



THE AUDACIOUS RESET

INVESTMENT STRATEGY AND CAPITAL MARKET OUTLOOK

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ECONOMIC & MARKET FORECASTS

- **New Dawn:** US potential economic growth forecast increased from 1.8% to 2.5%
- Reversing misguided policies, improving competitiveness & productivity, Fiscal & Trade Deficits will narrow—no inflation due to tariffs (yet), but energy (oil) prices -20% helping
- **New Inflation-Yield Paradigm:** *higher-for-longer* rates with normal inflation of 3% CPI, reverse QE → normalized/steeper yield curves—volatile, lagging bond returns
- Spending cuts eliminating waste, fraud, corruption, and misappropriation have little effect on overall economy, but does slow Gov't share of GDP (just as excess boosted 2023-24)
- **Return to Natural Order:** Normalizing valuations (S&P 500: 18X earnings), steeper yield curve, higher volatility—favor value & small-cap tilts, non-US equity, but avoid Emerging Market Equities and Longer Maturity Bonds

<u>Economic Forecasts</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025e</u>	<u>2026e</u>	<u>2027e</u>
GDP Growth (Y/Y Real)	6.1	1.4	3.3	2.6	2.8	3.0	3.0
S&P500 Op Earnings Gr	49.0	4.8	1.5	9.7	7.6	9.6	10.5
CPI Inflation (Y/Y)	7.2	6.4	3.3	2.9	3.0	3.0	3.0
Unemployment	3.9	3.5	3.7	4.3	4.5	4.6	4.8
Fiscal Deficit (vs.GDP%)	-7.9	-5.3	-6.7	-7.1	-6.0	-4.5	-3.5
Fed Funds Target ¹	0.25	4.50	5.50	4.50	4.00	3.50	3.50
10y Treasury Notes	1.50	3.83	3.87	4.57	4.50	4.80	5.00
S&P 500 Target	4766	3840	4770	5882	6500	6900	7300
S&P 500 Total Return %	28.7	-18.1	26.3	25.0	11.8	7.4	7.1

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

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

EQUITY & BONDS—A NEW DAWN IN AMERICA

Asset Valuation

- *Curb your Enthusiasm* for U.S. Large Equities and Global Bonds.
- US Stock valuations remain stretched: higher prices outpacing earnings growth. Steeper global yield curves needed (term risk) vs. inflation.
- Favor US Value, Small-cap, and Non-US (avoid EEM, inc. China, Russia)
- Favor short-term fixed income due to flat/inverted yield curve

Economic Conditions

- Audacity of *America First* policies bolster global competitiveness, lower energy and material costs, reduce trade and fiscal deficits, as well as to incentivized productivity, potential growth, jobs, and FDI (investment).
- U.S. Gov't spending cuts root out waste, fraud, and misappropriation.
- Reverse misguided fiscal, regulatory, energy, trade, stimulus policies
- Concern about tariff-led inflation and policy-induced recession overblown
- Trade reforms target unfair trade barriers (tariffs, restrictions), net exports
- Reciprocal tariffs absorbed in foreign manufacturers' margin, as domestic market share increases, thus U.S. consumers see little inflationary effect

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 reforms restore normal relationships, fiscal prudence, trade balance, and energy reforms.
- Increased defense spending could double with NATO partners
- Private markets not insulated from strained public market valuations

ECONOMIC THEMES & CYCLICAL DRIVERS

<i>Drivers of Cyclical Economic Growth Dynamics</i>					
Consumer Demand	Net Export	Housing Starts	Investment	Inventory	Gov't Spending

- Audacity of America First policies boost ***U.S. Potential Growth*** from < 1.8% to 2.5% given reduced regulation, lower energy and material costs, extended sunseting 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 (TL²) required rate hikes and Quantitative Tightening (QT). Significant risk remains for extended and leveraged bond holders. Rising inflation expectations *not transitory*.
- ***New Dawn***: New paradigm of Government Reforms: Fiscal spending and workforce rationalization with DOGE (audit, expose, cut spending) rooting out waste, fraud, misappropriation, and 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*** (*D.Goerz, TheHill.com, Sept 2018*): Continuing to seek *Bilateral Trade* deals, Pragmatism (foreign aid and leverage) and *Art of the Deal: Policies seek to reduce* trade deficit, ease trade barriers on US exports. Reciprocal tariffs may target other foreign policy issues.
- ***Future Themes***: Maturing *Fourth Industrial Revolution*, but automation is compelling re-shoring manufacturing, driving America's competitive edge—Arrival of Age of Artificial Intelligence and Quantum Computing, Robotics + Sensors, 3D Printing, and Advanced Materials all are now boosting productivity, and many related stocks are outperforming.

TURNING POINT: RE-WILDING U.S. ECONOMY

Restoring Common Sense Policies and America First Reforms

- Expect higher U.S. potential growth of 2.5%, up from previous 1.8% given policy pivot, net exports
- Prior stagflation forces receding – only modest inflationary impact of tariffs. Recession odds low.
- Senseless recession fears and higher inflation concerns due to tariffs and spending cuts (DOGE).
- Policy reforms seek to reduce fiscal and trade deficits, promote prosperity and energy independence to bolster U.S. productivity, potential growth, global competitiveness, and margins.
- Forces of *Secular Disinflation* moderating as *Fourth Industrial Revolution* matures.

However, US Equity and Bond Valuations Stretched

- Preference for Fundamental Value and small-cap equity risk premium are key to Active Management
- Dependency on low-rate debt marginalized Zombie (low/no earnings) companies now struggling
- 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, performance lags

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

- *Risky Business of Regime Change (4Q/2024)* implies continuation of *Higher-for-Longer* Interest rates
- Inflation/Interest Rate Normalization→3.0% CPI Inflation, 3.5% Fed Funds, 5% US 10yr Treasuries
- Central Bank holdings normalizing after extended period of low rates, QE, forward guidance
- Normalizing global yield curves should steepen, increasing risk of *Government Debt Crisis*

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
- **Private Market Funds/Illiquid Alts** lag: high mgmt fees, crowded sandbox, illiquidity premium myth

AN AUDACIOUS RESET

Audacity of America First policy Reset bolster global competitiveness, lower energy and material costs, reduce trade and fiscal deficits, as well as to incentivized productivity, potential growth, job creation, and investment--both foreign and domestic. This Audacious Agenda seeks to reset U.S. Economic, Trade, Foreign Relations, Energy, Health Care, Immigration, and Regulatory policies, while targeting waste, fraud, misappropriation, and corruption of government spending. Law and Order is being restored. Righteous values of Life, Liberty and the Pursuit of Happiness are re-emboldened, while Equal Opportunity (not Social Justice) is ascendant. Capitalism and Free Market Enterprise is crushing Progressive Socialist and totalitarian Communist dreams.

- **FY 2025 Budget Reconciliation Act** (H.R. 1) made permanent expiring tax provisions from 2017 Tax Cuts and Jobs Act and Included "No Tax on Tips" or "...Overtime", reformed Medicaid, and reallocated priorities.
- **DOGE** recovered more than \$214 B in savings, some one-time but much being annual recurring, in asset sales, contract/lease cancellations or renegotiations, eliminating fraud, waste, redundancy and improper payments, grant cancellations, program changes, regulatory savings, workforce reductions, and interest savings.
- Enabled **\$9.4 B Recission Package** (H.R. 4) of State Department annual recurring foreign aid further reducing wasteful, misappropriated, and redundant spending.
- Reset decades of failed **trade policies**, focused on new *bilateral trade* deals, accelerating re-shoring of manufacturing in decline since 1990s. US Treasury collected \$90+ B in tariff duties, including \$27 B in June.
- Immigration enforcement dramatically slowed illegal crossings. Deported alien criminals, including vicious gang and drug cartel associates. Self-deportation was a success. Declared Tren de Aragua, MS-13, and Sinola Cartel as terrorist organizations, enabling removal. Crime stats plunging due to this and other Law & Order initiatives.
- Inflation slowed as oil and natural gas prices declined with increasing permits and relaxing regulations, including ineffective climate change polices. Federal Reserve hiked interest rates, reduced QE holdings.
- Foreign Direct Investment commitments soared by \$7.6 trillion, with countless other US corporate commitments.
- NATO members committed to increasing national defense spending to 5%, and US Army, Navy, Air Force are reporting record recruitment, far exceeding their goals.
- Numerous ceasefire and peace agreements secured brokered by the United States and Department of State.

MISGUIDED POLICY STUMBLES

These policies below seem inconsistent with *America First Agenda*, restoring Capitalism and Free Market economic principles, embolden liberty, freedom, and equal opportunity (equality, not equity), reducing fiscal and trade deficits, rooting out fraud, corruption, inefficiency, and misappropriation of government spending, fortifying national and individual security, and bolstering economic productivity, global competitiveness, and prosperity to restore the American Dream.

- SEC studying rule change to allow public companies to report semi-annually vs. quarterly—wrong to suggest it would reduce cost or extend investors time horizon
- U.S. policies to make the U.S. the "crypto capital of the world", established an official Strategic Bitcoin Reserve and a digital asset stockpile—Policy encouraging investment in general blockchain technology instead might be more consistent.
- \$1 Million "Gold Card" Passports and \$100,000 fee for new H-1B visa petitions
- Reciprocal tariff policies started off focused on leveling unfair trade barriers and tariffs imposed on U.S. Goods & Services, but trade policy is increasingly used to achieve geopolitical objectives, as well.
- Government ownership of private companies (ex: 9.9% of Intel) in exchange for subsidies. It was wrong during the Financial Crisis, and there is little justification now.

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>U.S. Fed %</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025e</u>	<u>2026e</u>	<u>2027e</u>	<u>2028</u>	<u>Fed</u>	<u>SFM</u>
GDP	5.90	0.50	2.60	2.50	1.60	1.80	1.90	1.80	1.80	2.20
U.Rate	4.80	3.70	3.80	4.20	4.50	4.40	4.30	4.20	4.20	4.80
PCE	4.20	5.60	2.30	2.40	3.00	2.60	2.10	2.00	2.00	2.50
Core PCE	3.70	4.80	2.60	2.80	3.10	2.60	2.10	2.00	2.00	2.50
Implied CPI	3.50	6.10	2.80	2.90	3.50	3.10	2.60	2.50	2.50	3.00
Federal Funds Avg.	0.13	4.38	5.38	4.38	3.81	3.30	3.15	3.13	3.04	3.50

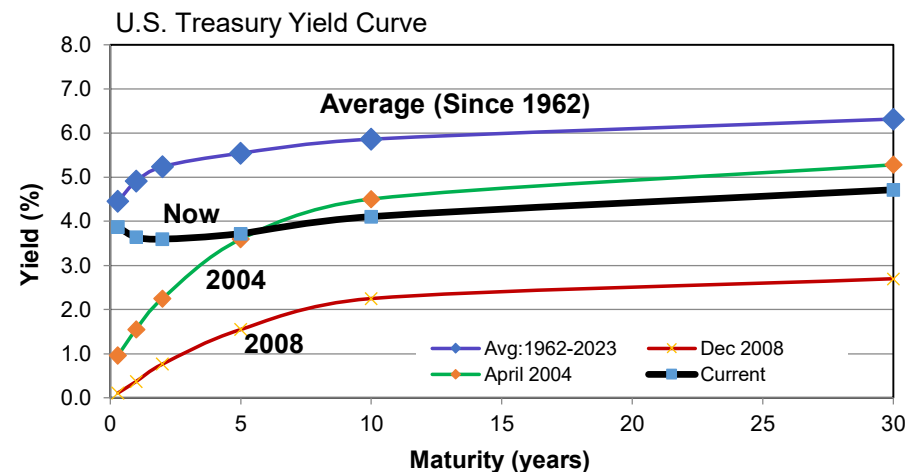
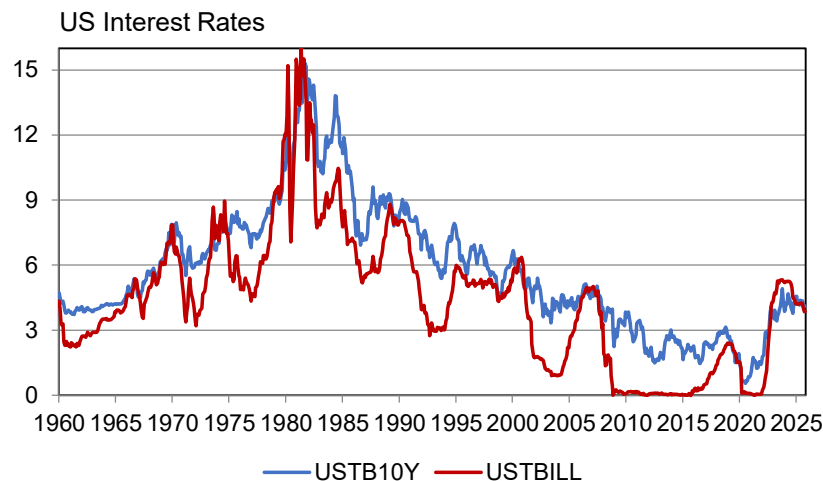
Interest Rates	2021	2022	2023	2024	2025e	2026e	2027e	2028	Longer Run
FOMC Avg.	0.13%	4.38%	5.38%	4.38%	3.81%	3.30%	3.15%	3.13%	3.04%
Forecast ¹	0.25%	4.50%	5.50%	4.50%	4.00%	3.50%	3.50%	3.50%	3.50%
Rate Change	0.00%	4.25%	1.00%	-1.00%	-0.50%	-0.50%	0.00%	0.00%	

1. Top-end of indicated Fed Funds range

Source: U.S. Federal Reserve (Sept 17, 2025) and Strategic Frontier Management

INTEREST RATES MUST NORMALIZE

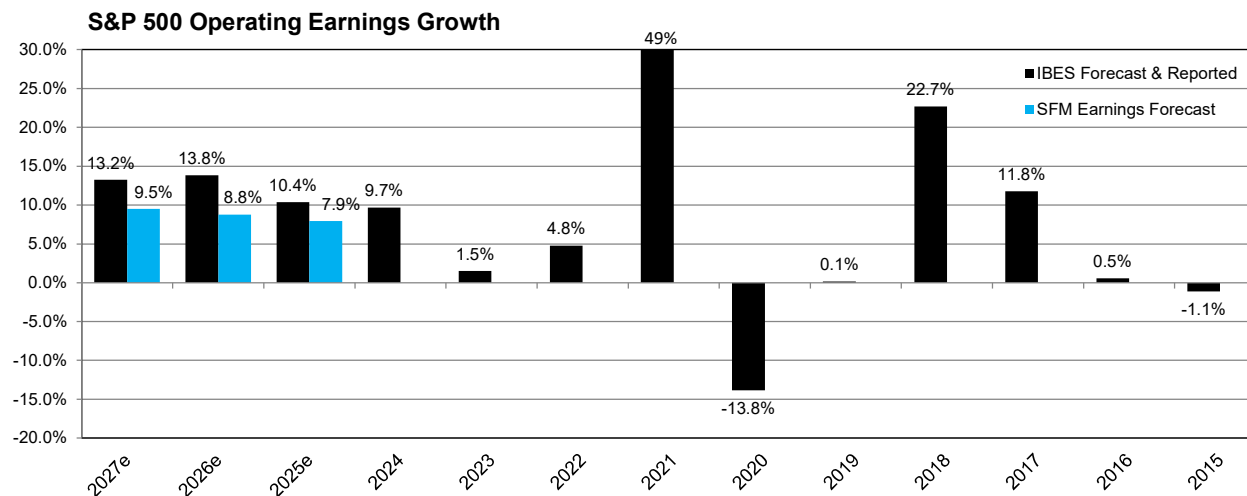
- Global interest rates manipulated with unsustainable monetary policy, inc. QE: Too Low for Too Long induced *Explicit Moral Hazard* and extinguished the inflation risk premium.
- Mislead investors, business, and consumers, increased systemic risk. Prolonged misguided policy has boosted inflation expectations—Thus, 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

S&P 500 EARNINGS—KEY TO EQUITY OUTLOOK

- Lackluster growth in 2022-2023, as global competitiveness and productivity were policy limited
- Return of *Supply-Side Economics* by extending tax cuts, more business-friendly policies, terms of trade, and deregulation with incentivized innovation increases productivity, thereby higher margins
- SFM Earnings Forecast lagging behind consensus despite stronger economic growth expected
- Valuation is concerning—returns reflect contracting valuations, but strong Small-cap earnings growth



