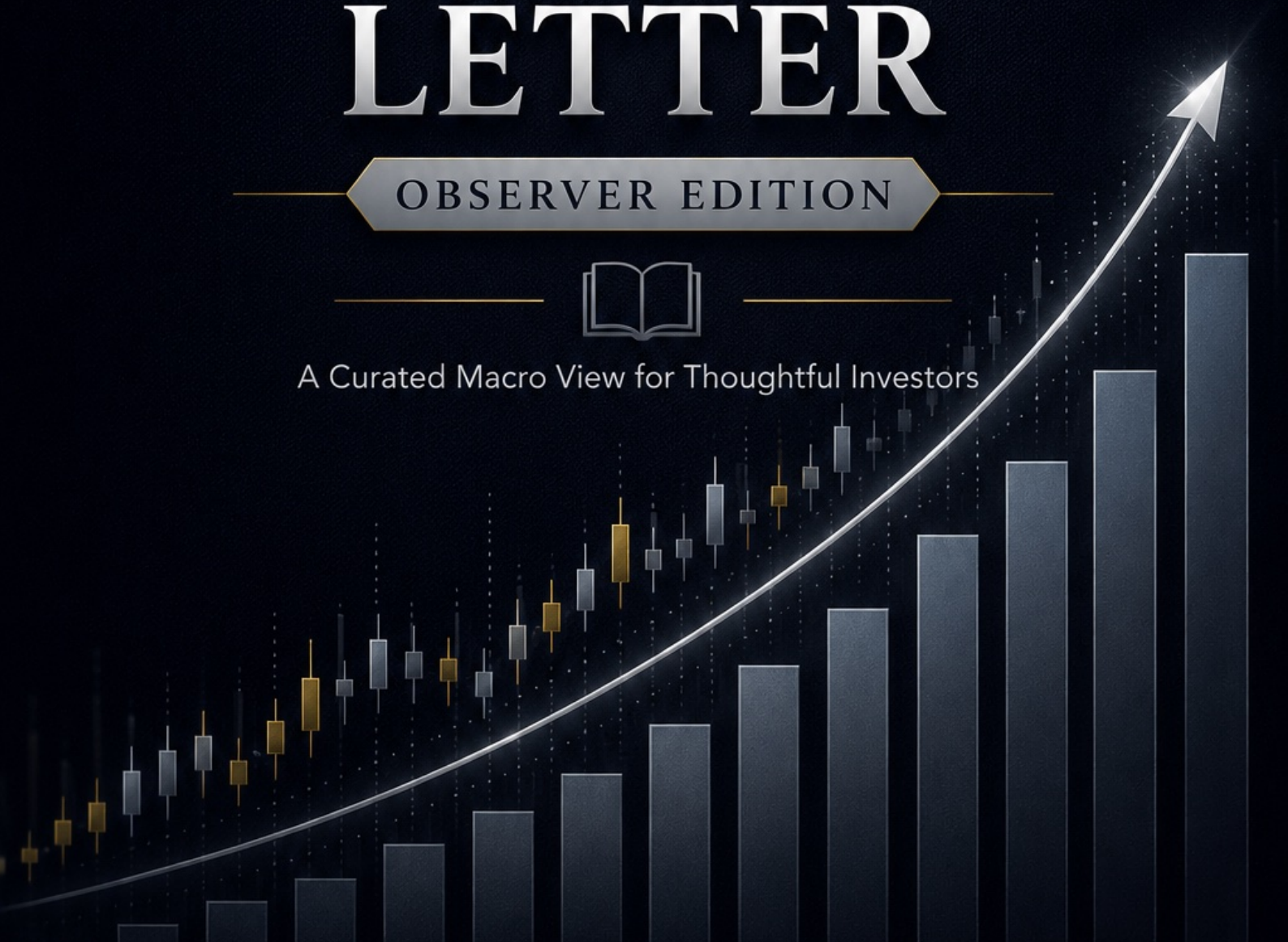
CAPITAL CYCLE

INTELLIGENCE

THE CAPITAL CYCLE LETTER

OBSERVER EDITION

A Curated Macro View for Thoughtful Investors



CAPITAL CYCLE INTELLIGENCE

THE CAPITAL CYCLE LETTER

Observer Edition

September 2026

The Price of Resilience

The Expansion Holds, But the Cost of Sustaining It Is Rising

Core Thesis

The Mature Expansion remains intact. Global liquidity is supportive, growth is reaccelerating, credit remains constructive and market leadership persists. But August revealed that resilience is becoming increasingly expensive.

Energy disruption has returned inflation pressure to the system. Long-duration yields are raising the cost of capital. Housing is beginning to feel that pressure. And changing Japanese monetary

conditions are challenging the economics of global leverage.

Price is the output.

Liquidity, Growth and Credit are the inputs

Welcome to the September Capital Cycle Letter

August did not produce a change in the Capital Cycle.

It produced something more subtle.

The conditions surrounding the Expansion became more demanding.

Global liquidity remains supportive. Economic growth continues to expand. Credit markets remain constructive. These are the foundations supporting the current regime, and together they continue to point toward **Mature Expansion**.

But beneath that resilience, pressure is building.

Energy disruption has returned inflation pressure to the system. Long-term interest rates remain elevated. Housing is beginning to feel the consequences of expensive money. Market leadership remains strong, but increasingly concentrated. And several of the Canaries CCI monitors for early signs of change have become more vocal.

None of these developments has yet been sufficient to break the Expansion.

But neither should they be ignored.

That tension defines this month's Capital Cycle Letter:

The Expansion remains intact. But the price of sustaining it is rising.

The objective of this Observer Edition is not to examine every piece of evidence behind that conclusion. It is to give you a clear view of **where the Capital Cycle stands, what changed during the month, where capital is moving, and what we are watching next.**

As always, we begin with the evidence.

SEPTEMBER AT A GLANCE

The Capital Cycle in One Page

Current Regime: 🟢 Mature Expansion

Regime Score: 7.4 / 10

Regime Confidence: High

Persistence Confidence: Moderate

Risk State: 🟡 Increasing but Controlled

Portfolio Stance: Participate With Discipline

Dominant Characteristic: Selectivity

Primary Strength: Liquidity, Growth and Credit remain aligned

Primary Vulnerability: Rising cost of capital and concentrated market leadership

Primary Transition Risk: Inflation and duration pressure eventually transmitting into Credit and Growth

What Matters Most

The system is not weak. It is selective.

Capital remains available. Economic activity remains expansionary. Credit continues to function.

But investors are becoming increasingly selective about where that capital is deployed.

Technology and AI remain dominant destinations. Gold continues to attract demand for protection. Broader equities continue participating. Bitcoin and Crypto remain comparatively weak and have yet to regain leadership.

The Expansion therefore remains intact—but its margin for error is narrowing.

What Changed This Month?

1. Inflation Pressure Returned Through the Supply Side

Energy disruption has pushed oil prices higher and is beginning to appear in measured inflation.

Strong Growth is therefore becoming a double-edged sword: it supports the Expansion while simultaneously reducing the flexibility available to monetary policy.

Energy is the inflationary pressure we can already see. Tariffs are an additional pressure that may still be coming through.

2. The Price of Long-Term Capital Became More Restrictive

Liquidity remains available, but long-term borrowing costs remain elevated.

That distinction matters.

The quantity of liquidity and the price of liquidity are telling different stories.

Capital is available.

Long-duration capital is expensive.

The effects are now becoming visible beyond financial markets, particularly in housing.

3. Several Canaries Began Singing Together

Energy. The Long Bond. The Yen Carry Trade. Reserve diversification.

None currently signals systemic deterioration.

Credit remains constructive.

But several independent early-warning indicators are now becoming more vocal at the same time.

That does not mean the regime is changing.

It means we should listen more carefully.

EXECUTIVE SUMMARY

The Expansion Has Absorbed Another Month of Pressure

The September evidence continues to support a **Mature Expansion**.

Liquidity remains supportive. Growth is expansionary and has shown renewed momentum. Credit remains constructive, with little evidence that higher interest rates have translated into broad financial stress.

That agreement matters.

Historically, durable regime changes require deterioration across the underlying pillars of the Capital Cycle. We are not seeing that today.

What has changed is the environment in which the Expansion must operate.

Higher energy prices are adding inflation pressure. Long-term yields are increasing the cost of capital. Housing is beginning to respond to expensive financing. Market leadership remains powerful but concentrated, while investors continue seeking both opportunity and protection.

The result is a market environment defined increasingly by **selectivity**.

Regime: Mature Expansion
Score: 7.4
Regime Confidence: High
Persistence Confidence: Moderate
Risk: 🟡 Increasing but Controlled
Stance: Participate With Discipline

The important distinction this month is between **pressure and deterioration**.

Pressure is clearly increasing.

Transmission is beginning.

But the core pillars have not broken.

Credit remains particularly important. Higher interest rates can make capital expensive without making capital unavailable. Until pressure begins transmitting into broader Credit deterioration, the evidence does not support declaring the Expansion over.

That leads us to the central conclusion of the September Letter:

The Mature Expansion remains intact. Global liquidity is supportive, growth is reaccelerating, credit remains constructive and market leadership persists. But resilience is becoming increasingly expensive.

The appropriate response is therefore neither complacency nor fear.

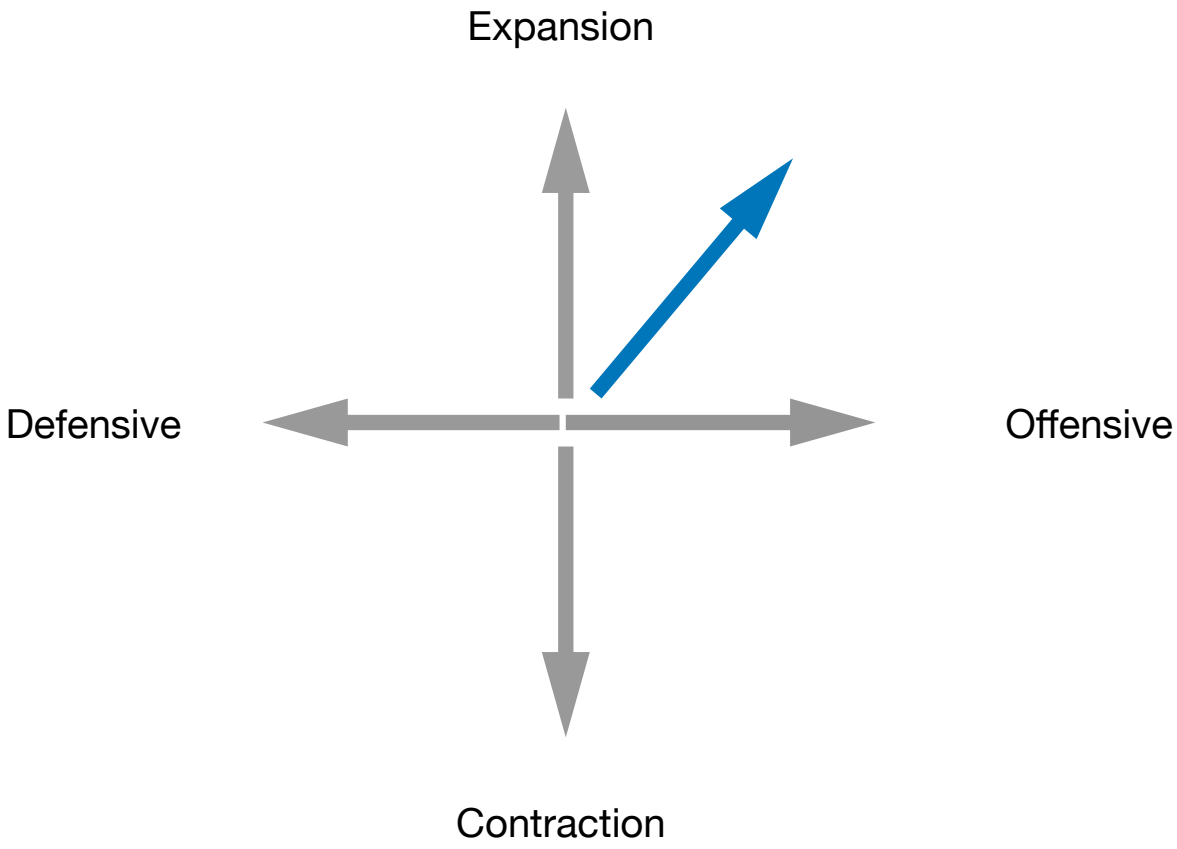
It is discipline.

