



MANAGED ASSET PORTFOLIOS

Be Wary Of Prevailing Narratives

Prepared For: Senior Men's Club, Birmingham, MI

Presented By: Michael Dzialo, President & CIO,

Presented On: November 1, 2024

Disclosures



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The Past Year Has Been Led By The Magnificent Seven



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Magnificent Seven, SP493 & SPY 1YR Total Return (%)



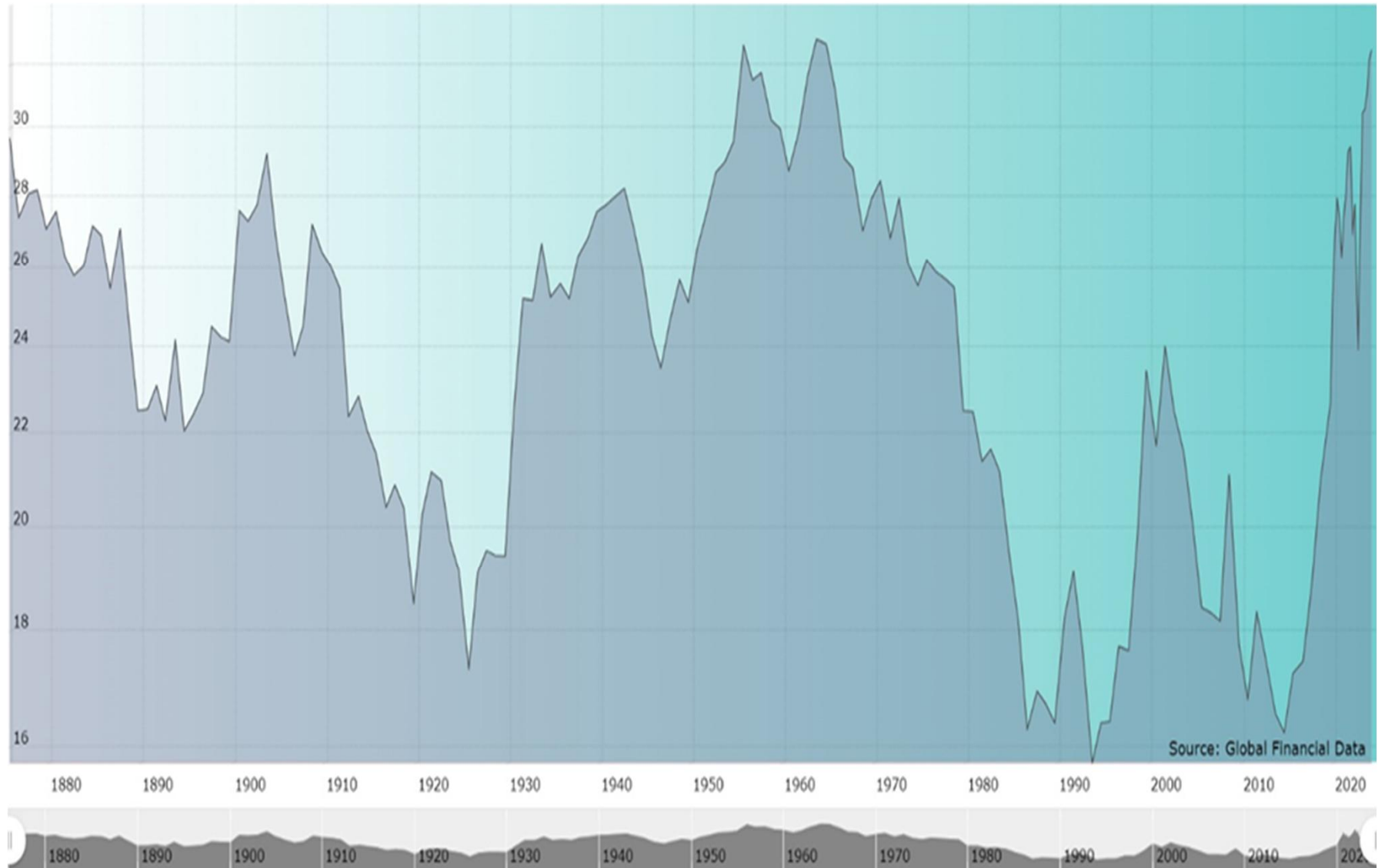
Source: Bloomberg
Data as of 09/30/2024
Past performance is no guarantee of future results.

With Market Concentration Reaching Previous Peaks



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Price (Target Currency) ■ (GFUSATOP10500PC) GFD Indices United States Top 10 Companies Market Cap as PC of Top 500



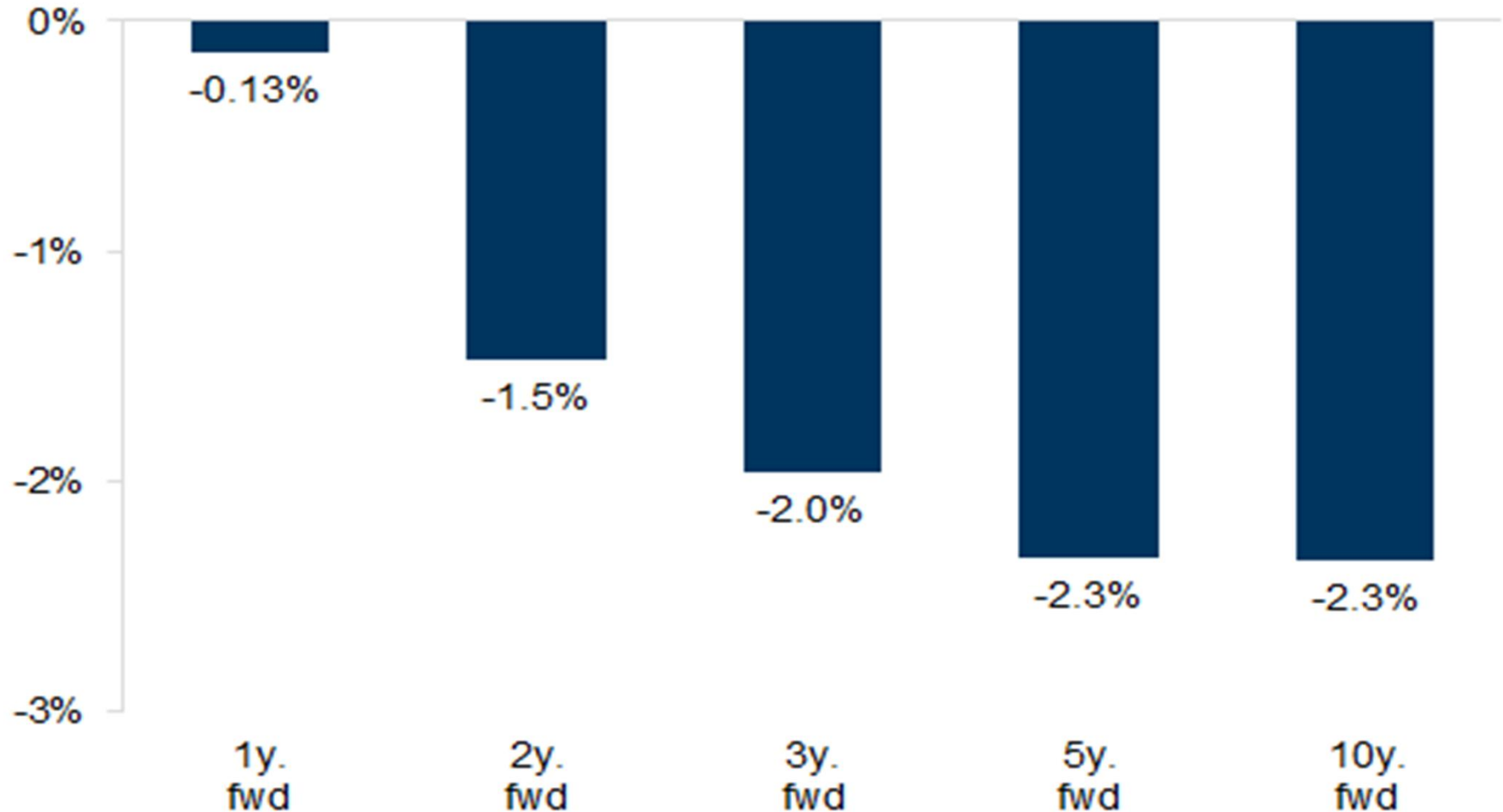
Source: <https://globalfinancialdata.com/s-p-market-concentration-hits-a-new-all-time-high>

The Problem For Investors is That Buying The Top Ten Companies Has Led To Poor Future Returns



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Average Forward Realized Relative Returns
For Top Ten Companies Since 1980



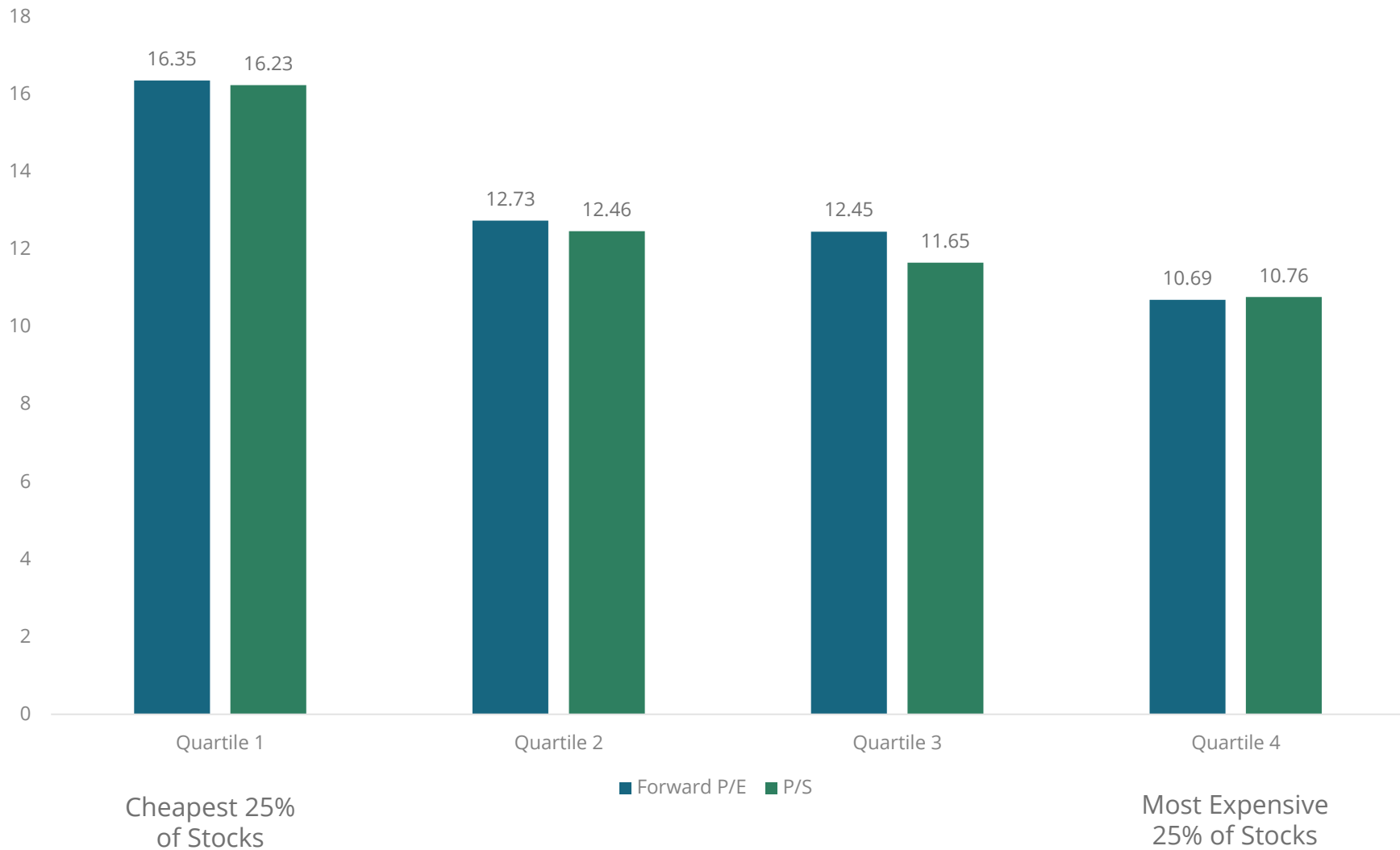
Source: Goldman Sachs. Relative returns to the S&P 500.
Past performance is no guarantee of future results.

Buying The Most Expensive Stocks Has Also Led To Underperformance



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Annualized Active Return (%) Since 12/31/1992



Source: Bloomberg. Data as of 08/31/2024. Individual securities are constituents of the Russell 1000 index. Performance is calculated and rebalanced monthly.

