Market Commentary
January 2024

English Version

Insigneo's Investor's Almanac for 2024: Navigating a Sea of Change

Quarterly Call Q1 | 2024

Get guidance on investments, and the major structural factors behind your clients' portfolios.

insigneo

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> With a soft landing, S&P 500 fair value at ~4,900-5100, US 10-Year Treasury fair value at ~3.6%-3.9%; under a mild recession, index at ~3,500-3,700, UST 10YR at ~2.9% and 3.2%.

> U.S. financial asset returns should remain at the vanguard of global portfolios for some time to come.

> Going back 40 years, on average, both equities and fixed income have posted positive returns over the next 6, 12 and 24 months after the last Fed hike and the first Fed cut.

> The upcoming U.S. presidential election is anticipated to further exacerbate the nation's political divide, marking perhaps a severe test of American democracy and potentially weakening its global standing.

Executive Summary

> The first half optimism will gradually give way to caution as we navigate complex markets and prepare for potential economic softening in late 2024.

> However, the Fed's dovish pivot in December of 2023 does give us some optimism that it may be able to stick that elusive soft landing.

> Over the next 6 months, 85% of no recession, 10% of mild recession, and 5% of severe recession; over the next 12 months, 45% of no recession, 45% of mild recession, and 10% of severe recession.

> While we expect inflation to continue falling, the risks of a resurgence remain and cannot be completely ruled out.

Charting the Course Through Policy Shifts and Geopolitical Currents

As we embark on yet another journey through the largely profitable, sometimes turbulent, but never dull world of investing, it is always wise to pause, reflect, and ask ourselves "What's changed? What's new?" Much as an old sea captain would read their sextant periodically, celestially navigating using the Sun, Moon, or stars to gauge their latitude and longitude, we too regularly check our position when new information comes our way to maintain the right course. In Insigneo's Investor's Almanac for 2024, we will provide an in-depth analysis of global economic trends and forecasts for various markets. A key theme is that, though the investable seas are clear today, murkier waters lie ahead as monetary headwinds, geopolitical risks, and high asset valuations cloud our passage in the second half of the year. We discuss trends in various sectors including equities, rates, credit, currencies, commodities, and emerging markets, highlighting the impact of

— "...optimism will gradually give way to **caution** as we navigate **complex markets** and prepare for **potential economic softening** in 2024."

geopolitical considerations, fiscal policies, and consumer behavior on these sectors. **The first half of the year's optimism will gradually give way to caution as we navigate complex markets and prepare for potential economic softening in 2024.** By many measures, this remains the most complicated investment landscape of our lifetime. To be sure, there are safe passages out there brimming with opportunities, but we must navigate skillfully as tempestuous waters lie all around us.

Is the Consensus Wrong Again?

Last year was not a good year for professional forecasters. Annual outlooks for 2023 were laden with predictions for recessions in the United States and most other major economic blocs around the world, coupled with bearish expectations for many financial assets. In fact, for the first time in the history of the data series, Wall Street consensus expectations, as compiled by Bloomberg, were that the S&P 500 would end the year deeply negative. **We are glad that we took the contrarian position. Not only were we not forecasting a recession, but we also expected a positive year for the broad index.** But even our own optimistic projections fell short of the market's exuberance. We expected the S&P 500 to return between 8 and 13% last year, materially above the consensus. Well, it soared more than 26%, driven largely by an astonishing 1800 bps of multiple expansion as rate expectations fell particularly sharply in the final quarter. To be sure, most of the gains were concentrated in a few AI-related names, such as Nvidia and Meta, which led to a massive dispersion of returns between the broad index and the median stock. Consequently, only 32% of active managers beat their respective benchmarks last year, again a historic level of underperformance never observed before. Indeed, the wholesome combination of excess US consumer savings and a strong labor market were strong enough to keep recessionary forces at bay.

Well, this year, market expectations are pointing in the opposite direction. Everyone is expecting a "soft landing" of the US economy and financial assets are already discounting this outcome. Predictably, consensus estimates have regained their positive bias and most major Wall Street firms expect the S&P 500 to end the year above 5,000 for the first time in its history. Most recessionary forecasts have gone the way of the Dodo bird. Given this set of abovementioned facts, does it make sense now to adopt the contrarian position once again? To predict a recession and reduce risk in our portfolios?

Macroeconomics 101: "It's the Job Market, Stupid"

The American labor market remains the steadfast pillar upon which much of this newfound optimism stands. It remains incredibly robust. To understand why, it is important to expand on a concept well known to most economists: the Phillips Curve. It is a framework that depicts an inverse relationship between the rate of unemployment and the rate of inflation within an economy. Developed by economist A.W. Phillips in 1958, it suggests that with economic growth comes inflation, which in turn leads to more jobs and less unemployment. This relationship was initially based on empirical observations showing that inflation tended to rise when unemployment was low and vice versa. In the short run, the Phillips Curve appears to hold due to immediate impacts on inflation and employment. However, eventually, this relationship might not hold true as other factors influence inflation. Indeed, some economists, like Milton Friedman, have challenged the original Phillips Curve, proposing that it only works in the short term because inflation expectations adjust over time. As workers and firms adjust their expectations of inflation, the trade-off between inflation and unemployment disappears eventually. Especially during periods of stagflation (i.e., where high inflation and high unemployment occur simultaneously), the model faced some serious empirical pushback, leading to the development of the expectations-augmented version that provides a more nuanced view. It suggests that any inflation-unemployment trade-off is temporary and influenced by people's expectations. In sum, its usefulness depends on the specific economic context and period being considered. In the short term, it can sometimes help predict the trade-off between inflation and unemployment. Eventually, it is less useful.

