICIT (ROLLING YEAR)

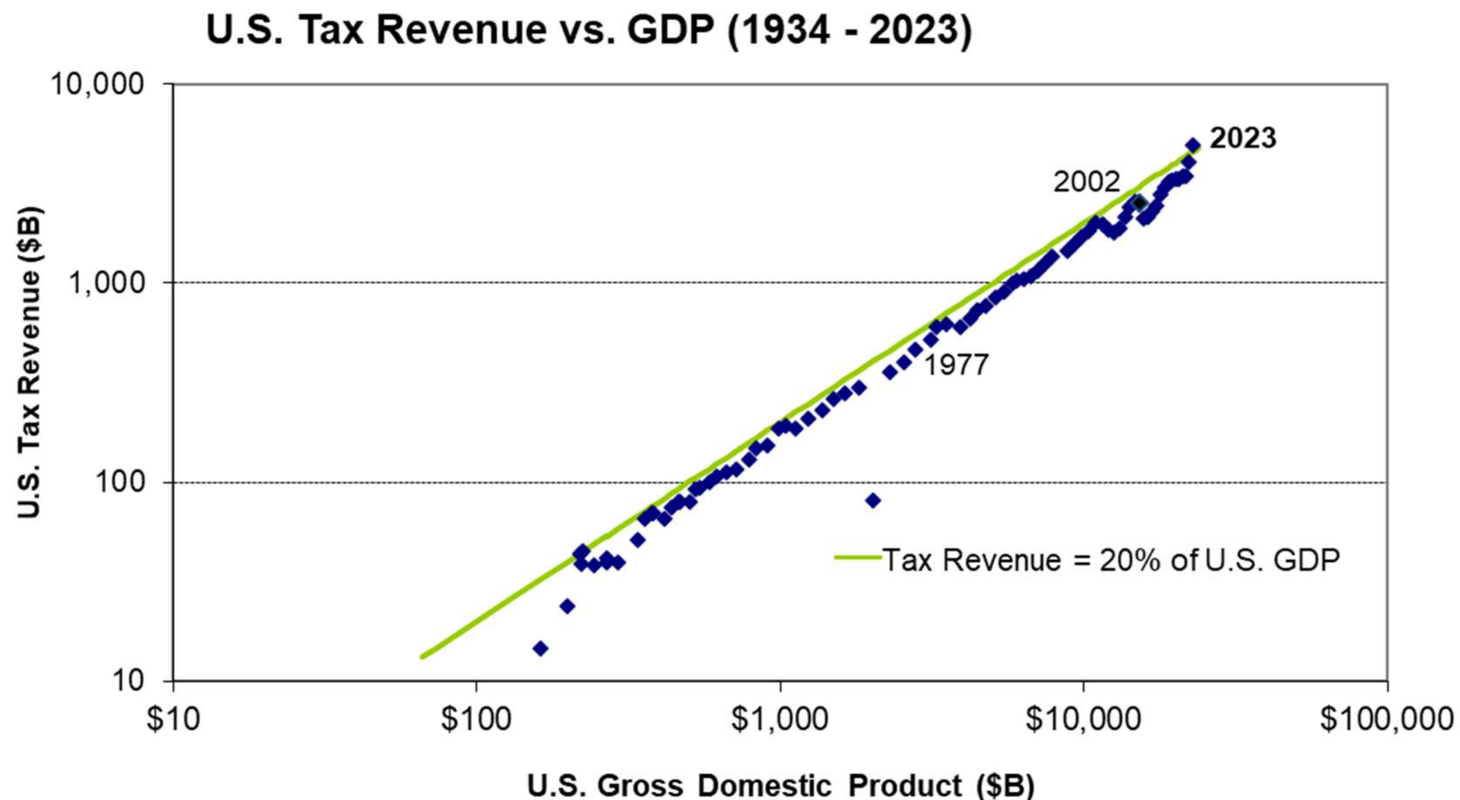
- US Fiscal Deficit is Unsustainable with soaring nondiscretionary liabilities on top of reckless, wasteful, unnecessary, and inefficient stimulus spending programs
- Rising interest rates boosting Fiscal Deficits--$1.8 trillion on Federal Debt of $36 trillion
- Republican Congressional control able to limit spending as DOGE exposes many wasteful and ineffective programs of the *Build Back Better* boondoggle



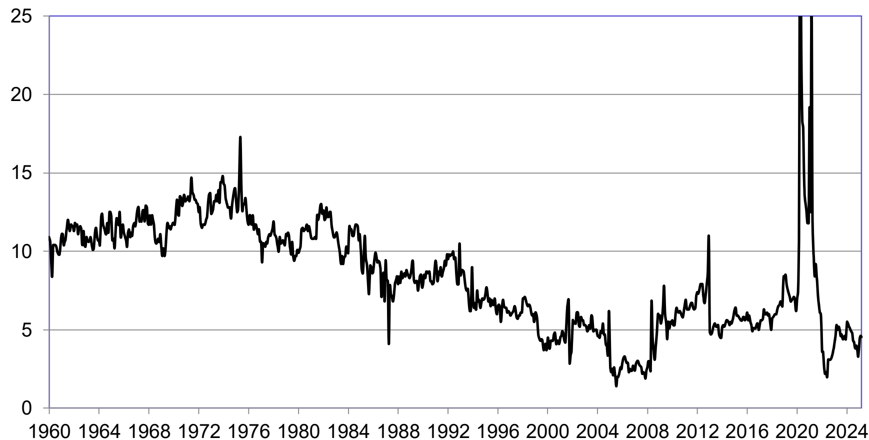
Source: US Government, OMB

HAUSER'S LAW

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



HOUSEHOLDS: SAVINGS RATE TOO LOW



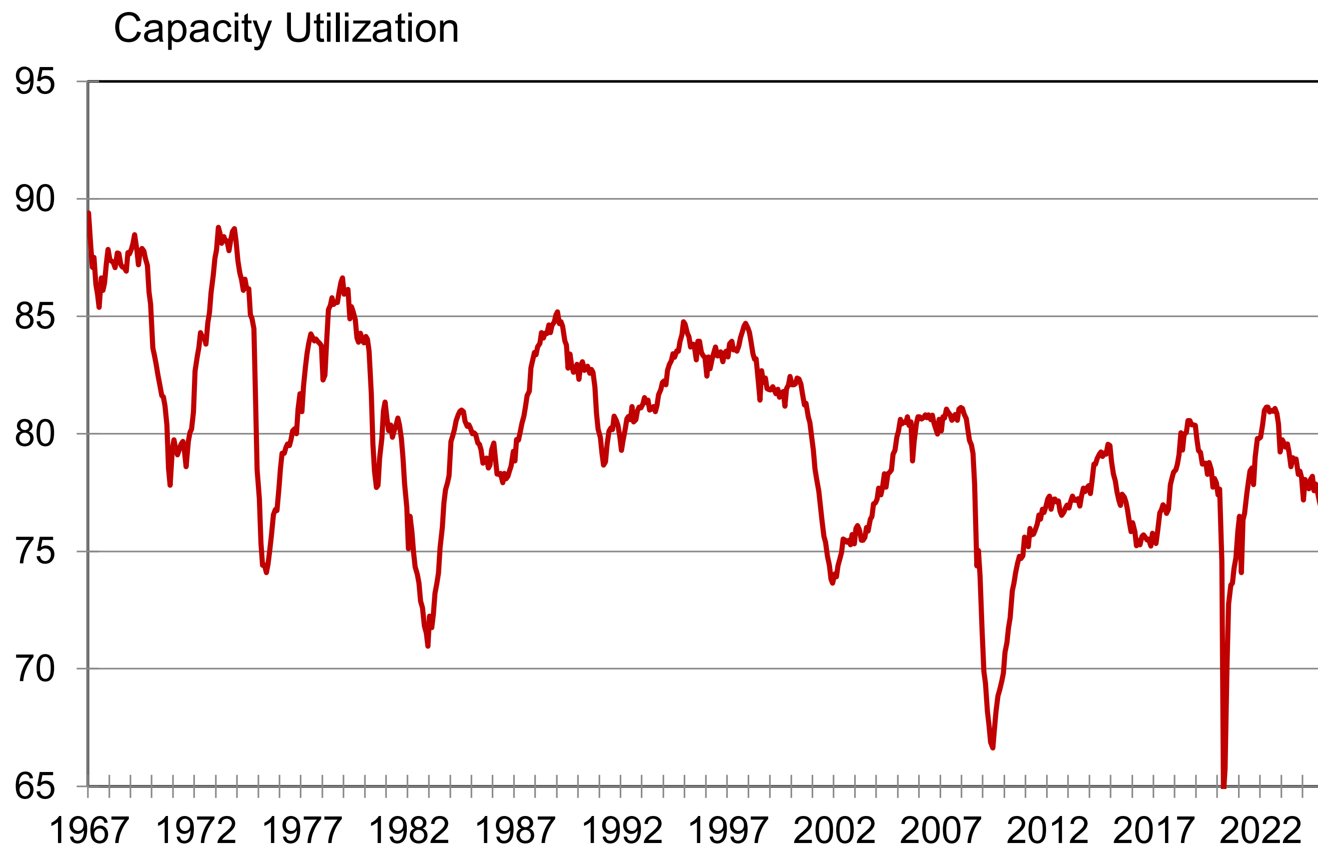
Not Your Father's Household Balance Sheet

- *Household Net Worth increased to **$177Trillion***
- *Financial Assets increased to **$118 Trillion***
- *2022 brutal on retirement savings, how about 2025? Savings Rate has declined to 2008 lows.*
- *Net worth has been growing faster than inflation*

