

Fulcrum Macro Advisors



A World Transforming: Geopolitics, Global Markets
and What to Watch in 2023-2024

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Markets Continue to Struggle to Comprehend the the New Long-Term Global Fundamentals



- **COVID has changed everything** – It is estimated at least 30 percent of US workers will no longer be working in an office but from home. 48 percent of white-collar workers in Washington DC are still working from home. But elsewhere around the world, it has created serious cracks in the social and political fabric (e.g., China = Zero Covid Policy/rise of social and political opposition, North Korea, Iran, etc.)
- **Russia’s invasion of Ukraine has changed everything** – Markets and businesses are learning to offset the impact on commodities (e.g., cereals, fertilizers, neon, etc.).
 - Is this the end of globalization or the jagged retooling of globalization as we have known it? The creation of a global Free Market Economic Security Pact? With the recent supply chain challenges and increased China vs. US/EU/IndoPacific tensions, major free market economies are embracing Industrial Policy – picking winners and losers - for “national economic security” reasons (e.g., CHIPS Act [both the US and EU versions], The Inflation Reduction Act, etc.)
- **Demographics are changing everything** – **India now has a larger population than China (which is spiraling downward). Russia’s population is in free-fall.** 250,000 Russian men between 18-30 have fled to avoid conscription – and there will be another massive flight of men in the days/weeks ahead as a new conscription drive begins; 200,000+ Russian soldiers have died in Ukraine. Young, highly-educated adults are fleeing for better opportunities abroad (the Argentinean Russian Birth Explosion).



What are the Most Serious Geopolitical Risks to the Markets Today?



A Checklist for the Markets



China: Welcome back to the 1970's...

- The 20th Chinese Communist Party Congress granted President Xi an unprecedented third term as which was confirmed ten days ago at the People's National Congress.
- Xi's focus: "Security." He said the word 96 times in his opening address last year. This goes to his view that the rest of the world is hostile to China and China must react.
- A major casualty of Xi's policies is the impact on the regional and global markets investing in China: Less transparency overall, especially of key economic data. This has been the trend under Xi for the last 12 years and is continuing.
- Note the uptick of raids/investigations of western firms in China.
- Also note the severe restrictions over the last decade in economic data being released in China (see charge - left).
- The challenge: Can the US and China put "a floor" under the relationship or will it continue to spiral downward?



President Xi Jinping



From left to right: LI Qiang,, Zhao Leji, Wang Huning, Cai Qi, Ding Xuerxiang, Li Xi



Taiwan Invasion Risk: What to Watch for So You Know if An Invasion is Coming – Which We Think That the Odds are Low



- There are two major factors which have tempered Beijing's most hawkish elements:
 - **Ukraine:** First, the sanction regime placed on Russia by the world is something China does not want to endure. Second, the simple lesson of how one of the supposedly most advanced/sophisticated army's in the world has gotten so badly mauled by a much smaller, determined population supported by the West (e.g., wouldn't Taiwan fight like this with massive Western support, too?) There is one (1) member of China's Army, Navy, or Air Force who has actual combat experience (out of seven million). The last time China saw warfare was 1979 when they had a border war with Vietnam.
- **There are several key markers investors can monitor to gauge if China might be moving toward invading Taiwan.** It would not be a subtle build-up. If an invasion were a year or more away, here is what markets should watch for:
 - ✓ **A massive build-up of naval assets** including landing craft, battleships and key munitions, especially precision-guided weapons for naval/air/amphibious warfare (*not happening*).
 - ✓ Six to twelve months before an invasion, Beijing would implement a People's Liberation Army (PLA) stop loss halting demobilizations of enlisted personnel and officers (*not happening*).
 - ✓ **China moving to insulate their economy from global sanctions** (e.g., capital controls, a freeze on financial assets within China, a rapid liquidation and repatriation of Chinese assets held abroad, stockpiling of emergency supplies, heavy restrictions/suspension of key exports such as critical minerals, refined petroleum products, food). (*Not happening*).
 - ✓ **Chinese leaders starting to prepare the Chinese populace psychologically for the cost of war** (e.g., austerity, tens of thousands of combat deaths and civilian deaths, etc.) (*Not happening*).

