

Investor Advisory Committee on Financial Markets
Member Presentation Materials

July 12, 2023

The Changing World Order

What structural shifts in the US and global economies have had the largest impact on your growth expectations over the near and longer term?

Ray Dalio

July 2023

The Five Big Forces

- 1) **Financial/Economic:** Large Increases in Debt and Debt Monetization (Largest Since 1930-45)
- 2) **Internal Conflict:** Due to Wealth and Values Gaps (Largest Since 1930-45)
- 3) **External/Geopolitical Conflict:** The Great Powers Conflict—Especially between the US and China (Largest Since 1930-45)
- 4) **Acts of Nature:** Drought, Floods, and Pandemics—Especially Regarding Climate Change and How to Deal with It
- 5) **Human Inventiveness and New Technologies—Especially AI**

Structural Shifts and their Dangerous Interactions

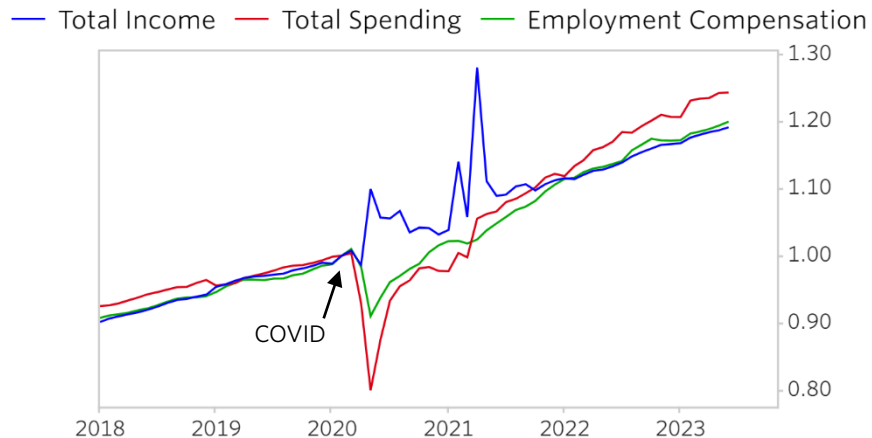
- Fiscal controls are at odds with spending needs for social programs, green economy investing, infrastructure spending, and AI investing. Fiscal deficits are at odds with a sustainable supply and demand for government debt. These are also at odds with central banks' inflation controls, which are at odds with domestic political and social stability, due to large wealth and political gaps.
- International geopolitical conflicts are creating deglobalization, as there is preparation for war and self-sufficiency rather than efficiency, which is at odds with efficiency and inflation goals.
- The fragmenting world order is causing multilateral systems to break down, which is at odds with stability, efficiency, and regulating AI.
- The big demographic shift will exacerbate the great North (“Rich Countries”) South (“Poor Countries”) divide.

A Lot Has Happened Over the Last Three Years (2020-2023)

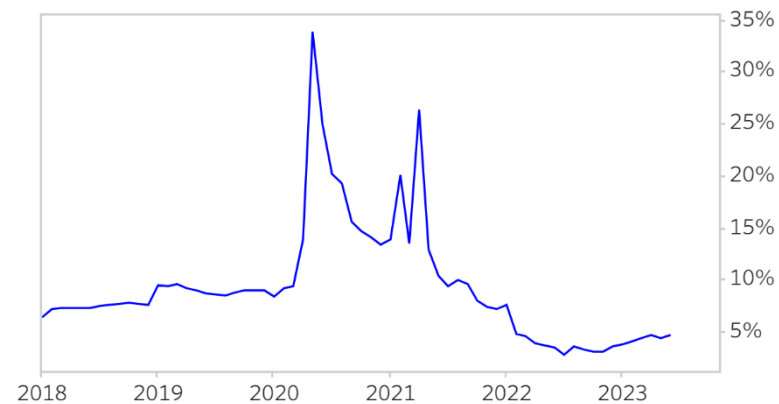
- Covid
- Big Fiscal Stimulus—Government Borrowed a Lot of Money
- Big Monetary Stimulus—Central Banks Printed a Lot of Money to Buy and Guarantee a Lot of Debt
- Internal Political Shift from Right to Left (Which Led to More Fiscal and Monetary Stimulus)
- Supply Line Problems
- Inflation Accelerated
- Greater International-Geopolitical Conflicts: China-US, NATO-Russia
 - Sanctions, Deglobalization, Self Sufficiency in the Event of War Is More Important than Efficiency
- Reduction in Fiscal Stimulation (Still High)
- Significant Reduction in Monetary Stimulation (from Extremely Easy to Slightly Tight)
- Big Losses in Bonds, Especially Government Bonds
- Reduction in Inflation to Still Too High Levels
- Credit Growth
- Venture Capital, Negative Cashflow Tech, and Commercial Real Estate Plunge
- AI Excitement and Boom
- Climate Change Initiative

COVID + STIMULUS LED TO TWO HUGE DEFICITS THAT IMPROVED THE INCOME STATEMENTS AND BALANCE SHEETS OF THE PRIVATE SECTOR AT THE EXPENSE OF THE GOVERNMENT SECTOR AND CENTRAL BANKS

