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PROVIDING PEACE OF MIND

No Confidence

It's the end of an era – the Taylor Swift "Eras" Tour, that is. The 21-month global extravaganza ended earlier this month in Vancouver, British Columbia. While "Swifties" across the globe are going to miss seeing the superstar on stage, the local economies where she performed might miss her even more.

Swift's tour was a juggernaut, with fans pumping billions into local markets, supporting hotels, restaurants, retailers, etc. According to some estimates, the impact of "Eras" increased Gross Domestic Product (GDP) by nearly $5 *BILLION* in the U.S. and $9 BILLION worldwide. The Federal Reserve even mentioned Swift by name in its June 2023 "Beige Book," which analyzes current economic conditions.

While the economic boost the tour provided to the global economy was small in the grand scheme of things, it stood out as a rare, upbeat story amid broader economic challenges across the world.

The latest round of headlines this month shows how some of the world's largest economies are struggling.

For example, in early December, France's government collapsed following a vote of no confidence against the country's prime minister, Michel Barnier. France has been dealing with a large national debt and endless budget deficits (sound familiar?), a problem Barnier had been tasked with fixing. His solution? Cut spending on pensioners and healthcare, increase taxes, *and* push through

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the change without a vote from the Assemblée Nationale, the French version of the U.S. House of Representatives.

Prior to Barnier's ousting, two previous prime ministers had resigned in 2024. Thus, President Emmanuel Macron is now on his fourth prime minister this year, who is tasked with solving the whole budget crisis thing . . . in the midst of political gridlock. Bonne chance!

A couple of weeks after the government collapsed in France, its neighbor Germany had *its* government fail after a no-confidence vote against Chancellor Olaf Scholz. Germany also is facing a budget crisis and political in-fighting (sound familiar?).

Scholz apparently called for the vote *with the intent* of losing. His three-party coalition had splintered over key budget issues, so the only way forward was to tear it all down so they could try to build it back up again. European politics are strange.

Over in Asia, with China's economy struggling and Trump's tariffs looming large, the Chinese government announced more economic stimulus coming in 2025. The Chinese stock market took that news like a kid in a candy store and had a big one-day surge, but after a couple of weeks the sugar rush had worn off and Chinese stocks were back where they started.

China wants its economy to become more consumer-driven, but it is still too dependent on exporting cheap goods to the rest of the world. We also learned this month that prices of these cheap goods keep getting cheaper, marking six quarters of consecutive DE-flation in China. One more quarter and they'll tie the record set during the Asian financial crisis of the late 1990s. Not good.

In South America, Brazil, too, is trying to stave off a budget crisis. Fresh off two brain surgeries, 79-year-old President Luiz Inácio Lula da Silva is under fire for excessive government spending. Worried investors are ditching its currency, the "real," which had its biggest one-day drop last Wednesday and has depreciated 21% against the U.S. dollar this year.

A similar story is starting to unfold north of our border, as well. Canadian Prime Minister Justin Trudeau is contending with growing pressure from his own party. They want him to step down following the abrupt resignation of his top finance minister, Chrystia Freeland. Trudeau wants to spend like a hockey fan after a Stanley Cup win, but Freeland wants to keep enough fiscal dry powder on hand to fight a potential tariff war with the Trump Administration. No significant shake-ups have yet unfolded, but it's possible Canada will be the next major economic power to force a vote of confidence.

Or maybe Canada can take Trump's offer to become the 51st U.S. state. Who knows. North American politics are strange.

While the U.S. hasn't faced the same dramatic government collapses as some of our global counterparts, we're far from problem-free. Our own debt and deficit challenges loom large, and our government's frequent inability to agree on spending priorities sometimes leads to drastic measures—like the vote to avoid a shutdown this past weekend, funding the government for another three months. If there's one thing we excel at, it's kicking the can down the road.

