

Assets Rally on Lower Inflation and Solid Earnings

Markets Rallied as Inflation Pressures Ebbd and Earnings Surprised to the Upside
 Following a sharp 1Q24 rally in financial assets, 2Q24 witnessed ongoing price momentum on robust technology earnings and declining inflation pressure. However, economic data seemed more mixed, with GDP decelerating throughout the quarter and anticipated economic recoveries in Europe and Asia failing to materialize.

Rockingstone Performance

We posted a decent quarter in a momentum-oriented equity market with select stocks such as NVDA, TSEM and CLS. These positions were partly offset by weakness in BA, DIS, LYV, SBUX and WSC. In our balanced accounts we benefitted from fixing much of our floating rate debt and being under-weight fixed income vs. the benchmark.

The Political Landscape: Implications for Economic Growth & Portfolios

As President Biden bows out of the presidential race and Democrats appear to coalesce around VP Harris as the nominee, we evaluate the respective economic policies of the two parties and implications the elections may have on taxes, inflation, tariffs, trade, interest rates and the deficit. While the analysis is fraught with over generalization, the stark policy differences cannot be ignored, and aspects of each party’s policies are problematic.

Implications for Portfolios

Our long-term value-bias and more equal weight approach make us cautious on the S&P, although we are cognizant of upward EPS estimate revisions. For this reason, we continue to own US large cap growth, but see longer-term opportunities in small and mid-caps, industrials and quality growth. We have increased exposure to select foreign assets, although confess international has been a value trap, especially given the \$US strength.

S&P500 Forecast & Other Key Indicators

We forecast: EPS (2024/2025: \$237/\$265), S&P500 (2024 year end = 5400), GDP (2024: +2.2%), Gold (\$2400), Oil (\$75), 10-yr US Bond Yield (4.4%), Inflation (2.5%), 5-yr expected CAGR (US Large Cap -1%, US Mid Cap +5%, US Small Cap +7%, Developed +3%, EM +7%).

ABOUT US

Rockingstone Advisors LLC is a boutique asset management firm co-managed by Brandt Sakakeeny and Eric Katzman, CFA.

As an SEC-registered investment advisor, we provide multi-asset investment strategies to individuals, families and small institutions through separate accounts.

Our investment strategies attempt to capitalize on pricing inefficiencies across broad asset classes and then across individual securities, with a strong emphasis on fundamental research and analysis.

Thank you for your interest. You can find more information (and some interesting articles) at:

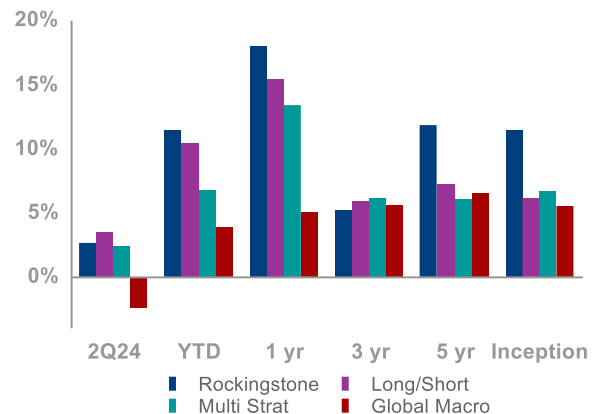
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Figure 1: 2Q24 Asset Class Performanceⁱ



Source: FactSet

Figure 2: Rockingstone: 2Q24 & Historical Annualized Returnsⁱⁱ



Source: Rockingstone Advisors, Morningstar, DJ Credit Suisse Indices, Inception = 5/30/2009

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A Conundrum for the Fed

Inflation figures improved on lower oil prices, thereby creating some room for the Fed to lower rates in 2H24. But the timing of rate cuts is difficult given the elections, and the stark difference in the two major parties' tax and budget plans, let alone immigration and tariffs, make the formulation of monetary policy particularly problematic.

CPI and PCE Resume Downward Trend

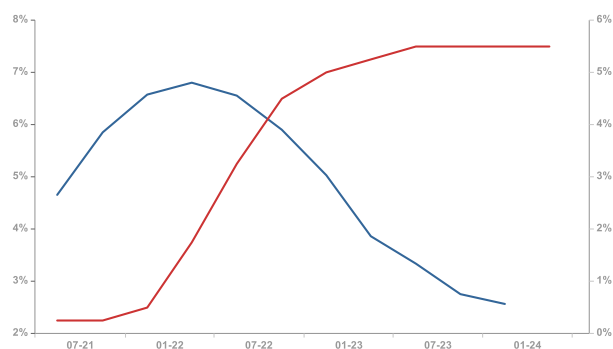
After peaking in June of 2022 (Figure 3), the change in CPI generally posted declines every month for a year, bottoming in June 2023. However, between June of 2023 and March 2024, CPI had stopped declining and appeared to be bouncing between annual increases of 3.1% and 3.5%, evidencing stubbornly high prices. However, starting in April 2024 and for the next several months, CPI resumed its downward trend, recording a decline of 0.1% in June (reported July 10th, 2024). The improved outlook for inflationary trends gives the Fed more leeway to contemplate interest rate cuts in the second half of 2024, in our view.

Figure 3: CPI, Core (Red) and Non-Core (Blue)



Source: FactSet

Figure 4: PCE (Blue) and Fed Funds Target Rate (Red)



Source: FactSet

That said, the Fed's primary goal—outside of monetary policy—is to maintain its independence from undue political oversight and influence. Part of that is simply due to the goal of all institutions for self-preservation and the desire to manage their own affairs free of interference, but most importantly, because there is clear statistical evidence across countries that the more independent the central bank, the less inflation a country experiences. Central banks that maintain their independence do a better job of controlling inflation over the long run than those whose monetary policies are influenced by political forces.

Hence, the timing of potential rate cuts creates something of a conundrum for the Fed. First, given the proximity of the elections, the timing of any rate cut this fall could be perceived as a political act meant to enhance the election prospects of the incumbent administration, potentially jeopardizing the Fed's independence. Second, monetary policy must also consider the fiscal policy implications that might be implemented by a new administration and Congress in 2025. Given the difference in the fiscal and trade policies of the two major parties, the economic outlook might be materially different depending on the outcome of the elections. Yet it is worth noting that despite those fiscal policy differences, both major

parties have overseen and been responsible for massive increases in US government debt and deficits.

Crafting tax and budget policies is a complex endeavor, subject to assumptions around economic growth, demographics, employment, trade, tax proceeds, income distribution, capital gains realization and a variety of other variables. Complicating forecasting are policy disagreements around potential tariffs, immigration policy and the impact of economic decisions made in Europe and China on the US. There is also the inevitable horse-trading that occurs when drafting tax legislation as special interests and influential Congressmen exert their influence. It is easy to see why the Fed is in such an unenviable position. The Fed must consider two stark options— as well everything in between.

The next segment delves deeper into the most important public policy issues affecting the economy, including a refresher on the key provisions of the TCJA and the components of it set to expire in 2025, immigration, tariffs and regulatory policies and the portfolio management implications of these policies.

The Tax Cut and Jobs Act (TCJA)

The Tax Cut and Jobs Act was passed by Congress in December of 2017 and signed into law by then President Trump on December 22, 2017. The comprehensive legislation reduced individual taxes, eliminated some deductions, reduced the impact of estate taxes, eliminated corporate tax brackets by creating a much lower flat tax on corporate profits, and provided for accelerated depreciation on asset purchases for businesses, among other substantial changes to the tax code. However, most of the provisions of the law are scheduled to expire in 2025, reverting to their pre-TCJA levels.

In this section we revisit key components of the legislation and the provisions set to expire, as well as analyze the cost of extending the tax cuts on the federal deficit.

For individuals, the TCJA raised income thresholds for tax brackets, while also lowering tax rates by roughly 1-4 percentage points per bracket until 2025.

Figure 5: TCJA Revised Tax Rates and Tax Brackets

Prior Rate	Prior Income Bracket	TCJA Rate	TCJA Income Bracket
10%	\$0 - \$19,050	10%	\$0 - \$19,050
15%	\$19,050 - \$77,400	12%	\$19,050 - \$77,400
25%	\$77,400 - \$156,150	22%	\$77,400 - \$165,000
28%	\$156,150 - \$237,960	24%	\$165,000 - \$315,000
33%	\$237,950 - \$424,950	32%	\$315,000 - \$400,000
35%	\$424,950 - \$480,050	35%	\$400,000 - \$600,000
39%	>\$480,050	37%	>\$600,000

Source: Pub L 115-97

The legislation also doubled the standard deduction from \$12,700 to \$24,000 for married couples and increased the child tax credit from \$1,000 to \$2,000. Mortgage interest deduction was lowered from \$1 million to \$750,000 for new loans while deductions for state and local income tax, sales tax and property tax (SALT) were capped at \$10,000. Both the mortgage and SALT provisions were seen to be targeted at states with higher property and income taxes and higher home prices (e.g. California and New York) and both will revert to their pre-TCJA levels in 2026. The legislation also increased the exemption level of the Alternative Minimum Tax (AMT) for married filers from \$84,500 to \$109,400. The AMT provision will sunset in 2025.

In addition to lowering individual taxes, the estate tax exemption was doubled from \$5.6 million to \$11.2 million for individuals, and twice that for married couples. This provision is scheduled to sunset in 2025.

The corporate tax rate was changed from a tiered structure with a range of rates between 15% and 39% to a flat rate of 21% and was changed from a global to a territorial tax system to reduce the benefits of tax inversion (locating business domiciles in low tax jurisdictions). The Corporate Alternative Minimum Tax was eliminated, and a one-time repatriation discount of overseas profits was implemented to encourage US companies to repatriate dollar holdings overseas. The changes to corporate taxes will not expire in 2025 and are now a permanent part of the tax code. Notably, receipts from corporate tax payments actually increased post passage, despite the lower rates, due in part to the repatriation incentives for corporations.

In addition to a flat corporate tax rate of 21%, owners of passthrough businesses were permitted to claim a deduction of up to 20% of qualified business income. The TCJA also provided accelerated bonus depreciation on qualified property. This provision is scheduled to sunset by a graduated rate over the next several years, becoming 0% in 2027.

The TCJA legislation was one of the most significant changes to the tax law in decades and the expiration of key components will have a material impact on the economy and federal tax receipts. Estimates vary according to political and economic assumptions: the (right-leaning) Tax Foundation estimates that if all the provisions of the TCJA were made permanent, GDP would increase by 0.5%, employment by 686,000, after-tax incomes would rise by 2.4% on average over the next decade, but the federal government would receive \$2.6 trillion less in tax receipts.

In contrast, the (left-leaning) Penn-Wharton Budget Center forecasts GDP growth of 0.3% (vs. 0.5%), similar increases in income growth, but projects that federal tax receipts would decline by \$4 trillion (vs. \$2.6 trillion), of which roughly \$3.4 trillion is from lower individual rates and \$623 billion is from lower corporate taxes.

The Congressional Budget Office (CBO) released in May 2024 its report entitled “Budgetary Outcomes Under Alternative Assumptions about Spending and Revenues” in which it forecast a \$3.3 trillion increase in Federal debt associated with extending the individual income tax provisions of the TCJA plus another \$0.7 trillion in other provisions, leading to an expected increase of approximately \$4 trillion to their baseline projection, in line with the U Penn study.

Given the partisanship in Washington DC, Congressional budget committees also produce their own estimates on the impact of the deficit if the TCJA provisions were made permanent, with the Democrat-led Senate Committee on the Budget forecasting an increase of \$4.6 trillion. In contrast, the Republican-led House Budget Committee highlighted that CBO’s own forecast of GDP growth post TCJA was a full percentage point lower than it was in reality. The House Budget Committee also noted that federal individual tax receipts post passage of the TCJA were almost \$900 billion higher than the CBO originally forecast while corporate tax receipts were \$72 billion higher than CBO expected, making the point that CBO perennially underestimates the economic benefits and tax receipts from “pro-growth” tax policies.

In sum, if the TCJA provisions are extended in 2025, the deficit should rise somewhere between \$2.5 trillion and \$5 trillion (an admittedly wide range) from 2025 to 2034, leading to higher Treasury issuance, higher yields and higher interest payments, offset somewhat

by stronger economic growth, income and employment. To give some context, the current US national debt stands at about \$35 trillion.

Immigration

Immigration— both legal and illegal (undocumented)—has become the single most pressing problem according to Gallup’s latest polling data, with 22% of Americans citing it as the most important problem facing the country today, followed by 20% who cite Government/Poor Leadership, 16% the economy in general and 14% the high cost of living. Since February 2024 immigration has polled as American’s number one most important issue for five consecutive months.

This sentiment is shared by the populations of other OECD countries, including Canada, the UK, France, Australia and Germany. In the past three years, according to *The Economist*, 15 million people have moved to rich countries, the biggest surge in modern history. Last year more than 3 million people migrated to the US.

According to data from the Pew Research Center, the lawful immigrant population in the US grew by more than 8 million between 2007 and 2021, a 29% increase, and the number of naturalized US citizens grew by 49%.

Immigrants are an important and vital contributor to a nation’s economy, a self-selecting risk-taking population who drive innovation and typically help to offset a host nation’s aging demographics and population pyramid. But large movements of people can have major economic consequences on GDP, inflation, housing, living standards and government budgets. Moreover, the composition of immigration—skilled vs. unskilled—can have a material impact on native wage rates, the cost of services and per capita GDP.

