CHASING WHAT MATTERS MOST

STRATEGIC OUTLOOK

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ECONOMIC & MARKET FORECASTS

- ***New Dawn***: US potential growth exceeds 2.5%, improved productivity, competitiveness, low recession risk. Supply Side policies + lower energy costs limit inflation. Spending cuts eliminate waste, fraud, corruption, and misappropriation. Fiscal & Trade Deficits narrow. Support of free-market Capitalism, Liberty, Equal Justice over Socialism & Progressivism
- ***Restored Inflation-Yield Paradigm:*** *Higher-Forever* rates with 3% CPI inflation and Fed Funds: 3½%, increased yield volatility with steeper global yield curves, bond returns lag.
- ***Reckoning of Private Debt*** manifests as Liquidity Squeeze or Credit Crunch—Illiquid Private Alts don't provide risk premium or diversification assumed. Higher bond volatility.
- ***Return to Natural Order:*** Normalizing valuations & risk premiums, steeper yield curve, higher volatility—avoid Private Debt & Leveraged Loans, Longer Maturity Bonds (>7yrs)

Economic Forecasts	**2021**	**2022**	**2023**	**2024**	**2025e**	**2026e**	**2027e**
GDP Growth (Y/Y Real)	**6.1**	**1.4**	**3.3**	**2.6**	**2.9**	**3.0**	**3.0**
S&P500 Op Earnings Gr	**49.0**	**4.8**	**1.5**	**9.7**	**12.0**	**8.5**	**7.8**
CPI Inflation (Y/Y)	**7.2**	**6.4**	**3.3**	**2.9**	**2.7**	**3.0**	**3.0**
Unemployment	**3.9**	**3.5**	**3.7**	**4.3**	**4.6**	**4.7**	**4.8**
Fiscal Deficit (vs.GDP%)	**-7.9**	**-5.3**	**-6.7**	**-7.1**	**-5.2**	**-4.5**	**-3.5**
Fed Funds Target[1]	**0.25**	**4.50**	**5.50**	**4.50**	**3.75**	**3.50**	**3.50**
10y Treasury Notes	**1.50**	**3.83**	**3.87**	**4.57**	**4.16**	**4.75**	**5.00**
S&P 500 Target	**4766**	**3840**	**4770**	**5882**	**6846**	**7200**	**7700**
S&P 500 Total Return %	**28.7**	**-18.1**	**26.3**	**25.0**	**17.9**	**6.4**	**8.1**

Source: Strategic Frontier Management (Year-end or Y/Y change)

1. Target denotes top of published ¼% policy target range

THEMES FOR 2026

Robust **Earnings Growth** and **Profit Margins** as productivity, economic impact of policies takes hold
- Continuing Economic, Fiscal (supply-side + spending cuts), Trade, Energy, Immigration, Health, and National Defense ascendant reform policies, as excessive Regulation rolled back
- ***Future Themes***: Quantum Computing, AI (beyond GenAI/LLMs), Additive Manufacturing, Logistics, Adaptive Robotics, Power/Energy Services, Advanced Materials, Global Defense spend--NATO 5%

Disinflationary forces recede—3% normal CPI Inflation (sticky), reverting toward long-term average
- Sticky inflation: Wages, Housing, Services after inflation spike, maturing 4th Indus. Revolution
- *Higher-Forever Rates*—Fed's equilibrium r*=3.5%, *Steeper Global Yield Curves* 10y-3m [~1.5%]
- Single ¼% cut in US rates as global yield curves steepen—*inflation expectations* normalizing
- *Re-engineering Federal Reserve*: New Fed Chair embraces *rule-based policy, s*uspends forward guidance (inc. SEP), reduces IOER, reduces QE holdings → r* = 3.5%, steeper yield curves.

Private Debt Reckoning: $3 trillion of private, rapidly growing: direct lending (family offices, pensions, endowments), funds, structured products, collectors (listed BDCs, closed-end and interval funds, etc)
- Liquidity Squeeze, credit spreads widen—Fiscal Deficits imperil Global Gov Debt, credit crunch risk
- Realization: No illiquidity premium (vs. *discount)*—lagged *mark-to-market not risk diversification*

Rationalizing Risk Premiums/Valuations: Favor Small-cap, Value—mid-year equity correction, negative real bond return. Strong U.S. earnings growth but lower equity returns →P/E contraction
- US recession risk low, but Europe likely struggles with slow growth. Avoid China, Russia, Brazil.

Artificial Intelligence Goes Beyond Hyped Generative AI
- GenAI infrastructure investment slows: GPU competition, LLMs vs. smaller focused models
- Reinforcement Learning, Neural Nets, NLP, Agentic AI elevated—greater payback at lower cost
- Investments in depreciating GPUs and competition lower ROI expectations

Quantum Computing: Coming of age, becomes relevant to Real Problems faster than expected
- Rapid innovation solving bigger, complex problems order of magnitude faster (GPU Competition)

SECULAR THEMES & CYCLICAL DRIVERS

Drivers of Cyclical Economic Growth Dynamics					
Consumer Demand	**Net Export**	**Housing Starts**	**Investment**	**Inventory**	**Gov't Spending**

- America First policies ***Boost U.S. Potential Growth*** from < 1.8% to > 2.5% given reduced regulation, lower energy and material costs, extended sunsetting tax reform, narrowing trade deficit, which should bolster global competitiveness, productivity, margins, but moderate inflation.
- ***Monetary Policy Normalization***: Adverse financial and economic consequences of *Explicit Moral Hazard* in Too-Low-Too-Long (TL^2) required rate hikes and Quantitative Tightening (QT). Significant risk remains for extended and leveraged bond holders. Rising inflation expectations *not transitory.*
- ***New Dawn***: Government Reforms—Fiscal spending and workforce rationalization follow DOGE (audit, expose, cut spending) as new paradigm root out waste, fraud, misappropriation, corruption
- **Trade, Energy, Tax, and Regulatory** policy reforms increase productivity, potential growth with net exports, margins, and global competitiveness, while containing inflation. Extending 2017 Tax Reform incentivize potential growth. Securing US Border and DOGE targeted fraud and wasteful spending
- ***New Order in Global Trade*** *(TheHill.com--Sept 2018)**:** Seek Bilateral* Trade deals, *reducing* trade deficit, boost manufacturing, reduce strategic dependency, ease trade barriers on US exports. Reciprocal tariffs targeting other foreign policy issues too.
- Maturing *Fourth Industrial Revolution*, which led to disinflation, yet our future themes: AI, Quantum Computing, automation, adaptive robotics, additive manufacturing with advanced materials, power innovations (natural gas, fuel cells, nuclear energy) will boost productivity, industrial re-shoring.

EQUITY & BONDS—A NEW DAWN IN AMERICA

Asset Valuation

- *Curb your Enthusiasm* for Large Growth, Global Bonds, Private Credit.
- US Stock valuations remain stretched as higher prices outpaced earnings growth. Steeper global yield curves vs higher inflation expectations
- Favor US Value, Small-cap, Non-US, but avoid China, Russia, Brazil, etc.
- Favor short-term with flat/inverted yield curve, public/private debt issue

Economic Conditions

- *America First* policies bolster global competitiveness, lower energy and material costs, reduce trade & fiscal deficits, limit regulation, incentivize productivity, potential growth, jobs, and foreign investment.
- Concern about tariff-led <u>inflation</u> and policy-induced <u>recession</u> overblown
- Trade reforms target unfair trade barriers (tariffs, restrictions), net exports
- Reciprocal tariffs absorbed in foreign manufacturers' margin as domestic market share increased, thus U.S. consumers see little inflationary effect
- Dire economic consequences for Socialism, Communism, Progressivism

Interest Rates

- Unleashed inflation expectations drive higher-for-longer interest rates, global yield curves steepen (inflation/term risk premium vs. 3% CPI)
- Focus on rates vs. declining Central Bank bond holdings (QT)
- *Explicit Moral Hazard* of extended yield curve manipulation distorted risk, fostered yield curve inversion, amplified rate volatility, financial crisis risk.

Market Interrelationships

- Policy reform restore normal relationships, improve fiscal & trade balance
- Gov't spending cuts root out waste, fraud, and misappropriation.
- Defense exports could double with NATO partners
- Private markets not insulated from strained public market valuations

TURNING POINT: RE-WILDING U.S. ECONOMY

Restoring Common Sense Policies and *America First* Reforms

- Expect higher U.S. potential growth of >2.5% given policy pivot, trade reforms for net export growth
- Policy reforms reduce Fiscal and Trade Deficits, promote prosperity, lower energy costs to bolster U.S. productivity, potential growth, global competitiveness. *Supply Side* policies beget lower inflation.
- Prior stagflation forces receding – only modest inflationary impact of tariffs. Recession odds low.
- *Secular Disinflation* moderating as *Fourth Industrial Revolution* matures, despite AI advancements

However, US Equity and Bond Valuations Stretched

- Global Equities still outperform Bonds, but favor U.S. Value/Dividend Yield/Small-cap tilts
- Emerging Markets, particularly China, Brazil, Russia, MENA, etc.--still worrisome
- Preference for Fundamental Value and small-cap equity risk premium are key to Active Management
- Dependency on low-rate debt marginalized Zombie companies (low/no earnings) now struggling

Normalizing Yield Curves vs. Inflation and Quantitative Tightening (QT)

- Inflation/Interest Rate Normalization→3.0% CPI Inflation, 3.5% Fed Funds, 5% US 10yr Treasuries
- *Risky Business of Regime Change (4Q/2024)* implies continuation of *Higher-Forever* inflation & rates
- Central Bank holdings must normalize after extended period of low rates, QE, forward guidance
- Global yield curves steepen with realization of excessive debt/leverage, interest burden, deficits
- Excessive leverage: Public + Private debt issuance crowding out--Private Debt exceeds $3 trillion

How Policy Asset Allocations should differ?

- Alpha-driven excess return uncorrelated: Global Tactical Asset Allocation, Hedge Funds, Value + Small-cap, security selection (inc. long/short) – active managers benefit when small/value favored
- Increasing concern about private markets with high fees, limited capacity, and crowded sandbox.
- **Private Market Funds lag/stumble,** particularly private debt as illiquidity premium myth exposed
- Small-cap stocks lagged, but offer opportunity as liquid VC alternative, Value as PE/LBO alt—Active Management performance depends on Small and Value working.

CAPITAL MARKETS—MORE REWILDING NEEDED

Total Return	3-mon	YTD	**1-Yr**	3-Yr	5-Yr.	10-Yr	20-Yr	30-Yr
S&P 500 Index	**2.7**	**17.9**	**17.9**	**23.0**	**14.4**	**14.8**	**11.0**	**10.4**
NASDAQ Composite	2.9	21.6	21.6	30.9	13.0	17.3	13.5	12.4
Russell 2000	**2.2**	**12.8**	**12.8**	**13.7**	**6.1**	**9.6**	**8.2**	**8.6**
Russell 1000 Value-Gwth	**2.6**	**-2.8**	**-2.8**	**-17.3**	**-4.0**	**-7.6**	**-4.9**	**-1.8**
Non-US (World xUS)	53	32.5	32.5	18.3	10.0	9.1	6.2	6.3
Emerging Markets	4.8	34.4	34.4	17.0	**4.7**	**8.9**	**6.4**	**6.6**
Small-cap Global	2.0	17.1	17.1	14.7	7.0	9.5	8.0	
US 10-Year Treasury	1.1	8.1	8.1	**3.3**	**-2.2**	**1.3**	3.3	4.0
US Aggregate Bonds	1.1	7.3	7.3	4.7	-0.4	2.0	3.3	4.2
BAML High Yield Bonds	1.1	5.1	5.1	8.9	3.8	6.1	6.5	6.5
Short-term Bonds	1.2	6.6	6.6	**5.1**	**1.7**	**2.1**	2.4	3.3
JPM Non-US Bonds	-1.3	8.8	8.8	2.4	-4.8	0.0	1.6	2.6
Cash (US T-Bills)	0.9	4.1	4.1	4.7	3.2	2.1	1.6	2.3
US Dollar (TWI)	1.1	-4.7	-4.7	-0.1	1.7	0.3	0.6	0.4
CRB Commodity Index	0.4	5.0	5.0	7.5	16.0	7.8	1.2	4.8
WTI Oil (US$)	**-9.4**	**-21.0**	**-21.0**	**-10.6**	3.5	4.4	-0.3	3.6
Gold (US$)	**12.8**	**64.7**	**64.7**	33.5	17.9	15.1	11.3	8.4
Bitcoin	**-23.3**	**-6.3**	**-6.3**	74.0	24.7	70.1		

Source: Strategic Frontier Mgmt. Returns as of December 31, 2025 in US$. Performance exceeding 1-year annualized.

S&P 500 SECTOR TOTAL RETURNS

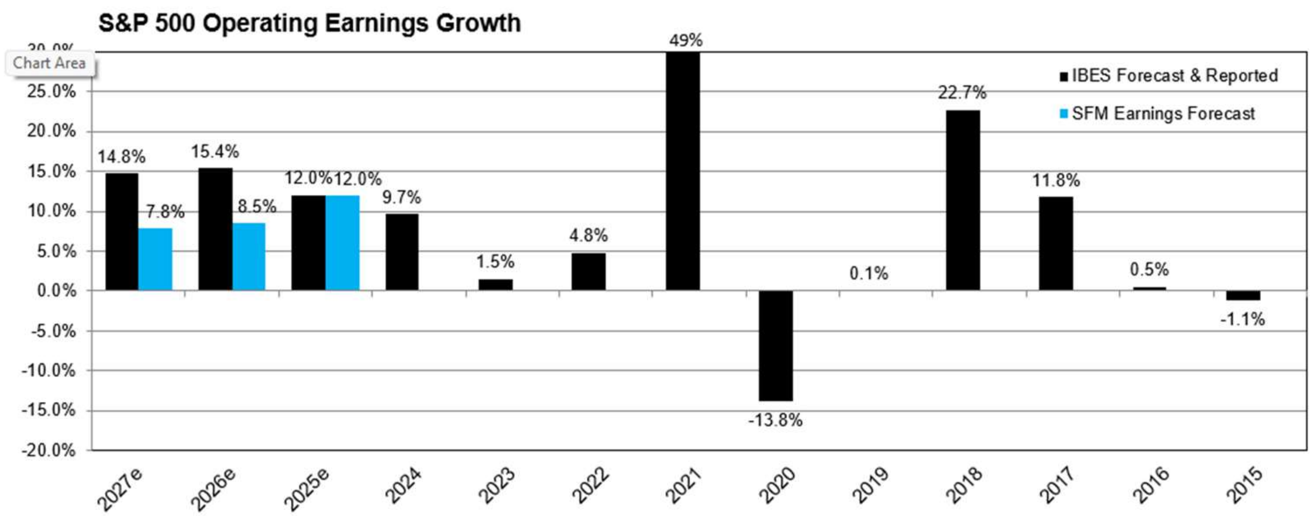
- Many interesting comparisons: Triggered big reversal of US Value-Growth
- Tariff and trade barrier concerns impacting Technology and Consumer Discretionary
- Rotation: Overvalued *Growth* to Fundamental Value, Small-cap still struggling
- Emerging themes: Quantum computing, nuclear energy, reinforcement learning

S&P 500 Sector Return	3 mo	YTD	1-Year	3-year	5-year	10-year	20-year	30-year	U.S. Dollars
Communication Services	7.3%	33.6%	33.6%	42.9%	16.4%	14.1%	10.7%	7.4%	SPTELE
Technology	1.4%	24.0%	24.0%	38.8%	20.9%	24.3%	16.6%	14.2%	SPINFT
Industrials	0.9%	19.4%	19.4%	18.3%	13.7%	13.0%	10.1%	10.0%	SPINDU
S&P 500	2.7%	17.9%	17.9%	23.0%	14.4%	14.8%	11.0%	10.4%	SP500RI
Utilities	-1.4%	16.0%	16.0%	10.0%	9.7%	10.6%	9.0%	8.3%	SPUTIL
Financials	**2.0%**	**15.0%**	**15.0%**	**19.0%**	**15.3%**	**13.2%**	**6.0%**	**8.4%**	**SPFINL**
Health Care	11.7%	14.6%	14.6%	6.3%	8.2%	9.9%	10.3%	10.4%	SPHCAR
Materials	1.1%	10.5%	10.5%	7.5%	6.8%	9.9%	8.1%	7.7%	SPBASIC
Real Estate	10.4%	9.2%	9.2%	9.0%	6.8%	8.7%	7.4%	7.5%	SPREIT
Energy	1.5%	8.7%	8.7%	4.3%	23.8%	8.3%	6.2%	8.8%	SPENGY
Consumer Discretionary	0.7%	6.0%	6.0%	25.3%	9.0%	13.2%	12.0%	11.1%	SPCAPG
Consumer Staples	0.0%	3.9%	3.9%	6.3%	7.2%	8.2%	9.6%	9.0%	SPCONS
S&P 500 Quality	2.8%	13.4%	13.4%	21.2%	14.0%	13.9%	11.8%	11.4%	Quality
S&P 500 Low Volatility	-2.2%	4.4%	4.4%	6.3%	7.3%	8.9%	9.2%	9.6%	Low Vol
S&P 500 Low Vol+Hi Div	-1.8%	3.7%	3.7%	7.7%	9.5%	8.4%	10.0%	10.7%	Low Vol + Hi Div
Invesco Revenue Wgt ETF	3.8%	18.6%	18.6%	17.5%	14.7%	13.1%			Rev Weighted
S&P Global Infrastructure	2.4%	22.6%	22.6%	14.6%	11.0%	9.4%	7.7%	9.5%	Infrastructure
S&P Global Property	-0.3%	11.3%	11.3%	8.4%	3.6%	4.4%	4.9%	6.6%	Property

Source: Refinitiv DataStream and Strategic Frontier Management
Note: Market returns as of December 31, 2025. Performance longer than 1-year is annualized.

S&P 500 EARNINGS—KEY TO EQUITY OUTLOOK

- Earnings Growth accelerating with higher profit margins as global competitiveness and productivity
- *Supply-Side Economics* by extending tax cuts, more business-friendly policies, terms of trade, and deregulation with incentivized innovation boosts productivity, thereby higher margins
- Large-cap & Growth Valuations are concerning—potential for a correction in 2026, ***if defaults spike***
- Strong Small-cap earnings growth: Russell 2000: **42%** in 2025, **44%** forecast in 2026 (similar P/E)



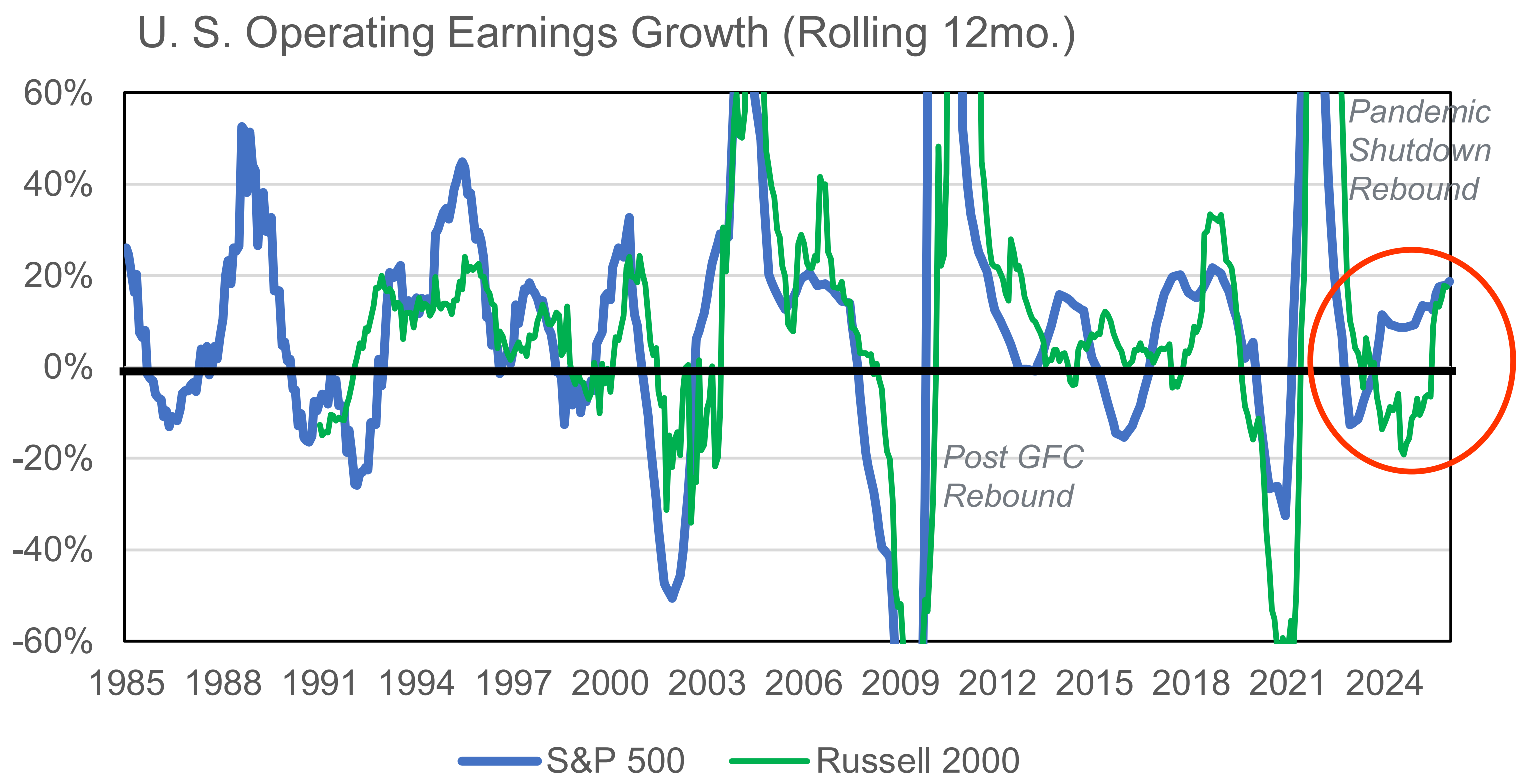
Extreme volatility in U.S. earnings growth for over a decade with flip-flopping economic policies & COVID, inc. 2022-2024

