

The CIO Monthly Perspective

September 1, 2022



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THE BIG HEIST

Crypto woes; a black swan fait accompli

The S&P 500 Index's impressive rally off the June 16th YTD low peaked exactly two months later on August 16th with a gain of 17% (3,667 to 4,305). A steady drumbeat of hawkish messages from Fed officials led investors to take some chips off the table going into the Kansas City Fed's Jackson Hole Economic Symposium where the main attraction was Chair Powell's opening remarks. Powell wound up delivering one of his most concise and hawkish speeches. In a nutshell, Chair Powell reiterated his Volcker-like resolve to bring down inflation and cautioned that there will be "some pain to households and businesses." By month end, U.S. Treasury yields have moved higher across the curve and equities have resumed downtrends in anticipation of more hawkishness for longer. The U.S. Dollar Index has surged to fresh 20-year highs as the rest of the world is facing even greater challenges.

It's been a summer of drought and extreme heat across North America, Europe, China, and Africa. Rapidly receding water levels at the Rhine, Danube, Yangtze, and Colorado River have disrupted shipping, crimped hydropower generation, and reduced irrigation. These problems are playing into Putin's hands as he seeks to weaponize commodities to coerce the world to give in to his aggression. However, thanks to more advanced weapons supplied by the West, the Ukrainian military has stalled Russian advances and is even mounting a counterattack in an attempt to recapture the key port city of Kherson. Despite the Iranian fatwa-inspired stabbing of author Salman Rushdie and the regime's alleged plot to assassinate former U.S. officials John Bolton and Mike Pompeo, the White House seemed to have made additional concessions to the rogue state in order to clinch a nuclear deal. Sorry, Mr. Rushdie, it's not personal; it's just business. To be fair to the Administration, its aggressive sale of crude oil from the Strategic Petroleum Reserve (SPR) has brought down gasoline prices enough to keep the Consumer Price Index (CPI) flat month-on-month in July, which enabled President Biden to crow that inflation has come down to zero (though still at 8.5% year-on-year). With the SPR now at dangerously low levels, the Administration needs additional Iranian oil on the market to offset the discontinuation of oil release from the SPR after the midterm elections. In the long run, however, there will likely be a greater price to pay for sleeping with the enemy. Iran and Russia have inked a \$40 billion deal with the ambition of creating a natural gas cartel. It's clear that the Moscow-Beijing-Tehran axis is a growing threat, yet our politicians, like day traders, seem only focused on short-term gains. It's time to move quickly to facilitate more domestic energy production so the West will not be at the mercy of rogue states bent on challenging the existing world order. At the risk of sounding tacky, we are AmeriCANS, not AmeriCAN'Ts!

THE BIG STEAL

It was supposed to be a win-win deal designed to set Jimmy Riddle Hoffa free while giving President Nixon the coveted endorsement from the Teamsters Union for his 1972 reelection campaign. Hoffa, perhaps the most famous union boss in U.S. history, was no stranger to legal battles. The U.S. government had long accused the domineering ex-president of the Teamsters of having mob associations and misappropriating union pension funds. During the Kennedy Administration, Attorney General Robert F. Kennedy (RFK) had so much enmity against Hoffa that he had assembled a group of Justice Department prosecutors and investigators - internally known as the "Get-Hoffa" squad - to go after the man. The squad eventually won two convictions against Hoffa in 1964 and sent him to the slammer in March 1967 for a 13-year sentence.

While in prison, Hoffa had continued to run the Teamsters through his loyalist, Frank Fitzsimmons, who was named the acting president of the union. Hoffa's hope for early release was raised in June 1968, when Robert Kennedy, his nemesis and the leading candidate in that year's Democratic presidential primary race, was assassinated. Nixon's electoral victory in November 1968 further lifted Hoffa's mood as he knew that a politician nicknamed "Tricky Dick" was the type of man with whom he could make a deal.

Hoffa's assessment of Nixon turned out to be correct, but he was blindsided by Fitzsimmons' betrayal. Fitzsimmons and the mob were determined to elbow out Hoffa, so they convinced Nixon to commute Hoffa's sentence with the condition that he would be banned from any union activity until March 1980. Hoffa begrudgingly resigned as the president of the Teamsters in June 1971 and walked out of Lewisburg Federal Penitentiary in Pennsylvania a free man two days before Christmas.

