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From Data to Decisions: Evidence-Based Insights into Navigating Economic Regimes

Firm Overview



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Modern Problem: Too Much Information!



Finding the Signal in the Noise

- 1) Understand the Four Economic Regime Quadrants**
 - 2) Identify evidence-based economic indicators that provide fundamental insights**
 - 3) Use these tools to navigate asset allocation decisions through time**
-

Part I

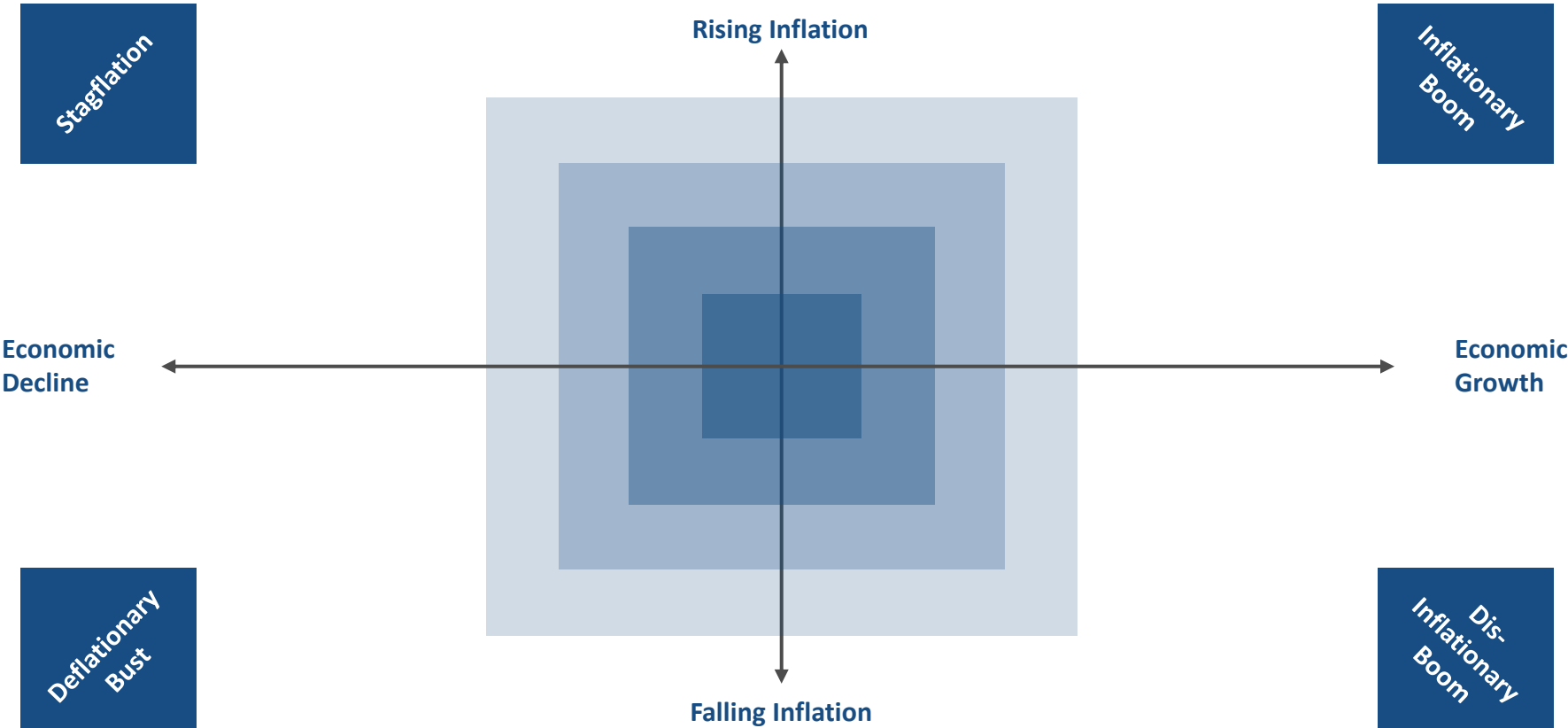
Economic Regimes: A Story About Growth & Inflation

What Really Matters?

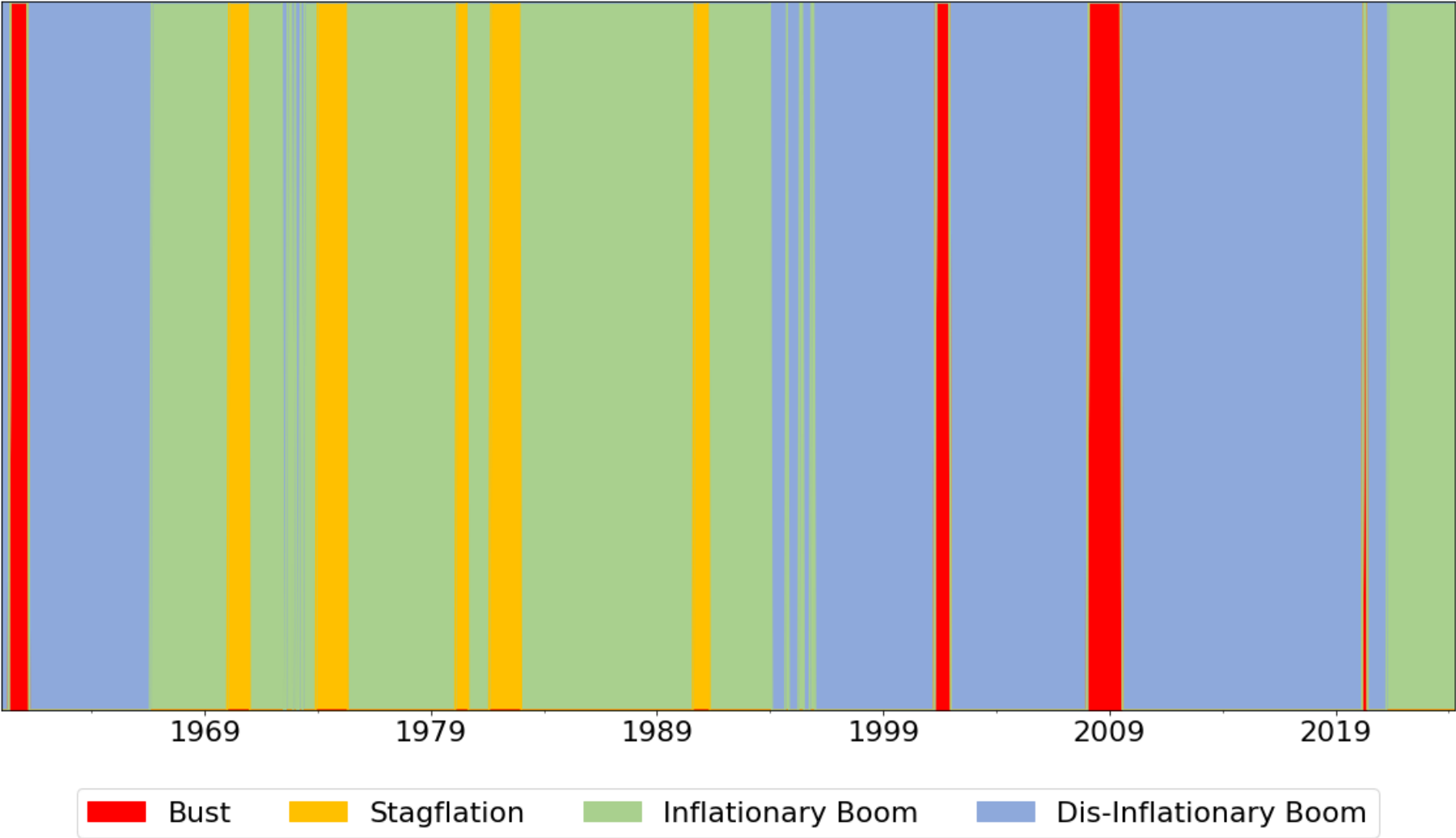
Fundamental drivers for each asset class:

- **Stocks & Real Estate: future earnings and asset values over inflation**
 - **Bonds: interest & principal payments over inflation**
 - **Commodities: changes in supply/demand and currency valuations (i.e., inflation)**
-