A further refinement of the Phillips curve framework accounts for nonlinearity. In other words, it means that the trade-off between inflation and unemployment might not be constant across different levels of unemployment. For example, the impact on inflation might be different when moving from 5% to 4% unemployment compared to moving from 10% to 9%. The concept is straightforward: when labor market slack exists, employers do not need to increase wages significantly, keeping inflation in check. However, in a full employment scenario, firms compete for labor by offering higher wages, steepening the labor supply curve. This non-linearity could be interpreted as a "kink" in the curve. It might also imply that there are certain thresholds or points of unemployment at which the behavior of inflation changes more dramatically. For example, when the unemployment rate drops below a certain level (like the natural rate of unemployment), the inflation rate might increase at a faster pace. Indeed, this model

— "The concept is straightforward: **when labor market slack exists**, employers do **not need to increase wages** significantly, keeping inflation in check. "

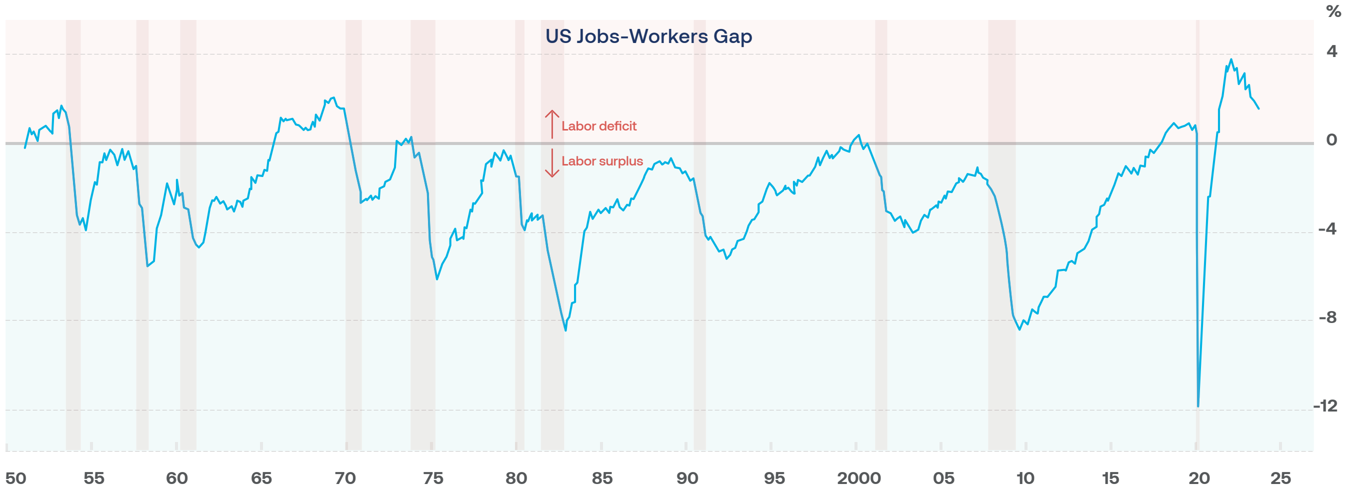
has effectively explained recent economic trends in the United States since the pandemic began in 2020. The pandemic also altered demand composition, with a shift from services to goods and back, impacting inflation and output in unexpected ways. Supply-side factors, such as reduced labor force participation and subsequent expansion, played significant roles in these dynamics as well.

Contrary to recent history, the next recession may simply result from ongoing monetary policy tightening. The economy could transition from growth to recession once job openings decline significantly, a shift that is currently not priced in. We may be approaching that point sooner than many now think. As Chart 1 demonstrates, during the post-pandemic peak, the US jobs-workers gap (i.e., the number of job openings per unemployed worker) reached a zenith of almost 4 in 2022. Since then, the trend has clearly fallen and probably sits close to 1.5 currently. If they continue to drift lower at their current pace, we expect it to reach zero by the middle of this year. This would mark a phase transition in the US economy, one going from labor deficits to labor surpluses. As this chart suggests, this transition is highly correlated with the onset of recession because workers who lose their jobs would find it hard to find new employment.

US Labor Market is Cooling

Difference Between Labor Demand and Labor Supply

Source: BCA Research



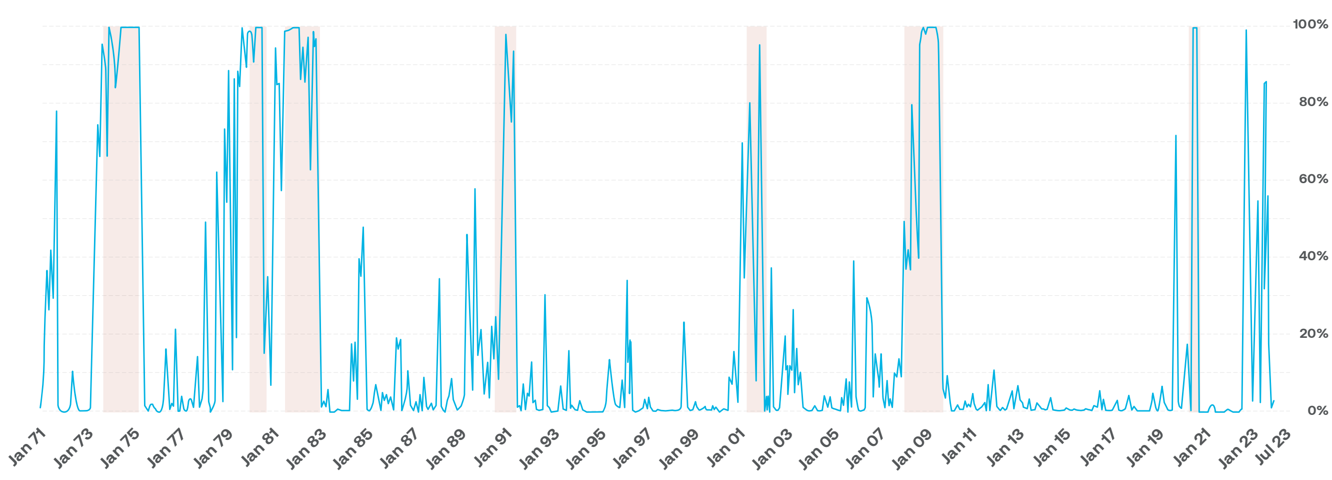
This US labor market framework fits neatly with our own Insigneo-Forefront Recessionary Probit model. Currently, it is reflecting only a 3% chance of a US recession over the next six months, not a major concern and one that argues for risk-seeking allocations over that time period. Over a 12-month period, however, those odds increase to 52%, suggesting concern as we approach the summer months but still far from elevated warning levels. The Fed believes that it will be able to bring inflation back near the Fed's target by the middle of 2024 while avoiding a recession. The implication is that the Fed does not need to raise interest rates any more

