THOUGHT LEADERSHIP

Visualizing Market Dynamics:
A Guide to Market Trends

Helping Build Solid
Investment Foundations

June 2024

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“We now have the worst of both worlds —not just inflation on the one side or stagnation on the other, but both of them together. We have a sort of "stagflation" situation and history in modern terms is indeed being made.”

-British Conservative Party politician and economist, Iain Macleod in a speech given on November 17th, 1965 during a debate in the House of Commons[1].

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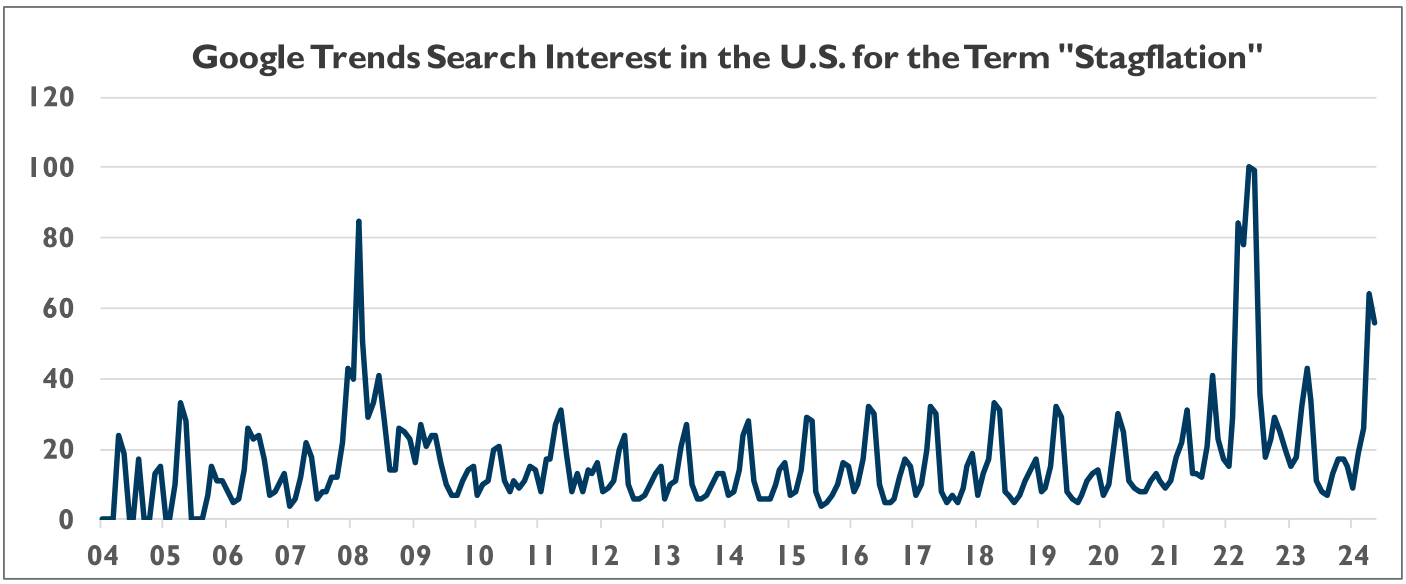
On the night of April 18, 1775, Paul Revere famously rode through the countryside shouting, "The British are coming! The British are coming!" to alert colonial militias of the approaching invasion. This iconic phrase serves as a reminder of the urgency and importance of vigilance in times of crisis.

Nearly 250 years later, we hear the subtle rumblings of another looming danger: "Stagflation is coming! Stagflation is coming!". Recent data from Google Trends shows a rise in search interest for the term "stagflation" in the United States, nearing levels last seen in 2022. This spike in interest surged in late April following comments from Jamie Dimon, the world’s investment banker, who suggested that "stagflation" could be a potential outcome for the U.S. economy, though he remains hopeful for a "soft landing."

Exhibit 1: Google Trends[2] data on monthly search interest for the term "stagflation" since 2004 shows a spike in April, reaching levels comparable to those seen in 2022



Source: Google, Foundry Partners LLC

1 https://api.parliament.uk/historic-hansard/commons/1965/nov/17/economic-affairs

2 Google Trends measures “search interest relative to the highest point on the chart for the given region and time. A value of 100 is the peak popularity for the term.”

The term "stagflation[3]" was coined in the mid-1960s, with one of the earliest known references made by Iain Macleod in a speech to Parliament (see opening quote). Despite increasing concerns about its resurgence, stagflation is a rare phenomenon, occurring only 12 times in the U.S., or 5% of annual observations since 1790 (see Figure 2). Its rarity stems from the fact that it is typically self-correcting, as the destruction of demand either naturally or through economic policy responses leads to a reduction and/or curb in price increases.

Exhibit 2: Since 1790, there have only been 12 instances where inflation rose and real GDP fell[4]

Inflation/Deflation		Real GDP Growth: Negative	Real GDP Growth: Positive
	High >2%	**12 Years** **5%**	105 Years 45%
	Low <2%	20 Years 9%	96 Years 41%

Inflation/Deflation		Real GDP Growth: Negative	Real GDP Growth: Positive
	High >2%	**Avg GDP = -2.2%** **Avg Px = +9.0%**	+4.9% +5.4%
	Low <2%	Avg GDP = -3.8% Avg Px = -4.6%	+4.9% -1.5%

Source: Measuring Worth, Federal Reserve Bank of Minneapolis & Foundry Partners, LLC

There have been only four extended periods of stagflation in U.S. history, all occurring after the Federal Reserve was established in 1913: during and after World War I , after World War II , and twice during the Great Inflation of the 1970s and 1980s . A common factor during these periods was significant government deficit spending in the preceding and concurrent years, an accommodative Federal Reserve, and/or supply shocks (see footnotes).

[3] "Stagflation is an economic cycle characterized by slow growth and a high unemployment rate accompanied by inflation" **https://www.investopedia.com/terms/s/stagflation.asp**

[4] GDP Price deflator 1790 to 1911; CPI from Federal Reserve Bank of Minneapolis 1912 to 2023

[5] "At the end of World War I (WWI), the United States was experiencing strong growth and unruly inflation, driven in part by an expansionary fiscal policy and an accommodative monetary policy, a macroeconomic state which parallels that of the United States in 2022." - **Labor Market Tightness during WWI and the Postwar Recession of 1920-1921; Haelim Anderson Federal Deposit Insurance Corporation, Jin-Wook Chang Federal Reserve Board**

[5] "These two factors resulted in a vigorous expansion of the monetary base and the money supply. As a result, inflation rose significantly during the period." - **The Second World War and Its Aftermath, Daniel Sanches, Federal Reserve Bank of Philadelphia**

[6] "The dramatic rise in inflation between 1972 and 1974 can be attributed to three major supply shocks—rising food prices, rising energy prices, and the end of the Nixon wage-price controls program—each of which can be conceptualized as requiring rapid adjustments of some relative prices." - **The Supply-Shock Explanation of the Great Stagflation Revisited, Alan S. Blinder - Princeton University & Jeremy B. Rudd - Federal Reserve Board**

In this semi-annual report we present charts that illustrate the subtle but significant trends that could fuel inflation and impact demand in the coming years, along with other meaningful factors shaping the broader market landscape.