Other Geopolitical Risks: Here is the Laundry List

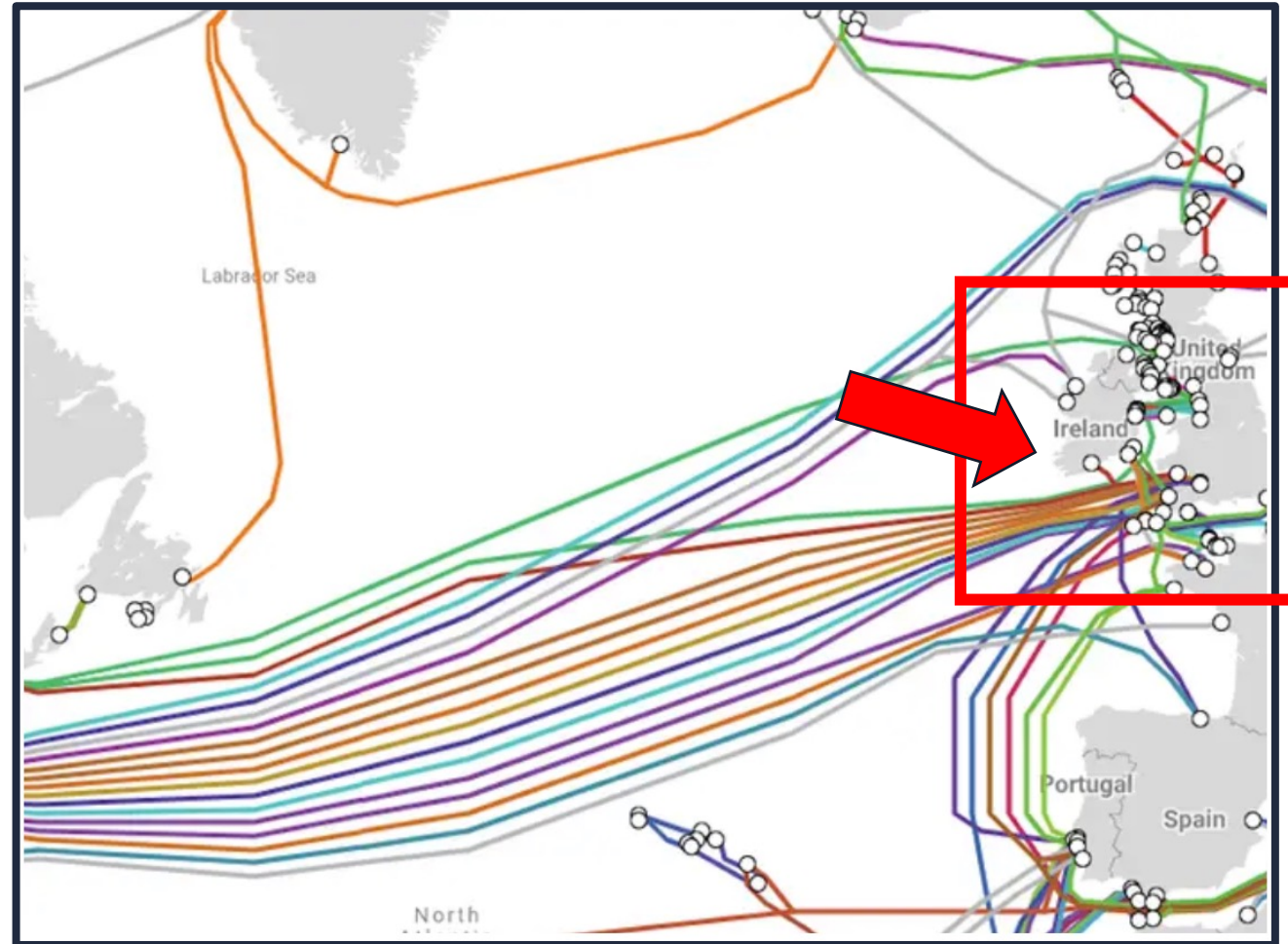


- **North Korea** – Increasingly desperate in the wake of COVID which killed an estimated 2 million people (out of a population of 25 million). Missile test launches are usually a precursor to demands for aid.
- **Iran** – There is virtually no chance for a return to nuclear weapons treaty with the West. Iranian leadership want the weapons and technological abilities that come with it. Meanwhile, ongoing civil protests over social repression and massive governmental corruption are a serious threat to longer-term stability internally and in the region.
- **Crisis-Induced Mass Migration** – If food security issues continue to get worse, experts worry we will see mass-migration from Africa and the Middle East (who are at most risk) into Europe.
- **Emerging Market Debt** – There are numerous emerging market countries deeply indebted to China as part of the Belt & Road Initiative (e.g., Sri Lanka, Ghana, Pakistan, etc.) and face defaulting on payment (a risk for China, as well).
- **Russian Asymmetrical Warfare** - Underwater communications sabotage, satellite sabotage), Denigrating/damaging the Ukrainian electrical grid or even Europe's grids, tactical nuclear or chemical or biological attacks in Ukraine (doubtful/unlikely) cyber attacks, **Sabotage of global food supply channels, AI-created "Deep Fakes."**

