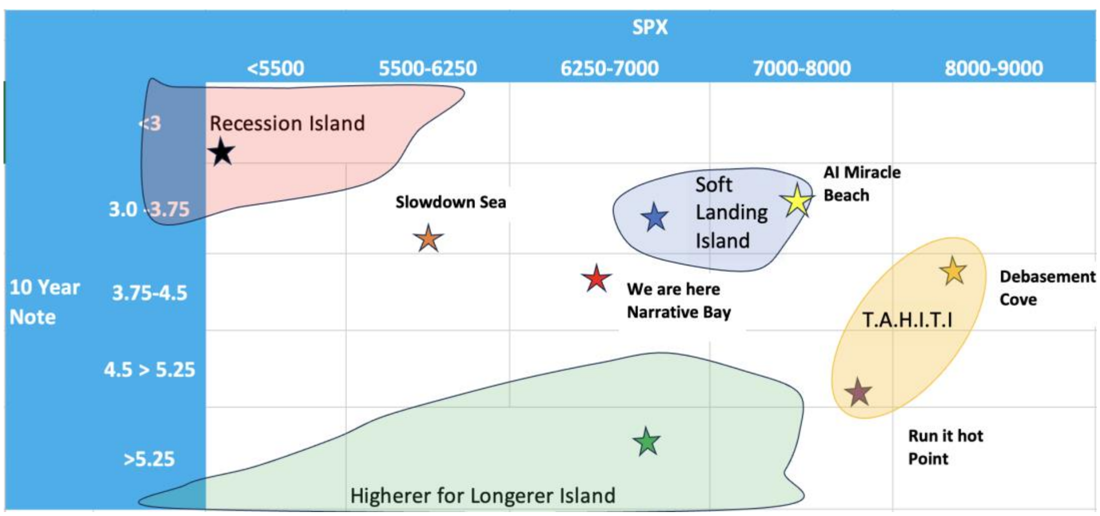
The Damped Spring Report

"Shifts in growth, inflation, risk premium and positioning all lead to opportunities in markets"

10/15/2025

In a world of great geopolitical uncertainty, massive economic imbalances, high valuations, endemic leverage, and the Trump Administration attempting to do big things, investors try to understand the world by simplifying it with narratives. We think this will likely lead to a highly volatile market outcome over the next 15 months as these narratives disintegrate and economic fundamentals return. Our strong view is that the most popular narratives are heavily over discounted in market pricing. In this DSR, we will review the most popular narratives, shown below on the "Narratives Islands" map. We evaluate each narrative based on its probable outcome for asset prices, currencies, and commodities, as well as the levers that policymakers must pull to deliver these outcomes.



The Narratives

The primary narratives we see, in order of popularity:

- Run it hot and implement YCC, ATI, and/or QE to protect the bond market.
- Run it hot and do not worry about the bond market (risky asset narrative).
- AI will deliver its promised disinflationary productivity-driven growth.
- Muddle through, Goldilocks, Soft Landing.
- The Return of H4L.
- Slowdown.
- Recession

The Islands

As seen on the map, some narratives occur on the same islands. Certain commonalities align some narratives, which helps us understand them better, despite their subtle differences.

Tahiti

Two of our narratives end up on the island of T.A.H.I.T.I. As we are MCU aficionados (with a particularly strong love for "Agents of Shield"), we love Tahiti references. Tahiti Island is the destination that depends on the Trump Administration pumping the economy with every available lever, consequences be damned. We can see no other reason to pump the economy today except that it is needed to win the election.

Our hero, Agent Phil Coulson, was brought back from the dead after Loki killed him with his scepter. The process was grueling, requiring Cree blood to bring Coulson back to life. However, to survive the ordeal, while he was being revived Coulson was implanted with a memory of visiting Tahiti - "Tahiti. It's a magical place." Indeed, the narratives that will drive asset markets to Tahiti are magical. They are also extremely popular and, in our view, highly unlikely.

Soft Landing Island

The narratives that take us to Soft Landing Island are based on normalization of the economy, fiscal, and monetary policy outlooks. For years markets have been circling Soft Landing Island. Our view is that the path to normalization is highly unlikely to materialize. Nonetheless, as markets find comfort in normal and goldilocks narratives, most of the population lives on the relatively tiny Soft Landing Island. Today, one narrative has crowded the easternmost beach of Soft Landing Island, which we call AI Miracle Beach. To the west the island is less dependent on AI and more dependent on normalization. On Soft Landing Island Policymakers just let the economy normalize.

Higherer for Longerer Island

Anyone who has followed us prior to this year knows that we set up residence on H4L island in 2021. We were castaways on a deserted island. On H4L Island, an income- and wealth-driven economy was likely to require significant hikes and quantitative tightening to reign in inflation. The crowds flocked to Soft Landing Island, while other participants who had only ever experienced credit-driven cycles, built mansions on Recession Island. We were virtually alone on H4L. Occasionally, after a surprisingly hot set of economic numbers drove policymakers back toward hawkishness, a cruise ship full of macro tourists would show up for a few weeks of raves on our pristine beaches. However, tourist abandoned H4L in an instant, led by policymakers' willingness to flip to rapid dovishness, bailout tiny, failed banks, or use ATI to save the bond market. H4L is still inhabited by those who believe the economy is overheated and that the bond market will eventually crash when the Fed realizes its policy mistake. We are no longer residents of H4L. For the markets to return to H4L once again, policymakers will have to pivot aggressively. With a "less independent" Fed Chair and the mid-term election in prospect, H4L islanders need a miracle of the entire MAGA electorate to care about inflation over the rest of the MAGA agenda. This seems unlikely.

