



Economic Outlook

SOCMA Show

Q1 2025

Economic Observations

Economy:

- Global and US GDP likely to grow around 2%
 - Driven by growth in manufacturing that has been sluggish so far but likely to improve
- Inflation: Tariffs and mass deportation brings uncertainty
 - Otherwise, inflation is trending lower as housing inventory continues to improve
- Interest rates:
 - Spike in yields-overreaction
 - The new administration is keen on lowering rates
 - Fed likely will want to wait to see impact of tariffs

Economic Observations

Economy:

- Tariffs: Direct Impact
 - Minimal on China's Economy
 - Canada, Mexico and Taiwan are most vulnerable
- Immigration: Labor shortage is a threat to GDP growth
 - U.S. economy needs people at both low-end and high-end
 - Learn from Tech Industry
- Debt and increasing role of Government
- Impact on demand for Gold

Impact on Capital Markets

Fixed Income

- The spreads are too tight and do not adequately reflect credit risks associated with lower credit bonds
- Higher quality bonds likely to do better relatively

Equity

- Valuation, especially for the broad market, is very high
 - The equity rally needs to broaden
 - Certain sectors of opportunity
 - Investing in quality and areas with margin of safety

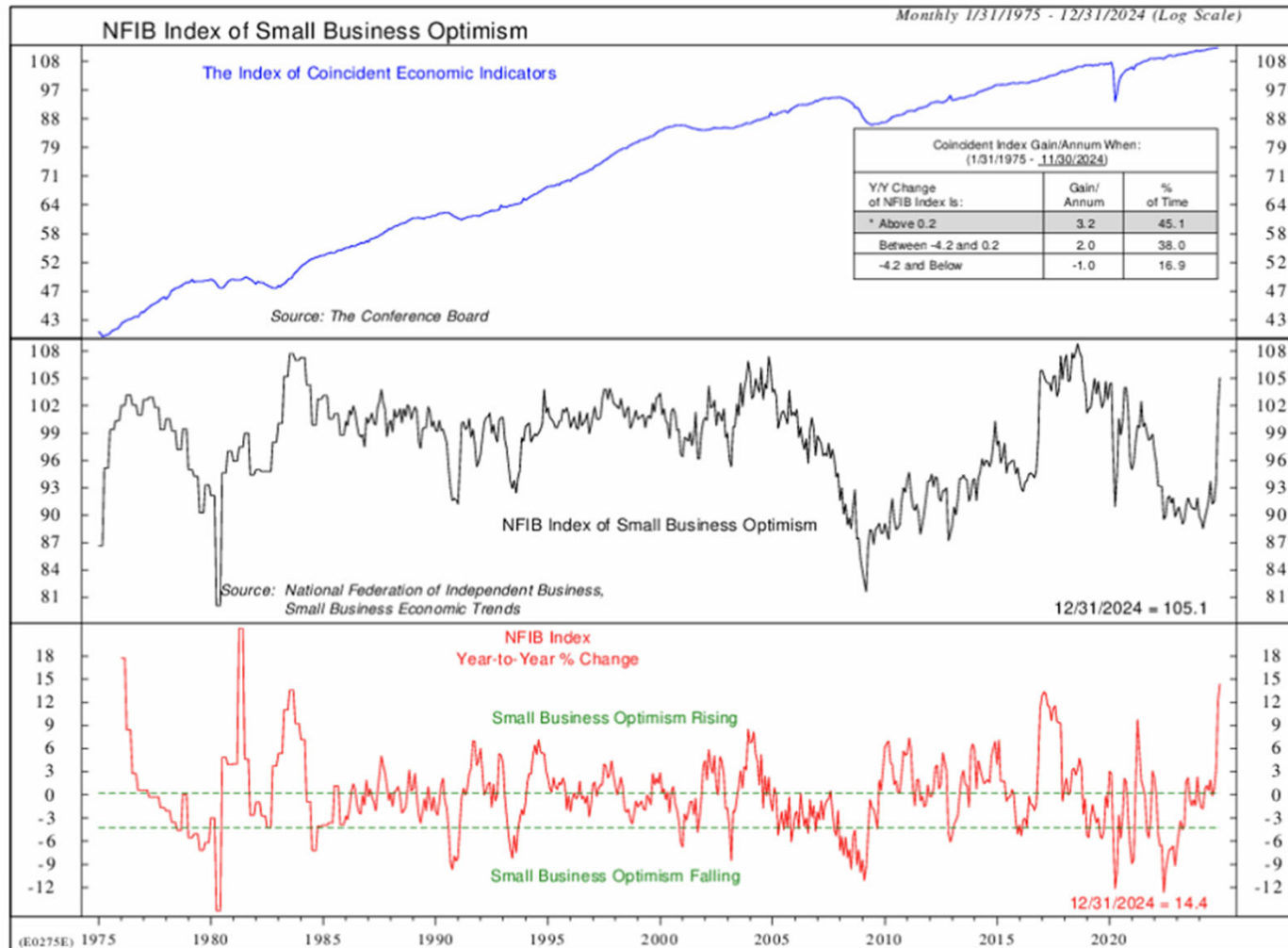
Commodity

- Still bullish on Gold

Small Business Optimism Rises After Election

Small business optimism hits highest level in more than six years

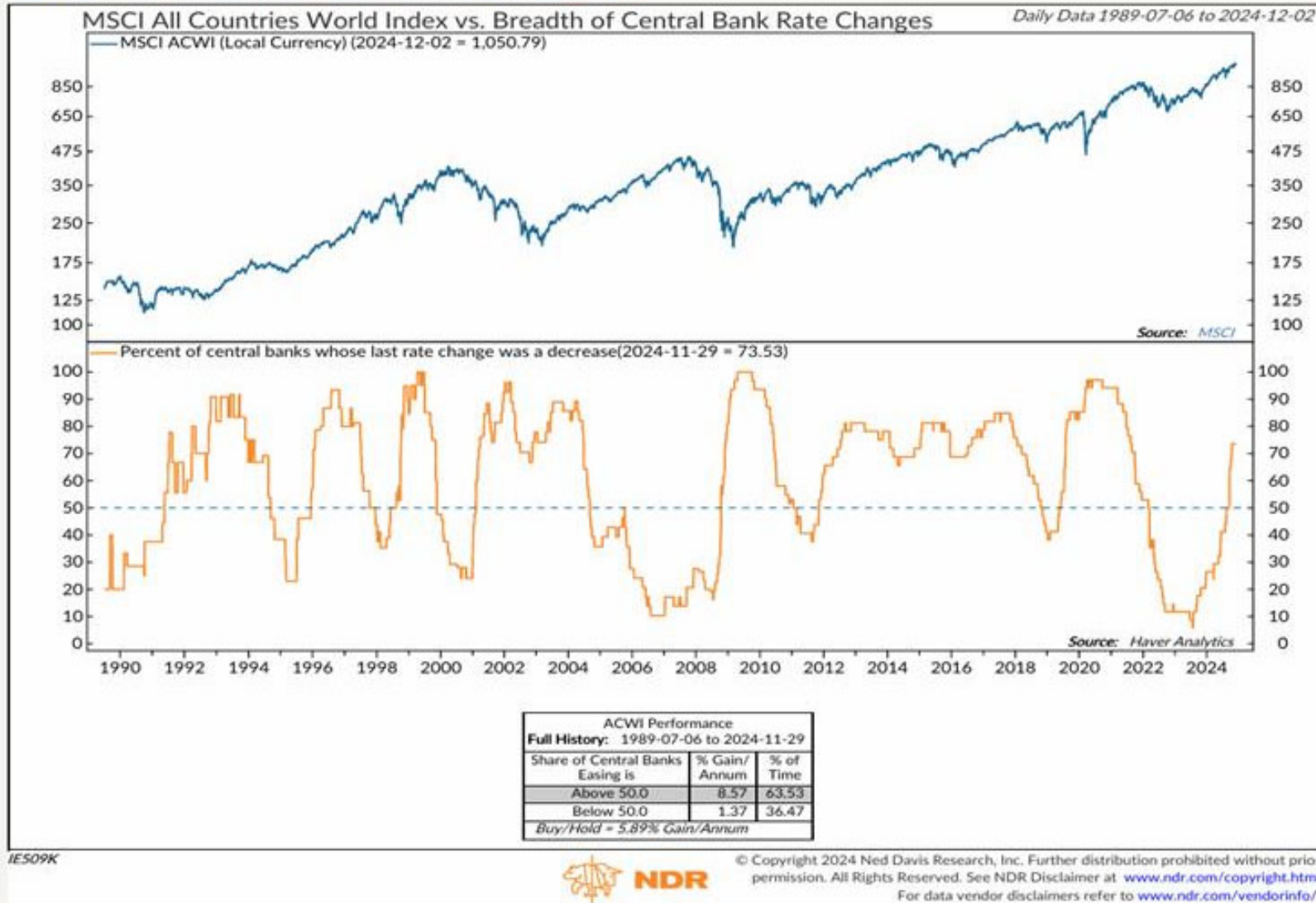
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Most Global Central Banks are Easing

