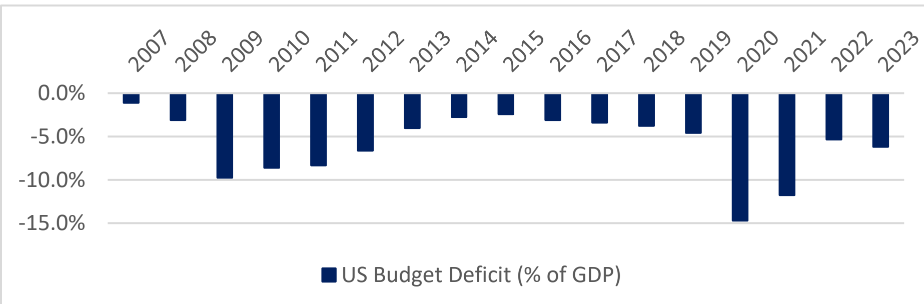
An era of fiscal profligacy and continuous asset reflation

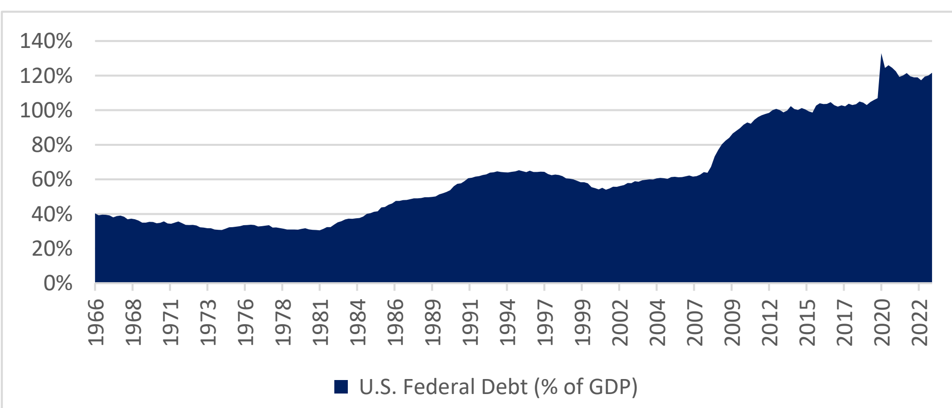
Fiscal policy refers to the use of government spending and taxation to influence economic conditions. Over the past year, the U.S. federal government has run a massive budget deficit of $2 trillion or 7.2% of GDP, despite low unemployment rates. This deficit spending has been fueled by various factors, including the costs of wars, the financial crisis, the pandemic, unfunded tax cuts, and stimulus programs. Both Republican and Democratic administrations have contributed to this fiscal profligacy.



Source: St. Louis Fed, FRED

The large and growing national debt cannot be sustained indefinitely, as interest costs will eventually become unmanageable. There are three potential ways to address this issue:

1. Lower real interest rates through low nominal rates, which is currently not the case.
2. Lower real interest rates through higher inflation, which is also not occurring as inflation has peaked and is trending downward.
3. Boost productivity growth, potentially through advancements like artificial intelligence, allowing the economy to outgrow its debts.



Source: St. Louis Fed, FRED

The Thinking Man's Approach

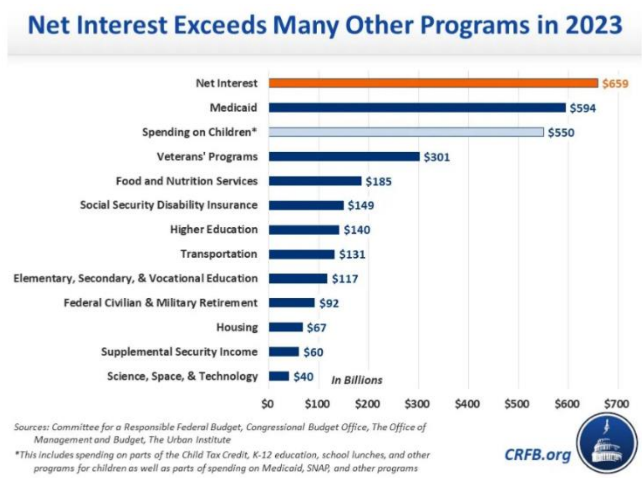
May 2024 | Series #101

Ignacio Pakciarz | *CEO*

- Continuous US budget deficits have contributed to an untenable US fiscal policy which will have to eventually be controlled
- US federal debt is at record levels in dollar terms, and near record levels as a % of GDP
- Given higher interest rates, US financing costs are starting to crowd out other spending programs as both interest rate levels and debt levels are simultaneously elevated
- Productivity gains, i.e. economic growth in excess of capital formation and population growth will need to make up for fiscal issues
- In the near-term fiscal policy is not likely to be a problem for risk assets given that most of the worlds developed economies are in a similar boat
- Economic optimism tends to dominate longer-term fears

For more on how we are positioning our portfolios, please contact your investment advisor or ideas@bigsurpartners.com

While the U.S. economy has shown some productivity gains from AI and other technologies, the latest labor market report indicates that a significant portion of new job growth is occurring in government, healthcare, and social assistance sectors, which rely on government spending rather than driving long-term productivity growth.



In some progressive states like California, Illinois and Oregon, these sectors account for all or more than the net new job growth, suggesting a shift towards a more socialistic economic model.

The current fiscal situation is unsustainable in the long run, and the U.S. will need an investment-based boom in the private economy to finance the growing government-funded jobs and services. Rising defense spending due to global tensions and the retirement of baby boomers further exacerbate the fiscal challenges.

