



2nd Quarter Special Commentary

2025

Economic and Geopolitical Battles for the Future

The headlines in 2025 have been dominated by tariffs, D.O.G.E., A.I., wars abroad, more tariffs, and of course inflation. In truth, these are all important, but what are all these economic discussions and battles *really* about?

Dare we say the next economic revolution? Each of these battles is setting the stage for real and significant change. Our perspective comes from the vantage point of economics and innovation. We see significant jousting for ultimate influence, control, and dominance of economic and societal power.

This quarter, we're exploring the way our collective future is being shaped by battles over supply chains and manufacturing, Artificial Intelligence, energy, pharmaceuticals, privacy, defense, and capital markets (private and public).

Supply Chain Shipping and Manufacturing

Since COVID, we've seen a shift to Nationalism from Globalization, but at what cost? Trust has been strained between superpowers and the relevant players who are all part of the world's strategic chess board.

Global supply chains are the vital component of all economies. Now more than ever, the tactical and strategic relevance of who controls our global supply chain will impact our lives defensively, economically, and socially. Increased attention is already on the global battle over who will move goods, parts, raw materials, and technologies across the world. The chart below demonstrates the complexity of the global supply chain and the many steps that must take place before raw materials end up with the consumer as finished goods.

Global Supply Chain Cycle



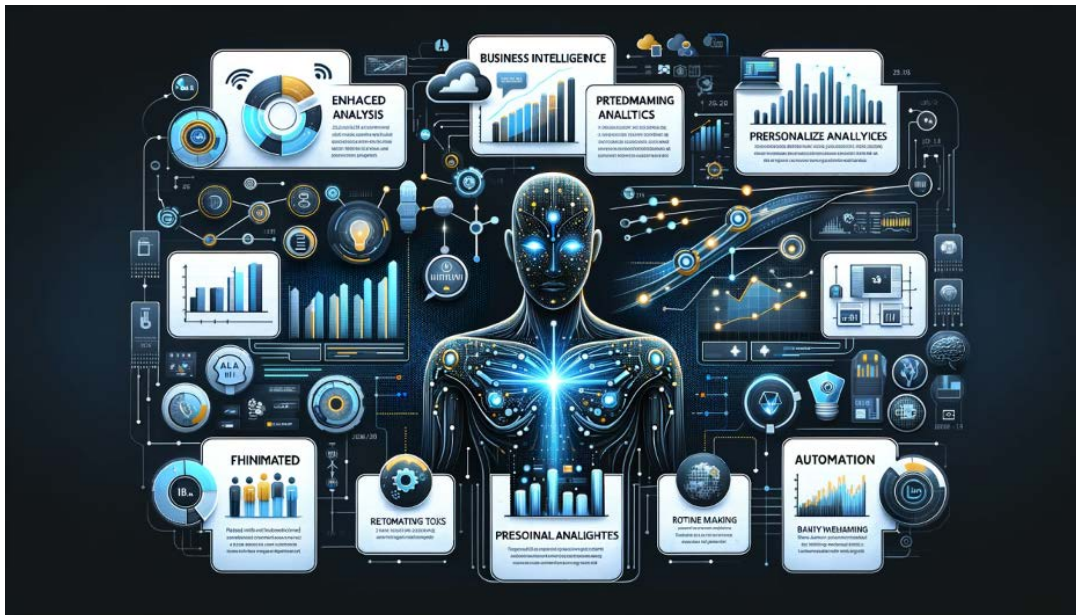
The sensitivity of our supply chain is proving to be more vulnerable than most realized. Ports around the globe are instrumental links in the chain, along with the ability to move cargo via containers, tankers, ships, trains, trucks, and airplanes. The whole system is incredibly complex.

In particular, key maritime transit lanes like the Panama Canal, the Suez Canal, Bab el-Mandeb, the Cape of Good Hope, Gibraltar, the Bosphorus, and the Straits of Malacca and Hormuz are now more critical than ever. This is one reason why America has sought to sway Panama away from Chinese influences. These shipping lanes are almost priceless assets and disruption and posturing by other foreign powers can have massive ripple effects.

When it comes to manufacturing, we see things fairly plainly: The more developed nations have attempted to move manufacturing in-house or to more favorable partner nations, resulting in a greater cost to consumers. Yes, the once-great desire for globalization and the lowest possible cost of manufacturing has shifted to a comingling of Nationalism with strategic partners that will increase costs while simultaneously placing a strain on allies with whom we are renegotiating. This new dynamic will likely slow down our global economy.