Most of the world's central banks are easing

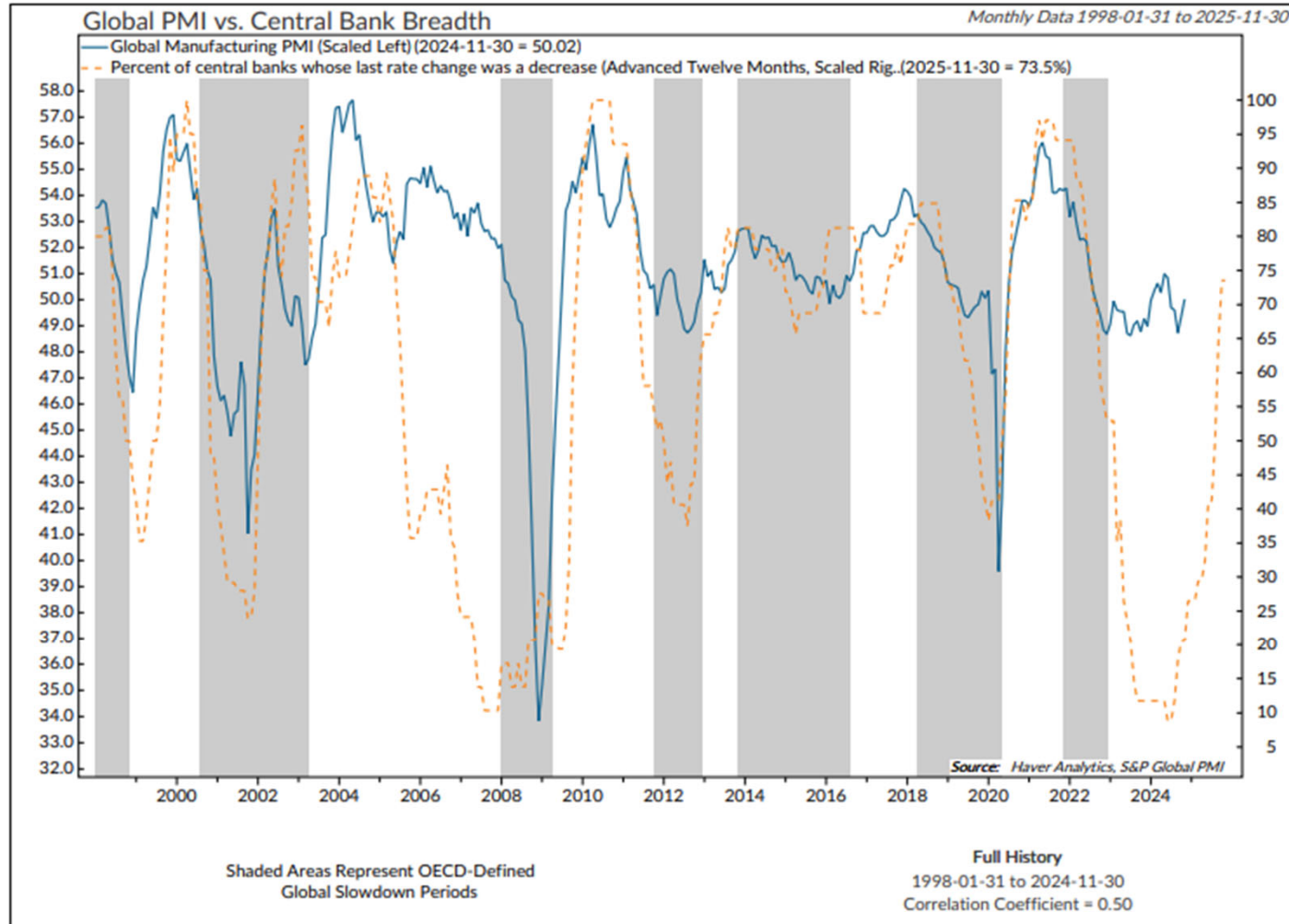


Global economy likely to grow

Source: Ned Davis, Lynx Investment Advisory

Monetary Easing Should Help Manufacturing

Easier monetary policy should see manufacturing recover



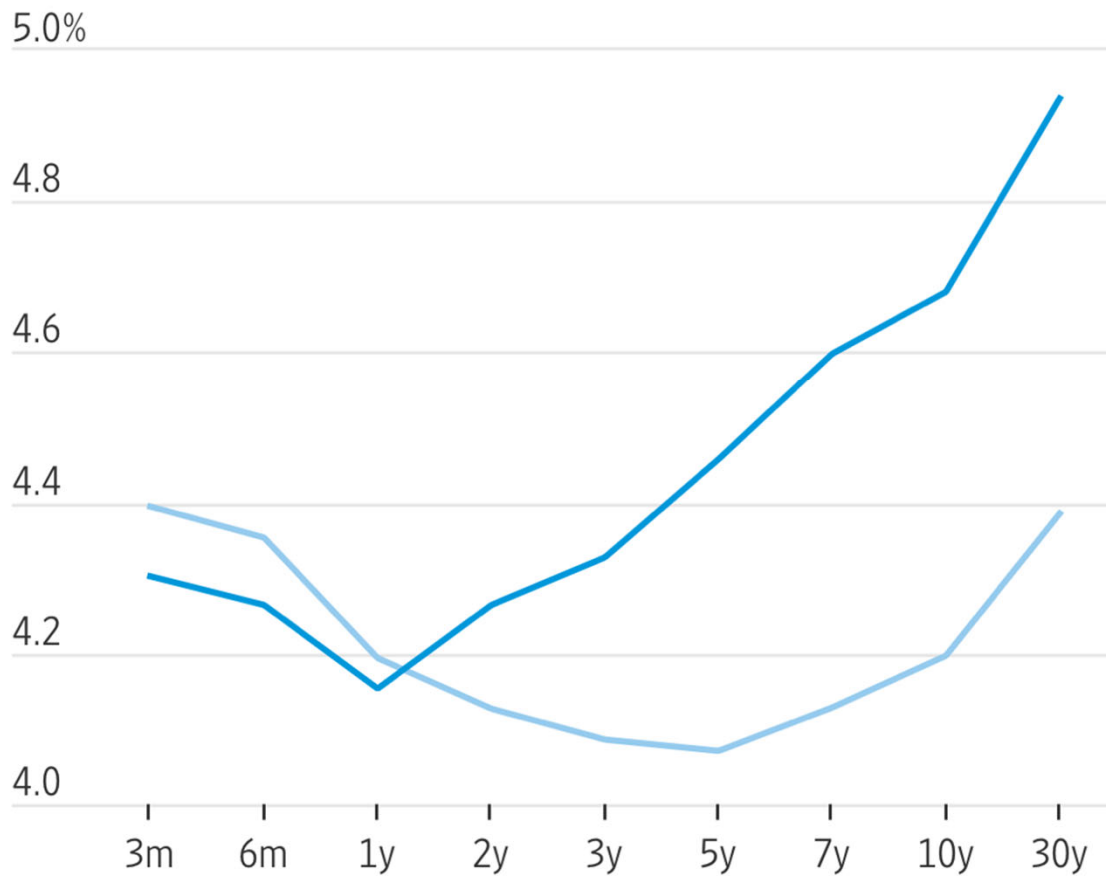
Manufacturing likely to drive growth in Global GDP

