

Dreaming in Macroland

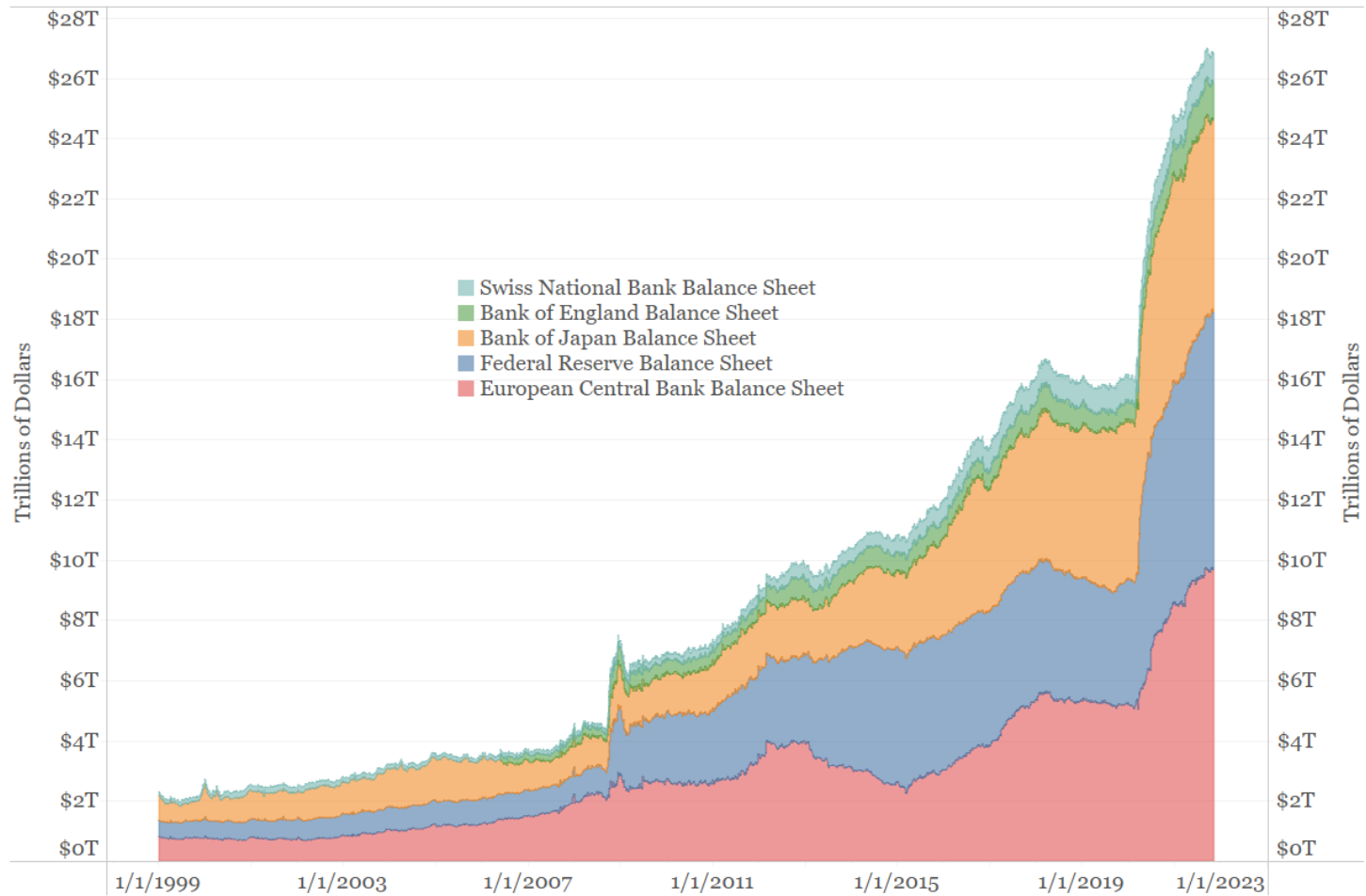


When Money is Free, Dreams are Cheap

- **Post-pandemic – and really since 2008 – the dominant macro driver has been loose monetary policy and accommodative fiscal policy.**
- **That has benefitted long-duration, growth assets.**
- **The last 18 months have been marked by extremes in policy support, risk sentiment and risk taking, with investors falling for the allure of “the possible” over the security of “the probable”.**
- **However, a shift may soon be approaching.**
- **As policy accommodations moderate, high-risk investments whose values are mostly predicated on future growth ("dreams") will get crushed if they stumble.**
- **Investors should reevaluate opportunities rooted in realities (meaning those that actual have robust cash flows, operating earnings and tangible assets).**
- **There’s a lot of ground to make up.**

Central Bank Balance Sheets: Up and to the Right

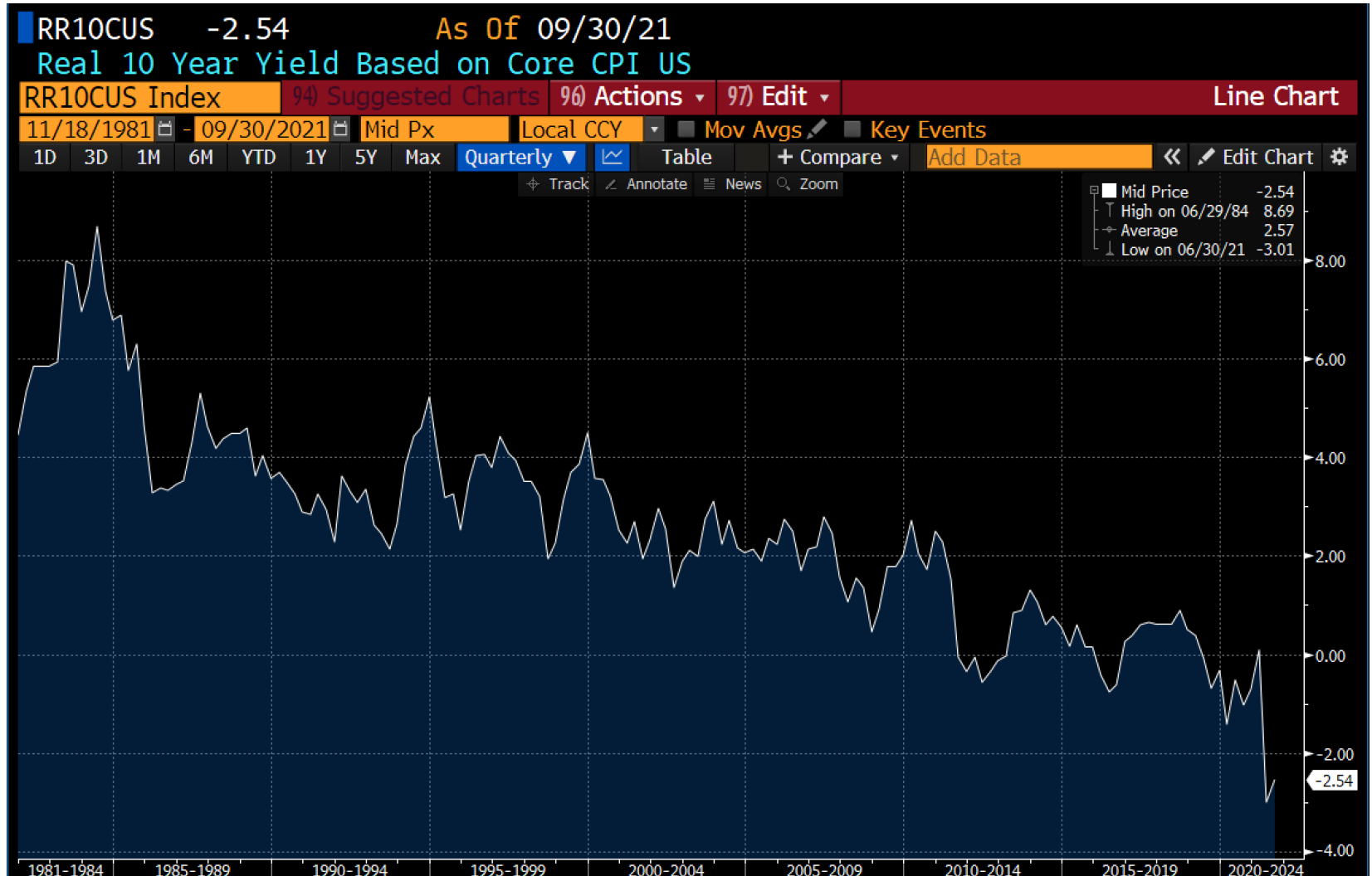
Cumulative Central Bank Balance Sheets
(In Dollars)



