Capital Risk

Confidence Meets Constraints

Global Portfolio Strategy
Fourth Quarter 2025

Jason Prole DBA CFA

For those who seek clarity in volatility and value in discipline.

On Confidence and Capital

Focus *creates clarity.*

Efficient *capital follows truth, not trend.*

Seek *value where others see volatility.*

Trust *must be earned again: in policy, in price, in purpose.*

Inspire *resilience by grounding optimism in evidence.*

Value *conviction only when it is measured.*

Align *portfolios with principles, not fashion.*

Lead *with discipline: the final expression of confidence.*

Cover Art: *Caspar David Friedrich*, **The Monk by The Sea**, 1808.

Capital Risk

GLOBAL PORTFOLIO STRATEGY

Confidence Meets Constraints

Navigating Constraints. The global economy is in a state of balance rather than stress. Growth persists, markets function, and volatility remains contained. Yet beneath this surface stability, the terms of participation have changed. Capital is no longer abundant and indiscriminate; it is available, *but conditional*. Across equities, fixed income, commodities, and currencies, markets are enforcing discipline where policy has postponed it. Assets tied to balance-sheet strength, pricing power, and funding durability continue to perform, while those dependent on leverage, duration, or optimistic refinancing assumptions face narrowing tolerance. This is not a transition driven by fear or contraction. *It is a repricing of endurance.* Confidence remains intact yet now meets constraint. Returns increasingly reflect structure rather than narrative, resilience rather than momentum. In this environment, leadership belongs to those able to operate under higher real rates, persistent fiscal absorption, and selective capital allocation. *The cycle has not ended. It has matured.*

> ***Markets are not withdrawing confidence. They are redefining its cost. Global equity markets confront elevated US and technology valuations amid heightened political volatility, narrowing the margin for error.***
>
> \- Jason Prole

Leaders	Change
International Value	+38.6
Emerging	+13.1
Global xUS Tech	+11.8
Laggards	
US REIT	-5.2%
US Small Growth	-4.5%
Oil	-3.4%

Asset	Change
Equities	+19.2
Bonds	+5.4
Commodities	+6.0
Equity Region	
EM	+31.7
Global xUS	+28.9
US	+13.3

P/E	Ratio
USA	28.7
Global xUS	17.1
EM	17.2
P/B	
USA	5.0
Global xUS	2.1
EM	2.0

Source: Valuation data is from MSCI. Total returns for 2025 were calculated by CRM from the corresponding ETF.

The Macro View

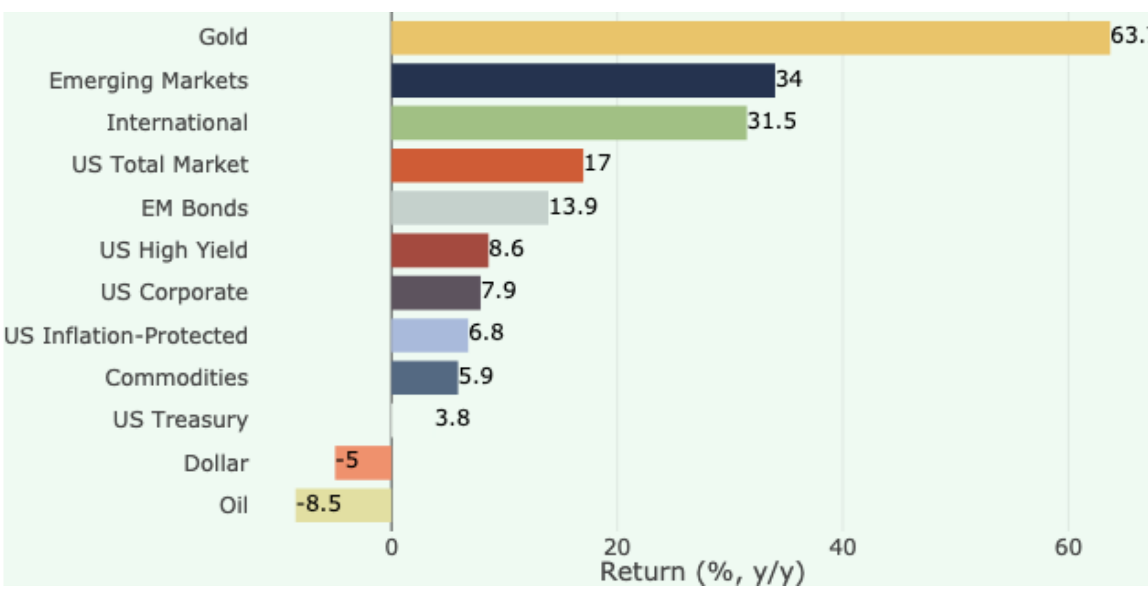
Confidence Constraint. The fourth quarter of 2025 confirms a shift already underway: markets are no longer rewarding conviction evenly. They are rewarding ***where capital is protected***, not where stories are loudest (notwithstanding the AI investment frenzy). The global performance dispersion this year makes that unmistakable.

Gold leads all major asset classes by a wide margin, delivering double-digit returns while traditional anchors, including US Treasuries, US corporates, and inflation-protected securities, barely register (Exhibit 1). This is not a flight from risk. It is a repricing of ***fiscal durability and policy persistence***. Gold's outperformance reflects demand for assets that sit outside expanding sovereign balance sheets, not fear of recession.

International and emerging market equities follow, outpacing the US total market despite weaker narratives. This divergence reflects a re-routing of growth sponsorship. Trade and capital flows have shifted toward economies still willing and able to intermediate global demand, while the US increasingly absorbs capital to finance deficits rather than to finance growth. Equity leadership is no longer synonymous with US exposure.

Gold leads as oil falls.

Exhibit 1. Asset Class Returns for 2025



Source: IEX Cloud. CRM Calculations. Total returns from December 31, 2024, to December 31, 2025.

The Macro View

Within fixed income, returns are uniformly compressed. US Treasuries, investment-grade credit, and high yield all produce marginal gains, underscoring a critical development: the risk-free rate has become a ***capital sink***, not a stabilizer. Duration is no longer rewarded for patience; it is penalized for availability. This has introduced sector-level rationing rather than broad-based tightening.

Commodities present a split signal. Broad commodity exposure is modestly positive, but oil stands apart with sharply negative returns. This divergence highlights that inflation is no longer the dominant force: it is ***policy composition and demand mix***. Energy markets reflect slower marginal growth and substitution effects, while metals respond to monetary and fiscal credibility.

The message of 25Q4 is not that risk has risen, but that ***forgiveness has declined***. Returns have become a function of balance-sheet resilience, capital scarcity, and structural positioning. Markets continue higher, yet only for assets aligned with how the system is now financed, not how it once was.

CRM View

Capital constraints will limit growth.

The investment regime is defined by **capital constraint rather than cyclical stress**. When dispersion widens across asset classes without a growth shock, it signals a financing problem, not a demand one. Assets tied to expanding fiscal balance sheets face structural headwinds, while those insulated from sovereign leverage are repriced upward. The implication is not defensiveness: it's intentionality. Portfolios must be constructed around capital resilience, funding independence, and diversification that reflects ***who*** is sponsoring growth, not merely *where* growth is reported. In this environment, discipline replaces optimism as the primary source of return.

This environment favors portfolios built around **structural resilience** rather than tactical optimism. Diversification must reflect funding sources, balance-sheet exposure, and policy sensitivity, and **not historical correlations**. The objective is not to anticipate a turn in confidence, but to remain durable as capital becomes scarcer and markets impose discipline where policy no longer does.

The Macro View

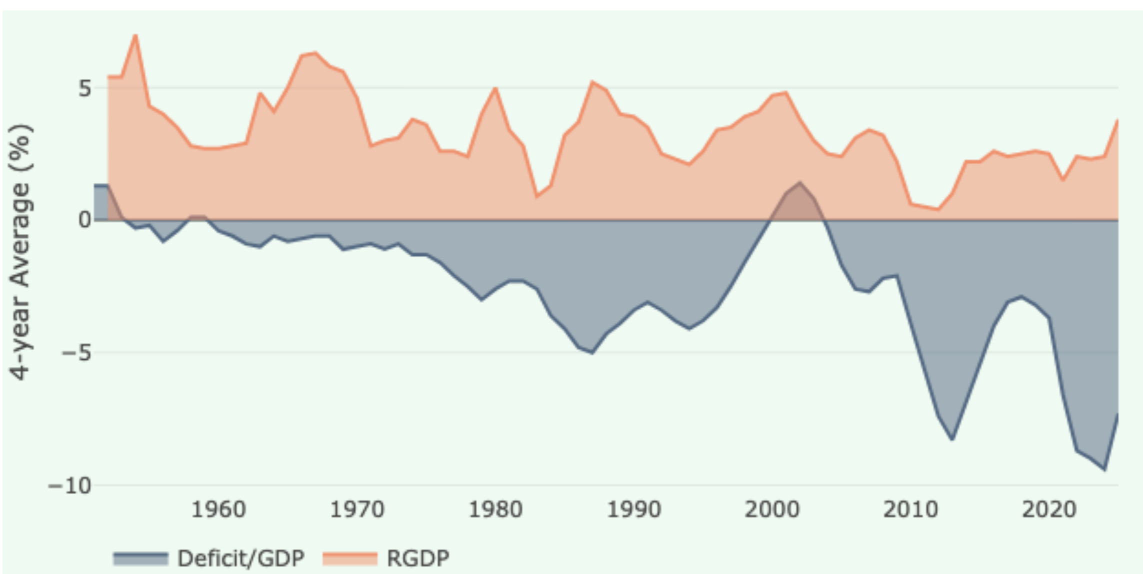
Falling Multipliers. A defining feature of the current cycle is the widening gap between fiscal effort and real economic response. Persistent federal deficits have not translated into proportionate gains in real GDP growth. Since 2006, it is rare to see annualized growth exceed 3 percent, when that used to be the norm (Exhibit 2). Confidence, as reflected in sustained fiscal expansion, remains high. The economic multiplier, however, is not.

