POXONO CAPITAL

INVESTMENT STRATEGY NOTE

Economics is a Social Science

May 2025

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Before we get started, our notes are foundationally about transparency. All investment managers sell investment advice and that's great. We too are structured as an investment advisor, but view our firm ethos as more of an investment club of sorts. Our goal at Poxono is to create an ecosystem that helps us all flourish. Each response we receive to notes help inform us of sentiment, industries, experiences, etc. So, if you have anyone interested in being added to our list, please let us know.

The larger the ecosystem – The more information we have – The more informed our decisions will be.

TLDR

There is still too much uncertainty on whether the Trump Administration can rebalance the wage-price relationship, without materially hurting the economy/employment.

From 2008 to 2020, our leadership prioritized asset prices over median wages via money printing. There was both a feeling in the economy and data backing it that show "the market is not the economy." This policy choice hurt Main Street because costs went up without income matching. The goal now is to rebalance those, but we don't know if the economy can sustain jobs and higher wages with lower or falling prices. At current valuations, the US market is betting the Trump Administration won't keep to its word, and it will revert to the game money printing game of the last two decades.

Except for the 90-day pause in tariffs, most of the administration's actions show they are committed to their plan. Until valuations reflect the uncertainty of its execution, we don't like the odds. In the meantime, continue to play the table minimum.

Perspective

Economics at its core is a "social" science. It is a study of how entities large (governments) and small (humans) make choices about allocating limited resources to fulfill infinite needs (or wants). We think this is a key point to understanding the current plan of the Trump Administration. I've spent a lot of time talking with people about tariffs and how tariffs hurt near-term GDP growth (we agree and so do economists on both sides of the aisle). That being said, we think this view is too focused on one data point in a much much larger study of human incentives.

This is not an endorsement for or against the current Administration's plan. Our job at Poxono is to understand the investing environment – the players with power, their plan, and the risks associated with their success or failure.

I think our understanding of the current selloff/bounce and our view on the next steps for investors is best informed by the perspective of which we are looking at current policy.

Let's start with an assumption that Trump's Administration nails it. Trump and team want to get the bottom half of the country cheaper debt because they live on debt and their wages haven't kept up with costs. Here is a tidbit from our November 2024 Note – "The Trade After the Election Trade."table minimum.

Our View

Let's talk about how the US has created growth and why the middle class can't FEEL it. Our wages don't keep up with the things that we buy that matter – items that we can't import. The lagging wages create poor incentives for key economic factors such as household formation and birth rates - both key factors that drive GDP growth. This chart assumes everything in 1995 is normalized to a $100 basis. Wages haven't kept up with housing costs, childcare, or college costs.

