LeClair-Lemlih Wealth Management Group Of Wells Fargo Advisors

Investment Outlook 2026-2030

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Riding the Melt-Up, Preparing for the Plateau, and Navigating the Volatility that Creates Real Opportunity: A Comprehensive Strategic Outlook for Markets, Technology, the AI Buildout, and Policy (2025–2035)

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I. Personal Introduction and Perspective

The past several weeks in November have reminded us how quickly markets can transition from calm, orderly appreciation to sudden turbulence. Equities that seemed to climb effortlessly have begun to swing violently, and crypto markets, ever the emotional accelerants of modern finance, have delivered the kind of two-sided volatility that only emerges when conviction finally collides with fear. Investors who had grown comfortable with the reassuring stability of steadily rising prices built on an AI industrialization narrative, now find themselves grappling with sharp reversals, abrupt recoveries, and a renewed sense of uncertainty about the AI narrative. It is tempting to interpret this volatility as a sign that the cycle is now breaking, but we believe we have only entered the complex psychological stage market stage where innovation and instability intersect.

This moment is not only analytically familiar to me; it is personally familiar. When I began my career in the early 1990s, I entered the investment world as a value-trained advisor, steeped in Graham-and-Dodd fundamentals, price-to-earnings ratios, balance sheet discipline, and the belief that valuation was the anchor of rationality. And then I walked straight into the most dramatic technological revaluation in modern history, a period in which companies traded at levels no academic valuation textbook had ever contemplated. I found myself advising clients at a time when the market's center of gravity was shifting in real time, and I had to evolve my framework to include earnings growth quickly or risk becoming obsolete. It was an education delivered at full speed: how to hold onto discipline without becoming rigid on valuations metrics, and how to embrace innovation without being swept into speculation. It was the first time I learned that the E in the P/E equation can grow so quickly in an innovation led bull market that brokerage firm analysts could be perpetually behind the market with their own price targets.

I remember that era not as an abstraction but as a collection of visceral scenes. I watched companies like Cisco, Sun Microsystems, AOL, JDS Uniphase, Qualcomm, and Global Crossing surge with an intensity that defied comprehension. I can still recall the client calls and the industry certainty that fiber-optic demand would make JDS Uniphase unstoppable, and the conviction that AOL would be the doorway to a new world. People wanted stock ideas that could go up immediately upon purchase and their idea of long-term investing changed to months from 10 years. Why would someone want to hold a boring diversified portfolio when their friends were getting rich so quickly?

My education came fast. In 1998, when the Asian financial crisis, the Russian default, and Long-Term Capital Management imploded almost at once, I saw how fragile even the strongest market can be when leverage hides beneath the surface. The U.S. economy was healthy and companies were growing. Yet the entire system trembled for the first time since 1994 because a few investors misjudged risk and the world's financial plumbing seized up. That rapid 20% decline bear market shock planted a lesson that has never left me: markets rarely break for the reason everyone is watching; they break through the cracks no one has bothered to inspect.

Then came the final act of the dot-com boom, a period fueled by imagination, excitement, and a belief that valuation no longer mattered. As I sat with clients who owned companies with no revenues and lofty dreams, I remember thinking that the world had stopped distinguishing between innovation and speculation. When the bubble burst in 2000, the cruelty of the next three years was unlike anything I had seen. Businesses that had become household names evaporated. Markets cut equity growth portfolios in half. And even companies doing everything right found their stocks frozen for years. I watched Sun Microsystems and Global Crossing disintegrate. I watched Cisco, once the world's most valuable company, collapse more than eighty percent from its peak. I watched JDS Uniphase lose nearly all its value, and once-invincible telecom names plunge into bankruptcy. The emotional whiplash was extraordinary, greed turning to fear in the span of weeks, confidence replaced by disbelief, and volatility so violent that days felt like years. The worst part about it is that it did last three long years and when it was over and the dust settled, the NASDAQ had declined 78% and the S&P 500 had lost 49%.

Yet embedded in that chaos was the most important lesson of my early career: volatility is not a referendum on innovation, it is a referendum on expectations. The technology had been real. The transformation was real. The productivity gains were real. What wasn't real were the valuations and narratives layered on top of them. Once the excess burned off, the technological era continued forward anyway. Those who managed through the volatility without losing discipline, and without abandoning innovation, emerged stronger and wiser.

Fast-forward to 2008, where the problem was different. The forward P/E on the S&P 500 was only 15.1 on 10/9/2007, so where was the bubble? Credit, something the average investor barely thought about, became the fulcrum on which the entire economy rested. When financing froze, everything froze. It felt like the floor gave way under all of us at the same time. At that moment in time, we all felt like the entire financial system was close to collapsing, and it was very close to happening. The largest banks in the world were in trouble. The commercial paper markets froze and so did the municipal bond markets for auction rate securities. The market dropped 57% from its high-level mark but now this was being led by value companies that were supposed to hold up well in a bear market environment like the last one in 2000-2002. We started hearing about bond fund funds blowing up because of instruments inside that were supposed to be investment grade credits. High yield bonds were essentially trading at worse price levels than they were back in the Great Depression. The S&P 500 dropped from a high of 1565 on 10/9/2007, to an intra-day low of 666 on March 6, 2009, and some market strategists were still calling for it to drop much lower. This was the first time I learned how valuable the Monetary side of the government equation can be for turning the global capital markets around, and that was the beginning of a 15-year liquidity-fueled era of artificially low rates that inflated asset prices and rewired the economy. It was during that era of extreme uncertainty that I learned another foundational lesson: "Liquidity is not a luxury. Liquidity is survival."

Then came the pandemic crash in early 2020, which was unlike anything any of had ever lived through. It wasn't sparked by leverage or valuations or a credit imbalance. In fact, the forward P/E on the S&P 500 was elevated but still below 20 when the pandemic crash hit. It was caused by an inconceivable sudden stop to the entire global economy overnight, which felt like something out of a plague history meets dystopian

future sci-fi movie. Markets fell more than 34% in a matter of weeks, faster than even the worst days of 2008. In addition, the credit markets became illiquid briefly for selling fixed income instruments. What stood out to me wasn't just the speed of the decline, but the speed of the response and how quickly the world changed overnight. Massive monetary intervention, emergency fiscal stimulus, and unprecedented coordination reversed the collapse and ignited one of the strongest recoveries in modern history. Yet nothing made sense in a traditional sense, and it didn't align with anything we had ever been taught in a textbook. I learned some valuable lessons like, when policymakers commit fully to supporting asset prices and liquidity, the market can move in ways that defy past playbooks. It reinforced the importance of adaptability and the need to understand the policy backdrop as part of every investment decision. However, the United States national debt was only around $23.2 trillion at the end of February 2020.

The 2022 bear market was a different kind of challenge. Unlike the pandemic crash, it wasn't about panic or a sudden shock. It was a slow grind brought on by inflation, tightening financial conditions, supply-chain stress, and a dramatic repricing of interest rates, as the Fed suddenly realized they were behind the curve. It was odd because at the end of 2021, the Fed Chair and Treasury Secretary both were telling the American people that the inflation was transitory, and then they reversed course dramatically in 2022. In addition to rising interest rates and supply chain issues, investors got to watch the entire Russian stock exchange value within the MSCI Emerging Markets Index get priced down to zero, as Russia invaded the Ukraine. It reminded me that the stock market and the bond market can both fall 20%+ intra-year at the same time, even when the surface economy looks strong. Many investors underestimated how quickly valuations could compress when the risk-free rate rose from near zero to meaningful levels. Growth companies that had appreciated based on a zero-interest rate environment suddenly reversed course. As an example, META's stock price dropped 75% because investors lost patience with META's financial commitment to building out the Metaverse. The experience reinforced a principle that now guides this current cycle: earnings matter, valuations matter, and liquidity is a powerful force, both on the way up and the way down.

Now, in 2025, I feel echoes of all those periods at once and it is the combination of those experiences that have compelled us to write this report now. The emotional texture of today's markets, the coexistence of extraordinary opportunity and profound volatility, is unmistakably reminiscent of earlier periods. However, the differences today are even more consequential. We stand at a crossroads where extraordinary technological advancement meets elevated leverage, political uncertainty, rising fiscal strain, and societal anxiety. It is a cycle of opportunity and discomfort intertwined. The question is how to navigate a period where the potential for long-term gains is matched by rapid short-term shifts that can shake even seasoned investors.

II. Executive Summary

This report sets out the most probable sequence of events between now and the next major transition. It explains why the market's apparent stability is neither irrational nor permanent; why the AI spending cycle has more breadth, depth, and duration than most assume; why industrial strategic capitalism fundamentally changes the cyclical dynamics of the American economy; why valuations may continue higher before compressing; and why the eventual bear market will likely be driven not by a collapse in earnings, but by the structural realities of fiscal math and liquidity capacity.

The path we outline is not anchored in optimism or pessimism. It is shaped by the interplay between liquidity, technology, national security, and policy constraints. Our base case is that the expansion will continue through 2026 and likely into 2027, supported by AI infrastructure buildout, inference adoption, reindustrialization, and the necessity of monetary accommodation. We believe that at some point in 2027, the structure of the cycle begins to shift as the fiscal burden, real rate dynamics, and valuation levels intersect. The resulting downturn is meaningful but not devastating; it is structural, not catastrophic. It sets the potential stage for a promising secular growth period, driven by productivity uplift from AI, robotics, computational biology, advanced manufacturing, and a redesigned energy system.

In many ways, this market cycle currently resembles many of the markets of the past blended together, since there are similarities that we can pull from all of them. However, there are some very interesting differences that seem unique to us. For instance, we have never seen Consumer Sentiment so low in a bull market time, which is generally a bullish sign moving forward. I cannot recall ever seeing this type of Fiscal and Monetary Stimulus happening when an economy is this strong, the financial markets are strong, the S&P 500 has strong earnings, unemployment is only 4.4%, and there is no recession. In addition, AI related technology companies are trading at high valuations currently, but they also have real revenue, real earnings growth, and many generate strong cash flow. Also, leverage is starting to form in the system but has not grown to crisis levels compared to the past. The consumer is also spending and currently has a low household debt service ratio compared to history. Finally, the U.S. Government's balance sheet limits the country from the type of stimulus recovery plan to bail out the country like in prior times of crisis.

Inflation has cooled but not disappeared from household memory. Surveys show families feel less secure than the economic data would suggest. This is magnified by headlines about AI replacing jobs, rising automation, and companies streamlining workforces. These emotional undercurrents are why the "AI bubble" conversation is gaining energy. Not because the data confirms it, but because anxiety tends to look for stories that validate it. That fear is now blending with another powerful force: politics.

However, the recent volatility does nothing to diminish the powerful forces driving this cycle. If anything, it amplifies them. Three structural engines continue to shape the trajectory of this expansion:

First, the AI Supercycle, the largest computational and industrial buildout since the rise of the Internet and one whose capital intensity dwarfs that earlier revolution. The training wave is still expanding, the enterprise inference wave is only beginning, and the productivity wave lies ahead.

Second, the re-industrialization of the United States, set in motion by the CHIPS Act, the Inflation Reduction Act, and a multi-year national-security modernization spanning semiconductors, energy systems, and defense. These initiatives form a durable floor under economic activity and do not respond to market sentiment — they respond to strategic necessity.

Third, the emergence of fiscal dominance, which constrains the Federal Reserve's ability to maintain elevated real rates and creates a liquidity environment far more supportive than traditional models would predict. Rate cuts are no longer primarily cyclical tools; they are structural imperatives.

These forces extend the expansion even as they shape the limits of the cycle. And that is the purpose of this report: to separate the noise of current volatility from the signal of long-term transformation; to explain the sequencing of the melt-up, the structural adjustment, and the secular expansion that follows; and to provide an investment roadmap through all three phases.

At the same time, the very factors extending the cycle introduce a different kind of fragility. The United States' long-term fiscal path is deteriorating in ways that constrain the Federal Reserve more than at any other point since the early 1940s. The cost of servicing the national debt has become a central macroeconomic variable, shaping liquidity, yield dynamics, and policy choices. I believe there are serious questions about whether the United States government can ever have the financial strength and credibility to bailout the country again and the stock market, in the same way it did during the Pandemic or maybe even during the Financial Crisis. Geopolitical risks are rising, particularly in regions essential to global supply chains. For the first time since the end of the Cold War, national security considerations have now dominated economic strategy. These shifts do not guarantee a crisis soon, but they do guarantee that the long arc of this expansion will not look like those of the past.

Investors must therefore navigate three phases: the remaining melt-up, the structural adjustment bear market, and the secular renaissance. Each requires different positioning, different risk management, and a different psychological stance. The purpose of this paper is to provide a comprehensive, deeply integrated roadmap through all three.

The sections that follow move from the psychology of late-cycle stability to the lessons of historical valuation regimes; from the dot-com parallels that matter to the ones that mislead; from the mechanics of industrial strategic capitalism to the staggering scale of the AI Supercycle; from fiscal dominance to the growing constraints on policy; from wildcards in the near term to the structural triggers of the next downturn; and finally to the opportunities in the decade that follows.

This moment is not defined by fear or exuberance. It is defined by the rare convergence of innovation, policy, liquidity, and geopolitical realignment. Those who understand its sequencing will not only preserve capital through the transition ahead but also position themselves to participate in one of the most dynamic economic periods in modern American history.

Scenario	Timeline	Key Drivers
Base Case	Melt-up 2026 → Downturn 2027 → Secular expansion 2028–2035	AI Supercycle, Industrial Policy, Fiscal Dominance, Eventual AI Plateau before Secular Expansion
Alternative Case of Inflation Shock	Forced Fed hikes starting around the end of 2026 or early 2027 that compresses melt-up timing	Inflation spike, liquidity tightening, valuation compression
Golden Swan	Accelerated AI productivity and energy breakthroughs	Rapid diffusion of AI, modular nuclear, biotech advances

The next section explores the near-term wildcards, tariffs, Supreme Court rulings, government shutdowns, and political tensions that may create volatility but are unlikely to disrupt the trajectory that fiscal dominance, industrial strategic capitalism, and the AI Supercycle have set in motion.

III. Political Friction: Government Shutdowns, Judicial Uncertainty, and the Return of Policy Risk

We are entering a period where politics has once again become a direct market variable. The possibility of a government shutdown is real. The fiscal negotiations surrounding it are already affecting confidence inside Washington. Even when shutdowns do not break the economy, they disrupt regulatory approvals, delay government payments, freeze data releases, and create a sense of drift.

In parallel, the Supreme Court is preparing a series of decisions with far-reaching implications for:

- Tariffs imposed under IEEPA
- corporate liability
- regulatory oversight
- environmental rules
- agency authority
- the future framework for AI, data use, and technology regulation

Election-year dynamics add an additional layer. Tariffs, tax changes, budget priorities, industrial policy, and even the scope of executive authority are all potential pivot points. Businesses are hesitating on long-term commitments until they know what the policy backdrop will be.

The months ahead present a series of near-term policy and legal events whose significance extends well beyond the typical pattern of headline-driven volatility. While markets often treat government funding deadlines, trade announcements, or legal rulings as noise that temporarily disturbs sentiment, several of the catalysts that now lie directly ahead carry a different character. They involve actual financial transfers, contingent liabilities, and balance-sheet consequences, outcomes that may influence corporate cash flows, fiscal dynamics, and investor psychology in ways not yet fully appreciated.

The most material of these is the pending Supreme Court decision concerning the prior administration's tariff authority. For years, companies across retail, industrials, electronics, machinery, automotives, and consumer goods have paid billions in tariffs under a legal framework now under scrutiny. Should the Court determine that parts of the tariff regime were improperly authorized, or that statutory authority was exceeded, the implications would not be confined to academic debate over executive power. It would mean that real financial outlays made by corporations were collected unlawfully.

