



Integrity. Intelligence. Passion.

The Return of the Bond Market Vigilantes

December 18, 2024

Paul L. Sloate

Chief Executive Officer

greendrakeadvisors.com



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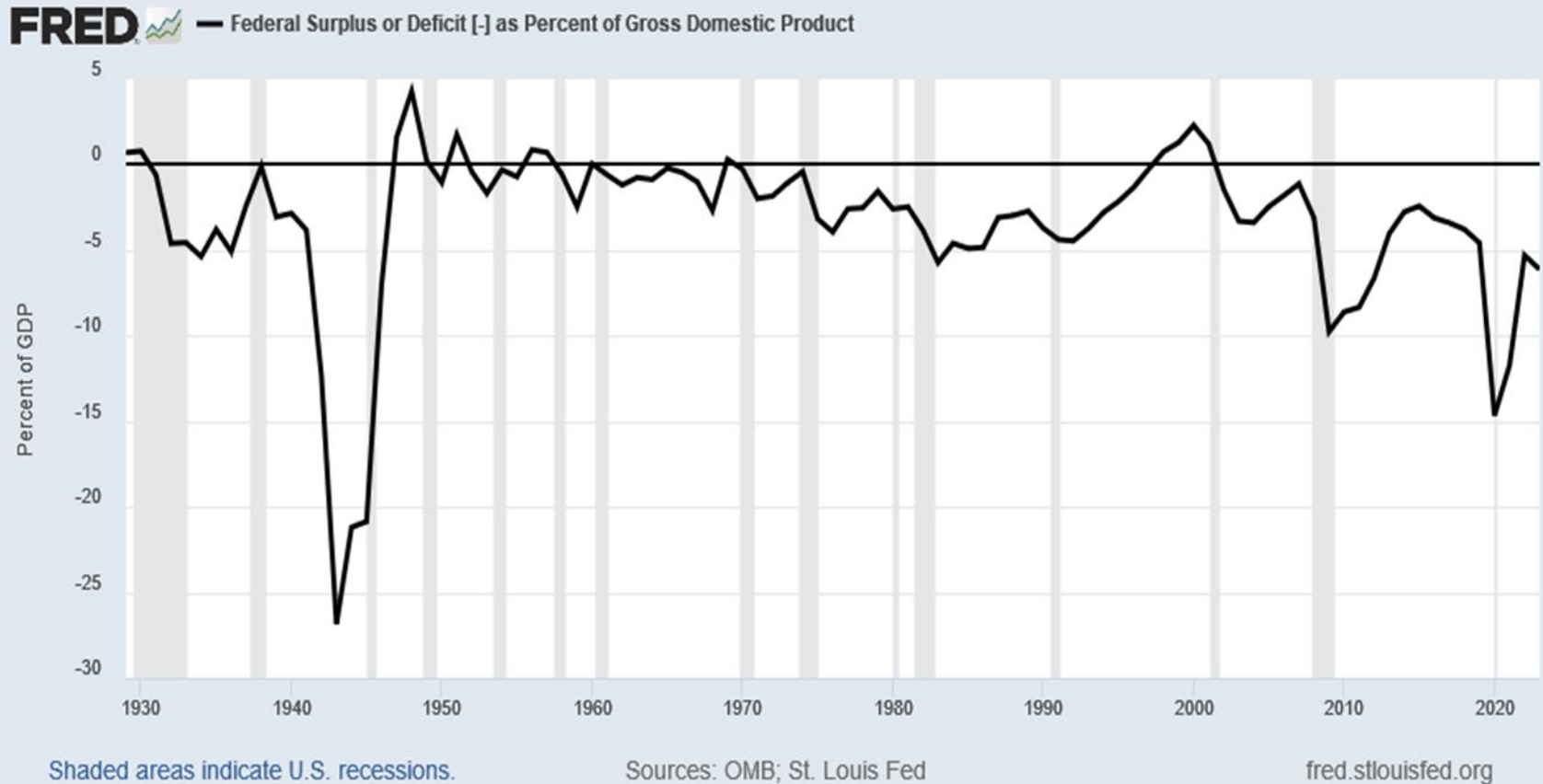
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The Fed
And The Government:
Alea Iacta Est



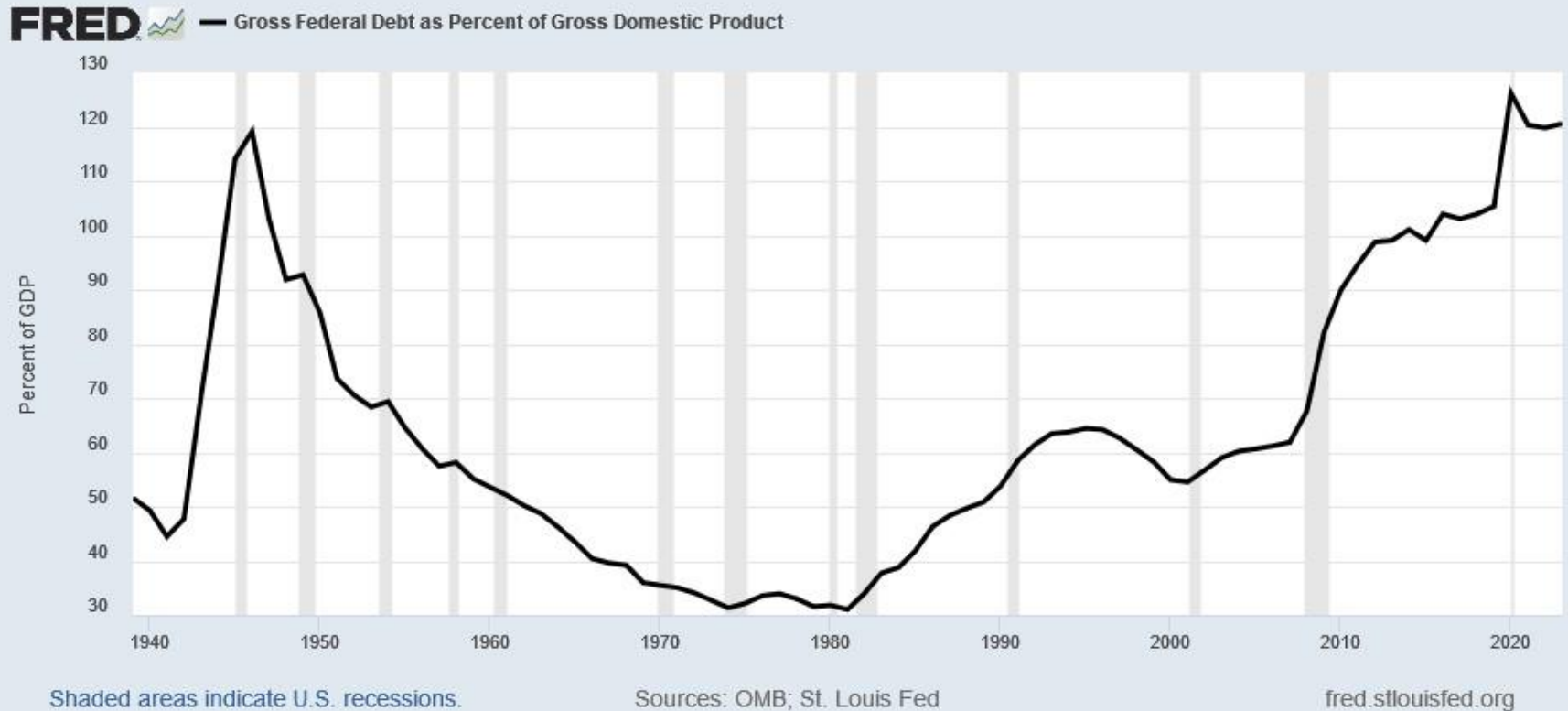
US Budget Deficit to GDP: 1939-2023

Chart Courtesy of Federal Reserve of St. Louis as of 10/31/2024



Gross US Debt to GDP: 1939-2023

Chart Courtesy of Federal Reserve of St. Louis as of 8/20/2024



Debt/GDP & Sovereign Ratings

Data Courtesy of Jefferies LLC as of 9/20/2023

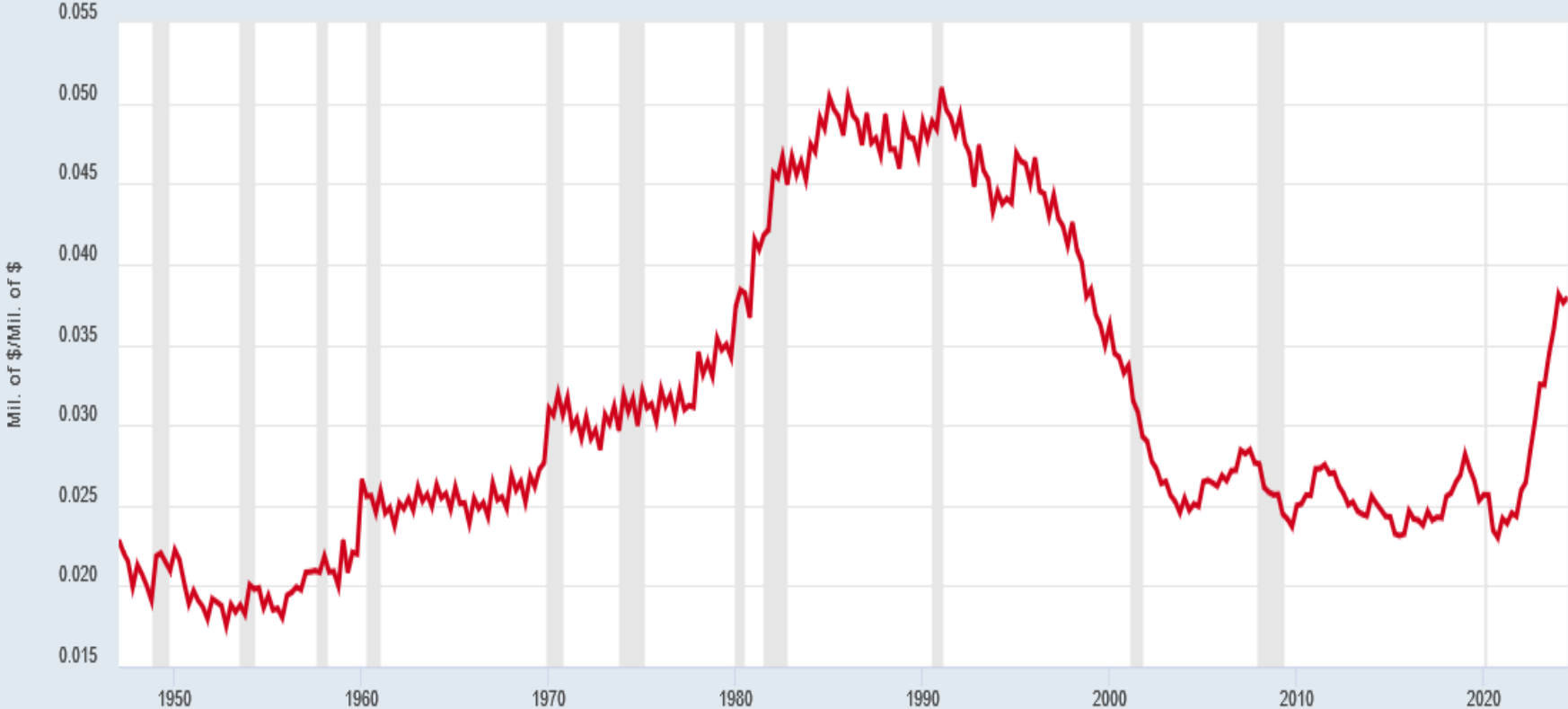
<i>Rating</i>	<i>Median Debt to GDP</i>
<i>AAA</i>	<i>39.3%</i>
<i>AA</i>	<i>44.7%</i>

Federal Interest Payments to GDP: 1990 – 2024

Chart Courtesy of Federal Reserve of St. Louis as of 10/31/2024



Federal government current expenditures: Interest payments Vintage: 2024-10-30/Gross Domestic Product Vintage: 2024-10-31



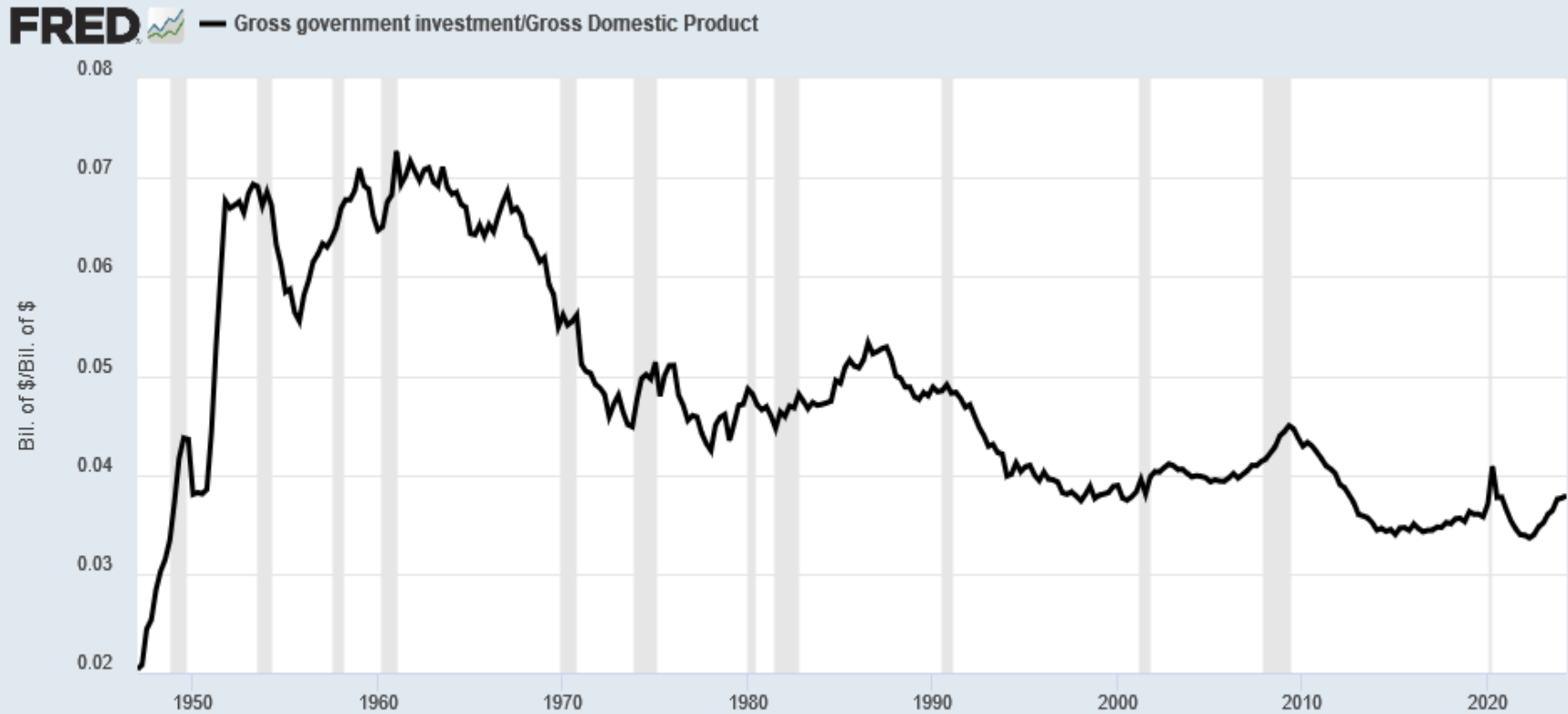
Shaded areas indicate U.S. recessions.

Source: U.S. Bureau of Economic Analysis

alfred.stlouisfed.org

Gross Federal Investment to GDP

Chart Courtesy of Federal Reserve of St. Louis



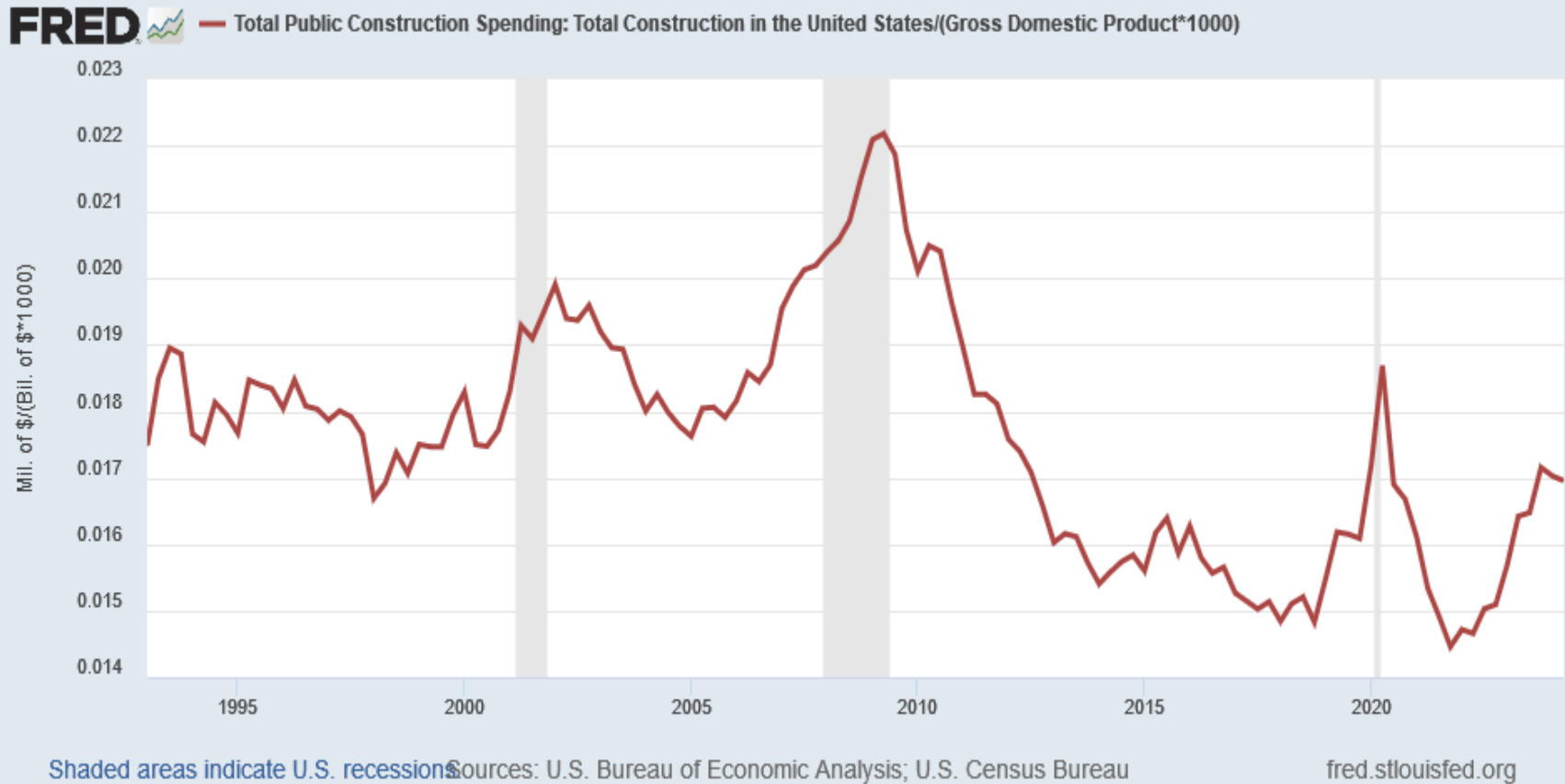
Shaded areas indicate U.S. recessions.

Source: U.S. Bureau of Economic Analysis

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Public Construction Spending to GDP 1993 – 2024

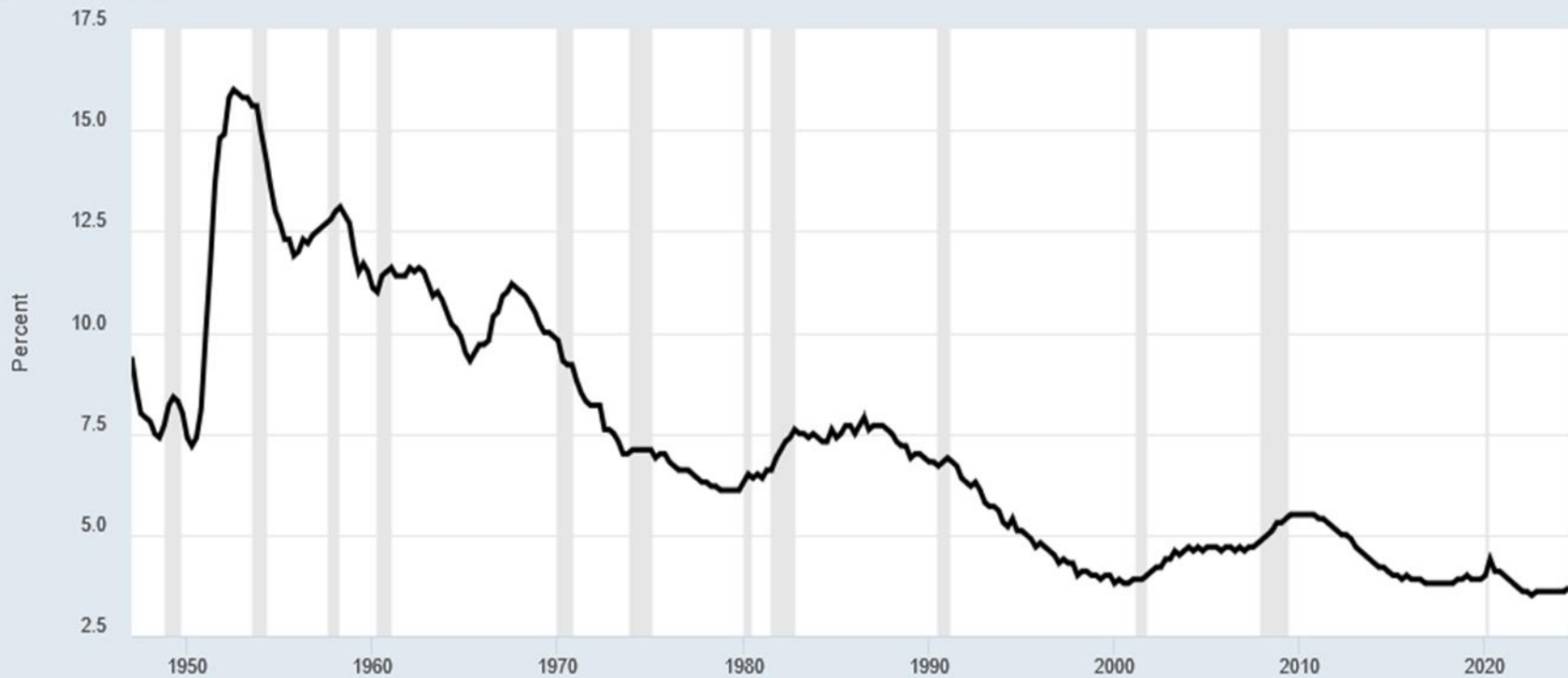
Chart Courtesy of St. Louis Federal Reserve as of 9/4/2024



US Defense Spending to GDP: 1947-2024

Chart Courtesy of Federal Reserve of St. Louis as of 10/31/2024

FRED — Shares of gross domestic product: Government consumption expenditures and gross investment: Federal: National defense



Shaded areas indicate U.S. recessions.

