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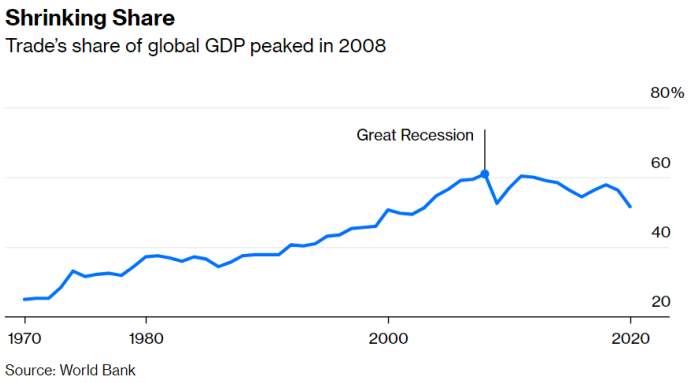
TPW Advisory Monthly: Turbocharging The Tri Polar World
April 1, 2022

For the first time in weeks, the past few days have felt like one could draw a breath and maybe even relax a little. The equity volatility storm broke, with the VIX falling below 20 though the MOVE index remains elevated & commodities yo – yo. For us long only folks who had been resolutely positive through the past month or two, green screens have made it all the better.

Given this opportunity to draw a deep breath, it seems appropriate to focus this Monthly on updating our Tri Polar World (TPW) thesis, putting it in context with all the hot takes & deep dives on globalization, deglobalization etc. that have surfaced post Russia's invasion of the Ukraine. As a quick reminder, our TPW thesis (& thus the TPW in our name) has been in development for well over a decade now. I first laid out the thesis in the years following the GFC as a response to the lackluster post GFC policy mix (all monetary, no fiscal) and have elaborated upon it several times since then (see here). The original construct was quite simple: regional deepening and integration in each of the three main poles: Europe, Asia and the Americas was the way forward led by each region's growing ability to self-finance, self-produce and self-consume. Globalization died in 2008-9 as finance, the tip of the globalizing spear, toppled and nationalism was never going to cut it.

Chart 1 – Globalization Peaked With The GFC



Source: Bloomberg

In 2020, we added tech and climate as new drivers with each region's growing ability to self-innovate and self-protect. We developed the Splinternet concept for the tech space and more recently incorporated the impact of Speed on the TPW process, beginning with Covid Speed before advancing to Climate Speed and Analytical Speed. We employ the TPW as our organizing principle & top-level framework for thinking about the world – a unique and differentiated perspective that we believe adds alpha, especially in times of flux like today.

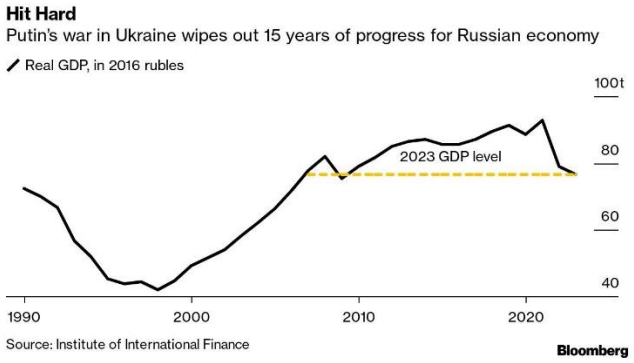
Speed is a key concept and one that has stood us in very good stead on the investment side – Covid Speed was our single best construct over the 2020-2021 period as it kept us abreast of the rapid moves from Covid spread to policy response, market reaction and vaccine development. Vaccine development in turn led to what we called the Covid Speed model: the power of global intellectual and financial capital focused on a single issue – in this case, creating a vaccine - which in turn resulted in multiple effective vaccines being developed around the globe in 1/10th of the normal time frame.

We believe the Covid Speed model will be employed in the climate fight for which we introduced the Climate speed concept which refers to the telescoping of time between the long-range climate goals of 2030 & 2050 and how what we do today impacts those goals. Analytical speed highlights the impact of massively faster computational power that McKinsey believes will unlock more innovation in the coming decade than in the past 100 years.

Today, we introduce Conflict Speed, the speed at which a country, in this case Russia, can be neatly excised from the global economy, i.e., in under a month. Like our other speed examples this is both a simple construct and one that has huge implications for both the current environment & the future. Conflict Speed is recasting today's world & putting in place structures that will guide the world of tomorrow. One quick illustration proves the point: in 2010 -11, TPW's origin story centered around the lack of Govt action to combat the aftereffects of the GFC; today, we have a positive near term and medium-term outlook precisely because Govts are much more active, employing fiscal policy to meet the Covid/Climate/Conflict challenges from Japan to Europe, from the US to China, across the Tri Polar World.

From crisis comes opportunity. It's our view then that the 3 Cs: Covid, Climate & Conflict are turbocharging the Tri Polar World's emergence. As argued above, globalization is dead; nationalism, the America First or Brexit version, was never going to work; anyone who thought it might only has to look at Russia today. Note that UK living standards are currently falling at the fastest rate in over 60 years. From trade to finance, to military & tech talent, from energy to fertilizer to food it would seem pretty clear that no nation can go it alone unless their people are ok with living standards going south fast. Russia's economy, for example, is forecast by JPM to collapse back to 2007 levels by YE, giving up 15 years of progress in a single year. Only dictators can get away with that kind of underperformance – for how long remains to be seen.