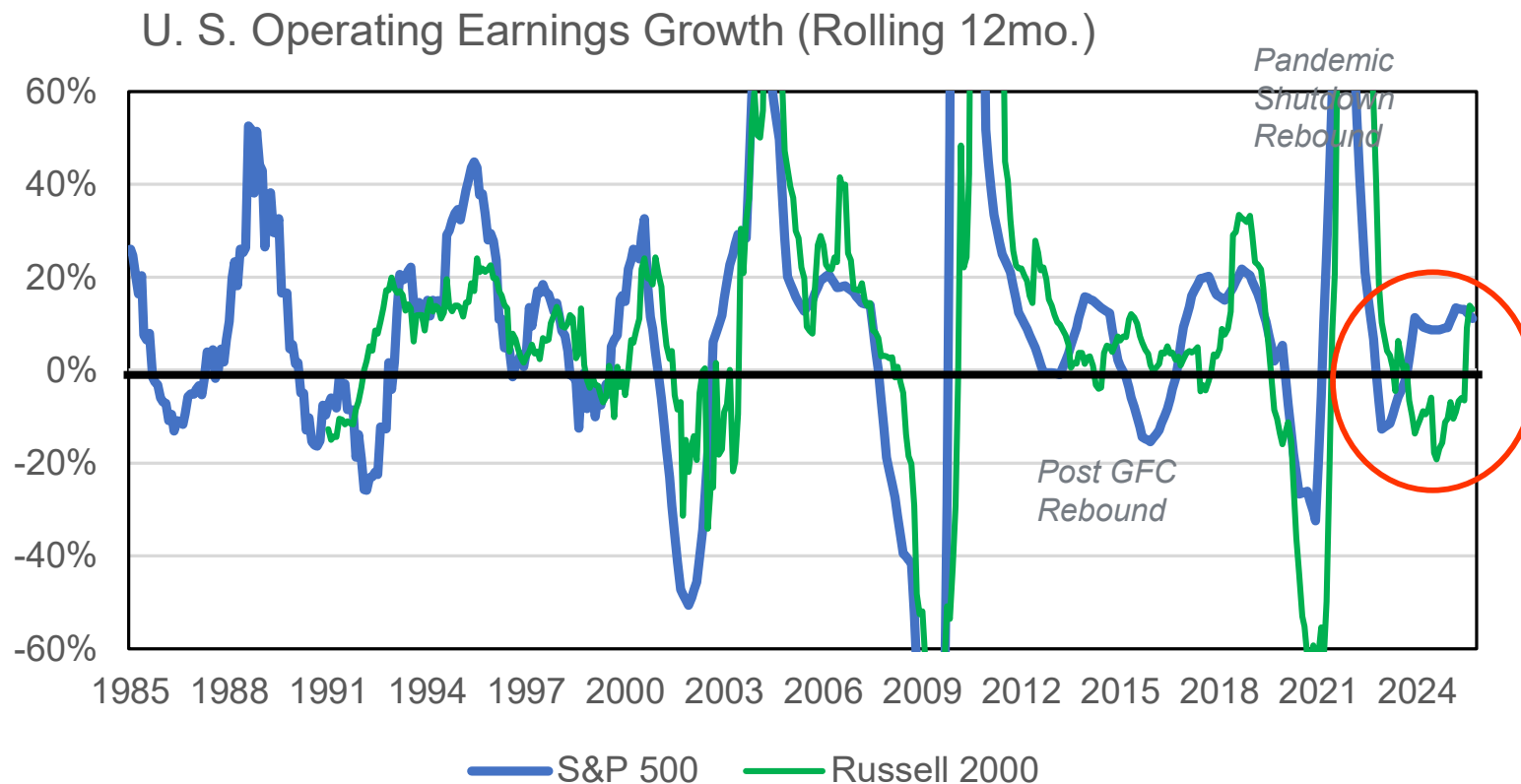
Extreme volatility in U.S. earnings growth for a decade or more with flip-flopping economic policies

	Operating Earnings	2027e	2026e	2025e	2024	2023	2022	2021	2020
IBES Forecast & Report		13.2%	13.8%	10.4%	9.7%	1.5%	4.8%	49.0%	-13.8%
SFM Earnings Forecast		9.5%	8.8%	7.9%					
SFM S&P500 Target		7300	6900	6500	5882	4770	3840	4766	3756
Index Return (no Div)		5.8%	6.2%	10.5%	23.3%	24.2%	-19.4%	26.9%	16.3%
Dividend Yield %		1.38	1.28	1.31	1.28	1.47	1.75	1.29	1.48
Total Return		7.2%	7.4%	11.8%	25.0%	26.3%	12.6%	16.6%	13.9%
S&P 500 @18x SFM TE		5616	5130	4716	4369	3984	3926	3746	2515
S&P 500 P/F12 (SFM)		19.8	22.1	22.8	22.4	19.7	17.3	21.9	18.0

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

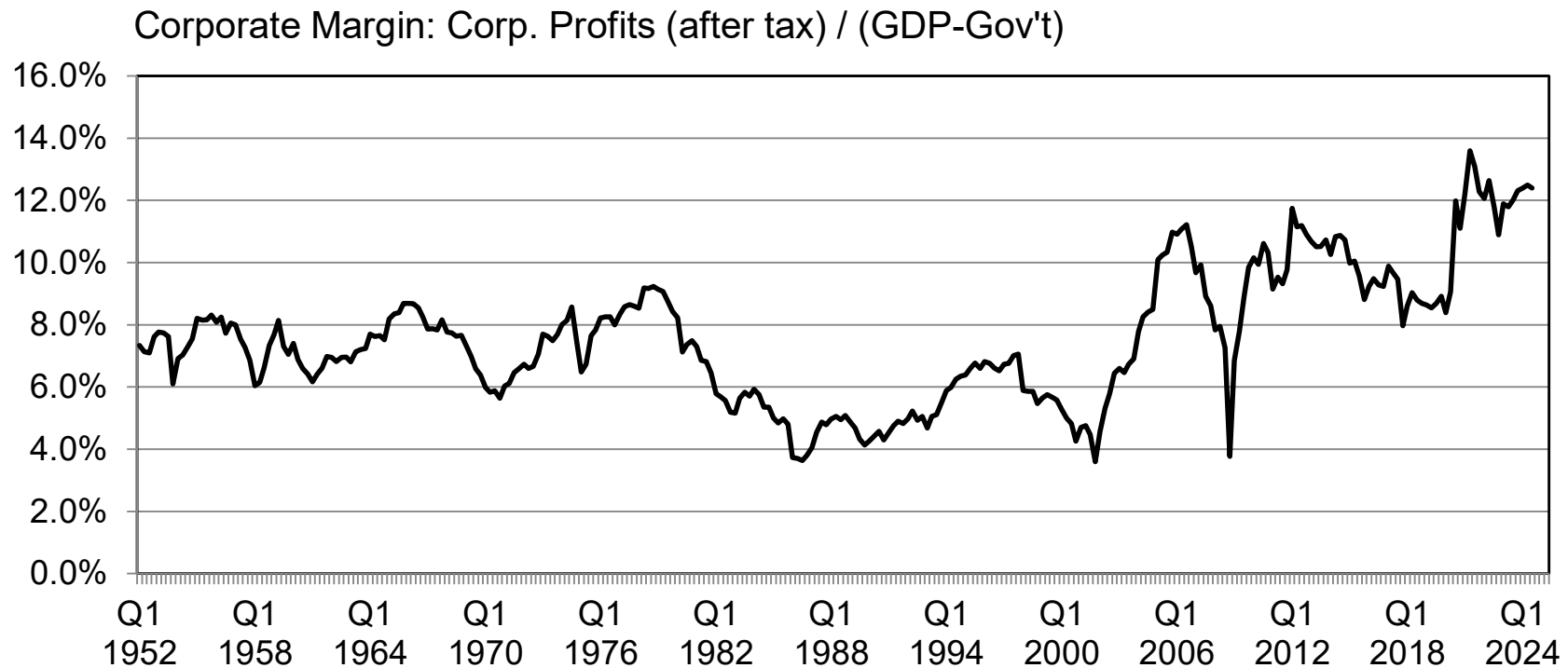
U.S. EARNINGS GROWTH RATE DEPRESSED

- *Weak Earnings Growth 2022-2024* consistent with intermittent Recession or Stagflation
- Small-cap earnings growth accelerating quickly now
- Higher GDP growth reflected excessive government spending and hiring, not real activity
- Misguided policy decisions of *Progressive Socialist* ideology consequences of lower productivity and margins—*America First* policies reversing these policies, thus increasing potential growth, global competitiveness, and moderating inflation.



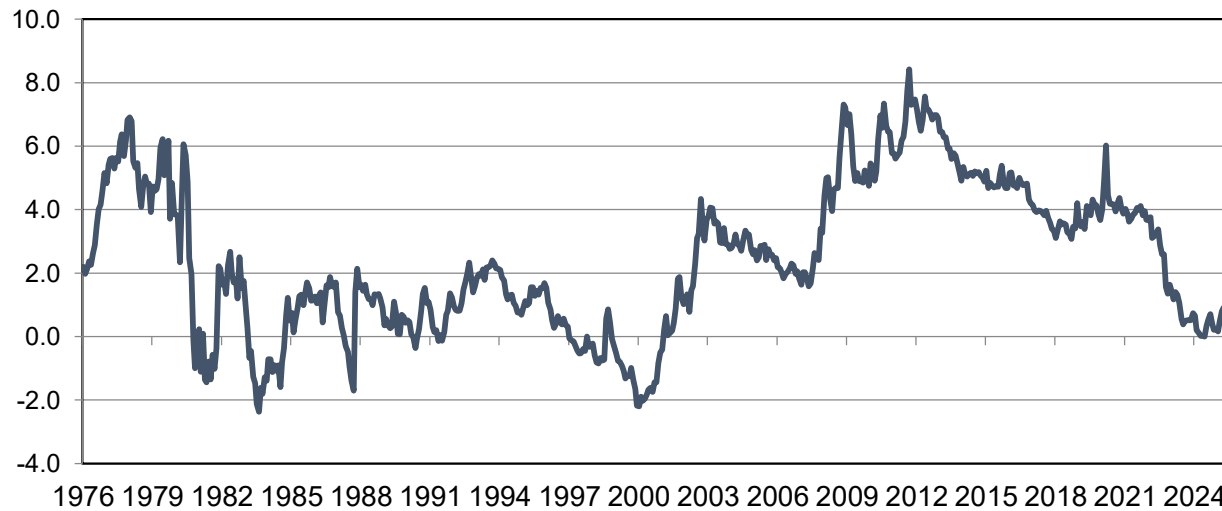
U.S. CORPORATE PROFIT MARGINS

Remarkable recovery in Profit Margins despite higher inflation a year ago



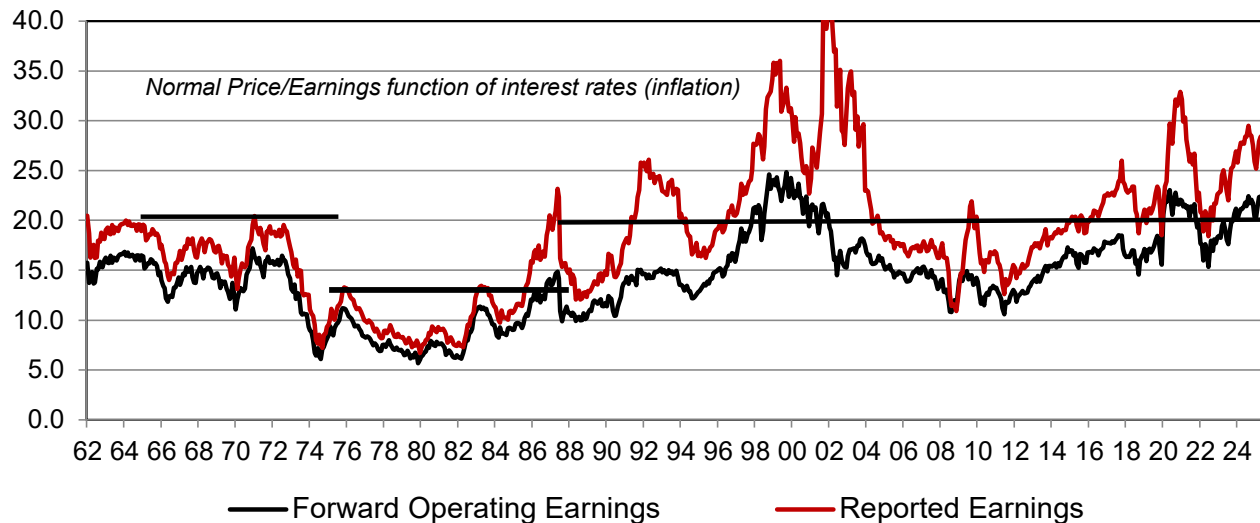
US EQUITY VALUATION DEPENDS ON RATES

Equity Valuation: S&P500 Earnings Yield - Treasury Yield Gap



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.

S&P 500 Price / Forward Operating Earnings



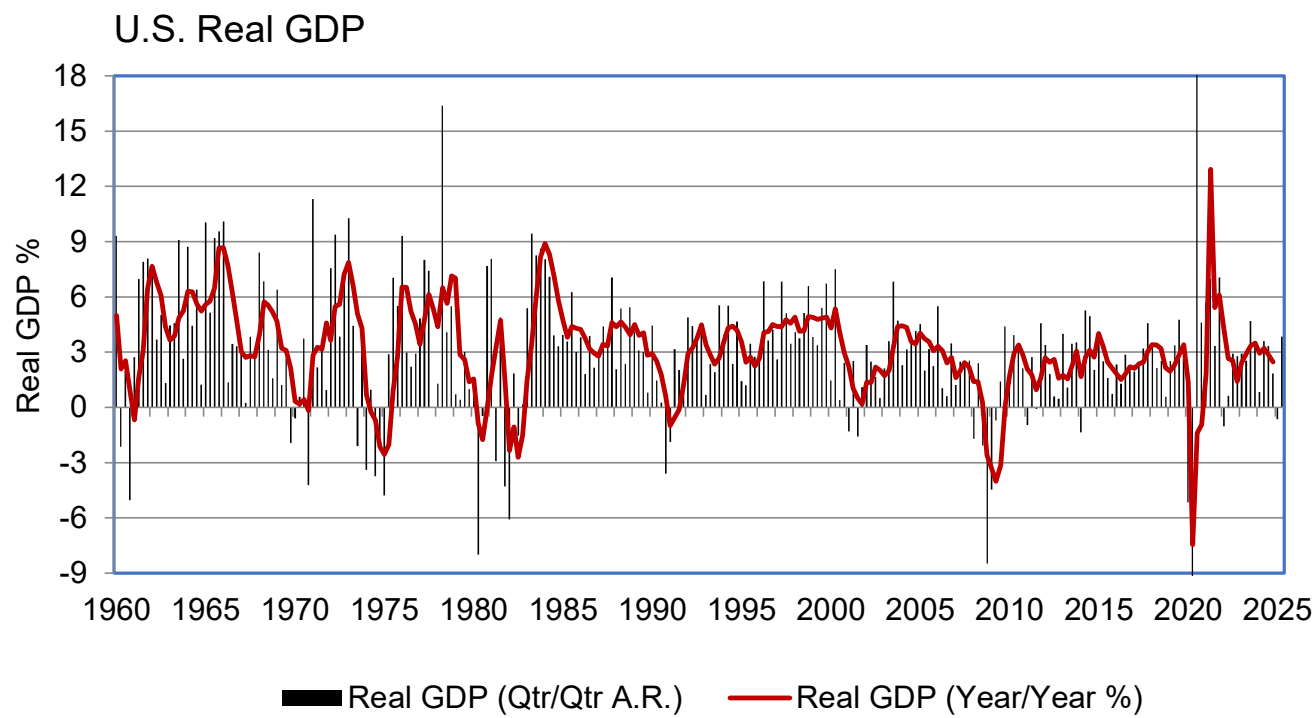
Price/Earnings & P/FE rose as rising index prices outpaced earnings growth.

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

Source: Strategic Frontier Management

REAL GROWTH IN GROSS DOMESTIC PRODUCT

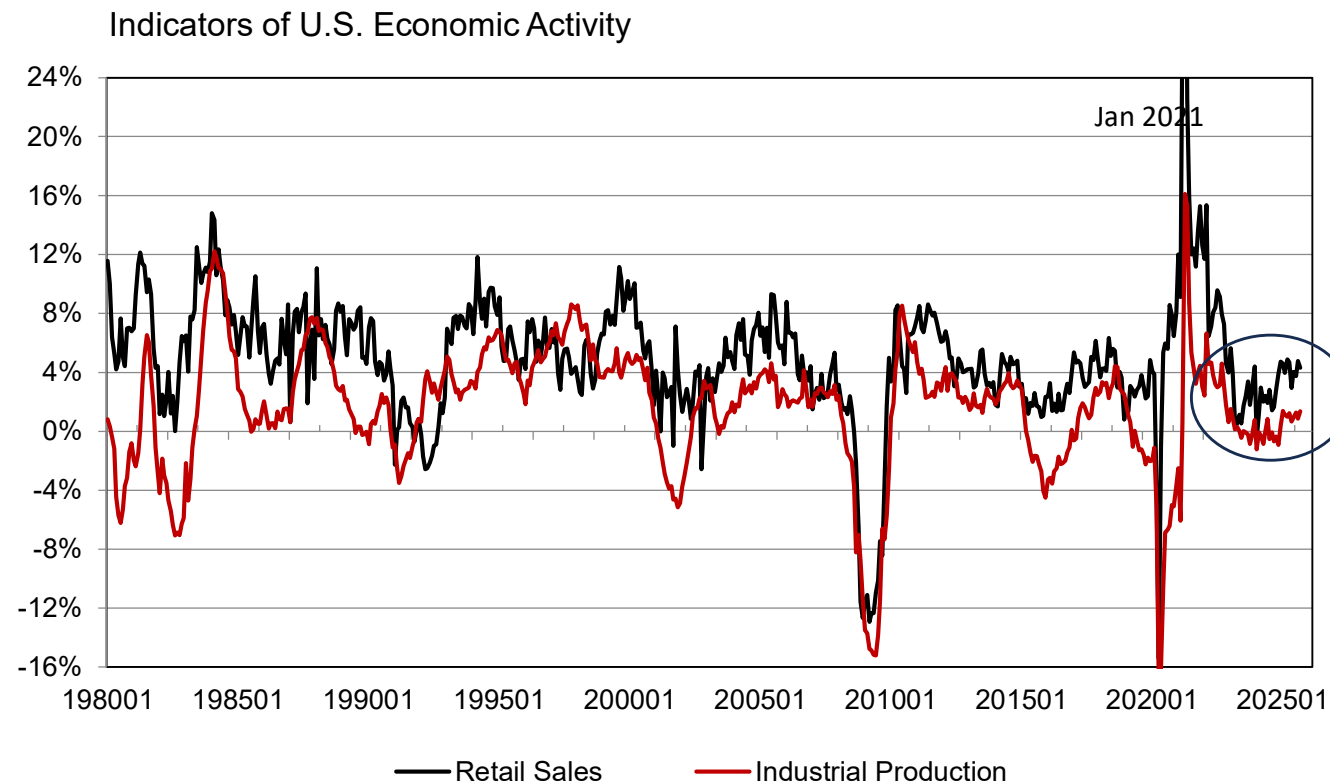
- Observed expected ***Economic Hangover*** (2022-2024) of declining economic productivity, competitiveness, margins, and earnings growth due to years of poor US policy decisions.
- Upgrading Potential Growth: 1.8% → 2.5% due to fiscal, regulatory, energy, trade reforms
- Inflation wasn't ***transitory***, 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