Artificial Intelligence

Our future is being molded right before our eyes thanks to AI, and it's as if Hollywood's science fiction movies are becoming real. The battle for human-machine interaction and the core programming and software has never been more intense. As America and China battle in the trenches, whoever emerges victorious could end up winning several other battles and be poised to change day-to-day life around the world.



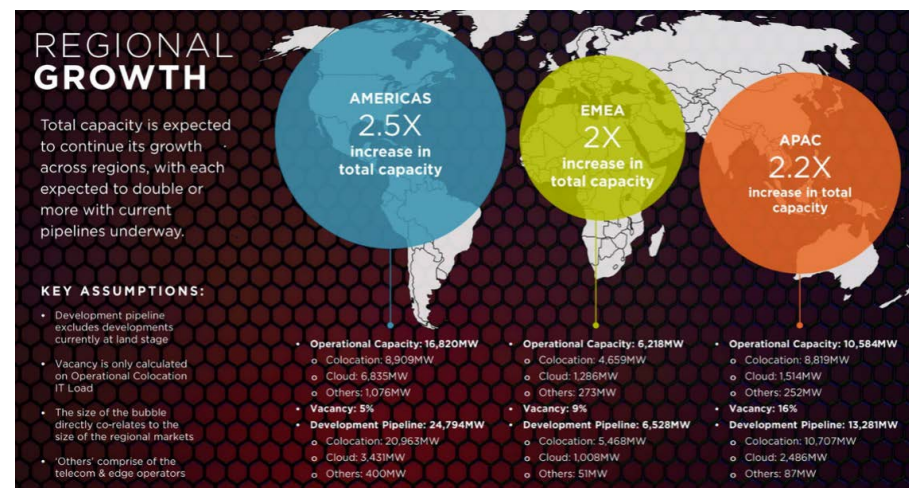
Source: FHNIMATED

It's not just financial and economic prowess that's at stake; the very essence of security and future innovation is up for grabs. More lies in the balance than ever before.

Unfortunately, today there are more questions than answers, but the possibilities seem to be beyond the stars. We expect the battle over innovation to bring increased volatility to all the economic players including in their day-to-day pricing and valuations.

Energy

Every country in the world is pondering how to become energy independent — in fossil fuels, renewables, and tech-driven systems. With the trend quickly moving toward these tech-driven systems, partnerships are being forged between the haves and have-nots, and the powerful countries are seeking to achieve their goals by any means necessary. The stakes are high: The latest technological advancement could forever alter how we consume and utilize energy, and the world could be forever more efficient, clean, and affordable.



Source: Global Data Centre Market Development, Cushman & Wakefield, 2024

The dominant players will be those who control oil and gas, coal, electrical, solar, wind, hydro, geothermal, hydrogen, and nuclear power. There is no doubt that technology will shape a new age of energy in the future — it's a matter of *how* we grow, not *if*.

Rare earths and batteries are critical to our future. Without rare earth materials, renewable energy, global defense systems, and digital infrastructure would come to an abrupt halt. Rare earths are all over the world, yet in limited supply.

The elements contained in rare earths in particular have direct and meaningful applications. For example, these elements are essential for various end products and renewables: *Yttrium* is vital for superconductors and laser technology. *Neodymium* is needed for electric vehicles, magnets, and wind turbines. *Dysprosium* is key in aerospace, high-speed transportation, and other technologies using heat-resistant magnets. Think about the latest in sixth generation fighter jets, AI, space exploration, energy advancements, electric vehicles, and many more applications. Rare earths are in limited places around the world, and partnerships with these few strategic nations — think of China, Russia, South Africa, Australia, Brazil and America — are vital. Our global success means less division and more compromise, and we hope our leaders can do what is necessary and right, because whoever controls rare earths will likely be the leading influence of our economic future.

Batteries are everywhere — without them most people would struggle to function. So, what actually goes into batteries and why are they important? Lithium, nickel, cobalt, magnesium, and graphite are core components of batteries. Unfortunately, most of these materials aren't found in America; they're mostly found in China, Russia, Australia, Chile, the Philippines, Indonesia, the Democratic Republic of Congo, South Africa, and Mozambique. Some of these nations are definitely not very cooperative and want their own control and dominance.