Chart 2 – Conflict Speed



Regionalization, regional deepening or integration on the other hand is starting to become the obvious default choice, one that combines both openness and security for much of the globe. Food and energy security together with security of supply for critical goods like semi chips and EV batteries will drive Govt thinking in the years ahead as will exposure to sanctions risk. Globalization is less & less relevant – what role has the UN played, the IMF, World Bank, G20 etc.? None.

While no single country has everything it needs, when one looks to one's neighbors, whether in Europe or Asia or the Americas, it becomes clear that much is available close by and usually with folks whose thinking is pretty well aligned to yours. The 3 Cs serve as an accelerant for the regional integration process across all three poles. Those who recognize this and leverage it, be they companies or countries, will be ahead of the curve. Joint financing in Europe, China centric food trade in Asia, clean energy inputs in the Americas… the examples are already manifesting. How the three regions will interact with one another remains to be seen but there is scope for integration via large trade pacts – from the Americas pov, across both the Atlantic and the Pacific.

Importantly, companies are moving faster than Govts in large part because they have been caught out over the past several years by repeated disruption to their globe spanning supply chains (SC) put in place over the past 20-30 years. These SCs were not much affected by the GFC but lately it's been one thing after another: the Trump tariffs, Covid and its impact on China based production, multiple extreme weather events across the globe and last Fall's COP26 Summit which further reinforced the need to go green. The go green push is being accelerated by the modern corporation's multiple stakeholders who are pushing the companies to move faster than they might otherwise would have. Just look at the power social media deployed in the aftermath of the Russian invasion which arguably galvanized faster & more aggressive state action that might have otherwise occurred.

Companies are leading the way to regional production platforms as the three belief factors that underpinned the global SCs have been called into question: that raw materials would be cheap & readily available, that shipping costs would be a small fraction of overall costs & that shipping

itself would be reliable – since the Trump years all three have been called into question. According to work done at MIT's Sloan School, companies and countries are figuring out how to relocate supply chains within regional trading blocs of politically allied countries, such that if a country doesn't make something itself, a political ally does. Sounds like the Tri Polar World, doesn't it?

As we see it, Tesla is now a Tri Polar World company – producing and distributing its EVs in each of the three main regions and being valued accordingly. More will follow shortly – Taiwan Semiconductor is quickly moving to produce in each of the three main regions to reduce its Conflict risk & position itself as a secure provider of a strategic good that each region must have its own access to. Electric vehicle batteries are being viewed as a similar critical input that each region must have its own access to. In Europe it's called "Technological Sovereignty". In the US its part of Build Back Better. In Southeast Asia, regional near shoring of tech gadget production has become a focal point of Govts & companies alike.

Climate goals, especially around carbon, are leading countries to rethink their energy sourcing, a process that has been turbocharged, at least in Europe, by Russia's invasion. Europe's energy grid is going to look totally different in a matter of years – talk about speed, from slow moving to picking up speed post COP 26 to hyper speed thanks to master strategist Putin. As we think about the thematic investment space and our TPW 20, 100% thematic model portfolio, it's this thinking that excites us about the future return potential of the clean energy, climate focused space.

We have long had the view that Europe could win the decade of the 2020s. Hard as it might be to consider today the events of the past month have only increased the odds of such success in our minds. From the NextGenEU fiscal program which will support European growth over the 2022 -2025 period to the energy security program now under consideration post invasion, Europe will emerge from this conflict with a much stronger military force, a much more cohesive and clean energy grid & a more sustainable financial system via joint financing that will in turn stimulate an EU safe asset & deepen the appetite for the Euro as a reserve currency. It's all there for the taking in Europe which is why we have been pounding the table on the tactical and strategic investment opportunity presented by the Conflict related selloff of European financial assets.

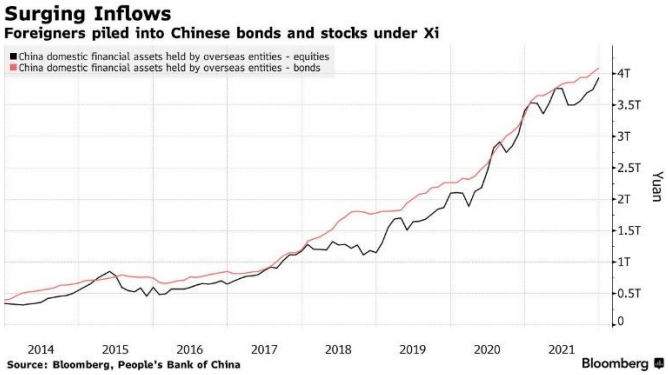
Chart 3 – Europe to Win the 2020s?

The Americas also has a real chance to up its regional game which is not hard to do considering that currently there is virtually no such thing. Of course, that is an overstatement given the integration of N America (Canada, the US and Mexico) across energy and trade lines. But there is so much more that can be done to deepen integration southward. US policy makers have a choice between doubling down on the existing strategy of ignoring Lat Am or formulating a Hemispheric policy that integrates the region to meet the net zero commitments by 2050.

Post Russia, the appeal of deepening ties with natural resource rich Brazil, Argentina, Chile and Peru jumps off the page. EVs have huge mineral needs – needs that can be met by further development of copper, nickel, lithium etc. in Chile and Peru. Worried about food sources – well look no further than Canada, Brazil and Argentina. Want to near shore production? Central America has the human need and the proximity to be a win win for all. Regional integration upside is probably the highest in the Americas which is one of the reasons why we have one of our two EM equity positions in Brazil.