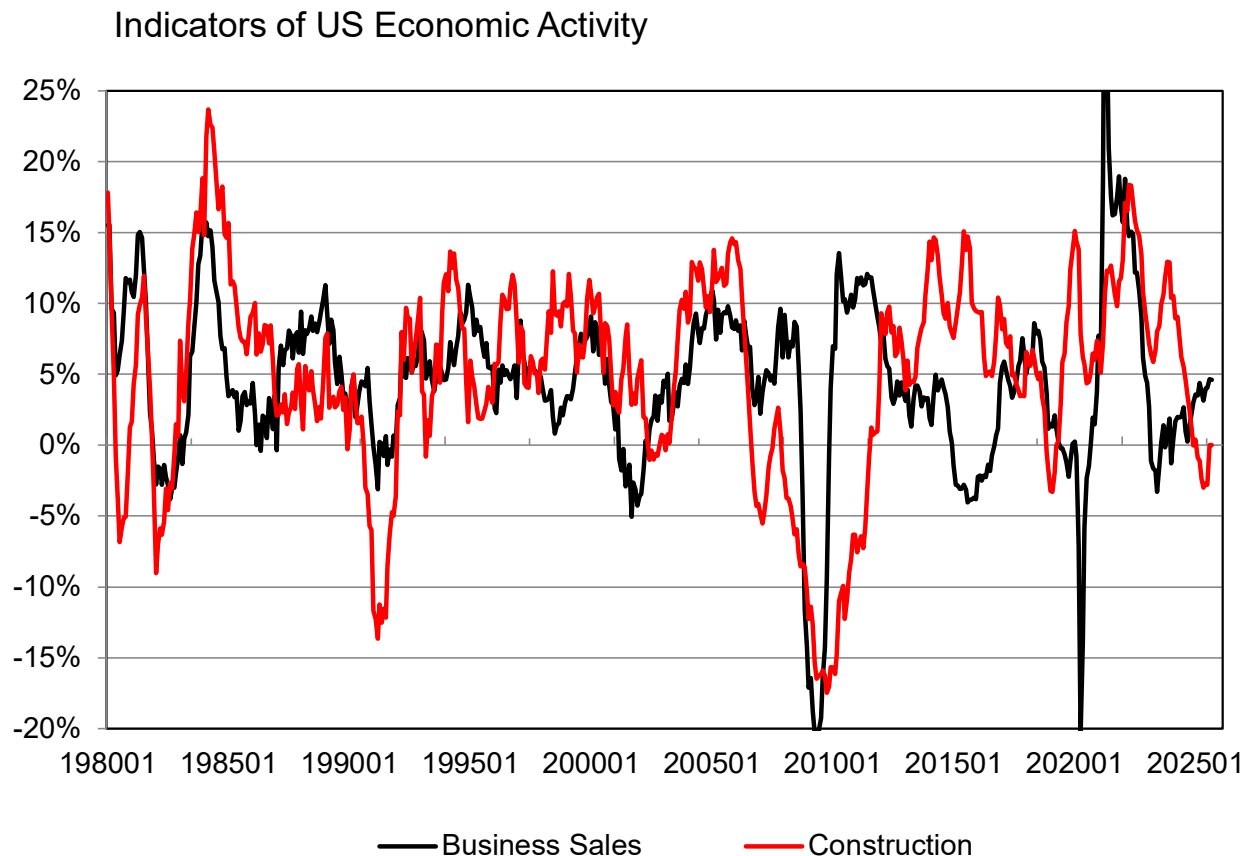
MONTHLY ECONOMIC GROWTH INDICATORS

- 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 diminished 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

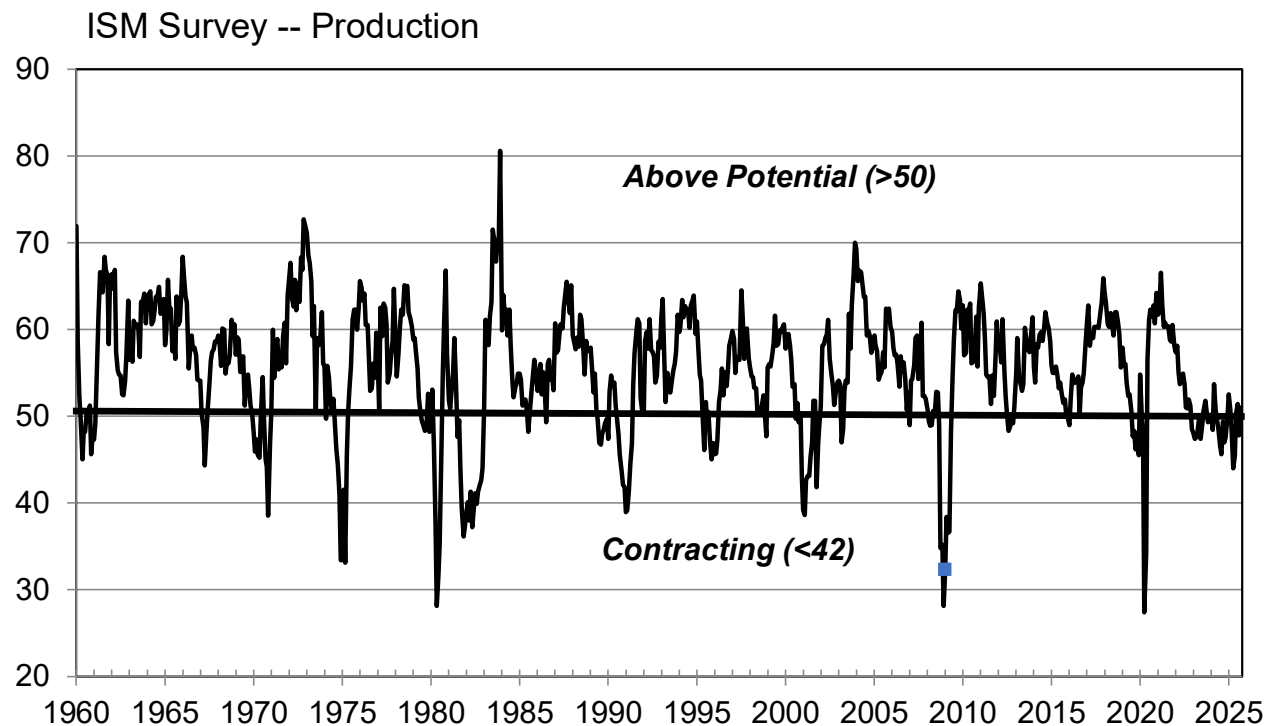
- Higher frequency economic growth indicators, including business sales and construction also suggested risk of intermittent recession in the U.S.
- Expect Business Sales and Construction also to be more cyclical in 2025



Source: U.S. Government Data

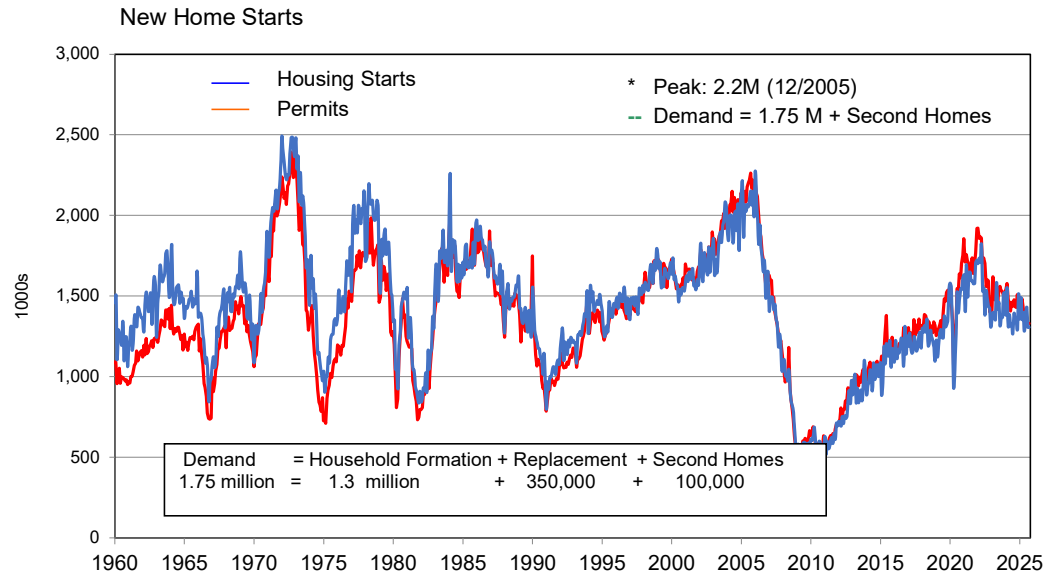
U.S. MANUFACTURING TRENDS

- 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 indicator in 2025, but finally over 50 again.



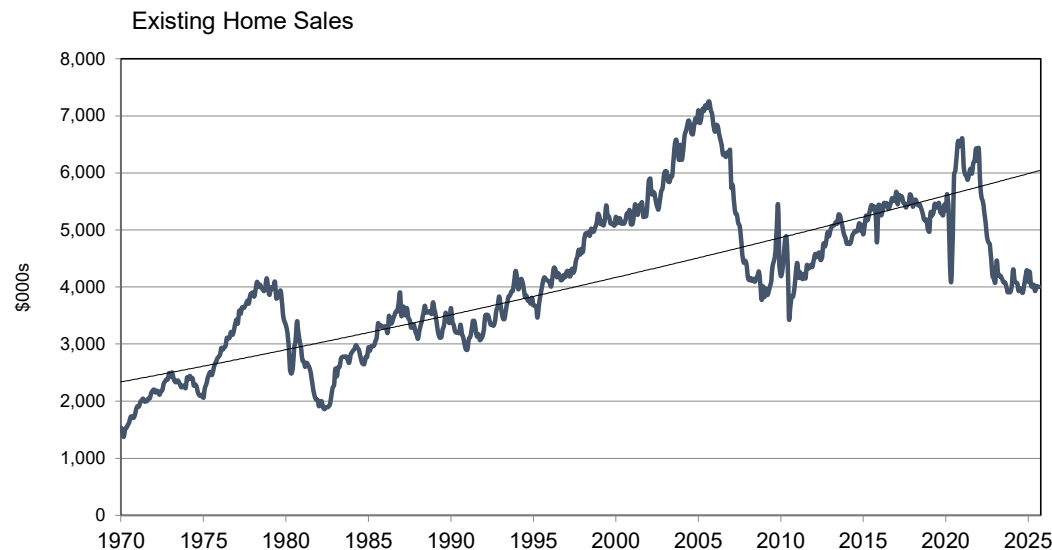
Source: ISM Purchasing Managers Survey -- one of the most timely and best predictors of the business cycle. "50" equates to potential growth (~2.7%) over the next year, 50-42 suggests slowing economy, and below 42 suggests contraction or recession.

HOUSEHOLD FORMATION DRIVES HOUSING



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

Limited new starts (hovering near low of 2008-2009) can't support household formation, replacement (fire, flood, old), plus second home demand.



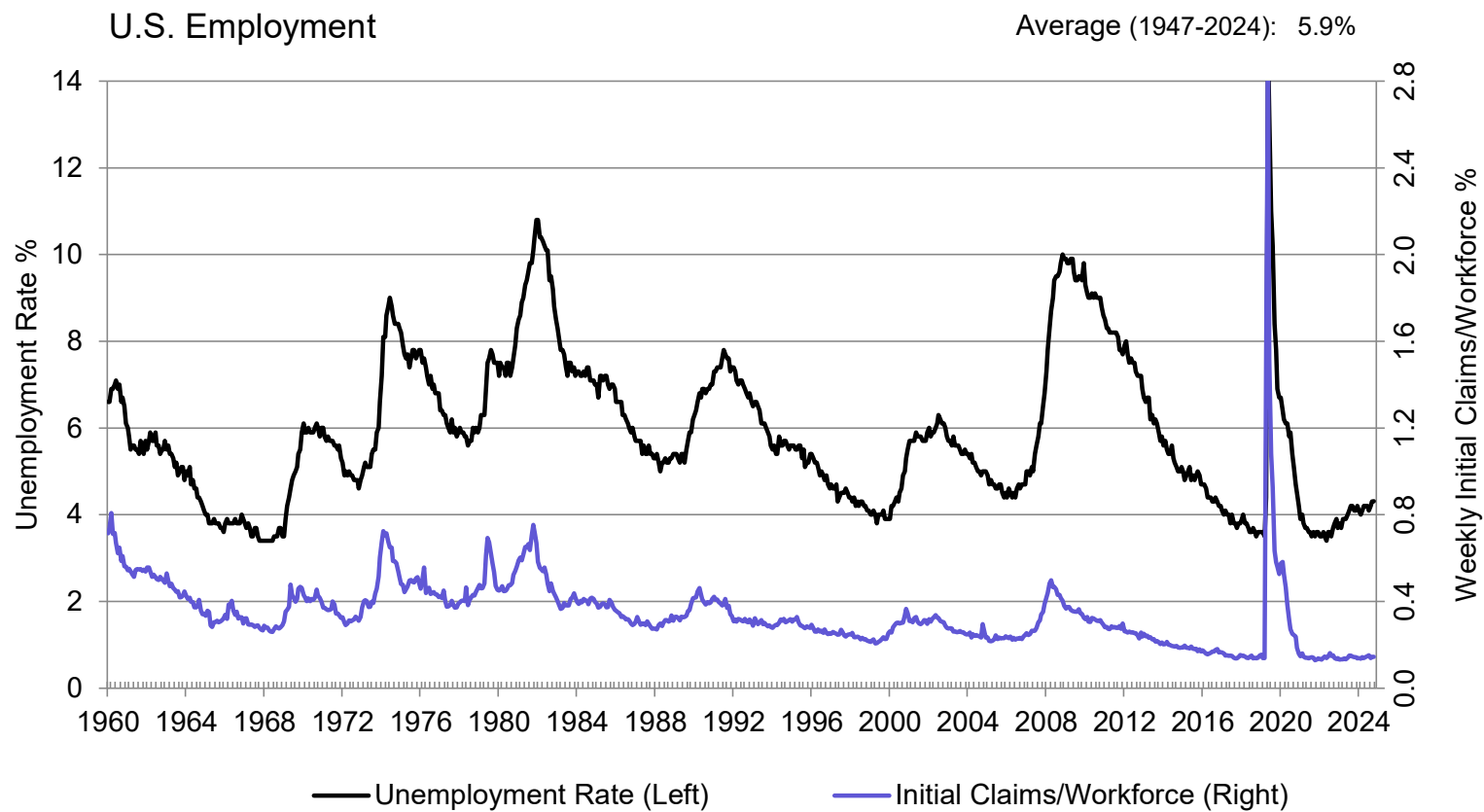
It is not surprising housing cost inflation continues with housing starts limited. Rent also rising with low house inventory levels. We expect construction to increase.

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 4.1%, up from 3.5% low vs. 5.9% historical average. Secular change affected workforce needs (future of work theme)
- 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