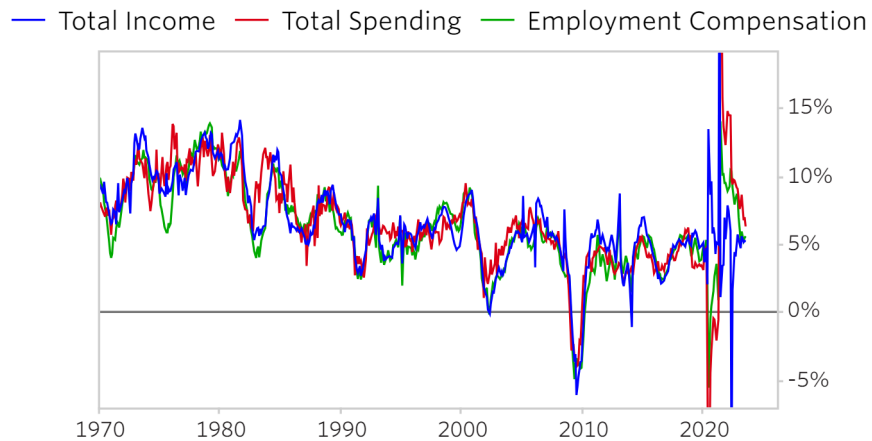
Nominal Personal Income and Spending (Indexed)



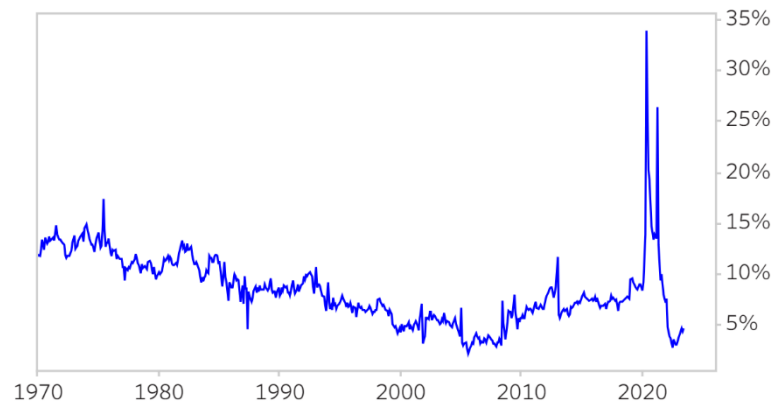
HH Savings Rate



Nominal Personal Income and Spending Growth

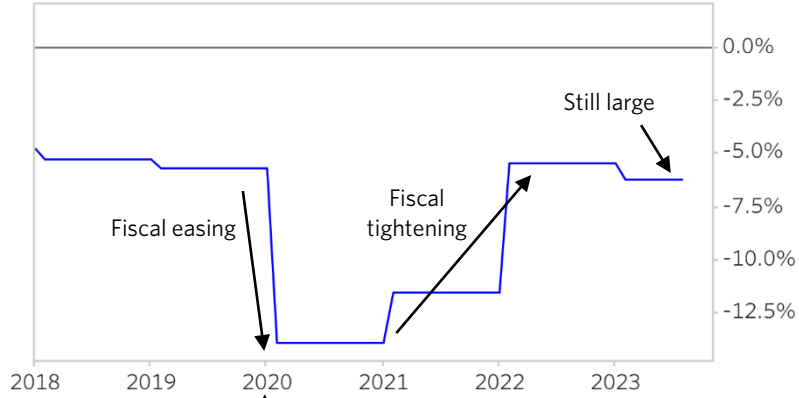


HH Savings Rate

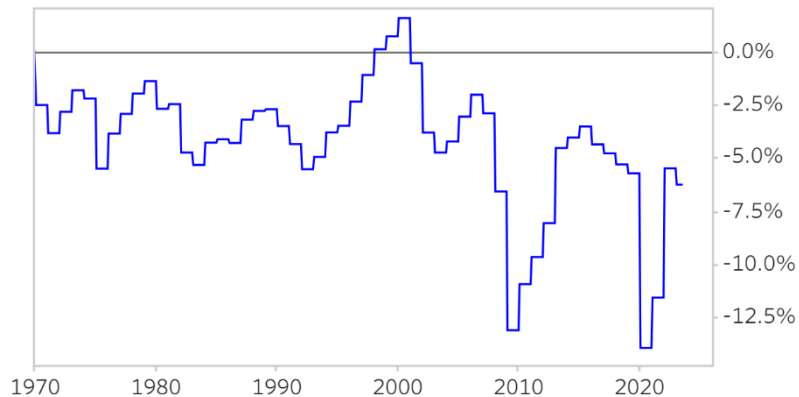


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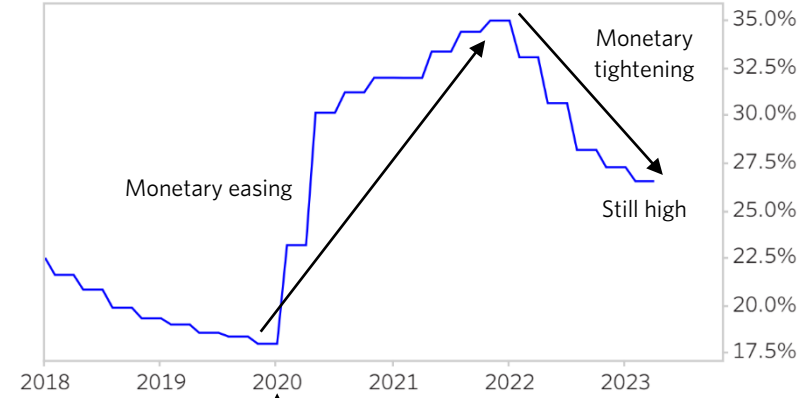
Fiscal Deficit (%PGDP)