Source: U.S. Bureau of Economic Analysis

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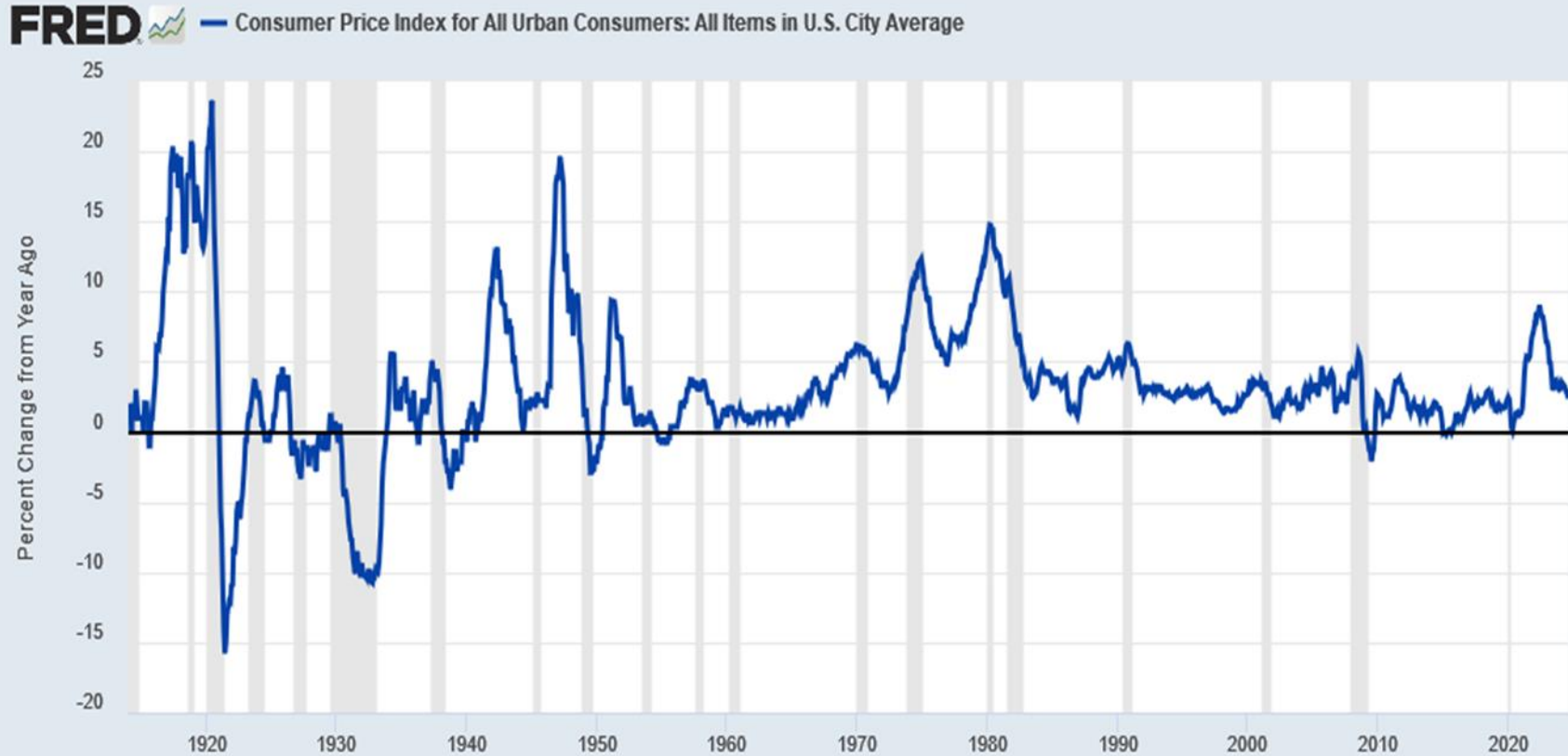
US Inflation: Rise In Price Level 1940 to 1950

Bureau of Labor Statistics

<u>Year</u>	<u>Price Level Rise</u>	<u>Inflation CAGR</u>
1940 – 1945 Total	30.2%	4.5%
1946 – 1950 Total	37.2%	6.5%
1940 – 1950 Total	78.6%	5.5%

CPI YOY Since 1913

Chart Courtesy of St. Louis Federal Reserve as of 10/31/2024



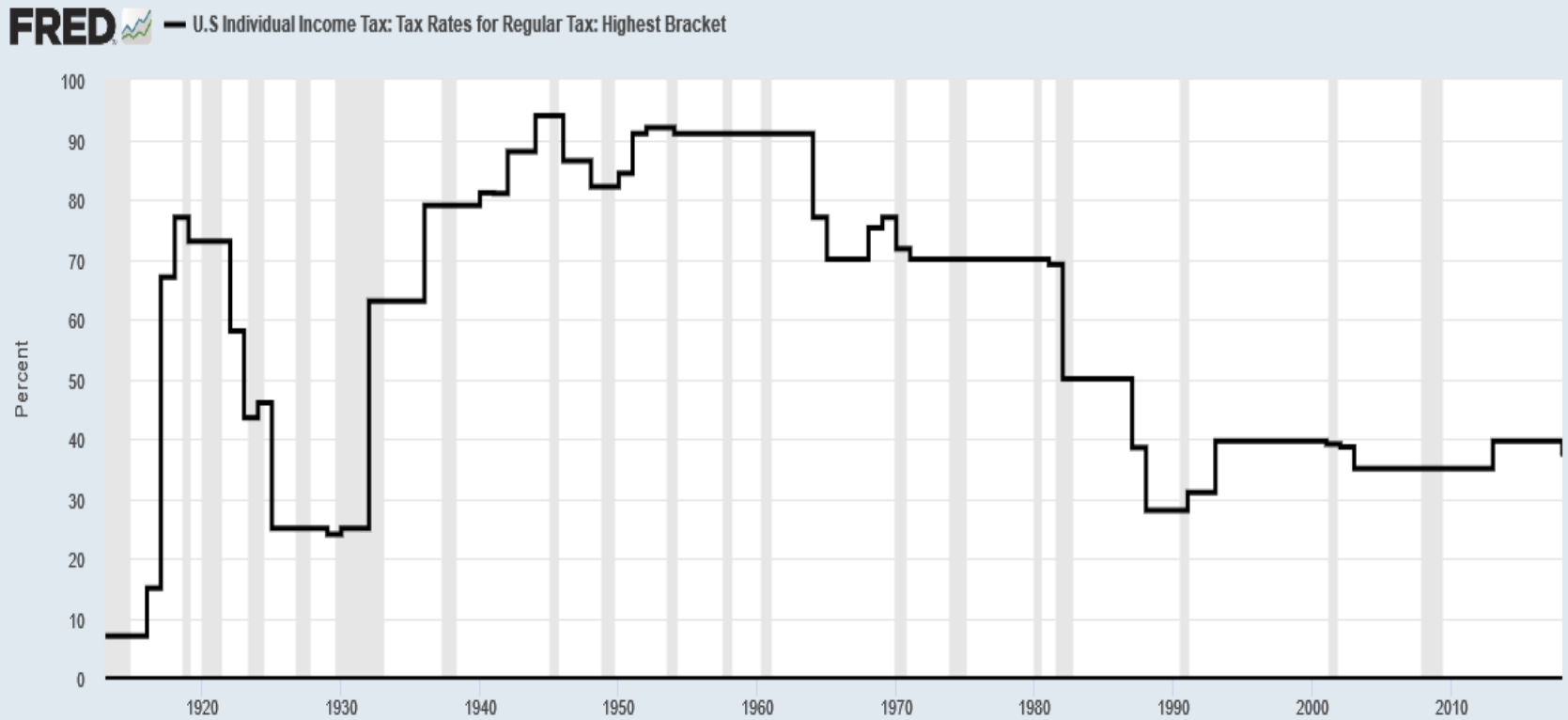
Shaded areas indicate U.S. recessions.

Source: U.S. Bureau of Labor Statistics

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Highest Tax Bracket: 1913 - 2021

Chart Courtesy of Federal Reserve of St. Louis



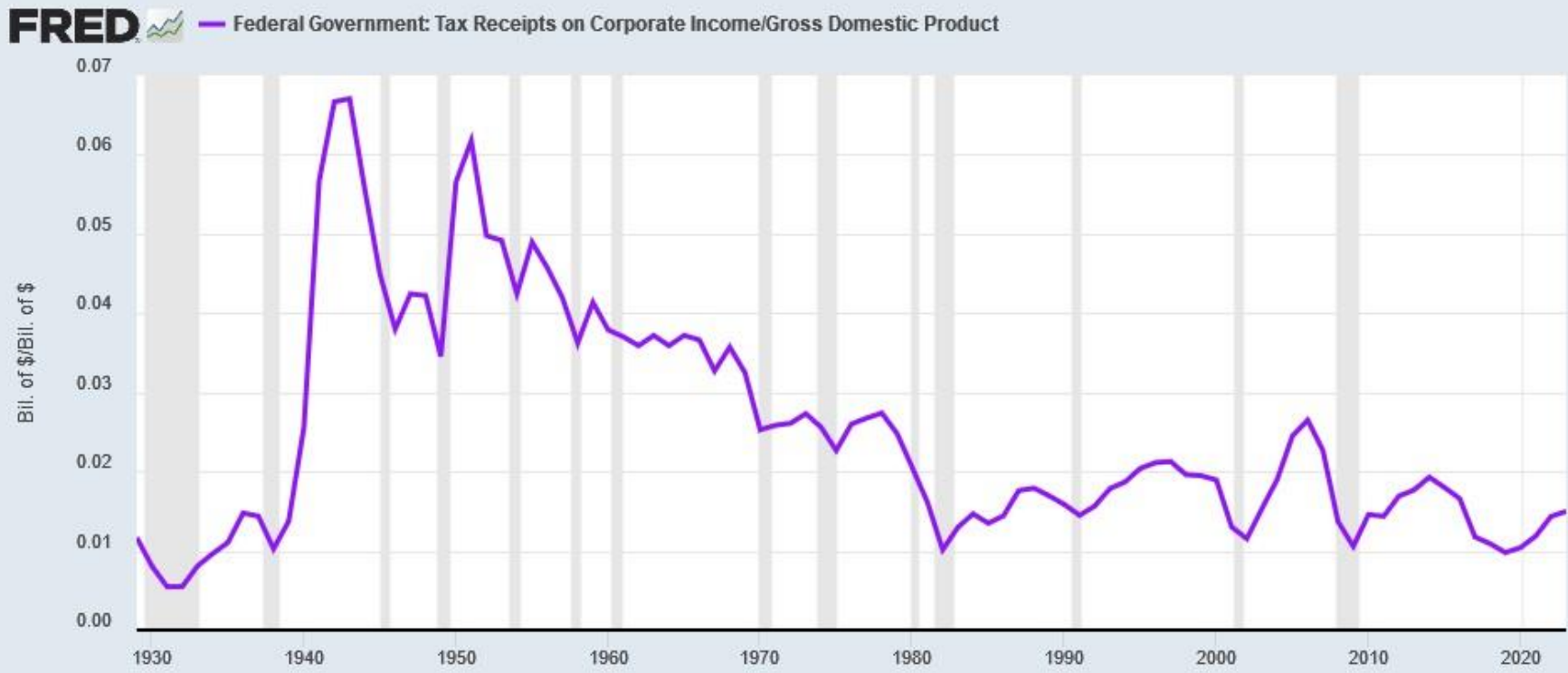
Shaded areas indicate U.S. recessions.

Source: U.S. Department of the Treasury. Internal Revenue Service

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Corporate Tax Receipts to GDP 1929-2023

Chart Courtesy of Federal Reserve of St. Louis 6/15/2024



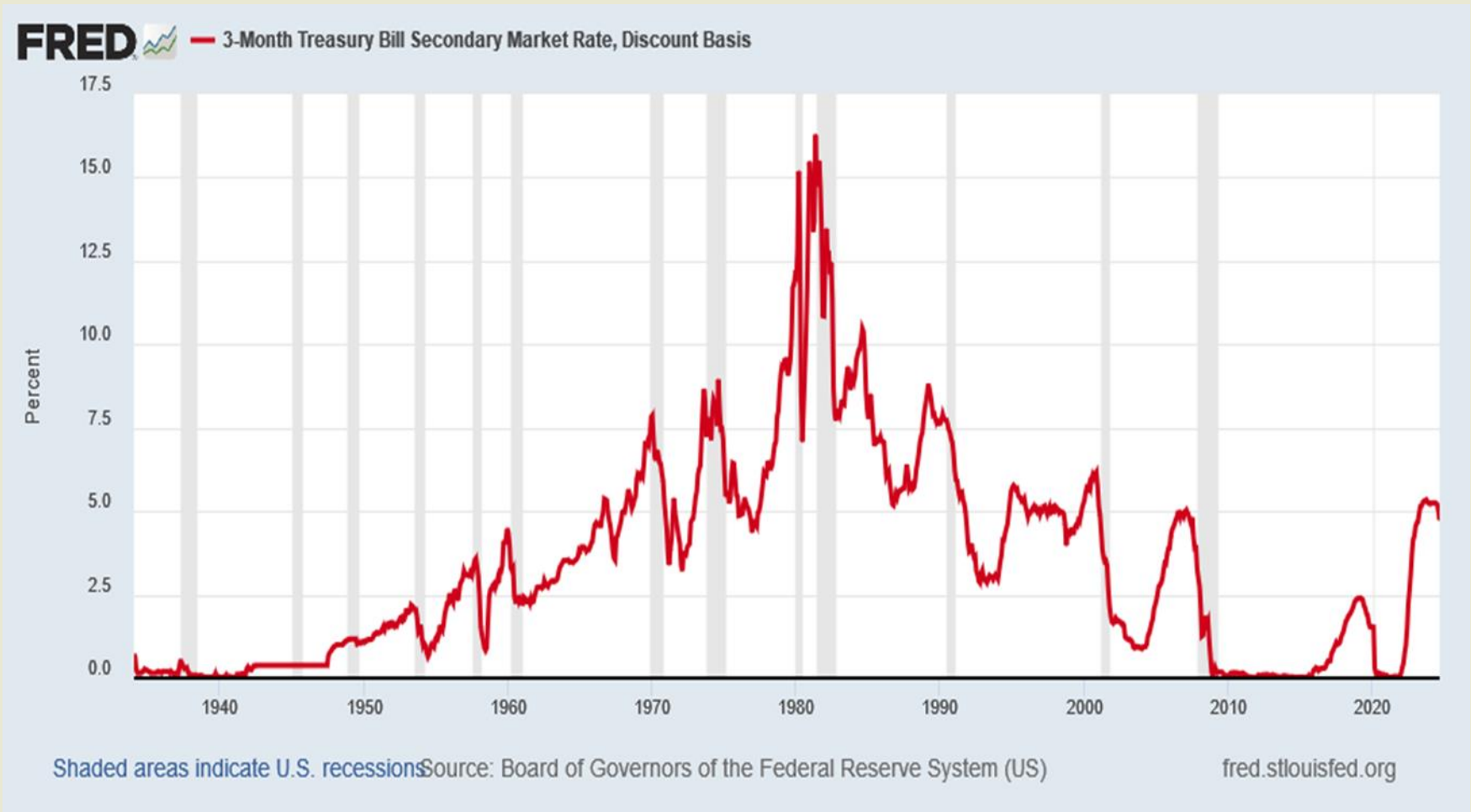
Shaded areas indicate U.S. recessions.

Source: U.S. Bureau of Economic Analysis

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3 Month Treasury Bill: 1934-2024

Chart Courtesy of Federal Reserve of St. Louis as of 10/31/2024

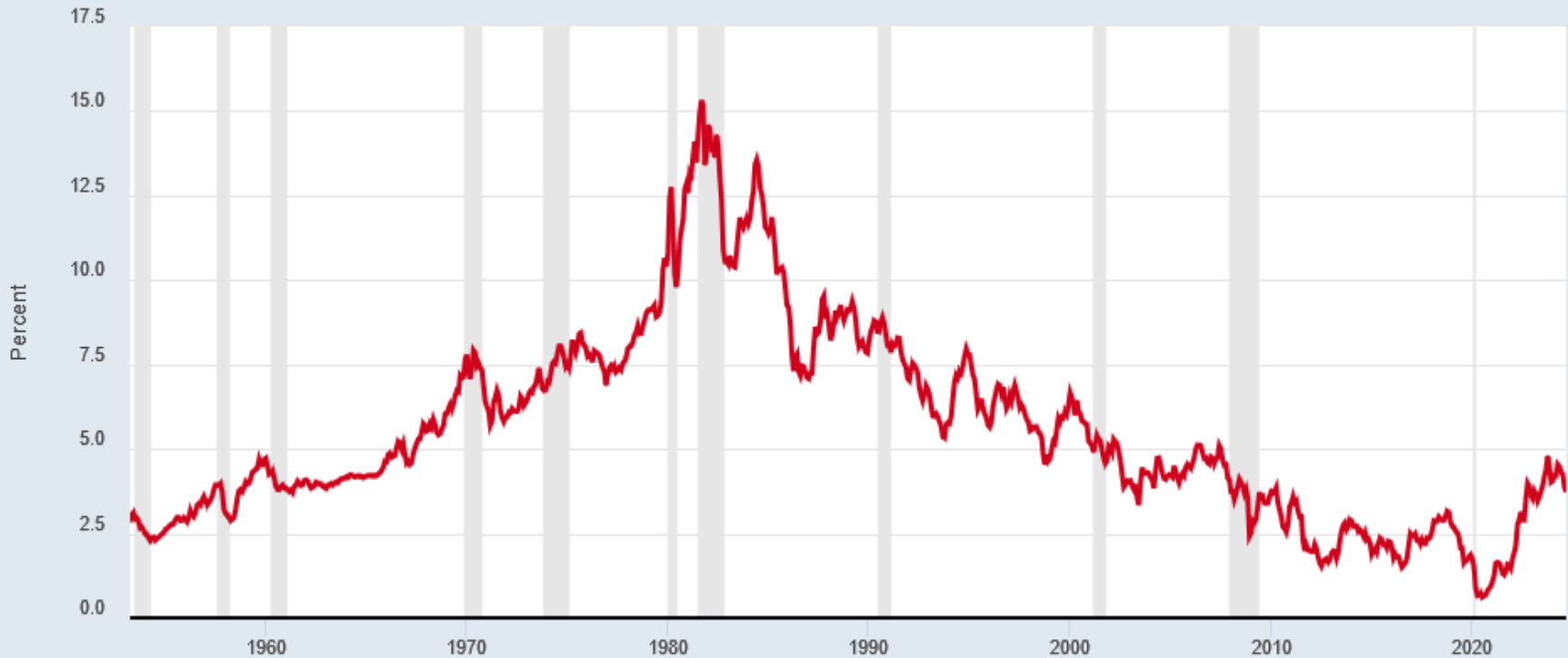


10 Year Treasury: 1953 – 2024

Chart Courtesy of Federal Reserve of St. Louis as of 10/31/2024

FRED 

— Market Yield on U.S. Treasury Securities at 10-Year Constant Maturity, Quoted on an Investment Basis

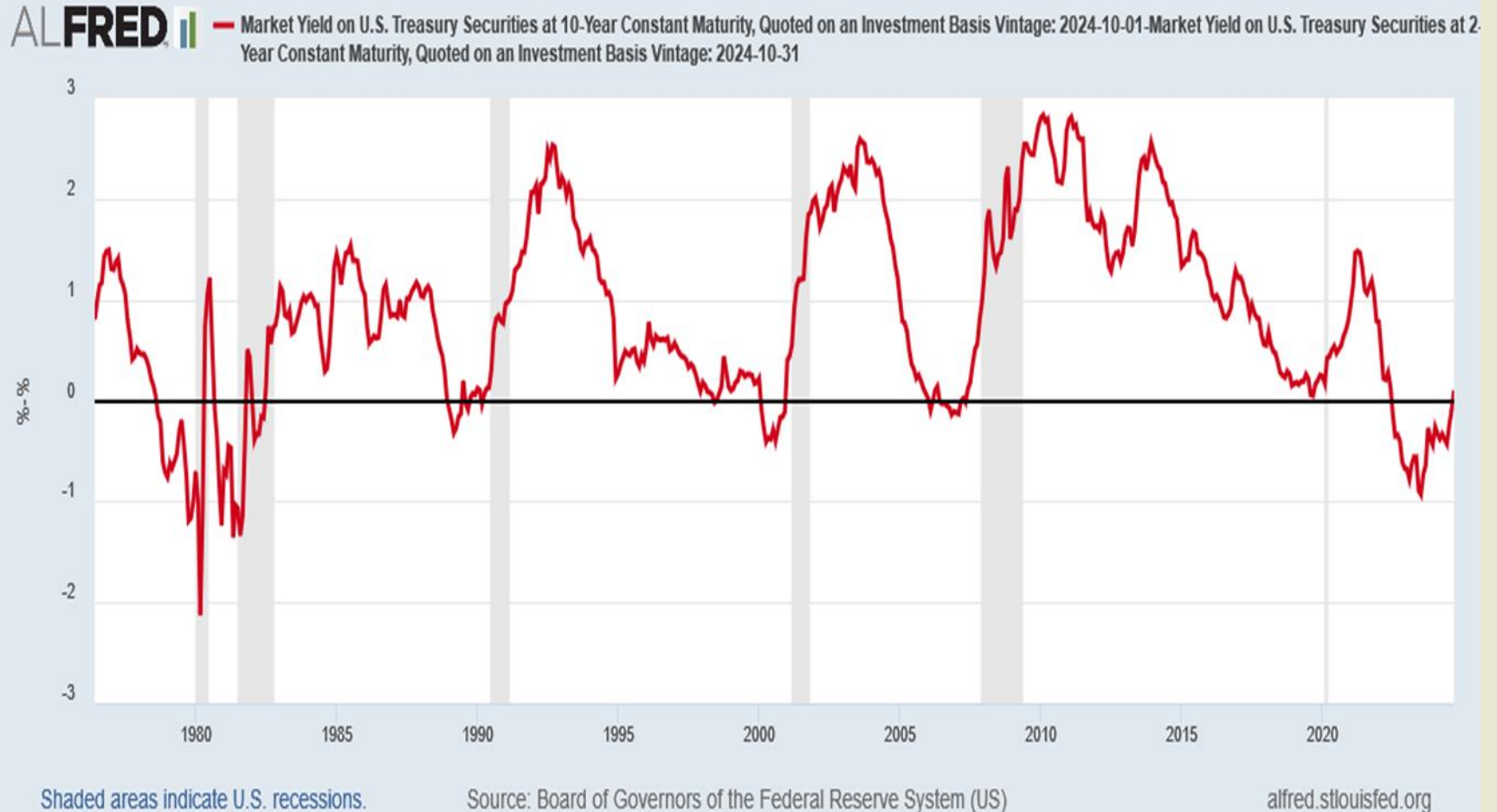


Shaded areas indicate U.S. recessions Source: Board of Governors of the Federal Reserve System (US)

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Yield Curve: 10 Year – 2 Year

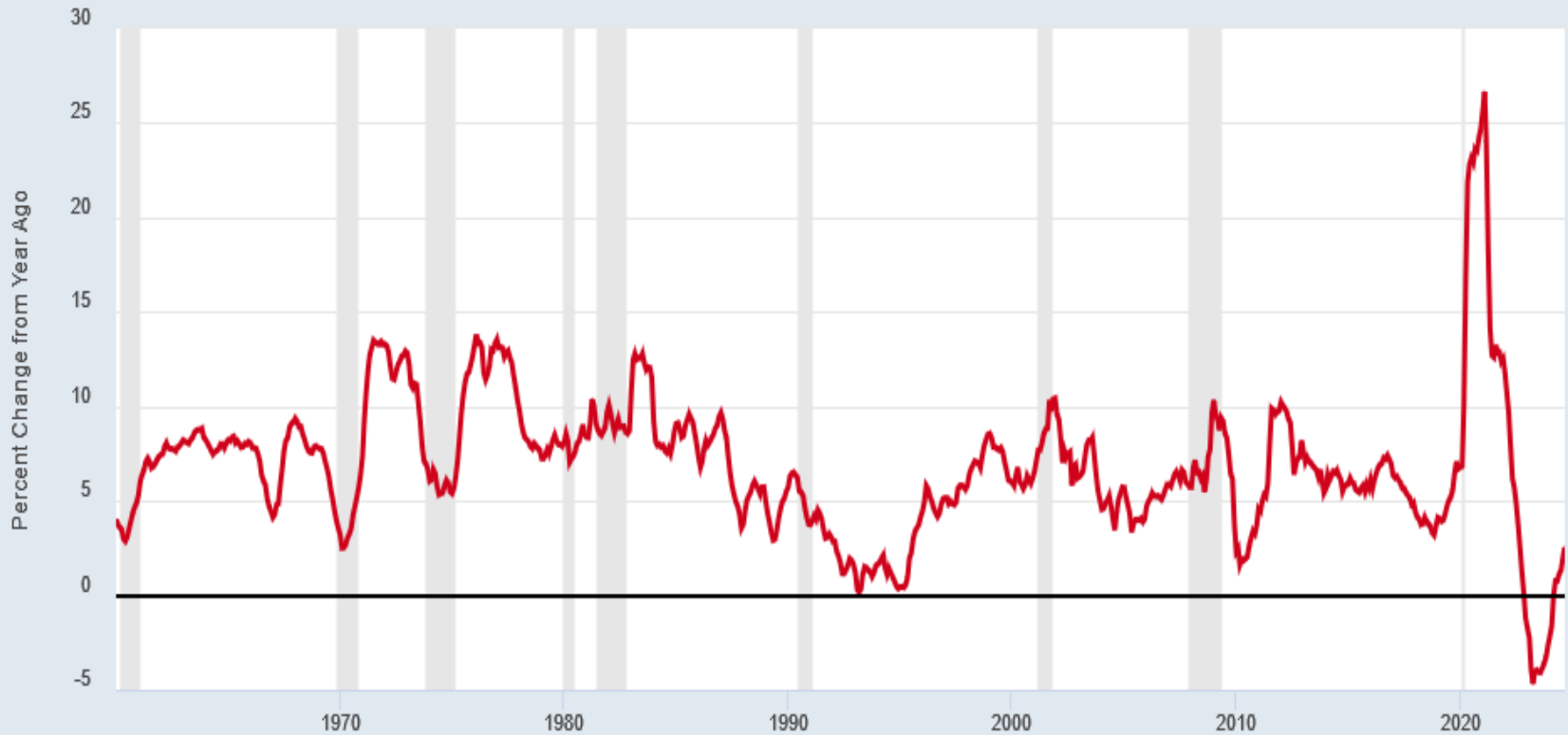
Chart Courtesy of Federal Reserve of St. Louis as of 10/31/2024



