

Angela



Source:

https://upload.wikimedia.org/wikipedia/commons/3/3a/Greta_Garbo_by_Clarence_Sinclair_Bull_1931.jpg.

Garbo

Greta Gustafsson was born in the small Swedish village of Sodermain. Her father died in the influenza epidemic of 1920 when she was just 14, and she dropped out of school to work, first as a soap-lather girl in a barbershop, and then at a department store where she modeled hats for their catalogue. She caught the eye of a movie director who cast her in a small part, and she began taking drama classes in Stockholm.

In 1924, Louis B. Mayer, head of Metro-Goldwyn-Mayer, traveled to Europe with a vice president at MGM, Victor Seastrom, himself a Swedish director, who encouraged Mayer to look at Gustafsson. "I can make a star out of her," Mayer proclaimed, and brought her to Hollywood the next year. She spoke no English, not a problem in the era of silent movies. MGM production chief, Irving Thalberg, cast her as a worldly, exotic woman, changing her name to Garbo, and she quickly became the star Mayer had predicted. By 1929, she was the highest paid actor at MGM.

The next year, MGM created a sensation by promoting her first talking picture, *Anna Christie*, with the headline, "Garbo Talks!" It won her the first of three Academy Award nominations for best actress and was the highest grossing film of the year. Her salary, in the middle of the Great Depression, was raised to \$300,000/year.¹

¹ Approximately \$7.5 million today.

Juan Pujol García was born in Barcelona a few years after Greta Gustafsson was born in Sweden. He also dropped out of school when he was young and held a number of odd jobs. He hated his six months of compulsory military service, and after discharge, worked at a poultry farm north of Barcelona.

When the Spanish Civil War broke out in 1936, his mother, his sister and her fiancé were arrested by the Republican forces for being "counterrevolutionaries." They were eventually released, but the Republicans tried to impress Juan into military service. He obtained false identity papers showing he was too old to fight, and he was left to manage the poultry farm under the direction of a collective imposed by the Republicans. The treatment of his family and the incompetence of the collective left Juan bitterly opposed to communism.

He joined the Nationalist army of Francisco Franco opposing the Republicans. He was berated and physically assaulted by his commanding colonel for lack of discipline, and when Juan expressed support for the monarchy, he was imprisoned. His experience with the Nationalists left him hating fascism as much as he loathed communism.

Greta Garbo and Juan Pujol García never met. But as the world marched toward the Second World War, their names would soon be connected in one of the most improbable, and important, events in history. And their lives, so completely different before the war, would become similarly shrouded in mystery after the war, offering valuable lessons for us today.

Queen Elizabeth II called 1992 her *annus horribilis*, her horrible year. Her children were divorcing or separating from their spouses, Windsor Castle was extensively damaged in a fire, and the monarchy was under severe public criticism, its continued existence even in question. This past year, too, was an *annus horribilis* for many, as wars and conflicts raged across the globe, natural disasters took lives and property, and the norms and institutions

that buttressed our world for decades came under attack, crumbled, or were blithely tossed aside. These forces of chaos were manifested across political and social institutions, and evident in the assault on the economic precepts that built our prosperity.

Some primates and birds engage in reciprocity by grooming each other, but economic reciprocity, trade, particularly among strangers, is a uniquely human pursuit. Some trade is dictated by social patterns of exchange, a form of reciprocity, but most of what we know as trade is driven by mutual self-interest. Trade is perhaps the one "free lunch" in economics.

Companies create supply chains, not out of altruism, but out of a drive for efficiencies. Those efficiencies may be the result of a lower cost of production, but are frequently generated by specialization, a concept introduced by Adam Smith in 1776² and taken up by David Ricardo in 1817.³ Smith used the example of a pin factory, wherein a single worker might be able to make one or two pins per day, but by identifying 18 separate tasks,⁴ ten workers, specializing in one or two tasks, could turn out 4,800 pins per worker each day. That's efficiency!

A modern example is automobile manufacturing. In North America, a single component may cross country borders multiple times. For example, a transmission may be made of American steel, machined in Canada, sent to Mexico to receive electronics, and sent back to the US for final assembly. This may appear to be wasteful with all these transshipments, but by specializing, the supply chain is optimized, and each factory, each country, benefits from this trade.

Trade is the "free lunch" in economics because it is a positive-sum activity in which all parties to trade benefit. Appropriately, those who add the most value benefit the most. The iPhone is a good example. Apple, which designs and markets the iPhone, earns a

² An Inquiry Into the Nature and Causes of the Wealth of Nations.

³ On the Principles of Political Economy and Taxation.

