



October 23, 2026

*"...how do we know when irrational exuberance has unduly
escalated asset values..."¹*

- Alan Greenspan, **1996**

Dear Client,

The Grey Owl All-Season Strategy's (GOAS) objectives are to minimize drawdowns, outperform short-term bonds by several hundred basis points each year (i.e., beat "cash"), and participate meaningfully in risk-on rallies.

Through the first three quarters of 2026, GOAS is up +3.91% net of fees, ahead of short-term Treasury bills (TBIL), which returned +2.68%. For the third quarter, GOAS returned -1.93%, a modest decline in a quarter when global equities gained +1.1%.

The story of the quarter was the reacceleration of inflation. Headline CPI bottomed at 3.36% in July and reached 3.74% in September. At the same time, commodities drove higher, led by oil. Brent crude rose from the mid-\$70s in late June to roughly \$100 in late September as supply through the Strait of Hormuz remained disrupted. Higher inflation pushed interest rates higher. Long-dated US Treasury bonds fell -9.0% in the quarter and the broad US bond index fell -3.5%.

The pressure reached the AI trade through credit. The debt-funded "neocloud" businesses borrow heavily to build data center capacity, and they are sensitive to higher rates. Their credit spreads widened significantly, and yields on some of their bonds approached 15% in October. The widening has been concentrated in these lower-rated borrowers, but AI-adjacent energy and utility issuers have suffered as well. At this point, the AI "bubble" is kept afloat by the hyperscalers (megacaps such as Microsoft) and a few other companies.

We entered the quarter overweight interest-rate-sensitive equities and with no commodity exposure. Not exactly where you wanted to be when inflation reaccelerated and commodities took off. We've made substantial changes since. (see Current Positioning).

Outside of oil and bonds, nothing trended. US equities, global equities, and gold finished the quarter near where they began, but not in a straight line. The swings were large. We suspect

¹ Alan Greenspan, speech to the American Enterprise Institute, December 5, 1996.

the combination of leverage and the growing dominance of short-term trading strategies is making these swings worse. A lot of money is chasing price rather than fundamentals. When everyone is doing that, markets can move a long way without actually getting anywhere.

A few specifics below on the present environment and our current positioning, but first a more detailed review of the performance of the “primary” asset classes.²

For the third quarter of 2026, commodities led with a +24.4% return. Gold gained +3.4%, US equities +2.4%, and global equities +1.1%. Long-dated US Treasury bonds were the worst performer, down -9.0%.

Year to date, commodities are up +54.3%, global equities +12.9%, and US equities +12.7%. Gold is down -3.9% and long-dated US Treasury bonds are down -8.0%. The quarterly swings behind those numbers are large. Gold was +8.6% in the first quarter, -14.4% in the second, and +3.4% in the third. Commodities were +39.9%, -11.3%, and +24.4%.

The AI “Bubble”

We introduced this letter with a quote from Alan Greenspan in 1996. It wasn’t until three years later that a top in the Nasdaq formed. Equally important, much of the excitement around the Internet that drove prices to their 1999 highs proved accurate years later. Is there an AI “bubble?” Perhaps valuations are stretched by any historically useful metric. We have said many times that we are aware of valuation. We have also said that valuation alone would have kept us out of equity markets long ago. Valuation can say a market is expensive, but expensive markets can stay that way for years.

So, we now focus first on underlying economic currents, growth and inflation, and intramarket analysis. Passive investing, never-before-seen returns-on-scale, and related phenomena result in equity indices that are extremely concentrated. Today, the top 10 companies in the S&P 500 account for over 40% of the index. Compare that to the Dot-Com peak in 2000 when the top 10 S&P 500 stocks made up approximately 27% of the index. Narrow markets make navigating the

² We refer to US equities, long-dated US Treasury bonds, gold, and commodities as “primary” asset classes, borrowing the language of HCWE & Company. These four assets best capture two variables that explain a significant amount of asset price movement: global growth and inflation. This framework is the basis for a permanent portfolio, an “all-season” portfolio, risk-parity, etc. US equities and commodities are “risk” assets, while US Treasury bonds and gold are “haven” assets. Returns are measured on a total return basis using index exchange traded funds (ETFs): SPY for the S&P 500, ACWI for the MSCI All-Country World Index, GSG for the S&P GSCI Commodity Index, TLT for the 20+ Year Treasury Bond index (i.e., “long-dated” US Treasury bonds), and GLD for gold.

environment more difficult. If (most likely when) there is a meaningful correction in the biggest “AI” names, equities broadly will follow them.

