BEYOND BORDERS INVESTMENT STRATEGIES

POTENTIAL CHANGE OF LEADERSHIP FROM US AND GROWTH STOCKS TO INTERNATIONAL AND VALUE STOCKS IN 2021-2023

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CATALYSTS FOR THE POTENTIAL BBIS OUTPERFORMANCE IN 2021-2023

- This report focuses on the potential QE tapering and other catalysts for the global stock market leadership change in 2021-2023
- **Historically Long Underperformance of International and Value Stocks: International** and/or **Value** stock portfolios were negatively impacted by the historically long combination of the underperformance of **International** vs. **US** stocks over the last eleven years and **Value** vs. **Growth** stocks over the last fourteen years [1 2]
- **Potential Change of Leadership:** We believe that there may be a change of leadership from **Growth** to **Value** stocks over the next two years *(see Slides 4-14 for comments on this topic)*
- We also believe that **International** stocks may start outperforming **US** stocks in 2021-2023 *(see Slides 15-42)*
- **Catalysts for the Reversion of the Stock Performance Trends:** On September 22, 2021, Federal Reserve Chair Jerome Powell said that that the Fed may start gradually tapering its Quantitative Easing (QE) program in 2021 and end the program, which has been used for infusing cash to stimulate the US economy during the COVID-19 pandemic, by the middle of 2022. The Fed may start raising interest rates in 2023 [3]
- In our opinion, the end of the QE would be very positive for **International** and **Value** stocks. This potentially positive development for **International** and **Value** stocks may impact the markets in 2022 or even at the end of 2021 because stock markets move in response to events projected to happen six to **Potentially Positive Developments for BBIS and Other International Value Investors:** We believe that BBIS portfolios would outperform not only **Growth** stocks but also the **Value** benchmarks because we have outsized positions in not just ETFs representing stock markets of the “regular value” countries but also of the “deep value” countries’ stock markets. These stock markets traded at very low valuations at the time of purchase i.e., one standard deviation below the average. It means that the stock markets historically traded at higher valuations 84% of the time prior to purchases by BBIS. The potential catalysts may lead to the expansion of valuations of the “regular value” and especially “deep value” markets to their long-term historical average levels and even above them

1. *US vs. International: S&P 500 Index (US Stock Market) cumulatively outperformed MSCI ACWI (All Country World) Equal Weighted Index by 235% from September 30, 2010, to August 31, 2021.*
2. *Growth vs. Value: Used Fama/French US Growth outperformed Fama/French Value index represented by the lowest and highest 30% of stocks ranked by their Book Equity-to-Market Equity due to their longest history. The Growth Index outperformed the Value index by 309% from June 2007 to June 2021 (the latest available).*
3. *Board of Governor of the Federal Reserve System, Transcript of Chair Powell’s Press Conference Transcript, Pages 3-4, September 22, 2021.*

POTENTIAL FUTURE OUTPERFORMANCE OF VALUE VS. GROWTH STOCK MARKETS

GROWTH STOCKS HAVE BEEN OUTPERFORMING RECENTLY, BUT VALUE ONES BEAT THEM IN THE LONG RUN

- **Value stocks dramatically Outperformed Growth Ones During the Last 95 years (June 30, 1926-Jun 30, 2021)** [1]
  - **Growth** stocks represented by the Fama/French US Growth portfolio increased in total by an impressive 863,983%.
  - **Value** stocks represented by the Fama/French US Value portfolio appreciated by a simply staggering 9,777,330%. This appreciation was **11.3 times** higher than that of **Growth** stocks! [1]
- **However, Growth stocks outperformed Value stocks during the last 14 years (June 30, 2007-June 30, 2021)**
  - **Growth** stocks appreciated by 460%, while **Value** stocks grew by only 150% [1]
- **(Some) Catalysts for Growth Stock Outperformance Over the Last 14 Years (Since June, 30 2007)**
  - The performance of the **Information Technology** sector, the largest **Growth** sector, was driven by explosive technological innovation (i.e., Apple's iPhone was invented in 2007)
  - Amazon and other online retailers benefitted from people's inability to leave their houses to buy goods during the pandemic
  - The performance of **Banks** and other **Financials**, the largest **Value** sector in the S&P 500 Index, was negatively impacted by increased regulations (i.e., Dodd-Frank Act in the United States)
  - Financial companies around the world were negatively affected by falling and/or very low interest rates because their profit margins shrank as interest rates fell due to the ongoing governmental monetary and fiscal stimulus policies (i.e., Quantitative Easing) aimed at fighting the Global Financial Crisis that started all the way back in 2008 [2] [3]
  - Stock markets of Foreign Developed and Emerging Market countries were more negatively impacted by low interest rates than the US market because the weight of the **Financials** sector in the former is lower than in the latter
    - As of August 31, 2021, the weight of the **Financials** sector in the S&P 500 Index was 11.2%, while it was almost twice that level in the MSCI EAFE Equal Country Index (All Developed Countries ex. US and Canada) – 20.6%, and three times in the MSCI Canada and MSCI Emerging Markets at 36.4% and 36.5%, respectively [4]
  - Quantitative Easing policies of infusing cash into the economy became one of the major catalysts for the **Growth** stock outperformance *(see discussion of this topic on Slides 6-8)*

1. *We used Fama/French US Growth and Value indices represented by the lowest and highest 30% of stocks ranked by their Book Equity-to-Market Equity. We used these US indices because of their longest available histories compared to other indices. The return data were downloaded on September 9, 2021.*
2. *Andrew Blumenthal, Investopedia, "These Sectors Benefit From Rising Interest Rates," January 2, 2020.*
3. *Laura Noonan & Robert Armstrong, Financial Times, "US Banks Set to Lower Forecasts as Falling Interest Rates Bite," September 8, 2019.*
4. *Sources of the Financials sectors' weights are Fact Sheets of the respective indices. All weights are as of August 31, 2021*

QUANTITATIVE EASING CAMPAIGNS ARE THE LARGEST CATALYSTS FOR THE GROWTH STOCKS SINCE THE GLOBAL FINANCIAL CRISIS

- **Massive Infusion of Capital Into the Economy:** The low rate policies were maintained and enhanced by the addition of the Quantitative Easing (QE) policies of the capital infusion in the economies via purchases of government bonds, asset-based mortgages, and other assets from commercial banks by Central Banks of countries around the world in their quest to stimulate their economies during the Global Financial Crisis (GFC) and COVID-19 pandemic. From the beginning of the GFC through August 31, 2021, the Fed increased its balance sheet by $7.46 trillion, or 29.4% of the $25.37 trillion increase in the market capitalization of the Standard & Poor's Index. [1,2] Just in response to the COVID-19 pandemic, the Fed increased its balance sheet by more than $4.17 trillion, or 100.4%, from $4.16 trillion on February 26, 2020, to $8.33 trillion on August 25, 2021. [1] While not all cash that the Fed infused into the economy ended up in shares of public equities, a healthy portion did. Why?
- **Stocks Became Very Attractive Compared to Other Asset Classes** for the following reasons:
  1. While the interest and returns on the safest financial instruments (i.e., Treasury bonds, CDs, corporate bonds) stayed low, investors have been buying stocks in their search for returns. This increased stock valuations.
  2. Earnings of companies increased, some would say artificially, because the companies received low-interest loans from the banks. The companies used cash to expand their operations through organic growth and acquisitions.
- **US Stocks Attracted Most Capital Inflows from Domestic Investors:** Most US institutional investors bought stocks of primarily domestic companies during the period. According to BlackRock, for example, the average international equity allocation dropped from 30% in 2018 to just 25.3% of the equity sleeve as of June 30, 2020, despite the weight of international and emerging market stocks in the MSCI ACWI (All Country World) Index being over 40% [3]
- **Below are several reasons for buying US stocks:**
  1. US investors expected that domestic companies would be more likely to receive loans from domestic banks, which those, in turn, received from the Fed
  2. US stock market is a "safe haven" market that attracts inflows from global investors during crises
  3. Most investors around the world feel more comfortable investing domestically or are required to do this by regulations. This is known as the "home country bias"

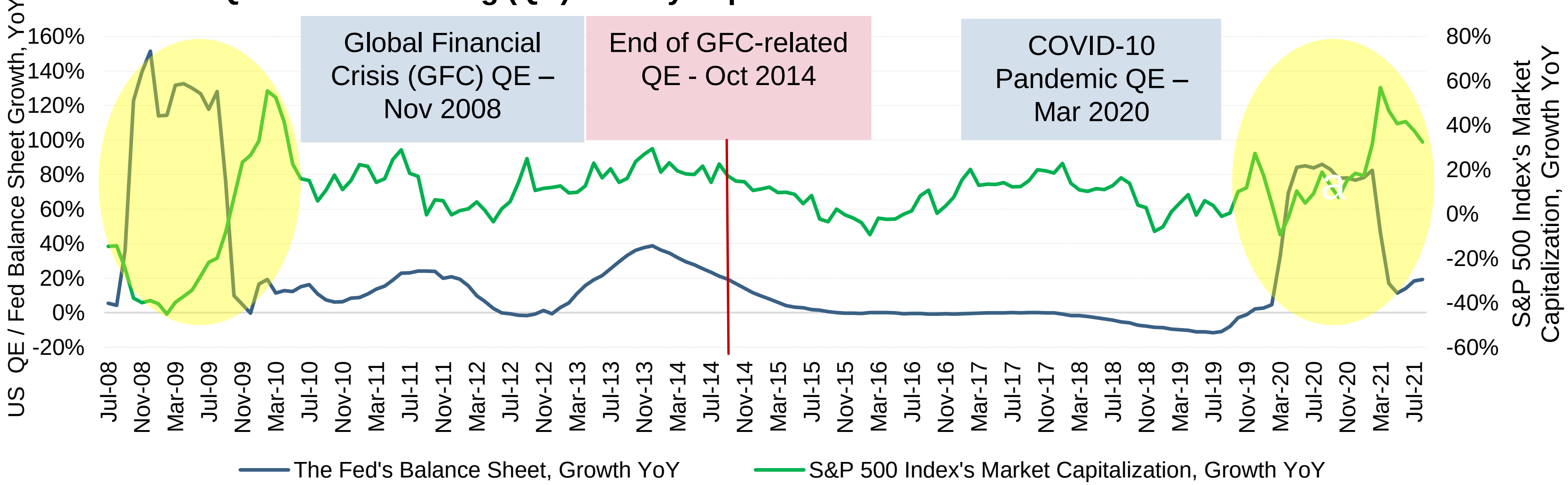
1. *Board of Governors of the Federal Reserve System, Credit and Liquidity Programs and the Balance Sheet, Recent Balance Sheet Trends. The Fed Balance Sheet was $870.3 billion on August 1, 2007. The Balance Sheet rose to $4.16 trillion before the COVID-19 response. The Balance Sheet's value skyrocketed to $8.33 trillion on August 25, 2021, in response to the COVID-19 pandemic.*
2. *Refinitiv. Standard & Poor's 500 Index' Market capitalization increased from $12.9 trillion on July 30, 2007, to $38.3 trillion on August 31, 2021.*
3. *Jeff Spiegel and Jennifer Delaney, BlackRock, "Why International," September 29, 2020.*

QUANTITATIVE EASING CAMPAIGNS HAVE BEEN A MAJOR DRIVER OF THE US STOCK MARKET PERFORMANCE

US Quantitative Easing (QE) Heavily Impacted Performance of the US Stock Markets

- The correlation between the growth of the Federal Reserve Bank's Balance Sheet with the growth of the S&P's market capitalization eight months later was very high (69%) from June 30, 2009, to August 31, 2021 [1 2]
- The QE explained almost half (48%) of the stock market performance during the period [3]

US Quantitative Easing (QE) Heavily Impacted Performance of the US Stock Markets [4]



1. *Board of Governors of the Federal Reserve System, Credit and Liquidity Programs and the Balance Sheet, Recent Balance Sheet Trends. Data are from July 30, 2007, to August 31, 2021.*
2. *Standard & Poor's performance from July 30 to August 31, 2021. Downloaded via Refinitiv*
3. *US QE is a statistically significant factor in determining the performance of the S&P 500 Index. R-squared coefficient of the regression with QE as the X variable and S&P 500 as Y variable is 48%.*
4. *For Dates of QE Programs: Wikipedia, "Quantitative Easing." Downloaded on September 20, 2021.*

QUANTITATIVE EASING CAMPAIGNS LIFTED PRICES OF GROWTH STOCKS IN THE US AND INTERNATIONALLY

Quantitative Easing Was a Boon for Growth Stocks in Particular: In the US, the massive inflows led to the dramatic increase of prices and valuations of stocks in the **Growth** sectors.

- The **Information Technology** sector *(see Slides 9-10 for details),* the largest US public equities and **Growth** sector, benefitted from the QE. As of the end of August 2021, the weight of the **Information Technology** sector in the Standard & Poor's 500 Index was 27.9%, or more than twice the weight of the **Health Care** sector (second largest) at 13.4%. [1] For comparison, on October 9, 2007 (Bull Market Peak Date after which the Index's price began declining due to the GFC) after which the sector started to decline due to the GFC, and the QE and other stimulus programs started shortly), the weight of the **Information Technology** sector was just 16.20%. [2] The **Information Technology** sector's weight increased by more than **72.2%** over the period [1 2]
- The **Consumer Discretionary** and **Communications Technologies** are the other two sectors that are considered **Growth** sectors. The **Consumer Discretionary** sector, which includes such iconic companies as Amazon and Tesla, and the **Communications Technologies** sector, which includes such companies as Facebook and Google (Alphabet), are the third and fourth largest sectors of the S&P 500 Index responsible for 11.9% and 11.5% of the Index's weight (as of August 31, 2021). [1] Their weights also grew from October 9, 2007. The weight of the **Consumer Discretionary** sector grew by **27.3**% from 9.4%, and the Communications Technologies sector's weight increased by spectacular **214.1%** from 3.7% on October 9, 2007 [1 2]
- Even not including Growth stocks in other sectors, **Information Technology**, **Consumer Discretionary,** and **Communications Technology** sectors were responsible for 51.3% of the S&P 500 Index's weight as of August 31, 2021, up **75.6**% since 2007 [1]
- Since the GFC start, foreign investors, seeing or anticipating dramatic growth of the **US Growth** stocks, bought US equities, especially Growth stocks, further driving up their prices
- As the domestic and international investors were buying the **US Growth** stocks, they were also buying stocks of these companies' international competitors and suppliers, thus leading to the rally among foreign **Growth** stocks
- QE policies in the Eurozone and Japan led to stock price increases of **Growth** stocks in these geographies. The weight of just the three **Growth** sectors mentioned above (not including **Growth** stocks in other sectors) represented 37.0% of the MSCI EMU (European Monetary Union) Index and 41.4% of the MSCI Japan Index as of August 31, 2021. [3 4] The weight of these sectors within the MSCI EAFE Equal Country Index, which includes both the European Union countries and Japan was 27.1% [5]

1. *S&P Dow Jones Indices, "Fact Sheet: S&P 500 Index," August 31, 2021.*
2. *S&P Dow Jones Indices, S&P 500, Documents, Additional Info, "S&P 500 Sector Representation Excel File." Downloaded on September 15, 2021.*
3. *MSCI, "Fact Sheet: MSCI EMU Index, August 31, 2021.*
4. *MSCI, "Fact Sheet: MSCI Japan Index," August 31, 2021.*
5. *MSCI, "Fact Sheet: MSCI EAFE Index," August 31, 2021.*

CURRENT GROWTH STOCKS' VALUATIONS ARE EXTREMELY HIGH IN ABSOLUTE TERMS AND VS. HISTORY

- Valuations of the Top 10 Constituents of MSCI ACWI (All Country World) Growth Index, NASDAQ 100 Index, and "FAANG" Stocks are All High in large part as a result of the QE inflows and increased demand due to the COVID-19 pandemic (i.e., Amazon).