Recession Island

During the 2022 equity selloff, Recession Island was HOT, with many beachfront condos and McMansions built during that period. Today the island is all but abandoned. To even mention the idea of a recession is to subject oneself to immediate derision and ridicule. Indeed, market participants now believe Recession Island does not even exist. In terms of policymaker action, policymakers will have to act extremely late for Recession Island to return to vogue.

Run It Hot Point

The Run It Hot Point ("RIHP") narrative is one in which NGDP is boosted meaningfully by policymaker actions. In this narrative, fiscal policymakers increase deficits through tax cuts and tariff rebates, aggressively deregulate industry, and leverage providers, and demand foreign and domestic investment financed with dissaving of risk-free assets or leveraging up via the deregulated banks. Of course, fiscal policymaker levers include increased government spending, walking back (or being forced by the Supreme Court to walk back) tariffs, and relaxing immigration restriction; we don't think this administration pull any of those levers without an economic crisis. In the RIHP narrative, monetary policymakers only need to cut short-term interest rates to neutral given other stimulus, but it is possible they will cut rates below neutral.

What it means for markets

High NGDP is decisively bullish equities and bearish USD, particularly against gold, hard assets, and harder currencies. It also is bearish long-term bonds. STIR matches or outperforms cash.

Run it hot Point	Today	1 year forward	Asset Return	Comments
Cash	4.07	3.25	3.7%	
Tens	4.10	5.10	-2.9%	
NTM SPX Earnings Expectations	295			
Trailing SPX Earnings	261	310		Earnings beat expectations substantially
Trailing Multiple	25.4	24.0		Multiple falls along with increased long term rate
SPX Price	6,650	7,436	13.1%	
Gold	4,145	4,500	8.6%	Gold beats cash but long end contains rally

What it takes from policymakers

The big question is whether this scenario requires policymaker action or can occur without action. We see a low chance that this scenario will play out with policymakers on the sidelines. However, we recognize that the Trump Administration is more activist than any prior administration since Nixon (who withdrew from the Bretton Woods Accord) and could easily pull certain levers to take markets for a ride to Run It Hot Point. Remember that the goal is to run the economy hot; it does not include protecting bond markets. We add up the levers and evaluate what can be done unilaterally and what can be done with cooperation or coercion. We then place odds on what policies can be implemented without a crisis. The whole point of RIHP is reelection. As of today, there is absolutely nothing that looks like a crisis, so the motivation to pull these levers is only political.

Run it hot Point Policy Levers	Impact on Growth	Impact on Inflation	Who Needs to be involved	Odds of occuring without a crisis	Timing and Comments
Deregulation of Industry			60 Senators	High	Deregulation takes time to legislate but is likely and the announcement matters most
Deregulation of Leverage Providers			60 Senators	High	Deregulation takes time to legislate but is likely and the announcement matters most
Fed Cuts rates to neutral			Independent Fed	High	Will likely do as long as inflation doesn't run away
Forced Foreign and Domestic FDI			Trump Alone	High	The question is whether this actually occurs and how its funded
Tax Cuts			50 Senators	Coin Flip	Reconciliation sometime in Spring
Supreme Court Declares Tariffs Illegal			Supreme Court	Coin Flip	By year end
Fed Cuts rates below neutral			Trump Controlled Fed	Coin Flip	After May 2026
Tariff Walkback			Trump Alone	Low	Anytime
Spending increases			60 Senators	Zero Chance	Would require a crisis
Relax or Reverse Immigration Restrictions			Trump Alone	Zero Chance	Would require a crisis

We think these are all the levers available to the administration. Will they pull them? Can the levers be pulled without help? We are not making that call, but only claiming that these levers must be pulled, must be allowed to be pulled, and must be effective for market participants to end up in Tahiti.

Consequences

Aggressive pro-growth policymaking is bad for bonds and can be inflationary, particularly given immigration policies that are not likely to change. Because bond markets may not like such a destination the markets will price in (and likely has already priced in) some odds of some or multiple forms of yield curve control, including issuance strategy (ATI) and Federal Reserve asset purchases (QE). However, this scenario assumes those levers are not pulled.

Debasement Cove

Narrative

Policymakers heading for Tahiti Island is a narrative designed to win an election, consequences be damned. However, as shown above, inflation risk rises when pumping the economy and the bond market can sell off and defeat the pump. This leads us to consider a truly maximum "Run It Hot" narrative. In this narrative, policymakers pull all the RIHP levers and protect the bond market will YCC. We call this completely manipulated market outcome Debasement Cove.

What it means for markets

The Debasement Cove narrative is bullish everything except the USD.

Debasement Cove	Today	1 year forward	Asset Return	Comments
Cash	4.07	3.25	3.7%	
Tens	4.10	4.00	4.8%	
NTM SPX Earnings Expectations	295			
Trailing SPX Earnings	261	316		Earnings beat expectations substantially
Trailing Multiple	25.4	26.5		Multiple rise as conditions are incredibly easy
SPX Price	6,650	8,367	27.1%	
Gold	4,145	4,918	18.6%	Gold has another huge run

What it takes from policymakers

Like RIHP, policymakers must pull all the levers, must be allowed to pull the levers, and the levers must be effective. In addition, policymakers must control the long-term bond market.

