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*Macro*



**Darius Dale Macro Voices Interview**  
**Thursday, July 17, 2025**

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# The 42 Macro Risk Management Process

Identify And Position For The Market Regime

Global Macro Risk Matrix, KISS, and Dr. Mo

Prepare For Regime Change Using Quantitative Signals

GRID Model, Macro Weather Model, Positioning Model, and Global Liquidity Monitor  
(visibility 3-12mos)

Prepare For Regime Change Using Qualitative Signals

Fundamental Research Themes  
(visibility: 3-12mos; 3-10yrs)

42 Macro Factor Long-Short Preferences	Risk-On Market Regimes		Risk-Off Market Regimes	
	GOLDDLOCKS	REFLATION	INFLATION	DEFLATION
General Bias	Risk Assets Defensive Assets	Risk Assets Defensive Assets	Defensive Assets Risk Assets	Defensive Assets Risk Assets
Beta	High Beta Low Beta	High Beta Low Beta	Low Beta High Beta	Low Beta High Beta
Cyclicality	Cyclicals Defensives	Cyclicals Defensives	Defensives Cyclicals	Defensives Cyclicals
Style	Growth Value	Growth Value	Value Growth	Growth Value
Market Cap	SMID Caps Large Caps	SMID Caps Large Caps	Large Caps SMID Caps	Large Caps SMID Caps
Regional	US International	International US	US International	US International
Geographic	Emerging Markets Developed Markets	Emerging Markets Developed Markets	Developed Markets Emerging Markets	Developed Markets Emerging Markets
Fixed Income	Spread Products Treasury	Spread Products Treasury	Treasury Spread Products	Treasury Spread Products
Treasury Curve	Short Rates Belly Long Rates	Short Rates Belly Long Rates	Short Rates Belly Long Rates	Long Rates Belly Short Rates
Credit	High Yield Investment Grade	High Yield Investment Grade	Investment Grade High Yield	Investment Grade High Yield
Commodities	Industrial Commodities Energy Commodities Agricultural Commodities	Industrial Commodities Energy Commodities Agricultural Commodities	Agricultural Commodities Energy Commodities Industrial Commodities	Agricultural Commodities Energy Commodities Industrial Commodities
Currencies	Gold Foreign Currencies US Dollar	Gold Foreign Currencies US Dollar	US Dollar Gold Foreign Currencies	Gold US Dollar Foreign Currencies

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GOLDDLOCKS = risk on with a disinflationary bias. REFLATION = risk on with an inflationary bias.

INFLATION = risk off with an inflationary bias. DEFLATION = risk off with a disinflationary bias.

# Executive Summary: Wednesday, July 16, 2025

## Modal Outcome Themes:

- Paradigm C (introduced: Apr-25; time horizon: through at least Nov-26)

## Right Tail Risk Themes:

- Resilient US Economy (introduced: Sep-22; time horizon: 1yr+)
- Jay Wants A Soft Landing (introduced: Nov-23; time horizon: through May-26)

## Left Tail Risk Themes:

- Sticky Inflation (introduced: Jan-22; time horizon: 1yr+)
- Paradigm C (introduced: Apr-25; time horizon: through at least Nov-26)

# Fundamental Research Summary: Wednesday, July 16, 2025

## Sticky Inflation (introduced: Jan-22; time horizon: 1yr+)

- US inflation is unlikely to durably return to the Fed's stated 2% and de facto 2.5% targets without an actual recession. Since last summer, our GRID Model has been forecasting an uptrend in inflation throughout 2025. Since both the Fed and Wall Street consensus have fully capitulated into our view, we no longer anticipate upside surprises over the medium term.
- With respect to the long-term, however, we do not believe the net impact of tariffs, immigration enforcement, credit easing, and incremental fiscal largesse is appropriately priced.

## Resilient US Economy (introduced: Sep-22; time horizon: 1yr+)

- The US economy remains resilient due to historically strong private sector balance sheets, expansionary monetary policy, labor hoarding, and substantial deregulation. Although a technical recession may occur due to the imposition of Smoot-Hawley-level tariff rates and historically elevated policy uncertainty, we view the probability of an actual recession occurring over a medium-term time horizon as low—much lower than Wall Street consensus.

## Jay Wants A Soft Landing (introduced: Nov-23; time horizon: through May-26)

- The Fed has a modestly dovish reaction function that is geared towards engineering a soft landing in the US economy. The Fed is implementing its typical Fourth Turning playbook, which is to support fiscal dominance by artificially engineering demand for US Treasuries amid above-target inflation and explosive growth in federal debt.

## Paradigm C (introduced: Apr-25; time horizon: through at least Nov-26)

- The Trump administration is likely guiding the US economy to Paradigm C, which features all the fiscal and monetary largesse that perpetuated the K-shaped economy of Paradigm A, plus trillions more in tax cuts, substantial deregulation, and some reshoring of industries deemed critical for national defense. In short, Paradigm C implies the net impact of fiscal, regulatory, and trade policy changes represents a durable positive shock to growth that Wall Street consensus is currently under-positioned for.
- Fiscal dominance demands substantial monetization of deficits and financial repression over the long term. The Fed is likely to begin lowering the policy rate again in Sep-25. We expect a reduction of the SLR by Dec-25. We expect more politized rate cuts that catalyze a negative real Fed Funds Rate by Dec-26. We expect durable Fed yield curve control (YCC) by Dec-28.
- Fiscal dominance is also why Treasury net financing policy is likely to remain dovish for the foreseeable future, per the latest guidance from Secretary Bessent. The concentration of issuance in bills—which has ample scope to increase—reduces duration risk across global financial markets.
- The path that asset markets may take to realize Paradigm C's upside risk is not linear. A U-shaped economy is likely still ahead of us and the slowdown in growth will flatter consensus recession fears. Moreover, the post-Debt-Limit-increase rebuild of the TGA may drain liquidity if it is capitalized with coupons instead of bills. Lastly, trade policy uncertainty is likely to persist as well—and may even deteriorate.
- We view each of these transitory outcomes as scarecrows to be faded by every investor with an investment horizon that extends past this summer. Focus on the forest, not the trees.

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Highlighted callouts include material changes from the preceding 42 Macro research report.

Red = bearish for risk assets. Green is bullish for risk assets. Orange = neutral for risk assets.

Active Themes sourced from our monthly Macro Scouting Reports and daily Leadoff Morning Notes. In chronological order.

# Quantitative Risk Management Summary: Wednesday, July 16, 2025

## Short-Term Signals (<1 month):

- **Crowding Model:** Not currently generating any bearish or bullish signals.
- **Probable Range Model:** The US Dollar Index and 2yr Nominal Treasury Yield are currently overbought. Global Commodity Producers and Industrial Commodities currently oversold.

## Short-to-Medium-Term Signals (1-3 months):

- **Dispersion Model:** Rotational flows have generally favored cyclicals on a trending basis.
- **Positioning Model:** Short-to-medium-term positioning indicators indicate retail traders are neutral stocks, and active managers are overweight stocks. Speculators are underweight stocks, underweight Treasuries, underweight the US dollar, and underweight commodities. Our Positioning Model signals low risk of a correction (↓ 10%) in risk assets over the short-to-medium term.

## Medium-to-Long-Term Signals (3-12+ months):

- **Dr. Mo Directionally Bullish Signals:** n/a
- **Dr. Mo Directionally Bearish Signals:** n/a
- **Global Macro Risk Matrix:** GOLDILOCKS is the current Market Regime. GOLDILOCKS is a risk-on regime in which investors are generally rewarded for increasing risk because policymakers are supporting or unlikely to restrain real economic growth that is perceived to be accelerating or persistently higher than expectations. *The key portfolio construction considerations in GOLDILOCKS are: Risk Assets > Defensive Assets, High Beta > Low Beta, Cyclicals > Defensives, Growth > Value, SMID Caps > Large Caps, US > International, EM > DM, Spread Products > Treasuries, Short Rates > Belly > Long Rates, High Yield > Investment Grade, Industrial Commodities > Energy Commodities > Agricultural Commodities, and Gold > FX > USD.*
- **Global Liquidity Monitor:** Global liquidity is currently trending higher. Key leading indicators of global liquidity currently signal a modest uptrend over the medium term.
- **GRID Model:** INFLATION (growth ↓ and inflation ↑) is the modal outcome from a Bottom-Up Macro Regime perspective in the US economy over the next 3-6mos and the next 6-12mos.
- **Macro Weather Model:** Currently generating a bullish three-month outlook for Stocks, Commodities, and Bitcoin, a neutral three-month outlook for Bonds, and a bearish three-month outlook for the US Dollar. The composite signals currently indicate a high probability of sustaining a risk-on Market Regime over the next three months.
- **Positioning Model:** Medium-to-long-term positioning indicators indicate investment advisors are overweight stocks, neutral bonds, and underweight cash. Systematic funds are neutral stocks. Market-neutral hedge funds are overweight risk assets from a gross exposure perspective. Risk asset valuations are somewhat consistent with major bull market peaks. Our Positioning Model signals moderate risk of a crash (↓ 20%) in risk assets over the medium-to-long term. Recall that it signaled high risk of a crash at the then all-time high in the \$SPY on February 19.

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Highlighted callouts include material changes from the preceding 42 Macro research report.

Positioning Model correction/crash risk thresholds: < 25% = low, 25-50% moderate, 50-75% reasonable, and > 75% high.

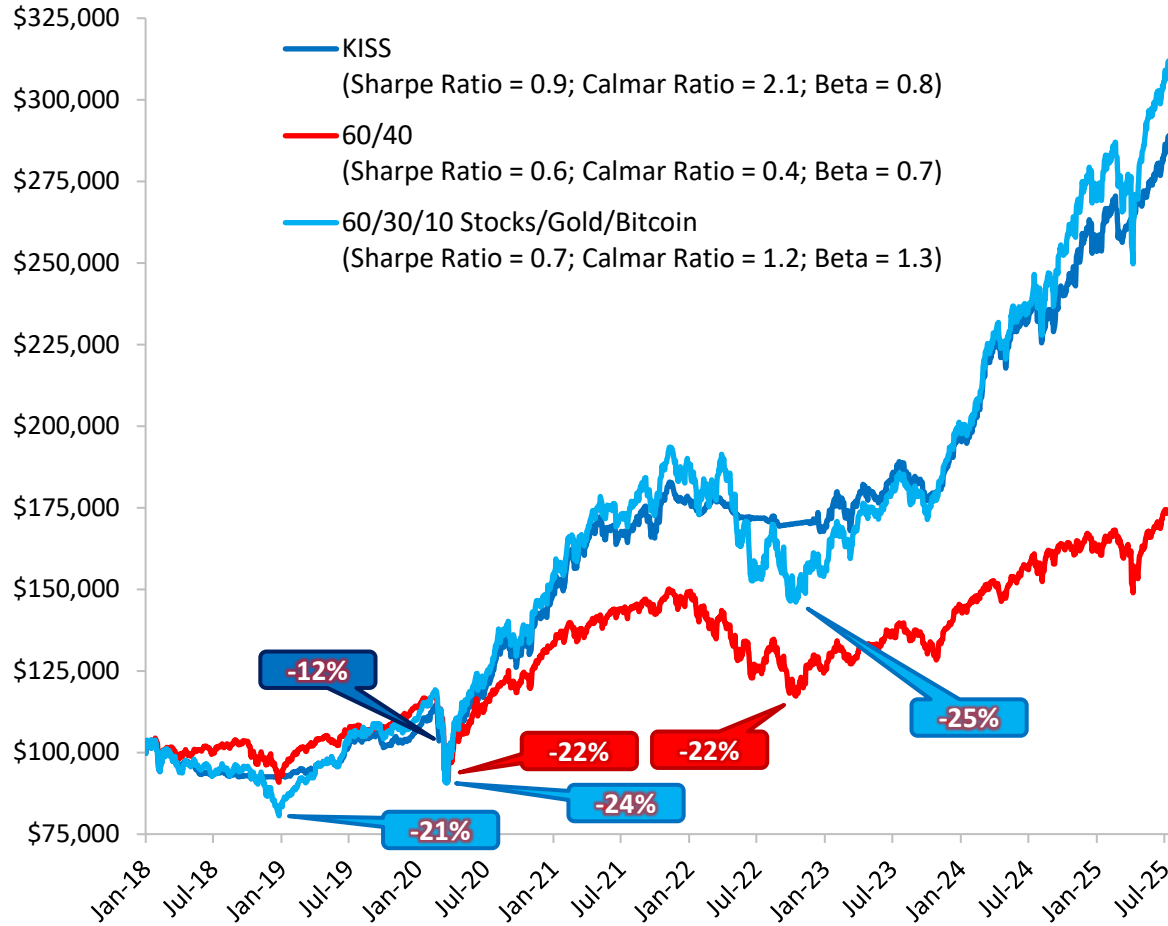
Macro Weather Model RORO phase transition risk thresholds: < 25% = low, 25-50% moderate, 50-75% reasonable, and > 75% high.

# KISS Portfolio Construction Process: Keep It **Simple** & **Systematic**

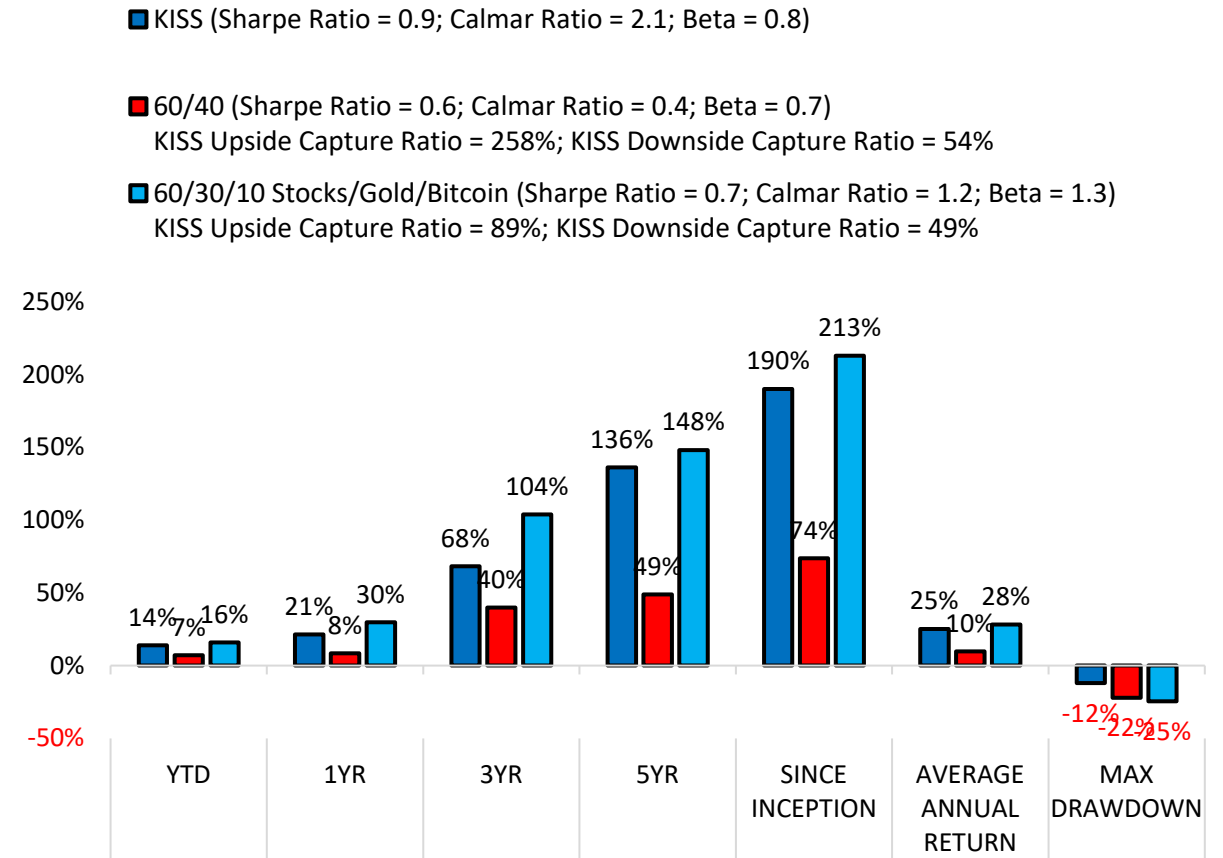
- I. **Factor Selection Process: We have developed a 60/30/10 trend-following strategy, which is likely to significantly outperform the standard 60/40 portfolio over the long term.**
  - The 42 Macro KISS Portfolio Construction Process offers a thoughtful alternative to the traditional 60/40 portfolio framework, particularly during a Fourth Turning regime. Our 60/30/10 trend-following strategy is designed to simplify investing, maximize upside capture during bull markets, and minimize downside capture during bear markets.
  - **60% Equities:** Our default exposure is the S&P 500 \$SPLG. Investors may allocate that 60% to an alternative equity ETF or basket of equity ETFs that better aligns with their individual investment preferences, risk tolerance, and/or product availability. Consult our [Discretionary Risk Management Overlay aka “Dr. Mo”](#) for ideas.
  - **30% Gold:** Our default exposure is Gold \$GLDM. Investors may allocate that 30% to a diversified fixed income ETF or basket of fixed income ETFs that better aligns with their individual investment preferences, risk tolerance, and/or product availability. Consult our [Discretionary Risk Management Overlay aka “Dr. Mo”](#) for ideas.
  - **10% Bitcoin:** Our default exposure is Bitcoin \$FBTC. Investors may allocate that 10% to the Bitcoin token directly, a basket of cryptocurrencies, a diversified physical commodities ETF, or a basket of physical commodities that better aligns with their individual investment preferences, risk tolerance, and/or product availability. Consult our [Discretionary Risk Management Overlay aka “Dr. Mo”](#) for ideas.
- II. **Top-Down Risk Management Overlay: We use our Global Macro Risk Matrix to incorporate volatility targeting into our 60/30/10 trend-following strategy.**
  - **Equities:** If the Market Regime is in a risk-on condition (i.e., **GOLDILOCKS** or **REFLATION**), then the Target Allocation for the SPLG ETF is maxed out at 60%. If the Market Regime is in a risk-off condition (i.e., **INFLATION** or **DEFLATION**), then the Target Allocation for the SPLG ETF is cut in half to 30%.
  - **Gold:** Gold has historically performed well in all Market Regimes except **INFLATION**, where its absolute return is modestly negative. Extensive fundamental research suggests Gold is likely to have structurally better performance in **INFLATION**. As such, Gold’s Target Allocation is fixed at 30%.
  - **Bitcoin:** If the Market Regime is in a risk-on condition (i.e., **GOLDILOCKS** or **REFLATION**), then the Target Allocation for the FBTC ETF is maxed out at 10%. If the Market Regime is in a risk-off condition (i.e., **INFLATION** or **DEFLATION**), then the Target Allocation for the FBTC ETF is cut in half to 5%.
- III. **Bottom-Up Risk Management Overlay: We use our Volatility-Adjusted Momentum Signal to incorporate dynamic positioning sizing into our 60/30/10 trend-following strategy.**
  - If an ETF is **Bullish VAMS**, then the Actual Exposure = **100%** of the Target Allocation.
  - If an ETF is **Neutral VAMS**, then the Actual Exposure = **50%** of the Target Allocation.
  - If an ETF is **Bearish VAMS**, then the Actual Exposure = **0%** of the Target Allocation.

# KISS Portfolio Construction Process Backtest

Hypothetical Performance of a \$100,000 Portfolio Since January 1, 2018



Hypothetical Performance of a \$100,000 Portfolio Over Industry-Standard Reporting Horizons (Inception = January 1, 2018)

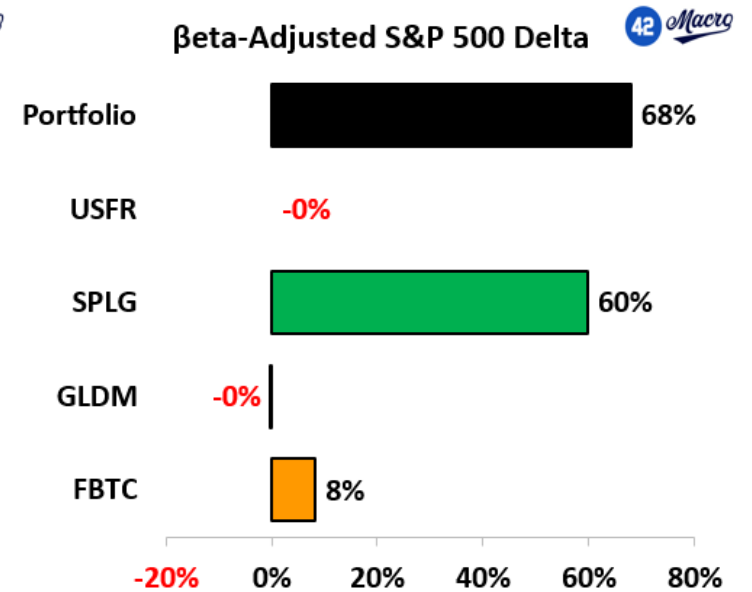
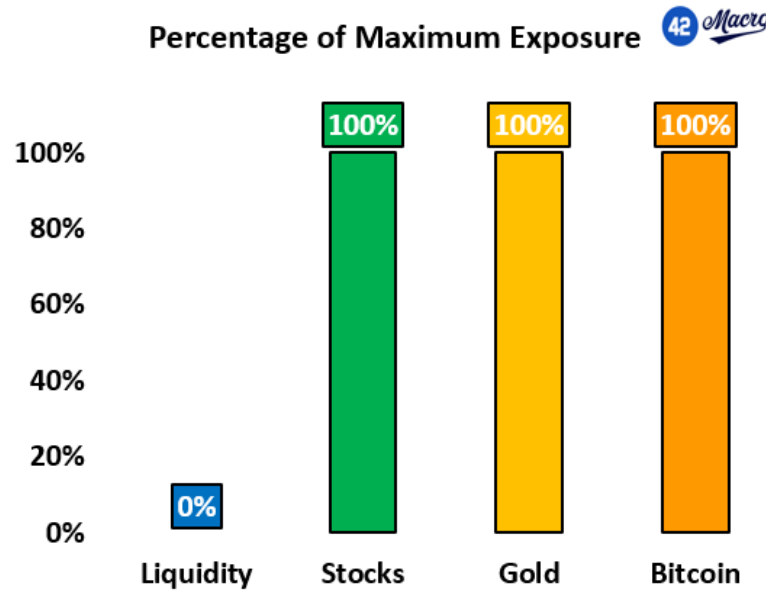
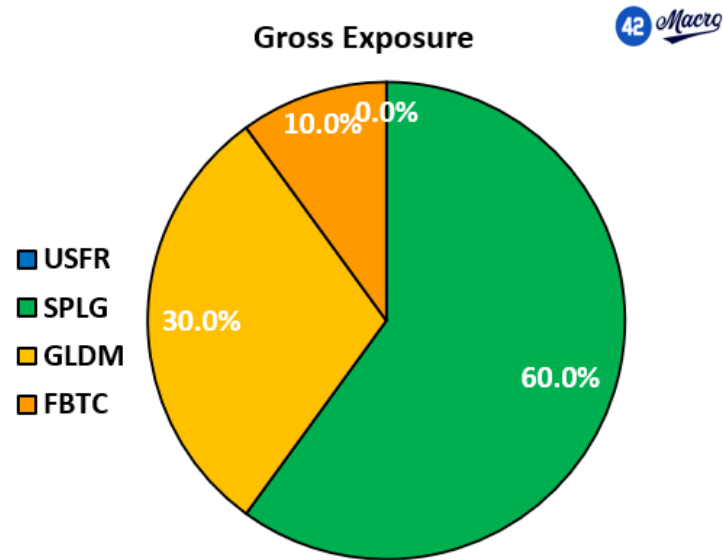


© 42 Macro LLC. Data Source: Bloomberg. Total returns based on daily closing prices. Out-of-sample backtest. KISS' Top-Down and Bottom-Up Risk Management Overlay pivots are lagged by a full day to simulate real-world trading conditions. KISS averages two trades per month since inception.

# Current KISS Portfolio Construction (Implement The Pie Chart): Wednesday, July 16, 2025

## 42 Macro KISS Portfolio Construction

Liquidity (Percent of MAX Exposure of 100%): 0%	Market Regime Determines Target Allocation	VAMS Determines Actual Exposure	Δ Since Prior Update	6mo Beta to S&P 500
USFR	n/a	0.00%		-0.0
Stocks (Percent of MAX Exposure of 60%): 100%	Top-Down Risk Management Overlay (G&R=60%; I&D=30%)	Bottom-Up Risk Management Overlay (100%/50%/0%)	Δ Since Prior Update	6mo Beta to S&P 500
SPLG	60.00%	60.00%		1.0
Gold (Percent of MAX Exposure of 30%): 100%	Top-Down Risk Management Overlay (GRID = 30%)	Bottom-Up Risk Management Overlay (100%/50%/0%)	Δ Since Prior Update	6mo Beta to S&P 500
GLDM	30.00%	30.00%		-0.0
Bitcoin (Percent of MAX Exposure of 10%): 100%	Top-Down Risk Management Overlay (G&R=10%; I&D=5%)	Bottom-Up Risk Management Overlay (100%/50%/0%)	Δ Since Prior Update	6mo Beta to S&P 500
FBTC	10.00%	10.00%		0.8



# Investors Should Use Our Discretionary Risk Management Overlay aka “Dr. Mo” As A Market Timing And Position Sizing Guide For Factor Long-Short Bets OR To Implement A Customized Version Of KISS: Wednesday, July 16, 2025

## MARKET REGIME: GOLDILOCKS

US EQUITY SECTORS	VAMS	RSI	PROPER TRADE	US EQUITY FACTORS	VAMS	RSI	PROPER TRADE	GLOBAL EQUITIES	VAMS	RSI	PROPER TRADE	FIXED INCOME SECTORS	VAMS	RSI	PROPER TRADE	MACRO EXPOSURES	VAMS	RSI	PROPER TRADE
USA (SPY)	✓	64	LONG: Max Position	Dividend Compounders (SPHD)	✓	50	LONG: Max Position	Australia (EWA)	✓	49	LONG: Max Position	0-5yr TIPS (STIP)	✓	54	LONG: Max Position	Agriculture (DBA)	⚠	36	LONG: Half Position
Communication Services (XLC)	✓	54	LONG: Max Position	Growth (IWF)	✓	69	LONG: Max Position	Brazil (EWZ)	✓	43	LONG: Max Position	1-3yr Treasuries (SHY)	✓	43	LONG: Max Position	Australian Dollar (FXA)	✓	49	LONG: Max Position
Consumer Discretionary (XLY)	✓	55	LONG: Max Position	High Beta (SPHB)	✓	69	LONG: Max Position	Canada (EWC)	✓	55	LONG: Max Position	3-12mo Treasury Bills (BILS)	n/a	51	SHORT: Max Position	Base Metals (DBB)	✓	50	LONG: Max Position
Consumer Staples (XLP)	✓	40	LONG: Max Position	Large Caps (IWB)	✓	64	LONG: Max Position	China (FXI)	✓	63	LONG: Max Position	5-10yr TIPS (TIP)	⚠	48	LONG: Half Position	Bitcoin	✓	66	LONG: Max Position
Energy (XLE)	✓	52	LONG: Max Position	Low Beta (SPLV)	✓	44	LONG: Max Position	Commodity Producers (GNR)	✓	52	LONG: Max Position	5-10yr Treasuries (IEF)	⚠	41	LONG: Half Position	British Pound (FXB)	✓	37	LONG: Max Position
Financials (XLF)	✓	50	LONG: Max Position	Mega Cap Growth (QQQ)	✓	68	LONG: Max Position	Emerging Markets (EEM)	✓	64	LONG: Max Position	25+ Year Treasuries (TLT)	✗	39	SHORT: Max Position	Canadian Dollar (FXC)	✓	46	LONG: Max Position
Health Care (XLV)	⚠	42	LONG: Half Position	Mid Caps (IWR)	✓	54	LONG: Max Position	Eurozone (EZU)	✓	49	LONG: Max Position	US Aggregate (AGG)	⚠	43	LONG: Half Position	Commodities (PDDBC)	✓	53	LONG: Max Position
Industrials (XLI)	✓	66	LONG: Max Position	Momentum (MTUM)	✓	56	LONG: Max Position	Global Equities (ACWX)	✓	52	LONG: Max Position	BDCs (BIZD)	✓	61	LONG: Max Position	Crude Oil (USO)	⚠	52	LONG: Half Position
Information Technology (XLK)	✓	70	LONG: Max Position	Quality (QUAL)	✓	55	LONG: Max Position	India (INDA)	✓	49	LONG: Max Position	Convertibles (CWCB)	✓	75	LONG: Max Position	Ethereum	✓	74	LONG: Max Position
Materials (XLB)	✓	50	LONG: Max Position	Small Caps (IWM)	✓	55	LONG: Max Position	Japan (EWJ)	✓	40	LONG: Max Position	EM Local Currency Bonds (EMLC)	✓	52	LONG: Max Position	Euro (FXE)	✓	49	LONG: Max Position
Real Estate (XLRE)	✓	45	LONG: Max Position	Value (IWD)	✓	53	LONG: Max Position	United Kingdom (EWU)	✓	49	LONG: Max Position	EM USD Bonds (EMB)	✓	49	LONG: Max Position	Gold (GLD)	✓	50	LONG: Max Position
Utilities (XLU)	✓	53	LONG: Max Position									High Yield Credit (HYG)	✓	49	LONG: Max Position	Gold Miners (GDXX)	✓	49	LONG: Max Position
												International Aggregate (BNDX)	⚠	41	LONG: Half Position	Japanese Yen (FXJ)	✓	32	LONG: Max Position
												International Bonds (BWX)	⚠	38	LONG: Half Position	Silver (SLV)	✓	61	LONG: Max Position
												Investment Grade Credit (LQD)	✓	44	LONG: Max Position	Silver Miners (SIL)	✓	58	LONG: Max Position
												Leveraged Loans (BKLN)	✓	65	LONG: Max Position	Uranium (SRUUF)	✓	44	LONG: Max Position
												MBS (MBB)	⚠	43	LONG: Half Position	US Dollar (UUP)	✗	60	SHORT: Max Position
												Preferreds (PFF)	✓	57	LONG: Max Position				

Data Source: Bloomberg. Intellectual Property of 42 Macro LLC. VAMS = Volatility-Adjusted Momentum Signal. RSI = 14-Day Relative Strength Index. Highlighted exposures indicate change in PROPER TRADE signal from the previous report. GREEN = directionally bullish change. RED = directionally bearish change. The PROPER TRADE signals do NOT correspond to KISS.

The key portfolio construction considerations in GOLDILOCKS are: Risk Assets > Defensive Assets, High Beta > Low Beta, Cyclical > Defensive, Growth > Value, SMID Caps > Large Caps, US > International, EM > DM, Spread Products > Treasuries, Short Rates > Belly > Long Rates, High Yield > Investment Grade, Industrial Commodities > Energy Commodities > Agricultural Commodities, and Gold > FX > USD.

© 42 Macro LLC. Data Source: Bloomberg. Color coding corresponds to each exposure, for each backtest. Cumulative performance is determined by summing daily log price changes for each asset. Backtests begin in Jan-98. If an ETF is **bullish** (or **bearish**) VAMS and that is in line with how the underlying asset should trade in the current Market Regime, then Dr. Mo will prescribe a “LONG (SHORT): Max Position”. If an ETF is **neutral** VAMS and it should be **bullish** (or **bearish**) in the current Market Regime, then Dr. Mo will prescribe a “LONG (SHORT): Half Position”. There are no **SHORT**: Half Positions for Equity and Crypto exposures. Dr. Mo will prescribe a “No Position” if the VAMS is the opposite of what it should be in the current Market Regime.



# Volatility-Adjusted Momentum Signal (VAMS) And Global Macro Risk Matrix Market Regime Backtests

42 Macro Market Regime & VAMS Backtests		% of Cumulative Performance by VAMS Condition			% of Cumulative Performance by Market Regime						Sharpe Ratio by Market Regime						42 Macro Market Regime & VAMS Backtests		% of Cumulative Performance by VAMS Condition			% of Cumulative Performance by Market Regime						Sharpe Ratio by Market Regime					
		BULLISH	NEUTRAL	BEARISH	GOLDDILOCKS	REFLATION	INFLATION	DEFLATION	RISK ON	RISK OFF	GOLDDILOCKS	REFLATION	INFLATION	DEFLATION	RISK ON	RISK OFF			BULLISH	NEUTRAL	BEARISH	GOLDDILOCKS	REFLATION	INFLATION	DEFLATION	RISK ON	RISK OFF	GOLDDILOCKS	REFLATION	INFLATION	DEFLATION	RISK ON	RISK OFF
SPY	S&P 500	93%	40%	-34%	62%	43%	1%	-6%	105%	-5%	0.8	0.7	0.0	-0.1	0.8	0.0	STIP	0-5yr TIPS	75%	34%	-9%	48%	47%	-4%	9%	95%	5%	1.1	0.9	-0.1	0.2	1.0	0.1
XLC	Communication Services	257%	147%	-304%	219%	102%	-165%	-56%	321%	-221%	0.4	0.2	-0.5	-0.1	0.3	-0.2	SHY	1-3yr Treasuries	67%	34%	-1%	23%	26%	6%	44%	49%	51%	1.5	1.6	0.8	2.6	1.5	2.0
XLY	Consumer Discretionary	81%	60%	-41%	68%	39%	-12%	4%	108%	-8%	0.9	0.6	-0.3	0.0	0.8	-0.1	TIP	5-10yr TIPS	76%	14%	10%	50%	34%	-6%	23%	83%	17%	1.1	0.7	-0.2	0.4	0.9	0.2
XLP	Consumer Staples	58%	34%	7%	45%	34%	16%	5%	79%	21%	0.5	0.4	0.3	0.0	0.5	0.1	IEF	5-10yr Treasuries	71%	24%	5%	18%	21%	4%	56%	39%	61%	0.4	0.5	0.2	1.3	0.5	1.0
XLE	Energy	67%	123%	-91%	95%	44%	33%	-72%	139%	-39%	0.6	0.3	0.5	-0.3	0.5	-0.1	TLT	Long Bond	173%	28%	-101%	31%	1%	-86%	154%	32%	68%	0.1	0.0	-0.4	0.3	0.0	0.1
XLF	Financials	123%	80%	-103%	89%	54%	4%	-47%	143%	-43%	0.6	0.5	0.1	-0.2	0.5	-0.1	AGG	US Aggregate	63%	28%	8%	33%	27%	0%	40%	60%	40%	1.1	0.8	0.0	1.3	0.0	0.8
XLV	Health Care	78%	17%	5%	36%	23%	19%	22%	60%	40%	0.5	0.3	0.4	0.2	0.4	0.2	BIZD	BDCs	145%	130%	-175%	111%	91%	-8%	-93%	201%	-101%	-0.7	0.8	-0.1	-0.3	0.7	-0.3
XLI	Industrials	99%	60%	-59%	68%	46%	3%	-17%	114%	-14%	0.8	0.6	0.1	-0.1	0.7	-0.1	CWB	Convertibles	107%	23%	-31%	105%	33%	-22%	-15%	137%	-37%	1.7	0.6	-0.7	-0.2	1.1	-0.3
XLK	Information Technology	81%	77%	-58%	43%	42%	-1%	16%	85%	15%	0.7	0.7	0.0	0.2	0.7	0.1	EMLC	EM Local Currency Bonds	126%	61%	-87%	149%	25%	-57%	-17%	174%	-74%	1.1	0.2	-1.0	-0.1	0.7	-0.3
XLB	Materials	74%	77%	-51%	99%	30%	-2%	-27%	129%	-29%	0.8	0.3	0.0	-0.2	0.6	-0.1	EMB	EM USD Bonds	71%	47%	-18%	74%	19%	6%	1%	92%	8%	3.1	0.9	0.5	0.0	2.1	0.1
XLRE	Real Estate	106%	168%	-173%	110%	30%	25%	-65%	140%	-40%	0.5	0.2	0.2	-0.1	0.3	-0.1	HYG	High Yield Credit	95%	36%	-31%	85%	36%	-6%	-15%	121%	-21%	4.1	2.2	-0.5	-0.4	3.2	-0.4
XLU	Utilities	61%	112%	-73%	58%	16%	37%	-11%	73%	27%	0.5	0.1	0.6	-0.1	0.3	0.1	BNDX	International Aggregate	70%	29%	2%	60%	34%	-14%	20%	95%	5%	1.0	0.6	-0.5	0.3	0.8	0.1
SPHD	Dividend Companders	76%	35%	-11%	54%	30%	9%	7%	84%	16%	0.8	0.6	0.3	0.1	0.7	0.1	BWX	International Bonds	99%	8%	-7%	55%	40%	-25%	29%	95%	5%	0.7	0.5	-0.7	0.4	0.6	0.0
IWF	Growth	100%	57%	-56%	60%	48%	-7%	-1%	108%	-8%	0.9	0.8	-0.2	0.0	0.8	-0.1	LQD	Investment Grade Credit	75%	31%	-6%	55%	32%	-5%	19%	86%	14%	1.6	0.9	-0.3	0.5	1.2	0.2
SPHB	High Beta	119%	151%	-170%	114%	29%	-14%	-30%	143%	-43%	0.7	0.2	-0.2	-0.1	0.5	-0.2	BKLN	Leveraged Loans	104%	28%	-32%	73%	47%	-4%	-16%	120%	-20%	4.5	3.9	-0.4	-0.3	4.2	-0.3
IWB	Large Caps	61%	45%	-6%	42%	34%	25%	-1%	77%	23%	0.7	0.6	0.8	0.0	0.6	0.2	MBB	MBS	57%	34%	9%	23%	28%	4%	45%	51%	49%	1.0	0.8	0.2	2.0	0.9	1.1
SPLV	Low Beta	95%	41%	-36%	66%	45%	0%	-11%	111%	-11%	0.9	0.7	0.0	-0.1	0.8	-0.1	PFF	Preferreds	152%	29%	-81%	131%	50%	-26%	-55%	182%	-82%	1.5	0.7	-0.7	-0.3	1.1	-0.4
QQQ	Mega Cap Growth	81%	60%	-42%	47%	43%	-1%	12%	89%	11%	0.7	0.7	0.0	0.1	0.7	0.1	DBA	Agriculture	241%	-70%	-72%	124%	75%	17%	-116%	200%	-100%	0.7	0.5	0.3	-0.7	0.6	-0.4
IWR	Mid Caps	79%	53%	-32%	78%	39%	3%	-19%	117%	-17%	1.2	0.7	0.1	-0.2	1.0	-0.1	FXA	Australian Dollar	268%	117%	-285%	3114%	581%	-1924%	-1871%	3695%	-3795%	0.4	0.1	-0.6	-0.2	0.3	-0.3
MTUM	Momentum	99%	28%	-26%	62%	34%	2%	3%	95%	5%	1.2	0.7	0.1	0.0	1.0	0.0	DBB	Base Metals	303%	14%	-217%	154%	157%	-39%	-172%	311%	-211%	1.5	1.5	-0.9	-1.6	1.5	-1.4
QUAL	Quality	87%	26%	-13%	47%	42%	-4%	15%	89%	11%	0.9	0.9	-0.1	0.2	0.9	0.1	Bitcoin	Bitcoin	118%	0%	-18%	54%	65%	-15%	-4%	119%	-19%	0.9	1.2	-0.9	-0.1	1.0	-0.3
IWM	Small Caps	88%	60%	-48%	102%	46%	2%	-50%	149%	-49%	1.0	0.5	0.0	-0.4	0.8	-0.3	FXB	British Pound	347%	-113%	-334%	0%	205%	-72%	-232%	204%	-304%	0.0	0.7	-0.5	-0.7	0.3	-0.6
IWD	Value	86%	62%	-48%	86%	41%	10%	-37%	127%	-27%	0.9	0.5	0.2	-0.2	0.7	-0.1	FXC	Canadian Dollar	327%	51%	-279%	1849%	-16%	-667%	-1067%	1833%	-1733%	0.6	0.0	-0.6	-0.3	0.3	-0.4
EWA	Australia	94%	29%	-23%	94%	33%	-5%	-21%	127%	-27%	0.9	0.3	-0.1	-0.1	0.6	-0.1	PDBC	Commodities	216%	39%	-156%	138%	120%	-14%	-144%	258%	-158%	1.4	1.3	-0.4	-1.5	1.3	-1.1
EWZ	Brazil	197%	103%	-200%	555%	-34%	19%	-440%	521%	-421%	0.9	-0.1	0.1	-0.5	0.4	-0.3	USO	Crude Oil	310%	165%	-375%	212%	222%	-4%	-330%	435%	-335%	0.5	0.7	0.0	-0.7	0.6	-0.5
EWC	Canada	108%	48%	-56%	85%	60%	-4%	-41%	146%	-46%	1.1	0.8	-0.1	-0.3	0.9	-0.2	Ethereum	Ethereum	278%	-41%	-137%	264%	43%	-217%	10%	307%	-207%	0.5	0.1	-0.9	0.0	0.3	-0.2
FXI	China	188%	90%	-178%	464%	141%	-187%	-318%	605%	-505%	0.8	0.2	-0.5	-0.4	0.5	-0.4	FXE	Euro	242%	-11%	-130%	2451%	2433%	-1714%	-3071%	4885%	-4785%	0.3	0.3	-0.4	-0.3	0.3	-0.3
GNR	Commodity Producers	93%	85%	-78%	92%	44%	15%	-51%	136%	-36%	0.6	0.3	0.2	-0.2	0.5	-0.1	GLD	Gold	91%	3%	6%	45%	32%	-4%	27%	77%	23%	0.8	0.5	-0.2	0.5	0.7	0.3
EEM	Emerging Markets	123%	54%	-77%	176%	71%	-55%	-91%	246%	-146%	1.5	0.6	-0.9	-0.5	1.0	-0.6	GDX	Gold Miners	3119%	882%	-4101%	2354%	-2961%	-5232%	5739%	-607%	507%	0.1	-0.2	-0.6	0.2	0.0	0.0
EZU	Eurozone	361%	90%	-351%	116%	122%	-51%	-87%	237%	-137%	0.4	0.6	-0.4	-0.3	0.5	-0.3	FXJ	Japanese Yen	5%	-3%	-101%	-27%	-145%	-24%	97%	-172%	72%	0.0	-0.2	-0.1	0.1	-0.1	0.1
ACWX	Global Equities	157%	64%	-120%	138%	90%	-44%	-84%	228%	-128%	0.9	0.7	-0.7	-0.4	0.8	-0.5	SLV	Silver	81%	13%	6%	102%	57%	-45%	-14%	159%	-59%	0.7	0.4	-0.8	-0.1	0.5	-0.3
INDA	India	101%	24%	-25%	74%	64%	-3%	-34%	137%	-37%	1.2	1.0	-0.1	-0.4	1.1	-0.3	SIL	Silver Miners	157%	437%	-695%	473%	-570%	-453%	450%	-97%	-3%	0.2	-0.3	-0.5	0.2	0.0	0.0
EWJ	Japan	183%	20%	-103%	115%	88%	14%	-117%	204%	-104%	0.5	0.4	0.1	-0.4	0.4	-0.3	SRUUF	Uranium	116%	-16%	0%	-33%	-5%	-23%	-39%	-38%	-62%	-0.2	0.0	-0.2	-0.2	-0.1	-0.2
EWU	United Kingdom	108%	15%	-22%	156%	57%	-25%	-88%	213%	-113%	0.4	0.2	-0.2	-0.2	0.3	-0.2	UUP	US Dollar	434%	-4%	-530%	-264%	-261%	227%	398%	-525%	625%	-0.3	-0.3	0.5	0.4	-0.3	0.4

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© 42 Macro LLC. Data Source: Bloomberg. Color coding corresponds to each exposure, for each backtest.

Cumulative performance is determined by summing daily log price changes for each asset. Backtests begin in Jan-98.

GOLDDILOCKS = risk on with a disinflationary bias. REFLATION = risk on with an inflationary bias.

INFLATION = risk off with an inflationary bias. DEFLATION = risk off with a disinflationary bias.