Price to Earnings Ratios,

Top 10 Companies of the MSCI ACWI Growth Index Plus Netflix [1]

Companies	Tickers	Price to 12 Month Trailing Earnings
Tesla	TSLA	398.6
NVIDIA	NVDA	80.0
Netflix	NFLX	62.2
Amazon.com	AMZN	61.3
Visa A	V	46.2
Microsoft	MSFT	37.2
Taiwan Semiconductor Mfg	TSM	31.8
Alphabet (Class C)	GOOG	31.5
Alphabet (Class A)	GOOGL	31.2
Apple	APPL	30.4
Facebook	FB	28.1
MSCI ACWI Growth Index	Current	35.3
MSCI ACWI Growth Index	Average	23.6
Current Higher than Average	by…	50%
NASDAQ 100 Index	Current	35.7
NASDAQ 100 Index	Average	29.8
Current Higher than Average	by…	20%

1. *Stock Valuations - Yahoo Finance. The valuations were downloaded from 11:42 AM to 11:45 AM on September 9, 2021. Netflix is included because it is the remaining member of the "FAANG" group, which stands for "Facebook, Amazon, Apple, Netflix, Google."*
2. *Refinitiv. Current valuations referred to values on August 31, 2021. Average valuations represent the 21st-century ones and are calculated for the period from December 31, 2021, to August 31, 2021.*

VALUATIONS OF GROWTH STOCKS ARE ALSO AT RECORD HIGH LEVELS VS. THOSE OF VALUE STOCKS

QE Led to Higher Valuations of Growth Stocks: During the QE, large cash infusions in the economy led to lower interest rates in the economy and lower Treasury bond yields that resulted in higher valuations of **Growth** stocks than **Value** stocks *(see the explanation in the footnote below)* [1]

Relative Valuations - Russell 3000 Growth vs. Russell 3000 Value
Forward 12 Month P/E Ratios [2]

1. The lower interest rates during the QE led to lower discount rates used in valuing stock prices. In the valuation models, the interest rates impact the risk-free rates, often the US Treasuries yields. While the lower risk free-rates led to higher valuations of all stocks, they were more beneficial for valuations of Growth rather than Value stocks. For Growth stocks, most estimates of future dividends, earnings, and cash flows, which are usually much larger than the current ones – hence the term “Growth” – come in later years and are discounted over more periods than the same estimates for Value stocks. For Value stocks, these estimates start from earlier years. Although they do not show the same projected growth as the ones for Growth stocks, these Value estimates for the earlier years are discounted over fewer periods, making them less sensitive to the discount rates.
2. *Price to Earnings Ratios of Russell 3000 Growth and Russell 3000 Value Indices – Datastream. Valuations are for the period from January 31, 2002 to August 31, 2021. Relative valuations are calculated by dividing P/E ratios for Russell 3000 Growth Index by the Russell 3000 Value ratios.*

BUT THE QUANTITATIVE EASING IS LIKELY TO END IN THE FORESEEABLE FUTURE

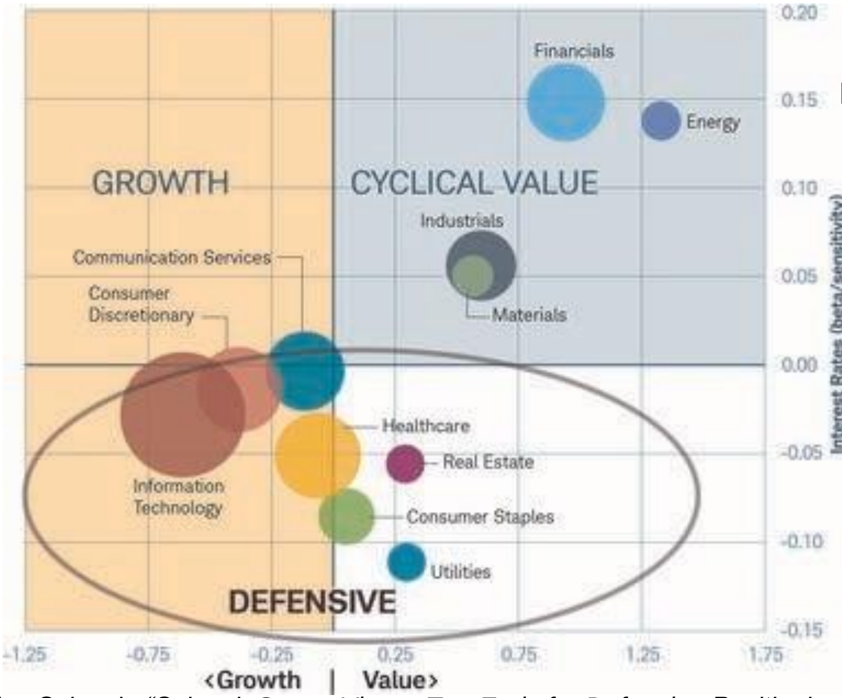
- **The end of Quantitative Easing and Interest Rate Hikes Are Coming…:** In his speech in Jackson Hole on August 27, 2021, Federal Reserve Bank's Chairman Jay Powell said that "he was one of the majority of Fed officials who believe the central bank can "taper" or slow down the pace of its bond purchases this year" in response to satisfactory economic recovery (reflected by increasing inflation over its 2% target) and positive employment trend [1]
- Mr. Powell had not given a clear indication on when the Fed was planning to start raising rates. Instead, he reiterated the Fed's goals for the rate liftoff, "We have said that we will continue to hold the target range for the federal funds rate at its current level until the economy reaches conditions consistent with maximum employment, and inflation has reached 2 percent and is on track to moderately exceed 2 percent for some time" [2]
- **…And They Are Coming Sooner Than Expected:** However, during his press conference on September 22, less than a month after his August speech, Mr. Powell moved up the timeline of ending the easy-money policies and gave potential timing of the interest rate hike liftoff
- Now the Fed plans to start tapering the program of purchasing $120 billion worth of bonds per month in November (if the September employment report does not disappoint) and to end the program by the middle of 2022 [3]
- The Fed's Chair also shared that all but one participants of the Federal Open Market Committee (FOMC) committee members believe that the right conditions for the interest rate increases would be reached in 2023, and half of the participants think that they would be reached by the end of 2022 [4]
- **Primary Reason for The Potential Interest Rate Hike:** Rising inflation is the main reason for the interest rate liftoff
- The Fed expects the Personal Consumption Expenditures (PCE) inflation rate to reach 4.2% in 2021, 2.2% in 2022, and 2.1% in 2023 [4]
- **AT BBIS**, we are not convinced that inflation would be that low in 2022 and 2023 due to its many root causes (i.e., extremely high money supply, changes to the global corporate supply chains that are not likely to be implemented in months but rather in years, risks of transportation bottlenecks due to the COVID-19 pandemic and other factors such as the shortage of the commercial vehicle drivers that may not be resolved over the next two years)

1. *Greg Robb, Market Watch, "Fed Chair Powell Says He Supports Starting to Taper Bond Purchases This Year," August 27, 2021.*
2. *Jerome H. Powell, Board of Governor of the Federal Reserve System, "Monetary Policy in the Time of COVID," Speech Transcript, August 27, 2021.*
3. *Howard Schneider & Jonnelle Marte, Reuters, "Fed Signals Bond-Buying Taper Coming 'Soon,' Rate Hike Next Year," September 22, 2021.*
4. *Board of Governor of the Federal Reserve System, Transcript of Chair Powell's Press Conference Transcript, September 22, 2021.*

VALUE STOCKS ARE LIKELY TO BENEFIT FROM THE QE TAPERING AND INTEREST RATES INCREASES

- Either tapering of Quantitative Easing (QE) or outright interest rate liftoff are catalysts for **Value** stocks in the **Industrials, Materials** and especially, **Financials** & **Energy** sectors in *2021-2023 (see the upper right quadrant in the chart below)*
- These potentially positive developments may impact the markets in 2022 or even at the end of 2021 because stock markets often move based on the events projected to happen six to nine months in the future

Stock Sectors' Sensitivities to Interest Rates



These sectors do well when the interest rates are growing, usually when the US economy is growing fast

Image Source: David Kastner, Charles Schwab, "Schwab Sector Views: Too Early for Defensive Positioning," August 19, 2021. Factor betas/sensitivities for the S&P 500 sectors are based on a 5-year regression of weekly data from July 31, 2016, to July 31, 2021, as calculated by Bloomberg. Bubble size correlates to the market capitalization of each sector.

POTENTIAL MONETARY CATALYSTS FOR THE FUTURE VALUE STOCK OUTPERFORMANCE OVER GROWTH STOCKS

- **Potential Increase in Interest Rates Would Be Positive for the Financial Sector:** (mostly **Value** stocks)
  - Financial stocks tend to perform well in absolute and relative terms when interest rates increase [1]
  - Even the beginning of tapering, without any interest rate increases by the Fed, may become a positive catalyst for the **Financials** sector. The Treasury and bond yields would most likely start climbing in response to inflationary pressures and the US government's higher budget and debt deficits after the yields were kept artificially low by the QE cash infusions
  - Currently, interest rates are very low or even negative in a number of major economies. [2]
  - Some or all major countries may have to increase interest rates to curb inflation if the economic recoveries from COVID-19 become robust

Interest Rates in Countries and Blocs Responsible for 5% of the World's GDP [2]

Countries / Blocs	USA	China	Eurozone	Japan
Interest Rates, %	0-0.25	3.85	0.00	-0.10

- **Higher Interest Rates Are Positive Not Only to the Financials Sector but Other Value Stocks (i.e., Energy, Industrials, and Materials):** Higher Fed interest rates more negatively impact values of **Growth** stocks because they lead to higher discount rates used to determine equity values. Higher interest rates or even QE tapering lead to higher Treasury yields that serve as risk-free components of the overall discount rates. **Growth** stocks usually have lower (compared to **Value** stocks) projected dividends, earnings, and cash flows in the near future (measured in years). **Growth** stocks are dependent on fast growth many years into the future, and most of their dividends, earnings, and cash flows are projected further in the future. To calculate prices of their equities today, investors need to discount these dividends, earnings, or cash flows to today using discount rates. The higher rates they use to discount dividends, earnings, or cash flows projected far in the future, the lower the stock values today. The major difference between **Growth** and **Value** stocks is that **Value** stock's dividends, earnings, or cash flows, while not as spectacularly growing as those for **Growth** stocks, are projected to start in the near future. These estimates for the upcoming several years for **Value** stocks have to be discounted over fewer periods, making these stocks less negatively impacted by increasing interest rates than **Growth** stocks

1. *Andrew Blumenthal, Investopedia, These Sectors Benefit From Rising Interest Rates, January 2, 2020.*
2. *Trading Economics, Interest rates are for countries and blocs responsible for 5%+ of the world's GDP. The interest rates were downloaded on September 9, 2021.*

POTENTIAL COMMODITY DEMAND CATALYSTS FOR THE FUTURE VALUE STOCK OUTPERFORMANCE OVER GROWTH STOCKS

- **The rebuilding of corporate supply chains** is likely to be a catalyst for the **Value** stocks in such sectors as the **Materials, Energy**, and **Industrials**. The China-based supply chains were negatively impacted by the uncertainty caused by the US-China trade war in 2018-2020 and the COVID-19 pandemic in 2020-2021. As countries around the world are gradually reopening their economies, executives of manufacturing companies are likely to address problems with their companies' supply chains during the pandemic. They are likely to realign the chains by moving production out of China (China Plus One strategy) to other Asian countries, home countries, or low-cost countries in their regions *(see also Slide 22 for the discussion of the transformation of global supply chains)*
- The executives are likely to decide where to build factories, thus, increasing demand for **Value** companies in the **Materials**, **Industrials**, and **Energy** sectors and potentially leading to their stock price outperformance.
- The construction would be financed by bank loans, stock issuance, and other forms of financing, which may benefit the **Financials**
- **The higher weight of Value stocks in stock market indices of International Developed Countries and Emerging Markets indices makes them more likely to benefit from the potential Growth-to-Value stock market leadership change.**
  - The combined weight of four **Value** sectors (**Materials**, **Energy**, **Industrials**, and **Financials**) in the MSCI EAFE Equal Country Index, which includes all developed countries except for the USA and Canada, is 46.4%. It is more than twice the weight of the three **Growth** sectors (**Information Technology**, **Consumer Discretionary**, and **Communications Technology**) of 21.5% [1] The difference in weights of **Value** and **Growth** sectors is even more pronounced in the MSCI Emerging Market Equal Country index: 59.3% vs. 24.7%. **Value**'s weight is 2.4 times the weight of **Growth** sectors. [2] For comparison, the weight of the three **Growth** sectors in the S&P 500 Index was 51.3%, or more than twice as high as that of the **Value** sectors (24.4%) [3]
- **Factories May Be Moved Out of China to Other Geographies** by Western companies for other reasons, such as in response to China's lack of Intellectual Property protection, regulatory red tape for western corporations, human rights abuses, or confrontational foreign policy. This development may become a catalyst for companies in the **Industrial**, **Energy**, and **Materials** sectors
- **Potential US Infrastructure Construction Bill and Democrat Budget Reconciliation Package** would increase demand for **commodities**, construction materials, and energy. Once again, these legislative pieces, if adopted, would be catalysts for companies in the **Industrials**, **Energy**, and **Materials** sectors. The first bill is estimated to be in the $1.0-1.5 trillion range, while the second is around $3.5 trillion [4]

