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### INFLATION & COMMODITIES

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The Federal Reserve meets on the 27th and 28th this week, and Jerome Powell's commentary is once again on the margin. The major monetary policy assessment on the line is if and when Powell will signal a shift in monetary accommodation that has helped fuel risk asset prices higher over the past year.

The last Fed dot plot revision was hawkish for monetary policy and reflected views from Dallas Fed President Robert Kaplan that,

“The US economy will likely meet the Federal Reserve's threshold for tapering its asset purchases sooner than people think. As we make substantial further progress, which I think will happen sooner than people expect -- sooner rather than later -- and we're weathering the pandemic, I think we'd be far better off, from a risk-management point of view, beginning to adjust these purchases of Treasuries and mortgage-backed securities.”

The June dot plot, a graphical representation of each participant's rate forecast, showed the median projection being two rate increases in 2023, versus zero rate increases in the March dot plot. Kaplan is joined in publicly declaring his 2022 “rate liftoff” projection by Atlanta Fed President Raphael Bostic and St. Louis Fed President James Bullard.

Powell could walk back the market implied rate hike from this dot plot revision (bullish for commodities and real estate), or he could join Kaplan/Bostic/Bullard faction of sooner than anticipated monetary accommodation removal (bearish for commodities and real estate).

This is a critical moment for monetary policy and could be an inflection point for the one-way accommodation trend intact since Q1 2020. In 2018, Powell created a deflationary panic in asset markets by talking tough on the future path of higher interest rates. Since then, he has been much more careful about delivering monetary tightening rhetoric. With several Fed officials now publicly supporting "sooner than later" rate hikes, Powell finds himself in another situation to either cause or avoid a deflationary market “panic.”

## ALLOCATOR

### Fixed Income

Bonds are an asset class that does well in a deflationary policy environment (Low Growth & Strong Currency)

We have long said the Treasury bond bubble will pop again as it did from May 2013-Jan 2014 when long term Treasury bonds fell 18%. Treasury bond prices are at risk to fall 30-50%, and we expect any moves higher in bond prices (lower in yields) to be short-lived. Since most other bonds price off of Treasury yields, fixed income in general is a risky asset class. Bonds are not automatically low risk.

Asset	ETF	Action Date Red Sell/Green Buy		Current Price	% Gain/Loss	Policy Notes
Investment Grade	LQD	9/9/2016	\$119.00	\$134.97	13.4%	
Aggregate Bond	AGG	9/9/2016	\$109.00	\$115.90	6.3%	
Municipal	MUB	9/9/2016	\$111.00	\$117.75	6.1%	
TIPS	TIP	9/9/2016	\$114.00	\$129.00	13.2%	
Extended Duration	EDV	9/9/2016	\$128.00	\$139.88	9.3%	
US Treasury 3-7 yr	IEI	9/9/2016	\$124.00	\$131.16	5.8%	
US Treasury 7-10 yr	IEF	9/9/2016	\$109.00	\$116.96	7.3%	
US Treasury 20+ yr	TLT	9/9/2016	\$133.00	\$148.21	11.4%	
International Total Bond	BNDX	9/9/2016	\$54.40	\$57.62	5.9%	
High Yield	HYG	4/12/2016	\$77.00	\$87.67	13.9%	Act more like equities than bonds, benefit from improving growth

## ALLOCATOR

## Commodities

A change in the price of gold is a change in the value of the currency. When gold rises, the currency's value falls and vice versa. Commodities are an asset class that does well when the currency is weak. If growth is slowing while the currency weakens, there is stagflation - own precious metals. If growth is accelerating while the currency weakens, there is an inflationary expansion - own agriculture, industrial and energy commodities.

Gold's 2020 rise has been driven by a general "risk-off" stance caused in large part by fear about coronavirus' impact on economic shutdowns coupled with rising odds that an anti-growth policy mandate would result from Election 2020. We expect these fears to be transitory as the economy continues to "open." Progress on coronavirus treatments and vaccines suggest decreased odds of further economy wide shutdowns. With the Senate runoff complete, Democrats have a policy mandate for at least the next two years.

Asset	ETF	Action Date Red Sell/Green Buy	Current Price	% Gain/Loss	Policy Notes
Silver	SLV	2/22/2021	\$25.26	\$23.77	-5.9%
Gold	GLD	9/21/2020	\$179.52	\$169.41	-5.6%
Energy	DBE	8/13/2014	\$28.97	\$15.46	-46.6%
Oil	USO	7/30/2014	\$37.00	\$49.14	32.8%
Agriculture	DBA	9/13/2011	\$32.50	\$18.37	-43.5%
Broad Comm. Index	GSG	8/5/2011	\$33.00	\$15.90	-51.8%
Base Metals	DBB	6/17/2011	\$23.00	\$20.15	-12.4%

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**ALLOCATOR**

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**Real Estate**

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Real Estate is an asset class that performs well when growth is accelerating. When rising growth is coupled with a strong currency, own real estate tied to business activity (like commercial REITS). When rising growth is coupled with a weak currency, own real estate tied to commodities (farmland).