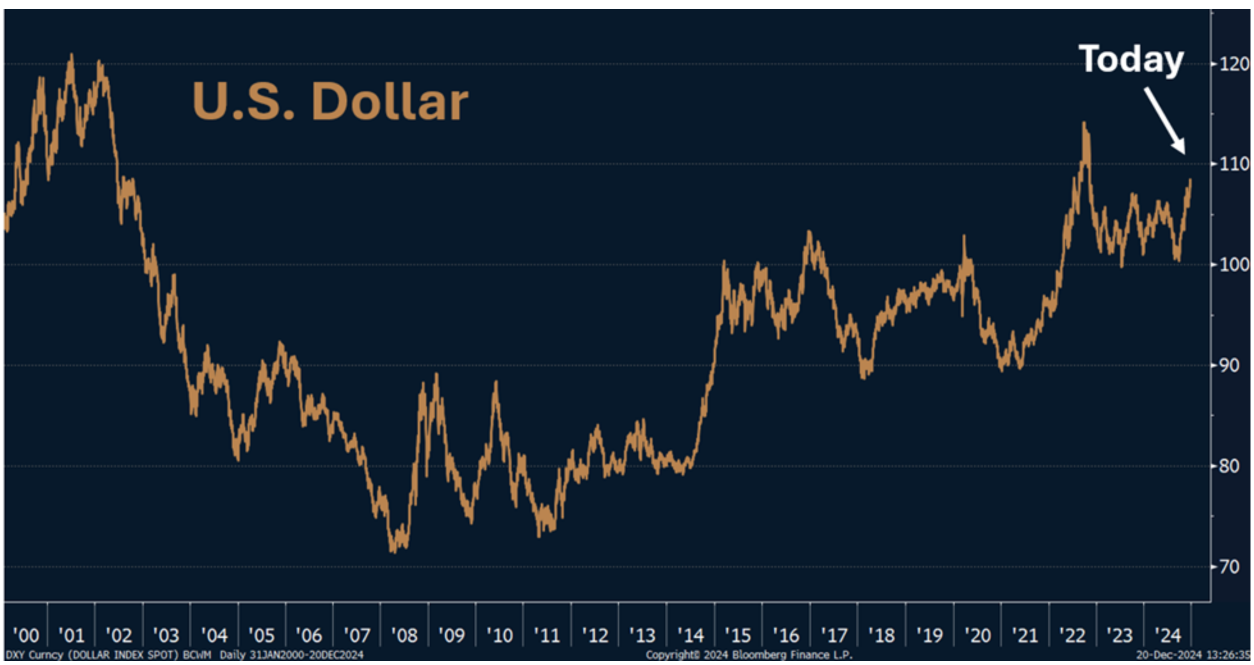
What we really *do* have going for us is a strong economy: consistent economic growth, low unemployment, and moderate inflation.

Evidence of the economy's strength came in the Federal Reserve's recent announcement that interest-rate cuts in 2025 will likely be more modest than previously indicated. Inflation has been running a little higher than expected the last few months, so the Fed is shifting focus away from supporting a weakening economy and towards fighting inflation.

One would think that this good news would push the stock market higher. Think again! The Equal-Weighted S&P 500 Index is down 6% so far in December, and the Dow Jones Industrial Average had a 10-day losing streak, its longest in 50 years.

It's another classic case of "good news is bad news" that happens when the market gets hyped up about something that hasn't yet happened. In the long term, economic resilience is a good thing for stocks, but in December, it was not. And our bet is that by the end of 2025, fears about sticky inflation will be proven to have been overblown.

In the meantime, higher interest rates and a *relatively* stellar U.S. economy have led to a stronger dollar. The Dollar Index (DXY), which compares the dollar to a basket of currencies in the developed world, is as high as it has been since the COVID pandemic of 2020, and the second highest in 23 years.



This brings us to the curious question that we frequently get asked: "What about the dollar?," meaning, "What are we (investors) going to do when the dollar collapses?"

The concern is that that we (the United States) have way too much debt and when the rest of the world discovers we have too much debt (like they don't already know it?), they will not want to hold dollars anymore, or they will not want to own U.S. Treasury Bonds anymore, or both.

But if you have read our Investment Commentary this far, you know that the rest of the world is dealing with similar (or worse) financial problems.

Exchanging your dollars for euros, pesos, renminbi, or rubles doesn't seem to be a good move any time soon. And there are always rumors that there will be an entirely new place to dispose of your dollars when the BRICS countries (Brazil, Russia, India, China, South Africa and a few other countries) decide to buddy up and create a common currency. Which, we don't mind telling you, is a hilarious idea. Those countries are not going to be buddies about anything, at least not during our lifetime.

If you spend very much time on the internet, you will likely come across someone's website where you will be encouraged to buy gold or crypto from them. And, of course, the best tactic for persuading you to buy gold or crypto from them is to scare you about the value of the dollar.

And maybe someday they'll be right. Perhaps the dollar will collapse and lose all negotiable value. But today, despite soaring debt levels and persistent anxiety about the dollar's future, it remains the most sought-after currency in the world.