SENTIMENT INDICATORS

U.S. CONSUMER SENTIMENT

U.S. SMALL BUSINESS SENTIMENT

CAMBIAR PERSPECTIVE

- Consumer and business sentiment are consistent with a deep recession and high unemployment, not 50-year lows in unemployment

- Inflation, covid fatigue largely responsible

- Not reasonably likely to get a lot worse, makes a wave election fairly probable
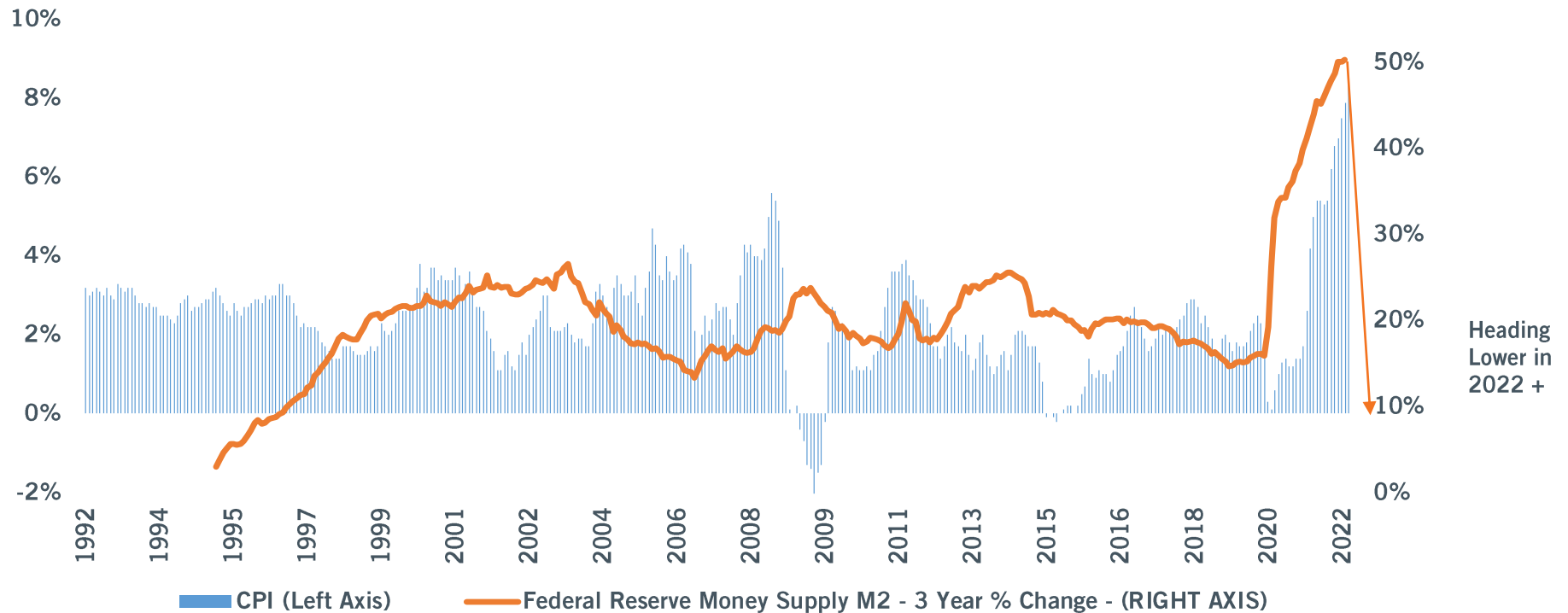
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INFLATION & U.S. MONEY SUPPLY