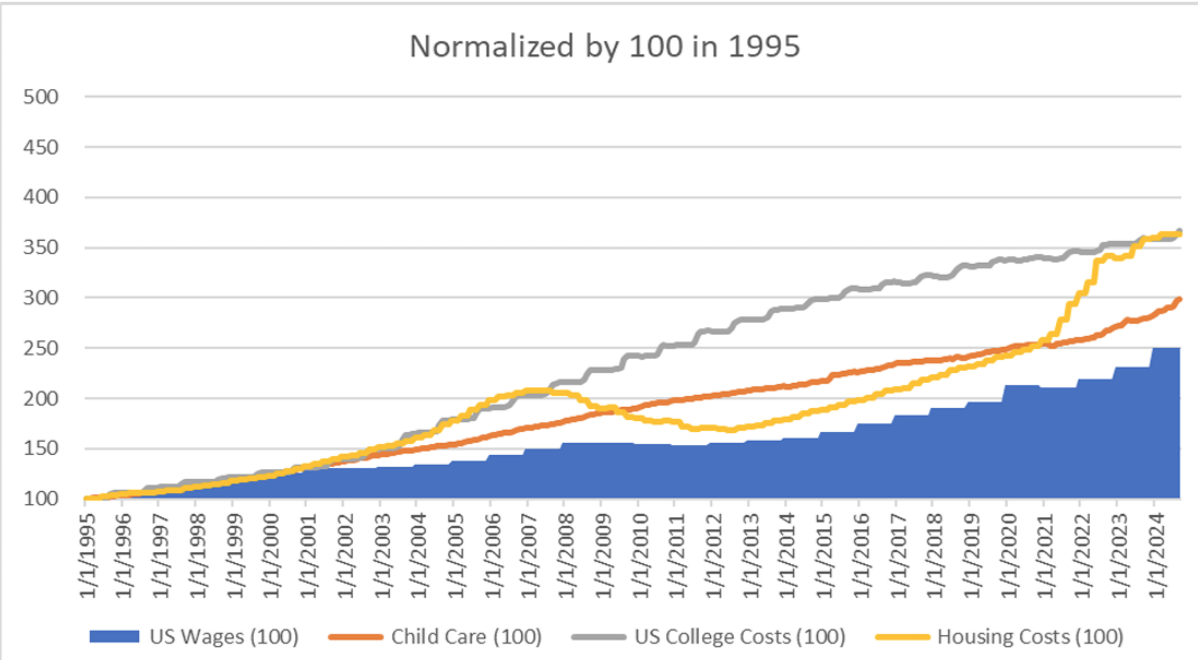
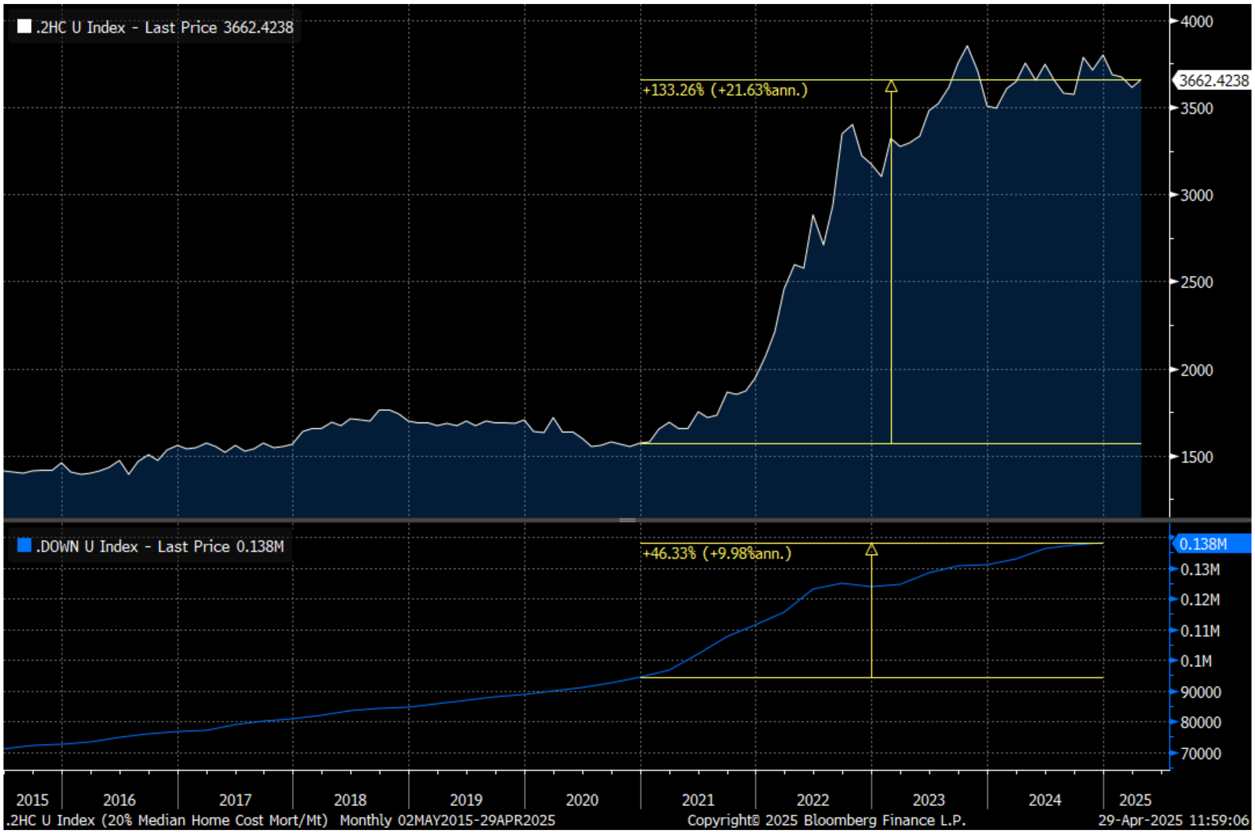