M2 – The Fuel of the Economy

Chart Courtesy of Federal Reserve of St. Louis as of 10/31/2024

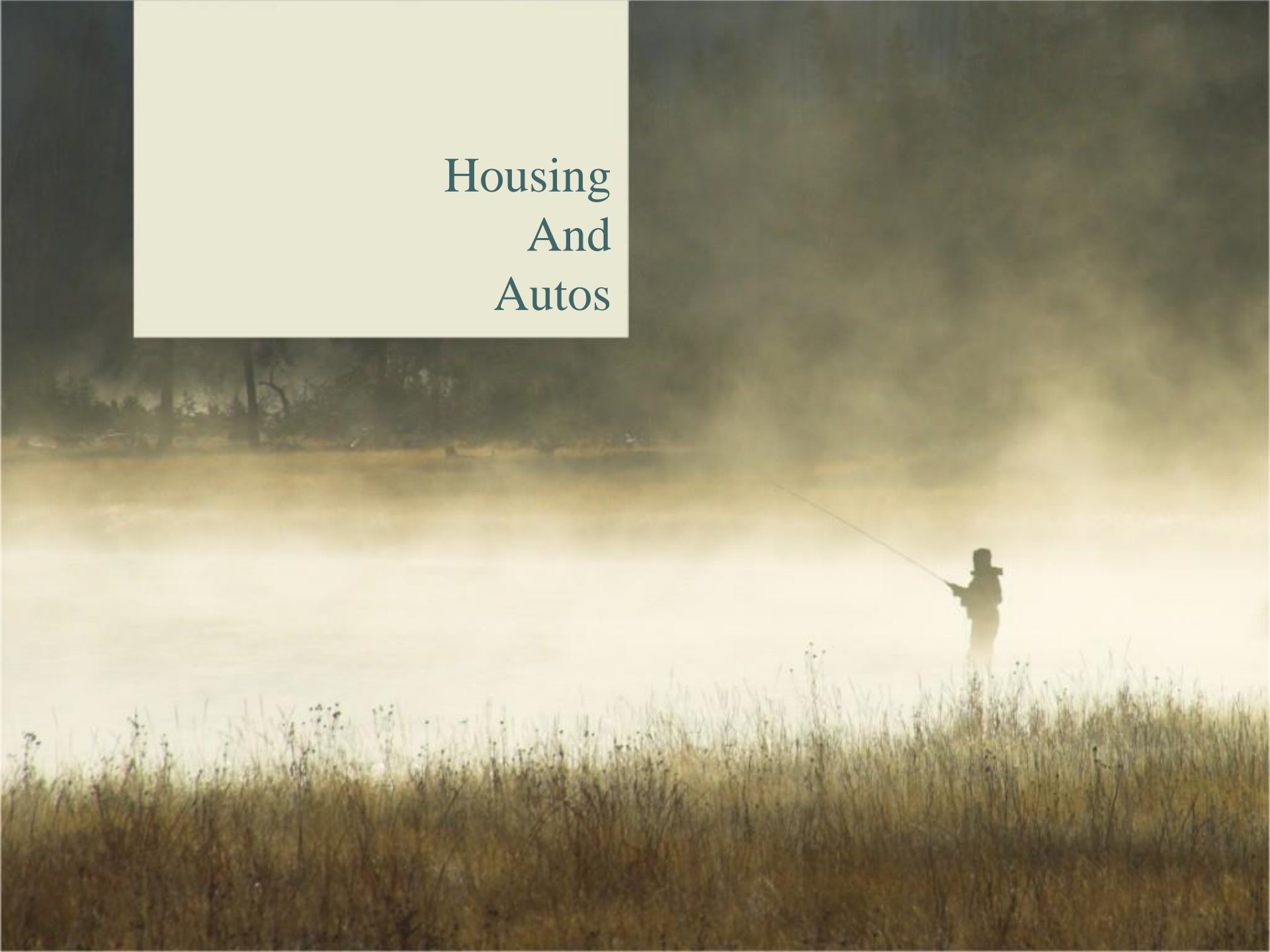
FRED  M2



Shaded areas indicate U.S. recessions Source: Board of Governors of the Federal Reserve System (US)

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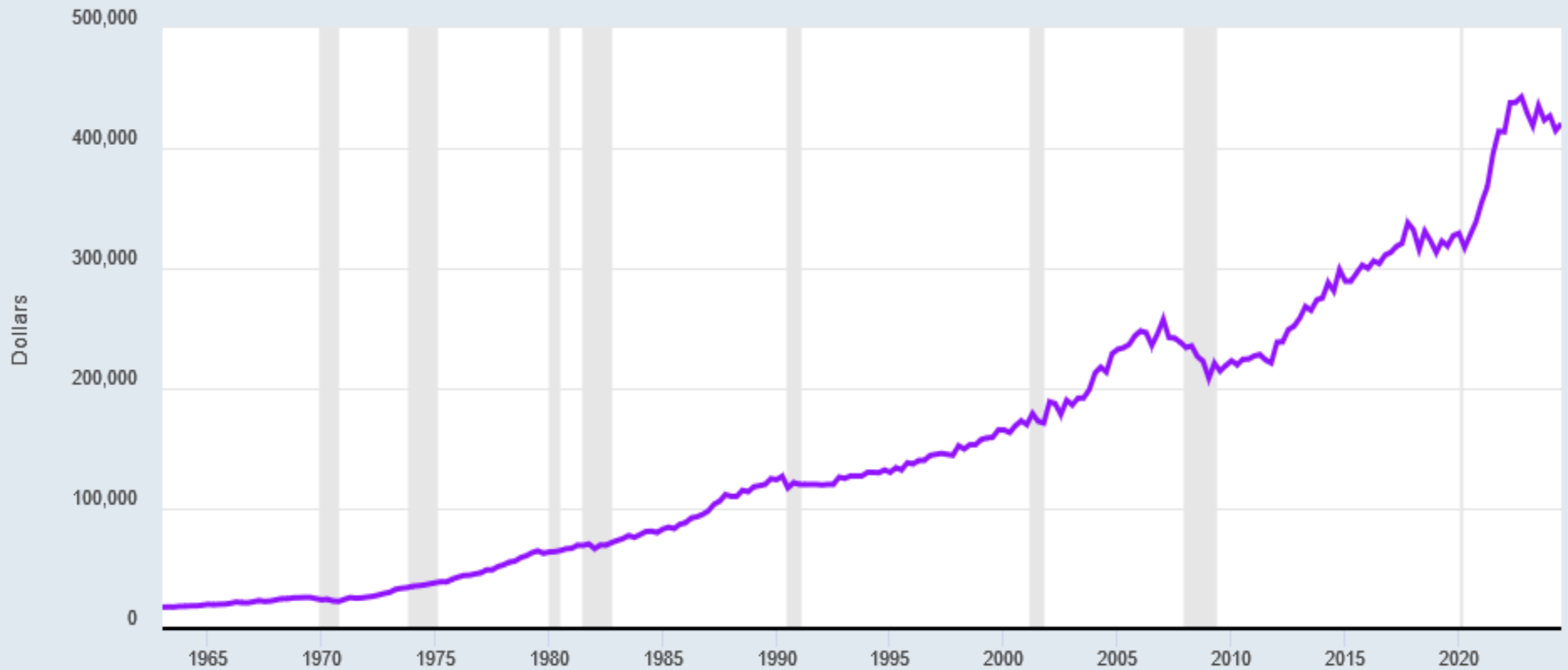
Housing And Autos



FHFA Median Sales Price

Chart Courtesy of St. Louis Federal Reserve as of 10/31/2024

FRED  Median Sales Price of Houses Sold for the United States



Shaded areas indicate U.S. recessions.

Sources: Census; HUD

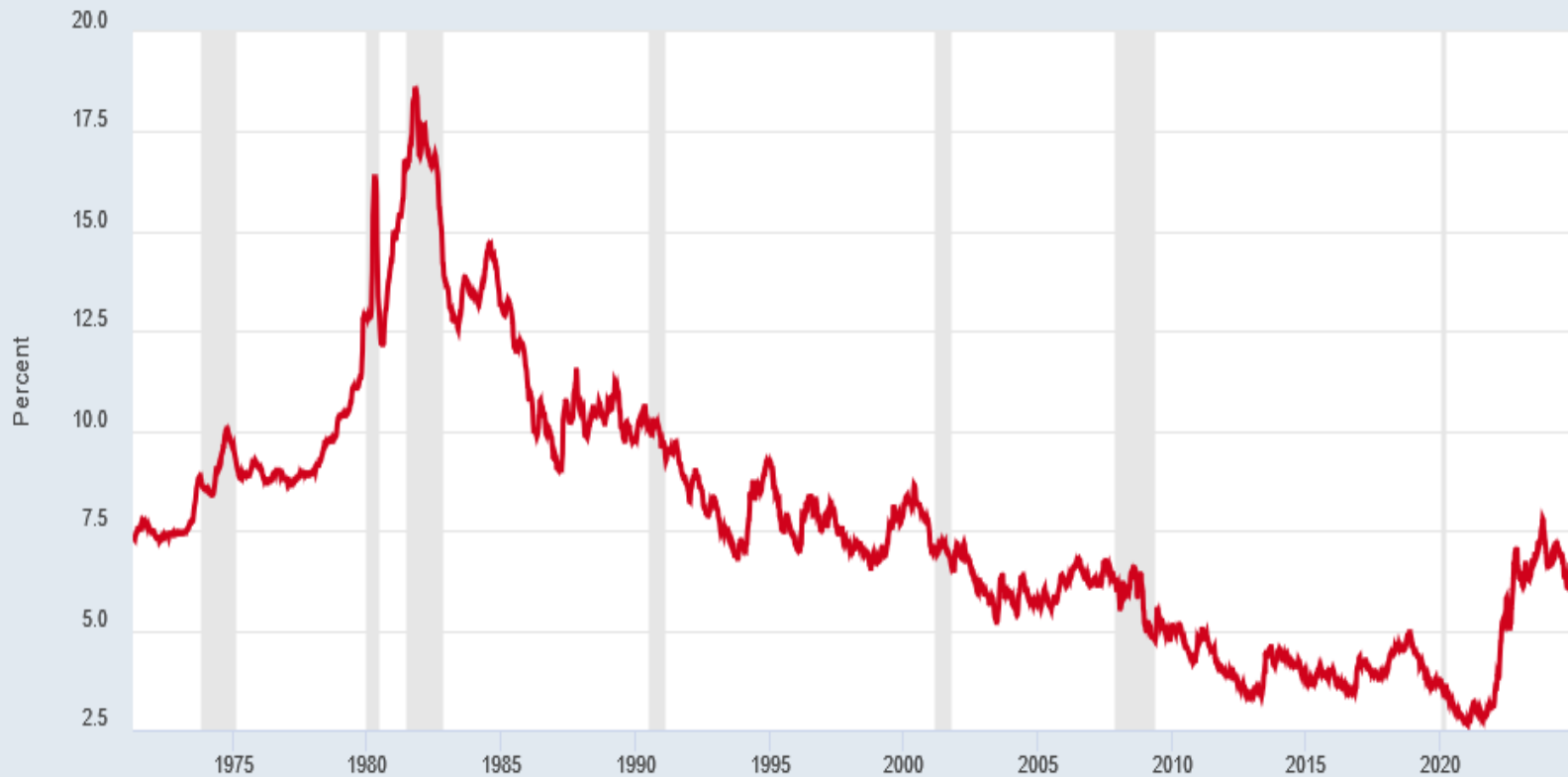
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30 Year Mortgage Rate: 1972-2024

Chart Courtesy of St. Louis Federal Reserve as of 10/31/2024

FRED 

— 30-Year Fixed Rate Mortgage Average in the United States



Shaded areas indicate U.S. recessions.

Source: Freddie Mac

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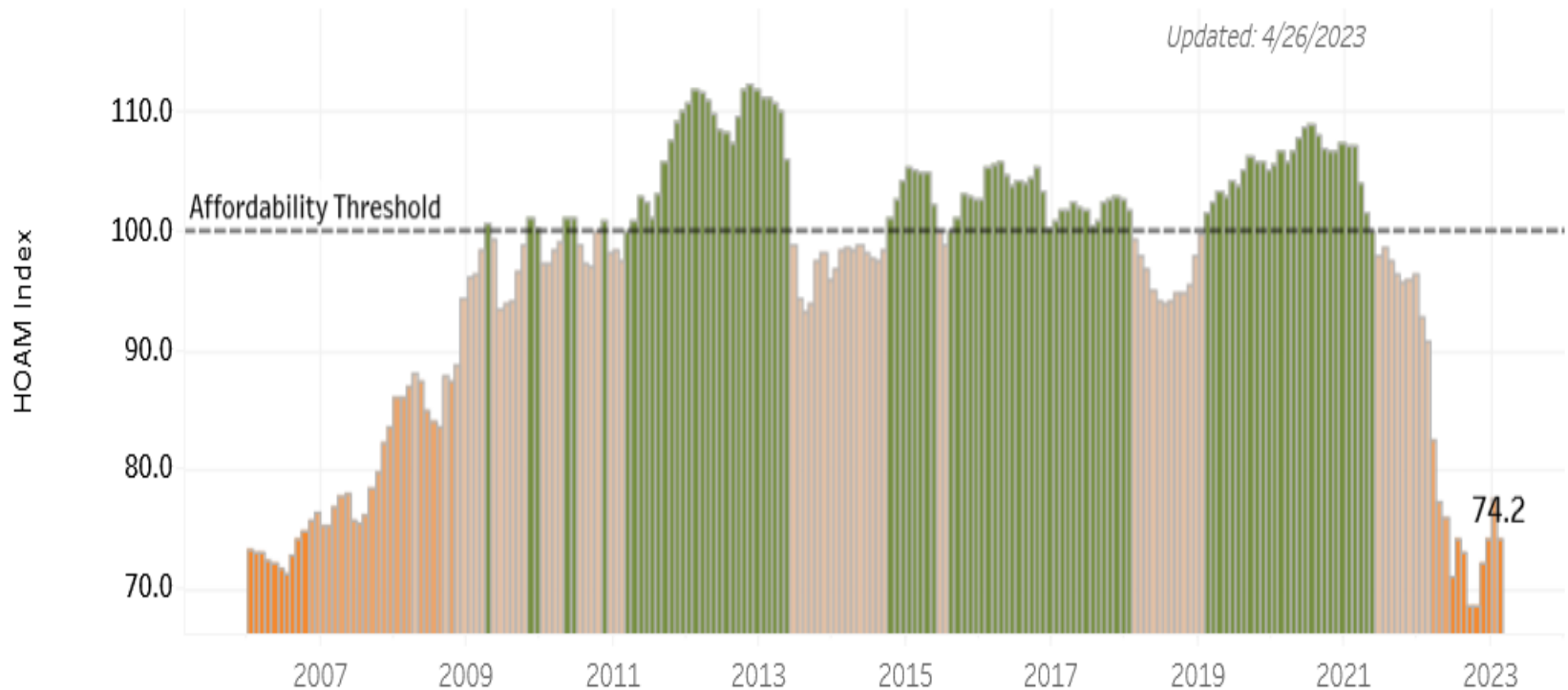
Homeowner Affordability Index

Chart Courtesy of Federal Reserve Bank of Atlanta as of 5/2/2023

Federal Reserve Bank of Atlanta National Home Ownership Affordability Monitor (HOAM) Index

Data through February 2023

Updated: 4/26/2023



Existing Home Sales:

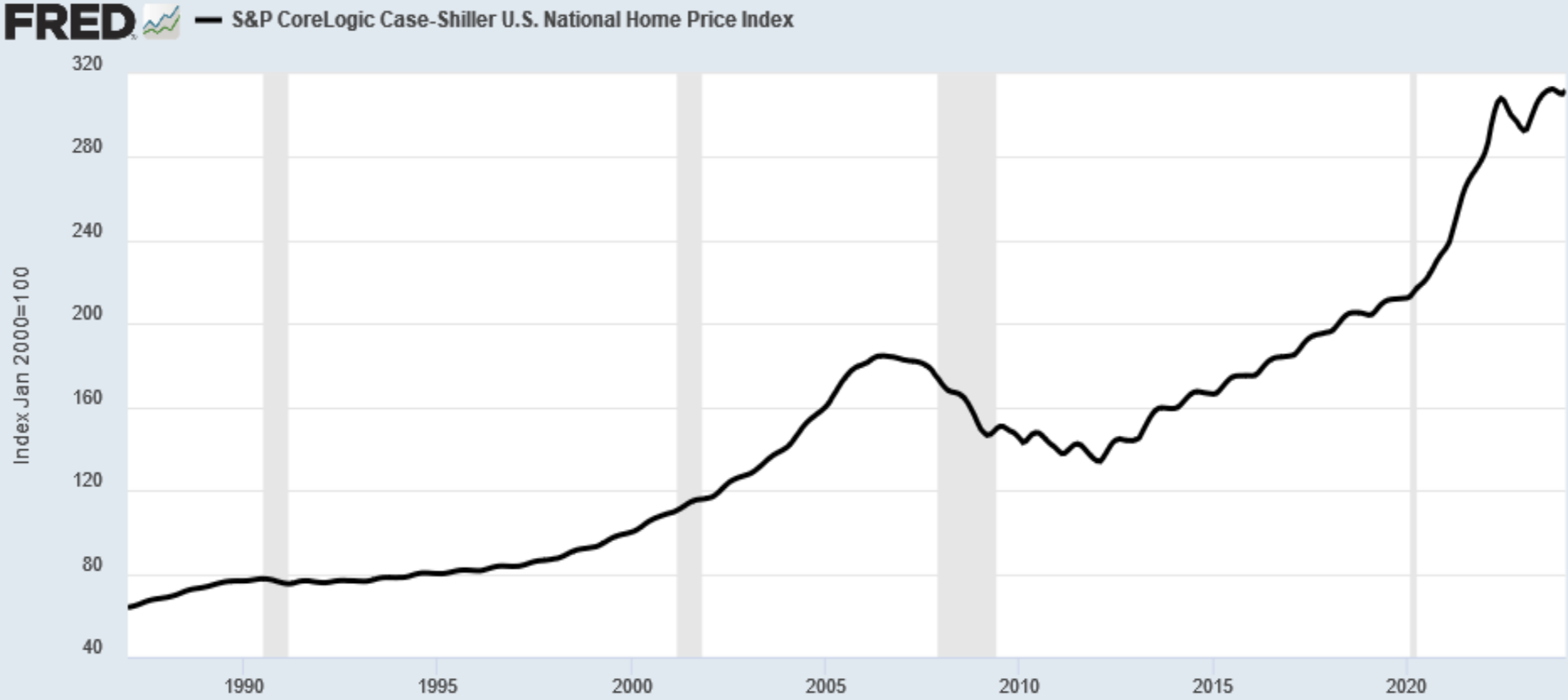
1966 – 2024

Chart Courtesy of TradingEconomics.com as of 10/31/2024



S&P/Case Shiller Home Price Index

Chart Courtesy of St. Louis Federal Reserve as of 5/18/2024



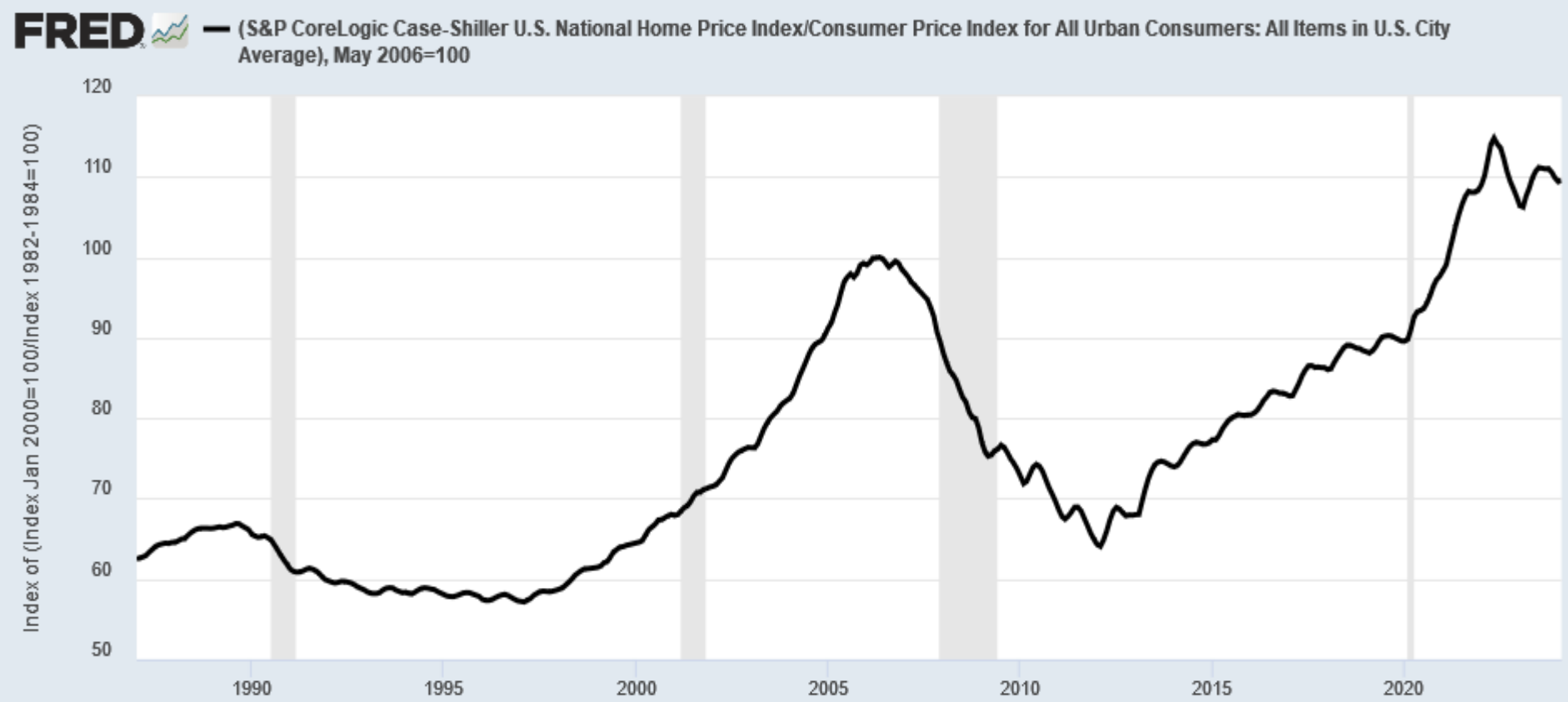
Shaded areas indicate U.S. recessions.

Source: S&P Dow Jones Indices LLC

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S&P/Case Shiller Real Index

Chart Courtesy of St. Louis Federal Reserve as of 5/18/2024

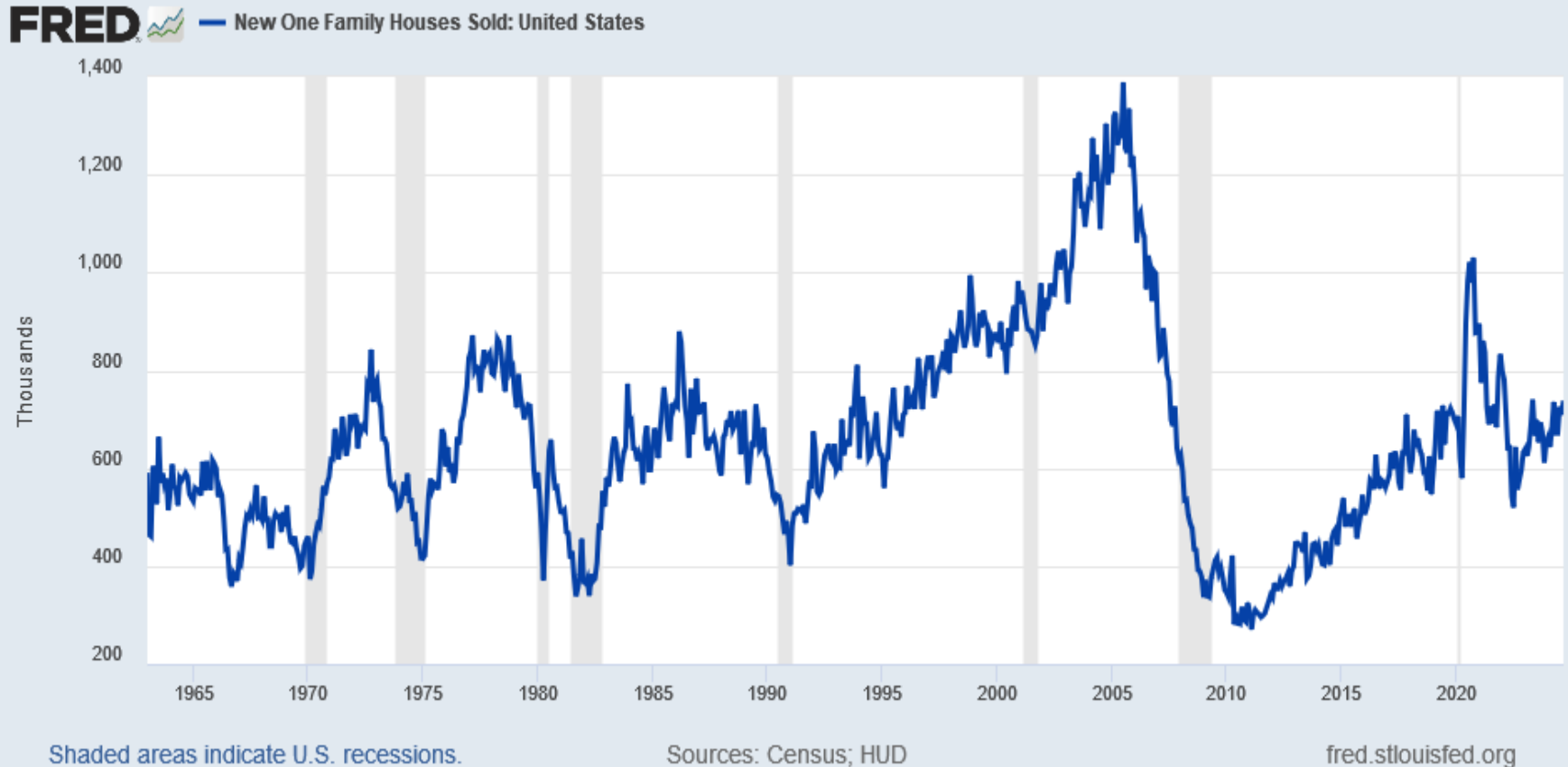


Shaded areas indicate U.S. recessions. Sources: S&P Dow Jones Indices LLC; U.S. Bureau of Labor Statistics

