



# Top 10 Global Investment Themes

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# Our ABC of Investing Philosophy

## A

### Adopt a Speculative Mindset

- We overestimate our forecasting abilities.
- Investing with a time horizon and selling discipline
- Data driven.

## B

### Be Imprecise

- Brains wired to look for certainty
- Analyze in terms of a broad ranges
- Be critical of return peddlers

## C

### Combine Multiple Indicators

- Use multiple objective indicators
- Weight of evidence

# Executive Summary

## SECTION 1 | CYCLICAL OUTLOOK

- 1** Paid to be Patient – After more than a decade, **HNI** finally have real yields.
- 2** We evaluate markets cyclically using value, momentum, liquidity, and sentiment. Our traffic light indicator shows all markets at yellow
- 3** Valuations are now reasonable in the US with **benign long-term inflation expectations @ 2.2%** – The two-year drops in operating P/Es are the biggest on record & three sectors were responsible for most of the decline in 2022.
- 4** Liquidity indicators are negative. The road to a 2 % inflation can be rocky and longer than anticipated
- 5** EM valuations are not cheap and trend models remain negative. Relative liquidity and positioning are positive.
- 6** After its underperformance, India's valuations have adjusted, but trend models have not turned around.
- 7** We cannot rule out a goldilocks scenario in the US by the end of the year.

# Section 1

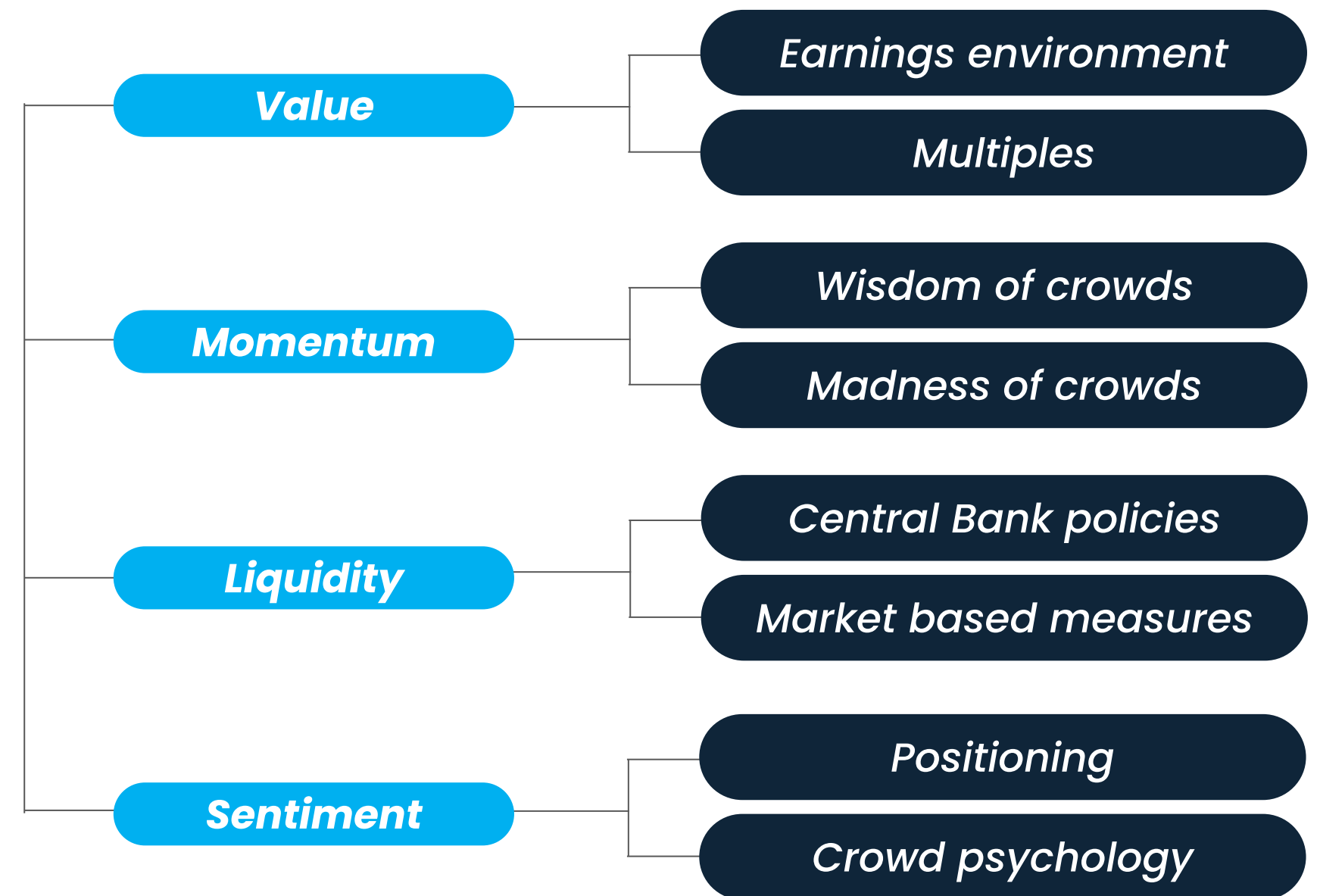
## CYCLICAL OUTLOOK



# Multiple Lenses to assess Cyclical Outlook






















// Doublethink means the power of holding two contradictory beliefs in one's mind simultaneously, and accepting both of them.

► CYCLICAL  
ASSESSMENT



# Cyclical Assessment

## COMPARITIVE MATRIX

	US	EM	India
<b>Momentum</b>			
<b>Liquidity</b>			
<b>Valuation</b>			
<i>Earnings Growth Environmnet</i>			
<i>Multiples</i>			
<b>Sentiment</b>			
<b>Overall</b>			

As of 22/02/2023

## MOMENTUM

- US- breadth is supportive, while trend models are incrementally slowing down.
- EM & India - Both absolute and relative trend models are not supportive.

## VALUATION

- India deserves a higher multiple to EM , Higher ROE & growth and lower risk of state capitalism
- Upgrades are highest in India

## LIQUIDITY

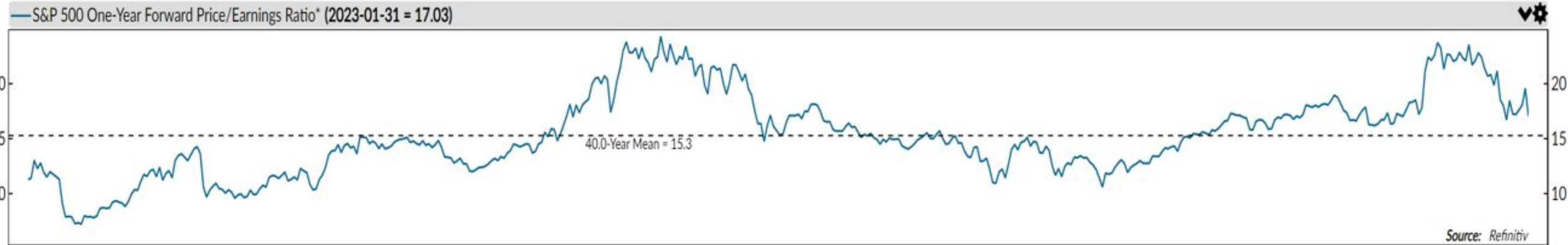
- China's liquidity indicators are positive compared to the US
- Market-based liquidity indicators in the US continue to come down

# Significant Multiple Compression over 2 years . . .

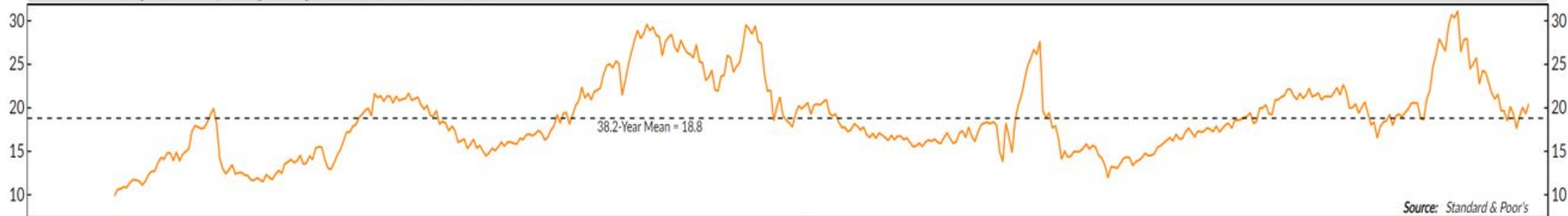
Value

S&P 500 Forward vs. Trailing Price/Earnings Ratios  
(Customized client version of [S662](#))

Monthly Data 1983-02-28 to 2023-01-31  
1y 3y 5y 10y 20y Max Custom

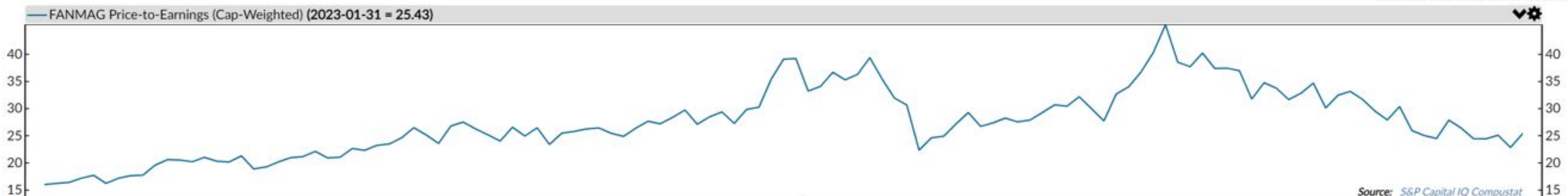


— S&P 500 Trailing 4Q Price/Operating Earnings Ratio\*\* (2023-01-31 = 20.51)



FANMAG Price-to-Earnings and Price-to-Sales  
(Customized client version of [DAVIS231A](#))

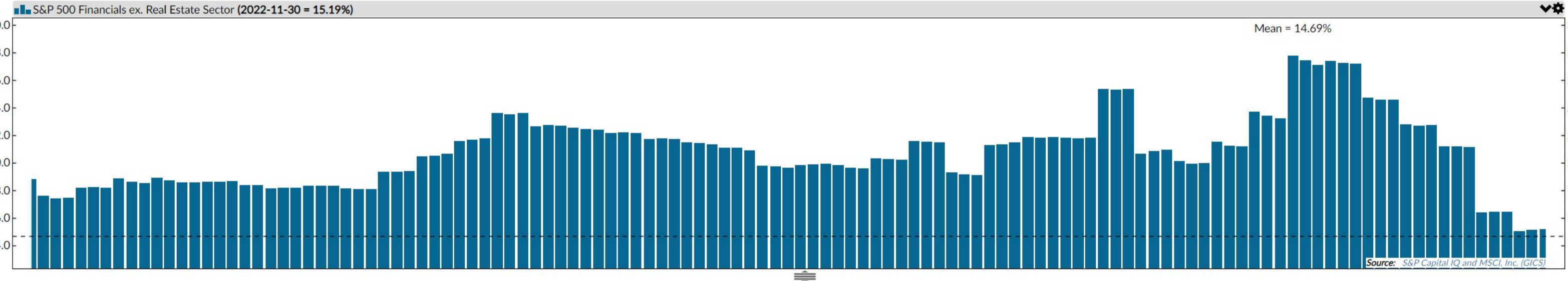
Monthly Data 2013-01-31 to 2023-01-31  
1y 3y 5y 10y Max Custom



# ... while quality of earnings have improved

S&P 500 Financials ex. Real Estate Sector Earnings as a Percent of S&P 500 Earnings  
(Customized client version of [BA555G](#))

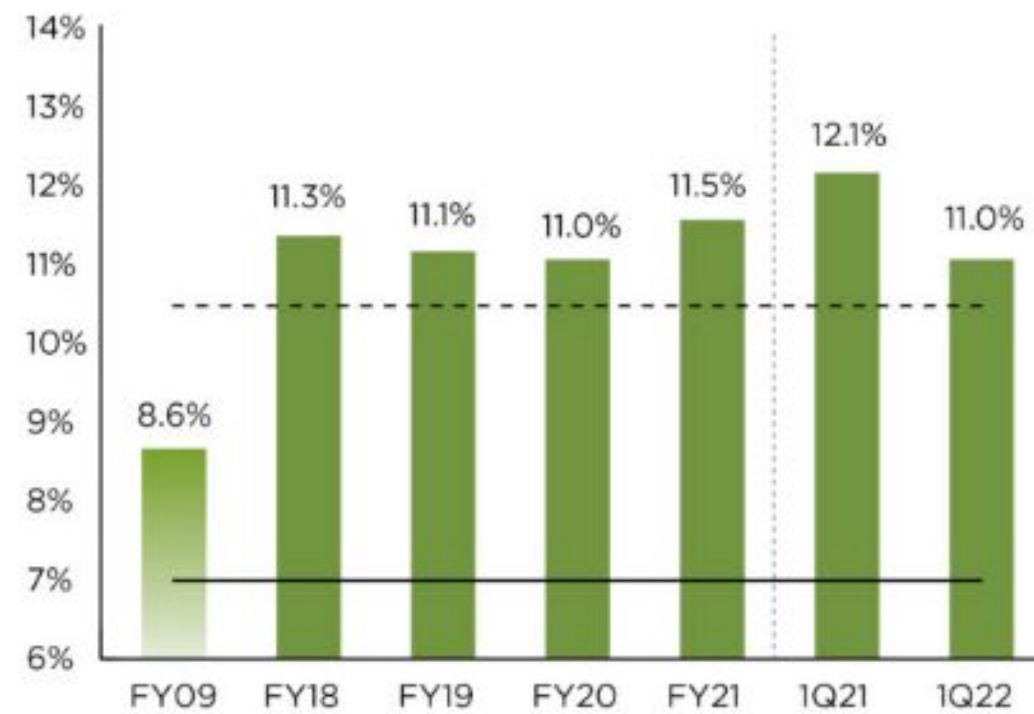
Monthly Data 2012-11-30 to 2022-11-30  
1y 3y 5y 10y 20y YTD Max Cu



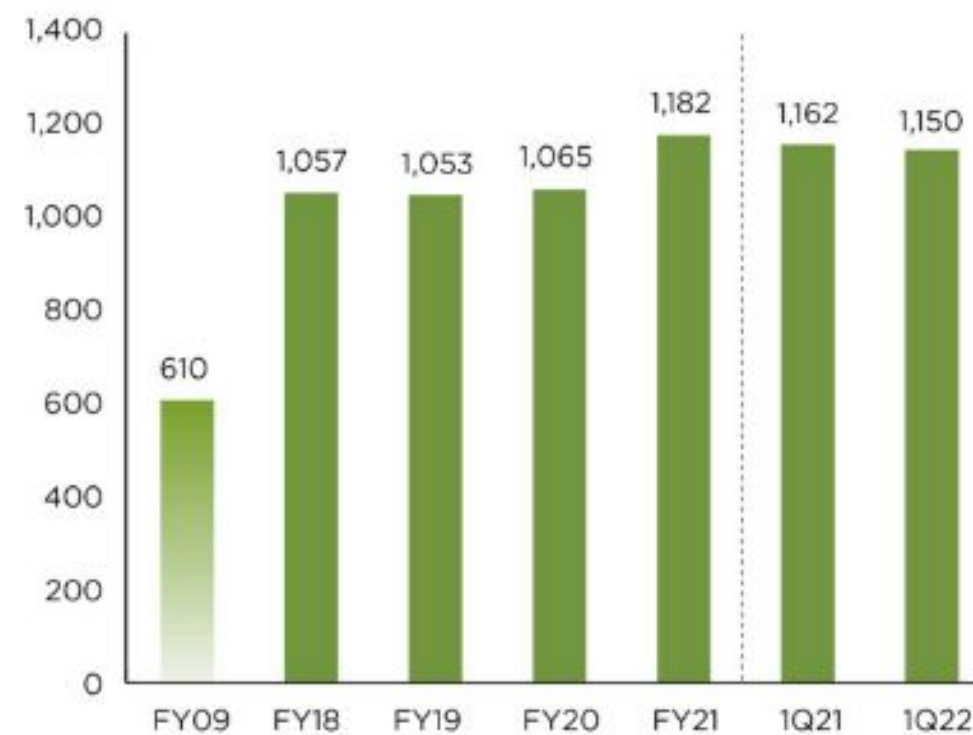
Value

**CET1 Capital Ratio - All CCAR Firms**

■ All CCAR Firms — G-SIB Max - - - B3 Min



**CET1 Capital (\$B) - All CCAR Firms**

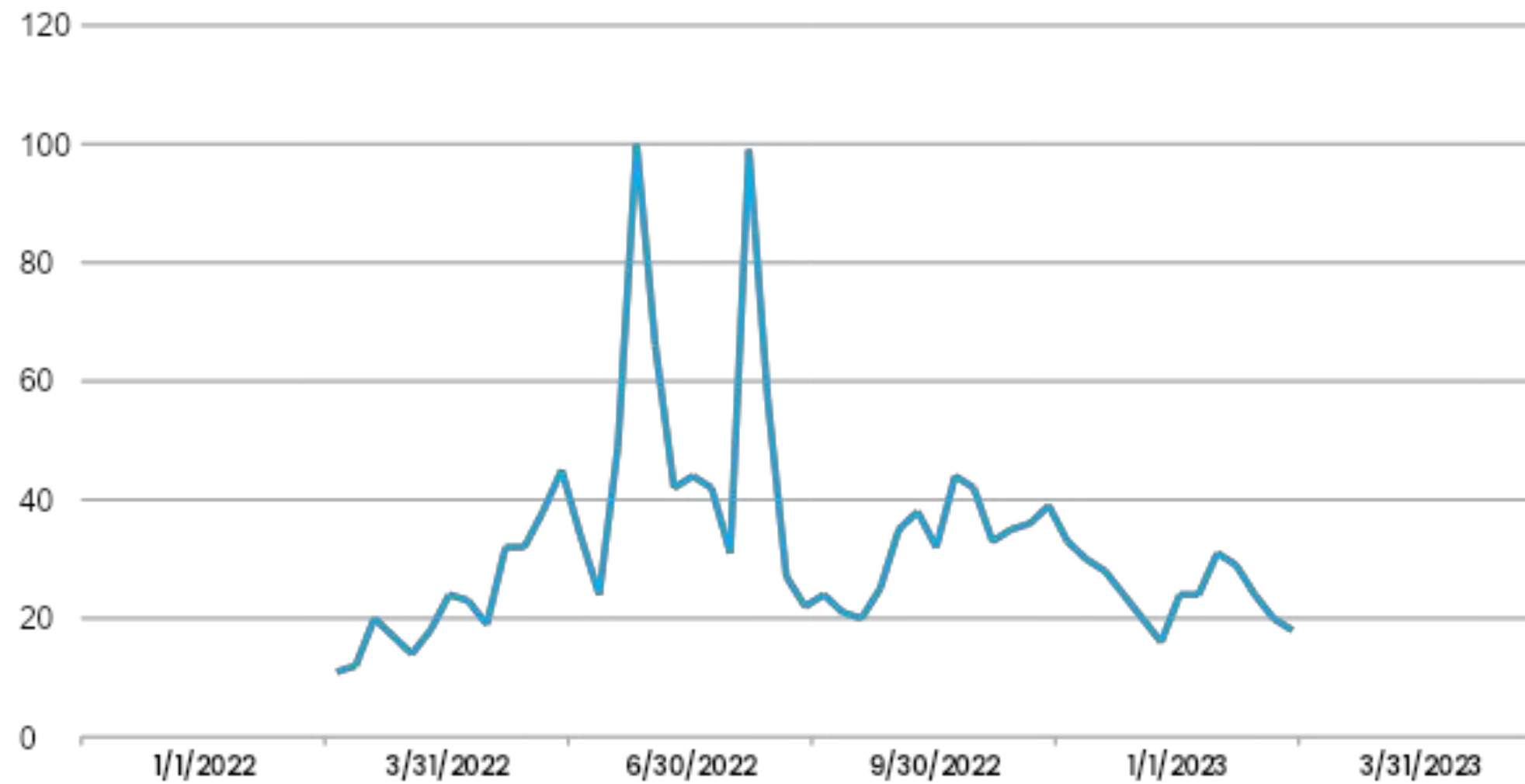




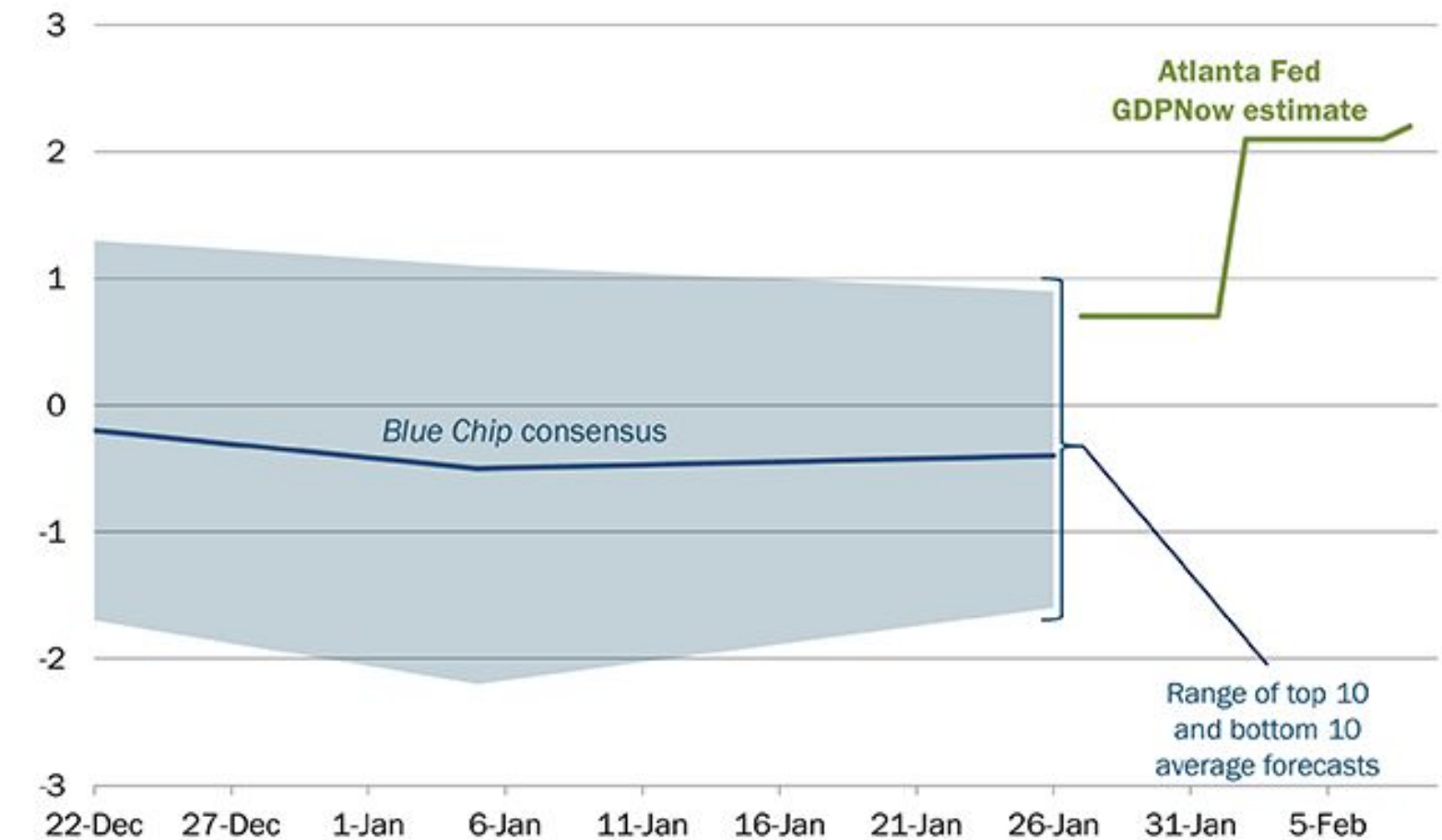
# Growth upgrades – Wall Street took the recession narrative too far

## Valuations

Google searches for recession in last 12 months

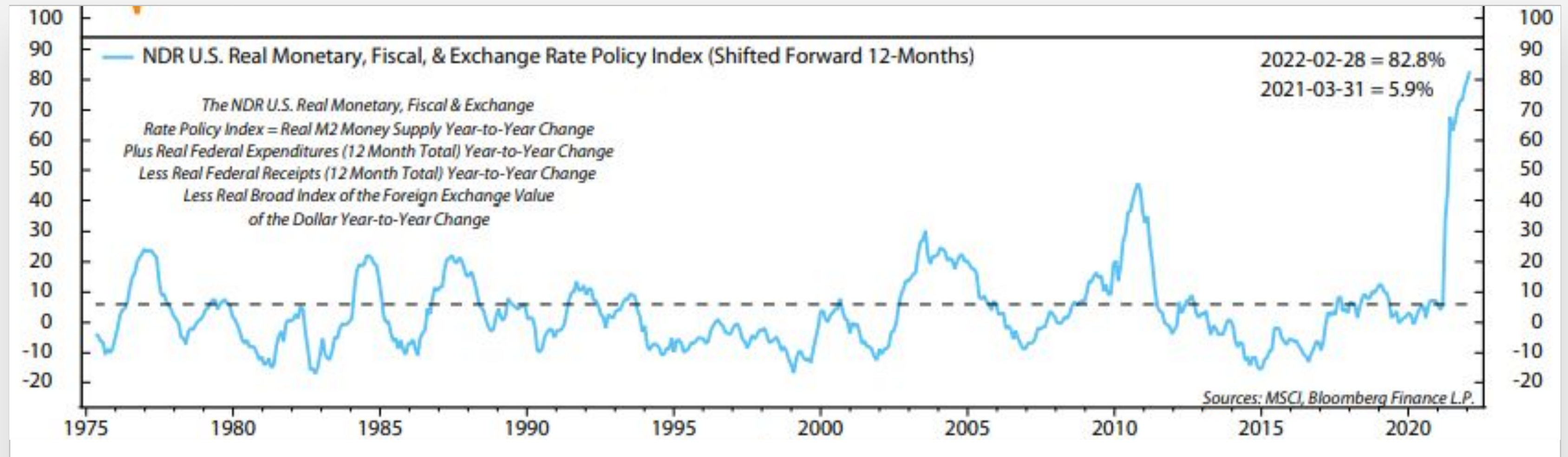


Notable divergence between Atlanta Fed GDP estimate and Blue Chip consensus forecasts



## The shortest recession required a stimulus of nearly 40% of GDP

*Liquidity*



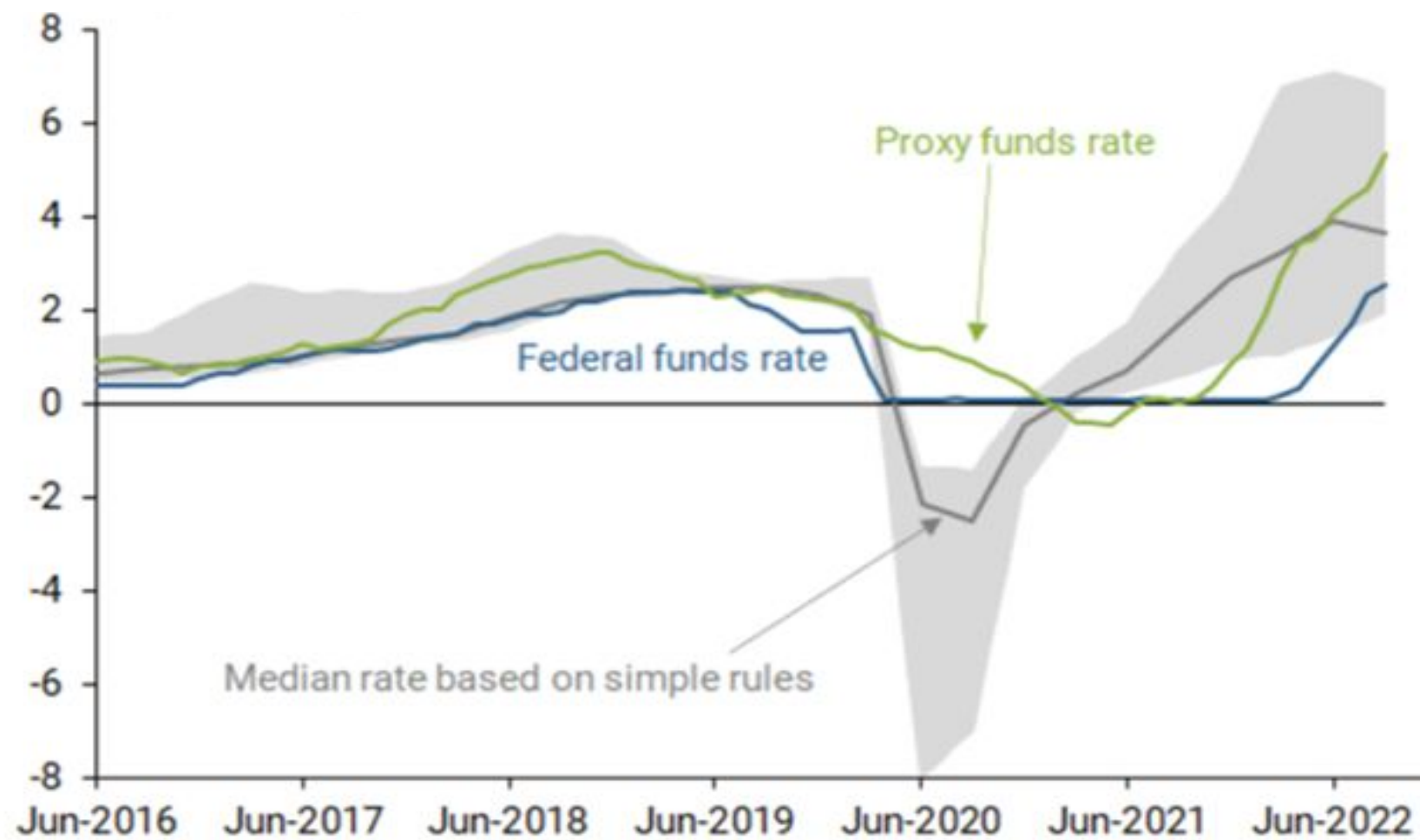


# The good news – Monetary policy has tightened considerably

*Liquidity*

Comparing proxy and funds rate with monetary policy rules

Percent (annualized)