The lack of coordination between expansionary fiscal policy and restrictive monetary policy aimed at controlling inflation is also problematic, potentially leading to a feedback loop where borrowing to service debts fuels inflation rather than containing it. While monetary policy can be utilized to address economic deceleration or recession, the continuous reliance on expansionary fiscal policy and the inability to rein it in pose risks of long-term consequences.

	During QE Period		Present	
	Stance	**Ability to Use Policy**	**Stance**	**Ability to Use Policy**
Monetary Policy	Expansive	No	Restrictive	Yes
Fiscal Policy	Expansive	No	Expansive	No

However, in this election year, our base macro scenario is the "goldilocks" situation (not too cold not too hot) with risk markets expected to continue rallying. We believe that it's a "buy on weakness" market - for "high quality" stocks, high grade corporate bonds, and long-term highly rated US municipal bonds (for domestic investors).

Important Disclosures and Disclaimers

This material is distributed for informational purposes only and intended solely for BigSur Wealth Management, LLC ("BigSur" or the "Adviser") clientele and or other parties to whom BigSur chooses to share such information. The discussions and opinions in this document (or "report") are intended for general informational purposes only, and are not intended to provide investment advice and there is no guarantee that the opinions expressed herein will be valid beyond the date of this document. While taken from sources deemed to be accurate, BigSur makes no representations regarding the accuracy of the information in this document and certain information is based on third-party sources (e.g. Bloomberg, Factset, Wall Street Journal) believed to be reliable, but has not been independently verified and its accuracy or completeness cannot be guaranteed. Any asset allocation proposals described herein are based on proprietary ratings and categorizations which involve varying levels of subjective analysis and interpretation. The asset allocation breakdown is intended to be a summary of BigSur's view on each asset class and its risk components which includes various factors including, but not limited to: market conditions and trends, correlation of securities, volatility, interest rate and issuer risk.

This article is not intended to provide personal investment advice and it does not take into account the specific investment objectives, financial situation, and the particular needs of any specific investor. Views regarding the economy, securities markets or other specialized areas, like all predictors of future events, cannot be guaranteed to be accurate and may result in economic loss to the investor. Any strategies referenced BigSur believes may present opportunities for appreciation over the subsequent time periods. BigSur closely monitors securities discussed and client portfolios and may make changes when warranted as a result of evolving market conditions. There can be no assurance that any investment strategies and/or performance included or referenced in the article will remain the same and investment strategies, philosophies, and allocation are subject to change without prior notice. Any specific securities or companies identified and described may or may not be held in portfolios managed by the Adviser and do not represent all of the securities purchased, sold, or recommended for advisory clients. The reader should not assume that any investments in securities and/or sectors identified and discussed were or will be profitable. BigSur may change its views on these securities at any time. There is no guarantee that, should market conditions repeat, these securities will perform in the same way in the future. Any performance illustrations shown herein have not been audited and may reflect the reinvestment of dividends, interest and other earnings. Any performance and return illustrations have not been independently verified or audited by BigSur. Returns may be estimated and may not reflect actual performance. Further, past performance and returns may be subject to revision. BigSur does not undertake to update this information, and the results discussed may change without notice.

There are many factors that an investor should be aware of when trading options which can impact their overall performance such as market volatility, interest rates, and time horizon. Investors should only engage in options trading that is best suited to their financial condition and option experience. There is the potential to lose your entire investment in options as well as suffer unlimited downside loss. The options strategy outlined in this commentary only reflects BigSur's opinion and is subject to change at any time. Before trading options, you should understand these risks and carefully review and read the booklet entitled "Characteristics and Risks of Standardized Options" which is available at www.theocc.com. BigSur can provide you a copy of this booklet as well.

Please also note that this commentary is not investment research or considered a research recommendation for regulatory purposes as it does not constitute substantive research or analysis. In discussion of any strategy, results and risks are based solely on assumptions and hypothetical examples. Actual results, performance and risks will vary depending on specific circumstances. You are urged to consider carefully whether such services in general, as well as the products or strategies discussed in this material, are suitable to your needs.

Certain public offerings of Alternative Investment products (e.g. interests in real estate, private equity and hedge funds) are generally offered in reliance upon an exemption and do not require registration under the Securities Act of 1933. Alternative Investments, therefore, pose additional risks which are different from those inherent in traditional investments. Investments in Alternative Investments may also involve the use of leverage which involves a high degree of risk factors including substantial loss of initial investment. Alternative Investments are not required to provide periodic pricing or valuation information to investors. As such, Alternative Investments are highly illiquid and are generally not transferrable without the consent of the sponsor/issuer.

This report may include forward-looking statements and all statements other than statements of historical fact are to be considered forward-looking and subjective (including words such as "believe," "estimate," "anticipate," "may," "will," "should," and "expect"). Although we believe that the expectations reflected in such forward-looking statements are reasonable, we can provide no assurance that such expectations will prove to be correct. Many factors including changing market conditions and global political and economic events could cause actual outcomes, results or performance to differ materially from those discussed in such forward-looking statements. BigSur shall not be responsible for the consequences of reliance upon any opinion or statements contained herein, and expressly disclaims any liability, including incidental or consequential damages, arising from any errors, omissions or misuse.

This information is highly confidential and intended for review by the recipient only. The information should not be disseminated or be made available for public use or to any other source without the express written authorization of BigSur. Distribution of this document is prohibited in any jurisdiction where dissemination of such documents may be unlawful. Please contact your investment adviser, accountant, and/or attorney for advice appropriate to your specific situation.

For complete disclosure information please go to: https://www.bigsurpartners.com/disclosures/

BigSur Wealth Management, LLC
1441 Brickell Avenue, Suite 1410
Miami, FL 33131
Office (Main): 305-740-6777
Fax: 305-350-9998
http://www.bigsurpartners.com