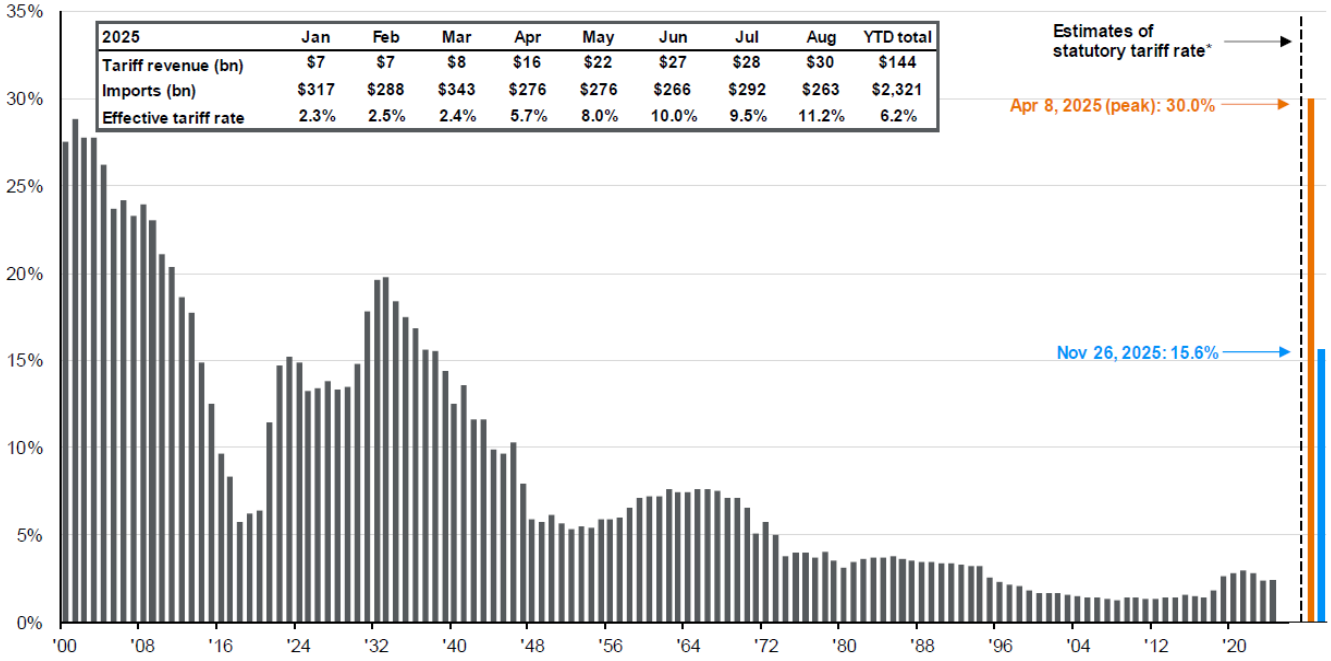
In that scenario, a wide range of companies could pursue repayment, credits, or damages, potentially forcing the federal government to return substantial sums during a period in which Treasury financing capacity is already strained. The liabilities could reach into the tens of billions. Import-heavy firms could suddenly find themselves the beneficiaries of unexpected cash injections, while industries that had been sheltered by protective tariffs may face a more abrupt re-entry into global competition than they had anticipated. The market has not priced this possibility because it has not internalized it. Yet the precedent for refunding unlawfully collected tariffs is well established. If the Court rules against the prior regime, the financial consequences will be concrete, not symbolic.

Tariffs now function not only as economic tools but as instruments of geopolitical leverage. A change in tariff structure affects import prices, corporate cost curves, and inflation readings in ways that directly influence Federal Reserve policy decisions. In an environment where the Fed is already constrained by fiscal dominance, even modest upward pressure on import prices could complicate the timing of interest-rate reductions, shaping valuations at the index level. Conversely, tariff reductions, whether voluntary or court-mandated, could ease inflation mechanically, accelerate the resumption of accommodative policy, and inject liquidity into precisely the corners of the market now experiencing stress.

Tariffs on U.S. imports

Average tariff rate on U.S. goods imports for consumption

Duties collected / value of total goods imports for consumption, 1900 - 2024



2025	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	YTD total
Tariff revenue (bn)	$7	$7	$8	$16	$22	$27	$28	$30	$144
Imports (bn)	$317	$288	$343	$276	$276	$266	$292	$263	$2,321
Effective tariff rate	2.3%	2.5%	2.4%	5.7%	8.0%	10.0%	9.5%	11.2%	6.2%

Source: U.S. Census Bureau, U.S. Department of Treasury, U.S. International Trade Commission, J.P. Morgan Asset Management.
For illustrative purposes only. The estimated weighted average statutory U.S. tariff rate includes all tariffs that are currently in effect, not announced. Imports for consumption: goods brought into a country for direct use or sale in the domestic market. *Figures are based on 2024 import levels and assume no change in demand due to tariff increases. Tariff revenue shown are figures from the Monthly Treasury Statement. Import figures included in the table are from the U.S. Census Bureau. Estimates, projections and other forward-looking statements are based upon current beliefs and expectations. They are for illustrative purposes only and serve as an indication of what may occur. Given the inherent uncertainties and risks associated with forecasts, projections or other forward-looking statements, actual events, results or performance may differ materially from those reflected or contemplated.
Guide to the Markets – U.S. Data are as of November 26, 2025.

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The government shutdown risk that looms at the end of January carries similar complexity. Investors often assume shutdowns are narrative events with limited macro impact. Historically, that has been true. But in the context of today's industrial strategic capitalism, where semiconductor fabs, energy transmission corridors, defense modernization, and large-scale manufacturing projects are tightly intertwined with federal permitting, financing, and disbursement schedules, the freezing of administrative functions becomes materially disruptive. A shutdown that persists beyond a few days would delay CHIPS Act grant flows, stall environmental and construction approvals for energy infrastructure and data centers, interrupt federal contractor payments, and temporarily halt regulatory and compliance reviews necessary for ongoing industrial projects. These delays do not derail the cycle, but they shift its cadence, slowing multi-billion-dollar projects at precisely the moment when private capital, state incentives, and federal commitments must synchronize. The short-term economic effect of a shutdown is modest; the logistical effect is not.

These are not trivial events. They are near-term catalysts with structural implications, not in the sense that they redefine the long-term trajectory of the cycle, but in the sense that they influence its timing, the

sequencing of liquidity, the behavior of corporate balance sheets, and the psychological climate in which investors make decisions.

Volatility around such catalysts is not mere noise; it reflects the increasing complexity of a late-cycle environment in which legal, fiscal, and geopolitical factors interact directly with capital allocation, corporate strategy, and market expectations. These events will not determine the end of the expansion, but they will shape its contours in ways that deserve careful, disciplined attention.

IV. The Illusion of Stability and the Psychology of Late-Cycle Markets

Periods of late-cycle calm tend to be the most misleading moments in financial history. Markets appear orderly, volatility recedes, and investors acclimate to the idea that expansion can continue indefinitely. Yet this calm often arises not from underlying economic strength, but from an intricate balance of forces that temporarily suppress volatility while masking the buildup of structural vulnerabilities. This is what economists mean by the "illusion of stability," a state in which conditions feel benign precisely because multiple sources of fragility have not yet converged. Such moments rarely last, but they often endure longer than anticipated, enabling impressive returns before the eventual transition.

Today's environment embodies this dynamic. Equity markets maintain an upward bias. Credit spreads remain tight, reflecting both genuine credit quality and the relentless search for yield in a world where real rates cannot remain high for long. Volatility sits at artificially low levels given the scale of geopolitical uncertainty, fiscal imbalance, and technological transition. The Treasury market absorbs extraordinary issuance without forcing systemic repricing. And the economy, despite running into capacity constraints in both labor and energy, continues to show resilience powered by industrial buildout and technology-driven productivity enhancements.

But the stability we observe is not natural. It is constructed. The Federal Reserve, constrained by fiscal dominance, cannot permit real yields to rise too far without triggering instability in the Treasury market. The Treasury Department, aware of the fragility of demand at longer maturities, adjusts issuance composition to sustain liquidity. Corporations, flush with cash, remain aggressive buyers of their own equity. And states compete to attract data centers, semiconductor fabs, and advanced manufacturing facilities, channeling incentives that amplify the investment cycle.

Taken together, these forces create a temporary equilibrium that feels more durable than it is. The calm is real in the sense that volatility is suppressed, spreads remain orderly, and investor confidence gradually returns after prior tightening cycles. Yet it is artificial in the sense that it depends upon policy accommodation, liquidity management, and strategically motivated capital formation. The underlying structural risks do not disappear; they are merely overshadowed by dominant short-term forces.

History offers clear parallels. In 1927 and 1928, market participants recognized imbalances but underestimated their immediacy, lulled by the Federal Reserve's liquidity injections and the apparent strength of corporate earnings. In 1997 through 1999, the U.S. absorbed the Asian Financial Crisis and the collapse of Long-Term Capital Management without derailing the equity boom, as investors misinterpreted the resilience of markets as evidence that the cycle had years to run. In 2017 through 2019, despite unmistakable signs of tightening dollar liquidity and global trade stress, markets continued climbing until the system finally buckled under the weight of the COVID shock, a catalyst that exposed what had already been fragile beneath the surface.

The most important psychological feature of late-cycle markets is that weakness does not appear as declining prices. Instead, it appears as narrowing breadth, concentration in leadership, increasing correlations, and an odd resilience to bad news. Markets rise not because risks are low, but because liquidity and institutional behavior suppress those risks temporarily. Investors accustomed to years of accommodative policy misinterpret that suppression as evidence that risks are overestimated. This is why melt-ups occur when risks are highest: the absence of volatility encourages leverage, risk-taking, and reallocated capital that flows to the strongest narratives of the time.

The same dynamics are visible today. Investors openly debate whether the market is overvalued, whether the AI buildout is sustainable, and whether the United States can manage its fiscal position. Yet despite these concerns, capital continues to flow into large-cap technology and infrastructure beneficiaries. This dissonance between anxiety and purchasing behavior is typical of late-cycle phases. It reflects what behavioral economists call "reluctant bullishness," a state in which investors feel uneasy but cannot rationalize stepping aside because prices continue to rise.

Rather than dismissing this calm as irrational, it is more accurate to understand it as a hallmark of the melt-up phase. Liquidity, industrial policy, and transformative technology create genuine, not speculative, drivers of growth. The illusion is not strength itself; the illusion is the belief that stability implies permanence. This distinction is essential for navigating what comes next. Late-cycle calm is not a sign of imminent decline, nor is it a sign of enduring strength. It is a period of opportunity that must be approached with clarity, humility, and awareness of the structural forces at work.

The illusion of stability does not mean the market is about to break. On the contrary, it often means the opposite: that the most powerful part of the cycle still lies ahead. The mistake is not in participating in this phase, but in believing it will continue indefinitely. The next section turns to evaluation history and the dot-com comparison, not to argue that today mirrors 2000, but to identify the deeper structural lessons that apply now despite the profound differences in fundamentals.

V. Valuation History and the Dot-Com Analogy: Lessons, Misinterpretations, and the Reality of the Present Cycle

Every late-cycle environment invites comparison to the past, and no analogy is invoked more reflexively today than the dot-com bubble. The reasons for the comparison are obvious: a dominant technology narrative, concentrated market leadership, expanding valuations, and a sense that innovation is outpacing traditional analytical frameworks. Yet the similarities between 1999 and the present-day mask fundamental differences that matter greatly for how the current cycle is likely to evolve. A clear understanding of these differences is essential for avoiding both complacency and misplaced pessimism.

In the late 1990s, valuations detached sharply from earnings. Companies with little revenue and no profits commanded market capitalizations in the tens of billions, reflecting a belief that the Internet would upend all existing business models. Many of these companies were rewarded not for producing goods or services, but for capturing "eyeballs," a metric that reflected attention rather than economics. The market priced the Internet's long-term promise as if it would translate instantly into sustainable profits, ignoring the fact that the technology was still immature, adoption uneven, and monetization unproven. The result was not merely overvaluation, but a wholesale misjudgment of timing: investors were correct about the transformative power of the Internet but disastrously wrong about the path by which its value would emerge.

Today's environment is different in several critical ways. The leading companies driving the index higher, those building the compute infrastructure, the cloud platforms, the AI models, and the semiconductor technologies, are extraordinarily profitable. Their cash flows are not hypothetical. Their business models are tested and defensible. They benefit from staggering economies of scale. And they sit at the center of what is likely to be the most capital-intensive technology cycle of the twenty-first century. The comparison to 1999 falters at the most basic level: the leaders of that era were aspirational; the leaders of this one are operational. Their valuations are high, but not fantastical, and certainly not indicative of a market pricing vapor.

Yet dismissing dot-com analogies entirely would be a mistake. The relevant parallel is not that today resembles the peak of 2000, it does not, but that the late 1990s illustrate how markets behave when a general-purpose technology enters the diffusion phase. Investor psychology shifts rapidly from skepticism to enthusiasm. Valuation multiples expand not merely because earnings grow, but because investors begin to price long-duration growth opportunities. Capital flows oscillate between overexcitement and caution as investors grapple with the magnitude of the transformation underway. The result is not stable appreciation but a pattern of intense rallies, periodic corrections, and ultimately a valuation overshoot that is resolved only when the limits of the cycle become clear.

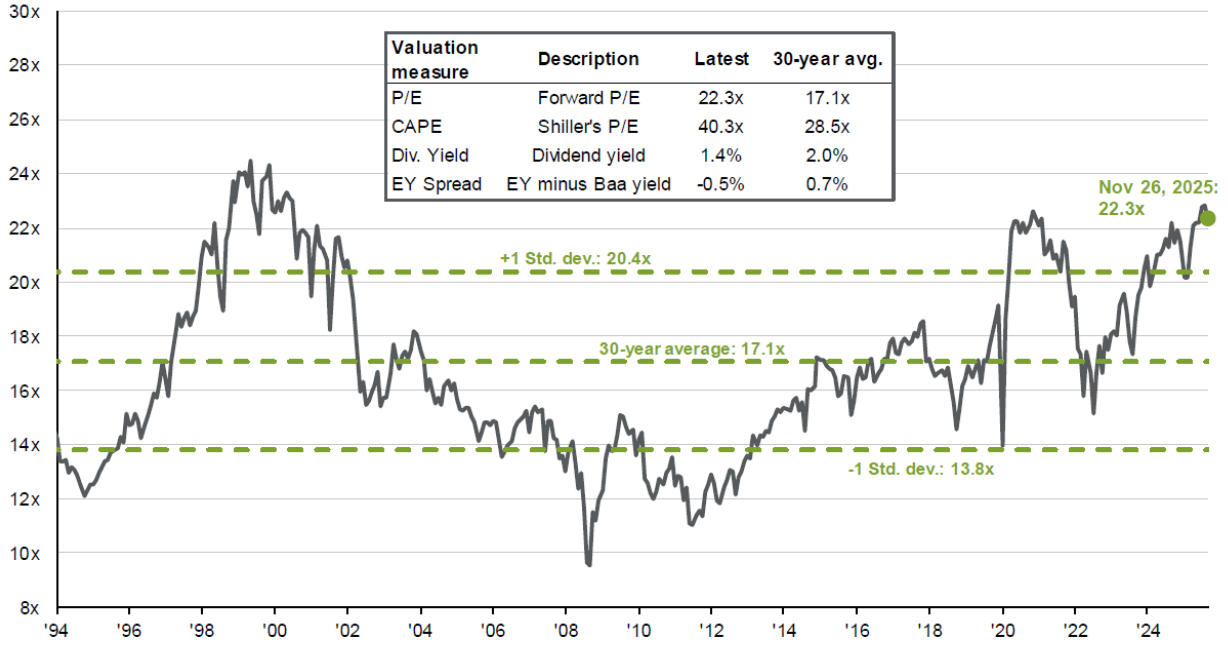
Even with stronger fundamentals today, valuation risk remains the defining feature of the next downturn. A company trading at thirty- or forty-times forward earnings does not need to experience an operational problem for its valuation to compress materially. It simply needs to grow more slowly than the market expects. This is the essence of valuation risk: it is not about the collapse of a business, but the collapse of

the narrative supporting the multiple. The bear market that eventually arrives will be driven not by earnings implosion but by the market's recognition that extraordinary growth, while real, cannot expand indefinitely at the same pace. In that sense, the present resembles the mid-to-late stages of the dot-com boom more than its peak. The technology is real, the profits are real, but the willingness of investors to extrapolate too far remains a persistent human pattern.