A tenacious fighter his entire life, Hoffa was not about to sail into the sunset, and soon started plotting his revenge and return to power. He allegedly told the mob that he had to make a \$3 million "campaign contribution" for his freedom, and that Nixon had stashed away as much as \$30 million in a vault at the United California Bank in Laguna Niguel, just a few miles from Nixon's house in San Clemente. The money was dubbed "Nixon's Milk Money" as much of it came from dairy farmers in exchange for Nixon's support for raising milk prices in 1971. Hoffa supposedly inquired to see if anyone was interested in breaking into the vault to steal the big prize. The tip-off was soon passed from the Cleveland mob to Youngstown, Ohio, where the Dinsio brothers were clued in.

36-year-old Amil Dinsio was a folk hero in the underworld of Youngstown. During the 1950s and 1960s, Amil, his brother James, and his brother-in-law Charles Mulligan had successfully broken into nearly one hundred bank vaults across the country. Amil was an expert with alarms, and James knew how to handle explosives. Their expertise, detailed planning, and precise execution made them the best safecrackers in the business, and this job was too enticing to pass up.

Equity Market Indices ¹	7/31/22 Price	8/31/22 Price	MTD Change	YTD Change
MSCI All Country World	638	613	-3.9%	-18.8%
S&P 500	4130	3955	-4.2%	-17.0%
MSCI EAFE	1937	1841	-5.0%	-21.2%
Russell 2000 ²	1885	1844	-2.2%	-17.9%
NASDAQ	12391	11816	-4.6%	-24.5%
TOPIX	1940	1963	1.2%	-1.5%
KOSPI	2452	2472	0.8%	-17.0%
Emerging Markets	994	994	0.0%	-19.3%

Fixed Income				
2-Year US Treasury Note	2.89%	3.50%	61	276
10-Year US Treasury Note	2.65%	3.20%	54	168
BBG US Agg Corp Spread	1.44%	1.40%	-4	48
BBG U.S. HY Corp Spread	4.69%	4.84%	15	201

Currencies				
Chinese Renminbi (CNY/\$)	6.74	6.89	2.2%	8.4%
Brazilian Real (Real)	5.17	5.18	0.2%	-7.0%
British Pound (\$/GBP)	1.22	1.16	4.7%	16.4%
Euro (\$/Euro)	1.02	1.01	1.7%	13.1%
Japanese Yen (Yen/\$)	133.27	138.96	4.3%	20.8%
Korean Won (KRW/\$)	1299.25	1338.10	3.0%	12.5%
U.S. Dollar Index (DXY)	105.90	108.70	2.6%	13.6%

Commodities				
Gold	1766	1711	-3.1%	-6.5%
Oil	98.6	89.6	-9.2%	16.3%
Natural Gas, Henry Hub	8.23	9.13	10.9%	144.7%
Copper (cents/lb)	357	352	-1.5%	-21.2%
CRB Index	292	290	-0.6%	25.0%
Baltic Dry Index	1895	965	-49.1%	-56.5%

Source: Bloomberg

Amil flew to California with his wife and brother-in-law on February 21, 1972, for a two-week reconnaissance mission. Upon returning to Youngstown, he had already drafted a burglary plan and wanted to keep the operation within the family. However, the Cleveland mob insisted on sending two of its guys to keep Amil in line.

On March 15th, the seven-man squad flew to Los Angeles and moved into a rented condo a mile away from the bank. They spent the following days acquiring tools that included hacksaws, sledgehammers, electric drills, blow torches, explosives, burlap bags, flashlights, gloves, ski masks, as well as shotguns, a police radio scanner, and a used car.

The Dinsio squad started the heist in the dead of night on Friday, March 24th. Two of his men filled burlap bags with soil from the flowerbed outside the bank while Amil sprayed liquid Styrofoam into the exterior alarm to harden the clapper so it could not ring. They connected their power tools to the air conditioning unit's power source and cut a hole in the plywood roof. They dropped themselves into the bank and landed on

top of the vault. Amil located the bank's control panel and rewired the interior alarm so that it would not be triggered. They then drilled 16 holes in the vault's 18-inch steel-reinforced roof and inserted a dynamite stick in each hole. The bags of soil were placed on top of each hole to force the explosion downward and to muffle the blast. After the dust from the explosion had settled, they cut the reinforcing rebar with blow torches and slid into the vault.

The crew adroitly opened safe deposit boxes by striking a sledgehammer into a spiking hammer to penetrate each box's keyhole and pried the doors ajar. The content of the boxes – jewelry, coins, stock and bond certificates, cash, property deeds, and even urns of ashes – were dumped on the floor and the valuables were thrown into burlap bags. They called it a night a few hours later, and then returned the following two nights to complete the big heist. All told, 458 of the 500 safe deposit boxes were ransacked, including two larger boxes filled with envelopes containing \$500 and \$1000 bills.