Economic Growth

Hedgeye groups each month into one of four “Quads” based on whether growth and inflation are accelerating or decelerating. Growth accelerates in Quads 1 and 2 and decelerates in Quads 3 and 4.

Based on their framework, we remain in a “safe” growth environment through December. Then, growth decelerates in five of the following six months. That is where the risk is – sometimes, the market starts discounting that a few months in advance, but sometimes it’s just a few weeks.

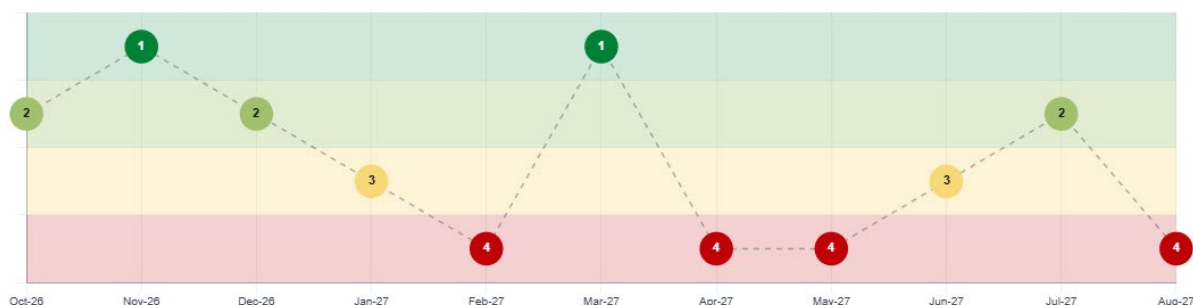


Figure 1 – Hedgeye Monthly Quads: Most Likely Quad by Month (www.hedgeye.com)

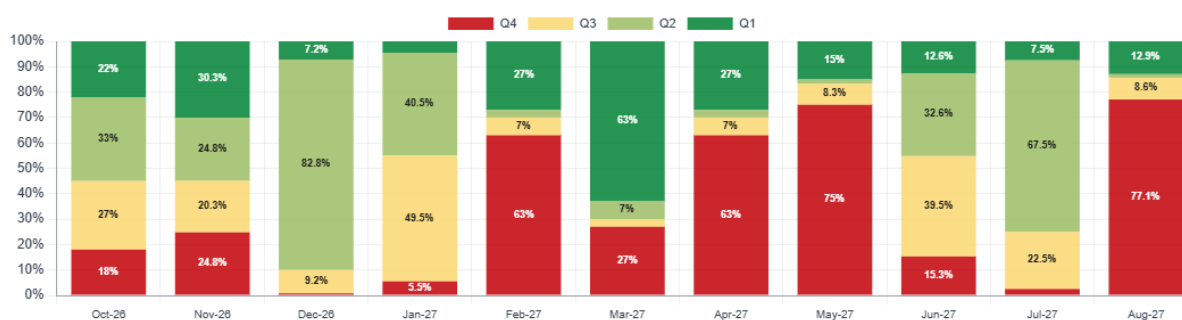


Figure 2 – Hedgeye Quad Probabilities by Month (www.hedgeye.com)

Growth supports risk assets through year-end, but the risk is in the first half of 2027.

Inflation

Inflation is reaccelerating for a third straight month in October from a recent trough that was still 3.36% and looks to continue through the rest of the year.

