Global Macro News & Views

- Animal spirits hit Wall Street since Trump's election win with the riskiest assets performing best. Promising to be the first pro-digital currency President, Bitcoin and other crypto securities skyrocketed over the past four weeks with Bitcoin briefly topping $100,000. Big Tech has regained dominance since Trump's election victory along with small and mid-cap stocks, and meme stock speculation;
- International equities and foreign currencies have all declined sharply as investors fully embrace 'American Exceptionalism' amid a euphoric rally. There has been a notable divergence between the performance of U.S. and non-U.S. equities since the end of September with the latter significantly underperforming. The impact of proposed tariffs is being priced as a negative for many international markets;
- Trump has created a Department of Government Efficiency (DOGE) headed by Elon Musk and Vivek Ramaswamy. The commission aims to streamline federal operations, cut wasteful expenditures, and eliminate bureaucratic inefficiencies. The work of DOGE is expected to conclude by July 4, 2026, coinciding with the 250th anniversary of the US Declaration of Independence. Musk has suggested that DOGE could potentially reduce the US federal budget by $2 trillion. Trump is the first President to have the most billionaires in his administration as he hopes to streamline Washington, D.C.;
- Why investors should buy **Tesla** (NASDAQ-TSLA). This marks the first time in history whereby a U.S. President has the world's wealthiest entrepreneur in his administration. In addition, this quid pro quo relationship promises to make Elon Musk even richer. Musk, who donated a reported $250 million to the Trump campaign and will serve as co-manager of the new DOGE team with Ramaswamy, is poised to reap billions from U.S. sponsored contracts ranging from aerospace to autonomous cars, and beyond. Investors almost 'have to' own Tesla, Inc. because it promises to be a huge winner during Trump's return to the White House next month. Its stock has gained 60% since the election. U.S. and EU tariffs on China's EV exports are just one tangible outcome that should support the company's growth expectations:

- Canadian investors and politicians alike are concerned Trump 2.0 tariffs as trade tensions mount between the world's two largest trading partners. More than $3 billion per day crosses across U.S.-Canadian borders in trade. Stock investors are especially worried: There are 30 S&P/TSX Composite members that derive over half of their revenue from the United States. **Boyd Services Group** (TSX-BYD) leads the list at 92% followed by sweatshirt manufacturer **Gildan Activewear** (TSX-GIL) at 90%, according to *Bloomberg.* More than a third of Canada's stocks have revenue generated in the United States, including some of the largest like **Canadian National Railway Co**. (TSX-CNR), **Barrick Gold Corp**., (TSX-ABX), and **Cenovus Energy** (TSX-CVE);

- The bull market in sports. With valuations soaring for many professional sports franchises worldwide over the past 20 years, investors are vying for a piece of the action. Sports investment has surged in recent years due to professionalization of college athletics, the legalization of gambling and the proliferation of streaming services, among other factors driving this secular theme. And private equity is getting into the action. The *Texas Permanent School Fund* announced a $200 million investment in *Velocity Capital Management*, a firm founded in 2021 that invests in sports, media and entertainment companies. Permanent has $56 billion in pension assets;
- Legendary sports teams can fetch a fortune these days. According to *Forbes*, the New York Yankees franchise is worth $7.55 billion as of March 2024 compared to $3.2 billion in 2015. Even more impressive, the Boston Celtics NBA team is worth $6 billion versus $2.1 billion in 2015. Investing in the space isn't easy, unless you're an institutional investor with direct access to private equity. The **Roundhill Pro Sports, Media and Apparel ETF** (MVP) shuttered in April after dreadful results.

Global Equities & Real Estate

- Legacy mutual funds and investment trusts still bleeding assets. The success of ETFs and the resultant boom in assets under management has hit the managed funds industry hard over the past decade. **Schroders PLC** (London-SDR), one of the oldest British investment houses dating way back to 1804 in London, tanked more than 13% on November 5 after warning it faced more than $12.7 billion in outflows in Q4. In the United States, **Franklin Resources** (NYSE-BEN), another legendary manager since 1947, was late to the ETF frenzy and has suffered from multiple years of net outflows; its stock hit a four year low recently;