Batteries are in our phones, laptops, other portable devices, our grid storage and our electric vehicles. They are part of our daily lives and are critical to our future. American companies desperately need all elements of battery composition, but so do all other competing nations, especially China, Germany, Japan, and Russia.

The battle for energy dominance is multifaceted. The incorporation of rare earths, batteries, fossil fuels, and renewables — coupled with the necessary ingredients for their ultimate development and distribution for consumption — can and will change the way civilization will function now and into our next era. Who we partner with and why matters. We are excited to combine our knowledge with opportunities to invest in the energy space for all our clients.

Pharmaceuticals (Drugs)

Who will control medicine in the future?

Public health is very important not only for the individual, but also for society as a whole. As we all experienced through COVID, the development, distribution, and application of medicine is forever relevant to all pharmaceutical companies and end users.

The true battle is the ability to supply and distribute in all circumstances and situations. We will see how much economic leverage ends up influencing the outcomes of pharmaceutical companies. We expect volatility to be prevalent until there is a clear leader.

Privacy

How much of our freedom are we willing to give up in order to feel safer and secure? The more our personal, physical, and psychological data is collected by third parties, the fewer freedoms we will ultimately have. Will it truly be worth it, or will we not know until it's too late? It's a major quandary: Have we given our consent, or are we even aware of what is happening behind the scenes?



Smart devices are wonderful — until we realize that there is good and evil in the world. It is challenging to understand that technological advances like profiling and surveillance could both protect us and simultaneously enable others to attempt to take what is rightfully ours.

We have witnessed or even experienced governments, corporations, and people taking and sharing our information for their own benefit. Manipulation, distortion, and ill intent are all at hand; but thank goodness safety, security, and righteousness are, too. Privacy matters and we desperately have a need for rules, regulations, and laws to correspond to our need for a balance between our personal freedoms and our need for protection.

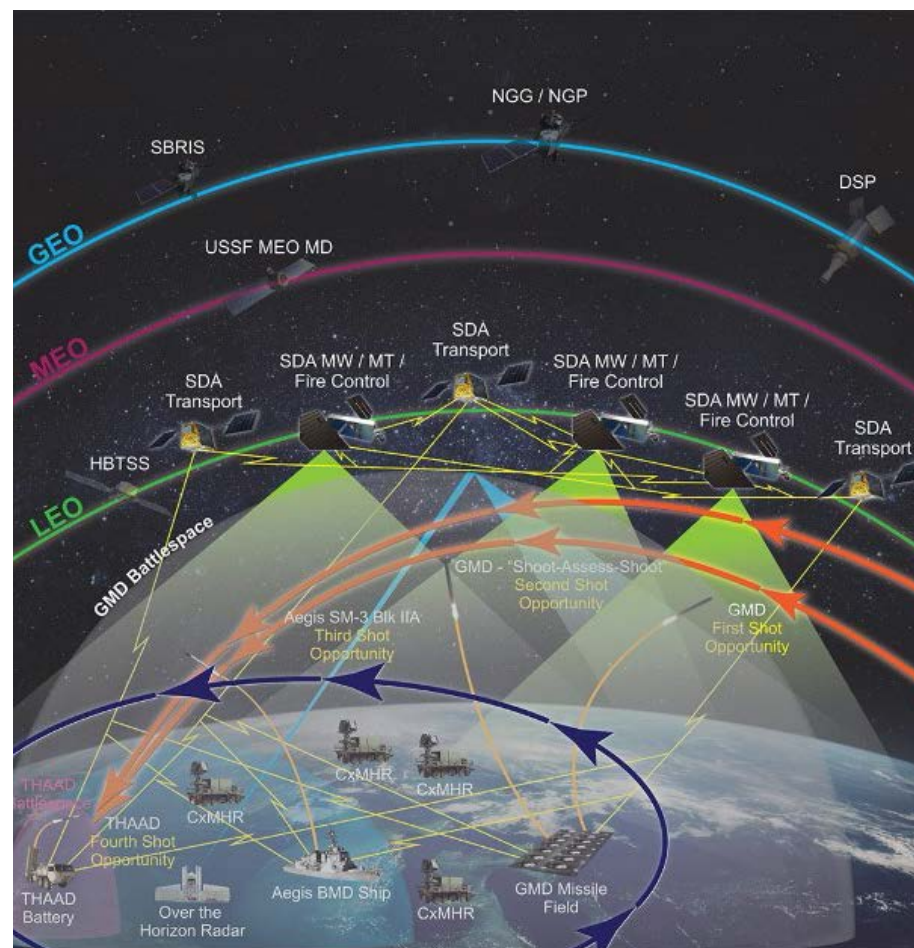
We see a significant debate over what people think is acceptable for government and corporations to take, share, and utilize. The major players already have an abundance of our information, and now the great debate will commence. Who comes out on top will ultimately depend on how much people truly care about their freedoms.