Operating Earnings	2027e	2026e	2025e	2024	2023	2022	2021
IBES Forecast & Report	14.8%	15.4%	12.0%	9.7%	1.5%	4.8%	49.0%
SFM Earnings Forecast	7.8%	8.5%	12.0%				
SFM S&P500 Target	7700	7200	6845.5	5882	4770	3840	4766
Index Return (no Div)	6.9%	5.2%	16.4%	23.3%	24.2%	-19.4%	26.9%
Dividend Yield %	1.20	1.19	1.15	1.28	1.47	1.75	1.29
Total Return	8.1%	6.4%	17.9%	25.0%	26.3%	-18.1%	28.7%
S&P 500 @18x SFM TE	5724	5310	4892	4369	3984	3926	3746
S&P 500 P/F12 (SFM)	20.0	22.6	23.2	21.6	19.7	17.3	21.9

Source: LSEG I/B/E/S and Strategic Frontier Management estimates and actuals as of December 31, 2025

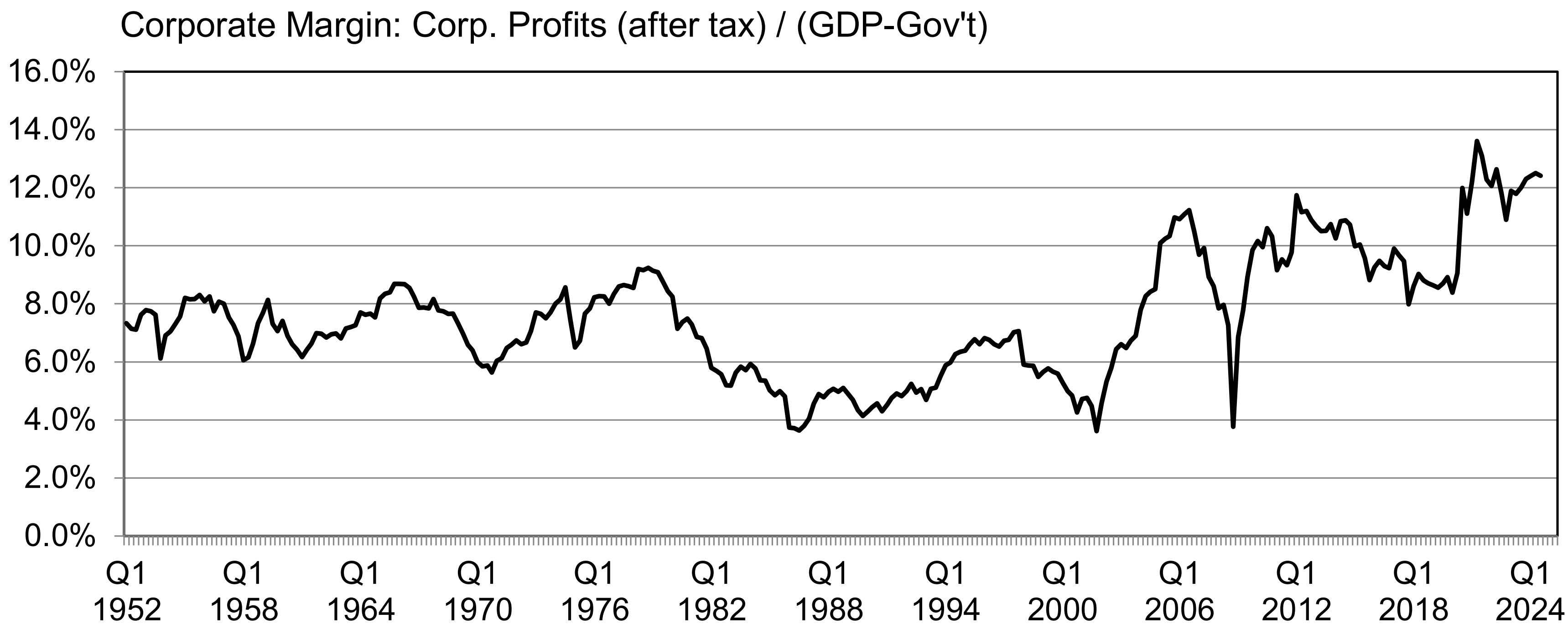
U.S. EARNINGS GROWTH RATE DEPRESSED

- Weak *Earnings Growth* 2022-2024 consistent with intermittent Recession or Stagflation
- 2022-24 GDP growth reflected excessive government spending & hiring, not real activity
- Small-cap earnings growth accelerating quickly now 40%+ growth for 2026
- Misguided policy decisions of *Progressive Socialist* ideology yielded lower productivity and margins—*America First* policies has been reversing these policies, increasing potential growth, global competitiveness, and margins, while moderating inflation.

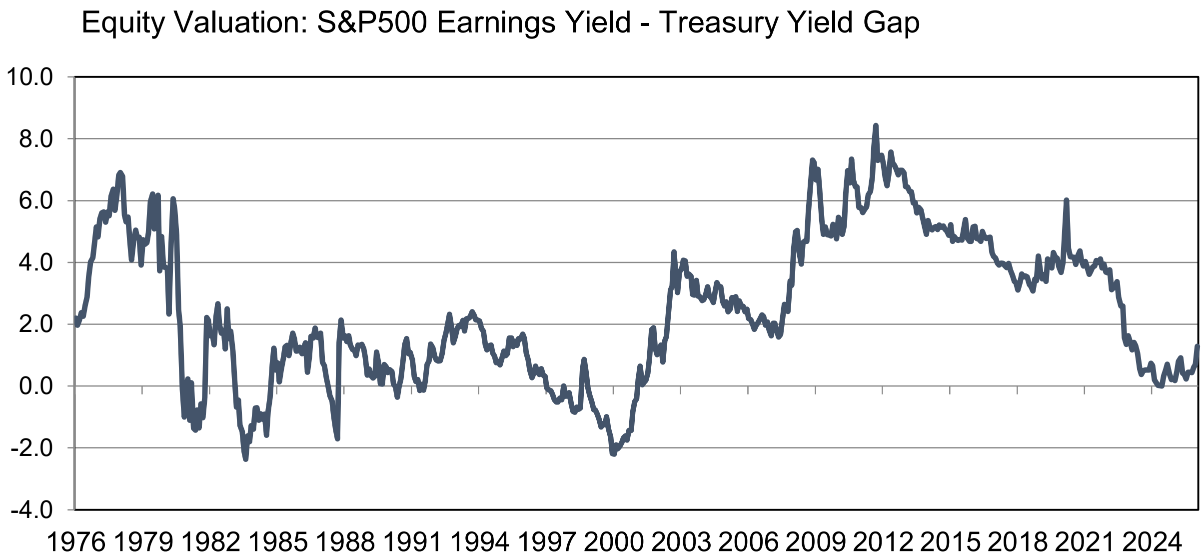


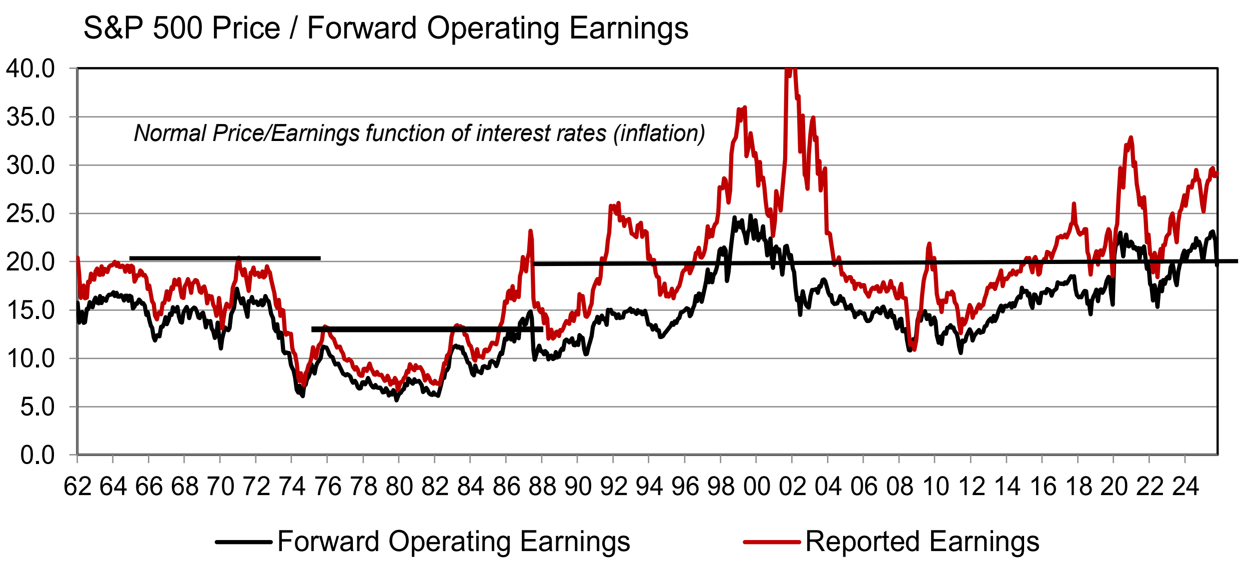
U.S. CORPORATE PROFIT MARGINS

Remarkable recovery in Profit Margins despite higher inflation a year ago



US EQUITY VALUATION DEPENDS ON RATES





Source: Strategic Frontier Management

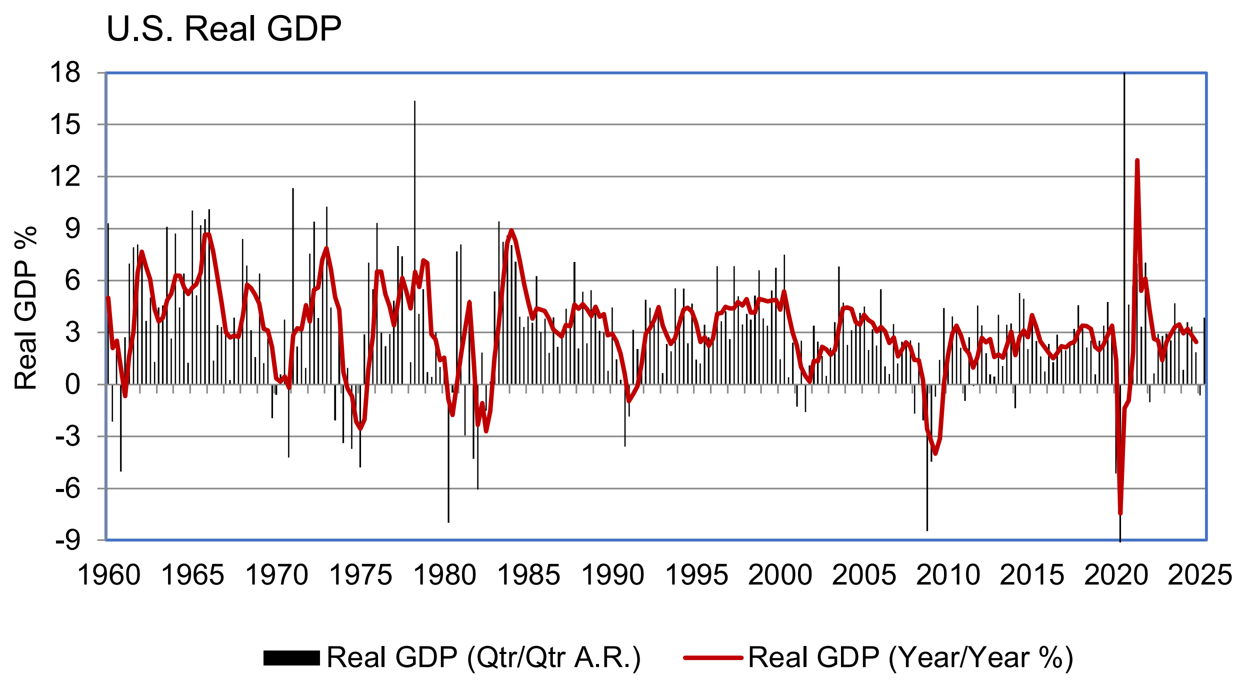
Equity Valuation Worst since 2001—Similarities suggest S&P 500 is ripe for a correction. Treasury Yields closer to 5.5% would drive valuations even lower.

Price/Earnings & P/FE rose as rising index prices outpaced earnings growth.

Earnings growth has been remarkable in 2025, be we are concerned Earnings Growth could disappoint vs consensus estimates that have risen dramatically.

REAL GROWTH IN GROSS DOMESTIC PRODUCT

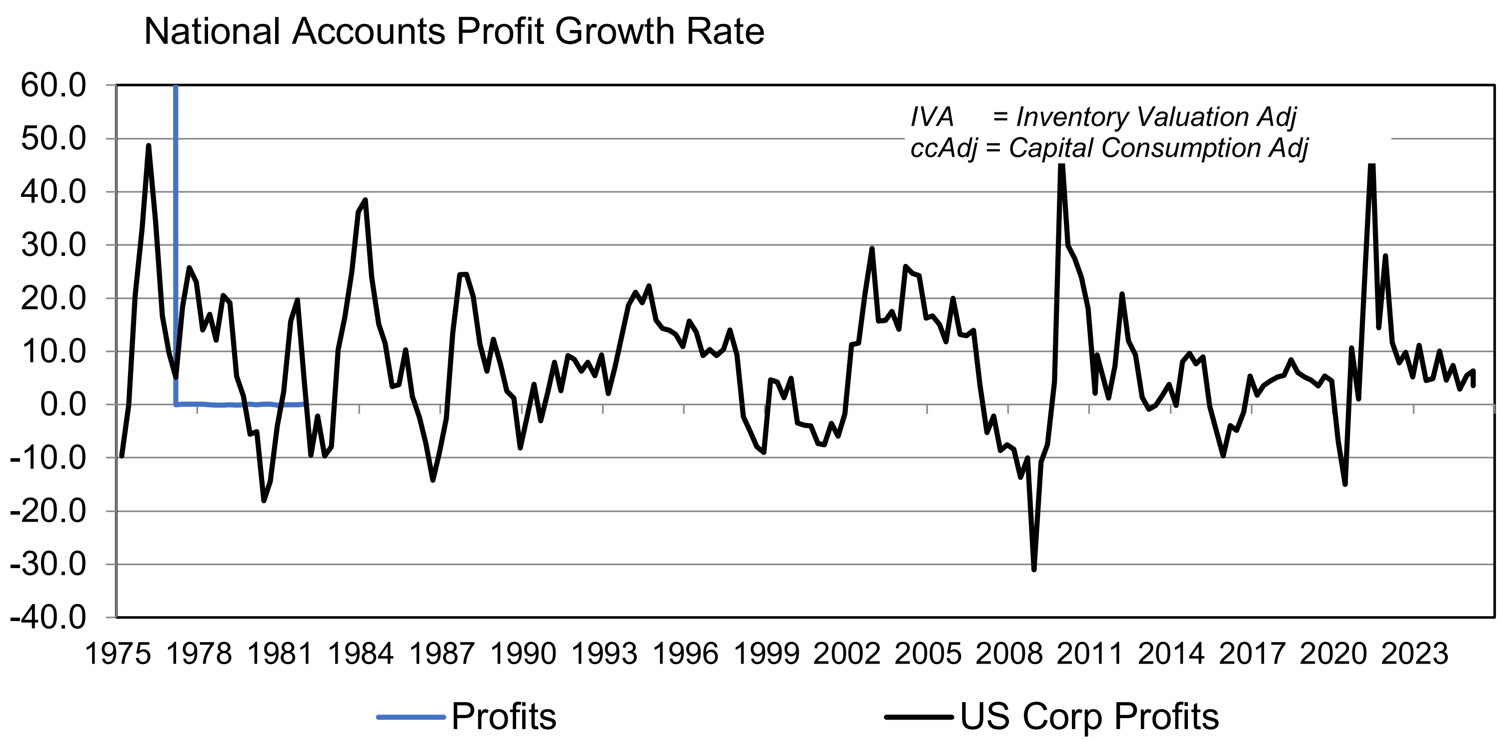
- Observed expected ***Economic Hangover*** (2022-2024) of declining economic productivity, competitiveness, margins, and earnings growth due to years of poor US policy decisions.
- Upgraded Potential Growth: <1.8%→2.5% due to fiscal, regulatory, energy, trade reforms
- Inflation wasn't ***transitory,*** *and expect new higher inflation regime. Higher inflation expectations (CPI: 2% → 3%) requires higher average interest rates (2.5% → 3.5%).*
- Excessive Government Spending bolstered GDP and government jobs, but Private (x-Gov't) lagging. Real fiscal spending must ***decline -0.5%/year*** to extinguish fiscal deficit.



Source: U.S. Government Data

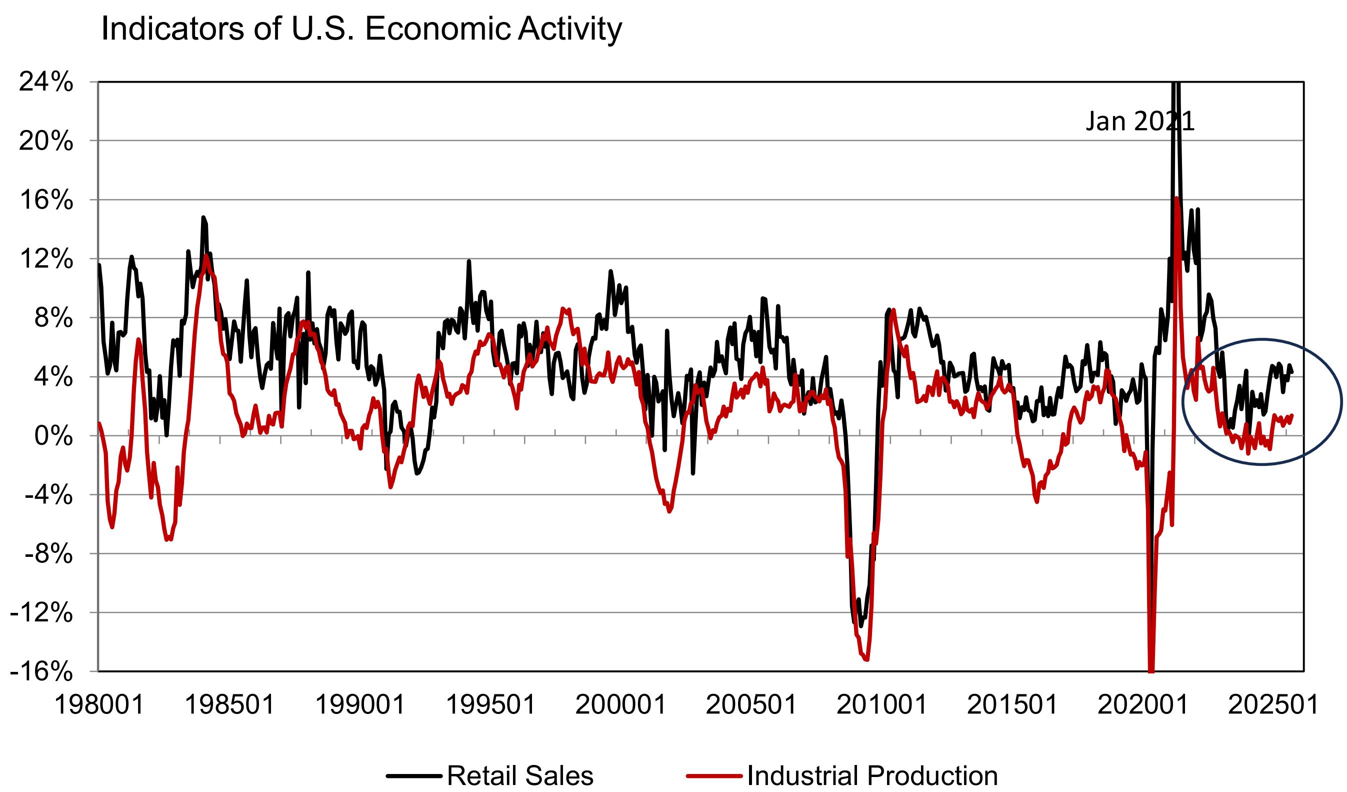
NATIONAL ACCOUNTS CONTRAST WITH S&P500

Exceptional growth among Large Tech washes out---illustrates how much US Real Economy struggled over 2022-2024