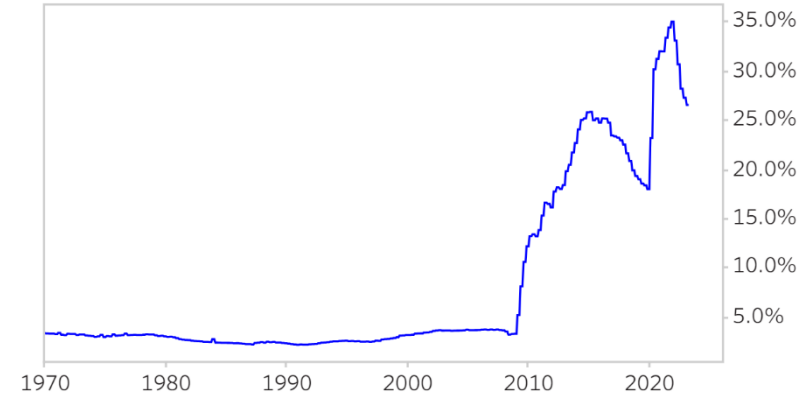
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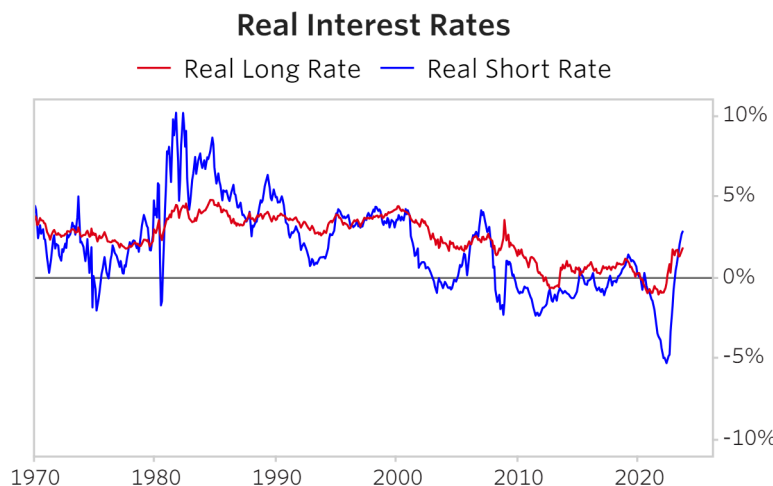
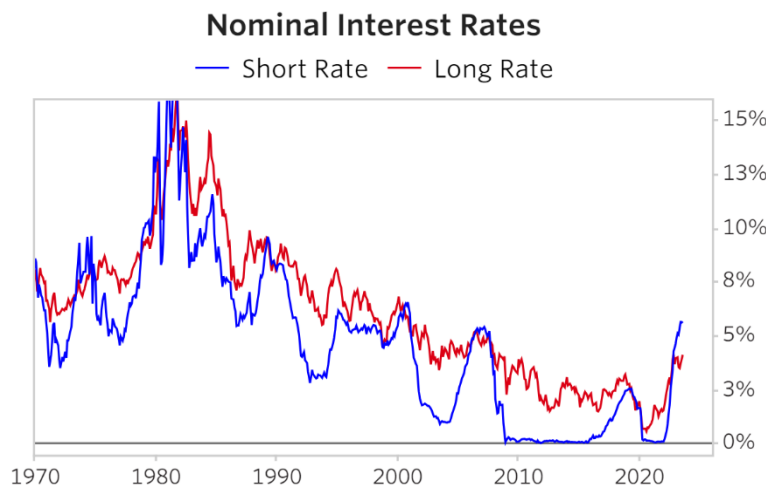
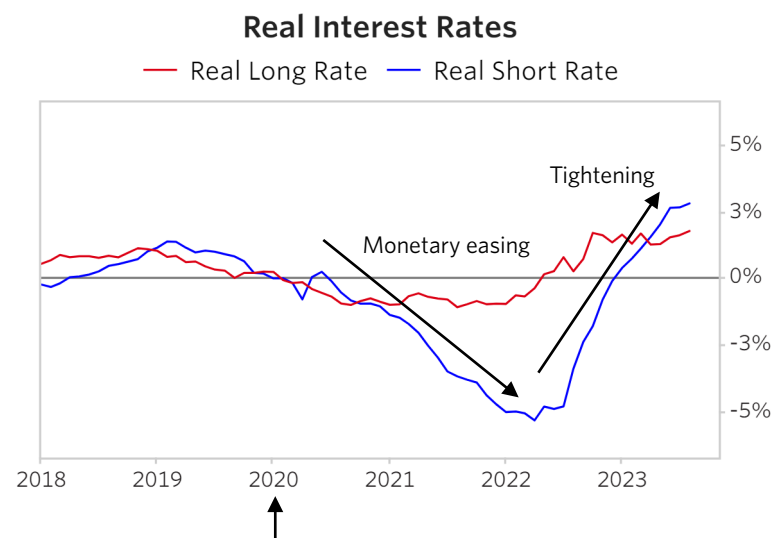
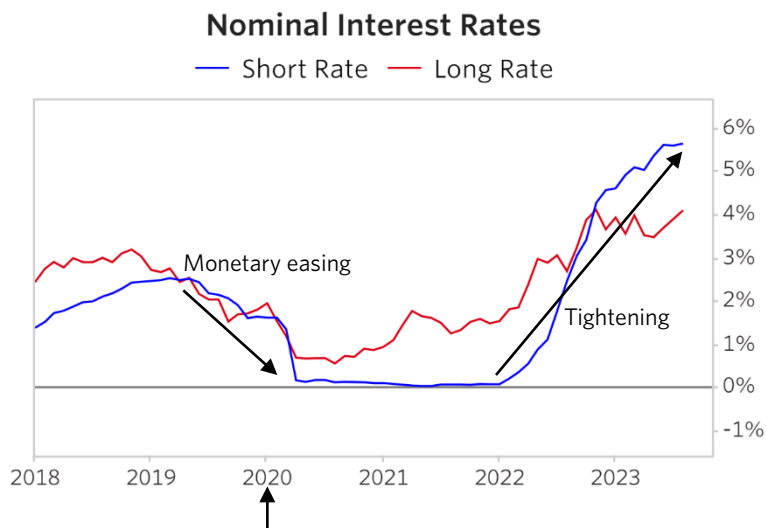
Fed Bond Holdings (%PGDP)