Brief Scare In August, But The Drawdown Was Fairly Typical

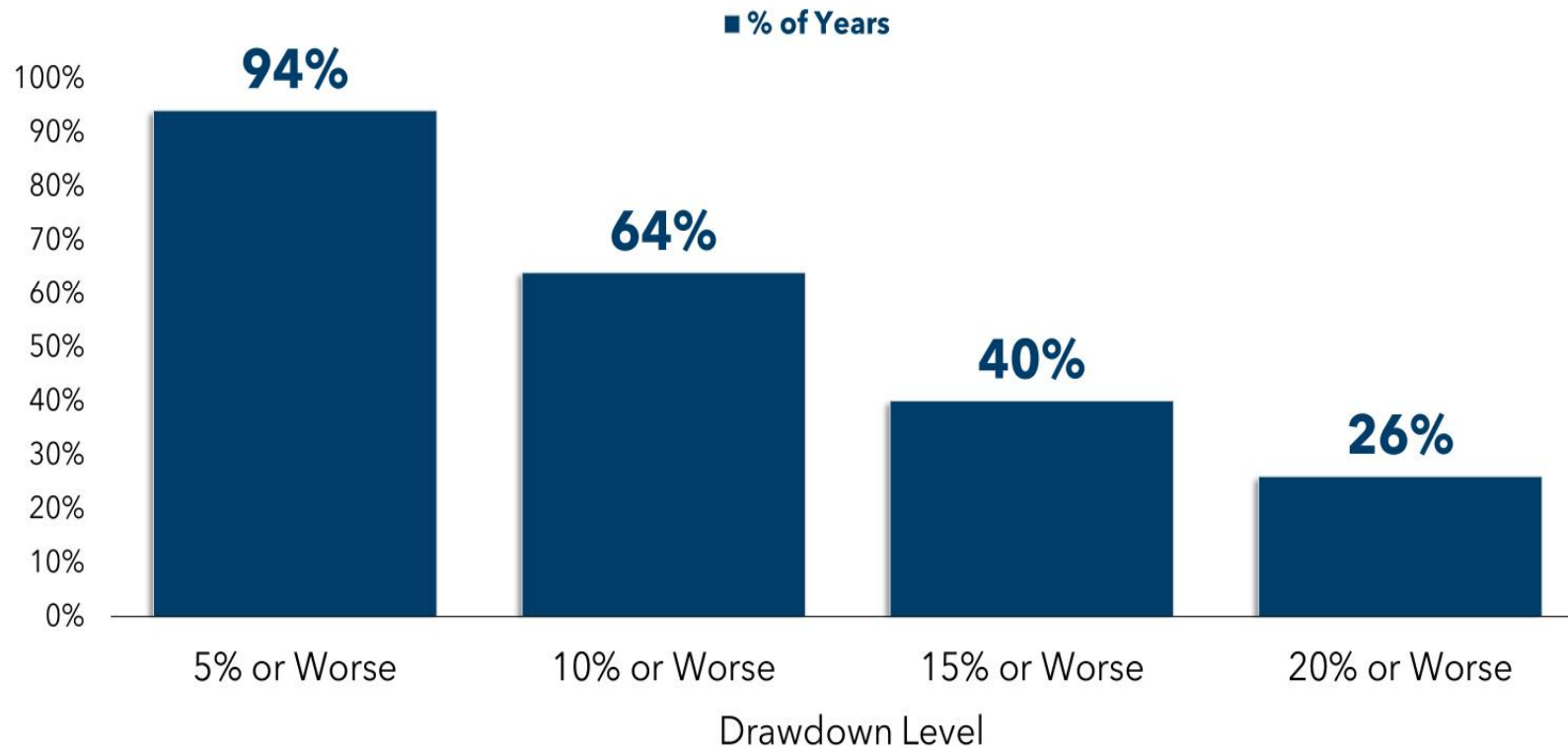


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94% of Years Have a Drawdown of 5% or Worse



% of Years in the S&P 500 with x% Drawdown
1928 - 2023



Source: Ritholtz Wealth Management, NYU Data Library

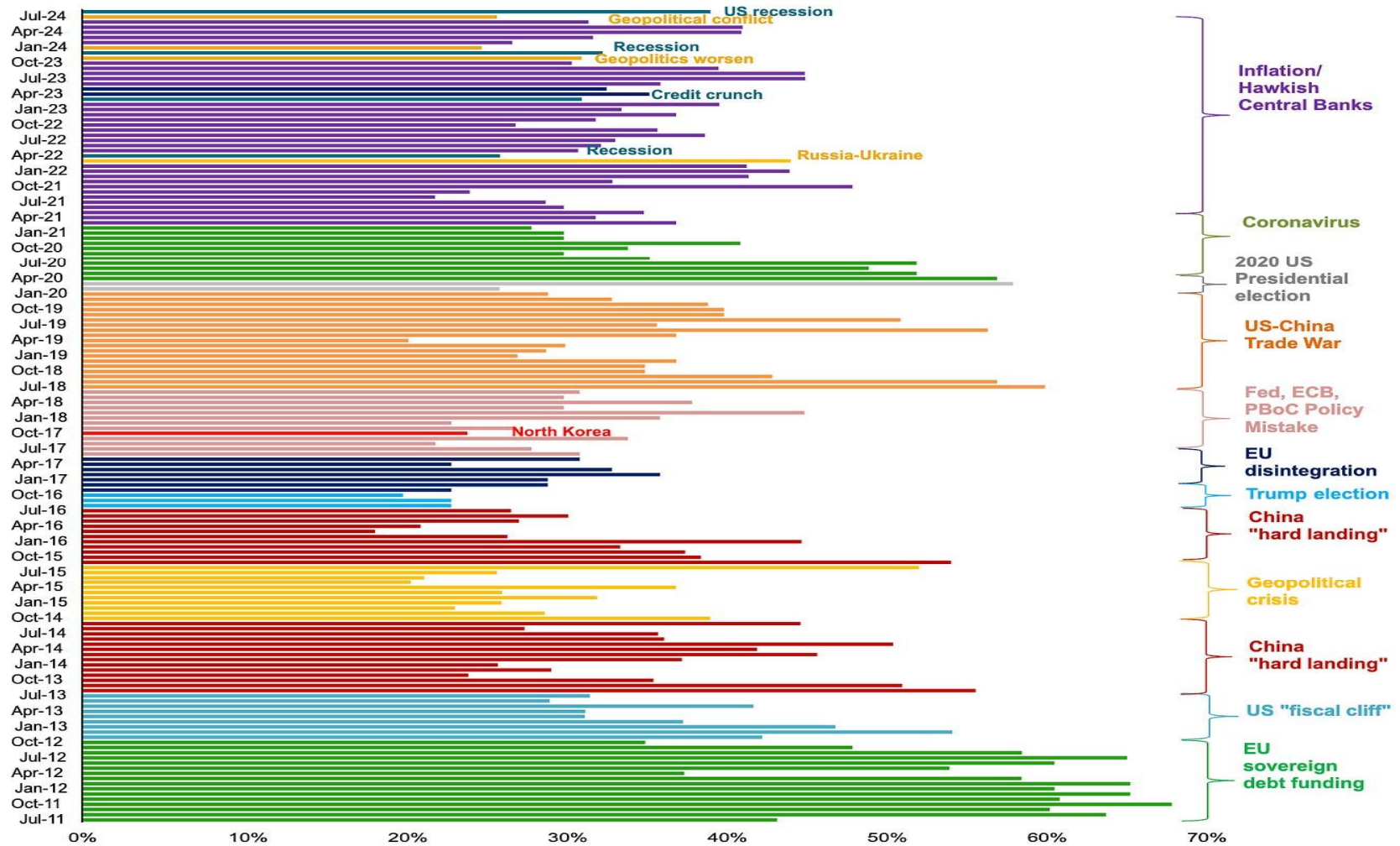


Following The “Biggest Tail Risk” Trade Is Typically The Wrong Move



Chart 20: Evolution of Global FMS "biggest tail risk"

History of Global FMS "biggest tail risk" answers



Source: BofA Global Fund Manager Survey

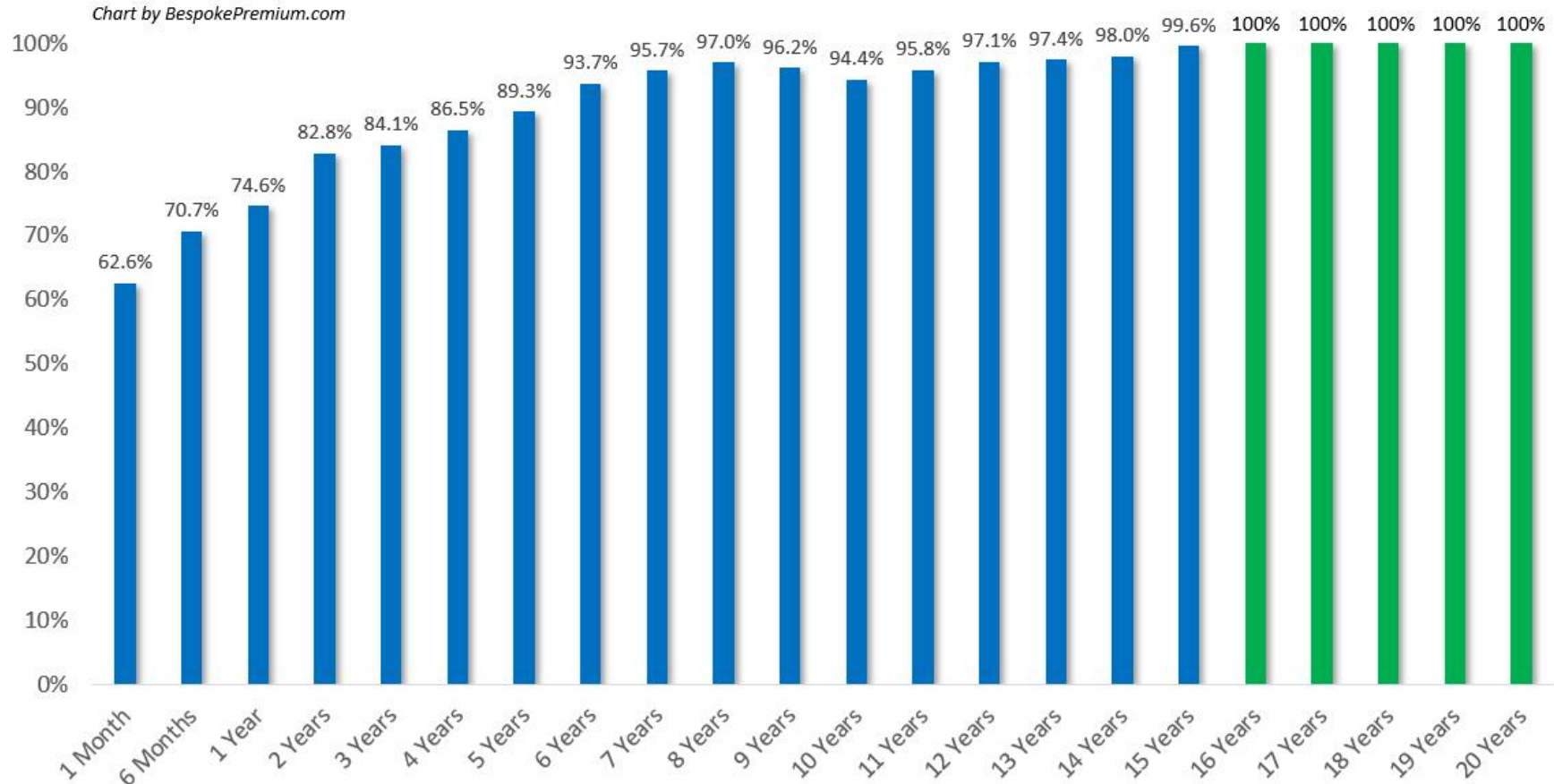
Patience And Time, Have Proven To Be Key Characteristics Of Long-Term Market Success



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S&P 500 Total Return: % of Time Returns Have Been Positive Over Various Timeframes (Since 1928)

Chart by BespokePremium.com

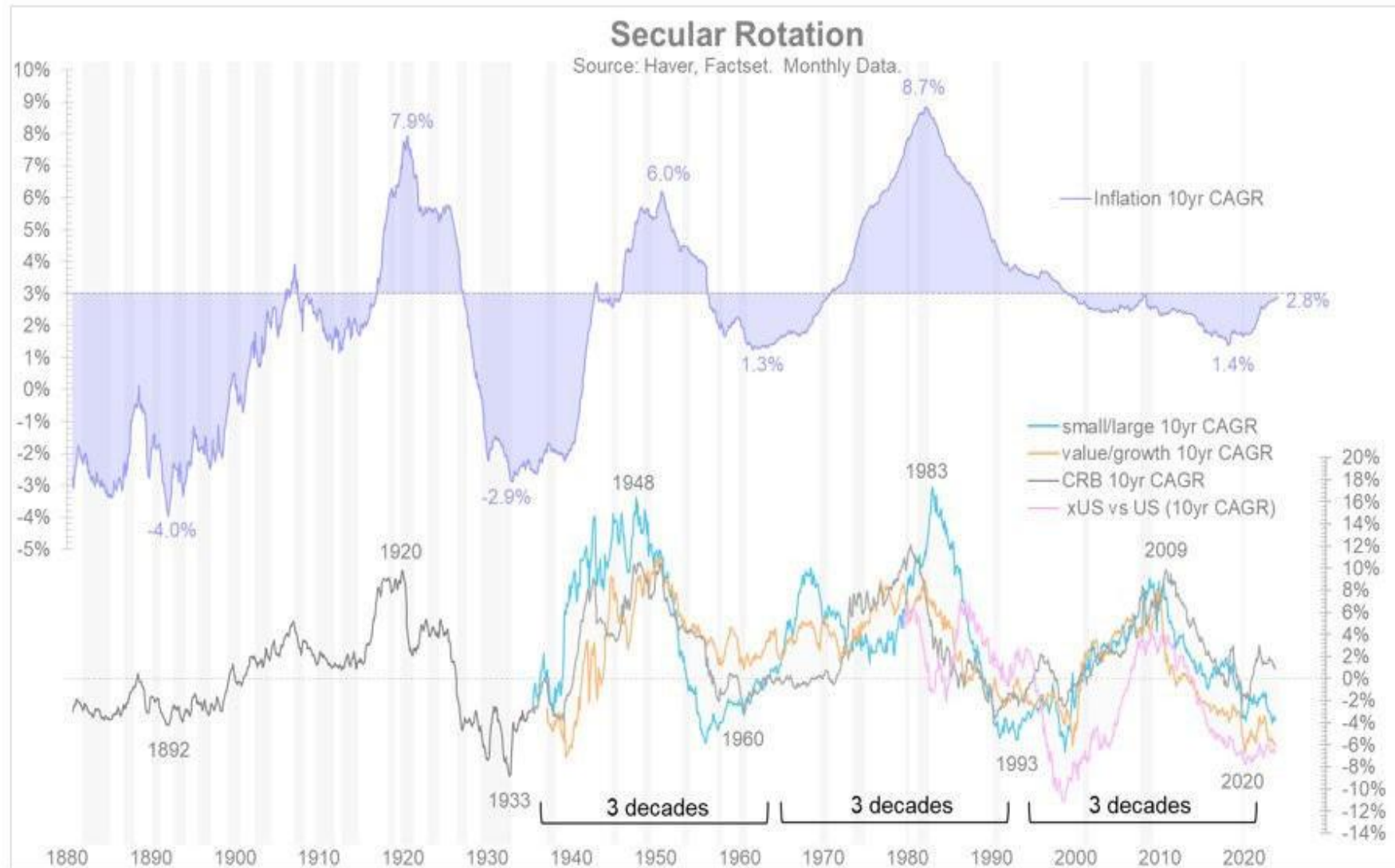


*Past performance is no guarantee of future results.