Chart 1 The above chart includes information from Bloomberg Professional - USHIUNST Index, CPWXCHRS Index, CPIQCTFN Index, UKHCCPIH Index

Real Life Numbers

Here are some hard numbers for someone trying to buy a house. **Since 12/31/2020, the down payment required to buy the median US home at with 20% down has increased 46.3% (from less than $100k to almost $140k) and the cost per month of the mortgage has increased 133% (from a little more than $1,500/month to more than $3,650/month).** If the plan with tariffs work the way the administration plans and US interest rates come down to pre-Covid levels, a $500k mortgage on a per month could decrease by $800+/month. If the Midsize/Large car value increases by 30% (EDRCGMTM Index ~$48,576), the associated car payment would increase from $977/month to $1,270/month without any move in interest rate. If interest rates go down to 4.6% (pre-covid levels) from current 7.7% (ILA4NAVG Index) for a new car in the same category, the payment would be $1,180 and only a ~$200 increase in car payment with other factors remaining constant.

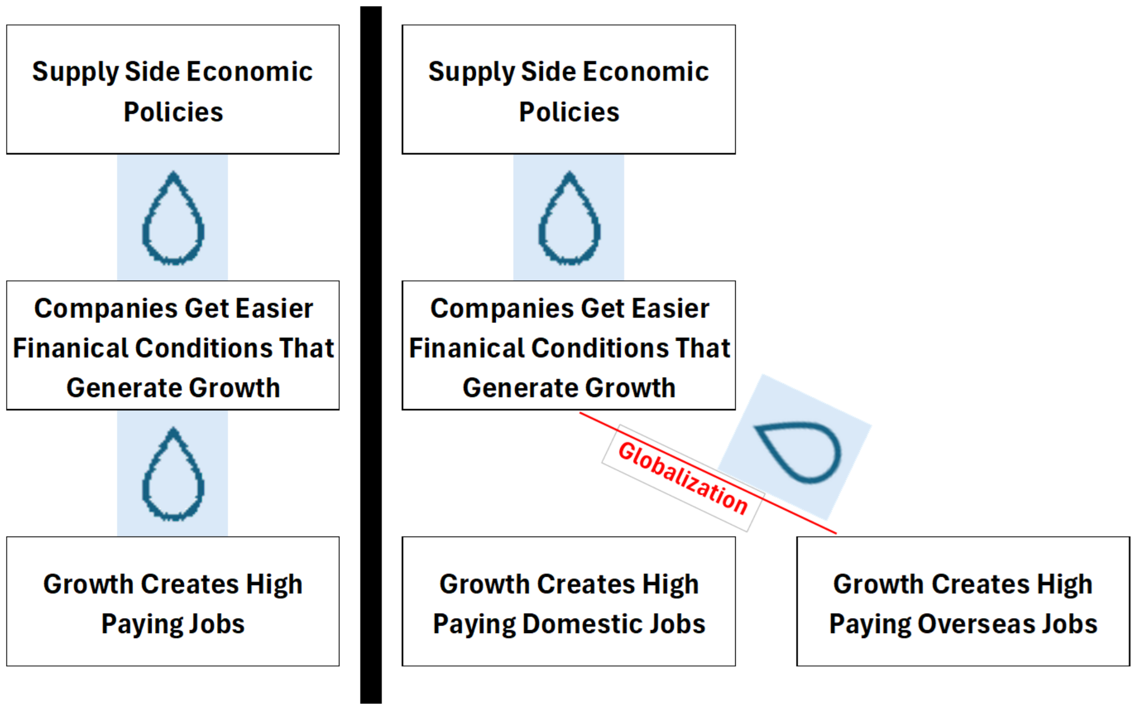


Ref Date 4/29/25 – Source Bloomberg Professional

