

# MCA Texas '24

July 26, 2024

**Tom Landstreet**

**Trusco Investment Management**

**Manager: N3L Fund LP**

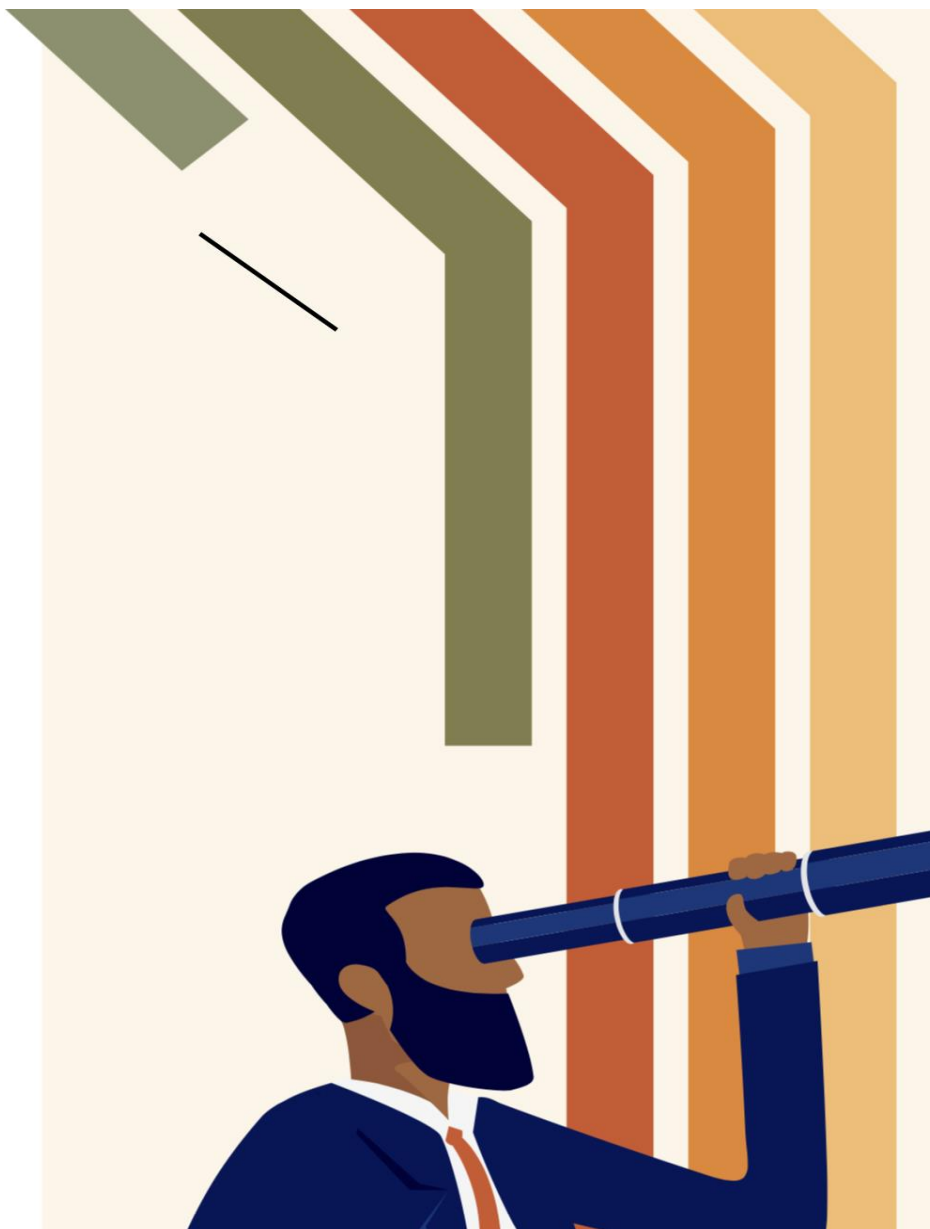
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[\*\*truscomgmt.com\*\*](https://truscomgmt.com)

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# ***That '70s Show: Economic Reruns Could Be on the Air for Another Decade***

By: Thomas F. Landstreet

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**A** history in stagflation and other key elements driving the U.S. economy

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Government is the 800-pound gorilla in the economy. Frustrating as that can be, investors who know how to connect the dots between policies and stock prices stand to make impressive returns. They can trade angst for alpha.

Macro investors seek to identify investment themes that move whole sectors of the economy, creating winners and losers. In the case of government policies, they never add to GDP, they just rearrange it.

I analyze policies through the scrim of what my former boss Arthur Laffer calls the “four grand kingdoms of macroeconomics.” This is more than an economic framework—it’s a way to make money. The Four Kingdoms consist of monetary, fiscal, regulatory and trade policies. It is

Arthur Laffer PhD

Ronald Reagan



# Laffer's Four Grand Kingdoms of Macro economics

- Monetary – Money, banking & interest rates
- Fiscal – Tax rates, subsidies, stimmmies, all spending
- Trade – Free trade, to trade wars to shooting wars
- Regulatory – Requirements, restrictions

# Americans are flocking to Texas: 9 of the 10 fastest-growing U.S. cities are there

The population growth in many Texas towns may be attributed in part to the state's relatively lower cost of living compared with many other states.



"Inflation is **too much**  
**money** chasing too few goods"

Milton Friedman

# Monetary Policy



# Federal Reserve Balance Sheet



— Assets: Total Assets: Total Assets (Less Eliminations from Consolidation): Wednesday Level



Shaded areas indicate U.S. recessions.

Source: Board of Governors of the Federal Reserve System (US)

[fred.stlouisfed.org](https://fred.stlouisfed.org)



# Fiscal Policy

# Over \$1 trillion in Industrial Subsidies



## INFLATION REDUCTION ACT GUIDEBOOK



CLEAN ENERGY

\$740b



AUGUST 09, 2022

## FACT SHEET: CHIPS and Science Act Will Lower Costs, Create Jobs, Strengthen Supply Chains, and Counter China



BRIEFING ROOM STATEMENTS AND RELEASES

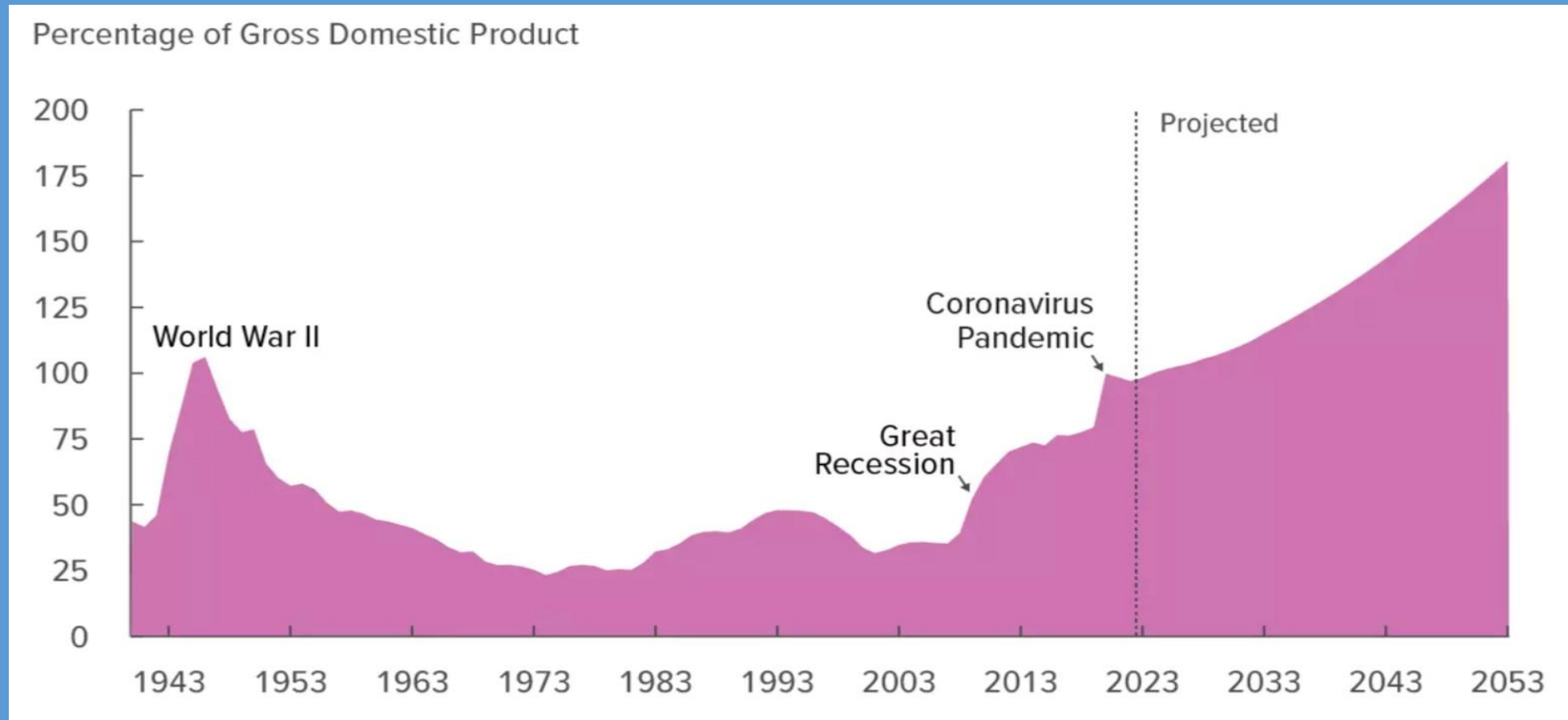
\$320b

# Covid Spending: Helicopter Money

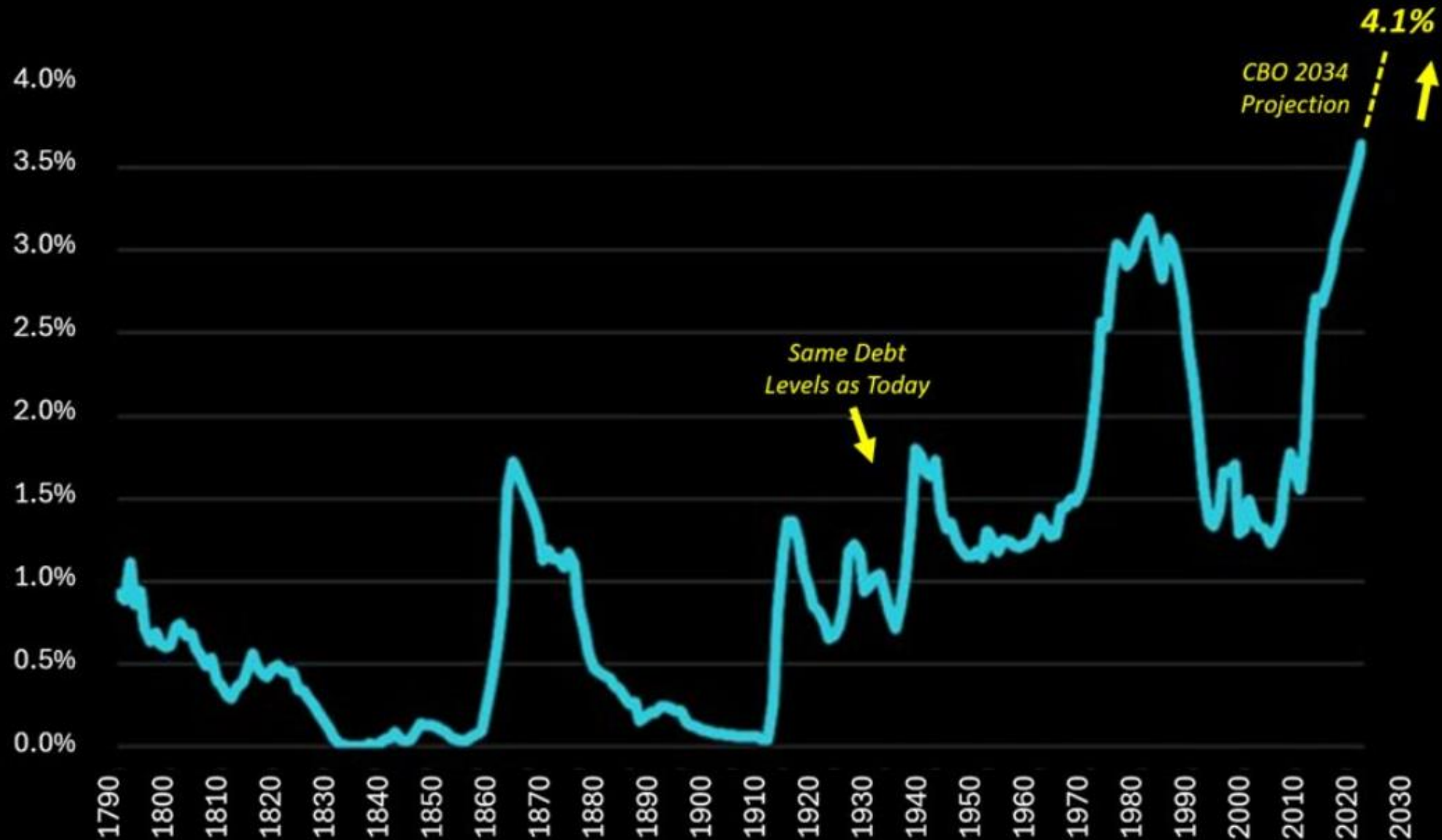
Spending areas (dollars in billions)	COVID-19 relief funding	Total obligations	Unexpired unobligated balance	Expired unobligated balance	Total expenditures
Public Health and Social Services Emergency Fund (Health and Human Services)	345.7	325.1	20.6	0.0	277.5
Pension Benefit Guaranty Corporation Fund (Pension Benefit Guaranty Corporation)	52.7	45.8	6.9	0.0	45.6
Emergency Rental Assistance (Treasury)	46.5	46.0	5.5	0.0	45.0
Veterans Medical Care and Health Fund (Veterans Affairs)	14.5	9.9	4.6	0.0	7.8
Transit Infrastructure Grants (Transportation)	69.5	65.9	3.7	0.0	53.2
U.S. Coronavirus Refundable Credits (Treasury)	62.4	58.8	3.7	0.0	58.8
CDC-Wide Activities and Program Support (Health and Human Services)	26.4	22.8	3.6	0.0	14.2
Other areas (includes over 250 accounts)	3,996.8	3,925.5	41.9	23.7	3,668.5
<b>Total</b>	<b>4,614.5</b>	<b>4,499.8</b>	<b>90.5</b>	<b>23.7</b>	<b>4,170.6</b>

