G L R   P A R T N E R S

Section 02

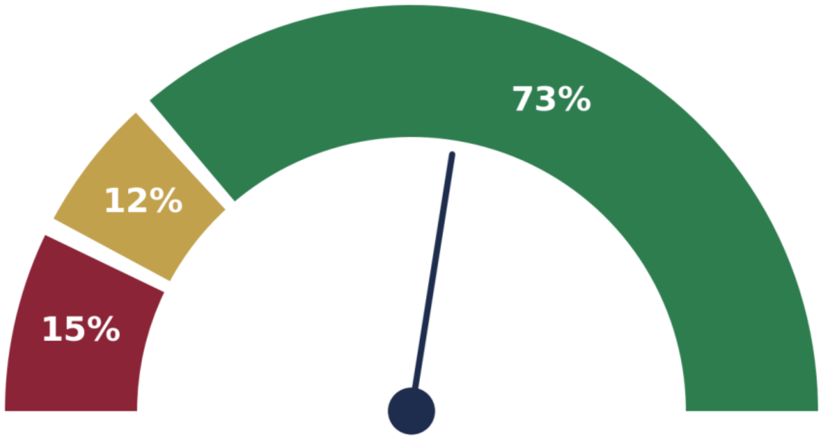
Three Pillars Update

Economy · Monetary Policy · Market Conditions

Investment Committee | May 2026

Current Regime

THREE PILLARS MASTER REGIME GAUGE



Currently Aggressive — Market Conditions override the late-cycle caution elsewhere, and the stack resolves risk-on.

THREE PILLARS REGIME ASSESSMENT

Economy

CONSTRUCTIVE

Late-cycle (growth moderating, credit tightening) offset by an excessive ~6–7% fiscal impulse. The cycle × fiscal mix nets constructive — with fragility underneath.

Monetary Policy

NEUTRAL

Fed near neutral (~3.6%), inflation re-accelerating, curve positive but for the wrong reason (sticky long end). Cross-currents net to Neutral.

Market Conditions

STRETCHED

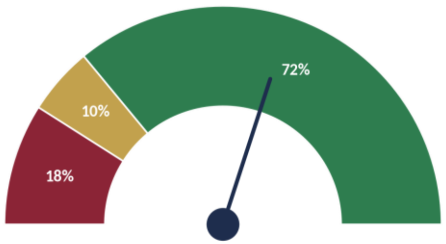
Short-term signal neutral with no active edge; long-term valuation Extreme (CAPE ~42×, allocations ~52%). Rich long-term, no near-term catalyst.

Regime Status: AGGRESSIVE | Primary action: maintain full risk allocation — tilt composition toward quality / free-cash-flow given stretched long-term valuations.

The Three Pillars — Signal by Component

Each needle marks today's reading; each arc shows how often the component has sat in each regime. Economy reads Aggressive and the cycle constructive, Monetary is Neutral, short-term conditions are quiet, and long-term valuation sits at its rare Extreme.