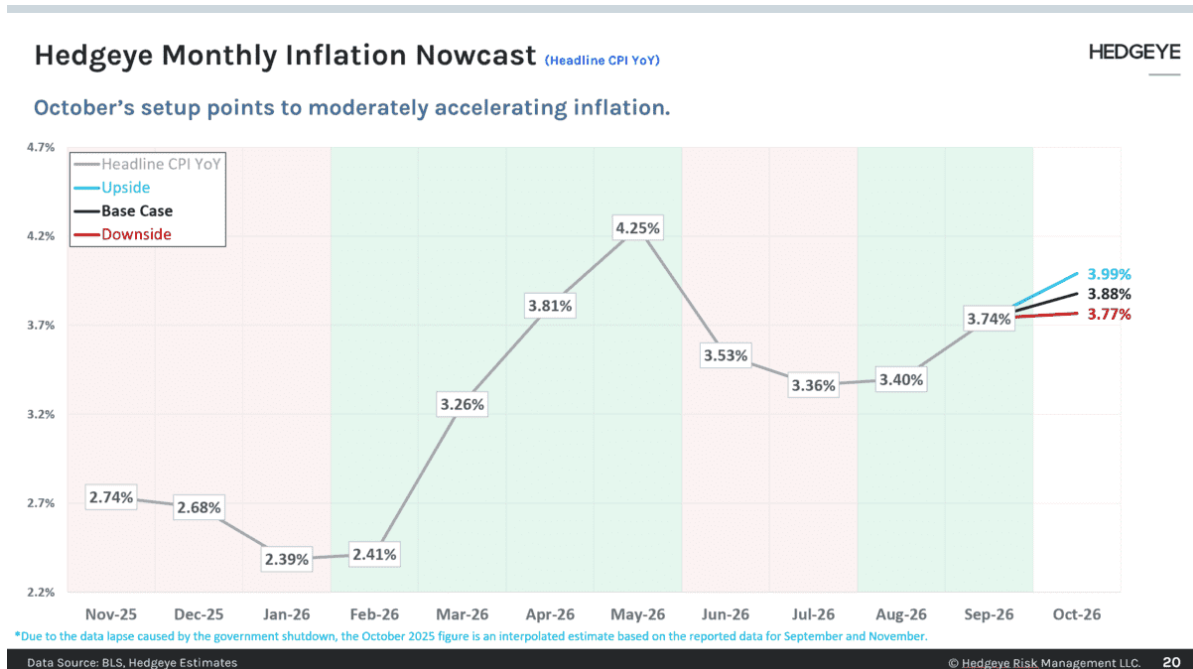


Figure 3 – Monthly Inflation Nowcast (www.hedgeye.com)

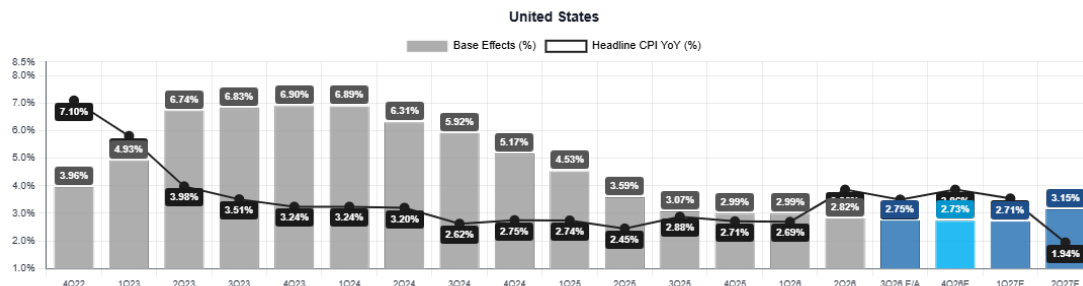


Figure 4 – Base Effects and Headline CPI (www.hedgeye.com)

Then, as we move into 2027, the base effects point to a deceleration in inflation.

Inflation is reaccelerating, creating a backdrop that favors some risk assets over others. But, a likely deceleration into early 2027 coincident with a slowdown in real growth will likely have a significant impact on financial markets.

Market Signals

Lowry's turned cautious this quarter. Selling Pressure (190) is now above Buying Power (162), a reversal from our July letter. The Dow remains above its 200-day average, so the trend is intact for now, but market internals do not confirm a new advance.