There is no doubt tariffs will increase prices on certain goods…. That's the point. If the tariffs come with lower rates and a very mild or no recession (This is the first assumption where I start to get skeptical) like the administration plans, increased costs on imported goods will be more than offset by decreases in costs associated with borrowing costs in housing, autos, credit cards, etc.

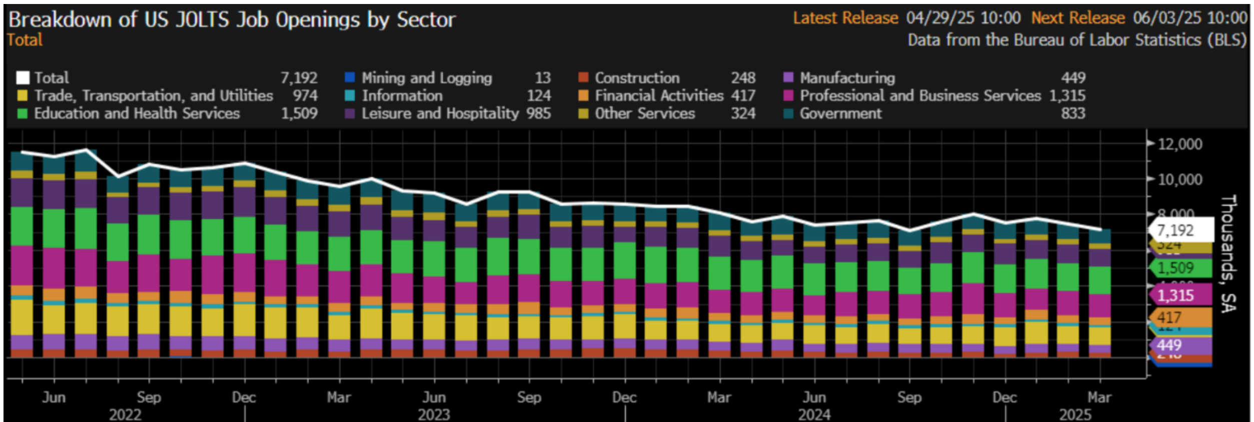
Why Tariffs?

Unfortunately, we think it's because of globalization and supply-side economic policies that likely need to be reversed. The issue with "Trickle Down Economics" or supply side economics is that the policies worked when the trickle down went to jobs in the US. Now, it goes to jobs overseas. Trump is trying to bring those jobs back or at least balance the wage-price relationship.



Source: Poxono Capital

This is part of the story where I start to get very skeptical. Let's say the jobs come back… who is going to take them and how is the administration going to convince people to take them. There are currently ~450k manufacturing job openings, and the openings have been hovering around that level for a while.