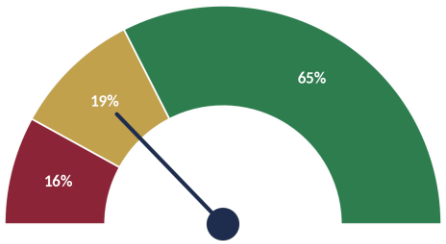
ECONOMIC PILLAR



Aggressive

Aggressive ≈ 72% of days

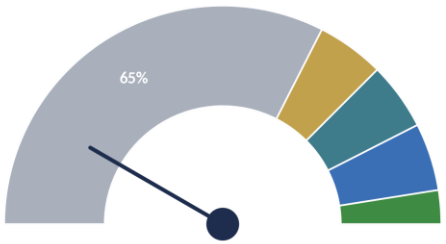
MONETARY PILLAR



Neutral

Neutral ≈ 19% of days

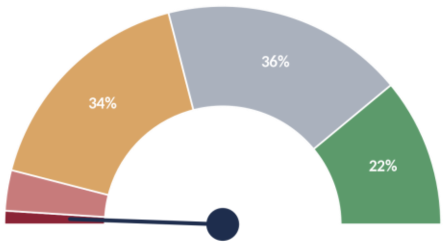
MARKET — SHORT TERM



No Signal

Grey zone ≈ 65% of days

MARKET — LONG TERM



Extreme

Extreme ≈ 2% of days

GLR PARTNERS

Section 03

What to Watch Now

Cycles · Bonds · Deficits · Sentiment · Inflation · Rates

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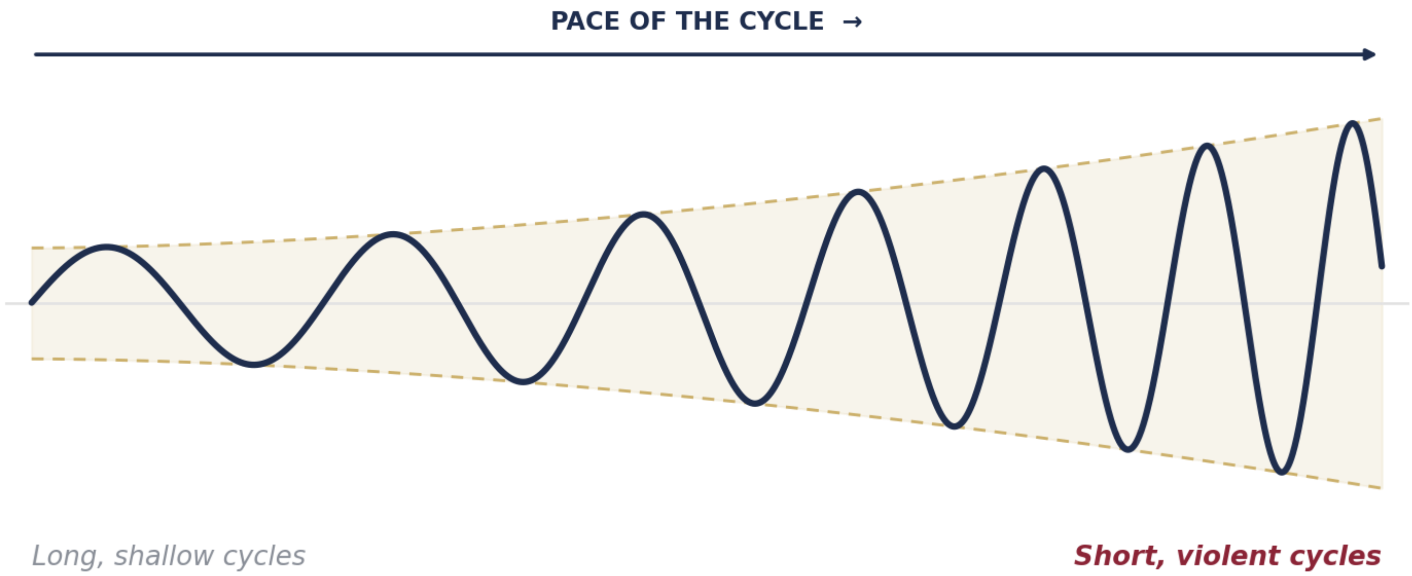
The Compression of Cycles

It is worth understanding that while regimes still repeat, they arrive faster and overshoot further than the historical record would suggest. Four structural forces are compressing the distance between turning points. Each turn now arrives faster, and cuts deeper, than the last.



Implication Confirmation now arrives too late to act on — the Three Pillars must read leading indicators, not lagging ones.

FOUR FORCES

Elevated valuations
High multiples leave little margin for error; small shocks move price more.

Accelerating technology
Information and capital reprice in days, not quarters; cycles telescope.