The Dinsio squad had stolen so much from the vault that they had to get a trailer to haul away the loot. Before they left Laguna Niguel, they hired a cleaning crew to meticulously scrub every part of the condo. On their way to Youngstown, they stopped in Las Vegas to launder part of the loot with a known swindler, Harry Hall, who was an associate of Hoffa and the mob.

For two months, the FBI's investigation of the bank heist had gone nowhere. Then, an agent in Cleveland reported that Amil Dinsio was a suspect in a recent local bank burglary executed with the same *modus operandi*. An examination of airline records revealed that Amil had flown to LA nine days before the heist. The meticulous sleuthing of the G-men eventually led to a search of the condo that Amil had rented. No trace of his squad's stay was found until the dishwasher was opened – their fingerprints were left on unwashed dishes therein.

Amil and his gang were duly arrested, convicted, and imprisoned for terms of 3 to 10 years. The FBI recovered about \$3 million, including \$1.2 million hidden in the bushes on Sea Island Drive in Laguna Niguel. Decades later, Amil recalled that they had stolen \$12 million from the bank and insisted that the fingerprints on the dishes were planted by the FBI to get him convicted. There was no evidence that Nixon had stashed money in the bank, but it's puzzling that a burglary would result in the largest manhunt in the history of the FBI with 125 agents assigned to the case. In any case, Nixon had bigger fish to fry as he had allegedly approved the Watergate break-in three days after the heist was reported. The Watergate scandal soon consumed his presidency and led to his resignation on August 8, 1974. Ironically, Nixon's first public appearance after his resignation was a golf outing with Frank Fitzsimmons in 1975. Jimmy Hoffa had probably recouped his money via Harry Hall but did not get to enjoy it for very long. His bid to return to power at the union turned acrimonious and angered several mob bosses. Hoffa was last seen getting into a car outside a diner in a Detroit suburb around 2:50 pm on July 30, 1975, and his whereabouts since have remained an unsolved mystery.

CRYPTO WOES

It's been 50 years since Dinsio's brazen bank burglary. While the world has since changed profoundly in many ways, one could question whether it's for the better. Back in 1972, air travel in the U.S. was a luxurious experience with unlimited cocktails and sumptuous meals. McDonald's french fries were tastier as they were cooked with beef tallow. Rock stars appeared larger than life with their flamboyant outfits and voluminous long hair; Singapore had actually denied Led Zeppelin entry to the island state for fear of "corrupting" their youth (Singapore is usually behind the times sociologically as it has finally repealed a colonial-era law criminalizing sex between men only a few weeks ago). Then there was the late Olivia Newton-John, who made her U.S. debut 50 years ago on the Dean Martin Show. Her angelic voice now reverberates in heaven above.

One thing that has remained unchanged is crime, which can never be eliminated no matter how enlightened or affluent societies become. However, some modern-day thieves are far more sophisticated than the Dinsio crew as technology has enabled them to pull off much bigger heists from the comfort of their homes, sometimes with victims willingly handing over their money. To wit, Oxford-educated Ruja Ignatova, aka "Crypto Queen," was recently added to the FBI's Ten Most Wanted Fugitives list for her \$4 billion Ponzi scheme called OneCoin. She had founded OneCoin in 2014 as a "leading" cryptocurrency to replace Bitcoin. Money poured in from investors around the world in the hopes of striking it rich. In January 2017, the OneCoin exchange was abruptly shut down without notice, and the money was all gone.

Stanford-educated Kwon Do-hyung, aka Do Kwon, was supposed to be the techno-visionary-super-salesman-genius who would transform the world with his algorithmic stablecoin TerraUSD (UST) and blockchain token LUNA. Do Kwon's vision was to create something akin to a global crypto central bank issuing decentralized cryptocurrencies that would someday replace national currencies. His great salesmanship won him the backing of sophisticated venture capitalists and crypto visionaries for his unlicensed company, Singapore-based Terraform Labs. The firm also lured individual investors with a mouth-watering 20% yield on UST deposits. For a while, the brash, trash-talking Do Kwon was feted as a genius on par with Satoshi Nakamoto, the enigmatic and hitherto unidentified creator of Bitcoin. The price of LUNA went up 100-fold in 2021, prompting Mike Novogratz, one of the best-known crypto promoters and investors, to tattoo the word "LUNA" on his left shoulder. However, there is the adage that if something sounds too good to be true, it probably is.

