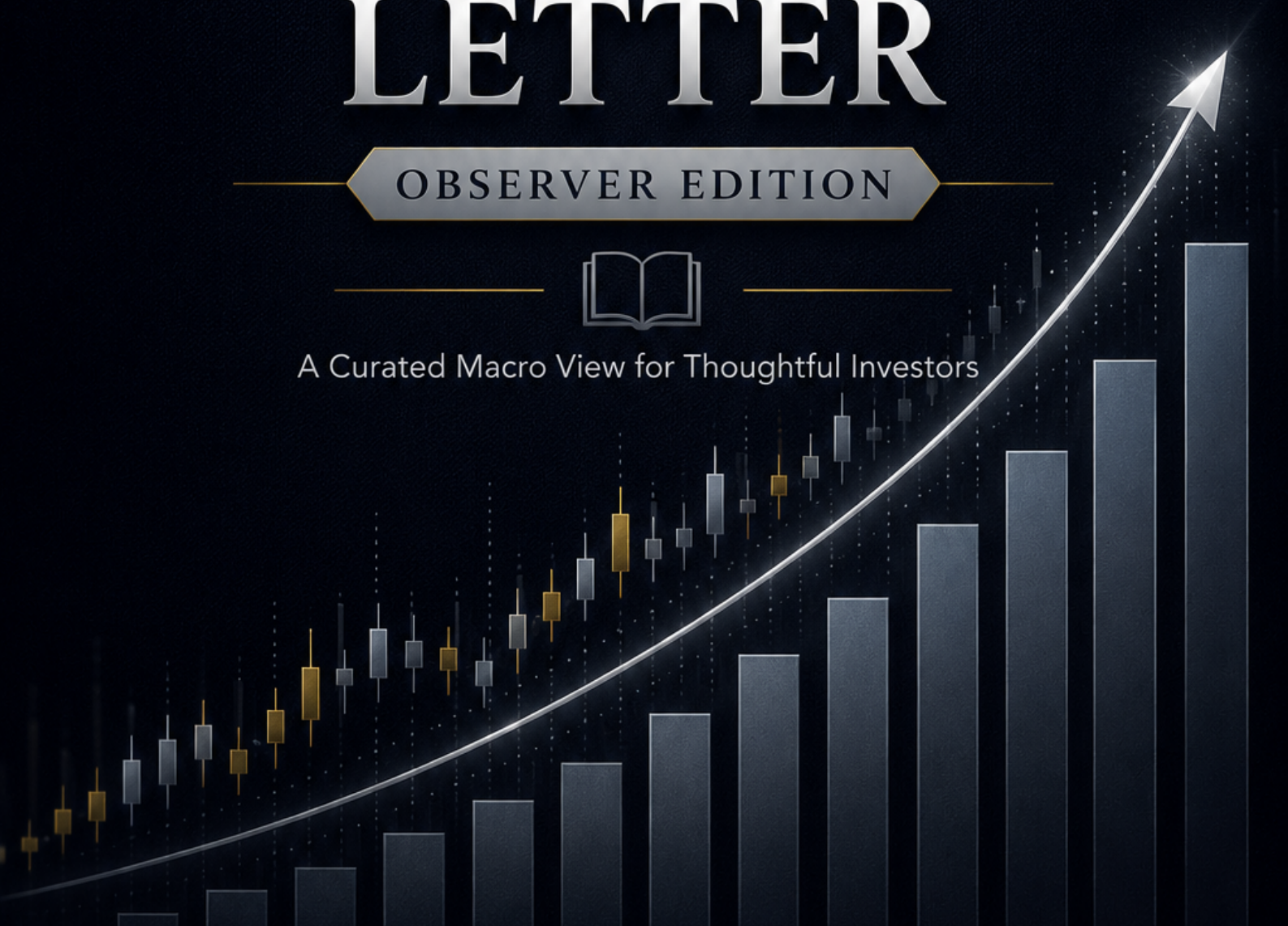
CAPITAL CYCLE

INTELLIGENCE

THE CAPITAL CYCLE LETTER

OBSERVER EDITION

A Curated Macro View for Thoughtful Investors



CAPITAL CYCLE INTELLIGENCE

THE CAPITAL CYCLE LETTER

Observer Edition

August 2026

MATURE EXPANSION

Liquidity Is Available. Transmission Is Being Tested.

Core Thesis

The expansion remains alive, Global liquidity remains supportive, growth continues expanding and credit markets remain functional. Yet transmission is uneven, long - duration yields remain restrictive and capital allocation has become increasingly selective.

Price is the output.