Source: GAO analysis of data from the Department of the Treasury and applicable agencies. | GAO-23-106647

# Federal Treasury Debt as a Percentage of GDP

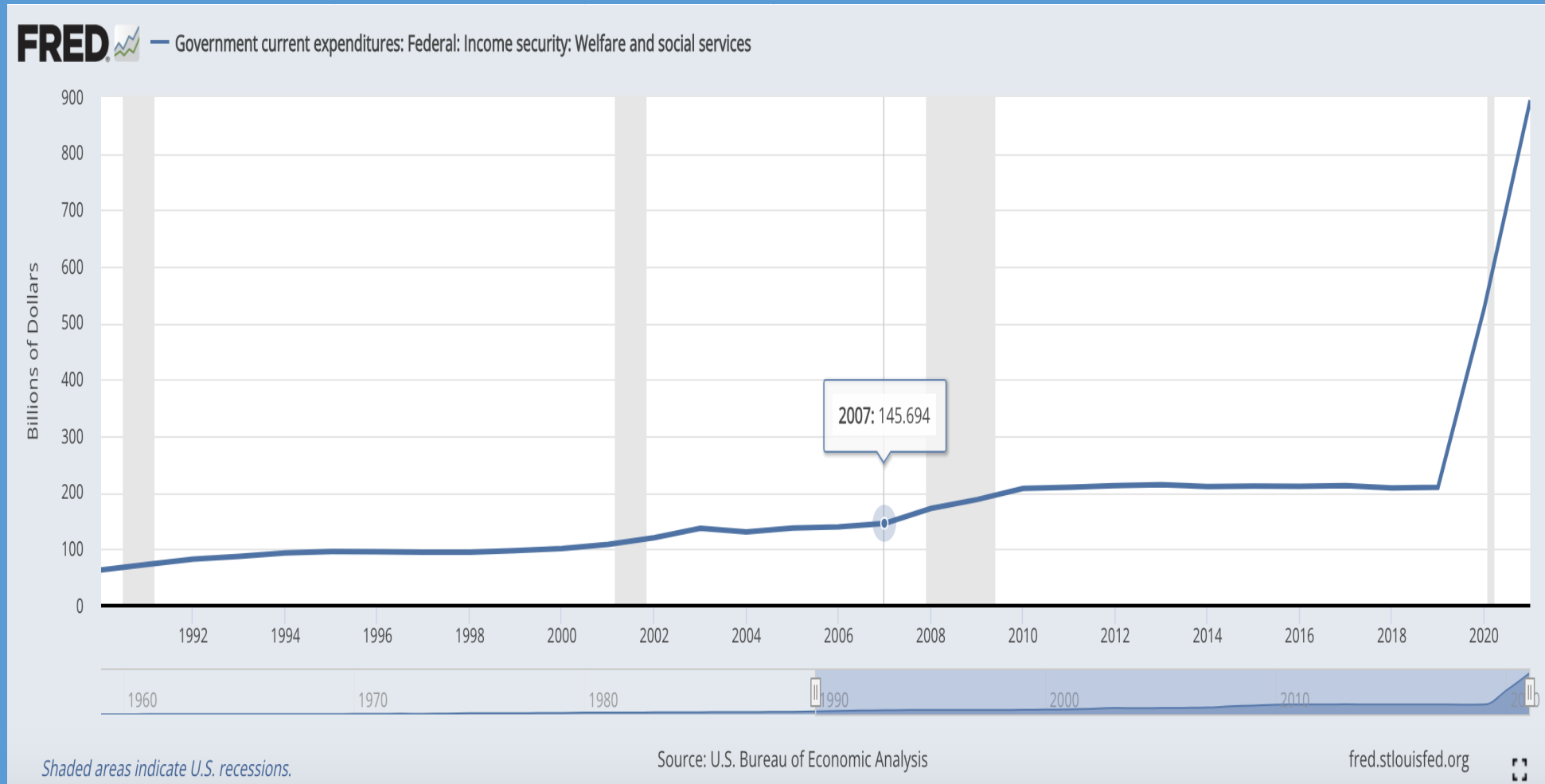


# US Federal Debt Net Interest Payment to GDP

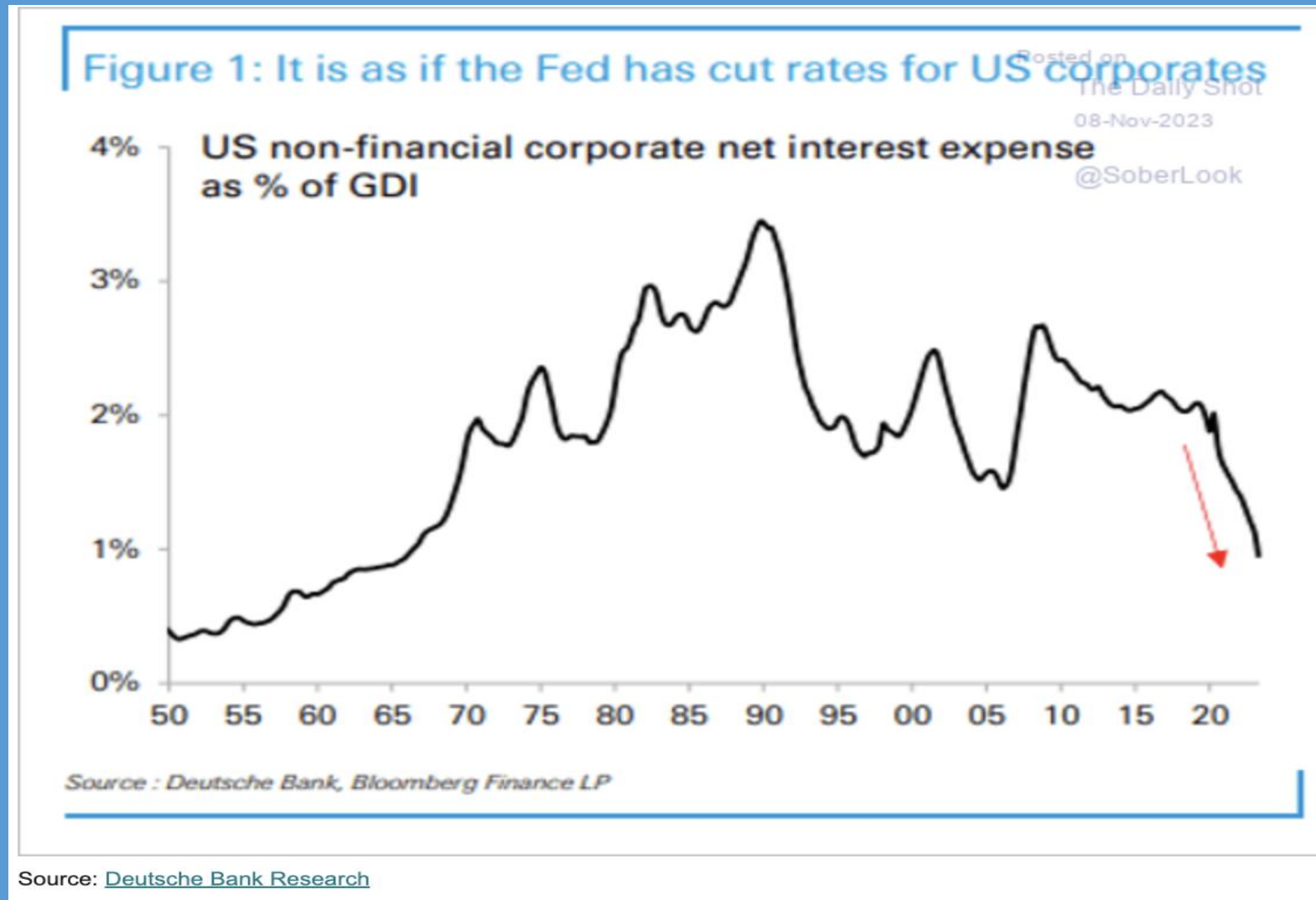


Source: Cato Institute; Annotations by Tavi Costa

# Federal Welfare and Social Services Spending



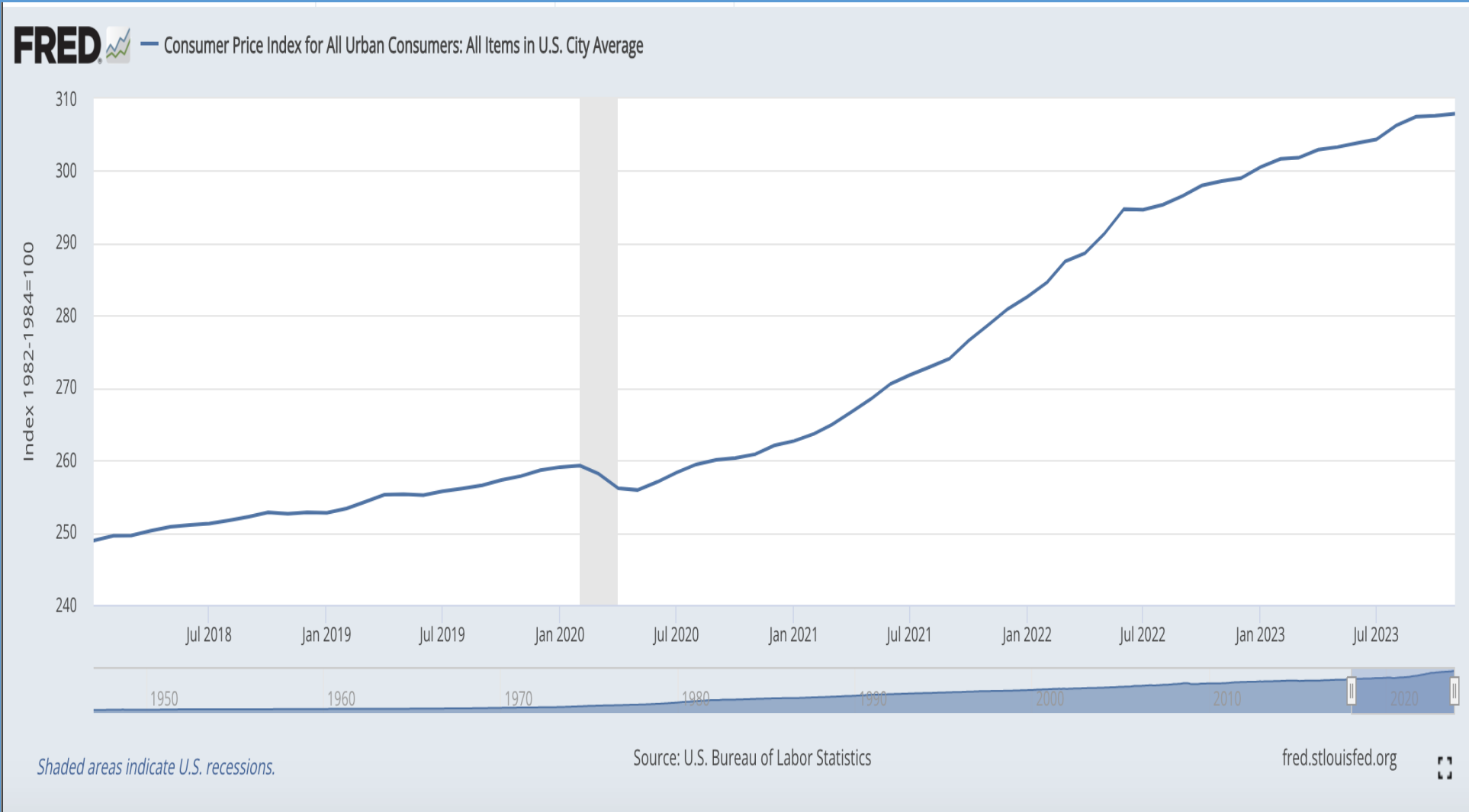
# Meanwhile, Companies Have Refinanced



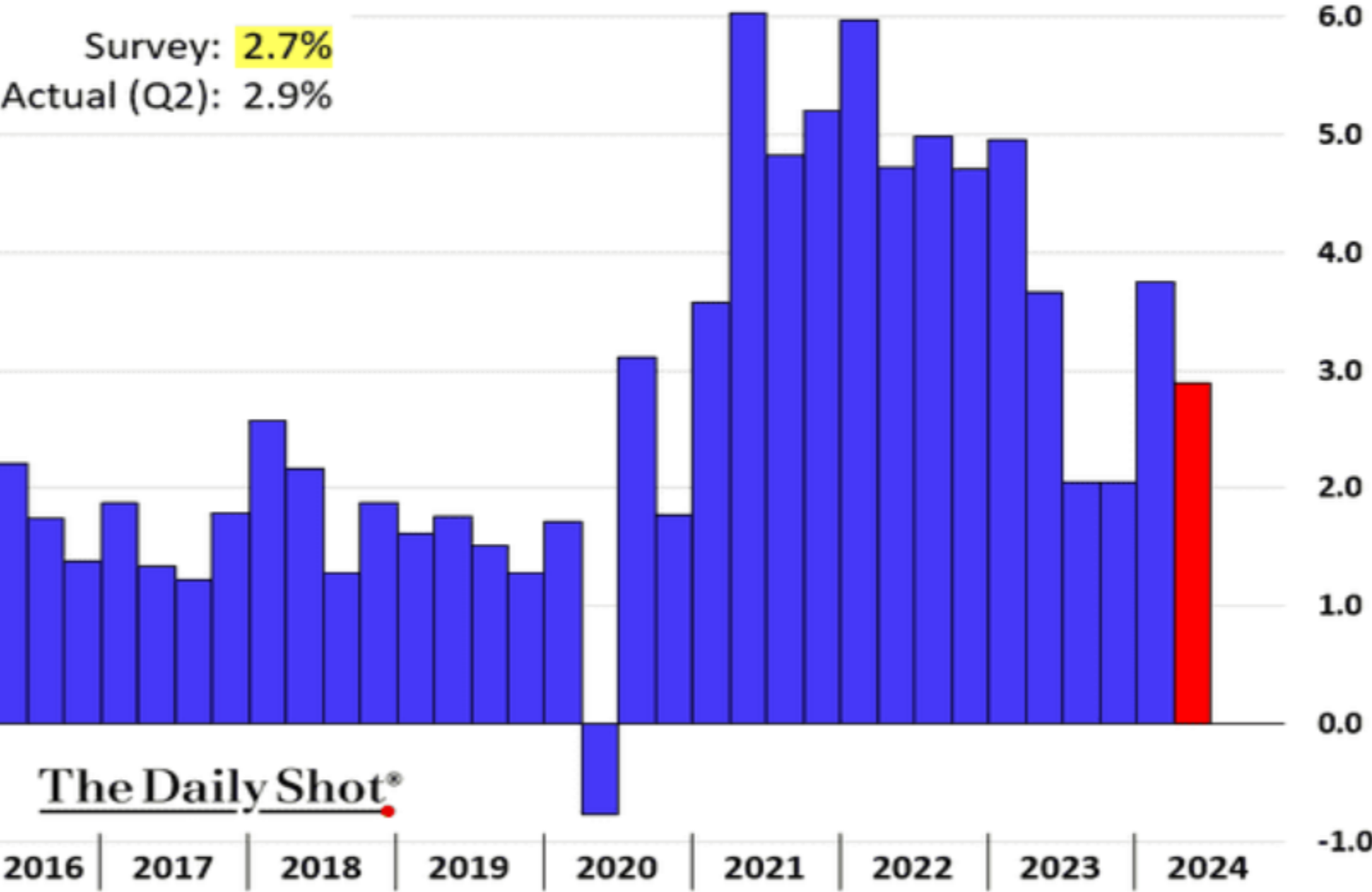




# Consumer Price Inflation



# US Core PCE Price Index QoQ Annualized



The Daily Shot®

Exhibit 10: US Inflation is on the Move