Probability of a US Recession Usign our Probit Model

Source: Insigneo-Forefront Recessionary Indicator

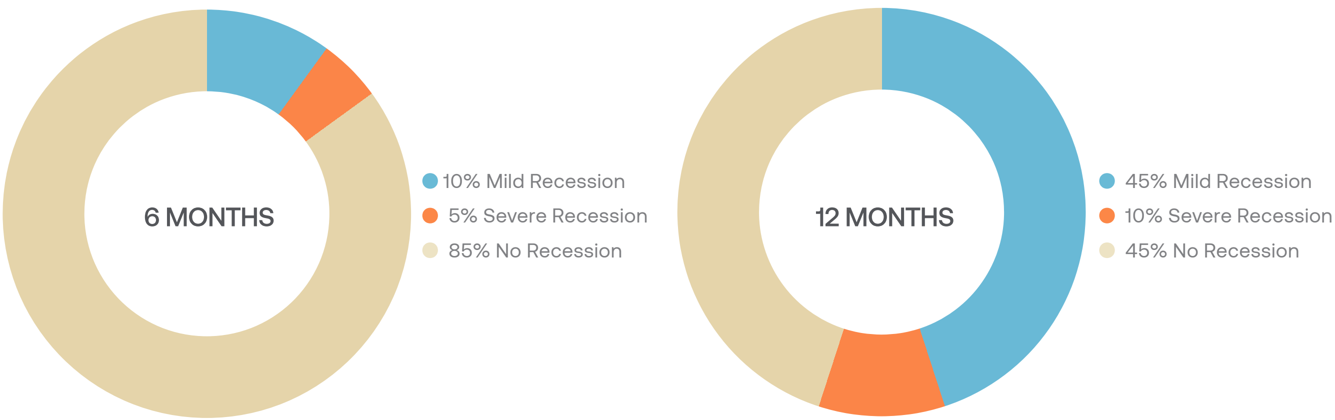
Over the Next 6 Months ~ 3% (Pseudo-R^2 = 53.01%) | Over the Next 12 Months ~ 52% (Pseudo-R^2 = 55.12%)

(Shaded Areas Represent NBER-designated Recessions)



Subjective Recessionary Probabilities Over 2-Quarters & 4-Quarters Incorporating All Factors

In our Decision Tree, a "Mild Recession" is defined as U-3 Unemployment Rate of 4% ≤ U3 ≤ 6%



Source: Insigneo-Forefront Recessionary Indicator

than it already has. While we are sympathetic to the view that the Fed could temporarily achieve a soft landing, we are skeptical that it could stay in that goldilocks scenario for long. The reason is that once an economy achieves full employment, anything that pushes growth above trend could stoke inflation, while anything that pushes growth below trend could lead to rising unemployment. Once unemployment starts rising, it usually keeps rising due to positive feedback loops. Falling employment tends to feed on itself as workers, both employed and those recently laid-off, will cut back spending as they get fearful.

The Fed's dovish pivot in December of 2023 does, however, give us some optimism that it may be able to stick that elusive soft landing, although it will require a degree of fine-tuning never before seen. Putting our recessionary probit model together with decision trees that account for things like policy calibration and/or mistakes and positive/negative exogenous shocks to the system, we arrive at our overall subjective recessionary probabilities framework. Over the next six months, we place the odds of no recession at 85%, of a mild recession at 10%, and a severe recession at just 5%. Over a twelve-month window, the probability of a mild recession goes up to 45%, a no-recession scenario falls to 45%, and a severe recession goes up slightly to 10%. For clarification, a mild recession in our framework is one where the unemployment rate rises above 4% but remains below 6%. Why would we expect a mild recession? Because the US housing market, characterized by a low homeowner vacancy rate and healthier mortgage debt levels, is poised to respond positively to Fed rate cuts. Additionally, the absence of excess capital expenditure and the normalization of manufacturing inventories are favorable signs. Corporate and consumer balance sheets appear healthy and stable, and the large US banks are in great shape going in. In other words, we do not see material imbalances in the economy that would worsen or lengthen any downturn. Because our recession/no recession probabilities are so evenly matched, we will provide market guidance in the following section that reflects this dichotomy.

A final word on inflation. Many real-time indicators we follow, particularly those tied to asking rents, point toward a sharp drop in shelter inflation. Core goods inflation has been negative since June and should remain subdued. Finally, slower wage growth, the single

Insigneo Macroeconomic Forecasts

Real GDP, 2024 Q4/Q4

COUNTRY / REGION	PERCENT, ANNUAL RATE
US	1.4%
China	4.5%
Eurozone	0.5%
Japan	0.9%
World	2.5%

Source: Insigneo

most important driver of services inflation, is highly likely to continue falling as the trend in job openings, the quits rate, the hiring rate, wage surveys, and survey data all point to a weakening employment market. So, further disinflation should be the expectation. However, while we expect inflation to continue falling, the risks of a resurgence remain and cannot be completely ruled out. While headline inflation is forecasted to decrease in the coming year, a change in inflationary mindset is expected to keep the global core inflation rate around 3%. Adaptive expectations matter and we should monitor long-term inflation expectations carefully for their signaling value. For now, though, the benign price trend remains in place.

The table above highlights our summary forecasts for the most important global economic blocs. These figures suggest that we anticipate a slowdown in global growth, falling below potential levels across the board. This trend is attributed to the ongoing impact of stringent monetary policies and increasing yields. In the United States, various factors including still tight monetary policy, and the reduction of fiscal support are expected to decelerate economic growth to below the usual trend in 2024, although far from worrying levels absent a recession. In China, we expect a continued gradual recovery in the first half of 2024, followed by a return to normal growth rates in the latter half of the year. Low inflation is likely to persist on the Mainland, partly due to policy preferences favoring production over consumption.