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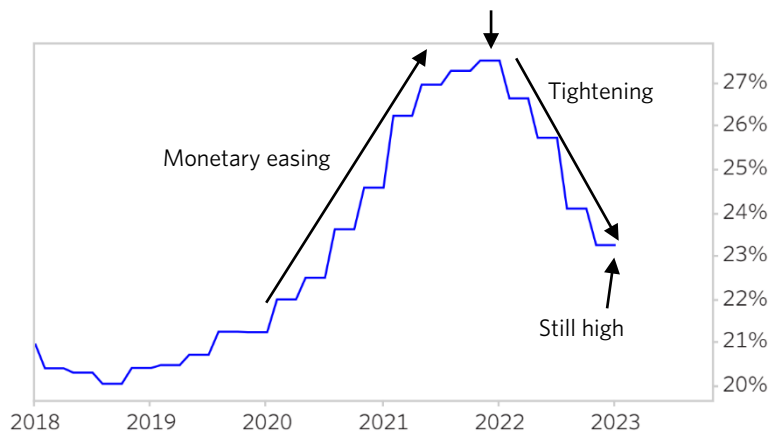


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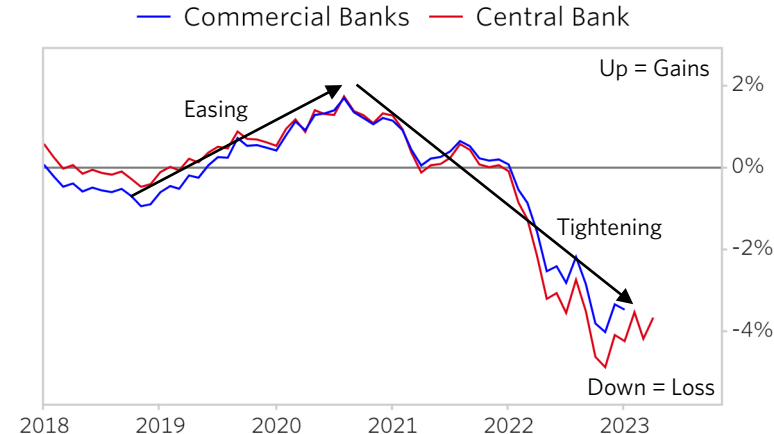


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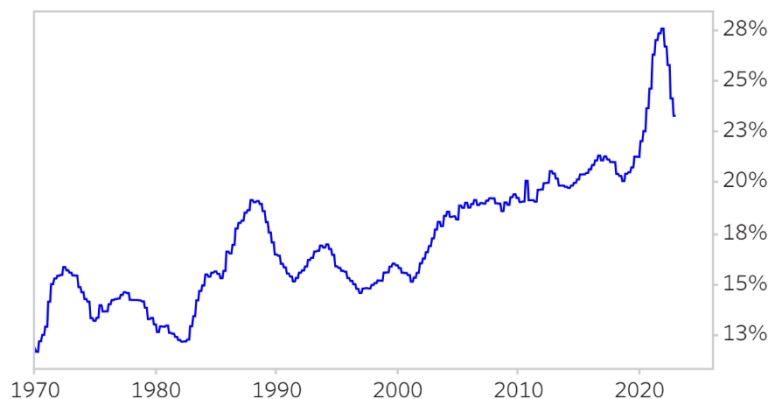
Commercial Bank Bond Holdings (%PGDP)



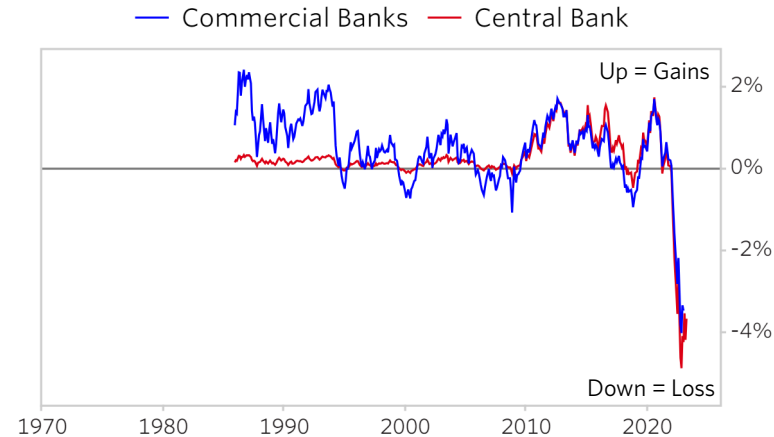
Mark to Market Gain on Bond Holdings (%PGDP)



Commercial Bank Bond Holdings (%PGDP)