**CPI YoY % Today** vs. **CPI YoY % 1966-1982 Replayed (rhs)**

% Change from a year ago



Source: Bloomberg.

# Europe

## Green suicide

# ESG Gone Wild in Ireland



**200,000 cows to be culled in order to meet climate targets**

# Texan's idea of green compliance



24-Jul-24

# HCOB Germany Manufacturing PMI: New orders

Jul: 41.3



The Daily Shot<sup>®</sup>

Source: S&P Global



24-Jul-24

# HCOB Germany Manufacturing PMI: Employment

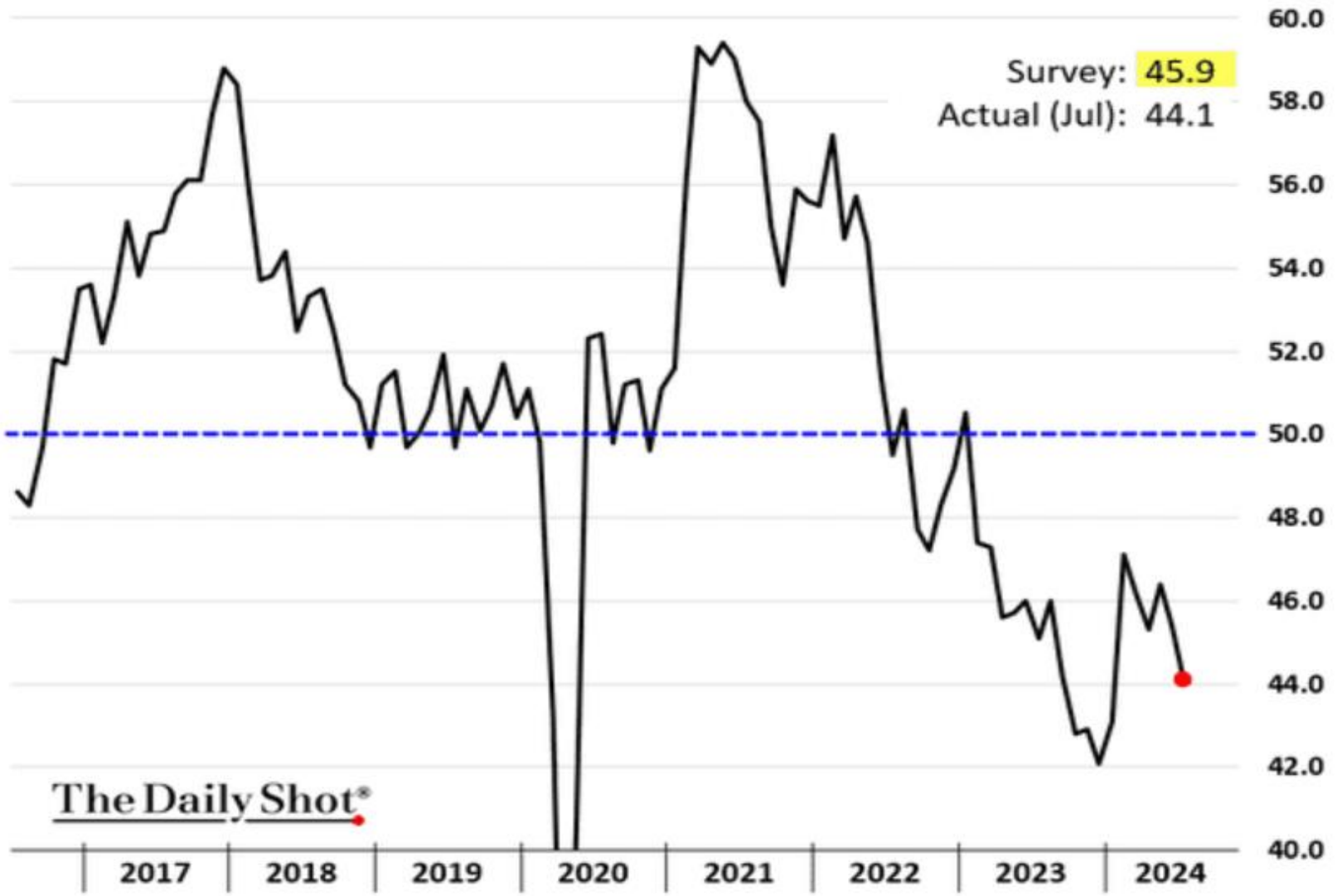


The Daily Shot<sup>®</sup>

Source: S&P Global

24-Jul-24

# HCOB France Manufacturing PMI



Survey: 45.9  
Actual (Jul): 44.1

The Daily Shot<sup>®</sup>

Source: S&P Global



"Inflation is too much  
money chasing too few goods"