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

RISING CAPACITY UTILIZATION

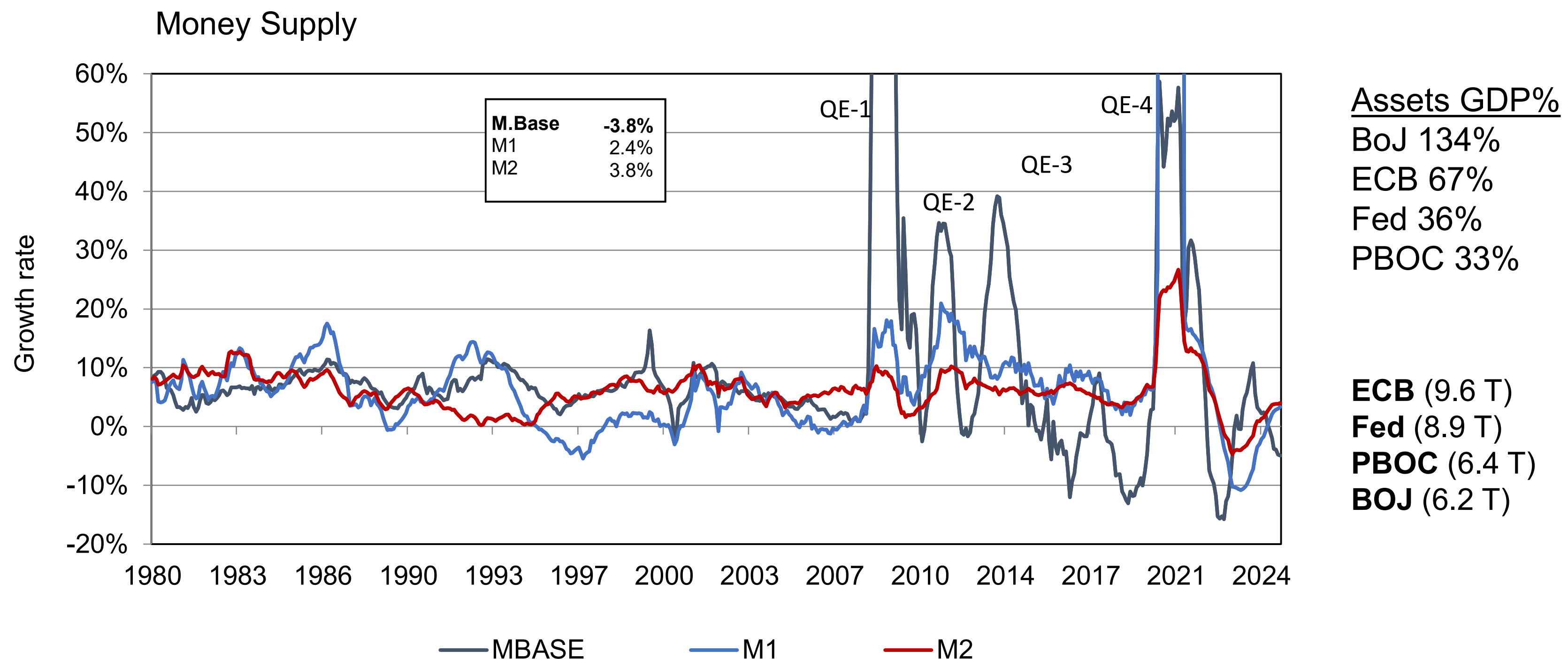
- Capacity Utilization can drive inflation and investment, but forces of secular disinflation and *Fourth Industrial Revolution* are now waning.
- Offshoring/globalization trends reversing with automation reducing labor intensity.
- Transportation, energy, basic material costs increasingly more critical than labor costs



Source: U.S. Government Data

MONEY SUPPLY VOLATILITY INCREASES EQUITY VOL, BUT HARDLY HELPS ECONOMY

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



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

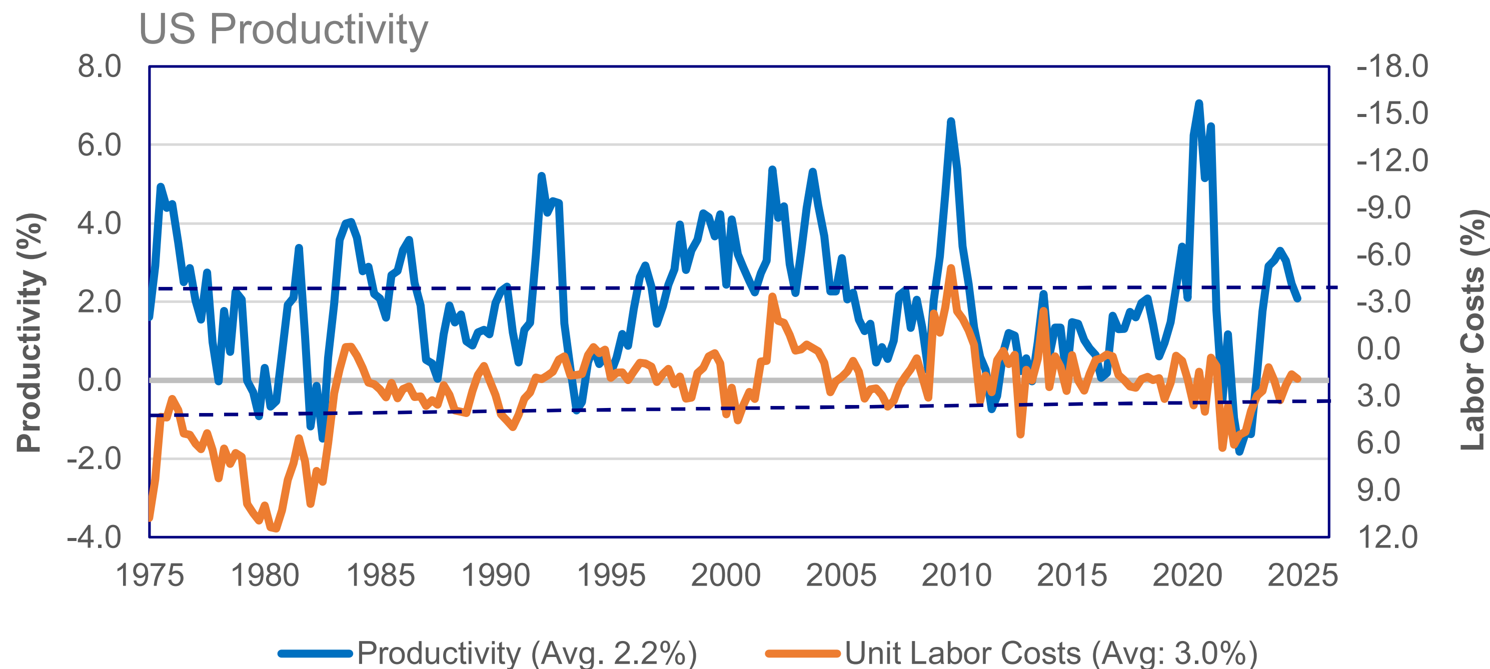
ECB (9.6 T)
Fed (8.9 T)
PBOC (6.4 T)
BOJ (6.2 T)

Source: U.S. Federal Reserve

GROWTH, PRODUCTIVITY AND LABOR COSTS

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

Higher Labor Costs can undermine otherwise higher productivity expectations, yet reduced real government spending should be more than offset by improved Net Trade

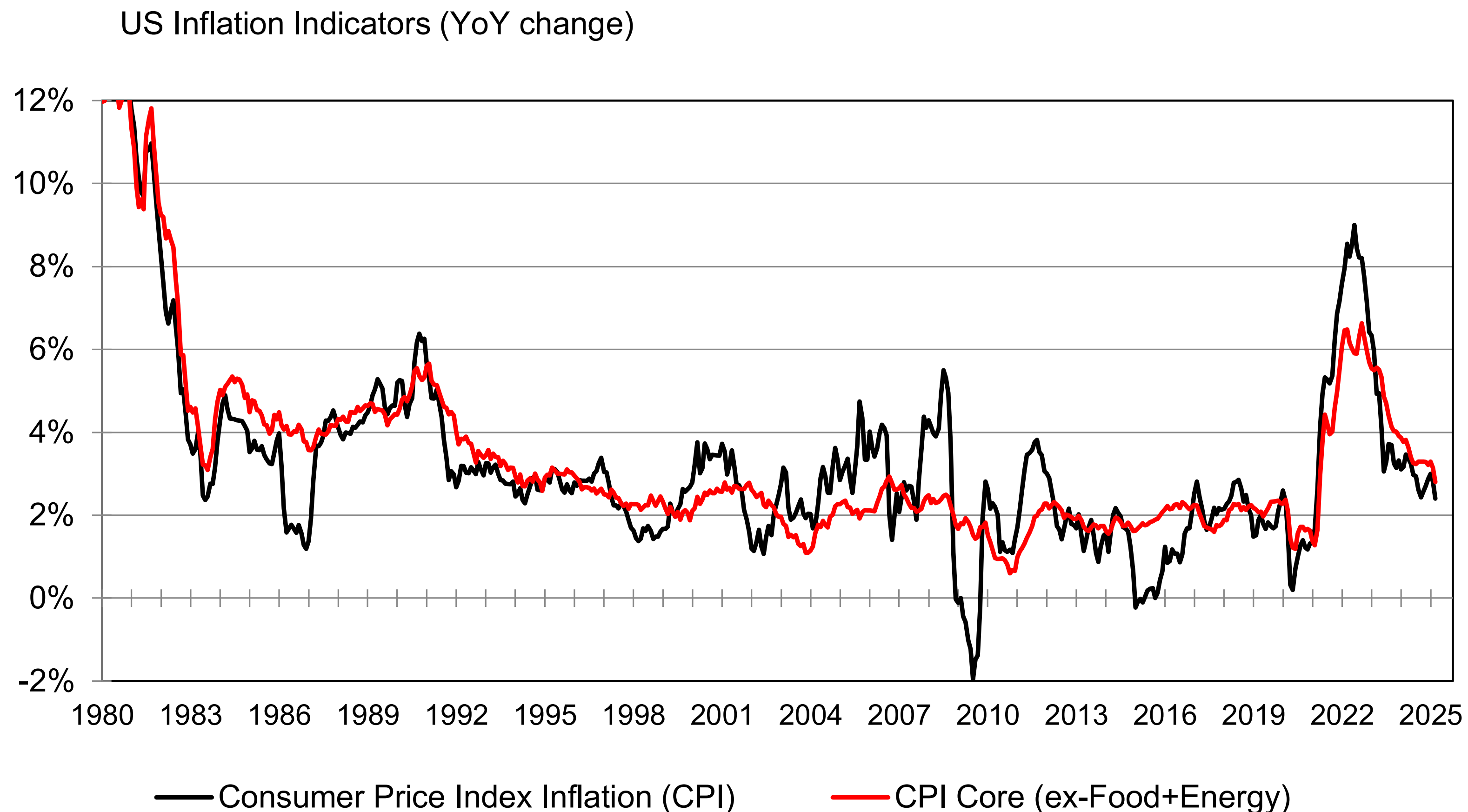


G = Gov't Spending
C = Consumption
I = Investment
T = Net Exports (Trade)

Source: U.S. Government Data

US CPI INFLATION WILL SETTLE HIGHER ~3%

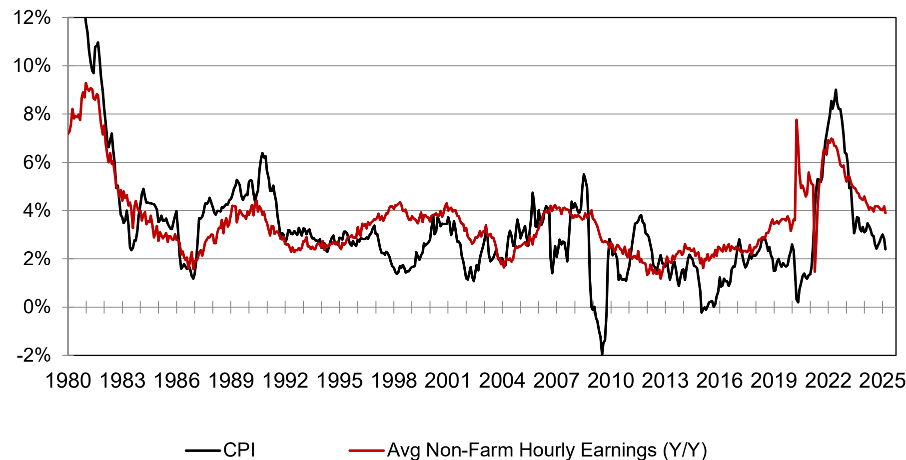
- Inflation finally rolled over, but many inflationary forces still remain (housing, labor)
- Higher *inflation expectations* persist, supported by labor, housing transportation costs
- Inflation now settled near longer run equilibrium with sticky forces, inflation expectations
- *Disinflation* receding—innovation, comparative advantage, creative destruction