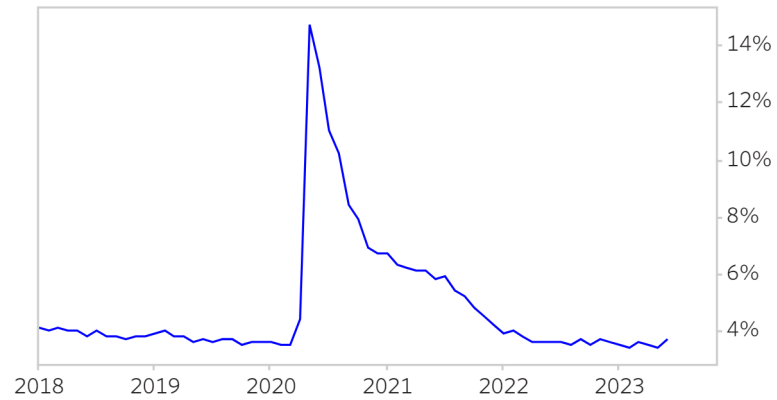


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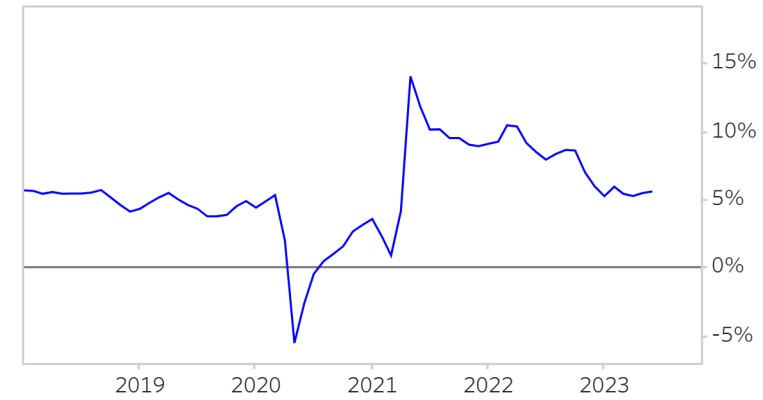


THE UNEMPLOYMENT RATE IS LOW AND COMPENSATION GROWTH IS HIGH

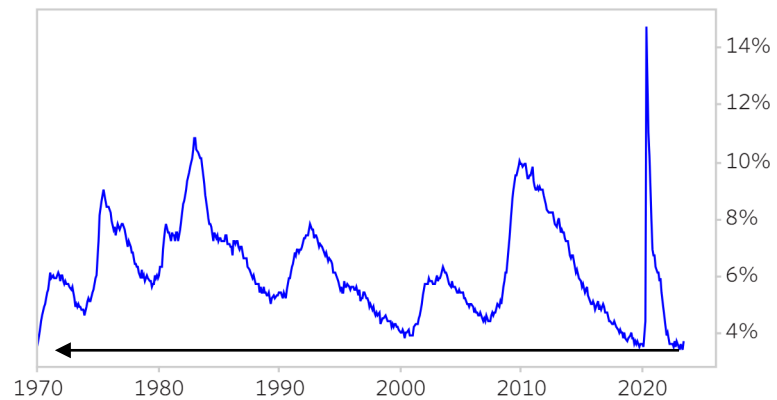
Unemployment Rate



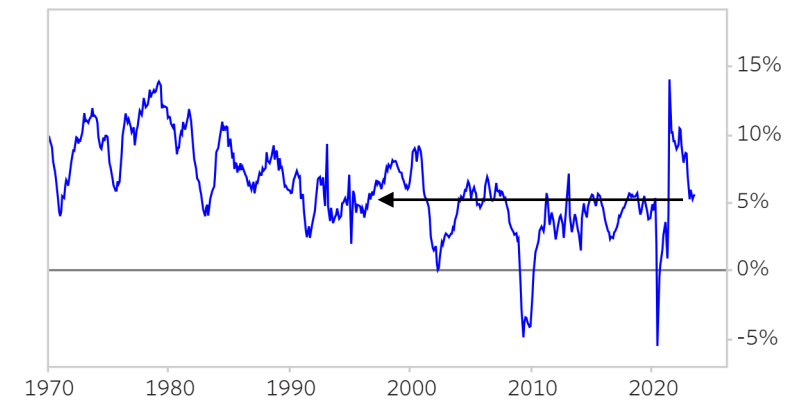
Employment Compensation Growth (YoY)