What about Asia? Clearly China miscalculated with its no limits partnership with Russia. It also realized quite quickly how dangerous being determined to be "uninvestable" can be in 2022. Under Pres. Xi, China has been a foreign investor, market friendly place with foreign investment in its stocks and bonds up nearly 1,000% since XI took office. One outcome may well be for Russia, having cratered its relations with its biggest and best customers, to dwindle to little more than a food and energy producing vassal state of China.

Chart 4 – China Has Courted Foreign Investors



Asian integration revolves around China; it's the region's biggest trade partner, consumer and producer. India may have more people but it is not even close to matching China's supply and demand functions. The ASEAN countries are where the consumption growth will be in the coming years and much like the Americas there is virtually all one needs within the region. China has seen how dangerous its dependence on others can be and will likely work very hard in the coming years to reduce that dependence, especially on foreign trade – thus its dual circulation strategy.

Let's use our next level down analysis, our Global Risk Nexus (GRN) system, to review the Climate, Economics, Politics, Policy and Markets outlook. Given our TPW focus, this month we will view things thru the TPW prism.

CLIMATE

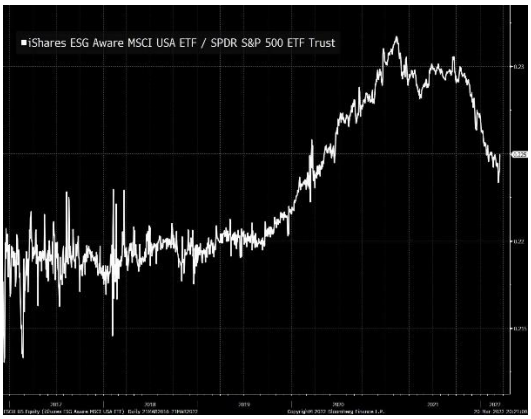
There is a clear tension between Europe's urgent need to diversify itself away from Russian energy dependence & its desire to accelerate its shift to clean energy. How this tension plays out remains to be seen but one can think about not letting the perfect be the enemy of the good. This would seem to be the idea behind the recent decision to include natural gas and nuclear power in its sustainability criteria. It may also underlie the decision to switch to US LNG in part for Russian Nat gas – here much depends on the time frame and what is being done on the clean energy front to ensure weaning itself off Russian gas does not compromise Europe's carbon goals.

Europe has an opportunity to lead the clean energy transition as Conflict speed pushes it far ahead of the other regions. Some have noted the chance for a triple play: reduce dependence on Russian energy, reduce carbon emissions and reduce inflationary pressures. While much is in flux, one clear positive is the European Council's decision to work on a common purchase platform for Nat gas – if adopted Europe would quickly become a huge player in the global Nat gas arena – a mini-OPEC. Europe is already the global leader in tech regulatory policy (see its recent Digital Market Act); it can become the leader in climate policy. The likely imposition of a

carbon border adjustment mechanism (CBAM) will further accelerate this process and set it apart from others. The clean energy gap between the EU and Asia/Americas is likely to widen in the coming years – making a CBAM all the more likely so as to not disadvantage EU production.

Nuclear power is likely to be one winner from the energy front while longer term potential supplies like hydrogen are also likely to see an increase in interest. The Climate & Conflict combo is a powerful one and should ensure significant public & private funding which in turn will likely accelerate the come to market process.

Chart 5 – Simple ESG is Not so Simple



7) Top Fund Hlds | MHD »	Net Fund	Net Index
11) Apple Inc	6.640%	N.A.
12) Microsoft Corp	5.622%	N.A.
13) Amazon.com Inc	3.536%	N.A.
14) Alphabet Inc	1.958%	N.A.
15) Alphabet Inc	1.942%	N.A.
16) Tesla Inc	1.853%	N.A.
17) NVIDIA Corp	1.680%	N.A.
18) JPMorgan Chase & Co	1.213%	N.A.
19) Home Depot Inc/The	1.052%	N.A.
20) Meta Platforms Inc	1.048%	N.A.

Source: Bloomberg

Elsewhere the Climate outlook is not as robust. The US in fact seems to be sliding behind as the Biden Admin ramps up fossil fuel production to offset energy related inflation pressures & settles for status quo ante insofar as its Climate funding goals are concerned. Build Back Better is not a slogan one hears uttered very often these days.

Similarly in Asia the process of moving towards net zero seems to have lost some impetus, driven off the top line by a combo of Covid breakouts in China and energy price pressures across the region. While understandable the need to get back on the hobby horse quickly is pretty self-evident.

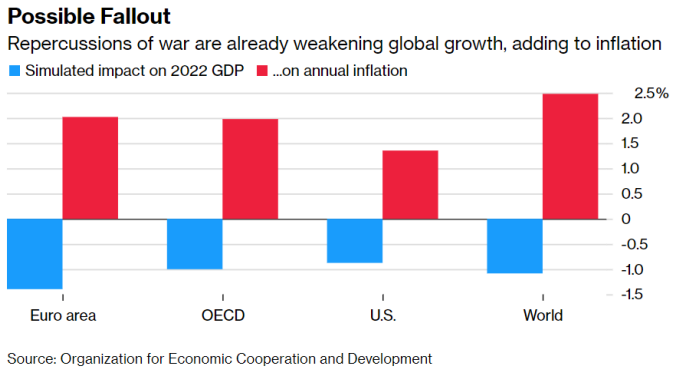
ECONOMICS

There has been so much ink spilled about growth, stagflation, recession, inversion etc. etc. that it doesn't make sense for us to go there. Suffice to say that we see DM growth as remaining above pre Covid trend levels in 2022 and 2023 with inflation gradually coming under control as Covid ebbs, supply chains unsnarl, folks go back to work and there is a ceasefire in Ukraine, allowing energy prices to quickly cool off. The Economist forecasts that global GDP will grow 3.4% this year, down roughly 50 bps from its prior, pre-invasion forecast. We focus our yield curve attention on the 3M – 10 yr. curve which is currently quite steep. The Fed uses this curve

in its recession indicator which currently suggests a 6% chance of recession in the coming 12 months.