Market Implications & Guidance

From our perspective, **the current market metrics for equities and other high-risk assets appear more concerning compared to last year.** Current valuations are high, with volatility at historically low levels. Geopolitical and fiscal uncertainties also add to the risks. Consequently, while the market sentiment is turning bullish, we are adopting a more cautious approach, especially for the second half of the year. Historically, stocks have peaked about six months prior to the beginning of a recession. If the anticipated recession begins towards the end of 2024, then we might see a few more months of positive market returns before a potential downturn. High valuations and decreasing profit margins could exacerbate any decline. The chart below reflects our current projections for two key market indicators in the U.S. under two equally probable scenarios under our framework – a mild recession and soft landing. Obviously, as the year progresses and we observe more economic data, the probability of one scenario should rise at the expense of the other. **With a soft landing, the S&P 500's fair value lies in the range of 4,900 to**

Key US Market 2024 Forecasts

Can the Fed Stick a Soft Landing?

Source: Insigneo

	2024 ESTIMATE W/O RECESSION	2024 ESTIMATE W/O RECESSION
S&P 500	4900 to 5100	3500 to 3700
US 10-Year Treasury	3.6% to 3.9%	2.85% to 3.15%

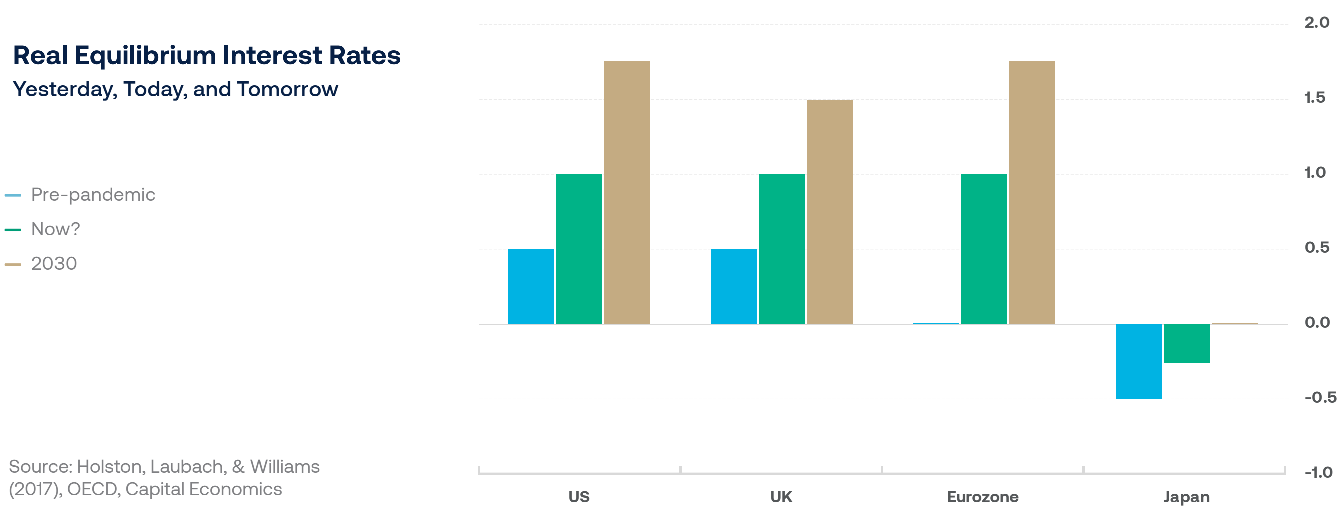
5,100, while the U.S. 10-year Treasury's fair value should settle between 3.6% and 3.9%. Under a mild recession, we would expect the index to trade between 3,500 and 3,700, while the long bond should trade between 2.9% and 3.2%. Large caps and growth-factor equities typically perform better during economic downturns. Lastly, U.S. equities generally outperform their international counterparts during recessions. However, due to high current valuations, this outperformance may be less pronounced in the next recession. **Long-term, U.S. stocks have outperformed due to superior earnings and sales growth, a trend that needs to change for non-U.S. stocks to take the lead.** We will address this issue in further detail later.

Overall, our framework suggests that one of the better trades for 2024 remains to buy longer-dated U.S. Treasuries on a tactical basis. The long-term path for bond yields is influenced by several factors. Factors pointing to higher rates include the following: the end of household deleveraging in the U.S., increased capital spending, and demographic shifts like baby boomers spending their accumulated wealth. To the downside, there are potential deflationary pressures from China's economic downturn and the proliferation of AI. It follows that current bond yields in the developed world seem aligned with their fair value models. This means that investors could, at worst, count on the carry trade. That being said, we must be wary of longer-term structural shifts in real equilibrium interest rates. As the chart below shows, they are poised to drift higher from here based on econometric projections. **This means that once we pass this recessionary (i.e., deflationary) period tactically, the longer-term structural bear market in rates that began in 2020 and roared loudly in 2022 could reassert itself once again.** In the future, we will advise when the opportunity to short duration arises once again. Currently, U.S. high-yield corporate spreads do not fully reflect the likelihood of a recession, with default rates potentially rising. Therefore, **we would encourage investors to favor investment grade spreads within a fixed income portfolio.**

The U.S. Dollar's trajectory has largely followed interest-rate differentials. However, recent developments, including peak U.S. inflation and China's relatively weak reopening, have driven the Greenback's strength. We expect the Dollar to strengthen again once the global recession sets in, although not as significantly as it did during the Global Financial Crisis.