INFLATION & MONEY SUPPLY GROWTH

Legend: CPI (Left Axis) — Federal Reserve Money Supply M2 - 3 Year % Change - (RIGHT AXIS)
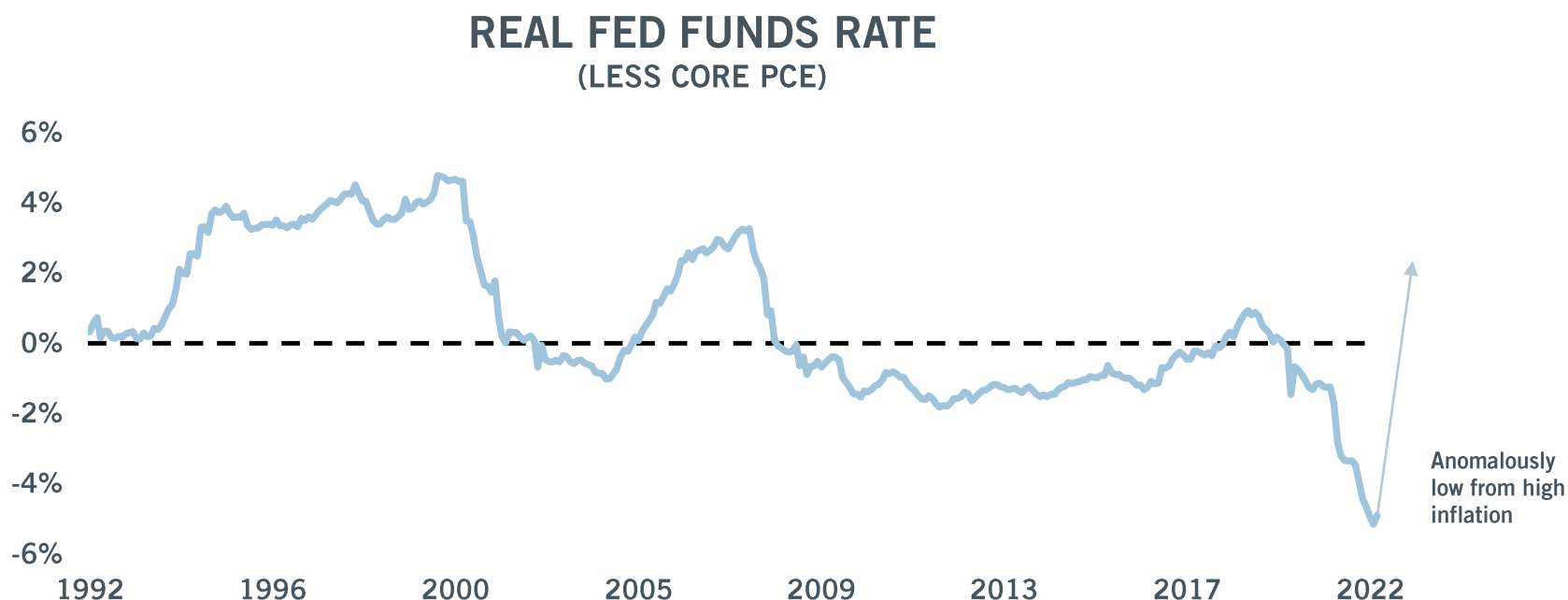
Heading Lower in 2022 +

CAMBIAR PERSPECTIVE

- "*Inflation is always and everywhere a monetary phenomenon*" – Milton Friedman
- 50% money supply growth and supply-side damage = inflation
- Fed has the task of bringing money supply growth back down to a low level (4-5% annually)
- Financial markets <u>do not like</u> low money supply growth. This may be ugly for awhile.

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REAL FEDERAL FUNDS RATE

REAL FED FUNDS RATE
(LESS CORE PCE)

Anomalously low from high inflation

CAMBIAR PERSPECTIVE

- The post Global Financial Crisis (2008-2022) period of lowflation have seen negative real yields and capital subsidization for all but a few months in 2018-19

- A low cost of capital and low likelihood of a higher one have flattered growth stock returns, private capital business model, and corporate governance standards, generally in ways that has been unfavorable to value investing or a conservative capital discipline

- Regime change in 2022 entails an end to lowflation. Positive real interest rates and risk premiums should follow. What does this mean?