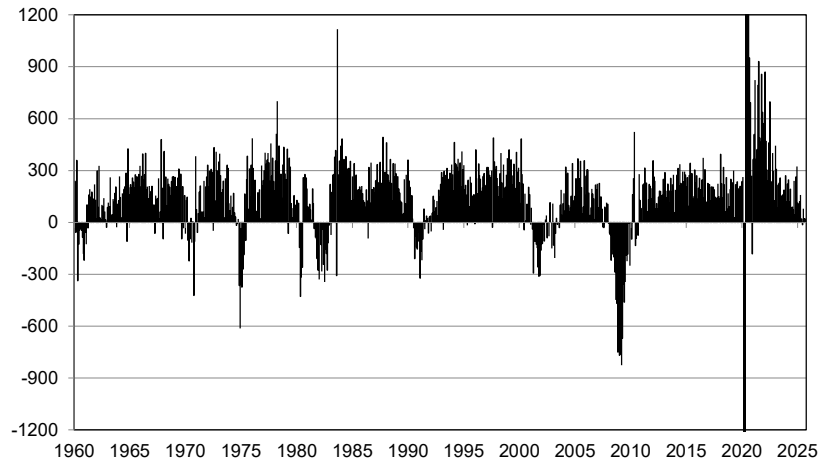


Source: U.S. Government Data

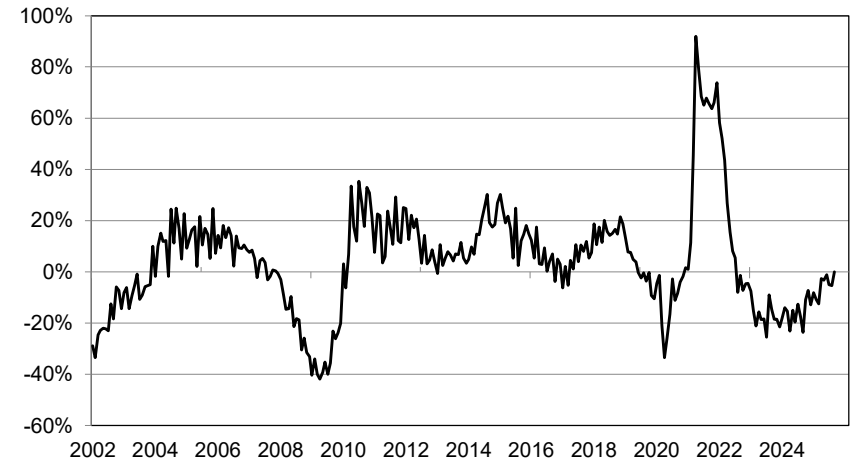
U.S. EMPLOYMENT CONDITIONS

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

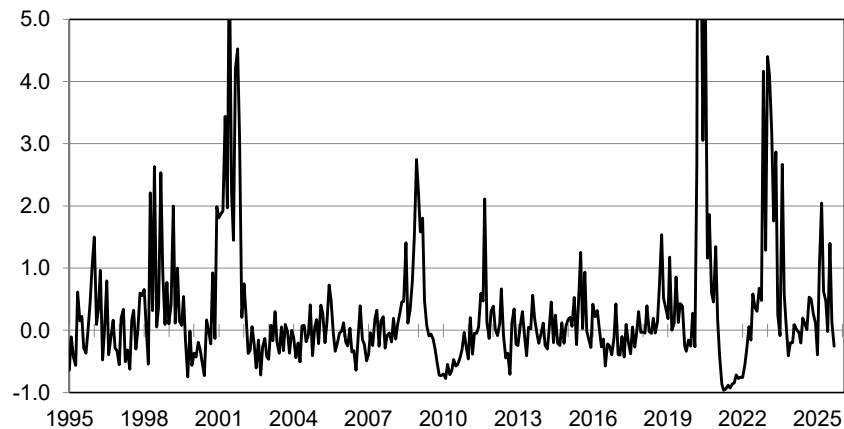
Monthly Change in Employment



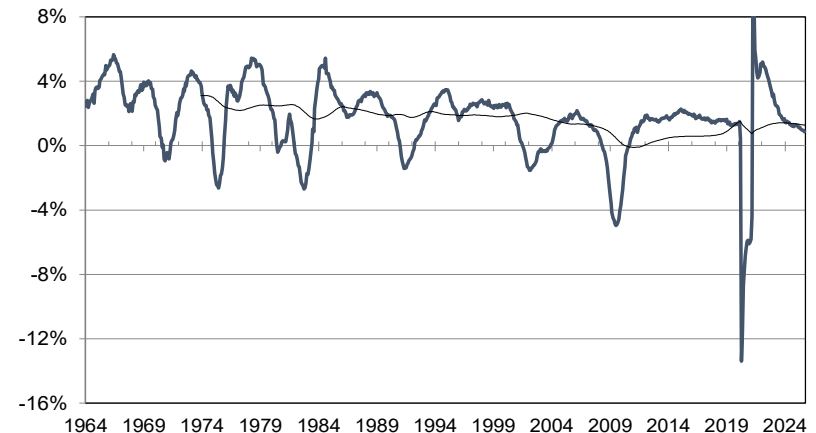
Job Vacancies: BLS-JOLTS



Challenger Job Cuts



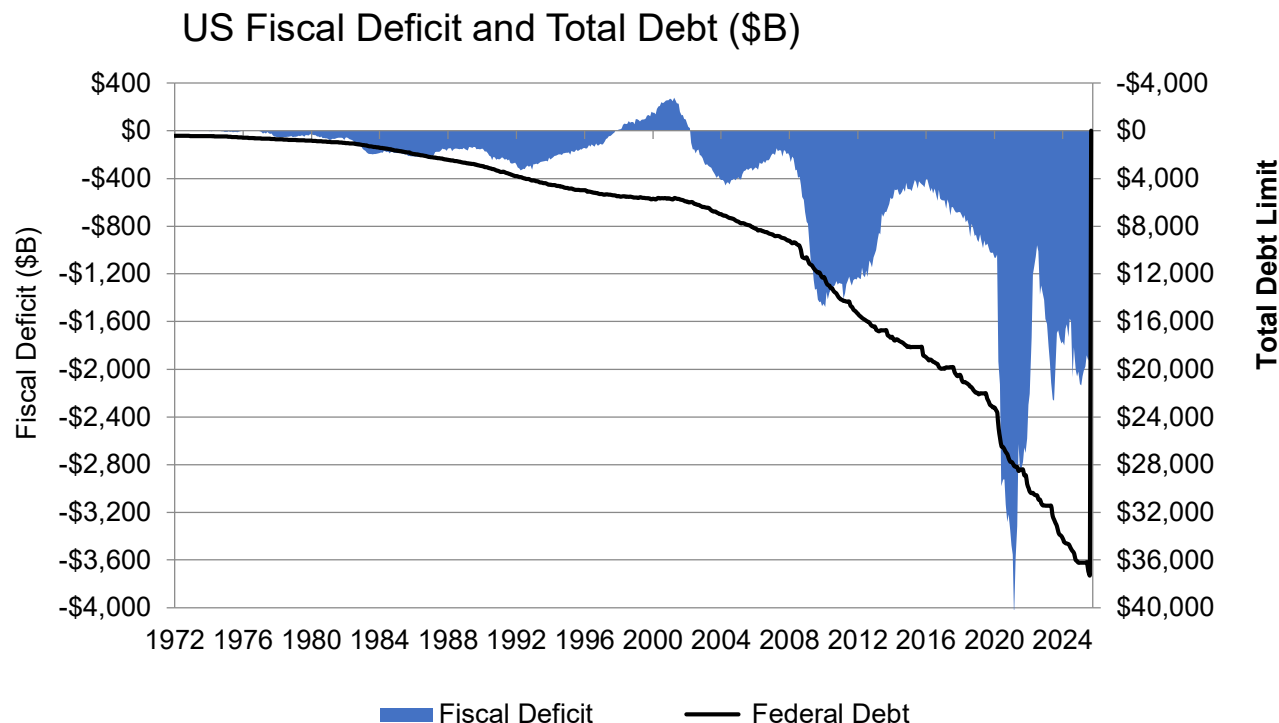
US Job Creation



Source: U.S. Government Data

US FISCAL DEFICIT (ROLLING YEAR)

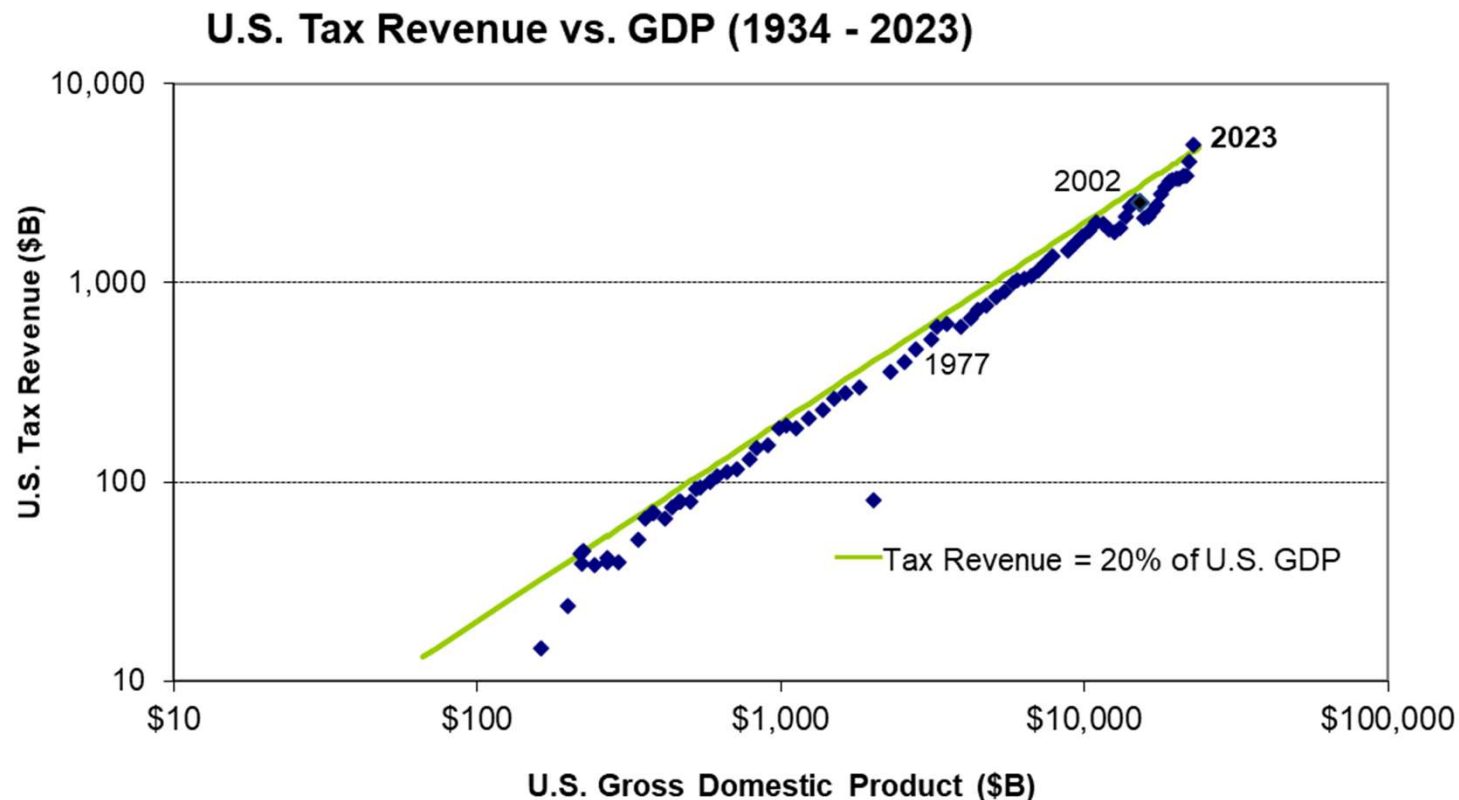
- US Fiscal Deficit is Unsustainable with soaring nondiscretionary liabilities on top of reckless, wasteful, unnecessary, and inefficient stimulus spending programs
- Republican Congress cutting spending, DOGE exposed wasteful, ineffective programs of *Build Back Better* boondoggle & Progressive Socialist 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



Not Your Father's Household Balance Sheet

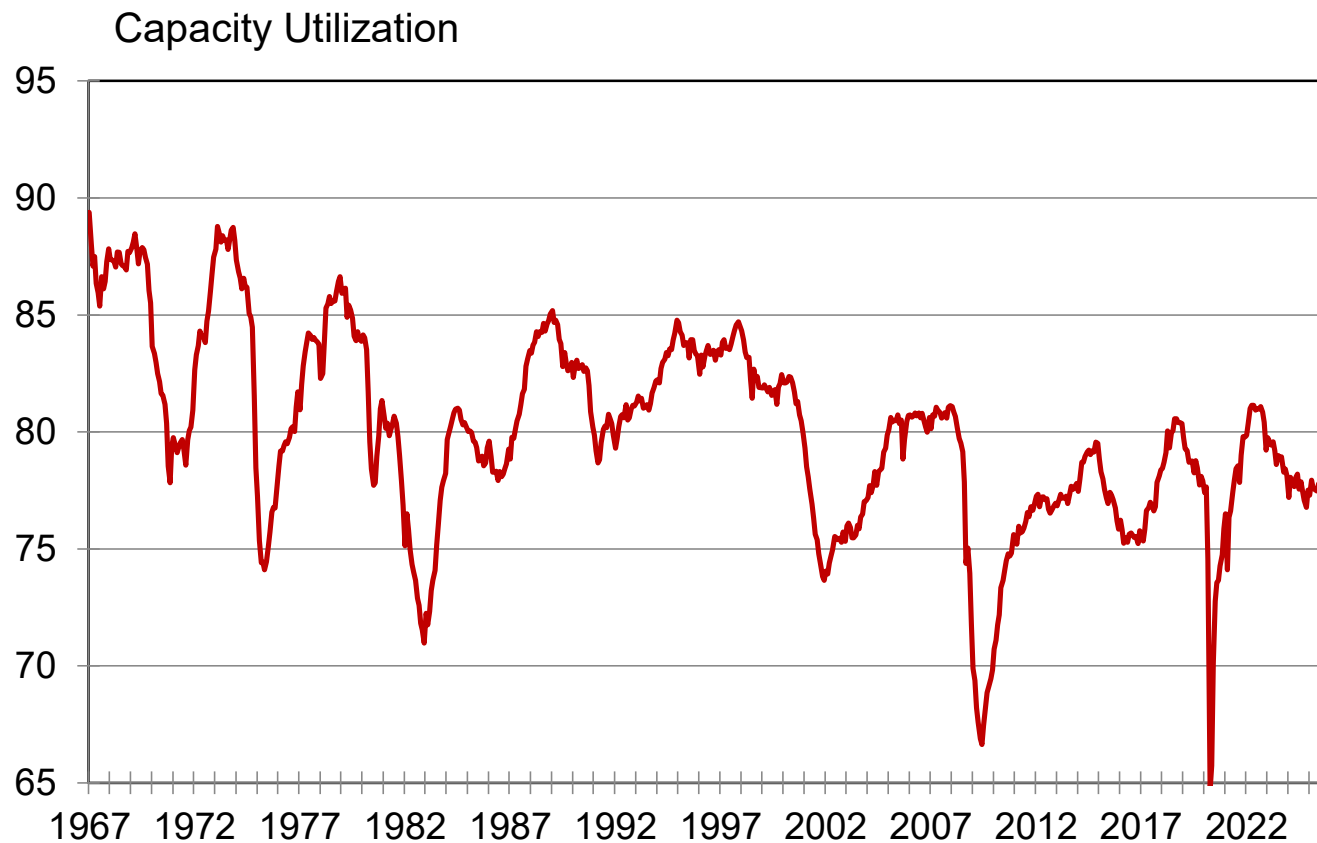
- Household Net Worth increased to **\$177 Trillion**
- Financial Assets increased to **\$118 Trillion**
- 2022 brutal on retirement savings, how about 2025? Savings Rate has declined to 2008 lows.
- Net worth has been growing faster than inflation

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)

RISING CAPACITY UTILIZATION

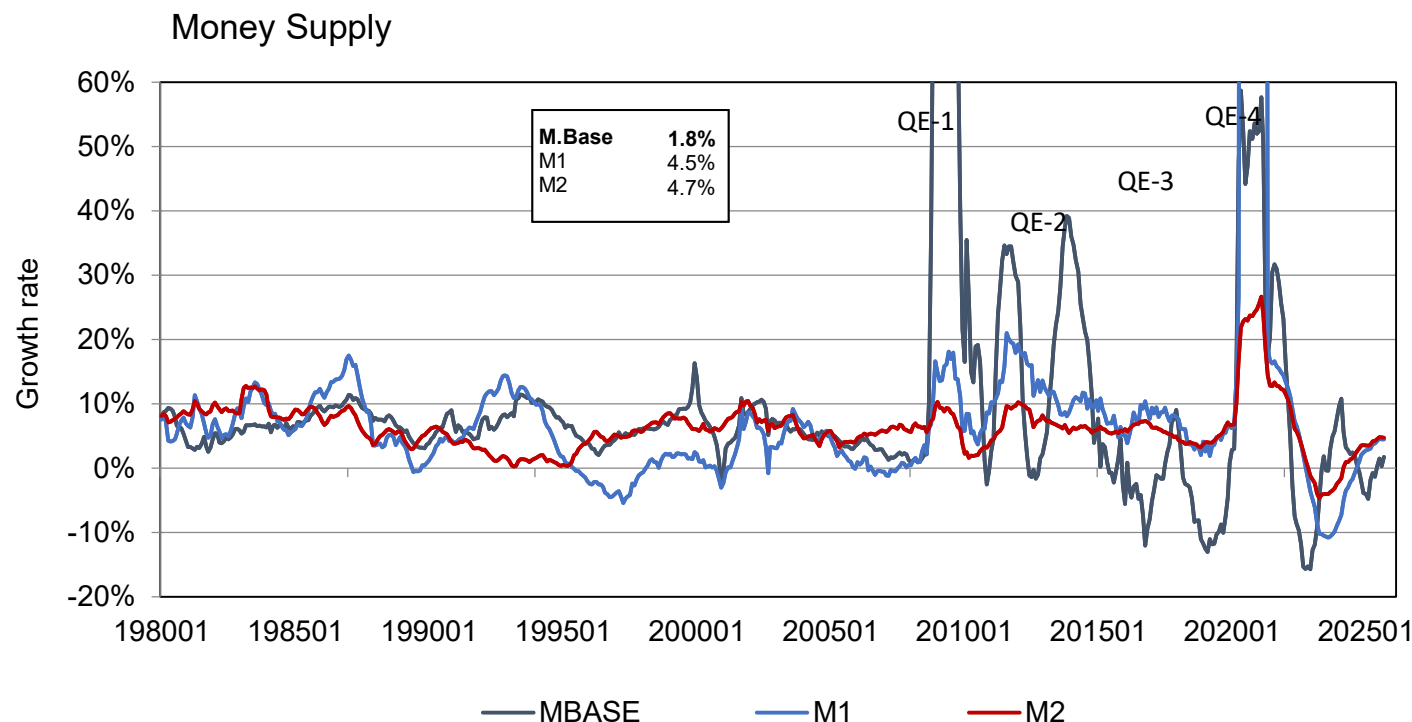
- Capacity Utilization can drive inflation and investment, but forces of secular disinflation and *Fourth Industrial Revolution* are now waning.
- Offshoring/globalization trends reversing with automation reducing labor intensity.
- Transportation, energy, basic material costs increasingly more critical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



Source: U.S. Government Data

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.