A study by Patricia Cortes at the University of Chicago showed that a 10% increase in the share of low-skilled immigrants in the labor force decreases the price of immigrant-intensive services, such as housekeeping and gardening, by 2%, primarily through downward pressure of wage rates. The study echoed an earlier study by Steven Camarota at the Center for Immigration Studies, who found that a one percent increase in the immigrant composition of an individual’s occupation reduced the weekly wages of natives in the same occupation by about 0.5%. Given the foreign-born population at the time, he estimated a roughly 5% reduction in the weekly wages of the average native-born worker, yet virtually no impact—and even an increase of wages—in high skilled occupations.

Hence the dichotomy in the perception of immigration across the US: Lower skilled workers see immigrants as a threat to their livelihood, while higher skilled workers see immigrants as a source of lower cost services. Moreover, Camarota noted that because native-born blacks and Hispanics are 67% and 37%, respectively, more likely to be employed in a low skilled occupation than are native born whites, a much higher percentage of minorities are negatively affected by immigration, which may explain the relatively recent movement toward the GOP among blacks and Hispanics.

While both Republicans and Democrats have highlighted flaws in the nation’s immigration and asylum policies, advocating increased budgets for courts to adjudicate cases and return illegal aliens (who are not offered asylum) back to their host countries, Republicans (and especially the Trump/Vance ticket) have been identified with the more drastic, anti-immigration policies. These include construction of border walls, forced repatriation of illegal immigrants, opposition to sanctuary cities, opposition to the seeking of asylum in the US and opposition to government services provided to non-citizens. This is in stark contrast to the historical GOP position that adopted a more business-friendly position on immigration policies that ensured ample supply of low-cost laborers for farms and factories.

Given the disinflationary impact of immigration on wage rates and the cost of services evidenced in the aforementioned studies, forced repatriation of illegal immigrants would most likely raise wage rates and consequently inflation rates, leading to higher interest rates (all else being equal). On the other hand, repatriation would also lower GDP, but the net impact is most likely slower economic growth and higher wage pressure and inflation.

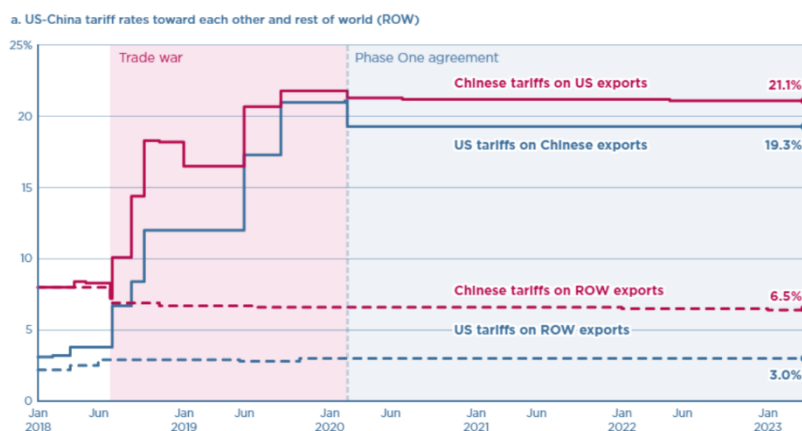
In contrast, Democrats have adopted a policy that is more accommodative of the asylum rights of non-citizens by encouraging the application of asylum in the US, the granting of work waivers for illegal aliens, and the mandated housing of illegal aliens in US sanctuary cities. Democrats generally do not support the wholesale deportation of illegal immigrants but would most likely support increased spending for immigration courts to process migrants and adjudicate asylum cases, with those waiting for hearings to be free to be employed and housed. This policy approach most likely encourages those immigrants here illegally to continue to stay and work, exerting downward pressure on wage rates, inflation, interest rates and spurring GDP growth.

Tariffs and Trade

In contrast to prior Republican and Democrat administrations who generally both worked to liberalize trade and reduce barriers and tariffs, today, both parties have eschewed the principals of free trade, but it is Republicans who have moved the furthest from the free trade orthodoxy that was a dominant part of their free market agenda from President Ronald Reagan to President George W. Bush.

Part of this evolution—for both parties— has been the rise of China’s trade dominance, which is perceived to be both unfair (allegations of dumping and deliberate undervaluing of their currency) and manipulative (free trade for Chinese exports but tariffs and regulatory red tape for US imports). But most importantly, China’s economic boom failed to liberalize the country’s politics, and in fact, has served only to strengthen the CCP. This has led to less freedom for its citizens and a more antagonistic relationship with the US and its allies, who see an increasingly powerful adversary whose governing philosophy is at odds with that of the United States.

Figure 6: US-China Tariffs

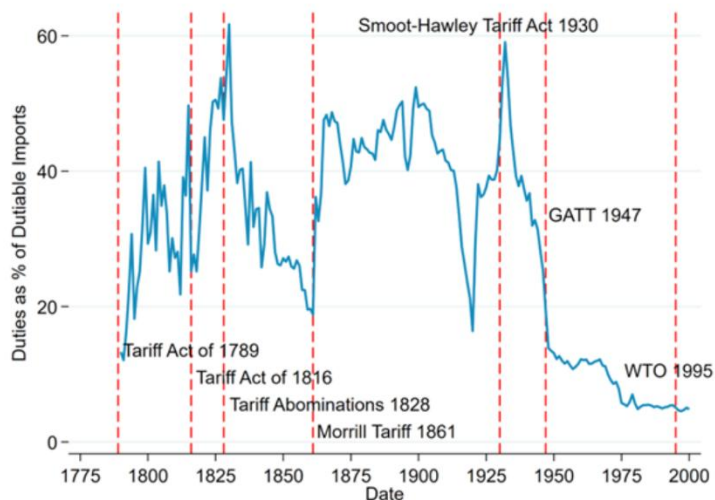


Source: Brookings, via the Peterson Institute

The other part of this evolution has been a better understanding of the massive dislocation (called the “China Shock” by some economists) experienced both by workers and their communities whose industries were exposed to competition with China following its entry into the WTO in 2001. This evolution questions the conventional wisdom that free trade, in total, is always beneficial to both parties and consumers.

We have generally believed that free trade is beneficial to both economic parties, and that tariffs ultimately leave countries and their citizens poorer. Hence, we prefer to invest in countries that open up their industries to foreign competition, yielding lower prices for consumers than countries that protect their industries from global competition. That said, the 2013 study by Autor, Dorn and Hanson raised serious questions regarding the unintended consequences of trade policy with China, particularly the 2 million-plus job losses, the hollowing out of US manufacturing, as well as the impact on non-economic issues, such as drug addiction and divorce. While the paper did acknowledge that it was difficult to disaggregate the role of technological innovation on job losses, the reality is that communities negatively impacted from increased competition with China did not rebound and required significant government transfers. Importantly, the promise of education to retrain workers in areas directly impacted by free trade agreements went largely unfulfilled.

Figure 7: US Tariff Rates, 1775 to Present



Source: Brookings, via Coalition for a Prosperous America

While the benefits of lower cost products are spread across all consumers, manufacturing communities in both urban and rural areas were particularly hard hit, as were relatively unskilled workers who had limited mobility or economic resources to relocate or to retrain. In fact, government subsidies meant to cover workers adversely impacted by trade liberalization were woefully under-funded, and it is these very workers who are increasingly forming the core of the new Republican base, a group that for years generally voted for the Democrats.

Whether former President Trump views tariffs as a means to an end (a negotiating tool for extracting better terms for US exports) or an end in themselves (as a means of raising revenue) is unclear, but the reality is he has proposed materially higher tariffs on China and potentially European exports, which could trigger a tit-for-tat trade war. The likely outcome may be to raise inflation and interest rates, offset somewhat (and this is hard to quantify) by a lower deficit funded by tariff receipts (which currently account for about \$99 billion vs. \$2 trillion in total tax receipts). A recent Moody's study estimated that a 10% across-the-board tariff increase could raise the rate of inflation by 0.75% in the year passed, although some economists argue this will be transitory and have minimal impact on the long-term future rate of inflation.

In contrast to the Republicans, Democrats, who prior to the Clinton administration were traditionally against free trade, now appear to advocate targeted tariffs on Chinese imports.

But Democrats do not seem to have the same zeal for tariffs that a Trump/Vance administration would have, which leads us to believe that on the margin, a Democrat administration would most likely have fewer tariffs, less inflation and lower interest rates associated with trade policy.

Regulation

There is probably no set of government policies that have a greater impact on business sentiment and investment—and yet historically receive very little scrutiny from the media and the citizenry— than the regulatory environment. Due to the ambiguous and complex nature of regulations, especially how they are written and ultimately enforced, it is extremely difficult to assess in any quantitative way the degree of impact that regulations and enforcement have on current economic activity, though the direct costs of regulatory action are becoming easier to quantify.

At the same time, the benefits of regulation can also be hard to quantify. For example, the EPA was initially set up and had bipartisan support as unregulated businesses created externalities that resulted in wide-spread pollution with its short- and long-term health costs. More recently, the expectation espoused by former Fed Chair Greenspan that markets would self-monitor proved overly optimistic in light of excess and illegal activities around the critical residential real estate market that led to the GFC, although government influence in the mortgage market (Freddie Mac and Fannie Mae) no doubt were major contributors as well. Suffice to say it is often difficult to strike the right balance between insufficient regulation and over regulation.

Figure 8: Regulatory Costs, billions of 2022 \$ Per Year of Rulemaking

Category	Regulatory Costs, billions of 2022 \$ per year of rulemaking					
	Biden 2021-22		Trump		Obama 2009-10	
	agency	this report	agency	this report	agency	this report
Big 4 agencies: HHS, FCC, Labor, CFPB	13.7	257.7	6.9	-272.6	11.9	200.4
Auto fuel economy/GHG standards	108.6	186.5	-55.8	-150.9	36.8	187.3
Other EPA	-2.8	1.2	-1.7	-2.8	8.4	13.9
Dept. of Energy	3.8	6.2	0.5	0.8	38.6	63.5
Airworthiness Directives (part of DOT)	0.3	0.3	0.5	0.5	0.8	0.8
All other	49.8	164.8	58.2	101.0	51.5	69.0
All regulations	173.4	616.7	8.6	-323.9	147.9	534.8

Source: Burden is Back: Comparing Regulatory Costs between Biden, Trump, and Obama, June 2023.

Regulation on the margin limits risk taking. Even more, a haphazard regulatory environment will also derail investment, as will the general sentiment among business leaders that participants in regulatory oversight positions are outright hostile to markets, business and entrepreneurship. The Executive branch exerts substantial regulatory power through its rule-making agencies, and while the overturning of the Chevron standard should help to make the courts—and not the regulators—the final arbitrators of what is fair, appropriate and consistent with the underlying legislation setting the regulatory standard, in general companies have expressed a general dissatisfaction with the level of regulatory scrutiny coming out of the Biden/Harris administration, and it is easy to see why based on activity levels and cost of compliance.

There is a perception that the current administration’s regulatory approach has been somewhat hostile to business in general, and financial and energy firms in particular. In its first full year in office the American Action Forum’s regulatory tracker cited an additional \$201 billion in regulatory costs and 131 million hours in new annual paperwork, with actions

related to vehicle emissions and COVID-19 safety protocols providing the bulk of the administrative burden. In total, the Biden Administration has been adding regulatory costs at a rate of \$617 billion per year, not counting regulatory costs created by statutes and non-rule regulatory actions, according to the right-leaning Committee to Unleash Prosperity report. Assuming 123 million households, that is about \$9,600 in higher costs per household during 2021-22, with the trend closer to \$50,000 per household for the full four years of the Biden/Harris administration.

In the fall of 2023, the Biden Administration overhauled how the federal government analyzes the cost-benefit analysis of new regulations, requiring regulators to pay more attention to economic inequality, global warming and other factors. It also lowered the long-term discount rate associated with calculating the cost-benefits of regulatory actions, which has the effect of increasing near-term costs under the assumption of protecting resources over the long-term.

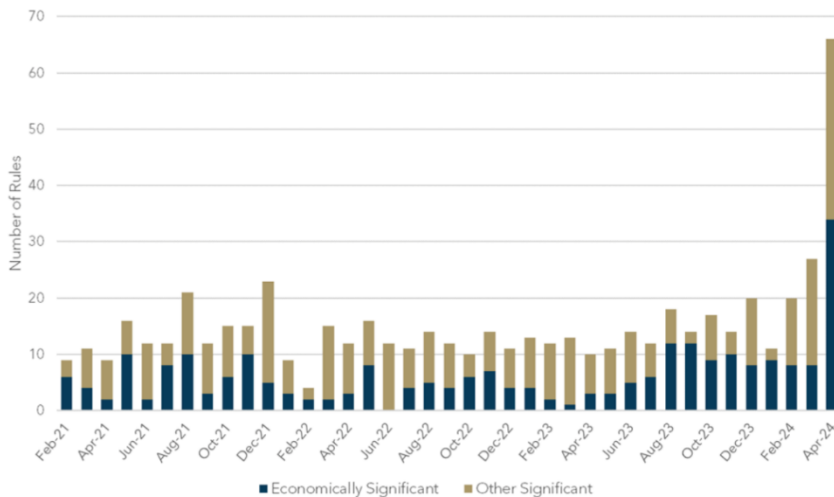
Figure 9: Numbers of Regulations per Year of Rulemaking, by Administration

Category	Numbers of regulations per year of rulemaking								
	Biden 2021-22 Large rules			Trump Large rules			Obama 2009-10 Large rules		
	reg's	dereg's	Other	reg's	dereg's	Other	reg's	dereg's	Other
Big 4 agencies: HHS, FCC, Labor, CFPB	3.7	0.5	35.5	2.3	2.3	60.3	2.1	0	44.3
Auto fuel economy/GHG standards	1.0	0.0	0.0	0.0	0.3	0.3	1.0	0	1.0
Other EPA	0.0	0.5	11.5	0.5	0.8	20.8	2.6	0	25.0
Dept. of Energy	1.6	0.0	1.0	0.3	0.0	4.0	2.1	0	9.4
Airworthiness Directives (part of DOT)	0.0	0.0	113.7	0.0	0.0	110.3	0.0	0	159.1
All other	2.1	1.0	93.9	4.3	2.0	142.8	6.3	0	142.4
All regulations	8.3	2.1	255.7	7.3	5.3	338.3	14.1	0	381.4

Source: Burden is Back: Comparing Regulatory Costs between Biden, Trump, and Obama, June 2023.