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EQUITY RISK PREMIUM

(ERP) Equity Risk Premium = Earnings "yield" – 10 yr bond yield
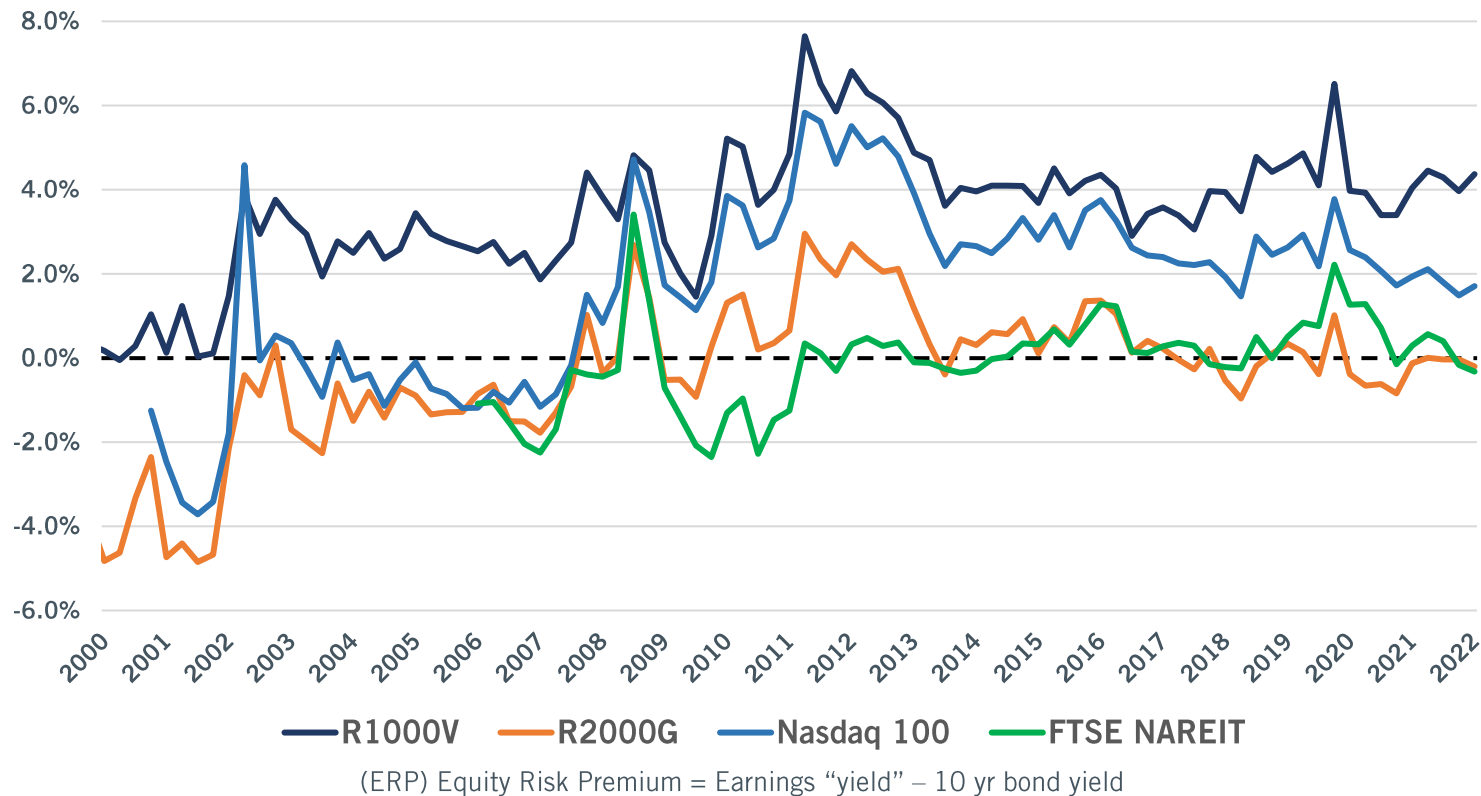
CAMBIAR PERSPECTIVE

- ERP is a simple measure of how much risk is priced into equities versus a risk-free alternative

- Like corporate bond spreads, ERP is heavily influenced by Fed policies, especially balance sheet expansion/contraction

- After an extended period of low premiums in growth, speculative, and real-estate related categories, a positive ERP is back!

- Depending on inflation/Fed policy, this looks like a durable situation

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KEY EQUITY INVESTMENT THOUGHTS FOR A HIGHER COST-OF-CAPITAL REGIME

- **A positive real interest rate is needed to reduce demand with supply limitations**
  - This is normal versus history. Negative real interest rates in 2008-2022 are not normal
  - Not every business will be funded
  - Profits are necessary

- **A positive ERP ought to be expected/normal even in higher growth industries**
  - Understand that asset class valuations and investor / business behaviors have been heavily influenced by long period of very low ERPs
  - Recalibrating investor and business behaviors to a higher ERP may take time / be uncomfortable.

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THANK YOU

FOR A COPY OF TODAY'S
PRESENTATION AND ADDITIONAL
INFO, PLEASE SCAN

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