Liquidity, Growth and credit are the inputs

WELCOME TO THE CAPITAL CYCLE LETTER
OBSERVER EDITION

The Capital Cycle Letter Observer Edition is more than a monthly market update. It exists to teach you how to think in Capital Cycles.

Each month, we return to the same evidence-based framework—liquidity, growth, credit and the movement of capital—to explain not only what is happening, but why.

Our objective is not to predict the future. It is to help you recognise change through the evolving weight of evidence, so that over time you develop the confidence to read the Capital Cycle for yourself.

The world will continue producing new headlines. Markets will continue reacting to conflict, inflation, earnings and central-bank decisions. Beneath that noise, the Capital Cycle continues following the same principles that have shaped markets for generations.

Welcome. Let us begin.

CAPITAL CYCLE DASHBOARD

Where are we?

CURRENT REGIME

🟢 **Mature Expansion**

OVERALL SCORE

7.4 / 10

CONFIDENCE

Moderate

CAPITAL CYCLE SCORECARD

Liquidity	🟢 **8.0**
Growth	🟢 **7.8**
Credit	🟢 **7.6**
Confidence	🟡 **6.2**

Expansion remains intact, although participation has become increasingly selective.

Capital Cycle Position

Where are we in the Capital Cycle?

Expansion

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★ **Mature Expansion**

|

Slowdown

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Contraction

|

Recovery

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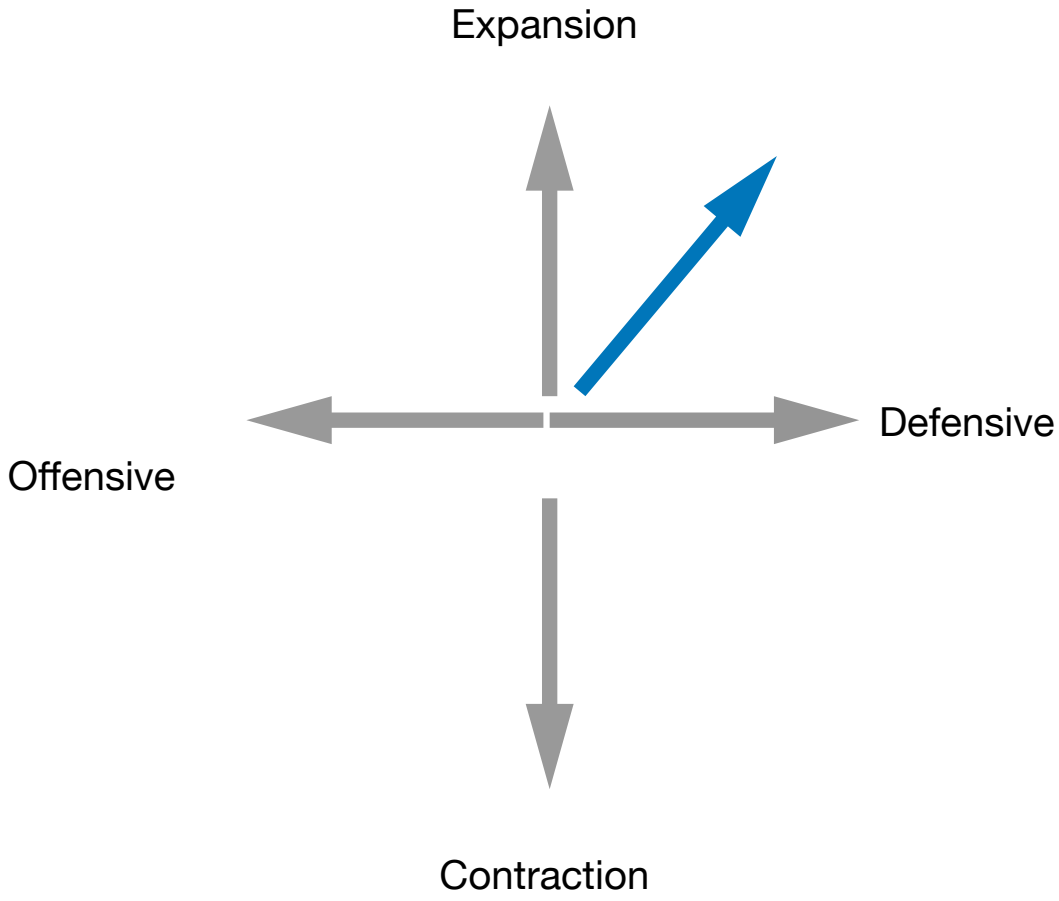
Expansion

★ **Current Position**

Macro Compass

How should capital be positioned?

