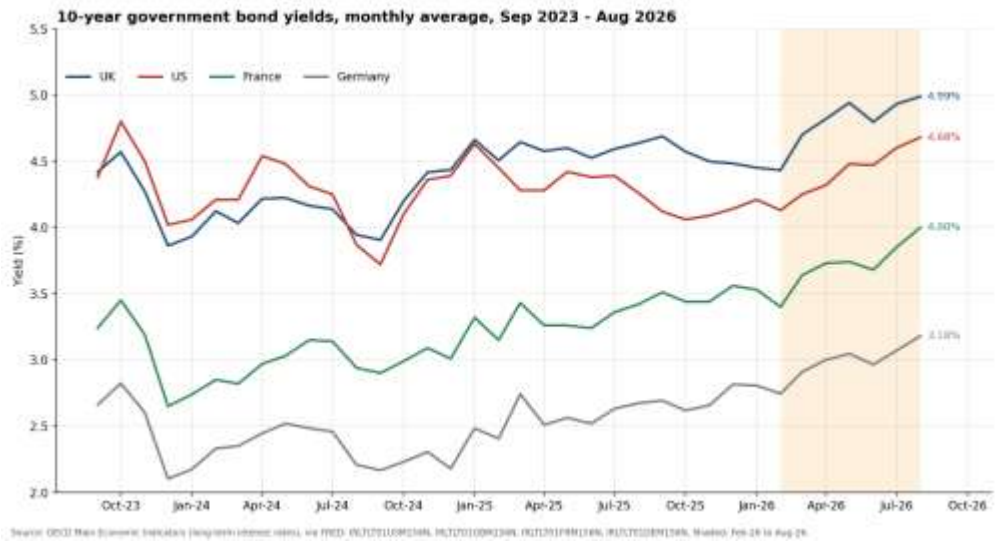
Oct 30th, 2026

Dear Fellow Investors,

In our inaugural newsletter, we highlighted the risks that energy prices and inflation posed to the global economy. We also highlighted that the transmission method would likely be through short- and long-term interest rates. Oil prices continued to rise in the quarter as the crisis in the middle east remained unresolved (some might say even escalated with the Houthis intervention in Saudi Arabia). A decisive event was the intervention by the US Treasury Department on the 19th of August to double the size of long-dated bond buying. The topic which was covered best by Stanley Druckenmiller's WSJ Op Ed on the 24th of August titled "Let the Bond Market Speak". Addressed to his former protégé Scott Bessent, it made the case that there are two reasons to intervene in large scale:

- The first is a tail event that results in a liquidity freeze broken only by decisive action by the Treasury or the Fed.
- The second is simply a means to control long-term yields that decide everything from home loans to infrastructure debt and government borrowing.

Given volatility was normal and the economy is running at full employment, Mr. Druckenmiller argued it was clearly an attempt at the latter. The attempt failed. Failed attempts at yield control are like failed palace coups: the retribution is severe and leaves many casualties. That is certainly the case with bond yields that were previously trending lower, rapidly climbing towards 5-year highs across the different major OECD economies.



Mr. Druckenmiller concluded that the only way to control yields is to convince and not coerce market participants. His suggested course of action is fiscal discipline through a reduction of entitlements so that the burden of debt is shared across generations and not just on the working population. This is a noble call to action but one that has consistently fallen on deaf ears and there is no reason to believe

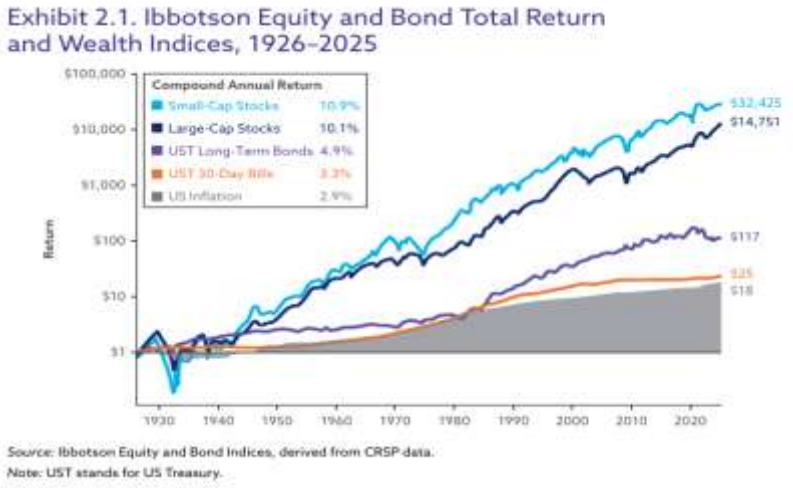
that this time will be different. The same debate is occurring across Europe in France where political instability linked to fiscal deficits and sharply increasing spreads has led to concerns around a new Eurozone crisis concentrated at the heart of the European economy. Politicians across the developed world remind me of the captain of the *Titanic*, steering for the iceberg, prepared to die honourably rather than alter course, and assuring himself it will all sort itself out.

