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INVESTMENT COMMENTARY & OUTLOOK

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We are proud with our performance in 2024 and are expecting a strong start to 2025. One reason is that the S&P 500 forecasted earnings are reaccelerating and a lot of stimuli from Trump 2.0 is anticipated. The manufacturing sector, which has contracted for 25 of the past 26 months, according to the Institute of Supply Management (ISM), showed some signs of life in December when the ISM new orders component rose to the highest level in over two years. If Trump 2.0 fixes the beleaguered manufacturing sector with "drill baby drill" and other pro-business policies, then 4% annual U.S. GDP growth is possible. If Trump 2.0 ends the fighting between Ukraine and Russia, where both sides have depleted each other's troops and everyone has been a loser, then a "peace dividend" could ensue and even 5% annual GDP growth is briefly possible. Finally, a strong U.S. dollar also makes commodities and imported goods cheaper, so we are not worried about any inflationary impact from tariffs.

The bond vigilantes have been pushing the narrative that the Trump tariffs are going to be inflationary, but the reality is that a strong U.S. dollar causes the prices of commodities and imported goods to decline. *Bloomberg* had an article entitled "Treasury's Elite Bond Dealers Will Struggle to Handle $50 Trillion Debt" that basically explains how the bond vigilantes have allowed Treasury yields to meander higher. However, there is deflation in the world that will eventually help Treasury bond yields to decline.

As evidence of some of the deflation in the world, Chinese long-term bond yields recently fell below Japanese long-term bond yields. China's leaders pledged to adopt a "moderately loose" monetary policy in 2025, in the first shift of stance after 14 years of upholding a "prudent" policy. Due to the fact that China is masking big banking problems due to bad real estate loans and a shrinking population, China is expected to become the new Japan and be characterized by low to possibly negative interest rates for decades!

Another example of a troubled economy is Brazil, with: (1) a 10% budget deficit, (2) a President recovering from emergency brain surgery, and (3) seemingly no end in sight to their endless government spending. In 2024, the Brazilian real fell 21% against the U.S. dollar. Brazil is apparently striving to follow Argentina and may soon have to devalue its currency. When a currency is faltering this badly, it creates hideous inflation for its citizens, so although Brazil's President Lula da Silva may have been trying to help the poor in Brazil, he is actually making their lives more miserable with inflation.

Another example is the Mexican peso plunged almost 19% relative to the U.S. dollar in 2024. President-elect Trump's tariff threats are not anticipated to hinder Mexico as long as they do what Trump 2.0 demands. The bottom line is the Trump tariff talk has rattled many countries, like Canada, where Prime Minister Justin Trudeau recently announced his resignation.

I hope you are now realizing why the U.S. dollar is so strong, since most other countries are in a recession. The euro will soon "break a buck" relative to the U.S. dollar in the upcoming months. Additionally, the British pound may fall to 1.15 relative to the U.S. dollar this year. What a strong U.S. dollar does is that it impedes the sales in the multi-national companies in the S&P 500, where approximately half of their revenue is outside the U.S. As a result, domestic stocks tend to prosper during a strong U.S. dollar environment.

The global collapse in interest rates is just starting, as the European Central Bank (ECB) plans to cut key interest rates four or five times in 2025 until rates are at 2% to 1.75%. Most Fed watchers and the FOMC itself do not see all these global dominos falling in the euro-zone as the recession in its largest economy, Germany, gets worse. France, the second largest euro-zone economy, is also slipping into recession. Both France and Germany are also in the midst of a political crisis and are thus "headless" until some new leadership emerges. As a result, we expect up to four Fed rate cuts in 2025 as interest rates collapse in Europe.

I hope you are excited for 2025! We expect another exciting earnings announcement season. Trump 2.0 should stimulate the U.S. economy and end the senseless wars. Essentially, the U.S. is about to throw its economic weight around and slap tariffs on countries that do not practice free trade. The immediate impact has been a surging U.S. dollar, which helps to suppress inflation on commodities and imported goods. I believe bond yields will decline as inflation fizzles and central banks around the world continue to intervene to shore up weak currencies, as well as cut key interest rates to stimulate economic growth.

In summary, we have a lot to look forward to. Accelerating corporate profits, a strong U.S. dollar and an accommodative Fed all set a very upbeat tone for 2025. The U.S. remains an oasis compared to the rest of the world. Not only are we food and energy independent, but we also have 50 states competing with one another, which creates a very pro-business environment. So pinch yourself, we anticipate that 2025 will be even better than 2024 and we recommend that you to "hang on and enjoy the ride."

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