Data Source: Fed, ECB, BoJ, BoE, SNB, Bloomberg

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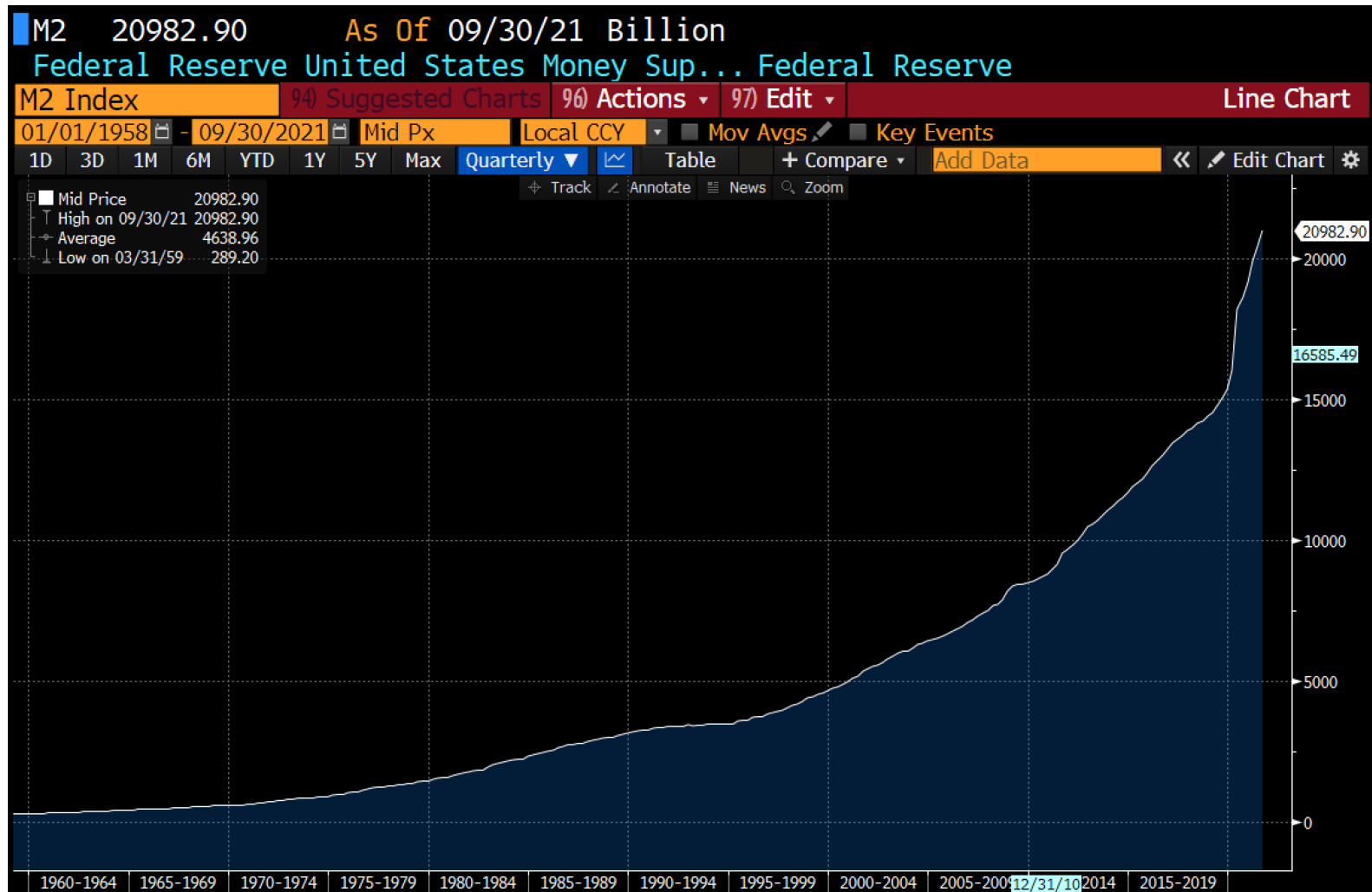
Real Yields (10-Yr Treasury Yield Minus Core CPI): Down and to the Right