Defense

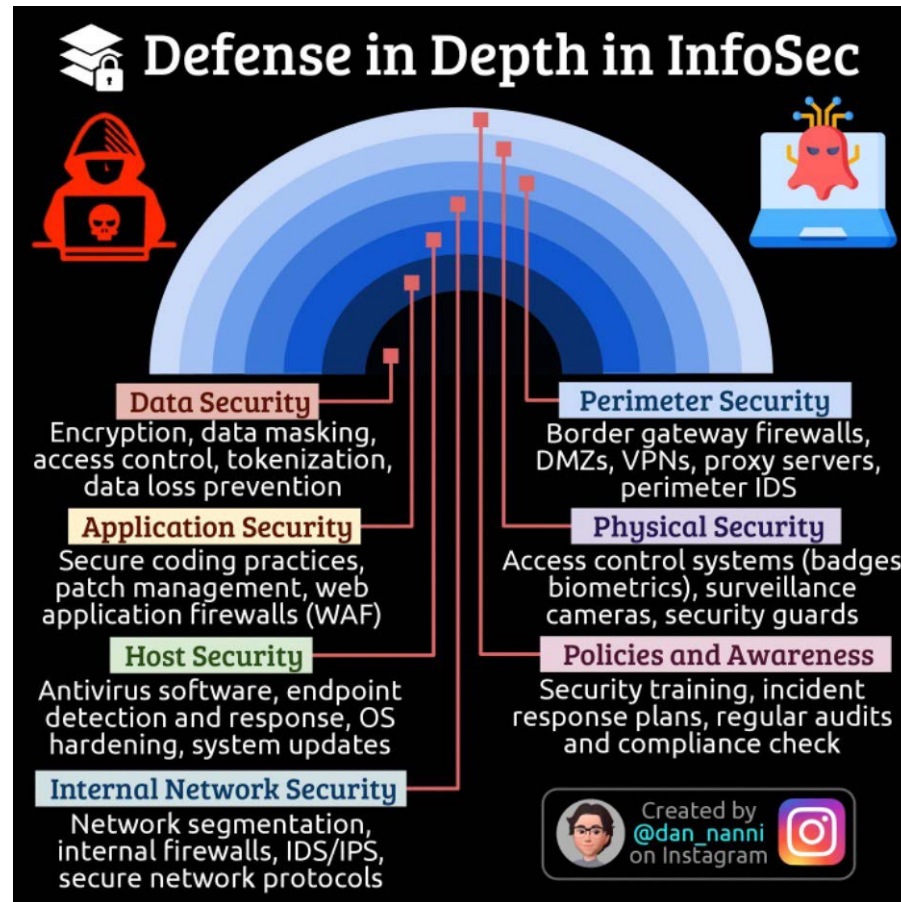
Who could have imagined the day would come when communications, logistics, man, and firepower would be much less important to the success of military defense? These days, data, information, surveillance, AI conflict, deceptive technologies, and intelligence are all essential to protect, deter, and influence geopolitics.

Today there is as much disinformation as there is factual and relevant information. The stakes are beyond politics, power, and stability; disinformation will now impact the next generation's vision of warfare, space abilities, public opinion, humanitarian efforts, cyber dominance, and civil liberties.

The bottom line is that our defenses must be prepared for all forms of attack, regardless of whether they're traditional or technological. We see great investment by governments, corporations, and individuals to protect our country, institutions, ourselves and our families for many years to come.



Source: Leonardo DRS



Nations will use every form of protection to keep themselves safe: forward attacking weaponry, armor, AI, reconnaissance, and intelligence. They'll even take to space for protection if necessary. This is why we believe there is no slowing down the world powers' financial investment in all ways and means of defense. Brains and ingenuity are being prioritized over strength and might, and as we hopefully move towards the greatest state-of-the-art-defense, we'll end up with a safer and more reliable future.