Historically, periods of rising deficits were often associated with either cyclical recovery or structural investment that lifted trend growth. In the post-pandemic period, that relationship has fractured. Deficit-to-GDP levels remain deeply negative even as real growth oscillates within a narrow band. Growth persists but does not accelerate in response to policy efforts. The implication is not stagnation: it is ***diminishing returns***.

When fiscal confidence no longer compounds into higher real output, capital is absorbed rather than amplified. The economy continues to function, yet each additional dollar of borrowing delivers less incremental growth. That dynamic helps explain why markets remain stable yet increasingly selective. Capital is now priced more carefully, as policy no longer provides the same growth. It shows that constraint emerges not from collapse, but from arithmetic. Confidence remains, but it no longer multiplies. ***Supply is not demand.***

Exhibit 2. Confidence Without Multipliers

Leverage does not deliver growth.



Source: *St. Louis Federal Reserve, retrieved from FRED. RGDP is the annual growth rate.*

The Macro View

Cheap Financing. One of the most important structural shifts of the past two decades is the divergence between sovereign borrowing and private investment. Measured as a share of GDP, private nonresidential investment has remained remarkably stable. By contrast, federal debt held by the public has accelerated sharply, reaching levels without precedent in peacetime.

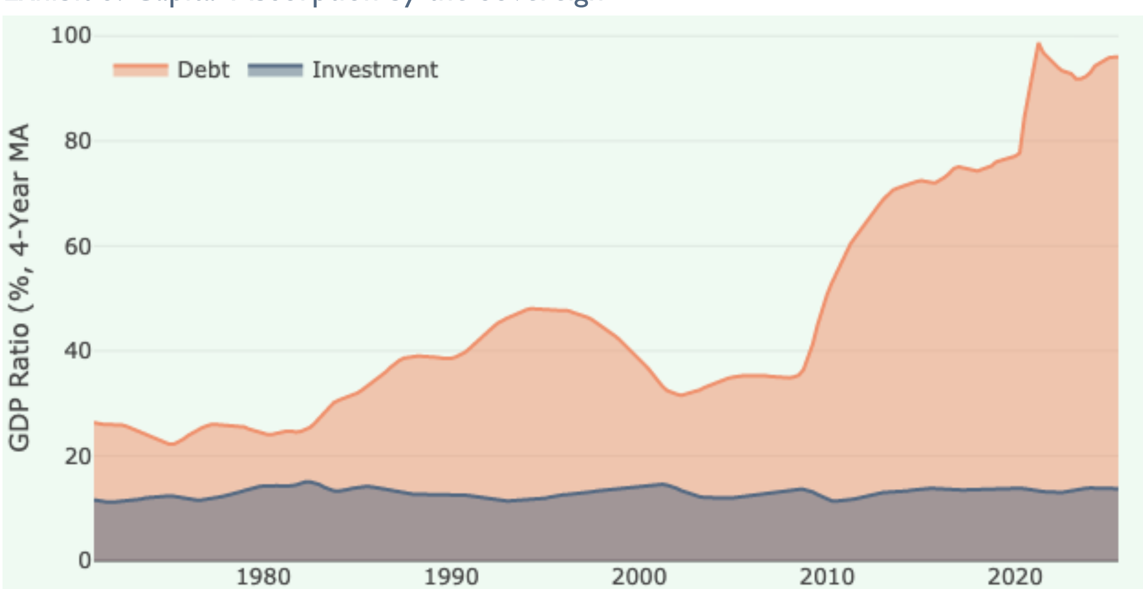
This contrast matters. The issue is not that private investment has collapsed: it has not. The issue is that ***incremental capital has increasingly been absorbed by the sovereign*** rather than expanding the economy's productive base. Growth continues, but it is financed differently. Capital that once compounded through private investment is ***now committed to funding existing obligations***.

This dynamic is at the center of the current macro regime. As debt issuance expands faster than economic capacity, the system demands higher real compensation to carry duration. This helps explain why real yields rise as growth remains intact, and why markets become more selective without becoming unstable.

CRM View: *Confidence persists in the form of sustained borrowing. Constraint emerges because borrowing no longer scales investment proportionally. The state has become the marginal absorber of capital, reshaping the return structure across assets without triggering a crisis.*

Debt without investment.

Exhibit 3. Capital Absorption by the Sovereign



Source: *St. Louis Federal Reserve, retrieved from FRED.*

The Macro View

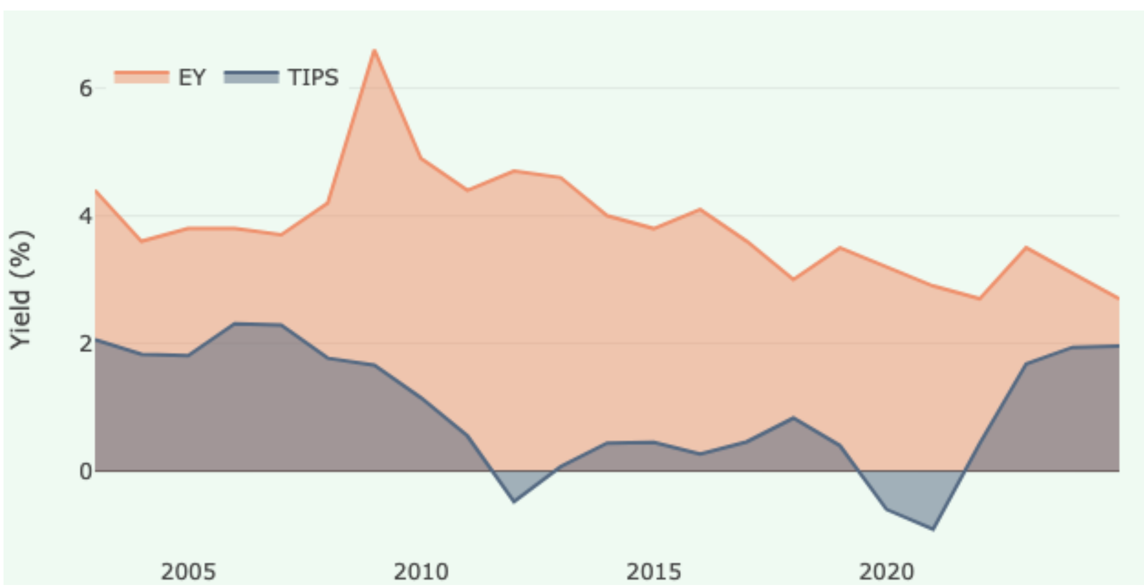
Duration Risk. Reframing valuation through a financing lens rather than a market-timing one shows how the cost of holding duration has changed over time (Exhibit 4). Contrasting the equity earnings yield (the inverse of the cyclically adjusted price-to-earnings ratio) with long-term real yields on US Treasury inflation-protected securities provides clarity. For much of the past two decades, equity earnings yields sat comfortably above real yields. This spread represented a valuation subsidy: investors were compensated for bearing equity risk while real rates remained low or negative. Patience was rewarded. ***Capital could afford to wait for future growth.***

That subsidy has narrowed. As real yields rose in response to sustained fiscal absorption and higher issuance, the earnings yield advantage diminished. In periods when real yields approach or exceed equity earnings yields, duration is no longer free. Investors are forced to discriminate between growth that could justify its financing cost and growth that could not. Multiple expansion slows, long-duration assets face pressure, and leadership rotates toward structures with nearer-term cash flows and pricing power. Importantly, this adjustment occurs without recession or credit stress. It reflects discipline, not fear.

CRM View: Confidence remains intact, but the price of patience has risen. Capital now demands compensation to wait, reshaping return expectations across asset classes.

The reward for duration is minimal.

Exhibit 4. The Cost of Patience



***Source**: TIPS yield is 10-year. St. Louis Federal Reserve, retrieved from FRED. CAPE is from Robert Shiller: https://www.multpl.com/shiller-pe*

The Macro View

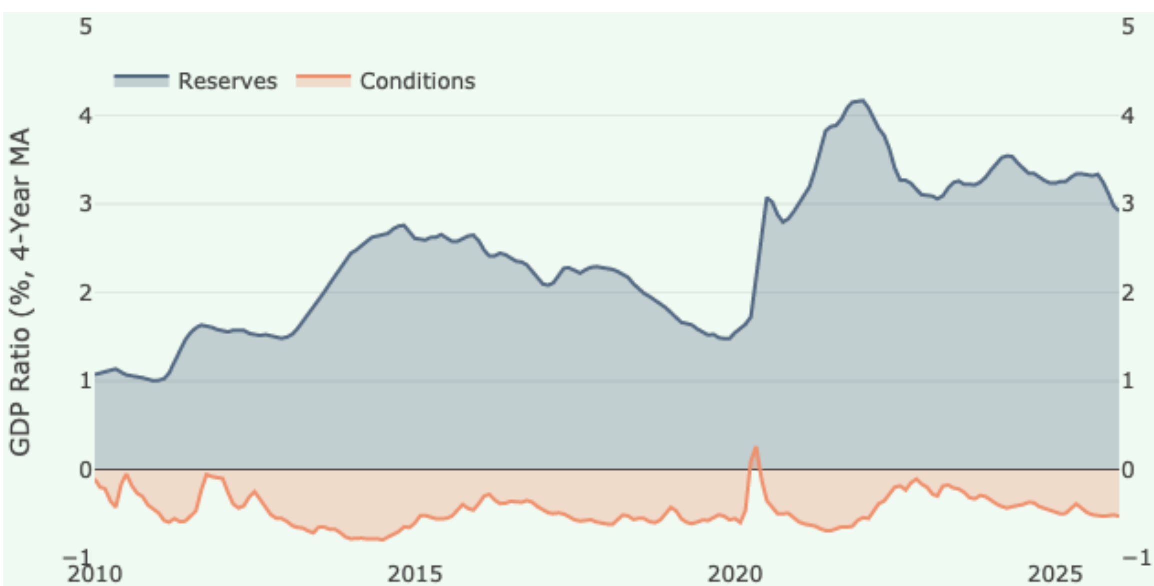
Liquid Markets. The post-2009 monetary regime clarifies the central paradox of the current cycle. Since the Global Financial Crisis, reserve balances have remained structurally elevated, reflecting the Federal Reserve's shift to an ample-reserves framework (Exhibit 5). By design, liquidity is abundant. Yet financial conditions tell a different story. Despite high reserves, the financial conditions index oscillates around neutral to loose levels, tightening episodically yet never approaching crisis territory. Liquidity has prevented stress; it has not eliminated discipline. Markets remain functional and stable, yet ***increasingly selective.***

This divergence explains much of the behavior observed across asset classes. Elevated reserves ensure that funding markets remain orderly and volatility subdued. At the same time, tolerance for risk fluctuates within a narrow band, driven by higher real rates, fiscal absorption of capital, and valuation constraints rather than liquidity shortages. Confidence persists because liquidity is ample.