Financial Conditions: Loosest in Four Decades

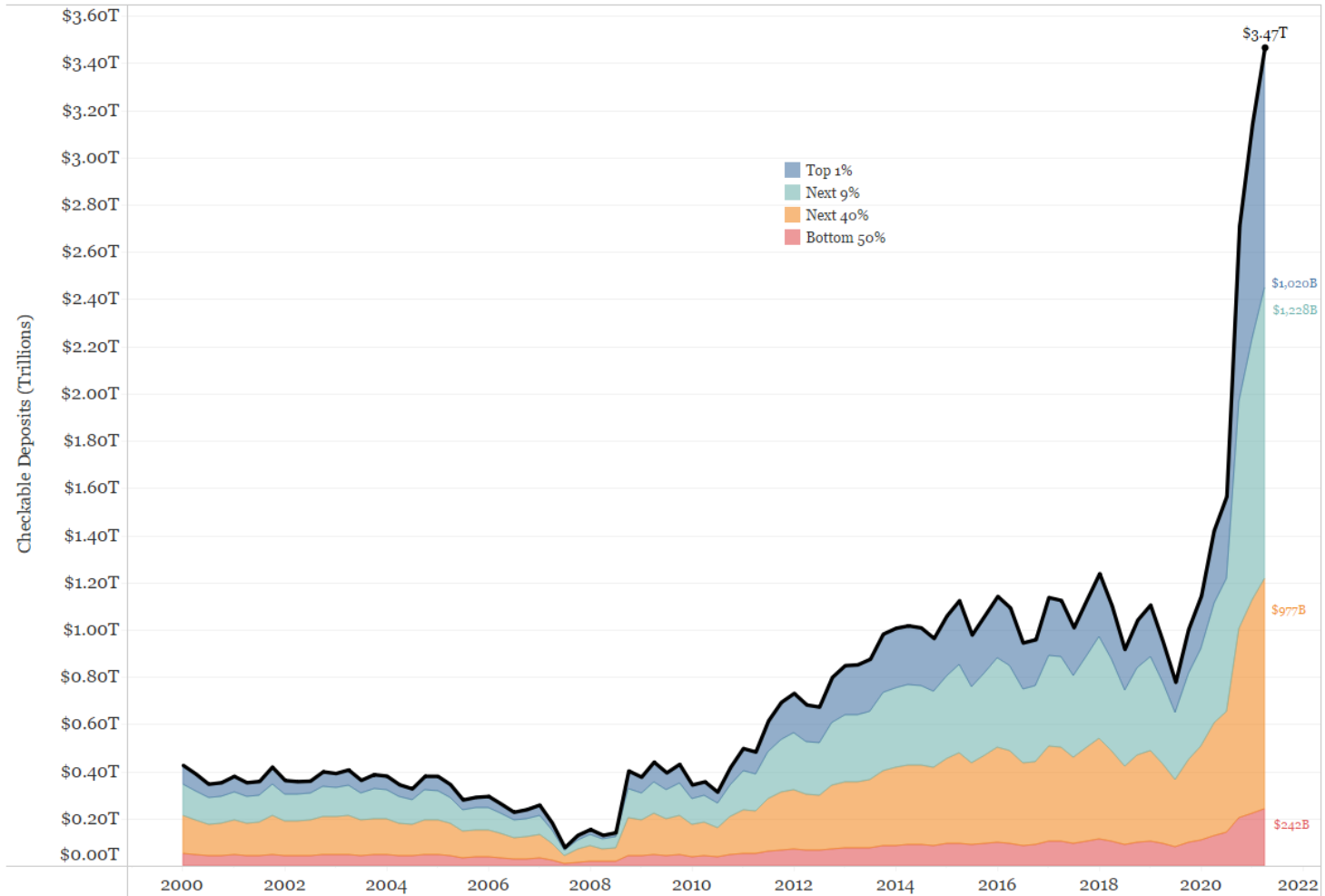


M2 at \$20 Trillion: There's a Lot of Money in the System



And it's Finding its Way to Our Wallets

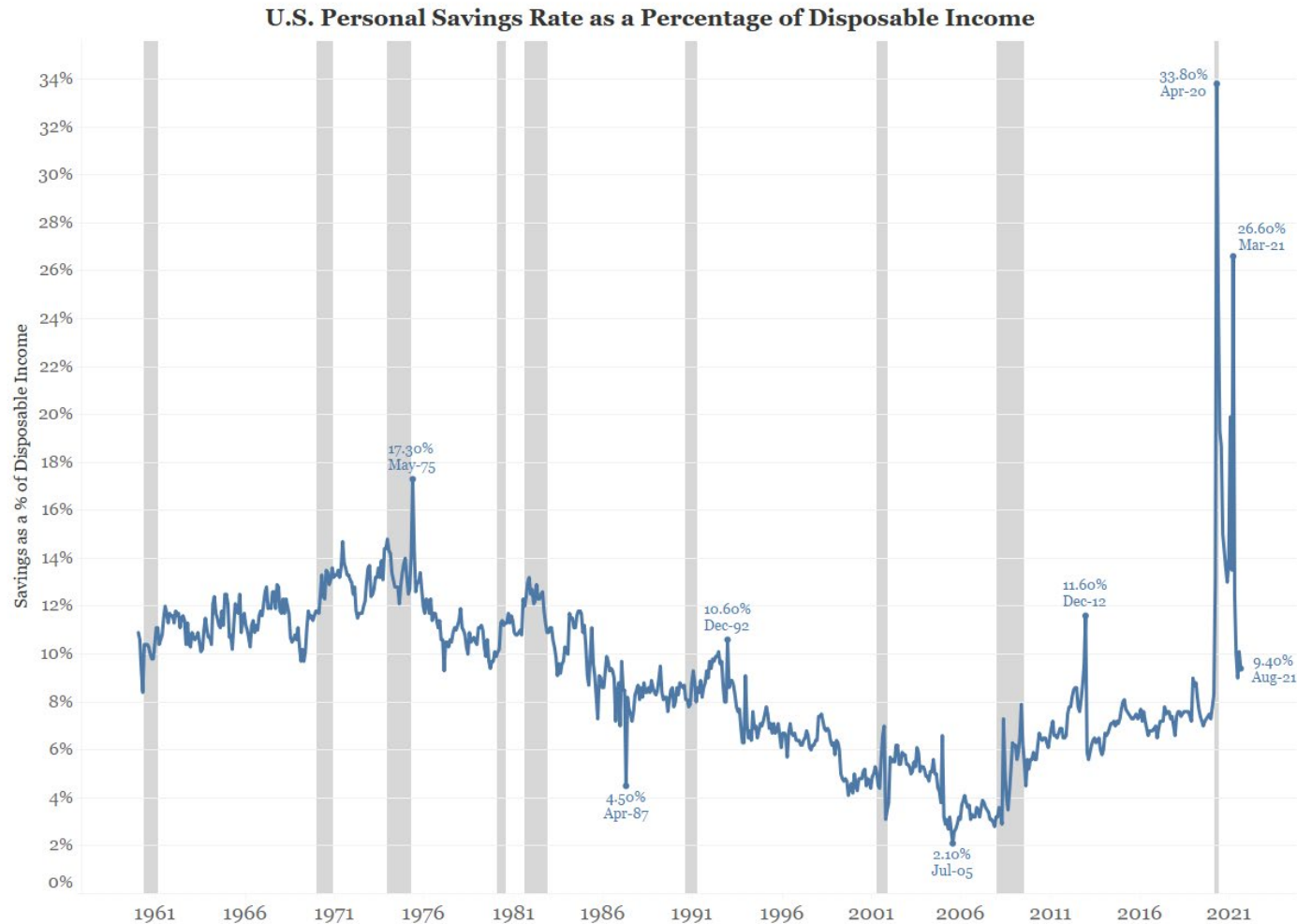
Checkable Deposits and Currency Held



Data Source: Bloomberg

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Pushing the Savings to Disposable Income Ratio to Generational Highs

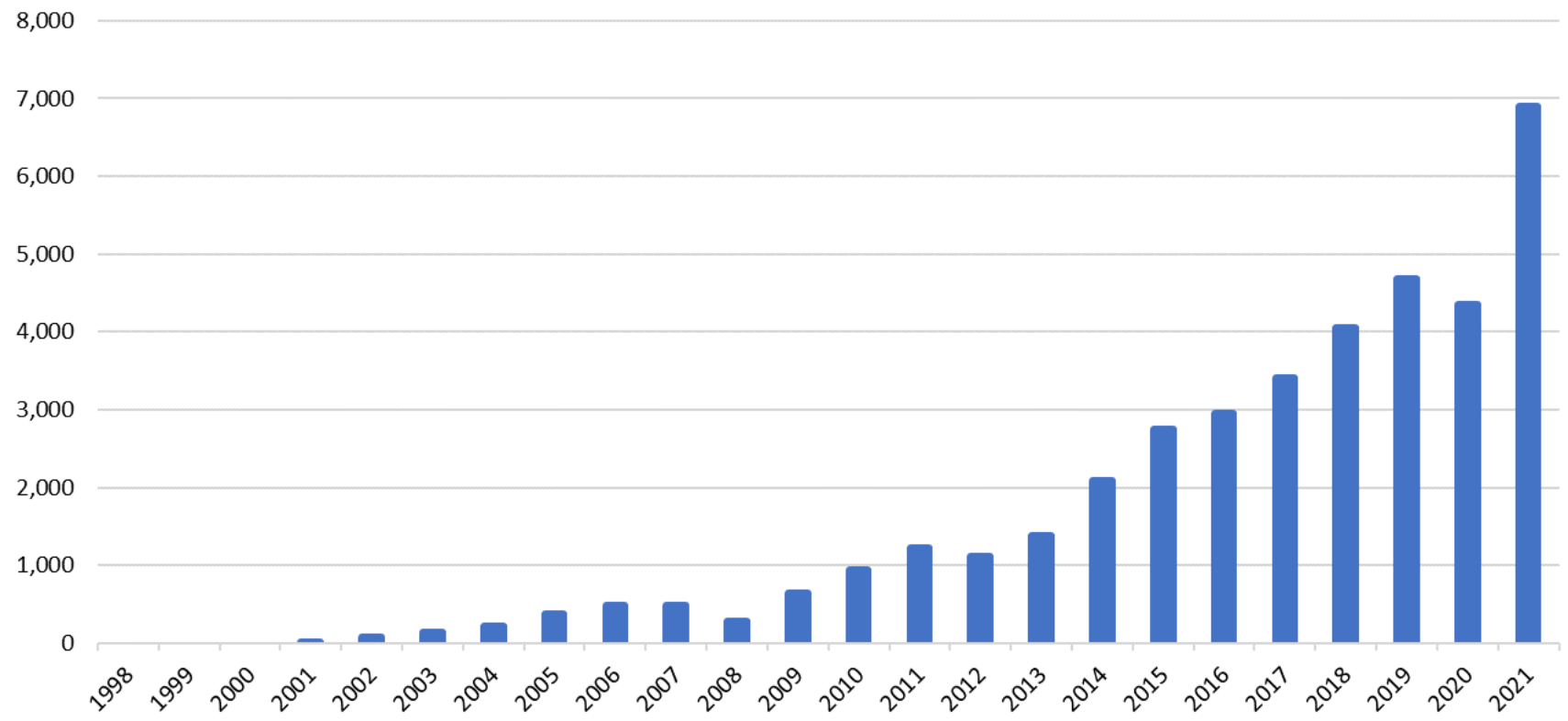


Source: Bureau of Economic Analysis, Bloomberg

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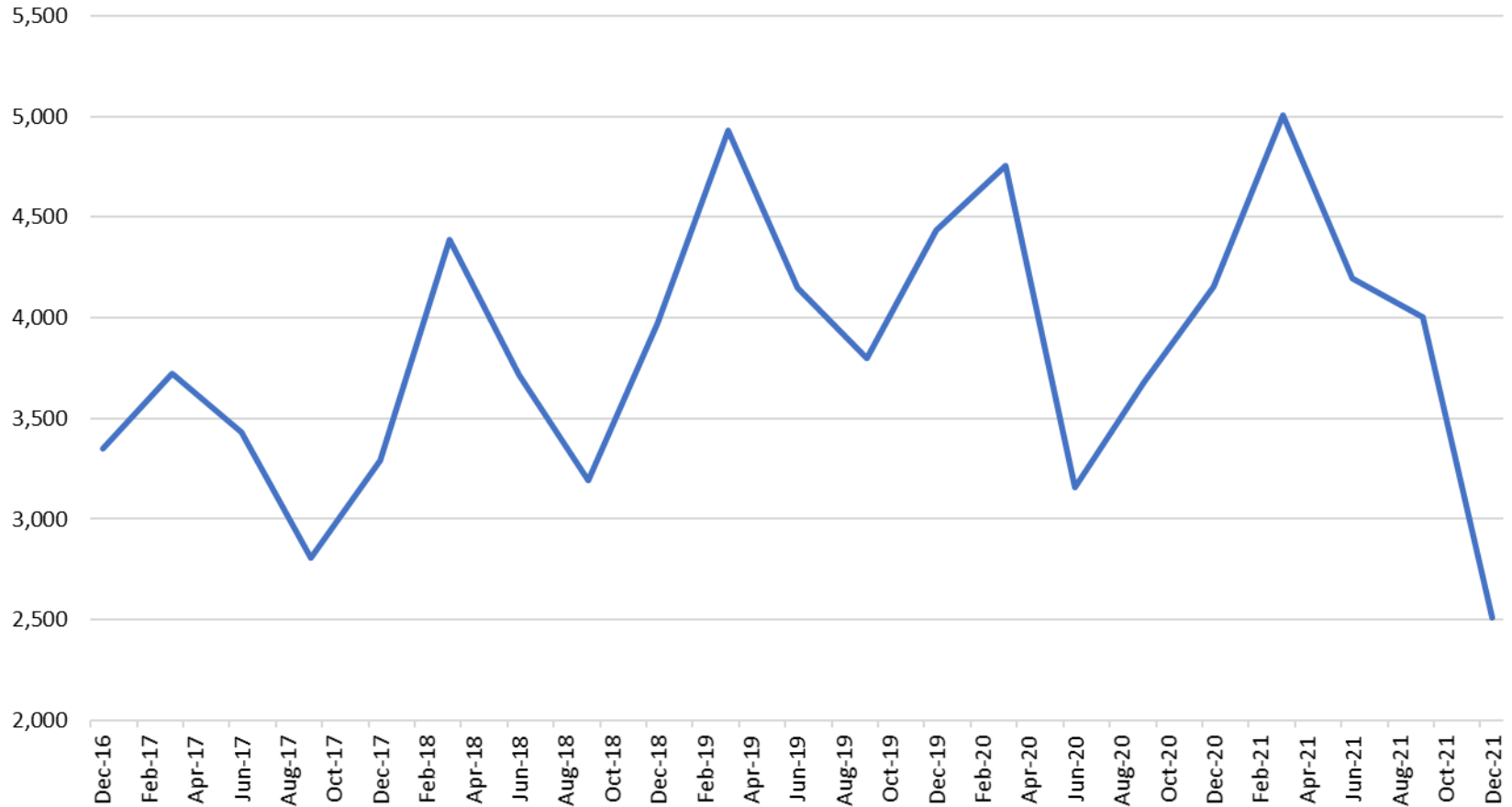
It's No Surprise that Companies are Increasingly in the Business of Marketing Dreams