↗ Expansion with a selective offensive bias.



The broader direction remains constructive. Elevated long yields, geopolitical disruption and uneven liquidity transmission argue for discipline rather than retreat.

Macro Regime Guide

Why does this regime behave this way?

Why does this regime behave this way?

Regime	Liquidity	Growth	Credit	Confidence
Expansion	🟢	🟢	🟢	🟢
Mature Expansion	🟢	🟢	🟢	🟡
Slowdown	🟡	🟡	🟡	🟡
Contraction	🔴	🔴	🔴	🔴
Recovery	🟢	🟡	🟡	🟡

EXECUTIVE SUMMARY

The Machine Continues to Turn

August delivered no shortage of reasons for markets to hesitate. The ceasefire between the United States and Iran broke down, the conflict broadened, threats to shipping intensified and the Red Sea remained obstructed by Houthi activity. Oil, freight and insurance costs again became part of the inflation conversation.

At the same time, the Federal Reserve left rates unchanged and Chairman Kevin Warsh offered no forward-guidance map for markets to follow. Long-duration yields remained elevated. Yet earnings season proved resilient, with a strong share of companies reporting results above expectations.

The Capital Cycle therefore presents a tension rather than a contradiction. Global liquidity remains abundant, growth continues expanding and credit remains functional. But capital is becoming more selective, and liquidity is not reaching every market equally.

The weight of evidence continues supporting a Mature Expansion. The expansion still deserves respect. So do its constraints.

CCI PERSPECTIVE

Headlines Create Noise. Transmission Reveals the Cycle.

A supportive macro environment does not guarantee that every asset will rise together. Capital must first exist, then reach the financial system, then enter the particular market being studied.

This month demonstrates that journey clearly. Global liquidity is expanding, yet crypto-native liquidity remains weak and Bitcoin has not responded proportionately. Equities continue receiving sponsorship, but participation is concentrated. Gold remains firm while long-bond yields stay elevated.

The lesson is simple: do not stop at the headline indicator. Follow the transmission chain. That is where the Capital Cycle becomes visible.

SECTION 1 - CURRENT MACRO REGIME

Question: What environment are we operating in?

Capital Cycle Scorecard

Factor	Score	Direction
Liquidity	🟢 8.7 / 10	Supportive
Growth	🟢 7.4 / 10	Expanding
Credit	🟢 7.8 / 10	Constructive
Confidence	🟡 6.8 / 10	Selective
Overall Regime	🟢 7.2 / 10	Mature Expansion

Every investment decision begins with understanding the environment in which it is being made. Markets respond to liquidity, growth, credit and investor behaviour interacting simultaneously.

August has tested that framework. Renewed conflict in the Middle East, threats to Hormuz, continuing Red Sea disruption, a guidance-light Federal Reserve and elevated long yields have all increased uncertainty. Yet uncertainty and deterioration are not the same thing.

Liquidity remains supportive. Manufacturing has reaccelerated. Services remain resilient. Credit markets continue supplying capital. Earnings have provided an important stabilising force. These are not the foundations of an economy already in contraction.

The most accurate description remains Mature Expansion Under Pressure: the cycle is constructive, but opportunity is uneven and discipline matters more than it did earlier in the expansion.

The Regime Has Not Changed Direction

Markets rarely move from expansion to contraction because of one event. Regime change occurs when the pillars begin weakening together.

For now, that synchronised deterioration has not appeared. Growth and credit remain constructive. Financial stress is contained. Investors continue participating in equities and rewarding companies capable of delivering cash flow.

The pressure points nevertheless deserve respect. A prolonged disruption to energy and shipping could keep inflation uncomfortable. Elevated long yields can tighten conditions even when the policy rate does not change. Yen instability could force repatriation and reduce global risk appetite.

Those are pathways to monitor—not conclusions to assume.

Supporting Evidence

CAPITAL CYCLE DASHBOARD

Regime: Mature Expansion

Overall Score: 7.2 / 10

Confidence: Moderate

The combined score remains constructive because liquidity, growth and credit are still positive. Confidence is weaker than the other pillars, reflecting selective participation rather than broad retreat.

MACRO COMPASS

The compass continues pointing toward expansion with a selective offensive bias. Participate where leadership and earnings provide confirmation; remain patient where valuation exists without sponsorship.

Macro Regime Guide

A Mature Expansion combines supportive liquidity, positive growth and healthy credit with confidence that is becoming more selective.

Expansions rarely end because uncertainty increases. They end when liquidity, growth and credit begin deteriorating together. The evidence suggests we are not there yet.

