ENR Asset Management Inc.

ENR Market Outlook

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Global Macro News & Views

- As president-elect Trump takes control of the White House for the second time, investors will anxiously await a raft of new legislation largely centered on U.S. protectionism and possibly, isolationism. The implications are enormous as the American Old Guard led by the late John McCain and soon to retire, Mitch McConnell, give way to a new generation of domestically focused politicians at the expense of some Allies, trade accords and revisionist American foreign policy;
- It’s too early to forecast a macroeconomic outcome on Trump’s economic policies, but the bond market is growing nervous as interest rates at the long end rise since mid-September. U.S. fiscal deficits will surge under Trump just as they did under Biden. Though promising much less regulation, Trump might also stir inflation as consumption increases and GDP accelerates. High tariffs might boost inflation, too. At some point, the Bond Vigilantes will demand an even bigger premium on U.S. debt financing. A day before elections, the U.S. 10-year T-bond closed at 4.29%; it currently trades at 4.69%. The Bond Vigilantes have already targeted spendthrift nations like France and Brazil. In late 2022, the United Kingdom attempted to boost spending, triggering a market meltdown that send UK yields soaring;

- American Exceptionalism or American Stock Bubble? In 2024, the Mag 7 accounted for 53% of the S&P 500’s 23.3% total return. Without the Mag 7, the broader market would have rallied 11.7%;
- In 2024, U.S. stocks dominated global benchmarks again as most international bourses peaked last summer and consolidated heavily in the fall as long-term interest rates began to climb. In dollar terms, most regional indices were barely positive last year. According to *Wilshire Indexes*, U.S. equities delivered their strongest outperformance relative to international stocks in 2024 since 1997, supported by far superior contribution from technology sector. The prospect of Trump 2.0 slammed foreign markets in Q4;
- The past two years were certainly prosperous ones for stock investors as the broader market rose 23% following a 24% gain in 2023. Those gains more than offset the 19.4% loss in 2022. On average, the S&P 500 is up 9.4% per year over the past three years, consistent with its long-run average growth rate of 7.2%, excluding dividends. In stark contrast, the MSCI EAFE Index (ex. USA) gained only 1.1% last year and is down 1.1% per

annum in the past three years. Last year's S&P 500 advance was heavily skewed by the Magnificent-7 stocks, which collectively soared 63% and currently account for a whopping 32% of the market cap of the S&P 500;

- The MSCI Emerging Markets Index beat the MSCI EAFE Index last year, up 5%, but is struggling long-term. Over the past three years, emerging markets are down 4.4% per annum;
- The top five performing assets in 2024 were cocoa (+178%), Bitcoin (+156%), coffee (+70%), orange juice (+55%) and NYMEX Natural gas (+45%). The bottom five performers last year were soybeans (-23%), the Argentine peso (-22%), the Brazilian real (-21.5%), the Mexican peso (-18.5%), and the Turkish lira (-16.6%);
- Brazilian markets crater. The largest economy in Latin America, Brazil has come under fire over the past several months as the real collapses 25% year-over-year to hit its lowest level against the USD since 1994. Over the last year, the **iShares MSCI Brazil Index** has crashed 28% as rates have soared. The market is very concerned over Brazil's fiscal accounts; the leftwing Lulas administration is trying to legislate cost savings after its tax-and-spend policies provoked mounting resistance in the business world;
- U.S. Congressman seeks to cut expats' taxes. *The Wall Street Journal* reports that the United States could remove income taxes on Americans living abroad. Rep. Darin LaHood (R., Illinois) would let expats pay income taxes only where they live, removing a requirement that American citizens living anywhere owe U.S. taxes on their worldwide income. In October, Trump backed the general idea. Many expats are hoping Congress will pass the new proposal; the current U.S individual income tax system for expatriates' dates back to the 1860s and the taxes that financed the Civil War. Like most other countries, Canada taxes on residency, not citizenship.

Global Equities & Real Estate

- Growth continues to trounce value in most years. Data from Martin Fridson's market research site *Income Securities Investor* makes the point. Between 2004 and 2014, growth's annualized total return outpaced value's by 1.8 percentage points. But from 2014 through 2024, growth won again, beating value's annualized total returns by 5.3 percentage points. Over the last ten years, value enjoyed a brief period of outperformance; in the 2022 bear market, value managed to fare better, largely because energy stocks and dividend-paying companies held ground;
- ETF assets surge to $15 trillion in late 2024. Assets in global ETFs soared to $15 trillion through November, according to ETFGI. Investors poured $1.7 trillion into ETFs in 2024, up 30% from 2023 with Wall Street taking a big slice of that pie as investors buy U.S. stock ETFs. Actively managed ETFs and those focusing on government and corporate debt are both gaining in popularity at the expense of traditional managed funds. Mutual funds have shed $2 trillion in assets over the past three years;
- London bleeds the most stock listings since 2009. The LSE suffered its worst year for departures since the financial crisis as fears mount more FTSE 100 businesses will quit the UK in favor of New York. A total of 88 companies delisted from London as of December 15 with a combined drain of £280 billion or about 14% of the current total value of the FTSE 100. Some of the bigger names to leave are Flutter Entertainment and CRH – both listing in New York instead.