Participate With Discipline.

Macro Compass

How should capital be positioned?

↗ Expansion with a selective offensive bias.



🐤 CCI CANARY WATCH — CURRENT STATUS

Before examining the Capital Cycle itself, it is worth listening briefly to the indicators designed to detect changing conditions before they become visible in the broader regime.

Canary	Status	Current Signal
Global Liquidity	🟢 Stable	Liquidity remains abundant and supportive of the Expansion.
Credit Stress	🟢 Stable	Investment-grade and high-yield Credit remain constructive.
Financial Stress	🟢 Stable	No evidence of broad financial-system disorder.
Long Bond	🟡 Watchful	Long-duration capital remains expensive, with transmission now visible in housing.
Yen Carry Trade	🟡 Watchful	Yen strength, rising Japanese yields and changing BOJ policy are reducing the attractiveness of Yen-funded leverage.
Oil & Energy	🟡 Watchful	Energy disruption is transmitting into inflation and reducing monetary-policy flexibility.
Reserve Diversification	🟡 Emerging Watch	Gold accumulation and changing sovereign reserve behaviour warrant longer-term observation.

Global Liquidity — 🟢 Stable
Credit Stress — 🟢 Stable
Financial Stress — 🟢 Stable
Long Bond — 🟡 Watchful
Yen Carry Trade — 🟡 Watchful
Oil / Energy — 🟡 Watchful
Reserve Diversification — 🟡 Emerging Watch

The message is nuanced.

There is no systemic warning from Credit, Liquidity or broader Financial Stress.

But several Canaries connected to the **price of capital, inflation, funding and sovereign capital allocation** are becoming more vocal.

For now:

The Canary Chorus remains quiet. But it is no longer silent.

That distinction will matter as we move through the remainder of the cycle.



CCI LEARNING MOMENT

Pressure Is Not the Same as Regime Change

Markets generate an endless stream of risks, headlines and potential turning points.

The existence of risk does not mean the regime has changed.

CCI asks a different question:

Has the event changed the evidence?

Until Liquidity, Growth and Credit begin telling us something materially different, the Capital Cycle remains where the evidence places it.

That discipline protects us from reacting to every headline while ensuring we remain prepared when the evidence genuinely changes.

Follow the evidence until the evidence gives you a reason to change.

SECTION 1 — THE CURRENT MACRO REGIME

Mature Expansion — Pressure Without Regime Change

The Capital Cycle remains in **Expansion**.

More precisely, the evidence points to a **Mature Expansion**—a phase in which the primary pillars remain constructive, but the conditions required to sustain them are becoming increasingly demanding.

Liquidity remains supportive.

Growth remains expansionary.

Credit remains constructive.

That agreement across the three primary pillars is the most important evidence supporting the current regime.

Where are we in the Capital Cycle?

Expansion

|

⭐ **Mature Expansion**

|

Slowdown

|

Contraction

|

Recovery

|

Expansion

⭐ Current Position

The Regime Dashboard

Indicator	Score	Current State
Liquidity	**7.2**	🟢 Supportive
Growth	**7.4**	🟢 Expansionary
Credit	**7.8**	🟢 Constructive
Confidence	**6.8**	🟡 Constructive / Selective
Leadership	**8.0**	🟢 Strong
Capital Rotation	**7.1**	🟢/🟡 Orderly & Selective
Overall Regime	**7.4**	🟢 **Mature Expansion**

The individual scores tell an important story.

There is currently **no major pillar signalling contraction**.

Liquidity is providing sufficient monetary support. Economic activity remains resilient. Credit markets continue functioning normally. Investors remain willing to take risk, and strong market leadership persists.

But the evidence is no longer uniformly easy.

Confidence has become more selective. Leadership is concentrated. Capital is reinforcing existing winners rather than rotating broadly across markets. At the same time, renewed inflation pressure and elevated long-term interest rates are increasing the cost of maintaining the Expansion.

This is why we describe the regime as **Mature**.

What Makes This a Mature Expansion?

A Mature Expansion is not an Expansion that is necessarily about to end.

It is an Expansion in which maintaining favourable conditions becomes increasingly demanding.

Earlier in an Expansion, the system often benefits from improving Growth, abundant liquidity, easier financial conditions and expanding risk appetite simultaneously.

As the cycle matures, those relationships become more complicated.

Strong Growth can create inflation.

Inflation can reduce central-bank flexibility.

Higher interest rates can increase the cost of capital.

Expensive capital can eventually affect housing, investment and borrowing.

And concentrated market leadership can leave markets more vulnerable if confidence in those leaders begins to weaken.

The important word is **eventually**.

Those pressures are visible today.

Their systemic consequences are not.

The system is not breaking. But the price of resilience is rising.

Pressure Without Deterioration

This distinction sits at the heart of September's regime assessment.

Oil prices have increased.

Inflation pressure has returned.

Long-term yields remain elevated.

Housing activity is slowing.

The Yen Carry Trade has become less comfortable.

Sovereign reserve behaviour is evolving.

These developments matter.

But none has yet produced broad deterioration across Liquidity, Growth or Credit.

Credit is particularly important.

Higher interest rates tell us that **capital has become more expensive**.

Widening Credit spreads, tightening lending standards and contracting Credit availability would tell us that **capital is becoming difficult to obtain**.

We are seeing the first condition.

We are not yet seeing the second.

That is why the Expansion remains intact.

Regime Confidence vs Persistence Confidence

There is another important distinction.

We have **High confidence** in the current regime.

But only **Moderate confidence** in its persistence.

These are not contradictory conclusions.

We can be confident about where we are while remaining less confident about how long those conditions will persist.

Regime Confidence — HIGH

The evidence across Liquidity, Growth and Credit strongly supports the current Mature Expansion diagnosis.

Persistence Confidence — MODERATE

Increasing inflation pressure, expensive duration, concentrated leadership and a more vocal Canary Watch reduce confidence that today's favourable conditions can persist indefinitely.

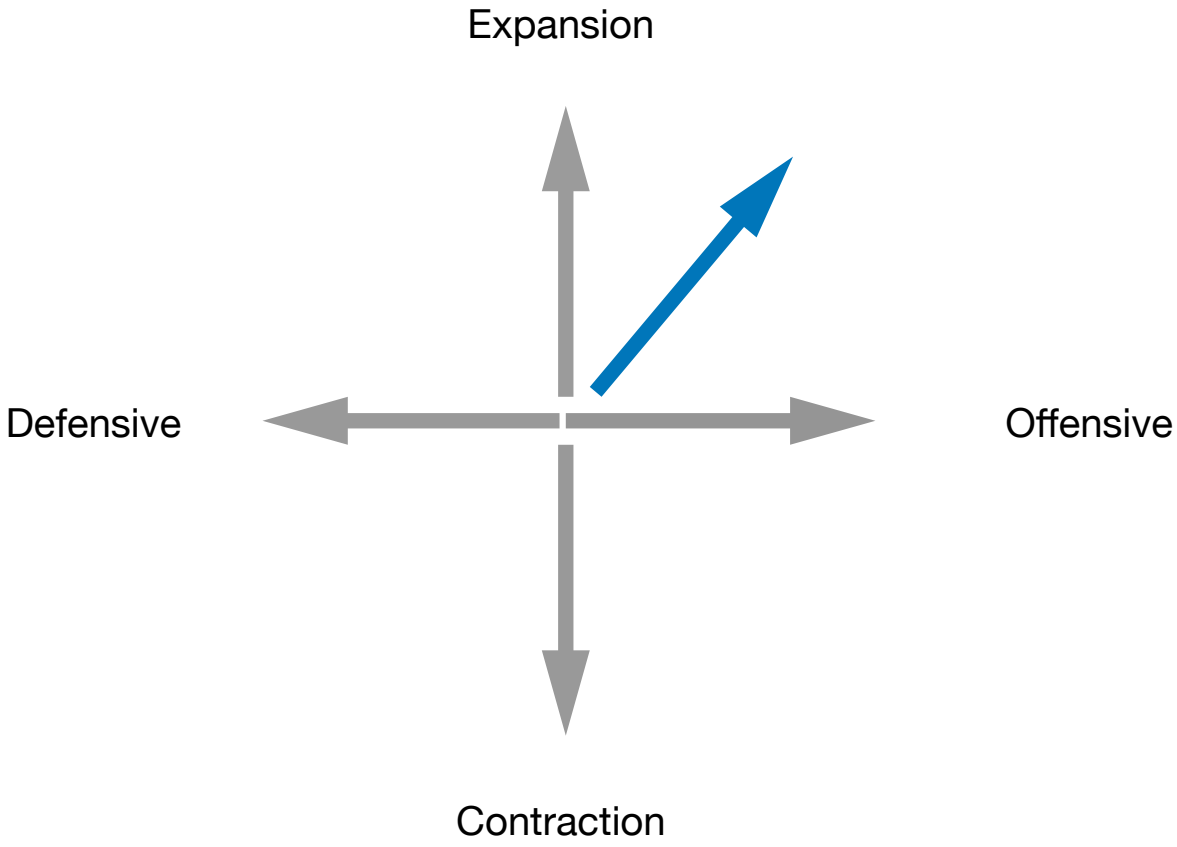
This distinction prevents us from making one of investing's most common mistakes:

Assuming that because something is true today, it must remain true tomorrow.

The Macro Compass

How should capital be positioned?

↗ Expansion with a selective offensive bias.



Regime: 🟢 Mature Expansion
Regime Score: 7.4
Regime Confidence: High
Persistence Confidence: Moderate
Risk State: 🟡 Increasing but Controlled
Portfolio Stance: Participate With Discipline

The Macro Compass does not attempt to predict when the Expansion will end.

It tells us how the evidence suggests we should behave **while the Expansion remains intact**.

For now, that means participation remains justified.

But increasingly, **selectivity matters**.

What Would Change the Regime?

The regime would not change simply because oil rises, bond yields increase or markets experience volatility.

We would need to see those pressures begin transmitting into the underlying pillars.

The pathway we are watching is straightforward:

Inflation Pressure
↓
Higher Long-Term Rates
↓
Higher Cost of Capital
↓
Housing / Investment / Refinancing Pressure
↓
Credit Deterioration
↓
Growth Weakness

Regime	Liquidity	Growth	Credit	Confidence
Expansion				
Mature Expansion				
Slowdown				
Contraction				
Recovery				

The early links in that chain are becoming visible.

The later links are not.

That is precisely why the Canaries deserve attention without allowing them to override the broader regime evidence.

Capital Cycle Takeaway

The Mature Expansion remains intact because Liquidity, Growth and Credit continue to agree. But inflation pressure, expensive duration and increasingly selective capital allocation are reducing the system's margin for error.

Pressure is rising. Transmission is occurring. The pillars have not yet broken.



CCI LEARNING MOMENT

A Regime Does Not Change Because Risks Appear

There will always be reasons to worry.

The discipline of cycle investing is learning to distinguish between **risk appearing** and **risk changing the system**.

CCI does not change its regime assessment because the narrative becomes uncomfortable.

We change it when the evidence changes.

We have no investment thesis to defend. We have a process to follow.

And until the evidence tells us otherwise:

Mature Expansion remains the regime.

SECTION 2 — LIQUIDITY

Liquidity Is Available. Transmission Is Selective.

Liquidity remains one of the strongest supports beneath the current Mature Expansion.

Global monetary conditions remain constructive, providing capital with the capacity to move through financial markets.