Source: Ned Davis, Lynx Investment Advisory

Treasury Yields in US vs. Major Economies

Treasury yield curve

■ Now ■ A month ago



Source: FactSet



Source: Factset, Tullet Prebon, Lynx Investment Advisory

Yields on 10-year government bonds



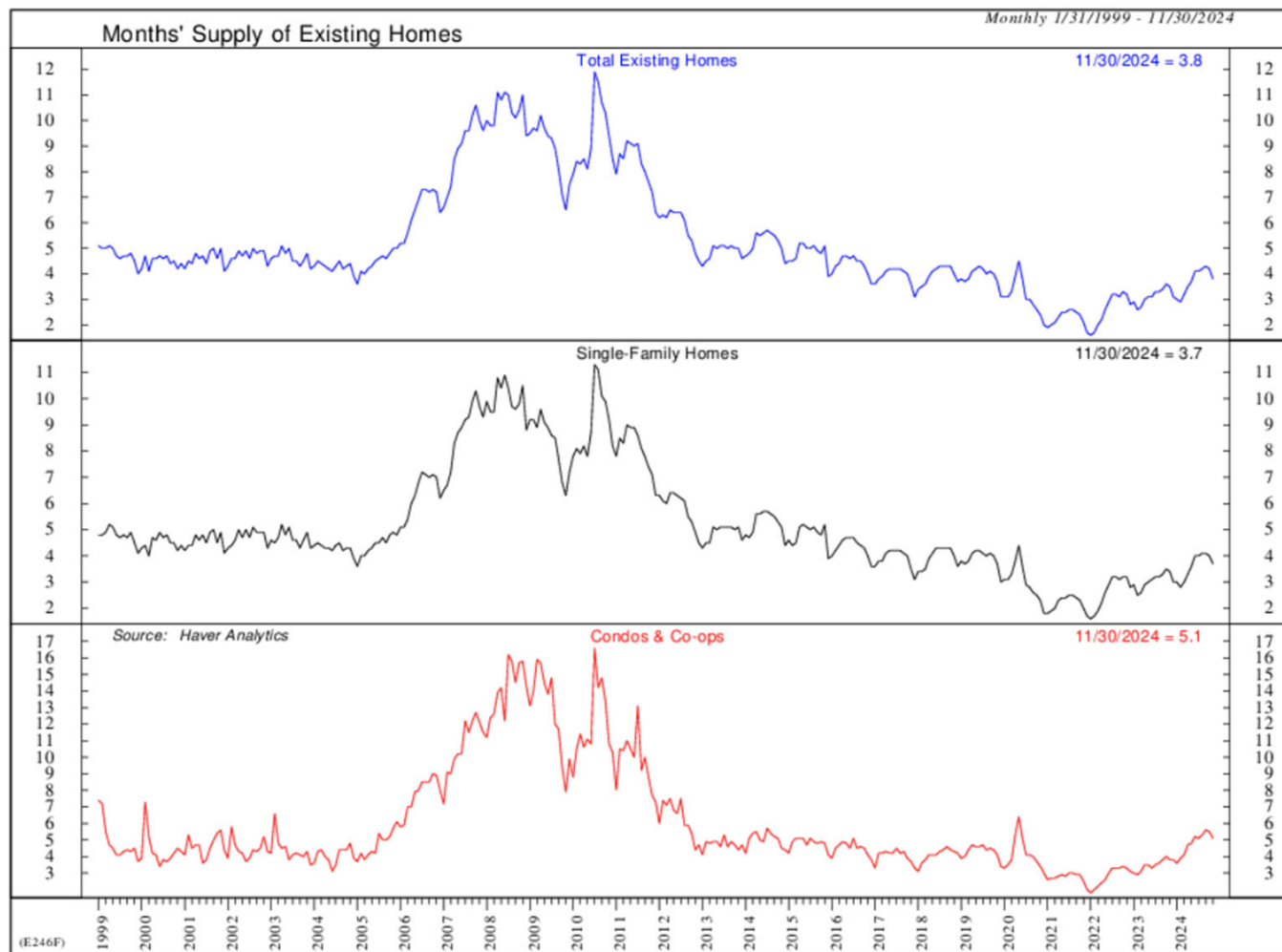
Source: Tullett Prebon

As of Jan. 10

Homes Inventories Are Higher

Inventories are less tight than earlier in this cycle

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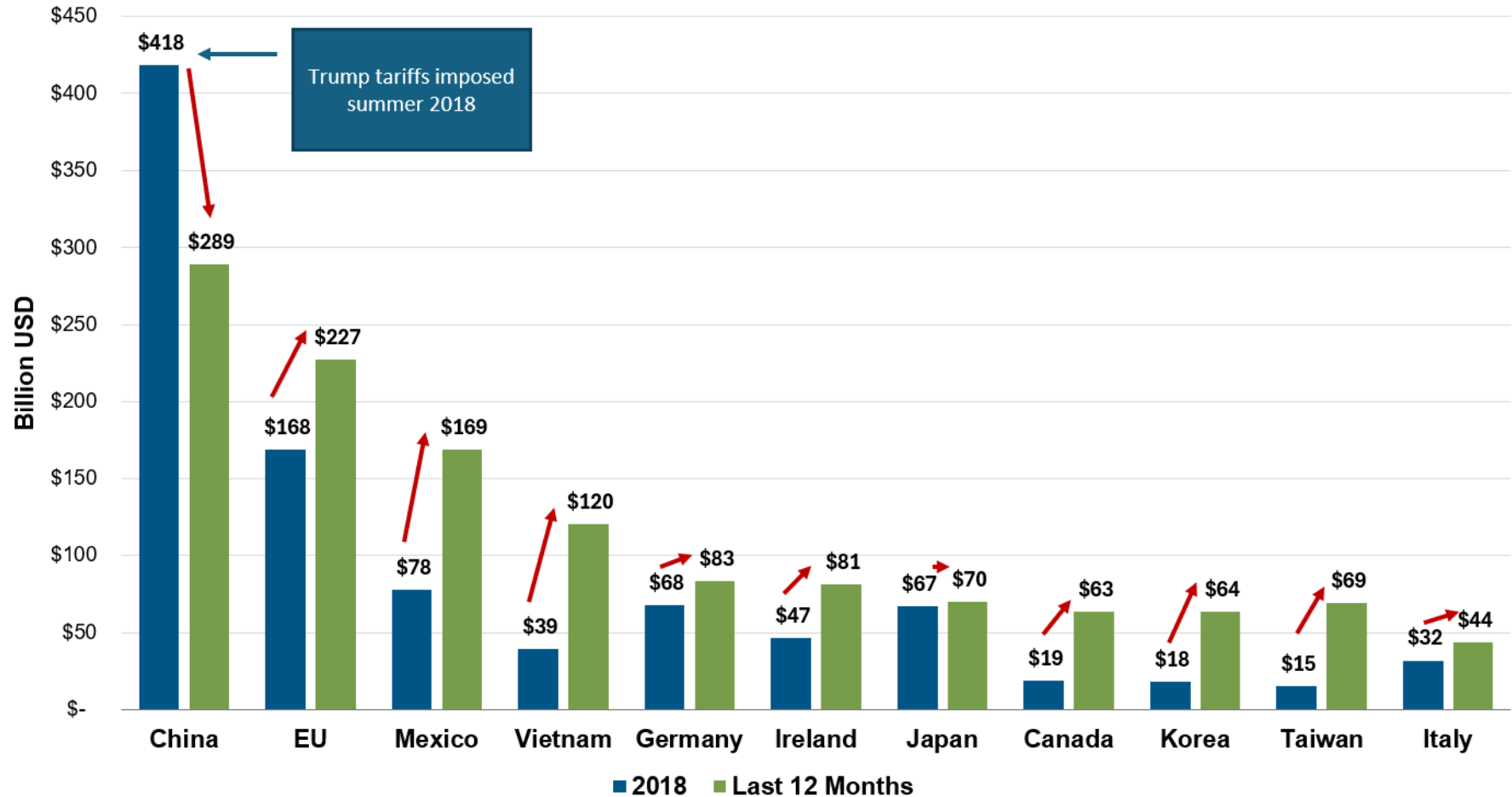
Inflation should trend lower; everything else remaining same-driven by higher housing inventory

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Source: Ned Davis, Lynx Investment Advisory