How the Irish Fishing Fleet Saved The World



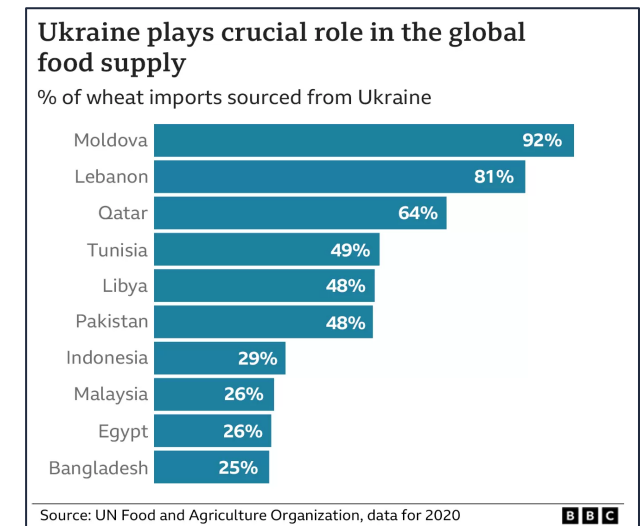
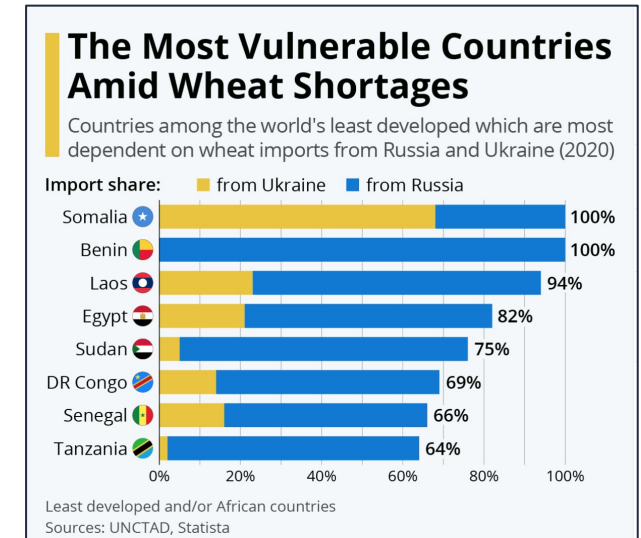
Next time you are in Ireland in a pub on the southern coast, you'll hear all about it. And probably end up buying multiple rounds of beer to thank the Irish fishermen.



Global Food Security and Price Inflation



- Russia’s invasion of Ukraine is a primary contributor to the growing global food security issue. As the charts show, Ukraine and Russia remain “the bread baskets” to Africa and the Middle East – both humans and livestock in many developing nations are highly dependent on what is grown in Russia and Ukraine.
- Additionally, **Russia and Ukraine provide approximately 40 percent of the world’s exports of potash, 11 percent of the worlds urea, 48 percent of ammonium nitrate, and 28 percent of all fertilizers made from nitrogen and phosphorous. Ukraine produces 90 percent of Neon.**
- **Black Sea Grain Initiative:** The interim agreement between Russia and Ukraine (brokered by the UN and Turkey) to allow the continued shipping of all these commodities. It expires in less than 60 days. Will Russia break it?
- There is now a global rice crisis, too, as crop yields are shrinking just as demand is beginning to soar in Africa and Asia with rising populations.
- But we are beginning to see investments by a broad spectrum of investors seeking to diversity where and how key cereals are grown to help alleviate shortages and still make a profit.
- The American Mid-West once again becomes the critical supplier and stabilizer for the US and world (Lets talk about the farm bill..)

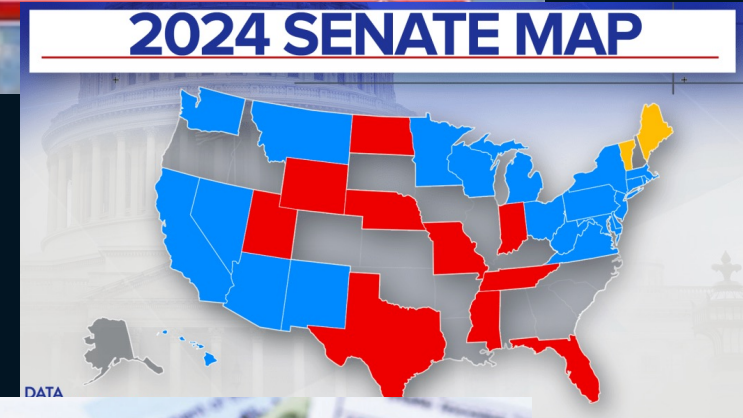




US Politics, Policy, & Markets



What to Watch for in 2023-2024





Tax Reform for the Next Two Years Won't Happen. But Watch for the Groundwork Being Laid for 2024