Conflict speed suggests that Govt spending will remain elevated and growth supportive, especially in Europe but also in Asia where Japan is expected to reveal a large stimulus package and China has the capacity to do the same should the need arise. The most recent data, such a prelimary March PMIs across the regions were BTE, suggesting that economies enter the Russian invasion period under a good head of steam, and this is before Covid's ebb becomes fully apparent. JPM notes that the March PMIs suggest DM GDP growth close to 3% while its global economic surprise index remains solidly in plus territory. We remain of the view that Covid's ebbing will have a much bigger growth impact than Russia's invasion of the Ukraine – at least outside Russia.

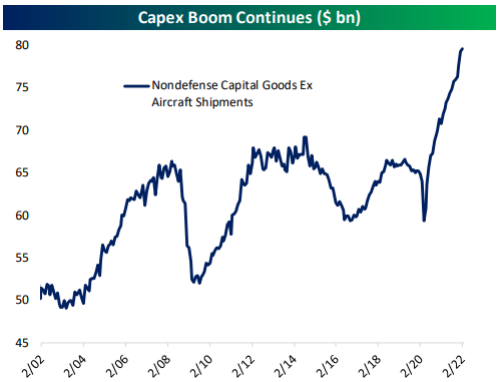
Chart 6 – DM Economies To Grow Above Pre Covid Trend



Source: Bloomberg

It also seems likely that the upshot of all this is a stronger global cap ex boom than even bulls like us are expecting. Cap ex to reorder supply chains, cap ex to mitigate climate, cap ex to offset conflict risk, cap ex to rebuild roads, bridges, tunnels, i.e., infrastructure. Europe is estimated to need to spend over $2T to adapt to all the changes necessitated by Russia's fool hardy invasion. This suggests that Europe may well become a source of global demand rather than its long-standing free rider role on the demand of others - something that could help stabilize the global economy.

Chart 7 – 3 Cs: Covid, Climate & Conflict to Drive Global Cap Ex Boom



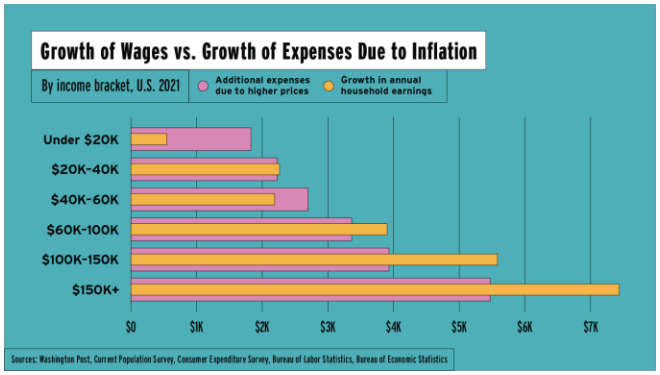
Source: Bespoke

This in turn gives us more comfort about our quite contrarian view that growth will remain above trend in the out years of 2023-2025, bolstered by that global cap ex spend, a productivity surge generated by the Covid speed inspired accelerated tech adoption coupled with the impacts of Analytical Speed. We expect supply & demand to pick up as wage gains remain above trend while inflation settles back to around 2-3% in the US, 2% in Europe thanks to productivity gains akin to those the US experienced in the 2H of the 1990s only this time it will be global & led by our three main regions. Much of the current thinking around shifting global supply chains to regional ones argue that costs will increase and margins decline. Some of that may well happen but it also seems like a real chance to develop a more regionally cohesive, equitable economic system that benefits the many as well as the few. In this regard, it will be one with political support.

POLITICS

Notwithstanding a pretty stellar performance by Pres. Biden, his staff, and US intelligence agencies, his political standing remains quite poor, polling only 40% approval rating. Polling suggests inflationary pressures, especially among the lower wage earner brackets, is costing Biden dearly. With midterm elections rapidly approaching, it's not clear how much of his agenda Pres. Biden can get passed before Americans go to the polls. Outside the US the prestige of the country has picked up sharply and Bien has clearly rallied the West such as it is behind the Ukraine, restoring the spring in NATO's step and ensuring that Ukraine has the ability to defend itself. Much of Europe's infighting especially along its eastern edge will now be subsumed under the security umbrella as is becoming clear in Poland.