President Trump: Tariff Policy

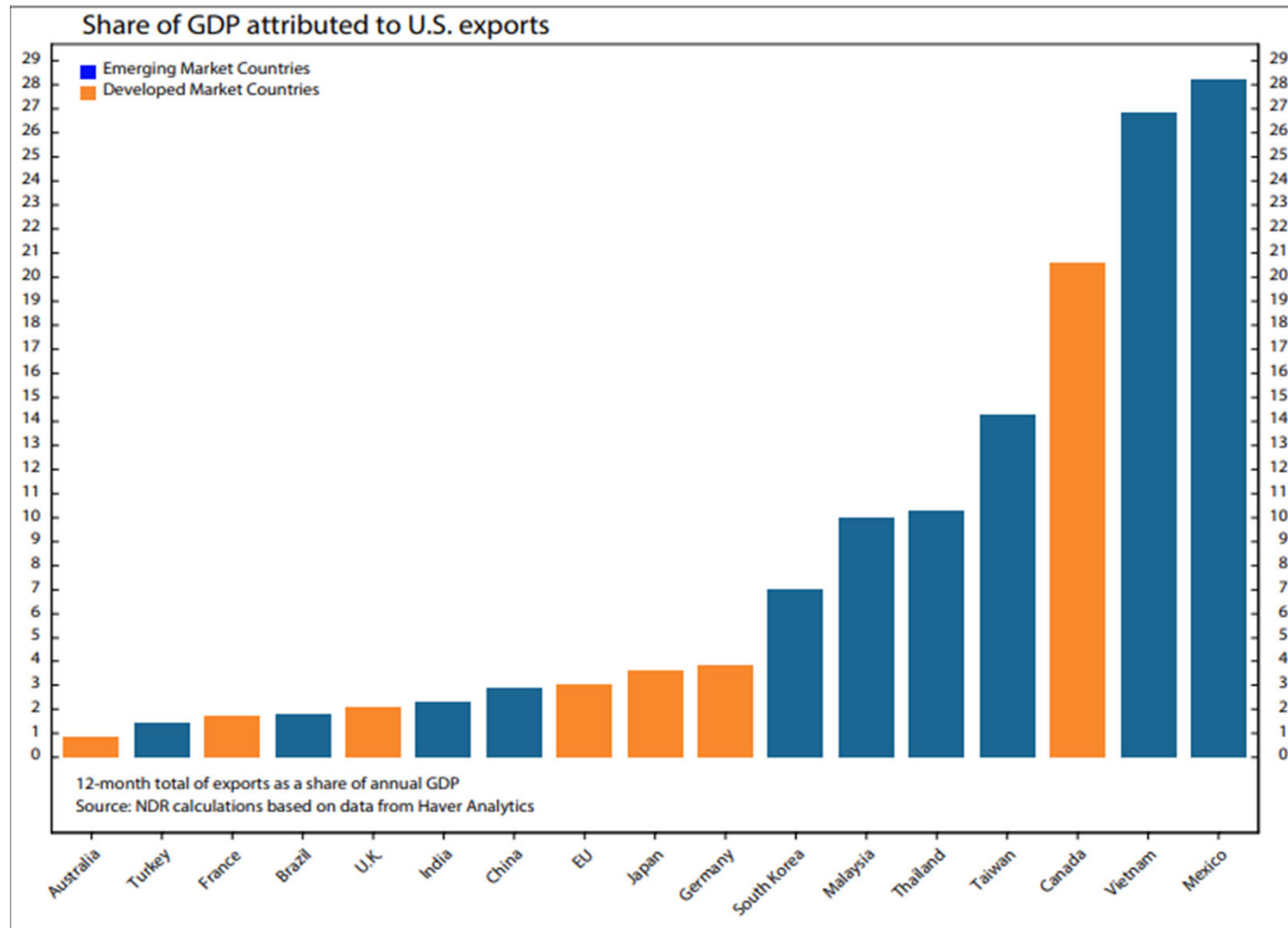
Countries with the Greatest Goods Trade Deficit with US (2018 vs. Last 12 Months)



As of 10 October 2024. Source: Haver, U.S. Commerce Department, PIMCO

Countries with Most US Exports as % of GDP

Mexico, Vietnam, and Canada would be most impacted



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Source: Ned Davis, Lynx Investment Advisory

Main US Imports Are Autos and Machinery

Autos and machinery make up top exports to the U.S.

Largest export categories to the U.S. as share of the total exports to the U.S. for selected economies

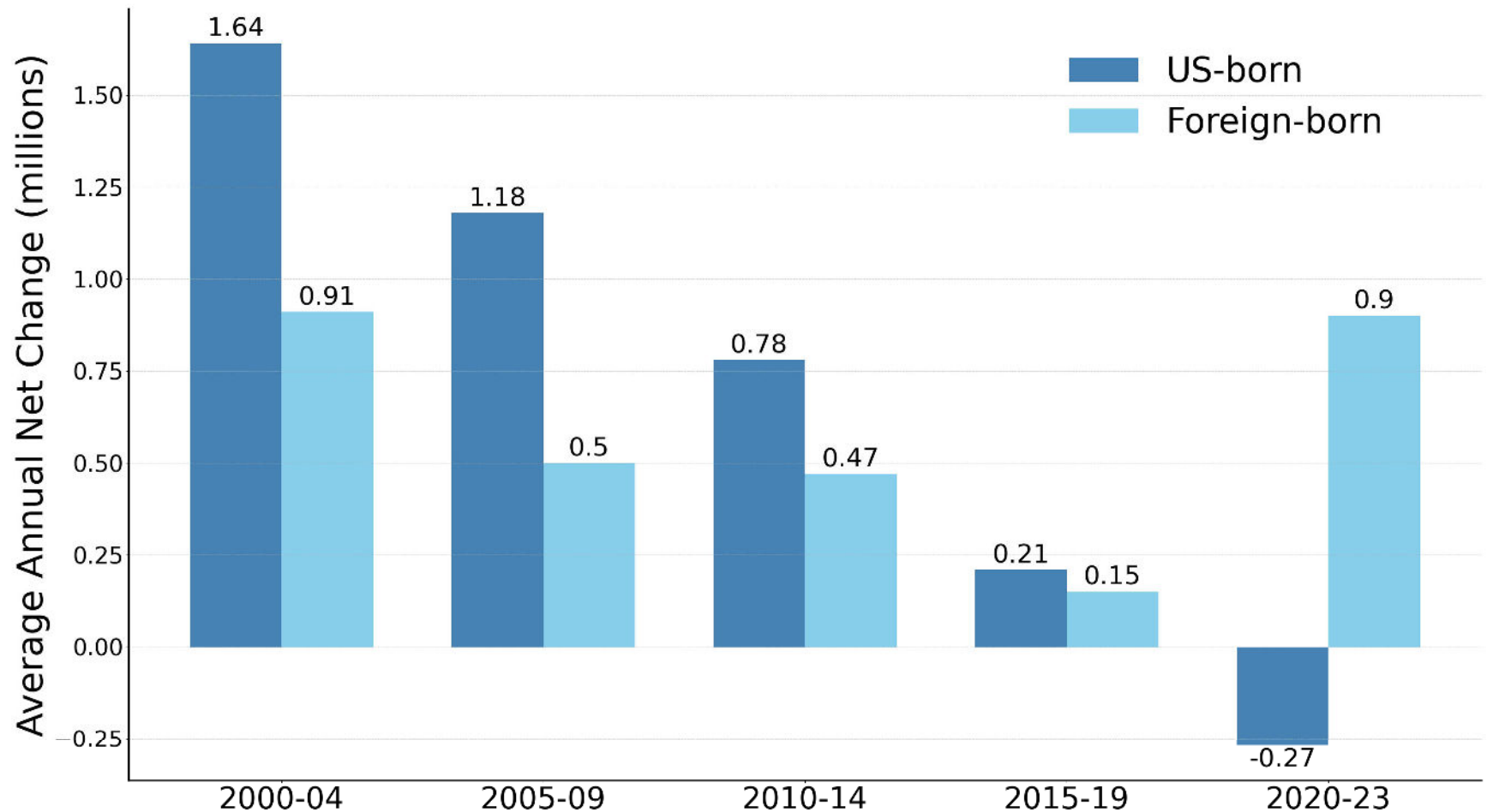
Mexico*	Automobiles (32%); Electric appliances and equipment (15%); Machinery equipment (13%); Food manufacturing (5%)
Canada	Oil and gas extraction (25%); transportation equipment - including autos (15%); Food manufacturing (8%); Chemical manufacturing (7%)
EU	Machinery and transport equipment – including autos (40%); Chemicals and related products (30%); Other manufactured goods (20%)
China	Electrical equipment (24%); Machinery and equipment (17%); Miscellaneous manufacturing – toys, furniture, games (12%); Textiles (9%)
Japan	Transport equipment – including autos (37%); Nonelectrical machinery (23%); Electrical machinery (13%)
South Korea	Vehicles and parts (34%); Nuclear reactors, machinery, mechanical appliances (21%); Electrical machinery and parts (15%)
Vietnam	Computers and parts (20%); Other machinery (18%); Textiles, sewing products (13%); Telephones and parts (8%); Footwear (7%)

*Data for Mexico is share of total exports. Source: NDR calculations using data from Haver Analytics

Source: Ned Davis, Lynx Investment Advisory

U.S. vs Foreign Born Workers by Population

ANNUAL CHANGE IN US WORKING-AGE POPULATION BY NATIVITY. 2000-2023



Source: U.S. Census Bureau, American Community Survey (ACS); authors' calculations.
Note: Population 18-65 years old. Foreign-born include individuals with any immigration status, including undocumented immigrants.