In the first six months of 2024, the Biden Administration has added another \$1.2 trillion in regulatory costs to the economy in an effort to avoid the lookback provisions when a new Congress comes into power.

Figure 10: Significant Final Rules Published During the Biden Administration



Source: Regulatory Studies Center, George Washington University, April 2024.

We are not advocating for a regulatory-free operating environment. As noted earlier, regulations are a critical part of an economy that protects resources and its employees. Externalities have to be priced appropriately to preserve the environment and protect long-term health. But regulations ought to be transparent, with a clear cost and benefit analysis, and they ought to be indexed to inflation so they do not raise the cost of business due to lack of a price inflator. They also ought to be reviewed regularly (like the Virginia Model), and ideally from a zero-based regulation perspective, as endorsed by the Idaho Model.

It is likely the Trump/Vance ticket will be more accommodating than the current administration in lightening the regulatory burden for businesses. During the 2016-2020 Trump administration, the regulatory burden per household actually declined by \$11,000, creating a regulatory delta between the administrations of approximately \$61,000 per year per household.

Moreover, with the US Supreme Court removing the Chevron standard, that should also lower the cost of higher regulations imposed by agencies that were not part of the original intent of the enabling legislation and restore the judiciary to its proper role of interpreting legal statutes. But actions that lower near-term costs and thereby likely impose long-term burdens due to poor air and soil quality, worse health outcomes and adverse climate consequences will be self-defeating and ultimately more expensive in the long-run. There are no easy answers, but several states have devised more effective regulatory regimes.

Conclusion & Possible Portfolio Implications

At the risk of a gross over-simplification, a victory for the Democrats (i.e. retaining the Executive branch and keeping a majority in the Senate) would most likely be disinflationary—higher individual taxes as key provisions of Tax Cut and Jobs Act (TCJA) are allowed to expire; higher corporate taxes and lower earnings; the absence of punitive tariffs on Chinese imports; increased banking and financial regulations (higher capital requirements for banks reduce lending growth); the presence of 10.5 million illegal immigrants joining the workforce and suppressing wage growth (especially for unskilled workers); a reduction in the deficit fueled mainly by higher tax proceeds from individuals and corporations. While these forces might be partially offset by clean energy initiatives that are slightly inflationary as they raise the cost of energy, derivative products and electricity production, in general, policies espoused by the Democrats should exert downward pressure on inflation, be positive for Treasuries (less issuance, lower inflation) and be neutral to equity markets (up to a point!), in our view. It is important to caveat that while higher individual and corporate taxes and increased regulation are generally detrimental to equity markets, materially lower inflation, a reduction in interest rates and a more accommodative Fed are not.

On the other hand, a victory for Republicans would most likely be more inflationary—renewal of the TCJA would most likely keep individual rates at current levels; lower corporate tax rates (former President Trump has recently advocated a reduction to 15%); higher tariffs, particularly on Chinese imports; lower regulation in financial services and in general (lower capital requirements should spur increased lending); re-patriation of illegal immigrants, reducing the workforce and raising wage rates for employers; an increase in the deficit due primarily to extending the TCJA provisions, although the impact on the deficit from tariff receipts is hard to quantify. Republican energy policies, in contrast to Democrats, should be slightly deflationary, as expanded permitting and drilling should increase supply of legacy energy production, thereby reducing the cost of oil, derivative products and the cost of electricity. In summary, Republican policies should exert upward pressure on inflation, be negative for Treasuries (more issuance, higher inflation) and be positive for equity markets (up to a point!), in our view. It is important to caveat that while lower

corporate taxes and reduced regulation are generally beneficial to equity markets, materially higher inflation, materially higher interest rates and a more restrictive Fed is not.

Our analysis is admittedly over-simplified, designed to outline the policy differences between the two parties and their potential impact on financial assets. There is, of course, an entire spectrum of policy options in between these two extremes and given the nature of the Senate (filibuster rules) and a potentially divided Congress, a compromise somewhere between the two poles may be where policy ultimately settles out.

As we emphasized earlier, the problem is the Fed has to forecast where it thinks fiscal policy will be in 2025 in evaluating its decision around rate cuts in 2024. In our view, if the Fed believes a victory for Democrats is more probable, than the chance of a rate cut increases; if the Fed believes a Republican victory is more probable, that reduces the chance of a rate cut, or the number of rate cuts.

Based on the above analysis and noting the possible scenarios with different outcomes, the portfolio management implications are as follows, though clients recognize the value of focusing long term and the limited ability to make short term portfolio changes based on a guess as to how the political winds shift.

Figure 11: Summary Portfolio Positioning Implications of Respective Policies

Policy	Republican Victory	Democrat Victory
Taxes	Equities (+)	Equities (=)
	Fixed Income (-)	Fixed Income (+)
	Commodities (+)	Commodities (-)
Immigration	Equities (-)	Equities (+)
	Fixed Income (-)	Fixed Income (+)
	Commodities (-)	Commodities (+)
Trade and Tariffs	Equities (-)	Equities (+)
	Fixed Income (-)	Fixed Income (+)
	Commodities (-)	Commodities (+)
Regulation	Equities (+)	Equities (-)
	Fixed Income (-)	Fixed Income (+)
	Commodities (+)	Commodities (-)
	Digital Assets (+)	Digital Assets (-)

Source: Rockingstone Advisors

Regardless of the outcome of the 2024 election, we affirm our belief in diversified portfolios that use market efficient ETFs along with attractive individual equities. For example, we believe that with advances in AI, the need for significantly more energy exists irrespective of who controls political power. For that reason, we recently added on the margin to energy exposure.

From our perspective, it is probably fair to say the run up in equities of late is the market discounting a better chance former President Trump is reelected. That argues there is probably a greater risk to markets should a “surprise” occur with a Democrat retaining the Presidency. More importantly, if we were forced to name one issue that could materially derail financial markets (beyond Black Swan events like war or pandemic), it would be concern over US debt and ongoing deficits. Markets have successfully ignored this issue for decades. Should a political outcome in Nov 2024 lead investors to weigh the risks of so much US debt more seriously, our approach to portfolios would need to adjust accordingly.

The authors thank our intern, Harry Klosowicz, for his help in researching the above analysis.

Forecast: 2024 & 2025

Rockingstone Advisors: Latest Forecasts

Despite broad based pessimism that a hawkish Fed would push the US into recession and the global economy would likely follow, that has not been the reality in 2024. GDP has continued to bounce between 2-3%, employment has remained solid and asset prices (perhaps with the exception of CRE) have moved upward. Given that backdrop and with an eye towards the influence of it being an election year, we note the following:

Figure 12: Key Metric Forecast

Metric	Year End December	
	Band	Point
US Real GDP (2024)	+1.8% to +2.4%	2.2%
S&P 500 2024 EPS (RSA/Street)	NA	\$237 / \$239
S&P 500 2025 EPS (RSA/Street)	NA	\$265 / \$277
S&P 500 2024 Index	5350 - 5650	5400
10-Yr US Treasury Yield	4.2% - 4.7%	4.4%
Oil (WTI-2024 End)	\$65 - \$80	\$75
Gold (2024 End)	\$2,250 - \$2,500	\$2,400
Inflation (PCE - NTM)	+2.2% to +2.8%	2.5%

Source: Rockingstone Advisors, The Economist, Standard and Poor's, NYSE Arca, St. Louis Federal Reserve

A few observations and comments:

1. **S&P 500 2024 & 2025 EPS.** As we noted in the last quarterly, final “operating” EPS in 2023 were \$213. Our latest forecast for 2024 EPS is \$237 (up \$2) which implies 11% year over year growth. We note that 1Q24 EPS jumped 15%, so our outlook actually assumes some growth deceleration. Looking to 2025, we have increased our EPS forecast to \$265 (from \$260), but are still below consensus of \$277. As noted earlier, the outcome of elections and corporate tax rates could materially impact next year’s S&P 500 EPS. But until we gain more clarity on the political landscape, it appears that respectable GDP growth, a decent consumer backdrop (excluding low to lower middle income levels), companies’ ability to successfully navigate through recent past inflation is bolstering a more optimistic earnings outlook.
2. **S&P 500 2024 Year-end Index.** We admit to being too cautious vis a vis our S&P 500 targets of late. Yet we also emphasize the influence of the “Magnificent 7” has arguably transformed the S&P 500 into a large cap, tech index! Although we continue to see limited S&P 500 returns from the current level (see the next section), we nevertheless recognize that EPS have increased on strong earnings reports from big Tech. Using our \$265 2025E EPS estimate and a 20.5x P/E multiple helps support our S&P 500 target of 5400. We see downside risk should corporate earnings moderate due to tax policy, consumers pull back or high government debt levels finally influence P/E multiples.

Five Year Asset Value Forecastⁱⁱⁱ

Muted US Large Cap Returns but Other Indices Look Compelling

Our main assumptions regarding capital markets continue to be that asset values mean-revert (with respect to margins and P/E multiples) over time. We analyze equities using four variables, including (i) historical sales growth, (ii) corporate profit margins, (iii) dividend yields, and (iv) valuation to determine potential long-term returns. Using valuation as an example, P/E's should theoretically decline (if currently above the historical mean) or expand (if currently below the historical mean) over the long term.

Within our 5-year outlook for total returns, we expect the “give” of sales growth, valuation (sometimes) and dividends to be partly offset by the “take” of mean-reverting margins. We assume sales growth to be relatively close to long-term average performance. Profit margins have come down vs. the recent past but are still modestly above historical levels and thus remain mostly dilutive to expected returns.

Figure 13: Five-Year Total Equity Return Calculations (Incremental Contribution)

Five Year Total Equity Return Calculations (Incremental Contribution)

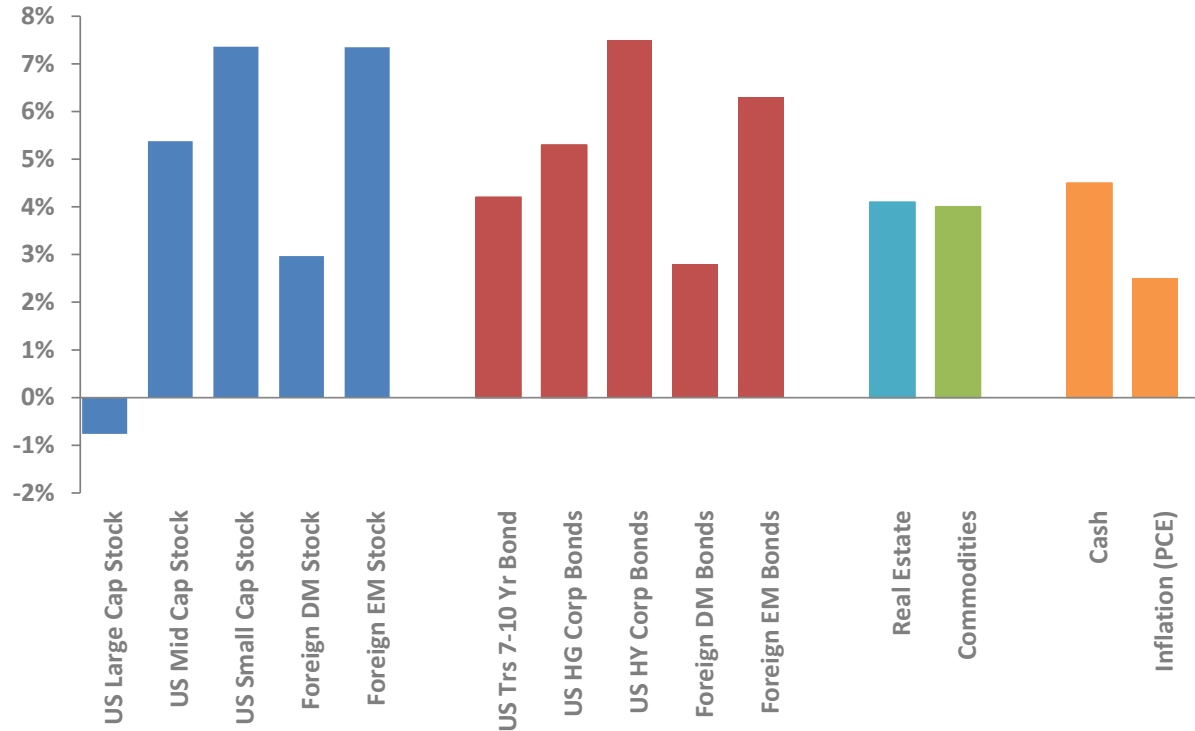
<u>Asset</u>	<u>Index</u>	<u>LT Exp. Return</u>		<u>Sales</u>		<u>Profit Margin</u>		<u>Div. Yield</u>		<u>Valuation</u>
US Large Cap Stock	S&P500	-0.8%	=	4.5%	-	0.9%	+	1.4%	-	5.8%
US S&P Equal Weight	RSP	6.7%	=	4.0%	+	0.5%	+	2.0%	+	0.1%
US Mid Cap Stock	S&P400	5.4%	=	4.6%	-	1.6%	+	1.7%	+	0.6%
US Small Cap Stock	S&P600	7.4%	=	5.8%	-	0.0%	+	2.1%	-	0.5%
Foreign DM Stock	MSCI-EAFE	3.0%	=	1.4%	-	1.2%	+	3.2%	-	0.4%
Foreign EM Stock	MSCI-EM	7.4%	=	4.6%	+	0.8%	+	2.9%	-	1.0%

Source: Rockingstone Advisors

For the first time, we have added the “US S&P Equal Weight” index to our analysis given how skewed the large cap, tech-oriented S&P 500 has become to such seven companies. The RSP ETF essentially acts as more of a mid-cap index by forcing all components to be equally weighted by market cap. It is interesting to note how all the other indices analyzed show reasonable return expectations vs. a negative outlook for the S&P.