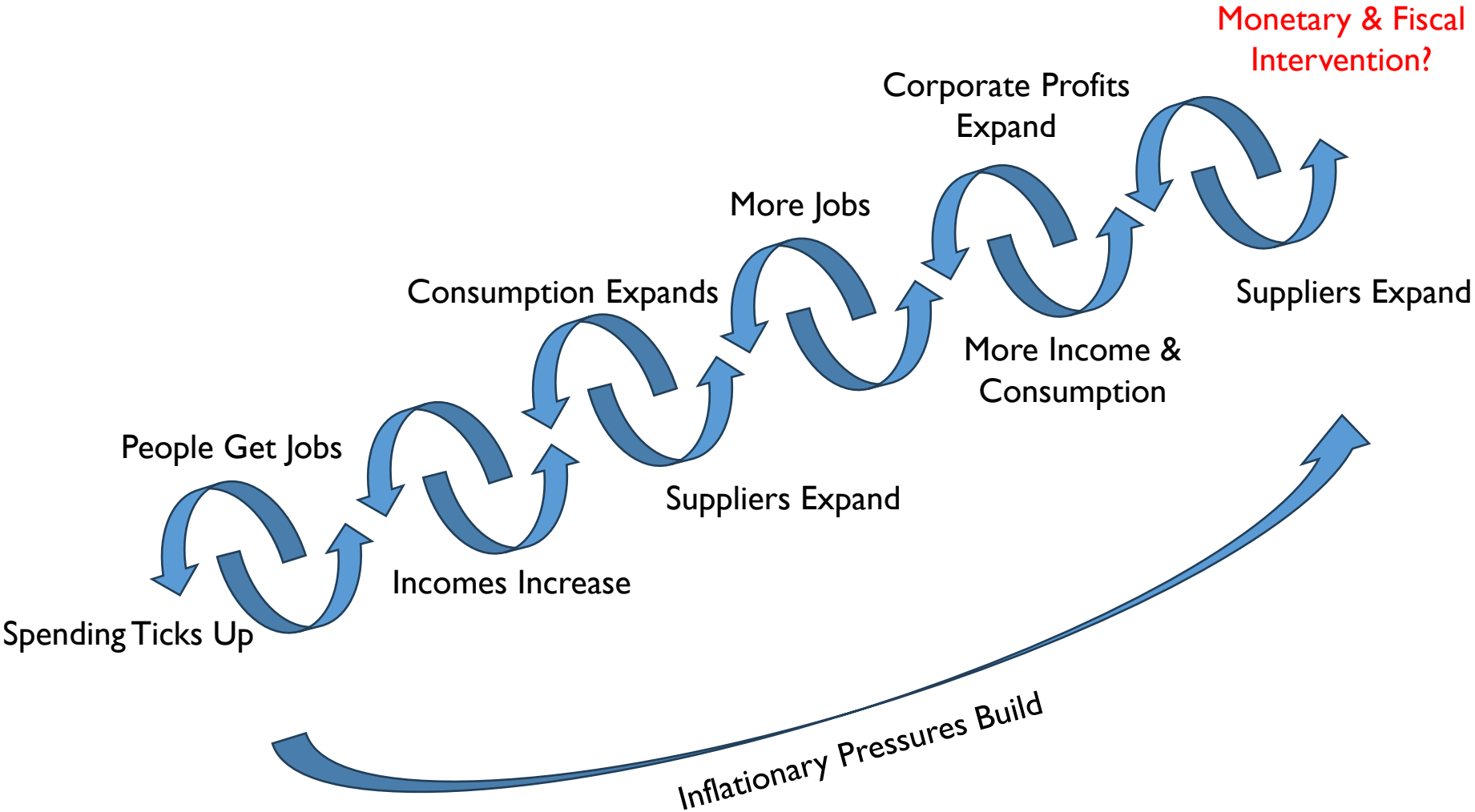
Key Themes & Establishing a Framework



Regimes Through History

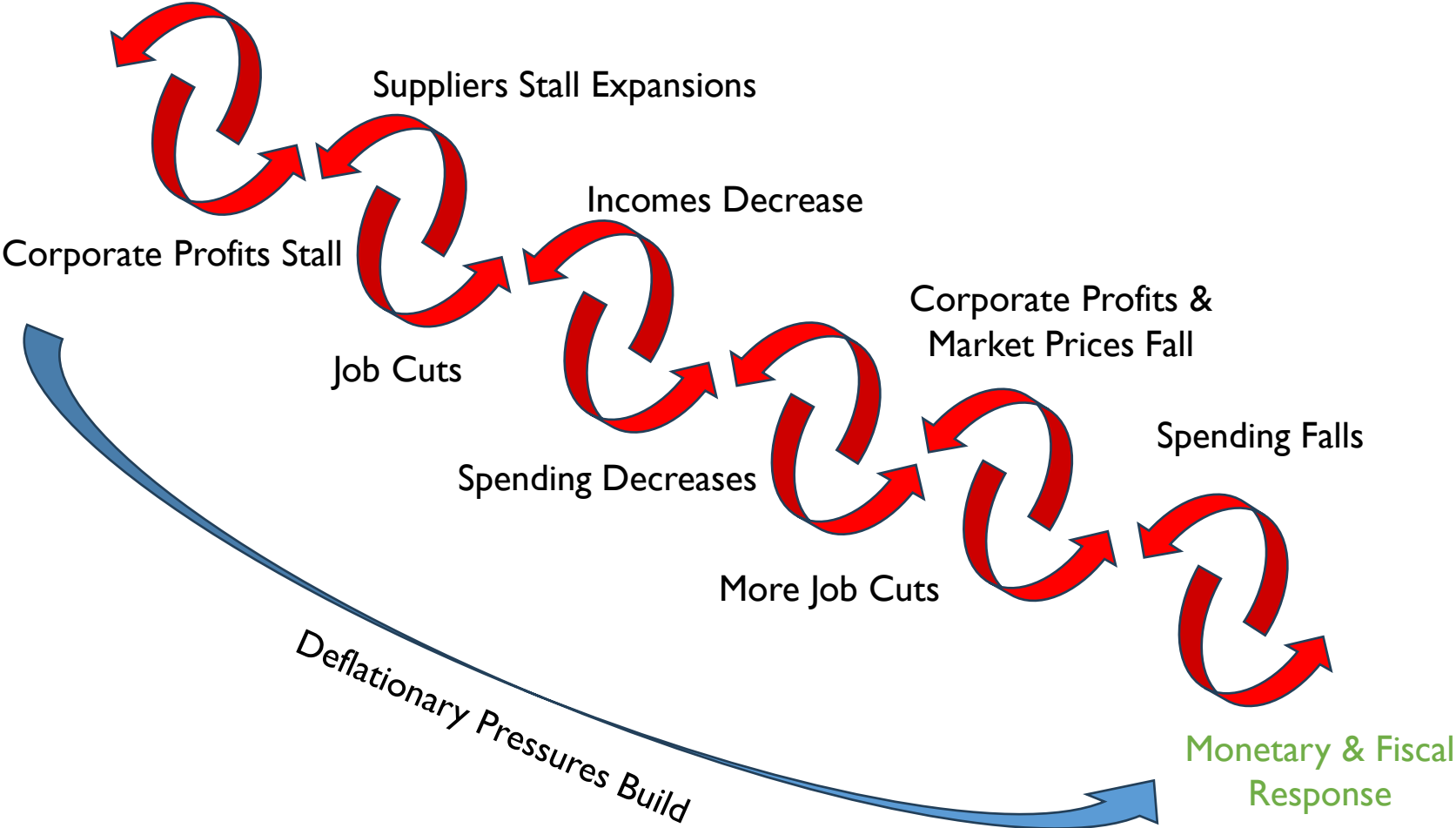


Virtuous Cycles

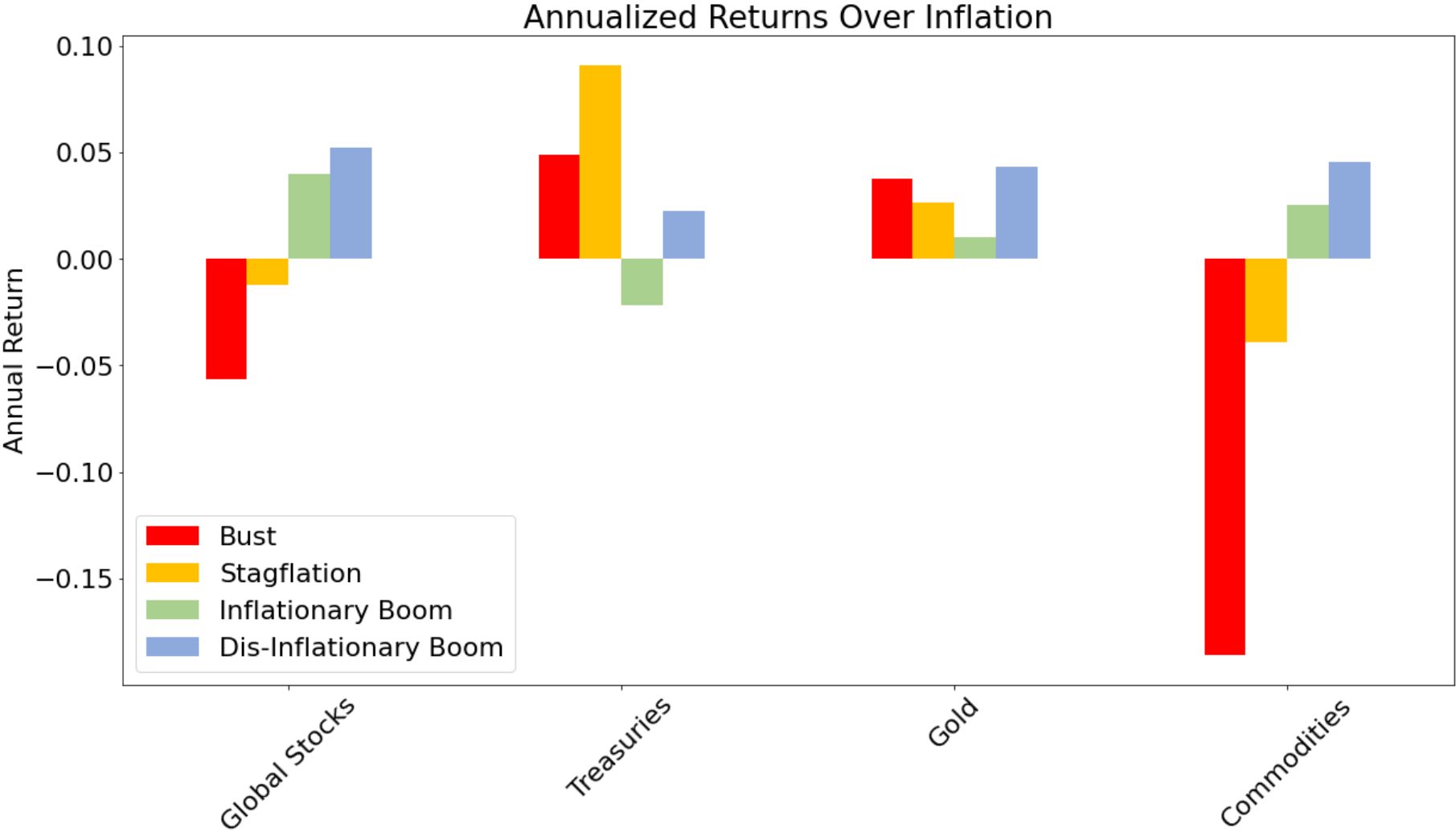


Vicious Cycles

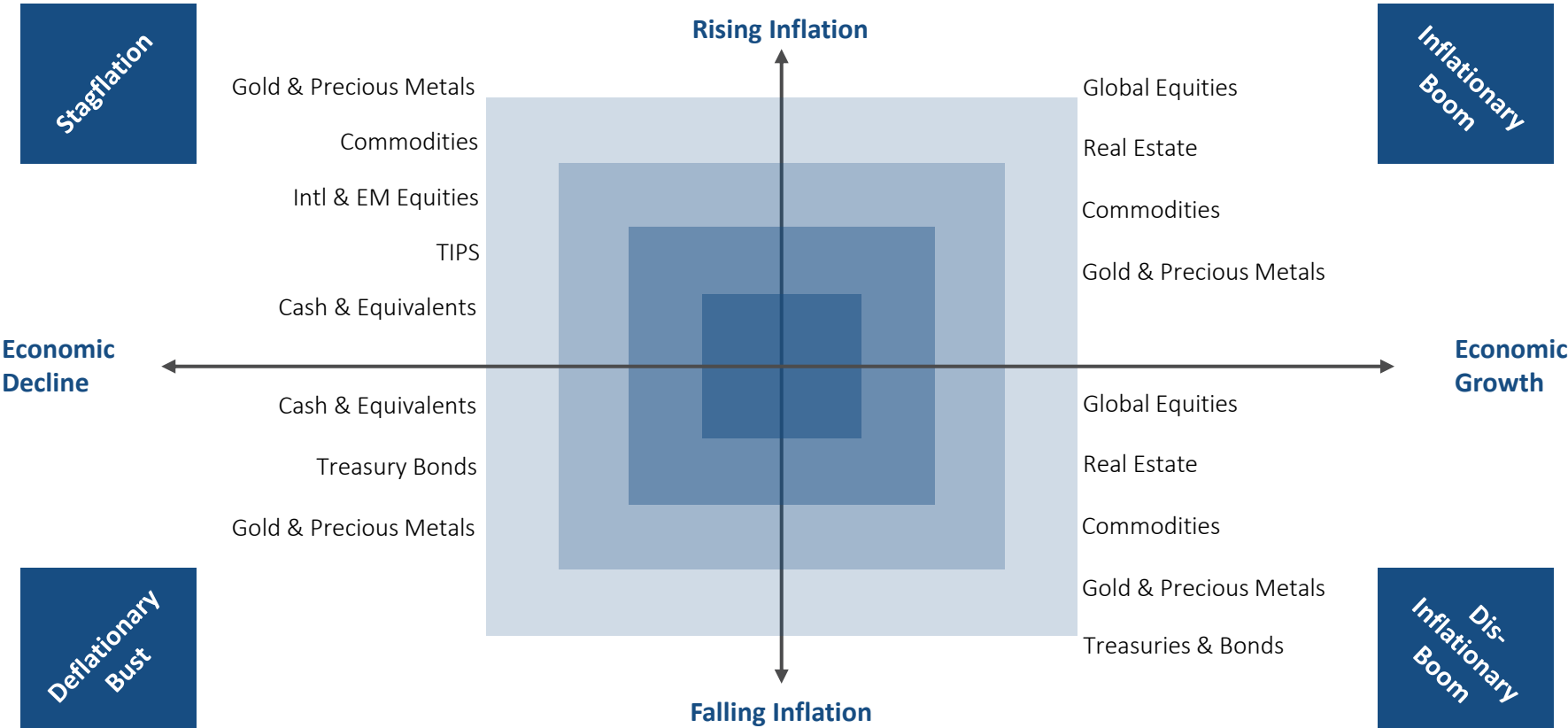
Monetary Intervention



Real Annual Returns in Each Regime



Portfolio Construction Framework



Part II

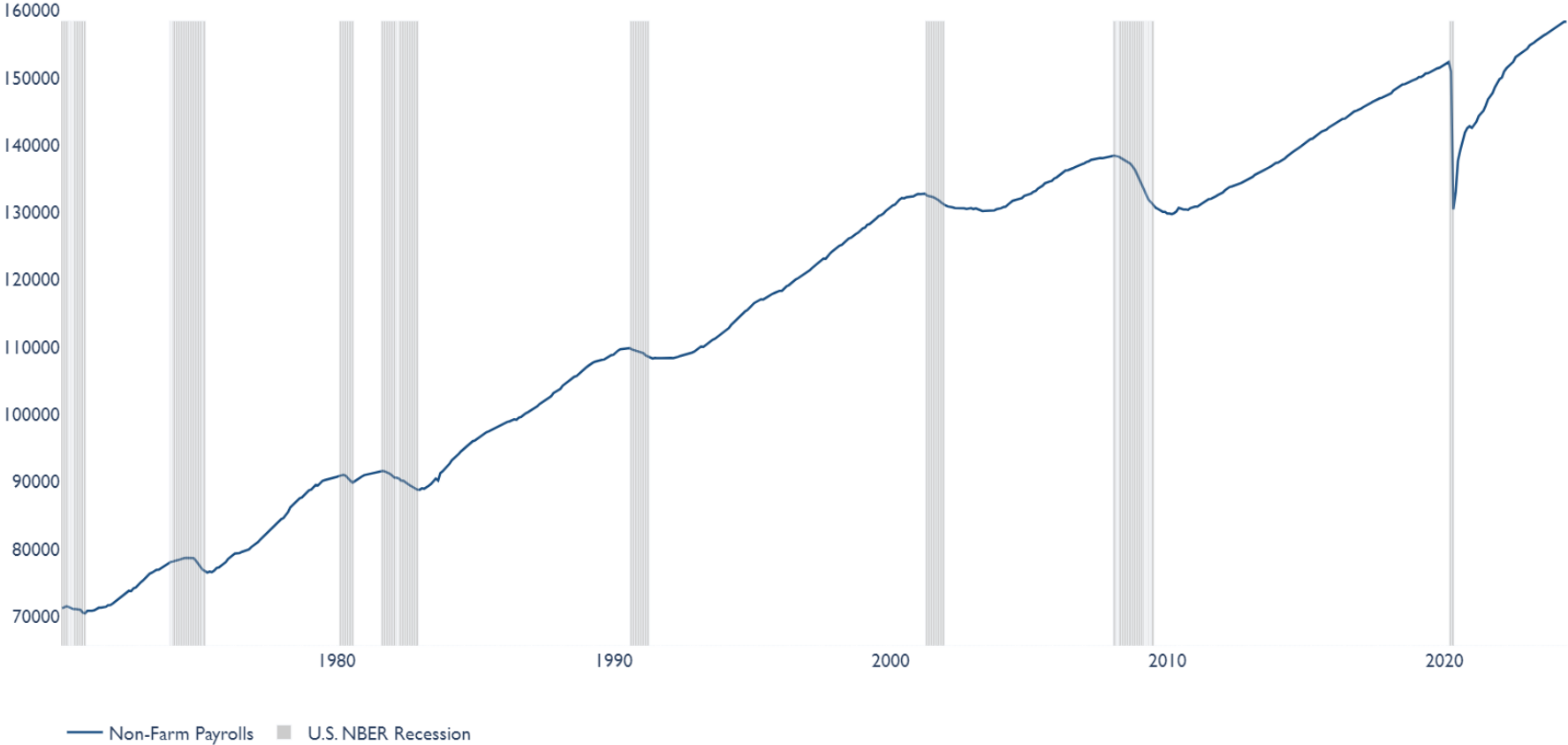
Assessing Economic Growth: A Simple Data Driven Approach

Economic Key Categories

- **Labor**
 - **Consumer Incomes**
 - **Consumer Spending**
 - **Commercial Output: Goods & Services**
 - **Sentiment & Financial Markets**
-