1. *MSCI, "Fact Sheet: MSCI EAFE Equal Country Index," August 31, 2021*
2. *MSCI, "Fact Sheet: MSCI Emerging Markets Equal Country Index," August 31, 2021.*
3. *S&P Dow Jones Indices, "Fact Sheet: S&P 500 Index," August 31, 2021.*
4. *.Richard Cowan and Susan Cornwell, Reuters, "U.S. Senate Pivots to $3.5 Trillion Bill, Key to Biden's Agenda," August 10, 2021.*

POTENTIAL FUTURE OUTPERFORMANCE OF INTERNATIONAL VS. US STOCK MARKETS

US STOCK MARKET CANNOT OUTPERFORM FOREIGN MARKETS FOREVER

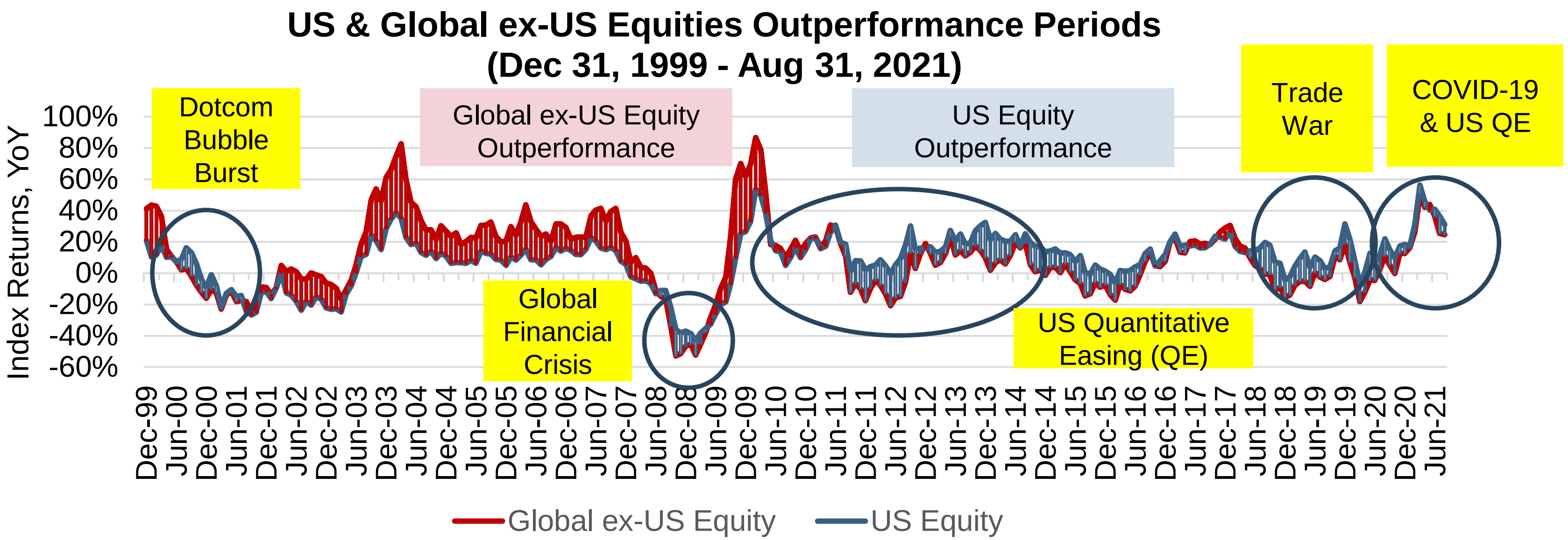
- **US Financial Assets Are Often More Attractive During Crises and While The Fed Pumps Cash into the Economy via Quantitative Easing (QE) Programs to Fight Crises' Aftershocks** *(see the chart on the next slide)*
  - **Safe Haven:** US stock market is a "safe haven" market where investors from all over the world move assets during crises, such as the US-China Trade War and COVID-19 Pandemic
  - **Powerful, Decisive, and Alert Central Bank:** The US Fed has the largest balance sheet and is willing to use its power in a timely manner to stimulate the US economy during crises by lowering interest rates or infusing billions of dollars through the QE programs
    - In response to the Global Financial Crisis (GFC) of 2007-2009, the US Fed infused almost $4 trillion into the economy by purchasing bonds and other financial instruments from November 2008 to October 2014 [1]
    - For comparison, the European Central Bank (ECB) started the QE program with a major delay only in January 2015 (after the Fed had already ended its QE program) and infused $3 trillion in the bloc's economy by December 2018 [2,3]
- **From the GFC's Beginning Until Today, US Stock Market Has Been Outperforming International Markets**
  - **US Outperformance During Crises:** From October 31, 2007, to August 31, 2021, **US** equities outperformed **International** equities in 93 out of 166 months (56.0%), while **International** equities topped **US** equities only during 73 months (44.0%) [4]
  - **International Outperformance Between Crises:** After the Internet Bubble bursting and the market peak prior to the GFC (from March 31, 2000, to October 30, 2007), **International** equities outperformed **US** equities during 63 out of 91 months (69.2%), while **US** equities outperformed **International** during 28 months (30.8%) [4]
  - **Global Diversification Works**: Overall, in the 21st century, from January 1, 2000, to August 31, 2021, the performance of **US** and **International** equities has been much more balanced, with US equities outperforming during 122 months out of 260 months (46.9%) and International markets outperforming during 138 months (53.1%) [4]

At BBIS, We Believe That the End of the COVID-19 and QE Programs Designed to Help the US Economy Recover from the Pandemic Would Contribute to the International Equities' Outperformance

1. *Kimberly Amadeo and Michael J. Boyle, The Balance, "Explaining Quantitative Easing (QE)," June 27, 2021.*
2. *Ritvik Carvalho, Dhara Ranasinghe &Tommy Wilkes, Reuters, "The Life and Times of ECB Quantitative Easing," December 12, 2018.*
3. *Wikipedia, Quantitative Easing. Downloaded information on September 9, 2021. The ECB engaged in the large-scale purchase of covered bonds in May 2009 and purchased around 250 billion euros of sovereign bonds from targeted member states in 2010 and 2011. "However, the ECB refused to openly admit they were doing quantitative easing until 2015."*
4. *Refinitiv. International Equity monthly returns - MSCI ACWI ex USA Equal Weighted Index, US Equity returns – Standard & Poor's 500 Index.*

POTENTIAL INVESTMENT MARKET CATALYST FOR INTERNATIONAL MARKETS: CAPITAL LEAVES "SAFE HAVENS" (US) AFTER RECESSIONS

- Investors can increase their total portfolio returns by investing in both **US** and **International** equities
  - Global ex-US equities outperformed for long periods (48.1% of the time on the Year-over-Year basis *(see below)* and 53.1% on the Month-over-Month basis during the 21st century)
  - Global ex-US equities are more likely to outperform (less risky) US equities during non-crisis periods, especially right after crises
- International diversification can not only increase returns but also reduce the volatility of investment portfolios



Source: Refinitiv. The Global ex-US Equity returns are represented by those of the MSCI ACWI ex USA Equal Weighted Index, US Equity returns – by the Standard & Poor's 500 Index. Data are from December 31, 1999, to August 31, 2021.

POTENTIAL INVESTMENT MARKET CATALYST FOR INTERNATIONAL MARKETS: VALUE OUTPERFORMS GROWTH DURING RECOVERIES

- **Value Stocks Tend to Outperform Growth Stocks During Recessions and Recoveries from Recessions**
  - In the US, during six recession recoveries (two years after the recessions' troughs) since 1963, "value outperformed the market in five [recoveries], each time by double digits; the average cumulative outperformance was 24%" [1]
  - **Performance Drivers: Value** stocks tend to outperform **Growth** stocks mainly due to the sentiment and valuations reversion [1]
- **We Believe That Value Outperforms Growth During Recoveries from Recessions Not Only in the US but Worldwide**
  - **Performance Drivers –** sentiment and value reversion - are universal, and in our opinion apply to all countries
- **The Potential Value Outperformance May Help International Stocks Outperform versus US Stocks:** Value stocks have higher weights in the International Developed and Emerging Markets vs. the US stock market indices *(see Slide 21 for the Indices' weights)*
- **Most Countries Around the World Are Either Fighting the COVID-19 Induced Recessions or Recovering from Them. As the Countries Recover, Their Markets, Especially Inexpensively Priced, Are Likely to Perform Well in 2021-2024**
  - According to the International Monetary Fund (IMF), only six countries out of 49 in the BBIS' universe managed to either avoid COVID-related recessions in 2020 or had the recessions so shallow that the 2020 GDPs exceeded the countries' pre-pandemic 2019 GDP levels (*see the first six countries in the first column of the chart on Slide 19)*
  - US recession lasted two months (February and March) and ended in April 2020 [2]
  - China's downturn lasted three months (January-March) and ended in April 2020 [3]
  - Eurozone's economy recovered from the double-dip recession only in Q2 2021 [4]
  - Japan barely got out of the recession by eking out positive growth of 0.3% in Q2 2021 [5]
  - Emerging markets grow unevenly in 2021, with many impacted by high COVID-19 infection rates [6]
  - Overall, 28 countries in BBIS' 49-country universe are projected to achieve their pre-pandemic levels only in 2022-2024 [7]

1. *Vitali Kalesnik and Ari Polychronopoulos, Research Associates, "Value in Recessions and Recoveries," June 2020. The paper uses the Growth-heavy S&P 500 Index for the stock market proxy.*
2. *National Bureau of Economic Research (NBER), Business Cycle Dating Committee Announcement, July 19, 2021*
3. *BBC News, "Coronavirus: Chinese Economy Bounces Back into Growth," July 16, 2020.*
4. *Euronews, "Europe's Economy Bounces Back from a Double-Dip Recession," July 30, 2021.*
5. *Yuri Kageyama, AP, "Japan Ekes Out Economic Growth in Recovery from Pandemic," August 15, 2021*
6. *The World Bank, "Global Recovery Strong but Uneven as Many Developing Countries Struggle with the Pandemic's Lasting Effects," June 8, 2021.*
7. *Beyond Border Investment Strategies' analysis based on the IMF Real (Inflation-Adjusted) GDP projection rates for 2020-2024.*

POTENTIAL INVESTMENT MARKET CATALYST FOR INTERNATIONAL MARKETS: AS NATIONS RECOVER, INVESTMENT SENTIMENT IMPROVES

- Prices of stock markets of countries that were hit by the pandemic especially hard may increase in the future. They may do it after markets of countries that handled the pandemic the best and are already expensive. Most countries are within the two years after the recessions' troughs, the period when **Value** often outperforms **Growth** *(see the first point on the previous page).* In our opinion, **Value** stocks are likely to outperform in the majority of these countries over the next several years. However, investors need to be selective and try to identify country-specific negative factors that may impact the countries' stock markets

Inflation-Adjusted GDP Forecasts by Year

N	Countries	2020 GDP vs. 2019 GDP	2021 GDP vs. 2019 GDP	2022 GDP vs. 2019 GDP	2023 GDP vs. 2019 GDP	2024 GDP vs. 2019 GDP
1	Egypt	3.6%				
2	Taiwan	3.1%				
3	Vietnam	2.9%				
4	Ireland	2.5%				
5	China	2.3%				
6	Turkey	1.8%				
7	India	-8.0%	3.6%			
8	Norway	-0.8%	3.1%			
9	United States	-3.5%	2.7%			
10	Korea	-1.0%	2.6%			
11	Israel	-2.4%	2.5%			
12	Indonesia	-2.1%	2.1%			
13	Australia	-2.4%	2.0%			
14	Pakistan	-0.4%	1.1%			
15	New Zealand	-3.0%	0.9%			
16	Nigeria	-1.8%	0.7%			
17	Poland	-2.7%	0.6%			
18	Russia	-3.1%	0.6%			
19	Malaysia	-5.6%	0.5%			
20	Switzerland	-3.0%	0.4%			
21	Sweden	-2.8%	0.2%			
	…					

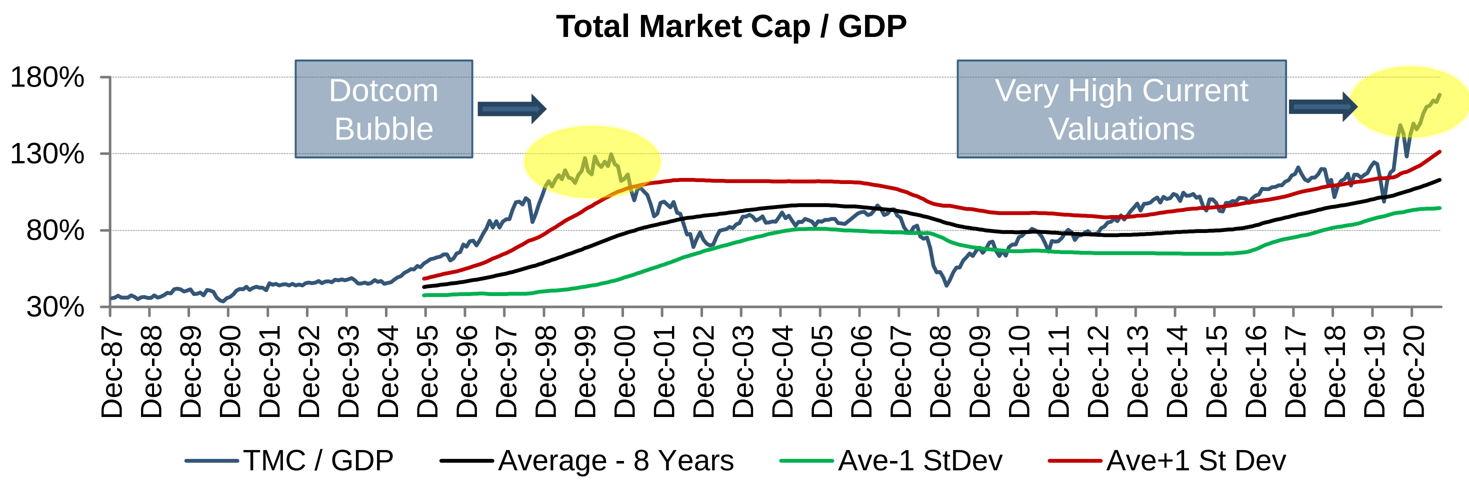
N	Countries	2020 GDP vs. 2019 GDP	2021 GDP vs. 2019 GDP	2022 GDP vs. 2019 GDP	2023 GDP vs. 2019 GDP	2024 GDP vs. 2019 GDP
	…					
22	Canada	-5.4%	-0.6%	4.0%		
23	Chile	-5.8%	0.0%	3.8%		
24	Qatar	-2.6%	-0.3%	3.3%		
25	Philippines	-9.5%	-3.3%	3.0%		
26	Singapore	-5.4%	-0.5%	2.7%		
27	Saudi Arabia	-4.1%	-1.3%	2.6%		
28	Netherlands	-3.8%	-0.4%	2.6%		
29	Denmark	-3.3%	-0.6%	2.2%		
30	Brazil	-4.1%	-0.6%	2.0%		
31	Germany	-4.9%	-1.5%	1.9%		
32	Finland	-2.9%	-0.7%	1.8%		
33	Thailand	-6.1%	-3.7%	1.8%		
34	Hong Kong SAR	-6.1%	-2.1%	1.6%		
35	Colombia	-6.8%	-2.1%	1.5%		
36	Peru	-11.1%	-3.6%	1.4%		
37	France	-8.2%	-2.9%	1.2%		
38	Japan	-4.8%	-1.7%	0.7%		
39	Portugal	-7.6%	-4.0%	0.6%		
40	Austria	-6.6%	-3.3%	0.5%		
41	Belgium	-6.4%	-2.6%	0.4%		
42	Greece	-8.2%	-4.8%	0.0%	2.3%	
43	United Arab Emirates	-5.9%	-3.0%	-0.5%	2.1%	
44	Spain	-11.0%	-5.3%	-0.8%	1.9%	
45	United Kingdom	-9.9%	-5.1%	-0.3%	1.7%	
46	Mexico	-8.2%	-3.6%	-0.8%	1.4%	
47	Argentina	-10.0%	-4.7%	-2.3%	-0.3%	1.4%
48	Italy	-8.9%	-5.1%	-1.7%	-0.1%	0.8%
49	South Africa	-7.0%	-4.1%	-2.2%	-0.8%	0.5%

