

### Does Anybody Really Know What Time It Is?

Song by Chicago

*As I was walking down the street one day  
A man came up to me and asked me  
What the time was that was on my watch  
Yeah, and I said*

*Does anybody really know what time it is?  
(Care) does anybody really care?  
(About time) you know, I can't imagine why  
(Oh no, no) we've all got time enough to cry*

### Introduction

As we welcome the new year, it's a time filled with predictions, forecasts, and expectations about what lies ahead. But, in my view, the true question is: Do anybody really know what time it is?

In my past letters, I've often touched on the uncertainty of Wall Street's predictions, and while forecasters are quick to offer their insights, the reality is no one has a crystal ball. So, rather than offering predictions for 2025, I've decided to take a different approach. In this letter, I'm posing 10 thought-provoking questions that I believe will shape not only the next five years but potentially the coming decades.

As I began researching the subject for my year-end letter, I found myself struggling more than usual to find a fresh angle. Another commentary on large-cap growth stocks outpacing all other investments seemed neither original nor insightful. Similarly, the constant stream of forecasts about interest rate movements felt equally uninspiring.

This letter, however, is a departure from my usual quarterly updates. Instead of providing answers, I'm sharing the questions I'm asking myself as I look ahead to 2025. It's important to note that I never comment on politics, nor do I intend to here. The questions that follow are not meant to favor any particular legislative outcome or political viewpoint. They are simply reflections on the broader forces that will shape our world—and I write them as questions because, at this point, I don't have the answers. What excites me is the potential for seeing these solutions unfold in real time during my lifetime.

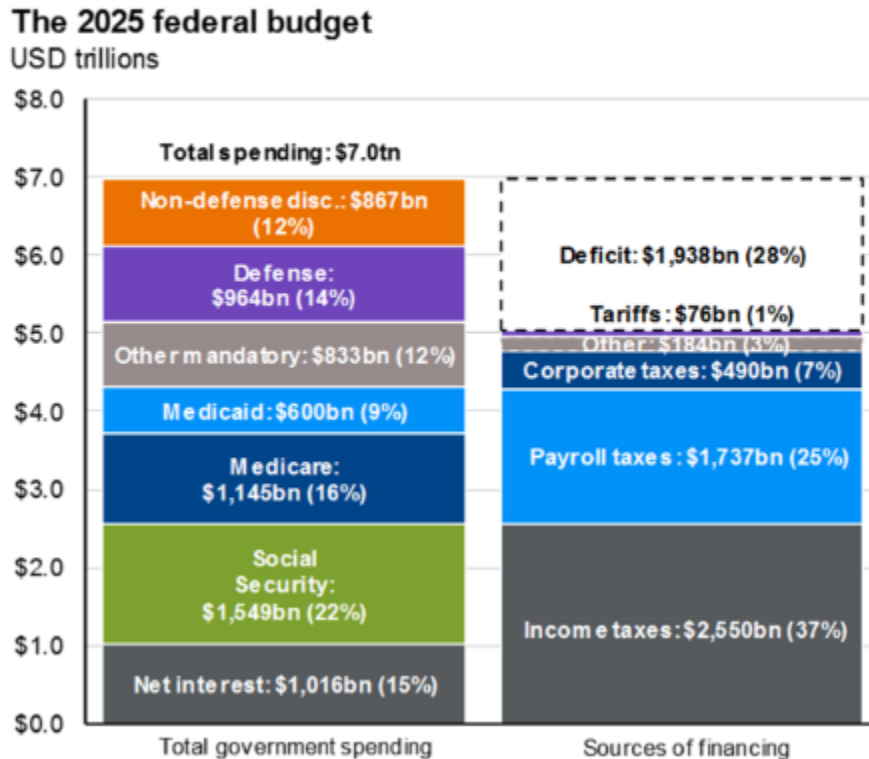
Now, without further ado, here are the 10 questions I'm pondering as we step into 2025.

### #1. Can DOGE Make Game-Changing Cuts?

There's been a lot of buzz recently about figures like Elon Musk and Vivek Ramaswamy pushing for deep cuts to government spending. But when we look closely at the numbers, we quickly realize that the road ahead is far from simple. The five largest areas of federal spending—Social Security, Defense, Medicare, Medicaid, and Net Interest—make up approximately 80% of the federal budget.

Cutting interest payments may be the most feasible, but the other categories are likely to grow, not shrink, due to the aging population and increasing global tensions. Historically, these "Big Five" have been off-limits to politicians—scaling them back is often seen as a political death sentence due to their importance to voters.

## Federal finances



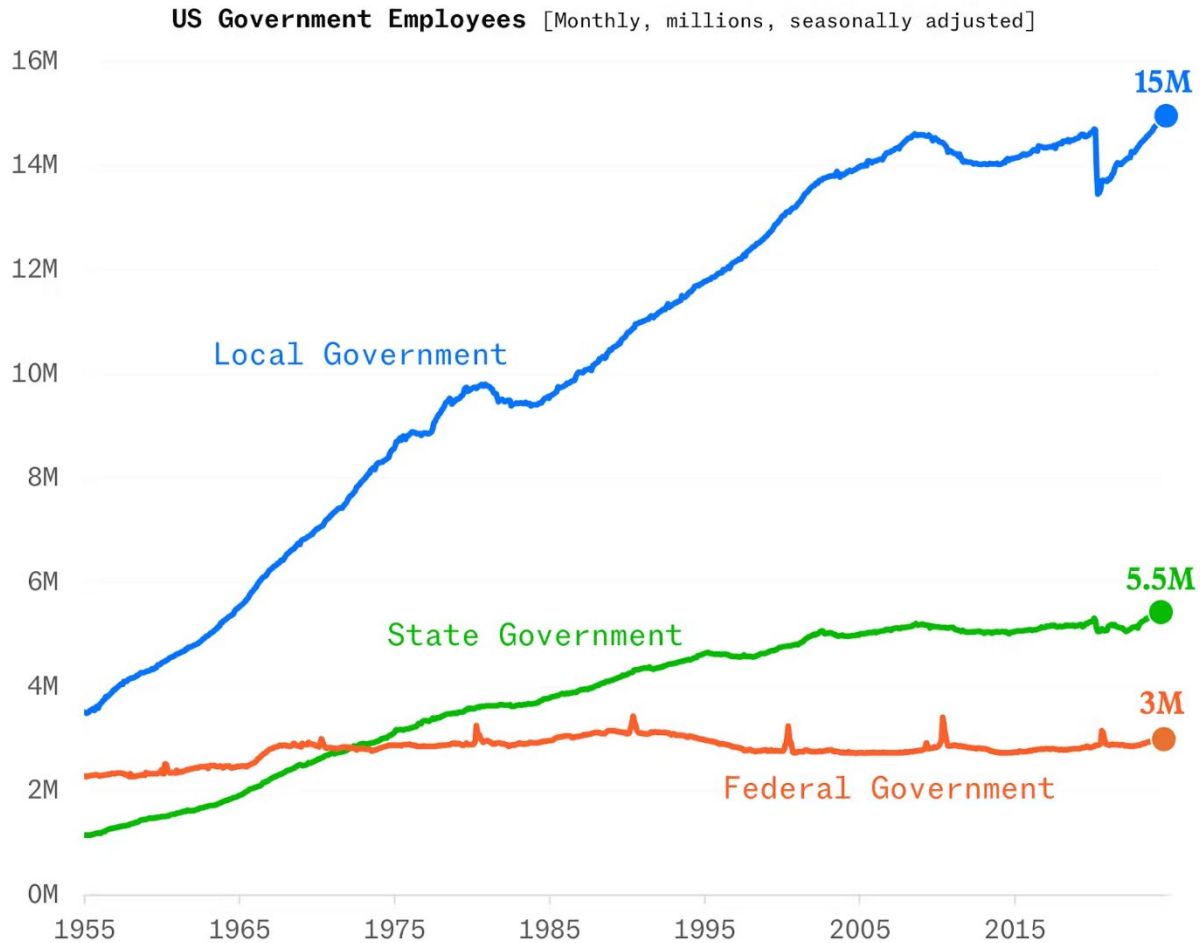
Source [JPMorgan](#)

The next big focus for DOGE may be reducing the number of federal government employees. The issue here, however, is that the size of the federal workforce hasn't grown since World War II. While state and local government employment has surged in recent decades, the federal workforce has remained relatively flat.