Commercial RE will be helped by improving real economic growth and continued movement to an “open” economy after broad shutdowns in the first half of 2020. RE properties leveraged to businesses & economic growth are preferred under pro-growth US policies.

Asset	ETF	Action Date Red Sell/Green Buy		Current Price	% Gain/ Loss	Policy Notes
REIT	VNQ	7/19/2021	\$103.39	\$105.31	1.9%	
Residential	REZ	12/21/2016	\$61.00	\$88.80	45.6%	
Building/Construction	ITB	12/21/2016	\$28.00	\$66.32	136.9%	
Mortgage REIT	REM	4/1/2016	\$35.00	\$35.79	2.3%	

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**ALLOCATOR**

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**US Equity**

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An 1980s/90s type of policy driven equity bull market is the ultimate goal. The 2014 midterm House/Senate/gubernatorial shifts put us on that path, as pro-growth candidates propelled the GOP to majorities. It was a repudiation of anti-growth economic policies and a big step toward a Reagan/Clinton type of equity bull market. Despite the voters' growth signal, Obama doubled down on his tax/spend/regulatory (EPA) agendas in 2015 causing stocks to be range bound and volatile. As 2016 began, policy uncertainty ahead of November's elections became the biggest threat to equities. The ebb and flow of the presidential political season moved markets in both directions as investors waited to learn which policy theme would prevail that November – growth vs. redistribution. Voters decisively made their choice. Growth won Election 2020, unleashing a U.S. equity bull market. Trump's pro-growth policy agenda beat Hillary's anti-growth policy agenda in landslide fashion. Republicans retained control of the Senate, House and increased their control of governorships by three. Election 2020 halted pro-growth policies. It remains to be seen how far Biden, with Party control of the House and Senate, will push a dramatic tax and spend policy agenda.

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**US Equity - Cap Size**

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Asset	ETF	Action Date Red Sell/Green Buy		Current Price	% Gain/Loss	Policy Notes
Micro	IWC	7/11/2016	\$72.00	\$141.75	96.9%	
Total Market	IWV	5/19/2016	\$117.00	\$255.52	118.4%	
Large	IWB	5/19/2016	\$111.00	\$242.79	118.7%	
Small Cap	IJR	5/19/2016	\$54.00	\$106.67	97.5%	
Mid Cap	IWR	4/6/2016	\$38.57	\$77.62	101.2%	

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# POLICY BASED INVESTING

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July 26, 2021

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## US Equity - Style

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Asset	ETF	Action Date Red Sell/Green Buy		Current Price	% Gain/Loss	Policy Notes
Large Growth	IWF	7/11/2016	\$101.00	\$275.03	172.3%	
Small Growth	IWO	7/11/2016	\$140.00	\$289.89	107.1%	
Small Value	IWN	5/19/2016	\$99.08	\$156.46	57.9%	
Mid Growth	IWP	5/9/2016	\$90.00	\$110.10	22.3%	
Large Value	IWD	4/6/2016	\$95.00	\$157.47	65.8%	
Mid Value	IWS	4/6/2016	\$68.00	\$112.88	66.0%	

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## US Equity - Sector

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Asset	ETF	Action Date Red Sell/Green Buy		Current Price	% Gain/Loss	Policy Notes
Metals/Mining	XME	3/26/2021	\$43.25	\$42.03	-2.8%	
Energy	XLE	3/22/2021	\$49.00	\$48.52	-1.0%	
Staples	XLP	6/5/2017	\$57.00	\$71.40	25.3%	
Utilities	XLU	6/5/2017	\$54.00	\$65.71	21.7%	
Healthcare	XLV	2/8/2017	\$71.00	\$131.48	85.2%	
Discretionary	XLY	11/14/2016	\$79.00	\$183.27	132.0%	
Financial	XLF	7/18/2016	\$19.00	\$36.26	90.8%	
Materials	XLB	4/6/2016	\$44.00	\$81.73	85.8%	
Industrial	XLI	3/14/2016	\$52.00	\$103.61	99.3%	
Technology	XLK	3/7/2016	\$41.00	\$154.52	276.9%	