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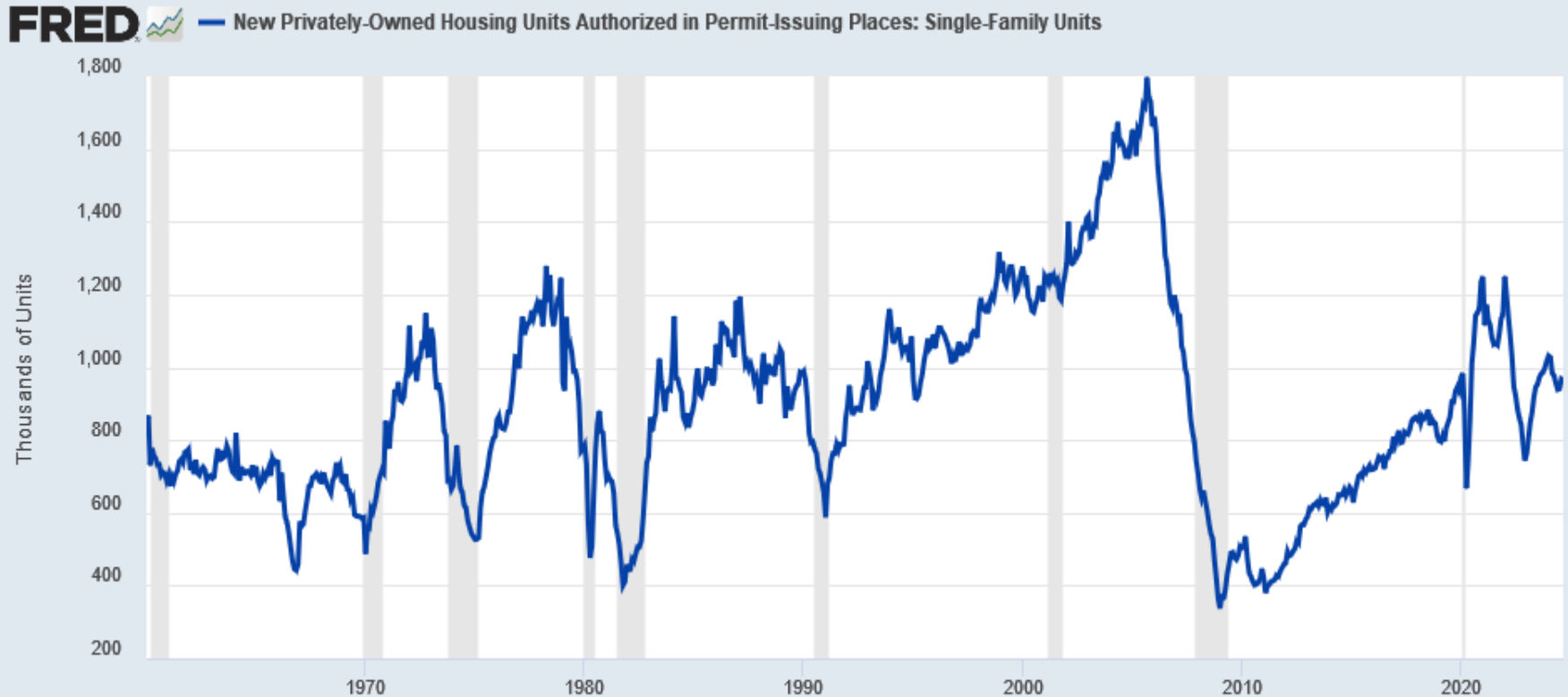
New Single Family Home Sales

Chart Courtesy of St. Louis Federal Reserve as of 10/31/2024



Single Family Permits

Chart Courtesy of St. Louis Federal Reserve as of 10/31/2024



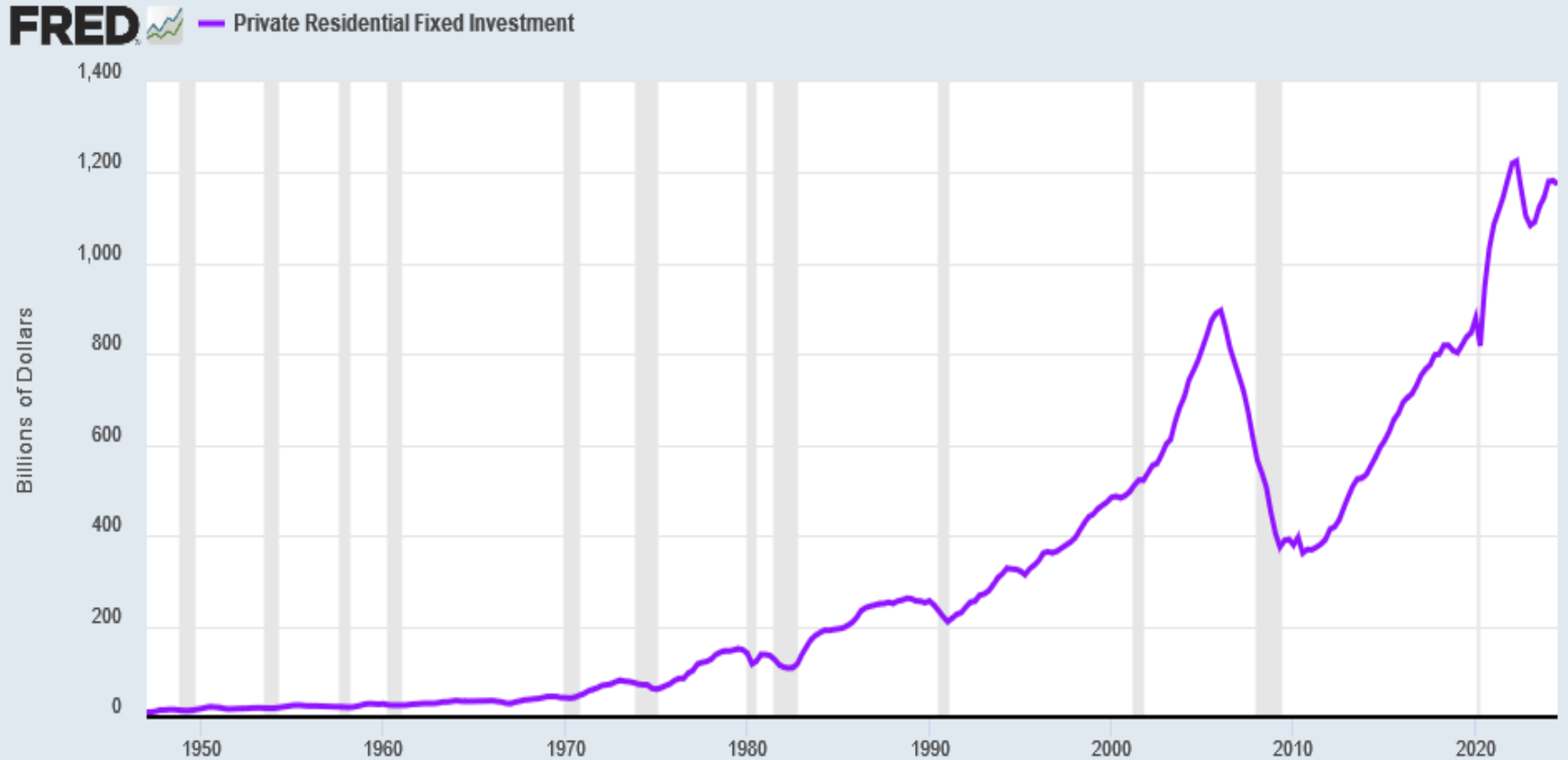
Shaded areas indicate U.S. recessions.

Sources: Census; HUD

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Private Residential Investment

Chart Courtesy of St. Louis Federal Reserve as of 10/31/2024



Shaded areas indicate U.S. recessions.

Source: U.S. Bureau of Economic Analysis

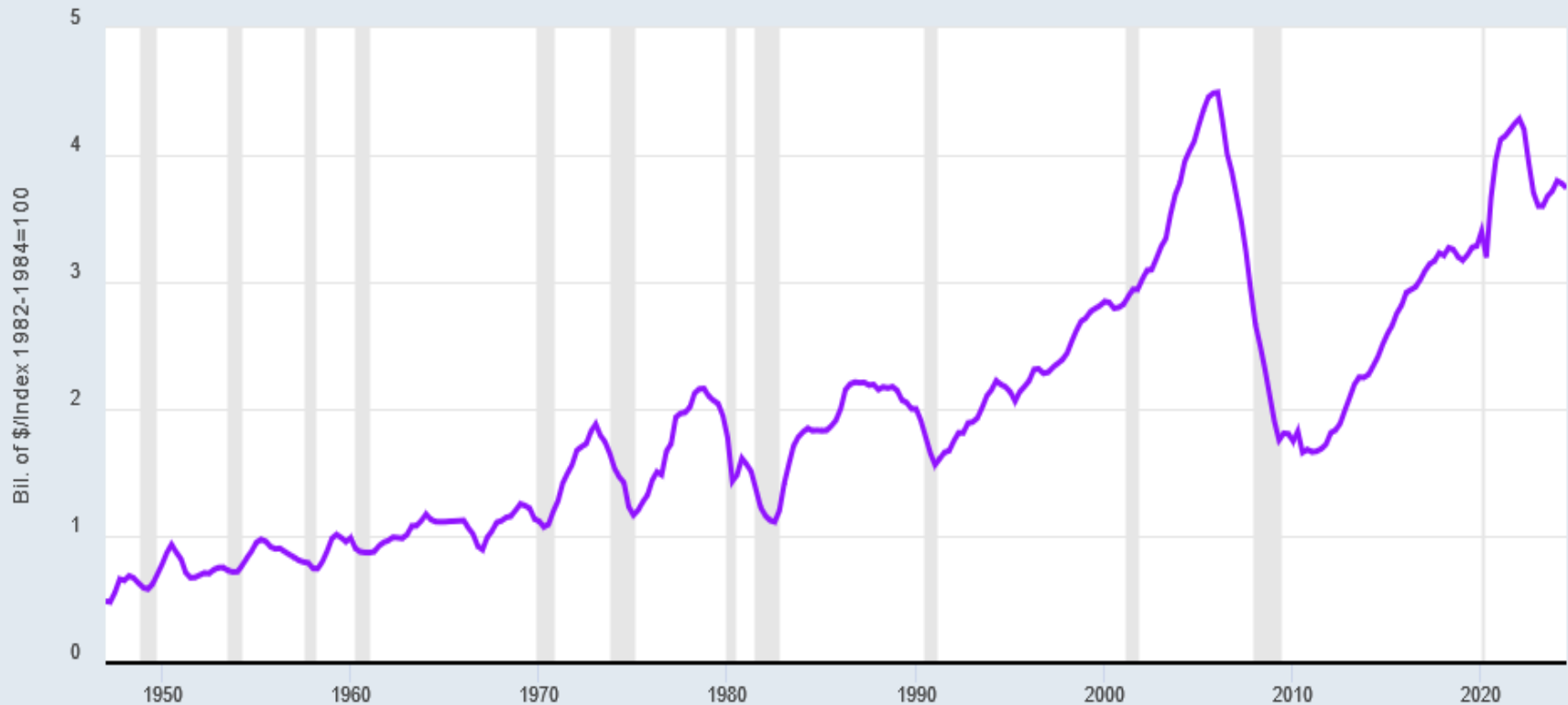
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Real Private Residential Investment

Chart Courtesy of St. Louis Federal Reserve as of 10/31/2024



— Private Residential Fixed Investment/Consumer Price Index for All Urban Consumers: All Items in U.S. City Average



Shaded areas indicate U.S. recessions. Sources: U.S. Bureau of Economic Analysis; U.S. Bureau of Labor Statistics

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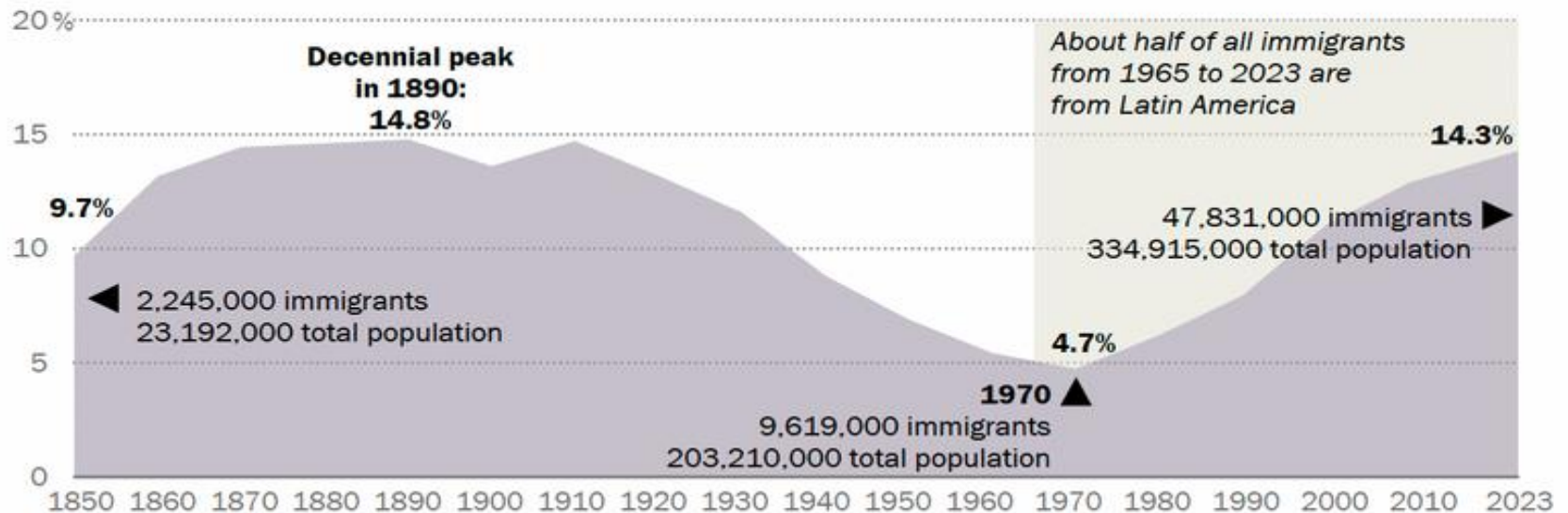


Immigration: 1850 – 2024

Chart Courtesy of Pew Research Center as of 11/4/2024

Immigrant share of the U.S. population, 1850-2023

% of U.S. population that is foreign born



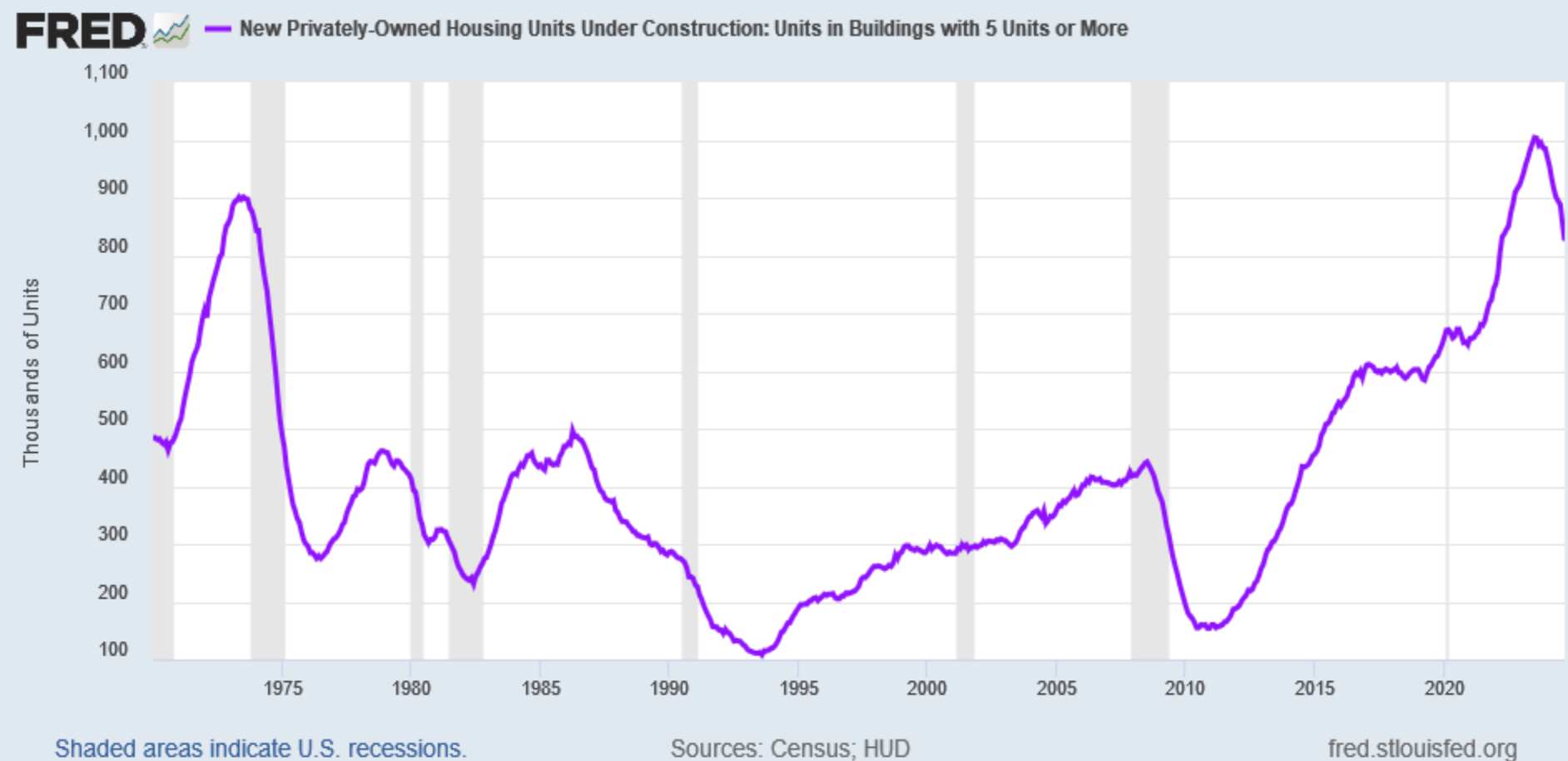
Note: Populations are rounded to the nearest 1,000. Shares are calculated using unrounded population numbers.

Source: U.S. Census Bureau, "Historical Census Statistics on the Foreign-Born Population of the United States: 1850-2000"; and Pew Research Center tabulations of 2010 and 2023 American Community Surveys.

PEW RESEARCH CENTER

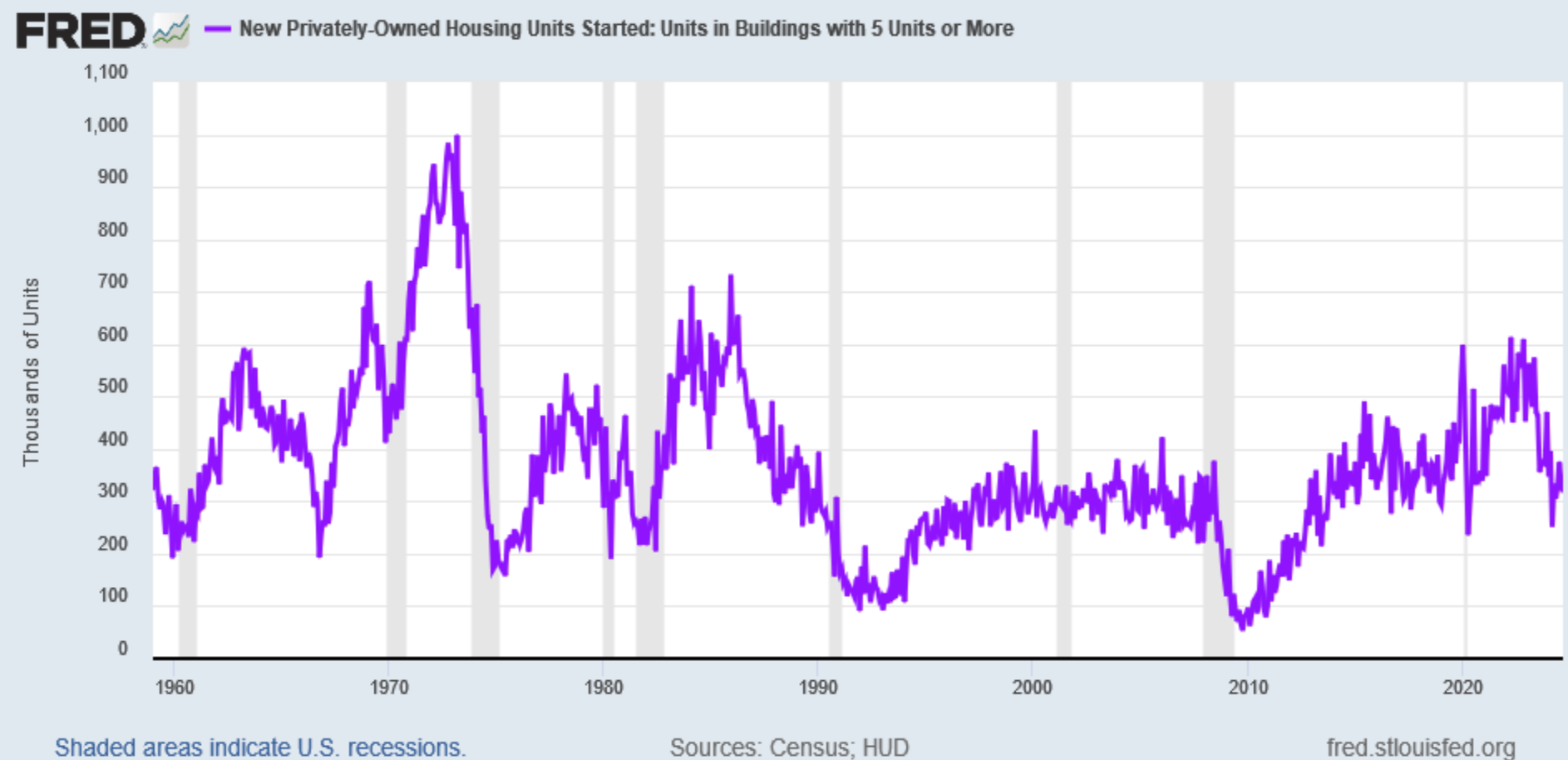
Multi-Family Under Construction 1970 – 2024

Chart Courtesy of St. Louis Federal Reserve as of 11/4/2024



Multi-Family Starts 1959 – 2024

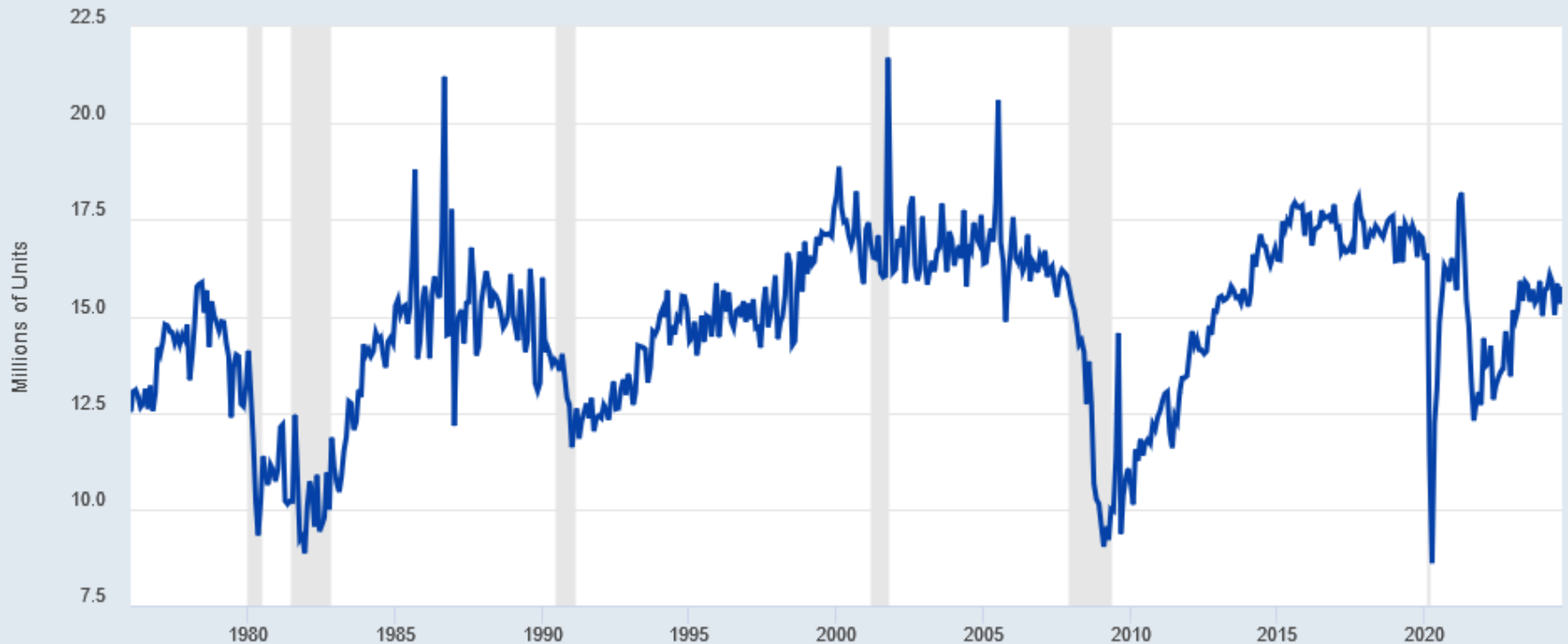
Chart Courtesy of St. Louis Federal Reserve as of 11/4/2024



US Auto Sales: 1976 – 2024

Chart Courtesy of St. Louis Federal Reserve as of 10/31/2024

FRED  Light Weight Vehicle Sales: Autos and Light Trucks



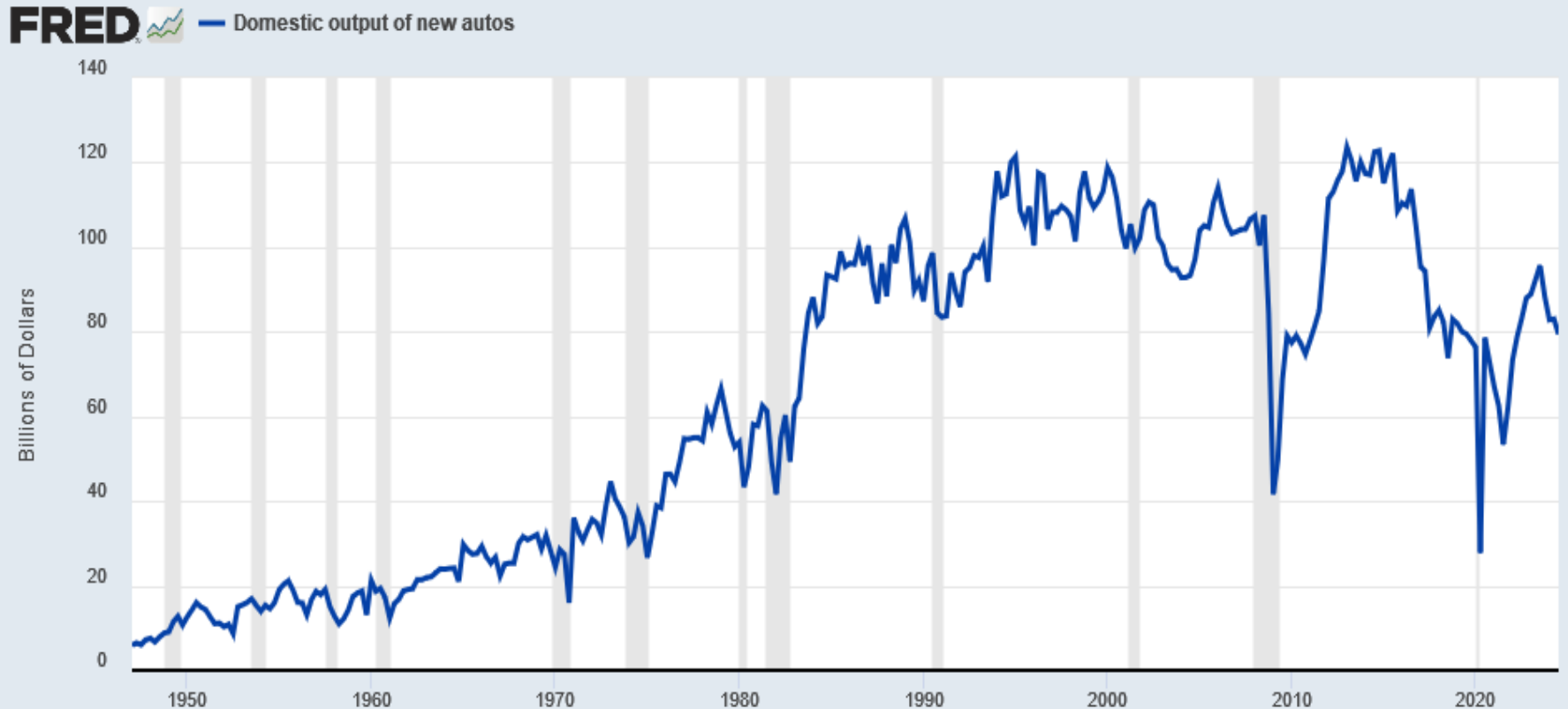
Shaded areas indicate U.S. recessions.