In the commodity complex, oil market dynamics have shifted, with US production at record highs potentially

Real Equilibrium Interest Rates
Yesterday, Today, and Tomorrow



Source: Holston, Laubach, & Williams (2017), OECD, Capital Economics affecting OPEC's pricing control, but we nevertheless **find crude oil currently undervalued.** With respect to industrial metals, copper prices are likely to rise due to supply constraints. **Over the longer-term, industrial metals broadly should benefit due to the transition to electric vehicles and renewable energy, low inventories, and political uncertainties impacting mining investments in the developing world.**

Finally, gold prices have remained resilient despite rising real yields, possibly due to increased central bank purchases. While gold is expensive, its value is supported by massive central bank purchases. In addition, we also favor it for its role as a hedge to geopolitical risk, which is on a long-term upward trajectory. **Thus, we remain structurally bullish on gold.**

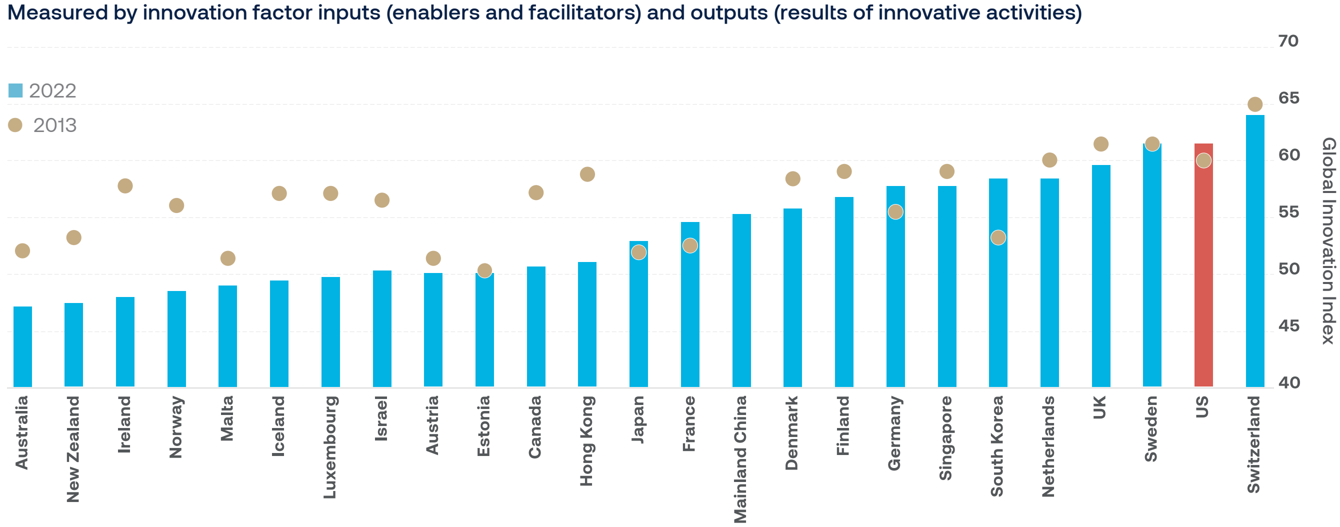
U.S. Exceptionalism: Will it Last?

U.S. assets have had an incredible decade-long run. Since 2013, the S&P 500 has returned an annualized 13%, versus 12% for the Japanese TOPIX, 8% for the Euro Stoxx 600, and 6% for the MSCI Asia ex-Japan. Despite much alarmism, the U.S. Dollar retains its imperial privilege as the undisputed global reserve currency comprising 60% of global reserves, it participates in nearly 90% of all global currency transactions, and 50% of all global trade invoicing. Meanwhile, U.S. GDP growth continues to outpace other developed markets. Can the U.S. sustain its pace of financial and economic dominance over the next decade?

One factor in assessing this question is projecting the country's ability to continue innovating. American equity outperformance was driven, at least partly, by advancements in generative artificial intelligence and other technologies, boosting U.S. productivity and growth. As Chart 7 shows, **the U.S. has increased its capacity to innovate over the last ten years, climbing from #5 in the world to #2 today, trailing only the small nation of Switzerland.** If it maintains this position, it is a good bet that it will continue to do so. One proxy for this trend could be the adoption of AI technologies. Here too the US has no global peer. The next map shows that the United States deploys the greatest number of significant machine learning systems globally. Canada, the UK, and China are all collectively a tier below. This means that

US Exceptionalism: #2 Globally, Up from #5 in 2013

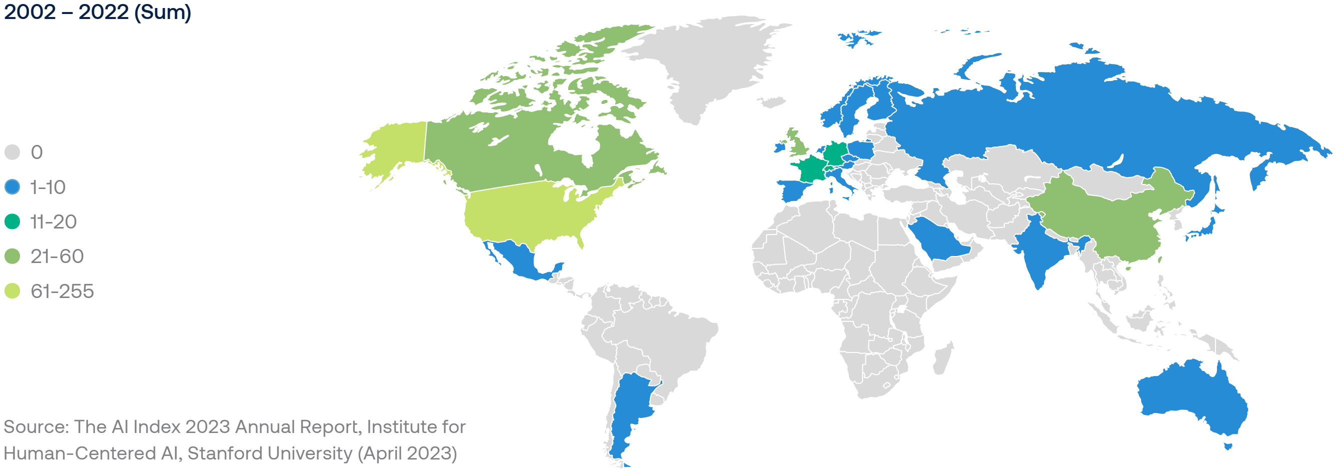
Measured by innovation factor inputs (enablers and facilitators) and outputs (results of innovative activities)



Source: Global Innovations Index, Goldman Sachs

Number of Significant Machine Learning Systems by Country

2002 – 2022 (Sum)



Source: The AI Index 2023 Annual Report, Institute for Human-Centered AI, Stanford University (April 2023)

U.S. companies and institutions should continue to learn better and faster, leading to sustained innovation gaps with their global peers. The ban on the most advanced semiconductors chips and equipment to China could maintain or expand the current gap, although that is yet to be demonstrated definitively. For now, no other economy's growth prospects in the world should benefit as much as the U.S.'s given the potential boosts from AI.