These charts visualize the following topics:

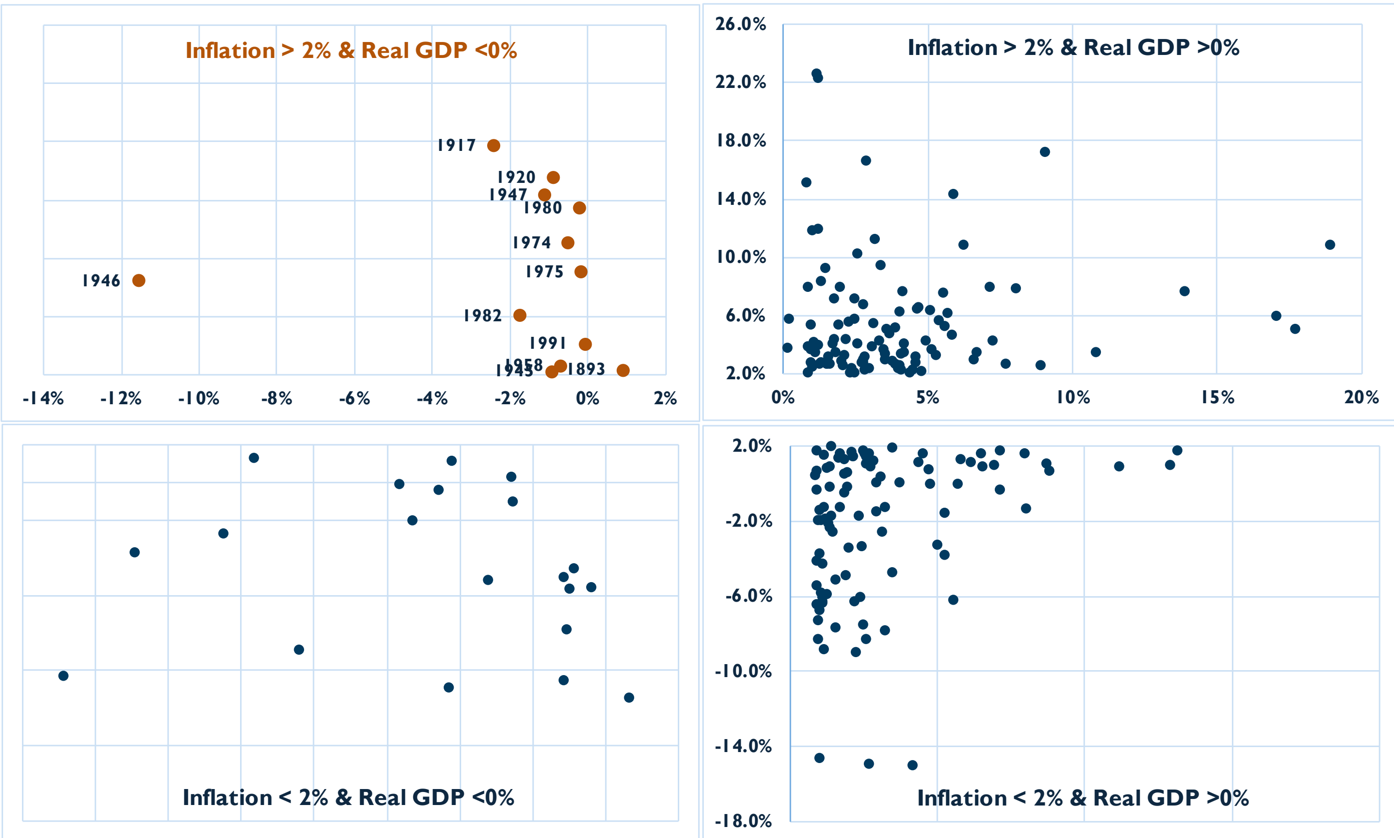
1. 200+ Years of Annual U.S. GDP vs Inflation Since 1790
2. Real Interest Rates and Deficit Spending Data in the U.S. Since the 1800s
3. Global Production and Drilling Trends of Copper, Silver, and Natural Gas/Oil
4. Auto Loans, Credit Card, and Mortgage Delinquency Rates in the U.S.
5. World and U.S. Public / Private Debt as a Percent of GDP Since the 1950s
6. Declining Population Growth Trends
7. A Chart Illustrating that Large Cap Relative Outperformance to Small Caps Since the Credit Crisis is Primarily Due to Multiple Expansion (courtesy of Furey Research Partners)
8. Wall Street's Forecasting Precision: Fiscal Estimates vs. Price Targets

It has been over 40 years since the last true stagflationary period. We might already be in one now, or it might not come at all. We cannot predict stagflation with certainty. Its presence becomes evident only in hindsight, when both unemployment and inflation remain persistently high, as noted by Iain Macleod in his address to the British Parliament. However, we can observe and monitor the gradual trends and structural changes that have impacted supply and demand dynamics since COVID-19, including:

1. Structural government deficits
2. A monetary policy that is likely to become more accommodative if unemployment trends or the demand outlook worsen
3. The rise of nationalistic interests through the onshoring of manufacturing facilities combined with tariff wars that reverse the last 40 years of globalization
4. The de-incentivization of companies to seek out "dirty" commodities and the need for more "industrial" commodities, particularly with the shift towards alternative energy

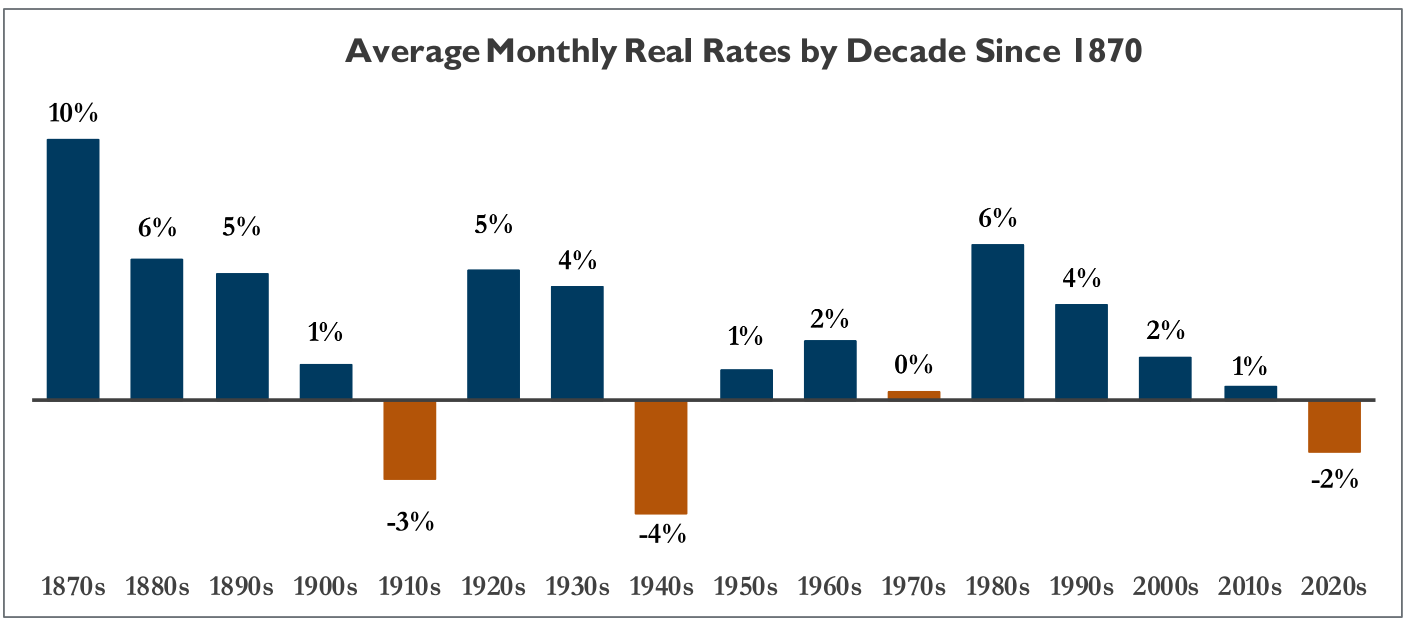
All these data points are part of a grander mosaic that helps the Foundry Small Cap team seek to better position the portfolio to navigate turbulent times, capitalize on moments driven by fear, and most importantly enhance our fundamental stock selection. While Paul Revere had a clear signal when he saw the whites of the British eyes, navigating any period of economic uncertainty, stagflation alike, requires more than just a midnight ride — it demands a keen eye on the horizon (or narrative) and a well-prepared, time-tested strategy.