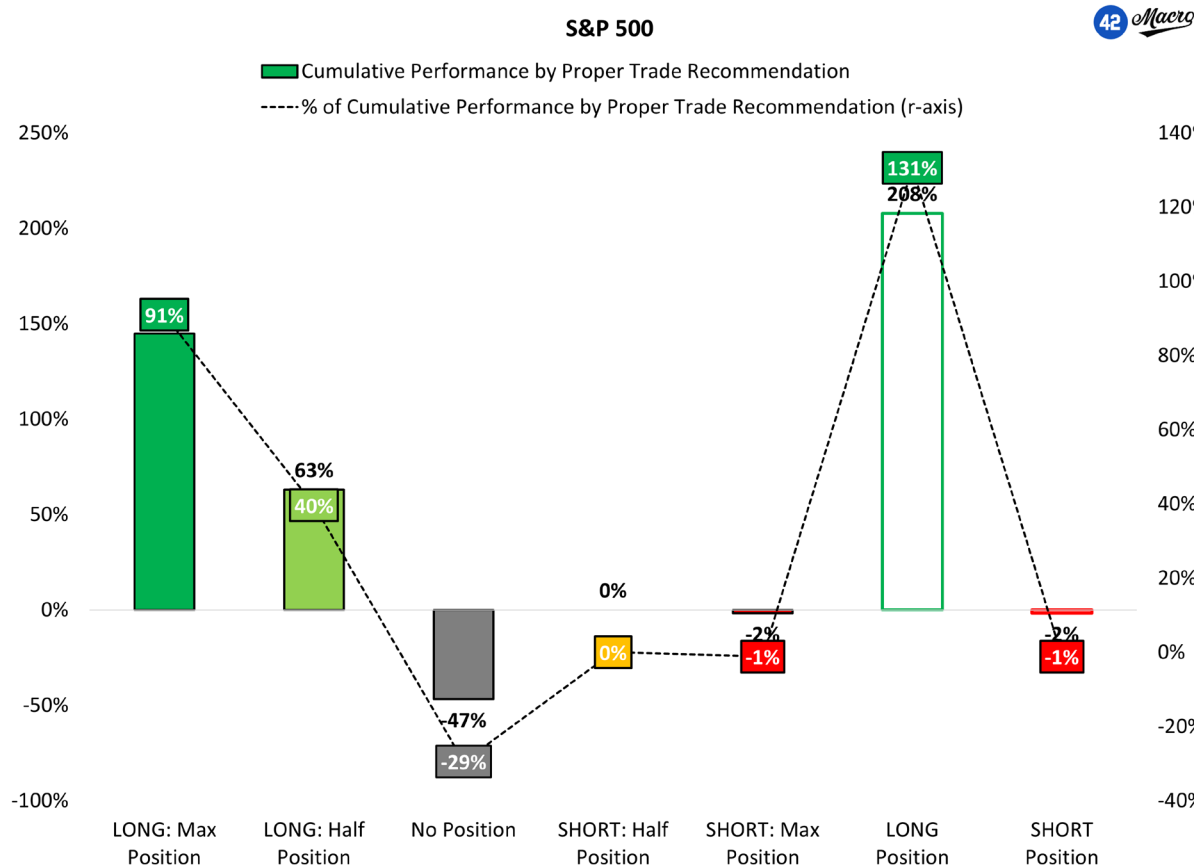
# Discretionary Risk Management Overlay aka “Dr. Mo” Backtests

42 Macro Discretionary Risk Management Overlay Backtest		Cumulative Performance by Proper Trade Recommendation								% of Cumulative Performance by Proper Trade Recommendation								42 Macro Discretionary Risk Management Overlay Backtest		Cumulative Performance by Proper Trade Recommendation								% of Cumulative Performance by Proper Trade Recommendation							
		LONG Max Position	LONG Half Position	No Position	SHORT Half Position	SHORT Max Position	LONG Position	SHORT Position	LONG Max Position	LONG Half Position	No Position	SHORT Half Position	SHORT Max Position	LONG Position	SHORT Position	LONG Max Position	LONG Half Position			No Position	SHORT Half Position	SHORT Max Position	LONG Position	SHORT Position	LONG Max Position	LONG Half Position	No Position	SHORT Half Position	SHORT Max Position	LONG Position	SHORT Position				
SPY	S&P 500	145%	63%	-47%	0%	-2%	208%	-2%	91%	40%	-29%	0%	-1%	131%	-1%	STIP	0-5yr TIPS	25%	11%	-3%	0%	0%	36%	0%	75%	34%	-9%	0%	0%	109%	0%				
XLC	Communication Services	69%	52%	-67%	0%	-28%	122%	-28%	260%	196%	-252%	0%	-104%	456%	-104%	SHY	1-3yr Treasurys	46%	24%	-1%	0%	0%	70%	0%	67%	34%	-1%	0%	0%	101%	0%				
XLY	Consumer Discretionary	150%	108%	-43%	0%	-27%	258%	-27%	79%	58%	-23%	0%	-14%	137%	-14%	TIP	5-10yr TIPS	61%	6%	3%	6%	12%	67%	18%	69%	7%	3%	7%	13%	76%	21%				
XLP	Consumer Staples	77%	45%	10%	0%	0%	122%	0%	58%	34%	7%	0%	0%	93%	0%	IEF	5-10yr Treasurys	78%	6%	-5%	20%	9%	84%	28%	72%	6%	-5%	18%	8%	78%	26%				
XLE	Energy	97%	74%	110%	0%	-156%	171%	-156%	78%	60%	88%	0%	-126%	138%	-126%	TLT	Long Bond	44%	-6%	10%	14%	-34%	38%	-20%	157%	-23%	35%	51%	-121%	134%	-70%				
XLF	Financials	148%	24%	89%	0%	-141%	173%	-141%	124%	20%	74%	0%	-118%	144%	-118%	AGG	US Aggregate	67%	27%	9%	3%	-1%	94%	2%	65%	26%	8%	3%	-1%	90%	2%				
XLV	Health Care	105%	23%	7%	0%	0%	128%	0%	78%	17%	5%	0%	0%	95%	0%	BIZD	BDCs	179%	52%	94%	0%	-209%	232%	-209%	153%	45%	81%	0%	-178%	198%	-178%				
XLI	Industrials	171%	29%	83%	0%	-112%	200%	-112%	100%	17%	49%	0%	-66%	117%	-66%	CWB	Convertibles	164%	26%	-10%	7%	-46%	189%	-39%	117%	18%	-7%	5%	-33%	135%	-28%				
XLK	Information Technology	169%	144%	-79%	0%	-21%	313%	-21%	79%	68%	-37%	0%	-10%	147%	-10%	EMLC	EM Local Currency Bonds	52%	19%	0%	6%	-36%	70%	-29%	128%	46%	-1%	16%	-88%	173%	-72%				
XLB	Materials	137%	61%	92%	0%	-105%	198%	-105%	74%	33%	50%	0%	-57%	107%	-57%	EMB	EM USD Bonds	120%	26%	5%	53%	-34%	146%	19%	70%	16%	3%	31%	-20%	86%	11%				
XLRE	Real Estate	88%	139%	-144%	0%	0%	227%	0%	106%	168%	-173%	0%	0%	273%	0%	HYG	High Yield Credit	144%	33%	0%	20%	-48%	177%	-28%	97%	22%	0%	14%	-32%	119%	-19%				
XLU	Utilities	59%	109%	-71%	0%	0%	168%	0%	61%	112%	-73%	0%	0%	173%	0%	BNDX	International Aggregate	50%	27%	8%	-6%	-6%	77%	-11%	69%	36%	10%	-8%	-8%	105%	-15%				
SPHD	Dividend Compoublers	149%	69%	-22%	0%	0%	218%	0%	76%	35%	-11%	0%	0%	111%	0%	BWX	International Bonds	63%	14%	6%	-9%	-9%	77%	-18%	96%	14%	9%	-13%	-14%	118%	-27%				
IWF	Growth	170%	94%	-73%	0%	-15%	264%	-15%	97%	53%	-41%	0%	-9%	150%	-9%	LQD	Investment Grade Credit	89%	31%	5%	5%	-13%	120%	-8%	76%	27%	4%	4%	-11%	102%	-7%				
SPHB	High Beta	180%	31%	169%	0%	-243%	211%	-243%	132%	23%	123%	0%	-177%	154%	-177%	BKLN	Leveraged Loans	117%	17%	-2%	14%	-34%	134%	-21%	106%	15%	-2%	13%	-31%	121%	-19%				
IWB	Large Caps	102%	75%	-10%	0%	0%	177%	0%	61%	45%	-6%	0%	0%	106%	0%	MBB	MBS	60%	10%	-2%	25%	9%	70%	35%	58%	10%	-2%	25%	9%	68%	34%				
SPLV	Low Beta	148%	66%	-52%	0%	-1%	214%	-1%	92%	41%	-33%	0%	-1%	133%	-1%	PFF	Preferreds	160%	14%	8%	16%	-95%	174%	-80%	156%	14%	8%	15%	-93%	170%	-78%				
QQQ	Mega Cap Growth	164%	104%	-35%	0%	-24%	268%	-24%	78%	50%	-17%	0%	-11%	128%	-11%	DBA	Agriculture	122%	0%	23%	-41%	-46%	122%	-87%	209%	0%	40%	-70%	-79%	209%	-149%				
IWR	Mid Caps	183%	43%	85%	0%	-89%	226%	-89%	82%	19%	38%	0%	-40%	102%	-40%	FXA	Australian Dollar	49%	26%	-13%	-2%	-39%	75%	-41%	242%	128%	-66%	-10%	-193%	370%	-204%				
MTUM	Momentum	198%	45%	-21%	0%	-14%	244%	-14%	95%	22%	-10%	0%	-7%	117%	-7%	DBB	Base Metals	155%	13%	9%	-5%	-118%	169%	-123%	286%	24%	17%	-10%	-217%	311%	-227%				
QUAL	Quality	168%	52%	-22%	0%	-7%	220%	-7%	168%	27%	-11%	0%	-3%	115%	-3%	Bitcoin	Bitcoin	1686%	28%	-93%	0%	-213%	1714%	-213%	120%	2%	-7%	0%	-15%	122%	-15%				
IWM	Small Caps	180%	31%	103%	0%	-119%	212%	-119%	92%	16%	53%	0%	-61%	108%	-61%	FXB	British Pound	41%	-2%	-2%	-9%	-38%	39%	-47%	-440%	20%	22%	93%	405%	-419%	498%				
IWD	Value	135%	44%	49%	0%	-81%	179%	-81%	92%	30%	33%	0%	-55%	122%	-55%	FXC	Canadian Dollar	31%	16%	-5%	-11%	-21%	47%	-32%	304%	157%	-53%	-106%	-203%	461%	-309%				
EWA	Australia	97%	22%	26%	0%	-40%	119%	-40%	93%	21%	25%	0%	-38%	114%	-38%	PDBC	Commodities	105%	44%	19%	-21%	-89%	149%	-110%	183%	76%	33%	-37%	-155%	259%	-191%				
EWZ	Brazil	169%	-36%	170%	0%	-213%	133%	-213%	189%	-40%	190%	0%	-238%	149%	-238%	USO	Crude Oil	177%	147%	36%	-27%	-260%	324%	-287%	244%	202%	50%	-38%	-359%	447%	-396%				
EWC	Canada	123%	37%	15%	0%	-71%	161%	-71%	118%	36%	15%	0%	-68%	154%	-68%	Ethereum	Ethereum	409%	-17%	-145%	0%	-129%	392%	-129%	347%	-14%	-123%	0%	-110%	333%	-110%				
FXI	China	204%	24%	68%	0%	-190%	228%	-190%	191%	23%	64%	0%	-178%	214%	-178%	FXE	Euro	59%	-9%	-10%	7%	-25%	50%	-18%	266%	-42%	-43%	30%	-112%	225%	-81%				
GNR	Commodity Producers	129%	62%	37%	0%	-92%	191%	-92%	95%	45%	27%	0%	-67%	140%	-67%	GLD	Gold	208%	7%	14%	0%	0%	215%	0%	91%	3%	6%	0%	0%	94%	0%				
EEM	Emerging Markets	163%	69%	15%	0%	-114%	232%	-114%	122%	52%	12%	0%	-85%	174%	-85%	GDX	Gold Miners	131%	23%	-132%	0%	-23%	154%	-23%	-9028%	-1565%	9091%	0%	1602%	-10592%	1602%				
EZU	Eurozone	104%	1%	34%	0%	-110%	104%	-110%	367%	2%	121%	0%	-389%	369%	-389%	FXJ	Japanese Yen	4%	12%	-4%	-13%	-17%	17%	-30%	-24%	-70%	21%	73%	100%	-94%	173%				
ACWX	Global Equities	118%	32%	42%	0%	-115%	149%	-115%	153%	42%	55%	0%	-150%	195%	-150%	SLV	Silver	164%	34%	13%	-14%	-40%	198%	-54%	105%	22%	8%	-9%	-26%	127%	-35%				
INDA	India	266%	36%	34%	0%	-78%	302%	-78%	103%	14%	13%	0%	-30%	117%	-30%	SIL	Silver Miners	112%	67%	-139%	0%	-55%	179%	-55%	-772%	-464%	954%	0%	382%	-1235%	382%				
EWJ	Japan	94%	21%	-4%	0%	-60%	115%	-60%	185%	41%	-8%	0%	-119%	226%	-119%	SRUUF	Uranium	39%	-19%	18%	12%	0%	19%	12%	79%	-40%	37%	24%	0%	39%	24%				
EWU	United Kingdom	42%	10%	10%	0%	-29%	53%	-29%	125%	30%	31%	0%	-85%	155%	-85%	UUP	US Dollar	30%	-4%	9%	4%	-46%	26%	-43%	-385%	49%	-120%	-46%	602%	-336%	556%				

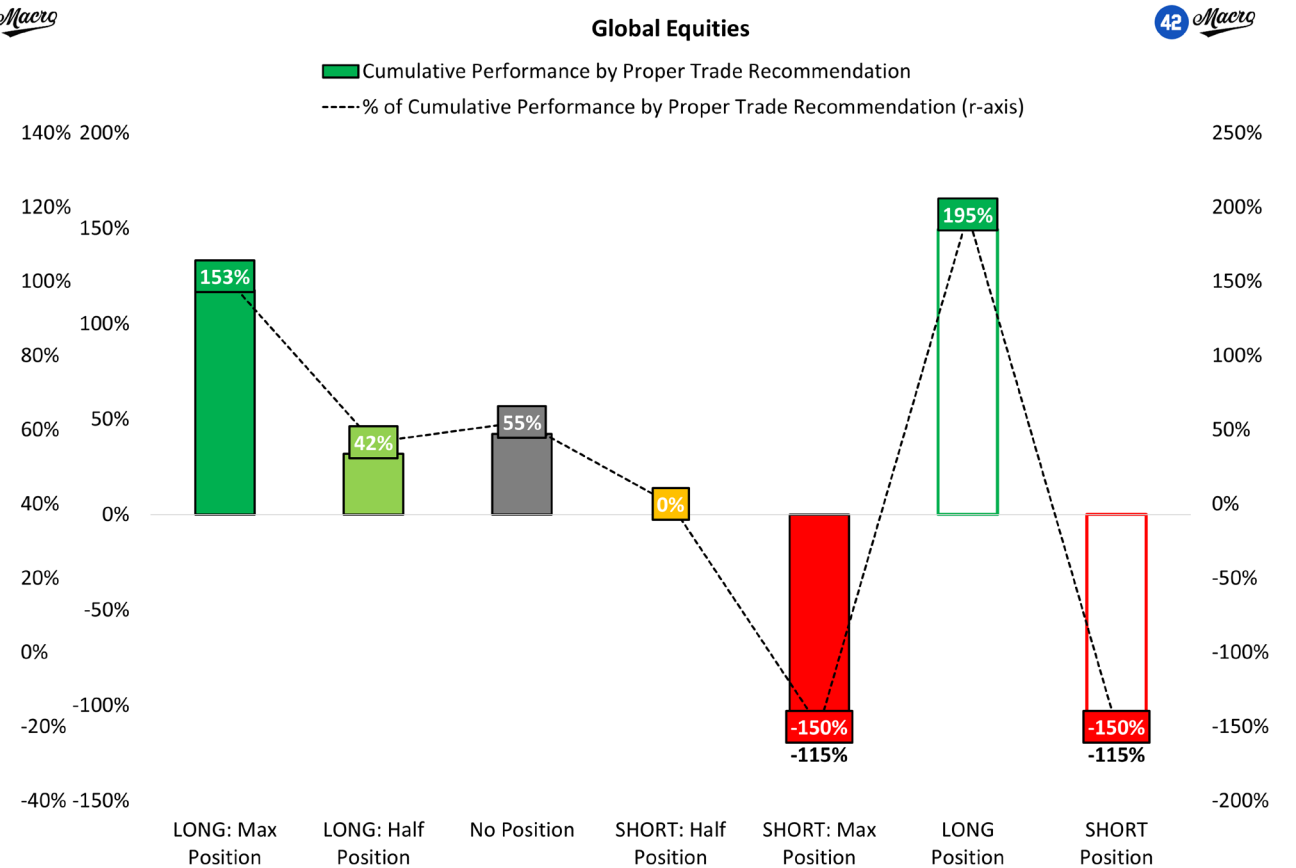
Intellectual Property of 42 Macro LLC. Data Source: Bloomberg. Cumulative Performance is determined by summing daily log price changes for each asset. Backtests begin in Jan-98. All color coding corresponds to each asset and each set of backtests. Cumulative Performance since Jan-98 is negative for certain assets (mainly foreign currencies), which creates sign distortions in the % of Cumulative Performance figures.

© 42 Macro LLC. Data Source: Bloomberg. Color coding corresponds to each exposure, for each backtest. Cumulative performance is determined by summing daily log price changes for each asset. Backtests begin in Jan-98. If an ETF is **bullish** (or **bearish**) VAMS and that is in line with how the underlying asset should trade in the current Market Regime, then **Dr. Mo** will prescribe a “**LONG (SHORT): Max Position**”. If an ETF is **neutral** VAMS and it should be **bullish** (or **bearish**) in the current Market Regime, then **Dr. Mo** will prescribe a “**LONG (SHORT): Half Position**”. There are no **SHORT: Half Positions** for Equity and Crypto exposures. **Dr. Mo** will prescribe a “**No Position**” if the VAMS is the opposite of what it should be in the current Market Regime.

# Discretionary Risk Management Overlay aka “Dr. Mo” Backtest: US Equities



# Discretionary Risk Management Overlay aka “Dr. Mo” Backtest: Global Equities

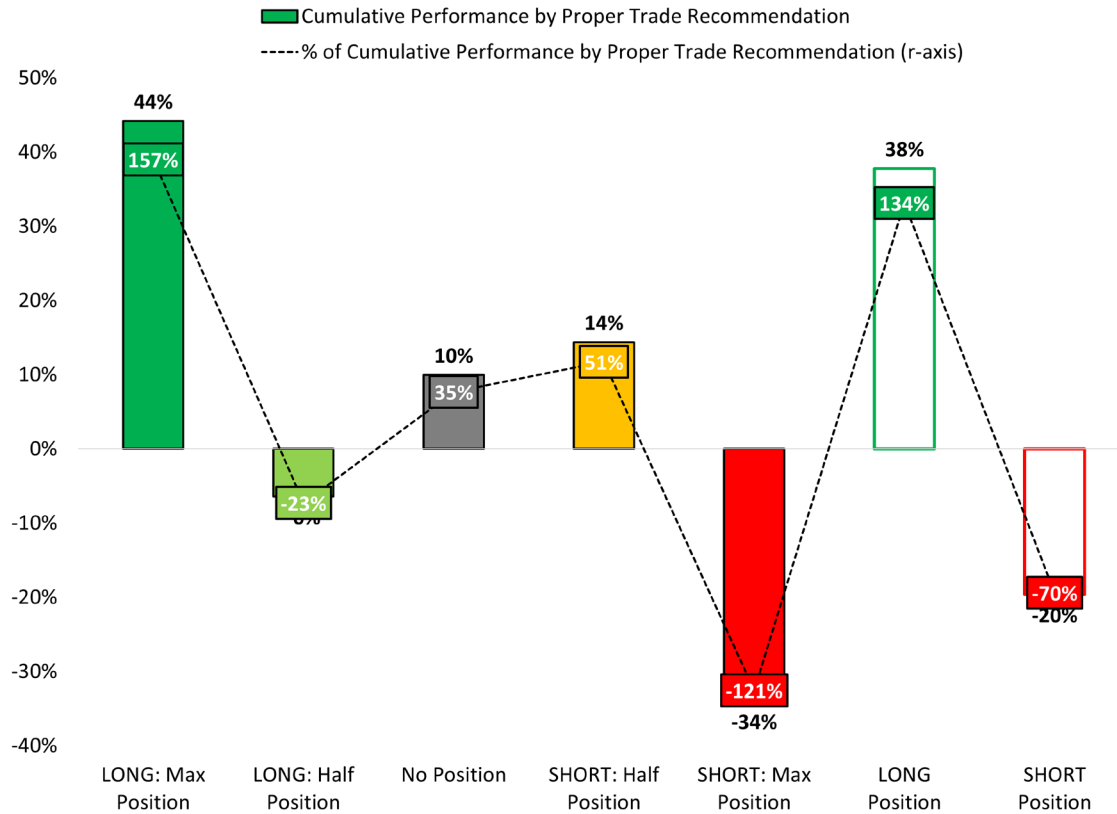


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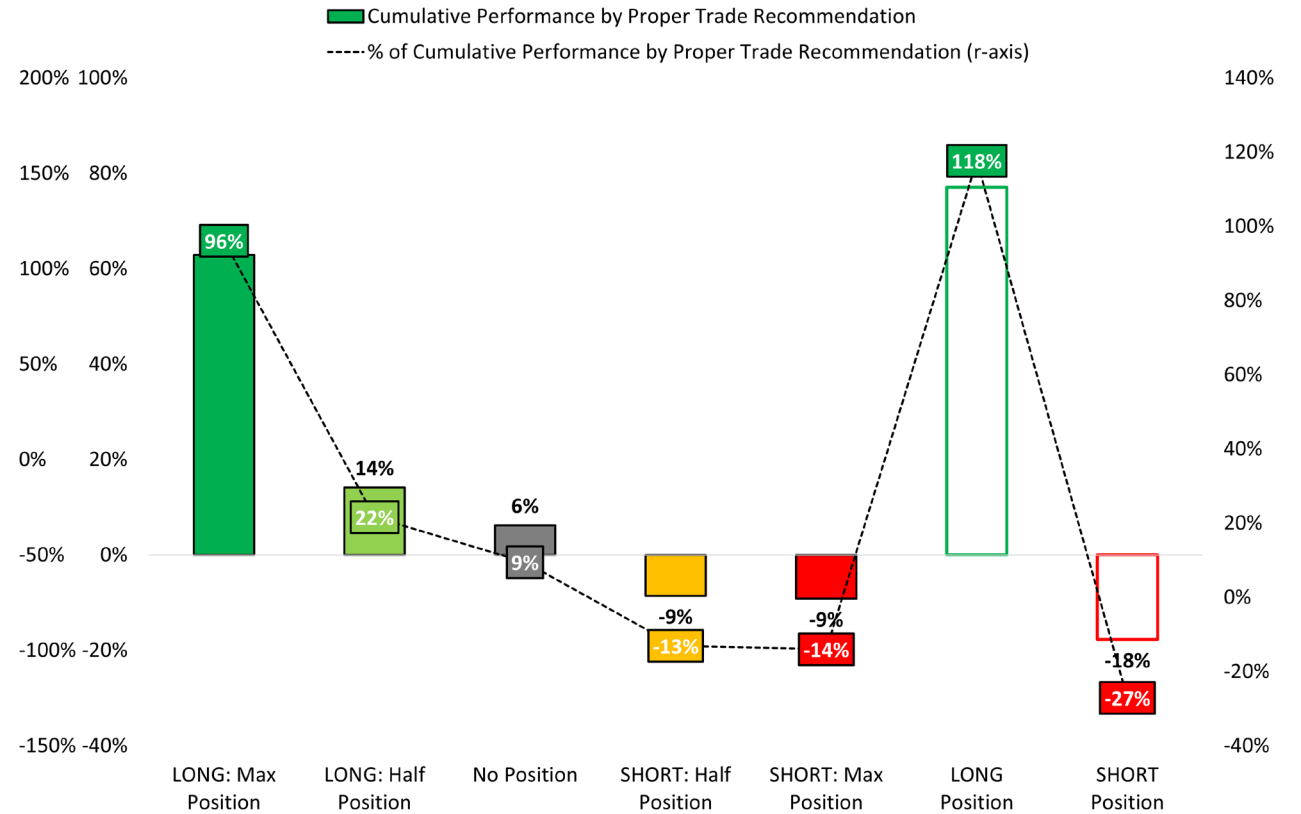
# Discretionary Risk Management Overlay aka “Dr. Mo” Backtest: US Bonds

# Discretionary Risk Management Overlay aka “Dr. Mo” Backtest: Global Bonds

Long Bond

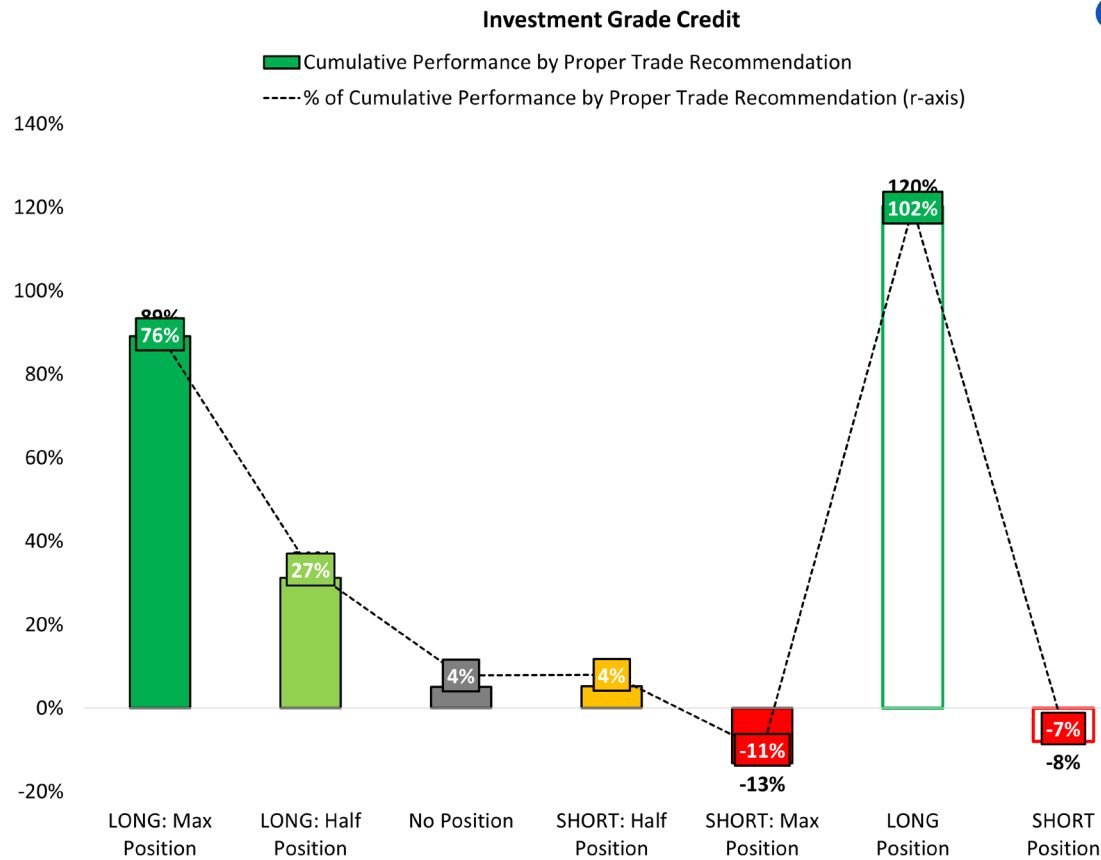


International Bonds

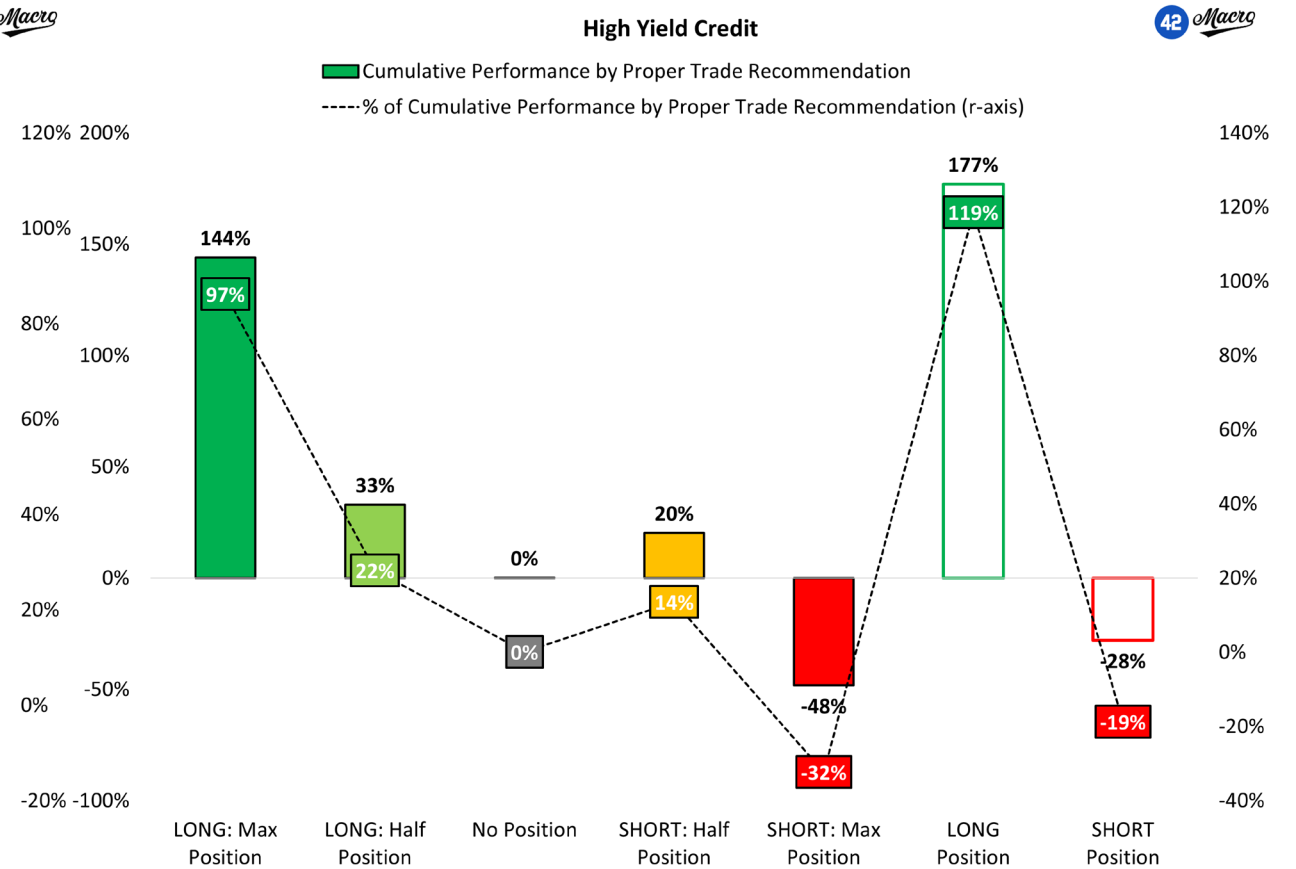


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# Discretionary Risk Management Overlay aka “Dr. Mo” Backtest: IG Credit

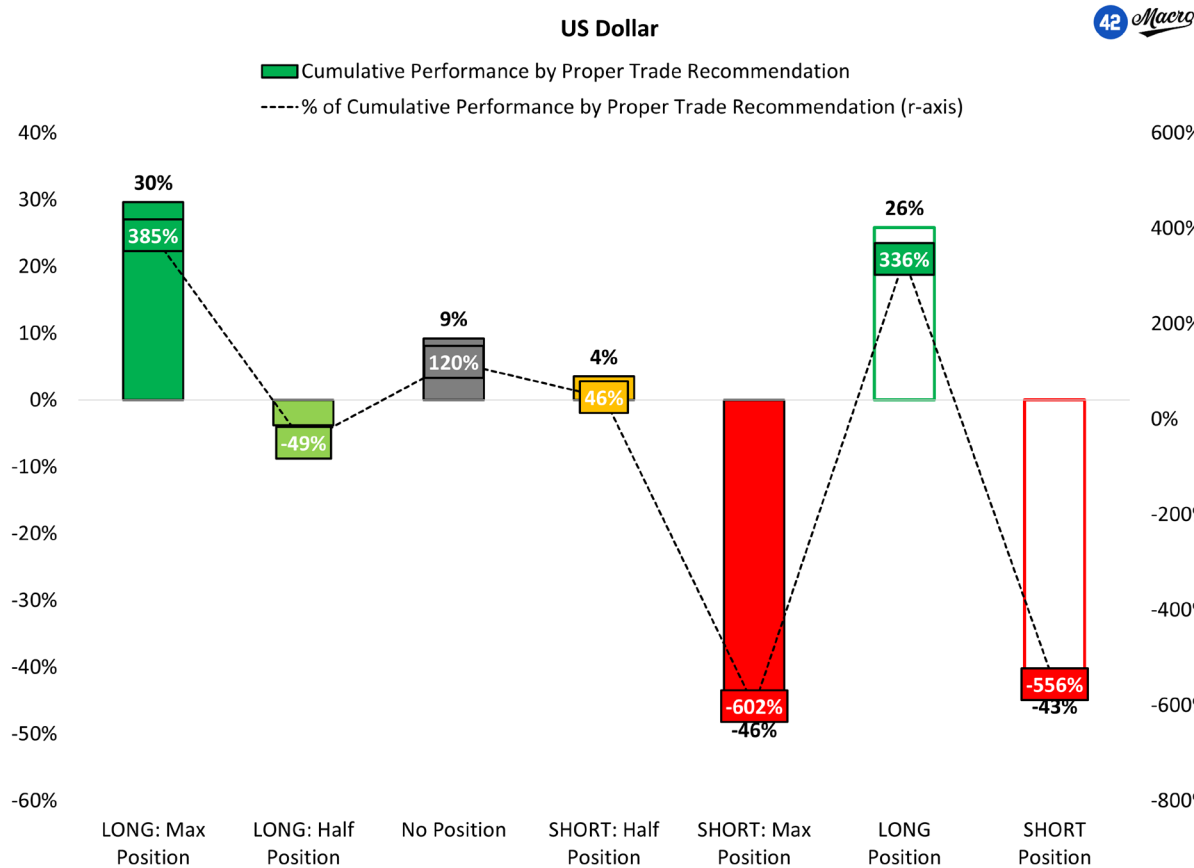


# Discretionary Risk Management Overlay aka “Dr. Mo” Backtest: High Yield Credit

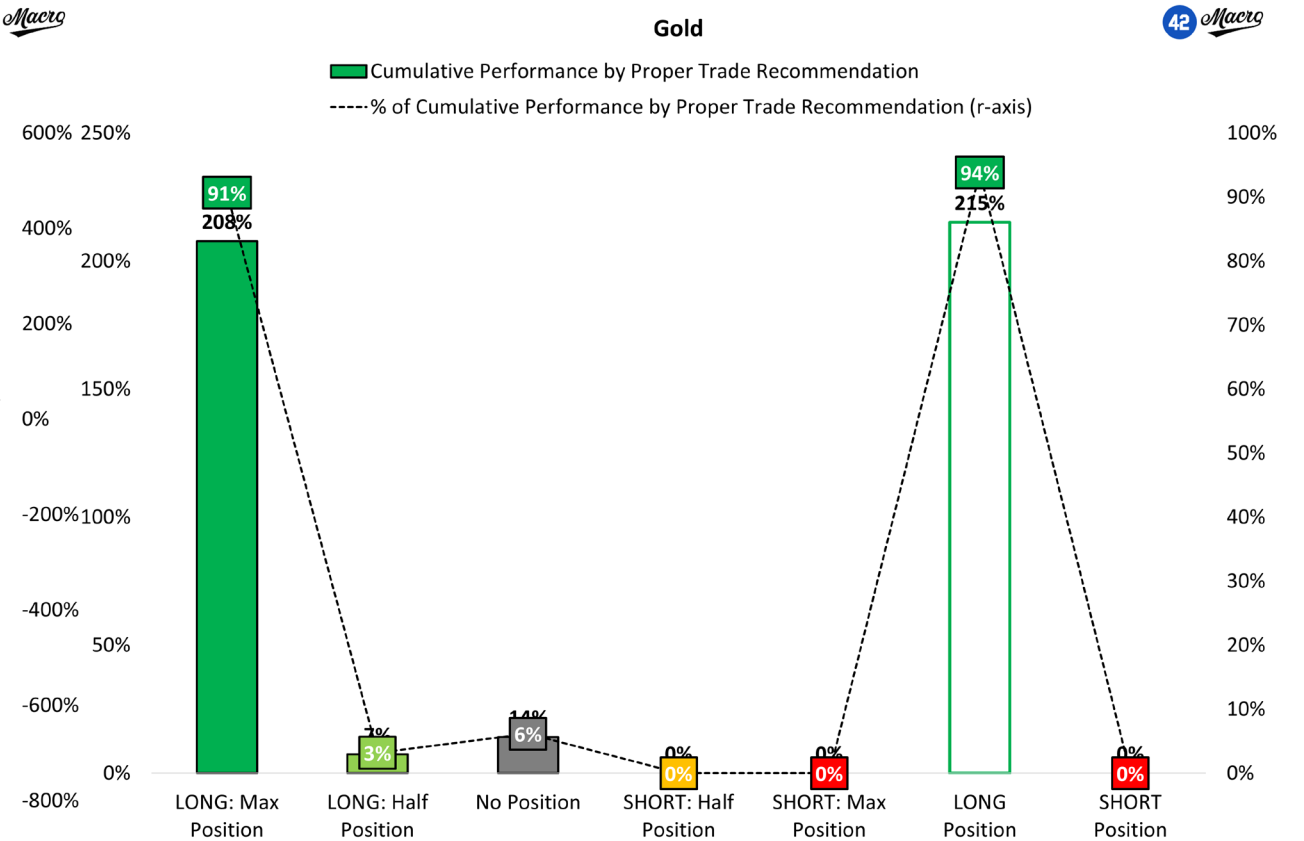


© 42 Macro LLC. Data Source: Bloomberg. Color coding corresponds to each exposure, for each backtest. Cumulative performance is determined by summing daily log price changes for each asset. Backtests begin in Jan-98. If an ETF is **bullish** (or **bearish**) VAMS and that is in line with how the underlying asset should trade in the current Market Regime, then **Dr. Mo** will prescribe a “**LONG** (**SHORT**): Max Position”. If an ETF is **neutral** VAMS and it should be **bullish** (or **bearish**) in the current Market Regime, then **Dr. Mo** will prescribe a “**LONG** (**SHORT**): Half Position”. There are no **SHORT**: Half Positions for Equity and Crypto exposures. **Dr. Mo** will prescribe a “No Position” if the VAMS is the opposite of what it should be in the current Market Regime.

# Discretionary Risk Management Overlay aka “Dr. Mo” Backtest: US Dollar

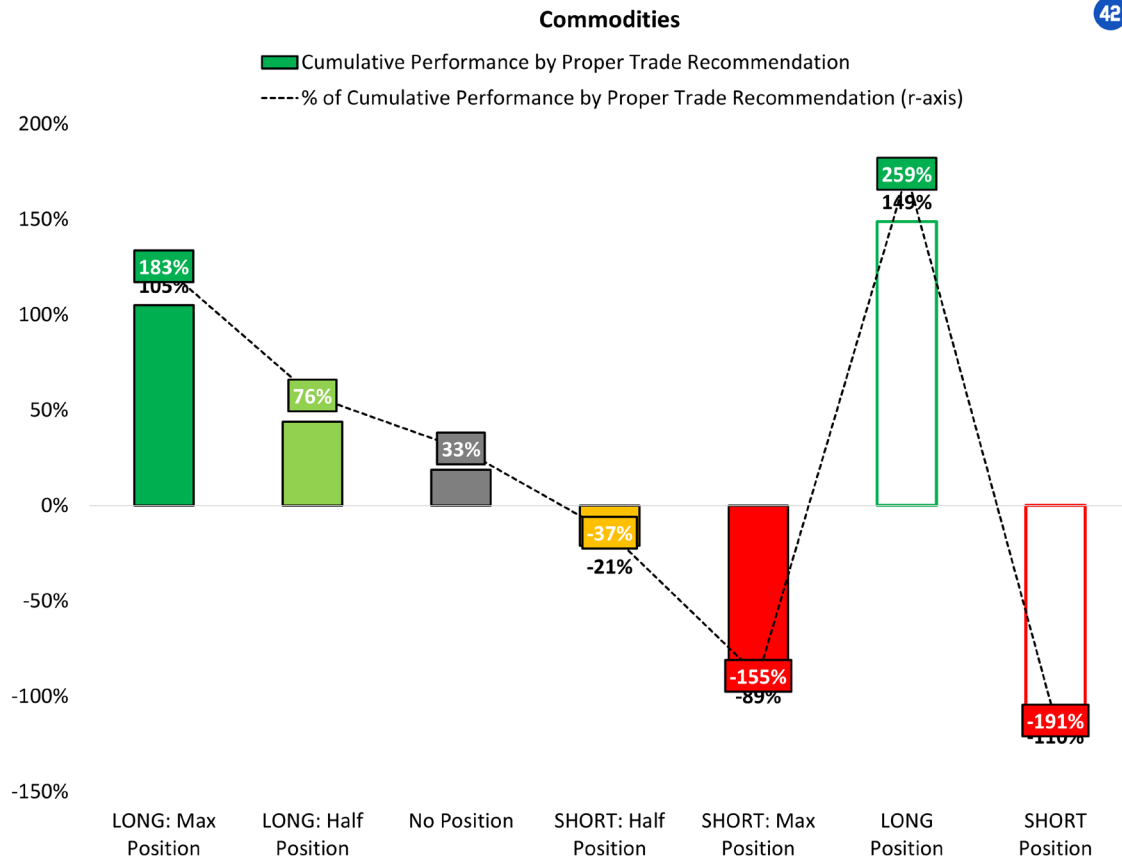


# Discretionary Risk Management Overlay aka “Dr. Mo” Backtest: Gold

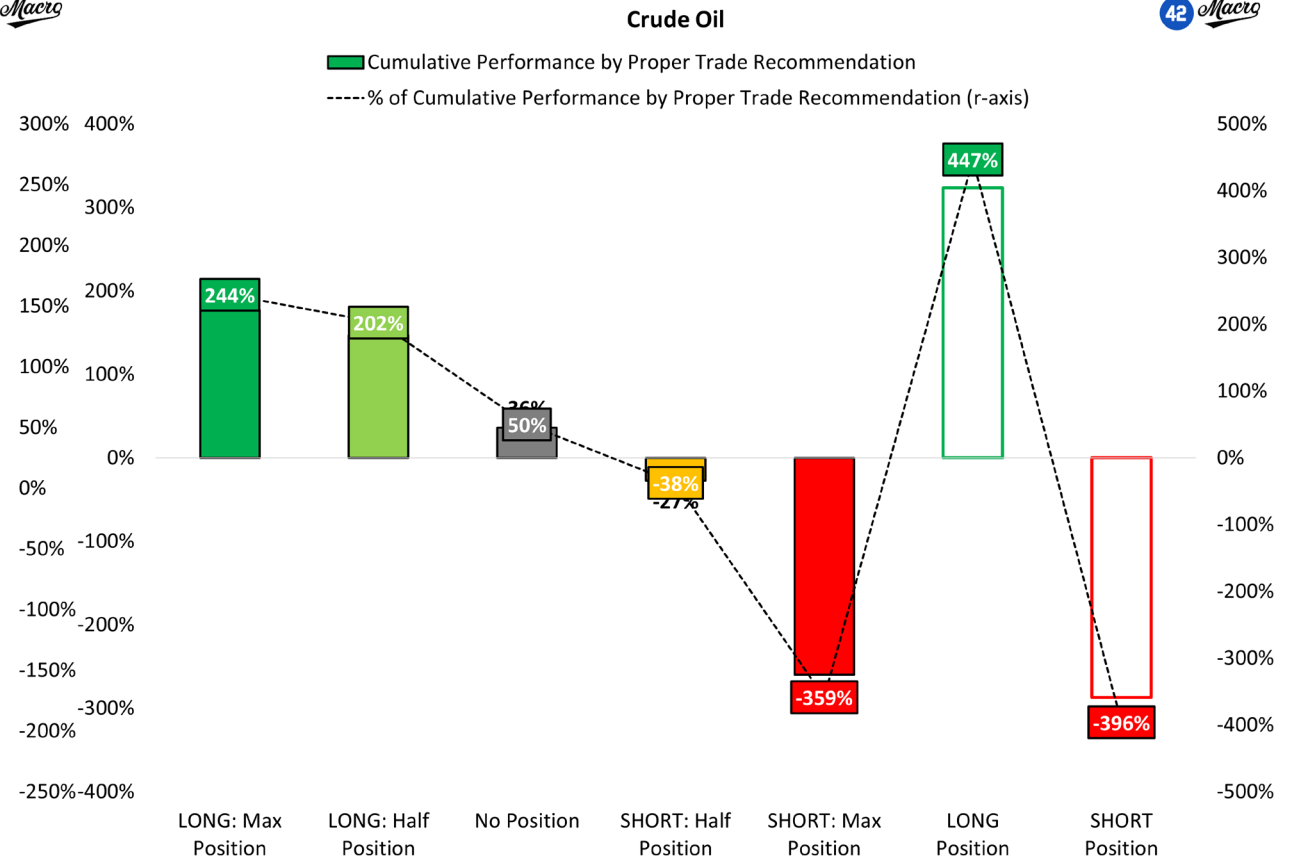


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# Discretionary Risk Management Overlay aka "Dr. Mo" Backtest: Commodities

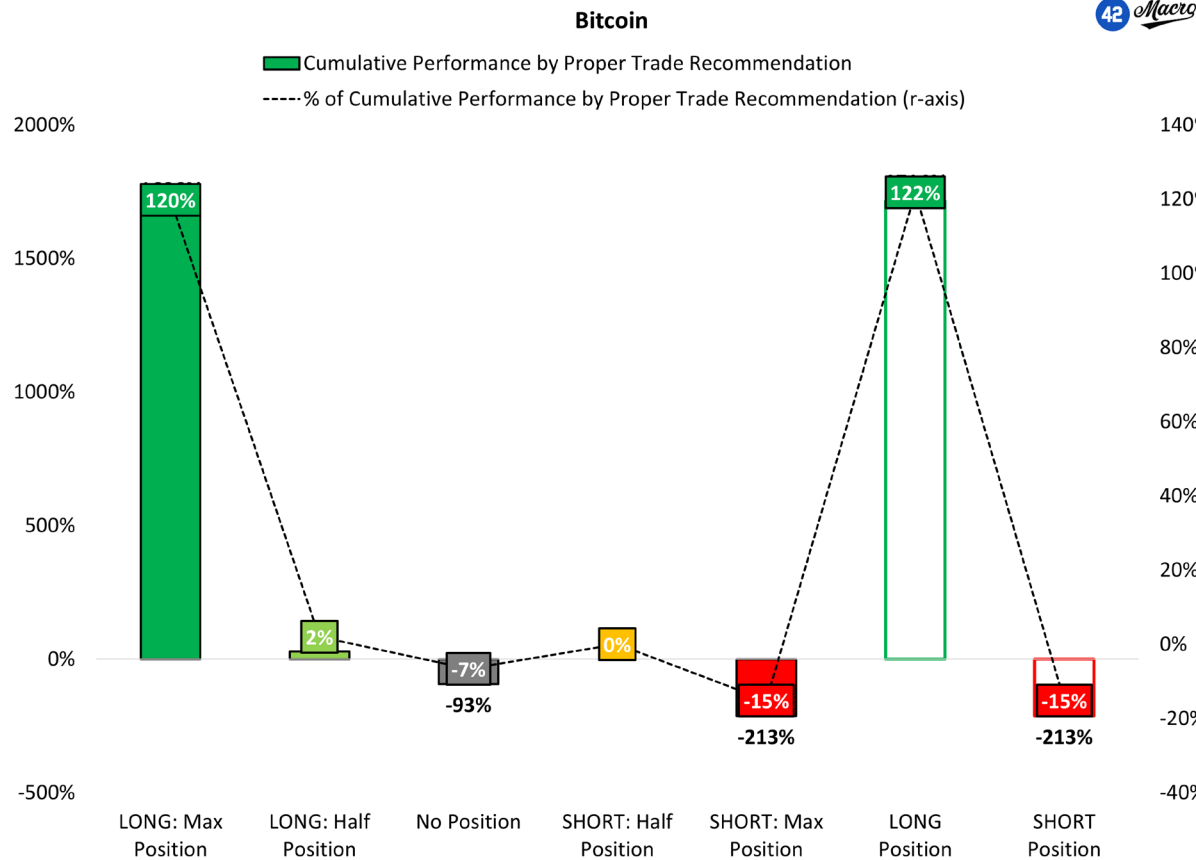


# Discretionary Risk Management Overlay aka "Dr. Mo" Backtest: Crude Oil

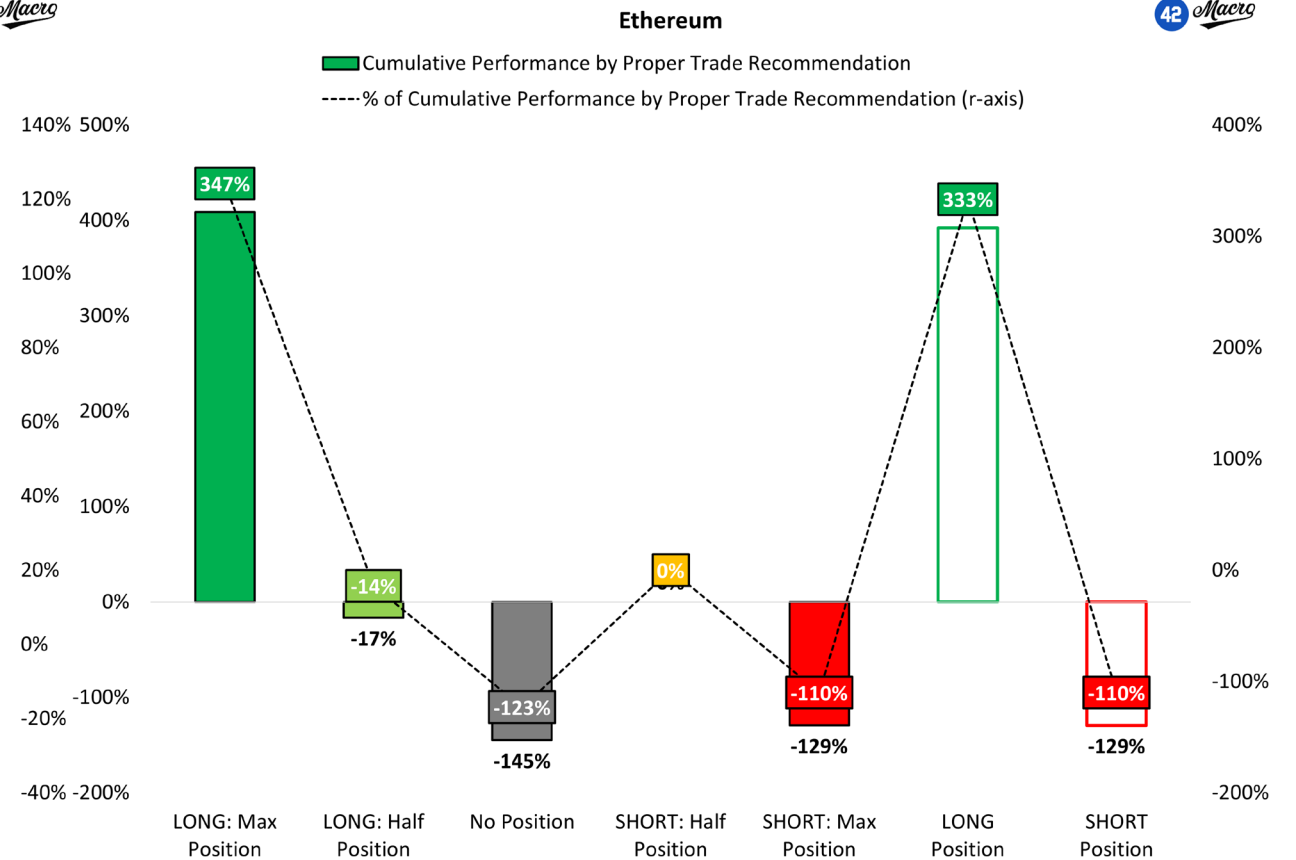


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# Discretionary Risk Management Overlay aka “Dr. Mo” Backtest: Bitcoin



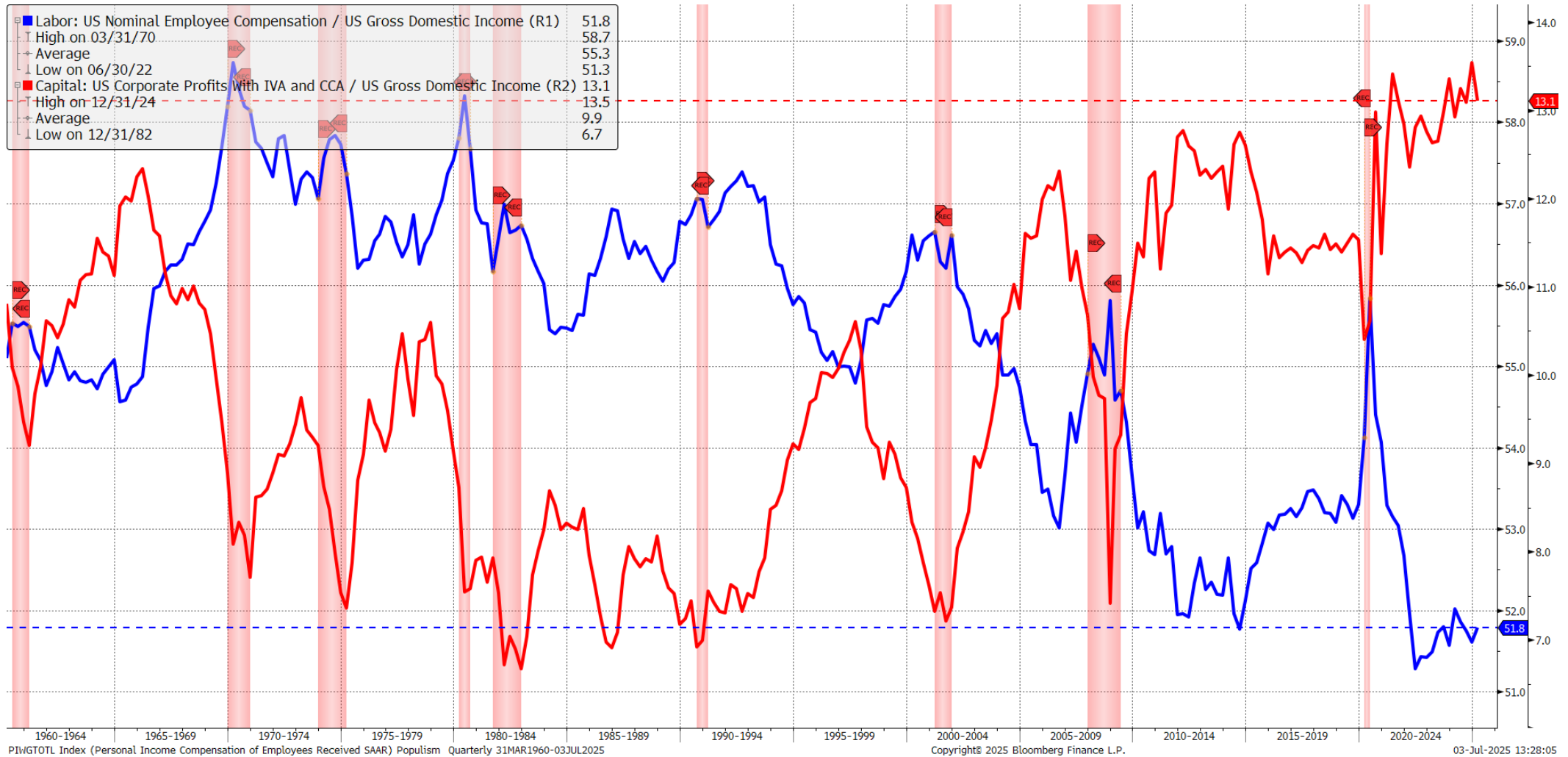
# Discretionary Risk Management Overlay aka “Dr. Mo” Backtest: Ethereum



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# Modal Outcome

# To Have Conviction In Where The Economy And Asset Markets Are Headed In Paradigm C, You Must First Understand Paradigms A And B

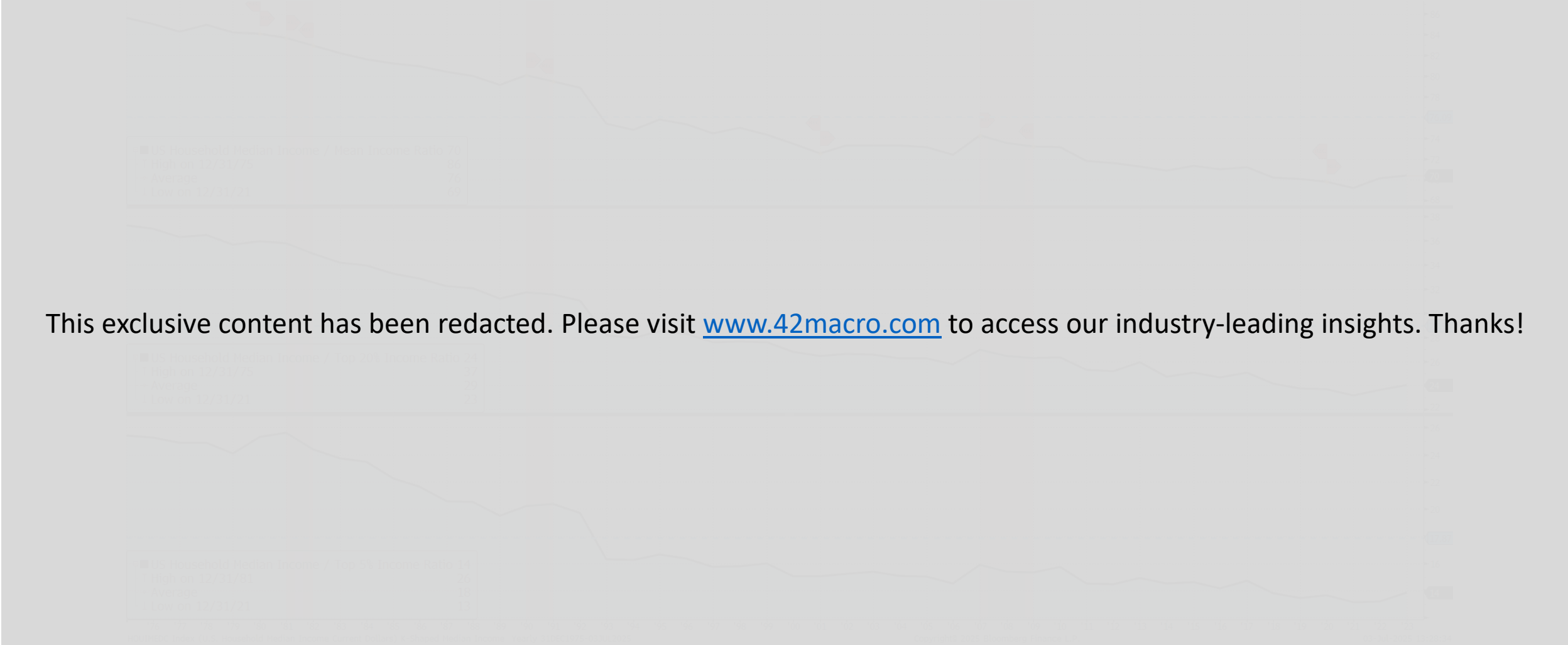


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The 5% swing in the Employee Compensation/GDP and Corporate Profits/GDP ratios from their respective pre-2000 means represents an annual transfer of ~\$1.5 trillion in 2025 dollars from US workers to asset owners.

