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Trend Report Commentary

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Monthly Trend Report – GRIP Framework

Warsh and Bessent- The End of the Monetary vs Fiscal War?

Overview

In January 2026 the U.S. economic picture remained mixed. Risk assets continued to rally, but the leading economic indicators suggested slowing momentum. Inflationary pressures were muted, and monetary policy remained restrictive even as the Federal Reserve signaled an easing bias. The following sections synthesize the latest Growth, Risk, Inflation and Policy composites and offer context on valuations, fiscal deficits and policy changes.

Throughout this report, colored charts visualize the underlying composites. The radar and quadrant displays highlight the interactions between growth and inflation, while the overall macro composite shows the average of all four pillars. Extreme valuations and fiscal imbalances are discussed using insights from economist John P. Hussman, and recent policy developments are framed around the nomination of Kevin Warsh as the next chair of the Federal Reserve and comments by Treasury Secretary Scott Bessent on the Fed's role in inequality.

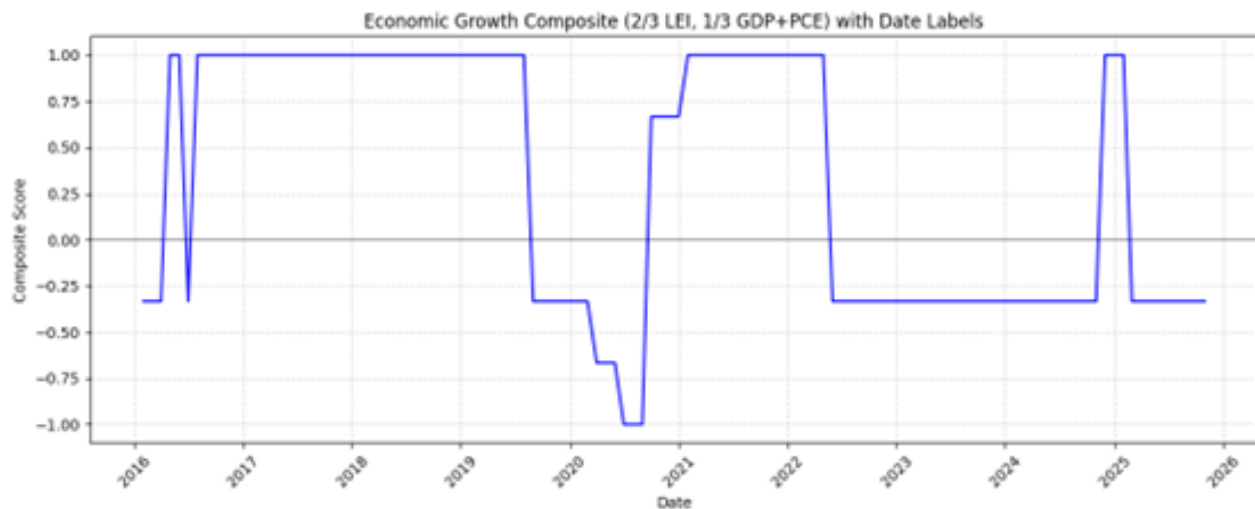
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Growth

The economic-growth composite combines signals from the Conference Board's Leading Economic Index (LEI), GDP and Personal Consumption Expenditures (PCE). The LEI—which aggregates ten forward-looking components like new orders, building permits and stock prices—has declined for several months, signaling weakness in future activity. GDP measures the total value of goods and services produced and is often used as a comprehensive gauge of economic health, while PCE captures household spending on goods and services. In our methodology the 3-, 6- and 12-month rate-of-change (ROC) signals are evaluated using a 2-of-3 rule to assign +1 or -1 momentum signs (see earlier composites).

At the end of October 2025 (the most recent month with complete data), the LEI's three momentum windows were negative, while GDP and PCE were positive. The equal-weight composite therefore stood at -0.33, reflecting that two thirds of the growth signal is driven by a deteriorating LEI. The growth composite is plotted below. Note the series has remained in negative territory since mid-2025.



