# The Conservative Strategist

**JANUARY 2026**

A QUARTERLY INVESTMENT NEWSLETTER PUBLISHED EXCLUSIVELY FOR CLIENTS OF SEASONAL STRATEGY

## The Fed is easing. The bond market isn't buying it.

The Federal Reserve has cut short-term interest rates in three successive monthly meetings. But for the first time in 27 years, bond investors aren't biting. Unlike five of the last six easings, medium-and long-term bond yields are actually rising.

Why?

As Bloomberg aptly writes:

***What the divergence indicates is a matter of heated debate. Opinions are all over the place, from the bullish (a sign of confidence that recession will be averted) to the more neutral (a return to pre-2008 market norms) to the favorite narrative of so-called bond vigilantes (investors are losing confidence the US will rein in the constantly swelling national debt). But one thing is clear: The bond market isn't buying Donald Trump's idea that faster rate cuts will send bond yields sliding down and, in turn, slash the rates on mortgages, credit cards and other types of loans.***

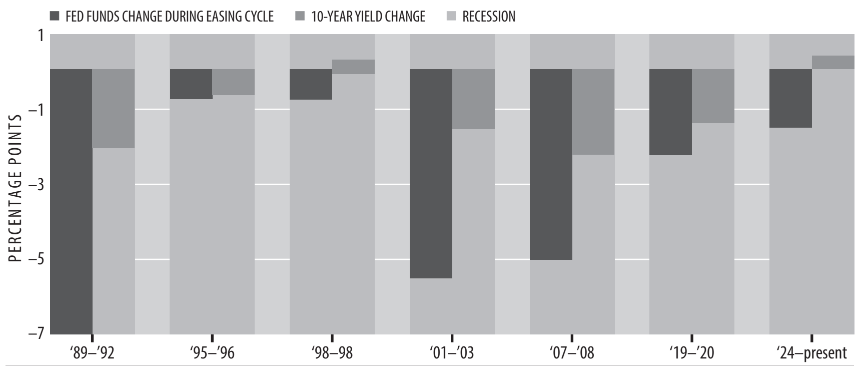
### The bond boomerang

When bond investors sense that interest rates are being lowered without due cause, it tends to look beyond the easing, to the inflation that may ensue. Donald Trump has expressed it unsubtly; he wants interest rates down at almost any cost. He has called Fed Chairman Jerome Powell names ('numbskull', 'dummy', 'too late') and threatened him with termination, because he feels Powell has been too measured (which is what the Fed is supposed to be). In 2026, he will replace Powell, most likely with super-dovish *Yes Man* Kevin Hassett.

Bond investors don't like the Fed's independence put at risk by an over-reaching President.

### *Unusual disconnect*

*Ten-year yields have climbed since Fed starting cutting in 2024*




*The Fed started pulling its benchmark rate down in September 2024 and has since cut it by 1.75 percentage points. Yet Treasury yields haven't come down at all. Ten-year yields have risen nearly half a percentage point to 4.1% since the Fed started easing policy and 30-year yields are up over 0.8 percentage point.* *Source: Bloomberg*

### Trump's own policies stoking inflation

What's so dangerous about forcing interest rates down at this time is that Trump's own policies are inherently inflationary. His tariffs directly increase the cost of imported goods. His deficit-financed tax cuts are a strong fiscal stimulus that can lead to *demand-pull inflation.* His mass deportations and huge hikes in HB1 visas are already creating labor shortages from housing to tech, which put upward pressure on wages (cost-push inflation). He's deregulating fossil fuel production while trying to kill cheaper renewables generation, thus putting long-term upward pressure on energy prices. And he's weakening antitrust enforcement and fostering a so-called *broligarchy,* consolidating pricing power in the hands of a few powerful corporations.

### Some disinflationary forces

Countering Trump's seeming deliberate attempt to stoke inflationary fires, there are some disinflationary countertrends emerging in the economy, for better or worse. The rapid

*(Continued on page 2)*

| **The Markets** December 31, 2025 | Price/Yield | Gain, Qtr | Gain, 2025 |
|---|---|---|---|
| **US Stocks** (S&P 500/Vanguard Index) | 6845.50 | 2.62% | 17.71% |
| **International Stocks** (Vanguard Index) | 18.95 | 4.47% | 32.05% |
| **Emerging Markets Stocks** (Vanguard Index) | 28.02 | 1.33% | 24.57% |
| **Real Estate Stocks** (Vanguard REIT Index) | 29.62 | -2.45% | 3.07% |
| **Bonds** (30 year US Treasury/Vanguard Index) | 4.78% | -0.54% | 5.15% |
| **Dollar** (US Dollar Index) | 97.81 | 0.48% | -9.40% |
| **Gold** (London Afternoon Fix) | $3826.85 | 14.18% | 67.41% |
| **Money Market Funds** (Vanguard Federal - VMRXX) | 3.71% | -0.37% | -0.71%* |

*change in yield

Portfolio Planning

# Investing is not gambling. Hard to tell nowadays.

What's the difference between investing and gambling? Not much these days.