S&P 500 valuation measures

GTM | U.S. | 5

S&P 500 index: Forward P/E ratio



Source: Bloomberg, FactSet, Moody's, Refinitiv Datastream, Robert Shiller, Standard & Poor's, J.P. Morgan Asset Management.
Forward P/E ratio is the most recent S&P 500 index price divided by consensus analyst estimates for earnings in the next 12 months, provided by IBES since March 1994 and FactSet since January 2022. Shiller's P/E uses trailing 10-years of inflation-adjusted earnings as reported by companies. Dividend yield is calculated as consensus estimates of dividends in the next 12 months, provided by FactSet, divided by the most recent S&P 500 index price. EY minus Baa yield is the forward earnings yield (the inverse of the forward P/E ratio) minus the Bloomberg U.S. corporate Baa yield since December 2008 and interpolated using the Moody's Baa seasoned corporate bond yield for values beforehand.
Guide to the Markets – U.S. Data are as of November 26, 2025.

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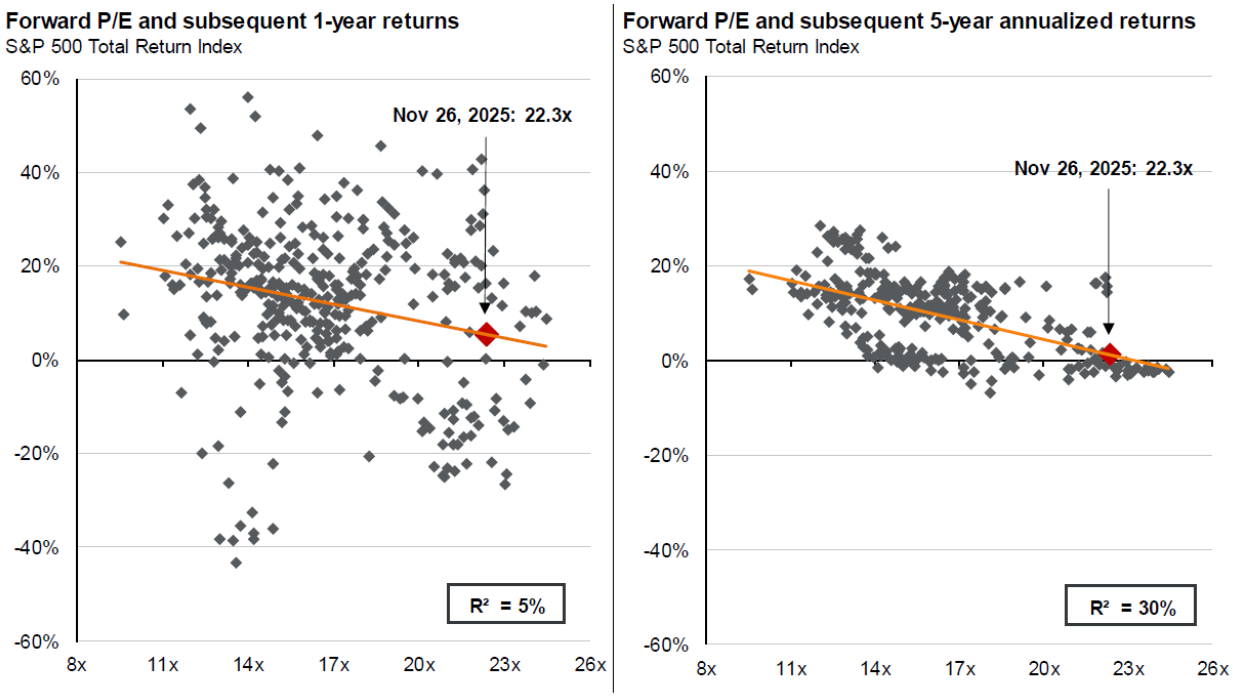
P/E ratios and equity returns

GTM | U.S. | 6



Source: FactSet, Refinitiv Datastream, Standard & Poor's, J.P. Morgan Asset Management.
Returns are 12-month and 60-month annualized total returns, measured monthly, beginning 12/31/1993. R^2 represents the percent of variation in total return that can be explained by forward P/E ratios. The forward P/E ratio is the most recent S&P 500 index price divided by consensus analyst estimates for earnings in the next 12 months, provided by IBES since December 1993 and FactSet since January 2022. Past performance is no guarantee of future results.
Guide to the Markets – U.S. Data are as of November 26, 2025.

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A second, more subtle comparison lies in the concentration of leadership. The largest technology companies today dominate market capitalization in ways reminiscent of IBM in the 1960s, Nifty Fifty names in the early 1970s, or Cisco, Microsoft, and Intel at the turn of the millennium. Narrow leadership is not inherently a sign of a bubble, but it is a sign of a maturing cycle. When a handful of companies capture the bulk of investor enthusiasm and performance, the dispersion of returns collapses, and the market becomes increasingly sensitive to the valuations and expectations placed upon those few names. This concentration is not automatically dangerous—it reflects the economic reality that a small number of firms are driving the AI revolution—but it does create vulnerability: if the leaders stumble, the index stumbles with them.

The contrast between the past and present can be summarized not by whether today is a bubble, but by how valuation expansion interacts with a real technological investment cycle. During the dot-com boom, investment did not keep pace with valuations; capital was cheap, but deployment was scattered and inefficient. Today, investment is not only keeping pace but far exceeding market expectations. Corporations are spending on AI infrastructure at a rate that rivals the largest industrial mobilizations in modern U.S. history. Unlike the dot-com period, where capital expenditure lagged market excitement, today's market is struggling to keep up with capex realities. This is why valuations can remain elevated longer than traditional models suggest: markets are attempting to discount a technology whose economic impact is real, multi-stage, and not yet fully priced.

The risk is not that investors are delusional, but that they eventually become impatient. The market's implicit narrative assumes that AI will deliver extraordinary productivity gains with minimal friction. Yet even transformative technologies take time to diffuse. Productivity gains emerge slowly at first, then suddenly, then unevenly across sectors. If the diffusion of AI productivity is slower than the market hopes in 2026 or 2027, valuations can compress sharply even if the long-term story remains intact. That dynamic of valuation compression in the face of slower-than-expected adoption, is the most likely bridge between the melt-up and the next downturn.

The correct lesson from the dot-com era is neither that we are repeating it nor that we are free from its logic. The lesson is that powerful technological transformations tend to generate periods of excessive valuation optimism even when the underlying technology is real. Markets overshoot not because the story is false but because the timeline is misunderstood. That is the environment we inhabit today: an extraordinary story with extraordinary potential, priced ambitiously but not irrationally, carried forward by earnings that justify optimism but still vulnerable to the disappointments inherent in any diffusion cycle.

The next section examines the macroeconomic counterpart to this technological transformation: the rise of industrial strategic capitalism and the restructuring of global supply chains, forces that are as essential to understanding the trajectory of this cycle as the AI boom itself.

VI. Industrial Strategic Capitalism and the Reordering of Global Supply Chains

The economic landscape of the United States has been reshaped in ways that few investors fully appreciate. Over the past several years, the country has embarked on a large-scale reconstruction of its industrial base. Not as an organic outcome of market forces, but as a deliberate, strategic response to geopolitical pressure, supply chain instability, and the recognition that national security now extends into domains once considered purely economic. The result is the emergence of what can best be described as industrial strategic capitalism, a hybrid system in which government, private enterprise, and capital markets operate in coordinated alignment to restore capabilities neglected in the era of hyper-globalization.

This shift did not occur overnight. It began with the realization that critical supply chains, particularly in semiconductors, rare earth materials, pharmaceuticals, and energy technologies, were dangerously concentrated in geopolitical regions where access could not be guaranteed. The vulnerability became undeniable during the pandemic and sharpened further as tensions rose between the United States and China. Policymakers concluded that the free-market logic that governed the global economy for three decades, prioritizing cost efficiency above all, had left the nation exposed. What followed was not simply a policy response but the beginning of a new economic architecture.

The CHIPS and Science Act represented the first major structural pivot. Rather than offering symbolic incentives, it committed hundreds of billions toward rebuilding the semiconductor ecosystem entirely on

U.S. soil. The legislation was not merely an industrial subsidy; it was a recognition that advanced computing had become a strategic asset akin to energy or defense. Semiconductors, and the fabs that produce them, now sit at the intersection of national security and economic sovereignty. That shift in perception fundamentally altered capital allocation incentives for both corporations and investors. Projects that once seemed uneconomical under traditional cost benchmarks suddenly became essential strategic investments supported by federal and state incentives.

The Inflation Reduction Act expanded the industrial reinvestment wave beyond semiconductors, triggering a nationwide buildout of clean energy infrastructure, battery manufacturing, grid modernization, and advanced manufacturing hubs. Whatever one's view of climate policy, the economic consequence is unambiguous: the United States is midstream in the largest physical industrial buildout in half a century. These investments are measured not in millions or even billions, but in hundreds of billions spread across multiple years. Unlike cyclical capital expenditures, which ebb and flow with business confidence, these commitments are long-duration and politically entrenched. They reinforce demand irrespective of short-term economic fluctuations, and they amplify the cycle in ways that extend well beyond typical late-stage expansions.

Defense spending has also undergone a structural transformation. Years of underinvestment, combined with the return of great-power competition, pushed the Department of Defense to initiate a generational modernization program. Hypersonic systems, space infrastructure, cyber capabilities, directed energy applications, munitions manufacturing, and autonomous platforms have all entered accelerated procurement cycles. Dual-use technologies, those with both military and commercial applications, have become the fastest-growing category of government-backed innovation. For capital markets, this means the defense sector is no longer a slow-growth industry but a key lever in strategic competition.

Rare earths and critical minerals provide yet another example. After decades of offshoring processing capabilities, the United States is now establishing domestic separation facilities, recycling capabilities, and mining operations. These projects will take years to reach full scale, but the trajectory is clear: the country aims to free itself from vulnerable choke points in the global supply chain. Strategic autonomy in materials, once an afterthought, has become an explicit economic priority.

All these forces contribute to an economic environment unlike any other in the post-Cold War era. Industrial strategic capitalism creates a multi-year floor under economic activity and one that does not depend on organic demand alone. These initiatives cannot be unwound easily. The political incentives supporting them run deep across both parties. The capital committed to them is measured in years, not quarters. And the private-public collaboration they rely on ensures that investment continues even if consumer confidence or corporate sentiment temporarily waver.

This structural investment wave alters cyclical dynamics. It reduces the severity of slowdowns. It raises the baseline of corporate earnings in sectors tied to national priorities. It shifts the geographic distribution of growth within the United States, reinvigorating regions that have not seen major industrial expansion in

generations. Most importantly, it binds together industrial capacity, energy systems, and national security in ways that ensure long-duration capital expenditure remains elevated long after the current AI cycle evolves into its next phases.

Artificial intelligence: Implementation

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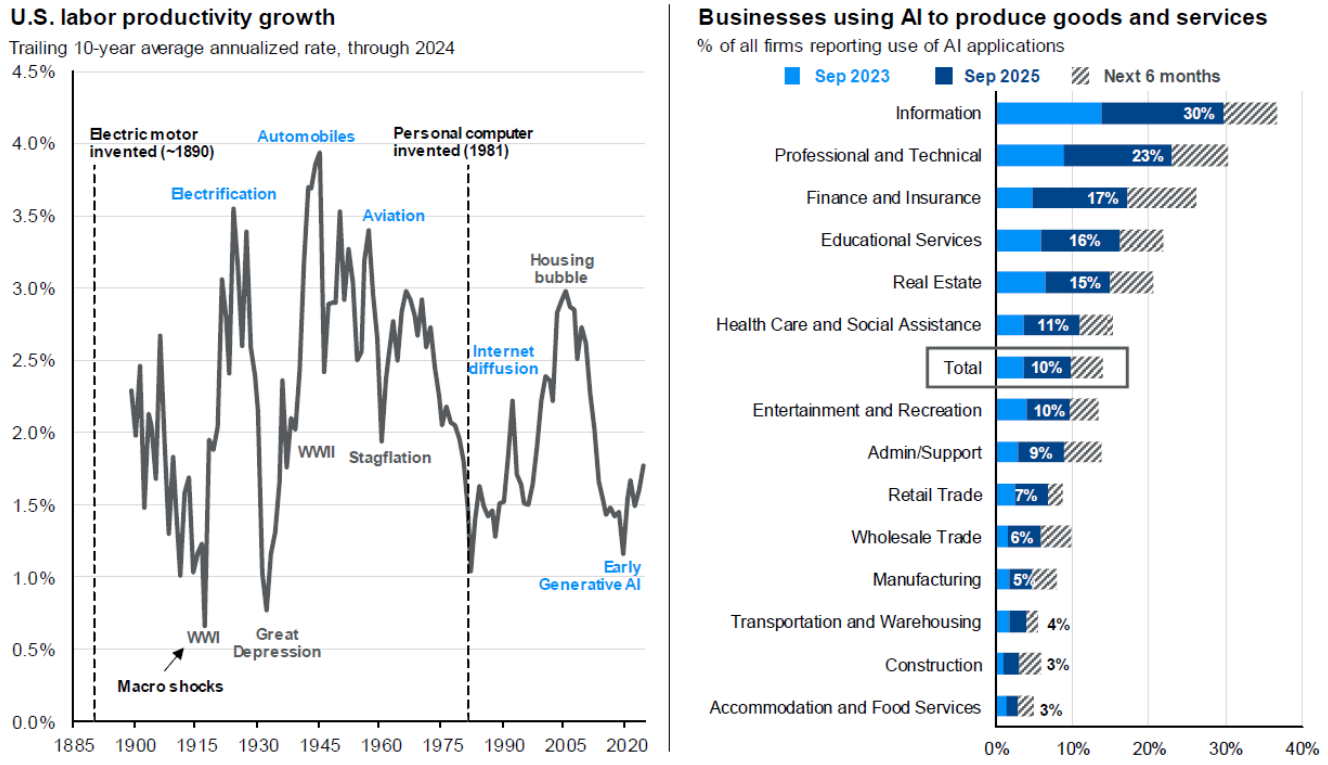

Source: J.P. Morgan Asset Management; (Left) BLS, NBER; (Right) Census Business Trends and Outlook Survey (AI Supplement).
Data from 1888 to 1957 reflect productivity data for the total private economy from John Kendrick, "Productivity Trends in the United States," NBER.
Data from 1958 to 2024 reflect nonfarm productivity data from the BLS.
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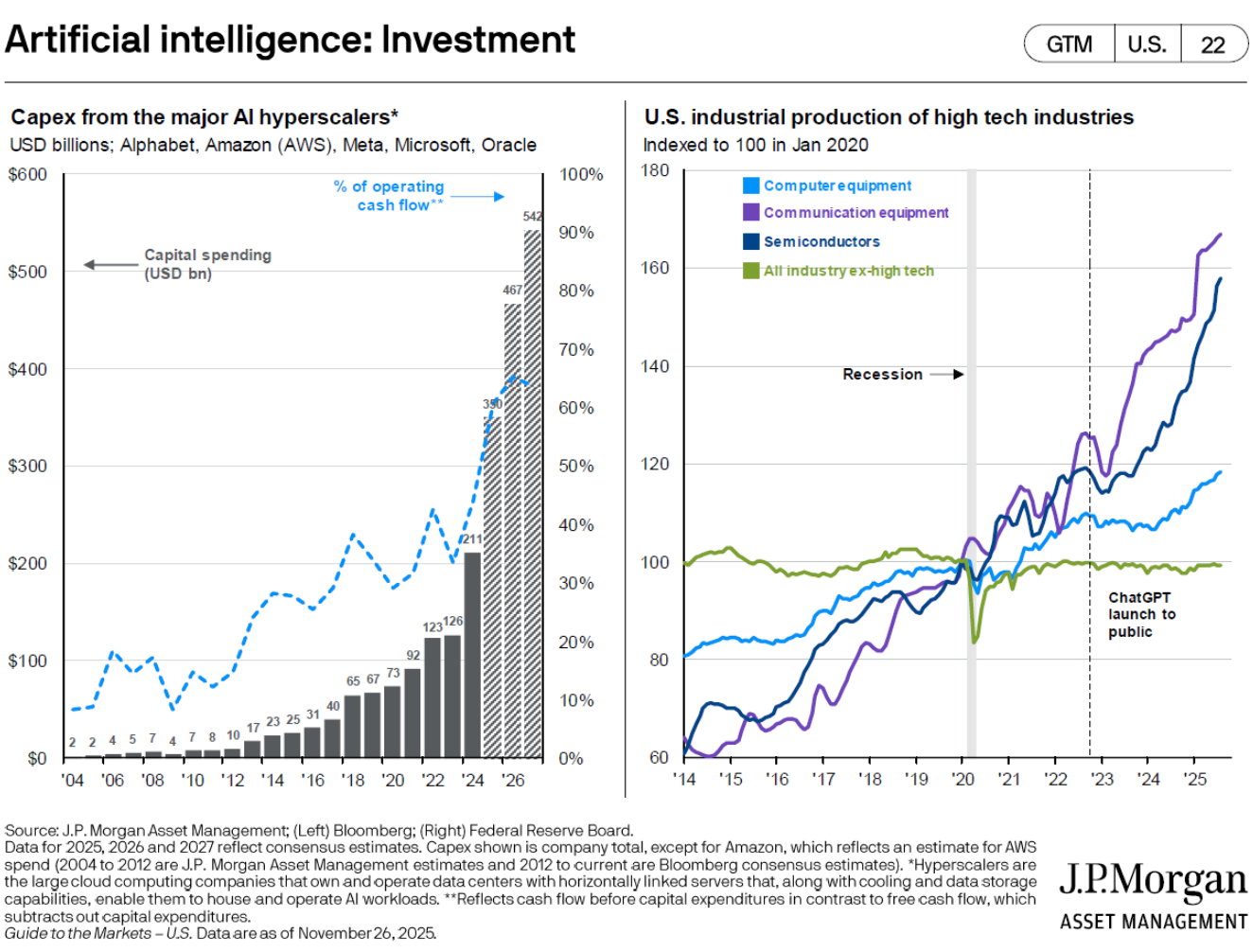
For investors, understanding industrial strategic capitalism is essential not merely because it drives near-term earnings but because it fundamentally changes the character of this expansion. Traditional late-cycle downturns occur when capital spending contracts, inventories accumulate, and private investment weakens. This time, public and quasi-public investment will not contract simultaneously with private investment. The industrial buildout is simply too large, too strategic, and too politically supported to be abandoned. That does not mean the economy is immune to a downturn. It does mean the downturn's contours will differ sharply from those of the past.