Constraint emerges because liquidity alone no longer guarantees accommodation. Capital is available, but it is conditional. The system is engineered to avoid breakdown, not to subsidize inefficiency. In this environment, markets enforce discipline quietly through selectivity, pricing, and structure, rather than through stress. *Caveat Emptor.*

Exhibit 5. Liquidity is Ample, Tolerance is Selective

Ample liquidity, loose conditions.



***Source**: St. Louis Federal Reserve, retrieved from FRED. Reserves are bank balances held at the Federal Reserve, while Conditions are the Chicago Federal Reserve Financial Conditions Index.*

The Macro View

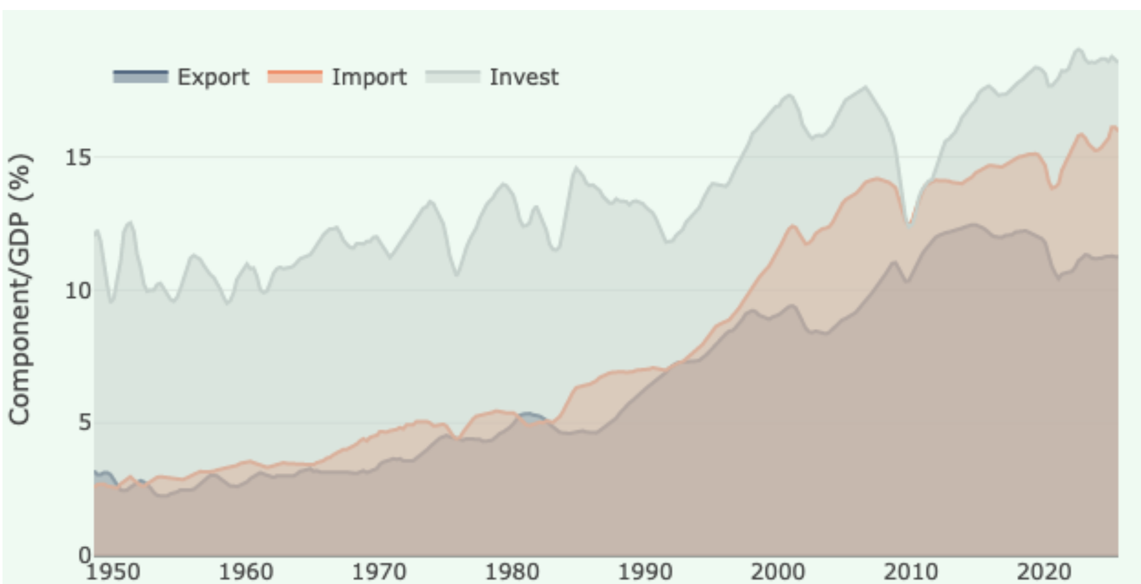
Trading Places. A quiet but consequential shift is sustaining growth. Private investment has remained broadly stable over time. It has not collapsed, nor has it meaningfully accelerated. By contrast, the composition of trade has shifted materially. Exports as a share of GDP have failed to keep pace with domestic economic expansion and, in recent years, have trended lower. Concurrently, imports have risen steadily, absorbing a growing share of domestic demand. The implication is not weakness in consumption, but a ***change in the source of consumption.***

This divergence explains why growth persists without reinforcement. Investment continues to support the economy at a steady level, but it no longer amplifies output through trade. Instead, domestic demand increasingly leaks abroad. The economy grows, but the multiplier weakens. Confidence sustains spending and activity, yet constraint reshapes the channels through which growth propagates. As exports lose momentum and imports rise, external demand ceases to supplement domestic investment. ***Growth becomes more inward-looking and more reliant on financing rather than production***.

CRM View: *The system remains functional, yet the mechanisms for growth have narrowed. Expansion continues without self-sustaining reinforcement.*

Growth drivers are changing.

Exhibit 6. Growth Without Reinforcement



***Source**: St. Louis Federal Reserve, retrieved from FRED. Components reflect a 4-quarter moving average.*

The Macro View

Full Price. The location of risk shifts when public markets price confidence cheaply. Corporate credit spreads, both investment-grade and high-yield, remain structurally compressed outside of acute stress episodes (Exhibit 7). Even after repeated shocks, spreads revert quickly toward historically low levels, signaling persistent confidence in public credit markets and a high tolerance for incremental risk. ***A risk that is mostly uncompensated.***

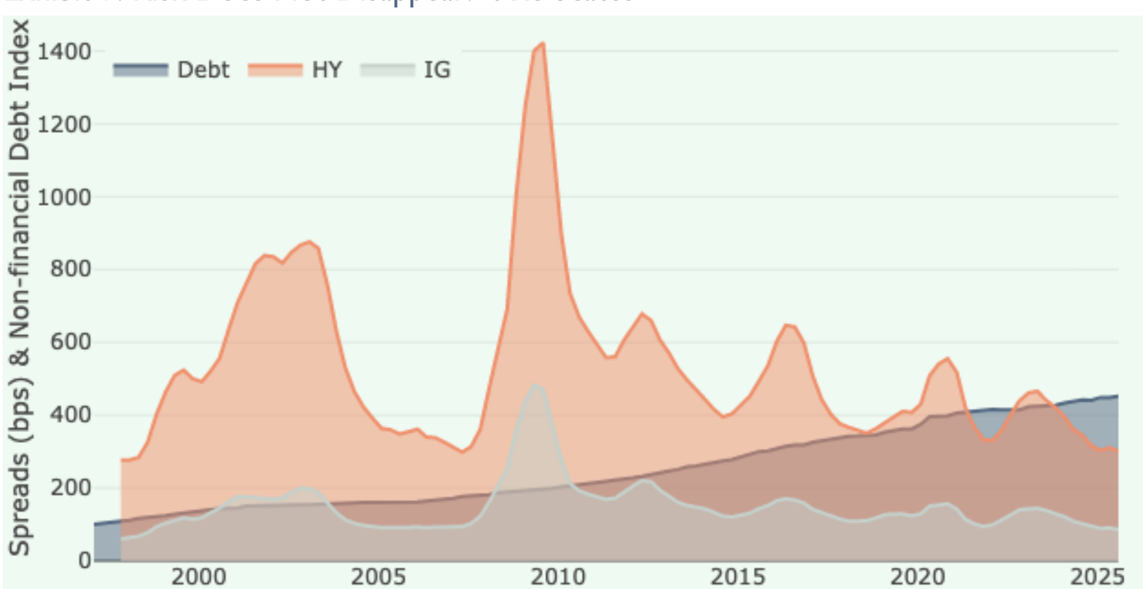
Meanwhile, private credit outstanding has risen steadily. Unlike spreads, this measure does not spike and mean-revert. It compounds. The contrast is the point. When public markets underprice risk, risk is not eliminated: it migrates. It is absorbed into private channels where pricing is opaque, structures are bespoke, and liquidity is limited. This dynamic explains why calm and fragility can coexist. Public credit markets appear stable, volatility remains contained, and funding conditions look benign. Yet leverage accumulates elsewhere, beyond daily mark-to-market discipline. ***Risk becomes less visible, not less real.***

Confidence in public pricing persists, allowing spreads to compress. Constraint emerges in allocation, as capital seeks yield and certainty through private structures rather than public repricing. The system avoids immediate stress, but at the cost of transparency and flexibility.

CRM View: *Stability is not safety. Risk is not repriced: it is relocated.*

Private debt expands as spreads narrow.

Exhibit 7. Risk Does Not Disappear: It Relocates



Source: *St. Louis Federal Reserve, retrieved from FRED. Debt Indexed to 1995.*

Equities

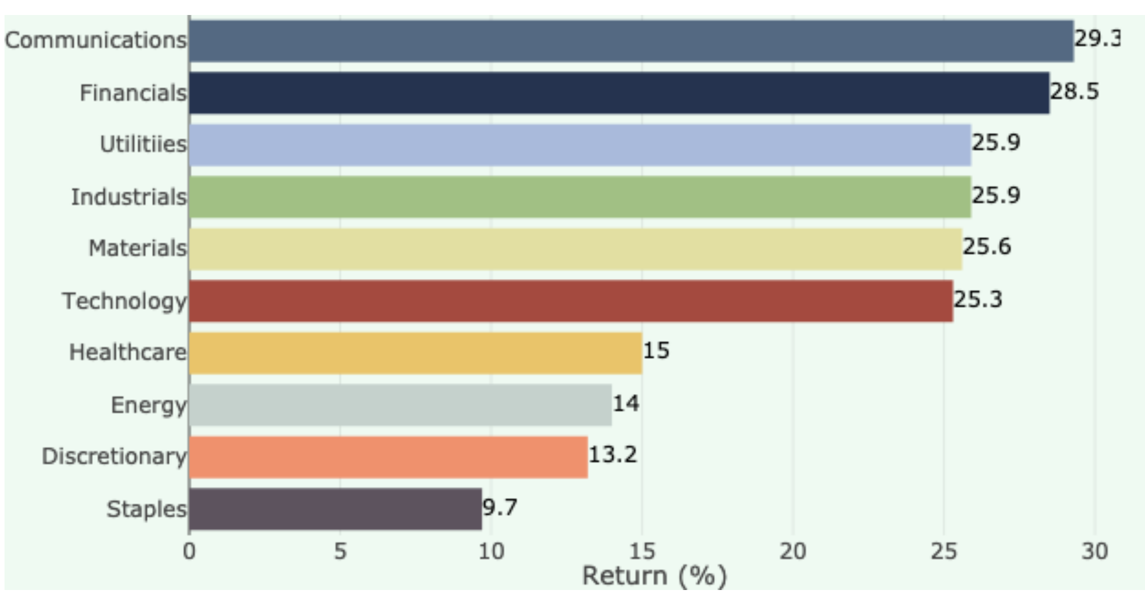
Leadership by Communications and Financials appears cyclical on the surface but is structural in substance (Exhibit 8). Communications benefits from scale economics, recurring demand, and pricing durability tied to data usage rather than discretionary consumption. Financials are not rallying on credit expansion, but on spread stability, fee income, and the ability to intermediate nominal activity without extending balance-sheet risk. In both cases, returns accrue to sectors that monetize *activity* rather than *growth*.