While I'm all in favor of reducing unnecessary bureaucracy, particularly when it comes to supporting small businesses, we must approach these issues with a dose of reality. There are no simple solutions, and we must set reasonable expectations for what can truly be achieved.



# The Federal Government's Workforce Has Stayed Quite Steady In The Last 60+ Years



**CHART**

Source: Bureau of Labor Statistics | Sep and Oct '24 figures are preliminary

Source: [ChartR](#)

## #2. Will Warren Buffett Be Right Again?

Warren Buffett made headlines recently by selling off his entire position in Apple and raising his cash holdings to nearly 30% of his portfolio. This move has raised eyebrows, but if history is any guide, we may be witnessing another example of the Oracle of Omaha's long-term wisdom.

Looking back, we see that the last two times Buffett significantly raised cash were during the Dotcom Bubble and the 2008 housing crisis. In both instances, he was early in pulling back, but ultimately, he was proven right. At the time, his decisions were met with heavy skepticism, but in hindsight, they were masterstrokes.

A recent example of how quickly speculation can unravel comes from Nvidia. When CEO Jensen Huang made a single cautious comment about quantum computing, the quantum stock sub-sector plunged by

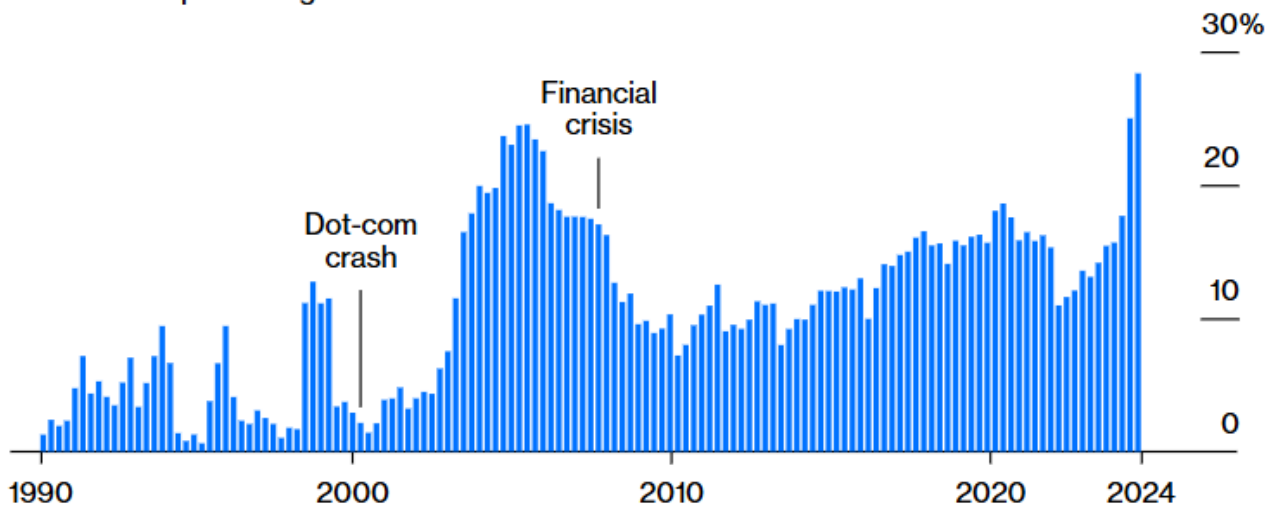
-50% in just two days. It's a reminder of how volatile and speculative markets can be.

Speaking of speculative bubbles, let's not forget that at one point in December, "Fartcoin" (a satirical reference to meme coins) was worth more than 40% of all listed American stocks. Just saying!

## Buffett Is Loading Up on Cash

Berkshire's cash allocation has moved with market cycles

■ Cash as a percentage of total assets



Source: Bloomberg

Note: Through third quarter 2024.

Source [Bloomberg](#)

All the previous Buffett examples I mentioned were met with skepticism.

"This leads to such headlines as those below during periods when stocks hit peaks

December 1999, *Barron's*: "Warren Buffett may be losing his magic touch."<sup>[2]</sup>

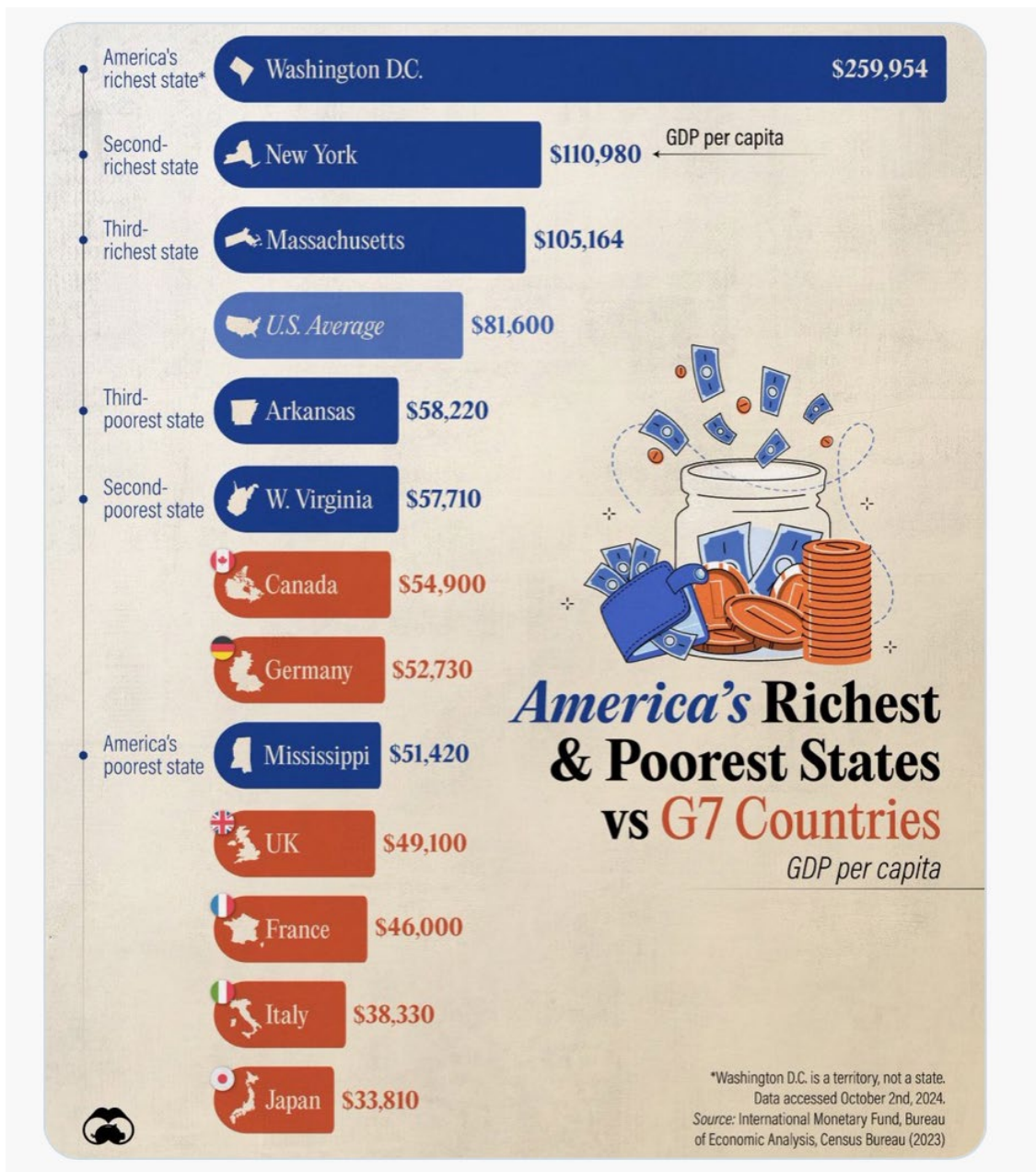
May 2021, *The Economist*: "Suspicion is growing that Mr Buffett has lost his magic touch..."<sup>[3]</sup>

September 2024, *The Economist*: "Has Warren Buffett lost his touch?"<sup>[4]</sup>

Source [MarketWatch](#)

### #3. Why Would Anyone Invest Money in Europe? Or... Is the European Stock Market About to See the Biggest Reversion to the Mean vs. the U.S. in History?