To grasp the full trajectory of the cycle, however, one must integrate the structural industrial rebuild with the concurrent technological transformation. The AI Supercycle is not a parallel story; it is intertwined with industrial policy, reshoring, energy demand, grid expansion, and materials independence. The next section explores the magnitude and sequencing of the AI Supercycle, the most misunderstood and underestimated

catalyst driving both the extension of the current expansion and the foundation of the next secular growth era.

VII. The AI Buildout's Silent Fragility: Reflexive Funding, Shadow Banking, and the Structural Circularity Beneath the Boom

The scale of the AI buildout has been widely discussed; its financing structure has not. Yet it is this structure and not the technology itself that introduces one of the most important sources of fragility in the late stages of the current expansion. The public narrative imagines that the AI infrastructure boom is funded primarily through the internal cash flows of hyperscale technology firms. That view contains truth, but it omits the far more intricate, circular, and increasingly leveraged capital architecture that now underpins the trillion-dollar expansion of compute, memory, energy, and data-center capacity.



Source: J.P. Morgan Asset Management; (Left) Bloomberg; (Right) Federal Reserve Board.
Data for 2025, 2026 and 2027 reflect consensus estimates. Capex shown is company total, except for Amazon, which reflects an estimate for AWS spend (2004 to 2012 are J.P. Morgan Asset Management estimates and 2012 to current are Bloomberg consensus estimates). *Hyperscalers are the large cloud computing companies that own and operate data centers with horizontally linked servers that, along with cooling and data storage capabilities, enable them to house and operate AI workloads. **Reflects cash flow before capital expenditures in contrast to free cash flow, which subtracts out capital expenditures.
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The AI buildout, the EV transition, the reshoring wave, and the energy transformation have created extraordinary capital demands. Balance sheets are absorbing enormous commitments. Some companies are using debt. Some are using dilution. Others are stretching free cash flow.

If capital markets tighten or if a recession emerges during the plateau, we will see stress in:

- leveraged industrials
- semiconductor suppliers with uneven demand
- utilities that stretch their balance sheets too far
- long-dated energy projects
- companies that depend on cheap financing for growth

The AI financing mechanism is fundamentally reflexive. Rising equity valuations among the hyperscalers reduce their cost of capital, enabling the issuance of long-duration debt or the use of stock-based compensation and secondary issuance to fund enormous capital expenditures. Those expenditures, in turn, stimulate demand across energy utilities, construction firms, power-equipment manufacturers, real estate developers, and semiconductor suppliers, all of whom must expand capacity rapidly. But these sectors rarely have balance sheets capable of absorbing such capital intensity alone. As a result, they turn to private credit lenders, structured finance vehicles, sovereign wealth funds, infrastructure funds, and the expanding world of shadow banking.

This creates a circular dependency: the valuations of Big Tech firms enable the financing of the infrastructure that supports the AI ecosystem, while the growth of that ecosystem reinforces the valuations of the companies doing the financing. The loop works brilliantly! Until it doesn't.

The shadow banking system plays a significant role in this loop. Private credit funds have become the de facto lenders to data-center developers, grid-expansion projects, hydrogen and renewable installations, and the auxiliary real-estate footprint of AI campuses. These loans are often structured with floating rates, limited covenants, and aggressive assumptions about occupancy and power pricing. Utilities, faced with unprecedented demand, are issuing debt or entering public-private partnerships to accelerate generation and transmission capacity, actions that increase their sensitivity to interest-rate volatility and regulatory uncertainty.

Infrastructure funds are raising record amounts. Everyone sees the same need: AI requires the largest physical expansion of computational infrastructure in history. But a quiet doubt is forming among sophisticated investors. Many are beginning to ask:

"Will we be rewarded for funding projects that may not generate cash for seven to ten years?"

This uncertainty is especially acute in long-lead energy projects, nuclear, grid modernization, hydro, and certain renewable expansions. These assets live on regulatory timelines, not market timelines. And if AI demand forecasts prove too aggressive, some of today's infrastructure bets could become tomorrow's stranded assets.

Simultaneously, compute and energy assets are increasingly being securitized. GPU leases, power-purchase agreements linked to AI data centers, and even "compute capacity futures" are being embedded into vehicles that bear resemblance to the securitization structures of the late 1990s telecom boom, not because they are unsound, but because they rely on uninterrupted acceleration of demand.

The most underappreciated fragility lies in the fact that none of these financing channels come with explicit guarantees. Sovereign wealth funds co-invest alongside hyperscalers not because the cash flows are guaranteed, but because they seek exposure to the next wave of technological infrastructure. Private credit managers underwrite these loans not because the projects are risk-free, but because the premiums on floating-rate loans compensate them in the short term. Utilities expand capacity not because of contractual certainty, but because failing to do so risks falling behind permanently in a world defined by electrification and compute demand.

This is not a bubble in the traditional sense. The demand for AI compute is real. The underlying technologies are real. The corporate commitments are real. Yet the capital structure built around these realities contains a set of silent assumptions:

- That demand for training and inference will not plateau at a moment when refinancing needs rise.
- That Big Tech valuations will remain high enough to support their role as both equity issuers and anchor tenants.
- That private credit markets will remain liquid.
- That global sovereign buyers will continue co-financing U.S. infrastructure projects.

The reflexivity is powerful in the upside direction, but it is reflexivity nonetheless. In a downturn, the transmission mechanism works in reverse:

- If valuations pull back sharply, the cost of capital for hyperscalers rises.
- If capital expenditures slow, data-center developers face liquidity mismatches.
- If private credit tightens, utilities must delay projects.
- If energy investments stall, power capacity becomes a constraint.

And with each delay, the AI buildout slows, reinforcing the very valuation pressures that triggered the cycle in the first place.

This is not a prediction of collapse. It is a recognition that the AI capital loop has become a structurally important part of the financial system, one whose health will shape the magnitude and texture of the next

downturn. The system is robust enough to continue powering the expansion through 2026 and into 2027. But investors must understand that the financing beneath the surface is highly interconnected, leveraged in places, and dependent on asset valuations in ways that were not characteristic of earlier technological buildouts.

Understanding this reflexive architecture is essential not only for navigating the melt-up, but for recognizing the pathways through which the next phase of the cycle will unfold.

VIII. Fiscal Dominance, Monetary Constraint, and the Architecture of Modern Liquidity

The traditional story of monetary policy begins with the belief that central banks determine the cost of money, and that through this lever they influence credit expansion, economic growth, and inflation. That story held true for decades, particularly during the post-Volcker era when federal debt levels were low enough that interest expense remained a manageable share of government outlays. Today, however, the United States operates under a different macroeconomic regime, one in which the fiscal position of the government constrains the Federal Reserve more than inflation or employment data. This regime is known as fiscal dominance, and understanding its implications is essential for interpreting both the extension of the current expansion and the nature of the structural transition that lies ahead.

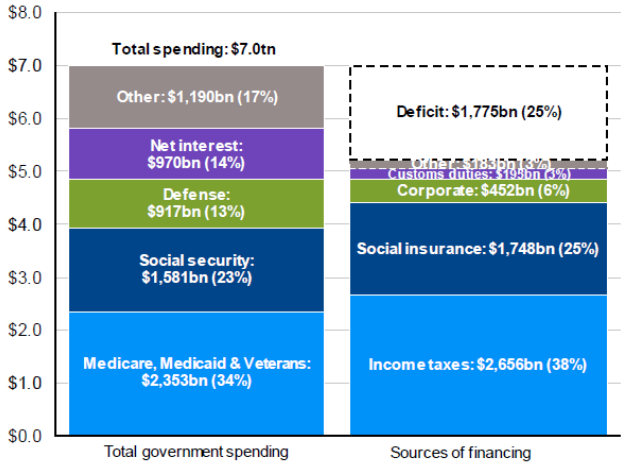
Fiscal dominance arises when the debt burden and interest expense of a sovereign grows so large that they limit the central bank's ability to raise interest rates without destabilizing the fiscal position. When debt-to-GDP ratios rise and refinancing needs become enormous, higher real rates are no longer simply a monetary tightening tool; they become a source of fiscal distress. In such an environment, monetary policy must adapt. The central bank cannot maintain restrictive real rates indefinitely without causing the sovereign's interest burden to spiral upward, threatening both market functioning and economic stability.

This is not theoretical. The United States now spends more on interest expense than on many essential federal programs. Treasury issuance has ballooned. Debt maturities have shortened. The Treasury market has become sensitive to changes in foreign demand, regulatory capital requirements, and dealer balance sheet capacity. The Federal Reserve cannot ignore these structural realities. It is obligated, by the mechanics of the fiscal system itself, to ensure that real yields do not rise to levels that render the debt trajectory unmanageable.

Federal finances

The 2025 federal budget

USD trillions

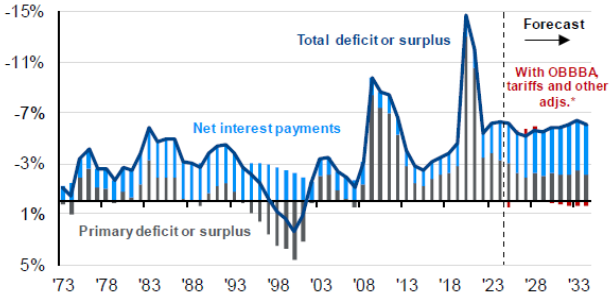


CBO's Baseline economic assumptions

	2025	'26-'27	'28-'29	'30-'35
Real GDP growth	2.2%	1.8%	1.8%	1.8%
10-year Treasury	4.1%	3.9%	3.9%	3.8%
Headline inflation (CPI)	2.3%	2.4%	2.3%	2.2%
Unemployment	4.2%	4.4%	4.4%	4.4%

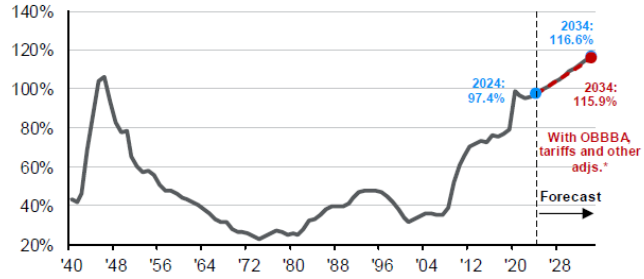
Federal deficit and net interest payments

% of GDP, 1973 - 2034, CBO Baseline Forecast



Federal net debt (accumulated deficits)

% of GDP, 1940 - 2034, CBO Baseline Forecast, end of fiscal year



Source: CBO, Treasury Department, J.P. Morgan Asset Management; (Left) Reflects actual FY 2025 government receipts and outlays based on data sourced from the Treasury Department. Numbers may not sum to 100% due to rounding; (Top and bottom right) BEA. Estimates are from the Congressional Budget Office (CBO) January 2025 An Update to the Budget Outlook: 2025 to 2035. "Other" spending includes, but is not limited to, health insurance subsidies, income security and federal civilian and military retirement. Years shown are fiscal years. OBBBA refers to the "One Big Beautiful Bill Act." *Adjusted by JPMAM to include estimates from the CBO July 2025 report "Estimated Budgetary Effects of Public Law 119-21, to Provide for Reconciliation Pursuant to Title II of H. Con. Res. 14, Relative to CBO's January 2025 Baseline." Figures are also adjusted to include JPMAM estimates of tariff revenues and the estimated cost of extending expiring tax cuts beyond 2028, based on CBO August 2025 report "Effects on Deficits and the Debt of Public Law 119-21 and of Making Certain Tax Policies in the Act Permanent." Forecasts are not a reliable indicator of future performance. Forecasts, projections and other forward-looking statements are based upon current beliefs and expectations. They are for illustrative purposes only and serve as an indication of what may occur. Given the inherent uncertainties and risks associated with forecasts, projections or other forward-looking statements, actual events, results or performance may differ materially from those reflected or contemplated.

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This is why the timing of rate cuts is less important than the inevitability of rate cuts. Markets often obsess over whether the Fed will cut in December or January, interpreting each meeting as a referendum on economic strength or weakness. But in a fiscally dominant regime, timing is a sideshow. What matters is that the structure of the system forces the central bank toward easier policy. The Fed must ensure that the Treasury market remains functional, that refinancing costs do not explode, and that liquidity remains sufficient to absorb ongoing issuance. The act of cutting, not the date of cutting, is what matters.

Fiscal dominance also explains the unusual behavior of liquidity in this cycle. Although the Federal Reserve formally tightened policy, liquidity never fully receded. Reverse repo balances fell, adding liquidity to the system. Treasury issuance skewed toward bills rather than longer-term bonds, easing pressure on duration supply. Bank reserves stabilized at levels necessary to avoid funding stress. And the expansion of the Federal Home Loan Bank system, alongside money market fund dynamics, created a persistent cushion of liquidity that prevented the expected contractionary effects of quantitative tightening from materializing.

At the same time, fiscal spending, much of it embedded in multi-year industrial policy programs, continued to inject demand into the economy. The government does not need to pass new stimulus bills to stimulate

the economy; the stimulus is already codified in law through multi-year commitments in semiconductors, clean energy, infrastructure, and defense. These programs operate as fiscal stabilizers, ensuring that investment continues even when private sentiment fluctuates.

The consequence is a paradoxical environment in which inflation remains above target, yet monetary policy cannot remain restrictive. The Federal Reserve must strike a delicate balance: maintaining the appearance of inflation discipline while ensuring that real yields remain contained. In most circumstances, this results in periods of rhetorical hawkishness paired with operational dovishness, a dynamic that perplexes conventional analysts but makes perfect sense under fiscal dominance.