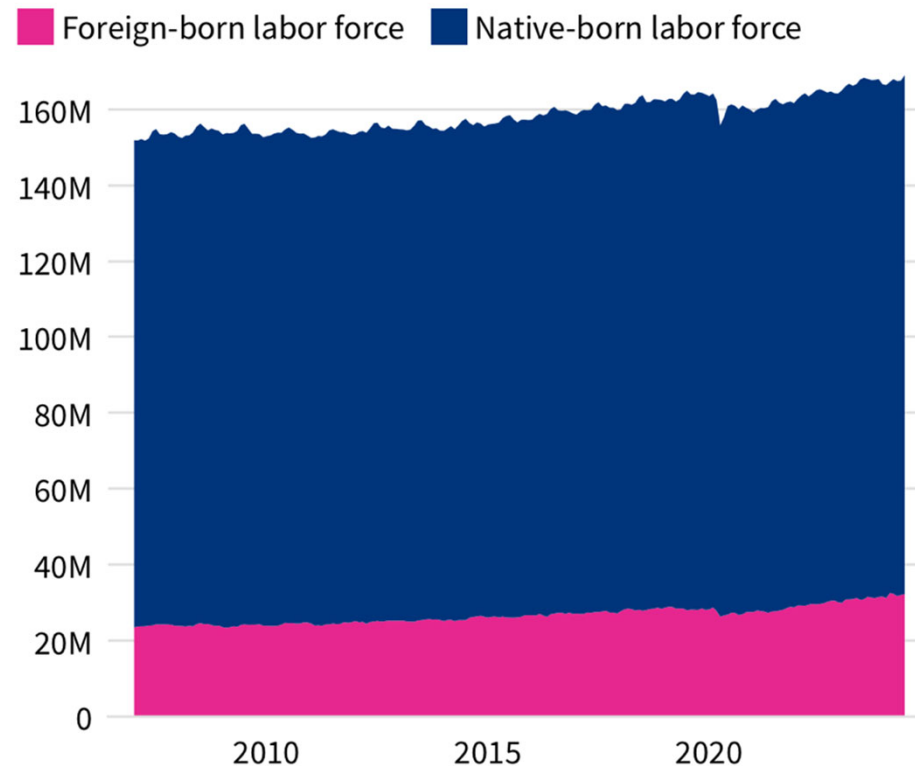
Econofact: econofact.org

Source: US Census Bureau, Econofact.Org, Lynx Investment Advisory

Share of Foreign-Born in U.S. Labor Force

As of June 2024, foreign-born workers made up 19% of the US labor force.

Civilian labor force level, by birth country

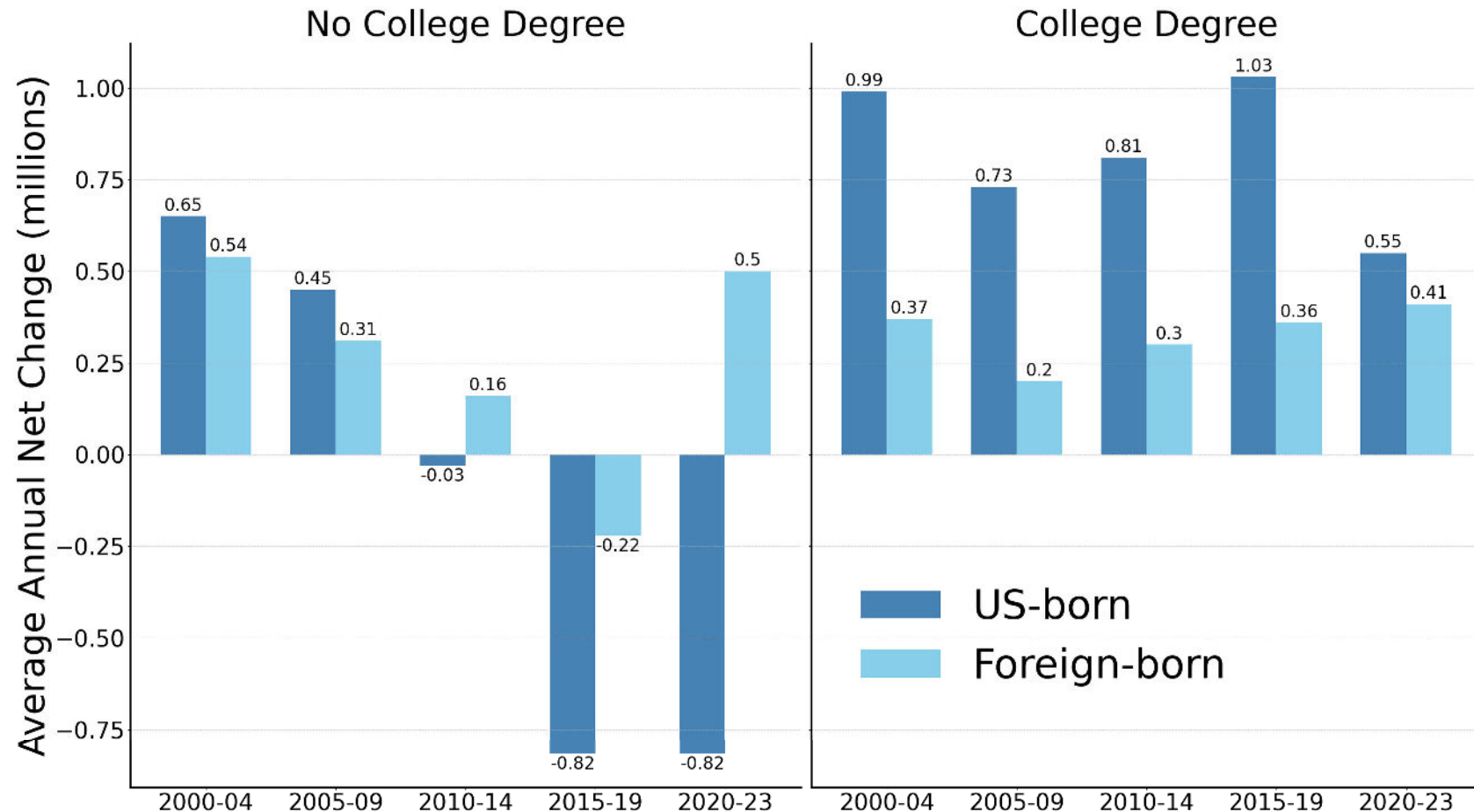


Data includes population 16 years and older. Not seasonally adjusted.

Source: Bureau of Labor Statistics, Lynx Investment Advisory

U.S. vs Foreign Born Workers by Education

CHANGE IN WORKING-AGE POPULATION BY EDUCATION NET ANNUAL CHANGE, 2000-2023

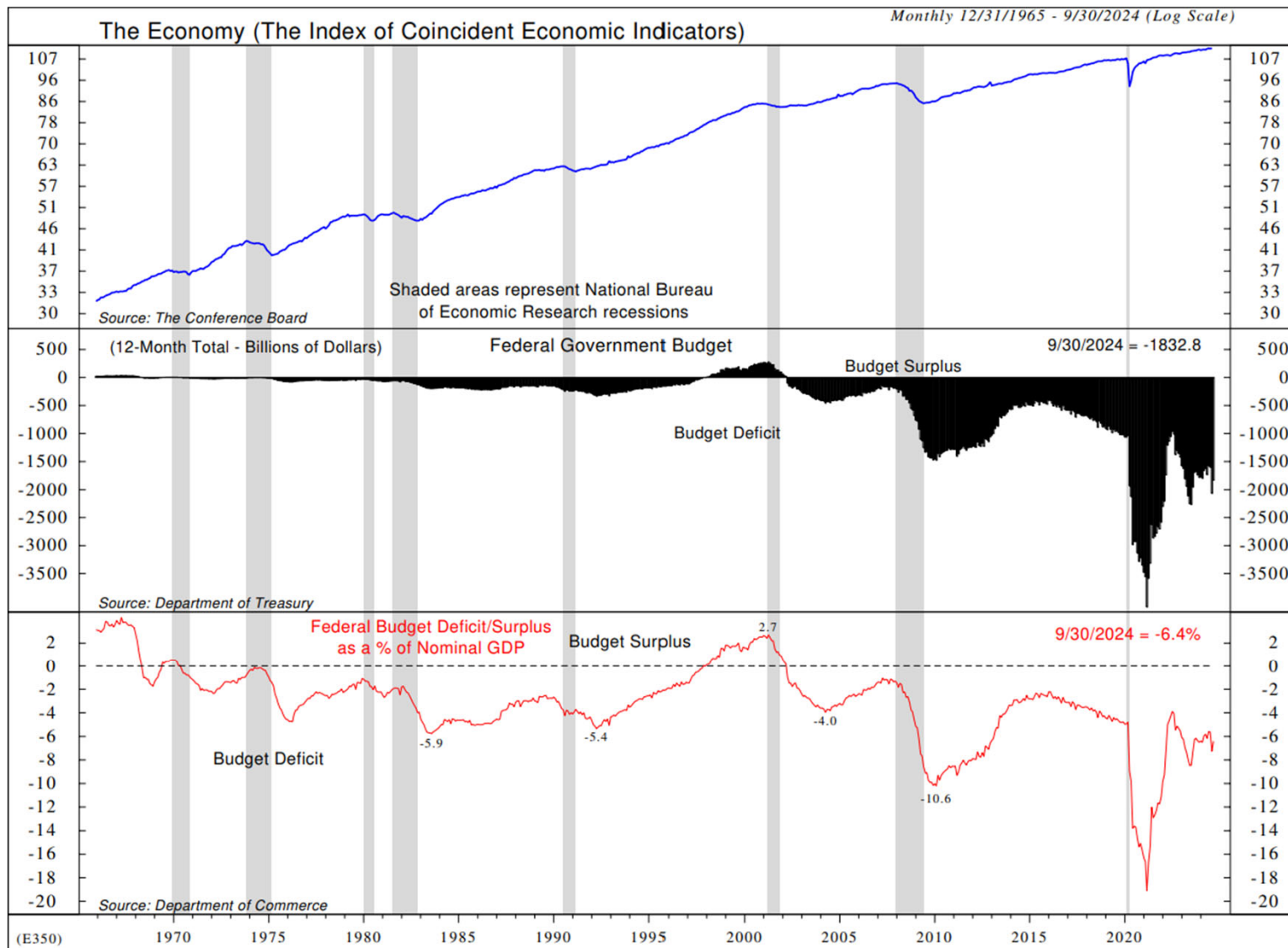


Source: U.S. Census Bureau, American Community Survey (ACS); authors' calculations.
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Econofact: econofact.org