**Milton Friedman**

# Trade

## Geopolitical Shifts Underway

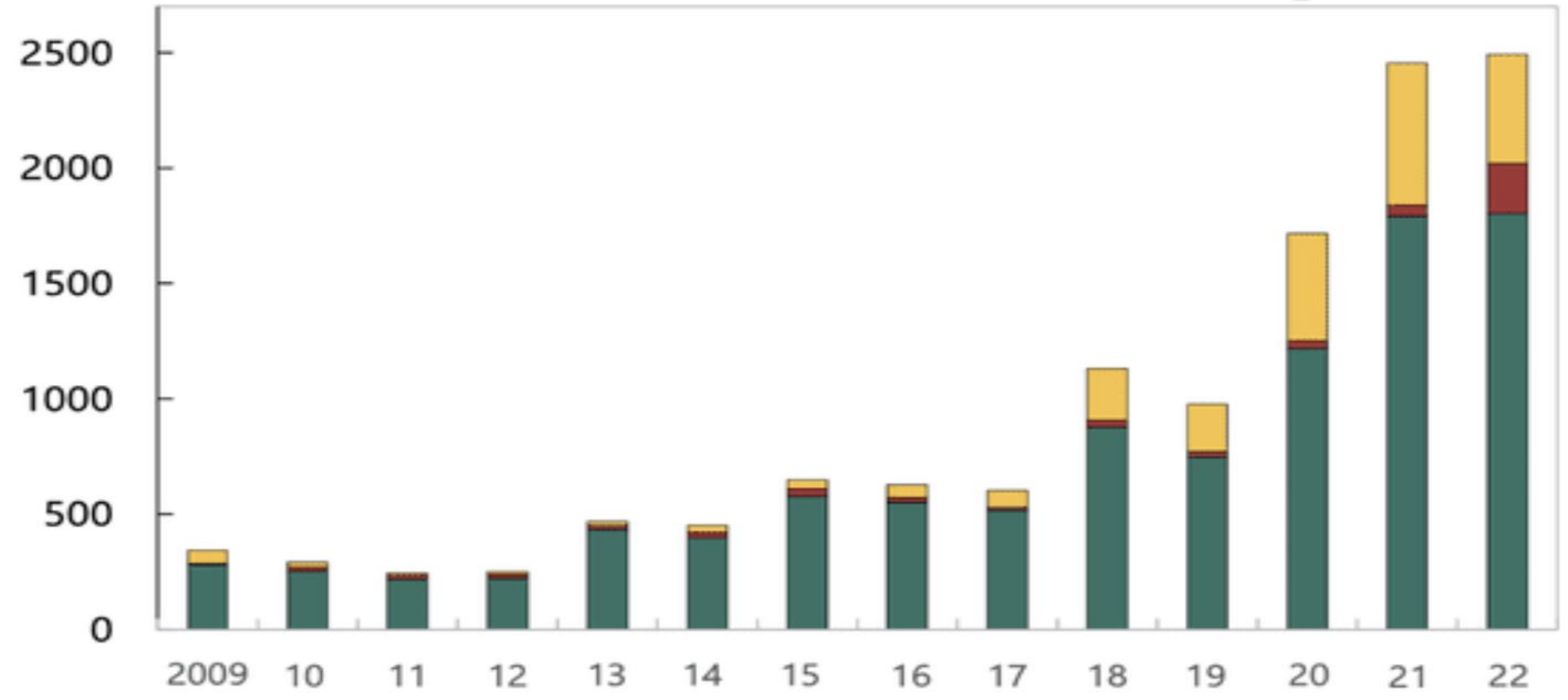


# Figure 7. Trade Restrictions Imposed (Number)

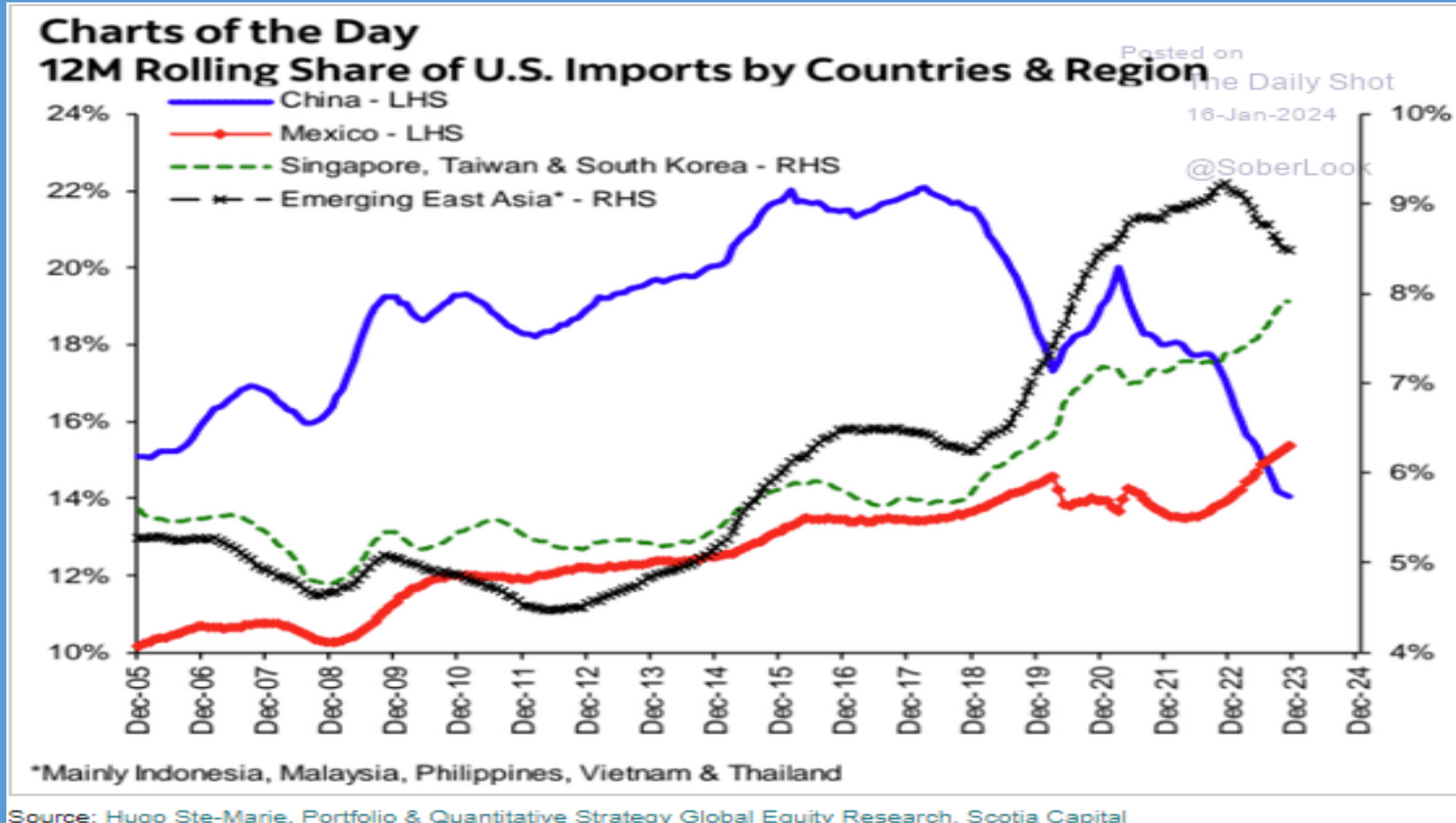
Based on  
The Daily Shot  
30-May-2023

■ Goods      ■ Investment      ■ Services

@SuberLook



# U.S. Imports by Country



Source: [Hugo Ste-Marie, Portfolio & Quantitative Strategy Global Equity Research, Scotia Capital](#)

## China's Local Governments Are In the Red

Posted on

They rely on transfer payments from Beijing, other funds to make ends meet

Combined budget deficit    Central government's surplus    Local governments' deficit



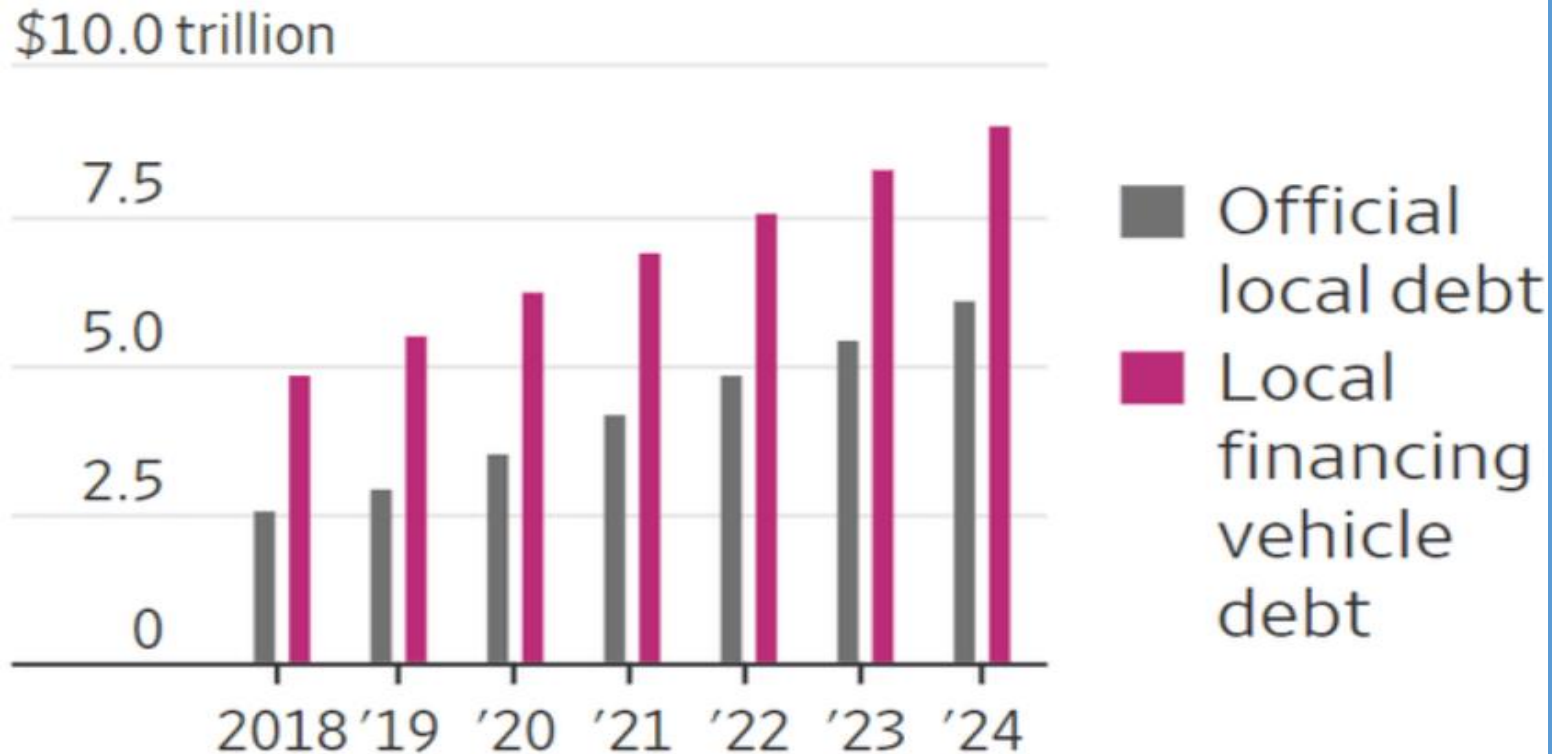
Source: Ministry of Finance

Note: Shows augmented balances, which include main budgets and fund budgets

# Hidden Risks

Local government financing vehicles have racked up trillions of dollars in off-the-books debts, far surpassing official debt loads.

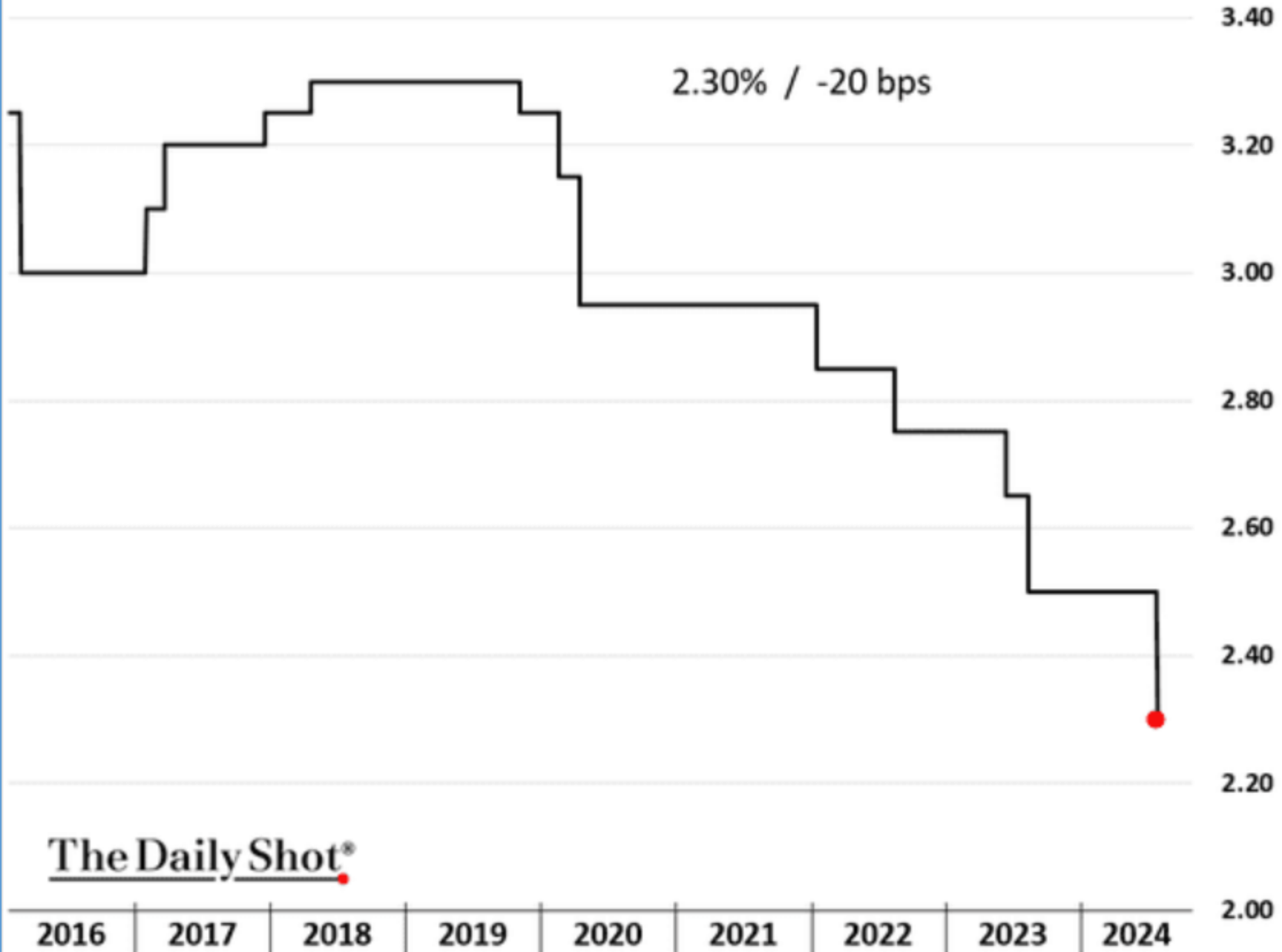
Posted on  
The Daily Shot  
23 Dec 2024  
@Scherl.ook