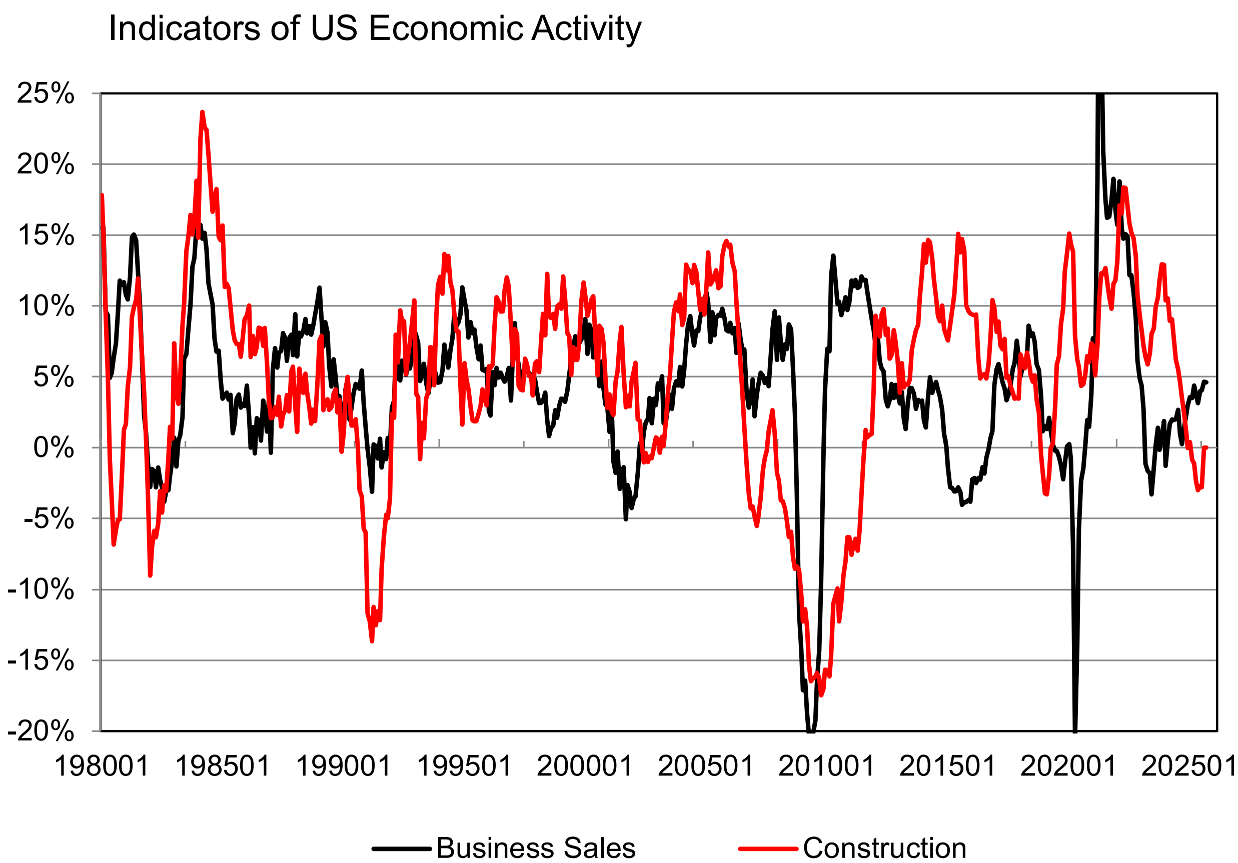
MONTHLY ECONOMIC GROWTH INDICATORS

- Terrible fiscal and regulatory policies undermined US Potential Growth—***real retail sales* and *industrial production*** suggest economy was flirting with recession for years
- Recession risk <u>*diminished*</u> with U.S. fiscal, trade, energy, and regulatory policies, and economic incentives of U.S. Budget Act of 2025 (aka: *Big Beautiful Bill)*
- Hangover of excessive spending and monetary stimulus reversing, which artificially boosted incomes and pulled forward consumption



INVESTMENT AND BUSINESS ACTIVITY

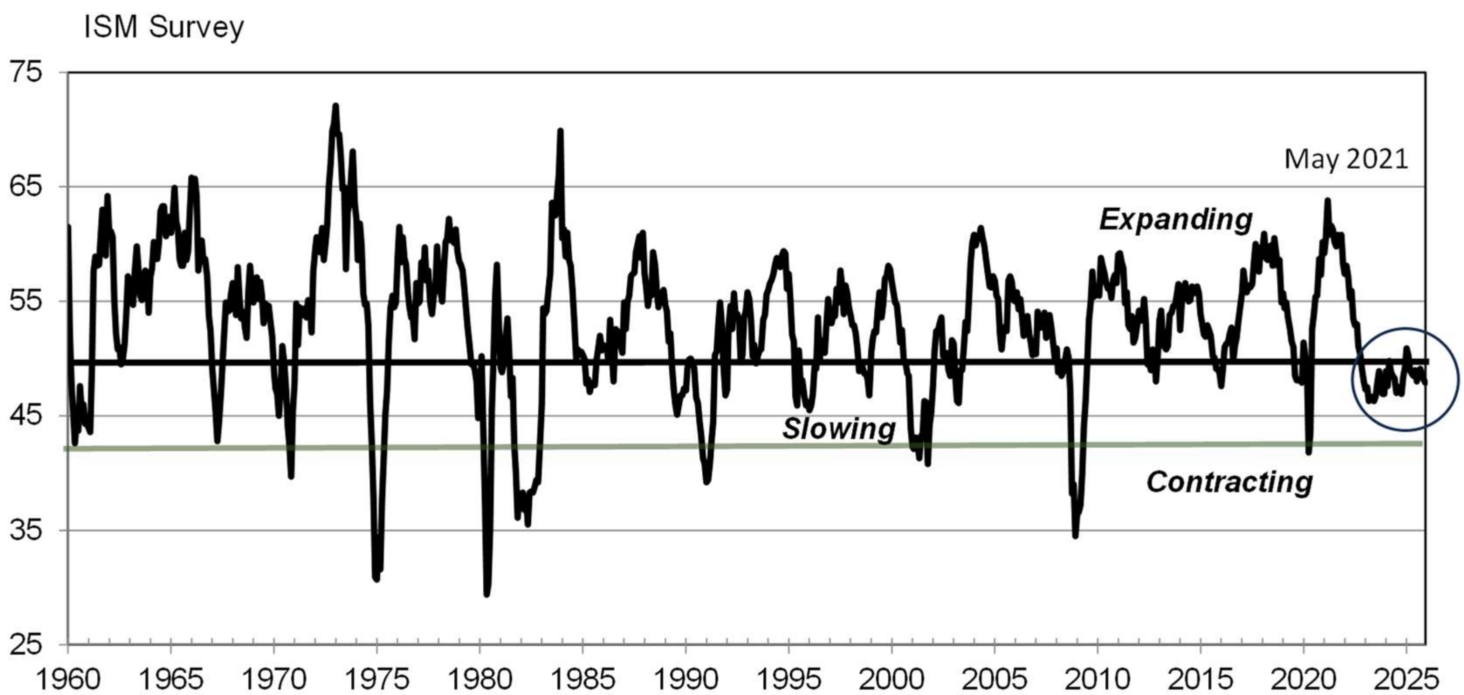
- Higher frequency economic growth indicators, including business sales and construction also suggested risk of intermittent recession in the U.S.
- Expect Business Sales and Construction also to be more cyclical in 2025



Source: U.S. Government Data

U.S. MANUFACTURING TRENDS

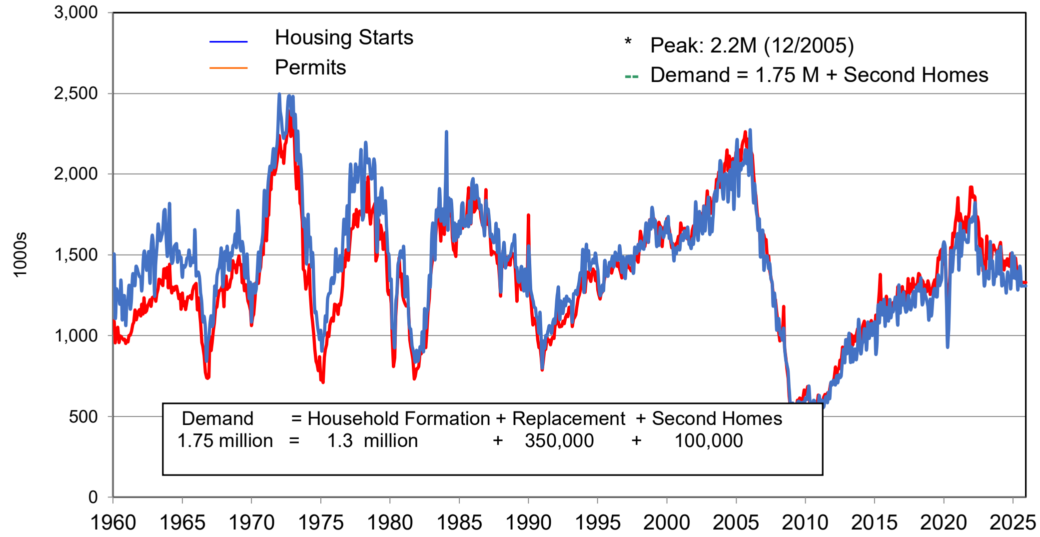
- After peaking in 2021, ISM (<50) retreated during the Biden Administration as anticipated due to consequences of poor policy decisions and higher interest rates.
- Observed level/trend in ISM aligned with Retail Sales, Industrial Production, but not GDP – Government spending boosted GDP given egregious deficit spending.
- Expect a rebound in ISM Survey materially over 50 again in 2026.



Source: ISM Purchasing Managers Survey -- one of the most timely and best predictors of the business cycle. "50" equates to potential growth (~2.7%) over the next year, 50-42 suggests slowing economy, and below 42 suggests contraction or recession.

HOUSEHOLD FORMATION DRIVES HOUSING

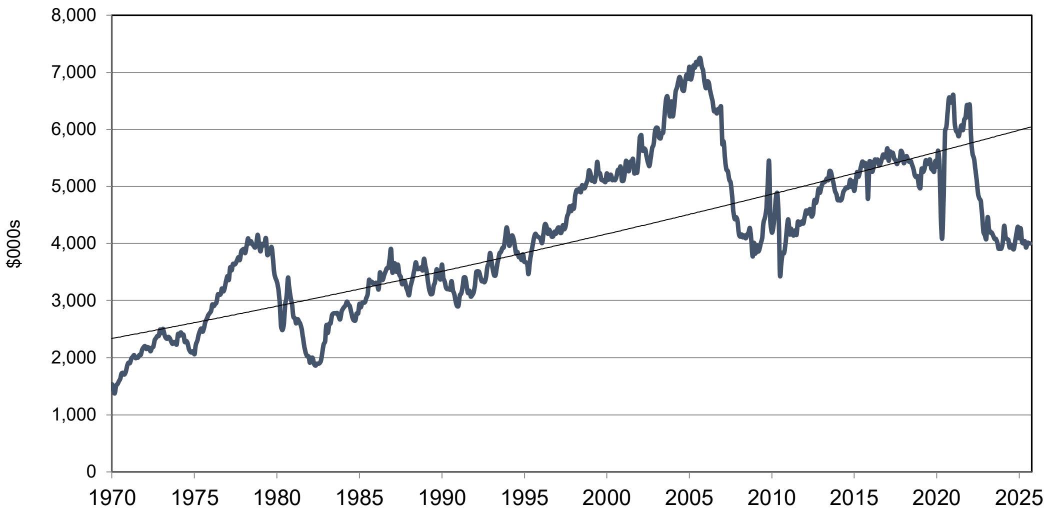
New Home Starts



Sales and Starts slowed as interest/mortgage rates rose, but supply is still limited. Household formation drive demand.

Limited new starts hovering near 2008-2009 low, can't overcome household formation, replacement (fire, flood, old), plus second home demand, so inventory remains lean.

Existing Home Sales



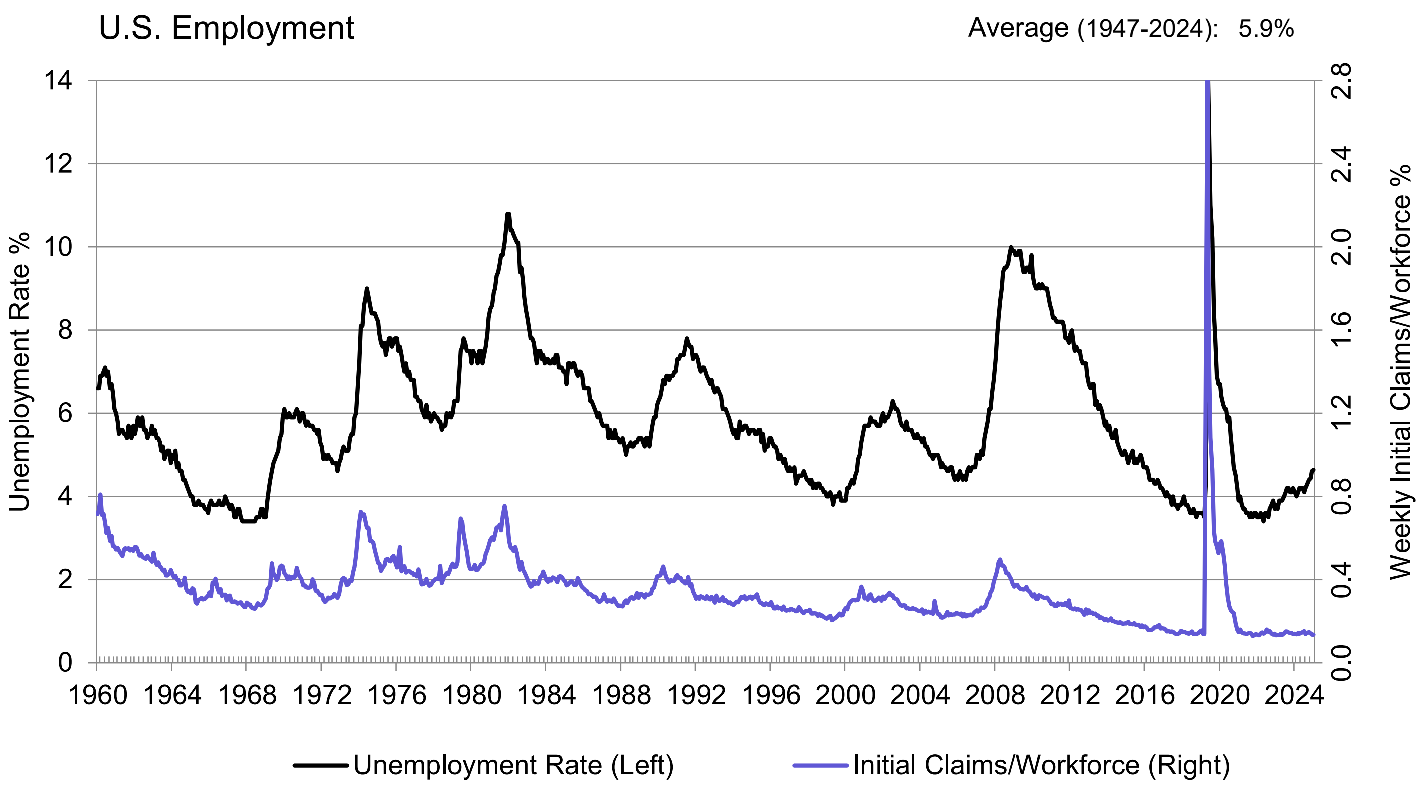
It isn't surprising housing cost inflation continues with housing starts limited. Rent also rising with low inventory levels. We expect construction to increase.

High basic material, labor, and energy prices coincide with lower starts and still low inventory of new homes for sale.

Source: U.S. Government Data

UNEMPLOYMENT KEY TO FED OUTLOOK

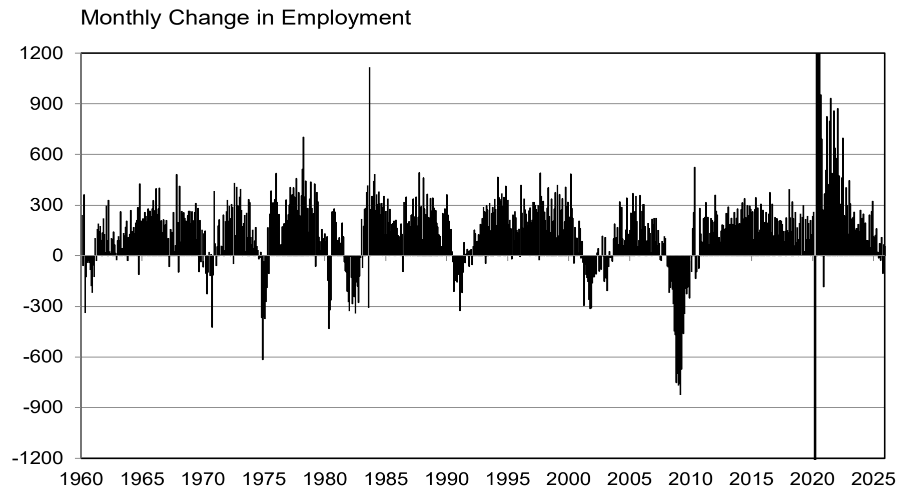
- Unemployment peaked over 14% (April 2020). Now trending higher from 3.5% low vs. 5.9% historical average. Secular change affected workforce needs
- Higher inflation expectations + minimum wage increases drive higher labor costs. Cheap Energy + Investment vs. Declining Labor Intensity: *Race Against the Machines*
- Strong evidence US Stimulus (2021-2023) was not needed, and fueled higher inflation

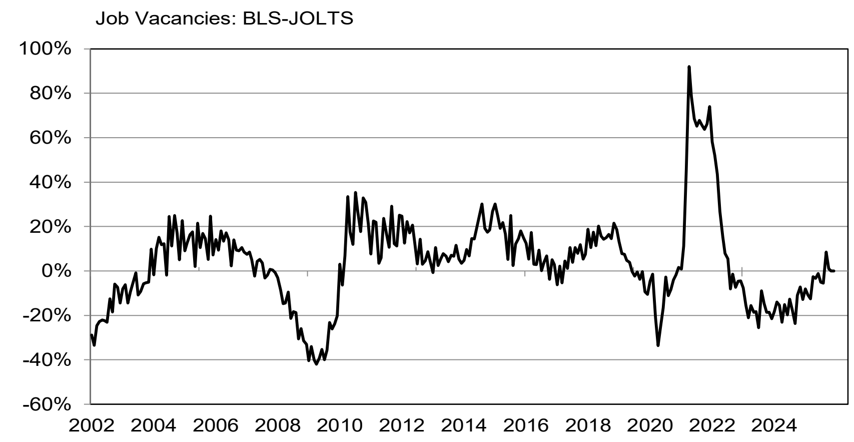


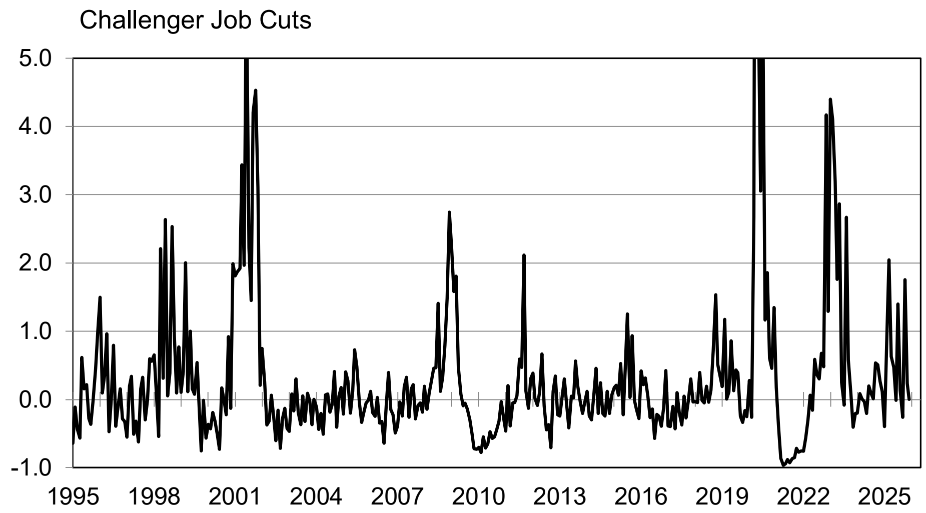
Source: U.S. Government Data

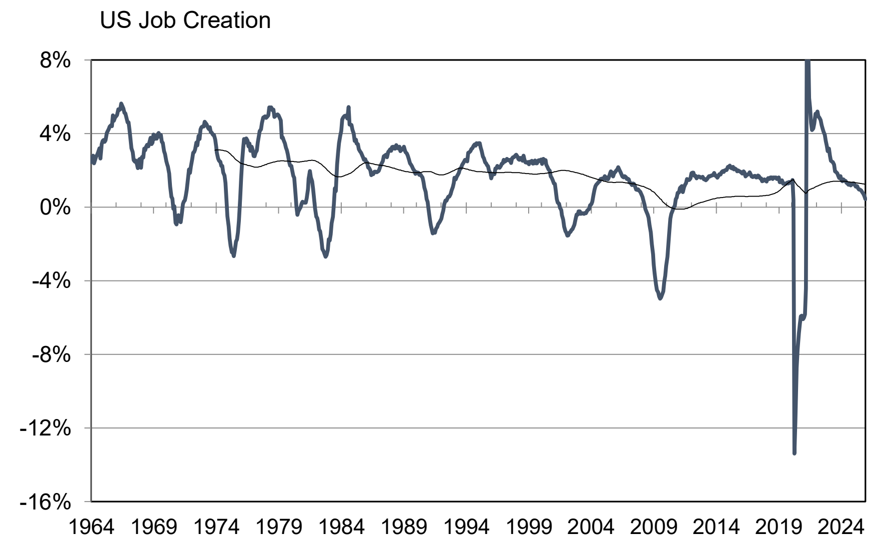
U.S. EMPLOYMENT CONDITIONS

Low Recession likelihood at 4.2% unemployment, expect rate to drift higher as government job growth reverses, offset by immigration and trade policy reform