Debasement Cove Policy Levers	Impact on Growth	Impact on Inflation	Who Needs to be involved	Odds of occuring without a crisis	Timing and Comments
Deregulation of Industry			60 Senators	High	Deregulation takes time to legislate but is likely and the announcement matters most
Deregulation of Leverage Providers			60 Senators	High	Deregulation takes time to legislate but is likely and the announcement matters most
Fed Cuts rates to neutral			Independent Fed	High	Will likely do as long as inflation doesn't run away
ATI			Trump Alone	High	Necessary to control the bond market in this case so high probability
QE or YCC			Trump Controlled Fed	High	Necessary to control the bond market in this case so high probability
Tax Cuts			50 Senators	Coin Flip	Reconciliation sometime in Spring
Supreme Court Declares Tariffs Illegal			Supreme Court	Coin Flip	By year end
Fed Cuts rates below neutral			Trump Controlled Fed	Coin Flip	After May 2026
Tariff Walkback			Trump Alone	Low	Anytime
Spending increases			60 Senators	Zero Chance	Would require a crisis
Relax or Reverse Immigration Restrictions			Trump Alone	Zero Chance	Would require a crisis

Consequences

As we have said here, you can choose "Future Money" or "Spot Money" but not both. On Debasement Cove equities and gold scream, bonds do not go down, and the dollar gets crushed.

AI Miracle Beach

Narrative

AI Miracle Beach is on the easternmost shore of Soft Landing Island. Soft Landing Island is a place where economic conditions normalize, inflation is transitory, labor stays balanced, and policymakers do not do much. AI Miracle Beach is the special place where AI spending pays off relatively quickly without a boom/bust phase of over-investment that takes years to pay off. If the destination is AI Miracle Beach, policymakers have little role except to support business through deregulation and perhaps some forced private sector investment.

What it means for markets

On AI Miracle Beach, earnings growth continues at elevated levels, multiples stay high, and short-term rates can fall somewhat more than on the rest of the island as productivity is disinflationary. Gold takes a breather as normalization is not good for gold.

AI Miracle Beach	Today	1 year forward	Asset Return	Comments
Cash	4.07	2.75	3.4%	
Tens	4.10	3.25	10.1%	
NTM SPX Earnings Expectations	295			
Trailing SPX Earnings	261	301		Earnings beat expectations
Trailing Multiple	25.4	25.0		Multiples are about the same
SPX Price	6,650	7,521	14.3%	
Gold	4,145	4,099	-1.1%	

What it takes from policymakers

Policymakers encourage AI development but mostly stay out of its way.

AI Miracle Beach	Impact on Growth	Impact on Inflation	Who Needs to be involved	Odds of occuring without a crisis	Timing and Comments
Deregulation of Industry			60 Senators	High	Deregulation takes time to legislate but is likely and the announcement matters most
Deregulation of Leverage Providers			60 Senators	High	Deregulation takes time to legislate but is likely and the announcement matters most
Fed Cuts rates to neutral			Independent Fed	High	Will likely do as long as inflation doesn't run away
Forced Foreign and Domestic FDI			Trump Alone	High	The question is whether this actually occurs and how its funded

Consequences

Soft Landing Island is a wonderful place, healthy and mostly consequence free. AI Miracle Beach is prime real estate on Soft Landing Island. We should all wish for this outcome as citizens of the US and the world.

Soft Landing Island

Narrative

Normalization is the narrative. Inflation is transitory, labor markets stay balanced, GDP grows at trend, an independent Fed cuts rates to neutral, and fiscal policymakers do very little.

What it means for markets

Normalization without activist Trump Administration policy (and unlike AI Miracle Beach), results in less of a productivity miracle, slightly higher interest rates (albeit lower than today), and equity earnings mostly in line with expectations (but without some of the almost constant fluff built into one-year expectations). There is some frustration a lack of AI-related end user revenues for the biggest companies, which causes slight compression in multiples.

Soft Landing	Today	1 year forward	Asset Return	Comments
Cash	4.07	2.75	3.4%	
Tens	4.10	3.50	8.3%	
NTM SPX Earnings Expectations	295			
Trailing SPX Earnings	261	290		Earnings slight underperform
Trailing Multiple	25.4	23.5		Multiples slight compress
SPX Price	6,650	6,815	3.7%	
Gold	4,145	4,099	-1.1%	

What it takes from policymakers

Nothing!

Soft Landing Island	Impact on Growth	Impact on Inflation	Who Needs to be involved	Odds of occuring without a crisis	Timing and Comments
Deregulation of Industry			60 Senators	High	Deregulation takes time to legislate but is likely and the announcement matters most
Deregulation of Leverage Providers			60 Senators	High	Deregulation takes time to legislate but is likely and the announcement matters most
Fed Cuts rates to neutral			Independent Fed	High	Will likely do as long as inflation doesn't run away

Consequences

Soft Landing Island is a pretty great place. While it ain't AI Miracle Beach, its rather good - healthy and mostly consequence free. Sure, assets don't do much better than cash, but it has been a pretty sweet run. We should all wish for this outcome.