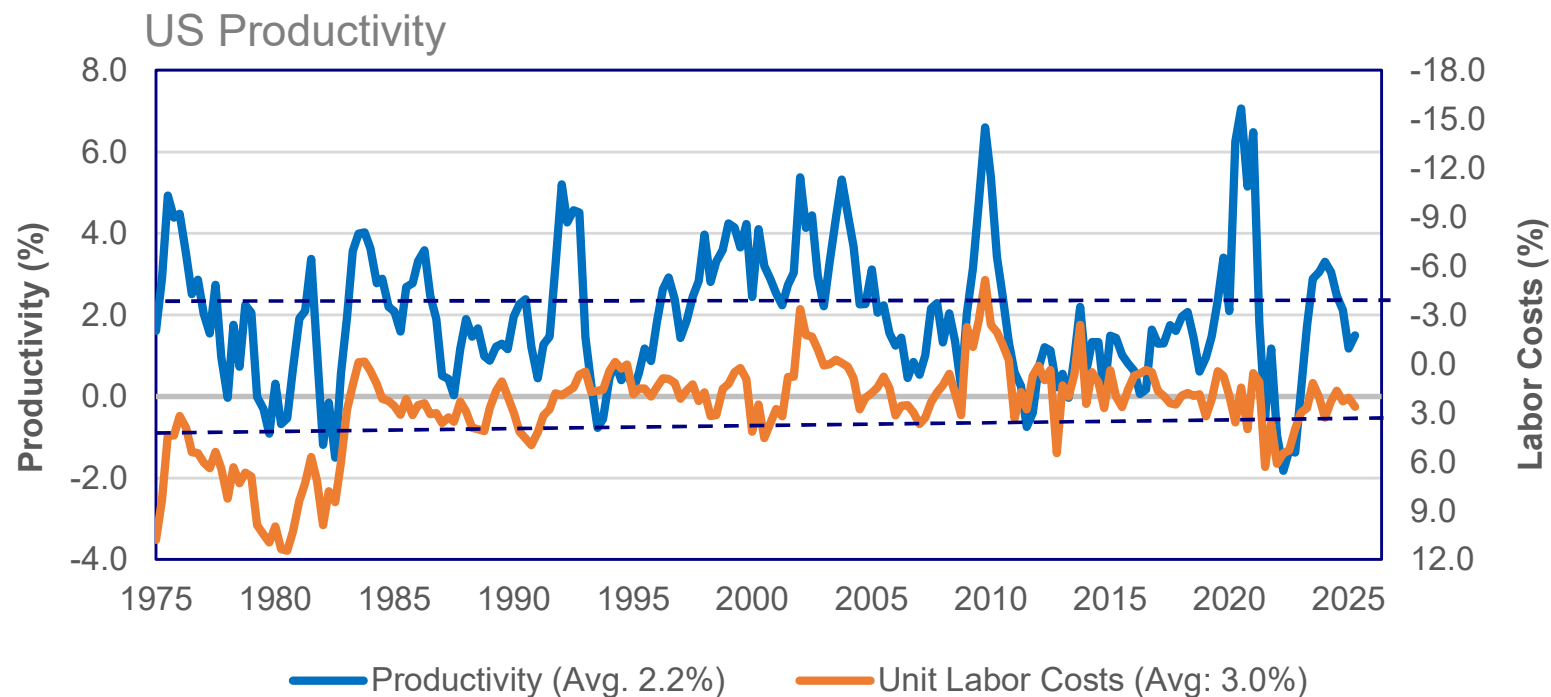
Source: U.S. Federal Reserve

GROWTH, PRODUCTIVITY AND LABOR COSTS

Real GDP = Gov't + Consumption + Income + Net Trade = 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

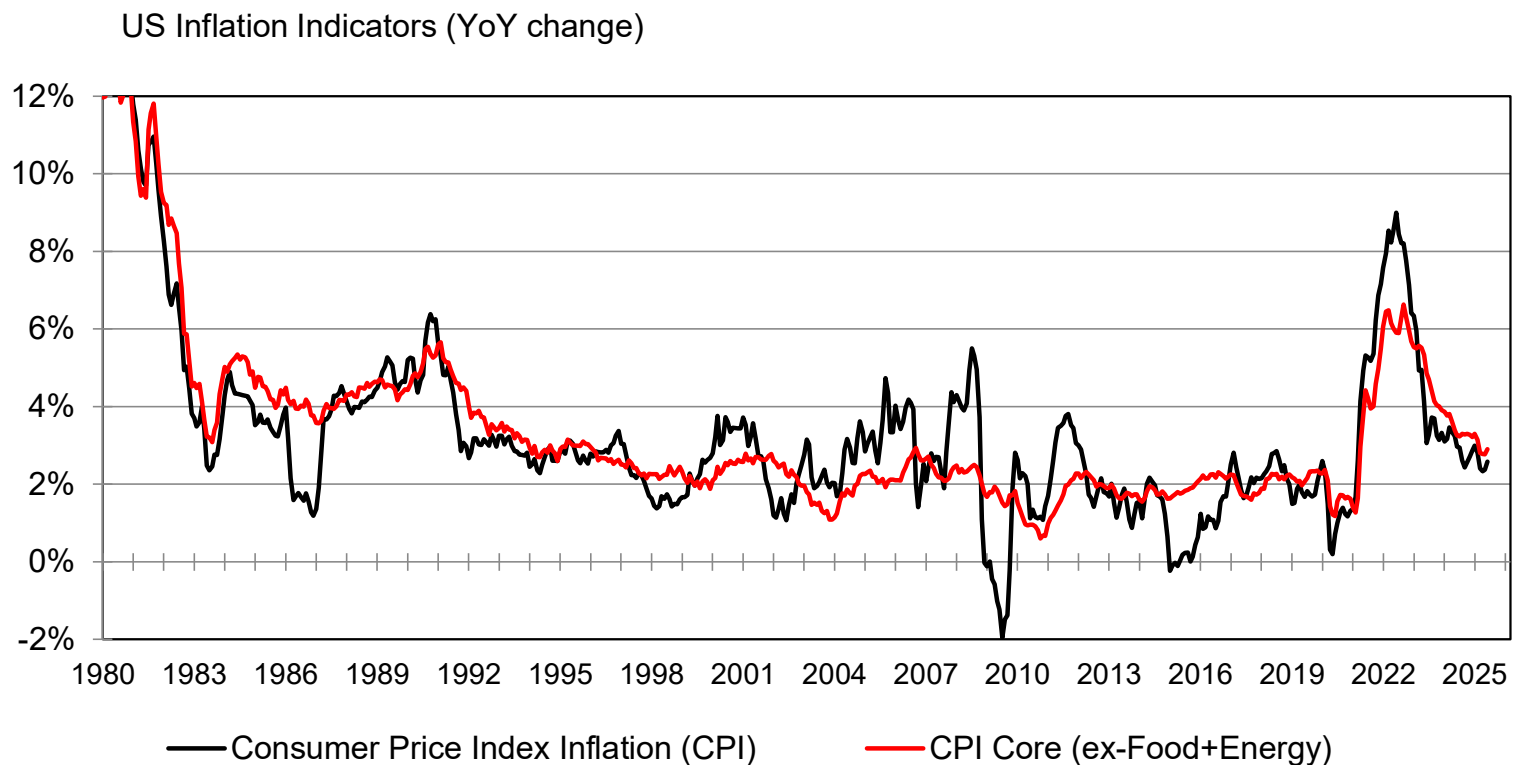


Source: U.S. Government Data

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

US CPI INFLATION WILL SETTLE HIGHER ~3%

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

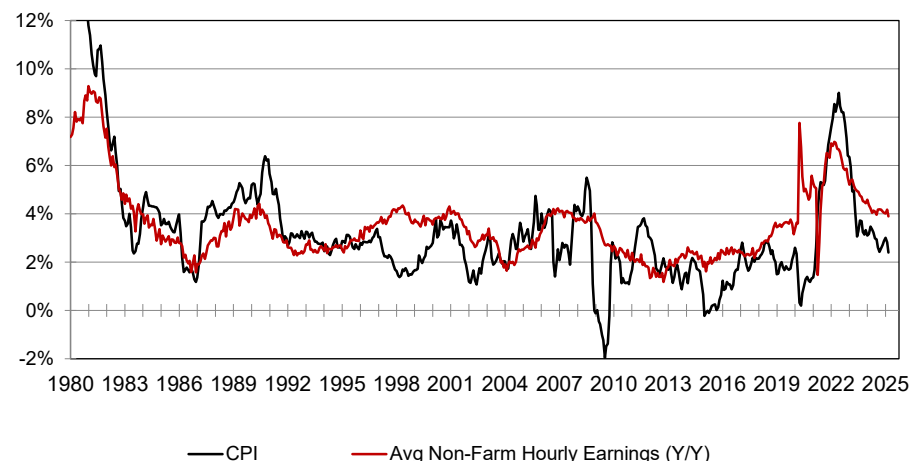


Source: U.S. Government Data

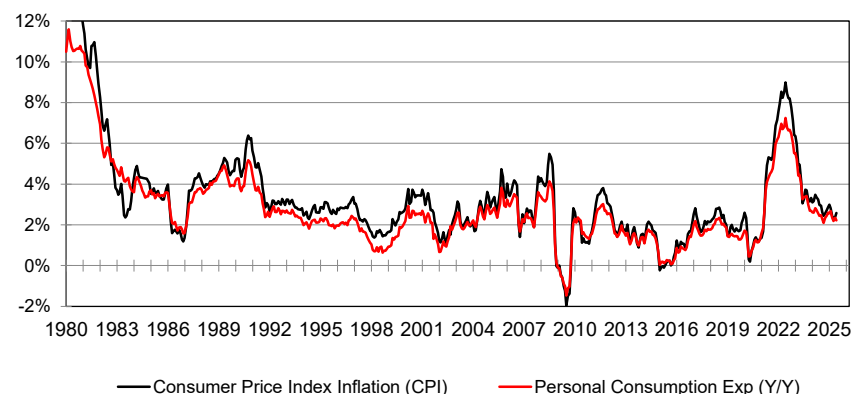
BROAD-BASED INFLATION SPREAD GLOBALLY

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

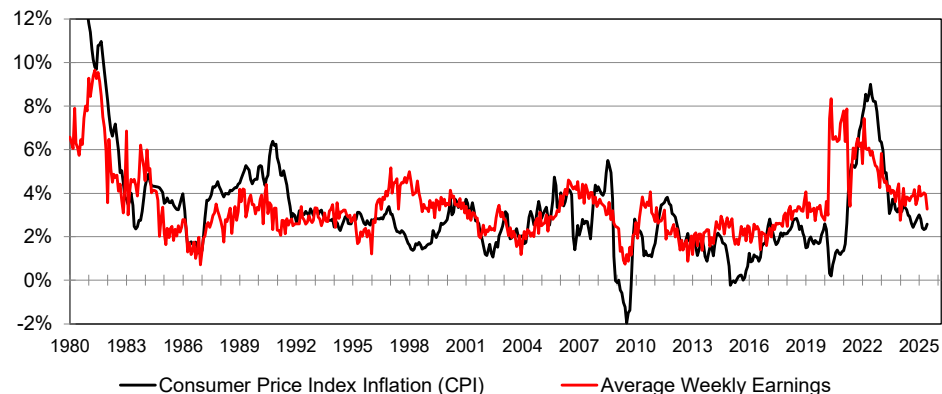
US Wage Inflation vs. CPI Inflation



PCE Inflation vs. CPI Inflation



US Wages (YoY change)



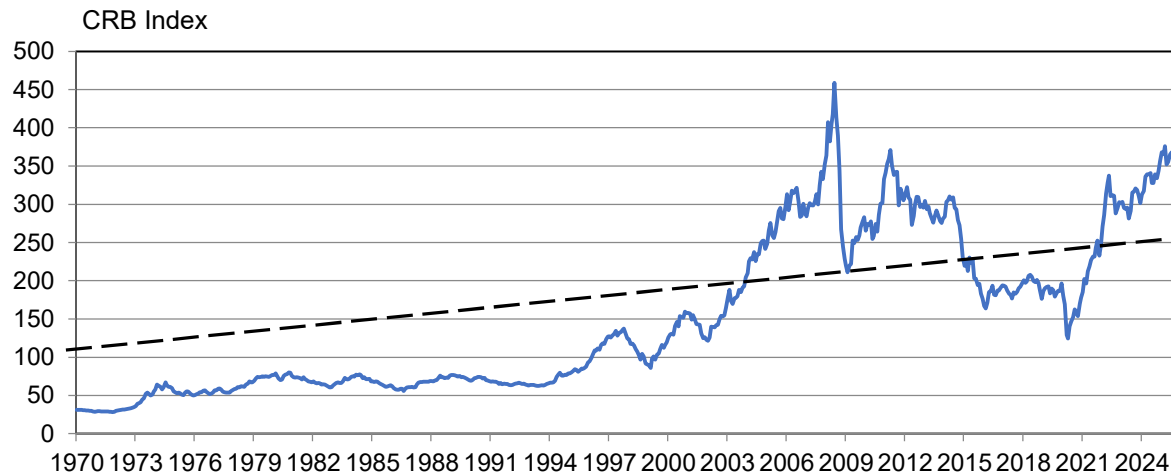
Global Inflation Tracking (CPI)

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*.



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%

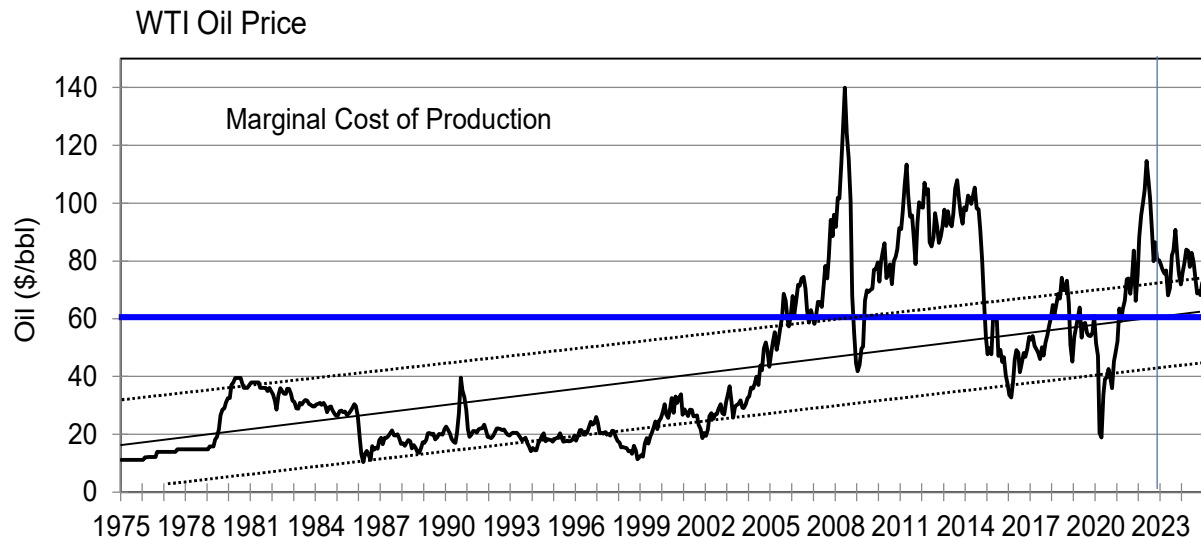
1973 – 2009: 4.75% vs. 4.5% (inflation) Real return = 0.25%

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

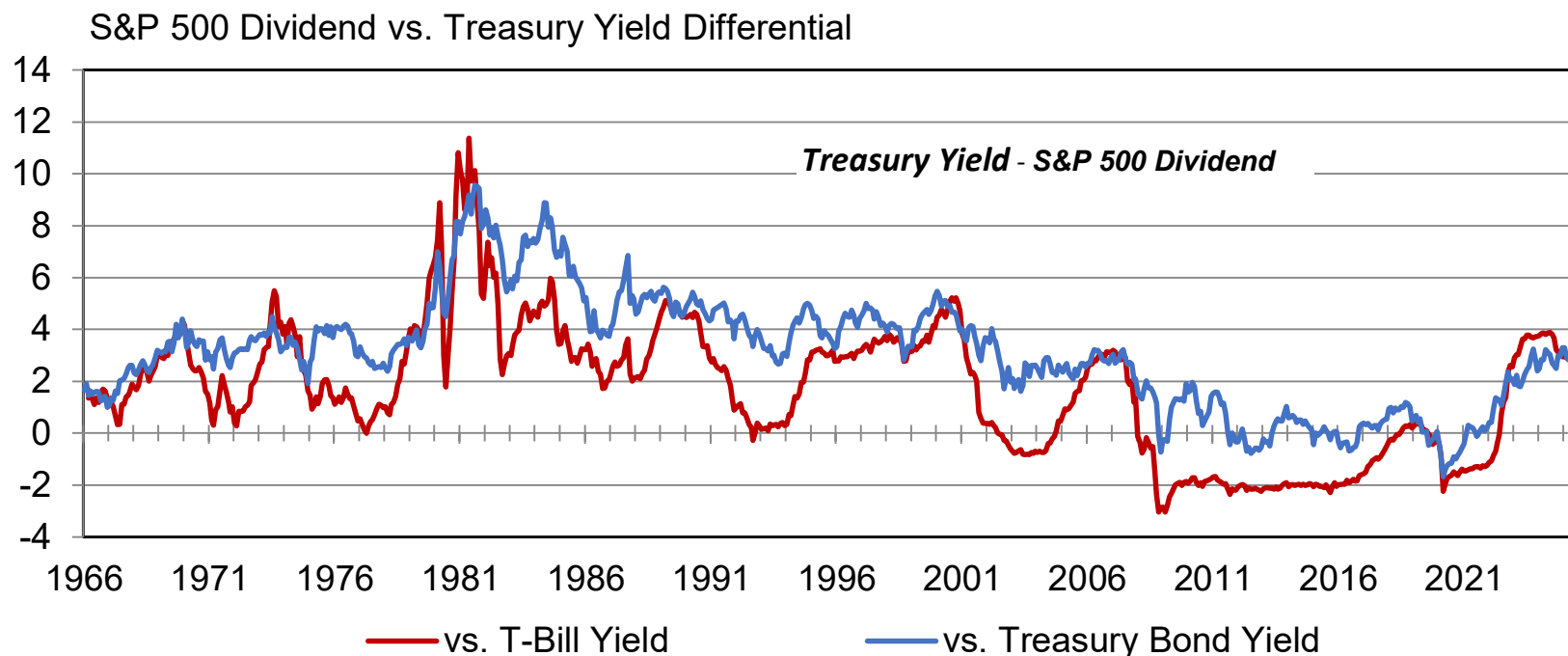


Normal equilibrium price for WTI was \$55-60 thru 2020, but is likely **\$65-75** with more regulation and reduced energy infrastructure investment

Source: EIA

TREASURY BILLS EXCEED VS DIVIDEND YIELD

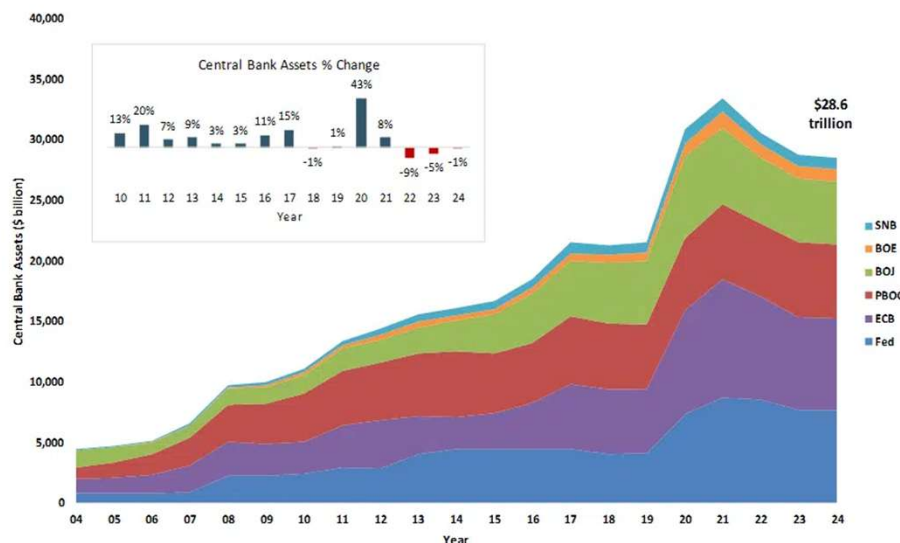
Generally, Treasury Bill, Note, and Bond yields should exceed S&P 500 dividend yields by 2-3%, but since the financial crisis such yield spreads have been exceptionally low or even negative.