But liquidity alone does not determine where that capital will go.

That distinction has become increasingly important.

During August, liquidity remained supportive while performance across markets continued to diverge. US equities—particularly Technology and AI—continued attracting capital, while Bitcoin and broader Crypto remained comparatively subdued.

The message from the Liquidity pillar is therefore not that liquidity is scarce.

It is that **transmission is selective**.

The Liquidity Dashboard

Indicator	Score	Current State
Global Liquidity	**8.7**	🟢 Strong
US Net Liquidity	**6.8**	🟢 Constructive
Liquidity Impulse	**7.1**	🟢 Improving
Stablecoin Liquidity	**5.0**	🟡 Subdued
Liquidity Outlook	**7.2**	🟢 **Supportive**

State: 🟢 Supportive
Direction: ↗ Improving, uneven
Liquidity Score: 7.2
Confidence: Moderate–High

The hierarchy is straightforward.

Global liquidity remains strong.

Its underlying momentum is improving.

US domestic liquidity remains constructive, although less powerful than the broader global picture.

Crypto-native liquidity remains comparatively subdued.

Together, these conditions help explain why liquidity can support financial markets without lifting every asset equally.

Global Liquidity — The Primary Driver

GLOBAL LIQUIDITY — THE PRIMARY DRIVER



CCI TAKEAWAY — Global liquidity remains firmly supportive, providing a constructive monetary backdrop for risk assets. The important question is no longer whether liquidity is available, but how effectively that liquidity is transmitting through markets.

Global liquidity gives markets **permission** to move.

It does not determine the destination.

That decision belongs to capital itself.

Liquidity Is Not a Universal Rising Tide

A common assumption is that expanding liquidity should cause all risk assets to rise together.

Markets rarely behave that neatly.

Capital still makes choices.

It evaluates Growth.

It evaluates risk.

It evaluates expected returns.

It evaluates leadership.

And increasingly, it evaluates where confidence is strongest.

That is why two assets exposed to the same global liquidity environment can behave very differently.

August provided a useful example.

Technology and AI continued responding strongly to supportive liquidity.

Bitcoin did not.

That divergence tells us something important.

If liquidity were genuinely unavailable, we would expect weakness to appear much more broadly across risk assets.

Instead, capital continues moving.

It is simply becoming more selective about where it moves.

The Transmission Test

NASDAQ vs GLOBAL LIQUIDITY — EQUITY TRANSMISSION



CCI TAKEAWAY — The relationship between Global Liquidity and the Nasdaq demonstrates that supportive liquidity is transmitting into risk assets. The divergence with Bitcoin therefore argues against a simple liquidity-shortage explanation. Capital has liquidity available to deploy—it is choosing where to deploy it.

This distinction changes how we interpret markets.

Bitcoin's weakness cannot simply be explained by saying:

"There isn't enough liquidity."

There is.

The better question is:

Why is available liquidity choosing other destinations?

That question takes us beyond Liquidity and toward **Confidence, Leadership and Capital Rotation** later in the Letter.

What About Crypto Liquidity?

There is one important qualification.

While global liquidity remains supportive, **stablecoin liquidity remains comparatively weak**.

Stablecoins provide an important source of liquidity within the Crypto ecosystem itself.

Their subdued condition helps explain why supportive global monetary conditions have not transmitted into Crypto with the same strength visible elsewhere.

This gives us an important hierarchy:

Liquidity available globally
↓
Transmission into financial markets
↓
Capital chooses between assets
↓
Leadership emerges

The first two steps are functioning.

Bitcoin's challenge currently lies further down the chain.

Capital Cycle Takeaway

Liquidity remains supportive of the Mature Expansion. Global liquidity is strong, its underlying momentum is improving and US liquidity remains constructive.

But liquidity is not transmitting equally across markets. Technology and AI continue attracting capital while Crypto remains comparatively subdued.

The problem is not simply the availability of capital. It is where capital currently prefers to go.

CCI LEARNING MOMENT

Liquidity Is Permission, Not a Promise

Liquidity is one of the most powerful forces in financial markets.

But it should never be treated as a mechanical trading signal.

Supportive liquidity creates the conditions in which capital **can** move.

It does not guarantee which assets capital **will** choose.

That is why CCI examines Liquidity alongside Growth, Credit, Confidence, Leadership and Capital Rotation.

Liquidity tells us capital can move.

Later in the Letter, Leadership and Rotation will tell us:

Where it chose to go.

SECTION 3 — GROWTH

Growth Is Reaccelerating — And That Creates a New Complication

Economic Growth remains firmly supportive of the Mature Expansion.

Manufacturing has returned to expansion.

Services remain resilient.

Employment conditions are moderating rather than deteriorating.

Taken together, the evidence does not describe an economy sliding toward contraction.

Instead, it points toward continued economic resilience.

But stronger Growth brings its own complication.

Input costs are rising again.

That creates an increasingly important tension within the Capital Cycle:

Growth remains strong enough to sustain the Expansion, but increasingly strong enough to complicate the inflation and policy outlook.

The Growth Dashboard

Indicator	Score	Current State
Manufacturing	**8.0**	🟢 Expansionary
Services	**7.7**	🟢 Expansionary
Employment	**6.4**	🟢/🟡 Moderating
Input Costs	**5.2**	🟡 Rising Pressure
Growth Outlook	**7.4**	🟢 **Expansionary**

State: 🟢 Expansionary
Direction: ↗ Reaccelerating
Growth Score: 7.4
Confidence: Moderate–High

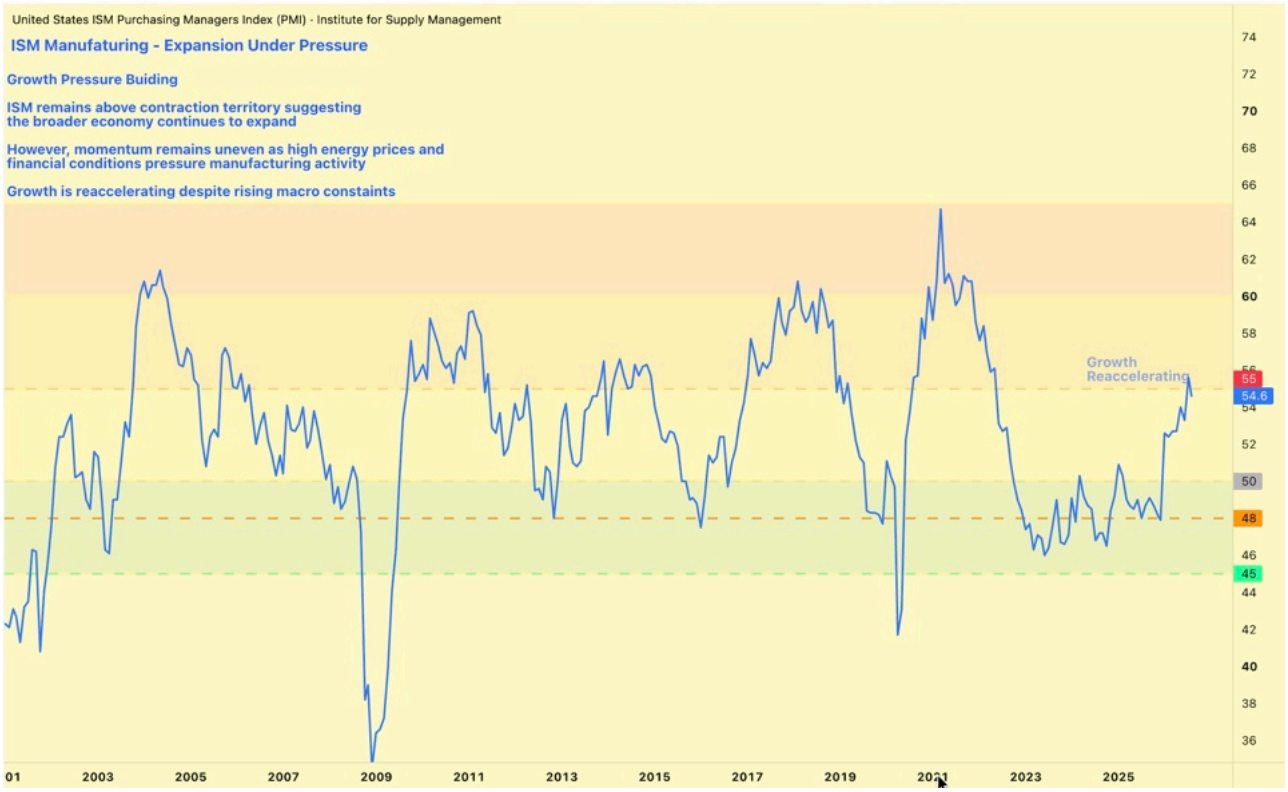
The important feature is the breadth of the evidence.

Both major areas of economic activity remain expansionary, while employment has not deteriorated sufficiently to signal an economy beginning to break.

Growth therefore remains one of the pillars supporting the current regime.

Manufacturing — Expansion Reaccelerating

ISM MANUFACTURING — EXPANSION REACCELERATING



CCI TAKEAWAY — Manufacturing has moved decisively back into expansion, providing clear evidence that economic momentum is reaccelerating rather than deteriorating. The Growth pillar remains firmly supportive of the Mature Expansion.

The return of manufacturing activity is particularly important because it broadens the Growth story.

This is not simply an economy being supported by one resilient sector.

Services remain expansionary as well.

Together, Manufacturing and Services provide little evidence of an imminent economy-wide slowdown.

Employment Is Moderating — Not Breaking

The labour market deserves closer attention.

Employment conditions are no longer as strong as they were earlier in the cycle.

That is consistent with a maturing Expansion.

But moderation and deterioration are not the same thing.

The evidence does not yet show the kind of rapid weakening in employment normally associated with an economy moving toward contraction.

For now:

Employment is cooling rather than collapsing.

That distinction allows Growth to remain constructive while reminding us that the Expansion is no longer in its earliest or easiest phase.

The Complication — Input Costs Are Rising

Strong economic activity would normally be welcome.

But the current environment contains an important complication.

Input-cost pressure is increasing.

ISM MANUFACTURING PRICES PAID



CCI TAKEAWAY — Input-cost pressure has strengthened alongside improving economic activity. This is the complication within the Growth evidence: stronger demand is supporting the Expansion while renewed cost pressure threatens to keep inflation—and therefore the price of capital—higher for longer.

This creates an important transmission mechanism:

Resilient Growth
+
Energy / Tariff / Supply-Cost Pressure
↓
Inflation
↓
Less Monetary-Policy Flexibility
↓
Higher Price of Money
↓
Pressure on Long-Duration Assets and Borrowers

This does not mean strong Growth has suddenly become bearish.

It means the consequences of strong Growth depend on the environment in which that Growth occurs.

When Good Economic News Becomes Complicated

Earlier in a cycle, stronger Growth can occur alongside falling inflation and easier monetary policy.

That combination is highly supportive.

A Mature Expansion can behave differently.

When economic activity remains strong while energy and other input costs rise, stronger demand can make inflation more persistent.

That reduces the flexibility available to central banks.

And if monetary policy must remain restrictive for longer, the cost of capital remains elevated even while the economy itself continues expanding.

That is the tension emerging today.

The economy can remain strong while financial conditions become more demanding.

This helps explain why CCI does not interpret Growth in isolation.

We must always ask how Growth is transmitting into **inflation, interest rates and ultimately Credit**.

Capital Cycle Takeaway

Growth remains firmly supportive of the Mature Expansion. Manufacturing has reaccelerated, Services remain expansionary and employment conditions are moderating rather than deteriorating.

The emerging risk is not weak Growth. It is that resilient Growth, combined with renewed cost pressure, keeps inflation elevated and the price of capital higher for longer.

For now:

Growth remains a strength—but increasingly, a complicated one.



CCI LEARNING MOMENT

Strong Growth Is Not Always Easy Money

Investors often assume that stronger economic Growth must automatically be positive for markets.