The correct response is neither complacency nor panic. It is disciplined participation supported by a clear watch list.

★ CCI LEARNING MOMENT

The Environment Determines the Opportunity

Strong businesses can struggle during contracting regimes. Average businesses can prosper while liquidity, growth and credit are expanding.

Your first question should therefore never be: “What should I buy?”

It should be: “What environment am I investing in?”

Capital Cycle Takeaway

The evidence continues supporting a Mature Expansion. Risks have increased, but the underlying pillars remain sufficiently strong to support participation with discipline.

The next question is what continues supplying the fuel. That takes us to liquidity.

SECTION 2 - LIQUIDITY

Question: Is there enough liquidity to support the Capital Cycle?

Capital Cycle Scorecard

Factor	Score	Direction
Global Liquidity	🟢 8.7 / 10	Expanding
US Net Liquidity	🟡 6.8 / 10	Supportive but slower
Liquidity Impulse	🟡 7.1 / 10	Recovering
Stablecoin Liquidity	🔴 5.0 / 10	Contracting
Liquidity Outlook	🟡 7.2 / 10	Supportive, uneven

Every Capital Cycle begins with liquidity. Before economies expand, earnings grow or markets rise, capital must first be available.

Global liquidity continues making new highs. The reservoir is full and still rising, providing a constructive monetary foundation. But the level of liquidity and the acceleration of liquidity are different things. Earlier in the cycle, both rose together. Today the level remains supportive while the impulse has only recently recovered from contraction.

The second distinction is transmission. US net liquidity is less forceful than the global headline, while stablecoin liquidity remains below trend. Global support can coexist with weak crypto-native liquidity. That helps explain why Bitcoin has not received the same benefit as the strongest equity leaders.

The Reservoir Is Full

GLOBAL LIQUIDITY

The global measure confirms that the monetary backdrop has not turned restrictive. Liquidity remains available to support risk assets, economic activity and credit creation.

US NET LIQUIDITY

The domestic pipeline remains open, but the flow is less forceful than the global measure implies. That difference helps explain why asset performance has become more selective.

LIQUIDITY IMPULSE

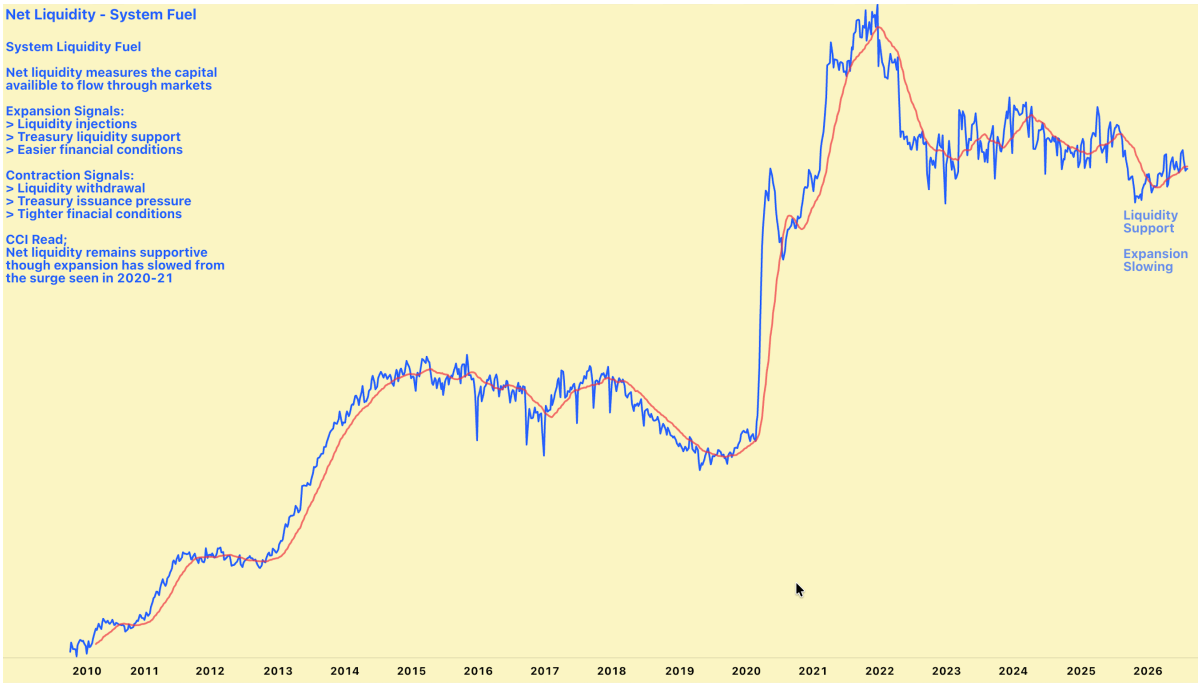
The impulse has recovered into supportive territory. That is constructive, but it does not yet resemble the powerful acceleration phases associated with the strongest broad risk-asset advances.

