



42

Macro



Darius Dale Macro Voices Interview
Thursday, January 8, 2026

Updated and redacted 1/7/26. Originally prepared 12/5/25 for 42 Macro clients.

Disclaimer

Please do not redistribute this email or any information or communications (our “Content”) provided by 42 Macro, LLC (“42 Macro”) to any other person, including forwarding, posting, framing or publishing any of our content on any third-party website or social media platform without express written permission from 42 Macro.

42 Macro does not provide, and no portion of our Content purports to be, individualized or specific investment or tax advice and 42 Macro does not provide investment advice to individuals. All information provided by 42 Macro is general in nature and is made without regard to individual levels of sophistication or investment experience, product availability, investment preferences, investment objectives, risk parameters, or tax consequences and without regard to the suitability of the Content for individuals or entities who may access it. You must be an accredited or registered investor to participate in the 42 Macro Pro-to-Pro service.

No information provided by 42 Macro should be construed as an offer to sell, or a solicitation of an offer to buy any security or investment vehicle, nor should it be construed as tailored or specific to you, or any reader or consumer thereof. You understand and agree that our content does not constitute specific recommendations of any particular investment, security, portfolio, transaction or strategy, nor does it recommend any specific course of action that is suitable for any specific person or entity or group of persons or entities. At any point in time, the employees of 42 Macro may own a portion of or all the ETF securities discussed in 42 Macro research Content.

42 Macro research Content is based upon information from sources believed to be reliable. 42 Macro is not responsible for errors, inaccuracies or omissions of information; nor is it responsible for the accuracy or authenticity of the information upon which it relies.



New to 42 Macro research?

Take advantage of the following resources to speed up your learning journey:

KISS Model Portfolio FAQ:

<https://app.42macro.com/kiss>

Dr. Mo FAQ:

<https://app.42macro.com/drmo>

42 Macro Glossary:

<https://app.42macro.com/glossary>

The Macro Class:

<https://app.42macro.com/macroclass>

Fourth Turning FAQ:

<https://app.42macro.com/fourthturning>

Table Of Contents

- The [42 Macro](#) Risk Management Process: 5
- Fundamental Research Summary: 6
- Quantitative Risk Management Summary: 7
- How Should Investors Be Positioned?: 8-22
 - Retail Investors: [KISS Model Portfolio](#): 8-13
 - Professional Investors: Discretionary Risk Management Overlay aka [Dr. Mo](#): 14
 - [VAMS Model](#), [Global Macro Risk Matrix](#) Market Regime, and [Dr. Mo](#) Backtests: 15-22
- General Market Outlook: 23-24
- Growth Outlook: 25-44
- Inflation Outlook: 45-60
- Monetary Policy Outlook: 61-86
- Fiscal Policy Outlook: 87-113
- Liquidity Outlook: 105-113
- Positioning Considerations: 114-118
- Appendix: Investing During A Fourth Turning Regime: 119-153
- Appendix: Overcoming Behavioral Heuristics: 154-164

The 42 Macro Risk Management Process



42 Macro Factor Long-Short Preferences	Risk-On Market Regimes		Risk-Off Market Regimes	
	GOLDDLOCKS	REFLATION	INFLATION	DEFLATION
General Bias	Risk Assets Defensive Assets	Risk Assets Defensive Assets	Defensive Assets Risk Assets	Defensive Assets Risk Assets
Beta	High Beta Low Beta	High Beta Low Beta	Low Beta High Beta	Low Beta High Beta
Cyclicality	Cyclicals Defensives	Cyclicals Defensives	Defensives Cyclicals	Defensives Cyclicals
Style	Growth Value	Growth Value	Value Growth	Growth Value
Market Cap	SMID Caps Large Caps	SMID Caps Large Caps	Large Caps SMID Caps	Large Caps SMID Caps
Regional	US International	International US	US International	US International
Geographic	Emerging Markets Developed Markets	Emerging Markets Developed Markets	Developed Markets Emerging Markets	Developed Markets Emerging Markets
Fixed Income	Spread Products Treasuries	Spread Products Treasuries	Treasuries Spread Products	Treasuries Spread Products
Treasury Curve	Short Rates Belly Long Rates	Short Rates Belly Long Rates	Short Rates Belly Long Rates	Long Rates Belly Short Rates
Credit	High Yield Investment Grade	High Yield Investment Grade	Investment Grade High Yield	Investment Grade High Yield
Commodities	Industrial Commodities Energy Commodities Agricultural Commodities	Industrial Commodities Energy Commodities Agricultural Commodities	Agricultural Commodities Energy Commodities Industrial Commodities	Agricultural Commodities Energy Commodities Industrial Commodities
Currencies	Gold Foreign Currencies US Dollar	Gold Foreign Currencies US Dollar	US Dollar Gold Foreign Currencies	Gold US Dollar Foreign Currencies

Fundamental Research Summary: Wednesday, January 7, 2026

Sticky Inflation (introduced: Jan-22; time horizon: 1yr+)

- US inflation is unlikely to durably return to the Fed's arbitrary 2% target without an actual recession. There is currently a tariff “pig” in the inflation “python.”
- Our research continues to project an equilibrium Core PCE rate that is currently in the high-2/low-3 percent range that may decline to the high-1 percent range due to a likely disinflationary tailwind from broadening AI adoption. Our research views the disinflationary impulses in housing and wages as likely to counter inflationary impulses from fiscal stimulus in the months ahead. Incremental disinflation increases the probability that the Fed codifies our four-year-old prediction by revising its inflation target higher.

Resilient US Economy (introduced: Sep-22; time horizon: 1yr+)

- The US economy remains resilient due to historically strong private sector balance sheets, labor hoarding, expansionary monetary policy, substantial deregulation, and AI investment. There is currently a low probability of a developing recession in the US economy according to our models and key high-frequency data.
- Our research projects a U-shaped economy featuring growth that bottoms in 2H25 followed by a robust, multi-year recovery starting in 2026. Our research views consensus estimates for growth in 2026-27 as currently being roughly 50% too low.

Paradigm C (introduced: Apr-25; time horizon: 1yr+)

- The Trump administration continues to guide the US economy toward Paradigm C, which features the fiscal and monetary largesse that perpetuated the K-shaped economy of Paradigm A, plus trillions more in tax cuts, substantial deregulation, and some reshoring of industries deemed critical for national defense. In short, Paradigm C implies the net impact of fiscal, regulatory, and trade policy changes represents a multi-year positive shock to growth that Wall Street consensus still underappreciates.
- The key takeaway from our *Investing During a Fourth Turning Regime* presentation is that there is a growing geopolitically driven supply–demand imbalance in the Treasury bond market and the Fed is the only institution in the world with a balance sheet large and flexible enough to fill the void. Given this precondition, an erosion of Fed independence is likely over the long term akin to the prior Fourth Turning. This erosion will likely be disguised as structural reforms that are designed to make the institution more supportive of growth for low-to-median-income consumers, small businesses, and interest-rate-sensitive sectors at the bottom of the K-shaped US economy and less concerned about inflation due to increased productivity from AI. Broadening AI adoption risks a jobless recovery, which would force the Fed to implement structural reforms.
- The bipartisan commitment to fiscal largesse demands substantial financial repression and monetary debasement over the long term. The Fed's decision to begin Reserve Management Operation Purchases (RMOP) in Dec-25 suggests the Fed may be permanently shifting to expansionary balance sheet policy. This presages the likely erosion of Fed independence that we anticipate throughout Paradigm D. We expect a reduction of the SLR by Mar-26. We expect forward guidance to evolve in a manner that perpetuates a durably negative real floor Fed Funds Rate by Dec-26. We expect the Fed to transition from targeting Fed Funds to repo rates to facilitate basis trade expansion by Dec-28. We expect durable Fed yield curve control (YCC) by Dec-29. Fiscal dominance is also why Treasury net financing policy is likely to remain dovish for the foreseeable future. The concentration of issuance in bills — which has ample scope to increase — reduces duration risk across global financial markets and supports global liquidity.

© 42 Macro LLC. Data Source: Bloomberg.

Highlighted callouts include material changes from the preceding 42 Macro research report.

Red = bearish for risk assets. Green is bullish for risk assets. Orange = neutral for risk assets.

Active Themes sourced from our monthly Macro Scouting Reports and daily Leadoff Morning Notes. In chronological order.

Quantitative Risk Management Summary: Wednesday, January 7, 2026

Short-Term Signals (<1 month):

- **Crowding Model:** Currently generating bearish signals in **Emerging Market Equities \$EEM**, **Metals & Mining Stocks \$XME**, and the **Materials Sector \$XLB**.
- **Probable Range Model:** No key macro market indicator is currently overbought or oversold.

Short-to-Medium-Term Signals (1-3 months):

- **Macro Weather Model:** Currently generating a bullish three-month outlook for Bonds and the US Dollar, and a bearish three-month outlook for Stocks, Gold, Bitcoin, and Commodities. The composite signals currently indicate a low probability of sustaining a risk-on Market Regime over the next three months.
- **Positioning Model:** Retail traders are overweight stocks, and professional traders are overweight stocks. Speculators are neutral stocks, underweight Treasuries, neutral the US dollar, and underweight commodities. Our **Positioning Model** signals high risk of a correction (↓ 10%) in risk assets over the short-to-medium term.

Medium-to-Long-Term Signals (3-12+ months):

- **Dr. Mo Directionally Bullish Signals:** PFF, UUP
- **Dr. Mo Directionally Bearish Signals:** n/a
- **Global Macro Risk Matrix:** GOLDILOCKS is the current Market Regime. GOLDILOCKS is a risk-on regime in which investors are generally rewarded for increasing risk because policymakers are supporting or unlikely to restrain real economic growth that is perceived to be accelerating or persistently higher than expectations. *The key portfolio construction considerations in GOLDILOCKS are: Risk Assets > Defensive Assets, High Beta > Low Beta, Cyclical > Defensives, Growth > Value, SMID Caps > Large Caps, US > International, EM > DM, Spread Products > Treasuries, Short Rates > Belly > Long Rates, High Yield > Investment Grade, Industrial Commodities > Energy Commodities > Agricultural Commodities, and Gold > FX > USD.*
- **Global Liquidity Model:** Global liquidity is currently trending higher. Key leading indicators of global liquidity currently signal a significant uptrend over the medium term.
- **GRID Model:** GOLDILOCKS (growth ↑ and inflation ↓) is the modal outcome from a Bottom-Up Macro Regime perspective in the US economy over the medium term.
- **Positioning Model:** Investment advisors are overweight stocks, underweight bonds, and underweight cash. Systematic funds are neutral stocks. Market-neutral hedge funds are overweight risk assets from a gross exposure perspective. Risk asset valuations are consistent with major bull market peaks. Economic policy uncertainty is not consistent with major bull market peaks. Our **Positioning Model** signals high risk of a crash (↓ 20%) in risk assets over the medium-to-long term.

© 42 Macro LLC. Data Source: Bloomberg.

Highlighted callouts include material changes from the preceding 42 Macro research report.

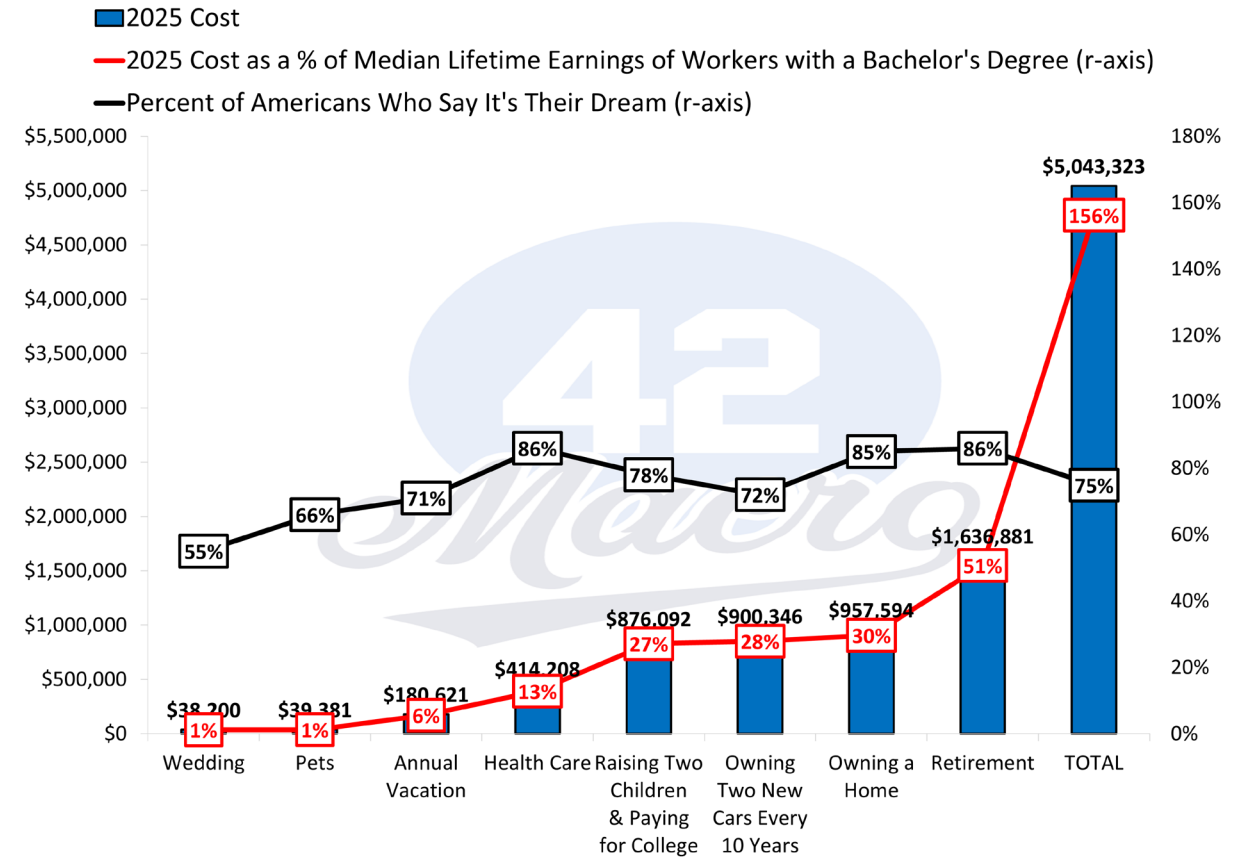
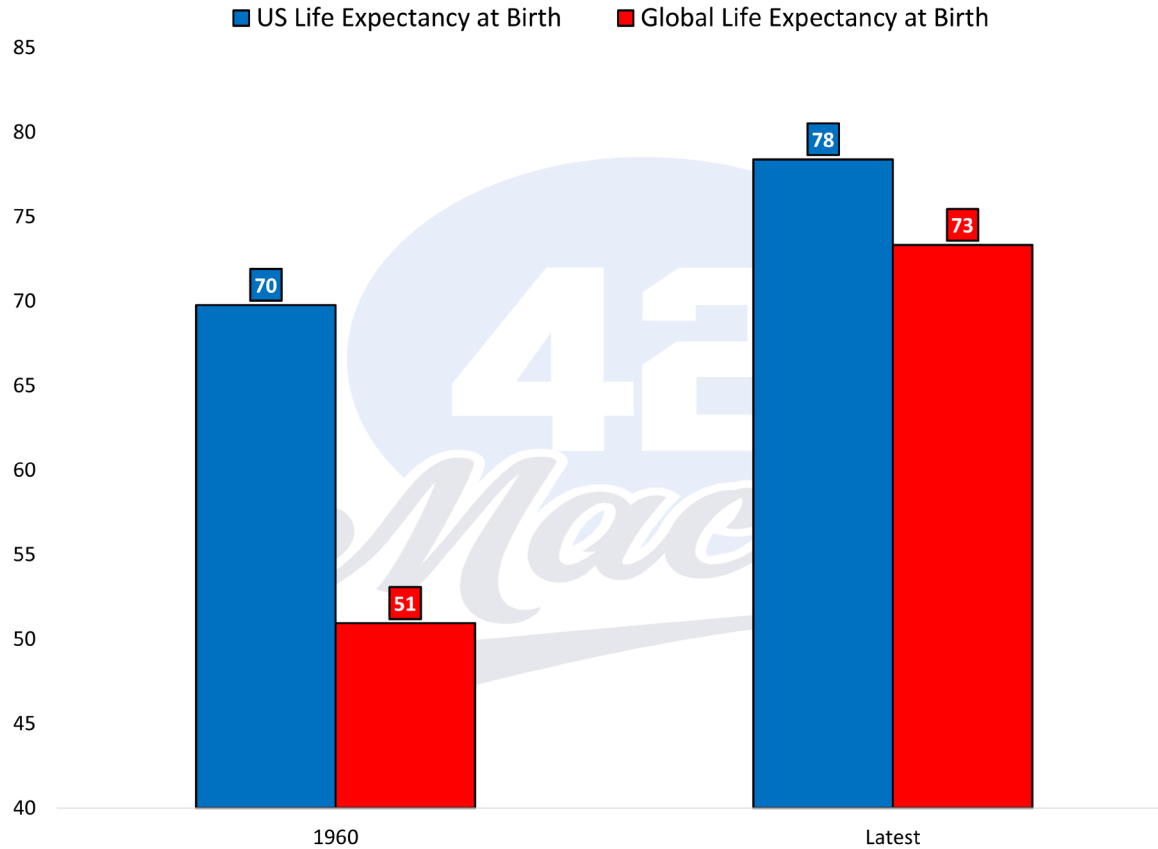
Positioning Model correction/crash risk thresholds: < 25% = low, 25-50% moderate, 50-75% reasonable, and > 75% high.

Macro Weather Model RORO phase transition risk thresholds: < 25% = low, 25-50% moderate, 50-75% reasonable, and > 75% high.

KISS Model Portfolio: Keep It Simple & Systematic

- I. **Factor Selection Process: We have developed a 60/30/10 trend-following strategy that is likely to significantly outperform the standard 60/40 portfolio over the long term on both an absolute and risk-adjusted basis.**
 - The 42 Macro KISS Model Portfolio offers a thoughtful alternative to the traditional 60/40 portfolio framework, particularly during a Fourth Turning regime. Our 60/30/10 trend-following strategy is designed to simplify investing, maximize upside capture during bull markets, and minimize downside capture during bear markets.
 - **60% Stocks, which offensively expose your portfolio to productivity growth:** Our default exposure is the S&P 500 \$SPYM. Investors may allocate that 60% to a diversified equity ETF(s) that better aligns with their individual investment preferences, risk tolerance, and/or product availability. Consult our [Discretionary Risk Management Overlay aka “Dr. Mo”](#) for ideas.
 - **30% Gold, which defensively protects your portfolio from financial repression:** Our default exposure is Gold \$GLDM. Investors may allocate that 30% to a diversified fixed income ETF(s) that better aligns with their individual investment preferences, risk tolerance, and/or product availability. Consult our [Discretionary Risk Management Overlay aka “Dr. Mo”](#) for ideas.
 - **10% Bitcoin, which defensively protects your portfolio from monetary debasement:** Our default exposure is Bitcoin \$FBTC. Investors may allocate that 10% to Bitcoin directly or to a diversified selection of digital or physical commodities that better aligns with their individual investment preferences, risk tolerance, and/or product availability. Consult our [Discretionary Risk Management Overlay aka “Dr. Mo”](#) for ideas.
- II. **Top-Down Risk Management Overlay: We use our Global Macro Risk Matrix to incorporate volatility targeting into our 60/30/10 trend-following strategy.**
 - **Stocks:** If the Market Regime is in a risk-on condition (i.e., **GOLDILOCKS** or **REFLATION**), then the Target Allocation for Stocks is maxed out at 60%. If the Market Regime is in a risk-off condition (i.e., **INFLATION** or **DEFLATION**), then the Target Allocation for Stocks is cut in half to 30%.
 - **Gold:** Gold has historically performed well in all Market Regimes except **INFLATION**, where its absolute return has been modestly negative. Extensive fundamental research suggests Gold is likely to have structurally better performance in **INFLATION**. As such, Gold’s Target Allocation is fixed at 30%.
 - **Bitcoin:** If the Market Regime is in a risk-on condition (i.e., **GOLDILOCKS** or **REFLATION**), then the Target Allocation for Bitcoin is maxed out at 10%. If the Market Regime is in a risk-off condition (i.e., **INFLATION** or **DEFLATION**), then the Target Allocation for Bitcoin is cut in half to 5%.
- III. **Bottom-Up Risk Management Overlay: We use our Volatility-Adjusted Momentum Signal to incorporate dynamic position sizing into our 60/30/10 trend-following strategy.**
 - If an asset is **Bullish VAMS**, then the Actual Exposure = **100%** of the Target Allocation.
 - If an asset is **Neutral VAMS**, then the Actual Exposure = **50%** of the Target Allocation.
 - If an asset is **Bearish VAMS**, then the Actual Exposure = **0%** of the Target Allocation.

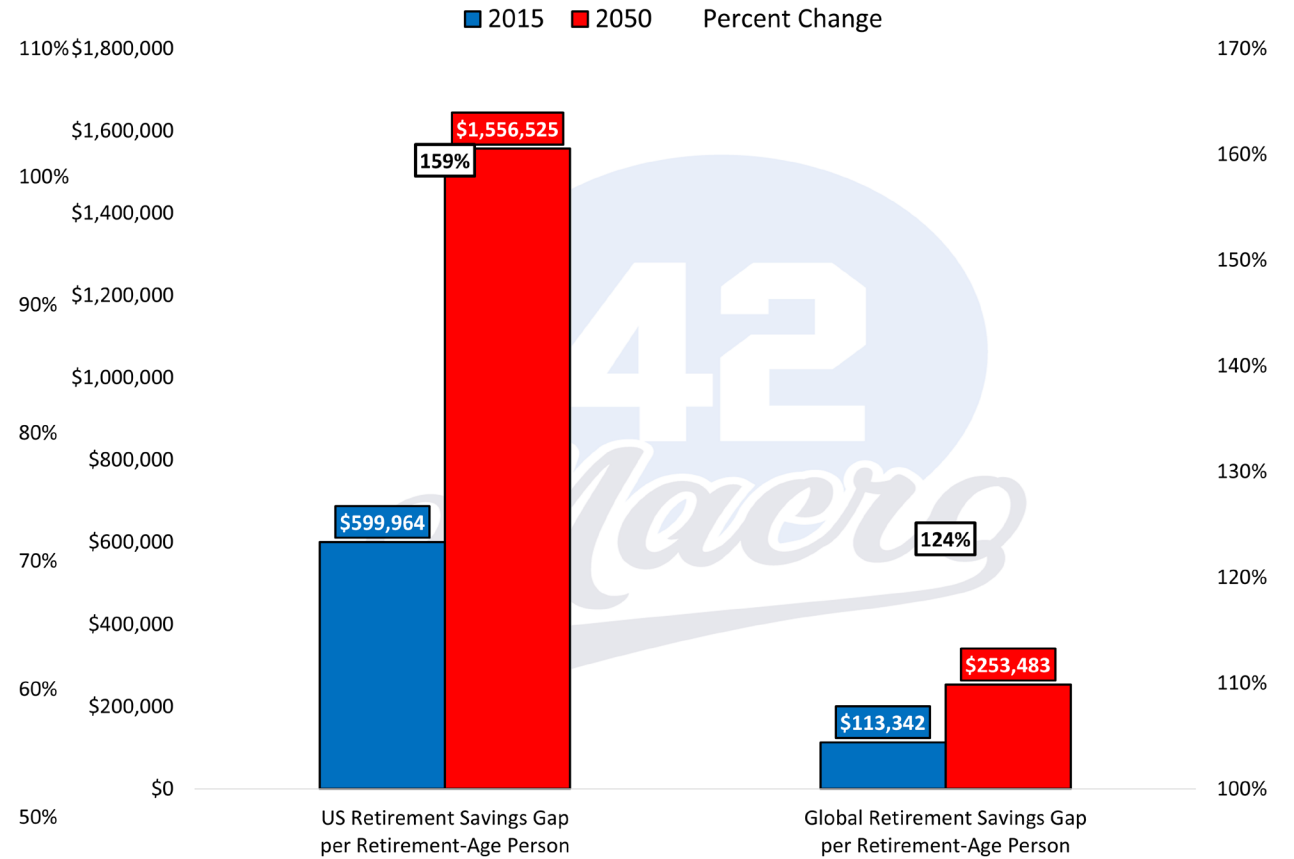
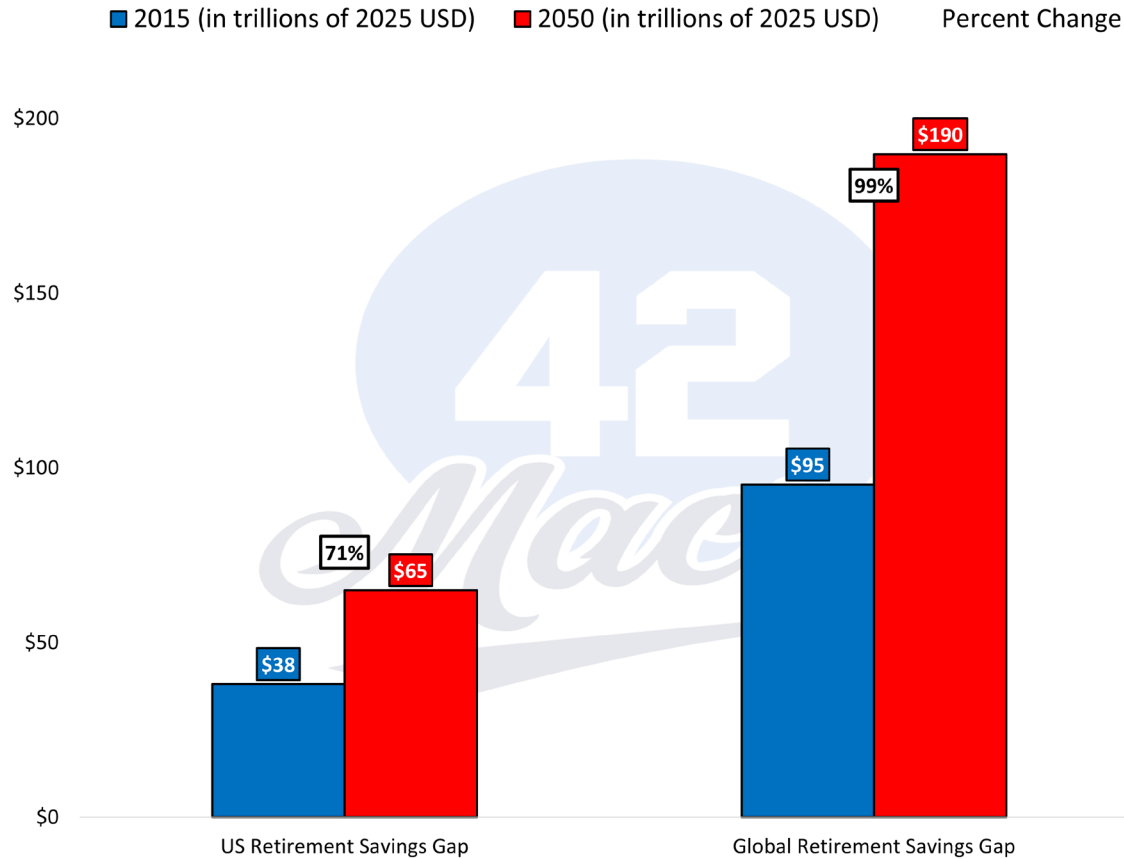
Why KISS? People Are Living Longer And Are Woefully Unprepared For How Much It Costs To Retire On Time And Comfortably



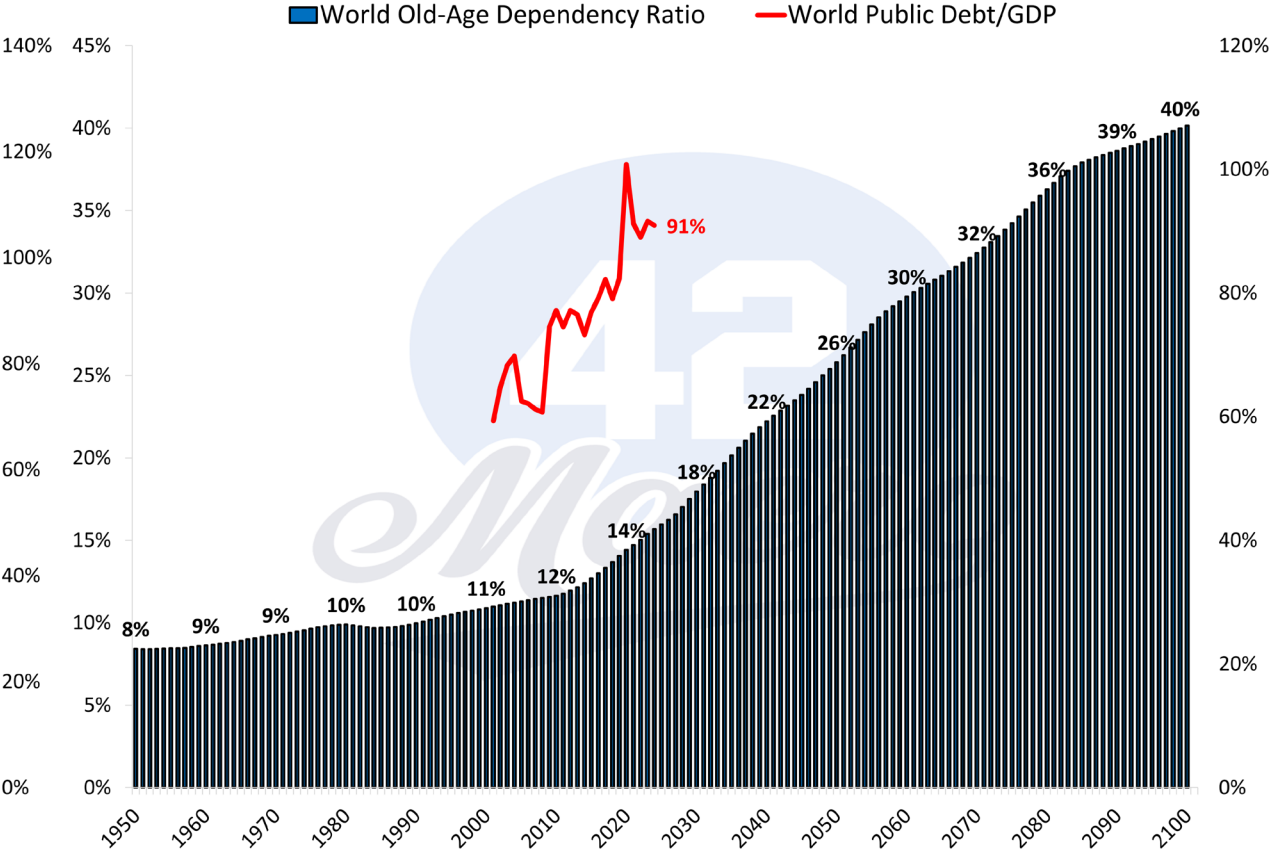
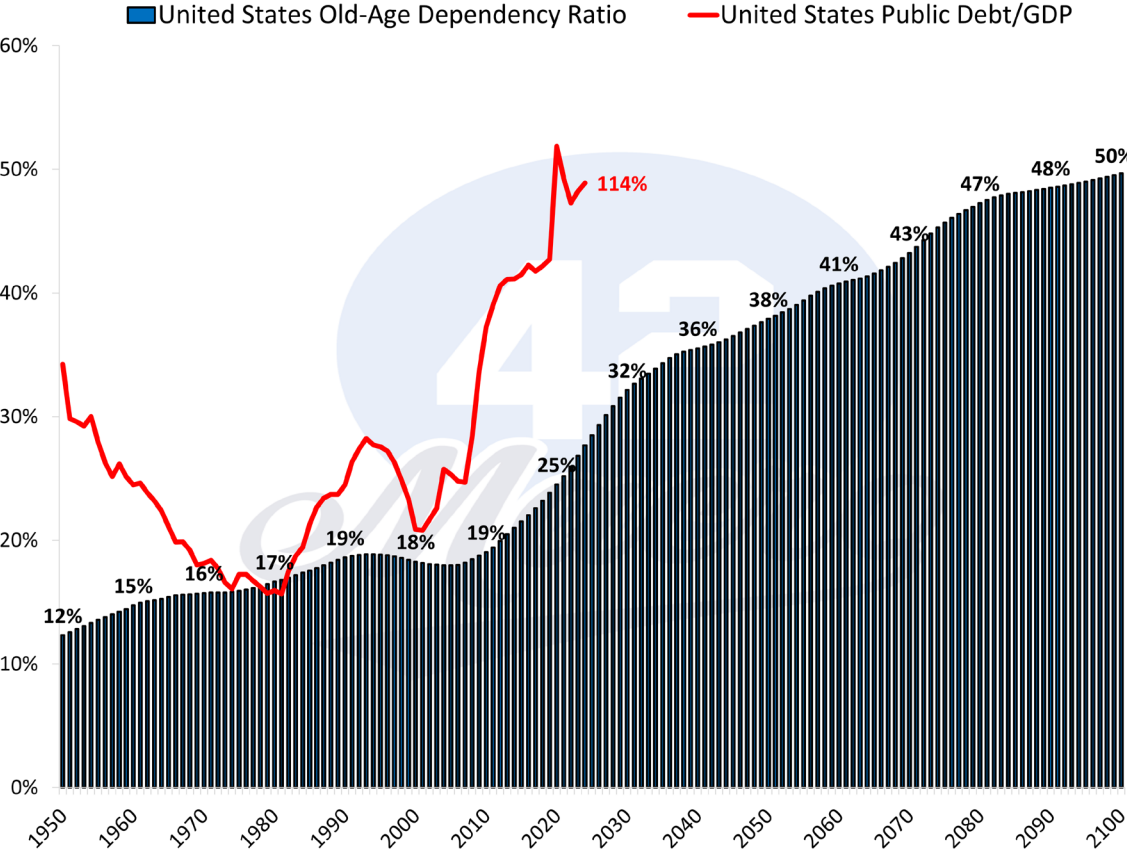
© 42 Macro LLC. Data Sources: Bloomberg, Investopedia 2025 American Dream Survey, Georgetown Center on Education and the Workforce.

The median lifetime earnings of US workers with a bachelor's degree = \$3.2 million in 2025 dollars.

Why KISS? The Retirement Gap Is Already Uncomfortably Large And Projected To Widen Dramatically In The Coming Years

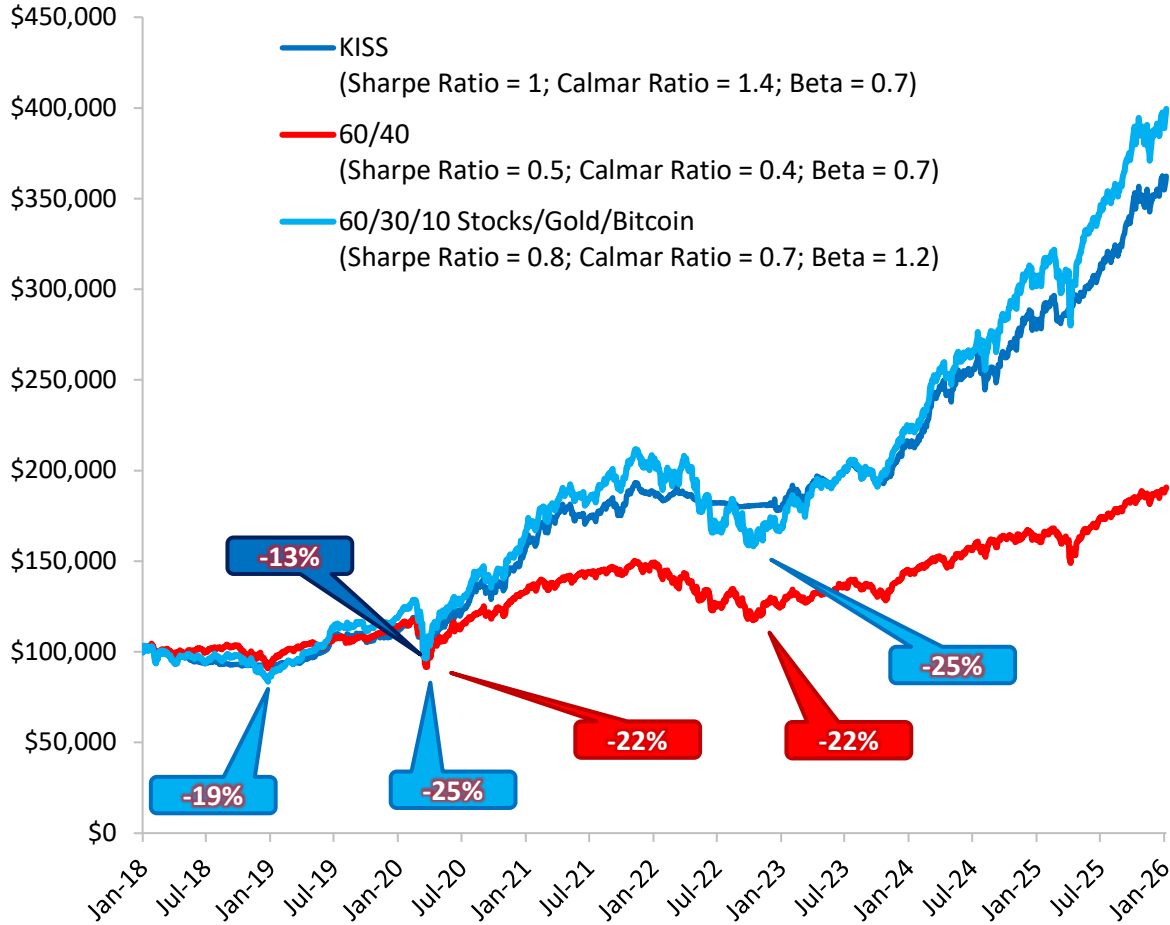


Why KISS? Poor Demographics And Record Public Sector Indebtedness All But Guarantee That Your Retirement Will Not Be Bailed Out By The Government

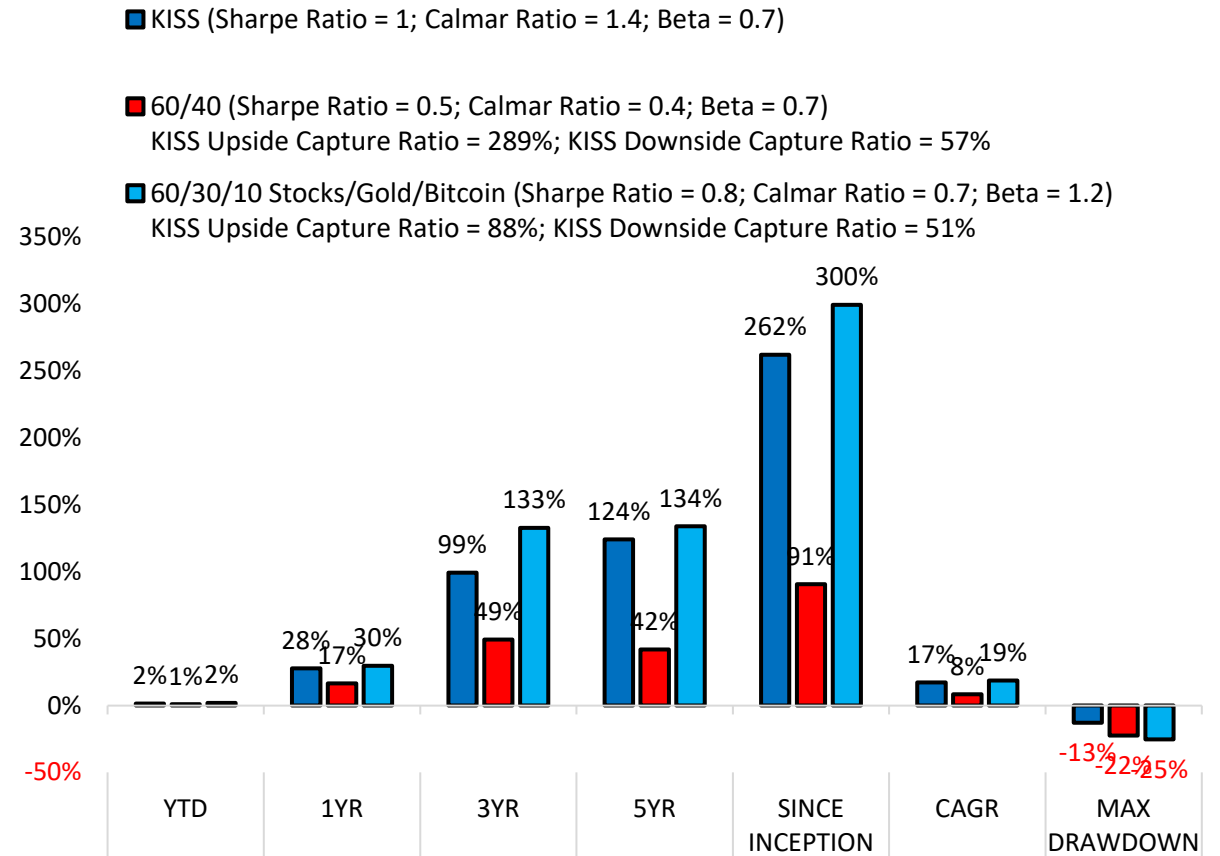


KISS Model Portfolio Backtest

Hypothetical Performance of a \$100,000 Portfolio Since January 1, 2018



Hypothetical Performance of a \$100,000 Portfolio Over Industry-Standard Reporting Horizons (Inception = January 1, 2018)



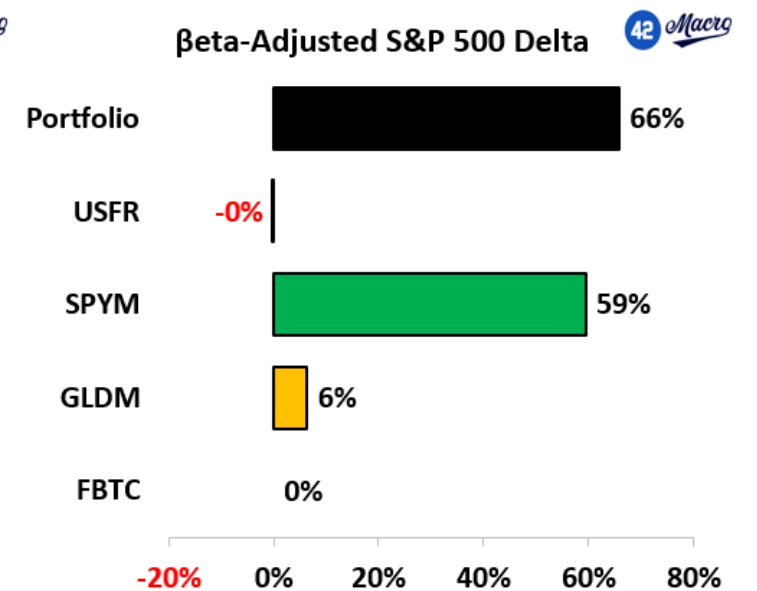
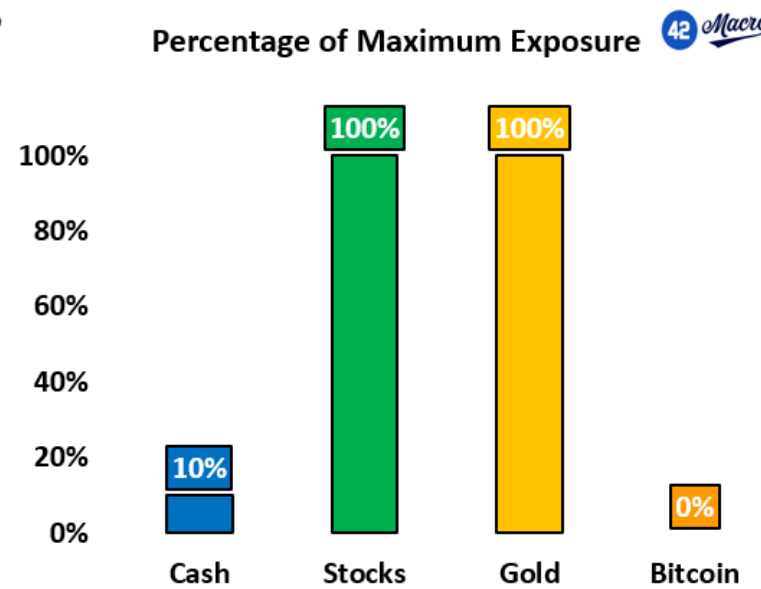
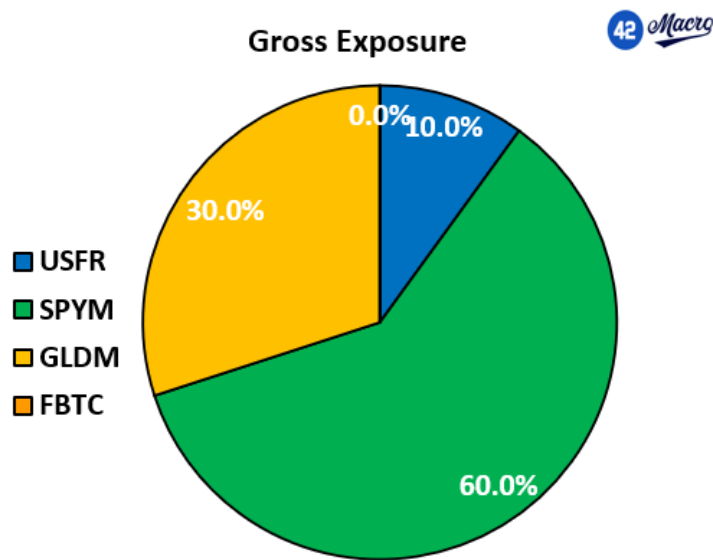
© 42 Macro LLC. Data Source: Bloomberg. Total returns based on daily closing prices.

Out-of-sample backtest. KISS' Top-Down and Bottom-Up Risk Management Overlay pivots are lagged by a full day to simulate real-world trading conditions. KISS has averaged only two trades per month.

Current KISS Model Portfolio (Implement The Pie Chart): Wednesday, January 7, 2026

42 Macro KISS Model Portfolio

Cash (Percent of MAX Exposure of 100%): 10%	Market Regime Determines Target Allocation	VAMS Determines Actual Exposure	Δ Since Prior Update	6mo β to S&P 500
USFR	n/a	10.00%		-0.0
Stocks (Percent of MAX Exposure of 60%): 100%	Top-Down Risk Management Overlay (G&R=60%; I&D=30%)	Bottom-Up Risk Management Overlay (100%/50%/0%)	Δ Since Prior Update	6mo β to S&P 500
SPYM	60.00%	60.00%		1.0
Gold (Percent of MAX Exposure of 30%): 100%	Top-Down Risk Management Overlay (GRID = 30%)	Bottom-Up Risk Management Overlay (100%/50%/0%)	Δ Since Prior Update	6mo β to S&P 500
GLDM	30.00%	30.00%		0.2
Bitcoin (Percent of MAX Exposure of 10%): 0%	Top-Down Risk Management Overlay (G&R=10%; I&D=5%)	Bottom-Up Risk Management Overlay (100%/50%/0%)	Δ Since Prior Update	6mo β to S&P 500
FBTC	10.00%	0.00%		1.7



Investors Should Use Our Discretionary Risk Management Overlay aka “Dr. Mo” As A Market Timing And Position Sizing Guide For Factor Long-Short Bets OR To Implement A Customized Version Of KISS: Wednesday, January 7, 2026

MARKET REGIME: GOLDILOCKS

US EQUITY SECTORS	VAMS	RSI	PROPER TRADE	US EQUITY FACTORS	VAMS	RSI	PROPER TRADE	GLOBAL EQUITIES	VAMS	RSI	PROPER TRADE	FIXED INCOME SECTORS	VAMS	RSI	PROPER TRADE	MACRO EXPOSURES	VAMS	RSI	PROPER TRADE
USA (SPY)	✓	60	LONG: Max Position	Dividend Compounders (SPHD)	⚠	53	LONG: Half Position	Australia (EWA)	⚠	54	LONG: Half Position	0-5yr TIPS (STIP)	⚠	46	LONG: Half Position	Agriculture (DBA)	✗	62	No Position
Communication Services (XLC)	✓	56	LONG: Max Position	Growth (IWF)	✓	52	LONG: Max Position	Brazil (EWZ)	✓	59	LONG: Max Position	1-3yr Treasuries (SHY)	✓	54	LONG: Max Position	Australian Dollar (FXA)	✓	68	LONG: Max Position
Consumer Discretionary (XLY)	✓	54	LONG: Max Position	High Beta (SPHB)	✓	68	LONG: Max Position	Canada (EWC)	✓	64	LONG: Max Position	3-12mo Treasury Bills (BILS)	n/a	53	SHORT: Max Position	Base Metals (DBB)	✓	80	LONG: Max Position
Consumer Staples (XLP)	⚠	43	LONG: Half Position	Large Caps (IWB)	✓	60	LONG: Max Position	China (FXI)	✓	59	LONG: Max Position	5-10yr TIPS (TIP)	⚠	45	LONG: Half Position	Bitcoin	✗	58	No Position
Energy (XLE)	✓	54	LONG: Max Position	Low Beta (SPLV)	⚠	50	LONG: Half Position	Commodity Producers (GNR)	✓	66	LONG: Max Position	5-10yr Treasuries (IEF)	✓	47	LONG: Max Position	British Pound (FXB)	✓	59	LONG: Max Position
Financials (XLF)	✓	70	LONG: Max Position	Mega Cap Growth (QQQ)	✓	56	LONG: Max Position	Emerging Markets (EEM)	✓	73	LONG: Max Position	25+ Year Treasuries (TLT)	✗	41	SHORT: Max Position	Canadian Dollar (FXC)	✓	51	LONG: Max Position
Health Care (XLV)	✓	65	LONG: Max Position	Mid Caps (IWR)	✓	65	LONG: Max Position	Eurozone (EZU)	✓	68	LONG: Max Position	US Aggregate (AGG)	✓	49	LONG: Max Position	Commodities (PDBC)	⚠	51	LONG: Half Position
Industrials (XLI)	✓	68	LONG: Max Position	Momentum (MTUM)	✓	61	LONG: Max Position	Global Equities (ACWX)	✓	68	LONG: Max Position	BDCs (BIZD)	⚠	46	LONG: Half Position	Crude Oil (USO)	✗	46	No Position
Information Technology (XLK)	✓	56	LONG: Max Position	Quality (QUAL)	✓	64	LONG: Max Position	India (INDA)	✓	52	LONG: Max Position	Convertibles (CWB)	✓	63	LONG: Max Position	Ethereum	✗	62	No Position
Materials (XLB)	✓	74	LONG: Max Position	Small Caps (IWM)	✓	61	LONG: Max Position	Japan (EWJ)	✓	58	LONG: Max Position	EM Local Currency Bonds (EMLC)	✓	63	LONG: Max Position	Euro (FXE)	✓	47	LONG: Max Position
Real Estate (XLRE)	⚠	51	LONG: Half Position	Value (IWD)	✓	69	LONG: Max Position	United Kingdom (EWU)	✓	68	LONG: Max Position	EM USD Bonds (EMB)	✓	50	LONG: Max Position	Gold (GLD)	✓	65	LONG: Max Position
Utilities (XLU)	⚠	46	LONG: Half Position									High Yield Credit (HYG)	✓	59	LONG: Max Position	Gold Miners (GDXX)	✓	66	LONG: Max Position
												International Aggregate (BNDX)	✗	33	No Position	Japanese Yen (FXJ)	⚠	45	LONG: Half Position
												International Bonds (BWX)	✗	46	No Position	Silver (SLV)	✓	72	LONG: Max Position
												Investment Grade Credit (LQD)	⚠	48	LONG: Half Position	Silver Miners (SIL)	✓	66	LONG: Max Position
												Leveraged Loans (BKLN)	✓	64	LONG: Max Position	Uranium (SRUUF)	✓	60	LONG: Max Position
												MBS (MBS)	✓	50	LONG: Max Position	US Dollar (UUP)	⚠	55	SHORT: Half Position
												Preferreds (PFF)	✓	65	LONG: Max Position				

Data Source: Bloomberg. Intellectual Property of 42 Macro LLC. VAMS = Volatility-Adjusted Momentum Signal. RSI = 14-Day Relative Strength Index. Highlighted exposures indicate change in PROPER TRADE signal from the previous report. GREEN = directionally bullish change. RED = directionally bearish change. The PROPER TRADE signals do NOT correspond to KISS.

The key portfolio construction considerations in GOLDILOCKS are: Risk Assets > Defensive Assets, High Beta > Low Beta, Cyclical > Defensive, Growth > Value, SMID Caps > Large Caps, US > International, EM > DM, Spread Products > Treasuries, Short Rates > Belly > Long Rates, High Yield > Investment Grade, Industrial Commodities > Energy Commodities > Agricultural Commodities, and Gold > FX > USD.

© 42 Macro LLC. Data Source: Bloomberg. Color coding corresponds to each exposure, for each backtest. Cumulative performance is determined by summing daily log price changes for each asset. Backtests begin in Jan-98. If an ETF is **bullish** (or **bearish**) VAMS and that is in line with how the underlying asset should trade in the current Market Regime, then Dr. Mo will prescribe a “LONG (SHORT): Max Position”. If an ETF is **neutral** VAMS and it should be **bullish** (or **bearish**) in the current Market Regime, then Dr. Mo will prescribe a “LONG (SHORT): Half Position”. There are no **SHORT**: Half Positions for Equity and Crypto exposures. Dr. Mo will prescribe a “No Position” if the VAMS is the opposite of what it should be in the current Market Regime.



Volatility-Adjusted Momentum Signal (VAMS) And Global Macro Risk Matrix Market Regime Backtests

42 Macro Market Regime & VAMS Backtests		% of Cumulative Performance by VAMS Condition			% of Cumulative Performance by Market Regime						Sharpe Ratio by Market Regime						42 Macro Market Regime & VAMS Backtests		% of Cumulative Performance by VAMS Condition			% of Cumulative Performance by Market Regime						Sharpe Ratio by Market Regime					
		BULLISH	NEUTRAL	BEARISH	GOLDDILOCKS	REFLATION	INFLATION	DEFLATION	RISK ON	RISK OFF	GOLDDILOCKS	REFLATION	INFLATION	DEFLATION	RISK ON	RISK OFF			BULLISH	NEUTRAL	BEARISH	GOLDDILOCKS	REFLATION	INFLATION	DEFLATION	RISK ON	RISK OFF	GOLDDILOCKS	REFLATION	INFLATION	DEFLATION	RISK ON	RISK OFF
SPY	S&P 500	93%	38%	-31%	65%	39%	1%	-4%	103%	-3%	0.9	0.7	0.0	0.0	0.8	0.0	STIP	0-5yr TIPS	78%	31%	-8%	52%	44%	-4%	8%	95%	5%	1.2	0.9	-0.1	0.2	1.1	0.1
XLC	Communication Services	164%	85%	-149%	151%	50%	-82%	-18%	200%	-100%	0.5	0.2	-0.5	0.0	0.3	-0.2	SHY	1-3yr Treasuries	68%	33%	-1%	25%	26%	6%	43%	51%	49%	1.6	1.6	0.8	2.6	1.6	2.0
XLY	Consumer Discretionary	81%	58%	-39%	70%	36%	-11%	6%	106%	-6%	0.9	0.6	-0.3	0.1	0.7	0.0	TIP	5-10yr TIPS	74%	16%	9%	51%	32%	-6%	22%	84%	16%	1.1	0.7	-0.2	0.4	0.9	0.2
XLP	Consumer Staples	55%	36%	8%	43%	35%	16%	5%	79%	21%	0.5	0.4	0.3	0.0	0.5	0.1	IEF	5-10yr Treasuries	69%	26%	4%	21%	21%	4%	54%	42%	58%	0.5	0.5	0.2	1.3	0.5	1.0
XLE	Energy	66%	125%	-91%	99%	39%	32%	-70%	138%	-38%	0.6	0.3	0.5	-0.3	0.5	-0.1	TLT	Long Bond	145%	28%	-73%	39%	1%	-72%	131%	41%	59%	0.1	0.0	-0.4	0.3	0.1	0.1
XLF	Financials	122%	76%	-98%	90%	50%	4%	-45%	140%	-40%	0.6	0.4	0.1	-0.2	0.5	-0.1	AGG	US Aggregate	62%	30%	8%	35%	26%	0%	38%	61%	39%	1.2	0.8	0.0	1.4	1.0	0.9
XLV	Health Care	72%	23%	5%	43%	19%	17%	21%	62%	38%	0.6	0.3	0.4	0.2	0.4	0.3	BIZD	BDCs	146%	129%	-175%	110%	90%	-9%	-92%	200%	-100%	0.7	0.8	-0.1	-0.3	0.7	-0.3
XLI	Industrials	98%	58%	-56%	70%	43%	3%	-15%	112%	-12%	0.8	0.6	0.1	-0.1	0.7	-0.1	CWB	Convertibles	107%	21%	-28%	104%	29%	-20%	-12%	133%	-33%	1.7	0.5	-0.7	-0.2	1.2	-0.3
XLK	Information Technology	83%	69%	-52%	48%	38%	0%	15%	85%	15%	0.7	0.7	0.0	0.2	0.7	0.1	EMLC	EM Local Currency Bonds	121%	59%	-80%	144%	24%	-53%	-15%	167%	-67%	1.1	0.2	-1.0	-0.1	0.7	-0.3
XLB	Materials	74%	74%	-48%	99%	28%	-2%	-25%	127%	-27%	0.8	0.3	0.0	-0.2	0.6	-0.1	EMB	EM USD Bonds	72%	45%	-17%	75%	18%	6%	2%	93%	7%	3.1	0.9	0.5	0.0	2.1	0.1
XLRE	Real Estate	102%	165%	-167%	112%	26%	25%	-63%	138%	-38%	0.5	0.1	0.2	-0.1	0.3	-0.1	HYG	High Yield Credit	94%	35%	-30%	85%	35%	-6%	-14%	120%	-20%	4.1	2.2	-0.5	-0.4	3.2	-0.4
XLU	Utilities	61%	107%	-67%	61%	13%	35%	-9%	75%	25%	0.5	0.1	0.6	-0.1	0.3	0.1	BNDX	International Aggregate	66%	32%	1%	61%	34%	-14%	19%	94%	6%	1.1	0.6	-0.5	0.3	0.8	0.1
SPHD	Dividend Compounders	75%	36%	-11%	56%	28%	9%	7%	84%	16%	0.8	0.5	0.3	0.1	0.7	0.1	BWX	International Bonds	95%	11%	-6%	55%	40%	-24%	29%	95%	5%	0.7	0.5	-0.7	0.4	0.6	0.0
IWF	Growth	99%	52%	-51%	63%	43%	-6%	0%	106%	-6%	0.9	0.8	-0.2	0.0	0.8	0.0	LQD	Investment Grade Credit	75%	31%	-6%	56%	31%	-5%	18%	87%	13%	1.6	0.9	-0.3	0.5	1.3	0.2
SPHB	High Beta	115%	129%	-145%	113%	23%	-12%	-24%	136%	-36%	0.8	0.2	-0.2	-0.1	0.5	-0.1	BKLN	Leveraged Loans	104%	27%	-31%	74%	46%	-4%	-16%	119%	-19%	4.6	3.9	-0.4	-0.3	4.3	-0.3
IWB	Large Caps	58%	47%	-5%	42%	34%	25%	-1%	76%	24%	0.6	0.6	0.8	0.0	0.6	0.2	MBB	MBS	56%	36%	9%	27%	27%	4%	43%	53%	47%	1.1	0.8	0.2	2.0	0.9	1.2
SPLV	Low Beta	94%	39%	-33%	69%	40%	0%	-9%	109%	-9%	1.0	0.7	0.0	-0.1	0.8	-0.1	PFF	Preferreds	147%	30%	-77%	131%	46%	-25%	-52%	177%	-77%	1.5	0.6	-0.7	-0.3	1.1	-0.3
QQQ	Mega Cap Growth	82%	57%	-39%	49%	39%	-1%	12%	89%	11%	0.8	0.7	0.0	0.1	0.8	0.1	DBA	Agriculture	303%	-96%	-107%	133%	93%	21%	-147%	226%	-126%	0.6	0.5	0.3	-0.7	0.5	-0.4
IWR	Mid Caps	79%	51%	-31%	79%	36%	3%	-18%	115%	-15%	1.2	0.7	0.1	-0.2	1.0	-0.1	FXA	Australian Dollar	229%	116%	-245%	1908%	306%	-1077%	-1037%	2214%	-2114%	0.4	0.1	-0.6	-0.2	0.3	-0.3
MTUM	Momentum	98%	27%	-25%	63%	32%	2%	3%	95%	5%	1.2	0.7	0.1	0.0	0.9	0.1	DBB	Base Metals	286%	18%	-204%	151%	147%	-37%	-161%	298%	-198%	1.4	1.4	-0.9	-1.6	1.4	-1.4
QUAL	Quality	87%	25%	-12%	50%	39%	-4%	16%	88%	12%	1.0	0.9	-0.1	0.2	0.9	0.1	Bitcoin	Bitcoin	120%	-1%	-19%	53%	65%	-15%	-4%	119%	-19%	0.9	1.2	-0.9	-0.1	1.0	-0.3
IWM	Small Caps	88%	56%	-43%	102%	40%	2%	-44%	142%	-42%	1.1	0.5	0.0	-0.4	0.8	-0.3	FXB	British Pound	350%	-91%	-358%	-3%	214%	-75%	-237%	211%	-311%	0.0	0.7	-0.5	-0.7	0.3	-0.6
IWD	Value	86%	59%	-45%	88%	36%	9%	-33%	124%	-24%	0.9	0.5	0.2	-0.2	0.7	-0.1	FXC	Canadian Dollar	294%	72%	-266%	1475%	44%	-546%	-873%	1519%	-1419%	0.6	0.0	-0.6	-0.3	0.3	-0.4
EWA	Australia	94%	29%	-23%	92%	34%	-5%	-20%	125%	-25%	0.8	0.4	-0.1	-0.1	0.6	-0.1	PDBC	Commodities	228%	43%	-171%	141%	126%	-15%	-151%	266%	-166%	1.3	1.2	-0.4	-1.5	1.3	-1.1
EWZ	Brazil	177%	86%	-162%	396%	-29%	12%	-280%	368%	-268%	0.9	-0.1	0.1	-0.5	0.4	-0.3	USO	Crude Oil	309%	189%	-397%	223%	232%	-4%	-350%	454%	-354%	0.5	0.7	0.0	-0.7	0.6	-0.5
EWC	Canada	104%	43%	-47%	86%	53%	-4%	-35%	138%	-38%	1.2	0.8	-0.1	-0.3	1.0	-0.2	Ethereum	Ethereum	255%	-38%	-118%	236%	39%	-188%	13%	275%	-175%	0.5	0.1	-0.9	0.0	0.3	-0.2
FXI	China	178%	81%	-159%	355%	95%	-132%	-218%	450%	-350%	0.8	0.2	-0.5	-0.3	0.5	-0.4	FXE	Euro	197%	13%	-110%	437%	398%	-267%	-468%	835%	-735%	0.3	0.3	-0.4	-0.3	0.3	-0.3
GNR	Commodity Producers	94%	80%	-74%	96%	38%	14%	-48%	134%	-34%	0.6	0.3	0.2	-0.2	0.5	-0.1	GLD	Gold	91%	3%	5%	50%	29%	-3%	25%	79%	21%	0.9	0.6	-0.2	0.5	0.7	0.3
EEM	Emerging Markets	119%	50%	-68%	164%	60%	-47%	-77%	224%	-124%	1.5	0.6	-0.9	-0.5	1.1	-0.6	GDV	Gold Miners	186%	24%	-109%	140%	-64%	-140%	163%	76%	24%	0.2	-0.1	-0.6	0.2	0.1	0.0
EZU	Eurozone	313%	75%	-288%	113%	109%	-46%	-77%	223%	-123%	0.5	0.6	-0.4	-0.2	0.5	-0.3	FXV	Japanese Yen	-3%	-20%	-77%	-55%	-95%	-16%	67%	-150%	50%	-0.1	-0.2	-0.1	0.1	-0.2	0.1
ACWX	Global Equities	146%	56%	-102%	130%	77%	-38%	-70%	207%	-107%	1.0	0.7	-0.7	-0.4	0.9	-0.5	SLV	Silver	85%	10%	5%	99%	42%	-33%	-9%	141%	-41%	0.8	0.4	-0.8	-0.1	0.6	-0.3
INDA	India	100%	24%	-25%	75%	62%	-3%	-34%	137%	-37%	1.2	1.0	-0.1	-0.4	1.1	-0.3	SIL	Silver Miners	184%	143%	-227%	255%	-169%	-148%	162%	86%	14%	0.3	-0.2	-0.5	0.2	0.1	0.0
EWJ	Japan	158%	15%	-73%	109%	69%	10%	-89%	179%	-79%	0.6	0.4	0.1	-0.4	0.5	-0.3	SRUUF	Uranium	114%	-14%	0%	-29%	-5%	-25%	-41%	-34%	-66%	-0.2	0.0	-0.2	-0.2	-0.1	-0.2
EWU	United Kingdom	99%	17%	-16%	139%	44%	-19%	-64%	183%	-83%	0.5	0.2	-0.2	-0.2	0.4	-0.2	UUP	US Dollar	343%	-44%	-400%	-398%	-408%	333%	573%	-806%	906%	-0.3	-0.3	0.5	0.4	-0.3	0.4

Intellectual Property of 42 Macro LLC. Data Source: Bloomberg. Cumulative Performance is determined by summing daily log price changes for each asset. Backtests begin in Jan-98. All color coding corresponds to each asset and each set of backtests. Cumulative Performance since Jan-98 is negative for certain assets (mainly foreign currencies), which creates sign distortions in the % of Cumulative Performance figures.