As is with all Ponzi schemes, the jig was up when the net money flow turned negative. LUNA and TerraUSD collapsed in the spring of 2022, wiping out \$60 billion of market value, and causing several suicides among retail investors. However, Do Kwon seemed to have fared well – he allegedly cashed out as

much as \$2.7 billion before the collapse, prompting people to coin the term "Kwonzi scheme." The LUNA/TerraUSD implosion triggered a chain reaction - crypto asset prices went into a downward spiral as panicky investors tried to pull money out, which drove several high-profile, institutional-backed crypto entities, from the once red-hot 3AC crypto hedge fund to various crypto exchanges, into bankruptcy.

As we sift through the crypto wreckage, some lessons can be gleaned without sounding like a Luddite. First, one should either refrain from handing money to unregulated entities or hand over the money with the expectation that it could all be lost. Second, don't be seduced by double-digit yields from unregulated entities, even the supposedly reputable ones. The FDIC has recently issued cease-and-desist letters to five crypto companies, include the FTX crypto exchange controlled by boy wonder Sam Bankman-Fried, telling them to stop their "false and misleading" statements that certain crypto-related products are FDIC-insured. Third, despite the promise of decentralized finance under the cool moniker DeFi, the crypto space still appears to be an incestuous, interwoven web of entities that invest in and lend to each other. When the tide of liquidity goes out, they run the risk of going down in unison. Lastly, Bitcoin and other crypto assets have shown themselves to be mere trading sardines with little or no intrinsic value. Instead of being risk diversifiers as promulgated by their promoters, their movement of late has tracked that of the riskier segments of the stock market. In short, for those who want exposure to crypto assets, trade them based on momentum and liquidity but don't HODL (Hold On for Dear Life). They may well again rise when the Fed eventually turns the liquidity spigot back on. Despite the recent carnage, crypto assets are here to stay as they are way too profitable for Wall Street to ignore. As the crypto space becomes better regulated, traditional financial services companies will jump on the bandwagon to facilitate trading and custody, or to hawk high-fee investment products. As always, caveat emptor, or "let the buyer beware."

TRIANGULAR DIPLOMACY

1972 was a historic year in the annal of diplomacy and geopolitics. On February 21st, when Amil Dinsio was flying in style to LA for his pre-heist reconnaissance, Air Force One had just landed in Beijing, then called Peking, for Nixon's historic meeting with Chairman Mao. It marked the official start of triangular diplomacy that had the U.S. playing the "China card" against the Soviet Union. However, from Peking's vantage point, Mao was playing the American card to not only check Soviet aggression but also weaken U.S. support for Taiwan. Indeed, Nixon and Henry Kissinger were so desperate for China's help to end the Vietnam War that they were willing to sacrifice Taiwan - Nixon had jotted down "Taiwan = Vietnam = trade-off" on his notepad.

During the decades of the nineties and noughties, this triangular diplomacy had worked like a charm for the U.S. The

Soviet empire had disintegrated while China not only gave American businesses cheap labor and new markets, but also bought oodles of U.S. debt to finance our profligacy. It was an even greater bargain for the Chinese Communist Party (CCP) - it propelled China's economy to the second largest in the world and funded the People's Liberation Army's (PLA) modernization. The symbiotic relationship prompted historian Niall Ferguson and economist Moritz Schularick to coin the term *Chimerica* in 2006. Taiwan also transformed itself into a liberal democracy and technology powerhouse. Its rapprochement with China has had materially improved the cross-strait relationship, especially in bilateral trade.

The good feelings in the U.S.-China-Taiwan relationship probably reached a crescendo in November 2011, when Paul V. Kane, a former international security fellow at the Harvard Kennedy School, penned an op-ed in the New York Times titled, "*To Save Our Economy, Ditch Taiwan.*" Kane argued that the U.S. needed to pivot away from the old defense mentality and focus on the competitiveness of our economy. Based on the view that our bloated national debt was the most significant threat to national security, Kane suggested that then President Obama undertake closed-door negotiations with the CCP to write off the \$1.14 trillion of U.S. debt held by China in exchange for ending America's support for Taiwan. He claimed that America had "little strategic interest in Taiwan" and that the island's absorption into China was inevitable. He argued that the deal would wipe out 10% of our national debt and lead to less defense spending on both sides. He fancied that such a deal would pressure the CCP to end its support of pariah states. In short, it was as if ditching Taiwan would get the U.S. and China to sing Kumbaya and usher in world peace.