Source: US Census Bureau, Econofact.Org, Lynx Investment Advisory

Increasing Role of Federal Government



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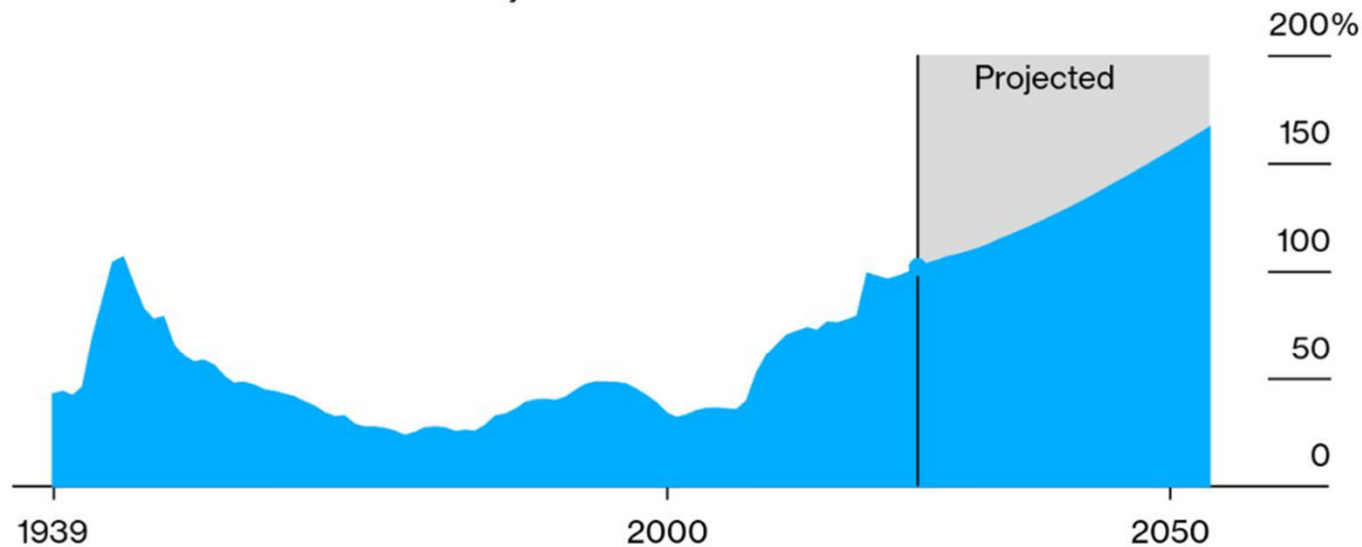
Source: Ned Davis, Lynx Investment Advisory

What Would a U.S. Debt Crisis Look Like?

There are problems and then there are crises. It's certainly a problem that in the next few years, US federal government debt is projected to surpass its World War II-era peak.

US Debt Is Poised To Exceed Its WWII-Era Peak US federal debt held by the public as a share of GDP.

■ Debt as a share of GDP ■ Projected



Source: Congressional Budget Office, Brookings
Note: "Assessing the Risks and Costs of the Rising U.S. Federal Debt," by Wendy Edelberg, Ben Harris, and Louise Sheiner

Bloomberg

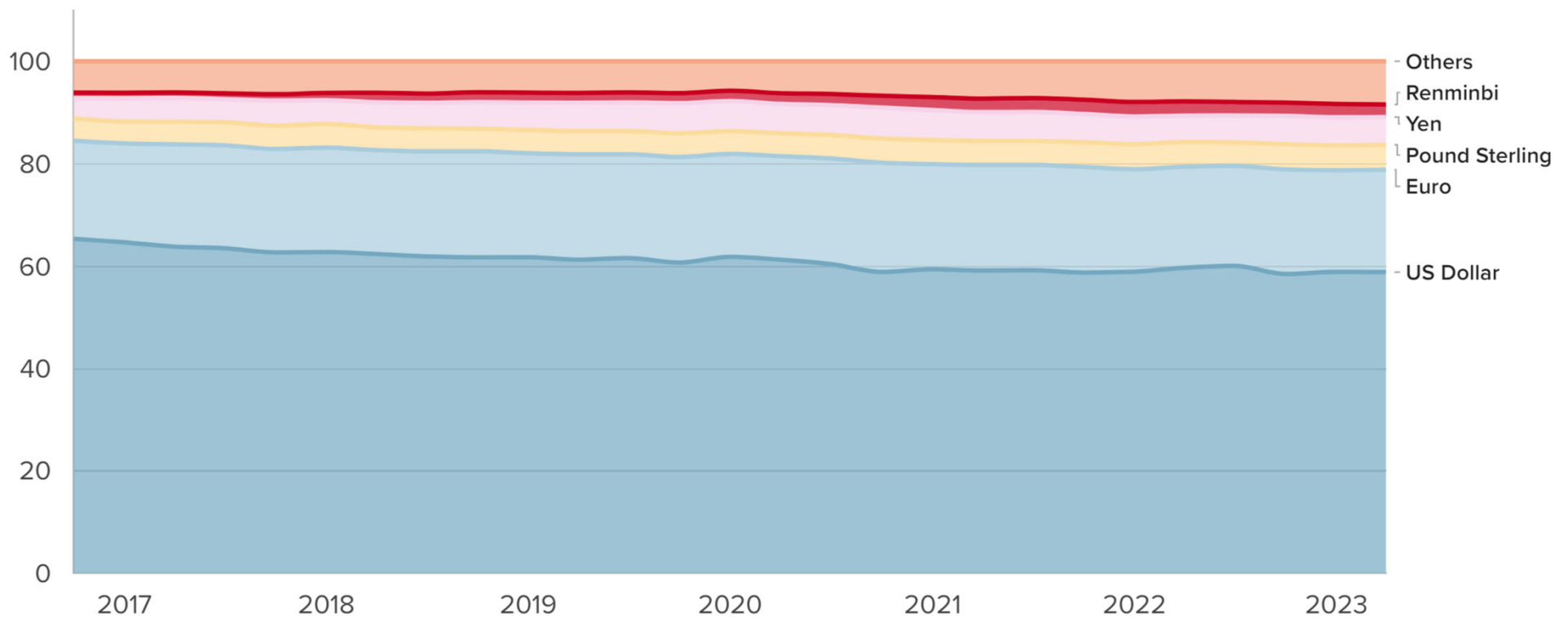
Source: Bloomberg, Lynx Investment Advisory

Foreign Exchange Reserves: 60% in USD

Renminbi has not yet made inroads in international reserves

Currency composition of official foreign exchange reserves

Percentage



Source: IMF COFER.