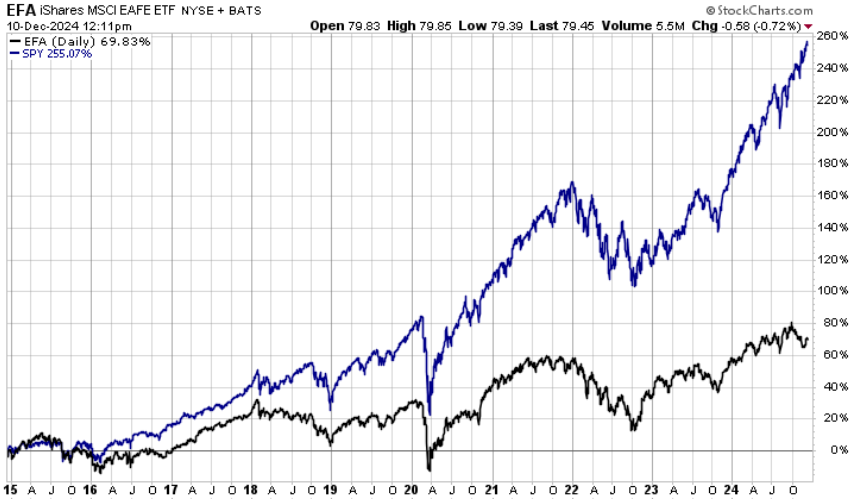
- **BlackRock Inc**. (NYSE-BLK) dives deep into private markets. The world's largest asset manager with $11.5 trillion under management is taking a stab at private credit. Last week, BLK announced it would buy private credit manager **HPS Investment Partners** in an all-stock deal valued at $12 billion. The tie-up bolsters

BlackRock's position in the white-hot private debt investment market, where the firm made a separate acquisition last year when it absorbed London-based **Kreos Capital**, a small manager;

- Now officially an "asset class," private credit is the hot new thing on Wall Street. In just a few years, it's muscled aside banks to become a major source of capital for acquisitions and a popular "alternative investment" for retirement funds. Private credit got a boost when the 2010 Dodd-Frank Act -- Congress's response to the global financial crisis -- pushed a lot of risky lending outside the banking sector. Specialized asset managers were happy to fill the void. Because they tailor loans to each borrower and typically don't trade the debt, thus locking their money up for long periods, private lenders can charge higher interest rates than banks and public debt markets do. After last year's regional banking crisis, banks are again tightening their lending standards, which could push more borrowers into the arms of private credit lenders;
- Back in 2009, BlackRock bought **iShares** at a distressed price immediately following a financial crisis. This time, the company is hoping to revolutionize private markets by making them available to the public at a much lower cost while also offering liquidity;
- The S&P 500's price-to-book ratio has surged to 5.3 times in 2024, approaching a peak of 5.5 hit in March 2000 during the height of the technology bubble, according to data compiled by *Bloomberg* and *Bank of America's* Michael Hartnett (see chart below). The S&P 500 has surged about 27% in 2024 and is tracking its best year since 2019 on optimism around artificial intelligence and wagers that President-elect Donald Trump's "America First" policies would boost domestic markets. The main attraction of the S&P 400 and S&P 600 is that they are cheaper than the S&P 500 Large-Caps. The same cannot be said for the Russell 2000, which is much more expensive than the S&P 600 because the former includes many more companies that are losing money than the latter;

- Valuation dispersion between U.S. and foreign equities greatest since 2008-2009. Global diversification has been a failure since the 2008-2009 credit crisis; stocks in the United States have blown away international equities by a landslide. Throw in the dollar's big gains over the same period and it's no contest;
- Since 2010, the MSCI EAFE Index (major markets, ex. USA) has gained 6.65% per annum compared to 12.86% annualized for the S&P 500 Index. We all know why. The strong dollar is part of the story. But the main thrust propelling American equities over the past decade has been the huge progress in technology, which has improved productivity and dominated the economy. And since early 2023, amid all the AI hoopla, that trend has been magnified several times over. Moreover, foreign bourses don't have the same Big Tech 'punch' as

Wall Street: South Korea has **Samsung Electronics**, Taiwan has **Taiwan Semiconductor**, Holland has **ASML** and Germany **SAP AG**, but there's a dearth of technology picks outside of the United States. I suspect that it won't change anytime soon. But the dollar won't rise forever, and U.S. stock market dominance won't, either;



- According to *Wilshire Indexes*, the forward P/E for the S&P 500 is now 22x compared to 18.9x over the past decade on average. But the forward P/Es for the UK are 11.3x, Europe ex. UK at 13.6x, Japan at 14x, Asia Pacific ex. Japan at 14.5x, emerging markets are 15.7x and China only 12.4x.

