Sight *Beyond* Sight®

Investment Commentary

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Innovative Goals-Based Investment Management.

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Sunday Edition
February 9, 2025

Elevated Potential For Fixed Income Shock

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Past Editions of Sight *Beyond* Sight®

- Thursday, January 2, 2025: Differentiated Thoughts to Open 2025, New Investment Ideas, & Asset Allocation

Media Appearances

- **New Fund Launch**: Rareview Capital & Tuttle Capital Management Launch 2X Bull Cryptocurrency & Precious Metals ETF (Press Release)
  - Las Vegas, NV, February 7, 2025—Rareview Capital LLC, in collaboration with Tuttle Capital Management, LLC, today announced the launch of the Rareview 2X Bull Cryptocurrency & Precious Metals ETF. The Fund is now trading under the symbol "**BEGS**," which stands for **Bitcoin**, **Ethereum**, **Gold**, and **Silver**.

- **Interview – 2025 Market Outlook:** Neil Azous, Founder and Chief Investment Officer of Rareview Capital LLC, joined Andrew Wilkinson of Interactive Brokers to discuss the path of interest rate policy, asset allocation, stock-bond correlation, this year's gray swan event, his favorite investment expressions, and much more! (LINK)

Investment Commentary

Performance – Blended Portfolios

GLOBAL	2025	2024
Global EQ:FI 10:90 USD Unhedged	1.28%	0.28%
Global EQ:FI 20:80 USD Unhedged	1.53%	2.27%
Global EQ:FI 30:70 USD Unhedged	1.77%	4.30%
Global EQ:FI 40:60 USD Unhedged	2.01%	6.35%
Global EQ:FI 50:50 USD Unhedged	2.26%	8.44%
Global EQ:FI 60:40 USD Unhedged	2.50%	10.55%
Global EQ:FI 70:30 USD Unhedged	2.75%	12.69%
Global EQ:FI 80:20 USD Unhedged	2.99%	14.86%
Global EQ:FI 90:10 USD Unhedged	3.24%	17.07%

UNITED STATES	2025	2024
US EQ:FI 10:90	1.11%	3.48%
US EQ:FI 20:80	1.30%	5.75%
US EQ:FI 30:70	1.50%	8.05%
US EQ:FI 40:60	1.69%	10.39%
US EQ:FI 50:50	1.88%	12.76%
US EQ:FI 60:40	2.07%	15.17%
US EQ:FI 70:30	2.27%	17.62%
US EQ:FI 80:20	2.46%	20.11%
US EQ:FI 90:10	2.65%	22.64%

*Source: Rareview Capital, Bloomberg, as of 2.7.2025

The key takeaway is that "global" is outperforming "US" blended portfolios to begin 2025.

The driver of the outperformance is easy to triangulate – that is, European equities are outperforming US equities by approximately 3:1 year-to-date.

Only one question matters – are you globally diversified or too tied to US exceptionalism?

MONEY MARKET FUNDS	2025	2024
Vanguard Federal Money Market Fund (VMFXX)	0.46%	5.24%
Schwab Value Advantage Money Fund (SWVXX)	0.45%	5.12%
Fidelity Money Market Fund (SPRXX)	0.42%	5.01%

US TREASURIES	2025	2024
iShares Core U.S. Aggregate Bond ETF (AGG)	0.91%	1.31%
iShares 1-3 Year Treasury Bond ETF (SHY)	0.32%	3.92%
iShares 3-7 Year Treasury Bond ETF (IEI)	0.57%	1.81%
iShares 7-10 Year Treasury Bond ETF (IEF)	1.07%	-0.64%
iShares 10-20 Year Treasury Bond ETF (TLH)	2.25%	-4.22%
iShares 20+ Year Treasury Bond ETF (TLT)	2.58%	-8.06%

*Source: Rareview Capital, Bloomberg, as of 2.7.2025

- The Aggregate bond market is outperforming Money Market Funds (MMFs) by approximately 2:1 year-to-date.
- Duration (i.e., maturities >7 years) is outperforming to start the year by a meaningful amount.
- This is a significant change of character in short- and long-term US Treasuries from previous years.