Of course, we must not get carried away as there are also some concerns. While AI adoption may favor the country, geopolitical shifts and demographic pressures could impact U.S. equity returns, particularly if there is a reduction in company management's focus on shareholder value or increased regulatory and tax policy. In addition, the U.S.'s fiscal situation remains worrisome, particularly with the primary deficit. There are current valuation challenges as well, as the U.S. indices are expensive relative to their global peers. Moreover, the heavy reliance on a few large companies and competition from other asset classes in the high-rate environment might hinder future outperformance. Finally, there are other regional competitors in the developing markets that are expected to grow faster.

In sum, it is likely, though by no means certain, that U.S. financial asset returns should remain at the vanguard of global portfolios for some time to come. ■

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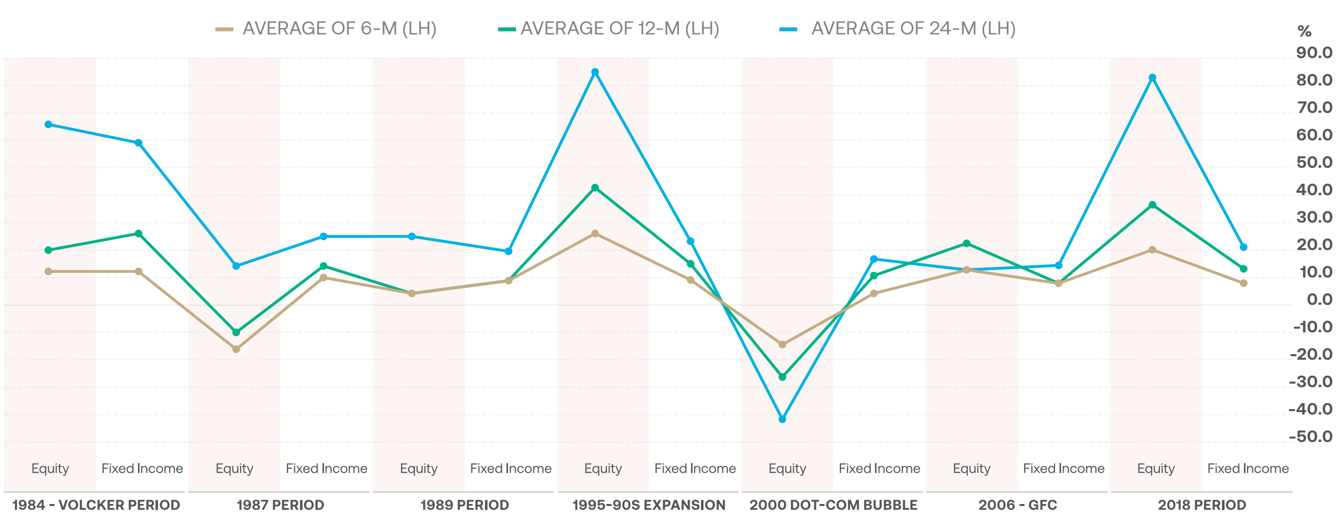
Past Performance is Not a Guarantee of Future Results...or is it?

Over the course of this report, we made the case that while the seas are tranquil now, storms may be looming over the horizon. Our thesis is that a global recession is more likely by the end of 2024 than the current market consensus suggests, just when most investors may have concluded that a soft landing has been achieved. This urges some caution because while risk assets may grind higher for the next few months, they could face some headwinds as we end the year. Our framework is grounded on the notion that macroeconomic fundamentals trump all other considerations when making portfolio decisions. But what if history tells us otherwise?

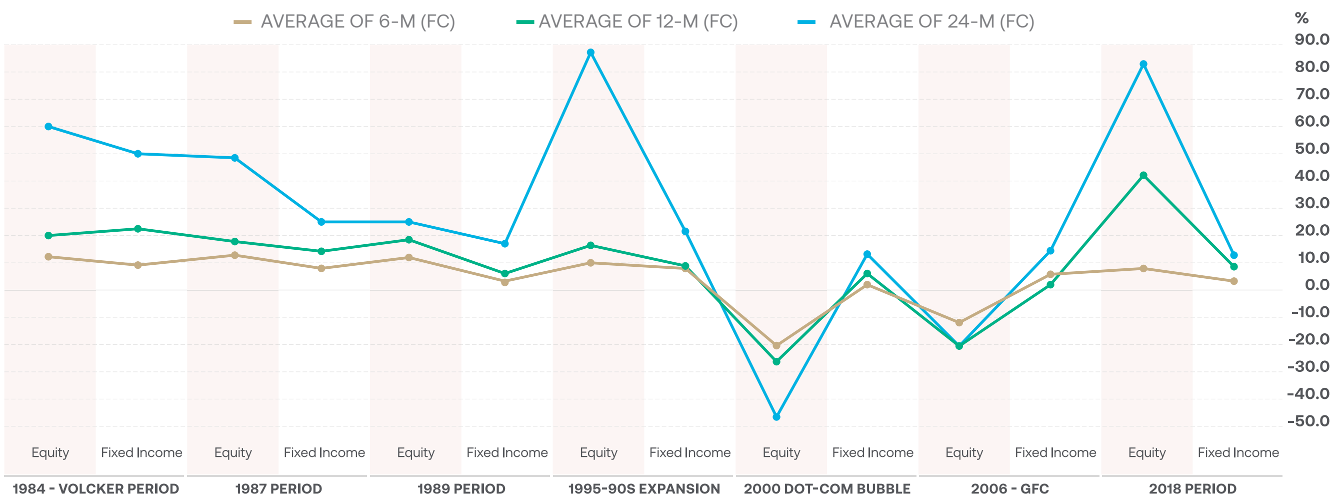
By now, we all know that, over the past 20 months, markets experienced the most aggressive rate hiking cycle of the last 40 years. From March 2022 to July 2023, the Fed Funds Rate rose from a mere 0.25% to a high of 5.50%. Given this history, we must ask ourselves

