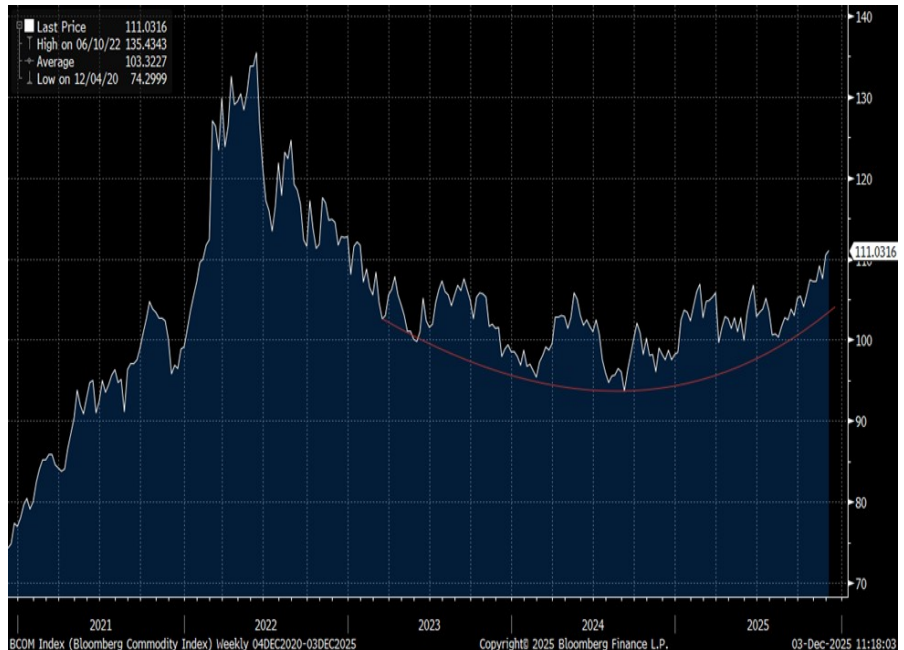


As we push into the holiday season and year end, many of the long-held views remain intact. From a 30,000 feet view, the macro-economic background remains consistent, but turbulent. With all the political noise coming out of Washington, macro themes can be bumpy, but the overall trajectory is constant.

The largest tailwind for economic growth is the consistent deficit spending by the US government. While I am singling out the US, they are certainly not alone. In addition to the spending by the government, it now appears likely that Hasset will be appointed to be Chairman of the Federal Reserve. With his dovish tendencies, the market is pricing in lower front-end yields. The interesting part of the curve has been the 10yr and beyond as yields have started to move higher. The market is showing a small concern about longer-term inflation due to lower interest rates.

Despite the tailwinds mentioned above, the program has a small, defined-risk short in the S&P 500. As I have written previously, p/e ratios remain elevated in the MAG-7 stocks. The interesting stock of late has been Oracle. After announcing incredible earnings and growth expectations, the stock gapped about 30% higher the next day. Since then, the stock has given up all the rally and is now ~15% under the pre-earnings announcement. Could it be the proverbial canary in the coal mine? Will ever-increasing spending on AI buildout eventually become a headwind? The primary driver behind the tech names has been the simple fact that they are heavy in technology and low in physical assets. With this buildout, they are now transforming into rapidly depreciating physical assets. One can argue the lifespan of the Nvidia GPUs, but most put them in a range of 5-7 years. The capex will need to continue far into the future to simply sustain these data centers. Even if Alphabet, Facebook, etc. can cash flow the expenditures, their p/e ratios should move down toward the normal levels of asset heavy companies in the 10-15 range.

The last trade that needs to be discussed is the Bloomberg Commodity Index. A small position has already been initiated but will grow over time. Base and precious metals have been doing a lot of the heavy lifting thus far. While I cannot see a catalyst at this time, if energy joins the bull market, things could get even more interesting in a hurry. This chart here is one of the prettiest I have seen in a long time. A huge rounding base and now a breakout over previous highs. Look for this position to stick around for a long time.



Sincerely,



Stephen Davis
December 3, 2025

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