

**JULEX** CAPITAL

# What past period is most like the present?

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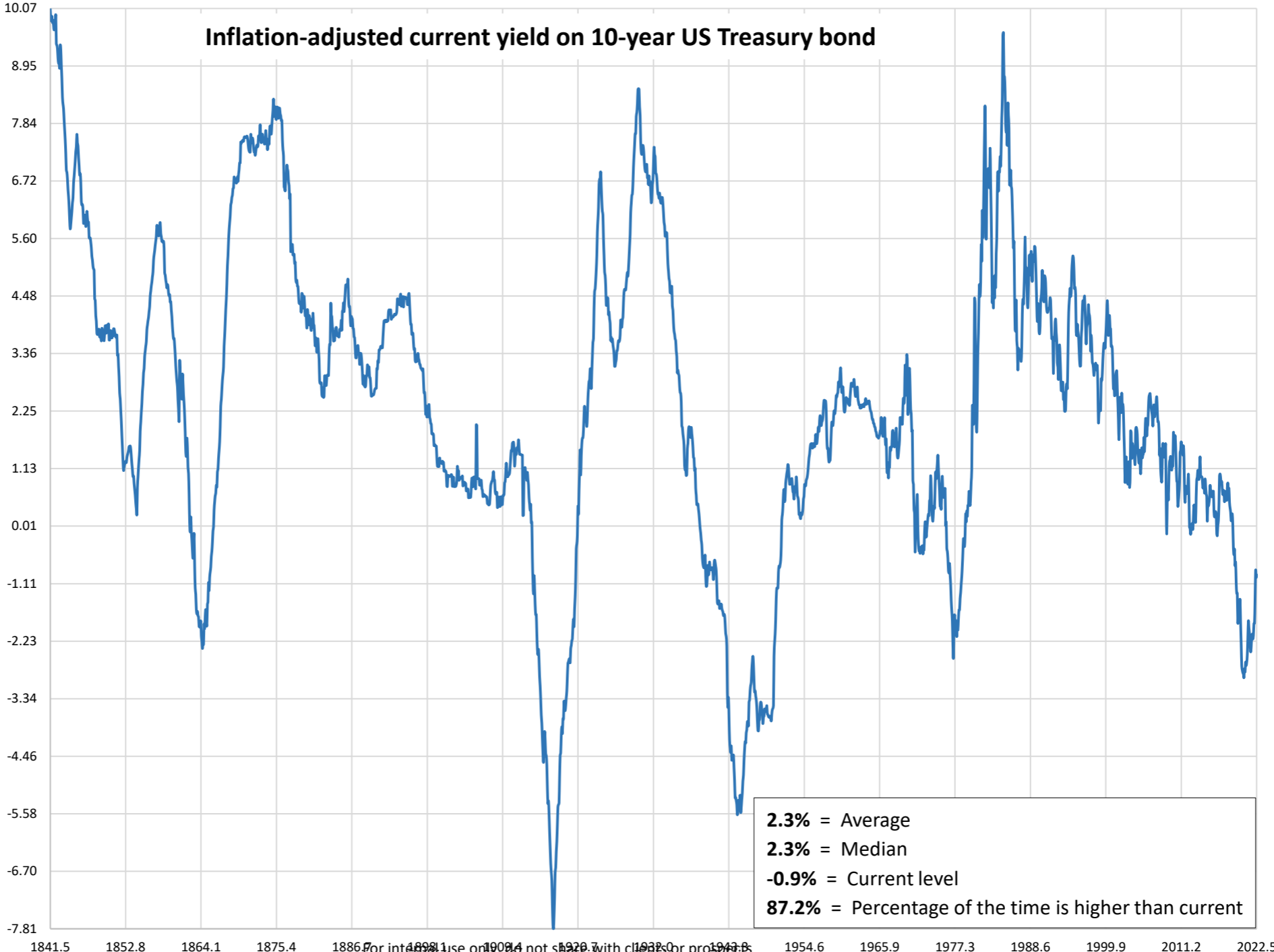
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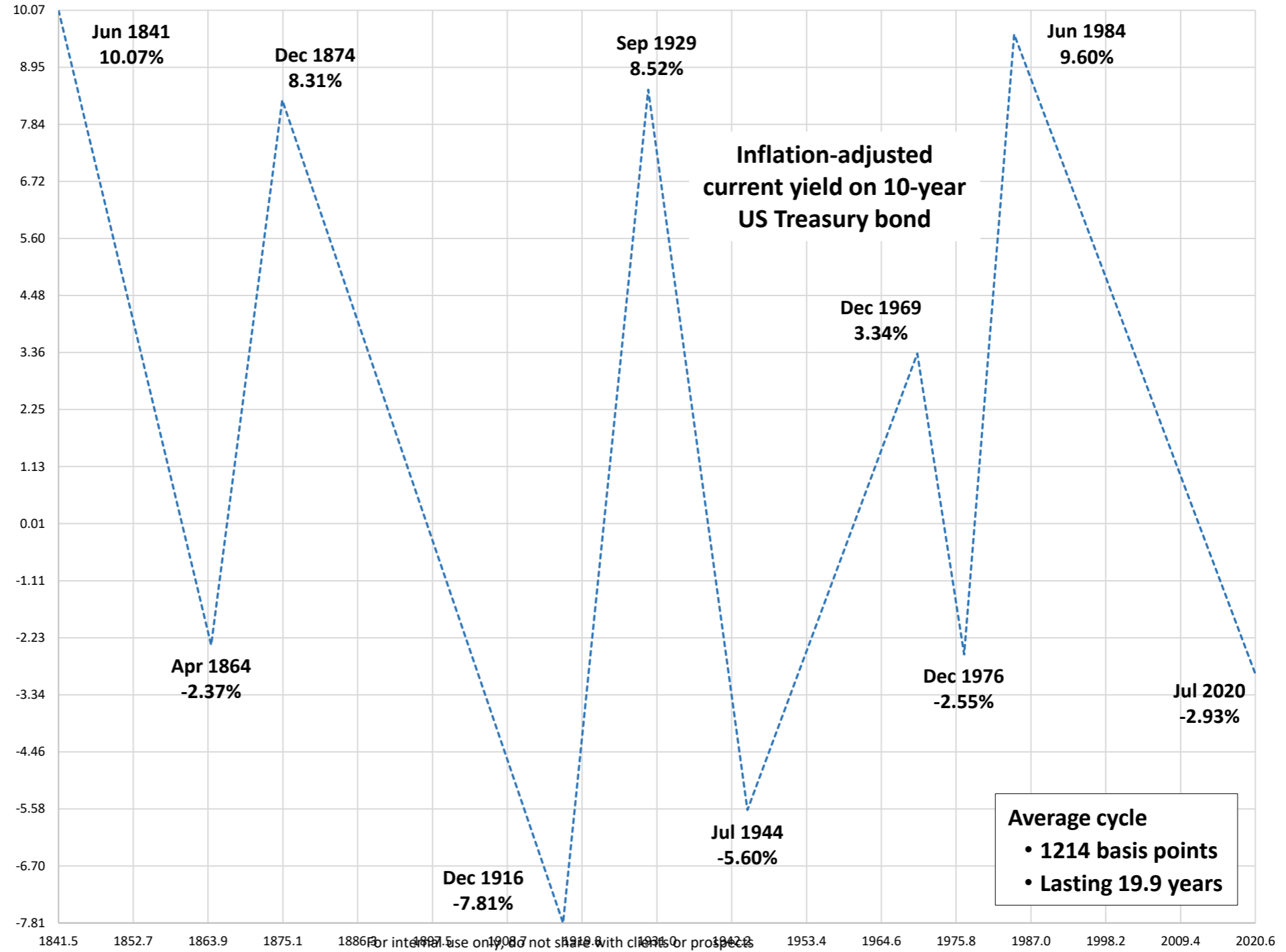