Labor: Non-Farm Payrolls

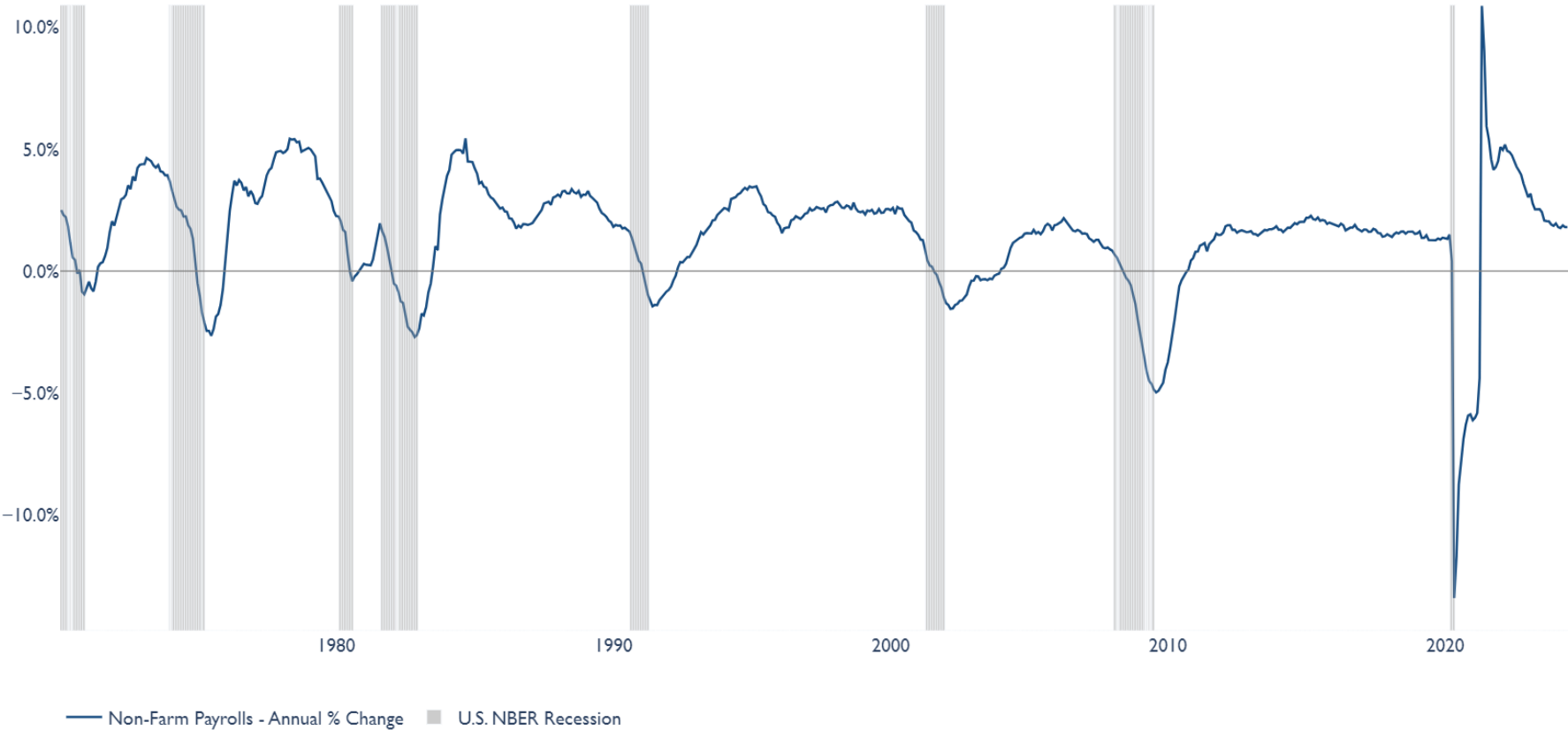
Non-Farm Payrolls



Source: St. Louis Fed, RQA

Labor: Non-Farm Payrolls YoY %

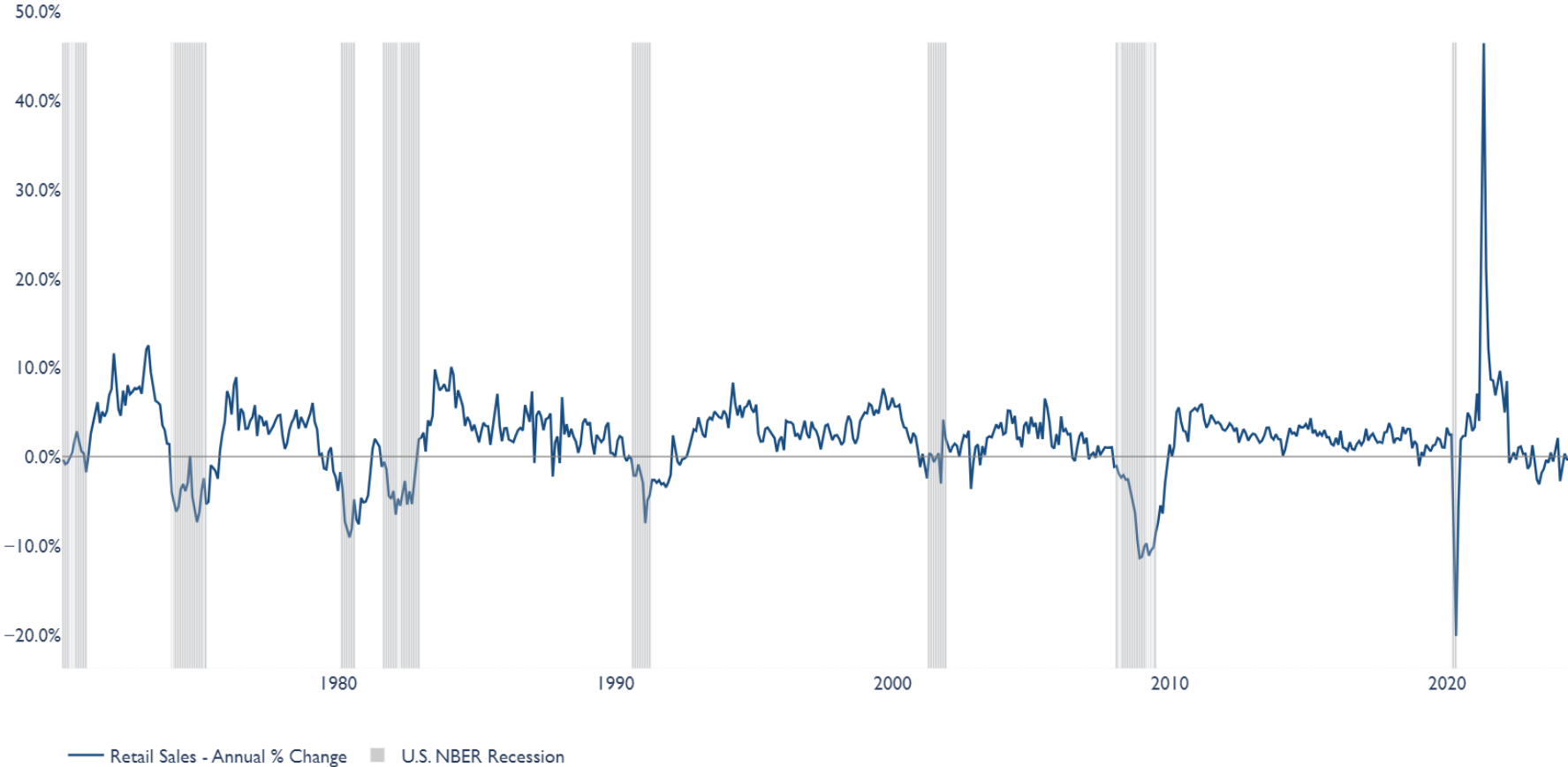
Non-Farm Payrolls - Annual % Change



Source: St. Louis Fed, RQA

Consumption: Retail Sales

Retail Sales - Annual % Change



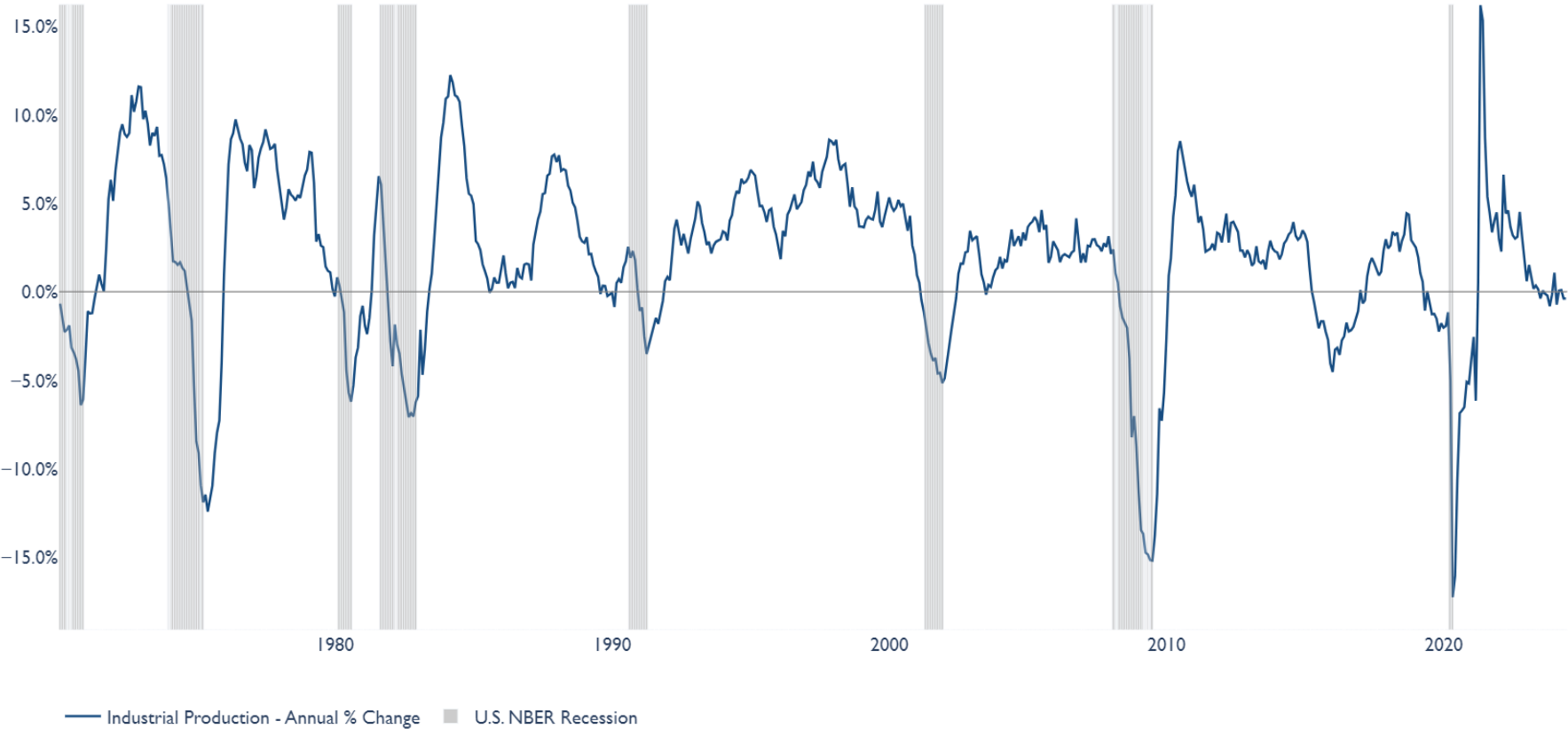
Source: St. Louis Fed, RQA

Commercial Output: Industrial Production



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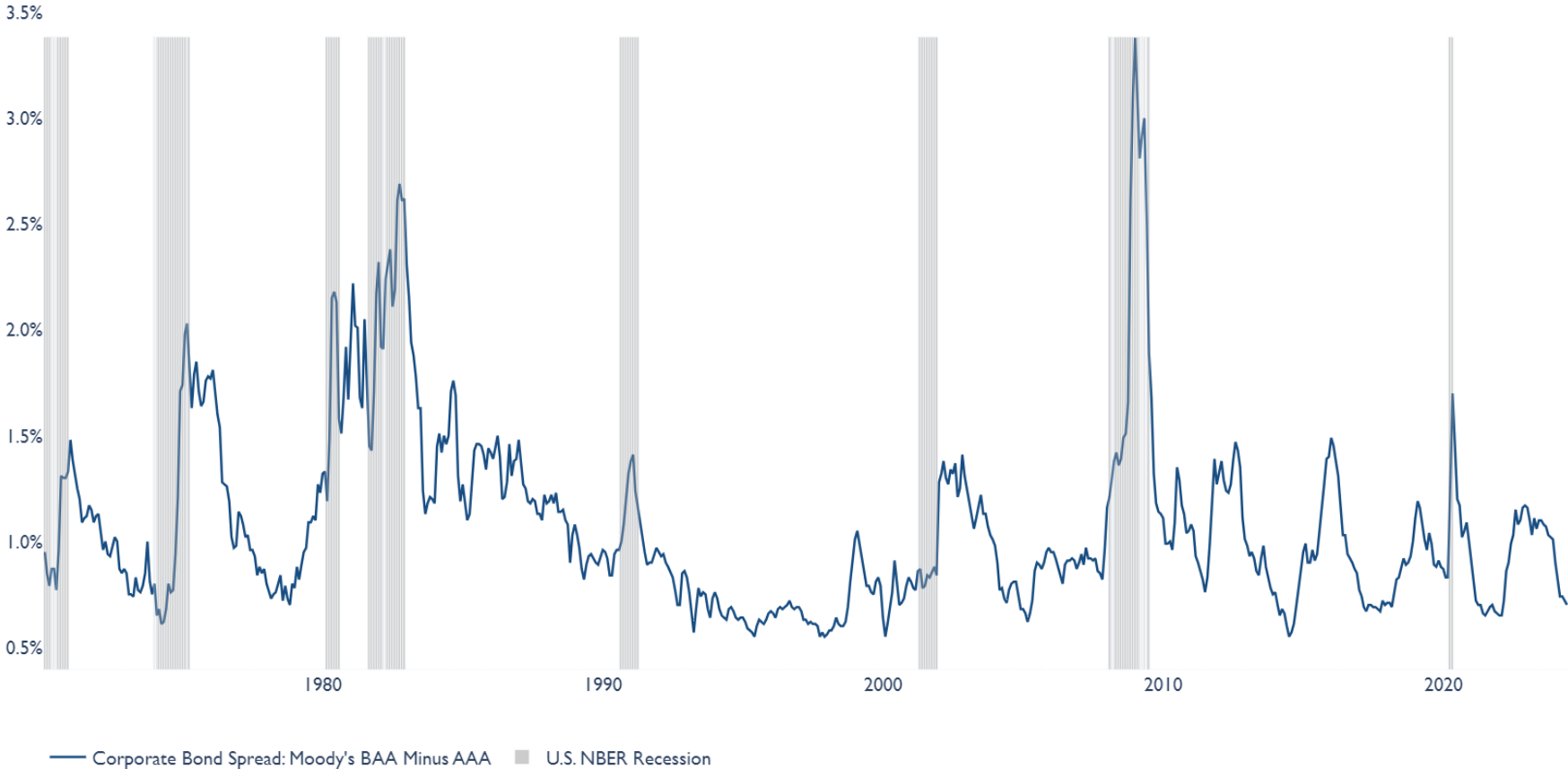
Industrial Production - Annual % Change



Source: St. Louis Fed, RQA

Market Sentiment: Credit Spreads

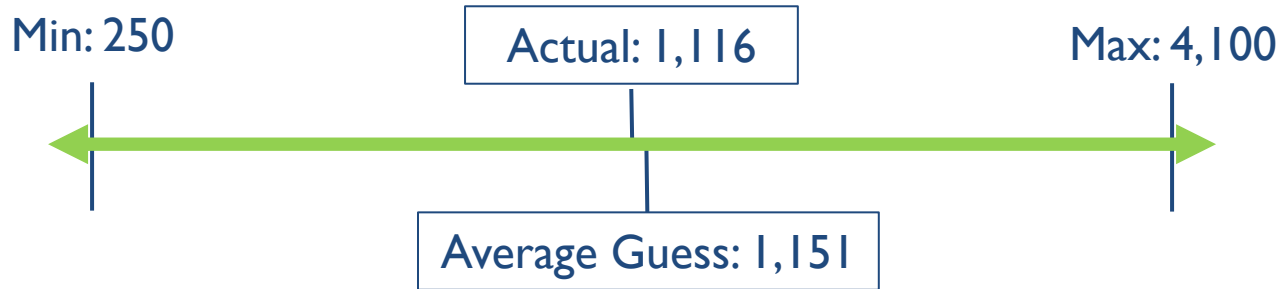
Corporate Bond Spread: Moody's BAA Minus AAA



Source: St. Louis Fed, RQA

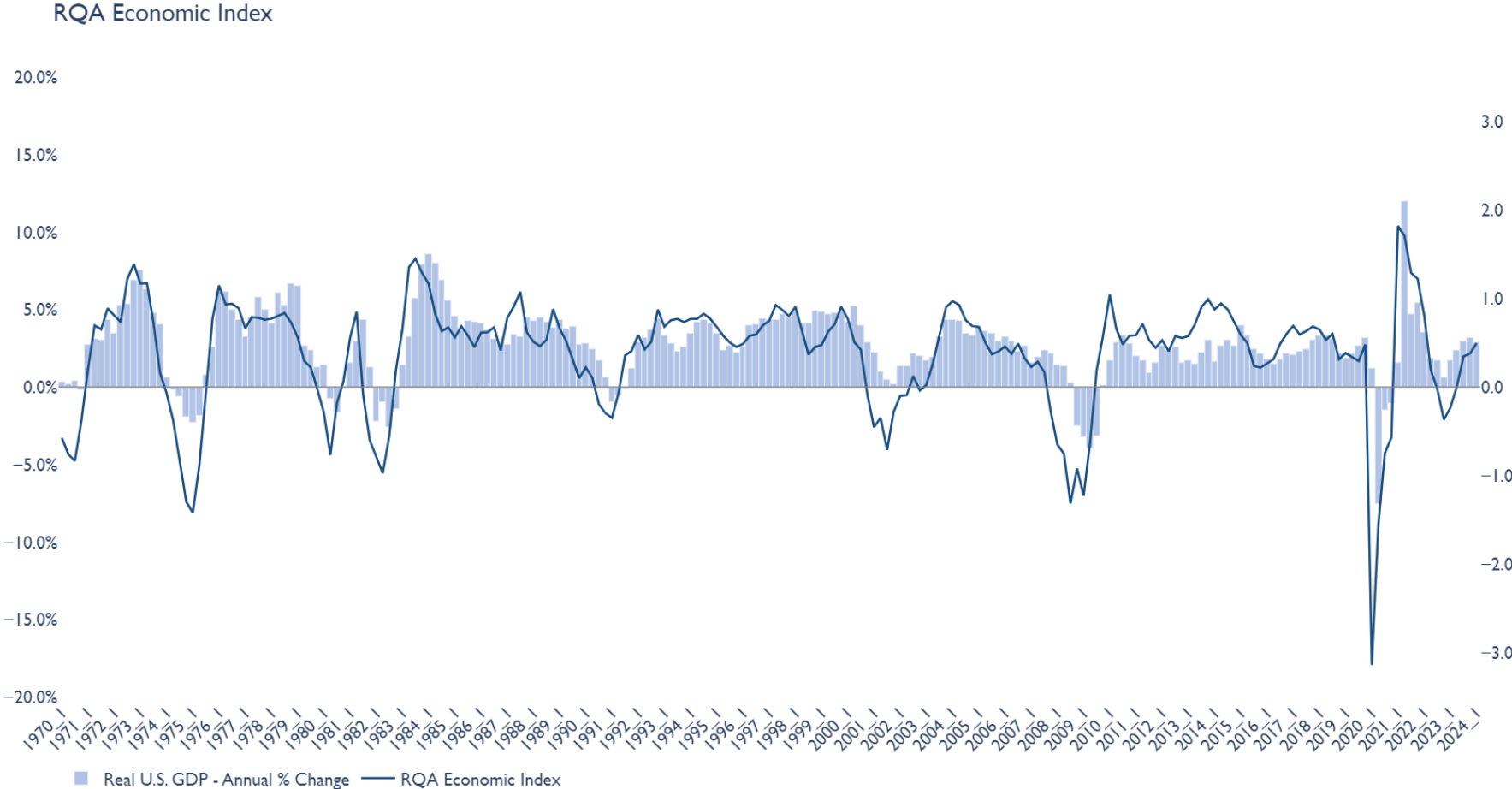
Wisdom of the Crowds

- Michael Mauboussin's Jelly Bean Experiment (73 Students)



- A major factor in the theory of market efficiency
- We can ask a “crowd” of quantitative measures instead
- Referred to as an “ensemble approach” in machine learning
- Ensemble methods are leading the way in AI & machine learning