The Fed and interest rates

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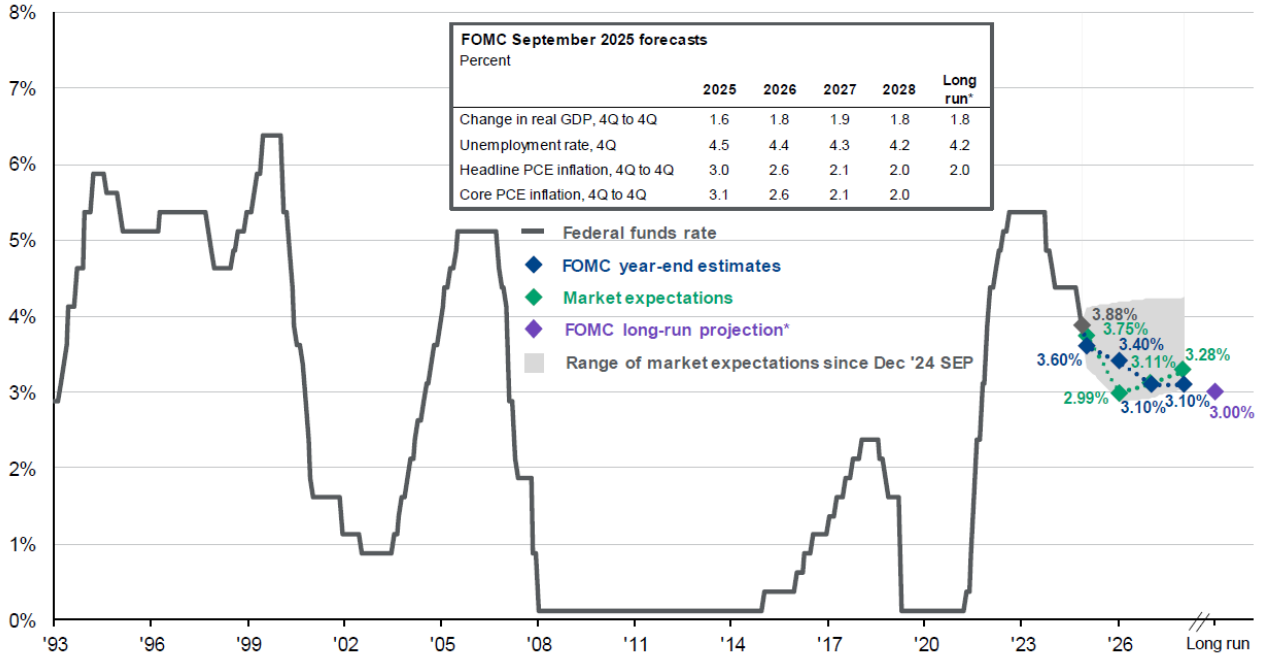
Federal funds rate expectations

FOMC and market expectations for the federal funds rate



Source: Bloomberg, FactSet, Federal Reserve, J.P. Morgan Asset Management.
Market expectations are based off of USD Overnight Index Swaps. *Long-run projections are the rates of growth, unemployment and inflation to which a policymaker expects the economy to converge over the next five to six years in absence of further shocks and under appropriate monetary policy. Forecasts, projections and other forward-looking statements are based upon current beliefs and expectations. They are for illustrative purposes only and serve as an indication of what may occur. Given the inherent uncertainties and risks associated with forecasts, projections or other forward-looking statements, actual events, results or performance may differ materially from those reflected or contemplated.
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For markets, fiscal dominance extends the late-cycle expansion. When the central bank is structurally constrained from tightening materially, asset prices tend to rise, particularly assets tied to long-duration growth such as technology and infrastructure. The cost of capital remains manageable. Credit spreads remain contained. Buybacks flourish. Valuation multiples expand and investors interpret the environment as more stable than it truly is.

Yet fiscal dominance also plants the seeds of future instability. The longer the central bank suppresses real yields, the greater the eventual misalignment between market pricing and fiscal arithmetic. The Treasury's growing refinancing burden will eventually intersect with demographic stresses, healthcare costs, and entitlement commitments. These constraints are not imminent threats, but they are structural realities that cannot be suppressed indefinitely. They will shape the character of the next downturn, making it less about cyclical weakness and more about valuation repricing amid constrained monetary policy.

Fiscal dominance does not guarantee a crisis, but it guarantees a regime in which policy flexibility narrows and the capacity to respond to shocks diminishes. It also guarantees that the path to the next downturn is unlikely to follow the conventional pattern of overheating, aggressive tightening, and contraction. Instead, it will follow a pattern defined by valuation excess meeting fiscal constraint and liquidity recalibration.

Understanding this macro regime is essential for interpreting the next stage of the market cycle. Liquidity will continue to support valuations in the near term, extending the expansion. But the structural pressures created by fiscal dominance will also define the boundaries of that expansion, shaping the timing and nature of the eventual downturn.

The next section explores How the Federal Reserve Quietly Supports Liquidity Even Without Explicit Stimulus and is a Sidebar on the Hidden Architecture of Monetary Support.

IX. How the Federal Reserve Quietly Supports Liquidity Even Without Explicit Stimulus

The Hidden Architecture of Monetary Support

One of the most misunderstood dynamics of the current cycle is the way in which the Federal Reserve is supporting liquidity without cutting rates aggressively or announcing any formal easing programs. The public narrative still emphasizes caution, "higher for longer," "data dependent," "balancing risks," yet the underlying machinery of the financial system tells a more nuanced story. Beneath the surface, several mechanisms operate in concert to keep the monetary system functioning smoothly during an era of high deficits, heavy Treasury issuance, and structural fiscal constraints.

The most important of these is the steady decline of balances in the Fed's overnight reverse repo (RRP) facility. As money-market funds shift capital from RRP into newly issued Treasury bills, the reduction in RRP liabilities effectively pushes liquidity back into the banking system. Even though the Fed continues quantitative tightening, this recycling of liquidity has offset a substantial share of the runoff. It is a quiet but powerful form of support, one that stabilizes reserves and keeps funding markets from tightening prematurely.

In parallel, the standing repo facilities introduced after the 2019 funding crisis act as a permanent safety valve. These facilities give banks, dealers, and even foreign central banks a reliable backstop for obtaining dollars against Treasuries. Their very existence dampens the probability of funding stress. While rarely used, they prevent the kind of liquidity freezes that once destabilized markets and ensure that Treasury issuance can be absorbed without breaking the system.

The architecture put in place during the Silicon Valley Bank turmoil offers another example. Programs like the Bank Term Funding Program provided term funding against securities at par, neutralizing mark-to-market losses that might otherwise have cascaded through the banking sector. Although those programs were temporary, they established a precedent: in moments of acute stress, the Fed will deploy targeted liquidity rather than broad stimulus, preserving stability without appearing to reverse its tightening stance.

These mechanisms are complemented by subtler choices in the pace and structure of balance-sheet runoff. The Fed has been careful not to drain reserves to the edge of scarcity. Quantitative tightening proceeds, but only within the boundaries of the "ample reserves" framework established after 2008. This is not stimulus, but it is constraint or better said, restraint designed to avoid the destabilizing scarcity that once triggered the 2019 repo spike.

Finally, the Treasury's decisions about issuance composition interact with the Fed's facilities to create a stabilizing effect. By issuing a higher proportion of short-term bills, the Treasury taps into deep pockets of demand from money-market funds and global investors. This reduces upward pressure on long-term yields, indirectly supporting financial conditions even as policy rates remain elevated. The Fed's interest-on-reserves mechanism and its repo backstops further reinforce this stability.

None of these actions constitute formal easing. They are not labeled as stimulus. Yet together they form a lattice of support that keeps the system functioning smoothly even as the Fed publicly maintains a restrictive stance. In an era of large deficits, heavy issuance, and rapid technological investment, these mechanisms allow the economy to advance further into the late-cycle expansion than headline monetary policy alone would imply.

More Recently, the Fed says it is in "tight policy" mode, but the Standing Repo Facility (SRF) is:

- Injecting overnight liquidity
- Setting a ceiling on repo rates
- Preventing collateral shortages
- Keeping Treasury markets functional during massive issuance

In effect: the SRF is QE-lite. The Fed provides cash against Treasuries, then the banks get reserves and the funding markets stay calm, which leads to the Treasury auctions clearing smoothly.

This is one of the unspoken forms of stimulus we just discussed:

- Bank Term Funding Program (BTFP)

- Reverse repo (RRP) runoff
- TGA swings
- SRF injections

However, we are now starting to see some rising funding pressure, according to the recent news, which means there may be some Treasury Market strain.

- Repo rates spiked above the Fed's target range
- SRF usage briefly surged above $50B
- Banks may be reluctant to tap it due to stigma
- Treasury issuance is about to dump tens of billions of collateral into the system

The Treasury market is the most fragile part of the financial system, and the Fed must intervene with their tools to prevent disorder. Whenever repo rates become unstable, it means:

- Dealers are balance-sheet constrained
- Treasury demand is weakening
- Volatility is starting to spill over into rates

This is the same dynamic as the 2019 repo blowout, which forced the Fed into emergency QE. Funding stress forces the Fed to intervene and any repo or SRF intervention is bullish for risk assets.

The fact that the Fed is testing the SRF and already tweaking it means:

- They're preparing to lean against disorder
- They will not allow the Treasury market to misfire
- They're implicitly backstopping leverage

However, this hints at future problems:

- SRF stigma
- Year-end balance-sheet window dressing
- Reduced dealer capacity
- Treasury issuance surging
- QT still underway until Dec 1

This means funding markets will remain episodically unstable and that the Treasury market may becoming systemically dependent on Fed support.

Eventually:

- The Fed may be forced to withdraw support
- Or inflation returns
- Or repo stress compounds
- Or issuance overwhelms demand

The SRF won't fix the long-term structural problem:

A $38 trillion debt load colliding with a shrinking balance-sheet capacity among dealers and banks. This becomes one of the triggers for the 2027–2028 downturn in our model, since the system's reliance on Fed plumbing is a long-term risk.

X. The Road to 2027: How the Melt-Up Unfolds

Late-cycle expansions do not simply drift upward; they accelerate. They do so not because fundamentals improve indefinitely, but because the combination of liquidity, technological optimism, and investor psychology produces a self-reinforcing dynamic. This acceleration phase, commonly referred to as the melt-up, is one of the most misunderstood features of market cycles. It does not represent irrationality; rather, it reflects the natural culmination of deeply rooted structural forces that remain intact even as the underlying fragilities quietly advance.

To understand how the melt-up is likely to unfold, it is first necessary to appreciate the tension between the market's forward-looking nature and the economy's slower, more inertial tendencies. Investors know that the long-term fiscal picture is unsustainable. They know that valuation multiples cannot expand forever. They know that geopolitical risks are rising, that energy constraints remain unresolved, and that the diffusion of AI productivity will likely be uneven. Yet markets do not trade on structural inevitability; they trade on marginal change. As long as liquidity remains supportive, earnings remain resilient, and technological transformation continues accelerating, the marginal signals remain overwhelmingly positive.

This is precisely the environment we are in today. Liquidity remains abundant despite formal tightening. AI investment continues to expand in breadth and depth. Reindustrialization is only partway through its buildout. Corporate earnings, while no longer accelerating at the pace of the immediate post-pandemic recovery, remain strong enough to justify capital investment across multiple sectors. The result is a market that recognizes its own late-cycle status but sees no immediate catalyst for reversal. And when markets perceive that a downturn is inevitable but not imminent, they tend to rise—sometimes sharply.

In the melt-up phase, price action becomes increasingly asymmetric. Pullbacks become shallow, often limited by the presence of structural buyers such as corporations executing buybacks, asset allocators rebalancing into weakness, and systematic strategies that respond to volatility suppression. At the same time, rallies become sharper, driven by fear of missing out, real or perceived competitive pressures, and the recognition that strong secular themes have not yet run their course. Investors who missed prior gains capitulate. Others who were cautiously positioned are gradually drawn back in. Those who were early to the AI theme deepen their conviction.

Breadth often narrows during this phase, as the strongest companies pull away from the pack. This narrowing is frequently misread as a sign of imminent collapse. In reality, it is a hallmark of late-cycle

leadership: the market consolidates around the firms best positioned to monetize the dominant technological and industrial themes. It is not instability; it is concentration. And concentration, while a source of vulnerability, also provides momentum.

The melt-up also carries a distinct psychological signature. Investors become increasingly conscious of the possibility that the cycle will end in the next couple of years, and this awareness paradoxically reinforces risk-taking. Opportunities seem finite. Windows appear narrow. Investors who fear being caught in the next downturn recognize that the safest course is not to avoid risk entirely, but to participate selectively while preparing to exit with discipline when the cycle turns. This mindset, simultaneous enthusiasm and caution, is uniquely conducive to momentum-driven price appreciation.

But the melt-up is not merely psychological. It is fundamentally grounded in real economic activity. AI infrastructure buildout continues at a pace unmatched in modern capital expenditure history. Industrial strategic capitalism delivers multi-year investment pipelines that do not slow when financial conditions tighten. The grid expansion and power-generation cycle, driven by the needs of AI data centers and electrification, is still in its early stages. Defense modernization intensifies as geopolitical tensions escalate. Productivity gains from early AI adoption begin to appear, unevenly but perceptibly, in corporate cost structures and output measures.

These forces give the melt-up more durability than in prior cycles. This is not a speculative boom built on borrowed money or on hopes of consumer adoption. It is a capital-deepening boom built on corporate necessity and national strategy. As a result, the melt-up can persist longer than traditional models would predict. It is not a deviation from economic fundamentals; it is an expression of them.

Yet even as the melt-up unfolds, the structural pressures that will eventually end the cycle continue to build. Fiscal deficits expand. The Treasury's refinancing burden grows. Valuations stretch further. Investors begin to question the sustainability of margins. Energy infrastructure runs into bottlenecks. The diffusion of AI productivity, slower and more nonlinear than many expect, begins to lag the market's forward expectations. None of these forces are fatal in the moment, but they accumulate, and the melt-up carries within it the seeds of its own unwinding.

What is most important for investors to understand is that melt-ups do not end because they lose momentum. They end because the structural forces that enabled them eventually collide with the constraints that cannot be deferred. In this case, we believe that collision is most likely to occur in 2027, when valuations, fiscal arithmetic, and liquidity capacity begin to converge. But between now and then, the most probable path is one of continued appreciation, punctuated, inevitably, by sharp but temporary corrections that serve more as resets than reversals.

Theme: AI compute boom, power crisis, semiconductor bottlenecks, industrial onshoring with a bullish backdrop of negative current Consumer Sentiment.
Objective: Capture final leg of the capex surge before the eventual plateau.

Consumer confidence and the stock market

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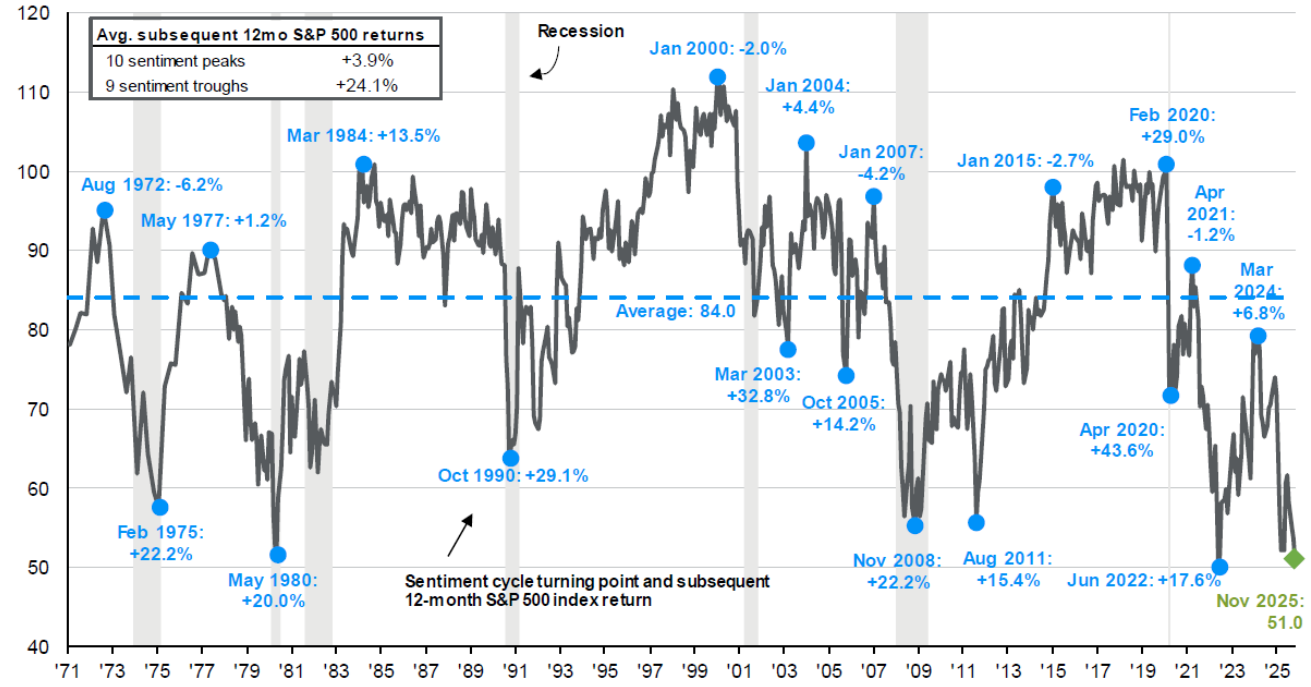
Consumer Sentiment Index and subsequent 12-month S&P 500 returns



Source: FactSet, Standard & Poor's, University of Michigan, J.P. Morgan Asset Management.
Peak is defined as the highest index value before a series of lower lows, while a trough is defined as the lowest index value before a series of higher highs. Subsequent 12-month S&P 500 returns are price returns only starting from the end of the month and excluding dividends. Past performance is no guarantee of future results.
Guide to the Markets – U.S. Data are as of November 26, 2025.