In fixed income (see the next page for various assumptions), we expect the “give” of coupons will be exceeded by the “take” of mean-reverting inflation and real rates.

Figure 14: Five-Year Asset Class Total Return Forecast



Source: Rockingstone Advisors

Equity Performance Review

Another Strong Quarter for the S&P but Other Indices Trailed Significantly

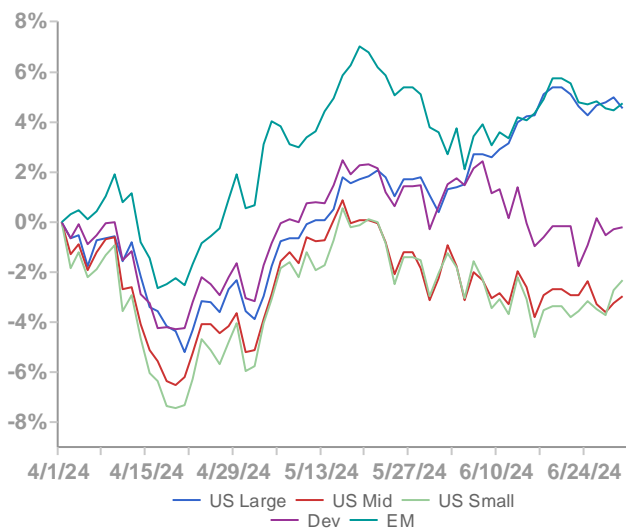
While the most watched equity index, i.e. the S&P 500, had another strong quarter (+4.5%) the broader market had poor returns. For example, the equal weighted S&P500 actually declined 2.0% in 2Q24 and small caps (using IWM) were off 2.3%. Although April saw close to a 5% rollover in the S&P500, the large cap tech-led Index jumped in June as investors rushed back in to AI-driven / technology oriented equities.

In terms of thematic investing, once again it was all about “growth” as VUG (Vanguard’s Growth ETF) surged 8.8% while VTV (the Value ETF) was down 0.5%. Not surprisingly, individual sectors reflected much of the same. For example, XLK (the Large Cap Tech ETF) jumped 8.5%, while XLE (Energy) declined 3.4% last quarter. Interestingly XLU (Utilities) increased a strong 5.2%, likely reflecting investor views on the need for more energy as AI proliferates into the economy.

From a global perspective, the trend continued to be over-weight US equities. Non-US Developed Markets were soft, with VEA down -0.2%. Even a recovery in emerging markets (VWO +4.8%), led by some rotation back into China on the view the world’s second largest economy is starting to rebound, was only in line with the S&P 500!

We note the following performance numbers for 2Q24 and 12M24, respectively: US Large Cap (+4.7% and +24.6%), US Mid Cap (-2.9% and +13.1%), US Small Cap (-2.3% and +9.8%), Intl Developed (-0.2% and +10.0%), Emerging Markets (+4.8% and +11.3%).

Figure 15: 2Q24 Equity Performance ^{iv}



Source: FactSet

Figure 16: 12M24 Equity Performance



Source: FactSet

Fixed Income Performance Review

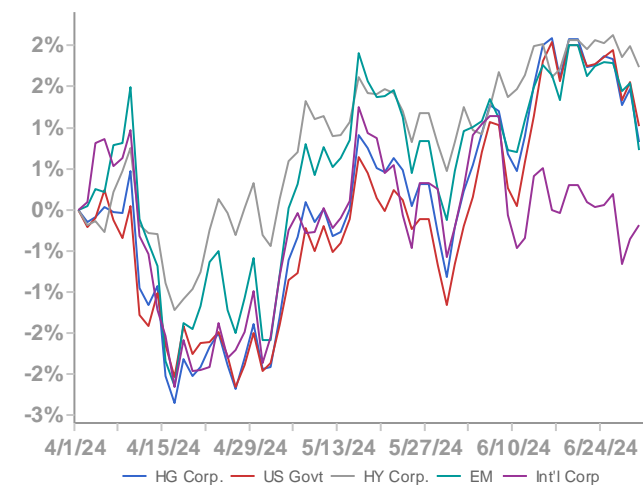
Yields Decline Leading to Modest Price Gains

The 2Q24 was the mirror image of 1Q24 as yields broadly declined in the latest period. To give some reference, the widely watched US Treasury 10-year yield was around 4.1% in early January only to jump to over 4.7% in late April. Yet as inflation pressures moderated and investors became convinced the US Federal Reserve would be more dovish, yields plunged to 4.2% by mid-June.

The combination of more favorable inflation readings (PCE and CPI) amidst somewhat mixed economic growth and signs of a loosening labor market helped price performance for most fixed income instruments, including spread products (i.e. fixed income instruments such as corporate investment grade, high yield and mortgage-backed bonds).

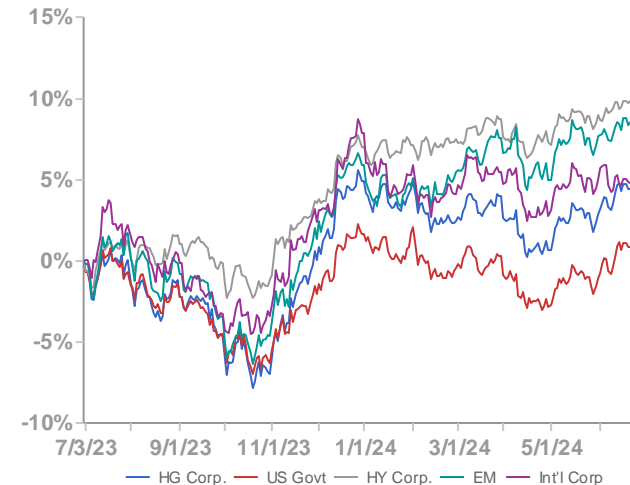
We focus on the following performance numbers for 2Q24 and 12M24, respectively: US High Grades (+0.9% and +4.0%), US Governments (+1.0% and +0.1%), US High Yield (+1.7% and +9.5%), Intl Developed (-0.2% and +4.6%), Emerging Markets (+0.7% and +8.3%).

Figure 17: 2Q24 Fixed Income Performance^v



Source: FactSet

Figure 18: 12M24 Fixed Income Performance



Source: FactSet

Commodity Performance Review

Mixed 2Q24 Trends for the Commodity Complex

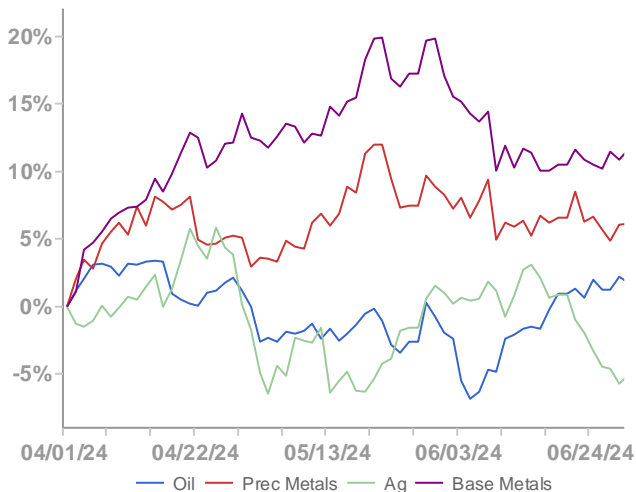
Precious metals (gold, silver, platinum) had a relatively strong 2Q24 while other commodities, including agriculture, displayed significant weakness as the quarter ended. This mixed backdrop makes it challenging to generalize about commodity price trends.

We note investors should normally expect greater volatility in commodity prices relative to equities or bonds. This is because unlike stocks and bonds, commodities do not generate a stream of cash flows that can be discounted back to present value. Commodities are also frequently susceptible to sudden supply and demand shocks impacting their price. Lastly, because commodities are most often priced in \$US and traded globally, they are considered a store of value, especially if the dollar declines.

To the extent investors can glean information about the overall economy from commodities, more “industrial” metals such as silver and copper jumped in 2Q24. As opposed to gold, which is often viewed as a defensive investment and hedge against inflation, silver is thought of as heavily influenced by manufacturing demand. The same thing is true of metals like copper and palladium.

We typically invest in commodities via ETFs and the below graphs display what we view as representative performance for the underlying commodities. We highlight the following returns during the 2Q24 and 12M24, respectively: Oil (+1.7% and +17.4%), Precious Metals (+6.1% and +20.4%), Agriculture (-5.0% and +22.1%), Base Metals (+11.6% and +19.6%).

Figure 19: 2Q24 Commodity Performance^{vi}



Source: FactSet

Figure 20: 12M24 Commodity Performance



Source: FactSet

Digital Asset Performance Review

Crypto Has a Volatile 2Q24

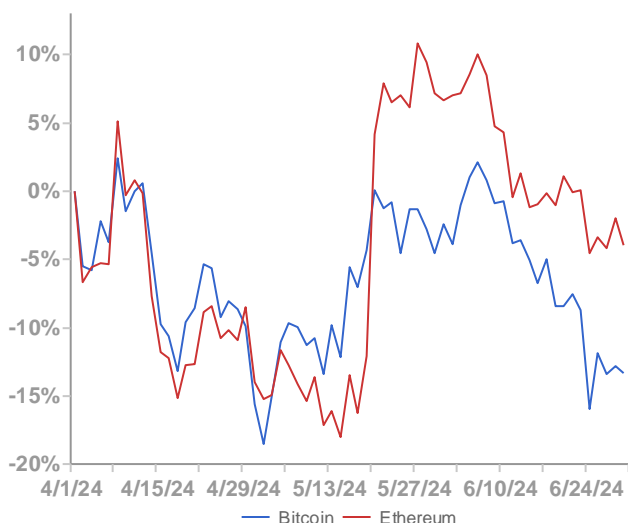
As noted in our last quarterly newsletter, digital assets jumped in 1Q24 and peaked in early March. Key crypto-currencies such as Bitcoin and Ethereum weakened during much of April, only to rebound and get close to the prior peak levels in May. Unfortunately, digital asset prices rolled over significantly in June.

While hard to decipher, it appears that digital assets weakened in April coincident with market sentiment reflecting concerns over a global growth slowdown. Yet prices rebounded in May, mimicking equities, perhaps due to fears about a recession being overdone. We note that in June, digital assets weakened noticeably, most likely on lower inflation fears.

We do not believe digital assets are a substitute for equities or bonds or other cash flow-driven securities. To reiterate: there is no cash flow associated with the asset class, and as value investors, we generally prefer to acquire a stream of free cash flow. Yet it is worthwhile emphasizing that many assets do not generate cash flows and are still widely recognized as being stores of value, including art or precious metals or coins or rare books. All of these “non-cash flow generating” assets trade with intermittent price discovery, albeit through Dutch or private auctions.

We have encouraged clients to consider having a modest 1-2% of net worth position for the long term. We note the following performance regarding 2Q24 and 12M24, respectively, results: Bitcoin (-13.3% and +102.6%) and Ethereum (-3.9% and +74.6%).