Global Liquidity Index



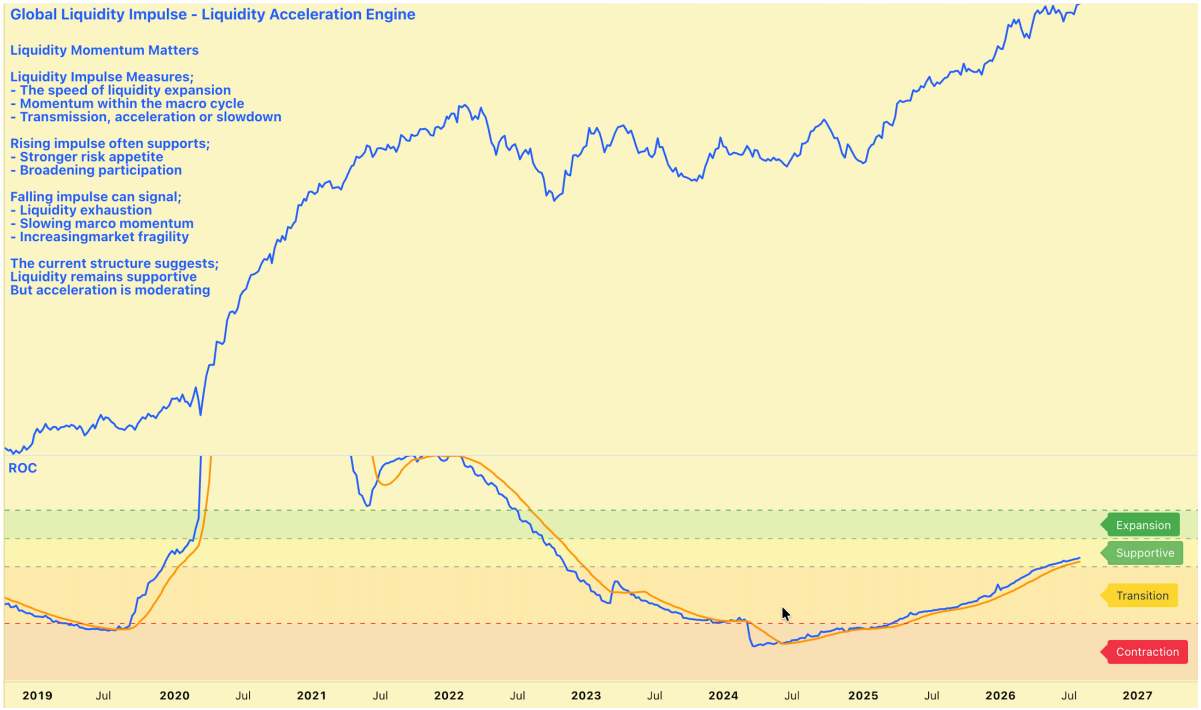
Global liquidity continues making new highs, providing the broad monetary foundation supporting the current expansion. The reservoir remains full and is still rising.