Exhibit 3: A scatterplot showing Real GDP (x-axis) vs Inflation (y-axis) on an annual basis since 1790 w/ top left corner in burnt orange illustrating "stagflationary" periods



Source: Measuring Worth, Federal Reserve Bank of Minneapolis & Foundry Partners, LLC

Exhibit 4: The decade preceding and during stagflationary periods typically experience negative or extremely low real interest rates, as indicated by the bars in burnt orange.

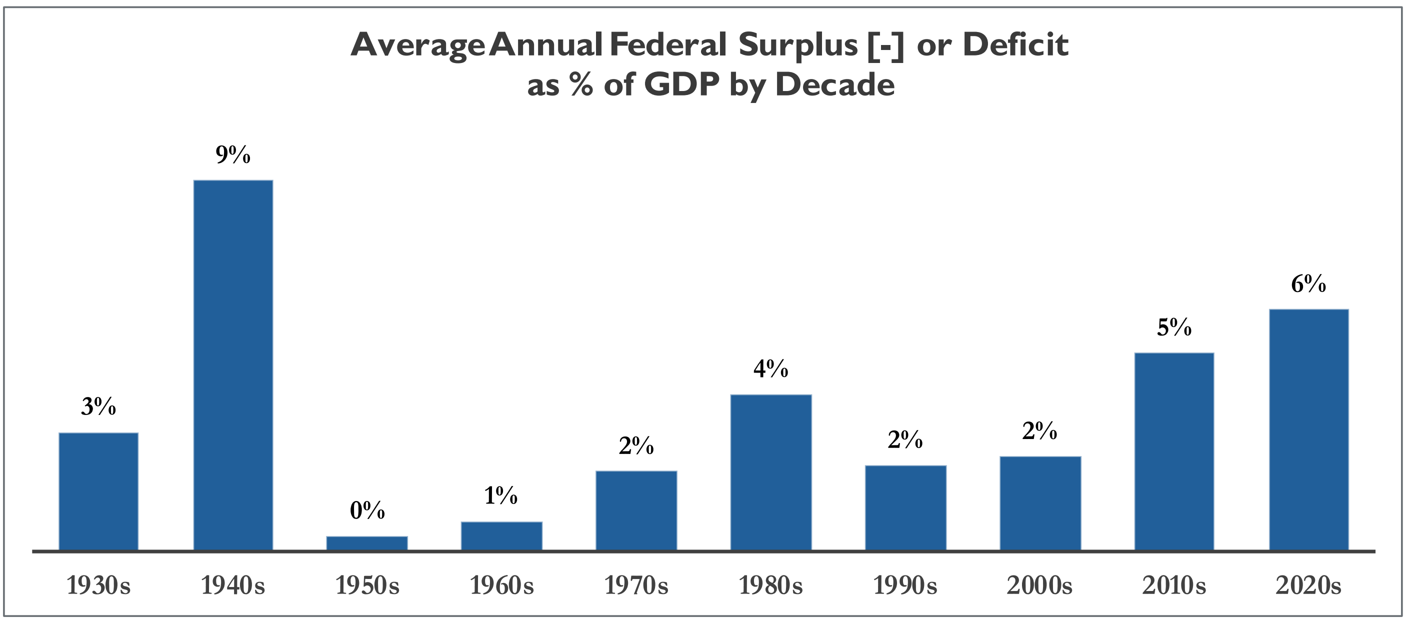


Source: Stock Market Data Used in "Irrational Exuberance" Princeton University Press, Robert J. Shiller & Foundry Partners

Exhibit 5a: The response to the Great Recession (2008) and COVID (2020) rivaled the level of government spending seen during the Great Depression (1930s) and World War II (1940s)

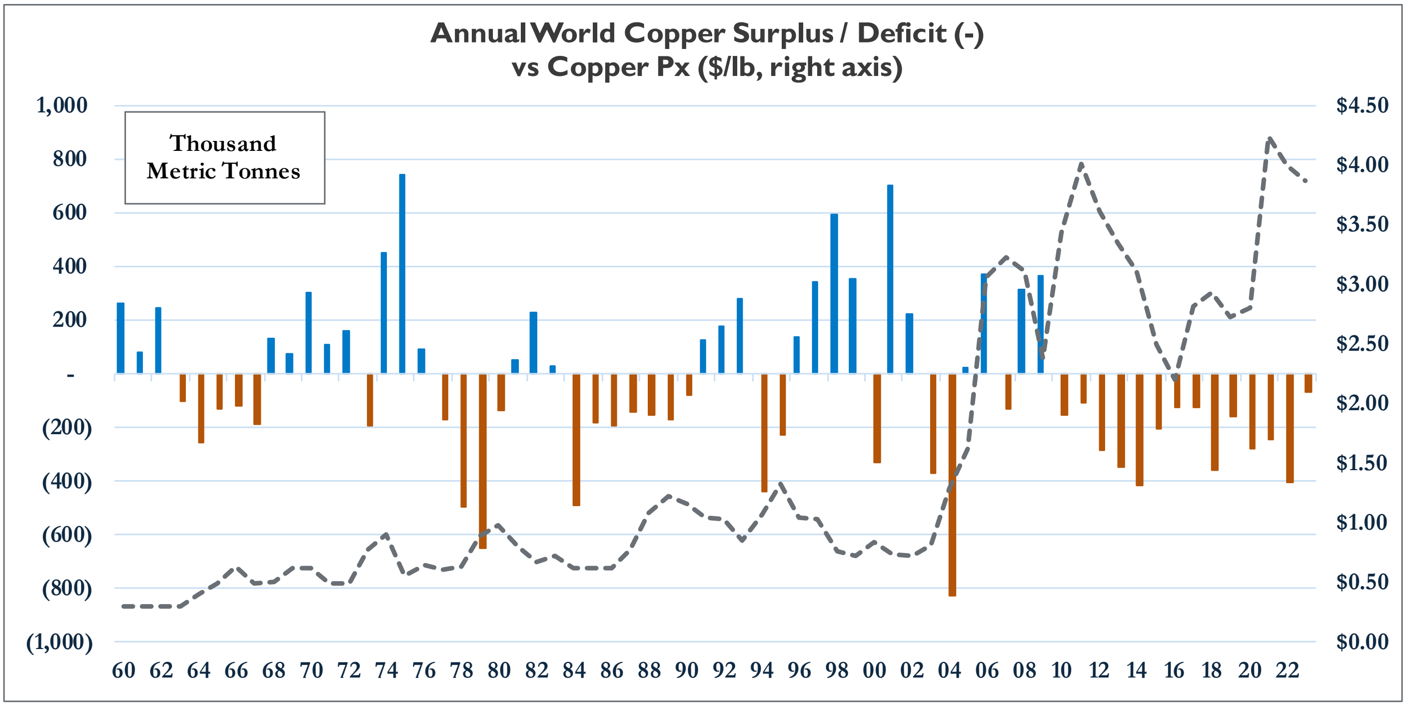
Source: Peter G. Peterson Foundation

Exhibit 5b: Thus far, in the 2020s, government spending has surpassed that of the 2010s and ranks as the second largest in nine decades