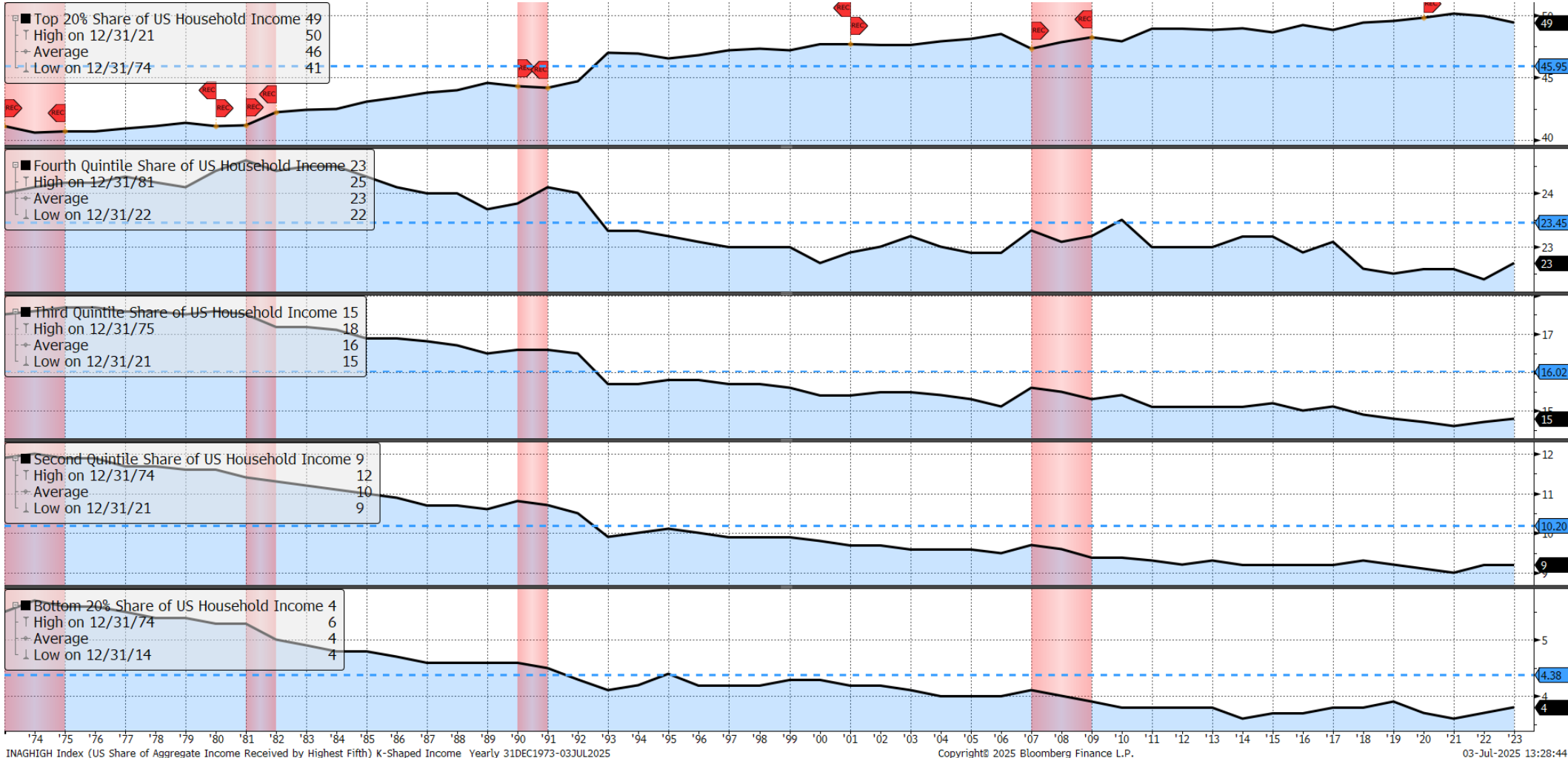
This equates to a roughly 14% annual loss of income for the median US household.

# Technology, Globalization, And The Increasingly Unfair Tax Treatment Of Labor vs. Capital Income Each Contributed To Widening Income Inequality, Among Other Factors



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# The Median Household Was Not The Only Loser; Only Households At The Very Top Of The “K-Shaped US Society” Recorded Relative Income Gains Over The Past 50 Years

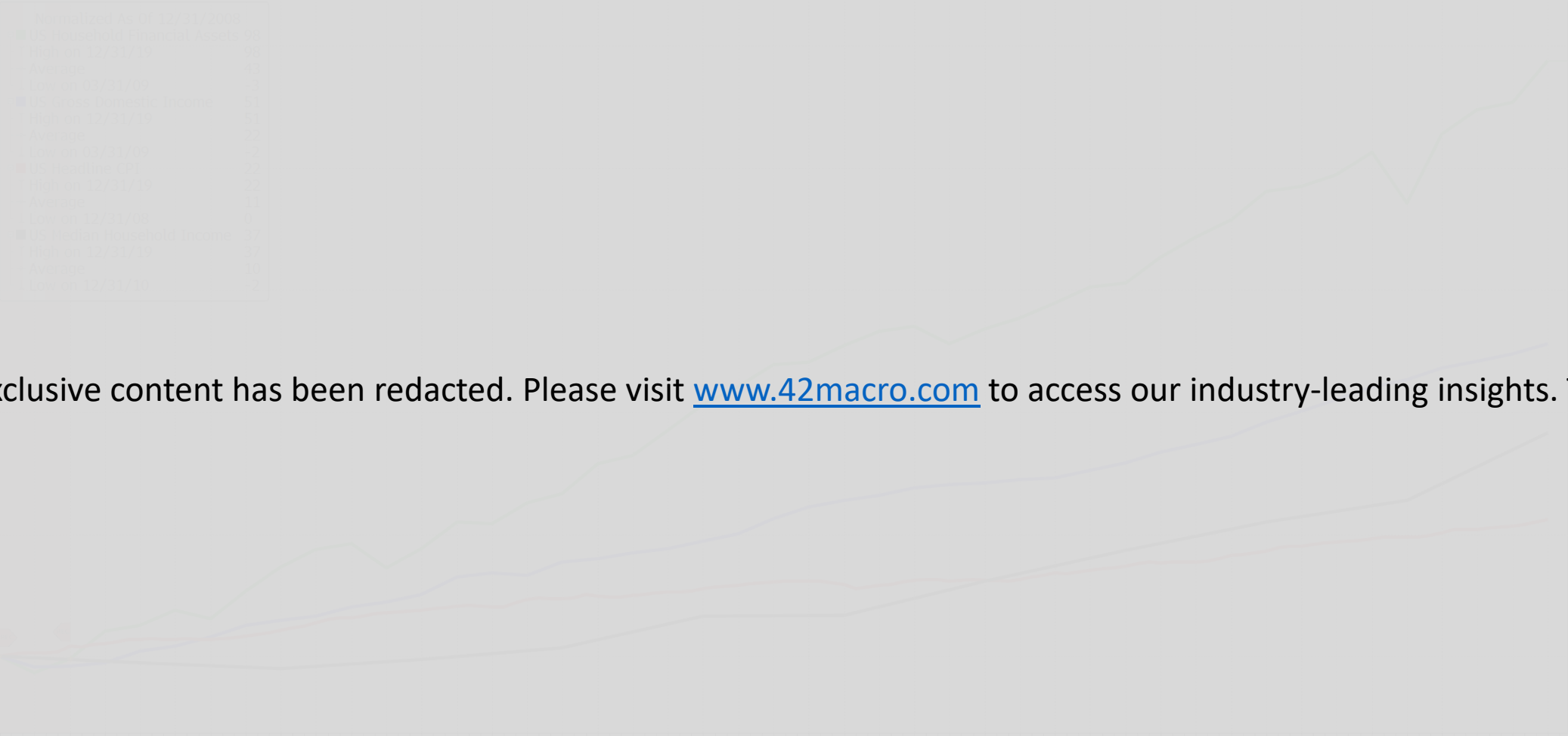


INAGHIGH Index (US Share of Aggregate Income Received by Highest Fifth) K-Shaped Income Yearly 31DEC1973-03JUL2025 Copyright© 2025 Bloomberg Finance L.P. 03-Jul-2025 13:28:44

# The Broad-Based Household Income Malaise Was A Key Contributor To The Ultra-Aggressive Monetary Policy Response To The Global Financial Crisis

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# The Ultra-Aggressive Monetary Policy Response To The GFC Inflated Financial Assets Nearly Twice As Fast As The Economy And Nearly 3x Faster Than The Median Household Income

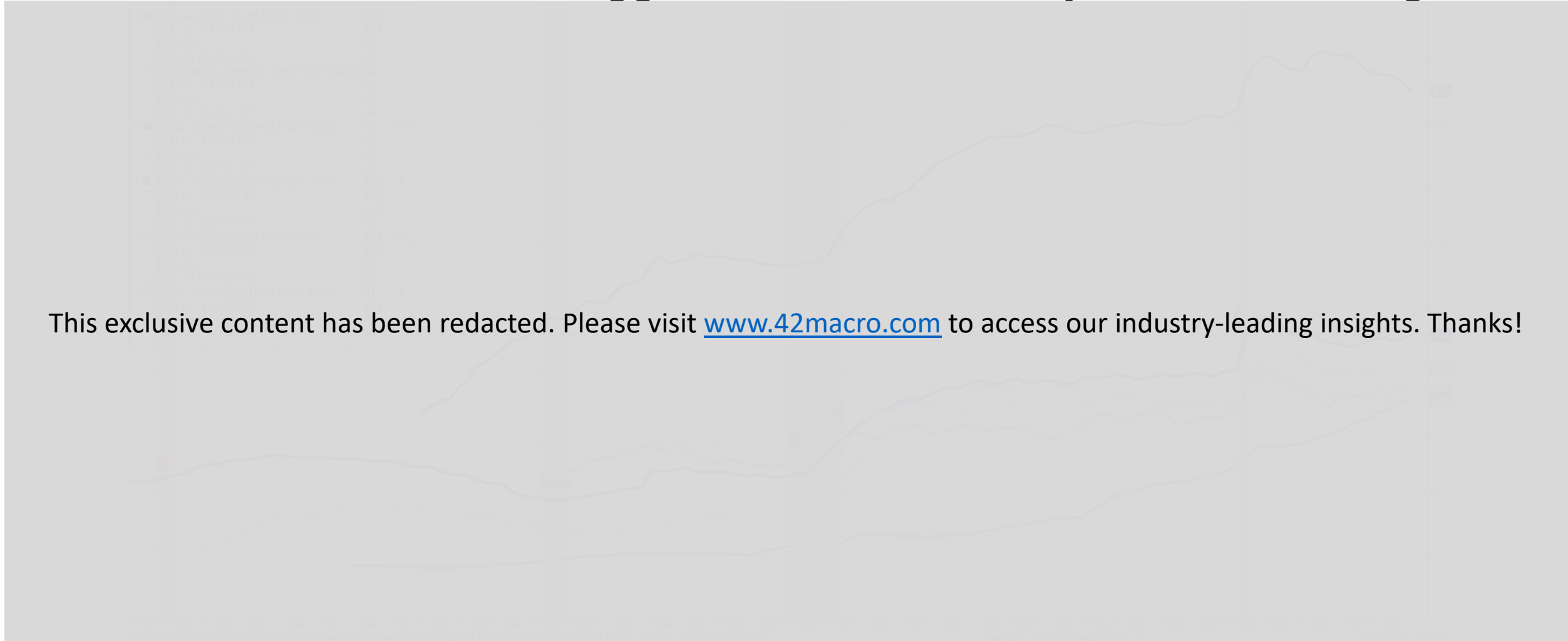


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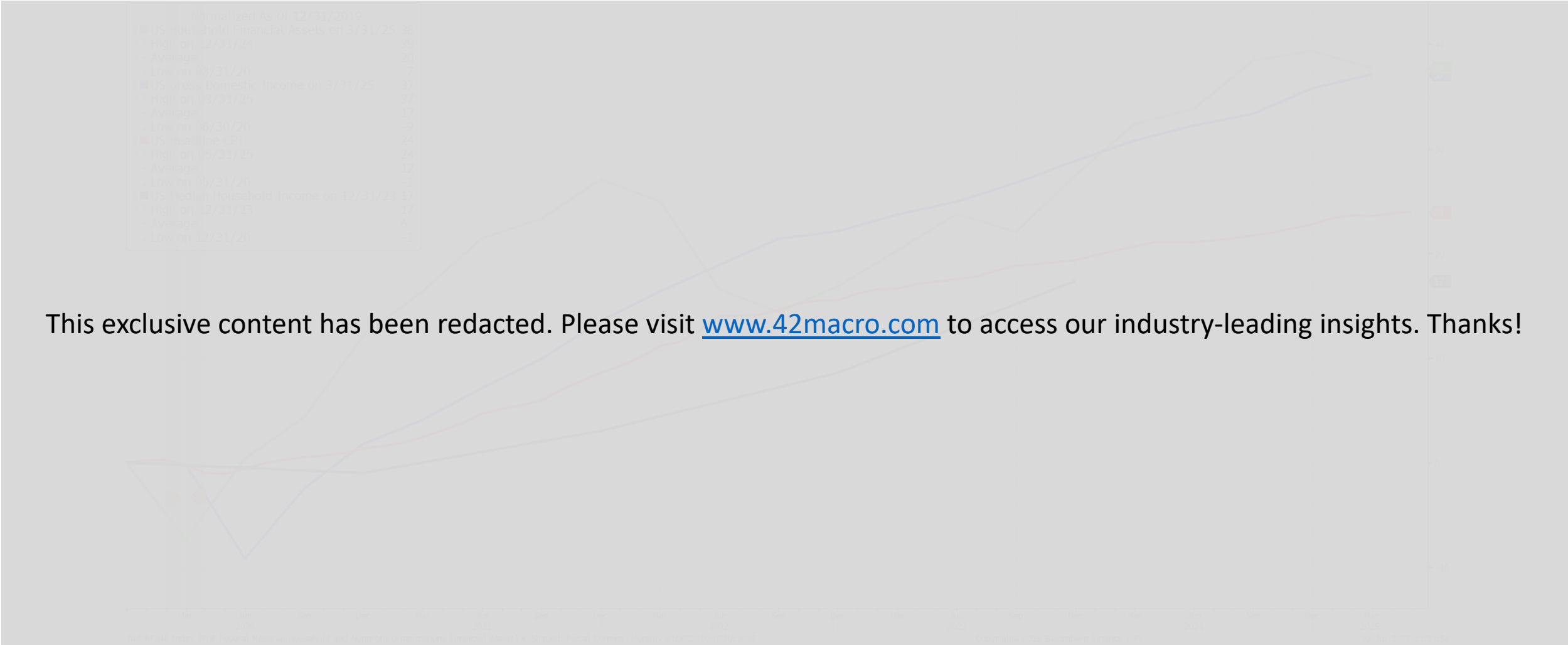
# Persistent Monetary Dominance Post The GFC Contributed To Crippling Wealth Inequality

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# Crippling Wealth Inequality Is Likely Why The Response To The COVID Crisis Was Ultra-Aggressive Fiscal Policy—Hence Paradigm A



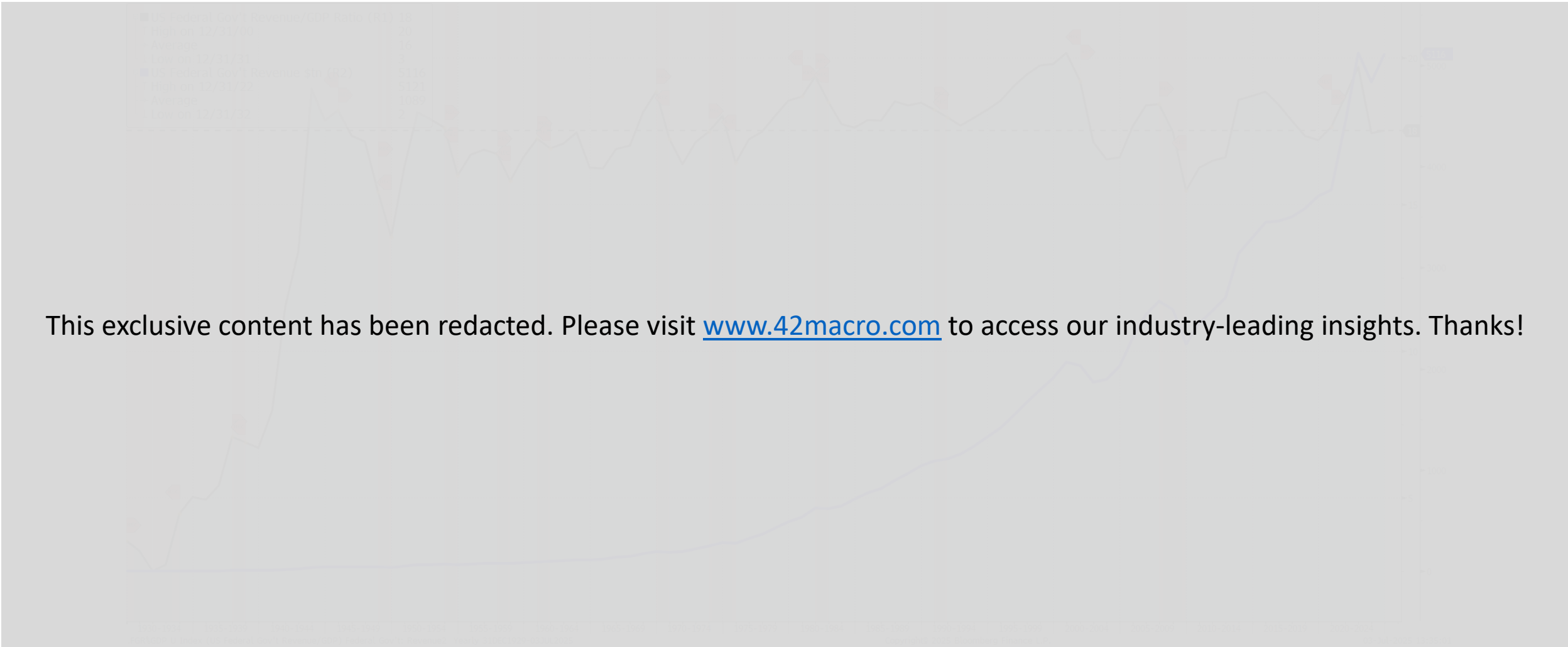
# Fiscal Dominance Has Been Much Better For The Economy Relative To Financial Assets, But Now The Median Household Is Getting Left Behind By Inflation Too



# Putting Paradigm A's Fiscal Dominance Into Perspective: Excessive Spending

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# Putting Paradigm A's Fiscal Dominance Into Perspective: + Stable Revenues



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# Putting Paradigm A's Fiscal Dominance Into Perspective: = Record Non-War, Non-Recession Budget Deficits

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Series	High	Low
US Federal Gov't Budget Balance/GDP Ratio (%)	1953	-1940
US Federal Gov't Budget Balance (\$B)	160	-241

# Record Non-War, Non-Recession Budget Deficits Contributed To A 40-Year High In Inflation During Paradigm A

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# Monetary Largesse Was Also A Key Factor In Letting The Inflation Genie Out Of The Bottle During Paradigm A

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■ Fed Funds Rate minus baseline Taylor Rule Estimate for US on 3/21/25 (R1)	132
High on 05/31/08	781
Low on 03/26/24	-104
■ Fed Balance Sheet as % of Nominal GDP on 3/21/25 (R2)	22
High on 11/30/21	36
Average	15
Low on 03/05/97	6

# The Dramatic Increase In The Quantity And Cost Of Federal Borrowing Led To A Historic Crowding Out Of Consumers And Businesses At The Bottom Of The “K” During Paradigm A

Approximate NTM Marketable Treasury Debt Supply And Impact On Interest Expense



— Approximate NTM Marketable Treasury Debt Supply \$bn  
— Approximate NTM Nominal Change In Interest Expense Due To Debt Refinancing \$bn (right)



Approximate NTM Marketable Treasury Debt Supply as a % of US Household Savings and Corporate Profits



— Approximate NTM Marketable Treasury Debt Supply as a % of US Household Savings and Corporate Profits  
— Mean

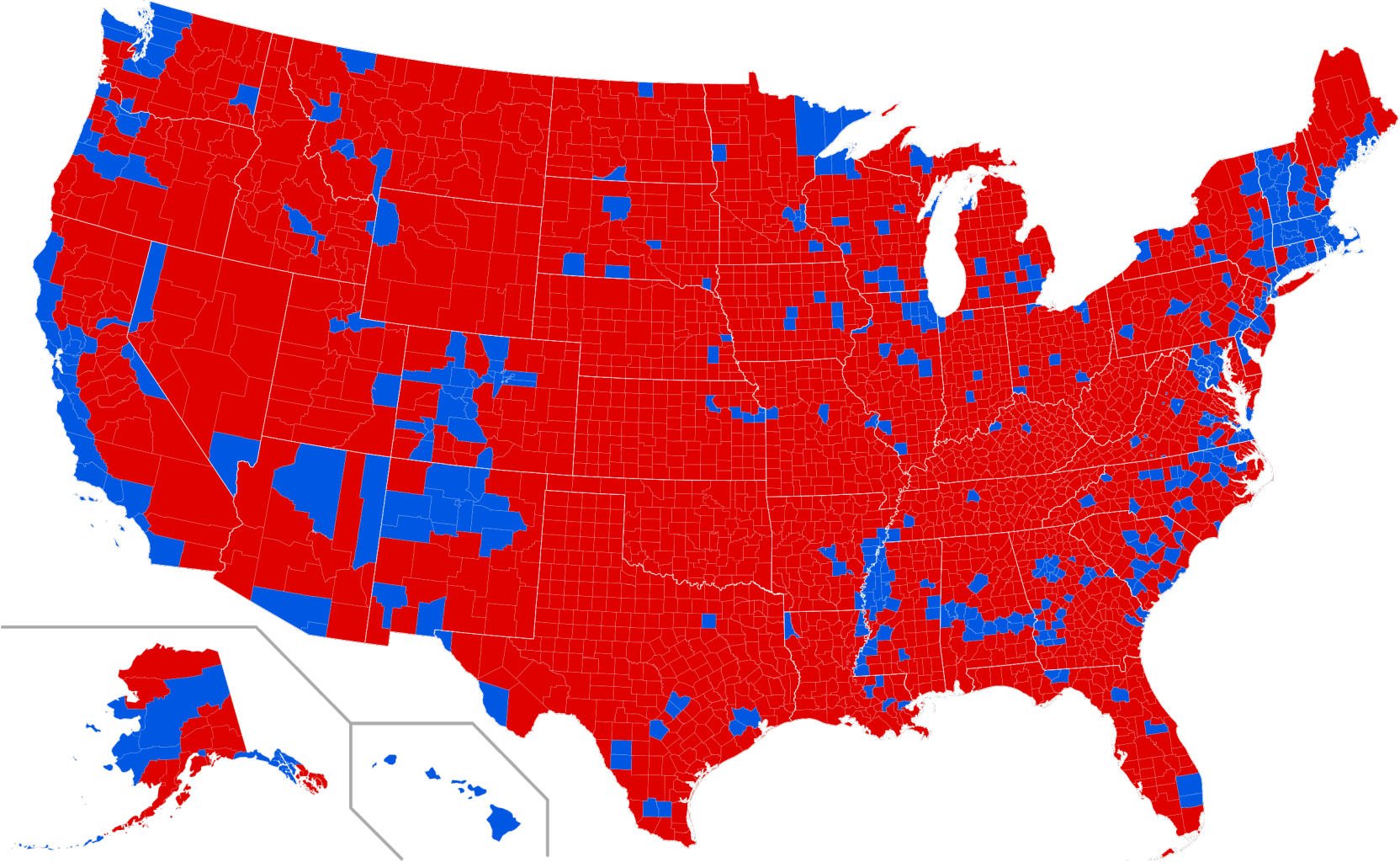


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Approximate NTM Marketable Treasury Debt Supply is the sum of Debt Maturing in the Next Year, the Annualized Fiscal YTD Budget Deficit, and the Annualized Rate of Divestment of the Federal Reserve's Treasury Portfolio.

# Crippling Income And Wealth Inequality + A 40-Year High In Inflation + A Historic Crowding Out Of Median Households And SMEs Is Why The Electoral College Map Looked Like This Last November



# Enter President Trump 2.0 Who Likely Believes He Survived An Assassin's Bullet To Correct The Imbalances Of Paradigm A—Hence Paradigm B

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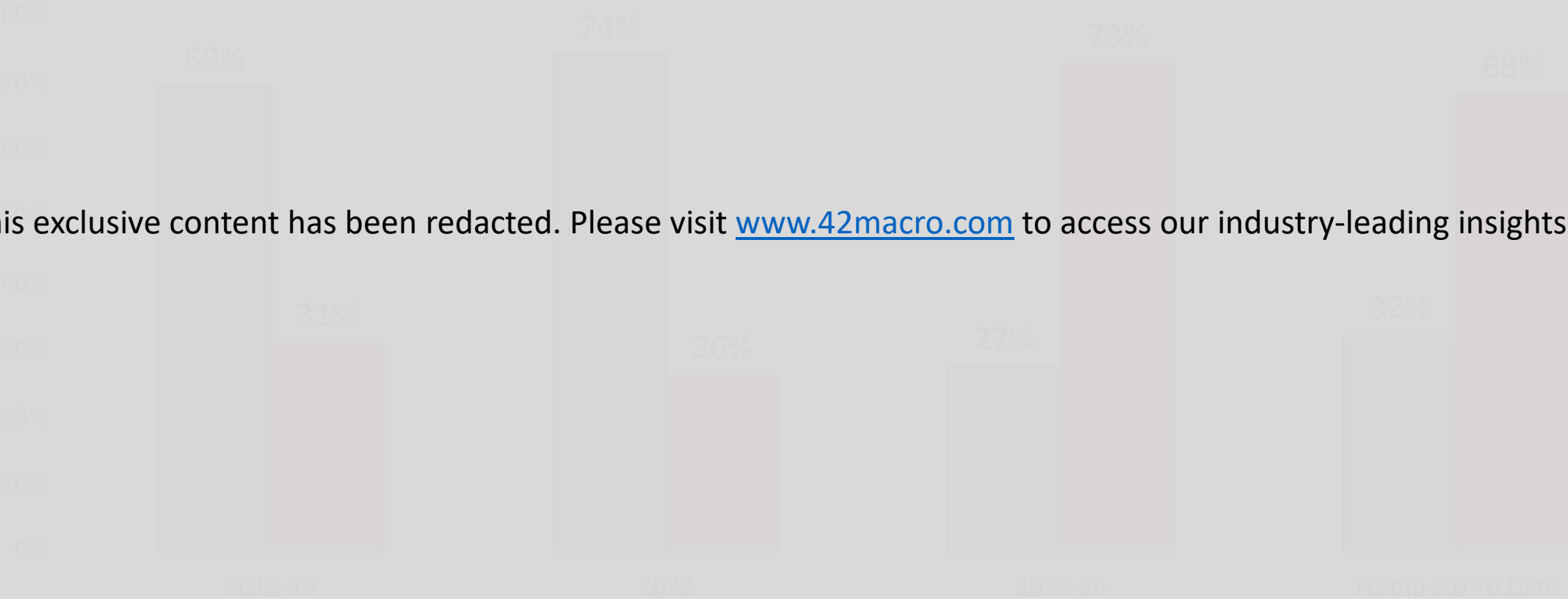
# Understanding Paradigm B: Rebalancing The Budget Would Reduce Inflation And Crowding Out By Uncle Sam

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US sovereign fiscal balance/GDP Ratio on 12/31/24	2.4
High on 12/31/24	2.4
Average	2.0
Low on 12/31/21	1.9
China sovereign fiscal balance/GDP Ratio on 12/31/24	-1.9
High on 12/31/24	1.6
Average	-1.2
Low on 12/31/21	-1.2
Japan sovereign fiscal balance/GDP Ratio on 12/31/24	-2.2
High on 12/31/24	2.0
Average	-1.7
Low on 12/31/21	-1.5
UK sovereign fiscal balance/GDP Ratio on 12/31/24	-2.1
High on 12/31/24	2.1
Average	-1.2
Low on 12/31/21	-1.1
World sovereign fiscal balance/GDP Ratio on 12/31/24	-1.1
High on 12/31/24	1.1
Average	0.7
Low on 12/31/21	0.7

# Understanding Paradigm B: Rebalancing The Labor Market Would Also Reduce Inflation And Crowding Out By Uncle Sam

■ Share of Cumulative Growth of Nonfarm Payrolls: Total ex-Gov't & Gov't-Adjacent  
■ Share of Cumulative Growth of Nonfarm Payrolls: Gov't & Gov't-Adjacent



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# Understanding Paradigm B: Reducing Inflation And Crowding Out By Uncle Sam Would Drive Mortgage Rates Lower, Which Would Rebalance The Housing Market

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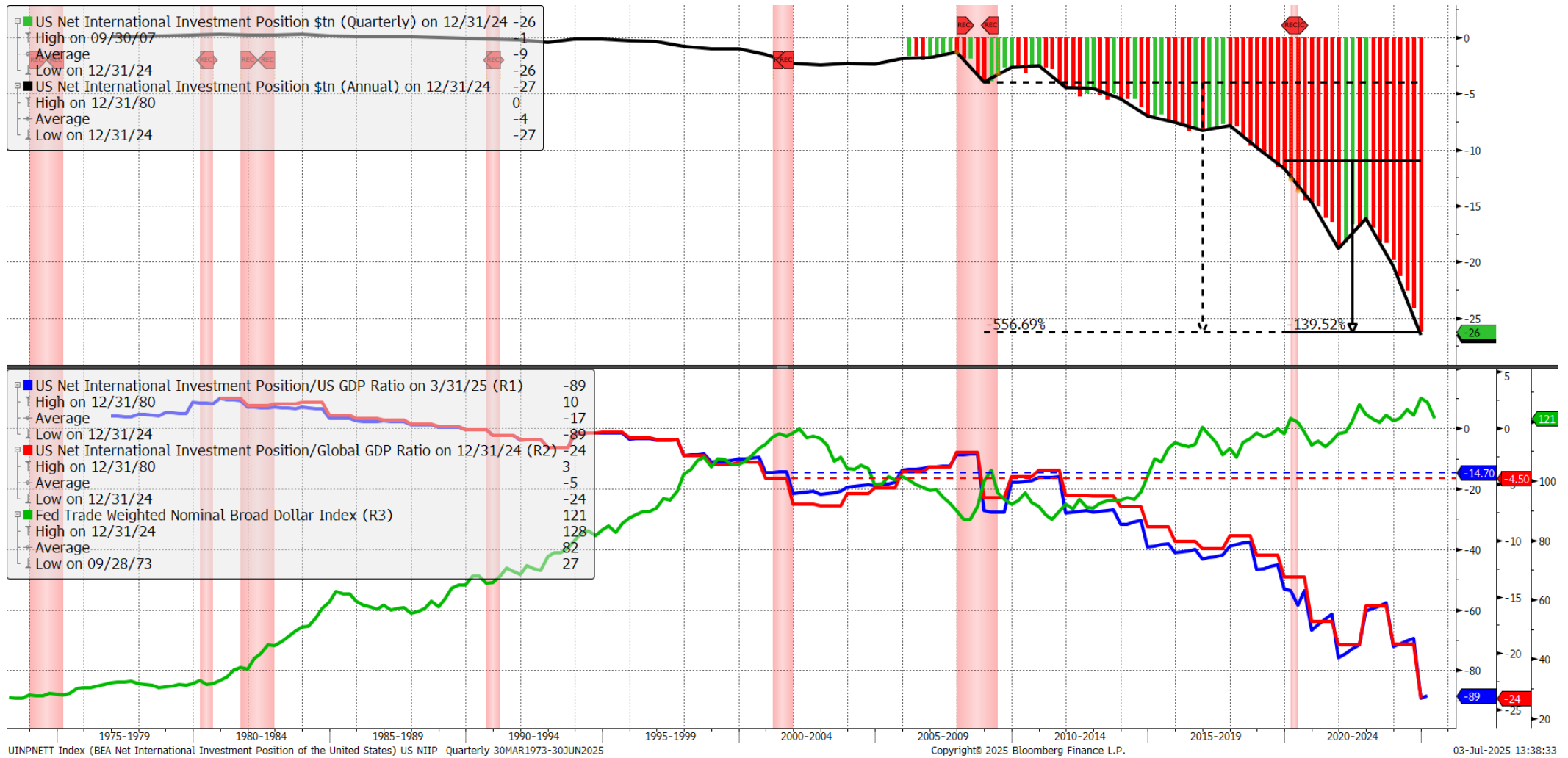
# Understanding Paradigm B: Rebalancing The Housing Market Would Address Crippling Wealth Inequality

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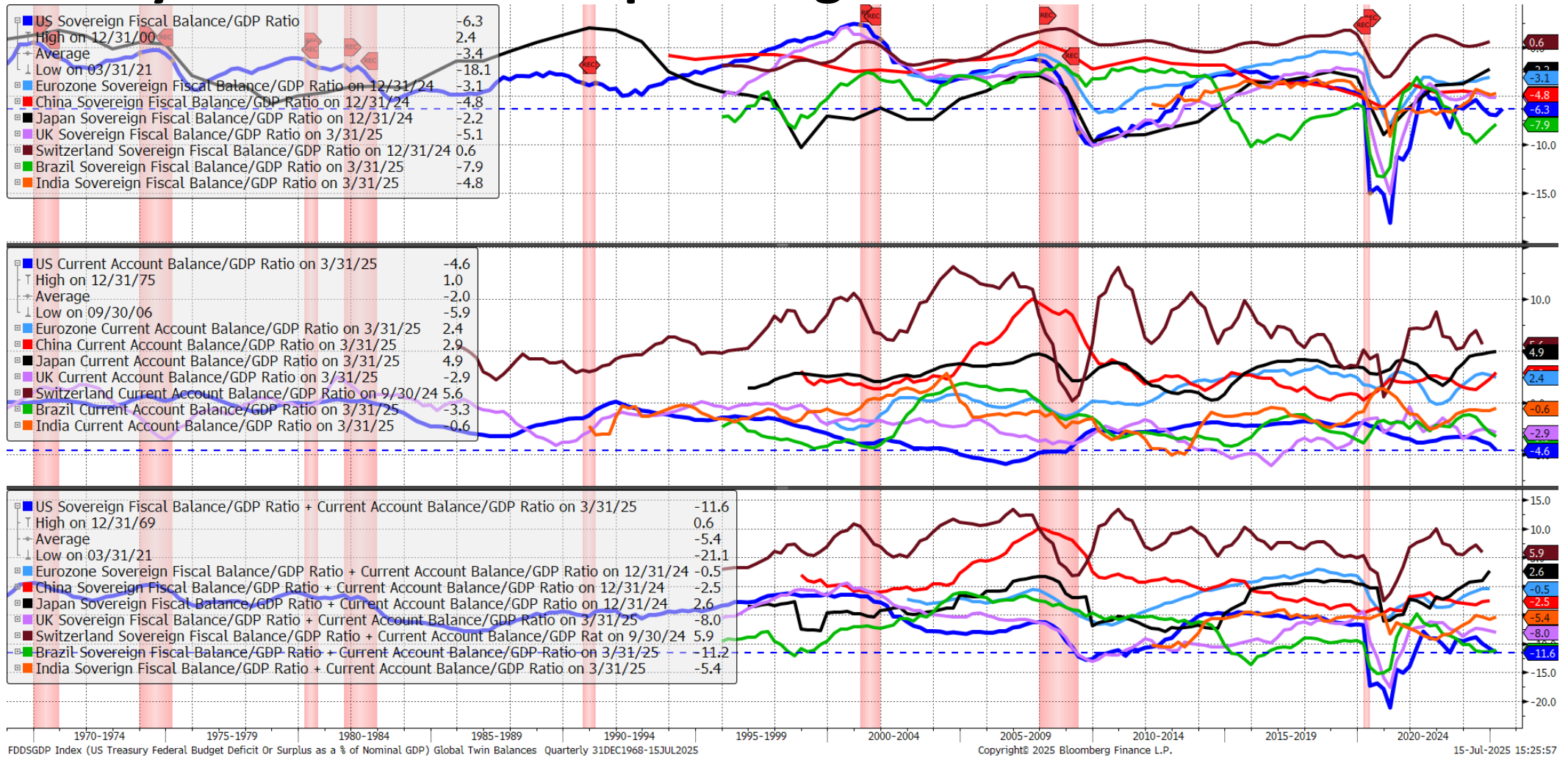
# Understanding Paradigm B: Rebalancing Global Trade Would Address Crippling Income Inequality As Well

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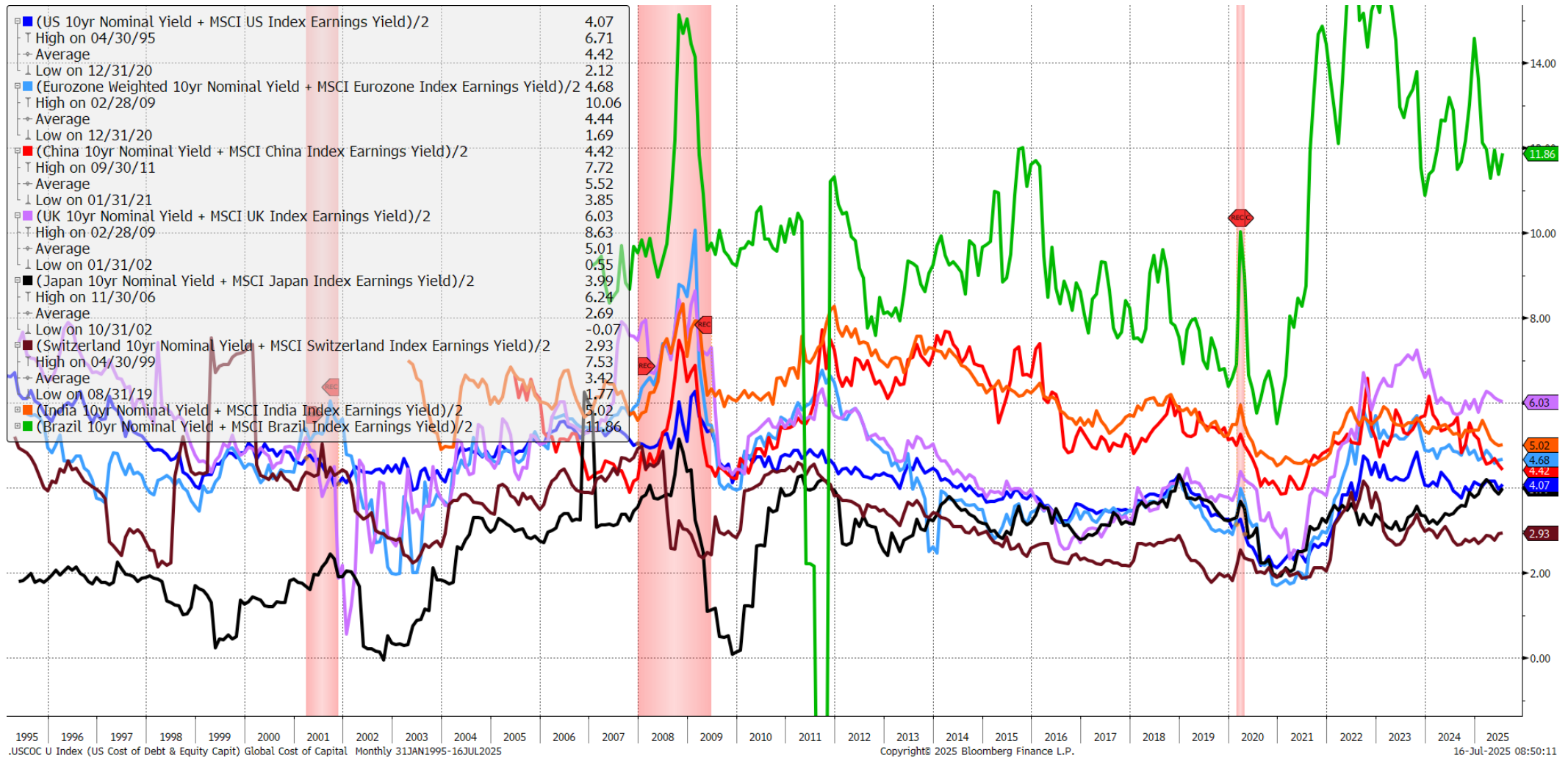
# Unfortunately For Main Street, Trump Found Out The Hard Way That The US Can't Unilaterally Rebalance Global Trade With A Net International Investment Deficit Worth ~90% Of Its GDP And 1/4<sup>th</sup> Of Global GDP



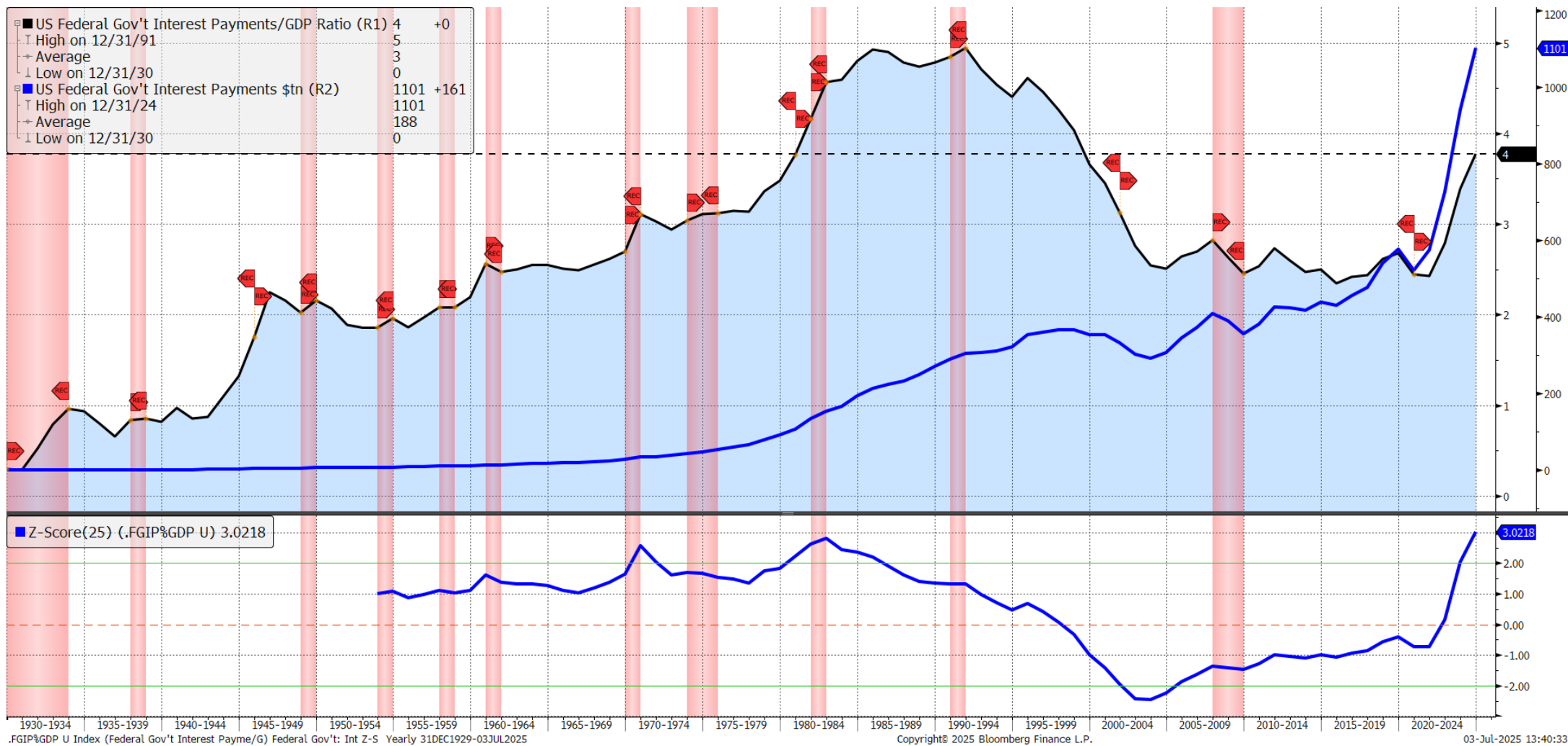
# The US' ~12% Twin Deficit-To-GDP Ratio Makes Its Economy Especially Vulnerable To Capital Flight



# Worse, The US Is Capitalizing Its ~12% Twin Deficit-To-GDP Ratio At ~4%—Well Shy Of Peer Debtor Economies—Which Makes Its Markets Especially Vulnerable To Capital Flight Too



# Persistent Capital Outflows (e.g., “Sell America Trade”) Risked A Durable Loss Of “US Exceptionalism”, Which May Have Contributed To A Debt Spiral



# Paradigm B Is Not Worth The Permanent Loss Of “US Exceptionalism” And A Potential Debt Spiral—Hence Paradigm C



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We are working to upload all of our receipts in a digestible and transparent manner consistent with applicable rules and regulations. To get started, listed below are a subset of contract, grant, and lease cancellations, representing ~30% of total savings.