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The task for investors in this environment is not to predict the exact timing of the peak but to understand the sequence. Markets will continue to drift upward until they accelerate. That acceleration will attract skepticism, then participation, then overconfidence. And only then, when the expansion's strongest forces begin to exhaust themselves, will the transition toward compression begin. The next section addresses the practical implications for positioning through this late-cycle phase: how to participate intelligently, build resilience gradually, and prepare for the structural adjustment without sacrificing the returns available in the final stage of the expansion.

XI. Navigating the Late-Cycle Expansion: Positioning for Participation and Bear Market Preparation

Investing in the final stage of a long expansion requires a different mindset than investing in its beginning. Early in a cycle, caution is a luxury because valuation multiples are low, liquidity is abundant, and the opportunity set feels wide. Late in a cycle, caution becomes a necessity, but not in the form of retreat. The investors who navigate late-cycle periods most effectively are those who rebalance in a disciplined manner

on the way up in a proactive way. They are those who participate in the remaining upside while steadily improving portfolio resilience, recognizing that opportunity and risk are intertwined rather than mutually exclusive.

The challenge of late-cycle positioning lies in its inherent duality. On one side, the structural supports for continued appreciation remain powerful: the AI Supercycle is far from being exhausted, the industrial reinvestment wave has several years left, defense modernization is accelerating, and fiscal dominance ensures that liquidity will not be withdrawn aggressively. These are not ephemeral forces. They are durable engines of capital formation and corporate earnings, and they continue to justify meaningful exposure to growth, technology, and infrastructure. Exiting these areas too soon can mean missing some of the strongest returns of the entire cycle.

Artificial intelligence: Implementation

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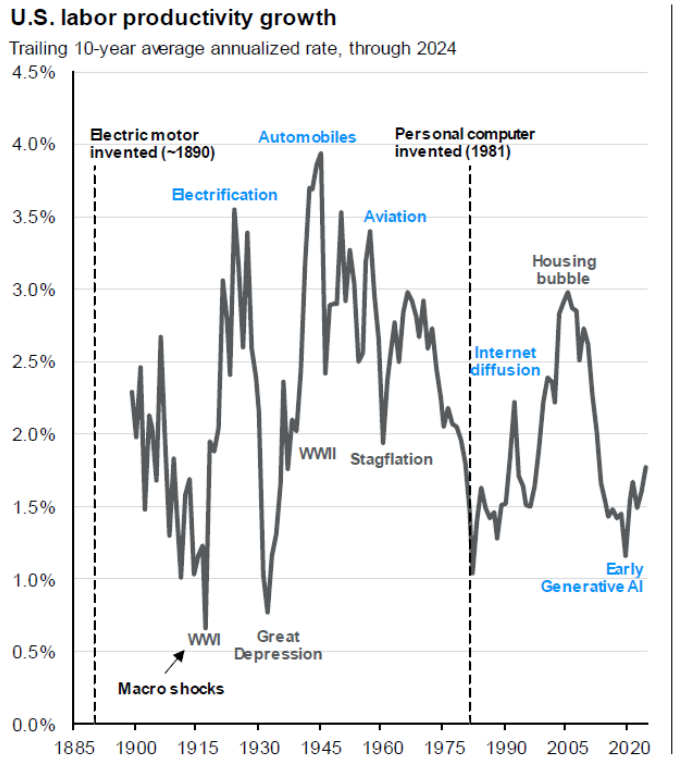

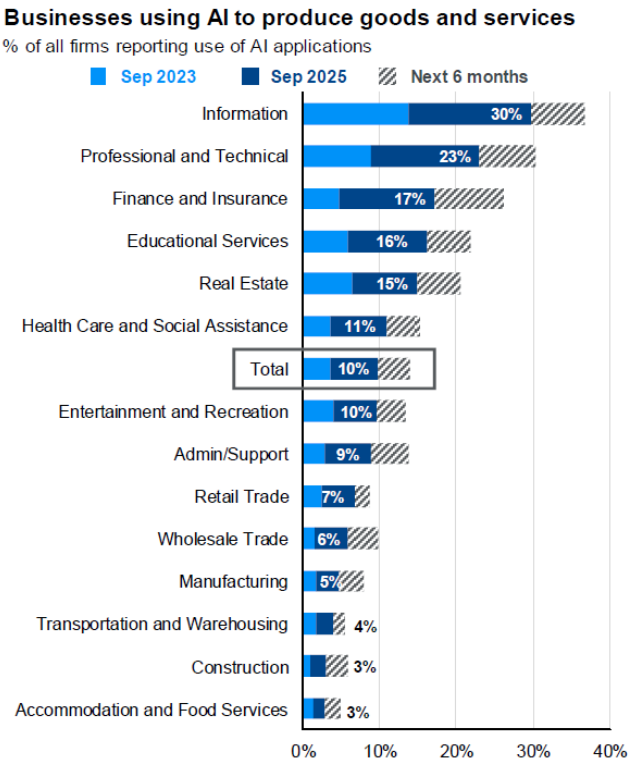

Source: J.P. Morgan Asset Management; (Left) BLS, NBER; (Right) Census Business Trends and Outlook Survey (AI Supplement).
Data from 1888 to 1957 reflect productivity data for the total private economy from John Kendrick, "Productivity Trends in the United States," NBER.
Data from 1958 to 2024 reflect nonfarm productivity data from the BLS.
Guide to the Markets – U.S. Data are as of November 26, 2025.

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On the other side, late-cycle conditions require acknowledging that the risks ahead are not symmetrical. Valuations are extended, particularly in the largest technology firms. The Treasury's refinancing burden grows larger each quarter. Real rates need to remain contained for fiscal reasons rather than macroeconomic ones. Earnings expectations for 2026 and 2027 embed assumptions about AI adoption and

margin expansion that may be directionally correct but optimistic in their timing. Liquidity conditions, while supportive, rely on a delicate balance of Treasury issuance composition, central bank flexibility, and global demand for U.S. duration. These dynamics do not demand defensiveness now, but they demand preparation.

The art of late-cycle positioning, therefore, is not in choosing one side of the ledger over the other, but in integrating both. This integration begins with recognizing that not all risk assets behave the same at this stage of the cycle. Companies at the center of AI infrastructure and industrial capacity expansion continue to benefit from fundamental demand. Their earnings are not dependent solely on multiple expansion. They have pricing power, strategic relevance, and privileged access to capital. Remaining exposed to these areas is essential, not speculative. At the same time, companies that rely primarily on multiple expansion or whose valuations have outrun their earnings power become increasingly vulnerable to repricing as the cycle matures. The most important factor is that investors who have maintained an overweight to risk during the bull market cycle need to rebalance down to their target risk profile first and then ultimately move to a more defensive position. It is more important to be early than it is to be late when you are in this late in the bull market. In prior bear markets like the Tech Bubble or the Financial Crisis, the equity markets gave up many years' worth of returns in a short amount of time. This is where people have spoken in the past about losing a decade of returns at the bottom.

This environment rewards precision. It favors quality over hope, balance sheet strength over aspirational narratives, and companies positioned inside structural investment streams rather than those orbiting them. It encourages investors to think not only about where growth is occurring, but where growth is defensible in a valuation compression scenario. It invites reexamination of position sizing, not abandonment of themes. Many investors make the mistake of viewing late-cycle positioning as an all-or-nothing proposition. In reality, it is a process of reweighting: increasing exposure to durable innovators, reducing exposure to the most stretched valuations, and substituting fragile cyclicals with companies whose demand remains anchored in multi-year public and private investment cycles.

Liquidity strategy also takes on heightened importance. During late-cycle phases, liquidity is both a shield and a sword. It can help protect against forced selling and sharp drawdowns, but it also enables opportunistic buying during shallow corrections that are characteristic of melt-up periods. Maintaining liquidity is not a retreat from risk; it is a way of preserving optionality. In expansions driven by innovation and industrial investment, moments of market weakness often reveal mispriced assets temporarily orphaned by volatility rather than by changes in fundamentals.

Finally, late-cycle positioning requires psychological discipline. Investors must resist the twin temptations of irrational exuberance and premature pessimism. Exuberance leads to overexposure at precisely the point when valuations are most fragile. Premature pessimism leads to missed gains and reactive decision-making. The investors who navigate this stage most effectively understand that cycles tend to exhaust themselves not suddenly but gradually; that liquidity and sentiment can fuel surprising additional gains; and that the end of the expansion should be prepared for, not predicted.

XII. Artificial Intelligence, Jobs, and the Human Cost of Rapid Transformation

As we look into the future, the political environment becomes one of the most important sources of uncertainty. Elections bring the potential for major policy shifts in taxes, regulation, trade, and industrial priorities. Both parties have proposals on the table that could meaningfully alter the earnings landscape.

The most powerful undercurrent in the economy right now isn't inflation, rates, or even valuations. It's the quiet but growing anxiety about AI and its impact on work. For the first time, the layoffs referencing AI directly have become measurable and frequent enough to matter. While the labor market remains resilient, the composition of risk is changing.

Corporations are exploring how to automate call centers, accounting functions, legal tasks, marketing, basic IT, quality control, and operational roles. For decades, automation threatened physical labor. Now it threatens intellectual labor as well, and this shift is stirring a deeper emotional reaction.

Some prominent voices in technology have suggested a future where "no one needs to work if they don't want to." Elon Musk has stated on multiple occasions that AI will eventually handle everything and that humans will choose to work only if they find it fulfilling.

As inspiring as that sounds, it is not economically realistic. If machines do most of the work, the income required to support people would have to come from either corporations or government. Universal basic income becomes the next logical idea, but UBI at a meaningful level would require funding that far exceeds what taxpayers could support. Even if it existed, it would not come close to replacing the discretionary income, sense of achievement, or upward mobility that meaningful work provides.

Psychologists have written extensively about the importance of purpose, structure, and contribution in human well-being. Work is not just financial, it is emotional. It anchors identity, provides community, and creates a sense of progress. Removing work does not solve a problem; it creates a void that neither technology nor subsidies can fill.

"Humans are not wired for idleness. We need a sense of purpose more than we need material comforts."

This is why AI-driven job displacement carries political and social implications that go well beyond economics. If people fear that their future will be smaller than their past, markets eventually reflect that tension. Not through earnings, immediately, but through policy, taxes, regulation, and volatility. These risks are partly illustrated in today's near record low reading in the Consumer Sentiment Index, and politicians would be wise to keep an eye on them, as well as investors. Every revolution in automation carries the risk of a change in administration that brings promises of more opportunity for the group most at-risk of being displaced. A change in administration can bring unpredictable changes to policy that can lead to higher tax rates, more regulations, and increased costs for companies, to deal with the very real issues that will be facing the country soon in the future.

If a new administration decides to raise taxes, especially corporate taxes, the immediate effect will be pressure on profit margins and a decline in after-tax earnings. The market tends to react quickly to these adjustments. Even modest rate increases ripple through valuations.

Tariffs are another live risk. A more protectionist policy could lift certain domestic industries but also raise costs for consumers and worsen global tensions. Tariffs often create inflationary pressure that forces the Federal Reserve to respond, tightening financial conditions in an already fragile environment.

AI regulation sits at a particularly sensitive intersection. Politicians are torn between encouraging innovation and responding to public anxiety about job displacement, misinformation, data use, and market concentration. The regulatory path will affect business models, margins, and the speed of adoption. Some companies may welcome regulation as a moat. Others may find their cost structures transformed.

The next administration, whoever leads it, will inherit a world in motion, and volatility tends to thrive in that kind of transition.

The next section addresses the crucial turning point: the transition from expansion to adjustment and the likely structure of the next bear market. Understanding this transition is essential for knowing not only how to participate in the melt-up, but how and when to shift positioning as the forces sustaining the cycle begin to give way to the constraints that will define its end.

XIII. The Next Bear Market: Structure, Triggers, and the Nature of the Coming Bear Market Adjustment

The transition from late-cycle expansion to the next downturn will not follow the familiar pattern of past business cycles. That pattern of overheating, tightening, and contraction belongs to an era in which the Federal Reserve acted with significant independence, the Treasury market possessed greater absorption capacity, and the structure of the real economy was less entwined with national security imperatives. Today's environment is shaped instead by fiscal dominance, geopolitical realignment, and a technological capital formation wave that dilutes many of the conventional early-warning signals economists rely upon. For this reason, the next downturn is less likely to resemble 2008 or 1974—deep, credit-driven contractions—and more likely to resemble valuation compressions such as those in 2000–2002 and/or liquidity adjustments such as in 1966, 1987, 1994, 1998, and 2022 (if the Fed is forced to tighten because of inflation). The downturn ahead will be structural, not cyclical; valuation-driven, not earnings-driven; and precipitated by a collision between fiscal constraints and market expectations rather than a collapse in underlying economic activity.

The heart of the coming adjustment lies in valuation compression. As the expansion continues through 2026 and into 2027, the largest technology and AI-adjacent firms will carry a disproportionate share of market returns. Their valuations, already elevated relative to long-term history, will expand further as investors increasingly price not simply the short-term earnings contribution of AI infrastructure but the long-term productivity potential embedded within it. This is rational in context: the companies at the center of the AI transformation possess defensible moats, immense scale, and visibility into long-duration demand. Yet rational valuation expansion still produces fragility. When expectations stretch far ahead of realizable outcomes, even if those outcomes are substantial, then the path of least resistance eventually shifts from expansion to normalization.

The mechanism of that shift is not a collapse in business models. It is gradual recognition that growth, while strong, cannot outpace its cost of capital forever. In periods where valuations are high and liquidity abundant, small disappointments can lead to large repricings. Revenue that grows strongly but not explosively; margins that remain robust but no longer expand; capital expenditures that remain high due to competitive necessity, all of these can trigger a shift in narrative from boundless optimism to measured realism. Under ordinary circumstances, such a shift would create a healthy consolidation rather than a downturn. But in a late-cycle environment shaped by fiscal and monetary constraints, that consolidation becomes the opening through which deeper structural pressures flow.

The most important of these pressures is the refinancing burden of the U.S. Treasury. As the government continues to roll over large portions of its debt at higher nominal rates, interest expense consumes an increasingly large share of federal revenue. This dynamic, already visible today, becomes more acute in 2027 and 2028 as prior low-rate maturities convert into higher-rate obligations. The Treasury must issue large volumes of securities across the curve to meet these obligations, and while markets have absorbed issuance thus far, they have done so with the implicit support of a Federal Reserve unable to permit long-term yields to rise excessively. The capacity of foreign buyers, banks, and domestic funds to absorb continued heavy issuance cannot be assumed indefinitely. If investor appetite shows signs of fatigue precisely as valuations become more vulnerable, the adjustment in asset prices can be sharp.

Unlike in classic tightening cycles, the Federal Reserve may be constrained in its ability to respond aggressively. In a fiscally dominant regime, rate cuts may already be underway by 2027 to manage the government's refinancing burden. Should market stress emerge concurrently, with valuations elevated and liquidity thinning, then the Fed may find itself with limited policy space. It can cut rates further, but doing so may reignite inflationary pressures, particularly if AI infrastructure continues to strain the grid and energy markets. It can intervene through liquidity facilities, but such interventions may be viewed as supportive rather than corrective if underlying valuation excess remains unresolved. The Fed can manage symptoms but not the structure of the fiscal imbalance.

It is important to recognize that despite what the Fed's goal may be push interest rates down lower and to hold them there for longer in 2026, there is also a scenario where they are forced to raise short-term interest rates again to fight an inflation spike. A forced-hike scenario compresses the melt-up, accelerates

the transition window, and pulls forward the next bear market, but it does not break the secular AI-industrial super-cycle; it simply lowers the peak and improves forward returns. The risk to investors is not that rates rise, but that they rise after valuations have already become stretched, which is why our strategy would pivot earlier and we would use the drawdown as one of the best entry points of this decade. It is our belief that a new and more dovish Fed will try to avoid hiking rates unless it is a last resort.