We Are Watching This Closely...No One Else Is

If any bank research department or independent service provider has done this analysis, please call us collect at 1-800-RAREVIEW. We want to stop writing Sight Beyond Sight® and subscribe to their product to save time and money.

We are closely monitoring the linkage between the economy and the US Treasury Term Premium for whether 10-year yields begin their ascent back to 5%.

Background

The only times the deficit-to-GDP ratio has been higher than 5% was during WWII, the GFC, and the pandemic.

The consensus is that US economic resiliency since mid-2023 stems from a current run rate of a -7% deficit-to-GDP ratio. That is, the US Government is spending more money, which is supporting domestic consumption and corporate earnings.

This ratio is essential for portfolio construction for any medium- or long-term view. It is the support structure for the stock market and key input for the US Treasury Term Premium.

US Treasury Federal Budget Deficit Or Surplus as a % of Nominal GDP

Source: Rareview Capital LLC, Bloomberg

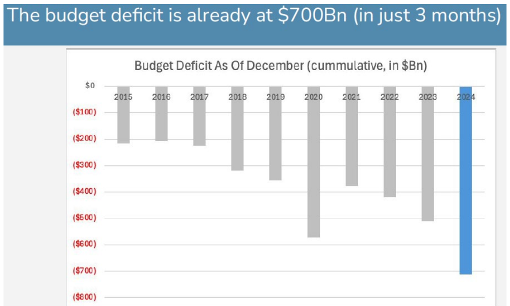
The Most Important Structural Data Point

The US Treasury Federal Budget Deficit or Surplus as a Percent of Nominal GDP (FDDSGDP) is released monthly between the 10th and 14th day of the month for the prior month.

It should be released this week, and we expect a significant deterioration as it will include Q4 2024 GDP data for the first time. This has the potential to shock the long-end of the US Fixed Income market.

This index is calculated by summing the last 12 months of the Federal deficit or surplus (FDDSSD Index) and taking that as a % of nominal GDP (GDP CUR$ Index) for the relevant quarter.

- **Numerator**: The US federal fiscal year begins on October 1st. The US is already running a ~$710bn budget deficit three months into the new Federal fiscal year. The two charts below show the degree of spending relative to past years (left chart) or seasonal three-month period (right chart).
    - Annualizing the budget deficit linearly equals $2.8 trillion per year (i.e., $710bn x 4 quarters = $2.84tn).
    - At best, April is the only month positive (i.e., $100-250bn) due to tax receipts.



- **Denominator**: The latest GDP US Nominal Dollars SAAR report from January 30th for the period ending 12/31/2024 showed $29,700.58 trillion. This data is released quarterly.
    - The absolute dollar level of GDP grew by 1.35% on average each quarter over the last 7 quarters. Call it ~$300bn per quarter.
- **Equation**: $2.84 trillion divided by $29,700.58 trillion = **~9.5% of nominal GDP**

Sight *Beyond* Sight®: The deficit-to-GDP ratio accelerated from ~7% to 9.5% in Q4 2024 or before President Trump took office. The debt-to-GDP ratio is nearing 10%, a psychological round number that likely injects even more term premium into the long-end of the US Treasury yield curve.

Here is the same chart with a blue dotted arrow showing the potential change now that Q4 2024 GDP data is included.

Source: Rareview Capital LLC, Bloomberg

Cross-Asset Impact

Equities: The CHANGE in US government deficit spending (not the level) drives profit GROWTH (via the [Kalecki Profit Equation]).

Since 1970, the correlation between S&P 500 earnings growth and changes in the deficit-to-GDP ratio is +0.54%. In this instance, the recent acceleration higher in the ratio (i.e., ~7% to ~9.5%) portends an even stronger profit environment as the year progresses.

While only a partial sample in this earnings season, here is what we mean by that:

- January 31, 2025: 4Q24 earnings estimates have continued to move higher, now forecasting +13.1% y/y growth. 60% of companies have beaten street consensus by at least 1-standard deviation vs. the historical average of 46%.