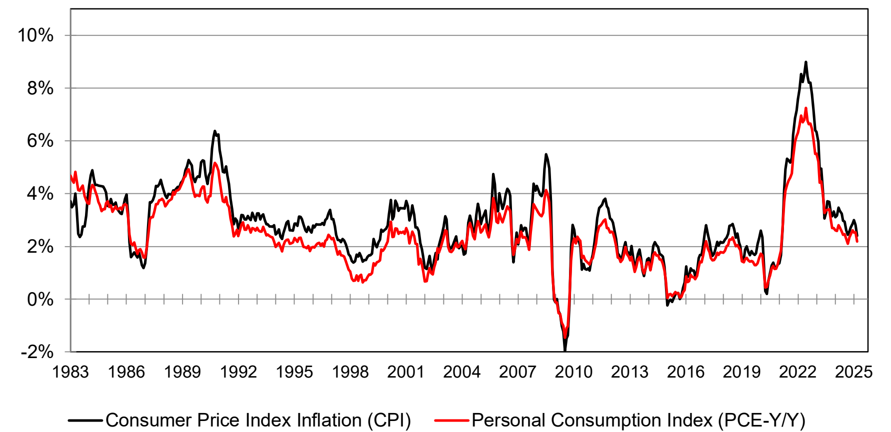


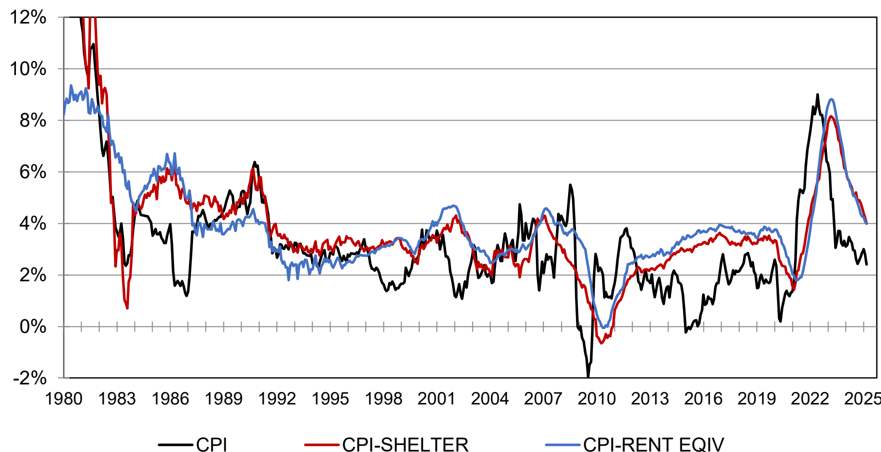
Source: U.S. Government Data

BROAD-BASED INFLATION SPREAD GLOBALLY

Broad-based US Inflation accelerated since Jan. 2021, and spread globally
Wasn't transitory, impacting energy, basic resources, commodities, and labor
Rising inflation expectations embedding labor, housing, transportation costs







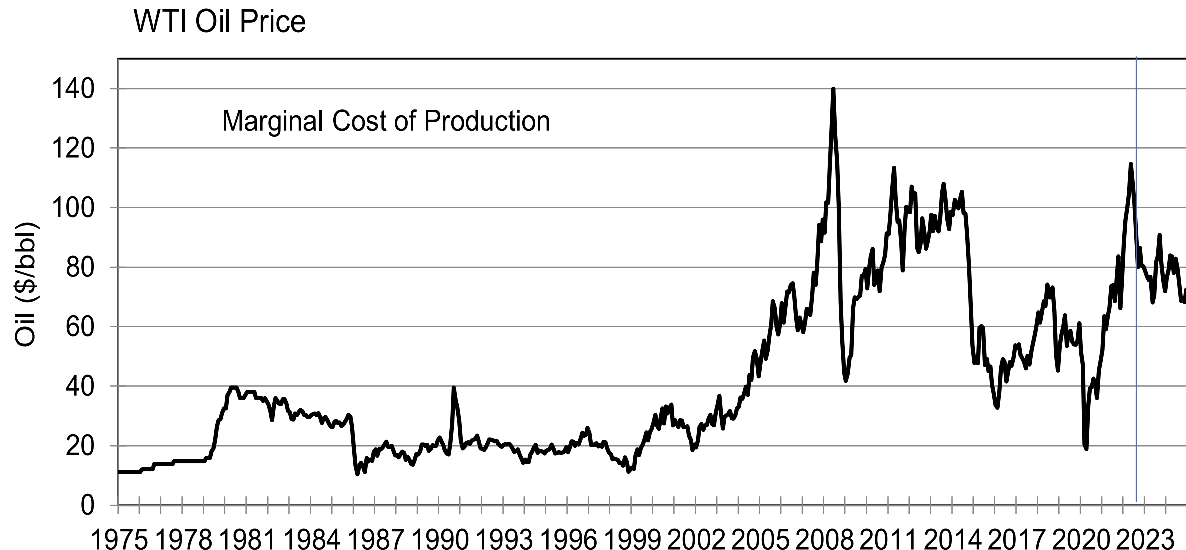
<u>Global Inflation Tracking (CPI)</u>

United States	2.8%	
Europe (EMU)	2.4%	
United Kingdom	3.4%	
Japan	3.7%	←**WOW!**

WHAT IS THE EQUILIBRIUM OIL PRICE?

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

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

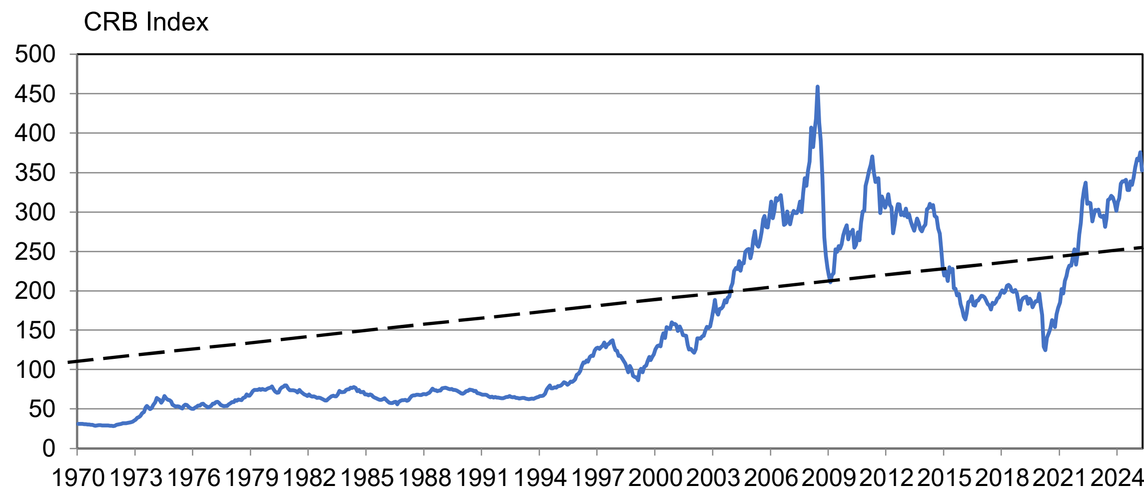


Normal equilibrium price for WTI was $55-60 thru 2020, but is likely ***$65-75*** with more regulation and reduced energy infrastructure investment

Source: EIA

BASIC RESOURCE INTENSITY DECLINING

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



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

Note: Monthly returns for 1s3-2017 CRB Index

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

Source: Refinitiv DataStream & Strategic Frontier Management

EXTINGUISHING EMERGENCY MONETARY POLICY RISKS HIGHER BOND VOLATILITY, DEBT CRISIS

- Federal Reserve pivot to reduce QE holdings, normalize interest rates--Unwinding central bank holdings (QE→ QT) results in low to negative money growth
- New secular regime of higher inflation and interest rate expectations as disinflation of *Fourth Industrial Revolution* moderates. Emerging Markets competitive advantage diminishing.
- *Inflation targeting* problematic, as is Fed's forward guidance (i.e., dot-plots or *published forecasts*). ECB, BoJ, BoE, SNB, RBA need to keep rates higher for longer targeting inflation, yet diverging.
- SFM believes US Long-run Inflation: CPI: 3% (not PCE: 2%), expect Long-run Fed Funds: 3½%. US Debt + Fiscal Deficit + QT increase bond supply and issuance→macro volatility, liquidity issues

Median Forecast								**LongRun Forecast**	
U.S. Fed %	**2021**	**2022**	**2023**	**2024**	**2025e**	**2026e**	**2027e**	**Fed**	**SFM**
GDP	5.90	0.50	2.60	2.50	1.70	1.80	1.80	1.80	2.20
U.Rate	4.80	3.70	3.80	4.20	4.40	4.30	4.30	4.20	4.80
PCE	4.20	5.60	2.30	2.40	2.70	2.20	2.00	2.00	2.50
Core PCE	3.70	4.80	2.60	2.80	2.80	2.20	2.00	2.00	2.50
Implied CPI	3.50	6.10	2.80	2.90	3.20	2.70	2.50	2.50	3.00
Federal Funds Avg.	0.13	4.38	5.38	4.43	4.01	3.45	3.24	3.11	3.50

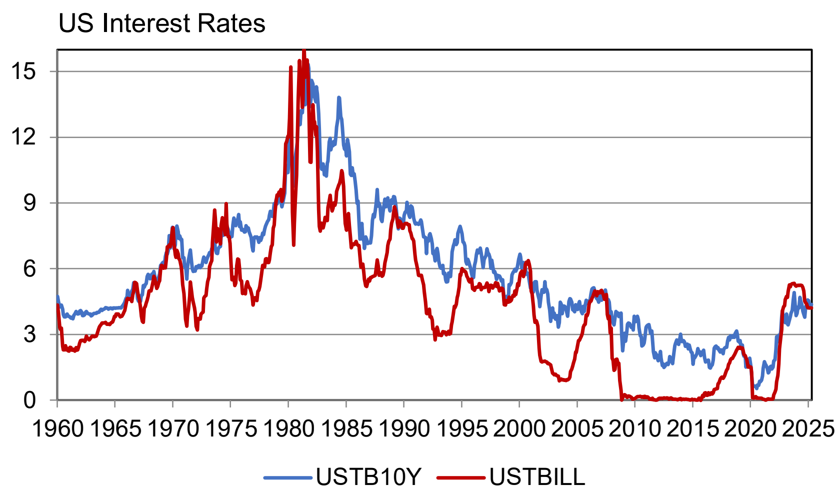
Interest Rates	2021	2022	2023	2024	2025e	2026e	2027e	Longer Run
FOMC Avg.	0.13%	4.38%	5.38%	4.43%	4.01%	3.45%	3.24%	3.11%
Forecast[1]	0.25%	4.50%	5.50%	4.50%	4.00%	3.50%	3.50%	3.50%
Rate Change	0.00%	4.25%	1.00%	-1.00%	-0.50%	-0.50%	0.00%	