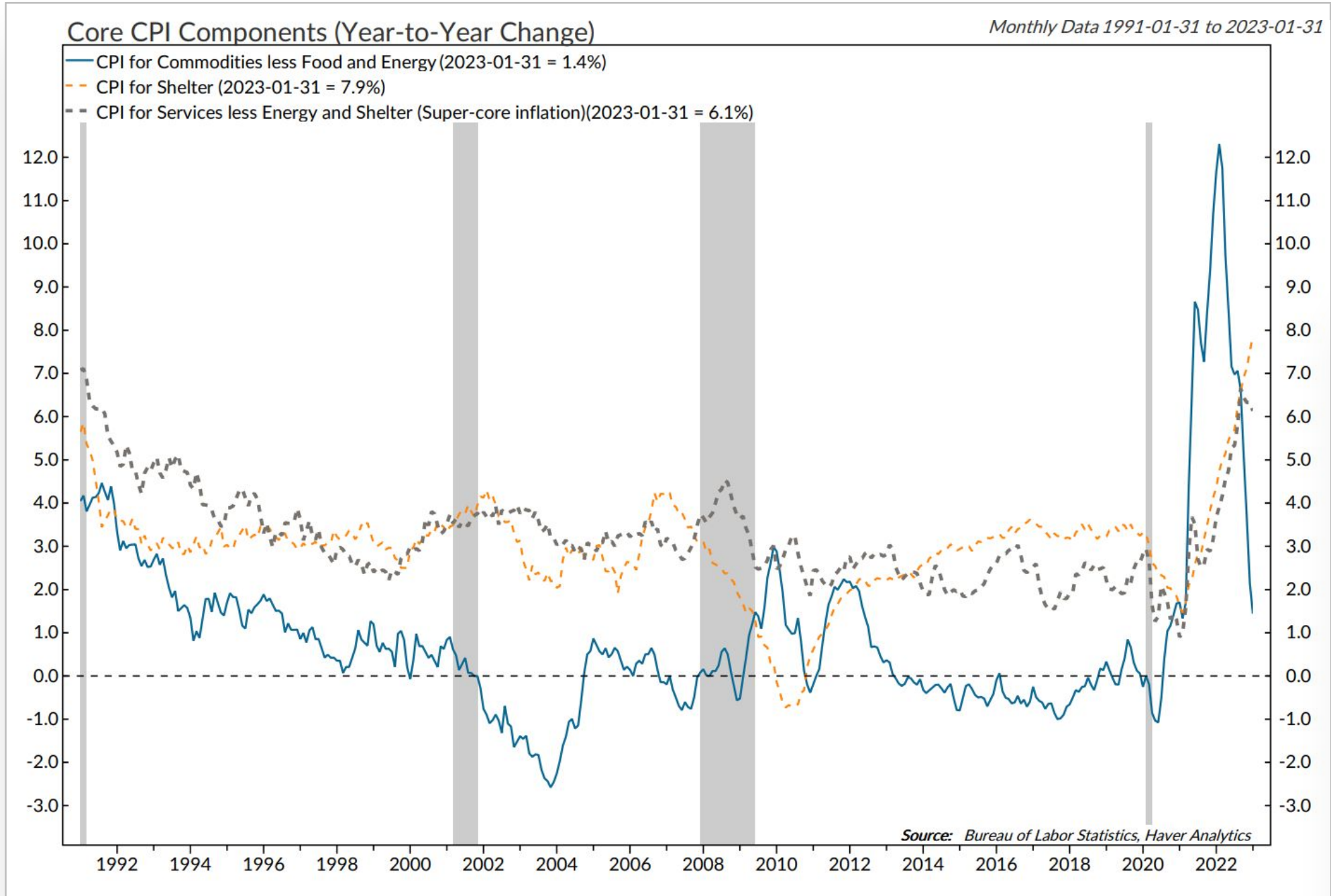


Structural disinflationary forces remain intact





# But Road back to 2.0% inflation will be bumpy and may take longer than anticipated



Measure of underlying inflation	12-month growth rate		Average difference Measure - Core PCE	Target based on 2% Core PCE	Stats for 1-mo growth rates (2009–2019)			
	Jan-22	Jan-23			Mean	Median	P25	P75
Core CPI	6.1	5.5	0.3	2.3	1.9	2.0	1.3	2.5
FRB Cleveland Median CPI	4.5	7.1	0.6	2.6	2.2	2.3	1.9	2.5
FRB Cleveland 16% Trimmed-Mean CPI	5.5	6.6	0.3	2.3	1.9	1.9	1.3	2.4
Atlanta Fed Sticky CPI	4.2	6.7	0.5	2.5	2.1	2.2	1.7	2.6
Core PCE	5.2	4.4	0.0	2.0	1.6	1.5	1.1	2.1
Market-Based Core PCE	4.8	4.8	-0.2	1.8	1.4	1.3	0.8	1.9
FRB Dallas Trimmed-Mean PCE	3.6	4.4	0.1	2.1	1.7	1.8	1.3	2.0
FRB San Francisco Cyclical Core PCE Inflation	5.8	7.4	0.7	2.7	2.3	2.5	2.0	2.8
Cyclically Sensitive Inflation (Stock and Watson (2019))	4.8	6.8	-0.1	1.9	1.5	1.5	1.0	2.1

\*CPI-based measures last updated on February 14, 2023 with data through January 2023. PCE-based measures last updated on January 27, 2023 with data through December 2022. Median, P25 and P75 statistics of FRB San Francisco Cyclical Core PCE Inflation are based on 12-month growth rates.  
Sources: Bureau of Labor Statistics; Bureau of Economic Analysis; Federal Reserve Banks of Atlanta, Cleveland, Dallas, and San Francisco; Stock and Watson (2019); staff calculations

Measure is within target range (-/+0.25 from target)

Measure is between 0.25 and 0.50 ppt below target

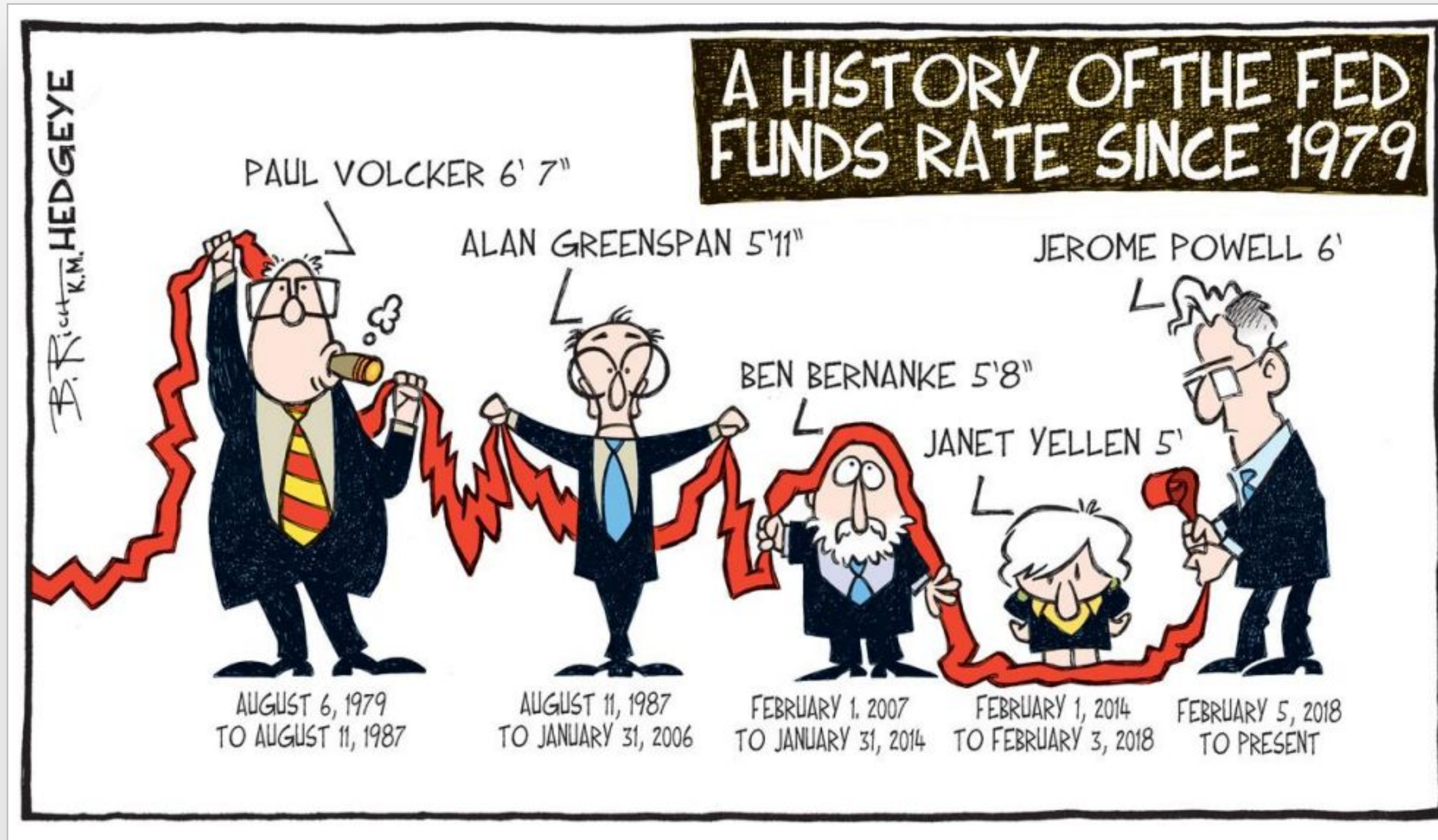
Measure is more than 0.50 ppt below target

Measure is between 0.25 and 0.50 ppt above target

Measure is more than 0.50 ppt above target



# New metrics to determine Fed pivot.

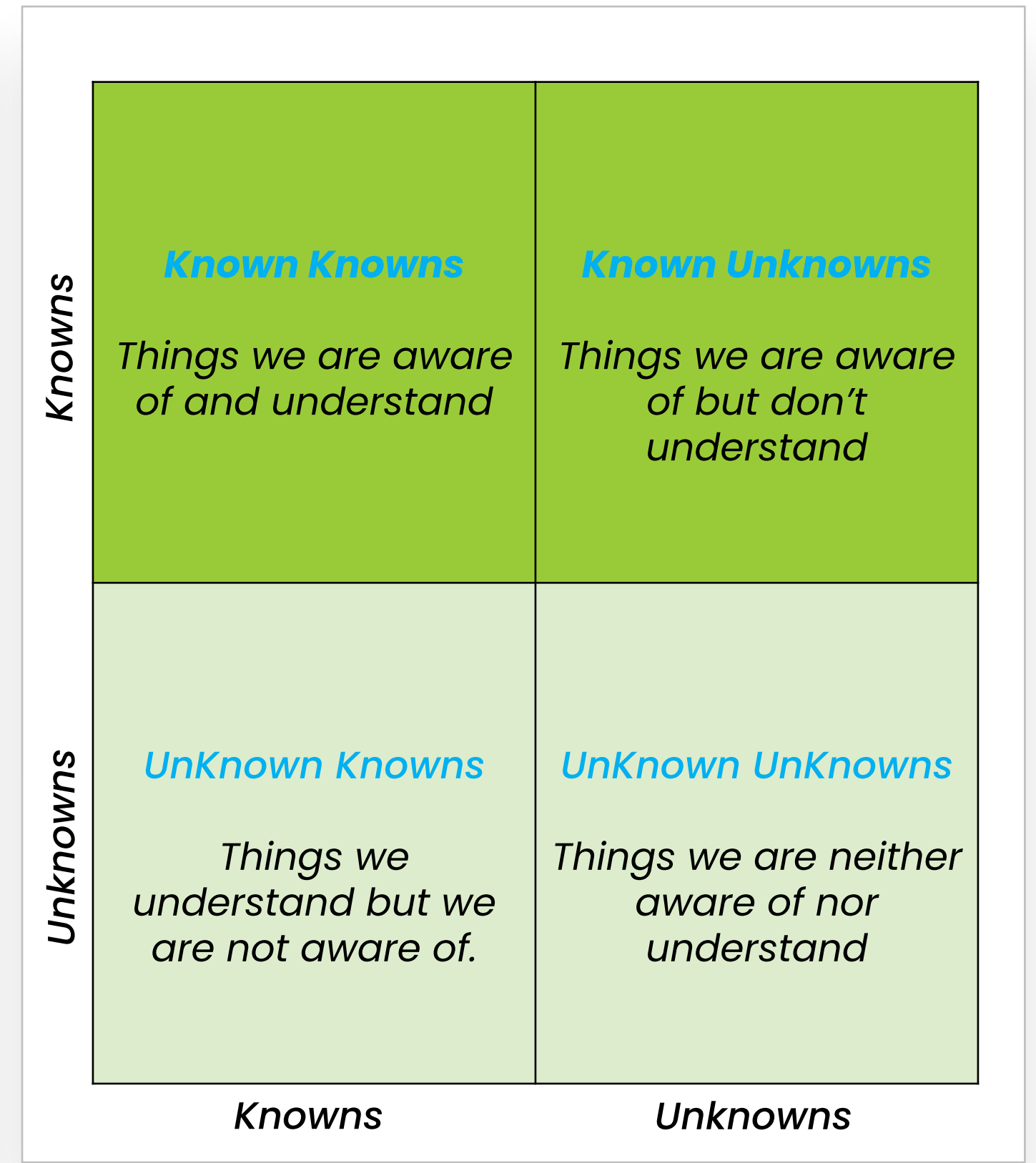
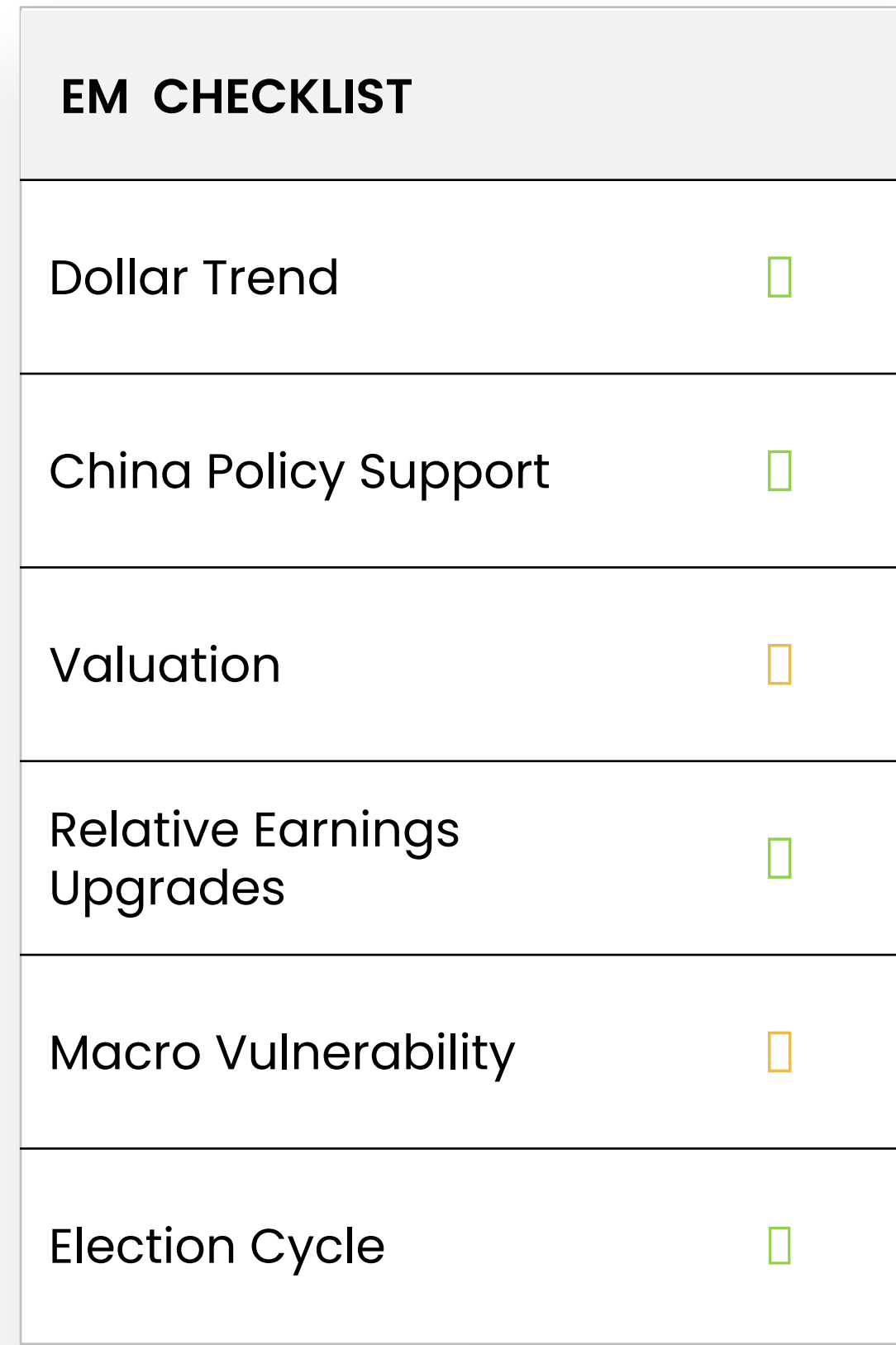


**Kashkari thinks rates should be higher because frozen lasagna prices are too high**

– Kashkari told CNN that a tray of frozen lasagna he buys frequently now costs \$21, up from \$16. “I pay attention to grocery prices. There is this large tray of lasagna that I used to buy that used to cost around \$16. Now it’s around \$21. That’s my own little measuring stick of how inflation is going”

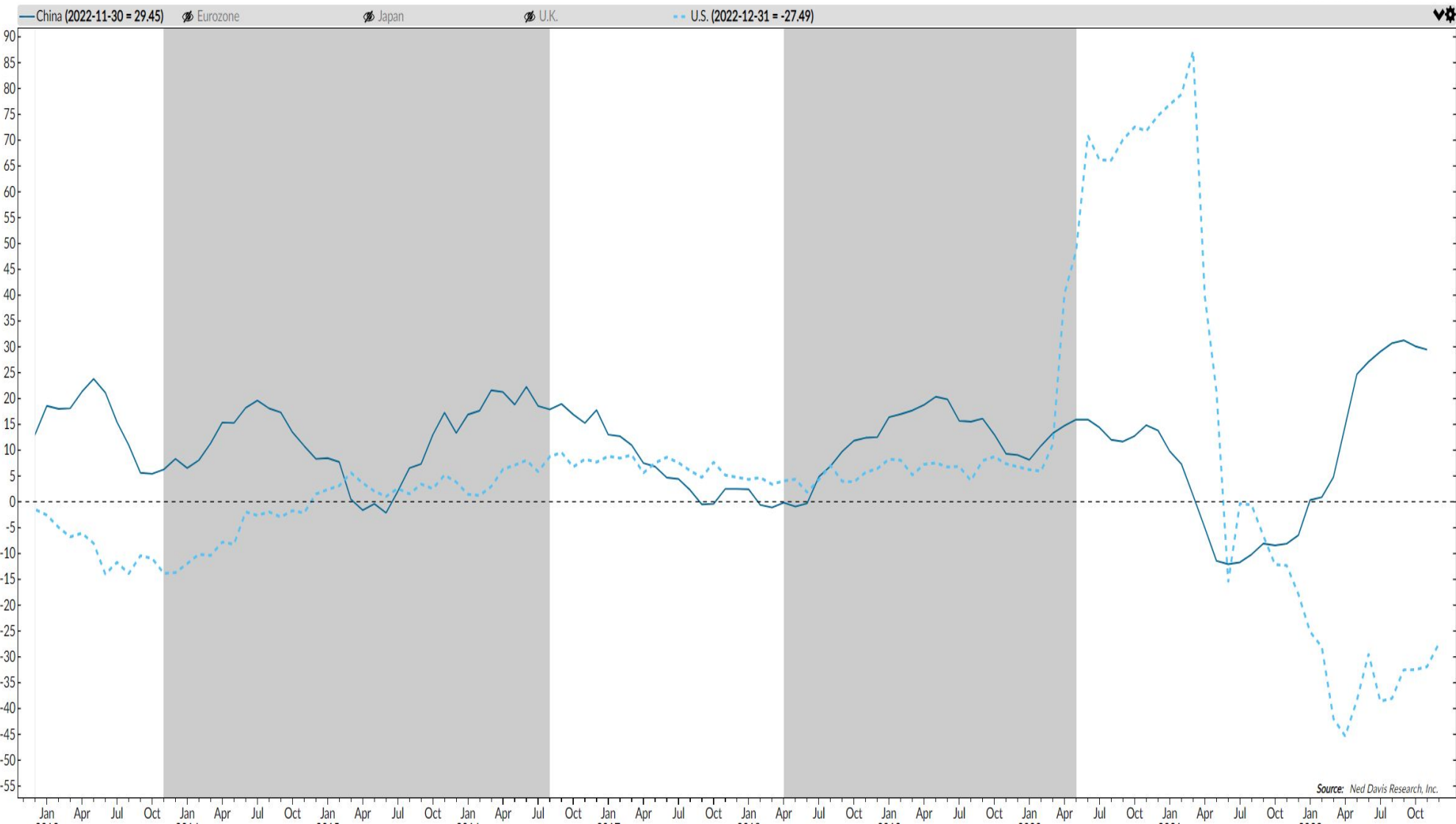


## But Be ready to start swiping soon

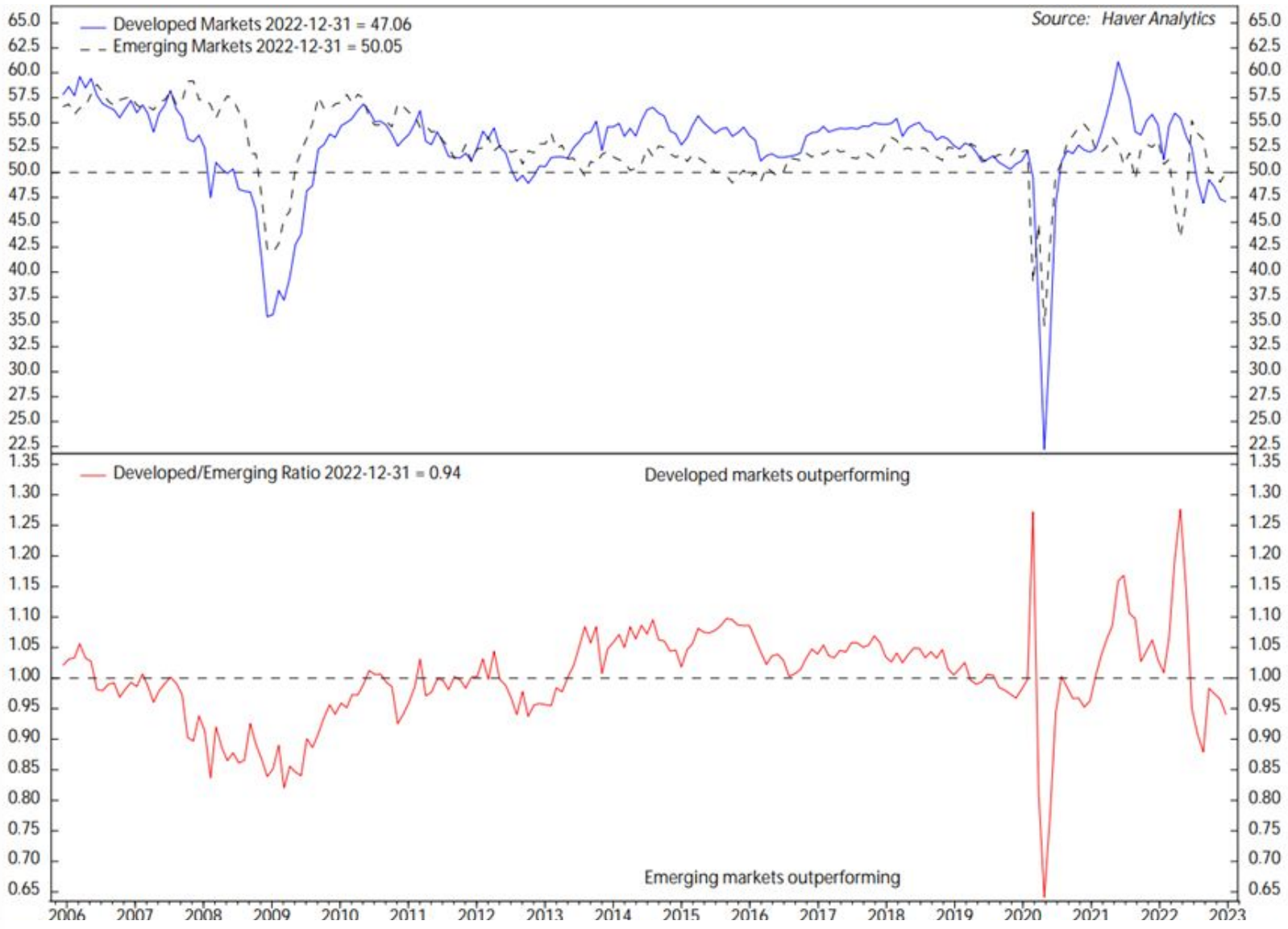


# Relative Liquidity and economic momentum are supportive for EM

NDR Real Monetary, Fiscal and Exchange Rate Policy Index for Select Major Economies



Developed Markets vs Emerging Markets Composite Purchasing Managers Index (PMI)





# China: positive signs but deteriorating US-China relations

## Covid Deaths Fall Nearly 80% From January Peak, China CDC Says



**What's new:** The number of Covid deaths in China has dropped nearly 80% from a peak this month and the number of critically ill Covid patients fell 72% from its daily peak, according to the Chinese Center for Disease Control and Prevention (CDC).

In a statement published Wednesday, the CDC said Covid deaths in Chinese hospitals declined to 896 on Monday from a peak of 4,273 on Jan. 4. Meanwhile, the number of seriously ill patients in hospitals fell to 36,000 on Monday from a peak of 128,000 on Jan. 5.

In addition, the number of positive cases reported daily by regional authorities peaked at nearly 7 million on Dec. 22 and dropped to a low of 15,000 on Monday, the statement said, referring only to Covid-related figures on the Chinese mainland.

## China Wraps Up Two-Year Tech Crackdown, Top Official Says

By Liu Ran and Han Wei



Guo Shuqing

China's more than two-year clampdown on its sprawling internet sector is coming to an end, according to a top central bank official.

The special campaign to rectify 14 internet platform companies' financial businesses is basically complete with few remaining issues to resolve, said Guo Shuqing, Communist Party secretary of the People's Bank of China (PBOC).

Further supervision of the sector will be normalized, and support will be given to help platform companies play a bigger role in job creation and global competition, said Guo, who is also chairman of the China Banking and Insurance Regulatory Commission (CBIRC).

The statement was the first signal from a top regulatory official that the government is winding down a massive clampdown that affected the country's biggest internet companies including Alibaba Group and Tencent Holdings.

Beijing took aim at the country's most valuable companies starting in October 2020, warning that platform operators might abuse their power and

## The Chinese Communist Party Wants the Property Bubble Back

Personal and political fortunes were made in two decades of real estate madness.

By **Robert Foyle Hunwick**, a United Kingdom-based writer.



The Evergrande Changqing community is seen in Wuhan, China, on Sept. 26, 2021. GETTY IMAGES

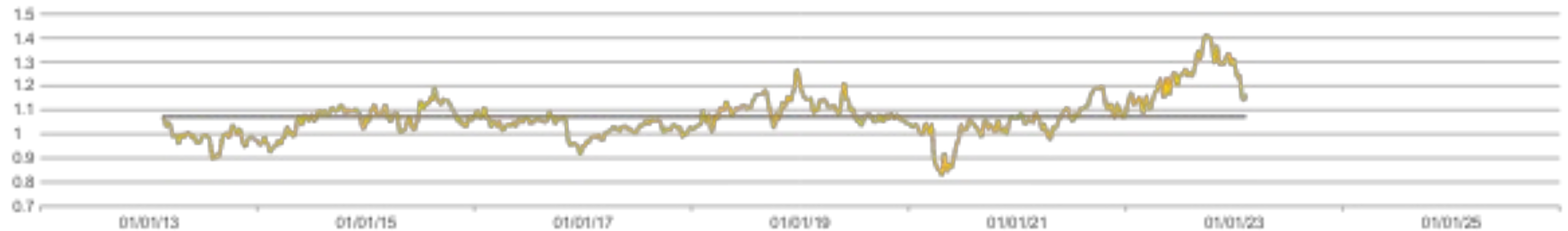
JANUARY 10, 2023, 1:41 PM

On the edge of Beijing, 14 real estate developers stretch from the city center and beyond.