Fixed-Income

- Bond markets are worried about tariffs and resultant inflation. But not the stock market. The U.S. 10-year Treasury yield climbed to levels just shy of 4.7% this morning, the highest since April after an almost uninterrupted surge of more than one percentage point since mid-September. The move echoes the ones seen in 2022 and 2023, which were accompanied by sharp drops in global equities (see chart below from *Bloomberg*). Yet this time, the stock rally has only taken a gentle breather, leaving scope for downside should yields keep surging. Strategists point out that longer-maturity rates have increased the most as yield curves steepen, indicating concerns on U.S. fiscal and inflation risk. The bulk of the move has been in real yields rather than breakeven inflation;

- Treasury yields have been rising so fast that there's a risk of bond market turmoil resembling the upheaval that led to the resignation of then British Prime Minister Liz Truss, according to **Apollo Global Management's** Torsten Slok. With 10-year yields now at 4.6%, the highest since May 2024, there's concern about how the US will manage its ballooning debt burden, especially at a time that incoming President Donald Trump has promised to deliver tax cuts. In 2022, investors rebelled against Truss' spending projects, triggering a market meltdown that crashed the pound, spent UK yields spiraling higher and pushed pension funds to the brink of collapse. While most mainstream investors would say that it's unlikely the U.S. would repeat that level of turmoil, there have been worries bubbling up that Trump's policies will fan inflation and unsettle bond investors;
- Last spring, Bond King Bill Gross, former head of *PIMCO*, claimed the so-called bond total return strategy, which he pioneered some 40 years ago, to be dead. He argued that bonds will continue in a protracted bear market marked by higher interest rates due to higher-than-expected inflation and massive debt issuance to fund continued deficits. He's been right on. The **Vanguard Total Bond Market ETF** or BND has earned 1.33% per annum over the past ten years, lost 0.33% pa over the past five, and is down 2.36% pa over the last three years. Basically, since 2014, investors in most bonds have not only gone nowhere, but after inflation, have lost money. The bond market's historic 40-year rally began with 10-year Treasury yields at 15.84% in September 1981 and ended in August 2020 at 0.51%.

Currencies

- The **ENR Global Currency Sandwich**, investing equally in gold, the Japanese yen, Singapore dollar, and the British pound, is flat so far in January or up 0.06% versus a rise of 0.80% for the USD Index.

Commodities

- The Reuters/Jefferies CRB Index gained over 12% in 2024 mainly from big winning constituents like natural gas, cocoa, coffee, gold and silver. Commodities are also moving higher since January 1st as oil and most of the energy complex draw a bid. Among major asset classes, commodities are still cheap and trade 37% below their all-time high in July 2008.

- We remain long-term bullish on real assets because the prospect of higher inflation seems realistic as governments continue to increase deficits, print money and debase real purchasing power. We might not be at the cusp of a 1970s-type inflation crisis, but it seems plausible inflation will stay elevated, unless there is a financial crisis or recession;
- For this sector to make a definitive U-turn, China needs to aggressively stimulate industrial consumption. Thus far, China has focused on arresting the deflation in real estate while domestic consumption remains lethargic. The world remains well-supplied for oil, LNG and iron ore. For aggressive-risk investors, the time to speculate on natural resource equities is now when the market is obsessed with A.I. and doesn't want commodity exposure;
- December was brutal for natural resources (see enclosed *ENR Model Portfolio*). Our diversified portfolio of commodity stocks all got slammed; We are still plugging **Rio Tinto Group** (NYSE-RIO), **ConocoPhillips** (NYSE-COP), **Albemarle Corp**. (NYSE-ALB), and **Freeport McMoRan** (NYSE-FCX). **Cameco Corp**. (NYSE-CCJ) has entered correction territory along with the rest of the sector and is now a BUY.