The contracts listed below have been posted publicly on [fdds.gov](http://fdds.gov). FPDS posting of the contract termination notices can have up to a 1 month lag. There may be discrepancies between FPDS / USAspending and the posted numbers, the latter of which originate directly from agency contracting and grant officials.

Last updated June 29th, 2025. This will initially be updated weekly over time, the website will improve and the updates will converge to real-time.

# Per Our Fourth Turning Debt Dynamics Study, When The Government Has A Debt Problem, There Are Only Three Solutions: Cut, Grow, Or Print

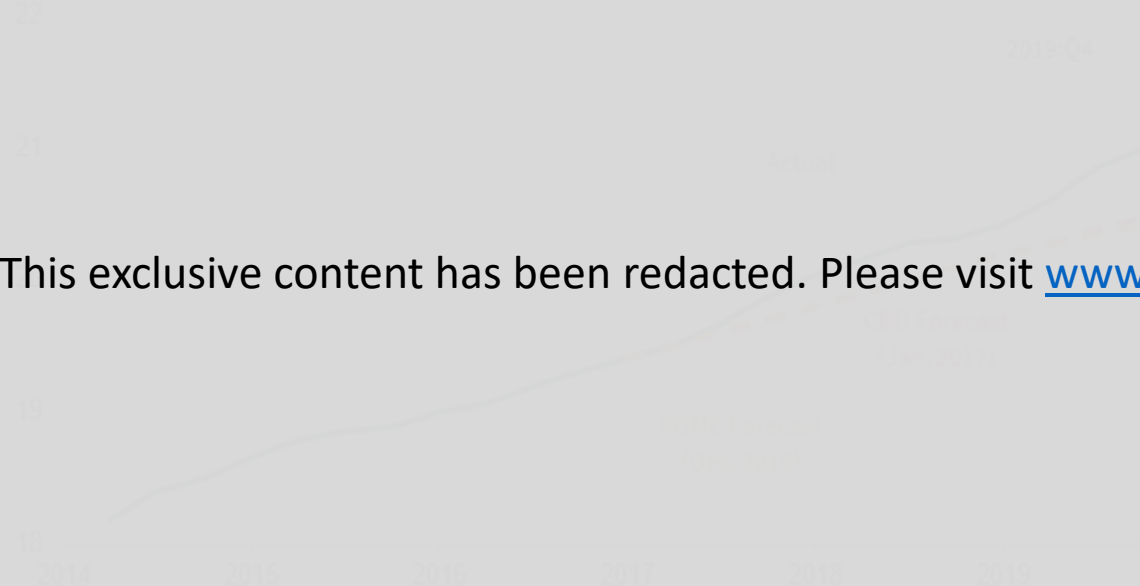
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■ US Federal Debt/GDP Ratio (%)	100
High on 12/31/76	100
Average	81
Low on 12/31/74	51
■ 10y Nominal Treasury Yield (%)	13.7
High on 12/31/80	15.08
Average	6.75
Low on 12/31/20	0.41
■ National Average 30yr Fixed Mortgage Rate (%)	7.31
High on 12/31/80	13.82
Average	6.20
Low on 12/31/20	3.07

# Paradigm C Is The Trump Administration’s Pivot From **Cutting** The Fiscal And Current Account Deficits To **Growing** The Economy Fast Enough To Outrun Them

Figure 3-1. The U.S. Economy Outperformed Forecasts: Real GDP

2017 dollars (billions)



Sources: Bureau of Economic Analysis; Federal Reserve Board; Federal Open Market Committee; Congressional Budget Office

Figure 3-2. The U.S. Economy Outperformed Forecasts: Unemployment

Unemployment rate (percent)



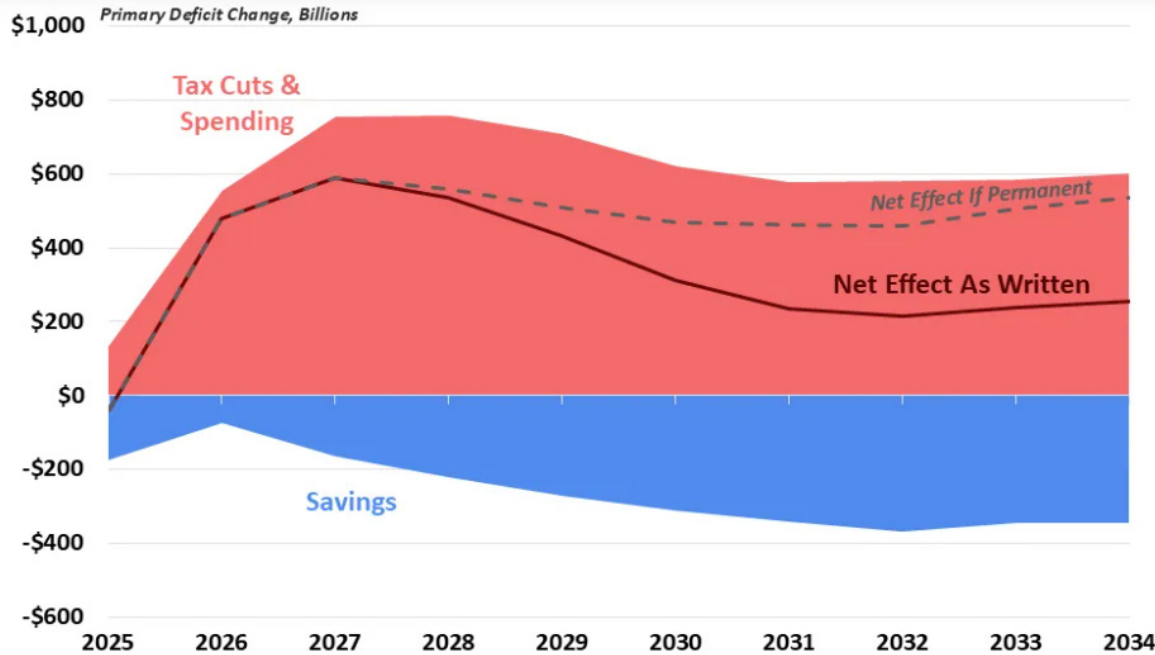
Sources: Bureau of Labor Statistics; Federal Reserve Board of Governors; Congressional Budget Office

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# The Tax Relief Of OBBBA Is Front Loaded, While The Spending Cuts Are Back Loaded—If They Ever Come (More On This Later)

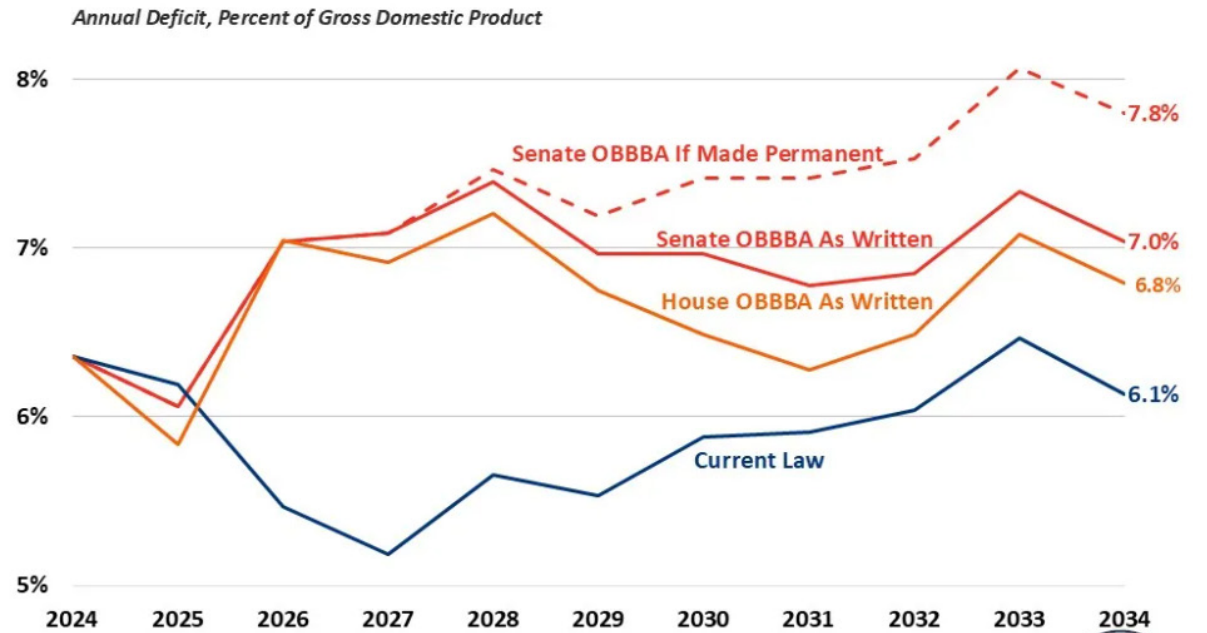
## Senate OBBBA Front-Loads Costs, Back-Loads Savings



Source: CRFB estimates based CBO and JCT scores.



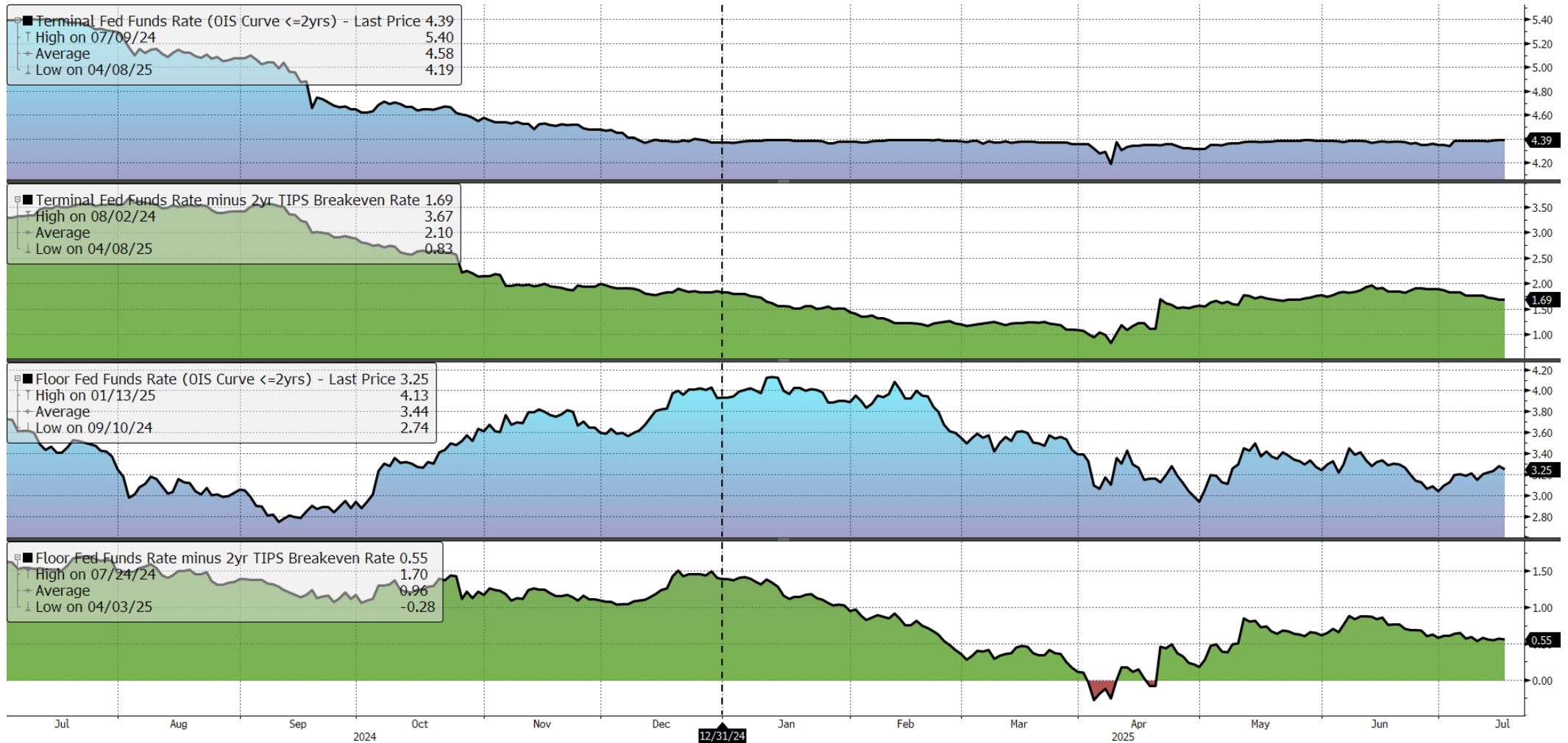
## Deficits Spike Under Senate OBBBA



Sources: Congressional Budget Office, Committee for a Responsible Federal Budget



# Paradigm C Also Features The Monetary Largesse Of Paradigm A

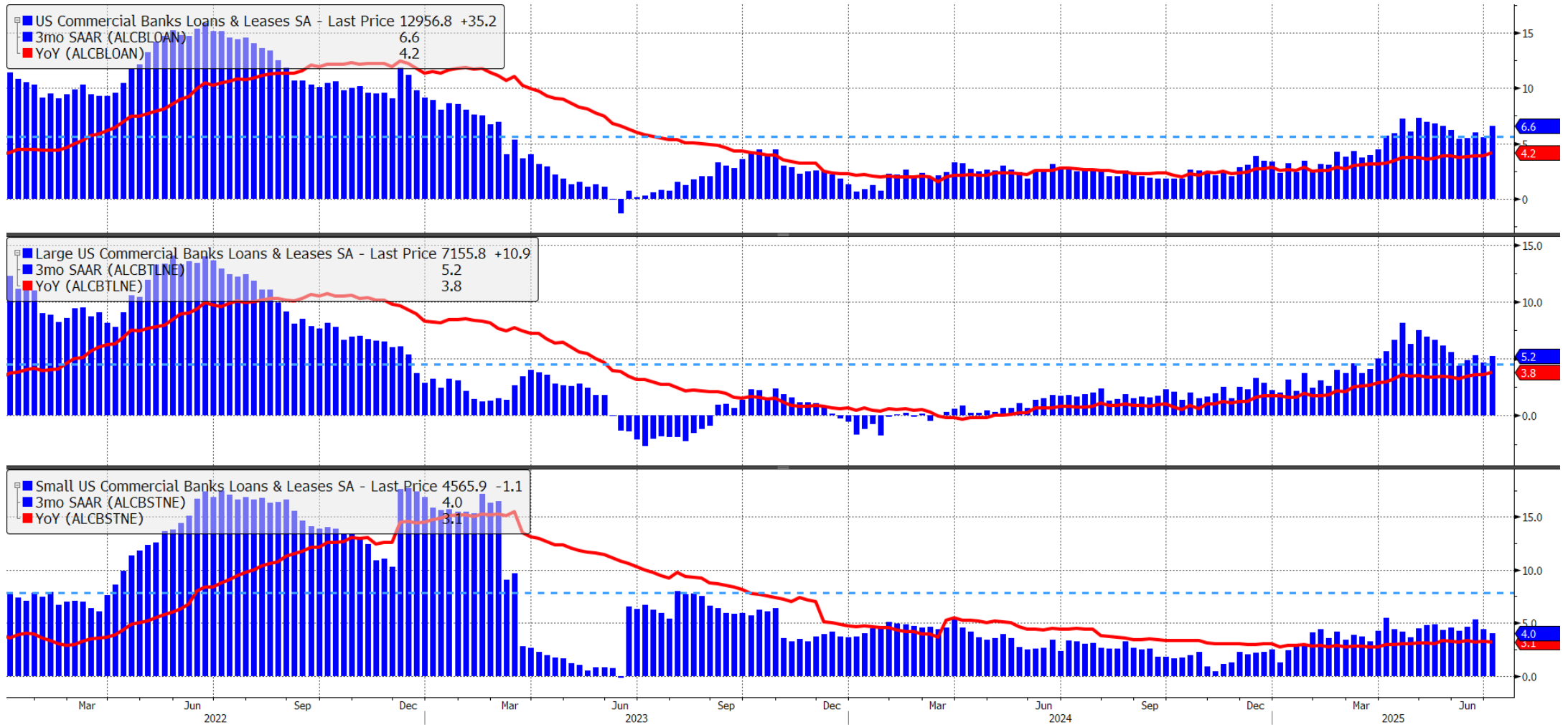


.TERMFD U Index (Terminal Fed Funds Rate (<=2yr) Fed Policy Rate Pricing Daily 03JUL2024-16JUL2025

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16-Jul-2025 08:53:39

# Paradigm C Also Features Substantial Deregulation



ALCBLOAN Index (US Commercial Bank Assets Loans & Leases Bank Credit SA) Comm Bank Lending % Weekly 05JAN2022-15JUL2025

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15-Jul-2025 15:29:39

# Paradigm C Also Features Some Reshoring Of Critical Industries

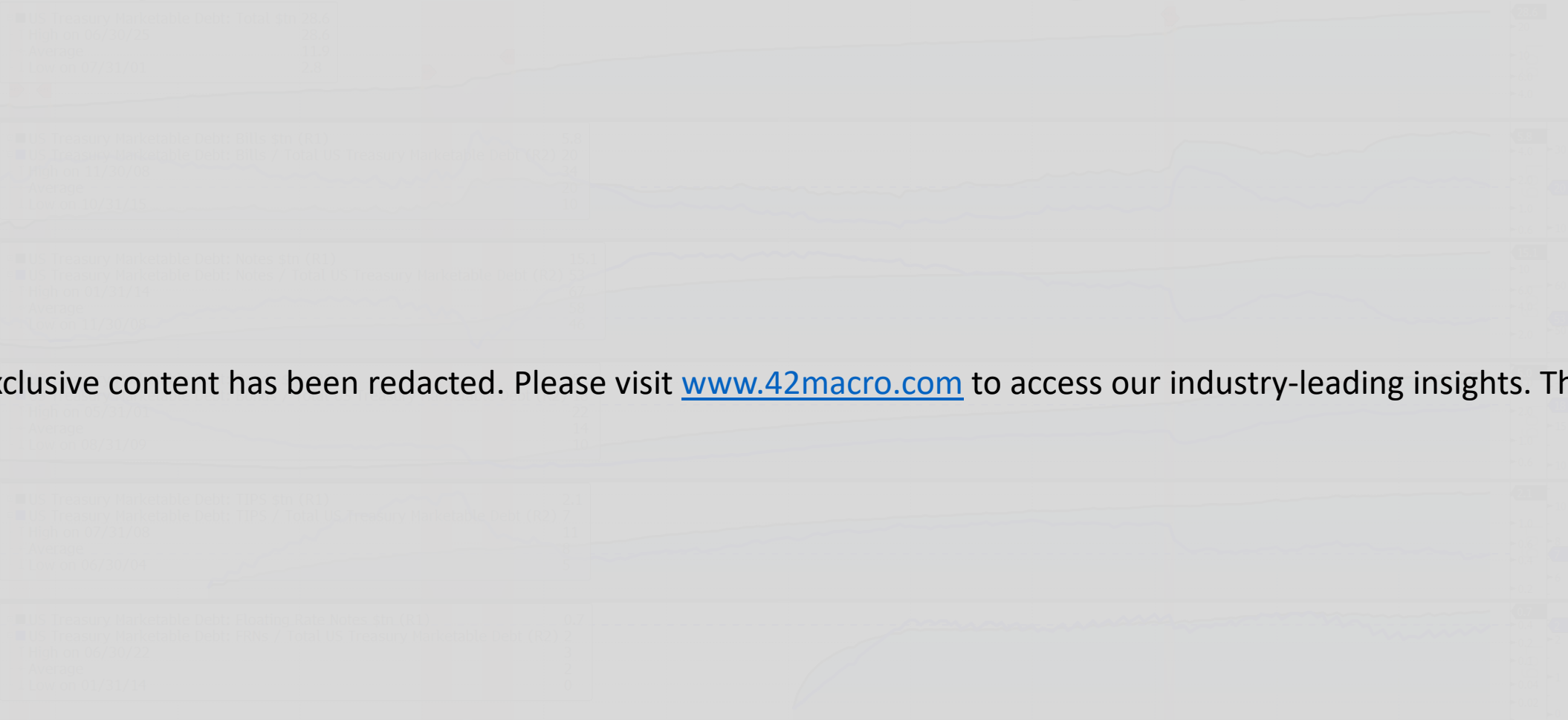


CNSTTOTA Index (Census Bureau US Construction Spending Total SA) Construction Spending Monthly 31JAN2022-15JUL2025

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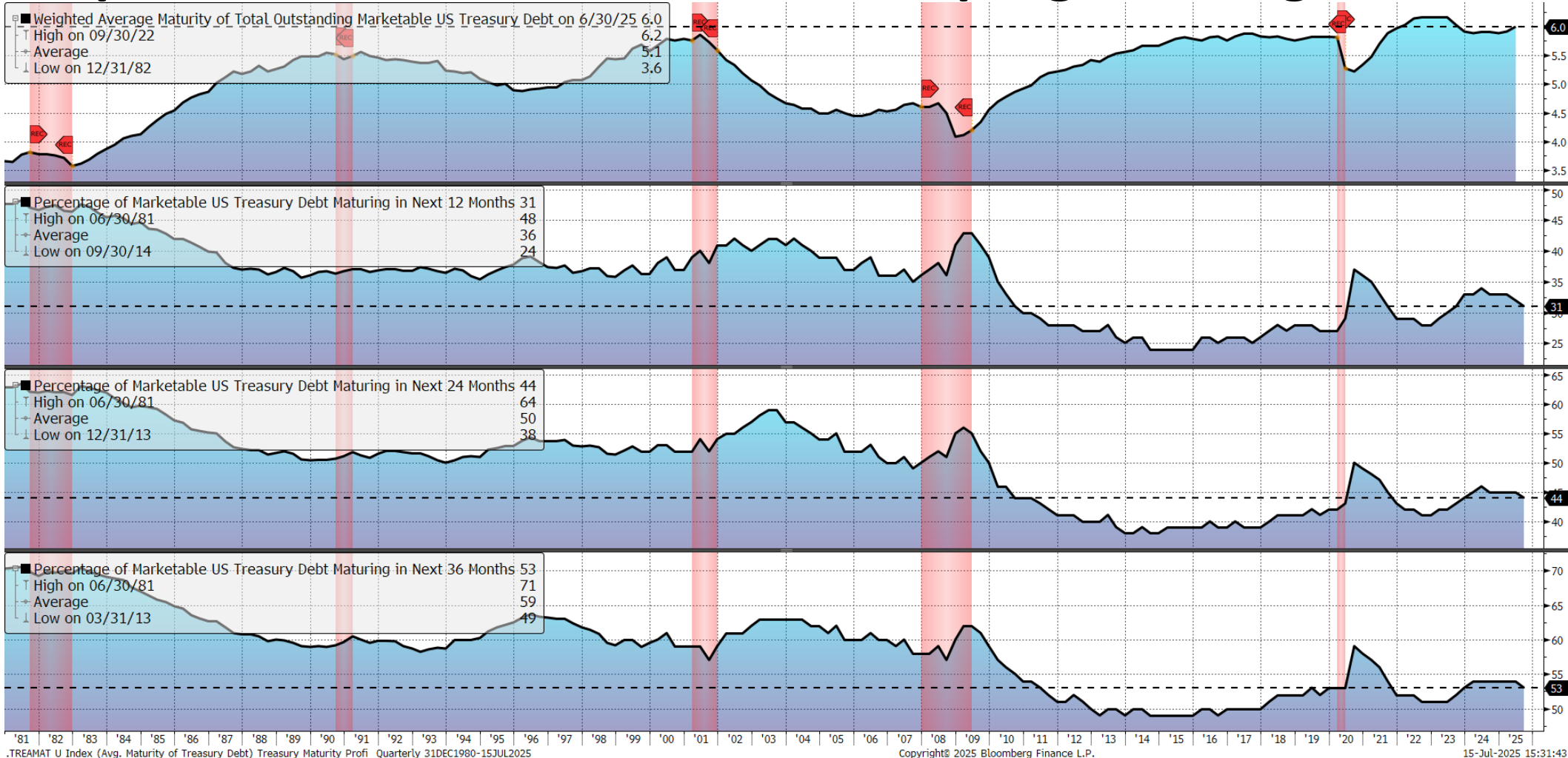
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# Paradigm C Also Features A Continuation Of Former Treasury Secretary Janet Yellen's Dovish Net Financing Policy

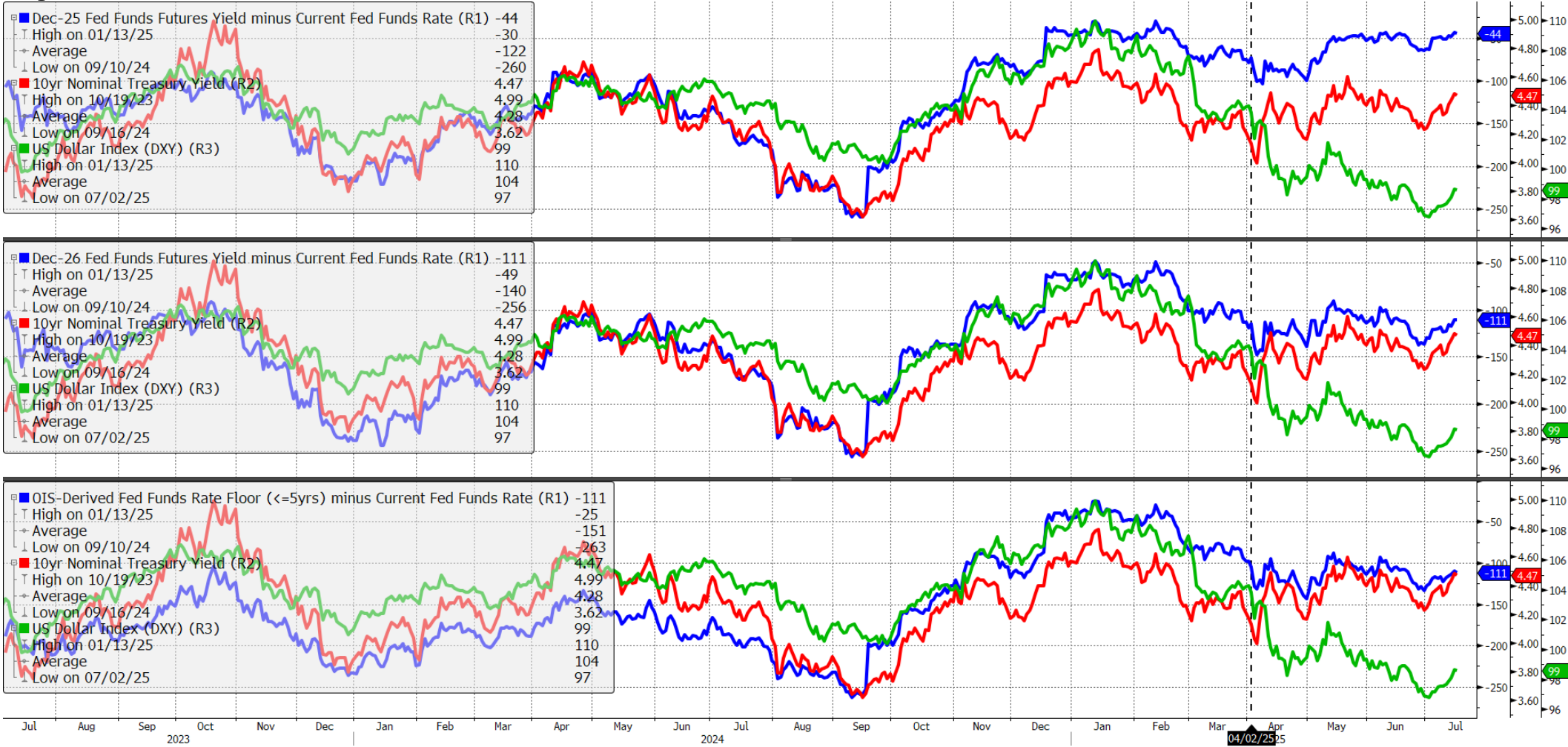


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# In Fact, There Is Substantial Upside Risk For Bill Issuance Relative To Coupons If POTUS Is Successful At Reprogramming The Fed



# The US Dollar May Be Front Running An Eventual Erosion Of Fed Independence



# Reminder: A Declining US Dollar Represents A Significant Tailwind For The Largest Companies In The S&P 500 Index

S&P 500: Aggregate Geographic Revenue Exposure (%)  
(Source: FactSet)

S&P 500: Aggregate Sector Geographic Revenue Exposure (%)  
(Source: FactSet)

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# The Widespread Adoption Of AI Represents A Significant Tailwind For *Every* Company In The S&P 500 Index

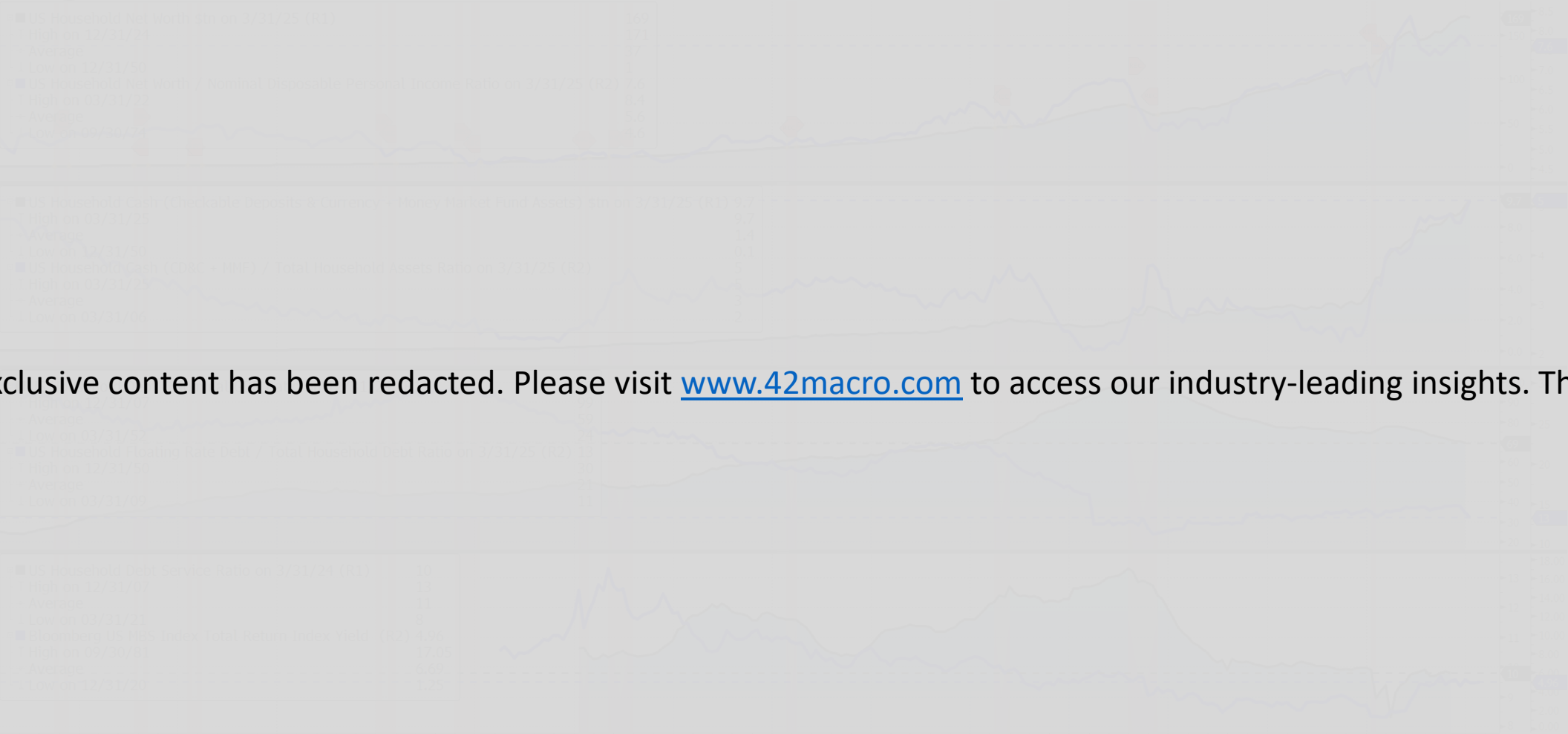
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## Key Takeaway: Investors Who Expect Historically Elevated Policy Uncertainty To Devolve Into Bad Outcomes Remain Under-Positioned For Paradigm C; In Our View, This Is A Mistake

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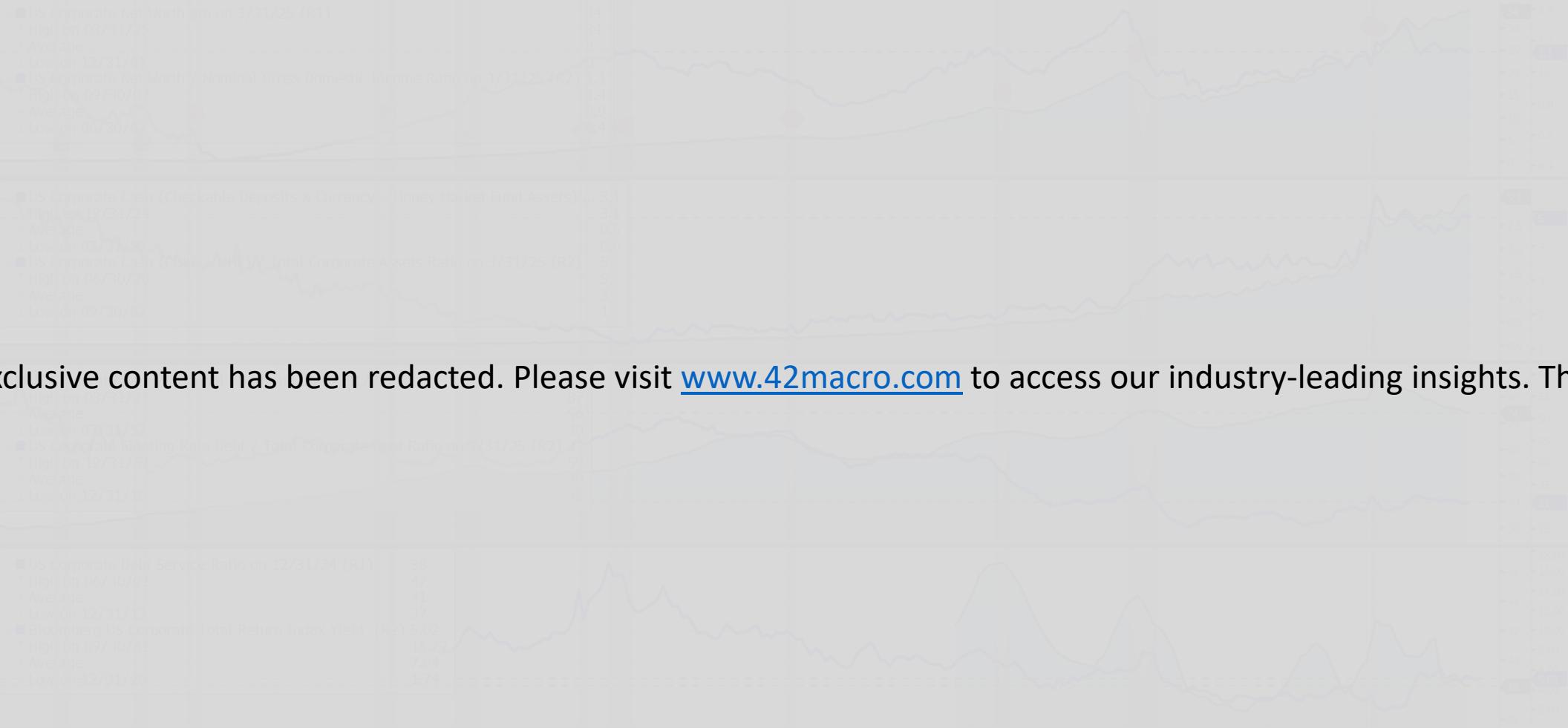
# Right Tail Risks

# The US Economy Is Likely To Remain Resilient Due To Historically Strong Private Sector Balance Sheets: Household Sector



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# The US Economy Is Likely To Remain Resilient Due To Historically Strong Private Sector Balance Sheets: Corporate Sector

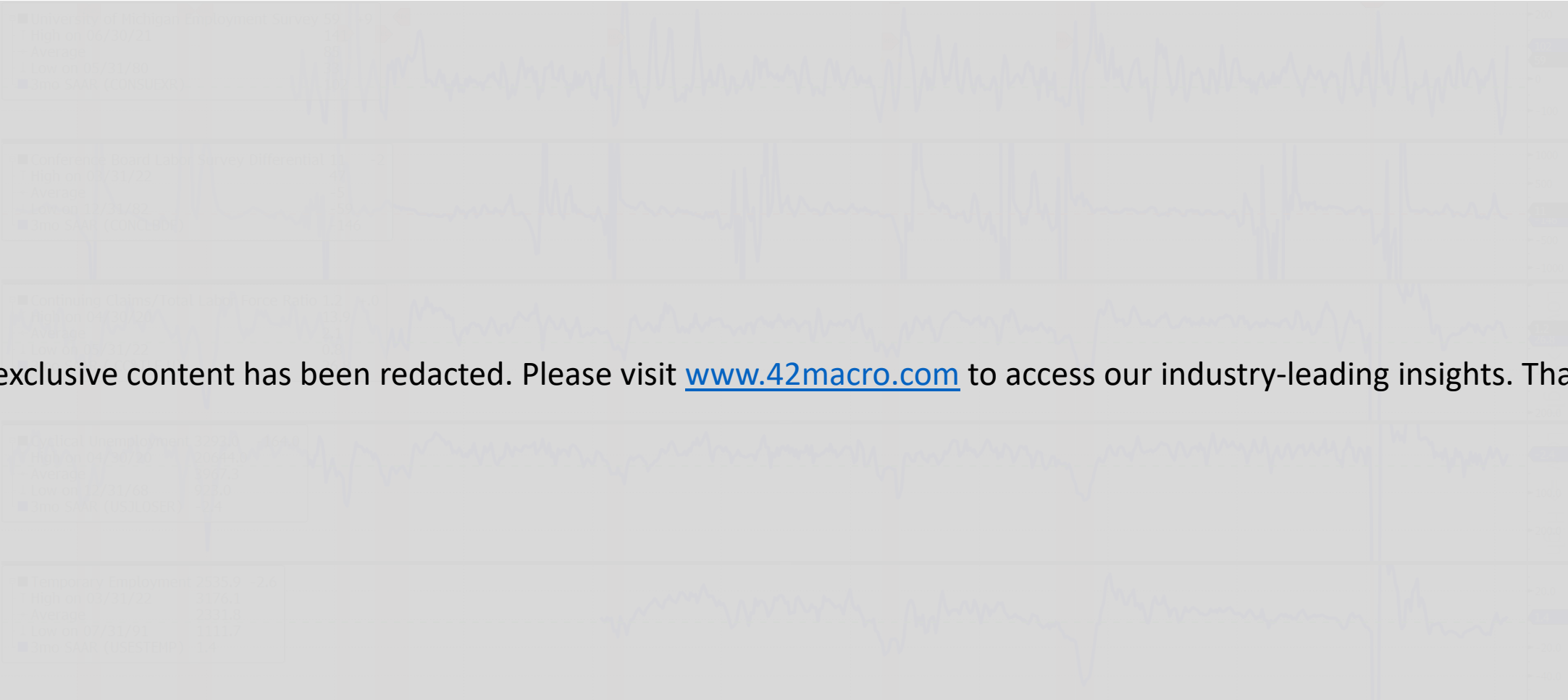


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# A Dearth Of Imbalances And Excesses On The Private Sector Balance Sheet Dramatically Reduces The Probability Of An Actual Recession

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# The 42 Macro Fab-5 Recession Signaling Indicators Currently Signal A Low Probability Of A Developing Recession In The US Economy



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The dotted lines indicate the median value observed at the start of recessions.

Red = breached recession-signaling threshold. Orange = close to breaching recession-signaling threshold.

Green = not signaling a developing recession.



# Historically Strong Private Sector Balance Sheets Are Why The US Economy Keeps Experiencing “Rolling Recessions” Instead Of A Broad-Based, NBER-Style Contraction

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The dotted lines indicate the median value observed at the start of recessions.

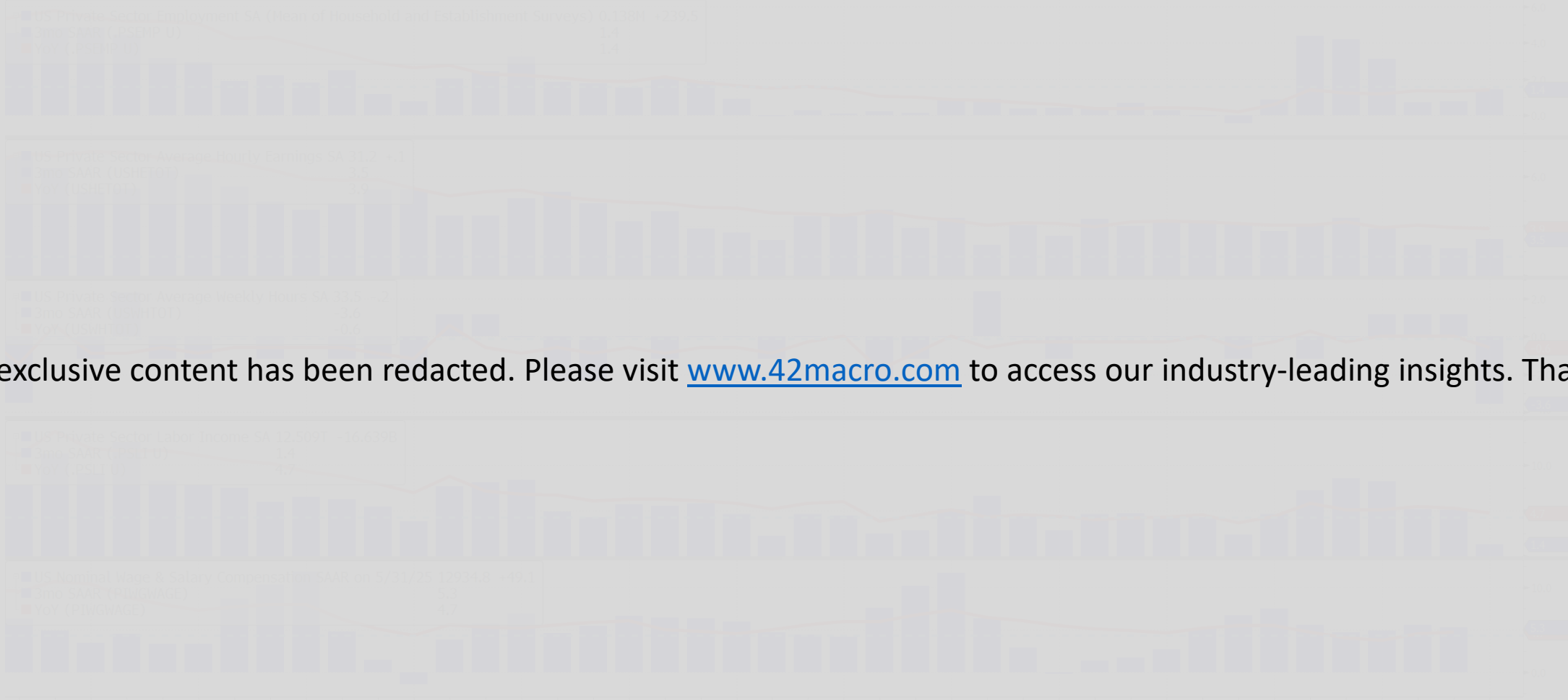
Red = breached recession-signaling threshold. Orange = close to breaching recession-signaling threshold.

Green = not signaling a developing recession.