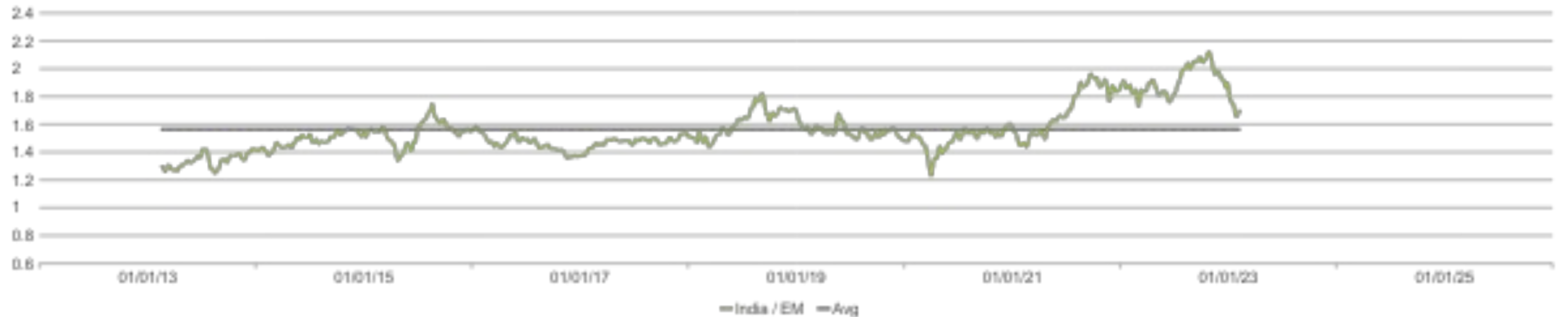


# India – Relative valuations are now near average

India Relative to US



India Relative to EM

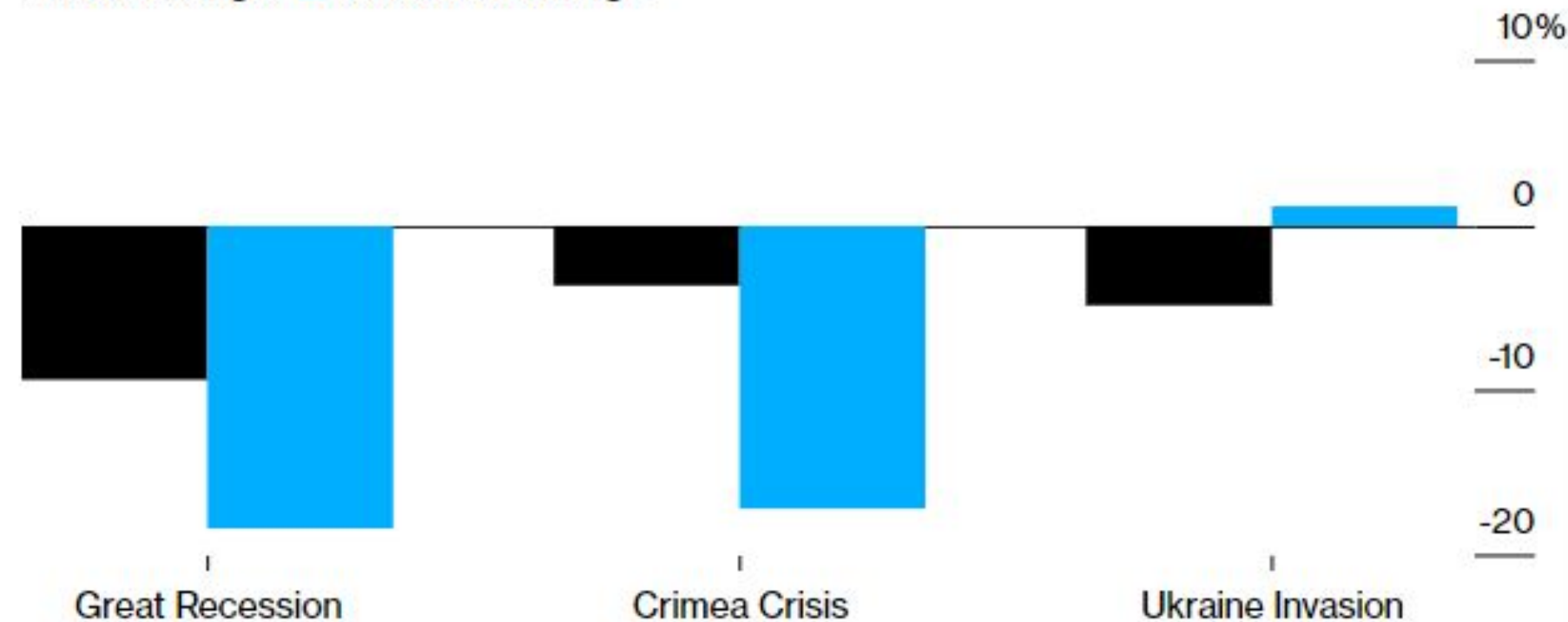


# Indian Companies to benefit from “Reverse industrialization” Trade

## Russian Investment Is Recession-Proof This Time

Companies boost capital spending to adjust to sanctions

■ GDP change ■ Investment change



Source: Bloomberg Economics

\*Shows total change from peak before decline to end of decline

- Europe Exports To Russia was about 100 billion \$ , ~36% of Russian Imports
  - Machinery (21.8% of the total value of its exports to Russia) , vehicles (10.0 %), pharmaceuticals (9.0 %) and electrical machinery (8.5 %)
- China's exports to Russia were up 17.5 percent year-on-year taking market share from EU
- We are seeing significant demand from Indian mod cap manufacturing companies

## Section 2

# SECULAR OUTLOOK

# Executive Summary

## SECTION 2 | 5-YEAR OUTLOOK

**8** History: For 40 years, the US prioritized short-term benefits over long-term costs.

**9** COVID and the ongoing conflict in Ukraine has highlighted how reliant the US is on Chinese manufacturing and the pressing need to revive domestic manufacturing.

**10** To maintain its economic hegemony, the US is aggressively integrating its foreign and domestic policies.

- Latest actions are among the most hard-hitting measures that have been taken against China's tech sector.
- A new muscular industrial policy.

**11** We believe the US's economic moat has widened for the next 5–10 years

**12** EM may have another lost decade with lower incremental ROE and higher cost of capital..

**13** India will likely outperform EM and valuations are reasonable, but currency may disappoint.

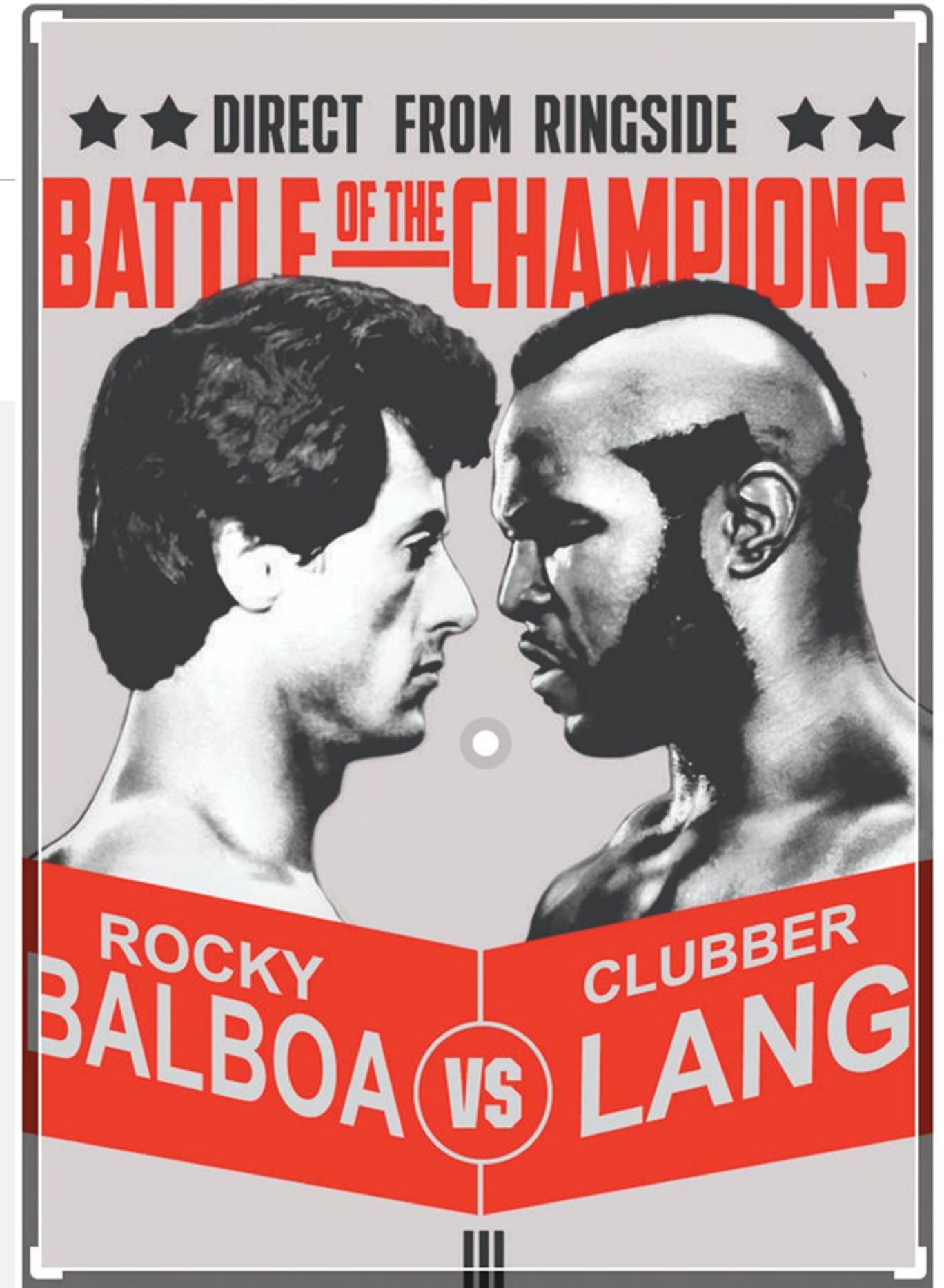
**14** Over the next 5 to 10 years, the best-performing equity sub-asset class is likely to be small-cap industrial stocks that relieve US choke points.



# A Hero's Journey

// The journey of the hero is about the courage to seek the depths; the image of creative rebirth; the eternal cycle of change within us; the uncanny discovery that the seeker is the mystery which the seeker seeks to know.

– JOSEPH CAMPBELL, THE HERO'S JOURNEY



# Where it started from . . .

// We must cultivate China during the next few decades while it is still learning to develop its national strength and potential. Otherwise, we will one day be confronted with the most formidable enemy that has ever existed in the history of the world.

– THE MEMOIRS OF RICHARD NIXON, 1978





# Promises from U.S. leadership, along with flawed assumptions . . .



*President Clinton sign the Permanent Normal Trade Relations for China Bill into law 10/10/20.*

- **It will advance our own economic interests.** Economically, this is the equivalent of a one-way street: China opens its markets to our products and services and enjoys continued access.
- **China has been trying to crack down on the Internet.** There's no question China wants control over the Internet, but controlling the Internet is "like trying to nail jello to the wall."
- **Economic innovation and political empowerment go hand and hand.** Both are intertwined whether or not one nation or another disagrees. If you believe in greater prosperity for Americans you'll approve of this agreement.

- Paraphrased from President Clinton's Speech on China Trade Bill , March



*President Obama and President Hu reaffirm the U.S.- China Joint Statement 1/19/11*

- **We welcome China's rise.** "I absolutely believe that China's peaceful rise is good for the world, and it's good for America."
- **We want to sell you all kinds of stuff.** "We want to sell you planes, we want to sell you cars, we want to sell you software."
- **This means more US jobs.** "A President Hu and his government refocuses the economy on expanding domestic demand, that offers opportunities for U.S. businesses, which ultimately translates into U.S. jobs."

- President Obama , 2011



# That led to increased Chinese prosperity ...



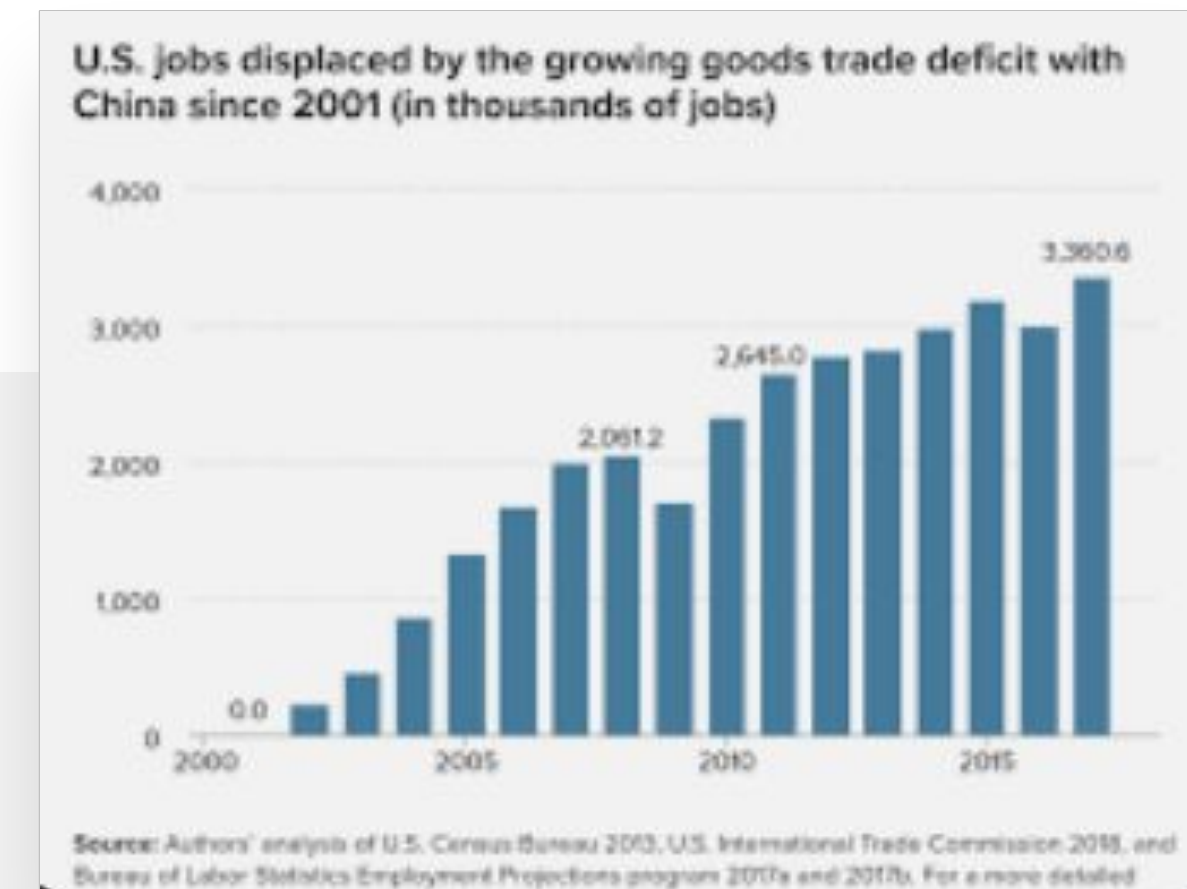
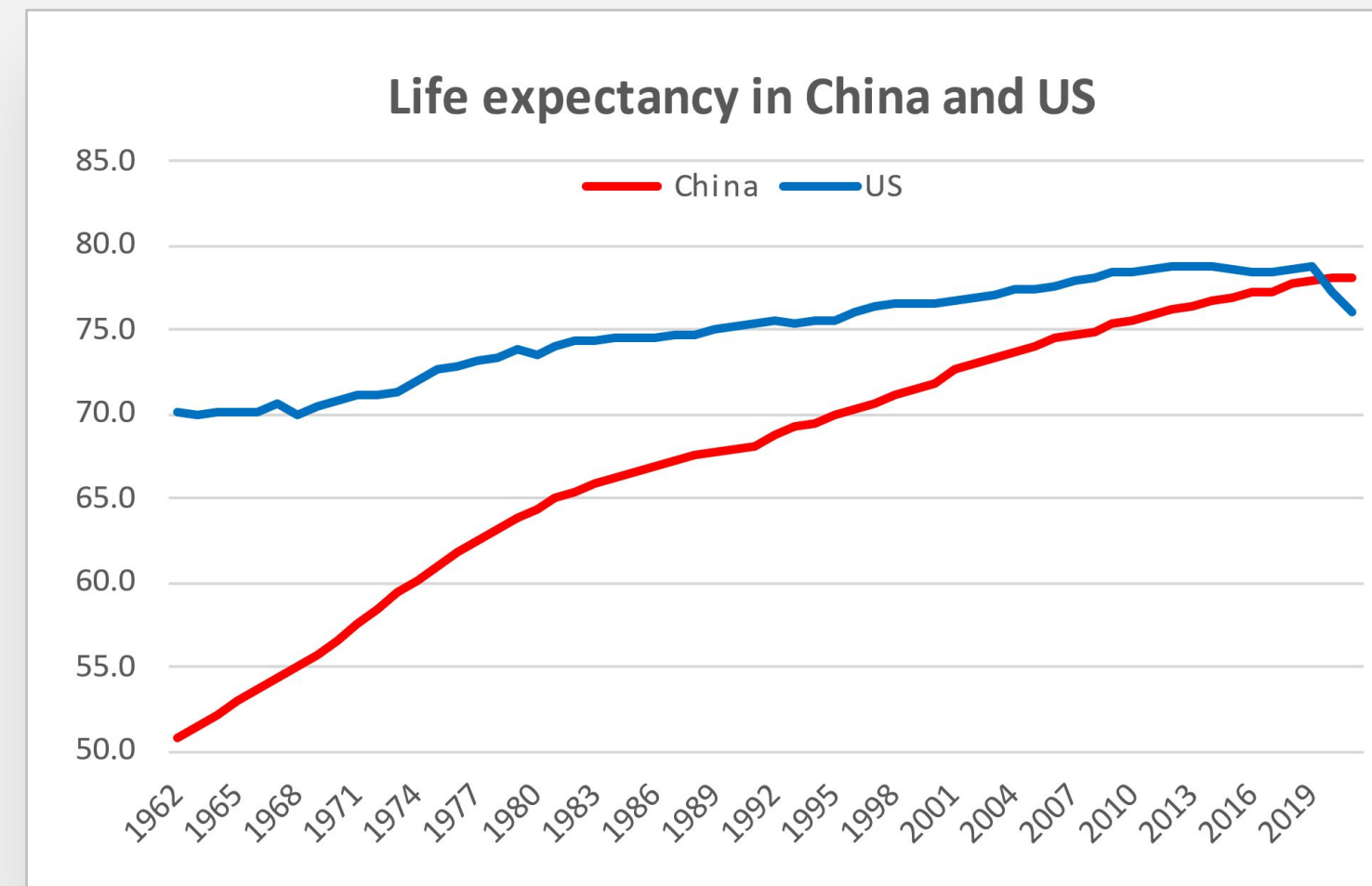
Jiangxi Province , 2000 and 2021



# Meanwhile, Deaths of Despair increased in US

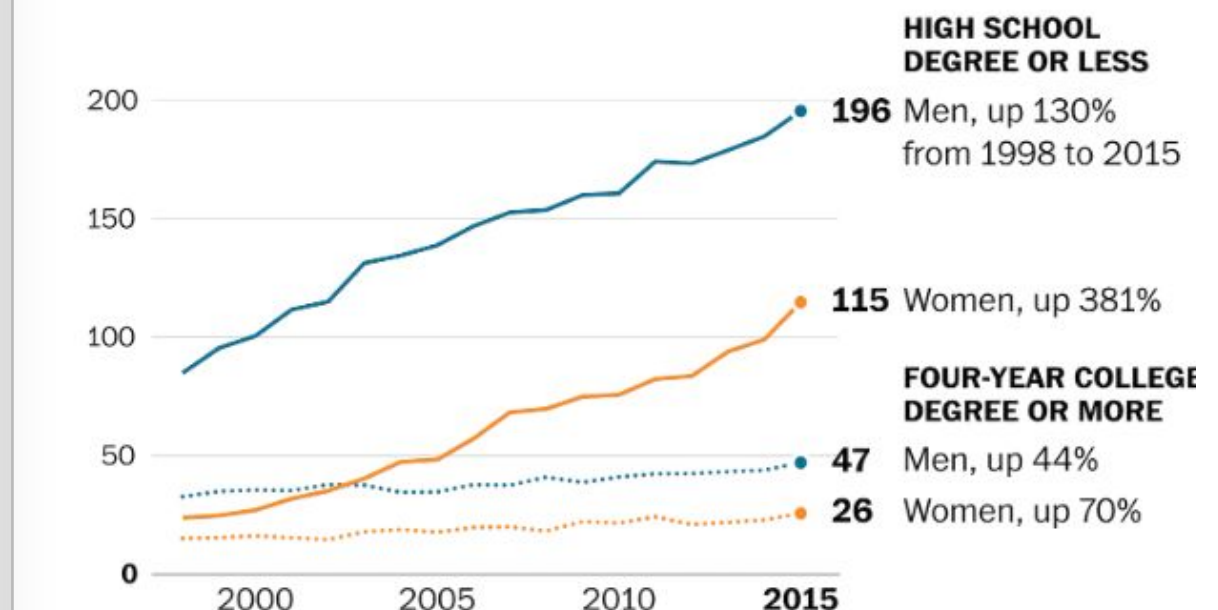
- Americans "are drinking themselves to death, or poisoning themselves with drugs, or shooting or hanging themselves."
- The American economy has shifted away from serving ordinary people and toward serving businesses, their managers, and their owners,"
- 600,000 deaths of midlife Americans who would be alive if progress had gone on as expected.

- Paraphrased from Case and Deaton, *Deaths of Despair and the Future of Capitalism*.



## Middle-aged white mortality has skyrocketed

Overdose, suicide and alcohol-related deaths per 100,000 for white non-Hispanics ages 50 to 54, by gender and education



Source: "Mortality and morbidity in the 21st century," Anne Case, Angus Deaton, Princeton University.

THE WASHINGTON POST

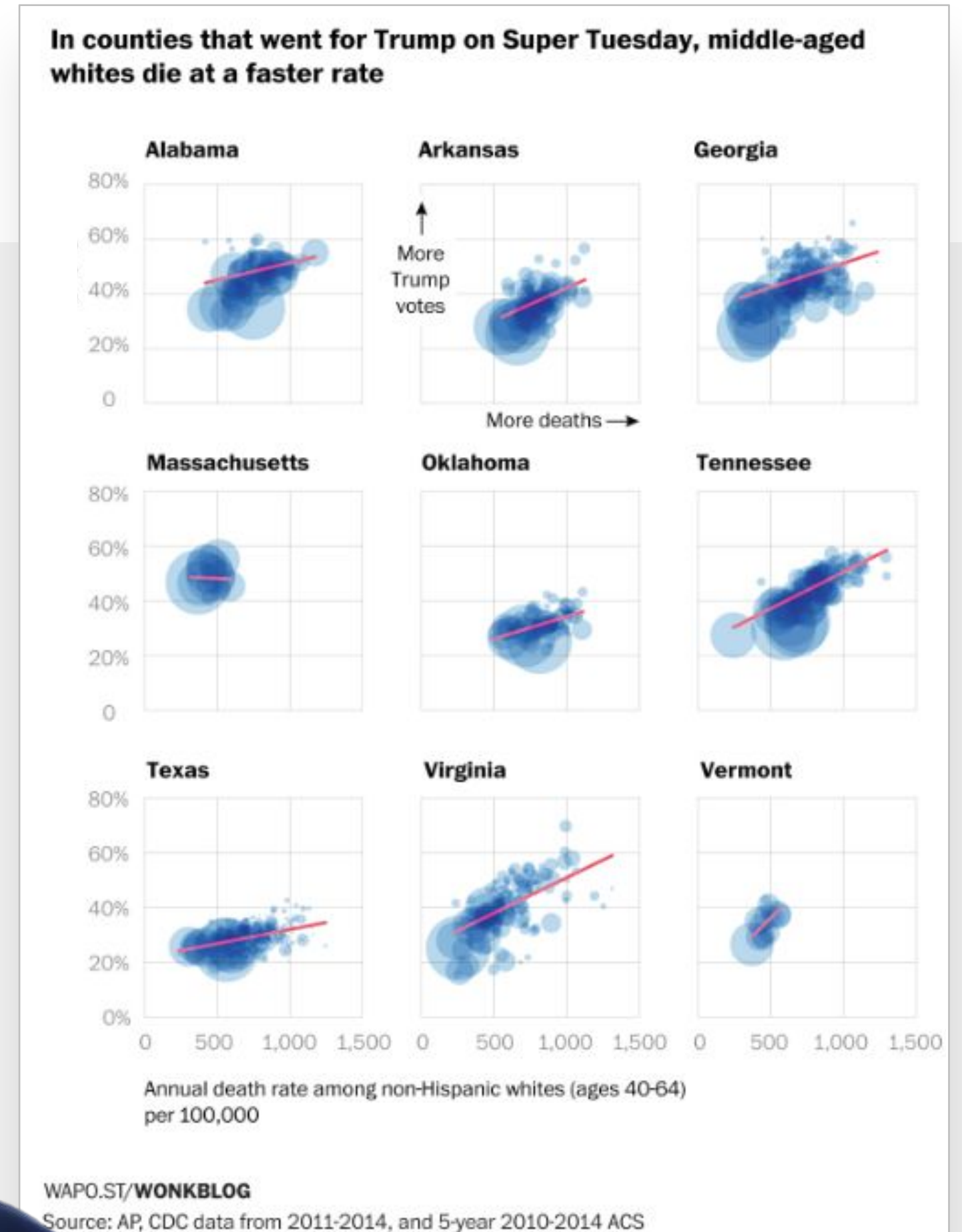
# Leading to the rise of Trump . . .

- Donald Trump performed the best in places where middle-aged whites are dying the fastest. In every state except Massachusetts, the counties with high rates of white mortality were the same counties that turned out to vote for Trump. – source
- Trump likes to blame immigrants for the nation's economic woes. **“They’re taking our jobs. They’re taking our manufacturing jobs. They’re taking our money. They’re killing us.”**
- Trump’s promise to “Make America Great Again” has been most **enthusiastically embraced by those who have seen their own life’s prospects diminish the most** — not in terms of material wealth, but in terms of literal chance of survival.

Jeff Guo,

Washington Post,

What Donald Trump and Dying White People  
Have in Common



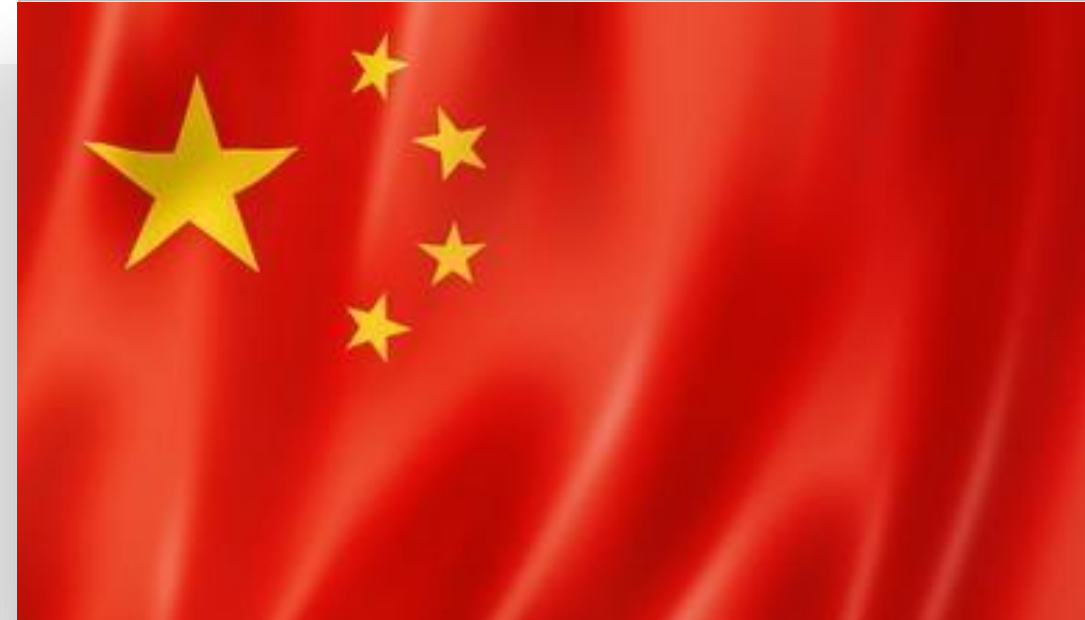


# COVID and now Ukraine – A rude awakening on vulnerability



“We need masks, they’re made in China; we need gowns, they’re made in China; we need face shields, they’re made in China; we need ventilators, they’re made in China . . . **And these are all national security issues when you’re in this situation.**”

– Gov. Andrew Cuomo of New York



“If China halted all unfair practices tomorrow, its tech industry would still likely represent the most **significant challenge to U.S. technology leadership and global competitiveness since the rise of Japan in the 1980s**”

– James. L. Schoff, US-Japan Technology Policy Coordination



The U.S. defense industrial base is **not adequately prepared** for the competitive security environment that now exists. It is currently operating at a tempo better suited to a peacetime environment. In a major regional conflict—**such as a war with China** in the Taiwan Strait—the U.S. use of munitions would likely exceed the current stockpiles of the U.S. Department of Defense (DoD), leading to a **problem of “empty bins.”**

– CSIS International Security Program, Jan. 2022



## Not just a supply chain issue

### The German invasion of American business



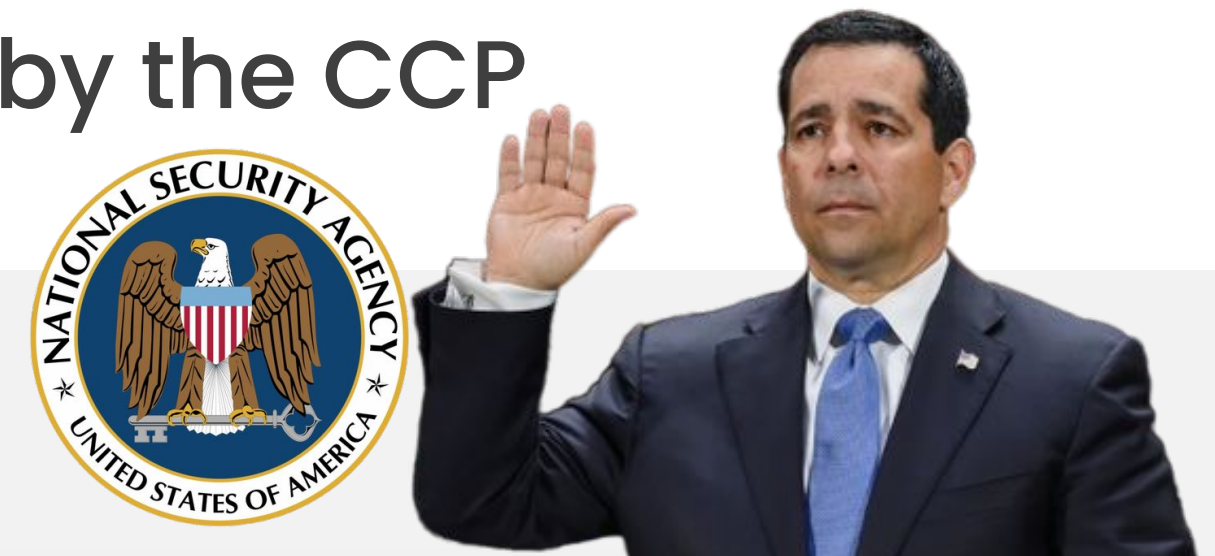
Nazis used their American subsidiary corporations to spy on U.S. industrial capacity and **steal technology, such as walkie-talkies, intertank and ground-air radio** communication systems, and shortwave sets developed by the U.S. Army and Navy.

