

## Fourth Quarter 2024 Macroeconomic Commentary

With the transition to the Trump administration and potentially significant changes in economic policy under this relatively popular, new, but lame duck president, I thought I'd outline a few of the issues White Brook is most focused on in the near term.

1. President Trump may be right about tariffs.

Debt's purpose is to accelerate consumption, with the goal of using that consumption to enhance the borrower's position beyond what it would have been without the borrowed funds. If the borrowed money is wasted and the borrower's strategic position doesn't improve, their situation has worsened. This is a basic principle.

The US incurred substantial debt during the financial and Covid crises. Although some of the funds were not used efficiently, the US economy ultimately grew much faster than its peers as a result. However, existing international agreements don't reflect this new reality. Trump's focus on bilateral negotiations and tariffs aims to address this imbalance.

For instance, today, the United States has a trade imbalance with Canada due to its purchase of natural resources, mainly oil from Canada. Importantly the Canadian government/provinces collect a royalty on all natural resources removed from their territories by the mining corporation. The Canadian government also collects taxes from the Corporations that sell the oil. It would therefore be incorrect to suggest that a tax or tariff of some kind is not already erected on the sale of Canadian oil - but it only benefits the Canadian people and ignores that the United States is now the largest producer of oil in the world - a capability that was far less robust a decade or two ago.

The US's predicament is that many refineries, particularly in the northern US are configured to refine Canadian oil as they were originally designed to refine chemically similar Saudi Arabian oil and not the light sweet crude the US produces. Plants would need to be reconfigured. As the name reflects, light sweet crude is more easily refined into gasoline for a properly configured refinery, and even better, does so at a lower octane. From a governing perspective this is even better because the US farmer is designed to produce corn in massive quantities that is then turned into high octane ethanol. It's cheaper than gasoline, cleaner burning than gasoline, and its use helps

the US farmer who keeps on producing bumper corn crops driving the price below the cost to produce. So by buying Canadian crude, US oil companies, US farmers and US tax revenue are all negatively affected, while certain US refiners, Canadian oil companies, and the Canadian government benefit by the continued purchase. Tariffs that raise the cost on the US refiner and incent a reconfiguration of the refineries have a certain logic. My sense is that the more enumerate on the issue can poke holes in the argument, particularly as prices rise when refineries are taken offline to reconfigure, but there's still a certain logic.

2. The Los Angeles fires have created unprecedented devastation in some of the nation's most affluent and most underinsured neighborhoods. The human toll is heartbreaking and a reminder of the suffering in other parts of the world, but unlike other parts of the world, rebuilding is likely to be swift and a significant economic boon to the western United States in the coming quarters.

Home building supply, home builders, US lumber, and furniture manufacturers and sellers are likely to be significant beneficiaries when the fires are finally extinguished, permits are worked through, and reconstruction begins. Furthermore, the area, despite the breathtaking headlines of insurance losses, is significantly underinsured which is likely to lead to further densification of the area as property owners sell to new developers. The Los Angeles metropolitan area, is home to 2 of the US' most critical ports, the home to our cultural export, and a critical part of our country's largest economy. As its remade it may effect the rest of the country as well.

3. Globally, a lot is going on economically.

As highlighted in the article we published around Thanksgiving, the new administration has a big tent with views and economic interests across a relatively broad spectrum. Its press releases' headlines often appeal to one group while the text appeals to another. It's difficult to know just how far it will go with any of its initiatives.

That said, US rates are generally increasing. As always there are multiple contributing factors, most notably the prospect of economic tariffs, the apparent strength of the US economy, and the prospect of even greater deficit spending due to an extension of, and increase in, tax cuts - leading to higher inflation.

In Europe, the underlying economic environment appears to be worsening, though. In France, consumer confidence continues to fall; in England, mortgage delinquencies are increasing; and Germany is facing another year of stagnant growth. All which point to the European Central Bank and Bank of England continuing to use their powers to lower interest rates.

Conversely, China's growth seems to be surpassing expectations, Brazil appears to have overcome the worst of its currency crisis, and Russia's war in Ukraine may be nearing its end. Their combined strength highlights the expanding influence of the BRICS economic bloc, which includes China, Russia, and Brazil as founding members. The bloc's growth signifies a growing discontent in the world with the traditional, American-led economic order. While a common currency may be farfetched at this point, the economic bloc's membership has grown to include Brazil, Russia, India, China, South Africa, Iran, The United Arab Emirates, Ethiopia, Egypt, Indonesia, and Saudi Arabia (applied, approved, but membership not finalized), with Nigeria as a "partner" country. Whether this represents a resurgence of the Second World or a new, more equitable, and primarily anti-Western confederation, its momentum is undeniable. Regrettably, the Biden administration focused on reaffirming existing alliances rather than forging new ones, and the Trump administration seems more inclined towards coercion than diplomacy in gaining global support. The bloc's likely continued growth will reshape the global economic landscape within 5 years and warrants close attention in the early days of the Trump presidency.

As always, feel free to reach out to discuss this or any of your investments at White Brook Capital. I thank you for your support and will strive to continue to earn your trust.

Sincerely,



Basil F. Alsikafi

Portfolio Manager

White Brook Capital, LLC

*All investments involve risk, including loss of principal. This document provides information*

*not intended to meet objectives or suitability requirements of any specific individual. This information is provided for educational or discussion purposes only and should not be considered investment advice or a solicitation to buy or sell securities. The information contained herein has been drawn from sources which we believe to be reliable; however, its accuracy or completeness is not guaranteed. This report is not to be construed as an offer, solicitation or recommendation to buy or sell any of the securities herein named. We may or may not continue to hold any of the securities mentioned. White Brook Capital LLC and/or their respective officers, directors, partners or employees may from time to time acquire, hold or sell securities named in this report. It should not be assumed that any of the securities transactions or holdings discussed were or will prove to be profitable, or that the investment decisions we make in the future will be profitable or will equal the investment performance of the securities discussed herein*