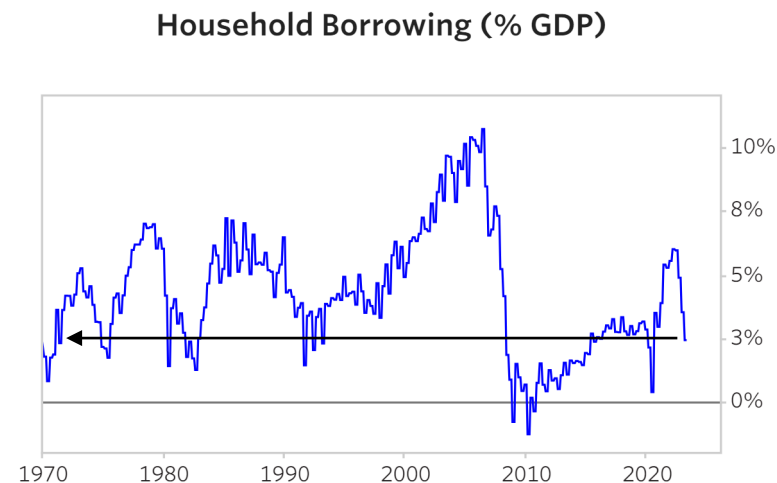
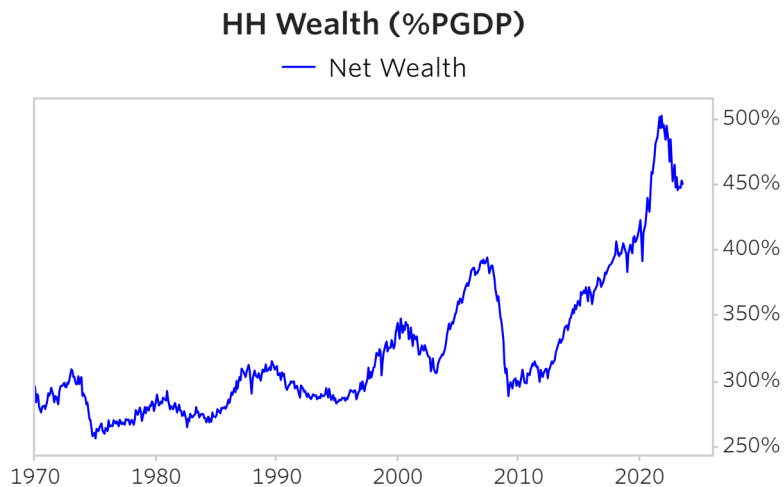
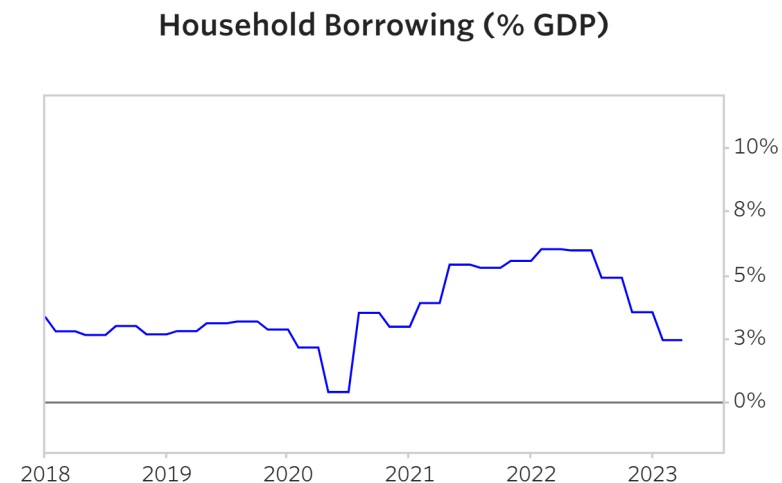
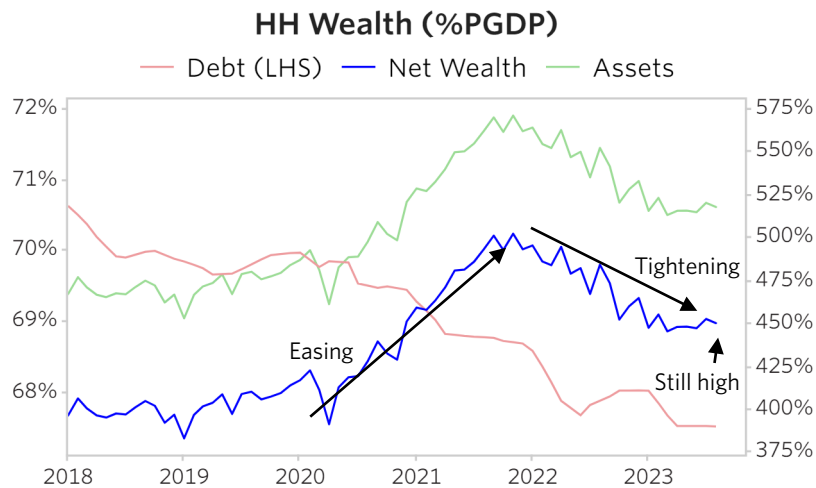
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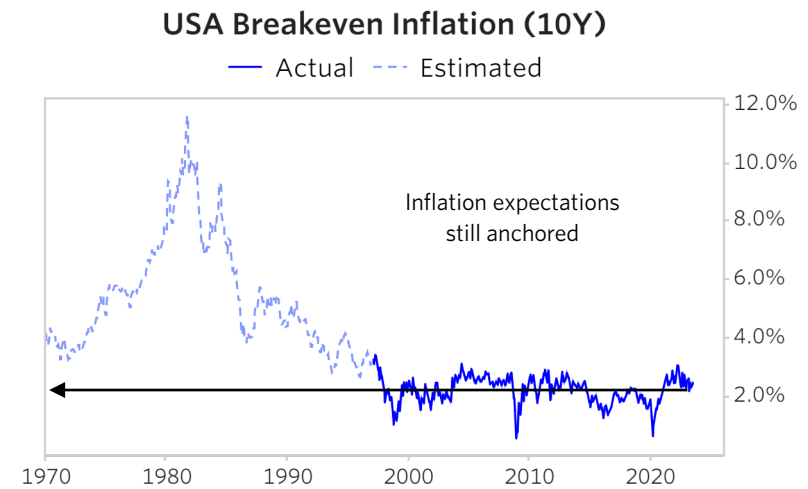
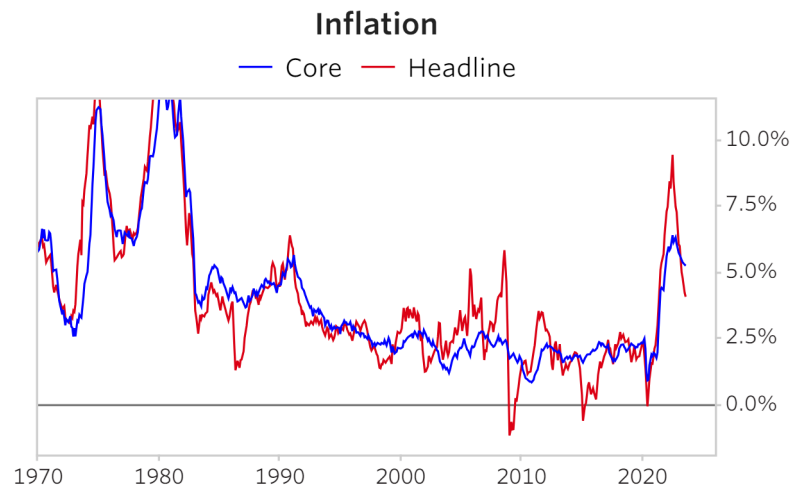
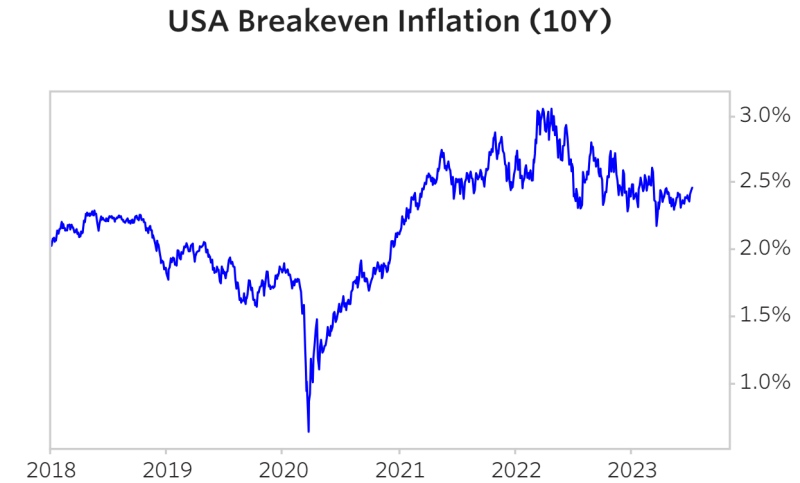
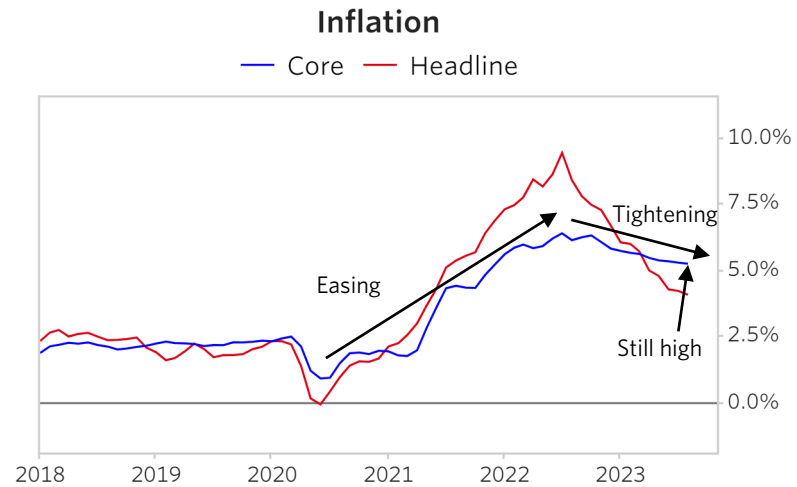
Employment Compensation Growth (YoY)