- February 5, 2025: 4Q24 earnings are halfway over (247/503 reported). Earnings have been stronger than expected with 78% beating on EPS and 4Q estimates now forecasting +15% y/y growth.

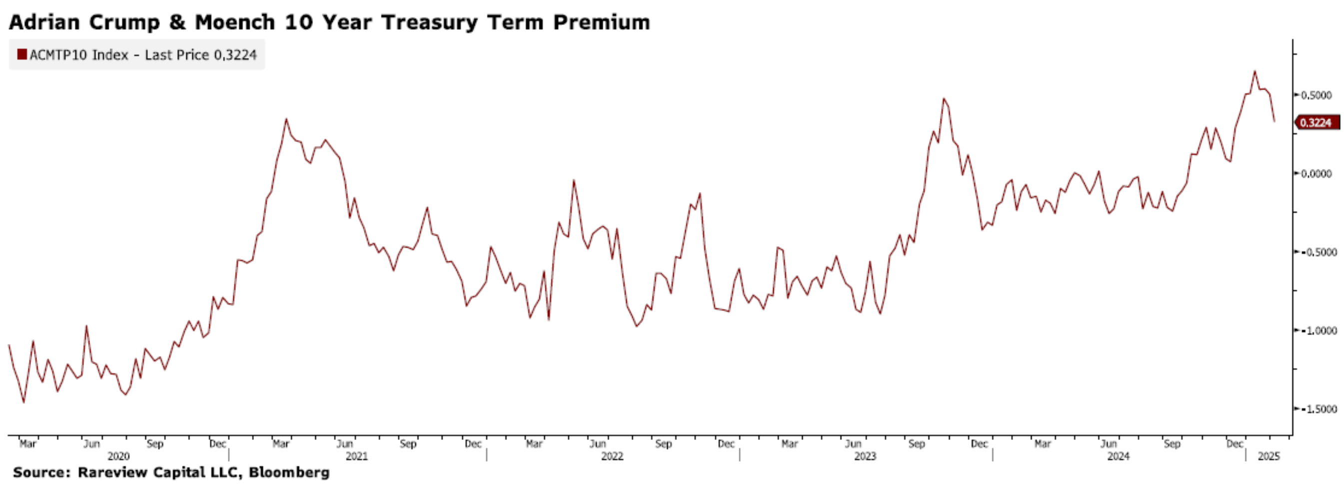
US Treasury Yields: A 10-year US Treasury has three inputs: growth, inflation, and term premium.

The US Treasury term premium is the additional compensation that investors receive for holding longer-term Treasury securities. It's the difference between the return on a long-term bond and the return on a short-term bond held for the same amount of time.

Many models measure the 10-year US Treasury term premium. The most followed is the Adrian Crump & Moench 10 Year Treasury Term Premium Index (ACMTP10).

It shows that 0.32% of the current 4.50% 10-year US Treasury yield is attributable to the term premium. Three weeks ago, it was 0.67% when the yield was at 4.80%.

This model is unaware of the Sight *Beyond* Sight® above regarding the latest acceleration in the deficit-to-GDP ratio. A reversal in this input is a key risk to 10-year US Treasuries and a catalyst for the yield to rise towards 5%.



Translating to Global GDP and the Consumer

The degree to which American Express raised their dividend in their latest earnings release – +17% – gave us pause.

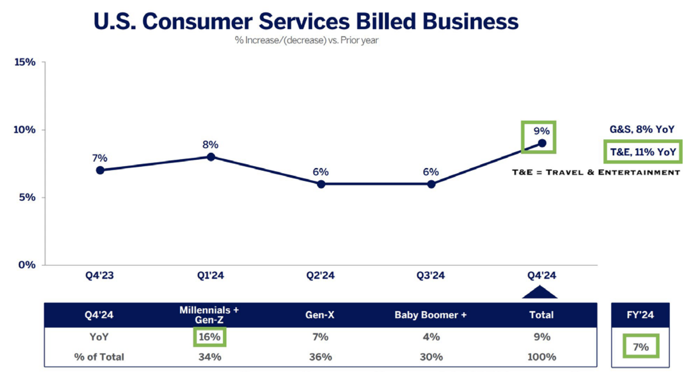
As a reminder, raising a dividend requires a board vote, unlike starting/stopping buybacks. So the event is carefully planned when looking out over 5 years. Put another way, you only do this when you have conviction in the consumer and spending.