# The Latest JOLTS Report Was Supportive Of Our “Labor Hoarding” Thesis

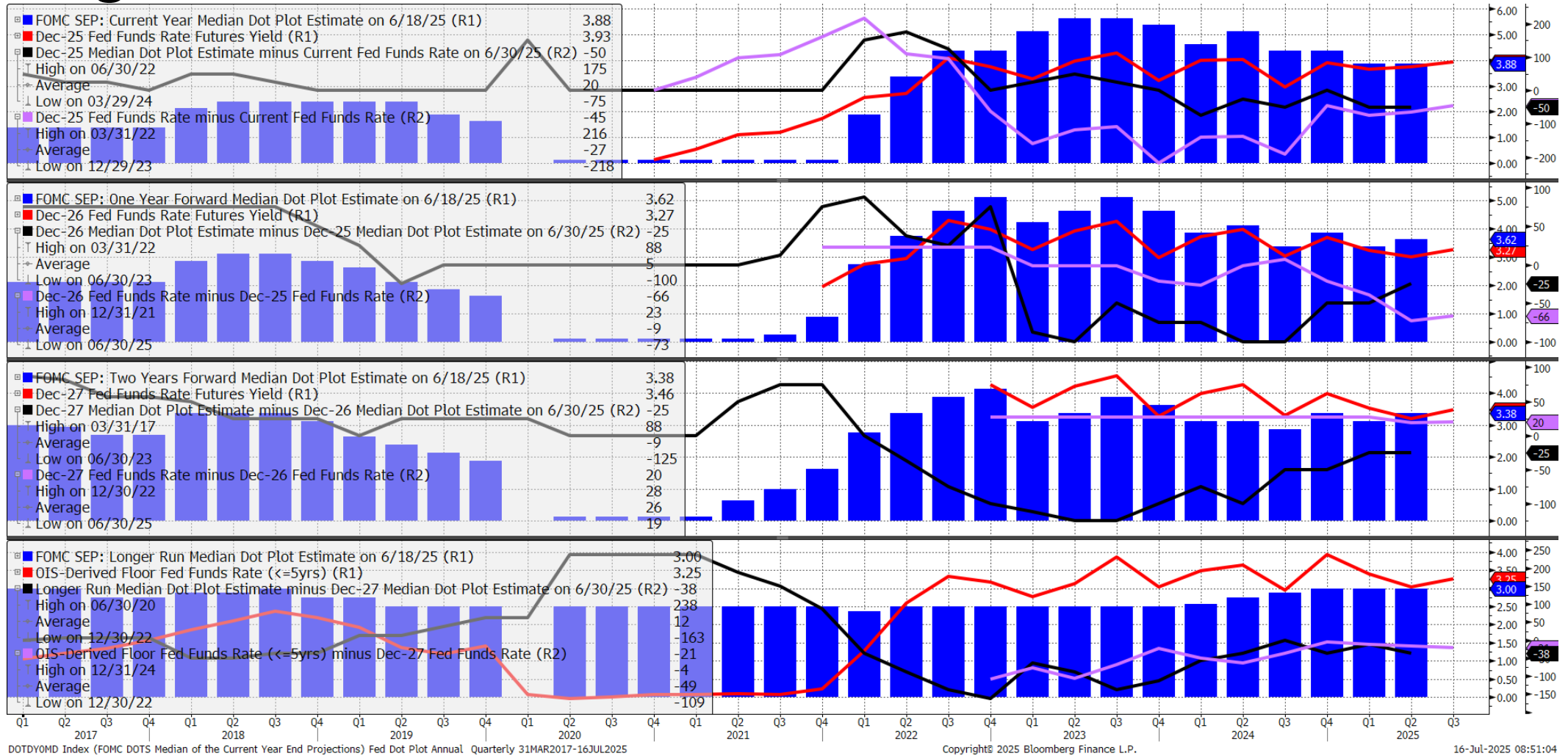
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# The Latest Jobs Report Was Supportive Of Our “U-Shaped Economy” Thesis

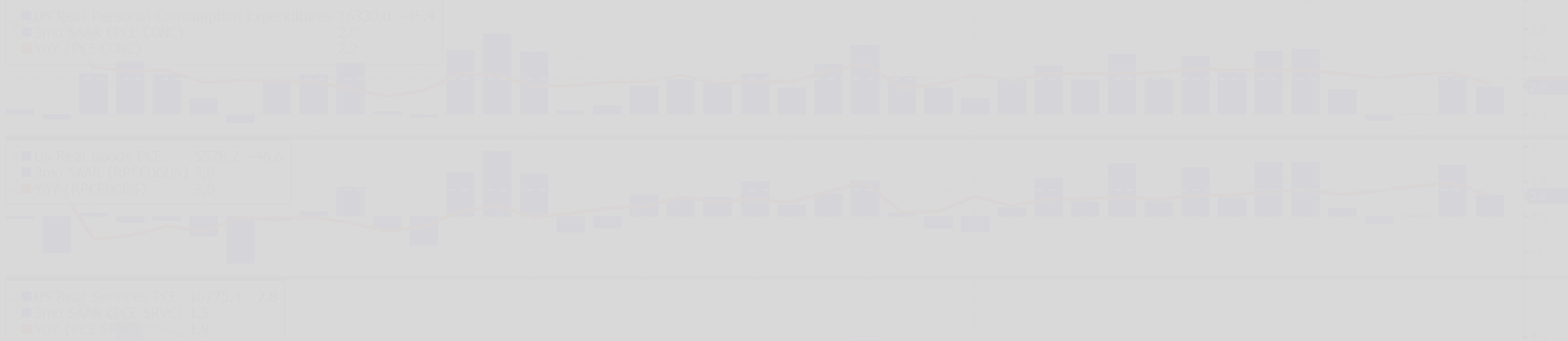


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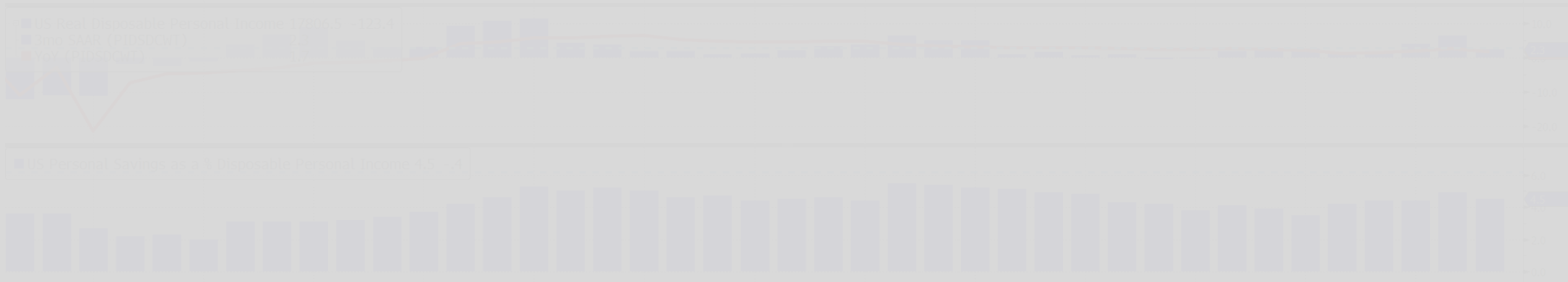
# The “U-Shaped Economy” Supports Our “Jay Wants A Soft Landing” Theme



# The Latest PCE Report Was Also Supportive Of Our “U-Shaped Economy” Thesis

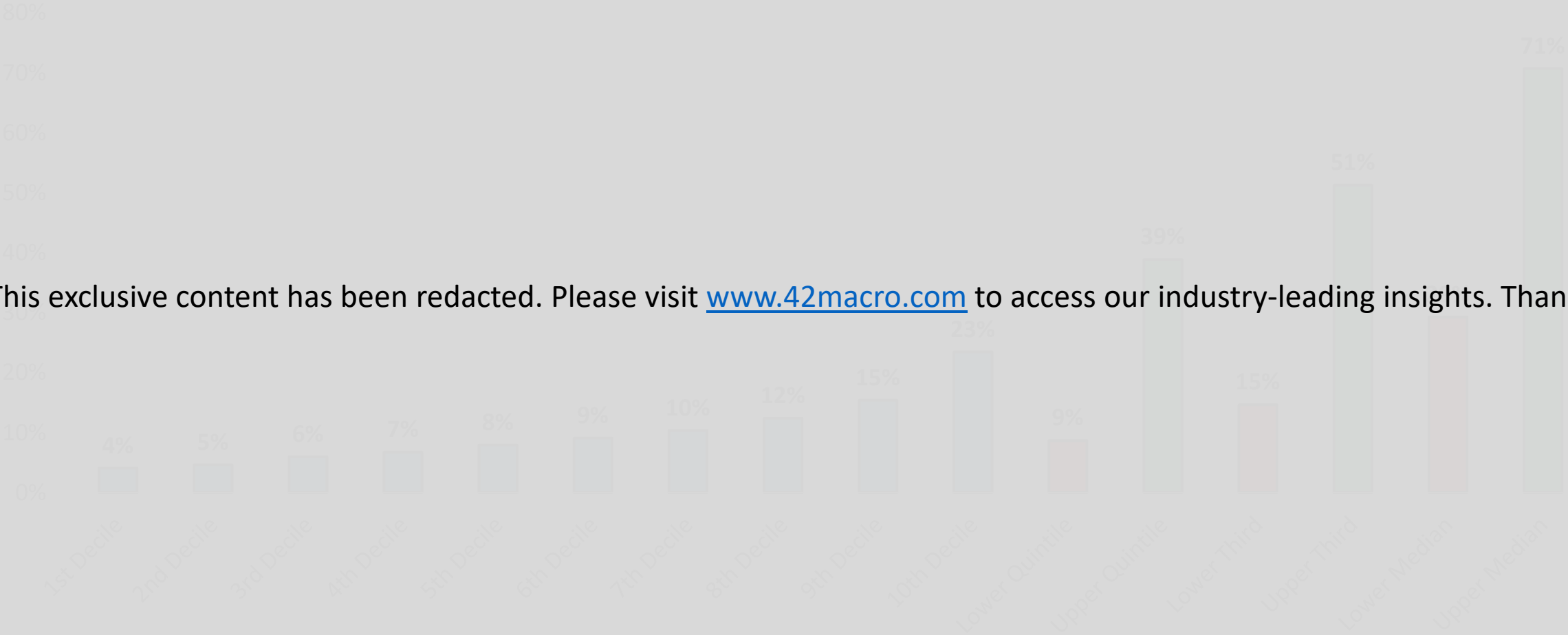


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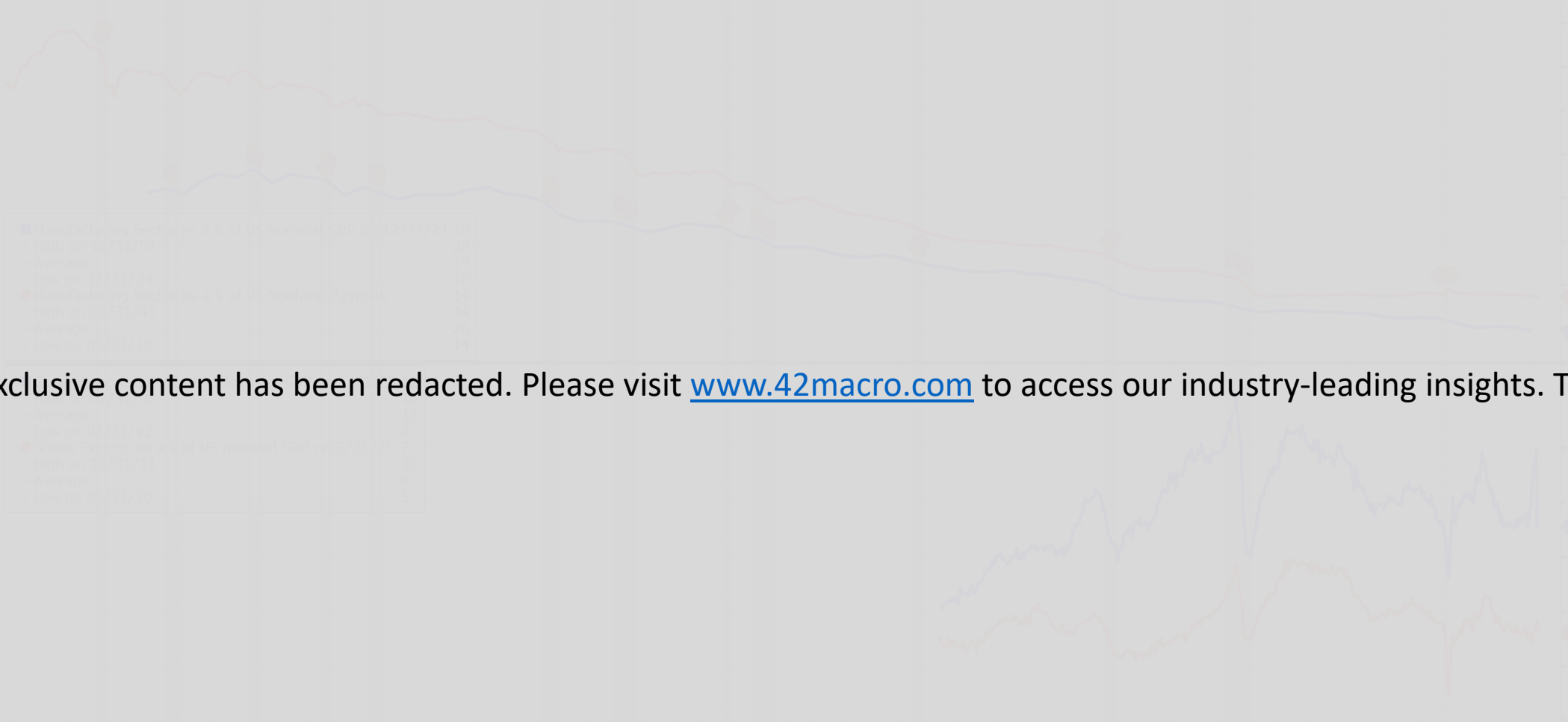
# If Asset Markets Generally Continue To Price In Paradigm C, Investors Should Expect Consumer Spending At Least Muddle Through In The “K-Shaped” US Economy

Share of US Consumer Spending by Income Cohorts



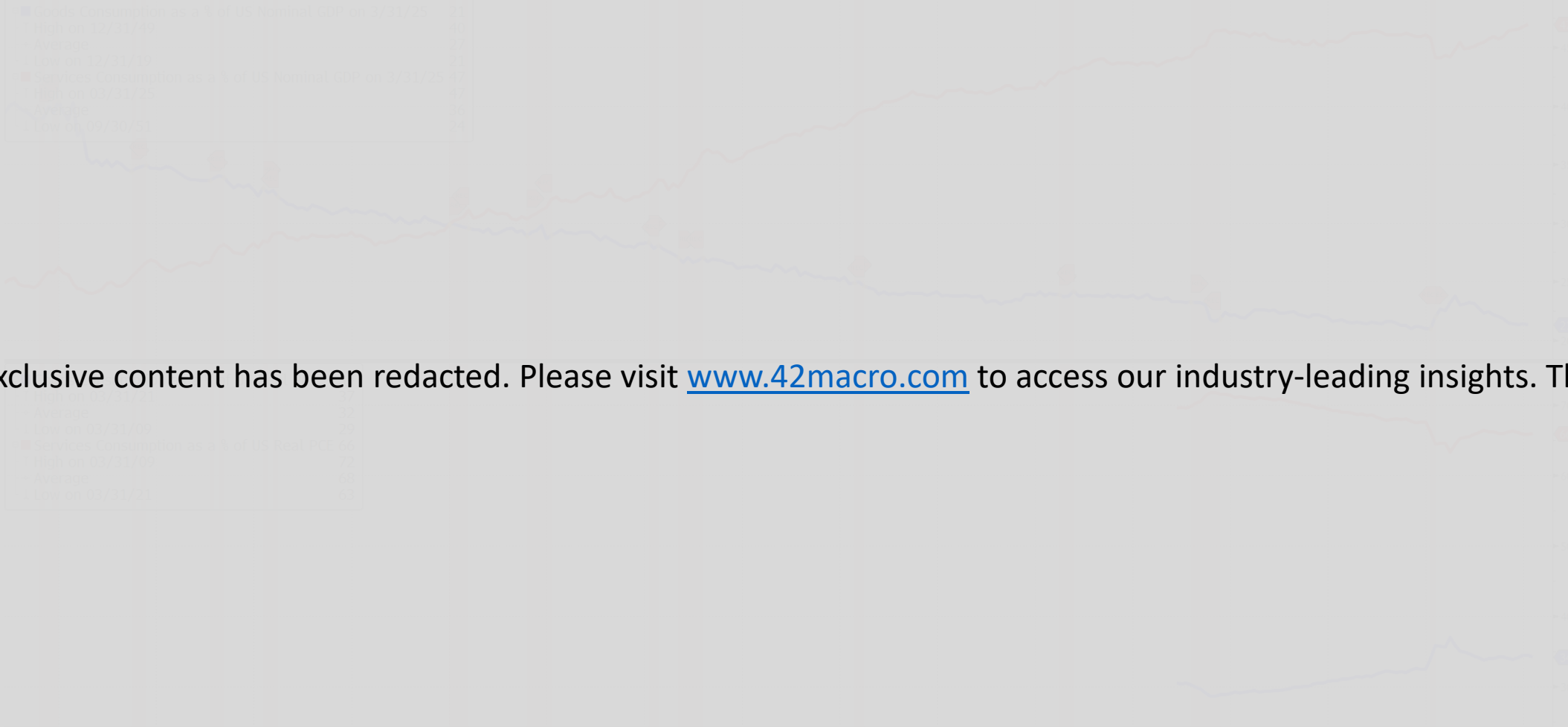
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# Reminder: Tariffs Impact Only A Small Portion Of Domestic Production, Which Suggests Consensus Is Likely Overestimating The Impact Of Tariffs On Growth



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# Reminder: Tariffs Impact Only A Small Portion Of Domestic Consumption, Which Suggests Consensus Is Likely Overestimating The Impact Of Tariffs On Inflation

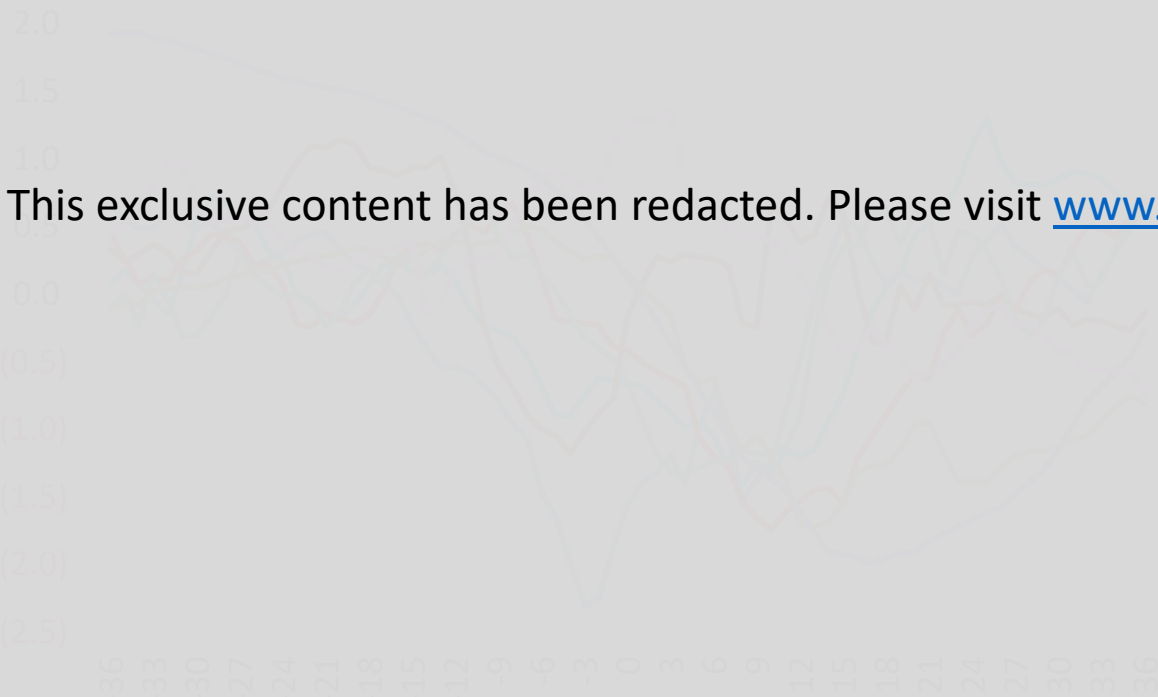


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# The 42 Macro Business Cycle Model Continues To Assess A Low Probability Of An Actual Recession In The US Economy Over A Medium-Term Time Horizon

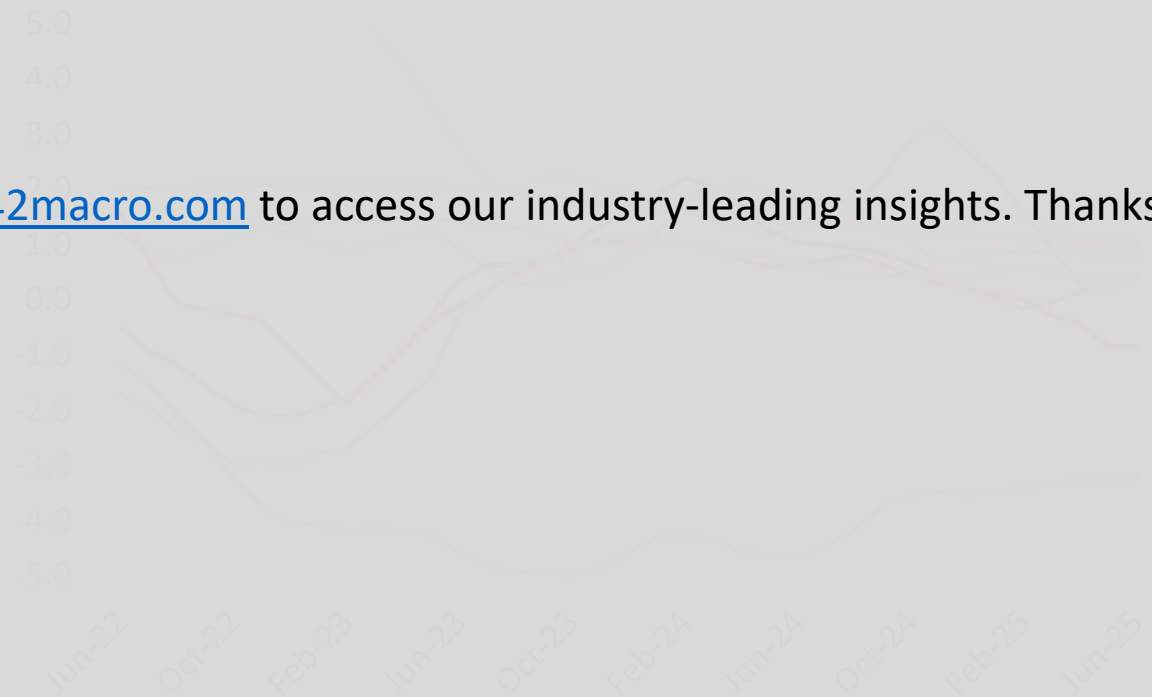
Median Trailing 10yr Delta-Adjusted Z-Score n-Months Before/After A Recession Begins

— Policy — Profits — Liquidity — Growth  
— Stocks — Employment — Credit — Inflation



Delta-Adjusted Z-Score Of Select Real And Financial Economy Cycles

— Policy — Profits — Liquidity — Growth  
— Stocks — Employment — Credit — Inflation



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Accelerating/Moderating Upturn: above-trend and increasing/decreasing. Accelerating/Moderating Downturn: below-trend and decreasing/increasing.

All underlying time series = 3MMA of YoY % change unless otherwise denoted. Z-Scores from 2020 onward are derived from 2015-19 trends.

“Delta-Adjusted” = the signs of countercyclical indicators (e.g., Fed Funds Rate, SLOS, Jobless Claims, Unemployment, Personal Savings Rate, Credit Delinquencies, etc.) are inverted to align them with the direction of the business cycle.

# Wall Street Consensus Continues To Assess A Middling Probability Of An Actual Recession In The US Economy Over A Medium-Term Time Horizon

The chart displays three data series over time from 2007 to 2024. The top series, '10-year Treasury Yield Curve', is a blue line with a high of 4.5% on 02/27/22 and a low of 1.25% on 09/08/09. The middle series, 'US Treasury Yield Curve by forward implied US recession probability', is a red line with a high of 4.5% on 02/27/22 and a low of 1.0% on 01/23/11. The bottom series, 'Wall Street Consensus by forward implied US recession probability', is a green line with a high of 100% on 04/26/24 and a low of 17% on 01/23/11. The chart shows significant volatility, with a major peak in the red line around 2020 and a sharp decline in the green line around 2023.

Series	High	Low
10-year Treasury Yield Curve	4.5% (02/27/22)	1.25% (09/08/09)
US Treasury Yield Curve by forward implied US recession probability	4.5% (02/27/22)	1.0% (01/23/11)
Wall Street Consensus by forward implied US recession probability	100% (04/26/24)	17% (01/23/11)

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# As Predicted, Consensus Growth Estimates Have Bottomed And Are Improving

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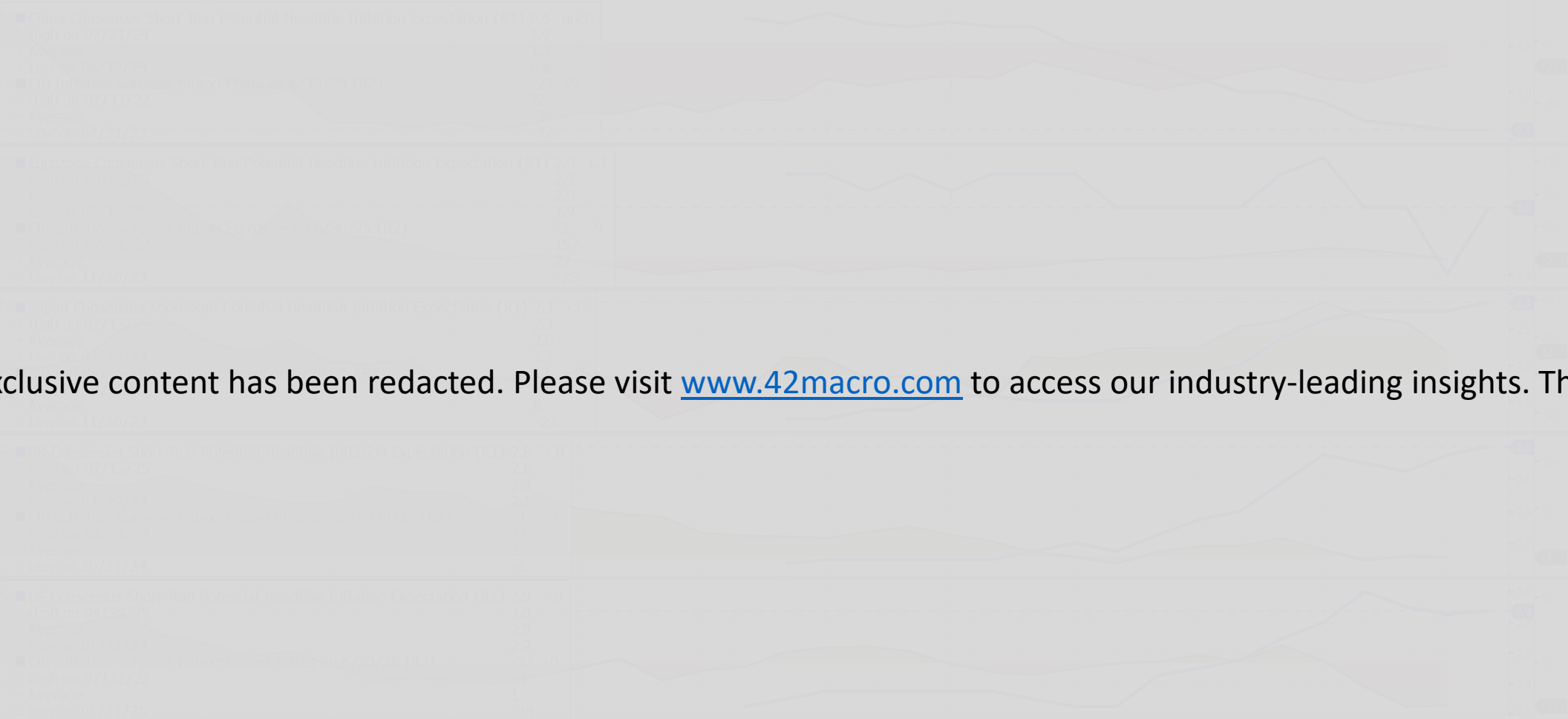
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Consensus Short-Run Potential Real GDP Growth Expectation = blended current year and next year estimate.

RISING Growth Expectations + POSITIVE Economic Surprises = OVERWEIGHT risk assets.

FALLING Growth Expectations + NEGATIVE Economic Surprises = UNDERWEIGHT risk assets.

# As Predicted, Consensus Inflation Estimates Have Peaked And Are Moderating



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Consensus Short-Run Potential Headline CPI Expectation = blended current year and next year estimate.

FALLING Inflation Expectations + NEGATIVE Inflation Surprises = OVERWEIGHT bonds.

RISING Inflation Expectations + POSITIVE Inflation Surprises = UNDERWEIGHT bonds.



# As Predicted, Consensus S&P 500 Sales Estimates Have Bottomed And Are Improving

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# Consensus S&P 500 Earnings Estimates Are Likely To Inflect Into An Uptrend Shortly

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# Key Takeaway: US Growth Is Currently Set Up To Generally Surprise Consensus Expectations To The Upside Over The Medium Term

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© 42 Macro LLC. Data Source: Bloomberg. Bottom-Up Macro Regime characteristics:

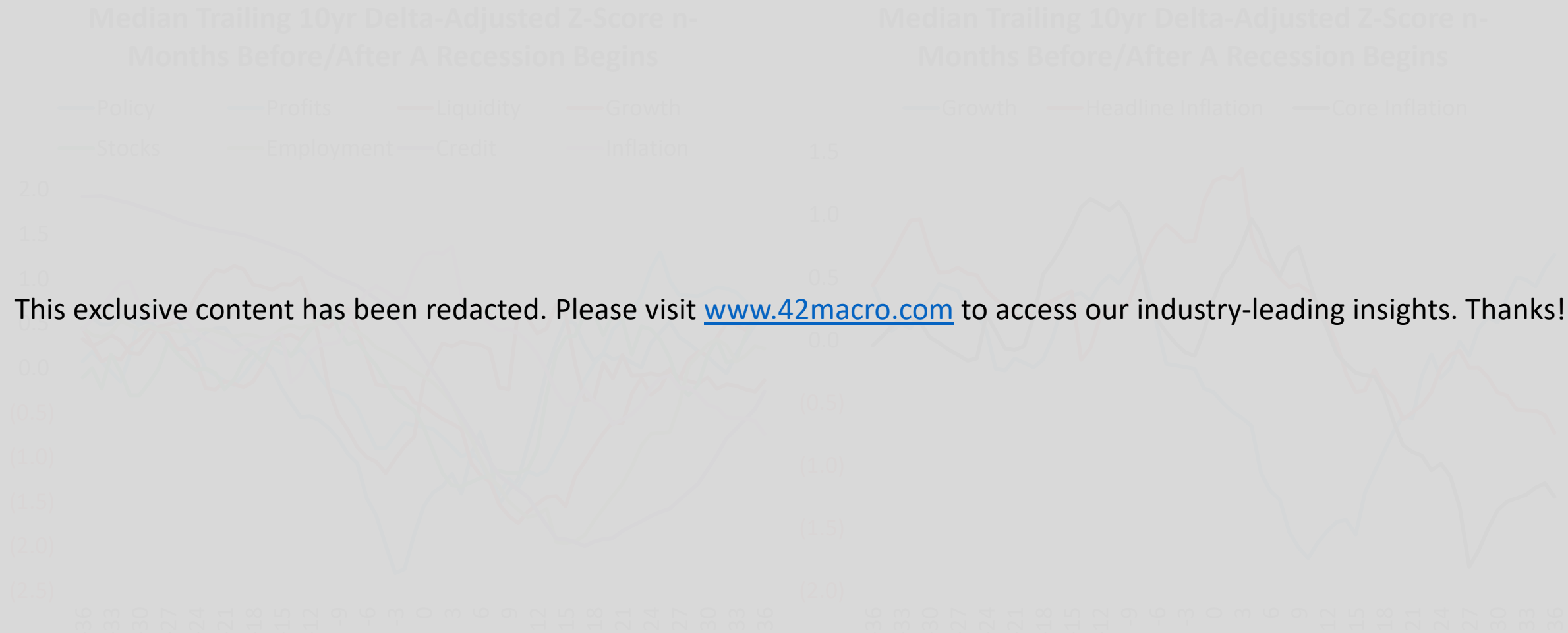
**G** = **GOLDILOCKS** = growth ↑ and inflation ↓; **R** = **REFLATION** = growth ↑ and inflation ↑;

**I** = **INFLATION** = growth ↓ and inflation ↑; and **D** = **DEFLATION** = growth ↓ and inflation ↓.

The 42 Macro **GRID** Model applies a proprietary methodology to smooth and nowcast quarterly GDP data on a monthly frequency.

# Left Tail Risks

# Reminder: Inflation Is The Most Lagging Indicator Of The Business Cycle And Is Unlikely To Return Durably To Trend Without An Actual Recession



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Accelerating/Moderating Upturn: above-trend and increasing/decreasing. Accelerating/Moderating Downturn: below-trend and decreasing/increasing.

All underlying time series = 3MMA of YoY % change unless otherwise denoted. Z-Scores from 2020 onward are derived from 2015-19 trends.

"Delta-Adjusted" = the signs of countercyclical indicators (e.g., Fed Funds Rate, SLOS, Jobless Claims, Unemployment, Personal Savings Rate, Credit Delinquencies, etc.) are inverted to align them with the direction of the business cycle.

# Headline CPI Is Unlikely To Return Durably To Trend Without An Actual Recession

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# Core CPI Is Unlikely To Return Durably To Trend Without An Actual Recession

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# PCE Inflation Is Unlikely To Return Durably To Trend Without An Actual Recession

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# Underlying Inflation Is Unlikely To Return Durably To Trend Without An Actual Recession

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# Our **Secular Inflation Model** Continues To Signal The Equilibrium Core PCE Inflation Rate Is In The High 2s/Low 3s—Implying Political Pressure On The Fed May Backfire

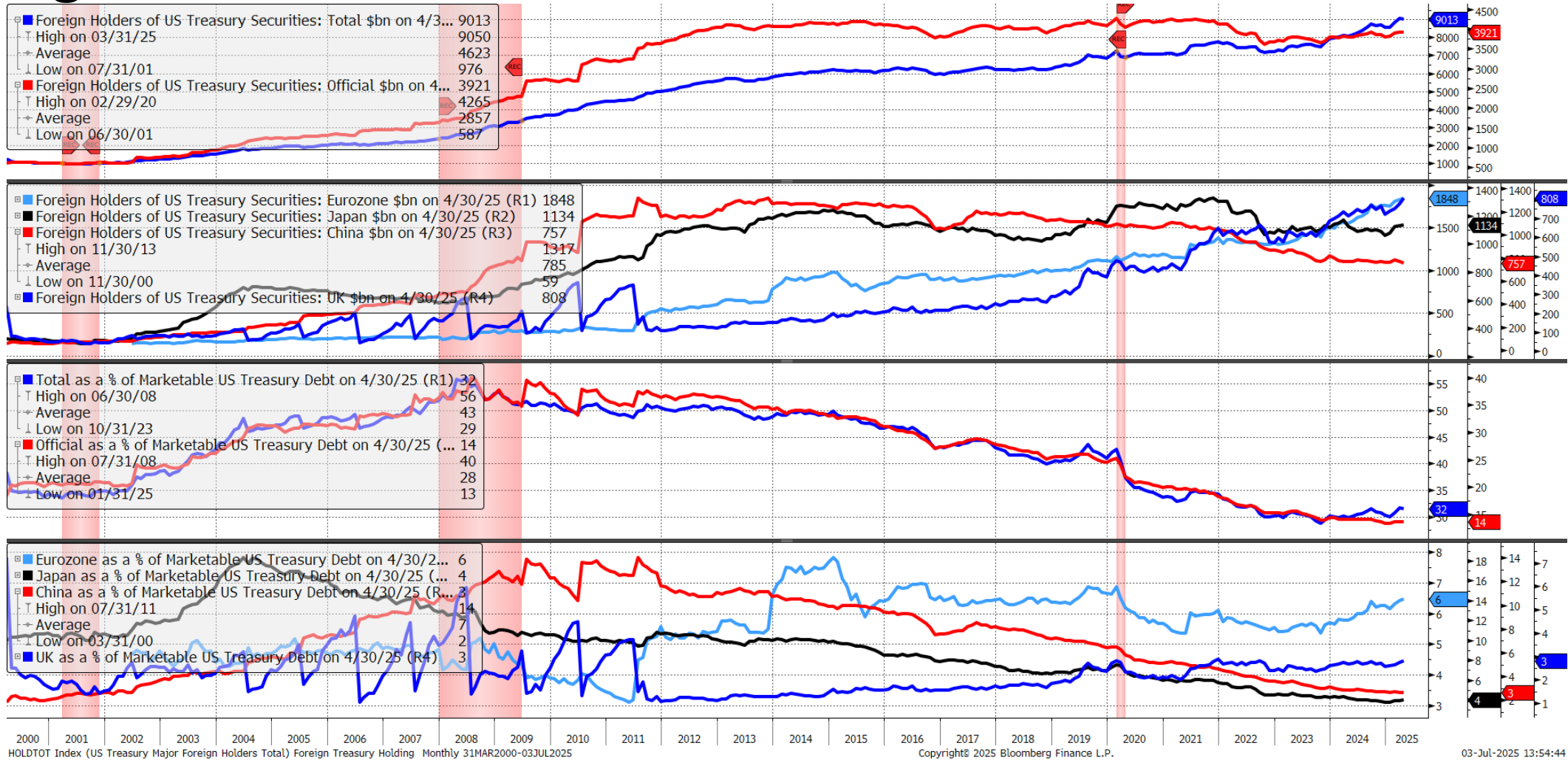
Automation: Capex/Employee Compensation (Latest Value = 27%)	2.8
Commodities: CRB Index (Latest Value = 50)	1.8
Deglobalization: Imports of Goods and Services as a % of GDP (Latest Value = 14%)	1.7
Demographics: Share of Population ≥ 65 Years Old (Latest Value = 17%)	(2.0)
Fed Reaction Function: Fed Balance Sheet as a % of GDP (Latest Value = 23%)	0.5
Fiscal Policy: Sovereign Fiscal Balance as a % of GDP (Latest Value = -6.3%)	0.2
House Prices: FHFA House-Price Index YoY (Latest Value = 4%)	10.0
Housing Supply: Household Formation/Existing Home Inventory (Latest Value = 0.8)	0.9
Income Inequality: Gini Coefficient (Latest Value = 0.49)	1.0
Labor Supply: Labor Force Participation Rate (Latest Value = 62.3%)	1.5
Money Supply: M2 YoY (Latest Value = 4.5%)	10.0
Populism: 25-54 Employment-to-Population Ratio (Latest Value = 81%)	1.0
Productivity: Output Per Hour of Nonfarm Labor YoY (Latest Value = 1.3%)	10.0
Public Debt: Federal Debt Held by the Public as a % of GDP (Latest Value = 106%)	6.0
Technology: NASDAQ 100 Market Cap/Russell 3000 Market Cap (Latest Value = 45%)	(5.0)
Wages: Employment Cost Index YoY (Latest Value = 3.6%)	3.8
West Village-Montauk Effect: Checkable Deposits & Currency as a % of Total Household Assets (Latest Value = 5%)	10.4
Mean Z Score	1.4
Weighted Z Score	1.0
2010-19 Trend of Core PCE YoY	1.6%
2020-29 Trend Projection: Mean Z Score Model	2.4%
2020-29 Trend Projection: Weighted Z Score Model	3.0%
2020-29 Trend of Core PCE YoY	2.4%

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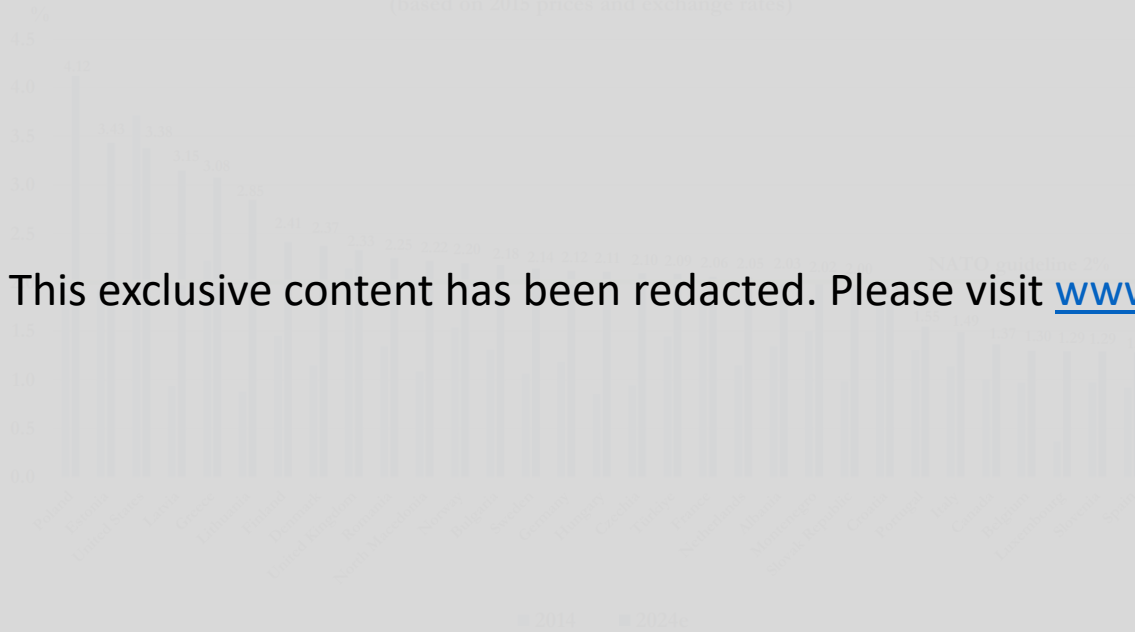
$A \leq [3\sigma] \Delta$  = modest inflationary or disinflationary pressure.  $A \geq [3\sigma] \Delta$  = meaningful inflationary or disinflationary pressure.  
The 42 Macro Secular Inflation Model interpolates the normalized change of key indicators upon the underlying trend of Core PCE inflation on a raw and weighted basis. **Bold** = highest weighted features.

# Reciprocal Tariff Negotiations May Backfire Too Given That Foreign Creditors Own A Third Of Marketable US Treasuries



# Europe's Re-Militarization Represents A Durable Negative Demand Shock For Treasury Debt

Graph 4 : Defence expenditure as a share of GDP (%)  
(based on 2015 prices and exchange rates)



Graph 3 : Defence expenditure as a share of GDP and equipment expenditure as a share of defence expenditure 2024e



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# Eurozone Bond Yields Are High And Rising Despite 200bps Of Rate Cuts By The ECB, Dragging The Euro Up Alongside Them

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Series	High	Low	Average
ECB benchmark policy rate (in % (R1))	4.00	1.00	1.46
Top-weighted Average Eurozone Nominal Bond Yield (R1)	1.00	4.50	2.53
ECB Balance Sheet Total Assets (in TRN)	2.2	4.2	3.2

# Japan's Policy Normalization Represents A Durable Negative Demand Shock For Treasury Debt

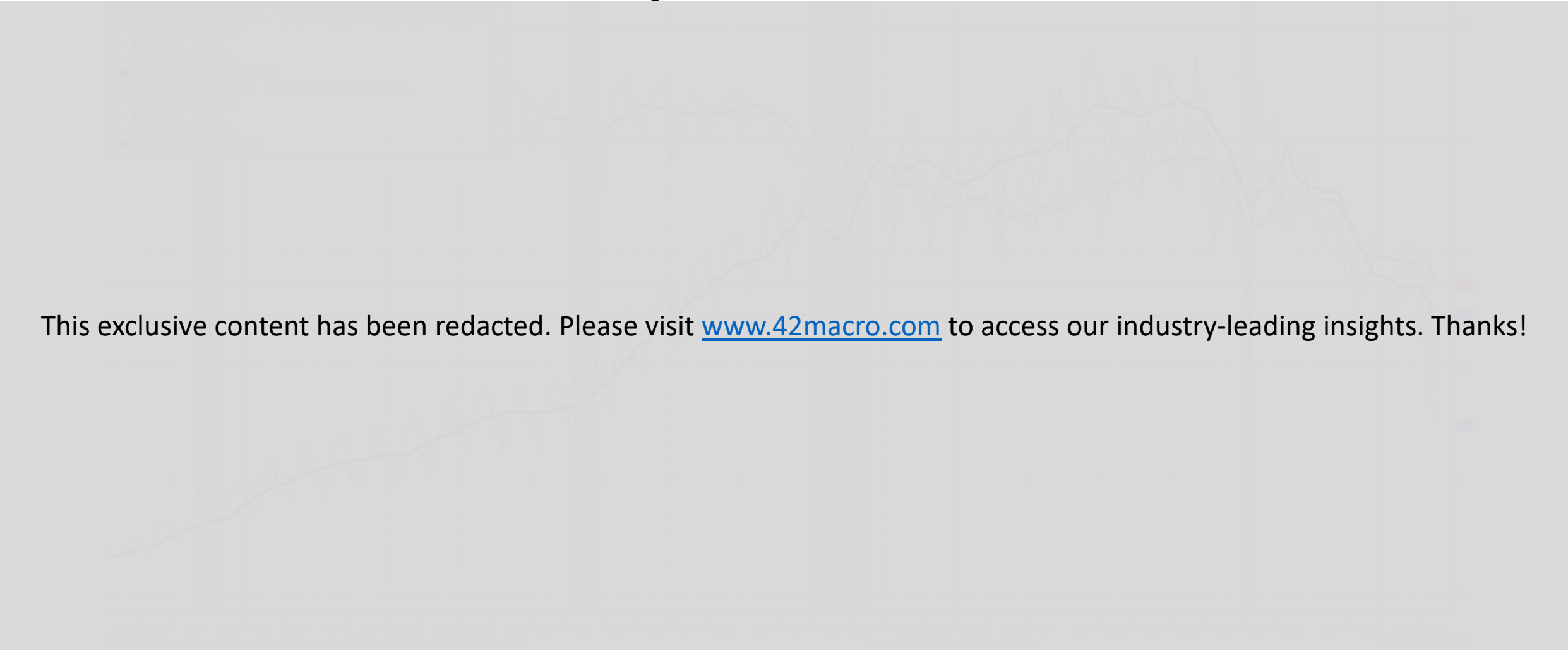
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■ Fed's benchmark policy rate (R1)	5.25
High on 12/11/00	5.25
Average	4.37
Low on 01/21/08	0.00
■ 10yr Treasury Government Bond Yield (R2)	6.75
High on 09/28/00	6.75
Average	4.32
Low on 08/25/09	0.00
■ Fed's Balance Sheet Total Assets (in bn of \$) (R3)	3000
High on 12/31/20	3000
Average	1200
Low on 01/30/97	0
USD/JPY Spot (R4)	145
High on 01/29/73	368
Average	106
Low on 01/25/13	74

# Japan Durably Escaping Deflation Is The Least Talked-About Key Global Macro Force In The World

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# China's Strategic Decoupling Represents A Durable Negative Demand Shock For Treasury Debt



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# The PBOC Continues To Push On A String And Likely No Longer Has Yuan Devaluation To Lean On When China's Economy Slows

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# These Durable Negative Demand Shocks Come Amid Peak Crowding Out Of Domestic And Global Capital Markets By The US Treasury

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# Investors Likely Own More Treasuries Than What Can Be Considered A Stable Equilibrium Between Price-Sensitive Buyers And Price-Insensitive Buyers

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# We Were Correct To Have Serious Doubts Regarding DOGE’s Ability To Achieve Significant Deficit Reduction—Especially Once Tax Cuts Are Factored In

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# Even If DOGE Cuts 100% Of Non-Defense Discretionary Spending AND It Has No Negative Impact Upon The Economy And Tax Receipts, That Still Won't Fix The Deficit Problem

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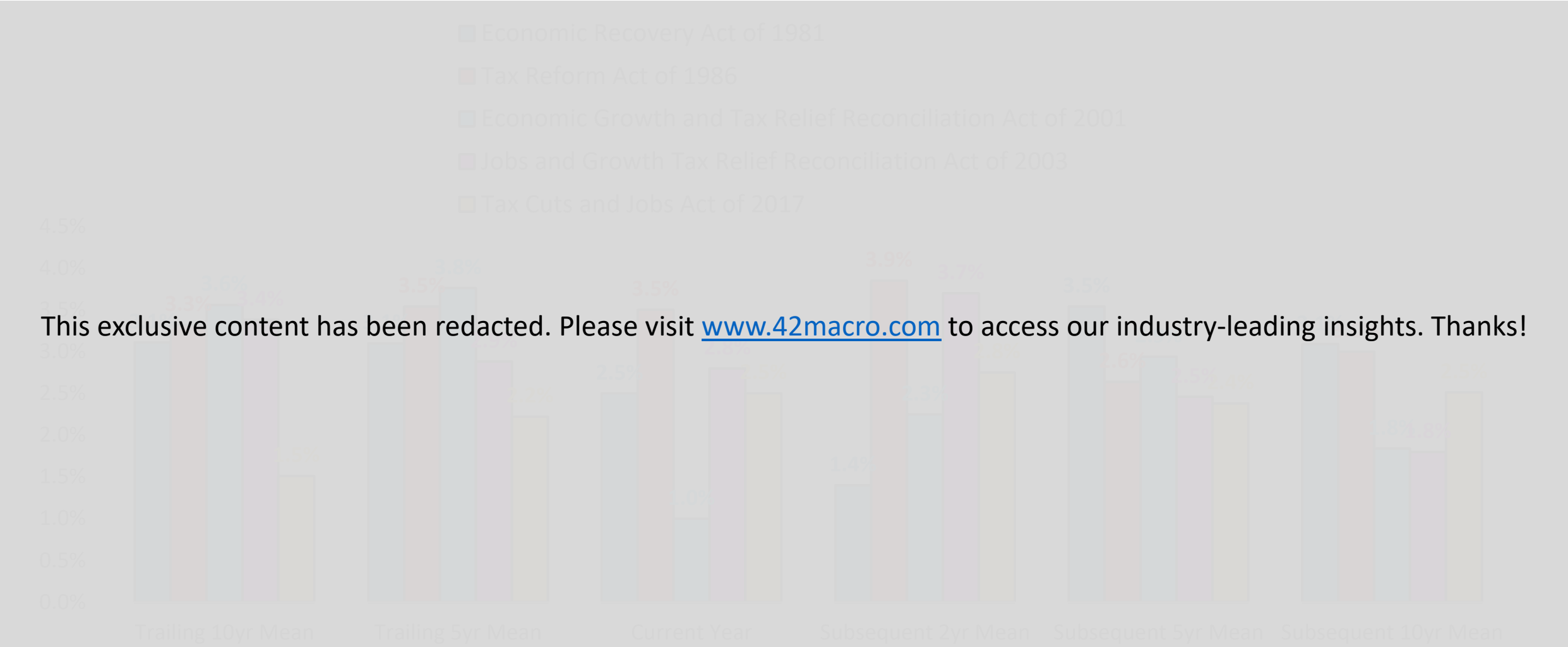
© 42 Macro LLC. Data Source: Bloomberg, Social Security Administration.

Feb-25 data. Feb-25 = the peak of Annualized Nominal Calendar YTD Fiscal Expenditures.

The **highlighted** categories account for ~85% of Federal Revenue and ~90% of Federal Expenditures.

FFTT "True Interest Expense" = Medicare + National Defense + Net Interest + Social Security.