The Capital Cycle teaches us to look one step further.

Strong Growth can support earnings, employment and economic activity.

But if that Growth also sustains inflation, it can reduce the ability of central banks to ease monetary policy.

The result can be an unusual combination:

A strong economy and expensive money can coexist.

That is why Growth should never be interpreted without considering its effect on inflation and the cost of capital.

Growth tells us how strongly the economy is moving. Its transmission tells us what that strength may eventually cost.

SECTION 4 — CREDIT

Pressure Exists. Financial Contagion Does Not.

Credit remains one of the strongest pillars supporting the Mature Expansion.

That conclusion may appear surprising.

Long-term interest rates are elevated. Mortgage rates remain restrictive. Housing activity is slowing. Borrowers are paying considerably more for capital than they were earlier in the cycle.

Yet the Credit system itself remains remarkably resilient.

Credit spreads remain contained.

Bank lending continues.

Lending standards remain selective rather than broadly restrictive.

There is little evidence that investors or financial institutions are withdrawing capital from the economy in a manner consistent with systemic Credit stress.

That distinction is critical:

Capital has become more expensive. It has not become unavailable.

The Credit Dashboard

Indicator	Score	Current State
Investment Grade Credit	**8.2**	🟢 Constructive
High Yield Credit	**8.0**	🟢 Constructive
Bank Credit	**7.4**	🟢 Expanding
Lending Standards	**6.6**	🟢/🟡 Selective
Credit Outlook	**7.8**	🟢 **Constructive**

State: 🟢 Constructive
Direction: → Stable / Resilient
Credit Score: 7.8
Confidence: High

There is currently little disagreement within the Credit evidence.

Market-based Credit remains calm.

Bank Credit remains available.

Lenders are becoming more selective, but they are not broadly retreating.

This is not what systemic Credit deterioration normally looks like.

High Yield — The Market Stress Test

HIGH YIELD CREDIT SPREADS



CCI TAKEAWAY — High-yield spreads remain contained, showing that elevated interest rates have not yet translated into broad risk aversion toward lower-quality borrowers. Credit markets continue functioning normally rather than pricing systemic deterioration.

High Yield Credit is particularly useful because weaker borrowers tend to feel financial pressure before stronger borrowers.

If investors become concerned about repayment risk, they demand greater compensation for lending to those companies.

Credit spreads widen.

That is not occurring on a scale that suggests systemic stress today.

The Long Bond may be warning that money is expensive.

High Yield Credit is telling us that investors are still willing to provide it.

These are different signals.

The Price of Capital vs the Availability of Capital

This distinction sits at the heart of the September Credit assessment.

Consider two very different environments.

In the first:

Interest rates rise
↓
Borrowing becomes expensive
↓
Activity slows at the margin

That creates pressure.

In the second:

Borrower risk rises
↓
Credit spreads widen
↓
Banks tighten lending
↓
Financing becomes difficult to obtain
↓
Credit contracts

That can become systemic.

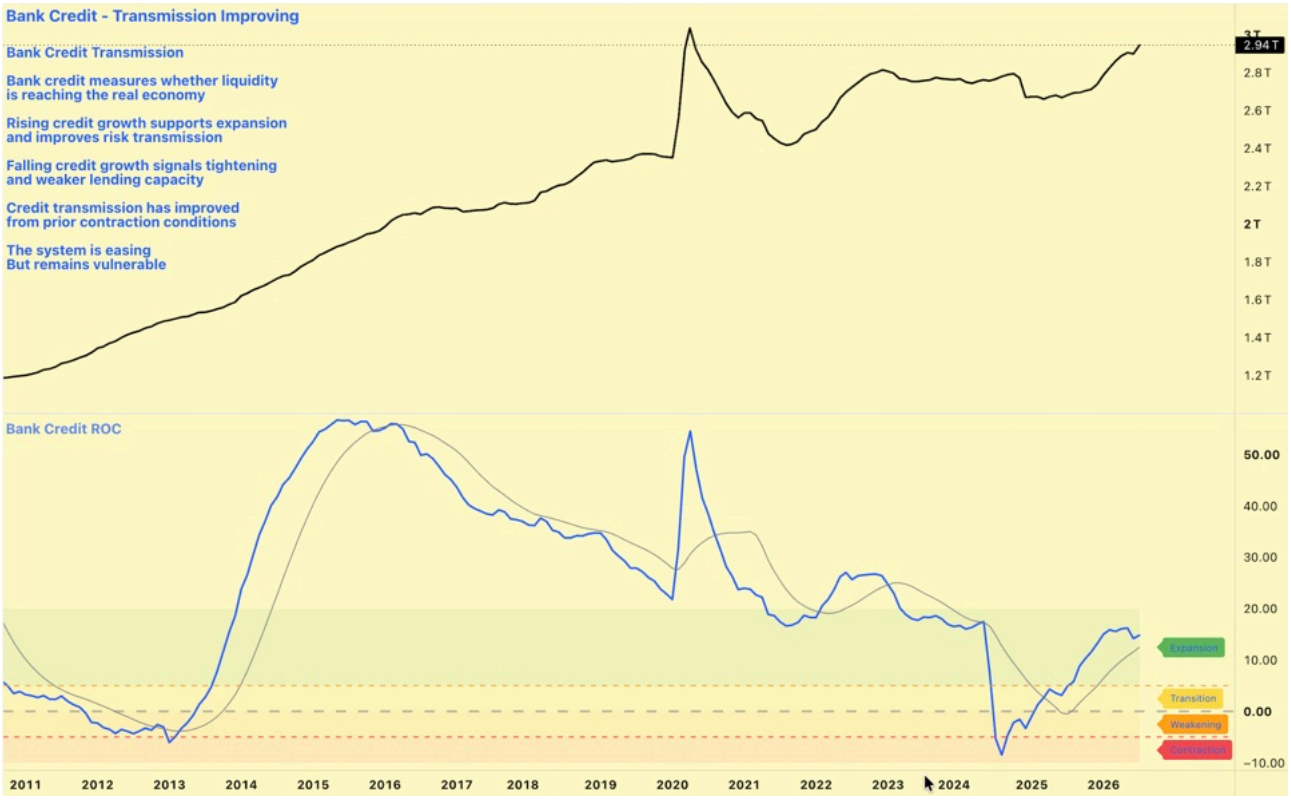
The evidence currently places us much closer to the **first environment**.

That is why higher Treasury yields alone are not sufficient evidence to declare a Credit crisis.

The Treasury market is experiencing pressure without that pressure yet becoming broad Credit aversion.

Bank Credit — Capital Remains Available

BANK CREDIT — TRANSMISSION IMPROVING



CCI TAKEAWAY — Bank Credit continues expanding, confirming that higher borrowing costs have not caused the banking system to materially withdraw financing from the economy. Capital may be more expensive, but it remains available.

This provides an important confirmation of what Credit spreads are telling us.

Investors have not broadly abandoned Credit.

Banks have not broadly stopped lending.

And financing continues reaching the economy.

Lending standards have become more selective, which is entirely consistent with a Mature Expansion operating under higher interest rates.

But selectivity is not the same as shutdown.

Lenders are discriminating between borrowers. They are not closing the door.

Why Credit Is the Systemic Referee

Throughout this Letter we have identified several sources of pressure.

Energy prices are increasing inflation risk.

Long-term yields are raising the cost of capital.

Housing is slowing.

The Yen Carry Trade is becoming less comfortable.

Several Canaries have become more vocal.

But ultimately we need to know whether those pressures are beginning to damage the financial system.

Credit helps answer that question.

As long as Credit remains available and spreads remain contained, the economy retains an important source of resilience.

If that changes, our interpretation must change with it.

This is why Credit will remain one of the most important indicators to watch as the Mature Expansion progresses.

Pressure is reaching borrowers. It has not yet caused lenders to retreat.

What Would Change Our View?

The current Credit conclusion is constructive.

But it is not permanent.

We would become increasingly concerned if several developments began appearing together:

Credit spreads widening materially.

Bank Credit growth weakening or contracting.

Lending standards tightening broadly.

Defaults increasing.

Financial stress spreading beyond isolated borrowers or sectors.

One signal alone would deserve attention.

Agreement across several would deserve action.

For now, that agreement is absent.

Capital Cycle Takeaway

Credit remains one of the strongest pillars supporting the Mature Expansion. Higher interest rates are increasing pressure on borrowers, but Credit spreads remain contained, bank financing remains available and lenders have not broadly retreated.

The risk is not yet a conventional Credit seizure. The risk is that expensive capital eventually becomes restrictive enough to affect otherwise healthy borrowers, economic activity and asset valuations.

For now:

Pressure exists. Financial contagion does not.



CCI LEARNING MOMENT

High Interest Rates and Credit Stress Are Not the Same Thing

Interest rates tell us the **price of money**.

Credit conditions tell us whether the financial system is still **willing to provide it**.

Confusing the two can lead investors to conclude that every period of high interest rates must become a financial crisis.

It does not.

The more important question is whether expensive money begins changing lender and borrower behaviour sufficiently to damage Credit availability.

The bond market can warn us about the price of capital long before the Credit market tells us that capital is no longer available.

That is why we watch both.

SECTION 5 — CONFIDENCE

Opportunity and Insurance

Investor confidence remains constructive.

But it is no longer indiscriminate.

Capital continues participating in risk assets. Equity markets remain strong. Technology and AI continue attracting substantial investor interest.

At the same time, demand for defensive assets—particularly Gold—remains elevated.

At first glance, these behaviours may appear contradictory.

They are not.

Investors are not abandoning risk.

Nor are they behaving as though risk has disappeared.

Instead, they are doing both:

Seeking opportunity while simultaneously buying insurance.

That combination defines Confidence in the current Mature Expansion.

The Confidence Dashboard

Indicator	Score	Current State
Equity Participation	**7.0**	🟢 Constructive
Defensive Demand	**7.2**	🟡 Elevated
Risk Appetite	**6.2**	🟡 Selective
Capital Allocation	**7.4**	🟢 Disciplined
Confidence Outlook	**6.8**	🟡 **Constructive / Selective**

State: 🟡 Constructive / Selective
Direction: → Stable, increasingly discriminating
Confidence Score: 6.8
Confidence: Moderate–High

The message from the dashboard is not one of fear.

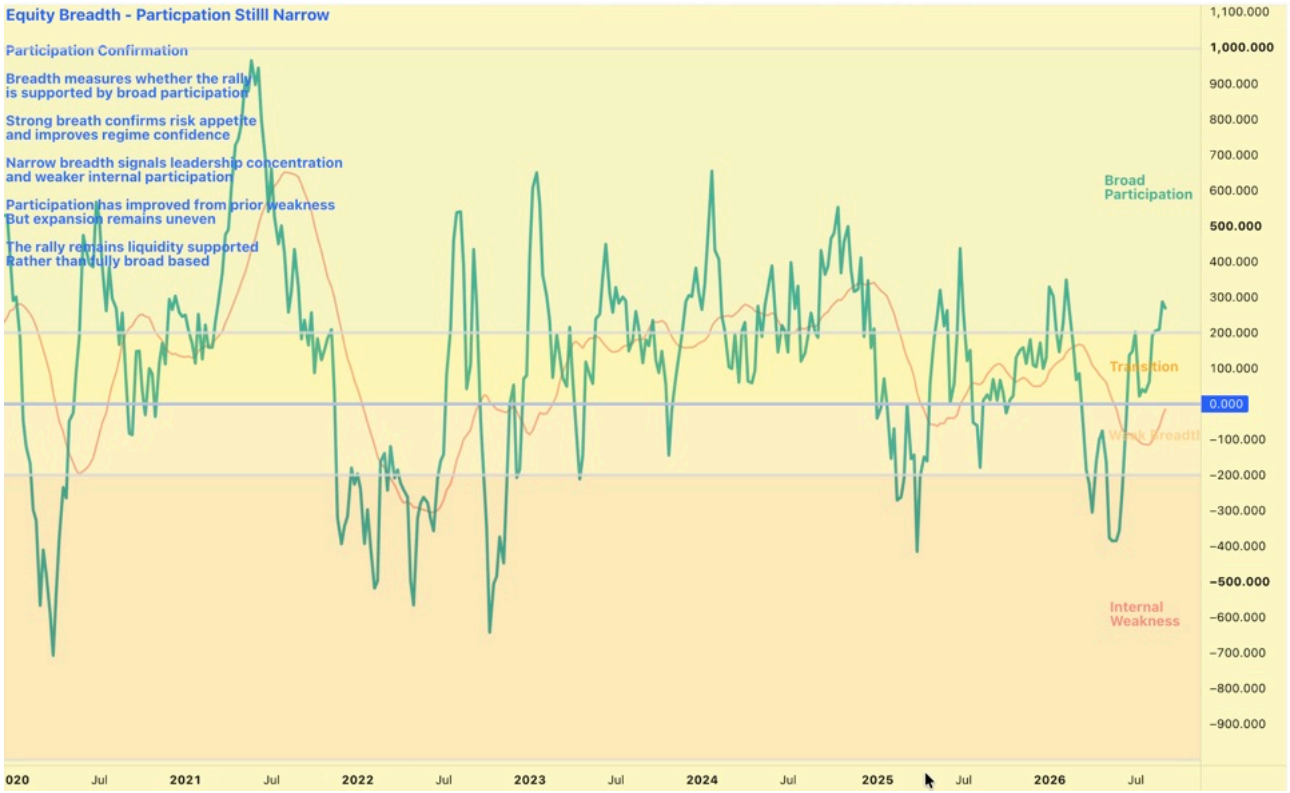
But neither is it one of complacency.