- Developed Countries – Blue
- Emerging & Frontier Markets – Green
- Years After a Country's GDP Reached Its 2019 Level – Yellow

Source: IMF, World Economic Outlook Database, April 2021. GDPs are measured in constant (inflation-adjusted) units of local currencies.

POTENTIAL INVESTMENT MARKET CATALYST FOR INTERNATIONAL MARKETS: ATTRACTIVE VALUATIONS VS. US MARKET

- **High US Market Valuations May Slow Stock Price Growth and Make the Market More Vulnerable to a Correction:** Compared to each stock market's historical valuations, current US stock market valuations are higher than those of 40 international markets in BBIS' 49-country universe. The Standard & Poor's 500 Composite Index's current valuation is 50% higher than the Index's 8-year average measured by the Buffett Indicator: Stock Market Capitalization / GDP [1] *(see the chart below)*
  - Prices of stocks trading at high valuations are more likely to drop due to unexpected negative surprises than prices of stocks trading at low valuations
  - For example, the US stock markets' prices and valuations may grow slower or drop due to higher-than-expected inflation that could negatively impact the US companies' expected earnings growth and inability to pass 100% of inflation increases to customers *(see the discussion of inflation on Slides 25-27)*
- **High-Beta Country Stock Outperformance During Recovery:** Global recovery from the COVID-19 pandemic can lead to outperformance by riskier countries driven by higher demand for their goods and commodities, and low valuations of their stock markets



1. *Beyond Borders Investment Strategies. To compare countries, we used "Stock Market Capitalization / GDP" valuations as of August 31, 2021, versus their 8-year historical valuation averages for each country. US stock market was represented by S&P 500 Index.*

POTENTIAL COMMODITY DEMAND CATALYSTS FOR INTERNATIONAL STOCK MARKETS: US INFRASTRUCTURE SPENDING

- **Infrastructure Bill and Democrat Budget Reconciliation Package are Potential Boons for the Materials, Industrials, and Energy Sectors That All Have High Weights in the International and Emerging Markets Indices**
- The combined weight of these three sectors in the MSCI EAFE Equal Country Index was 25.7%, in the MSCI Canada Index – 34.2%, and in the MSCI Emerging Markets Equal Country Index - 22.8% as of August 31, 2021. For comparison, it was only 13.2% in the S&P 500 Index. [1 2 3 4]
- In addition, the upcoming potential construction projects would be financed by companies in the Financials sector, which has higher weight in stock indices of foreign developed and emerging markets. For example, the weight of the Financials in the MSCI EAFE Equal Country Index was 20.6%, MSCI Canada – 36.4%, and MSCI Emerging Markets Equal Country Index – 36.5% as of August 31, 2021. For comparison, the weight of the Financials sector in the S&P was just 11.2%. [1 2 3 4]
- The potential passage of the $1.2 trillion Infrastructure Bill, which has the support of both Democratic and Republican lawmakers, through the US Congress is likely to result in higher demand for metals, other commodities and industrial components of infrastructure, and energy needed for producing materials for the construction projects and construction itself
- The potential passage of the $3.5 trillion Democrat Budget Reconciliation Package for the next decade may become another catalyst [1 2] The Plan may or may not be approved by the Senate and Congress. The Plan is not likely to receive a single Republican vote in either the almost equally divided Congress or the equally divided Senate. Also, several moderate Democratic Senators and Congress people oppose the size of the Plan.
- The Plan's following pieces would be supportive for the **Materials**, **Industrials**, and **Energy** sectors [2 3]
  - The construction portion of investments in the public housing, the Housing Trust Fund, housing affordability, and equity and community land trusts - $332 billion altogether
  - Funds dedicated to the development of clean energy - $198 billion
  - Investments in the funding of low-income solar and other climate-friendly technologies - $67 billion

1. *S&P Dow Jones Indices, "Fact Sheet: S&P 500 Index," August 31, 2021.*
2. *MSCI, "Fact Sheet: MSCI EAFE Equal Country Index," August 31, 2021.*
3. *MSCI, "Fact Sheet: MSCI Canada Index," August 31, 2021.*
4. *MSCI, "Fact Sheet: MSCI Emerging Markets Equal Country Index," August 31, 2021.*
5. *Richard Cowan and Susan Cornwell, Reuters, "U.S. Senate Pivots to $3.5 Trillion Bill, Key to Biden's Agenda," August 10, 2021.*
6. *Jim Probasco, Investopedia, "Understanding the Infrastructure Bills," August 11, 2021.*
7. *U.S. Senate, "H. R. 3684 - Infrastructure Investment and Jobs Act." Accessed August 23, 2021.*

POTENTIAL COMMODITY DEMAND CATALYSTS FOR INTERNATIONAL STOCK MARKETS: GLOBAL SUPPLY CHAIN REALIGNMENT

- **Global Supply Chain Rebuilding is Positive for Companies in the Materials, Industrials, Energy, and Financials Sectors So Prevalent in Stock Indices of International Developed Countries and Emerging Markets**

- **Many corporations have started moving their manufacturing facilities located in China in response to:**
  - Lack of intellectual protection;
  - Increasing labor costs; and
  - Deficits of various goods in home countries or home regions during the pandemic (i.e., masks, ventilators, computer chips)
- **Corporations have started responding by diversifying their supply chains by bringing production to**:
  1. Low-Cost Asian countries by employing “China Plus One” strategy;
  2. Home Countries; or
  3. Low-Cost Countries in Their Regions
  - “China Plus One” strategy of spreading production between China and a Southeast Asian country such as Vietnam, Indonesia, or Thailand is a popular first step, but it is not bulletproof [1]
    - Problem 1: This strategy is susceptible to the regional crises (i.e., the SARS epidemic in 2002-2003 impacted a number of Asian countries, including China, Vietnam, and Thailand)
    - Problem 2: Due to the high catch-up demand, international shipping rates increased dramatically
  - Companies began moving production to their home countries to reduce transportation costs, receive political support, and increase sales in home markets
  - Companies started moving low-tech production to countries with low labor costs within their regions
    - North America: Corporations move tasks from China to Mexico and Central America [1]
    - Western Europe: Tasks move to eastern EU countries, Turkey, and former Soviet republics [1]
    - China: Companies are moving production to Egypt, Ethiopia, Kenya, Myanmar, and Sri Lanka [1]

1. Willy C. Shih, Harvard Business Review, “Global Supply Chains in the Post-Pandemic World,” September – October 2020. .

POTENTIAL CURRENCY CATALYSTS FOR INTERNATIONAL STOCK MARKETS: US DOLLAR DEPRECIATION - 1

- **International Equities Tend to Benefit from the Weak US Dollar (USD)**
  - Foreign countries and corporations have to pay less in their currency units on the USD-denominated loans
  - They have to sell fewer units of commodities or goods to get the same amount of dollars when the USD is weak
  - For the US investors, the performance of international stock markets receives a boost from the appreciation of their currencies vs. the USD

- **The USD May Potentially Depreciate vs. Other Currencies in 2021-2023 Due to Seven Factors [1]**

1. **Rising Attractiveness of International Assets When COVID-19 Pandemic is Mostly Over:** The end of the COVID-19 pandemic may result in the US Dollar depreciation vs. other currencies
   - During crises, investors move their funds into the USD-denominated "safe-haven" assets to reduce the riskiness of their portfolios. As the current crisis ends, investors may look for value outside of the US
   - The US has been one of the world's leaders in terms of vaccinations. As more foreign countries catch up, the attractiveness of their economies and assets (including currency) may increase to global investors
2. **Boost for International Currencies Due to Rising US Consumption and Higher Trade Deficit:** A relatively stronger US economy is positive for international currencies. The US consumers and businesses may buy more foreign goods, thus increasing demand for the exporting countries' currencies. The higher exports may lead to a higher US trade deficit that may result in the USD depreciation

1. *While, in our opinion, these factors are likely to exert downward pressure on the USD exchange rates against currencies of other countries, they would not necessarily lead to the US Dollar depreciation against those currencies. The currencies and countries that they represent may have problems of their own. To learn about BBIS' views on the USD versus specific currencies, please reach out to us at the email address on the last page of this report.*

POTENTIAL CURRENCY CATALYSTS FOR INTERNATIONAL STOCK MARKETS: US DOLLAR DEPRECIATION - 2

3. **Rising US Government Budget Deficit and Debt:** The $3.5 trillion Democrat Budget Reconciliation Package is likely to negatively impact the USD because it would:
   - **Increase the US budget deficit.** The Congressional Budget Office projects the deficit to be $3.0 trillion in 2021 (13.4% of GDP). [1] After the addition of the Plan, the deficit increased by $700 billion from $2.3 trillion in February 2021 to $3.0 trillion in July 2021. [2] The budget deficit is not projected to be balanced through 2031, with the lowest deficit projected to be $753 billion (2.9% of GDP) in 2024 by the end of the first term of the Biden administration [1]
   - **Increase the US government debt.** The IMF forecasts that the US government debt would increase from $31.7 trillion in 2022 (109.5% of GDP) to $34.3 trillion (111.0% of GDP) by the end of the first term of the Biden administration in 2024 [3]
4. **Tax Revenues Projected from Tax Increases on Wealthy and Corporations May Disappoint:** To partially pay for the Plan, the Biden administration would raise taxes on affluent and wealthy people and corporations, some of whom may relocate to business-friendlier locales *(see also discussion of a draconian new banking regulation on Slides 28-42)*
   - Higher taxes may further decrease the country's already rather limited tax base: Only 39% of households paid federal taxes in 2020. [4] All of 43% of households are expected to pay taxes in 2021 as the country recovers from the pandemic [4]
   - From the historical perspective, France's Income Tax of 75% on people with incomes of €1 million and up introduced by the Socialist President Francois Hollande in September 2012 lasted for only two years and was scraped in 2014 [5]
     - The tax, which made the current French President Emanuel Macron call France ***"Cuba without Sun,"*** was scrapped because it hurt France's competitiveness and business reputation. It resulted in the wealthy leaving the country but brought only meager tax revenues

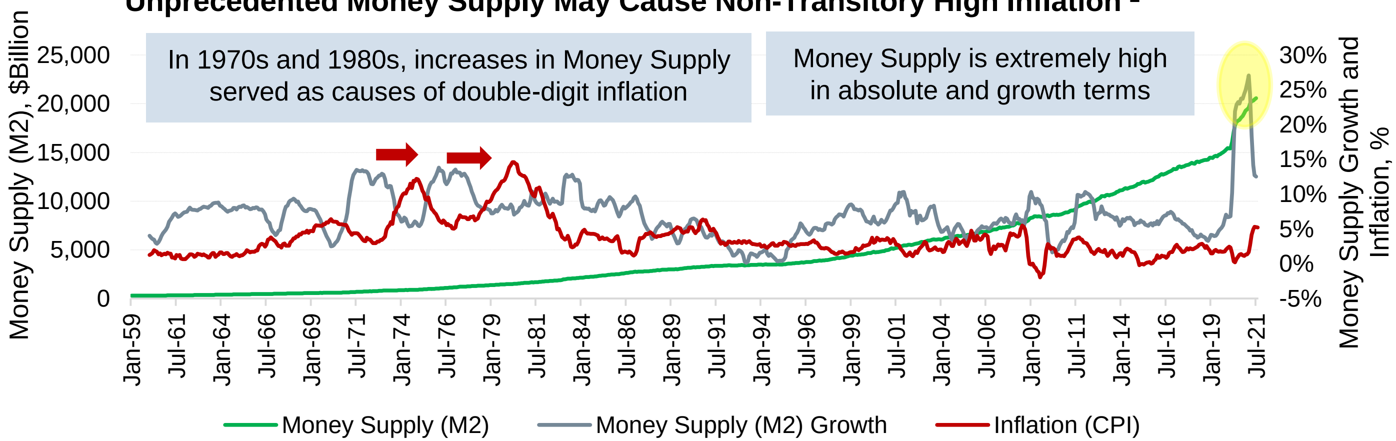
1. Congressional Budget Office, "An Update to the Budget and Economic Outlook: 2021 to 2031," July 2021.
2. Congressional Budget Office, "The Budget and Economic Outlook: 2021 to 2031," February 2021.
3. Net Government Debt Series, World Economic Database, International Monetary Fund, April 2021. The debt values may be higher because the Biden administration launched its Budget push in May 2021.
4. Denitsa Tsekova, Yahoo Finance, "61% of U.S. Households Paid No Federal Income Tax Last Year," August 19, 2021.
5. Hannah Murphy and Mark John, Reuters, "France Waves Discreet Goodbye to 75 Percent Super-Tax," December 23, 2014.