Historically, When The 10YR Inflation CAGR Increases Above 3%, Returns For Value Outperform

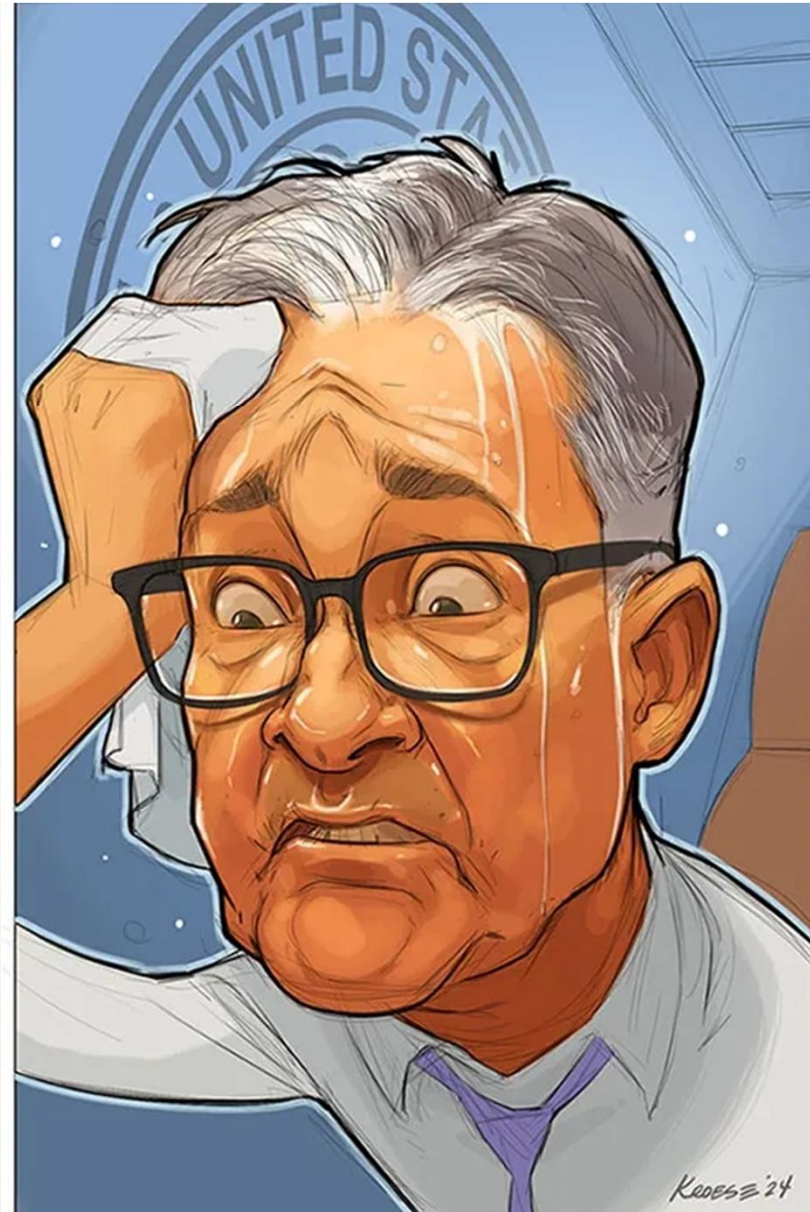
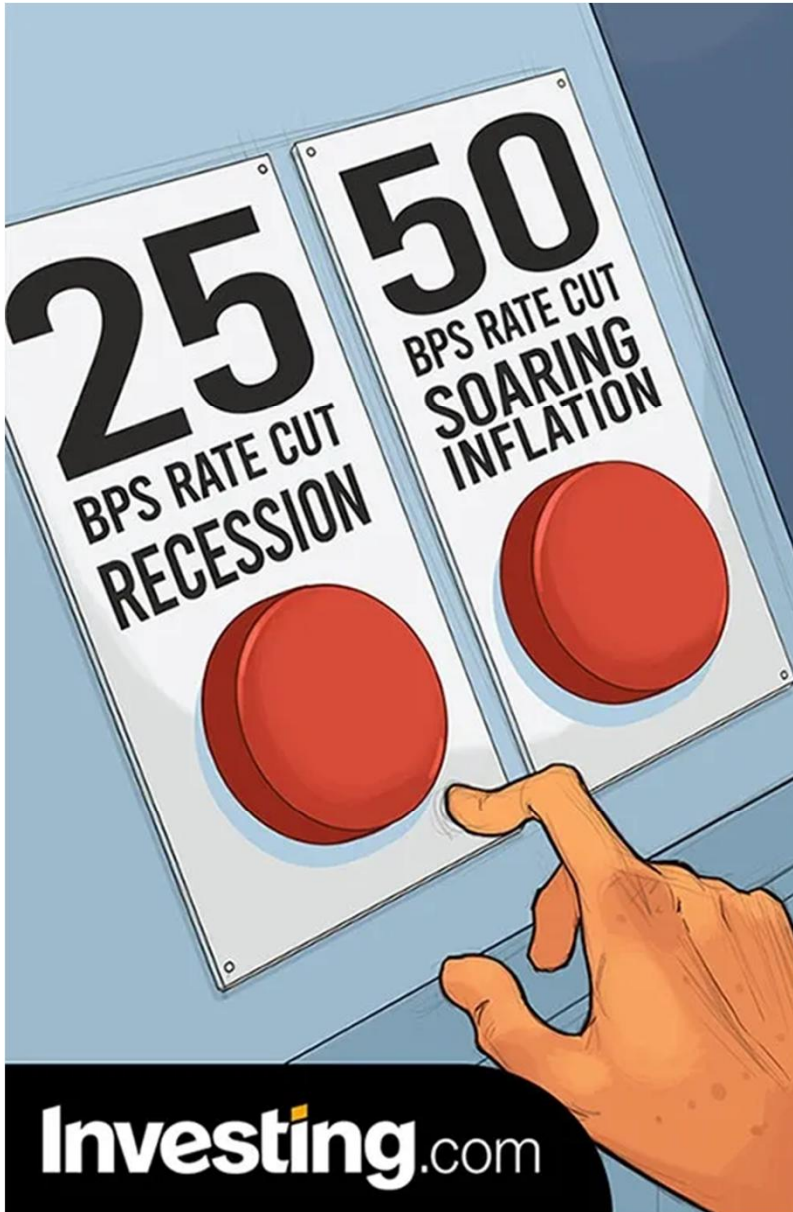


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Data source: FMRCo, Bloomberg, Haver Analytics, FactSet. Data as of 06/02/2024. Past performance is no guarantee of future results.

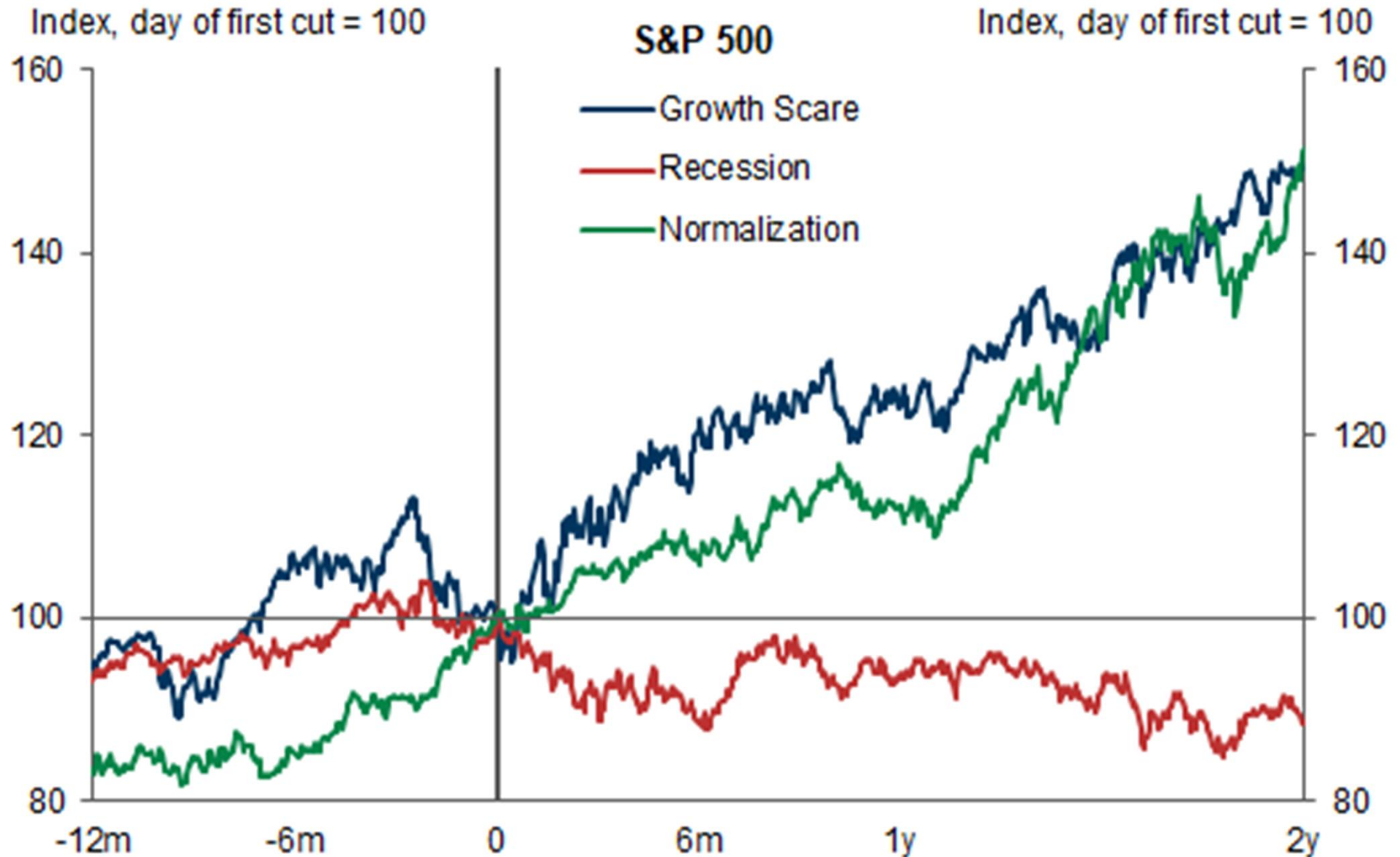




If The Economy Avoids A Recession, Stocks Have Historically Performed Well After The Fed Cuts



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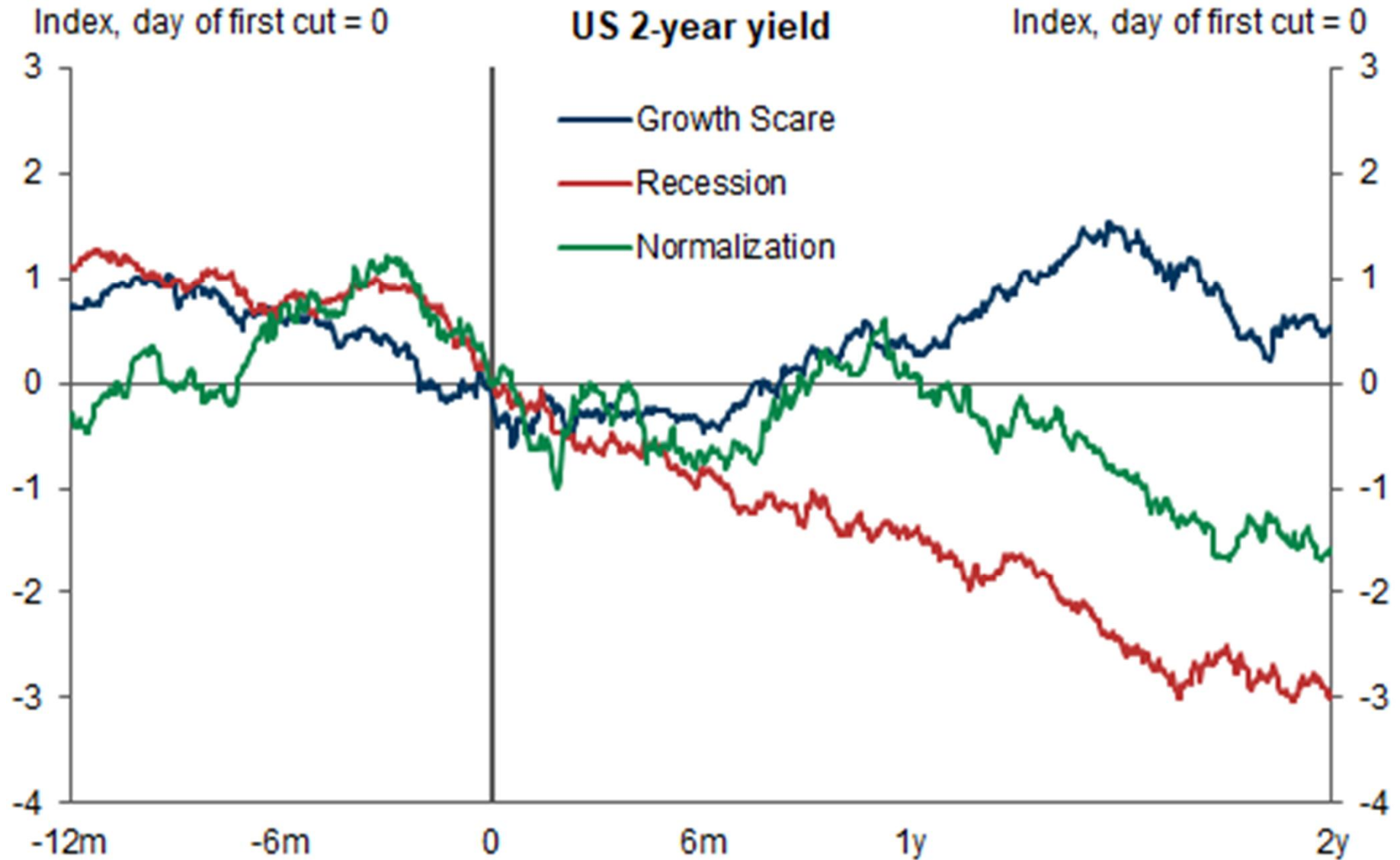


Source: Goldman Sachs. See Page 35 for periods classified as "Growth Score", "Recession", and "Normalization".