The essential takeaway is that US consumers, especially affluent ones, are in an extremely strong position.

- Amex consumer spending up 9% YoY for the fourth quarter.
- **Up 11% for Travel & Entertainment (T&E)**
- Millennials and Gen Z up 16%
- For the whole year, up 7%.

Sight *Beyond* Sight®: Most do not know this, but the largest sector of Global GDP is Travel & Entertainment. It makes up ~10% of Global GDP and is expected to grow to 12% amongst the composition. To highlight its importance to global GDP, that weight is more than 2x the next largest sector.

Conclusion: Government spending matters more than anything else, given that the dollar amounts are defying the laws of physics. It helps raise house prices and corporate earnings, which are passed through to the consumer.



Source: American Express Q4 2024 Earnings Presentation

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Federal Reserve

There are seven Federal Reserve meetings left in 2025.

"AT": No individual meeting has a greater than 50% probability of a 0.25% interest rate cut. The highest probability is 31% **AT** the June 18, 2025, meeting.

"BY": Cumulatively, the first interest rate cut of 0.25% is **BY** the July 30, 2025 meeting.

- March 19th 10% + May 7th 19% + June 18th 31% + July 30th 20% = 80% cumulative

Between August and December there is a 63% chance of a second 0.25% interest rate cut.

- September 17th 25% + October 29th 18% + December 10th 20% = 63% cumulative

Technically, the market is pricing 1.5 of 0.25% interest rate cuts or 0.375% cuts in 2025 on a cumulative basis.

Sight *Beyond* Sight®: At any Federal Reserve meeting during an interest rate cutting cycle there can only be two outcomes: no movement or a cut. Meaning, the outcome can either end up being zero or 100% – there is no in between. With no meeting **AT** more than 50% probability of a 0.25% cut, it is the same thing as saying there are zero chances of a cut through 2025.

Rareview Capital Methodology

CERTAINTY	THE GENERAL AREA OF POSSIBILITY
Certain	100%
Almost certain	93% (give or take about 6%)
Probably	75% (give or take about 12%)
Chances about even (coin flip, I don't know)	50% (give or take about 10%)
Probably not	30% (give or take about 10%)
Almost certainly not	7% (give or take about 5%)
Impossible	0%

The 75-87% upside and 25-35% downside is where most outcomes ultimately get confirmed – that is, life is a range between "Probably" and "Probably Not."

While the PhD community typically recommends outcomes with 40-60% probability to hedge their views, for us, that is the same thing as saying: "I don't know" or going to the casino and betting on coin flips – we don't do that.

We want to stay in the trading game as long as possible. So, we live in the "Probably" or "Probably Not" areas of possibility. That is a lot of range to profit from. We leave the rest (i.e., "Certain" or "Impossible") to the gurus.

Conclusion:

- The market is saying extended pause or one and done **BY** July.
- Any semblance of a second cut is non-existent in betting markets or conversations despite being on the cusp of shifting from "Chances About Even" to "Probably."

New Watch List Item – Long Silver

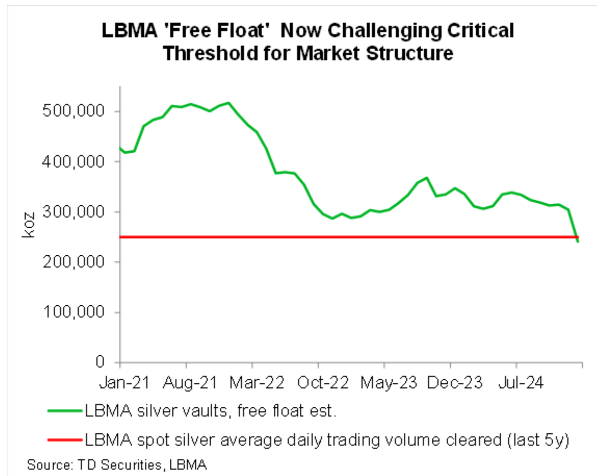
Asset Class	Commodities
Time Horizon	0-2 months
Return Stream	Directional
Analysis	Technical
Implementation	ETF (SLV), Futures (SIH5)
Audience	Institutional, RIA