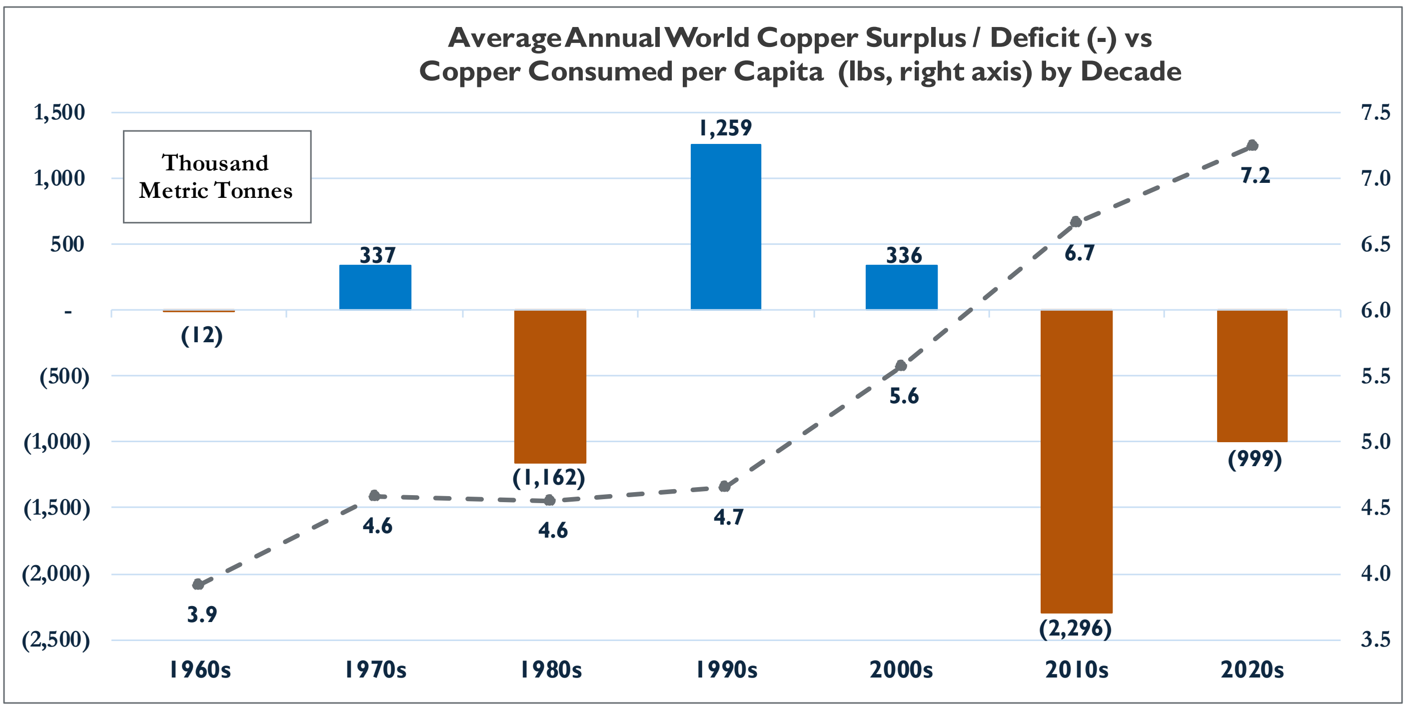
Source: FRED Database & Foundry Partners LLC

Exhibit 6a: Since the Credit Crisis, global consumption of copper has exceeded production levels, resulting in increased copper prices



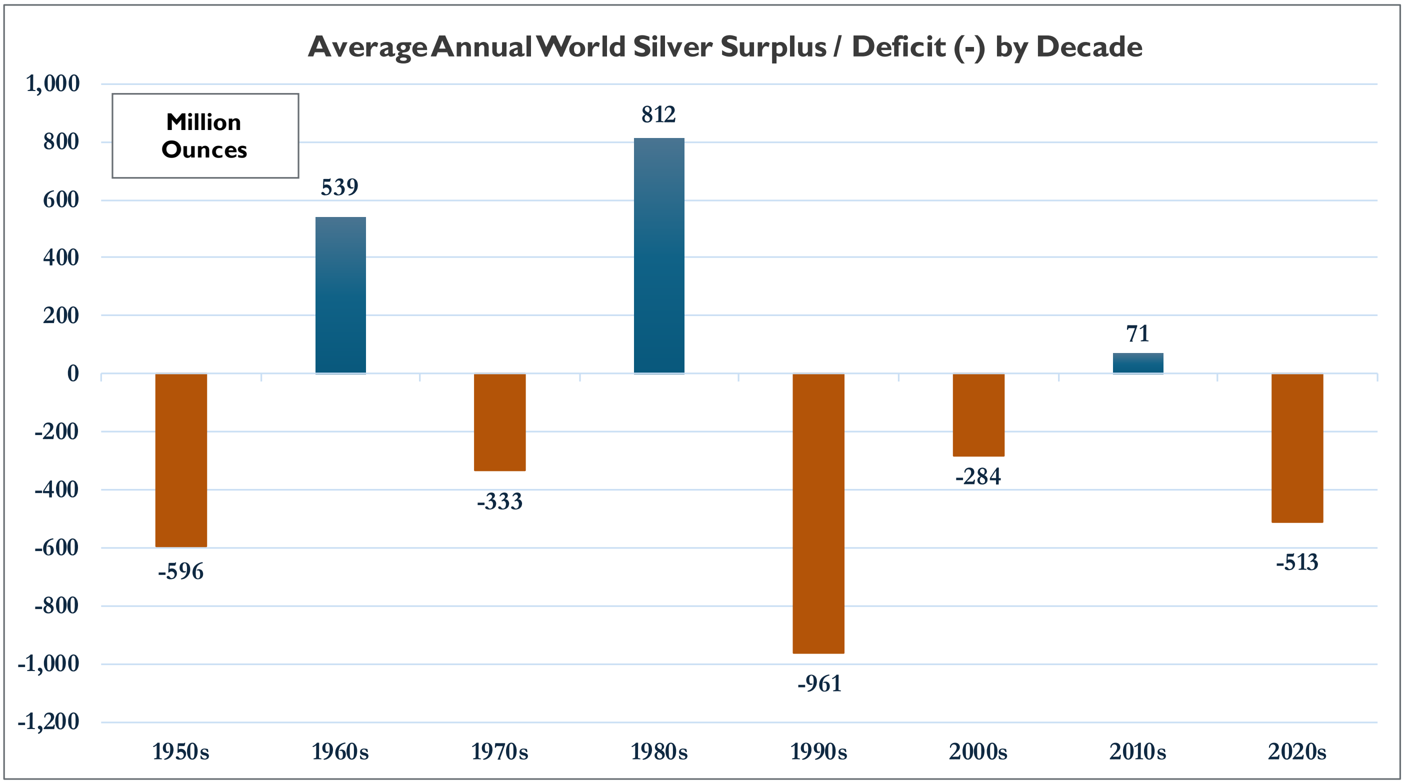
Source: ICSG; See The World Copper FactBook 2023, WBMS, COMEX, and Foundry Partners LLC

Exhibit 6b: People are now consuming nearly double the amount of copper per capita compared to the 1990s. The current copper deficit in the first four years of the 2020s is already the 3rd largest of any decade since the 1960s