© 42 Macro LLC. Data Source: Bloomberg. Color coding corresponds to each exposure, for each backtest.

Cumulative performance is determined by summing daily log price changes for each asset. Backtests begin in Jan-98.

GOLDDILOCKS = risk on with a disinflationary bias. REFLATION = risk on with an inflationary bias.

INFLATION = risk off with an inflationary bias. DEFLATION = risk off with a disinflationary bias.



Discretionary Risk Management Overlay aka "Dr. Mo" Backtests

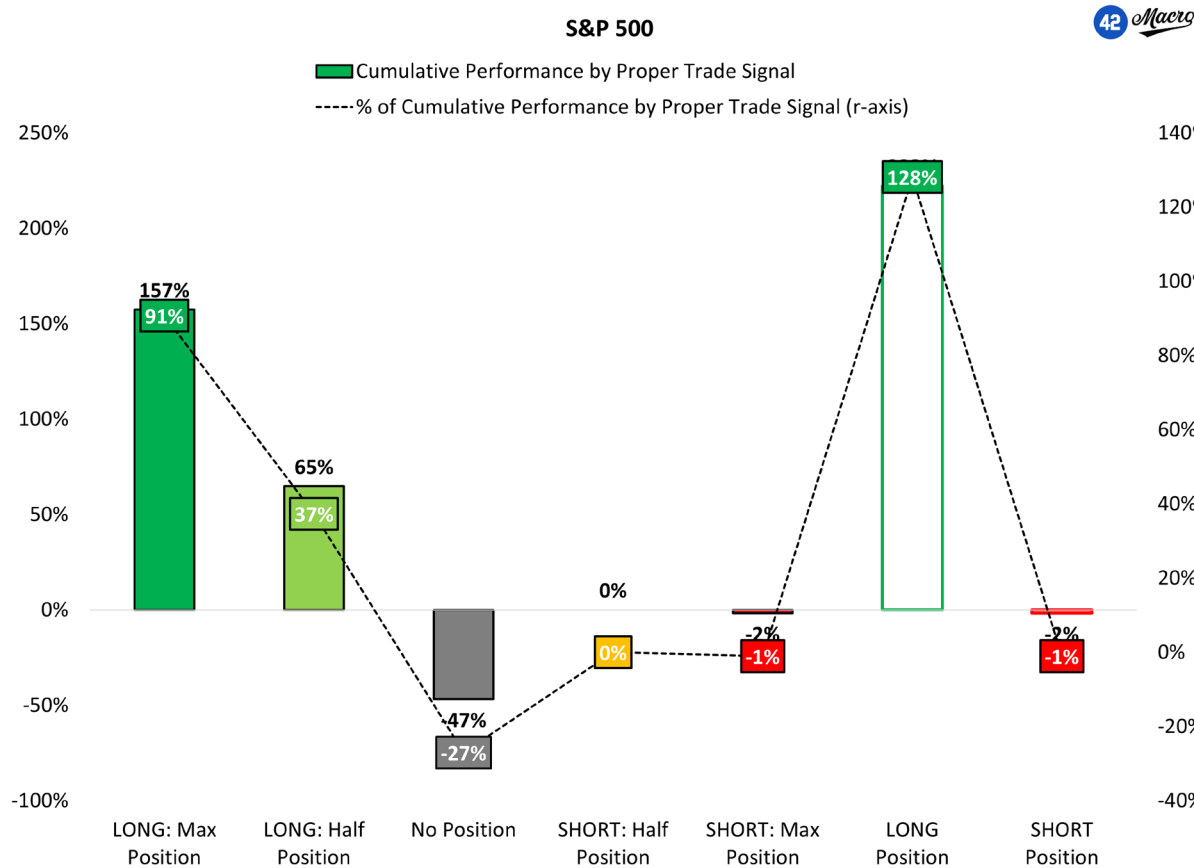
42 Macro Discretionary Risk Management Overlay Backtest		Cumulative Performance by Proper Trade Signal							% of Cumulative Performance by Proper Trade Signal							42 Macro Discretionary Risk Management Overlay Backtest		Cumulative Performance by Proper Trade Signal							% of Cumulative Performance by Proper Trade Signal						
		LONG Max Position	LONG Half Position	No Position	SHORT Half Position	SHORT Max Position	LONG Position	SHORT Position	LONG Max Position	LONG Half Position	No Position	SHORT Half Position	SHORT Max Position	LONG Position	SHORT Position			LONG Max Position	LONG Half Position	No Position	SHORT Half Position	SHORT Max Position	LONG Position	SHORT Position	LONG Max Position	LONG Half Position	No Position	SHORT Half Position	SHORT Max Position	LONG Position	SHORT Position
SPY	S&P 500	157%	65%	-47%	0%	-2%	222%	-2%	91%	37%	-27%	0%	-1%	128%	-1%	STIP	0-5yr TIPS	28%	11%	-3%	0%	0%	39%	0%	78%	31%	-8%	0%	0%	108%	0%
XLC	Communication Services	90%	59%	-67%	0%	-28%	149%	-28%	165%	109%	-123%	0%	-51%	274%	-51%	SHY	1-3yr Treasurys	49%	24%	-1%	0%	0%	73%	0%	68%	33%	-1%	0%	0%	101%	0%
XLY	Consumer Discretionary	157%	110%	-43%	0%	-27%	267%	-27%	80%	56%	-22%	0%	-14%	135%	-14%	TIP	5-10yr TIPS	63%	8%	3%	7%	12%	72%	19%	68%	9%	3%	8%	13%	77%	20%
XLP	Consumer Staples	72%	47%	11%	0%	0%	119%	0%	55%	36%	8%	0%	0%	92%	0%	IEF	5-10yr Treasurys	79%	9%	-5%	20%	9%	89%	29%	70%	8%	-4%	18%	8%	79%	26%
XLE	Energy	98%	83%	104%	0%	-156%	181%	-156%	76%	64%	81%	0%	-121%	140%	-121%	TLT	Long Bond	45%	-6%	9%	16%	-30%	39%	-14%	134%	-19%	28%	47%	-90%	115%	-43%
XLF	Financials	151%	23%	90%	0%	-140%	174%	-140%	122%	18%	72%	0%	-113%	141%	-113%	AGG	US Aggregate	69%	30%	9%	3%	-1%	99%	2%	63%	28%	8%	3%	-1%	91%	2%
XLV	Health Care	110%	35%	8%	0%	0%	145%	0%	72%	23%	5%	0%	0%	95%	0%	BIZD	BDCs	179%	50%	94%	0%	-207%	229%	-207%	154%	43%	81%	0%	-178%	197%	-178%
XLI	Industrials	177%	30%	85%	0%	-112%	207%	-112%	99%	17%	47%	0%	-63%	115%	-63%	CWB	Convertibles	177%	23%	-10%	10%	-46%	199%	-37%	116%	15%	-6%	6%	-30%	131%	-24%
XLK	Information Technology	192%	143%	-79%	0%	-21%	335%	-21%	82%	61%	-34%	0%	-9%	143%	-9%	EMLC	EM Local Currency Bonds	54%	19%	0%	7%	-36%	73%	-29%	123%	44%	-1%	16%	-81%	167%	-66%
XLB	Materials	140%	58%	94%	0%	-104%	198%	-104%	74%	31%	50%	0%	-55%	105%	-55%	EMB	EM USD Bonds	127%	27%	5%	53%	-34%	154%	19%	71%	15%	3%	30%	-19%	86%	11%
XLRE	Real Estate	86%	140%	-142%	0%	0%	227%	0%	102%	165%	-167%	0%	0%	267%	0%	HYG	High Yield Credit	148%	34%	0%	21%	-48%	182%	-28%	96%	22%	0%	13%	-31%	118%	-18%
XLU	Utilities	64%	112%	-71%	0%	0%	176%	0%	61%	107%	-67%	0%	0%	167%	0%	BNDX	International Aggregate	50%	30%	8%	-6%	-6%	81%	-11%	65%	40%	10%	-7%	-7%	105%	-15%
SPHD	Dividend Compounds	150%	72%	-21%	0%	0%	221%	0%	75%	36%	-11%	0%	0%	111%	0%	BWX	International Bonds	63%	16%	7%	-9%	-9%	79%	-18%	93%	24%	10%	-13%	-14%	116%	-26%
IWF	Growth	186%	95%	-73%	0%	-15%	281%	-15%	96%	49%	-38%	0%	-8%	146%	-8%	LQD	Investment Grade Credit	94%	33%	5%	5%	-13%	126%	-8%	76%	27%	4%	4%	-11%	102%	-6%
SPHB	High Beta	203%	29%	172%	0%	-243%	232%	-243%	126%	18%	107%	0%	-151%	144%	-151%	BKLN	Leveraged Loans	120%	17%	-2%	14%	-34%	138%	-21%	105%	15%	-2%	12%	-30%	120%	-18%
IWB	Large Caps	96%	77%	-9%	0%	0%	174%	0%	58%	47%	-5%	0%	0%	105%	0%	MBB	MBS	62%	13%	-2%	26%	9%	76%	35%	57%	12%	-1%	23%	9%	69%	32%
SPLV	Low Beta	160%	68%	-52%	0%	-1%	228%	-1%	92%	39%	-30%	0%	-1%	131%	-1%	PFF	Preferreds	163%	16%	8%	16%	-95%	179%	-79%	151%	15%	7%	15%	-88%	166%	-73%
QQQ	Mega Cap Growth	179%	106%	-35%	0%	-24%	285%	-24%	79%	47%	-15%	0%	-11%	126%	-11%	DBA	Agriculture	121%	-4%	16%	-41%	-46%	117%	-87%	262%	-8%	34%	-89%	-100%	254%	-188%
IWR	Mid Caps	189%	41%	87%	0%	-88%	230%	-88%	82%	18%	38%	0%	-38%	100%	-38%	FXA	Australian Dollar	49%	29%	-13%	-2%	-39%	78%	-41%	207%	124%	-57%	-8%	-166%	331%	-174%
MTUM	Momentum	204%	47%	-21%	0%	-14%	250%	-14%	95%	22%	-10%	0%	-7%	116%	-7%	DBB	Base Metals	156%	16%	9%	-5%	-118%	172%	-123%	270%	27%	16%	-9%	-204%	297%	-214%
QUAL	Quality	178%	55%	-22%	0%	-7%	234%	-7%	178%	27%	Bitcoi	Bitcoin	1689%	22%	-106%	0%	-211%	1711%	-211%	121%	2%	-8%	0%	-15%	123%	-15%					
IWM	Small Caps	197%	29%	107%	0%	-119%	226%	-119%	92%	14%	50%	0%	-55%	106%	-55%	FXB	British Pound	39%	0%	-2%	-8%	-38%	39%	-46%	450%	2%	-23%	-94%	-435%	452%	-529%
IWD	Value	144%	43%	51%	0%	-81%	188%	-81%	92%	28%	32%	0%	-52%	119%	-52%	FXC	Canadian Dollar	29%	19%	-5%	-11%	-21%	48%	-32%	271%	173%	-50%	-101%	-194%	445%	-294%
EWA	Australia	98%	22%	25%	0%	-39%	120%	-39%	92%	21%	24%	0%	-37%	113%	-37%	PDBC	Commodities	105%	44%	15%	-21%	-89%	150%	-110%	193%	82%	27%	-39%	-163%	274%	-201%
EWZ	Brazil	188%	-35%	171%	0%	-213%	152%	-213%	170%	-32%	155%	0%	-193%	138%	-193%	USO	Crude Oil	164%	157%	36%	-27%	-260%	320%	-287%	239%	229%	52%	-40%	-380%	468%	-420%
EWC	Canada	140%	39%	18%	0%	-71%	178%	-71%	112%	31%	14%	0%	-57%	143%	-57%	Ethereum	Ethereum	429%	-19%	-150%	0%	-124%	409%	-124%	316%	-14%	-110%	0%	-91%	301%	-91%
FXI	China	217%	22%	71%	0%	-190%	239%	-190%	181%	18%	59%	0%	-158%	199%	-158%	FXE	Euro	57%	-4%	-10%	7%	-25%	53%	-17%	217%	-14%	-36%	27%	-94%	203%	-67%
GNR	Commodity Producers	138%	63%	36%	0%	-92%	201%	-92%	95%	43%	25%	0%	-64%	139%	-64%	GLD	Gold	236%	8%	14%	0%	0%	244%	0%	91%	3%	5%	0%	0%	95%	0%
EEM	Emerging Markets	177%	71%	17%	0%	-114%	248%	-114%	117%	47%	11%	0%	-75%	164%	-75%	GDV	Gold Miners	179%	23%	-124%	0%	-23%	201%	-23%	328%	42%	-227%	0%	-43%	370%	-43%
EZU	Eurozone	109%	0%	35%	0%	-110%	109%	-110%	318%	0%	102%	0%	-319%	317%	-319%	FXV	Japanese Yen	3%	8%	-4%	-12%	-17%	10%	-30%	12%	33%	-16%	-53%	-76%	45%	-129%
ACWX	Global Equities	129%	33%	44%	0%	-115%	162%	-115%	143%	36%	48%	0%	-127%	179%	-127%	SLV	Silver	219%	36%	15%	-14%	-40%	254%	-54%	101%	17%	7%	-6%	-19%	118%	-25%
INDA	India	269%	40%	34%	0%	-78%	308%	-78%	102%	15%	13%	0%	-30%	117%	-30%	SIL	Silver Miners	163%	67%	-131%	0%	-55%	231%	-55%	368%	151%	-294%	0%	-125%	519%	-125%
EWJ	Japan	114%	22%	-4%	0%	-60%	136%	-60%	159%	30%	-6%	0%	-84%	189%	-84%	SRUUF	Uranium	45%	-19%	18%	12%	0%	26%	12%	81%	-35%	33%	21%	0%	47%	21%
EWU	United Kingdom	52%	12%	11%	0%	-29%	64%	-29%	112%	27%	24%	0%	-62%	139%	-62%	UUP	US Dollar	30%	-4%	9%	0%	-44%	25%	-44%	305%	-44%	95%	1%	-456%	260%	-455%

Intellectual Property of 42 Macro LLC. Data Source: Bloomberg. Cumulative Performance is determined by summing daily log price changes for each asset. Backtests begin in Jan-98. All color coding corresponds to each asset and each set of backtests. Cumulative Performance since Jan-98 is negative for certain assets (mainly foreign currencies), which creates sign distortions in the % of Cumulative Performance figures.

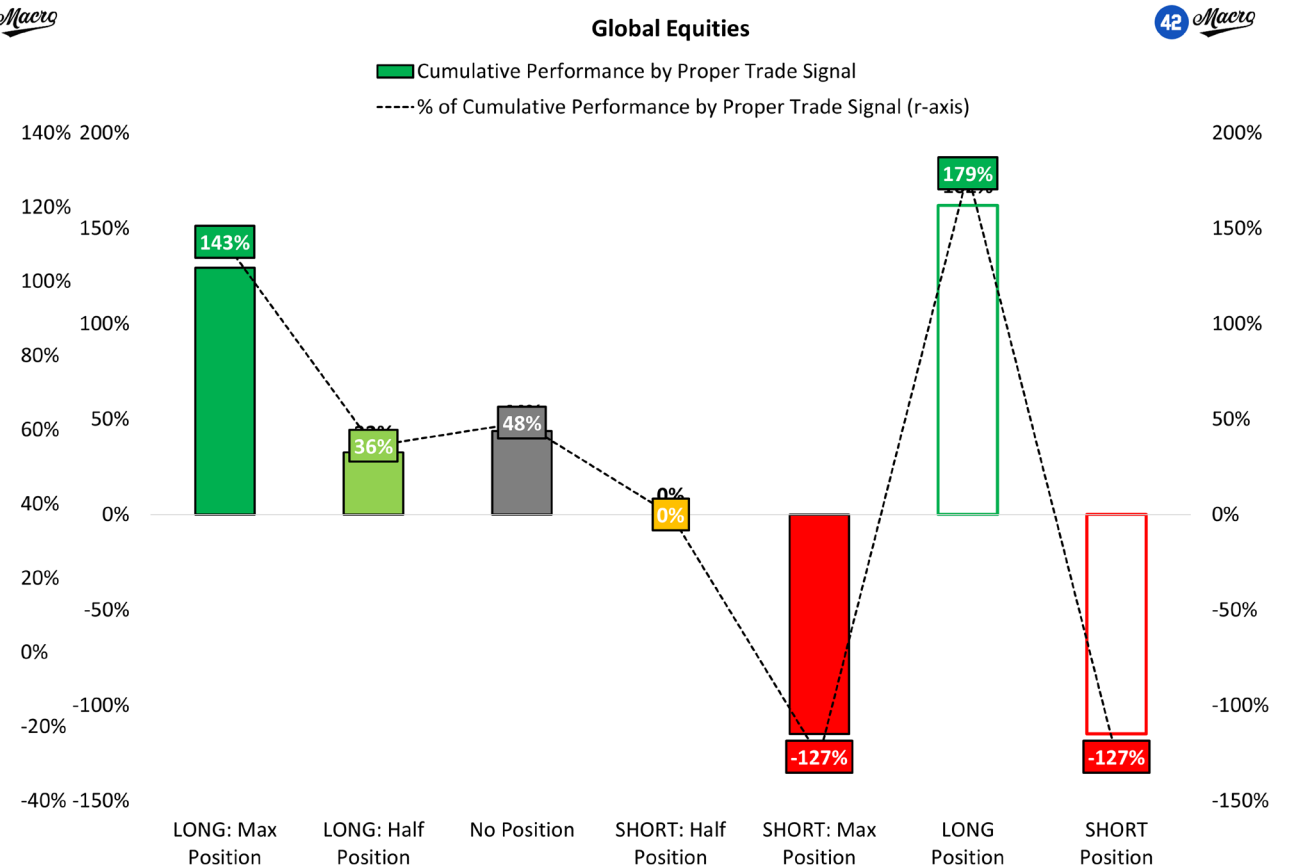
© 42 Macro LLC. Data Source: Bloomberg. Color coding corresponds to each exposure, for each backtest. Cumulative performance is determined by summing daily log price changes for each asset. Backtests begin in Jan-98. If an ETF is **bullish** (or **bearish**) VAMS and that is in line with how the underlying asset should trade in the current Market Regime, then **Dr. Mo** will prescribe a "**LONG** (**SHORT**): Max Position". If an ETF is **neutral** VAMS and it should be **bullish** (or **bearish**) in the current Market Regime, then **Dr. Mo** will prescribe a "**LONG** (**SHORT**): Half Position". There are no **SHORT**: Half Positions for Equity and Crypto exposures. **Dr. Mo** will prescribe a "No Position" if the VAMS is the opposite of what it should be in the current Market Regime.



Discretionary Risk Management Overlay aka “Dr. Mo” Backtest: US Equities



Discretionary Risk Management Overlay aka “Dr. Mo” Backtest: Global Equities

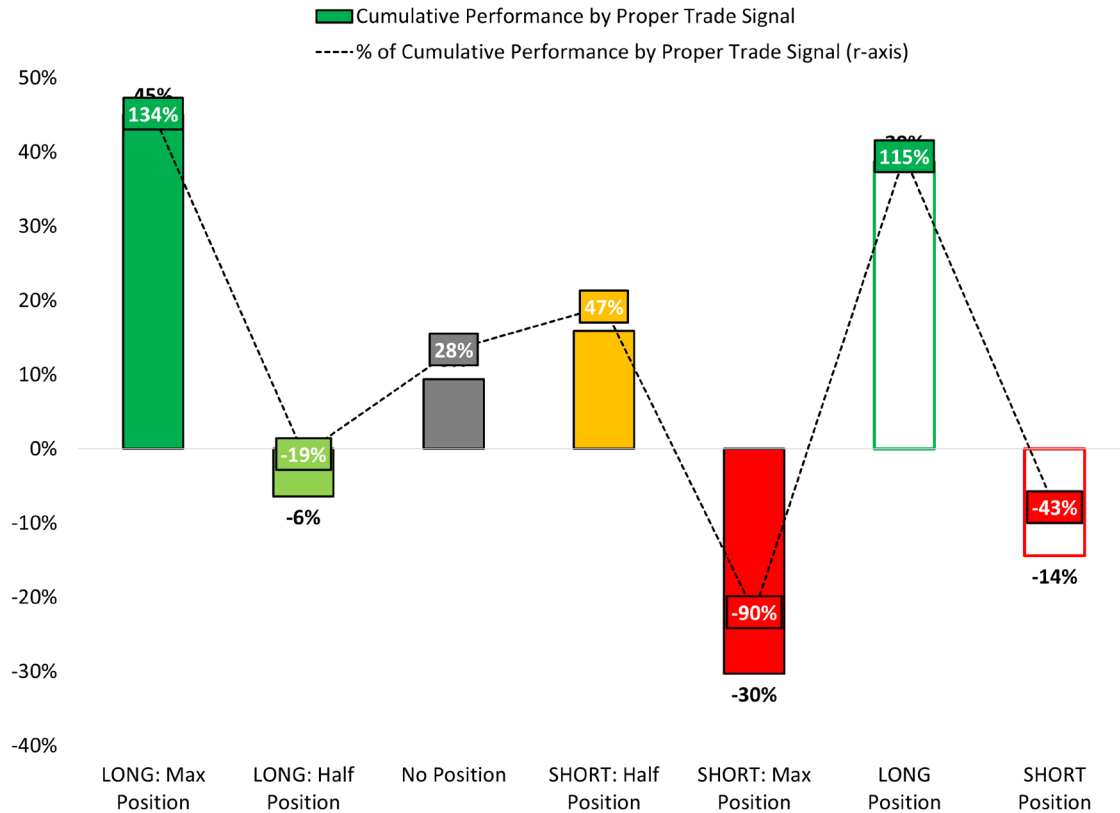


© 42 Macro LLC. Data Source: Bloomberg. Color coding corresponds to each exposure, for each backtest. Cumulative performance is determined by summing daily log price changes for each asset. Backtests begin in Jan-98. If an ETF is **bullish** (or **bearish**) VAMS and that is in line with how the underlying asset should trade in the current Market Regime, then **Dr. Mo** will prescribe a “**LONG** (**SHORT**): Max Position”. If an ETF is **neutral** VAMS and it should be **bullish** (or **bearish**) in the current Market Regime, then **Dr. Mo** will prescribe a “**LONG** (**SHORT**): Half Position”. There are no **SHORT**: Half Positions for Equity and Crypto exposures. **Dr. Mo** will prescribe a “No Position” if the VAMS is the opposite of what it should be in the current Market Regime.

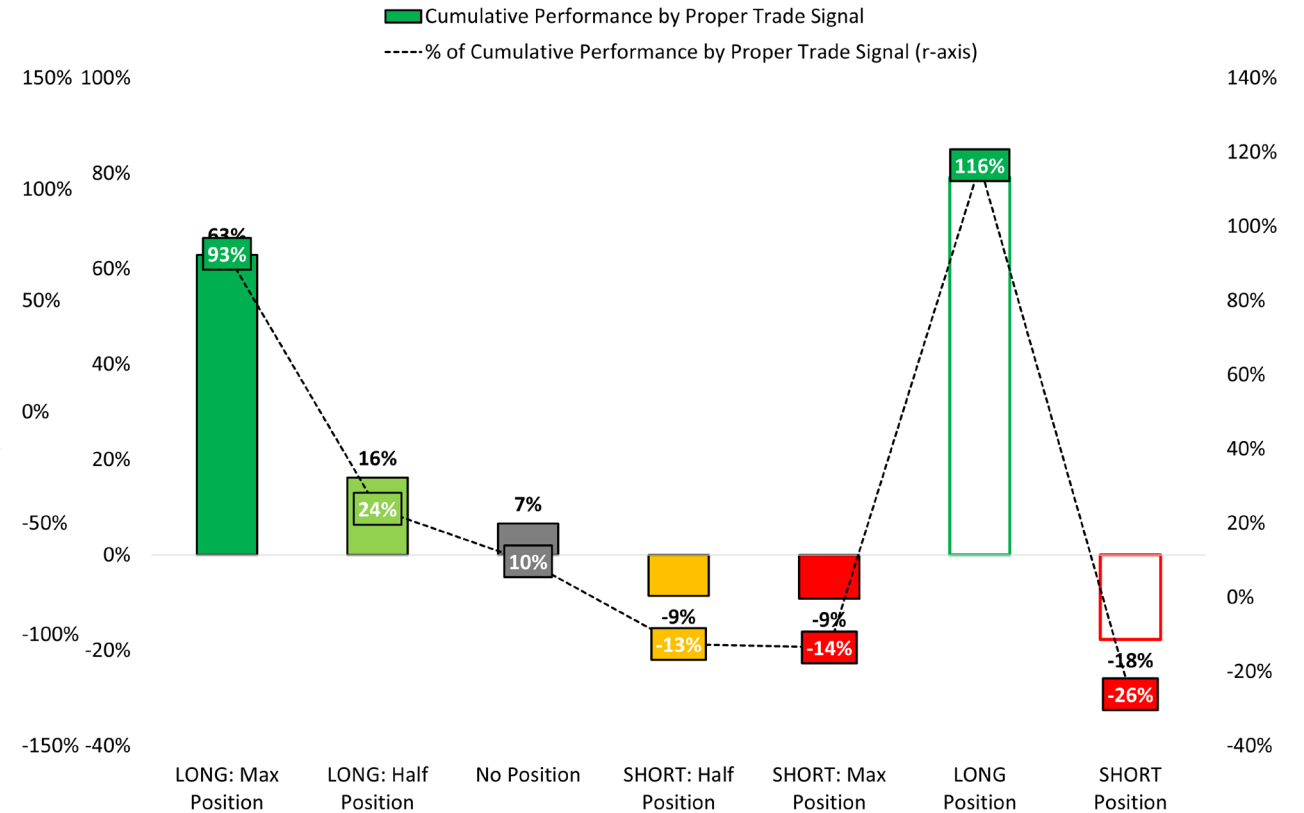
Discretionary Risk Management Overlay aka “Dr. Mo” Backtest: US Bonds

Discretionary Risk Management Overlay aka “Dr. Mo” Backtest: Global Bonds

Long Bond

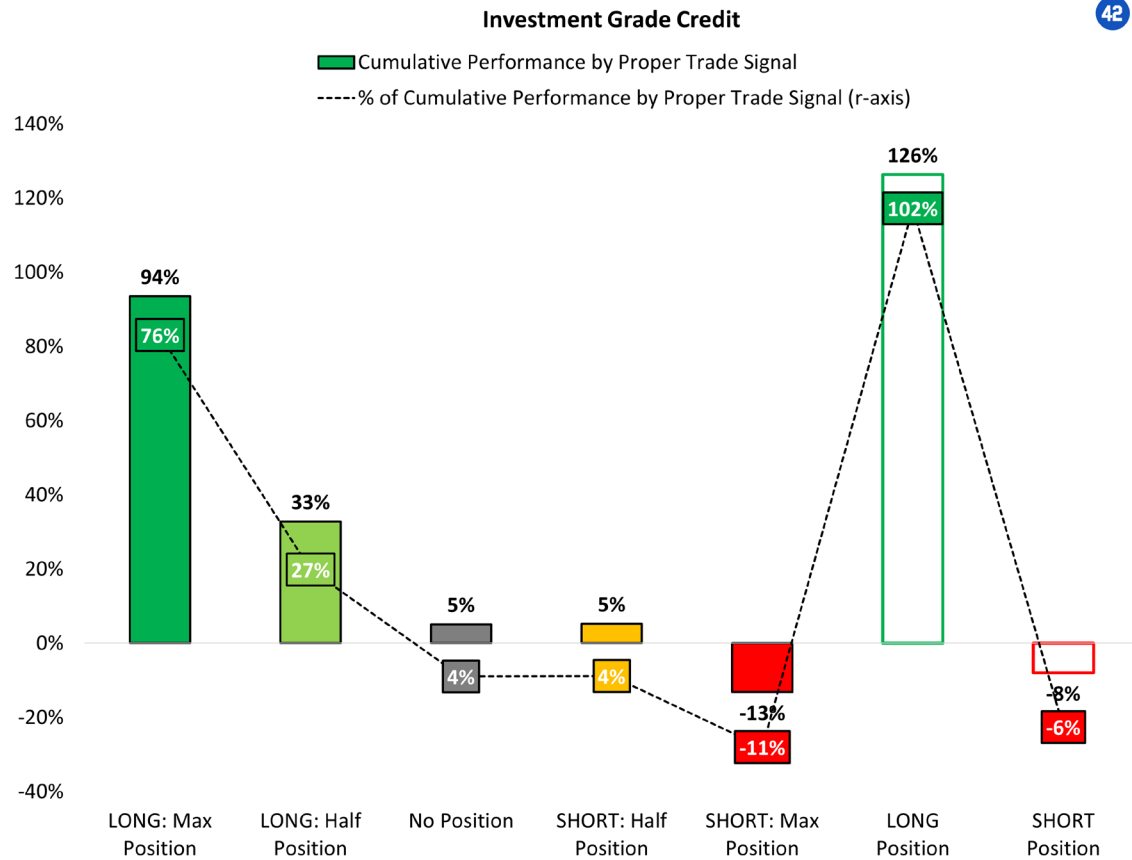


International Bonds

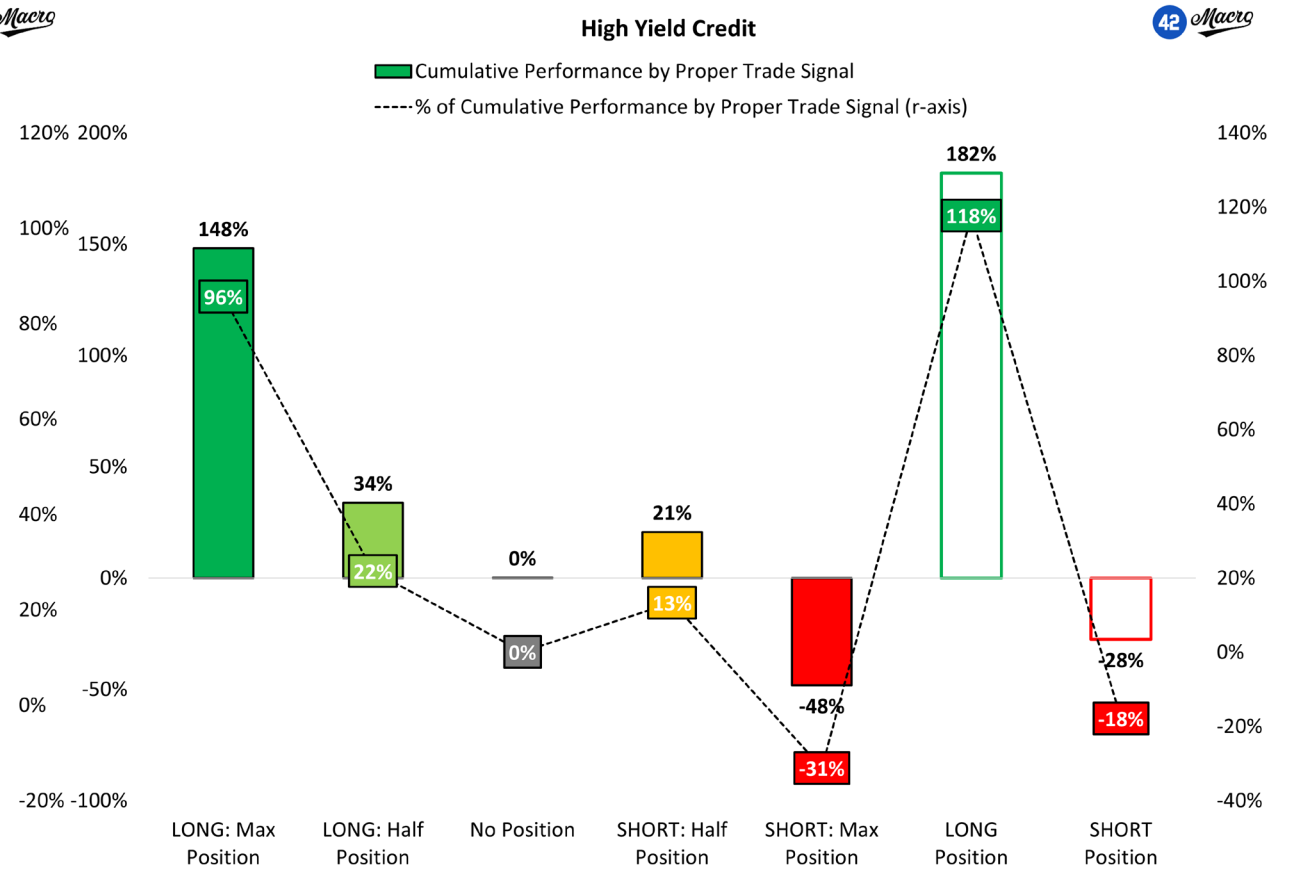


© 42 Macro LLC. Data Source: Bloomberg. Color coding corresponds to each exposure, for each backtest. Cumulative performance is determined by summing daily log price changes for each asset. Backtests begin in Jan-98. If an ETF is **bullish** (or **bearish**) VAMS and that is in line with how the underlying asset should trade in the current Market Regime, then **Dr. Mo** will prescribe a “**LONG** (**SHORT**): Max Position”. If an ETF is **neutral** VAMS and it should be **bullish** (or **bearish**) in the current Market Regime, then **Dr. Mo** will prescribe a “**LONG** (**SHORT**): Half Position”. There are no **SHORT**: Half Positions for Equity and Crypto exposures. **Dr. Mo** will prescribe a “No Position” if the VAMS is the opposite of what it should be in the current Market Regime.

Discretionary Risk Management Overlay aka “Dr. Mo” Backtest: IG Credit

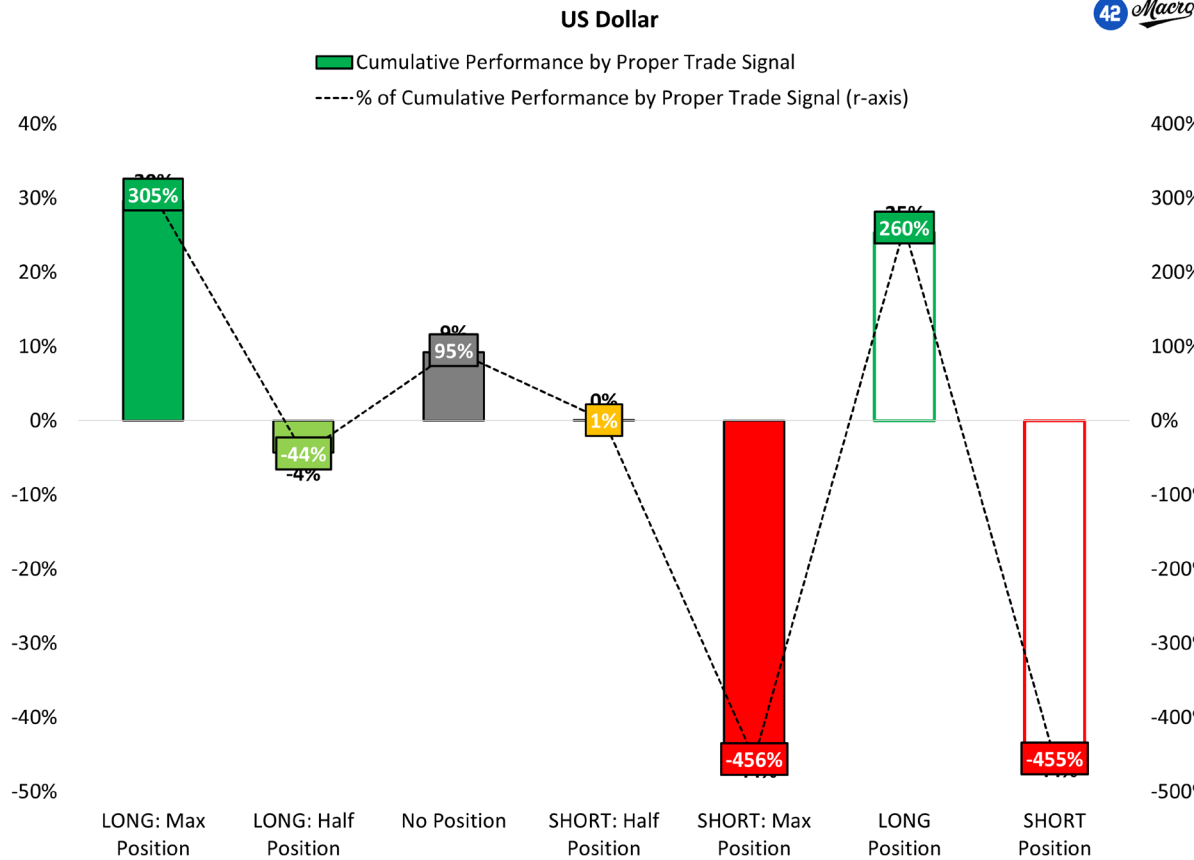


Discretionary Risk Management Overlay aka “Dr. Mo” Backtest: High Yield Credit

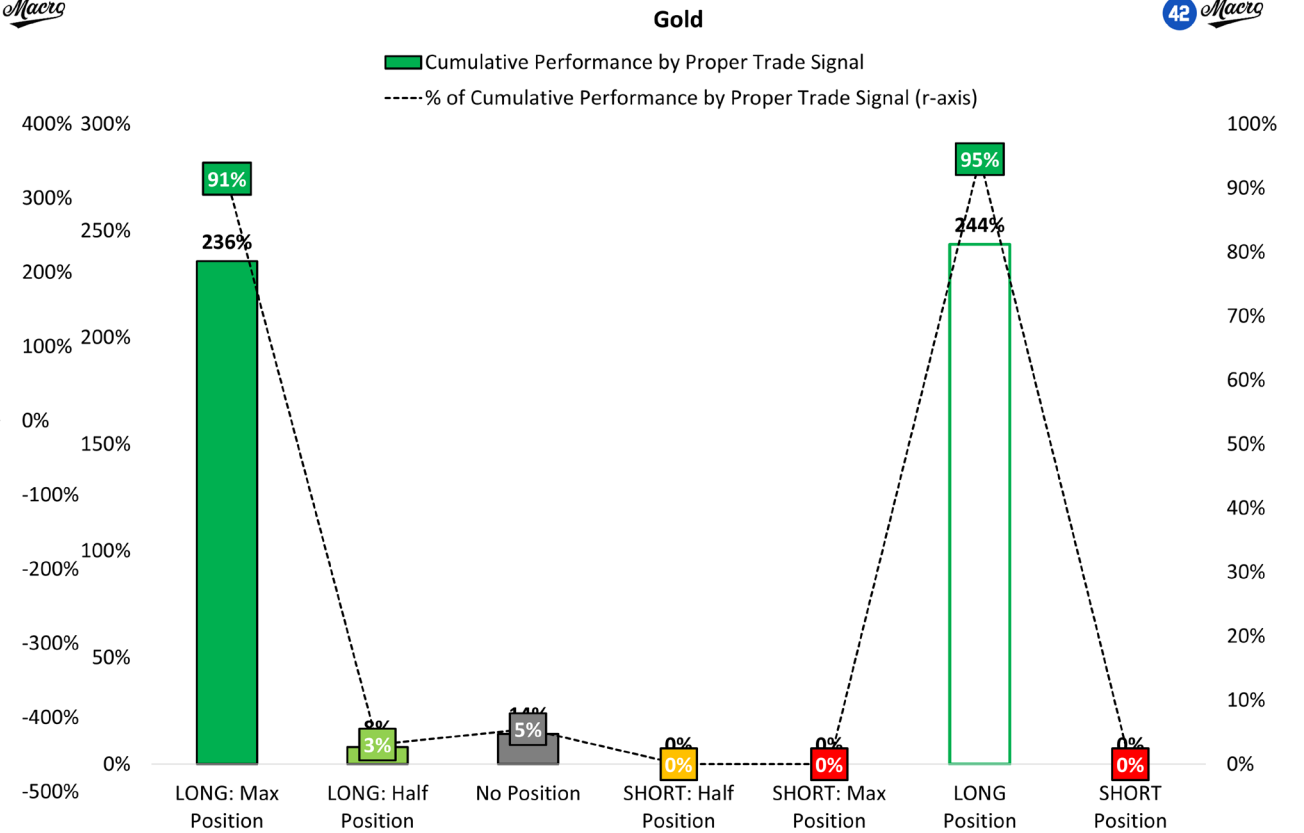


© 42 Macro LLC. Data Source: Bloomberg. Color coding corresponds to each exposure, for each backtest. Cumulative performance is determined by summing daily log price changes for each asset. Backtests begin in Jan-98. If an ETF is **bullish** (or **bearish**) VAMS and that is in line with how the underlying asset should trade in the current Market Regime, then **Dr. Mo** will prescribe a “**LONG** (**SHORT**): Max Position”. If an ETF is **neutral** VAMS and it should be **bullish** (or **bearish**) in the current Market Regime, then **Dr. Mo** will prescribe a “**LONG** (**SHORT**): Half Position”. There are no **SHORT**: Half Positions for Equity and Crypto exposures. **Dr. Mo** will prescribe a “No Position” if the VAMS is the opposite of what it should be in the current Market Regime.

Discretionary Risk Management Overlay aka "Dr. Mo" Backtest: US Dollar

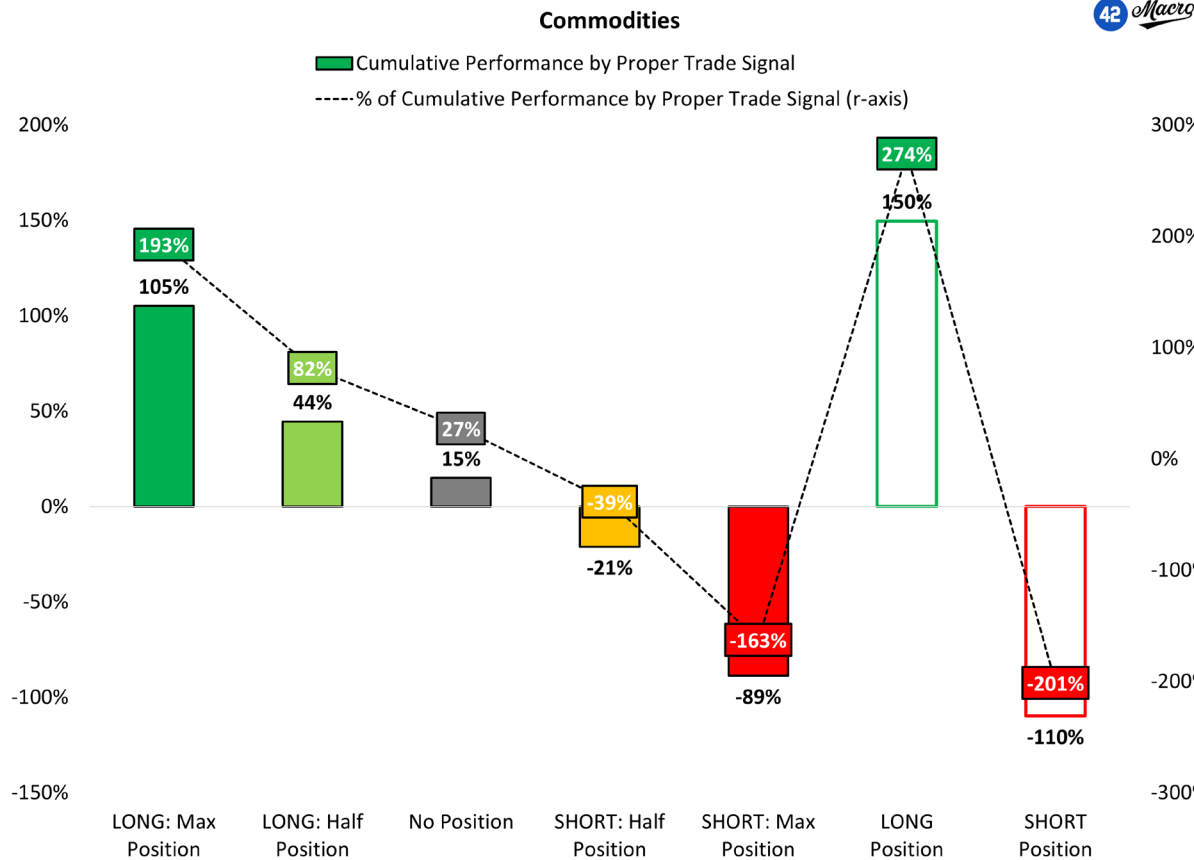


Discretionary Risk Management Overlay aka "Dr. Mo" Backtest: Gold

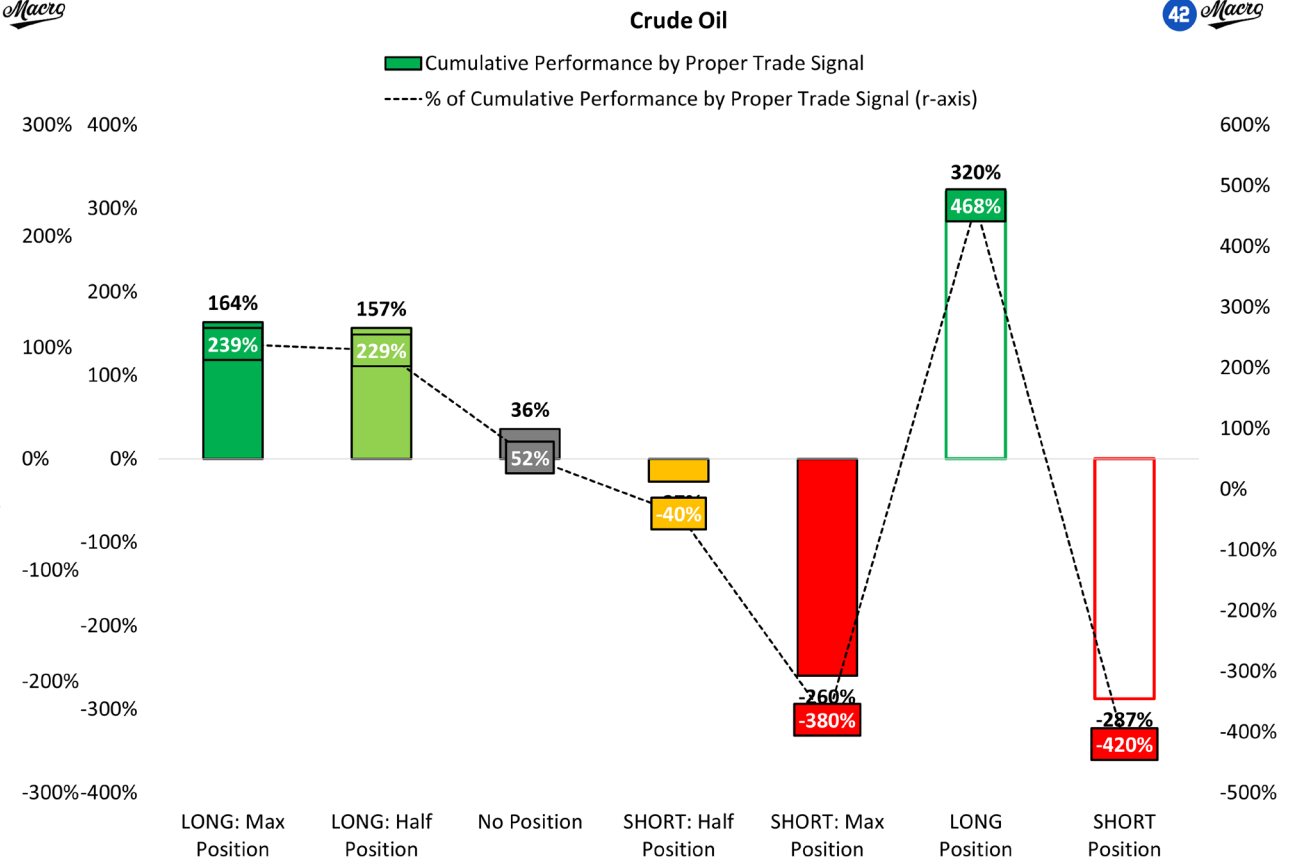


© 42 Macro LLC. Data Source: Bloomberg. Color coding corresponds to each exposure, for each backtest. Cumulative performance is determined by summing daily log price changes for each asset. Backtests begin in Jan-98. If an ETF is **bullish** (or **bearish**) VAMS and that is in line with how the underlying asset should trade in the current Market Regime, then **Dr. Mo** will prescribe a "**LONG** (**SHORT**): Max Position". If an ETF is **neutral** VAMS and it should be **bullish** (or **bearish**) in the current Market Regime, then **Dr. Mo** will prescribe a "**LONG** (**SHORT**): Half Position". There are no **SHORT**: Half Positions for Equity and Crypto exposures. **Dr. Mo** will prescribe a "No Position" if the VAMS is the opposite of what it should be in the current Market Regime.

Discretionary Risk Management Overlay aka "Dr. Mo" Backtest: Commodities

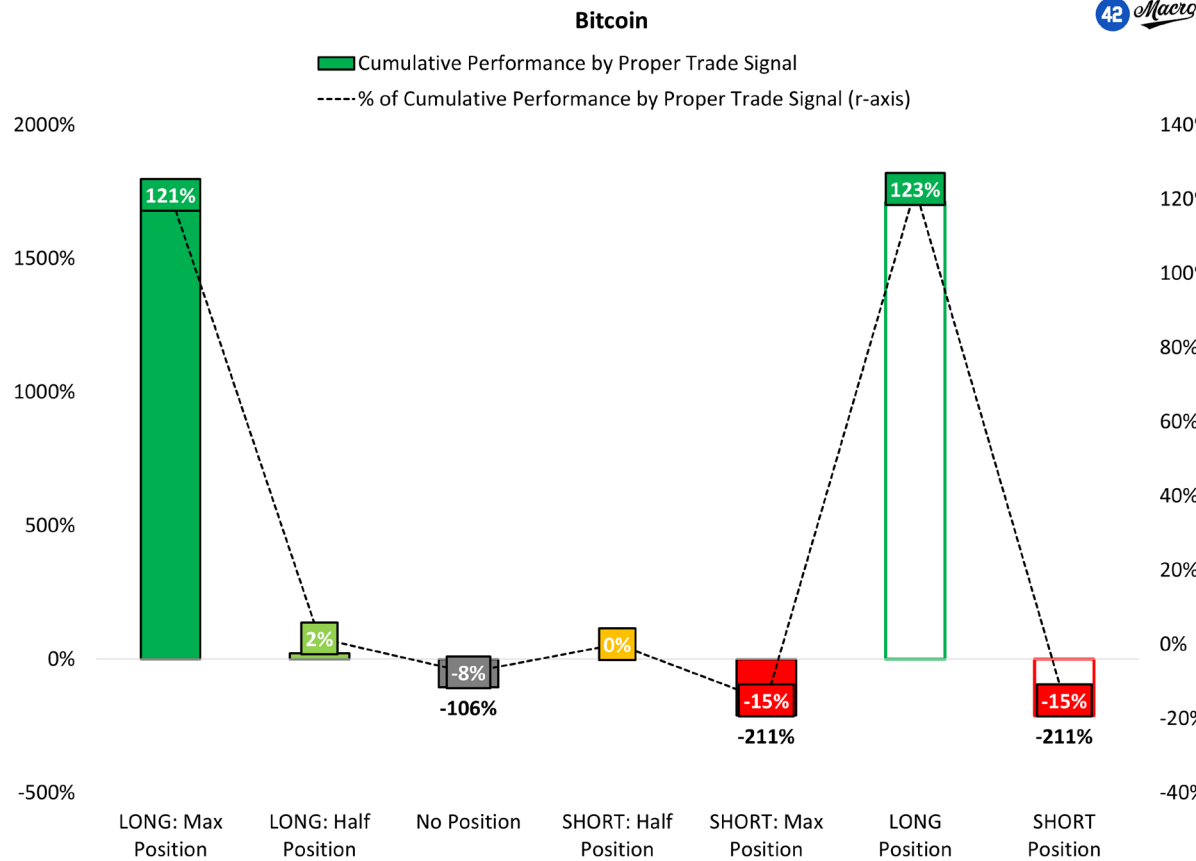


Discretionary Risk Management Overlay aka "Dr. Mo" Backtest: Crude Oil

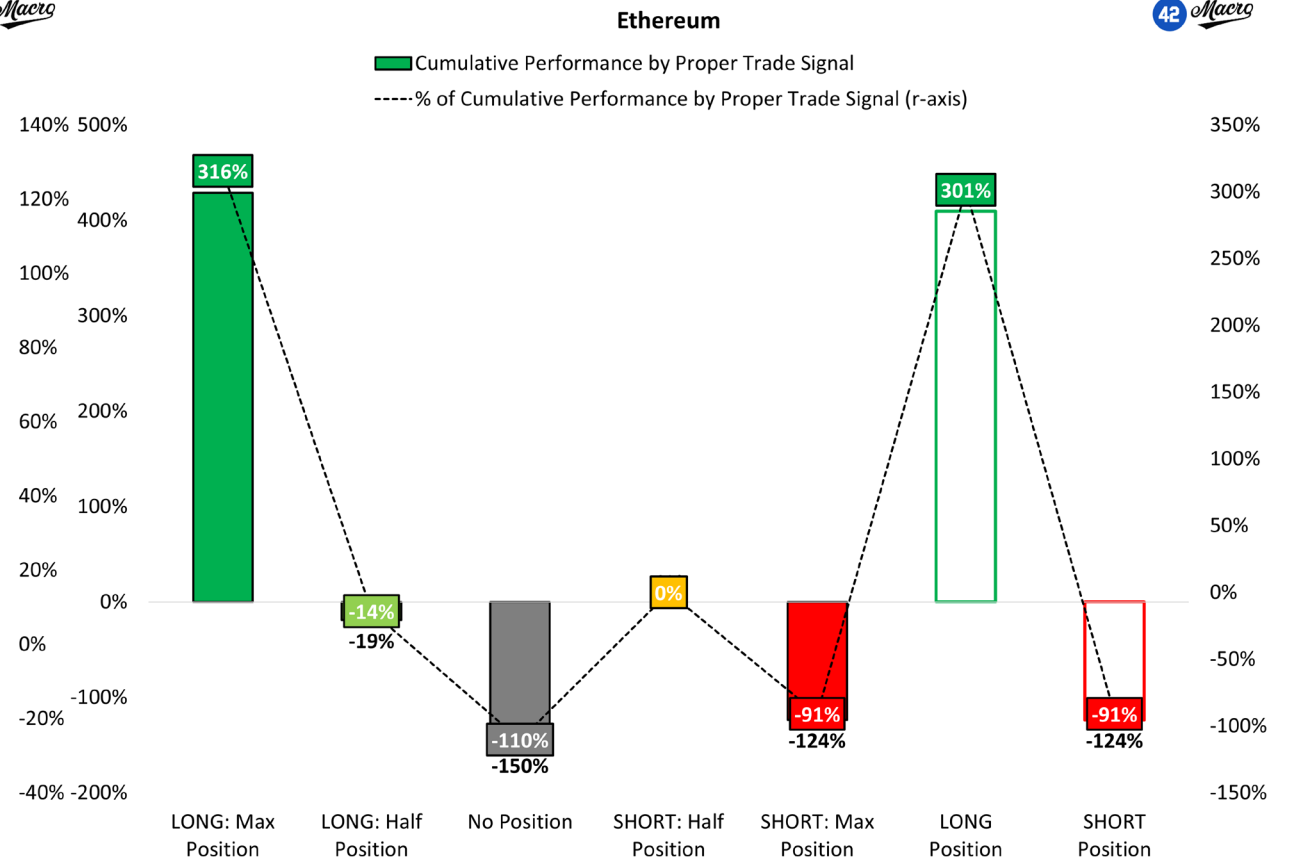


© 42 Macro LLC. Data Source: Bloomberg. Color coding corresponds to each exposure, for each backtest. Cumulative performance is determined by summing daily log price changes for each asset. Backtests begin in Jan-98. If an ETF is **bullish** (or **bearish**) VAMS and that is in line with how the underlying asset should trade in the current Market Regime, then **Dr. Mo** will prescribe a "**LONG** (**SHORT**): Max Position". If an ETF is **neutral** VAMS and it should be **bullish** (or **bearish**) in the current Market Regime, then **Dr. Mo** will prescribe a "**LONG** (**SHORT**): Half Position". There are no **SHORT**: Half Positions for Equity and Crypto exposures. **Dr. Mo** will prescribe a "No Position" if the VAMS is the opposite of what it should be in the current Market Regime.

Discretionary Risk Management Overlay aka “Dr. Mo” Backtest: Bitcoin



Discretionary Risk Management Overlay aka “Dr. Mo” Backtest: Ethereum



© 42 Macro LLC. Data Source: Bloomberg. Color coding corresponds to each exposure, for each backtest. Cumulative performance is determined by summing daily log price changes for each asset. Backtests begin in Jan-98. If an ETF is **bullish** (or **bearish**) VAMS and that is in line with how the underlying asset should trade in the current Market Regime, then **Dr. Mo** will prescribe a “**LONG** (**SHORT**): Max Position”. If an ETF is **neutral** VAMS and it should be **bullish** (or **bearish**) in the current Market Regime, then **Dr. Mo** will prescribe a “**LONG** (**SHORT**): Half Position”. There are no **SHORT**: Half Positions for Equity and Crypto exposures. **Dr. Mo** will prescribe a “No Position” if the VAMS is the opposite of what it should be in the current Market Regime.

General Market Outlook:

We view the 12-month outlook as historically bullish due to the administration's choice to outgrow the debt trajectory with a pro-growth policy mix — which is supported by the Fed's decision to disregard the affordability crisis and counter deterioration in the labor and repo markets with dovish monetary policy. While historically crowded bullish positioning may make it difficult for the market to achieve escape velocity over any short-term time horizon, the risk of bubbles in stocks, gold, and Bitcoin is not inconsequential.

We Use Our Macro Weather Model To Assess The Probability Of Regime Change In Asset Markets Over A Short-To-Medium Term Time Horizon

GROWTH						Short-to-Medium Term Outlook (1-3mos)	INFLATION					
3mo SAAR (3mo Mean*)	6mo SAAR (6mo Mean*)	6mo SAAR (6mo Mean*)	YoY % Change (1yr Mean*)	Condition	3mo SAAR (3mo Mean*)		6mo SAAR (6mo Mean*)	6mo SAAR (6mo Mean*)	YoY % Change (1yr Mean*)	Condition		
Real GDP ex-Gov't & Net Exports	2.5%	0.3%	0.3%	< 1.9%	weak positive impulse	Headline CPI	2.1%	< 2.8%	2.8%	> 2.7%	weak negative impulse	
Real Personal Consumption Expenditures	3.7%	> 2.4%	2.4%	< 2.4%	weak positive impulse	Core PCE Price Deflator	2.6%	< 2.7%	2.7%	< 2.8%	strong negative impulse	
Private Sector Labor Income	6.8%	> 4.3%	4.3%	< 5.6%	weak positive impulse	CRB Index	1.4%	> -8.8%	-8.8%	< 0.8%	weak positive impulse	
S&P 500 Next Fiscal Year EPS*	\$310	> \$306	\$306	> \$303	strong positive impulse	5Y5Y Inflation Swap Rate*	2.45%	< 2.46%	2.46%	> 2.46%	weak negative impulse	
Consensus Short-Run Potential Real GDP Estimate*	2.0%	> 1.9%	1.9%	> 1.9%	strong positive impulse	Consensus Short-Run Potential Headline CPI Estimate*	2.7%	> 2.6%	2.6%	> 2.6%	strong positive impulse	
current market risk assessment: tailwind (1/7/2026)						Stocks Bonds	current market risk assessment: tailwind (1/7/2026)					
GROWTH							INFLATION					
MONETARY POLICY						Short-to-Medium Term Outlook (1-3mos)	FISCAL POLICY					
3mo SAAR (3mo Mean*)	6mo SAAR (6mo Mean*)	6mo SAAR (6mo Mean*)	YoY % Change (1yr Mean*)	Condition	3mo SAAR (3mo Mean*)		6mo SAAR (6mo Mean*)	6mo SAAR (6mo Mean*)	YoY % Change (1yr Mean*)	Condition		
Fed Funds Rate*	3.83%	< 4.04%	4.04%	< 4.27%	strong easing impulse	Sovereign Fiscal Balance/GDP Ratio*	-5.7%	> -6.0%	-6.0%	> -6.5%	strong tightening impulse	
2yr Nominal Treasury Yield - Fed Funds Rate Spread*	-35bps	> -56bps	-56bps	< -55bps	weak easing impulse	TTM Federal Revenue	9.9%	> 9.2%	9.2%	< 9.8%	weak tightening impulse	
Fed Treasury Holdings/Marketable Treasury Debt Ratio*	14%	< 14%	14%	< 15%	strong tightening impulse	TTM Federal Expenditures	-8.8%	< -3.8%	-3.8%	< 0.4%	strong tightening impulse	
Bank Reserves/Commercial Bank Assets Ratio*	12%	< 13%	13%	< 13%	strong tightening impulse	Treasury General Account Balance/Bank Reserves Ratio*	30%	> 23%	23%	< 20%	strong tightening impulse	
SOFR-IORB Spread*	7bps	> 4bps	4bps	> -2bps	strong tightening impulse	Bills/Marketable Treasury Debt Ratio*	22%	> 21%	21%	< 22%	weak easing impulse	
current market risk assessment: headwind (1/7/2026)						US Dollar Gold	current market risk assessment: headwind (1/7/2026)					
MONETARY POLICY							FISCAL POLICY					
LIQUIDITY						Short-to-Medium Term Outlook (1-3mos)	POSITIONING					
3mo SAAR (3mo Mean*)	6mo SAAR (6mo Mean*)	6mo SAAR (6mo Mean*)	YoY % Change (1yr Mean*)	Condition	Current Crowded Bullish Positioning		Pre-Crash Mean (Jan-22, Oct-07, Mar-00)	Everything Bubble Peak (Jan-22)	Housing Bubble Peak (Oct-07)	Dot Com Bubble Peak (Mar-00)		
42 Macro Global Liquidity Proxy \$bn*	\$141,965	> \$141,334	\$141,334	> \$138,444	strong positive impulse	1. NAAIM Mean Stock Exposure %	88%	> 66%	76%	56%		
42 Macro Net Liquidity \$bn*	\$5,674	< \$5,833	\$5,833	< \$5,945	strong negative impulse	2. S&P 500 Price-to-NTM EPS Multiple	97%	> 73%	88%	37%		
MOVE Index*	69	< 73	73	< 86	strong easing impulse	3. S&P 500 3mo Implied Volatility Correlations	98%	> 69%	83%	54%		
10yr US Treasury Term Premium*	72bps	> 69bps	69bps	> 63bps	strong tightening impulse	4. US Investment Grade OAS	98%	> 53%	81%	42%		
US Broad Nominal Effective Exchange Rate*	104	> 104	104	< 106	weak tightening impulse	5. AAIL Bulls-Bears Spread	67%	< 79%	50%	88%		
current market risk assessment: headwind (1/7/2026)						Bitcoin Commodities	current market risk assessment: headwind (1/7/2026)					
LIQUIDITY							POSITIONING					

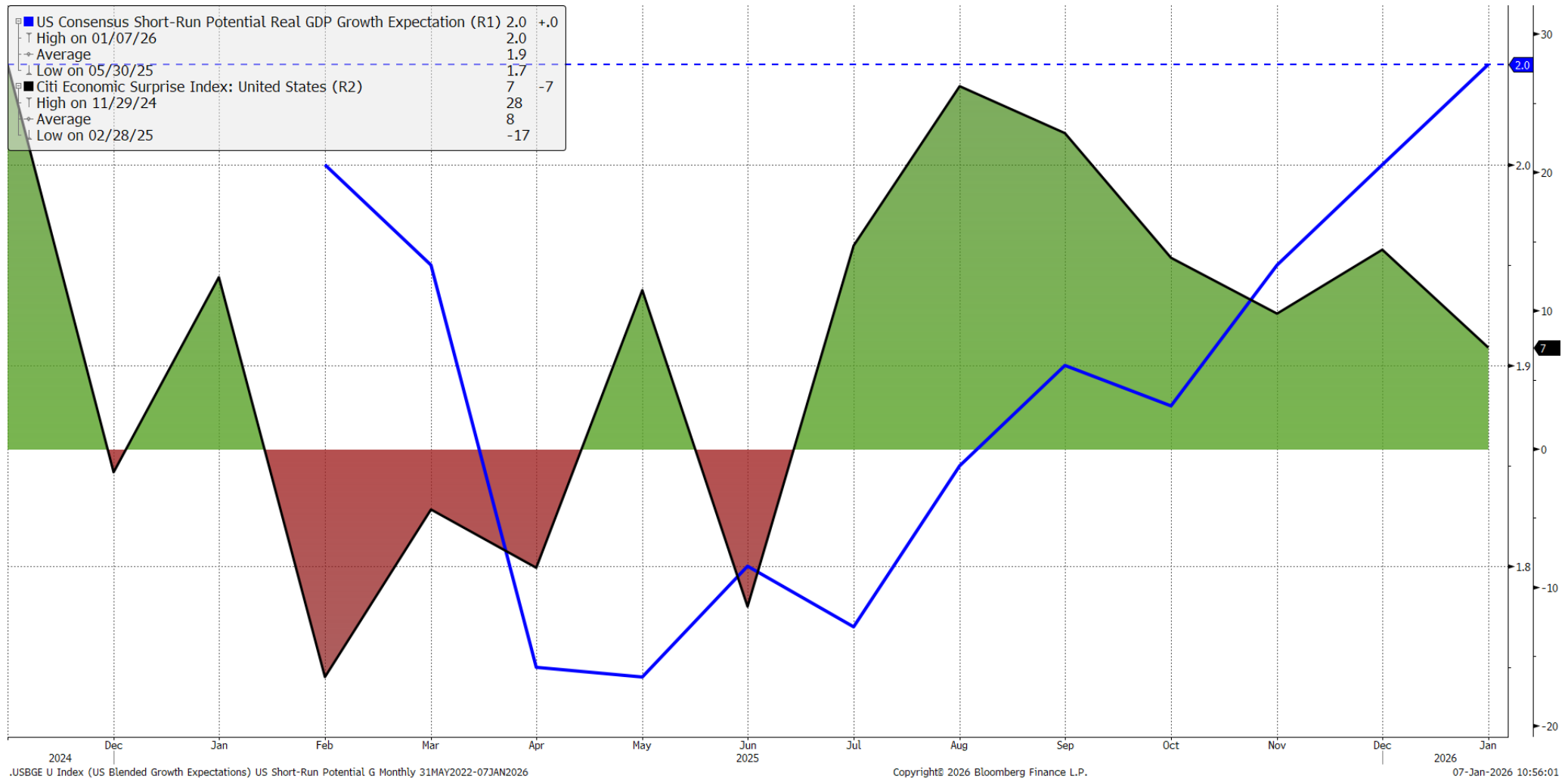
Intellectual Property of 42 Macro LLC. Data Source: Bloomberg. Positioning cycle indicators ranked according to the degree of dispersion observed between bull and bear market peaks. 42 Macro Global Liquidity Proxy = global central bank balance sheets + global M2 + global FX reserves minus gold. 42 Macro Net Liquidity = Fed balance sheet - TGA balance - RRP balance. Probability of sustaining a risk-on Market Regime = LOW.