25-Jul-24

# PBoC 1-Year Lending Facility Rate

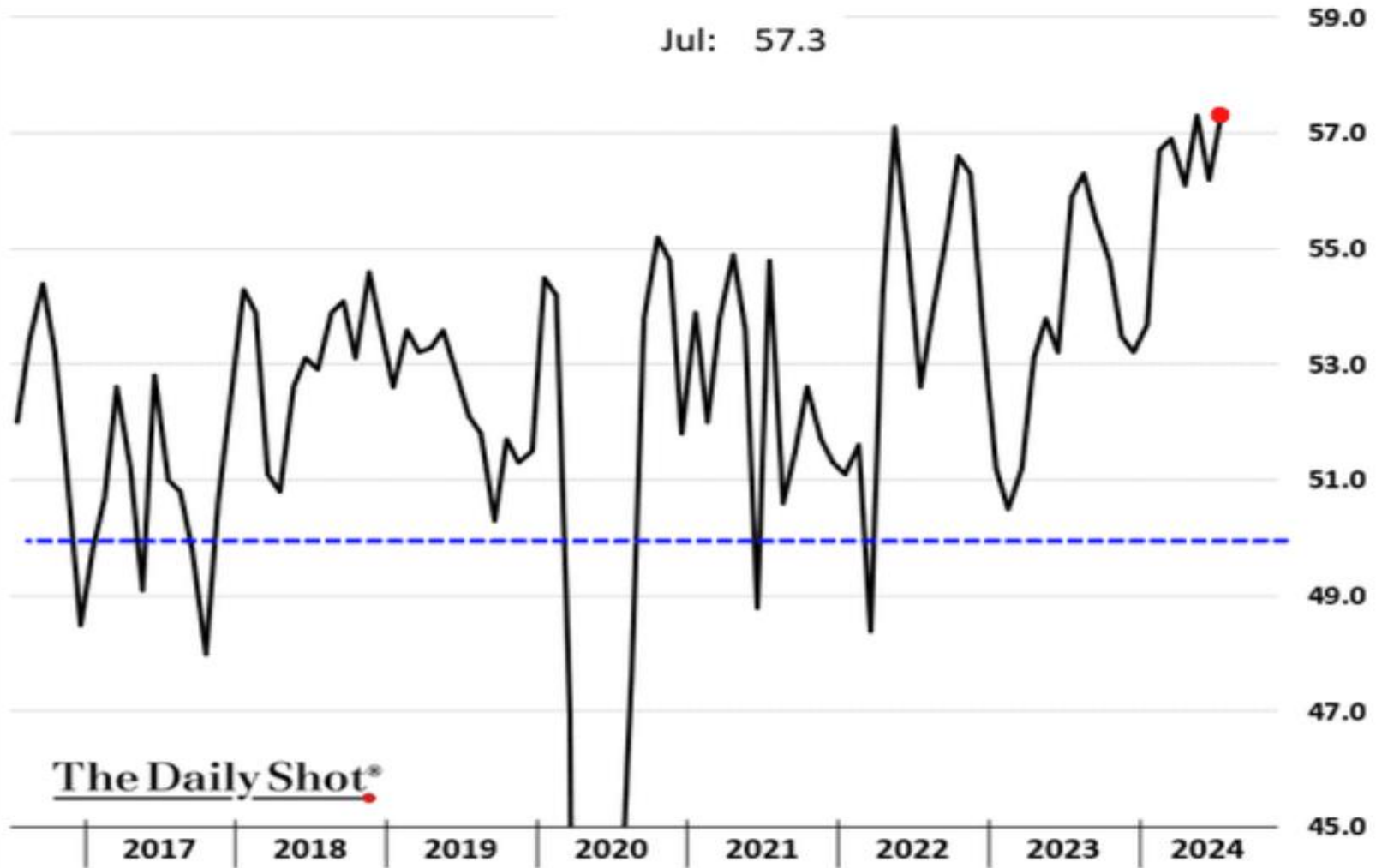


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## HSBC India Manufacturing PMI: New Export Orders

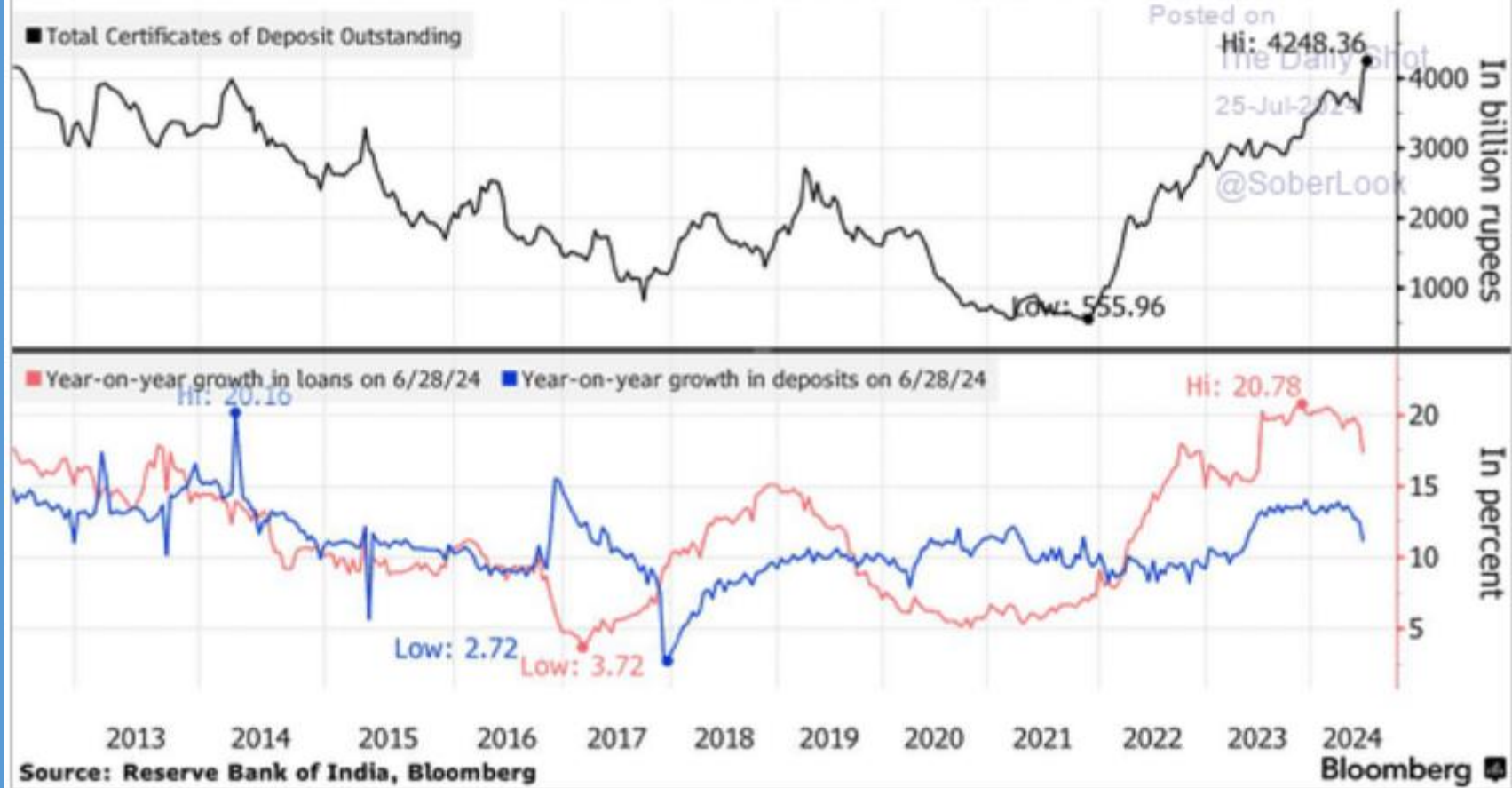
Jul: 57.3



**The Daily Shot®**

Source: S&P Global

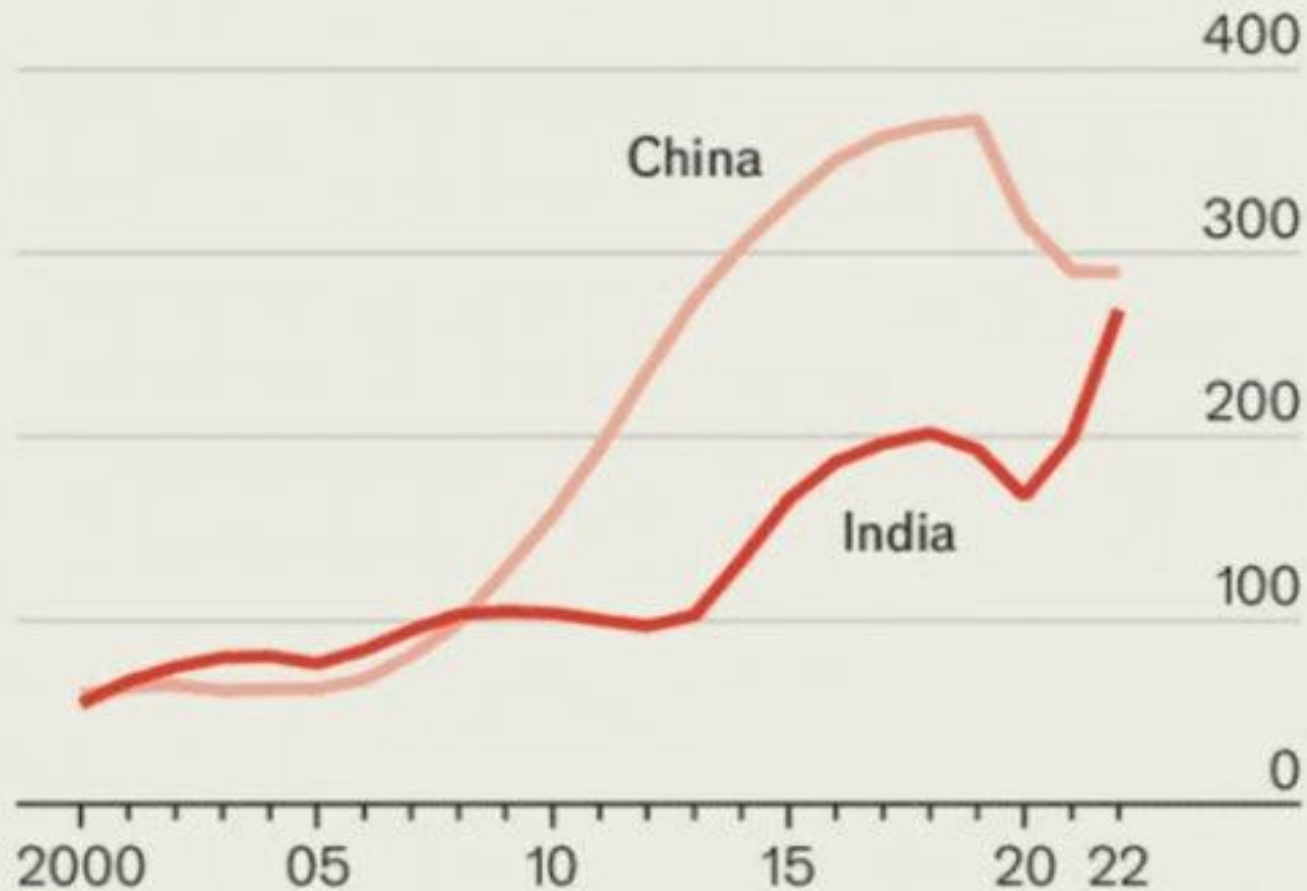
# Indian Banks' Short-Term Debt Soars on Loan Demand