Bond Yields On The Other Hand Are A Little More Tricky To Forecast



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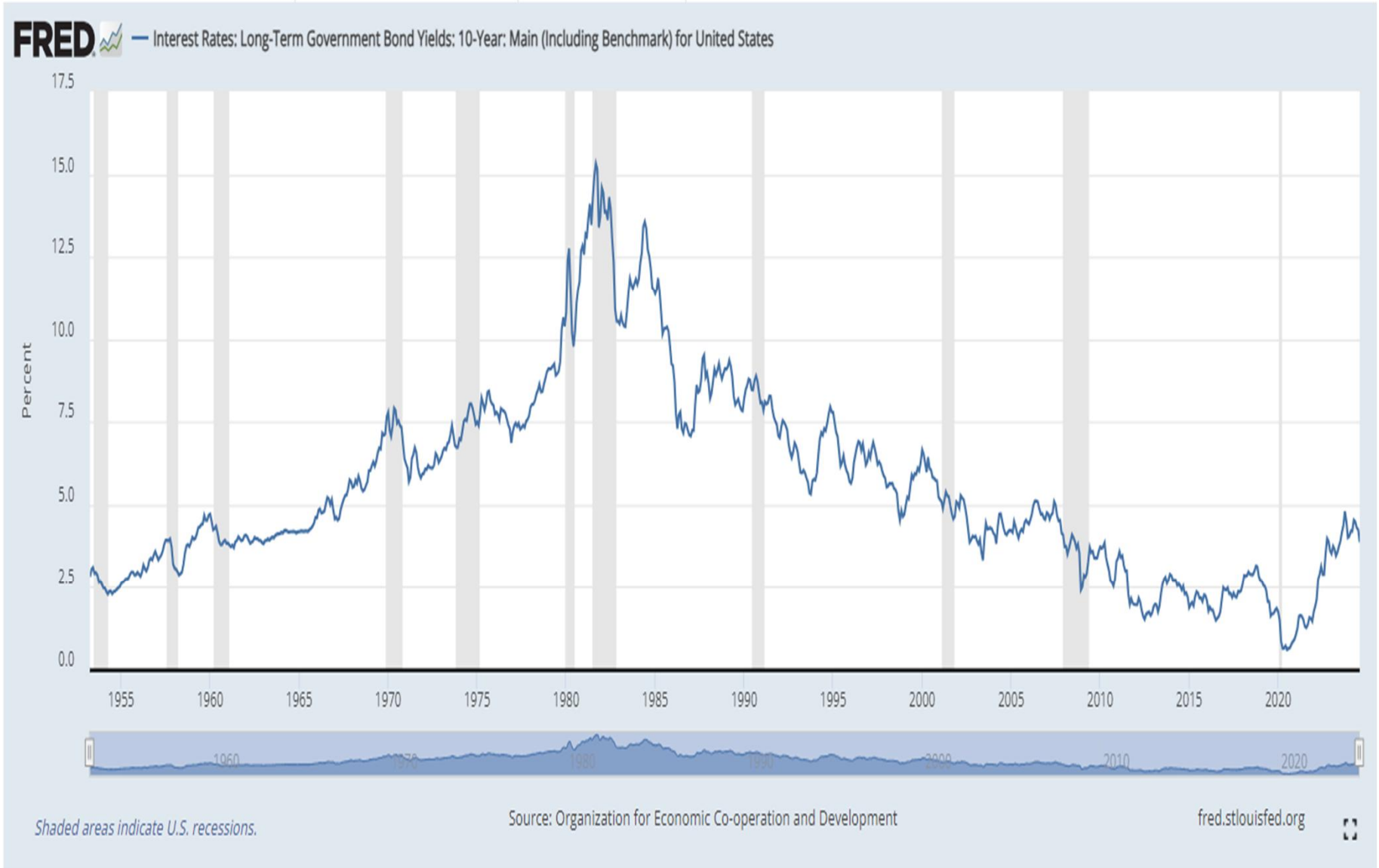


Source: Goldman Sachs. See Page 35 for periods classified as "Growth Score", "Recession", and "Normalization".

With Inflation Remaining Higher, We Believe Interest Rates Will Also Remain Higher



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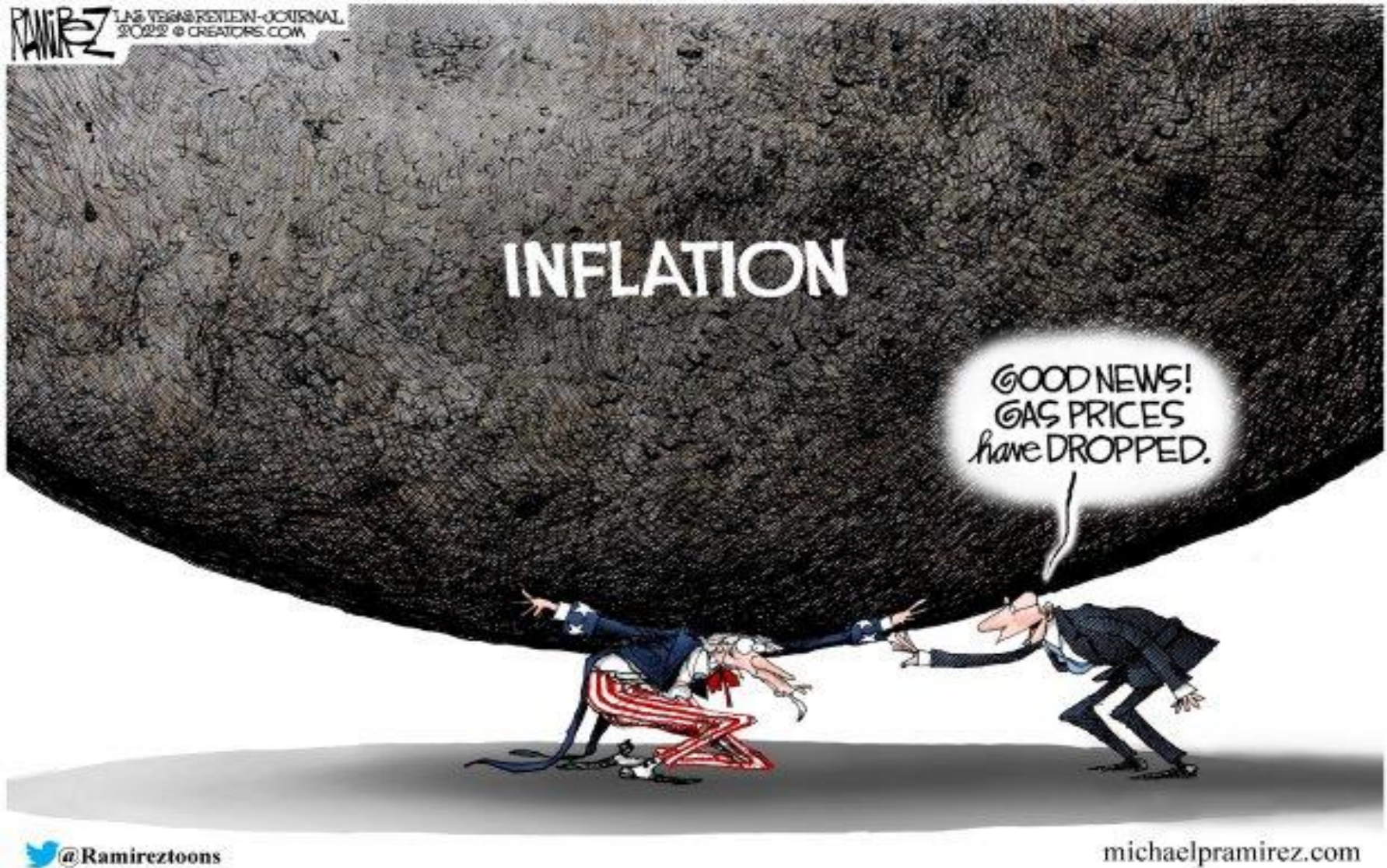


Source: Monthly Data as of August 2024

We Continue To Believe Inflation Is What Matters For Markets



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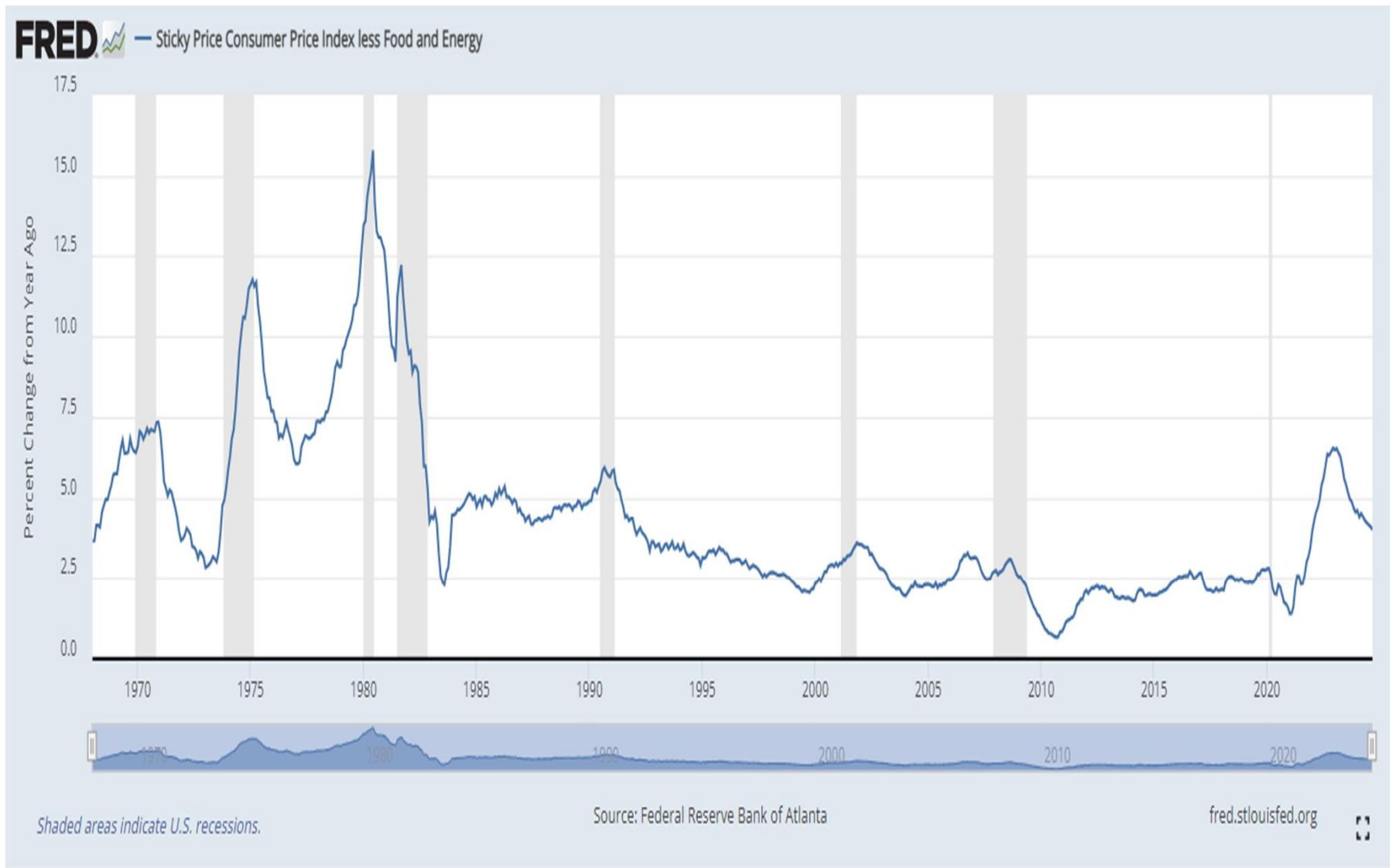