© 42 Macro LLC. Data Source: Bloomberg. How the Macro Weather Model works: Each of the six key macro cycles contributes independently to the independent Composite Signals for each asset class. Each Composite Signal is designed to signal whether observed macroeconomic conditions – aka the “Macro Weather” – support buying, holding, or selling the asset class today with a 1-to-3-month investment horizon.

Growth Outlook:

Our Macro Weather Model currently views the growth cycle as a near-term tailwind for asset markets. Our research projects a U-shaped US economy featuring growth that bottoms in 2H25 followed by a robust, multi-year recovery starting in 2026. Our research views consensus estimates for growth in 2026-27 as currently being roughly 50% too low.

Consensus Is Still Too Bearish On Growth Relative To Our **Resilient US Economy** And **Paradigm C** Themes; Growth Is Likely To Be ~50% Higher Than Consensus Currently Anticipates Throughout 2026-27



.USBGE U Index (US Blended Growth Expectations) US Short-Run Potential G Monthly 31MAY2022-07JAN2026

Copyright© 2026 Bloomberg Finance L.P.

2026 07-Jan-2026 10:56:01

© 42 Macro LLC. Data Source: Bloomberg.

Consensus Short-Run Potential Real GDP Growth Expectation = blended current year and next year estimate.

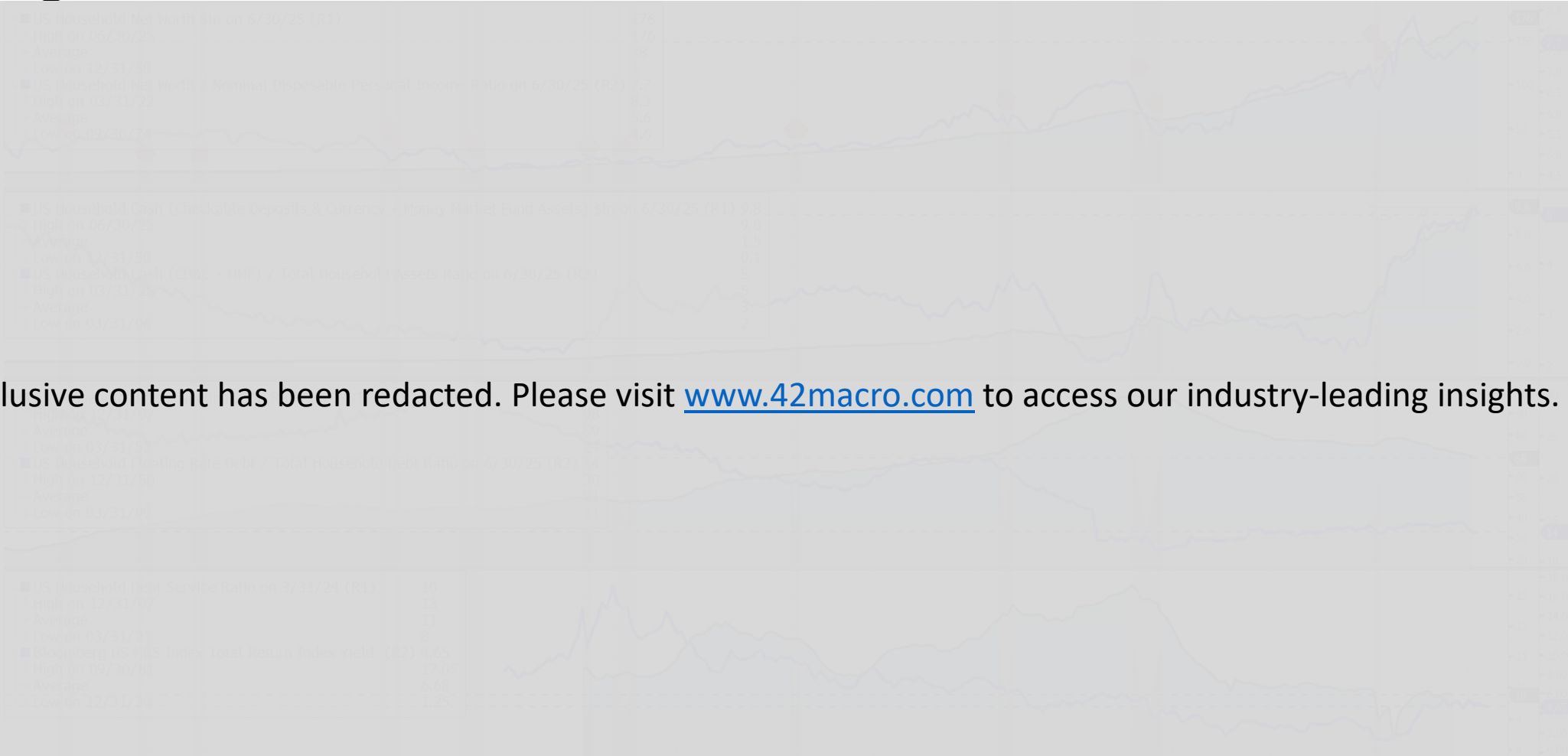
RISING Growth Expectations + **POSITIVE** Economic Surprises = **OVERWEIGHT** risk assets.

FALLING Growth Expectations + **NEGATIVE** Economic Surprises = **UNDERWEIGHT** risk assets.

Reminder: Tariffs Impact Only A Small Portion Of The US Economy – Wisdom We Repeatedly Stressed As Lonely Bulls Back In April

This exclusive content has been redacted. Please visit www.42macro.com to access our industry-leading insights. Thanks!

The US Economy Is Likely To Remain Resilient Due To The Historic Strength Of The Household Sector Balance Sheet

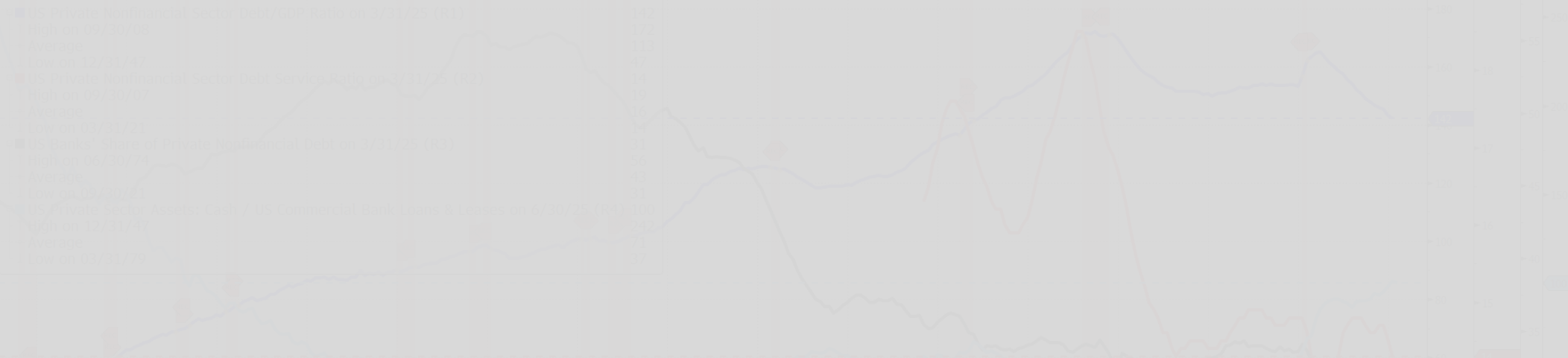


This exclusive content has been redacted. Please visit www.42macro.com to access our industry-leading insights. Thanks!

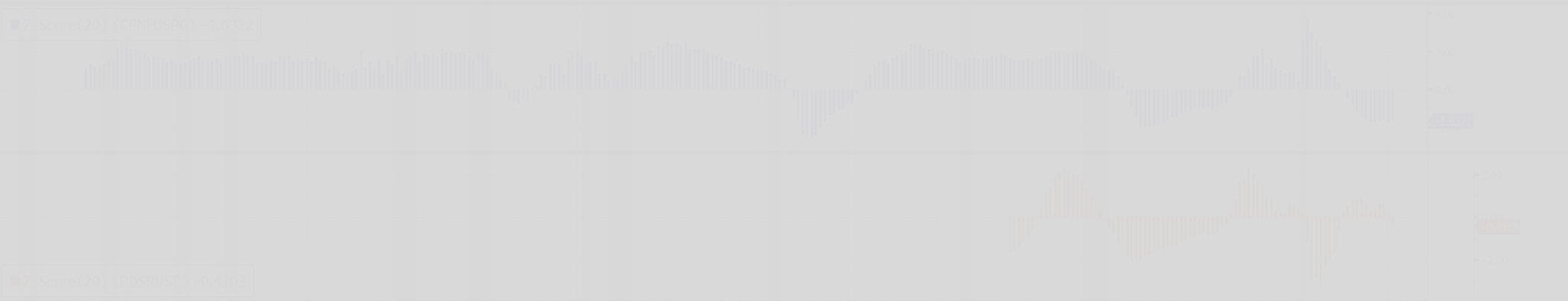
The US Economy Is Likely To Remain Resilient Due To The Historic Strength Of The Corporate Sector Balance Sheet

This exclusive content has been redacted. Please visit www.42macro.com to access our industry-leading insights. Thanks!

A Dearth Of Imbalances And Excesses On The Private Sector Balance Sheet Dramatically Reduces The Probability Of An Actual Recession



This exclusive content has been redacted. Please visit www.42macro.com to access our industry-leading insights. Thanks!



Initial And Continuing Jobless Claims Currently Signal A Low Probability Of A Developing Recession In The US Economy

This exclusive content has been redacted. Please visit www.42macro.com to access our industry-leading insights. Thanks!

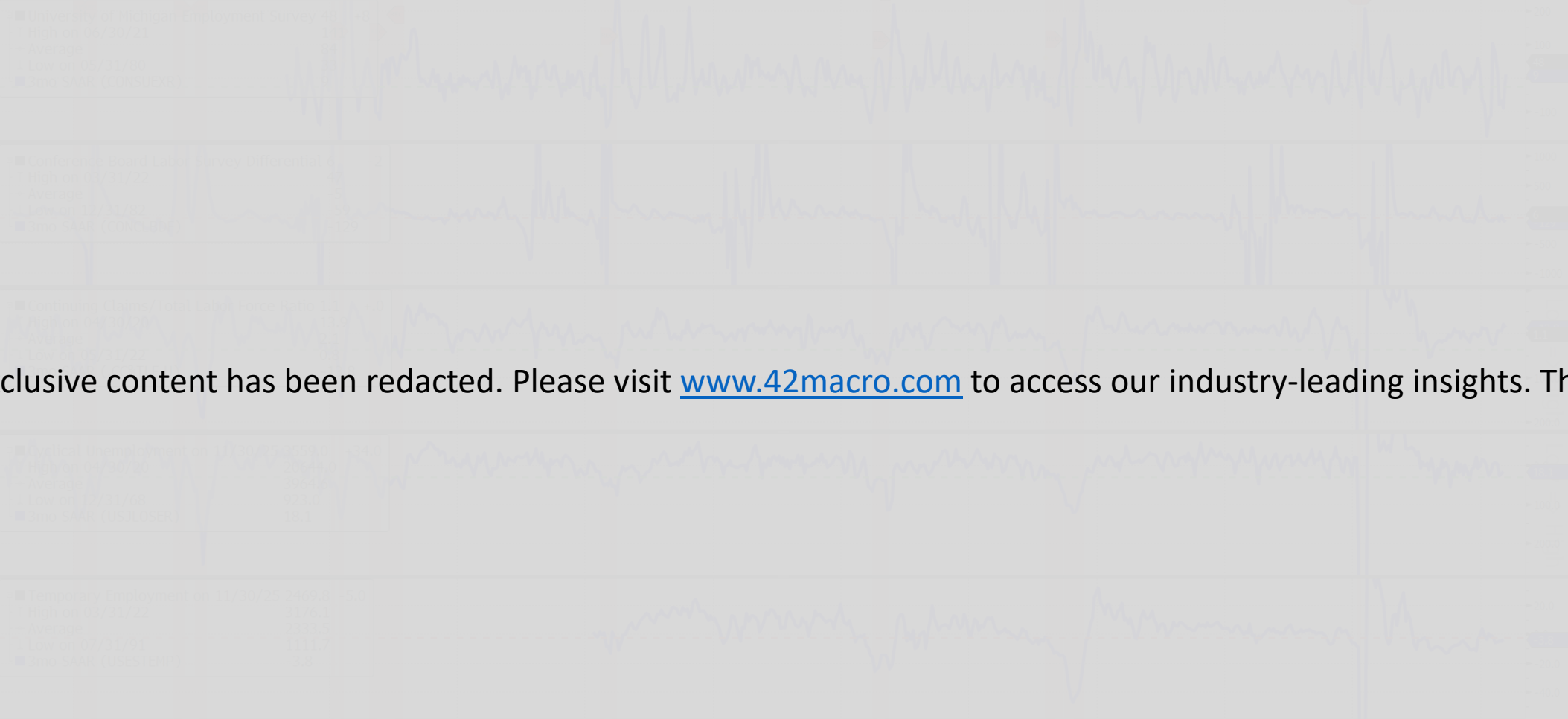
© 42 Macro LLC. Data Source: Bloomberg.

The dotted lines indicate the median value observed at the start of recessions.

Red = breached recession-signaling threshold. **Orange** = close to breaching recession-signaling threshold.

Green = not signaling a developing recession.

The 42 Macro Fab-5 Recession Signaling Indicators Currently Signal A Middling Probability Of A Developing Recession In The US Economy



This exclusive content has been redacted. Please visit www.42macro.com to access our industry-leading insights. Thanks!

© 42 Macro LLC. Data Source: Bloomberg.

The dotted lines indicate the median value observed at the start of recessions.

Red = breached recession-signaling threshold. Orange = close to breaching recession-signaling threshold.

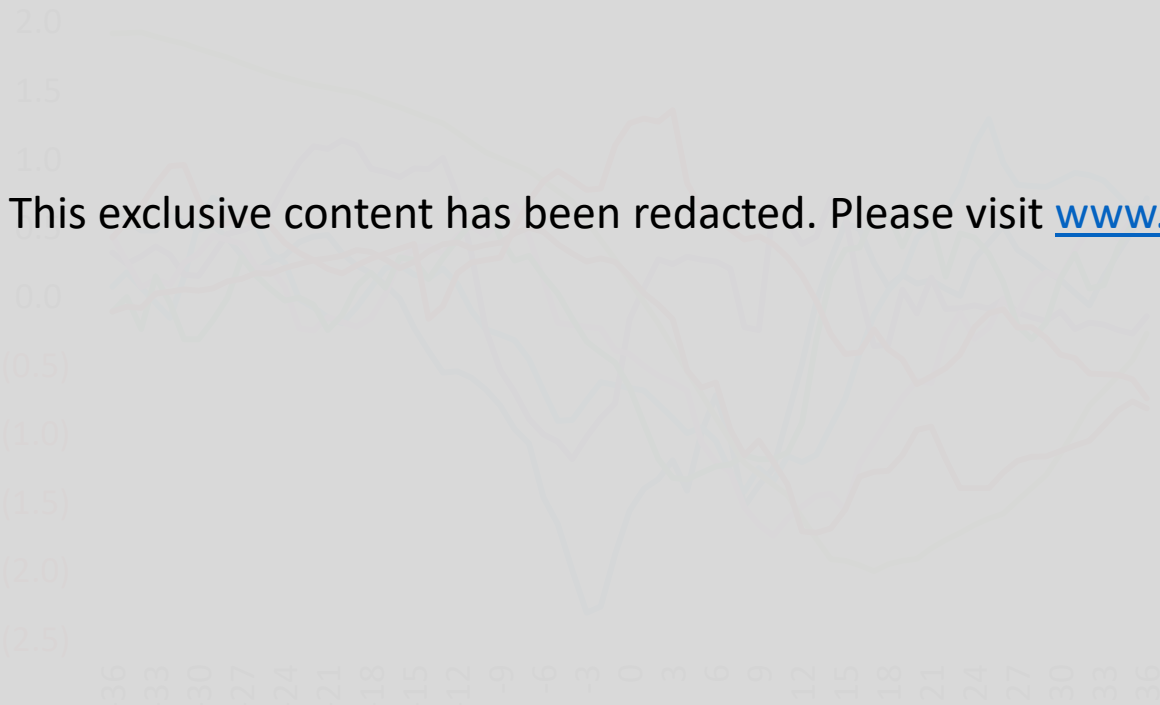
Green = not signaling a developing recession.



The 42 Macro Business Cycle Model Currently Signals A Low Probability Of A Developing Recession In The US Economy

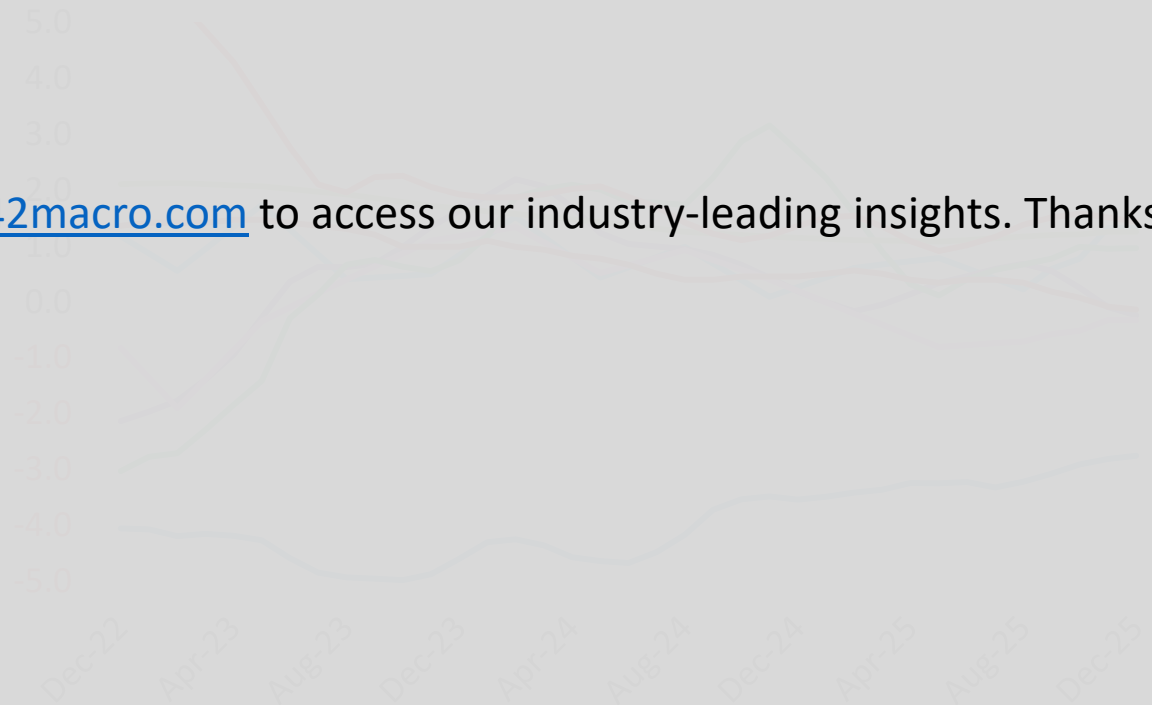
Median Trailing 10yr Delta-Adjusted Z-Score n-Months Before/After A Recession Begins

— Policy — Profits — Liquidity — Growth
— Stocks — Credit — Employment — Inflation



Delta-Adjusted Z-Score Of Select Real And Financial Economy Cycles

— Policy — Profits — Liquidity — Growth
— Stocks — Credit — Employment — Inflation



This exclusive content has been redacted. Please visit www.42macro.com to access our industry-leading insights. Thanks!

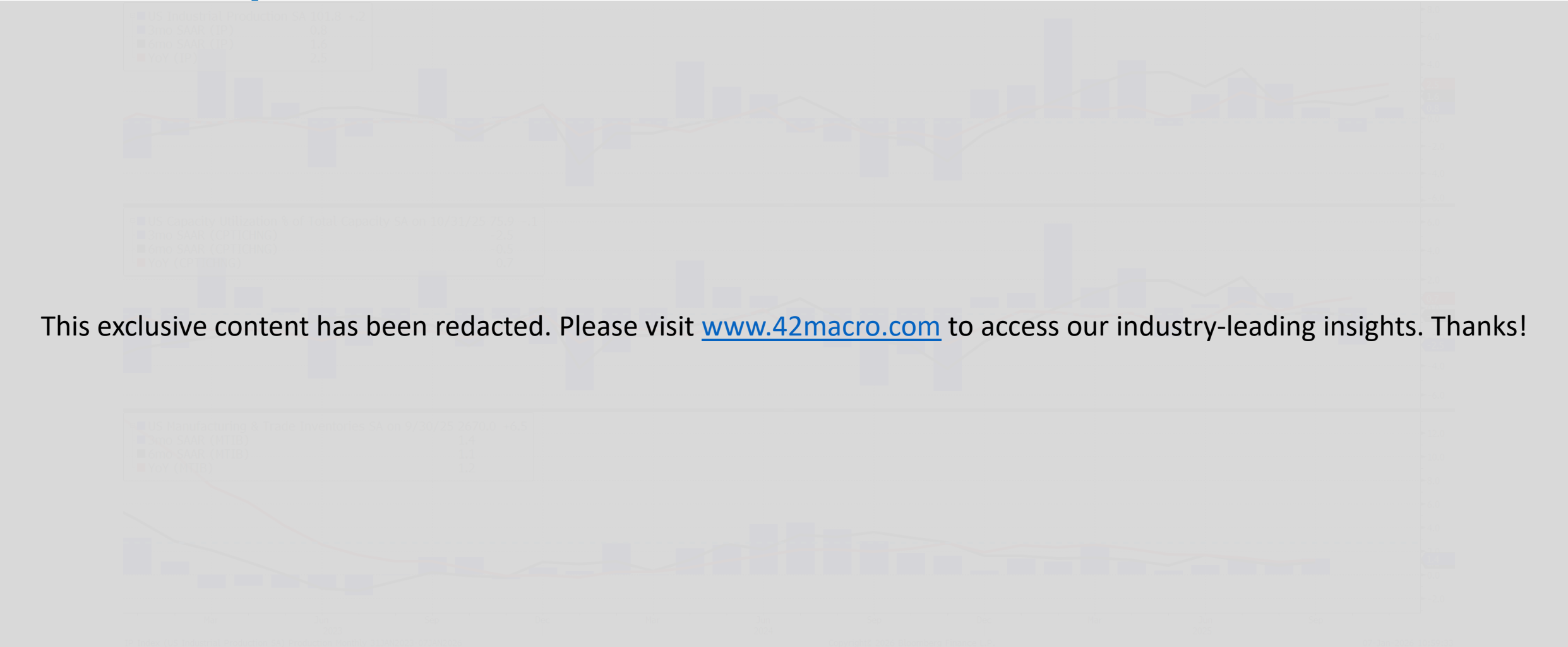
© 42 Macro LLC. Data Source: Bloomberg. Data since Jan-48 or as far back as the time series allows.

Accelerating/Moderating Upturn: above-trend and increasing/decreasing. Accelerating/Moderating Downturn: below-trend and decreasing/increasing.

All underlying time series = 3MMA of YoY % change unless otherwise denoted. Z-Scores from 2020 onward are derived from 2015-19 trends.

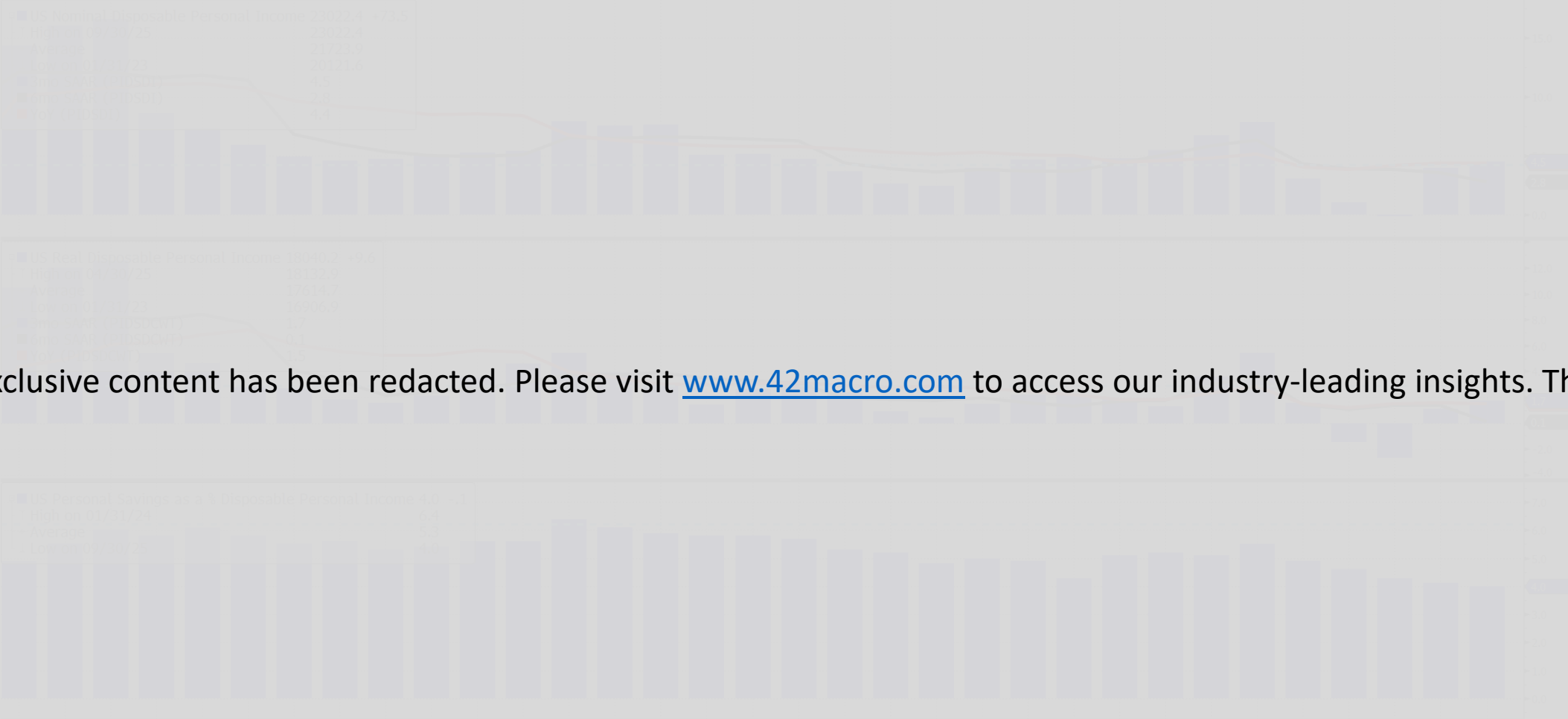
"Delta-Adjusted" = the signs of countercyclical indicators (e.g., Fed Funds Rate, SLOS, Jobless Claims, Unemployment, Personal Savings Rate, Credit Delinquencies, etc.) are inverted to align them with the direction of the business cycle.

The Resilient US Economy Is Currently Probing For The Bottom Of Its U-Shaped Slowdown: Production



This exclusive content has been redacted. Please visit www.42macro.com to access our industry-leading insights. Thanks!

The Resilient US Economy Is Currently Probing For The Bottom Of Its U-Shaped Slowdown: Income

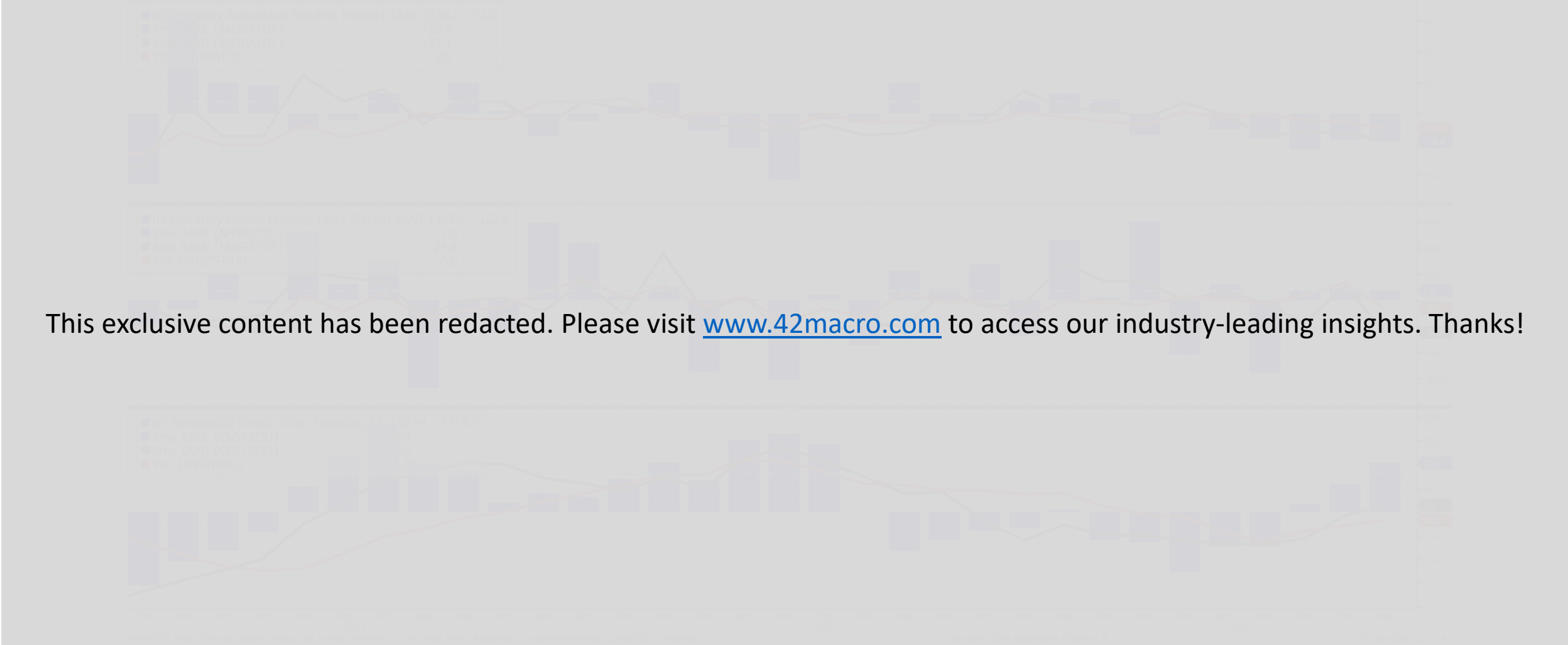


This exclusive content has been redacted. Please visit www.42macro.com to access our industry-leading insights. Thanks!

The Resilient US Economy Is Currently Probing For The Bottom Of Its U-Shaped Slowdown: Consumption

This exclusive content has been redacted. Please visit www.42macro.com to access our industry-leading insights. Thanks!

The Resilient US Economy Is Currently Probing For The Bottom Of Its U-Shaped Slowdown: Residential Investment

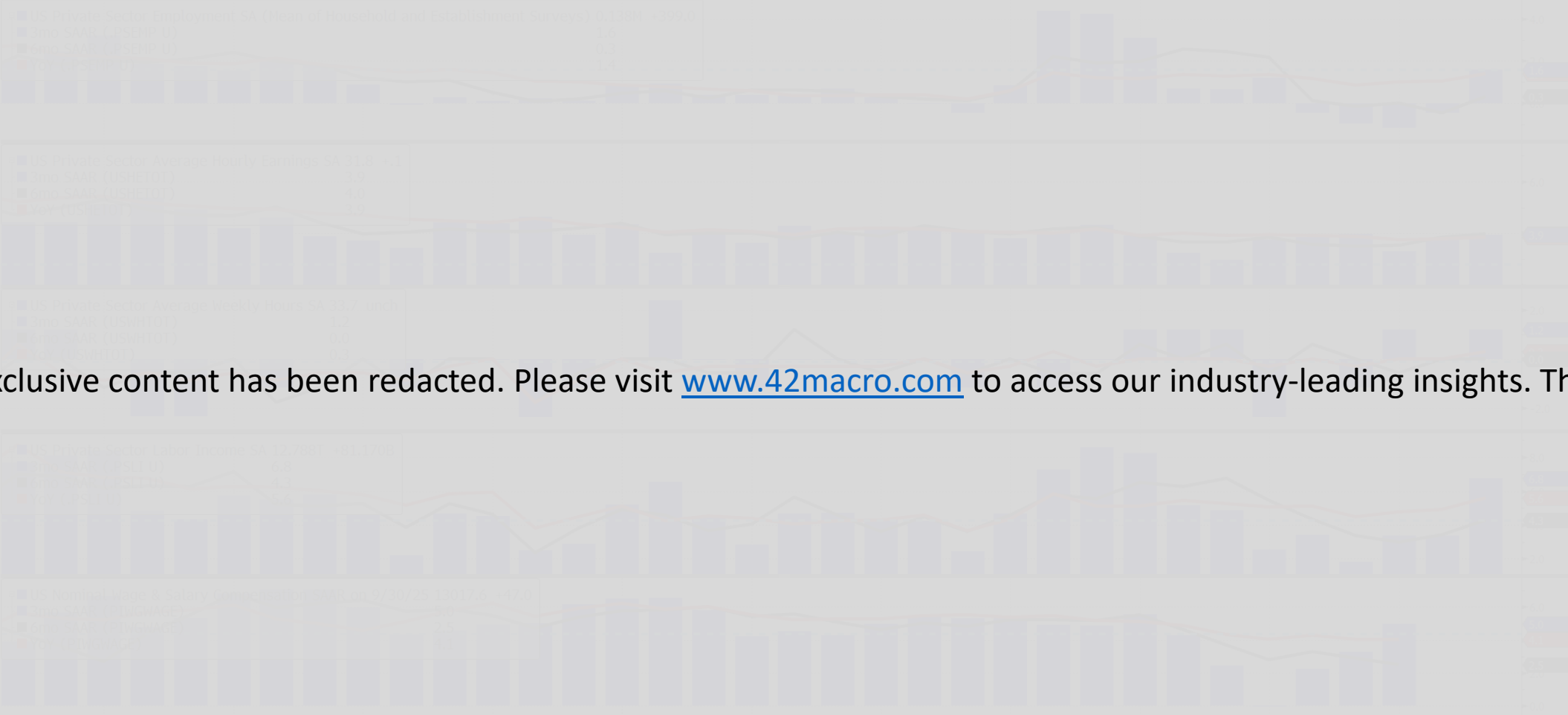


This exclusive content has been redacted. Please visit www.42macro.com to access our industry-leading insights. Thanks!

The Resilient US Economy Is Currently Probing For The Bottom Of Its U-Shaped Slowdown: Business Investment

This exclusive content has been redacted. Please visit www.42macro.com to access our industry-leading insights. Thanks!

The Resilient US Economy Is Currently Probing For The Bottom Of Its U-Shaped Slowdown: Labor Market

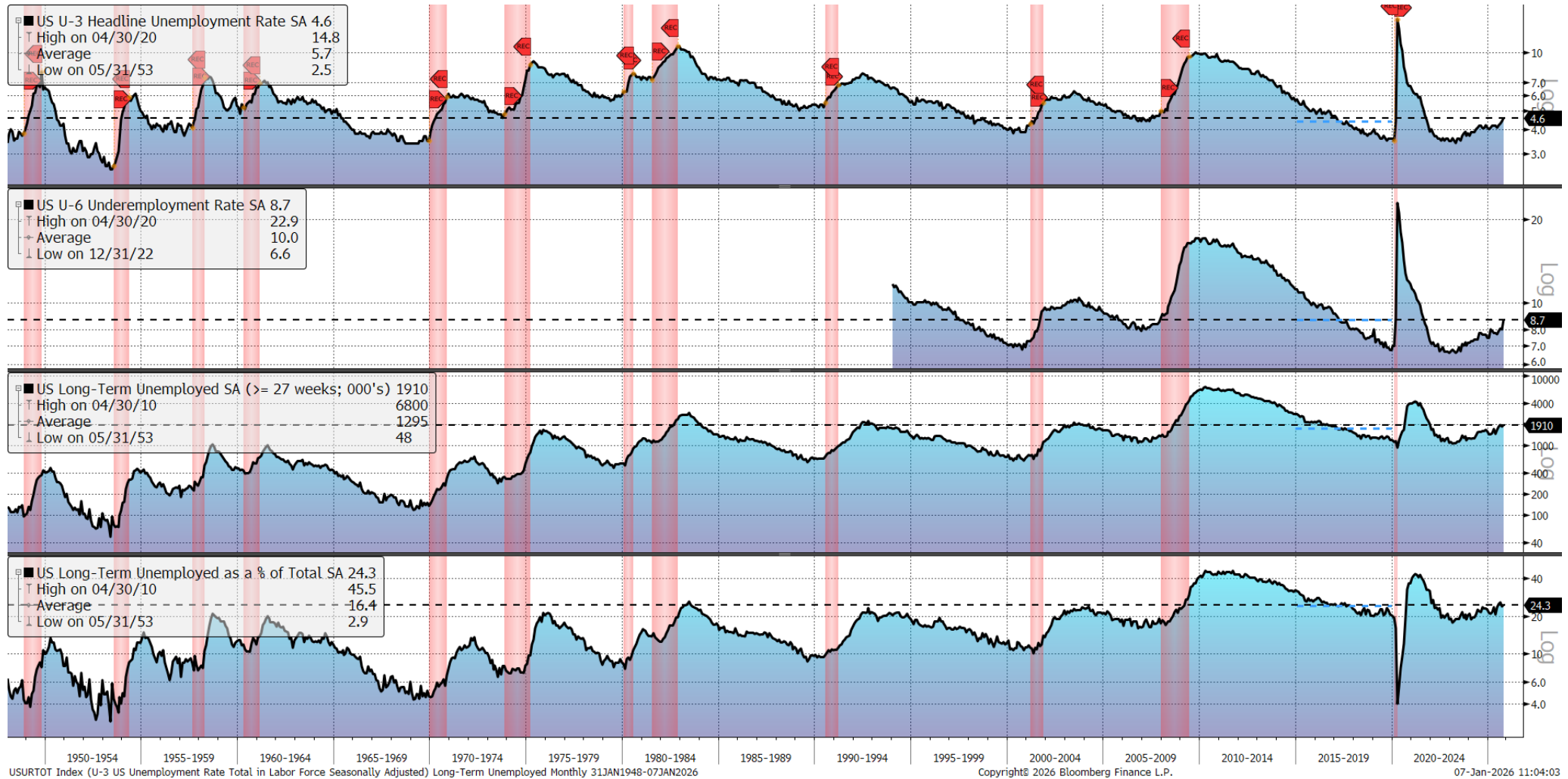


This exclusive content has been redacted. Please visit www.42macro.com to access our industry-leading insights. Thanks!

October's Missing Household Survey Is Flattering Our Private Sector Labor Income Metric; Underneath The Surface, Employment Growth Remains Challenged From A Cyclical Perspective

This exclusive content has been redacted. Please visit www.42macro.com to access our industry-leading insights. Thanks!

Employment Growth Remains Challenged From A Structural Perspective As Well; A **Jobless Recovery** Remains An Underappreciated Macro Risk



Reminder: The Administration's "Substantial" Deregulatory Agenda Is Supportive Of A Durable Recovery In Growth Amid **Paradigm C**

This exclusive content has been redacted. Please visit www.42macro.com to access our industry-leading insights. Thanks!

Some Reshoring Of Domestic Manufacturing Capacity Is Also Supportive Of A Durable Recovery In Growth Amid **Paradigm C**

This exclusive content has been redacted. Please visit www.42macro.com to access our industry-leading insights. Thanks!

Our US **GRID Model** Currently Signals The **U-Shaped** Slowdown Likely Bottoms In Q4; This Quantitative Forecast Is Supported By Our Qualitative Fiscal And Monetary Policy Outlooks

This exclusive content has been redacted. Please visit www.42macro.com to access our industry-leading insights. Thanks!



© 42 Macro LLC. Data Source: Bloomberg. Bottom-Up Macro Regime characteristics:

G = **GOLDILOCKS** = growth ↑ and inflation ↓; **R** = **REFLATION** = growth ↑ and inflation ↑;
I = **INFLATION** = growth ↓ and inflation ↑; and **D** = **DEFLATION** = growth ↓ and inflation ↓.

The 42 Macro **GRID** Model applies a proprietary methodology to smooth and nowcast quarterly GDP data on a monthly frequency.

Inflation Outlook:

Our Macro Weather Model currently views the inflation cycle as a near-term tailwind for asset markets. Our research continues to project an equilibrium Core PCE rate that is currently in the high-2/low-3 percent range that may decline to the high-1 percent range due to a likely disinflationary tailwind from broadening AI adoption. Our research views the disinflationary impulses in housing and wages as likely to counter inflationary impulses from fiscal stimulus in the months ahead. Incremental disinflation increases the probability that the Fed codifies our four-year-old prediction by revising its inflation target higher.

The 42 Macro Secular Inflation Model Has Been Accurate In Projecting An Equilibrium Core PCE Rate In The High-2s/Low-3s Since Jan-22; A Disinflationary Productivity Boom Would Drag It Down To The High-1% Range

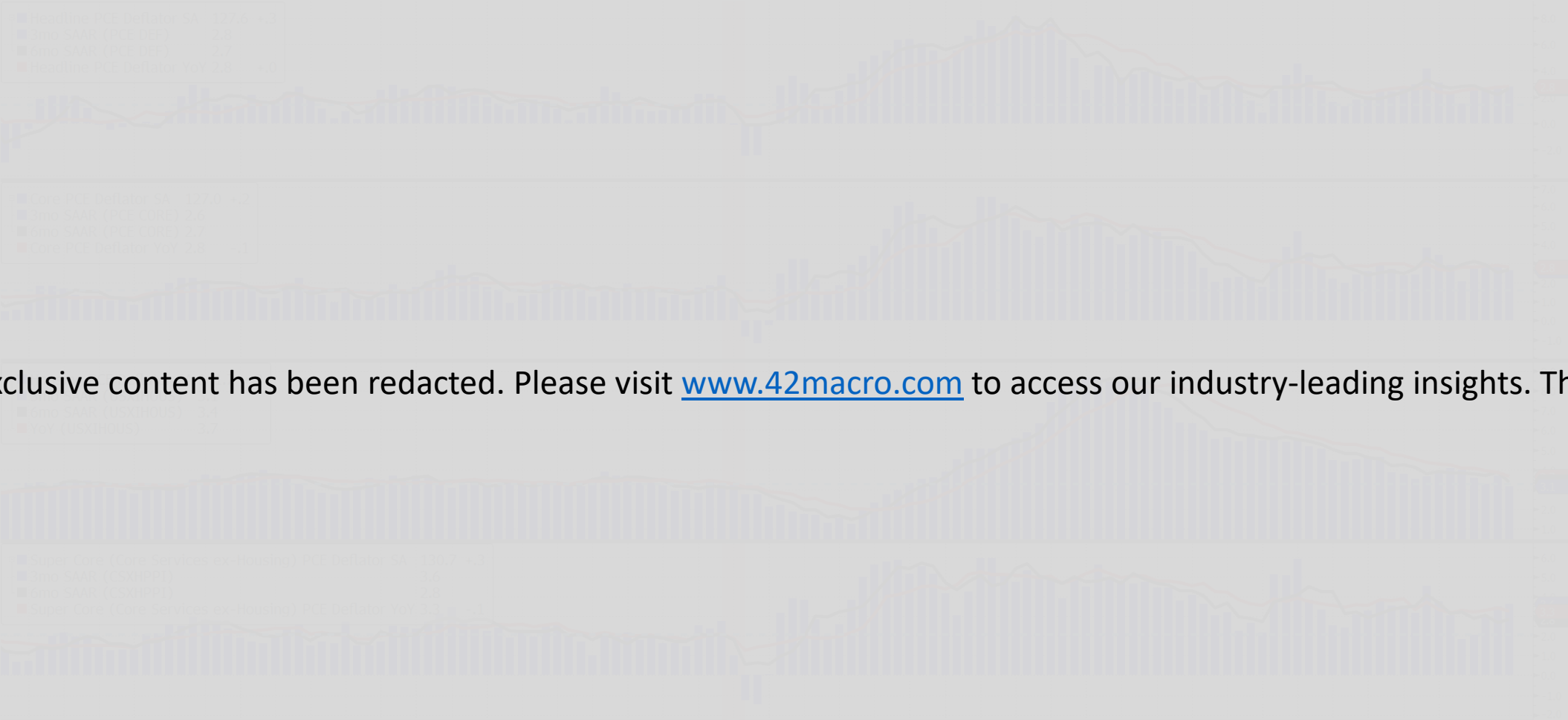
AI: NASDAQ 100 Market Cap/Russell 3000 Market Cap (Latest Value = 47%)	1.0
Automation: Capex/Employee Compensation (Latest Value = 28%)	1.0
Commodities: CRB Index (Latest Value = 545)	2.5
Deglobalization: Imports of Goods and Services as a % of GDP (Latest Value = 14%)	1.6
Demographics: Share of Population ≥ 65 Years Old (Latest Value = 17%)	1.0
Fed Reaction Function: Fed Balance Sheet as a % of GDP (Latest Value = 22%)	0.2
Fiscal Policy: Sovereign Fiscal Balance as a % of GDP (Latest Value = -3.3%)	0.3
House Prices: FHFA House Price Index YoY (Latest Value = 2.2%)	0.4
Housing Supply: Household Formation/Existing Home Inventory (Latest Value = 0.8)	0.7
Income Inequality: Gini Coefficient (Latest Value = 0.49)	1.0
Labor Supply: Labor Force Participation Rate (Latest Value = 62.5%)	1.2
Monopsony Power: S&P 100 Market Cap/S&P 500 Market Cap (Latest Value = 72%)	9.2
Population: 25-54 Employment to Population Ratio (Latest Value = 81%)	1.0
Productivity: Output Per Hour of Nonfarm Labor YoY (Latest Value = 1.5%)	10.0
Public Debt: Federal Debt Held by the Public as a % of GDP (Latest Value = 100%)	6.0
Wages: Employment Cost Index YoY (Latest Value = 4.3%)	3.5
West Village/Montauk Effect: Checkable Deposits & Currency as a % of Total Household Assets (Latest Value = 248%)	9.7
Mean Z Score	0.9
Weighted Z Score	1.0
2010-19 Trend of Core PCE YoY	1.6%
2010-19 Trend of Core PCE	1.6%
2020-24 Trend of Core PCE	1.6%
2020-24 Trend of Core PCE	1.6%

This exclusive content has been redacted. Please visit www.42macro.com to access our industry-leading insights. Thanks!

© 42 Macro LLC. Data Source: Bloomberg.

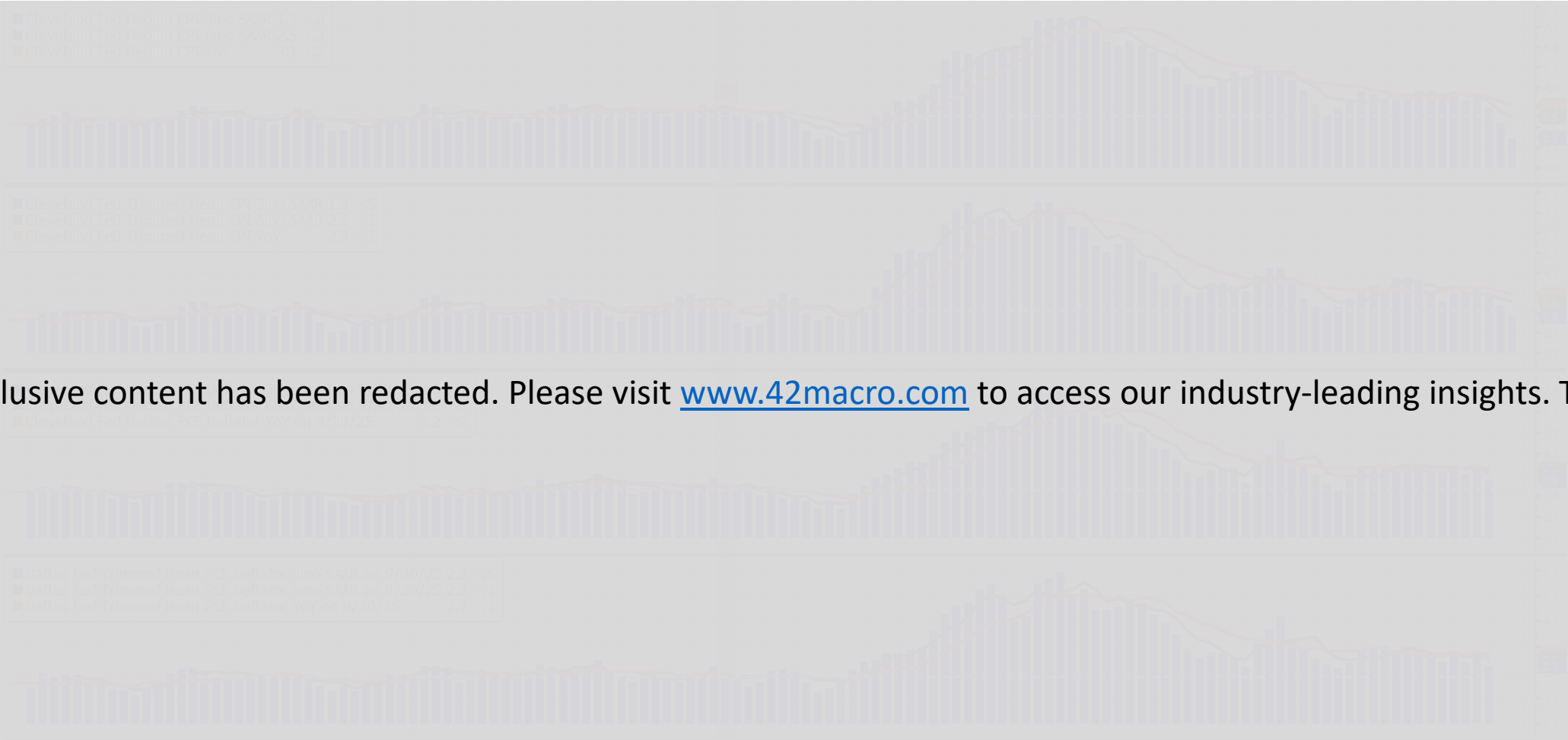
$A \leq [3\sigma] \Delta$ = modest inflationary or disinflationary pressure. $A \geq [3\sigma] \Delta$ = meaningful inflationary or disinflationary pressure.
The 42 Macro Secular Inflation Model interpolates the normalized change of key indicators upon the underlying trend of Core PCE inflation on a raw and weighted basis. **Bold** = highest weighted features.

As Predicted, Core PCE Inflation Has Been **Sticky** In The High-2s/Low-3s Since Late-2023



This exclusive content has been redacted. Please visit www.42macro.com to access our industry-leading insights. Thanks!

As Predicted, Underlying Inflation Has Been **Sticky** In The High-2s/Low-3s Since Mid-2023



This exclusive content has been redacted. Please visit www.42macro.com to access our industry-leading insights. Thanks!

As Predicted, Headline CPI Has Been **Sticky** In The High-2s/Low-3s Since Mid-2023

This exclusive content has been redacted. Please visit www.42macro.com to access our industry-leading insights. Thanks!

As Predicted, Core CPI Has Been **Sticky** In The High-2s/Low-3s Since Late-2023

This exclusive content has been redacted. Please visit www.42macro.com to access our industry-leading insights. Thanks!

Reminder: Inflation Is By Far The Most Lagging Indicator Of The Business Cycle And Is Unlikely To Return Durably To The Fed's Arbitrary 2% Target Without An Actual Recession

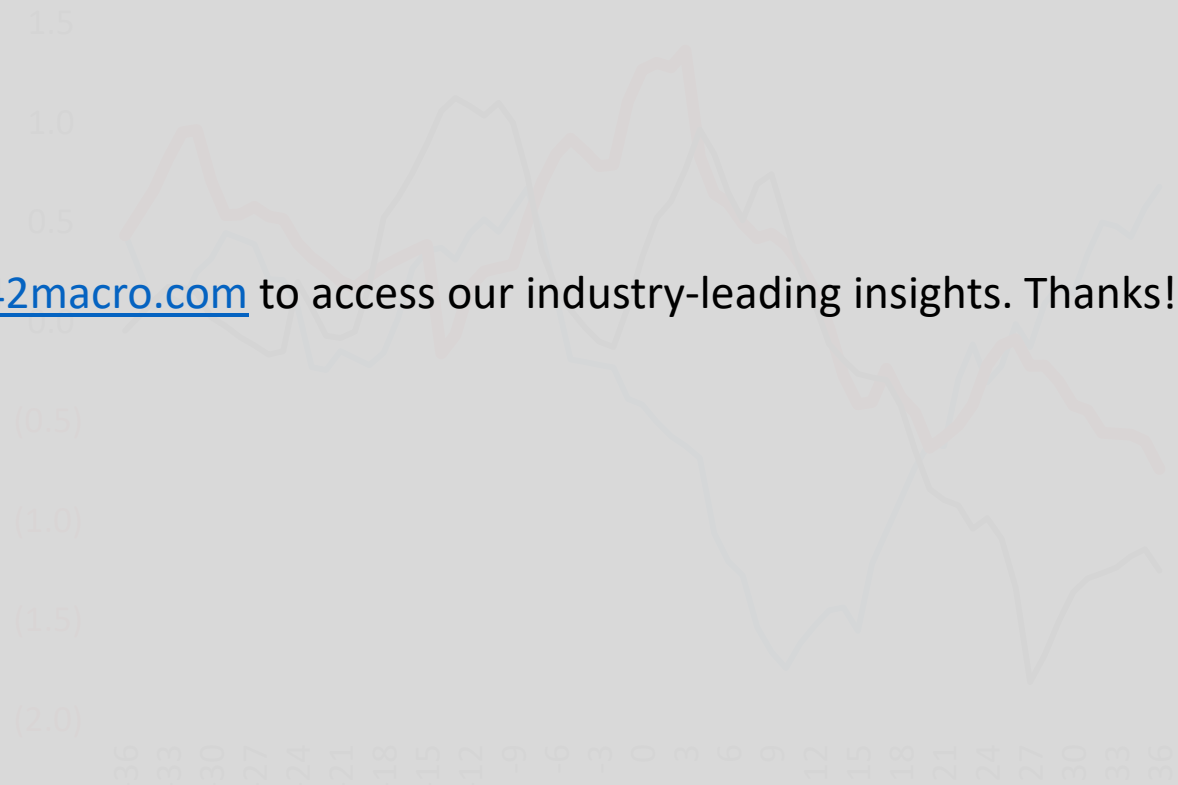
Median Trailing 10yr Delta-Adjusted Z-Score n-Months Before/After A Recession Begins

— Policy — Profits — Liquidity — Growth
— Stocks — Credit — Employment — Inflation



Median Trailing 10yr Delta-Adjusted Z-Score n-Months Before/After A Recession Begins

— Growth — Headline Inflation — Core Inflation



This exclusive content has been redacted. Please visit www.42macro.com to access our industry-leading insights. Thanks!

© 42 Macro LLC. Data Source: Bloomberg. Data since Jan-48 or as far back as the time series allows.

Accelerating/Moderating Upturn: above-trend and increasing/decreasing. Accelerating/Moderating Downturn: below-trend and decreasing/increasing.

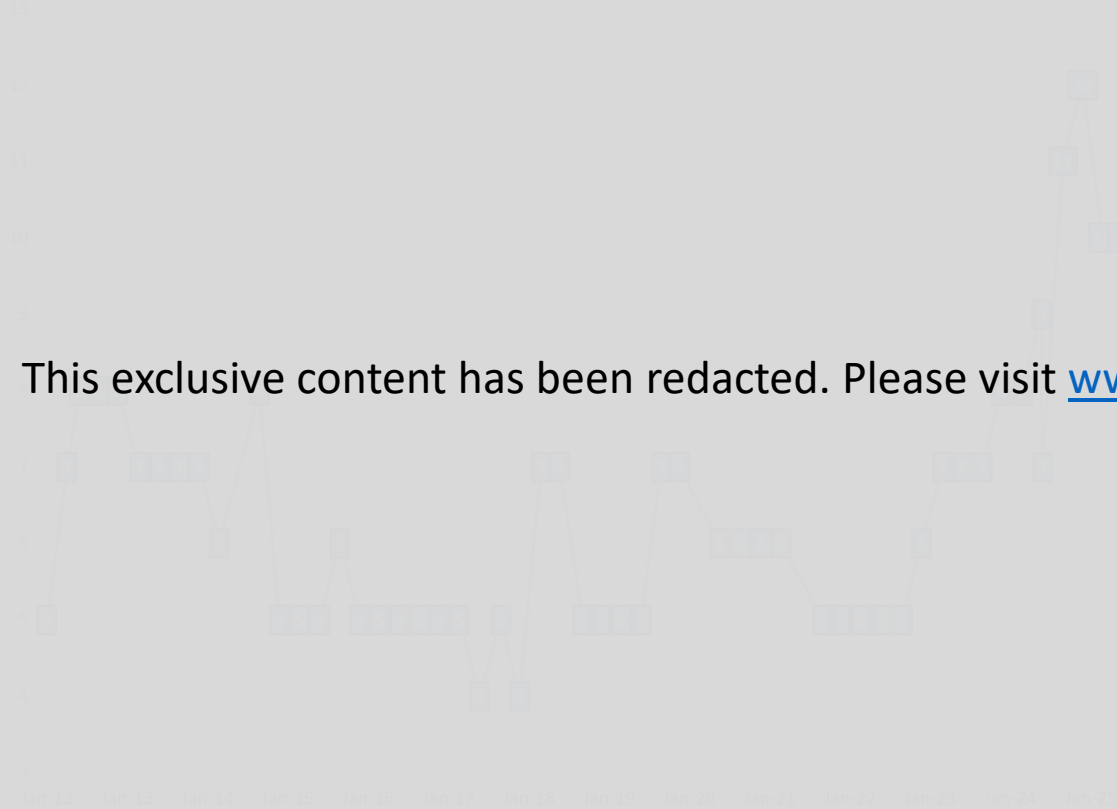
All underlying time series = 3MMA of YoY % change unless otherwise denoted. Z-Scores from 2020 onward are derived from 2015-19 trends.

"Delta-Adjusted" = the signs of countercyclical indicators (e.g., Fed Funds Rate, SLOS, Jobless Claims, Unemployment, Personal Savings Rate, Credit Delinquencies, etc.) are inverted to align them with the direction of the business cycle.

Sticky Inflation Risks Complicating The Monetary Policy Outlook Amid A Widening Dispersion Of Views Regarding The Neutral Rate

For release at 2:00 p.m. EDT, September 17, 2025

—Number of Unique Estimates of the Neutral Policy Rate Among FOMC Members



Marginally Hawkish Forward Guidance Has USD Money Markets Currently Pricing In A Less Than 50% Probability Of Cutting At Every FOMC Meeting Beyond Dec-25

CME FEDWATCH TOOL - CONDITIONAL MEETING PROBABILITIES

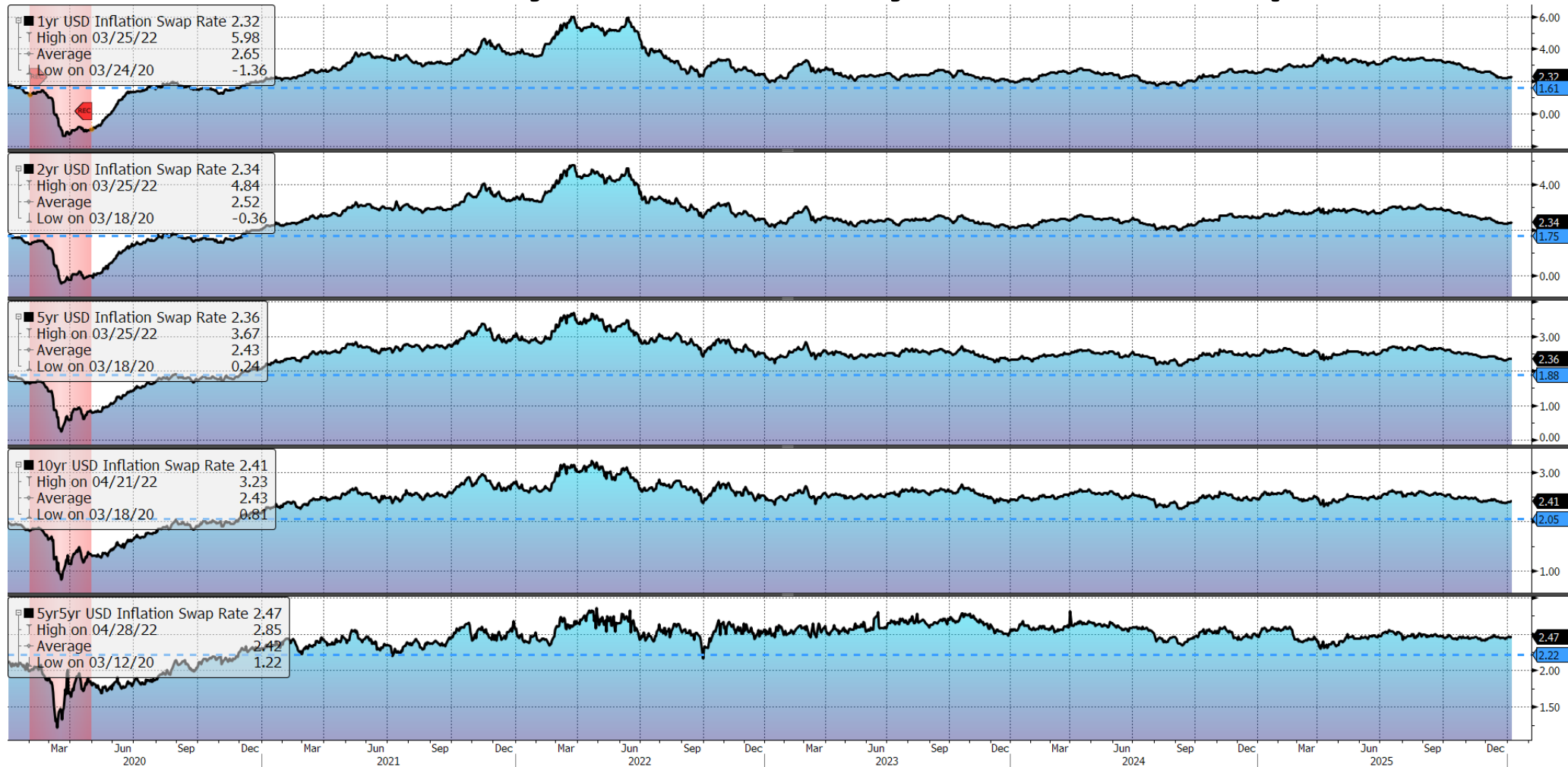
MEETING DATE 200-225 225-250 250-275 275-300 300-325 325-350 350-375 375-400 400-425

1/28/2025	0.0%	0.0%	0.0%	0.0%	11.0%	88.4%	0.0%	0.0%
3/18/2025	0.0%	0.0%	0.0%	4.1%	38.7%	57.2%	0.0%	0.0%
4/29/2025	0.0%	0.0%	0.0%	11.3%	42.5%	46.3%	0.0%	0.0%
5/17/2025	0.0%	0.0%	0.5%	6.7%	28.0%	64.1%	0.0%	0.0%
7/29/2025	0.0%	0.2%	2.5%	13.8%	30.7%	36.4%	13.6%	0.0%
9/16/2025	0.1%	1.0%	0.0%	21.1%	34.7%	37.9%	0.0%	0.0%

This exclusive content has been redacted. Please visit www.42macro.com to access our industry-leading insights. Thanks!