Various commodity houses or traders dedicated to commodity trading highlight silver inventory data is reaching a critical threshold that portends to a "silver squeeze."

While not conclusive, here are our favorite terms being thrown around:

- "Liquidity is even more severely constrained than suggested."
- "London silver pricing scarcity at a magnitude that has no precedents in recent history."

Ok, if they all say so. Whatever helps them sleep at night works for us.



Technically, the silver market is short-term bullish, with a target of \$34.50 vs. \$32.44 last price in the front-month silver futures contract (SIH5). A close over \$33.33 will fuel rallies. Minor corrections should hold \$32.00 to keep the bull alignment. A close below \$31.90 is a reversing turnover, and argues this inventory issue is less severe.

***Position Notice**: Clients of Rareview Capital LLC have a position in the instrument(s) or security(s) referenced herein.*

Update – Emerging Markets – Long Brazil Equities

Asset Class	International Equities
Time Horizon	2025
Return Stream	Directional, Technical
Analysis	Quantitative
Implementation	Options
Audience	Institutional, RIA

The original write-up of the idea can be found here: Differentiated Thoughts to Open 2025, New Investment Ideas, & Asset Allocation

EWZ is +12.03% YTD, far outperforming developed market indices.

Note, the Brazilian real (BRL) is responsible for a little over half of the US dollar-denominated gain in the US.

The option strike we present is worth \$1.40 vs. \$0.90 entry. The option is now 50 delta.

Reminder – Our Rule of Thumb for Options: If the option reaches 70 delta in the first one-third of the time to expiry, we take profit and walk or restructure the trade by rolling up in strike in two times the size for even money (i.e., the "Volcano Trade").

Update – Commodities - Long Wheat

Asset Class	Commodities
Time Horizon	3-9 months
Return Stream	Directional
Analysis	Technical
Implementation	ETF (WEAT), Futures (W H5)
Audience	Institutional, RIA

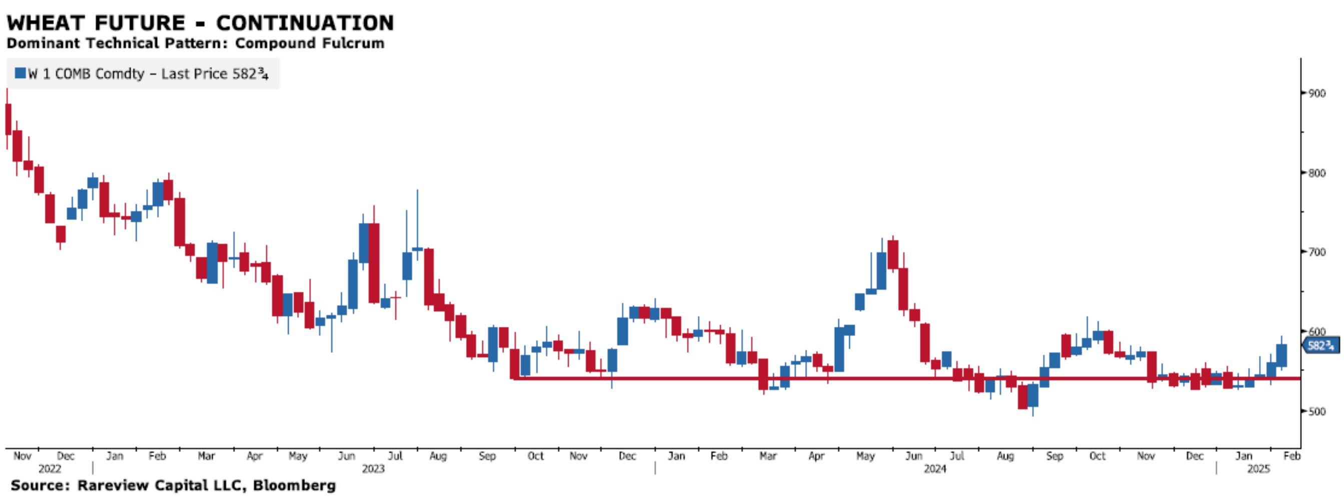
The original write-up of the idea can be found here: Differentiated Thoughts to Open 2025, New Investment Ideas, & Asset Allocation.