Source: Los Angeles Daily News

We Continue To Believe Inflation Is What Matters For Markets



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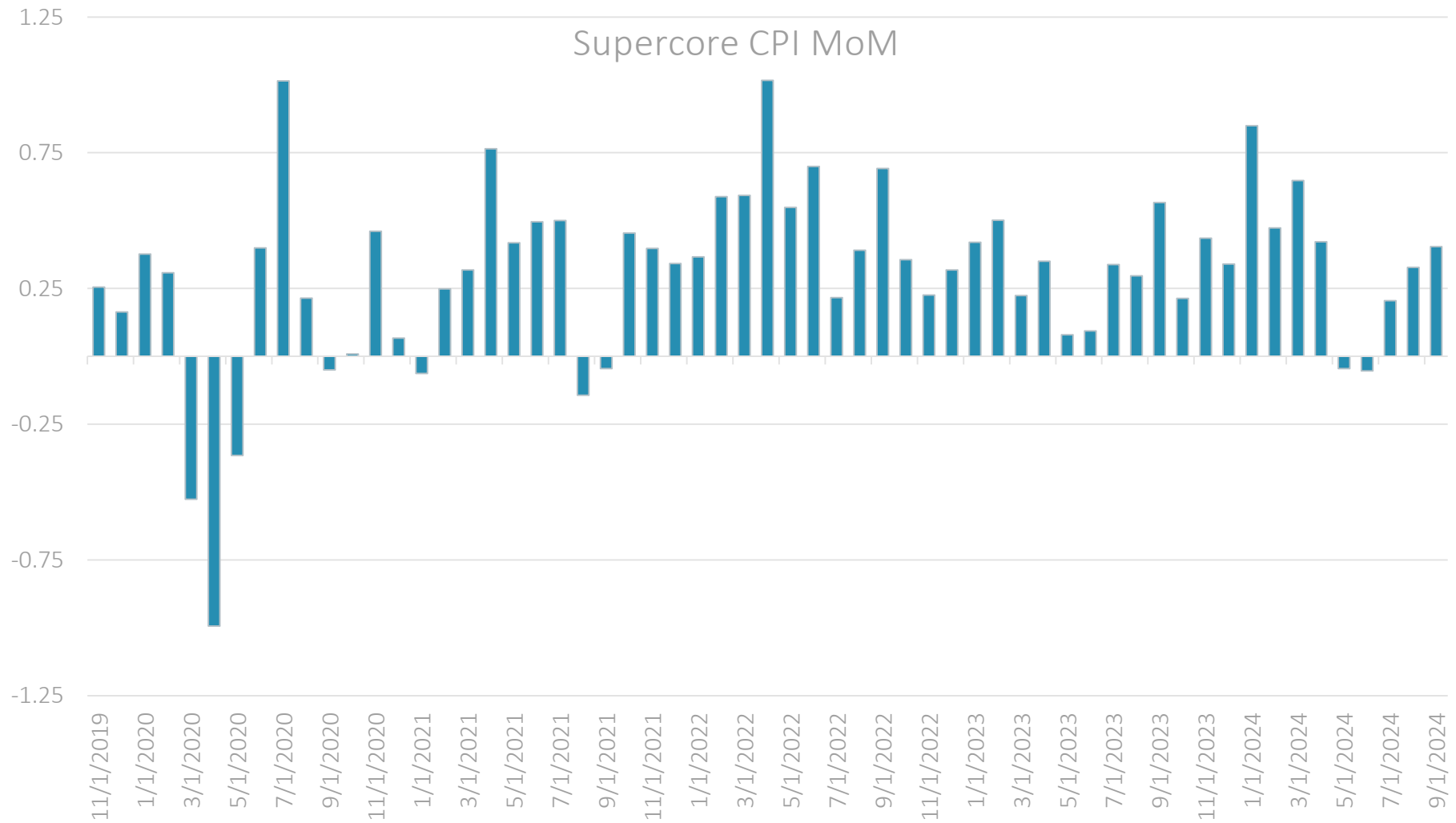


Source: Monthly Data as of September 2024

Supercore Inflation Has Started To Reaccelerate Despite The Fed Starting To Cut

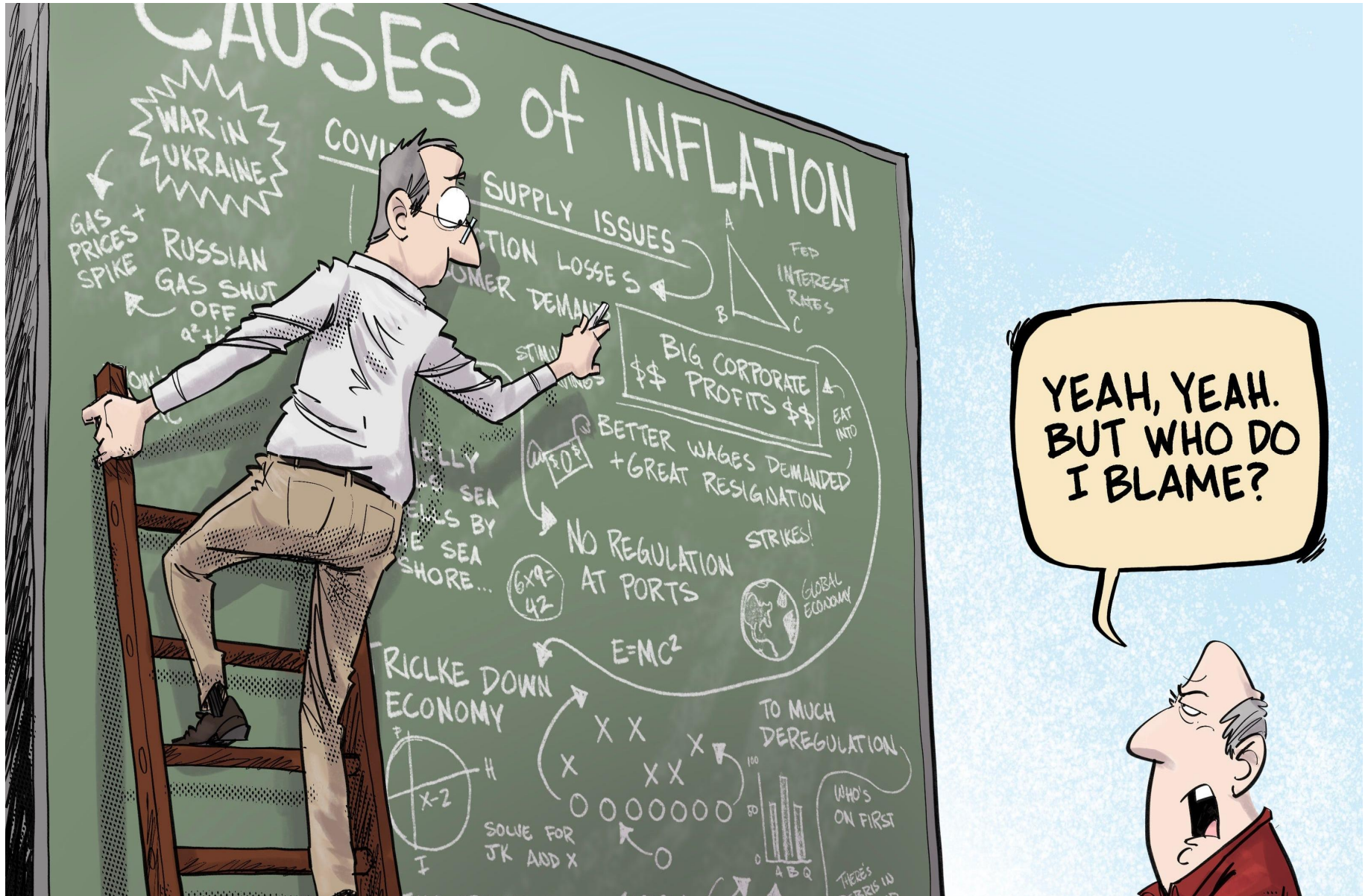


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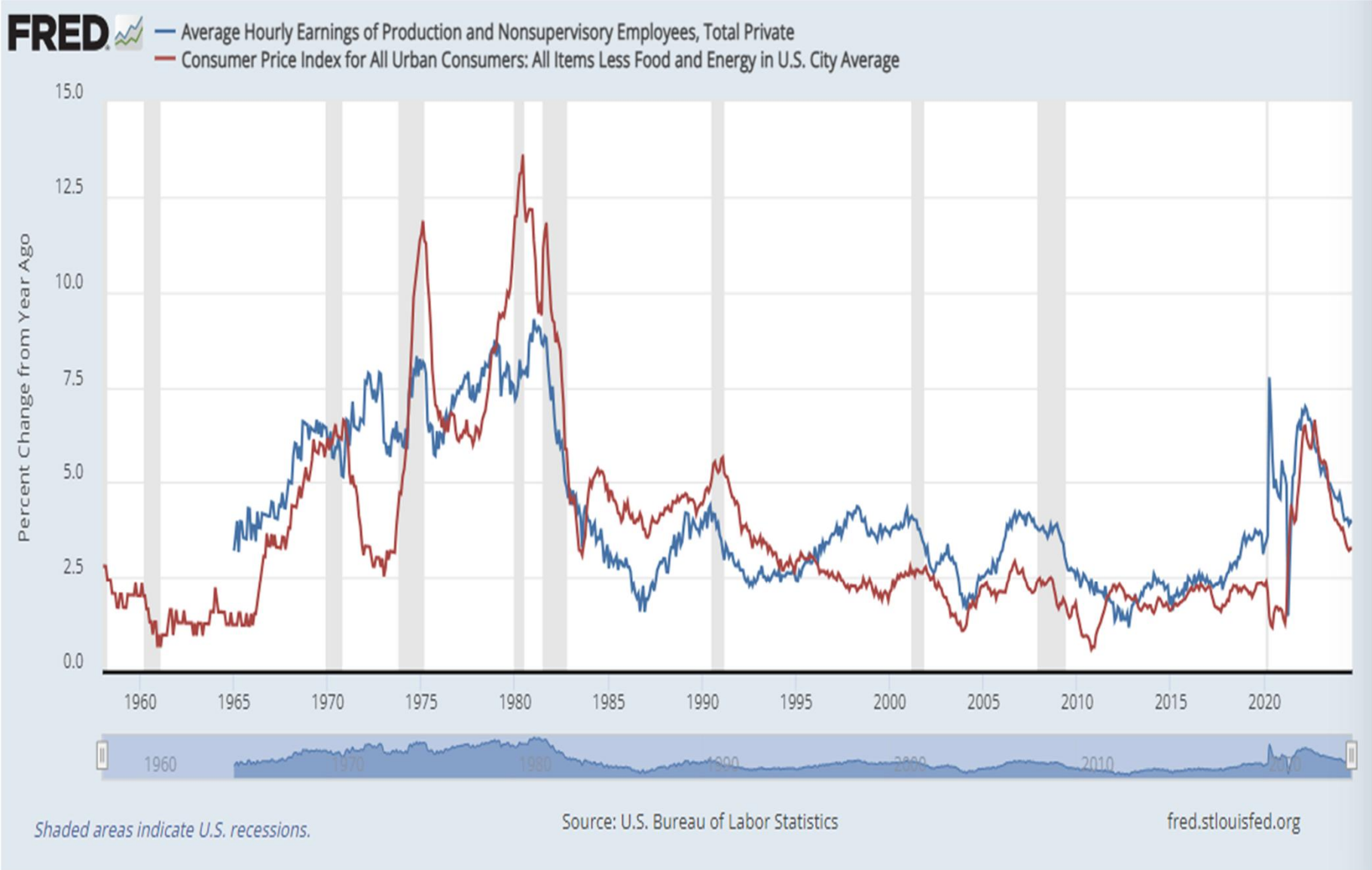


Source: Bloomberg. Monthly Data as of September 2024

So Why Do We Believe That Inflation Will Remain Higher For Longer



#1: Higher Wages

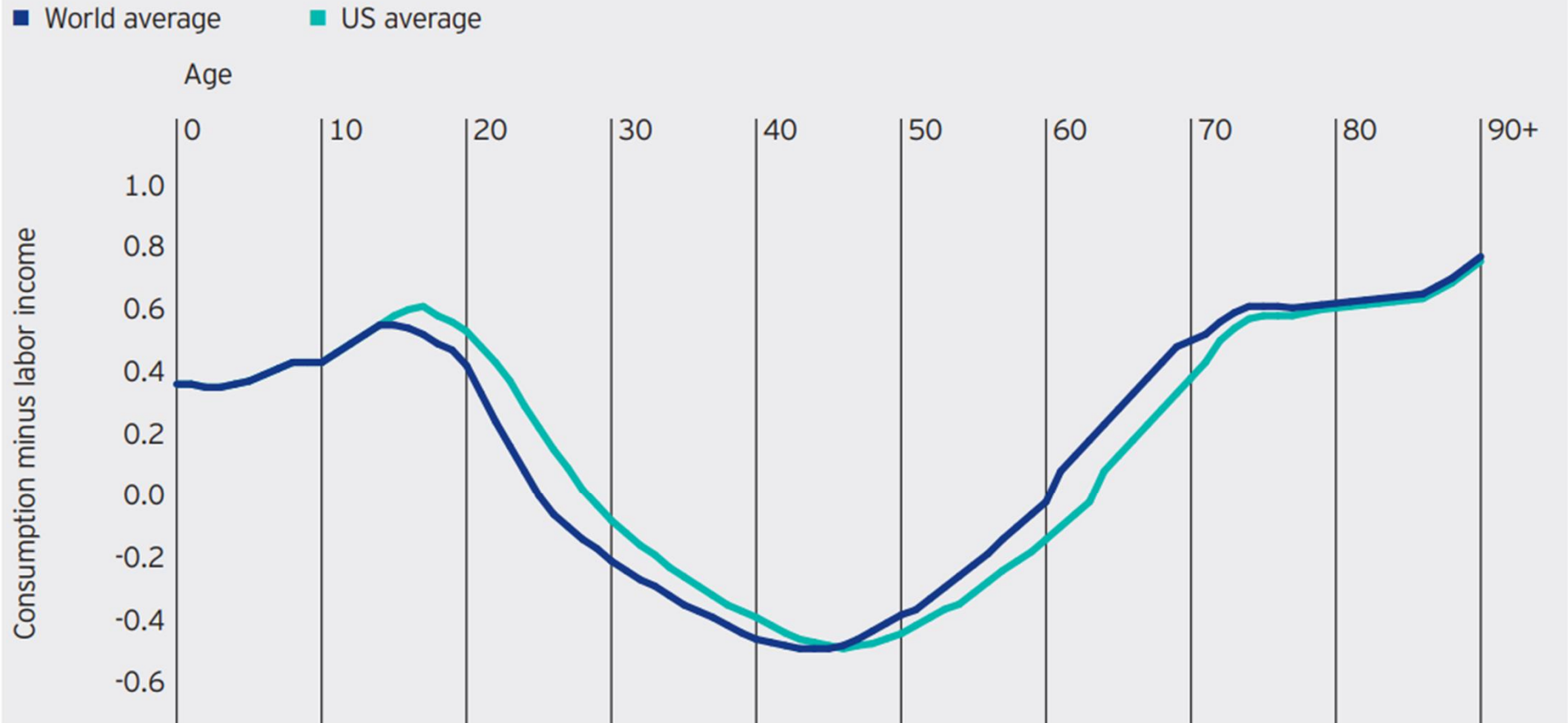


Source: Monthly Data as of September 2024

Longer Term, The Graying Of America Could Act As A Tailwind To Inflation Down The Road