Fixed-Income

- Bond vigilantes were asleep for almost 30 years, but recently woke from a long slumber as deficits come under scrutiny in France and Brazil recently. Bond market investors will force rates higher if governments don't control spending. The United States, the world's reserve currency, is not immune from the Bond vigilantes amid persistently high deficits and the bulging cost of entitlements. The bond market is where the smart money lies, not in stocks. The size of the bond market is massive and commands the respect of finance ministers everywhere less they pay a higher rate to fund their respective governments. Many smaller emerging nations know the Bond vigilantes; Argentina, Sri Lanka, Kenya, Venezuela, Lebanon, Puerto Rico etc. The list goes on and on. Greece was the last economy in Europe to come under attack by the Bond vigilantes during the Greek credit crisis starting in 2009;
- PIMCO cuts long-dated Treasury bonds amid bulging deficits. The world's largest active bond fund manager has reduced its exposure to long-dated U.S. debt securities, according to *The Financial Times: Pimco has become more hesitant to buy long-term American government debt as the $2tn US bond fund manager frets over "sustainability questions" and the prospect of rising inflation under Donald Trump. The bond giant said in a note on Monday that it was cutting its exposure to long-dated US debt because of what it termed deteriorating deficit dynamics, instead favoring shorter-term notes "where investors can find attractive yields without taking greater interest rate risk". Pimco's chief investment officer of non-traditional strategies Marc Seidner and portfolio manager Pramol Dhawan are expecting US debt levels to keep rising from already high levels. The US*

federal budget deficit reached $1.8tn for the fiscal year ending September 30, up 8 per cent from the previous year.

- Need yield? Investors seeking bond income don't need to go long duration. Instead, look at short-term notes and bonds. With the benchmark two-year Treasury note unable to rally below 4% on the yield scale, the Fed might be on pause for rate cuts in 2025 as inflation percolates. After plunging since last spring, short-term rates began to ratchet higher in late September (see above chart) and currently yield almost 4.2% on a 12-month bill. For better after-tax treatment on income, look at the **iShares Preferred and Income Securities ETF** (NASDAQ-PFF), up 10.6% in 2024 and yielding 6.12% over the past 12 months. U.S. preferred stocks have characteristics of bond ownership (pay a fixed dividend) and stocks (representing company ownership). The $15.2 billion fund holds 440 securities.

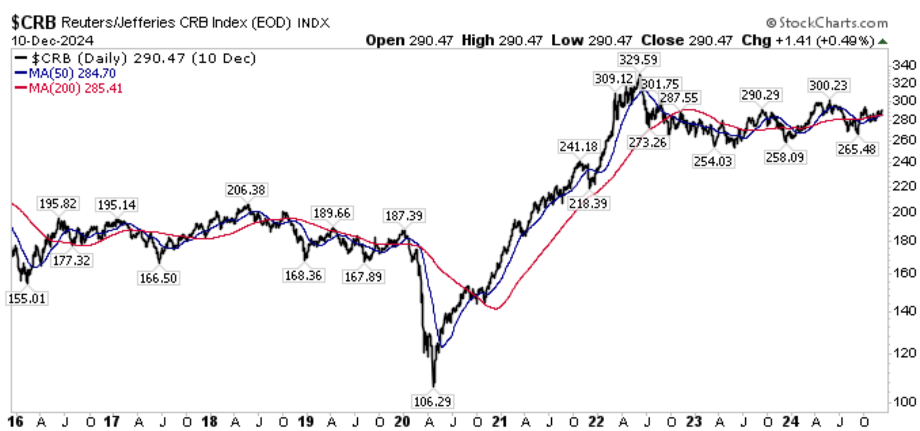
Currencies

- The **ENR Global Currency Sandwich**, investing equally in gold, the Japanese yen, Brazilian real, Singapore dollar, and the Norwegian krone, declined 2.83% in 2024 through December 10th. That compares to a rise of 5.04% for the USD Index (see chart below). Except for gold, up 29%, four constituent currencies were down against the dollar with the booby-prize going to the Brazilian real, crashing more than 25%. The NOK declined 9.3%, the yen was down 7.2%, and the Singapore dollar off a modest 1.6%;