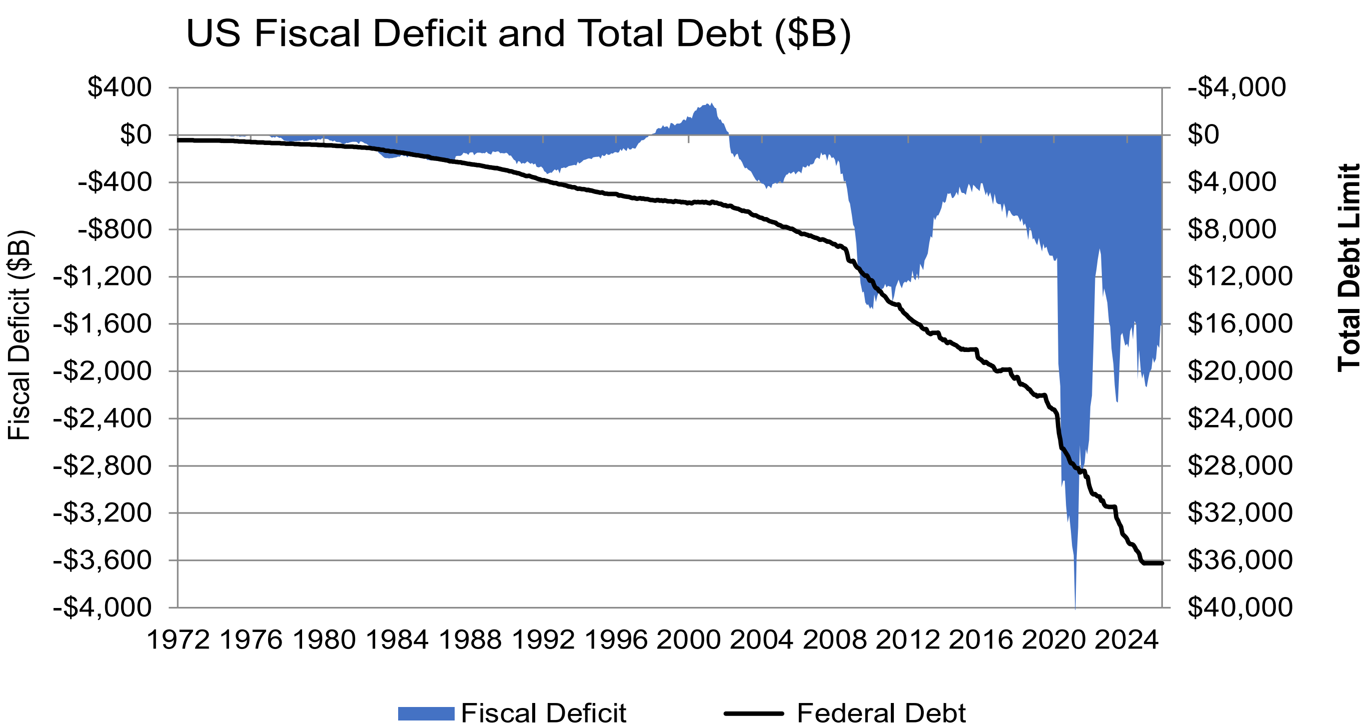




Source: U.S. Government Data

US FISCAL DEFICIT (ROLLING YEAR)

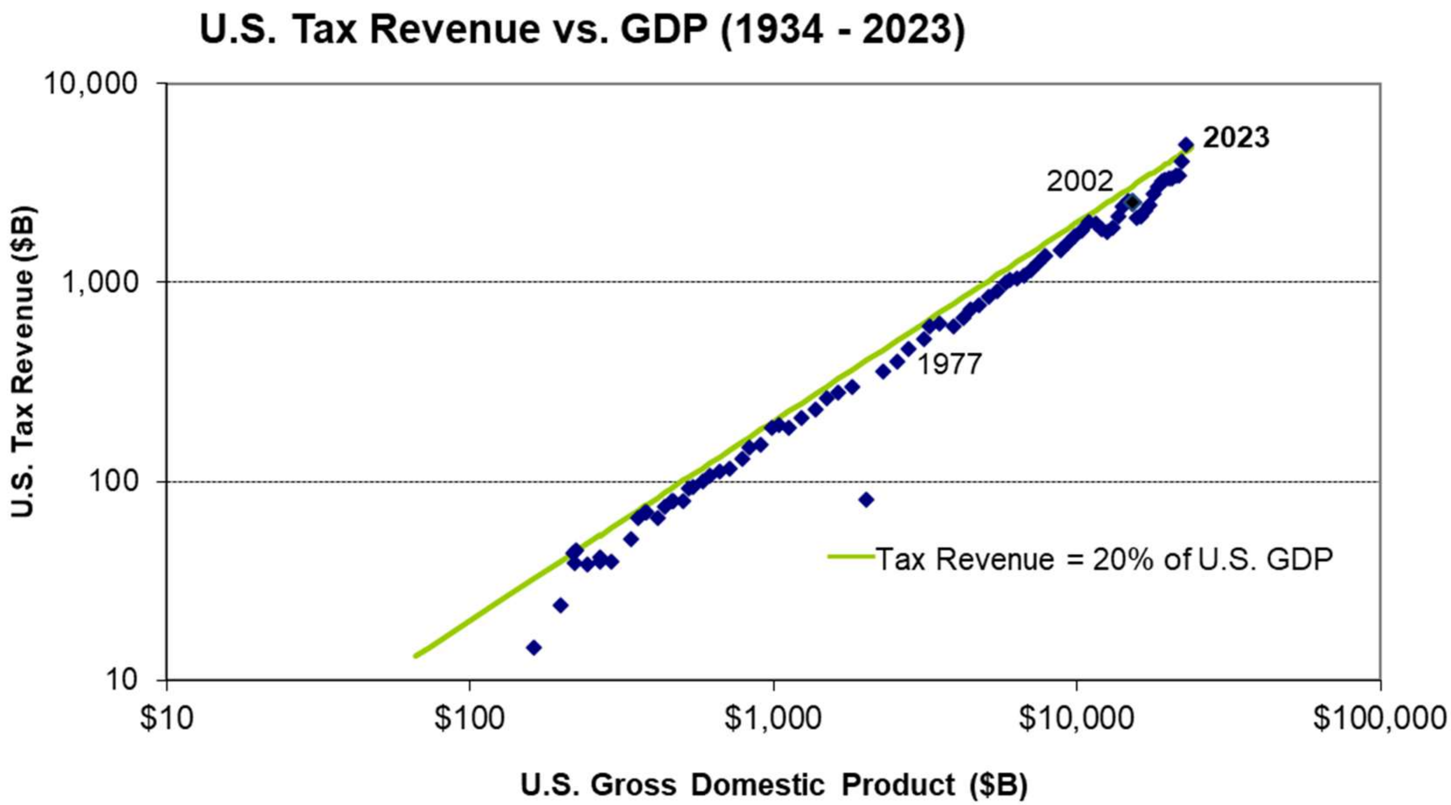
- US Fiscal Deficit is Unsustainable with soaring nondiscretionary liabilities on top of reckless, wasteful, unnecessary, and inefficient stimulus spending programs
- Republican Congress cutting spending, DOGE exposed wasteful, ineffective programs of *Build Back Better* boondoggle & Progressive Socialist policies of Biden Administration
- Rising interest rates boosting Fiscal Deficits--$1.8 trillion on Federal Debt of $36 trillion Interest exceeds $1 trillion – Yellen's short maturity issuance exposed US to higher rates



Source: US Government, OMB

HAUSER'S LAW

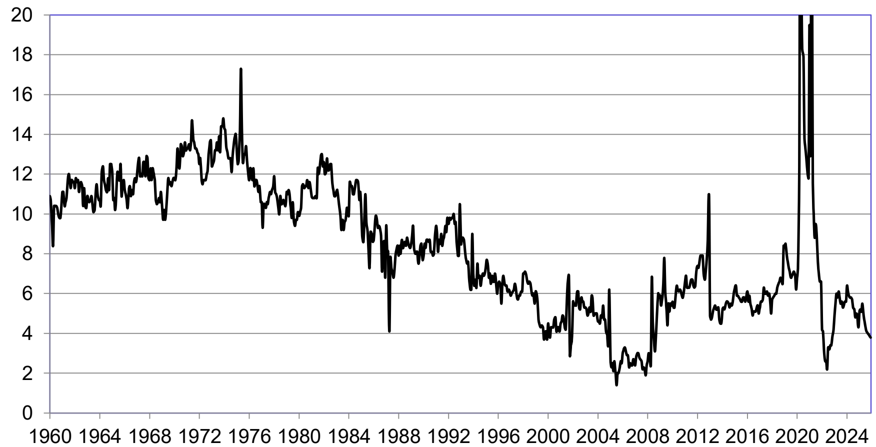
- Empirical observation that U.S. Government never exceeded revenue collection of 18-20% of GDP since 1934, irrespective of varying individual tax rates (35-90%).
- Raising tax rates never boosted tax revenue, because it slows economic growth and earnings, which reduces growth in tax revenue.
- Similarly, cutting tax rates increases real growth and productivity, thereby boosting tax revenue—rather than reducing tax revenue.



Note: Total U.S. Tax Revenue includes: Individual, Corporate, Social Security, Exise & Other Sources

HOUSEHOLDS: SAVINGS RATE TOO LOW

U.S. Savings Rate



<u>Not Your Father's Household Balance Sheet</u>

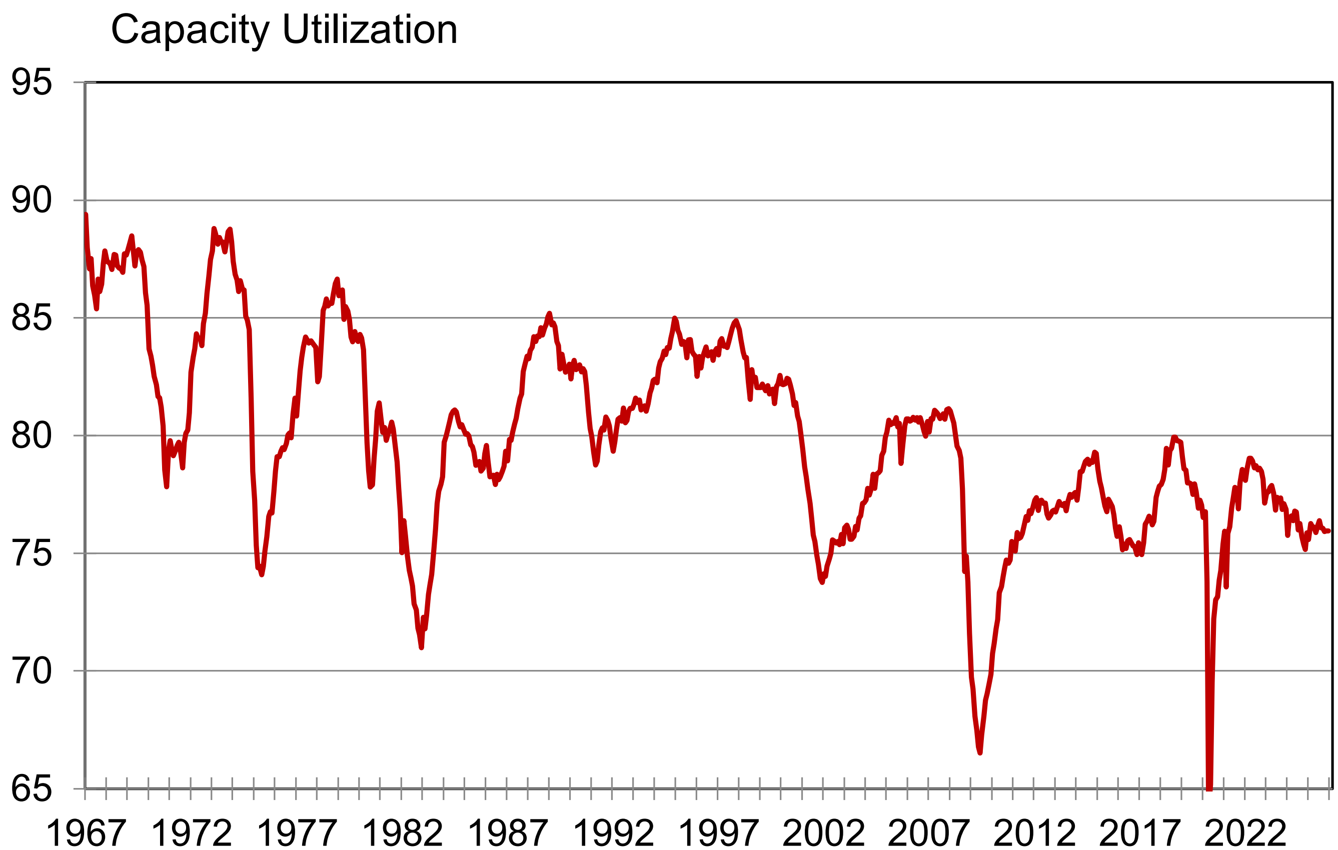
- *Household Net Worth increased to **$177Trillion***
- *Financial Assets increased to **$118 Trillion***
- *2022 brutal on retirement savings, how about 2025? Savings Rate has declined to 2008 lows.*
- *Net worth has been growing faster than inflation*

Household Balance Sheet ($Bs)	*2000*	*2007*	*2018*	*2019*	*2020*	*2021*	*2022*	*2023*	*2024*	*2025 Q2*	vs. 2005	5Year	3Year	*1-Year*
Total Assets	51,998	84,661	120,177	133,358	148,842	170,112	164,832	176,980	191,731	197,280	4.9%	7.8%	6.1%	5.6%
Households: Real Estate	14,172	25,828	31,647	33,397	36,665	43,294	46,976	49,026	52,205	53,224	3.8%	8.9%	3.8%	0.7%
Financial Assets (inc. retirement)	34,437	54,041	82,388	93,576	105,352	119,012	109,352	119,179	130,383	134,590	5.5%	7.4%	7.3%	7.6%
Pensions	11,031	16,415	25,795	28,006	29,794	31,576	28,368	30,609	32,517	33,334	4.2%	3.5%	3.9%	5.1%
Investments	16,218	25,975	42,634	51,809	58,380	69,528	66,074	75,222	84,728	70,203	6.2%	7.3%	8.6%	-12.5%
Deposits (Bank Acct + Money Fund)	4,773	8,117	12,298	13,360	16,351	18,055	18,012	18,342	19,223	19,671	5.7%	5.0%	2.2%	6.5%
Change in Financial Assets%	-0.5%	6.3%	-1.1%	13.6%	12.6%	13.0%	3.8%	0.1%	19.2%	17.1%				
Liabilities	7,150	14,096	15,388	15,883	16,509	17,995	19,158	19,670	19,986	20,149	2.7%	4.8%	3.3%	1.4%
Home Mortgages	4,817	10,625	10,204	10,476	10,919	11,815	12,654	13,017	13,381	13,533	2.1%	5.0%	3.7%	2.8%
Consumer Credit	1,741	2,609	4,007	4,192	4,185	4,513	4,859	4,988	4,950	4,998	3.9%	4.1%	2.9%	0.3%
Household Net Worth	44,543	70,048	104,177	116,857	131,717	151,407	144,935	156,537	170,933	176,293	5.2%	8.2%	6.5%	6.1%
Growth Rate (y/y)	2.8%	2.6%	0.6%	11.2%	12.0%	13.4%	9.2%	3.4%	15.3%	13.9%				
Disposable personal income (NIPA)	7,589	10,695	15,946	16,626	17,596	18,714	18,844	20,914	21,925	22,532	4.3%	4.2%	7.0%	4.5%
Growth Rate (y/y)	7.6%	5.0%	6.2%	4.3%	5.8%	6.4%	7.1%	11.8%	16.3%	11.7%				
Financial Assets/Total Assets	66%	64%	69%	70%	71%	70%	66%	67%	68%	68%	113%	95%	118%	137%
House/Total Assets	27%	31%	26%	25%	25%	25%	28%	28%	27%	27%				
Liabilities/Assets	14%	17%	13%	12%	11%	11%	12%	11%	10%	10%				

Source: Federal Reserve, US Financial Accounts (Z1-Table B.101)

RANGE-BOUND CAPACITY UTILIZATION

- Capacity Utilization can drive inflation and investment, particularly as forces of secular disinflation and *Fourth Industrial Revolution* are now waning.
- Offshoring/globalization trends reversing with automation reducing labor intensity.
- Transportation, energy, basic material costs increasingly more critical than labor costs



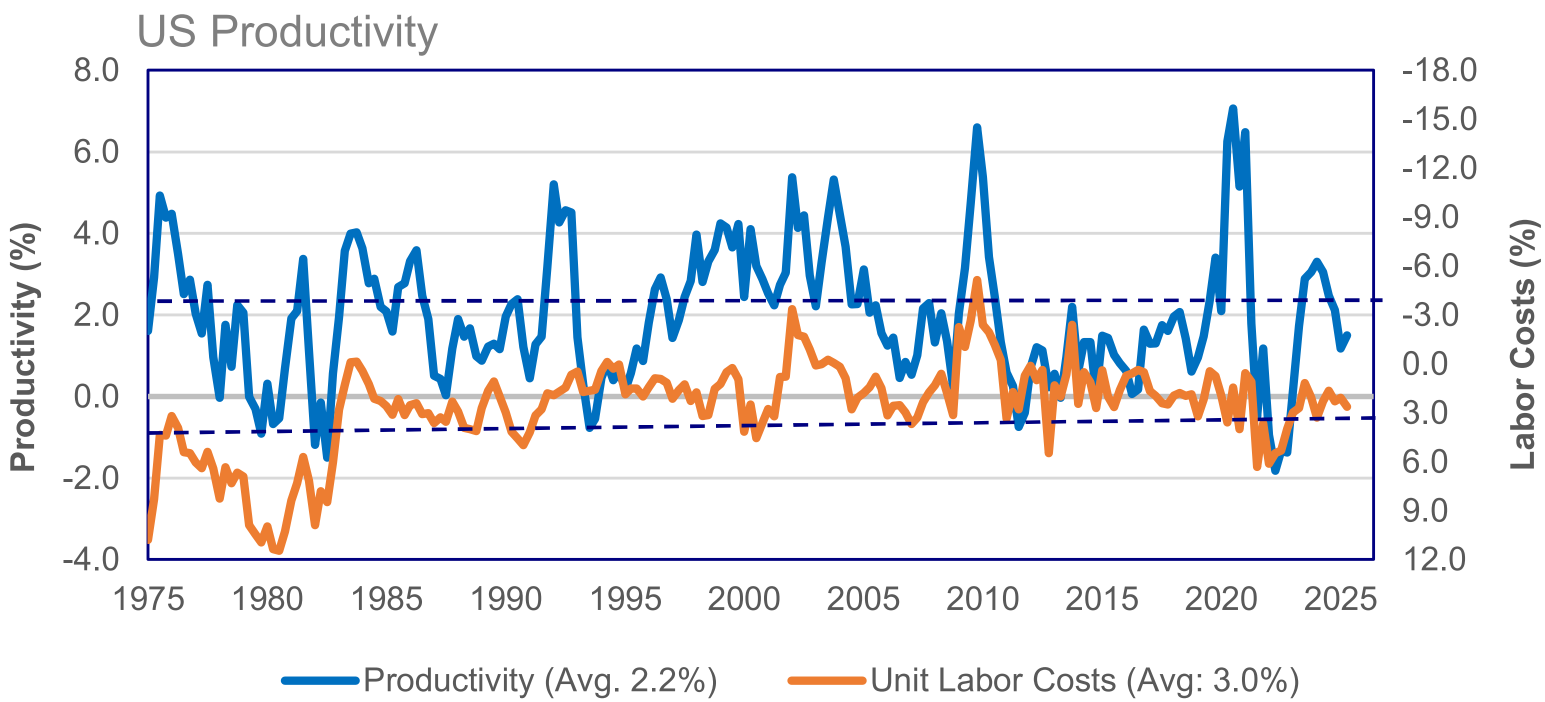
Source: U.S. Government Data

GROWTH, PRODUCTIVITY AND LABOR COSTS

Real GDP = *<u>Gov't</u>* + Consumption + Income + *<u>Net Trade</u>* = Workforce Growth + Productivity

Higher Labor Costs can undermine higher productivity expectations, yet reduced government spending should be more than offset by improved Net Trade

Productivity declined from over 3% to less than 2% during the Biden Administration---uptick in 2Q/25

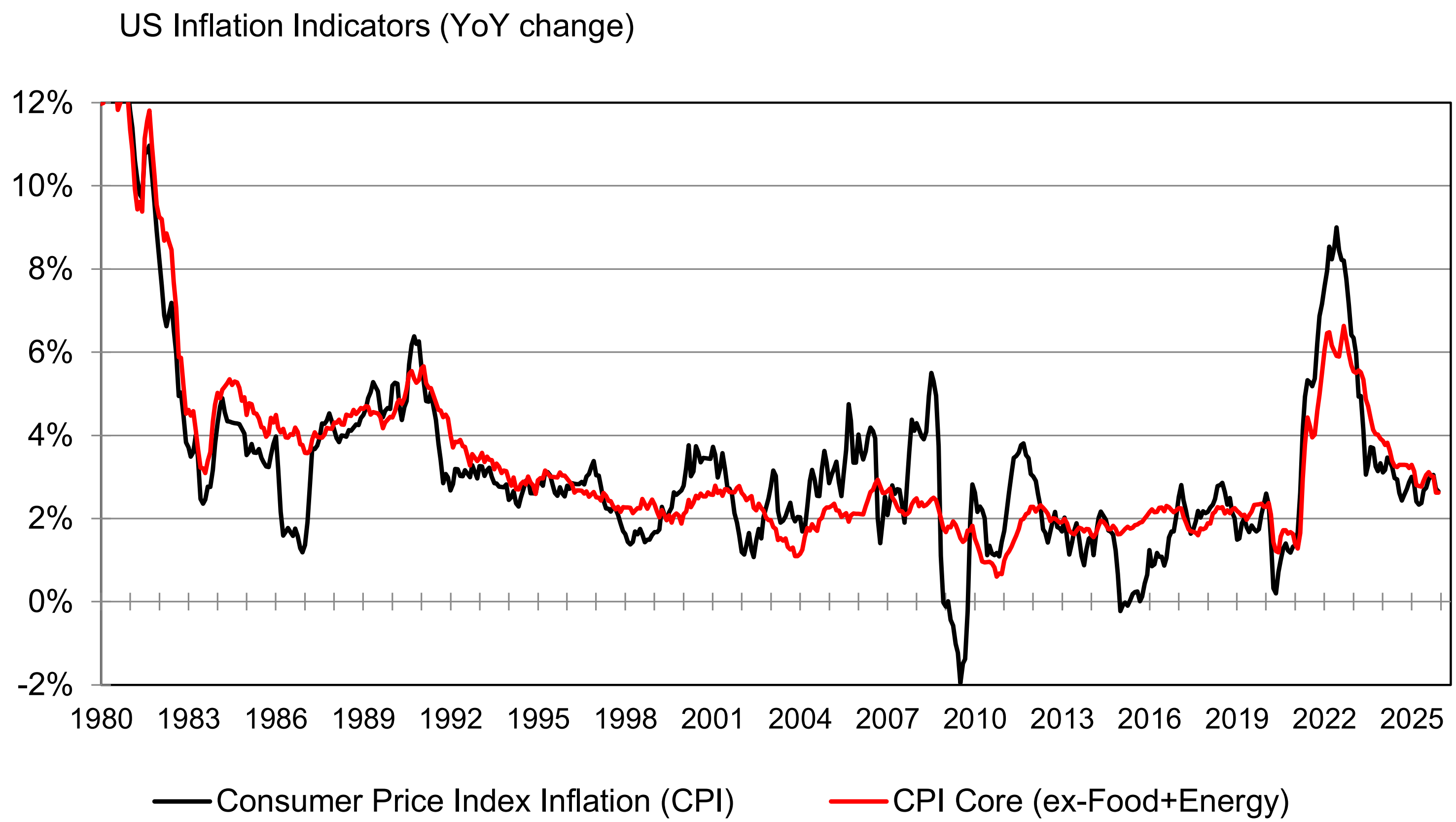


Source: U.S. Government Data

G = Gov't Spending
C = Consumption
I = Investment
T = Net Exports (Trade)