Investors remain willing to deploy capital where conviction is strongest, while simultaneously maintaining protection against an increasingly uncertain environment.

That behaviour is entirely consistent with a Mature Expansion.

Risk Appetite Remains Constructive

EQUITY PARTICIPATION



CCI TAKEAWAY — Investor confidence remains constructive, with capital continuing to participate in risk assets. But participation is increasingly selective, reinforcing the broader evidence that investors remain willing to take risk where conviction is strongest rather than embracing risk indiscriminately.

Strong equity participation tells us that investors have not retreated from opportunity.

If confidence were deteriorating broadly, we would expect capital to begin abandoning risk assets in favour of defensive positions.

That is not what the evidence shows.

Instead, investors continue participating.

But they are becoming increasingly particular about **where** they participate.

This distinction will become even clearer when we examine Leadership and Capital Rotation.

Confidence Has Become Selective

Confidence does not need to disappear for investor behaviour to change.

Sometimes the first change is simply **discrimination**.

Capital begins demanding stronger fundamentals.

Leadership narrows.

Investors become less willing to fund weaker opportunities.

The strongest assets continue performing while weaker assets struggle to attract the marginal dollar.

That is increasingly characteristic of the current environment.

Capital remains willing to take risk. It is becoming more demanding about the risk it takes.

This is another reason we describe the Expansion as Mature.

The system remains constructive.

But easy participation is giving way to selective participation.

The Demand for Insurance

There is another side to the Confidence story.

Gold remains strongly supported.

GOLD PERFORMANCE



CCI TAKEAWAY — Strong demand for defensive assets alongside continued equity participation shows that investors are not abandoning opportunity. They are maintaining exposure to Growth while simultaneously paying for protection against inflation, geopolitical uncertainty and expensive capital.

This is one of the more revealing characteristics of the current market environment.

Investors are not making a simple choice between:

Risk On

or

Risk Off.

They are constructing portfolios capable of expressing both views simultaneously.

Growth / Technology / Equities
Opportunity

+

Gold / Defensive Demand
Insurance

=

Selective Confidence

The result is not panic.

It is preparation.

Concern Without Capitulation

This gives us perhaps the clearest description of current investor psychology:

Concern without capitulation.

Investors can see the risks.

Energy prices have risen.

Inflation pressure has returned.

Long-term yields remain elevated.

Geopolitical uncertainty persists.

Several Canaries have become more vocal.

Yet investors have not abandoned markets.

Instead, they continue allocating capital toward areas where they perceive the strongest opportunities while maintaining protection against what could go wrong.

That is a very different environment from systemic fear.

It is better described as:

Awareness without disorder.

Why This Matters

Confidence often deteriorates before the underlying economy does.

Markets are forward-looking.

If investors collectively begin losing confidence in future Growth, Credit conditions or corporate earnings, capital allocation can change long before that deterioration becomes visible in economic data.

That makes Confidence an important bridge between the economic pillars and market behaviour.

LIQUIDITY + GROWTH + CREDIT → CONFIDENCE → LEADERSHIP → CAPITAL ROTATION

Liquidity tells us whether capital **can** move.

Growth and Credit help determine the environment in which it moves.

Confidence tells us whether investors are **willing** to move it.

Leadership and Rotation then reveal **where it actually goes**.

For now, investors remain willing.

They are simply becoming more selective.

Capital Cycle Takeaway

Investor confidence remains constructive, but increasingly selective. Capital continues participating in risk assets while simultaneously seeking protection through defensive assets such as Gold.

This is not the behaviour of investors abandoning the Expansion. It is the behaviour of investors becoming increasingly conscious of the risks surrounding it.

The result is:

Opportunity and insurance existing side by side.

Or more simply:

Capital is not abandoning opportunity. It is paying for resilience.



CCI LEARNING MOMENT

Fear and Confidence Can Coexist

Markets are rarely either completely fearful or completely confident.

Investors can believe that opportunities remain attractive while simultaneously recognising that risks are increasing.

That is precisely what the current evidence suggests.

Strong equity participation tells us confidence remains.

Strong defensive demand tells us investors are paying attention.

Neither signal should be interpreted in isolation.

Together they tell a much richer story:

Confidence tells us that capital is willing to move. Selectivity tells us what investors currently trust.

And that brings us naturally to the next question.

If investors remain willing to deploy capital, but are becoming increasingly selective:

Where does conviction actually live?

That is the job of **Section 6 — Leadership**.

SECTION 6 — LEADERSHIP

Where Conviction Lives

Liquidity tells us whether capital has the capacity to move.

Confidence tells us whether investors are willing to move it.

Leadership tells us **where conviction is strongest when they do.**

And right now, leadership is clear.

Technology and Artificial Intelligence remain dominant.

Large-cap US equities continue attracting capital.

Bitcoin and Crypto remain comparatively weak.

The result is a market with **strong leadership, but increasingly concentrated leadership**.

Capital is not struggling to find leadership. It is becoming increasingly selective about which forms of leadership it trusts.

The Leadership Dashboard

Indicator	Score	Current State
Technology	**9.0**	🟢 Strong
Artificial Intelligence	**9.0**	🟢 Strong
Defensive Leadership	**7.2**	🟢 Constructive
Market Breadth	**6.3**	🟡 Selective
Leadership Outlook	**8.0**	🟢 **Strong**

State: 🟢 Strong
Direction: → Persistent but concentrated
Leadership Score: 8.0
Confidence: High

The strength of the headline score should not obscure what lies beneath it.

Leadership is powerful.

But it is not broad.

Capital continues concentrating around the areas where earnings visibility, structural Growth and investor conviction remain strongest.

That distinction matters as the Expansion matures.

Artificial Intelligence Has Become Its Own Capital Cycle

Artificial Intelligence is no longer simply another investment theme.

The scale of investment flowing into semiconductors, data centres, cloud infrastructure, software and the broader AI ecosystem has become large enough to influence capital expenditure, corporate earnings and market leadership.

For our purposes, the Nasdaq provides a useful market proxy for that structural trend.

NASDAQ LEADERSHIP



CCI TAKEAWAY — The Nasdaq continues to demonstrate the strength of Technology and AI leadership. Capital remains willing to reward the areas of the market where structural Growth and earnings conviction are strongest, reinforcing the evidence that leadership remains firmly intact.

This is important because strong leadership tells us something about investor behaviour.

Capital has alternatives.

It could remain in cash.

It could move broadly across equities.

It could rotate aggressively into Crypto.

It could retreat entirely into defensive assets.

Instead, a significant portion continues flowing toward Technology and AI.

That is a choice.

And choices reveal conviction.

Strong Leadership Does Not Mean Broad Leadership

A healthy market does not require every asset to rise simultaneously.

But the breadth of participation tells us something about the character of the Expansion.

Earlier in a cycle, improving liquidity and Growth can produce increasingly broad participation.

As the cycle matures, leadership can become narrower as investors discriminate more aggressively between winners and weaker opportunities.

That is increasingly visible today.

Technology and AI remain powerful.

Broader equities continue participating.

Gold continues attracting defensive capital.

But participation across markets is far from uniform.

Strong leadership does not necessarily mean broad leadership.

That is not inherently bearish.

It simply tells us that capital is becoming more selective.

The risk emerges if strong but narrow leadership begins to weaken **without new leadership emerging elsewhere**.

That is something we will continue to monitor.

Bitcoin Has Lost Leadership

Bitcoin provides perhaps the clearest example of why Liquidity and Leadership must be analysed separately.

Global liquidity remains supportive.

Risk assets are participating.

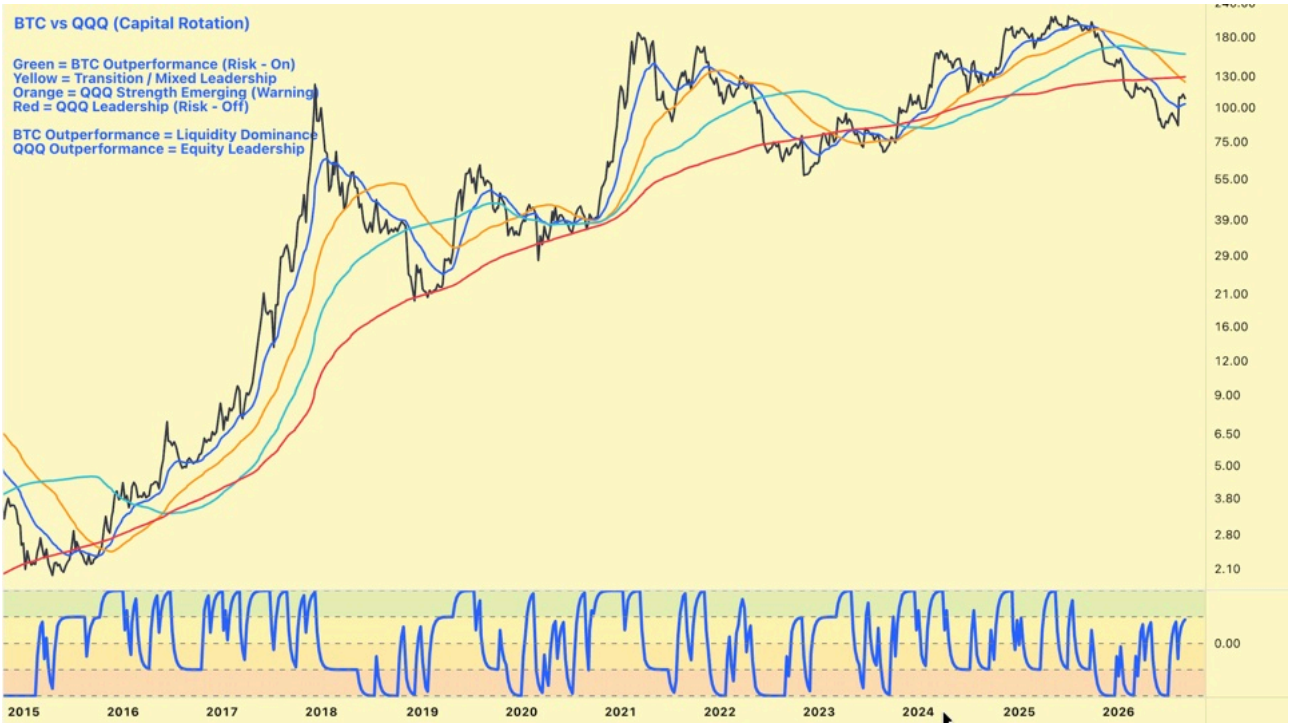
Technology remains strong.