Data Table | Show Tickers | Show More | Hide Table

Series	Ticker	Jun-24	Jul-24	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24	Jan-25	Feb-25	Mar-25
Total	JOLTTOTL Index	7,412	7,504	7,649	7,103	7,615	8,031	7,508	7,762	7,480	7,192
Mining and Logging	JOLTMILS Index	18	25	23	23	23	21	20	16	20	13
Construction	JOLTCONS Index	285	229	304	251	249	277	205	242	286	248
Manufacturing	JOLTMANU Index	452	499	467	469	455	443	431	513	445	449
Trade, Transportation, and U...	JOLTTRAD Index	1,071	965	1,097	923	927	1,007	1,079	1,234	1,036	974
Information	JOLTINLS Index	107	115	135	121	188	122	106	130	131	124
Financial Activities	JOLTFALS Index	419	434	372	407	460	550	406	516	431	417
Professional and Business S...	JOLTPROF Index	1,131	1,367	1,332	1,308	1,358	1,733	1,364	1,211	1,336	1,315
Education and Health Services	JOLTEDUC Index	1,784	1,694	1,646	1,473	1,606	1,690	1,585	1,650	1,570	1,509
Leisure and Hospitality	JOLTLEIS Index	906	947	971	965	1,166	1,021	1,147	1,057	1,030	985
Other Services	JOLTOTLS Index	282	310	292	300	283	297	290	291	304	324
Government	JOLTGOVT Index	957	919	1,011	862	900	869	874	902	892	833

Source: Bloomberg Professional

Unemployment Rate by Age in United States according to the Bureau of Labor Statistics (BLS)

BBG Index	Ages	Current Rate
USURT162 Index	16-24	9.4
USURT202 Index	20-24	7.5
USURT253 Index	25-34	4.0
USURT354 Index	35-44	3.2
USURT454 Index	45-54	3.2
USURT55+ Index	55+	2.9

Source: Bloomberg Professional, Poxono Capital

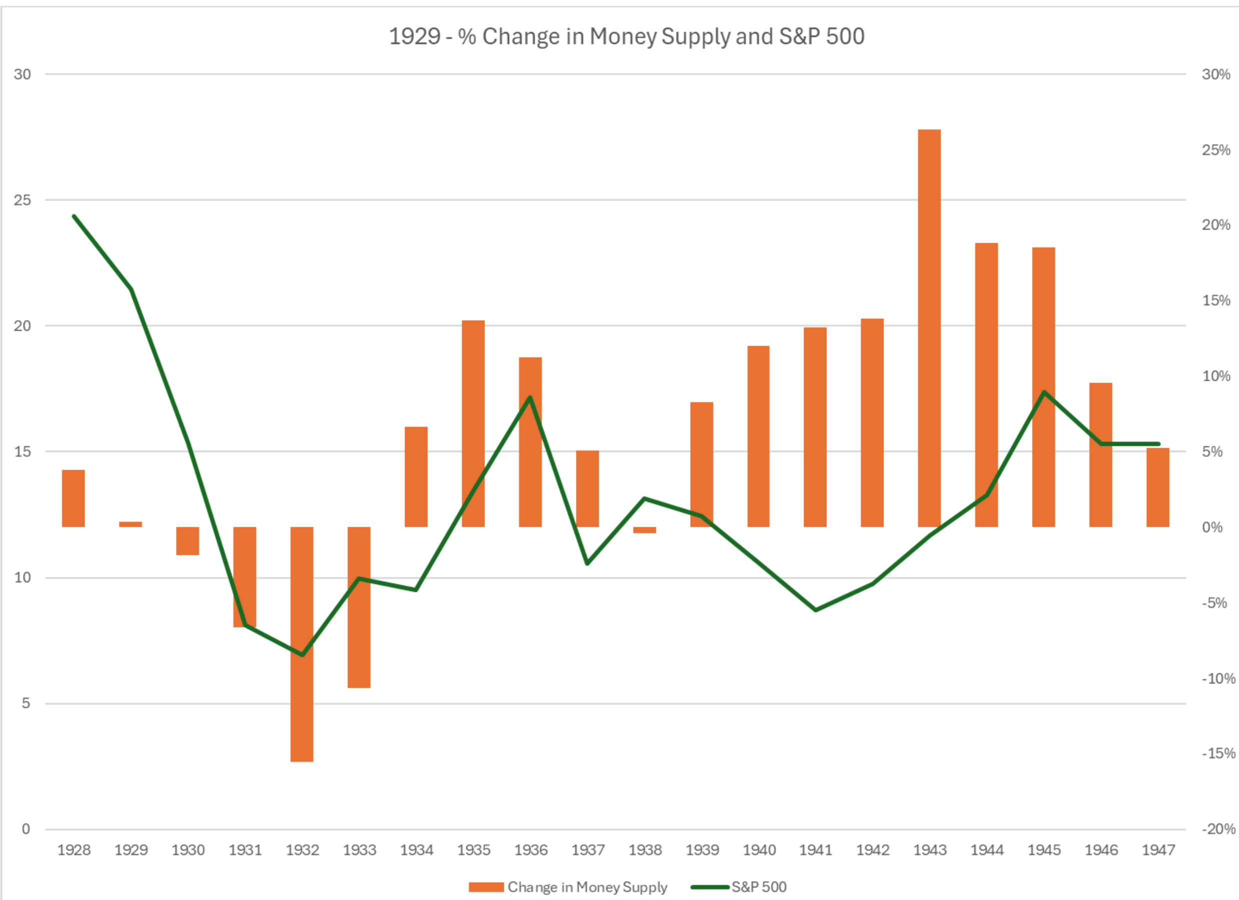
If a 24-year-old unemployed American isn't taking the manufacturing opening now, what is going to convince them otherwise? Maybe higher wages? How do you make the wages high enough to afford a home?