US CPI INFLATION WILL SETTLE HIGHER ~3%

- Inflation finally rolled over, but sticky inflationary forces still remain (housing, labor)
- Higher *inflation expectations* persist, supported by labor, housing, transportation costs
- Inflation now settled near longer run equilibrium, higher inflation expectations
- *Disinflation* receding—innovation, comparative advantage, creative destruction

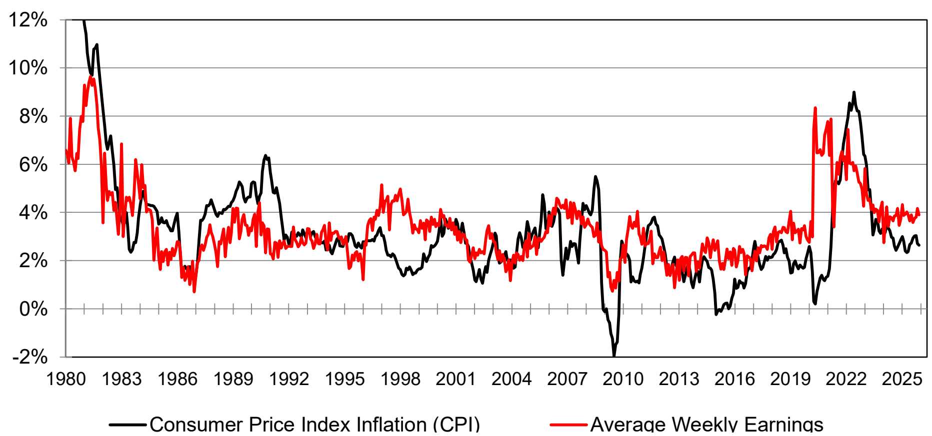


Source: U.S. Government Data

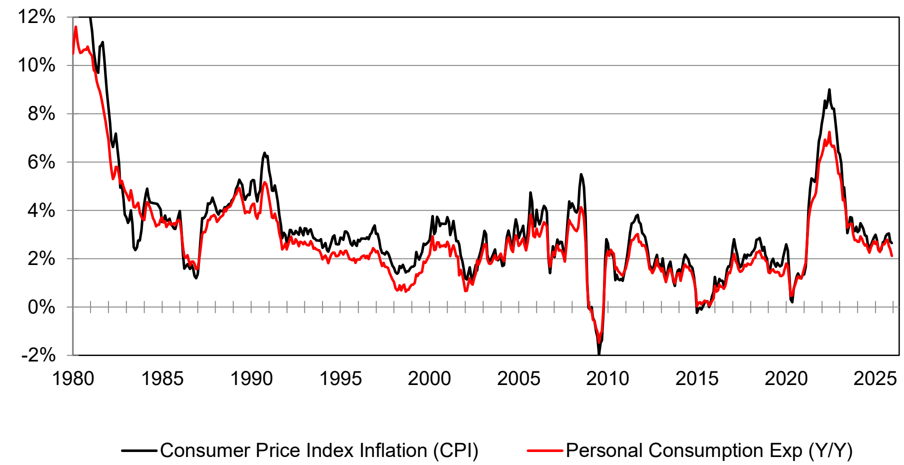
BROAD-BASED INFLATION SPREAD GLOBALLY

Broad-based US Inflation accelerated from Jan. 2021, and spread globally
Wasn't transitory, impacting energy, basic resources, commodities, and labor
Rising inflation expectations embedded labor, housing, transportation costs

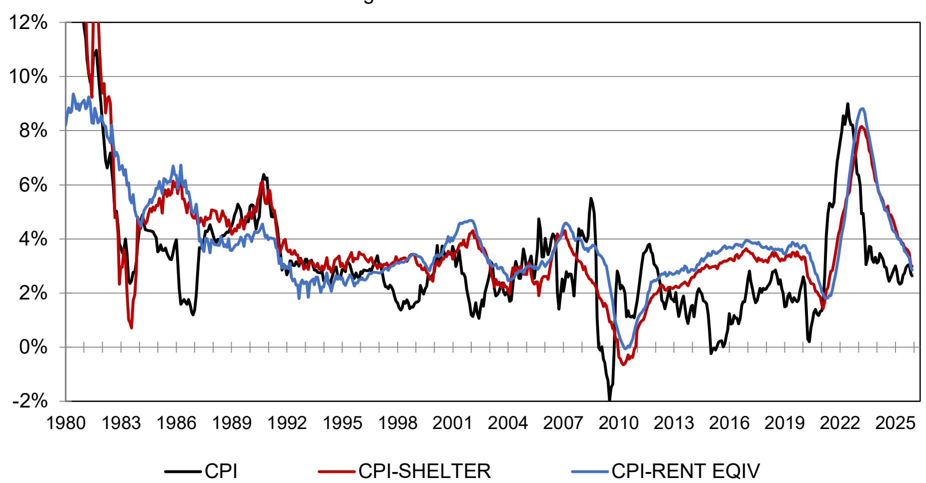
US Wages (YoY change)



PCE Inflation vs. CPI Inflation



US Inflation Indicators: Housing CPI



__Global Inflation Tracking (CPI)__

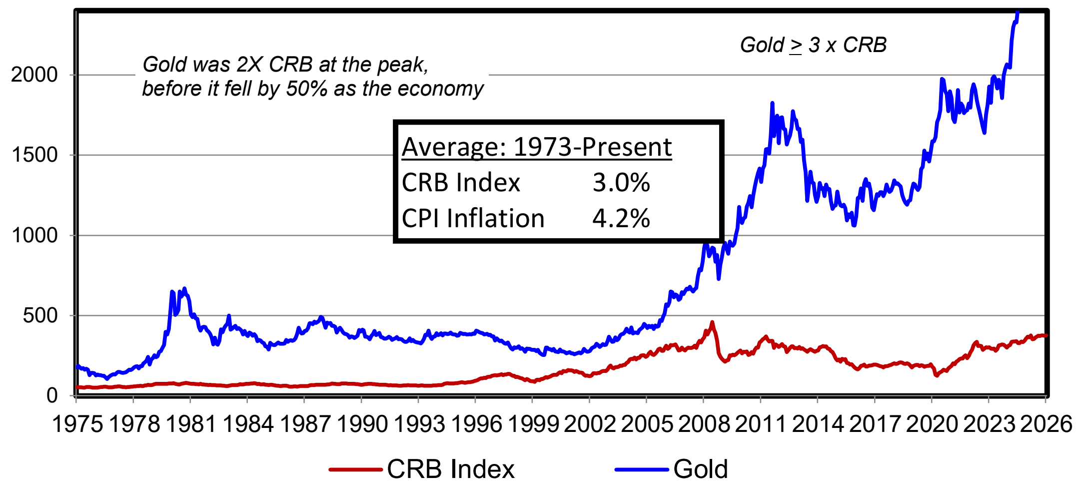
United States	2.6%	
Europe (EMU)	2.0%	
United Kingdom	4.0%	
Japan	4.6%	←**WOW!**

Nations need to keep rates higher, should not be cutting yet (ECB)

BASIC RESOURCE INTENSITY DECLINING

- Yet, supply and distribution were restricted, resulted in higher prices, now falling
- Input costs can't exceed output prices, thus commodity returns can't exceed inflation. Commodity return = Inflation – Holding costs, so given volatility are not a prudent strategic allocation. Exposure adds to portfolio risk more than is diversified.
- Gold too volatile to be *store of value* and will likely lag inflation as interest rates rise.
- *Cash* is a better store of value and better market hedge than Commodities *or Crypto*.

Commodity Prices



Correlation	Commodity	Gold
S&P 500	18%	1%
UST 10yr	-24%	3%
Cash	-9%	-3%
Inflation	25%	21%

Note: Monthly returns for 1s3-2017 CRB Index

Commodity Returns:
1871 – 2007: Goldman/The Economist/IMF: Real return = -0.4%
1900 – 2020: Credit Suisse 2.6% vs. 2.9% inflation Real return = -0.3%
1973 – 2009: 4.75% vs. 4.5% (inflation) Real return = 0.25%

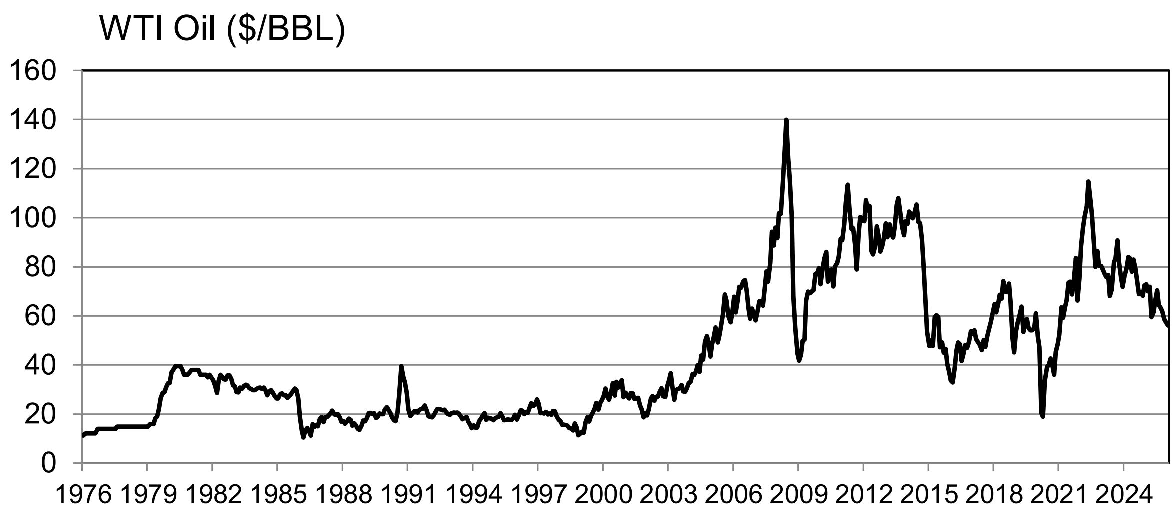
Source: Refinitiv DataStream & Strategic Frontier Management

WHAT IS THE EQUILIBRIUM OIL PRICE?

Natural demand destruction from *Conservation, Substitution, and Innovation* (C-S-I), and declining energy intensity

.

- CPI inflation impacted by changes in oil prices—Oil price decline driving lower inflation
- Efforts to limit exploration, production, and pipelines (transport) drove higher prices
- Energy Innovation: new engines, lighter vehicles, greater efficiency, and alternative fuel formulations can lower emissions faster than EV push, natural gas restrictions
- Growth in oil consumption limited despite abundance of natural gas/oil supply, limitation exporting natural gas--Draining SPR was a foolish short-sighted idea
  - Alternative power still expensive, unreliable, and growing more slowly than needed
  - Increasing US CAFE standards reduced overall demand, even with miles/yr growth

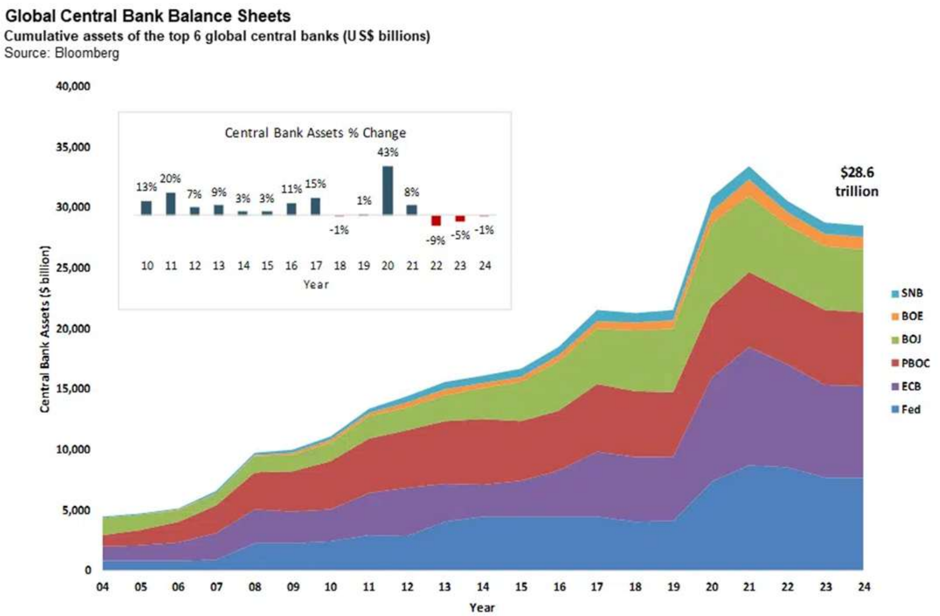


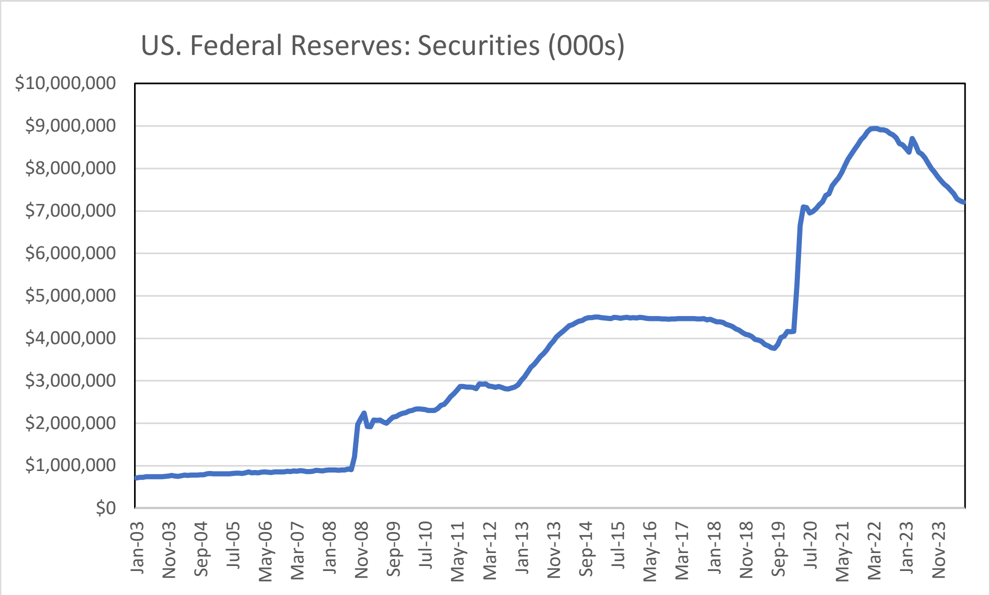
Normal equilibrium price for WTI was $55-60 thru 2020, but is likely ***$65-75*** with more regulation and reduced energy infrastructure investment

Source: EIA

THE PROBLEM: INFLATION & MONEY GROWTH

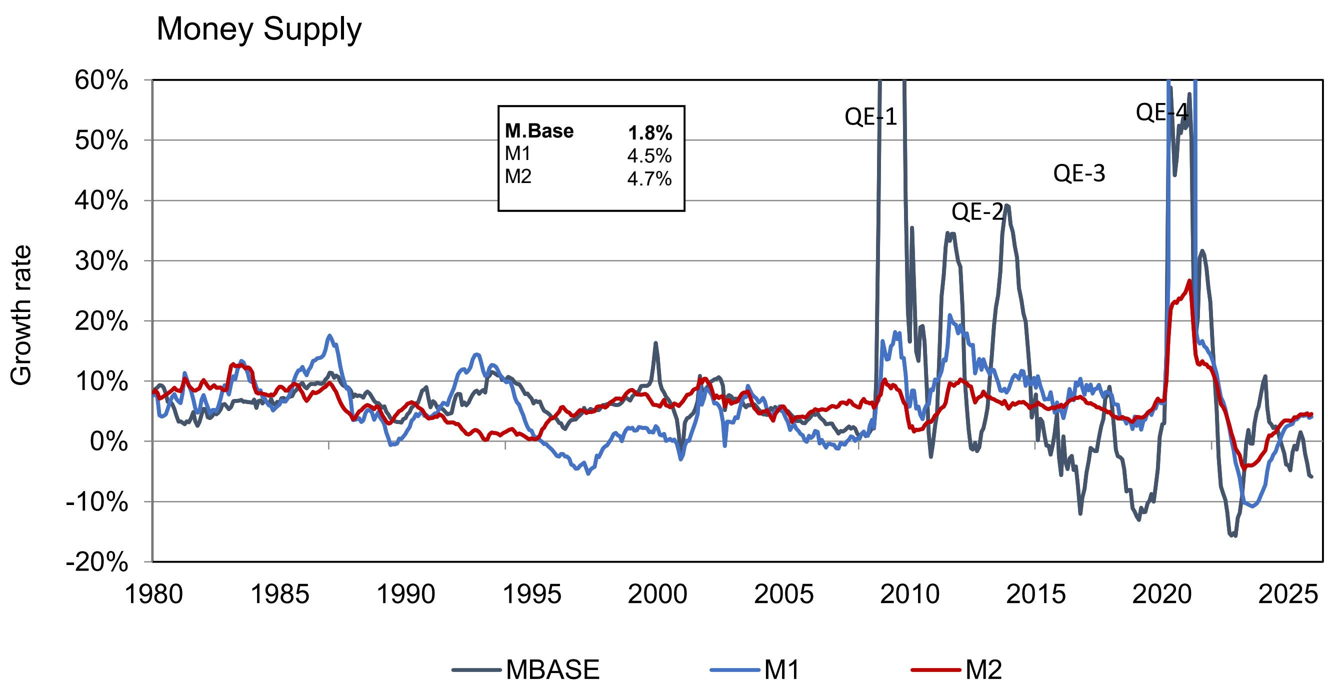
- Massive money growth and low rates for an extended period increased explicit ***moral hazard***, but monetary normalization is now very difficult (QT particularly)
- United States, Japan, European Central Bank, and China hold similar balances
- Federal Reserve needs to unwind QE holdings of about $5 trillion at a time of high fiscal deficit ~$2 trillion, with higher interest rates on $35 trillion (120% Debt/GDP)
- Unwinding central bank QE holdings will be a global drag on money growth for years, notwithstanding induced volatility observed in money supply.





MONEY SUPPLY VOLATILITY INCREASES EQUITY VOL, BUT HARDLY HELPS ECONOMY

- Excessive money growth and low rates for an extended period manipulated bond markets by flattening yield curves and increased *explicit moral hazard*
- Normalization of monetary policy needed to restore financial stability—terrible policies compromised ability to respond to the next financial crisis or economic downturn.
- Slow growth in money supply and rate volatility can wreck havoc—need to reverse QE (Fed/ECB/BoJ bond holdings) slows money growth—hangover effect.