**“The distinction between bombing a vital plant out of existence from an airplane and preventing that plant from coming into existence in the first place [through cartel arrangements is largely a difference in the amount of noise involved.]”**

The Nazis, he argued, used legal techniques, like patent laws, stock ownership, dummy corporations, and cartel arrangements, to extend their power into the United States.

– Norman Littell, Assistant Attorney General for the Antitrust Division, 1941

## The comprehensive threat to America posed by the CCP



“The proverbial salt in the wound of all this nefarious activity is when the **CCP steals our thoughts, ideas, patents, and technology**, and manufactures that same technology in China, and the sells it back to American companies and around the world.

**Then one must factor in all the manufacturing plants which were not built, and the tens of thousands of jobs which were not created because China, via its theft, beat the U.S. to the global market and is selling the same product at a significant reduction in real costs.”**

– William R. Evanina, Director of the National Counterintelligence and Security Center 2021



# The choice



## **#1: Throw In the Towel, Become a Mexico to China**

Cede what remains of their manufacturing base and specialize in supplying industrial China with technology, higher education, agriculture, minerals, real estate, and entertainment.

fade or . . .



## **#2: Counter Punch**

Level up to thwart the increasingly aggressive Chinese statist economy. Put an end to the American strategic narcissism that has ignored China's true motives.

# But not just another fighter . .

Viewing the match with a China perspective



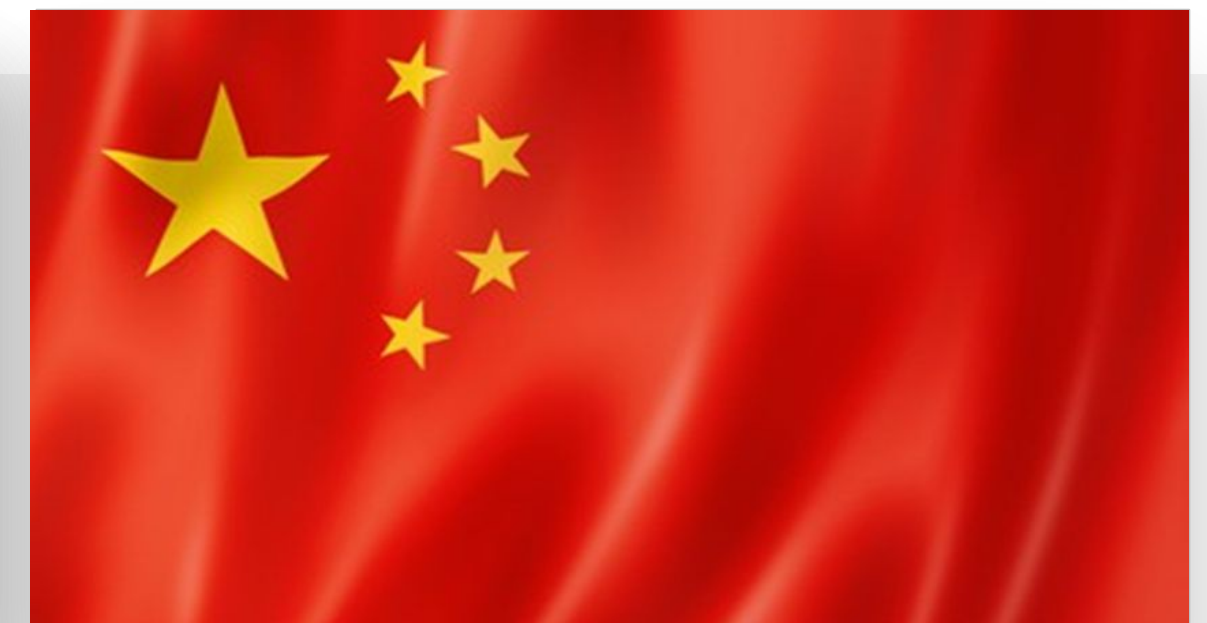
// Rocky Balboa: **He's just another fighter.**

Mickey Goldmill: **No, he ain't just another fighter!**  
**This guy is a wrecking machine!**  
**And he's hungry!**  
**Hell, you ain't been hungry since you won that belt."**



"A new round of technological revolution and industrial change – artificial intelligence, big data, quantum information, and biotechnology – are gathering strength. They would bring 'earth-shaking changes' while offering an "important opportunity to promote leapfrog development," allowing China to **bypass legacy systems and overtake competitors.**

- Xi Jinping: "Follow the trend of the times and achieve common development" - People's Daily



"The United States has developed a hegemonic playbook to stage "color revolutions," instigate regional disputes, and even directly launch wars under the guise of promoting democracy, freedom, and human rights

- Political Hegemony—Throwing Its Weight Around
- Military Hegemony—Wanton Use of Force
- Economic Hegemony—Looting and Exploitation
- Technological Hegemony—Monopoly and Suppression
- Cultural Hegemony—Spreading False Narratives

Paraphrased from US Hegemony and Its Perils, Ministry of Foreign Affairs | February 2023



# Rising up to challenge of rival . . .

- For almost forty years, we championed the benefits of a robust trade and investment relationship with China, often overlooking the long-term costs for the near-term benefits
- COVID opened our eyes to the long-term risk for both the private sector and the American people of **this over-dependence on China and the need to rebuild domestic manufacturing and innovation.**
- Going forward, **we are not only going to invent the technologies of the future in America but we are going to manufacture them here too.**



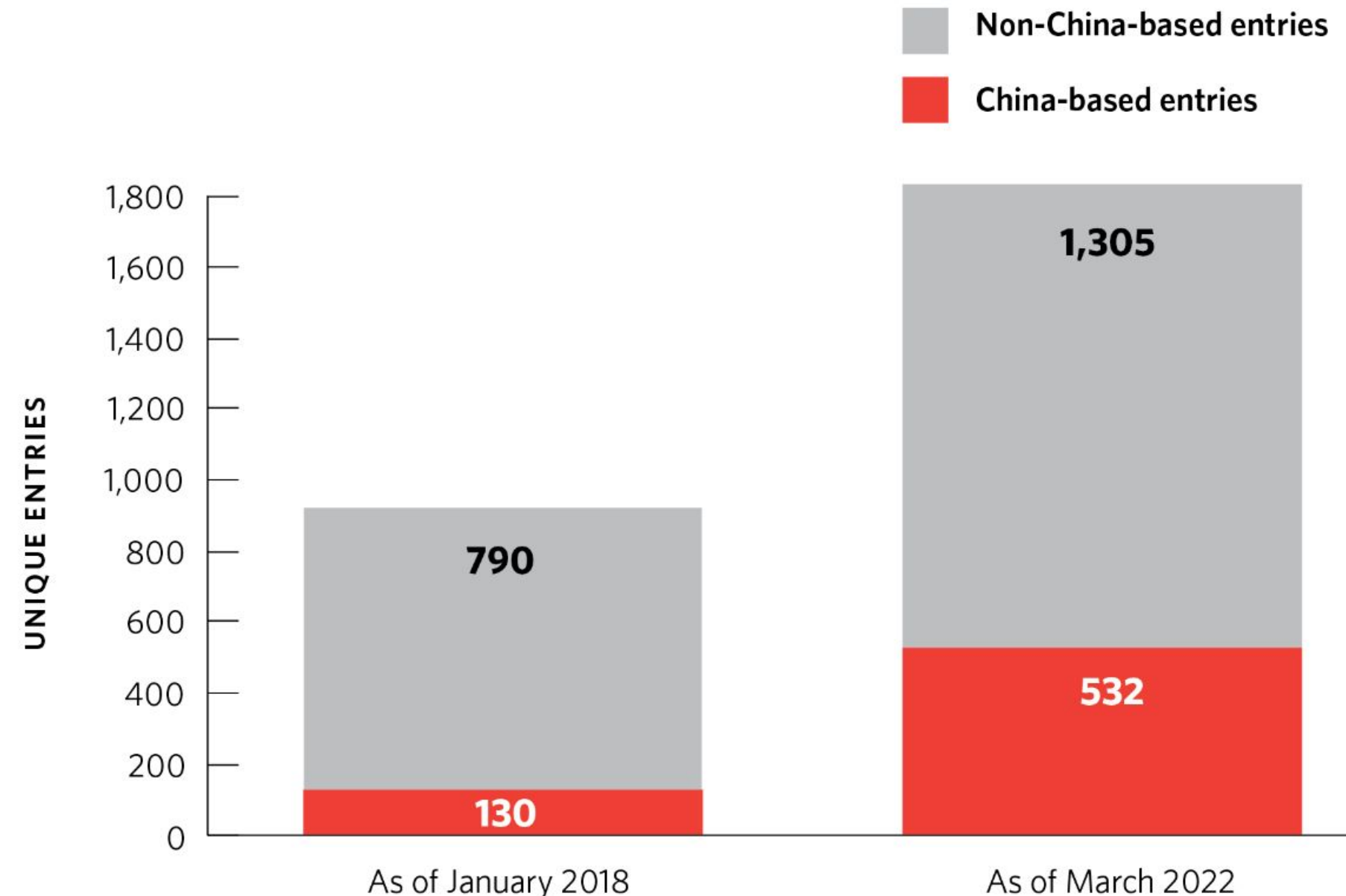
*U.S. Secretary of Commerce  
Gina Raimondo on the U.S.  
Competitiveness and the China  
Challenge – Nov 2022*



# The Punch – Building an arsenal of restrictions and licensing hurdles for Chinese Tech

1. Export Controls
2. Investment Restrictions
3. Telecoms Licensing and Equipment Authorizations
4. Visa Restrictions
5. Financial Sanctions
6. Federal Use and Spending Restrictions
7. Law Enforcement

**The Entity List Is Increasingly Focused on China**



# & Strangling with an intent to kill

The Biden administration's latest actions **simultaneously exploit U.S. dominance across all four of these chokepoints**. In doing so, these actions demonstrate an unprecedented degree of U.S. government intervention to not only preserve chokepoint control but also begin a new U.S. policy of actively strangling large segments of the Chinese technology industry—**strangling with an intent to kill**.

– Gregory C. Allen, Director, AI Governance Project and Senior Fellow, Strategic Technologies Program

This is probably the most sweeping and hard-hitting measure that's been taken against China's tech sector after four years of pretty significant technology and economic warfare, and it's really important **because it signals an overt, muscular intent to contain and restrict China's technological development**.

– Jon Bateman, U.S.-China Technological "Decoupling": A Strategy and Policy Framework

On **export controls**, we have to revisit the longstanding premise of maintaining "relative" advantages over competitors in certain key technologies. **We previously maintained a "sliding scale" approach**. That said, we need to stay only a couple of generations ahead. Given the foundational nature of certain technologies, such as advanced logic and memory chips, we must **maintain as large of a lead as possible**. This has demonstrated that **technology export controls can be more than just a preventative tool**. If implemented in a way that is robust, durable, and comprehensive, they can be a new **strategic asset in the U.S.** and allied toolkit"

– National Security Advisor Jake Sullivan at the Special Competitive Studies Project Global Emerging Technologies Summit

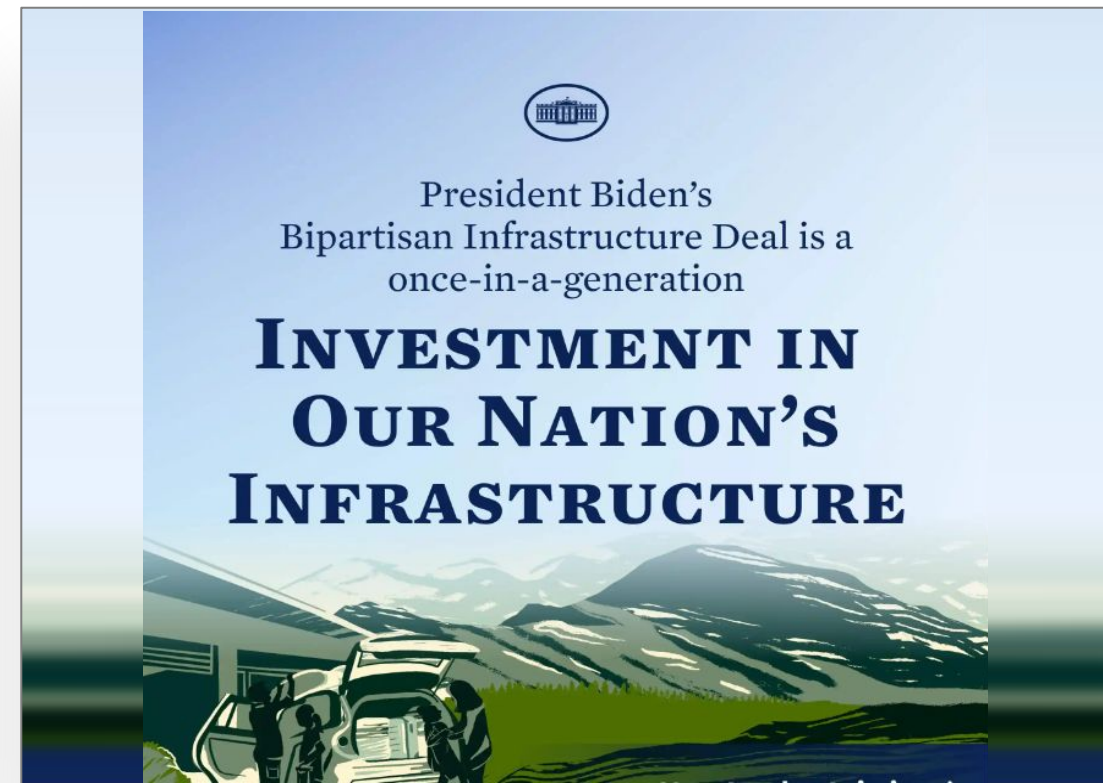


# The Block—Beginnings of a new age industrial policy

Over 1 Trillion\$ of direct investment to improve domestic competitiveness



~ **\$79 bn**  
over 10 years



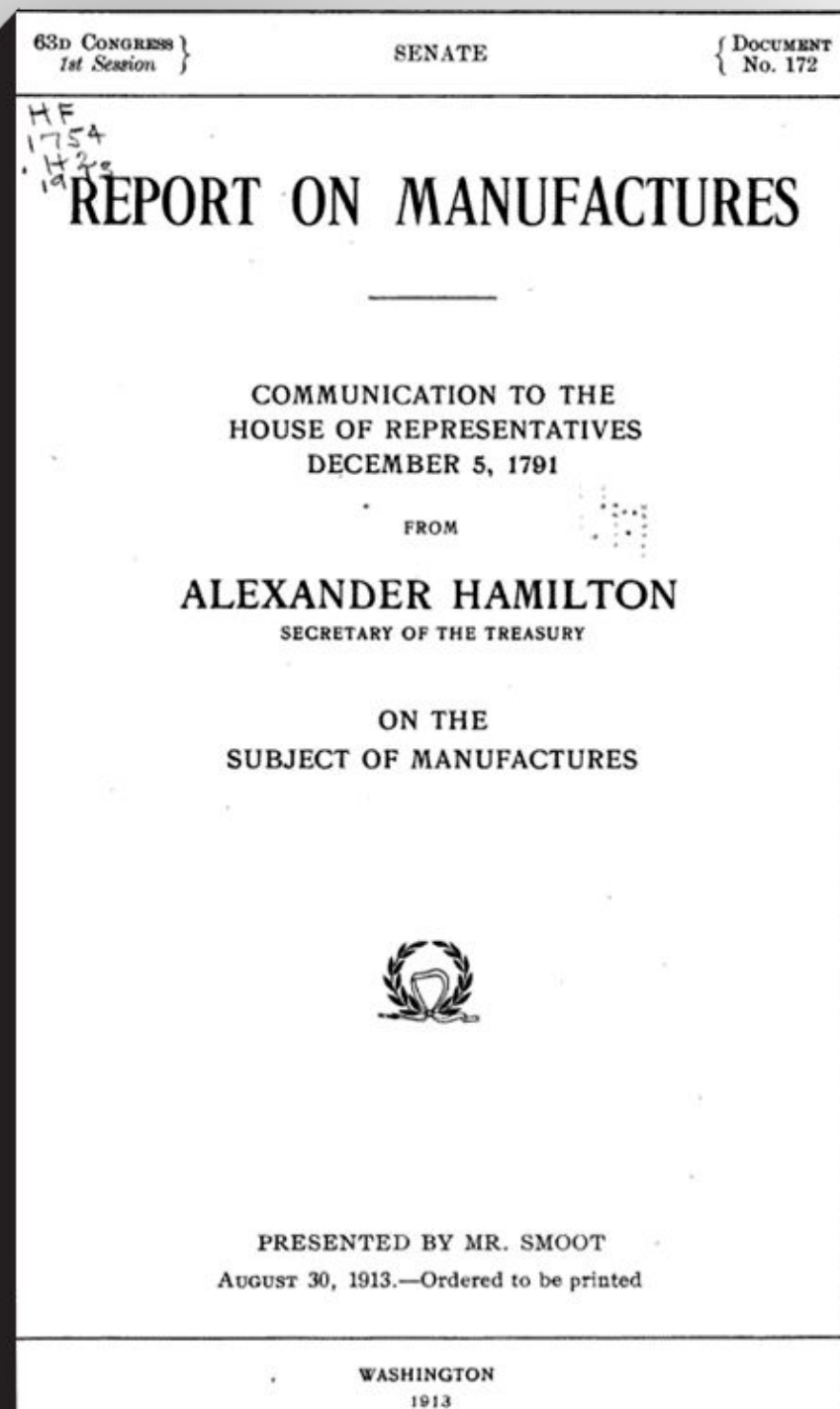
~ **\$550 bn**  
over 5 years



~ **\$370 bn**  
over 10 years

# But it's not exactly a "New Age"

Alexander Hamilton created manufacturing-based economic policies in 1791 to fortify America's independence and counter Great Britain.



1. Diversification and immigrant talent
2. Restrictive tariffs
3. Bounties
4. Countenance and support from the government
5. Healthy innovation ecosystem

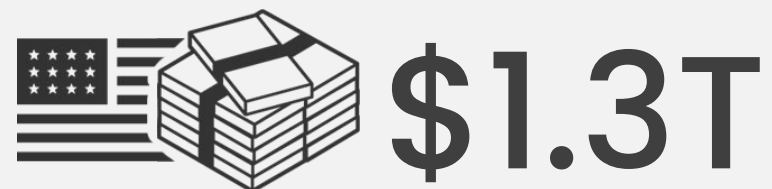
# Policies that worked then can still work now. They already are.

Before Hamilton's revolutionary pivot to focusing on developing manufacturing industries:

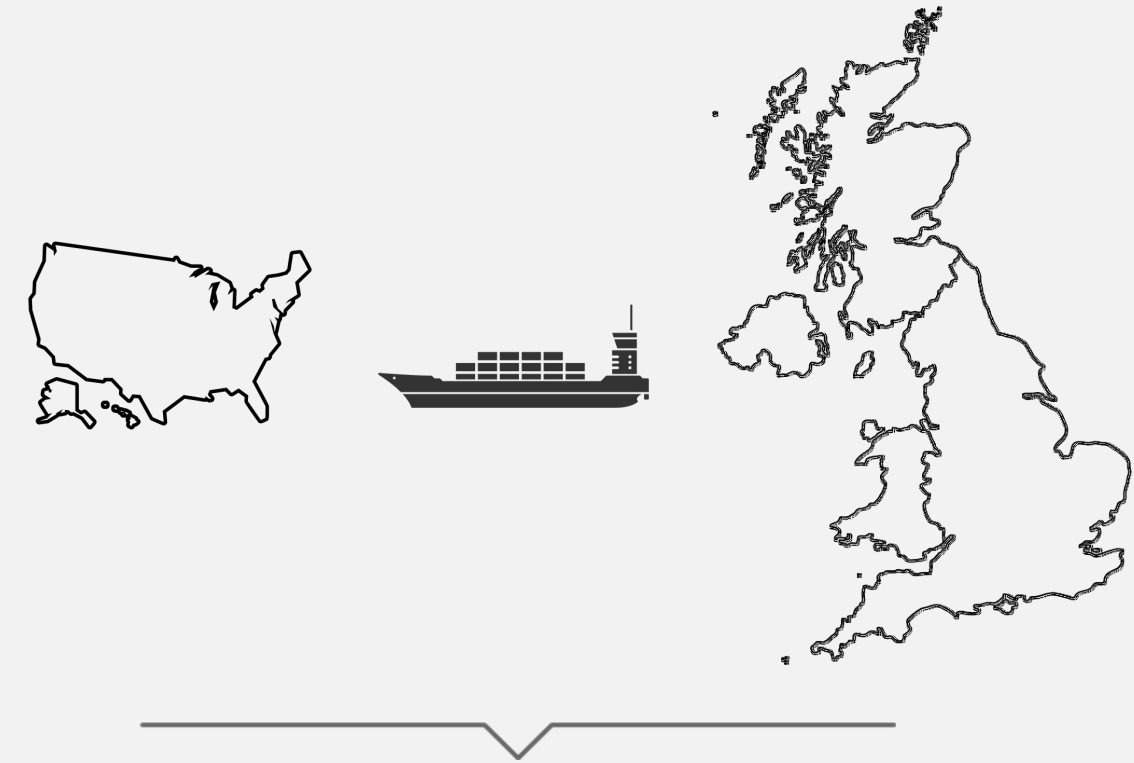
The British economy  
was 3 times larger



Today, US manufacturers are the leading world competitor, with \$1.3T in exported goods annually.



Americans depended on Great Britain for the majority of their goods.



Today, US manufacturing represents 12.1% of the country's GDP.





# The CHIPS Act has already sparked \$200 billion in private investments for US semiconductor production

1. **Over 40 new semiconductor ecosystem projects announced across the U.S.**, including the construction of new semiconductor manufacturing facilities (fabs), expansions of existing sites, and facilities that supply the materials and equipment used in chip manufacturing.
2. **Nearly \$200 billion in private investments announced across 16 states** to increase domestic manufacturing capacity.
3. **40,000 new high-quality jobs announced in the semiconductor ecosystem** as part of the new projects, which will support many more jobs throughout the broader U.S. economy.

– Joseph R. Biden, The American Presidency Project

**Figure 1. Current Semiconductor Plant Locations**

Source: Semiconductor Industry Association and author's calculations

Note: Several locations are omitted from our analysis due to missing county-level data.



**Figure 2. Locations Likely for a Semiconductor Plant**

Source: Semiconductor Industry Association and author's calculations

Note: Several locations are omitted from our analysis due to missing county-level data.



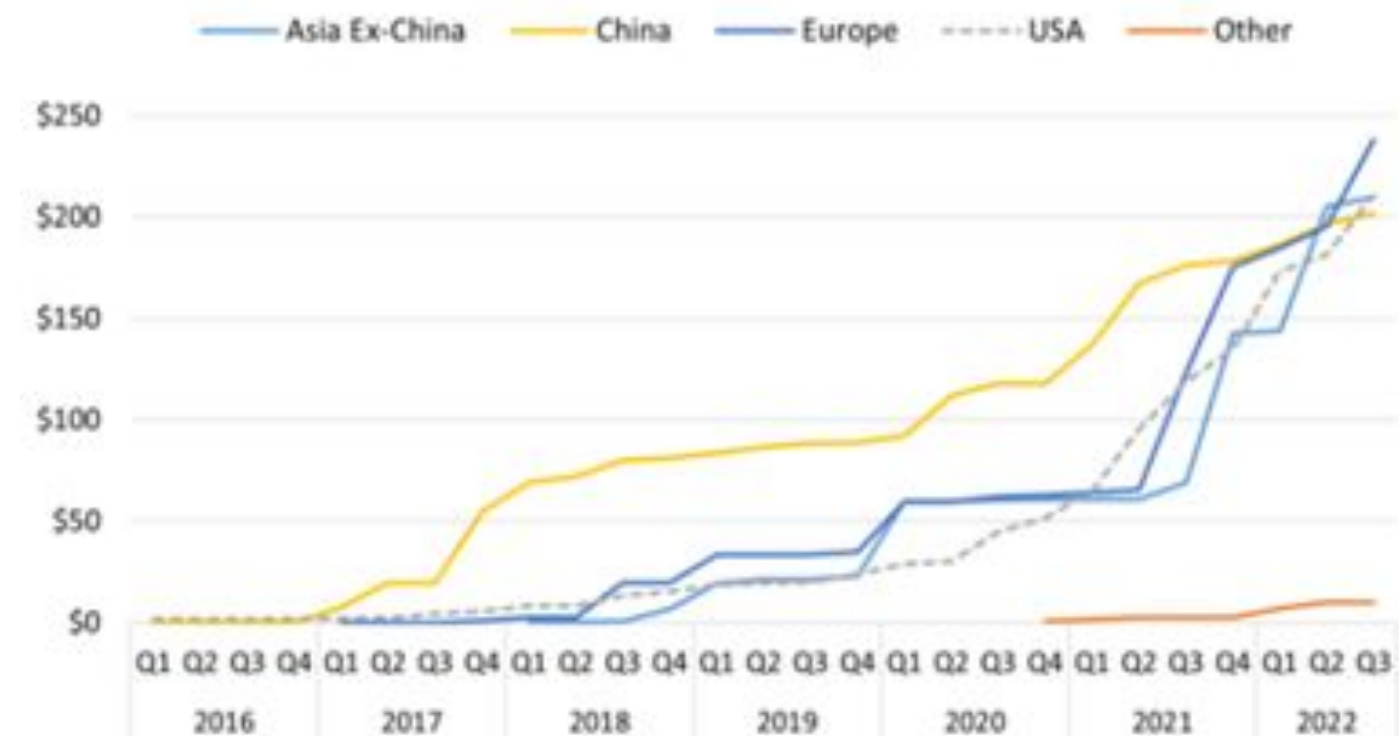


# An EV future that is build in America . . .

**Beginning July 1, 2024, FHWA will require that the cost of domestically manufactured components for EV charging equipment meet the Build America, Buy America Act's 55 percent domestic content requirement.**

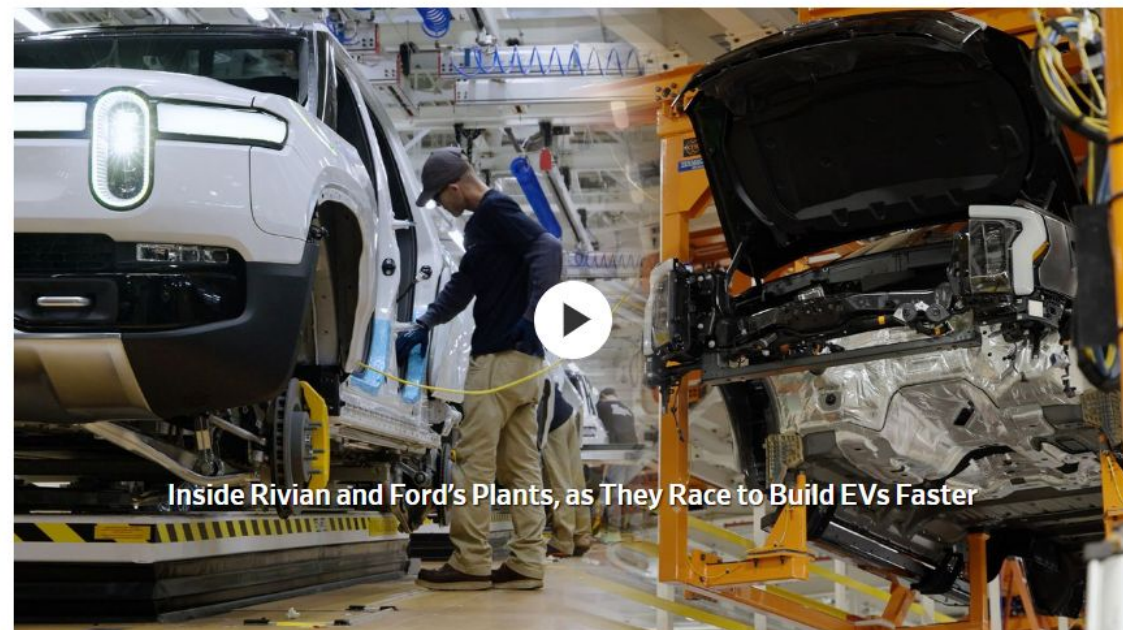


Cumulative Announced EV investments



## Shift to EVs Triggers Biggest Auto-Factory Building Boom in Decades

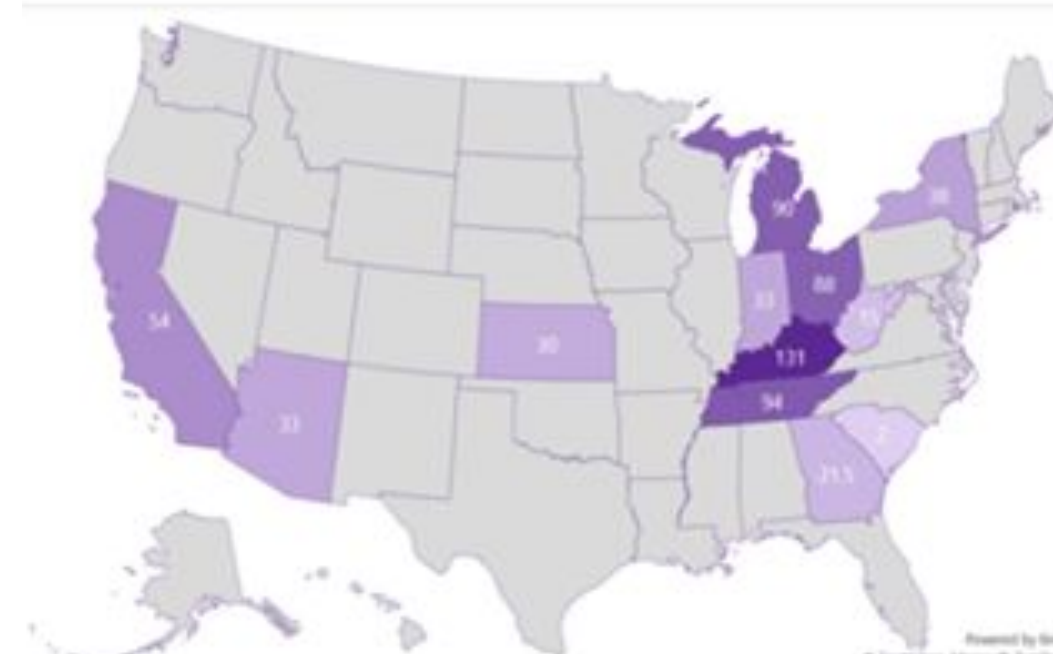
Car industry has earmarked billions for EV projects—much of it directed to the South