★ H4L

Narrative

Today, hurricane force winds are buffeting H4L Island, torrential rain and tsunami level waves flood all the popular spots. The tourists left long ago and even some of the original residents (Damped Spring) have been gone since the high season. The few remaining residents huddle in the You'll See Tiki Bar, drinking Policy Error Punch between shots of Bacardi 151 "I'm short bonds" Rum.

The narrative is simple. Inflation will accelerate and force policymakers to hike interest rates. This administration and the current and future Fed will have to massively pivot for H4L residents to be correct.

What it means for markets

H4L is bad for bonds as policymakers deal with significant and persistent inflation. It is not horrible and can and has been good for stocks as earnings remain strong until policymakers finally kill inflation. It has not been horrible for gold in the past either. However, this time may be the second "Volcker" pivot moment and that would likely cause a large correction.

H4L	Today	1 year forward	Asset Return	Comments
Cash	4.07	4.07	4.1%	
Tens	4.10	5.50	-5.7%	
NTM SPX Earnings Expectations	295			
Trailing SPX Earnings	261	310		Earnings beat expectations substantially
Trailing Multiple	25.4	22.0		Multiples contract due to tightening
SPX Price	6,650	6,817	3.8%	
Gold	4,145	3,200	-22.8%	Policy Makers Crush gold

What it takes from policymakers

Firstly, this is not going to happen without a complete shift in inflation and one that threatens the Administration. But if it did, a complete pivot would be the lever.

The H4L Complete Pivot Action	Impact on Growth	Impact on Inflation	Who Needs to be involved	Assuming a Massive Pivot but not a crisis	Timing and Comments
Deregulation of Industry			60 Senators	High	Deregulation takes time to legislate but is likely and the announcement matters most
Deregulation of Leverage Providers			60 Senators	High	Deregulation takes time to legislate but is likely and the announcement matters most
Fed Hikes rates to restrictive			Independent Fed	High	Complete Pivot
Term Out the Debt			Trump Alone	High	Complete Pivot
Outright sales of MBS and Duration - Reverese Twist			Independent Fed	High	Complete Pivot
Tariff Walkback			Trump Alone	High	Anytime
Relax or Reverse Immigration Restrictions			Trump Alone	Coin Flip	Would require a crisis
Supreme Court Declares Tariffs Illegal			Supreme Court	Coin Flip	By year end
Tax Hikes			50 Senators	Zero Chance	Would require a crisis
Spending Cuts			60 Senators	Zero Chance	Would require a crisis

Consequences

The consequences of inflation becoming unanchored are massive for the bond market and would also likely have a negative impact on equity markets akin to 2022. That will only be corrected by the biggest policymaker pivot since 1980. Predicting how that would play out is not the purpose of this report, but it would certainly require decisive action by the full range of policymakers.

Slowdown

Narrative

A slowdown has been the Damped Spring expectation for 2025. We expect a slowdown to occur and believe strongly that a slowdown IS occurring but is masked by a massive CapEx Boom and the recovery in asset holder wealth. We also are conscious of the potential for the Trump Administration to use its policy levers to prevent a slowdown. As shown above, we think the Trump Administration has limited ability to implement policy, but so far talking about policy has been enough to prevent a slowdown.

What it means for markets

Even a mild slowdown is bad for stocks, great for STIR and fairly good for bonds. We expect gold to retrace its rally in a slowdown.

Slowdown Sea	Today	1 year forward	Asset Return	Comments
Cash	4.07	2.50	3.3%	
Tens	4.10	3.50	8.3%	
NTM SPX Earnings Expectations	295			
Trailing SPX Earnings	261	285		Earnings Miss
Trailing Multiple	25.4	21.0		Multiples contract
SPX Price	6,650	5,985	-8.8%	
Gold	4,145	3,750	-9.5%	

What it takes from policymakers

The slowdown narrative is about Trump being unable (or for now unwilling) to keep up with the pump. All the Tahiti policy levers are either not pulled or prevented from being pulled.

Slow down Levers not pulled	Impact on Growth	Impact on Inflation	Who Needs to be involved	Odds of occuring without a crisis	Timing and Comments
Fed Cuts rates to neutral			Independent Fed	High	Will likely do as long as inflation doesn't run away
Deregulation of Industry			60 Senators	Coin Flip	Deregulation takes time to legislate but is likely and the announcement matters most
Deregulation of Leverage Providers			60 Senators	Coin Flip	Deregulation takes time to legislate but is likely and the announcement matters most
Supreme Court Declares Tariffs Legal			Supreme Court	Coin Flip	Assume they allow tariffs
Fed Cuts rates below neutral			Trump Controlled Fed	Coin Flip	Assume the Fed pushes back
Forced Foreign and Domestic FDI			Trump Alone	Low	Assume it doesn't happen or can't be funded
Tax Cuts			50 Senators	Low	Assume it can't be pushed through
Tariff Walkback			Trump Alone	Low	Assume he doesn't Taco
Spending increases			60 Senators	Zero Chance	Would require a crisis
Relax or Reverse Immigration Restrictions			Trump Alone	Zero Chance	Would require a crisis

Consequences

The best part of the slowdown narrative is that mostly nothing bad happens. Mild easing supports employment and inflation pressures abate, but equities and risky assets correct modestly. Of course, the fear of a slowdown is it gets away from policymakers and runs aground on Recession Island. We think this fear is entirely unwarranted and that policymakers have plenty of levers to pull to offset a real slowdown.