POTENTIAL CURRENCY CATALYSTS FOR INTERNATIONAL STOCK MARKETS: US DOLLAR DEPRECIATION - 3

5. **High Inflation May Not Be Transitory as the Fed Expects (Domestic Causes of Inflation):** The expansionary fiscal policy (the Infrastructure Deal and Budget Reconciliation Package) and the expansionary monetary policy (low interest rates & QE) may result in the non-transitory high inflation

- In August 2021, Consumer Price Index (CPI) & Producer Price Index (PPI) inflation rates reached 5.2% & 8.3% vs. the 2020 levels.[1]
- The US money supply has increased dramatically during the pandemic. Federal Reserve Bank of St. Louis: "If the money supply grows at a faster rate than the economy's ability to produce goods and services, then inflation will result." [2] The US economy's ability to produce goods and services (approximated by the GDP growth) is not anywhere close to the over 20% year-over-year growth of money supply from May 2020 to March 2021
- Minimum wages Increased in 24 US states in 2021, putting upward pressure on the above-minimum wages in these states and also on the minimum and above-minimum wages in the 26 states that have not increased the minimum wages [3]
- Currencies of commodity-exporting countries and stocks of commodity-producing companies prevalent in emerging markets and developed countries do well during high-inflation episodes when the purchasing power of money and bonds is being destroyed

Unprecedented Money Supply May Cause Non-Transitory High Inflation [1]



1. *Refinitiv. Data for CPI and PPI Inflation and Money Supply are as of August 31, 2021.*
2. *Federal Reserve Bank of St. Louis, "Money and Inflation - The Fedcuation Video Series." Downloaded on September 15, 2021.*
3. *Andrew Soergel & Sara Clarke, US News & World Report, "24 U.S. States Will See a Minimum Wage Increase in 2021," August 2, 2021.*

POTENTIAL CURRENCY CATALYSTS FOR INTERNATIONAL STOCK MARKETS: US DOLLAR DEPRECIATION - 4

6. **US & Global Inflation May Stay High Due to Supply Chain Disruptions, While Demand for Goods Stays High (Partly International and Partly Domestic Causes of Inflation):** In part, it developed due to the US and European governments' decisions to pay stimulus payments to their citizens [1]
   - Stuck at home, they could not use the money on services (i.e., restaurants, travel) as they did before the pandemic
   - Instead, people used the money on household improvements and electronic goods

Supply of Goods Has Been Negatively impacted by the Pandemic: Disruptions and delays in manufacturing, shipping, and on-land transportation, which made prices of goods in the US spike in 2021, may continue to 2023 due to the following six factors:

A. **China's Zero-COVID Policy May Continue to Create Bottlenecks in the Global Trade System:**
   - Currently, there is a severe shortage of containers due to the rampant demand for containers from both companies and consumers around the world. More than 20 million metal containers carry more than 50% of the world trade. [1] China is in the heart of the world trade system as the source of manufactured goods or assembler of the components produced in other Asian Countries. Forty-two percent of all containers arriving in the US come from China – the home of the world's 7 out of 10 largest container ports [1]
   - After ONE WORKER tested positive for COVID, China shut down a major terminal (Meishan) at the Ningbo-Zhoushan port, the third busiest port in the world, in August 2021. [2] The global deficits of not only goods but containers that the goods were packed in increased after the incident
   - It is possible that another worker or workers would contract COVID leading to a future shutdown of a port or ports in China

B. **COVID May Wreak Havoc in Other Important Manufacturing Countries**
   - Vietnam's factories, important suppliers of the components to the Chinese factories and suppliers of completed goods to the markets of North America and Europe, were shut down in response to the COVID surge in August and September 2021 [3]

C. **As a result of these and other interruptions, maritime freight rates spiked to the unprecedented levels**
   - *For example, a freight rate to ship one container from Shanghai to Los Angeles increased 20 times from $1,500 pre-pandemic to $30,000 in September 2021* [1]

1. *Daniel Yergin and Peter Tirschwell, CNBC, "Op-ed: Supply Chain Delays Won't Be Easily Fixed and Trouble Will Continue into Next Year," September 1, 2021.*
2. *CNBC, "China's Zero-Covid Policy Is So Strict That It Shut Down a Whole Shipping Terminal After Just One Case," August 12, 2021.*
3. *CNBC, "Companies Scramble to Shift Manufacturing Out of COVID-Crushed Vietnam in Time for Holidays," September 22, 2021.*

POTENTIAL CURRENCY CATALYSTS FOR INTERNATIONAL STOCK MARKETS: US DOLLAR DEPRECIATION - 5

D. **Upcoming Negotiations Between Ports of Los Angeles and Long Beach, the Country's Largest and Second Largest Ports, and Labor Unions Scheduled for July 2022 May End Up in Inflationary Cargo Handling Slowdowns:** Potential slowdowns in loading cargo due to disagreements during the upcoming negotiations between the International Longshore and Warehouse Union, a labor union that primarily represents dockworkers on the US West Coast, with the Pacific Maritime Association operating 29 ports on the West Coast, may contribute to higher inflation. The slowdowns happened during bitter negotiations between the parties in 2014-2015. [1]

E. **New Climate Regulation Rule Is Likely to Add to Shortage of Containers:** In 2023, the International Maritime Organization, the United Nations body that regulates shipping, may require ships to sail at lower speeds to cut emissions. This measure would further add to inflation by exacerbating the shortage of containers and further increasing freight times and rates [2]

F. **Shortage of Truck Drivers May Continue to Exert Inflationary Pressures in the US:**

- The wait time for containers to be loaded on trucks for transportation throughout the US in the ports of Los Angeles and Long Beach is currently two weeks instead of the pre-pandemic 3 or 4 days
- Young people are not interested in becoming truck drivers. [2] According to a recent study, nearly 57% of all truck drivers are older than 45, and 23% are in the 55+ age bracket [3]
- Reasons for not joining the industry include: [3]
  a. The relative dearth of younger workers overall compared to the abundance of baby boomers
  b. People do not perceive that driving in inclement weather or areas of civil unrest is safe
  c. As crime levels are high in the US cities, potential drivers do not want to risk their lives (un)loading trucks in dangerous areas
  d. The legalization of marijuana led to an increase in the number of people who did not pass the drug test (approximately 40,000 people). It is estimated that hundreds of thousands more, who do not think that they would pass the drug test, do not enter the profession

1. NFI Industries, Insights, "What the Approaching ILWU-PMA Contract Renewal Means for Shippers," July 1, 2021.
2. Daniel Yergin and Peter Tirschwell, CNBC, "Op-ed: Supply Chain Delays Won't Be Easily Fixed and Trouble Will Continue into Next Year," September 1, 2021.
3. Emily Newton, Global Trade, "Why Do We Have a Trucking Shortage?" September 5, 2021.

POTENTIAL CURRENCY CATALYSTS FOR INTERNATIONAL STOCK MARKETS: US DOLLAR DEPRECIATION - 6

7. **Potential Draconian New Banking Regulation Can Backfire Spectacularly:** The Democrat Budget Reconciliation Package's includes provision for reporting *"gross inflows and outfows with a breakdown for physical cash, transactions with a foreign account, and transfers to and from another account with the same owner"* for all US bank accounts with $600 in annual transactions or total assets.[1] This provision may lead to permanent outflows of much larger funds from the US and may even threaten the US Dollar's status as the world's premier reserve currency

- **Treasury's Goal:** Collect taxes from wealthy tax evaders. The IRS estimated that the tax gap, or the difference between what people and businesses paid and what they were supposed to pay, was around $600 billion per year.[2] The goal of the measure is to generate $460 billion over a decade [3]

- **Multiple Problems with the Provision**

  A. **The Proposed Legislation Is Basically Not Written, and If Adopted "As Is" Would Give the Treasury Secretary Too Much Power to Write Whatever She Desires Without Any Oversight by The Congress and Senate:** "Everything should be made as simple as possible, but no simpler." This Albert Einstein's statement about music should apply to the legislation. While the legislation that would give the IRS a window in the financial lives of all but the lowest-income Americans should not be based on thousands of pages, it should not be based on just one or two pages either. The "Introduce Comprehensive Financial Account Reporting to Improve Tax Compliance" section that describes the provision in the "General Explanations of the Administration's Fiscal Year 2022 Revenue Proposals" is just one-page-and-six-lines long [1]

     - The second to last sentence in the two-page reads, "The Secretary [of the Treasury Janet Yellen] would be given broad authority to issue regulations necessary to implement this proposal." [1] There are no details and principles of how the provision would be enforced. It is especially troubling to see such a carte-blanche approach because the IRS was weaponized against people based on their conservatives political views under the Obama/Biden administration *(see Slide 33 for the discussion of the IRS targeting scandal) and an already-over-the-board attack on a group of Americans by a Treasury's official leading the charge for the adoption of the provision (see the next page)*

1. *US Department of the Treasury, Revenue Proposals, "General Explanations of the Administration's Fiscal Year 2022 Revenue Proposals," Pages 88-89, May 2021.*
2. *Natasha Sarin, The US Department of the Treasury, "The Case for a Robust Attack on the Tax Gap," September 7, 2021.*
3. *Brendan Pedersen, American Banker, "Banks Escalate Fight over IRS Reporting in Biden Budget Plan," September 8, 2021.*

POTENTIAL CURRENCY CATALYSTS FOR INTERNATIONAL STOCK MARKETS: US DOLLAR DEPRECIATION - 7

B. The Groups That Would Be Mainly Targeted for the Tax Gap Enforcement Are Not The Same in Two Different Treasury's Documents About the Provision – But Both Groups Contribute Above Their Weights to the US Economic Growth and Frequent Indiscriminate Audits Against Their Members Would Slow the Economic Growth

- **Is the Provision's Goal to Collect Unpaid Taxes from Small- and Medium-Sized Business Owners"?:** The "Introduce Comprehensive Financial Account Reporting to Improve Tax Compliance" section in the "General Explanations of the Administration's Fiscal Year 2022 Revenue Proposals" published in May 2021 states, *"The tax gap for business income (outside of large corporations) form the most recently published Internal Revenue Service (IRS) estimates is $166 billion a year"* [1]
- **Alternatively, the Provision is Singling Out Only the Top 1% of American Income Earners in the Ominously Titled Report:** On the front page of "The Case for a Robust Attack on the Tax Gap," Natasha Sarin, Treasury's Deputy Assistant Secretary for Economic Policy, focused on tax evaders among ONLY the Top 1% of income earners in the US population as the main target of the provision. The fiery four-page report was published in September 2021, most likely, to get support for the provision that was facing strong opposition since it was announced in May 2021 [2]
- **Reviving "Wealth Squad":** Instead of using targeted audits against suspected individual tax cheats across the whole US society's income spectrum, the IRS is reportedly planning to revive the "wealth squads" that would go after the wealthy taxpayers simply because they belong to this group [3]

Table 1: Distribution of the Tax Gap

Taxpayers ranked by income corrected for estimated unreported income	Estimated Percentage of Unpaid Taxes	Estimated Unpaid Tax ($B, 2019)
P0-10	<.5%	< 3
P10-20	<.5%	< 3
P20-30	1.0%	6
P30-40	1.7%	10
P40-50	2.4%	14
P50-60	3.8%	22
P60-70	5.5%	32
P70-80	8.2%	48
P80-90	12.9%	75
P90-95	11.5%	67
P95-99	24.7%	144
P99-99.5	7.4%	43
P99.5-100	20.6%	120
Top 1%	**28.0%**	**163**

Judging by the total number of $163 billion, which is just 28% of the estimated total tax gap, the Treasury focuses on enforcing the tax gap of only the Top 1% rather than the whole $600 billion (or $587 billion) in Table 1 that was taken from another paper, "Tax Noncompliance and Measures of Income Inequality" [2]

1. *US Department of the Treasury, Revenue Proposals, "General Explanations of the Administration's Fiscal Year 2022 Revenue Proposals," May 2021.*
2. *Natasha Sarin, US Department of the Treasury, "The Case for a Robust Attack on the Tax Gap," September 7, 2021.*
3. *Paul Sullivan, The New York Times, "Plan to Revive I.R.S. Wealth Squad' Puts the Richest on Notice, June 11, 2021.*

POTENTIAL CURRENCY CATALYSTS FOR INTERNATIONAL STOCK MARKETS: US DOLLAR DEPRECIATION - 8

C. **Language Stirring Up Negative Emotions Against the Top 1% of Income Earners as Tax Cheats Ranges from Unfair to Blatantly Wrong and May Convince Some Honest People in the Top 1% Not to Work as Hard to Get Out of the Group. This Would Lead to Lower Economic Growth**: Three sentences on the front page of “The Case for a Robust Attack on the Tax Gap” report, which would make any politician who tried or is trying to divide the population into “us versus them” proud, do not leave any doubts about the author’s political motivation: *“Today’s tax code contains two sets of rules: one for regular wage and salary workers who report virtually all the income they earn; and another for wealthy taxpayers, who are often able to avoid a large share of taxes they owe. As Table 1 demonstrates, estimates from academic researchers suggest that more than $160 billion lost annually is from taxes that top 1 percent choose not to pay”* [1]

- **Laws Should Be Written to Address Universal Principals That Apply to ALL Citizens of a Country Rather Than Used as Weapons Against a Certain Group of Citizens Who May Not Support The Authors:** *The Ten Commandments* have been used for thousands of years because they are UNIVERSAL in their focus. If they were written by a king as a punishment against his internal enemies or as a pretense to confiscate the wealth of his country’s wealthy citizens, as many brutal and envious kings did over the centuries, people around the world would not have used them
- **Negative Language May Convince Some Members of the “Top 1%” to Work Less Hard**: If a large number of the top income earners decide to focus more on spending time with family, hobbies, and other non-business activities as it happened time and again in countries attacking their wealthy citizens, the economic growth and well-being of all citizens will drop
- **Who Are These “Immoral” People in the Top 1% of Income Earners Who According to Some in the US Treasury *“Are Often Able to Avoid a Large Share of Taxes They Owe”*:** People earning an annual income of $538,926 qualify to be among the Top 1% nationwide. [2] In different states, it takes different amounts to be in the Top 1% based on the income level of the states. For example, it takes only $318,831 to be among the Top 1% in West Virginia, the lowest income out of all 50 states. [2] It takes an income of $827,194 to be among the Top 1% in Connecticut, the highest income in the US. [2]
- **The Longer You Develop Your Skills, and The More Needed They Are, The More You Are Paid:** Before you join the author of the *“Attack”* report in demonizing the Top 1%, please realize that a couple of doctors, who studied for 10-12 years after high school and also have huge student debts, may be among them. These people who improve people’s quality of life or simply save people’s lives are likely to be on the list. Deservedly, in our opinion. Below are median salaries for several professions: Oral & Maxillofacial Surgeon - $355,864, Anesthesiologist - $278,016, Surgeon - $254,329, Obstetrician & Gynecologist - $207,177 [3]