The second tier, i.e., Utilities, Industrials, and Materials, reinforces this theme. These sectors sit closest to infrastructure replacement, fiscal persistence, and policy-sponsored investment. Their returns reflect visibility and continuity, not acceleration. Materials' strength aligns with broader metals performance, while Industrials and Utilities benefit from regulated or contracted cash flows that remain fundable even as hurdle rates rise.

Technology's solid but non-dominant performance is critical to the narrative. Despite being central to the AI investment boom, Technology lags sectors with clearer near-term cash generation. The market is distinguishing between ***capital intensity and capital efficiency***. Innovation remains essential, but equity pricing increasingly discounts the cost of carrying that investment through a higher-rate, capital-constrained environment.

Exhibit 8. Global Equity Sector Returns for 2025

Sector Rotation: Confidence Concentrated.



Source: *IEX Cloud. CRM Calculations. Total returns from December 31, 2024, to December 31, 2025.*

Equity Markets

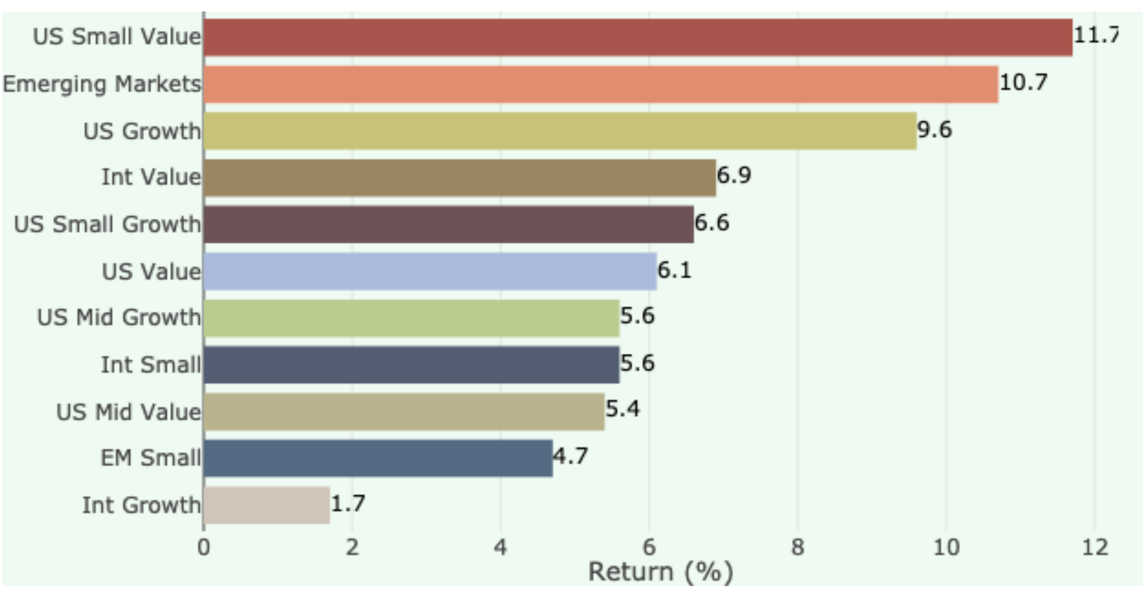
Style Dispersion. International Value leads decisively, followed by Emerging Markets, International Small, and International Growth (Exhibit 9). This is not a simple value rotation; it reflects ***where balance sheets and valuations already embed constraints***. International and emerging equities entered this cycle with lower multiples, less duration sensitivity, and greater exposure to trade and nominal growth outside the US fiscal channel.

By contrast, US equity performance compresses sharply as market capitalization and growth orientation increase. US Large Cap and US Growth deliver respectable but clearly second-tier returns, while US Mid and Small Cap, particularly growth-oriented, trail materially. This dispersion reflects financing reality: smaller, more growth-dependent firms face higher funding costs, weaker access to capital markets, and less tolerance for delayed profitability.

The combined message of Exhibits 8 and 9 is consistent and powerful. Equity markets are not rejecting growth, technology, or cyclicality outright. They are ***repricing the conditions under which growth is acceptable***. Sectors and styles with pricing power, balance-sheet resilience, and embedded sponsorship outperform. Those reliant on cheap capital, leverage, or long-duration expectations underperform.

Exhibit 9. Global Equity Style Returns for 2025

Confidence in Small Packages.



***Source**: IEX Cloud. CRM Calculations. Total returns from December 31, 2024, to December 31, 2025.*

Equity Markets

This is not a transition driven by fear. It is driven by discipline. Equity leadership has shifted toward structures that can endure when capital is no longer abundant, and forgiveness is no longer automatic. The market is not pricing an imminent downturn; it is recalibrating the cost of endurance. The markets reward firms and sectors that can finance themselves, sustain margins, and operate without repeated access to cheap capital, while those dependent on leverage, refinancing, or distant profitability face higher scrutiny.

What distinguishes this phase from prior late-cycle periods is the absence of stress signals. Volatility remains contained, credit markets function, and growth persists. Yet beneath that surface calm, tolerance has narrowed. ***Duration, leverage, and speculative optionality are no longer neutral attributes: they carry explicit costs.*** Leadership is reshaped without triggering liquidation.

In this environment, performance is less about capturing upside and more about ***surviving constraints***. Markets are not rejecting innovation, globalization, or risk-taking; they are insisting that these be financed responsibly. Discipline, not pessimism, now governs returns. Those aligned with that reality will continue to lead not because the cycle has ended, but because it has matured.

The CRM View

*The equity markets are operating within a regime of **capital selectivity rather than macro stress**. When sector and style leadership align around balance-sheet resilience across both geography and capitalization, the signal is structural. Markets no longer reward exposure to abstract growth; they reward exposure to* fundable *growth.*

This distinction explains why AI-driven Technology outperforms without leading, International Value dominates despite muted narratives, and smaller, growth-dependent US equities lagging without recessionary conditions. Capital is available, yet conditional.

*CRM interprets this as a shift from narrative-driven allocation to **sponsorship-driven allocation**. Equity returns increasingly reflect who can carry duration, absorb financing costs, and maintain pricing power as fiscal and monetary accommodation diverge. The implication is not to retreat from equities, but to recognize that leadership will continue to favor structures aligned with capital durability rather than momentum. In this environment, equity risk is not eliminated: it is merely priced more honestly.*

Equity Markets

Dominant Plateau. From 2016 through 2024, US equities delivered persistent and widening outperformance versus the rest of the world (Exhibit 10). Superior earnings growth, multiple expansion, and deep capital markets willing to finance duration defined the prior cycle. The last year, highlighted in orange, marks a subtle but important shift: not a reversal, but a ***stall***.

US relative performance no longer accelerates. Instead, it oscillates at elevated levels, signaling that the forces that once compounded US dominance are losing incremental power. US leadership remains concentrated in large, liquid, capital-efficient structures, while smaller, growth-oriented segments lag. Concurrently, international and emerging equities begin to close the gap, not with superior narratives, but through valuation discipline, balance-sheet resilience, and exposure to non-US growth.

This is not a repudiation of US equities. It is the market recognizing that US assets now carry the ***burden of incumbency***. High starting valuations, fiscal absorption of capital, and higher hurdle rates limit further relative expansion. Meanwhile, the rest of the world benefits from lower expectations and less dependence on continuous capital accommodation. The message is consistent: leadership is no longer about where growth is loudest, but where capital works hardest. US dominance has matured into equilibrium, reinforcing the broader shift from abundance to constraint.

The US relinquishes the crown.

Exhibit 10. Global Equities Relative Performance of US/World ex-US

***Source**: IEX Cloud. Total returns Dec 2015 to Dec 2025. Ratio increases reflect US outperformance.*

Equity Markets

Duration's Demise. From 2016 through the post-pandemic period, US Growth outperformed Value, driven by falling discount rates, expanding multiples, and investor willingness to fund long-duration earnings streams. That environment rewarded scale, optionality, and time arbitrage. The last year, highlighted in orange, signals a break: not a collapse, but a ***change in slope***.

Relative performance is flattening with high oscillation. Growth no longer extends its lead; it struggles to defend it. This parallels Technology performing well without leading, and International Value dominating global returns. The implication is consistent: the market no longer pays for duration. Capital now demands ***near-term cash flows, pricing power, and balance-sheet resilience***.

This is not a rejection of growth or innovation. Rather, it reflects a higher carrying cost for deferred profitability. As financing conditions tighten and fiscal absorption of capital persists, the option value embedded in growth equities compresses. Value equities, particularly those linked to nominal activity and tangible cash flows, regain relevance as patience becomes more expensive. Equity leadership is shifting away from styles that rely on perpetual capital accommodation toward those that can operate under constraint. Duration no longer compounds automatically; it must now justify itself.

CRM View: *Markets are still priced for perfection and will prove expensive to maintain.*

Growth's leadership is volatile.

Exhibit 11. U.S. Equities Relative Performance by Style (Growth/Value)

Source: *IEX Cloud. Total returns Dec 2015 to Dec 2025. Ratio increases are growth outperformance.*

Equity Markets

Better Bigger. One of the clearest expressions of the current regime is that ***size has become a financing attribute***. From 2016 onward, US large-cap equities steadily outperformed small caps, a trend that accelerated during periods of monetary accommodation and again during fiscal expansion (Exhibit 11). The last year, highlighted in orange, shows this advantage widening further because capital access is tightening, not because growth is accelerating.