★ Recession Sea

Narrative

For this entire post-Covid period, market participants who could not differentiate this cycle for prior cycles called for (and bet on) an imminent recession. Recession Island is now literally abandoned. The post-Covid economy was not built on private sector debt; it did not depend on banks leveraging up and printing money. All cycles post 1982 ended when the Fed increased rates and caused a private sector credit problem. Not this one. We have been resolute in our view that this economy will persevere until the private sector radically levers up or the income and wealth-driven cycle is broken by persistent weakness in financial assets. As the private sector is yet to lever up and policymakers have repeatedly bailed out asset prices, we strongly believe that a recession is not in the cards until and unless policymakers stop bailing out investors. We think they will continue to bail out investors until inflation matters to voters and thus to policymakers. However, calling for a recession is no longer even allowed. Even our slowdown outlook and those of other cautious observers is heavily caveated with "We are not calling for a recession." It is not likely to happen but is also priced as if it is virtually impossible.

What it means for markets

This outlook is super tame. We assume earnings miss but still rise YoY. We are cautious on our assumption of bond yield and on multiple contraction. Every other recession has been far worse than our projections. A drop of 20% in actual earnings and our conservative multiple assumption would generate a drop of 42% on the SPX. Markets are simply nowhere close to pricing a recession.

Recession Island	Today	1 year forward	Asset Return	Comments
Cash	4.07	2.00	3.0%	
Tens	4.10	3.00	11.8%	
NTM SPX Earnings Expectations	295			
Trailing SPX Earnings	261	280		Earnings Miss badly
Trailing Multiple	25.4	18.0		Multiples Compress
SPX Price	6,650	5,040	-23.0%	
Gold	4,145	3,500	-15.6%	

What it takes from policymakers

Policymakers would undoubtedly react strongly to a recession. It would be a literal crisis for the Republican Party, but every crisis is responded to in a bipartisan way. Given that fact, we doubt policymakers would NOT act until the crisis and expect that the first step policy action would mirror the slowdown action. We would then expect every lever known to man to be pulled. No fancy-colored chart for this one needed.

Consequences

The consequences of a recession would be deeply painful. Given the likely policymaker response, the deficit would explode. Concerns about a possible tipping point for US debt growth would give way to panic as debt accelerates over the cliff. No need to doom here. This is not likely and only worth discussing as various policy levers are pulled during the severe slowdown. However, the idea that this recession would be of the V bottom sort seems farfetched.

Policymakers matter

As you can see from the discussion above, several of the narratives really depend on highly activist policy action. The ones close to where markets are now dependent primarily on laissez faire policy action. Tahiti depends on extreme easing. H4L depends on an independent fed that is willing to fight inflation. Of course, the long-forgotten recession would be a crisis that would almost certainly result in policy action; unfortunately, such action would come late and be less effective. The question at hand is whether policymakers would react aggressively.

A few days ago, I woke up with a pressing need to review policymaker action through history to see what they did, why they may have done it, and what the stock market did after their actions. When I think about policymakers, I am referring to monetary and fiscal policymakers.

Before QE, monetary policy was dominated by changes in short-term interest rates and the money supply. Since QE, the balance sheet has also been used to affect asset prices. Fiscal policy prior to the Yellen administration was dominated legislative and executive branch choices to tax and spend.

Since the QE era, and particularly since the use of the Fed's balance sheet has been the dominant lever for monetary policy, the executive branch controlled monetary policy. Trump 1.0 and Mnuchin either did not understand this opportunity or did not want to use the lever. However, Janet Yellen knew exactly how it worked and used it aggressively to replace the Fed in terms of the balance sheet lever of monetary policy.

While executive branch control over monetary policy may seem new to many, it was all the result of the single most important monetary policy decision in the post-World War II era. Monetary policy was forever changed when the executive branch abandoned Bretton Woods and the gold standard. Not only was it a massive debasement and easing, but it also enabled the deficit spending regime of the past 55 years.

I am at best an amateur historian and a lousy political scientist, so this will probably suck and not be complete. Furthermore, I am just writing this down on a random weekend to journal my thoughts for more deep research. In other words, this is NOT deep research and is just a light scan of history. Bear with me.

Anyway, what I am interested in is meaningful policy maker actions. I do not care about tweaks. I do not even care much about "trend." For this "analysis" (such that it is), I care about radical changes. Of course, tweaks are important, and trend is super important, but they are different topics.

Perhaps the most obvious trend that really matters started in 1971 when Nixon changed the world by rejecting the Breton Woods agreement. That set in motion the trend of fiat debasement that has not markedly changed in 55 years. The other great trend unlocked by Nixon's rejection of Breton Woods was the massive growth in US government debt. Prior to 1970, US government debt growth was nearly flat for two decades. Prior to that event, debt growth only occurred during kinetic world wars.

So, the big mega trends of fiat debasement and deficit spending began in 1971. That said that is the last you are going to hear about it.

Back to tweaks. Tweaks are tweaks. When zooming into tweaks of monetary and fiscal policy, they can appear to be a big deal. However, I am not interested in that time frame in this note.

Framework

Crisis

The simplest way to think about policymakers is that they are ALWAYS going to act during a crisis. Will they act promptly? Will they act adequately at first? That is mostly tweaks. Policymakers going big in crisis is a virtual certainty.