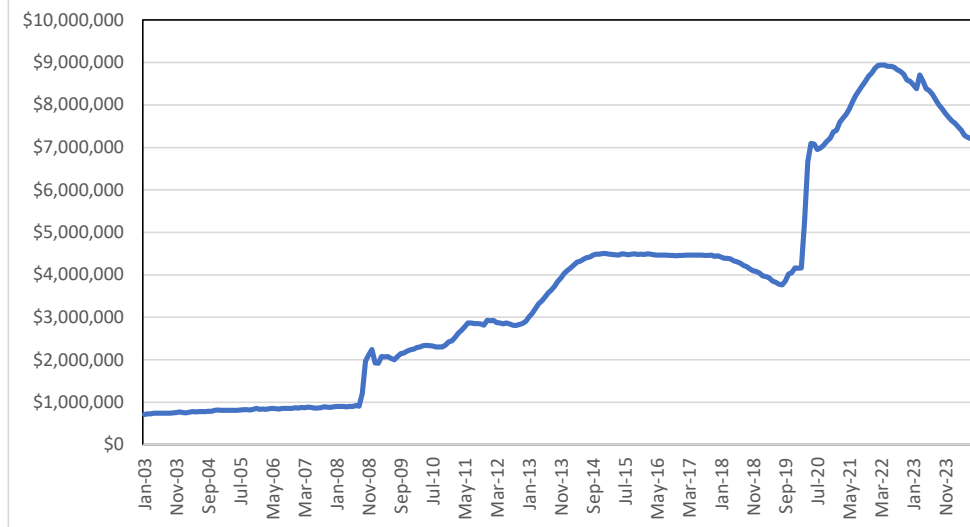
THE PROBLEM: INFLATION & MONEY GROWTH

- 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.

Global Central Bank Balance Sheets
Cumulative assets of the top 6 global central banks (US\$ billions)
Source: Bloomberg

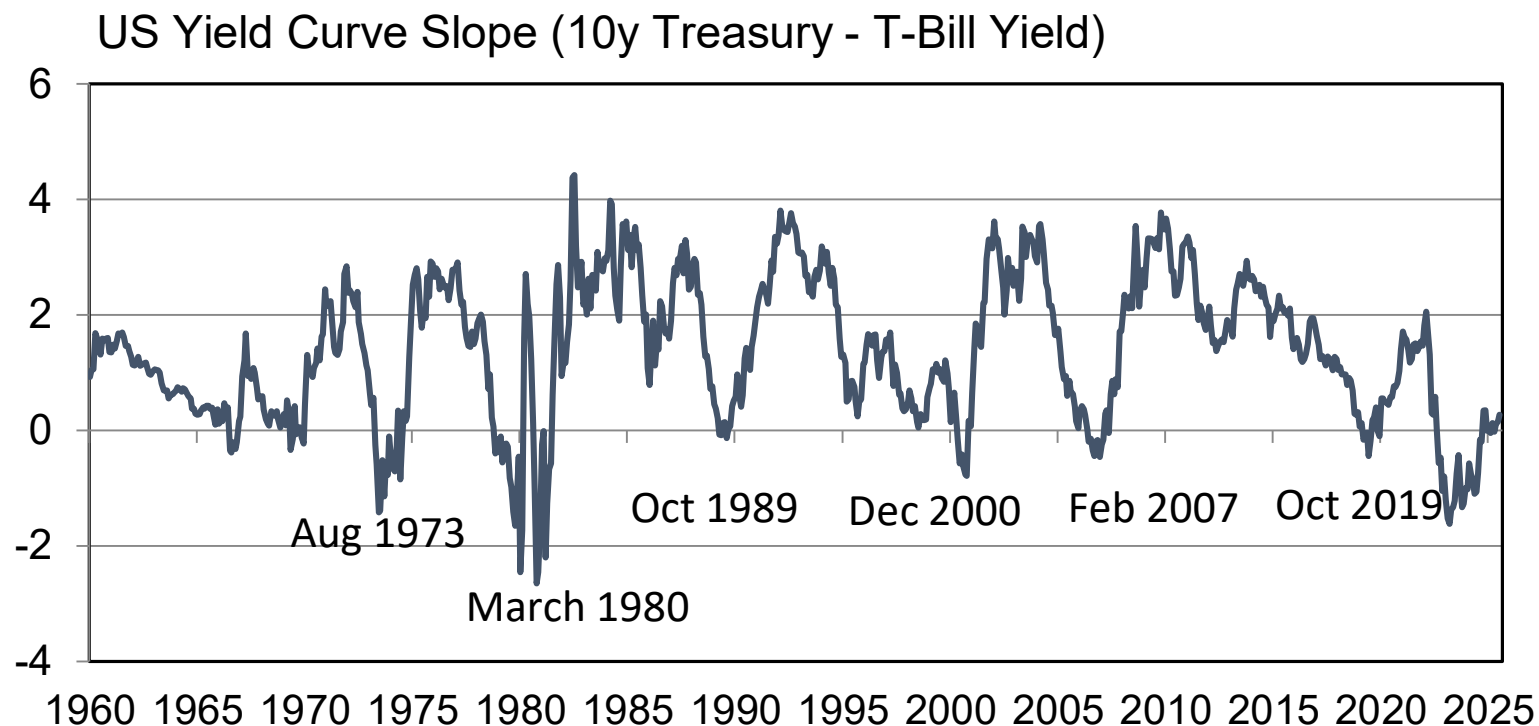


US. Federal Reserves: Securities (000s)

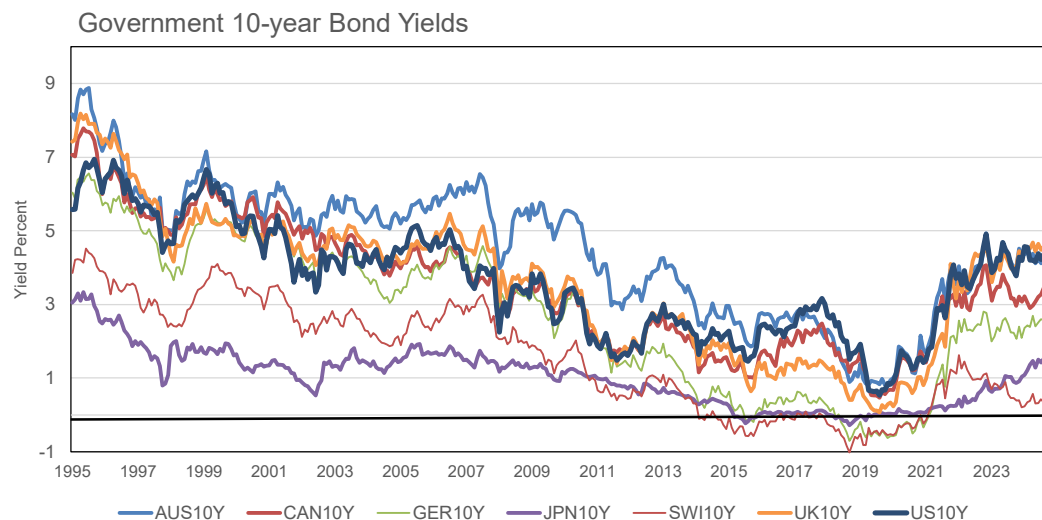
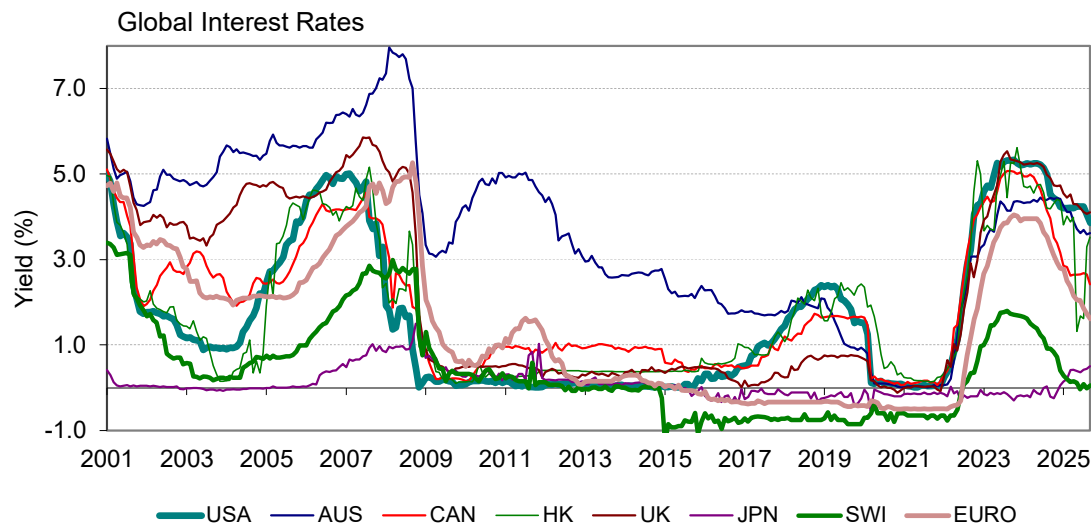


US YIELD CURVE INVERSION UNSUSTAINABLE

- 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.



GLOBAL INTEREST RATES

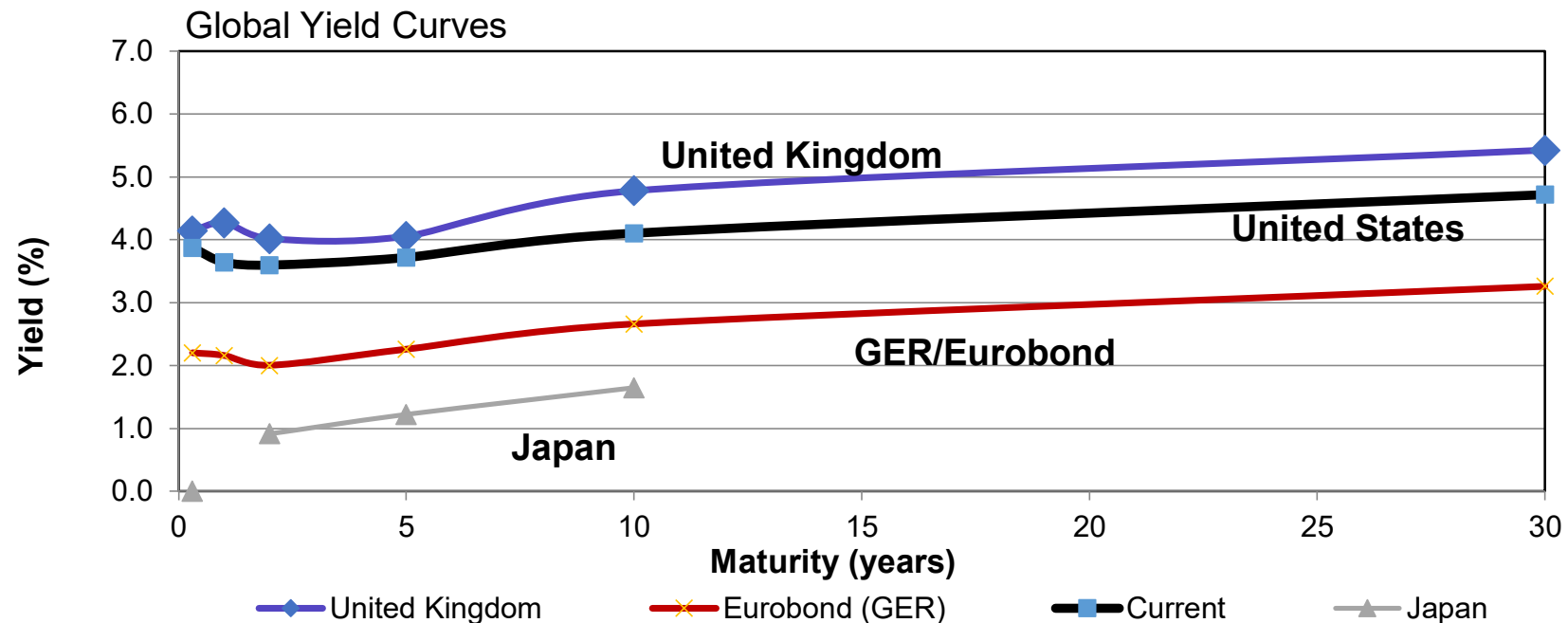


- Global policy interest rates were too low for too long. Reversing QE→QT should drive steeper yield curves, as global bond volatility increases too,.
- New US interest rate regime anchored at higher level of 3.5% vs. 2.5% after two decades of Fed's experimental misguided policies causing financial imbalances 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.

Source: Refinitiv DataStream & Strategic Frontier Management

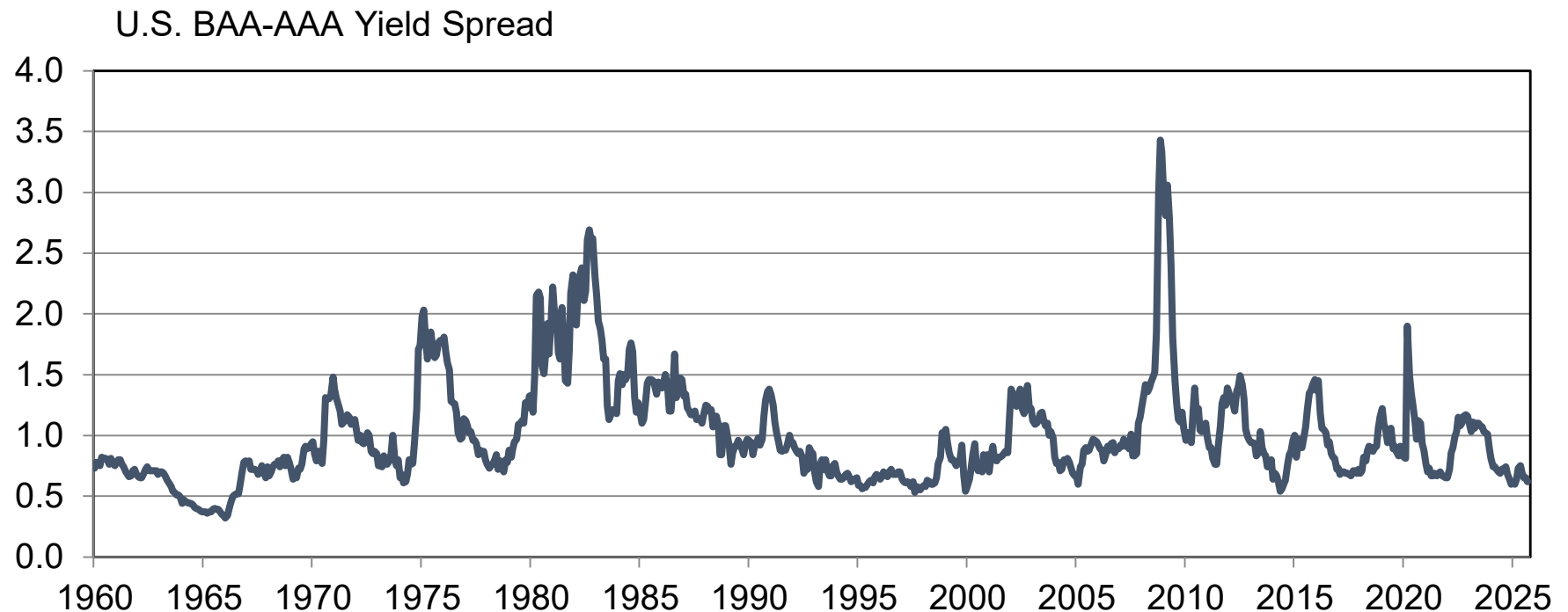
GLOBAL YIELD CURVES

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



CREDIT SPREAD: INVESTMENT GRADE

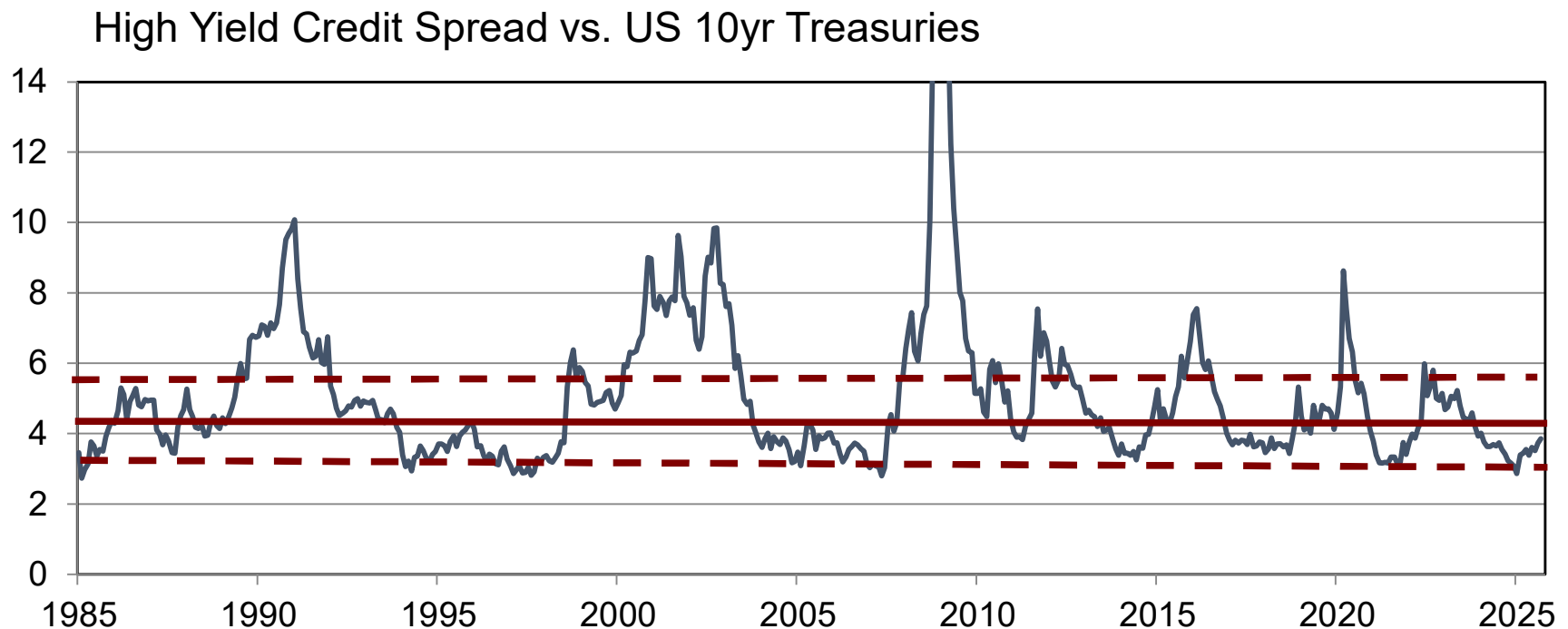
Investor demand for yield can drive credit spreads to lower levels--investors are still chasing yield, and credit spreads are tight again.