Yet Bitcoin continues struggling to attract the marginal dollar.

The problem therefore cannot be explained simply by insufficient global liquidity.

The relative evidence makes that particularly clear.

BTC vs QQQ - Relative Leadership



CCI TAKEAWAY — Bitcoin continues to lose relative ground to the Nasdaq, confirming that Technology and AI remain stronger destinations for capital. Supportive liquidity exists, but Bitcoin has not yet demonstrated the relative strength required to reclaim market leadership.

This does **not** mean Bitcoin is permanently impaired.

Nor does it tell us anything definitive about Bitcoin's long-term investment case.

It tells us something much simpler:

Bitcoin has lost leadership relative to other available destinations for capital.

That is an observation, not a prediction.

And CCI does not need to predict when that relationship will change.

We simply need to recognise it when it does.

Leadership Must Be Earned

This principle is particularly important when investors have strong personal convictions about an asset.

It is easy to believe that an asset *should* perform because its valuation appears attractive, its long-term story remains compelling or liquidity conditions appear supportive.

Markets are under no obligation to agree.

Leadership is demonstrated through relative performance.

Until that evidence changes, we should not manufacture leadership where none exists.

We follow leadership. We do not pledge allegiance to it.

If Bitcoin begins outperforming Technology, strengthening relative to Gold and attracting renewed Crypto-native liquidity, the evidence will begin telling us something different.

Until then:

Bitcoin has not yet earned the marginal dollar.

Why Leadership Matters

Leadership often provides an early window into changing capital preferences.

When existing leaders continue strengthening, capital is reinforcing the current market structure.

When leadership broadens, confidence may be spreading.

When leadership begins rotating, the character of the market may be changing.

And when established leaders weaken without replacements emerging, risk may be increasing.

LIQUIDITY → CONFIDENCE → LEADERSHIP → CAPITAL ROTATION

This is why Leadership sits between Confidence and Capital Rotation within the CCI framework.

It tells us where conviction currently lives.

Rotation tells us whether that conviction is beginning to move.

Capital Cycle Takeaway

Market leadership remains strong, but concentrated. Technology and Artificial Intelligence continue to dominate capital allocation, while Bitcoin remains comparatively weak despite supportive global liquidity.

This reinforces one of September's central conclusions: the system is not struggling for capital. Capital is becoming increasingly selective about where it chooses to go.

For now:

Technology and AI own leadership. Bitcoin does not.

That conclusion remains valid until the evidence changes.



CCI LEARNING MOMENT

Leadership Tells Us Where Conviction Lives

Investors often begin with the asset they want to own and then search for evidence supporting that decision.

CCI reverses the process.

We begin with the evidence and ask:

Where is capital demonstrating conviction?

That approach removes allegiance from the investment process.

An asset does not deserve capital because we like its story.

It earns capital when the evidence supports it.

Liquidity tells us capital can move.

Leadership tells us where it chose to go.

And that naturally leads us to the next question:

Is capital beginning to rotate somewhere else?

That is the job of **Section 7 — Capital Rotation**.

SECTION 7 — CAPITAL ROTATION

Where Is the Marginal Dollar Going?

Markets are ultimately an allocation mechanism.

Every investor has choices.

Cash.

Bonds.

Equities.

Gold.

Technology.

Bitcoin.

Crypto.

Capital constantly moves between those choices as expectations about Growth, inflation, risk and opportunity change.

That movement is **Capital Rotation**.

And one of the most useful questions we can ask is remarkably simple:

Where is the marginal dollar choosing to go?

September's evidence provides a clear answer.

Capital is not abandoning risk.

It is not rushing indiscriminately toward risk either.

Instead, the marginal dollar continues reinforcing areas where leadership and confidence are already strongest.

The Capital Rotation Dashboard

Indicator	Score	Current State
Rotation Strength	**7.4**	🟢 Constructive
Leadership Persistence	**8.4**	🟢 Strong
Defensive Rotation	**7.0**	🟢 Constructive
Risk Rotation	**6.1**	🟡 Selective
Rotation Outlook	**7.1**	🟢/🟡 **Orderly & Selective**

State: 🟢/🟡 Orderly & Selective
Direction: → Existing leadership reinforced
Capital Rotation Score: 7.1
Confidence: High

There is little evidence of disorderly capital flight.

Instead, capital continues concentrating around a relatively small number of preferred destinations.

Technology and AI remain strongly favoured.

Large-cap US equities remain supported.

Gold continues attracting defensive capital.

Broader equities are participating.

Bitcoin and Crypto remain comparatively weak.

The marginal dollar is reinforcing existing leadership rather than searching aggressively for new leadership.

Opportunity and Protection Can Coexist

One of the most important features of the current market is the simultaneous strength of equities and Gold.

GOLD VERSUS EQUITIES



CCI TAKEAWAY — Capital continues to support both productive risk assets and monetary protection. Strength in equities alongside Gold confirms that investors are not making a simple Risk-On or Risk-Off decision. They are participating in Growth while simultaneously paying for resilience.

This reinforces what we observed in the Confidence section.

Investors do not appear frightened enough to abandon Growth.

But neither are they sufficiently complacent to abandon protection.

Capital is doing both.

Opportunity and insurance are being owned simultaneously.

This is characteristic of an environment in which investors remain constructive about the Expansion while becoming increasingly conscious of the risks surrounding it.

Why the Marginal Dollar Matters

Capital does not need to abandon an asset for its leadership to weaken.

It simply needs to find another destination more attractive.

Imagine $100 already invested in Bitcoin.

That existing capital tells us something about the past.

But the next dollar tells us something about the present.

Does it choose Bitcoin?

Gold?

Technology?

Cash?

Bonds?

The destination of that next dollar is what begins changing relative performance.

That is why CCI focuses on the **marginal dollar**.

Markets move at the margin.

Bitcoin Versus Gold — A Capital Preference

The relative relationship between Bitcoin and Gold provides a particularly useful window into current capital preferences.

Both assets can be viewed as alternatives to traditional monetary assets.

But capital is not treating them equally.

BITCOIN VERSUS GOLD — CAPITAL ROTATION REGIME



CCI TAKEAWAY — Gold continues to attract the marginal dollar relative to Bitcoin, reinforcing the evidence that capital currently prefers monetary protection over Crypto exposure. This is not a judgement about Bitcoin's long-term potential. It is an observation of present capital preference.

This is consistent with the broader evidence.

Investors remain willing to own risk.

But when seeking monetary protection, capital currently demonstrates greater conviction in Gold than Bitcoin.

Again, this is not a forecast.

It is an observation.

If the relationship changes, our conclusion changes with it.

The CCI Money Map

The individual charts tell us where specific relationships are moving.

The **CCI Money Map** brings those relationships together.

Its purpose is not to predict which asset will perform best next month.

It answers a simpler question:

Where is capital demonstrating preference today?

Destination	Capital Preference	Current Message
AI / Technology	🟢 Strong Preference	Dominant leadership
Large-Cap US Equities	🟢 Preferred	Strong participation
Gold	🟢 Strong Preference	Monetary protection
Broader Equities	🟡 Participating	Constructive but selective
Bitcoin / Crypto	🟡 Unconfirmed	Leadership not restored

The Money Map makes September's allocation environment remarkably clear.

Capital remains willing to participate.

But participation is highly selective.

The strongest flows continue reinforcing existing winners rather than searching aggressively for new leadership.

Following Capital Rather Than Narratives

The Money Map also protects us from a common investing mistake.

Investors naturally develop opinions about what *should* happen.

Bitcoin should rise because liquidity is improving.

Gold should fall because equities are strong.

Smaller companies should outperform because Growth is expanding.

Markets do not care what we think should happen.

CCI therefore asks a different question:

What is capital actually doing?

Today, capital continues favouring Technology and AI.

It continues supporting large-cap equities.

It continues accumulating Gold.

And it has not yet rotated decisively back toward Bitcoin and Crypto.

That evidence may change.

When it does, the Money Map will change with it.

What Would Signal Rotation?

The current structure is persistent rather than permanent.

We would become increasingly interested in a change in leadership if several relationships began moving together.

Bitcoin strengthening relative to Gold.

Bitcoin outperforming the Nasdaq.

Crypto-native liquidity improving.

Market breadth expanding.

Capital rotating toward previously weaker risk assets.

No single signal would be sufficient.

But agreement among several would suggest that the marginal dollar is beginning to reconsider its destination.

That would deserve our attention.

For now, the evidence does not show a decisive rotation.

Capital Cycle Takeaway

Capital Rotation remains orderly and selective. Technology, AI and large-cap US equities continue attracting the marginal dollar, while Gold remains strongly supported as monetary protection. Bitcoin and Crypto have yet to demonstrate the relative strength required to reclaim leadership.

Capital is not searching aggressively for something new. It is reinforcing what it already trusts.

That gives us one of the clearest conclusions in the September Letter:

The marginal dollar is reinforcing existing leadership.

CCI LEARNING MOMENT

Rotation Usually Whispers Before It Shouts

Major changes in market leadership rarely arrive with an announcement.

They begin quietly.

Relative performance changes.

Previously weak assets begin strengthening.

Market breadth expands.

Liquidity begins transmitting differently.

The marginal dollar starts choosing another destination.

None of these developments alone necessarily signals a new regime.

But together, they can reveal that capital preference is changing.

That is why CCI watches **relative relationships**, not simply individual asset prices.

Follow where capital is going—not where we think it should go.

The Journey So Far

We can now connect the entire market side of the Capital Cycle:

Liquidity tells us capital **can move**.
↓
Confidence tells us capital is **willing to move**.
↓
Leadership tells us where **conviction lives**.
↓
Capital Rotation tells us whether that conviction is **beginning to move somewhere else**.

And today, the message remains remarkably consistent:

The system is not weak. It is selective.

SECTION 8 — WHERE ARE WE NOW?

The Expansion Holds. The Margin for Error Is Narrowing.

After examining Liquidity, Growth, Credit, Confidence, Leadership and Capital Rotation, the evidence continues to point toward one conclusion:

The Capital Cycle remains in Mature Expansion.

That conclusion is supported by broad agreement across the framework.

Liquidity remains available.

Growth remains expansionary.

Credit remains constructive.

Confidence remains sufficient for capital to participate.

Leadership remains strong.

Capital Rotation remains orderly.

There is no evidence today of the broad deterioration normally associated with a transition into Slowdown or Contraction.

But the environment surrounding the Expansion has become more demanding.

Inflation pressure is rising.

Long-duration capital remains expensive.

Housing is beginning to respond.

Leadership is concentrated.

Capital allocation is increasingly selective.

And several independent Canaries are becoming more vocal.

The Expansion remains intact.