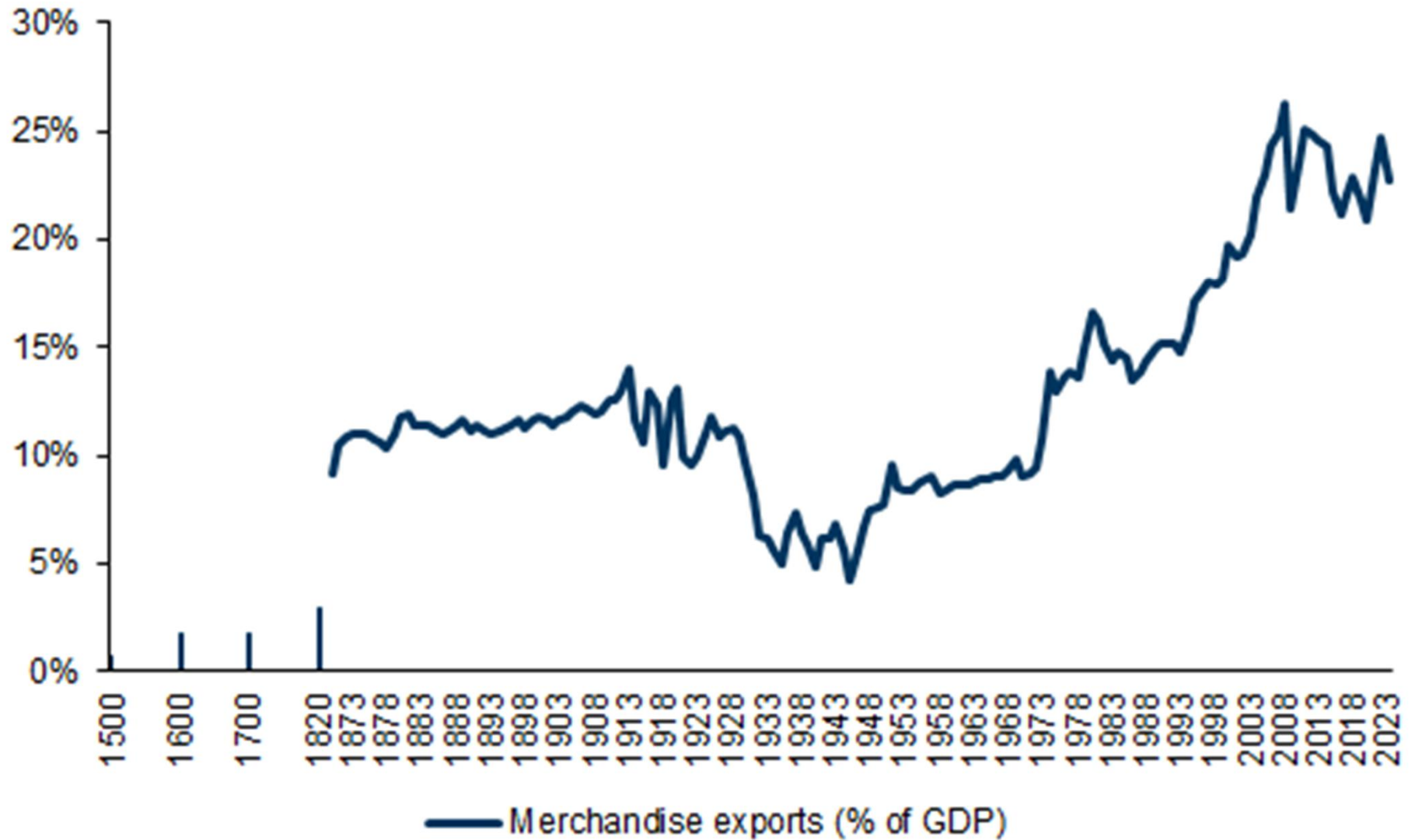


Figure 3: Impact on inflation over a lifetime – the consumption-supply gap



Source: Invesco, National Transfer Accounts, Policy in Focus, United Nations Development Program, December 2014.

#2: Slowdown In Global Trade

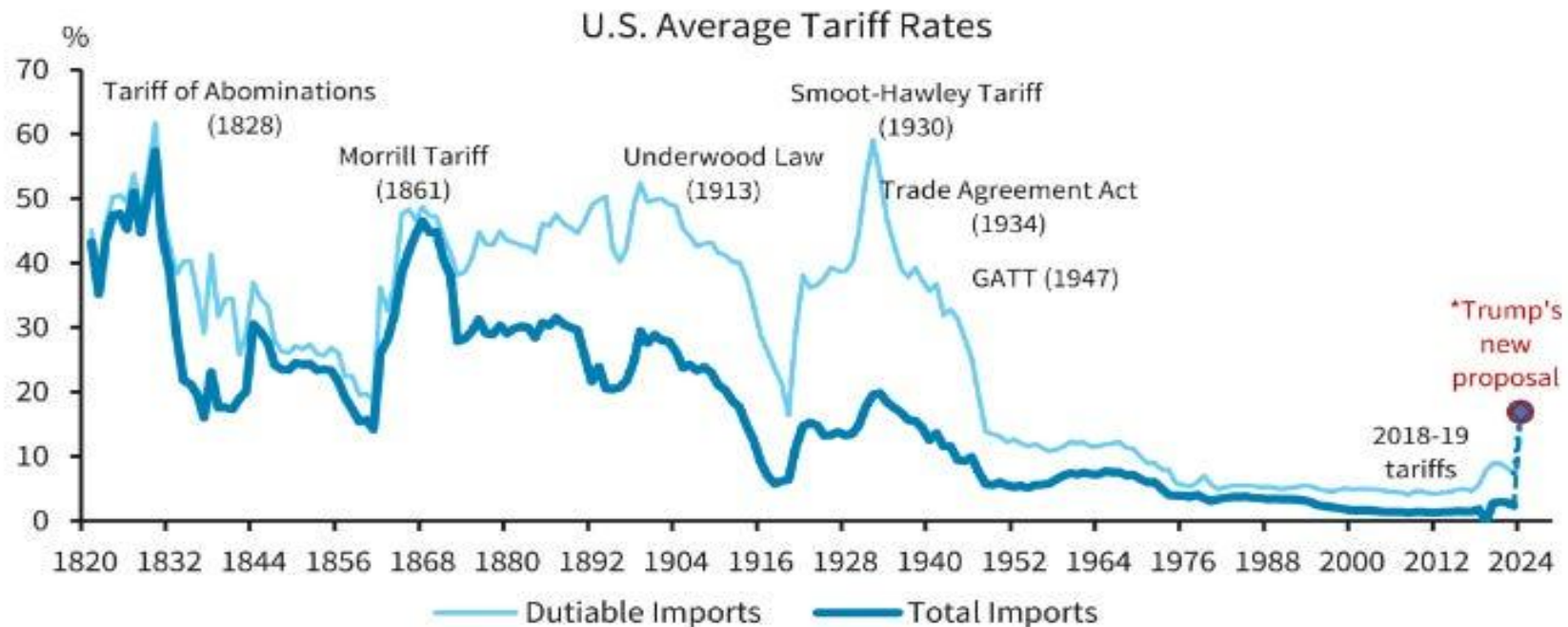


Source: Goldman Sachs

Both Parties Have Been More Receptive Of Tariffs



Figure 1. A 60% tariff on US imports from China and 10% on RoW would raise average tariffs to 1935 level



Note: *Assuming Trump's new tariff proposal of 60% on all Chinese imports and 10% on all imports from the RoW, we estimate an import-weighted average tariff to be c.17%.

Source: US Department of Commerce, Bureau of Census, Historical statistics of the United States 1789-1945, U.S. International Trade Commission, Barclays Research

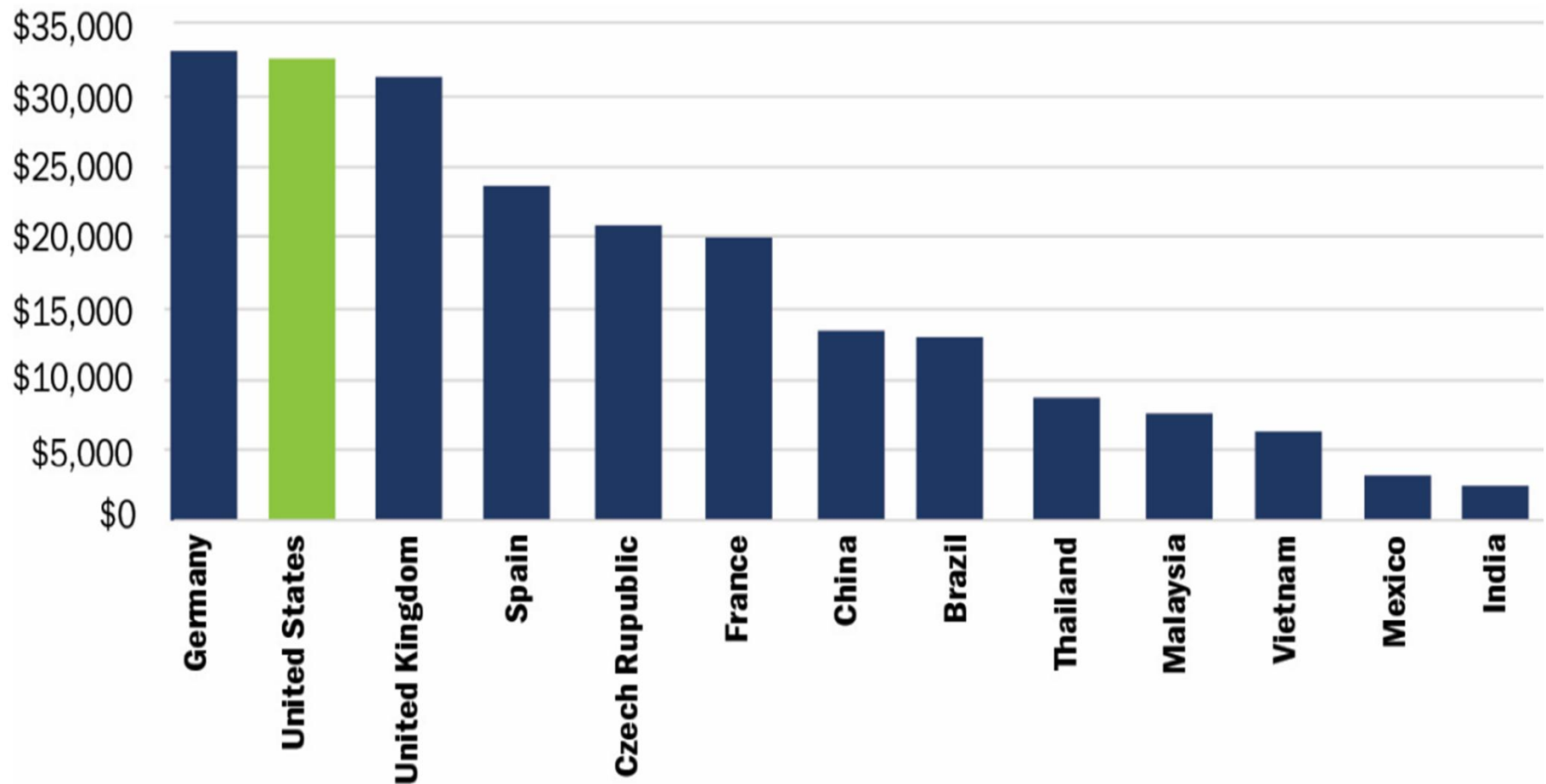
This Plus Government Incentives Is Pushing Businesses Towards Countries With Higher Wages



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Average Salaries of Production Workers / Machine Operators (World)

Source year: 2022, Indeed.com; Glassdoor.com; Salaryexplorer.com; Salary.com; Payscale.com



Source: Reshoring Institute: "Global Labor Rate Comparisons – The Impact on Manufacturing Location Decisions and Reshoring"