It's one thing for a scholar to write something provocative, but it was amazing that Kane's outlandish scheme had actually reached the halls of power. Jack Sullivan, President Biden's National Security Advisor, was serving as the Director of Policy Planning at the State Department in 2011. According to Wikileaks, an unclassified document revealed that Sullivan had forwarded Kane's article to then Secretary of State Hillary Clinton, and her response was, "I saw it and thought it was so clever. Let's discuss." Well, it's a good thing that nothing close to Kane's "clever" ideas was ever attempted. As a matter of fact, the triangular diplomacy among the U.S., China, and Taiwan would soon take some dramatic turns.

In November 2012, Xi Jinping became the General Secretary of the CCP and started to pivot away from Deng Xiaoping's guiding foreign policy philosophy of "hide your strength, bide your time." He pursued a hardline wolf-warrior diplomacy abroad and railed against "dangerous Western values" at home. Xi also attempted to coerce Taiwan to quicken the pace of unification, which backfired by getting the pro-independence Madame Tsai Ing-wen elected as Taiwan's president in January 2016. Then came the reset in the Sino-U.S. relationship with the election of Donald Trump, who deliberately poked the CCP by holding a phone call with

President Tsai less than a month after his electoral victory. It marked the first time since 1979 that a U.S. president or president-elect had directly spoken with Taiwan's president. The mercurial Trump then pulled off what many had considered economic suicide - imposing stiff tariffs on Chinese goods and curbing U.S. exports of critical technologies to China. The bilateral relationship deteriorated further over China's obstruction of the investigation into the origin of the SARS-CoV-2 virus, which some still suspect to be lab made. In the summer of 2020, the CCP unilaterally imposed its national security law on Hong Kong, which essentially ended the "one nation, two systems" framework that was supposed to last into 2047. China's trampling of democracy and human rights in Hong Kong all but shattered the prospect of a peaceful unification with Taiwan.

A BLOODLESS FAIT ACCOMPLI

Chinese leaders must have breathed a sigh of relief when Joe Biden was declared the winner of the 2020 U.S. presidential election. After biting their tongues for four years for fear of Trump's reprisal, China's top diplomats unleashed much vitriol at Secretary of State Antony Blinken and Jack Sullivan in their first official meeting in Anchorage, Alaska in March 2021. The Chinese diplomats' harsh words were intended for their domestic consumption and for intimidating the new administration and probing its weaknesses. To China's chagrin, President Biden has not yet rolled back Trump's tariffs, and he has made several so-called "gaffes" about defending Taiwan. In April 2022, China vehemently protested Speaker Nancy Pelosi's planned visit to Taiwan, and probably felt that its threats had worked when she postponed the trip upon being infected with COVID-19. Then came the showdown over Pelosi's actual visit to Taiwan in early August, from which neither side could afford to back down.

For now, the CCP appears to have gained the upper hand as it has seized Pelosi's Taiwan visit as a pretext to quickly mobilize the PLA to conduct the largest live-fire military exercises in its history. The coordinated multi-force drill involving China's navy, air force, rocket force, strategic support force, and joint logistic support force had encircled Taiwan for several days, encroached into the island's territorial space, and disrupted its shipping and air traffic. It was essentially a warning from the PLA that it can impose a blockade on Taiwan at will.

These developments have probably escalated cross-strait tensions for good. The U.S. will increase its support for Taiwan, and many American politicians will visit the island to show solidarity and to boost their own foreign policy bona fides. China will respond to these "provocations" by conducting similar military drills and harassments at the time and place of its choosing. Over time, the PLA's military drills and incursions into Taiwan's airspace and waters could be accepted as a common occurrence, and therein lurks the real danger.

With Chairman Xi appearing to have secured a third term, the

odds of China annexing Taiwan in the next few years are on the rise. From Xi's vantage point, time is not on his side as the West will become more supportive of Taiwan while the island's populace continues to shed their affinity to China. As such, he may have a sense of urgency to make a bold move before the U.S. and Japan build up sufficient military assets in the region to help defend Taiwan.

