

So, “What have we learned?”

We have suggested in the past, that it can be difficult for investors to reconcile events when the media so completely shades facts and sell-side analyst color reports with hope and self-interest. In the latter part of 2024, our commentary ‘Bet You Didn’t See It Coming – Holiday Edition’ said, “If one were gaming things out in Washington, some of the outcomes one would have to contemplate would be those wherein oil is more on the threshold of triple digits rather than flirting with \$60-70/bbl. The Straits of Hormuz, Iran and a host of other factors, of course, come into play...”. When we suggested that, a great many very highly regarded, white-shoe investment firms were flirting with expectations of oil in the mid \$40/bbl range, we pragmatically assumed that they were ‘talking their book’, saying things that support their positioning. We went on in that commentary and others to suggest that conflict involving Iran (directly or through proxies) would be asymmetric, deniable, and economically disruptive rather than a conventional war. We further alluded to energy as the transmission mechanism for economic shock and widespread impact among Mideastern countries. Hormuz, shipping and other factors were called out, as some may recall. While a modicum of self-awareness prevents us from wanting a badge for identification of the obvious, we were and continue to be struck by the degree to which consensus narratives and hoping for the status quo take hold and drive strategy.

We migrated some assets over time to oil producers in both the US, Europe and South America assuming that any disruption possibility was underpriced and under-estimated. Some of those positions have now risen 50% or more in two months. The market had underwritten far less geopolitical risk. We assumed greater peril to oil/gas production and distribution.

The narratives continued as very similar scenarios played out over the course of the last couple of years around inflation and gold. With most major, developed countries having recklessly printed currency through the Covid era, we envisioned a scenario where the purchasing power of said currencies could be impaired. In our April 2023 commentary, we reconciled that, due to the aggressive expansion of M1 money supply, “we would eventually be looking at a dollar that is, effectively worth around 20% less.” Having been told repeatedly by the Fed that the inflation was ‘transitory’ and was headed to 2%, most big firm macro strategy teams remained steadfast that inflation was tame and that gold was not an asset class. Many put a target gold price at around the \$2,100/oz. Just as we acquired oil producers as they were calling for \$47/bbl oil, we acquired some interest in gold miners when investment banks held to \$2,100/oz gold forecasts. In fact, we revisited both gold and oil in the June 2025 commentary entitled ‘Oil and Water.’ As most know by now, gold, ultimately, exceeded \$5,000/oz and oil has solidly topped \$100. We made the decision to exit gold miners recently and now contemplate trimming oil producers as some of the same macro strategists are now targeting \$5,500 gold and \$200 oil. The rationale is

not, mind you, to be non-consensus for the sake of it, but, rather, the recognition that gold and gold miners can be quite volatile and, contrary to what you might hear on television, it is not immune to liquidity or market shocks. Very sharp rises in oil prices, as some may recall, also tend to be the natural antidote to high oil prices insofar as they tend to retard economic activity and sow the seeds of their own remediation. We are comfortable with the gold miner exits irrespective of what happens in the short and intermediate term and are watching vigilantly the oil situation, as well as valuations. It is arguably quite difficult to anticipate in the fog of war, as things can stagger wildly for some time, even as talk of talks and reports of tankers navigating the Straits swirl.

Another example of narratives is that which swirled around interest rates months ago. As the macro strategists talked of very low rates many months ago with ten-year treasury yields at 3.6% on the UST ten year, we presumed meaningfully higher rates. Having touched 4.5%, we they are a shade over 4.3% at present. Now, immediately in the wake of Mideast hostilities, they raised rates forecasts suggesting that commodity inflation would drive up prices and, hence, the expectations of future inflation. In the early days of this conflict, that was indeed true to some extent. Yet, we have to wonder if demand destruction and lower economic activity may not, ultimately, pull toward lower rates in time. The challenging aspect of the longer, longer-term outlook now is what the US will do to finance the 'silent cost' of prosecuting, yet, another war in addition to its existing debt load of nearly \$40T. The reckless printing of money could prove, well, reckless. But, there will be bills to be paid. If in fact, printing is the path forward, it could have an impact on inflation expectations, of course, and potentially impact long term nominal rates. We will be watching this closely, as well, in the months ahead.

What might one reasonably expect in the weeks and months to come? As we have said innumerable times, valuations are indeed high relative to history. For the uninitiated, we will also remind that strong rallies do happen alongside declines in tough markets. We would not be surprised to witness some whipsawing as markets process conflicting news. We would also not be surprised to see every market action baked into what are reputed to be unassailable narratives. In an era characterized by investors seeking to buy things that may one day be worth something, we will continue to strive ardently to avoid buying things which could one day be worth much less than their trading prices today.

One last point worth making before we conclude. Liquidity, it must be said, is an overwhelming force in markets. Disruptions tend to strain liquidity. A liquidity strain harms markets and, even more so, fragile and illiquid assets. While the band plays on about the virtues of alternative assets, private assets, growth and long duration assets which sometimes require cash to burn rather than producing cash, it is worth considering that low liquidity can also sometimes

produce very gappy pricing for such assets. A thinly traded security in a cash-burning company (sometimes held by leveraged funds or on margin), can reprice violently in a low liquidity market. For our part, we overwhelmingly hold fairly liquid holdings in seasoned companies which produce cash flow.

If a liquidity squeeze were to emerge, it is likely that the news coverage will focus on the dramatic. While much of the real action may well take place in the least well-positioned, low liquidity, low quality concerns, very few assets in any market are fully inoculated from its worst components in such an environment. In our view, higher quality is often preferable to lower quality in stress environments; liquid preferable to illiquid; and, cash-producing preferable to cash-burning. In our efforts to preserve and grow long term capital for clients, we can be comfortable, when and where appropriate, to entertain things like 4.8% dividends paid at the qualified dividend rate by companies with some prospect of future growth. In other instances, we may lean toward bonds of municipal issuers who have yields at or even well exceeding 6%+ taxable equivalent.

Returning to our question, “What have we learned?” As investors, we have hopefully learned that narratives may influence, but do not entirely shape outcomes. Facts matter. Events on the ground matter. Decisions matter. We can hope now, too, that global leaders in government and finance incorporate the lessons of the past, as well.

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