This dynamic, valuation excess meeting fiscal constraint, defines the essence of the coming downturn. It is not triggered by recession, but it can cause one. It is not precipitated by failing companies, but it can create conditions in which earnings contract. It is not driven by a collapse in liquidity, but by a shift in the character of liquidity from stabilizing to insufficient. And because the transition is structural, not cyclical, the downturn is likely to unfold gradually rather than suddenly. It may begin with narrow leadership faltering. It may widen through the index as investors rotate defensively. It may be interrupted by powerful rallies as policymakers respond. But the gravitational force will be downward until valuations normalize enough to make long-term returns attractive again.

Importantly, this adjustment is unlikely to be catastrophic. The industrial and technological foundations of the economy remain strong. Corporate balance sheets are robust. The banking system is far better capitalized than it was in prior eras of stress. The AI productivity cycle will continue to advance even during a downturn, and industrial reinvestment will not reverse abruptly. The most probable shape of the downturn is a prolonged valuation compression that reduces market multiples without collapsing earnings outright. The decline may be deep, but it is not likely to be destructive. A reduction in equity values of roughly a quarter to a third fits the historical pattern of valuation-led adjustments, particularly those occurring after periods of concentrated leadership.

The timing of this transition centers on 2027 not by prediction, but by the logic of the underlying forces. It is the year when the intersection of valuations, fiscal arithmetic, and liquidity capacity becomes sharp enough to matter. It is the period where the AI training buildout may level off before the inference and productivity phases fully compensate. It is the moment when Treasury issuance needs and demographic pressures on entitlement spending create visible tensions. And it is the stage of the cycle when investors are most likely to question whether expectations built into current valuations can truly be met on the timetable implied.

The recognition that the coming downturn is structural rather than cyclical is essential for planning. It requires preparation that is intentional but not premature. It requires attention to quality, durability, and balance sheet strength. And it requires the discipline to maintain exposure during the melt-up while gradually shifting weight toward assets that preserve capital when the adjustment begins.

But valuation compression alone may not be the entire story. The backdrop in which it occurs matters equally. By the time markets begin their descent, the labor market will already be experiencing the early outlines of AI-driven disruption. Companies will have consolidated workflows, slowed hiring, and quietly eliminated categories of entry-level administrative or analytical work. These changes will not yet amount to

mass unemployment, but they will create an unmistakable feeling of vulnerability. Workers will likely sense that the structure of opportunity is changing in ways they cannot fully predict. Many will wonder whether the future includes a role for them at all.

This emerging insecurity may shape the political climate dramatically. The election cycle of 2028 could unfold against a backdrop of rising anxiety, stagnating real affordability, and a belief among many that prosperity is being concentrated among those who control the new technological platforms rather than those who work within them. In such an environment, market declines take on symbolic significance. They are not simply price adjustments, they become evidence, to many voters, that the system is fragile and that the gains of the last cycle were unevenly shared.

Against this social backdrop, fiscal policy will find itself constrained. The government's ability to respond to the downturn will be limited by the rising share of federal revenue already consumed by interest expense. A Treasury struggling to refinance increasingly expensive debt will not have the freedom to deploy the types of large-scale stimulus packages that characterized the early 2000s, the post-2008 period, or the pandemic years. The Federal Reserve, already operating under the constraints of fiscal dominance, will be able to cut rates but not in a manner that fundamentally resolves the underlying fiscal arithmetic. For the first time in decades, both tools of macroeconomic management, the federal purse and the central bank, will be partially muted while the economy demands responsiveness.

The political consequences might be unavoidable. Taxation will become the axis of national debate. Some constituencies will argue for higher taxes on corporations, capital, or high earners as a means of funding new safety nets or stabilizing the fiscal trajectory. Others will resist tax increases fiercely, arguing that capital must be protected to preserve innovation. The tension between these views will not be academic. It will be visceral, reflecting a society grappling with real questions about distribution, fairness, and the pace of technological change.

None of this implies that the 2027–2028 downturn becomes a crisis. The fundamental economic engines of the United States will remain intact. AI adoption will continue. Industrial strategic capitalism will not unwind. Corporate balance sheets will remain strong. And the institutions that have weathered greater storms will remain functional. But it does mean that the adjustment will feel different from prior downturns. It will carry a deeper emotional texture, not just because of market losses, but because it will reveal the early outlines of the social and political challenges that AI and fiscal constraints are beginning to create.

The downturn will reset valuations, could reshuffle leadership, and may force a reconsideration of what constitutes sustainable growth in an era shaped by fiscal limits and disruptive technology. It will not resolve the deeper tensions. It will simply expose them. The deeper, long-tail risk lies further out, where AI, labor displacement, and fiscal exhaustion could converge more forcefully if not addressed. That scenario is not the base case, but it is a real possibility—one that deserves its own place in this paper.

Theme: Preserve capital during capex slowdown, liquidity tightening, and valuation compression.

Objective: Cash flow, resilience, cost-saving AI, hard assets.

The next section examines how valuation compression can happen in a Mega-Cap technology company, to better understand how the Bear market cycle may work.

XIV. Valuation Compression in a Mega-Cap Technology Company

One of the most important dynamics to understand as we approach the latter stages of this cycle is how valuation compression unfolds inside a mega-cap technology company. These firms possess extraordinary scale, durable moats, global reach, and unmatched cash generation. They are the engines of the current expansion. Yet their very success creates the conditions under which a future repricing becomes not only possible but likely. The process is rarely sudden; instead, it unfolds through a subtle but powerful mismatch between expectations and realizations, a mismatch that only becomes visible late in the cycle.

Mega-cap technology companies trade not merely on current earnings but on the future arc of growth: their ability to monetize AI, scale inference, expand cloud footprints, extract operating leverage, and convert their dominant market positions into lasting cash flows. These expectations become embedded in their multiples. When optimism is high and liquidity abundant, markets price these companies on the assumption that the future arrives cleanly, smoothly, and on schedule. The reality is always more uneven.

Valuation compression begins when expectations move out ahead of execution. It seldom requires an earnings miss or a demand collapse. More often, it begins with something subtle: growth that slows from extraordinary to merely strong, margins that remain high but stop expanding, or capital expenditures that stay elevated longer than expected. For a mega-cap firm, these developments do not signal weakness. They signal maturation. But in a market priced for acceleration, maturation feels like disappointment.

The mechanics of valuation compression in a mega-cap often follow a familiar pattern:

• Narrative inflection precedes financial inflection.
Investors begin to question whether the next phase of the company's AI monetization cycle will arrive on time. The market still rewards the firm for dominance, but the aura of inevitability weakens.

• Growth decelerates from exceptional to excellent.
A company posting revenue growth of 18% instead of 24% is still performing at world-class levels, but for a stock trading at 35 or 40 times earnings, the difference is meaningful. Markets do not need bad news to reprice; they simply need less good news.

• Capital intensity remains high.

AI infrastructure spending continues, not because the company misjudged demand, but because competitors are racing just as aggressively. What investors imagined would be a tapering of capex becomes a semi-permanent requirement of remaining competitive.

• Operating leverage plateaus.
The cost benefits that come from scale do not vanish, but they do not produce the incremental margin expansion to which investors had become accustomed. The company is still formidable; it is simply no longer becoming more formidable at the same rate.

None of these developments imply that the business is weakening. They imply that the business is transitioning from hyper-growth to durable expansion, which is precisely what a mature platform at global scale should do. But valuations built on the expectation of perpetual acceleration do not recalibrate gently. They recalibrate through compression.

In a late-cycle environment, with the market priced for technological transformation and liquidity constrained by fiscal realities, this recalibration becomes more pronounced. Earnings remain strong, cash flows remain abundant, and competitive positioning remains enviable, yet the multiple contracts because the timeline of the future shifts outward. When a mega-cap priced for tomorrow delivers a result that looks more like today, the market adjusts the discount rate it applies to the long arc of potential.

This process is most visible during transitions in technological cycles. In the context of the AI Supercycle, the training wave gives way to the inference wave, and the inference wave gives way to the productivity wave. Each stage is larger than the one before it, but the market rarely discounts the transition smoothly. It repeatedly prices the next phase too quickly and adjusts in periods of disappointment or recalibration.

This is why valuation compression in mega-caps can coexist with strong fundamentals. It is not weakness that drives the repricing — it is timing. A firm can grow earnings, increase free cash flow, and deepen its competitive moat while its stock declines meaningfully because the market had extrapolated a curve that proved too steep. The best companies in the world often experience their sharpest drawdowns not when their businesses deteriorate but when expectations finally reconnect with reality.

Understanding this dynamic is critical for navigating the next phase of the cycle. The objective is not to avoid exposure to these firms, since they remain central to the economic transformation underway. The objective is to recognize that valuation compression is a natural feature of late-cycle markets and that it often affects the strongest companies first precisely because they carry the highest expectations. When the adjustment comes, the fundamentals will remain sound, the platforms will remain dominant, and the long-term opportunity will remain compelling. But the path from here to there will likely involve a period in which the multiple contracts even as the business continues to perform.

For investors, the lesson is as strategic as it is psychological: the companies that lead the melt-up can also lead the valuation reset. That does not diminish their long-term importance. It simply means that timing,

expectations, and the structure of the cycle matter as much as the underlying business itself. In the next downturn, whenever it arrives, understanding the mechanics of valuation compression will be essential not for abandoning these companies, but for re-entering them with conviction once the excess has been priced out.

The next section examines the most consequential structural dimension of that adjustment: the soft default pathways available to the United States and the implications of fiscal constraint for long-term investment strategy.

XV. The Soft Default Pathways: How the United States Manages Its Fiscal Reckoning

The fiscal trajectory of the United States has entered a phase in which the traditional mechanisms of adjustment—discretionary spending cuts, entitlement reform, or large-scale tax increases—are politically implausible, economically disruptive, or both. This does not mean the United States is heading toward a literal default. Rather, it means that the country is moving deeper into a regime where debt is managed not through overt restructuring but through a series of implicit mechanisms that reduce its real value over time. These mechanisms are often referred to collectively as a soft default: a process by which the government meets its nominal obligations while gradually eroding the inflation-adjusted burden of those obligations.

Understanding the soft default landscape is essential because it shapes not only the long-term investment environment but also the structure of the next downturn. The mechanisms through which a soft default unfolds are subtle and distributed across several domains of policy. They do not announce themselves. They manifest in the quiet interplay between inflation, interest rates, fiscal decisions, and monetary accommodation. And because they operate gradually, they can co-exist with expansions and bull markets, even as they set the parameters for the eventual adjustment.

The simplest soft default pathway is through inflation. When inflation remains modestly above target for an extended period, the real value of outstanding debt erodes. This is the most politically palatable mechanism because it does not require explicit legislative action; inflation becomes a de facto refinancing tool. The Federal Reserve, constrained by fiscal dominance, cannot aggressively suppress inflation without destabilizing Treasury financing. As a result, the long-term equilibrium inflation rate in a fiscally constrained regime tends to drift upward. Inflation does not need to be high; it needs only to exceed the average cost of debt issuance for the soft default dynamic to become operative.

A second pathway is financial repression, which involves maintaining interest rates below inflation for prolonged periods. In such scenarios, savers subsidize borrowers, and the government reduces its debt burden indirectly through negative real returns. Historically, this mechanism was used extensively in the decades following World War II, when the United States and many European countries faced high debt-to-GDP ratios. Today, financial repression appears not in the form of explicit caps on bond yields, but in the

structural inability of the Federal Reserve to raise rates materially without harming the Treasury's refinancing capacity. The market absorbs this reality gradually through long periods of low real yields.

A third pathway is yield curve control or its functional equivalent. While the Federal Reserve has not announced such a policy, it can replicate its effects through targeted asset purchases, liquidity operations, or forward guidance designed to anchor long-term yields at sustainable levels. In a world where Treasury issuance is large and persistent, such anchoring can become a necessity rather than a choice. When investors begin to question the Treasury market's ability to absorb supply without significant repricing, policymakers may lean more heavily into operations that stabilize yields. This is not a sign of crisis; it is a sign of constraint.

A fourth pathway involves changes to taxation. While large-scale tax hikes on individuals or corporations remain politically divisive, incremental changes—closing loopholes, adjusting deductions, imposing minimum taxes—can gradually raise revenue without triggering broad backlash. Such measures do not solve the fiscal problem, but they alleviate its sharpest edges. Over time, small adjustments accumulate and support the soft default process by narrowing the gap between spending and revenue.

None of these pathways are dramatic. They are slow, procedural, and administrative. They operate in the background while the rest of the economy continues to function. This is why soft defaults are not typically experienced as crises. They are experienced as long periods of mediocre real returns for savers, periodic valuation compression for growth assets, and persistent upward pressure on nominal asset prices. The psychological effect on investors is subtle: returns appear stable, nominal prices rise, but real purchasing power drifts downward unless investments are strategically allocated.

The relevance of these mechanisms for the next downturn lies in their cumulative effect. Once valuations normalize in the late 2020s, the structural backdrop will still be shaped by fiscal dominance. Even after the bear market, the United States will not have resolved its debt burden. Instead, it will be in the middle of managing it through the soft default pathways described above. This means the subsequent secular bull market will be nominally strong but will require careful attention to real returns. Investors will need to prioritize exposure to assets that benefit from inflation, pricing power, technological productivity, and scarce physical capacity.

Unlike catastrophic defaults or credit collapses, soft defaults create environments where innovation, industrial activity, and equity markets can thrive. The decades following World War II, despite high debt, produced some of the strongest real economic growth in U.S. history. The combination of moderate inflation, financial repression, and industrial investment created an environment where productivity boomed, wages rose, and technological diffusion accelerated. Similarly, the secular expansion of the 2030s may unfold against a backdrop of elevated debt managed gradually through such mechanisms.

The best positioned investors for this environment are those who distinguish between nominal and real outcomes. They should expect positive nominal equity returns but uneven real returns across sectors. They

should anticipate elevated volatility in duration assets and greater differentiation in corporate performance depending on pricing power and technological leverage. And they should assume that the most durable protection against the erosion of purchasing power will come from exposure to innovation, infrastructure, energy systems, and assets tied to production and security, as well as assets that hedge against the dollar.

In this sense, the soft default pathway is not only a fiscal adaptation; it is a regime change that shapes how investors must allocate capital for the decade to come.

The next section moves from these extremities back toward the central trajectory: the secular expansion that is likely to follow the valuation compression of the next downturn. Understanding the character of that expansion, its drivers, leaders, and constraints, is essential for aligning long-term capital with the opportunities that will define the decade ahead.

XVI. After the Bear: The 2028–2035 Secular Expansion and the Architecture of the Next Growth Era

Every major transition in markets leaves behind a new landscape, sometimes scorched, sometimes fertile, but always fundamentally different from the one that came before. The downturn we anticipate in 2027 will be no exception. It will represent the end of a valuation regime rather than the end of innovation, the end of a liquidity phase rather than the end of growth, and the end of a fiscal cycle rather than the end of American economic dynamism. If anything, the period that follows the next bear market has the potential to become one of the most productive and transformative decades in modern history. To understand this, we must recognize that secular expansions emerge not from smooth continuity but from disruption, reallocation, and the clearing of structural imbalances. The 2028–2035 period holds the seeds of a new economic era, planted by the very forces that will eventually trigger the adjustment.

The first driver of the next secular expansion will be the maturation of the AI Supercycle. By the time the next downturn arrives, the training phase will have reached a steadier state, the inference phase will be broadly diffused across industries, and the productivity phase will be entering its acceleration point. This means the real economic benefits of AI—long promised, often theorized, but only partially realized in the mid-2020s—will begin to manifest with increasing clarity. The history of general-purpose technologies is clear: the early years introduce capability, the middle years deliver productivity, and the later years transform entire sectors. The 2028–2035 period will likely fall squarely into that middle and late transformation stage.

The diffusion of AI productivity will be uneven, but its cumulative impact will be profound. Knowledge work will change first, as large language models become embedded in the day-to-day workflows of analysts, engineers, financial professionals, creative teams, and customer service organizations. Code generation will accelerate the pace of software development. Predictive analytics will reshape supply chain optimization. Simulation-driven design will replace trial-and-error experimentation in manufacturing, materials science, and engineering. As these capabilities diffuse, the potential output of the existing labor force will multiply

even without corresponding increases in headcount. This is productivity in its most essential form: more output from the same inputs.