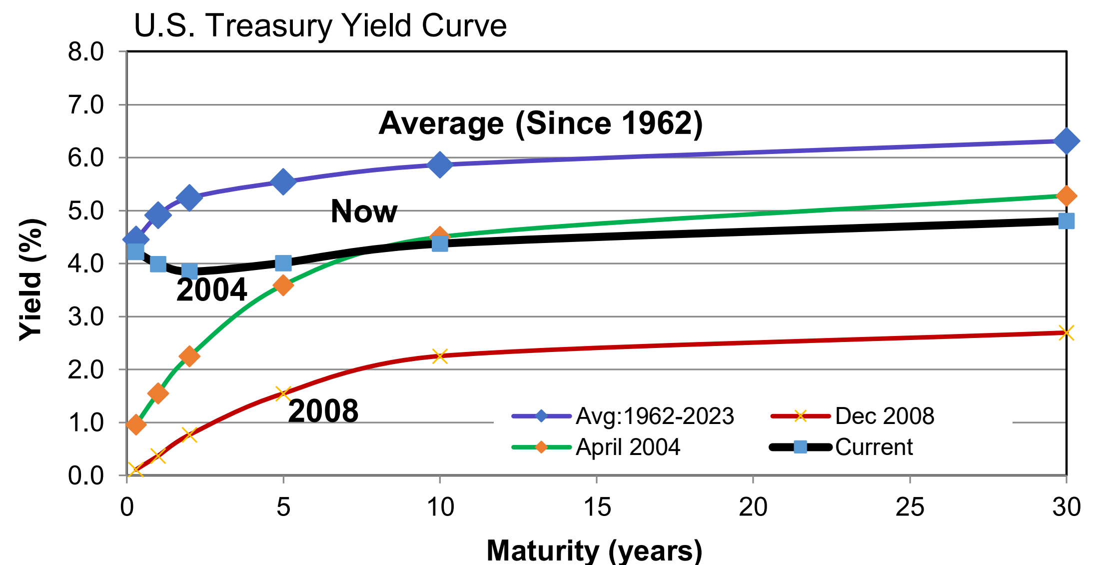
1. Top-end of indicated Fed Funds range

Source: U.S. Federal Reserve (March 10, 2025) and Strategic Frontier Management

INTEREST RATES MUST NORMALIZE

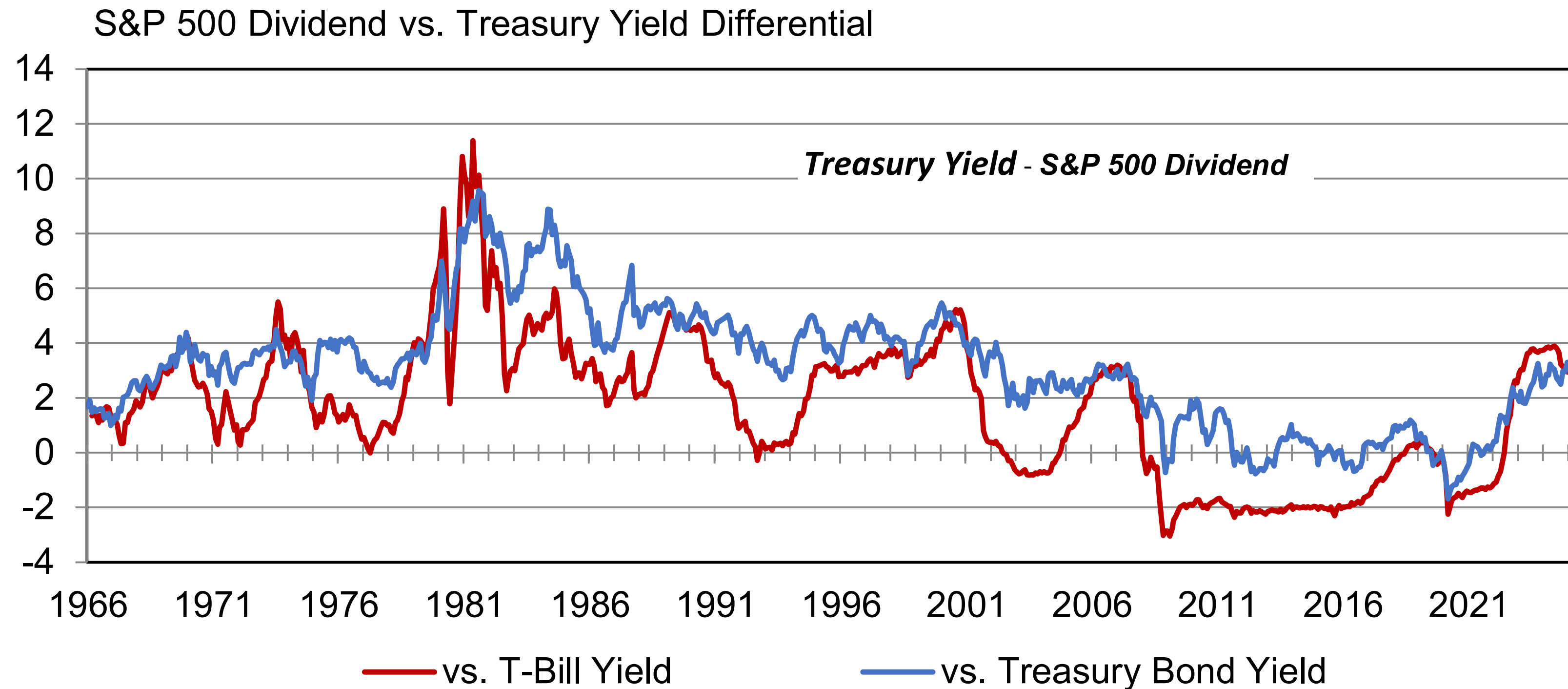
- Global interest rates manipulated with unsustainable monetary policy, inc. QE: Too Low for Too Long induced *Explicit Moral Hazard and* extinguished the inflation risk premium.
- Mislead investors, business, and consumers boosted non-transitory inflation expectations—Expect negative real bond returns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