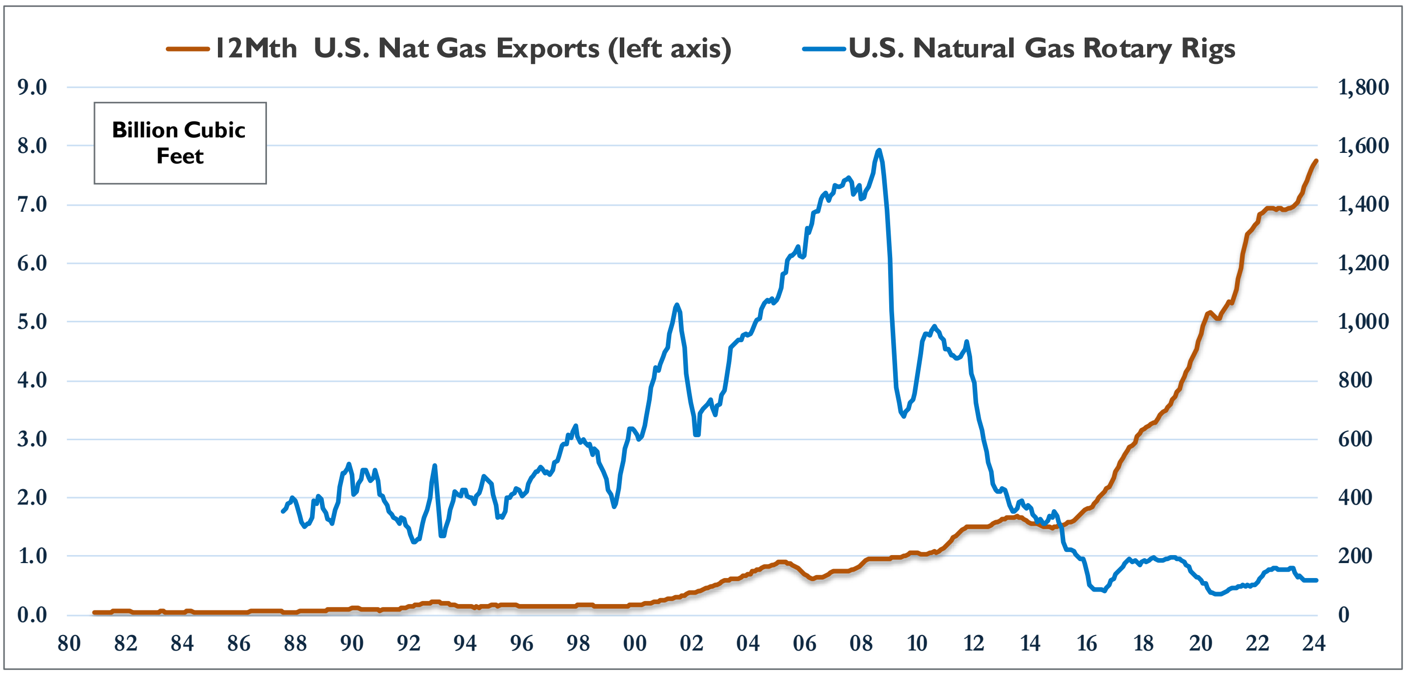
Source: ICSG; See The World Copper FactBook 2023,
WBMS, COMEX, and Foundry Partners LLC

Exhibit 6c: Silver is also experiencing a significant deficit. If the current trend continues, this deficit will be the largest in seven decades



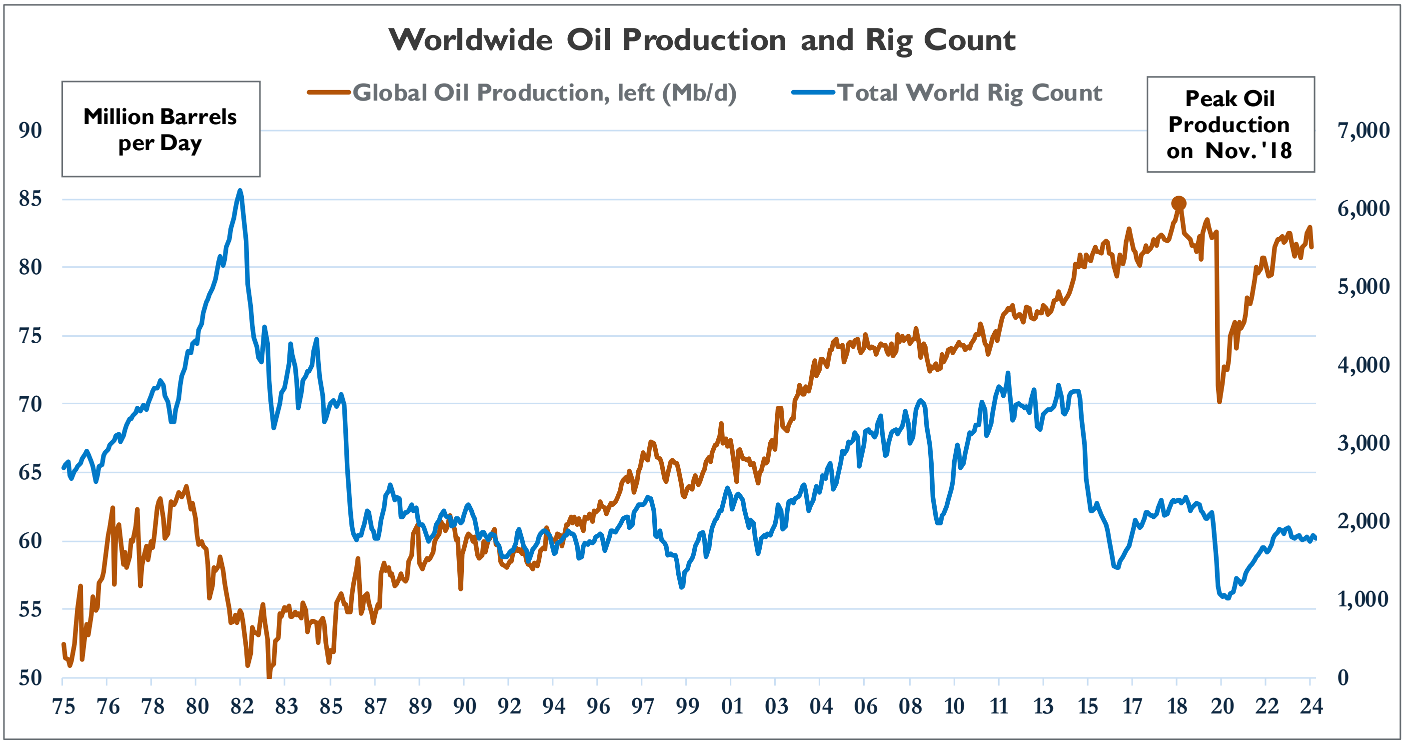
Source: Metals Focus, The Silver Institute, & Foundry Partners LLC

Exhibit 7a: Since the onset of COVID, U.S. natural gas exports have doubled and are anticipated to keep rising due to the ongoing development of LNG facilities, while natural gas drilling sits near record lows