With so much uncertainty about steady-state inflation, investors search for lifeboats to compound wealth and preserve purchasing power. One such investor asked a good question (How should one think about asset allocation in the context of all the geopolitical changes?) of a panel of eclectic investors at the Ben Graham European Value Investing Conference in Munich, and I couldn't put it down. I wanted to find the best answer.

Perhaps the solution is to defer consumption and just buy safe haven assets such as short duration bonds or hold cash. Here I am reminded of a foreword written in 1982 by Laurence Siegel of the CFA Institute Research Foundation to Stocks, Bonds, Bills, and Inflation: The Past and the Future by Roger G Ibbotson that describes the behaviour of squirrels. He wrote:

"Squirrels hoard. Knowing that they must have food in the winter, they willingly forego present (certain) consumption in exchange for future consumption which is also more or less certain. Yet squirrels do not build wealth over time. The offspring of particularly industrious squirrels do not find their lives made richer by their parents' past efforts; squirrels as a species are not better off than they were a hundred years ago. Clearly, hoarding or storage (the exchange of present for future consumption, both under certainty) is not a sufficient condition for building wealth."

So, what is enough to generate wealth? Let us consult history. The chart below covers returns of a single dollar invested in different US asset classes over the past 100 years.



Inflation has eroded the purchasing power of a dollar such that it is equivalent to $18 today. Bonds and T bills have just about protected you from inflation running at ~2.9% p.a. Storing away those acorns are unlikely to help you build wealth. It is only equities compounded at double digit returns.

Akin to turning base metal into proverbial gold. Though one would have had to accept larger intermediate drawdowns also. And this should not be a surprise to anyone. Investors should get paid to take risks.

Typically, risk is measured by volatility – which is important to compounding as the table below serves to illustrate. Small Cap US Stocks have experienced 50% more volatility vs Large Cap US Stocks. That shaves off 350bps out of average returns vs 170bps for large cap stocks. They still finished 0.8% a year ahead, which isn't much for the stomach you need to sit through the swings. But over 100 years, that's a dollar growing to $33,000 versus $15,000.

Exhibit 2.3. Ibbotson Equity and Bond Returns and Risk, 1926–2025

	Compound Annual Return	Arithmetic Annual Return	Risk (standard deviation)	Return Distribution
Large-Cap Stocks	10.1%	11.8%	18.9%	
Small-Cap Stocks	10.9%	14.4%	27.5%	
UST Long-Term Bonds	4.9%	5.4%	10.6%	
UST 30-Day Bills	3.3%	3.3%	3.1%	
US Inflation	2.9%	3.0%	3.9%	
				-90 0 90

Source: Ibbotson Equity and Bond Indices, derived from CRSP data.

As we have always said at Maat, volatility is the price of admission for concentrated investing. It is not equivalent to fundamental risk. Risk can be managed by picking securities carefully and building a portfolio that limits permanent loss of capital and correlation, while keeping the upside volatility that comes from the gap between perceived and realised risk. If we stay rational while others panic, our money should compound at rates that protect purchasing power and then some.

Then comes the question of what to own. It should be cheap, because costs get in the way of compounding, and small savings add up over long stretches. Index funds and ETFs are all the rage, and I understand why. Anyone holding a low-cost broad index has been helped by rising markets for

a couple of decades. US stocks have done well and US tech is dominant, so buying a passive US index looks like an easy call. Why look any further?