- The USD Index started the year on a strong note but peaked in May and subsequently plunged until September when it posted a massive reversal. From its bear market low in 2008, the USD Index is up a cumulative 49.4% with brief declines in 2011, 2017-2018 and 2020. For quite some time, the U.S. dollar has been overvalued compared to other currencies. Unfortunately, the global exchange rate system is largely dysfunctional with currency debasement an ongoing theme over the past 54 years, including the dollar, which has been compromised by long-term inflation and the decline of purchasing power – like all fiat money. Of course, the dollar will suffer a bear market one day, but it is difficult to forecast when and what will trigger a secular decline;
- For 2025, the **ENR Global Currency Sandwich** includes gold bullion, the Japanese yen, the British pound and the Singapore dollar on an equally weighted basis;
- Few developed countries have 10-year debt yielding 3% or more. British gilt yields are less than 15 basis points higher than Treasury yields yet are accompanied by far less stable political and fiscal outlooks. For these reasons, I like the British pound in 2025. In Japan, the BoJ should finally start hiking interest rates in 2025, lifting one of the cheapest currencies in the world and triggering a long-term yen rally. Singapore remains in the basket in 2025 because it is arguably the best-managed currency in Asia and declined the least vs. the USD in 2024.

Commodities

- The Reuters/Jefferies CRB Index has not made a new high since May 2022, and is down 12% over the time frame (see chart below). Despite the worst geopolitical tensions in decades and threats to oil supplies in the Middle East from intermittent missile warfare between Israel and Iran, oil prices have declined. Energy represents 39% of the CRB Index. The benchmark has risen 9.5% in 2024, mainly because of select agricultural commodities and base metals, not oil. Natural gas prices, however, have surged since last fall and are up 26% this year;



- The long-term correlation between Chinese GDP growth and commodities remains compelling. Until the market is convinced the Chinese government plans to launch a monetary stimulus bazooka to boost economic growth, most raw materials will struggle. Oil remains in abundant supply with the prospect of more oil and gas reaching the market as Trump takes office again. My bet is China will launch a massive spending bill to stimulate growth – far greater than what has already been announced since September;
- Natural resources, unlike expensive Big Tech (and most other tech), should be a part of a diversified portfolio because most of these companies are cheap and contrarian;

- My favorites heading into 2025 are **Rio Tinto Group** (NYSE-RIO), **ConocoPhillips** (NYSE-COP), **Albemarle Corp**. (NYSE-ALB), and **Freeport McMoRan** (NYSE-FCX). Uranium belongs in every growth portfolio because of the widespread adoption of AI and the hunt to secure clean, abundant energy. But **Cameco Corp**. (NYSE-CCJ) has surged 60% since my first plug in September. Wait for a correction before entering. For more details, see the **ENR Market Outlook Portfolio** on page 8.

ENR Model Portfolio

- Though not impossible, it is unlikely 2025 will result in a third consecutive year of double-digit gains in the United States. The S&P 500 forward multiple of 22.6 is expensive. The real bargains lie in natural resource equities, financials, cyclicals and especially, international stocks. My favorite international markets include Hong Kong, Thailand, the United Kingdom, Ireland and Japan;

- Beware of the January sell-off. The U.S. stock market is now the most overbought since last July coupled with extremely high bullish sentiment. Complacency is evident with the CBOE VIX at a five-month low of 13.7, and sentiment readings also in extreme terrain with the *Investors Intelligence* poll now at 62.9% bullish — we know for sure that readings above 60% are a sign of excessive bullishness. Ever-rising bullish sentiment is getting even more extreme. The updated *Citi Panic/Euphoria Index* rose to .62 from .58 the week before. It's now about 50% above the Euphoria threshold and above the previous July peak. Investors should brace for a short but sharp correction in January as delayed tax related selling occurs. A correction will be a buying opportunity for stocks
- *Market Vane*, another sentiment gauge, is at 73% -- right where it was in the spring of 2007. At a 22.6x forward P/E multiple, the U.S. trades at the widest multiple premium on record with the rest of the world — the ex-U.S. stock market trades at a sub-14x forward price-to-earnings multiple, which is lower today than it was in 2008

On behalf of everyone at ENR in Montreal, we wish our investors and clients and their families a happy, healthy and prosperous 2025. See you in January!