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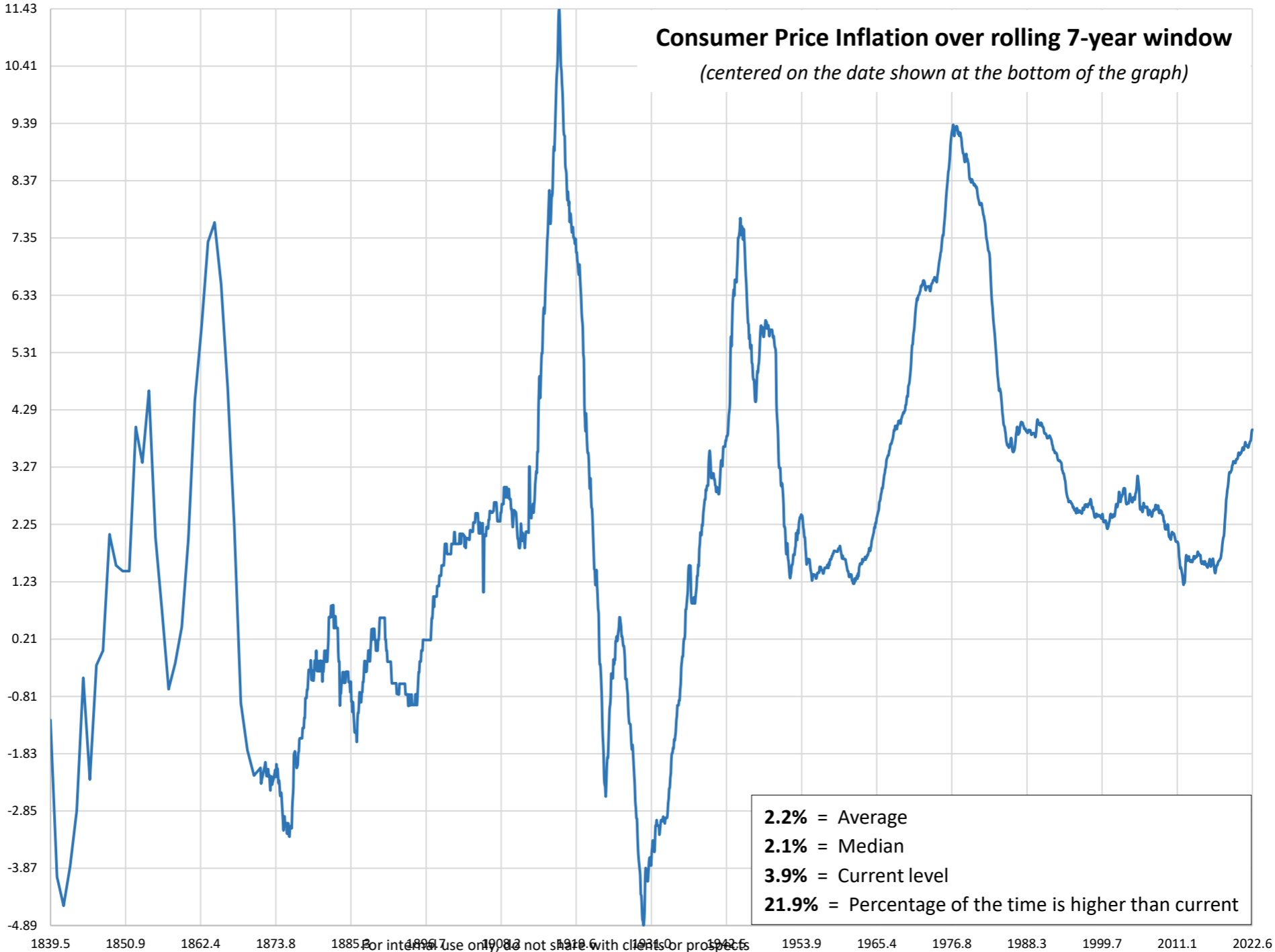
## What did I choose . . . and how did I choose it