Chart 8 – Inflation Eats Away at Biden's Support

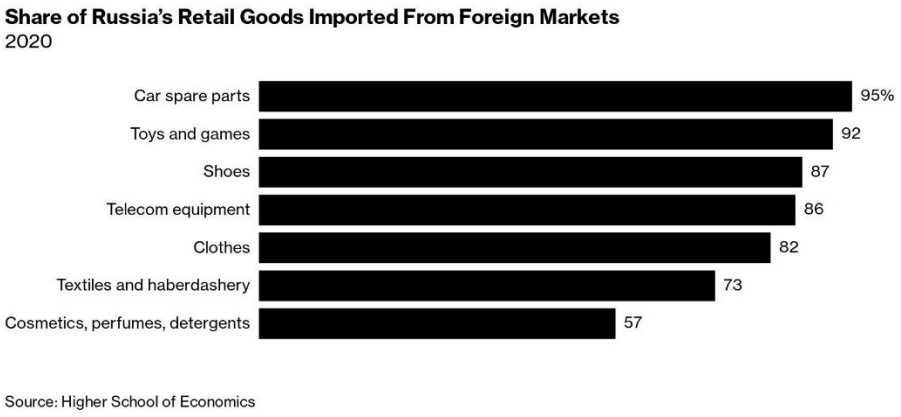


Source: Scott Galloway

Pres. Putin has had a much worse month; a victim of closed circle thinking, the master strategist or genius in former Pres Trump's memorable description, has basically seen his country turned upside down in a month. Russia is underperforming on the battlefield, is watching thousands and thousands of its best and brightest depart every week while its economy grinds to a halt due to a lack of spare parts – even his one tank factory sits idle, joining Russia's largest auto maker.

Time is not Putin's friend across any sphere and we continue to expect some sort of ceasefire in the coming weeks – Ukraine has presented written terms seeking to join the EU but not NATO with territorial issues returning to pre Feb 24th locales – in other words, a return to the status quo ante bellum. Timing would seem to be around Russia's May 9th WW2 Victory Day celebrations. The turning tide of battle would seem to lie behind Russia's decision to publicly downshift goals to the "liberation" of the Donbass. The dichotomy between Putin and Ukraine's Pres. Zelensky, a true modern hero and political leader, is as stark as can be.

Chart 9 – Time Is Not Putin's Friend



Source: Bloomberg

While Putin's flaws have been revealed in real time, the EU's strengths have likewise been made visible under Ursula von der Leyen's leadership while Germany has reversed decades of geopolitical strategic thinking under Chancellor Scholz who has become his own man in a matter of weeks. The old adage that Europe stumbles and fumbles during the quiet times but makes progress in a crisis has rarely been truer. One can of course quibble but Europe as a whole has barely put a foot wrong since Russia invaded.

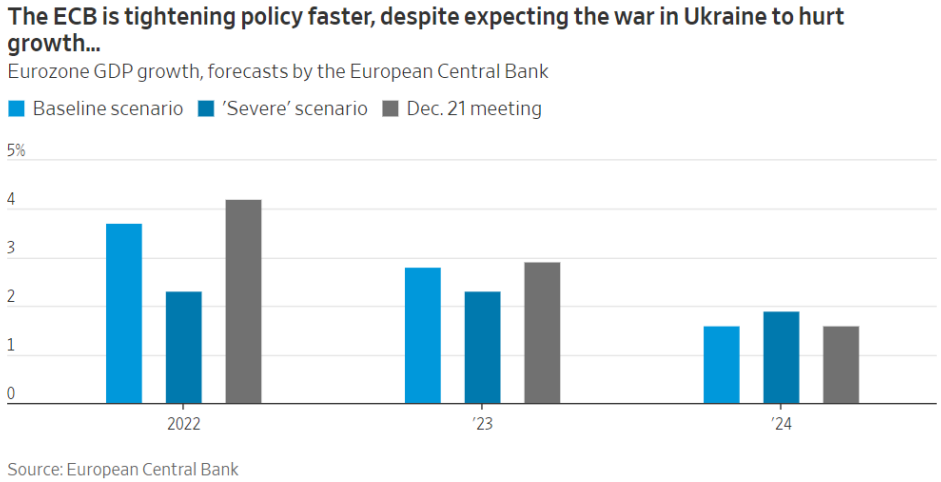
Pres. Xi is also suffering some reputational damage, largely as a result of his unlimited partnership with Putin announced weeks before the conflict began. Had Putin's invasion plan worked Xi would most likely have been fine with that – however it did not and as noted the downside of having "uninvestable" next to your name became very visible, very quickly mid-month. Xi, like Putin, is playing for big stakes, namely a 3rd term this Fall and so he has been quick to adjust course and has put himself, his Govt and China itself behind the financial markets, private companies & foreign investors in a recent fusillade of comments. Now its action time and the markets are watching & waiting.

POLICY

History is being made in European policy circles on an almost daily basis thanks to Conflict Speed. From Germany's about face on military spending and energy sourcing to the likelihood of EU sponsored joint financing of such to NATO's revitalization to the bulk of Europe committing to spend 2% of GDP on Defense it's pretty earthshattering. Should Europe move to region wide funding and taxation to finance energy security and defense it would go a long way to ensuring its regional security across both areas. The more Europe punches with its full regional weight the more it will realize the benefits of doing just that. Europe has the ability to move beyond simply responding to markets – it now has the chance to shape markets.

Its also likely to mean that Europe will grow well above pre Covid, sub 2% growth trend for the next several years. The ECB will be slow to move and in any case the markets are doing the moving for it with German BUND yields at roughly .6%, the highest since 2018. Yes, inflation is uncomfortably high but the vast majority of it is energy related and forward inflation & energy price curves suggest 2% inflation in the coming years which arguably would be a great advance for a region that has been struggling with deflation and negative rates for much of the past decade.