⁴ Drawing out the wire, straightening it, cutting, sharpening, polishing, etc.

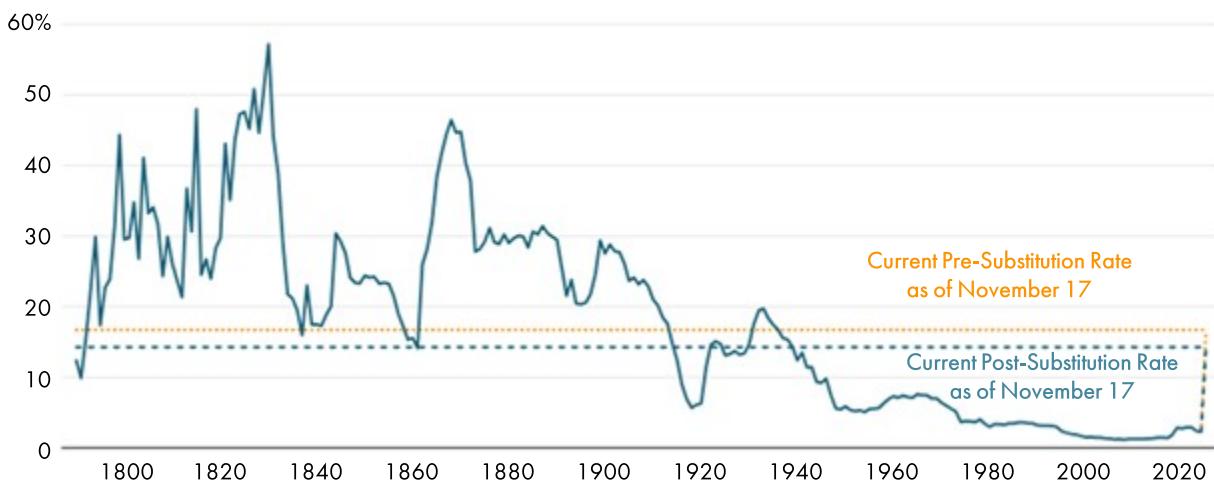
profit of around \$600/phone, whereas Foxconn, its main manufacturer, earns about \$20/phone. The value, and profit, is in design and marketing, not in manufacturing. Trade is what enables Apple (and Foxconn; General Motors and Ford) to maximize their profits.

A tariff is a tax, and like all taxes, reduces economic efficiencies.⁵ Tariffs have been raised to their highest levels in nearly a century (Chart 1), to around 15%.⁶

The costs of tariffs are divided among foreign producers, domestic importers and consumers. In the short-run, importers bear the brunt of the costs, hesitant to pass through these expenses to consumers. Over time though, consumers largely pay the cost of this tax (Chart 2). In the aggregate, tariffs will likely reduce US growth by around 0.3% of GDP per annum.⁷ That is more than \$1 trillion of lost wealth annually.

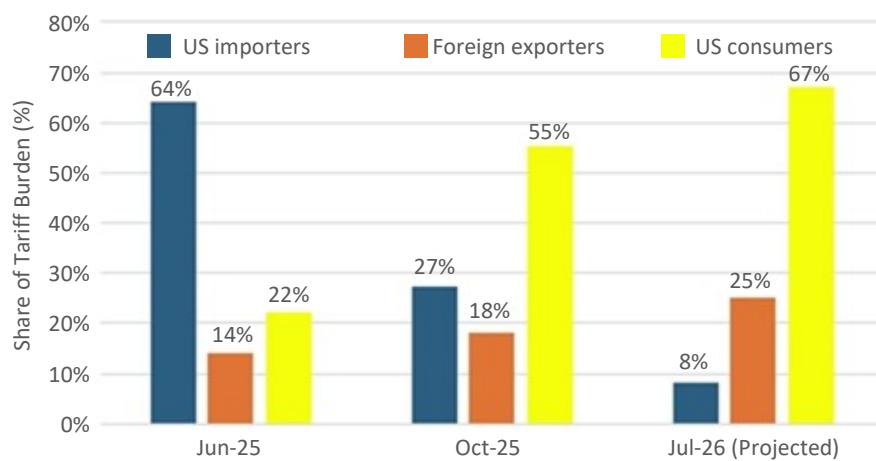
Chart 1 US Average Effective Tariff Rate, 1790-2025

Customs duty revenue as a percent of goods imports



Source: The Budget Lab, Yale University

Chart 2 Share of Tariff Burden



Source: Goldman Sachs

⁵ That is not an argument for no taxes, since revenue has to be raised to pay for government services. It is simply a reminder that all taxes have economic costs.