- **Rob embarks on the ultimate fool's errand . . . .**
  - I say this because such an effort remains incredibly “impossible”
  - Today . . . is just plain different . . . but it still rhymes
  - And . . . history gives us the all-important context . . . allowing us to interpret “today”
- **But . . . I chose**
  - The 10 years . . . . Feb 1973 through Feb 1983
- **Based on my “2-cent” interpretation of where we stand in the interest rate and inflation cycles**

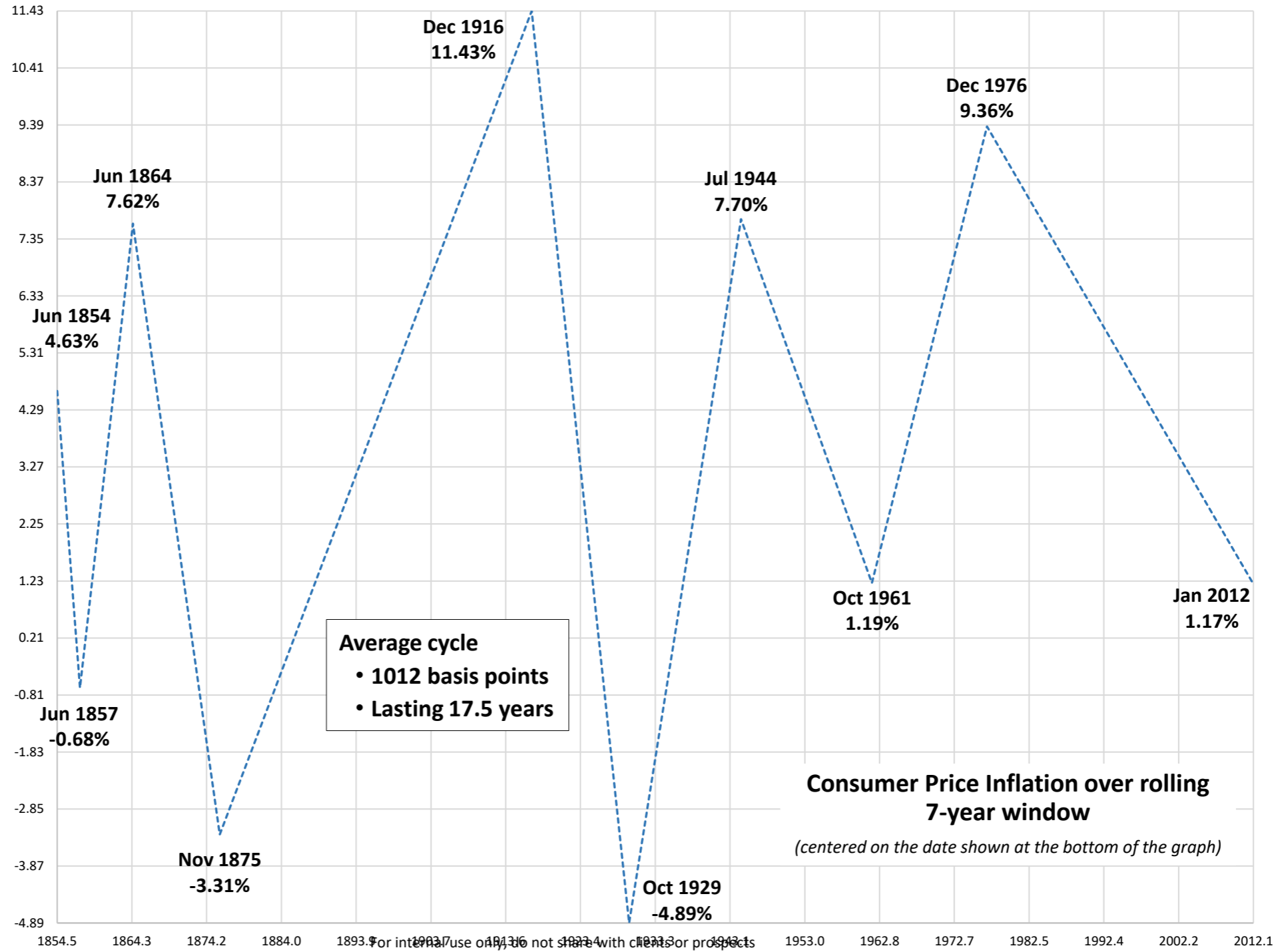


# Interest rates - the cycles





# Inflation - the cycles



**Feb 1973 - Feb 1983**

Ten years

- Actual experienced inflation

- Feb 1973      3.9% yoy

- Feb 1983      3.5% yoy

- Expected inflation

- Feb 1973      6.5% point in time

- Feb 1983      5.8% point in time

- Context is all-important

- Inflation hit a high of 14.8% on Mar 1980 yoy

- This level drove . . . vast . . . fear and uncertainty

- This is relevant for today's environment . . . fear, uncertainty, surprise



- **Nominal . . . not adjusted for expected inflation**

- Feb 1973      6.64%
- Feb 1983      10.27%

- **Real . . . adjusted for expected inflation**

- Feb 1973      0.17%
- Feb 1983      4.44%

## Asset class returns - Feb 1973 through Feb 1983

- 10-year Treasury bond 7.16%
- Dow Jones investment grade US corporate bonds 8.77%
- S&P 500 7.76%
  
- BUT . . . . Inflation over this exact same period ran at 8.60%

## Asset class returns - Feb 1973 through Feb 1983

- 10-year Treasury bond      7.16%
- Dow Jones investment grade US corporate bonds      8.77%
- S&P 500      7.76%
  
- BUT . . . . Inflation over this exact same period ran at      8.60%

- Bottom line . . . at the end of this ten years . . . . you'd lost 50% of your wealth to taxes and inflation

## Return on a simple 60/40 domestic portfolio

- Ten years Feb 1973 to Feb 1983
- -0.20% inflation-adjusted return per year
- 8.38% nominal return . . . before inflation

43.2%	S&P 500
19.2%	AAA long-term corp bonds
18.24%	10-yr Treasuries