<u>Assets GDP%</u>
BoJ 134%
ECB 67%
Fed 36%
PBOC 33%

ECB (9.6 T)
Fed (8.9 T)
PBOC (6.4 T)
BOJ (6.2 T)

Source: U.S. Federal Reserve

EXTINGUISHING EMERGENCY MONETARY POLICY RISKS HIGHER BOND VOLATILITY, DEBT CRISIS

- Federal Reserve pivot to reduce QE holdings, normalize interest rates--Unwinding central bank holdings (QE→ QT) results in low to negative money growth, as observed. US Debt + Fiscal Deficit + QT increase bond supply and issuance→steeper yield curve, macro volatility, Gov't liquidity issues
- Current policy target is only +1/2% above of our long-run equilibrium forecast, whereas the Taylor Rule suggests Fed is not far off its appropriate rule-based target, which is about ¼% higher.
- FOMC collectively is responsible for setting policy. Despite our concerns about Chair Powell's experience and abilities, but challenging the Fed's independence is wrong and inappropriate.
- SFM US Long-run CPI Inflation to average 3% (equivalent to PCE: 2.5%), so Long-run Fed Funds: 3½-4% based on historical relationships. *Can't justify >1% cut in U.S. rates without recession.*

Median Forecast									LongRun Forecast	
U.S. Fed %	**2021**	**2022**	**2023**	**2024**	**2025e**	**2026e**	**2027e**	**2028**	**Fed**	**SFM**
GDP	5.90	0.50	2.60	2.50	1.70	2.30	2.00	1.90	1.80	2.20
U.Rate	4.80	3.70	3.80	4.20	4.50	4.40	4.20	4.20	4.20	4.80
PCE	4.20	5.60	2.30	2.40	2.90	2.40	2.10	2.00	2.00	2.50
Core PCE	3.70	4.80	2.60	2.80	3.00	2.50	2.10	2.00	2.00	2.50
Implied CPI	3.50	6.10	2.80	2.90	3.40	2.90	2.60	2.50	2.50	3.00
Federal Funds Avg.	0.13	4.38	5.38	4.38	3.69	3.30	3.16	3.14	3.13	3.50

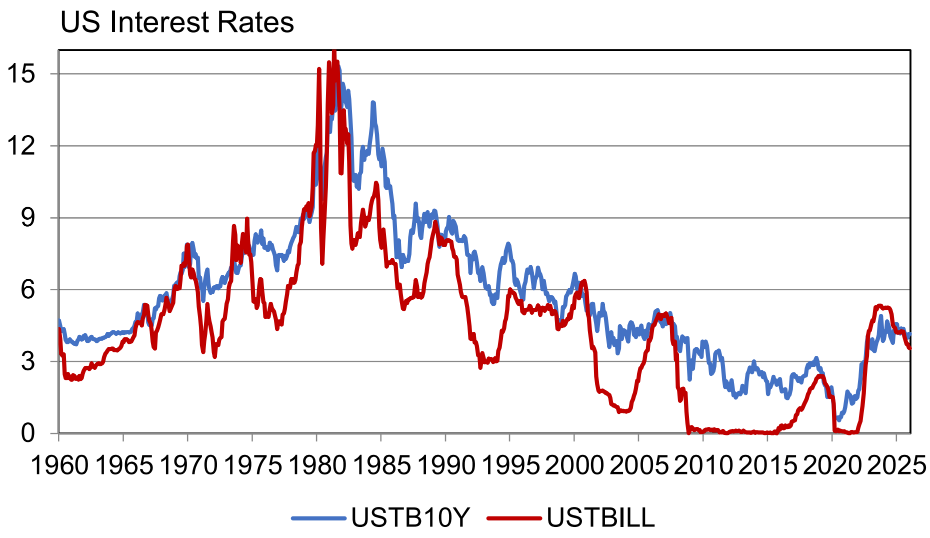
Interest Rates	2021	2022	2023	2024	2025e	2026e	2027e	2028	Longer Run
FOMC Avg.	0.13%	4.38%	5.38%	4.38%	3.69%	3.30%	3.16%	3.14%	3.13%
Forecast[1]	0.25%	4.50%	5.50%	4.50%	3.75%	3.50%	3.50%	3.50%	3.50%
Rate Change	0.00%	4.25%	1.00%	-1.00%	-0.75%	-0.25%	0.00%	0.00%	

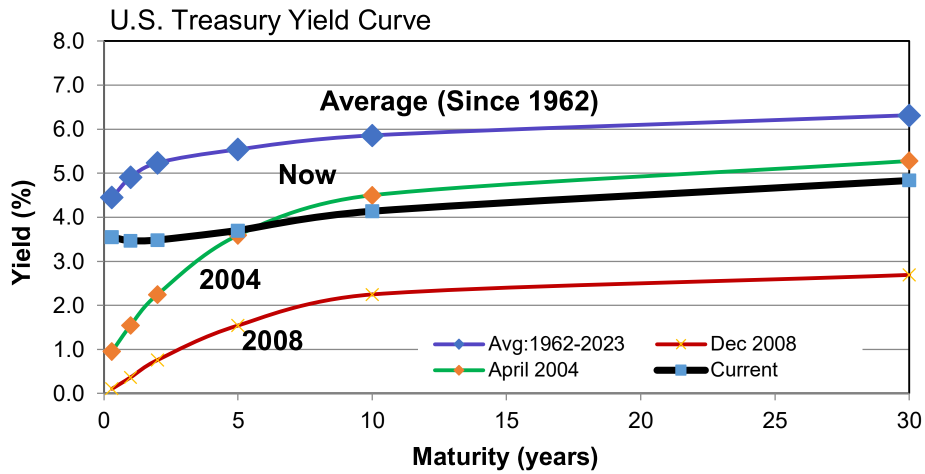
1. Top-end of indicated Fed Funds range

Source: U.S. Federal Reserve (December 10, 2025) and Strategic Frontier Management

INTEREST RATES MUST NORMALIZE

- Global interest rates manipulated with unsustainable monetary policy, inc. QE: Too Low for Too Long induced *Explicit Moral Hazard and* extinguished the inflation risk premium.
- Mislead investors, business, and consumers, increased systemic risk. Prolonged misguided policy has boosted inflation expectations—Thus, expect negative real bond returns for years.
- Extended Leverage and Government Debt have increased financial systemic risk, illiquidity, and extreme deficits that boost debt issuance with already extended bond overvaluation.
- Charts below highlight how far central bank monetary policy and interest rate expectations strayed from equilibrium. Flat or inverted yield curves are unsustainable, risk premiums must exist to keep financial system in check reflect risk aversion.

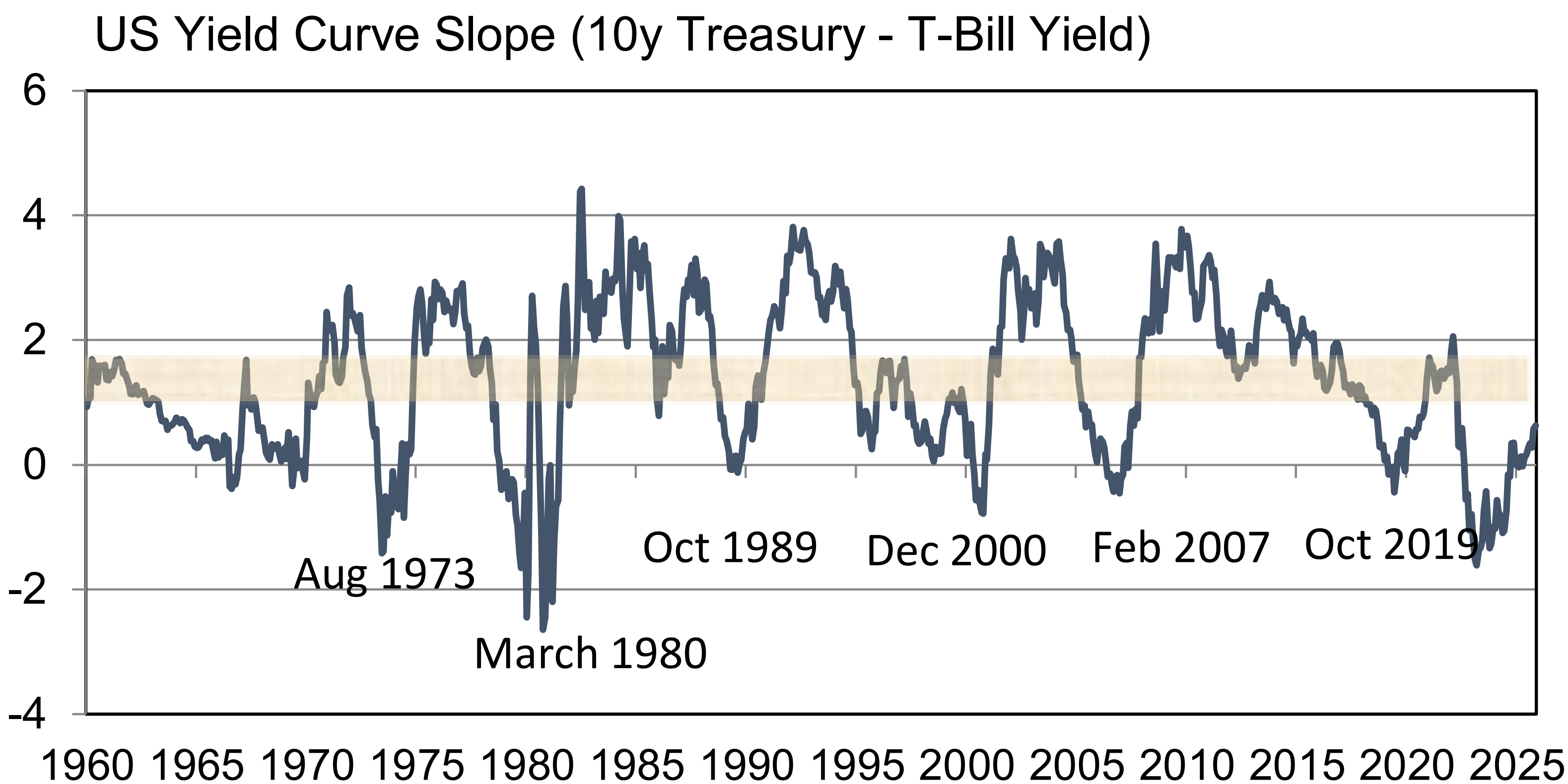




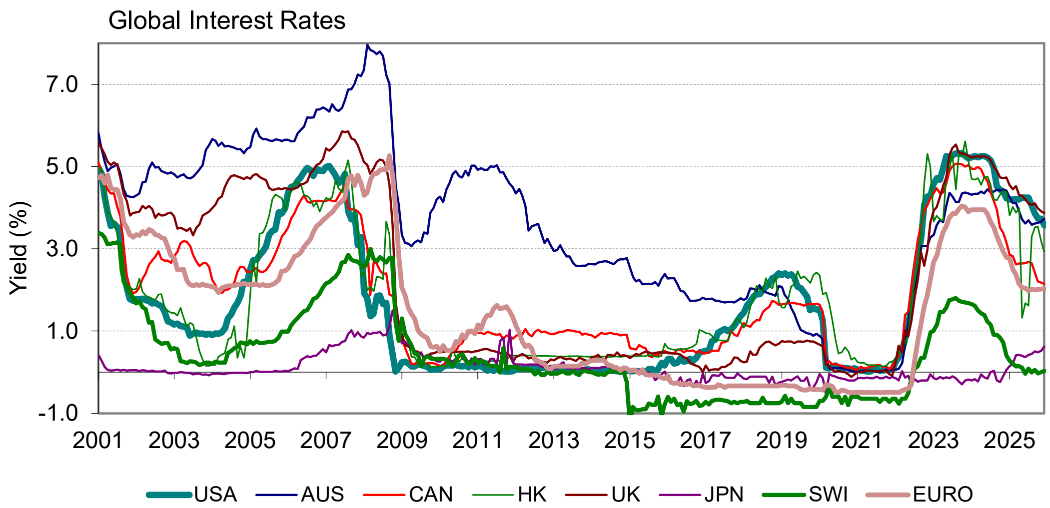
Source: Federal Reserve

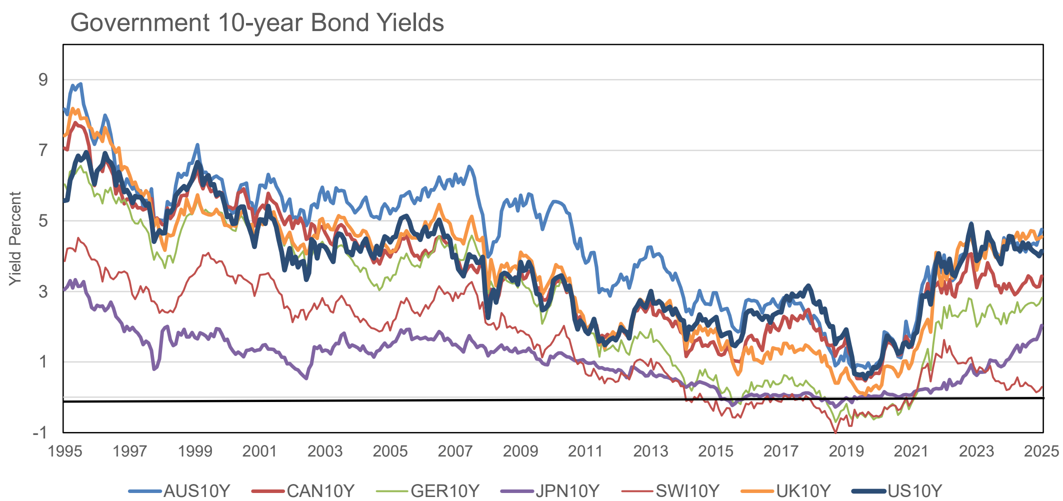
US YIELD CURVE INVERSION UNSUSTAINABLE

- Yield curve steepened despite declining interest rates.
- Risk seeking behavioral biases a result of *explicit moral hazard* for extended period
- Misguided monetary policies and stimulus have wrecked havoc.
- Nothing good happens with a sustained flat to inverted yield curve of less than 1.5%.



GLOBAL INTEREST RATES



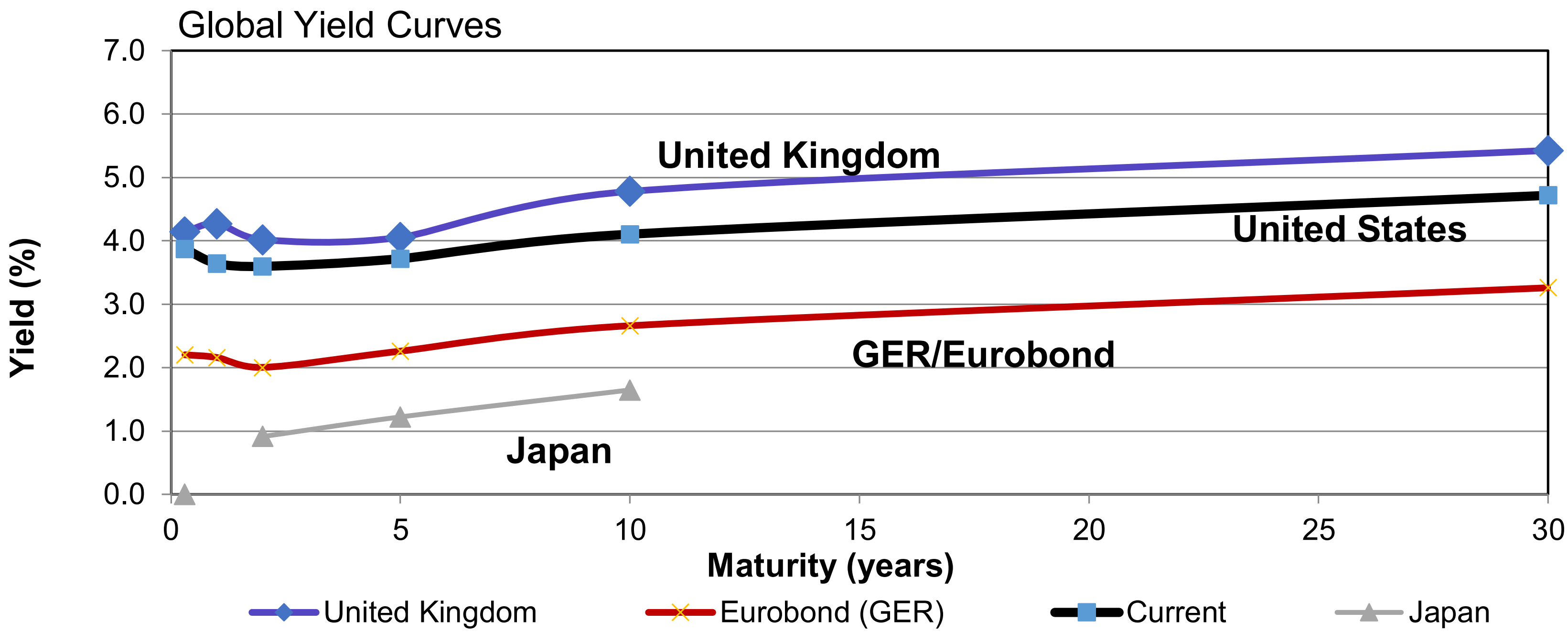


Source: Refinitiv DataStream & Strategic Frontier Management

- Global policy interest rates were too low for too long. Reversing QE→QT should drive steeper yield curves, as global bond volatility increases too,.
- New US interest rate regime anchored at higher level of 3.5% vs. 2.5% after two decades of Fed's experimental misguided policies causing financial imbalances and excessive holdings.
- Central Banks -- including U.S Fed, U.K. BoE, Bank of Canada, ECB, and Bank of Japan -- have much work to do reducing bond holdings to unwind QE, despite focus on cutting rates.
- The only interest rate the Fed can manage is the Fed Funds rate within its dual mandate (full employment, stable prices)—it does not target inflation as other central banks do.

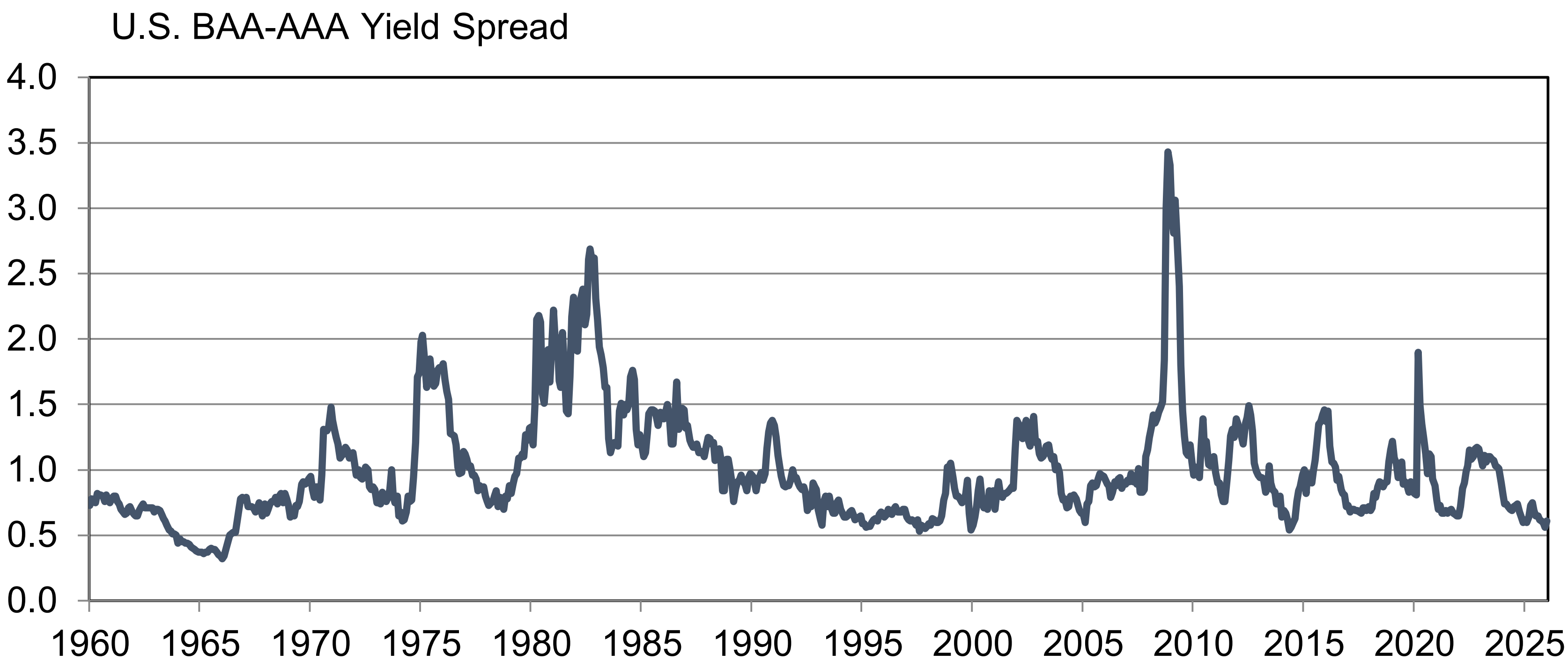
GLOBAL YIELD CURVES

Flat to inverted yield curves are still apparent in most developed markets, except Japan.



CREDIT SPREAD: INVESTMENT GRADE

Investor demand for yield can drive credit spreads to lower levels--investors are still chasing yield, and credit spreads are tight again.