1. *Natasha Sarin, US Department of the Treasury, “The Case for a Robust Attack on the Tax Gap,” September 7, 2021.*
2. *Samuel Stebbins and Evan Comen, USA Today, “How Much Do You Need to Make to Be in the Top 1% in Every State?” July 1, 2020.*
3. *College Consensus, “Top 50 Highest Paying Careers for College Grads, 2021. Downloaded on September 20, 2021.*

POTENTIAL CURRENCY CATALYSTS FOR INTERNATIONAL STOCK MARKETS: US DOLLAR DEPRECIATION - 9

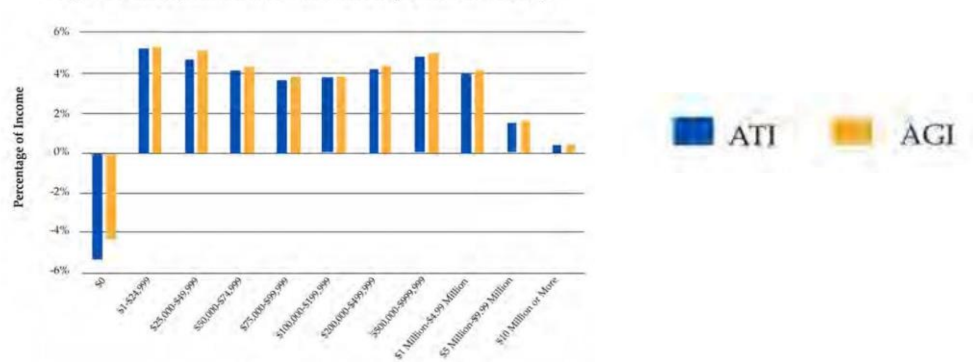
- **Inspirational and Generous People:** The Top 1% of income earners also include people who achieved success in such areas as sports, entertainment, investing, business. They became inspirational figures for millions of people worldwide. They do not just pay high taxes. They go above and beyond these by giving back to people worldwide through their work and philanthropic activities. Below are some of their names:
  - **Tom Brady** is the only seven-time Super Bowl-winning player in NFL's history and the leader of the New England Patriots and the Tampa Bay Buccaneers, both of whom he led to the Super Bowl trophies. He is also a job creator at both clubs; due to their success, the clubs increased their merchandise sales worldwide. Mr. Brady is also a job creator as the founder of TB12 company. He also supports many charities with his time and money, including Best Buddies International, the Boys and Girls Club of America, and KaBOOM!, which builds play places for kids [1]
  - **Serena Williams** is the only tennis player to win 23 Grand Slam Tournaments despite growing up in Compton, CA, one of the most dangerous US cities. Serena Williams inspired millions of people by demonstrating that determination, hard work, and talent can lead a person from any walk of life to great success. She serves as a Goodwill Ambassador for the UN Children's Fund (UNICEF) and also donated through The Serena Williams Foundation to education, social welfare, and community development [2]
  - **Armando Christian Pérez (also known as Pitbull)** is a bilingual Spanish-English rapper, singer, songwriter, businessman, and actor. This music entrepreneur, who grew up without a "silver spoon" in Miami, managed to use his passion for music to establish himself in various genres and write successful songs on the intersections of these genres. [3] After reaching success, he focuses on closing the poverty gap via education initiatives. He helped to start a tuition-free public charter school that boasts a 96% graduation rate [4]
  - **Warren Buffett** is a legendary value investor who developed a unique and highly successful way of investing. While he did not have to do it, he shared his wisdom with millions of investors worldwide and helped many of us develop our unique styles. He has also donated $41 billion to various philanthropic causes and plans to donate 99% of his wealth, which is estimated to be $100 billion, during his life [5]
  - **Indra Nooyi** is an Indian-born CEO who led PepsiCo for 12 years. During this time, PepsiCo's sales grew by an impressive 80%, earning Ms. Nooyi a place among the most respected US CEOs. [6] She is the all-time largest donor to The Yale School of Management, her alma mater [6]
  - **Michael Dell** is the visionary founder and leader of Dell Technologies, which he created in the dorm room during his freshman year. Now Dell Technologies provide jobs to 158,000 people worldwide. [7] Since 1999, Mr. Dell has committed $1.23 billion to non-profits in the US, India, and South Africa. He donated $1 billion to alleviate children's poverty and $100 million to help small businesses recover from COVID-19 [7,8]

1. *That Helps: Ideas and Opportunities to Help, "7 NFL Players Who Are Super Generous." Downloaded on September 15, 2021.*
2. *Wealth-X, "Serena Jameka Wiliams." Downloaded on September 15, 2021.*
3. *Lenore Fedow, CNBC, "Entrepreneurs - 'Pitbull': Making It Big Was No Walk in the Park," April 19, 2016.*
4. *Wikipedia, "Pitbull (rapper)." Downloaded on September 15, 2021.*
5. *CNBC, "Warren Buffett Is 'Halfway' Through Giving Away His Massive Fortune. Here's Why His Kids Will Get Almost None of His $100 Billion," June 23, 2021.*
6. *Wikipedia, "Indra Nooyi." Downloaded on September 15, 2021.*
7. *Wikipedia, "Michael Dell" Downloaded on September 15, 2021.*
8. *Mark Haranas, CRN, "Michael Dell's Foundation Donates $100M To Fight 'Daunting' Coronavirus," April 3, 2020.*

POTENTIAL CURRENCY CATALYSTS FOR INTERNATIONAL STOCK MARKETS: US DOLLAR DEPRECIATION - 10

- **Inflammatory Language That Treasury's Official Uses Against the Top 1% Can Be Used Against Any Other Group:** The author of the "Attack" piece stated, "*Today's tax code contains two sets of rules: one for regular wage and salary workers who report virtually all the income they earn; and another for wealthy taxpayers, who are often able to avoid a large share of taxes they owe.*" [1] According to an estimate from "Tax Noncompliance and Measures of Income Inequality" that the "*Attack*" piece is heavily relying on for academic support, the tax returns, which are adjusted as a result of audits due to filer's mistakes and fraud, is estimated to be around 4-5% for the Adjusted Gross Income (AGI) spectrum from $1 (just one dollar, not million) to $4.99 million *(see the chart below).* Being a tax evader is not a condition limited just to the wealthy. It is spread pretty uniformly across the income range. Importantly, not all returns are adjusted due to fraud: many returns are modified due to mistakes, especially more complex higher-income filers' returns [2]
- **Super High-Income Earners CHEAT LESS on Their Tax Returns Than Any Other Category of Income Earners:** Audit adjustments as a fraction of the AGI is the SMALLEST for Americans earning $5 million and above by a large margin. [2] It is less than 2% for people making from $5 to 10 million and less than 1% for people with incomes of above $10 million. The reason for this is that people with the highest incomes are already audited frequently. According to the same academic paper, *"Our findings are that the compliance rates at the top of the income distribution are significantly higher than at other points ... The very high rates of compliance at the top might be driven by deterrence. The IRS audited about 16 percent of filers with incomes greater than $10 Million over the sample period [2006-2014], but only about 1 percent of all filers"* [2]

Figure 4. Audit Adjustments as a Fraction of AGI, by Corrected AGI Group



1. *Natasha Sarin, US Department of the Treasury, "The Case for a Robust Attack on the Tax Gap," September 7, 2021.*
2. *Jason DeBacker, Bradley Heim, Anh Tran, and Alexander Yuskavage, Tax Notes State, "Tax Noncompliance and Measures of Income Inequality," February 17, 2020. The publication is also the source of Figure 4.*

POTENTIAL CURRENCY CATALYSTS FOR INTERNATIONAL STOCK MARKETS: US DOLLAR DEPRECIATION - 11

- **The Treasury's Language Is Especially Troubling in Light of the IRS Targeting Scandal:** In 2013 during the Obama/Biden era, the IRS "revealed that it had selected political groups applying for tax-exempt status for intensive scrutiny based on their names or political themes. Over the two years between April 2010 and April 2012, the IRS essentially placed on hold the processing of applications for 501(c)(4) tax-exemption status received from organizations with "Tea Party," "patriots," or "9/12" in their names. During the same general period, the agency approved applications from several dozen presumably liberal-leaning organizations whose names included terms such as "progressive," "progress," "liberal," or "equality." [1]

D. **Capital Flight From the US May Accelerate If the Provision Is Adopted:** Many wealthy Americans may not want to live in a country where not only extreme Left politicians sloganeer about taxing the rich. Nobody likes to be vilified for their success. The wealthy may not want the "pleasure" of paying higher taxes, being insulted by loud but often not-so-impressive politicians and their allies in the media, and spending time and nerves explaining their mundane financial transactions to the IRS during frequent audits

- The problem for the US is that many wealthy people, whom the Treasury call the primary target for their new provision, are job creators, and without them - and the jobs that they create - the level of well-being in the country would drop
- The job creators may move themselves or their funds to countries that welcome them in the Caribbean, Europe, or Asia
- Below are the names of just three billionaires – all self-made, all job creators – who either received foreign passports or already moved money out of the country just after the 2020 elections. This capital, potentially over $100 billion, could have been invested in the US if the regulations and laws were friendlier for successful people.
  - **Sergey Brin**, a co-founder of Google, has opened his family office, which manages a significant portion of his $91.7 billion fortune, in Singapore, a city-state known for its low taxes. Ironically, Mr. Brin named his office Bayshore Global Management after the North Bayshore area of Mountain View, a city where Google is based and that Mr. Brin obviously loves [2]
  - **Eric Schmidt**, a former CEO of Google, invested a small portion ($2.5 million) of his $15 billion fortune in getting a passport of Cyprus, a sunlit island in the Mediterranean Sea, which is also a member of the European Union [3]
  - **Ray Dalio**, the founder of the famed Bridgewater Associates macro hedge fund, set the Dalio Family Office in Singapore with a mandate to manage a large portion of his $15 billion fortune [2, 4]

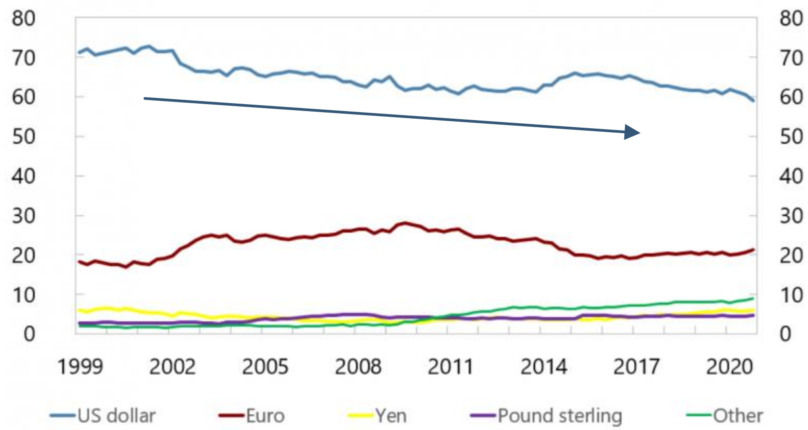
1. *Wikipedia, "IRS Targeting Controversy." Downloaded on September 20, 2021.*
2. *Avery Hartmans, Business Insider, "Billionaires Like Ray Dalio and Sergey Brin Are Opening Family Offices in Singapore, Lured by the City-State's Ample Incentives and Low Taxes," February 5, 2021.*
3. *Katie Canales, Business Insider, "Ex-Google CEO Eric Schmidt is Reportedly Becoming a Citizen in the European Island Nation of Cyprus, Which Could Cost Him $2.5 million and Five Him Tax Breaks," November 9, 2020.*
4. *Verdict Staff, Private Banker International, "Bridgewater Associates Founder to Set Up Family Office in Singapore, November 27, 2020.*

POTENTIAL CURRENCY CATALYSTS FOR INTERNATIONAL STOCK MARKETS: US DOLLAR DEPRECIATION - 12

E. Intrusive Regulations May Lower Demand for the US Dollar in Foreign Countries Leading to the USD Depreciation and Potential Weakening of Its Status as the World's Top Reserve Currency: For decades, the US stability and business-friendly laws have attracted wealthy and affluent people from less business-friendly or stable countries. But if laws stop being friendly to businesses and job creators, wealthy foreigners may bring their money to other places.