Inside Rivian and Ford's Plants, as They Race to Build EVs Faster

Rivian is under pressure to prove it can build its electric trucks at scale without having ramped up production before, as competition heats up from legacy auto makers. WSJ toured Rivian's and Ford's EV factories to see how they are rushing to meet demand. Illustration: Adam Falk/The Wall Street Journal

## About 50 Billion\$ in battery manufacturing locations

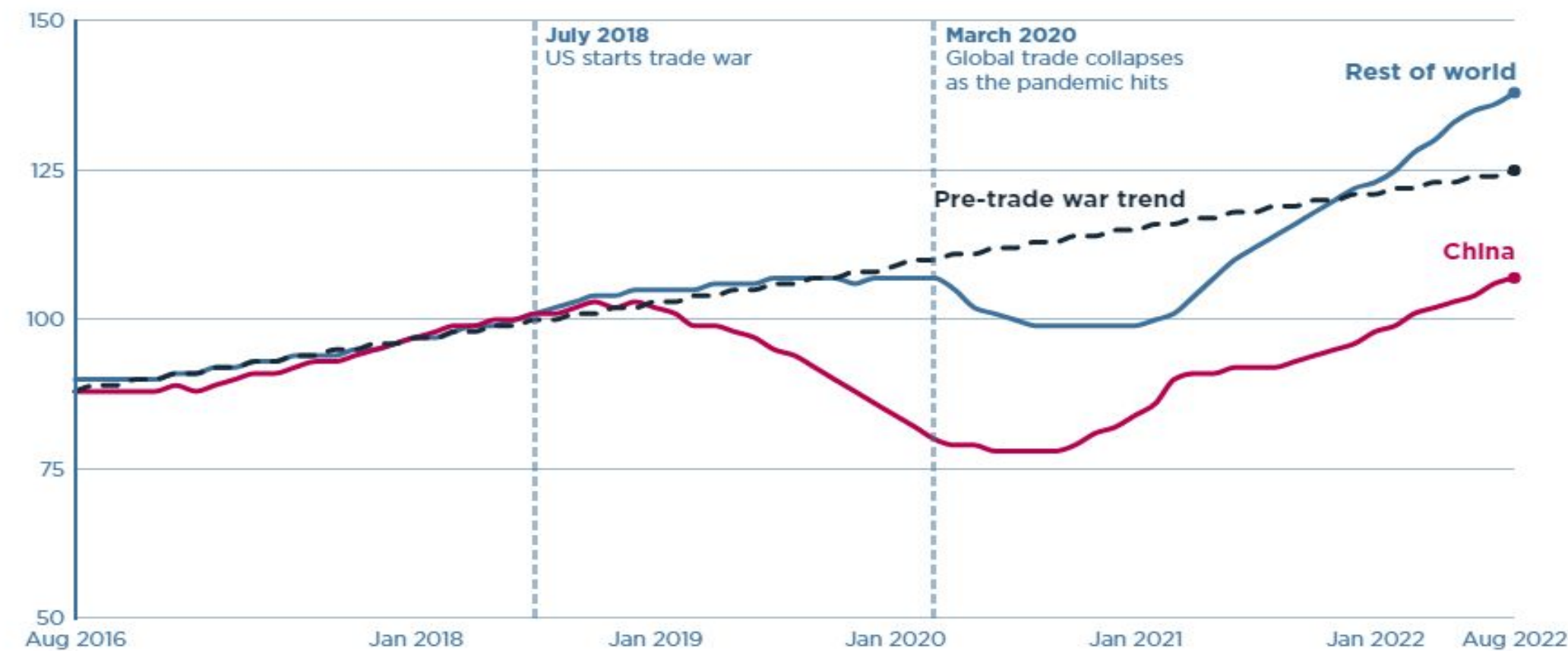




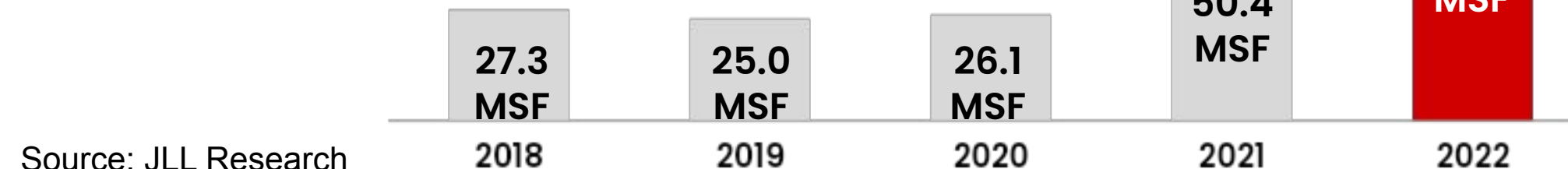
# US dependence on China has come down and reshoring is gaining momentum.

US Imports from China have only recently returned to pre-trade war levels, while imports from the rest of the world are above trend

Value of US goods imports from China and rest of world, 2016-2022 (June 2018 = 100)



Manufacturing requirements: total and by building type



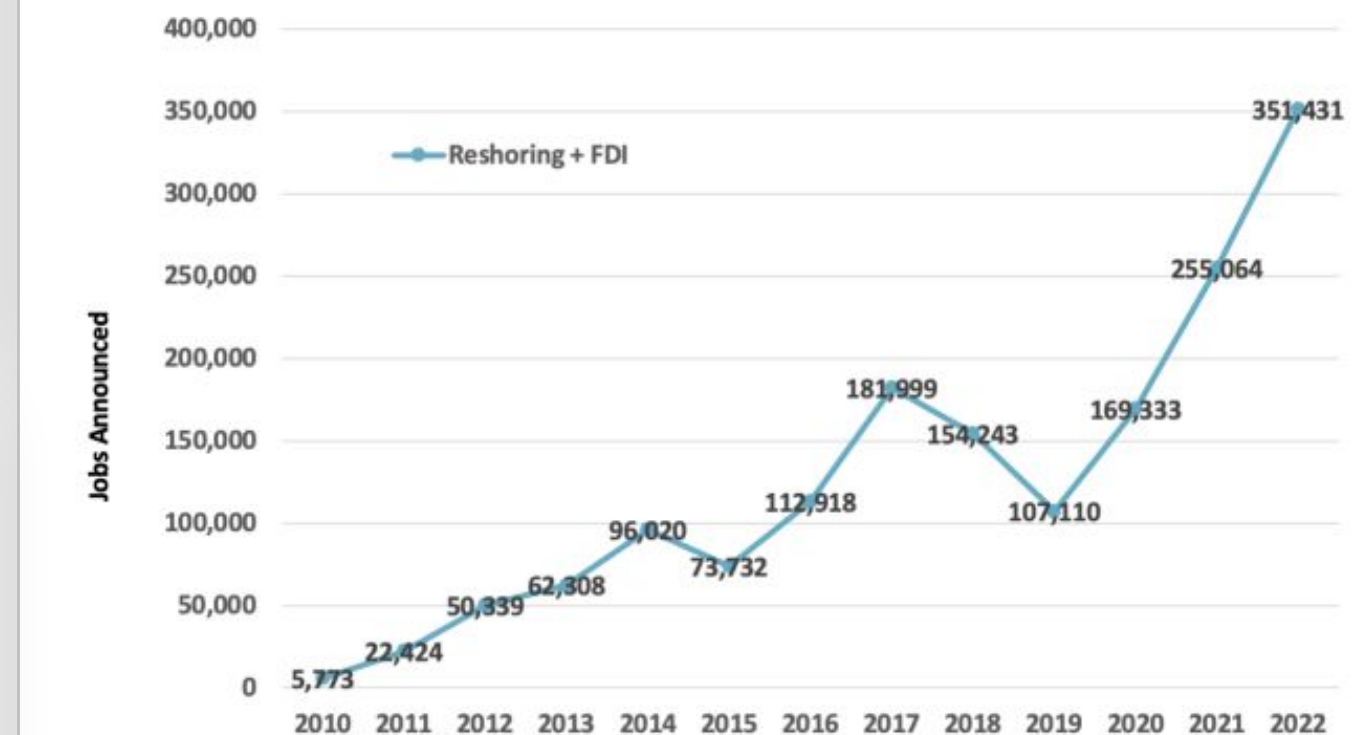
Source: JLL Research

Manufacturing executives and CEOs are more positive about the reshoring outlook than they have been in the past

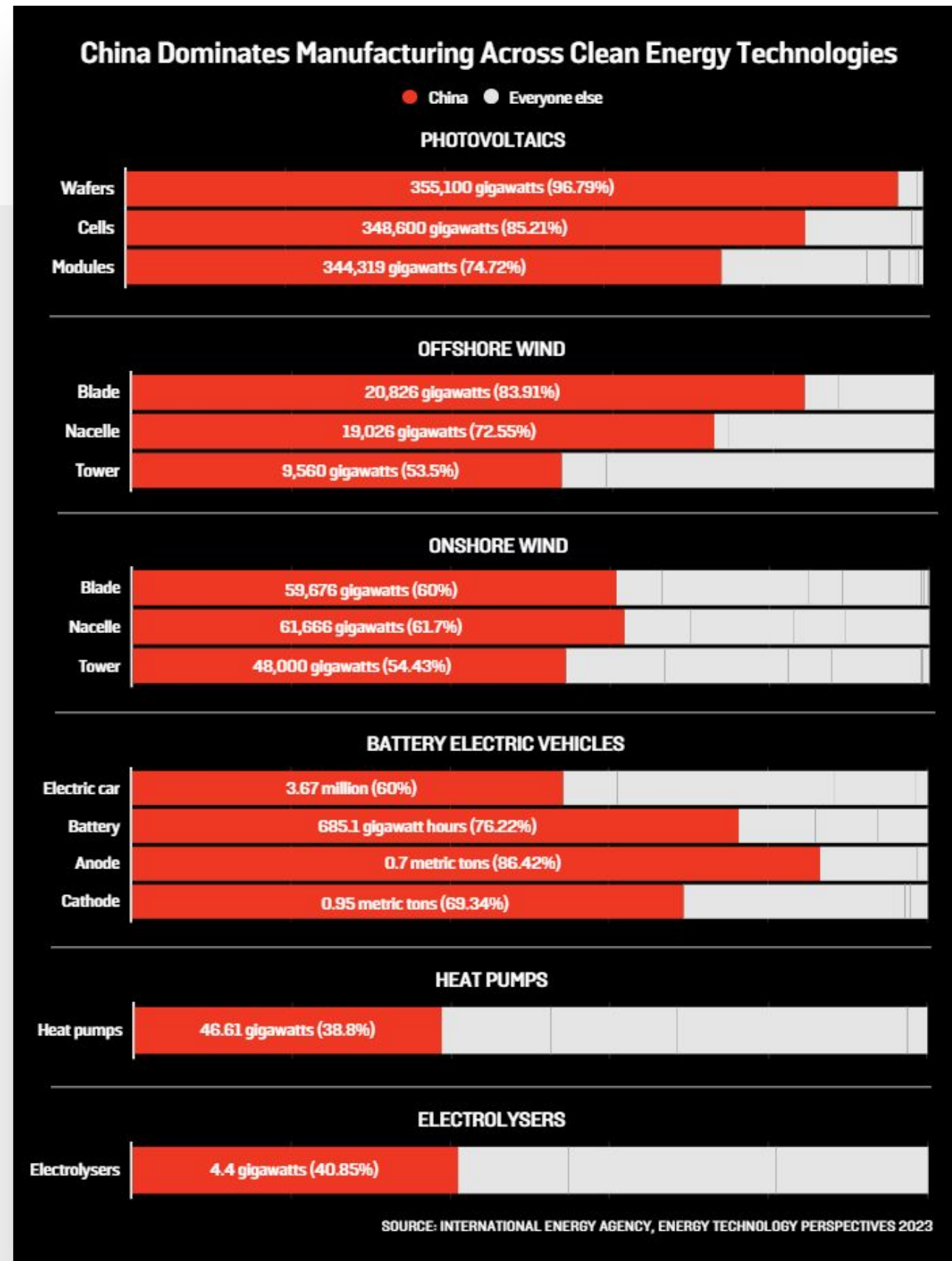
Have you considered reshoring manufacturing operations to the United States?



Exhibit 1a | Job Announcements per Year, Reshoring + FDI, 2010 thru 2022-Projected



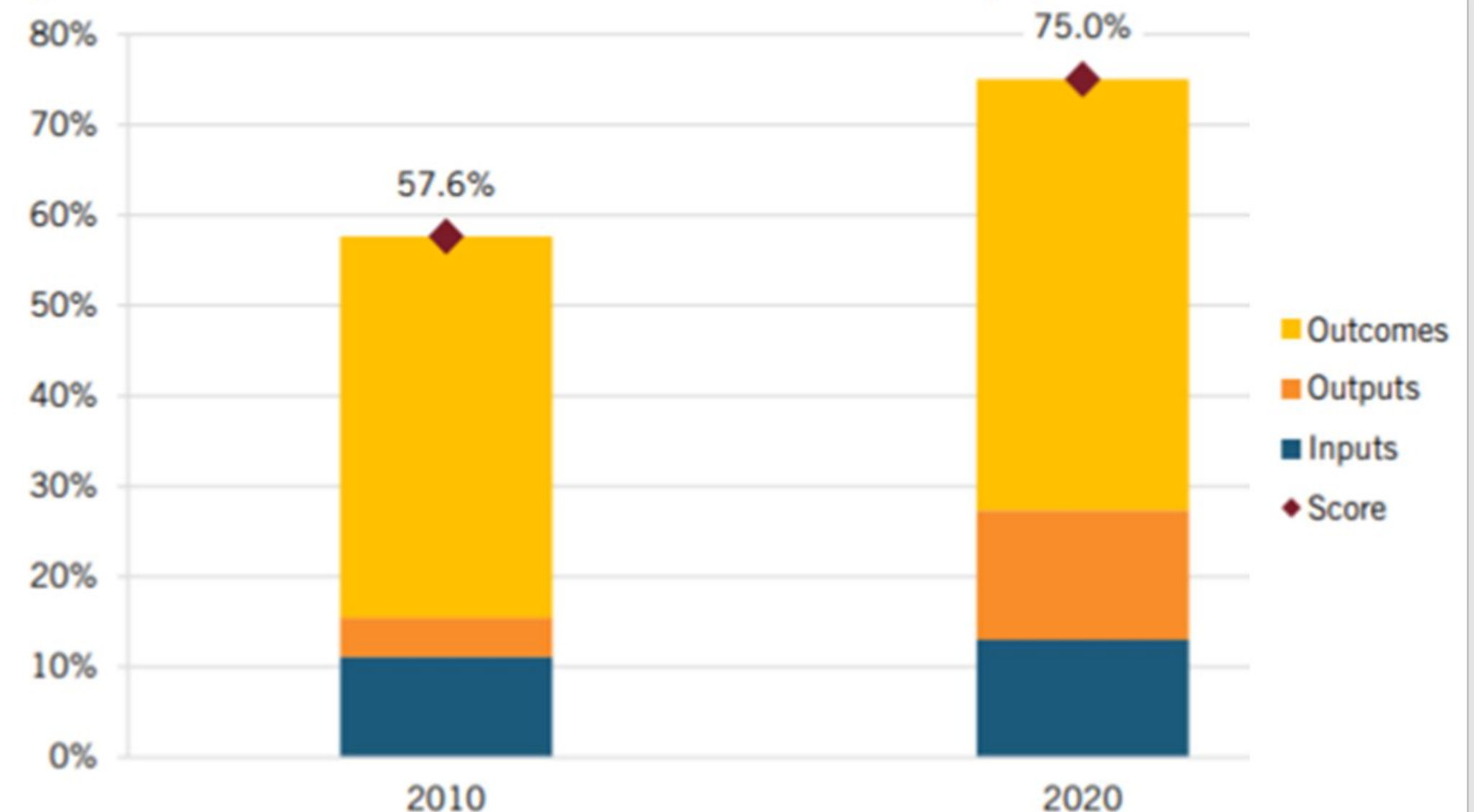
# But it won't be easy . . .



## *Ford Will Build a U.S. Battery Factory With Technology From China*

Ford's \$3.5 billion plant in Michigan will draw on technology from CATL, a Chinese company that is the world's No. 1 maker of electric-car batteries.

Figure 2: China's indicator index score relative to the United States on a proportional basis





**During this Sino-US technology upheaval,  
how do we invest?**

# Actionable Ideas | Next 5 years

**5**

**Buy US**

**6**

**Outsourcing Hubs  
in US allies**

**7**

**Meta – Call Options**

**8**

**Buy HDFC & ICICI –  
India**

**9**

**AI moonshots  
in India**

**10**

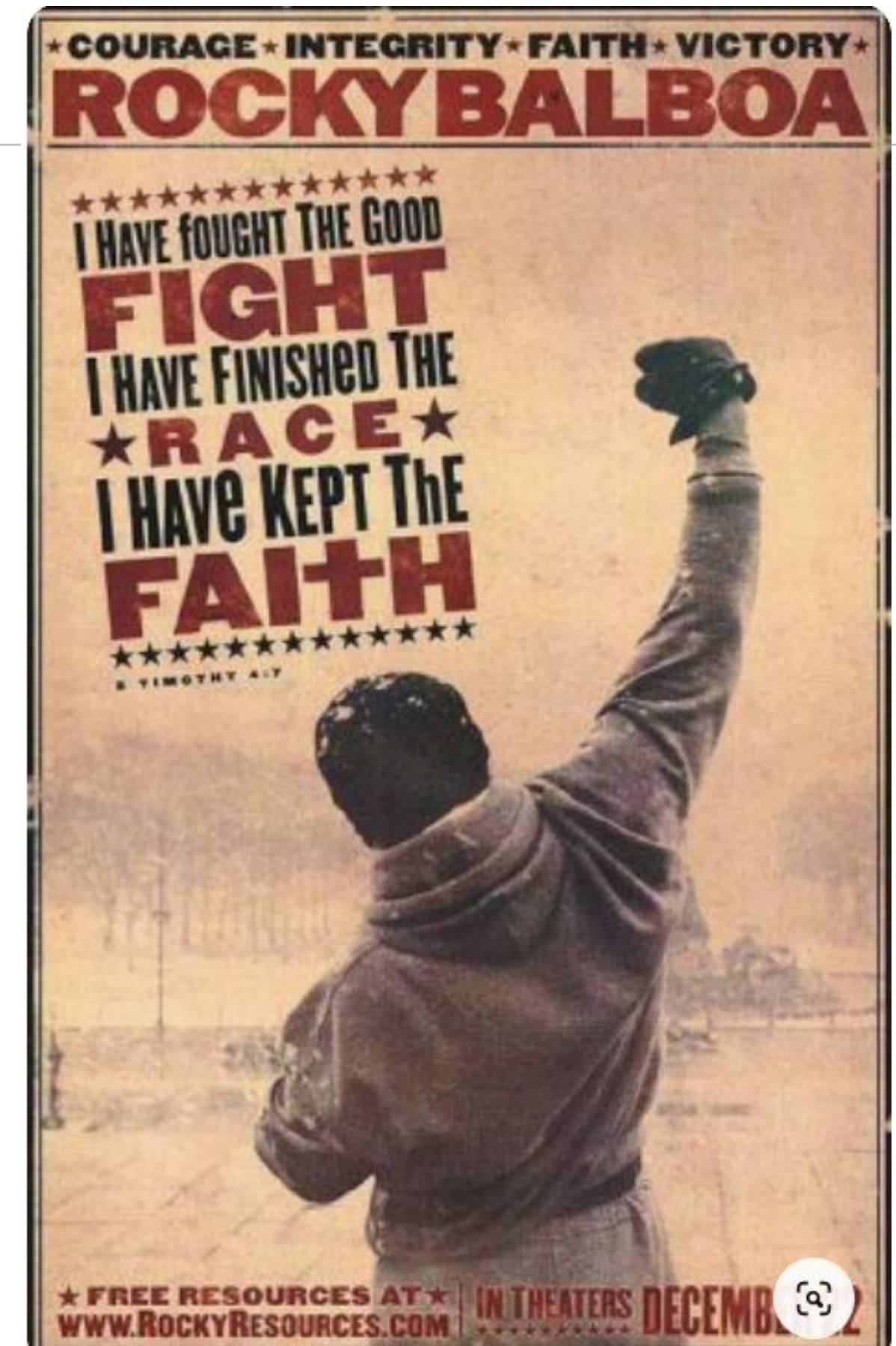
**Buy ASEAN**



## 5. Buy US –Rocky franchise gets extended ...

Why?

- A. Sustainable, broad-based growth via legislation effects
  - B. An adaptable recession-ready economy
  - C. A playbook for creating new earnings drivers
  - D. Reserve Currency – truly an exorbitant privilege
  - E. Markets not expensive
- & Bonus Points for an aggressive foreign policy!



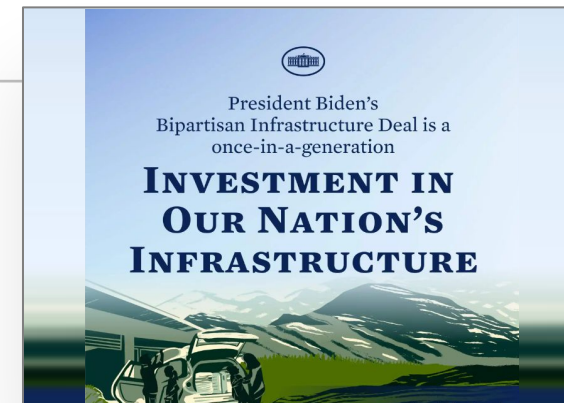
# A. Higher growth and lower vulnerability due to landmark acts

## CHIPS



1. Create or preserve a total of between **2.6 million and 3 million jobs** from 2022 to 2027 ( SIA)
2. Contribute between \$44 billion and \$51 billion per year to U.S. GDP ( SIA)

## IIJA



1. About **770 K new jobs** per year over the next 10 years (EPI)
2. U.S. GDP will be roughly **0.8 percentage points higher** at the peak of expenditure ( Moody )

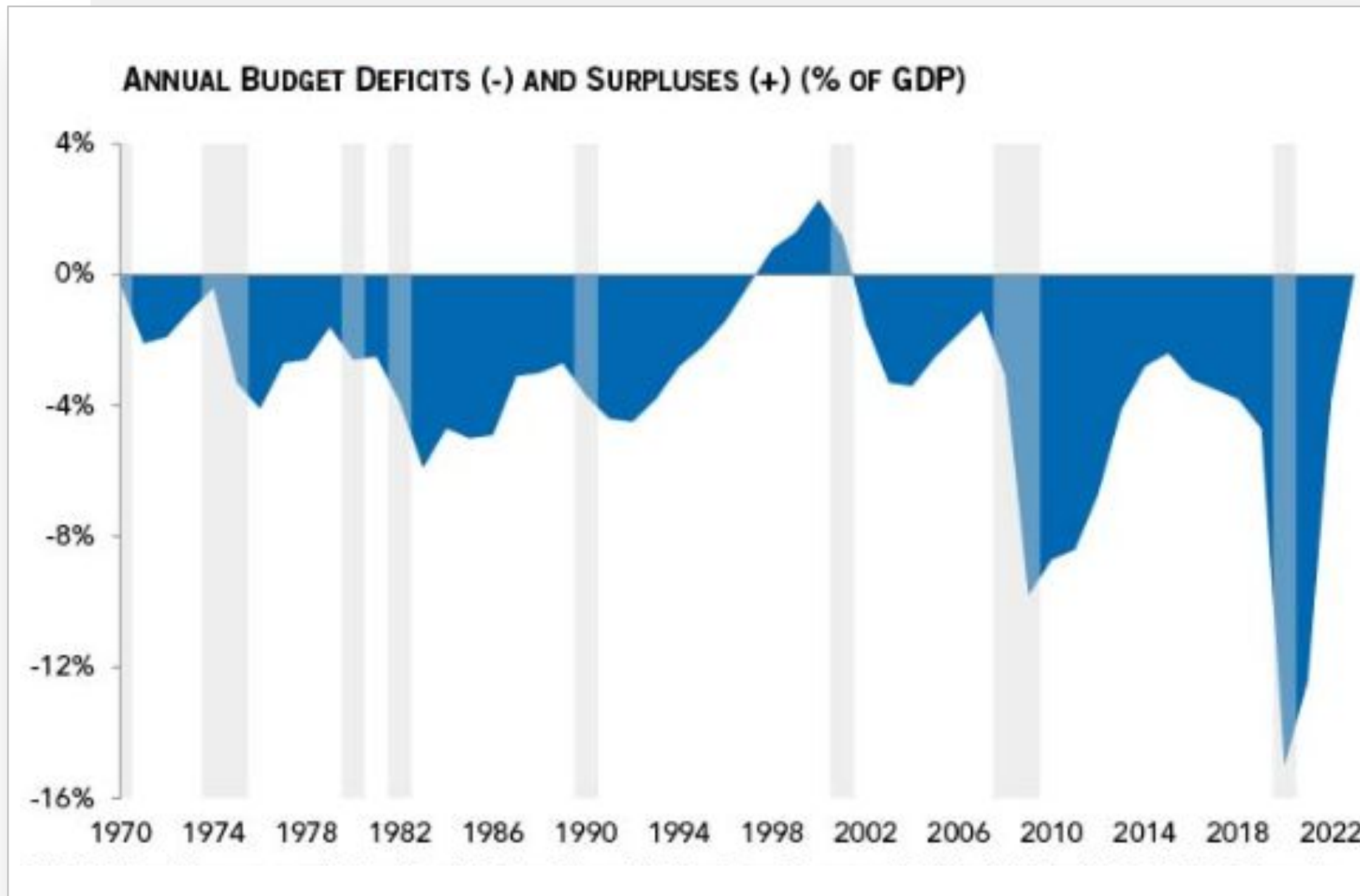
## IRA



1. About **910 K new jobs** per year over the next 10 years (Univ of Massachusetts)
2. Likely catalyze another **\$1.7 trillion in public and private investment** over the next ten years.
3. Reduce energy costs for the average household by **\$730 to \$1135 annually** (Rhodium Group)
4. Reduce greenhouse gas emissions by an **estimated 42% from 2005 levels** by 2030



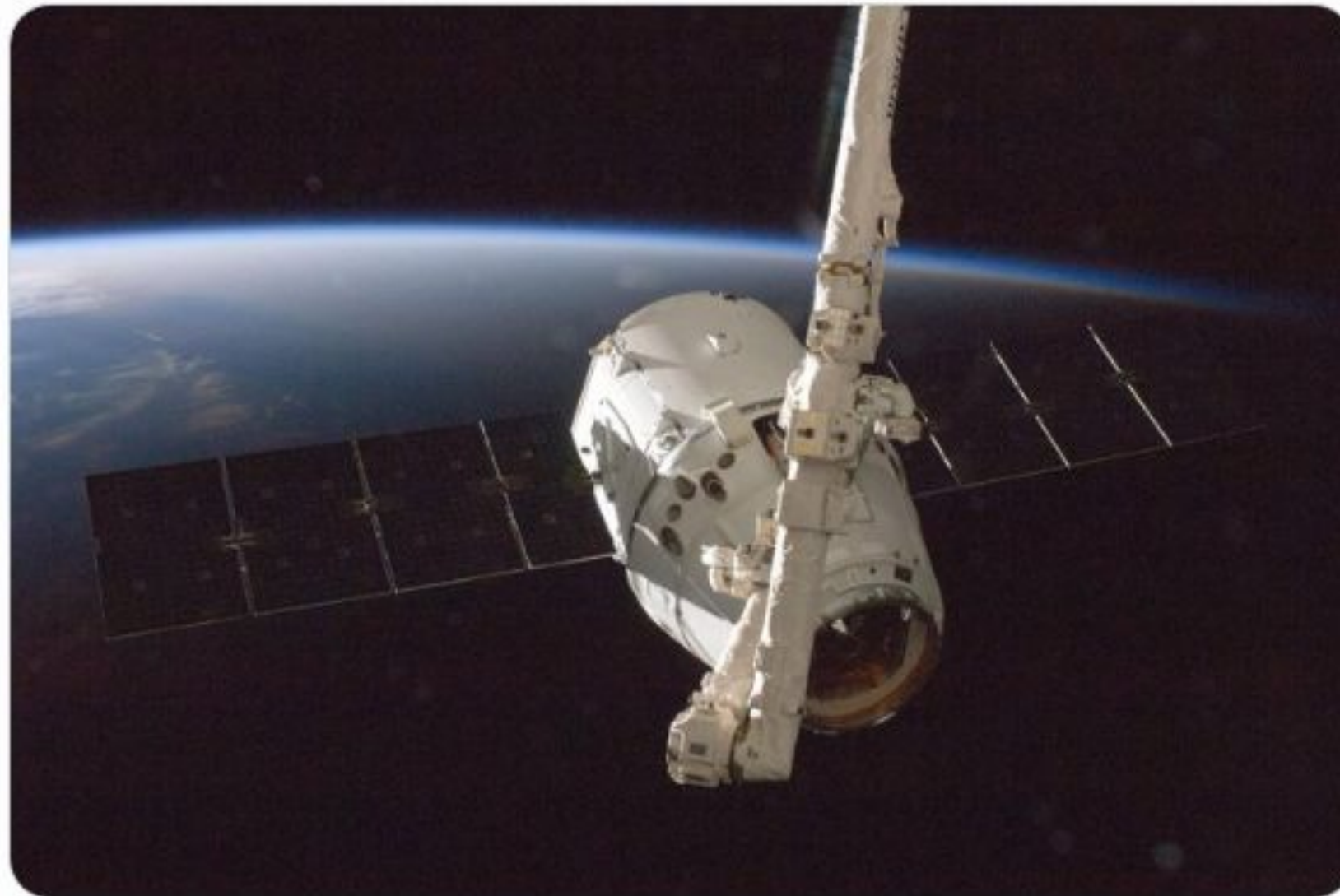
## B. An adaptable recession-prepared economy



1. Real Time data
2. Technology
3. Automatic Stabilisers- UI , (UI), the Supplemental Nutrition Assistance Program (SNAP), and Medicaid.
4. Reserve Currency that results in leeway is discretionary fiscal spending
5. High share of Consumption as % of GDP
6. A State that learns from previous recessions, unlike EM

## C. As an entrepreneurial state, US is a risk-taking, pioneering investor.

Commercial space companies have received \$7.2 billion in government investment since 2000 [theverge.com/2019/6/18/1868...](https://theverge.com/2019/6/18/1868...)