Source: U.S. Bureau of Economic Analysis

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US Domestic Output New Autos: 1947 – 2024

Chart Courtesy of St. Louis Federal Reserve as of 11/4/2024



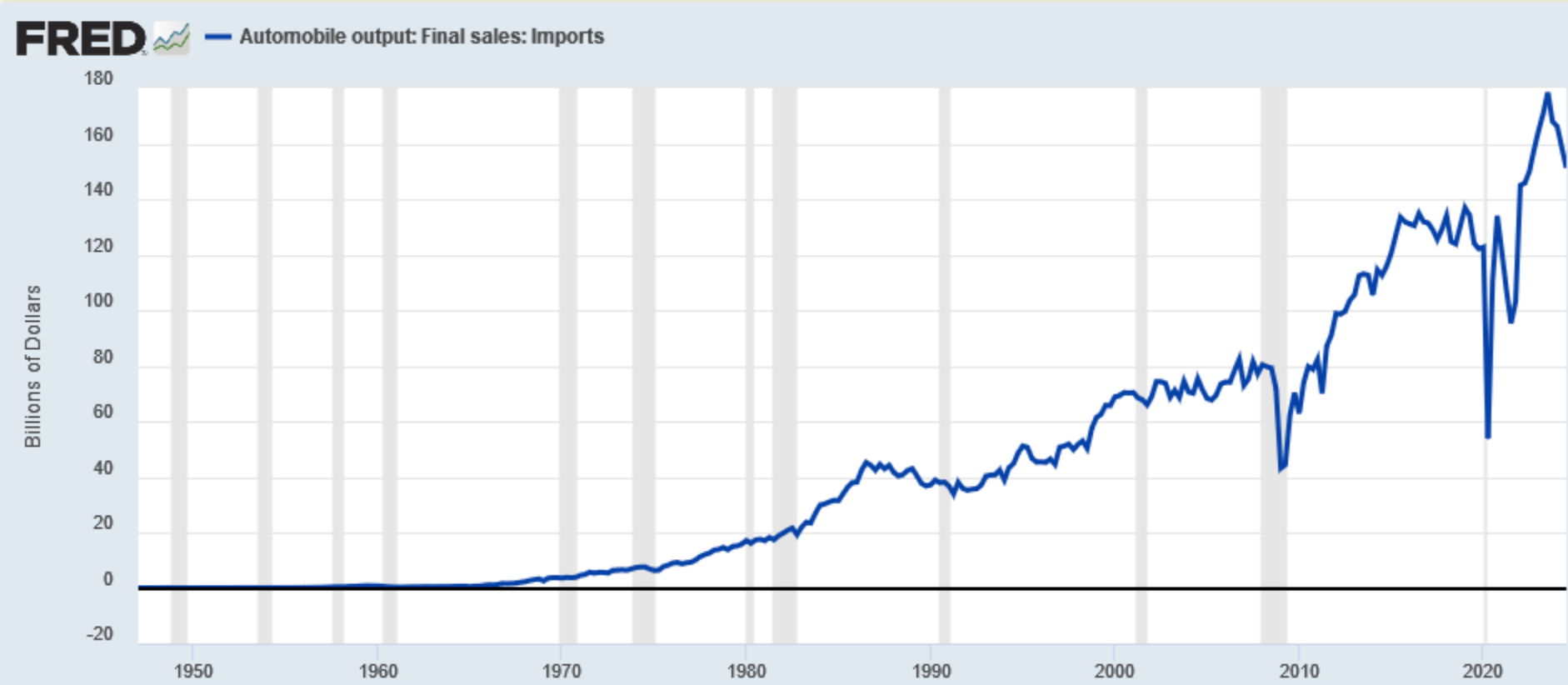
Shaded areas indicate U.S. recessions.

Source: U.S. Bureau of Economic Analysis

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US Auto Import Sales: 1947 – 2024

Chart Courtesy of St. Louis Federal Reserve as of 11/4/2024




Shaded areas indicate U.S. recessions.

Source: U.S. Bureau of Economic Analysis

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US IP Manufacturing Real Output Vehicles and Parts: 1972 – 2024

Chart Courtesy of St. Louis Federal Reserve as of 11/4/2024

FRED  — Industrial Production: Manufacturing: Durable Goods: Motor Vehicles and Parts (NAICS = 3361-3)/Producer Price Index by Commodity: All Commodities



Shaded areas indicate US recessions of Governors of the Federal Reserve System (US); U.S. Bureau of Labor Statistics fred.stlouisfed.org

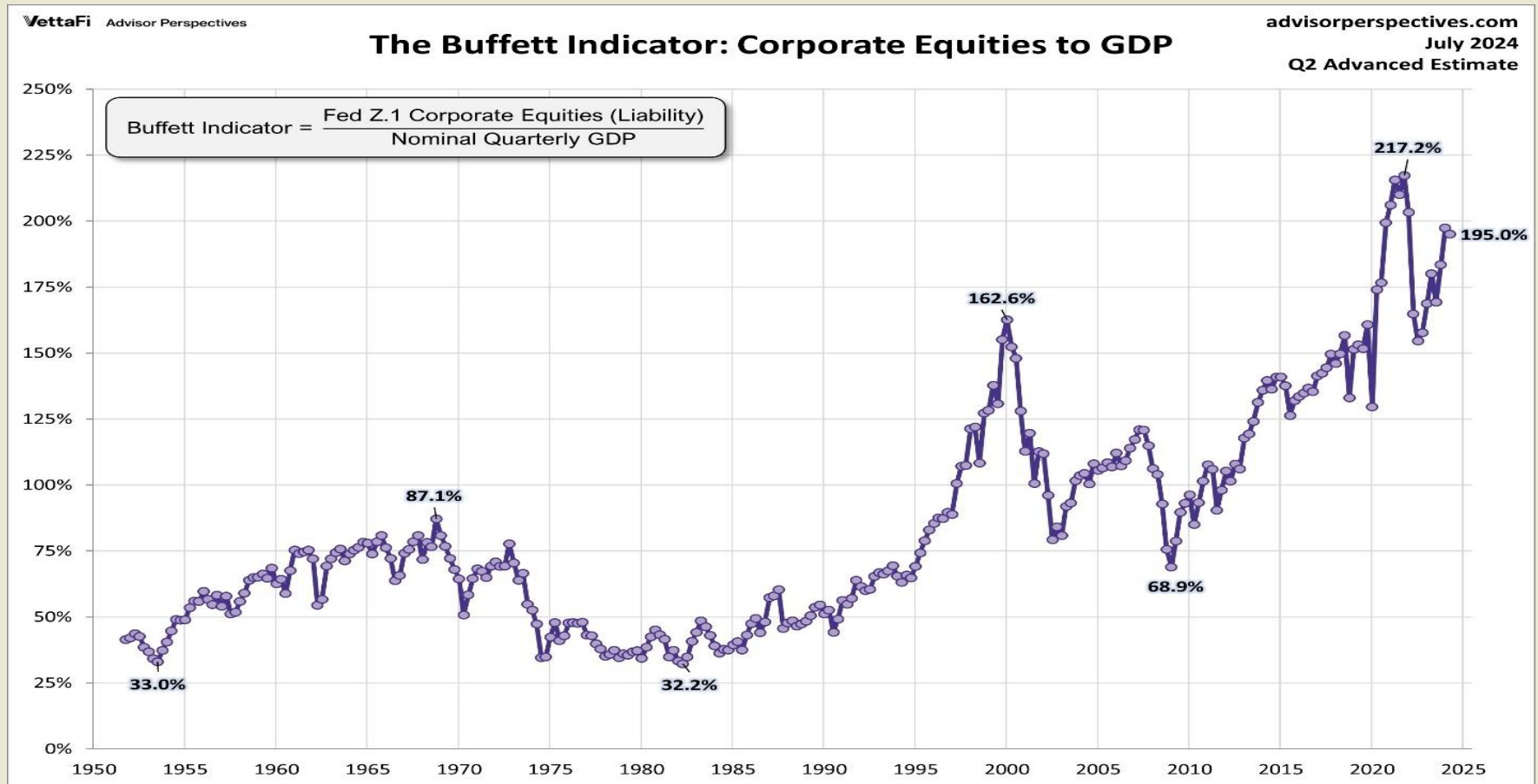
Real Asset “Growth”
In A QE/QT World:
As The Worm Turns





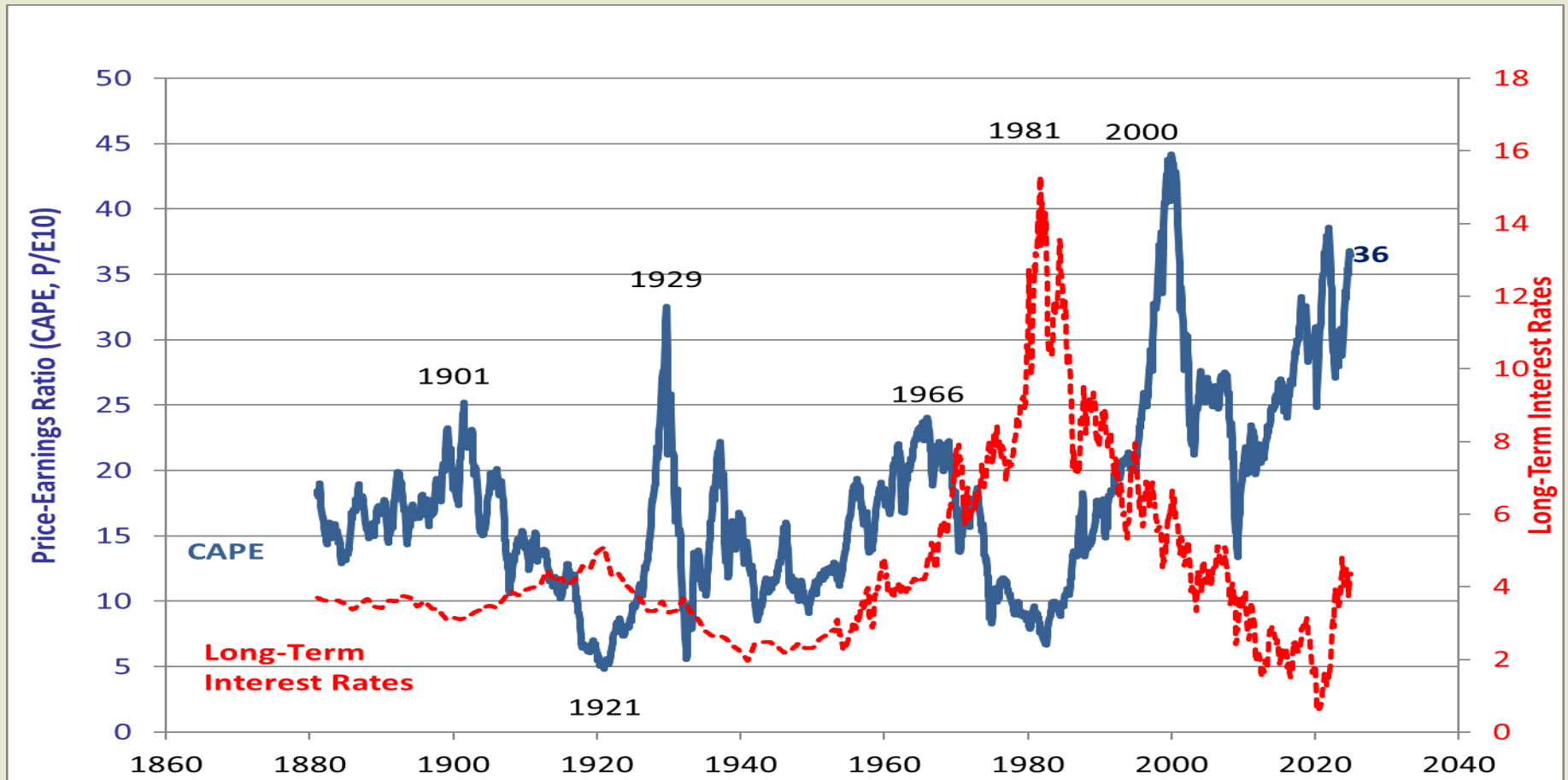
Asset Valuation: Corporate Equities to GDP

Chart Courtesy of Advisor Perspectives as of 7/31/2024



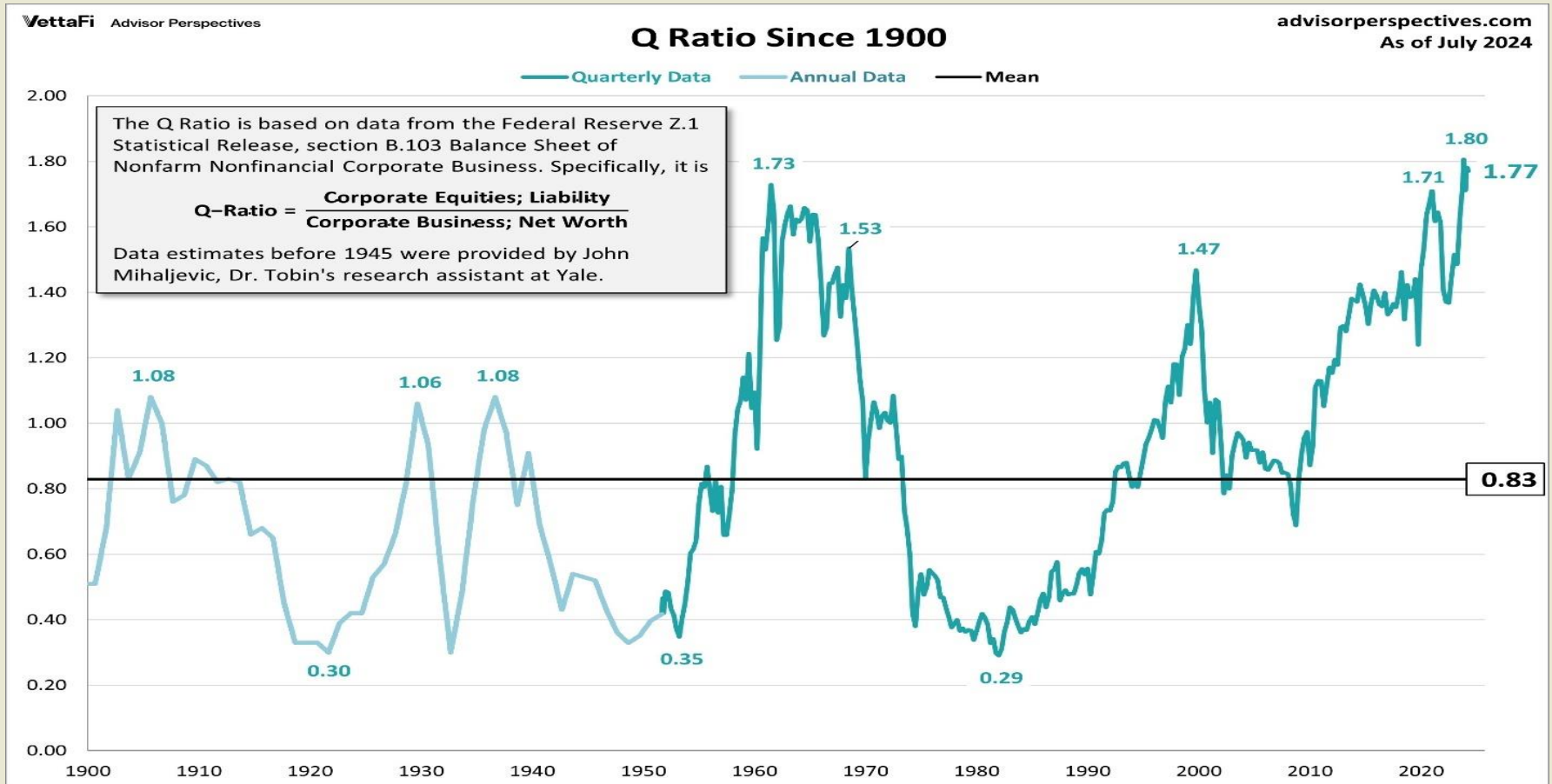
Asset Valuation: Cyclically Adjusted P/E (CAPE)

Chart Courtesy of Robert Shiller, Yale University as of 11/5/2024



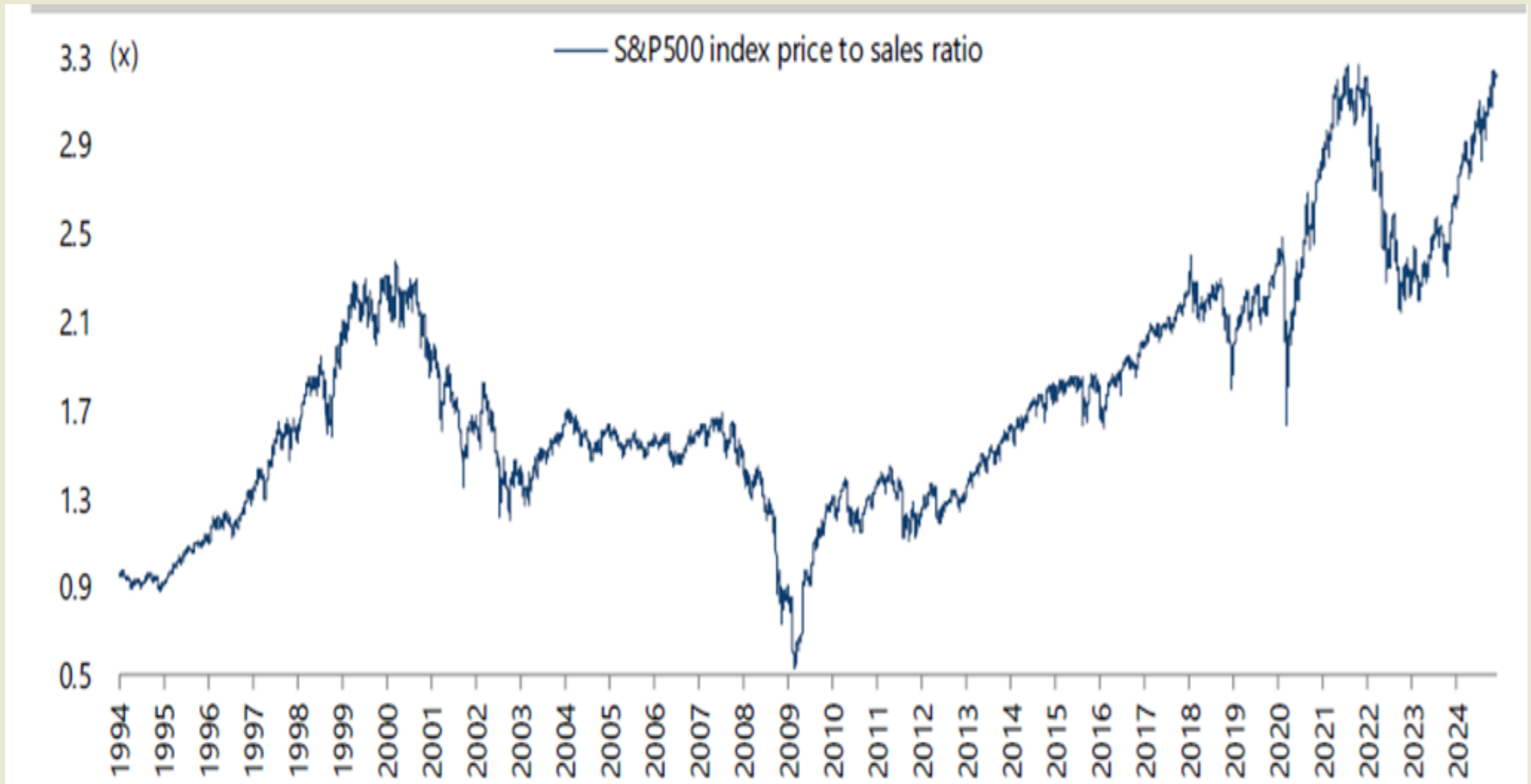
Asset Valuation: Tobin's Q Ratio

Chart Courtesy of advisorperspectives.com as of 7/31/2024



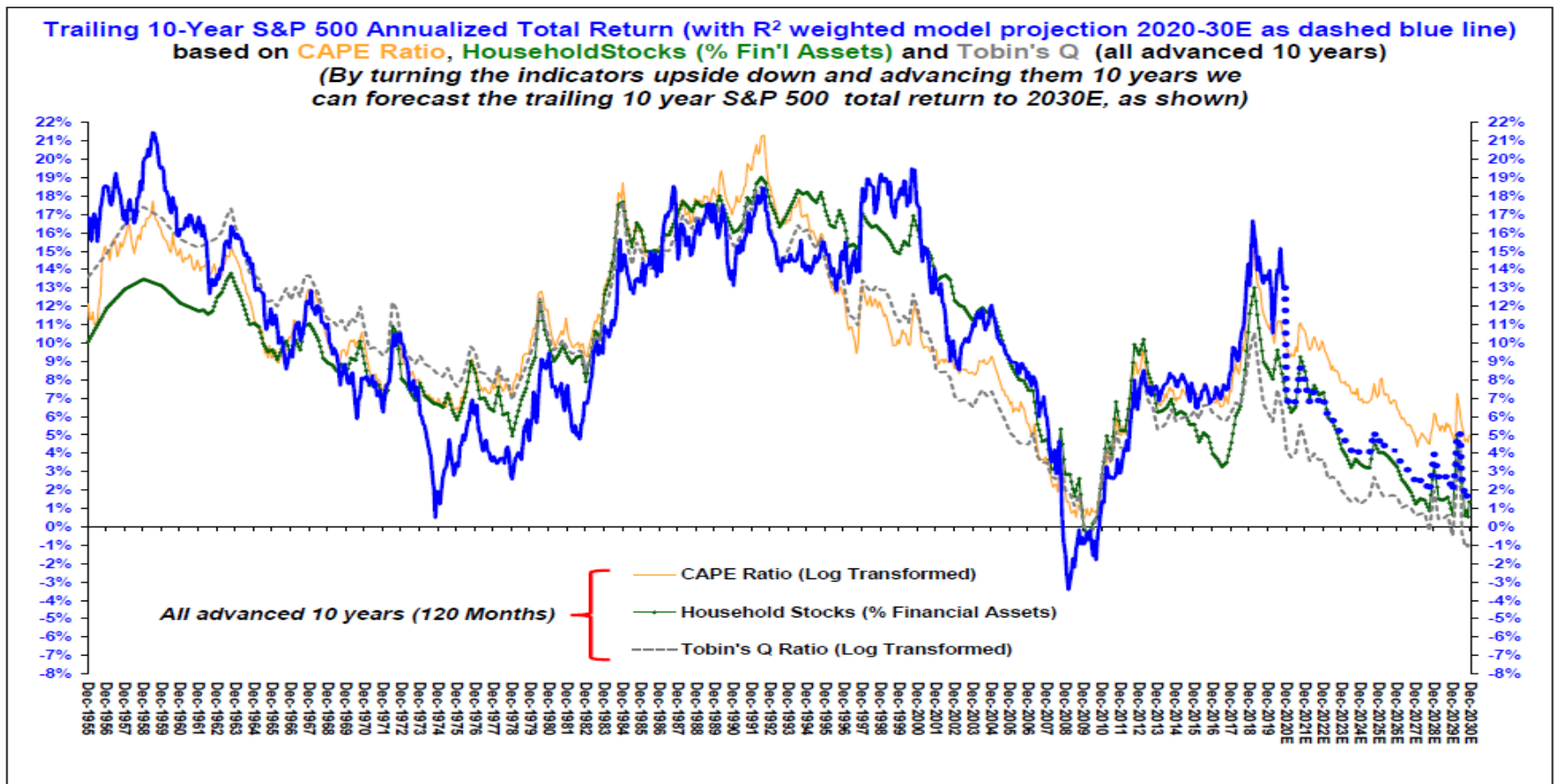
Asset Valuation: S&P 500 Price to Sales

Chart Courtesy of Jefferies, LLC as of 12/05/2024



Asset Valuation: Valuation and Long Term Returns

Chart Courtesy of Stifel Nicolaus



Source: S&P 500 total return Bloomberg data, Stifel estimates, S&P historical [Shiller](#) (Stifel Operating adjustment), U.S. Flow of Funds (tables [b_103](#) and [b_101](#)).