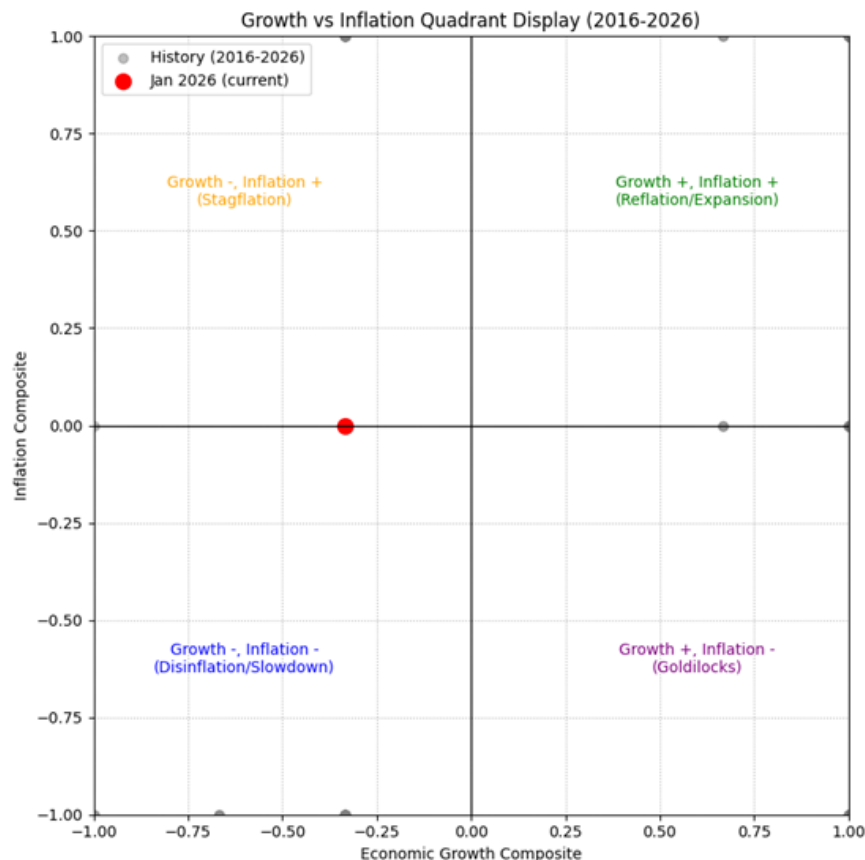
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Growth vs. Inflation Quadrant

To visualize how growth interacts with inflation, we plot the composites on a two-axis quadrant. The horizontal axis shows the growth composite and the vertical axis the inflation composite (see next section). The zero lines divide the plane into four macro regimes:

- Reflation/Expansion (upper-right) – growth and inflation both accelerating.
- Stagflation (upper-left) – growth slowing while inflation is rising.
- Disinflation/Slowdown (lower-left) – growth and inflation both weakening.
- Goldilocks (lower-right) – growth firm and inflation easing.

The chart below shows monthly observations since 2016; the red dot marks January 2026. Over the past year the economy remained anchored in the disinflation/slowdown quadrant (negative growth, neutral to mild inflation). This illustrates the disconnect between strong backward-looking GDP/PCE figures and weakening forward-looking indicators.



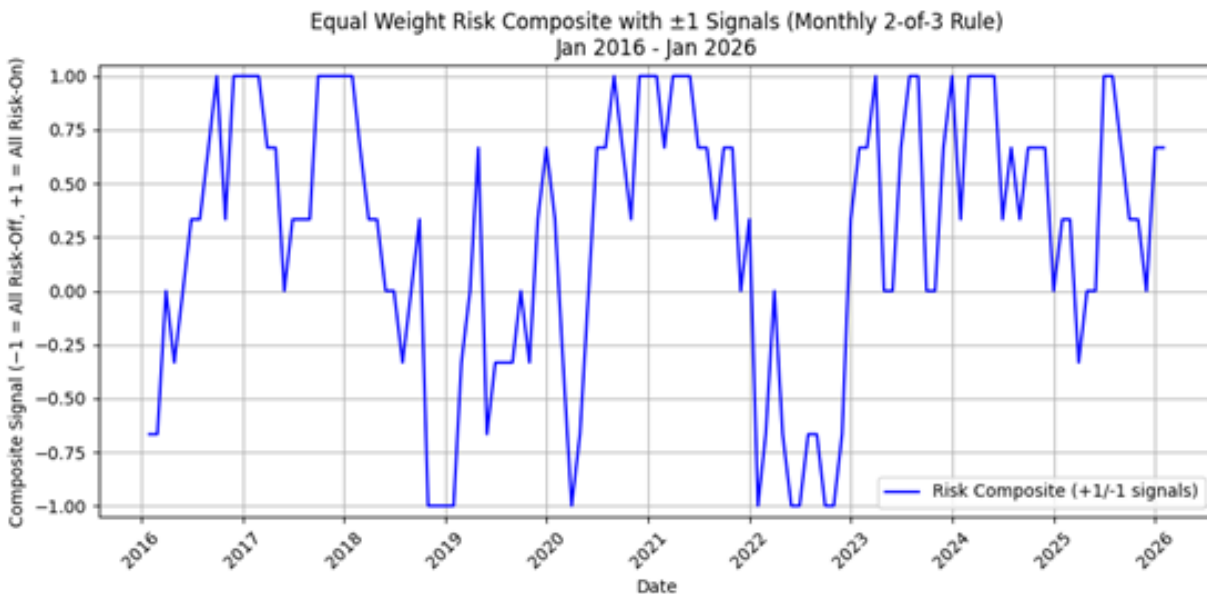
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Risk

The risk composite averages momentum signals from global equities (ACWI), the NYSE bullish percent index (BPNYA), Bitcoin, the high-yield option-adjusted spread (inverted) and cross market correlations. For each series we compute 3-, 6- and 12-month ROC indicators and apply the 2-of-3 rule; falling credit spreads are treated as positive for risk appetite. When at least two windows are positive the signal is +1; when at least two are negative the signal is -1. The equal-weight average forms the composite.

By January 2026 most of the indicators were positive. Only Bitcoin continued to show negative momentum. The risk composite therefore printed +0.67, a firmly risk-on reading.