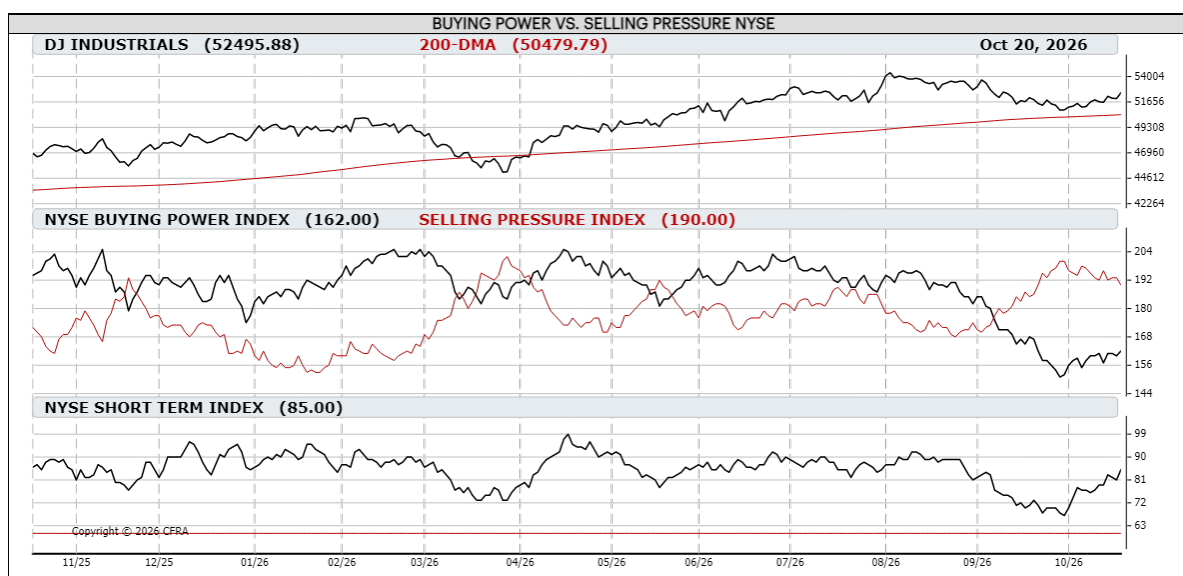


Figure 5 – Buying Power vs. Selling Pressure (www.lowryondemand.com)

Market internals are mixed. Not an outright sell signal, but certainly not a reassuring one.

Current Positioning

Our current portfolio remains balanced within an all-season framework, but it is positioned differently than in July. Equities are about 44% of the portfolio, down from 48%. We reduced small-capitalization, real estate, utilities, homebuilders, and dividend holdings, and added large-capitalization technology, health care, and two global exposures. Cash and fixed income, including the US dollar (8%) and an interest-rate hedge (5%), are about 32%, down from 42%. Long-duration and credit-sensitive bonds were replaced with short-term and inflation-protected bonds. Gold and commodities rose from 3% to 12%, and managed futures and other alternatives from 7% to 12%.

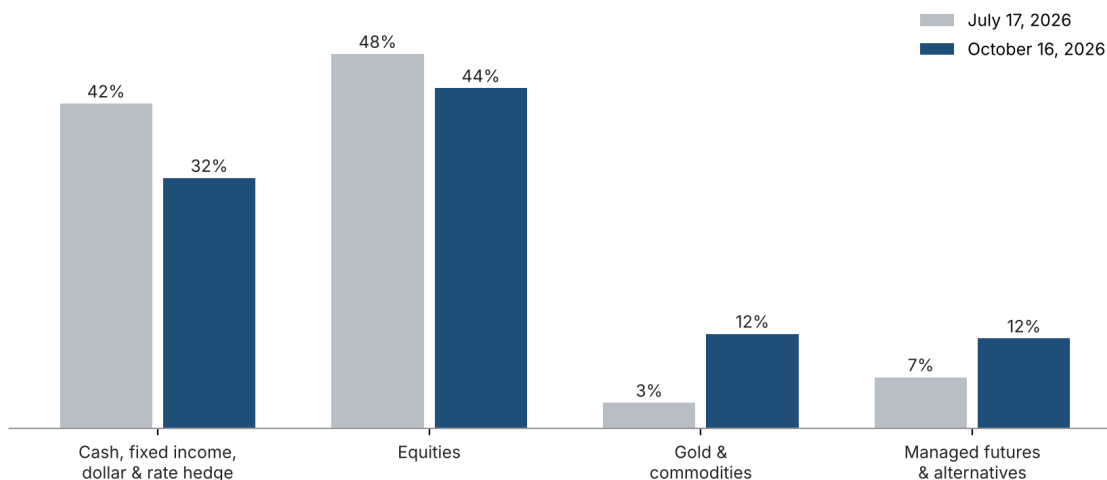


Figure 6 – GOAS Allocation

We think this positioning makes sense given what we're seeing today. Inflation is accelerating and growth looks reasonably solid through year-end. But, the first half of 2027 could be considerably more difficult, and it isn't that far off. We're balanced with definitive tilts, but also ready to adjust quickly.

The portfolio remains balanced but is intentionally tilted toward real assets and flexibility.

Greenspan worried aloud about irrational exuberance in December 1996. He was early. Very early. The Nasdaq didn't peak until March 2000.

We have no idea whether we're in 1996, 1999, or something entirely different. That's why we don't try to make a portfolio bet on the answer.

As always, if you have any thoughts regarding the above ideas or your specific portfolio that you would like to discuss, please feel free to call us at 1-888-GREY-OWL.

Sincerely,

Grey Owl Capital Management

Grey Owl Capital Management, LLC

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