Asset Class Performance after the Last Hike



Source: Insigneo, Bloomberg

Asset Class Performance after the First Cut



Source: Insigneo, Bloomberg

what happened in the past when the Fed stopped raising and started cutting rates? While the macroeconomic outlook remains murky and ultimately growth may dictate the path for markets, this same history gives investors reasons to be optimistic. If we look over the last 40 years of market data, both equity and fixed income have generally performed well after the Fed stopped its monetary tightening cycles and started loosening rates. **On average, both asset classes have posted positive returns over the next 6, 12 and 24 months after the last hike and the first rate cut.** Of course, each cycle is different and has its own idiosyncrasies, but the aggregates nonetheless allow us to get an idea of what we might reasonably expect next.

That being said, let us undertake a more detailed analysis of each Fed cycle.Starting in the early 1980s, with Paul Volcker as Fed president, the U.S. economy was in the midst of the "Great Inflation". After almost five years of monetary policy adjustments, the Fed made a final hike in August 1984. During this time, fixed income outperformed equities on an average basis, with Treasuries posting an astonishing 69.7% return over the 24-month period following the pause.

After the Volcker years, Greenspan took over as Fed Chair in August of 1987 and executed a moderate hiking cycle in an attempt to fight inflation. This tightening cycle stopped just a few weeks before the Black Monday stock market crash, an event that caused the Fed to lower rates just one month afterward. While fixed income posted positive returns over the next 24 months, not surprisingly, equities underperformed in the following months, with the Nasdaq retreating nearly 16% over the next 6 months. After a brief period of cuts following the Black Monday crash, the Fed started a hiking cycle to fight inflation that ended in February of 1989. Four months later, the Fed lowered rates as the country entered the "Gulf War Recession." With oil prices soaring during Iraq's invasion of Kuwait and the concurrent Savings and Loans crisis, equities managed to outperform fixed income during the following months, mostly driven by an increase in defaults in corporate high yield bonds.

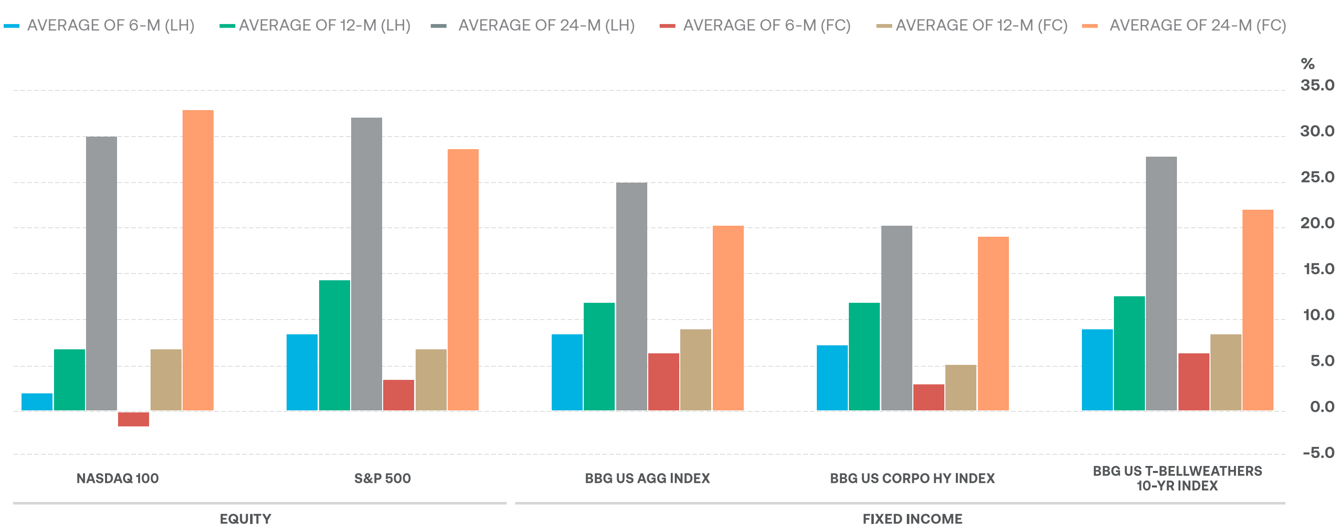
After a short-lived recession, the United States underwent an expansion period, seeing real GDP rise as much as 4% by 1994. With prices soaring, Greenspan led an aggressive tightening cycle during 1995 to produce a soft landing. The Fed Funds rate almost doubled by February 1995 and remained unchanged until June of the same year. This aggressive stance allowed the United States to control inflation while maintaining the pace of economic growth during the beginning of the decade. The S&P 500 and the Nasdaq posted an astounding 84% return over the next two years, widely outperforming fixed income assets.

With the Nasdaq surging 400% from 1995 to 2000, the Fed stepped in to control inflation once again by raising rates from June 1999 to May 2000. After the bursting of the Dot-Com Bubble, the Fed began cutting rates in January 2001, with equities retreating an average of 48% over the next 24 months. While fixed income posted positive single digit returns for the next two years, high yield bonds posted negative returns. Afterward, the US economy experienced a strong recovery underpinned by low interest rates, pushing GDP growth up to 3.9% during 2004 and 2005. The Fed took a similar approach as before, raising rates from June 2004 to June 2006. With the Global Financial Crisis looming, the Fed started lowering rates again in September 2007 to nearly zero. Fixed income assets posted low single digit returns in the months following the first cut while equities retreated an average of 19% over the next two years.