1/27/2027	0.7%	3.9%	12.0%	25.9%	31.1%	20.2%	5.3%	0.0%
3/17/2027	0.6%	4.0%	13.0%	26.0%	31.0%	20.0%	5.2%	0.0%
4/28/2027	0.7%	3.9%	12.0%	25.4%	30.8%	20.4%	5.8%	0.2%
5/19/2027	0.7%	3.7%	12.2%	24.9%	30.8%	20.0%	6.5%	0.0%
7/28/2027	0.7%	3.7%	12.2%	24.9%	30.8%	20.0%	6.5%	0.0%
9/15/2027	0.6%	3.5%	11.5%	23.8%	30.1%	21.7%	7.7%	1.0%
10/27/2027	0.6%	3.2%	10.7%	22.8%	29.6%	22.5%	9.0%	1.6%
12/8/2027	0.5%	2.9%	9.1%	20.1%	28.0%	24.0%	11.0%	3.2%

FYI, The Bond Market Is Not Especially Concerned About **Sticky Inflation** As Evidenced By Trends In Key Inflation Swap Rates

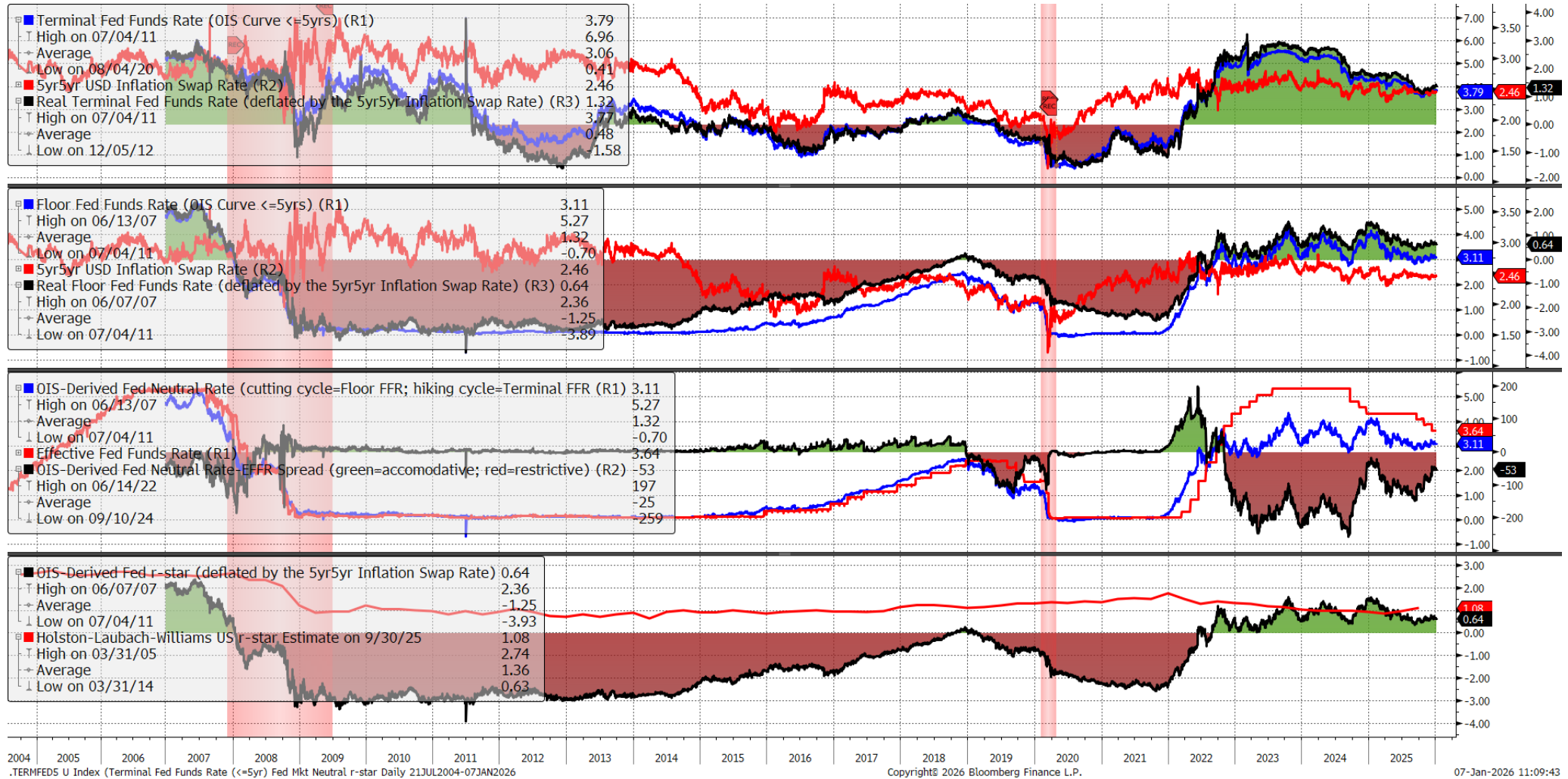


USSWIT1 Curncy (USD INFL SWAP ZC 1Y) Inflation Swap Rates Daily 01JAN2020-07JAN2026

Copyright © 2026 Bloomberg Finance L.P.

07-Jan-2026 11:09:11

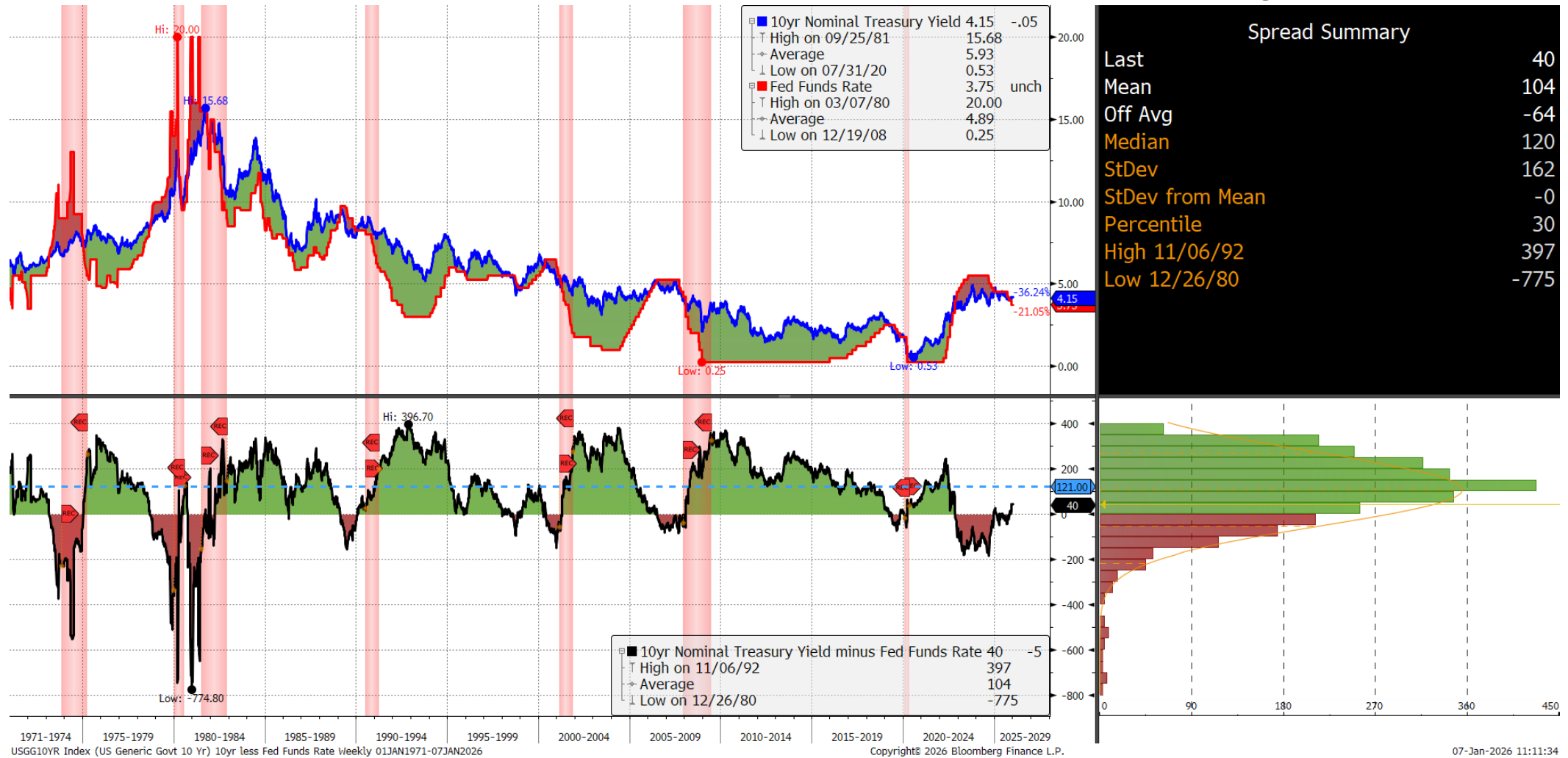
FYI, The Bond Market Is Not Especially Concerned About **Sticky Inflation** And Thinks The Neutral Fed Funds Rate Is ~3%



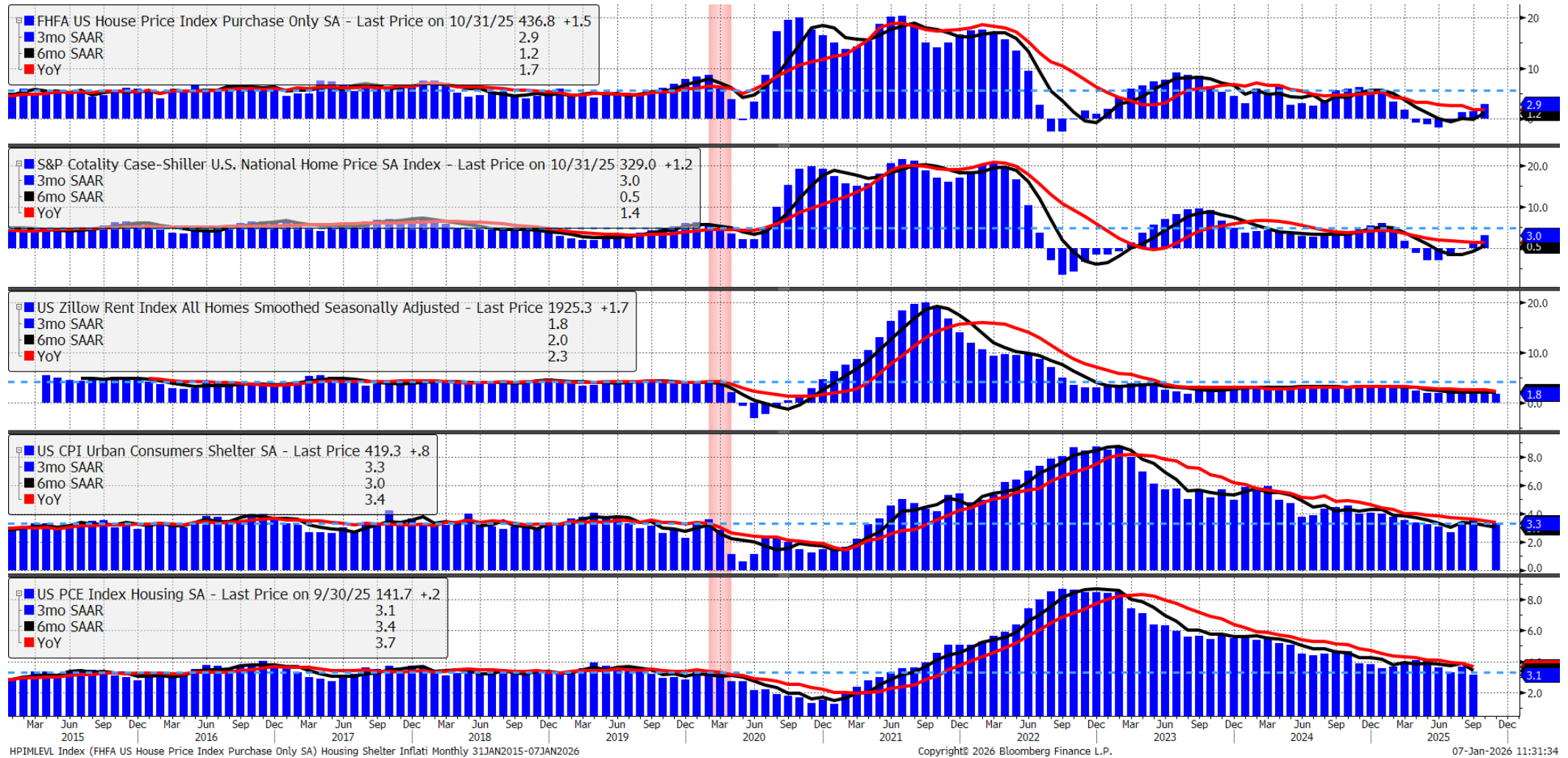
FYI, The Bond Market Is Not Especially Concerned About **Sticky Inflation** And Thinks The Fed Funds Rate Will Be At 3% By Dec-26

This exclusive content has been redacted. Please visit www.42macro.com to access our industry-leading insights. Thanks!

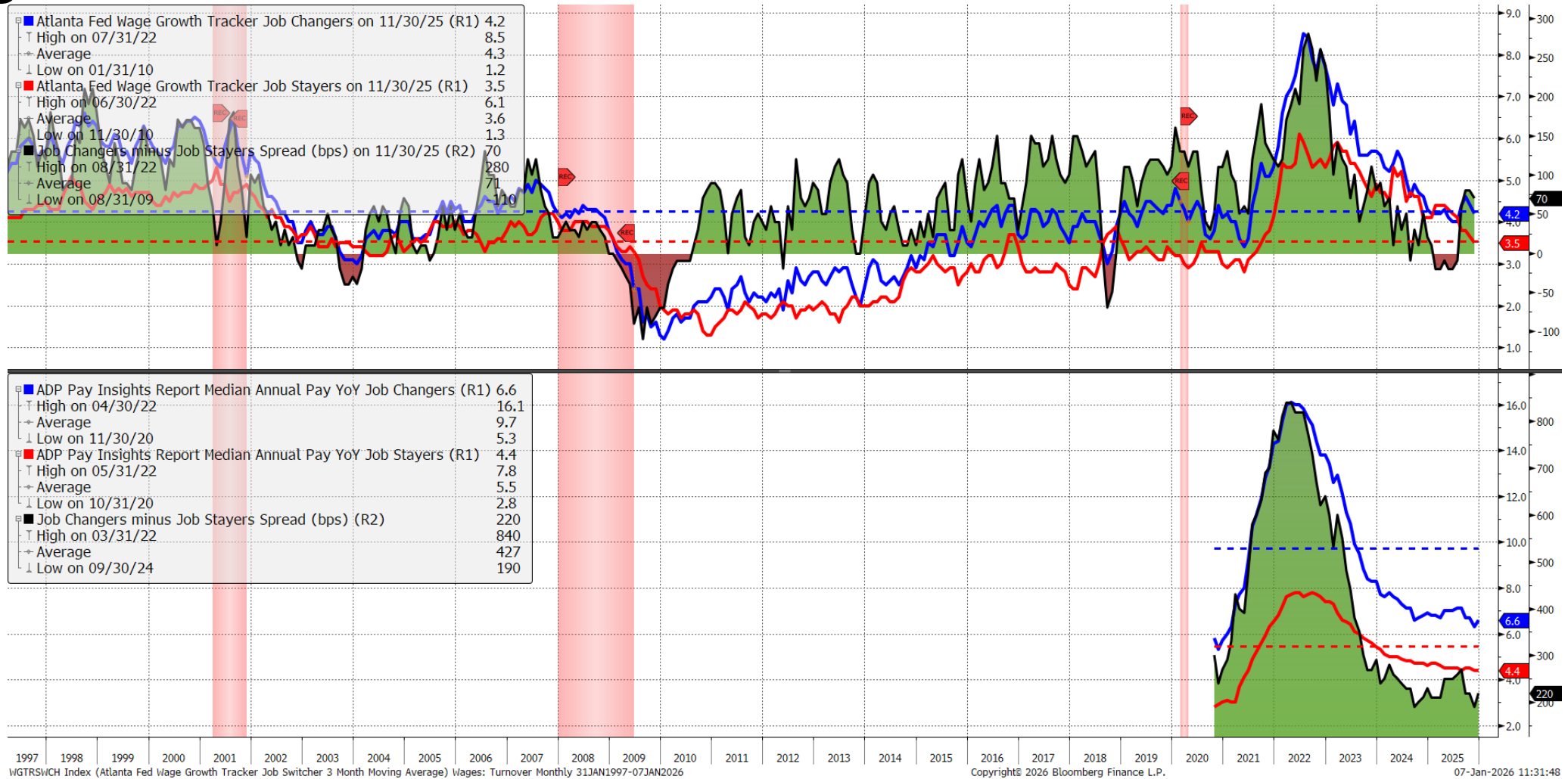
FYI, The Bond Market Is Not Especially Concerned About **Sticky Inflation** And Thinks The Fed Funds Rate Should Already Be At ~3.25%



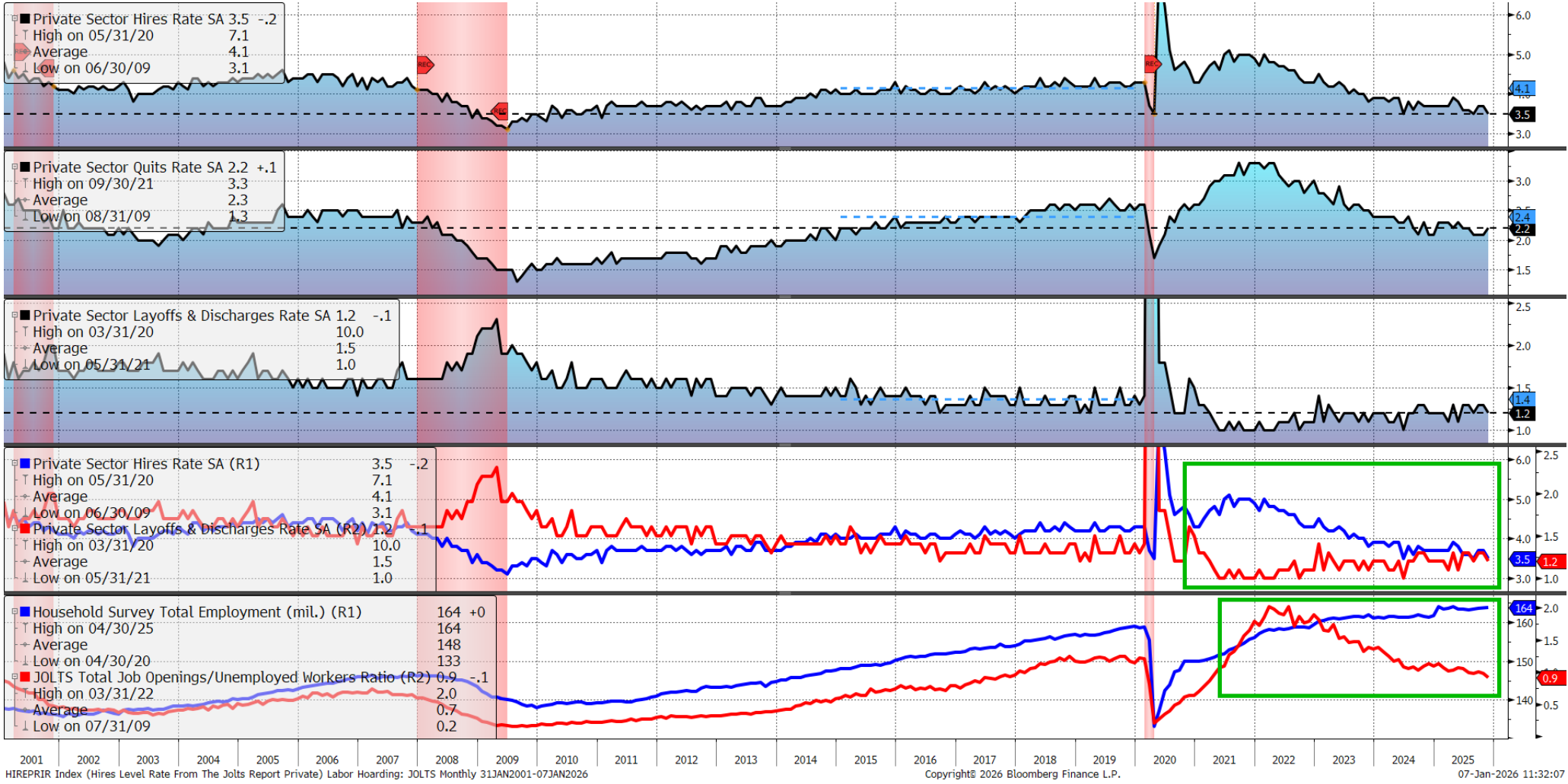
Leading Indicators Signal Shelter CPI And Housing PCE Inflation Are Likely To Continue Their Downward Trajectories Over The Medium Term



Reminder: Workers Who Change Jobs Tend To Experience Faster Wage Growth



The Low-Turnover Labor Market Is A Headwind For Wage Growth



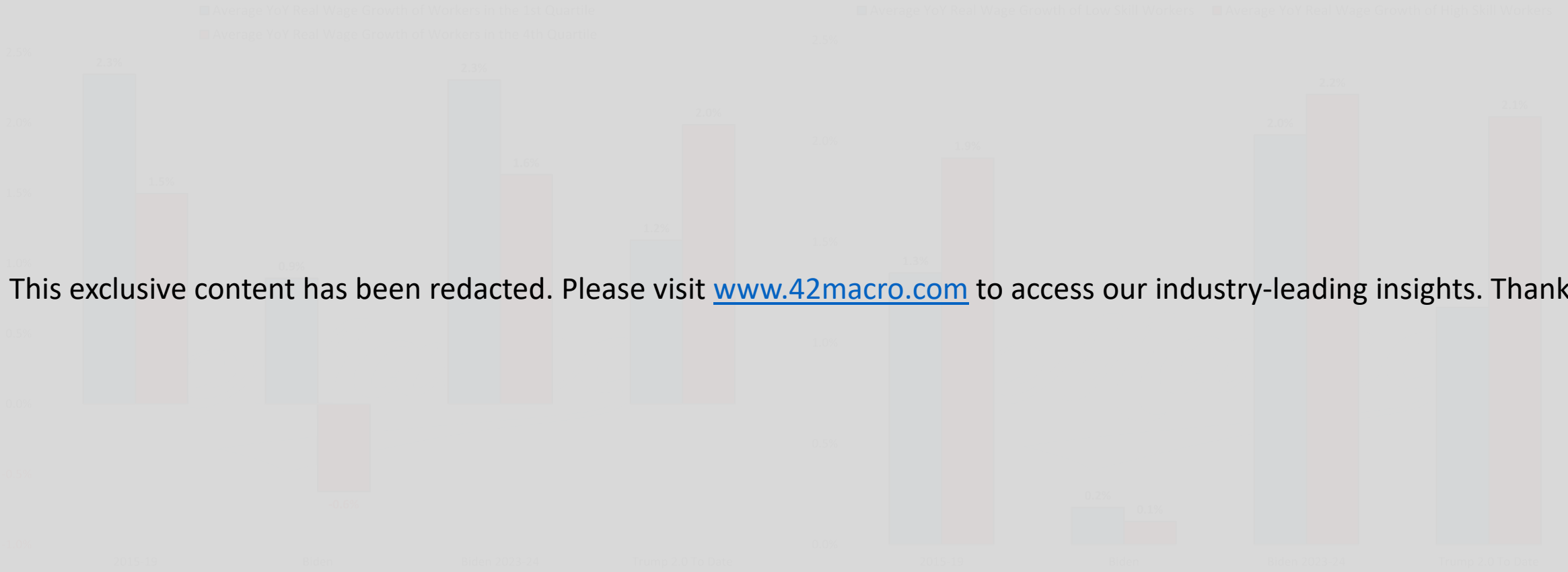
Monetary Policy Outlook:

Our Macro Weather Model currently views the monetary policy cycle as a near-term headwind for asset markets. Our research views the Fed's reluctance to support fiscal dominance as perpetuating the adverse capital formation dynamics for small businesses and interest-rate-sensitive sectors due to the crowding out by excessive public sector borrowing. Our research views the Fed's reluctance to force high-income households into the same recession that low-to-median-income households have been mired in for three years as perpetuating the affordability crisis via a historic Cantillon effect. Our research views the Fed's decision to disregard the affordability crisis and counter deterioration in the labor and repo markets with dovish monetary policy as an indication the Fed is already adopting a pro-growth policy bias — something we anticipate the next Fed chair will make a core focus of the institution.

The US Economy Is Increasingly **K-Shaped** In Distributional Terms: Annual Household Income

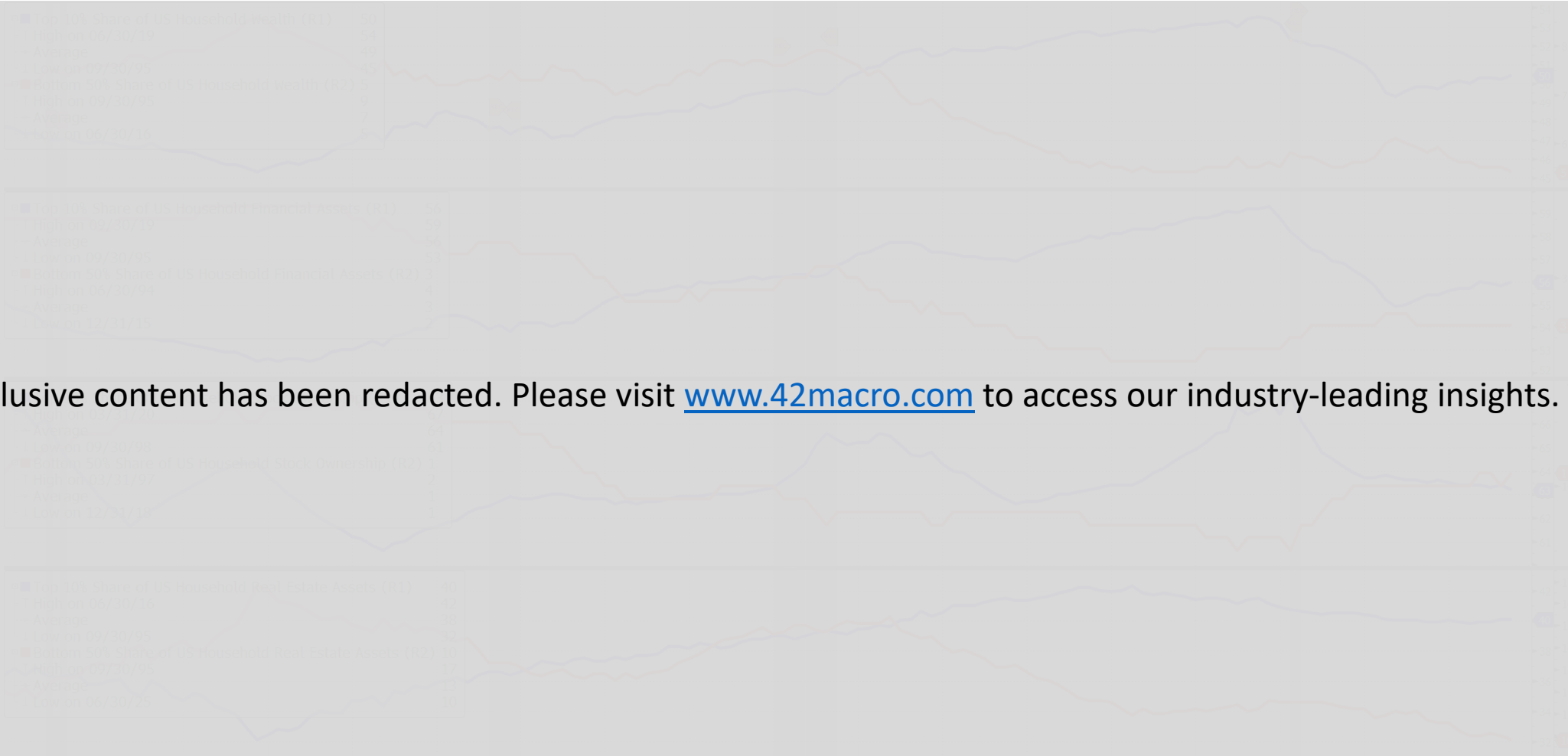
This exclusive content has been redacted. Please visit www.42macro.com to access our industry-leading insights. Thanks!

The US Economy Is Increasingly **K-Shaped** In Distributional Terms: Real Wage Growth



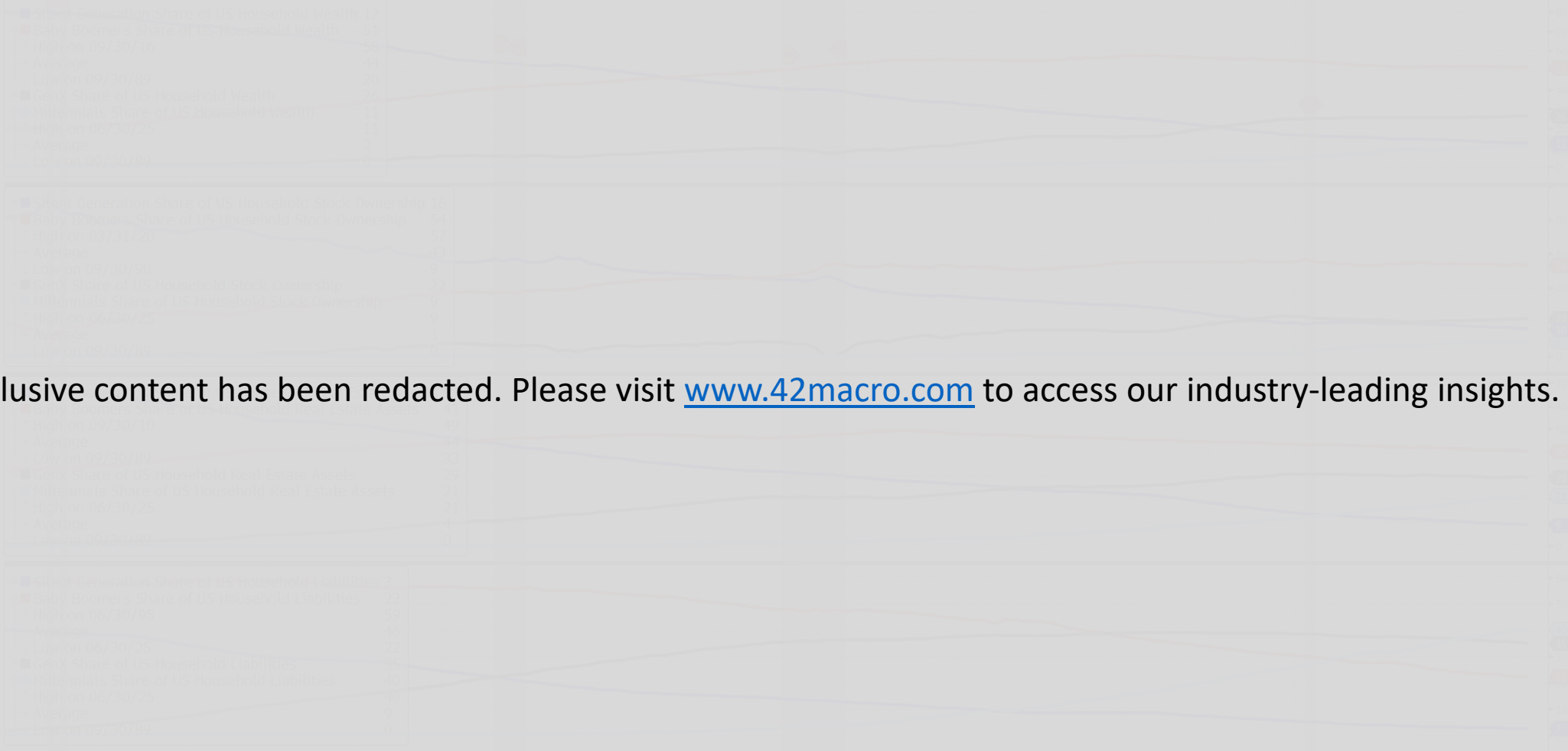
This exclusive content has been redacted. Please visit www.42macro.com to access our industry-leading insights. Thanks!

The US Economy Is Increasingly **K-Shaped** In Distributional Terms: Household Wealth



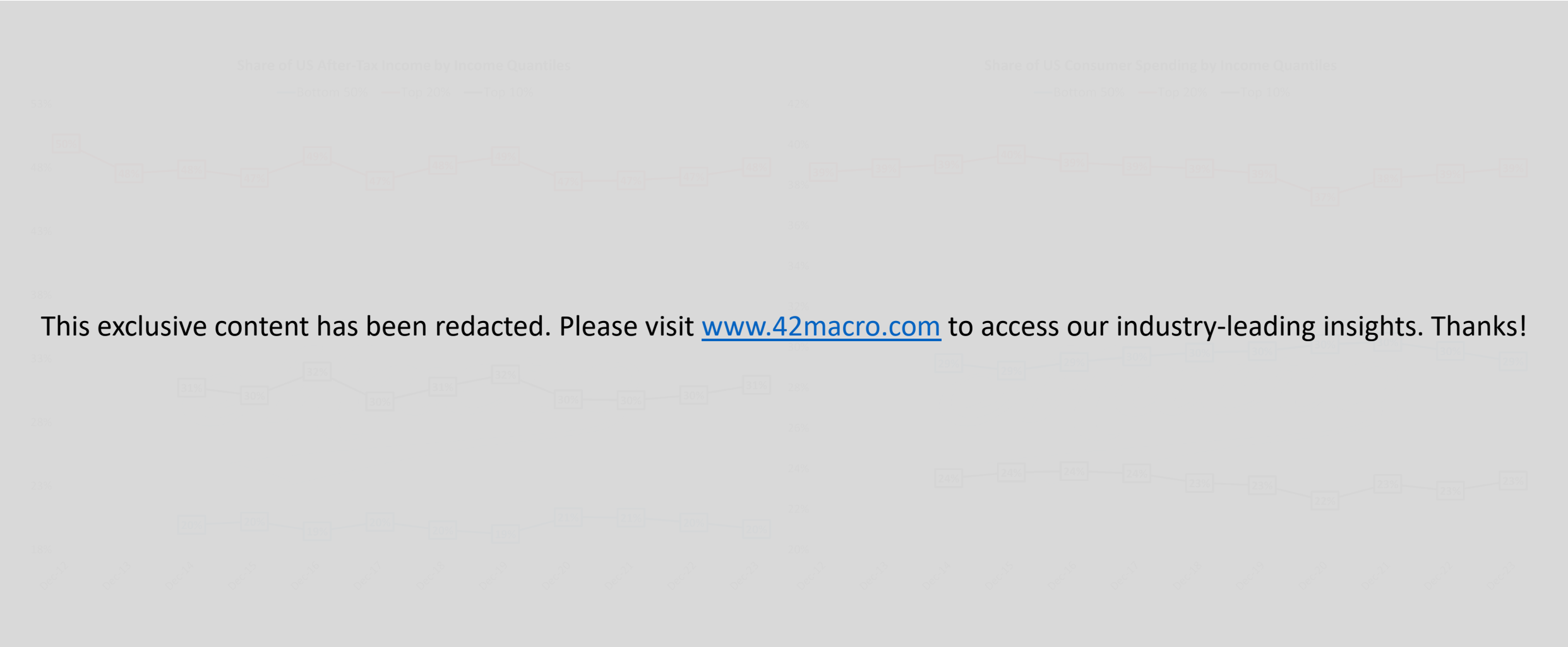
This exclusive content has been redacted. Please visit www.42macro.com to access our industry-leading insights. Thanks!

The Generational Wealth Divide Is Another Source Of Angst Among The Voting Public



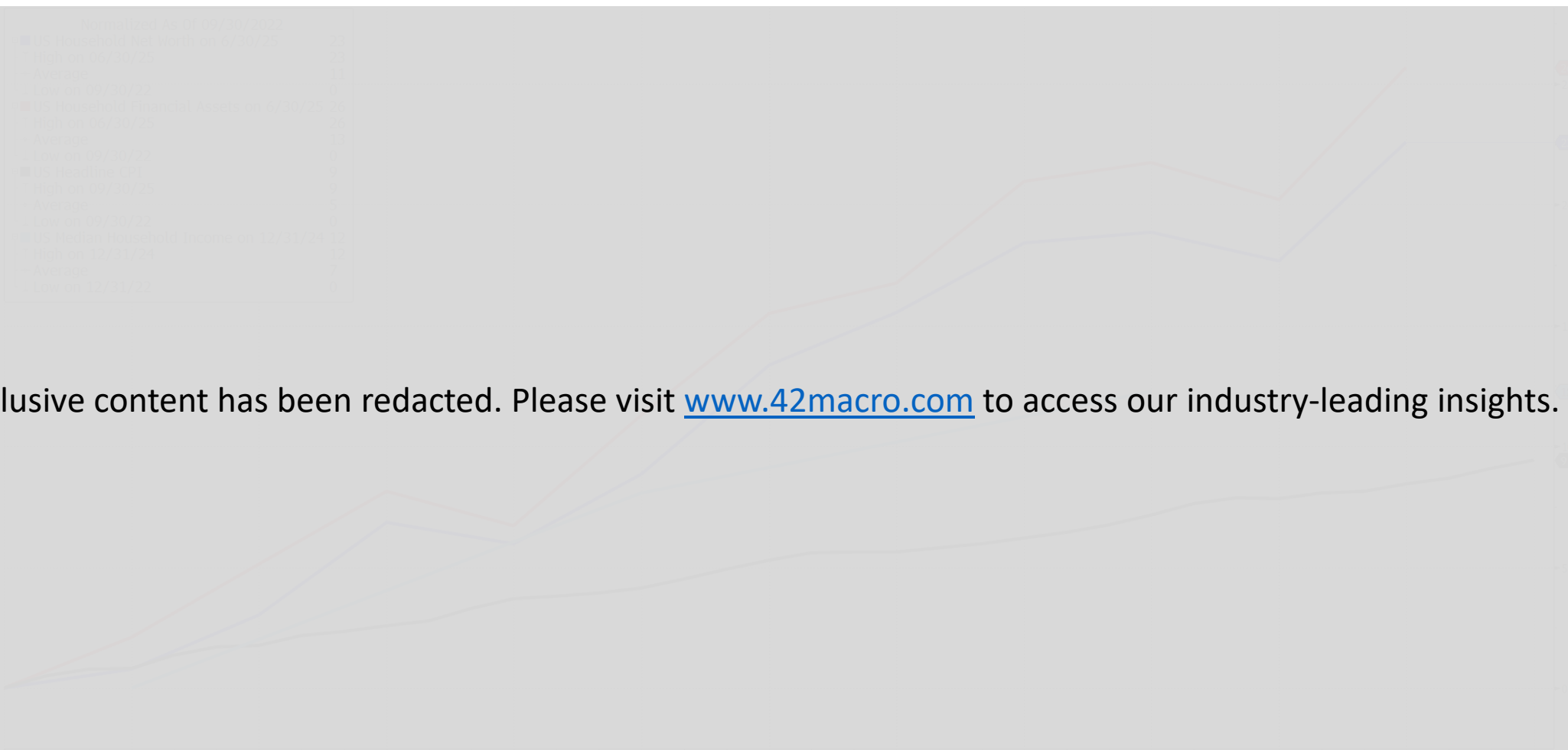
This exclusive content has been redacted. Please visit www.42macro.com to access our industry-leading insights. Thanks!

One Key Reason The US Economy Has Been So Resilient Since We Authored The **Resilient US Economy** Theme In Sep-22 Is Because Rich People Increasingly Earn And Spend Most Of The Income



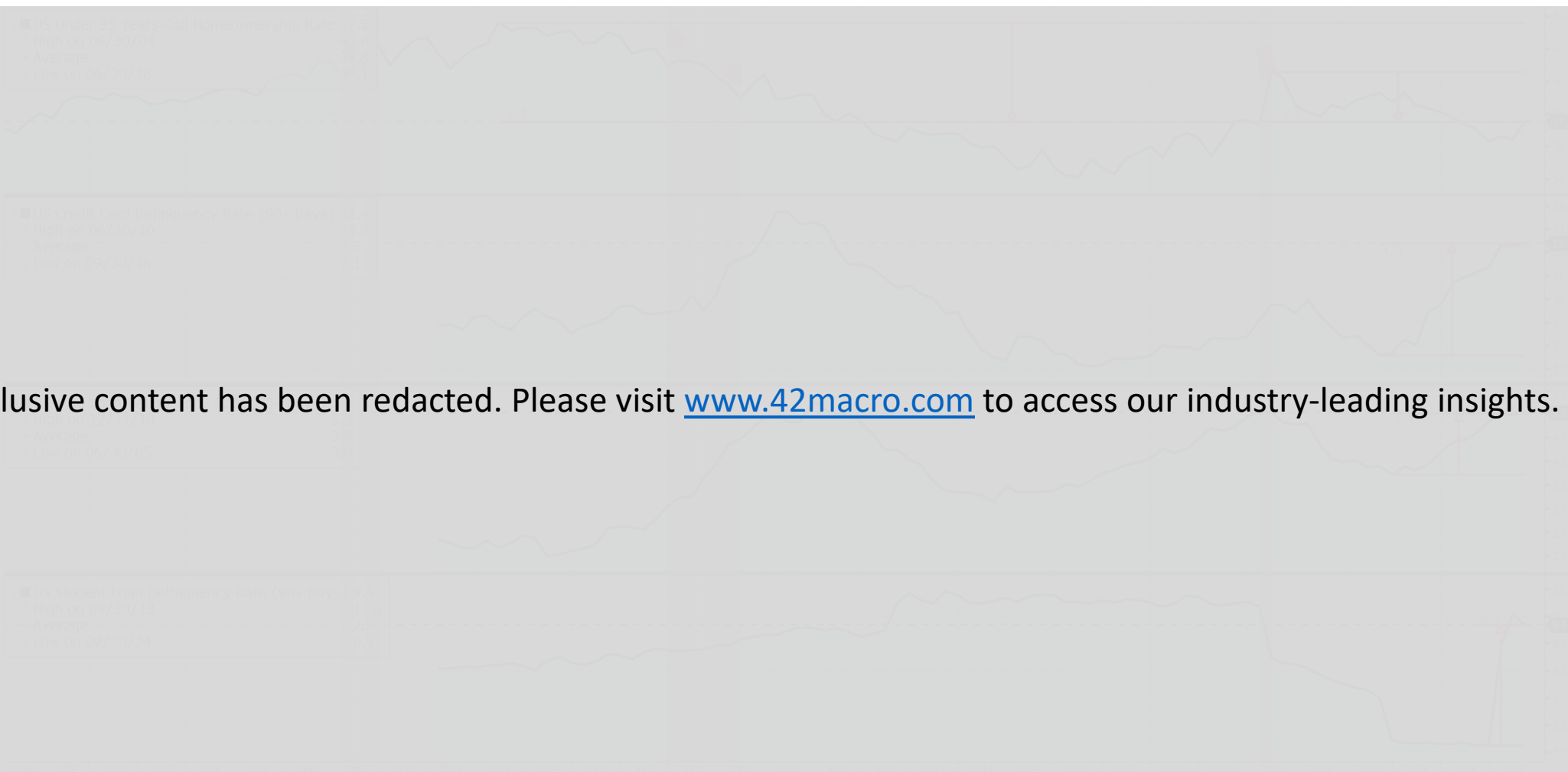
This exclusive content has been redacted. Please visit www.42macro.com to access our industry-leading insights. Thanks!

Rich People's Income Has Been Supported By Rising Asset Prices That Have Doubled The Pace Of Growth For The Median Household Income Since Sep-22



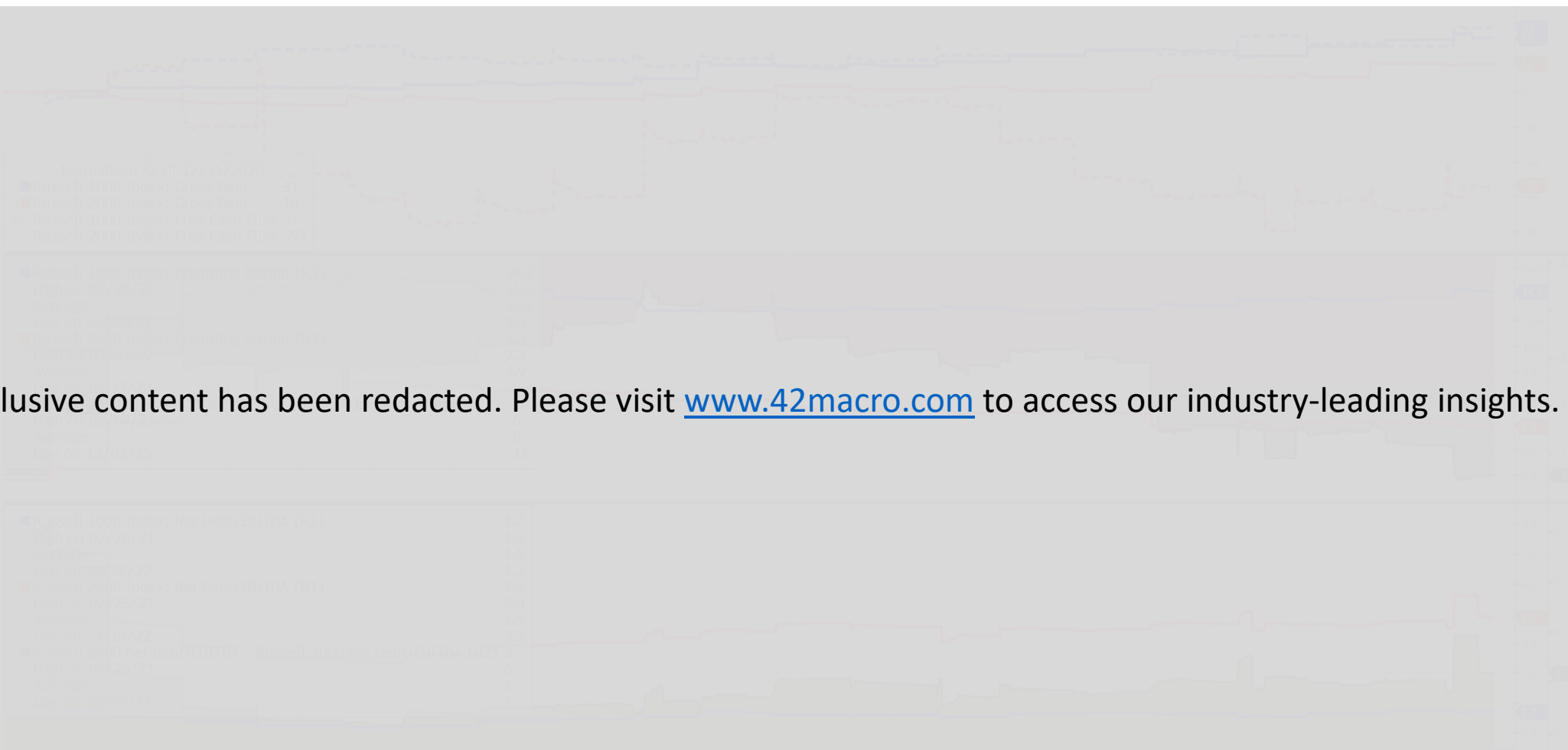
This exclusive content has been redacted. Please visit www.42macro.com to access our industry-leading insights. Thanks!

The **K-Shaped Economy** Is Not A Just A Wall Street Talking Point; It's A Full-Blown Crisis For The Low-To-Median-Income Households On The Bottom Of The "K" Who've Been Mired In Recession For Three Years



This exclusive content has been redacted. Please visit www.42macro.com to access our industry-leading insights. Thanks!

The **K-Shaped Economy** Is Not A Just A Wall Street Talking Point; It's A Full-Blown Crisis For The Small Businesses On The Bottom Of The "K" Who've Been Mired In Recession For Three Years

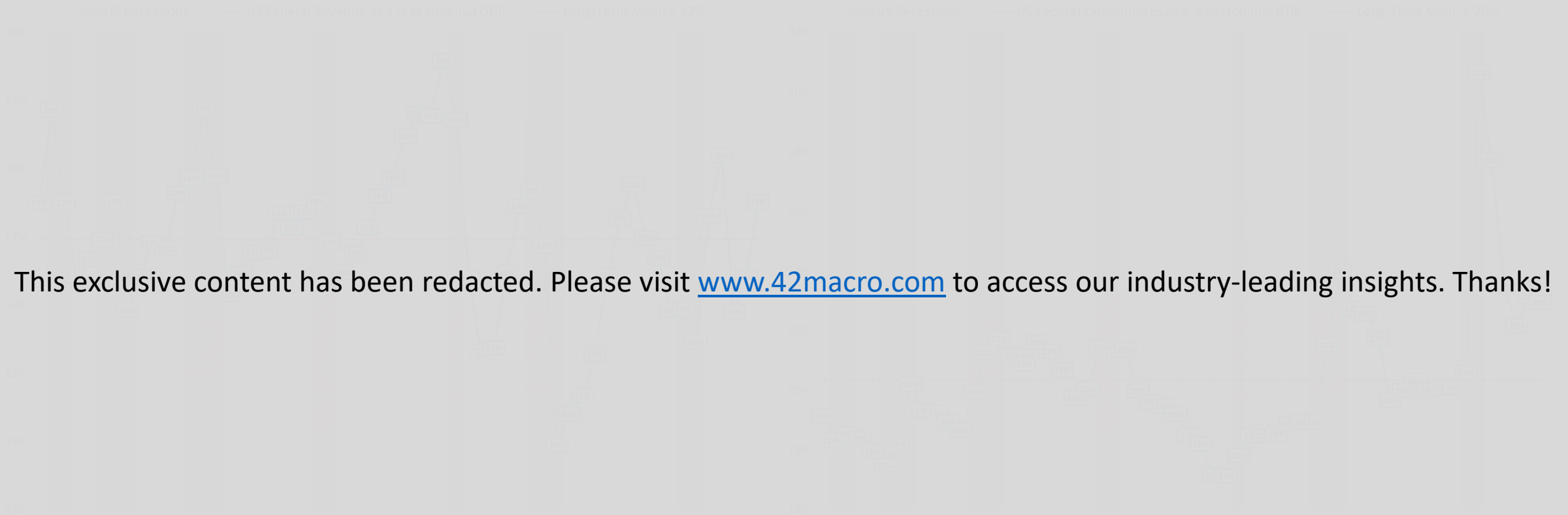


This exclusive content has been redacted. Please visit www.42macro.com to access our industry-leading insights. Thanks!

The **K-Shaped Economy** Is Not A Just A Wall Street Talking Point; It's A Full-Blown Crisis For The Interest-Rate-Sensitive Sectors On The Bottom Of The "K" Who've Been Mired In Recession For Three Years

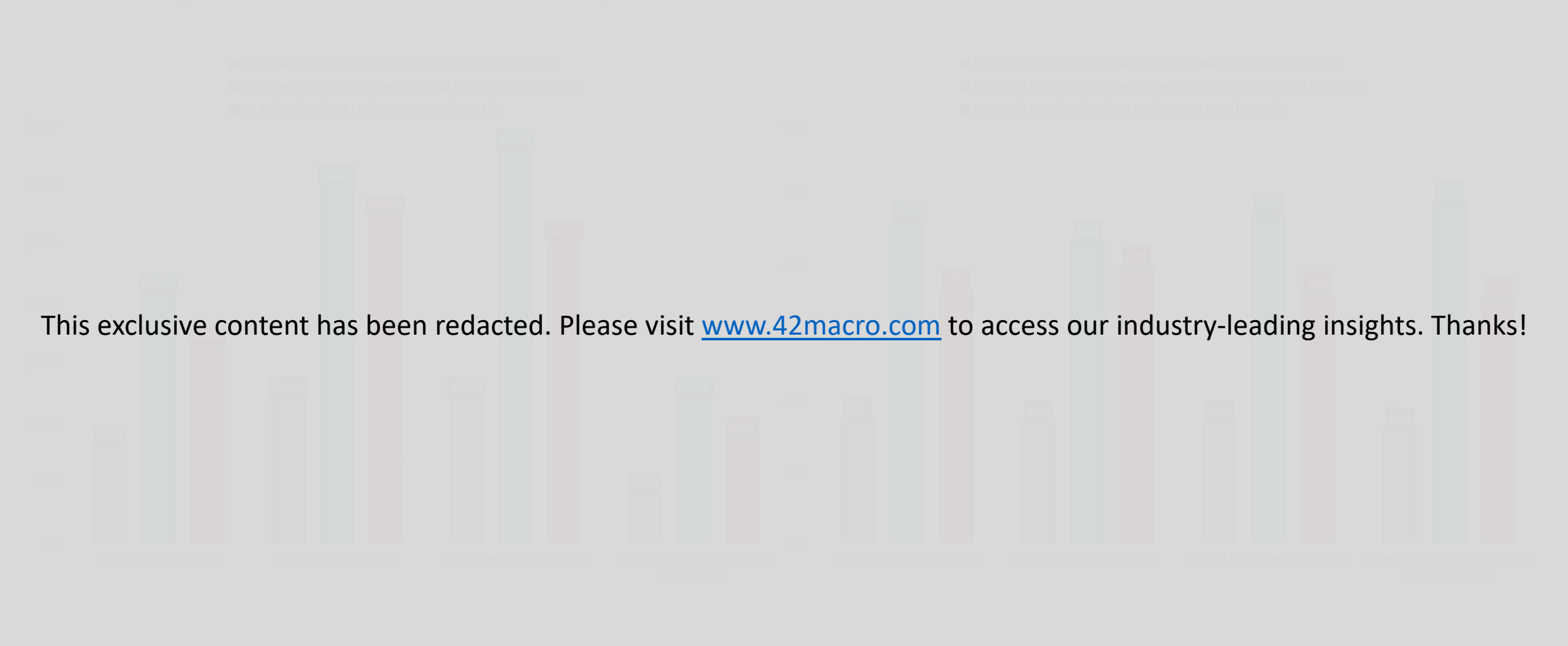
This exclusive content has been redacted. Please visit www.42macro.com to access our industry-leading insights. Thanks!

In Our View, Fiscal Largesse Is The Key Driver Of The **K-Shaped Economy Crisis (KEC)**



This exclusive content has been redacted. Please visit www.42macro.com to access our industry-leading insights. Thanks!

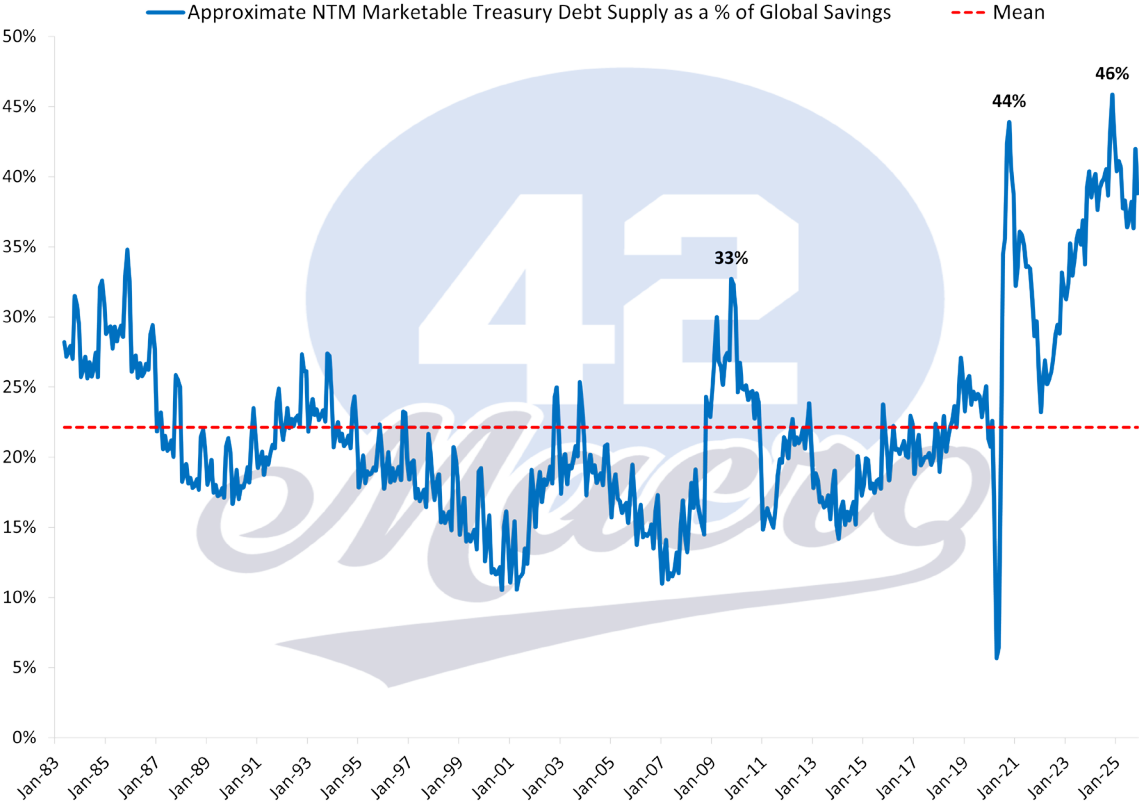
Fiscal Largesse Is Perpetuating The **K-Shaped Economy Crisis (KEC)** Through Two Channels: 1) A Historic Cantillon Effect



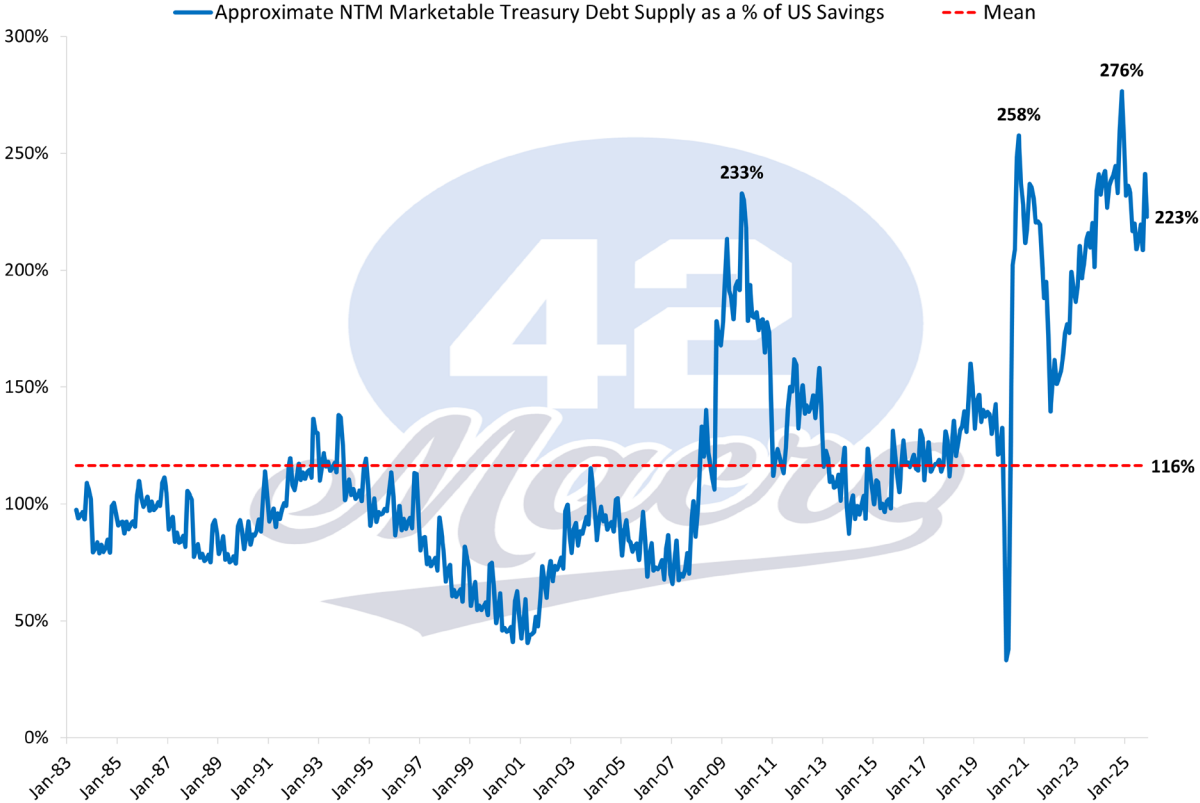
This exclusive content has been redacted. Please visit www.42macro.com to access our industry-leading insights. Thanks!

Fiscal Largesse Is Perpetuating The **K-Shaped Economy Crisis (KEC)** Through Two Channels: 2) An Equally Historic Crowding Out Of The Private Sector

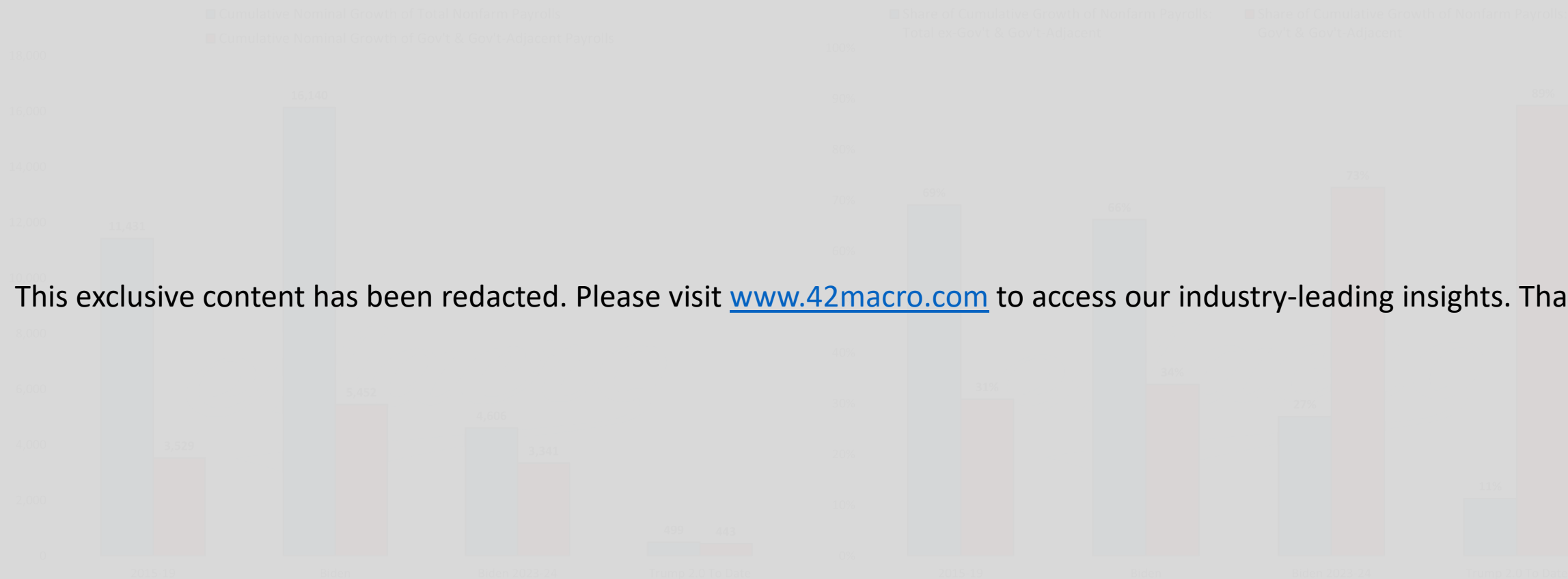
Approximate NTM Marketable Treasury Debt Supply as a % of Global Savings



Approximate NTM Marketable Treasury Debt Supply as a % of US Savings



Look No Further Than The Historic Share Of Jobs Being Generated By The Government And Gov't-Adjacent Industries For Proof Of The Historic Crowding Out By Uncle Sam



This exclusive content has been redacted. Please visit www.42macro.com to access our industry-leading insights. Thanks!