Tulsa unveils giant statue of Elon Musk to try and lure Tesla to the area



[independent.co.uk](https://independent.co.uk)

Tulsa unveils giant statue of Elon Musk to try and lure Tesla to the area  
The city in Oklahoma – and Austin in neighbouring Texas – are on shortlist for new Tesla HQ

Tesla and SpaceX alone have received over \$7.7 billion in government contracts plus billions more in tax breaks, loans, and subsidies. –GRID



# D. Reserve currency gives the US an unparalleled edge



- The US government gained nearly \$2 trillion on its debt and cash liabilities, **Approx 9% of GDP** due to unexpected inflation,

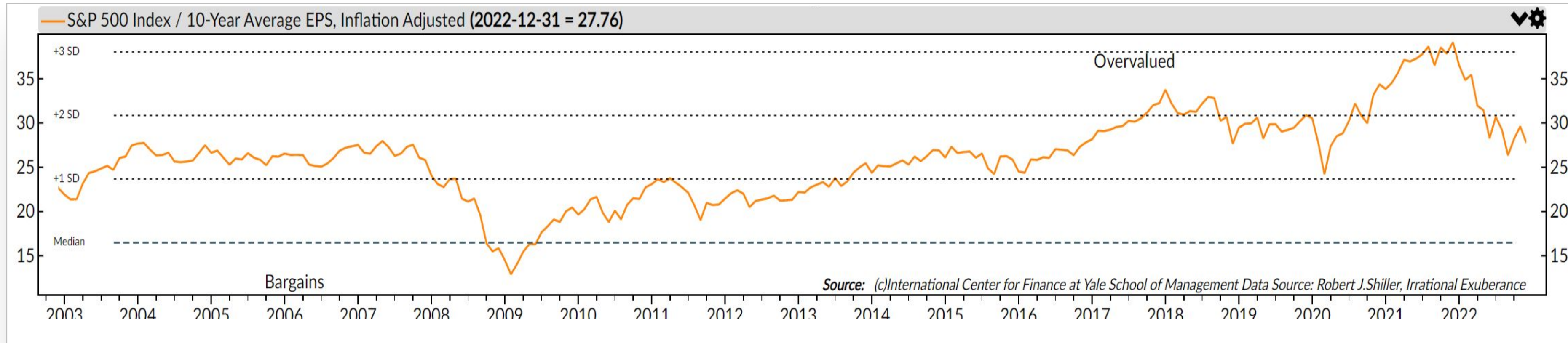
- **One-quarter (over \$500 billion)** is paid by non-residents.

– The Global Distributive Impact of the US Inflation Shock, 22 Jul 2022



# E. Three problems with Bears' Favorite Chart

Schiller is the Central value approach suggested by Ben Graham

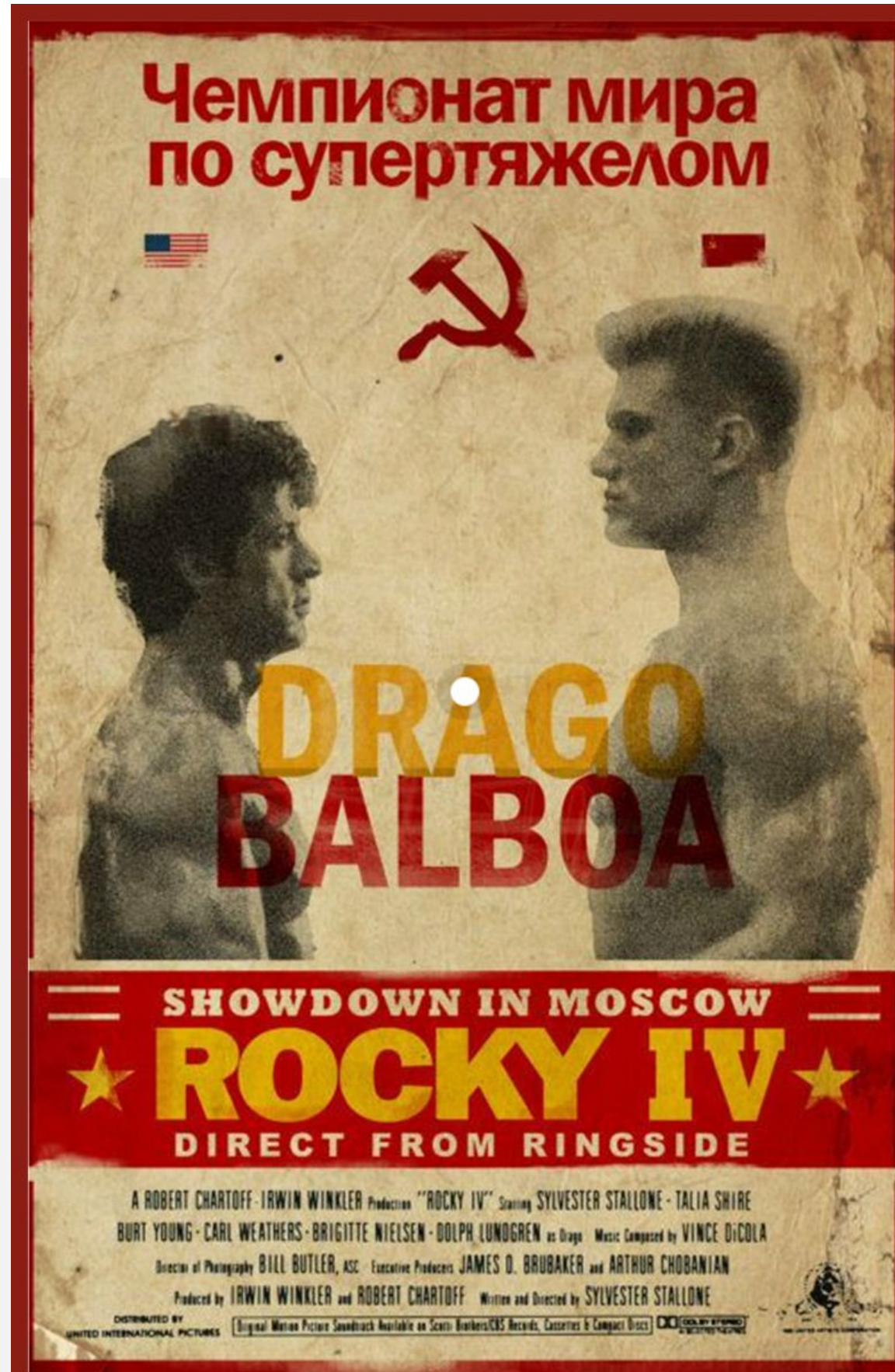


- Use two phrases: **One is past earning power, and the other is future earning power**
- The soundness of this appraisal of central value is bound up with our **ability to escape serious business depression in the future.**

- In the Fourth Edition he added an **arbitrary 50 percent** to the valuations justifying the liberalization on the grounds of basic improvements in the business plus the government's commitment to avert deep depressions.



# Bonus –A knockout punch in foreign policy



- In cold, geopolitical terms, this war provides a prime opportunity for the US to erode and degrade Russia's conventional defense capability, with no boots on the ground and little risk to US lives.
- **US spending of 5.6% of its defense budget to destroy nearly half of Russia's conventional military capability seems like an absolutely incredible investment.** If we divide out the US defense budget to the threats it faces, Russia would perhaps be of the order of \$100bn-150bn in spend-to-threat. **So spending just \$40bn a year, erodes a threat value of \$100-150bn, a two-to-three time return.**
  - Timothy Ash : It's Costing Peanuts for the US to Defeat Russia

## A. Buy into the new Silicon Valley– Intergenerational wealth transfer trade

America's Rustbelt is becoming the predominant nerve center of technological innovation.

### **A new corridor in semiconductor manufacturing**

In 2020, TSMC bought 1129  
land parcels in North Phoenix,  
Arizona for **\$89 million**

### **The new Silicon heartlands**

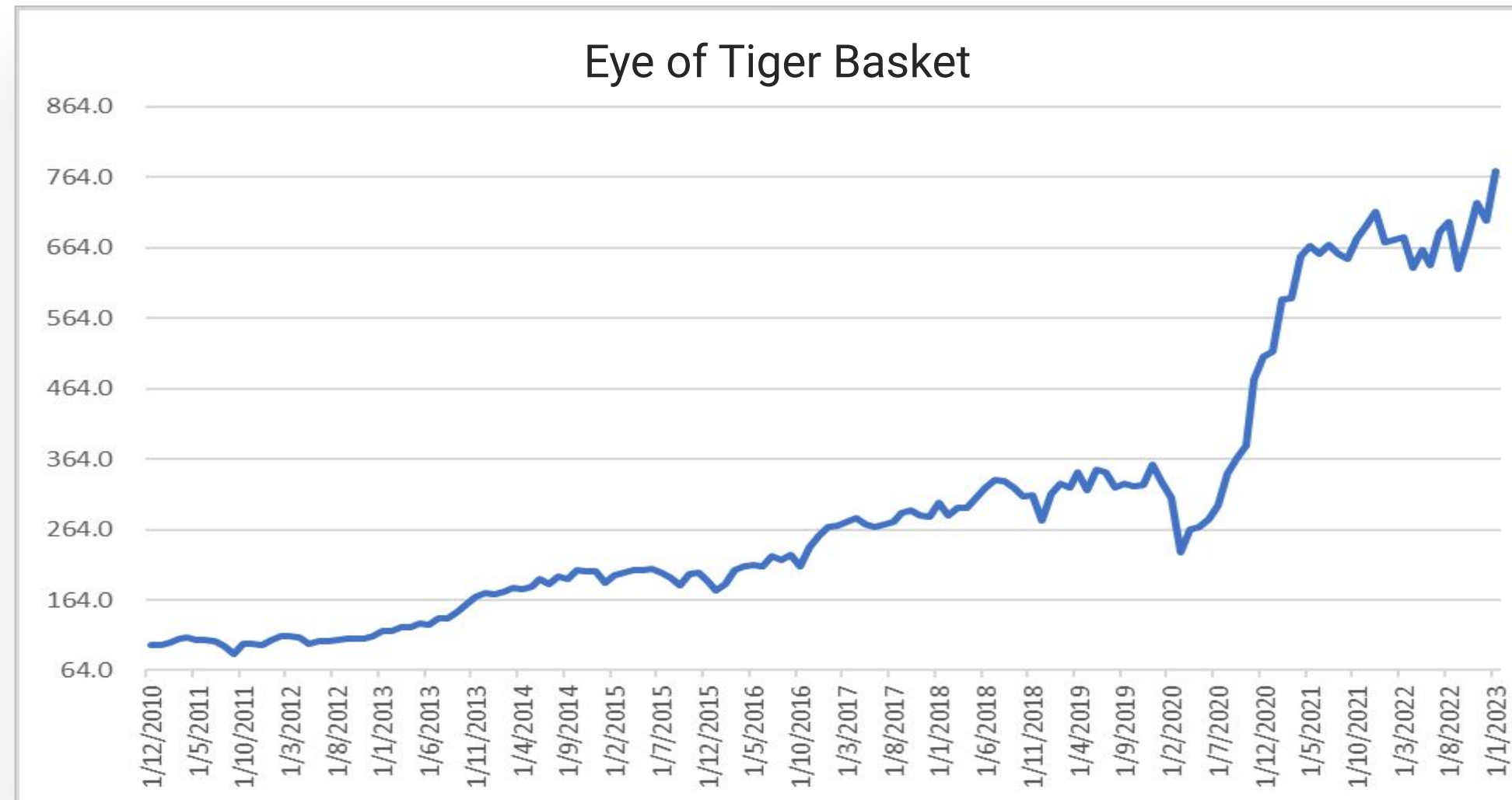
In 2022, Intel purchased  
about 750 acres in Ohio  
for **\$110 million**

// In layman's terms, this approach embraces the notion that some of the best opportunities for growth occur when we invest in people in places that have been **forgotten and overlooked.**

– From "Remarks by the Secretary of the Treasury Janet L. Yellen at Ford Rouge Electric Vehicle Center 2022"



# B. Buy “ Eye of the Tiger ” – Portfolio that reduces US chokepoints



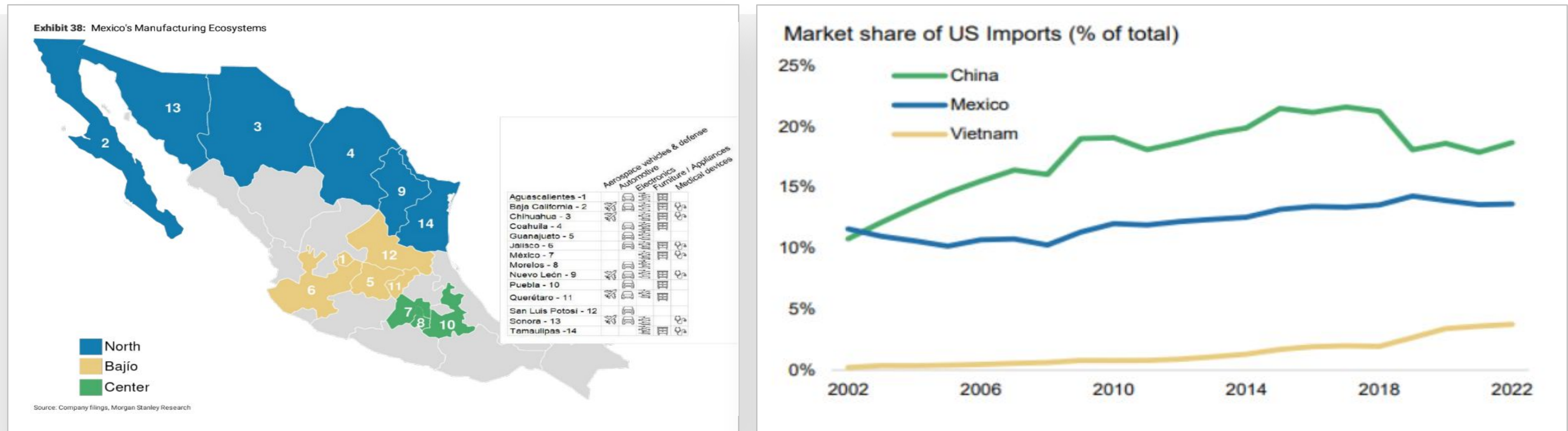
- Long-Term outperformance due to the monopolistic nature of their business.
- Owner-driven enterprises and low valuations due to neglect.
- A cheap option for the revitalization of US manufacturing.
- If the world starts heading in the direction I think, future returns may be even better.

	12/31/2010 – 1/31/2023
<b>Our Model (backtest)</b>	<b>18.40%</b>
S&P 500	12.40%
Russell 2000	9.20%
Industrial ETF	11.40%

Attributes	
PE	10.7x
EV/ EBITDA	6.6x
Normalized ROE	26%
Debt/ EBTDA	1.2
Number of names	50
Median MCAP	\$ 650m
Avg. ADTV	\$ 4.8m

## 6. Outsourcing hubs in US allies

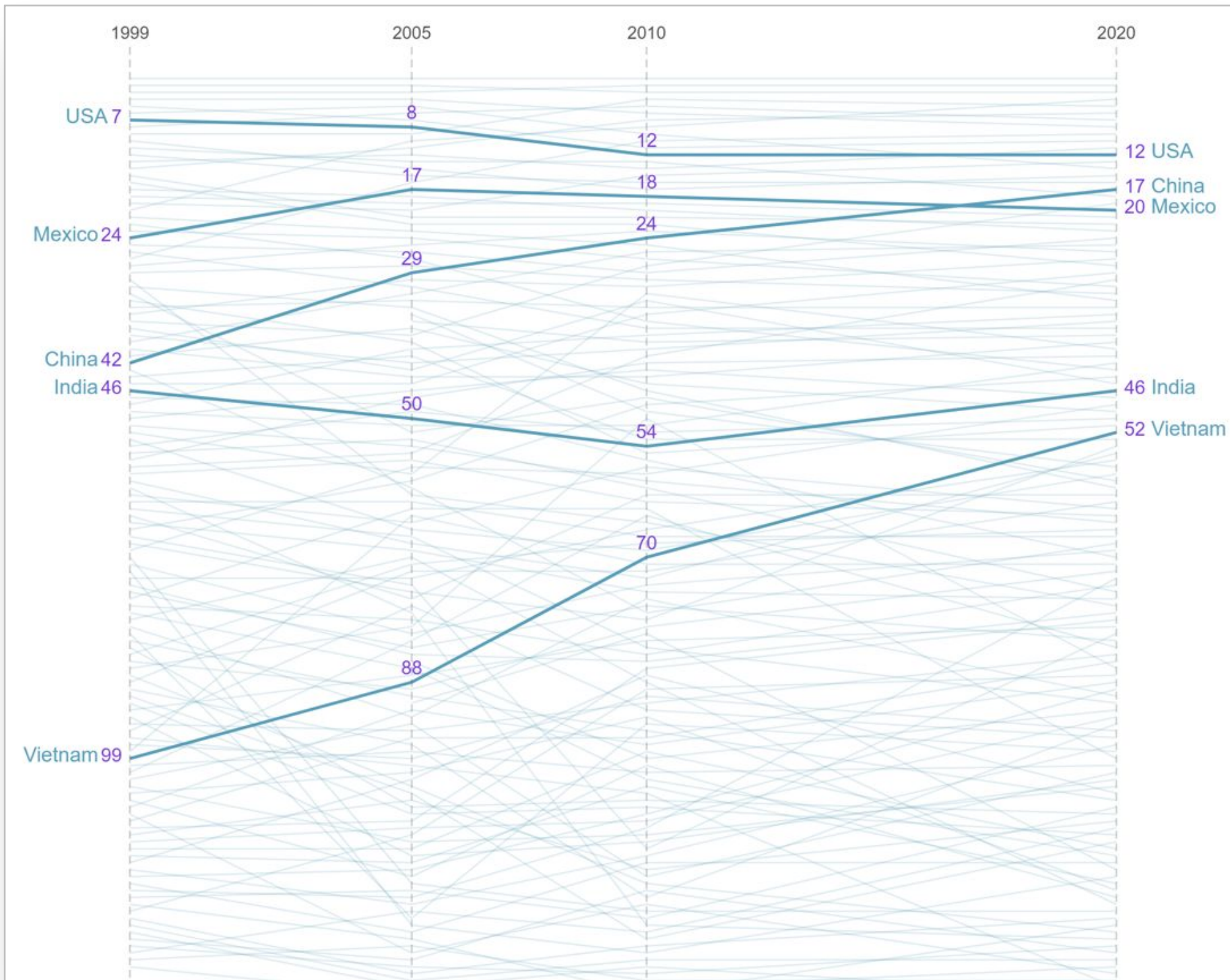
A. Mexico – A manufacturing ecosystem geared up for taking market share from China



1. Received USD 31 BN Foreign Direct Investment (FDI) in 2021, and in the first nine months of 2022, FDI exceeded 2021's total and increased by 30%.
2. Remittances have grown at double digits and now represent around 4% of GDP at USD 55 BN.
3. Government Debt to GDP remains relatively low and stable at around 52% compared to 74% in Brazil.



## B. Manufacturing exports is a big opportunity in India



### iPhone Exports from India Double to Surpass \$2.5 Billion

- The growth of shipments underscores India's ramp-up as a base
- Apple and other big names are exploring alternatives to China



Apple's rapidly growing export numbers illustrate how it is ramping up operations outside of China. *Photographer: Brent Lewin/Bloomberg*

By Sankalp Phartiyal

January 9, 2023 at 3:43 PM GMT+8

Apple Inc. exported more than \$2.5 billion of iPhones from India from April to December, nearly twice the previous fiscal year's total, underscoring how the US tech giant is accelerating a shift from China with geopolitical tensions on the rise.

*Foxconn Technology Group and Wistron Corp. have each shipped*



#### Most Read

Markets

**Hindenburg's Short Sell Call Shaves \$12 Billion Off Adani Stocks**

Markets

**NYSE Mayhem Traced to a Staffer Who Left a Backup System Running**

Technology

**IBM to Cut About 3,900 Workers, Still Hiring in 'Higher Growth' Areas**

Pursuits

**Exodus of Wealthy Chinese Accelerates With End of Covid Zero**


Markets

**Tech-Led Slide Fades; Tesla Whipsaws on Earnings: Markets Wrap**



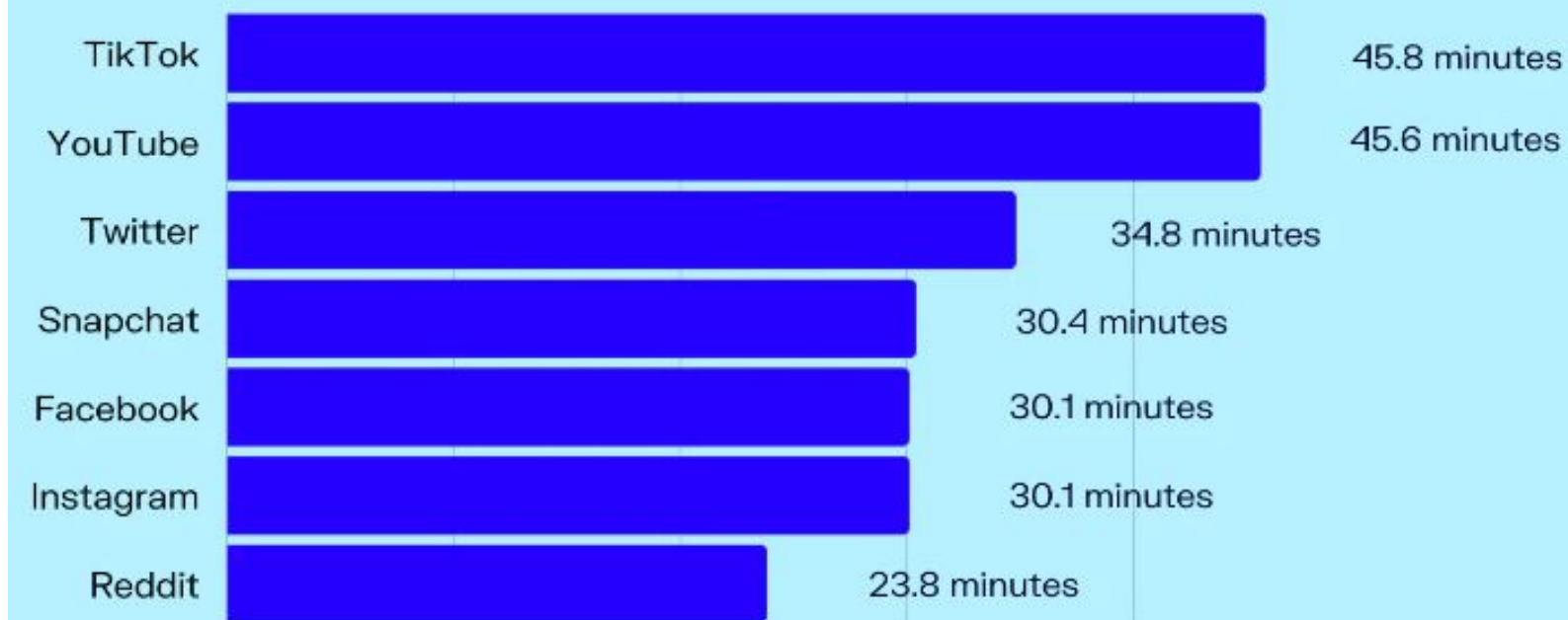
# 7. Buy Meta Call Options

## TikTok access from government devices now restricted in more than half of US states

By  Brian Fung and Christopher Hickey, CNN  
Updated 2:48 PM EST, Mon January 16, 2023



### Average Time Spent On Social Media in 2022 (by Platform)



## Momentum Grows to Ban Chinese-Owned Tiktok, as Rubio and King Reintroduce Bipartisan Bill

FEB 10 2023

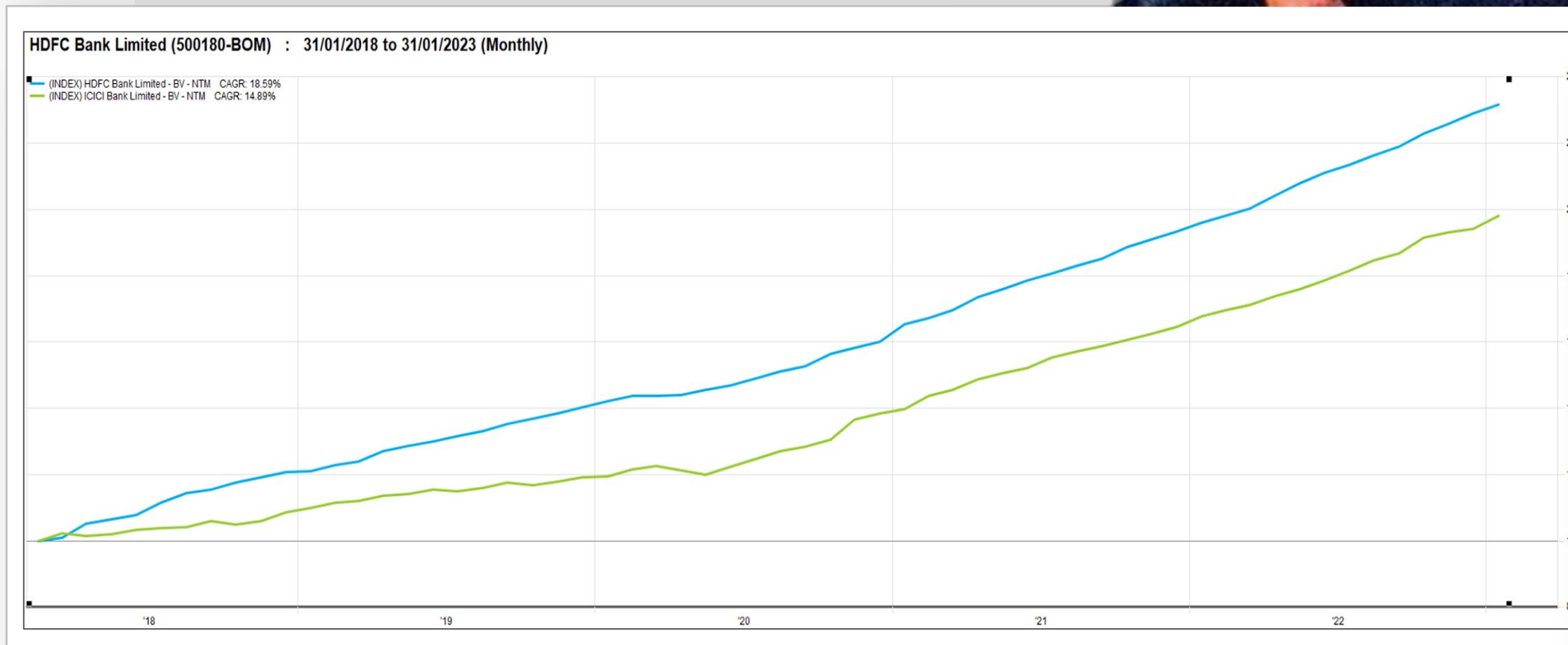
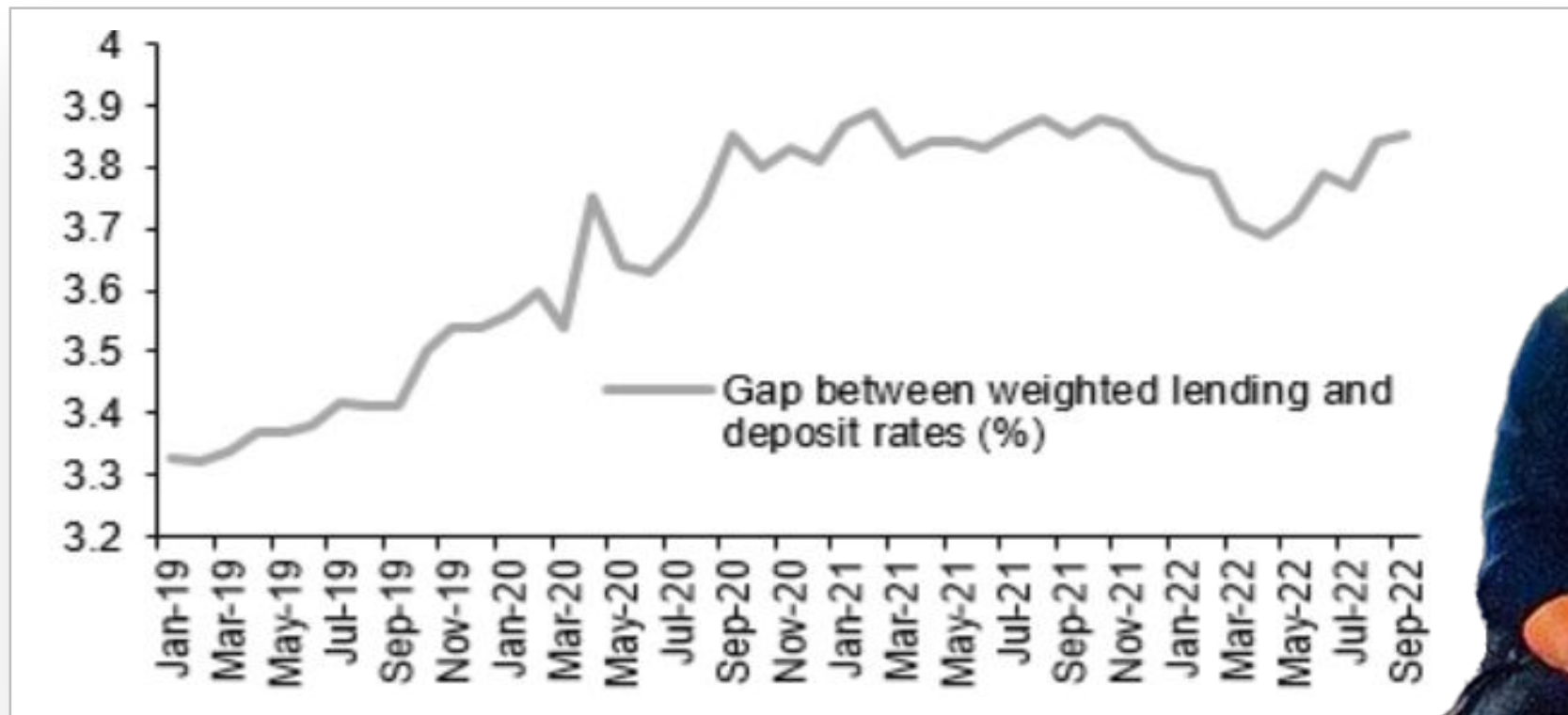
Momentum is growing to ban Chinese state-owned TikTok from operating in the United States. The app, now banned from state government devices in 30 states, is also blocked on most federal devices. As everyone from the FBI Director and FCC Commissioners to cybersecurity experts have warned, TikTok's Chinese parent company, ByteDance, is required by Beijing to make the app's data available to the Chinese Communist Party (CCP). The documented cases of abuse continue to grow, including spying on American reporters and interfering in the 2022 midterm elections.