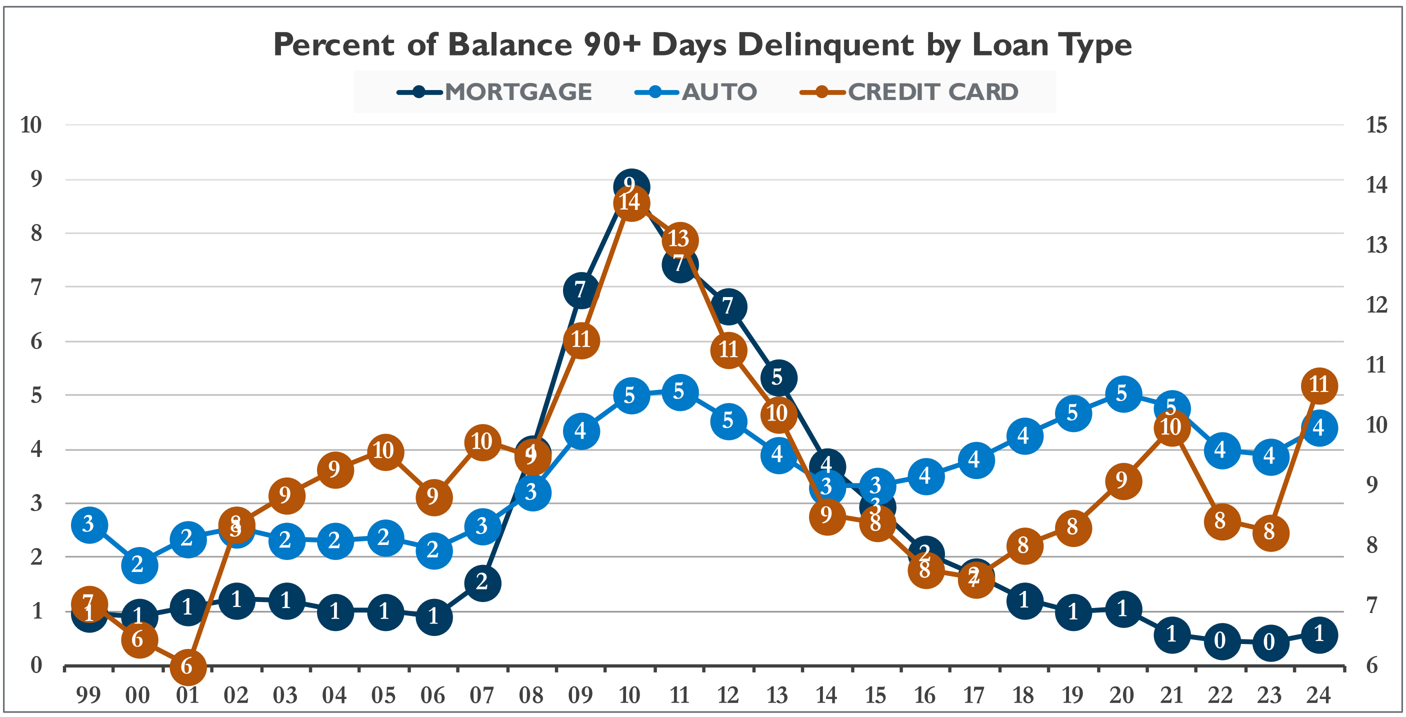
Source: AIA, Baker Hughes, & Foundry Partners LLC

Exhibit 7b: Despite oil prices remaining persistently high, interest in fossil fuel drilling remains at near-bottom levels while global production reached its peak in November 2018



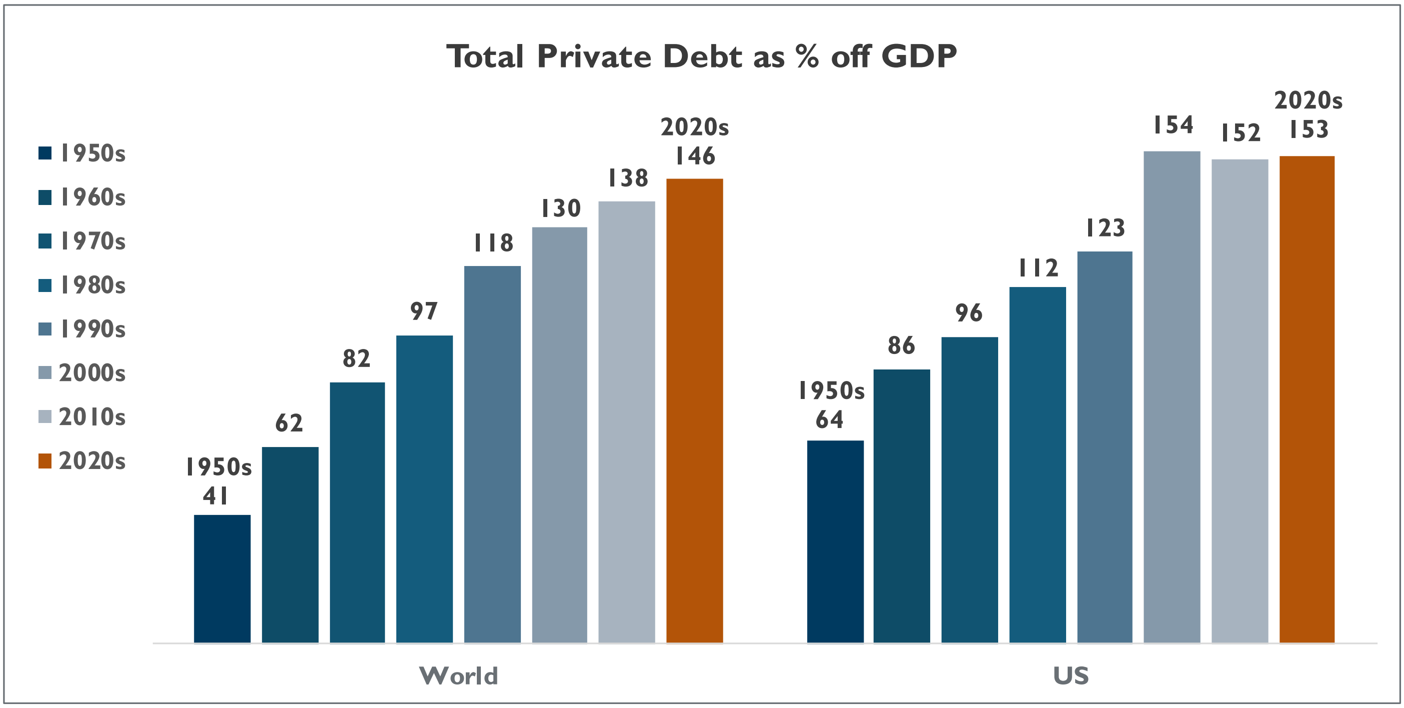
Source: Baler Hughes & Foundry Partners LLC