DOGE Was Spectacularly Unsuccessful At Reversing The Historic Cantillon Effect, So The Administration Has Pivoted To Reversing The Crowding Out By Attempting To Foist **Structural Reforms** Upon The Fed

This exclusive content has been redacted. Please visit www.42macro.com to access our industry-leading insights. Thanks!

Reminder: We Were The First To Expose DOGE As “Kabuki Theater Designed To Distract A Gullible American Public From Trillions In Deficit-Financed Tax Cuts For The Rich” In The Fall Of 2024

This exclusive content has been redacted. Please visit www.42macro.com to access our industry-leading insights. Thanks!



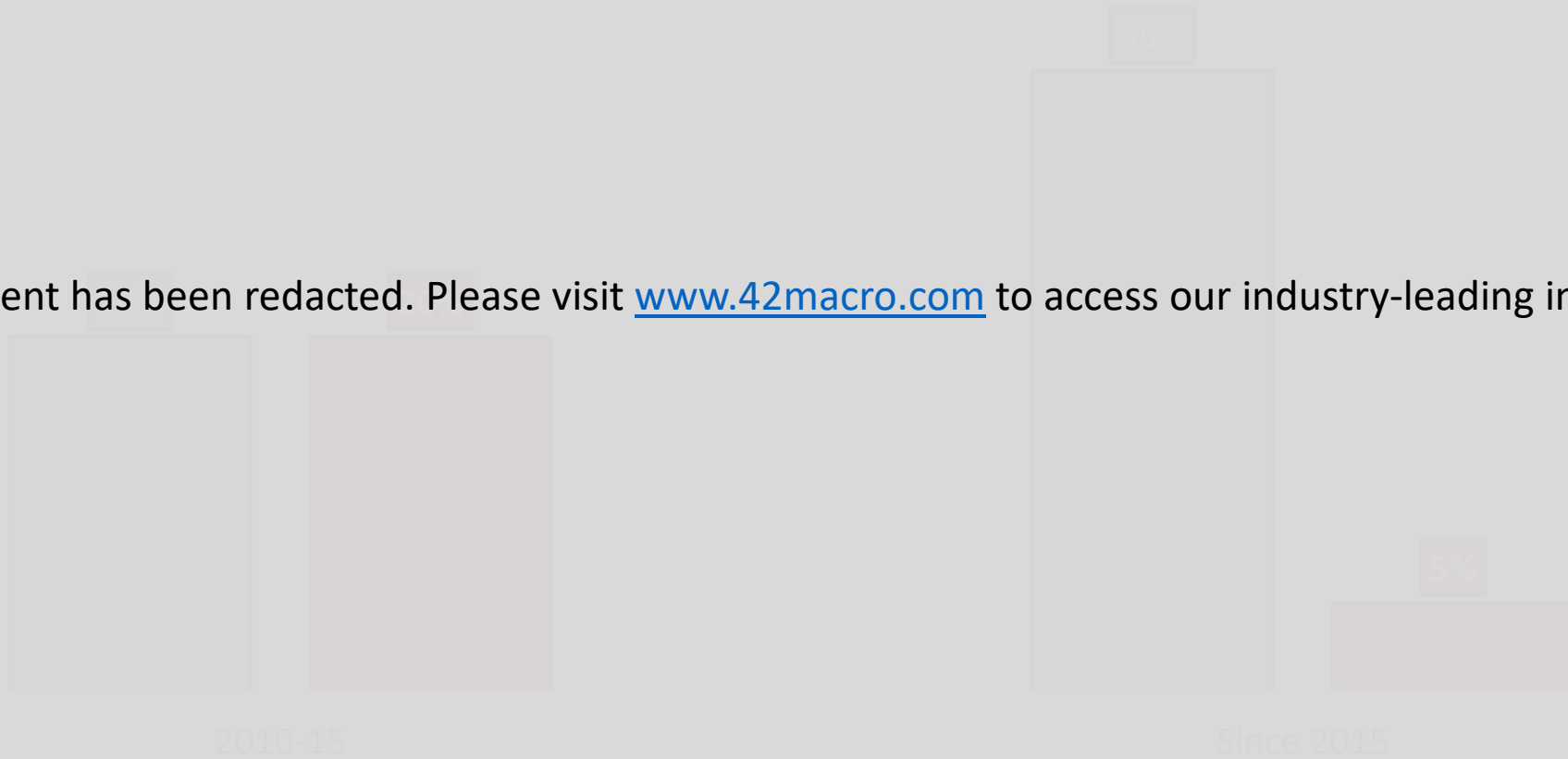
© 42 Macro LLC. Data Source: Bloomberg, Social Security Administration.
Feb-25 data. Feb-25 = the peak of Annualized Nominal Calendar YTD Fiscal Expenditures.
The **highlighted** categories account for ~90% of Federal Revenue and ~90% of Federal Expenditures.
FFTT “True Interest Expense” = Medicare + National Defense + Net Interest + Social Security.

FYI, The Fed Has Become Increasingly Partisan In Recent Years

Proportion of Political Donations by Federal Reserve Bank Directors by Party

■ Democrats ■ Republicans

40%
35%
30%
25%
20%
15%
10%
5%
0%



This exclusive content has been redacted. Please visit www.42macro.com to access our industry-leading insights. Thanks!

It Appears The Powell Fed Has Already Pivoted The Institution Towards The **Structural Reforms** We Have Been Calling For; These Reforms Will Increasingly Allow The Fed To Run The Economy Hot

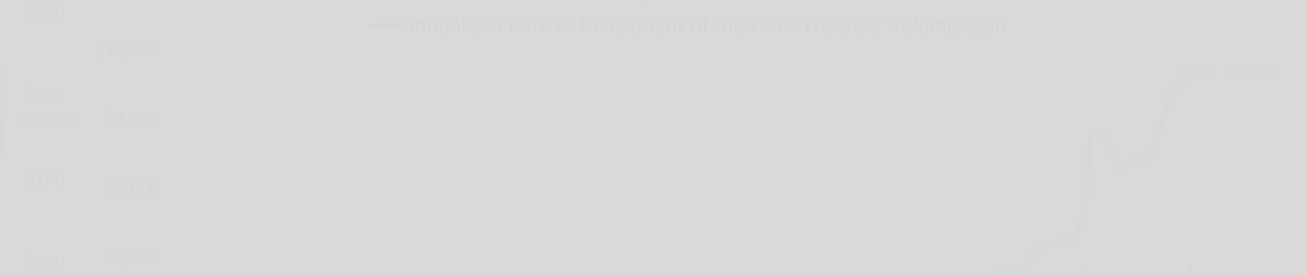
Approximate NTM Marketable US Treasury Debt Supply And Impact On Interest Payments

— Approximate NTM Marketable Treasury Debt Supply \$bn
— Approximate NTM Nominal Change In Interest Payments Due To Debt Refinancing \$bn (r-axis)



Drivers of Approximate NTM Marketable US Treasury Debt Supply \$bn

— Marketable US Federal Debt Maturing in the NTM \$bn
— Annualized Fiscal YTD Budget Deficit \$bn
— Annualized Rate of Divestment of the Fed's Treasury Holdings \$bn

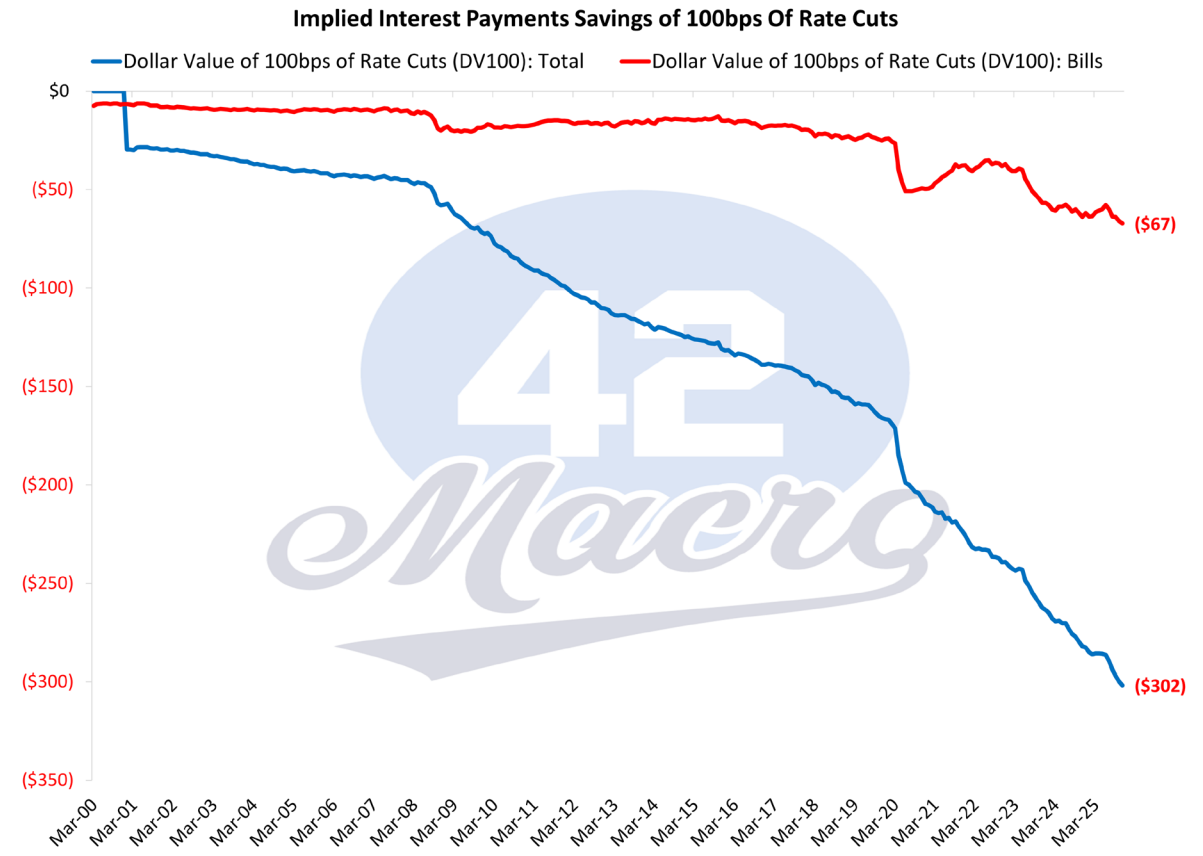
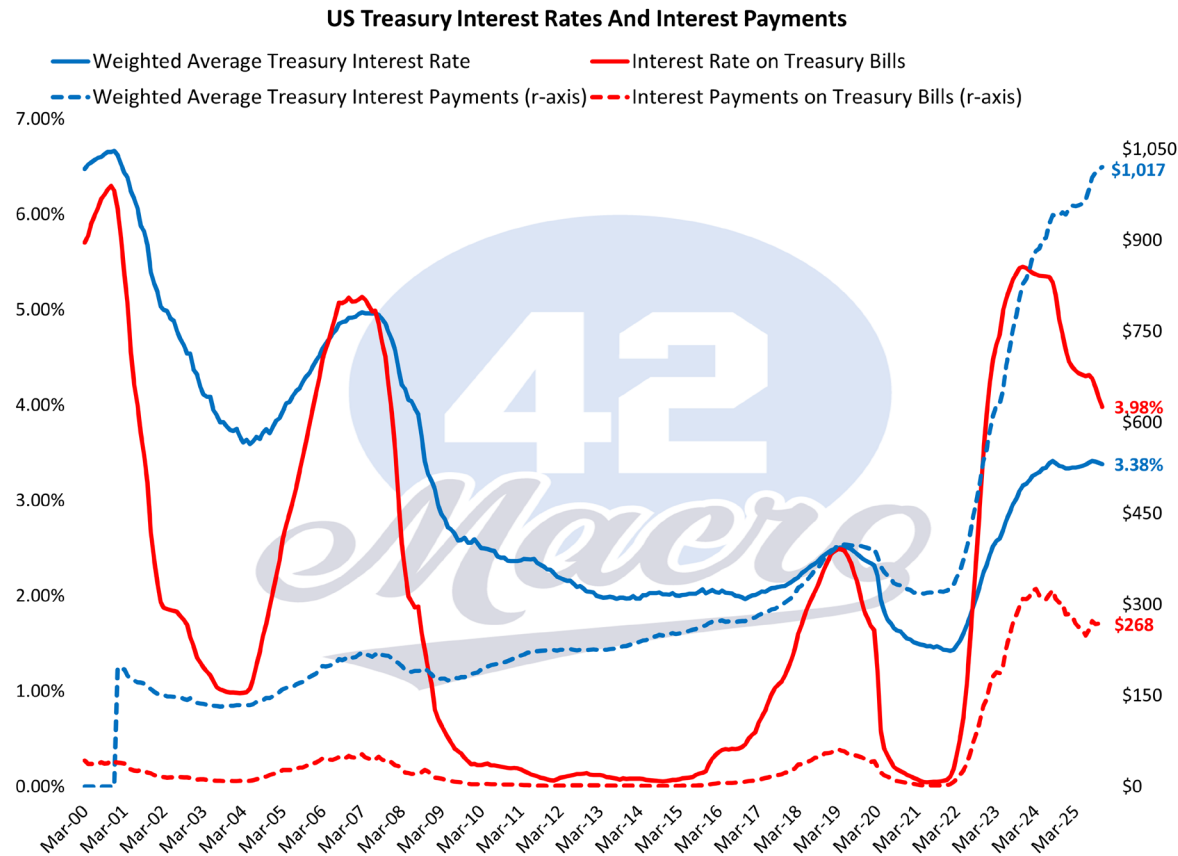


This exclusive content has been redacted. Please visit www.42macro.com to access our industry-leading insights. Thanks!

© 42 Macro LLC. Data Source: Bloomberg.

The ~trillion per year the federal gov't pays in interest to banks and wealthy savers is just shy of the entire annual federal budget for mean-tested programs.

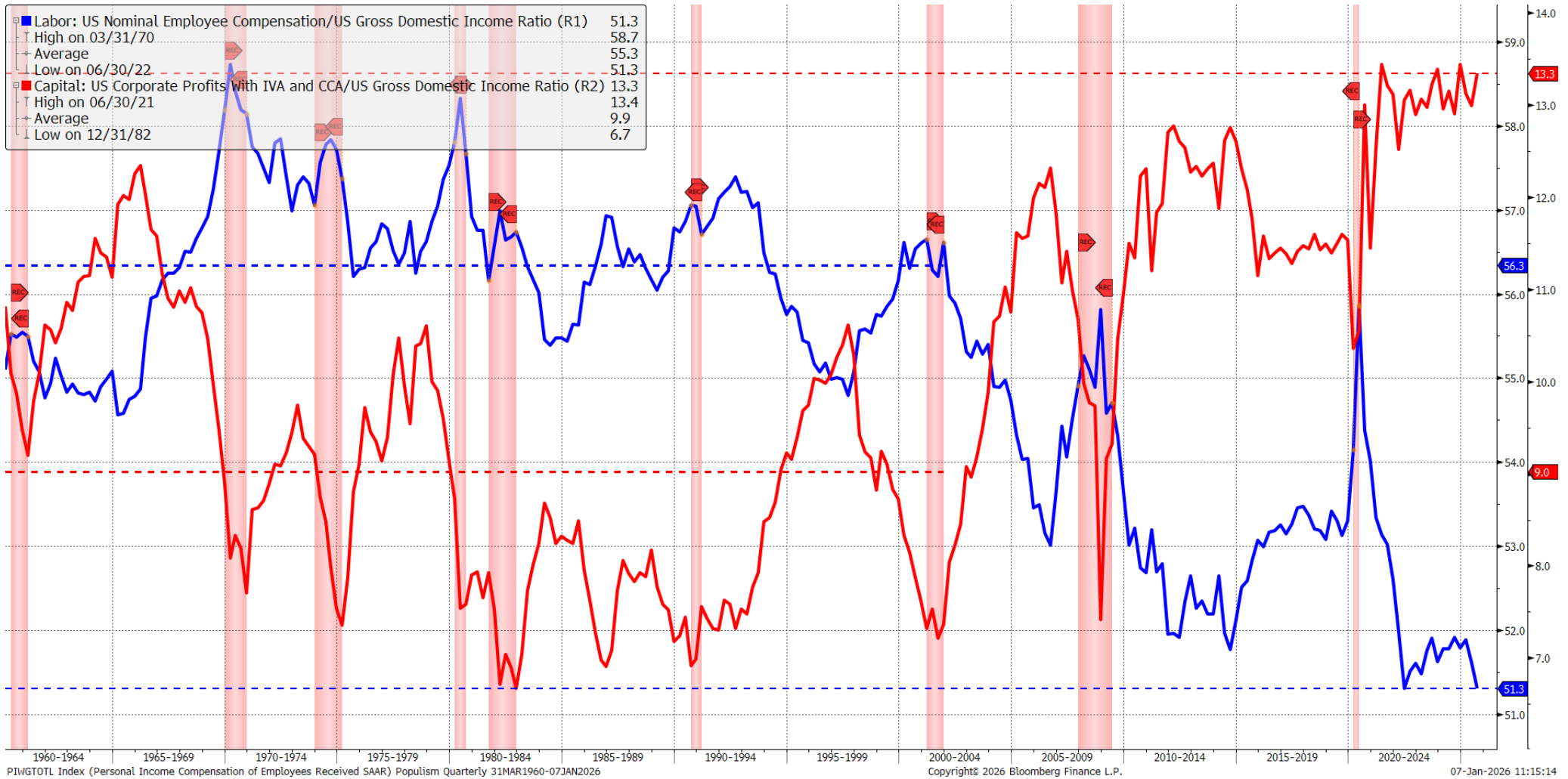
An Added Bonus Of **Structural Reforms** That Cause The Fed To Run The Economy Hot Is That This Also Addresses The Historic Cantillon Effect Too



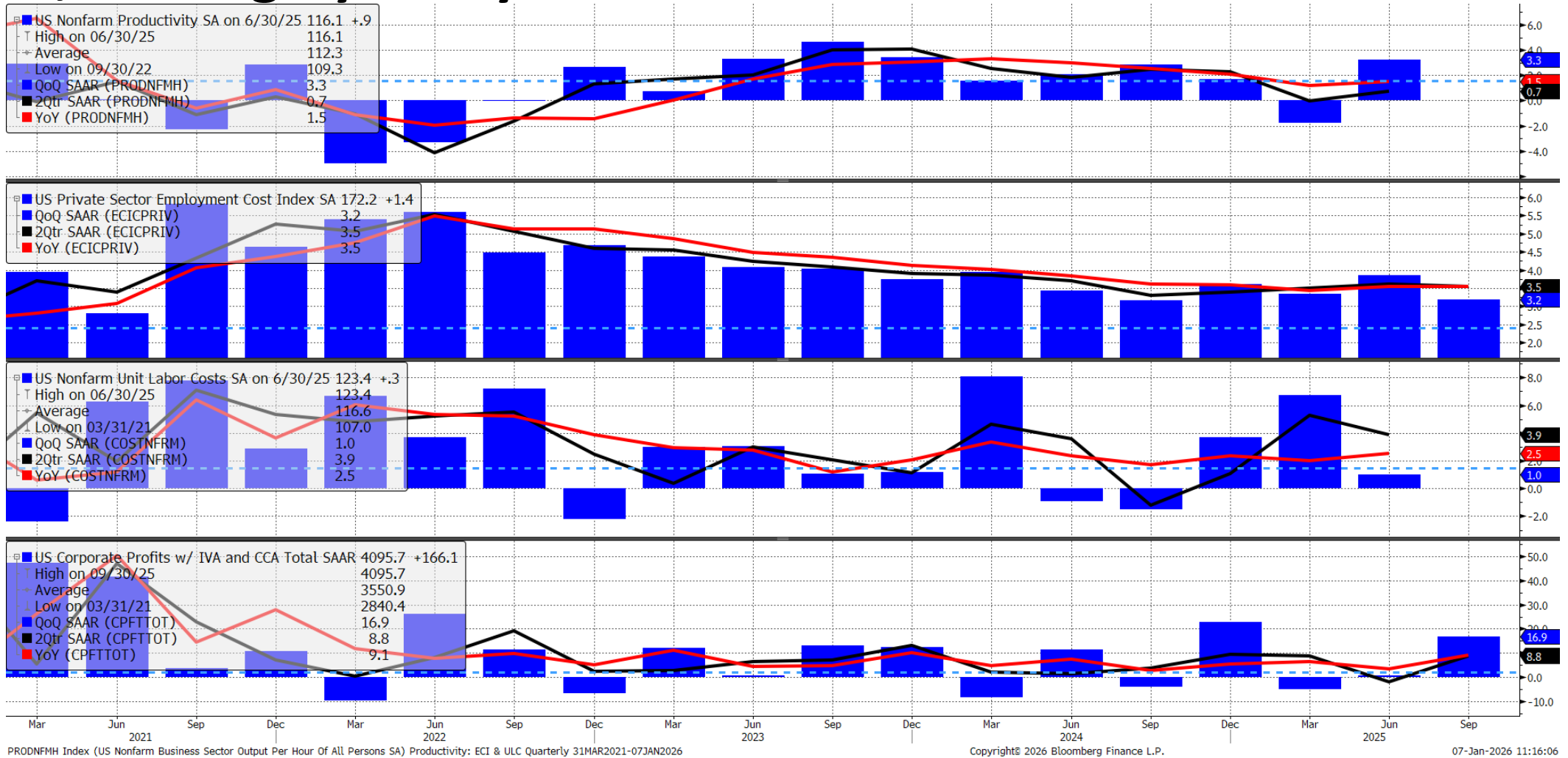
© 42 Macro LLC. Data Source: Bloomberg.

The ~trillion per year the federal gov't pays in interest to banks and wealthy savers is just shy of the entire annual federal budget for mean-tested programs.

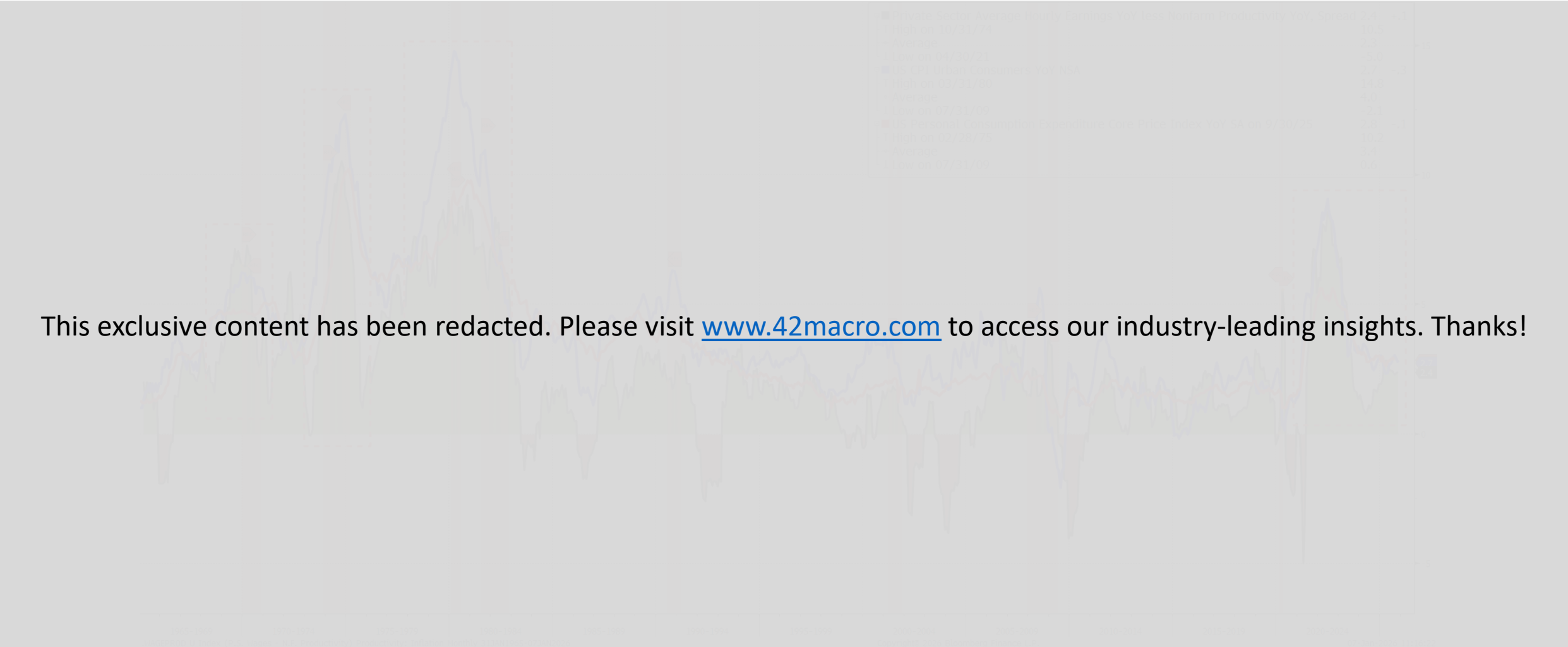
Broadening AI Adoption Represents A Potentially Significant Threat To The Fed's Maximum Employment Mandate That Powell And His Reform-Focused Replacement May Lean Into



Even If AI Does Not Displace Millions Of Workers In The Coming Years, It Is Highly Likely To Make Them More Productive



A Productivity Boom Is Inherently Disinflationary And Would Allow The Fed To Retain Credibility Regarding Its Arbitrary 2% Inflation Target Whilst Easing Amid **Sticky Inflation**



This exclusive content has been redacted. Please visit www.42macro.com to access our industry-leading insights. Thanks!

The Question Is, Will Powell Help Or Hinder **Structural Reforms At The Fed?** He Does Not Have To Vacate His Governorship Seat At The End Of His Term As Fed Chair In May

NAME	MUST LEAVE THE FED BY	POSITION	CURRENT AGE	AGE AT APPOINTMENT
Stephen Miran	Feb-26	Governor	42	42
Thomas Barkin	Jan-28	Richmond Fed President	63	56
Jerome Powell	Jan-28	Governor	72	59
John Williams	Jun-28	New York Fed President	62	56
Mary Daly	Oct-28	San Francisco Fed President	62	55
Christopher Waller	Jan-30	Governor	66	61
Raphael Bostic	May-31	Atlanta Fed President	58	51
Michael Barr	Jan-32	Governor	59	56
Michelle Bowman	Jan-34	Governor	54	47
Alberto Musalem	Apr-34	St. Louis Fed President	56	55
Austan Goolsbee	Aug-34	Chicago Fed President	55	53
Anna Paulson	Jul-35	Philadelphia Fed President	60	60
Philip Jefferson	Jan-36	Governor	64	61
Beth Hammack	Jan-37	Cleveland Fed President	53	52
Lisa Cook	Jan-38	Governor	61	58
Lorie Logan	Feb-38	Dallas Fed President	52	49
Neel Kashkari	Jul-38	Minneapolis Fed President	51	42

This exclusive content has been redacted. Please visit www.42macro.com to access our industry-leading insights. Thanks!

Respectfully, Powell Would Be Wise To Vacate His Governorship Because Not Doing So Would Invite Intense Scrutiny Of His Track Record Of Backward-Looking Policy Gaffes And Undermine Fed Credibility

This exclusive content has been redacted. Please visit www.42macro.com to access our industry-leading insights. Thanks!

Reminder: The Powell Fed Was Performing QE With Reported Inflation Greater Than 8% In Apr-22 And Reported Annual Real GDP Growth Of 4% In 1Q22

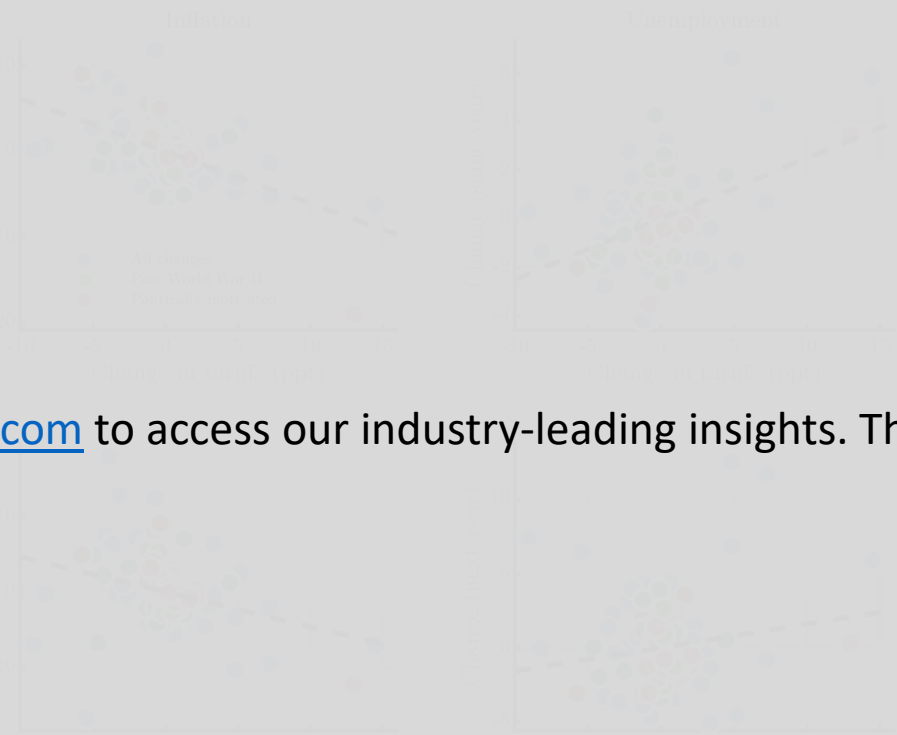
This exclusive content has been redacted. Please visit www.42macro.com to access our industry-leading insights. Thanks!

If The Fed's Own Research Is Correct, The Data-Dependent Powell Will Quietly Celebrate The Negative Aggregate Demand Shock From Tariffs And Feel Confident That The Fed Will Not Relinquish Credibility Upon His Departure

Figure 2: Average tariff rate, United States



Figure 3: Tariff change and the economy, United States



This exclusive content has been redacted. Please visit www.42macro.com to access our industry-leading insights. Thanks!

Fiscal Policy Outlook:

Our Macro Weather Model currently views the fiscal policy cycle as a near-term headwind for asset markets. Our research projects significant, positive fiscal and deregulatory impulses that remain underappreciated by many investors and are likely to boom the economy throughout 2026-27. Our research also projects a meaningful acceleration in the private sector credit cycle due to substantial financial sector deregulation.

Allocating Credit To Where It Is Due, The More-Than-Tripling Of Tariff Revenue On An Annualized Calendar YTD Basis Has Catalyzed A Significant Fiscal Retrenchment

42 Macro US Fiscal Policy Monitor	Annualized Nominal Calendar YTD Sum \$bn					Share of Total, by Category					Percent of Nominal GDP					YoY \$ Change					YoY % Change				
	2021	2022	2023	2024	2025	2021	2022	2023	2024	2025	2021	2022	2023	2024	2025	2021	2022	2023	2024	2025	2021	2022	2023	2024	2025
Federal Revenue	\$4294	\$4870	\$4521	\$4893	\$5337	100%	100%	100%	100%	100%	17%	18%	16%	16%	18%	\$878	\$575	(\$349)	\$372	\$443	26%	13%	-7%	8%	9%
Corporate Income Taxes	\$402	\$432	\$464	\$489	\$398	9%	9%	10%	10%	7%	2%	2%	2%	2%	1%	\$186	\$30	\$33	\$25	(\$91)	87%	7%	8%	5%	-19%
Customs Duties	\$86	\$98	\$77	\$79	\$258	2%	2%	2%	2%	5%	0%	0%	0%	0%	1%	\$20	\$12	(\$21)	\$2	\$179	31%	15%	-21%	2%	226%
Estate Taxes	\$28	\$33	\$35	\$30	\$32	1%	1%	1%	1%	1%	0%	0%	0%	0%	0%	\$8	\$5	\$2	(\$5)	\$2	44%	20%	6%	-15%	8%
Excise Taxes	\$80	\$88	\$77	\$106	\$102	2%	2%	2%	2%	2%	0%	0%	0%	0%	0%	(\$2)	\$8	(\$11)	\$29	(\$3)	-2%	10%	-13%	38%	-3%
Federal Reserve Transfers	\$104	\$80	\$1	\$4	\$6	2%	2%	0%	0%	0%	0%	0%	0%	0%	\$14	(\$23)	(\$80)	\$3	\$3	15%	-22%	-99%	426%	72%	
Individual Income Taxes	\$2233	\$2601	\$2197	\$2419	\$2729	52%	53%	49%	49%	51%	9%	10%	8%	8%	9%	\$662	\$369	(\$404)	\$222	\$310	42%	17%	-16%	10%	13%
Miscellaneous Receipts	\$134	\$113	\$36	\$47	\$47	3%	2%	1%	1%	1%	1%	0%	0%	0%	0%	\$8	(\$21)	(\$78)	\$12	(\$0)	6%	-16%	-69%	33%	-1%
Other Retirement Taxes	\$6	\$6	\$7	\$8	\$9	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	\$0	\$0	\$1	\$1	\$0	8%	9%	14%	14%	6%
Social Security Taxes	\$1264	\$1440	\$1580	\$1667	\$1703	29%	30%	35%	34%	32%	5%	5%	6%	6%	6%	(\$21)	\$176	\$140	\$87	\$36	-2%	14%	10%	6%	2%
Unemployment Insurance Premiums	\$63	\$58	\$49	\$48	\$59	1%	1%	1%	1%	1%	0%	0%	0%	0%	0%	\$16	(\$5)	(\$10)	(\$0)	\$11	34%	-7%	-16%	-1%	22%
Federal Expenditures	\$6875	\$6289	\$6305	\$6911	\$6997	100%	100%	100%	100%	100%	28%	23%	22%	23%	23%	\$110	(\$586)	\$16	\$606	\$86	2%	-9%	0%	10%	1%
Administration of Justice	\$72	\$74	\$83	\$84	\$87	1%	1%	1%	1%	1%	0%	0%	0%	0%	0%	(\$1)	\$2	\$9	\$1	\$3	-1%	3%	12%	1%	4%
Agriculture	\$32	\$38	\$36	\$38	\$45	0%	1%	1%	1%	1%	0%	0%	0%	0%	0%	(\$26)	\$6	(\$2)	\$2	\$7	-45%	19%	-6%	6%	20%
Commerce and Housing Credits	\$902	(\$21)	\$161	(\$33)	(\$26)	4%	-0%	3%	-0%	-0%	1%	-0%	1%	-0%	-0%	(\$270)	(\$323)	\$182	(\$193)	\$7	-47%	-107%	856%	-121%	22%
Community and Regional Development	\$47	\$68	\$87	\$98	\$75	1%	1%	1%	1%	1%	0%	0%	0%	0%	0%	(\$49)	\$21	\$19	\$11	(\$23)	-51%	46%	27%	12%	-23%
Education, Training, Employment, and Social Services	\$315	\$693	(\$17)	\$307	\$51	5%	11%	-0%	4%	1%	1%	3%	-0%	1%	0%	\$74	\$378	(\$710)	\$324	(\$255)	31%	120%	-102%	1925%	-83%
Energy	\$5	(\$12)	\$5	\$17	\$18	0%	-0%	0%	0%	0%	0%	-0%	0%	0%	0%	(\$3)	(\$17)	\$17	\$12	\$1	-34%	-340%	144%	220%	9%
General Budget	\$266	\$132	\$30	\$31	\$30	4%	2%	0%	0%	0%	1%	0%	0%	0%	0%	\$82	(\$134)	(\$103)	\$1	(\$1)	45%	-50%	-77%	3%	-2%
General Science, Space, and Technology	\$36	\$38	\$42	\$42	\$41	1%	1%	1%	1%	1%	0%	0%	0%	0%	0%	\$1	\$2	\$3	\$0	(\$1)	4%	7%	9%	0%	-1%
Health	\$836	\$909	\$889	\$933	\$985	12%	14%	14%	13%	14%	3%	3%	3%	3%	3%	\$46	\$73	(\$20)	\$44	\$52	6%	9%	-2%	5%	6%
Income Security	\$1670	\$813	\$742	\$690	\$698	24%	13%	12%	10%	10%	7%	3%	3%	2%	2%	\$317	(\$857)	(\$71)	(\$51)	\$7	23%	-51%	-9%	-7%	1%
International Affairs	\$46	\$77	\$68	\$67	\$58	1%	1%	1%	1%	1%	0%	0%	0%	0%	0%	(\$24)	\$31	(\$9)	(\$1)	(\$9)	-34%	67%	-12%	-2%	-14%
Medicare	\$694	\$737	\$866	\$939	\$1025	10%	12%	14%	14%	15%	3%	3%	3%	3%	3%	(\$88)	\$43	\$129	\$73	\$86	-11%	6%	17%	8%	9%
National Defense	\$757	\$775	\$844	\$898	\$895	11%	12%	13%	13%	13%	3%	3%	3%	3%	3%	\$23	\$17	\$70	\$54	(\$3)	3%	2%	9%	6%	-0%
Natural Resource and Environment	\$42	\$40	\$49	\$81	\$65	1%	1%	1%	1%	1%	0%	0%	0%	0%	0%	(\$0)	(\$2)	\$9	\$32	(\$16)	-1%	-5%	24%	65%	-19%
Net Interest	\$367	\$518	\$730	\$908	\$990	5%	8%	12%	13%	14%	1%	2%	3%	3%	3%	\$34	\$151	\$213	\$177	\$83	10%	41%	41%	24%	9%
Social Security	\$1120	\$1244	\$1392	\$1484	\$1609	16%	20%	22%	21%	23%	5%	5%	5%	5%	5%	(\$12)	\$124	\$148	\$92	\$125	-1%	11%	12%	7%	8%
Transportation	\$154	\$133	\$129	\$141	\$143	2%	2%	2%	2%	2%	1%	0%	0%	0%	0%	\$3	(\$21)	(\$4)	\$12	\$2	2%	-14%	-3%	9%	2%
Undistributed Offsetting Receipts	(\$128)	(\$236)	(\$143)	(\$150)	(\$159)	-2%	-4%	-2%	-2%	-2%	-1%	-1%	-1%	-1%	-1%	(\$17)	(\$108)	\$93	(\$7)	(\$9)	-16%	-84%	39%	-5%	-6%
Veterans Benefits and Services	\$240	\$271	\$313	\$350	\$366	3%	4%	5%	5%	5%	1%	1%	1%	1%	1%	\$17	\$30	\$43	\$37	\$17	7%	13%	16%	12%	5%
Federal Budget Balance (t3yr CAGR = 5%)	(\$2580)	(\$1419)	(\$1784)	(\$2018)	(\$1660)	100%	100%	100%	100%	100%	-10.4%	-5.3%	-6.3%	-6.8%	-5.4%	\$768	\$1161	(\$365)	(\$234)	\$357	23%	45%	-26%	-13%	18%
FFTT True Interest Expense (t3yr CAGR = 11%)	\$2938	\$3273	\$3832	\$4228	\$4519	43%	52%	61%	61%	65%	476bps	510bps	-97bps	-49bps	132bps	309bps	434bps	-128bps	-78bps	117bps					
True Interest Expense + Medicaid (t3yr CAGR = 10%)	\$3472	\$3876	\$4448	\$4857	\$5195	51%	62%	71%	70%	74%	14%	14%	16%	16%	17%	\$10	\$403	\$573	\$409	\$338	0%	12%	15%	9%	7%
Everything Else (t3yr CAGR = -9%)	\$3403	\$2414	\$1857	\$2054	\$1802	49%	38%	29%	30%	26%	14%	9%	7%	7%	6%	\$99	(\$989)	(\$557)	\$197	(\$252)	3%	-29%	-23%	11%	-12%

Intellectual Property of 42 Macro LLC. Data Source: Bloomberg, Social Security Administration. "Aggregate Untouchables" = "True Interest Expense" + Medicaid (Health) + Welfare (Income Security) + Veterans Benefits and Services.



© 42 Macro LLC. Data Source: Bloomberg, Social Security Administration.
 The highlighted categories account for ~85% of Federal Revenue and ~90% of Federal Expenditures.
 FFTT "True Interest Expense" = Medicare + National Defense + Net Interest + Social Security.

The Problem With The Tariff Shock Is That It Is One-Time In Nature And Will Soon Be Overwhelmed By OBBBA And Runaway Growth Of “True Interest Expense” – Creating A U-Shaped Fiscal Policy Dynamic

42 Macro US Fiscal Policy Monitor	Annualized Nominal Fiscal YTD Sum \$bn					Share of Total, by Category					Percent of Nominal GDP					YoY \$ Change					YoY % Change				
	2022	2023	2024	2025	2026	2022	2023	2024	2025	2026	2022	2023	2024	2025	2026	2022	2023	2024	2025	2026	2022	2023	2024	2025	2026
Federal Revenue	\$4896	\$4439	\$4918	\$5235	\$4442	100%	100%	100%	100%	100%	19%	16%	17%	17%	15%	\$850	(\$457)	\$479	\$317	(\$792)	21%	-9%	11%	6%	-15%
Corporate Income Taxes	\$425	\$420	\$530	\$452	\$133	9%	9%	11%	9%	3%	2%	1%	2%	1%	0%	\$53	(\$5)	\$110	(\$78)	(\$319)	14%	-1%	26%	-15%	-70%
Customs Duties	\$100	\$80	\$77	\$195	\$373	2%	2%	2%	4%	8%	0%	0%	0%	1%	1%	\$20	(\$20)	(\$3)	\$118	\$178	25%	-20%	-4%	153%	91%
Estate Taxes	\$33	\$34	\$32	\$29	\$40	1%	1%	1%	1%	1%	0%	0%	0%	0%	0%	\$5	\$1	(\$2)	(\$2)	\$11	20%	3%	-6%	-7%	37%
Excise Taxes	\$88	\$76	\$101	\$106	\$87	2%	2%	2%	2%	2%	0%	0%	0%	0%	0%	\$12	(\$12)	\$26	\$5	(\$19)	17%	-14%	34%	4%	-18%
Federal Reserve Transfers	\$107	\$1	\$3	\$5	\$6	2%	0%	0%	0%	0%	0%	0%	0%	0%	0%	\$7	(\$106)	\$3	\$2	\$1	7%	-99%	439%	75%	11%
Individual Income Taxes	\$2632	\$2176	\$2426	\$2656	\$2183	54%	49%	49%	51%	49%	10%	8%	8%	9%	7%	\$588	(\$456)	\$250	\$230	(\$473)	29%	-17%	11%	9%	-18%
Miscellaneous Receipts	\$135	\$39	\$43	\$48	\$32	3%	1%	1%	1%	1%	1%	0%	0%	0%	0%	\$2	(\$96)	\$4	\$5	(\$16)	2%	-71%	11%	11%	-33%
Other Retirement Taxes	\$6	\$7	\$8	\$9	\$8	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	\$1	\$1	\$1	\$1	(\$1)	12%	10%	15%	8%	-11%
Social Security Taxes	\$1411	\$1558	\$1653	\$1686	\$1549	29%	35%	34%	32%	35%	5%	6%	6%	6%	5%	\$159	\$147	\$95	\$33	(\$137)	13%	10%	6%	2%	-8%
Unemployment Insurance Premiums	\$66	\$49	\$49	\$54	\$37	1%	1%	1%	1%	1%	0%	0%	0%	0%	0%	\$10	(\$17)	(\$1)	\$5	(\$17)	17%	-26%	-2%	11%	-32%
Federal Expenditures	\$6272	\$6135	\$6735	\$7010	\$7188	100%	100%	100%	100%	100%	24%	22%	23%	23%	24%	(\$550)	(\$137)	\$600	\$275	\$178	-8%	-2%	10%	4%	3%
Administration of Justice	\$72	\$81	\$85	\$85	\$87	1%	1%	1%	1%	1%	0%	0%	0%	0%	0%	(\$0)	\$9	\$4	\$0	\$2	-0%	13%	5%	0%	2%
Agriculture	\$35	\$36	\$35	\$49	\$74	1%	1%	1%	1%	1%	0%	0%	0%	0%	0%	(\$15)	\$1	(\$1)	\$15	\$25	-30%	2%	-2%	42%	51%
Commerce and Housing Credits	(\$19)	\$100	\$36	(\$29)	\$11	-0%	2%	1%	-0%	0%	-0%	0%	0%	-0%	0%	(\$324)	\$119	(\$64)	(\$64)	\$40	-106%	613%	-64%	-181%	138%
Community and Regional Development	\$72	\$89	\$88	\$85	\$44	1%	1%	1%	1%	1%	0%	0%	0%	0%	0%	\$26	\$17	(\$1)	(\$3)	(\$41)	55%	23%	-1%	-4%	-48%
Education, Training, Employment, and Social Services	\$677	(\$3)	\$305	\$69	\$181	11%	-0%	5%	1%	3%	3%	-0%	1%	0%	1%	\$380	(\$680)	\$308	(\$236)	\$112	128%	-100%	9864%	-77%	161%
Energy	(\$9)	(\$0)	\$14	\$21	\$16	-0%	-0%	0%	0%	0%	-0%	-0%	0%	0%	0%	(\$15)	\$9	\$14	\$7	(\$4)	-249%	96%	4204%	52%	-21%
General Budget	\$128	\$34	\$30	\$36	\$1	2%	1%	0%	1%	0%	0%	0%	0%	0%	0%	(\$142)	(\$95)	(\$4)	\$6	(\$35)	-52%	-74%	-11%	22%	-96%
General Science, Space, and Technology	\$38	\$41	\$42	\$42	\$41	1%	1%	1%	1%	1%	0%	0%	0%	0%	0%	\$2	\$4	\$0	\$1	(\$1)	5%	10%	0%	1%	-3%
Health	\$914	\$889	\$912	\$979	\$1017	15%	14%	14%	14%	14%	3%	3%	3%	3%	3%	\$118	(\$25)	\$22	\$67	\$38	15%	-3%	3%	7%	4%
Income Security	\$865	\$775	\$671	\$702	\$603	14%	13%	10%	10%	8%	3%	3%	2%	2%	2%	(\$783)	(\$91)	(\$104)	\$31	(\$99)	-48%	-10%	-13%	5%	-14%
International Affairs	\$72	\$69	\$67	\$45	\$150	1%	1%	1%	1%	2%	0%	0%	0%	0%	0%	\$25	(\$2)	(\$2)	(\$22)	\$104	53%	-3%	-3%	-33%	231%
Medicare	\$755	\$848	\$874	\$997	\$1054	12%	14%	13%	14%	15%	3%	3%	3%	3%	3%	\$59	\$92	\$27	\$123	\$57	8%	12%	3%	14%	6%
National Defense	\$767	\$821	\$874	\$917	\$993	12%	13%	13%	13%	14%	3%	3%	3%	3%	3%	\$12	\$54	\$53	\$43	\$76	2%	7%	6%	5%	8%
Natural Resource and Environment	\$40	\$46	\$57	\$88	\$60	1%	1%	1%	1%	1%	0%	0%	0%	0%	0%	(\$2)	\$6	\$11	\$31	(\$29)	-6%	16%	24%	55%	-33%
Net Interest	\$475	\$659	\$882	\$971	\$1072	8%	11%	13%	14%	15%	2%	2%	3%	3%	4%	\$123	\$184	\$222	\$89	\$102	35%	39%	34%	10%	10%
Social Security	\$1219	\$1354	\$1461	\$1581	\$1609	19%	22%	22%	23%	22%	5%	5%	5%	5%	5%	\$84	\$136	\$107	\$120	\$28	7%	11%	8%	8%	2%
Transportation	\$132	\$127	\$137	\$146	\$129	2%	2%	2%	2%	2%	1%	0%	0%	0%	0%	(\$23)	(\$5)	\$10	\$9	(\$17)	-15%	-4%	8%	6%	-12%
Undistributed Offsetting Receipts	(\$234)	(\$132)	(\$147)	(\$150)	(\$336)	-4%	-2%	-2%	-2%	-5%	-1%	-0%	-0%	-0%	-1%	(\$111)	\$102	(\$14)	(\$3)	(\$186)	-89%	44%	-11%	-2%	-124%
Veterans Benefits and Services	\$274	\$302	\$325	\$377	\$384	4%	5%	5%	5%	5%	1%	1%	1%	1%	1%	\$40	\$27	\$24	\$52	\$7	17%	10%	8%	16%	2%
Federal Budget Balance (t3yr CAGR = 17%)	(\$1375)	(\$1695)	(\$1817)	(\$1775)	(\$2746)	100%	100%	100%	100%	100%	-5.2%	-6.0%	-6.2%	-5.8%	-9.0%	\$1400	(\$320)	(\$121)	\$41	(\$970)	50%	-23%	-7%	2%	-55%
FFTT True Interest Expense (t3yr CAGR = 9%)	\$3216	\$3682	\$4091	\$4465	\$4727	51%	60%	61%	64%	66%	12%	13%	14%	15%	16%	\$277	\$466	\$409	\$374	\$263	9%	14%	11%	9%	6%
True Interest Expense + Medicaid (t3yr CAGR = 2%)	\$4005	\$4503	\$4914	\$5356	\$4848	64%	73%	73%	76%	67%	15%	16%	17%	18%	16%	\$373	\$498	\$411	\$441	(\$507)	10%	12%	9%	9%	-9%
Everything Else (t3yr CAGR = 13%)	\$2267	\$1632	\$1821	\$1654	\$2340	36%	27%	27%	24%	33%	9%	6%	6%	5%	8%	(\$922)	(\$635)	\$189	(\$166)	\$685	-29%	-28%	12%	-9%	41%

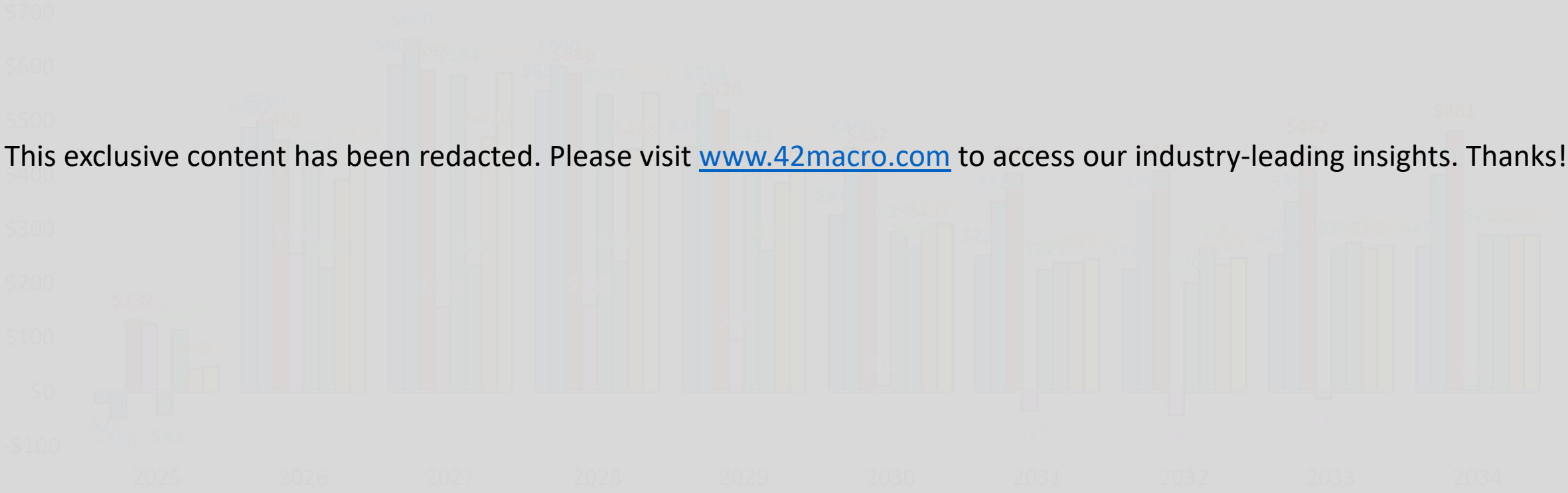
Intellectual Property of 42 Macro LLC. Data Source: Bloomberg, "True Interest Expense" = Medicare + National Defense + Net Interest + Social Security. "Aggregate Untouchables" = "True Interest Expense" + Medicaid (Health) + Welfare (Income Security) + Veterans Benefits and Services.



© 42 Macro LLC. Data Source: Bloomberg, Social Security Administration.
 The highlighted categories account for ~85% of Federal Revenue and ~90% of Federal Expenditures.
 FFTT “True Interest Expense” = Medicare + National Defense + Net Interest + Social Security.

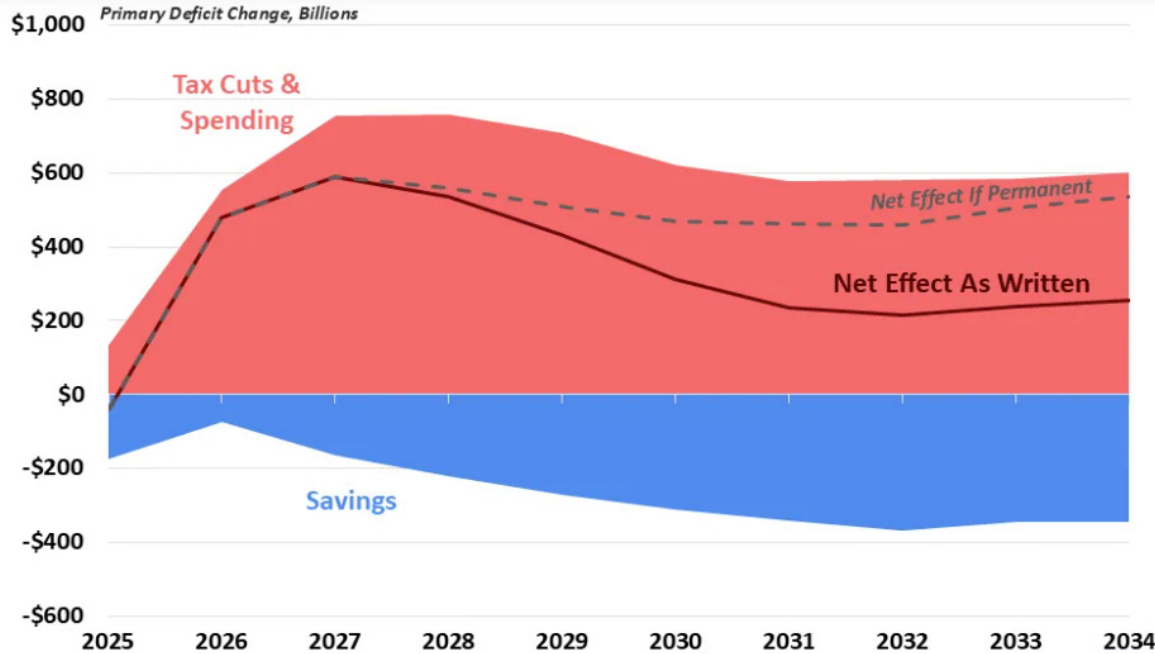
Reminder: **Paradigm C** Features The Fiscal Largesse Of **Paradigm A**: Annual Deficit Impact Projections For The One Big [Ugly] Bill

- Congressional Budget Office
- Committee for a Responsible Federal Budget
- Joint Committee on Taxation - Current Law
- Joint Committee on Taxation - Current Policy
- Penn Wharton Budget Model
- Yale Budget Lab
- MEAN
- MEDIAN



The Tax Relief Of OBBBA Is Front Loaded, While The Spending Cuts Are Back Loaded—If They Ever Come (More On This Later)

Senate OBBBA Front-Loads Costs, Back-Loads Savings

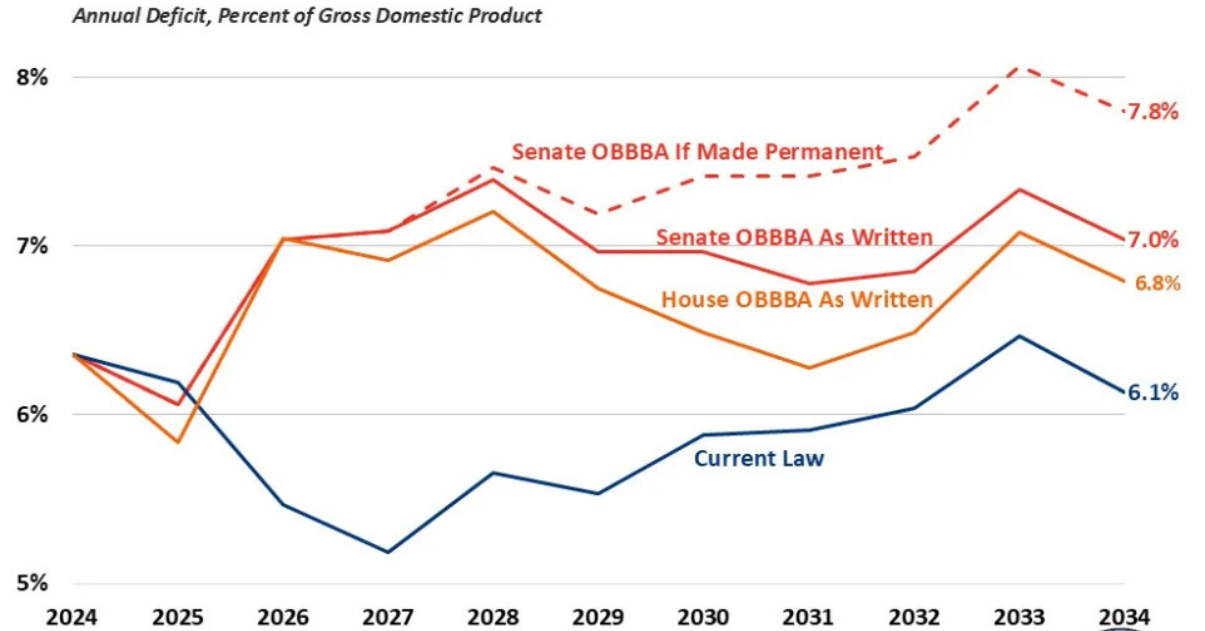


Source: CRFB estimates based CBO and JCT scores.

CRFB.org



Deficits Spike Under Senate OBBBA



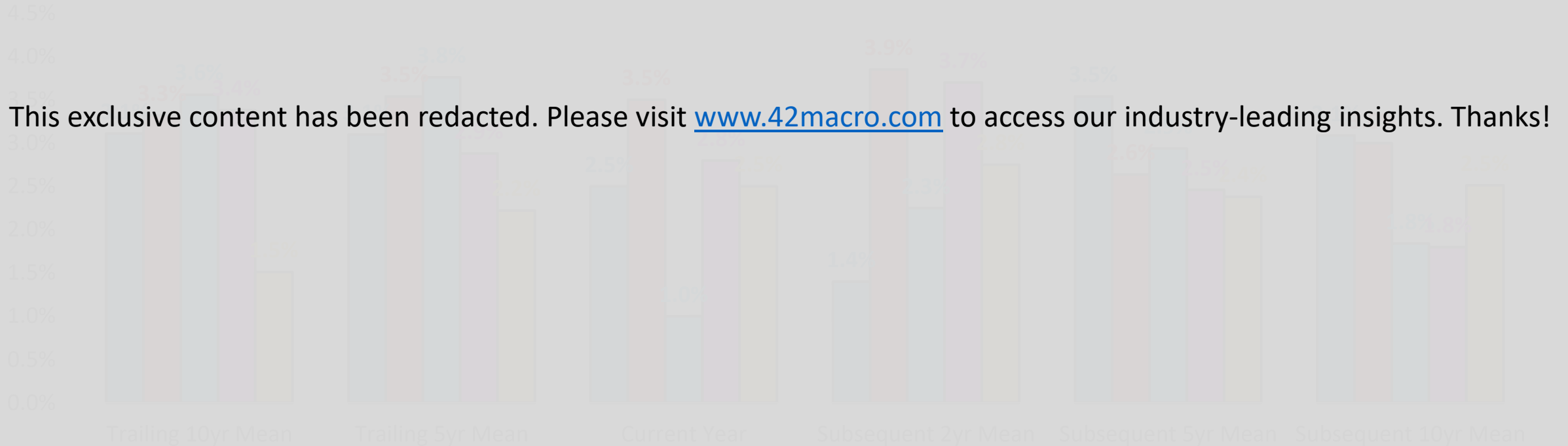
Sources: Congressional Budget Office, Committee for a Responsible Federal Budget

CRFB.org



Reminder: There Is Scant Evidence Of Republican Tax Cuts Catalyzing Durable Positive Shocks to Growth

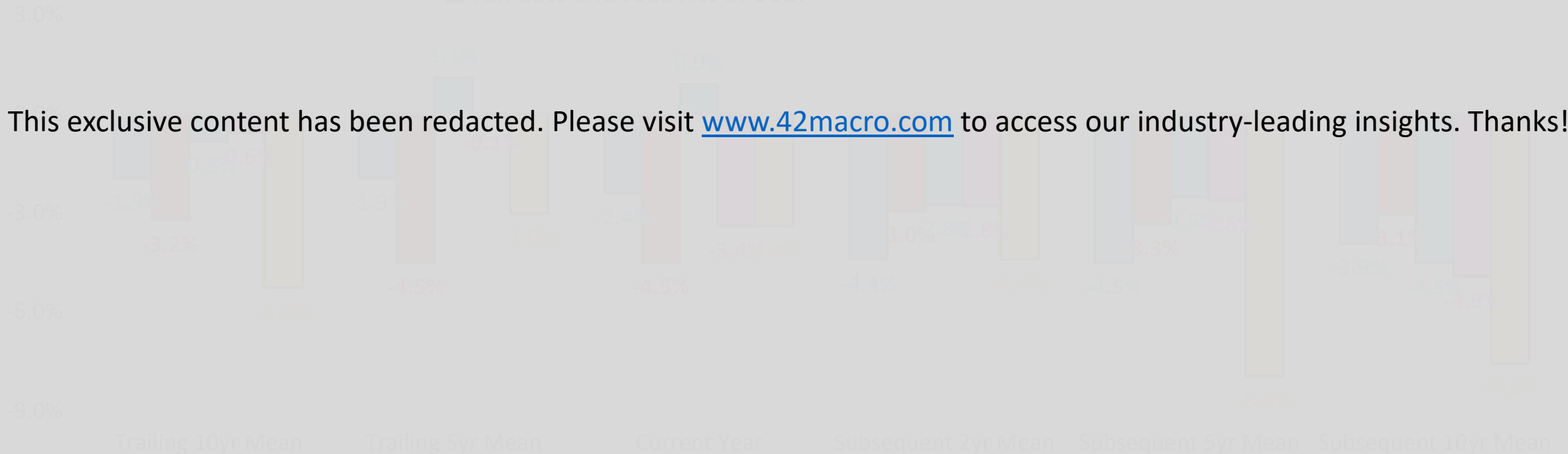
- Economic Recovery Act of 1981
- Tax Reform Act of 1986
- Economic Growth and Tax Relief Reconciliation Act of 2001
- Jobs and Growth Tax Relief Reconciliation Act of 2003
- Tax Cuts and Jobs Act of 2017



Reminder: There Is Abundant Evidence Of Republican Tax Cuts Catalyzing Durable Positive Shocks To The Federal Budget Deficit

- Economic Recovery Act of 1981
- Tax Reform Act of 1986
- Economic Growth and Tax Relief Reconciliation Act of 2001
- Jobs and Growth Tax Relief Reconciliation Act of 2003
- Tax Cuts and Jobs Act of 2017

This exclusive content has been redacted. Please visit www.42macro.com to access our industry-leading insights. Thanks!



