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## The Main(e) Lines

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**Bottom Line:** Camp Kotok is a wonderful place. And this year was especially informative. Subtly, there was a significantly different tone than previous years. Lots of “what *could* go wrong” instead of “what *will* go wrong”. Primary topics of conversation were **China, AI, and oddities of the US economy**. In many ways, these tied back to the PolyMacro Themes of **Re-Regionalization, Return of the Allies, and From the FOMC’s PoV.**

*To be clear, Camp Kotok is held in Northern Maine under Chatham House Rules. This rule makes the conversations better, longer, and far more in-depth than most gatherings. Special place with many close friends. Moving on.*

Working through the primary points of conversation in order of both relevance and time spent. PolyMacro’s outlook on Chinese assets has been subdued with the reasoning being rather straightforward:

- **Re-Regionalization** is driven by "Fear of Impairment".
- Reinforced by policy, capital investment is accelerating the **Return of the Allies**.
- RUS / UKR is multiple negative for **China** for the foreseeable future.

(PolyMacro Presentation)

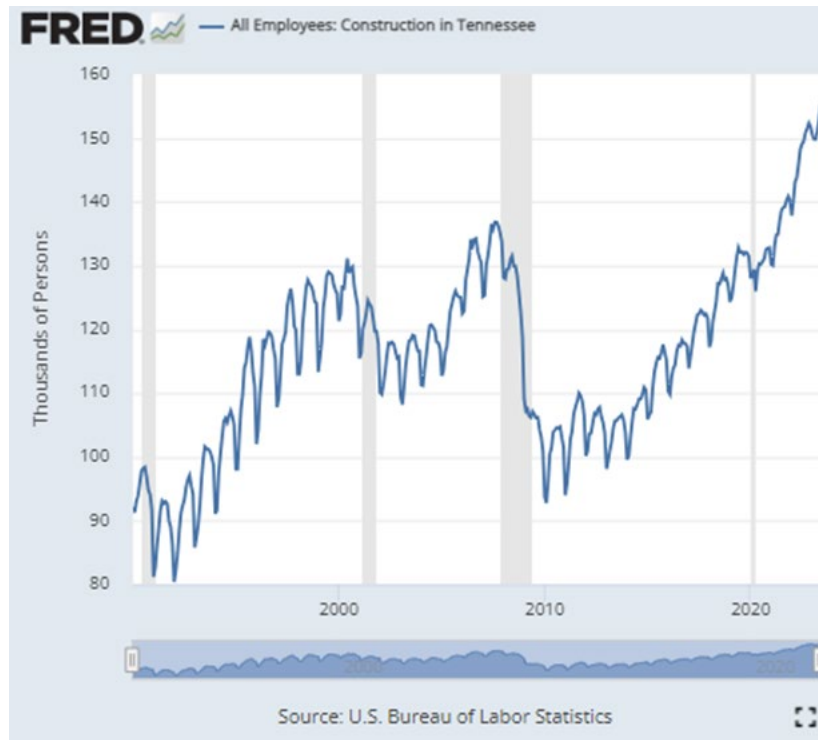
That is somewhat simplistic, but it captures the essence of the "Theme flow" rather well. **Re-Regionalization** gathered steam from the supply chain issues encountered during Covid, the trend was reinforced by fiscal / industrial policy in the US and cemented by the invasion of Ukraine.



(one of a many conversations - photo credit Brent Donnelly)

Over the course of many conversations, there were a couple additions to the thinking above. There was a general sentiment that it would be a "slow walk" of increasingly competitive

measures between the US and China. There is political want but not political agreement. It is **Re-Regionalization with Return of the Allies Characteristics**.



(Re-Regionalization)

and

Technology

## Intel spends \$33 billion in Germany in landmark expansion

Summary Companies

- Move marks biggest foreign investment in Germany in history
- Intel to get 10 bln euros in subsidies from Germany - source
- Move highlights Berlin's efforts to attract foreign investment
- Tens of thousands of jobs to be created as a result - Intel
- Intel shares +0.3% in Frankfurt

(Return of the Allies)

While it was not shocking that Washington would struggle to

have a coherent / executable China strategy, it reinforces the power and longevity of the **Re-Regionalization Theme**. The **Revenge of the Middle** (America) is not going to fade into oblivion with another couple rate increases. And the **Return of the Allies** is only beginning.