Russell 3000 Company Mentions of "Total Addressable Market" (Annually)



And Relatively Less Inclined To Discuss Operating Fundamentals

Russell 3000 Company Mentions of "Free Cash Flow" (Quarterly)



This is “Total Addressable Marketing” – Be Weary when Firms are Selling Visions Over Realities



But the Macro Environment may be Shifting

Inflation is Rising

US consumer price growth accelerates sharply

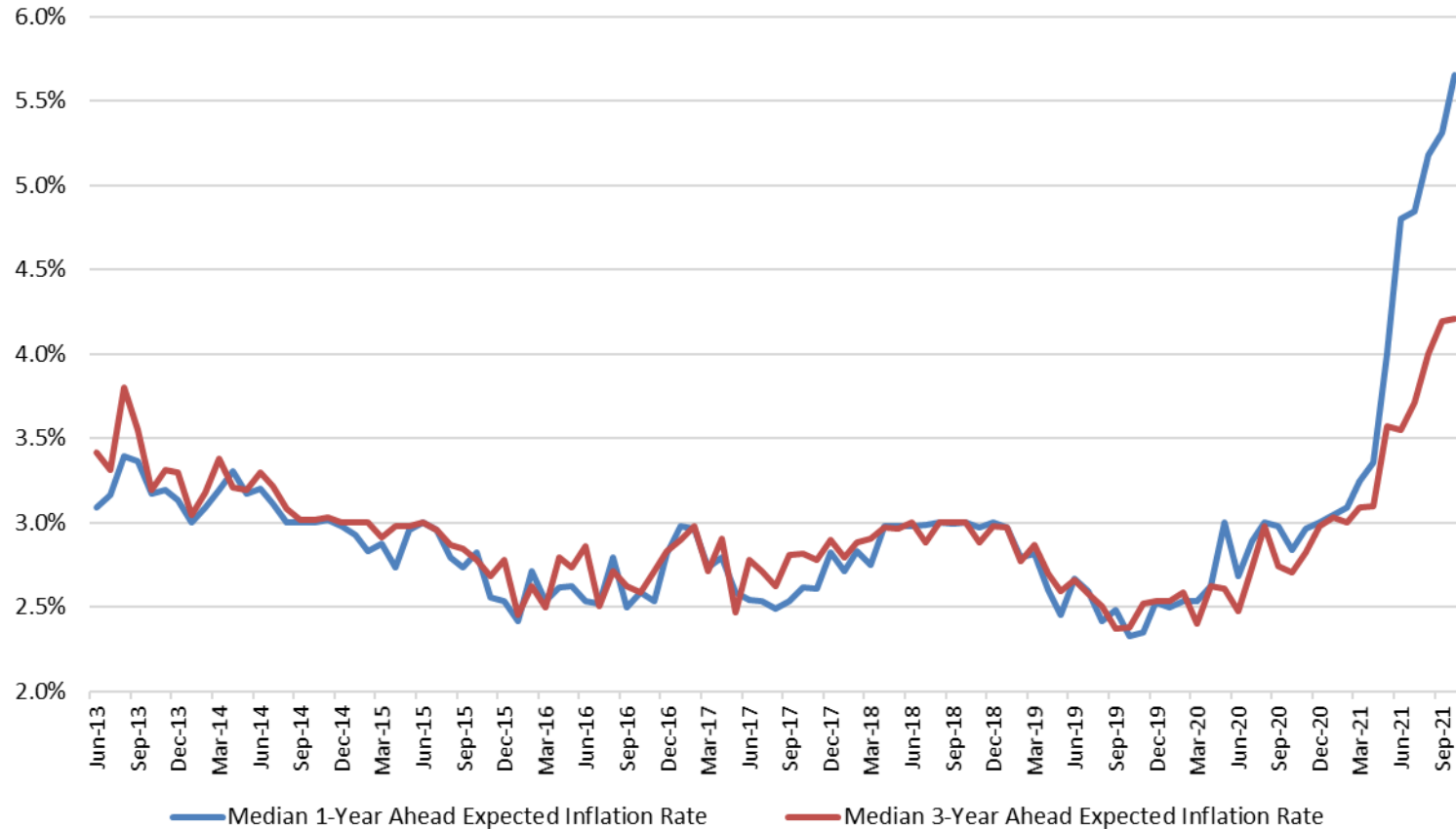
Year on year change in CPI (%)



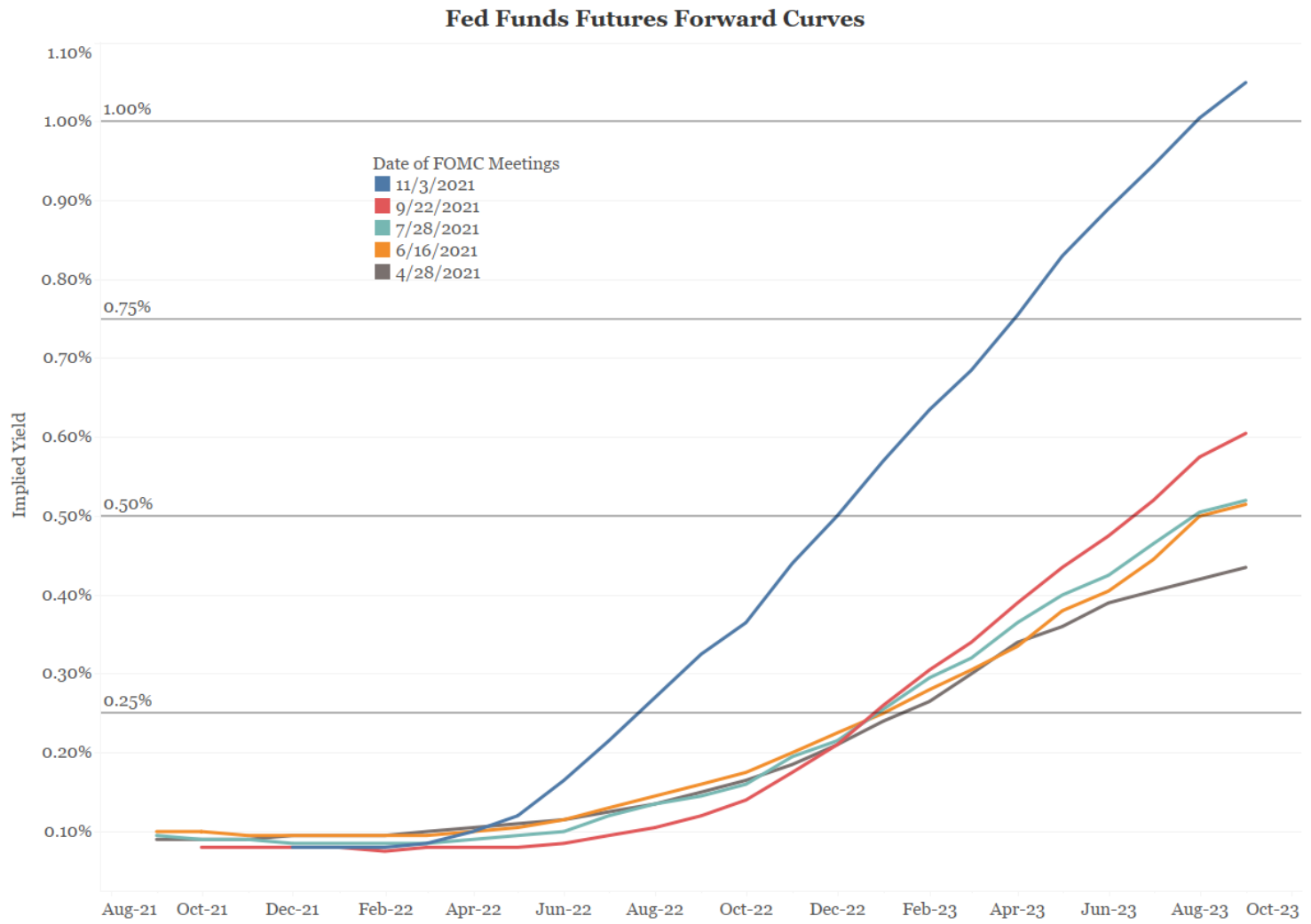
Source: US Bureau of Labor Statistics
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As are Consumer Inflation Expectations