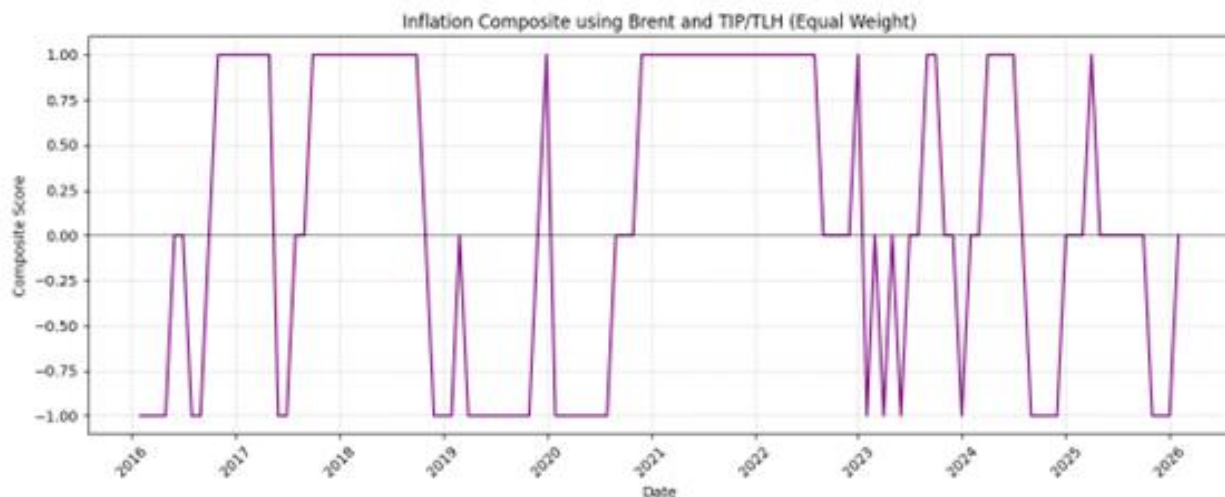
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Inflation

The inflation composite tracks two market-based measures: Brent crude and the TIPS vs long-term Treasury ratio (TIP/TLH). Brent is the most widely used global benchmark for crude oil and is used to price oil across Europe, Africa and parts of Asia. Treasury Inflation-Protected Securities (TIPS) are U.S. government bonds whose principal and interest adjust with inflation, protecting investors' purchasing power. Comparing TIPS with nominal long-term Treasuries (through ETFs TIP and TLH) reflects market-implied inflation expectations.

Using the same momentum methodology, Brent's ROC signals turned negative in January 2026, while the TIP/TLH ratio remained positive. The inflation composite therefore registered 0.0, indicating a balanced inflation outlook. For clarity we exclude the PPI series due to data quality issues and rely on these two market-driven indicators.



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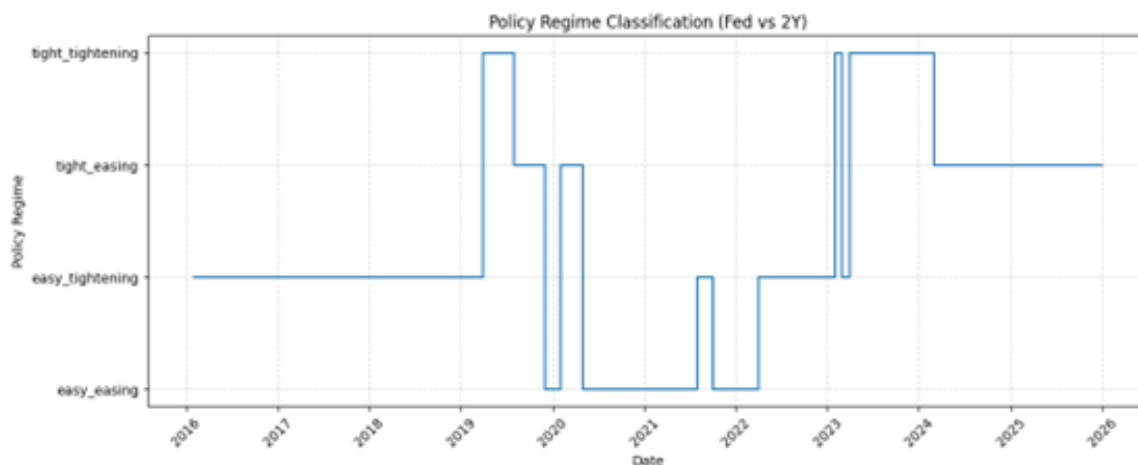
Policy

The policy composite classifies the monetary regime based on the relationship between the Federal Funds Rate (Fed rate) and the two-year Treasury yield, as well as the direction of the Fed rate. The Fed funds rate is the overnight rate at which banks lend reserves; it is set by the Federal Open Market Committee (FOMC) and used to influence economic growth and inflation. The two-year Treasury yield reflects investor expectations for short-term interest rates and influences borrowing costs.