Reminder: There Is Abundant Evidence Of Republican Tax Cuts Catalyzing Durable Positive Shocks To The Federal Debt

- Economic Recovery Act of 1981
- Tax Reform Act of 1986
- Economic Growth and Tax Relief Reconciliation Act of 2001
- Jobs and Growth Tax Relief Reconciliation Act of 2003
- Tax Cuts and Jobs Act of 2017

120%

100%

This exclusive content has been redacted. Please visit www.42macro.com to access our industry-leading insights. Thanks!

80%

60%

40%

20%

0%

Trailing 10yr Mean

Trailing 5yr Mean

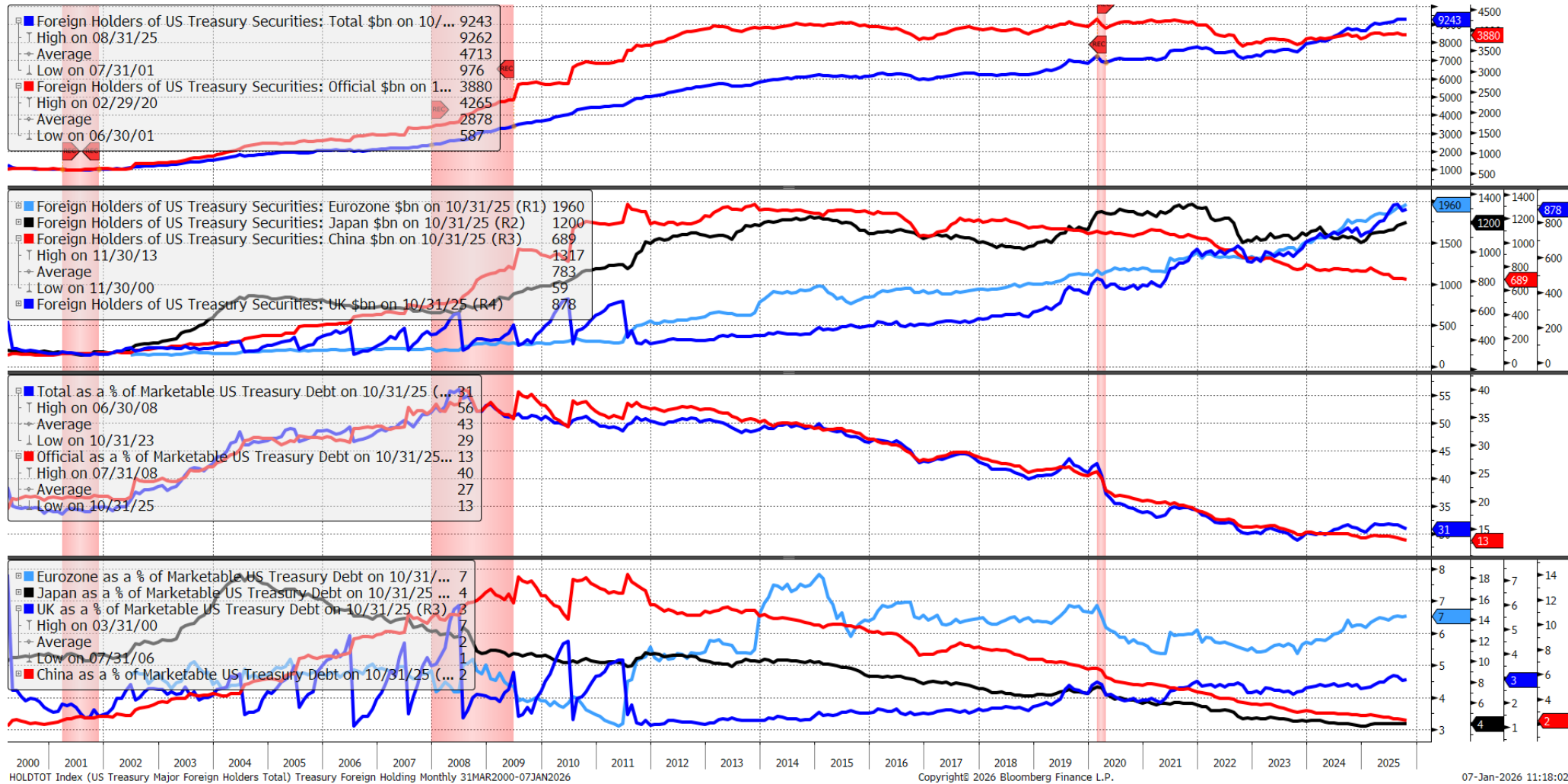
Current Year

Subsequent 2yr Mean

Subsequent 5yr Mean

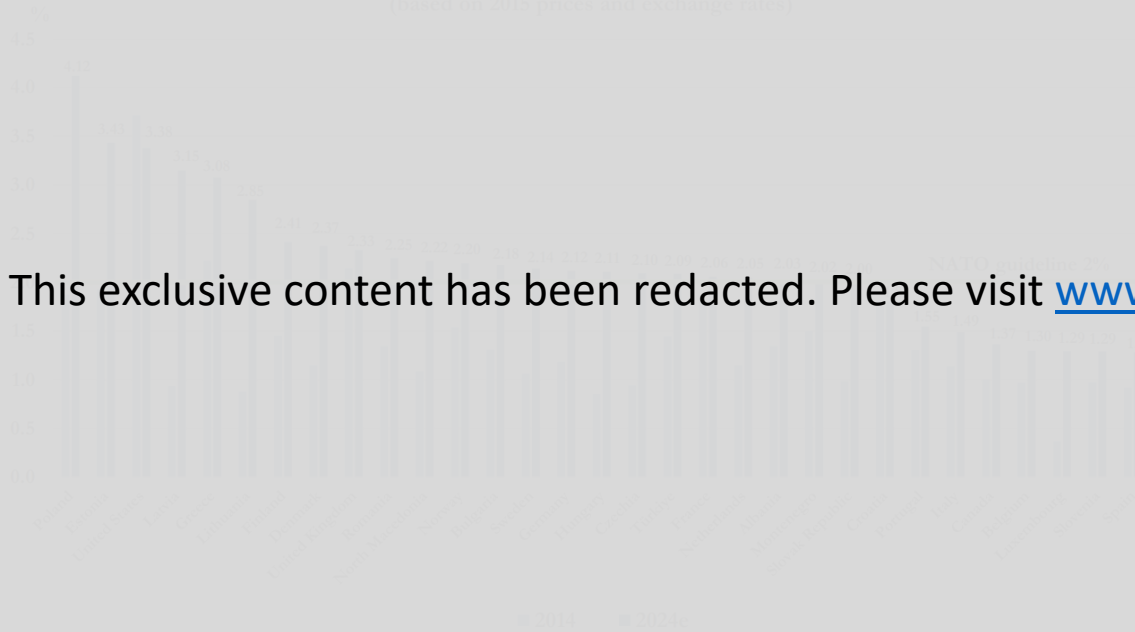
Subsequent 10yr Mean

Twin Fiscal And Monetary Policy Settings That Are Too Loose May Backfire Given That Foreign Creditors Own A Third Of Marketable US Treasuries



Europe's Re-Militarization Represents A Durable Negative Demand Shock For Treasury Debt

Graph 4 : Defence expenditure as a share of GDP (%)
(based on 2015 prices and exchange rates)



Graph 3 : Defence expenditure as a share of GDP and equipment expenditure as a share of defence expenditure 2024e



This exclusive content has been redacted. Please visit www.42macro.com to access our industry-leading insights. Thanks!

Eurozone Bond Yields Are High And Rising Despite 200bps Of Rate Cuts By The ECB, Highlighting The Increased Demand For Capital Across The Pond

This exclusive content has been redacted. Please visit www.42macro.com to access our industry-leading insights. Thanks!



Japan Durably Escaping Deflation Represents A Durable Negative Demand Shock For Treasury Debt

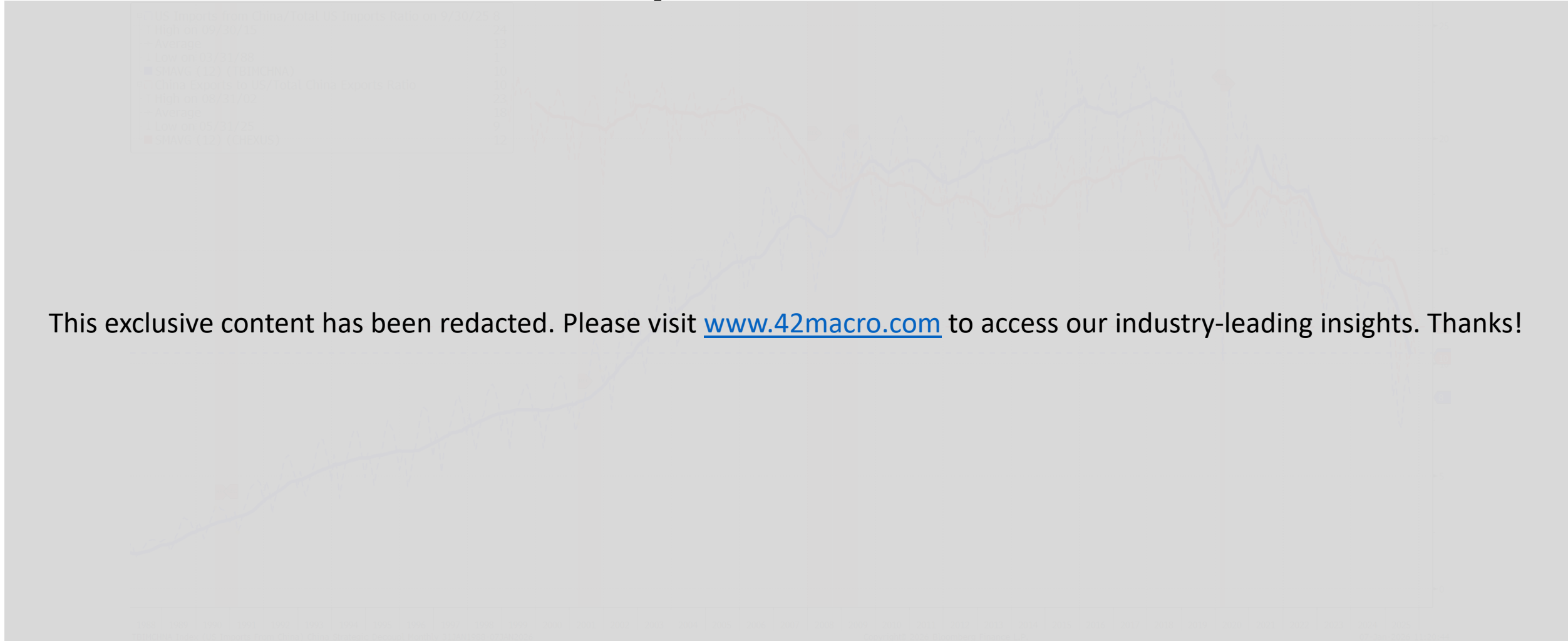
This exclusive content has been redacted. Please visit www.42macro.com to access our industry-leading insights. Thanks!

Investors Should Expect The BOJ To Continue Gradually Normalizing Japanese Monetary Policy For The Foreseeable Future

This exclusive content has been redacted. Please visit www.42macro.com to access our industry-leading insights. Thanks!



China's Strategic Decoupling Represents A Durable Negative Demand Shock For Treasury Debt

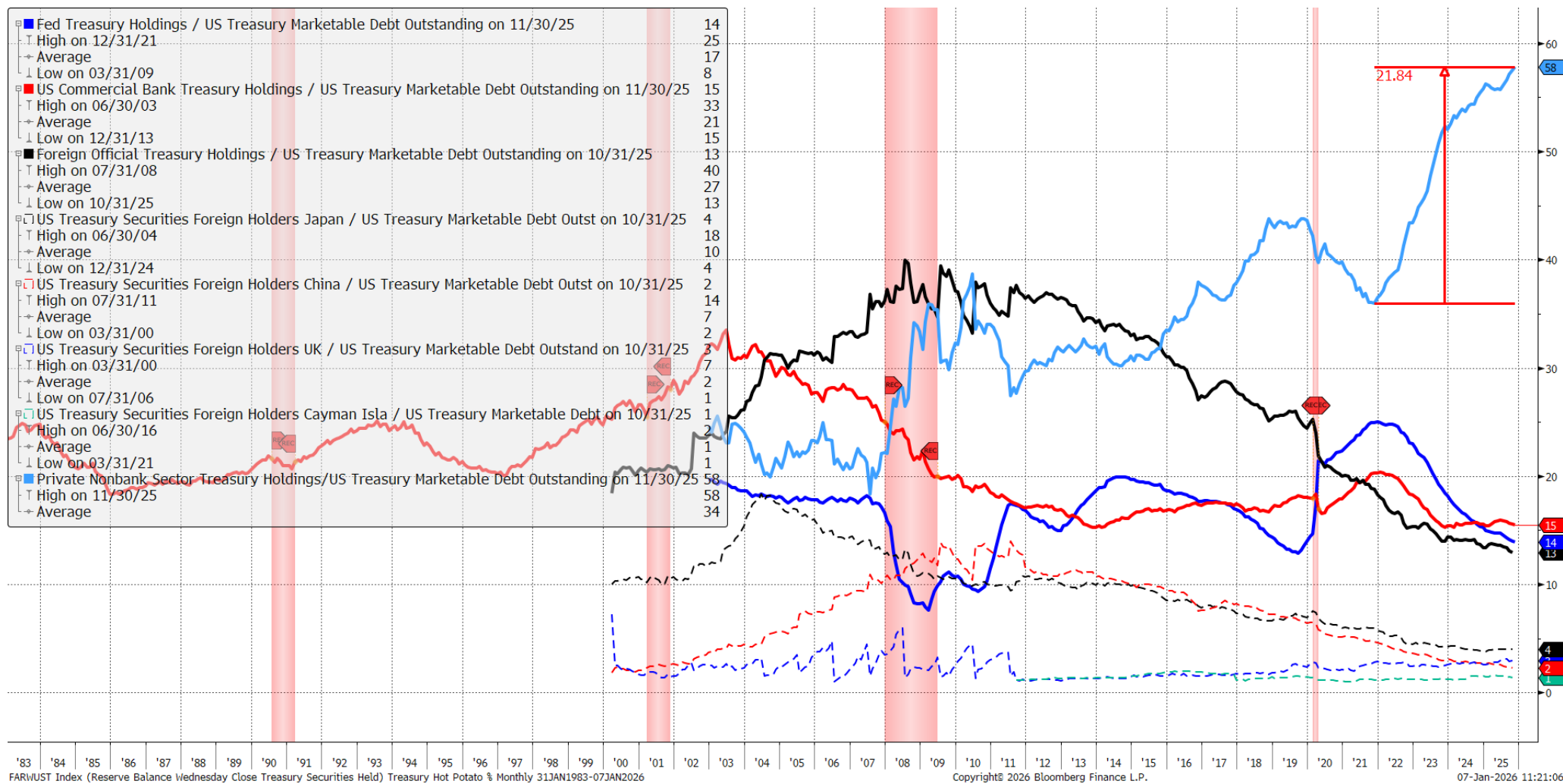


This exclusive content has been redacted. Please visit www.42macro.com to access our industry-leading insights. Thanks!

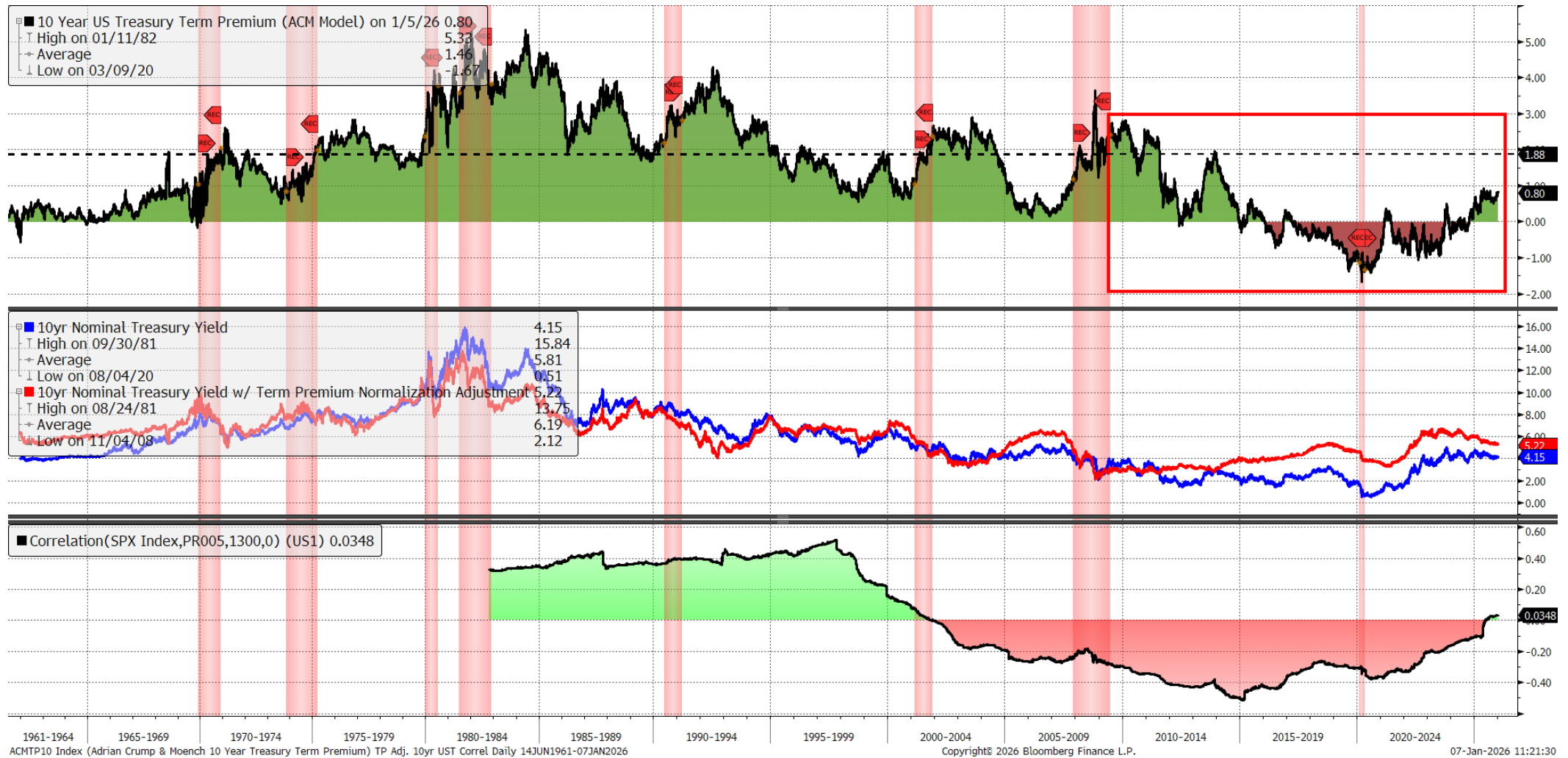
Geopolitical Tensions Limit The Scope For Yuan Devaluation, Which Reduces The PBOC's Demand For Dollars From An FX Reserve Accumulation Perspective

This exclusive content has been redacted. Please visit www.42macro.com to access our industry-leading insights. Thanks!

Investors Likely Own More Treasuries Than What Can Be Considered A Stable Equilibrium Between Price-Sensitive Buyers And Price-Insensitive Buyers

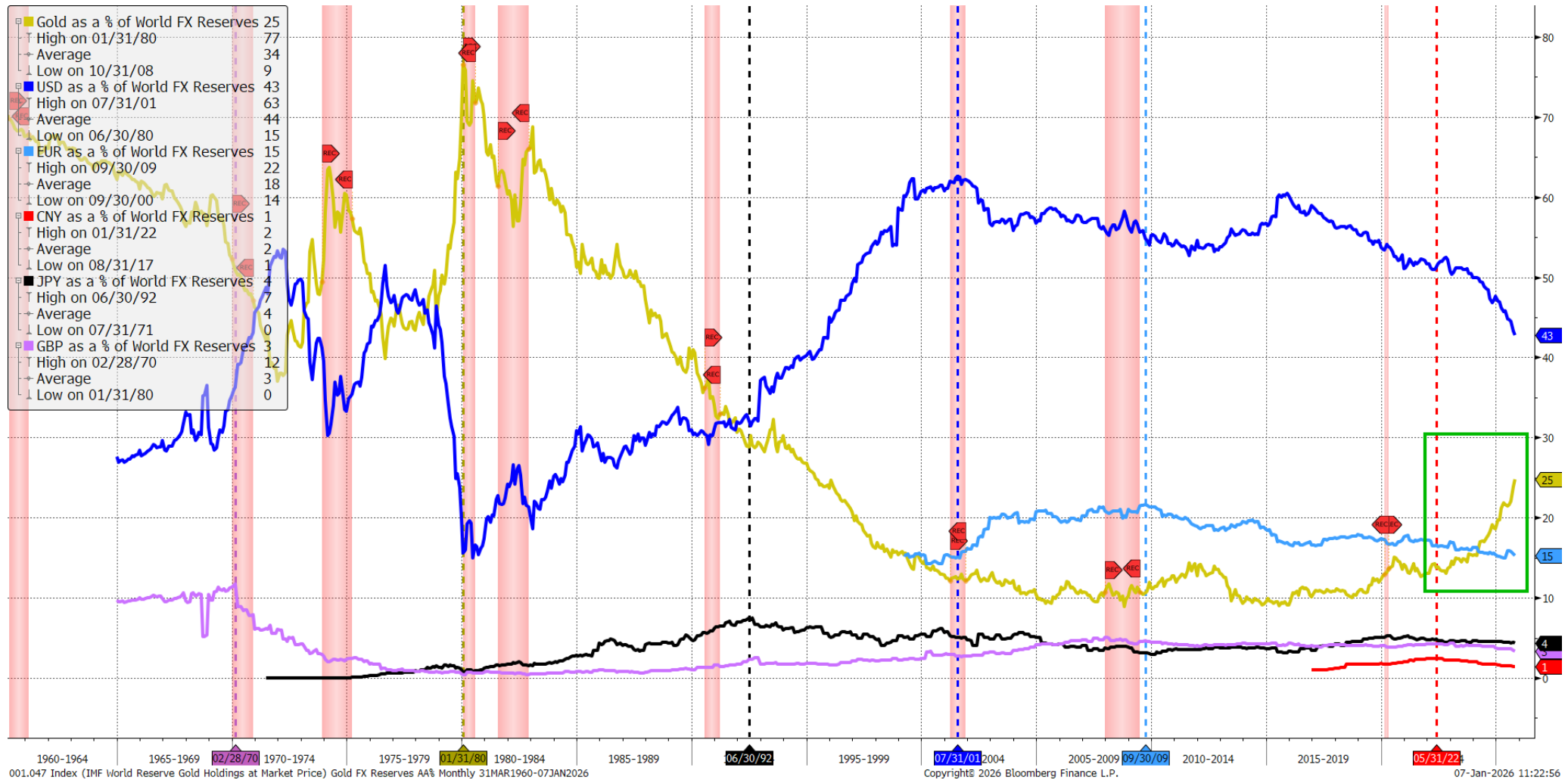


Absent Fed Yield Curve Control, The 10yr Nominal Treasury Yield Is More Likely To Spend A Greater Frequency Of Time Above 5% Than Below 4% Over The Next 5-10 Years



© 42 Macro LLC. Data Source: Bloomberg. Black dotted line = historical mean through 2008.
 Nominal Interest Rate = Expected Nominal Rate (trend Real GDP + trend Headline CPI)
 + Nominal Term Premium (Real Term Premium + Inflation Risk Premium).

Gold Remains The Best Diversifier Away From The Geopolitically Driven Supply–Demand Imbalance In The Treasury Bond Market That We Identified In The Summer Of 2023

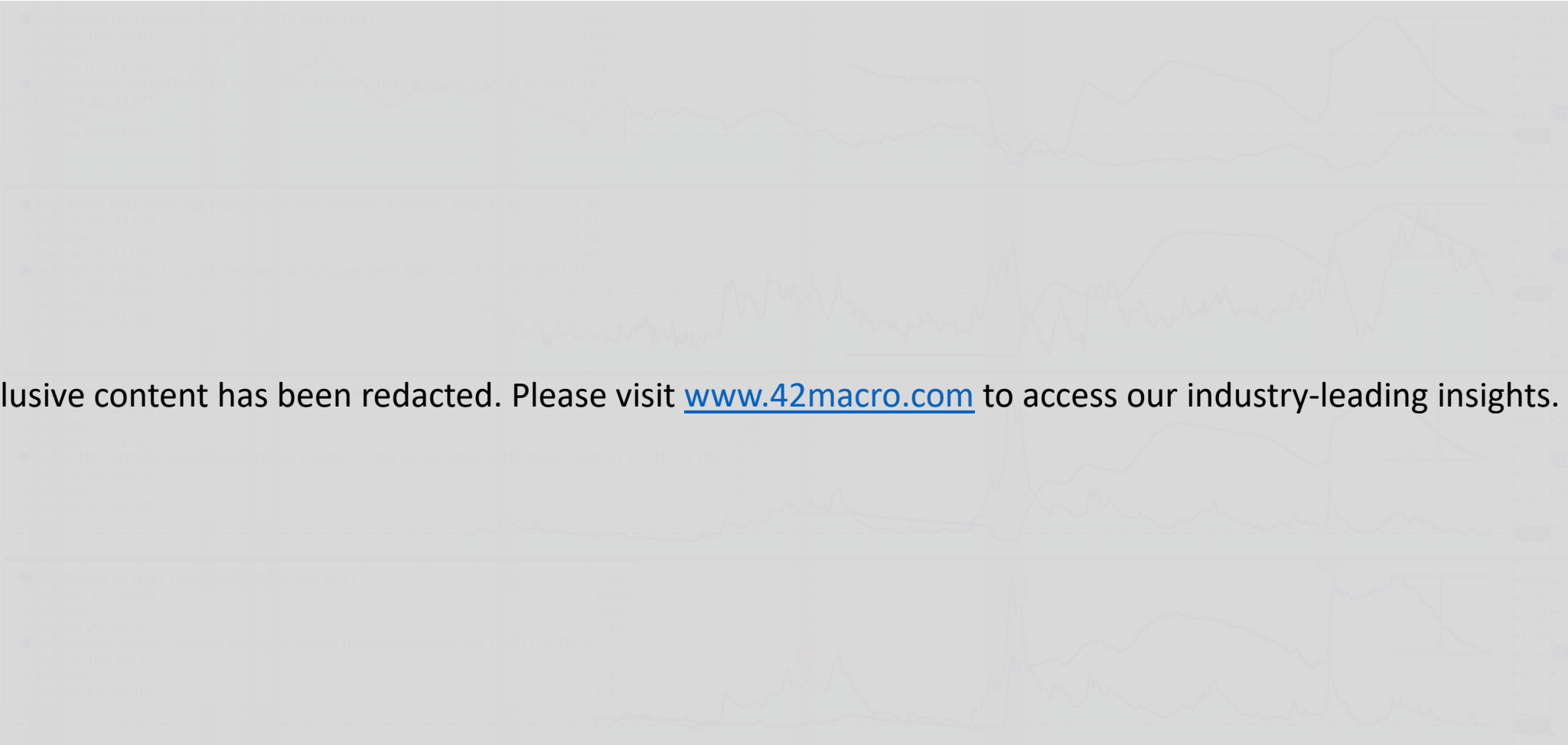


001.047 Index (IMF World Reserve Gold Holdings at Market Price) Gold FX Reserves AA% Monthly 31MAR1960-07JAN2026 Copyright© 2026 Bloomberg Finance L.P. 07-Jan-2026 11:22:56

Liquidity Outlook:

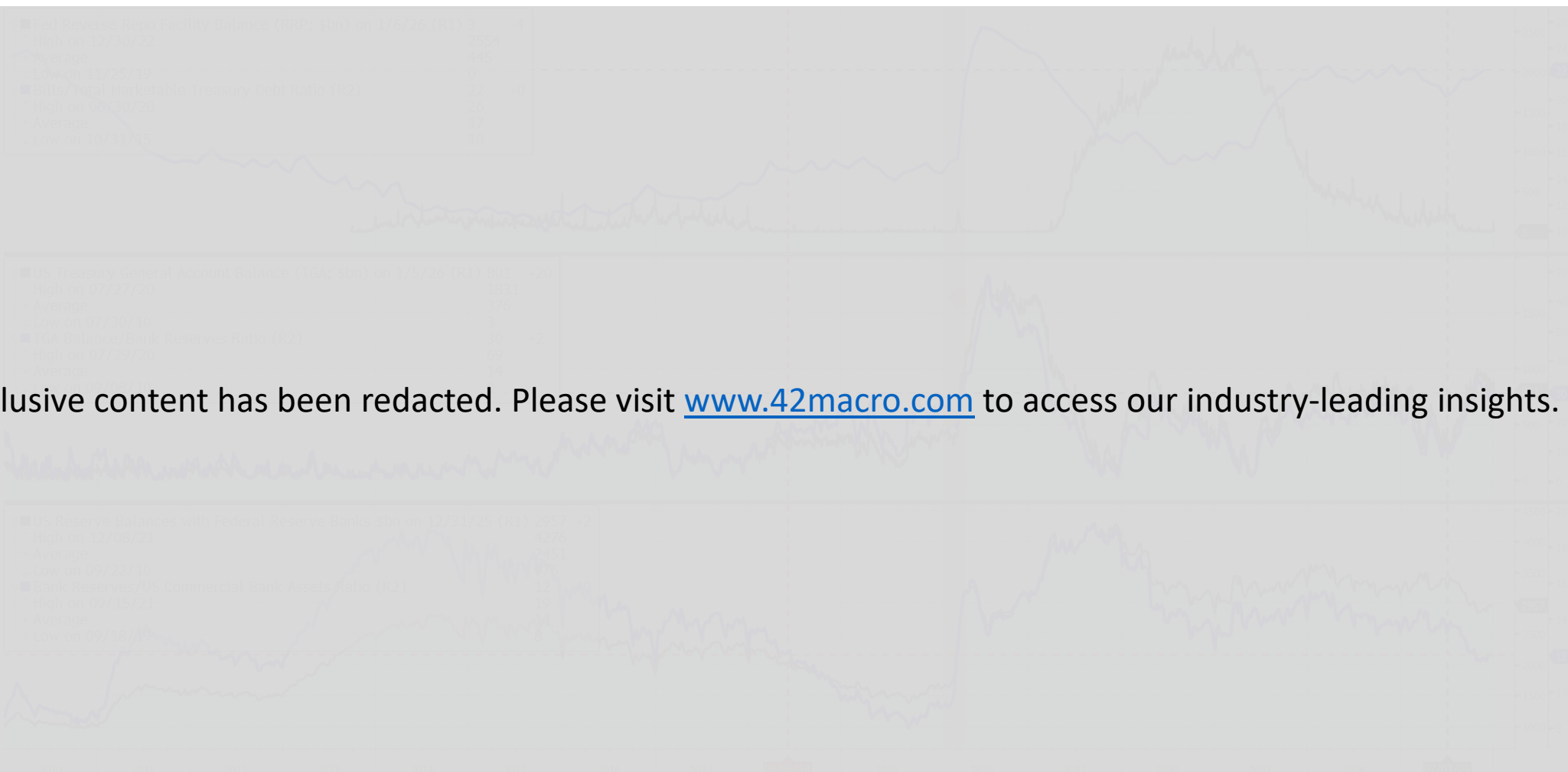
Our Macro Weather Model currently views the liquidity cycle as a near-term headwind for asset markets. Our research views the Fed's decision to disregard the affordability crisis and counter deterioration in the repo market with dovish monetary policy as an indication the Fed may be permanently shifting to expansionary balance sheet policy. Our research projects structural reforms at the Fed. This outcome would likely perpetuate a secular bear market in the US dollar, which implies an unexpected increase in global liquidity.

Years Of Balance Sheet Runoff Have Drained Bank Reserves And Likely Left Liquidity In Funding Markets At Or Below The Fed's Desired "Ample" Level



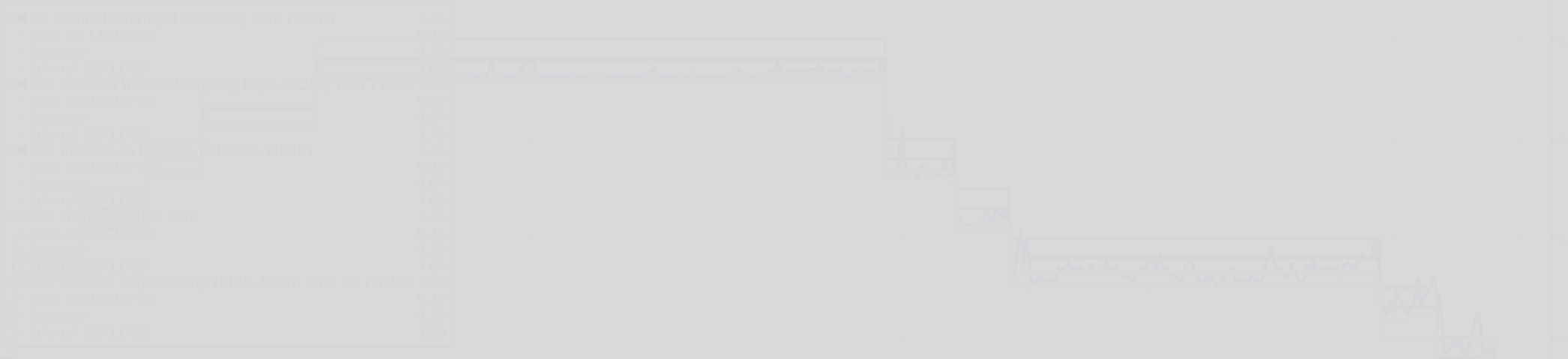
This exclusive content has been redacted. Please visit www.42macro.com to access our industry-leading insights. Thanks!

Years Of Dovish Net Financing Policy Have Perpetuated A Structural Increase In The Treasury General Account (TGA) Balance, Which Has Drained Bank Reserves As Well

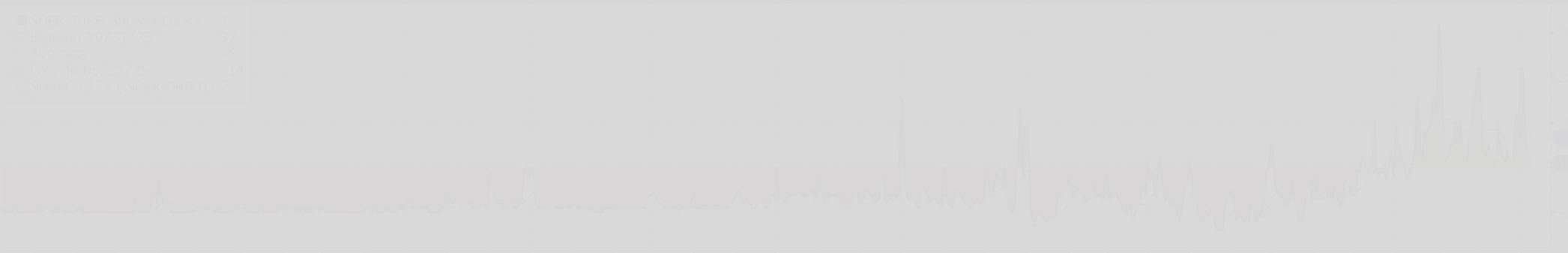


This exclusive content has been redacted. Please visit www.42macro.com to access our industry-leading insights. Thanks!

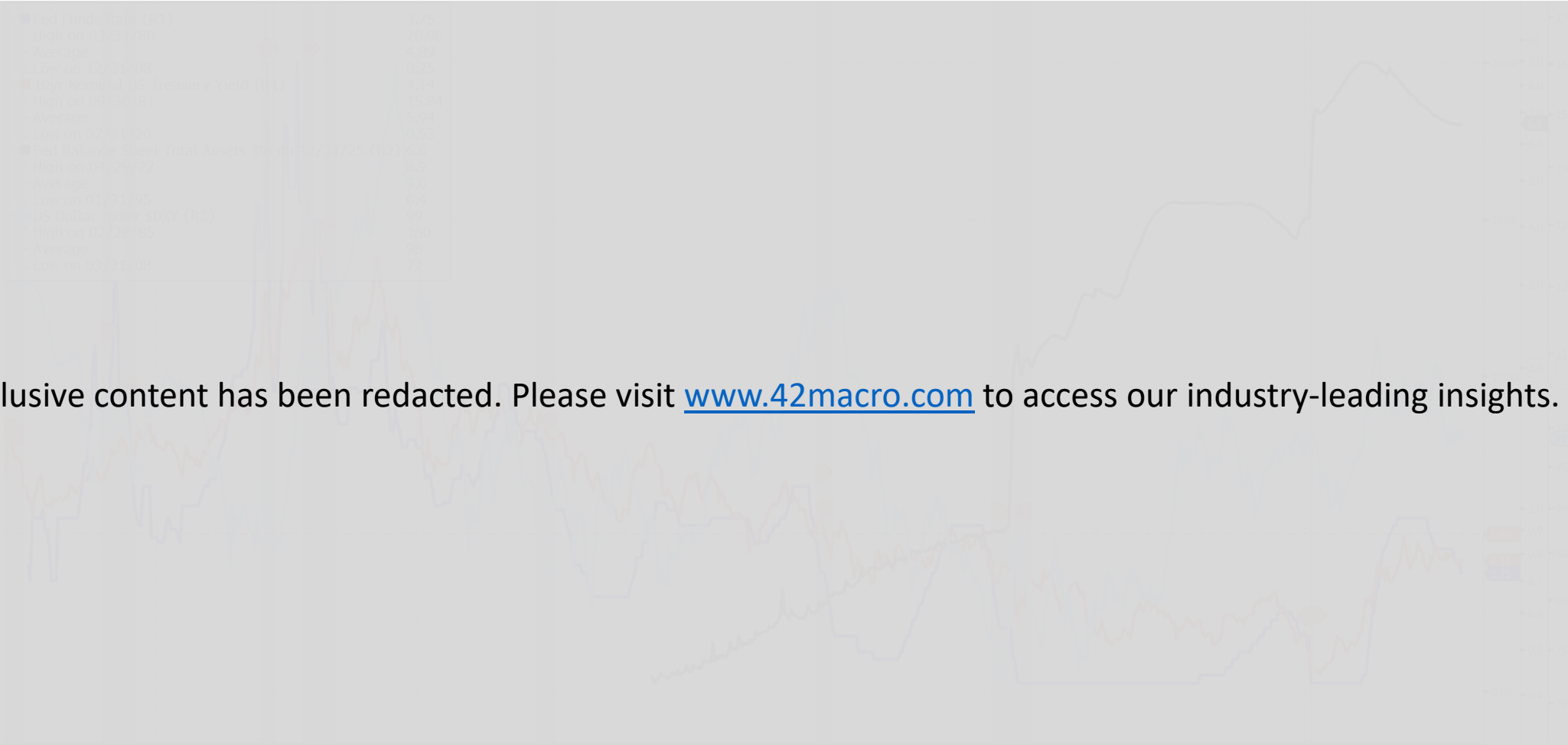
The Fed's "Reserve Management Operation Purchases" (RMOP) Are Akin To Perpetual QE And Are Likely To Sufficiently Counter The Trending Stress In The Repo Market; If Not, Expect More Cowbell



This exclusive content has been redacted. Please visit www.42macro.com to access our industry-leading insights. Thanks!

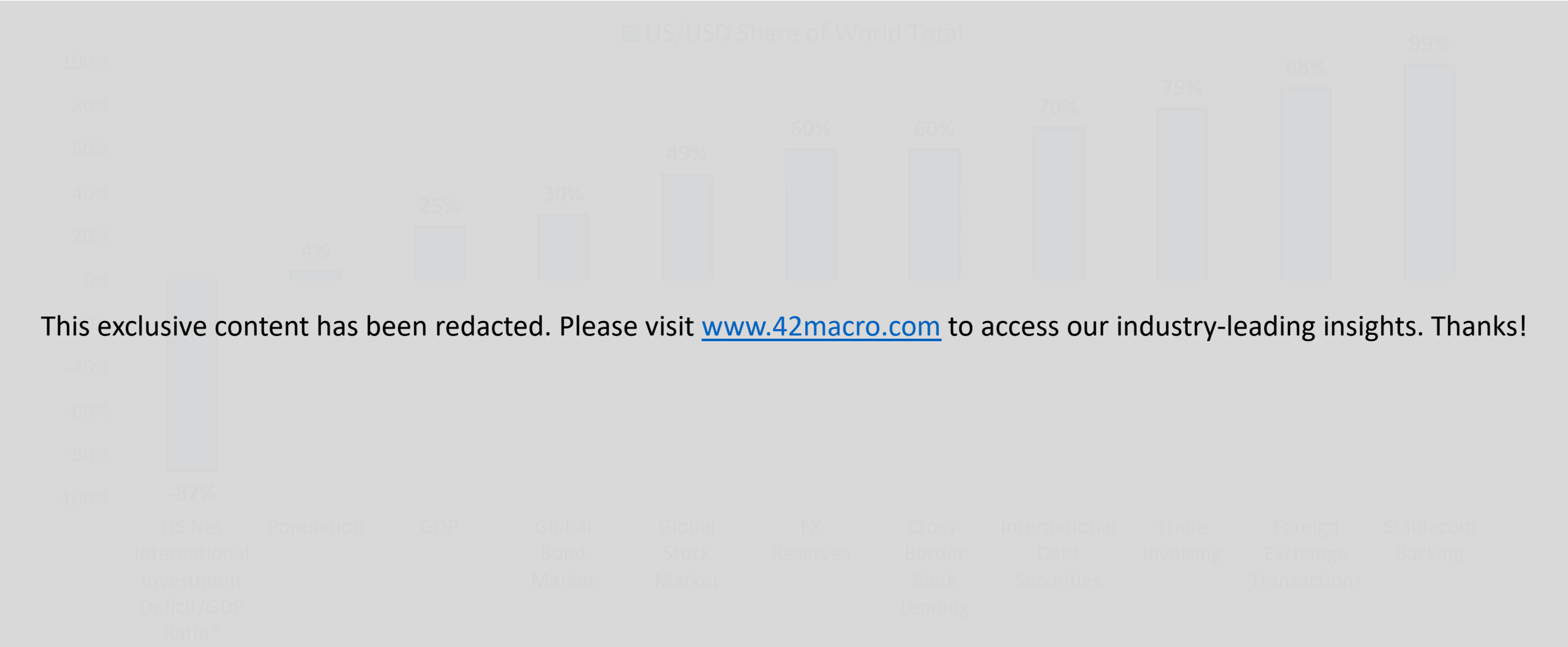


QE Is Bearish For The US Dollar Index, Which Is Currently Trading Near Its Long-Run Mean Since Nixon Abandoned The Gold Standard In 1971; Is This The Right Price Considering [Structural Reforms At The Fed?](#)



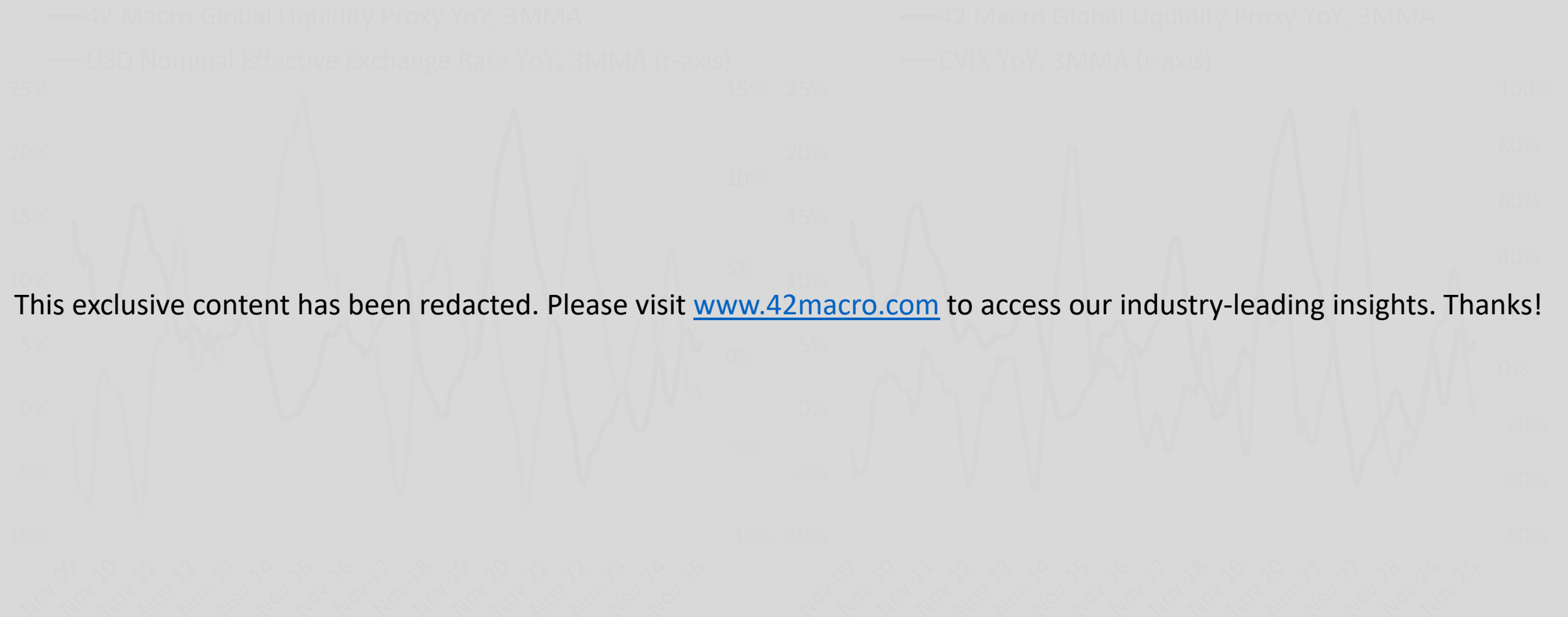
This exclusive content has been redacted. Please visit www.42macro.com to access our industry-leading insights. Thanks!

A Durable Erosion Of US Central Bank Independence Is A Durable Headwind For The US Dollar



This exclusive content has been redacted. Please visit www.42macro.com to access our industry-leading insights. Thanks!

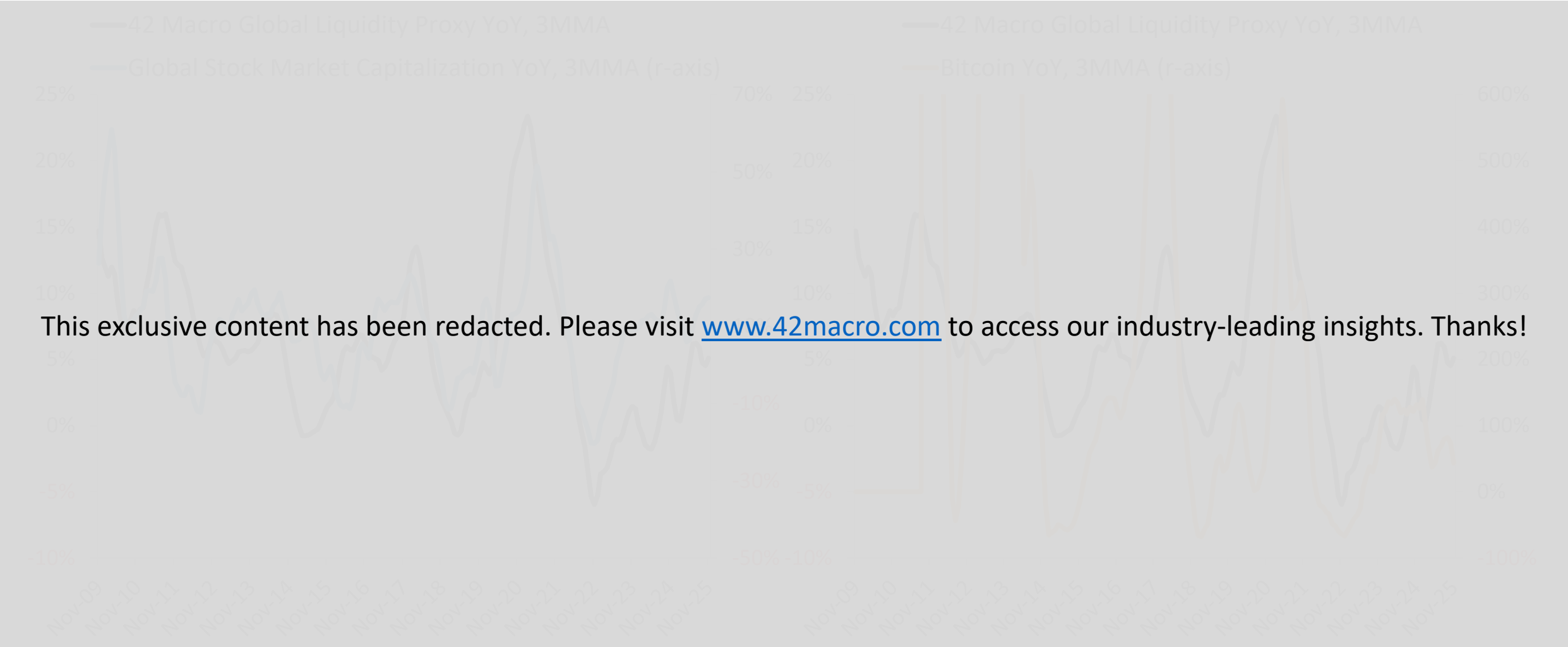
Reminder: The US Dollar And Currency Volatility Are Countercyclical Leading Indicators Of Global Liquidity



© 42 Macro LLC. Data Source: Bloomberg.

42 Macro Global Liquidity Proxy = Global Central Bank Balance Sheet + Global Broad Money Supply + Global FX Reserves minus Gold.

Reminder: Global Liquidity Is A Key Driver Of Asset Markets



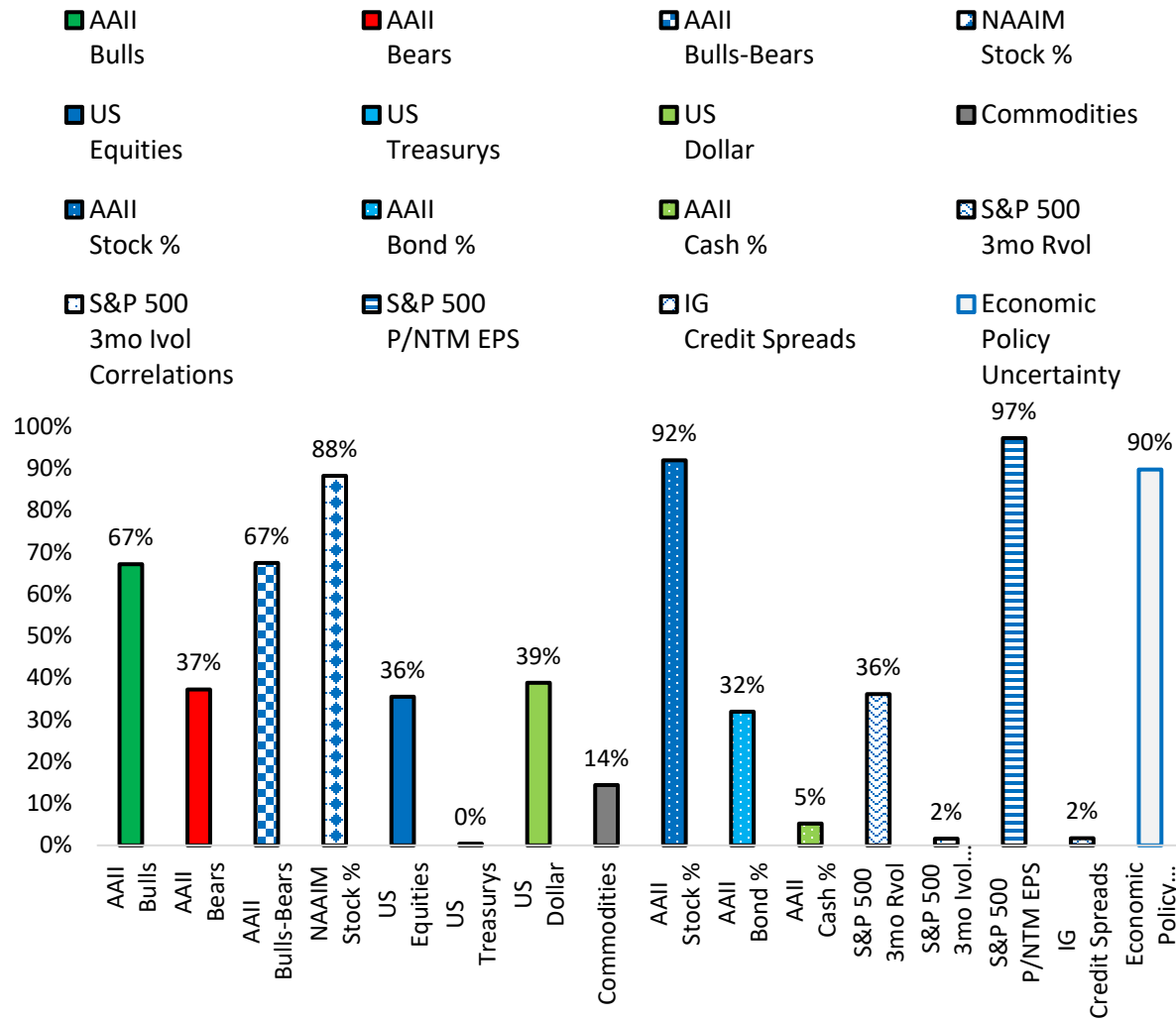
Global Liquidity Has Consolidated Recently And May Continue Consolidating For Months; It Will Unexpectedly Un-Consolidate Higher If We're Right On **Structural Reform At The Fed**

This exclusive content has been redacted. Please visit www.42macro.com to access our industry-leading insights. Thanks!

Positioning Considerations:

Our Macro Weather Model currently views the positioning cycle as a near-term headwind for asset markets. Our Positioning Model is currently signaling a high degree of crowded bullish positioning, which translates to a high risk of a crash over a medium-to-long-term time horizon, which is 3–12+ months in our risk management nomenclature. The positioning cycle is not a catalyst in isolation. Crashes tend to occur when our model signals high risk of a crash and there is at least one — usually more — trending downturn in the other five key macro cycles. While this adverse outcome is unlikely over the next 12 months, investors should continue to brace for choppy markets and/or a correction over a short-to-medium term time horizon, which is 1–3 months in our risk management nomenclature.

We Use Our Positioning Model To Assess The Probability Of Significant Reversals In Momentum Across Asset Markets, Over Multiple Time Horizons



S&P 500 Peaks	AAII				US				S&P 500				IG				Economic Policy
	Bulls	Bears	Bulls-Bears	Stock %	Equities	Treasuries	Dollar	Commodities	Stock %	Bond %	Cash %	3mo Rvol	3mo Ivol	Correlations	P/NTM EPS	Spreads	Uncertainty
Aug-87	0%	0%										29%					
Jul-90	59%	50%	56%														
Jul-98	40%	13%	65%		34%	75%	70%	6%									
Mar-00	100%	9%	99%		59%	77%	88%	60%									
Oct-07	92%	30%	88%	56%	17%	95%	8%	64%									
Apr-11	52%	53%	50%	68%	65%	97%	0%	89%									
Sep-18	31%	59%	34%	72%	74%	10%	94%	22%									
Feb-20	65%	35%	67%	81%	64%	29%	36%	52%									
Jan-22	51%	52%	50%	76%	67%	35%	76%	95%									
Feb-25	19%	93%	9%	86%	36%	8%	72%	68%									
25th Percentile	34%	17%	50%	69%	36%	24%	29%	44%									
MEDIAN	51%	42%	56%	74%	62%	55%	71%	62%									
75th Percentile	64%	52%	67%	80%	65%	82%	79%	73%									
CURRENT	67%	37%	67%	88%	36%	0%	39%	14%									

S&P 500 Troughs	AAII				US				S&P 500				IG				Economic Policy
	Bulls	Bears	Bulls-Bears	Stock %	Equities	Treasuries	Dollar	Commodities	Stock %	Bond %	Cash %	3mo Rvol	3mo Ivol	Correlations	P/NTM EPS	Spreads	Uncertainty
Dec-87	10%	85%	10%														
Oct-90	3%	97%	2%														
Oct-98	10%	58%	23%		23%	61%	100%	9%									
Mar-03	36%	80%	24%		11%	98%	12%	26%									
Mar-09	1%	100%	0%	0%	94%	35%	43%	25%									
Oct-11	33%	92%	13%	1%	15%	85%	64%	57%									
Dec-18	10%	93%	6%	10%	71%	19%	89%	61%									
Mar-20	39%	96%	10%	2%	47%	45%	39%	33%									
Oct-22	8%	98%	2%	4%	23%	13%	80%	71%									
Apr-25	4%	100%	1%	22%	39%	2%	49%	19%									
25th Percentile	5%	87%	2%	1%	21%	18%	42%	23%									
MEDIAN	10%	95%	8%	3%	31%	40%	56%	30%									
75th Percentile	27%	97%	12%	9%	53%	67%	82%	58%									
CURRENT	67%	37%	67%	88%	36%	0%	39%	14%									

Intellectual property of 42 Macro LLC. Data Source: Bloomberg. Asset class signals = aggregated non-commercial net length as a % of total open interest in futures and options.

© 42 Macro LLC. Data Source: Bloomberg. Percentile ranking of latest value (all-time). The positioning implications of S&P 500 Rvol & Ivol Correlations, IG Credit Spreads, and Policy Uncertainty are inverted. Asset class signals are aggregated non-commercial net length as a percent of open interest in the combined futures and options markets. Bottom third = underweight. Middle third = neutral. Upper third = overweight. Positioning Model correction/crash risk thresholds: < 25% = low, 25-50% moderate, 50-75% reasonable, and > 75% high.



Our Positioning Model Is Currently Signaling The Highest Degree Of Crowded Bullish Positioning Ever On A Median Basis And Third-Highest On A Mean Basis

Percentile of Implied Crowded Bullish Positioning												
	AAll	NAAIM	S&P 500			S&P 500	IG					
	Bulls-Bears	Stock %	Stock %	Bond %	Cash %	3mo Rvol	3mo Ivol	S&P 500	Policy			
							Correlations	P/NTM EPS	Credit	Uncertainty	Mean	Median
									Spreads			
Aug-87						71%					71%	71%
Jul-90	56%		8%	22%	9%	58%		13%	84%	54%	38%	38%
Jul-98	65%		97%	91%	87%	46%		97%	95%	99%	85%	93%
Mar-00	99%		97%	100%	60%	10%		95%	35%	83%	72%	89%
Oct-07	88%	56%	79%	99%	36%	20%	54%	37%	42%	77%	59%	55%
Apr-11	50%	68%	36%	11%	70%	54%	26%	9%	42%	64%	43%	46%
Sep-18	34%	72%	81%	68%	76%	95%	87%	62%	67%	79%	72%	74%
Feb-20	67%	81%	73%	25%	99%	83%	82%	80%	76%	77%	74%	79%
Jan-22	50%	76%	91%	68%	91%	46%	83%	88%	81%	24%	70%	79%
Feb-25	9%	86%	85%	68%	83%	55%	99%	98%	98%	3%	68%	84%
Median	56%	74%	81%	68%	76%	55%	83%	80%	76%	77%	73%	76%
Jan-26	67%	88%	92%	68%	95%	64%	98%	97%	98%	10%	78%	90%

© 42 Macro LLC. Data Source: Bloomberg. Percentile ranking of latest value (all-time). The positioning implications of S&P 500 Rvol & Ivol Correlations, IG Credit Spreads, and Policy Uncertainty are inverted. Asset class signals are aggregated non-commercial net length as a percent of open interest in the combined futures and options markets. **Bottom third = underweight. Middle third = neutral. Upper third = overweight.**
Positioning Model correction/crash risk thresholds: < 25% = low, 25-50% moderate, 50-75% reasonable, and > 75% high.

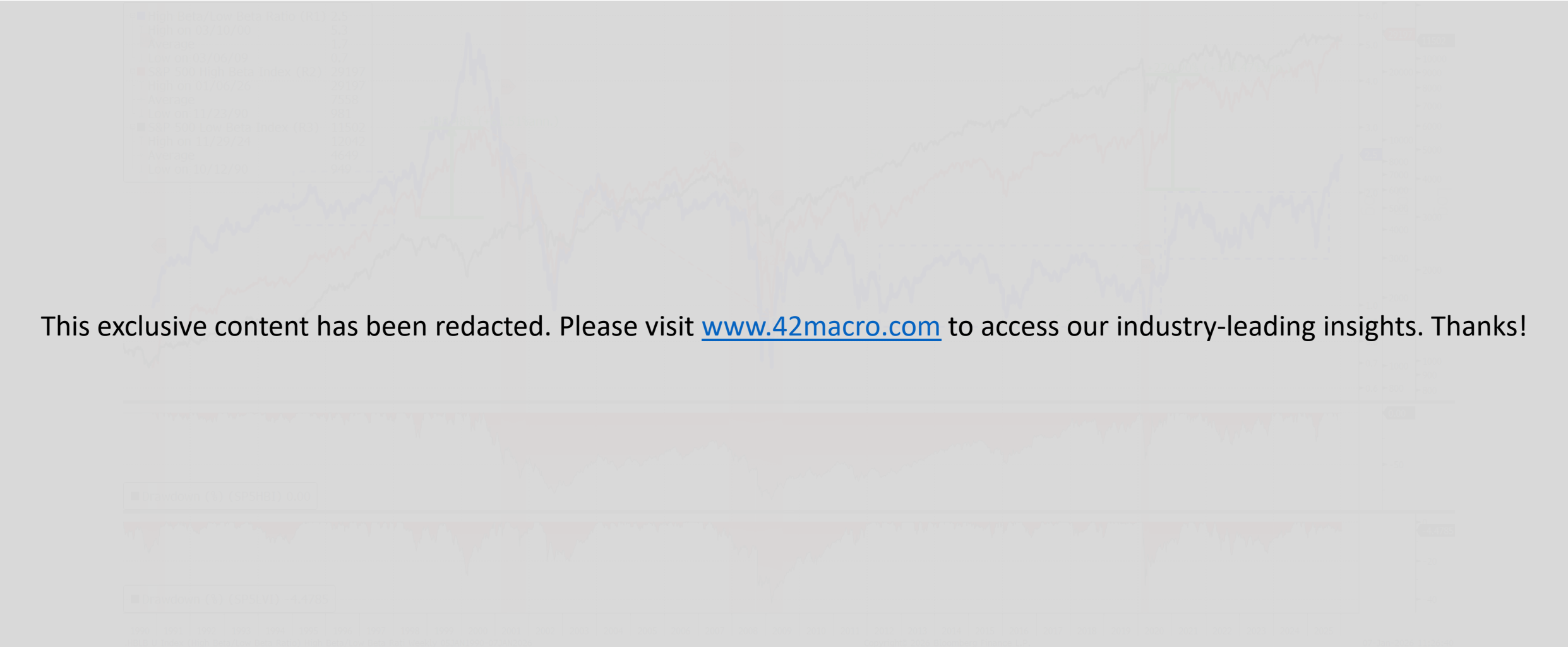
The Silver Lining Is That The US Stock Market Is Not Nearly As Expensive As It Seems When Factoring In Its Structural Improvement In Free Cash Flow Generation



This exclusive content has been redacted. Please visit www.42macro.com to access our industry-leading insights. Thanks!



Although It Is Not Our Base-Case Scenario, Investors Would Be Remiss To Rule Out A Full-Fledged Bubble In US Stocks If We Continue To Be “Spookily Accurate” On **Paradigm C From Here**



This exclusive content has been redacted. Please visit www.42macro.com to access our industry-leading insights. Thanks!