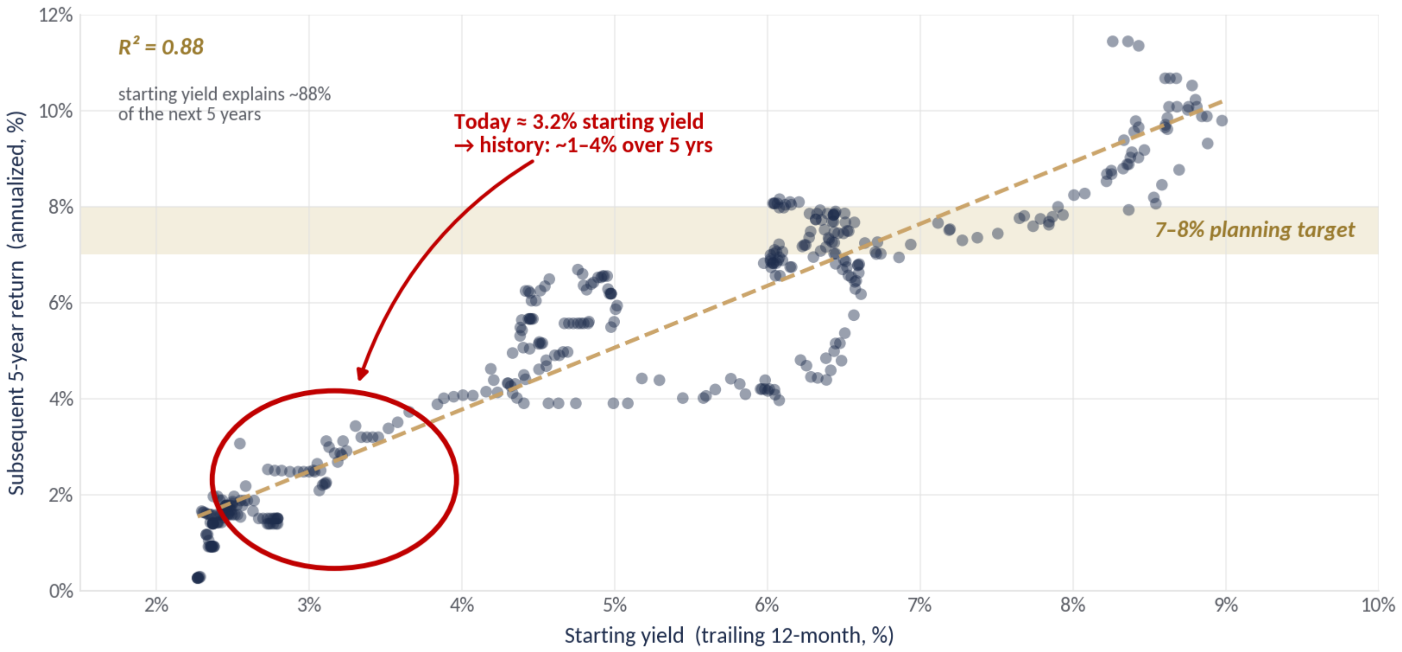
Heavy-handed policy
Fed and fiscal spending plus debt monetization override historical fundamentals.

Expanding volatility
Swings land larger and faster, and tail events show up more often due to changes in market structure.

Bonds Deliver Their Starting Yield

VBMFX (Vanguard Total Bond Market), monthly since 1987 — each starting yield paired with its realized 5-year forward return.
At a ~3% starting yield today, a 7–8% return is not likely, causing bonds to be a drag on performance towards planning goals.

Starting Yield vs. Subsequent 5-Year Return — VBMFX



Source: Vanguard VBMFX, Yahoo Finance. Trailing-12-month yield vs. realized 5-year forward CAGR, 1988–2020. Past performance is not indicative of future results.

INTERPRETATION

- Starting yield alone explains 88% of the next five years of return ($R^2 = 0.88$)
- Today's ~3.2% yield pre-commits the next five years to roughly 3% — the die is largely cast
- A book overweight bonds for diversification is structurally capped well below a 7–8% plan
- Bonds dampen volatility but cannot carry the return assumption — a diversifier, not the engine