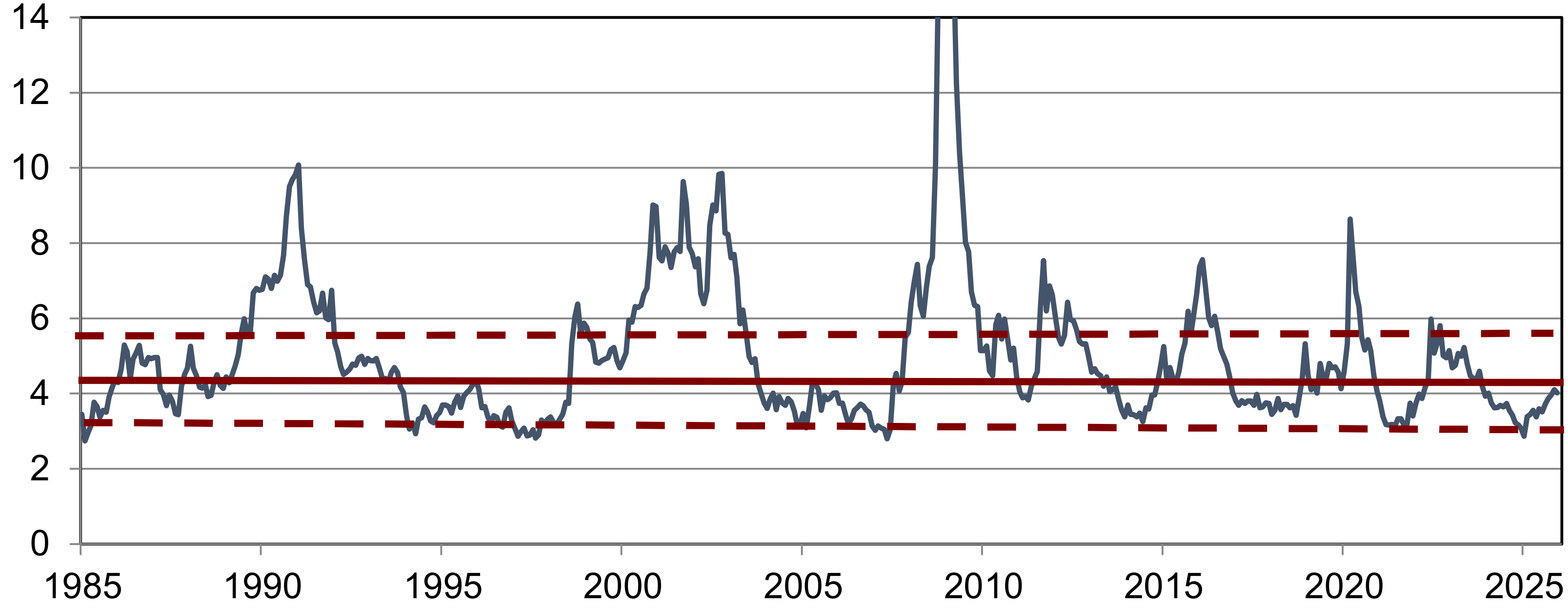


Source: Moody's

CREDIT SPREAD: HIGH YIELD

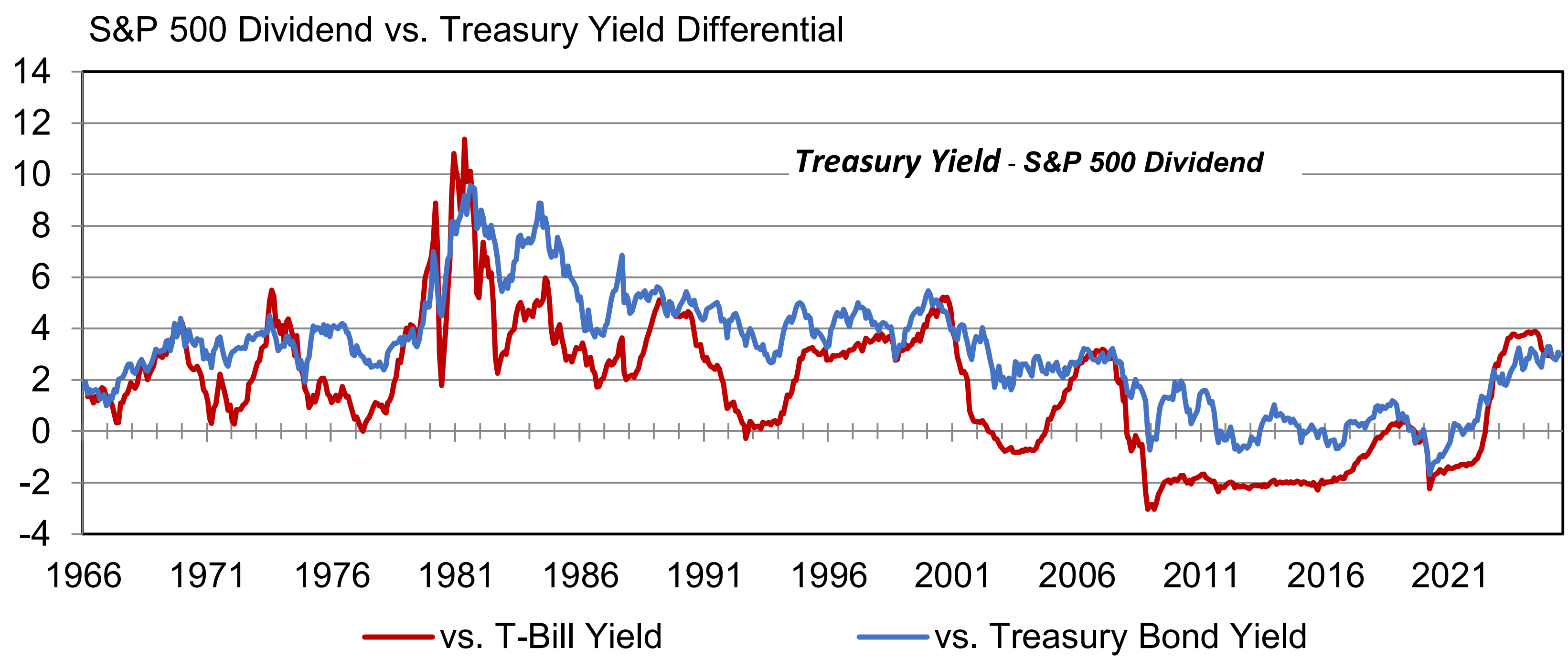
- Credit spreads are too tight. Stagflation risk receding, but debt burdens are soaring (government and corporate), and bankruptcies increasing.
- Such low credit spreads are inconsistent with economic conditions

High Yield Credit Spread vs. US 10yr Treasuries



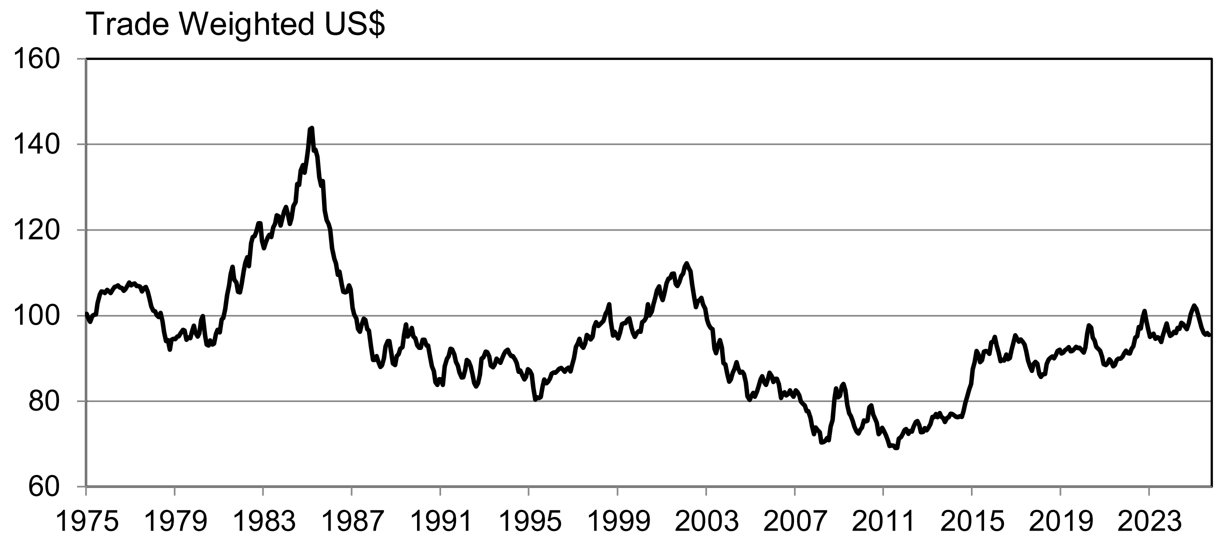
TREASURY BILLS EXCEED VS DIVIDEND YIELD

Generally, Treasury Bill, Note, and Bond yields should exceed S&P 500 dividend yields by 2-3%, but since the financial crisis such yield spreads have been exceptionally low or even negative.



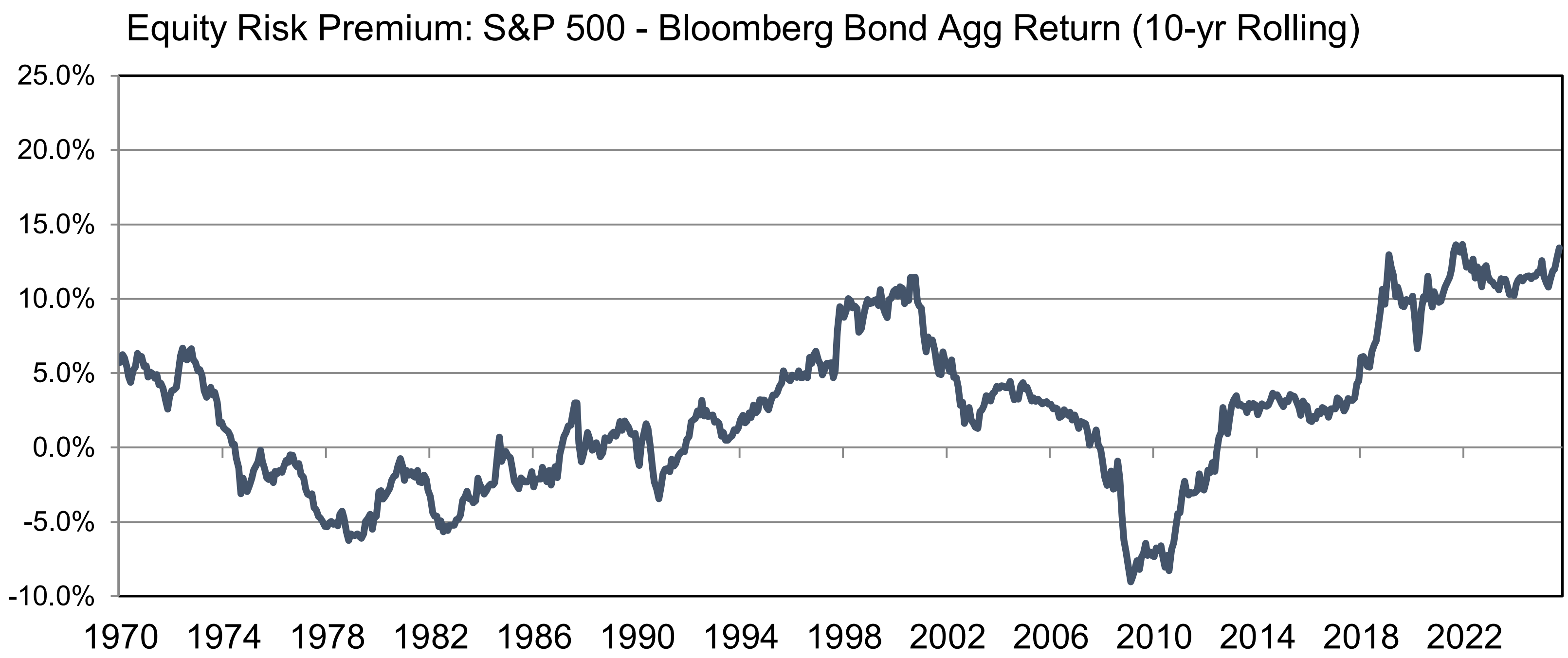
US DOLLAR ADVANTAGE DIMINISHING

- US$ remains world's reserve currency—which has trended higher since 2012 despite concerns, thereby limiting inflation by lowering import and basic material costs
- US Treasuries have least currency volatility and best liquidity for quasi-linked currencies, but still remarkable how resilient the U.S. dollar has been for over a decade
- Upward trending US dollar might level out, if not for rebalancing global world trade. Fairer trade conditions (lower trade barriers, tariffs) will reduce America's trade and budget deficits, as well as increase potential growth, further supporting the U.S. dollar.



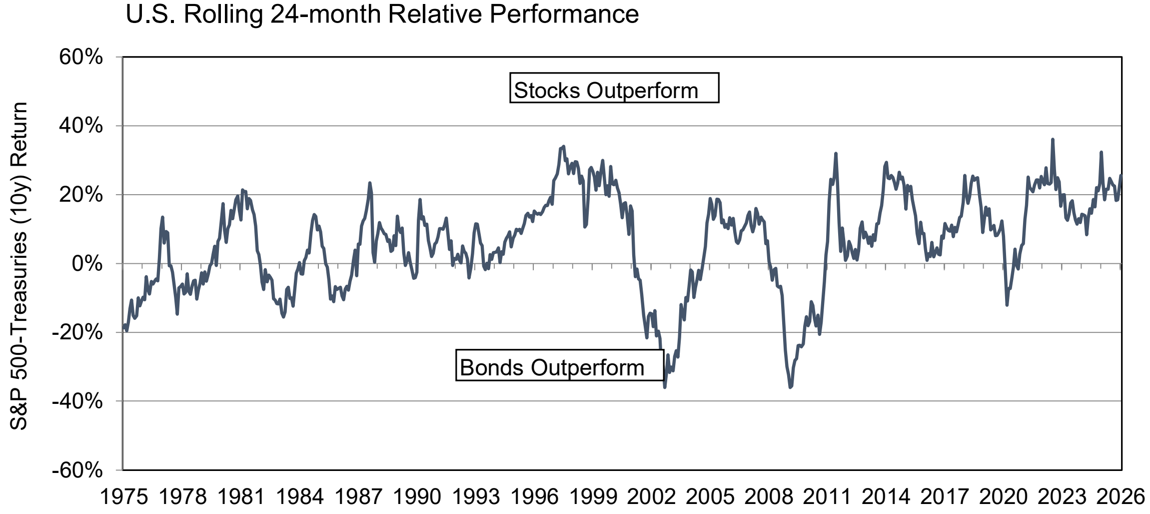
ROLLING 10-YR STOCK VS. BOND RETURN

- Outperformance of equities reinforces equity sentiment, similarly so for large-cap and growth equity tilts despite relative valuation extremes
- US Treasuries overvaluation can trigger an Asset Allocation rotation. But what happens when both equities and bonds decline?



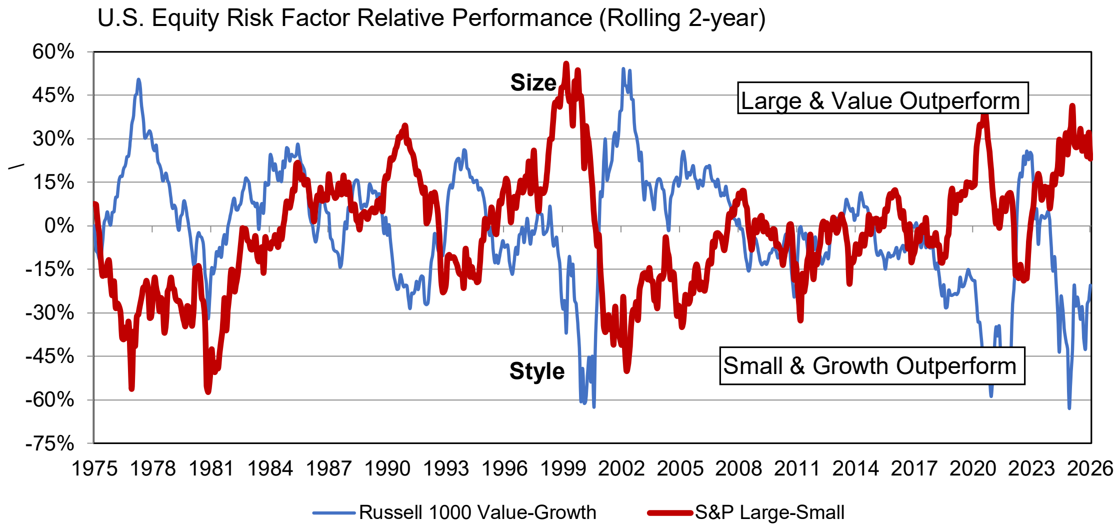
Source: Strategic Frontier Management, Standard & Poor's, Bloomberg-Barclays Indices

RELATIVE ROLLING 2-YR PERFORMANCE



U.S. Stocks vs. Bonds

Returns diverge and risk varies, but Stocks outperform Bonds over long term horizons.



U.S. Equity Styles

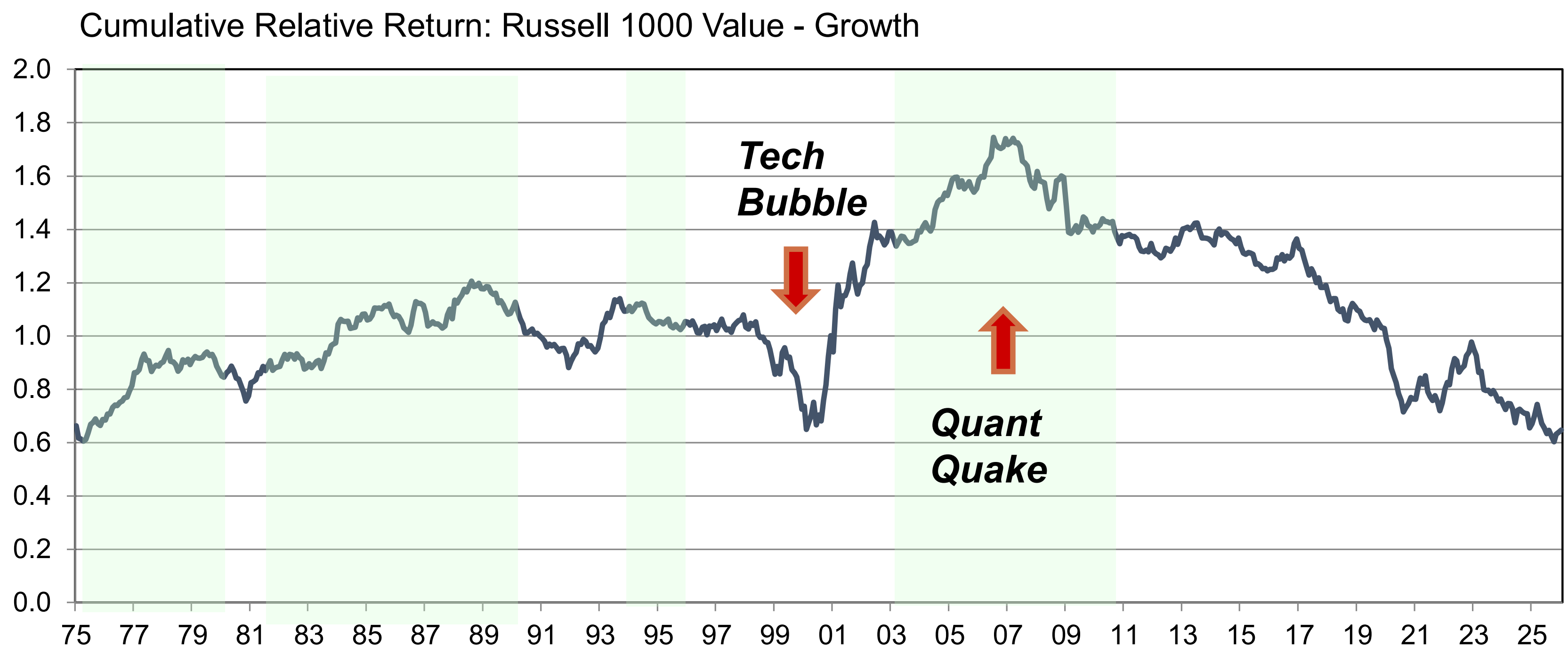
Equity style investing can benefit from differential returns, and often cycles are not synchronized—small-cap is expected and has begun to rebound

Value and Small-cap tilts have outperformed over the really long-run

Source: Refinitiv DataStream & Strategic Frontier Management

VALUE INVESTING MIA SINCE 2007-QUANT QUAKE

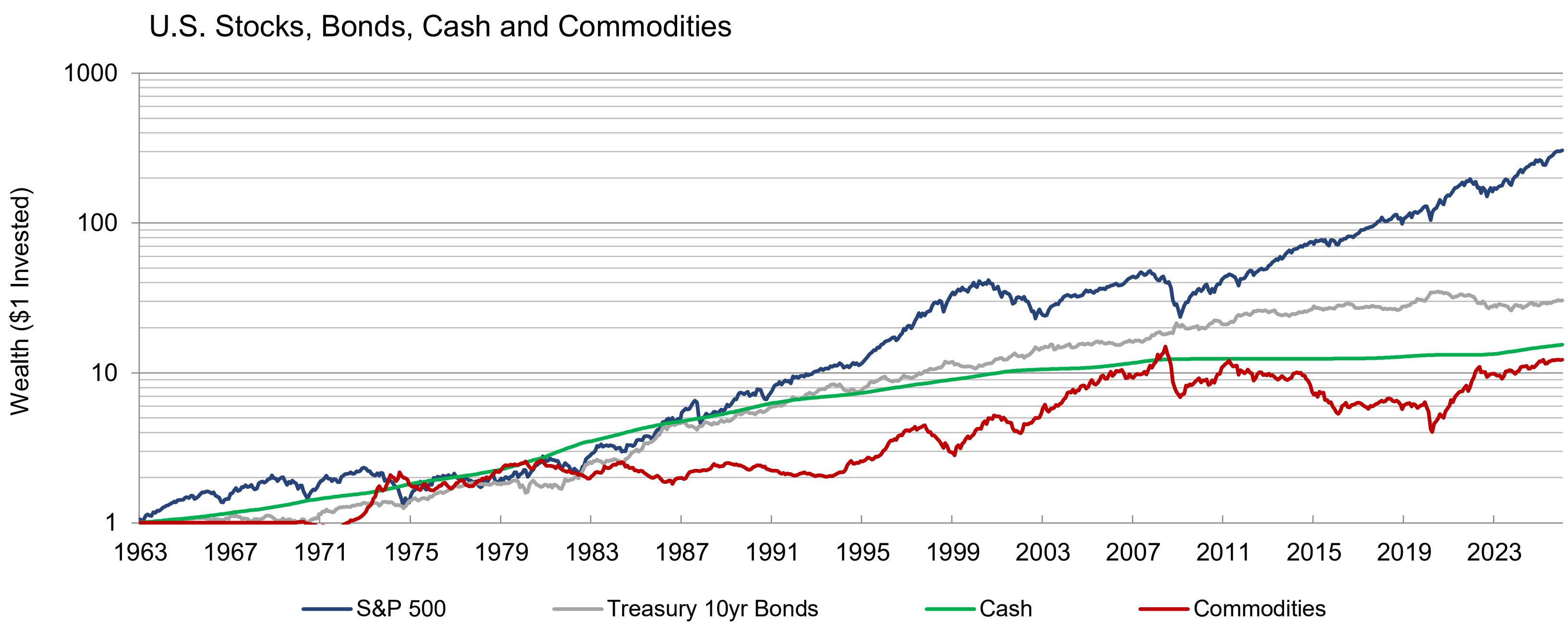
- Fundamental Value Investor may be an Extinct or Endangered Species
- Historical advantage of value tilt absent since Financial Crisis, but style and size risk premiums must rebound for fundamental ***active management*** to be revived.
- Long-term risk premiums such as Value-Growth and Small Size (large vs. small) are cyclical but should persist, and also can be exploited tactically.



