



Geopolitically speaking, the beginning of the year ushered in the U.S. removal of Venezuela’s leader with the capture of Nicolas Maduro. The end of the quarter saw the U.S. enter into war with Iran and the elimination of much of the regime’s leadership. Whether one agrees or disagrees with one decision or the other, or both, it is clear that the Trump administration is at the center of the global world stage. The rhetoric surrounding spheres of influence and the Donroe Doctrine which prevailed a mere two months ago was quickly de-bunked with President Trump’s recent “little excursion” in the Middle East, as our commander in chief put it.

Time dulls memories yet it is important to note that the current administration is not the first to attempt to change malevolent regimes around the world. Our success in these many campaigns remains up for debate and, most importantly, depends on how one defines success.

As we look forward to what could take place, it is important not to excessively anchor ourselves to a specific scenario. We need to assign probabilities around various outcomes but also consider time horizons. What may be viewed as a short-term failure might in fact be a long-term success, and vice versa. Ultimately, the last year has demonstrated that uncertainty will reign supreme during this administration. Uncertainty will continue to heighten volatility with our opinion being that investors in general will be unwilling to pay elevated multiples for prospective profit growth which may or may not take place due to unforeseeable externalities.

Over time, we’ve heard and read comparisons to the 1970s which are made every decade since the 1990s yet few have borne themselves out. We might nevertheless venture that today presents some of the strongest parallels we’ve seen in years. While not identical, strong similarities exist between the oil shocks that took place in the 1970s and those we have encountered over the last five years, if not in magnitude, then, at a minimum, in its consequences. The first oil shock in the 1970s took place in 1973 while the second took place in 1979. The first oil shock this decade took place in 2022 during Russia’s invasion of Ukraine. For brief context, oil prices temporarily went negative during early Covid but if we were to use an average price of \$40 for this time period, it is safe to say that prices subsequently tripled to over \$120 by 2022 as a result of Russia’s aggression. The second oil shock is taking place presently; from a somewhat recent \$55 oil price (using WTI as a benchmark), the price of a barrel of oil is currently around \$110.

More important than trying to predict the price of oil is understanding what the volatility foretells and what conditions we might find ourselves in over the next few years. Elevated commodity prices tend to be inflationary. Disinflationary forces which took place since the 1980s are now behind us. Irrespective of the short-term price of oil, we now face greater structural inflationary pressures than we have in decades. What some have called re-globalization, or de-globalization, tends to also increase costs. The potential for labor and supply chain arbitrage

which took place among nations for decades is much smaller now, if not entirely gone. It is not for us in this venue to argue the benefits of globalization over the last few decades. We are simply stating that this phenomenon played itself out over two generations and is now reversing. Currency tends to represent economic strength, relative as it may be. The 1960s experienced a strong U.S. dollar while in the '70s, the U.S. dollar weakened by 30%. While a weaker U.S. dollar would benefit American multinationals, such benefits may be offset by inherently higher de-globalized cost structures.

The chart below shows the Fed Funds rate—the rate set by the Federal Reserve—since the 1950s. Not only did the 1970s have the highest levels of interest rates—which denote inflationary conditions—it also indicates the peak in 1980 followed by the low 40 years later in 2020 (this is not a chart of inflation, yet rates and inflation are highly correlated). The disinflationary period of the last 40 years has indeed come to an end.



Perhaps the most noteworthy aspect of the chart is the cadence of recessions over the last 70 years, shaded in grey. In no interval were there as many recessions as from 1971 to 1982, with a count of four! Every decade since has experienced approximately one recessionary environment, maybe two, but definitely not four.

As with oil, we are not in the business of predicting recessions. We are, however, making the case that many tailwinds which benefitted the broad U.S. equity market over forty years have turned into headwinds. Recognizing that any single year could grant a different result, we see little to change our longer-term outlook.

The stock market increased overall during the 1970s, yet it did so at a lesser rate than the rate of inflation, resulting in a loss in real returns. Stocks generally returned less than 5% per annum while inflation was closer to 7%, annualized. The numbers may vary somewhat depending on the source with the important takeaway being that stocks returned less than inflation. This was a decade in which investors lost money and wealth in stocks as well as in bonds.

The “Go Go years” in the 1960s—a period where a few Nifty-Fifty stocks were deemed to be “one-decision” stocks, and not too dissimilar to the concentration in the S&P 500 in 2021 and 2025—gave rise to elevated multiples at the onset of the 1970s. By 1980, however, the market multiple on profits earned had been reduced by half. It is no wonder that Warren Buffett became most active during this period of volatility, declining prices and a general disdain towards equities. We are not there yet but circumstances for such an outcome are being set.

Under more benign geopolitical regimes, elevated stock market multiples might be justified. Yet, we do not find ourselves in such an environment nor are we likely to in the foreseeable future. The market multiple we find ourselves in today combined with the collection of externalities strongly informs our outlook for much more modest equity returns.

Should we indeed find ourselves in a similarly challenging investing landscape, the most desirable equities will once again be those with already depressed valuations and in many cases, whose dividends are able, in and of themselves, to offset inflationary conditions. When outlooks become unclear, investor preferences shift towards companies with greater predictability and with more immediate payoffs. It so happens that Active Value investing is perfectly positioned to take advantage of such apprehensions over the next many months and years.

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