Eric Naimer Roseman
Montreal, Canada
December 11, 2024

Market Outlook Portfolio:

Security	Listed	Symbol	Entry Price	Date	Current Yield	Current Price	Gain/ Loss	Advice
iShares MSCI Hong Kong ETF	NYSE	EWH	$18.35	Nov 5/24	4.50%	$18.16	-1.04%	BUY
Uber Technologies, Inc.	NYSE	UBER	$74.03	Nov 5/24	0.00%	$65.30	-11.79%	BUY
NIKE, Inc.	NYSE	NKE	$73.71	Jul 29/24	1.91%	$78.78	7.92%	BUY
abrdn Physical Palladium Shares ETF	NYSE	PALL	$89.81	Jun 28/24	0.00%	$90.10	0.32%	BUY
Rio Tinto Group	NYSE	RIO	$64.71	Apr 2/24	7.00%	$65.32	3.68%	BUY
Freeport-McMoRan Inc.	NYSE	FCX	$39.26	Mar 29/23	1.43%	$44.00	14.75%	BUY
Energy Select Sector SPDR	NYSE	XLE	$86.74	Feb 7/23	3.12%	$91.84	11.83%	BUY
ConocoPhillips*	NYSE	COP	$67.56	Sep 29/21	3.02%	$104.17	67.70%	BUY
Albemarle Corporation	NYSE	ALB	$61.01	Sep 4/19	1.53%	$106.86	88.63%	BUY
Nestlé SA*	VTX	NESN	CHF 65.15	Dec 7/16	3.98%	CHF 75.46	55.74%	BUY
Apple Inc*	NASDAQ	AAPL	$23.20	May 9/16	0.41%	$242.95	976.17%	HOLD
Wheaton Precious Metals	NYSE	WPM	$22.78	Jun 5/19	1.01%	$63.39	190.78%	HOLD
Newmont Corporation*	NYSE	NEM	$17.99	Dec 31/15	2.43%	$41.87	190.63%	HOLD
Berkshire Hathaway*	NYSE	BRK.B	$197.73	Aug 5/19	0.00%	$469.25	137.32%	HOLD
HSBC Holdings plc	LSE	HSBA	£4.74	Nov 9/22	6.38%	£7.52	106.79%	HOLD
iShares Russell Top 200 Value Index	NYSE	IWX	$52.46	Jan 2/18	1.75%	$83.54	77.91%	HOLD
Microsoft Corporation	NYSE	MSFT	$256.72	Jul 5/22	0.69%	$442.13	75.02%	HOLD
Alphabet Inc.	NASDAQ	GOOGL	$104.65	May 5/23	0.23%	$173.98	66.63%	HOLD
Zurich Insurance Group	VTX	ZURN	CHF 411.20	Oct 4/22	4.68%	CHF 555.40	64.31%	HOLD
Cameco Corporation	NYSE	CCJ	$38.55	Sep 5/24	0.19%	$61.10	58.78%	HOLD
WisdomTree India Earnings Fund	NYSE	EPI	$32.42	Mar 3/23	0.00%	$48.09	48.52%	HOLD
The Southern Company	NYSE	SO	$66.47	Dec 7/21	3.37%	$85.14	40.63%	HOLD
Vanguard Small Cap Value Index Fund	NYSE	VBR	$157.50	Oct 2/23	1.84%	$213.70	38.21%	HOLD
AbbVie Inc	NYSE	ABBV	$140.24	Nov 30/23	3.52%	$174.96	29.18%	HOLD
Lazard Global Listed Infrastructure Portfolio	NASDAQ	GLIFX	$14.04	Aug 4/20	3.52%	$16.22	26.23%	HOLD
Research Affiliates Deletions ETF	NASDAQ	NIXT	$25.83	Oct 2/24	0.00%	$27.82	7.70%	HOLD

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