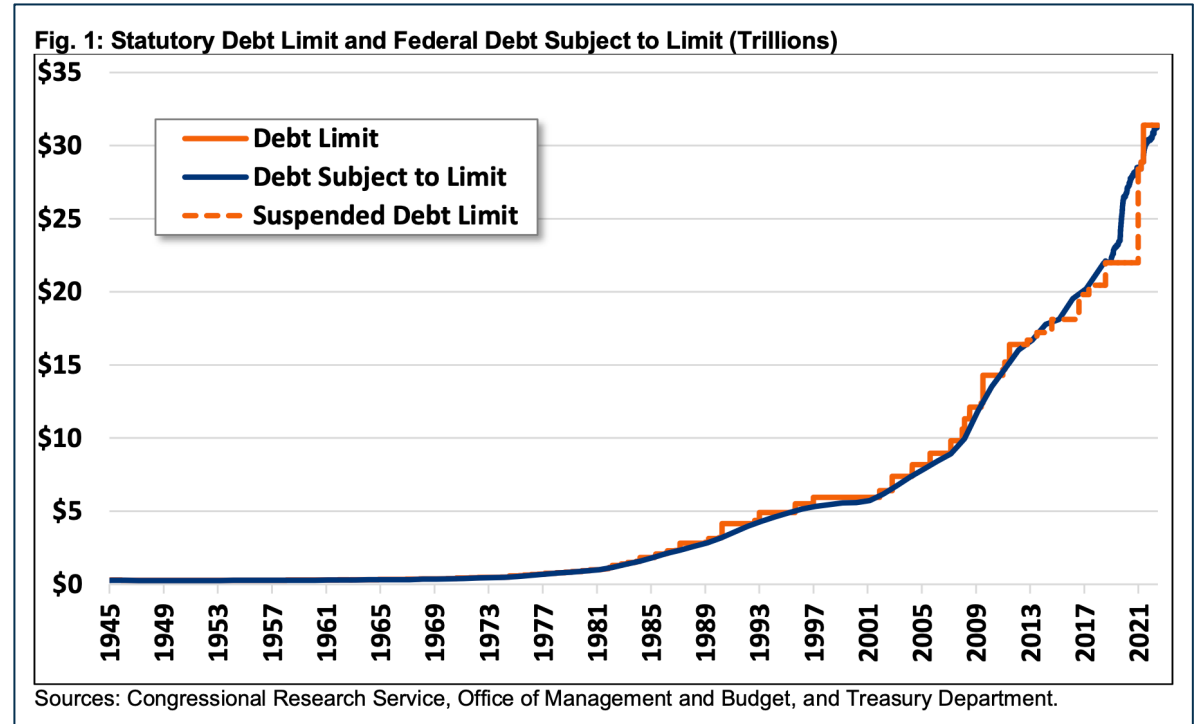
- We see little to no chance of any significant tax legislation at the federal level for the next two year as there is little room for agreement on any reforms of corporate or individual tax policy in 2023-2024.
- However many Trump tax provisions expire at the end of 2025. What will happen between now and then in preparation of the next Washington Tax War?
- What we do expect to see is the various tax advocacy groups laying the predicate for tax reform after the 2024 elections. Washington will be awash in white papers, think tank events, and plenty of Congressional hearings – even a fair share of legislative proposals. What will be the focus? Among the issues we have heard discussed:

Corporate	Individual
Increase or decrease corporate tax rate/ Raise tax on stock buybacks	Raise the SALT Deduction Cap
Increase global minimum tax rate to 15%	Increase Top Marginal Tax Rate for those earning more than \$400,000
Make Larger Current Tax Extenders	Enhanced Child Tax Credits
Revisit Getting Rid of Carried Interest	Raise Inheritance Tax Rate
Tax Incentives for “Near Shoring”	Wealth Tax/Surcharge on Wealth Levels (“Billionaires Tax”)



The Debt Ceiling: Like My Kids Big Class Project...