U.S. Consumer Inflation Expectations



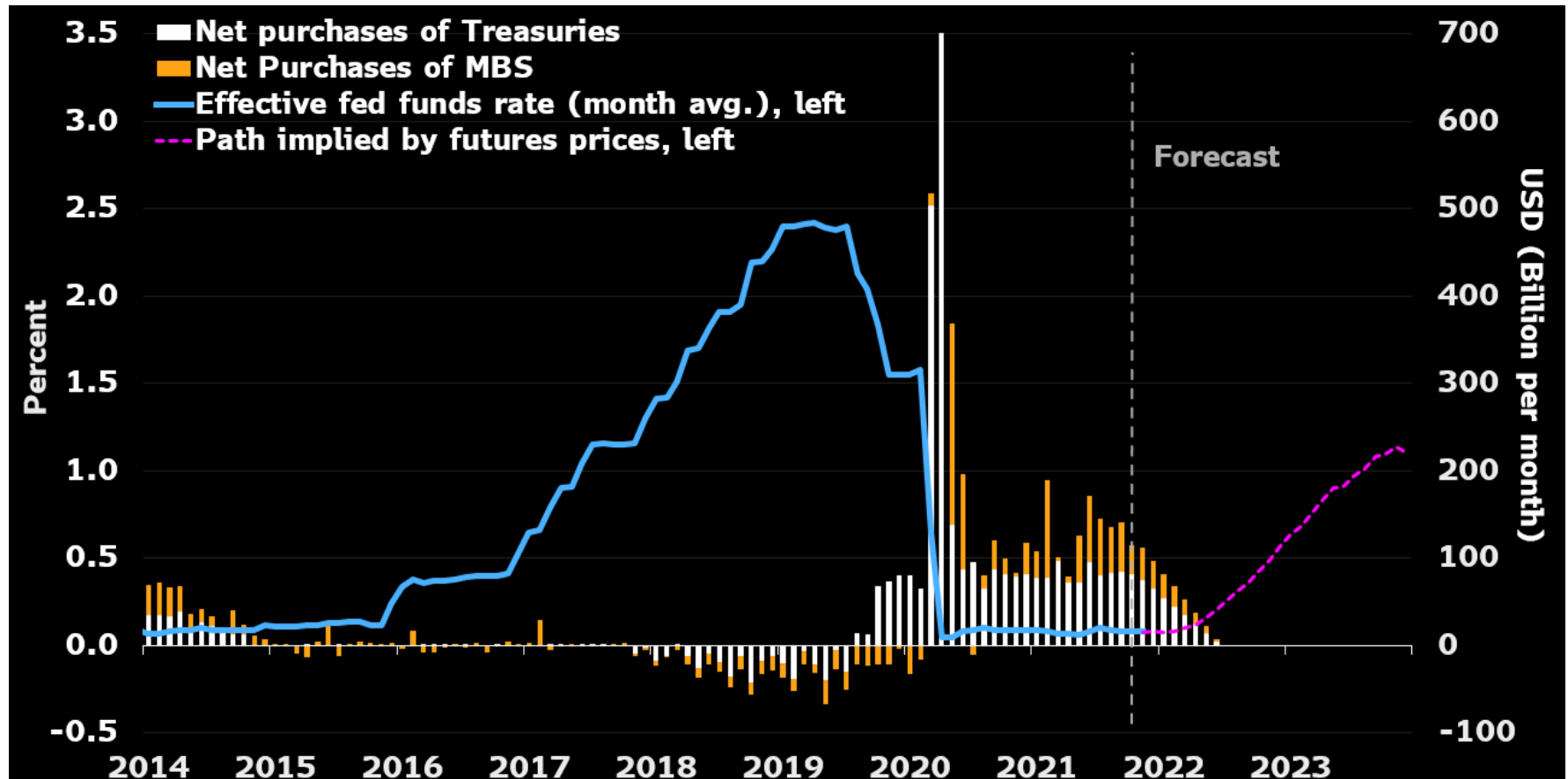
Investors are Pricing in Nearer-Term Rate Hikes



Source: Chicago Mercantile Exchange, Bloomberg

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And the Fed Will Soon Start Tapering Asset Purchases



Economic Growth is Moderating, But Still Above Pre-Pandemic Trends

Fed Common Inflation Expect Index | ECFC | Related Functions Menu | Message

96) Chart | 97) Set as Default View | Disclaimer | Economic Forecasts

Country/Region/World: United States | Contributor: Contributor Composite | Yearly (selected) | Quarterly

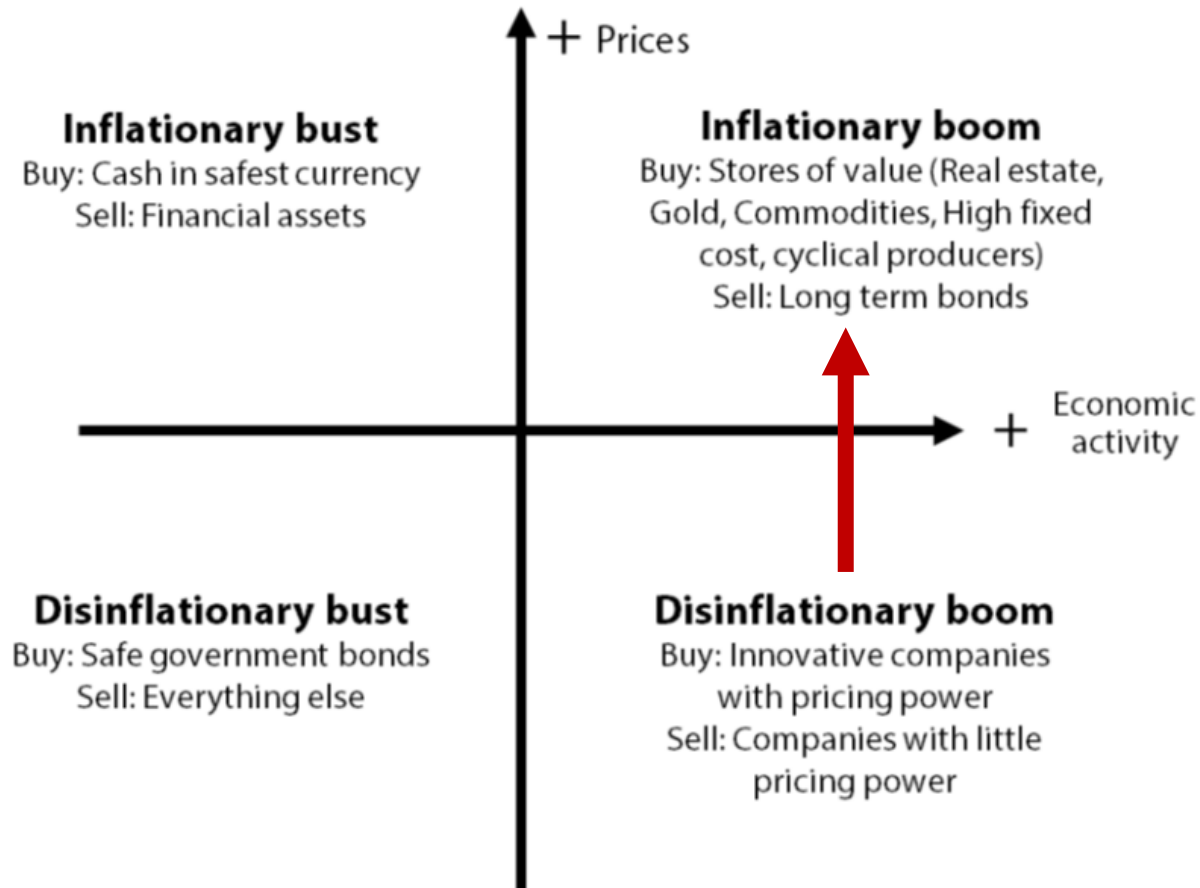
United States | Browse | Private (selected) | Official