HOUSEHOLD SPENDING IS DRIVEN BY STRONG INCOMES AND BALANCE SHEETS, NOT BORROWING



INFLATION STILL LOOKS HOT – BUT EXPECTATIONS ARE ANCHORED



HOUSEHOLDS AND BUSINESSES LOOK HEALTHIER ACROSS THE WORLD – WHILE GOVERNMENTS LOOK LESS HEALTHY

Change in Assets and Liabilities by Player, Since 2020 (% PGDP)

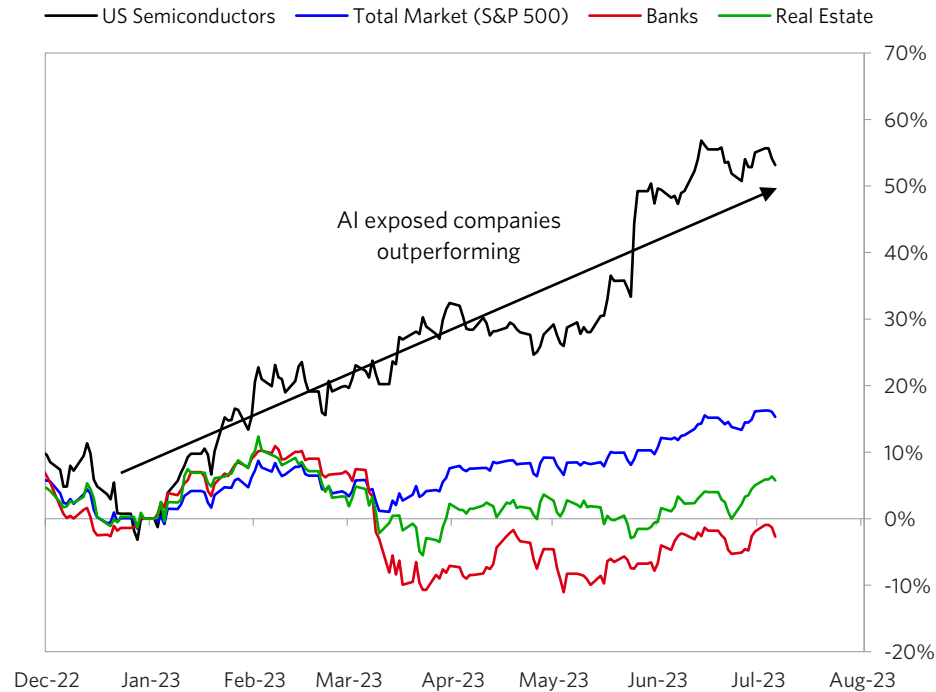
	USA	EUR	JPN	GBR	CAN	AUS	CHN
Household Net Worth	33%	1%	18%	-5%	30%	34%	35%
Household Assets	31%	-1%	20%	-10%	29%	25%	36%
Household Debt	-2%	-2%	2%	-5%	-1%	-9%	1%
Corporate Debt	1%	-4%	13%	-7%	1%	-12%	9%
Government Debt	12%	7%	6%	12%	11%	5%	12%
o/w Owned by Central Bank	8%	10%	8%	4%	10%	9%	0%
<i>Memo: Central Bank Losses on Govt Debt (%PGDP)</i>	-5%	-7%	-6%	-10%	-2%	-3%	0%
<i>Memo: Spot FX Move vs Gold</i>	-21%	-23%	-39%	-24%	-23%	-25%	-24%

Household balance sheets improved...