The dominant charting pattern remains the continuation of a "Compound Fulcrum" bottom possibility.

Wheat is up five weeks in a row, showing signs of early life in the first period of a 3-9 month time horizon. We highlight that because the best chart patterns start immediately rather than morph for extended periods.

Secondly, CFTC futures positioning data for the last period showed that the buy buy-side (Managed Money + Other Reportables) covered a 2.7 z-score amount of shorts. Yet, even with the short covering, the buy-side's net short position in Wheat futures (as a % of total open interest) remains considerably (1.4 z-scores) greater than average since 2006. (Source: Morgan Stanley)

Trading Tactics and Levels: The commodity is bullish, signaling for follow-through rallies in coming days with a chance to reach 605. We may see minor consolidation after Friday's minor reversal day, leading to congestion in the upper edges of Thursday's range, but only a close under 576 1/4 or drop under 566 ½ voids bull signals and signals a short term reversing downturn.



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Portfolio Manager Talking Points

General

- **AC DC Song – Thunderstruck**: The sound in my head as I wake up every morning to watch another episode of my very favorite reality show ever made – What's Trump Gonna Do Today?

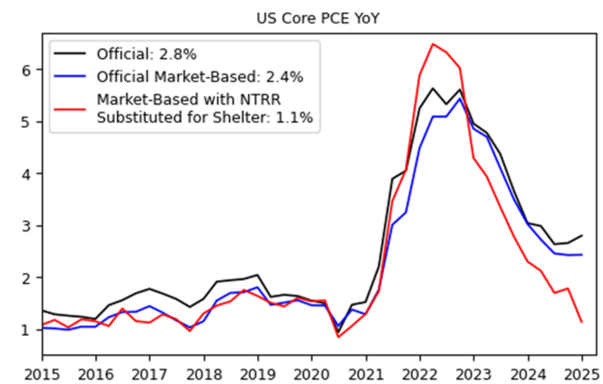
- **Attention Hedge Managers – Phrases Never Uttered**: (this is in response to Trump proposing to close the carried interest loophole to pay for his tax cut agenda)

    - Without carried interest deduction, I wouldn't have started my PE firm
    - Without Qualified Small Business Stock Exemption, I wouldn't have started my tech firm
    - Without Roster Depreciation, this pro sports team wouldn't exist

Economics

- **Re-constructing US Core PCE** with Fed's New Tenant Repeat Rent Index (NTRR) substituted for slow-moving imputed shelter estimates, results in a real-time Core PCE alternative of ~1%... much lower than sticky official metric used to justify Fed's "wait-and-see" approach.

    - **Sight *Beyond* Sight®**: The market has been waiting for NTRR to feed through into OER as a part of CPI or PCE, as in theory it is methodically the basis for OER. Like every other gimmick for OER over the past three years, let us know when it's ever going to matter.



Global Macro

- **Seek & Destroy**: The macro regime has changed marginally, but in my view, the tariff news has primarily been creating shocks in positioning as opposed to durable changes in the macro regime.

- **Weaken the Dollar**: Highest conviction macro trade for the year – Plaza Accord 2.0 is coming.