US Net Liquidity



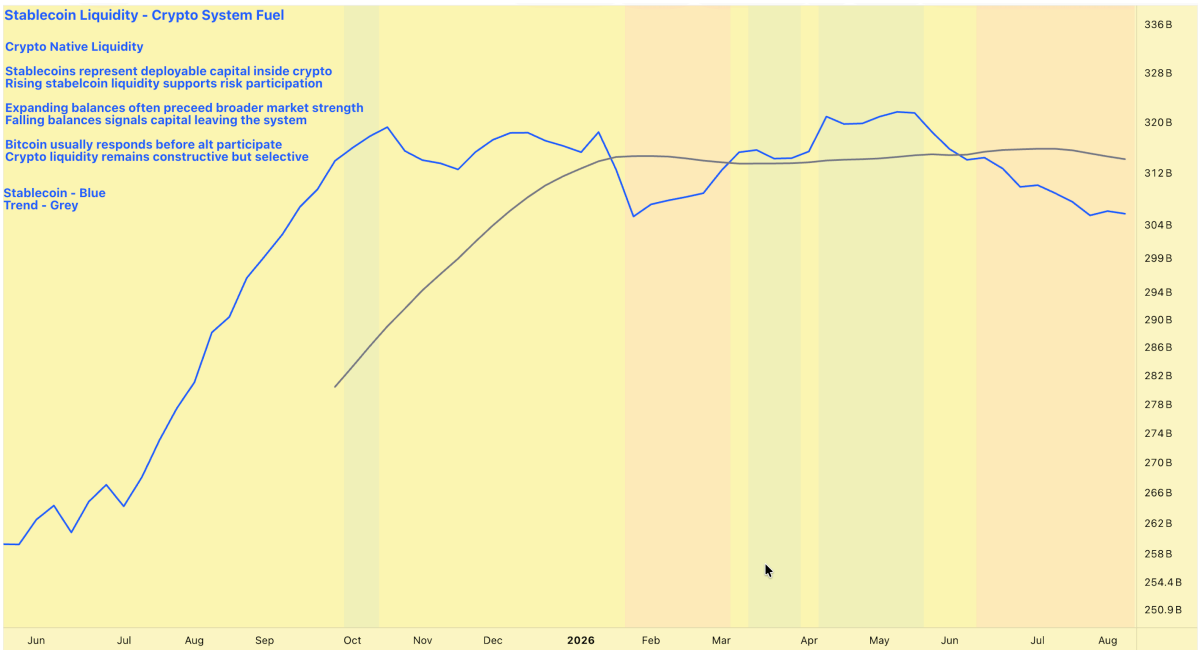
The domestic pipeline remains open, although its flow is less forceful than the global headline suggests. Liquidity support is positive, but increasingly selective.

Global Liquidity Impulse



Liquidity momentum has recovered into supportive territory. The direction is constructive, although acceleration remains below the strongest phases of the cycle.

Stablecoin Liquidity



Crypto-native liquidity remains below trend. Global liquidity can expand while deployable capital inside digital assets contracts, weakening transmission into Bitcoin.

Transmission Is Uneven

STABLECOIN LIQUIDITY

The stock of deployable capital inside the digital-asset system remains below trend. Global liquidity can be supportive while the capital immediately available to crypto contracts.

BITCOIN AND FINANCIAL CONDITIONS

Financial conditions remain broadly supportive, yet Bitcoin has not responded proportionately. The divergence identifies a break in the transmission chain rather than disproving the liquidity framework.

The evidence to watch is whether stablecoin supply stabilises and whether Bitcoin begins responding to the improving global impulse.

Liquidity Is a Journey

Capital must first exist. Then it must reach the financial system. Finally, it must enter the specific market we are studying.

Think of the chain this way:

- Global liquidity is the reservoir.
- Net liquidity is the pipeline.
- Liquidity impulse is the throttle.
- Financial conditions are the gearbox.
- Market-specific liquidity determines which engine receives the fuel.

A failure at any stage can weaken asset-level transmission even while the macro environment remains supportive.

★ CCI LEARNING MOMENT

Supportive Does Not Mean Uniform

One of the most important lessons in macro investing is that liquidity does not reach every asset equally or at the same time.

Global liquidity can rise while stablecoin supply falls. Equities can respond while Bitcoin lags. Both observations can be true. Together they explain more than either chart alone.

Capital Cycle Takeaway

The fuel exists, but it is not reaching every engine equally. Global liquidity supports the expansion; weaker crypto-native liquidity explains impaired Bitcoin transmission.

The next question is whether that liquidity is translating into real economic activity. We turn to growth.

SECTION 3 - GROWTH

Question: Is liquidity translating into economic growth?

Capital Cycle Scorecard

Factor	Score	Direction
Manufacturing	🟢 8.0 / 10	Reaccelerating
Services	🟢 7.7 / 10	Strong
Employment	🟡 6.4 / 10	Moderating
Input Costs	🔴 5.2 / 10	Elevated
Growth Outlook	🟢 7.4 / 10	Expansion

Liquidity creates opportunity. Growth confirms whether that opportunity is being realised.

Manufacturing has reaccelerated above the expansion threshold and services remain resilient. The real economy is still absorbing liquidity and converting it into activity, orders and earnings.

The composition deserves care. Employment has softened relative to earlier strength, while input costs remain elevated. Disruption through Hormuz and the Red Sea creates a clear risk: stronger activity can support profits while higher energy, freight and insurance costs keep inflation uncomfortable.

Growth therefore supports the cycle, but it may also limit the central bank's freedom to ease.

Growth Is Reaccelerating

ISM MANUFACTURING

Manufacturing has moved decisively above 50. The correct interpretation is reacceleration, not merely continued expansion.