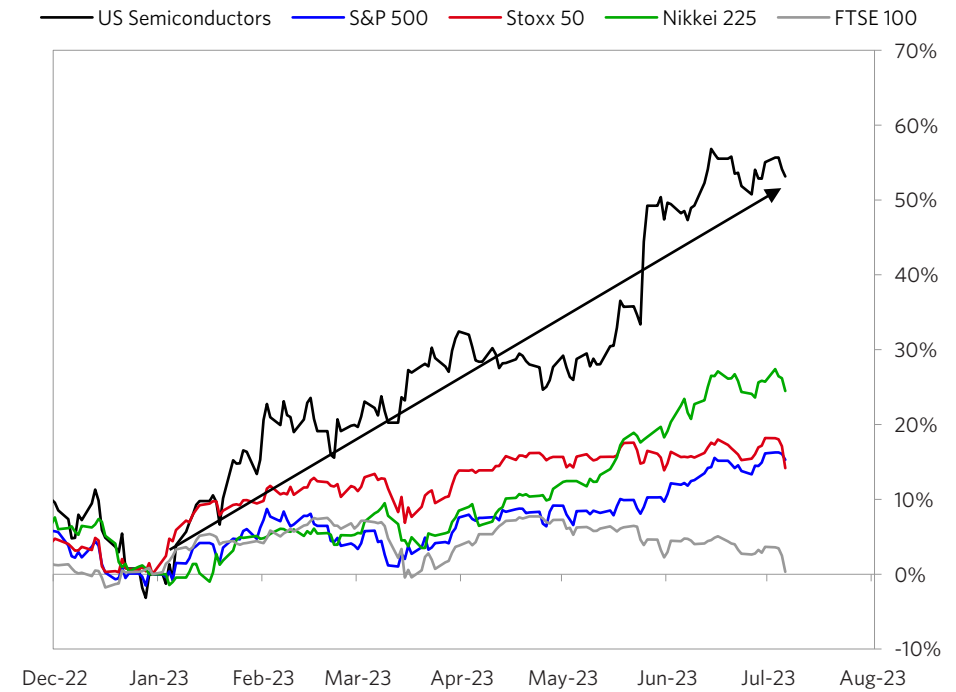
...while government and central bank balance sheets worsened

COMPANIES WITH EXPOSURE TO ARTIFICIAL INTELLIGENCE HAVE SIGNIFICANTLY OUTPERFORMED THE MARKET IN 2023

US Equity Sector Returns



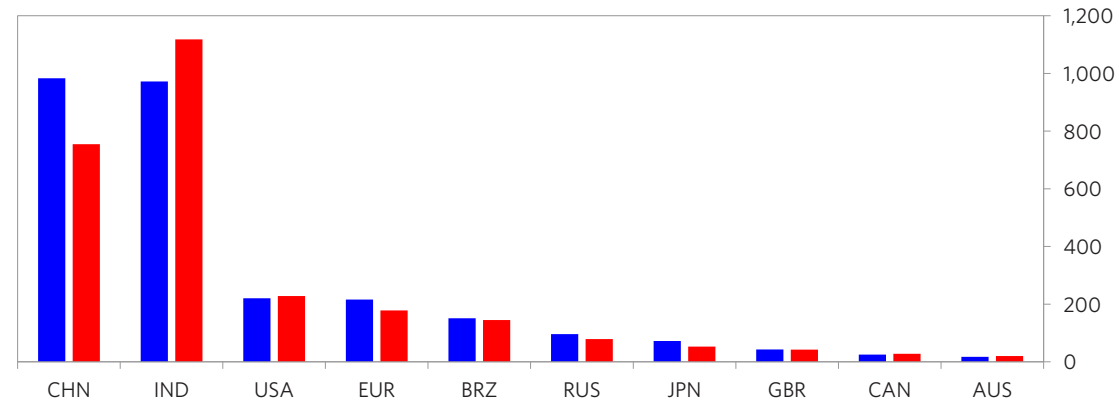
Global Equity Returns



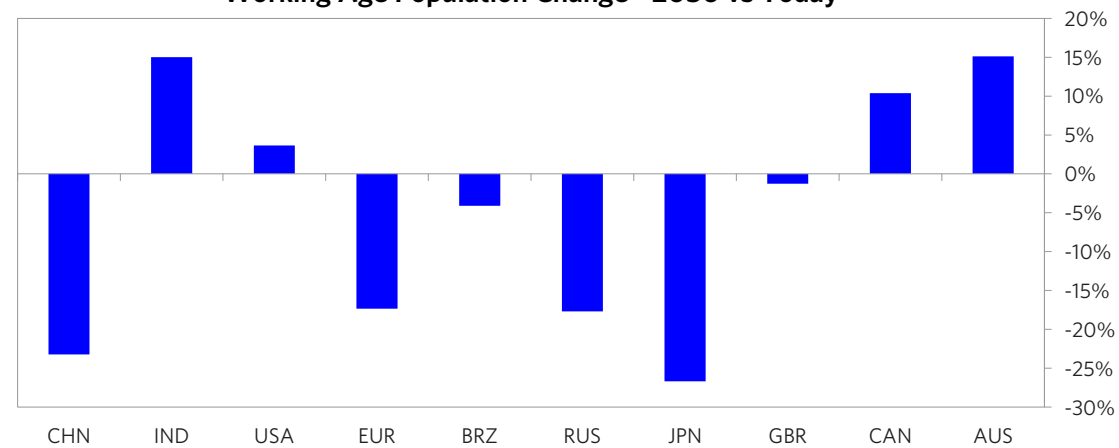
BIG DEMOGRAPHIC SHIFTS ARE COMING

Working Age Population (mm)

■ Today ■ 2050



Working Age Population Change - 2050 vs Today



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