Fiscal Deficit — The Structural Overhang

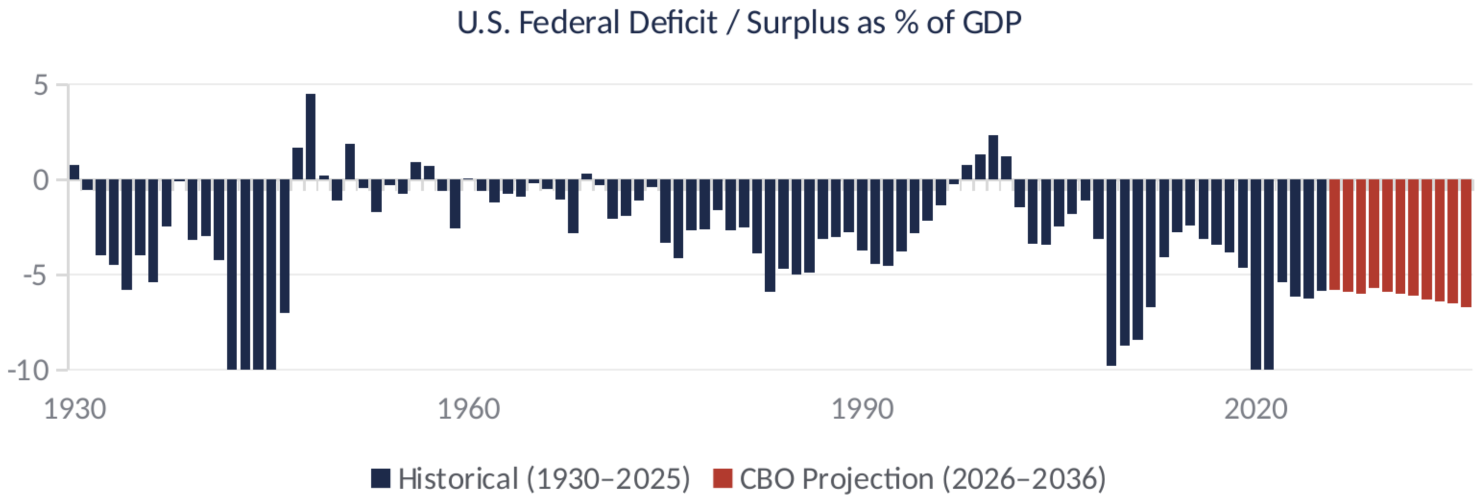
The U.S. federal deficit as a percent of GDP has reached levels previously seen only during wartime or deep recessions — but now persists during an expansion. CBO projects no return below ~6% through 2036.

–5.9%
Federal Deficit
% of GDP (FY2025)

~$37T
National Debt
and growing

~$1T+
Annual Interest
cost on debt

PEACETIME RECORD
Deficit at war / recession levels
during an expansion



WHY THIS MATTERS FOR PORTFOLIOS

- Deficits pressure Treasury issuance — and the long end of the curve
- Debt-service costs crowd out productive investment
- Fiscal stimulus keeps inflation sticky — cuts harder to justify
- Bonds face headwinds: heavy supply meets persistent inflation

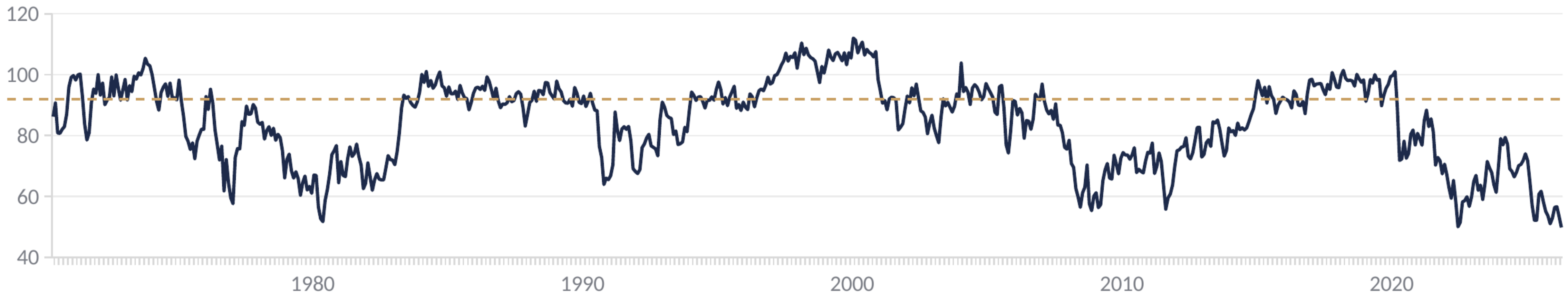
Consumer Sentiment — Record Lows

The University of Michigan Consumer Sentiment Index has fallen to 49.8 (Apr 2026) — an all-time low in the series, beneath the 2022 inflation shock and the 2008–09 financial crisis troughs.

49.8	~50	~55	100+	84.6
UMich Sentiment	**2022 Inflation Low**	**2008 GFC Low**	**Historical Peaks**	**Long-Run Average**
Apr 2026	*Jun 2022*	*Nov 2008*	*2000 · 2018*	*since 1952*

University of Michigan Consumer Sentiment (1952–2026)

Long-run average ≈ 84.6



Source: University of Michigan Consumer Sentiment Survey, FRED (UMCSENT).