- Do we default? And what would default look like?
- This week's House GOP bill is a "starter-kit" – won't be the deal but it kick-starts the debate.
- Our view: We see Congress taking it up to the very last minute – maybe get so close they do a stop-gap increase for a few days until final details of a deal are ironed out.
- Normally, we would put the odds at 90 percent this is how it plays out. Today? We are at 65% -35%
- What happens if they do *not* get a deal?
 - \$1 trillion Platinum Coin
 - 14th Amendment of the Constitution: "The validity of the public debt of the United States, authorized by law, including debts incurred for payment of pensions and bounties for services in suppressing insurrection or rebellion, shall not be questioned..."
 - A Presidential Executive Order – but is that legal?
 - Prioritization of Payments: Senior Citizens first? Or China? Or... who and how?

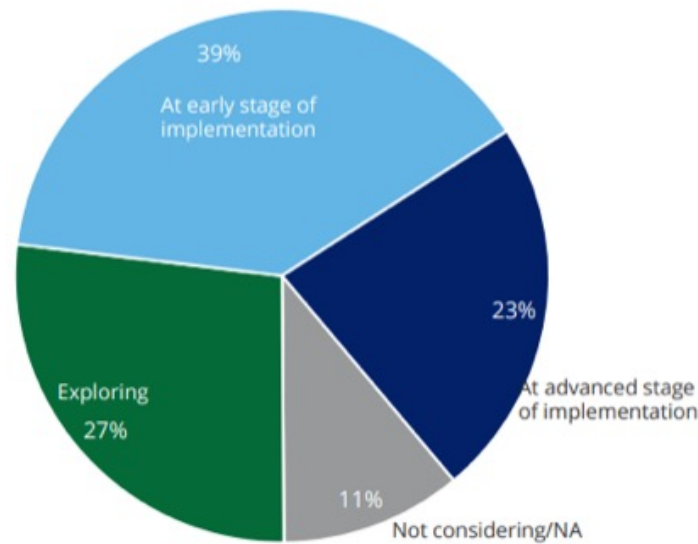




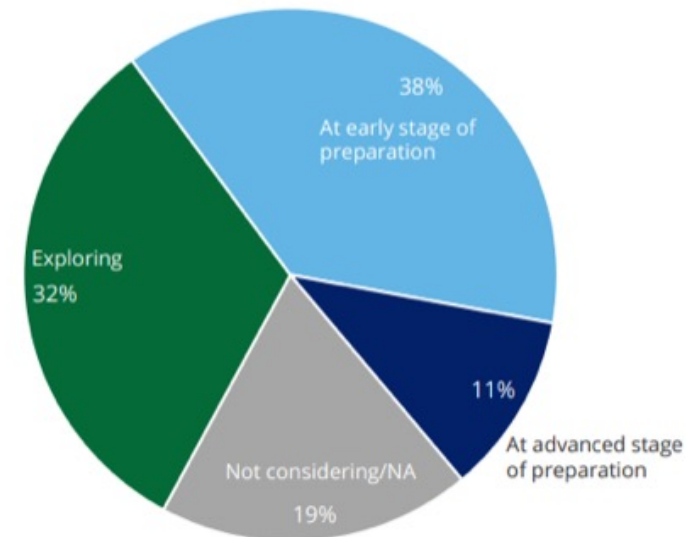
The Quickening Pace of Reshoring to the US

Reshoring is rapidly picking up speed: 62% of Manufacturing CEOs Say They Are Moving Back to the US

US Manufacturing executives



US Transportation executives



The Federal Reserve: “The Most Political Pressure I’ve Felt Here... in 40 years.”



- The Federal Reserve Board is now facing and feeling intense political pressure from Congress and, increasingly, the White House. As one senior career Fed official told us: “This is the most intense political pressure I have seen or felt in my 40 years here at the Fed.”
- The pressure is coming on three fronts:
 - **The impact of rate increases on unemployment**, flying into an unknown recessionary scenario in a big election year.
 - **Regulatory issues** have been a big focus and have grown after SVB Bank and Signature Bank collapse.
 - Tied to this is intense **pressure on bank mergers**. Progressives are hammering the Fed to block bank mergers that could lead to the creation of more “too big to fail banks.” Watch closely the TD Bank/First Horizon merger which is being reviewed by the Fed.
- Our view is Powell is ready to pause on rate increases barring new, worrisome inflation data. And no significant new bank regulation (or legislation) will emerge in 2023.