But seriously:

1. Gambling is usually binary: You win (or win big). Or you lose your stake.
2. Gambling is inevitably negative-sum. If you win, someone else loses a little more, and the middle-man gets his/her 'vig'.
3. Gambling tends to be extremely short-term, even instant.
4. Gambling usually involves substantial risk of ruin. As in your capital going to zero.

Investing, by contrast, usually involves a complex set of outcomes, is positive-sum (everyone can win, to different degrees), has medium-to-long-term time horizons, and tends to increase a nest-egg over time, with little or no risk of ruin. Most importantly, it involves buying an asset with intrinsic value.

The line between investing and gambling is being blurred nowadays in the form of some dangerous new tools and technologies of speculation.

### The Rise of Zero-Day Options (0DTE) and Hyper-Short-Term Trading

The explosion in popularity of ***zero-days-to-expiration (0DTE) options*** embodies a shift toward betting on extreme, short-term market movements rather than fundamental value. 0DTE options are highly leveraged instruments that expire at the end of the trading day. They are essentially ***high-stakes, short-fuse bets*** on whether an asset will move up or down significantly in a matter of hours.

### The "Casino in Your Pocket" Phenomenon (Robinhood Effect)

The rise of mobile trading apps like Robinhood has *gamified* trading. Its design and features encourage behavior more aligned with gambling than investing, by egging on frequent, impulsive, and short-term trading. Warren Buffett famously warned that trading apps have created a "casino in your pocket." A high percentage of online day traders lose money — just like casino patrons.

### The Meme Stock Craze and Herd Behavior

The 2021 surge in stocks like GameStop (GME) and AMC, driven by social media coordination, demonstrated a mass movement disconnected from traditional company fundamentals. These moves were driven by collective sentiment, hype, and a desire for a quick, "against-the-establishment" win — not by discounted cash flows or earnings reports. The motivation was often the thrill of the short squeeze, which is a binary, high-risk, high-reward bet. This behavior is a form of "***herding***," where investors are lured by social proof and the excitement of a movement, often ignoring fundamental analysis and extreme downside risk.

### The New Prediction Markets

'Investors' can now make binary bets on finance, but also politics, sports, and other spheres — and these prediction markets are being integrated into the offerings and platforms of traditional brokers like *Interactive Brokers.* Some of these bets can be viewed as hedges of a traditional portfolio, but most are simply nonsensical and costly diversions.

### The S&P 500

Wait — why is the S&P on this list? Because it has become absurdly concentrated, with a small number of mega-cap tech and AI-related firms driving an outsized portion of the index's returns: Ten companies, 40%+ of the index. The traditional diversification benefit of owning 500 separate companies is nearly gone, replaced by a binary bet: Will AI be successful, or will it crash? ■

### *Wall Street? Or Vegas?*

*Percentage of people who are classified as compulsive gamblers*

| | |
|---|---|
| POPULATION AT LARGE | 1.2% |
| INVESTORS | 4.4% |
| DAY TRADERS | 7.6% |
| KOREAN INVESTORS | 21.5% |

*Compulsive gamblers seem to be drawn to the 'action' of financial markets. And Asian markets, particularly Korea, seem to have a real problem with it.* Sources: Various studies

## The Fed is easing. The bond market isn't buying it.

*(Continued from page 1)*

adoption of AI will increase labor productivity meaningfully while putting pressure on employment. The supply-side shocks of 2021-2023 that drive inflation as high as 9% are still unwinding, with countries like China experiencing overcapacity. And the continued aging of the population can help. Older folks save more and spend more prudently.

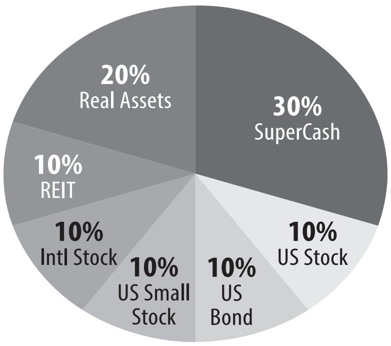
### Trump's luck running out

Will inflationary and disinflationary forces continue to contribute to a 'muddle-through' economy? Trump has been exceptionally lucky in his first year to have a solid economy and strong markets. He seems to be doing what he can to make his own luck run out. ■

SuperDiversified Portfolios (SDPs)

# Clean sweep year for first time in four

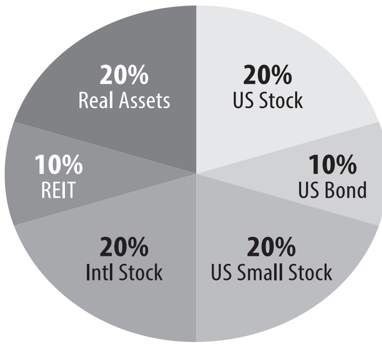
## SDP1 *Conservative*




| *4th Quarter* | *2025* |
|---|---|
| ***1.98%*** | ***12.31%*** |

It was the first time since 2021 that all four quarters of the year saw gains for both of our model portfolios. Q4 wasn't quite the solid quarter we expected (with weakness in the first halves of November and December), but it added to already considerable gains for 2025.