Figure 21: 2Q24 Digital Asset Performance ^{vii}



Source: FactSet

Figure 22: 12M24 Digital Asset Performance

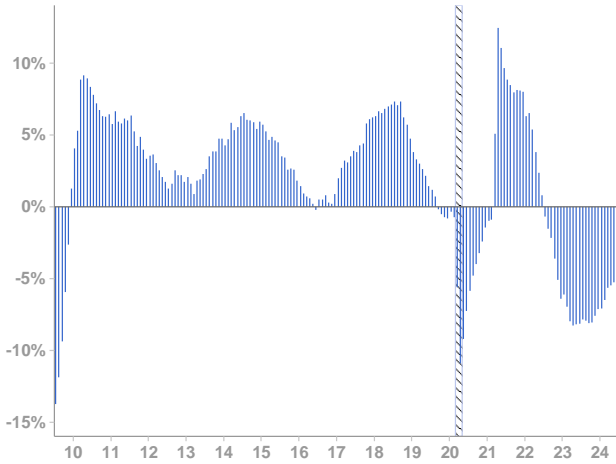


Source: FactSet

Chart Book

Leading Indicators

Figure 23: Index of Leading Economic Indicators



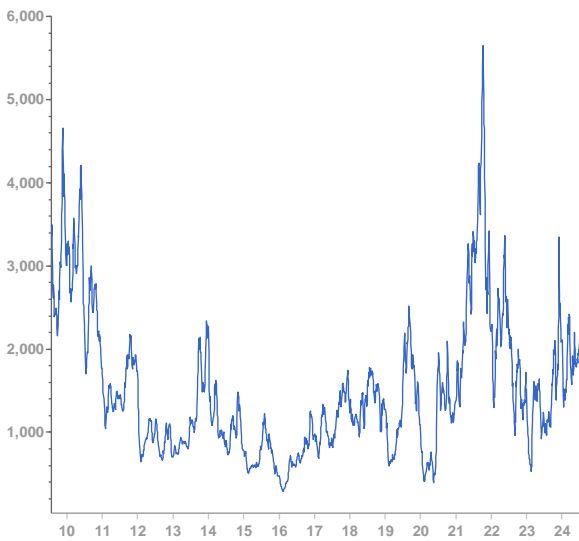
Source: FactSet

Figure 24: ISM New Orders



Source: St. Louis Federal Reserve, FRED Database

Figure 25: Baltic Freight Index



Source: FactSet

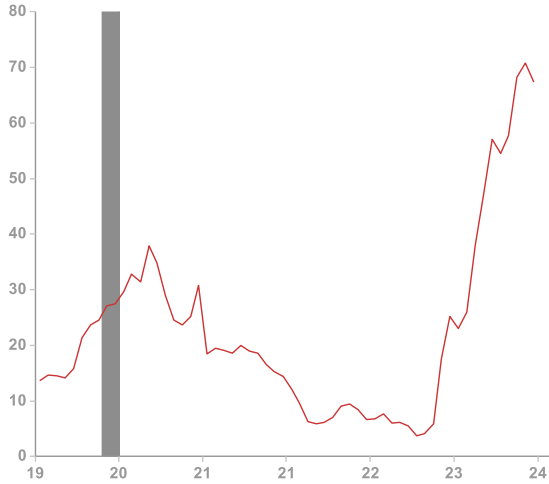
Figure 26: DJ Transports



Source: FactSet

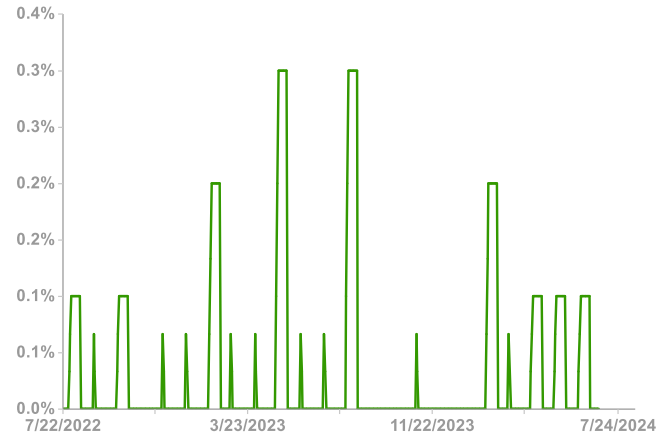
Real-time Recession Risk Indicators

Figure 27: Treasury Spread Recession Predictor



Source: FactSet, FRED Database

Figure 28: Sahm Real-time Recession Predictor



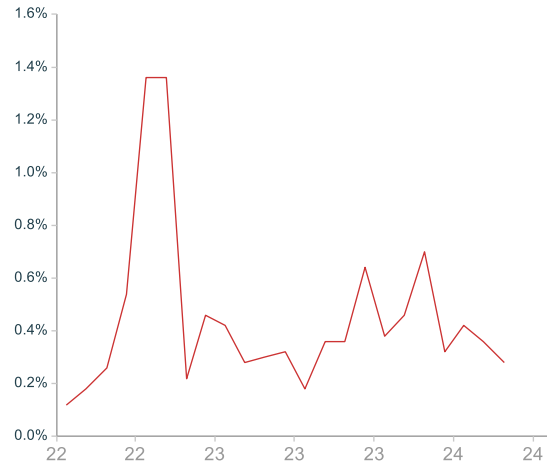
Source: St. Louis Federal Reserve, FRED Database

Figure 29: GDP Now (Atlanta Fed)



Source: FactSet, FRED Database

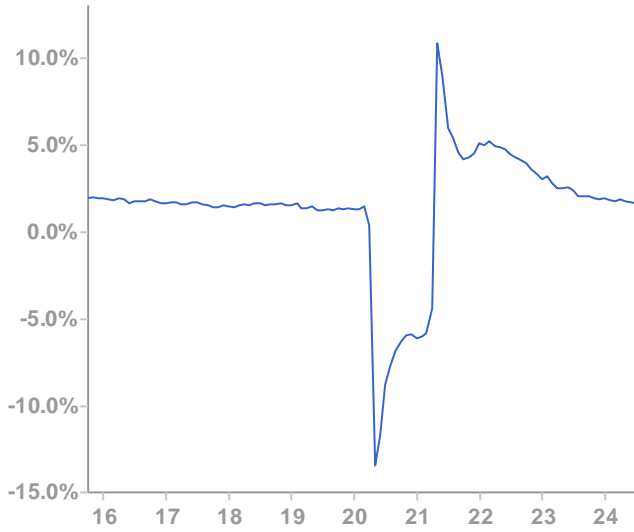
Figure 30: Smoothed US Recession Probabilities



Source: FactSet, FRED Database

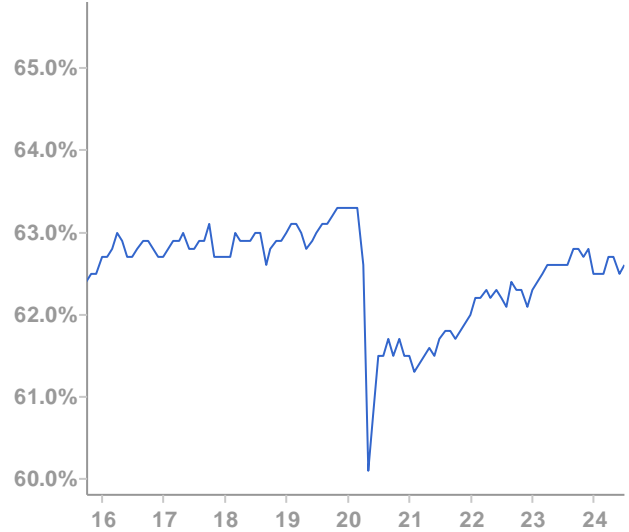
Labor Market Indicators

Figure 31: Payroll Growth (Establishment Survey, % Chg YoY)



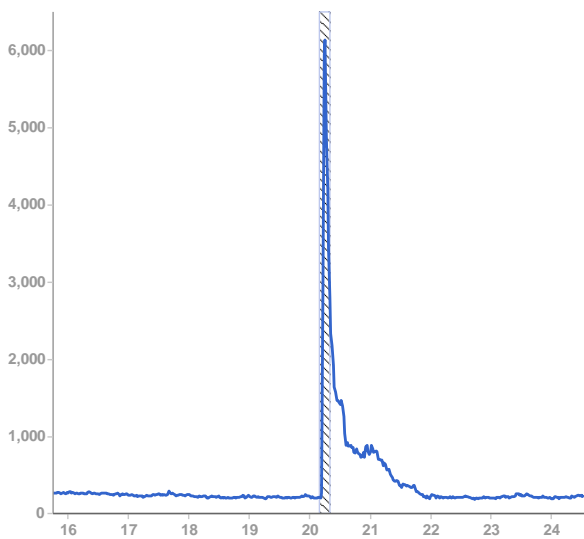
Source: FactSet

Figure 32: Labor Participation Rate (% of Workforce)



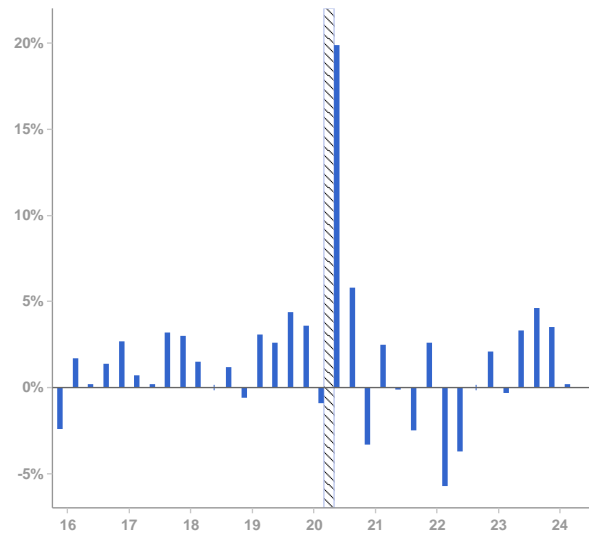
Source: FactSet

Figure 33: Initial Unemployment Claims



Source: FactSet

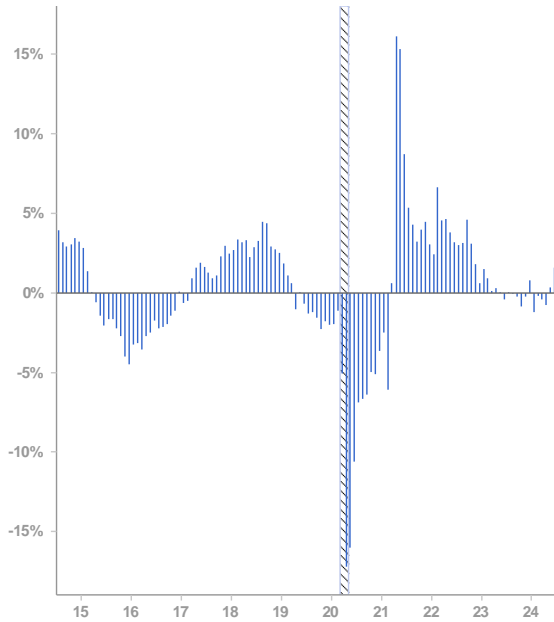
Figure 34: Non-Farm Productivity (% Chg YoY)



Source: FactSet

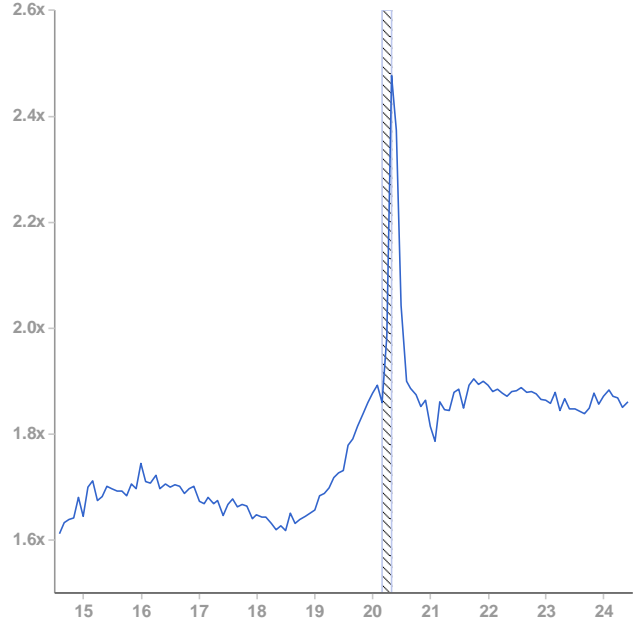
Production and Business Activity Indicators

Figure 35: Industrial Production (% Chg YoY)



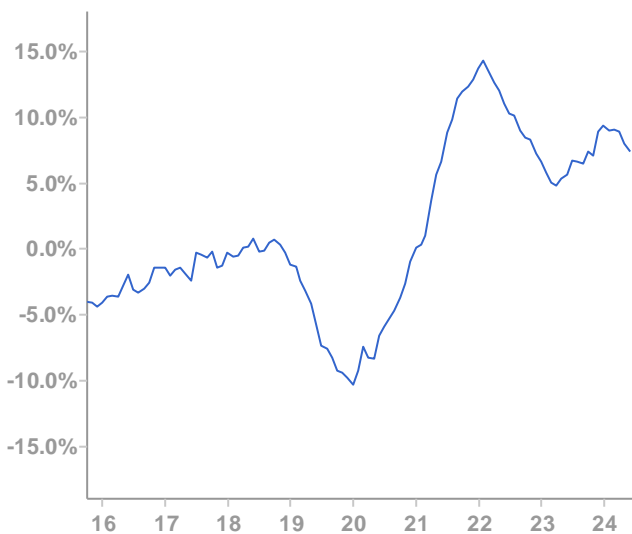
Source: FactSet

Figure 36: US Inventory to Shipment Ratio



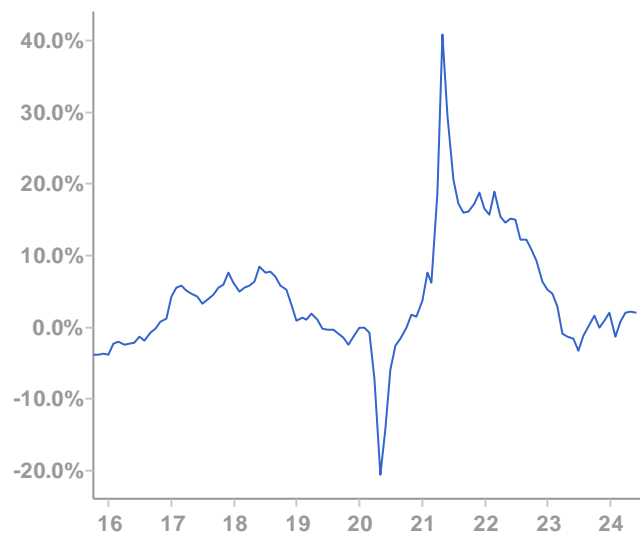
Source: FactSet

Figure 37: Unfilled Orders (% Chg. YoY)