Source: @markets [Read full article](#)

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## United States, international students enrolled in higher education, by country of origin, '000



Source: Institute of International Education

CHART: THE ECONOMIST

# BRICS Draws Membership Bids From 19 Nations Before Summit

- Algeria, Egypt, Indonesia have asked to join the group
- Foreign ministers from the five BRICS members meet in June



Yang Jiechi attends the 11th Meeting of the BRICS High Representatives for Security Issues via video link in Beijing. *Photographer: Yin Bogu/Xinhua/Getty Images*

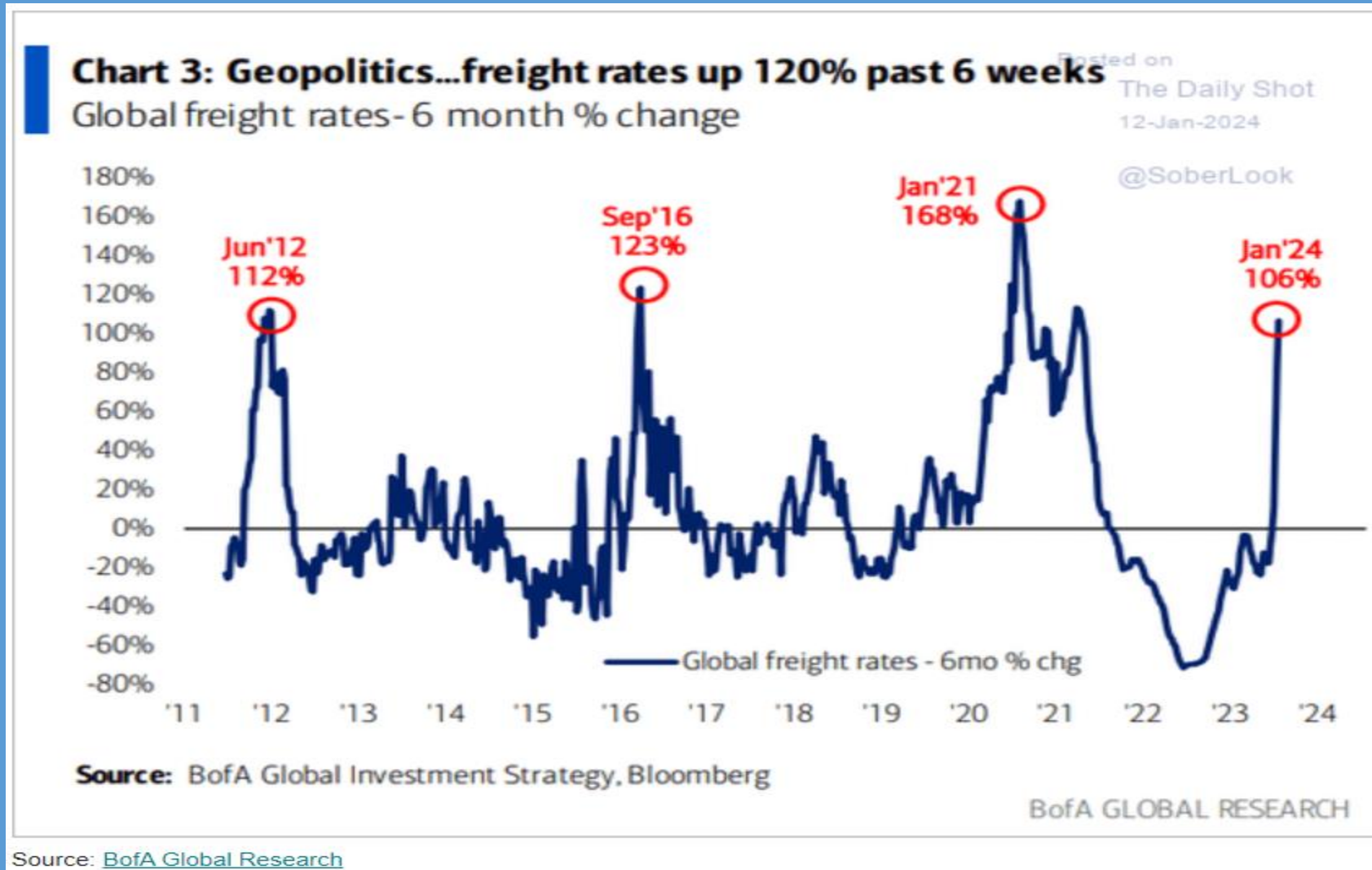
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# Shipping Rates Rising Rapidly



Source: [BofA Global Research](#)

# U.S. Recession Debate

No Landing?  
Soft Landing?  
Hard Landing?



# Economic Growth Quickens, Rising at 2.8% Rate in Second Quarter

Second-quarter GDP marks sharp acceleration from the first quarter

Source: @WSJ [Read full article](#)

25-Jul-24

# Kansas City Fed Manufacturing Index

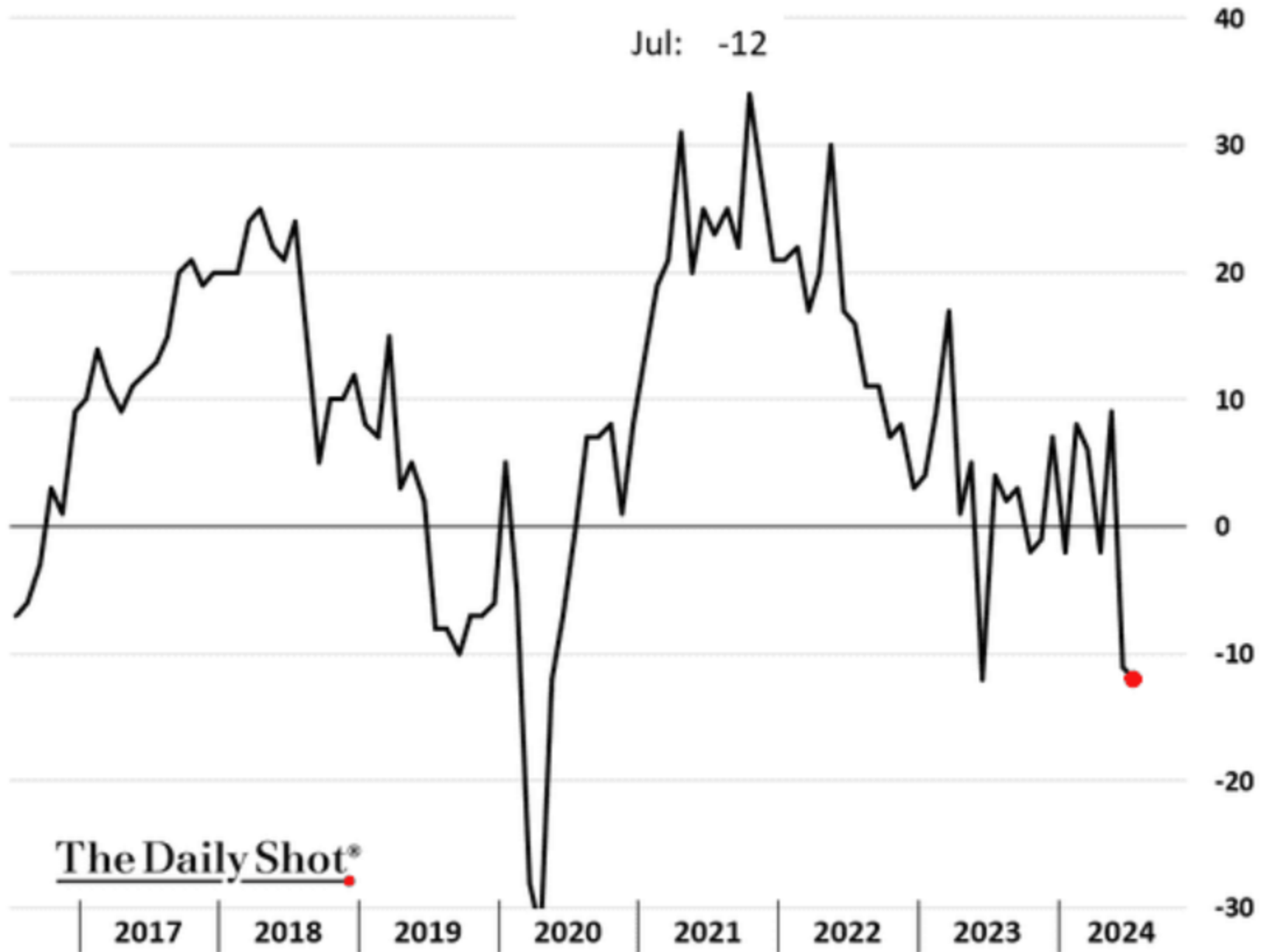
Survey: -5  
Actual (Jul): -13



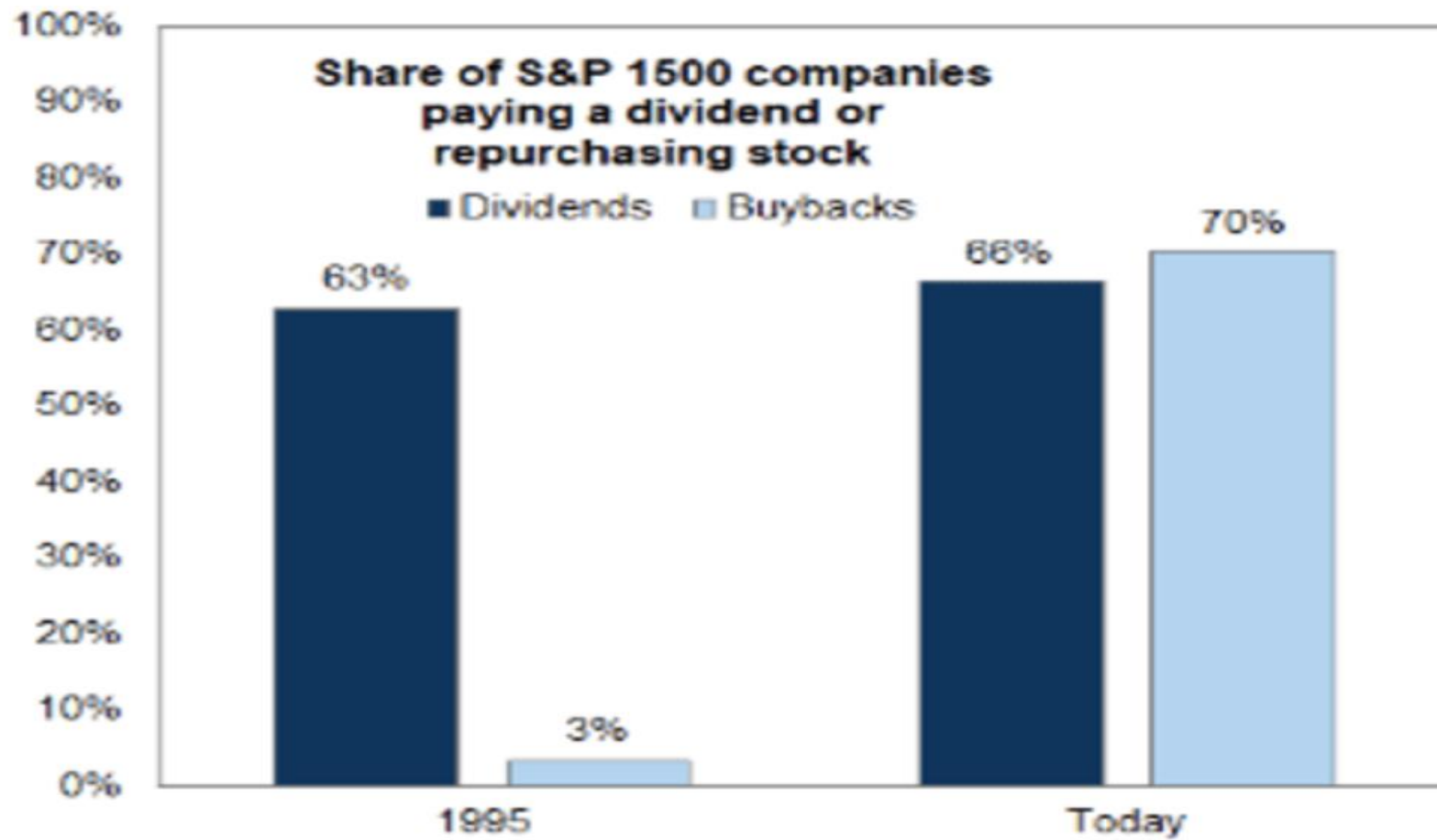
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25-Jul-24