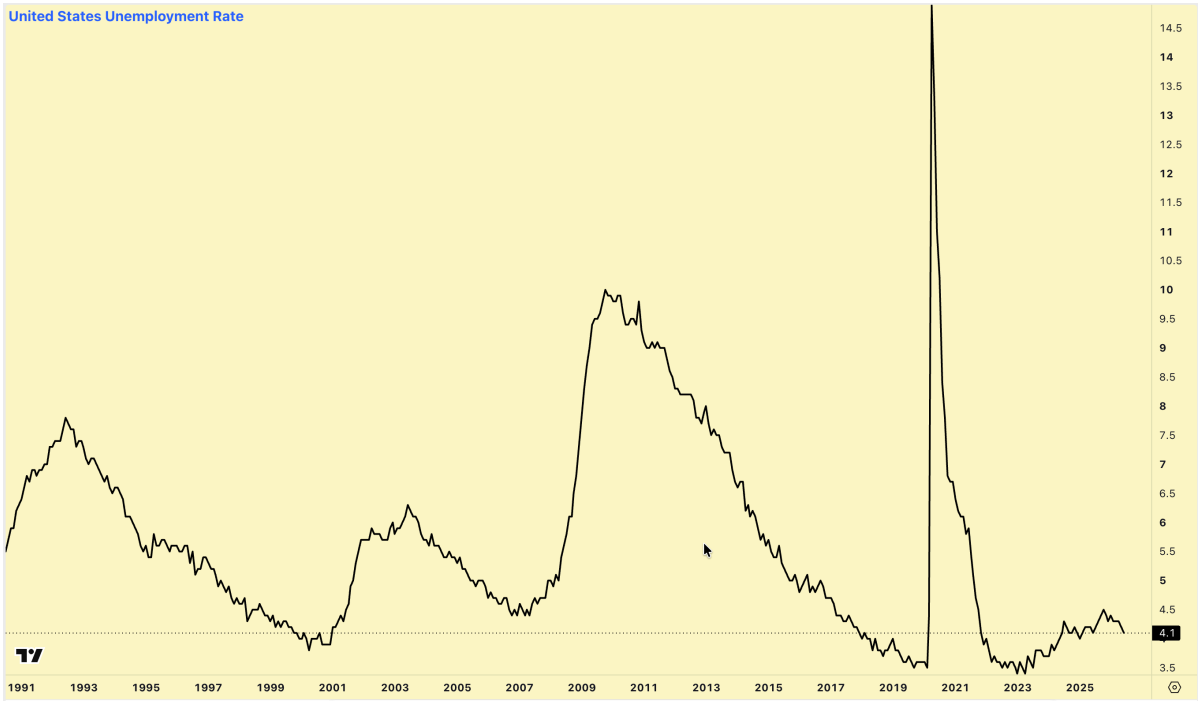
SERVICES

Services continue providing a stabilising foundation for domestic demand. Strength across manufacturing and services argues against an imminent economy-wide downturn.

EMPLOYMENT

Unemployment remains historically low, although it has edged above its trough. The labour market is moderating rather than collapsing.

US Unemployment Rate



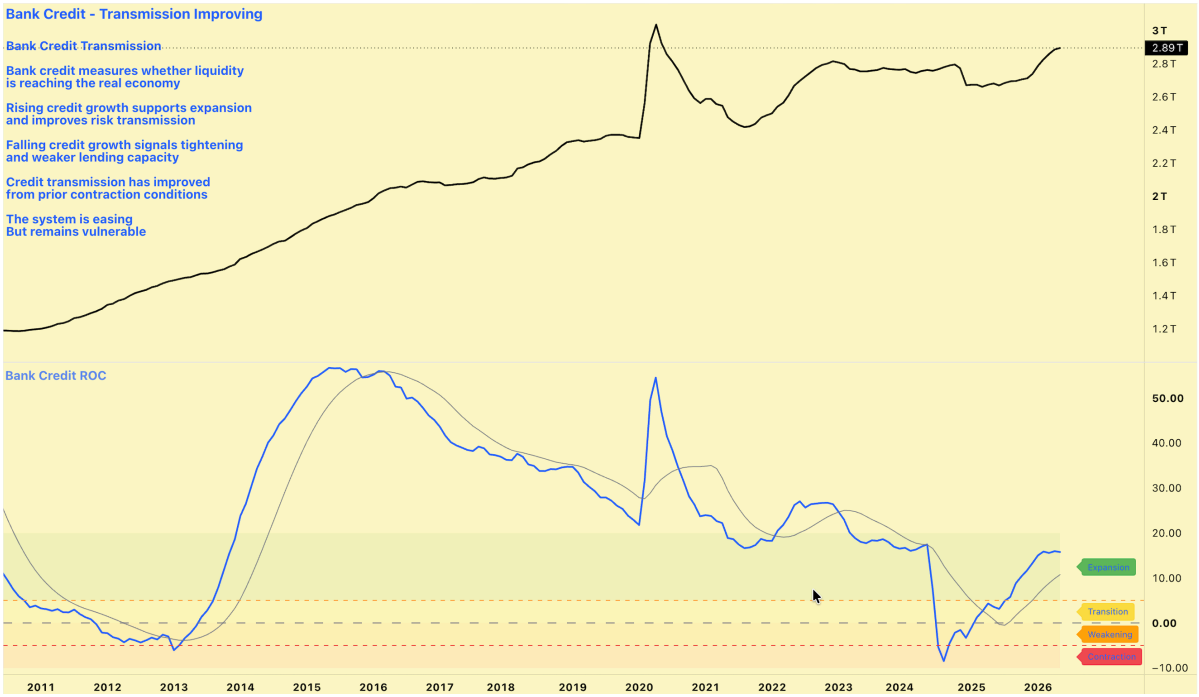
Unemployment remains historically low despite edging above its cycle trough. The labour market is moderating rather than collapsing.