We define two dimensions:

1. Level: “tight” when the Fed rate exceeds the two-year Treasury yield, and “easy” when it is lower.
2. Trend: “tightening” if the Fed rate’s ROC signals are positive (rising), and “easing” if they are negative (falling).

Combining these gives four regimes: easy-easing, easy-tightening, tight-easing and tight-tightening. In December 2025 the Fed rate was above the two-year yield but had started to decline. The regime therefore shifted to tight-easing. We map the four categories to numeric values and plot them below.



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Policy developments

In late January 2026 President Trump announced his intention to nominate Kevin Warsh as the next chair of the Federal Reserve. Warsh, a former Fed governor, has called for “regime change” at the central bank and criticized its reliance on data and reluctance to cut interest rates. While markets initially interpreted his nomination as hawkish, commentary from the Council on Foreign Relations notes that the Fed’s decisions are made by the FOMC and that Warsh alone cannot dramatically reshape policy. Warsh is likely to focus on deregulation and a simplified rule-based framework rather than radical monetary easing.

Treasury Secretary Scott Bessent has openly criticized Federal Reserve policy, describing the Fed as the “engine of inequality” in a recent interview. He argued that quantitative easing following the Covid crisis funded a \$7 trillion surge in federal debt and drove up asset prices. Bessent highlighted how the Fed’s balance sheet activities blur the distinction between monetary and fiscal policy. He envisions re-privatizing the economy, minimizing the Fed’s market influence, and redirecting support from Wall Street to main street.

A partnership between Warsh and Bessent could signal a tougher stance on Fed intervention and greater focus on fighting inequality and strengthening the real economy, rather than perpetuating the K-shaped economy—one marked by excessive reliance on the wealth effect and asset prices that primarily benefit the richest 1%. According to The New York Times, “Mr. Bessent and Mr. Warsh know each other personally from their work as private investors. Mr. Warsh works with billionaire investor Stanley Druckenmiller as a partner at Duquesne Family Office. Mr. Bessent was a protégé of Mr. Druckenmiller at Soros Fund Management in the 1990s.”

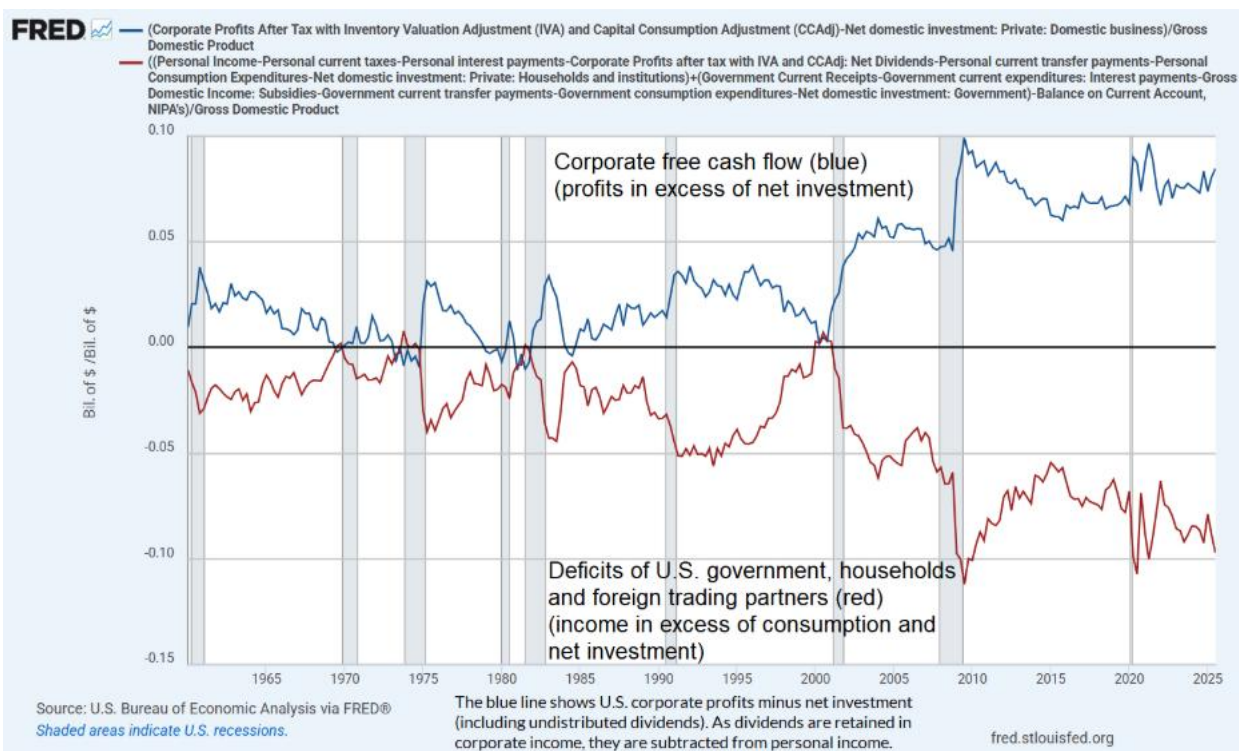
Both Kevin Warsh and Secretary Bessent have a deep understanding of markets and feedback systems, which marks a shift away from the current approach that claims data dependence but seems to rely on intuition and gut feelings. It appears that a genuine adjustment in fiscal and monetary policy could be on the horizon.