## SDP2 *Moderate*




| *4th Quarter* | *2025* |
|---|---|
| ***1.07%*** | ***10.31%*** |

Looking to 2026, we think that the three equity categories may experience some mild headwinds from a hangover from all the AI spending we've seen these past few quarters. It's possible that the so-called Magnificent 7, which have led global markets for years now, will take a considerable breather.

*The above model portfolios are not intended to indicate the performance of any real account, but reflect the composite performance, before fees, of the percentage allocations in the asset classes and funds listed in the table below. Seasonal Strategy's actual allocations vary from these models, and among portfolios.*

How the Sectors Performed

# Real estate struggles, potential increases

| Asset Class | Mutual Fund | Performance 4th Quarter '25 | Performance 2025 | |
|---|---|---|---|---|
| SuperCash | PIMCO Instl Low Duration | 0.83% | 5.18% | Best |
| | Merger | 1.37% | 8.11% | Worst |
| | Calamos Market Neutral | 1.39% | 6.84% | |
| US Stock | Vanguard Index Trust 500 | 2.62% | 17.71% | |
| US Bond | Vanguard Long-Treasury | -0.54% | 5.15% | |
| US Small Stock | Vanguard Small-Cap Index | 1.79% | 8.70% | |
| Intl Stock | Vanguard Intl Index | 4.47% | 32.05% | |
| REIT | Vanguard REIT Index | -2.45% | 3.07% | |
| Real Assets | PIMCO Commodity Real Return | 5.17% | 18.80% | |

Real estate, we think, is a compelling asset class. Residential values are cheap due to oversold sentiment and (hopefully) declining interest rates on the horizon, ready to unleash pent-up buyer demand against a backdrop of inventory shortages.

In commercial real estate, pricing has stabilized, and the sector is nearing a peak in distress. This offers a clear entry point for capital. Strong fundamentals in Industrial, Retail, and Multifamily (especially affordable housing) are attracting new capital, auguring a market re-acceleration.

# A 'Strategy' you do not need

Perhaps the most unfortunate outgrowth of the rise of cryptocurrencies is the popularity of the so-called *digital asset treasury company* (DATC). Translation: Bitcoin hoarder.

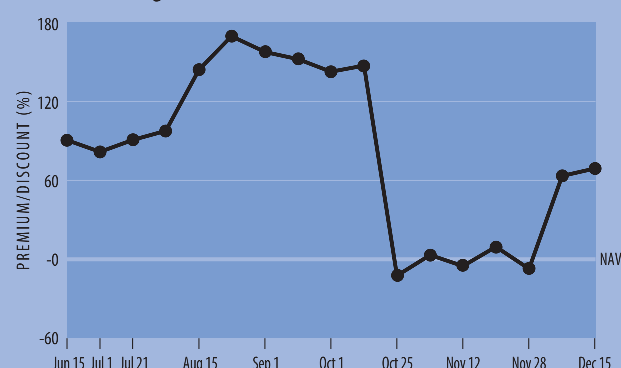
The DATC business model is to aggressively acquire and hold large amounts of Bitcoin (and sometimes other digital assets). It often funds this accumulation by issuing stock or debt, effectively making its equity a highly leveraged proxy for Bitcoin. As if Bitcoin is not volatile enough! There are now over 100 private companies that pursue this approach, with 65 of them having bought Bitcoin at an average price above current levels.

This structure creates **extreme investment danger**. The stock price is highly correlated with, but often far more volatile than, Bitcoin itself. If Bitcoin falls, the company faces significant unrealized losses and potential liquidity crises, especially if it has used debt.

The biggest DATC is called ***Strategy*** (MSTR; quite the misnomer, since its only strategy is to buy as much Bitcoin as it can). In the recent 30% Bitcoin selloff from $126,000 to roughly $80,000, *Strategy*'s stock fell as much as 65%.