Source: Moody's

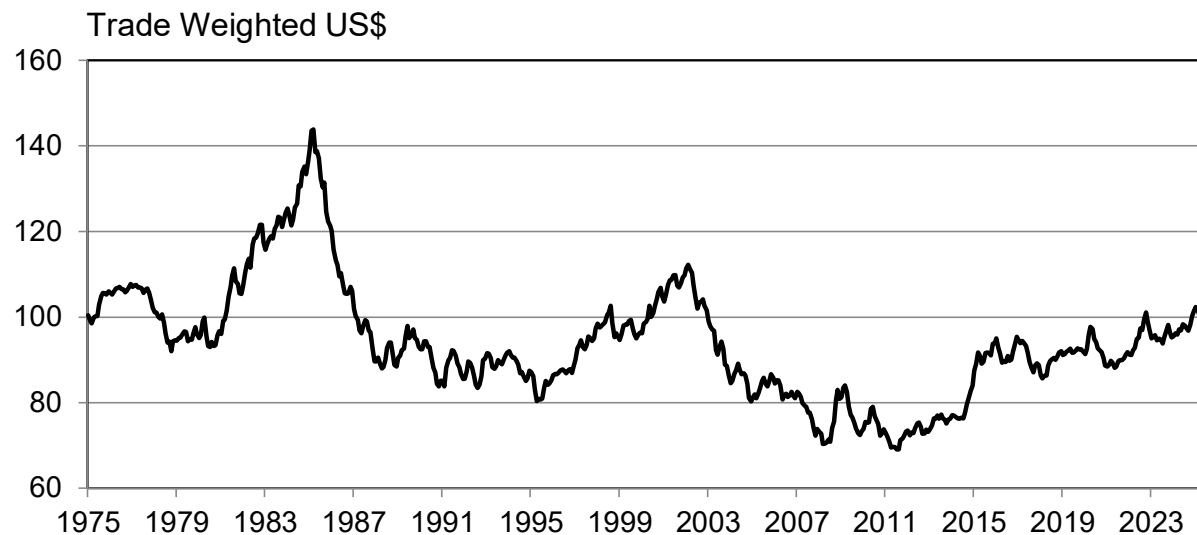
CREDIT SPREAD: HIGH YIELD

- 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



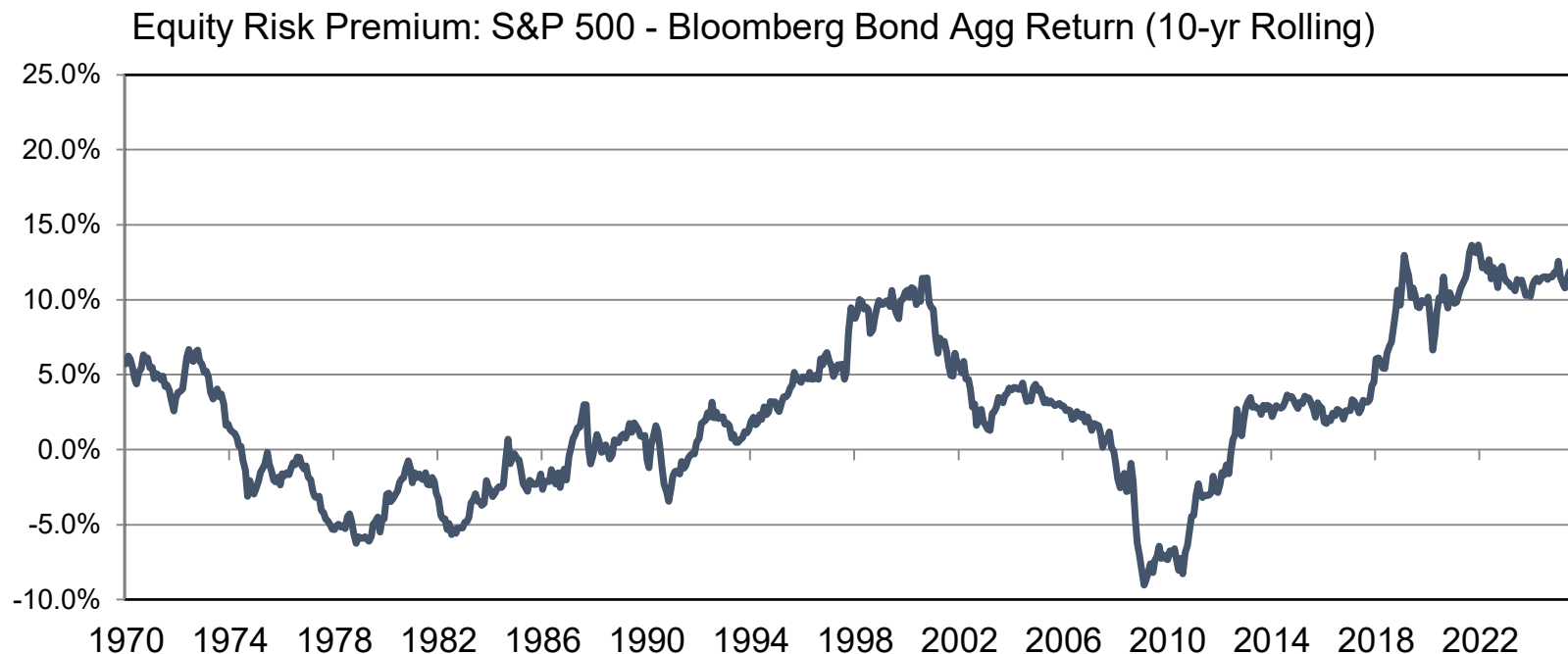
US DOLLAR ADVANTAGE DIMINISHING

- 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.



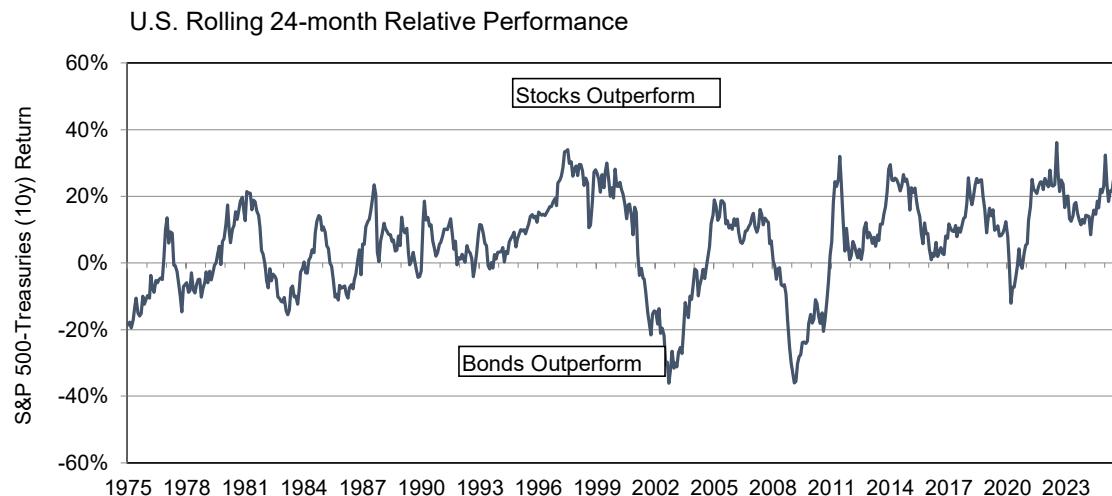
ROLLING 10-YR STOCK VS. BOND RETURN

- 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?



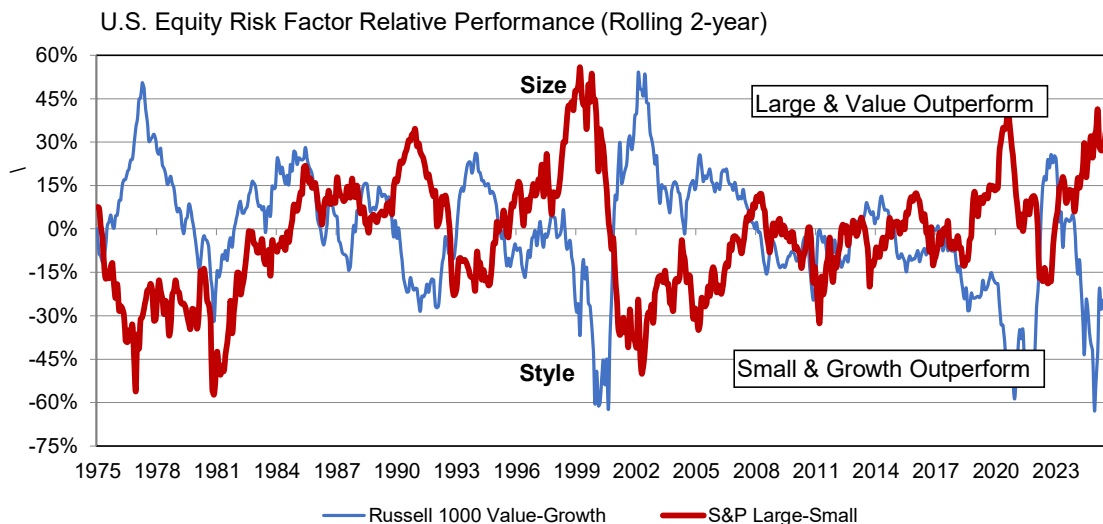
Source: Strategic Frontier Management, Standard & Poor's, Bloomberg-Barclays Indices

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

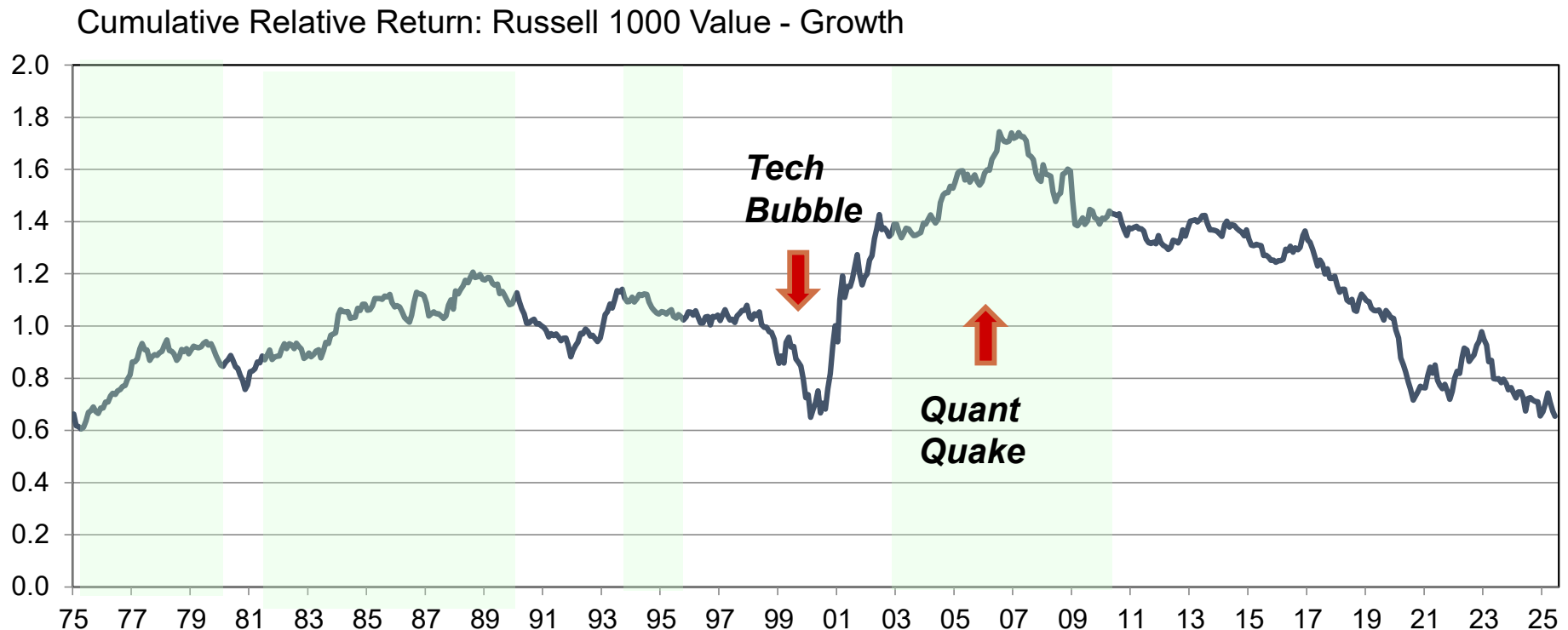
Equity style investing can benefit from differential returns, and often cycles are not synchronized—small-cap is expected and has begun to rebound

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

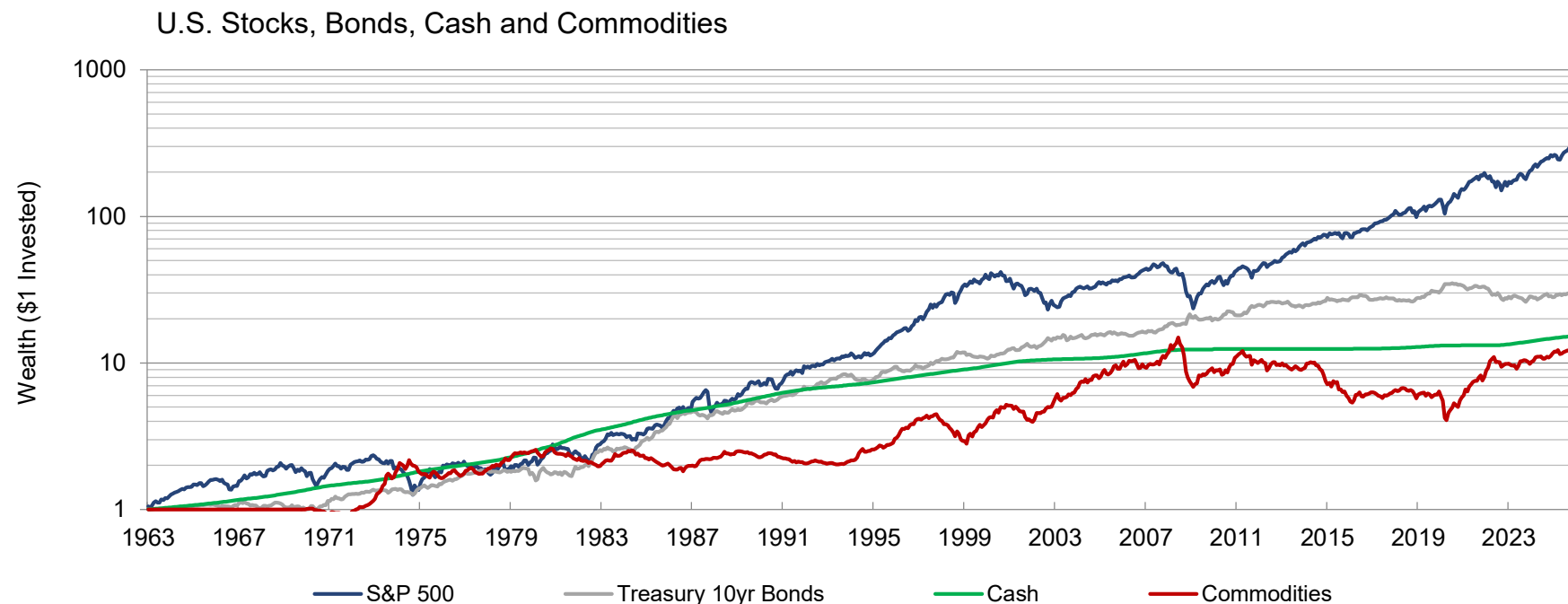
- Fundamental Value Investor may be an Extinct or Endangered Species
- Historical advantage of value tilt absent since Financial Crisis, but style and size risk premiums must rebound for fundamental **active management** to be revived.
- Long-term risk premiums such as Value-Growth and Small Size (large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