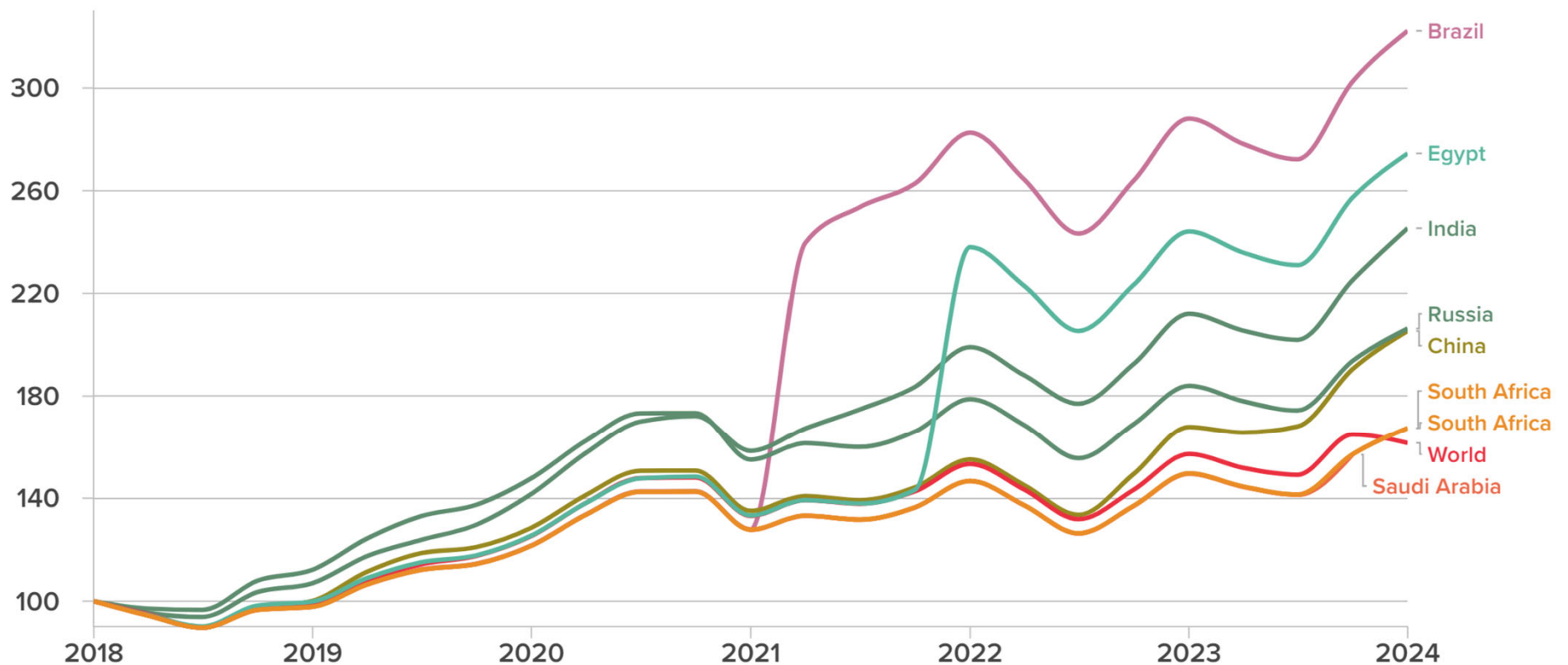
Source: IMF, Lynx Investment Advisory

Gold Holdings in BRICS Countries

BRICS members are stacking up on gold

Gold holdings for select countries

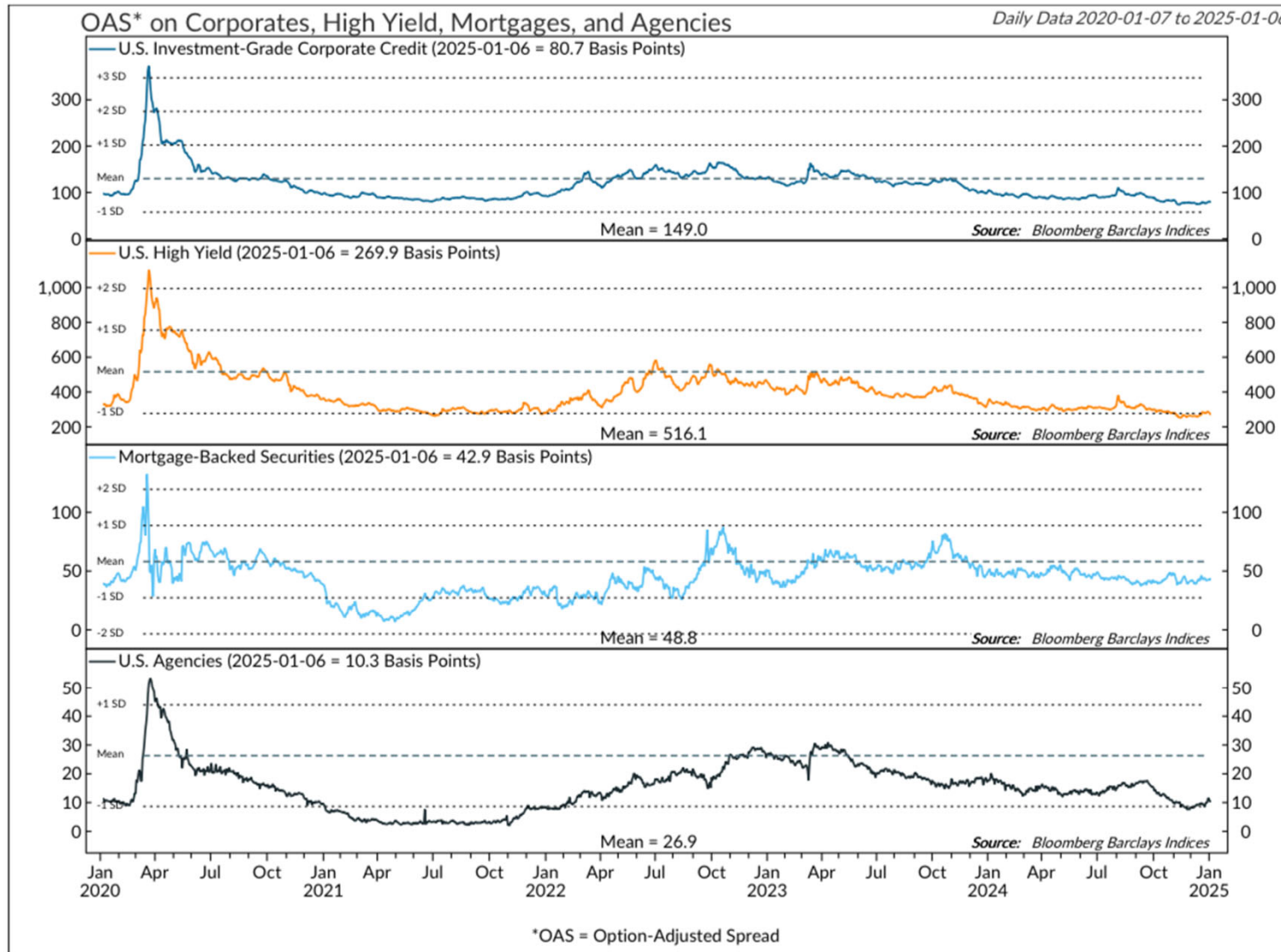
2018 = 100



Source: World Gold Council, Author's calculations • Up to date data for Ethiopia and Iran unavailable.

Source: World Gold Council, Lynx Investment Advisory

Bond Spreads Remain Tight



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Source: Ned Davis, Lynx Investment Advisory

Bankruptcy Filings Increasing Again

Business Bankruptcy Filings in the United States increased by 33.5% to 22,762 during the 12-month period ending September 30th, 2024. Bankruptcies in the United States averaged 40913.40 Companies from 1980 until 2024, reaching an all time high of 82446.00 Companies in the fourth quarter of 1987 and a record low of 12748.00 Companies in the second quarter of 2022.