# As Much As We Would Prefer Secretary Bessent’s Lullabies To Be True, There Is Scant Evidence Of Republican Tax Cuts Catalyzing Durable Positive Shocks to Growth



# There Is Abundant Evidence Of Republican Tax Cuts Catalyzing Durable Positive Shocks To The Federal Budget Deficit

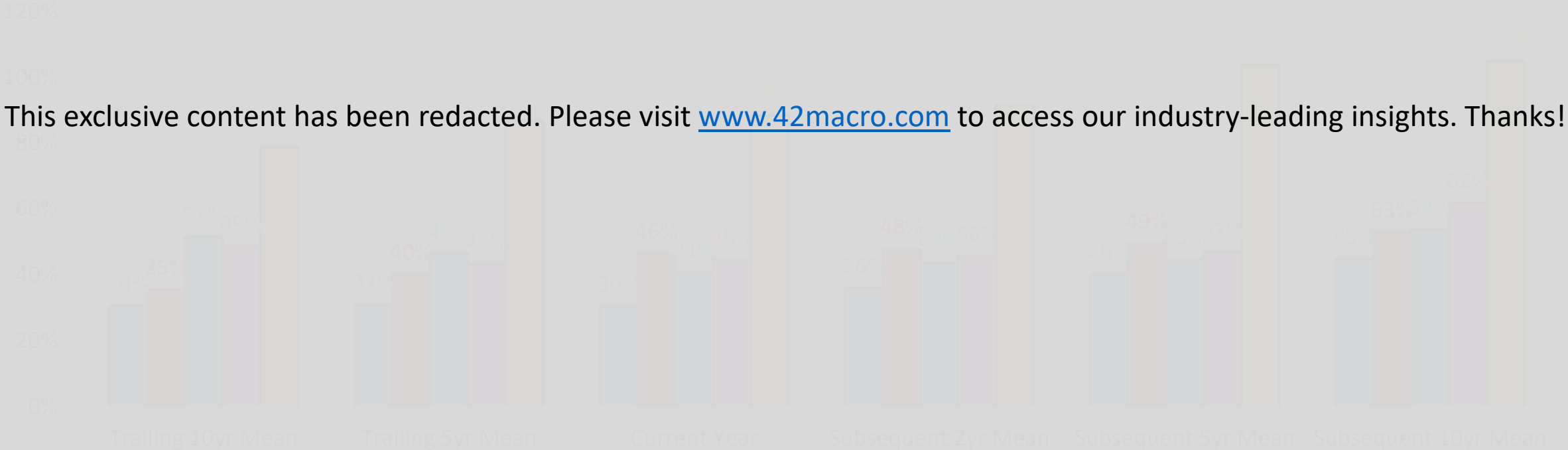
- Economic Recovery Act of 1981
- Tax Reform Act of 1986
- Economic Growth and Tax Relief Reconciliation Act of 2001
- Jobs and Growth Tax Relief Reconciliation Act of 2003
- Tax Cuts and Jobs Act of 2017

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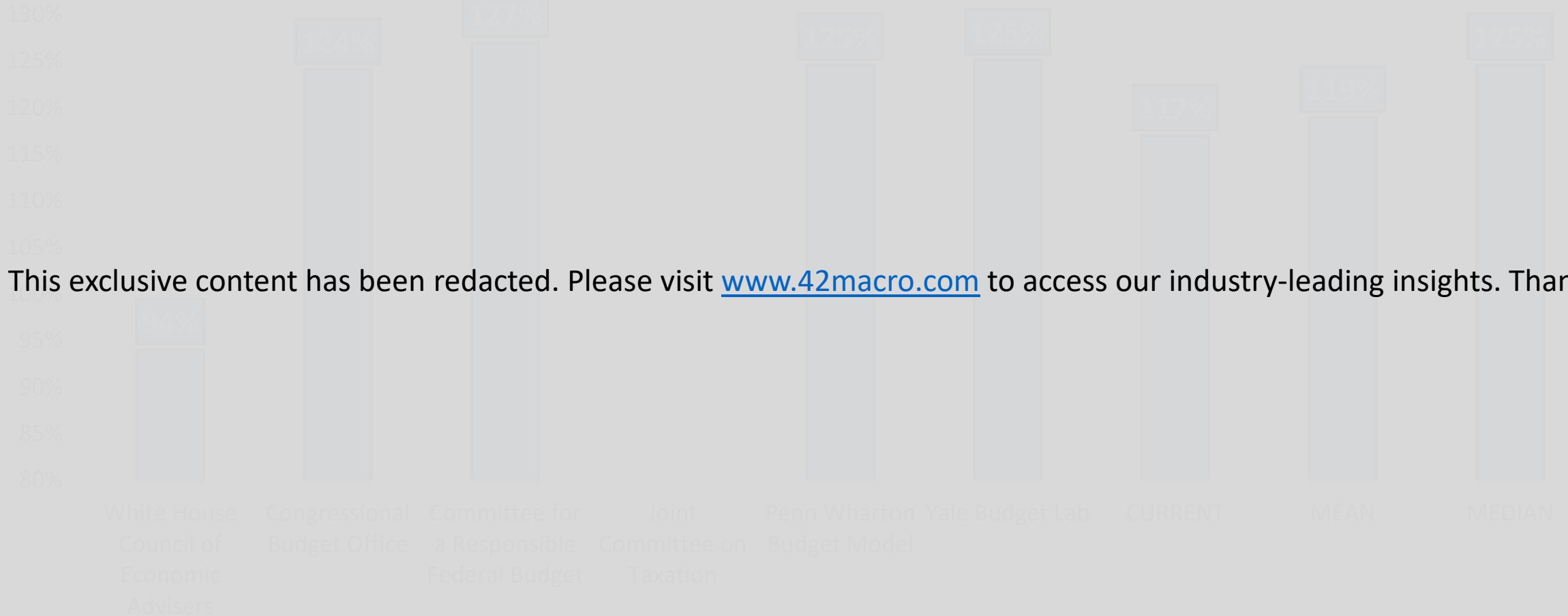
# There Is Abundant Evidence Of Republican Tax Cuts Catalyzing Durable Positive Shocks To The Federal Debt

- Economic Recovery Act of 1981
- Tax Reform Act of 1986
- Economic Growth and Tax Relief Reconciliation Act of 2001
- Jobs and Growth Tax Relief Reconciliation Act of 2003
- Tax Cuts and Jobs Act of 2017



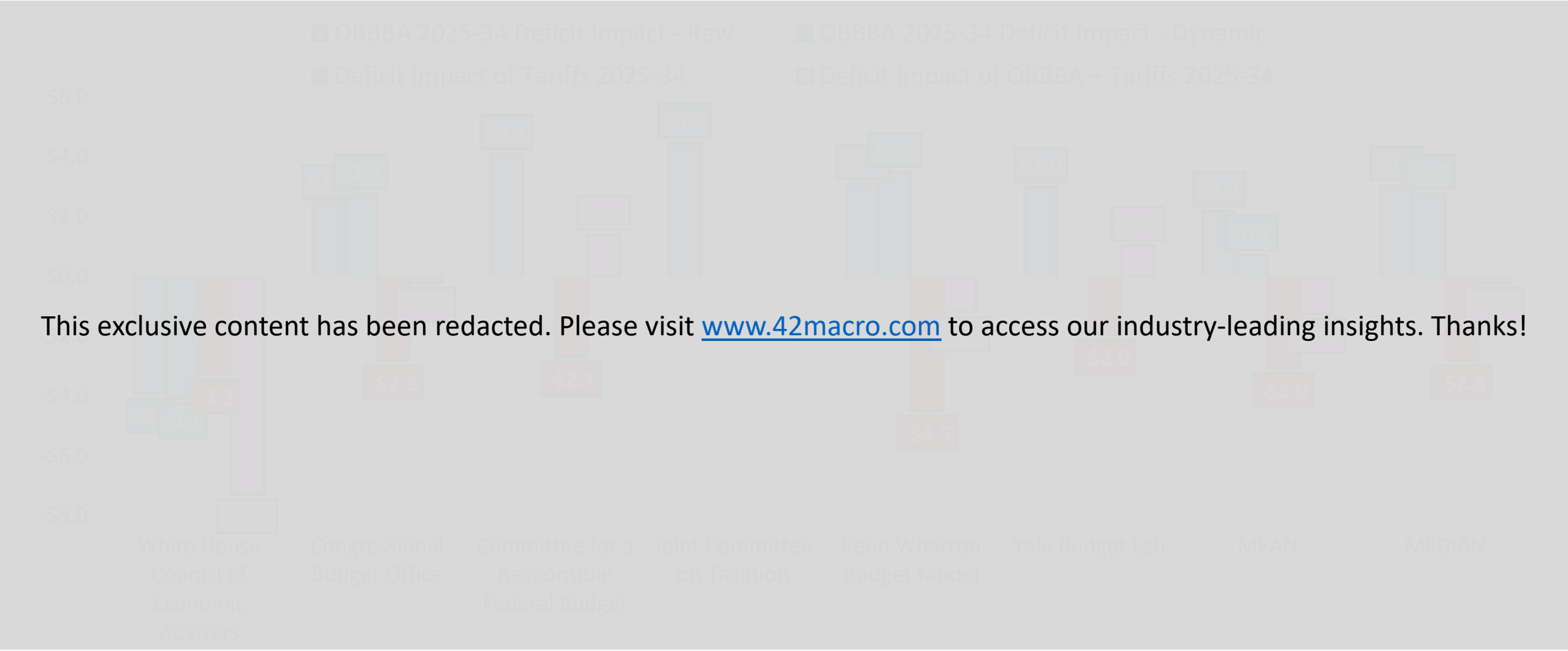
# As Much As We Would Prefer Stephen Miran's Lullabies To Be True, The Thought Of Levering Up To Grow Our Way Out Of Our Fiscal Mess Seems Preposterous To Every Credible Source Outside The White House

Projected 2034 Debt/GDP Ratio



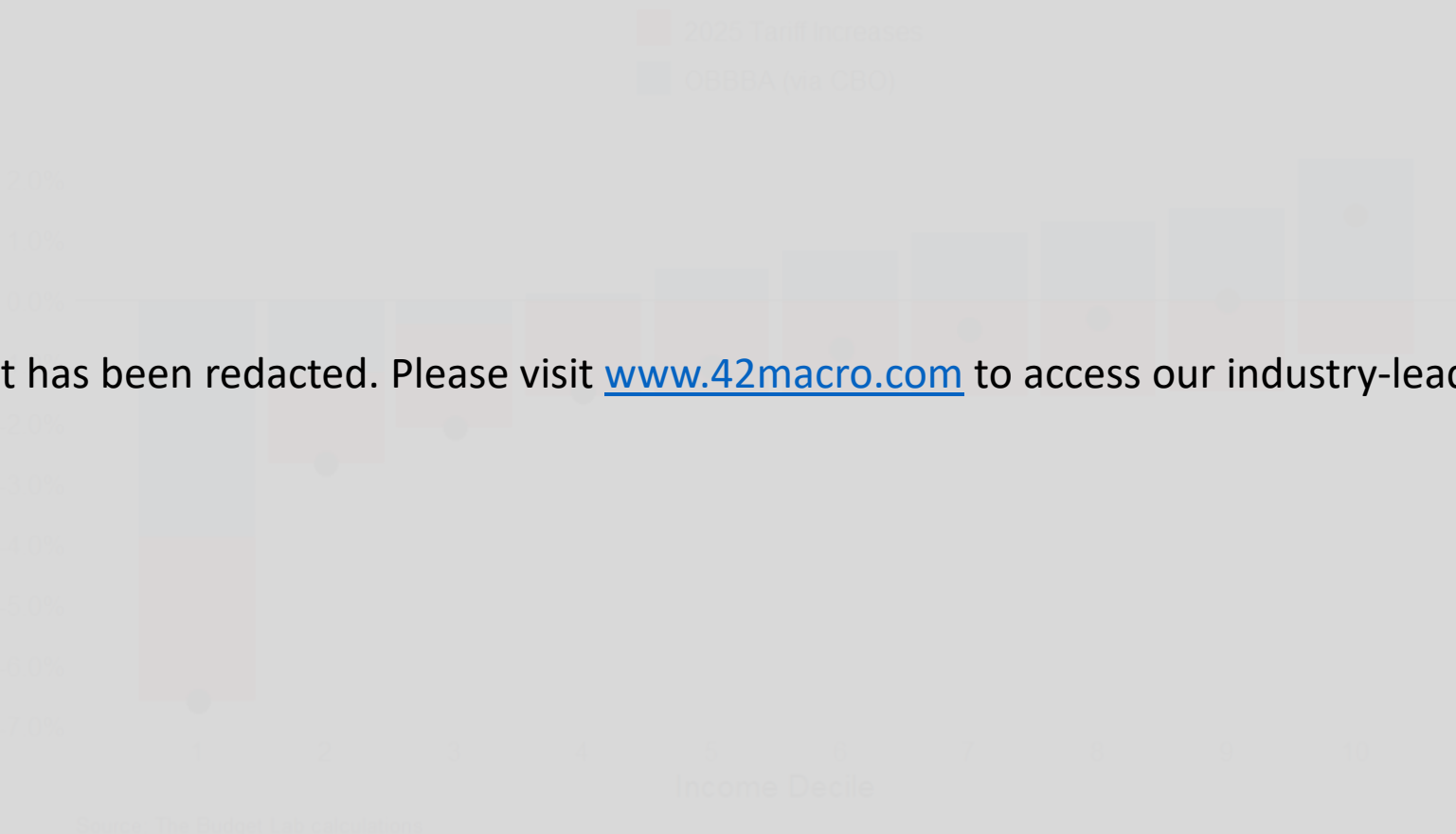
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# In Fairness To The Trump 2.0 Administration, Tariffs Are Likely To Remain A Powerful Force For Offsetting The Cost Of The One Big [Ugly] Bill



# Smoot-Hawley-Level Tariff Rates Are A Hilariously Regressive Tool To Finance Tax Cuts That Largely Benefit The Wealthy And Corporations

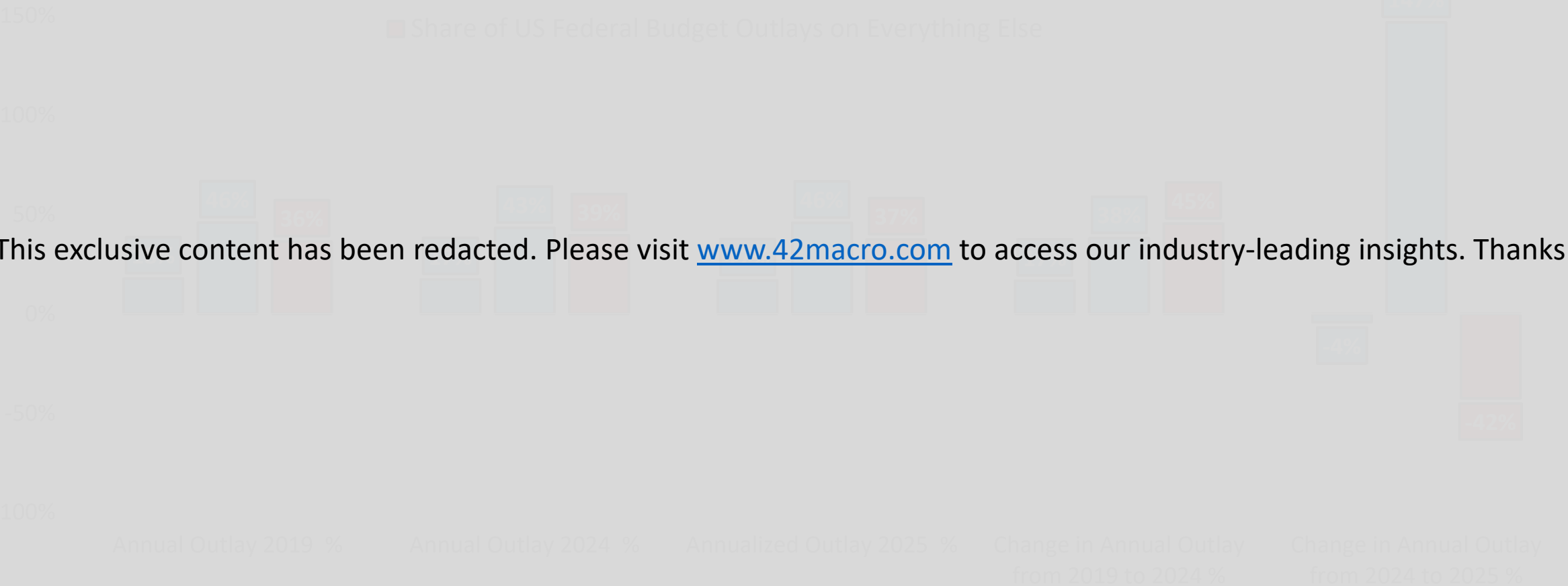
Figure 1. Combined Effects of the House-Passed OBBBA and Tariffs  
Average annual change in household resources as a percentage of current law income after taxes (2020–2034)



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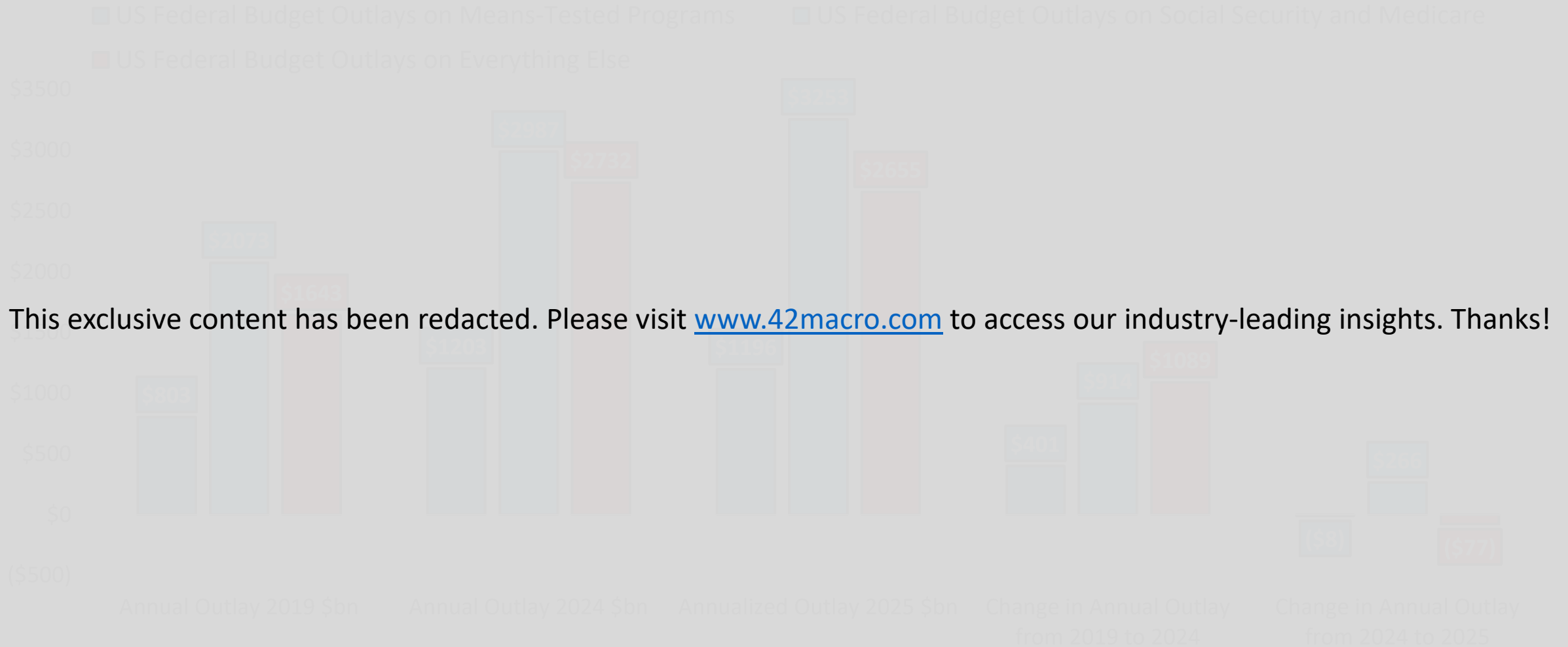
# Slashing Benefits For Needy Families As A Source Of Funds To Finance Tax Cuts For Rich People Won't Fix The "K-Shaped Society" Problem Either

■ Share of US Federal Budget Outlays on Means-Tested Programs  
■ Share of US Federal Budget Outlays on Social Security and Medicare  
■ Share of US Federal Budget Outlays on Everything Else



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# In Fact, The Pivot From Paradigm B To Paradigm C Not Only Preserves The “K”—It Exacerbates It

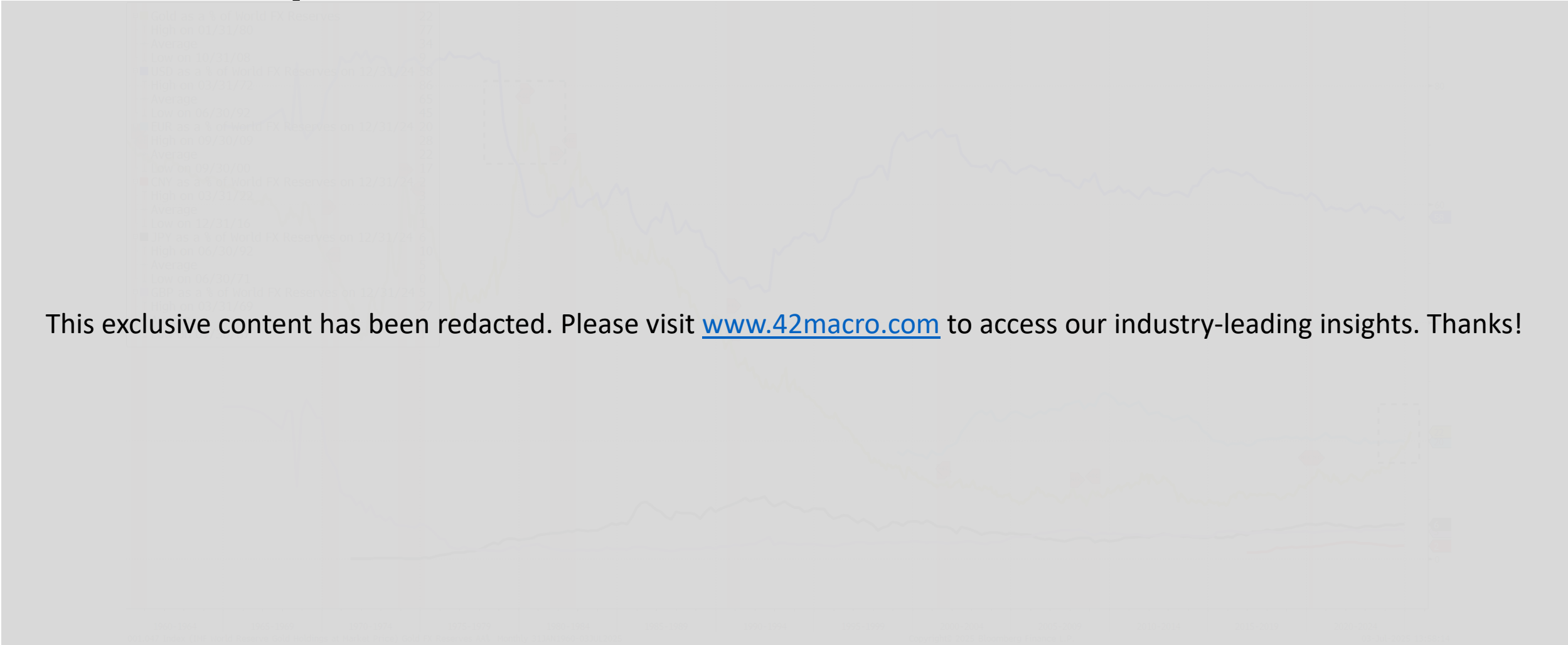


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**Key Takeaway:** Investors Are Likely Underestimating The Structural Risks Associated With Not “Growing Our Way The Debt Problem” (Per Secretary Bessent) And Preserving The “K” (Think: Jeffries-AOC 2028)

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# Bonus: What Is Structurally Bearish For US Treasury Bonds Is Structurally Bullish For Gold



# If You're Worried About Gold, Don't Be; Central Banks Intend To Buy Gold At The Fastest Pace In At Least Eight Years Over The NTM

Q: How do you expect your institution's gold reserves to change over the next 12 months?

■ Increase ■ Remain Unchanged ■ Decrease ■ Don't Know



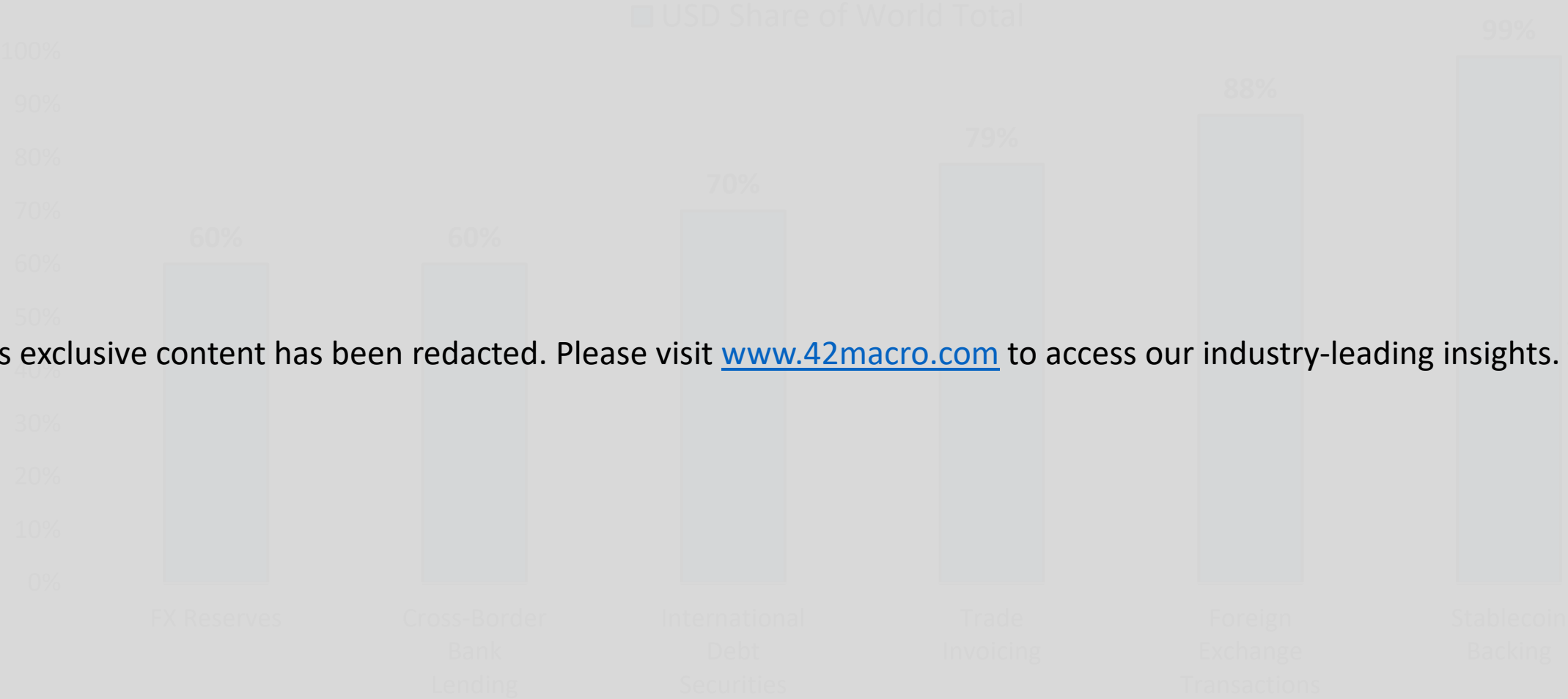
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Source: YouGov, World Gold Council

Note: 72 central banks surveyed, 14 advanced economy and 58 emerging/developing economy. "Don't know" removed as an option from 2023 onwards.

Bloomberg

# The Global Economy Is Over-Exposed To US Dollars In An Increasingly Fragmented, Multi-Polar World



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# The Reacceleration In The Growth Of The PBOC's Balance Sheet Was Supportive Of The Uptrend In Global Liquidity

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# The Acceleration In Chinese Liquidity Was Supportive Of The Uptrend In Global Liquidity

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# Global Liquidity Has Grown Double Digits On A 3mo SAAR Basis In Each Of The Previous Four Months—The Best Four-Month Stretch Since Late-2022/Early-2023

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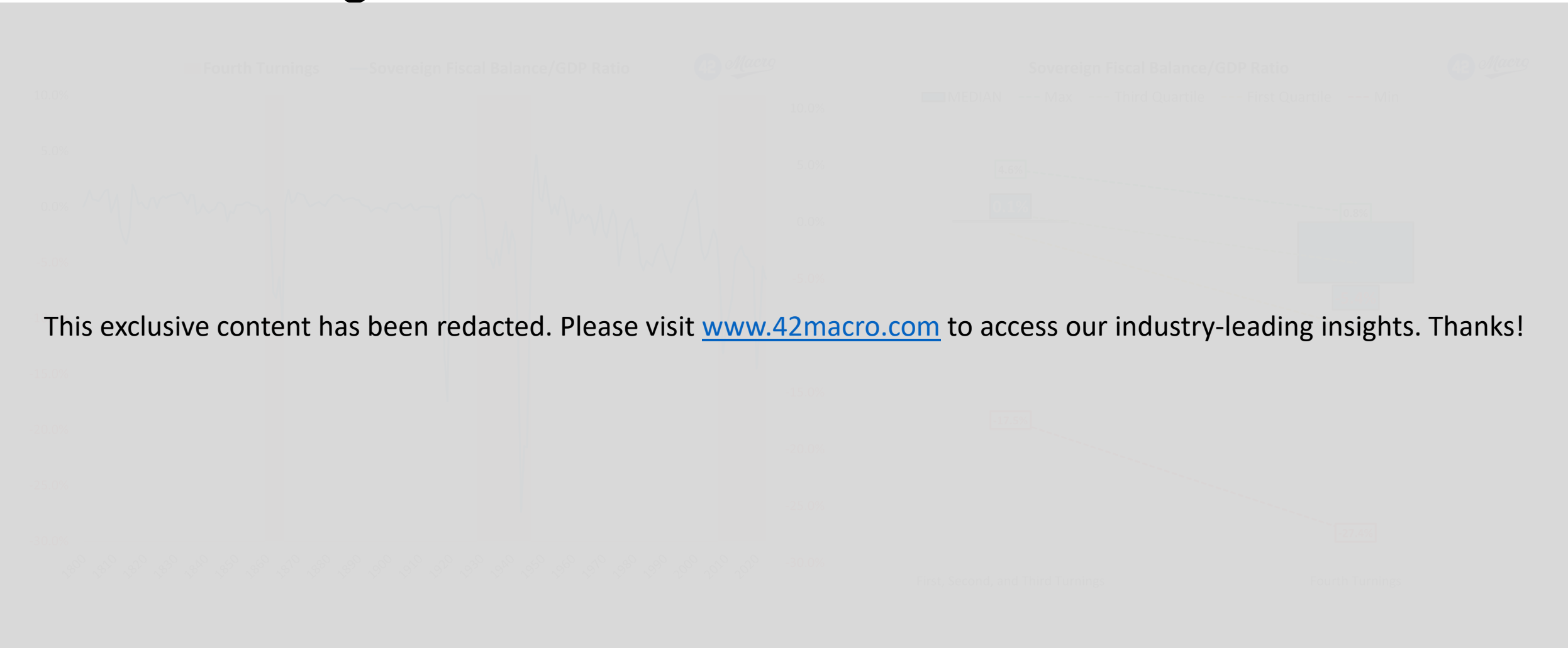
# Appendix: Investing During A Fourth Turning Regime

# Key Fourth Turning Fiscal Policy Risks: Explosive Growth In Sovereign Deficits, Debt, The Size Of Government, And The Cost To Finance The Government

Indicator	Fourth Turning Median	Fourth Turning Data
Sovereign Deficit/GDP Ratio	↑	↑
Sovereign Debt/GDP Ratio	↑	↑
Government Expenditures/GDP Ratio	↑	↑
Government Interest Expense/GDP Ratio	↑	↑

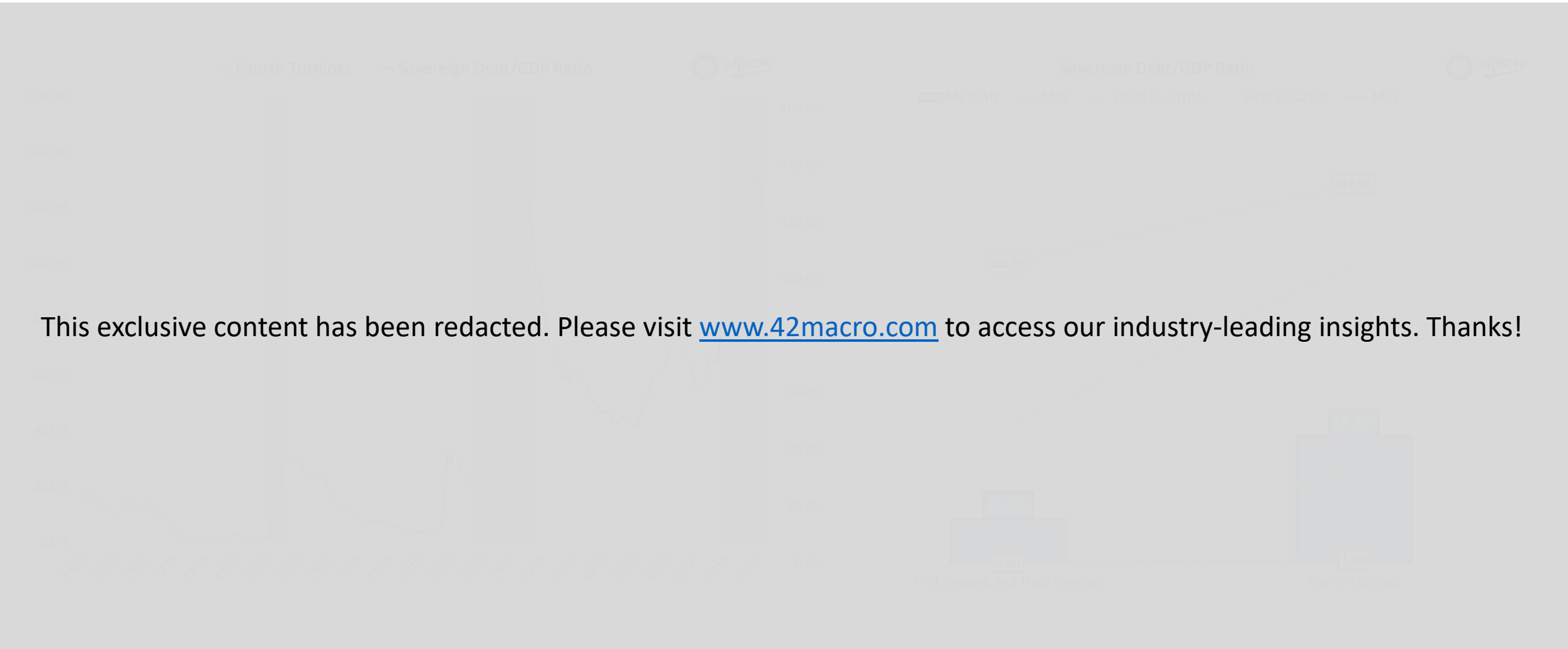
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# The Sovereign Fiscal Balance Tends To Deteriorate Sharply During Fourth Turnings



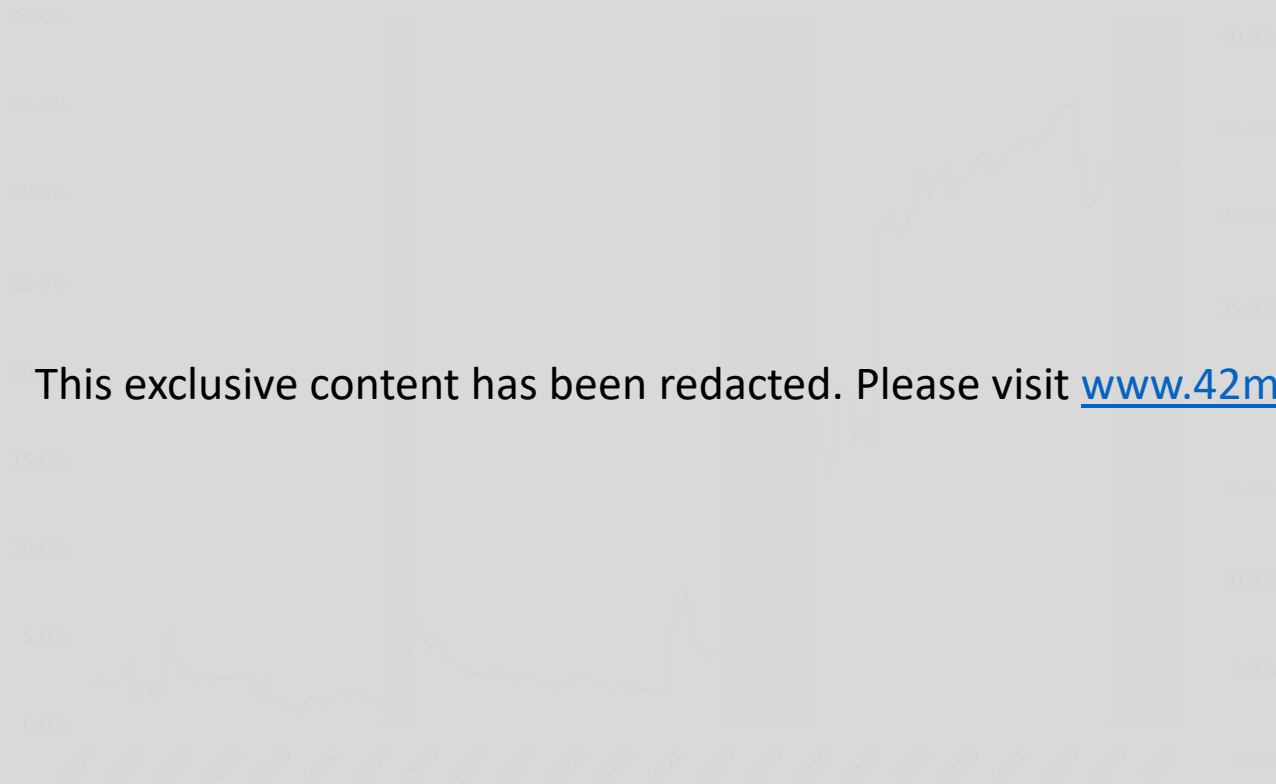
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# Sovereign Debt Tends To Increase Sharply During Fourth Turnings



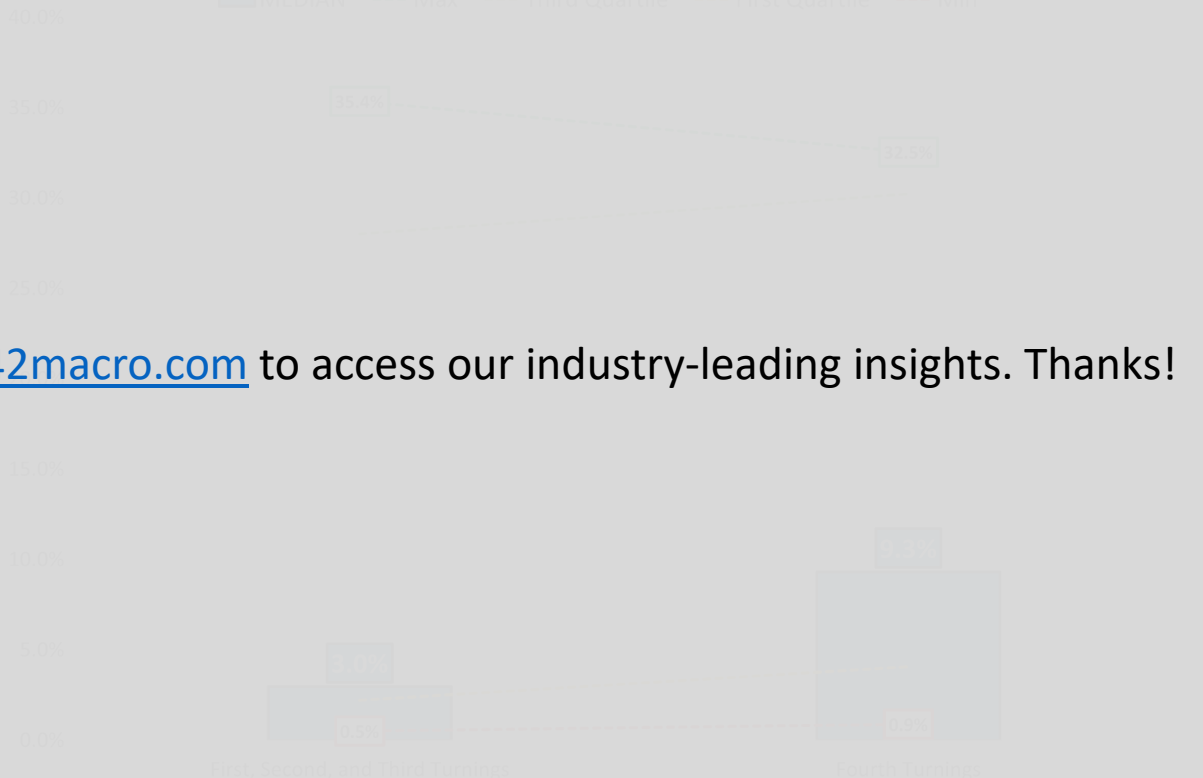
# Government Revenues Tend To Increase Sharply During Fourth Turnings

Fourth Turnings — Government Revenues/GDP Ratio



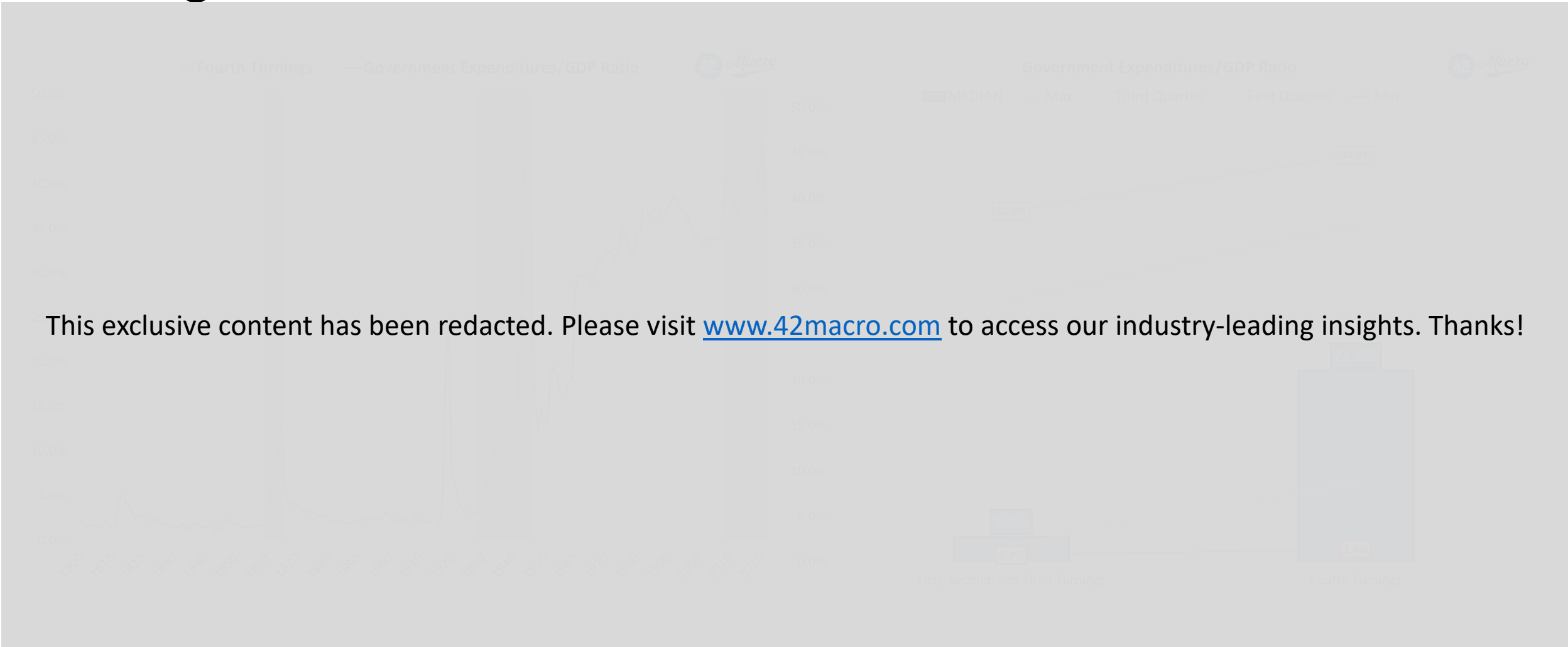
Government Revenues/GDP Ratio

MEDIAN Max Third Quartile First Quartile Min



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# Government Expenditures Tend To Increase Sharply During Fourth Turnings



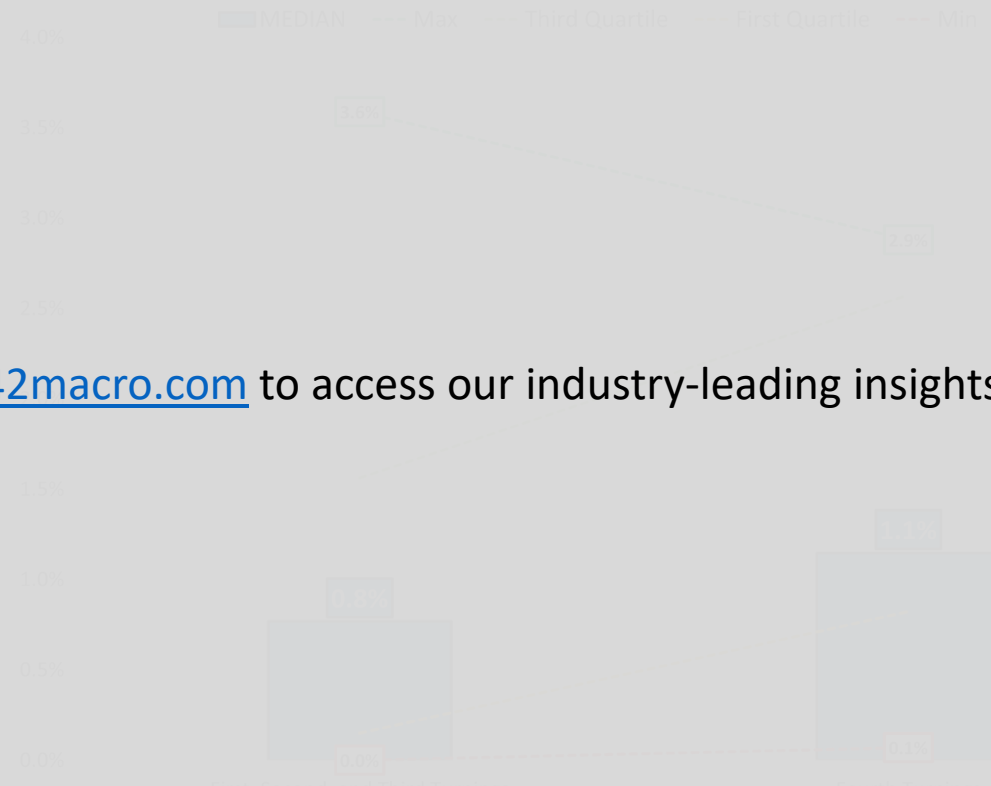
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# The Public Interest Burden Tends To Increase Sharply During Fourth Turnings

Fourth Turnings — Government Interest Expense/GDP Ratio



Government Interest Expense/GDP Ratio



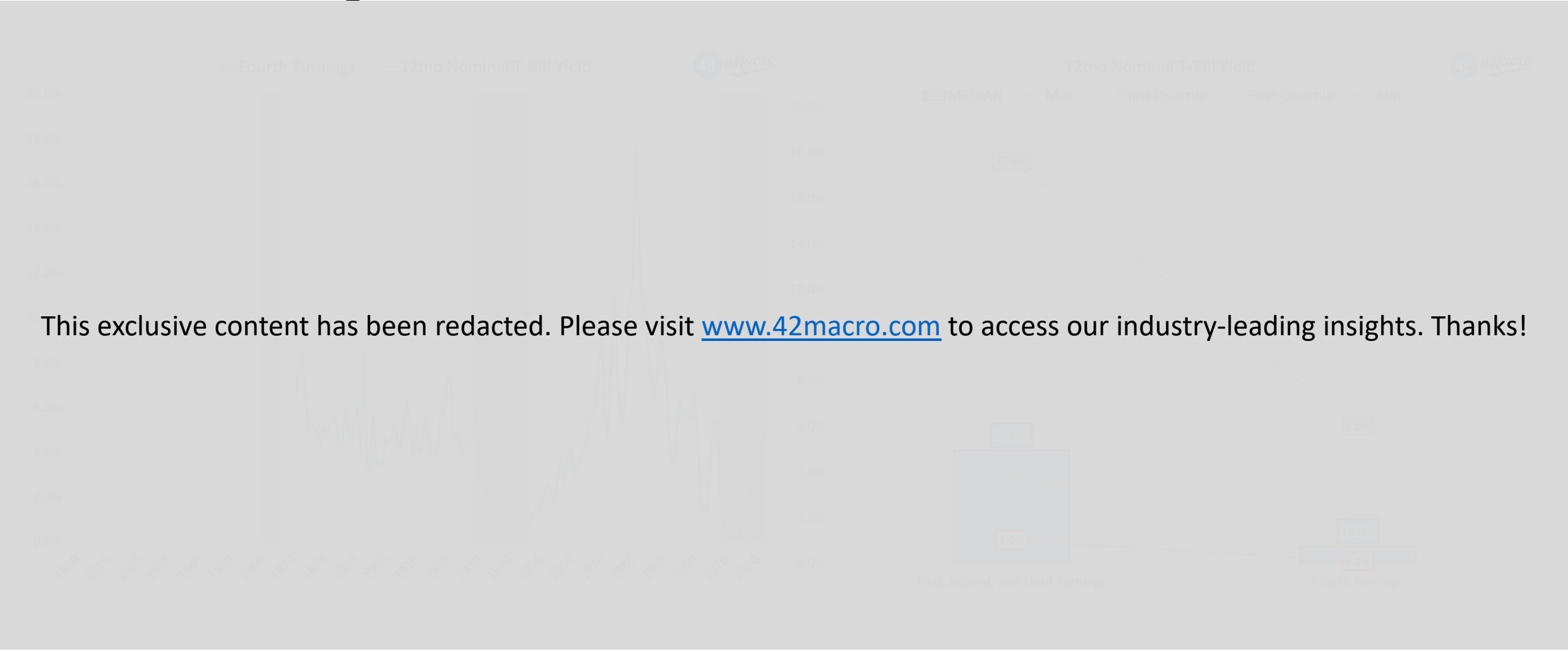
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# Key Fourth Turning Monetary Policy Risks: Financial Repression And Monetary Debasement

Monetary Policy		
Metric	Fourth Turning Median vs. Baseline	Consistent Fourth Turning Delta?
Nominal 12mo T-Bill Yield	↓	n/a
Real 12mo T-Bill Yield	↓	↓
Real 10yr Yield	↓	↓
USD/Gold YoY	↑	↑
Broad Money Supply YoY	↑	↑