It's a striking comparison: America's poorest state, Mississippi, has a higher GDP than France or Italy. Back in 2009, during my graduate studies at Penn, we read *The European Dream* by Rifkin, and the professor was enthusiastic about the European Union's model, predicting it would eventually surpass the United States' "radical free markets." How did that prediction play out? By 2010, the gap between the U.S. and the rest of the world had widened to an unprecedented level, with American exceptionalism dominating at a rate never seen before in history.



Source [Visual Capitalist](#)



Fast forward to today, and there's an interesting mathematical aspect to consider. The U.S. stock market is trading at a 75-year high relative to European equities. So, the question arises: Is Europe simply a permanent "adult Disneyland" for Americans, or are we about to witness the most significant reversion to the mean in history?

Europe faces some daunting challenges. Can they overcome their demographic issues? Can they foster an entrepreneurial spirit to drive innovation? Can they reverse the trend of de-industrialization? And perhaps most critically, can they take a leading role in emerging technologies?

The biggest technology conference in the world CES happened in Las Vegas last week, here is value investor [Vitaliy Katsenelson's](#) observation.

*I was only mildly surprised by how few European companies were at the show. It's a very broad generalization, but Europe seems to be running on fumes of past glory. Western Europe has become a pro at regulation and mastered the redistribution of wealth (activities that don't help innovation or economic growth), and not much else. Yes, there are exceptions, but that's the point – they are exceptions. If Europe doesn't change course, eventually it will run out of fumes.*

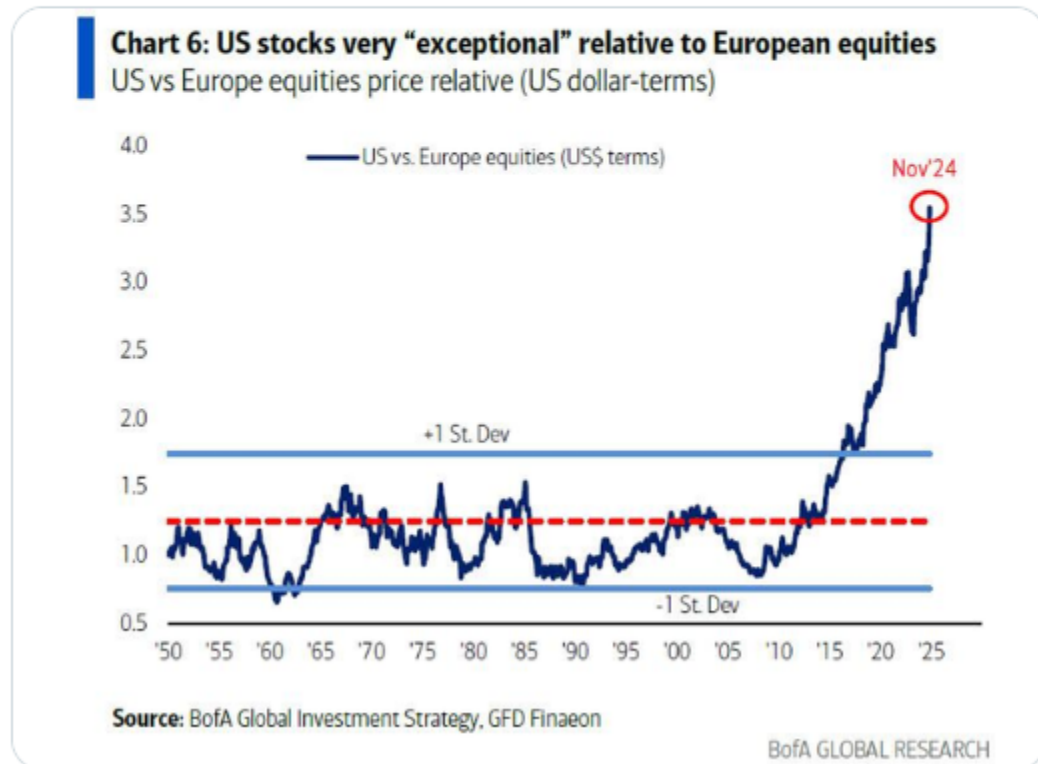
I don't have the answers, but these are questions worth pondering as we look to the future of global markets.



**Markets & Mayhem** @Mayhem4Markets · Dec 1

Amazing. US **stocks** are trading at a 75-year high in relative terms vs European equities.

Do we ever see anything even vaguely resembling mean reversion, or is Europe just toast?



Source @Mayhem4Markets

## #4. Will the U.S. Dollar Weaken? Why Do Pundits Insist Every Year to Write About the “Collapse” of the U.S. Dollar?

One of the favorite theses among critics of the U.S. market is the idea that the U.S. dollar will collapse, driven by our national debt and the exodus of foreign investors. For 29 years, I’ve started each new year reading pundits predicting the end of the U.S. dollar.

However, when we look at the numbers, the situation doesn’t support this narrative. Foreign investors simply can’t move enough money out of the U.S. to make a significant impact. In fact, a record amount of capital is flowing into U.S. equities.

Foreign Fervor: Foreign investors continue to rotate more and more into U.S. equities, setting another record high for this indicator in Q3. When comparing this to the highs of the dot-com bubble and the lows of the 2008 financial crisis, the chart paints a picture of continued confidence in the U.S. market.