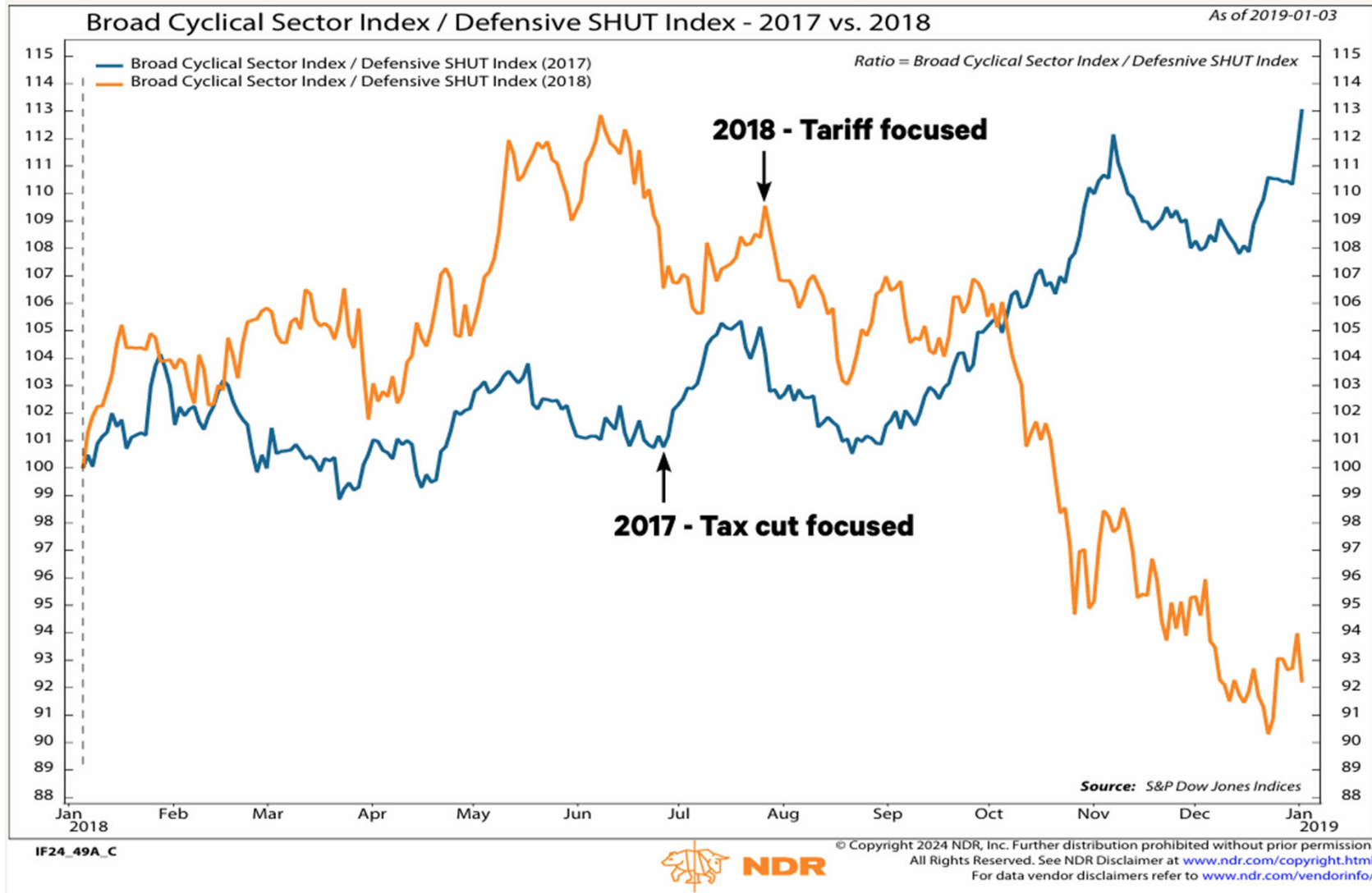
source: Administrative Office of the U.S. Courts



Source: Administrative Office of the US Courts, Lynx Investment Advisory

Policies' Impact on Cyclical/Defensive Sectors

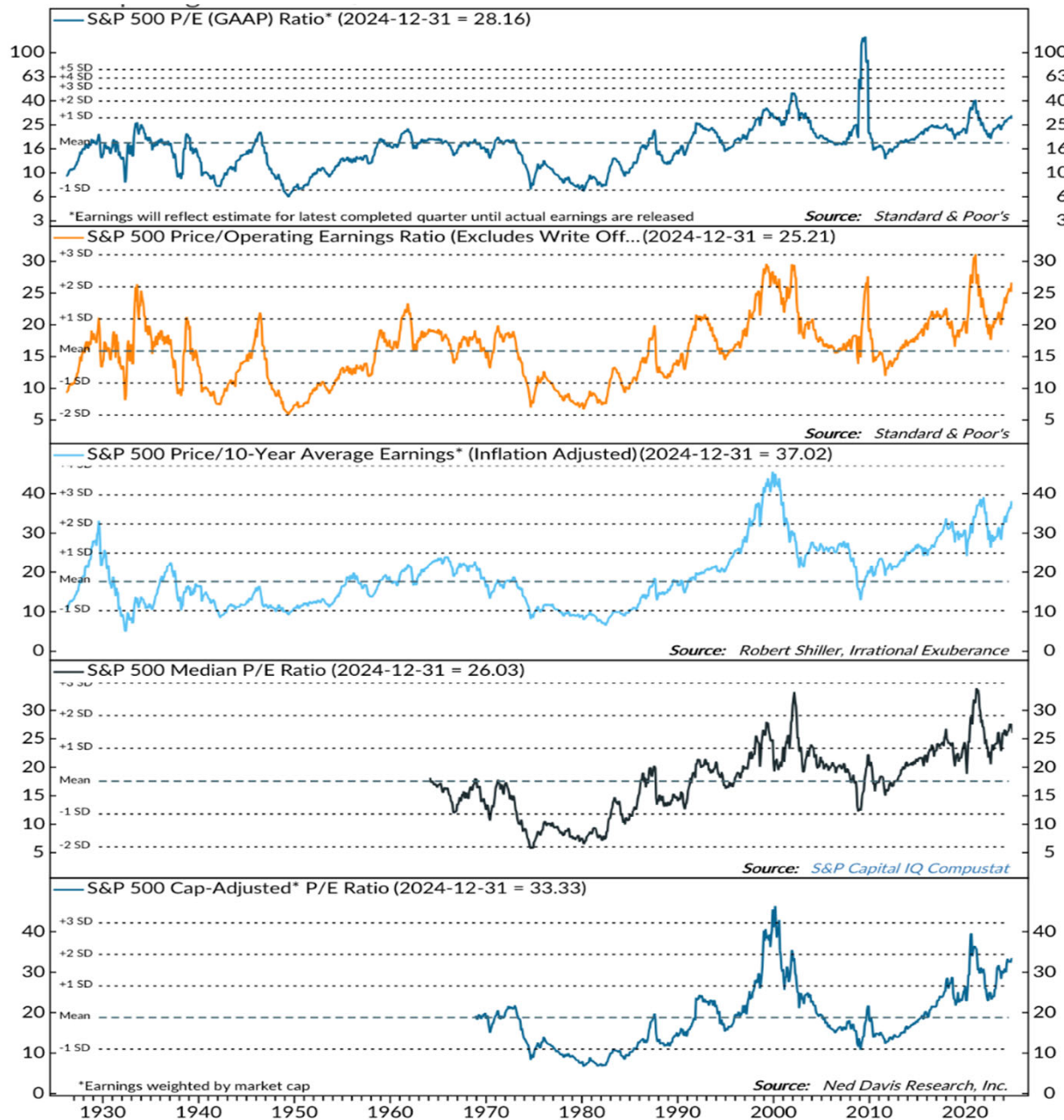
Policy uncertainty could lead to more balanced leadership



Source: Ned Davis, Lynx Investment Advisory

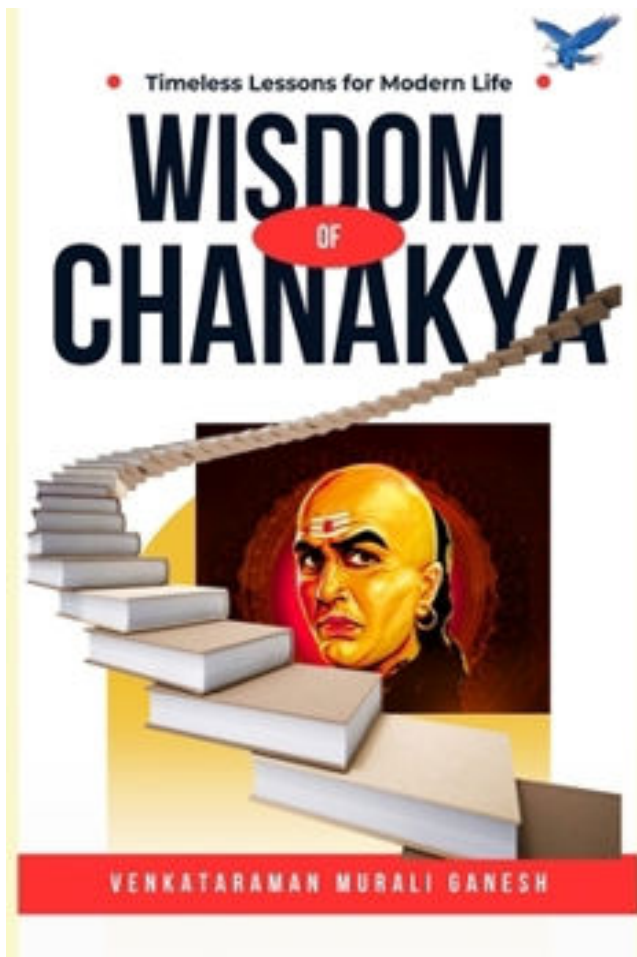
Comparing Different P/E Measures

Monthly Data 1926-03-31 to 2024-12-31



Price to average 10-year earnings is expensive

Principles of Chanakya



Chanakya on Taxation: Governments should collect taxes like a honeybee, which sucks just the right amount of nectar from the flower without causing any harm while cross pollinating the flower to improve the eco-system

On Tariffs: A King should be ready to be taken advantage of and show generosity. King does not seek equality but superiority.