Senator Elizabeth Warren (D-MA) and Fed Chair Jay Powell

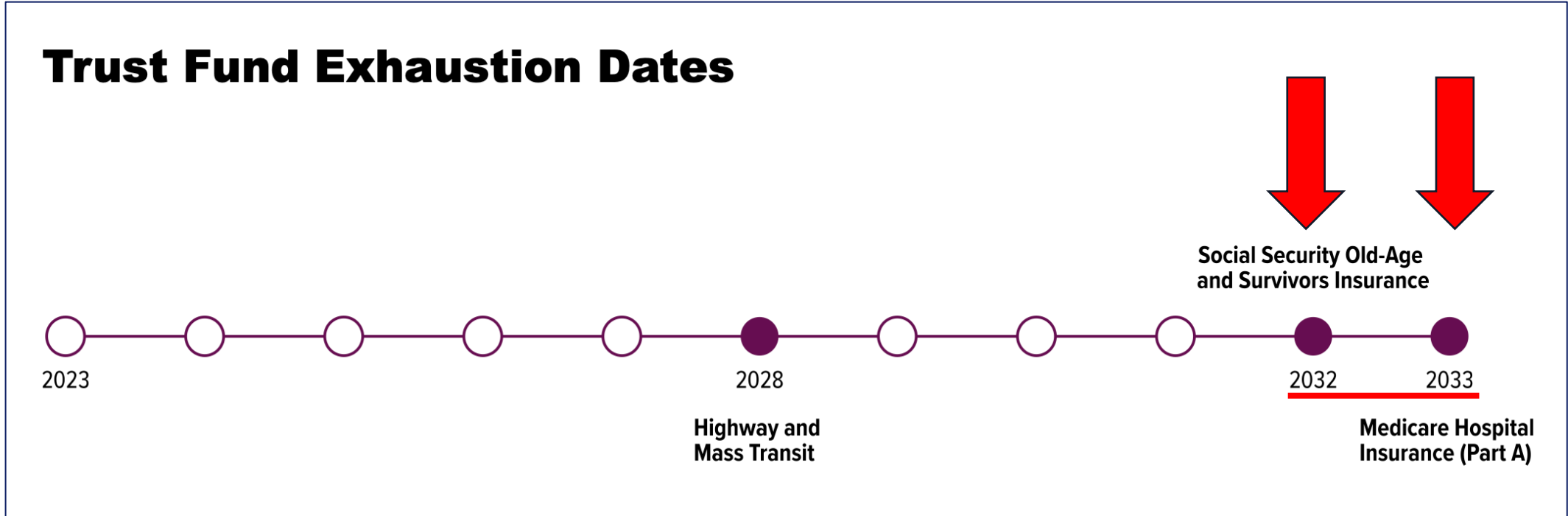
“Asked about Fed Chair Jerome Powell's comments earlier in the day that it would be appropriate to raise rates more than expected in the face of those setbacks, and possibly at a swifter pace, a White House official, who declined to be named, said it was vital not to rely too much a single month's data.”

- Reuters, March 7 2023

We Cannot Ignore it Anymore: Social Security, Medicare, and Highway/Mass Transit Fund are Going to Go Broke



The latest estimates from the Congressional Budget Office (CBO) make clear time is running out. But what sort of reforms can Congress make? It will be an issue in 2023-2024.



Source: Congressional Budget Office (CBO) briefing of the House of Representatives, March 8, 2023

Election 2024: If Not Biden or Trump, Then Who?

Watch for "Guerilla Marketing" Campaigns to Emerge



- **The first Republican Presidential Debate is in August 2023. But will that matter?** Watch for the "Guerrilla Marketing" version of a Presidential Campaign from several Republican candidates: Fast, Furious, Social-Media Focused, funding not the priority for the candidate.
- **What is the downside to running for President?** The risk is being embarrassed by some personal scandal being made public. The upside? New-found national prominence, a possible cabinet post, big speaking fees, books, television shows, national name recognition if you want to run again in four or eight years. Much more upside than downside. With this in mind, here is our short-list of likely candidates (not in any particular order):
 - **Republican: Former President Donald Trump**, Former Vice President Mike Pence, Florida Governor Ron DeSantis, **former Arkansas Governor Asa Hutchinson**, **former UN Ambassador Nikki Haley**, Virginia Governor Glenn Youngkin, Senator Ted Cruz (R-TX), **Senator Tim Scott (R-SC)**, Georgia Governor Brian Kemp, Texas Governor Greg Abbott, former New Jersey Governor Chris Christie, New Hampshire Governor John Sununu.
 - **Democrats:** Vice President Kamala Harris, California Governor Gavin Newsom, Michigan Governor Gretchen Whitmer, North Carolina Governor Roy Cooper, Senator Amy Klobuchar (D-MN), Secretary of Transportation Pete Buttigieg, Senator Bernie Sanders, **Robert Kennedy, Jr.**

The 2024 Senate Outlook: Can Democrats Hold Control?



Democrats must defend 23 of the 33 seats up in 2024, many from Red States.