S&P 500: 10 Year Projected Return Example

Data Courtesy of Green Drake Advisors, LLC

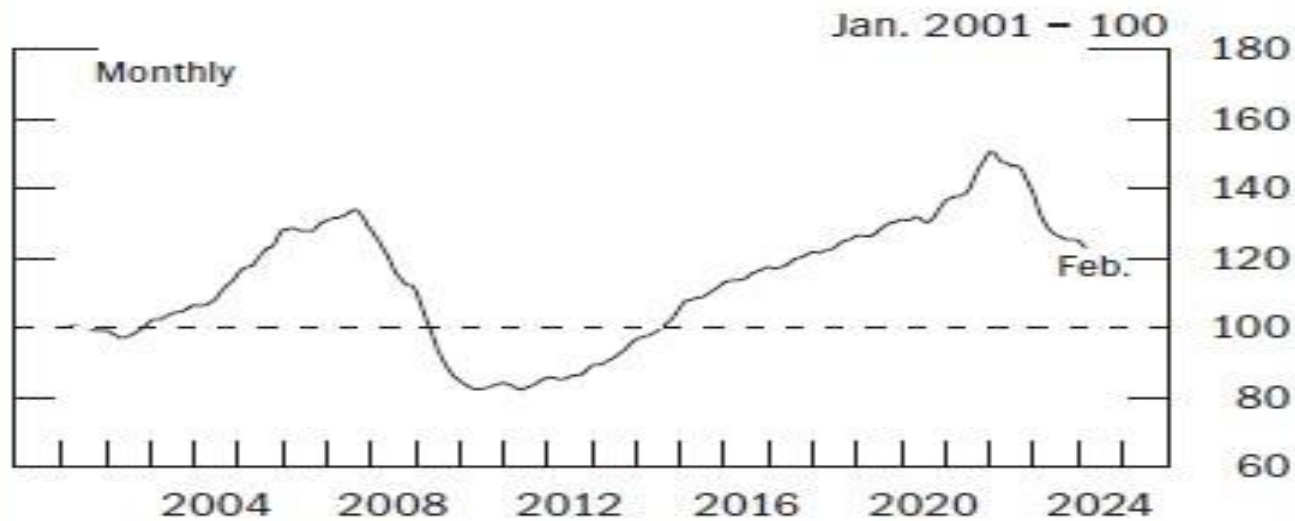
	<i>2024E Earnings</i>	<i>Growth Rate</i>	<i>In 10 Years</i>
<i>Earnings</i>	\$234.00	8.0%	\$505.19
<i>P/E</i>	25.34x		12.0x
<i>S&P 500</i>	5,929		6,062
<i>10 Year ROR</i>			0.02%

Data as of November 6, 2024

Asset Valuation: CRE and Cap Rates

Chart Courtesy of Federal Reserve

Figure 1.14. Commercial real estate prices, adjusted for inflation, continued to decline



Source: Real Capital Analytics; consumer price index, Bureau of Labor Statistics via Haver Analytics.

Currency Wars,
Trade Wars,
&
The Fight for
Global Dominance



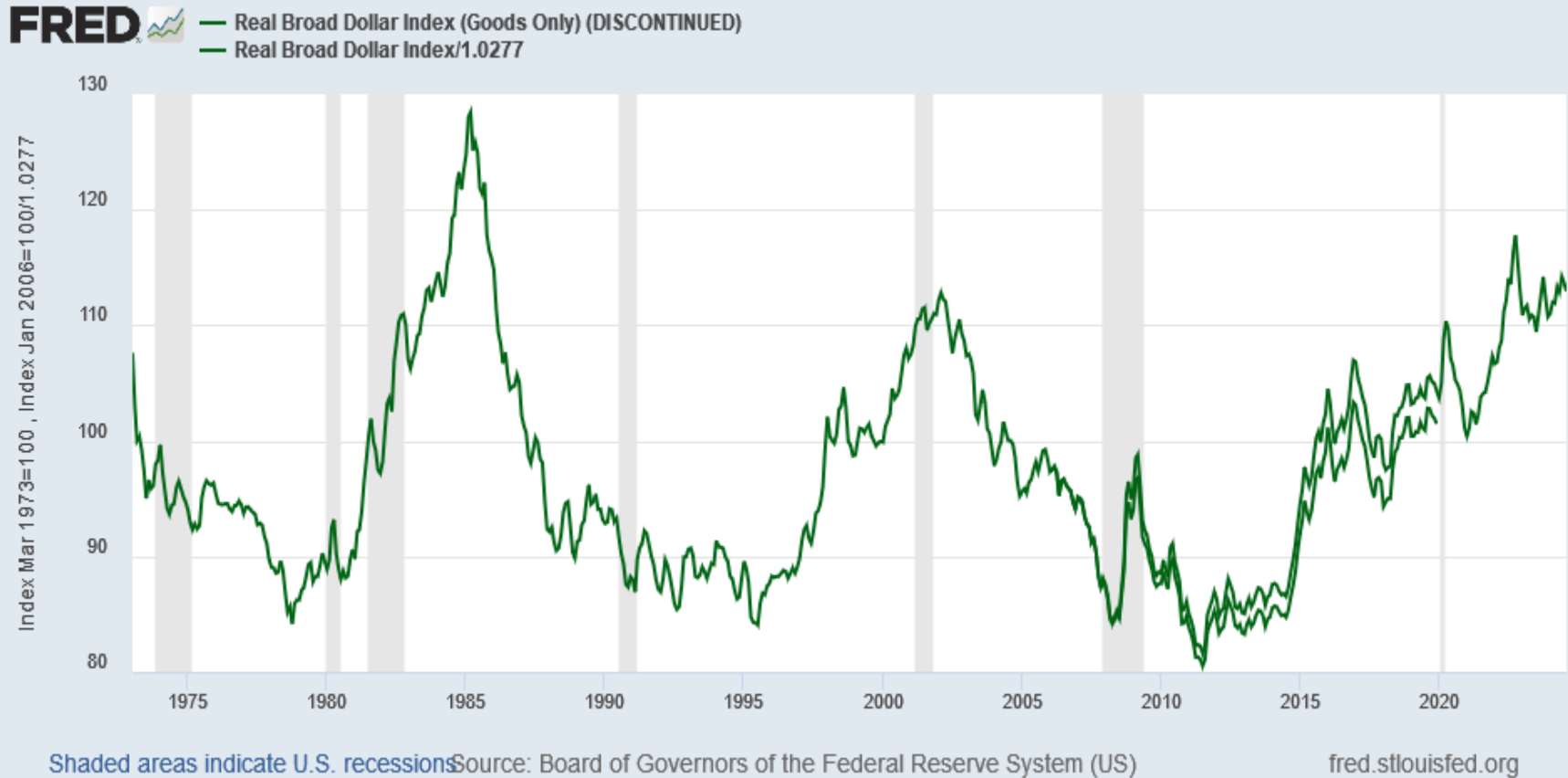
The IMF's World of Tomorrow: 2030E Global Economic Rank

Data Courtesy of IMF

<u>Rank</u>	<u>Country</u>
1.	China
2.	United States
3.	India
4.	Japan
5.	Germany
6.	France
7.	United Kingdom
8.	Brazil
9.	Canada
10.	South Korea


Real Broad US Dollar Index

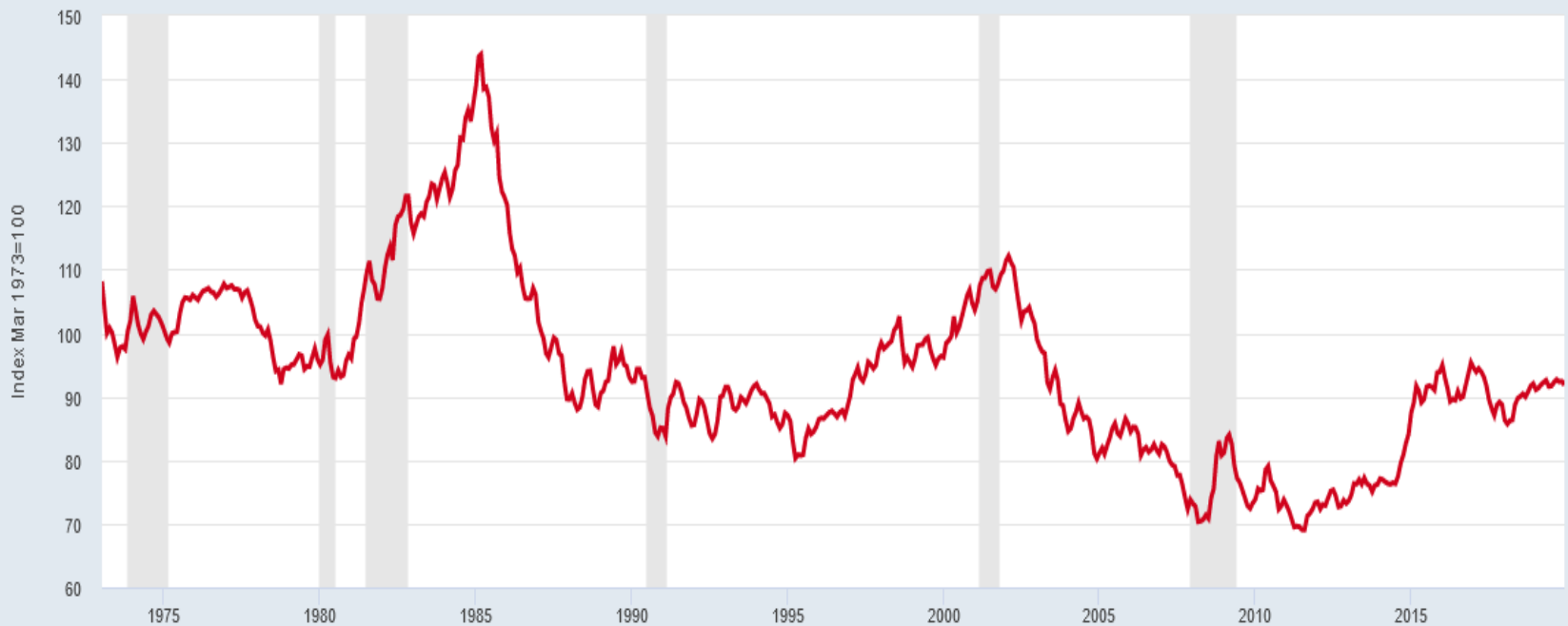
Chart Courtesy of Federal Reserve of St. Louis as of 9/22/2022



US International Trade: US\$ vs. DM Currencies 1973-2019

Chart Courtesy of St. Louis Federal Reserve

FRED  — Trade Weighted U.S. Dollar Index: Major Currencies, Goods (DISCONTINUED)



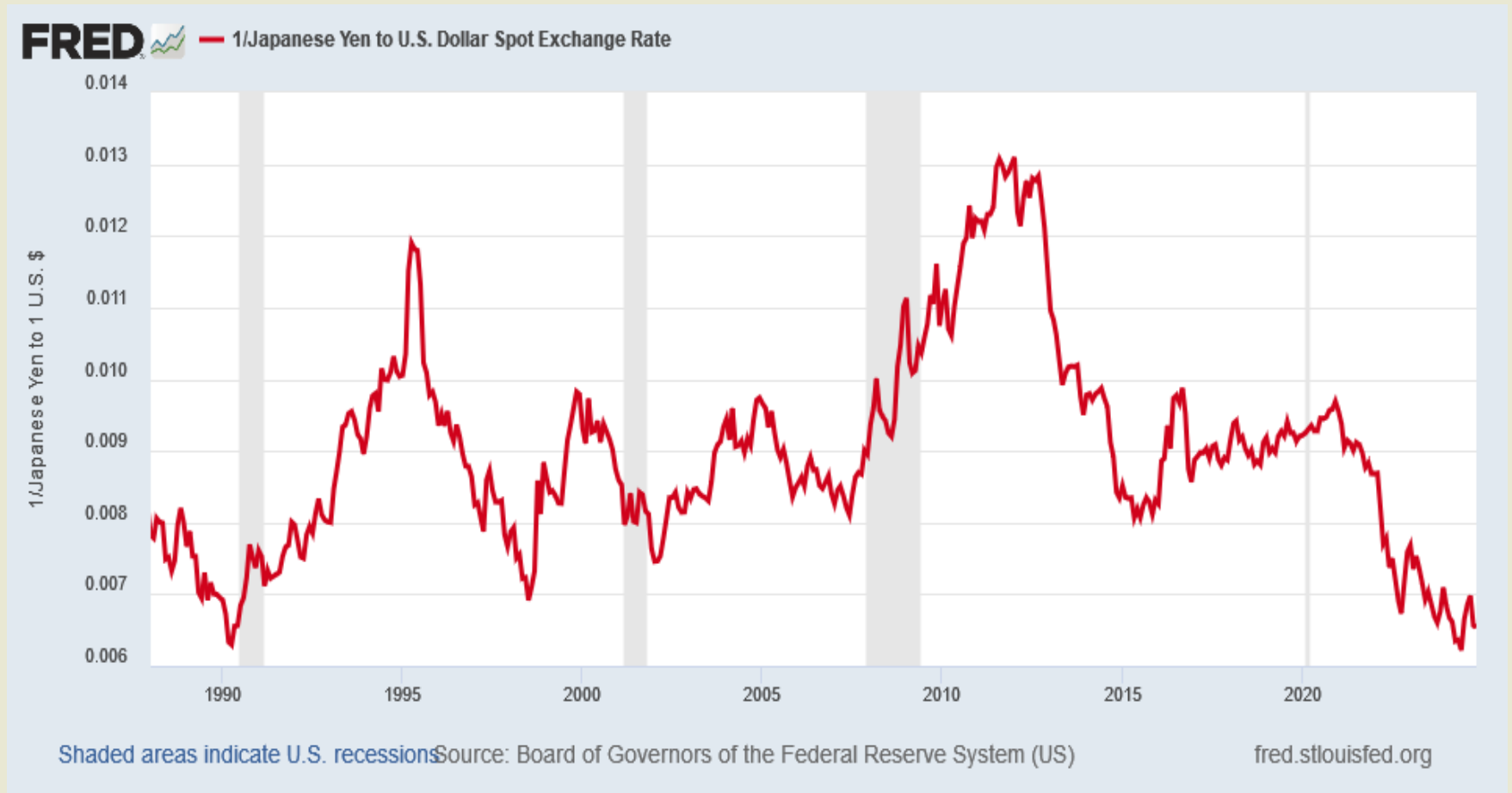
U.S. recessions are shaded; the most recent end date is undecided.

Source: Board of Governors of the Federal Reserve System (US)

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US International Trade: Japanese Yen to USD: 1988-2024

Chart Courtesy of St. Louis Federal Reserve 11/4/2024



Developing Countries: Currency Value vs. PPP Value

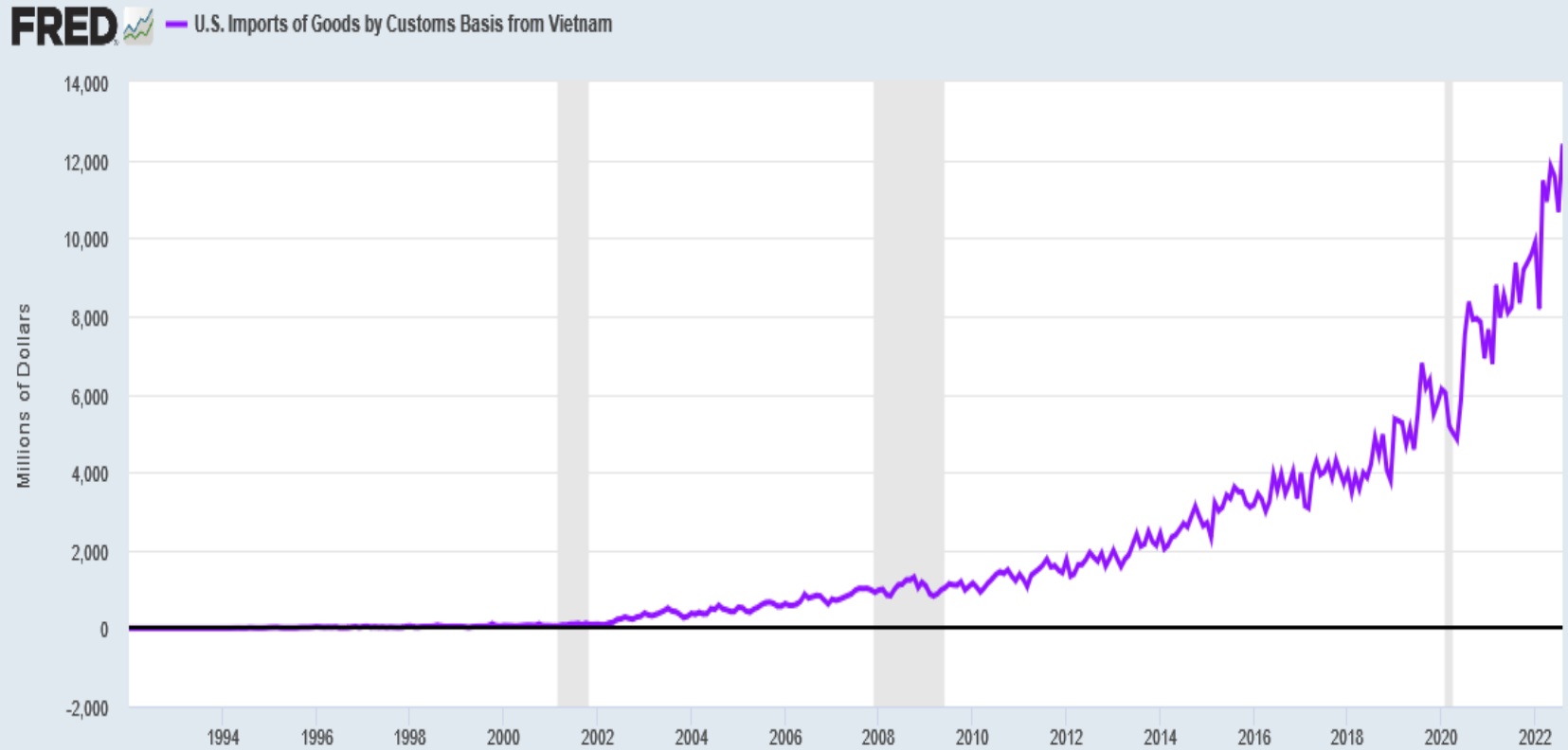
Data as of November 4, 2024

	<u>Exchange Rate</u>	<u>IMF PPP</u>	<u>Appreciation to PPP</u>
¥	143.2	98.2	45.8%
€	\$1.11	\$1.37	23.4%
UK £	\$1.32	\$1.47	11.4%
Brazil Real	5.57/\$	2.73/\$	104.0%
China Yuan	7.09/\$	3.76/\$	88.6%
Indian Rupee	84.0/\$	22.4/\$	275.0%

IMF PPP Data as of 9/5/2024.

US Manufacturing: The WTO Whack-A-Mole Issue

Chart Courtesy of St. Louis Federal Reserve as of 10/5/2022



Shaded areas indicate U.S. recessions.

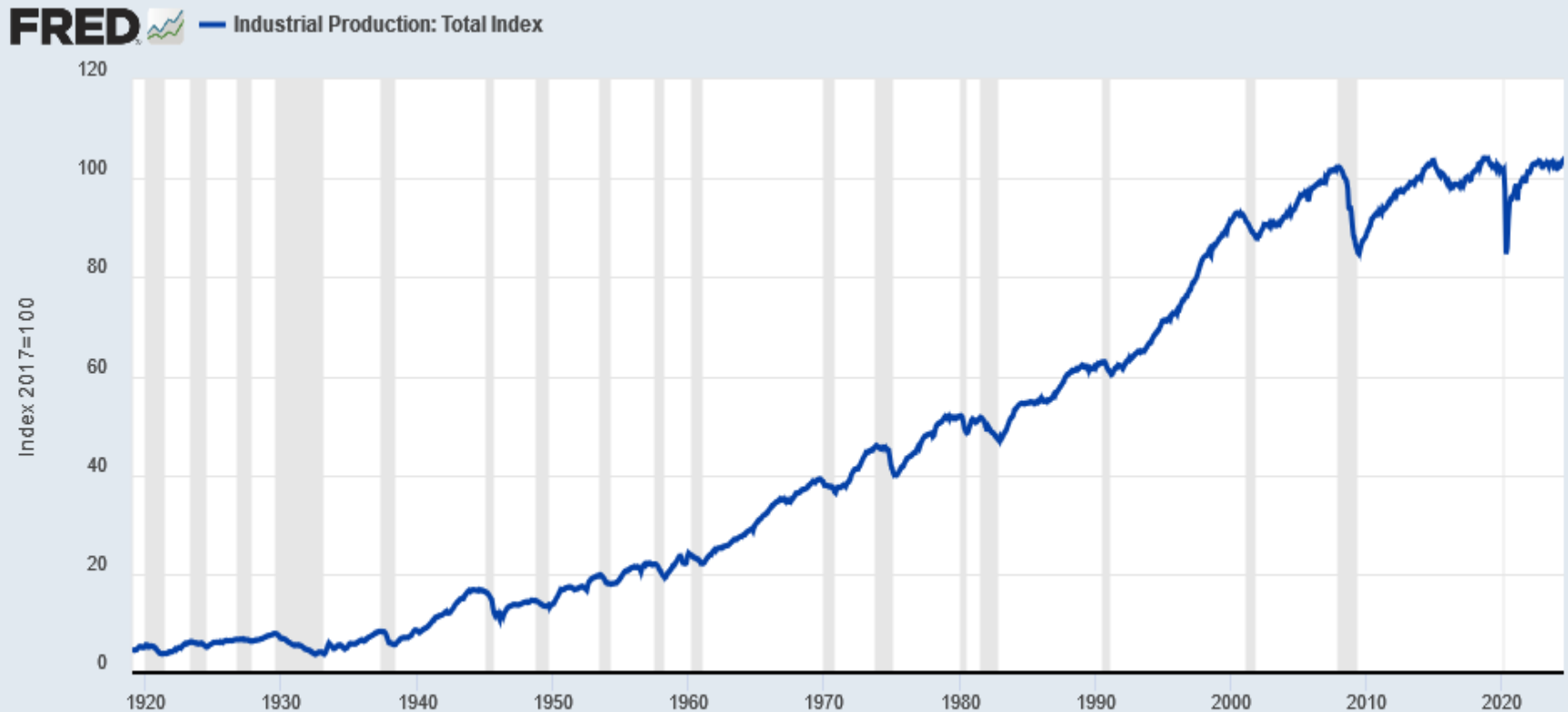
Sources: U.S. Census Bureau; U.S. Bureau of Economic Analysis

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Industrial Production Total: 1919 - 2024

Chart Courtesy of St. Louis Federal Reserve as of 9/4/2024

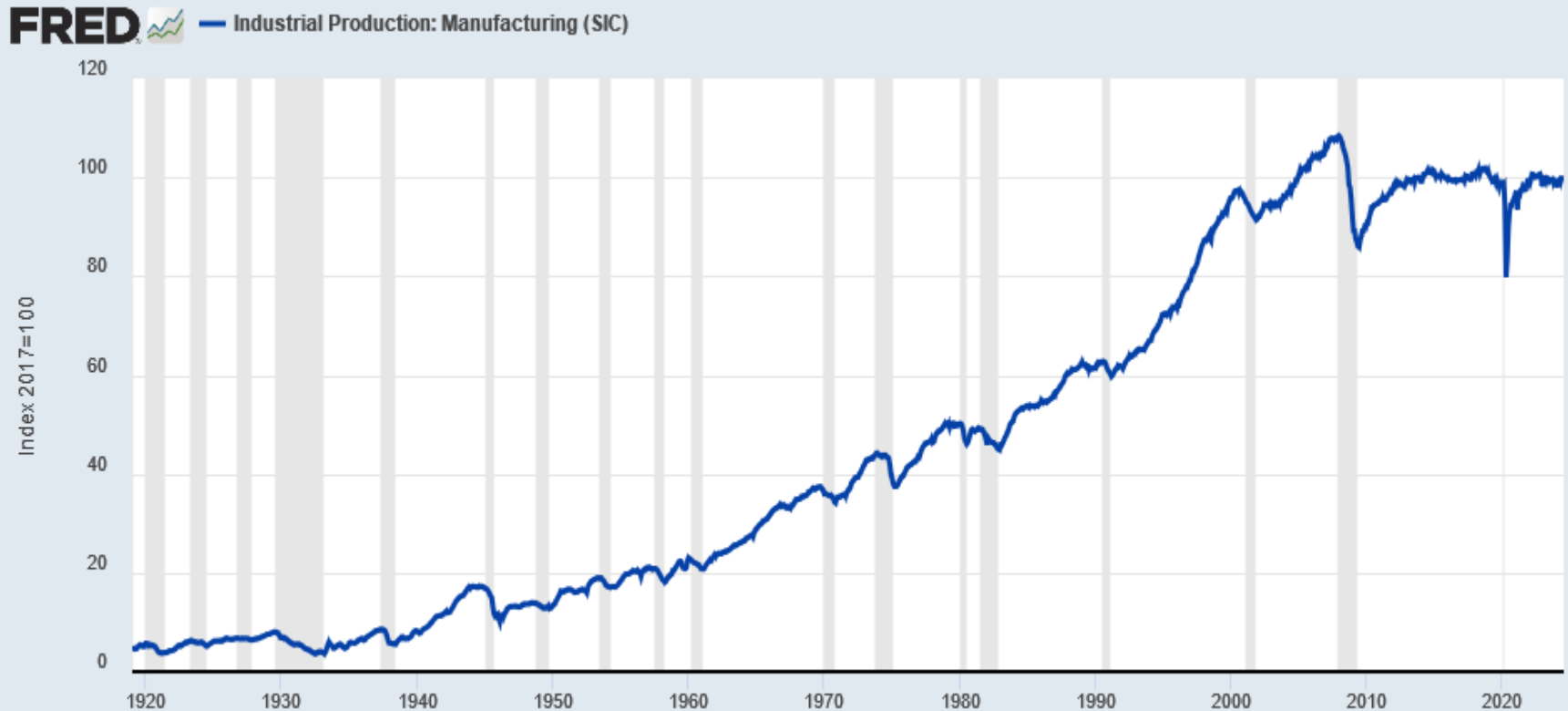


Shaded areas indicate U.S. recessions. Source: Board of Governors of the Federal Reserve System (US)