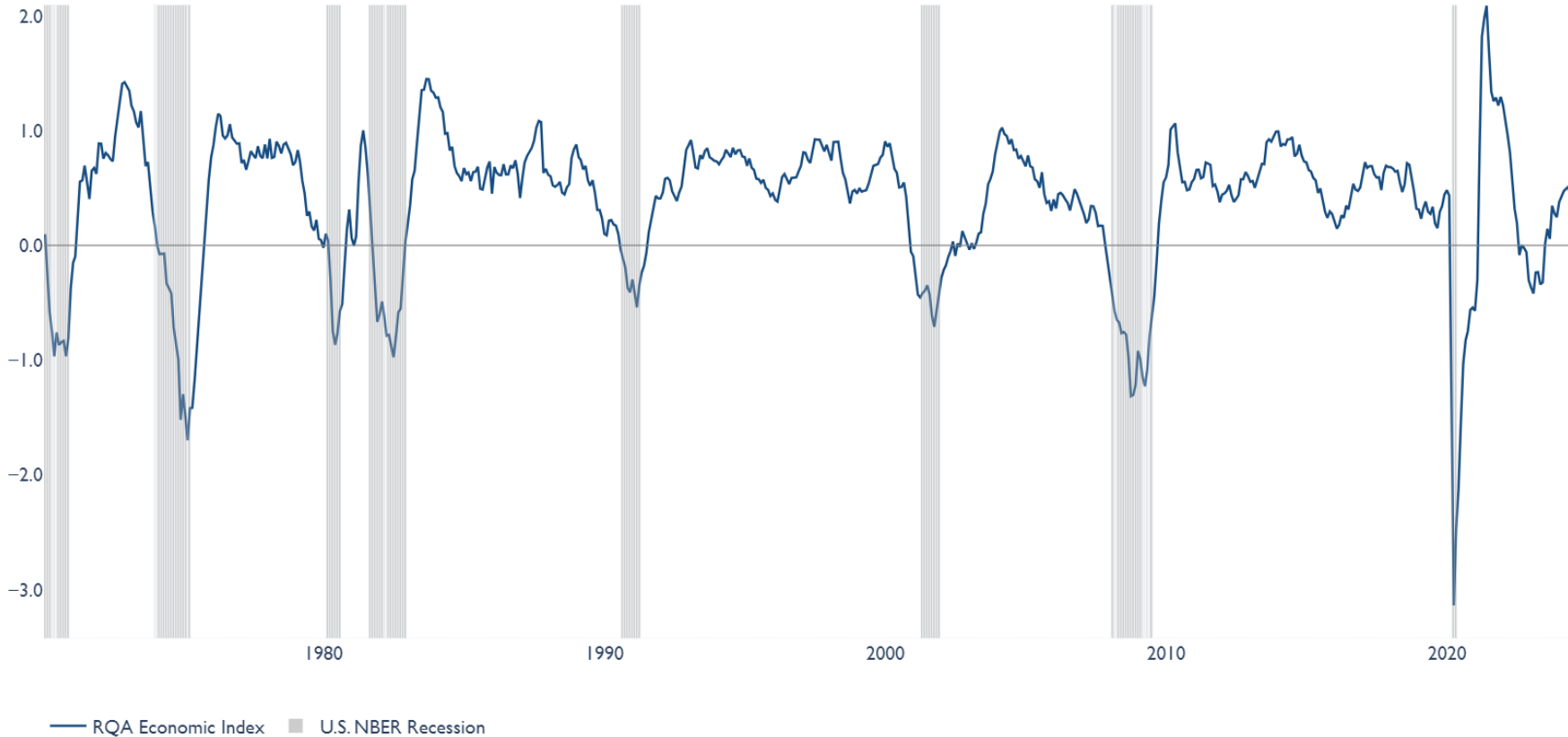
Composite Growth Model v. Real GDP



Source: St. Louis Fed, University of Michigan, RQA

Composite Growth Model v. Recessions

RQA Economic Index



Source: St. Louis Fed, University of Michigan, RQA

Part III

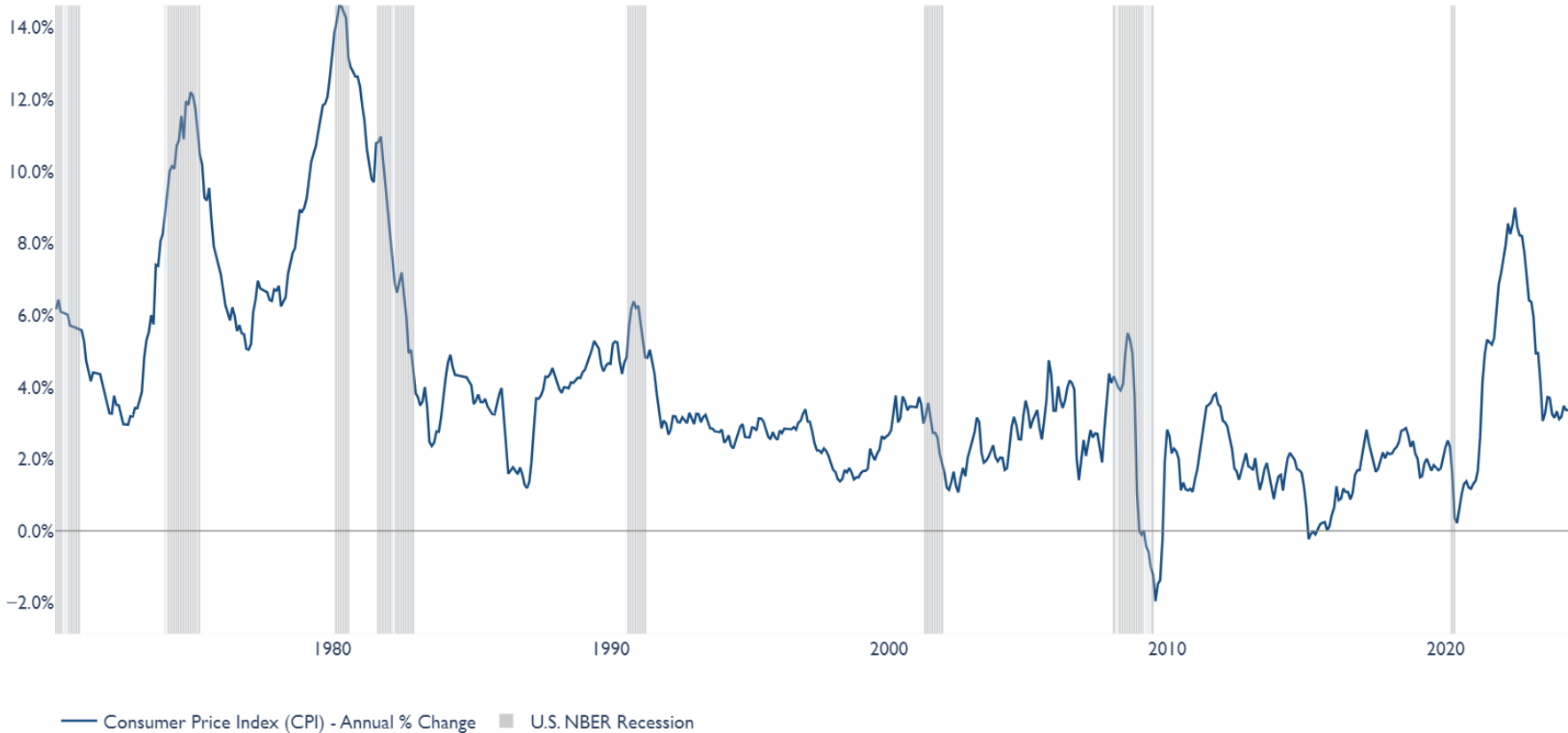
Assessing Inflation: A Simple Market-Based Approach

Key Inflation Drivers

- **Money Supply Growth**
 - **Supply Shocks**
 - **Expanding Production Costs**
 - **Robust Consumer Demand**
 - **Inflation Expectations**
-