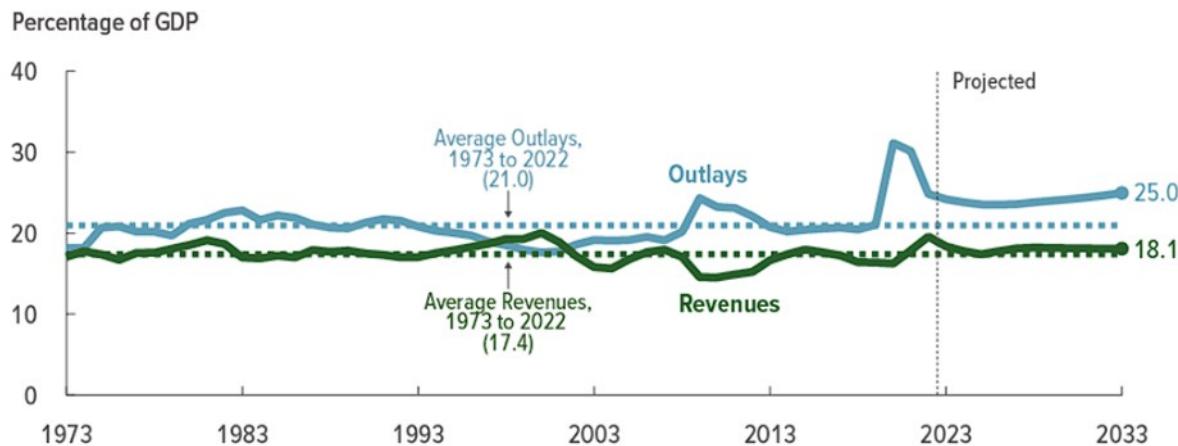
⁶ The effective tariff rate can only be estimated, as trade flows are disrupted and substitution effects are in play.

⁷ The Budget Lab, Yale University: <https://budgetlab.yale.edu/research/state-us-tariffs-november-17-2025>.

Fiscal discipline, at least a modicum of fealty to the concept, is another economic principle, along with free trade, that has been abandoned. The US economy is operating at close to full employment and real GDP has averaged 4% over the past two quarters, yet the federal government is still running a budget deficit equal to between 6-7% of GDP, unprecedented outside war, with no sign of changing (Chart 3).

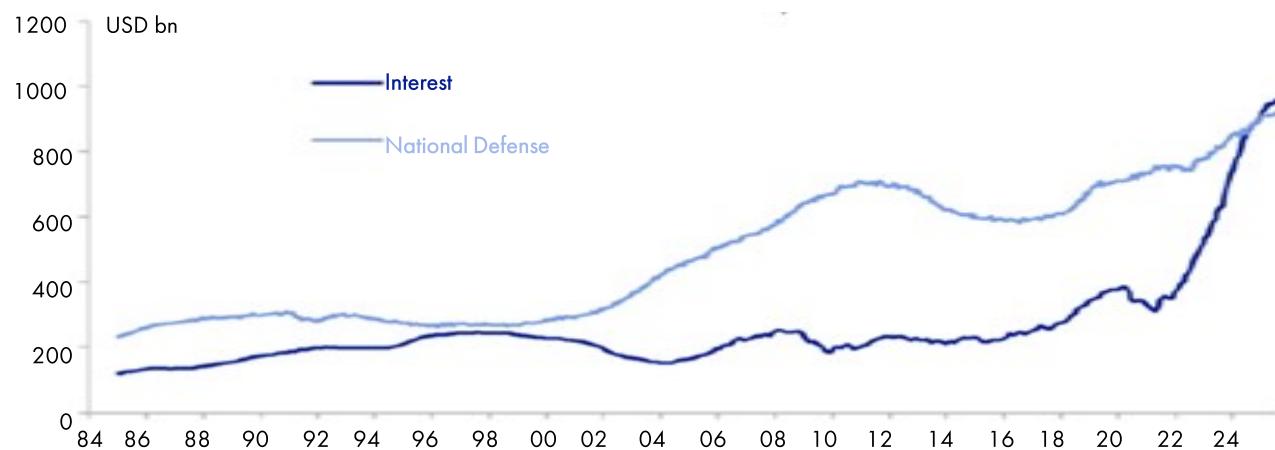
Interest on the debt is now a record \$1 trillion per year, greater than the entire defense budget (Chart 4), crowding out other areas of expenditure and limiting (perhaps) the flexibility to spend in the next crisis or economic downturn. How the economy absorbs this rising debt will be one of the important questions for investors.

Chart 3 Federal Outlays and Revenue as Percentage of GDP, 1973-2033 (proj.)