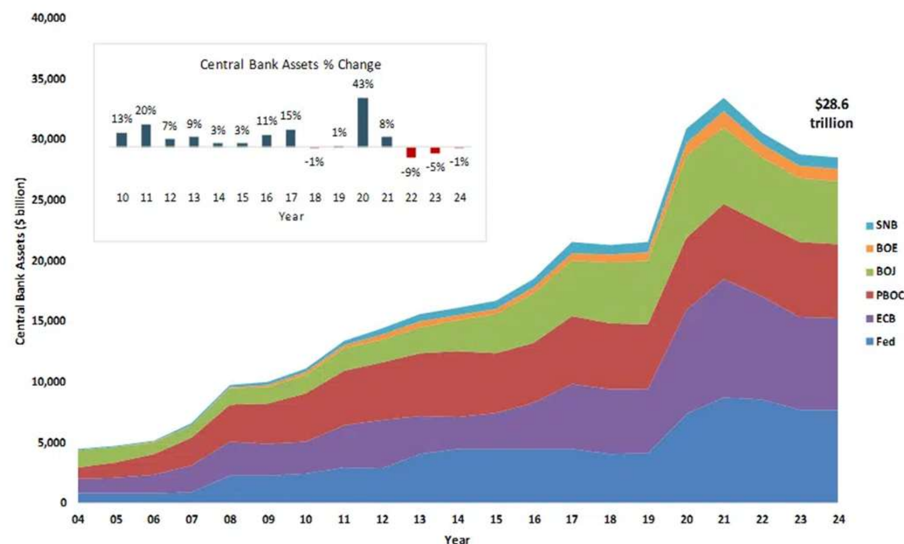
Source: Federal Reserve

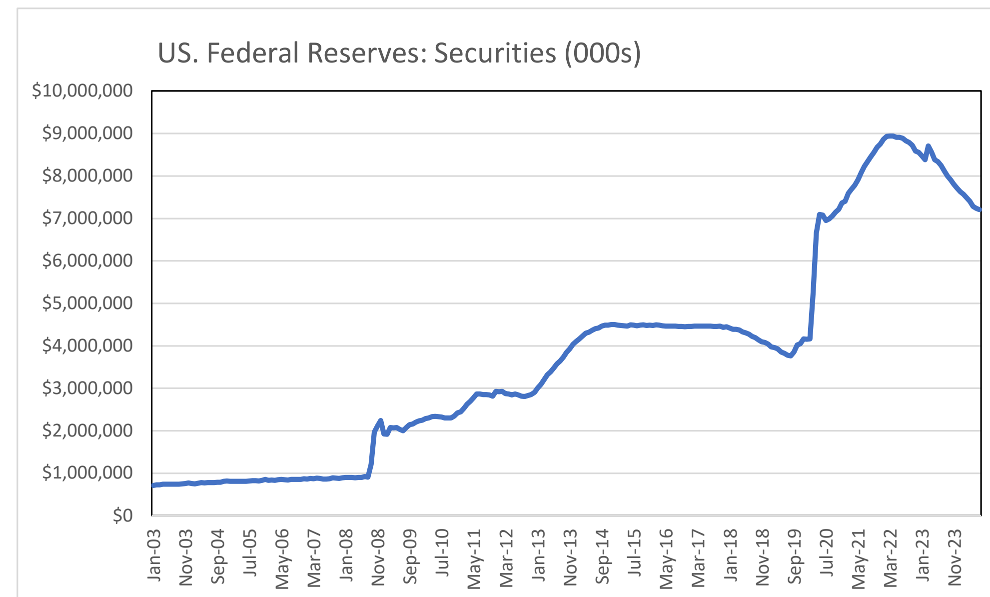
TREASURY BILLS EXCEED VS DIVIDEND YIELD



THE PROBLEM: INFLATION & MONEY GROWTH

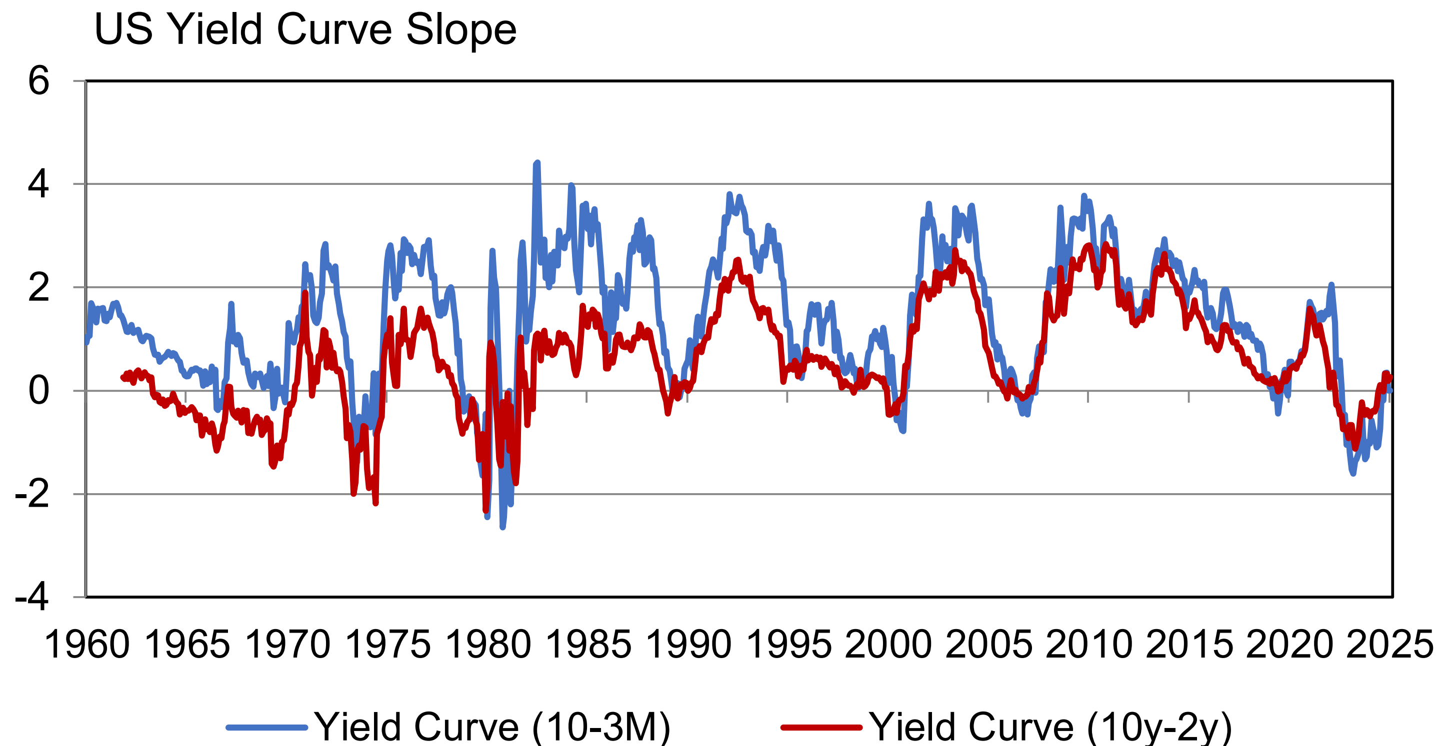
- Massive money growth and low rates for an extended period increased explicit ***moral hazard***, but monetary normalization is now very difficult (QT particularly)
- United States, Japan, European Central Bank, and China hold similar balances
- Federal Reserve needs to unwind QE holdings of about $5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



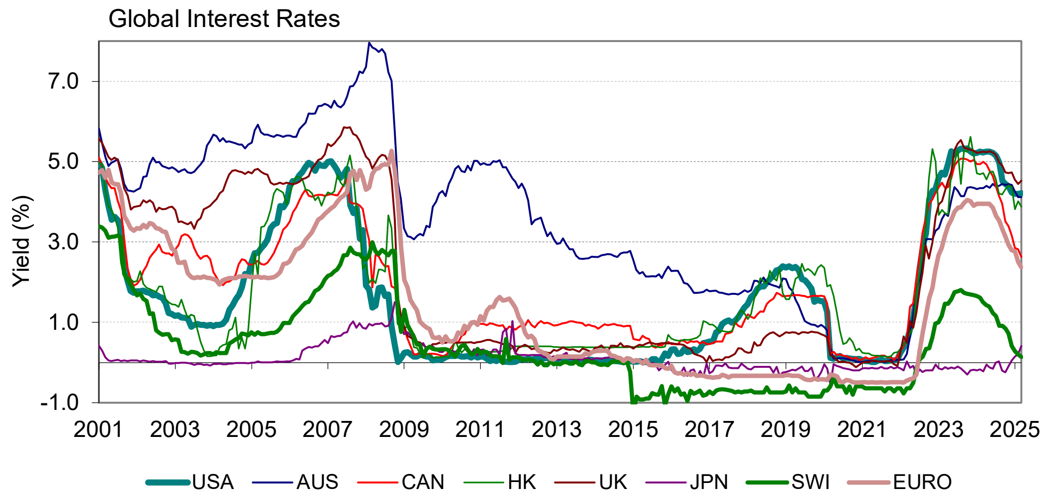


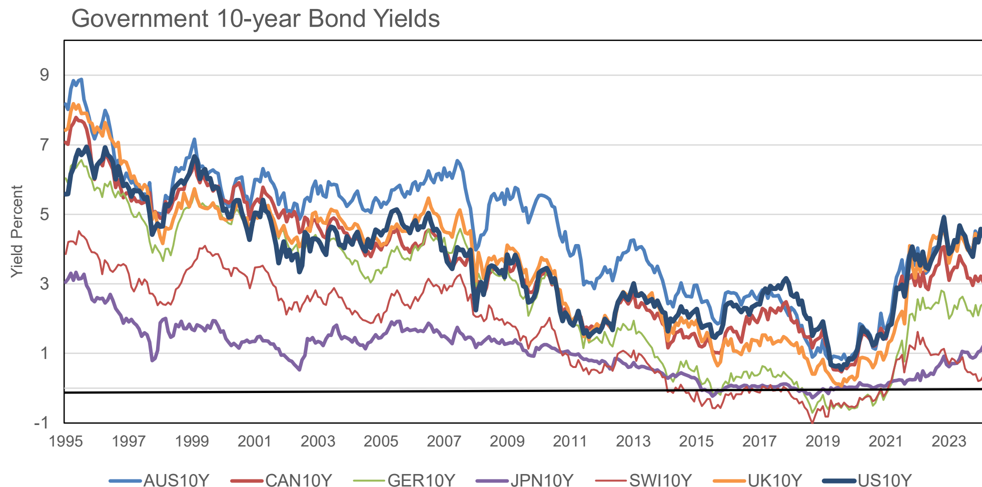
US YIELD CURVE INVERSION UNSUSTAINABLE

- Yield curve steepened despite declining interest rates.
- Risk seeking behavioral biases a result of *explicit moral hazard* for extended period
- Misguided monetary policies and stimulus have wrecked havoc.



GLOBAL INTEREST RATES



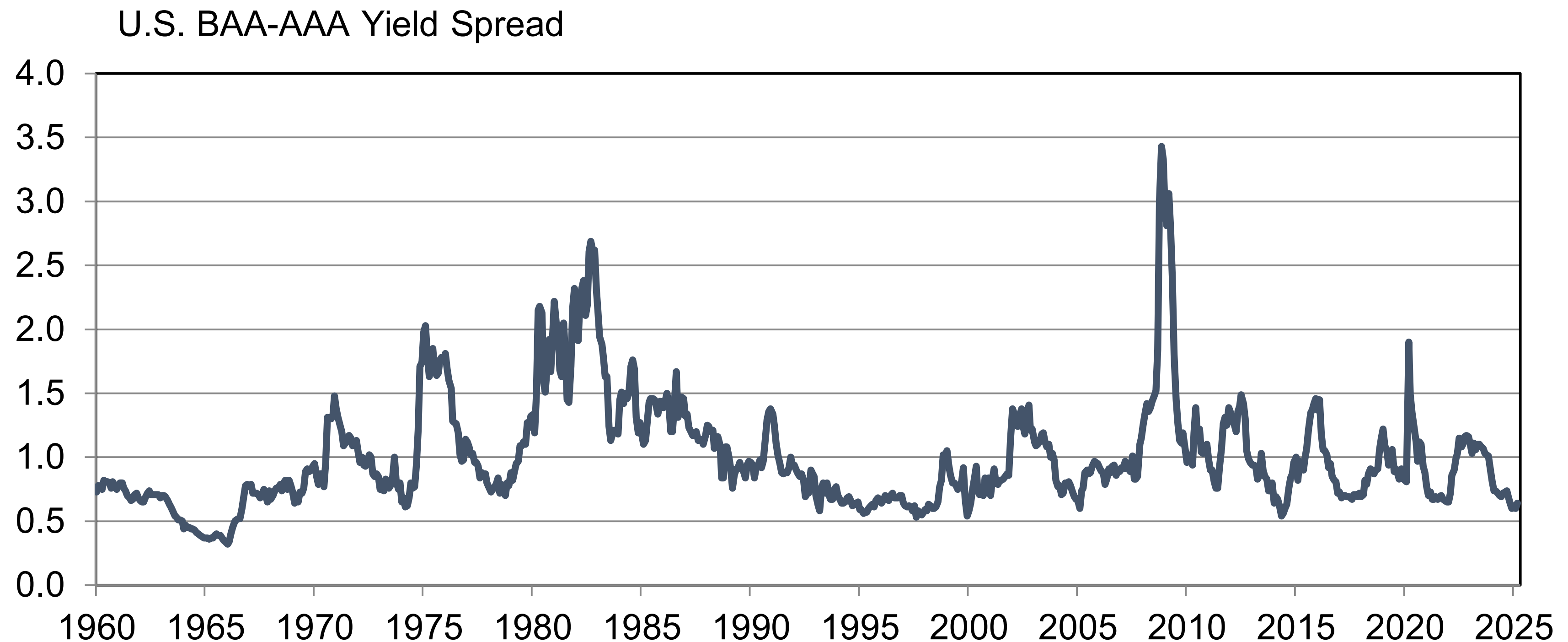


- Global policy interest rates were too low for too long. Reversing QE→QT should steepen yield curves, as global bond volatility increases.
- New US interest rate regime anchored at higher level of 3.5% vs. 2.5%. Extended financial imbalances suggest bond yields may overshoot equilibrium.
- Central Banks -- including U.S Fed, U.K. BoE, Bank of Canada, ECB, and Bank of Japan -- all still have work to do reducing bond holdings (QE). This will force higher bond yields even if interest rates are cut.