Small-cap equities are inherently more sensitive to financing conditions. They rely more heavily on bank credit, refinancing, and equity issuance to sustain growth. As hurdle rates rise and capital becomes more selective, these firms face higher costs of capital and reduced tolerance for earnings volatility. The result is underperformance even in the absence of macro stress. Large-cap firms, by contrast, benefit from diversified cash flows, global revenue, and access to capital markets. Scale provides ***funding flexibility***, not growth. This leadership accrues to those who can absorb constraint rather than depending on accommodation.

Critically, this divergence is not signaling recession. Employment, earnings, and financial conditions remain supportive. Instead, it reflects a repricing of balance-sheet durability. Equity markets are rewarding firms that can self-finance, refinance opportunistically, and withstand higher capital costs. In a world where forgiveness is no longer automatic, scale has become a form of insurance.

Exhibit 12. U.S. Equities Relative Performance by Size (Large/Small)

The Scale Premium *Expands.*

Source: *IEX Cloud. Total returns Dec 2015 to Dec 2025. Ratio increases are large outperformance.*

Equity Markets

Liquidity Mirage. For much of the past decade, US equities delivered sustained outperformance over emerging markets, driven by superior earnings growth, dollar strength, and unrivaled access to global capital. That advantage compounded through the pandemic and into the early phase of fiscal expansion. The last year, highlighted in orange, marks a subtle but meaningful change: a ***loss of momentum***, but not yet a reversal.

While the level remains elevated, the slope has flattened and retraced, indicating a plateau. US equity leadership is led by large, capital-efficient firms, while other segments face higher funding costs and valuation constraints. Emerging markets, in contrast, deliver lower valuations, improving non-US trade, and less need for US fiscal accommodation. Crucially, this is not a return to an EM growth boom. The improvement reflects ***sponsorship and structure***, not exuberance. EM equities gain exposure to global demand re-routing, commodity and metals strength, and currencies less encumbered by large-scale deficit financing. These advantages matter when capital is scarce, and the cost of duration rises.

The message is consistent: equity leadership is migrating toward regions and structures that can function under constraint. The US remains dominant, yet its superiority no longer compounds, because incumbency alone is not enough in a ***capital-disciplined regime***.

Disciplined capital seeks value.

Exhibit 13. Global Equities Performance of U.S./Emerging Markets

Source: *IEX Cloud. Total returns Dec 2015 to Dec 2025. Ratio increases are large outperformance.*

Equity Markets

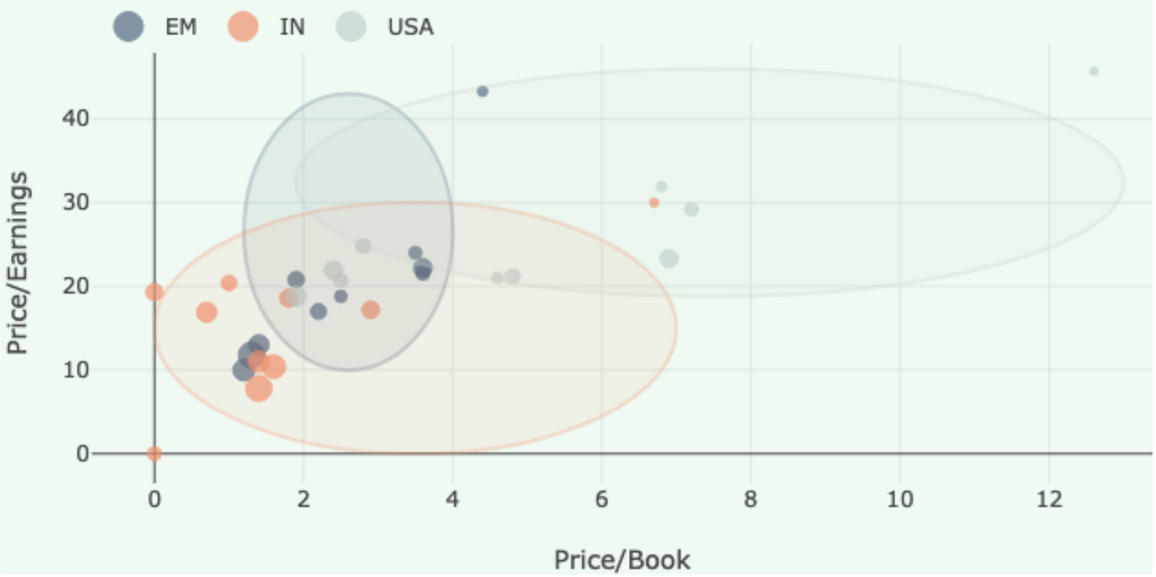
Valuing Geography. Exhibit 14 presents valuations as ***maps of capital tolerance*** across regions, rather than as static measures of cheapness or expensiveness (Exhibit 14). US equities possess higher PE and PB multiples and comparatively lower dividend yields, reflecting a market accustomed to funding duration, reinvestment, and optionality. Yet in a capital discipline regime, ***this concentration is fragile***. High multiples assume continued forgiveness, which is increasingly challenging as financing costs rise and fiscal absorption persists.

International and emerging-market equities cluster at lower valuations, with tighter dispersion and higher dividend yields. This is not a signal of superior growth prospects, but of ***pre-existing constraints***. These markets entered the cycle priced for balance-sheet realism rather than optimism, allowing them to perform more steadily as global capital becomes selective. The larger dividend markers reinforce the point: return is delivered through cash, not promises.

The regional "footprints" further clarify the shift. US sectors stretch vertically, reflecting elevated earnings expectations. Non-US sectors spread horizontally and outward, reflecting tangible asset backing and income return. These patterns confirm the macro conclusion: recent equity leadership is not anomalous: it reflects a market reallocating toward structures that can endure when capital is no longer abundant, and valuation generosity is no longer automatic.

Dispersion provides opportunity between regions *and in the US.*

Exhibit 14. Global Equity Valuations by Region and Sector



Source: *MSCI Indices. Marker size reflects the dividend yield (larger = higher), as of Dec 2025.*

Equity Markets

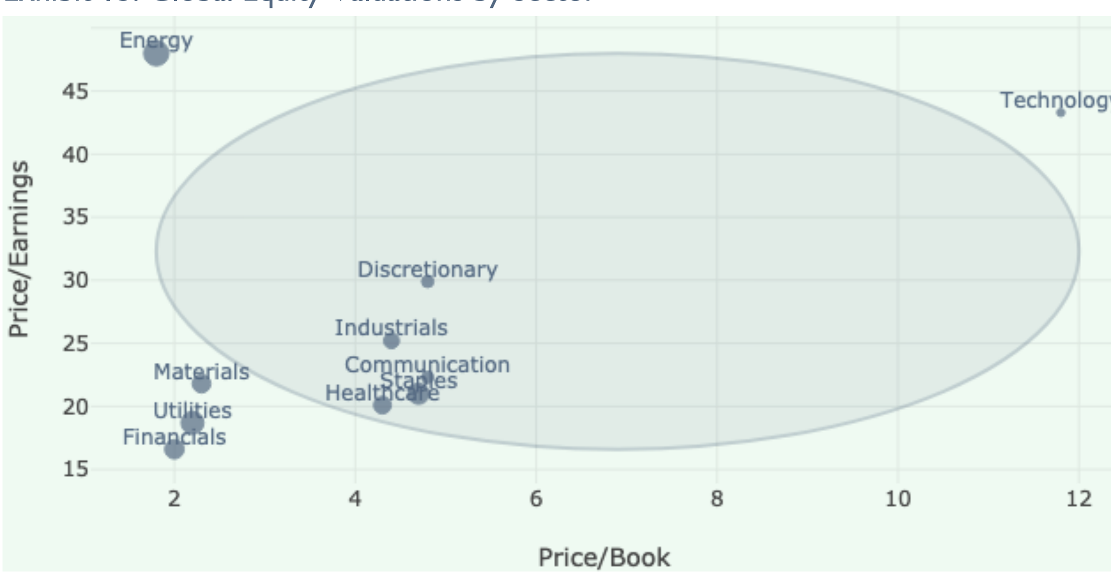
Enduring Belief. Global sector valuations are positioned relative to **capital tolerance** in a maturing cycle, rather than highlighting extremes of cheapness or expensiveness (Exhibit 15). Technology sits far to the right, with the highest PB and elevated PE multiples, reflecting the market's continued belief in innovation, scale, and long-run optionality, particularly in AI investment. Yet in the context of rising hurdle rates and constrained capital, this ***positioning also embeds fragility***. Returns remain achievable, but they rely on execution and funding continuity rather than multiple expansion.

Energy occupies the opposite extreme with low PB and high PE ratios reflecting structural skepticism toward long-term demand and policy risk rather than near-term cash generation. Materials, Industrials, and Communications cluster in the middle, combining moderate valuations with tangible asset backing and operating leverage to nominal activity, which reflects infrastructure-adjacent and balance-sheet-aware sectors. Defensive sectors such as Healthcare, Staples, and Utilities sit lower on the PE axis and have modest price-to-book ratios. Their valuation reflects durability rather than growth ambition, reinforcing their role as stabilizers rather than drivers.

Sector valuations in 2025 are not pricing excitement; they are pricing **endurance**. The market is rewarding sectors that can function when capital is scarce, funding is conditional, and forgiveness is no longer automatic.

Endurance is cheap.

Exhibit 15. Global Equity Valuations by Sector



***Source**: MSCI Indices. Marker size reflects the dividend yield (larger = higher), as of Dec 2025.*

Equity Markets

Extraordinary Price. Regional equity performance in 2025 is less about growth acceleration and more about ***how much optimism is already priced***. The United States stands apart with the highest PB and elevated PE multiples (Exhibit 16), reflecting a long-standing premium for depth of capital markets, corporate scale, and perceived policy backstops. Yet in the current macro regime, defined by fiscal absorption and higher hurdle rates, this positioning also embeds the greatest exposure to disappointment. US valuations assume continued tolerance for duration and reinvestment, even ***as capital is becoming conditional***.