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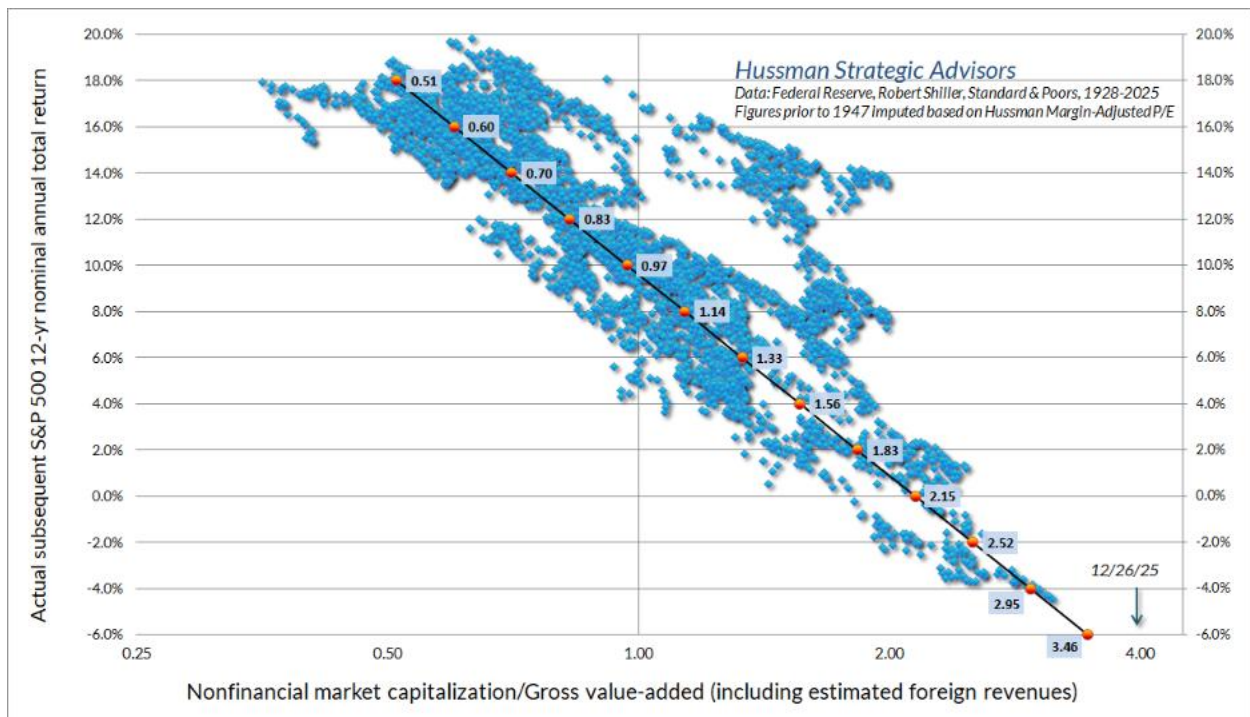
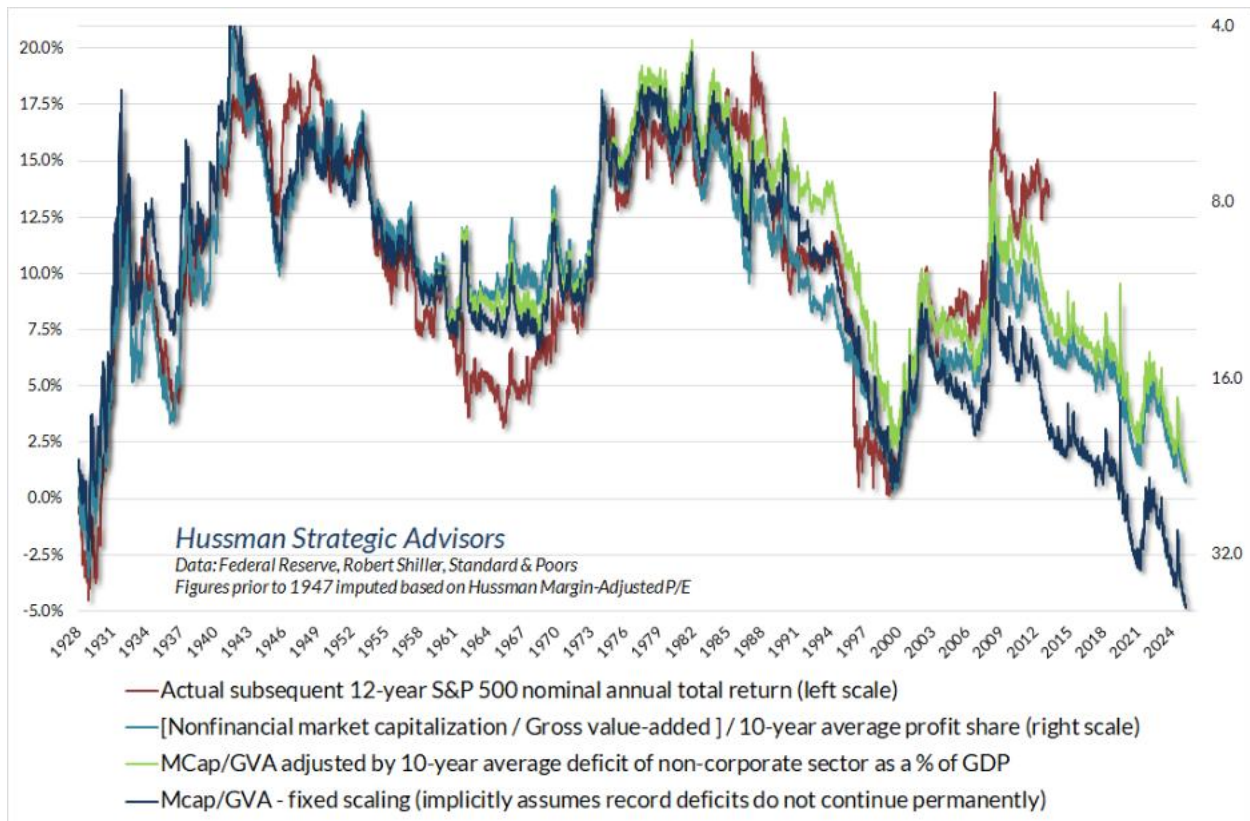
Valuations and fiscal imbalances