Source: Refinitiv DataStream & Strategic Frontier Management

CREDIT SPREAD: INVESTMENT GRADE

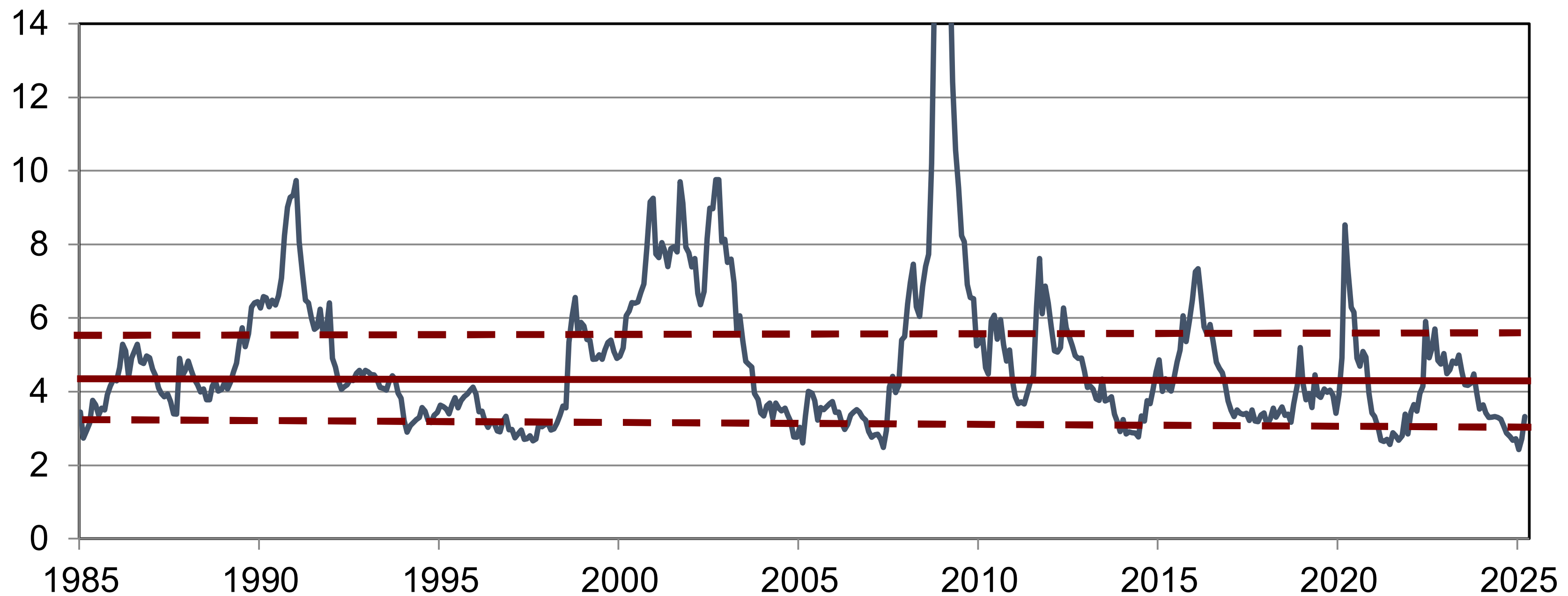
Investor demand for yield can drive credit spreads to lower levels--investors are still chasing yield, and credit spreads are tight again.



Source: Moody's

CREDIT SPREAD: HIGH YIELD

- Credit spreads are too tight. Stagflation risk receding, but debt burdens are soaring (government and corporate), and bankruptcies increasing.
- Such low credit spreads are inconsistent with economic conditions

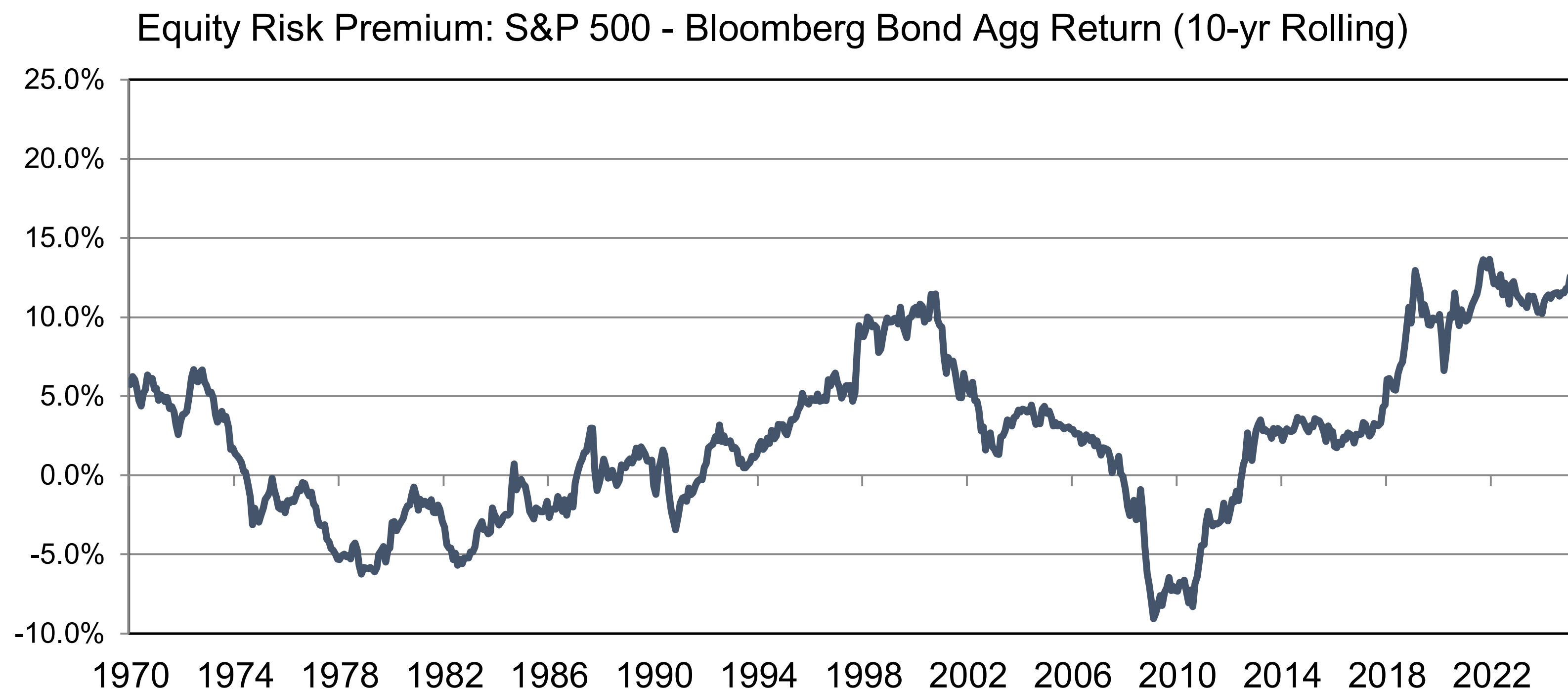


US DOLLAR ADVANTAGE DIMINISHING

- US$ remains world's reserve currency—which has trended higher since 2012 despite concerns, thereby limiting inflation by lowering import and basic material costs
- US Treasuries have least currency volatility and best liquidity for quasi-linked currencies, but still remarkable how resilient the U.S. dollar has been for over a decade
- Upward trending US dollar might level out, if not for rebalancing global world trade. Fairer trade conditions (lower trade barriers, tariffs) will reduce America's trade and budget deficits, as well as increase potential growth, further supporting the U.S. dollar.

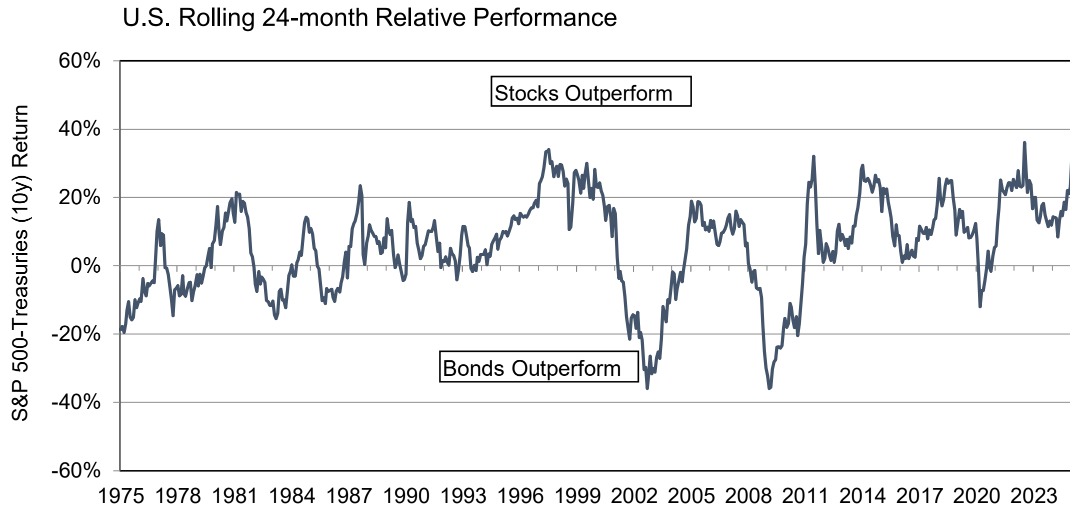
ROLLING 10-YR STOCK VS. BOND RETURN

- 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?



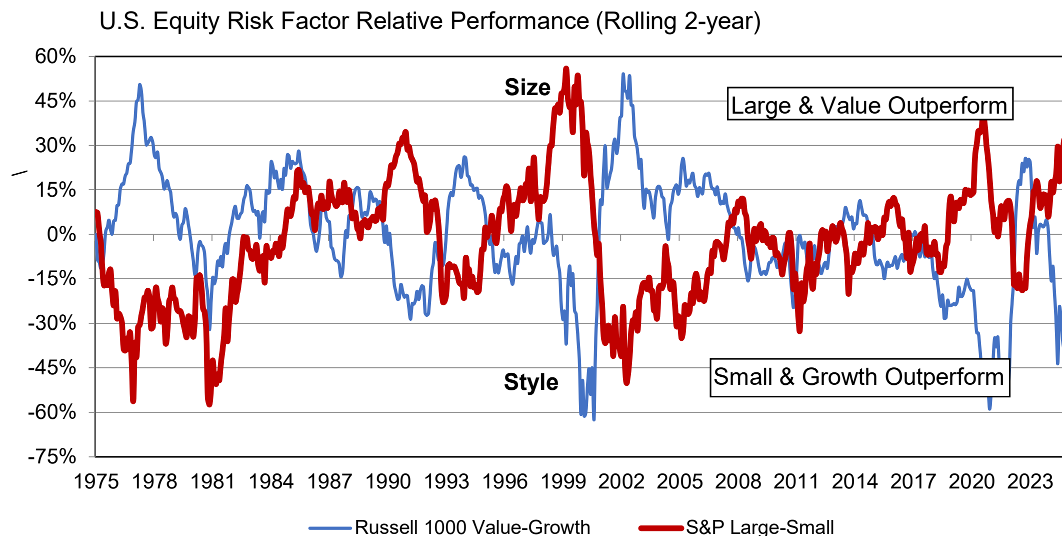
Source: Strategic Frontier Management, Standard & Poor's, Bloomberg-Barclays Indices