14.4%	Dow Jones Industrials
4.0%	Gold
0.96%	90-day Treasuries

## Return on an ultra-diversified 60/40 domestic portfolio

- Ten years Feb 1973 to Feb 1983
- -0.01% inflation-adjusted return per year
- 8.60% nominal return . . . before inflation

42.75%	S&P 500
14.25%	Dow Jones Industrials
9.5%	Dow Jones Corp bonds
9.5%	AAA long-term corp bonds
9.025%	5-yr Treasuries
9.025%	10-yr Treasuries
2.5%	Diversified commodities
2.5%	Gold
0.95%	90-day Treasuries

- U.S. Corporate Net Cash Flow grew an annualized 11.04%
- U.S. Corporate Profits After-Tax grew an annualized 6.31%
- Keep in mind that inflation ran at 8.60%

- Real Disposable Personal Income grew an annualized 2.19%
- Real GDP per Capita grew an annualized 1.22%
- Real Personal Consumption Expenditures grew an annualized 2.29%
- Average Hourly Earnings (Total Private Industries) grew an annualized 7.16% . . . but of course inflation ran at 8.60%
- Unemployment
  - Feb 1973 5.0%
  - Feb 1983 10.4%

- Real Industrial Production Index grew an annualized 0.62%
- Real GDP (Gross Domestic Product) grew an annualized 2.02%



# Rob's 2-cents on that 10-years

Feb 1973 - Feb 1983

What was really going on

- We were consolidating
- Failing, dropping the ball, struggling, doubts were rising . . . we'd lost our way
- But . . . **what was really going on** . . . was quite different
- Instead . . . we were preparing for the next ten years (Feb 83 - Feb 93)
- Feb 1983 through Feb 1993 was all about
  - Restructuring
  - Embracing pain . . . and those 10 years did hurt
  - Reinventing ourselves
  - Innovating to a better place
  - Abandoning "*what was*" and replacing it with "*what would be*"

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# ESG investing - The good, the bad, and the ugly

Friday

July 29<sup>th</sup>

11:00 a.m. EASTERN

All data and statistics were provided by Global Financial Data, Inc. and NDR, Inc. (unless otherwise indicated in the exhibit)

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