Chart 10 – Europe Likely to Grow Above Trend in 2022-23

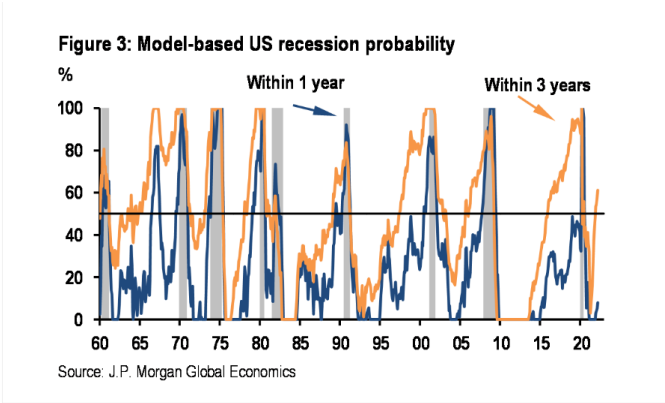


Source: WSJ

We expect Europe's policy mix to look considerably different in 3-5 years across the defense, energy, economic and political landscapes. As noted, its rate of change will be much faster than the other two regions and none of it, repeat none of it, appears to be in the price of European financial assets.

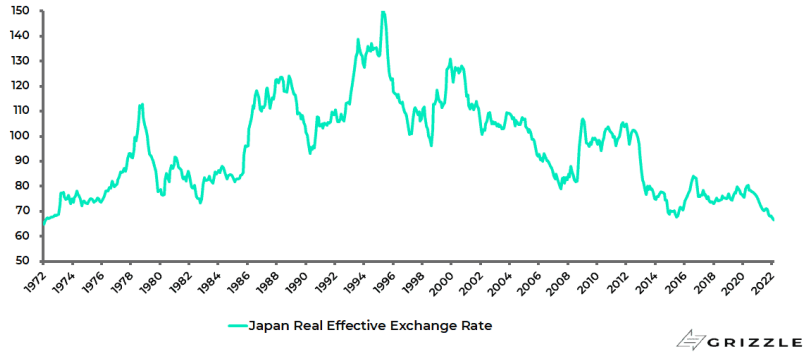
Who wants to talk about the Fed? No one, right – we have beaten that horse to death 10x over. US growth is solid and will remain above trend over the coming two years and perhaps beyond. Markets have done much of the Fed's heavy lifting for it with 2-year rates rising over 90 bp this month to well above 2%; the Fed & markets are aligned. The Biden budget is a grab bag that will likely be substantially changed before it passes Congress should passage occur. Elsewhere Brazil's policy mix is looking quite interesting as it may be one of the first Central Banks to finish its rate hiking program, having begun last year and tightened in earnest (over 1,000 bps); Brazil's real rate is well above inflation versus the negative rate structures in place in the US, Europe & much of Asia.

Chart 11 – US Recession Fear Vastly Overstated



Policy changes are front and center in Asia. What will become of all the grand statements made by China two weeks back that broke the selling fever and led to some astounding single day moves in China stocks/ETFs? Will the PBOC ease, will direct fiscal stimulus be employed to support growth? What about Zero Covid? There are many questions to be answered in the coming weeks in China – to our mind the die has already been cast and so we expect action. The same can be said in Japan where the BOJ is having to defend its yield curve strategy as rates rise and the yen weakens. PM Kishida is expected to announce a large stimulus package which combined with a yen that in real effective exchange rate terms is back to levels last seen in the early 1970s suggests the potential for BTE growth in Japan is far from being appreciated by financial markets.

Chart 12 – Japan's Yen Back to 1970s Level



MARKETS

Following a very tough few weeks and months, global risk assets rallied nicely during the 2nd half of March, restoring some technical equilibrium & suggesting that perhaps the worst of the mind term year correction may be behind us. Having had to consider the highest inflation readings in 40 years & nuclear war among other issues, a long bout of elevated volatility across assets does suggest that markets have faced many demons and discounted them appropriately. The S&P ended down for the 1st Q in 8, US bonds had their worst quarter in over 40 years while Commodities in turn enjoyed their best quarter in more than 30 years – an asset allocation "Golden Age" indeed.

Chart 13 – Rough Start, Better Finish?

Figure 6: Worst starts in last 95 years

Using Daily Data, As of 15 March 2022 Close

Worst Starts Since 1927 (As of 3/15)

#	Year	Events	YTD	3/16 to YE
1	2009	GFC	-16.2%	47.4%
2	2020	COVID	-16.1%	38.5%
3	1935	New Deal	-13.4%	63.2%
4	2008	GFC	-12.3%	-29.9%
5	2022	Current	-11.2%	?
6	2001	TMT	-11.1%	-2.2%
7	1982	Oil Crisis	-10.7%	28.5%
8	1960	Autos Recession	-8.6%	6.2%
9	1948	Post WWII Rec.	-8.1%	8.1%
10	1968	Post-Korean war	-7.6%	16.6%

Source: J.P. Morgan Equity Macro Research

We have made limited changes to our two model portfolios over the past few months, believing that growth would remain above pre Covid trend levels and that slowing growth does NOT means low growth. In addition, continued negative real rates offset much of the yield curve inversion hype as does the history that suggests equity markets can do quite well for a considerable period of time once the curve inverts. In fact, LPL points out that over the last 4 YC inversions the S&P rose close to 30% post inversion before peaking and the peak was 17 months later with recession beginning 21 months post inversion. Very low earnings expectations with many sell side firms cutting US and EU 2022 EPS estimates from high to low single digits even though growth on nominal terms will be in the 6-8% range also strikes us as a very low bar to beat. As we wrote last week, the pessimism is so thick as to seem almost irrational though understandable given the rolling series of crises long only managers have had to deal with.