ISM Manufacturing PMI



Manufacturing has reaccelerated above the expansion threshold, confirming that liquidity continues reaching the real economy.

Services PMI



Services remain resilient and continue providing a stabilising foundation for domestic demand.

ISM Manufacturing Prices Paid



Input costs remain elevated. Energy and shipping disruption could keep inflation uncomfortable even while growth stays constructive.

The Inflation Constraint

ISM MANUFACTURING PRICES PAID

Input-cost pressure has eased from its recent peak but remains elevated. Energy disruption and resilient demand could keep inflation risk alive even if employment cools.

FEDERAL RESERVE

The latest rate decision did not materially change policy settings, while Chairman Warsh declined to provide the forward guidance markets had hoped to receive. Markets must therefore respond to incoming evidence rather than a promised policy path.

EARNINGS

Results have generally proved resilient, helping markets absorb geopolitical and policy uncertainty. The caveat is concentration: a relatively small group of AI-linked leaders continues accounting for a large share of growth.

★ CCI LEARNING MOMENT

Good Growth Is Not Always Easy Policy

Stronger growth can support corporate earnings while elevated input costs keep interest rates higher. The economy and the market can therefore experience the same data differently.

A positive manufacturing report may strengthen the economic outlook while reducing expectations for near-term easing. Neither interpretation is wrong; each focuses on a different transmission channel.

Capital Cycle Takeaway

Growth is strong enough to sustain the expansion, but perhaps too strong—and accompanied by too much price pressure—to produce an easy monetary-policy response.

MONTHLY OBSERVER WATCH LIST

What deserves attention before the next Letter?

🔵 GLOBAL LIQUIDITY

Is the global reservoir continuing to expand, and is the liquidity impulse still improving?

🟠 CRYPTO-NATIVE LIQUIDITY

Does stablecoin supply stabilise, allowing global liquidity to reach Bitcoin more effectively?

🟡 GROWTH AND INFLATION

Can manufacturing remain above 50 without renewed energy and freight costs pushing input prices higher?

🟢 POLICY AND LONG YIELDS

Do markets receive clearer policy guidance, and can the long end stabilise without disrupting credit or equity valuations?

The objective is not to guess which risk matters next. It is to know what evidence would confirm that the cycle is changing.

Continue Your Journey

This Observer Edition is designed to stand on its own. It gives you the current regime, the liquidity foundation and the growth evidence needed to begin reading the Capital Cycle with confidence.

The full Capital Cycle Letter goes further when you are ready. It follows the same evidence into Credit, Confidence, Leadership, Capital Rotation, valuation, the Investment Outlook and the monthly Canaries. The complete Chartbook then presents the supporting visual evidence in one dedicated reference publication.

Practitioner membership is designed for readers who want the complete monthly Letter and Chartbook. Professional membership extends that work through the Monthly Engine Report and Deep-Dive Research.

There is no need to move before the additional depth becomes useful to you. Continue learning with the Observer Edition for as long as it serves your process. When you want to follow the whole Capital Cycle from its macro inputs through to market leadership and risk, the next level will be ready.

Observer → Practitioner → Professional

Capital Cycle Intelligence

Know What You Own

Know Why You Own It

Know When You Are Wrong

Know How to Behave

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