U.S. Senators Marco Rubio (R-FL) and Angus King (I-ME) reintroduced bipartisan legislation to ban TikTok and other similar apps from operating in the United States. The [Averting the National Threat of Internet Surveillance, Oppressive Censorship and Influence, and Algorithmic Learning by the Chinese Communist Party \(ANTI-SOCIAL CCP\) Act](#) would protect Americans by blocking and prohibiting all transactions from any social media company in, or under the influence of, China, Russia, and several other foreign countries of concern unless they fully divest of dangerous foreign ownership.

- "TikTok allows the Chinese Communist Party to access people's private data. This is a direct threat not only to our national security interests but also to the American people. I'm proud to continue to lead the bipartisan fight in Congress to ban TikTok, as well as other social media companies that are controlled by the CCP, so long as they are under dangerous foreign ownership." — **Senator Rubio**
- "Social media platforms have become essential parts of our daily lives. Millions of Americans depend on these networks to keep in touch with loved ones, stay up to date on news, or run their small business. We cannot allow hostile governments to use our social media habits as a Trojan Horse into our networks. Make no mistake – every 'private' enterprise in China has direct ties and on-demand information-sharing requirements with the national government. The Chinese Communist Party's (CCP) potential to access TikTok user data and exploit American's private information is an unacceptable national security risk. The company must either divest from dangerous foreign ownership, or we will take the necessary steps to protect Americans from potential foreign spying and misinformation operations. I look forward to working with my colleagues to pass a bipartisan bill to address this threat and hope these efforts will spur a swift sale of the company so that Americans can continue using TikTok for personal or professional purposes." — **Senator King**



# 8. Buy HDFC & ICICI bank – Cant go wrong!









# 10. Buy ASEAN

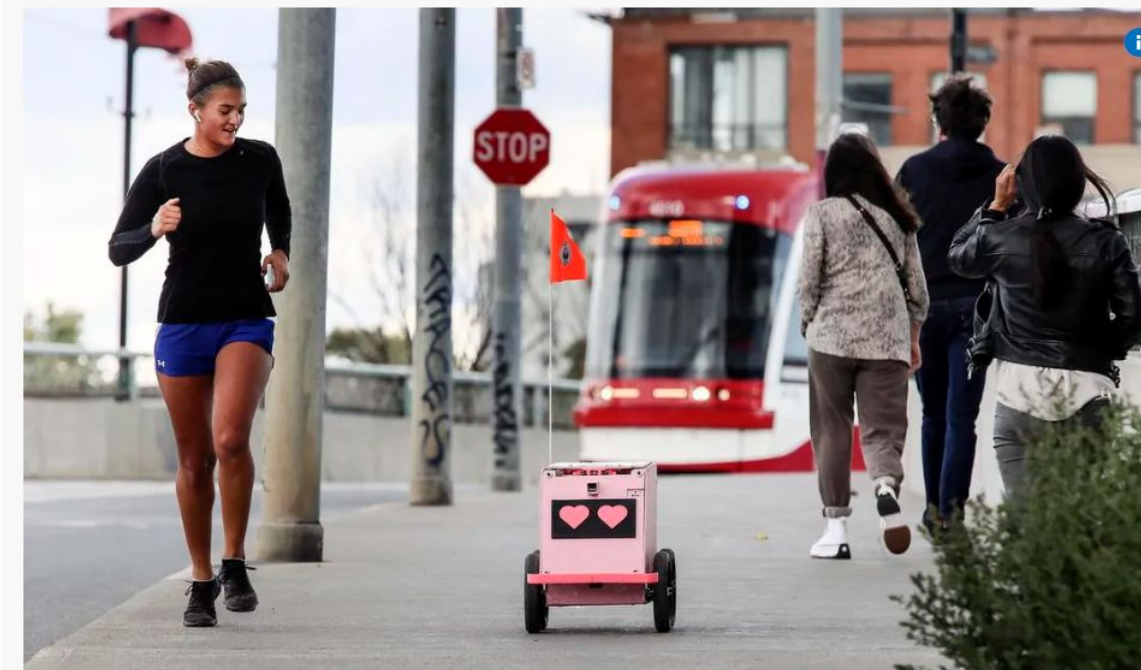
## They are cute pink robots who bring you local food. But their drivers may well be a 17-hour flight away

Geoffrey's remote operators are part of a burgeoning practice that impacts Toronto's gig workers — and those abroad.

By [Sara Mojtehdzadeh](#) Work and Wealth Reporter  
▲ Wed., Aug. 4, 2021 | 7 min. read  
🕒 Article was updated Aug. 05, 2021

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1. A flexible foreign policy
2. Growth with lower vulnerability
3. Play India – China Consumption

## Tesla, BYD Finalizing Deals to Invest in Indonesia EV Space

- Tesla, BYD, Hyundai finalizing EV investment deals: Panjaitan
- Indonesia expects \$30 billion battery investments through 2026

By [Eko Listiyorini](#) and [Norman Harsono](#)

January 17, 2023 at 1:49 PM GMT+8 Updated on January 17, 2023 at 4:10 PM GMT+8

[Tesla Inc.](#) as well as Chinese automaker [BYD](#) and South Korea's [Hyundai Motor Co.](#) are finalizing deals to invest in Indonesia's electric-vehicle industry, said a senior minister.

"All the top global carmakers are coming to us," said Luhut Panjaitan, coordinating minister for maritime affairs and investment, in a meeting with local government leaders on Tuesday. "BYD, Tesla, Hyundai and others are all finalizing deals with Indonesia."

[READ MORE ABOUT INDONESIA'S EV BID:](#)

# Our expected returns framework

	US	EM	India
a. Real earnings Growth			
+			
b. Inflation			
+			
c. Δ PE			
Starting PE			
Terminal PE			
Δ ROE			
Cost of capital			
Δ Addressable market			
+			
d. DY			
+			
e. Δ Currency			
Expected Return			
Forecasting Risk			
Dispersion			



# Recap

## NEXT 12 MONTHS

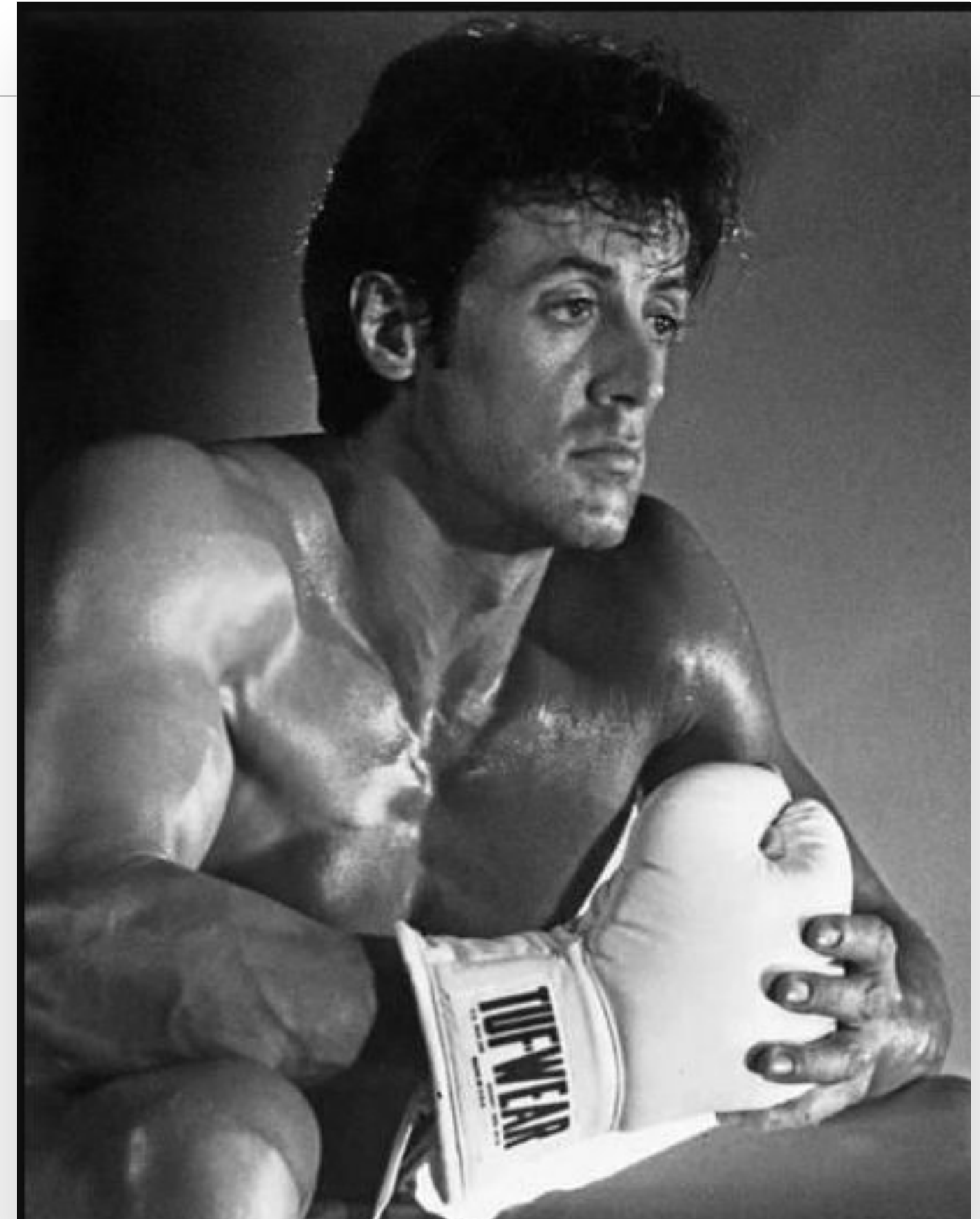
- 1** Buy dollar bonds of Indian corporates
- 2** A disciplined plan to buy SPY
- 3** Tactically play EM but keep an eye at door
- 4** New Themes – Buy Indian companies that likely to benefit from Russia
- 6** Outsourcing hubs in US allies
- 7** Meta Call options
- 8** Moon Shots – AI Startups in India in agriculture, health care.
- 9** Buy HDFC and ICICI bank

## NEXT 5 YEARS

- 5** Buy America
- 10** Buy Southeast Asia

# Asset Allocation Advice by Rocky ...

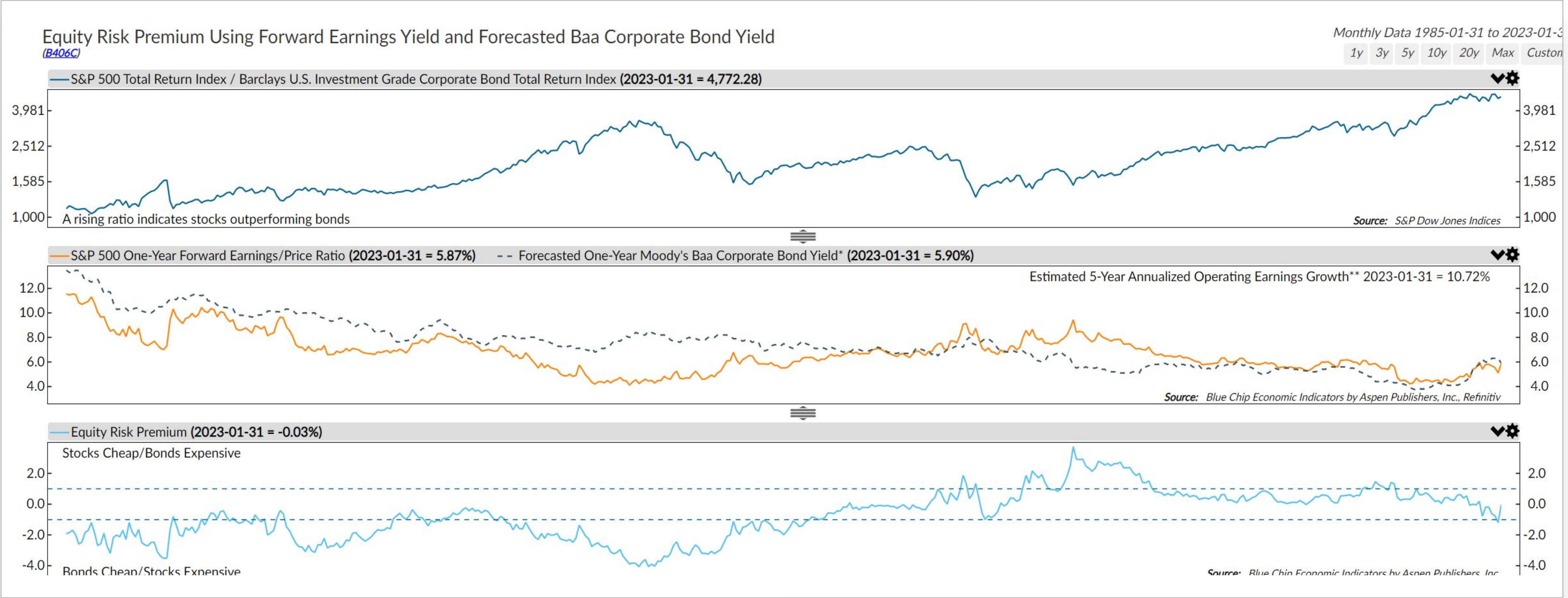
// Diversification is like having different punches in your arsenal. You gotta know when to use 'em, and how to blend 'em together





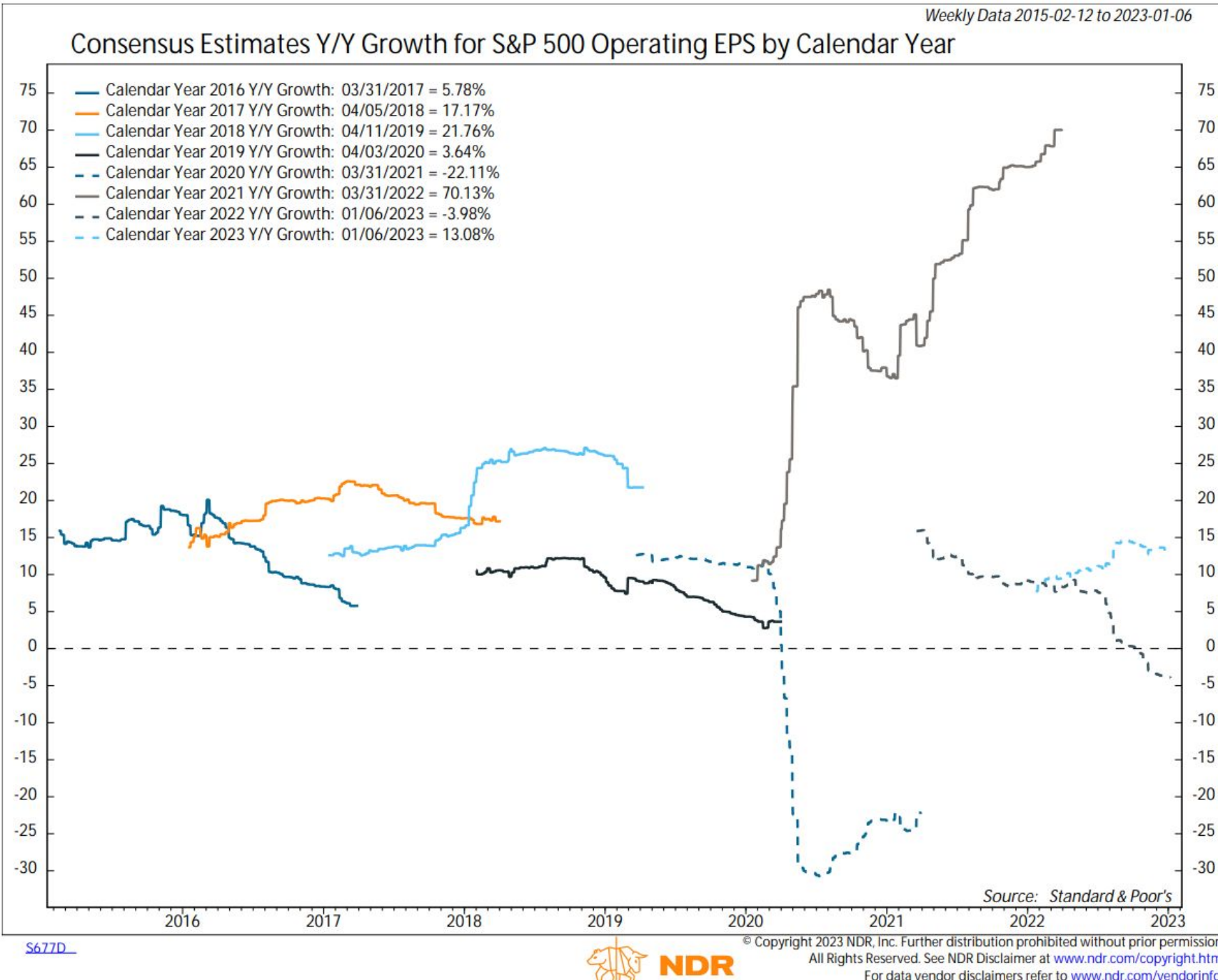
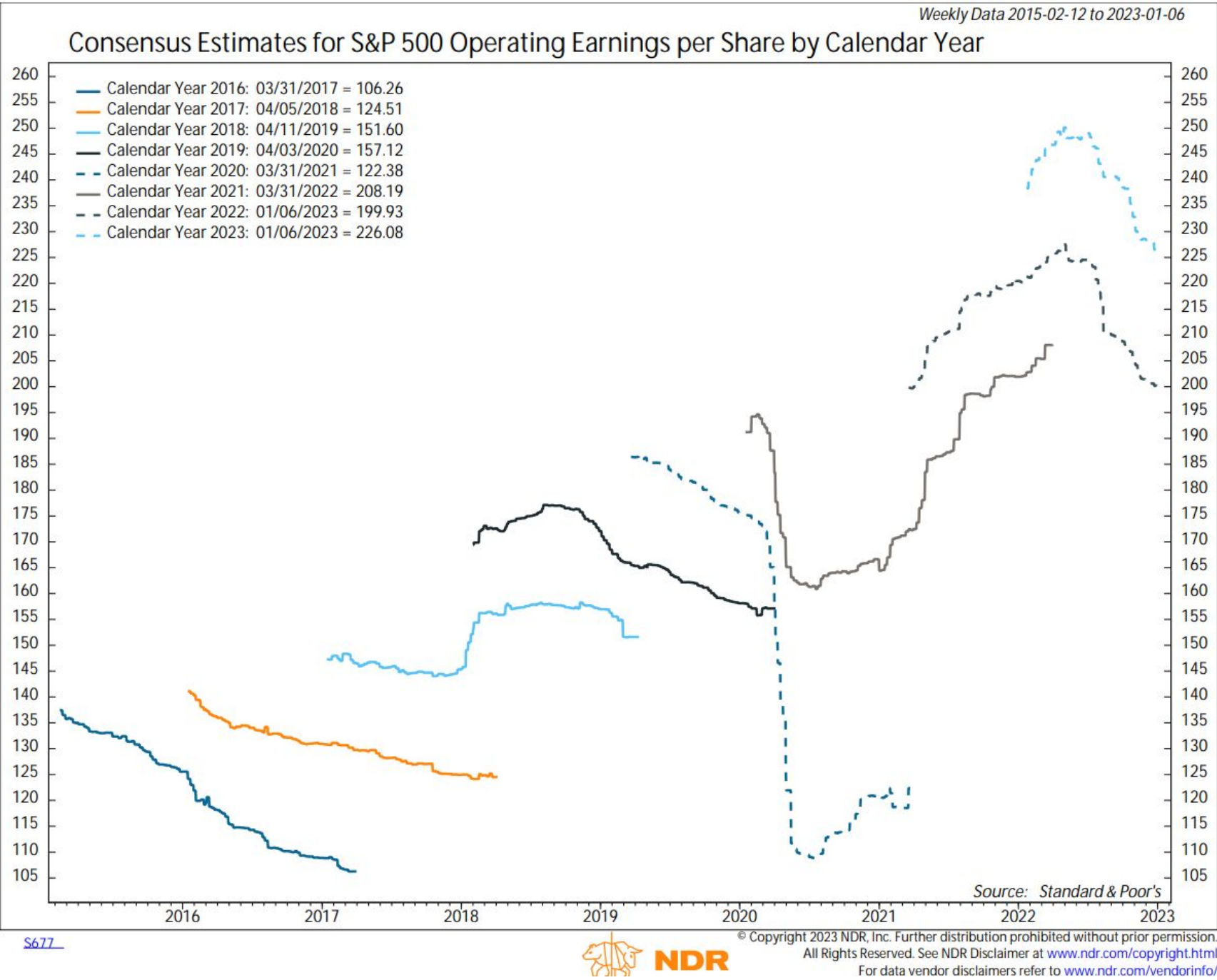
# Appendix

# Valuations relative to rates

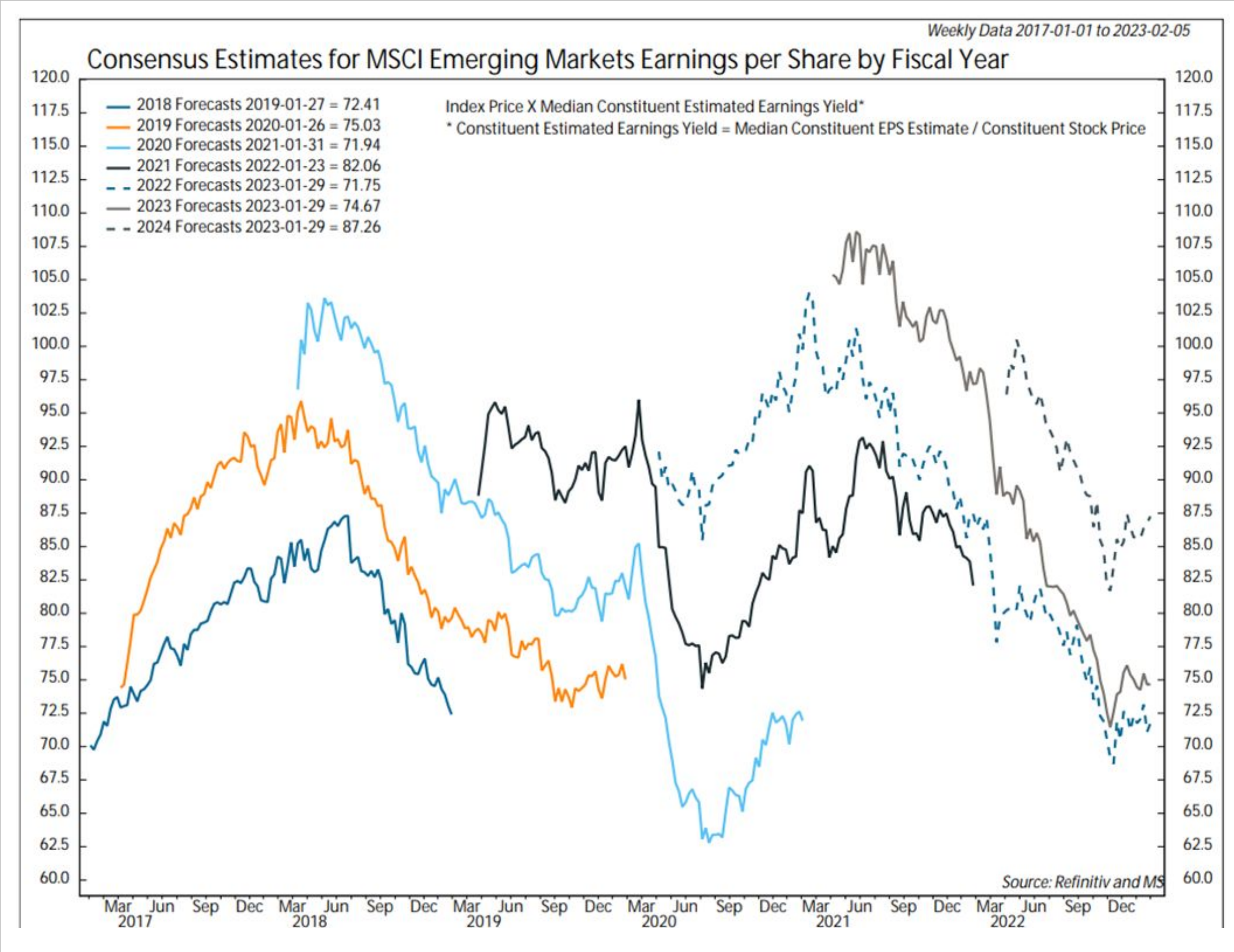




# Earnings | US

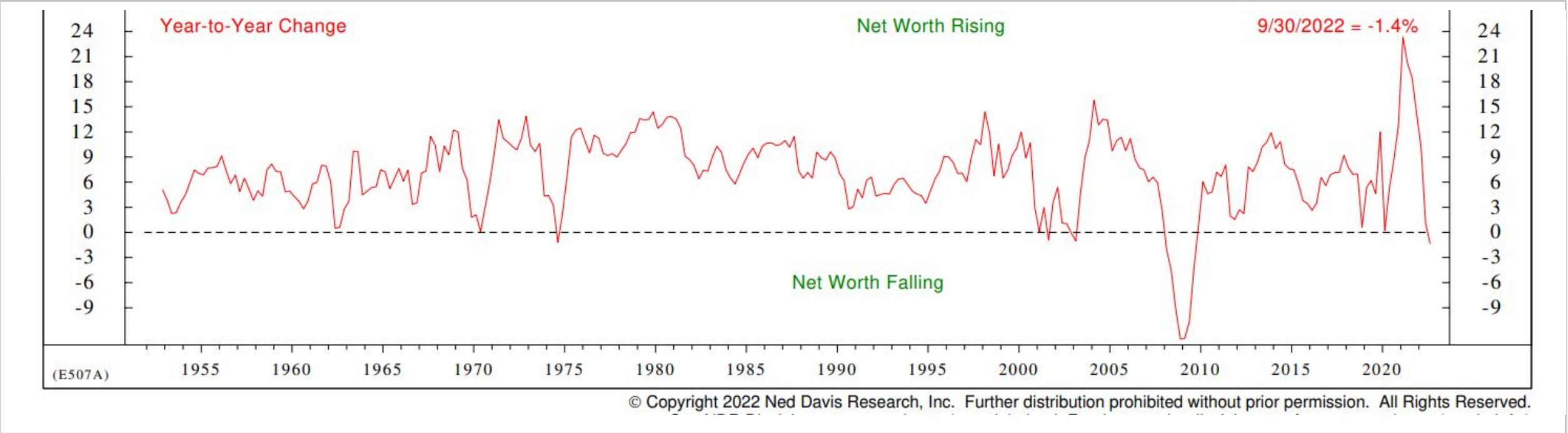
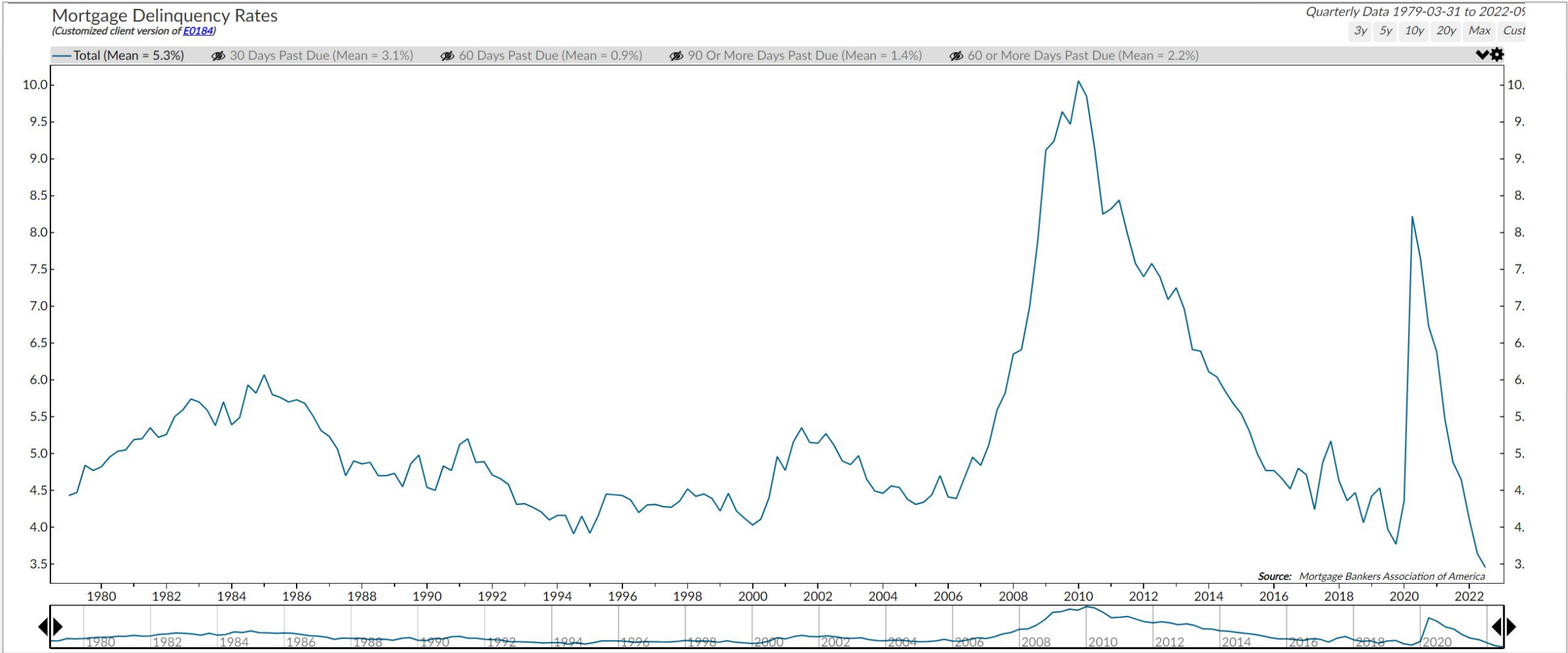