Source: FactSet

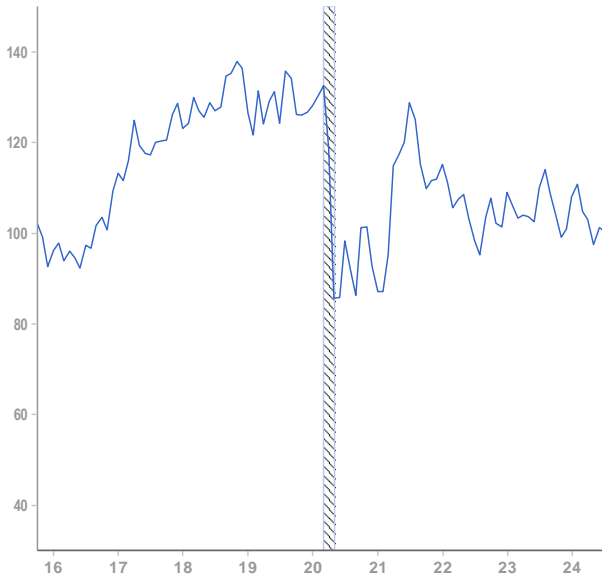
Figure 38: Business Sales (% Chg. YoY)



Source: FactSet

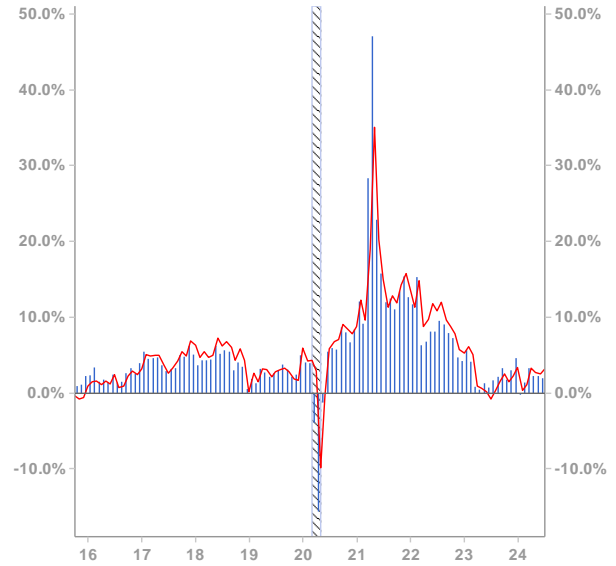
Consumer and Household Activity Indicators

Figure 39: University of Michigan Consumer Sentiment



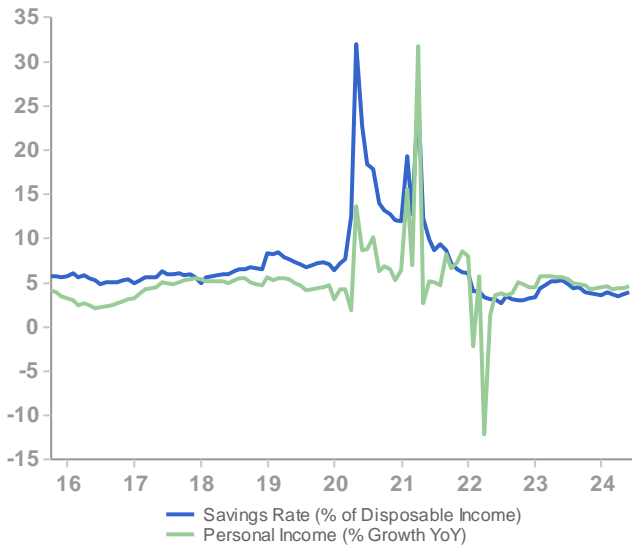
Source: FactSet

Figure 40: Retail Sales



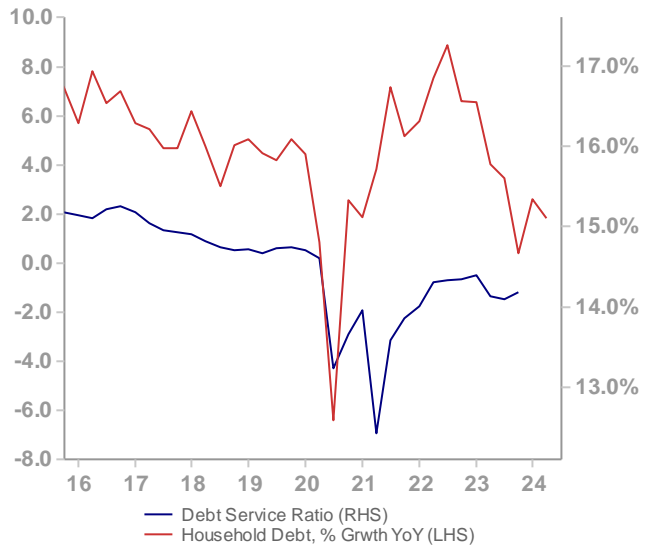
Source: FactSet

Figure 41: Personal Income and Savings Rate



Source: FactSet

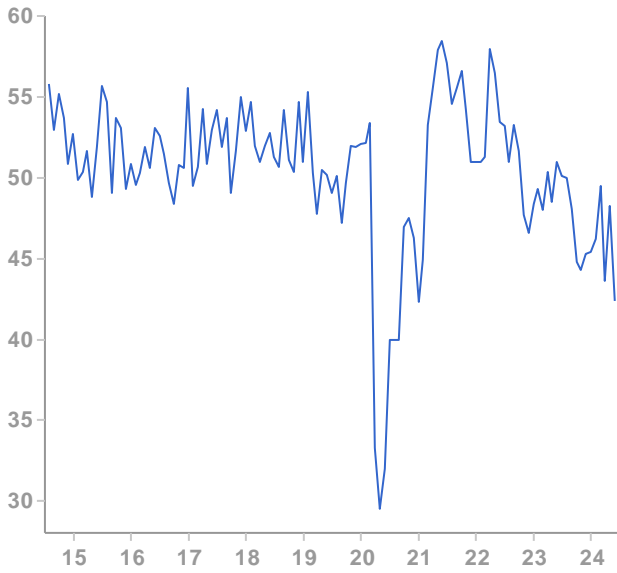
Figure 42: Household Debt



Source: FactSet

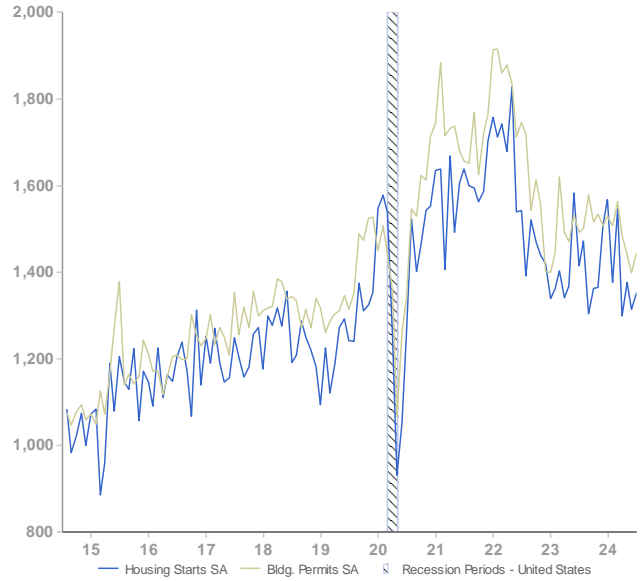
Housing and Construction Indicators

Figure 43: Architecture Billings Index



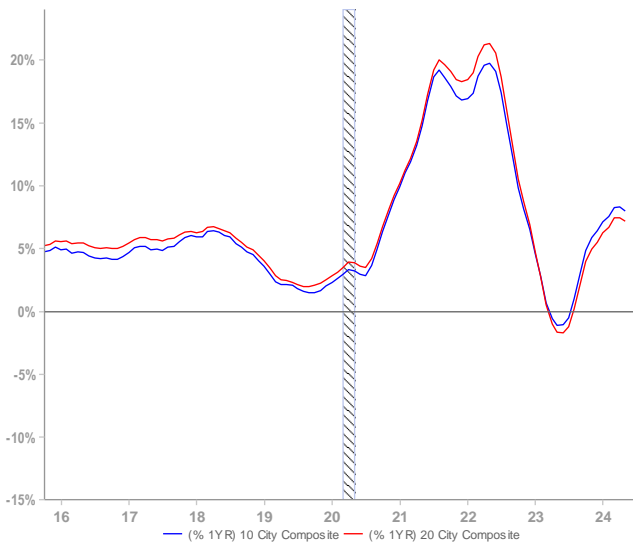
Source: FactSet

Figure 44: Housing Starts and Building Permits



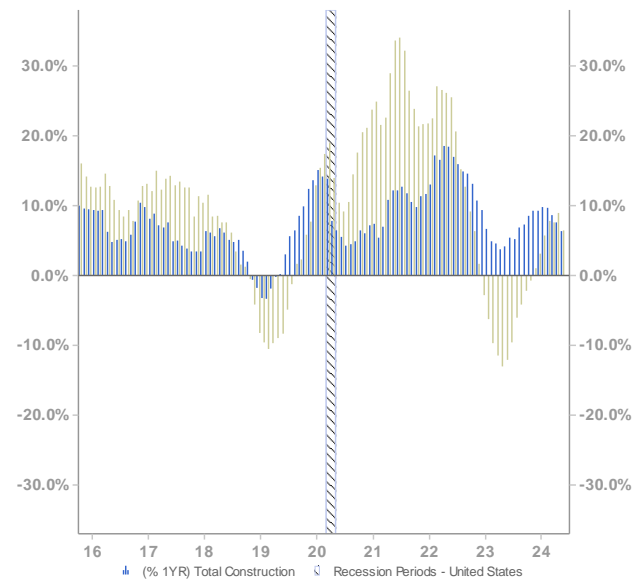
Source: FactSet

Figure 45: Case-Shiller 20-City & 10-City Index, % Chg YoY



Source: FactSet

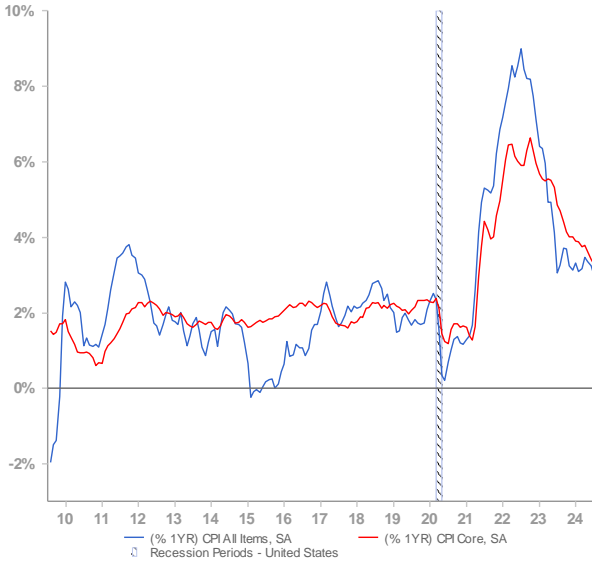
Figure 46: Private and Total Construction (% Chg YoY)