After the GFC, rates remained low until December 2015, when the Fed started a moderate hiking cycle under Janet Yellen. With the economy growing at the Fed's target level, the next Chair, Jerome Powell, made a soft adjustment in August 2019 to prevent any potential shock produced by the trade wars with China. In this period of modest expansion, equities widely outperformed fixed income, posting returns in excess of 80% over the next 24 months after the last hike and the first rate cut, while fixed income posted returns of 19% and 8%, respectively, over the same period.

As this chart shows, looking at these Fed cycles over the past 40 years, both equities and fixed income performed better after the last rate hike than after the

Index Performance after the First Cut (FC) and the Last Hike (LH)



Source: Insigneo, Bloomberg

— "...both **fixed income** and ***equities*** have **outperformed cash alternatives over the last 40 years** of monetary policy cycles."

first rate cut. On average, fixed income performed better than equities during the initial 6 and 12 months after a rate movement, with equities outperforming eventually. In addition, **the U.S. 10 Year Treasury outperformed nearly every other fixed income index regardless of the nature of the Fed cycle.** Even if we remove Volcker's period, where treasuries saw a 24-month return of 69%, 10 Year Notes still outperformed every other index, posting an average return of 14%.

Contrary to this, high yield bonds underperformed the rest of the group in almost every period after a Fed policy pivot. Although, in theory, high yield bonds are the securities with the most room for recovery once rate cuts begin, in practice, these investments need the right environment to outperform. To this point, high yield beat other fixed income indices during the 1995 cycle, amid economic growth and controlled rate hikes. In other words, if rate movements are implemented for the wrong reasons, companies with weak credit fundamentals tend to underperform.

On the other hand, equities performed better after the last rate hike than after the first rate cut, a dynamic which can be mostly explained by momentum, as rate cuts have traditionally come in response to a market dislocation or a recession. The S&P 500 has returned an average of 15.8% in both types of monetary policy cycles, outperforming the Nasdaq, which has reported negative performance over the six months after the first rate cut.

In general, fixed income returns have been more consistent than equity returns around these inflection points over the last 40 years. Their outperformance is even more remarkable when we consider that we have used total return variables for this analysis, considering the fact that this metric includes coupon and dividend payments.

As we mentioned at the onset of this piece, history has given investors reasons to be optimistic. **While cash has worked as a safe haven over the past 12 months, it is important to keep in mind that both fixed income and equities have outperformed cash alternatives over the last 40 years of monetary policy cycles.** While it is imperfect to compare todays' economic situation to the periods previously described, history has shown us that we do not necessarily need to be bullish on the economy in order to expect positive returns. Staying invested for the long-term is the key to investment success.

Surprising Source of Geopolitical Risk

The United States, while maintaining its military and economic strength, is experiencing significant political disfunction. **The upcoming presidential election in 2024 is anticipated to further exacerbate the nation's political divide, marking perhaps a severe test of American democracy and potentially weakening its global standing.** As it approaches in November, it is expected to be a tightly contested race. The U.S. government, in anticipation, is likely to implement policies aimed at bolstering voter support, including measures to reinforce the U.S.-Mexico border. Globally, nations are bracing for the possibility of a second term under President Donald Trump, which could signal the resurgence of trade wars and renewed doubts about NATO. Internationally, there is keen interest in the election's outcome, particularly considering the potential impact of a Trump victory. Expectations are that President Biden will attempt to attract moderate voters by supporting oil and gas investments and continuing border wall construction. However, the Biden administration may face challenges in securing Congressional funding for Ukraine, possibly leading to alternative methods of support using previously authorized funds. Regardless of the outcome, the election should intensify America's internal divisions. No matter who wins, we should expect deepening political divisions, the potential for widespread violence, and civil unrest.

— " The upcoming **presidential election in 2024** is anticipated to further exacerbate the nation's political divide, marking perhaps **a severe test of American democracy**..."

The foreign policy implications of the election's outcome are significant. While a Biden win would mean continuity in U.S. foreign policy, a Trump victory could lead to a shift in several key areas. This might include the U.S. withdrawing from the Paris Agreement and scaling back support for Ukraine in its conflict with Russia. Trump's trade policy would likely focus on reducing the U.S. trade deficit and could involve increased tariff threats against the European Union and China. European countries, in response to a potential Trump administration, might push for greater strategic autonomy and lessen their military reliance on the U.S. This shift in trans-Atlantic dynamics could especially be evident in nations like France. Russia, on the other hand, might perceive a Trump presidency as an opportunity to negotiate a favorable end to the conflict in Ukraine.

Regarding China, a Trump administration would bring a different set of challenges compared to a Biden administration, with a greater emphasis on trade and tariff issues rather than focusing on strategic threats posed by China's technological advancements.■

House Views Matrix

	TACTICAL (UP TO 3 MONTHS)	CYCLICAL (UP TO 12 MONTHS)
Global Asset Allocation		
Equities	NEUTRAL	NEUTRAL
Fixed Income	OVERWEIGHT	OVERWEIGHT
Cash	UNDERWEIGHT	NEUTRAL
Regional Breakdown		
US Equities[1]	OVERWEIGHT	OVERWEIGHT
European Equities	NEUTRAL	NEUTRAL
Japanese Equities	OVERWEIGHT	OVERWEIGHT
Emerging Market Equities	NEUTRAL	UNDERWEIGHT
Chinese Equities	NEUTRAL	UNDERWEIGHT
US Treasuries[2]	OVERWEIGHT	OVERWEIGHT
Investment Grade Fixed Income	NEUTRAL	NEUTRAL
High Yield Fixed Income	NEUTRAL	UNDERWEIGHT
Emerging Market Sovereign	OVERWEIGHT	NEUTRAL
US Dollar	NEUTRAL	OVERWEIGHT
Energy[3]	OVERWEIGHT	NEUTRAL
Precious Metals	UNDERWEIGHT	OVERWEIGHT

[1] *Relative to global equities in USD*
[2] *Relative to aggregate fixed income markets in USD*
[3] *Relative to an overall commodity allocation*

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