# Earnings | EM

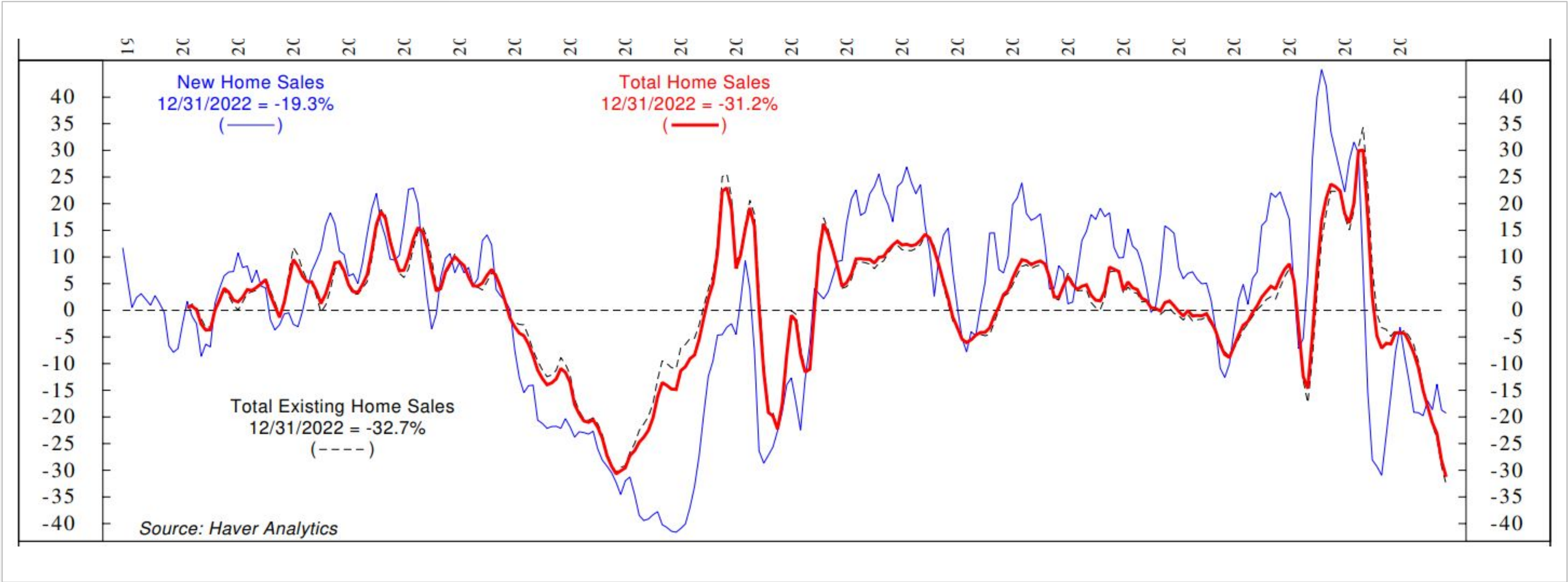




# US Consumer Is Robust

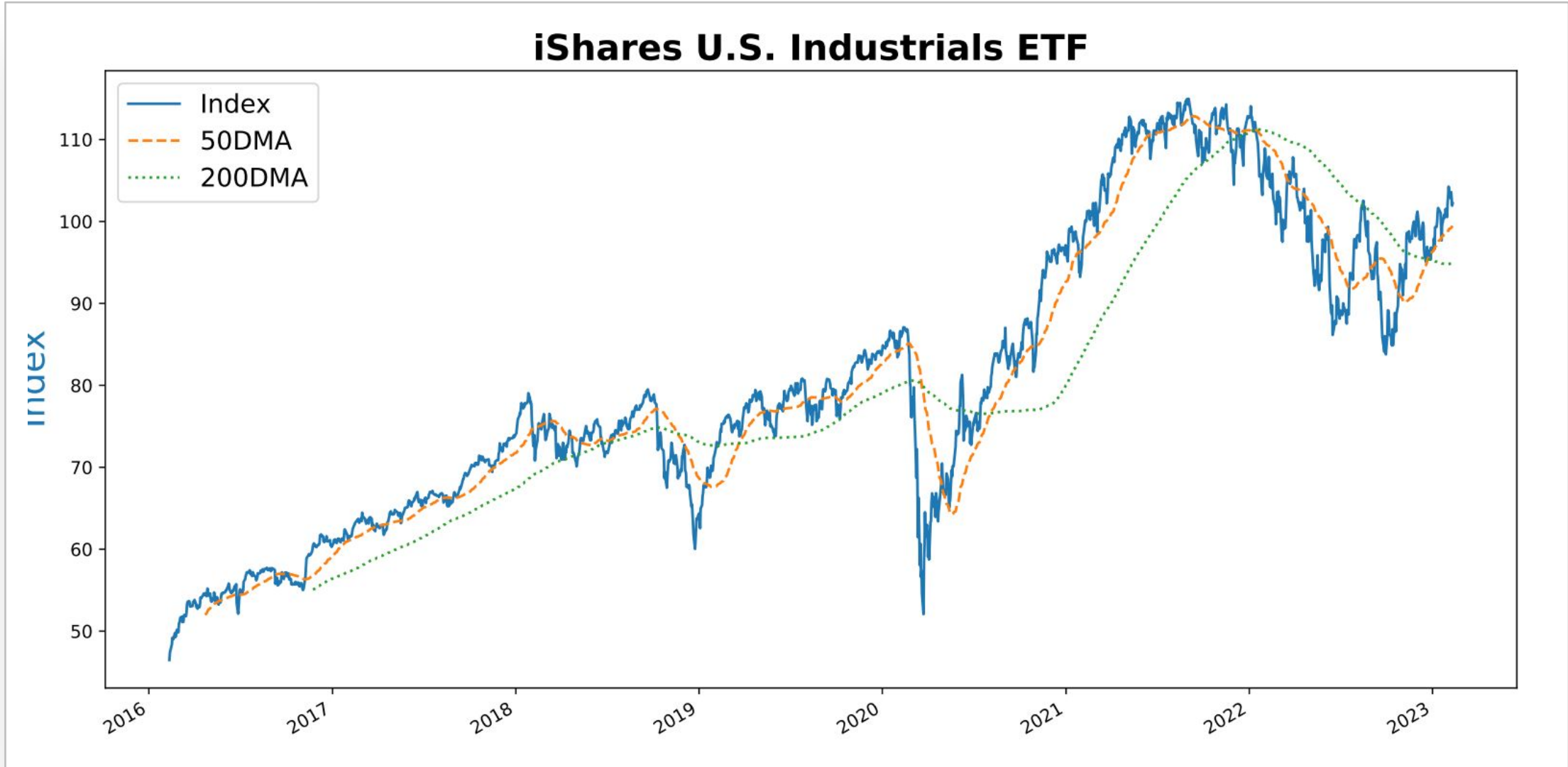


# New, Existing and Total Home Sales





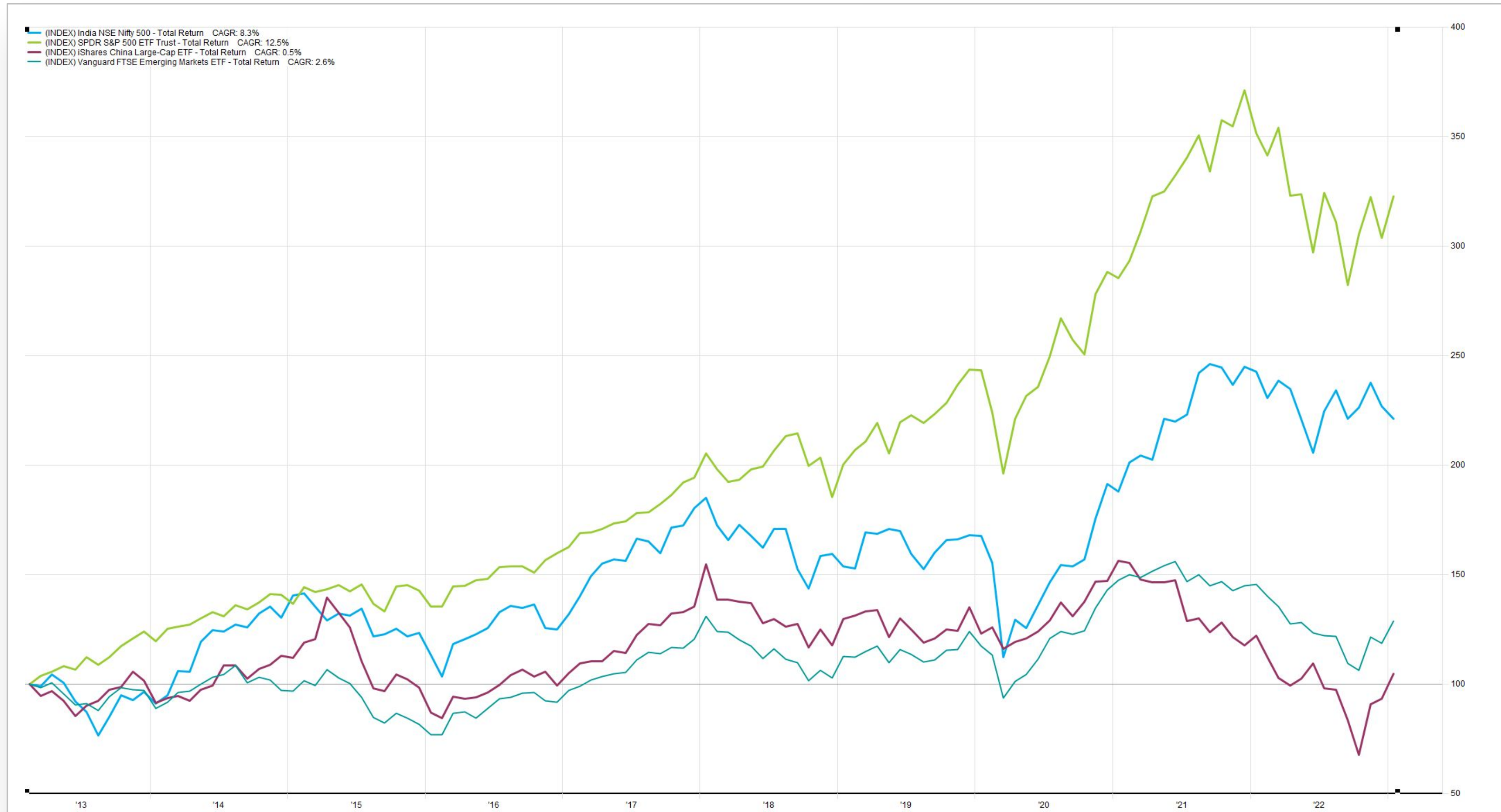
# US Industrials



**3-YEAR MEDIAN VALUATION STATISTICS**

Book Yield (%)	15.64	19.16	34.08
	Low	Average: 19.76	High
Cash Flow Yield (%)	4.09	6.09	9.77
	Low	Average: 5.76	High
Dividend Yield (%)	0.00	1.45	2.59
	Low	Average: 1.36	High
Earnings Growth (%)	-13.11	13.95	44.34
	Low	Average: 13.08	High
Earnings Growth-LT (%)	7.63	9.43	11.71
	Low	Average: 9.19	High
Sales Growth (%)	-4.84	11.99	15.97
	Low	Average: 6.20	High
Sales Yield (%)	31.55	42.31	81.28
	Low	Average: 44.70	High

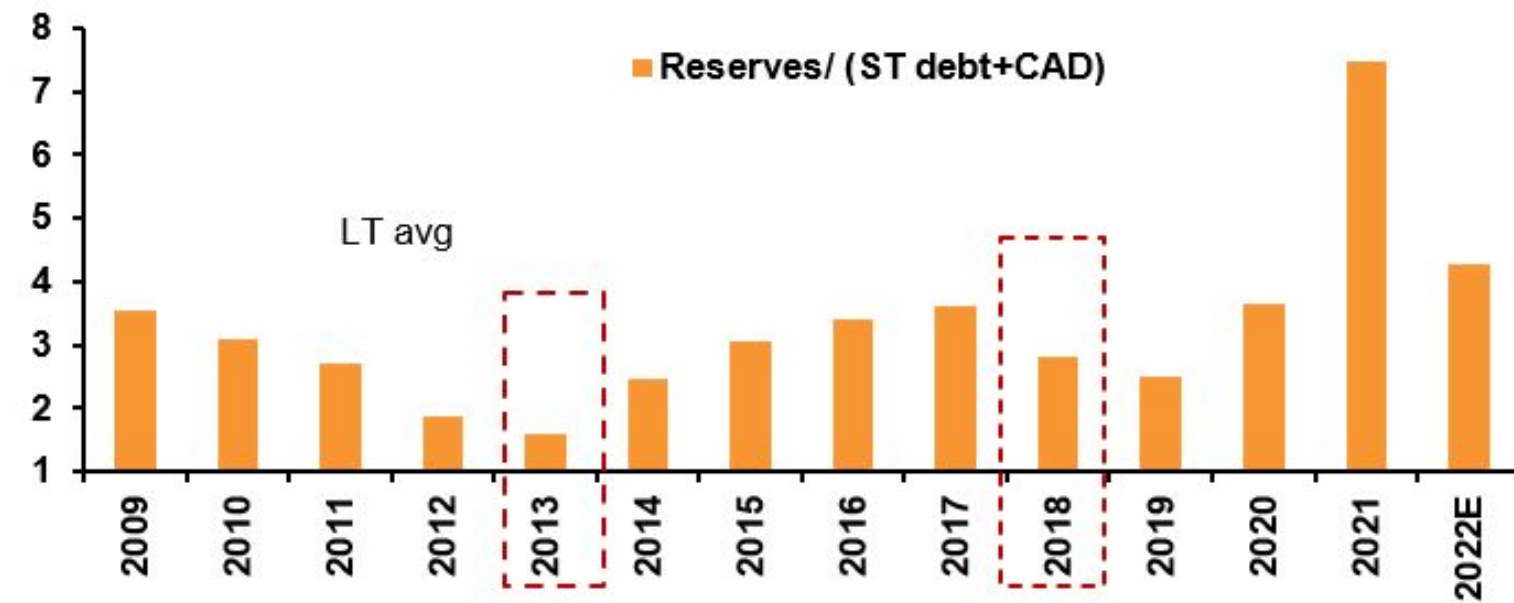
# India vs China , US & EM



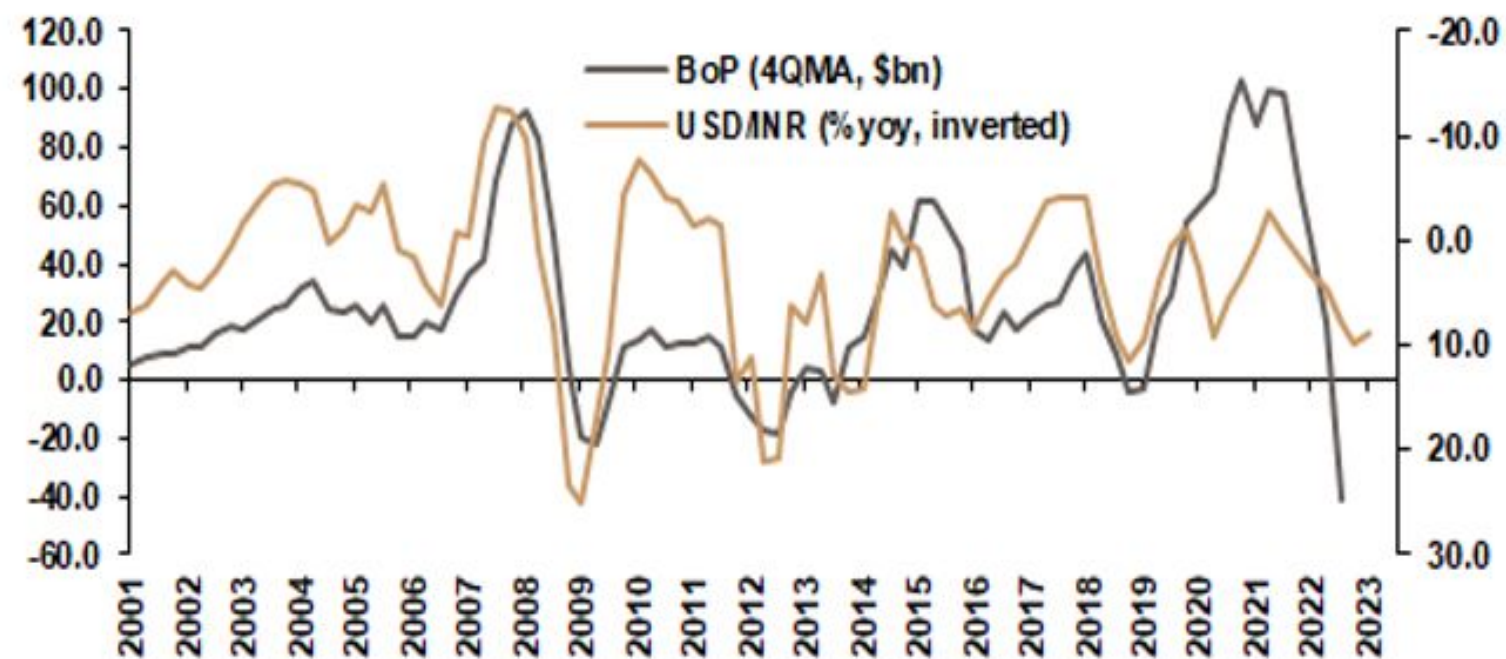
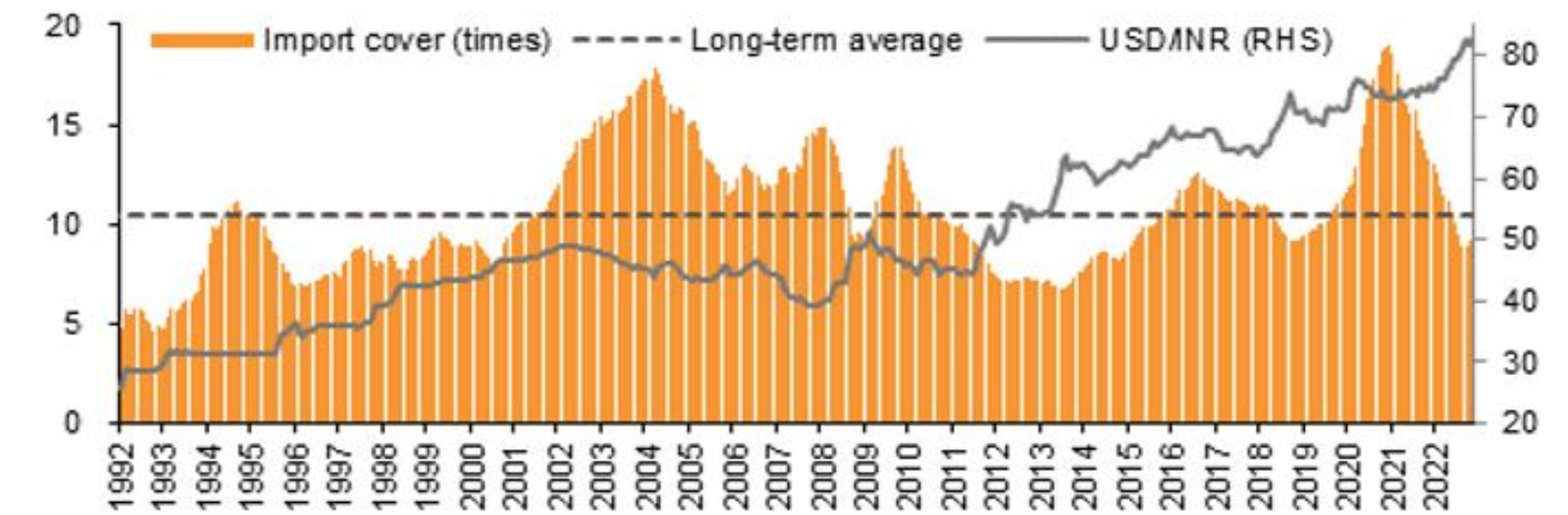


# Risks to INR

### Reserves adequacy is falling fast for near-term liabilities

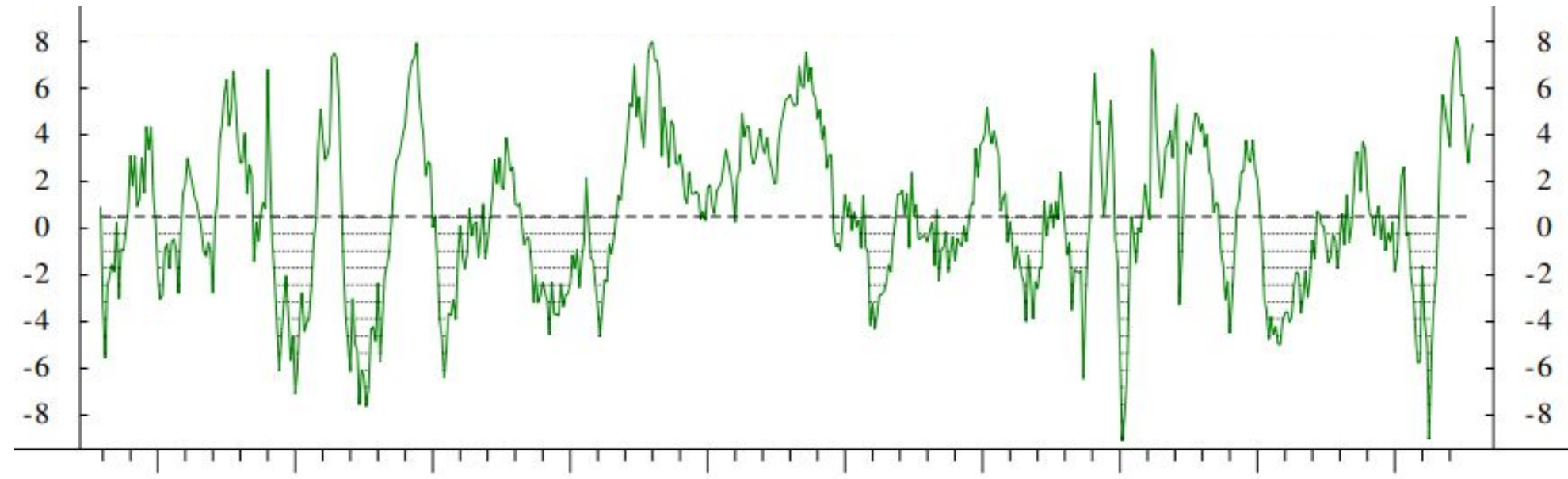


### Import cover deteriorating

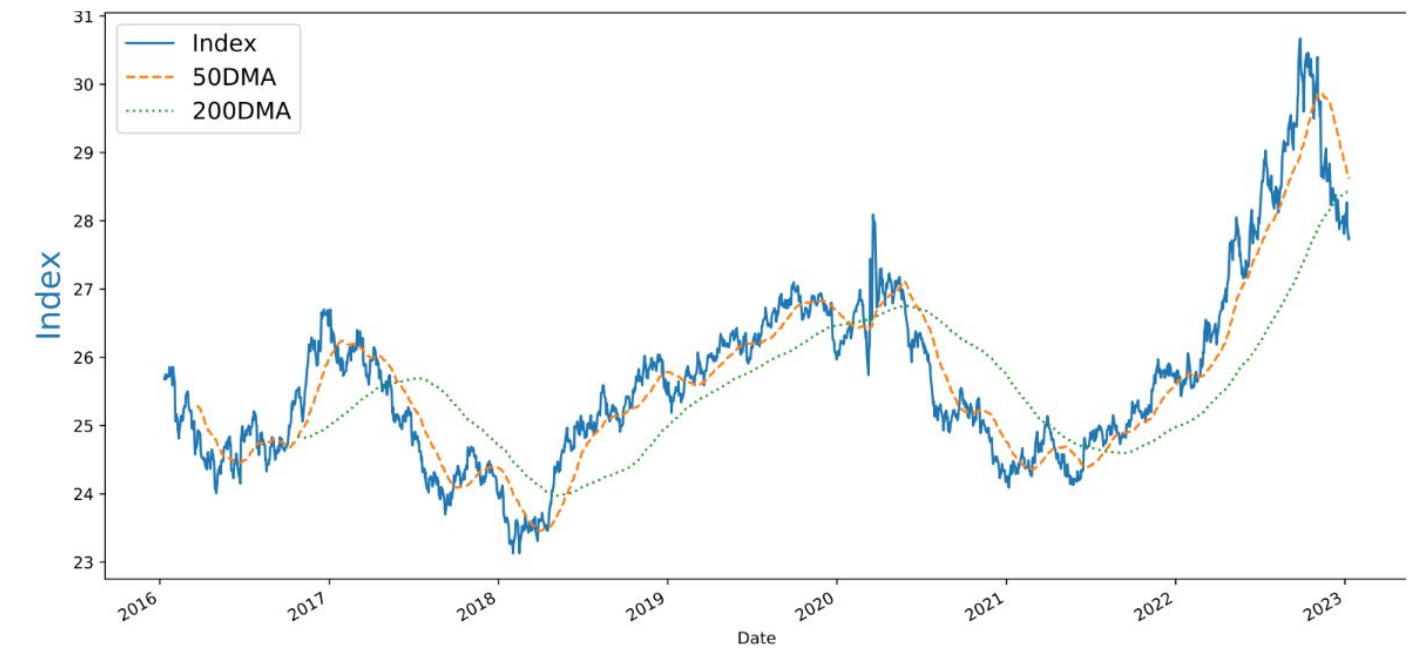


# Dollar

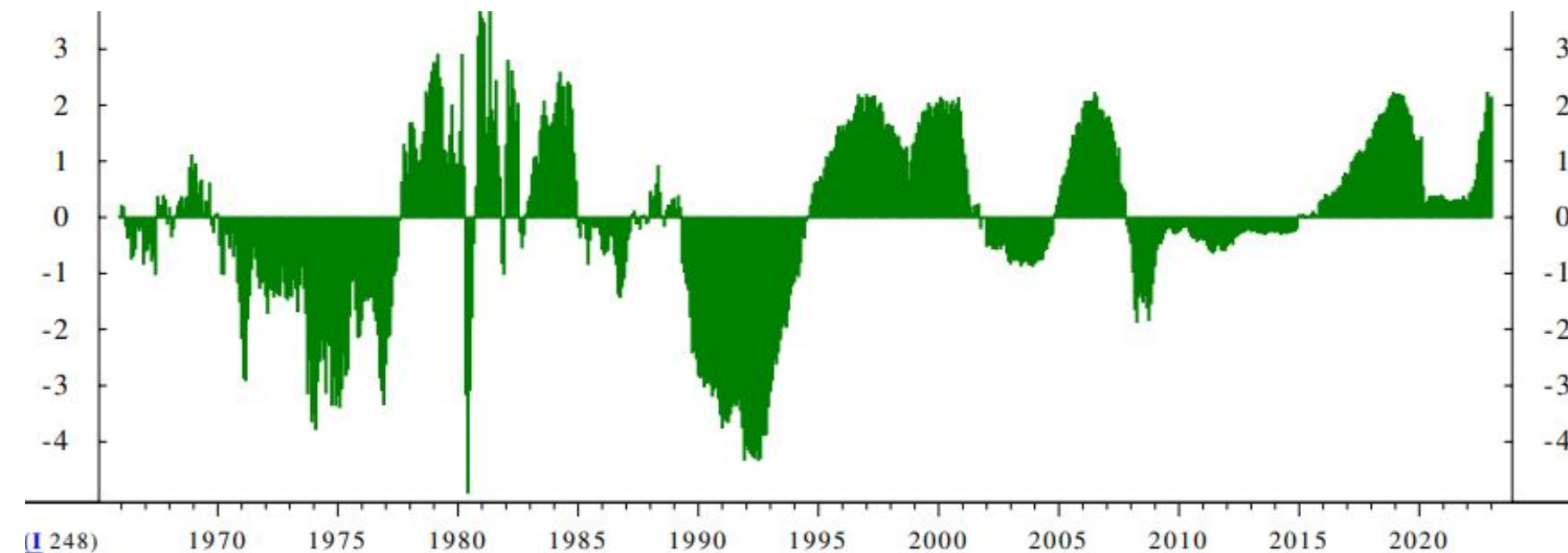
## US minus Non-US Rates of Industrial Production Growth



## Invesco DB US Dollar Index Bullish Fund



## US minus Non-US Nominal Interest Rates



## US minus Non-US Real Interest Rates