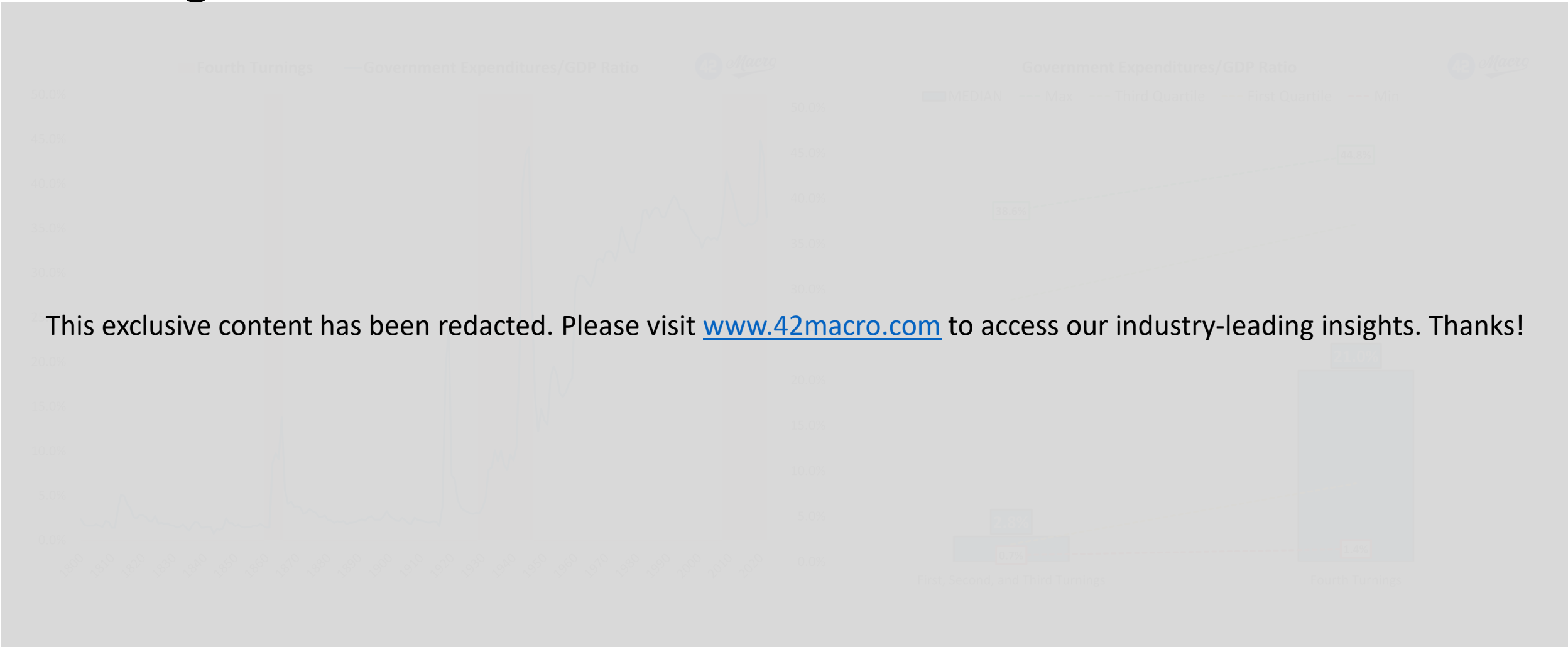
Appendix: Investing During A Fourth Turning Regime

Key Fourth Turning Fiscal Policy Risks: Explosive Growth In The Size Of Government, Fiscal Deficits, Sovereign Debt, And The Cost To Finance The Government

	Fourth Turning Median	Fourth Turning Worst Case
Sovereign Fiscal Balance/GDP Ratio	↓	↓
Sovereign Debt/GDP Ratio	↑	↑
Government Expenditures/GDP Ratio	↑	↑
Government Interest Expense/GDP Ratio	↑	↑

This exclusive content has been redacted. Please visit www.42macro.com to access our industry-leading insights. Thanks!

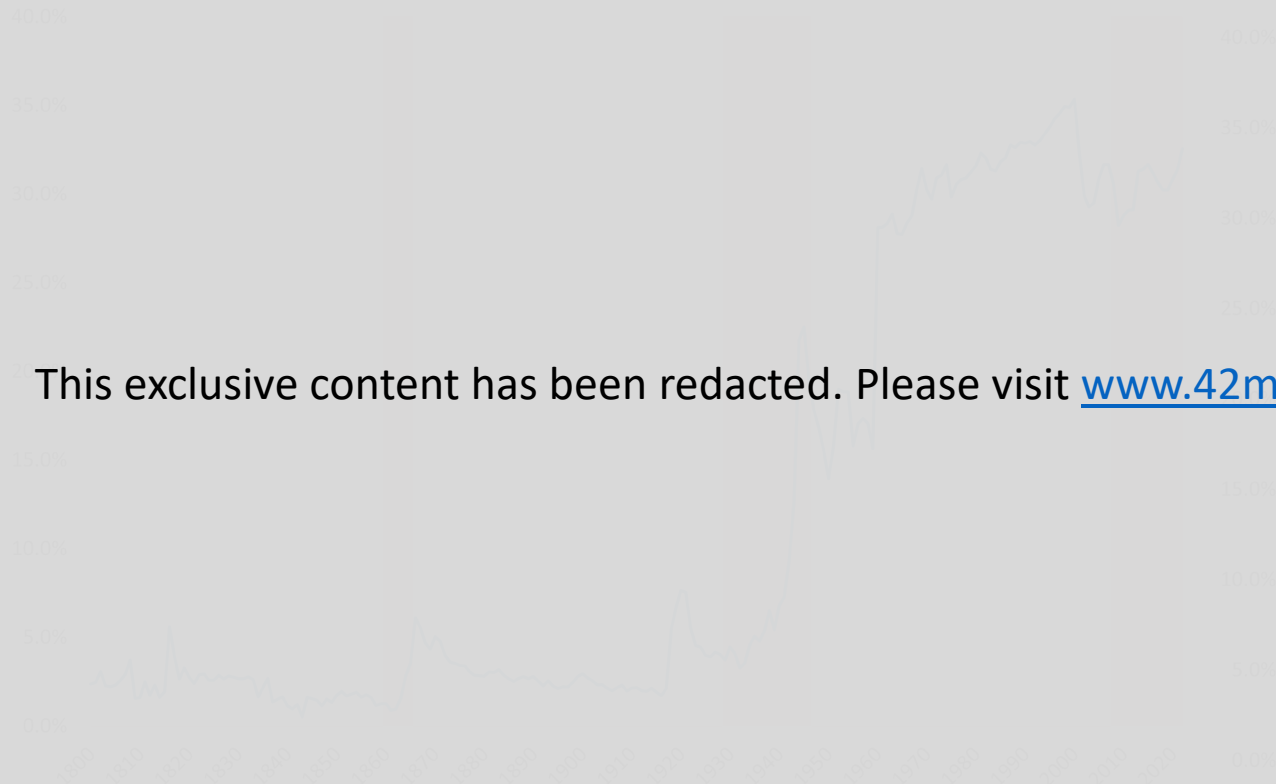
Government Expenditures Tend To Increase Sharply During Fourth Turnings



This exclusive content has been redacted. Please visit www.42macro.com to access our industry-leading insights. Thanks!

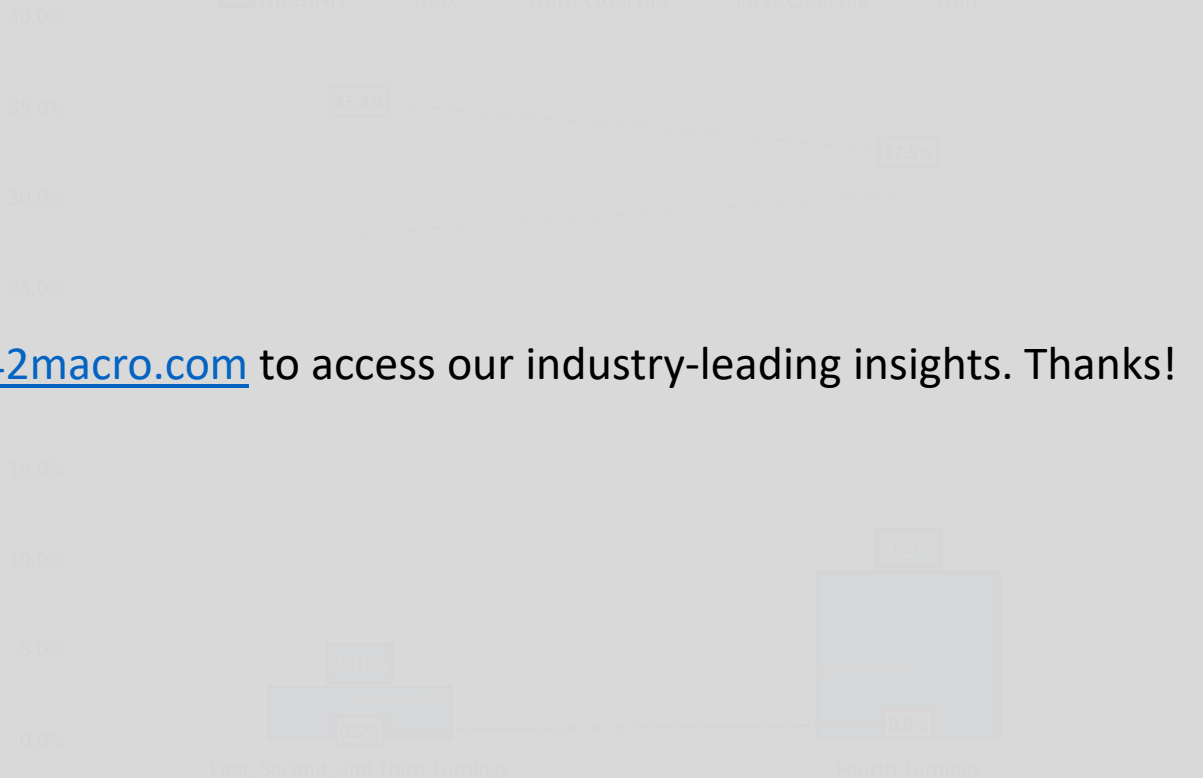
Government Revenues Tend To Increase Sharply During Fourth Turnings

Fourth Turnings — Government Revenues/GDP Ratio



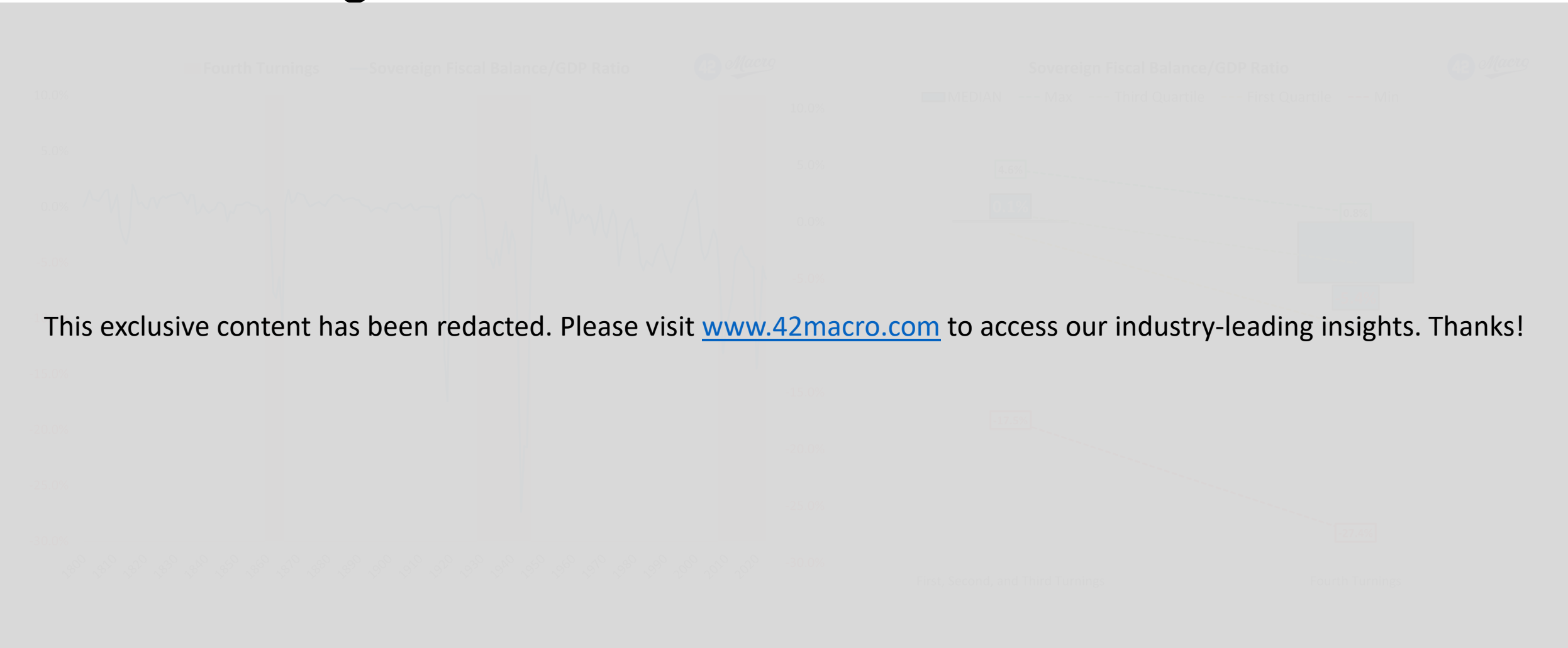
Government Revenues/GDP Ratio

MEDIAN Max Third Quartile First Quartile Min



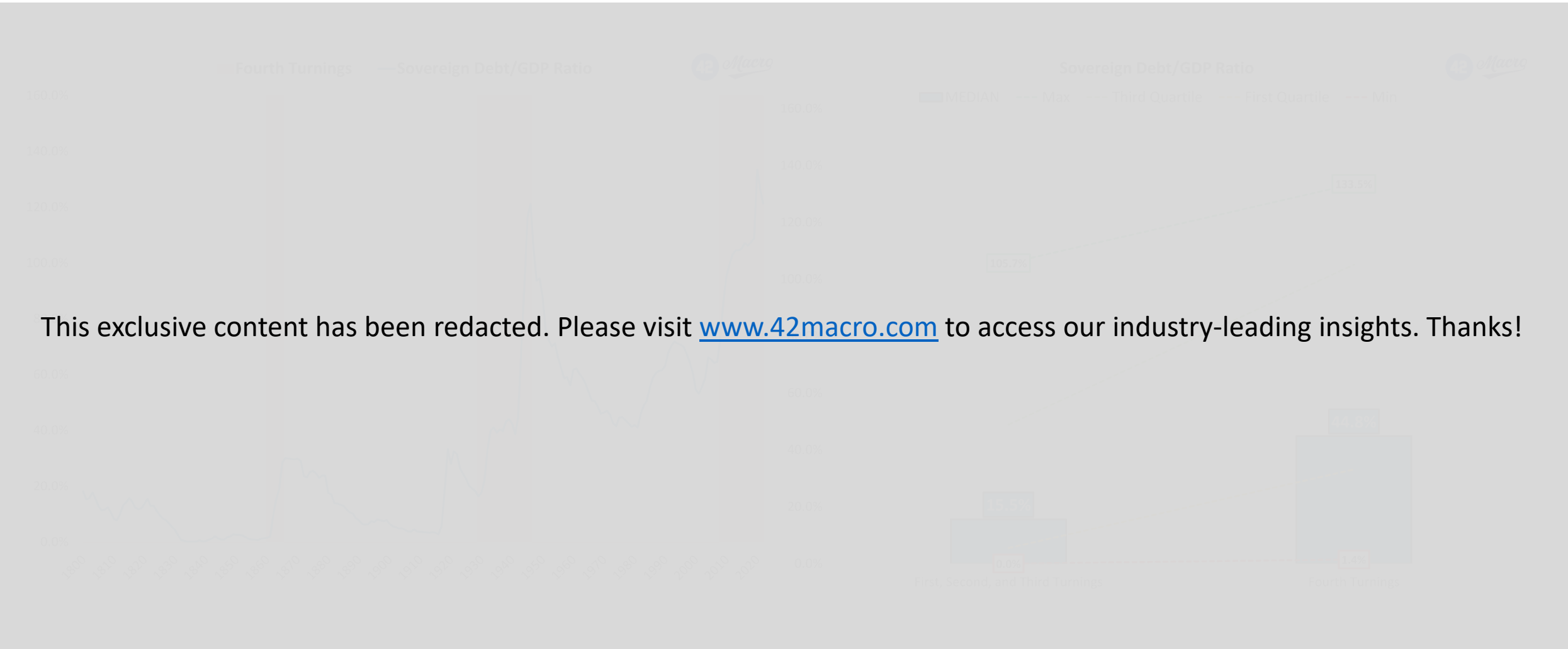
This exclusive content has been redacted. Please visit www.42macro.com to access our industry-leading insights. Thanks!

The Sovereign Fiscal Balance Tends To Deteriorate Sharply During Fourth Turnings



This exclusive content has been redacted. Please visit www.42macro.com to access our industry-leading insights. Thanks!

Sovereign Debt Tends To Increase Sharply During Fourth Turnings



This exclusive content has been redacted. Please visit www.42macro.com to access our industry-leading insights. Thanks!

The Public Interest Burden Tends To Increase Sharply During Fourth Turnings

Fourth Turnings — Government Interest Expense/GDP Ratio



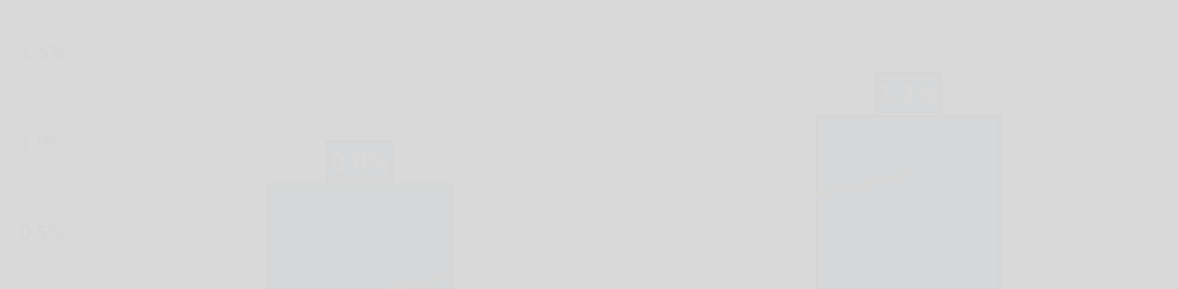
Government Interest Expense/GDP Ratio



MEDIAN Max Third Quartile First Quartile Min



This exclusive content has been redacted. Please visit www.42macro.com to access our industry-leading insights. Thanks!

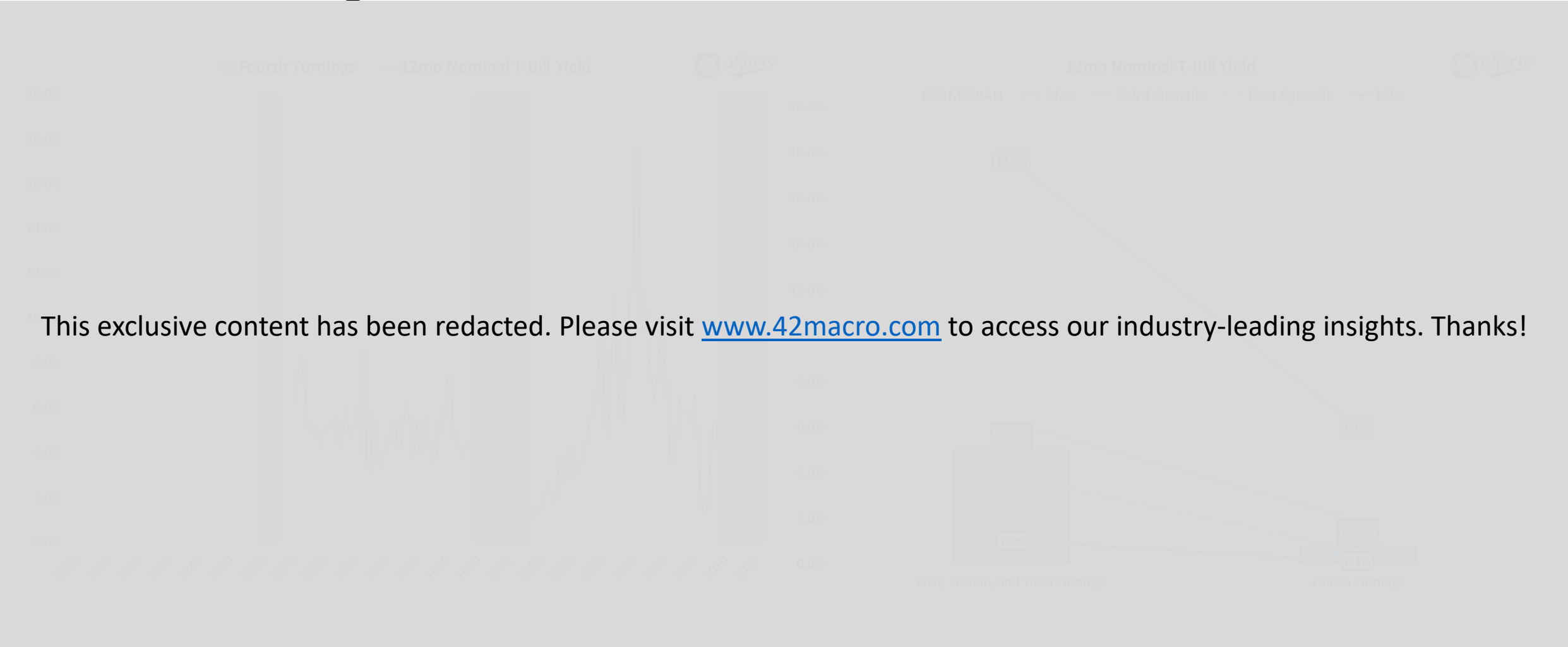


Key Fourth Turning Monetary Policy Risks: Financial Repression, Monetary Debasement, And An Erosion Of Fed Independence

Metric	Fourth Turning Median vs. Baseline	Consistent Fourth Turning Delta?
Nominal 12mo T-Bill Yield	↓	n/a
Real 12mo T-Bill Yield	↓	↓
Real 10yr Yield	↓	↓
USD/Gold YoY	↑	↑
Broad Money Supply YoY	↑	↑

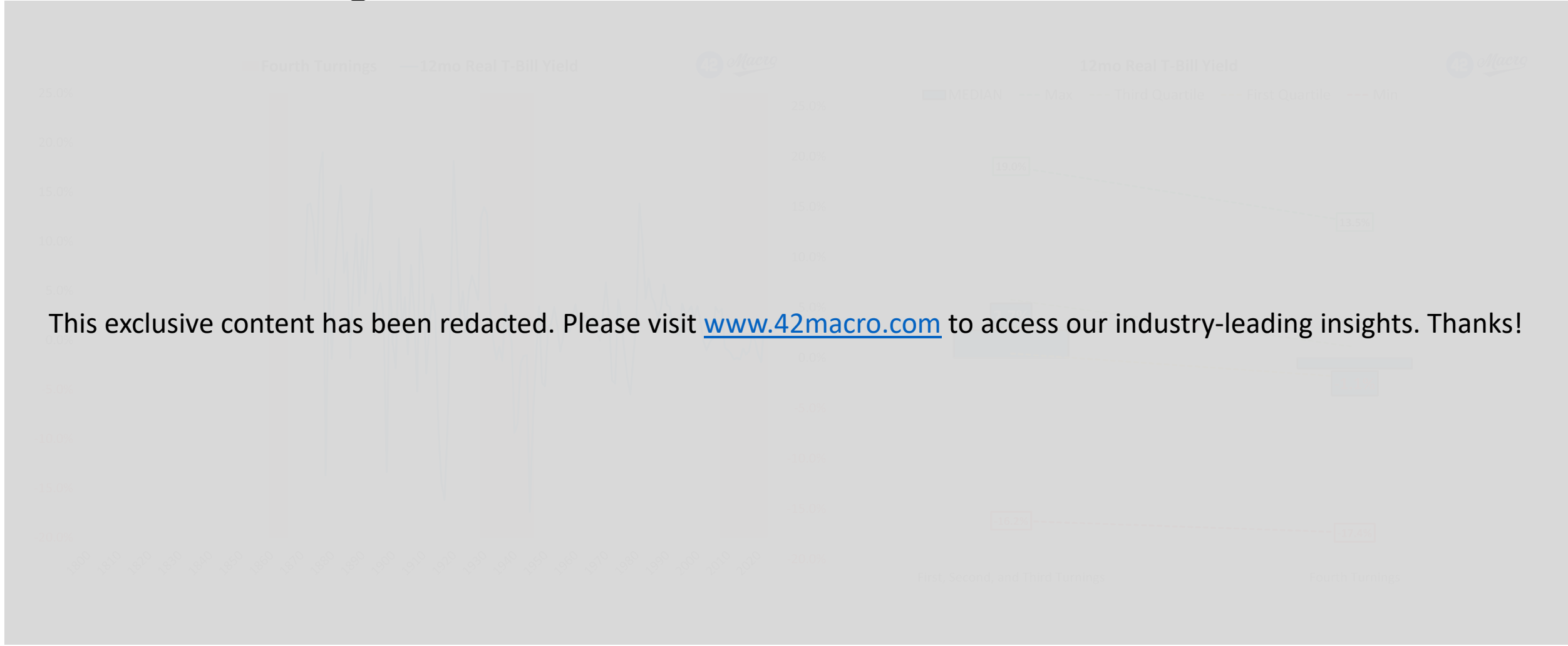
This exclusive content has been redacted. Please visit www.42macro.com to access our industry-leading insights. Thanks!

The 12mo Nominal T-Bill Yield Tends To Be Relatively Weak During Fourth Turnings



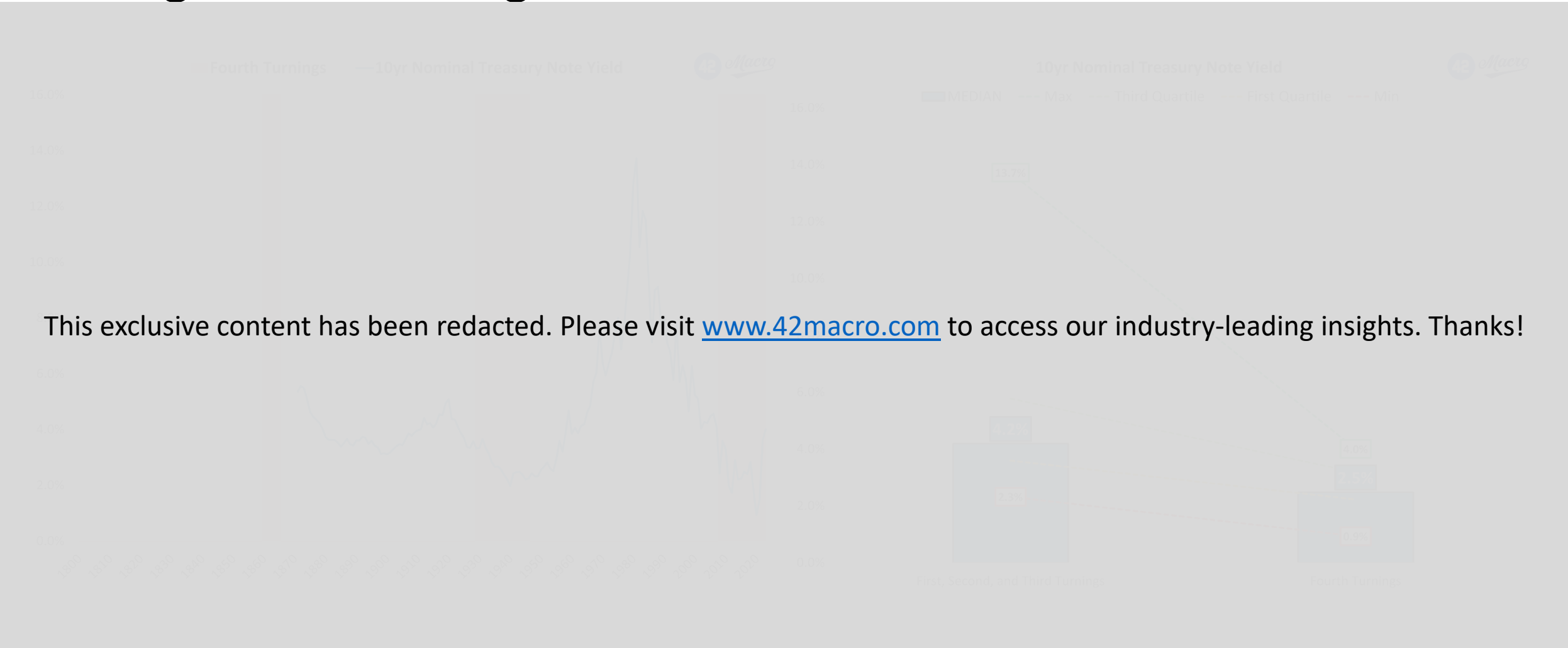
This exclusive content has been redacted. Please visit www.42macro.com to access our industry-leading insights. Thanks!

The 12mo Real T-Bill Yield Tends To Decline Substantially During Fourth Turnings



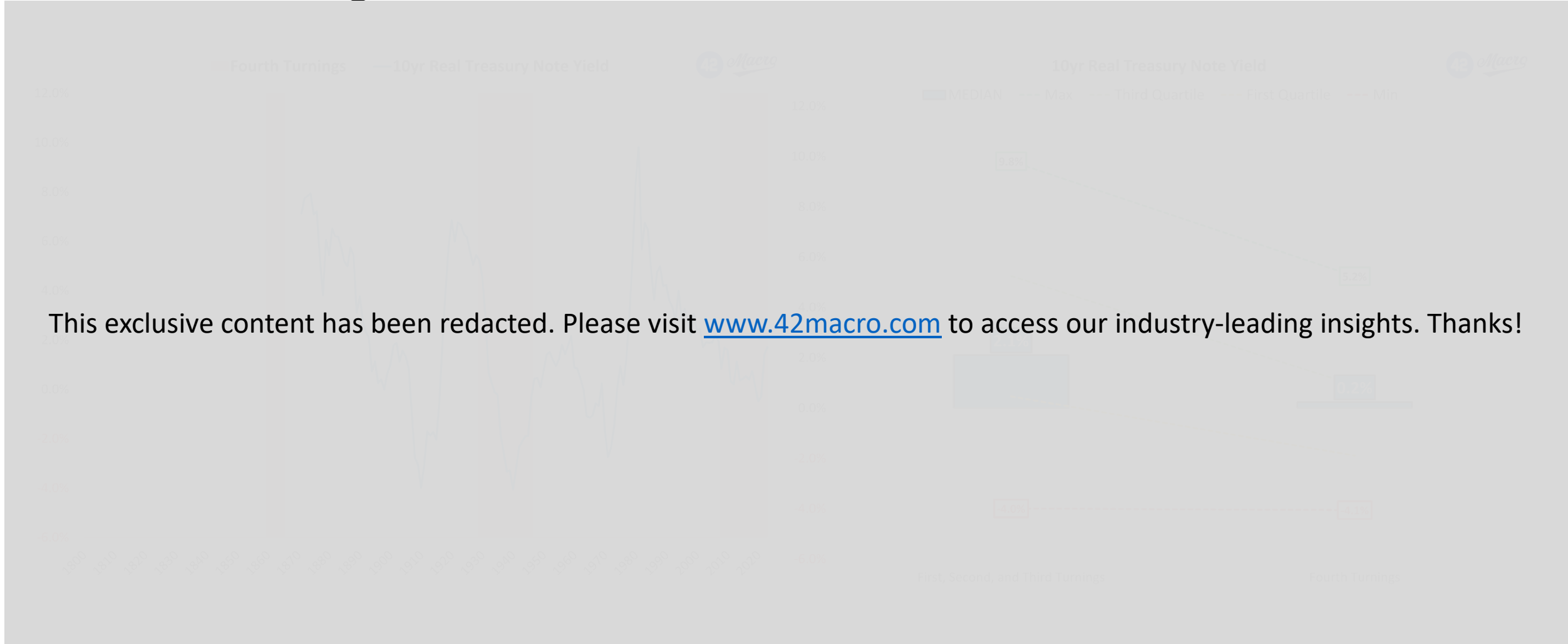
This exclusive content has been redacted. Please visit www.42macro.com to access our industry-leading insights. Thanks!

The 10yr Nominal Treasury Yield Tends To Be Relatively Weak During Fourth Turnings



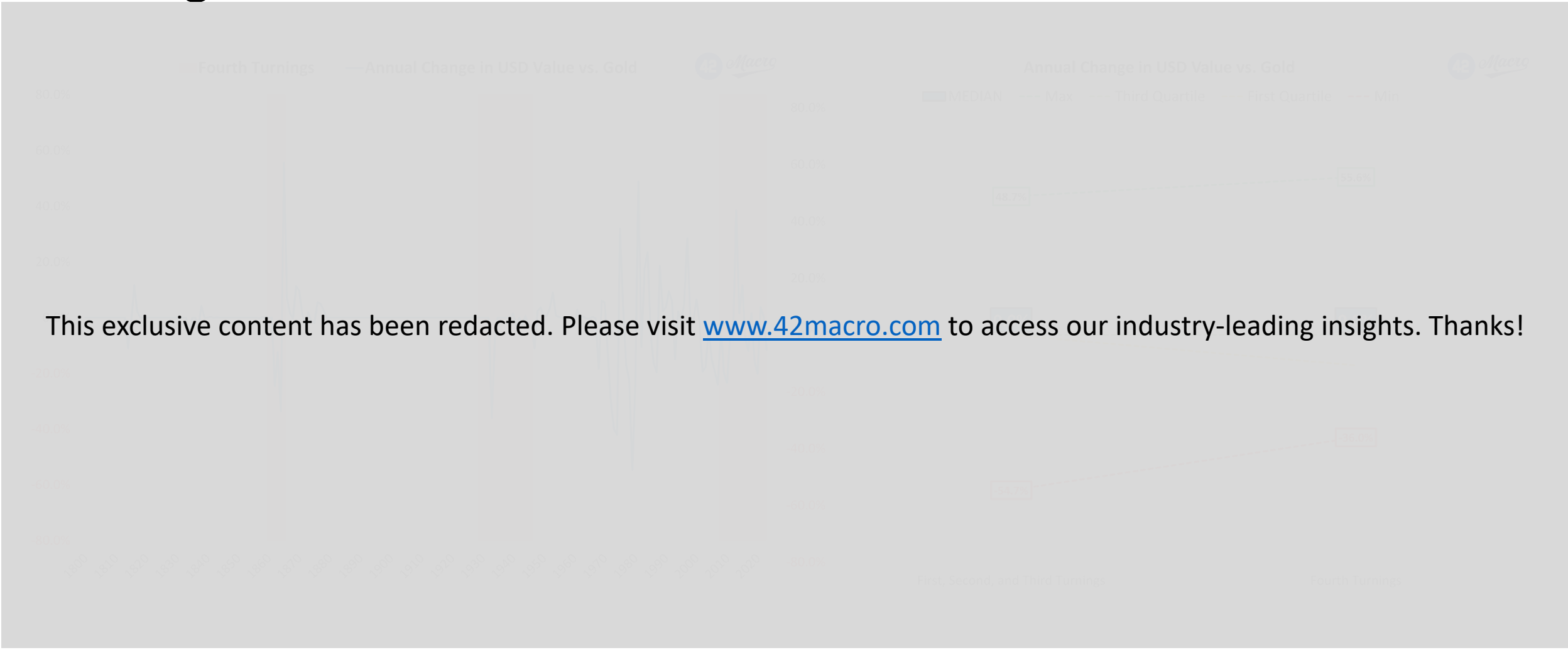
This exclusive content has been redacted. Please visit www.42macro.com to access our industry-leading insights. Thanks!

The 10yr Real Treasury Yield Tends To Decline Substantially During Fourth Turnings



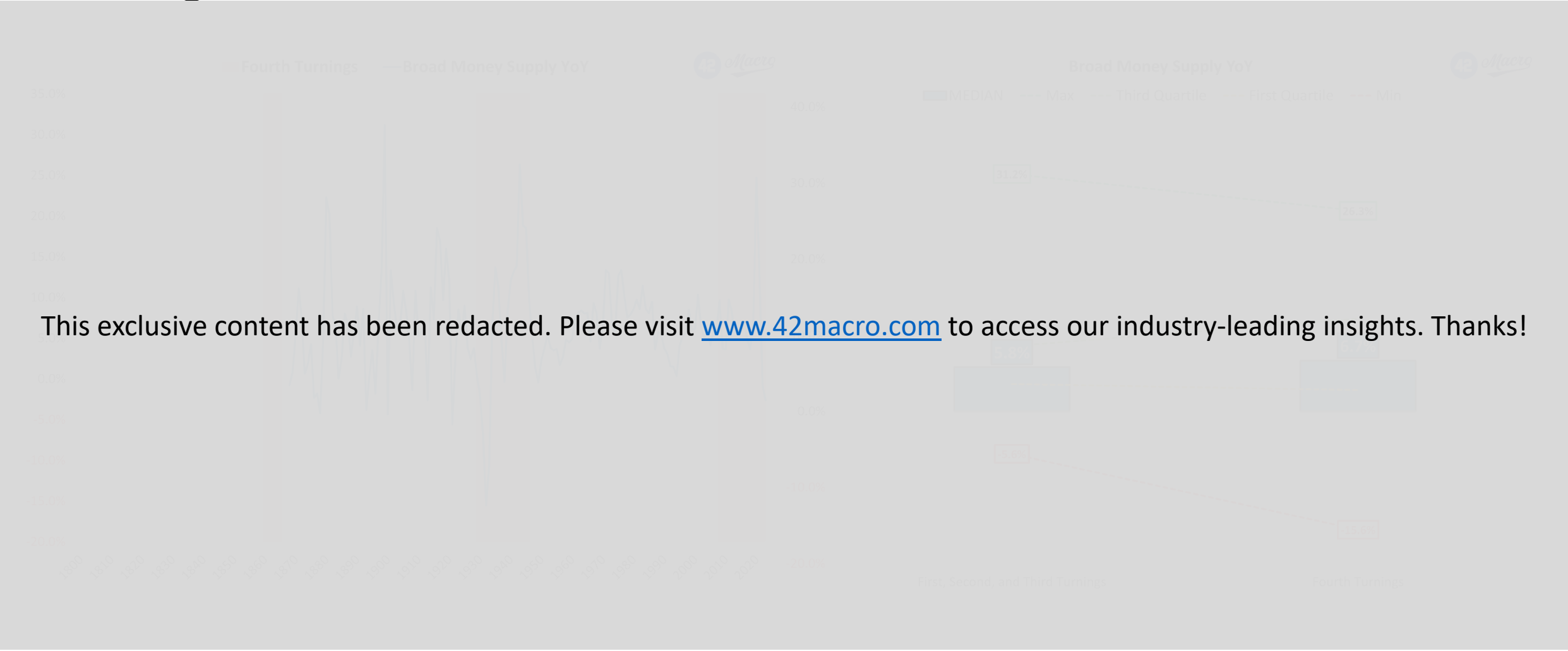
This exclusive content has been redacted. Please visit www.42macro.com to access our industry-leading insights. Thanks!

The US Dollar Tends To Be Debased Substantially During Fourth Turnings



This exclusive content has been redacted. Please visit www.42macro.com to access our industry-leading insights. Thanks!

Money Supply Growth Tends To Accelerate Sharply During Fourth Turnings



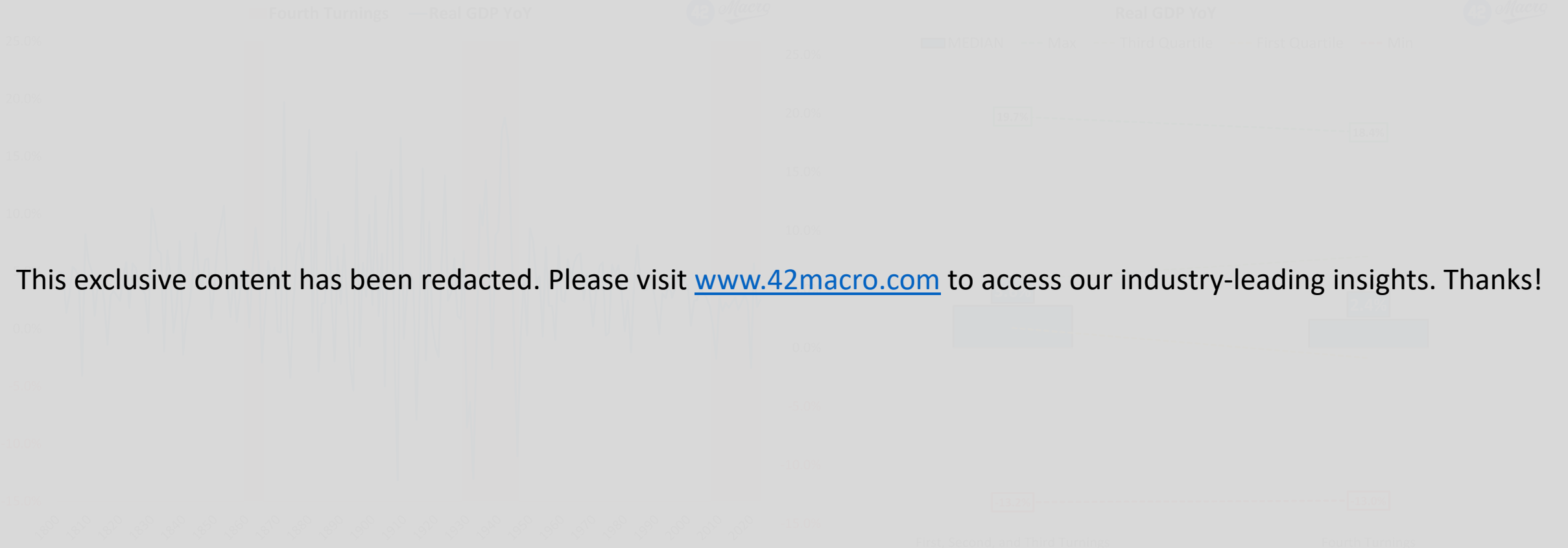
This exclusive content has been redacted. Please visit www.42macro.com to access our industry-leading insights. Thanks!

Key Fourth Turning Economic Risks: Persistent Above-Trend Growth In Nominal GDP, Inflation, Wages, And Asset Prices

Metric	Fourth Turning Median vs. Baseline	Consistent Fourth Turning Data?
Real GDP YoY	↓	Yes
Nominal GDP YoY	↑	Yes
Headline CPI YoY	↑	Yes
Employee Compensation/GDP Ratio	↑	Yes
Corporate Profits/GDP Ratio	↓	Yes
S&P 500 EPS YoY	↑	Yes
S&P 500 YoY	↑	Yes
S&P 500 CAPE Ratio	↑	Yes
Nominal Home Prices YoY	↑	Yes

This exclusive content has been redacted. Please visit www.42macro.com to access our industry-leading insights. Thanks!

Real GDP Growth Tends To Be Relatively Weak During Fourth Turnings



This exclusive content has been redacted. Please visit www.42macro.com to access our industry-leading insights. Thanks!

Nominal GDP Growth Tends To Accelerate Sharply During Fourth Turnings

Fourth Turnings — Nominal GDP YoY



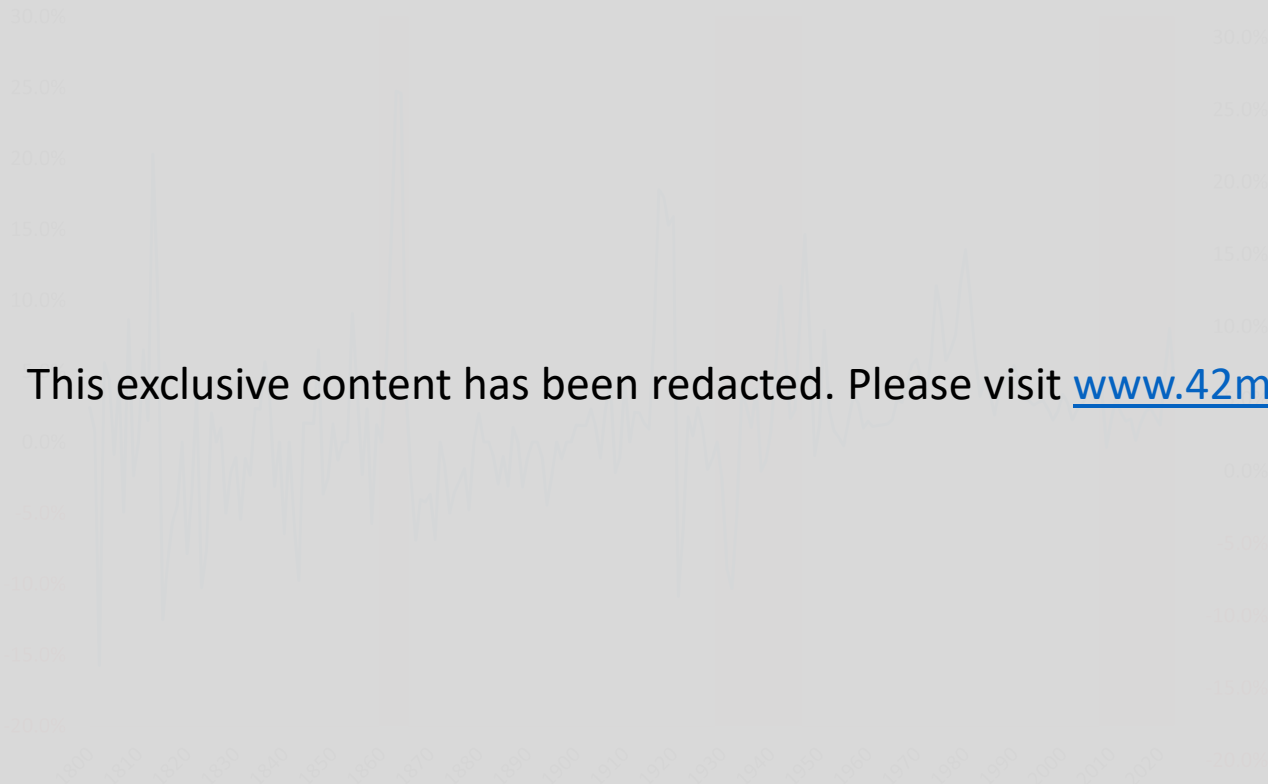
Nominal GDP YoY



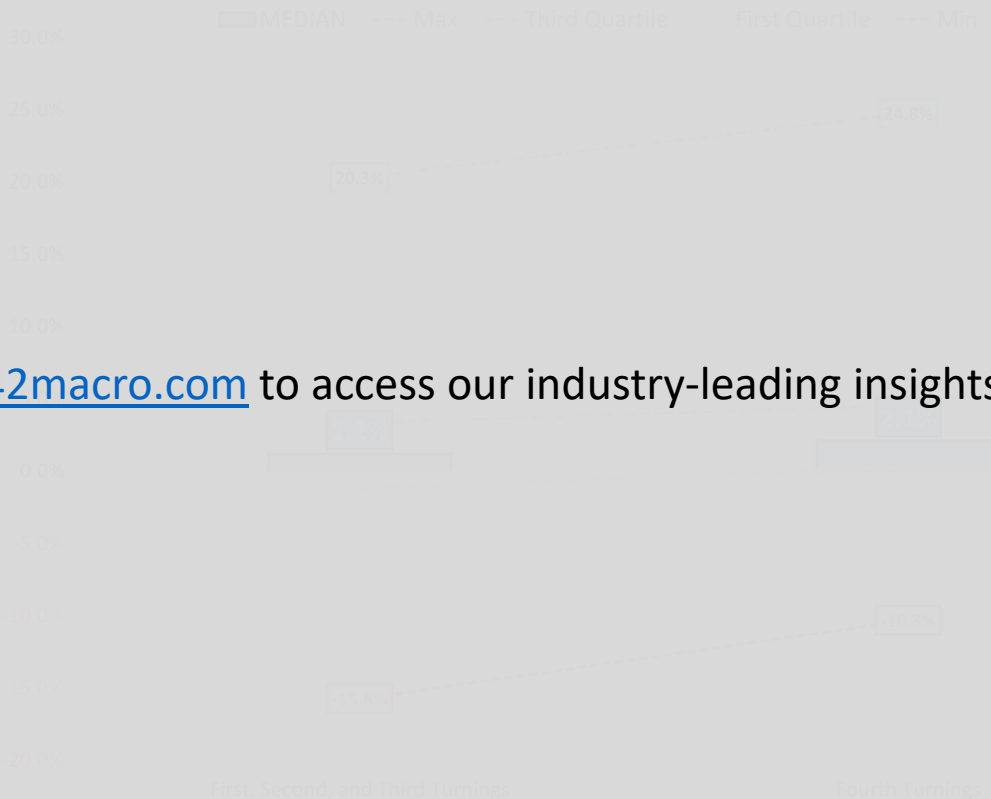
This exclusive content has been redacted. Please visit www.42macro.com to access our industry-leading insights. Thanks!

Headline CPI Tends To Accelerate Sharply During Fourth Turnings

Fourth Turnings — Headline CPI YoY



Headline CPI YoY

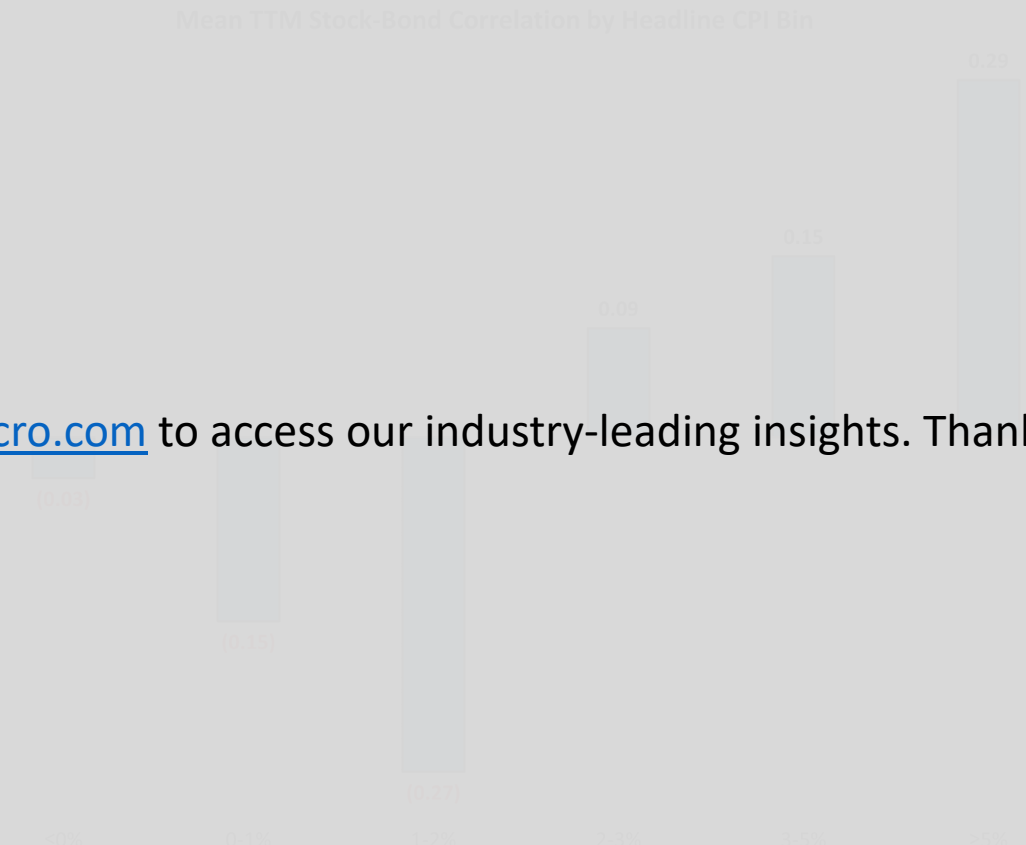


This exclusive content has been redacted. Please visit www.42macro.com to access our industry-leading insights. Thanks!

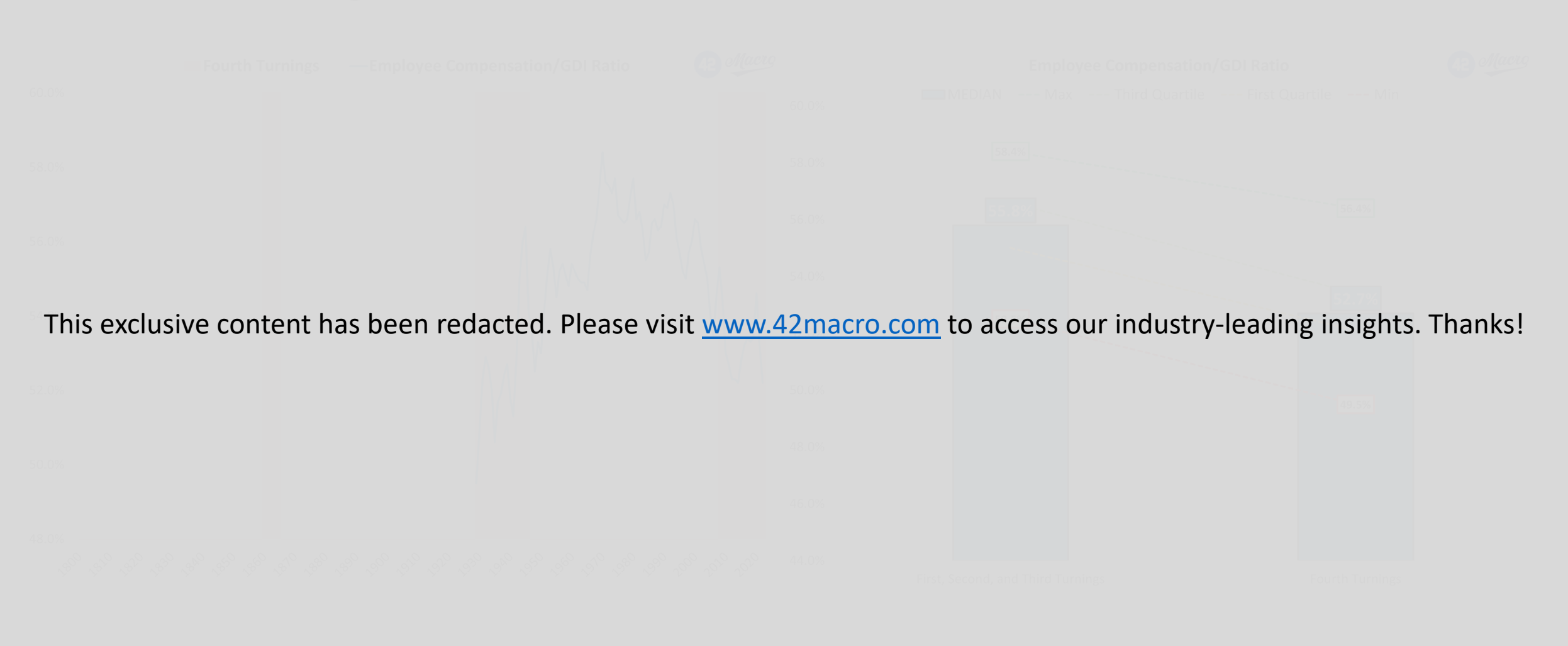
The Level Of Inflation Has Important Implications For The Stock-Bond Correlation And, By Extension, Model Portfolio



This exclusive content has been redacted. Please visit www.42macro.com to access our industry-leading insights. Thanks!



Employee Compensation Tends To Accelerate Significantly During Fourth Turnings



This exclusive content has been redacted. Please visit www.42macro.com to access our industry-leading insights. Thanks!

Productivity Growth Tends To Be Relatively Weak During Fourth Turnings

Fourth Turnings — Nonfarm Productivity YoY



Nonfarm Productivity YoY



8.0%
7.0%
6.0%
5.0%
4.0%
3.0%
2.0%
1.0%
0.0%
-1.0%
-2.0%
-3.0%

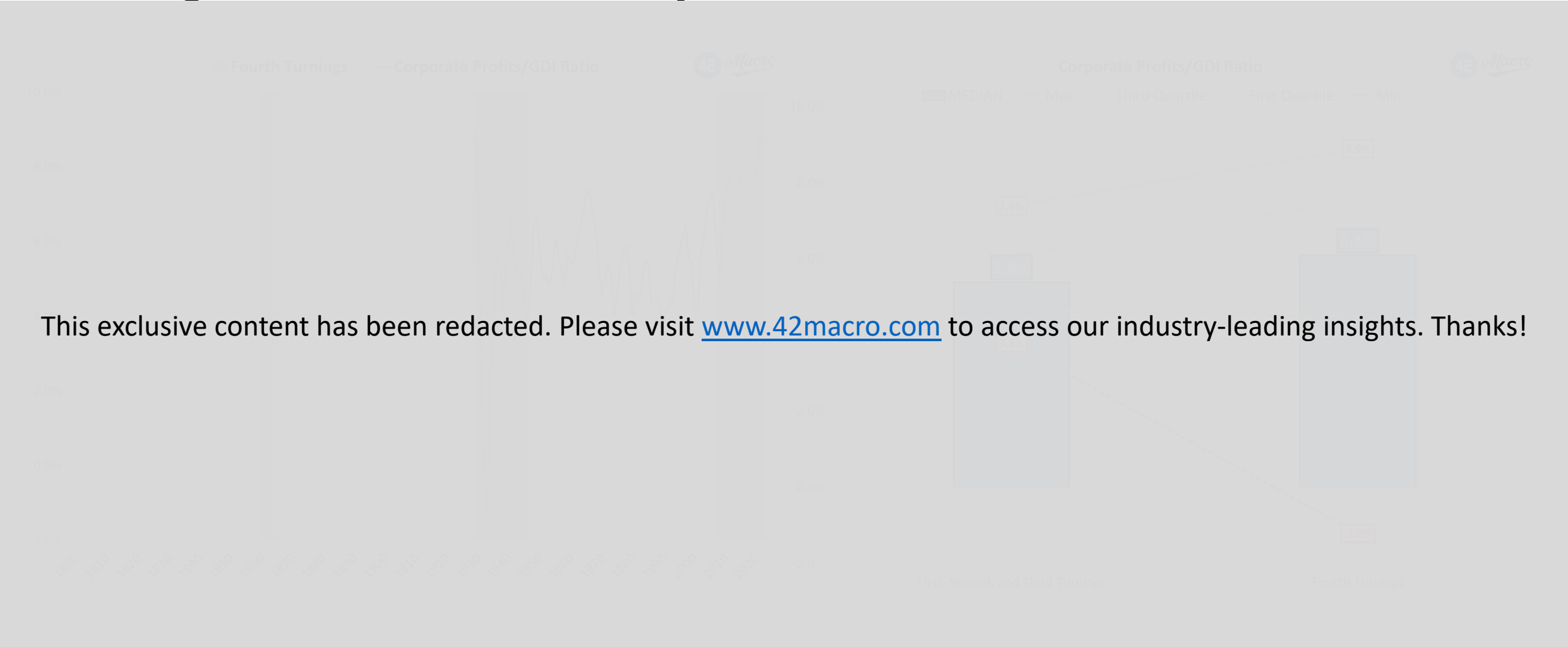
8.0%
7.0%
6.0%
5.0%
4.0%
3.0%
2.0%
1.0%
0.0%
-1.0%
-2.0%
-3.0%

MEDIAN Max Third Quartile First Quartile Min

This exclusive content has been redacted. Please visit www.42macro.com to access our industry-leading insights. Thanks!

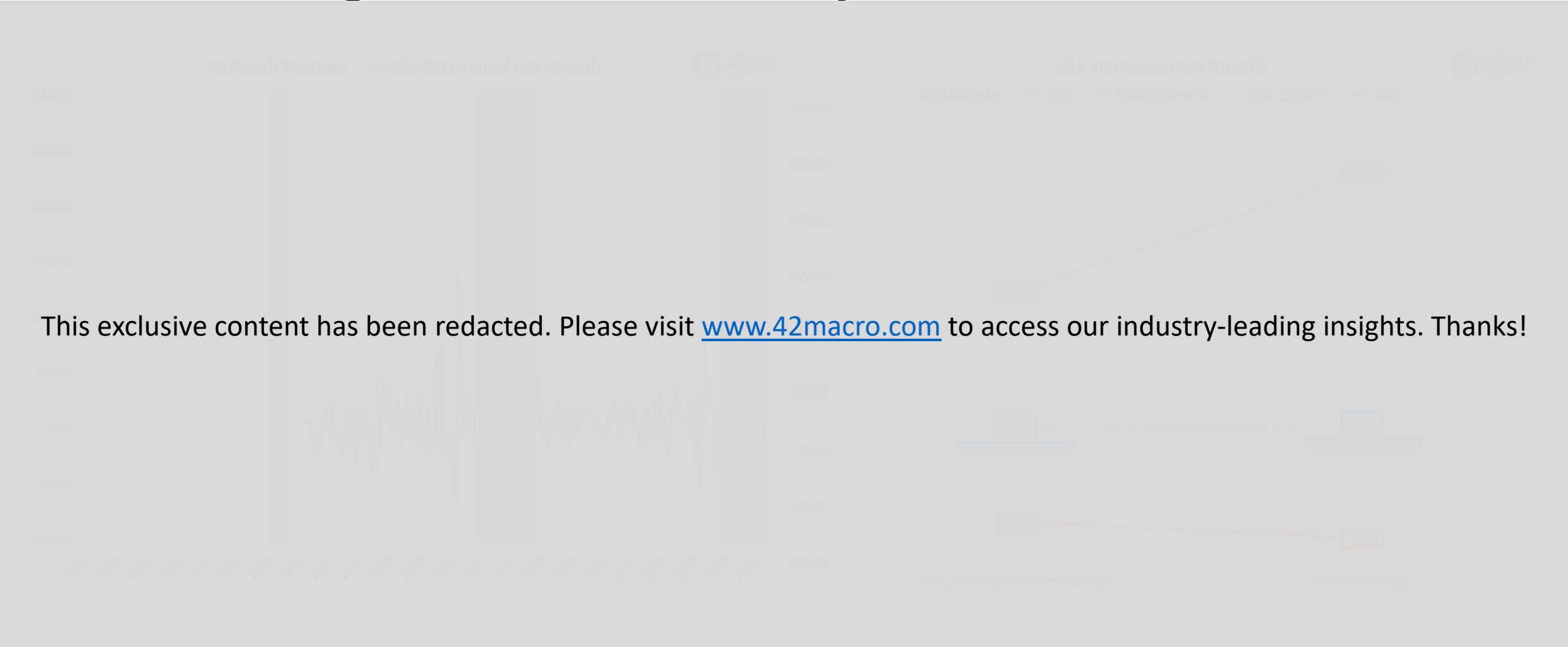
First, Second, and Third Turnings Fourth Turnings

Corporate Profitability Tends To Be Relatively Strong During Fourth Turnings With More Volatility



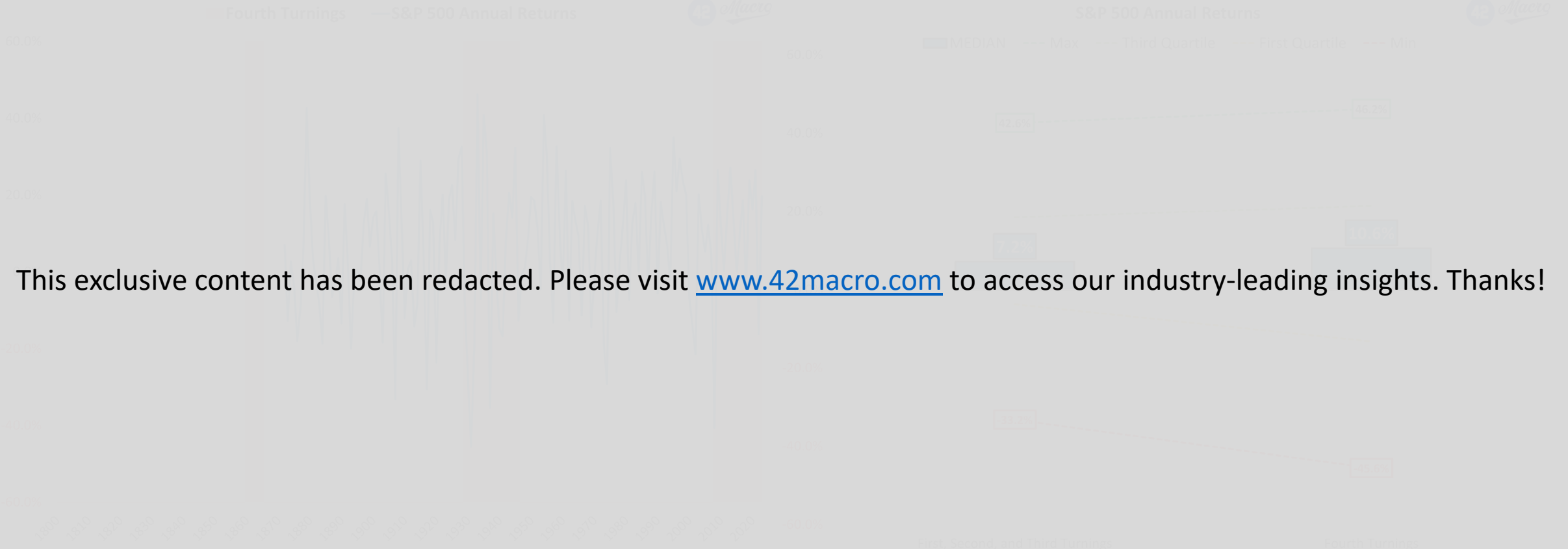
This exclusive content has been redacted. Please visit www.42macro.com to access our industry-leading insights. Thanks!

S&P 500 Earnings Growth Tends To Be Relatively Strong During Fourth Turnings With More Volatility



This exclusive content has been redacted. Please visit www.42macro.com to access our industry-leading insights. Thanks!