The second driver of the secular expansion will be automation in the physical world. Robotics, autonomous systems, computer vision, and machine-learning-driven control frameworks will migrate from the frontier to the mainstream. Manufacturing lines will become more flexible and responsive. Logistics will incorporate autonomous vehicles, drones, and AI-managed routing. Warehouses will integrate robotic picking and sorting at scale. Construction will begin to incorporate automation in surveying, layout, material handling, and, eventually, assembly. The result will be not only higher productivity but also reduced cyclicality, as production becomes less sensitive to labor shortages and wage volatility.

The third driver will be energy system reinvention. The demands of AI, electrification, and industrial reshoring will require a reconfiguration of the grid, forcing investment in generation, transmission, and storage at unprecedented scale. Nuclear power, particularly modular reactors, may enter a deployment phase. Grid-scale storage technologies will improve. Renewable energy, already economically competitive, will expand its role in the generation mix. Advances in power electronics, thermal management, and energy-efficient compute will support the transition. The next decade will not be defined by energy scarcity but by the race to build reliable, resilient, and abundant electrification infrastructure. This race, far from being a constraint, will become a major source of investment and productivity.

The fourth driver will be the renaissance of the American industrial base. The reshoring efforts that began as national-security imperatives in the early 2020s will mature into a competitive advantage. Semiconductor supply chains will be more localized. Advanced manufacturing hubs will scale. Materials independence will reduce vulnerability to geopolitical disruptions. Defense industrial capacity will expand to support a broader spectrum of capabilities across space, cyber, autonomy, and directed energy. These developments will create employment, stabilize regional economies, and anchor capital formation in ways that reinforce the secular expansion.

The fifth driver will be breakthroughs in computational biology and healthcare. AI is uniquely suited to accelerate drug discovery, personalize treatments, model protein structures, identify biomarkers, and forecast disease progression. Gene-editing technologies, regenerative medicine, and molecular simulation may advance faster than mainstream expectations. As demographic pressures intensify, productivity-enhancing innovations in healthcare will play a disproportionate role in shaping long-term economic growth.

What makes this secular expansion distinctive is that it will emerge in an environment shaped by fiscal constraint. The soft default pathways discussed earlier will remain in force, but in the context of rising productivity, this constraint may become manageable rather than destabilizing. Moderate inflation, mild financial repression, and incremental tax adjustments can coexist with strong nominal economic growth. As long as productivity accelerates faster than the real erosion of debt burdens, the fiscal regime can remain

stable without crisis. This is not guaranteed, but it is plausible—especially if technological and industrial tailwinds prove as strong as emerging patterns suggest.

Of equal importance is the behavioral dimension of secular expansions. After a valuation-driven downturn, investor expectations reset. Valuations compress. Long-term return expectations improve. Sentiment shifts from euphoria to realism and then to disciplined optimism. Capital begins to chase productivity rather than narratives. Companies with genuine pricing power, technological leverage, and durable customer demand command attention. Those that survive the adjustment do so with stronger competitive positioning, leaner cost structures, and more rational valuations.

In this environment, the leadership of the secular bull market will not be identical to the leadership of the late-cycle melt-up, but it will rhyme with it. The firms at the core of AI infrastructure, robotics, advanced manufacturing, defense technology, and energy systems will anchor the expansion. New entrants will emerge in computational biology, materials science, synthetic biology, and automation. The opportunity set will broaden. Market breadth will improve. Valuations will be more reasonable. And long-duration growth investments will deliver meaningful returns.

The transition from downturn to secular expansion will not be linear. It will require patience, discipline, and the willingness to re-enter risk assets when sentiment remains fragile. But for those who navigate the adjustment effectively, the rewards will be substantial.

The next section shifts from slow-moving structural pressures to the extreme scenarios—both negative and positive—that could accelerate or disrupt the cycle. These black swans and golden swans, while unlikely, are increasingly relevant in a world where technological, geopolitical, and fiscal dynamics intersect in unpredictable ways.

XVII. Black Swans and Golden Swans: Extreme Risks and Extreme Opportunities in a Transforming World

Extremes define the boundaries of any cycle, and the present environment contains an unusually wide range of potential outlier outcomes. Some represent destabilizing shocks; others represent extraordinary accelerations. Black swans are not predictions. They are reminders that in a system undergoing profound technological, economic, and geopolitical transformation, the improbable deserves as much attention as the probable. What follows are the events that stand far outside the central path but whose consequences would be profound if they were to materialize.

One such risk remains geopolitical. A conflict in the Indo-Pacific or a rapid escalation involving major powers would disrupt global supply chains, destabilize energy markets, and fracture capital flows. The economic implications would reach well beyond the immediate theater of conflict, undermining the very assumptions of stability upon which modern manufacturing, technology, and trade depend. In a world that has begun to

rebuild strategic capacity domestically, such a conflict would not simply be a geopolitical event. It would be an economic rupture, reshaping investment priorities for years to come.

Another black swan involves the vulnerability of digital and physical infrastructure to cyber intrusion. The more interconnected the economy becomes, the more cloud-based its operations, the more electrified its infrastructure, the more automated its systems, the more susceptible it becomes to disruptions that can cascade across sectors. A significant cyber event targeting the grid, major exchanges, logistics networks, or cloud providers would have immediate and widespread financial consequences. Such an event, unlike a natural disaster, would carry deep psychological weight because it would strike at the foundations of trust that underpin the digital economy.

A third black swan resides within the financial architecture itself. The United States has entered a period in which the demands on the Treasury market are unprecedented. Should absorption capacity falter, whether due to changes in foreign demand, regulatory constraints on banks, or unexpected liquidity strain, then the resulting dislocation could ripple into credit markets, funding markets, and equities. Central banks possess tools to address such stress, but interventions do not erase the underlying fragility. A disorderly Treasury repricing would not be a recessionary catalyst alone; it would be a systemic one.

The fourth black swan is slower moving but potentially more consequential. It is the scenario in which AI adoption accelerates labor displacement faster than expected, wages stagnate or decline in certain sectors, and the demand for government support increases precisely when the federal balance sheet is least able to provide it. In this scenario, the political system faces simultaneous pressures: a labor market reshaped by automation, a fiscal position strained by rising interest obligations, and a populace increasingly sensitive to inequality and economic insecurity. This is not a classic economic crisis. It is a social one—one that carries the emotional imprint of a depression even if output and productivity continue growing at the aggregate level. It is the point at which technological progress outstrips institutional adaptation, and where political instability becomes a meaningful economic variable.

Just as extremes can produce instability, they can also produce outsized positive outcomes, golden swans. One such possibility is that AI productivity accelerates far earlier and more forcefully than expected, compressing the diffusion timeline from years to months. If this occurs, corporate margins could expand significantly even amid fiscal tightening, and real economic growth could rise despite demographic headwinds. The productivity boom of the mid-1990s arrived after a long period of frustration. A similar nonlinear leap is entirely possible in the second half of this decade.

A second golden swan involves energy. A breakthrough in modular nuclear reactors, grid-scale storage, or ultra-efficient computing could ease the constraints that currently limit the speed of AI deployment and electrification. The economy is running up against power availability in ways it has not encountered for a century. If a technological leap reduces those constraints, the productivity frontier shifts outward dramatically, supporting higher real growth and reducing inflationary pressure.

A third golden swan lies in the realm of computational biology. If advances in drug discovery, gene editing, and regenerative medicine accelerate materially, the economic dividends would extend far beyond healthcare. Longer healthy lifespans, reduced chronic disease burden, and lower medical costs would alter labor supply, demographic pressures, and the long-term fiscal trajectory. Few innovations carry the potential to reshape both supply and demand so profoundly.

A fourth golden swan is that coordinated fiscal-industrial policy that stimulates growth without destabilizing inflation is successful at increasing employment and reducing debt-to-GDP to 3% levels that avoid a national debt crisis in the future.

These extremes—the dark and the bright—do not define the central trajectory of the cycle. But they do define its boundaries. The path ahead will be shaped by the powerful forces described in the base case, but the edges of that path are defined by events that could meaningfully widen or narrow the future we have outlined. Acknowledging these boundaries is not pessimism or optimism; it is intellectual honesty. The world we are entering is one of greater variance, faster technological change, and deeper structural constraints. Investors must be prepared for both the improbable missteps and the improbable breakthroughs that such an environment can produce.

The next section addresses the practical dimension of this navigation: the strategic playbook for moving through the melt-up, the downturn, and into the secular bull market that follows.

XVIII. The Strategic Playbook Through the Cycle: Positioning for the Melt-Up, the Bear Market Adjustment, and the Secular Expansion

Effective long-term investment strategy is not about predicting the future with precision. It is about understanding the sequence of forces that shape each stage of the cycle and positioning capital in a way that captures upside while protecting against foreseeable risks. In the environment ahead, the correct strategy is not a static allocation but a dynamic framework, one that adapts to the melt-up, the structural adjustment, and the subsequent secular expansion with equal clarity and conviction.

The first phase of this strategic playbook is the late-cycle expansion we are living through now. In this phase, the imperative is participation. The combination of AI infrastructure buildout, industrial reinvestment, supportive liquidity under fiscal dominance, and persistent corporate buybacks creates conditions in which risk assets can continue appreciating despite elevated valuations. Investors must remain exposed to the structural winners, companies deeply embedded in AI, advanced semiconductors, energy systems, robotics, cybersecurity, and defense. These are not speculative allocations; they are the economic engines of the current and future cycle.

However, participation does not imply indiscriminate risk-taking. It requires discernment in position sizing, deliberate accumulation of quality, and avoidance of the segments of the market that rely solely on multiple

expansion without sufficient earnings support. It involves maintaining exposure to winners while gradually building ballast in the form of companies with strong balance sheets, durable cash flows, and strategic relevance. It requires attention to liquidity conditions, credit spreads, and the evolution of market breadth. And it necessitates the staging of disciplined risk reduction in the portfolio, not as a signal of imminent decline, but as insurance against the abrupt corrections that can punctuate a melt-up phase.

The second phase, the transition, demands a different posture. As valuations reach peak optimism and structural forces begin to shift, investors must pivot from participating in the strongest themes to reducing exposure to the most stretched assets. This does not mean abandoning technology or innovation. It means recognizing that the relative risk-reward of certain positions changes as the cycle matures. Concentrated exposure to mega-cap technology stocks becomes more vulnerable to valuation compression. Companies with less clear competitive moats become less attractive. At this stage, raising liquidity is not retreat but preparation, an effort to build strategic flexibility for the adjustment to come.

During this transition period, investors should increase attention to long-term signals rather than short-term sentiment. Fiscal data, Treasury market functioning, corporate capital expenditure plans, and global liquidity patterns become more important than headline-driven volatility. The objective is to remain exposed to upside while developing a margin of safety. This is the moment to calibrate portfolios deliberately rather than reactively. It is also the time to reduce pro-cyclical exposures and strengthen allocations to assets that can hold value or even appreciate during valuation corrections.

The third phase, the adjustment, requires discipline above all else. This phase will be marked by valuation compression more than by earnings collapse. The decline will likely be uneven and psychologically challenging, punctuated by sharp rallies that test conviction. Investors must prioritize capital preservation without succumbing to panic. The companies that retain pricing power, strategic relevance, and balance sheet strength will remain sound long-term holdings even as their valuations compress. The companies that fail to justify their multiples will reveal their vulnerabilities quickly.

During the Bear market adjustment, liquidity becomes a source of optionality. Investors who raised cash deliberately in the transition phase will be positioned to deploy capital when valuations become attractive. Lower asset prices are not a threat; they are an invitation to rebuild exposure to the themes that will define the next secular expansion. This is the moment when the foundations of long-term outperformance are laid: through selective accumulation of high-quality assets whose long-term narratives remain intact but whose valuations have reset.

The fourth phase, the secular expansion, requires a return to conviction. Investors must be willing to re-engage with long-duration growth opportunities even as memories of the downturn remain fresh. The opportunity set in this period will be broader than in the melt-up. AI productivity will permeate the economy. Automation will transform sectors that have long been resistant to digitization. Energy reinvention will generate new investment frontiers. Defense and dual-use technologies will remain central to national

strategy. Computational biology will unlock innovations that reshape health, longevity, and human capital. Investors must position not for the cycle that ended but for the one that is beginning.

Throughout all phases, the guiding principle is adaptability grounded in structural understanding. Markets are not random; they follow patterns shaped by liquidity, innovation, psychology, and policy. The late-cycle expansion rewards participation. The transition rewards preparation. The adjustment rewards discipline. The secular expansion rewards conviction. The investors who succeed are those who recognize the changing character of each phase and who align their portfolios with the forces most likely to shape returns.

The playbook is ultimately about sequencing: understanding what to own, when to own it, and why the nature of ownership changes as the macro environment evolves. With this framework, investors can navigate not only the remainder of this expansion but also the structural adjustment ahead and the secular renaissance that follows.

The final section now brings all of these elements together, synthesizing the outlook into a clear and cohesive conclusion that captures our base case and the strategic implications for long-term investors.

XIX. Conclusion

We are standing at the edge of a profound economic transition, one defined not only by extraordinary innovation but by real structural strain. The years ahead will bring volatility, fiscal challenges, political uncertainty, and moments where confidence feels fragile. Markets will rise further than many believe, then fall faster than most expect. AI will create immense economic value while unsettling familiar patterns of work. Policy flexibility will narrow before it widens and we believe the transition through 2027 and 2028 will feel, at times, uncomfortable.

These realities do not diminish the opportunity ahead, they frame it. Every major transformation in modern history has passed through a period of turbulence before revealing its long-term potential. The volatility is not a sign that the story is breaking. It is a sign that the story is real.

The bear market we anticipate later this decade is not the end of the cycle, but rather it is the recalibration the cycle needs. It is the phase in which excess is cleared, valuations reset, expectations rightsized, and political systems adjust to the demands of a new economy. It will be noisy, but it will be necessary.

Beyond that adjustment lies a decade of extraordinary possibility. AI productivity, industrial renewal, advances in medicine and energy, and the reshaping of the global economic order will create opportunities that simply do not exist today. The path may not be smooth, but the arc is powerful. Those who navigate this volatility with discipline will enter the next expansion with clarity, stronger positioning, and access to opportunities unavailable without the dislocation that precedes them.

We have lived through cycles where it felt as though the world was changing too quickly to understand, where volatility captured the headlines while progress unfolded quietly underneath. We have watched clients succeed not because they avoided every downturn, but because they approached each phase with preparation, perspective, and discipline. We wanted to write this report to share the benefit of our experience and to give you not a prediction, but a framework, one that we hope will help you navigate the complexity ahead with confidence rather than fear.

The future will be challenging. It will also be full of future investment opportunities. Our job is not to eliminate uncertainty, it is to understand it, prepare for it, and ultimately, use it to our advantage. That is what this roadmap is designed to help you do. And it is our commitment to guide you through each stage with the clarity, steadiness, and honesty the moment requires.

"The next decade will not be linear, but it will be full of opportunity for those who can adapt."

Please reach out to our Team with any thoughts or questions regarding this Outlook. We appreciate your feedback.

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Sources: Smart Station, JP Morgan Guide to Markets Chart Book, Federal Reserve Economic Data (FRED), Bureau of Economic Analysis (BEA), Bureau of Labor Statistics (BLS), Bloomberg, GuruFocus and MacroMicro, S&P 500 Forward P/E Estimates, 2025, GuruFocus, Shiller CAPE Ratio Historical Data, 2025, NYU Stern (Damodaran) and Kroll, Equity Risk Premium Estimates, 2025, YCharts and FRED, Real 10-Year Treasury Yield, 2025, Visual Capitalist and SlickCharts, S&P 500 Market Concentration, 2025, FINRA and Advisor Perspectives, Margin Debt Statistics, September 2025, GuruFocus, Buffett Indicator (Market Cap to GDP), October 2025, YCharts, Tobin's Q Ratio, Q2 2025, Macrotrends and SlickCharts, S&P 500 Total Return History by Decade, CAPE and Buffett Indicator Models, Expected Returns Forecasts, 2025

- **S&P 500 Index** is a capitalization-weighted index calculated on a total return basis with dividends reinvested. The index includes 500 widely held U.S. market industrial, utility, transportation and financial companies. .

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