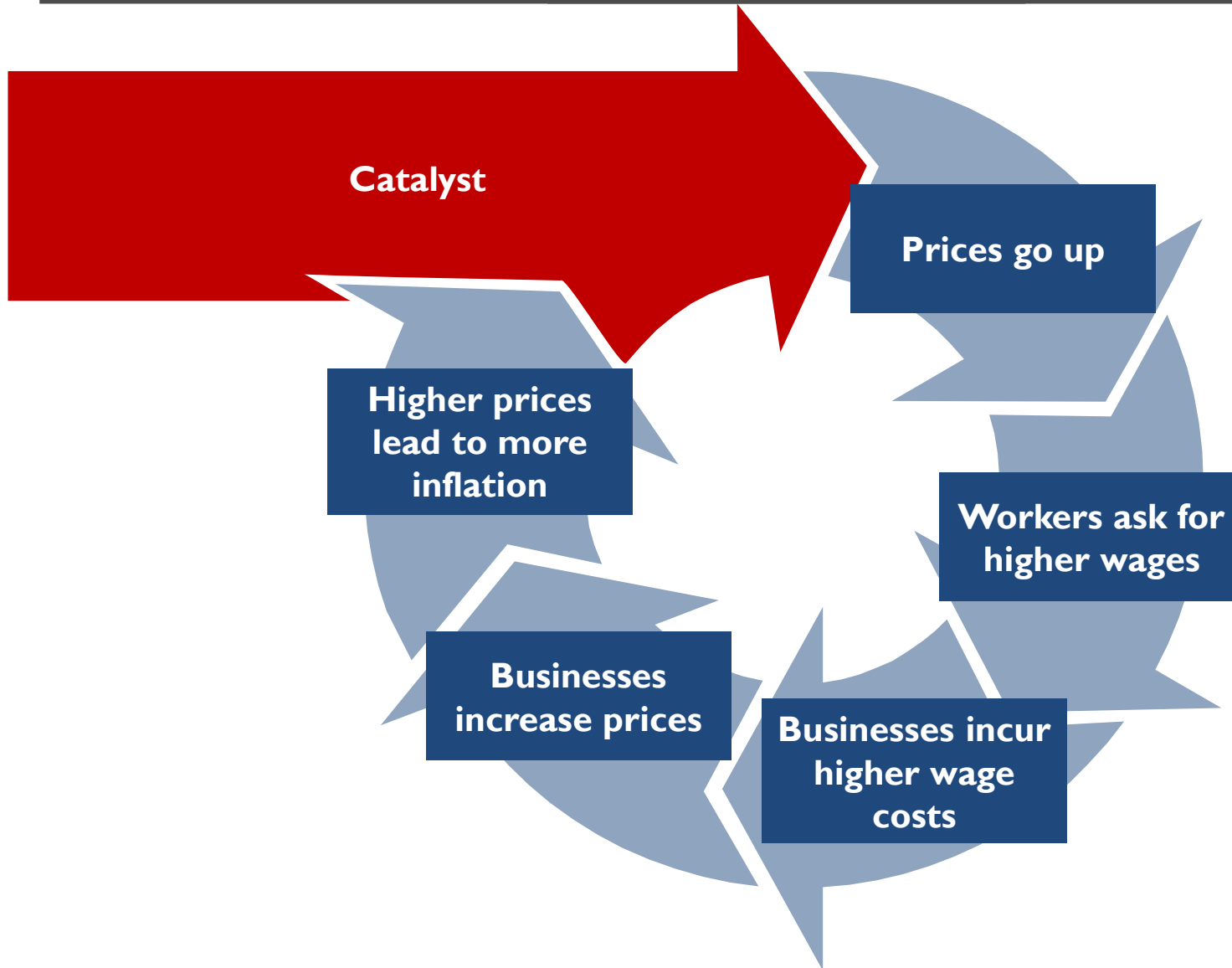
U.S. Inflation Through Time

Consumer Price Index (CPI) - Annual % Change



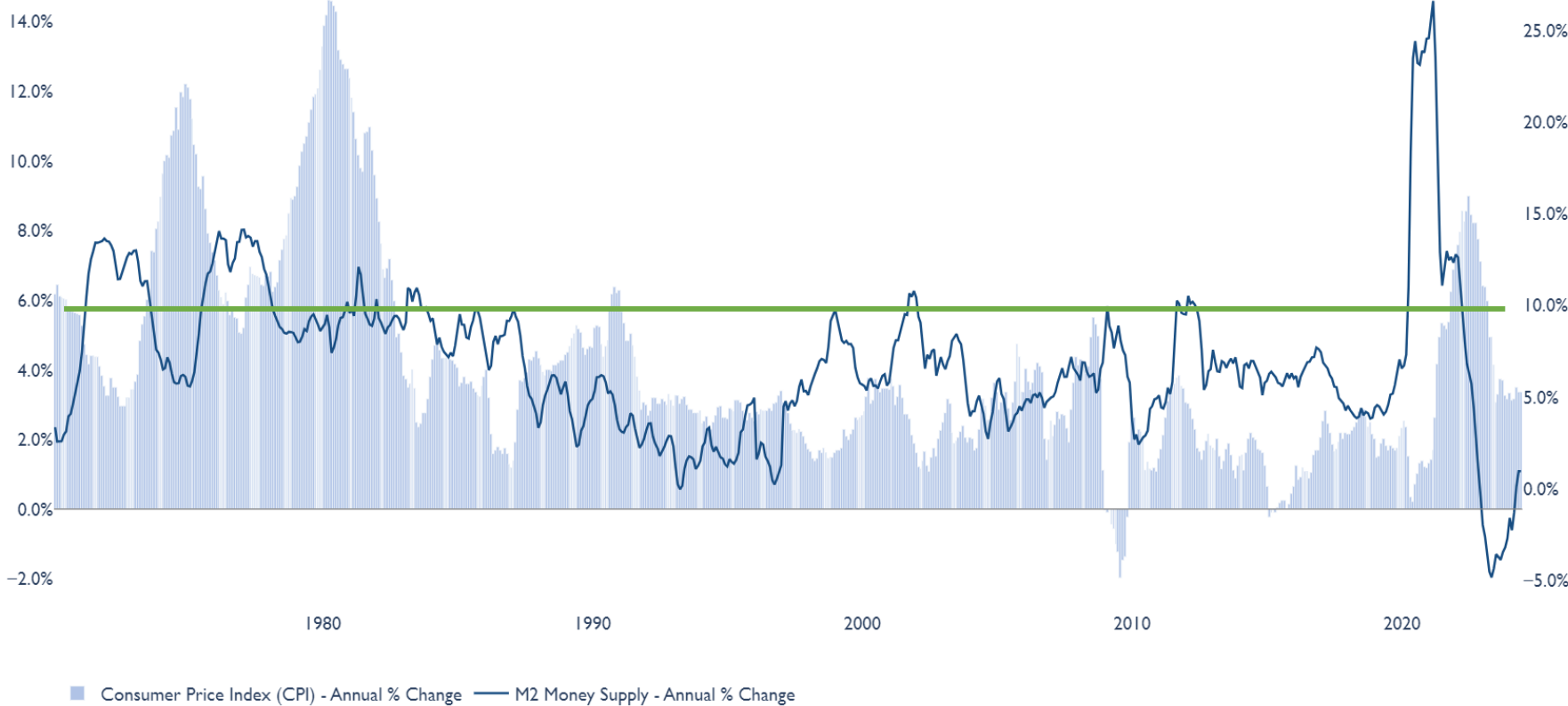
Source: St. Louis Fed, RQA

Inflation Feedback Loop



Catalyst: M2 Money Supply Growth

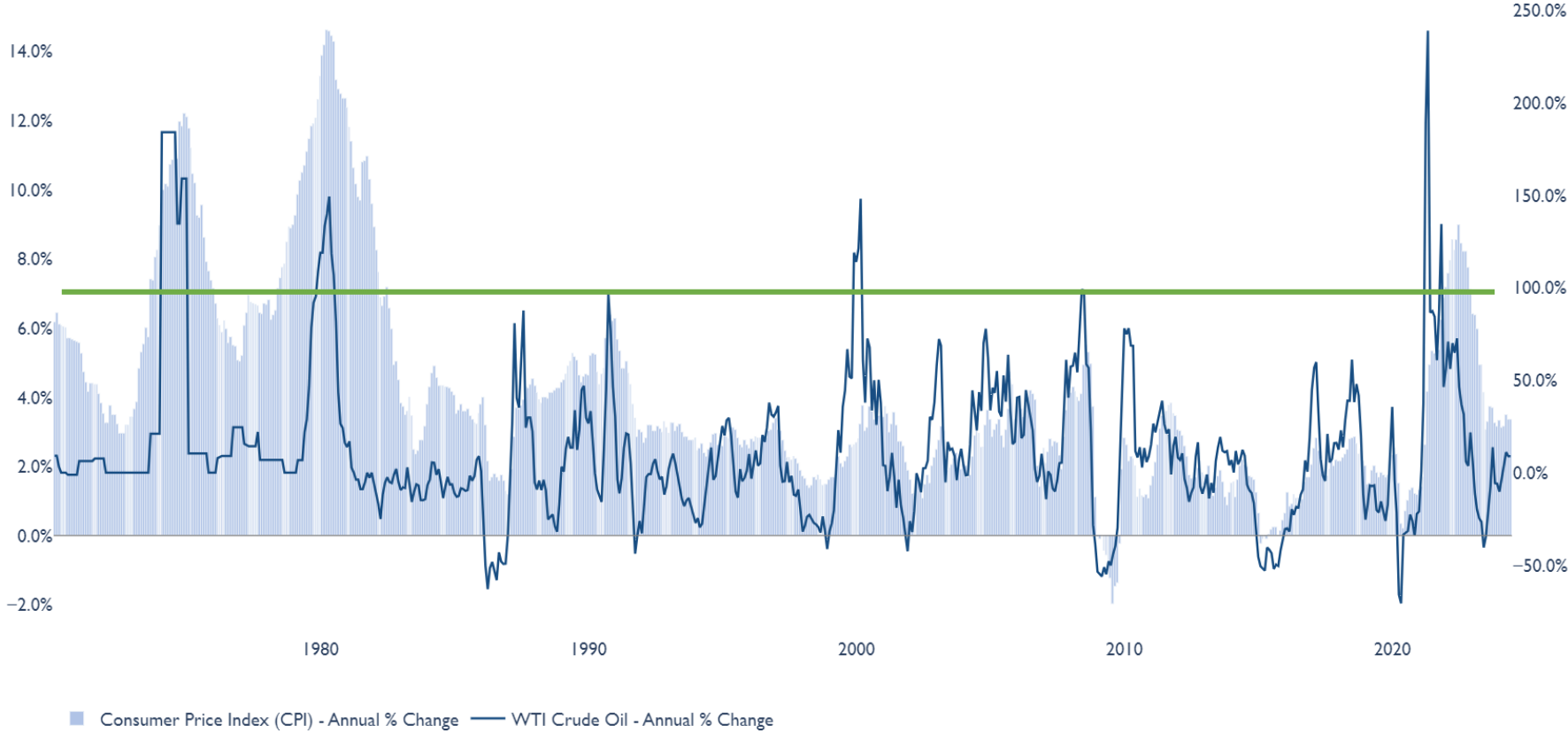
M2 Money Supply - Annual % Change



Source: St. Louis Fed, RQA

Catalyst: Crude Oil Shocks

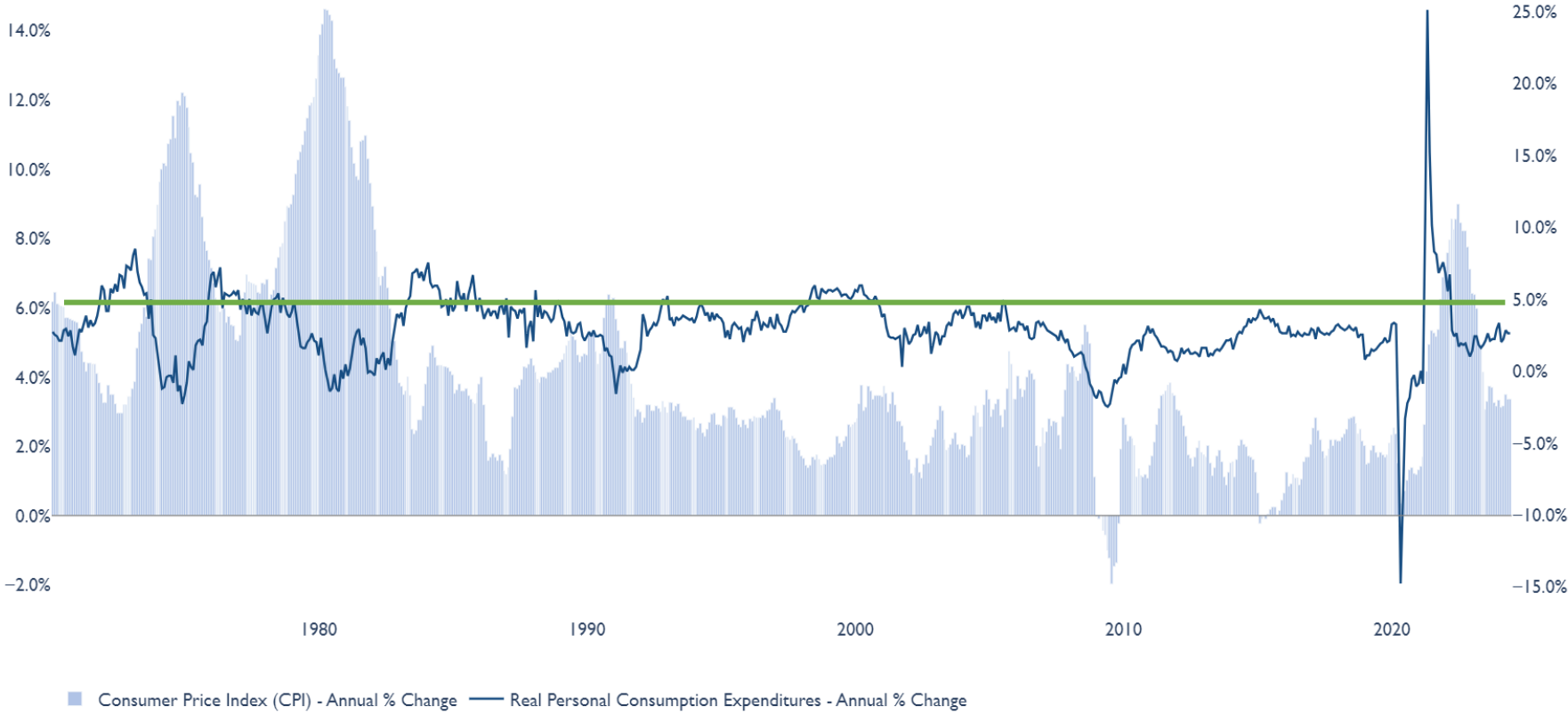
WTI Crude Oil - Annual % Change



Source: St. Louis Fed, MacroTrends, Norgate Premium Data, RQA

Catalyst: Real Personal Consumption

Real Personal Consumption Expenditures - Annual % Change

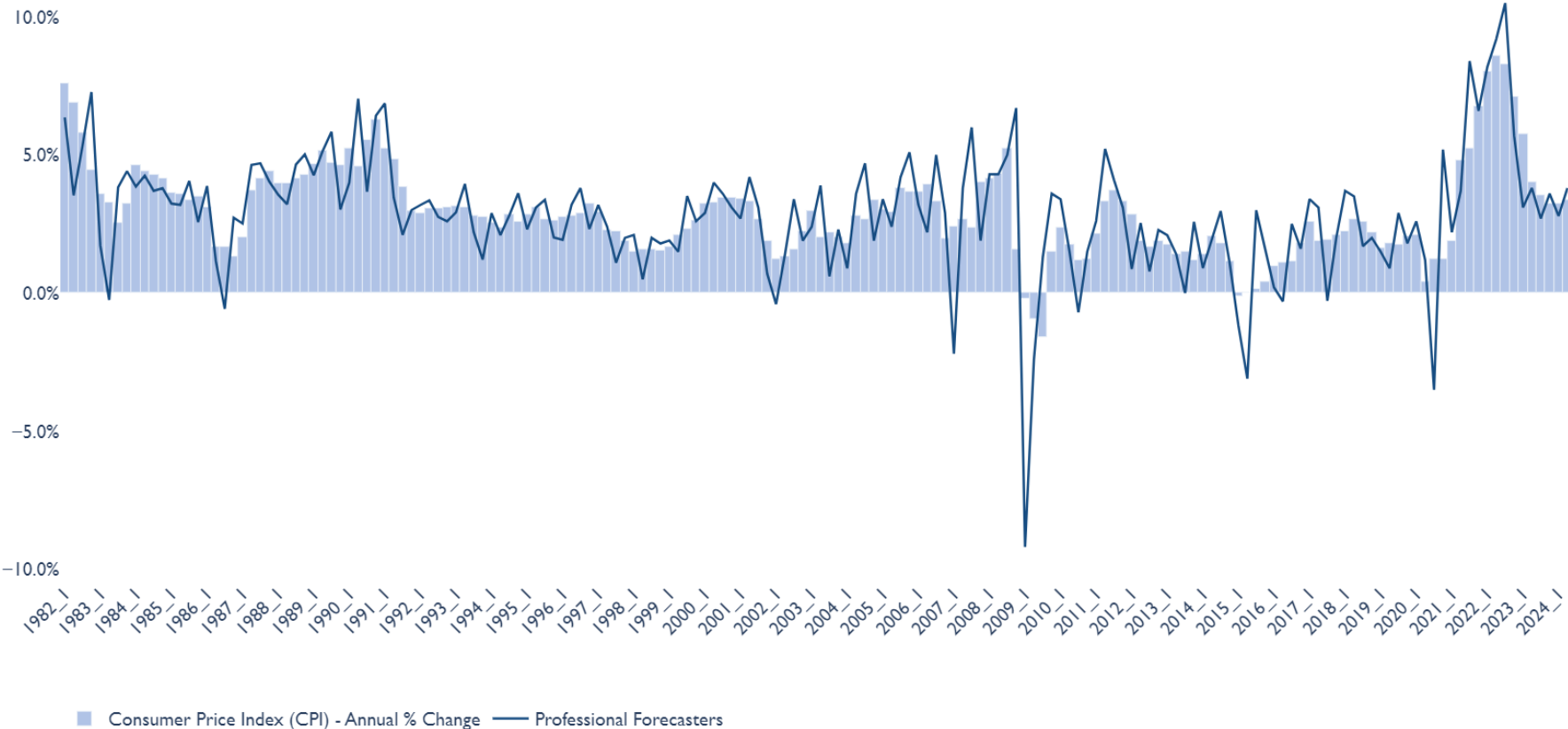


Source: St. Louis Fed, RQA

- **Fundamental & Catalyst Data Tends to be Tricky/Inconsistent**
 - **Market Implied Measures (*Leaning on the wisdom of crowds*)**
 - **Forecaster Surveys (Philadelphia Fed)**
 - **University of Michigan Surveys**
 - **Treasury Breakevens (Nominal – TIPS yields)**
-

Inflation: Forecaster Surveys

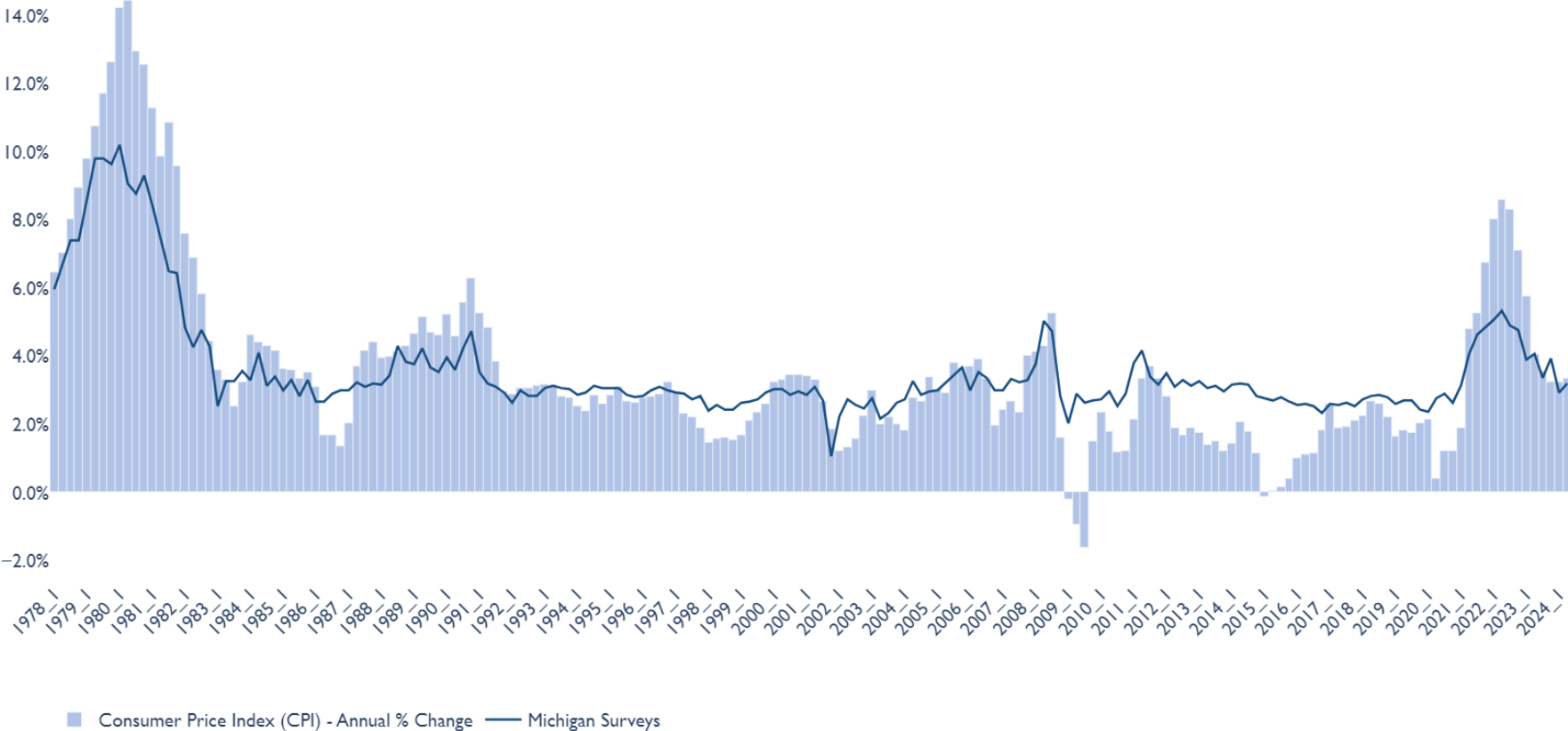
Professional Forecasters



Source: St. Louis Fed, Philadelphia Fed, RQA

Inflation: Michigan Survey

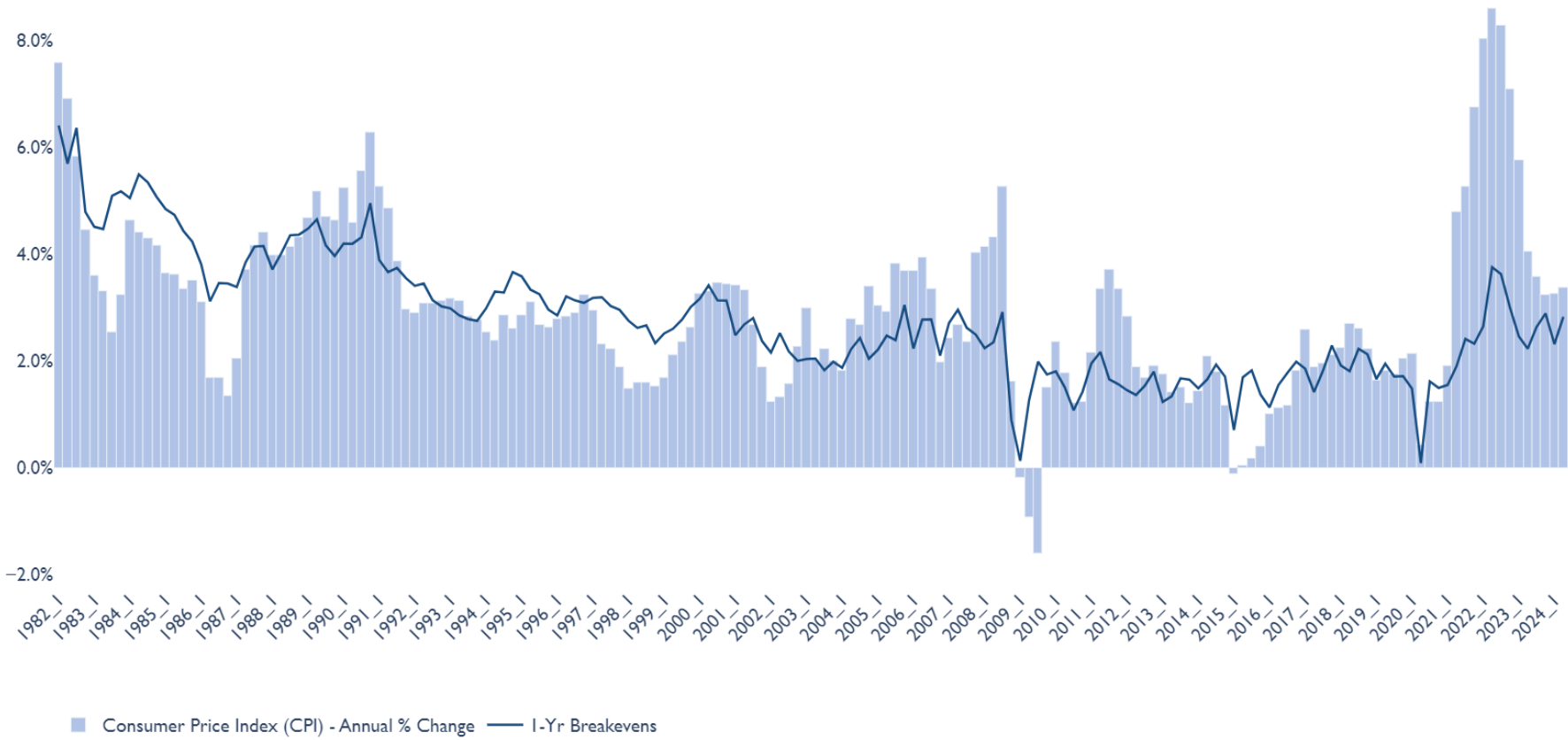
Michigan Surveys



Source: St. Louis Fed, University of Michigan, RQA

Inflation: Market-Implied Breakeven Yields

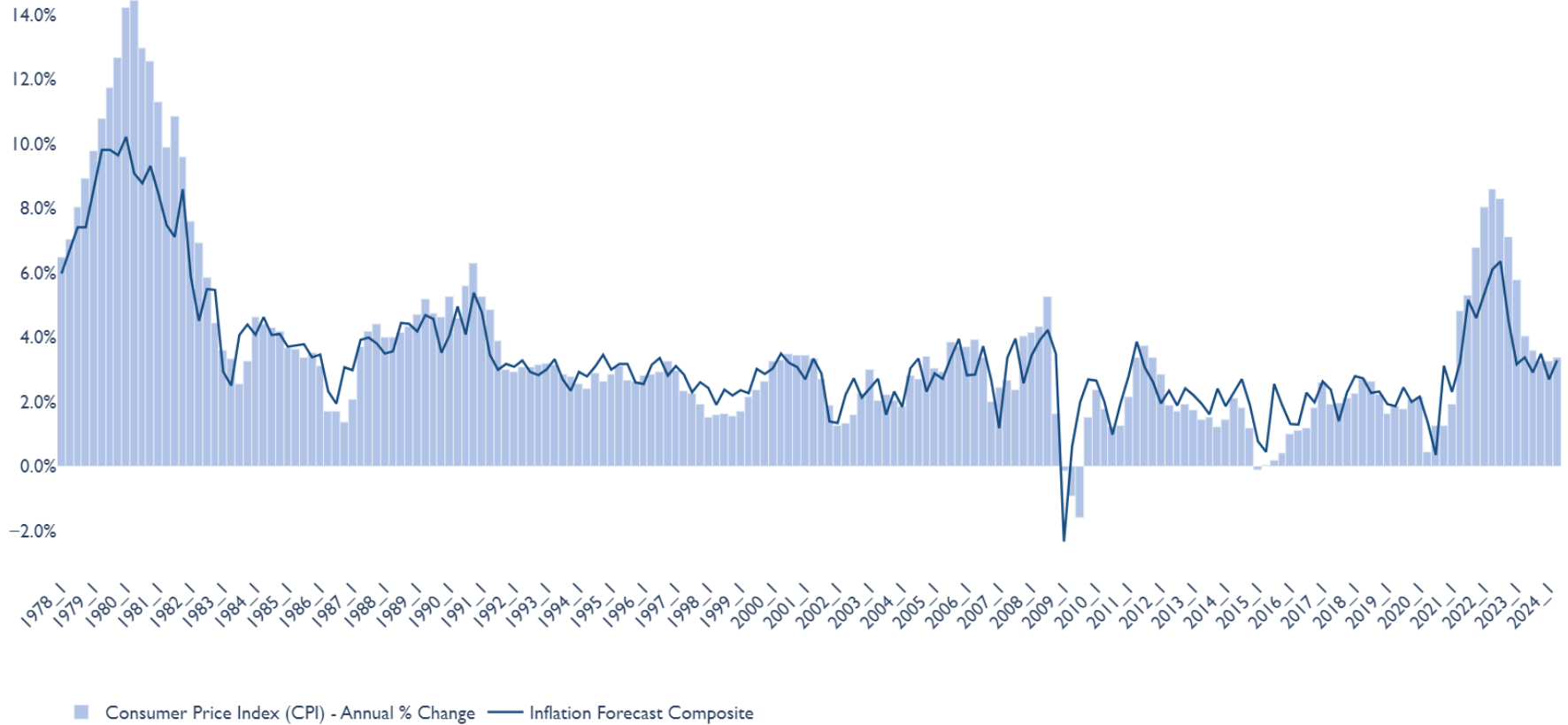
I-Yr Breakevens



Source: St. Louis Fed, RQA

Inflation Composite Expectations

Inflation Forecast Composite



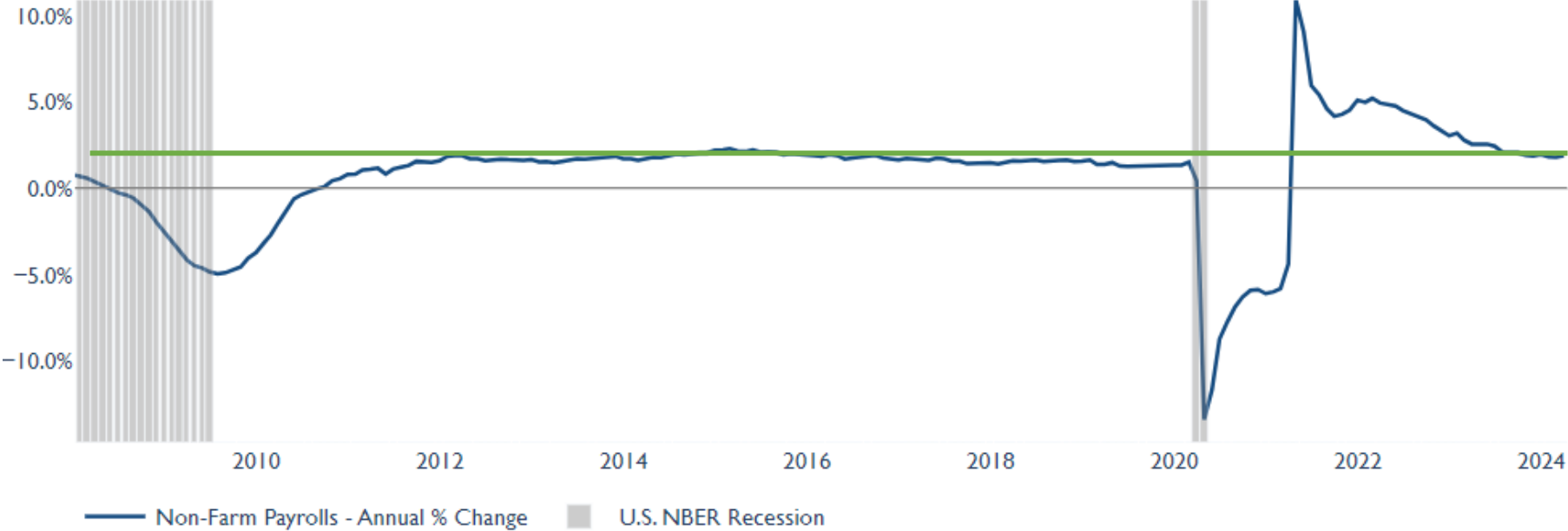
Source: St. Louis Fed, Philadelphia Fed, University of Michigan, RQA