# POLICY BASED INVESTING

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## Foreign Equity

Country	ETF	Action Date Red Sell/Green Buy		Current Price	% Gain/Loss	Policy Notes
World Ex US	VEU	11/15/2016	\$51.71	\$62.51	20.89%	
Canada	EWC	10/1/2018	\$27.21	\$36.33	33.52%	
Mexico	EWX	10/1/2018	\$32.69	\$48.45	48.21%	
China	FXI	8/5/2019	\$39.86	\$44.40	11.39%	
Hong Kong	EWX	7/6/2016	\$24.08	\$26.86	11.54%	
Denmark	EDEN	7/2/2018	\$63.89	\$109.64	71.61%	
Switzerland	EWL	7/2/2018	\$32.58	\$49.12	50.77%	
Netherlands	EWN	7/2/2018	\$30.51	\$47.86	56.87%	
Sweden	EWD	7/2/2018	\$30.51	\$46.88	53.65%	
Eurozone	EZU	7/2/2018	\$41.01	\$48.58	18.46%	
Spain	EWP	7/2/2018	\$30.35	\$27.08	-10.77%	
Poland	EPOL	7/2/2018	\$21.78	\$21.54	-1.10%	
France	EWQ	7/2/2018	\$30.52	\$37.20	21.89%	
Germany	EWG	7/2/2018	\$29.98	\$34.31	14.44%	
Italy	EWI	7/2/2018	\$28.89	\$31.51	9.07%	
Austria	EWO	7/2/2018	\$22.65	\$23.66	4.46%	
Israel	EIS	2/26/2018	\$52.41	\$67.72	29.21%	
Vietnam	VNM	10/9/2017	\$14.99	\$19.38	29.29%	
Indonesia	EIDO	7/24/2017	\$26.78	\$20.24	-24.42%	
Ireland	EIRL	1/26/2017	\$39.00	\$55.93	43.41%	
Singapore	EWS	1/11/2017	\$21.00	\$22.90	9.05%	
Norway	ENOR	8/20/2016	\$20.00	\$27.97	39.85%	
UK	EWU	8/4/2016	\$30.50	\$32.31	5.93%	