Source: Institute By Congressional Budget Office - <https://www.cbo.gov/publication/59159>.

Chart 4 US Federal Outlays, 1984-2025, (\$ bil)



Source: Deutsche Bank

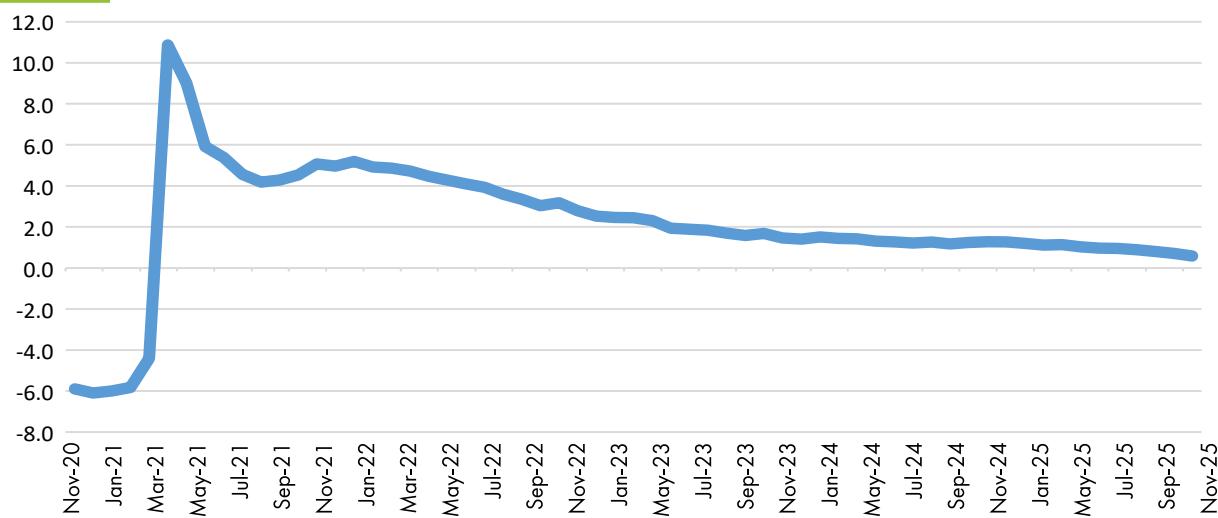
The Federal Reserve has cut the overnight Fed funds rate three times in the past three months, citing weakness in the labor market as its rationale. Indeed, payroll growth has slowed to a crawl, up less than 1% from a year ago (Chart 5).

In 2025, the unemployment rate rose from 4.0% to 4.6%, the highest since 2017 (outside the pandemic).

There are one million more people unemployed at the end of the year from the start of the year, and the underemployment rate (U-6), those out of work or discouraged from seeking work or working less than full-time, jumped from 7.5% to 8.7% over the past 11 months (Chart 6).

Chart 5

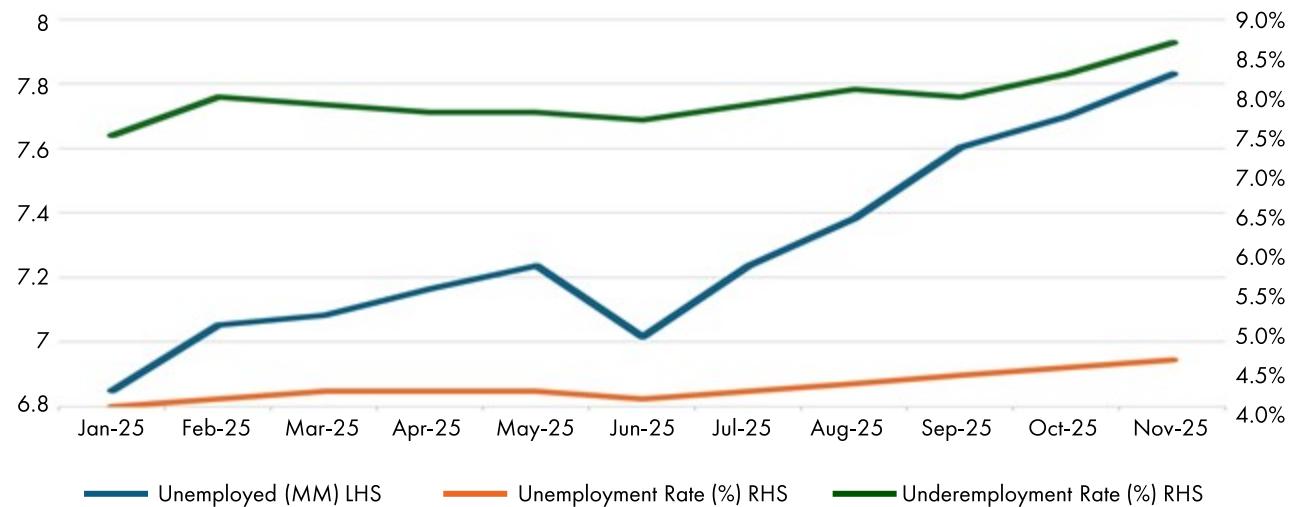
Nonfarm Payrolls, Pct. Change from Year Ago, 2020-2025