Part IV

Today's Assessment

Payrolls Continue Marching

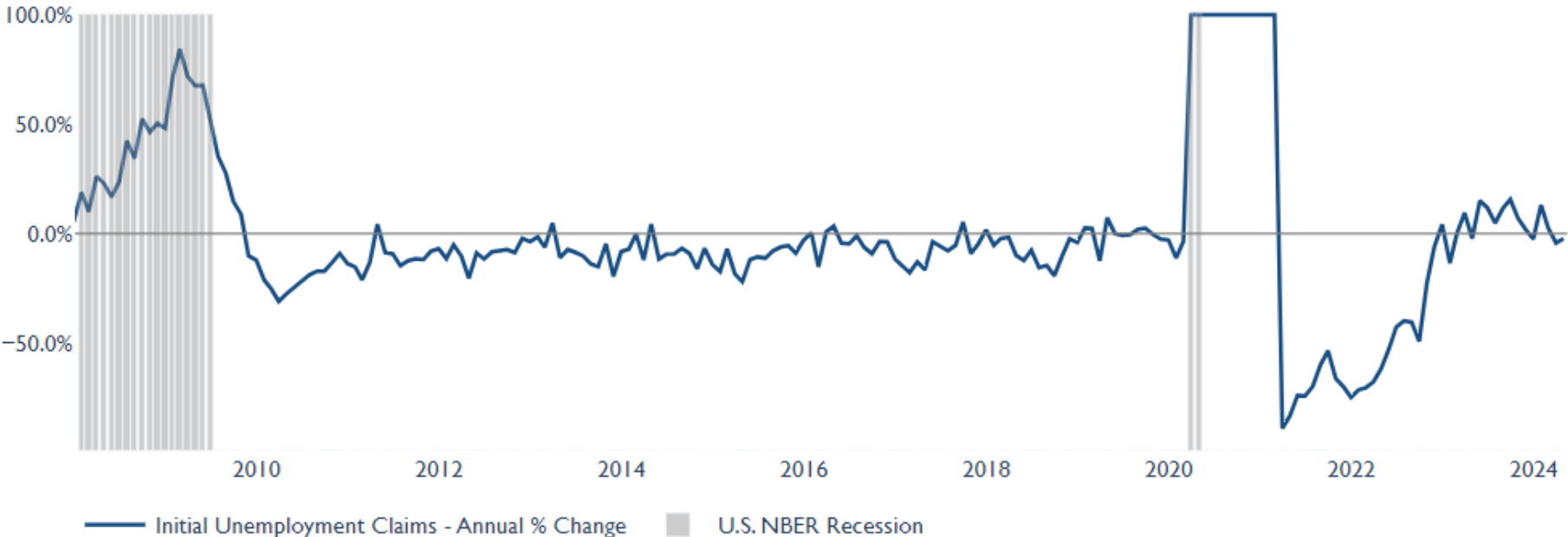
Non-Farm Payrolls - Annual % Change



Source: St. Louis Fed, RQA

Unemployment Claims Remain Stable

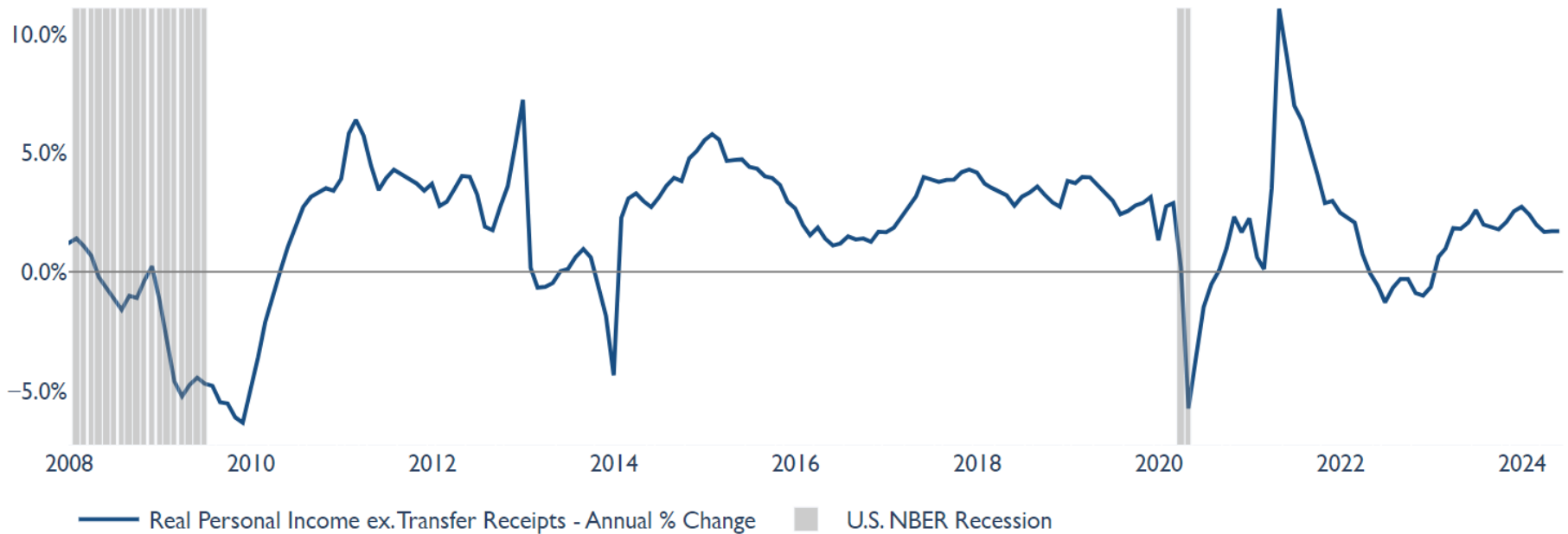
Initial Unemployment Claims - Annual % Change



Source: St. Louis Fed, RQA

Incomes Remain Elevated

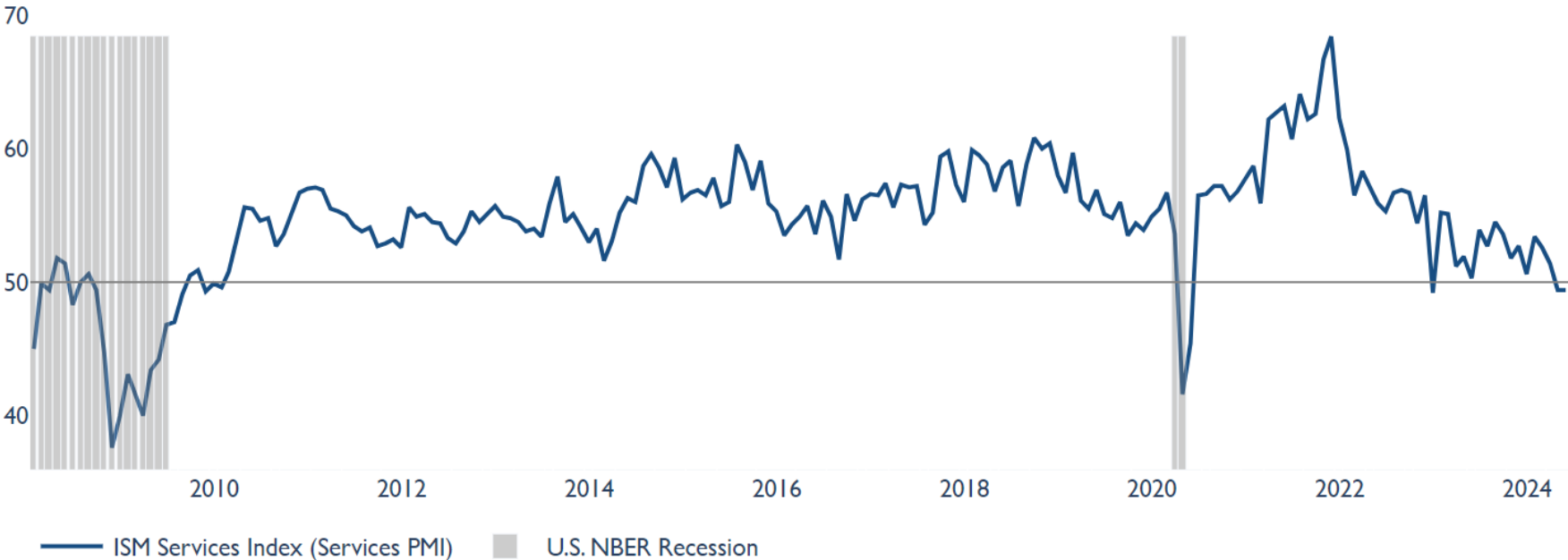
Real Personal Income ex. Transfer Receipts - Annual % Change



Source: St. Louis Fed, RQA

Services Demand Has Been Strong

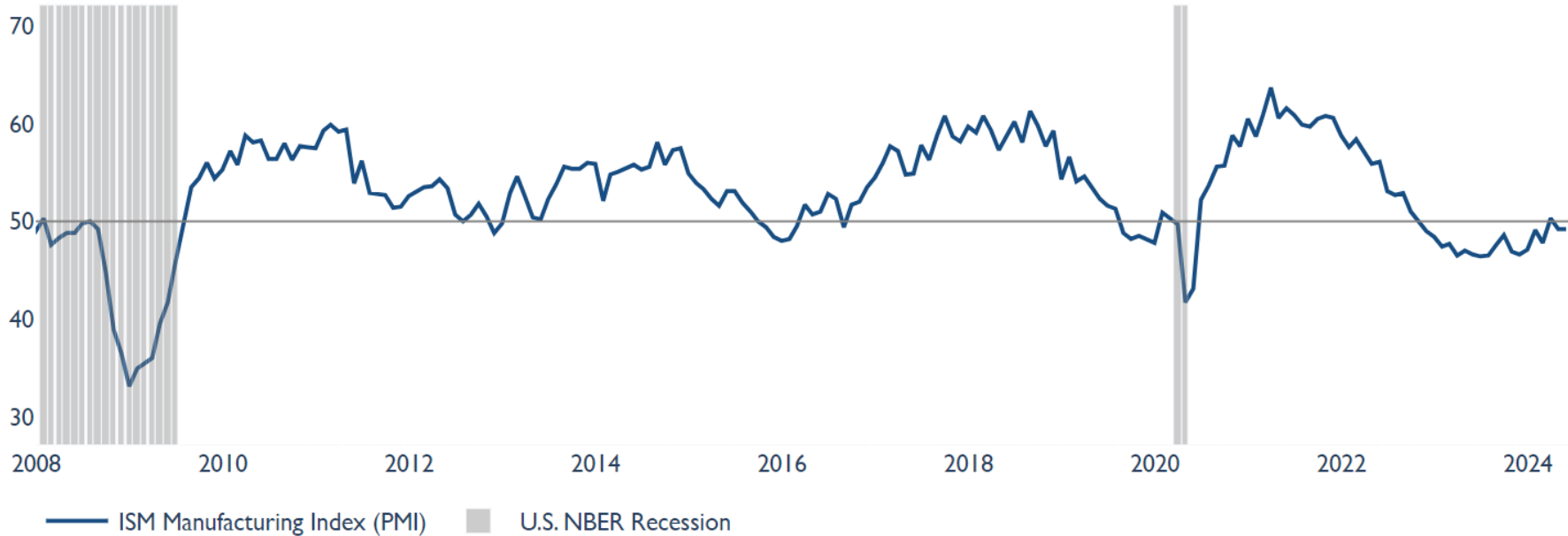
ISM Services Index (Services PMI)



Source: St. Louis Fed, RQA

Goods Demand Has Been Weak, But...

ISM Manufacturing Index (PMI)