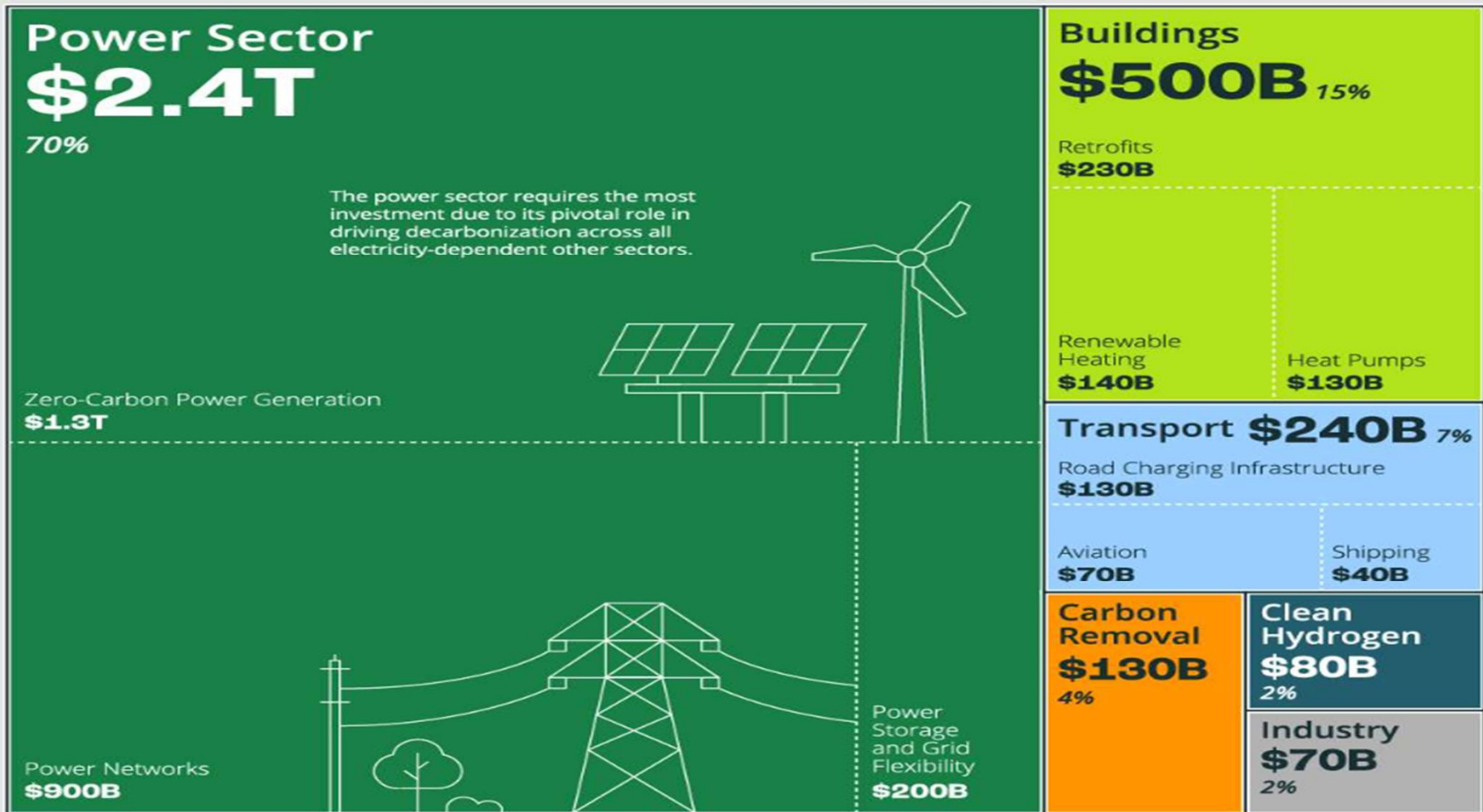
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#3: It's Not Easy Being Green



Average Annual Capital Investment Needed Worldwide 2021–2050, USD



Total annual spending needed to reach net-zero ▶ **\$3.5T**

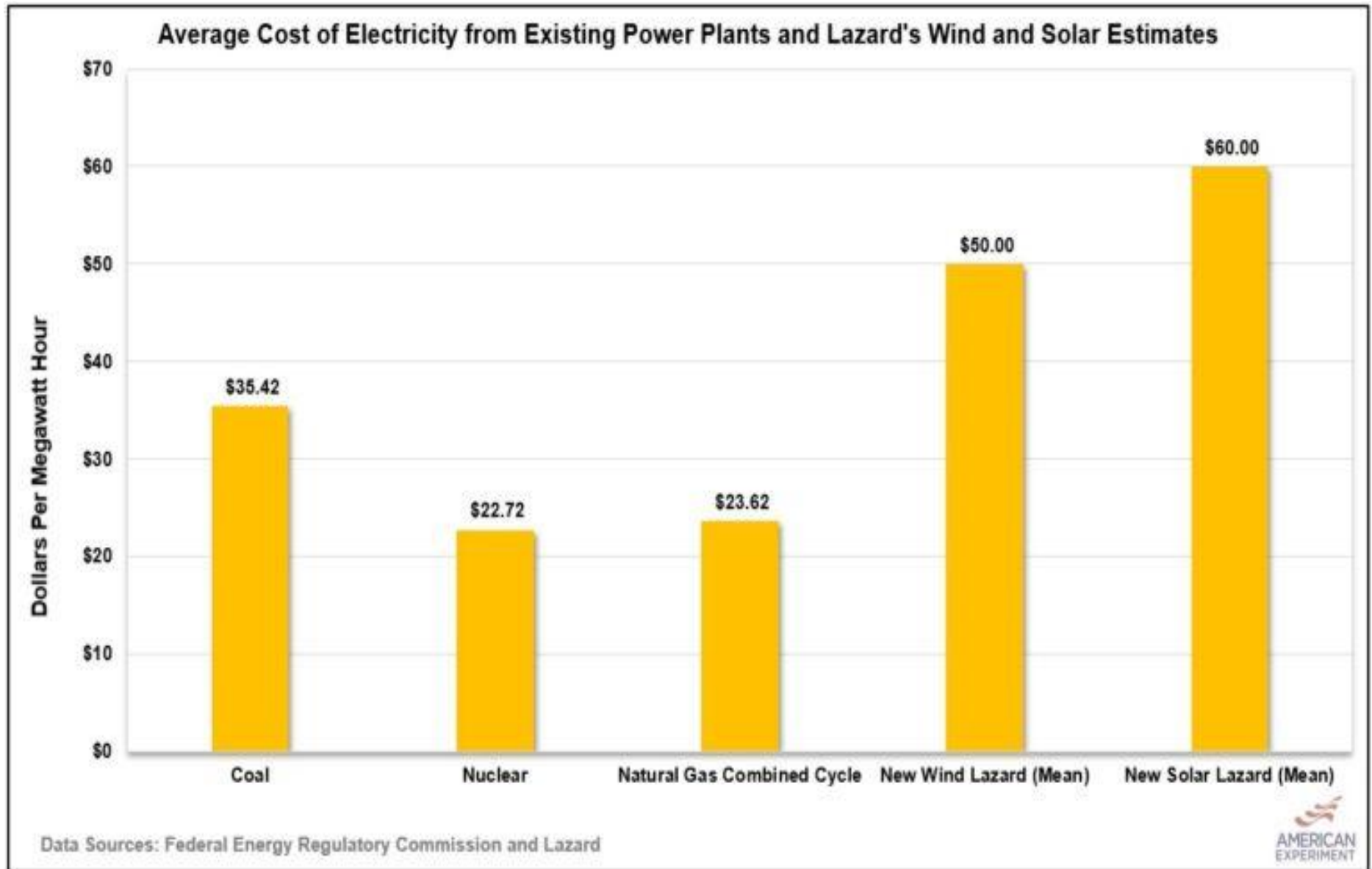
Total investment needed 2021–2050 ▶ **\$110.0T**