Source: Bureau of Labor Statistics

Chart 6

Unemployment Rate, Underemployment Rate & Number of Unemployed, 2025



Source: Bureau of Labor Statistics

The weakening labor market is a global phenomenon, with all developed economies seeing growth rates below pre-pandemic trends (Chart 7).

There is debate about the nature of labor market weakness. Despite rising un- and underemployment, 160 million people are in the labor force, a record high, and the participation rate in the core age group of 25-54 years, 83.8%, is near its all-time high. It is possible that some of the worsening labor market is due simply to normalization post-pandemic, when there was a shortage of available workers, and/or a

decline in the supply of workers, especially immigrant labor, down 1.4 million since March. Still, wages are rising faster than inflation and the economy is growing above its long-term trend. Another conundrum for investors to consider.

And yet. With all the chaos of incoherent economic policies, unfettered deficit spending and a million more unemployed, US equities reached an all-time high this year. As did Europe. As did Japan! Surpassing (finally) its 1989 bubble peak (Chart 8). How is this possible?

Chart 7 | Change in Payrolls Growth, Developed Economies, 2017-2025

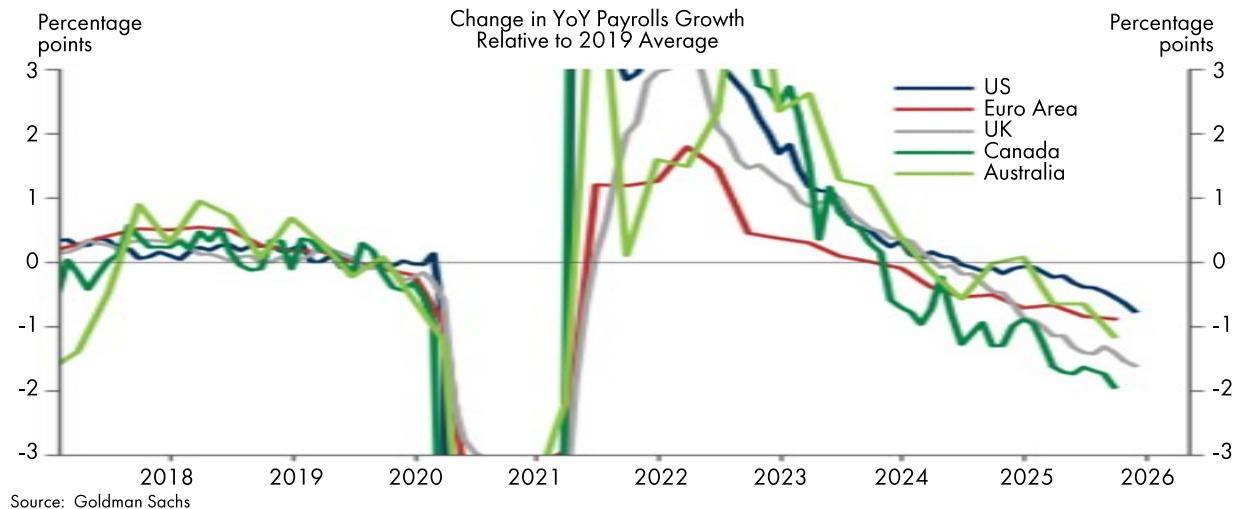


Chart 8 | S&P 500 (RHS-Blue) and Nikkei (LHS-Red) Indices, 1970-2025



Profits is how. Profits drive equity markets. All other factors are of secondary importance; noise except to the extent they impact profits.

Corporate profits are at an all-time high, doubling over the past decade (Chart 9). As a percentage of gross domestic income, profits are the highest in a century (Chart 10).

Additional fiscal stimulus will help boost nominal growth in 2026, but one of the (many) questions in-

vestors must contend with is the pace of capital spending in the AI arms race, which added about 1% to GDP growth last year. Most of this spending has been funded with cash, but should funding shift to borrowing, the risks of a bubble bursting will rise.