Source: St. Louis Fed, RQA

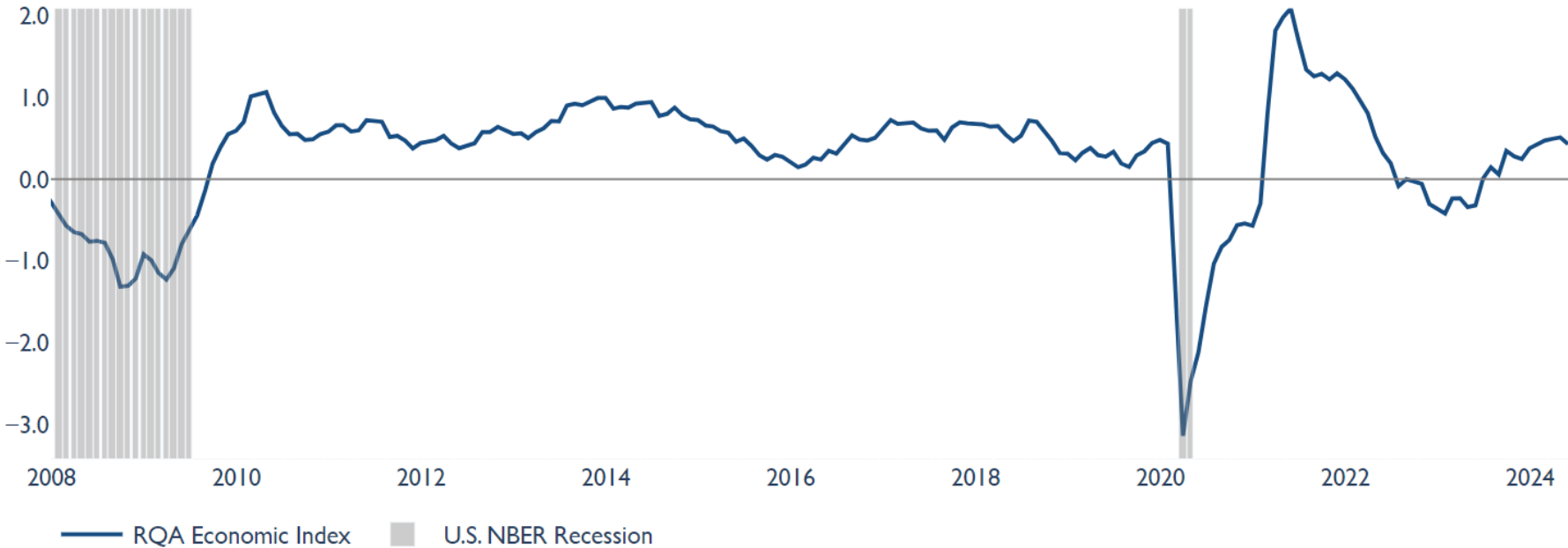
Rolling Heatmap

Standardized Economic Indicator Strength	May-24	Apr-24	Mar-24	Feb-24	Jan-24	Dec-23	Nov-23	Oct-23	Sep-23	Aug-23	Jul-23	Jun-23
Labor												
Non-Farm Payrolls (YoY%)	1.7%	1.6%	1.6%	1.7%	2.3%	2.3%	2.4%	2.5%	2.4%	2.5%	2.8%	2.9%
Initial Unemployment Claims (Inverse YoY%)	4.4%	10.0%	-6.1%	-12.0%	-15.1%	3.1%	9.2%	3.2%	-5.7%	6.2%	13.7%	-3.5%
Employment-to-Population Ratio (YoY%)	-0.3%	-0.2%	-0.2%	0.0%	0.0%	1.0%	0.3%	0.5%	0.5%	0.7%	0.7%	0.3%
Average Weekly Hours Worked (YoY%)	-0.3%	0.0%	-0.3%	-1.8%	-0.3%	-0.3%	-0.9%	-0.6%	-0.3%	-0.6%	-0.6%	-0.9%
RQA Labor Composite (YoY%)	1.4%	2.9%	-1.2%	-3.0%	-3.3%	1.5%	2.7%	1.4%	-0.8%	2.2%	4.1%	-0.3%
Commercial Output												
ISM Manufacturing PMI (% over Base)	-1.6%	0.6%	-4.4%	-1.8%	-5.8%	-6.8%	-6.2%	-2.8%	-4.8%	-7.0%	-7.2%	-6.8%
ISM Services PMI (% over Base)	-1.2%	2.8%	5.2%	6.8%	1.2%	5.4%	3.6%	7.2%	9.0%	5.4%	7.8%	0.6%
Industrial Production Index (YoY%)	-0.3%	-0.4%	-0.3%	-0.4%	-0.9%	-1.8%	-1.9%	-1.5%	-1.0%	-1.8%	-2.0%	-2.6%
Residential Real Estate Permits (YoY%)	1.7%	3.2%	-0.4%	9.8%	12.4%	8.8%	-2.6%	-5.8%	1.7%	-13.9%	-14.5%	-12.0%
Income & Consumption												
Real Personal Incomes (ex. Transfer Receipts) (YoY%)	8.2%	7.9%	7.8%	8.2%	8.7%	8.6%	8.3%	7.7%	7.9%	1.7%	2.0%	1.4%
Retail Sales (YoY%)	-0.6%	-0.8%	-2.6%	-2.5%	1.2%	-0.8%	-1.7%	-0.5%	-1.5%	-1.1%	-1.5%	-1.9%
Real Personal Consumption Expenditures (YoY%)	3.2%	3.9%	3.3%	2.8%	4.1%	3.2%	2.9%	3.2%	3.1%	3.1%	2.7%	2.4%
RQA Consumer Spending Composite (YoY%)	1.3%	1.5%	0.4%	0.2%	2.6%	1.2%	0.6%	1.4%	0.8%	1.0%	0.6%	0.2%
Financials & Sentiment												
Treasury Yield Curve Spread - 10-Yr Less 3-Month	-1.0%	-0.8%	-1.2%	-1.2%	-1.4%	-1.5%	-1.1%	-0.7%	-1.0%	-1.5%	-1.6%	-1.6%
Treasury Yield Curve Spread - 10-Yr Less 2-Yr	-0.4%	-0.4%	-0.4%	-0.4%	-0.3%	-0.4%	-0.4%	-0.2%	-0.4%	-0.8%	-0.9%	-1.1%
Corporate Bond Spreads (Inverse YoY%)	32.1%	33.3%	28.2%	26.4%	22.4%	13.7%	12.1%	6.4%	0.9%	6.1%	-6.8%	-11.1%
U.S. Monetary Base (YoY%)	3.3%	5.6%	10.8%	9.7%	7.8%	5.8%	4.9%	2.9%	-0.4%	-0.4%	1.8%	-0.4%
S&P 500 Return (YoY%)	26.3%	20.8%	27.9%	28.4%	18.9%	24.2%	12.0%	8.3%	19.6%	14.0%	11.1%	17.6%
Consumer Sentiment (YoY%)	17.1%	21.2%	28.1%	14.9%	21.7%	16.6%	8.1%	6.5%	15.7%	19.2%	38.8%	28.4%
Inflation & Money Supply												
CPI (YoY%)	3.4%	3.5%	3.1%	3.0%	3.6%	3.2%	3.2%	3.6%	3.6%	3.1%	2.9%	4.1%
Core PCE (YoY%)	2.6%	2.7%	2.7%	2.7%	3.0%	3.1%	3.4%	3.5%	3.7%	4.5%	4.4%	4.8%
M2 Money Supply (YoY%)	0.9%	0.1%	-1.3%	-2.3%	-1.6%	-2.7%	-3.2%	-3.5%	-3.9%	-3.7%	-3.6%	-4.4%