### Foreign Holdings of US Financial Assets: Allocation to Equities

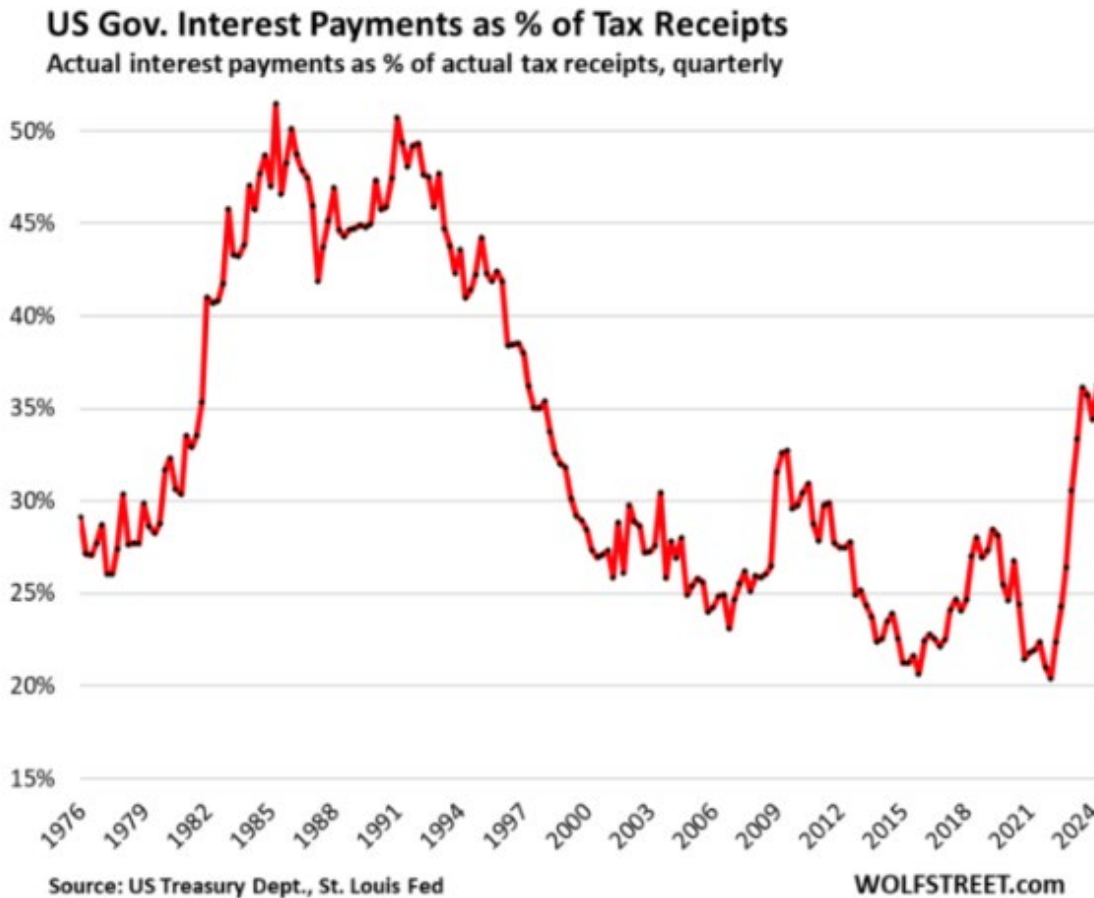


Source [Topdown Charts](#) + [Topdown Charts Professional](#)

Now, is the U.S. government's debt situation ideal? No. Should we address it? Absolutely. But is it a crisis? Not at the moment. When we look at interest payments as a percentage of tax receipts, we find they are currently at the median level for the last 75 years — lower than the peaks of the 1970s and 1980s.

**U.S. Government Interest Payments as a Percentage of Tax Receipts: Lower than in the 70s and 80s.**





Source [Wolfstreet](#)

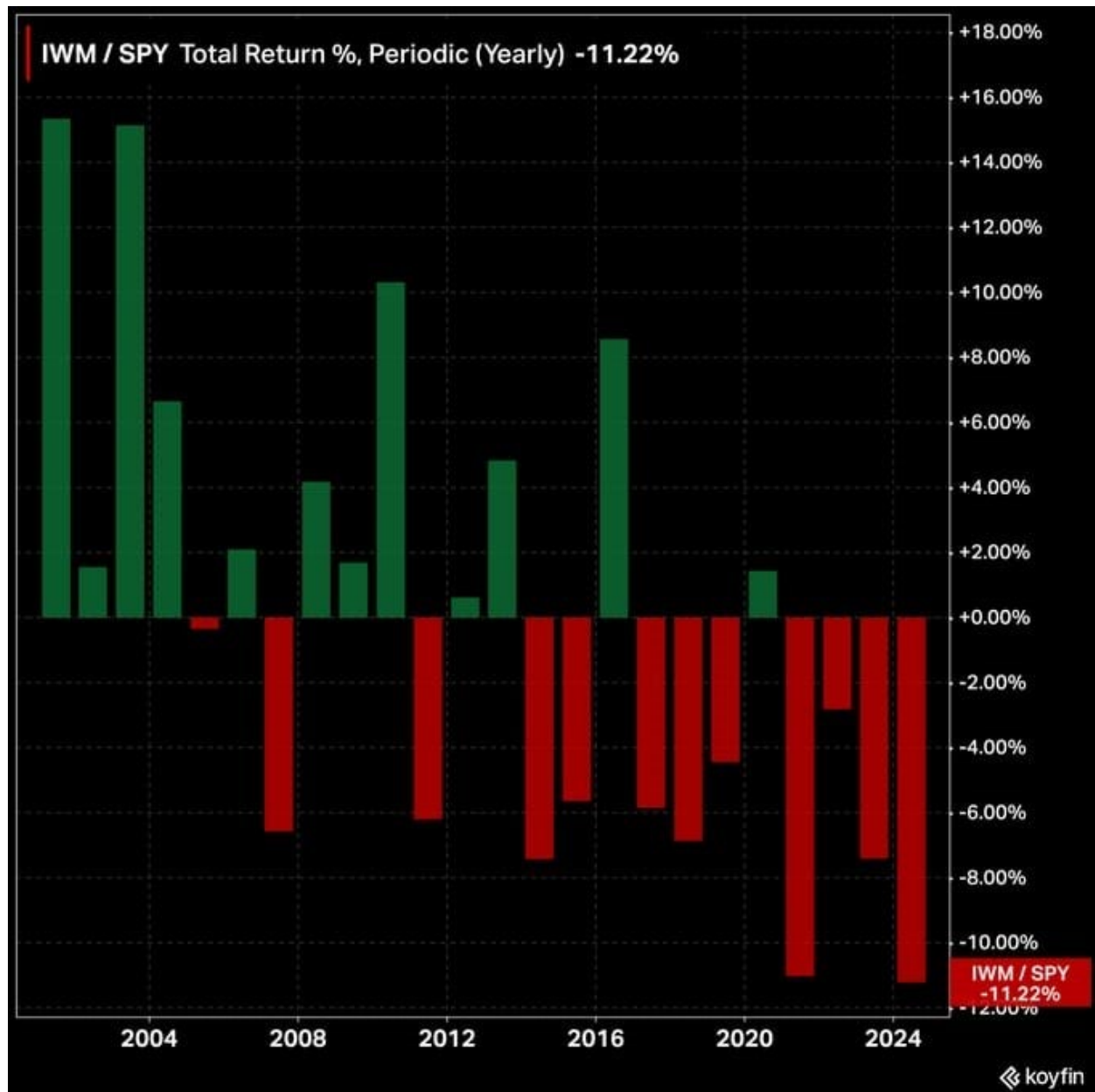
So, will this be the year the dollar collapses? While it may weaken at times due to shifting global dynamics, a collapse remains highly unlikely given the fundamentals.

### #5. Has Private Equity Killed Small-Cap Stocks Forever?

I entered the business in 1997, at a time when small-cap stocks were the undisputed kings of the market. The internet bubble was in full swing, and the IPO market was booming. Fast forward to today, and we find ourselves in a period of significant small-cap underperformance. The Russell 2000 (small caps) has lagged the S&P 500 in 9 of the last 11 years, including a recent four-year streak of underperformance.

During this same time frame, private equity has grown explosively. So, is the current cycle of small-cap struggles just a temporary downturn that will eventually revert to the mean? Or has private equity fundamentally altered the landscape, putting small public stocks out of business for good?

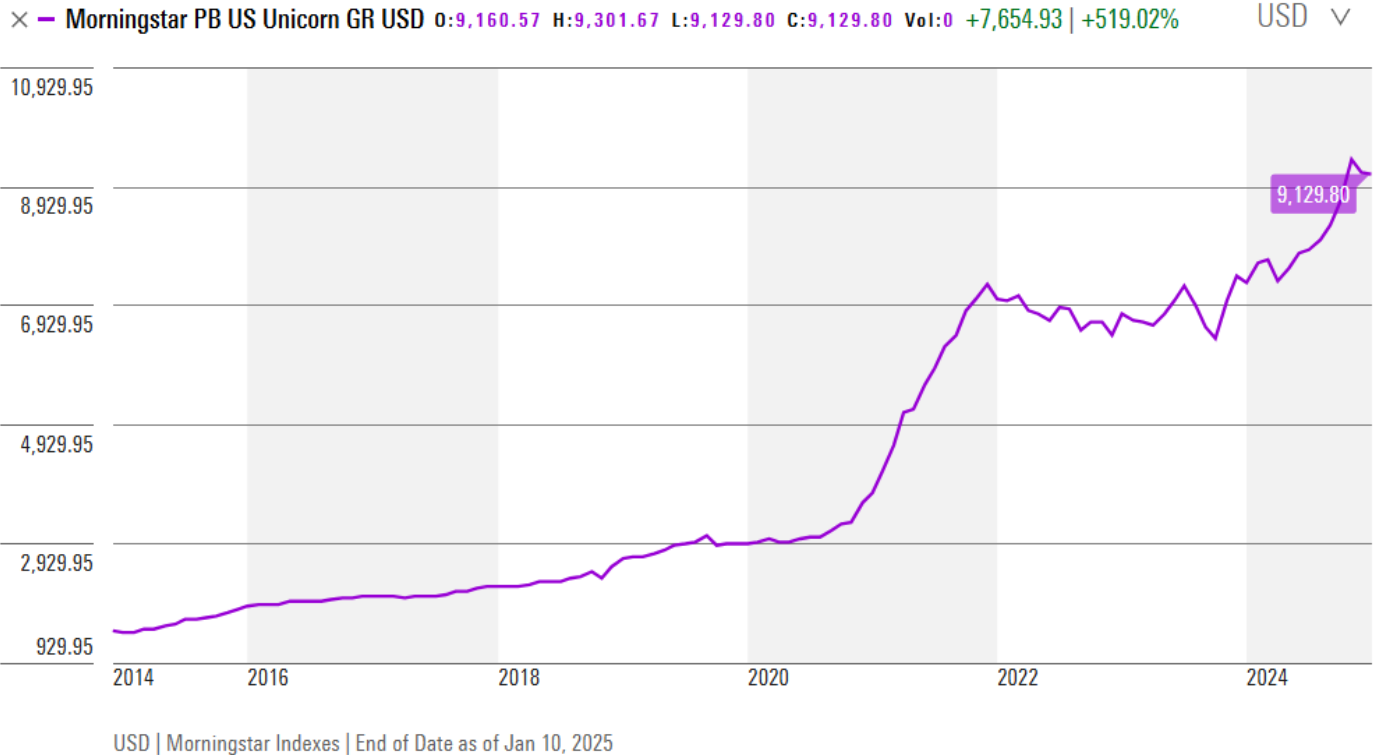
“Small vs. large performance. Small caps are on a four-year losing streak and are having their worst year relative to the S&P 500 since 1998.”