Of course, the long-term promise of AI is a surge in productivity, raising profits and standards of living. Some pundits worry about AI becoming so omnipotent as to erase human civilization. Even the Ph.D.

Chart 9 **Corporate Profits After Tax with IVA and CCAdj, 1947-2025, \$ Bil.**

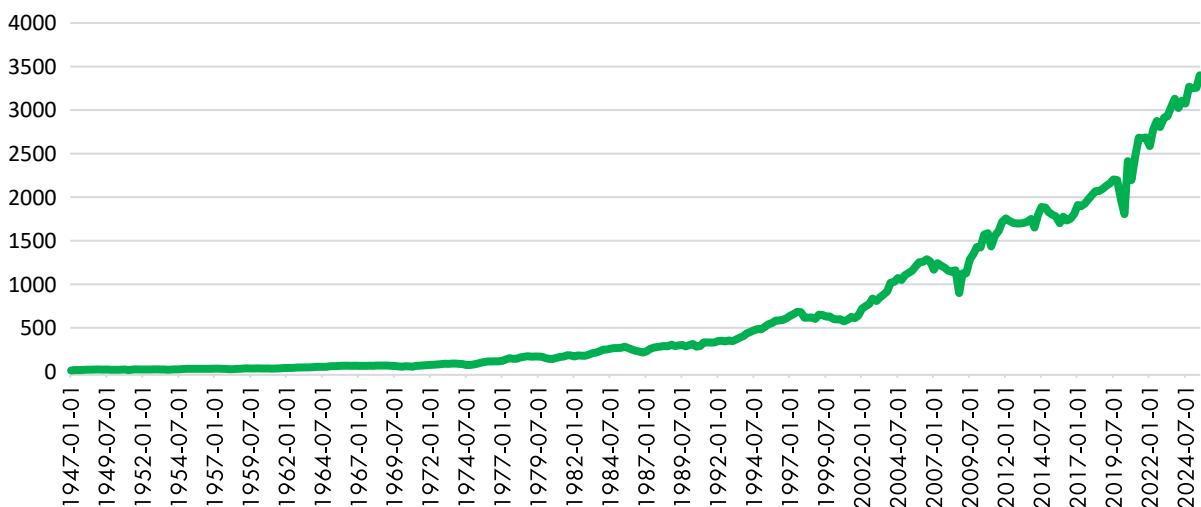
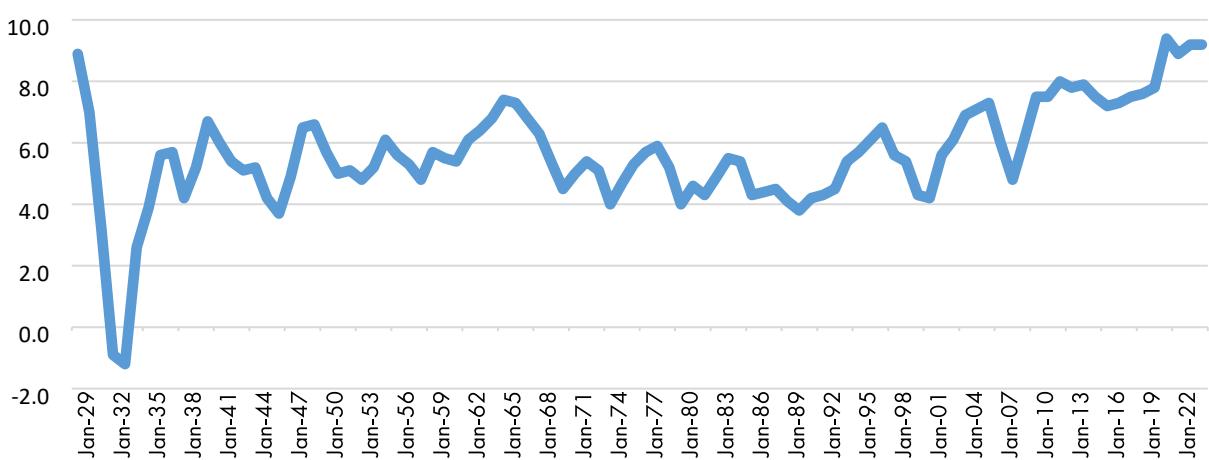


Chart 10 **Corporate Profits After Tax with IVA and CCAdj, 1929-2025, as Pct. Gross Domestic Income**