Source: St. Louis Fed, University of Michigan, RQA

Composite Economic Model

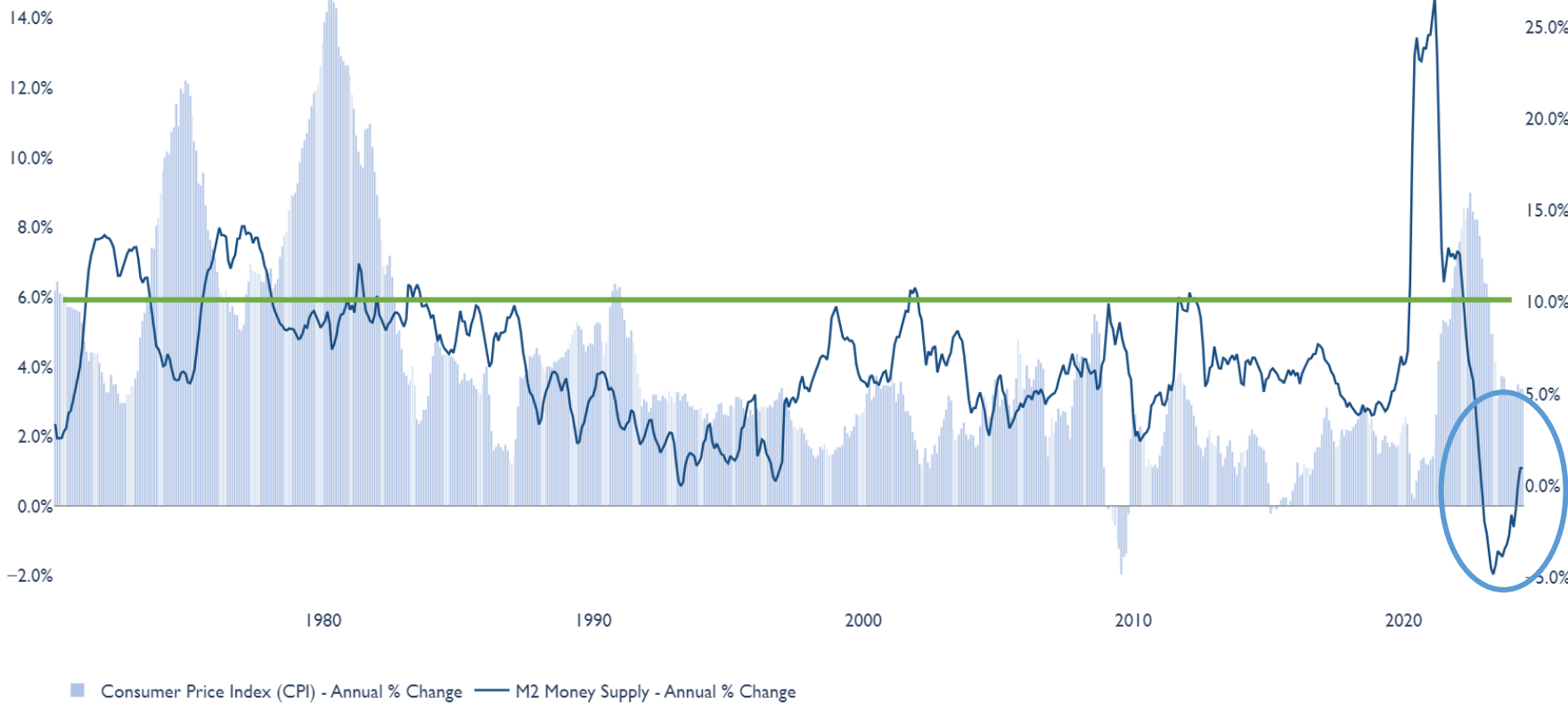
RQA Economic Index



Source: St. Louis Fed, University of Michigan, RQA

M2 Money Supply Growth Today

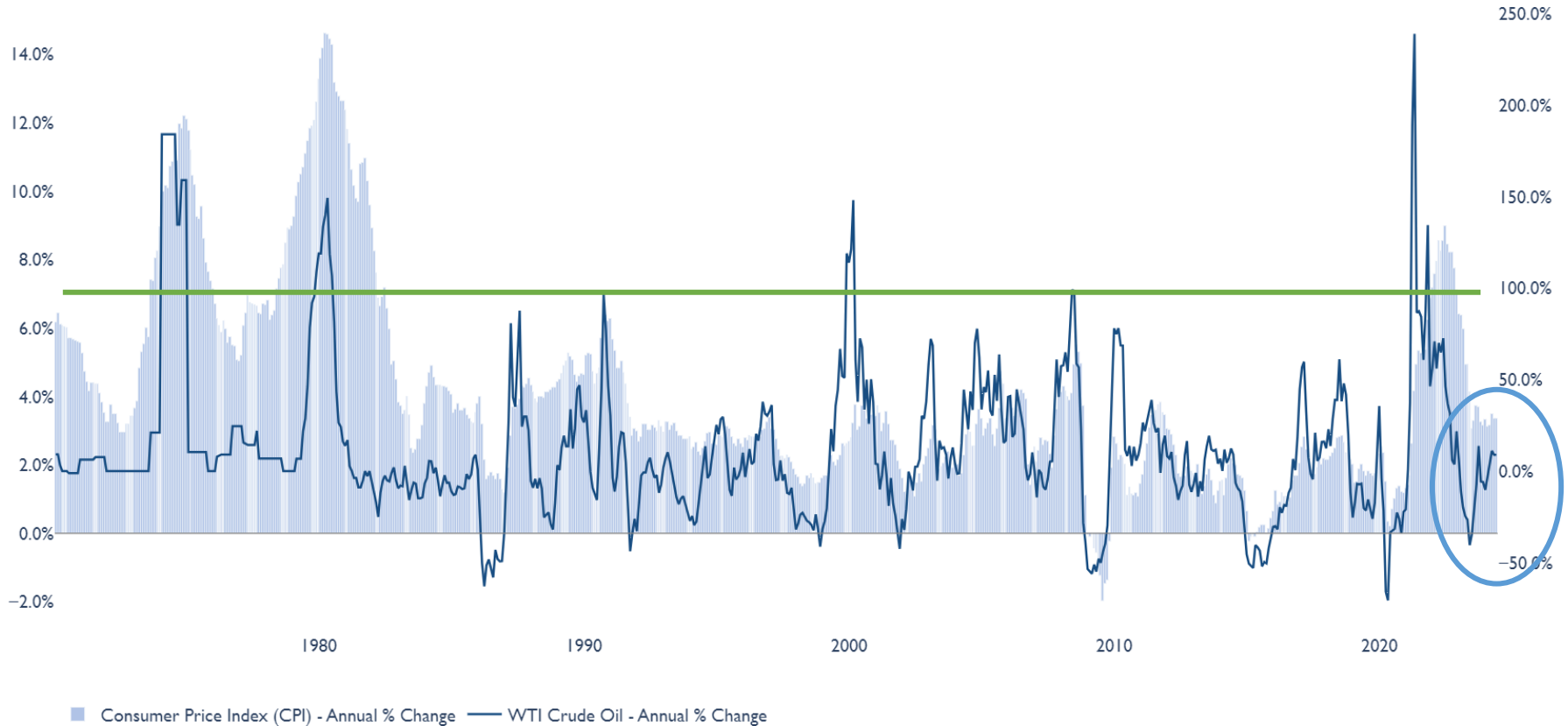
M2 Money Supply - Annual % Change



Source: St. Louis Fed, RQA

Crude Oil Today

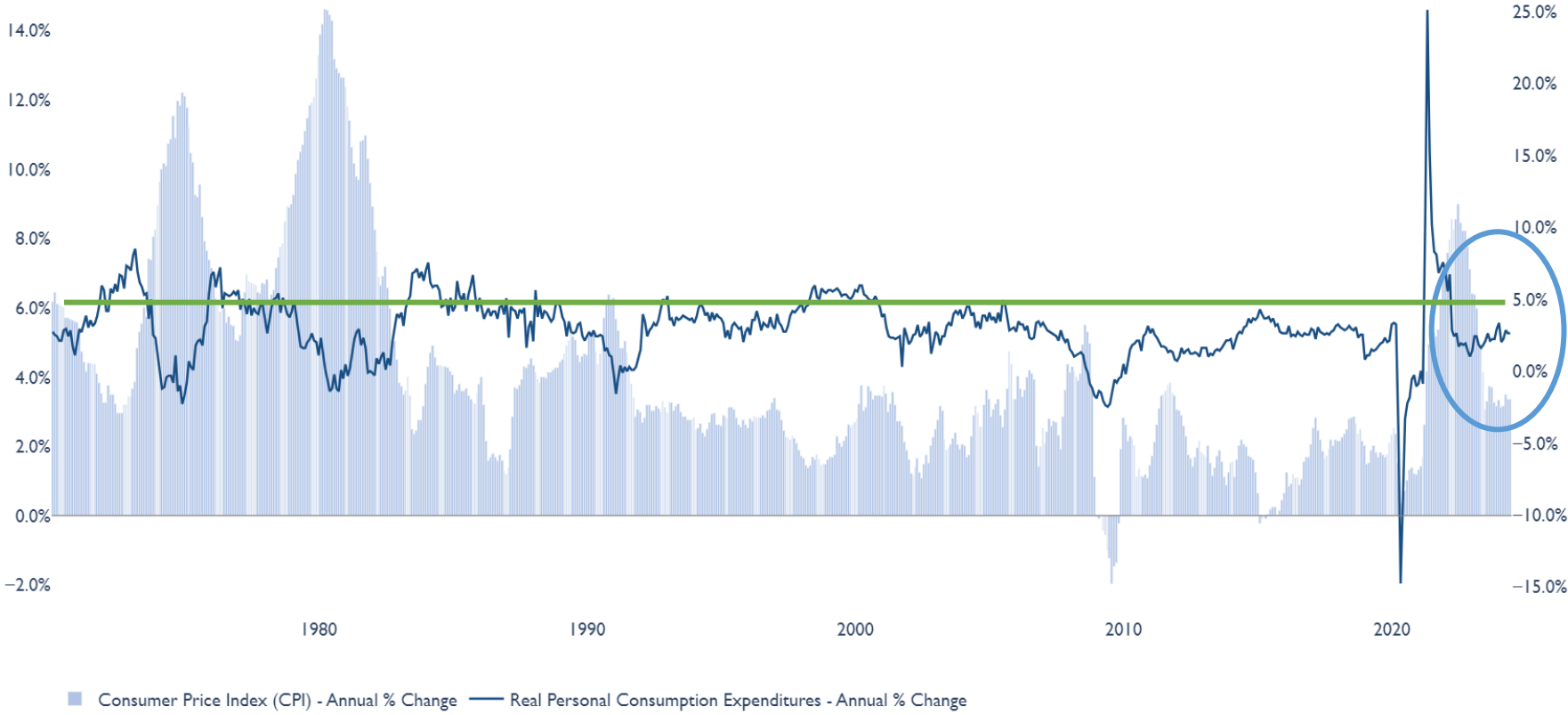
WTI Crude Oil - Annual % Change



Source: St. Louis Fed, MacroTrends, Norgate Premium Data, RQA

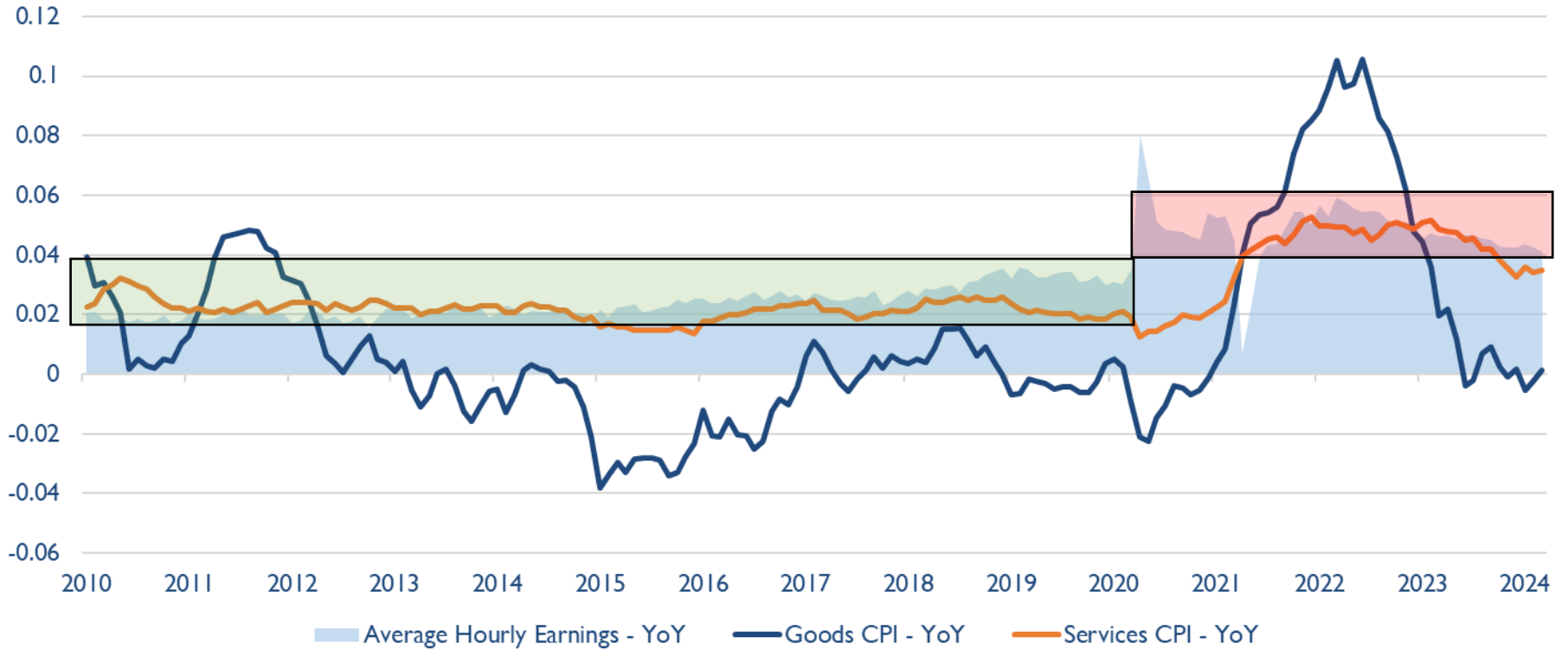
Real Personal Consumption Today

Real Personal Consumption Expenditures - Annual % Change



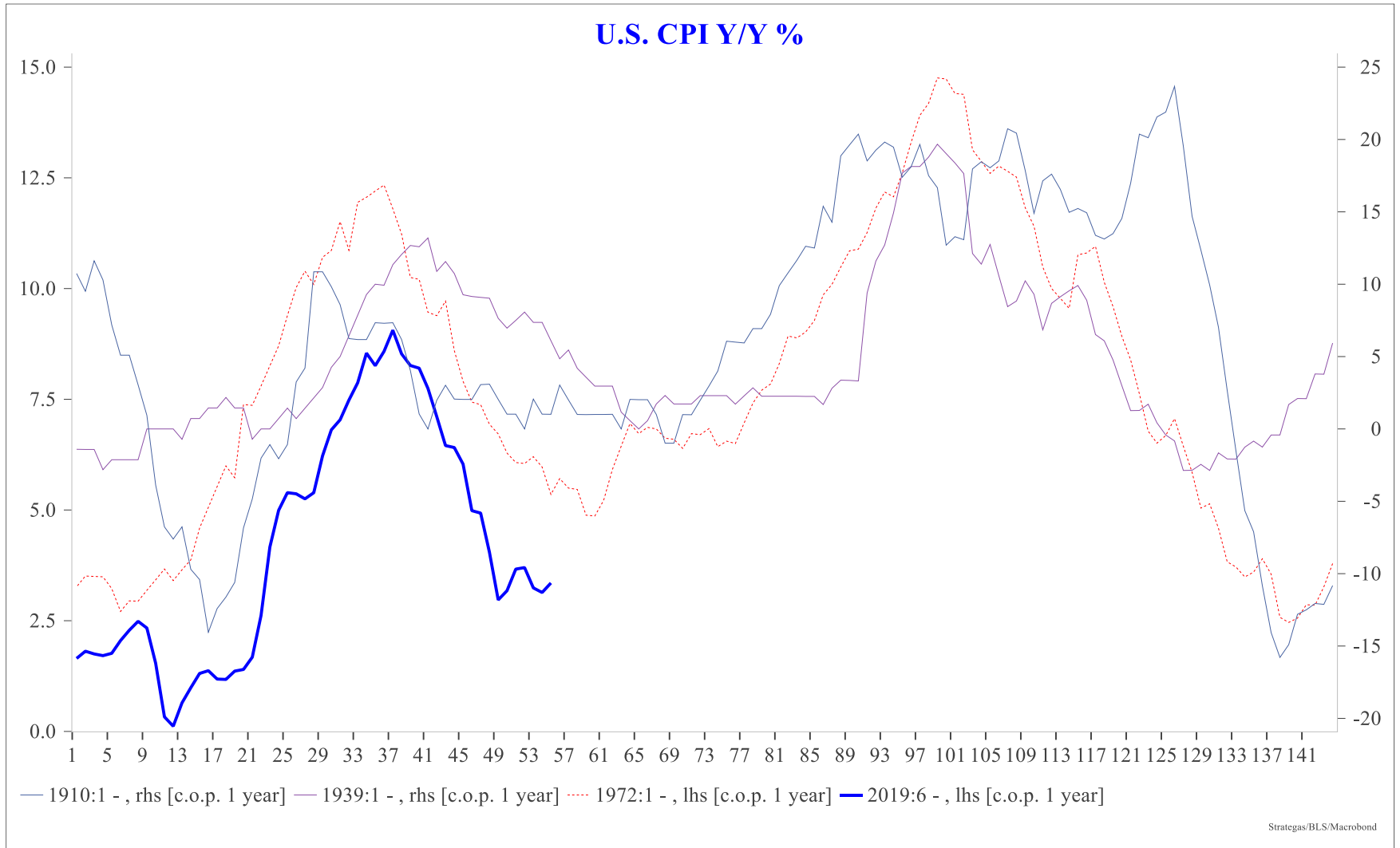
Source: St. Louis Fed, RQA

Inflation: Goods v. Services



Source: St. Louis Fed, RQA

Inflation Tends to Come in Waves



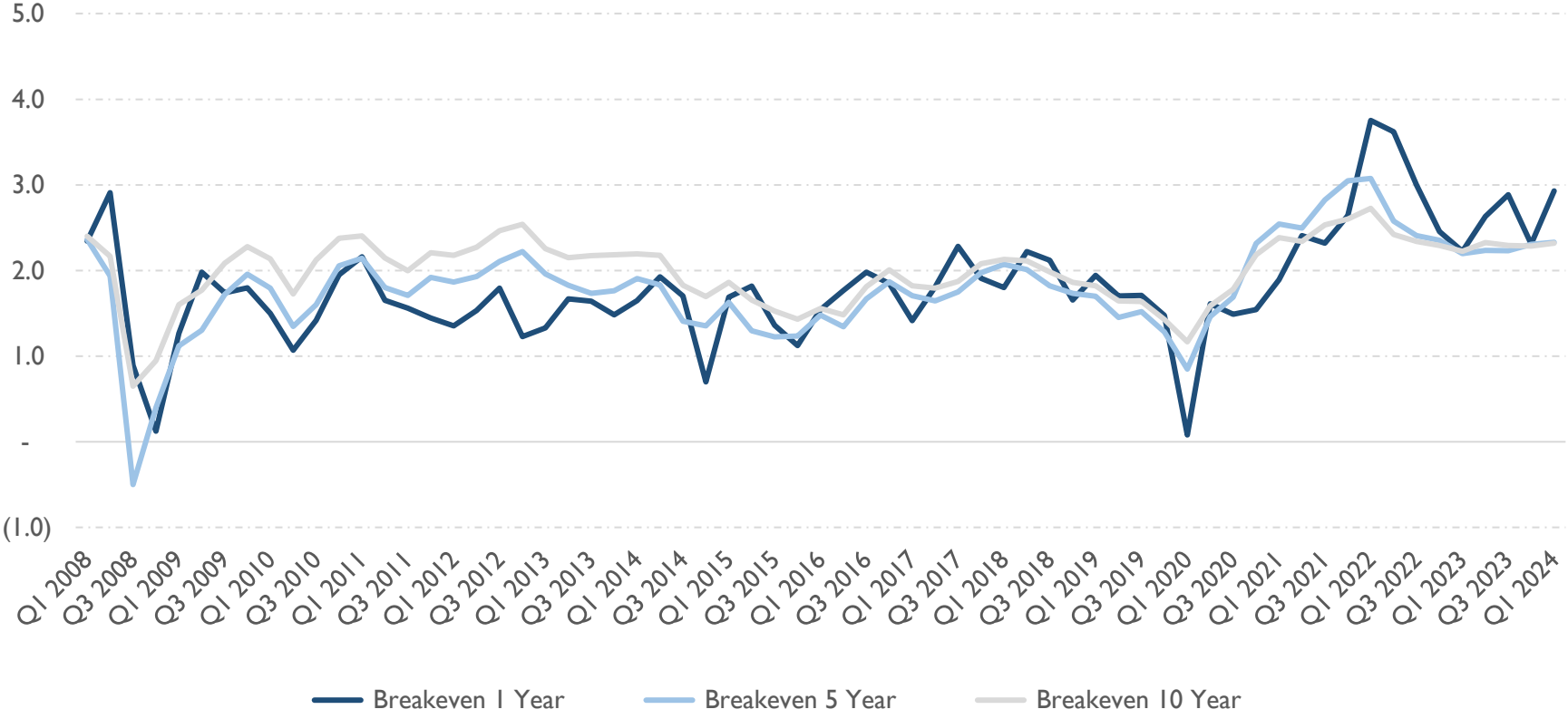
Source: Strategas Research Partners, RQA

Inflation Tends to Come in Waves

Developed Economy Inflation Episodes Breakdown						
Country	CPI Series Start	CPI Series End	Years of History	Single Waves	Inflation Episodes	% Multiple
Austria	1968	2023	55	0	2	100%
Belgium	1933	2023	90	0	4	100%
Denmark	1901	2023	122	0	3	100%
Finland	1953	2023	70	0	2	100%
France	1900	2023	123	0	3	100%
Germany	1950	2023	73	0	1	100%
Greece	1960	2023	63	0	1	100%
Ireland	1923	2023	100	0	2	100%
Italy	1955	2023	68	1	2	50%
Netherlands	1900	2023	123	0	3	100%
Portugal	1949	2023	74	0	2	100%
Spain	1958	2023	65	1	2	50%
Sweden	1900	2023	123	2	4	50%
United Kingdom	1900	2023	123	1	4	75%
Iceland	1940	2023	83	0	4	100%
Norway	1900	2023	123	1	5	80%
Switzerland	1922	2023	101	1	2	50%
Australia	1924	2023	99	0	2	100%
Canada	1915	2023	108	0	3	100%
Japan	1971	2023	52	0	1	100%
New Zealand	1927	2023	96	1	3	67%
South Korea	1953	2023	70	0	4	100%
United States	1900	2023	123	0	3	100%
Averages			2127	8	62	87%

Source: Strategas Research Partners, RQA

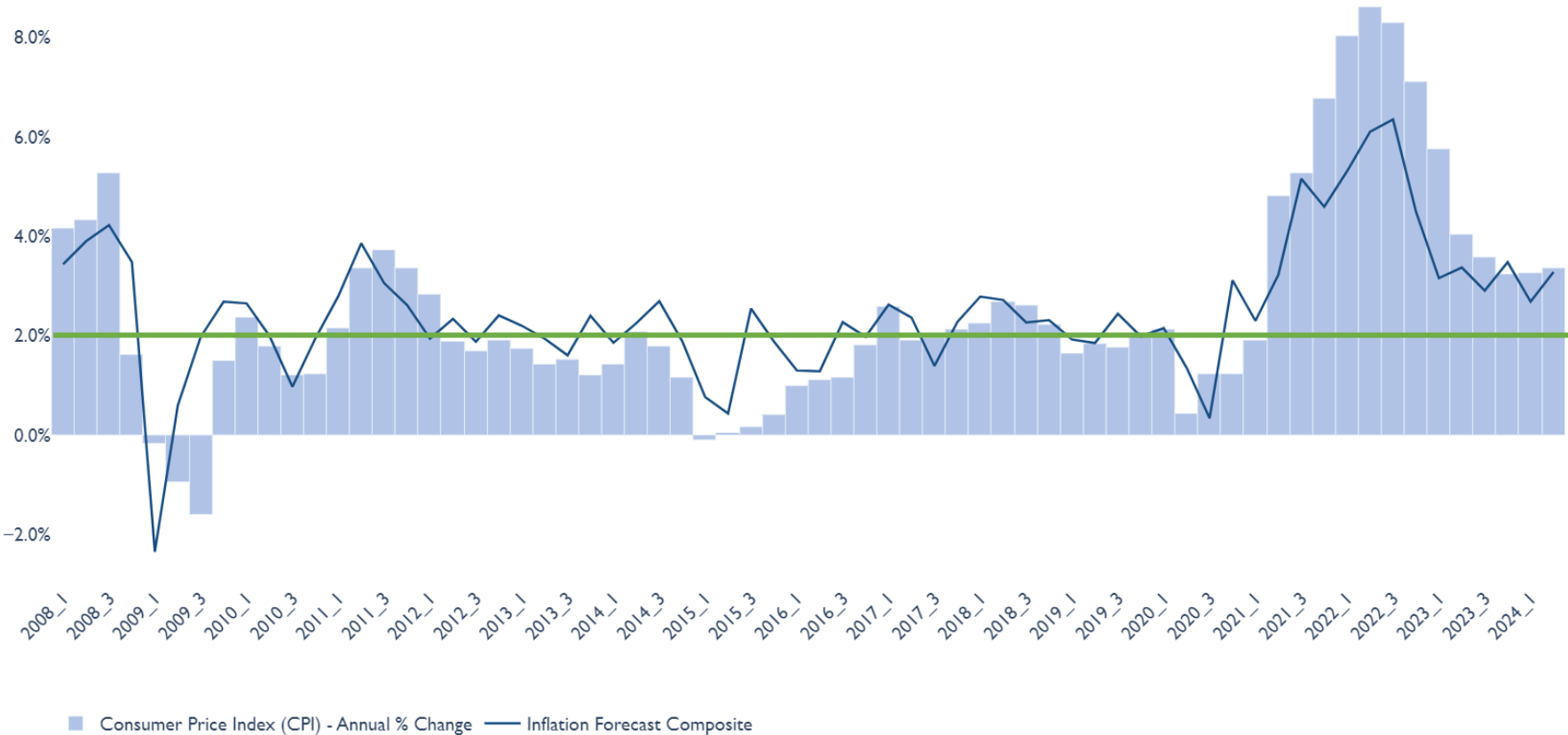
Near-Term vs. Long-Term Expectations



Source: St. Louis Fed, RQA

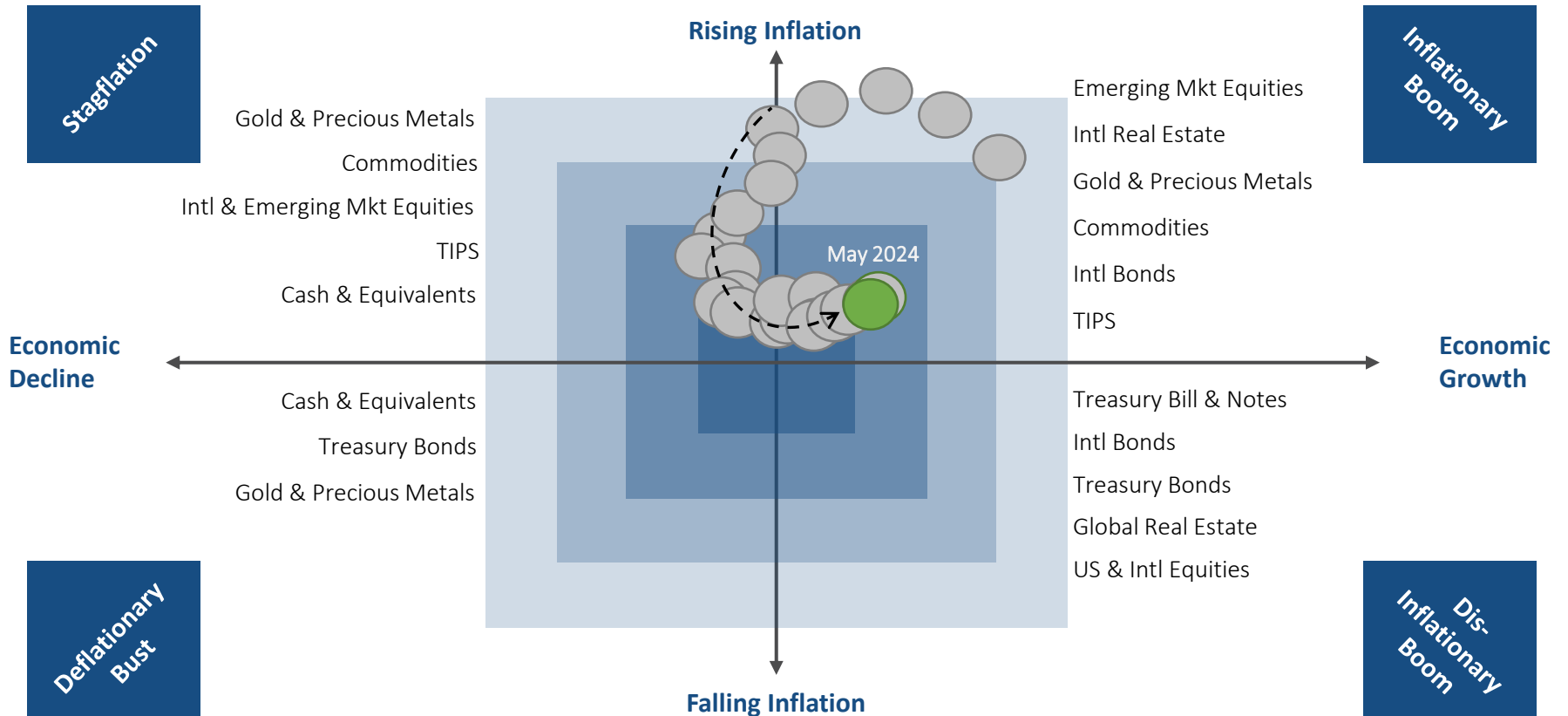
Inflation Composite Expectations

Inflation Forecast Composite



Source: St. Louis Fed, Philadelphia Fed, University of Michigan, RQA

Regime Drift Over Time



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INDEX AND BENCHMARK RETURNS REFLECT THE REINVESTMENT OF DIVIDENDS OR INCOME. IT SHOULD NOT BE ASSUMED THAT THE FUNDS WILL INVEST IN ANY SPECIFIC SECURITIES THAT COMPRISE THE INDICES, NOR SHOULD IT BE UNDERSTOOD TO MEAN THAT THERE IS A CORRELATION BETWEEN THE FUNDS' RETURNS AND INDICES. THE COMPARISONS TO THESE WIDELY FOLLOWED BENCHMARKS ARE PROVIDED FOR INFORMATION PURPOSES ONLY.

INCEPTION DATES FOR EACH MANDATE ARE AS FOLLOWS: GLOBAL BALANCED, SEPTEMBER 30, 2019; GLOBAL ADAPTIVE, JUNE 30, 2019; AND NCQ, LP, DECEMBER 31, 2014.

ANNUAL MANAGEMENT FEES INCORPORATED INTO EACH MANDATE ARE AS FOLLOWS: GLOBAL BALANCED, 0.50%; GLOBAL ADAPTIVE, 0.75%; NCQ,LP, 1% (PLUS 10% OF NET PROFITS ABOVE HIGH WATER MARK). FEES ARE ASSESSED AT MONTH END OF EACH CALENDAR MONTH, UNLESS OTHERWISE STATED AND AGREED UPON.