# Kansas City Fed Manufacturing: Number of Employees

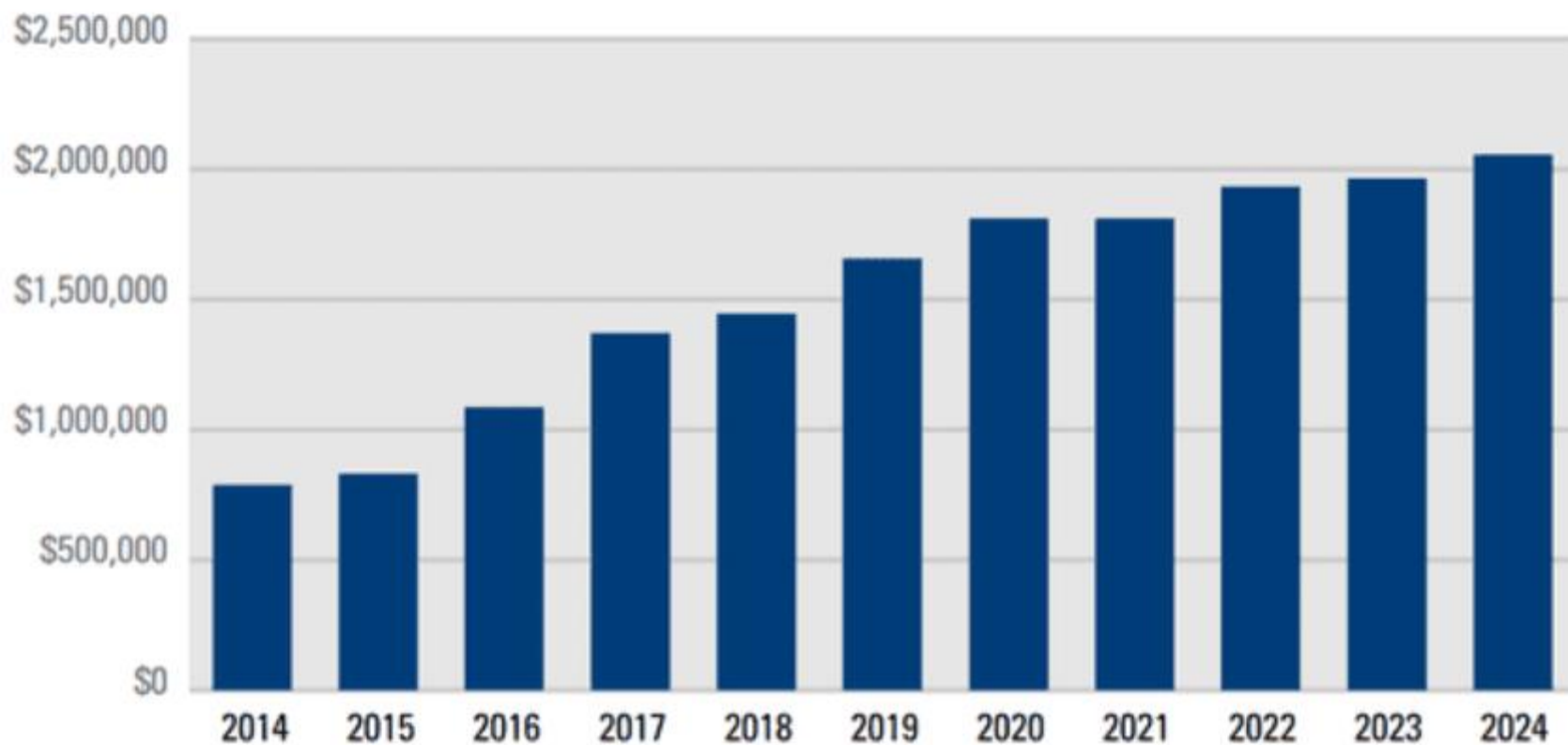


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Source: FactSet, Goldman Sachs Global Investment Research

## GLOBAL PE DRY POWDER (\$M)



Data through 6/2024

Source: S&P CapitalIQ Pro, Preqin; Chart: VRC

Source: [VRC](#)

# Pace of PE Distributions Drops to More Than Decade Low

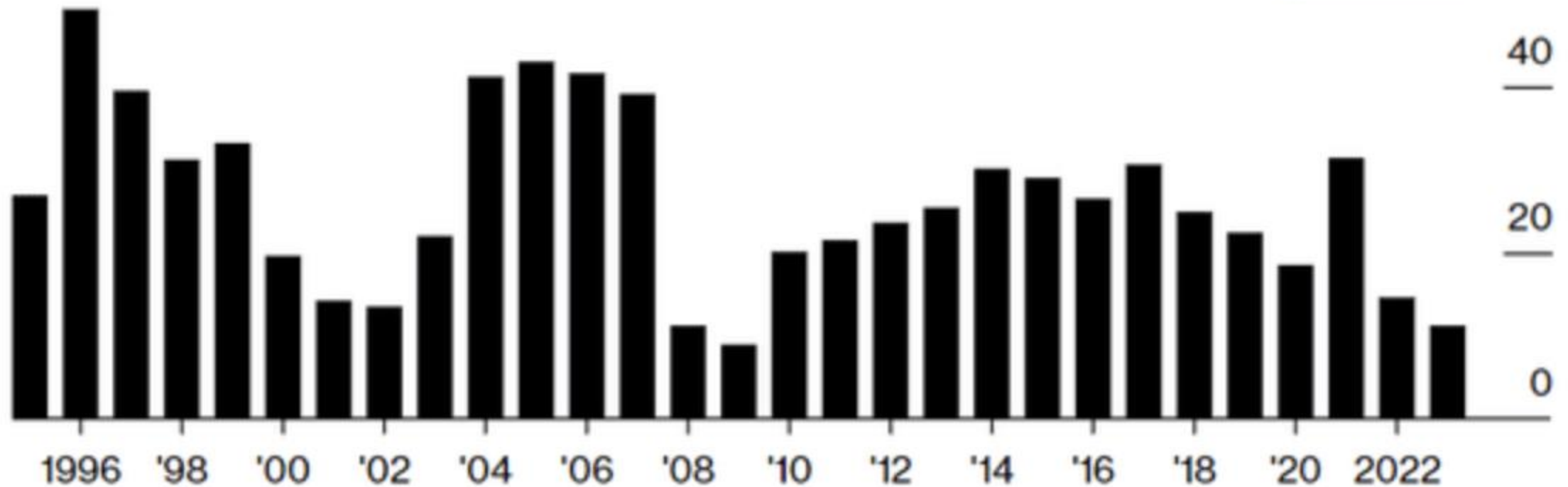
■ Distributions as % of NAV

Posted on  
The Daily Shot

16-Feb-2024

60%

@SoberLook



Source: Raymond James Private Capital Advisory: Fundraising Market Analysis

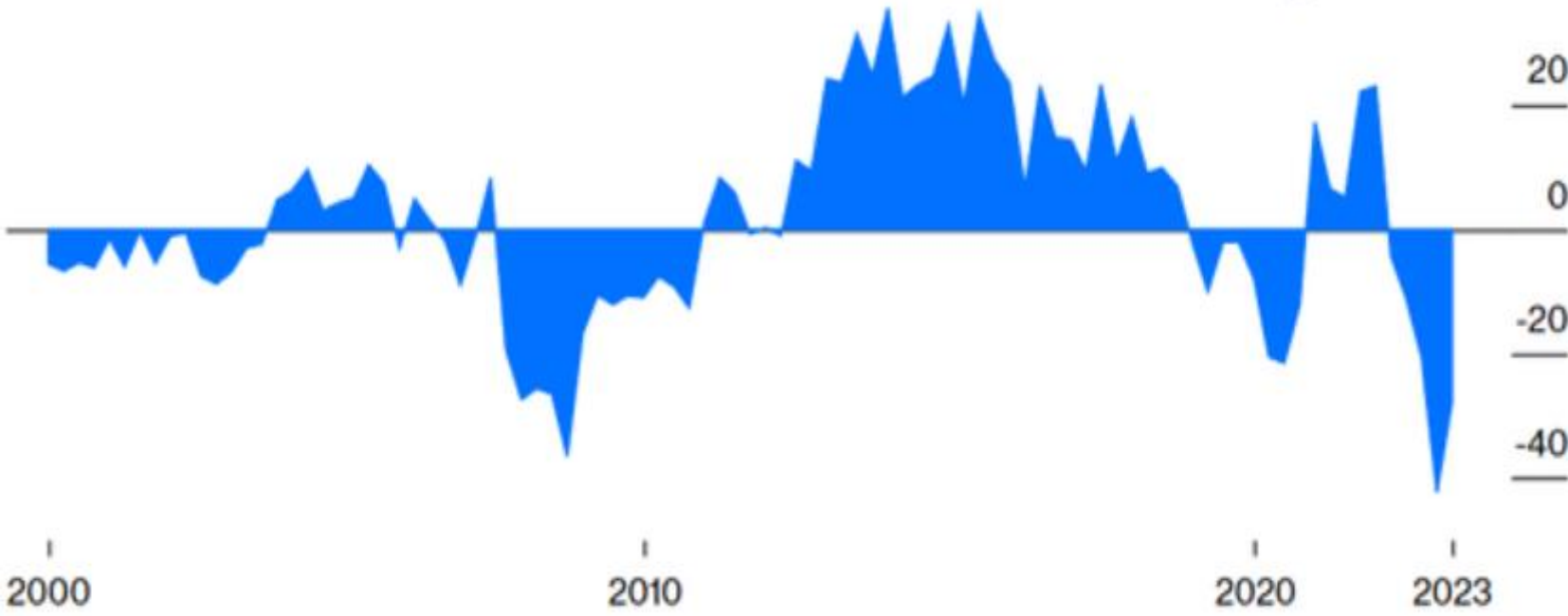
# Cash Flows for Private Equity Investors Turned Deeply Negative

Difference between quarterly capital calls and distributions globally

The Daily Shot

23-Jul-2024

\$40 billion  
@SoberLook



Source: The Burgiss Group

Source: @PaulJJDavies, @opinion [Read full article](#)