Inflation — The Path to Re-Anchoring Higher

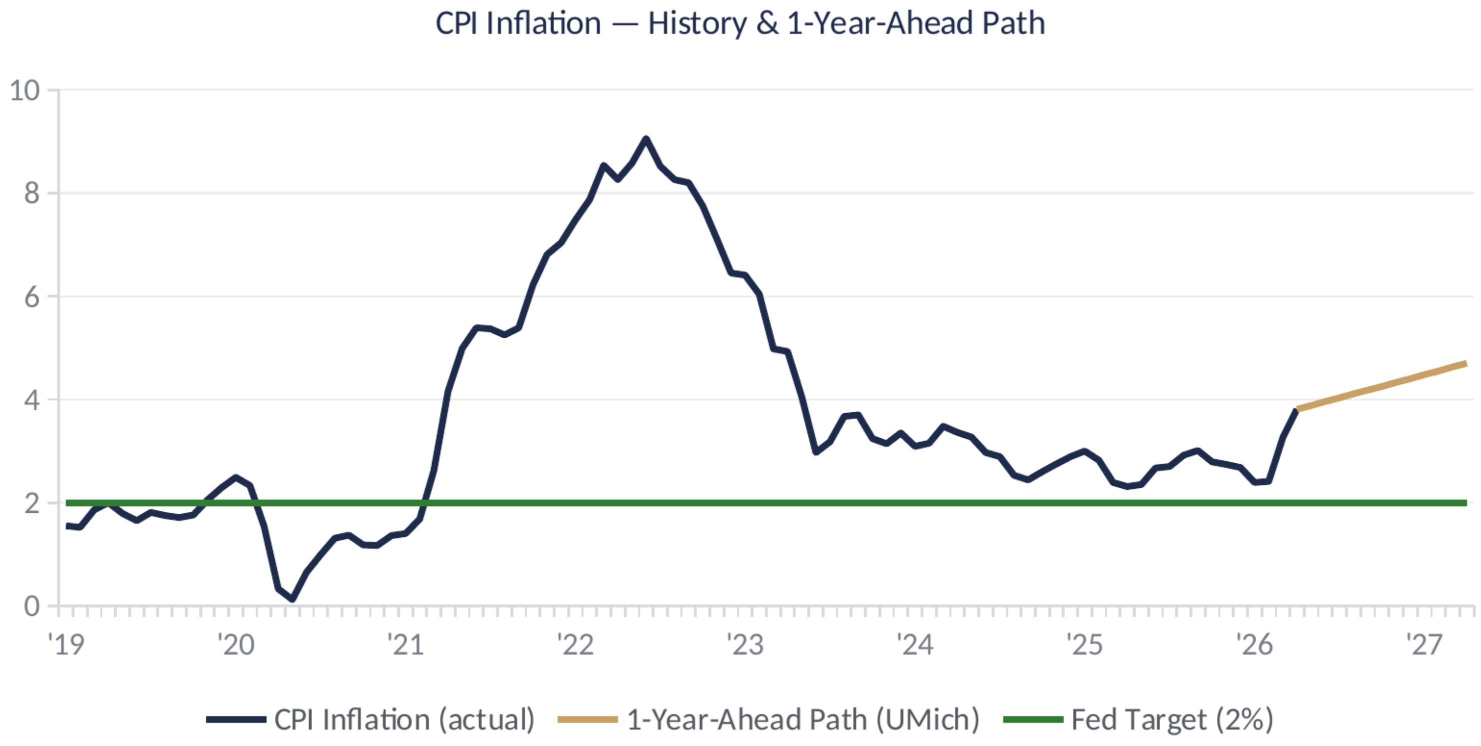
Headline CPI has re-accelerated off its 2025 lows, and the University of Michigan 1-year expectation now sits well above target. The dashed path extrapolates today's inflation toward that expected level over the next 12 months.

3.8%
Current CPI
Apr 2026

4.7%
UMich 1-Yr Expected
Apr 2026

2.0%
Fed Target
perpetually elusive

+2.7pp
Expected Gap vs Target
1-year-ahead



Sources: BLS CPI via multpl.com (monthly YoY); University of Michigan 1-year inflation expectations (FRED MICH).