Source: Refinitiv DataStream & Strategic Frontier Management

LONG-TERM ASSET CLASS RETURNS

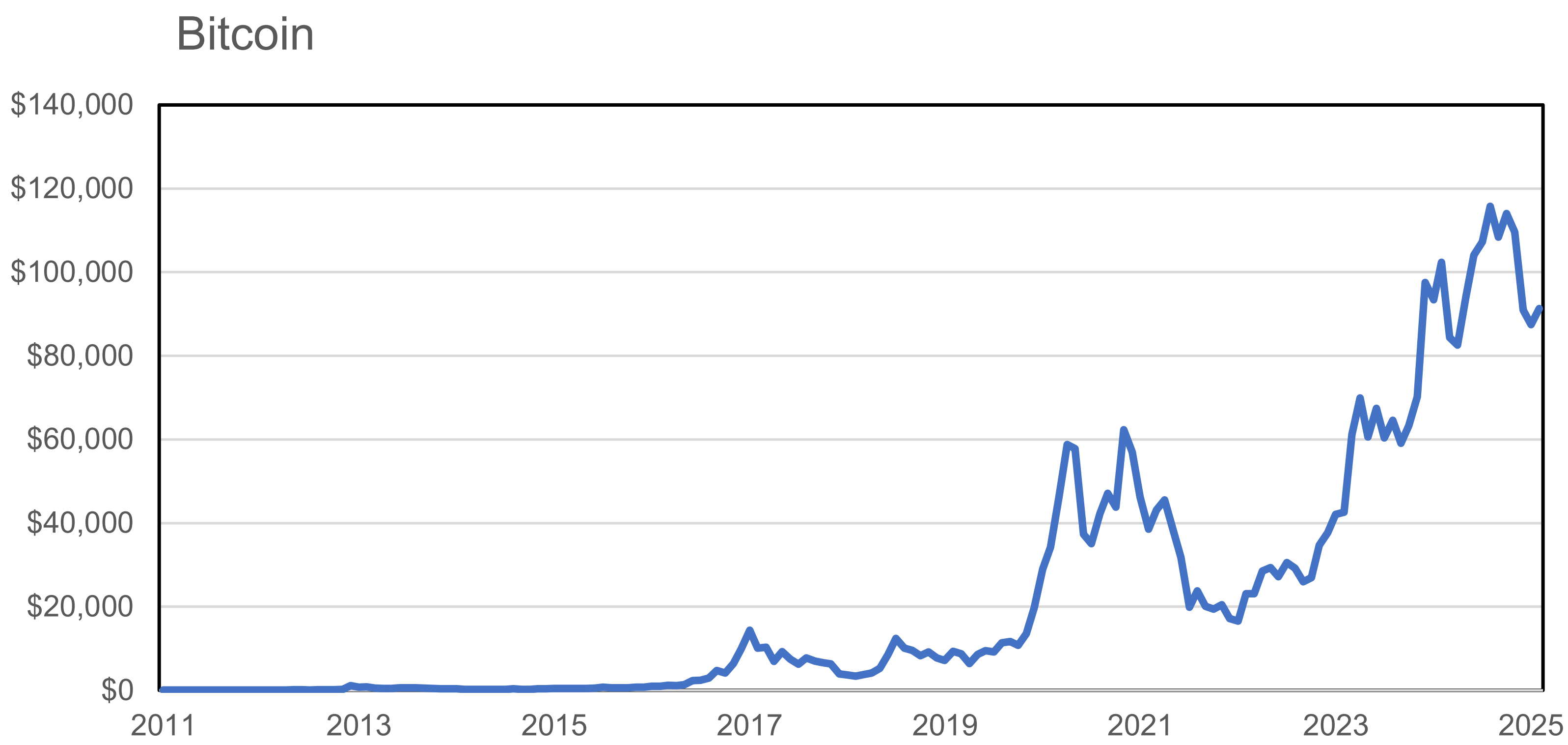
- Global Equity is the best way to stay ahead of inflation, particularly as overvalued bonds struggle with normalization (raising rates, reducing bond holdings)
- Commodities lag both cash and inflation by definition over longer horizons.
- Cryptocurrencies are speculative commodities, and too volatile to be a store of value, without benefit of yield (interest), intrinsic value, or inflation support.
- Cash should be a better store of value than volatile Gold or Commodities (inc. Crypto) with better risk-adjusted return (high fees) and liquidity than alternative assets.



Source: Refinitiv DataStream and Strategic Frontier Management

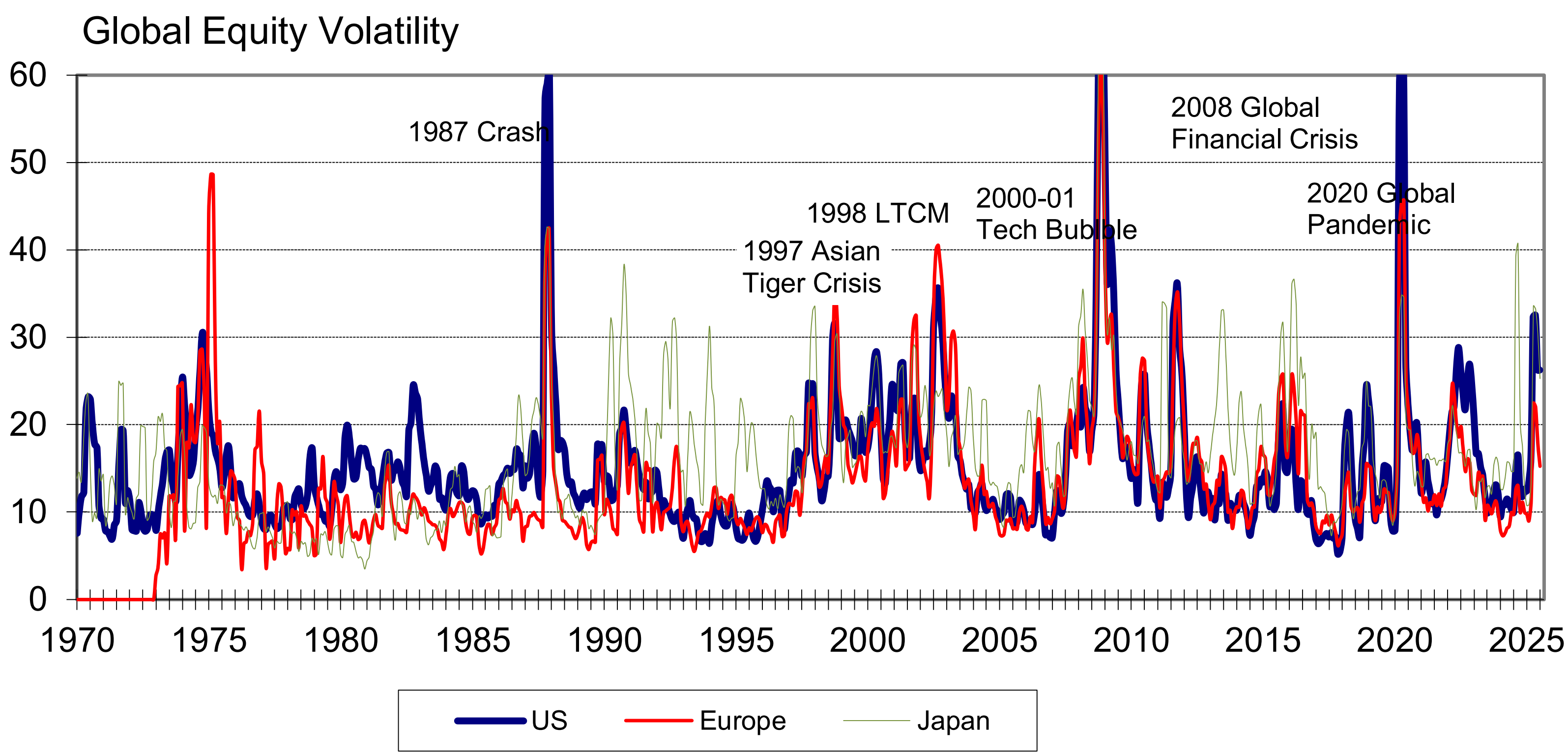
BITCOIN – NEVER A STORE OF VALUE

- Gold too volatile to be *store of value* and should lag inflation as interest rates rise.
- *Cash* is a better store of value and better market hedge than Commodities *or Cryptocurrencies*
- *Gold, commodities, and cyrptocurrencies* should lag Cash returns when interest rates (hurdle rate) are high, but more compelling when interest rates are low.



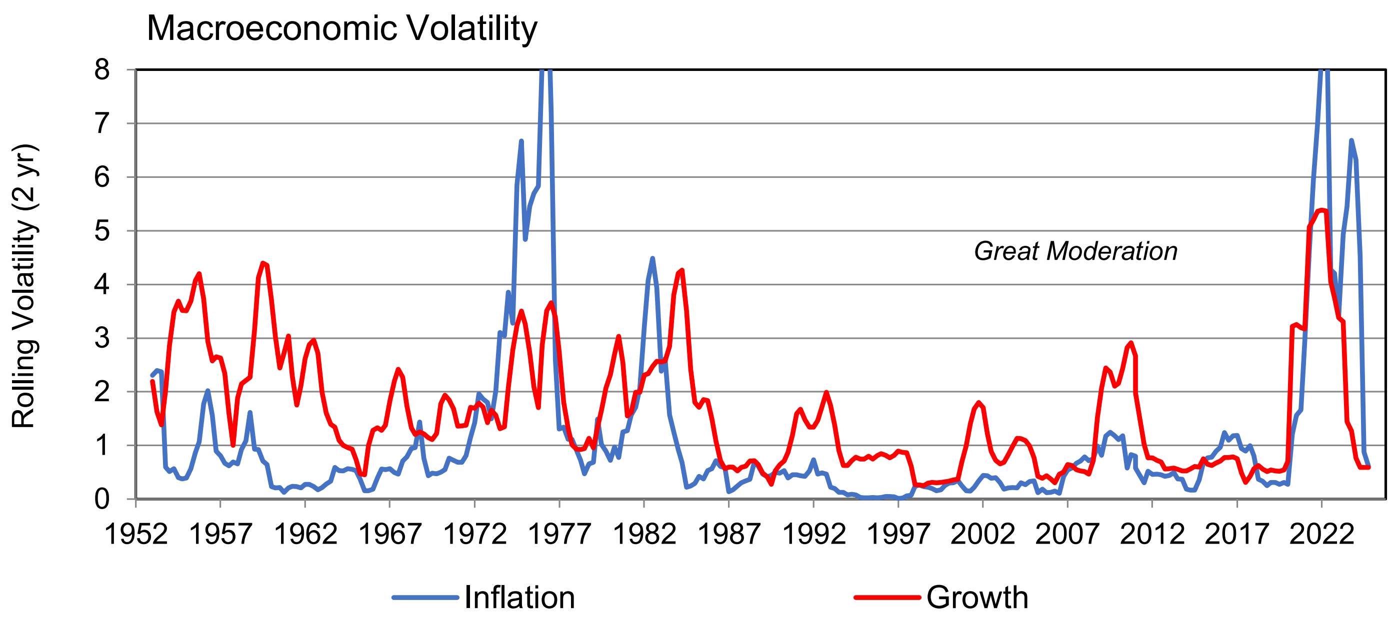
GLOBAL EQUITY MARKET VOLATILITY

- Risks: Reciprocal Terriffs. Persistent elevated inflation, higher for longer rates, declining productivity and profit margins →limited or no earnings growth and higher capital costs
- Risk of global debt crisis—interest burdens, greater defaults, leverage, margin calls
- Higher volatility in Equities, Bonds, Commodities & Currencies
- Market volatility too low again, should normalize: Expect US Equity: 14-17, not 10-12.



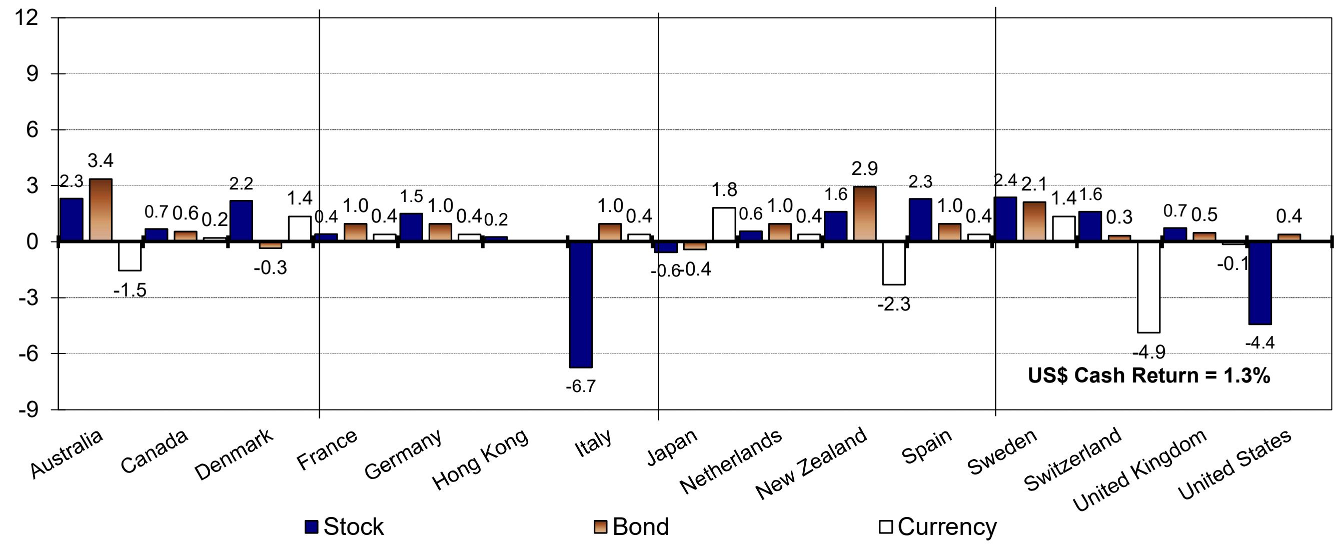
Source: Strategic Frontier Management

NOT OBSERVED MACRO VOLATILITY SINCE 1970s



GLOBAL TAA FORECASTS FAVOR EQUITIES, LOW RETURNS EXPECTED OVERALL

Quarterly Local Tactical Return Forecasts (%)



Global Tactical Asset Allocation Quarterly Forecasts(%)

			Local Markets		**In (US$)**		US$
MSCI	WrldGvt	Apr 2024	Equity	Bond	**Equity**	**Bond**	Currency
100%	100%	World	-3.0	0.5	**-3.0**	**0.9**	0.1
14%	34%	Europe	0.6	0.9	**0.3**	**1.5**	-0.3
10%	19%	Pacific Basin	0.0	-0.1	**1.1**	**1.4**	1.2
28%	55%	Non-US World	0.4	0.5	**0.7**	**1.2**	0.3
72%	45%	US	-4.4	0.4	**-4.4**	**0.4**	
		Cash		0.9		**0.9**	

	Lg-Sm	Va-Gr	High Yield - 10yT
US Style	0.2%	4.1%	-0.2%
	Large -	*Value*	*10yTs*

Source: Strategic Frontier Management - Global TAA Models (Jan 2006)

ASSET CLASSES: LONG-TERM (10-YEAR) RETURN

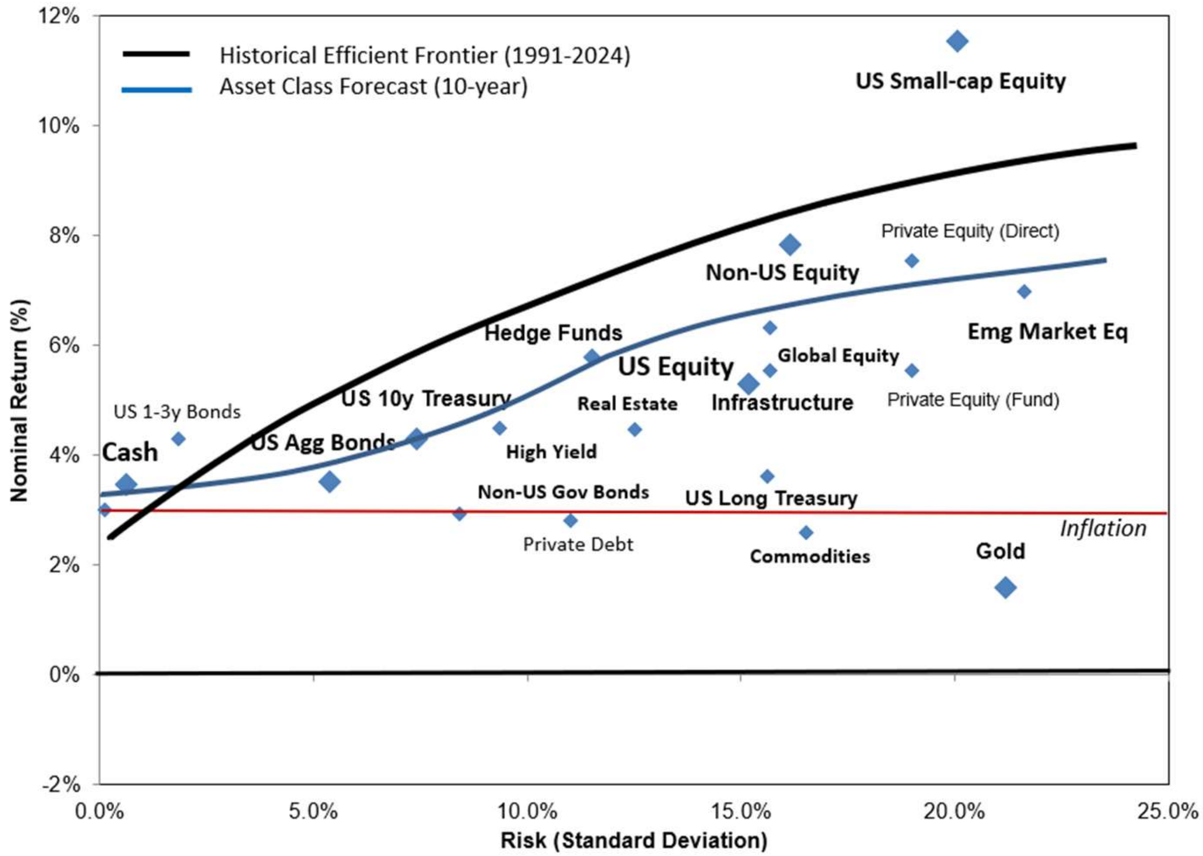
		10-year Returns		30-Year Returns		1900-2024	10-year Forecast		Sharpe	
Ref Index	Asset Class	Return	Risk	Return	Risk	LT Return	E[Return][1]	Risk	Ratio	2024
S&P 500	U.S. Stocks (S&P 500)	13.1%	13.5%	10.9%	15.2%	10.1%	5.3%	15.2%	0.12	25.0%
Russell 2K	U.S. Small-cap	7.8%	18.9%	9.0%	20.1%	8.1%	11.5%	20.1%	0.40	11.5%
MSCI Wx	World (ex-US)	5.8%	15.0%	5.7%	16.2%	3.9%	7.8%	16.2%	0.27	5.3%
MSCI EEM	Emg. Market Equity	4.0%	17.7%	5.3%	21.6%		7.0%	21.6%	0.16	8.1%
US10Y Treasuries	U.S. 10Yr Treasury	0.6%	7.5%	4.5%	7.4%	4.5%	4.3%	7.4%	0.11	-1.5%
US BBG Agg	US BBG Agg Bond	1.4%	5.0%	4.6%	4.1%	-.-	3.5%	5.4%	-0.18	1.3%
US BBG G/C 1-5	US BBG Gov/Cr 1-3y	1.5%	2.2%	3.4%	1.8%	-.-	4.3%	1.8%	0.45	3.8%
BoA/ML HY	US High Yield (ML/BoA)	5.1%	7.6%	7.0%	8.5%	-.-	4.5%	9.3%	0.11	8.2%
JPM Non-US Bond	JPM Non-US Bond	-1.3%	8.4%	3.0%	8.4%	-.-	2.9%	8.4%	-0.06	-6.7%
CRB	Commodities (CRB)	4.5%	17.0%	5.2%	16.5%	2.9%	2.6%	16.5%	-0.05	18.4%
Gold	Gold (US$)	8.3%	13.6%	6.6%	15.4%	4.0%	1.6%	21.2%	-0.09	27.1%
3m Tbills%	Cash (T-Bills)	1.8%	0.5%	2.4%	0.6%	3.3%	3.5%	0.6%	0.00	5.0%
CPI	US Inflation (CPI)	3.0%	1.1%	2.5%	1.0%	3.0%	3.0%	1.0%	-0.48	2.9%
MSCI World	Global Equity	10.5%	18.1%	8.5%	15.2%	7.0%	6.6%	15.7%	0.20	19.2%
Global 60/35/5	Global Multi-Asset	6.1%	12.6%	6.8%	13.7%	4.7%	6.1%	13.7%	0.20	9.7%
MSCI World Infra	Infrastructure	5.9%	16.1%	10.0%	15.7%		5.5%	15.7%	0.13	15.1%
Private Equity	Private Equity[4]	8.5%	18.9%	8.0%	20.1%		6.4%	19.0%	0.16	
	Small-cap Equity	-5.3%		-1.9%		-.-	6.2%			-13.5%
	Stock-Bond	12.5%		6.5%		5.6%	1.0%			26.6%
	Stock-Cash	11.3%		8.5%		6.8%	1.8%			20.0%
	Bond-Cash	-1.2%		2.1%		1.2%	0.8%			-6.6%

(1) Strategic Frontier Management, Morningstar SBBI (1926-1950) & Credit Suisse Global Investment Returns Yearbook
(2) Periods greater than 1-year are annualized.

Source: Strategic Frontier Management, October 1, 2025

STRATEGIC 10-YEAR EXPECTED RETURNS

- Continued disappointing Gov't Bond returns near term with normalizing interest rates, reversing QE
- Cash is preferred low risk store of value, not Crypto-commodities or Gold
- Emerging Market, Gold forecasts suggest inefficient allocations on risk-adjusted basis
- More normal *strategic frontier* after a general Return to Natural Order—favor Small-cap Equity, which is driving our outlook for VC & Private Equity despite high fees and crowded sand box



Forward looking information and forecasts contained herein are the opinion of Strategic Frontier Management. Future market returns may differ significantly from our expectations. As of October 2025

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