Overheating

It is rare for policymakers to throw cold water on an economy. It happens but is very uncommon.

Change of political control

Another set of policy changes occur when fiscal policymakers flip from:

- One party controlling both the Legislative and Executive branch to some form of gridlock in which the flip results in a reigning in of partisan policy agendas.
- More consequentially, when control flips fully from one party to another or from gridlock to full party control.

This sort of policy change can occur during a crisis, when the economy is overheating, or somewhere in between. The first two reasons will be dealt with in the first two pillars, while I will limit this pillar to policy changes during "normal times."

Election pumping

One other potential reason for a policy change seems lately to provoke the most noise amongst market participants. These are policy changes that precede a Presidential or midterm election that are undertaken to ensure the incumbent wins reelection. I will look at this multi-decade period for major policy changes that were not needed to address a crisis, an overheating, nor after a recent political reorientation (because that was the prior year), but were purely political.

While some say the Fed became political and acted to prevent Trump's election in 2024, we will mostly be focusing on the prior 55 years of what appears to us to be a largely apolitical Fed. Of course, we are looking at Yellen very carefully, and, in particular, the Yellen/Powell/Waller pivot on Halloween 2023 as being politically motivated. However, we believe what happened then was a policymaker overreaction to the August - Halloween 2023 asset selloff and that, once taken, these fiscal policymakers did not try to cool off the rebound but did not further stoke. I will posit the Fed may have been political with the 50bp pre-election cut, but I do not know if that was the case.

So, the categories are:

- Crisis.
- Overheating.
- Political control flip - neutral conditions (implemented in first year).
- Pre-election pump - neutral conditions (by definition in second year of congressional terms.

Another cross section of these categories is whether the two policymakers are

- Aligned and both acting.
- Aligned and one acting.
- Only one is acting the other is neutral.

- Operating at cross purposes.

Here is my full history of policymakers FAFO:

When it became known	Policy Change	Category	Alignment	Federal Reserve Monetary	Traditional Fiscal	Fiscal controlled Monetary Policy	Equity Market Response
4/10/2025	Pause of Tariffs (TACO), OBBB passed, DOGE Killed	Crisis	One acting the other neutral	Neutral	Easing	Easing	Aggressive Rally from crisis lows with ongoing follow through rally
1/20/2025	Detox DOGE, Deficits cuts, Tariffs Immigration	Political Control Flip	One acting the other neutral	Neutral	Tightening	Neutral	Massive Selloff
9/16/2024	Powell Political Cut? Maybe Maybe not	Pre Election Pump	One acting the other neutral	Easing	Neutral	Easing	1.6% Rally Through Election with sizable bond selloff
Halloween 2023	ATI By Treasury and dovish pivot by Fed	Crisis	Aligned and both acting	Easing	Neutral	Easing	Massive and sustained rally
August 2023 QRA	Increase bond auction sizes and build TGA	Overheating	One acting the other neutral	Neutral	Neutral	Tightening	Massive Selloff Bonds even worse
5/1/2023	Bank tempest in a teacup over reaction	Crisis	Aligned and both acting	Easing	Easing	Easing	Aggressive Rally from crisis lows with ongoing follow through rally
11/1/2022	Treasury aggressive TGA Spend down/ Fed Dovish Pivot	Crisis	Aligned and both acting	Easing	Easing	Easing	Aggressive Rally from crisis lows ending when SVB Crisis started
6/16/2022	Oh Shit Moment for Powell 50bp hike	Overheating	Operating at cross purposes	Tightening	Neutral	Easing	Choppy action around lows
12/15/2021	Drumbeats of QT	Overheating	Operating at cross purposes	Tightening	Neutral	Easing	Absolute post covid Top caused
3/15/2021	American Rescue plan	Political Control Flip	One acting the other neutral	Neutral	Easing	Neutral	30% Rally to post covid highs
3/15/2020	Year of QE and Stimulus Response to Covid	Crisis	Aligned and both acting	Easing	Easing	Easing	Truly saved the stock market. Market more than doubled before making a top
2019	Fed Policy Reversal Rate cuts and Repo	Crisis	Aligned and one acting	Easing	Neutral	Not a thing	Massive rally in roughly a straight line from 12/24/2018 crisis low up 32%
2018	Hiking cycle and QT	Overheating	Operating at cross purposes	Tightening	Easing	Not a thing	22% Thanksgiving to Christmas Eve Massacre
2017	TCJA Proposed and Enacted/Fed QT and tightening	Political Control Flip	Operating at cross purposes	Tightening	Easing	Not a thing	From Inauguration through Oct 2018 Equities rallied 28% with a volmaggedon blip
2010-2017	Fed ZIRP and QE, Fiscal Gridlock, Period Ends with some monetary normalization and fiscal opposition	Crisis Aftermath	Aligned and one acting	Easing	Neutral	Not a thing	160% Rally in equities with very little fiscal policy changes and on going FED ease
10/2008 - 11/2010	Aggressive Fiscal and Monetary policy	Crisis	Aligned and both acting	Easing	Easing	Not a thing	33% Drawdown followed by a full recovery
2004-2006	Gradual tightening 17 Consecutive Rate hikes	Overheating	One acting the other neutral	Tightening	Neutral	Not a thing	Equity Markets rallied modestly in this period as tightening didn't cool speculation
2001-2003	Post 9/11, Tech Bubble burst, Credit Driven recession causing Stimulus	Crisis	Aligned and both acting	Easing	Easing	Not a thing	Despite aggressive policy action for years, Equity markets didn't bottom until 2003 and didn't recover 2000 high until 2007 and then only briefly
1999	Hiked Rates while flooding the system for Y2K and then withdawing	Overheating	One acting the other neutral	Neutral	Neutral	Not a thing	Tech bubble went parabolic as Y2K liquditity injections overwhelmed inadequate hikes
10/15/1998	Emergency Rate cuts LTCM Crisis Response	Crisis	Aligned and one acting	Easing	Neutral	Not a thing	15% Drawdown "Crisis" Resulted in a massive bubble inflation
2/15/1994	Pre Emptive tightening	Overheating	One acting the other neutral	Tightening	Neutral	Not a thing	Tweaky volatility inducing policy which as soon as it was reversed resulted in a 1995 36% Rip
1990-1991	Recession	Crisis	Aligned and one acting	Easing	Neutral	Not a thing	45% Rally from the recession lows
1989-1990	Inflation concerns	Overheating	One acting the other neutral	Tightening	Neutral	Not a thing	Raising rates caused the 1990-1991 Recession as it destroyed the Savings and Loan industry 19% Peak to Trough Drawdown once tightening bit
10/19/1987	"Greenspan Put" regime initiated	Crisis	Aligned and both acting	Easing	Easing	Not a thing	60% Rally from Crash lows until overheating
1987	Purely Fiscal Led Tightening due to economic imbalances	Overheating	One acting the other neutral	Neutral	Tightening	Not a thing	Legisltation to curb speculation (LBO's), Insider trading prosecutions from US Attorneys, Attempts to reign in Budget and Trade Deficits like today 33% Peak to Trough Drawdown
1986	Tax Reform Act of 1986 (Bipartisan)	Crisis Aftermath	One acting the other neutral	Neutral	Easing	Not a thing	After a period of post crisis stagnation the encactment of this bill rallied equities 39% to the 1987 Peak
1982-1985	The great post death of inflation easing and Reagan spending binge	Crisis	Aligned and both acting	Easing	Easing	Not a thing	Markets doubled from the recession lows in 2.5 years and more than tripled in 5 years
11/20/1980	Volcker Round 2	Overheating	One acting the other neutral	Tightening	Neutral	Not a thing	Volcker digs in an actually kills inlfation causing a 28% Stock market Drawdown
3/26/1980	Volcker Flinches	Crisis	One acting the other neutral	Easing	Neutral	Not a thing	After some chop and with a mini recession underway Volcker fliches and stocks rally 42% in six month (doh)
6-Oct-79	Volcker Era Begins	Overheating	One acting the other neutral	Tightening	Neutral	Not a thing	First round of Volcker policy causes a mini recession and a 15% Stock Market Drawdown
3/7/1978	Burns replaced	Crisis	Neutral	Neutral	Neutral	Not a thing	After a 20% drawdown in 1977 Burns was replaced by Miller and there was a choppy 20% rebound as Miller proved to be no better than burns but some relief did occur
1976	Burns goes back to tightening	Overheating	Aligned and one acting	Tightening	Neutral	Not a thing	1977 was straight down as Burns Pivots to tightening
10/7/1974	Franklin National Bailout, Tax Reduction Act. Burns Pivot	Crisis	Aligned and both acting	Easing	Easing	Easing	Broad coordinated policymaker intervention caused a 72% Rally from the lows in a year
1973	Burns goes back to tightening	Overheating	One acting the other neutral	Tightening	Neutral	Not a thing	After caving to Nixon before the election Burns tightens aggresively market falls 45%
1972	Nixon Forces burns to ease	Pre Election Pump	Aligned and both acting	Easing	Easing	Not a thing	With 1 year to go before the election Nixon forces Burns to ease. Market rallies 32% Through inauguration
1971	Burns Begins to tighten	Overheating	One acting the other neutral	Tightening	Neutral	Not a thing	Tightening spurs a 12% Equity selloff
1970	Nixon Abandons the Gold Standard and sets the future for the World	Crisis	One acting the other neutral	Neutral	Massive Easing	The original sin of fiscal controlled monetary policy	By abandoning Bretton Woods Nixon debases the USD, inflates the economy, consumer prices, and asset prices and sets in motion sustained and historic deficit financing Equity markets rally 50% in 9 months

So, what are my big takeaways?

- I catalog 37 major policymaker shifts. They pretty much all have major impacts on equity markets.
- Half of them were in response to a crisis and every crisis response but one resulted in significant and near immediate stock price rallies.
- The Fed has in the past been willing to act to cool an overheating economy, even though most but not all the time the markets selloff.
- Even fiscal occasionally tries to cool an overheating economy, and when they do try, it results in a sizable negative market reaction.