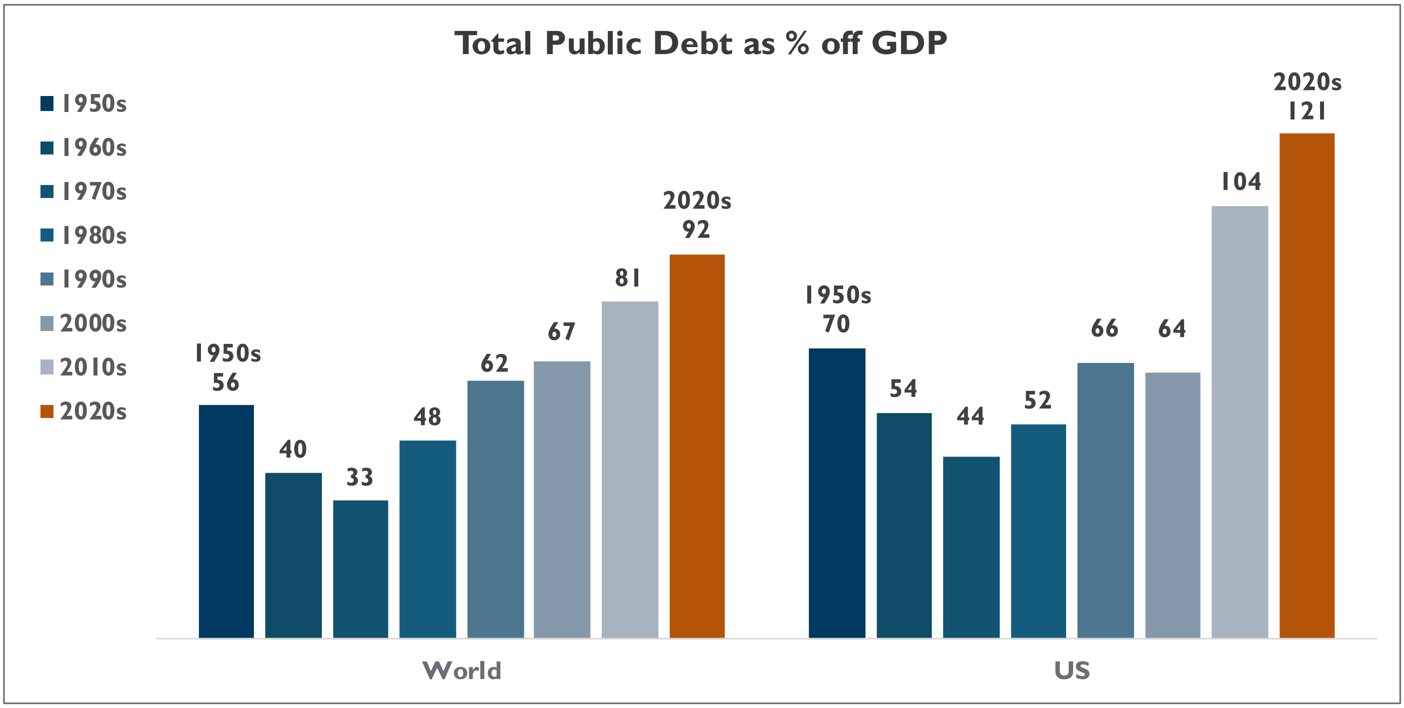
Exhibit 8: Auto and credit card delinquency rates are increasing, while mortgage deliquency rates are near lows



Source: New York Fed Consumer Credit Panel, Equifax, and Foundry Partners LLC

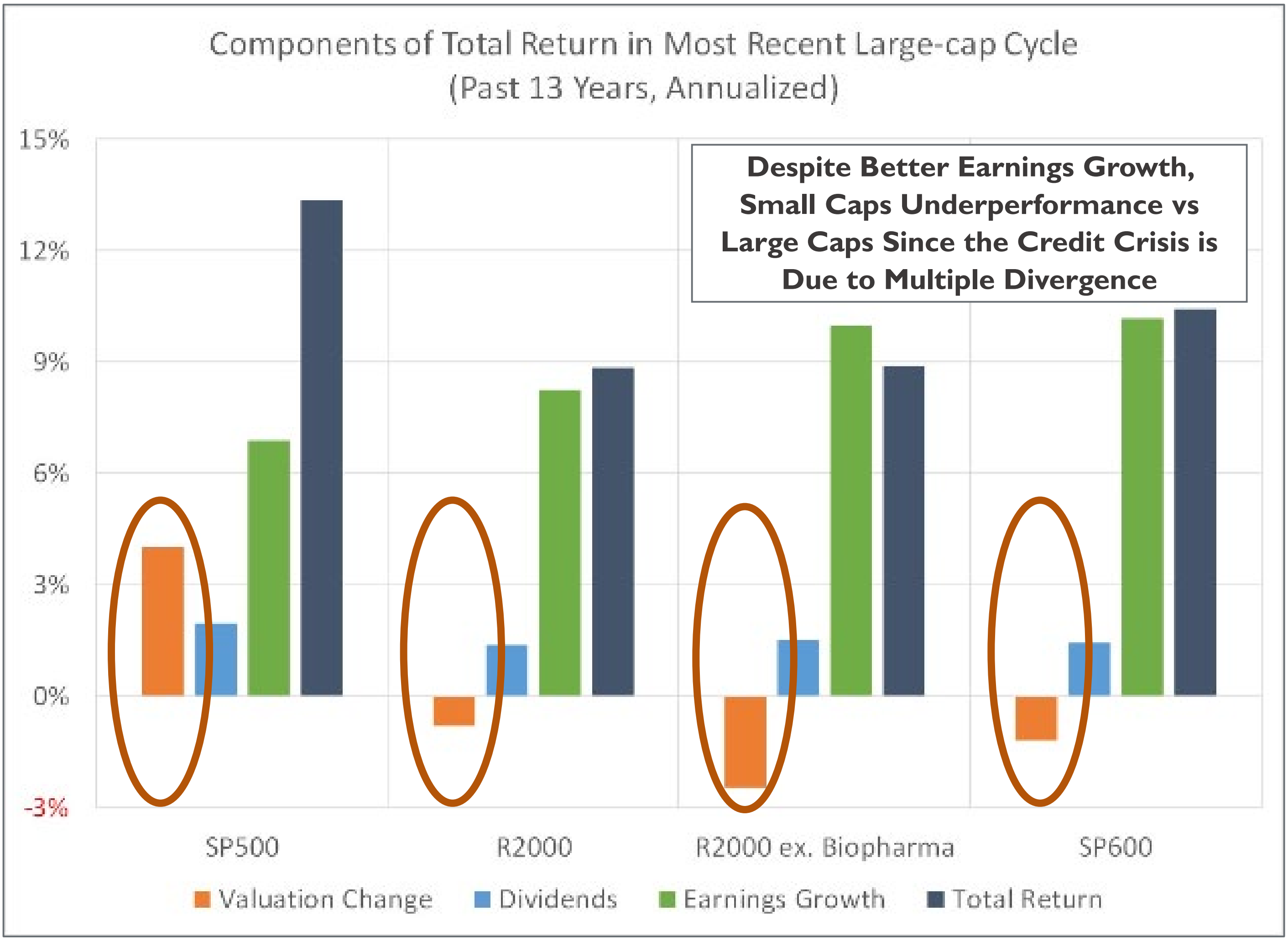
Exhibit 9: Most of the rise in debt in the U.S. over the last two decades has occurred at the public level, while private debt has remained relatively constant as a percentage of GDP - This dynamic poses challenges for government financing in a rising rate environment, necessitating either increased debt, fiscal discipline, or lower rates