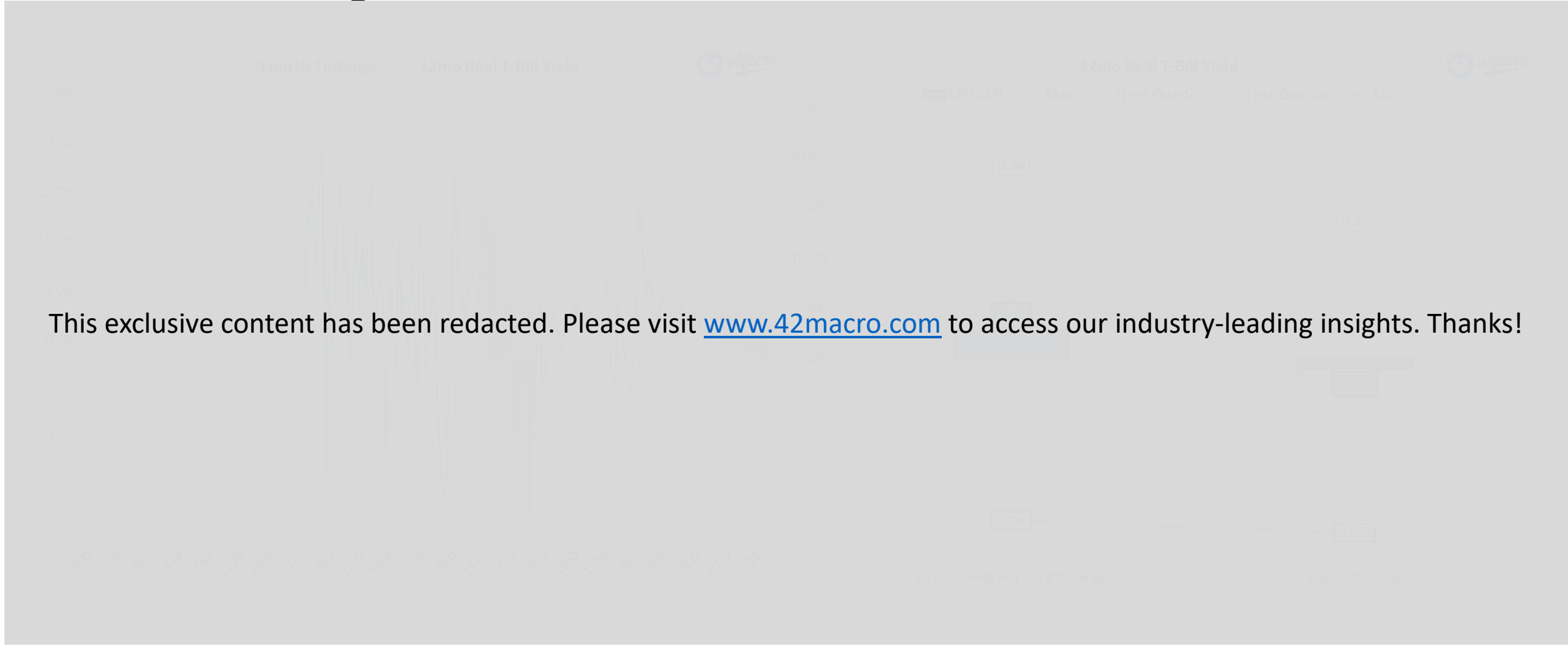
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# The 12mo Nominal T-Bill Yield Tends To Be Relatively Weak During Fourth Turnings



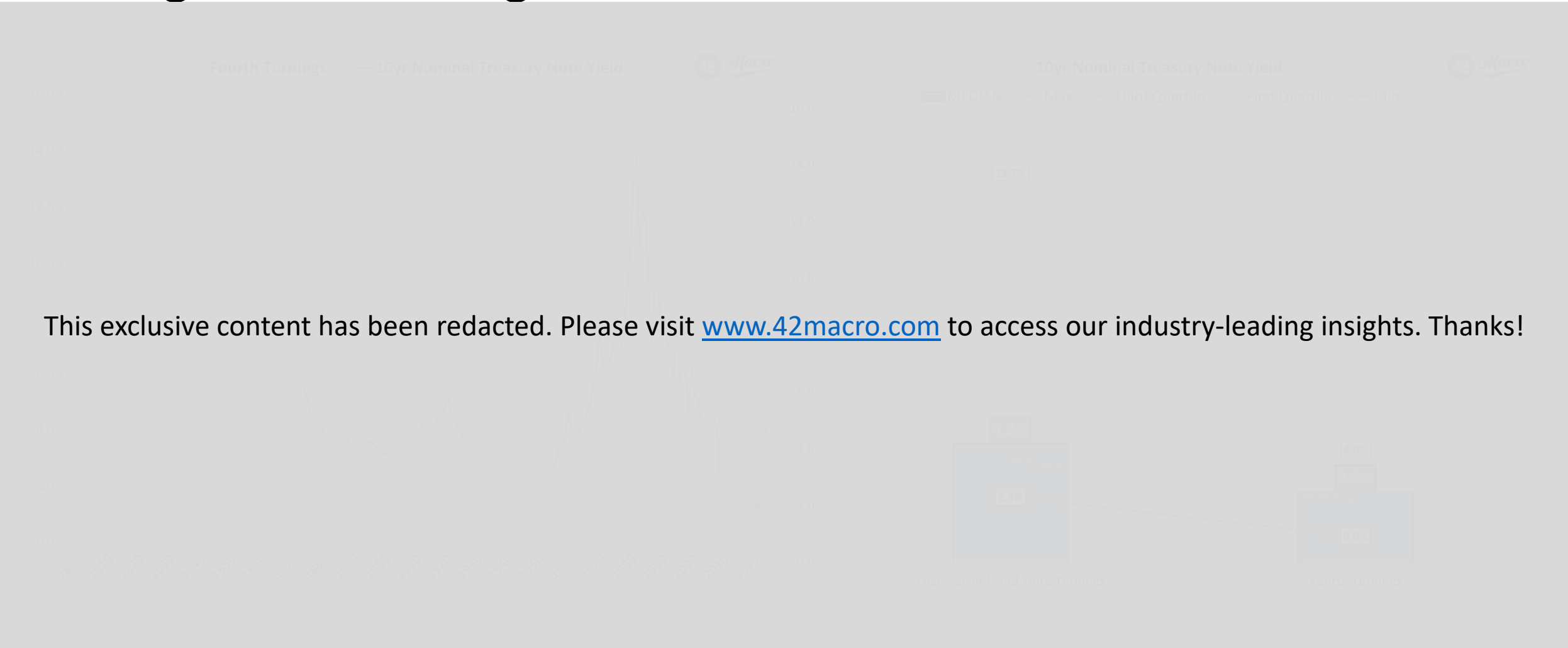
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# The 12mo Real T-Bill Yield Tends To Decline Substantially During Fourth Turnings

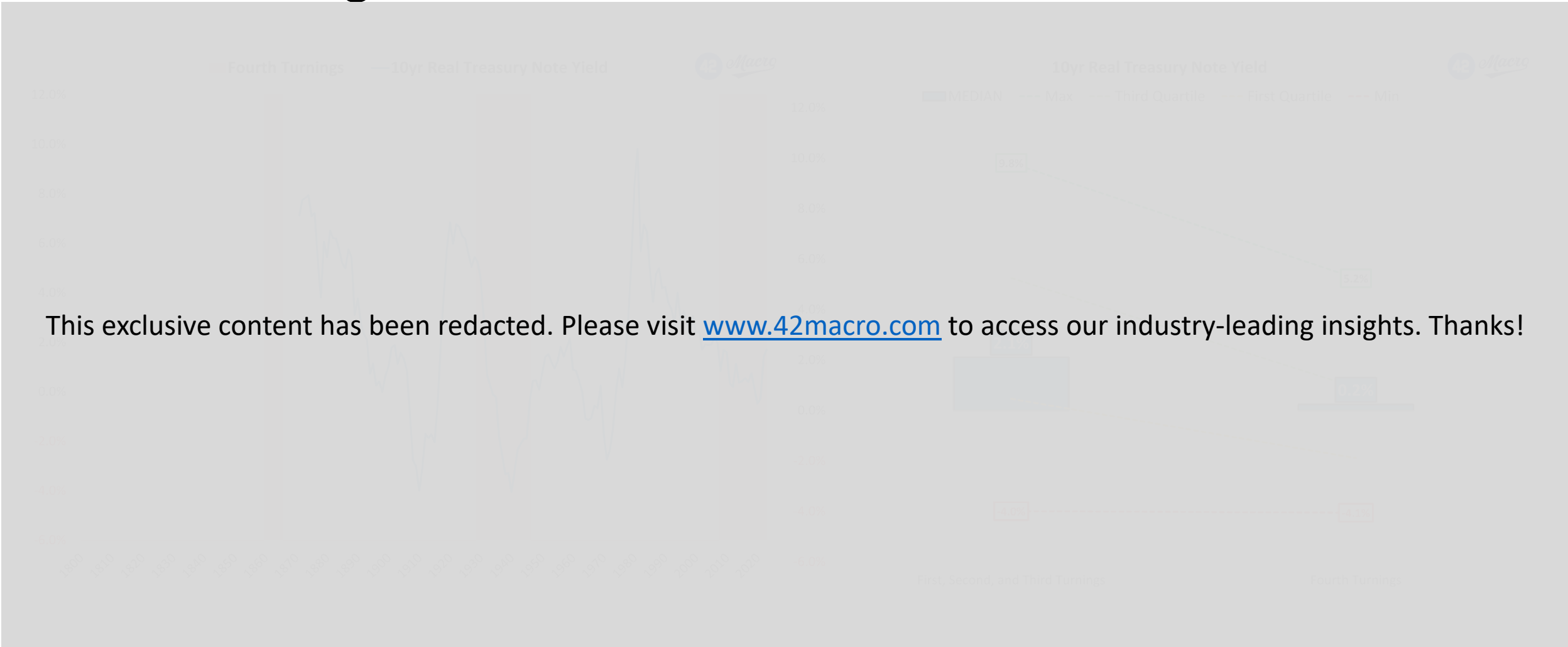


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# The 10yr Nominal Treasury Yield Tends To Be Relatively Weak During Fourth Turnings

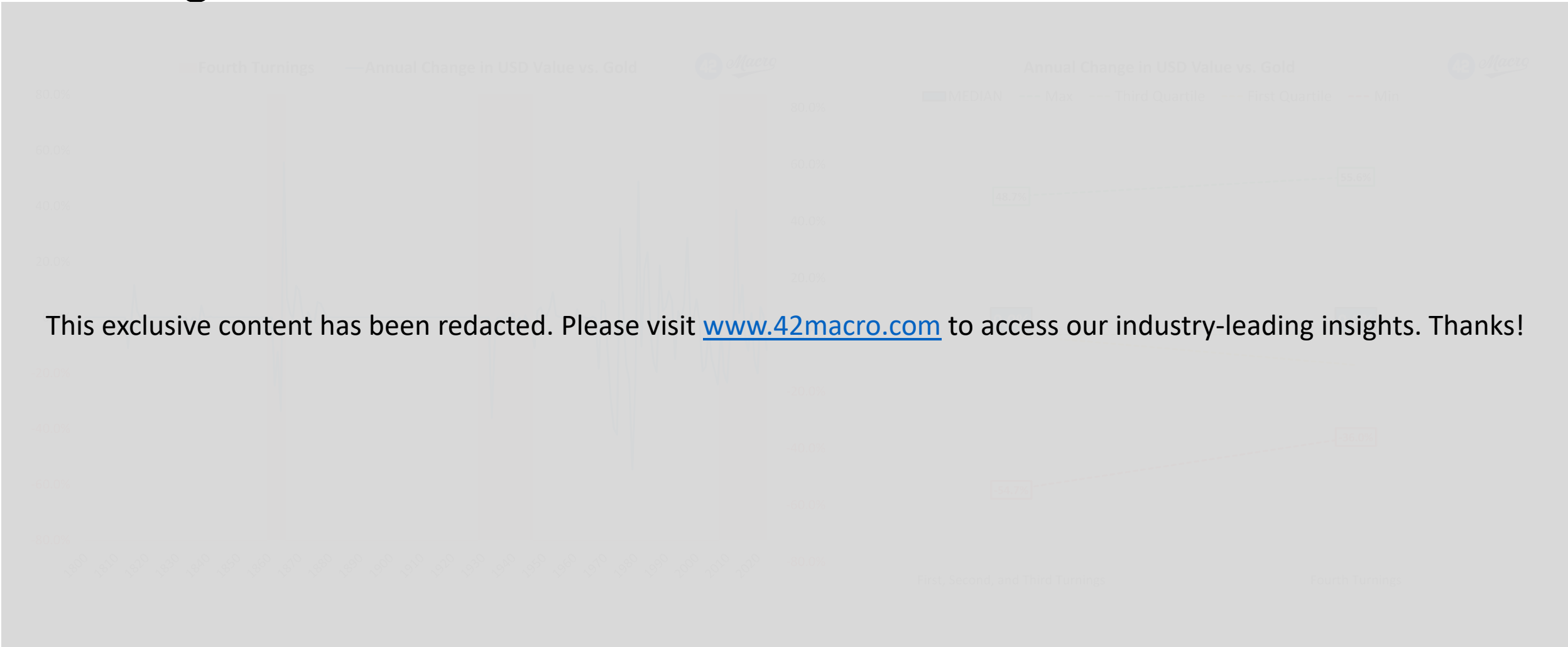


# The 10yr Real Treasury Yield Tends To Decline Substantially During Fourth Turnings



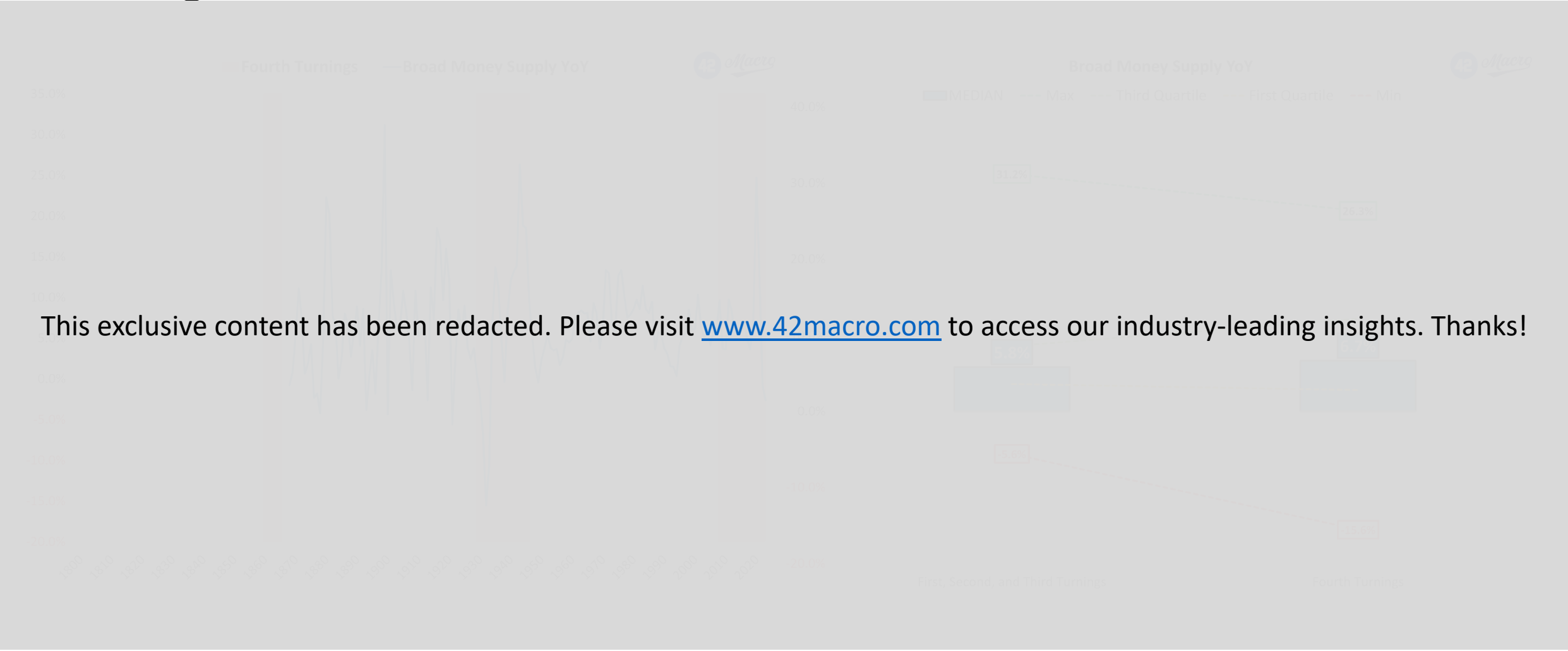
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# The US Dollar Tends To Be Debased Substantially During Fourth Turnings



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# Money Supply Growth Tends To Accelerate Sharply During Fourth Turnings



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# Key Fourth Turning Economic Risks: Structural Uptrends In Nominal GDP, Inflation, Wage Growth, And Asset Price Inflation

Metric	Fourth Turning Median vs. Baseline	Consistent Fourth Turning Delta?
Real GDP YoY	↓	n/a
Nominal GDP YoY	↑	↑
Headline CPI YoY	↑	↑
Employee Compensation/GDI Ratio	↑	↑
Corporate Profits/GDI Ratio	↓	n/a
S&P 500 EPS YoY	↑	n/a
S&P 500 YoY	↑	n/a
S&P 500 CAPE Ratio	↑	n/a
Nominal Home Prices YoY	↑	↑

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# Real GDP Growth Tends To Be Relatively Weak During Fourth Turnings

Fourth Turnings — Real GDP YoY



Real GDP YoY



25.0%  
20.0%  
15.0%  
10.0%  
0.0%  
-5.0%  
-10.0%  
-15.0%

25.0%  
20.0%  
15.0%  
10.0%  
0.0%  
-5.0%  
-10.0%  
-15.0%

MEDIAN Max Third Quartile First Quartile Min

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First, Second, and Third Turnings

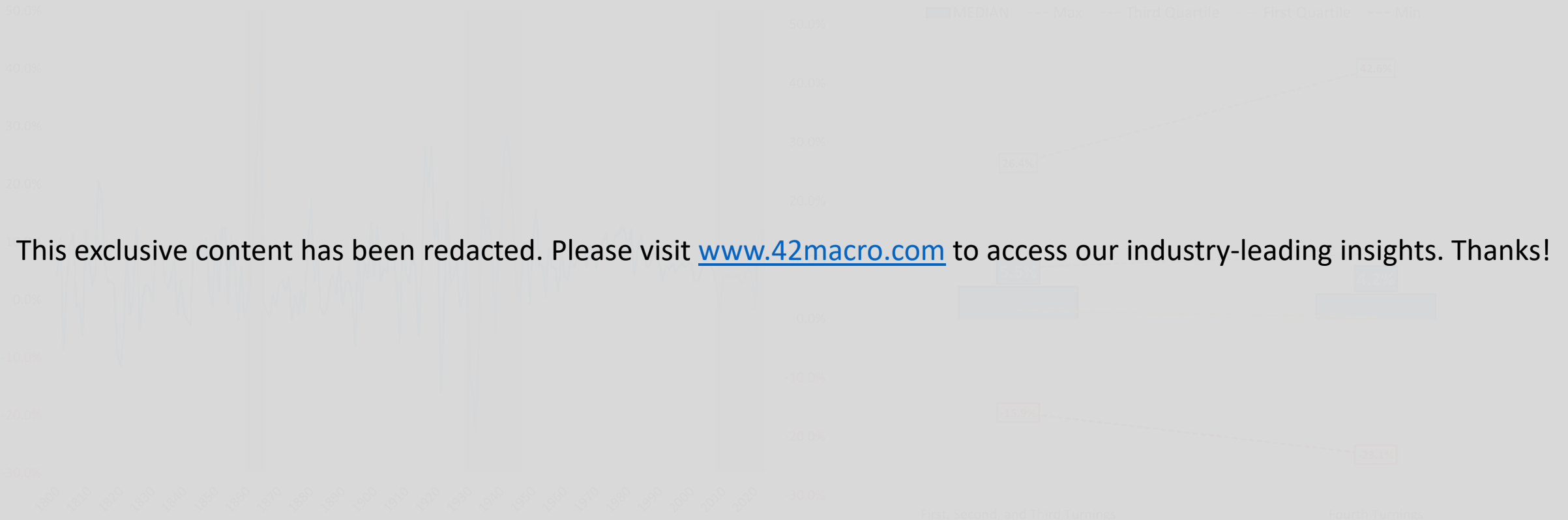
Fourth Turnings

# Nominal GDP Growth Tends To Accelerate Sharply During Fourth Turnings

Fourth Turnings — Nominal GDP YoY

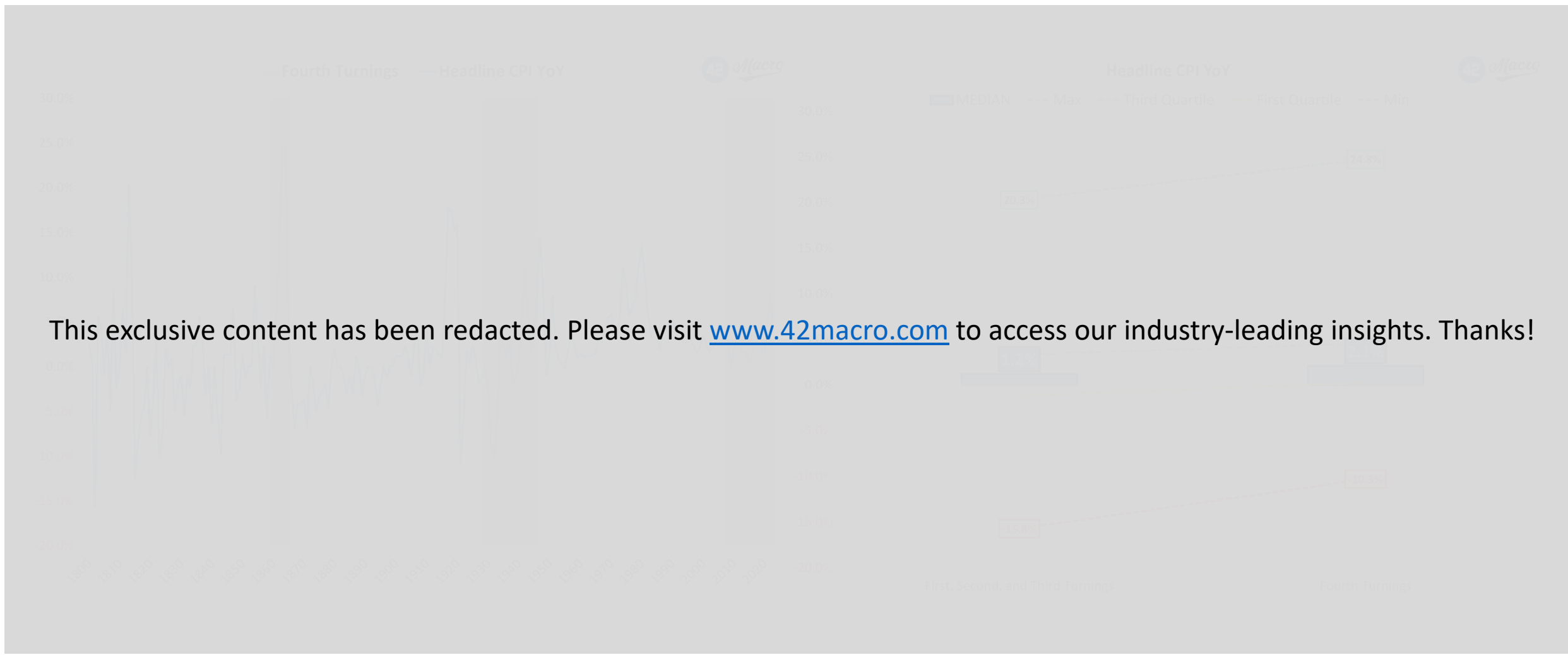


Nominal GDP YoY



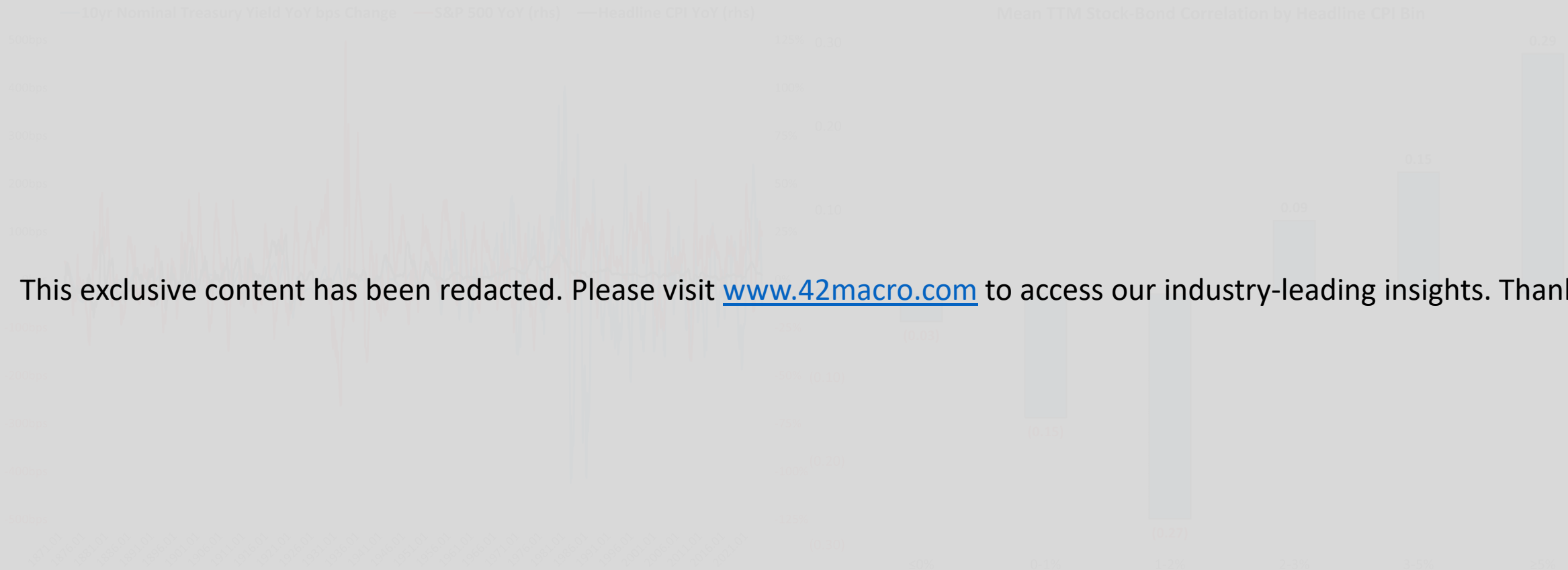
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# Headline CPI Tends To Accelerate Sharply During Fourth Turnings



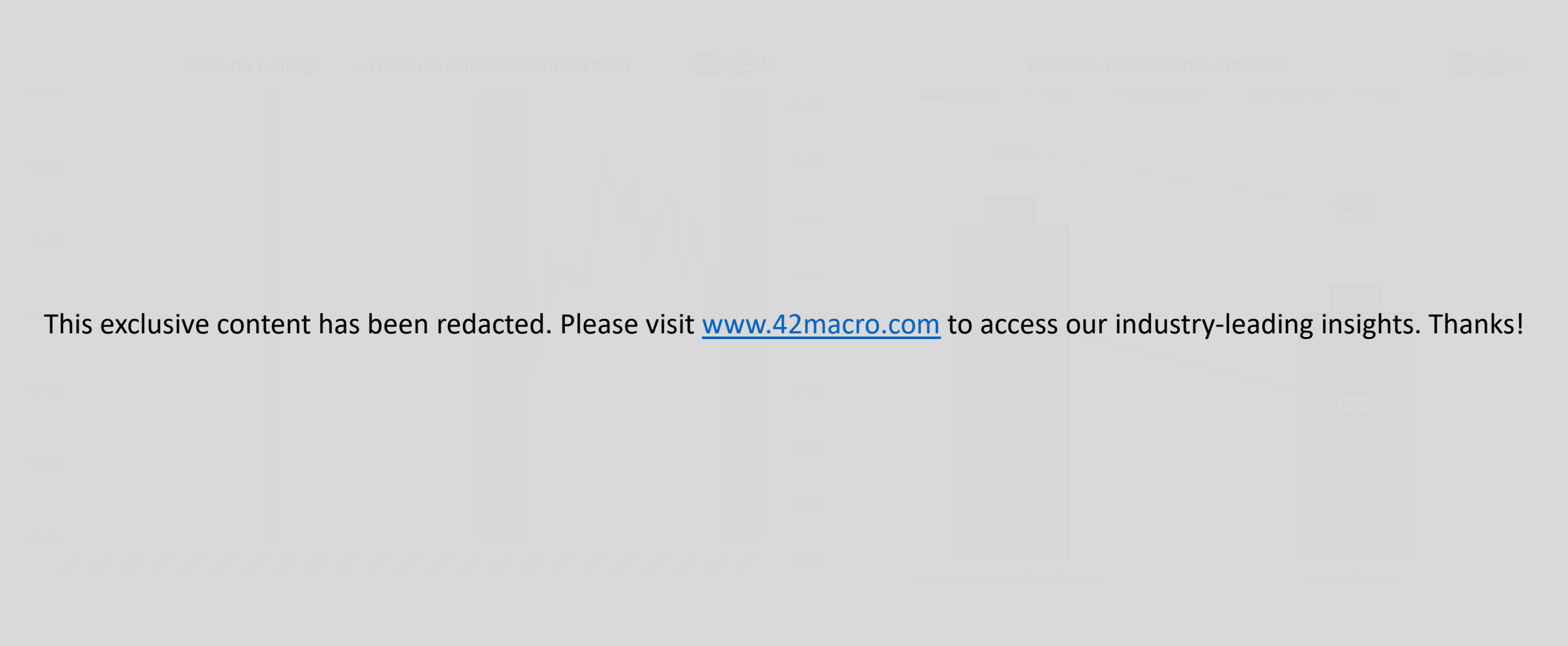
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# The Level Of Inflation Has Important Implications For The Stock-Bond Correlation And, By Extension, Portfolio Construction



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# Employee Compensation Tends To Accelerate Significantly During Fourth Turnings



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# Productivity Growth Tends To Be Relatively Weak During Fourth Turnings

Fourth Turnings — Nonfarm Productivity YoY



Nonfarm Productivity YoY



8.0%

7.0%

6.0%

5.0%

4.0%

3.0%

2.0%

1.0%

0.0%

-1.0%

-2.0%

-3.0%

1980 1981 1982 1983 1984 1985 1986 1987 1988 1989 1990 1991 1992 1993 1994 1995 1996 1997 1998 1999 2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012 2013 2014 2015 2016 2017 2018 2019 2020 2021 2022

8.0%

7.0%

6.0%

5.0%

4.0%

3.0%

2.0%

1.0%

0.0%

-1.0%

-2.0%

-3.0%

MEDIAN

Max

Third Quartile

First Quartile

Min

6.7%

5.5%

2.7%

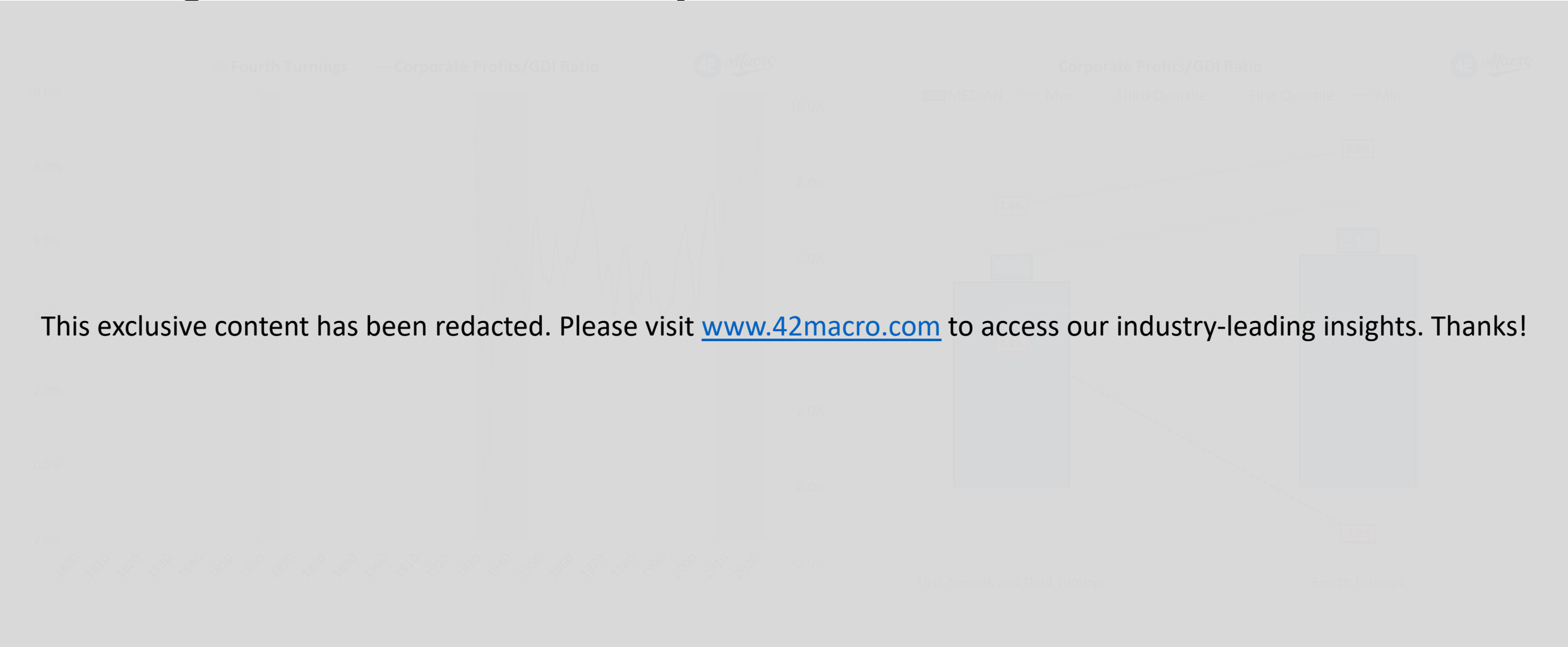
2.5%

First, Second, and Third Turnings

Fourth Turnings

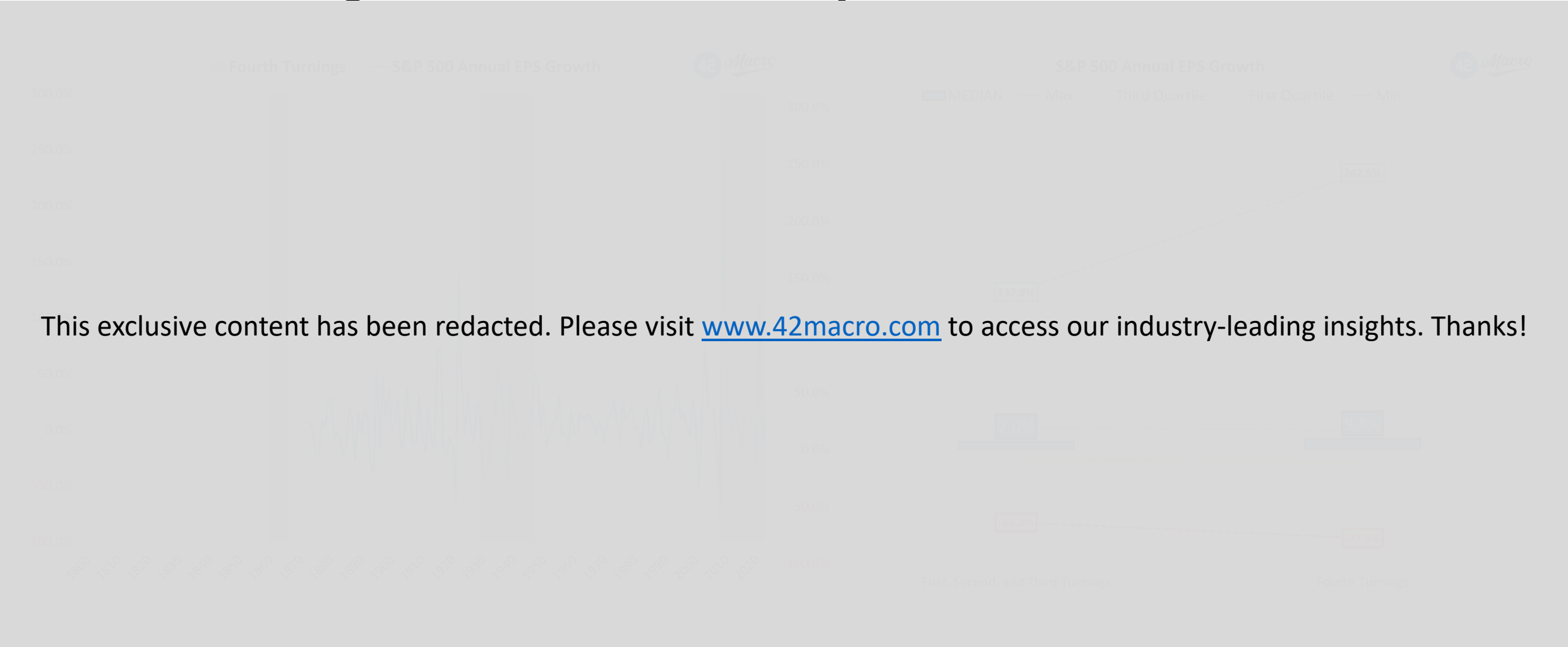
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# Corporate Profitability Tends To Be Relatively Strong During Fourth Turnings With More Volatility



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# S&P 500 Earnings Growth Tends To Be Relatively Strong During Fourth Turnings With More Volatility



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# S&P 500 Returns Tend To Be Relatively Strong During Fourth Turnings With More Volatility

Fourth Turnings — S&P 500 Annual Returns

60.0%

40.0%

20.0%

0.0%

-20.0%

-40.0%

-60.0%



S&P 500 Annual Returns



60.0%

40.0%

20.0%

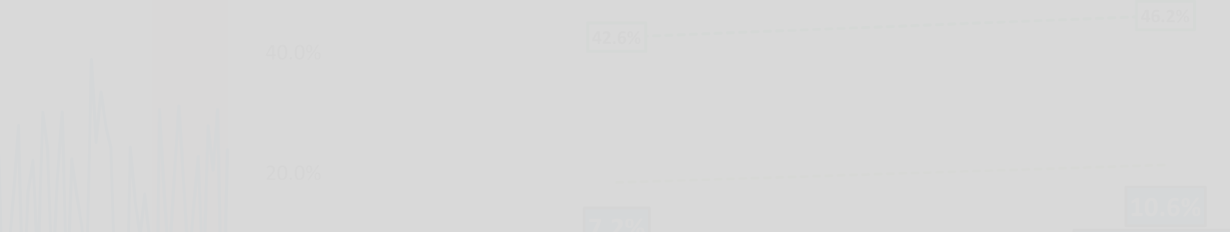
0.0%

-20.0%

-40.0%

-60.0%

MEDIAN Max Third Quartile First Quartile Min



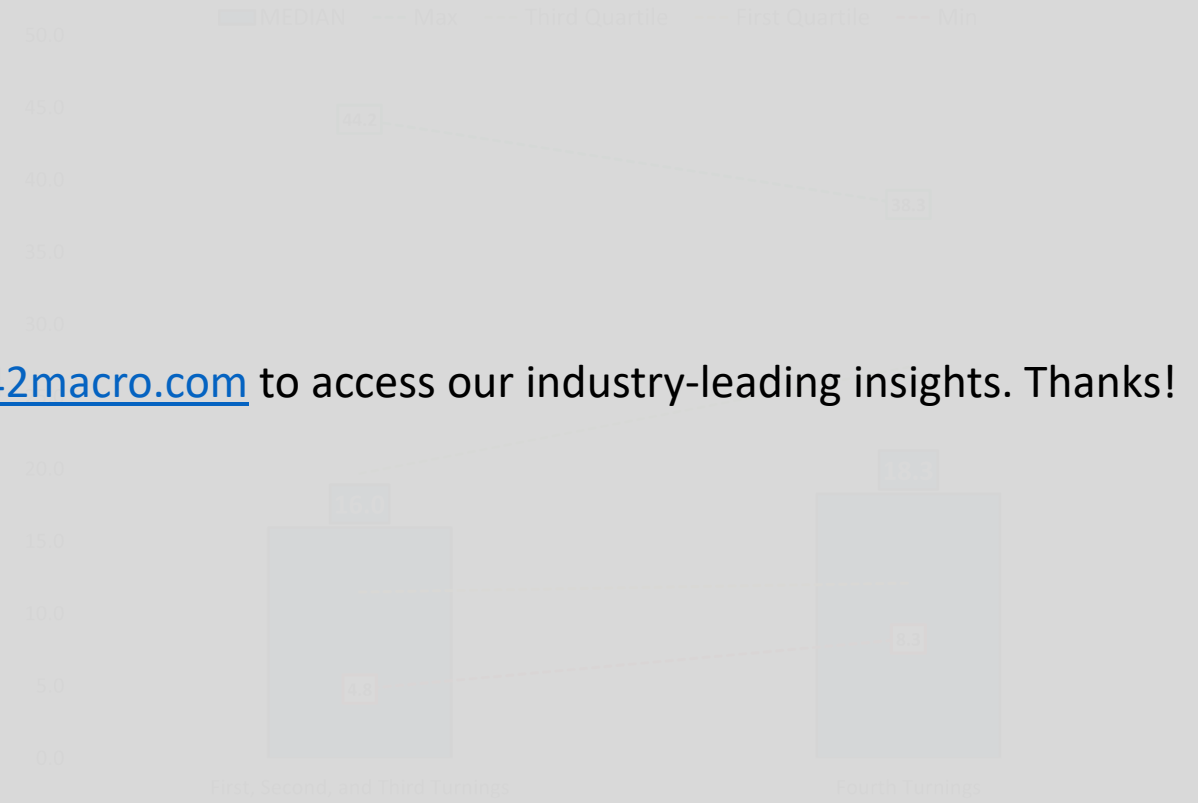
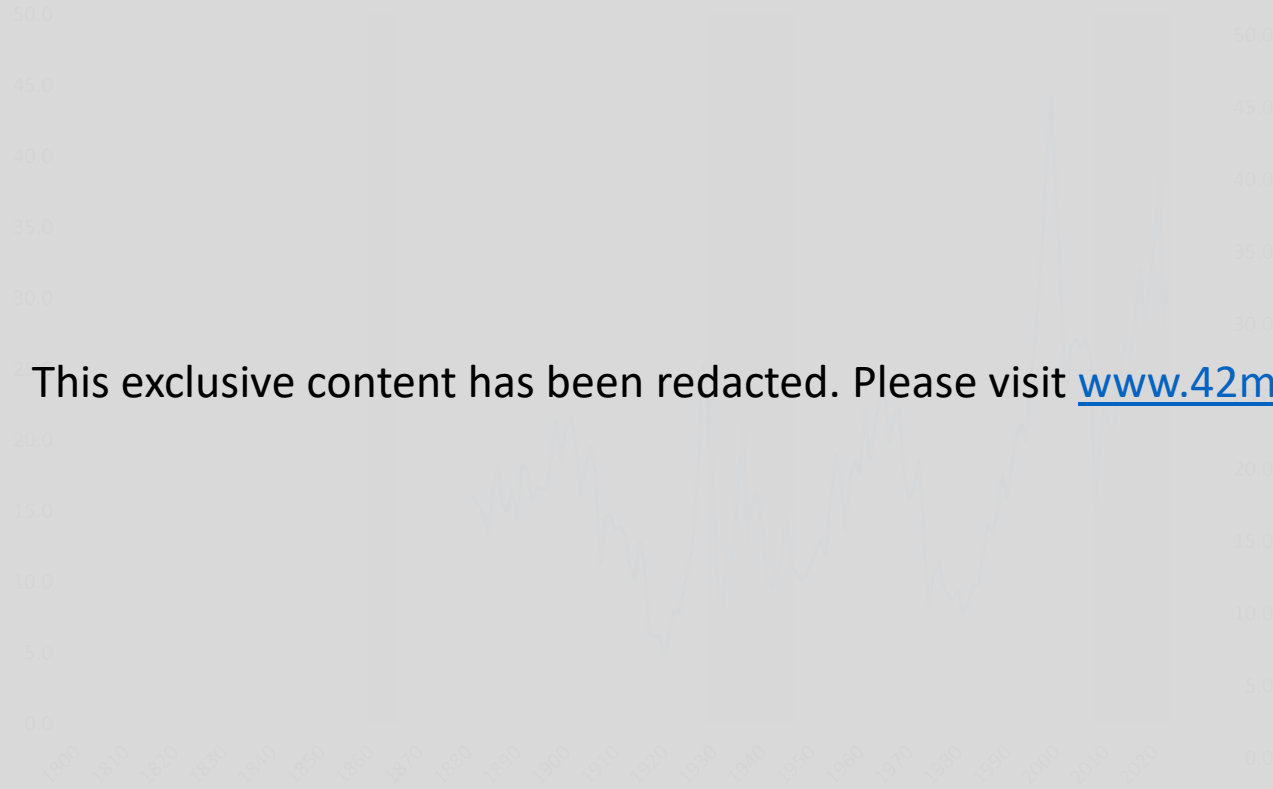
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# S&P 500 Valuations Tend To Be Relatively Strong During Fourth Turnings

Fourth Turnings — S&P 500 CAPE Ratio



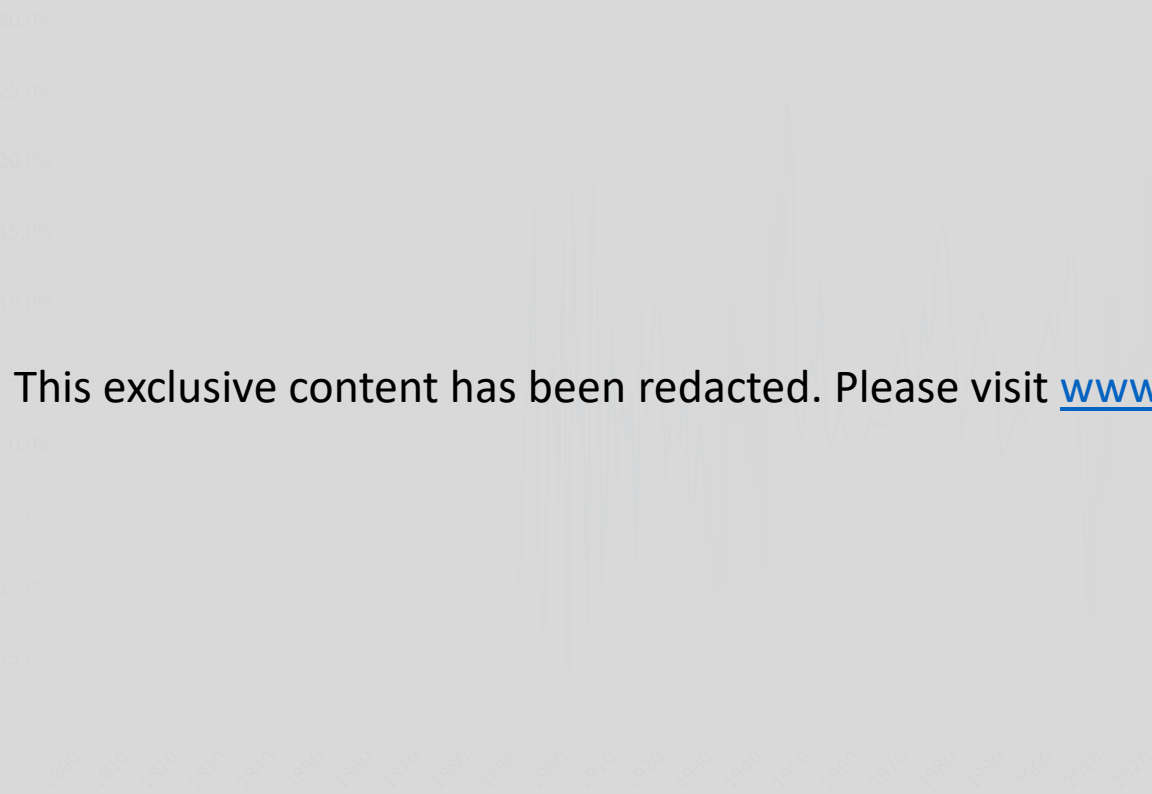
S&P 500 CAPE Ratio



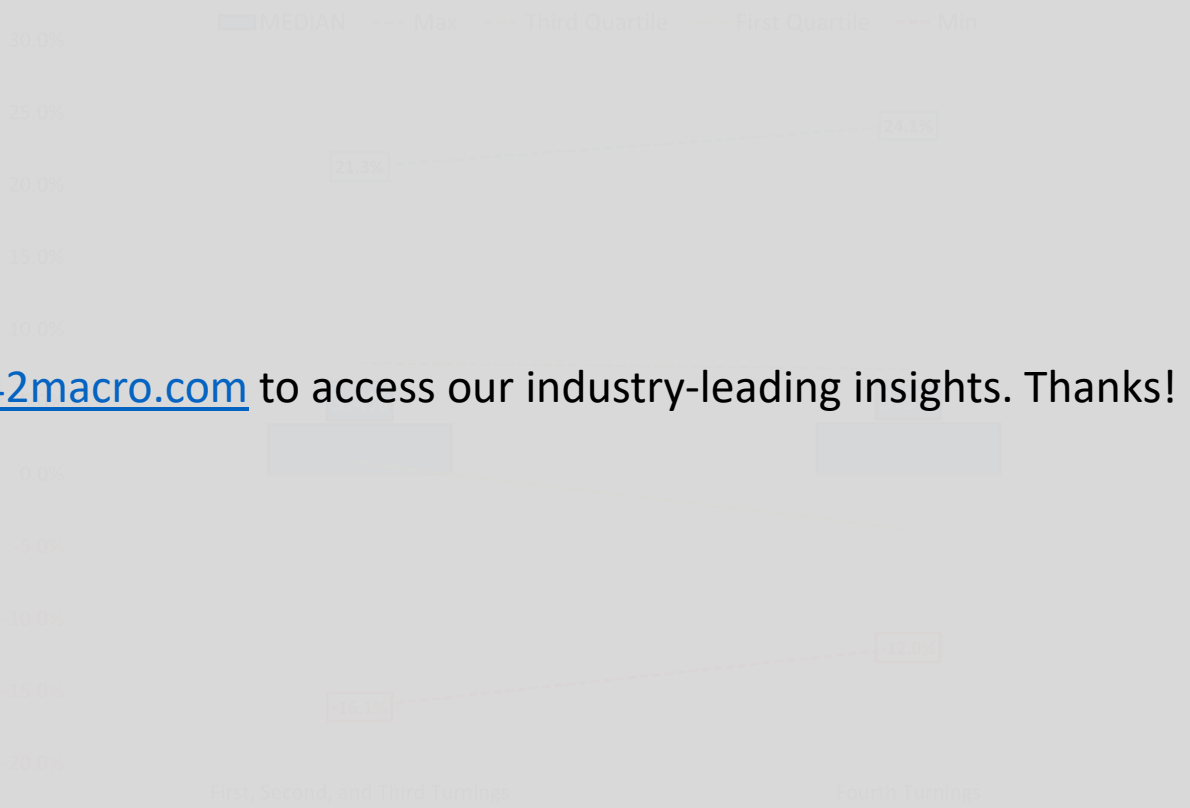
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# Nominal Home Price Growth Tends To Accelerate Sharply During Fourth Turnings