International developed markets cluster at meaningfully lower valuations. Europe, the UK, and Japan trade at modest multiples and offer higher dividend yields, reflecting conservative earnings expectations and a greater emphasis on cash returns. Emerging markets sit even further along this spectrum, priced for constraint rather than expansion. Their valuation advantage is not a promise of growth, but a buffer against tightening financial conditions.

Notably, the global benchmark (ACWI) lies between these extremes, highlighting the tension between US dominance and global diversification. Regional leadership is shifting toward markets where constraint is already embedded in price. ***Valuation realism matters more than narrative ambition*** in a disciplined capital regime**.**

The US Sells a Premium Product.

Exhibit 16. Global Equity Valuations by Region

***Source**: MSCI Indices. Size of the marker reflects the dividend yield (larger is higher) as of Dec 2025.*

Equity Markets

The Cost of Concentration

Leadership in 2025 is not driven by a resurgence of growth optimism or a defensive retreat. It is driven by **capital constraint.** Specifically, by where cash flows, balance sheets, and valuations can withstand higher hurdle rates and reduced tolerance for financing risk.

Leadership in Communications, Financials, and infrastructure-adjacent sectors reflects monetization of activity rather than dependence on acceleration. Style and size dynamics reinforce this shift: International Value, Emerging Markets, and large-cap equities outperform as smaller, growth-dependent firms with funding sensitivity struggle. Relative performance charts confirm that US dominance has plateaued across geography, growth versus value, and size.

Valuation explains why. US equities and growth-oriented sectors are trading at the highest price-to-book and price-to-earnings multiples, suggesting continued capital accommodation. International and emerging markets, by contrast, entered the cycle priced for constraint, with higher dividend yields and tighter valuation dispersion. Sector valuation maps further show that endurance is being rewarded and not excitement. Capital-intensive innovation remains investable, but only where funding durability and execution justify the premium.

Disciplined selection matters.

Across regions, sectors, styles, and sizes, the message is consistent. Equity markets are not signaling recession or systemic stress. They are signaling ***discipline***. Returns accrue to structures that can self-finance, return cash, and operate without reliance on cheap capital or perpetual multiple expansion.

The CRM View

*CRM interprets the equity landscape in 25Q4 as a regime of **selective endurance**. Equity risk has not disappeared; it has been repriced around balance-sheet resilience, valuation realism, and capital access. This is not a cycle that rewards broad exposure or narrative conviction. It rewards structure. Portfolios aligned with funding durability, embedded constraint, and diversified sponsorship are positioned to endure as markets continue to enforce discipline where policy has delayed it.*

Fixed Income

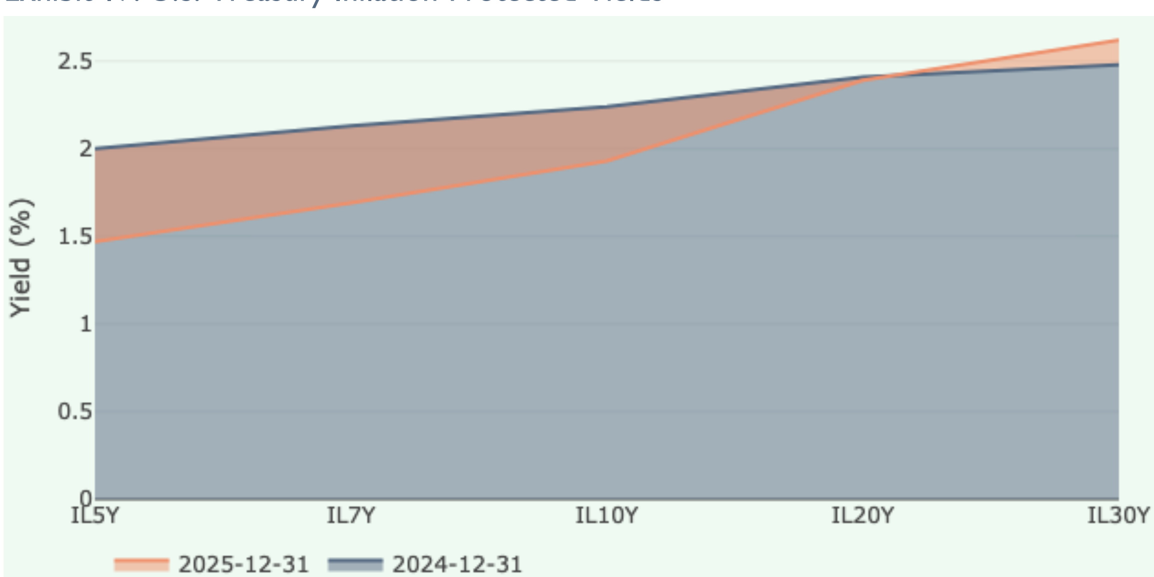
Signaling Constraint. From December 2024 to December 2025, the US TIPS yield curve rose and steepened modestly, particularly beyond intermediate maturities (Exhibit 17). This movement captures a subtle but critical shift in the macro backdrop. This is not a story of runaway inflation expectations; it is a story of ***real yield normalization under fiscal pressure***.

Short-dated real yields rise only marginally, reflecting confidence in near-term inflation control and monetary credibility. The more meaningful move occurs further out on the curve, where long-term real yields climb and approach, or even exceed, those of intermediate maturities. This indicates that markets are demanding higher real compensation to fund long-duration US liabilities. Inflation protection remains valued yet is no longer cheap. In the broader macro narrative, this shift reinforces the theme of capital absorption. As deficits expand and Treasury issuance persists, TIPS must offer higher real yields to attract marginal capital. The risk-free rate, both real and nominal, has become a ***competing asset*** rather than a neutral benchmark.

This development aligns with the equity evidence. Higher long-term real yields raise the duration's carrying cost, compressing valuation multiples and favoring assets with cash flows and pricing power. The constraint facing markets is not inflation fear, but ***financing discipline***. Real yields are rising because capital requires compensation for patience, not from collapsing confidence.

Growth is no longer free.

Exhibit 17. U.S. Treasury Inflation-Protected Yields



Source: Federal Reserve Economic Database

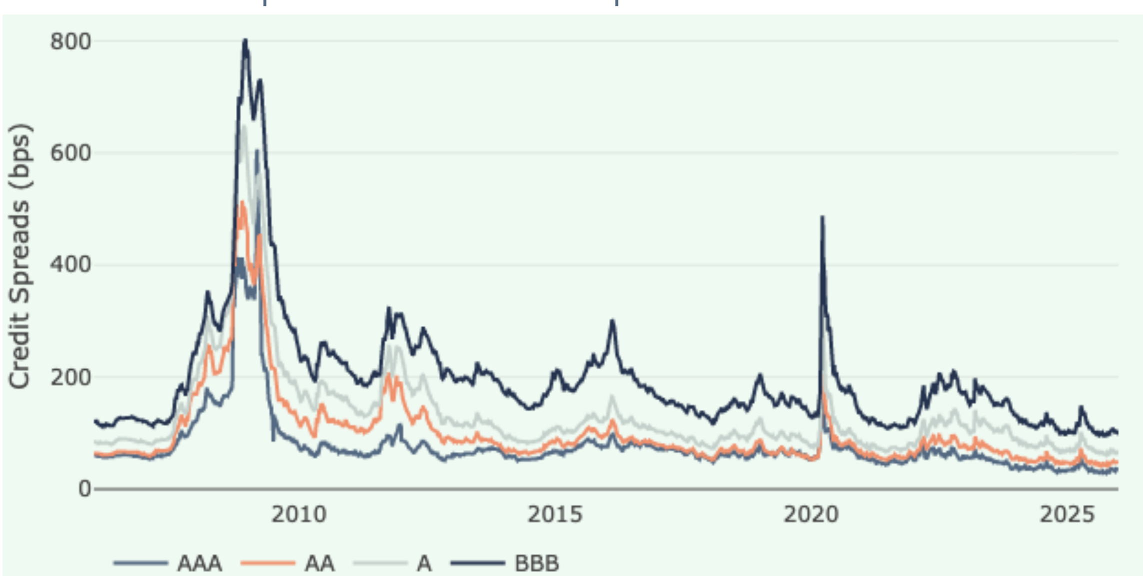
Fixed Income

Uncompensated Confidence. One of the clearest expressions of the current macro regime is that US corporate credit spreads are at their lowest levels in more than two decades. This is not a signal of improving credit fundamentals; it is a signal of ***persistent confidence and constrained alternatives***. Compressed spreads historically coincided with periods of abundant liquidity, falling rates, or late-cycle optimism. Today's environment is different. Real yields have risen, fiscal deficits are expanding, and issuance remains high. Yet spreads remain pinned. Investors are accepting minimal compensation for credit risk, not because risks have disappeared, but because capital continues to seek yield in a system where the risk-free rate absorbs capacity unevenly.

Credit spreads are *too low* for the risk.

Just as equity markets reward balance-sheet durability over growth optionality, credit markets reward ***incumbency and scale***. Larger issuers with stable cash flows benefit disproportionately, while lower-quality risk is compressed rather than repriced. This creates an asymmetry: downside risk remains, yet upside compensation has been eroded. Importantly, compressed spreads do not imply near-term fragility. Default rates remain low, and funding markets function smoothly. Instead, this situation reflects a market that prices continuity over caution. Credit is not signaling stress; it is signaling ***discipline deferred***. In a capital-constrained regime, spreads are no longer a warning signal: ***they are evidence of how far confidence is stretched without demanding compensation***.