Economist John P. Hussman warns that current market valuations are among the most extreme in history. He notes that the valuation extremes of early 2026 rival those of the 2000 dot-com bubble and the 1929 market peak. Hussman argues that these episodes stem from a growing inconsistency between investors' expectations of future returns and valuations based on sustainable long-term cash flows. He also observes that record corporate profits are the mirror image of unprecedented deficits among U.S. households and the federal government. Elevated price/earnings multiples are supported by earnings boosted by deficit spending, creating a “K-shaped” economy where profit margins are high despite stagnant incomes. Hussman cautions that deficits cannot be permanent, implying that profits and valuations cannot be sustained indefinitely; the outcome could be debt defaults, inflation or social upheaval. In other words, extreme valuations and structural imbalances merit caution even when risk indicators are favorable.



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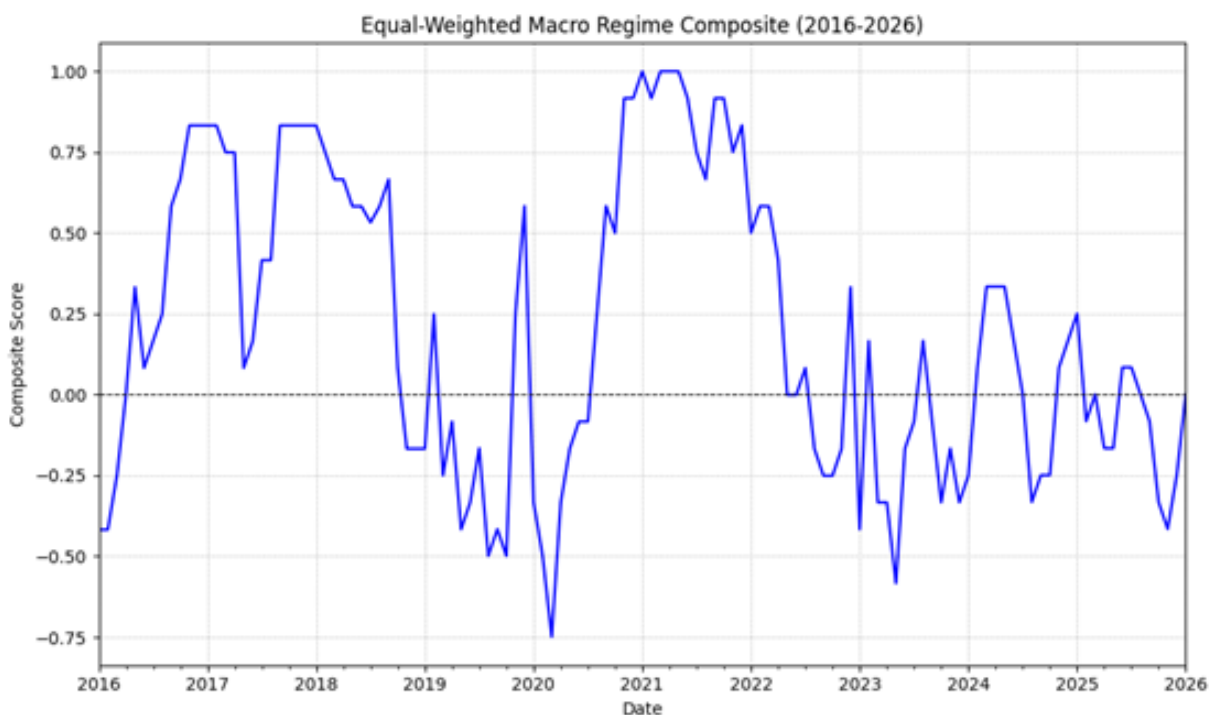


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Equal-weighted macro composite

Taking the average of the four pillar composites (growth, risk, inflation, and policy) gives an overall macro score of roughly 0.0 at the end of January 2026. Positive signals in risk and inflation are offset by negative growth and policy readings. The equal-weighted composite is plotted below.