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Industrial Production Manufacturing: 1972 - 2024

Chart Courtesy of St. Louis Federal Reserve as of 9/4/2024

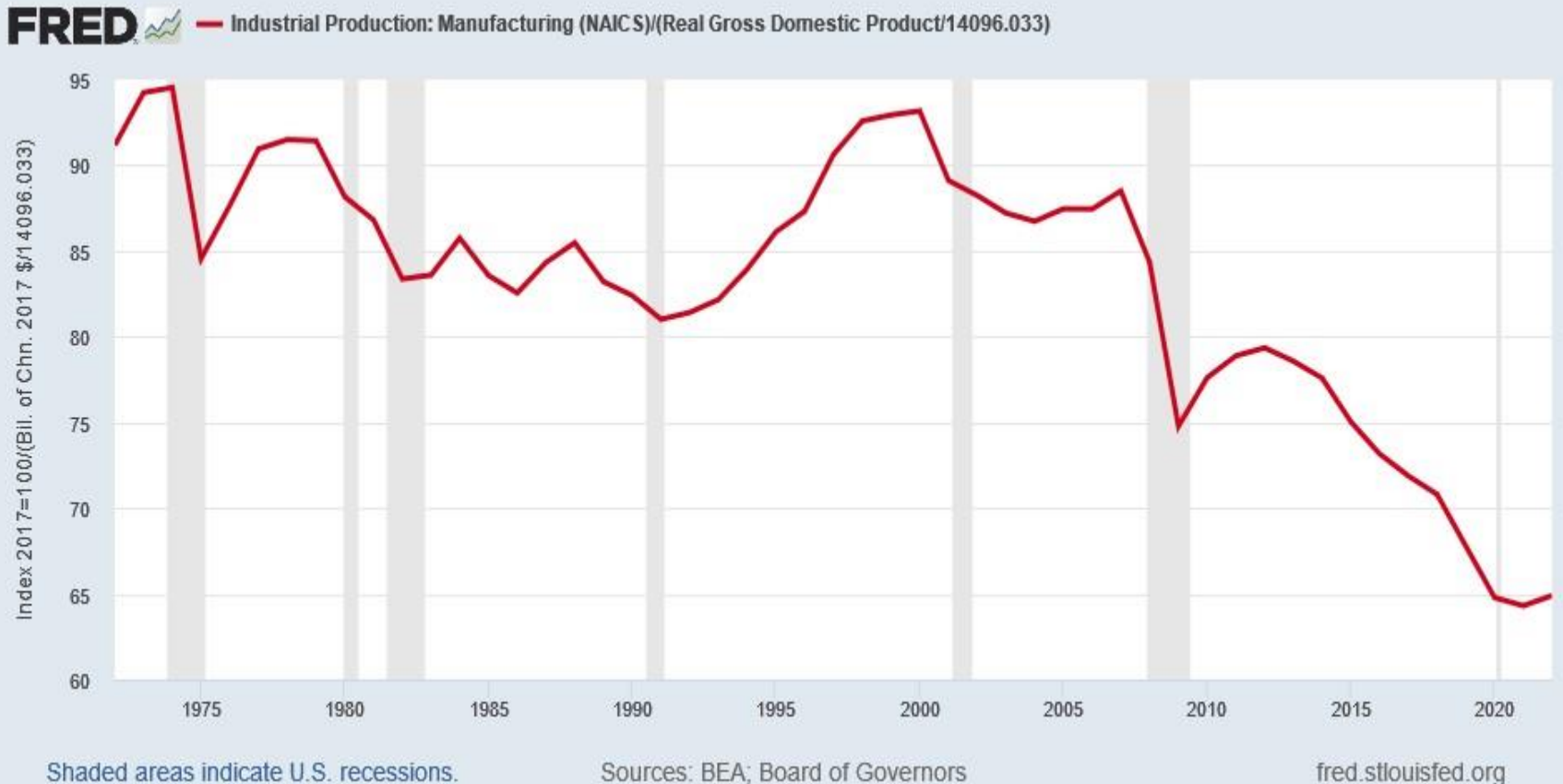


Shaded areas indicate U.S. recessions. Source: Board of Governors of the Federal Reserve System (US)

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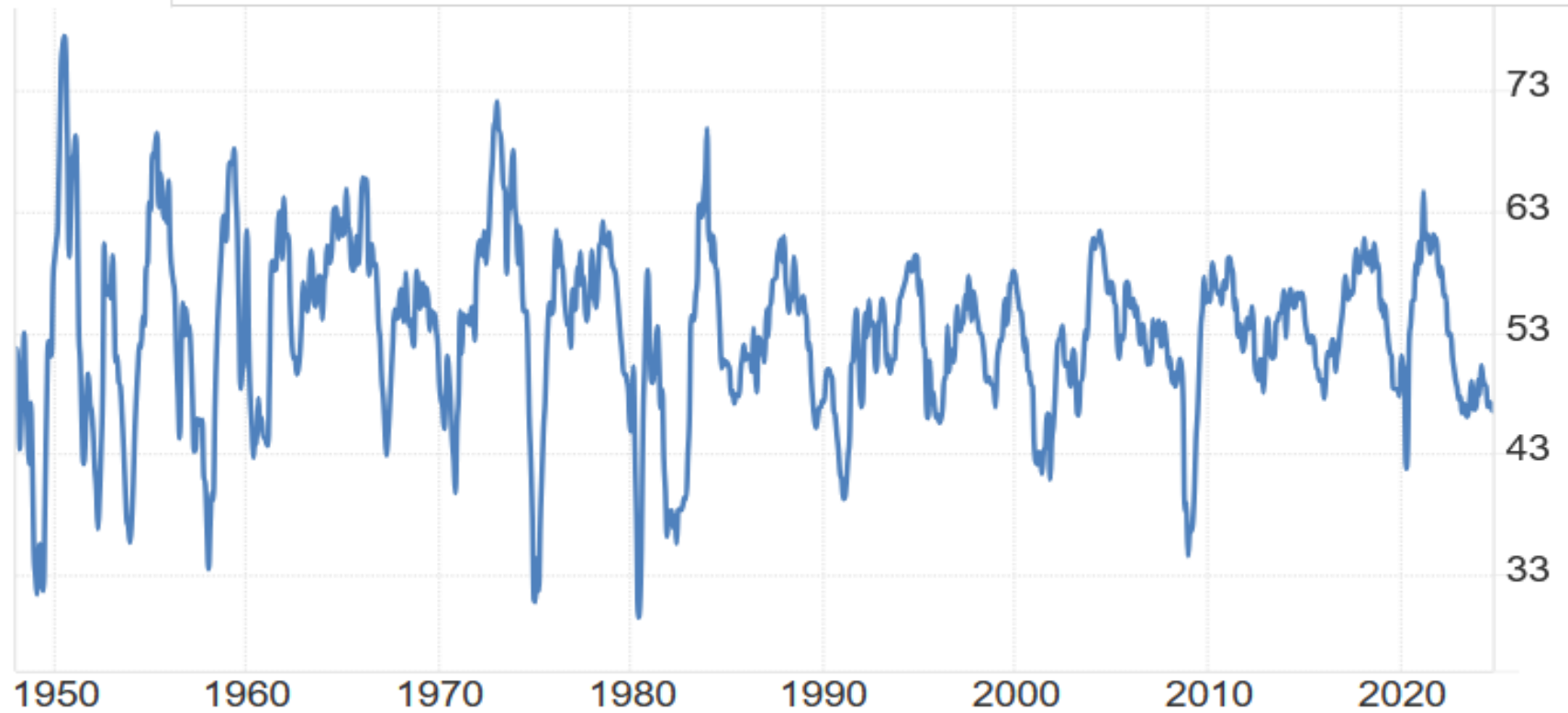
Industrial Production Manufacturing To GDP: 1972 - 2023

Chart Courtesy of St. Louis Federal Reserve as of 10/5/2023



ISM Manufacturing: 1947 - 2024

Chart Courtesy of Trading Economics as of 11/4/2024



Institute for Supply Management

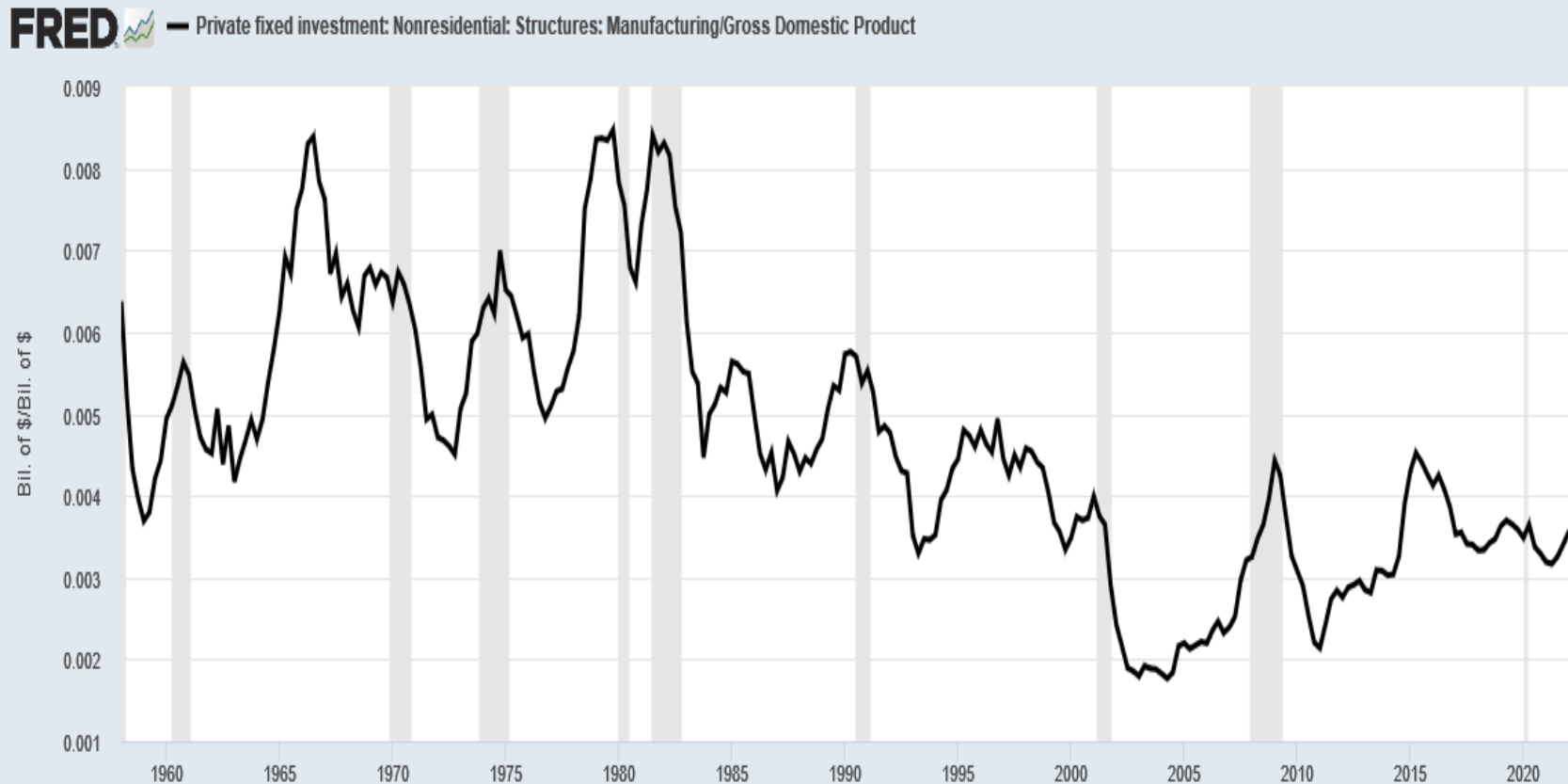
Value

Chg

Chg%

US Manufacturing Structure Investment Relative to GDP: 1958 - 2021

Chart Courtesy of Federal Reserve of St. Louis as of 1/23/2023



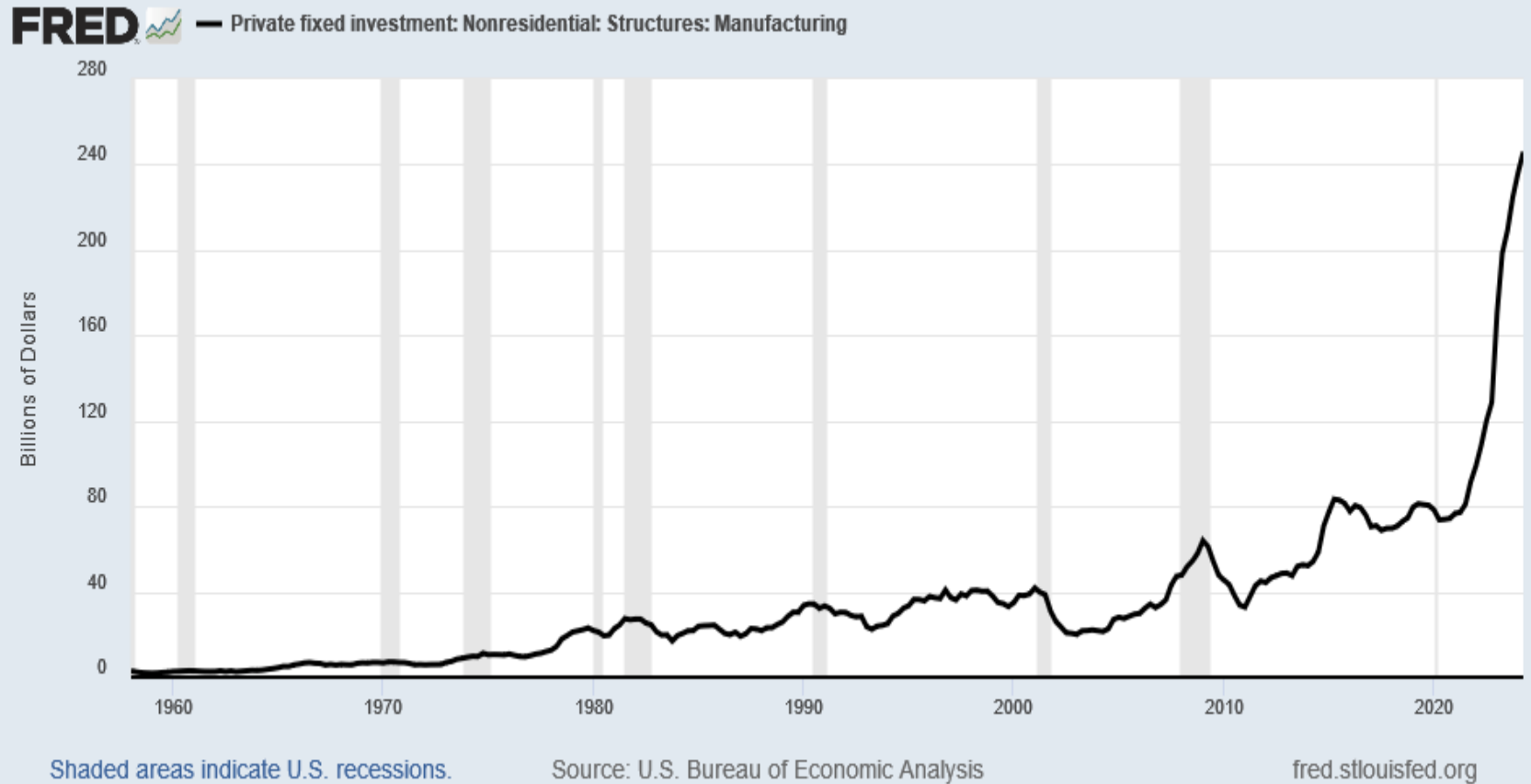
Shaded areas indicate U.S. recessions.

Source: U.S. Bureau of Economic Analysis

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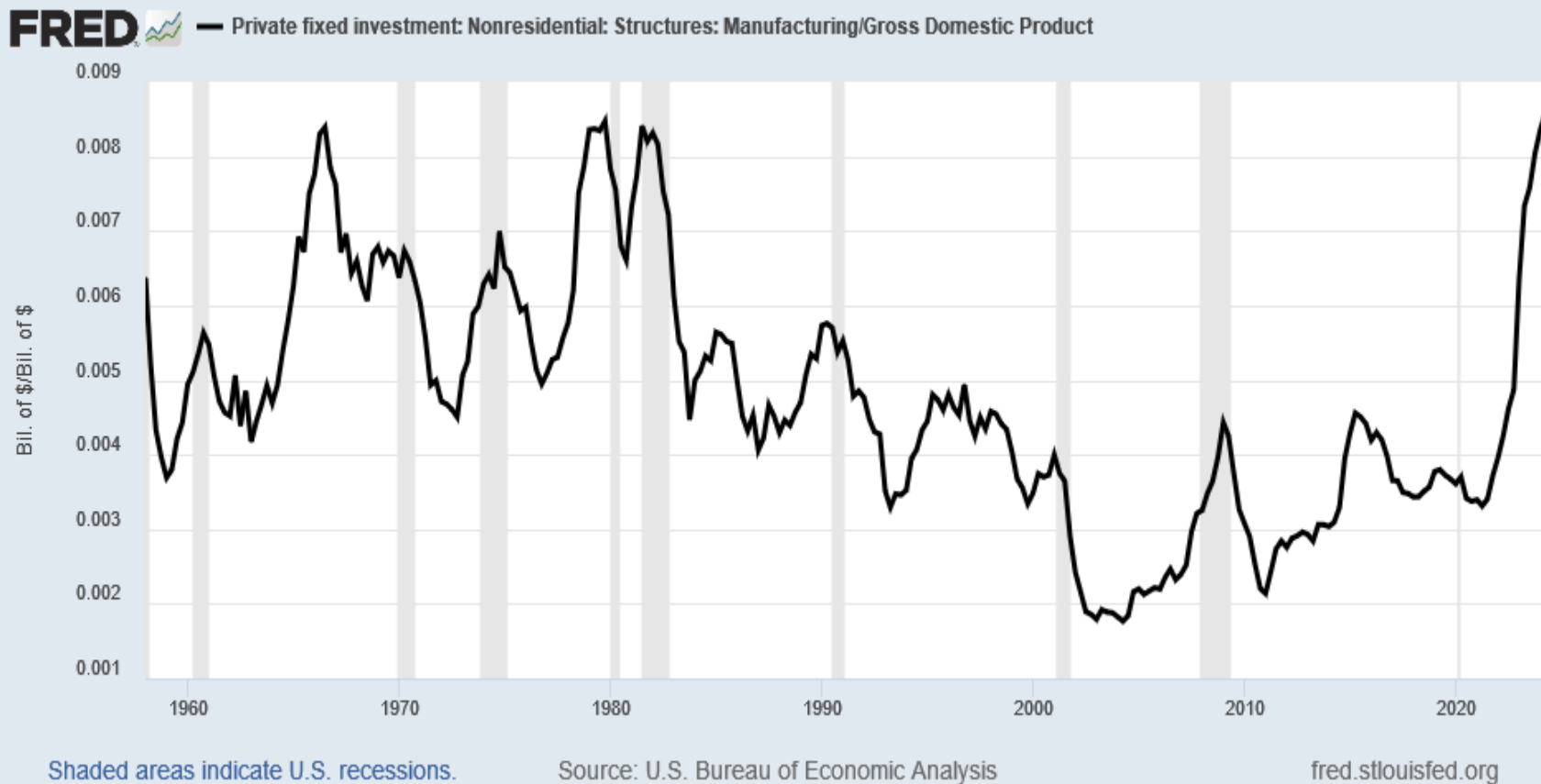
US Manufacturing Structure Investment: 1958 - 2024

Chart Courtesy of Federal Reserve of St. Louis as of 9/5/2024



US Manufacturing Structure Investment Relative to GDP: 1958 - 2024

Chart Courtesy of Federal Reserve of St. Louis as of 9/5/2024

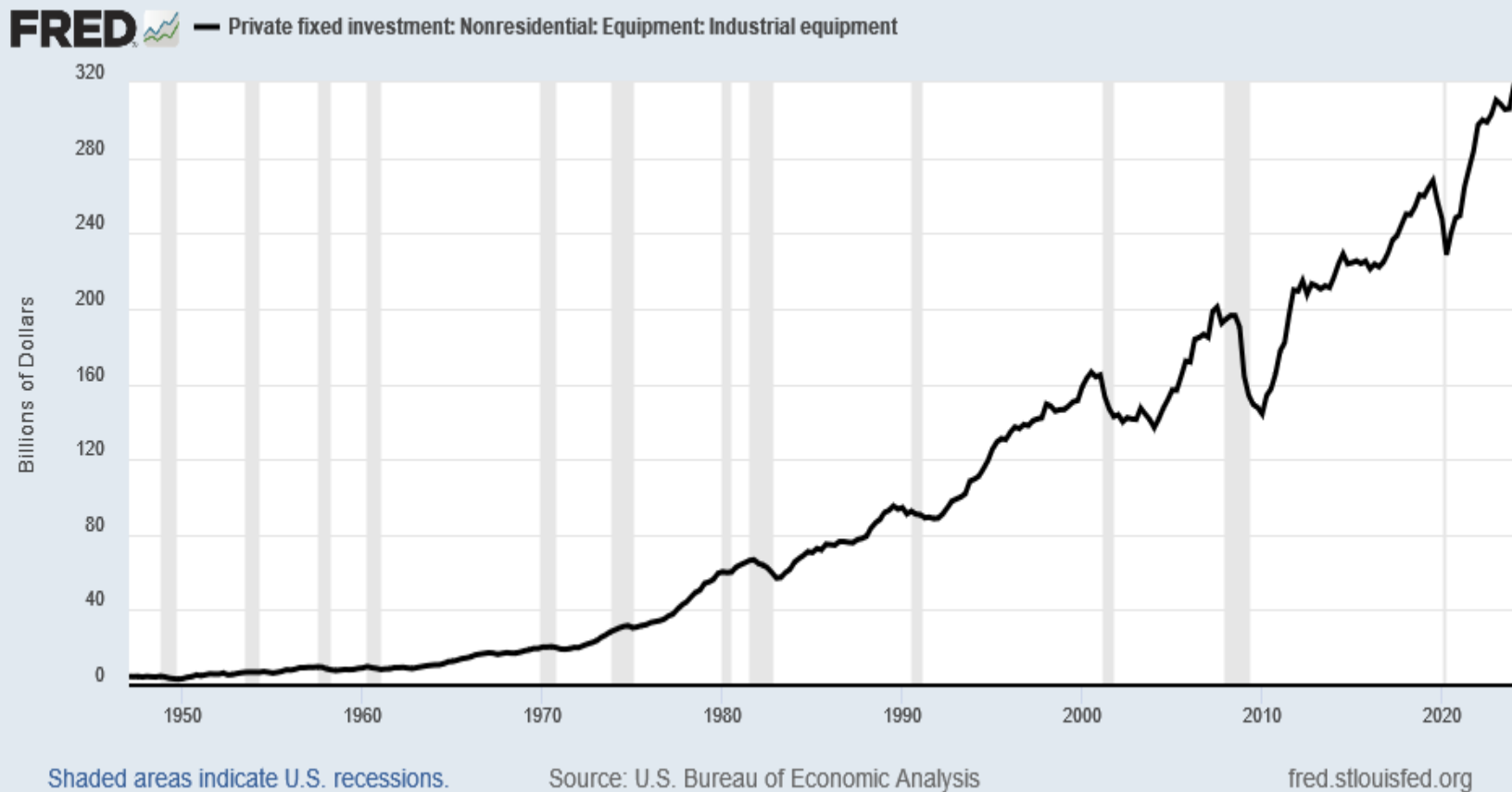


US Manufacturing



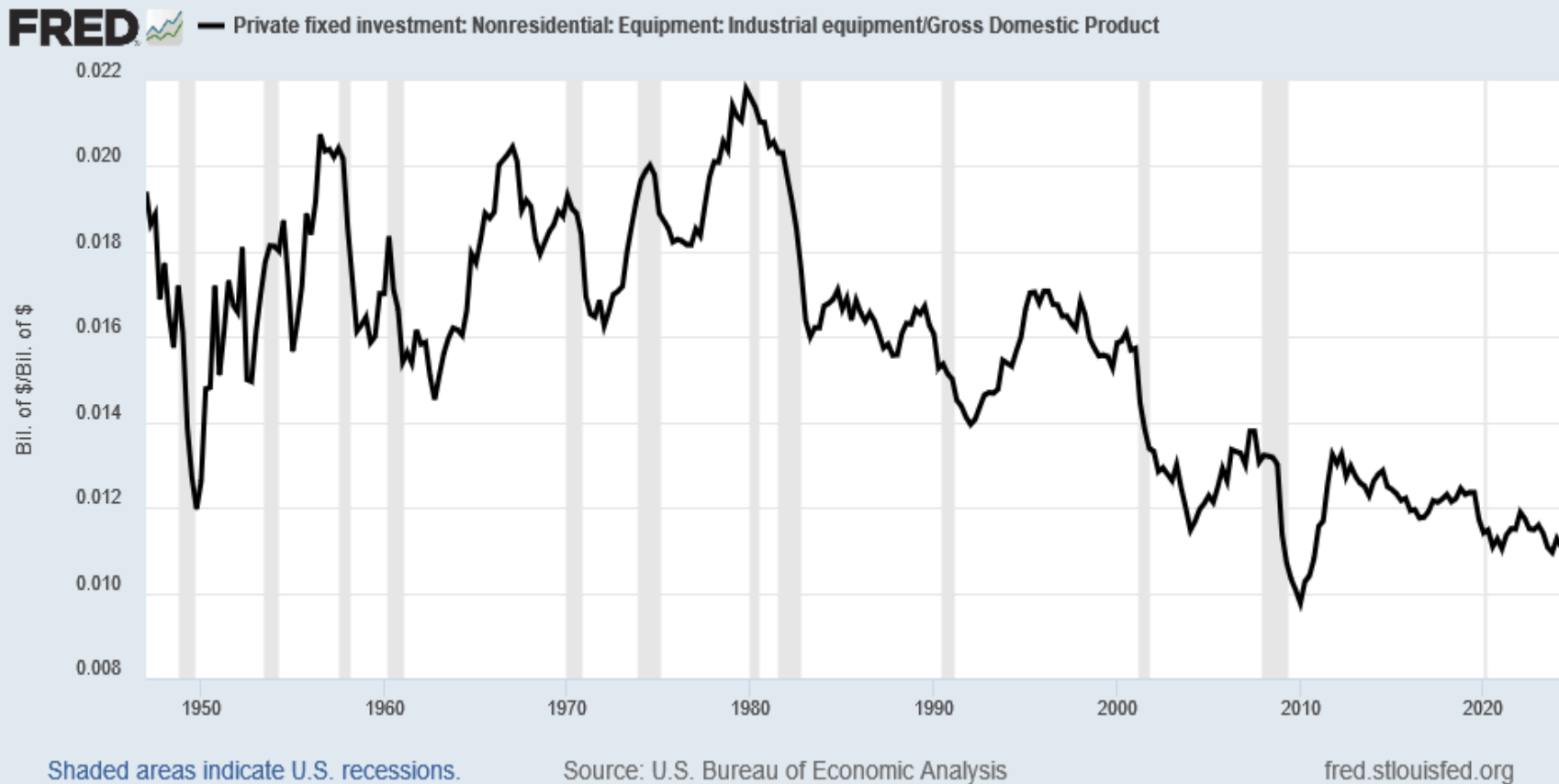
US Industrial Equipment Investment 1947 - 2024