Foreign Exchange

- **Dollar-Yen December 2025 expiration 135-120 Put Spread The Trade of the Year?:** The bond market continues its hawkish shift as 2-year JGB yields rose to its highest levels since 2007, while the 10-year yield rose to 1.29%, its highest mark since 2011. As Japanese yields become more attractive, expect repatriation of Japanese investment from overseas markets, which could potentially impact the popular "yen carry trade," where investors borrow in low-yielding yen to invest in higher-yielding assets elsewhere. The Japanese Yen is too cheap, I expect it to rally vs. all major currencies, including the all-mighty dollar.

Equities

- **AI Infrastructure Looks Halfway Decent**: Key news item from last week was the continued capex spending by the big tech players after the DeepSeek reveal.

- **SP500 Price Target 7000 – A Response to The Street Calling the Top in Stocks**: Back in my day, the only time we started panic buying was when the bartender yelled, "last call."

- **Will the Magnificent 7 turn into the Malignant7?:** 2025 is shaping up to be a more 'normal' market environment. The rally that was perversely narrow in 2024 is finally broadening out—The MSCI Equal Weight and MSCI Cap Weighted Index are now moving in tandem- up about 4.1% YTD. The Magnificent 7 index is up only 0.9% ytd. Many investors don't have a Plan B if the Magnificent 7 turns into the Malignant 7. Portfolio drift and the natural bias to chase past winners – has led many to extreme concentration in these names. A one-trick pony only works as long as the trick does.

- **Europe**: Investors want to buy Europe right now because if it can grow earnings, it will also re-rate because it's pricing no growth. The alpha is in the bank index, not the Stoxx 600.

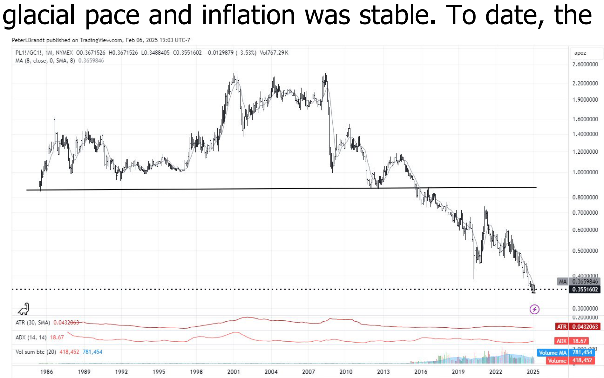
Fixed Income

- **10yr US Treasury – Rich or Cheap**: The neutral interest rate is the equilibrium level for the economy, or the level at which it is running, not too hot or cold. The Fed's most recent forecast for the neutral rate is 2.90%. From 1990 to 2024, the average spread of Fed Funds to the 10yr is 147 bps. Therefore, one could argue that the fair value for the 10yr is ~4.35% (i.e., 2.90% neutral rate + 147 avg spread). The current 10yr yield is 4.57%. So, in this instance, it appears cheap by 20-25 bps currently. Does that make me want to buy it? Not necessarily. It depends on your time horizon or what you are trying to accomplish with it. We could easily hit 5% between now and whatever you are playing for.

- **10yr US Treasury – Expecting Tight Range in 2025:** In 2024, the 10yr yield trade in a range over 100 bps. In 2023 and 2022, the 10yr yield traded in a ~150bps and ~250bps range. The last time the range was less than 75bps was in 2017 when the Fed was hiking at a glacial pace and inflation was stable. To date, the Fed has cut by 100 bps taking the edge off the economy, but policy remains restrictive enough to counter any fiscal impulse. Meanwhile, with so much cash on the sidelines, buyers will jump in on any meaningful backup.

Commodities

- **Platinum-to-Gold Ratio**: Time to shine the most shinny metal of all – Platinum. Prior to 2016, Platinum traded at a multiple to Gold. Platinum is now priced at 35% of Gold. This is likely to change. It is not unreasonable to expect Platinum prices to double in value relative to Gold in years ahead



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Top Observations

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EXCHANGE TRADED FUNDS – IMPORTANT RISK CONSIDERATIONS

Carefully consider the Fund's investment objectives, risk factors, charges and expenses before investing. This and additional information can be found in the Fund's full and summary prospectus, which may be obtained by visiting www.rareviewcapital.com. Read the prospectus carefully before investing.