Source: Energy Transitions Commission

Comparing New Solar To New Natural Plants Hides The True Difference In Costs

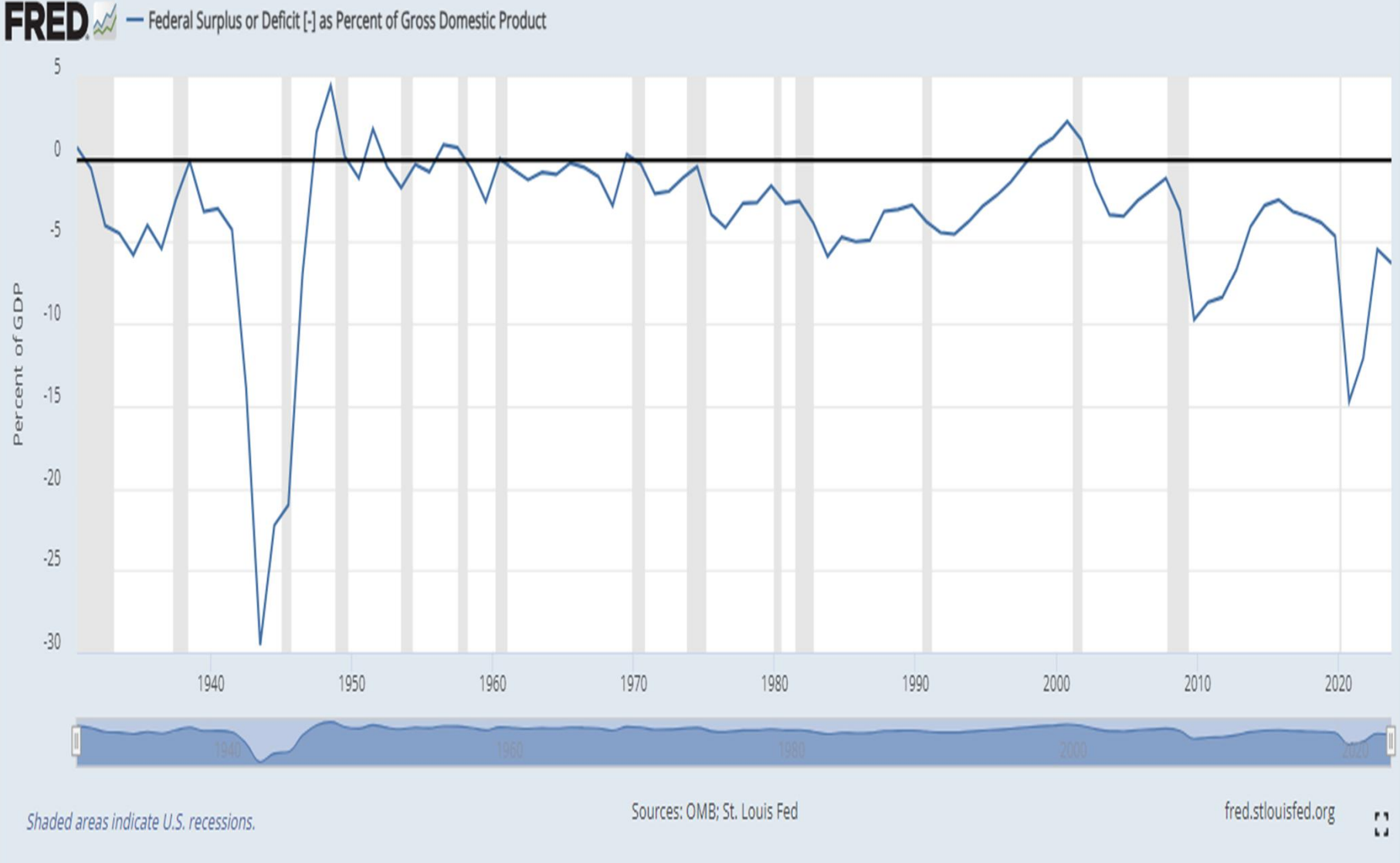


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#4: Fiscal Largesse

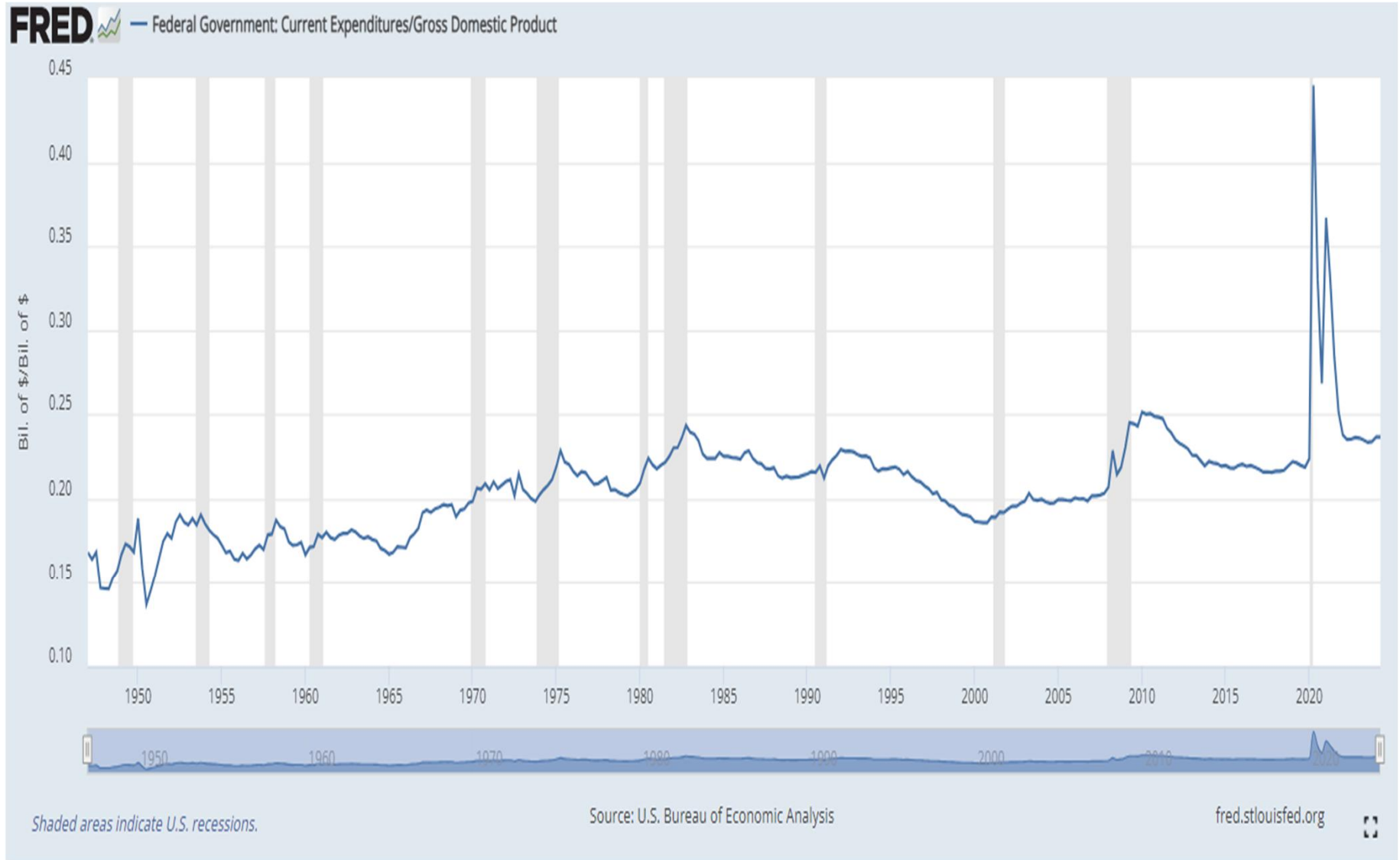


Source: Fiscal Year Data as of Fiscal Year 2023, Ending In September

Government Expenditures As A Percentage Of GDP Continue To Trend Higher



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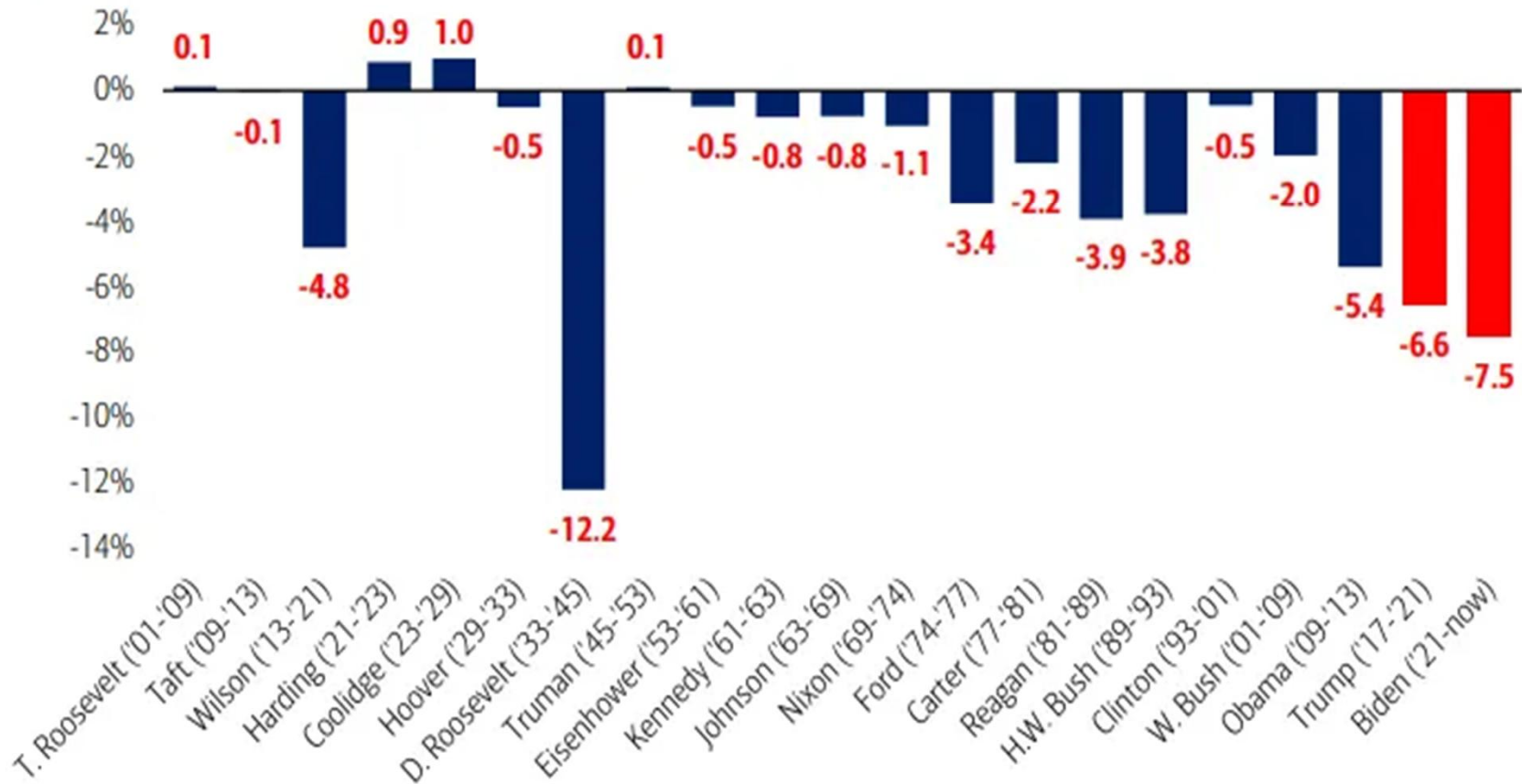
Source: Quarterly Data as of Second Quarter, Calendar Year 2024

As Both Parties Love To Spend Money



Chart 2: US government budget deficits under Biden & Trump highest since FDR

Average US government deficit as % of GDP under each President since 1900



Source: BofA Global Investment Strategy, GFD Finaeon, Haver

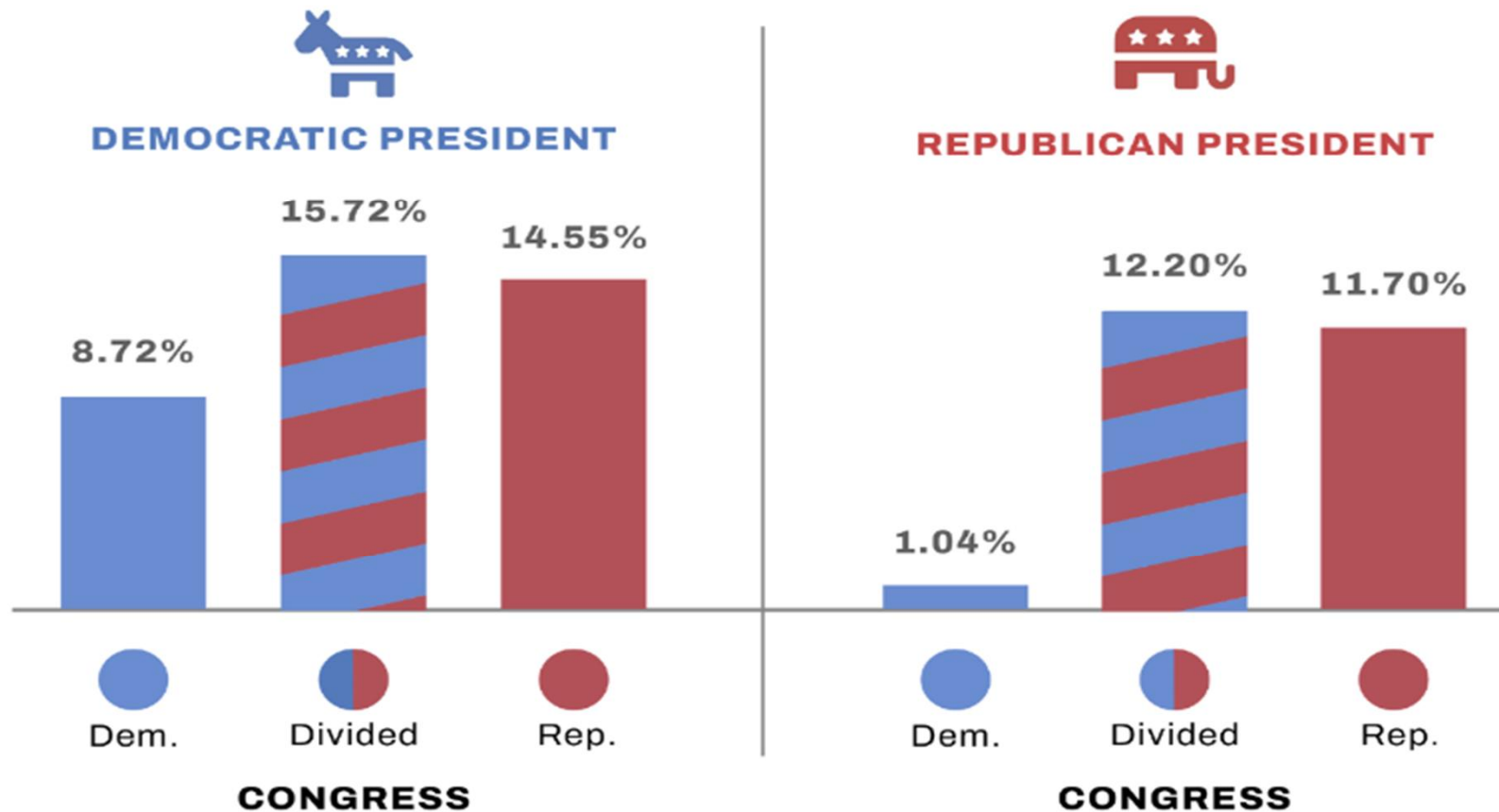
BofA GLOBAL RESEARCH

As For The Election, The Stock Market Is Usually Able To Navigate Whoever Is In Office



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Average Annualized S&P 500 Performance 1950-2023

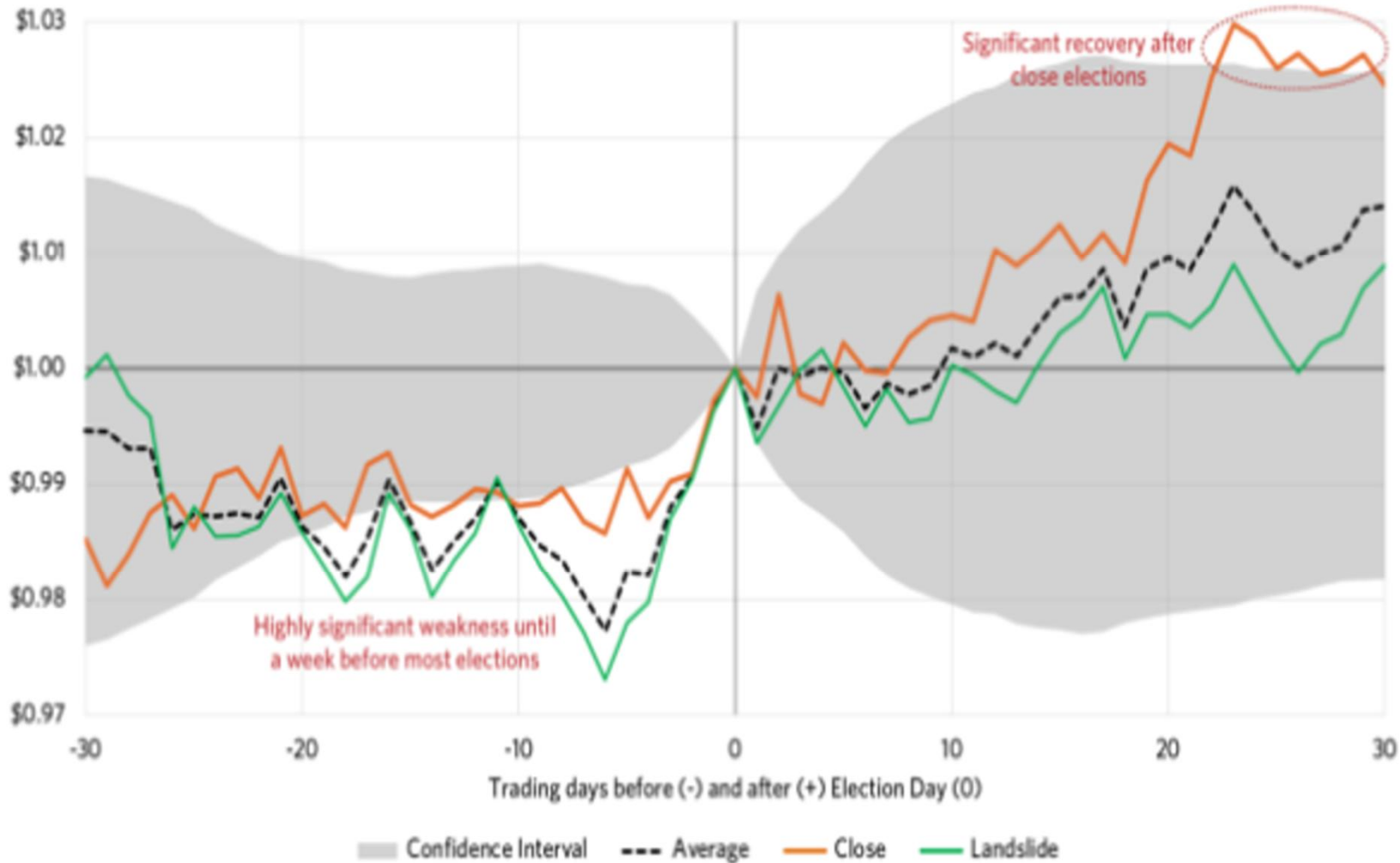


YCHARTS

However, Given How Tight This Election Is, We Could Get Some Relief After Election Day



Panel A: POTUS Elections, Close vs. Landslide, Average Market Returns



Source: Research Affiliates and data from The American Presidency Project, UC Santa Barbara, and Fama-French 3 Factors [Daily], June 2024.

Portfolio Positioning



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- Continue to overweight Consumer Staples and Health Care. Believe these sectors can generate alpha over the long-term through stock selection and downside protection.
- Overweight copper and ag related stocks to benefit from trends like inflation, EM population growth and electrification.
- We also own Gold Bullion through our exposure to Sprott Central Fund of Canada.
- Continue to be underweight Consumer Discretionary, as we think specific segments of the consumer are driving discretionary spending.
- Have recently added to our Industrial's exposure as we were more positive on the economy than many on the street at the time. Wall Street has seemingly moved in our direction.
- We have also increased our LATAM exposure in recent quarters.



Exhibit 1: Ten Fed cutting cycles since 1984, with six outside of recessions

<i>Fed Cutting Cycles</i>	
First Cut	Type
September 1984	Normalization
October 1987	Growth Scare
June 1989	Normalization
July 1990	Recession
July 1995	Normalization
September 1998	Growth Scare
January 2001	Recession
September 2007	Recession
July 2019	Growth Scare
March 2020	Recession

Source: Goldman Sachs Global Investment Research



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