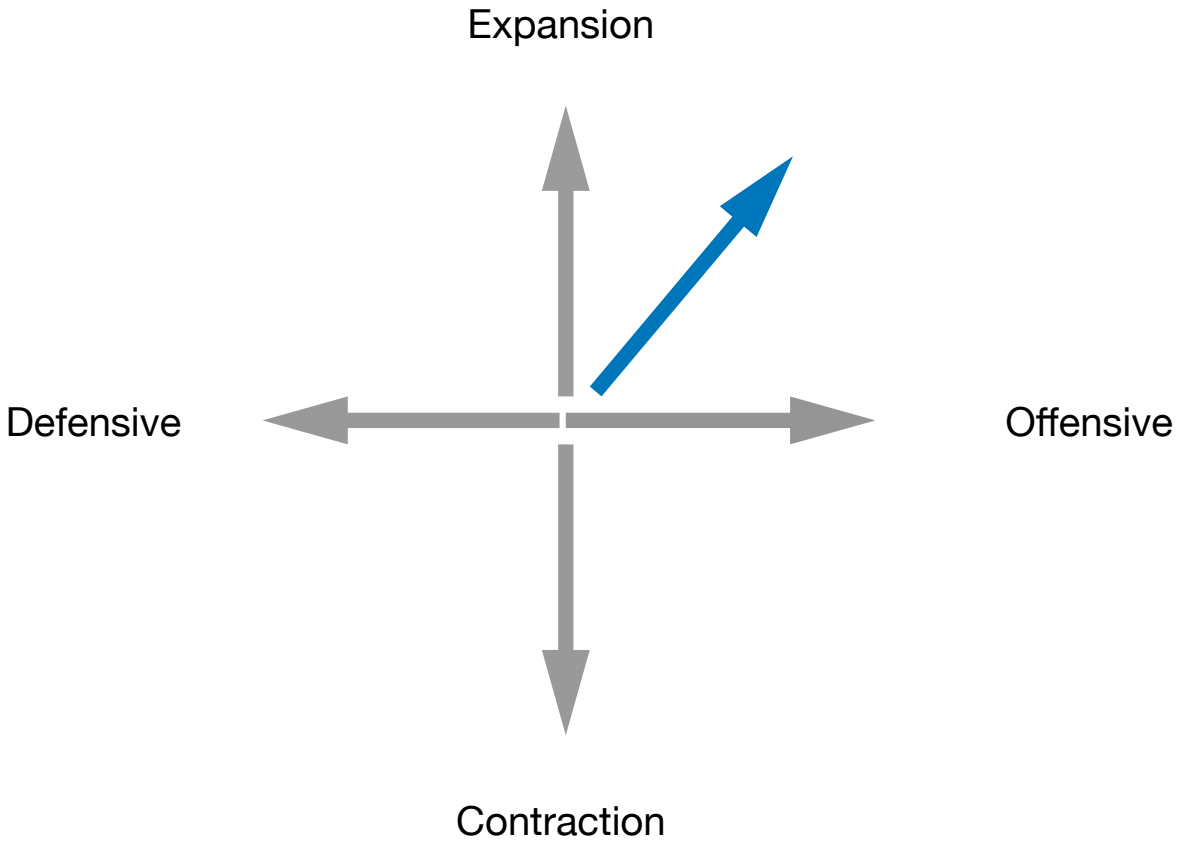
But its margin for error is narrowing.

The Current Position

The Macro Compass

How should capital be positioned?

↗ Expansion with a selective offensive bias.



Where are we in the Capital Cycle?

Expansion

|

⭐ **Mature Expansion**

|

Slowdown

|

Contraction

|

Recovery

|

Expansion

⭐ Current Position

Primary Regime: 🟢 Expansion

Character: Mature Expansion

Regime Score: 7.4 / 10

Regime Confidence: High

Persistence Confidence: Moderate

Risk State: 🟡 Increasing but Controlled

Portfolio Stance: Participate With Discipline

Dominant Characteristic: Selectivity

Primary Strength: Agreement across Liquidity, Growth and Credit

Primary Vulnerability: Rising cost of capital and concentrated leadership

Primary Transition Risk: Inflation and duration pressure transmitting into Growth and Credit

The distinction between **Regime Confidence** and **Persistence Confidence** remains important.

We have strong evidence telling us where we are.

We have less certainty about how long the current conditions can persist.

We can be confident about where we are while remaining less confident about how long those conditions will persist.

What Is Holding the Expansion Together?

At the centre of the CCI framework sit three primary pillars:

Liquidity. Growth. Credit.

All three remain constructive.

Liquidity continues providing capital with the ability to move.

Growth continues providing economic momentum.

Credit continues allowing capital to reach businesses and households.

That agreement is powerful.

It is also why individual sources of pressure should not automatically be interpreted as evidence that the cycle has turned.

The Expansion does not require perfect conditions.

It requires sufficiently constructive conditions across the underlying system.

Those conditions remain present today.

What Is Becoming More Difficult?

The challenge lies in what the system must now absorb.

Energy disruption has increased inflation pressure.

Persistent inflation reduces monetary-policy flexibility.

Higher long-term interest rates increase the cost of capital.

Expensive capital is already affecting interest-rate-sensitive areas such as housing.

At the same time, strong but concentrated market leadership means increasingly large amounts of capital are relying on a relatively narrow group of winners.

None of these pressures currently breaks the Expansion.

But collectively, they reduce its resilience.

Energy / Supply Pressure
↓
Inflation
↓
Reduced Policy Flexibility
↓
Higher Long-Term Rates
↓
Higher Cost of Capital
↓
Housing / Investment / Refinancing Pressure
↓
Credit
↓
Growth

The early links in this transmission chain are visible.

The later links are not.

And that distinction defines where we are today.

Pressure Is Rising. The Pillars Have Not Broken.

The temptation in uncertain markets is to treat every new risk as evidence that the cycle is ending.

CCI deliberately avoids that approach.

Oil prices can rise without ending an Expansion.

Bond yields can rise without creating a Credit crisis.

Housing can slow without producing a recession.

Market leadership can narrow without collapsing.

A Canary can begin singing without signalling systemic failure.

What matters is **transmission**.

Does the pressure remain contained—or does it begin changing Liquidity, Growth and Credit?

For now, the answer remains clear.

Pressure is transmitting into some parts of the system.

But it has not transmitted far enough to change the regime.

Credit Remains the Critical Referee

Among all the evidence we are monitoring, Credit deserves particular attention.

Why?

Because many of the pressures identified throughout this Letter ultimately converge there.

Higher borrowing costs alone do not end an Expansion.

The danger increases when expensive money begins damaging borrower quality, causing lenders to retreat and reducing the availability of Credit throughout the economy.

We are not seeing that today.

Credit spreads remain contained.

Bank financing remains available.

Lending remains selective rather than broadly restrictive.

That is why the current Risk State remains:

🟡 Increasing but Controlled

If Credit begins deteriorating materially, that conclusion would need to change.

What Would Change Our Mind?

CCI does not need to predict when the Expansion will end.

We need to know what evidence would tell us that it is ending.

Several developments occurring together would deserve particular attention:

Liquidity deteriorating rather than merely transmitting selectively.

Growth losing momentum across both Manufacturing and Services.

Employment weakening materially.

Credit spreads widening significantly.

Bank lending contracting and lending standards tightening broadly.

Existing market leadership breaking without new leadership emerging.

Several independent Canaries escalating simultaneously.

No single development necessarily changes the regime.

Agreement among several would.

We change our conclusions when the evidence changes—not when the headlines become uncomfortable.

The September Regime Conclusion

August did not produce a regime change.

It produced a change in the **conditions surrounding the regime**.

That distinction matters.

The Mature Expansion remains supported by Liquidity, Growth and Credit.

But maintaining that Expansion is becoming increasingly demanding as inflation pressure, expensive duration, narrow leadership and selective capital allocation reduce the system's margin for error.

This leads us back to the central thesis of the September Capital Cycle Letter:

The Mature Expansion remains intact. Global liquidity is supportive, Growth is reaccelerating, Credit remains constructive and market leadership persists. But resilience is becoming increasingly expensive.

The evidence continues to support participation—but with greater selectivity, discipline and attention to the Canaries.

Or in its simplest form:

The system is not breaking. But the price of resilience is rising.

Capital Cycle Takeaway

The Expansion has absorbed another month of pressure. It has not absorbed it for free.

Liquidity remains supportive. Growth remains expansionary. Credit remains constructive.

But inflation, expensive duration and increasingly selective capital allocation are reducing the margin for error.

Therefore:

Mature Expansion — 7.4

🟡 **Risk Increasing but Controlled**

Participate With Discipline



CCI LEARNING MOMENT

Pressure Is Not the Same as Regime Change

Investors do not need a world without problems in order to participate in markets.

Such a world does not exist.

The more useful skill is learning to distinguish between:

Something going wrong

and

Something going wrong that changes the Capital Cycle.

That distinction prevents every headline from becoming an investment decision.

The question we continually return to is:

Did what went wrong change the Capital Cycle?

For August, the evidence says:

No.

That answer may change next month.

If it does, CCI will change with it.

Because:

We have no investment thesis to defend. We have a process to follow.

SECTION 9 — INVESTMENT OUTLOOK

Participate With Discipline

The purpose of the Capital Cycle framework is not simply to describe markets.

It is to help investors respond intelligently to the conditions those markets present.

September's evidence continues to support participation.

The economy remains in Expansion.

Liquidity remains supportive.

Growth remains constructive.

Credit continues functioning normally.

Confidence remains sufficient for capital to move.

Leadership remains strong.

And Capital Rotation remains orderly.

There is therefore little evidence supporting an indiscriminate retreat from risk.

But neither does the evidence support complacency.

Inflation pressure is increasing.

Long-duration capital remains expensive.

Leadership is concentrated.

Capital allocation is selective.

And several Canaries are becoming more vocal.

The appropriate stance is therefore neither aggressive risk-taking nor defensive withdrawal.

It is:

Participate With Discipline.

The Portfolio Stance

Regime: 🟢 Mature Expansion
Regime Score: 7.4
Risk State: 🟡 Increasing but Controlled
Regime Confidence: High
Persistence Confidence: Moderate
Portfolio Stance: Participate With Discipline

Participation recognises that the Expansion remains intact.

Discipline recognises that the conditions surrounding it are becoming more demanding.

Both matter.

Participation Should Follow Evidence — Not Expectation

One of the greatest temptations in investing is allocating capital according to what we believe **should happen next**.

An asset appears cheap.

A narrative sounds compelling.

A catalyst seems inevitable.

A market has fallen far enough.

We convince ourselves that something *must* happen.

But markets do not operate according to our expectations.

CCI therefore begins somewhere else.

What does the evidence support today?

Today, the evidence supports continued participation in areas demonstrating genuine leadership and capital preference.

It does not support forcing capital toward assets simply because we believe they *should* eventually outperform.

This is particularly relevant to Bitcoin and Crypto.

Their long-term potential may remain significant.

But potential and leadership are different things.

Until relative strength improves and capital begins rotating back toward Crypto, the evidence remains unconfirmed.

Participation should follow evidence—not expectation.

Follow Leadership — Without Becoming Loyal to It

Technology and AI remain dominant market leaders.

That leadership deserves respect.

But it does not deserve allegiance.

Leadership can persist far longer than investors expect.

It can also change.

CCI therefore follows leadership while continuously testing whether the evidence supporting it remains intact.

If Technology continues leading, we recognise it.

If leadership broadens, we recognise it.

If capital rotates toward another asset class, we recognise it.

If existing leadership begins deteriorating without replacement, we recognise that too.

We follow leadership. We do not pledge allegiance to it.

That distinction allows us to participate without becoming emotionally attached to the assets currently winning.

Selectivity Matters More as the Cycle Matures

The current environment does not reward every asset equally.

That is not a flaw in the framework.

It is one of the most important messages the framework is giving us.

Liquidity is available.

But capital is choosing.

Technology and AI remain preferred.

Large-cap US equities remain supported.

Gold continues attracting monetary and defensive demand.

Broader equities continue participating.

Bitcoin and Crypto remain unconfirmed.

This means portfolio decisions increasingly require discrimination.

The system is not weak. It is selective.

As the Expansion matures, simply owning "risk assets" becomes less useful than understanding **which risks capital is currently willing to reward**.

Respect the Canaries — Without Letting Them Run the Portfolio

Several Canaries are becoming more vocal.

The Long Bond remains Watchful.

Energy remains Watchful.

The Yen Carry Trade remains Watchful.

Reserve Diversification has emerged onto the watch list.

These signals deserve attention.

But a Canary is not a portfolio instruction.

CANARY → INVESTIGATE → TRANSMISSION → REGIME EVIDENCE → RESPONSE

The Canary tells us:

Something may be changing.

We then investigate whether that change is transmitting through the system.

Only when the evidence begins affecting the Capital Cycle should it materially change our regime assessment.

This protects us from reacting emotionally to every warning while ensuring that emerging risks are never ignored.

Listen early. Investigate carefully. Act when the evidence requires it.