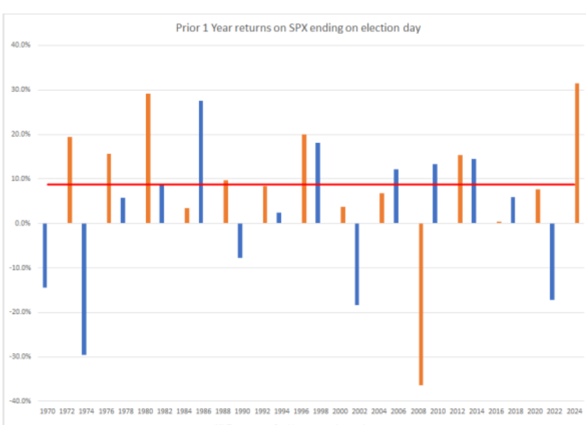
- It is rare that policy changes are the result of political control shifts (as those are rare to begin with), but they have meaningful impact.
- It is almost unheard of for policy makers to shift policy for no other reason than to win an election and even more so a midterm election.
- Fiscal and monetary policymakers are mostly aligned in crises while only some of the time does fiscal pull on the stimulus oar leaving monetary policy to do most of the work.
- The Fed pretty much is on its own in cooling the economy; the executive branch (except in one circumstance) either is neutral or, on rare occasions, operates at cross purposes with the Fed.

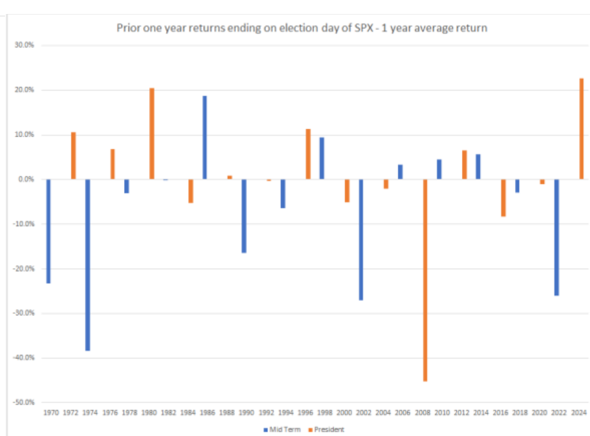
So, the big question is what all this mean for the future. I would:

- Be certain that in an economic crisis the full set of policymakers will act to counteract the crisis.
- Expect that in a true and obvious overheating, the monetary policymakers will act to slow the economy. However, because we have had various people leading the Fed and they have been influenced by others and also possibly unwilling to work until the job is done, it is important to assess who is in the seat and what will trigger a policy stance that the executive branch doesn’t like.
- When fiscal policy authorities hold both the executive office and the majority in the legislature, expect that in the first year of a presidential cycle policy choices will matter.
- Significantly discount any narrative that says that policymakers will act without a crisis simply to get re-elected and particularly for mid-terms.

Realized election cycle outcomes

To stress the last point regarding election pumping: Perhaps Trump needs to pump more than anyone else in history, but history suggests betting on a second- or fourth-year rally is not a particularly good bet. This observation must be caveated because of the small sample size. Also, look up to the broader point to show what may have happened.





Anyway. This is probably all trash. I found it interesting. For me, I will be looking toward policy action NOT pumping narratives in the next years.

Synthesis

We strongly believe that policymakers are bold and aggressive when trying to stop a crisis, occasionally willing to fight inflation, occasionally try to make meaningful changes when they have a political mandate, and very rarely pump to win an election of either sort or certainly not a midterm. However, this administration is particularly activist from a mandate standpoint, particularly loud from a rhetoric standpoint, particularly aggressive in trying to keep and extend its political power, and particularly willing to risk inflation to deliver on its other goals. The administration may pump. On the other hand, there are significant practical barriers preventing the administration from implementing legislative policy and executive orders, including court challenges. Furthermore, the price of financial assets is a weight that gets harder to lift as it rises. The pump will have to be strong and substantial to get us to Tahiti and we just do not think we are heading there. That said, we will pay attention to the actual levers and adjust our view as they are pulled.

Current Portfolio and Performance

Assumed Portfolio size	$ 100,000,000		
LTD P/L	$ 78,532,503		
Total Return	78.53%	YTD Return in excess of cash	8.47%
Today's Date	10/15/2025	Portfolio Created	4/15/2019

Date	Position	Entry Price	Amount	Worst case loss	MTM	P/L	Open/Closed
7/30/2025	SPX 10/17/2025 6250/5750 Put Spread	39.87	501	$ 1,997,487	0.85	$ (1,954,902)	Open
9/11/2025	NDX 10/17/2025 22500/21500 Put Spread	111.41	180	$ 2,005,344	1.30	$ (1,981,944)	Open
9/18/2025	SPX 12/31/2025 6650/6850 Call Spread (paired with SFRM6)	114.05	-116	$ 1,000,000	113.90	$ 1,745	Open
9/30/2025	SPX 12/31/2025 6500/6300/6100 Put Butterfly Spread	10.77	1856	$ 1,998,912	11.85	$ 200,448	Open
10/3/2025	SPX 12/31/2025 7200 Call	30.50	328		20.85	$ (316,520)	Open
7/3/2025	SFRM6	96.62	2400	$ 2,000,000	96.82	$ 1,422,000	Open
9/18/2025	SFRM6 (paired with SPX Call spread)	96.79	1600		96.82	148,000	Open
10/1/2025	ZNZ5 11/21/2025 113.5 Puts	1.28	390	$ 500,000	0.84	(173,780)	Open
9/23/2025	GCZ 11/24/2025 3750/3850 Call Spread	47.2000000	-189	$ 1,000,000	91.900000	$ (846,591)	Open
				10.5%		7.00%	