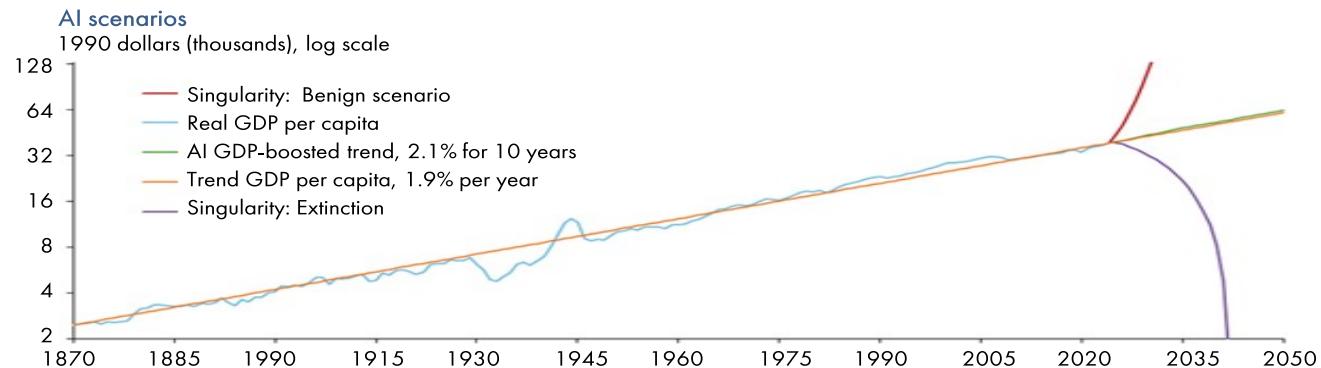
analysts at the Dallas Fed allow for both scenarios (Chart 11), proving, perhaps, the futility of this exercise. The best estimate is probably a modest boost in productivity.

Spending on AI may continue apace in the coming year, but at some point investors will have to assess the implications of a slowing in spending, gradual or sudden. Likewise, equity valuations may continue to rise or remain elevated, but eventually, investors will face diminishing future returns. At a minimum, future

returns are likely to be below long-term averages (Chart 12).

Francisco Franco's fascists won the Spanish civil war but were officially neutral when the Second World War broke out. Juan Pujol García was still working at a poultry farm and wondered how he could be involved in the war. He hated the fascists and the communists equally, and so he approached the British embassy in Madrid with an offer to serve as a spy for them. He was turned down. He

Chart 11 US GDP Per Capita, 1870-2050 (est.) with AI Scenarios

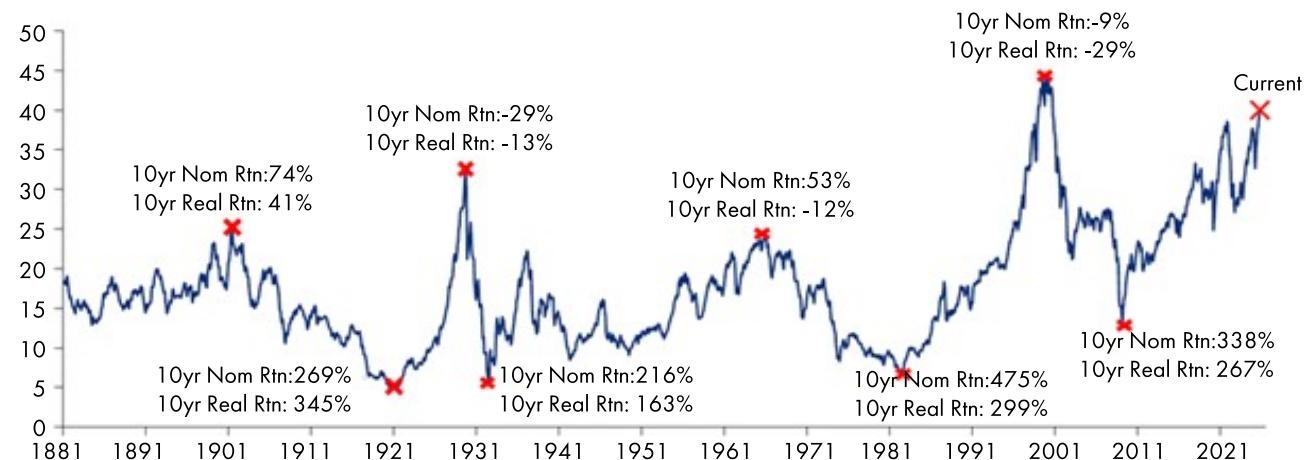


NOTES: The blue line is real gross domestic product (GDP) per capita in 1990 dollars. The orange line is a trend line fitted to the data for 1870-2024 with a trend growth rate of 1.9 percent per year. The red, green, and purple lines are hypothetical paths for per capita GDP based on different scenarios.