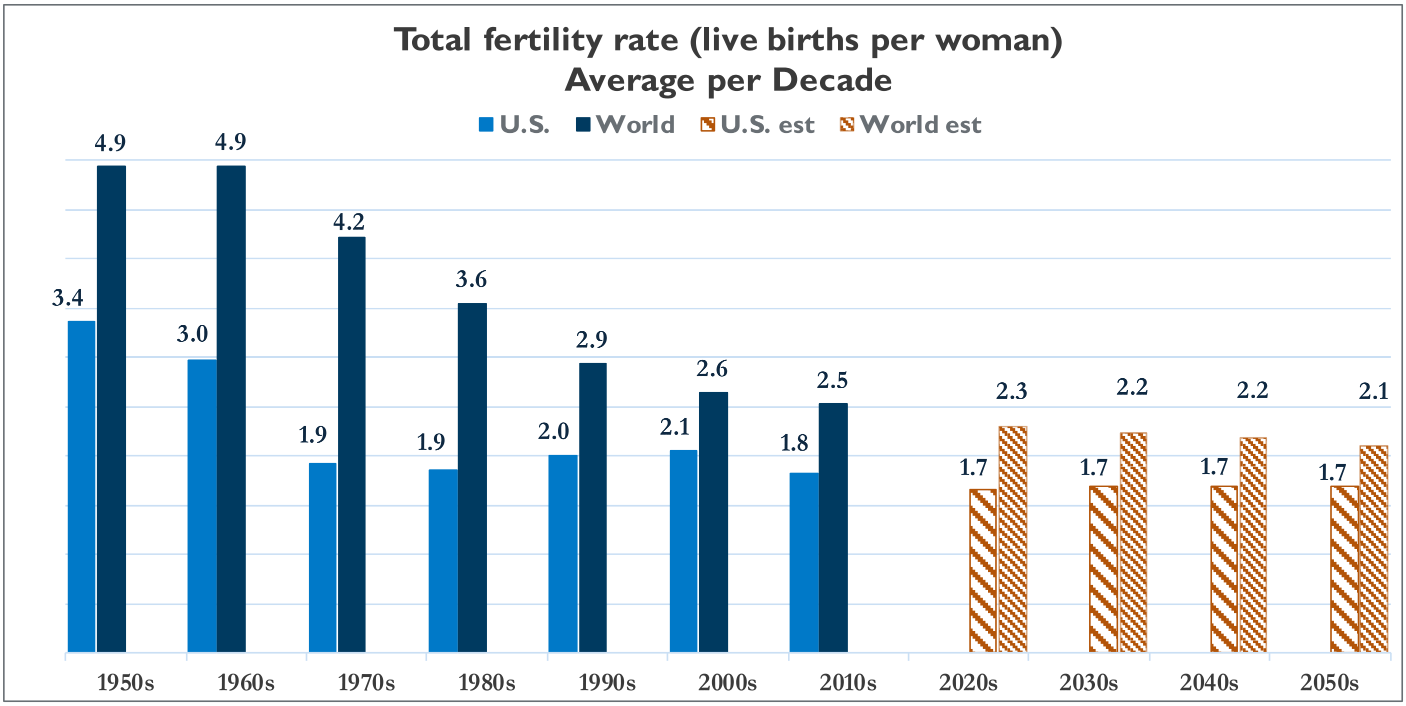
Source: IMF & & Foundry Partners LLC; 2020s is 2022 data

Exhibit 10: Our friends at Furey Research consistently produce insightful charts - Here is one from April 21st, 2024, addressing the question, "Why the Large Cap Cycle Can't Persist Indefinitely"



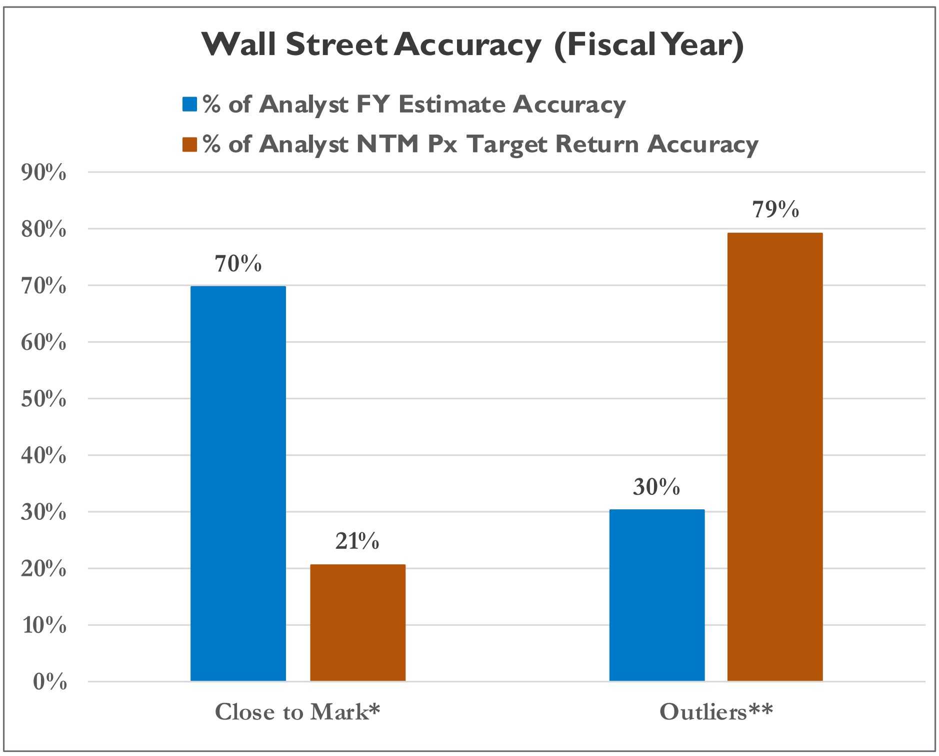
Source: Furey Research Partners, FactSet (as of 3/28/2024 – Earnings and Valuation using Non-GAAP EPS), Foundry Partners LLC

Exhibit 11: The global fertility rate is projected to keep decreasing over the next few decades, although at a slower pace than in the past, and will stay above 2.0, which is crucial for population growth



Source: United Nations & Foundry Partners LLC

Exhibit 12: Wall Street excels in projecting earnings for the upcoming year but often falls short when it comes to predicting stock outcomes



Here, we showcase the precision of Wall Street's forecasts for fiscal year estimates alongside their accuracy in setting price targets. Among all analyst coverage from 2002 to 2023 for stocks with market caps exceeding $80 million, approximately 70% of fiscal year estimates align within +/-10% of the actual results, while only 21% of analysts' price targets hit within +/-10% of the stock price over the subsequent twelve months.

Source: FactSet & Foundry Partners LLC

*Close to Mark = Between -10% and +10%
**Outlier = <-10% or >+10%

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Mario Tufano is a Portfolio Manager on the Small and Micro Cap Value Strategies team for Foundry Partners. Mario started in the industry in 2002 and has been with Foundry Partners since the company's transaction with Dreman Value Management (DVM) in June of 2016. He joined DVM in 2007 as a Senior Securities Analyst and was promoted to Associate Portfolio Manager in 2010. He is responsible for research of new investment ideas as well as current portfolio holdings for the firm's Small Cap Value products. Prior to joining the firm, he was an Associate Director and Equity Analyst at UBS Investment Bank covering the Consumer Staples and Discretionary sectors.

Mr. Tufano graduated from Pennsylvania State University with a B.S. in Finance. He is a CFA charterholder and is a member of the New York Society of Security Analysts (NYSSA).

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Mr. Roach graduated from Baldwin Wallace College with a B.A. in Business, and earned a MBA from the University of Chicago's Booth School of Business. In addition, Mr. Roach is a former board member on the Rice University Wright Fund.

About Foundry Partners:

Foundry Partners, LLC, is a boutique asset management company that specializes in active management. Established in September of 2012, the company officially began managing assets in February 2013. The firm originated after its founders, former Fifth Third Asset Management Employees, acquired the growth and value products/assets from Fifth Third Asset Management, Inc. As part of Foundry's long term plan to grow both organically and strategic acquisition, Foundry Partners added to its Cleveland office with the acquisition of the Small Cap Value team (and assets) from Dreman Value Management.

The firm was formed out of a desire to create a unique and independent atmosphere. With an average of over 25 years of investment experience per manager, our autonomous investment teams are able to offer a diverse product set while bringing the stability and confidence needed to navigate a variety of market environments.

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