Investing involves risk, including possible loss of principal. There can be no assurance that a Fund will achieve its stated objectives. An investment in the Fund may be subject to risks which include, among others, market, interest rate, tax, liquidity, leverage, non-diversified, investment restrictions, operational, authorized participant concentration, no guarantee of active trading market, trading issues, active management, fund shares trading, premium/discount and liquidity of fund shares and concentration risks, all of which may adversely affect the Fund. Diversification does not ensure profits or prevent losses. Exchange-Traded Funds (ETFs) trade like stocks, are subject to investment risk, and will fluctuate in market value. Unlike mutual funds, ETF shares are not individually redeemable directly with the Fund and are bought and sold on the secondary market at market price, which may be higher or lower than the ETF's net asset value (NAV). Transactions in shares of ETFs will result in brokerage commissions, which will reduce returns.

***Rareview Systematic Equity ETF**: **Derivatives Risk**. Through its hedging strategies or through its investments in other funds, the Fund may be subject to the risks of investing in derivative securities. **Active Management Risk**. The Fund is actively managed using proprietary investment strategies and processes. There can be no guarantee that these strategies and processes will be successful. **Foreign Investment Risk**. Foreign securities and emerging markets may involve risks such as social and political instability, market illiquidity, exchange-rate fluctuations, a high level of volatility and limited regulation. **Cash and Cash Equivalents Risk**. The Fund may hold cash or cash equivalents. Generally, such positions offer less potential for gain than other investments. **Futures Risk**. Commodities and futures generally are volatile and are not suitable for all investors. Futures investing is highly speculative and involves a high degree of risk.*

***Rareview Total Return Bond ETF: Active Management Risk.** The Fund is actively managed using proprietary investment strategies and processes. There can be no guarantee that these strategies and processes will be successful. **Foreign Investment Risk**. Foreign securities and emerging markets may involve risks such as social and political instability, market illiquidity, exchange-rate fluctuations, a high level of volatility and limited regulation. **Asset-Backed Securities Risk**. Asset-backed securities are subject to credit risk because underlying loan borrowers may default. Additionally, these securities are subject to prepayment risk because the underlying loans held by the issuers may be paid off prior to maturity. **Cash and Cash Equivalents Risk**. The Fund may hold cash or cash equivalents. Generally, such positions offer less potential for gain than other investments. **Futures Risk**. Commodities and futures generally are volatile and are not suitable for all investors. Futures investing is highly speculative and involves a high degree of risk.*

***Rareview Dynamic Fixed Income ETF and Rareview Tax Advantaged Income ETF:** The Fund's performance, because it is a fund of funds, is dependent on the performance of the Underlying Funds. The Fund is subject to the risks of the Underlying Funds' investments, and the Fund's shareholders will indirectly bear the expenses of the Underlying Funds. In addition, at times certain segments of the market represented by the Underlying Funds may be out of favor and underperform other segments. The shares of a closed-end fund may trade at a discount or premium to its net asset value ("NAV"). Additionally, the securities of closed-end investment companies in which the Fund will invest may be leveraged. As a result, the Fund may be indirectly exposed to leverage through an investment in such securities. An investment in securities of closed-end investment companies that use leverage may expose the Fund to higher volatility in the market value of such securities and the possibility that the Fund's long-term returns on such securities (and, indirectly, the long-term returns of the Shares) will be diminished. New federal or state governmental action could adversely affect the tax-exempt status of securities held by the Fund, resulting in higher tax liability for shareholders and potentially hurting Fund performance as well. A portion of the distribution rate may be attributable to return of capital. A portion of the dividends you receive may be subject to the federal alternative minimum tax (AMT). There is no guarantee that Fund's income will be exempt from federal, state or local income taxes, and changes in those tax rates or in alternative minimum tax or in the tax treatment of municipal bonds may make them less attractive as investments and cause them to lose value.*

*NOT FDIC INSURED * NO BANK GUARANTEE * MAY LOSE VALUE*

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