Private versus Public Capital Markets

Over the past few decades, a shift has taken place where private markets are in a growth and expansive mode while public markets are in consolidation. The number of public companies has declined from 8,800 in 1997 to 3,952 in 2024. The decline is caused by a combination of mergers and acquisitions and the rise of alternative capital markets.

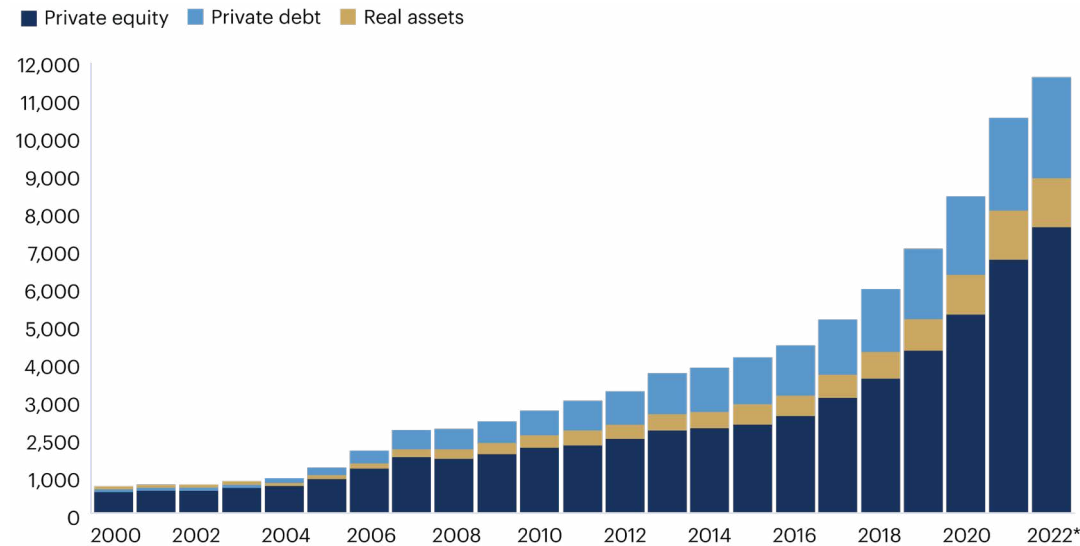


Source: Academic Gain Tutorials

Public markets are known for their scalability, liquidity, transparency, and mandate to regulators, boards, and shareholders. Historically, private capital was known for its flexibility, customization, and control for investors. Both have their pros and cons, but the real revelation has been how the cost structure and liquidity has opened up the marketplace for qualified clients and ultra-high-net-worth qualified purchasers.

The Gradual Growth of Private Markets Gained Momentum During the Pandemic

Assets under management trend of alternative assets, 2000–2023 (\$B)



Data compiled Feb. 24, 2023.

* As of end-June 2022.

Assets under management represents total value of dry powder and unrealized value. Real assets includes real estate, natural resources and infrastructure funds.

Source: Preqin Pro.

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The trend is clear: Private capital markets have expanded from \$1.0 trillion in 2004 to \$12 trillion in 2022. Total private capital markets are estimated to exceed \$25 trillion by the end of 2025. The makeup of private markets is expanding in all areas, including private debt, hedge funds, private equity, venture capital, and family offices. Meanwhile, the trend for public markets is consolidation and gradual elimination.

We believe that private capital will significantly grow, and more opportunities will present themselves for high-net-worth and ultra-high-net-worth investors in most categories and sleeves of investing. We see public markets playing more of a role as a combination of short-term and legacy investing for generations to come. Risks are still relevant and must be considered before any investment decisions are made.

Summary

No one knows for sure how each battle at hand will play out and who the overall victor will be, but the effect on all of us will be profound and potentially lead to a new revolution of technological innovation. Each battle is unique and has its own nuances and challenges.

All seven battles — supply chain and manufacturing, Artificial Intelligence, energy, pharmaceuticals (drugs), privacy, defense, and private vs public capital markets — will play defining roles in our future, especially with nearly \$19 trillion of wealth forecast to be transferred before 2030.

We are paying very close attention to who and how the economic, geopolitical, and societal battles play out. As the leaders emerge, investment opportunities will present themselves and we are preparing ourselves to be ready. We welcome the opportunity to advise our clients through these interesting and challenging times.

Todd M. Schwartz, CFP®

Founding Partner



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