- When people are not comfortable moving their money into a country or do not want to use its currency in their portfolios, demand for its currency falls. If the US tax authorities and the government decide to monitor the bank accounts of wealthy and middle-class people, these people may choose to store their funds in non-US bank accounts. This may reduce the role of the US Dollar as a store of value in their portfolios in line with how it happened in various countries' Central Banks [1] (*see the chart below).* This can lead to the USD depreciation and evening weakening of its status as the world's top reserve currency

Demand for Dollars by Central Banks Currency Composition of Global Foreign Exchange Reserves, %



The share of the US Dollar in central bank reserves dropped by 12% —from 71% to 59%—since the Euro was launched in 1999 to the end of 2020 [1]

1. *IMF Blog, "US Dollar Share of Global Foreign Exchange Reserves Drops to 25-Year Low," May 5, 2021. The chart is based on the IMF's Currency Composition of Official Foreign Exchange Reserves (COFER) data. "COFER data for individual countries are strictly confidential. At present, there are 149 reporters, consisting of member countries of the IMF, non-member countries/economies, and other foreign exchanges reserve holding entities."*

POTENTIAL CURRENCY CATALYSTS FOR INTERNATIONAL STOCK MARKETS: US DOLLAR DEPRECIATION - 13

- **When Only a Few Domestic or Foreign People Are Willing to Invest in a Country, Crises Become Much More Devastating and Last Longer:** There were no wealthy people in the Soviet Union. When the USSR collapsed, a few people managed to build vast business empires fast. But due to the draconian tax legislation and overall instability, most of them moved the money out of the country. During the devastating crisis that engulfed Russia after the USSR's collapse, Russia's inflation-adjusted GDP dropped by a staggering 44% from 1989 to 1998. It recovered to its 1989 level only in 2007, or 17 years after the crisis started. Almost the whole generation of people grew up while the country was in crisis or recovering from it *(see BBIS paper on the firm's Impact Investing goals that described the crisis and what it meant to the lives of ordinary citizens. The paper is titled "We Will Not Leave You Behind: Economic, Social, and Political Impact of investing Via Single-Country Equity ETFs in Countries During and After Major Crises")* [1, 2]

- The crisis started to abate ONLY when, in the absence of domestic investors, foreign investors began investing in the country. For comparison, during the Global Financial Crisis, the US 2008 inflation-adjusted GDP stayed the same as before the crisis in 2007. Then it declined by 3% in 2009 compared to the pre-crisis level. The GDP recovered to the 2007 level in 2010, or three years after it started. The reason for the startling differences in terms of intensity of the US crisis with the crisis in Russia – in terms of the GDP decline (3% vs. 44%) and crisis length (3 years vs. 17 years) was that the US had relatively business-friendly legislation, and there were a lot of domestic investors who were willing to invest in the country. [1, 2]

1. *Vitaly Veksler, Beyond Borders Investment Strategies, "We Will Not Leave You Behind: Economic, Social, and Political Impact of investing Via Single-Country Equity ETFs in Countries During and After Major Crises," February 14, 2019.*
2. *Here is the link to the paper: http://bbistrategies.com/our-publications--events/we-will-not-leave-you-behind-economic-social-and-political-impact-of-investing-via-single-country-equity-etfs-in-countries-during-and-after-major-crises*

POTENTIAL <u>CURRENCY CATALYSTS</u> FOR INTERNATIONAL STOCK MARKETS: US DOLLAR DEPRECIATION - 14

F. While the Provision is Intended to Enforce Tax Collection from the Wealthy, It Would Likely Result in the IRS Collecting Information on Accounts of All But the Lowest-Income Americans for No Apparent Reason

- **Very mundane transactions would put a person on the IRS monitoring list**
  - People often give cash or check gifts ($50-250) to each other for birthdays, holidays, and special occasions. After recipients deposit several gifts in their bank accounts, they could trigger the IRS to start collecting information about the people's accounts
  - People, who invite relatives and friends to a restaurant for a special celebration and maybe just for dinner with just several couples in the high-cost part of the country, may easily pay more than $600
  - People staying at a hotel or even a motel for just several (2-3) days would pay more than $600
  - People making repairs to their cars, regardless of whether luxury or modest, would easily spend more than $600
  - Finally, even unemployed people would get their information collected by the IRS. An average weekly state unemployment check is $378. A person would "qualify" to get into the IRS database within two weeks being on unemployment [1]

G. The Comprehensive IRS Database Would Become One of the Most Valuable Targets for Cybercriminals and Spies: There are no totally secure computer databases - even when an organization employs some of the best programmers, its databases can be hacked

- **The Holy Grail for Hackers of All Stripes:** The IRS database that would contain information on millions of accounts would become a major prize for hackers of all stripes. Their pitches to transfer money to them would be more convincing if they told potential cyber-fraud victims that they are calling from the IRS and use the exact account numbers, financial institutions where the accounts are housed, and the precise numbers of inflows or outflows from each account
- **National Security Danger:** The database could make it many times easier to identify one's dealings for both good (IRS) and bad (hackers, spies) actors, and if the bad actors are more nimble than the IRS, the consequences may be bad for the country. For example, the hackers, or people behind them, may blackmail government officials into doing something that would go against the US national security interests if they find information on the government officials' bank accounts where they received payments for their below-the-table or corrupt dealings. Without one centralized database, the hackers have to contact hundreds of banks or hack their databases to find out whether a person they are interested in has accounts there. With the centralized database, the hackers would have to hack only one database to get the complete top-line information on the person's financial situation the same way a person can get all their groceries at a supermarket rather than small shops

1. *Greg Iacurci, CNBC, "Recalled to work? You Can Still Collect Unemployment Benefits — and That Extra $600 a Week," June 17, 2020*

POTENTIAL CURRENCY CATALYSTS FOR INTERNATIONAL STOCK MARKETS: US DOLLAR DEPRECIATION - 15

H. A Giant Regulatory Wave That The Current Administration Has Unleashed Will Likely Slow the US Economic Growth: If adopted, the provision will become a part of across-the-board regulatory additions that the Biden/Harris administration has been implementing. [1] To implement the provision, the Biden administration is planning to increase the size of the IRS by up to a staggering 305% over the next decade. This estimate is based on the following sentence, *"Because the expansion in the IRS's budget is phased in over a 10-year horizon, each year the IRS's workforce should grow by no more than a manageable 15%."* [2] The IRS currently employs around 83,000 people, which means that the number of employees may grow up to 335,781 by 2031. [3] We do not think that IRS' 15% growth is manageable while the US real GDP grows at 3% annually

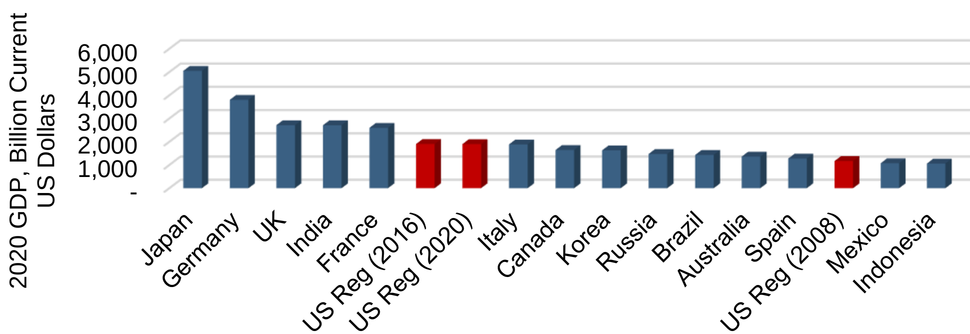
- **Regulations Are Likely to Slow the US Economic Growth in 2021-2024:** All new IRS employees would have something to do. We expect the number of audits to increase dramatically, mainly focused on the Top 1% of income earners and owners of small and medium-sized companies among them. Frequent audits take a lot of owners' time and are likely to result in lower growth of revenues, and consequently, jobs
- **Flashback – The Obama/Biden Administration's Regulations Cost Was Equal to Combined Individual and Corporate Income Taxes:** According to *The American Families Plan Tax Compliance Agenda*, *"By the end of the decade, however, the IRS's budget would be roughly 40% above 2011 levels in real terms as a result of this proposal."* [2] The rapid rise of regulations today brings back memories of the Obama/Biden administration that was in office in 2011. During the two terms of the Obama/Biden administration, f*ederal regulators have issued more than 22,700 regulations. The number of regulators increased to the all-time high of 279,000.* [4] Importantly, this number may be surpassed dramatically due to just the provision's adoption: just the IRS can increase its size to more than 335 thousand people
  - **During the Obama/Biden Administration, regulatory costs increased by more than $730 billion from $1.172 trillion in 2008 to $1.902 trillion in 2016.** [5, 6] "The actual costs are far greater, both because the impacts have not been fully quantified for a significant number of rules, and because many of the worst effects—the loss of freedom and opportunity—are incalculable. Regulation acts as a stealth tax on Americans and the US economy. The weight of this tax is crushing." [4] **Total regulatory costs were almost identical to the combination of the individual and corporate income taxes of $1.92 trillion in 2016** [7]
  - **New Regulations Slowed Economic Growth During the Obama/Biden Term:** They made business owners and top managers focus a large percentage of their time on not violating new regulations unknowingly instead of on commercializing products and services. As a result, economic growth slowed. **The real (inflation-adjusted) GDP grew annually by only 1.6% on average over the eight years** [8]

1. *Evan Halper, Los Angeles Times, "Make America California Again? That Biden's Plan," January 17, 2021.*
2. *US Department of The Treasury, "The American Families Plan Tax Compliance Agenda," May 2021.*
3. *Federal News Network, "IRS Plans 'Significant Hiring' to Stay Ahead of 52K Employees Expected to Leave in Coming Years," May 20, 2021.*
4. *Diane Katz, The Heritage Foundation, Issue Brief #4562,* A Regulatory Reform Agenda for the First 100 Days, February 1, 2017.
5. *Clyde Wayne Crews Jr., Competitive Enterprise Institute, "Ten Thousand Commandments: An Annual State of the Federal Regulatory State," 2009.*
6. *Clyde Wayne Crews Jr., Competitive Enterprise Institute, "Ten Thousand Commandments: An Annual State of the Federal Regulatory State," 2017.*
7. *Clyde Wayne Crews Jr., Competitive Enterprise Institute, "Ten Thousand Commandments: An Annual State of the Federal Regulatory State," 2018.*
8. *International Monetary Fund, World Economic Outlook Database. Data were downloaded on September 30, 2021.*

POTENTIAL CURRENCY CATALYSTS FOR INTERNATIONAL STOCK MARKETS: US DOLLAR DEPRECIATION - 16

- **The US Regulations' Cost Is Already Huge:** If the 2020 regulation cost ($1.9 trillion) were a GDP of a country, it would have been the world's eighth-largest economy, bigger than the economy of Italy (*see the chart below).* The regulation cost represents 9% of the US 2020 GDP [1,2]
  - **Deregulation is Difficult:** Once regulations are created, it is difficult to get rid of them. "Barring congressional action to streamline, a rule cannot be eliminated but only replaced with a new rule." [1] Also, once investments in hiring regulators and providing them with offices and technology are made, it is difficult to undo these investments. While President Trump promised to deregulate, the US regulation cost of $1,900 in 2020 (his last year in power) was lower than the US regulation cost of $1,902 in 2016 (the final full year of the Obama/Biden administration) by just $2 billion [2,3]
  - **President Biden's History in the Regulatory Space:** During eight years in power, the Obama/Biden administration increased the US costs of regulations by $730 billion from $1,172 billion in 2008 to $1,902 in 2016. [4] It is almost the whole 2020 GDP of Switzerland ($747 billion), the world's largest economy. Switzerland has built its economy over centuries of developing world-leading expertise in banking, tunnel drilling, and making high-end machinery, cheese, chocolate, and watches. The Obama/Biden administration increased the regulatory size of the US economy by the size of Switzerland's economy in just eight years
  - **The Leopard Does Not Change Its Spots:** As Americans, we want to hope that the Biden/Harris administration does not add another large-country-size mountain to the already massive cost of the US regulations, which tax the US businesses, economy, and citizens. But judging by the already proposed level of spending and regulations, it may not happen

Cost of US Regulations vs. Foreign Countries' GDPs



1. *IMF, World Economic Outlook Database, "Countries GDPs Measured in the Current US Dollars. Data were downloaded on September 30, 2021.*
2. *Clyde Wayne Crews Jr., Competitive Enterprise Institute, "Ten Thousand Commandments: An Annual State of the Federal Regulatory State," 2021.*
3. *Clyde Wayne Crews Jr., Competitive Enterprise Institute, "Ten Thousand Commandments: An Annual State of the Federal Regulatory State," 2017.*
4. *Clyde Wayne Crews Jr., Competitive Enterprise Institute, "Ten Thousand Commandments: An Annual State of the Federal Regulatory State," 2009.*

POTENTIAL CURRENCY CATALYSTS FOR INTERNATIONAL STOCK MARKETS: US DOLLAR DEPRECIATION - 17

I. **The Annual Tax Gap May Be Dramatically Lower Than the IRS' $600 Billion Estimate**

- **The Provision and the Attack on the Wealthy Are Based on a Debatable Theoretical Background:** Even *The Case for a Robust Attack on the Tax Gap* acknowledges it in Footnote 1: *"…The distribution of the tax gap across the income spectrum is difficult to estimate, especially at very top incomes. Ongoing work by IRS researchers and outside academics suggests the concentration of the tax gap is even more skewed toward the top of the income distribution. Guyton, John, et al., 2021. "Tax Evasion at the Top of the Income Distribution: Theory and Evidence," NBER Working Paper No. 28542. These estimates are based on imputations of undetected evasion using multipliers developed from earlier audit data.* ***The advisability of so-called "detection-controlled estimation" (DCE) adjustments are debated in the literature, especially with respect to the distribution of noncompliance."*** [1 2]
- **US Treasury's and US Congress' Economists Rebuff The Findings of the Paper:** Two well-known economists, Gerald Auten and David Splinter, well-published and often-quoted economists working for the Office of Tax Analysis at the US Treasury and the Joint Committee on Taxation at the US Congress, respectively, rebuffed the highlighted ideas and even gave the authors of the paper mentioned above two pages of methodological improvements. Below are several sentences from the conclusion of a paper by Auten and Splinter that contains the critique. "*However, GLRRZ [first letters of each authors' names] analysis would benefit from more appropriate methods and empirical support for particular assumptions. Most importantly, the simple DCE multipliers used are outdated and a distributionally inconsistent way to allocate undetected underreporting. Allocating passthrough misreporting in proportion to reported income is also distributionally inconsistent.* ***We believe that the methodology and assumptions used tend to overestimate total underreporting, overstate true top incomes, and allocate too much underreporting to the top of the distribution."*** [3]
- ***The Treasury's reasons for trying to attack the rich are all weakened by this critique***

1. *Natasha Sarin, US Department of the Treasury, "The Case for a Robust Attack on the Tax Gap," September 7, 2021.*
2. *John Guyton, Patrick Langetieg, Daniel Reck, Max Risch, and Gabriel Zucman, NBER, "Tax Evasion at the Top of the Income Distribution: Theory and Evidence, March 2021.*
3. *Gerald Auton and David Splinter, US Treasury Department (Office of Tax Analysis) and US Congress (Joint Committee on Taxation), "Comment: Tax Evasion at the Top of the Income Distribution: Theory and Evidence," August 15, 2021.*