Source: FactSet

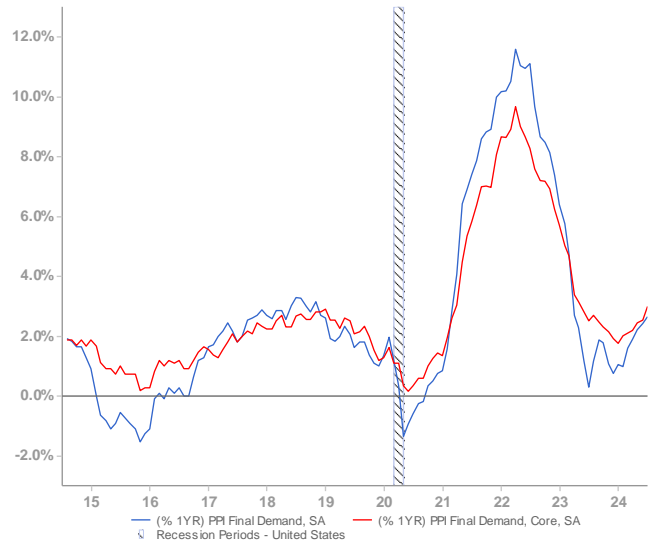
Price Indicators

Figure 47: Consumer Price Index



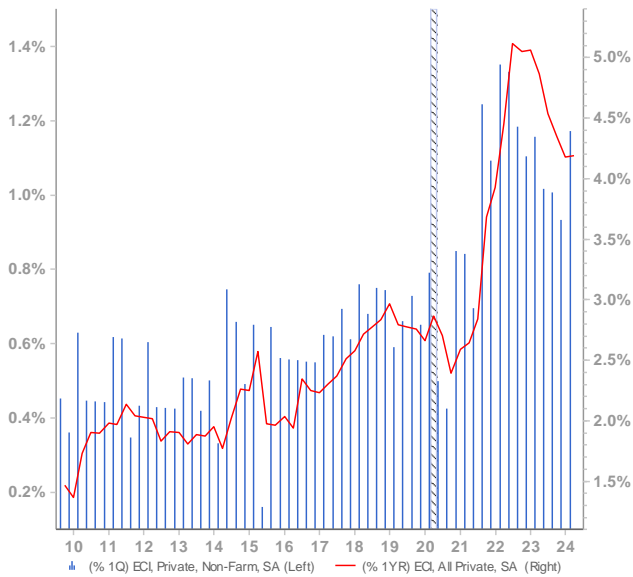
Source: FactSet

Figure 48: Producer Price Index



Source: FactSet

Figure 49: Employment Cost Index



Source: FactSet

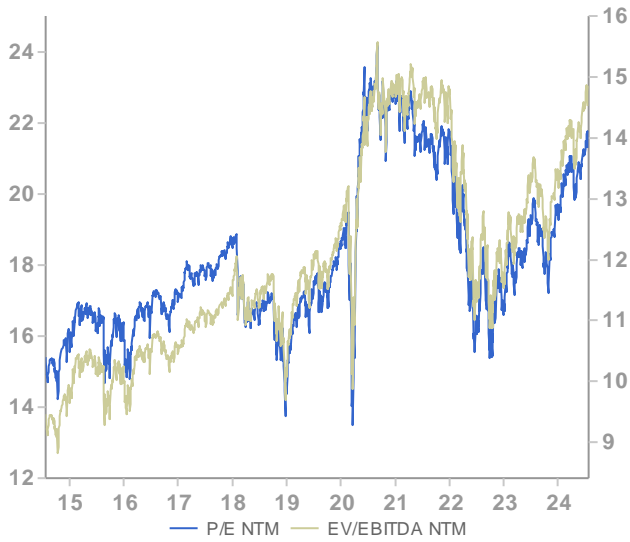
Figure 50: 10-Year, 5-Year Forward Inflation Expectations



Source: FactSet

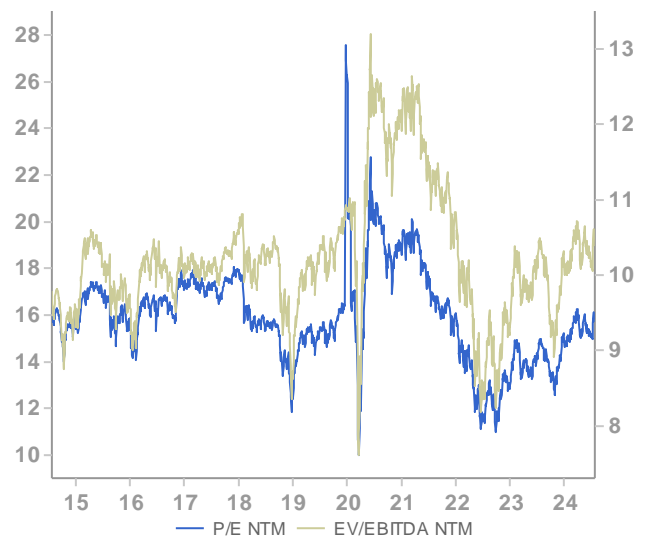
Valuation Indicators

Figure 51: S&P 500 P/E (LHS) & EV/EBITDA (RHS)



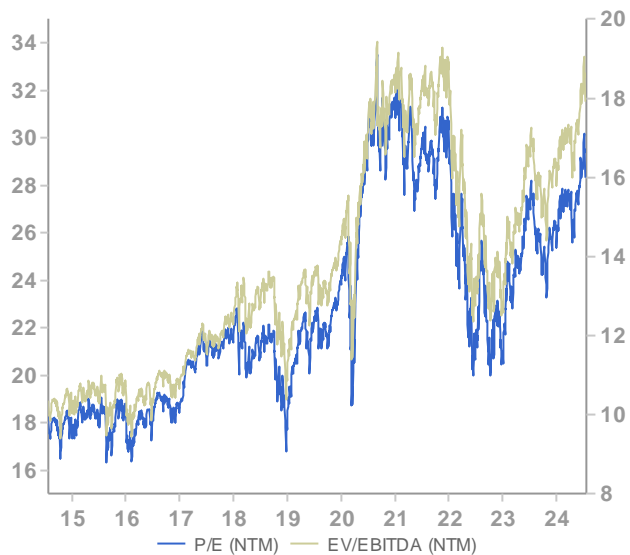
Source: FactSet

Figure 52: S&P Midcap 400 P/E (LHS) & EV/EBITDA (RHS)



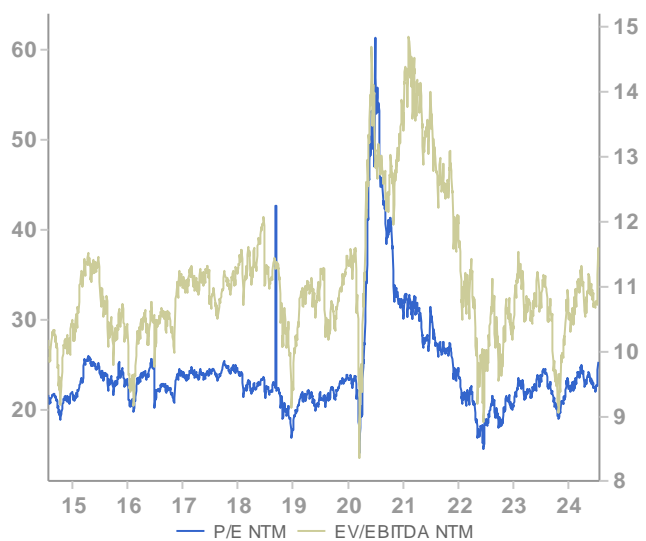
Source: FactSet

Figure 53: Nasdaq 100 P/E (LHS) & EV/EBITDA (RHS)



Source: St. Louis Federal Reserve, FRED Database

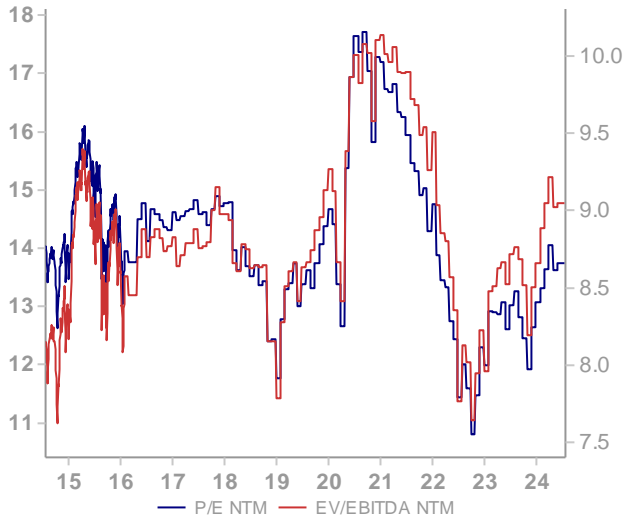
Figure 54: Russell 2000 P/E (LHS) & EV/EBITDA (RHS)



Source: St. Louis Federal Reserve, FRED Database

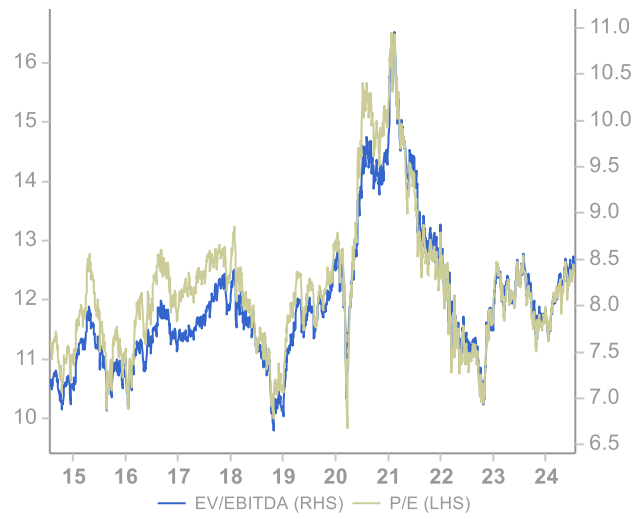
Valuation and Volatility Indicators

Figure 55: Intl Developed P/E (LHS) & EV/EBITDA (RHS)



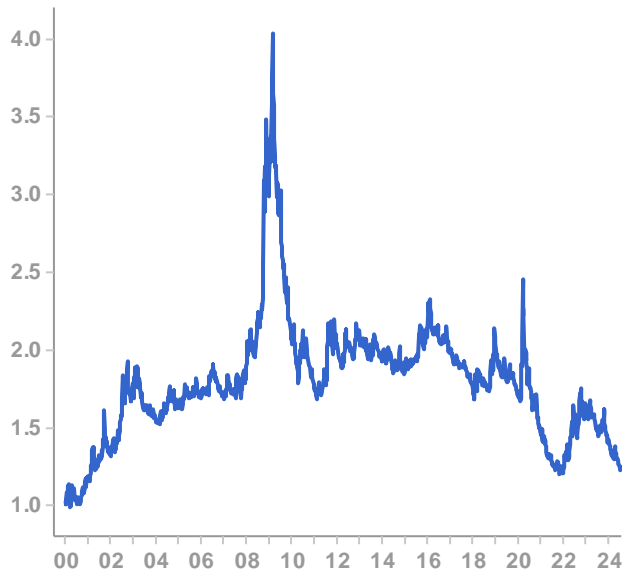
Source: Robert Shiller, Yale University, Rockingstone Advisors, Standard & Poor's

Figure 56: Emerging Markets P/E (LHS) & EV/EBITDA (RHS)



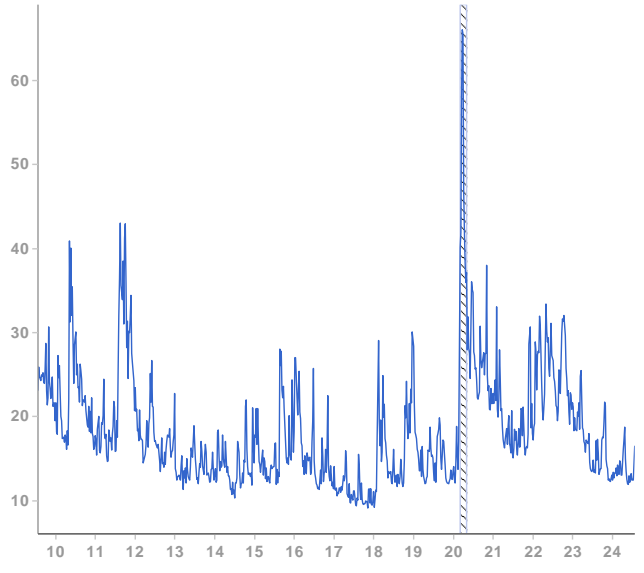
Source: Robert Shiller, Yale University, Rockingstone Advisors, Standard & Poor's