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

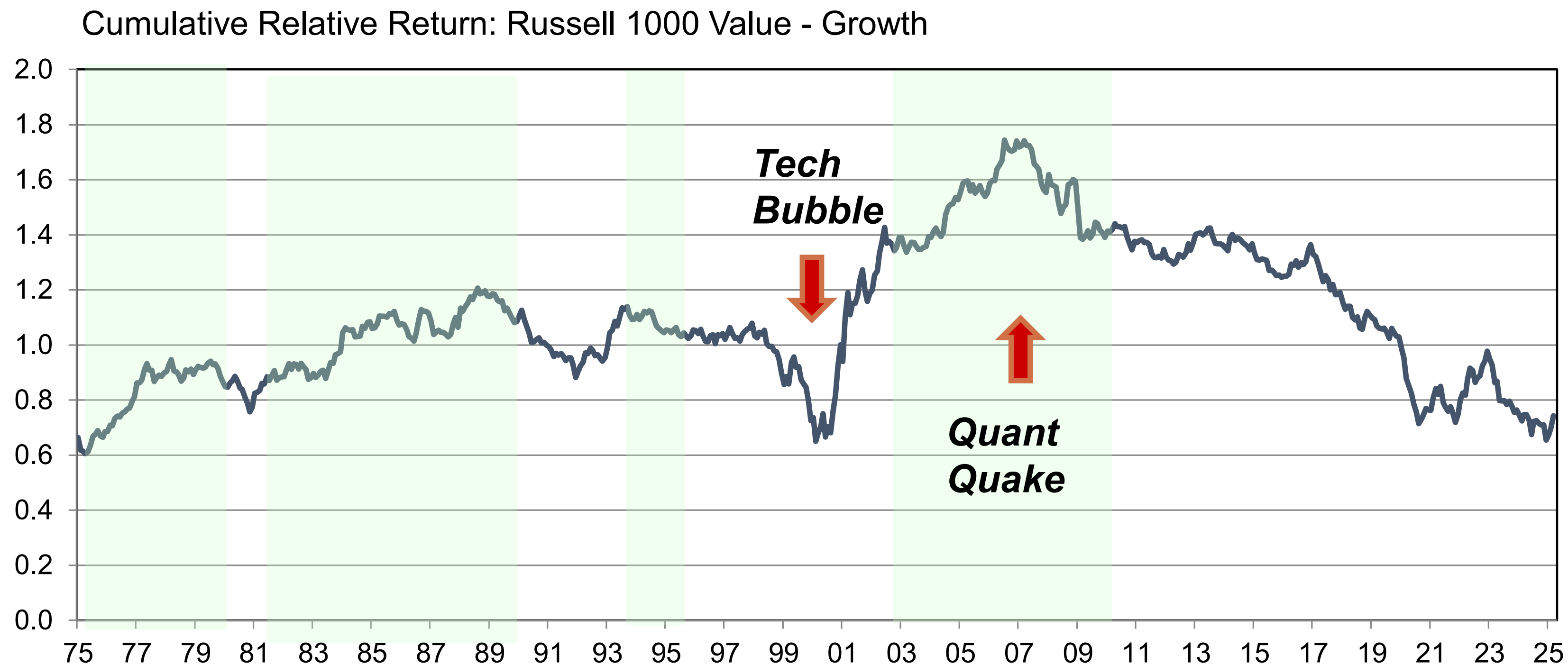
Equity style investing can benefit from differential returns, and often cycles are not synchronized—small-cap is expected and has begun to rebound

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

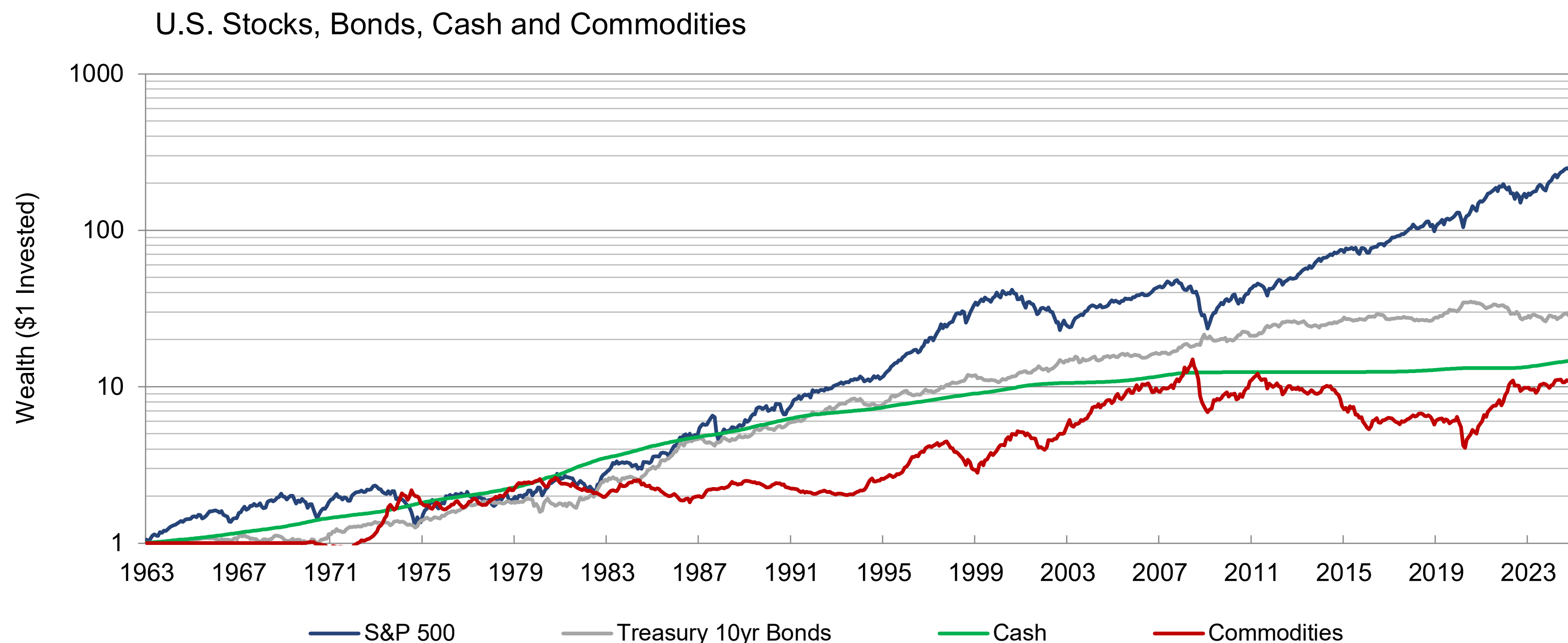
- Fundamental Value Investor may be an Extinct or Endangered Species
- Historical advantage of value tilt absent since Financial Crisis, but style and size risk premiums must rebound for fundamental ***active management*** to be revived.
- Long-term risk premiums such as Value-Growth and Small Size (large vs. small) are cyclical but should persist, and also can be exploited tactically.



Source: Refinitiv DataStream & Strategic Frontier Management

LONG-TERM ASSET CLASS RETURNS

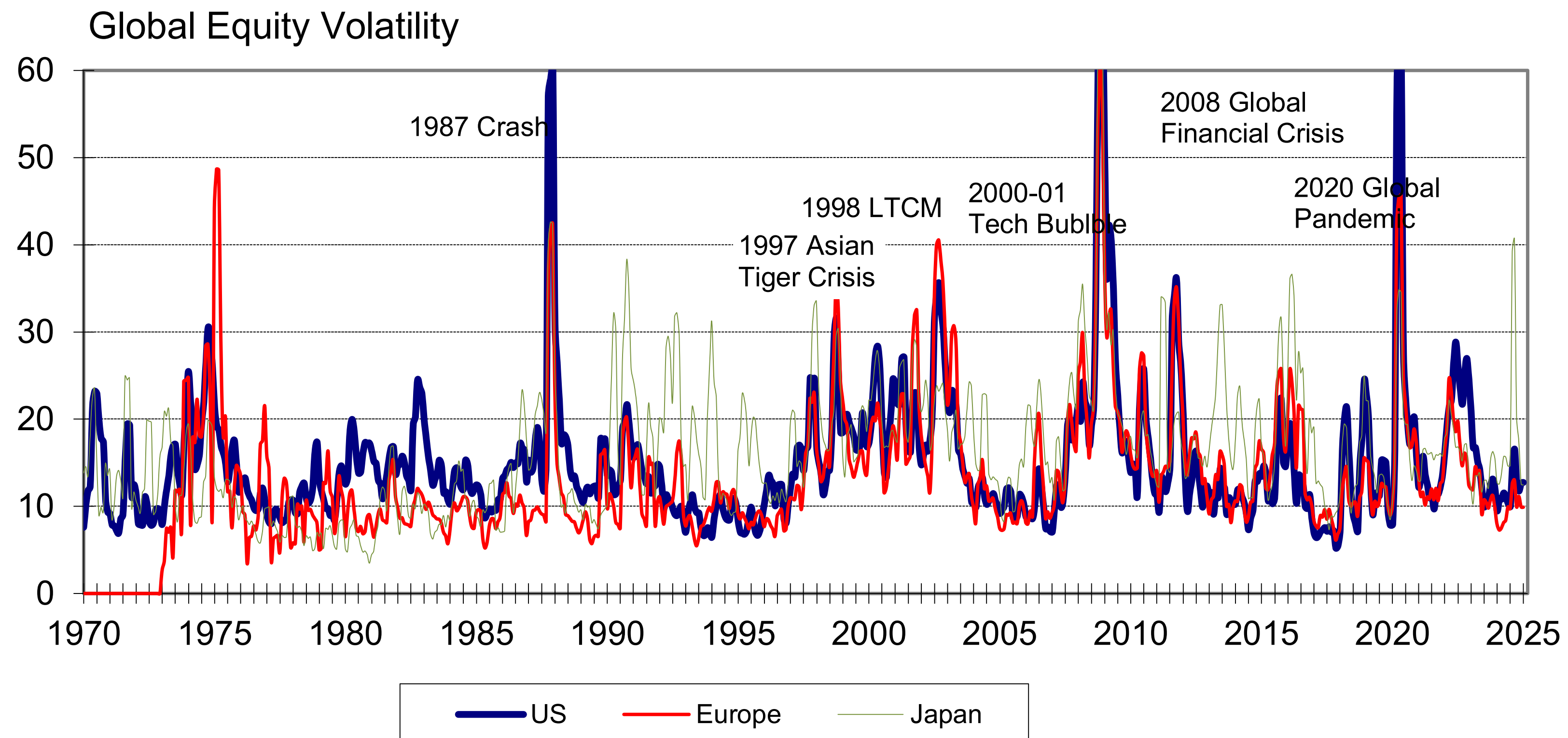
- Global Equity is the best way to stay ahead of inflation, particularly as overvalued bonds struggle with normalization (raising rates, reducing bond holdings)
- Commodities lag both cash and inflation by definition over longer horizons.
- Cryptocurrencies are speculative commodities, and too volatile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