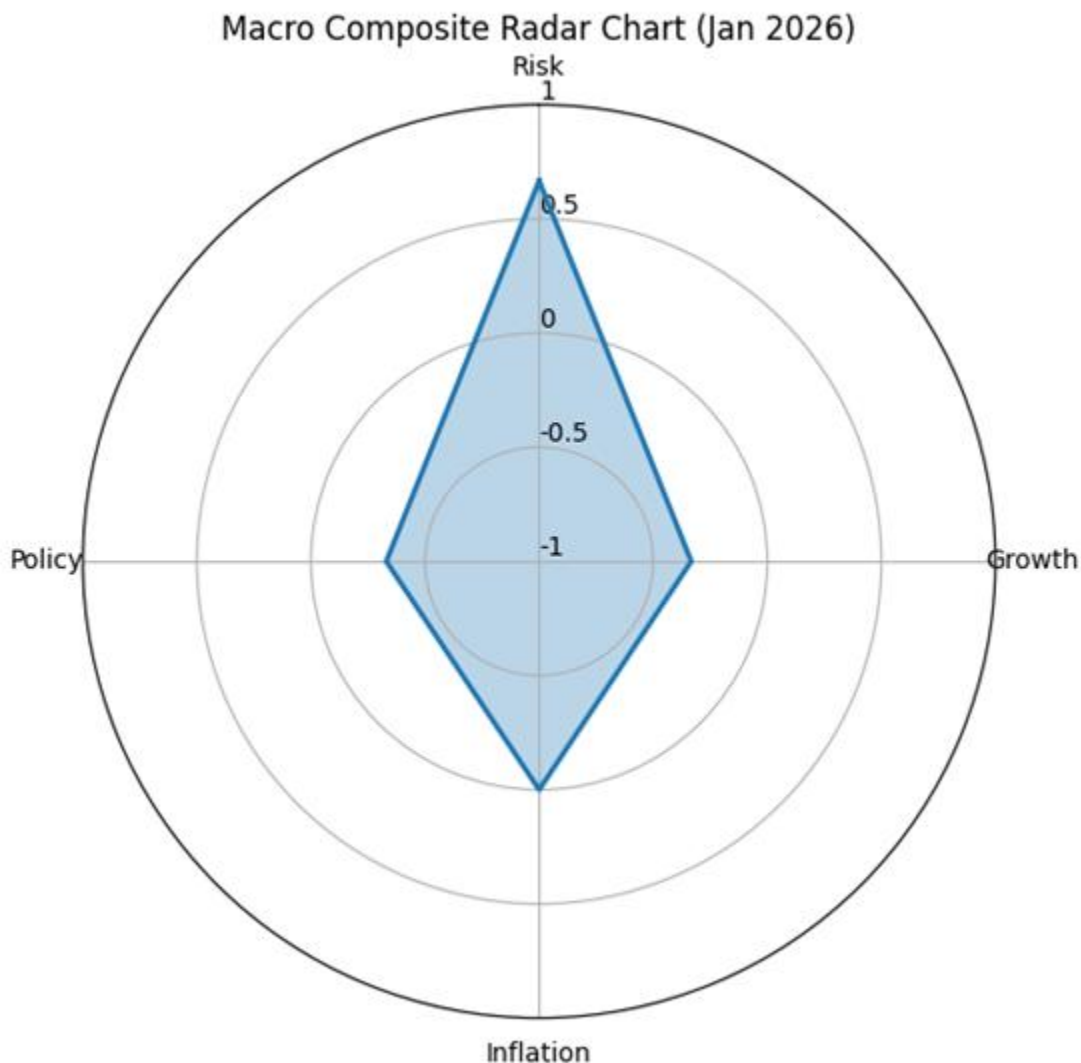


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Radar chart: macro snapshot

The radar chart provides an at-a-glance view of all four composites. In January 2026 risk is strongly positive, inflation is neutral, growth is negative and policy is slightly negative. The uneven shape highlights the cross-currents investors must navigate.



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Investment themes and positioning

Given the macro backdrop and valuation concerns, the following themes appear attractive:

1. Real assets over financial assets

Real assets—such as commodities, infrastructure, electricity trading, land and selected commercial real estate—offer potential inflation protection and diversification. Trend-following strategies and commodity trading advisors can capitalize on momentum across asset classes. Infrastructure assets (e.g. power generation, pipelines) benefit from long-term contracts tied to inflation, while land plays and multifamily or industrial real estate can provide stable cash flows. With financial assets at historically high valuations, allocating to tangible assets may reduce exposure to valuation risk.

2. Active over passive

Passive index funds have become increasingly concentrated in a handful of mega-cap growth stocks. In contrast, the equal-weight S&P 500 has begun to outperform the market-capitalization-weighted index, historically a signal that active managers can deliver superior risk-adjusted returns. Allocating to long/short hedge funds and diversified active strategies allows investors to exploit relative value and hedge downside risk. This approach also aligns with the theme of value over growth—short and intermediate-term trends now favor value sectors, and valuations for growth stocks remain stretched after a decade-long boom.