(AI panel - photo credit Brent Donnelly)

There is typically a *South Parkian* fear of AI taking everyone's job. That was not the tone of the Kotok AI panel. Instead, it was much more of a "how will it change / alter the landscape of the US / global economy"? [sidebar: will send out the video when it appears online]

While there were a few intriguing points, the points made by PolyMacro (attempted) to focus on how AI could change the outlook of deeply held economic beliefs.

For example, **if** AI is productivity enhancing in a meaningful way, **then** the demographic bomb could be mitigated to a degree. Obviously, this remains to be seen. But it is something that could be surprising to those looking at population as a long-

term driver of economic outcomes. Call this a part of the "Back-Back book" of investment ideas / themes.



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(PAM website)

Then came the discussions about the various oddities of the US economy. From employment (everyone was sitting around for the jobs number, nobody seemed to care) to the persistence of inflation, the oddities of the US economy were at the forefront of discussions.

Obviously, the PolyMacro contribution to the conversation revolved around the transition of **Price over Volume** to **Price and Margin (PAM)** and the **Revenge of the Middle**. And much of the discussion would flow back through the power of **Re-Regionalization** on the US economy. The two are self-reinforcing.

MEETING PROBABILITIES												
MEETING DATE	300-325	325-350	350-375	375-400	400-425	425-450	450-475	475-500	500-525	525-550	550-575	575-600
9/20/2023					0.0%	0.0%	0.0%	0.0%	0.0%	87.0%	13.0%	0.0%
11/1/2023	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	71.8%	25.9%	2.3%
12/13/2023	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	8.8%	66.2%	23.1%	2.0%
1/31/2024	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	3.4%	31.3%	49.2%	14.8%	1.2%
3/20/2024	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	2.0%	19.6%	41.7%	29.3%	6.9%	0.5%
5/1/2024	0.0%	0.0%	0.0%	0.0%	0.0%	1.9%	18.8%	40.8%	29.8%	7.9%	0.8%	0.0%
6/19/2024	0.0%	0.0%	0.0%	0.0%	0.9%	9.7%	28.9%	35.7%	19.7%	4.6%	0.4%	0.0%
7/31/2024	0.0%	0.0%	0.0%	0.7%	7.6%	24.4%	34.1%	23.5%	8.2%	1.4%	0.1%	0.0%
9/25/2024	0.0%	0.0%	0.6%	6.5%	21.7%	32.6%	25.2%	10.6%	2.5%	0.3%	0.0%	0.0%
11/6/2024	0.0%	0.4%	4.6%	16.9%	29.1%	27.5%	15.2%	5.1%	1.0%	0.1%	0.0%	0.0%
12/18/2024	0.3%	3.2%	12.7%	24.9%	28.1%	19.5%	8.6%	2.4%	0.4%	0.0%	0.0%	0.0%

(no one cared)

Of note, FOMC policy was enveloped within these US economic conversations. There was *some - but relatively little - discussion of "higher for longer" (which appeared to be consensus) or the terminal rate.*

**Those questions were largely laid out as contingent to the resilience and oddities of the US economic cycle.** "What breaks?" is indicative of the way many of the conversations started. The conclusions were diverse but with far less fear than expected around the group. For the US economy, it is the **Exogenous** events to fear, not the **Endogenous** ones. The more confusing the economy, the more **MonPolVol**.

Taken together, the initial takeaways (there will be more) boil down to the following -

- The slow - but persistent - walk of **Re-Regionalization with Return of the Allies Characteristics**.
- **AI should be embraced**, not feared. And it may create economic outcomes contradictory to deeply held beliefs.
- The US economic oddities are driven by nascent fiscal / industrial policies supportive of employment and wages. This creates a feedback loop supporting the shift from **PoV**



to **PAM** for longer than expected.

**Re-Regionalization** is in its infancy. The **Return of the Allies** is here. **MonPolVol** is far from dead. **Long live POV**.  
**Hello, PAM.**

As always, comments are appreciated, feedback taken to heart, and critiques welcomed. Any questions regarding the *CORBU x WisdomTree PolyMacro Model Portfolio*, happy to answer 1-1.

Samuel Rines | Managing Director

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