# Venture capital fund distributions

As a share of net asset value; Quarterly; Q1 2004 to Q4 2023

Posted on

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16-Feb-2024

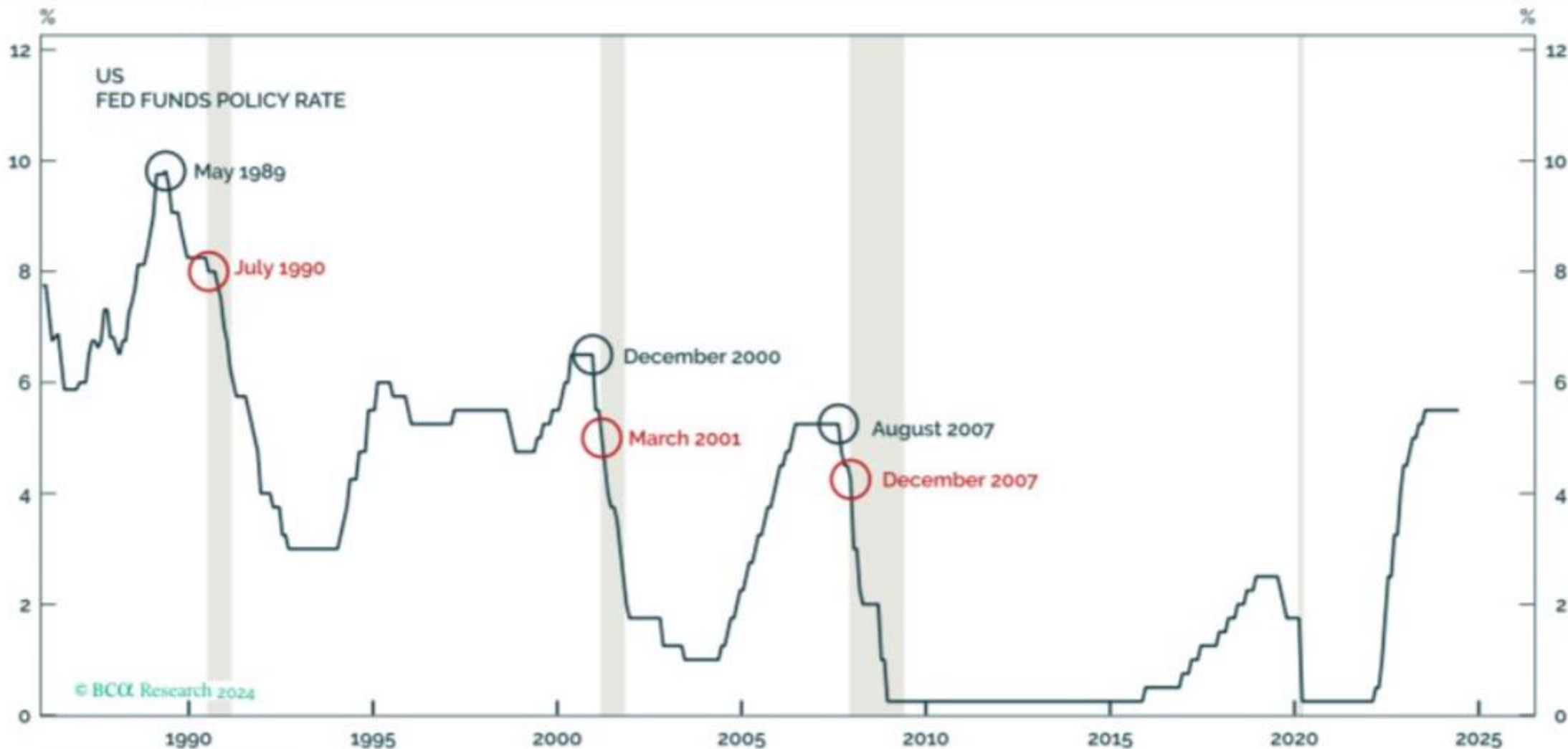
@SoberLook



Data: PitchBook; Note: Data is for funds 5 to 10 years old; Chart: Axios Visuals



# Recessions Often Start Not Long After The Fed Begins Cutting Rates



SOURCE: FEDERAL RESERVE.  
NOTE: SHADED AREAS DENOTE NBER-DESIGNATED RECESSIONS.



**Recent Chinese  
tariff increases**

**Electric vehicles**

**Solar cells**

**Semiconductors**

**EV batteries**

**Steel and Aluminum**

## Trump

- Oil & Gas
  - Increase LNG exports
  - Allow more drilling on federal lands and offshore
  - Accelerate new pipeline projects
  - Deregulate oilfield emissions
- Pro Nuclear
- Diminish Off-Shore Wind
- Ban EV Tax Credits
- Against Green New Deal
- Withdraw from Paris Climate Accord

## Harris

- Oil & Gas
  - Continue Biden's ban on LNG exports
  - Ban drilling on federal lands and offshore
  - Enact fees for greenhouse gas emitters
  - End hydraulic fracturing
- Pro Nuclear
- Expand Off-Shore Wind
- EV Tax Credit
  - Current EV tax credit of up to \$7,500
- Green New Deal
- Pro the Paris Climate Accord

## TRUMP

Lower corporate tax rate 21% --> 20%

Extend current tax regime

Impose 10% universal baseline tariff

Minimum of 60% tariff on all  
Chinese imports

## Kamala

Increase corporate tax rate 21% --> 28%

Increase income taxes above \$400k

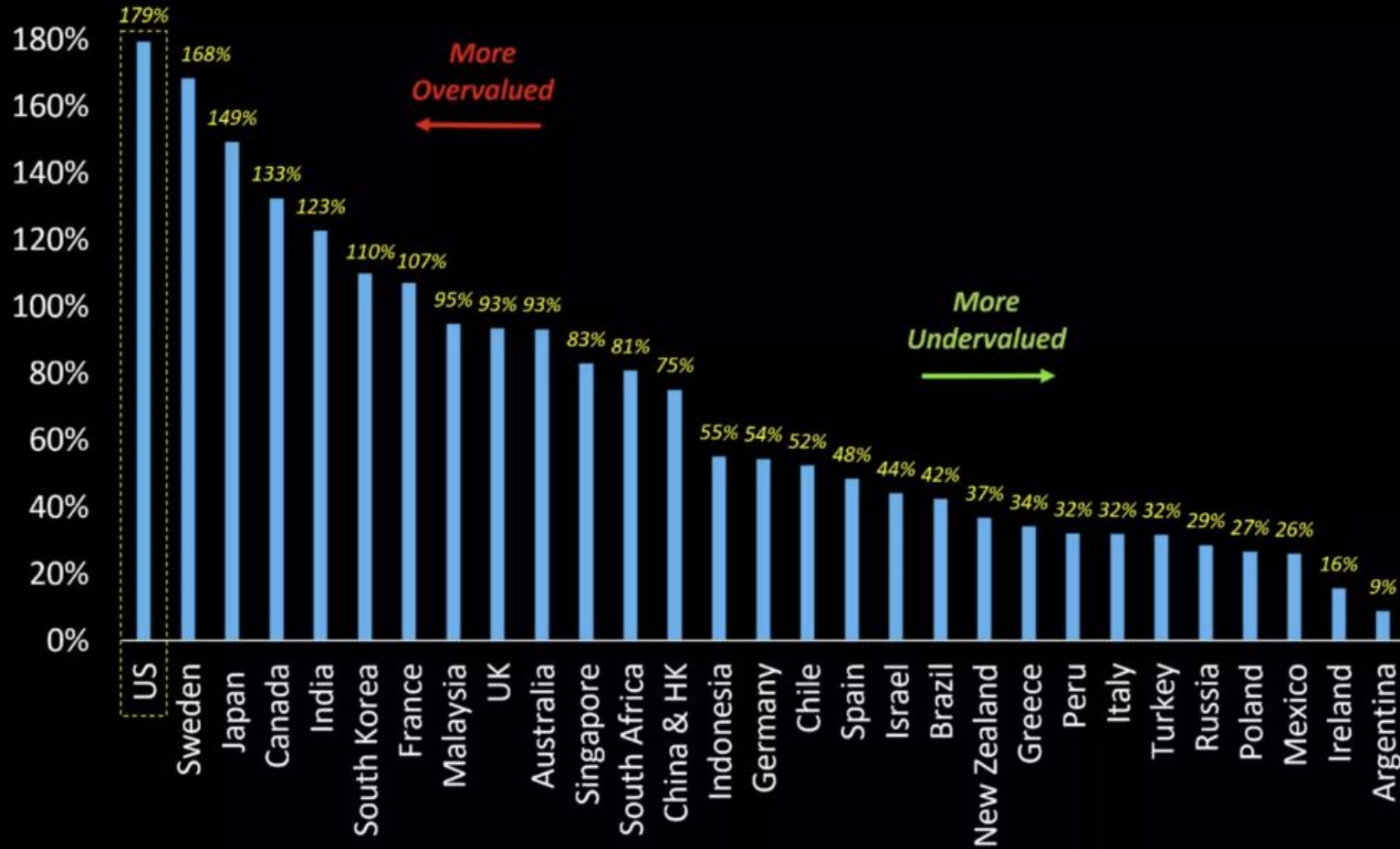
Extend current tariffs

Increase capital gains tax

# Betting Odds Data

BETTING ODDS	TRUMP	HARRIS	OBAMA	KENNEDY	NEWSOM
<b>RCP Average</b>	<b>57.1</b>	<b>35.1</b>	<b>2.8</b>	<b>1.2</b>	<b>0.9</b>
BetOnline	59	37	5	—	1
Betfair	56	32	1	0	0
Bovada	59	36	2	2	1
Bwin	60	37	4	—	2
Polymarket	57	31	3	1	0
PredictIt	53	40	—	2	2
Smarmets	56	33	2	1	0

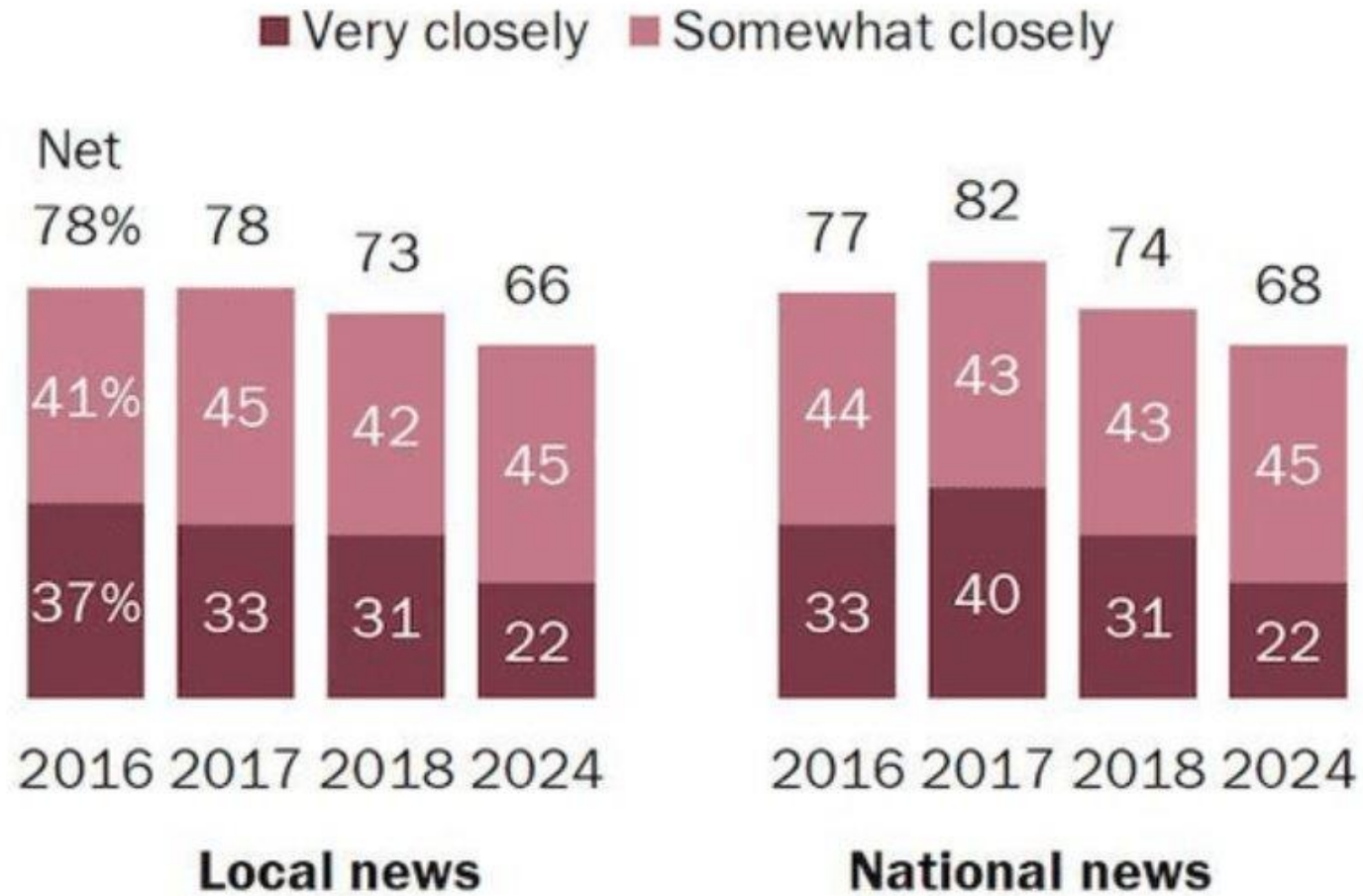
# Market Cap to GDP by Country



Source: Bloomberg; Tavi Costa

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*% of U.S. adults who say they follow each type of news ...*



Source: Pew Research Center survey of U.S. adults conducted Jan. 22-28, 2024.

“Americans’ Changing Relationship With Local News”

# Questions?

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