Actual / Forecasts | Probability of Recession 15.0%

Indicator	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Economic Activity										
Real GDP (YoY%)	2.3	2.7	1.7	2.3	2.9	2.3	-3.4	5.7	4.0	2.4
Consumer Spending ...	2.7	3.3	2.5	2.4	2.9	2.2	-3.8	7.8	3.6	2.4
Government Spendin...	-0.9	1.8	2.0	0.5	1.4	2.2	2.5	0.9	1.6	1.4
Private Investment (...)	5.6	5.5	-1.0	4.0	5.7	3.4	-5.5	8.2	6.7	3.6
Exports (YoY%)	3.9	0.3	0.4	4.1	2.8	-0.1	-13.6	4.6	5.4	4.8
Imports (YoY%)	5.2	5.2	1.5	4.4	4.1	1.2	-8.9	13.2	5.0	4.1
Industrial Production (Yo...)	3.0	-1.4	-2.2	1.3	3.2		-7.0	5.7	4.1	2.7
Price Indices										
CPI (YoY%)	1.6	0.1	1.3	2.1	2.5	1.8	1.2	4.4	3.3	2.3
PCE Price Index (YoY%)							1.2	3.6	2.9	2.1
Core PCE (yoy%)	1.6	1.3	1.6	1.7	2.0	1.7	1.4	3.2	2.8	2.2

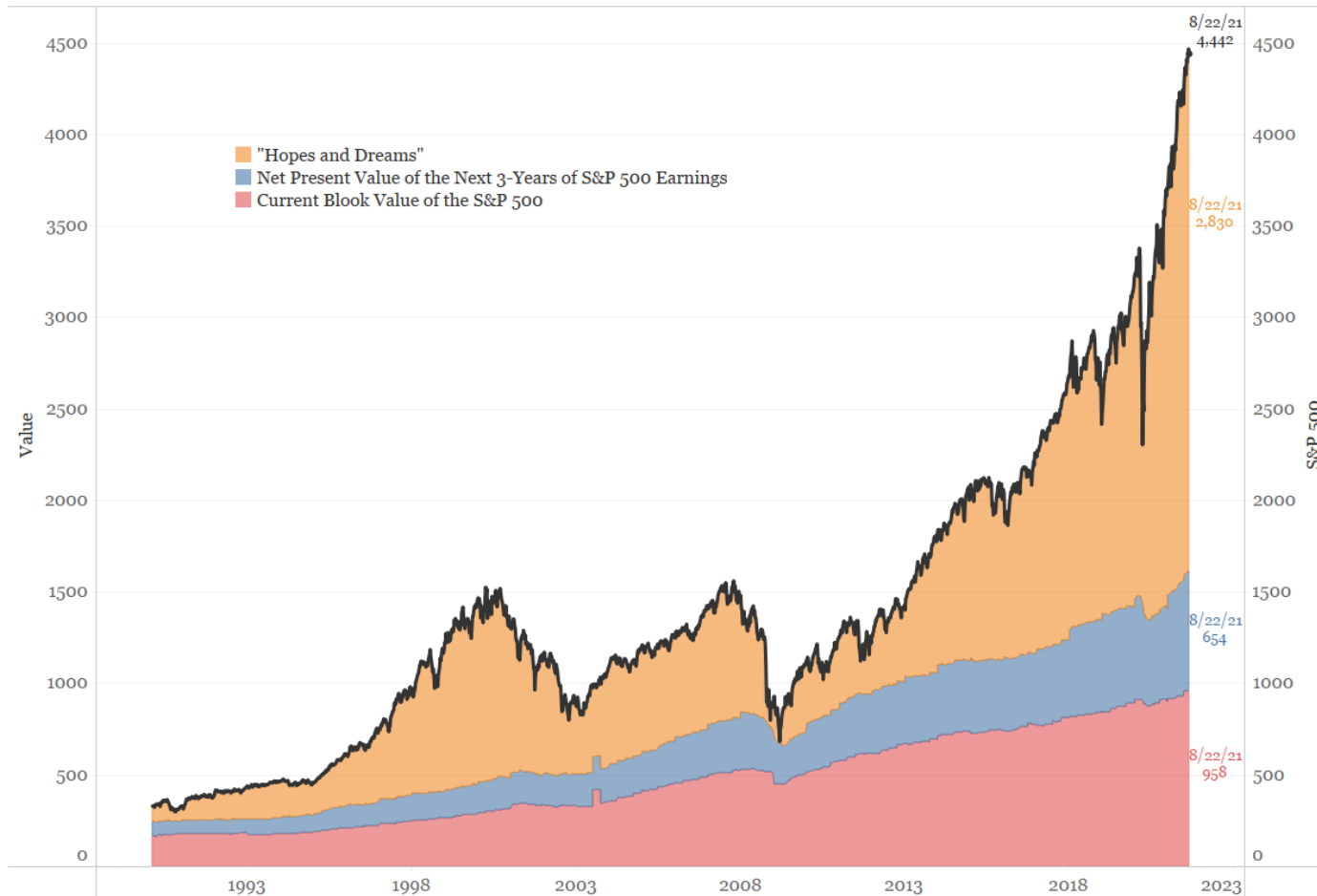
It's Possible We're Moving from a "Disinflationary Boom" To an "Inflationary Boom"

The Four Quadrants framework



If so, Investors Might Trade in “Hopes and Dreams” For Tangible Assets with Real Earnings Power

Breaking Down The S&P 500's Valuation



Source: Bloomberg
Concept Courtesy Cameron Crise, Bloomberg

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For everything there is a season.

A time for risk;

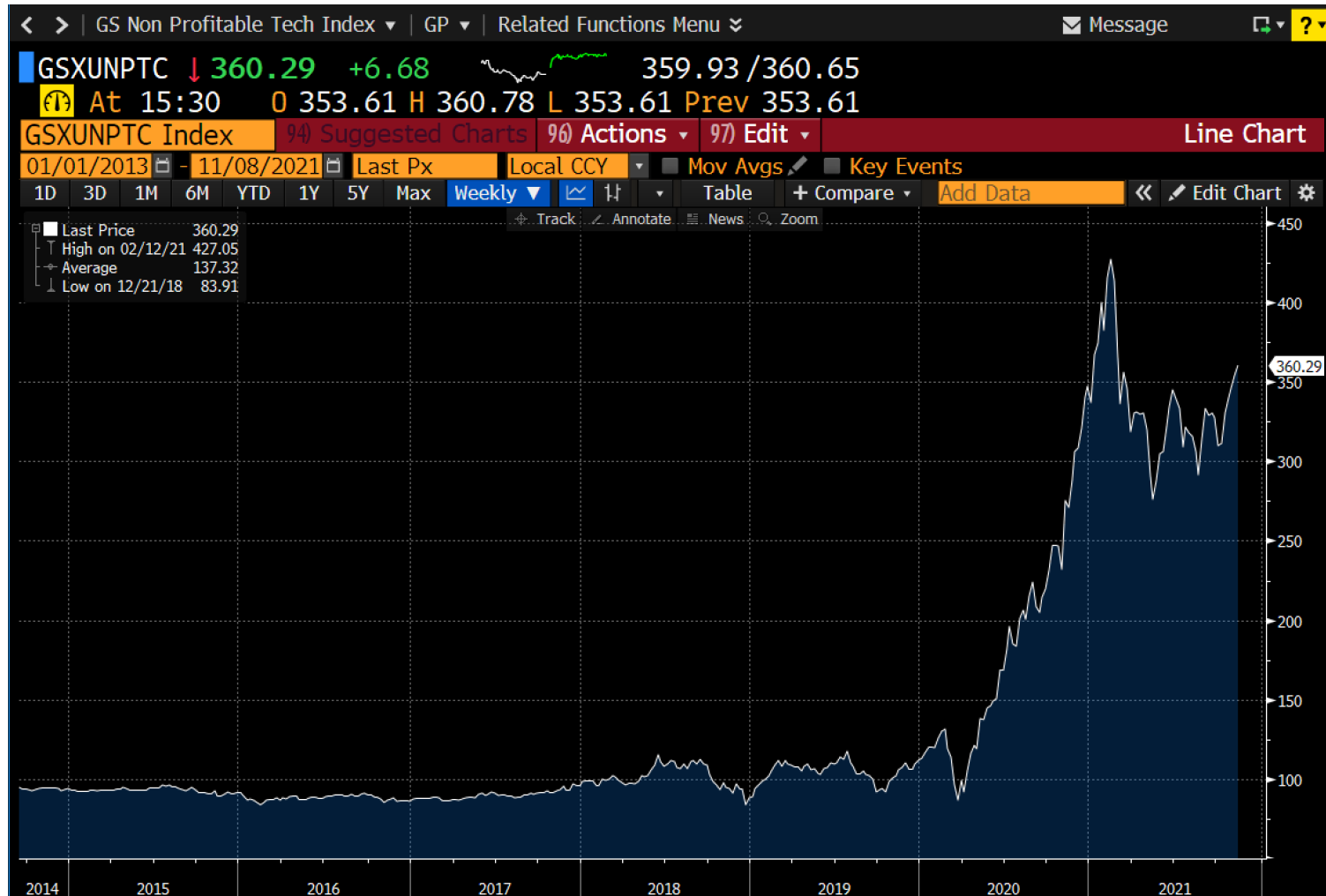
A time for risk management.