An opportune window for Xi to annex Taiwan by coercion may be in late 2024 if the U.S. winds up being consumed by a contested presidential election that tears apart the country from within. Here's one way that China can force a fait accompli on Taiwan while the U.S. is preoccupied with internal problems: the PLA could conduct yet another drill off the coast of Taiwan, but this round would be turned into a real blockade of the island in an effort to coerce it into submission. The CCP would broadcast to the Taiwanese that they have 24 hours to decide - face incoming missile attacks and the annihilation of critical infrastructure, including the most advanced TSMC fabs, or agree to the "one nation, two systems" framework similar to that of Hong Kong, where the economic status quo would be maintained. To soften Taiwan's political resistance, the CCP would promise amnesty and even safe passage for pro-independence politicians to go into exile. The PLA could cut off Taiwan's undersea cables to sow more panic and control information flow. Chinese spies embedded in Taiwan's government, military, and media could be activated to execute a coup. China would declare the Taiwan Strait a war zone and tell the world to stay out of its "internal affairs." However, it could also promise that everything would be back to business as usual, including the export of semiconductor chips, but only if Taiwan accepts China's reunification demands.

Assuming the Taiwanese government manages to put down any attempted coups and overrule business elites clamoring for a deal with China, it would reach out to the U.S. and Japan for military assistance. The West would call for an emergency UN Security Council meeting to condemn China's aggression and demand an immediate withdrawal. U.S. congressional members would urge the beleaguered White House to impose harsh sanctions against China, but their business constituents would caution that parts of the U.S. economy would be paralyzed in a few months due to their dependence on Chinese manufacturing. The Pentagon would inform the White House and Congress that the U.S. 7th Fleet could be dispatched to break China's blockade, but it would take days to get there.

Should such a scenario come to pass, risk asset prices would likely plunge as an initial reaction while U.S. Treasuries and gold could rocket higher due to their safe haven status. If the U.S. fails to come up with a military response, thereby allowing China to pull off the big heist, traders may try to push up risk asset prices despite the realization that the U.S. hegemony would become a thing of the past. However, the questionable longer-term outlook would likely force a reset in market expectations and valuations. If the U.S. and its allies decide to pursue a military response, investors would have to dust off the

playbook from the 1940's. It would be an extremely costly campaign with unpredictable outcomes.

The hypothetical scenario outlined herein may appear farfetched, but at this time a year ago, so was the warning of a Russian siege of Kiev. Putin has shown that nuclear powers don't have to abide by international norms, and out of their self-interest, many nations will acquiesce naked acts of aggression. Many Americans, not realizing Taiwan's strategic position and its critical role in the global semiconductor supply chain, would also balk at sending American troops to defend a distant foreign island of 23 million people.

To be clear, a PLA attack on Taiwan in the next few years is neither my base case nor an unavoidable outcome. The CCP will have to make a realistic cost-benefit analysis despite Chairman Xi's dream of unification. The more the U.S. and its allies demonstrate the resoluteness and military capabilities to defend Taiwan, the greater the deterrence. Indeed, had Putin known that the West would arm Ukraine to put up stiff resistance, would he have invaded the country? With China having seized Speaker Pelosi's Taiwan visit as an excuse to keep the PLA mobilized for on-going drills around Taiwan, how will the U.S. and its allies respond beyond mere words?

AN ERA OF SEISMIC CHANGES

The world is going through seismic paradigm shifts that will profoundly impact our economy, investments, and national security. Putin's invasion of Ukraine and weaponization of essential commodities have seriously damaged international

norms cultivated over the last three decades. Nixon's triangular diplomacy, initiated five decades ago and culminated with the Chimerica symbiosis, has devolved into a new Cold War between the West and a Moscow-Beijing-led authoritarian axis. Four-decade high inflation has suspended, at least for now, the Fed's and the ECB's ability to paper over problems with ultra-loose monetary policies, which had fostered moral hazard and excessive risk taking. Corporations can no longer count on continued benefits of globalization - low-cost Chinese manufacturing, cheap Russian commodities, big new frontier markets, trade liberalization, etc. - as they face a starkly different post-COVID and new Cold War environment.

For investors, some of the investment strategies designed for old paradigms will not necessarily perform well in the new environment. To wit, the traditional 60/40 portfolio that has benefited from four decades of falling interest rates has so far sputtered in 2022. Profound paradigm shifts will create new opportunities, but broad market indices could be stuck in a wide trading range for an extended period. Investors need to be nimbler and more diversified. Long/short hedge funds offer exposure to ideas on the short side that could go on the offensive in a challenging environment. Structured products designed to exploit select opportunities or themes can complement traditional bonds and private credit for income generation. Commodities, underweight by many due to their cyclicity and volatility, may benefit from extended shortages due to policy-induced constraints. In short, the world is rapidly changing in front of our eyes, and portfolios need to be adjusted to weather potentially more turbulent environments.

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