3. Private over public markets

Public markets capture only a fraction of economic activity. Roughly 86 % of U.S. companies with revenues exceeding \$100 million are privately held, meaning most opportunities lie outside public indices. Private equity, venture capital, and direct real-estate investments provide access to growth and yield not available in public markets. While private investments are less liquid, they offer higher return potential and may be less correlated with public market volatility. Emphasizing private markets leverages our ability to source and underwrite opportunities that broad indices cannot capture.

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4. Mega-themes: deglobalization, AI and fiscal dominance

Structural forces continue to shape the investment landscape:

- Deglobalization – Supply-chain reshoring, geopolitical realignment and trade fragmentation create opportunities in domestic manufacturing, logistics and infrastructure. Investors may benefit from companies enabling supply-chain resilience.
- Artificial intelligence (AI) – Rapid advances in AI and automation are transforming industries. Investing in AI-enablers (semiconductors, cloud infrastructure, data analytics) and applications (robotics, biotech) can capture secular growth.
- Fiscal dominance (money printing) – Large deficits and reliance on monetary accommodation support spending and asset prices but may also lead to currency debasement. Real assets and inflation-linked securities offer protection against fiscal imbalances, while companies benefitting from government spending may outperform.

These themes are not mutually exclusive. Indeed, the convergence of deglobalization, AI and fiscal dominance could underpin a great American economic boom in the coming years, providing fertile ground for investors who position capital thoughtfully.

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Conclusion

The January 2026 GRIP update highlights a complex macro environment: risk appetite is robust, inflation pressures are subdued and policy is edging toward easing, yet leading growth indicators are negative and valuations are stretched. Hussman's warnings about extreme valuations and the reliance of corporate profits on deficit spending underscore the need for caution even when markets appear healthy. The nomination of Kevin Warsh as Fed chair and Scott Bessent's critique of the Fed's role in inequality suggest potential shifts toward deregulation and a more critical stance on monetary intervention. Navigating this environment calls for diversified exposure across real assets, active strategies and private markets, with a keen eye on the mega-themes reshaping the economy.

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References

- Leading Economic Index (LEI) – The LEI is a monthly index published by The Conference Board that combines ten forward-looking components—including average weekly hours, initial unemployment claims, new orders, building permits, stock prices, money supply and the yield curve—to anticipate the direction of the U.S. economy[1][2].
- GDP definition – Gross Domestic Product (GDP) measures the total value of everything produced in a country and includes consumer spending, government spending, net exports and total investments[3].
- Personal Consumption Expenditures (PCE) – PCE represents the value of goods and services purchased by or on behalf of U.S. residents[4].
- Brent crude benchmark – Brent is the most widely used global benchmark for crude oil, pricing oil produced and traded across Europe, Africa and parts of Asia[5].
- Treasury Inflation-Protected Securities (TIPS) – TIPS are U.S. Treasury bonds whose principal and interest payments increase with inflation, providing investors protection against loss of purchasing power[6].
- Federal Funds Rate – The federal funds rate is the interest rate banks charge each other to lend excess reserves overnight; it is set by the FOMC, which raises or lowers the rate to influence economic conditions[7].
- Treasury yields – Treasury yield is the annual return investors earn on U.S. government debt, influencing consumer and business interest rates and reflecting economic outlook and inflation expectations[8].
- Kevin Warsh nomination – An article from the Council on Foreign Relations notes that President Trump nominated Kevin Warsh as Fed chair; Warsh called for “regime change,” criticized the Fed’s data-driven approach and may seek deregulation, but policy decisions are made collectively by the FOMC[9].
- Scott Bessent’s critique – Investor Scott Bessent called the Federal Reserve the “engine of inequality” and argued that post-Covid quantitative easing financed a \$7 trillion debt expansion, inflated asset prices and blurred the line between monetary and fiscal policy[10].

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References

- Extreme market valuations – John P. Hussman observed that market valuations in early 2026 rival those of the 1929 and 2000 bubbles and reflect a growing inconsistency between investor expectations and long-term cash flows[11].
- Deficits and corporate profits – Hussman emphasized that record corporate profits are the mirror image of deep deficits among households and the government, supported by deficit-boosted earnings[12].
- K-shaped economy and profit margins – Elevated earnings are supported by deficit spending, producing a K-shaped economy where profit margins remain high despite stagnant incomes[13].
- Unsustainability of deficits – Hussman warned that deficits cannot be permanent; if deficits shrink, profits and valuations may fall, leading to debt defaults, inflation or social upheaval[14].

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[9] Why Kevin Warsh Won't Revolutionize the Federal Reserve | Council on Foreign Relations
<https://www.cfr.org/articles/why-kevin-warsh-wont-revolutionize-the-federal-reserve>

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[11] [12] [13] [14] How the Bubble Manipulates Time - Hussman Funds
<https://www.hussmanfunds.com/comment/mc260104/>

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