Fourth Turnings — Annual Nominal Home Price Growth



Annual Nominal Home Price Growth



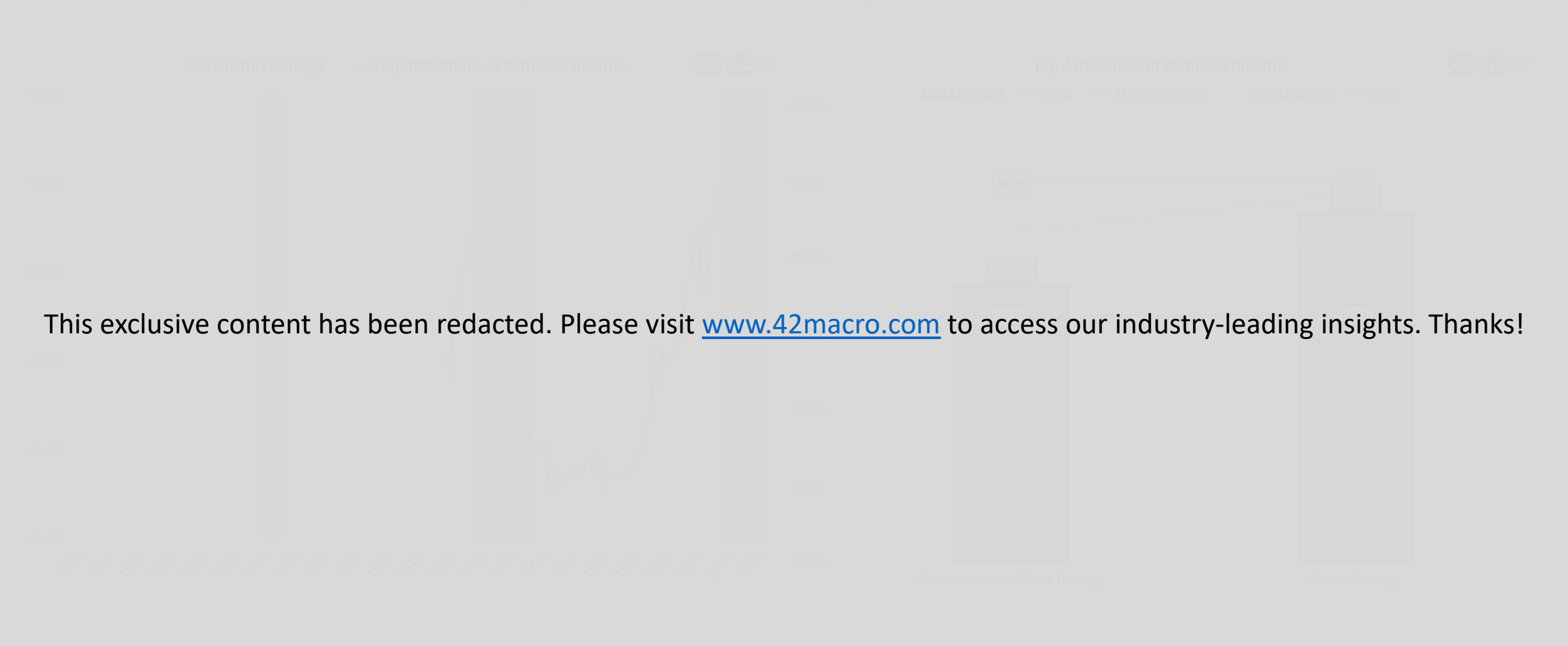
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# Key Fourth Turning Geopolitical Risks: A Structural Downtrend In Income Inequality, Declining Birth Rates, Increased Trade Protectionism, And Total War

Indicator	Fourth Turning Median vs. Baseline	Current Fourth Turning Data?
Top 10% share of National Income	↑	↑
Real Crude Oil Price YoY	↓	N/A
Real GDP YoY	↓	↓
Fertility Rate	↓	↓
Immigration YoY	↓	N/A
Trade/GDP Ratio	↑	↑
Global War Deaths	↑	↑

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# Income Inequality Tends To Decline Sharply From Extremely Elevated Levels During Fourth Turnings

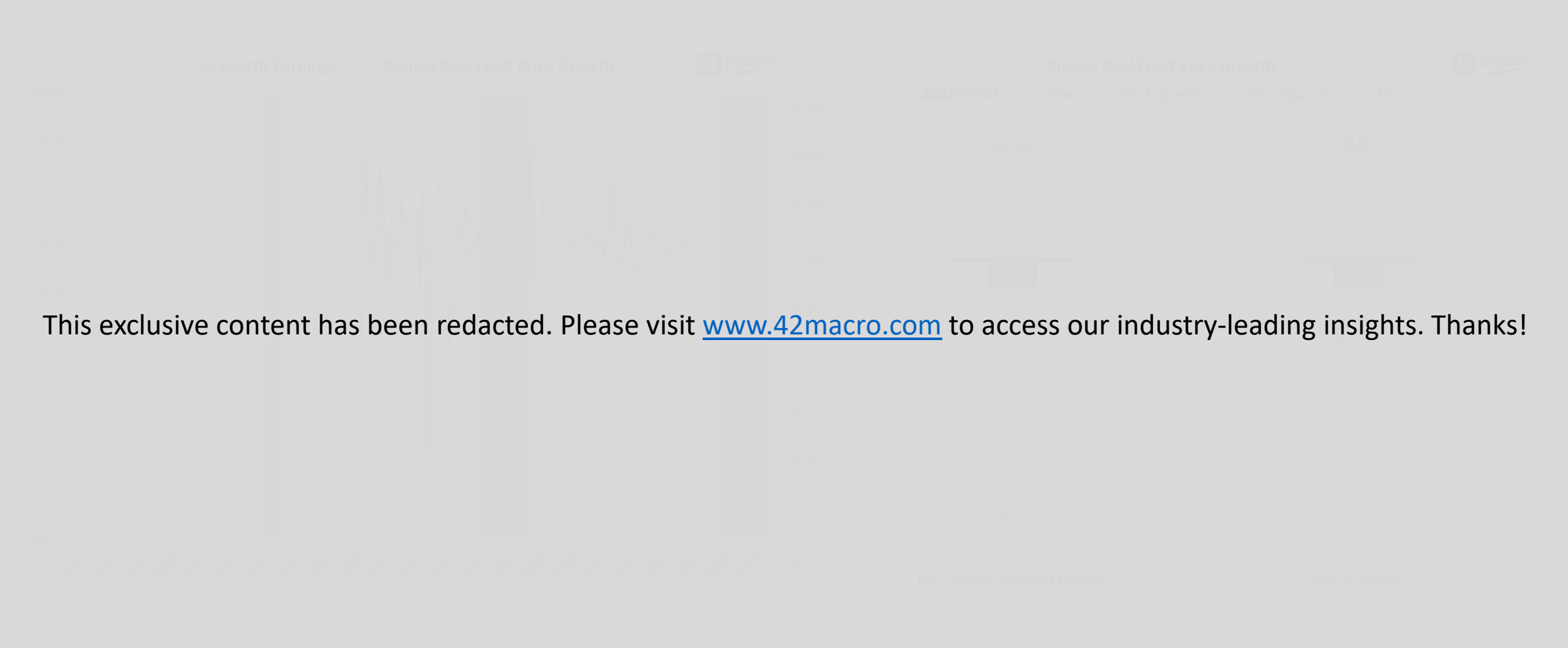


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# Real Crude Oil Price Growth Tends To Be Relatively Stable During Fourth Turnings

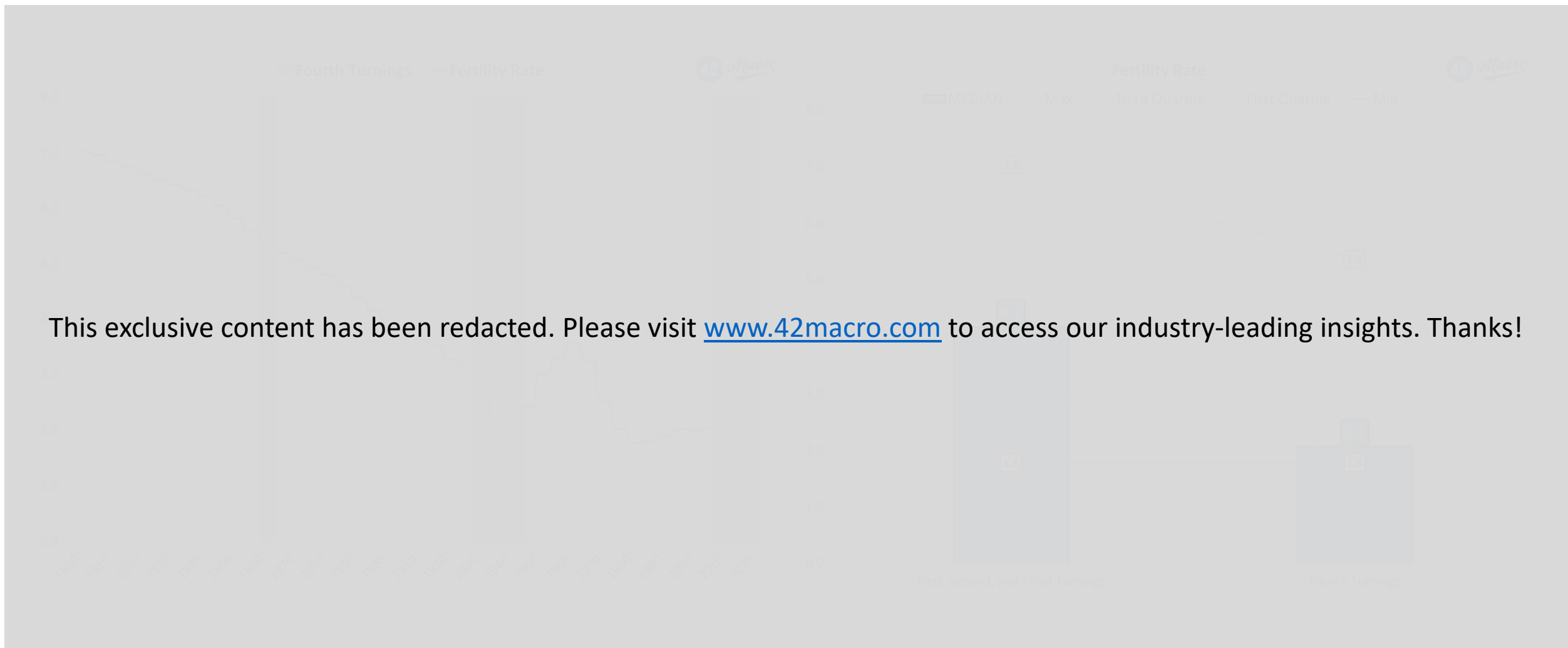
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# Real Food Prices Growth Tends To Be Relatively Stable During Fourth Turnings



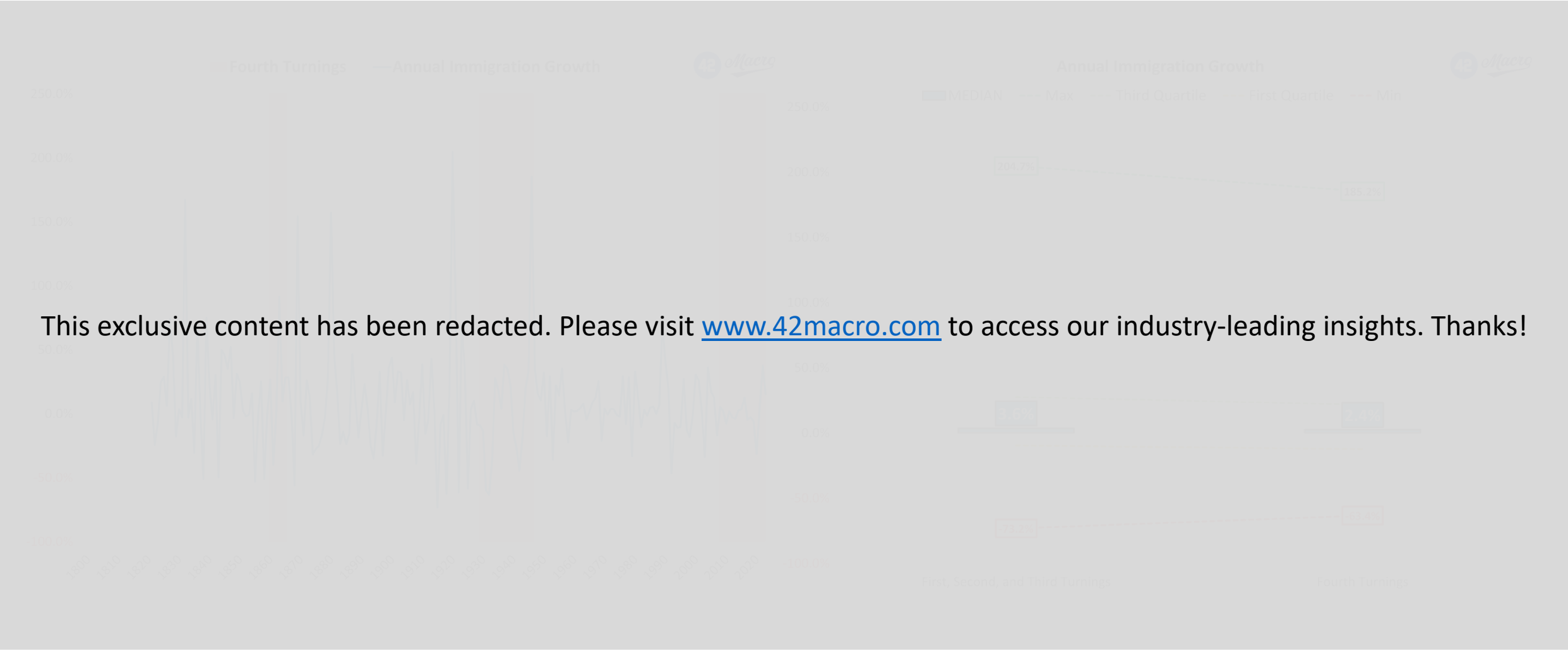
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# Fertility Rates Tend To Decline Sharply During Fourth Turnings



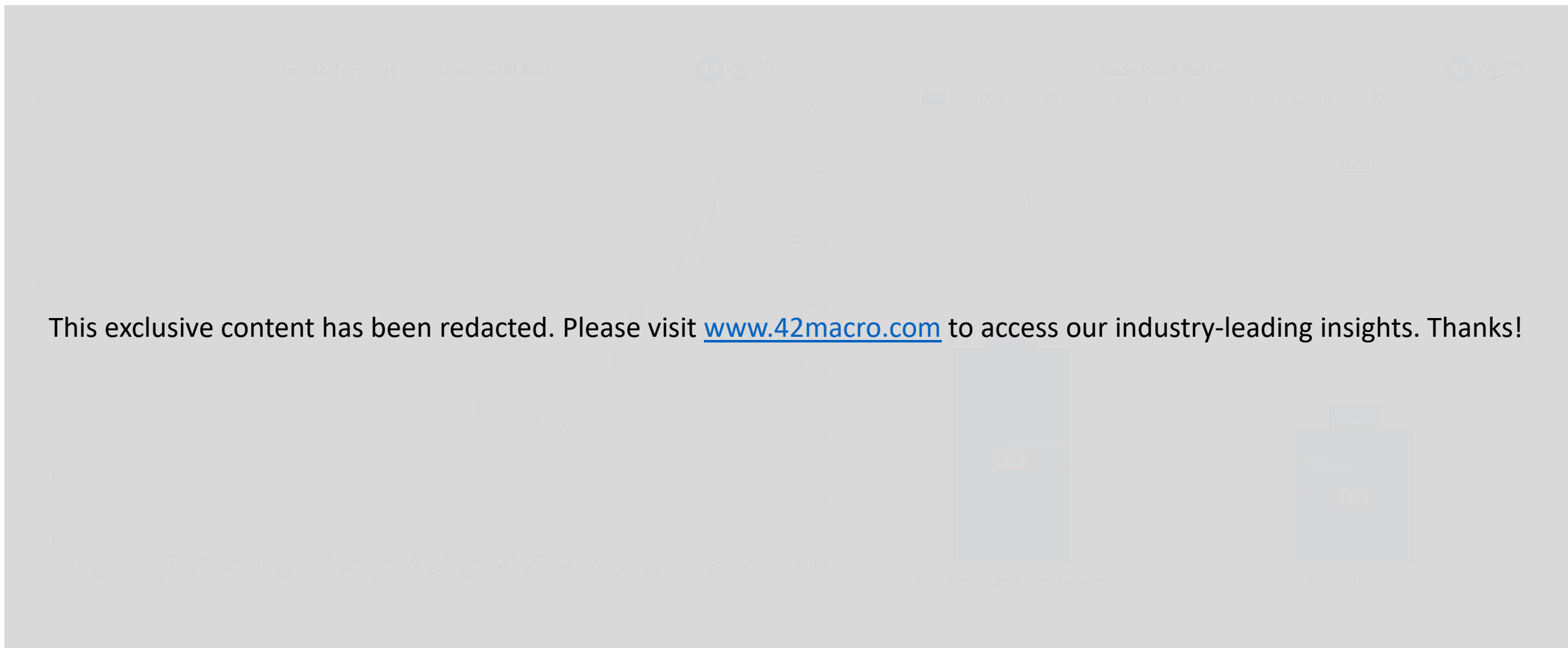
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# Immigration Tends To Be Relatively Weak During Fourth Turnings



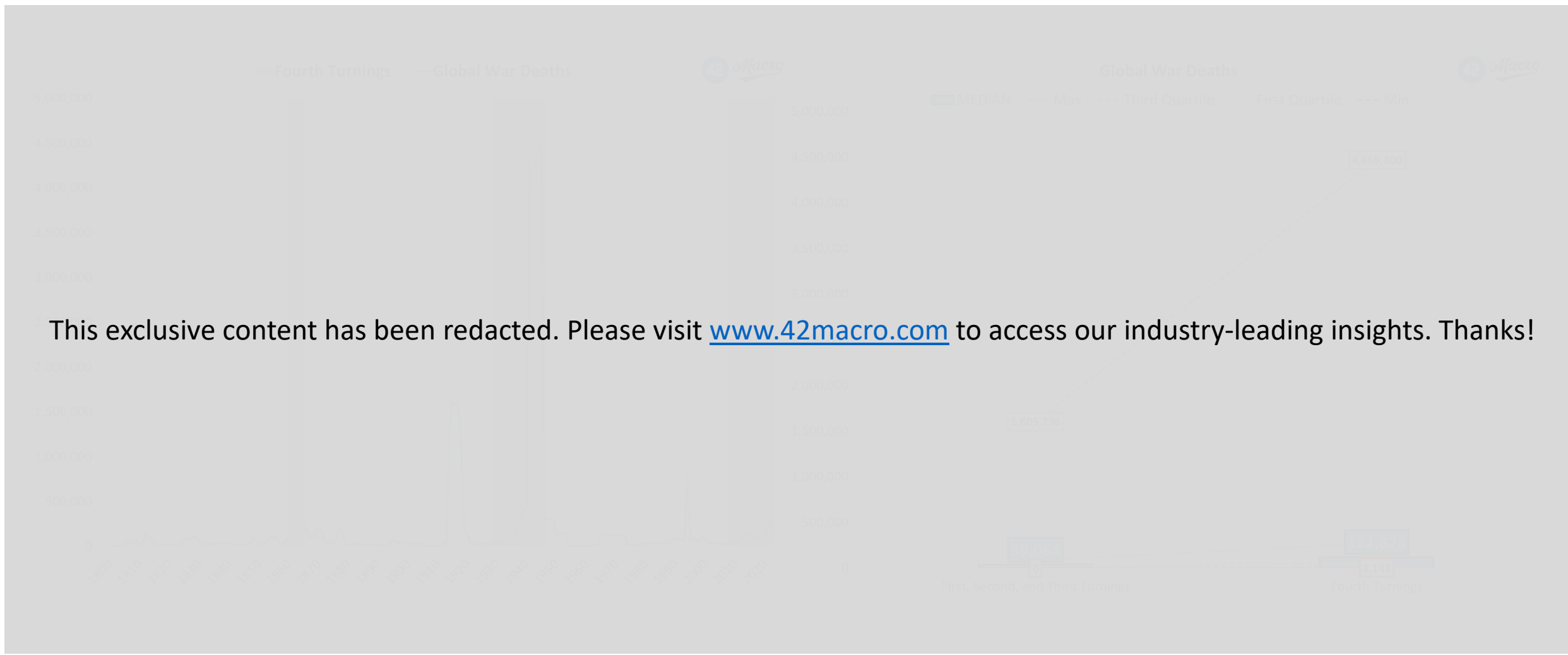
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# Trade Tends To Decline Sharply During Fourth Turnings



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# Wars Tend To Accelerate Globally During Fourth Turnings



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# Every Fourth Turning In Modern Anglo-American History Has Featured Total War

Seculum	First Turning (High)	Second Turning (Awakening)	Third Turning (Unraveling)	Fourth Turning (Crisis)
Late Medieval			Retreat from France (1435-1455)	War of the Roses (1455-1487)
Tudor	Tudor Renaissance (1487-1525)	Protestant Reformation (1525-1551)	Intolerance & Martyrdom (1551-1563)	Armada Crisis (1563-1597)
New World	Merrie England (1597-1621)	Puritan Awakening (1621-1649)	Reaction & Restoration (1649-1675)	Glorious Revolution (1675-1706)
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Civil War	Era of Good Feelings (1794-1822)	Transcendental Awakening (1822-1844)	Mexican War & Sectionalism (1844-1860)	Civil War (1860-1865)
Great Power	Reconstruction & Gilded Age (1865-1886)	Third Great Awakening (1886-1908)	World War I & Prohibition (1908-1929)	Great Depression & World War II (1929-1946)
Millennial	American High (1946-1964)	Consciousness Revolution (1964-1984)	Culture Wars (1984-2008)	Millennial Crisis (2008-2033?)

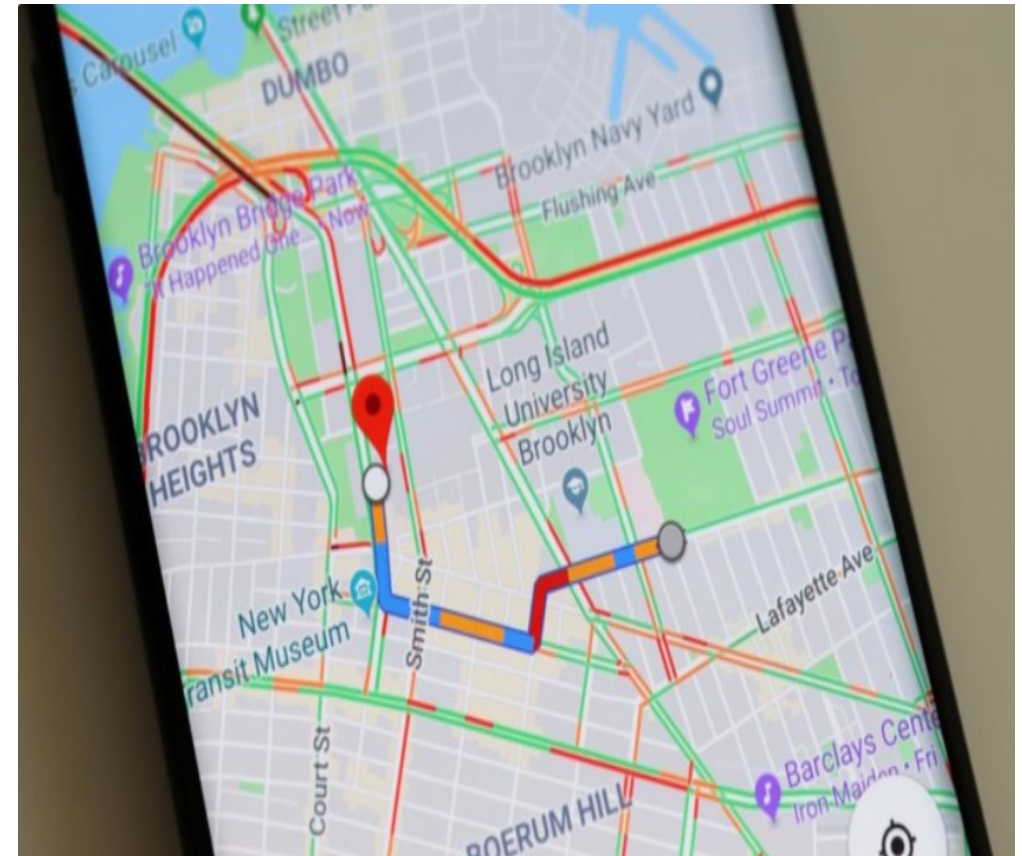
# Appendix: Overcoming Behavioral Heuristics

# The 42 Macro Risk Management Process Is Orthogonal And Likely Additive To Your Investment Process

How Investors Generally Manage Risk:  
**Responding To Failed Predictions**



How 42 Macro Manages Risk:  
**Responding To Bayesian Observations**



© 42 Macro LLC. Images sourced from Google. **Investors broadly failed to predict the most important catalyst of each of the past five years:**

**2019:** COVID-19 in 2020; **2020:** vaccine-and-stimulus-fueled jump condition from COVID to a booming economy in 2021;

**2021:** jump condition to a ~40yr high in inflation in 2022; **2022:** jump condition from a technical recession to a booming US economy in 2023; and

**2023:** jump condition from a deflationary regional banking crisis and a ~40yr high in the Fed Funds Rate to a boom in asset markets in 2024.

# Why The 42 Macro Risk Management Process Works

- **Regime Segmentation:** *“I knew which shifts in the environment caused asset classes to move around, and I knew that those relationships had remained essentially the same for hundreds of years. There were only two big forces to worry about: growth and inflation. Each could be rising or falling, so I saw that by finding four different investment strategies – each one of which would do well in a particular environment (rising growth with rising inflation, rising growth with falling inflation, and so on) – I could construct an asset allocation mix that was balanced to do well over time while being protected against unacceptable losses.”*  
–Ray Dalio, Principles pg. 70
- **Bayesian Inference:** *“Subjective confidence in a judgment is not a reasoned evaluation of the probability that this judgment is correct. Confidence is a feeling, which reflects the coherence of the information and the cognitive ease of processing it. It is wise to take admissions of uncertainty serious, but declarations of high confidence mainly tell you that an individual has constructed a coherent story in his mind, not necessarily that the story is true.”*  
–Danny Kahneman & Amos Tversky, Thinking, Fast and Slow pg. 212
- **Volatility as a Leading Indicator for Price:** *“You cannot beat the market, says the standard market doctrine. Granted. But you can sidestep its worst punches.”*  
–Benoit Mandelbrot, The (Mis)Behavior of Markets pg. 249

# Common Behavioral Heuristics That Prevent Investors From Achieving Their Strategic Investment Objectives, Part I

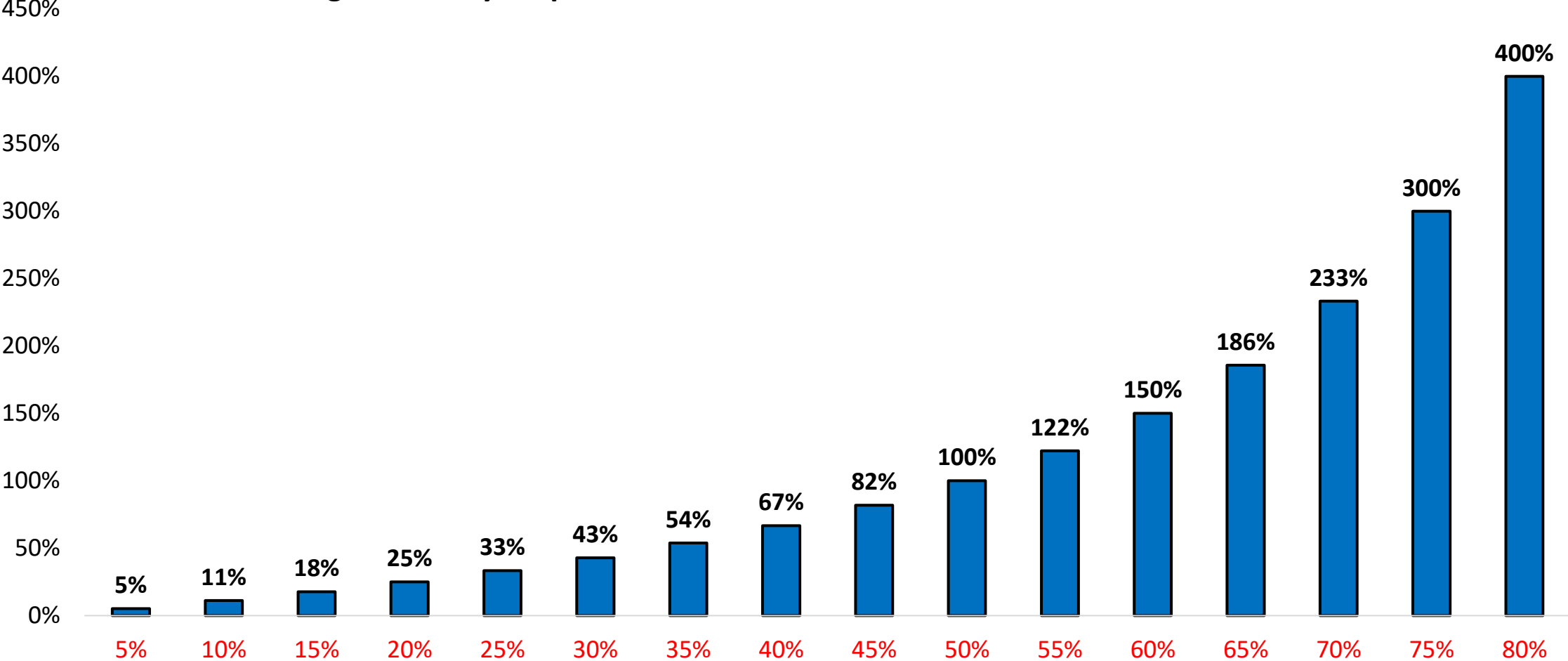
- **Action Bias:** The action bias describes our tendency to favor action over inaction. Source: <https://thedecisionlab.com/biases/action-bias>
- **42 Macro Solution:** Clear risk management signals that communicate DO NOTHING when there is no change in signal and TAKE ACTION only when the signal changes.
- **Availability Heuristic:** The availability heuristic describes our tendency to use information that comes to mind quickly and easily when making decisions about the future. Source: <https://thedecisionlab.com/biases/availability-heuristic>
- **42 Macro Solution:** Our [Quantitative Risk Management Summary](#) and [Fundamental Research Summary](#), each refreshed daily.
- **Confirmation Bias:** The confirmation bias describes our underlying tendency to notice, focus on, and give greater credence to evidence that fits with our existing beliefs. Source: <https://thedecisionlab.com/biases/confirmation-bias>
- **42 Macro Solution:** Consistently performing research on the full distribution of probable economic outcomes, as evidenced by the [Modal Outcome](#), [Left Tail Risk](#), and [Right Tail Risk](#) sections of our monthly Macro Scouting Reports, and reviewing every meaningful economic release in our daily Leadoff Morning Note – bullish or bearish.
- **Disposition Effect:** The disposition effect refers to our tendency to prematurely sell assets that have made financial gains, while holding on to assets that are losing money. Source: <https://thedecisionlab.com/biases/disposition-effect>
- **42 Macro Solution:** The Top-Down and Bottom-Up Risk Management Overlays featured in our [KISS Portfolio Construction Process](#) help investors block out countercyclical noise to maximize upside capture in bull markets and minimize downside capture in bear markets.
- **Hindsight Bias:** The hindsight bias describes our tendency to look back at an unpredictable event and think it was easily predictable. Source: <https://thedecisionlab.com/biases/hindsight-bias>
- **42 Macro Solution:** Consistent and thorough discussions regarding the then-consensus narratives and positioning dynamics of past market cycles, as well as backtesting each of our quantitative risk management signals and econometric models on a rolling out-of-sample basis.
- **Hyperbolic Discounting:** Hyperbolic discounting is our inclination to choose immediate rewards over rewards that come later in the future, even when these immediate rewards are smaller. Source: <https://thedecisionlab.com/biases/hyperbolic-discounting>
- **42 Macro Solution:** Avoiding frameworks that [often erroneously] attempt to predict every wiggle in the stock market like dealer flows, CTA positioning, etc.
- **Illusion of Explanatory Depth:** The illusion of explanatory depth describes our belief that we understand more about the world than we actually do. Source: <https://thedecisionlab.com/biases/the-illusion-of-explanatory-depth>
- **42 Macro Solution:** The 10 principal component features in our [Macro Weather Model](#), refreshed daily, remind investors that the narrow scope of oft-esoteric topics being discussed on Twitter/X, TikTok, and other social media platforms are not the only drivers of asset markets.

# Common Behavioral Heuristics That Prevent Investors From Achieving Their Strategic Investment Objectives, Part II

- **Illusion of Validity:** The illusion of validity is a cognitive bias that describes our tendency to be overconfident in the accuracy of our predictions. Source: <https://thedecisionlab.com/biases/illusion-of-validity>
- **42 Macro Solution:** An institutional research process that is heavy on observation and light on predictions. When we do make predictions, they are generated by models that apply proven quantitative techniques to time series that span multiple economic and market cycles, while also quantifying and proudly publishing the error rate of each of our econometric models.
- **Myopic Loss Aversion:** Myopic loss version is a cognitive bias that occurs when investors take a view of their investments that is strongly focused on the short term, leading them to react too negatively to recent losses, which may be at the expense of long-term benefits. Source: <https://www.behavioraleconomics.com/resources/mini-encyclopedia-of-be/myopic-loss-aversion>
- **42 Macro Solution:** Clear risk management signals that communicate DO NOTHING when there is no change in signal and TAKE ACTION only when the signal changes. Asset markets tend to appreciate over time, so our general disposition towards them is “fully invested, until a risk management signal(s) instructs us to book gains”.
- **Negativity Bias:** The negativity bias is a cognitive bias that results in adverse events having a more significant impact on our psychological state than positive events. Source: <https://thedecisionlab.com/biases/negativity-bias>
- **42 Macro Solution:** Avoiding bear porn at all costs – even to the point of ridiculing it publicly. Asset markets tend to appreciate over time, so our general disposition towards them is “fully invested, until a risk management signal(s) instructs us to book gains”.
- **Optimism Bias:** The optimism bias refers to our tendency to overestimate our likelihood of experiencing positive events and underestimate our likelihood of experiencing negative events. Source: <https://thedecisionlab.com/biases/optimism-bias>
- **42 Macro Solution:** An institutional risk management process that values being the second investor in a confirmed trade more than being first in a trade that may or may not come to fruition.
- **Recency Bias:** The recency bias refers to our tendency to better remember and recall information presented to us most recently, compared to information we encountered earlier. Source: <https://thedecisionlab.com/biases/recency-effect>
- **42 Macro Solution:** Only making marginal changes to our [Fundamental Research Summary](#) when new data builds or erodes our conviction in a theme, rather than making wholesale changes.
- **Sunk Cost Fallacy:** The sunk cost fallacy is our tendency to follow through on something that we’ve already invested heavily in (be it time, money, effort, emotional energy, etc.), even when giving up is clearly a better idea. Source: <https://thedecisionlab.com/dailybiases/the-sunk-cost-fallacy>
- **42 Macro Solution:** Proven risk management signals that help investors dispassionately book small losses before they turn into big losses.
- **Zero Risk Bias:** Zero risk bias relates to our preference for absolute certainty. Source: <https://thedecisionlab.com/biases/zero-risk-bias>
- **42 Macro Solution:** Having enough humility to avoid declarations of certainty and/or extreme confidence regarding our predictions at all cost. No reputable institutional investor speaks with certainty about the future, and you shouldn’t either.

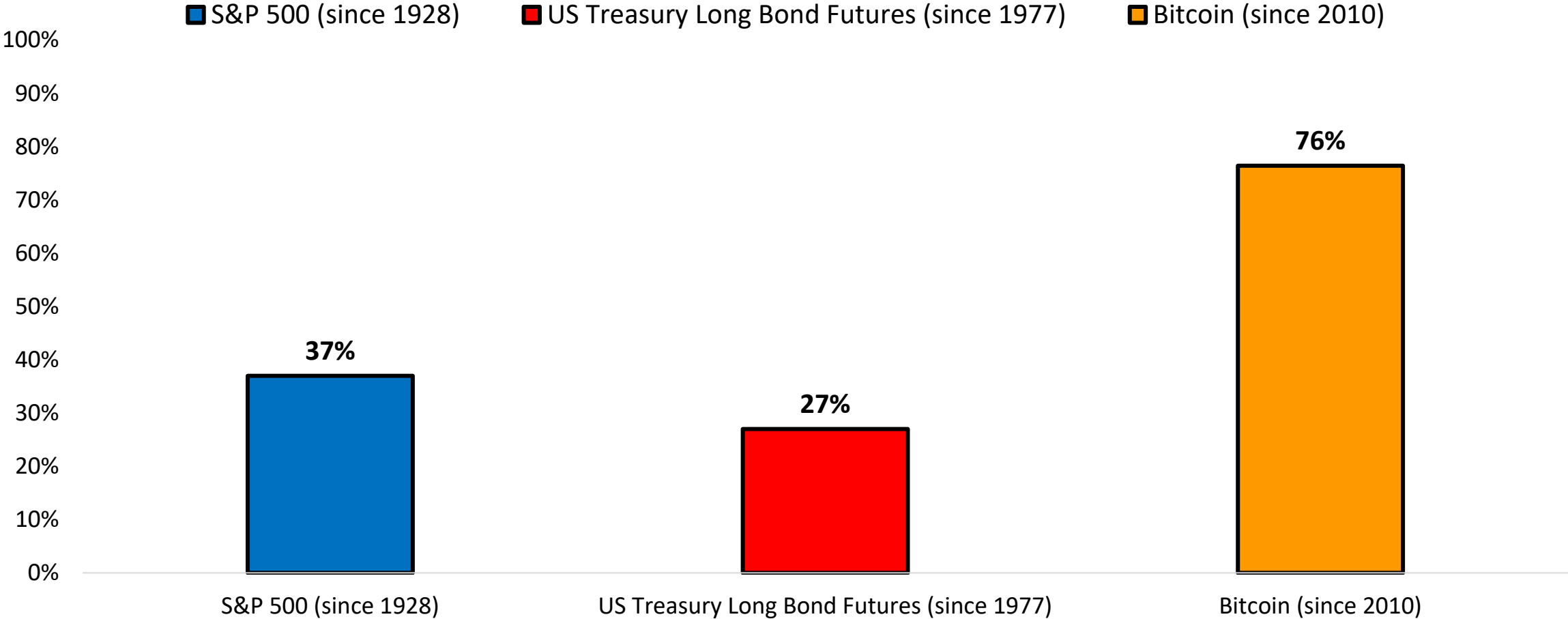
# The Three Most Important Concepts In Investing: Rule #1 = Don't Lose Money

■ Percentage Recovery Required to Break Even from Various Max Drawdown Thresholds



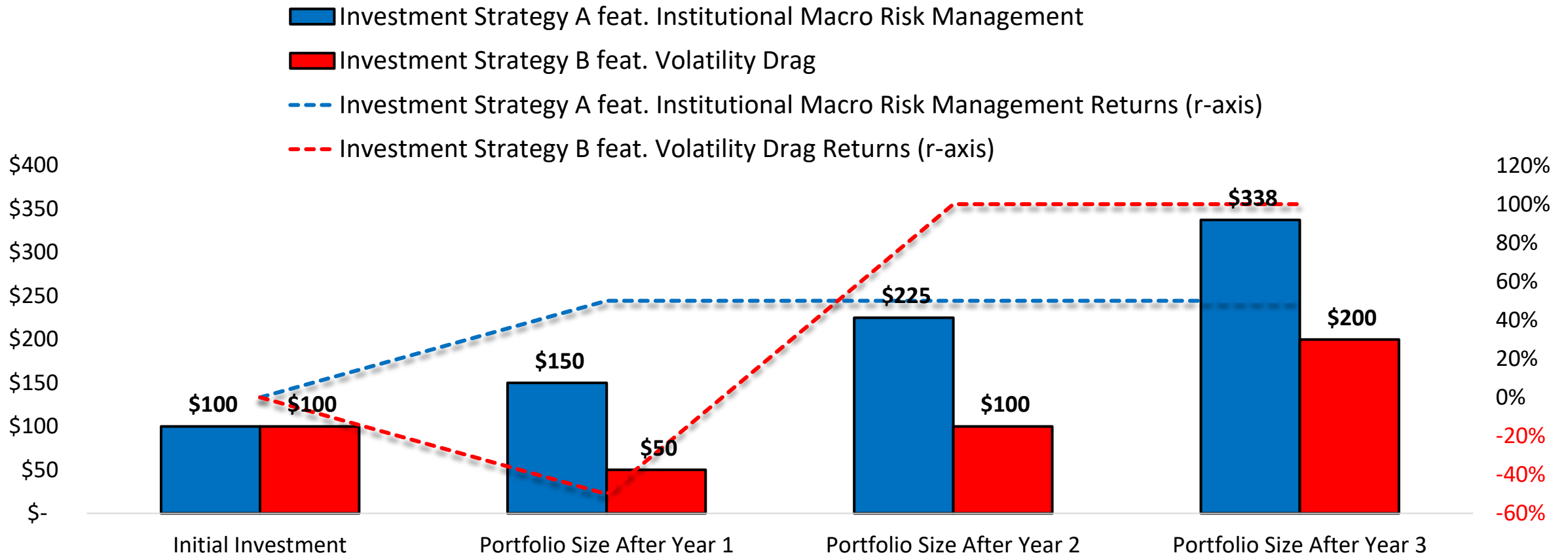
# The Three Most Important Concepts In Investing: Rule #2 = Do Not Invest Money You Cannot Afford To Lose

Percentage of Time **-20%** or More Off the Highs



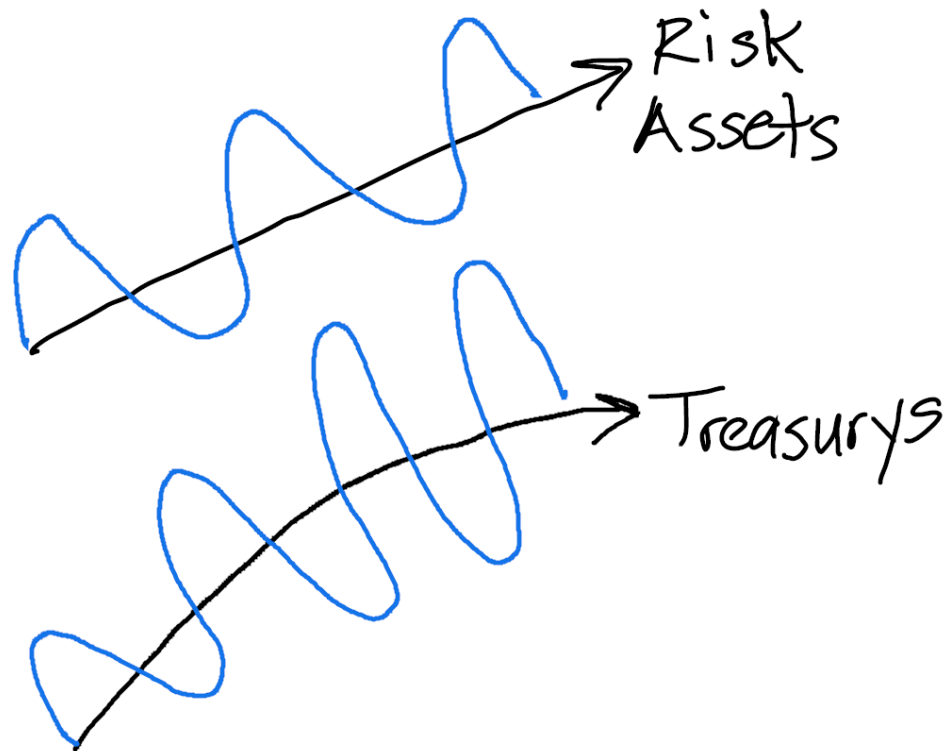
# The Three Most Important Concepts In Investing: Rule #3 = The Journey Matters More To Your Financial, Mental, And Physical Health Than The Destination

Both Investment Strategies Feature Identical **+50%** Average Annual Returns.  
Which One Do You Prefer?

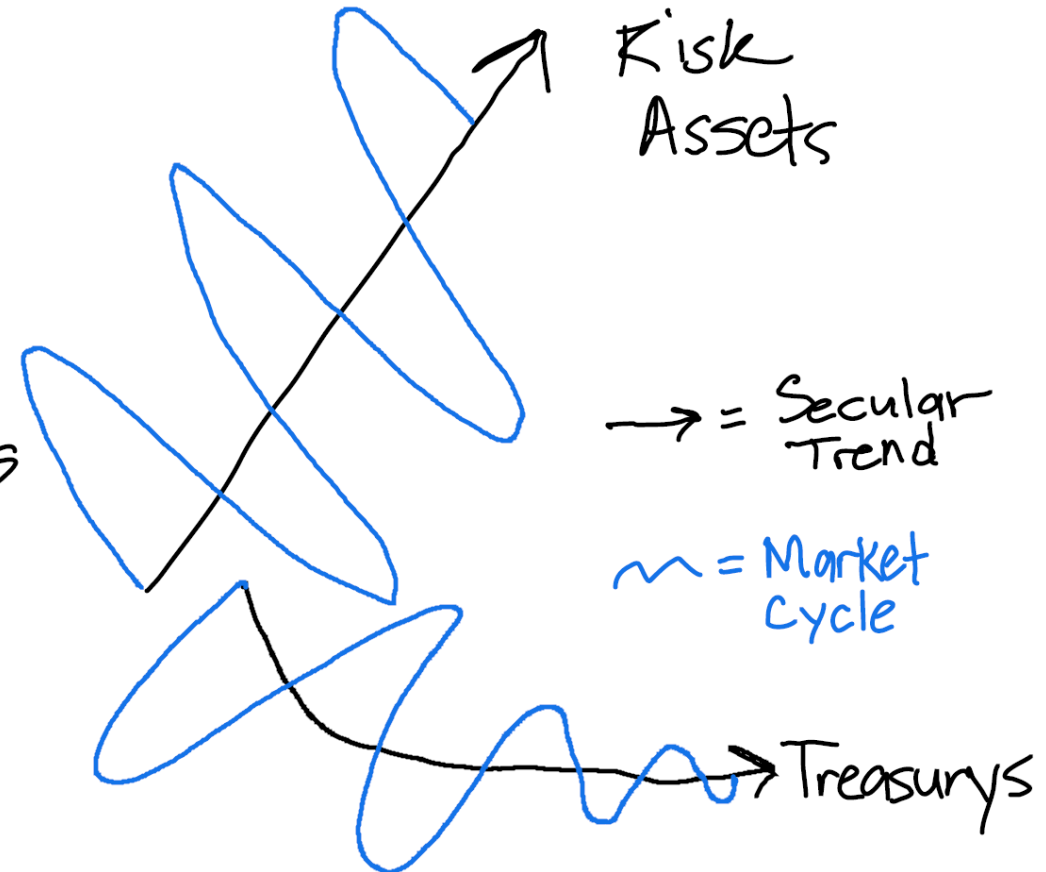


# Risk Assets Appreciate Faster During Fourth Turnings, But The Drawdowns Are Also Deeper Whenever The Fed And Regulated Financial Institutions Are Not Monetizing Fast Enough

Asset Markets In A "Normal" Regime



Asset Markets In A Fourth Turning Regime



**We Are All Frogs Being Boiled Alive In A Pot Of Monetary Debasement And Financial Repression; KISS And Dr. Mo Will Make Your #FrogLife Better**



Thanks for reviewing.  
See you next month!

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<https://app.42macro.com/kiss>

**Dr. Mo FAQ:**

<https://app.42macro.com/drmo>

**42 Macro Glossary:**

<https://app.42macro.com/glossary>

**The Macro Class:**

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