Preparation Is More Valuable Than Prediction

We do not know precisely when the Mature Expansion will end.

Nor do we need to.

Attempting to predict the exact turning point creates an unnecessary burden.

If we decide in advance that the Expansion must end next month, we become committed to defending that prediction.

If it persists, the evidence begins fighting our thesis.

CCI takes a different approach.

We prepare.

If Liquidity deteriorates
→ Reassess monetary support.

If Growth weakens materially
→ Reassess the Expansion.

If Credit deteriorates
→ Increase concern substantially.

If Leadership breaks
→ Reassess capital preference.

If Rotation broadens or changes direction
→ Follow the marginal dollar.

If multiple Canaries escalate together
→ Investigate transmission immediately.

Preparation means we do not need to know **when** these things will happen.

We simply need to know what we will do **if they do**.

Preparation gives us optionality. Prediction creates commitment.

What We Are Watching Next

The next stage of the Capital Cycle will be determined by transmission.

The most important question is not whether pressures exist.

They clearly do.

The question is:

Does pressure remain contained—or does it begin transmitting into Credit?

Energy pressure matters if it sustains inflation.

Inflation matters if it keeps the price of money elevated.

Expensive money matters if it damages borrowers.

Borrower stress matters if lenders retreat.

Credit deterioration matters if it begins weakening Growth.

That is the pathway capable of changing the Capital Cycle.

Until that evidence appears, the Expansion remains intact.

The September Investment Outlook

The evidence does not call for fear.

It calls for awareness.

It does not call for complacency.

It calls for discipline.

It does not require us to predict the next regime.

It requires us to recognise the regime we are actually in.

Today that remains:

🟢 MATURE EXPANSION

Regime Score: 7.4

🟡 RISK INCREASING BUT CONTROLLED

PARTICIPATE WITH DISCIPLINE

The Expansion remains supported by Liquidity, Growth and Credit.

But increasingly expensive capital, renewed inflation pressure, concentrated leadership and selective capital allocation mean the margin for error is narrowing.

Participation therefore remains justified.

But participation should be earned by the evidence.

Capital Cycle Takeaway

The Mature Expansion remains intact, and the evidence continues to support participation. But the environment increasingly rewards selectivity, discipline and preparedness rather than indiscriminate risk-taking.

Follow leadership while it persists. Respect the Canaries as they become more vocal. Watch Credit for evidence of systemic transmission. And remain prepared to change when the evidence changes.

Because ultimately:

Successful investing is not about predicting the future.

It is about responding intelligently as the future unfolds.



CCI LEARNING MOMENT

Preparation Is Not Prediction

There is an enormous difference between preparing for something and predicting that it will happen.

Prediction says:

"I know what comes next."

Preparation says:

"I know what evidence would require me to respond."

The first creates attachment.

The second creates optionality.

CCI chooses preparation.

We define the evidence.

We monitor the evidence.

We respond when the evidence changes.

And if the evidence does not change, neither do we.

We do not need to know what happens next.

We need to know what we will do when the evidence changes.

That is the discipline at the heart of the Capital Cycle.

Final Position

Mature Expansion — 7.4

Liquidity: 🟢 Supportive
Growth: 🟢 Expansionary
Credit: 🟢 Constructive
Confidence: 🟡 Constructive / Selective
Leadership: 🟢 Strong
Capital Rotation: 🟢/🟡 Orderly & Selective

Risk: 🟡 Increasing but Controlled

Stance: Participate With Discipline

And above all:

We have no investment thesis to defend.

We have a process to follow.

🐤 CCI CANARY WATCH — BENEATH THE SURFACE

When Several Quiet Chirps Begin to Sound Like a Chorus

The Capital Cycle remains in Mature Expansion.

But beneath the surface, several independent Canaries are beginning to attract our attention simultaneously.

No single signal currently suggests that the Expansion is ending.

What matters is whether these Canaries are detecting unrelated pressures—or different parts of the same emerging transmission mechanism.

Are these Canaries detecting independent problems—or different parts of the same emerging transmission mechanism?

The Emerging Chorus

Energy — 🟡 Watchful

Higher energy prices are feeding into inflation and increasing pressure on consumers and businesses.

The Long Bond — 🟡 Watchful

Elevated long-term yields are raising the price of capital and transmitting into interest-rate-sensitive areas such as housing.

Yen Carry Trade — 🟡 Watchful

Changing Japanese monetary conditions are making the economics of Yen-funded global leverage less comfortable.

Reserve Diversification — 🟡 Emerging Watch

Sovereign reserve managers are becoming increasingly deliberate about how reserves are diversified and where sovereign wealth is held.

Credit — 🟢 Stable

Despite these pressures, broad Credit deterioration remains absent.

And that final signal matters enormously.

The Transmission We Are Watching

Energy / Supply Pressure
↓
Inflation
↓
Reduced Policy Flexibility
↓
Long-Term Yields
↓
Higher Cost of Capital
↓
Housing / Refinancing / Investment
↓
Credit
↓
Growth

Parts of this chain are already visible.

But the chain is not complete.

Higher borrowing costs are reaching households and businesses.

Housing is beginning to respond.

Yet Credit remains available and financial stress remains contained.

Pressure is reaching borrowers. It has not yet caused lenders to retreat.

That is why the Canaries remain warnings rather than regime signals.

The Canary Chorus

Cycles do not always end because one enormous shock suddenly breaks the system.

Sometimes resilience is gradually eroded by several smaller pressures acting together.

That is the idea behind what CCI calls the **Canary Chorus**.

No single Canary is presently signalling that the Mature Expansion is ending. What deserves closer attention is that several independent Canaries are beginning to sing simultaneously.

Energy is pressuring inflation. The Long Bond is raising the price of capital. The Yen is changing the economics of global leverage. Housing is beginning to feel the consequences of expensive duration.

None has yet transmitted into broad Credit stress.

For now, the chorus remains quiet.

Credit remains calm.

Growth remains expansionary.

Liquidity remains available.

We are listening nevertheless.



CCI LEARNING MOMENT

Corroboration Changes the Signal

One warning indicator deserves attention.

Several independent indicators beginning to confirm one another deserve more.

Risk conviction should strengthen when independent Canaries begin corroborating one another.

The Canaries do not determine the regime.

But they may detect changing conditions before those changes become visible in the broader evidence.

The Regime Engine tells us where we are.

The Canaries help us listen for what may be changing.

MONTHLY WATCH LIST

What Matters Next

The purpose of the Watch List is not to predict next month's headlines.

It is to identify the evidence most capable of changing our current Capital Cycle assessment.

The question is simple:

What should we be watching now that could change our view of the Capital Cycle?

Watch	Stat	What Matters
Energy → Inflation	🟡	Does the energy shock continue feeding into inflation?
Long Bond → Housing	🟡	Does expensive duration spread further into the real economy?
Credit — Systemic Referee	🟢	Do spreads widen or lenders begin retreating?
Yen → Global Funding	🟡	Does changing Japanese policy force broader deleveraging?
Liquidity → Transmission	🟢	Does supportive liquidity continue reaching risk assets?
Leadership → Rotation	🟢/🟡	Does existing leadership persist, broaden or begin to rotate?
Sovereign Capital → Reserve Diversification	🟡	Does gradual diversification begin materially affecting capital flows?

The Question Above All Others

Many things will happen before the next Capital Cycle Letter.

Most will generate headlines.

Far fewer will matter to the Capital Cycle.

The most important question remains:

Does pressure remain contained—or does it begin transmitting into Credit?

Credit remains the systemic referee.

If inflation remains elevated but Credit stays constructive, the Expansion may continue absorbing pressure.

If expensive capital begins causing lenders to retreat, spreads to widen and Credit availability to deteriorate, the evidence would become materially more concerning.

That is the transmission we will be watching most closely.



CCI LEARNING MOMENT

A regime is not a headline

Know What Would Change Your Mind Before It Happens

One of the most useful disciplines in investing is deciding in advance what evidence would invalidate your current view.

Without that discipline, investors tend to reinterpret new information to protect conclusions they already hold.

CCI takes the opposite approach.

We define the evidence first.

Then we allow the evidence to change the conclusion.

A disciplined investor does not wait for uncertainty to disappear. They define the evidence that would require them to act.

That completes the monthly monitoring framework:

The Letter explains where we are.

The Canaries listen for what may be changing.

The Watch List defines what would change our mind.

THE WORLD AUGUST EXPERIENCED

Beyond Markets and the Capital Cycle

Markets tell an important story about the world.

But they never tell the whole story.

August was another reminder that events can matter enormously to people even when their immediate effect on financial markets is limited.

In the Himalayas, a devastating glacier-related disaster brought the human consequences of a changing environment into stark focus.

Elsewhere, extreme heat, drought and wildfire affected communities, agriculture and landscapes across parts of the world.

Some of these developments may eventually enter the Capital Cycle through food prices, supply chains, insurance costs or economic activity.

Others may leave little measurable trace in financial markets.

That does not make them unimportant.

Not every event that matters to the world matters to markets. And not everything that matters deserves to be measured by its effect on markets.

When Weather Reaches the Economy

Climate and weather events become relevant to the Capital Cycle when their effects begin transmitting into economic behaviour.

Drought can affect agricultural production.

Extreme weather can disrupt supply chains.

Reduced supply can increase prices.

Higher prices can influence inflation.

And persistent inflation can eventually affect monetary policy and the price of capital.

CCI therefore watches these developments without forcing every event into an investment narrative.

The event matters.

The transmission matters.

But the evidence must determine whether it has changed the Capital Cycle.

The World Kept Moving

Wars continued.

Technology advanced.

Businesses invested.

People worked, travelled, built, adapted and solved problems.

Markets absorbed another month of uncertainty and continued functioning.

That too is worth remembering.

Financial markets naturally focus our attention on risk because risk moves prices.

But human progress rarely stops simply because uncertainty increases.

And sometimes the most important events of a month have nothing whatsoever to do with portfolios.

A Closing Perspective

The September Letter has examined Liquidity, Growth, Credit, Confidence, Leadership and Capital Rotation.

We have followed inflation through energy.

We have followed expensive capital into housing.

We have listened to the Canaries.

We have examined where the marginal dollar is choosing to go.

And after all of that evidence, the Capital Cycle remains in **Mature Expansion**.

But perhaps the most important lesson is simpler.

We cannot control the world that arrives next month.

We cannot control oil prices.

We cannot control interest rates.

We cannot control geopolitics.

And we certainly cannot control markets.

What we can control is the quality of the process we use to respond.

That is why CCI does not attempt to eliminate uncertainty.

It attempts to navigate it.

Observe the evidence.

Understand the transmission.

Recognise the regime.

Prepare for change.

Act when the evidence requires it.

That process will never give us certainty.

It gives us something far more useful:

A disciplined way to operate without it.

THE FINAL WORD

The Price of Resilience

The Mature Expansion survived another month.

Liquidity remained supportive.

Growth remained strong.

Credit remained constructive.

Leadership persisted.

But the system was asked to absorb more.

Higher energy prices.

Renewed inflation pressure.

Expensive duration.

Housing weakness.

Changing global funding conditions.

Increasingly selective capital allocation.

The system absorbed those pressures.

It did not absorb them for free.

That is why September's conclusion remains:

THE PRICE OF RESILIENCE

The Expansion Holds, But the Cost of Sustaining It Is Rising

Regime: 🟢 Mature Expansion
Score: 7.4
Risk: 🟡 Increasing but Controlled
Stance: Participate With Discipline

We do not know how long this Expansion will persist.

We do not need to.

We know what evidence supports it.

We know what pressures threaten it.

And we know what evidence would require us to change.

That is enough.

Successful investing is not about predicting the future.

It is about responding intelligently as the future unfolds.

And as always:

We have no investment thesis to defend.

We have a process to follow.

Capital Cycle Intelligence

Evidence Before Opinion. Process Before Prediction.

Know What You Own

Know Why You Own It

Know When You Are Wrong

Know How to Behave

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