While small-cap stocks have faced substantial underperformance, the number of private equity “unicorns” (companies with valuations of \$1 billion or more) has soared by 1,100%. These companies are staying private, largely due to the democratization and institutionalization of private equity.

### Private Equity Unicorns (\$1B Valuation) Have Grown 1,100% Since 2014

The [Morningstar Pitchbook U.S. Unicorn Index](#) tracks late-stage, privately-held, venture-backed U.S. companies with valuations of at least \$1 billion. As of recent data, the number of companies in this index has increased by an astounding 1,100% since 2014, while the public small-cap market has been shrinking.



Source [Barron's](#)

So, is this a permanent trend, or will private equity-backed companies eventually be forced to go public through IPOs for liquidity purposes? This leads directly to our next question.

## #6. Has Private Equity Killed the IPO Market Forever?

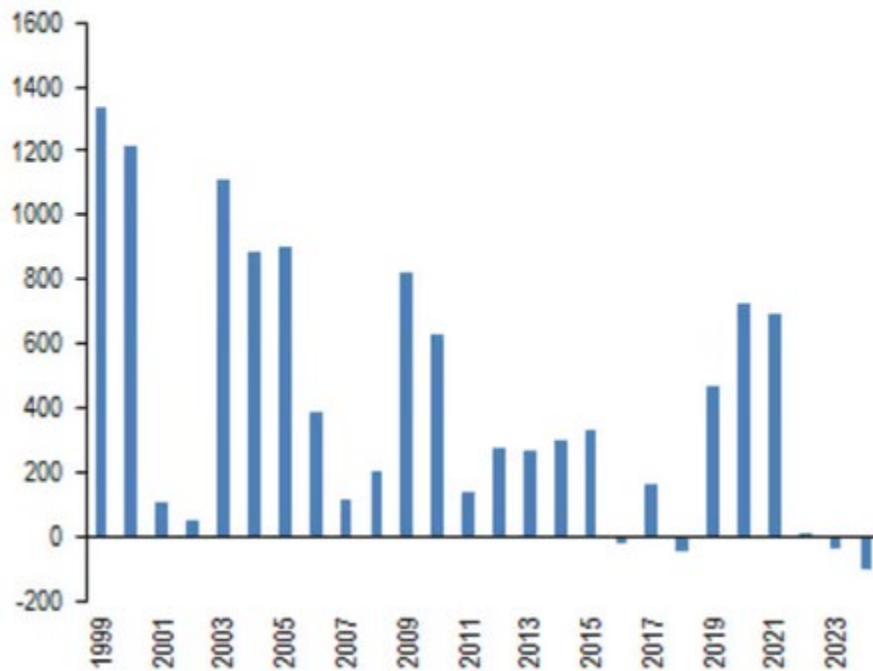
The first chart below highlights a concerning trend: the shrinkage of net equity supply globally. For the past three years, this chart has shown a negative net supply, meaning more companies have been exiting the public markets than are entering through IPOs.

When we factor in SPACs (Special Purpose Acquisition Companies), the story becomes even more pessimistic. If we remove SPACs from the equation, it becomes clear that the traditional IPO market has been essentially dormant for a decade. The profitability that used to be a major draw for the small-cap IPO market has now largely shifted into the hands of private equity managers.

"Unlike previous risk frenzies, this one lacks an equity supply response. This year is tracking to a net negative, marking three consecutive years of no supply, with a rolling three-year negative number."

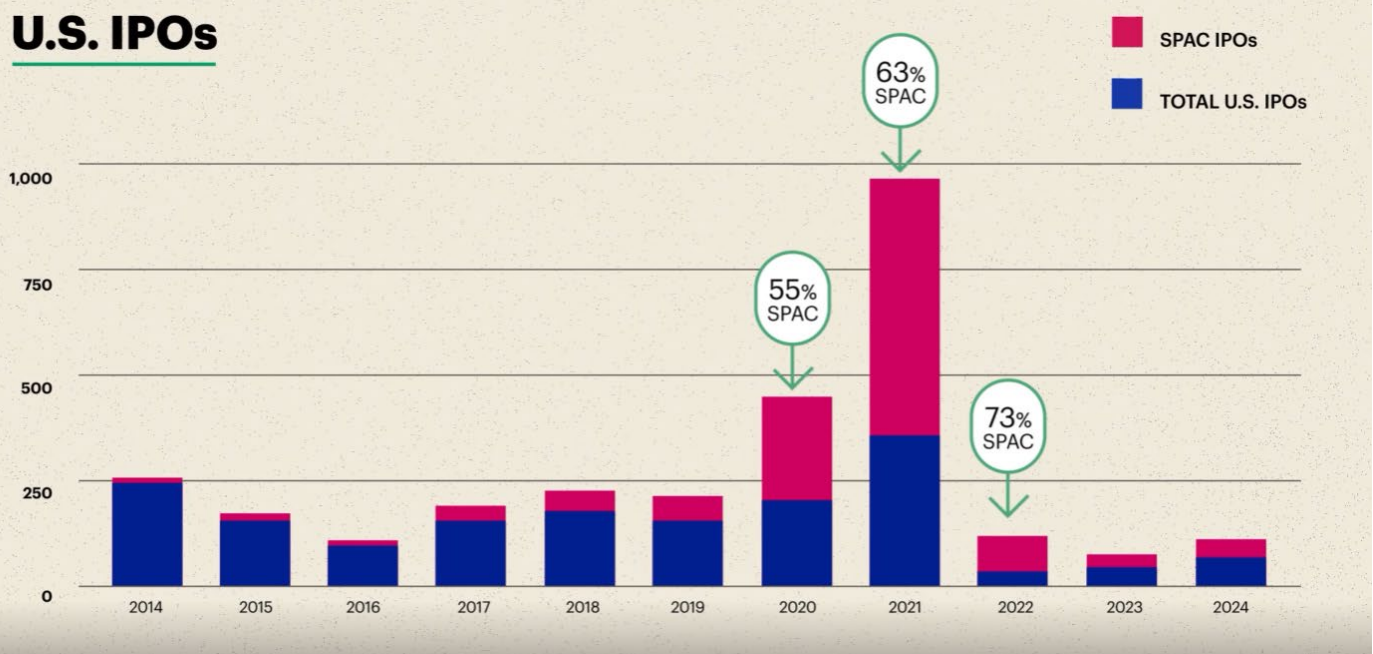
**Figure 5: Net equity supply globally**

\$bn per year based on the expansion of the MSCI AC World. Adjusted for price and FX changes



Source [Daily Chartbook](#)

## U.S. IPOs



Source [MarketWatch](#)

So, what does the future hold? The years 2025 and 2026 will likely provide the answer to this pressing question: Will we see an IPO boom, as often happens before a traditional bull market ends? Or has the IPO boom lost its significance in the current market landscape?