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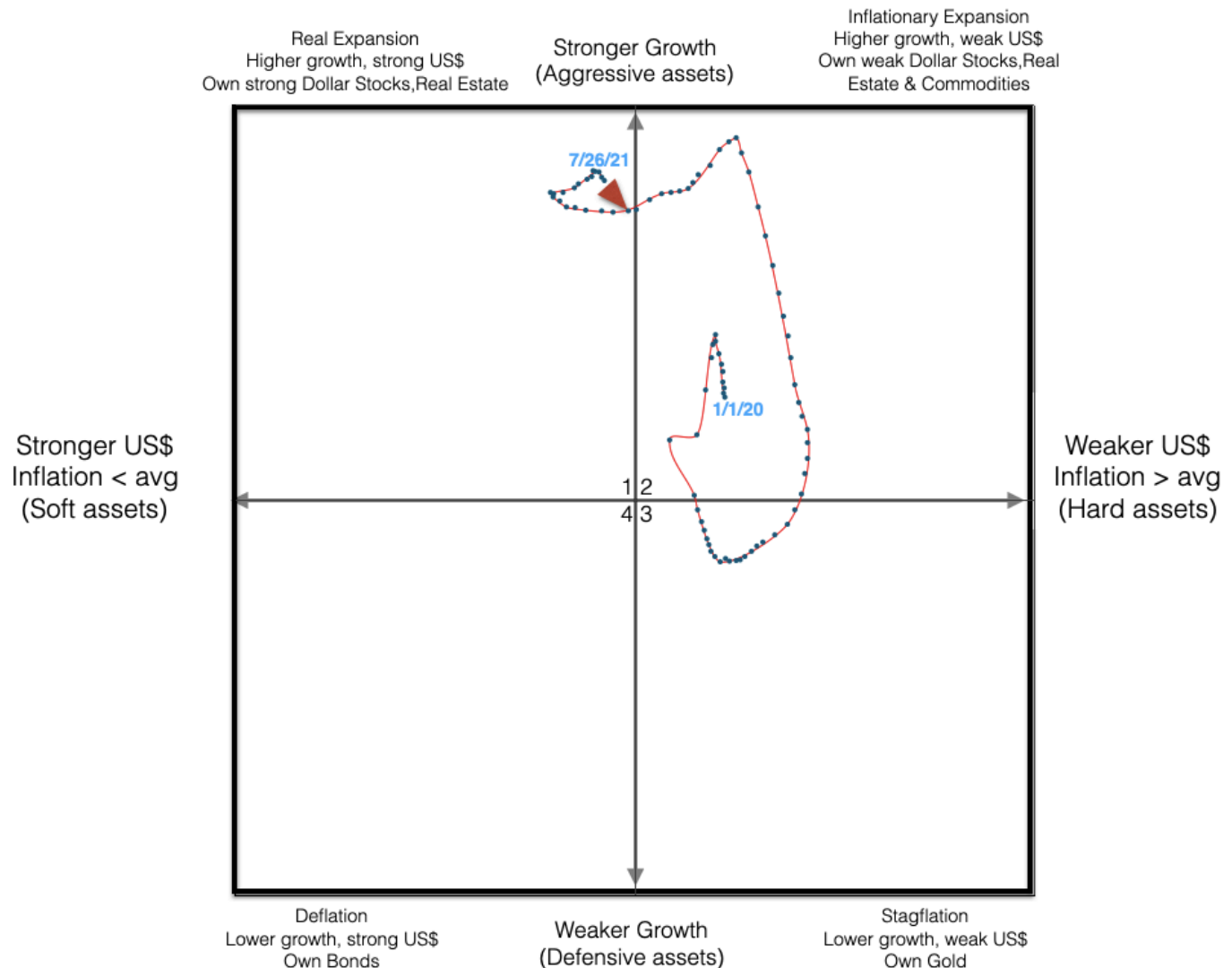
Finland	EFNL	7/26/2016	\$33.00	\$50.60	53.33%	
Japan	EWJ	7/15/2016	\$47.00	\$67.22	43.02%	
South Korea	EWY	7/13/2016	\$52.00	\$90.71	74.44%	
Hong Kong	EWH	7/6/2016	\$19.00	\$26.86	41.37%	
Peru	EPU	6/29/2016	\$30.50	\$28.41	-6.85%	
South Africa	EZA	6/29/2016	\$51.00	\$47.99	-5.90%	
India	EPI	6/27/2016	\$19.00	\$34.13	79.63%	
Taiwan	EWT	6/21/2016	\$27.00	\$64.44	138.67%	
Thailand	THD	5/20/2016	\$64.00	\$74.82	16.91%	
Belgium	EWK	3/16/2016	\$16.50	\$21.85	32.42%	
New Zealand	ENZL	3/5/2016	\$36.00	\$61.44	70.67%	
Philippines	EPHE	8/5/2015	\$37.00	\$29.08	-21.41%	
Qatar	QAT	12/1/2014	\$24.00	\$19.01	-20.79%	
Malaysia	EWM	10/3/2014	\$41.00	\$25.04	-38.93%	
Australia	EWA	9/16/2014	\$22.50	\$25.60	13.78%	
Greece	GREK	7/14/2014	\$20.00	\$26.85	34.25%	
Portugal	PGAL	6/4/2014	\$15.00	\$10.90	-27.33%	
Columbia	ICOL	6/27/2013	\$21.00	\$9.86	-53.05%	
Turkey	TUR	6/1/2013	\$58.00	\$21.32	-63.24%	
UAE	UAE	5/20/2013	\$23.00	\$13.99	-39.20%	
Russia	RSX	8/7/2011	\$30.00	\$19.97	-33.43%	
Brazil	EWZ	7/14/2011	\$60.00	\$39.29	-34.52%	
Chile	ECH	3/1/2011	\$61.00	\$26.71	-56.21%	
Egypt	EGPT	2/23/2004	\$64.00	\$25.48	-60.19%	



## POLICY MAP

Growth DEcreased versus last week (4.91 to 4.86) : Growth expectations are at risk from the Democrat sweep in Election 2020. With control of the House and Senate, Democrat policymakers are likely to attempt and achieve higher taxes on work, savings and investment. The Fed continues providing unlimited liquidity to prevent a solvency crisis after the first intentional recession in history.

Value of US\$ DEcreased versus last week (-0.50 to -0.46): U.S. Dollar weakness could result from Democrats taking control of all three policy making levers, but for now a flight to Dollar safety remains the dominant capital flow.



## BOND YIELD COMPONENT ANALYSIS

**Nominal Yield: 1.30% (-1%)   Inflation Expectation Component: 2.35% (+1%)   Real Growth Component: -1.05% (-3%)**

The ideal bond component pattern is flat or falling inflation expectations coupled with rising real growth expectations. The opposite has been happening since 2019. Inflation expectations continue to surge. Real growth expectations have also surged higher in recent weeks, likely on improving COVID data and accelerating economic reopening plans nationwide. Bond prices are collapsing as bond yields surge, reminding investors that bonds aren't the risk-free asset class marketed by the industry.. There is a policy moment to own bonds, and we are not in that moment.