Chart Courtesy of Federal Reserve of St. Louis as of 9/5/2024



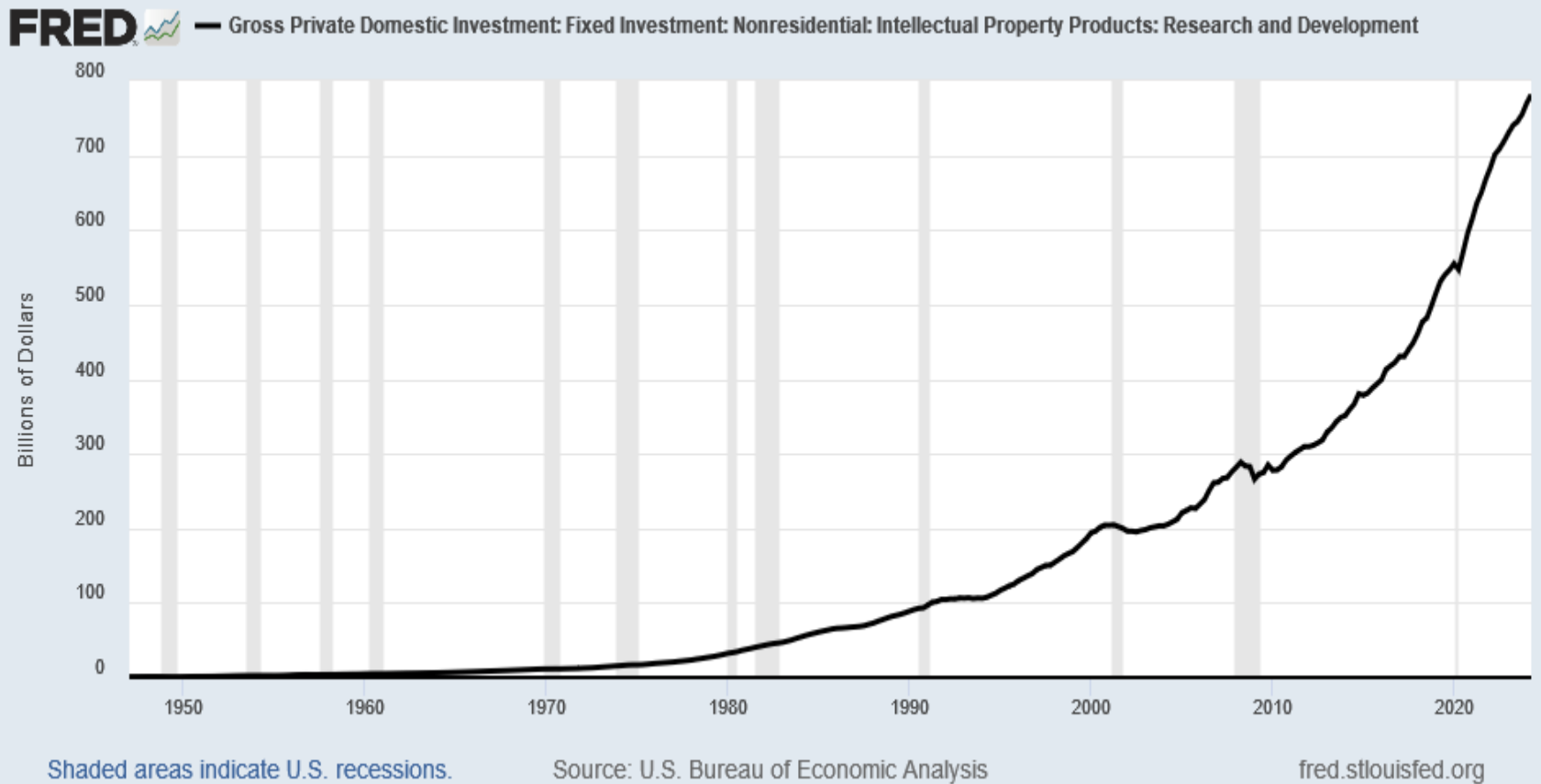
US Industrial Equipment Investment Relative to GDP: 1947 - 2024

Chart Courtesy of Federal Reserve of St. Louis as of 9/5/2024



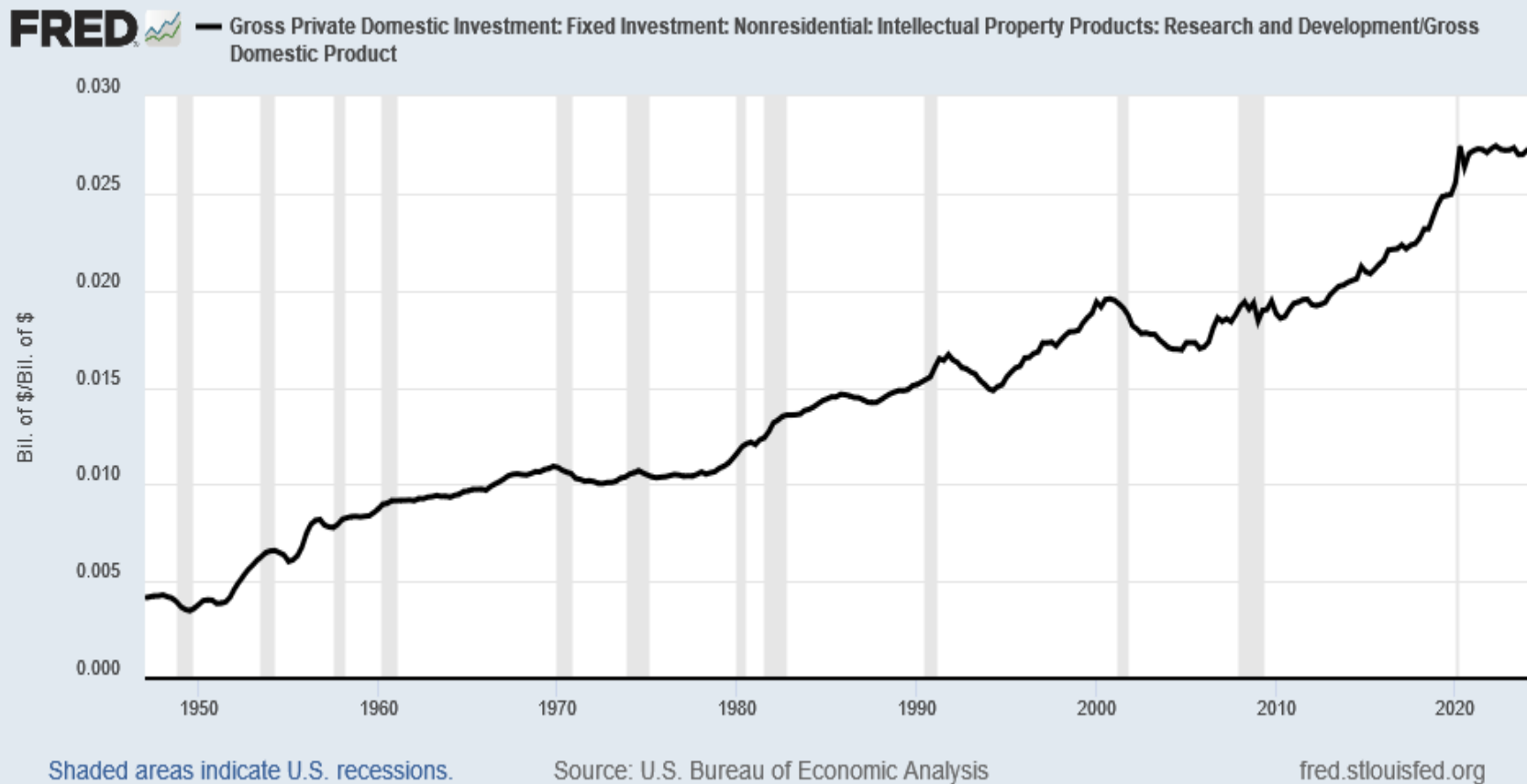
US Intellectual Property Investment: 1947 - 2024

Chart Courtesy of Federal Reserve of St. Louis 9/5/2024



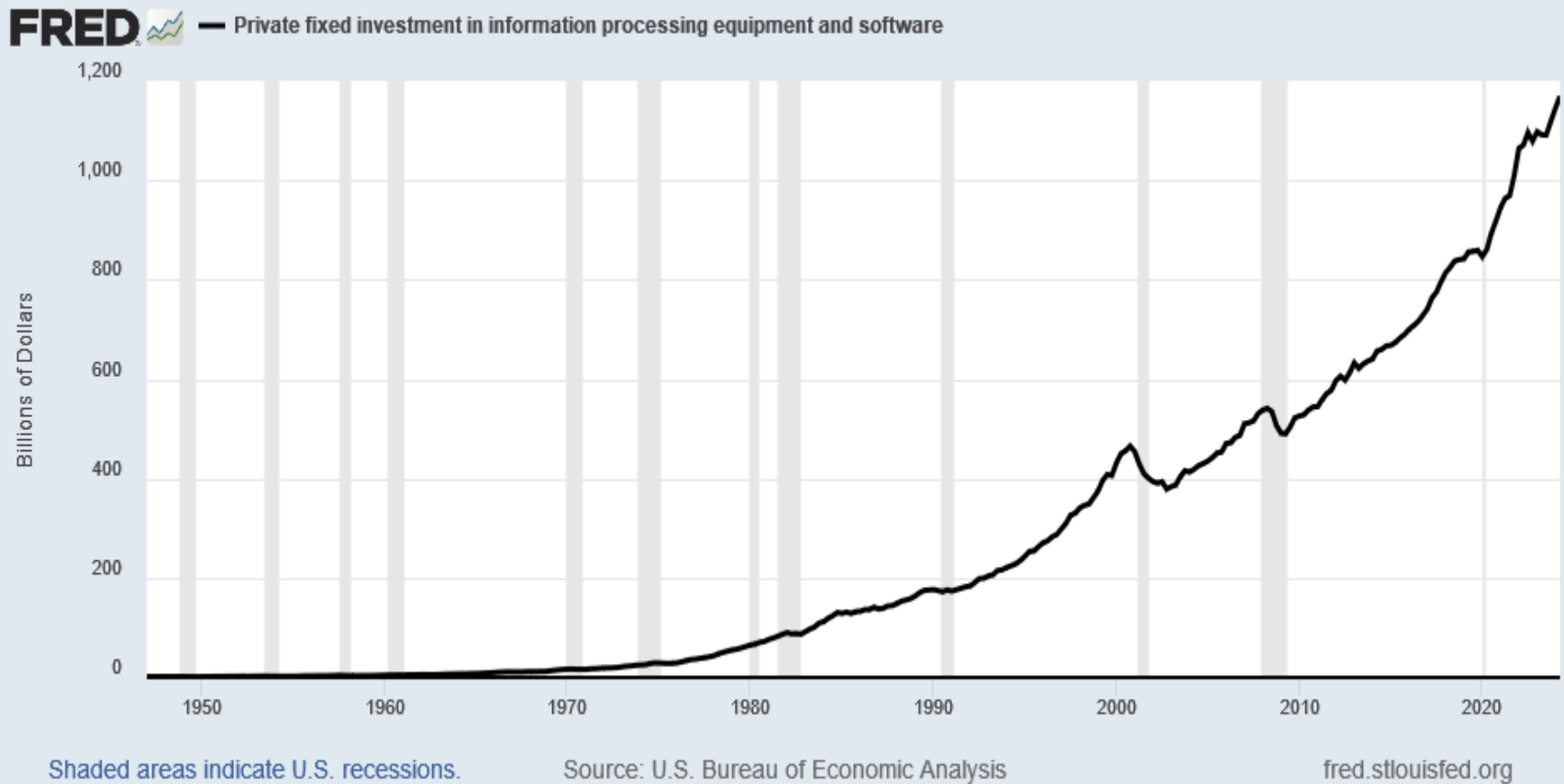
US Intellectual Property Investment Relative to GDP: 1947 - 2024

Chart Courtesy of Federal Reserve of St. Louis 9/5/2024



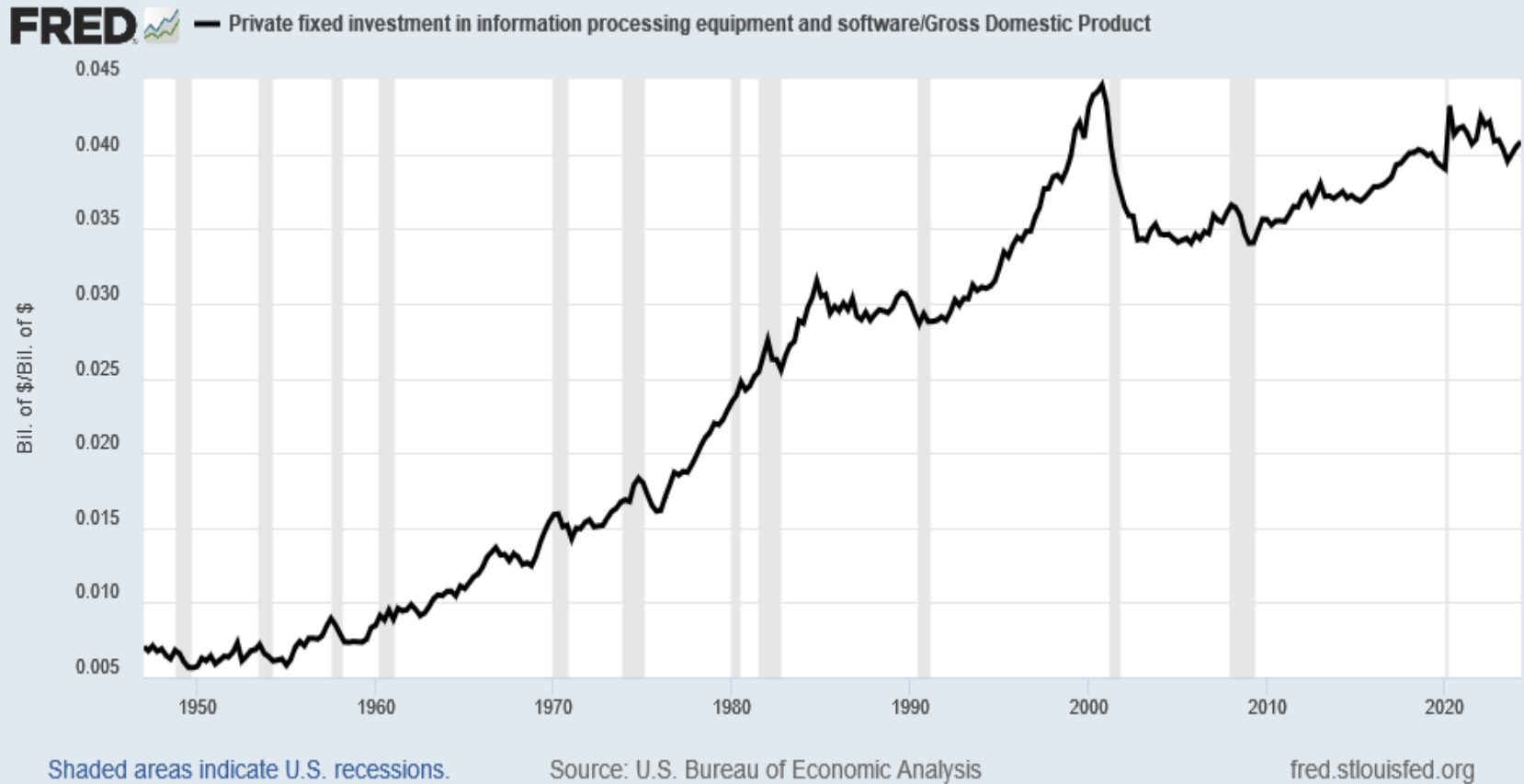
US Info Processing/ Software Investment 1947 - 2024

Chart Courtesy of Federal Reserve of St. Louis as of 9/5/2024



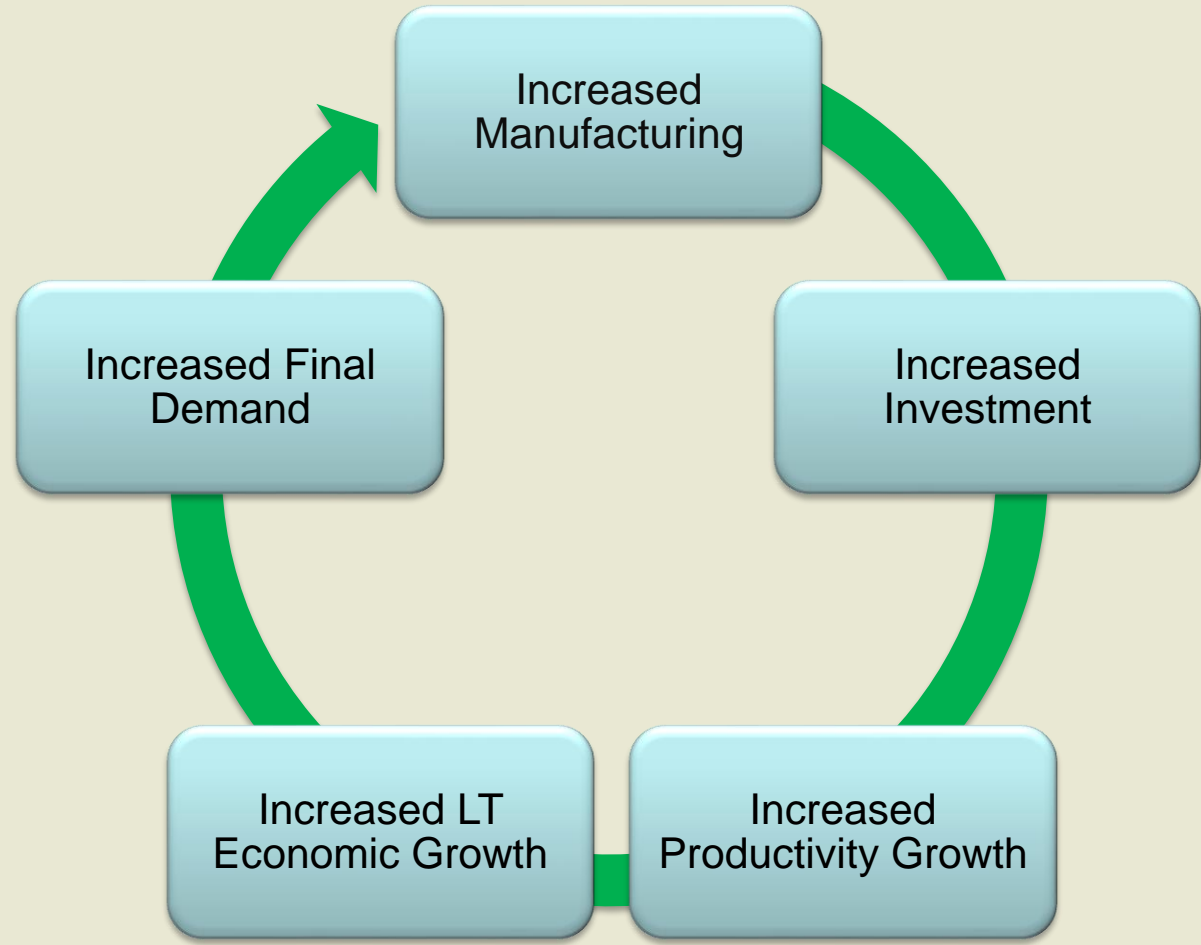
US Info Processing/ Software Investment Relative to GDP: 1947 - 2024

Chart Courtesy of Federal Reserve of St. Louis as of 9/5/2024



Manufacturing: Role In Economic Policy

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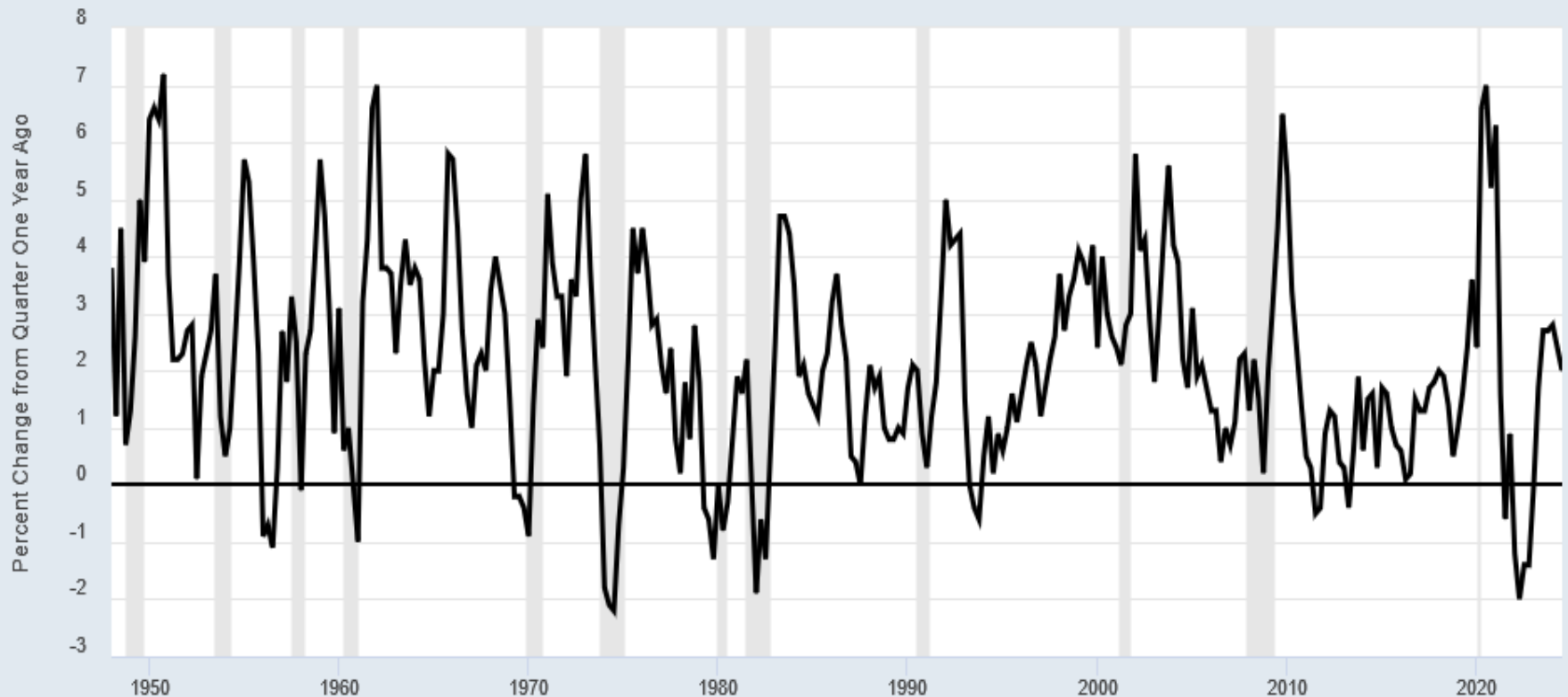


Non-Farm Business Sector Labor Productivity: 1947 - 2024

Chart Courtesy of Federal Reserve of St. Louis as of 11/7/2024

FRED

— Nonfarm Business Sector: Labor Productivity (Output per Hour) for All Workers



Shaded areas indicate U.S. recessions.

Source: U.S. Bureau of Labor Statistics

fred.stlouisfed.org

Free Trade vs. Fair Trade: Path Dependency

Path Dependency:

Economic Growth is Path Dependent.
A Nation's Allocation of Capital and Labor
Will Determine Future Economic Growth.
Maximizing Short Term Growth & Profits
Does Not Necessarily Maximize
Long Term Growth.

Free Trade vs. Fair Trade Choice: Walmart vs. Intel Workers

“The composition of our production and trade does influence our economic well-being. Technology-intensive industries, in particular, make special contributions to the long-term health of the American economy. A dollar’s worth of shoes may have the same effect on the trade balance as a dollar’s worth of computers. But... the two do not have the same effect on employment, wages, labor skills, productivity, and research – all major determinants of our economic health.”

Laura D’Andrea Tyson, 1993

President’s Council of Economic Advisors

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