As we do know at Maat, it's always important to test our assumptions for otherwise they tend to make an ass out of you and me. So I picked some time frames from the last 50 years. Not entirely at random. The first ends on Black Monday in 1987, a nod to the client note from Barton Biggs, the celebrated Morgan Stanley strategist, written the day after. First a thought experiment: How would you have done by buying into different equity markets a decade prior using information in the table below? Valuation turned out not to matter. Japan started out more expensive and still beat several cheaper developed markets, the US included. The one cheap market that did better was Hong Kong, whose earnings grew enormously as China opened. At the time, investors figured that would fade, given the middling multiple they put on Hong Kong. And nobody believed in American exceptionalism. Brushing up on your Japanese would have been time well spent.

World Equity Markets: 1977 → 1987

Valuations and returns over the decade ending Black Monday (Oct 22, 1987)

Country	P/E 1977	P/E 1987	EPS CAGR	Total Return
Australia	≈10.0×	13.3×	≈8%	≈15%
Canada	≈12.0×	22.1×	≈6%	≈16%
France	≈9.0×	13.5×	≈7%	≈16%
Germany	≈13.0×	13.6×	≈7%	≈12%
Hong Kong	≈10.0×	16.0×	≈16%	≈26%
Japan	≈23.0×	59.4×	≈7%	≈19%
United Kingdom	≈9.5×	13.2×	≈8%	≈17%
United States	≈10.8×	15.5×	≈6%	≈14%

Sources: Morgan Stanley Research (Biggs, Oct 1987); Shiller/FRED (US 1977); Potterba-French (1991) for Japan/US 1977 P/E; Bloomberg historical extrapolation for others. 1977 P/E estimates carry low-moderate confidence. Total return = price CAGR + avg. dividend yield (midpoint of start/end yields). 1987 level is post-Black Monday.

Now roll forward 12 years, to the stroke of midnight ushering in the new millennium, the peak of the dotcom bubble and the dawn of the internet economy. Japan Inc was crushed with earnings compounding at negative rates for 12 years. So bad was the situation that multiples rose to an astronomical 74x as investors never gave up hope. Hong Kong confounded critics and continued to compound earnings. Staid France outperformed the US even as the tech boom dominated the headlines, which few expected. If you are waiting for me to reach the point, there is none. Leadership changes, and the market that seems most certain to win is rarely the one that does. Chasing winning

factors blindly is the quintessential loser's game. Invert the problem, as Charlie Munger counsels, and solve for what you are comfortable underwriting rather than what the market tells you.

World Equity Markets: 1987 → 1999

Valuations and returns over the decade ending the dot-com peak (Dec 31, 1999)

Country	P/E 1987	P/E 1999	EPS CAGR	Total Return
Australia	13.3×	21.0×	≈3%	≈11%
Canada	22.1×	27.0×	≈7%	≈11%
France	13.5×	27.0×	≈11%	≈20%
Germany	13.6×	26.0×	≈8%	≈16%
Hong Kong	16.0×	19.0×	≈14%	≈18%
Japan	59.4×	74.0×	− 4%	−1%
United Kingdom	13.2×	24.0×	≈7%	≈16%
United States	15.5×	32.0×	≈9%	≈18%

Sources: Morgan Stanley Research (Biggs, Oct 1987); MSCI country index data; Bloomberg historical records (Dec 1999).

1987 P/E exact as published. 1999 P/E high-confidence for US (32×) and Japan (74×); moderate for others. Total return = price CAGR + avg. dividend yield.

Which leads me to my last and final table. A list of trailing PE multiples as of the end of Q3 2026.

World Equity Markets: September 30, 2026

Trailing twelve-month P/E ratios

Country	Trailing P/E
Australia	20×
Canada	21×
France	18×
Germany	18×
Hong Kong	12×
Japan	19×
United Kingdom	17×
United States	25×

Sources: Siblisresearch (Jun 2026 TTM P/E); worldperatio MSCI ETF P/E (Sep 23, 2026); Invesco Valuation Tracker; indiamacroindicators.

Trailing TTM P/E cross-referenced across sources. All figures as of September 30, 2026.

Apart from Hong Kong, the broad indices are in the expensive to very expensive quartile of their own history, carried by the promise of AI. Some are near their 1999 peaks. None is anywhere near its lows of the past 50 years. Bargains are found where pessimism is greatest, and today pessimism is hard to find. So I leave you with a simple thought: Is blind indexation a reasonable bet to make to ensure your capital grows?



Rahul Dcunha,

Director of Research

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