A time for possibilities (e.g., “TAM”);

A time for probabilities (e.g., cash flows).

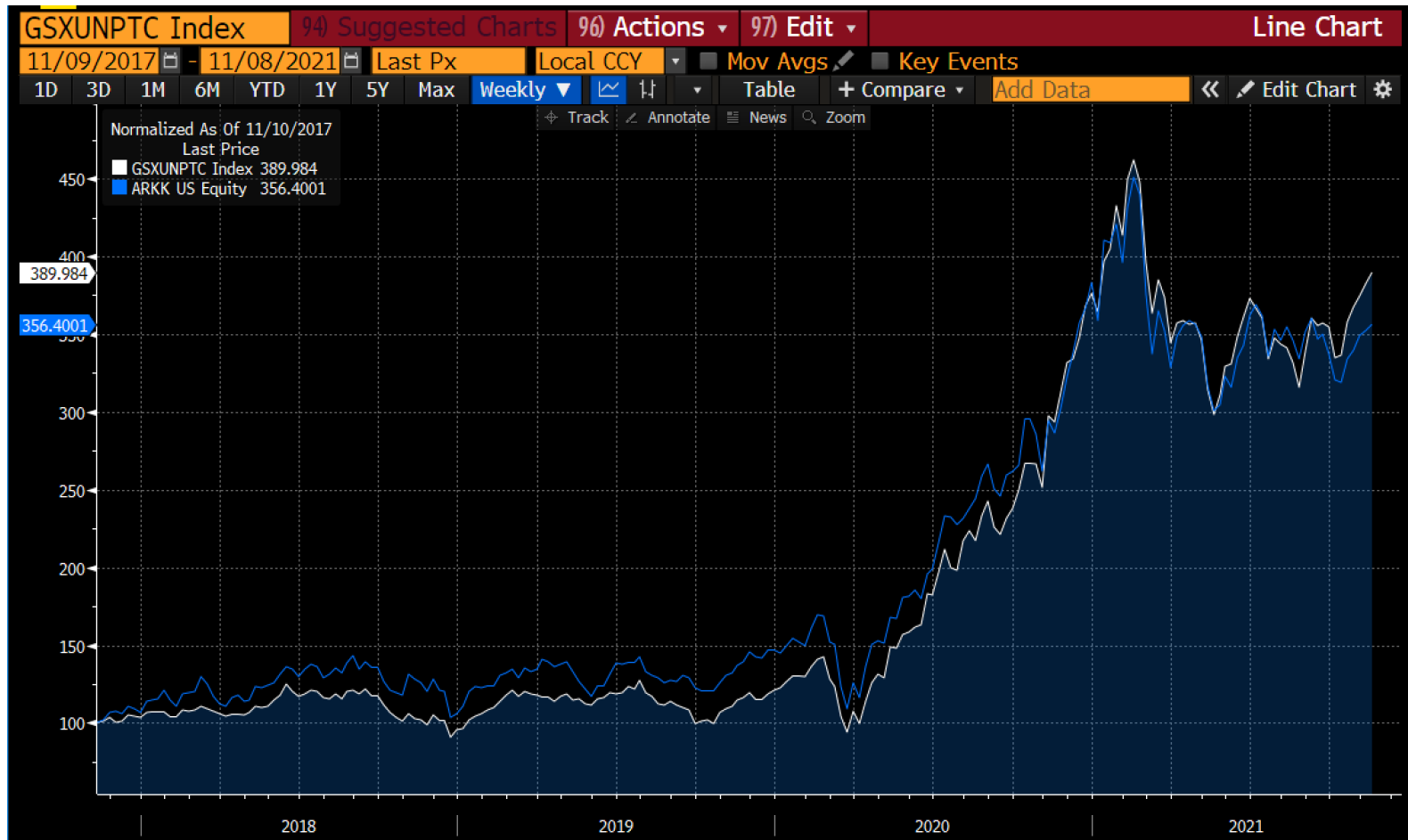
The TAM “Dream Theme” had a Nice Post-Pandemic Run

Goldman Sachs Non Profitable Tech Index (as Proxy Dream Theme)

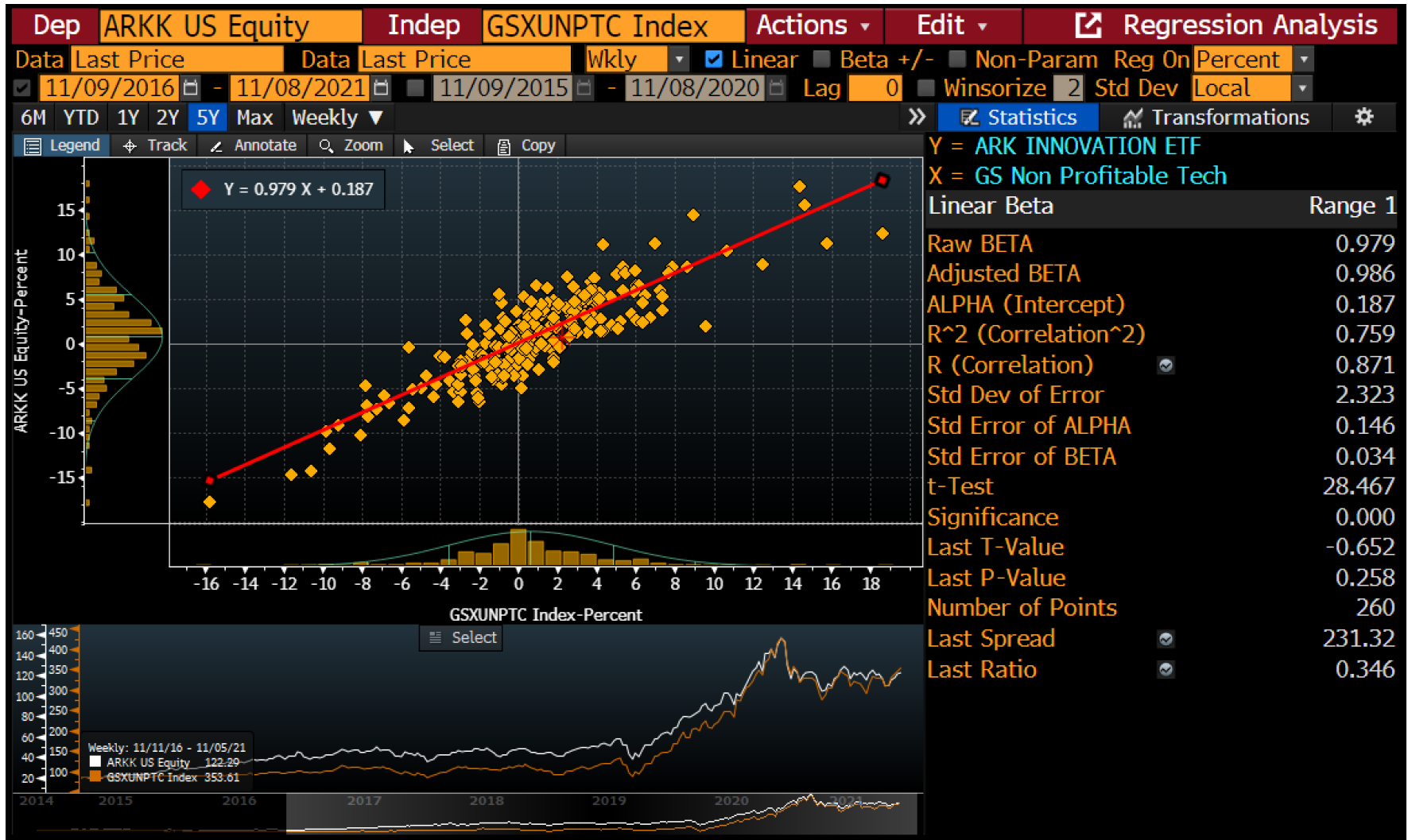


For Sake of Below Comparisons, We'll Chart the Non Profitable Tech Index vs the Ark Innovation ETF (ARKK)

GSXUNPTC Index vs ARKK (Normalized)



That's Quite the Correlation



Post-Pandemic Easing Favored “The Possible” Over “The Probable”

Top Decile of Russell 1000 Stocks with $\geq 5\%$ Free Cash Flow Yields
Rebalanced Quarterly, Equal Weighted vs ARKK (CY 2020)