Sources: Bureau of Economic Analysis; Haver Analytics; Macrohistory.net; United Nations; authors' calculation

Source: Federal Reserve Bank of Dallas

Chart 12 S&P 500 CAPE Ratio and Subsequent 10-year Returns, 1881-2025



Source: Robert Shiller, Finaeon, Deutsche Bank
Source: Goldman Sachs

tried three times to offer his services to the British, but was always turned away: how could a poultry farmer in Spain help the British? By gaining access to German secrets.

Juan obtained a false diplomatic passport and contacted the Abwehr, the German military attaché office in Madrid, claiming to be a Spanish diplomat who traveled frequently to London, and offered to spy for the Germans. He was accepted, given a codebook, a bottle of invisible ink and £600 for expenses and told to recruit a spy network in London.

Of course, Juan could not travel to London, so he instead went to Lisbon where he obtained travel books and British magazines from the public library and filed seemingly credible reports of his fictitious spy network. His messages were intercepted by British intelligence which began a hunt for this spy. He was not hard to find as he wanted to be found.

He was moved to London and given the code name "Garbo" for his extraordinary acting abilities. He continued to file hundreds of reports to the Germans from his extensive (and fake) spy network, so extensive and voluminous that the Germans halted efforts to recruit additional spies in Britain.

His reports were often accurate, but untimely. For example, he alerted the Germans to Operation Torch, the North Africa landings in 1942. His secret letter was postmarked before the landings, but delayed by MI5 to reach the Germans after the fact. Still, the Germans believed Pujol had given them valuable information. They provided him with their latest hand encryption system, Enigma, which was turned over to Bletchley Park to update Ultra, the British designation for their signals communication counterintelligence operations.⁸

Operation Overlord was code name for the D-Day landings in Normandy in June 1944. Operation Fortitude was the designation for its twin deception campaign to convince the Germans that the landings would occur at Calais, the closest port to Britain. In the months leading up to D-Day,

Juan sent over 500 messages to the Germans about the planned invasion at Calais.

On 9 June, three days after the Normandy invasion, Juan sent information that Normandy was a feint, that the main landing force, under the command of US General George S. Patton, was preparing to attack at Calais. Based on Pujol's information, Field Marshal Gerd von Rundstedt refused General Erwin Rommel's request to move troops to Normandy, keeping 21 armored and infantry divisions at Calais through August, two months after the Normandy landings.

Agent Garbo was known as Agent Alaric to the Germans. They paid him \$340,000 over the course of the war, an enormous sum,⁹ and a month after D-Day, secretly awarded him the Iron Cross, Germany's highest military honor, personally approved by Hitler. Three months after that, King George VI secretly awarded Agent Garbo the MBE.¹⁰ Juan Pujol García became the only person to receive military honors from both the Nazis and the British monarch.

After the war, Pujol feared his life would be in danger from the network of surviving Nazis. In 1949, he traveled to Angola where he reportedly died from malaria, a ruse orchestrated by MI5. He moved to Venezuela under an assumed name, running a bookstore and gift shop. He lived in anonymity for 35 years, when a British journalist discovered his identity. In 1984, Pujol traveled to London to meet Prince Philip at Buckingham Palace, reunite with former MI5 colleagues, and joined the 40th anniversary celebration of D-Day on the beaches of Normandy. He died four years later.

In 1941, at the age of 36, Greta Garbo made her last film.¹¹ She hated the movie business and declined all future roles, settling into anonymity in New York City. The occasional public spotting of her was front-page news. She amassed an impressive art collection and saw the occasional friend till her death in 1990.

⁸ Bletchley Park was headquarters for British code-breaking analysts, including Alan Turing.

⁹ Equivalent to over \$6 million today.

¹⁰ Member of the Most Excellent Order of the British Empire.

¹¹ Two-Faced Woman.

Greta Garbo and Juan Pujol García, Agent Garbo, were both alluring and mysterious, great actors in their own spheres, presenting a public image that hid their private lives. Our challenge today is to look beyond the public images and rhetoric to discern the underlying truths.

The economy is accelerating, or slowing. The growing levels of debt will push interest rates higher, or perhaps lower. Spending on AI is a bubble that will soon burst, or a transformative technology that will boost productivity. Political rhetoric reveals, or obscures, true intentions.

Greta Garbo is a Hollywood legend, as much for her mysterious disappearance from public life as for her exceptional acting skills. As Agent Garbo, Juan Pujol García, a poultry farmer, was the master of deception whose misinformation proved invaluable to the defeat of the Nazis.

Deception, misinformation, mysteries and lies are all around us. Our task is to find the truth.



Source: <https://commons.wikimedia.org/w/index.php?curid=1648208>.



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