Source: Refinitiv DataStream & Strategic Frontier Management

LONG-TERM ASSET CLASS RETURNS

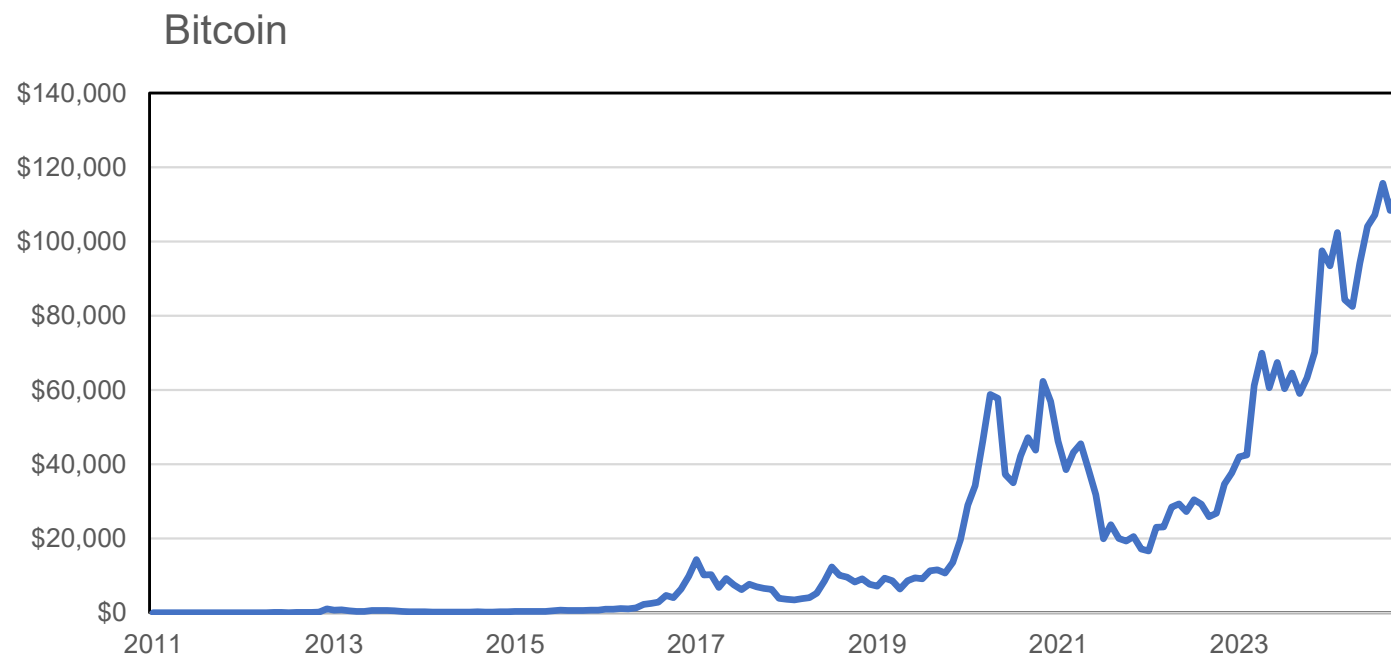
- Global Equity is the best way to stay ahead of inflation, particularly as overvalued bonds struggle with normalization (raising rates, reducing bond holdings)
- Commodities lag both cash and inflation by definition over longer horizons.
- Cryptocurrencies are speculative commodities, and too volatile 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

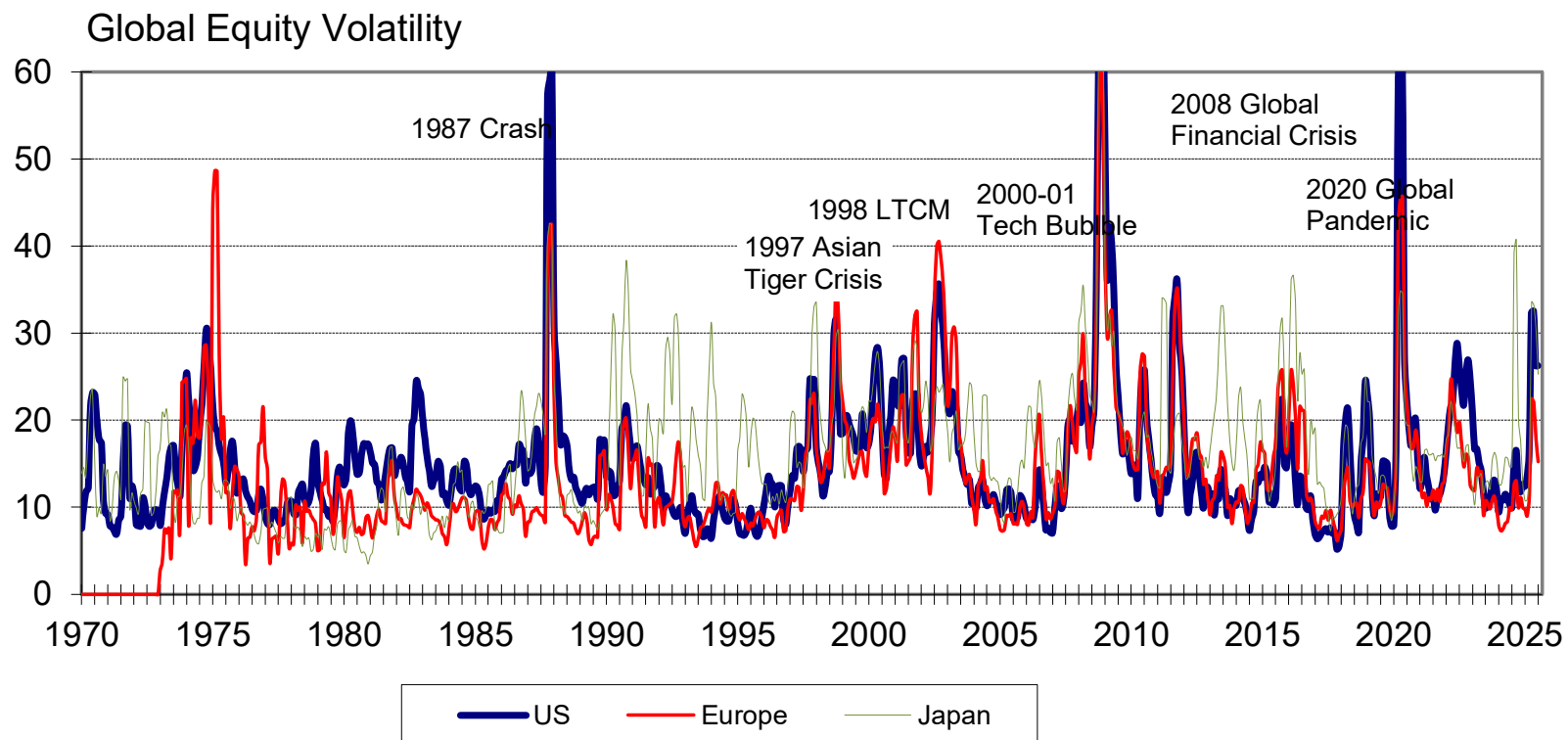
BITCOIN – NEVER A STORE OF VALUE

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

CAPITAL MARKETS—MORE REWILDING NEEDED

<u>Total Return</u>	<u>3-mon</u>	<u>YTD</u>	<u>1-Yr</u>	<u>3-Yr</u>	<u>5-Yr.</u>	<u>10-Yr</u>	<u>20-Yr</u>	<u>30-Yr</u>
S&P 500 Index	8.1	14.8	17.6	24.9	16.5	15.3	11.0	10.5
NASDAQ Composite	11.4	18.2	24.8	29.7	15.8	18.0	13.4	12.3
Russell 2000	12.4	10.4	10.8	15.2	11.6	9.8	8.1	8.6
Russell 1000 Value-Gwth	-5.4	-5.7	-16.2	-14.7	-3.7	-8.1	-5.1	-1.9
Non-US (World xUS)	5.4	25.9	16.7	22.3	12.2	9.0	6.2	6.3
Emerging Markets	10.9	28.2	18.2	18.8	7.5	8.4	6.5	6.4
Small-cap Global	7.5	14.8	12.0	17.4	11.3	9.2	8.2	
US 10-Year Treasury	1.8	7.0	1.6	3.1	-2.8	1.0	3.2	4.1
US Aggregate Bonds	2.3	6.4	3.1	5.0	-0.4	1.9	3.2	4.3
BAML High Yield Bonds	2.5	7.4	7.4	11.1	5.5	6.7	6.6	6.8
Short-term Bonds	0.9	4.5	3.8	4.8	1.3	1.9	2.4	3.3
JPM Non-US Bonds	-1.2	10.3	1.2	5.3	-3.7	0.0	1.6	2.7
Cash (US T-Bills)	1.0	3.1	4.3	4.7	3.0	2.0	1.6	2.3
US Dollar (TWI)	-0.4	-5.8	-1.4	-1.4	0.7	0.4	0.7	0.4
CRB Commodity Index	2.2	4.6	10.2	9.0	18.8	6.7	1.2	5.1
WTI Oil (US\$)	-0.4	-5.8	-1.4	-1.4	0.7	0.4	0.7	0.4
Gold (US\$)	16.7	46.0	45.6	31.8	15.1	13.2	11.1	8.0
Bitcoin	6.4	22.2	80.2	80.4	60.3	85.5		

Source: Strategic Frontier Mgmt. Returns as of September 30, 2025 in US\$. Performance exceeding 1-year annualized.

S&P 500 SECTOR TOTAL RETURNS

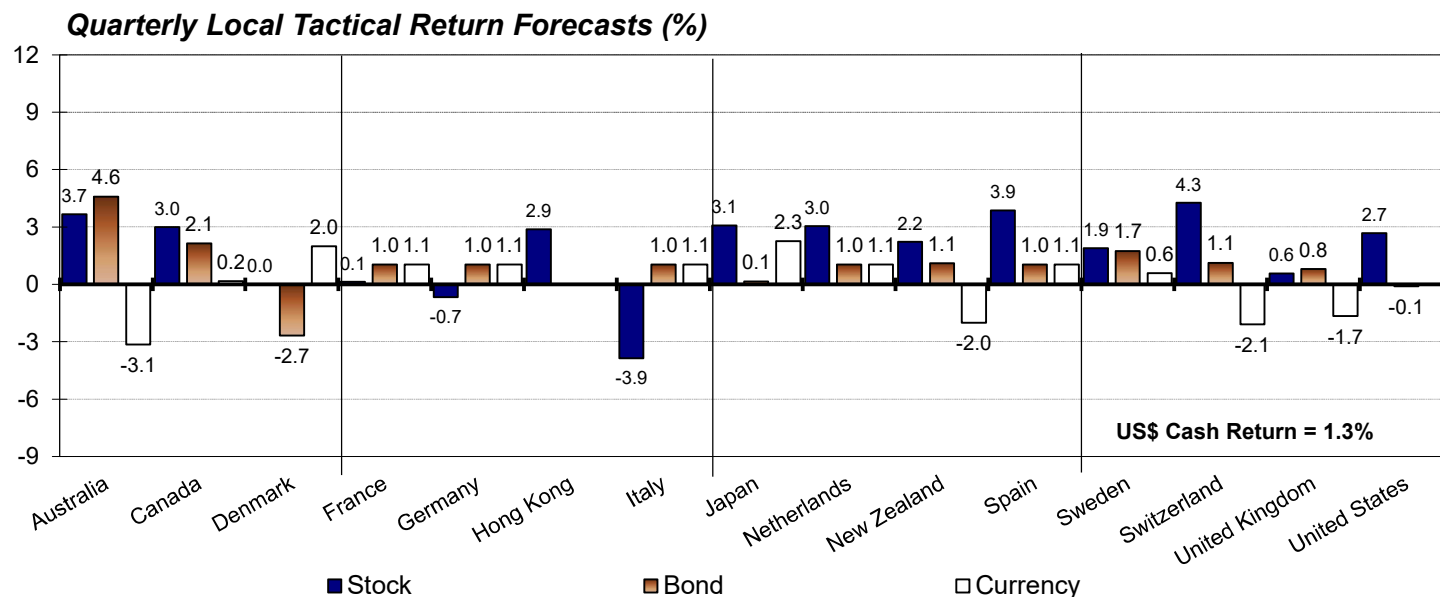
- Many interesting comparisons: Triggered big reversal of US Value-Growth
- Tariff and trade barrier concerns impacting Technology and Consumer Discretionary
- Rotation: Overvalued *Growth* to Fundamental Value, Small-cap still struggling
- Emerging themes: Quantum computing, nuclear energy, reinforcement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

<u>S&P 500 Sector Return</u>	<u>3 mo</u>	<u>YTD</u>	<u>1-Year</u>	<u>3-year</u>	<u>5-year</u>	<u>10-year</u>	<u>20-year</u>	<u>30-year</u>	<u>U.S. Dollars</u>
Communication Services	12.0%	24.5%	35.6%	39.0%	17.7%	14.1%	10.3%	7.4%	SPTELE
Technology	13.2%	22.3%	28.2%	40.3%	23.3%	25.2%	16.6%	13.9%	SPINFT
Industrials	5.0%	18.4%	15.7%	25.1%	16.8%	13.8%	10.3%	10.2%	SPINDU
Utilities	7.6%	17.7%	11.2%	13.6%	11.4%	10.9%	8.8%	8.6%	SPUTIL
S&P 500	8.1%	14.8%	17.6%	24.9%	16.5%	15.3%	11.0%	10.5%	SP500RI
Financials	3.2%	12.8%	20.7%	23.3%	19.7%	13.6%	6.4%	8.5%	SPFINL
Materials	3.1%	9.3%	-4.3%	12.3%	9.5%	10.8%	8.6%	7.7%	SPBASIC
Energy	6.2%	7.0%	4.4%	11.1%	29.6%	8.2%	5.7%	9.1%	SPENGY
Consumer Discretionary	9.5%	5.3%	20.3%	20.6%	10.6%	13.8%	12.1%	11.2%	SPCAPG
Consumer Staples	-2.4%	3.9%	0.5%	10.6%	8.5%	9.0%	9.6%	9.4%	SPCONS
Health Care	3.8%	2.6%	-8.0%	6.6%	7.5%	9.7%	9.8%	10.4%	SPHCAR
Real Estate	2.1%	-1.1%	-3.6%	9.2%	7.0%	7.3%	7.4%	7.2%	SPREIT
S&P 500 Quality	3.0%	10.4%	10.3%	24.5%	15.4%	14.5%	11.7%	11.5%	Quality
S&P 500 Low Volatility	1.5%	6.7%	4.6%	11.0%	8.9%	10.0%	9.3%	10.0%	Low Vol
S&P 500 Low Vol+Hi Div	5.2%	5.5%	1.7%	13.0%	13.1%	9.3%	10.1%	11.1%	Low Vol + Hi Div
Invesco Revenue Wgt ETF	6.5%	14.3%	14.5%	20.0%	17.3%	13.3%			Rev Weighted
S&P Global Infrastructure	3.7%	19.7%	16.8%	17.8%	13.6%	8.9%	7.5%	9.5%	Infrastructure
S&P Global Property	4.5%	11.7%	1.8%	11.1%	6.2%	5.0%	5.1%	6.8%	Property

Source: Refinitiv DataStream and Strategic Frontier Management

Note: Market returns as of September 30, 2025. Performance longer than 1-year is annualized.

GLOBAL TAA FORECASTS FAVOR EQUITIES, LOW RETURNS EXPECTED OVERALL



Global Tactical Asset Allocation Quarterly Forecasts(%)

MSCI	WrldGvt	Apr 2024	Local Markets		In (US\$)		US\$
			Equity	Bond	Equity	Bond	
100%	100%	World	2.4	0.5	2.4	0.7	0.0
16%	34%	Europe	1.9	0.9	1.6	1.4	-0.3
10%	19%	Pacific Basin	3.1	0.2	3.4	0.9	0.3
29%	55%	Non-US World	2.4	0.6	2.4	1.0	0.0
71%	45%	US	2.4	0.3	2.4	0.3	
		Cash		1.1		1.1	
US Style			Lg-Sm	Va-Gr	High Yield - 10yT		
			0.9%	0.4%	0.1%		
			Large - Value		HighYld		

Source: Strategic Frontier Management - Global TAA Models (July 2025)

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

Ref Index	Asset Class	10-year Returns		30-Year Returns		1900-2024	10-year Forecast		Sharpe	
		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%

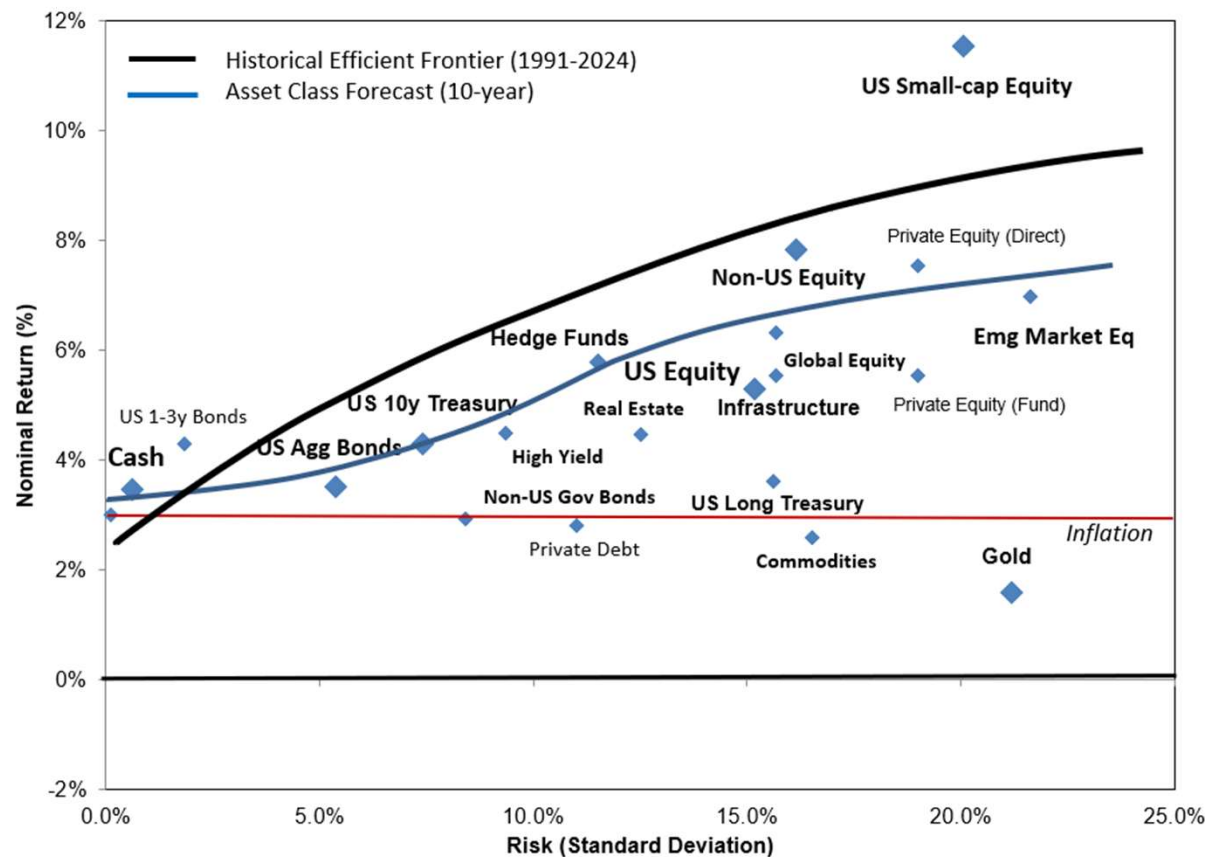
(1) Strategic Frontier Management, Morningstar SBBI (1926-1950) & Credit Suisse Global Investment Returns Yearbook

(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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