Exhibit 18. U.S. Corporate Investment Grade Spreads



Source: ICE. Federal Reserve Economic Database

Fixed Income

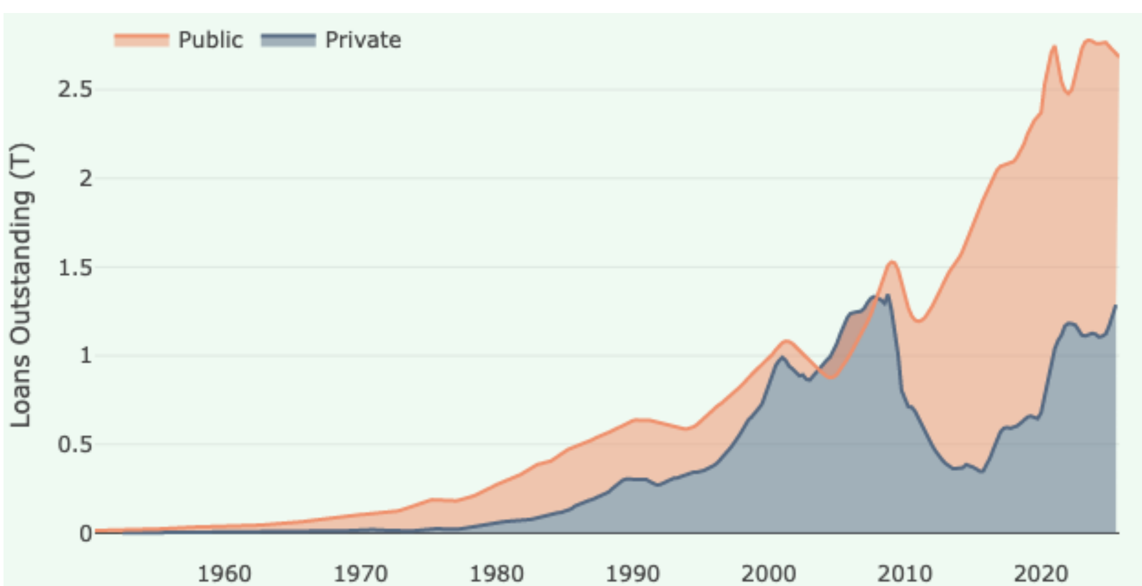
Shadow Credit. Credit intermediation has adapted as capital discipline has tightened. Public and private credit have diverged. Private credit has surged to levels last seen during the 2008 financial crisis (Exhibit 19). This is not a coincidence: it is substitution. As banking and public credit markets become more regulated, balance sheet-constrained, or sensitive to capital requirements, financing migrates to private channels. Private credit fills gaps left by banks and public markets, offering flexibility, speed, and bespoke structures. In a regime where capital is available but conditional, this ***flexibility commands a premium***.

Just as equity markets reward structures that can self-finance and endure higher hurdle rates, credit markets reallocate toward forms of capital willing to accept complexity in exchange for yield. Private credit thrives not because risk is low, but because of ***shifting pricing power***. Borrowers accept higher costs for certainty of funding; lenders accept opacity for compensation.

Crucially, the scale matters. Private credit outstanding now rivals crisis-era levels, but without the same systemic stress signals. That difference reflects intent, not safety. Capital has deliberately chosen private channels because public markets compress spreads and ration risk unevenly. This constraint does not eliminate risk: it relocates it. When public markets price confidence too cheaply, private markets become the venue where risk is acknowledged.

Risk Transferred.

Exhibit 19. US Public and Private Loan Outstanding



Source: Federal Reserve Board, Bank and Finance company loans. Federal Reserve Economic Database

Commodities

Fear & Function. Gold and Copper are not complementary macro signals. When normalized to their long-term averages, the divergence between gold and copper in 2025 is striking (Exhibit 20). Gold trades at more than ***3.5 times*** its historical average, while copper, though elevated, remains far closer to its long-run norm. This gap is not a contradiction: it is the message.

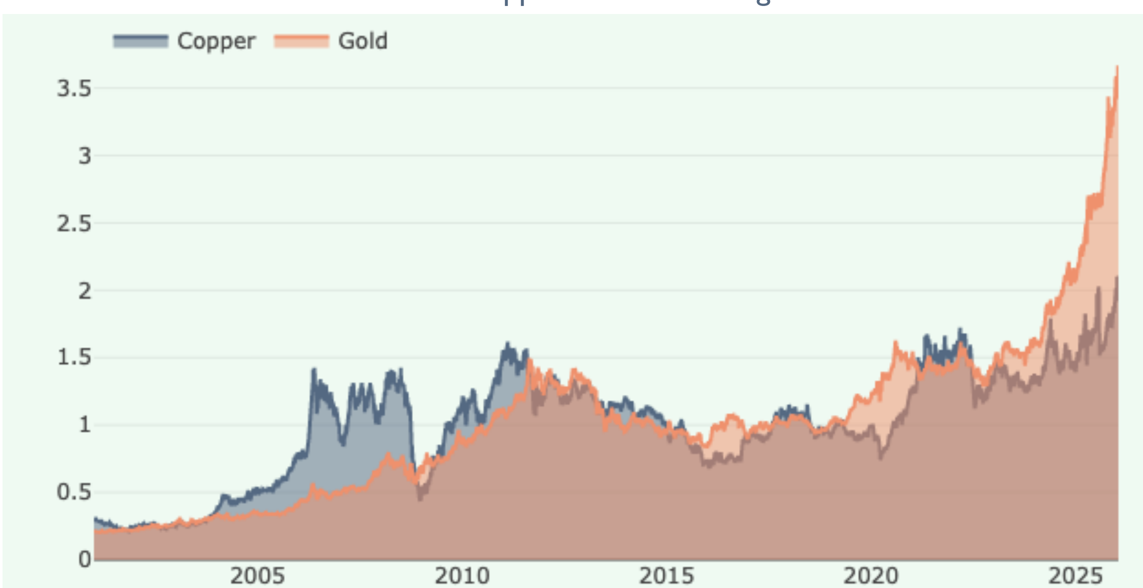
Copper reflects industrial demand, infrastructure buildout, and the physical economy. Its cyclical performance aligns with periods of global growth, reflation, and investment. The recent moderation suggests steady but unspectacular demand, consistent with an economy expanding under constraint rather than accelerating. Copper is not signaling contraction; it is signaling ***normalization***.

Gold, by contrast, is decoupling from cyclical activity. Its outsized revaluation reflects not inflation fear, but ***confidence insurance***. Gold is repriced as a hedge against fiscal persistence, balance-sheet expansion, and the rising cost of sovereign financing. In a world where real yields are higher and deficits remain, gold offers insulation from policy risk rather than economic downturn.

This divergence reinforces the macro narrative. Markets are not pricing overheating or collapse. They are pricing endurance under strain. Copper tells us growth continues. Gold tells us trust is being hedged. The drivers are not demand or inflation: it is the ***constraint imposed by how growth is financed***.

Fear elevates as function fades.

Exhibit 20. Price Ratio of Gold and Copper to their Average Values



Source: Yahoo Finance. CRM calculations.

Currencies

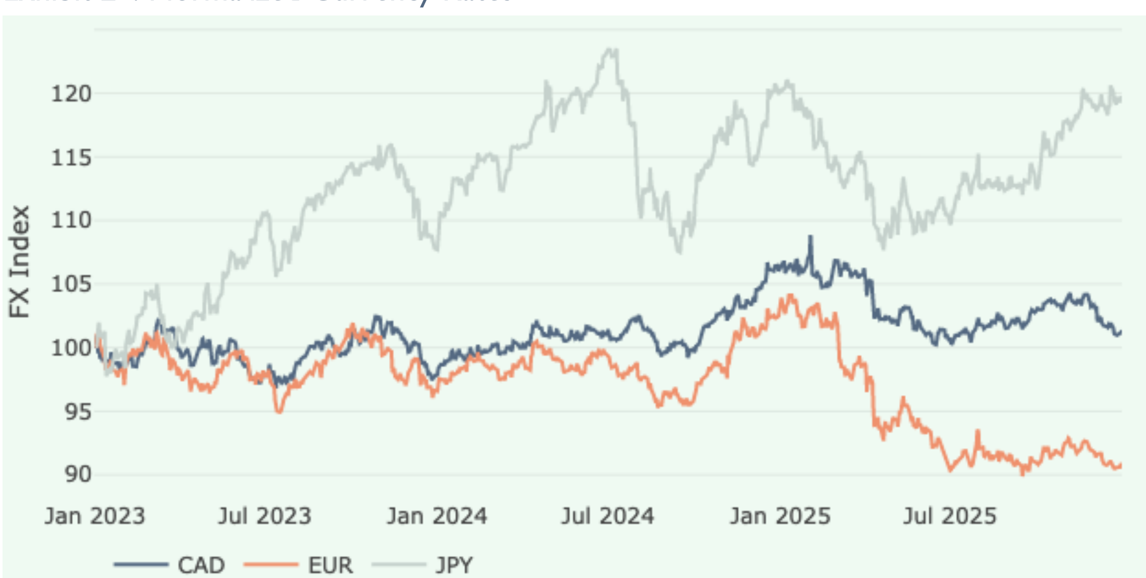
Relative Credibility. Normalized against the US dollar, the euro, yen, and Canadian dollar trace three distinct paths that together underscore the same theme seen across equities, rates, and commodities: ***capital is becoming more selective, not more fearful*** (Exhibit 21). The Japanese yen stands out. After prolonged weakness, it stabilizes and gradually strengthens, reflecting both valuation exhaustion and the growing cost of funding dollar-based positions. This move is less about Japan's growth outlook and more about ***balance-sheet adjustment*** as global investors reassess the sustainability of dollar dominance under expanding US deficits.

The Euro, by contrast, weakens materially through 2025, reflecting its sensitivity to global trade and energy costs, slower growth momentum, and its limited fiscal flexibility relative to the scale of adjustment required. Currency depreciation becomes a release valve rather than a competitive advantage. The Canadian dollar sits between these extremes, broadly range-bound and tracking commodities. Its stability reinforces the idea that currencies tied to tangible assets and fiscal restraint can hold ground even as global capital tightens.

Taken together, the FX markets are not pricing a crisis. They are pricing ***relative credibility***. The dollar remains dominant, but the marginal cost of that dominance is rising. Forgiveness persists, yet selectively.

FX investors are selective.

Exhibit 21. Normalized Currency Rates



Source: Alphavantage. A higher level indicates a stronger U.S. dollar.

Confidence Meets Constraint

Markets advance because capital has learned where it must be selective, not because risk has disappeared.