## *Would you pay $27k for $10k of Bitcoin?*

*Strategy's stock value as percentage of total value of its Bitcoin holdings, 6/15/2025 to 12/15/2025*




*As recently as August 25, when Bitcoin was riding high,* Strategy *sold for a 170% premium over its Bitcoin holdings. Insane, right? But at one point in 2024, the ratio was 255%! When Bitcoin began to plunge in value in Q4,* Strategy *plunged harder, and at one point sold at a 10% discount to the value of its Bitcoin. Nutty.*



Robert J. Gavrich
CA-Licensed Investment Adviser
President, Seasonal Strategy
1517 Fountain Street • Alameda, CA 94501


Phone 415.956.1721
Fax 415.956.1722
Email bob@seasonalstrategy.com

**seasonalstrategy.com**



# Private Credit: A resilient asset subclass

In the wake of fraud-based scandals at two middle-market borrowers, *TriColor* and *First Brands,* much ink has been spilled about possible trouble in the private credit sector. Jamie Dimon of *Citi* has remarked that "there is seldom just one cockroach", causing many to speculate about contagion in the sector. Peculiar, considering the two suspect firms were overwhelmingly in the portfolios of bank lenders, not private credit firms.

The fears seem overblown. Realized losses in private credit (based on the *Cliffwater* CDLI Index) have averaged less than 1% per year for the past 20 years. Even during the Global Financial Crisis of 2007-2009, those losses never went above 15%, which today would merely offset yields and produce a net loss in the mid-single digits.

Mark Rowan of ***Apollo Global Management*** penned a defense of private credit in *Bloomberg* that strikes a note of reasonableness in anxious times. Particularly, he punctured four myths about private credit, reprinted verbatim below.

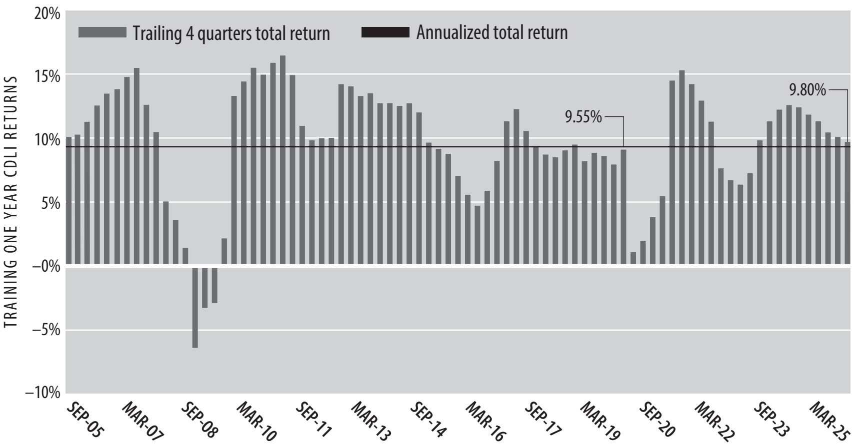
**MYTH NO. 1:**

### Private credit is not rated.

Investment-grade private credit is almost always rated, either internally by a bank or externally by ratings companies. The largest and best-known of these — Moody's, S&P and Fitch — have the largest share of ratings in this market. Most private credit held by insurers and other financial institutions is rated investment grade. At Apollo's Athene subsidiary, for example, roughly 97% of fixed-income assets are investment grade, and only 0.35% is levered loans that are below investment grade — typical for well-run insurance companies.

## *Private credit: An Assymetric Bet*

*Trailing four quarters return, Cliffwater CDLI Index, September 2004 to September 2025*




*In the past 22 years, private credit has returned an average 9.55% per year, with only three down quarters out of 88. And all three were single-digit declines, none more than -6.5%. (Contrast that with US high-yield bonds and US stocks, which saw trailing-four-quarter drawdowns exceeding 26% and 40% respectively). Also, note that the two periods of negative or ultra-low returns were followed soon by periods of excess returns.*

**MYTH NO. 2:**

### Private credit is opaque.

It's actually more transparent than public credit. Private lenders conduct deep due diligence, receive nonpublic financial information and have direct access to management. In public credit, by contrast, investors have limited covenants to protect them, limited access to management and limited direct due diligence. All of the things credit investors say they hate, private credit addresses. Private credit replaces opacity with information.

**MYTH NO. 3:**

### Private credit is not tradable.

In fact, Apollo alone traded $6 billion of investment-grade private credit year to date. And for the State Street ETF (an ETF of investment-grade private and public credit that can purchase private credit from Apollo), there's a price quote every day on every credit.

**MYTH NO. 4:**

### Private credit is an emerging systemic risk to the financial system.

Since the passage of the Dodd-Frank Act in 2010, some credit provision has left the banking system and moved to the investment marketplace. This is primarily longer-duration investment-grade and leveraged lending. This shift reduces systemic risk rather than concentrating credit on the balance sheets of government-guaranteed levered institutions with short-dated funding. Almost every institutional buyer of private credit has the capacity to hold for long periods and has lower leverage than the typical bank. ■