Fed Funds — The 2-Year Leads, the Market Sees No Cuts

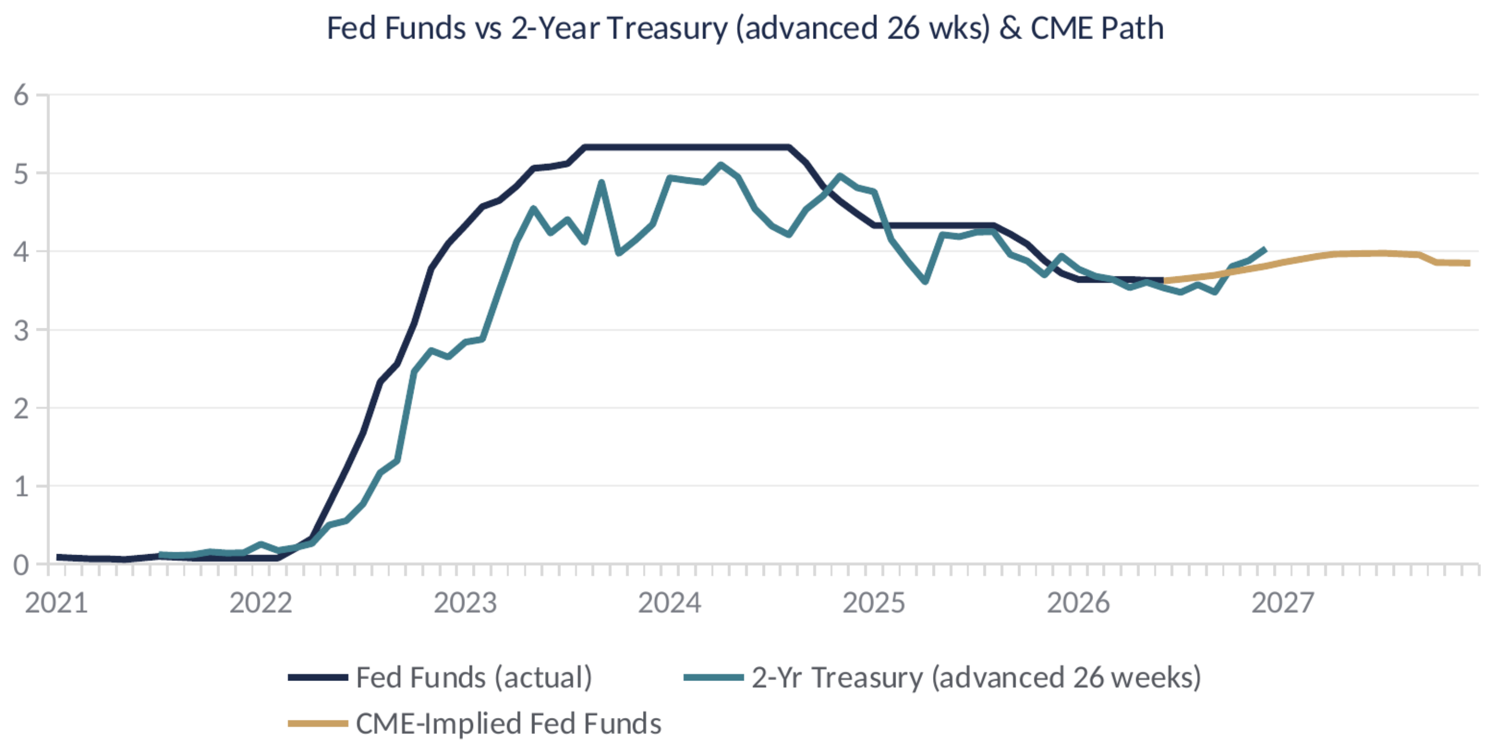
The 2-year Treasury has historically led the funds rate by roughly 26 weeks. Pulled forward, it points slightly higher — and the CME-implied path now prices no cuts through 2027, a drift up toward ~3.85%.

3.63%
Current Fed Funds
target midpoint

4.03%
2-Year Treasury
latest

3.85%
CME Implied
Dec 2027

0 cuts
Priced Through 2027
modest drift higher



Sources: U.S. Treasury / Federal Reserve H.15 (daily 2Y & Fed Funds); CME FedWatch implied probabilities (May 2026).