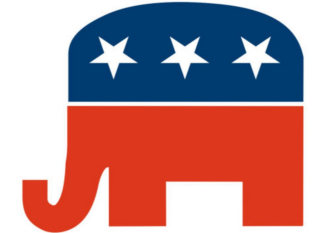


Democrats at Risk:

1. Sherrod Brown (D-OH)*
2. Jon Tester (D-MT)*
3. Joe Manchin (D-WV)*
4. Jackie Rosen (D-NV)
5. Bob Casey (D-PA)
6. Tammy Baldwin (D-WI)

Republicans at Risk:

1. Open Seat (IN)
2. Josh Hawley (R-MS)
3. Ted Cruz (R-TX)



- = Trump won their states – Ohio, Montana,
- West Virginia – in 2016 and 2020

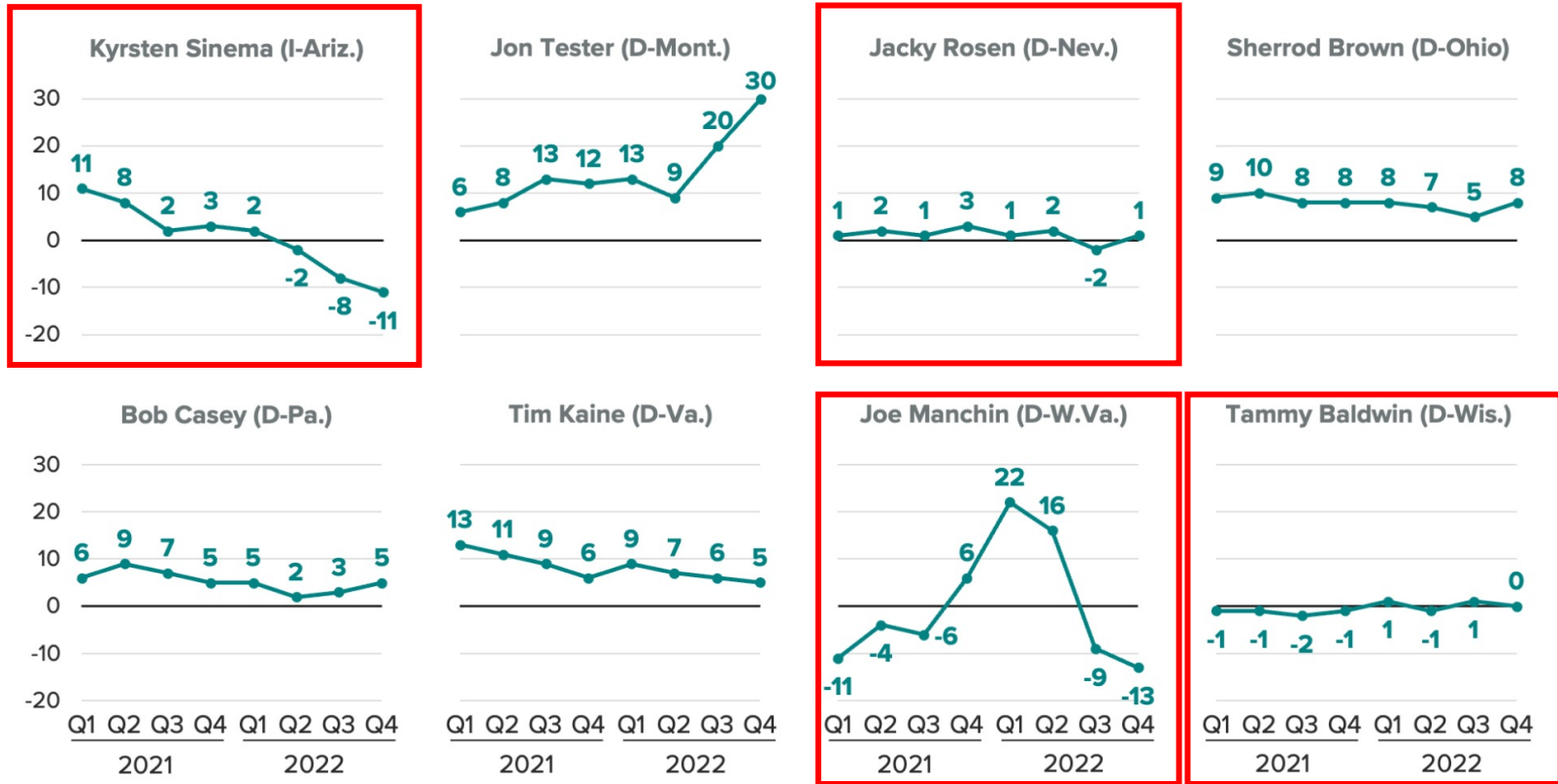
Independents at Risk:

- Kyrsten Sinema (I-AZ)

How are those “Most at Risk” Senate Democrats Doing in the Polls?