Private equity funds need liquidity, and that raises another question: Will private owners and fund managers be willing to accept lower valuations from Wall Street in exchange for the liquidity an IPO provides?

### **#7. Are Border Deportations Going to be Much Higher in 2025 Than 2013?**

There was a moment of internet frenzy recently when President Trump and former President Obama were seen having what seemed like a cordial conversation at the funeral of Jimmy Carter. My guess is that Trump may have been seeking Obama's advice on immigration and deportations.

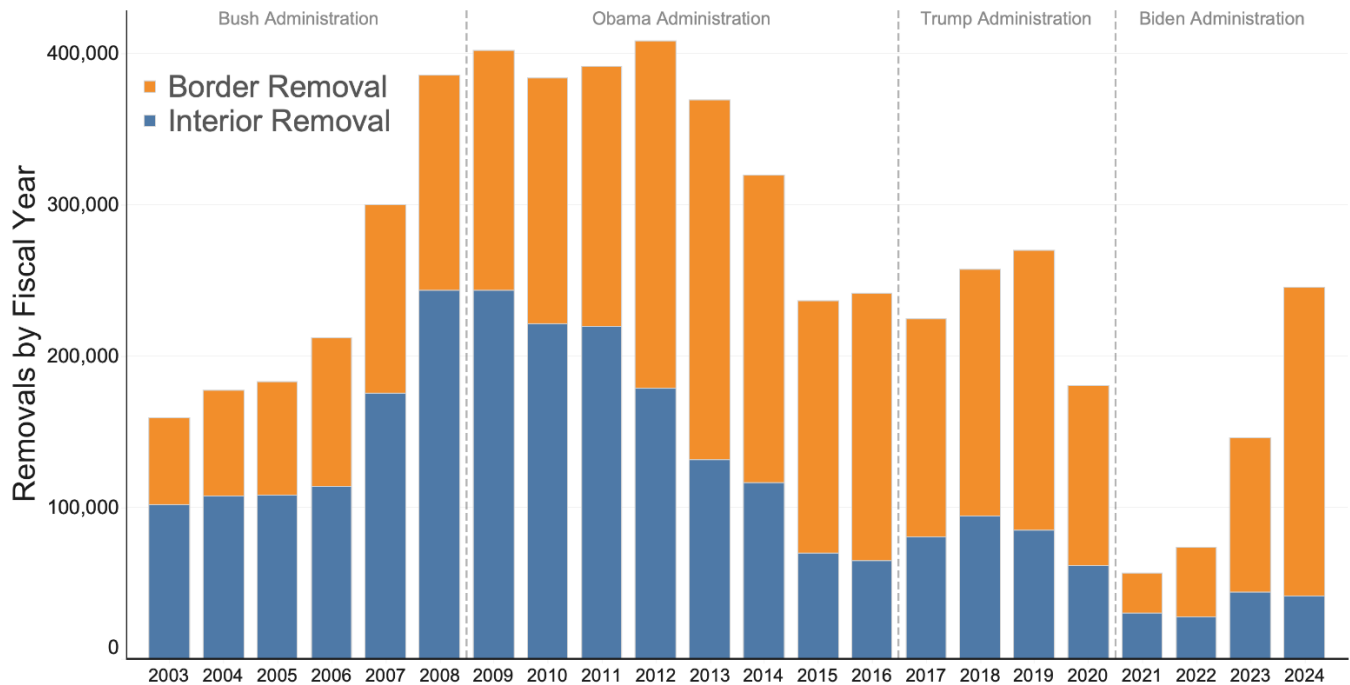
The border crisis has been a significant factor in shaping the 2024 presidential election and local political discourse, and rightfully so. While the United States is a country built by immigrants, the lack of clear and enforceable border rules could lead to an overwhelming influx of people — potentially billions — seeking to enter.

Instead of allowing the issue to become the ultimate political football, let's take a step back and examine the actual history of deportations. After realizing that the 2021-2022 open border policy was unsustainable, the Biden administration increased deportations to levels similar to those under Trump in 2019. However, these levels are still about 150,000 short of the deportation numbers seen during the Obama era. It's important to remember that America has a long history of deportations — and if you are sophisticated enough to read this, it's likely that your ethnic group has faced deportation in some form in the past.

For a deeper dive into the current border situation, the *Wall Street Journal* provided a thorough summary in this article: [How the Democrats Bungled the Politics of Immigration](#)



### DEPORTATIONS FROM INTERIOR AND BORDER ENFORCEMENT FY 2003 - FY 2024



Source: The Transactional Records Access Clearinghouse (TRAC) at Syracuse University.

Notes: Includes only removals by US Immigration and Customs Enforcement (ICE), which account for the majority of removals. "Border" refers to removals initiated as arrests by Customs and Border Protection, usually near the border. "Interior" refers to removals initiated as ICE arrests, typically in the interior. Presidential administrations typically start during the fourth month of the fiscal year.

Data for 2024 is extrapolated from the first five months of FY24.

EconoFact: [economy.econofact.org](https://economy.econofact.org)

Source [EconoFact](https://economy.econofact.org)

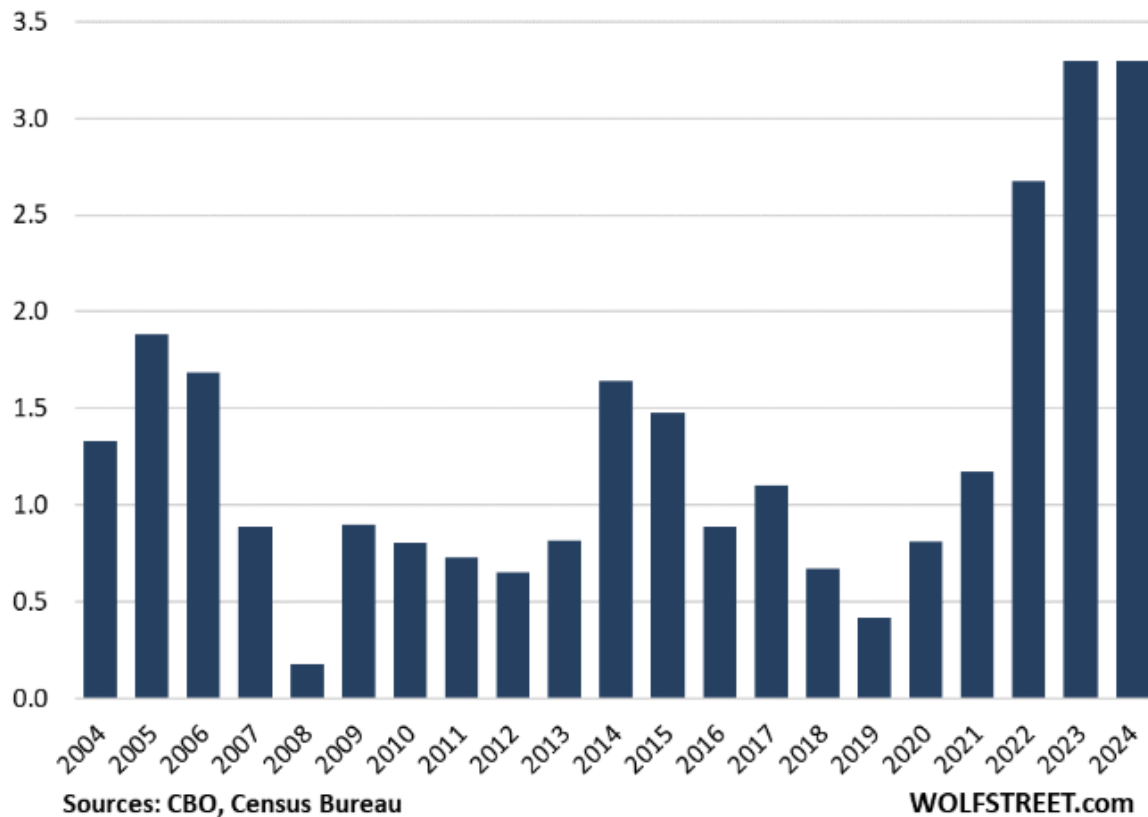
## #8. Demographics are Destiny & Key to American Exceptionalism. How Do We Balance a Country of Immigrants vs an Open Border?