Figure 57: S&P 500 Dividend Yield



Source: FactSet

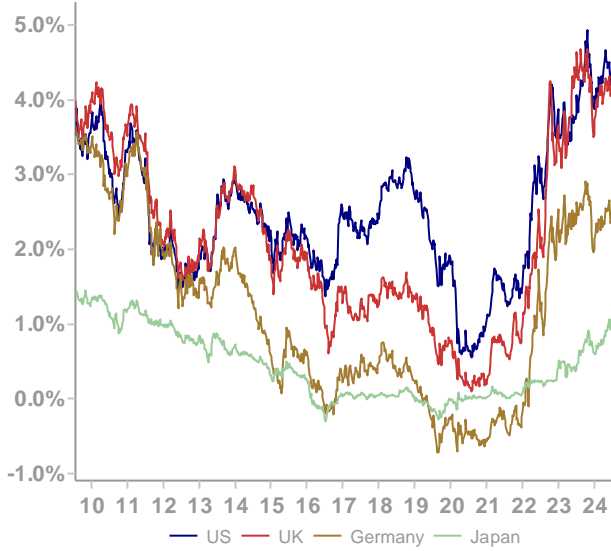
Figure 58: CBOE Volatility Index



Source: FactSet

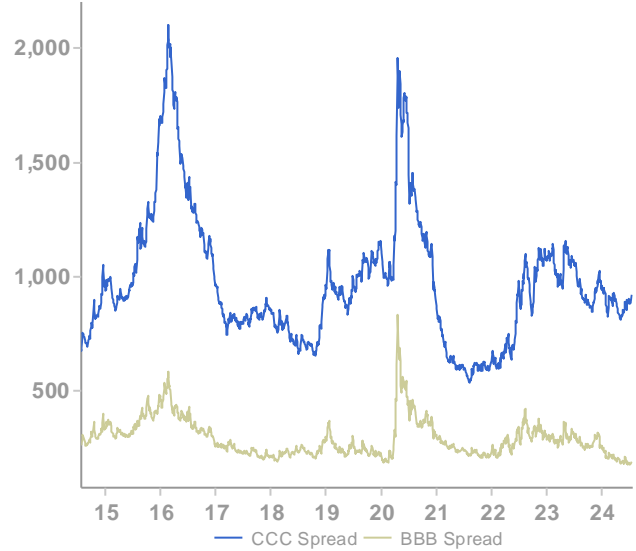
Bond Market Indicators

Figure 59: 10-Year Global Bond Yields



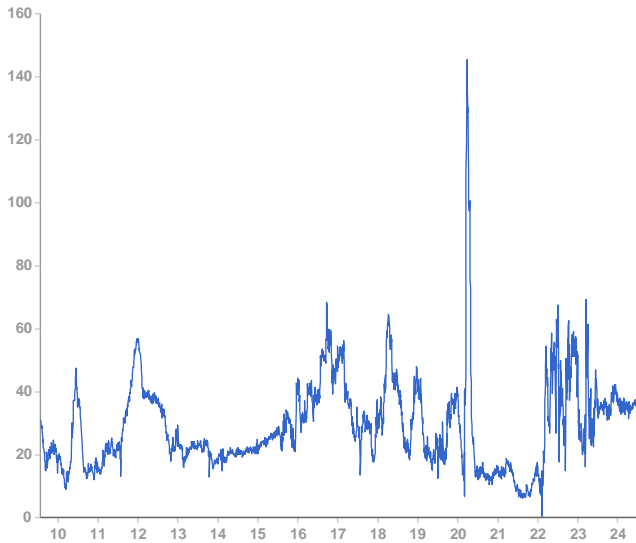
Source: FactSet

Figure 60: CCC and BBB Spreads (Option Adjusted)



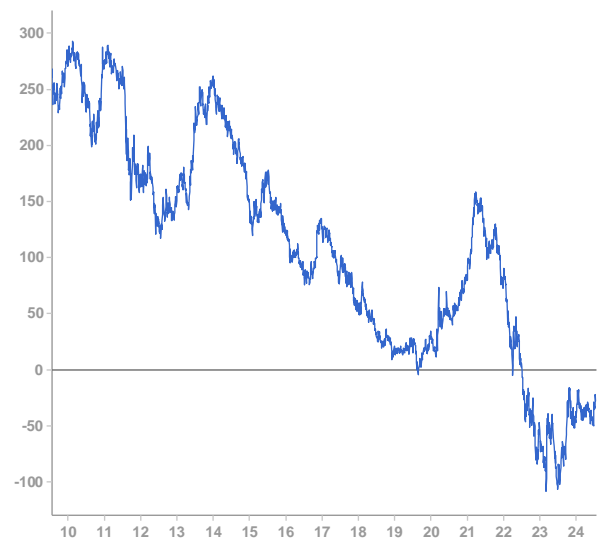
Source: FactSet

Figure 61: TED Spread (bps)



Source: FactSet

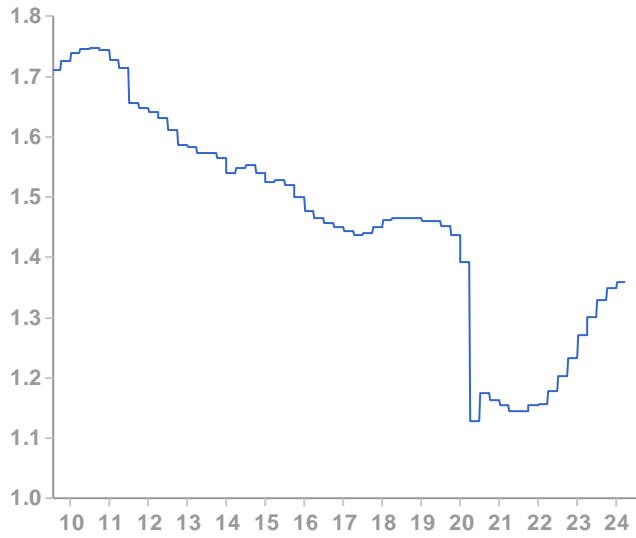
Figure 62: 10-Year Minus 2-Year Treasury



Source: FactSet

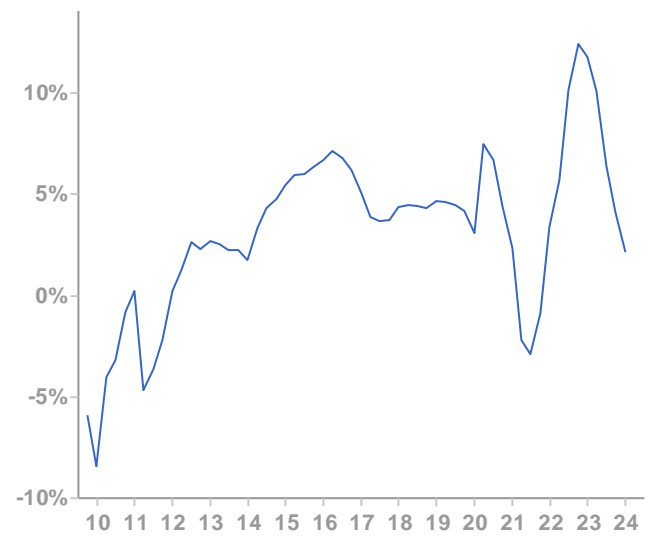
Liquidity and Other Indicators

Figure 63: Velocity of M2 Money Stock



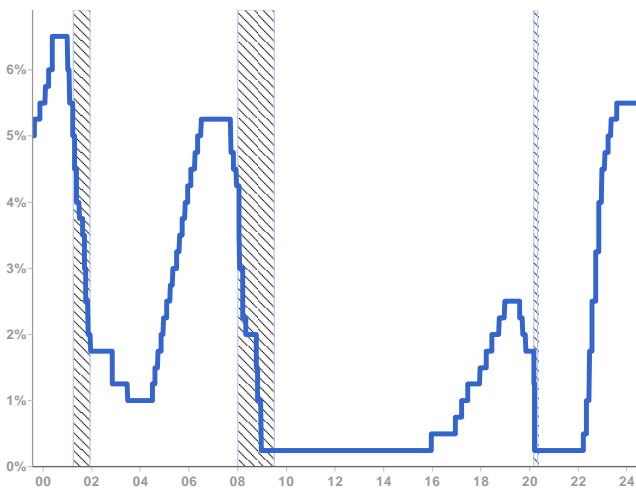
Source: FactSet

Figure 64: Loan Growth (Non-Financial, Private Sector)



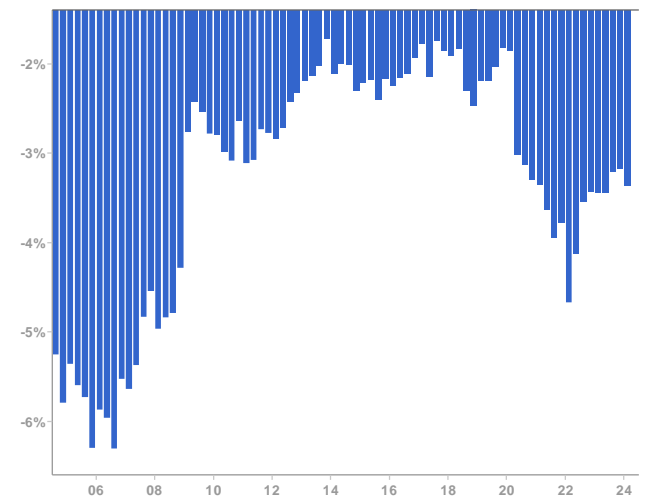
Source: FactSet

Figure 65: Fed Funds Target Rate



Source: St. Louis Federal Reserve, FRED Database

Figure 66: Current Account Deficit (as % of GDP)



Source: St. Louis Federal Reserve, FRED Database

Appendix

Important Regulatory Disclosures and End Notes

Form ADV available upon request. This quarterly is only for informational purposes and not a solicitation to buy or sell securities or as a source of specific investment, legal or tax recommendations.

Rockingstone Advisors is solely responsible for the content of this Quarterly. The information and statistical data contained herein have been obtained from sources we believe are reliable but cannot guarantee.

Rockingstone Advisors performance charts depict the mean aggregate return of all accounts invested with a similar objective and risk tolerance during the entire return period; individual account performance may materially differ according to strategy and portfolio composition. Returns are calculated using time-weighted method (TWM) and are weighted by portfolio assets. Returns can be influenced not only by the actual performance of the underlying portfolios, but by the mix (composition) of portfolios in any given year and the number of portfolios within the sample set. Public equity returns are calculated by Morningstar based on information received from our custodian(s). Other investment returns, including private equity and real estate investments are calculated based on valuation data from parties other than Rockingstone Advisors or at cost. Fixed income returns generated by private notes are recognized when the cash coupon is paid, rather than on an accrued interest basis (except for PiK securities). Annualized return is based on portfolios invested as of June 1, 2009. The sample set of portfolios within each annual cohort has increased over time and the mix changes every year. Our investment returns may reflect investment opportunities that are unavailable to all of our clients, for reasons including: (i) certain funds in which we have invested are now closed to new investors, (ii) certain clients may not meet “accredited investor” standards, (iii) certain investments are available only to officers or directors of a business, and /or (iv) we may believe that historical returns most likely will not be generated by a specific security or strategy and thus are no longer allocating new capital to a specific security or strategy. Past performance is neither indicative of-- nor a predictor of-- future performance. Mean reversion is a powerful force, meaning periods of outperformance are typically followed by periods of underperformance. All figures are net of fees and expenses. Rockingstone’s performance must be assessed in light of not just how we performed relative to the benchmarks, but how much risk we assumed in generating portfolio returns.

Quarterly Data prices are as of June 30, 2024; most other prices and yields are as of July 23, 2024.

We are happy to provide the raw data and source links for any of the charts or tables in this Quarterly. We are also happy to provide individual account performance data by annual cohort or by IRR (instead of TWM) so you can better understand the range of portfolio returns. We thank you for your interest and always appreciate any feedback.

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ⁱ Asset class performance charts depict Equity (SPY ETF), Bonds (BND ETF), Commodities (DBC ETF), Preferred (PFF ETF) and Real Estate (VNQ ETF) price change plus dividends and interest during the selected period.

ⁱⁱ Rockingstone Advisors performance charts depict the mean aggregate return of all accounts invested with a similar objective and risk tolerance during the entire return period; individual account performance may materially differ according to strategy and portfolio composition. Returns are calculated using time-weighted method (TWM) and are weighted by portfolio assets. Returns can be influenced not only by the actual performance of the underlying portfolios, but by the mix of portfolios in any given year. Public equity returns are calculated by Morningstar based on information received from our custodian(s). Other investment returns, including private equity and real estate investments are calculated based on valuation data from parties other than Rockingstone Advisors. Fixed income returns generated by private notes are recognized when the cash coupon is paid, rather than on an accrued interest basis. Annualized return since inception is based on portfolios invested as of June 1, 2009. The sample set of portfolios within each annual cohort has increased over time. Our investment returns may reflect investment opportunities that are unavailable to all of our clients, for reasons including: (i) certain funds in which we have invested are now closed to new investors, (ii) certain clients may not meet “accredited investor” standards, (iii) certain investments are available only to officers or directors of a business, and /or (iv) we may believe that historical returns most likely will not be generated by a specific security or strategy and thus are no longer allocating new capital to a specific security or strategy. Past performance is not indicative or a predictor of future performance. Mean reversion is a powerful force, meaning periods of outperformance are typically followed by periods of underperformance. All figures are net of fees and expenses. Rockingstone’s performance must be assessed in light of not just how we performed relative to the benchmarks, but how much risk we assumed in generating portfolio returns.

ⁱⁱⁱ Our Five-Year Forecast is updated quarterly and reflects our best judgment on future performance based on current valuations relative to historical valuations, as well as our outlook for earnings and macroeconomic conditions. We caution that predicting outcomes is inherently risky and subject to change.

^{iv} Equity performance charts depict U.S. large-cap (SPY ETF), U.S. mid-cap (VO ETF), U.S. small-cap (IWM ETF), International Developed (VEA ETF), and Emerging Markets (VWO ETF) price change plus dividends and interest during the selected period. We note that Vanguard highlighted a trading glitch in the shares of VO during March 31, 2015 that led to prices materially higher than underlying NAV. Hence you should assume VO’s valuation and total return was inflated as of the end of the first quarter.

^v Fixed income performance charts depict Intermediate Government (IEF ETF), High Yield Corporates (JNK ETF), High Grade Corporates (LQD ETF), International Corporates (PICB), and Emerging Markets bonds (EMB ETF) price change plus interest income earned over the selected period.

^{vi} Commodity performance charts depict Precious Metals (DBP ETF), Base Metals (DBB ETF), Oil (DBO ETF), and Agriculture (DBA ETF) price change.

^{vii} Digital asset performance charts depict the price changes of Bitcoin (BTC) and Ethereum (ETH) over the selected time frame.