Equities. In 2025, equities exhibited a consistent pattern: leadership favored ***structures that could endure capital constraints***. Performance is not driven by fear or recession expectations, but by balance-sheet resilience, valuation realism, and access to funding. Large-cap, value-oriented, and international equities outperform as smaller, growth-dependent segments struggle with higher hurdle rates. US dominance persists, but no longer compounds, while international and emerging markets benefit from lower starting valuations and less dependence on perpetual capital accommodation. Equity risk remains present, but it is increasingly priced through discipline rather than optimism.

Fixed Income. Rates and credit markets reflect the same tension. Real yields, as shown by the TIPS curve, have risen and steepened modestly, signaling that long-duration capital now requires compensation. At the same time, corporate credit spreads are compressed to levels not seen in over two decades. This combination of higher risk-free real rates and minimal credit compensation underscores persistent confidence amid constrained alternatives. Credit markets are functioning smoothly, but they offer little margin for error. Fixed income is no longer a passive diversifier; it is an active competitor for capital.

Commodities. Commodity markets split cleanly between cyclical and credibility factors. Copper reflects steady but unspectacular industrial demand, consistent with growth constrained by supply. Gold, by contrast, has decoupled sharply, trading far above its long-term average. This divergence signals not inflation fear, but a structural hedge against fiscal persistence and balance-sheet expansion. Commodities are no longer a single macro trade; they differentiate between economic activity and policy credibility.

Currencies. FX markets reinforce the theme of selective confidence. The US dollar remains dominant, but pressures are visible at the margin. The yen stabilizes as funding dynamics adjust, the euro weakens under structural constraints, and commodity-linked currencies remain anchored by tangible fundamentals. Currency moves reflect relative credibility, not crisis.

Confidence Meets Constraint

The CRM Global View

*CRM views the current market environment as a mature phase of the cycle defined not by stress or contraction, but by **constraint and selectivity**. Capital remains available across asset classes, yet its terms have changed. The defining feature of 2025 is not volatility, recession risk, or an inflation resurgence: it is the quiet enforcement of discipline by markets that policy has delayed.*

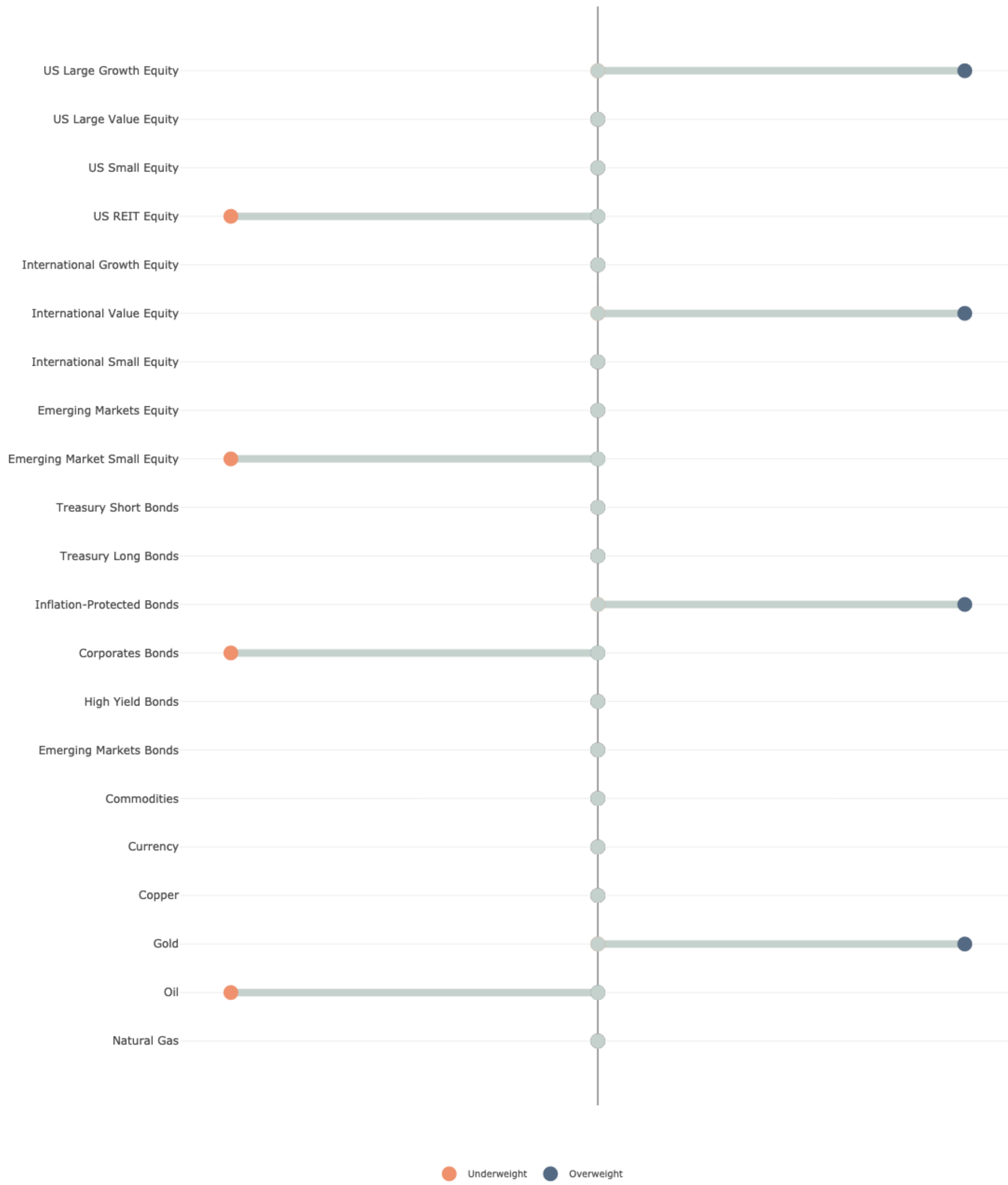
Across equities, fixed income, commodities, and currencies, the same signal repeats: assets that rely on balance-sheet strength, pricing power, and funding durability continue to perform, while those dependent on leverage, duration, or optimistic refinancing assumptions face rising scrutiny. Importantly, this adjustment is occurring without the traditional warning signs of a downturn. Credit spreads are compressed, liquidity is ample, and economic growth persists. That combination can appear paradoxical. It is not. It reflects confidence that has not yet been challenged and is no longer free.

*CRM interprets this environment as one where **capital scarcity is relative, not absolute**. The constraint is not the quantity of capital, but its willingness to subsidize inefficiency or delay. Markets are repricing patience. Duration now carries a cost. Leverage must be justified. Growth must be financed responsibly. This explains why US equity dominance has plateaued, why international and value exposures have regained relevance, why gold has been revalued as insurance rather than speculation, and why private credit has expanded alongside compressed public spreads.*

*Looking forward, CRM does not see an imminent regime break. Instead, we see an extended period where outcomes depend less on macro forecasts and more on structure. Portfolios designed for endurance, i.e., diversified by funding source, valuation discipline, and real asset exposure, are better positioned than those reliant on timing or narrative conviction. **In this cycle, resilience is not defensive. It is strategic.***

Exhibit A1. Tactical Asset Allocation Positioning

Six-to 18-month asset allocation perspective



Note: Positioning is indicative of the themes discussed in this report and is valid as of the report date. Views are subject to change. These statements are forward-looking, and there are no assurances that such events will transpire. The positioning does not reflect actual positions and does not consider an investor's objectives, risk preferences, or their current asset allocation. Seek professional advice when undertaking any investment program.

Exhibit A2. Asset Class Performance

Sector	ETF	QTD	One-Year	Three-Year	Five-Year
Global Equity	ACWI	3.3	19.2	18.8	12.3
Global Equity xUS	ACWX	4.9	28.9	16.4	9.0
World	URTH	3.1	17.9	19.4	13.2
Russell 3000	IWV	2.4	13.3	19.6	14.0
US Large Cap	IVV	2.7	15.1	20.6	15.3
US Growth	IUSG	2.2	21.8	25.0	15.5
US Value	IUSV	3.1	5.1	14.0	13.6
US Mid	IJH	1.6	-0.3	10.4	10.4
US Mid Growth	IJK	1.2	-1.0	11.0	8.3
US Mid Value	IJJ	2.1	0.1	9.4	12.3
US Small	IJR	1.6	-2.7	7.6	8.9
US Small Growth	IJT	0.0	-4.5	7.8	7.1
US Small Value	IJS	3.3	-0.8	7.0	10.3
US REIT	USRT	-1.8	-5.2	6.2	7.1
International	EFA	4.7	27.7	16.5	10.1
Int Growth	EFG	1.6	16.4	11.7	5.3
Int Value	EFV	7.7	38.6	21.1	14.4
Int Small	SCZ	3.0	27.9	14.5	7.1
Emerging Markets	EEM	3.9	31.7	14.8	5.0
EM Small	EEMS	1.9	17.2	14.0	9.3
US Aggregate	AGG	0.9	5.4	4.4	-0.4
US Gov Cred	GBF	0.6	4.6	4.0	-0.8
Treasury 10-20y	TLH	0.1	1.6	1.4	-5.8
Treasury 20y+	TLT	-1.0	-2.4	-1.4	-8.6
US Mortgage-Backed	MBB	1.5	6.5	4.6	0.1
US Municipal	MUB	1.7	2.4	3.4	0.9
US Inflation-Protected	TIP	-0.1	4.9	3.6	1.1
US High Yield	HYG	1.2	7.7	8.7	4.3
International Bonds	IAGG	0.6	2.8	4.5	0.6
EM Bonds	EMB	2.8	11.3	9.4	1.6
Oil	USO	-6.2	-3.4	-0.5	17.4

Performance period ends December 31, 2025. Returns are based on the total return of the Exchange Traded Fund. Return periods of more than one year are annualized.

Capital Risk

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For more insight, please contact:

Dr **Jason Prole** CFA FRM CBE
Managing Principal

Capital Risk Management LLC
213-459-3332 | 415-373-7152
contact@capitalriskmanagement.com

www.capitalriskmanagement.com
Los Angeles

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