The reason American exceptionalism remains a reality is multi-faceted, but demographics play an undeniably critical role. Yes, demographics are destiny. In 2025, as China, Europe, and Russia all face negative population growth, the U.S. finds itself in a uniquely advantageous position. America is not an ethnic construct — it is an idea. And the reason that idea works, in part, is due to the dynamic ethnic rotation driven by immigration.





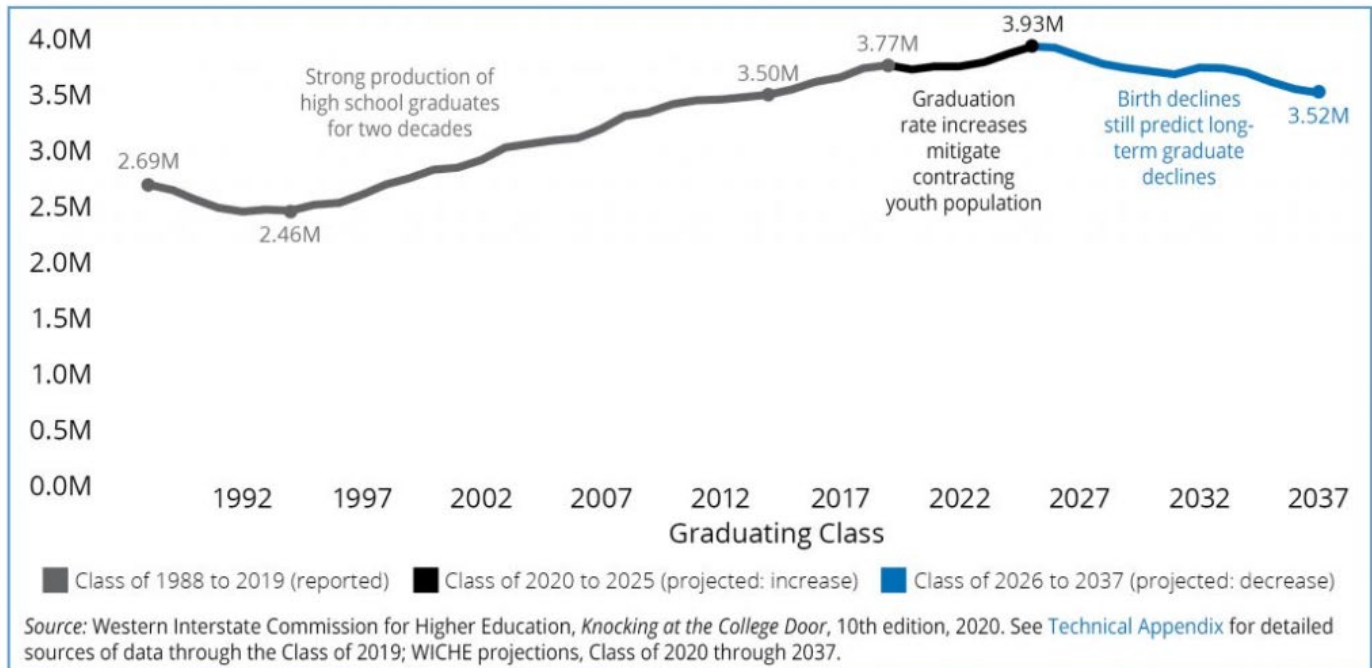
### Population Growth, in Millions, Congressional Budget Office



Source [Wolfstreet](#)

Even with the surge in immigration between 2022 and 2024, a concerning trend is emerging: the number of high school graduates in America is starting to decline. This demographic shift, combined with the fact that life expectancy is extending into the 90s, creates a significant challenge. A shrinking young workforce, paired with an increasing number of retirees, presents a math problem that many countries are already grappling with — and that we must avoid. Just look at Japan, China, and Europe for examples of what can happen when a country faces this imbalance.

Figure 1. Slowing Growth in Number of U.S. High School Graduates, then Decline (U.S. Total High School Graduates)



Source [Interstate Passport](#)

The real question is: How will figures like Trump, Vivek, and Musk approach the challenges outlined in points #7 and #8 above? The debate over skilled foreign workers coming to the U.S. has already sparked a rift within Trump's inner circle — and this issue will undoubtedly continue to evolve as we move forward.

## **#9. How Did Israel, with a Population Half the Size of New York State, Eliminate Hamas and Hezbollah in Less Than a Year, When It Took the U.S. 15 Years to Kill Bin Laden?**

I want to emphasize that this is not political commentary — this is far beyond my area of expertise and well above my pay grade. However, it's a question that I find myself pondering daily. Israel has succeeded in neutralizing Hamas and Hezbollah, contributed to the fall of the Assad regime in Syria, and, in doing so, weakened Iranian power in the region. Contrast that with the U.S., which spent over 20 years and anywhere from \$2 trillion to \$8 trillion (depending on the source) fighting wars in Iraq and Afghanistan.



For further context on the financial costs of the War on Terror, here's a fascinating analysis from *Perplexity AI* on the subject:

Based on the search results, the U.S. spent a significant amount on the wars in Iraq and Afghanistan as part of the broader "War on Terror":

1. Afghanistan War costs:

- \$825 billion in direct military expenditure from October 2001 to December 2020 <sup>2</sup>.
- An additional \$130 billion on reconstruction projects <sup>2</sup>.
- The total cost for Afghanistan, including future commitments, is estimated at \$2.313 trillion from 2001 to 2022 <sup>3</sup>.

2. Iraq War costs:

- Estimates vary, but the most recent figure from the Costs of War Project at Brown University puts the cost at \$1.922 trillion <sup>1</sup>.

3. Combined costs:

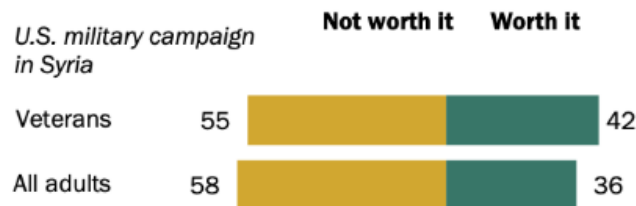
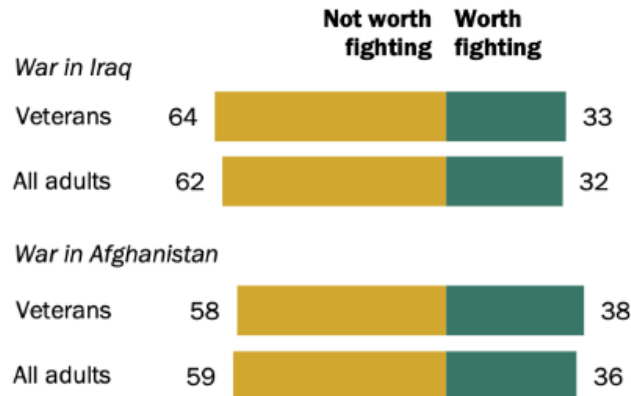
- The total cost of the post-9/11 wars, including Iraq and Afghanistan, is estimated at \$8 trillion <sup>4</sup>.
- This figure includes direct war costs, veteran care, homeland security expenses, and interest on war-related borrowing <sup>4</sup>.

It's important to note that these figures can vary depending on the source and what costs are included in the calculations. The higher estimates typically account for indirect costs such as long-term veteran care and interest on war debt.