POTENTIAL CURRENCY CATALYSTS FOR INTERNATIONAL STOCK MARKETS: US DOLLAR DEPRECIATION - 18

- **The IRS Ran The Last Detailed Tax Gap Calculation in 2019 for the 2011-2013 Period (8-10 Years Ago):** According to *"Primer: Understanding the Tax Gap,"* "the process of estimating the tax gap is extremely complex and time consuming." [1] The last comprehensive assessment of the tax gap was published in 2019, but the estimate was done for the 2011-2013 period. Over that period, the IRS estimated that the gross tax gap was $441 billion per year, while the net tax gap, or gross tax gap after late payments and the IRS enforcement measures were factored in, averaged $381 billion annually. [1] The IRS has not run the same detailed analysis to evaluate the gross tax gap in 2019. It simply estimated the total tax for 2019. It applied Voluntary Compliance Rates for three major components of the tax gap – Nonfiling Tax Gap, Underreporting Tax Gap, and Underpayment Tax Gap - from the 2011-2013 period. [2] Once again, the IRS used the methodology from the *Guyton, John, et al., 2021. "Tax Evasion at the Top of the Income Distribution: Theory and Evidence," NBER Working Paper No. 28542 report that* ***tends to overestimate total underreporting, overstate true top incomes, and allocate too much underreporting to the top of the distribution.*** [3]
- **Making Long-Term Forecasts of Tax Gaps Based on Their Past Estimates May Lead to Very Imprecise Results*:*** In addition, the 2011-2013 tax gap estimates were just that … estimates. They could have been wrong then. When used as inputs for long-term forecasts of the tax gap for 2019, or 6-8 years later, the initially incorrect estimates for 2011-2013 could have made 2019 estimates off-the-charts wrong based on the "Garbage In, Garbage Out" forecasting rule. On top of this, if you use a methodology that tends to overstate total underreporting, the 2019 estimates could be even more wrong
- **The Tax Gap in 2017-2019 May Be Smaller Because Tax Compliance Increases When Tax Rates Are Cut:** According to a paper titled*, "Tax Rate Cuts and Tax Compliance— The Laffer Curve Revisited"* by two economists from the International Monetary Fund (IMF), tax compliance increases when tax rates are cut. [4] Due to the tax cuts introduced by the Trump administration, the effective tax rates dropped across the whole spectrum of incomes. For example, for people earning more than $1 million, the tax rate dropped by 1.3%, from 30.2% in 2017 to 28.9% in 2019. [5] The rate dropped even more for people earning from $250 thousand to $1 million – it dropped by 2.8% from 23.3% to 20.5% [5]

1. *Committee for a Responsible Federal Budget, "Primer: Understanding the Tax Gap," June 17, 2021.*
2. *US Treasury, "The American Families Plan Tax Compliance Agenda," Table 1, Page 4, May 2021.*
3. *John Guyton, Patrick Langetieg, Daniel Reck, Max Risch, and Gabriel Zucman, NBER, "Tax Evasion at the Top of the Income Distribution: Theory and Evidence, March 2021.*
4. Tamás K. Papp and Előd Takáts, The International Monetary Fund (IMF), "Tax Rate Cuts and Tax Compliance— The Laffer Curve Revisited," January 2008.
5. *Taylor LaJoie and Erica York, Tax Foundation, "*A Preliminary Look at 2019 Tax Data for Individuals," October 29, 2020.

POTENTIAL CURRENCY CATALYSTS FOR INTERNATIONAL STOCK MARKETS: US DOLLAR DEPRECIATION - 19

J. **Much Ado About (Almost) Nothing or A Big Fight About A Relatively Small Financial Benefit:** Even if all current Treasury officials' estimates are correct, which we doubt for the reasons described above, the Treasury will collect a sum of $460 billion over the next decade as is it forecasted in *The American Families Plan Tax Compliance Agenda.* [1] It is only 0.16% of the projected total 2022-2031 GDP of $287,702 billion [2]

- **An Almost $80 Billion Investment in the IRS Over the Next Decade Would Further Reduce the Financial Benefit of the Provision:** To implement the provision, President Biden proposes providing the IRS with $72.5 billion in mandatory funds and another $6.7 billion in appropriations to the "program-integrity" activities that are estimated to save more than they cost. [3] This is $79.2 billion combined. [3] Subtracting this amount from $460 billion in extra tax revenues that the Biden administration hopes to collect from implementing **the provision would increase the projected total 2022-2031 GDP by $381 billion or all of 0.13%.** The calculation of the provision's contributions does not include potential cost-overruns or potentially exaggerated financial benefits often associated with large initiatives and/or initiatives that are parts of larger political packages, driven primarily by political rather than economic considerations. The provision has to pay in part for the $3.5 trillion Democrat Budget Reconciliation Package
- **Some Wars Are Not Worth Fighting:** In our opinion, it is hardly the percentage that would make it worth implementing a measure that may add to the simmering internal societal conflict. After all, the provision is not focused on the enforcement of tax payments by the whole US population but just by the wealthy. The provision is likely to accelerate capital flight that has already started in earnest after the 2020 elections. The provision would also likely cause a slowing of the US economic growth and may weaken the US Dollar's status as the world's primary reserve currency. The Biden administration can persevere and get the provision adopted, but, in our opinion, it would be similar to winning a battle but losing the war
- **The Provision Would Most Likely Increase Capital Outflows from the US Turning the Provision's Impact on the US Economy from Almost Zero to Negative:** Subtracting the likely capital outflows from the country that the provision would contribute to, the almost zero percent of the GDP that the provision is forecasted by its authors to bring, can turn into a significant negative number
- **The Wisdom of the Centuries States That Gentleness Win over Brute Force:** In his famous fable "The North Wind and the Sun," the ancient Greek philosopher, Aesop, taught a lesson that is worth remembering, "Gentleness and kind persuasion win where force and bluster fail." [3] The US economy became a leader and a magnet for people and capital from all over the world not because it was a highly regulated one, where people were forced to comply with laws. Instead, the US economy prospered because of its business-friendly laws that most people considered fair and gladly chose to comply with

1. *US Department of The Treasury, "The American Families Plan Tax Compliance Agenda," May 2021.*
2. *Congressional Budget Office, "An Update to the Budget and Economic Outlook: 2021 to 2031," July 2021.*
3. *The Library of Congress, "The Aesop for Children: The North Wind & the Sun." Downloaded on September 20, 2021.*

POTENTIAL CURRENCY CATALYSTS FOR INTERNATIONAL STOCK MARKETS: US DOLLAR DEPRECIATION - 20

Conclusion: Rising attractiveness of international assets in the (mostly) post-pandemic world in part due to the rising US consumption, as well as potentially higher US trade deficit, higher government budget deficit, higher government debt, higher taxes, higher inflation caused by both domestic and international forces and that may last longer than the Fed expects, and higher and more intrusive regulations can all be negative catalysts for the US Dollar in 2021-2023

RISKS TO OUR FORECASTS - 1

1. **The Quantitative Easing's Tapering, a Major Catalyst for the Financials and Other Value Sectors, May Be Delayed**
   - Jerome Powell, the Chair of the Federal Reserve, may delay QE tapering if the September Job Report is not good [1]
   - Jerome Powell, a centrist, has yet to be reappointed by President Biden for the second term that starts in January 2022 [2]
2. **The Budget Reconciliation Bill May Be More Expensive Than Its Already Shocking $3.5 Trillion Tag, and It May Have Many Negative Surprises Inside That Can Impact the US Productivity for Decades** *(as the provision on bank accounts with $600 in transactions or assets discussed above)*
   - **The Package May Be Even More Expensive Than Its Public Price Tag:** The Committee for a Responsible Federal Budget (CFRB), "a non-partisan, non-profit organization committed to educating the public on issues with significant policy impact," estimated that the Bill would cost from $5.0 to $5.5 trillion. [2] The CFRB believes that to fit $5.0-$5.5 trillion worth of spending and tax breaks into the $3.5 trillion Bill's budget, some programs in the Package would be set to expire before the end of the decade. [2]
   - **No Process for a Thoughtful Bipartisan Discussion Hurts the Country and Even the Authors of the Bill:** The Bill is a combination of multiple laws, which are usually discussed one by one, clause by clause. The usual bipartisan analysis makes sure that most egregious provisions are not approved. This 2,465-page text of the Bill was distributed on September 23, just a week before the vote was supposed to take place. [3] There is no time not only to analyze but just to read the proposed laws inside. Members of Congress and Senators would have to rely on experts, many of whom have ulterior motives.
   - **Trillion Here, Trillion There – Why Should Anybody Care About Bill's Cost:** By consistently living beyond its means, a country can lose its status and possessions. The Roman Empire and the British Empire were the most powerful countries, whose currencies were the world's reserve currencies. They both lost their status as the most powerful countries. Their currencies lost their reserve currency status. The countries also lost most of their territories. The decline of both started when they started to live beyond their means. The US government budget was last balanced 20 years ago in 2001. [4] In 2021, this budget deficit is projected to total 13.4% of GDP, making it the second-largest since 1945, exceeded only by the 14.9% shortfall recorded in 2020. [5] The difference between 2020 and 2021 is that last year the expenditures were necessary to keep the economy from stalling while people sat at home for months, and this year – most of the massive expenditures included in the Bill are discretionary. We do not think that one Bill would result in the USD's loss of its reserve currency status, but a series of profligate Bills like this would

1. *Howard Schneider & Jonnelle Marte, Reuters, "Fed Signals Bond-Buying Taper Coming 'Soon,' Rate Hike Next Year," Sep 22, 2021.*
2. Alayna Treene and Hans Nichols, Axios, Powell Gaining Senate Moderates' Support," September 15, 2021.
3. *Committee for a Responsible Federal Budget, " True Cost of Budget Plan Could Exceed $5 Trillion," July 19, 2021.*
4. *Alayna Treene, Axios, "Democrats Release Full Text of Biden's $3.5T Reconciliation Package," September 24, 2021.*
5. *Wikipedia, History of the United States Public Debt. Downloaded on September 22, 2021.*
6. *Congressional Budget Office, "An Update to the Budget and Economic Outlook: 2021 to 2031," July 2021.*

RISKS TO OUR FORECASTS - 2

3. **The US Infrastructure Bill, a Major Catalyst for the Materials, Energy, and Industrials Sectors, May Not Be Adopted**
   - Nancy Pelosi, Speaker of the House, suggested voting on the Democrat Budget Reconciliation Package, a less popular among Republicans and moderate Democrats, before voting on the bipartisan Infrastructure Bill. She wants to make sure that the Infrastructure Bill passes only if the Democrat Budget Reconciliation Package passes as well [1]
4. **The COVID-19 Pandemic Gets from Under Control: Investors May Move The Capital to the US and Safe-Haven Nations**
   - Dr. Anthony Fauci, US' top infectious disease doctor, said in August 2021 that the US could get COVID-19 under control by early next year if vaccinations ramp up. [2] While COVID-19 pandemic seemed to be under control in the US by early July - the 7-day average number of deaths was 41 on July 5 – it rebounded to 2,787 on September 22, 2021, powered by the Delta variance [3]
   - The numbers of COVID cases are still either increasing or high in Australia, Brazil, India, Germany, Malaysia, Philippines, Russia, Singapore, South Korea, Turkey, UK, Vietnam [4]
5. **After the Mistakes-Ridden US Military Withdrawal from Afghanistan, US' Rivals and Enemies May Think That the Country's Allies May Be Attacked. A Military Crisis Can Spur Capital Flight to Safe-Haven Countries**
   - **Israel:** In July 2021, Iran was accused of organizing a deadly drone attack on an Israeli-owned tanker in the Gulf of Oman; in August 2021, Hezbollah – Iran's proxy - shot 20 rockets into Israel and brazenly claimed responsibility for the attack [5]
   - **Saudi Arabia**: In August 2021, just days after the US exit from Afghanistan, Saudi Arabia signed a military cooperation agreement with Russia. [6] Saudi Arabia's relations with the Biden administration have been strained due to the latter's effort to revive the Iran Nuclear deal. The deal would give more resources to the Iranian regime as sanctions against it would be lifted
   - **South Korea**: In September 2021, North Korea fired two ballistic missiles across its east coast. It was the first test with such missiles in six months. It was a fresh breach of UN resolutions. [7] Within hours, South Korea responded with its own rocket launch
   - **Taiwan:** In August 2021, China organized a military exercise near Taiwan, while the Chinese media blamed the US for the defeat of Afghanistan's government forces and claimed that the US would not defend Taiwan should China attack it [8]

1. *Reuters, "Pelosi Suggests Tying Infrastructure Plan and $3.5 Trillion Budget Resolution," August 15, 2021.*
2. *Susan Heavey & Carl O'Donnell, Reuters, "U.S. Could Control COVID by Spring 2022 if More People Get Shots-Fauci," Aug 24, 2021.*
3. *Google, "US Coronavirus Stats." Data were downloaded on September 22, 2021. Data are from The New York Times.*
4. *Worldometer, Coronavirus COVID-19 Pandemic. Data downloaded on Sep 22, 2021.*
5. *Jonathan Spyer, The Wall Street Journal, "Iran Goes on the Offensive as the US Retreats from Afghanistan and Elsewhere," Aug 16, 2021.*
6. *Robert Burns, AP News, "Blinken and Austin to Visit Gulf to Address Postwar Stresses," Aug 24, 2021.*
7. *BBC, "North and South Korea test ballistic missiles hours apart," Sep 15, 2021.*
8. *Yen Nee Lee, CNBC, "China Portrays the US as 'Weak and Unreliable' to Draw Taiwan Close, Analyst Says," Aug 19, 2021.*

BBIS' PORTFOLIOS POSITIONED TO BENEFIT FROM POTENTIAL OUTPERFORMANCE OF INTERNATIONAL AND VALUE STOCKS

Major Recent Catalyst: Tapering of Quantitative Easing policies in the US may become a powerful factor making **International** and **Value** portfolios more attractive than **US** and **Growth** portfolios

BBIS' Portfolios Are Positioned to Outperform Due to Potential Outperformance of Value vs. Growth Stocks

- At BBIS, we intentionally invest a large percentage of our portfolios in countries going through crises where valuations are at least one standard deviation below the eight-year average as measured by the Buffett indicator: Stock Market Capitalization / GDP. We call them the "deep value" countries as opposed to the "regular value" countries that trade at discounts that are less than a standard deviation
- The shares of the "deep value" countries in both BBIS strategies, Global ex-US Country Value Equity and Emerging & Frontier Markets Country Value Equity, are much higher than in both the MSCI ACWI ex US Value Weighted and MSCI Emerging Markets Value Weighted indices that the strategies compete against, while the share of the "regular value" countries is much lower
- We believe that when Value stocks start rallying, prices of the equity ETFs of the "deep value" countries will grow faster not only than those of **Growth** stocks but also than the "regular value" stocks

BBIS' Portfolios Are Positioned to Outperform Due to Potential Outperformance of International vs. US Stocks

- In 2021, the US and its currency has been becoming less attractive from the business standpoint – higher potential corporate and individual taxes, higher inflation, higher budget deficit, higher debt, etc. [1]
- Valuations of expensive US stocks may contract while valuations of cheaper stock markets of foreign countries may expand after the pandemic is over
- Stock markets of international markets often become more attractive to investors during the non-crisis periods

1. *Eric Rosenbaum, "Biden's Tax Plan Targets Big Companies, So Why is Small Business Worried?", May 4, 2021*

CONTACT

To learn more about BBIS and how our services can help you achieve improved risk-adjusted returns through our expert research and unique global portfolio diversification strategy, please contact us by email or phone.

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