Why Take the Risk with Tariffs? Why do We Need to Solve the Problem?

Trump and the Administration want to implement tariffs without a recession, get Powell to lower rates, then fill jobs created by tariffs or use the dollars from tariffs to stimulate enough growth to get young people gainfully employed with high enough wages to afford a home. That's an extremely hard series of events to nail.

In our opinion, we have to do something about the affordability crisis created by money printing. Our debt is now greater than GDP (chew on that for a moment). We are a levered country at risk of losing the premium our currency benefits from.

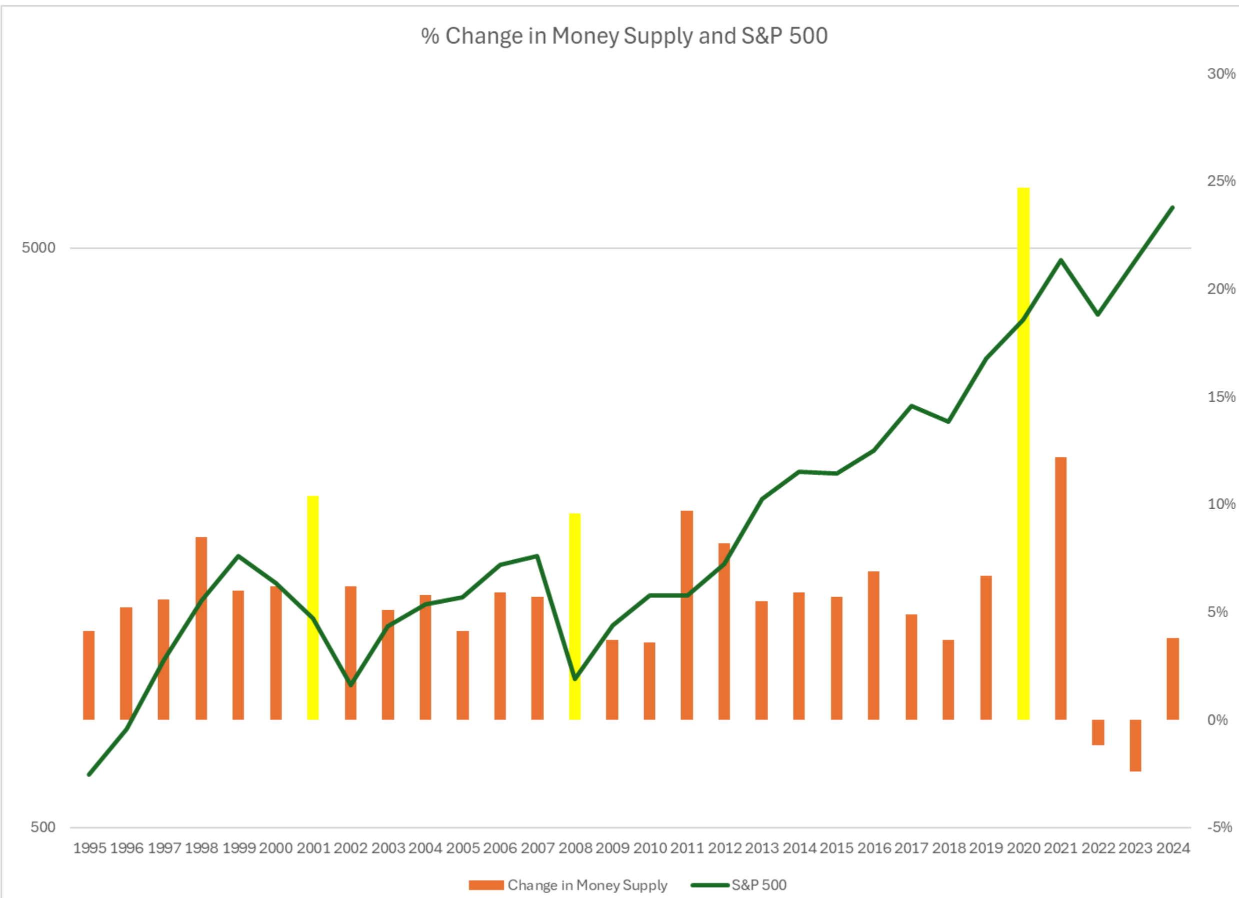
Before complaining about money printing, there is a reason for it. Our country uses liquidity injections to stop depressions. We taught ourselves that lesson in the "Great Depression." In 1929, the stock market and asset prices crashed. It took until 1934 for meaningful liquidity to be injected into the system in the form of fiscal policy (The New Deal) and war spending. In fact, the government allowed the Money Supply to shrink, and it helped asset prices spiral downward.



Source: Federal Reserve https://files.stlouisfed.org/files/htdocs/wp/2003/2003-006.pdf (Table 3 - Starting on Page 49).

When you inject liquidity into the system, asset prices rise. The issue with that is that you must own assets to benefit. Therefore, there are consequences for money printing in the form of class warfare. The richer get richer and the poor get left behind (See the wage growth chart above – Wages didn't keep up with costs, only asset appreciation did).

After the Depression, the US has had a steady state of liquidity injections through deficits and the Federal Reserve. Now during selloffs, the US doesn't wait a couple of years to start printing money/injecting liquidity. In fact, in 2020, the US didn't even let the market experience a down year before printing/injecting liquidity. Fun Fact: At the beginning of 2021, roughly 1 in every 5 dollars was created in 2020 – out of thin air using fiscal and monetary policy.



Source: Bloomberg Professional (M2 Index, SPX Index)

Conclusion

Money printing/liquidity injections created incredible “buy the dip” dynamics for everyone acquiring assets in the last 30 years. Unfortunately, the US may have gone too far and broken the wage-price relationship. Asset prices have run so far that the bottom half of the country can’t afford to buy a home and our debt-to-GDP ratio is causing our currency to be questioned as the once dominant form of payments and value. The Trump Administration is trying to reverse that dynamic by forcing wages catch up to asset prices. The best case scenario is likely asset prices rise slower than wages and interest rates come down. That’s a best-case scenario but there are a lot of landmines to manage in that journey.

For now, our approach will continue to play the table minimum while owning assets that should benefit from the fall of dollar supremacy.

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