We remain therefore fully invested believing that cash is a guaranteed real loss given inflation and for all its touted optionality one still has to decide to employ it and it's doubtful that many did at the March lows. The past month or so has reinforced our long standing POV that one needs to be able to ride thru potholes, even deep, 10% + SPY & near 15% ACWI drawdown type potholes unless one feels the fundamentals underpinning one's investment perspective have truly changed. It's not easy – there are some rough nights - but if that wasn't the case then everyone would be doing it – remember diamond hands and YOLO investing?

Chart 14 – Don't Fear the Inversion

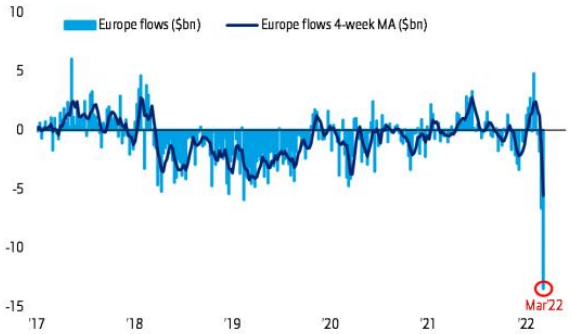
...the key is that equities tended to peak for the cycle only some time after the curve inverts, up 15% in the interim...

Yield Curve inversion date (10-2Y)	# months between			SPX move from yield curve inversion to the market peak
	Yield curve inversion & SPX peak	SPX peak & recession	Yield curve inversion & recession	
Dec-67	11	13	24	14%
Mar-73	-2	10	8	-4%
Aug-78	18	-1	17	13%
Dec-88	19	0	19	34%
Feb-00	2	12	13	8%
Jan-06	20	2	23	22%
Aug-19	6	0	6	18%
Median	**11**	**2**	**17**	**14%**
Average	**11**	**5**	**16**	**15%**

Source: JP Morgan

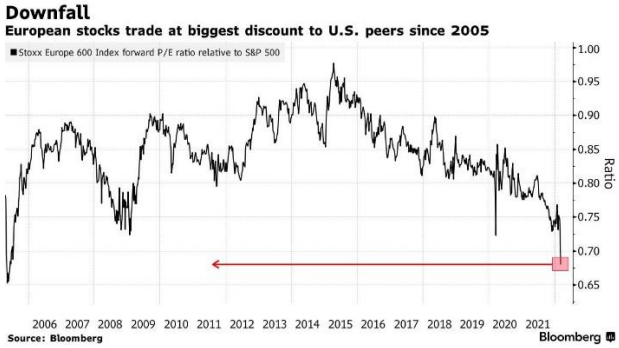
Our Global Multi Asset (GMA) model remains fully invested, overweight equity, deeply UW bonds and OW Commodities. As we have written recently, we see opportunity in several specific buckets: European equity which has been dumped like last week's garbage & is selling very cheaply with low expectations. That makes it tactically attractive while the upside for post invasion European integration and cohesion suggests a strategic opportunity as well. The combination of the two is rare and very compelling.

Chart 15 – European Equity – A Tactical Opportunity



Source: BofA

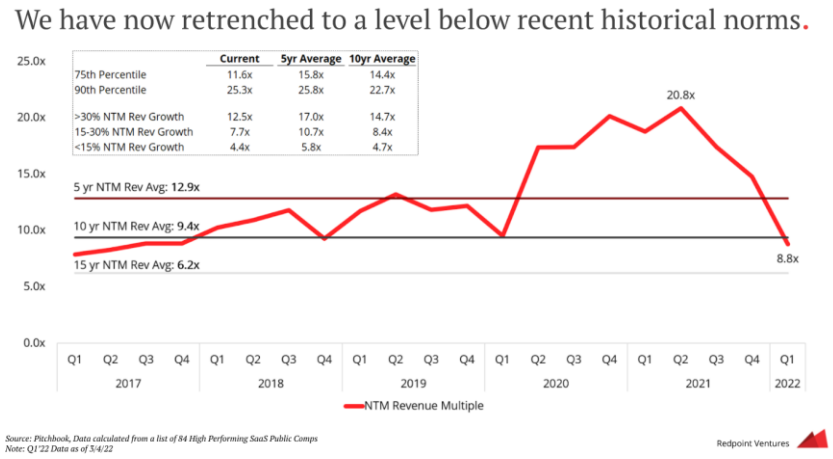
Chart 16 – European Equity – A Strategic Investment Opportunity



Along the same lines we see significant opportunity in the thematic, climate & disruptive tech space, especially as our conviction grows in the above trend growth outlook for the 2022-2025 period. After Europe we believe this space is the big beneficiary of the 3Cs acceleration process. Universally hated, massively oversold, with public companies trading at a significant discount to the private market comps, we started to add to this space last month and expect to continue to do so, benefitting from the insights provided by our 2nd model, the TPW 20 100% thematic model portfolio.