S&P 500 Returns Tend To Be Relatively Strong During Fourth Turnings With More Volatility



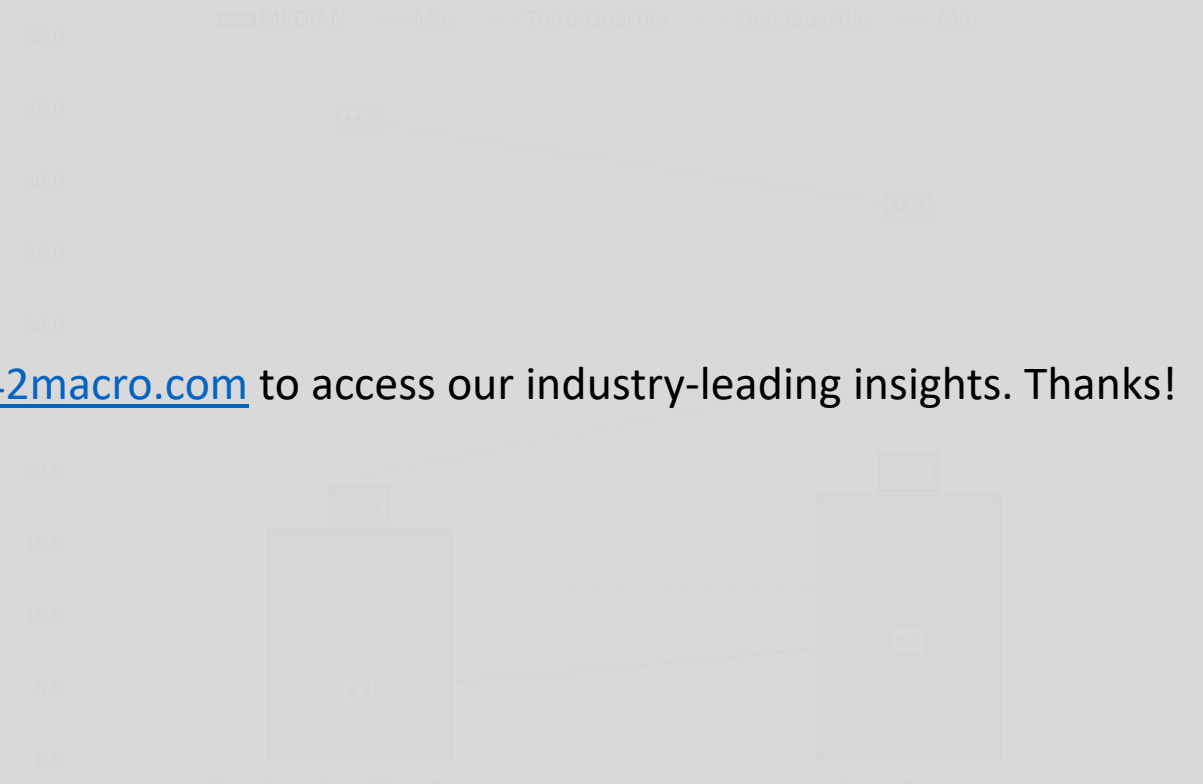
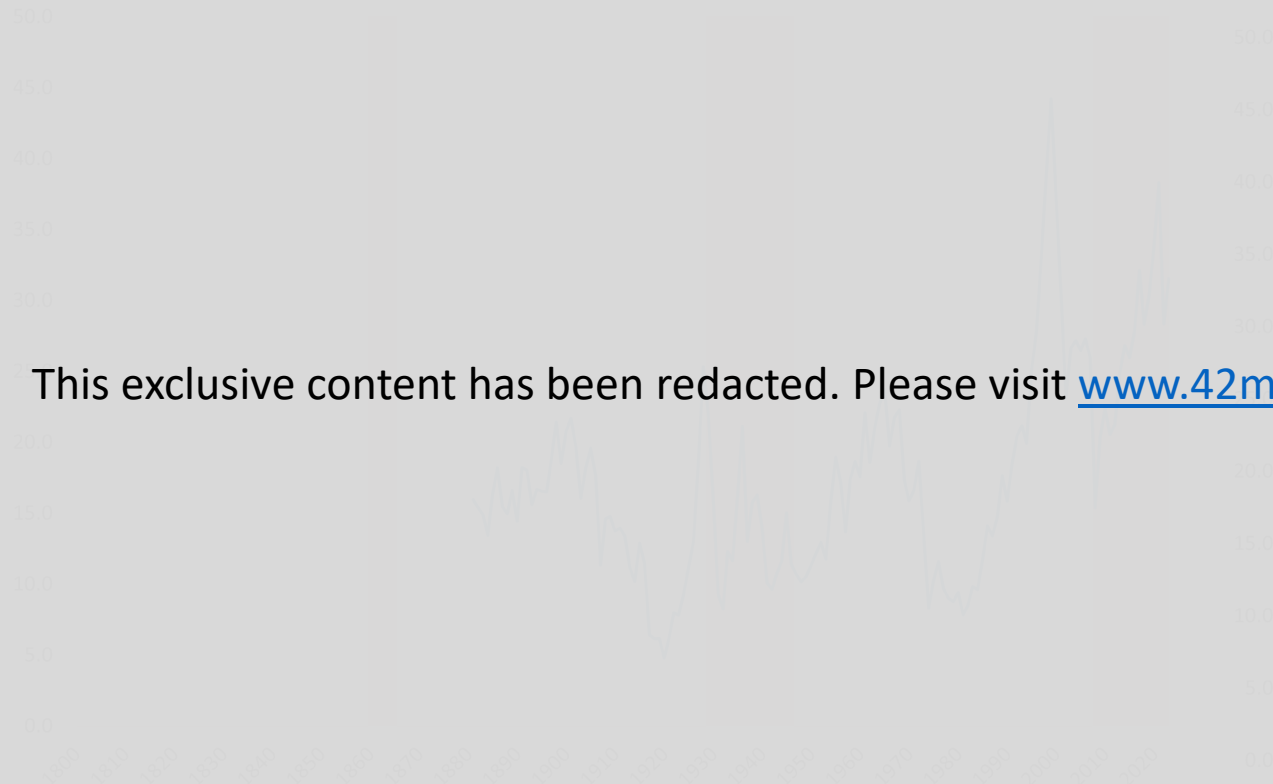
This exclusive content has been redacted. Please visit www.42macro.com to access our industry-leading insights. Thanks!

S&P 500 Valuations Tend To Be Relatively Strong During Fourth Turnings

Fourth Turnings — S&P 500 CAPE Ratio



S&P 500 CAPE Ratio



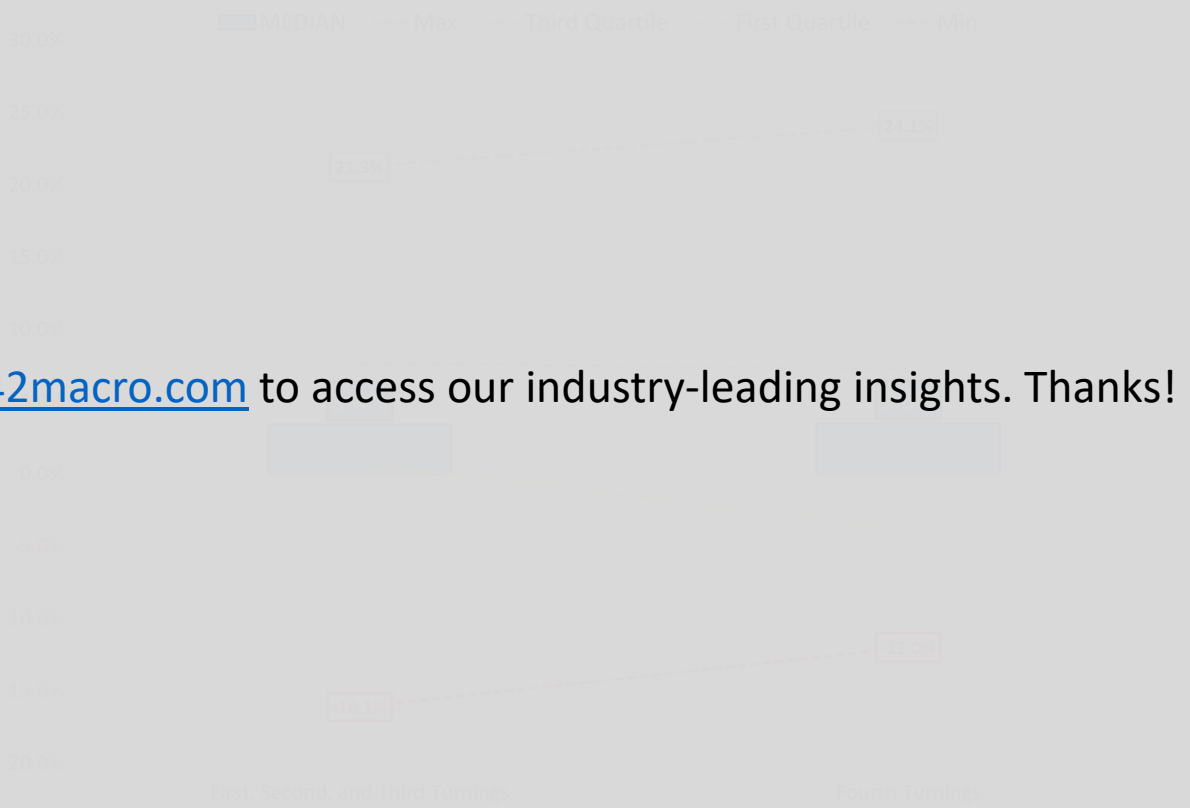
This exclusive content has been redacted. Please visit www.42macro.com to access our industry-leading insights. Thanks!

Nominal Home Price Growth Tends To Accelerate Sharply During Fourth Turnings

Fourth Turnings — Annual Nominal Home Price Growth



Annual Nominal Home Price Growth



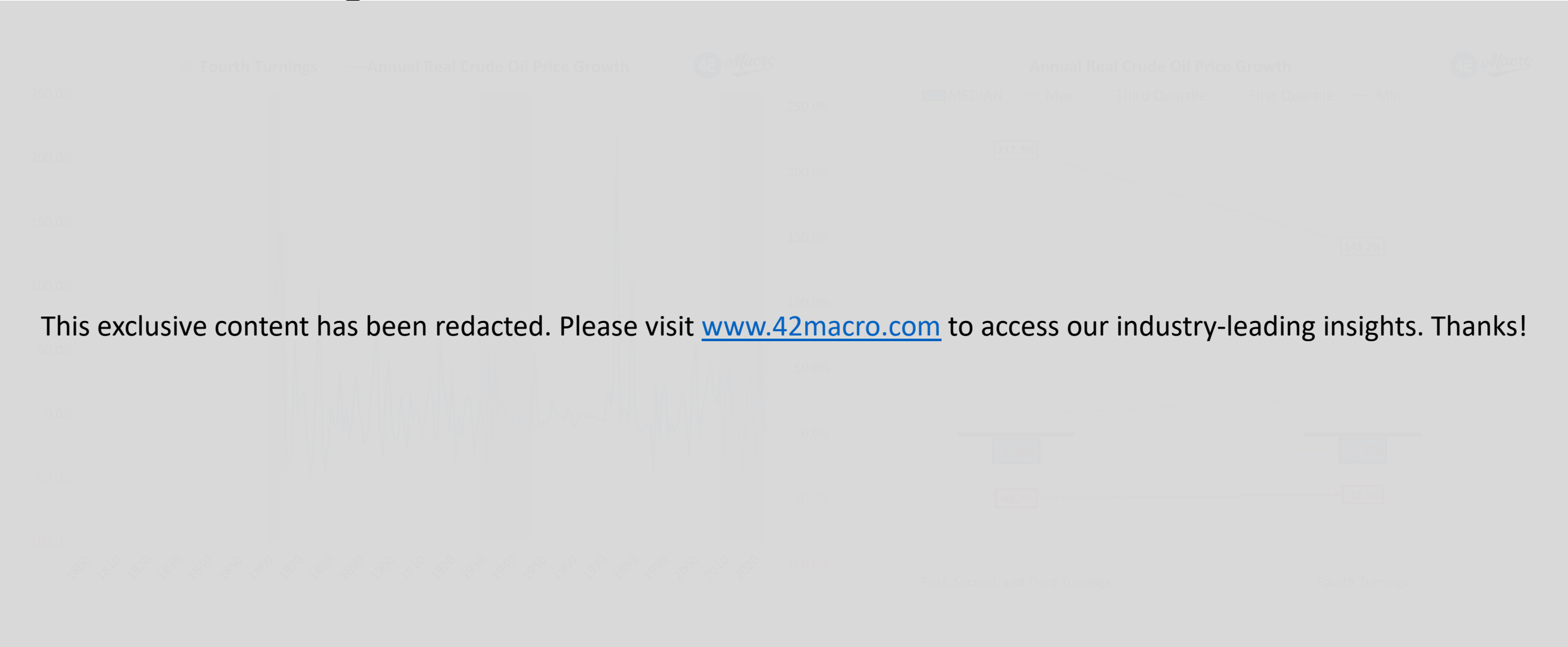
This exclusive content has been redacted. Please visit www.42macro.com to access our industry-leading insights. Thanks!

Key Fourth Turning Geopolitical Risks: Declining Birth Rates, Increased Trade Protectionism, Total War, And Eventually, A Structural Downtrend In Income Inequality

Metric	Fourth Turning Median vs. Baseline	Current Fourth Turning Data?
Top 10% Share of National Income	↑	↑
Real Crude Oil Price YoY	↓	n/a
Fertility Rate	↓	↓
Immigration YoY	↓	n/a
Trade/GDP Ratio	↓	↓
Global War Deaths	↑	↑

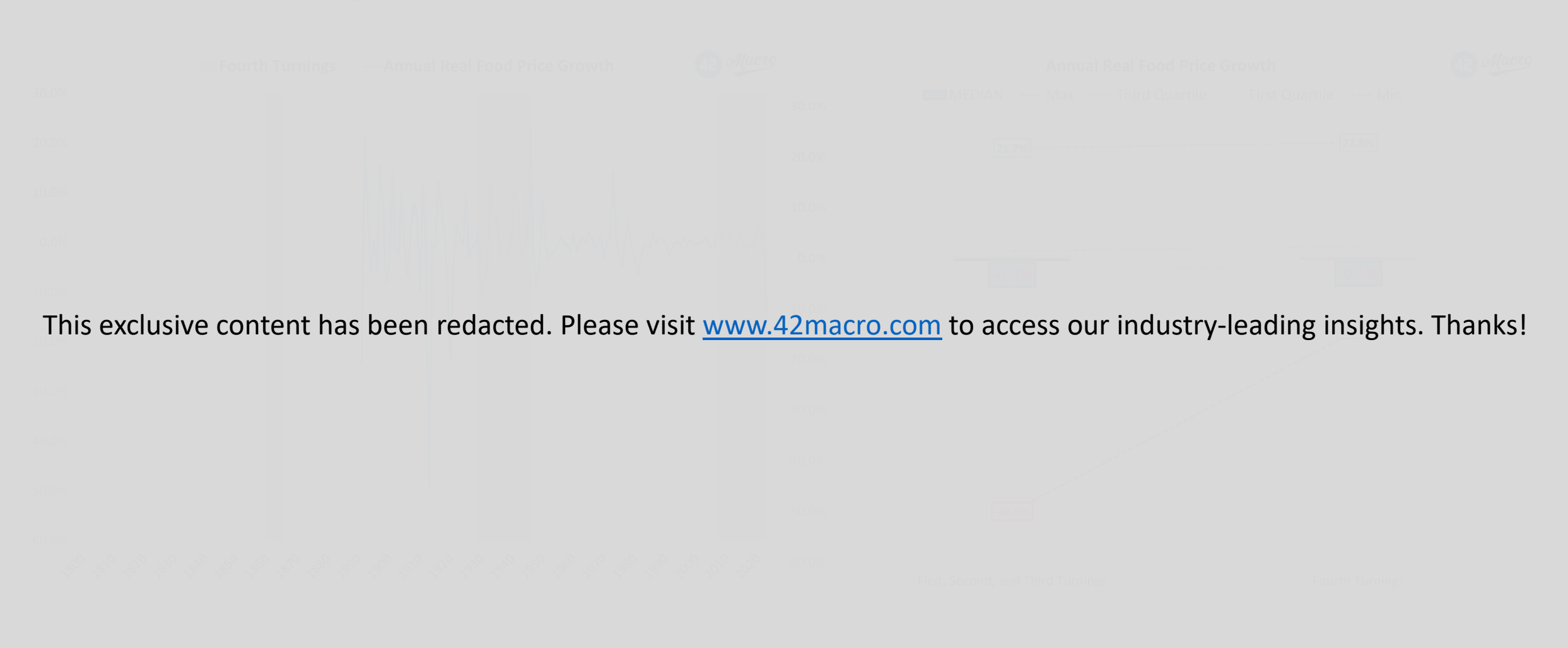
This exclusive content has been redacted. Please visit www.42macro.com to access our industry-leading insights. Thanks!

Real Crude Oil Price Growth Tends To Be Relatively Stable During Fourth Turnings



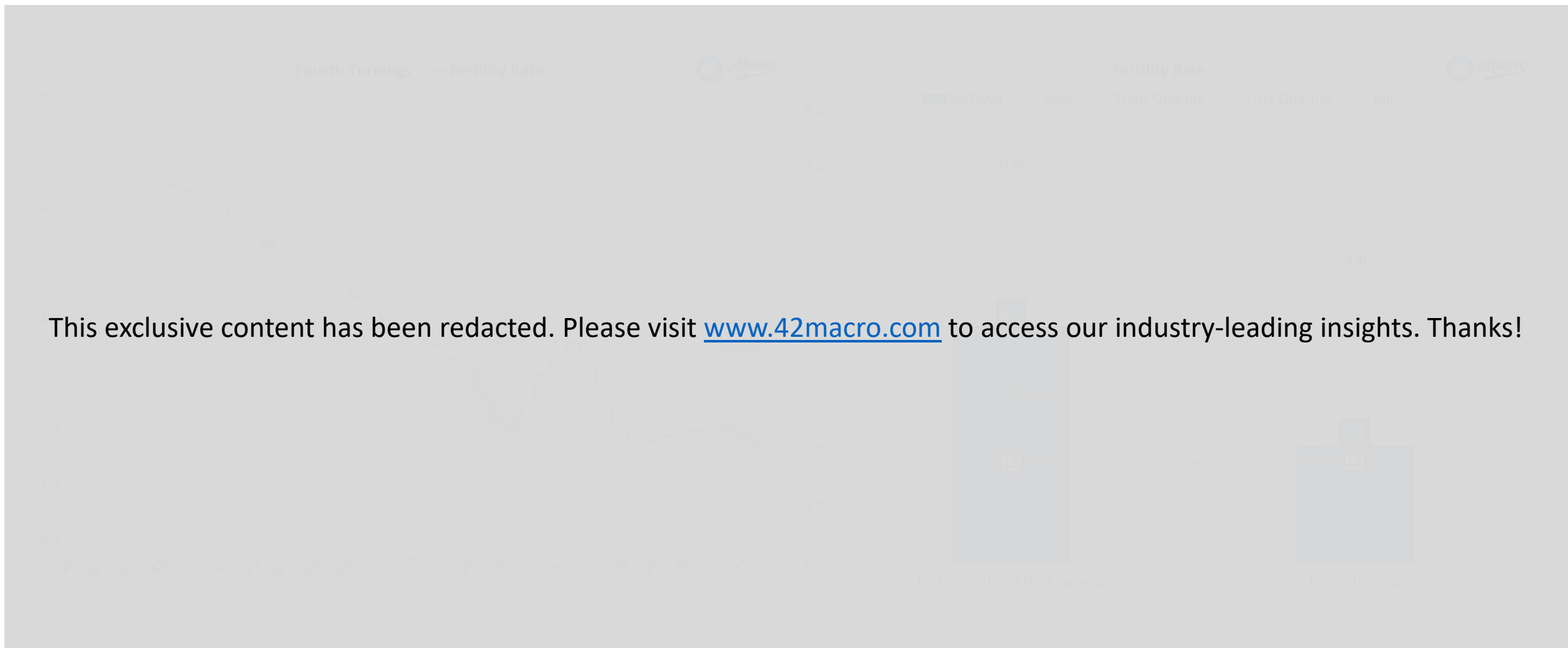
This exclusive content has been redacted. Please visit www.42macro.com to access our industry-leading insights. Thanks!

Real Food Prices Growth Tends To Be Relatively Stable During Fourth Turnings



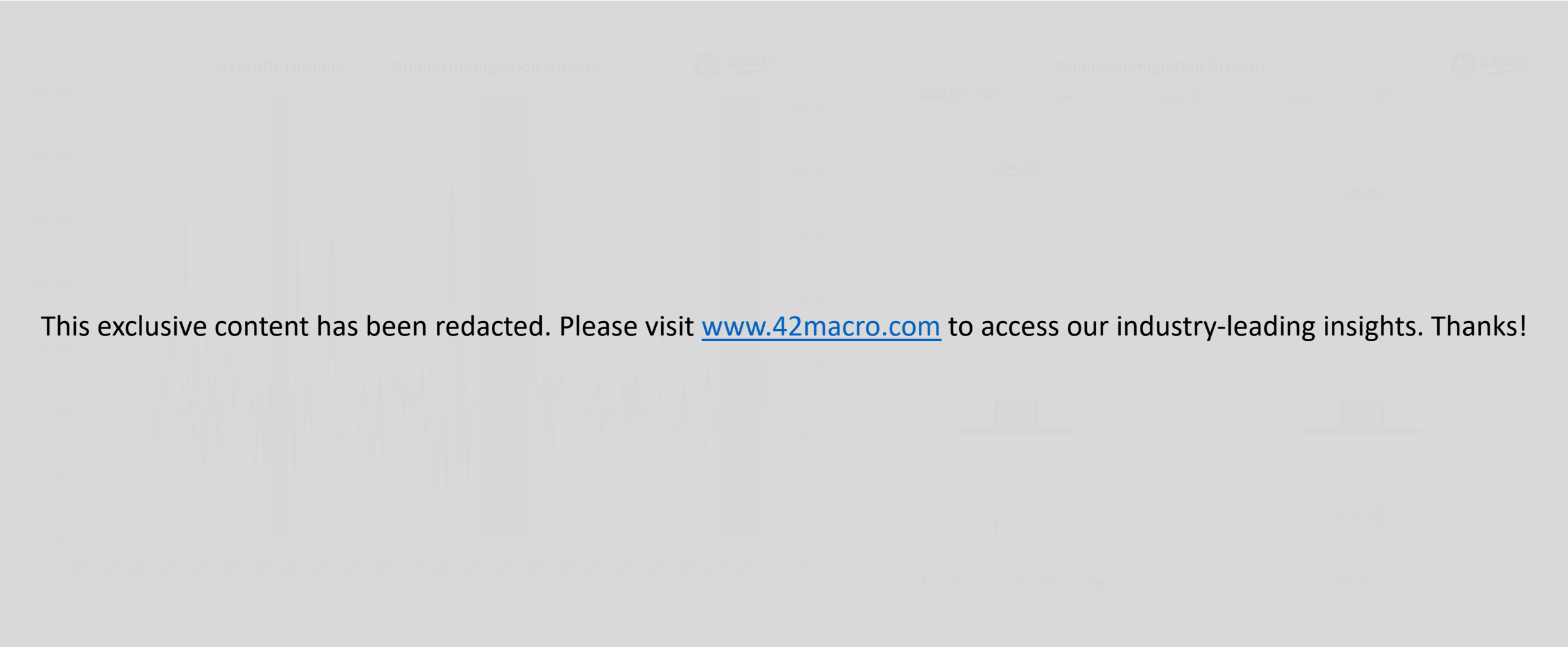
This exclusive content has been redacted. Please visit www.42macro.com to access our industry-leading insights. Thanks!

Fertility Rates Tend To Decline Sharply During Fourth Turnings



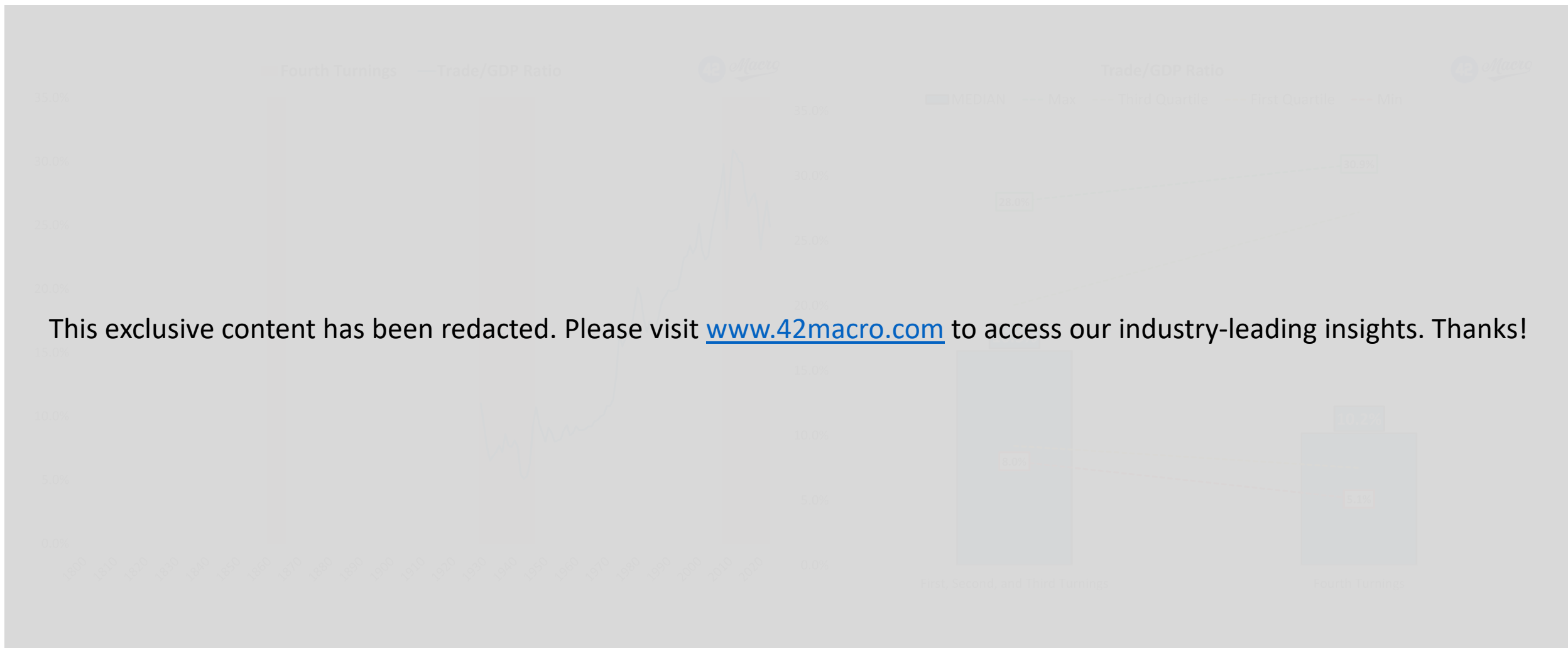
This exclusive content has been redacted. Please visit www.42macro.com to access our industry-leading insights. Thanks!

Immigration Tends To Be Relatively Weak During Fourth Turnings



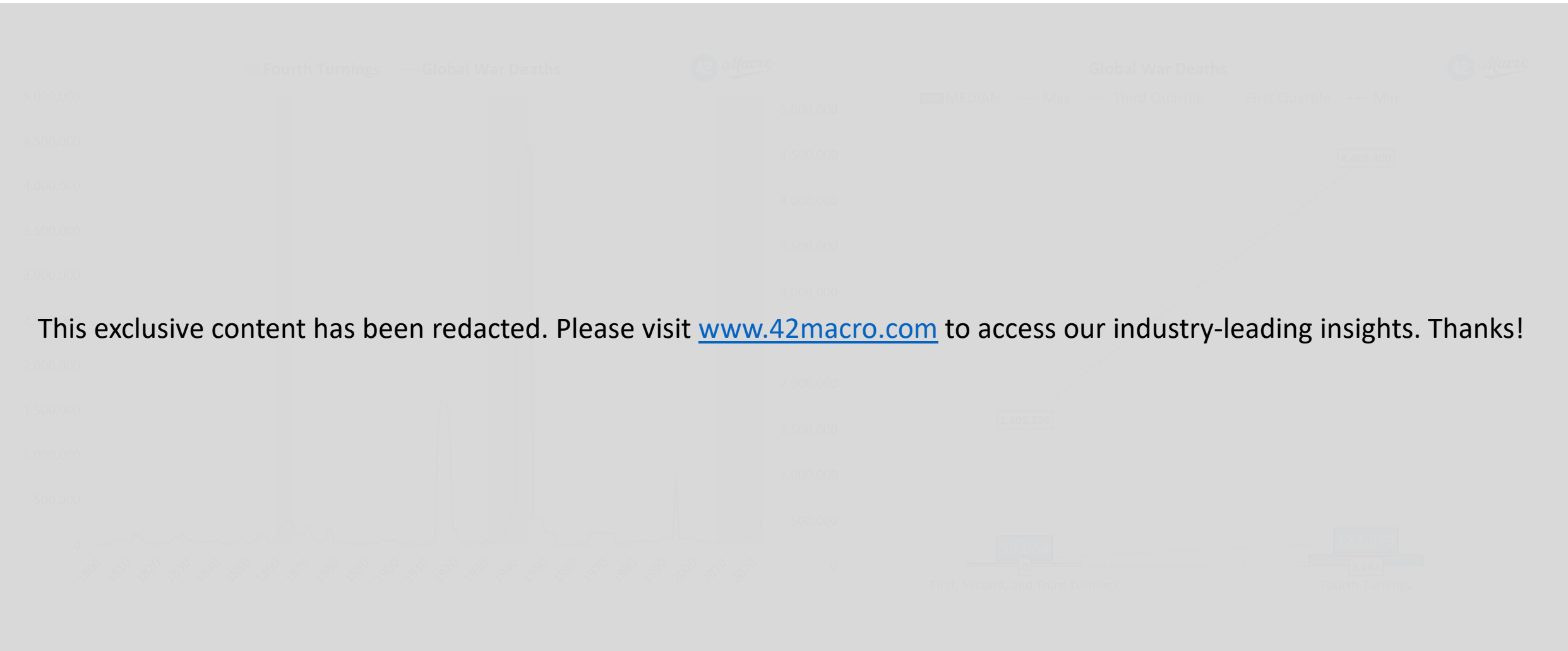
This exclusive content has been redacted. Please visit www.42macro.com to access our industry-leading insights. Thanks!

Trade Tends To Decline Sharply During Fourth Turnings



This exclusive content has been redacted. Please visit www.42macro.com to access our industry-leading insights. Thanks!

Wars Tend To Accelerate Globally During Fourth Turnings



This exclusive content has been redacted. Please visit www.42macro.com to access our industry-leading insights. Thanks!

Every Fourth Turning In Modern Anglo-American History Has Featured Total War

Seculum	First Turning (High)	Second Turning (Awakening)	Third Turning (Unraveling)	Fourth Turning (Crisis)
Late Medieval			Retreat from France (1435-1455)	War of the Roses (1455-1487)
Tudor	Tudor Renaissance (1487-1525)	Protestant Reformation (1525-1551)	Intolerance & Martyrdom (1551-1563)	Armada Crisis (1563-1597)
New World	Merrie England (1597-1621)	Puritan Awakening (1621-1649)	Reaction & Restoration (1649-1675)	Glorious Revolution (1675-1706)
This exclusive content has been redacted. Please visit www.42macro.com to access our industry-leading insights. Thanks!				
Civil War	Era of Good Feelings (1794-1822)	Transcendental Awakening (1822-1844)	Mexican War & Sectionalism (1844-1860)	Civil War (1860-1865)
Great Power	Reconstruction & Gilded Age (1865-1886)	Third Great Awakening (1886-1908)	World War I & Prohibition (1908-1929)	Great Depression & World War II (1929-1946)
Millennial	American High (1946-1964)	Consciousness Revolution (1964-1984)	Culture Wars (1984-2008)	Millennial Crisis (2008-2033?)

Income Inequality Tends To Decline Sharply From Extremely Elevated Levels Late In The Fourth Turning Process

Fourth Turnings — Top-10% Share of National Income



Top-10% Share of National Income



55.0%

50.0%

45.0%

40.0%

35.0%

30.0%



60.0%

50.0%

40.0%

20.0%

10.0%

0.0%

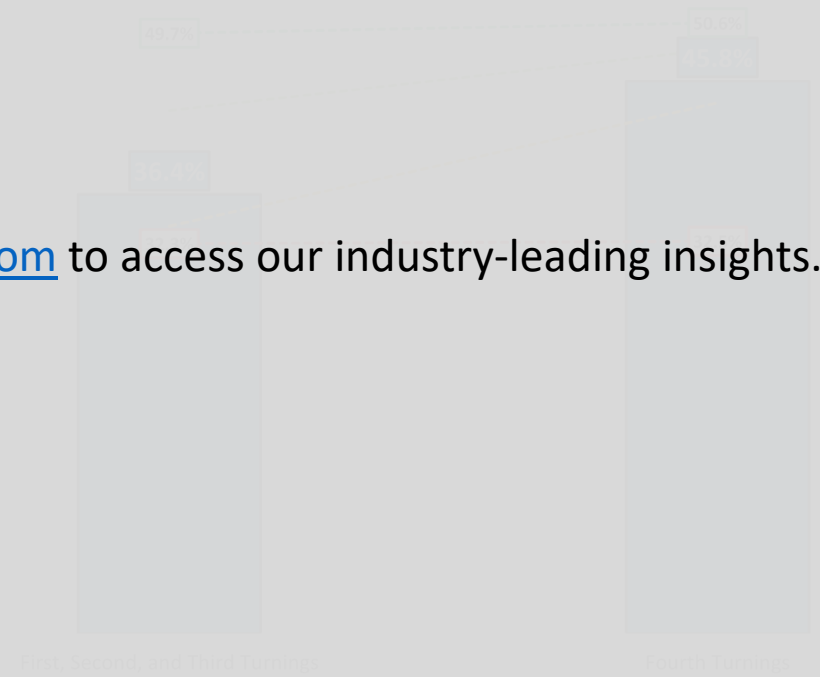
MEDIAN

Max

Third Quartile

First Quartile

Min



This exclusive content has been redacted. Please visit www.42macro.com to access our industry-leading insights. Thanks!

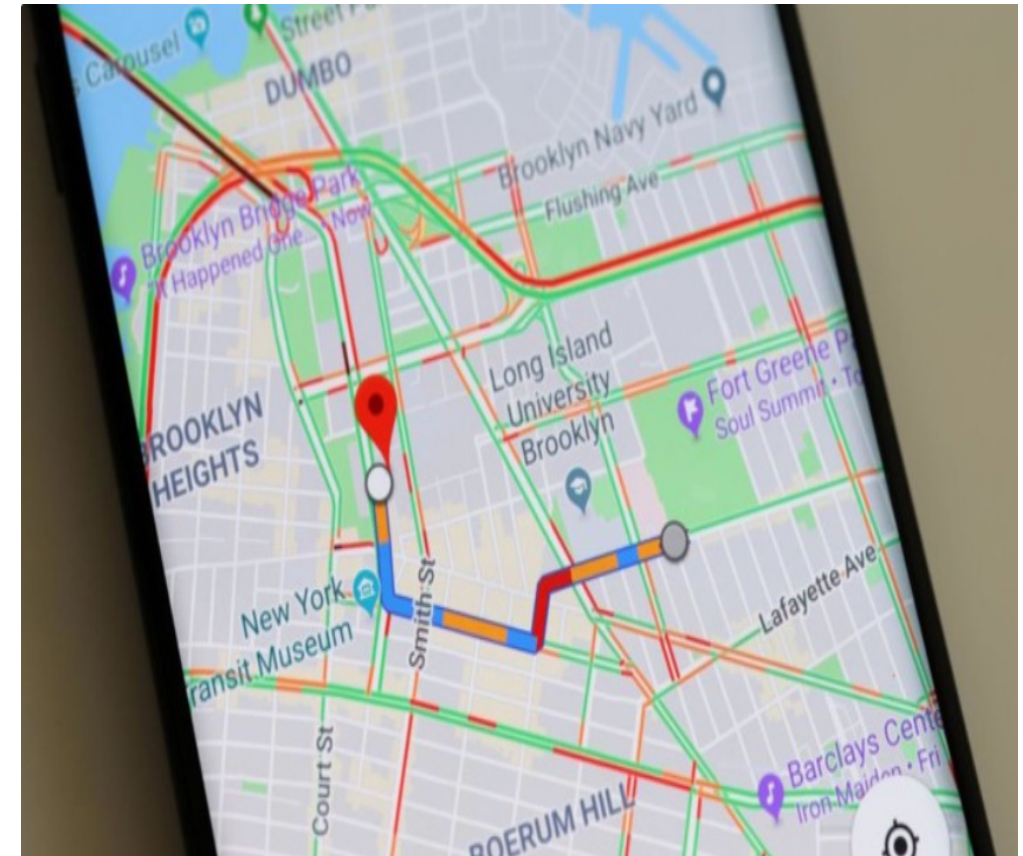
Appendix: Overcoming Behavioral Heuristics

The 42 Macro Risk Management Process Is Orthogonal And Likely Additive To Your Investment Process

How Most Investors Manage Risk:
Responding To Failed Predictions



How 42 Macro Manages Risk:
Responding To Bayesian Observations



© 42 Macro LLC. Images sourced from Google. **Most investors failed to predict the most important macro catalyst in each of the past six years:**
2019: COVID-19 in 2020; **2020:** vaccine-and-stimulus-fueled jump condition from the COVID crisis to a booming economy in 2021;
2021: the jump condition to a ~40yr high in inflation in 2022; **2022:** the jump condition from a technical recession to a booming US economy in 2023;
2023: the jump condition from a deflationary regional banking crisis and a ~40yr high in the Fed Funds Rate to a boom in asset markets in 2024; and
2024: the jump condition from Paradigm A to Paradigm B and the jump condition from Paradigm B to Paradigm C in 2025.

Why The 42 Macro Risk Management Process Works

- **Regime Segmentation:** *“I knew which shifts in the environment caused asset classes to move around, and I knew that those relationships had remained essentially the same for hundreds of years. There were only two big forces to worry about: growth and inflation. Each could be rising or falling, so I saw that by finding four different investment strategies – each one of which would do well in a particular environment (rising growth with rising inflation, rising growth with falling inflation, and so on) – I could construct an asset allocation mix that was balanced to do well over time while being protected against unacceptable losses.”*
–Ray Dalio, Principles pg. 70
- **Bayesian Inference:** *“Subjective confidence in a judgment is not a reasoned evaluation of the probability that this judgment is correct. Confidence is a feeling, which reflects the coherence of the information and the cognitive ease of processing it. It is wise to take admissions of uncertainty serious, but declarations of high confidence mainly tell you that an individual has constructed a coherent story in his mind, not necessarily that the story is true.”*
–Danny Kahneman & Amos Tversky, Thinking, Fast and Slow pg. 212
- **Volatility as a Leading Indicator for Price:** *“You cannot beat the market, says the standard market doctrine. Granted. But you can sidestep its worst punches.”*
–Benoit Mandelbrot, The (Mis)Behavior of Markets pg. 249

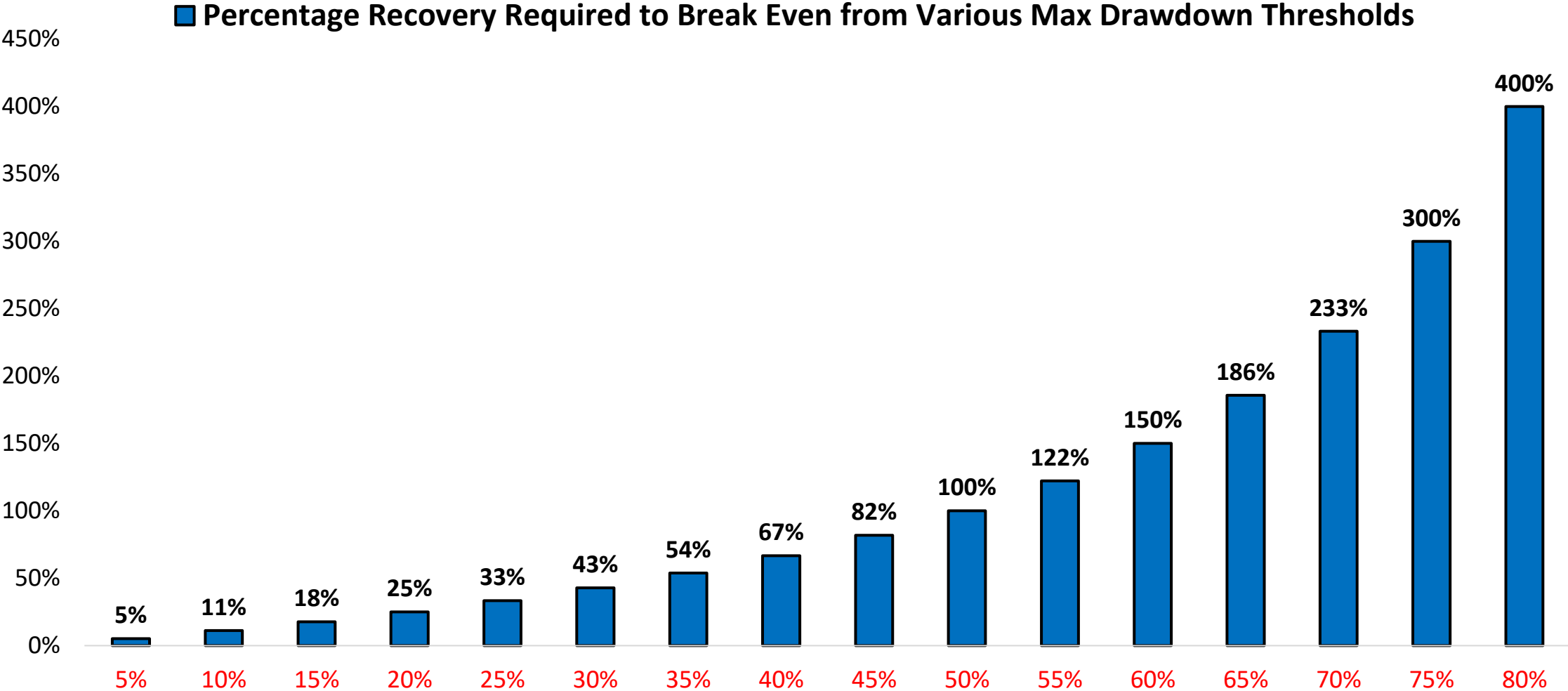
Common Behavioral Heuristics That Prevent Investors From Achieving Their Strategic Investment Objectives, Part I

- **Action Bias:** The action bias describes our tendency to favor action over inaction. Source: <https://thedecisionlab.com/biases/action-bias>
- **42 Macro Solution:** Clear risk management signals that communicate DO NOTHING when there is no change in the signal and TAKE ACTION only when the signal changes.
- **Availability Heuristic:** The availability heuristic describes our tendency to use information that comes to mind quickly and easily when making decisions about the future. Source: <https://thedecisionlab.com/biases/availability-heuristic>
- **42 Macro Solution:** Daily refreshes of our [Quantitative Risk Management Summary](#) and [Fundamental Research Summary](#).
- **Confirmation Bias:** The confirmation bias describes our underlying tendency to notice, focus on, and give greater credence to evidence that fits with our existing beliefs. Source: <https://thedecisionlab.com/biases/confirmation-bias>
- **42 Macro Solution:** Consistently performing research on the full distribution of probable economic outcomes in the Growth, Inflation, Monetary Policy, Fiscal Policy, Liquidity, and Positioning sections of our monthly Macro Scouting Report presentations, as well as reviewing every meaningful economic release in our daily Leadoff Morning Note — bullish or bearish.
- **Disposition Effect:** The disposition effect refers to our tendency to prematurely sell assets that have made financial gains, while holding on to assets that are losing money. Source: <https://thedecisionlab.com/biases/disposition-effect>
- **42 Macro Solution:** The Top-Down and Bottom-Up Risk Management Overlays featured in our KISS Model Portfolio help investors block out countercyclical noise to maximize upside capture in bull markets and minimize downside capture in bear markets.
- **Hindsight Bias:** The hindsight bias describes our tendency to look back at an unpredictable event and think it was easily predictable. Source: <https://thedecisionlab.com/biases/hindsight-bias>
- **42 Macro Solution:** Consistently thorough discussions regarding the then-consensus narratives and positioning dynamics of past market cycles, as well as backtesting each of our quantitative risk management signals and econometric models on a rolling out-of-sample basis.
- **Hyperbolic Discounting:** Hyperbolic discounting is our inclination to choose immediate rewards over rewards that come later, even when these immediate rewards are smaller. Source: <https://thedecisionlab.com/biases/hyperbolic-discounting>
- **42 Macro Solution:** Avoiding frameworks that [often erroneously] attempt to predict every wiggle in the stock market, such as dealer flows, CTA positioning, etc.
- **Illusion of Explanatory Depth:** The illusion of explanatory depth describes our belief that we understand more about the world than we actually do. Source: <https://thedecisionlab.com/biases/the-illusion-of-explanatory-depth>
- **42 Macro Solution:** The six principal component features in our [Macro Weather Model](#) (i.e., the Growth, Inflation, Monetary Policy, Fiscal Policy, Liquidity, and Positioning cycles) — which we refresh daily — remind investors that the oft-esoteric topics being discussed on Twitter/X, TikTok, and other social media platforms are not the only drivers of asset markets.

Common Behavioral Heuristics That Prevent Investors From Achieving Their Strategic Investment Objectives, Part II

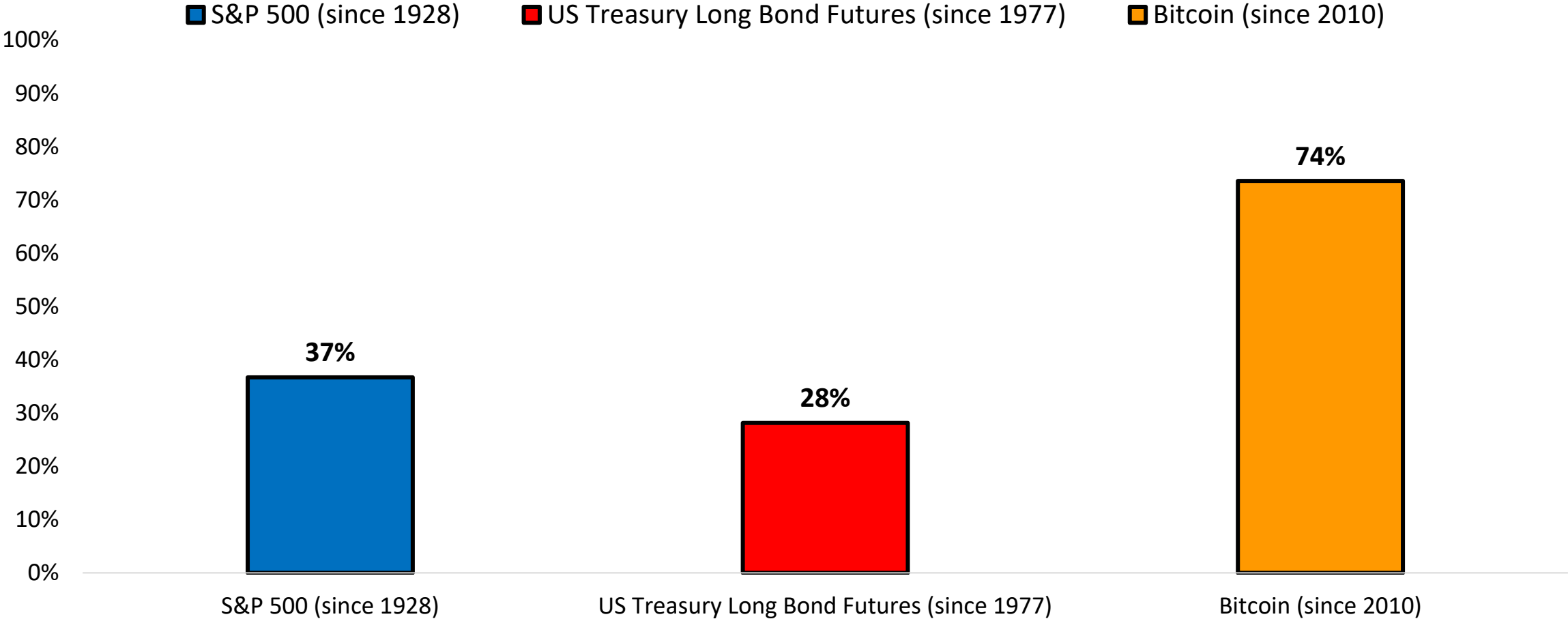
- **Illusion of Validity:** The illusion of validity is a cognitive bias that describes our tendency to be overconfident in the accuracy of our predictions. Source: <https://thedecisionlab.com/biases/illusion-of-validity>
- **42 Macro Solution:** An institutional research process that is heavy on observation and light on predictions. When we do make predictions, they are generated by models that apply proven quantitative techniques to time series that span multiple economic and market cycles, while also quantifying and proudly publishing the error rate of each of our econometric models.
- **Myopic Loss Aversion:** Myopic loss aversion is a cognitive bias that occurs when investors take a view of their investments that is strongly focused on the short term, leading them to react too negatively to recent losses, which may be at the expense of long-term benefits. Source: <https://www.behavioraleconomics.com/resources/mini-encyclopedia-of-be/myopic-loss-aversion>
- **42 Macro Solution:** Clear risk management signals that communicate DO NOTHING when there is no change in the signal and TAKE ACTION only when the signal changes. Asset markets tend to appreciate over time, so our general disposition toward them is “fully invested, until a risk management signal instructs us to book gains.”
- **Negativity Bias:** The negativity bias is a cognitive bias that results in adverse events having a more significant impact on our psychological state than positive events. Source: <https://thedecisionlab.com/biases/negativity-bias>
- **42 Macro Solution:** Avoiding bear porn at all costs – even to the point of ridiculing it publicly. Asset markets tend to appreciate over time, so our general disposition toward them is “fully invested, until a risk management signal instructs us to book gains.”
- **Optimism Bias:** The optimism bias refers to our tendency to overestimate our likelihood of experiencing positive events and underestimate our likelihood of experiencing negative events. Source: <https://thedecisionlab.com/biases/optimism-bias>
- **42 Macro Solution:** An institutional risk management process that values being the second investor in a confirmed trade more than being first in a trade that may or may not come to fruition.
- **Recency Bias:** The recency bias refers to our tendency to better remember and recall information presented to us most recently, compared to information we encountered earlier. Source: <https://thedecisionlab.com/biases/recency-effect>
- **42 Macro Solution:** Only making marginal changes to our [Fundamental Research Summary](#) when new data builds or erodes our conviction in a theme, rather than making wholesale changes.
- **Sunk Cost Fallacy:** The sunk cost fallacy is our tendency to follow through on something that we’ve already invested heavily in (be it time, money, effort, emotional energy, etc.), even when giving up is clearly a better idea. Source: <https://thedecisionlab.com/dailybiases/the-sunk-cost-fallacy>
- **42 Macro Solution:** Proven risk management signals that help investors dispassionately book small losses before they turn into big losses.
- **Zero Risk Bias:** Zero risk bias relates to our preference for absolute certainty. Source: <https://thedecisionlab.com/biases/zero-risk-bias>
- **42 Macro Solution:** Having enough humility to avoid declarations of certainty and/or extreme confidence regarding our predictions at all costs. No reputable institutional investor speaks with certainty about the future, and you shouldn’t either.

The Three Most Important Concepts In Investing: Rule #1 = Don't Lose Money



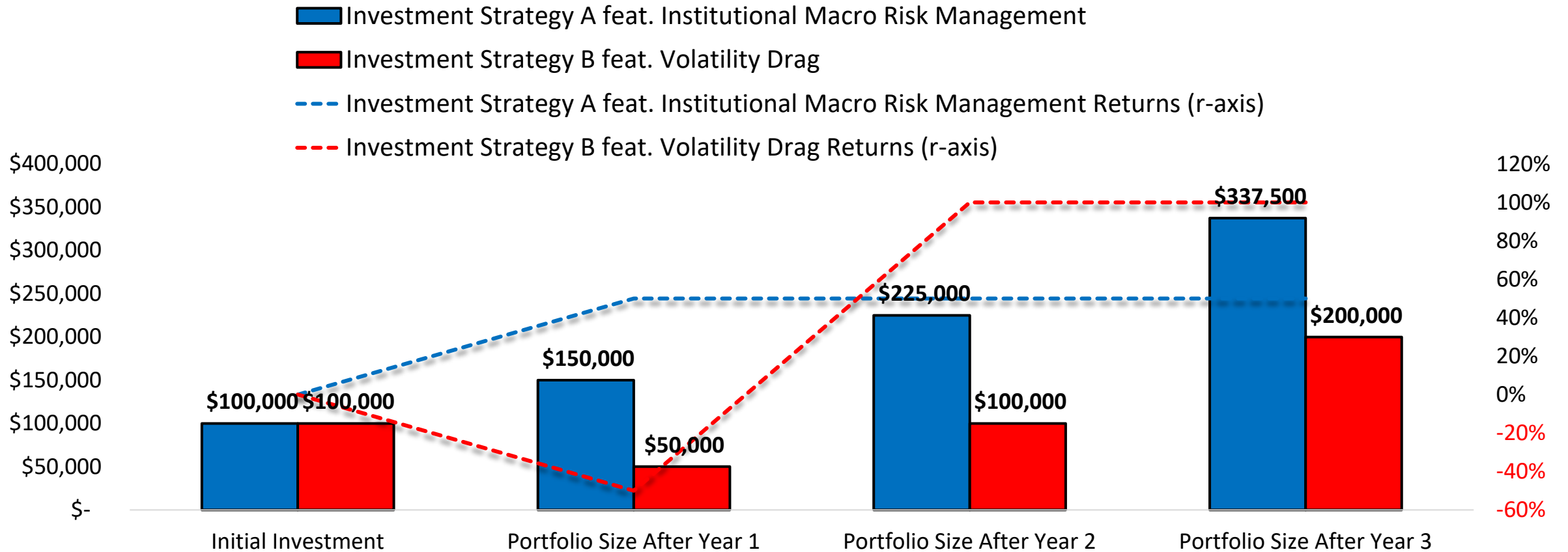
The Three Most Important Concepts In Investing: Rule #2 = Do Not Invest Money You Cannot Afford To Lose

Percentage of Time **-20%** or More Off the Highs



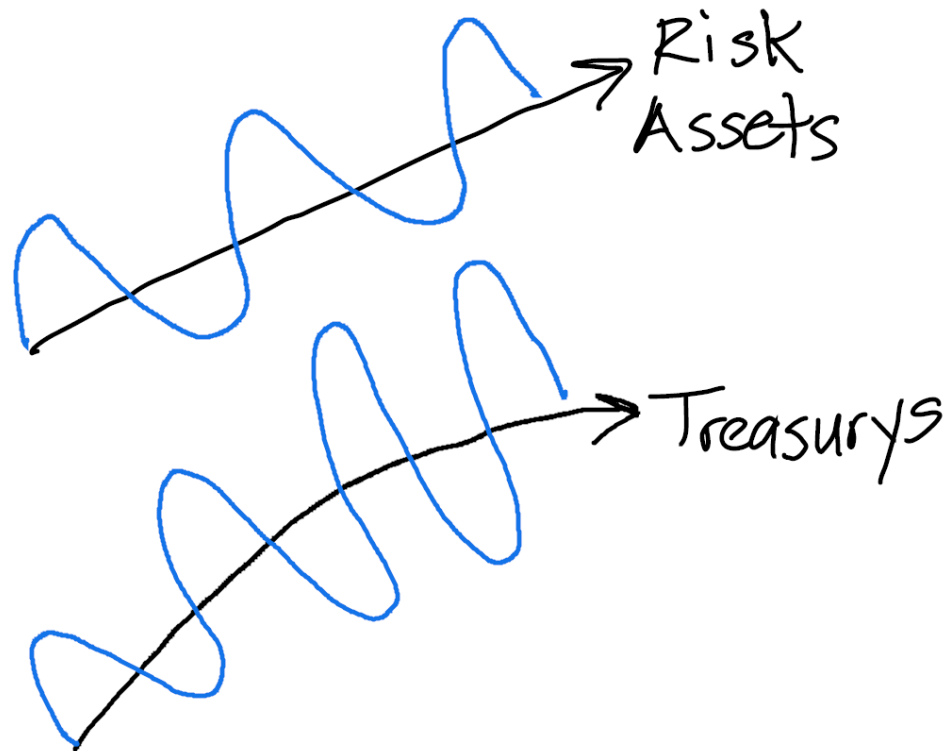
The Three Most Important Concepts In Investing: Rule #3 = The Journey Matters More To Your Financial, Mental, And Physical Health Than The Destination

Both Investment Strategies Feature Identical **+50%** Average Annual Returns.
Which One Do You Prefer?

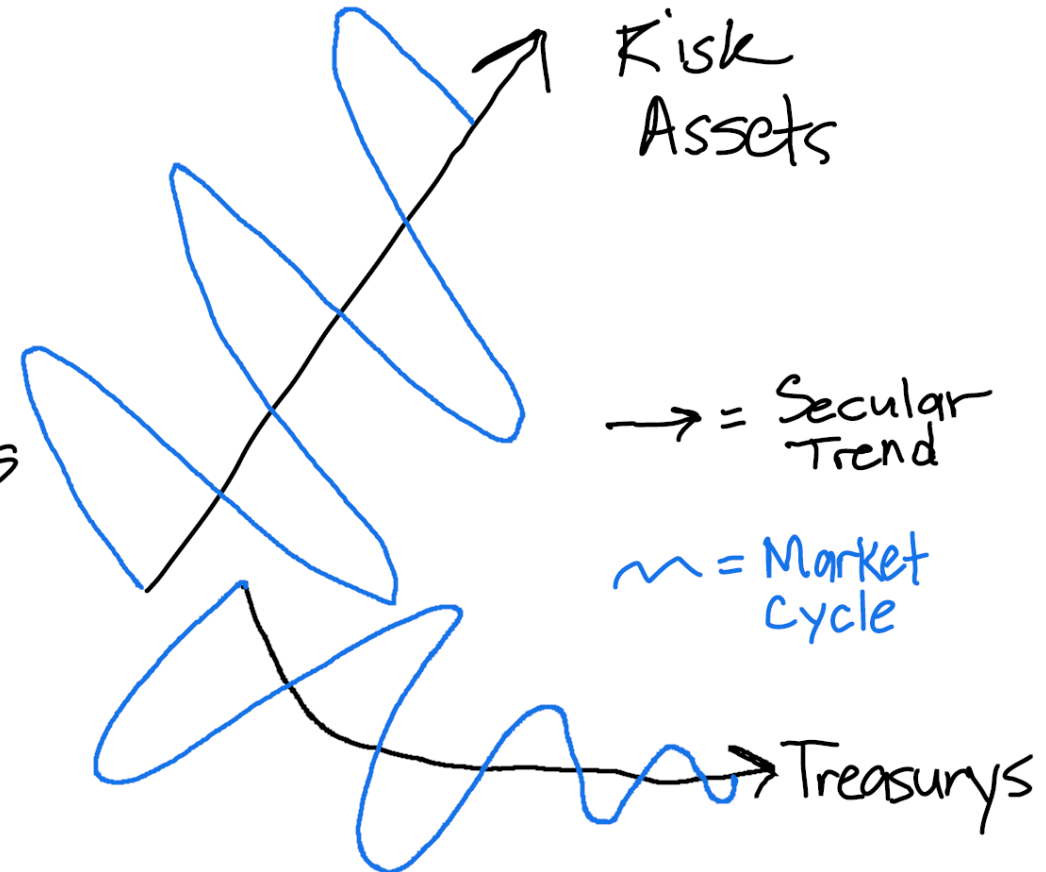


Risk Assets Tend To Appreciate Faster During Fourth Turnings, But Crashes Are More Frequent And Occur Each Time The Geopolitically Driven Supply-Demand Imbalance In The Treasury Bond Market Is Not Supported By Adequate Quantities Of Financial Repression And/Or Monetary Debasement

Asset Markets In A "Normal" Regime



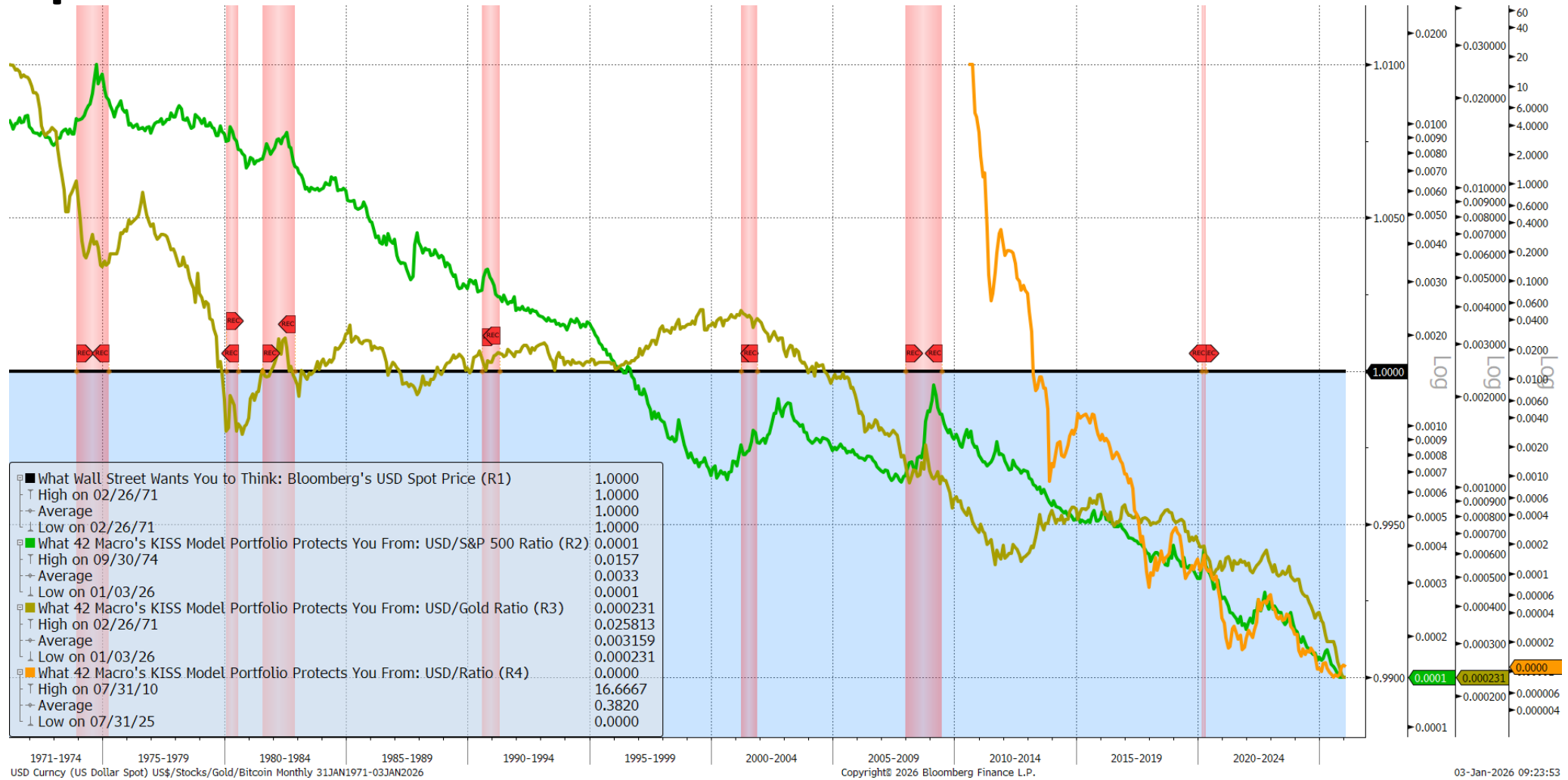
Asset Markets In A Fourth Turning Regime



We Are All Frogs Being Boiled Alive In A Pot Of Financial Repression And Monetary Debasement; KISS And Dr. Mo Will Make Your #FrogLife Better



Once You See This Chart, You Can't Unsee This Chart Or Unlearn Its Implications – Hence KISS



Thanks for reviewing.
See you next month!

New to 42 Macro research?

Take advantage of the following resources to speed up your learning journey:

KISS Model Portfolio FAQ:

<https://app.42macro.com/kiss>

Dr. Mo FAQ:

<https://app.42macro.com/drmo>

42 Macro Glossary:

<https://app.42macro.com/glossary>

The Macro Class:

<https://app.42macro.com/macroclass>

Fourth Turning FAQ:

<https://app.42macro.com/fourthturning>