Quarterly net approval* ratings of the following senators among registered voters in each state:



MORNING CONSULT

*Net approval is the share who approve minus the share who disapprove.

Quarterly surveys conducted in 2021 and 2022 among representative samples of registered voters in each state, with unweighted margins of error of +/-1 to 4 percentage points.

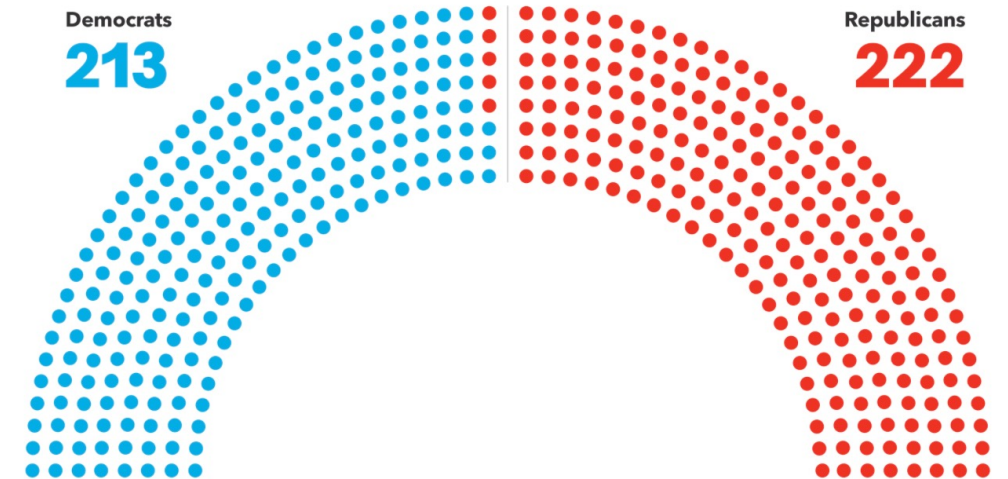
The House of Representatives: Can Either Party Break Out with a Sizeable Majority?



A four-seat GOP majority in the House – with a loud GOP dissent faction – makes the current majority fragile. It was not much better than the last Congress for Democrats in the majority.

- Speaker McCarthy is constantly at the risk of a motion to vacate the Chair. It only takes one GOP member to rise and call for such a no-confidence vote.
- McCarthy's first major threat is the debt ceiling. He can get it passed with help of House Democrats but will it be the last thing he does as Speaker?
- Budget decisions, placating the Dissidents in some way, and economic outlook are all critical factors for the Republicans. And Trump – will he play a role in running MAGA candidates against sitting House Republicans again?
- Does President Biden's recent moves to the center suggest the Democratic Party will move with him and recruit a new class of more moderate House candidates?

House Balance of Power



Bloomberg Government



Fulcrum Macro Advisors LLC Leadership



Frank Kelly

Frank is the Founder and Managing Partner of Fulcrum Macro Advisors LLC. He has worked as a senior executive on Wall Street for over 30 years, most recently at Deutsche Bank. Prior to this, he held senior positions at Charles Schwab & Co., and Merrill Lynch where he was Chief of Staff and Global Head of Marketing.

At Deutsche Bank, Frank served as Global Coordinator for Government and Public Affairs. He was also the Bank's first Chief Political Strategist, advising clients on geopolitical and domestic policy issues.

Prior to joining the financial services sector, Frank was Chief Spokesman and Senior Policy Advisor to the Chairman of the US Securities and Exchange Commission. Prior to this, Frank served at the US Department of Justice in the Office of Policy Development where he focused on international and national security issues. He began his career as a Writer for President Ronald Reagan, going on to serve as the Deputy Associate Director of the Office of Political Affairs. He remained at the White House to serve as a Writer for President G. H. Bush.

He is also a Senior Advisor to The Scowcroft Group, a Washington DC global business advisory firm with an emphasis on emerging markets. He is also a Senior Associate in the Americas Program at the Center for Strategic and International Studies (CSIS). Frank additionally is a Lecturer at The Catholic University of America's Busch School of Business where he teaches on Business Intelligence.

Frank is a member of the Council on Foreign Relations, the International Institute for Strategic Studies, the American Council on Germany and American Institute for Contemporary German Studies. He also serves on the Board of Directors of Codespa America and as Vice Chair of the Board of Directors of the Jerome Lejeune Foundation of America. He resides outside Washington DC in Great Falls, Virginia with his wife, Maura, on their working farm, Open Door Farm.

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