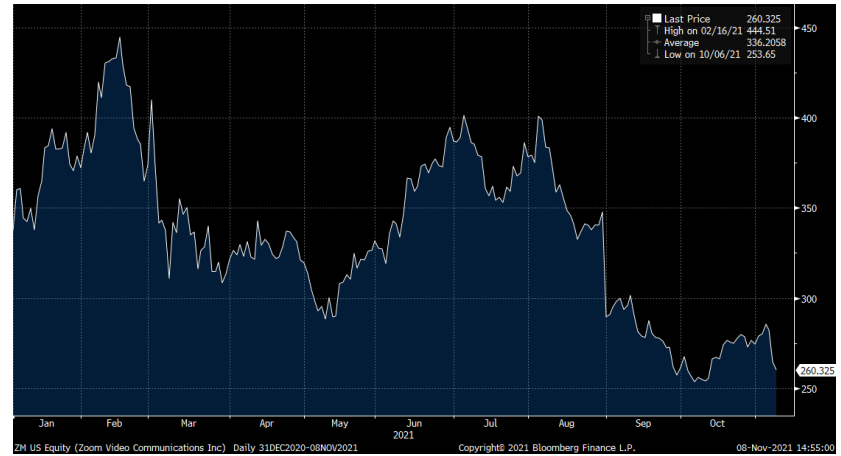


But when TAMs Falter, Dream Themes Get Crushed

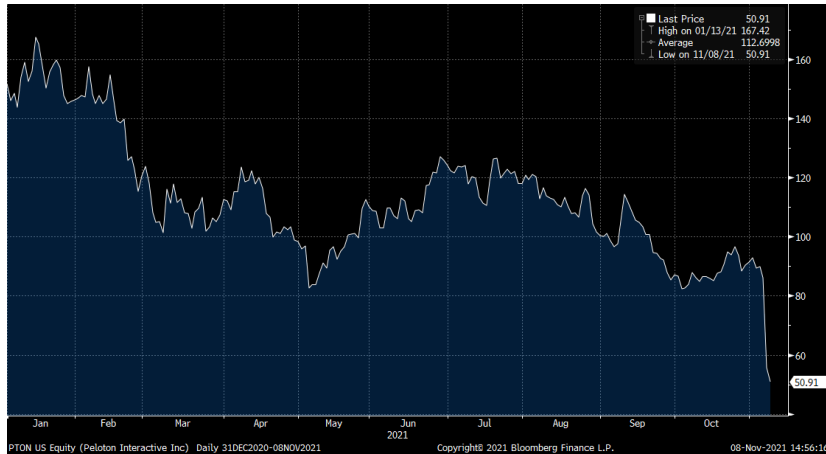
Moderna (MRNA)



Zoom (ZM)



Peleton (PTON)



Zillow (Z)



This Year We've Seen the Revenge of The Probable

Top Decile of Russell 1000 Stocks with $\geq 5\%$ Free Cash Flow Yields Rebalanced Quarterly, Equal Weighted vs ARKK (YTD 2021)



But there's Still a Lot of Ground to Make Up

Top Decile of Russell 1000 Stocks with $\geq 5\%$ Free Cash Flow Yields Rebalanced Quarterly, Equal Weighted vs ARKK (2020 - Present)



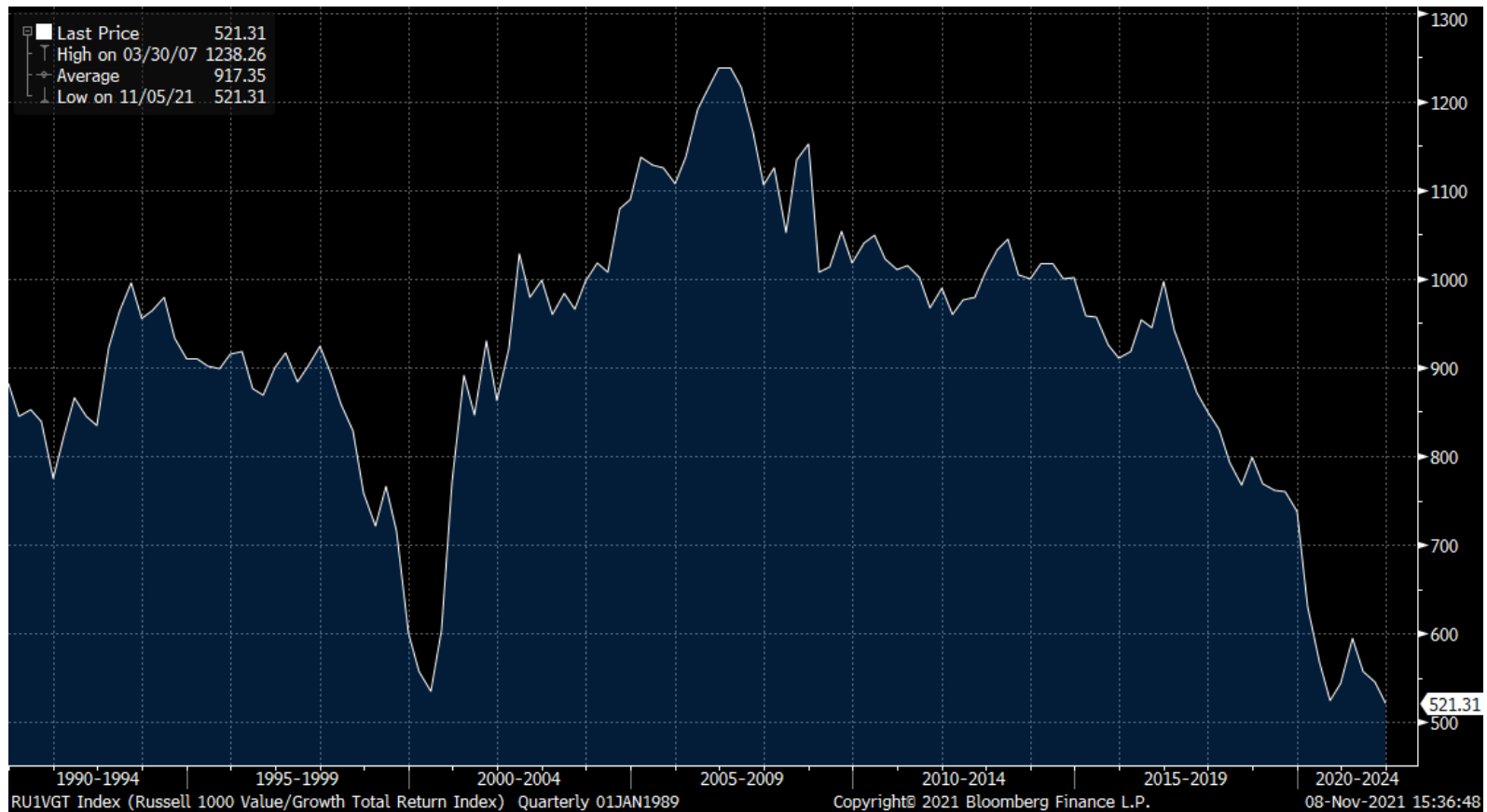
Despite Elevated Valuations, There are Still Sectors with Compelling Multiples and Elevated Free Cash Flow Yields

S&P 500 Multiples by Sector

	EV/ Sales	EV/ EBITDA	Price/ Book	FCF Yield	PEG Ratio	NTM P/E
S&P 500	3.4x	16.5x	5.0x	3.5 %	1.2x	21.9x
Energy	1.7	11.4	2.0	7.7	0.2	11.2
Financials	NM	NM	1.8	NM	1.0	15.4
Materials	2.8	11.4	3.5	4.8	0.9	16.1
Health Care	2.3	14.7	5.5	5.4	1.5	17.4
Utilities	NM	12.3	2.3	(3.6)	3.3	19.8
Cons Staples	1.9	14.8	6.8	4.7	2.5	21.2
Comm Services	4.5	12.1	4.5	4.5	0.9	22.2
Industrials	2.9	18.0	6.0	3.3	1.7	22.2
Real Estate	NM	NM	4.6	NM	1.6	23.3
Info Tech	7.6	21.5	12.4	3.3	1.9	28.2
Cons Discr	3.4	22.0	13.0	1.3	1.0	35.9

We're Not Dogmatic Value Investors, But it's Hard to Ignore All-Time Lows in the Ratio of the Russell 1000 Value Index to Growth Index

Russell 1000 Value/Russell 1000 Growth Total Return Index



The Macro Shift is Not Priced In: We Think Investors Can Still Take Advantage of Market Inefficiencies

Behavioral

Take advantage of behavioral inefficiencies in markets stemming from ability to assess:

- overextrapolation
- sentiment
- crowding
- conformity

Approach works best for informed contrarians.

Analytical

Take advantage of analytical inefficiencies in markets stemming from differentiation in:

- analytical/valuation framework
- information weighting
- anticipating market's narrative
- Identifying and incorporating new themes and/or information

Approach works best for fundamentals-focused investors.

Informational

Competitive edge comes from ability to:

- legally gather, sort and analyze new data and information before others
- efficiently process vast quantities of data
- simplify complex data sets

Approach works best for organizations with significant research and/or quantitative resources and investors operating in markets where information is not widely distributed (e.g., VC, Private Equity).

Technical

Competitive edge comes from ability to:

- provide liquidity
- model correlations
- anticipate fund flows

Approach works best for institutional investors with significant capital resources and quantitative investors.

**Please Reach Out for
Specific Opportunities for Your Portfolio**

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