The public – private market valuation divide is likely to prove important in helping to build a public market bottom for this space. A recent example is illuminating: Instacart's recent private market valuation cut – a 40% drop from its last fundraising a year ago, may be a harbinger of the future as private catch up to the public markets which have been in a yearlong bear market. It's worth noting that even post cut, Instacart still sells at a near 50% premium to its public market competitor Door Dash, which following its own 40% drop in public market value, sells at 7.5x P/S vs Instacart's over 13x P/S. Along the same lines, secondary marketplace Forge reported that prices for companies that traded on its platform both in the fourth quarter and in February declined roughly 10%, and that the percent of indications of interest (IOI's) on the sell side was 60%, the highest level since the depths of the coronavirus crisis during the first quarter of 2020 and a stark reversal from the 60% of buyer IOI's in 2021.

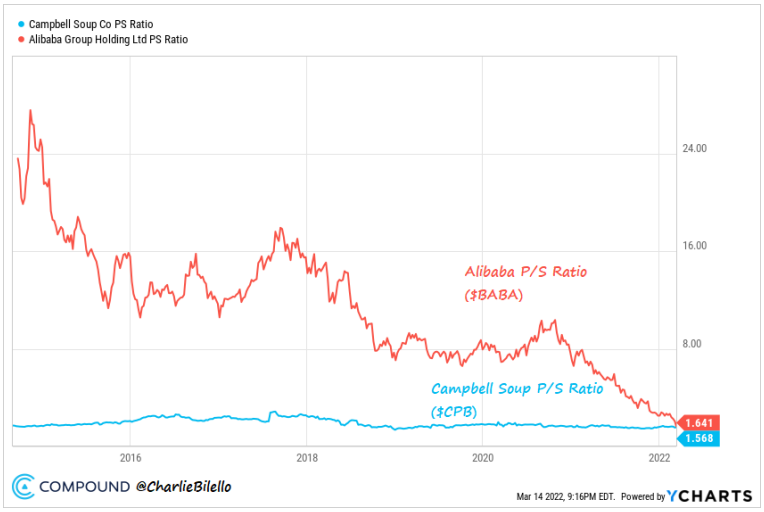
Chart 17 – Public Market Fast Growth is Cheap



While some worry about the simultaneous ending of very low rates, low tax rates and the end of globalization we see very low earnings expectations and historically cheap valuations outside the US as suggesting the opportunity is offshore for US-based investors, a significant change from the last decade of US tech led outperformance. MS for example points out that while hedge fund exposure to energy and materials is close to its highest level over the past year, it is only in the 30-40% level when going back over the past decade. We concur and think these trends, from growth to Value, from US to non-US, are in their very early stages.

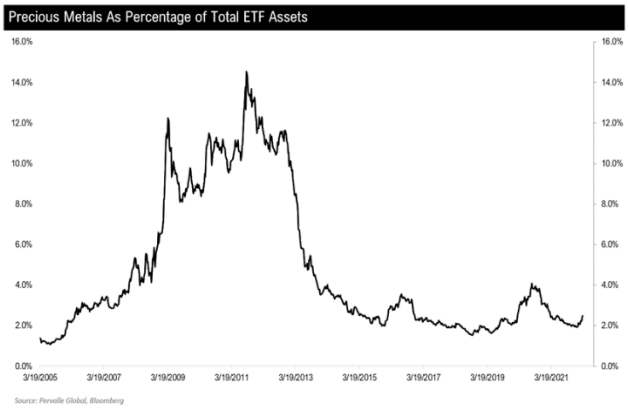
We also see opportunity in Chinese assets – here too the pain has been significant and scary at times which led to March 16th's swift reversal as leading Govt officials verbally supported key segments of the equity market including property and tech. The China story is the same story as European equity & disruptive tech – massively oversold, cheap as it has been in 20 years vs ROW with tech companies trading at a 60% discount to US comps. Our favorite example remains Alibaba trading at the same P/S as Campbell Soup suggesting that not only is BABA very cheap but that US defensives are very expensive. MS notes that MSCI China trades at 1.1 x BV, a 20 yr. low and a 60% discount vs MSCI ACWI trading at 2.8x. The firm goes on to note that long only global equity investors hold 2% in China/HK equity vs an ACWI weighting north of 4%.

Chart 18 – Cheap China Tech vs Expensive US Defensives



Gold is another very interesting opportunity given the global Central Bank rethinking of reserve policy post the freezing of Russian CB reserves. We have been and remain long the gold miners while also long the broad commodity space across metals, energy, ag etc. We believe we are early in bear market for DM sovereign debt and likewise early in a Commodity secular bull market. Many commodities are up anywhere from 50-100% over the past year – such appreciation is unlikely in the year ahead but gains from miners, drillers, clean energy plays etc. are quite likely as stocks have lagged the primary commodity in many instances.

Chart 19 – Stocks Lag Primary Commodities



Source: Pervalle Global

We are carefully watching the USD which continues to hover around 98-99 on DXY. EM FX has held up much better than folks looking at the recent past had expected, in large part because many, such as Brazil and Mexico, have inoculated themselves against the rate hiking cycle by raising rates considerably beginning last year. Brazil may well conclude its tightening cycle in the coming months as inflation is expected to peak soon. Its currency has been among the worlds' strongest ytd – we remain long Brazilian equity. We expect the USD to follow its historical path of weakening during rate hiking cycles, providing further upside to commodities and non-US equity. It's worth noting that according to the OECD and its PPP analysis, fair value for the Yen is 96 vs its current 123, making it more than 25% undervalued, second only to the Euro's 32% undervaluation.

Chart 20 – Dollar Weakness to Support Non-US Equity, Commodities?