ENR Model Portfolio

- This month, we are buying investment bank, **Lazard, Inc.** (NYSE-LAZ). The prospect of significantly less financial regulation under the Trump administration will boost M&A deal-making and grow earnings for investment banks.
- Lazard, Inc. is a financial advisory and asset management firm, which engages in the provision of crafting solutions to the clients, including corporations, governments, institutions, partnerships, and individuals. The firm manages $246 billion. The company was founded by Alexandre Lazard, Lazare Lazard, and Simon Lazard in 1848 and is headquartered in New York, NY.
- While nobody expected deals to reach the peak levels seen in 2021 yet, relatively large deals are going nowhere. The total dollar amount of U.S. deals worth over $5 billion is down 2% as of October 31 to $569 billion, according to *London Stock Exchange Group*. That is a touch above the 2022 level, but the road to full recovery is long: About $800 billion in such activity was recorded in 2021;

- For the nine months ending September 30, 2024, LAZ grew revenue by 31% to $2.2 billion; quarterly revenues were up 50%. The company has grown assets under management by 8% year-over-year under CEP Peter Orszag. Management has continued to increase payouts to shareholders, including a return of capital program, share repurchases and a common stock dividend of $0.50 cents per share or 4.03%;
- This small-cap bank has several value attributes that make it compelling: at 19.7x trailing earnings, Lazard is the cheapest investment bank in the United States and is in the early stages of an earnings recovery. Operating margins are also making a comeback.

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Market Outlook Portfolio:

Security	Listed	Symbol	Entry Price	Date	Current Yield	Current Price	Gain/ Loss	Advice
Lazard, Inc.	NYSE	LAZ	$18.35	Jan 8/25	3.98%	$50.05	NEW	BUY
iShares MSCI Hong Kong ETF	NYSE	EWH	$18.35	Nov 5/24	4.17%	$16.10	-10.35%	BUY
Uber Technologies, Inc.	NYSE	UBER	$74.03	Nov 5/24	0.00%	$64.85	-12.40%	BUY
NIKE, Inc.	NYSE	NKE	$73.71	Jul 29/24	2.09%	$71.32	-2.20%	BUY
abrdn Physical Palladium Shares ETF	NYSE	PALL	$89.81	Jun 28/24	0.00%	$84.76	-5.62%	BUY
Rio Tinto Group	NYSE	RIO	$64.71	Apr 2/24	7.48%	$58.50	-6.86%	BUY
Cameco Corporation	NYSE	CCJ	$38.55	Sep 5/24	0.22%	$50.52	31.34%	BUY
Freeport-McMoRan Inc.	NYSE	FCX	$39.26	Mar 29/23	1.55%	$39.49	3.26%	BUY
Energy Select Sector SPDR	NYSE	XLE	$86.74	Feb 7/23	3.36%	$87.75	7.92%	BUY
ConocoPhillips*	NYSE	COP	$67.56	Sep 29/21	3.07%	$101.48	63.72%	BUY
Albemarle Corporation	NYSE	ALB	$61.01	Sep 4/19	1.79%	$87.52	57.59%	BUY
Nestlé SA*	VTX	NESN	CHF 65.15	Dec 7/16	3.99%	CHF 75.14	50.69%	BUY
Apple Inc*	NASDAQ	AAPL	$23.20	May 9/16	0.41%	$242.93	976.09%	HOLD
Newmont Corporation*	NYSE	NEM	$17.99	Dec 31/15	2.62%	$38.97	174.51%	HOLD
Wheaton Precious Metals	NYSE	WPM	$22.78	Jun 5/19	1.09%	$57.94	166.86%	HOLD
Berkshire Hathaway*	NYSE	BRK.B	$197.73	Aug 5/19	0.00%	$450.96	128.07%	HOLD
HSBC Holdings plc	LSE	HSBA	£4.74	Nov 9/22	6.08%	£7.89	109.42%	HOLD
Alphabet Inc.	NASDAQ	GOOGL	$104.65	May 5/23	0.31%	$194.60	86.53%	HOLD
iShares Russell Top 200 Value Index	NYSE	IWX	$52.46	Jan 2/18	1.97%	$79.35	70.91%	HOLD
Microsoft Corporation	NYSE	MSFT	$256.72	Jul 5/22	0.73%	$425.23	68.43%	HOLD
Zurich Insurance Group	VTX	ZURN	CHF 411.20	Oct 4/22	4.75%	CHF 547.00	56.69%	HOLD
WisdomTree India Earnings Fund	NYSE	EPI	$32.42	Mar 3/23	0.27%	$44.98	39.30%	HOLD
The Southern Company	NYSE	SO	$66.47	Dec 7/21	3.53%	$82.60	36.81%	HOLD
AbbVie Inc	NYSE	ABBV	$140.24	Nov 30/23	3.45%	$177.95	31.31%	HOLD
Vanguard Small Cap Value Index Fund	NYSE	VBR	$157.50	Oct 2/23	1.98%	$197.34	28.52%	HOLD
Lazard Global Listed Infrastructure Portfolio	NASDAQ	GLIFX	$14.04	Aug 4/20	3.29%	$15.60	24.02%	HOLD
Research Affiliates Deletions ETF	NASDAQ	NIXT	$25.83	Oct 2/24	1.40%	$25.64	0.66%	HOLD

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