Source: Refinitiv DataStream and Strategic Frontier Management

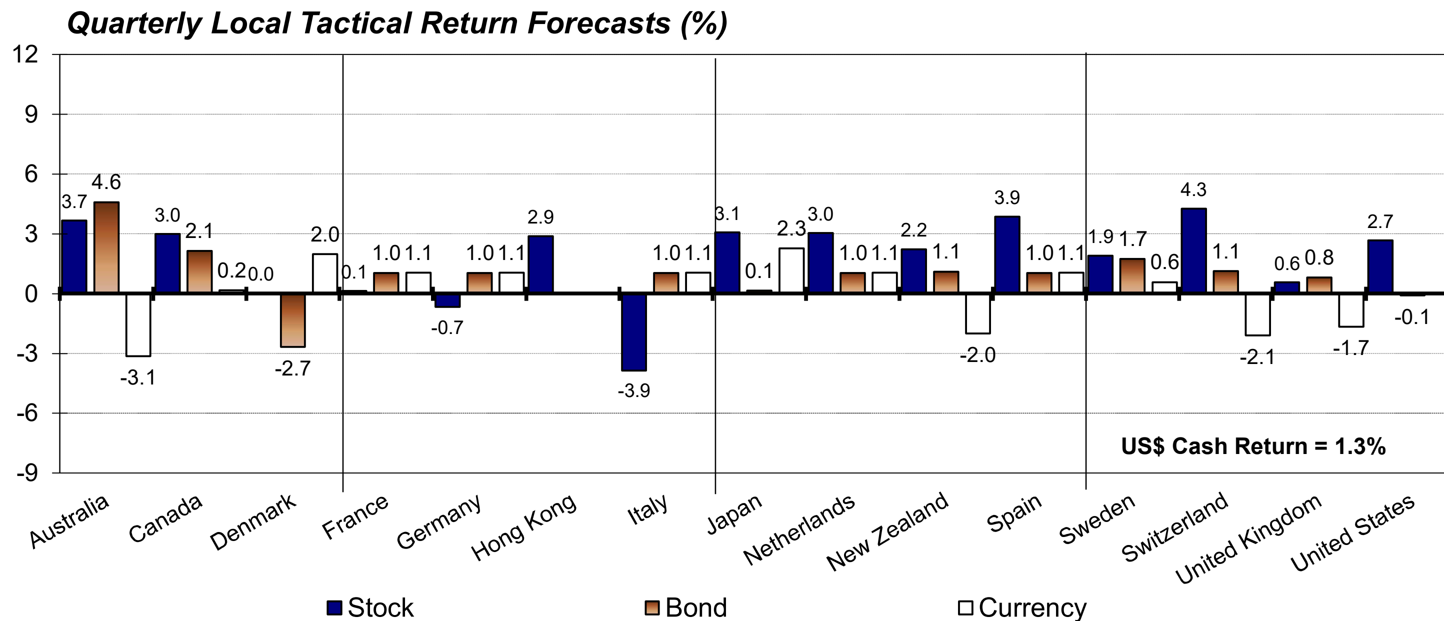
GLOBAL EQUITY MARKET VOLATILITY

- 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, LOW RETURNS EXPECTED OVERALL



Global Tactical Asset Allocation Quarterly Forecasts(%)

			Local Markets		**In (US$)**		US$
MSCI	WrldGvt	Apr 2024	Equity	Bond	**Equity**	**Bond**	Currency
100%	100%	World	2.4	0.4	**2.6**	**1.0**	0.2
16%	34%	Europe	0.8	1.0	**1.0**	**2.1**	0.2
10%	19%	Pacific Basin	3.2	0.5	**4.3**	**2.3**	1.2
29%	55%	Non-US World	1.9	0.8	**2.4**	**1.9**	0.5
71%	45%	US	2.7	-0.1	**2.7**	**-0.1**	
		Cash		1.1		**1.1**	

	Lg-Sm	Va-Gr	High Yield - 10yT
US Style	0.1%	1.4%	-0.7%
	Large -	*Value*	*10yTs*

Source: Strategic Frontier Management - Global TAA Models (April 2025)

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

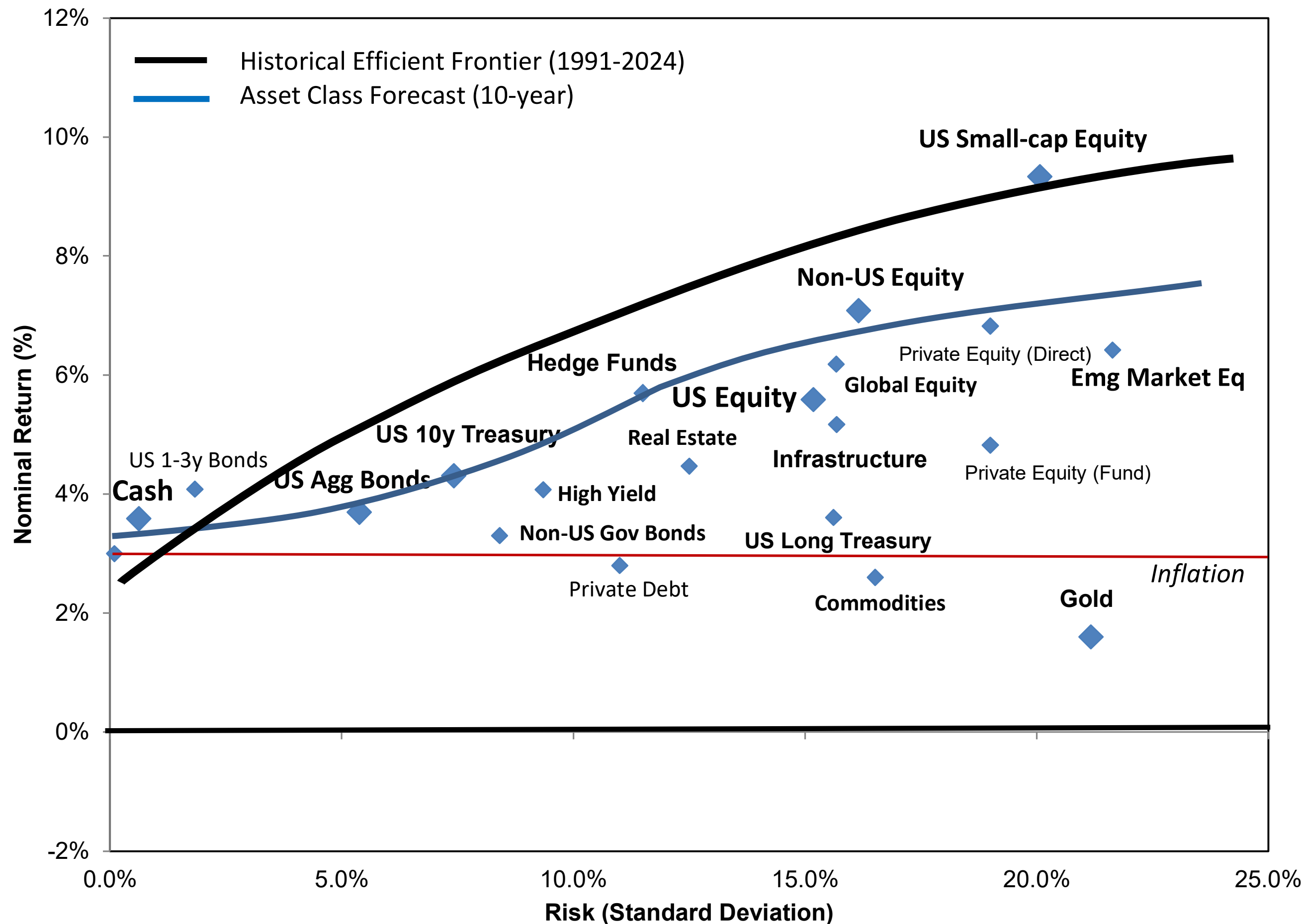
		10-year Returns		30-Year Returns		1900-2024	10-year Forecast		Sharpe	
Ref Index	Asset Class	Return	Risk	Return	Risk	LT Return	E[Return][1]	Risk	Ratio	2024
S&P 500	U.S. Stocks (S&P 500)	13.1%	13.5%	10.9%	15.2%	10.1%	5.6%	15.2%	0.13	25.0%
Russell 2K	U.S. Small-cap	7.8%	18.9%	9.0%	20.1%	8.1%	9.3%	20.1%	0.29	11.5%
MSCI Wx	World (ex-US)	5.8%	15.0%	5.7%	16.2%	3.9%	7.1%	16.2%	0.22	5.3%
MSCI EEM	Emg. Market Equity	4.0%	17.7%	5.3%	21.6%		6.4%	21.6%	0.13	8.1%
US10Y Treasuries	U.S. 10Yr Treasury	0.6%	7.5%	4.5%	7.4%	4.5%	4.3%	7.4%	0.10	-1.5%
US BBG Agg	US BBG Agg Bond	1.4%	5.0%	4.6%	4.1%	-.-	3.7%	5.4%	-0.18	1.3%
US BBG G/C 1-5	US BBG Gov/Cr 1-3y	1.5%	2.2%	3.4%	1.8%	-.-	4.1%	1.8%	0.27	3.8%
BoA/ML HY	US High Yield (ML/BoA	5.1%	7.6%	7.0%	8.5%	-.-	4.1%	9.3%	0.05	8.2%
JPM Non-US Bond	JPM Non-US Bond	-1.3%	8.4%	3.0%	8.4%	-.-	3.3%	8.4%	-0.03	-6.7%
CRB	Commodities (CRB)	4.5%	17.0%	5.2%	16.5%	2.9%	2.6%	16.5%	-0.06	18.4%
Gold	Gold (US$)	8.3%	13.6%	6.6%	15.4%	4.0%	1.6%	21.2%	-0.09	27.1%
3m Tbills%	Cash (T-Bills)	1.8%	0.5%	2.4%	0.6%	3.3%	3.6%	0.6%	0.00	5.0%
CPI	US Inflation (CPI)	3.0%	1.1%	2.5%	1.0%	3.0%	3.0%	1.0%	-0.60	2.9%
MSCI World	Global Equity	10.5%	18.1%	8.5%	15.2%	7.0%	6.3%	15.7%	0.18	19.2%
Global 60/35/5	Global Multi-Asset	6.1%	12.6%	6.8%	13.7%	4.7%	5.7%	13.7%	0.16	9.7%
MSCI World Infra	Infrastructure	5.9%	16.1%	10.0%	15.7%		5.2%	15.7%	0.10	15.1%
Private Equity	Private Equity[4]	8.5%	18.9%	8.0%	20.1%		5.5%	19.0%	0.10	
	Small-cap Equity	-5.3%		-1.9%		-.-	3.7%			-13.5%
	Stock-Bond	12.5%		6.5%		5.6%	1.3%			26.6%
	Stock-Cash	11.3%		8.5%		6.8%	2.0%			20.0%
	Bond-Cash	-1.2%		2.1%		1.2%	0.7%			-6.6%

(1) Strategic Frontier Management, Morningstar SBBI (1926-1950) & Credit Suisse Global Investment Returns Yearbook
(2) Periods greater than 1-year are annualized.

Source: Strategic Frontier Management, April 1, 2025

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 appear inefficient allocations on risk-adjusted basis
- More normal *strategic frontier* after a general Return to Natural Order



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 2025

RECOMMENDED GLOBAL ASSET ALLOCATION

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

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