## About two-thirds of veterans say the war in Iraq was not worth fighting

*% of each group who say, considering the costs to the United States versus the benefits to the United States, the \_\_\_\_ was/has been ...*

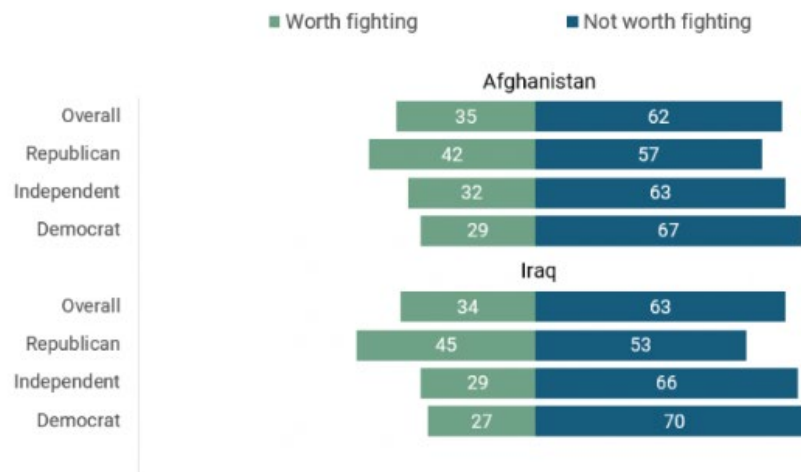


Source: Surveys of U.S. veterans conducted May 14-June 2, 2019, and U.S. adults conducted May 14-26, 2019.

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## Were these wars worth fighting?

Percent of adults



**Question:** Overall, would you say each of the following was worth fighting or not worth fighting?  
**Source:** AP-NORC Poll conducted August 12-16, 2021 with 1,729 adults nationwide.

## #10. Will the Bond Market Rise Again?

Bonds are certainly out of favor right now. While Americans have enjoyed 5% risk-free returns over the past couple of years, we are currently in the midst of the largest bond bear market in history. The bond market has been in a drawdown for 53 consecutive months, and diversified bond funds have underperformed inflation for nearly a decade. In 2022, when the stock market crashed, bonds suffered a mid-teens selloff as well.

There are several traditional indicators that suggest stocks are expensive and bonds are currently undervalued. Most capital asset pricing models project that bonds will outperform growth stocks over the next 10 years. However, these quantitative predictions have proven wrong over the past decade.

↳ Charlie Bilello reposted



**Charlie Bilello** @charliebilello · 20h

...

The US Bond Market has now been in a drawdown for 53 months, by far the longest in history.

[bilello.blog/newsletter](https://bilello.blog/newsletter)

Bloomberg US Aggregate Bond Index: Longest Drawdowns (Monthly Data, 1976 - 2024)			
Start of Drawdown	End of Drawdown	# Months	Max Drawdown During Period (Monthly)
Aug-20	?	53	-17.2%
Jul-80	Oct-81	16	-9.0%
May-13	Apr-14	12	-3.7%
Aug-16	Jul-17	12	-3.3%
Feb-94	Jan-95	12	-5.1%
Mar-87	Nov-87	9	-4.9%
Aug-79	Apr-80	9	-12.7%
Apr-08	Nov-08	8	-3.8%
Feb-96	Sep-96	8	-3.2%
Jun-03	Nov-03	6	-3.6%
Feb-84	Jun-84	5	-4.9%
May-83	Aug-83	4	-3.5%

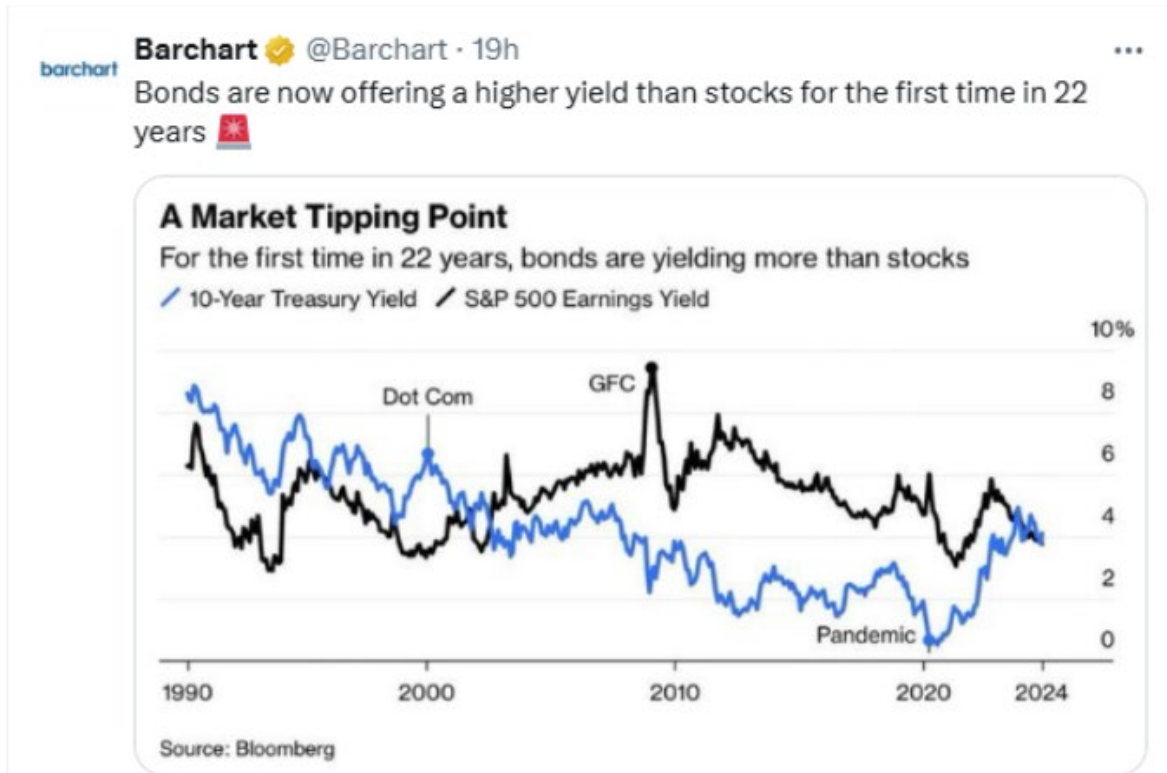


CREATIVE PLANNING

@CharlieBilello

(As of 12/31/24)

Source [@CharlieBilello](#)



Source @Barchart

It's important to remember that the bond market plays a critical role in setting mortgage rates, and the housing market is often considered the heartbeat of the American economy. Currently, mortgage rates have risen back to 7%, and first-time homebuyers now represent the lowest percentage of overall buyers in history.

## Mortgage Rates MUST Go Down When the Fed Cuts Rates

### 30 Year Fixed Mortgage Rates



Source @CharlieBilello



### Conclusion

My conclusion is there is no conclusion.

As we look ahead to 2025, I find myself with more questions than answers. The 10 questions I've posed throughout this letter are top of mind, but I don't have definitive solutions. The truth is, the complexities of these topics — from the future of small-cap stocks and the bond market to geopolitical issues and demographic shifts — are multifaceted and will unfold over time.

What I do know is that these questions are top of mind as we move into the new year, and they are critical in shaping how we think about the economy, markets, and the future. As we navigate through the unpredictability of the coming years, it's important to stay curious, stay informed, and be open to adapting as answers start to emerge. The challenges are real, and while we may not have all the answers right now, being engaged and thoughtful about these issues is a step in the right direction.

In closing, I'll echo what I've said before: I don't claim to have all the answers, but I'm excited to continue exploring these questions and watching how they evolve throughout 2025 and beyond. It will undoubtedly be an interesting year.

Cheers,

Matt Topley

### Does Anybody Really Know What Time It Is?

Song by Chicago

*Being pushed and shoved by people  
Trying to beat the clock, oh, no  
I just don't know, I don't, I don't, oh  
And I said yes, I said*

*does anybody really know what time it is?  
(Care) does anybody really care?  
(About time) you know, I can't imagine why  
(Oh no, no) we've all got time enough to die*

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