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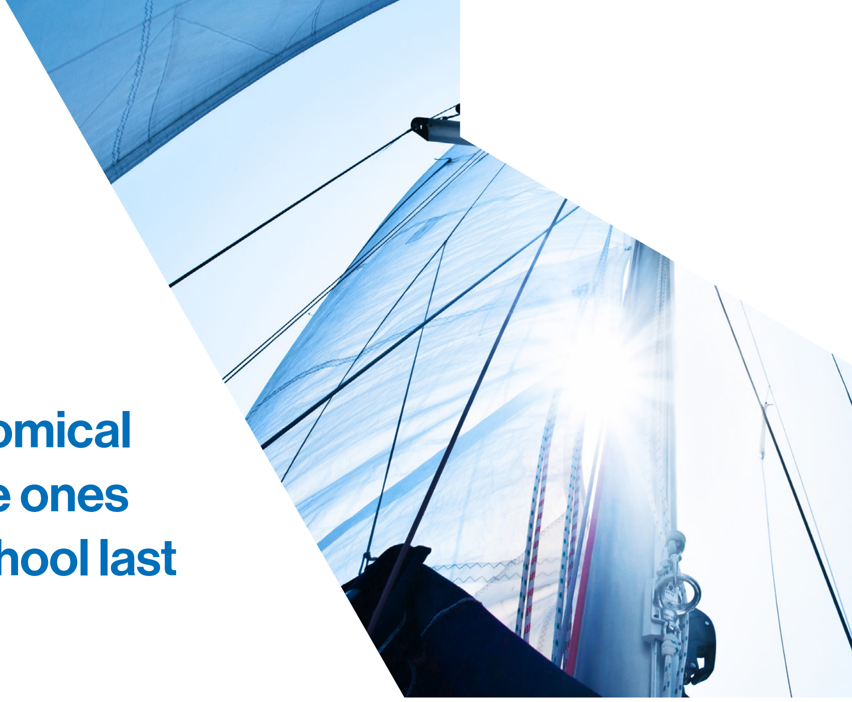
WEALTH MANAGEMENT



# **CIO** Vantage Point

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> **Most economists are economical about ideas – they make the ones they learned in graduate school last a lifetime.**
>
> - John Maynard Keynes

History's most influential economic thinker, John Maynard Keynes, would be the first to admit that the study of the dismal science contributes far less to the art investment analysis than a degree in psychology. As noted above, economists get bogged down in traditional theory based on rational behavior, ignoring the fact that humans and markets are irrational. To put it simply, stuff happens. Investors today can add the Iran conflict and hyperscaling of AI to the list of stuff.

The U.S. stock market has been performing well despite the macroeconomic and geopolitical challenges. This illogical price action has always confounded economists and less experienced investors. The money game is never easy. Even the forecasts of Wall Street's most experienced strategists are swayed by conventional wisdom and front-page news. Successful investing requires independent, long-term thinking. This can be difficult in a market environment driven by algorithmic analysis, mechanical trading, and Keynes' classic observation - "animal spirits."

Here is a quick take on the current investment atmosphere. Please keep in perspective that the U.S. is experiencing a powerful bull market that has entered its fourth year. Trends such as this tend to persist. Corrections are normal and healthy. Every midterm election year since World War II has experienced a drawdown followed by a big rebound post-election day. These temporary dips often spoil late summer vacations in hedge fund hangouts like East Hampton. If a seasonal decline happens now, it will likely be produced by a combination of euphoric investor psychology and monetary tightening by the Federal Reserve. The AI boom is also an overriding factor.

Since late February, the attention of investors has been dominated by Iran and oil prices, but the U.S. military excursion's most significant impact has occurred at the Federal Reserve. The Fed has been in an easing cycle, cutting its benchmark Fed-funds rate six times since September 2024 to a current level of 3.50%-3.75%. At the time of its last reduction back In December, all signs pointed to additional cuts in 2026. Hostilities with Iran and specifically the blockage of tanker traffic in the Strait of Hormuz quickly changed the Fed's game plan. Inflation has become a worry.

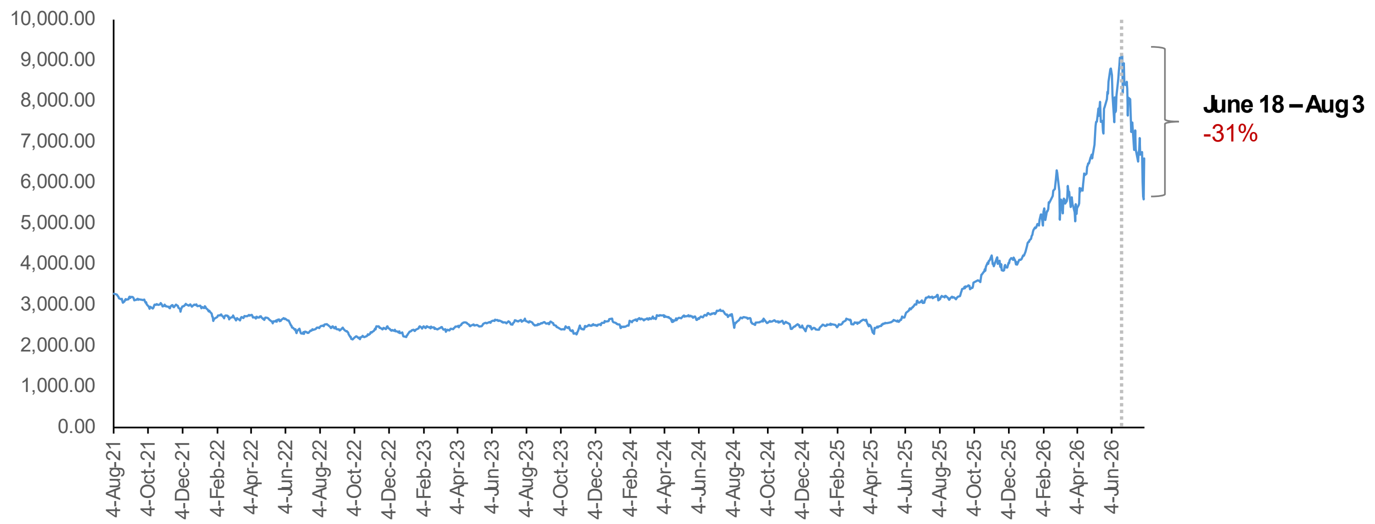
Newly appointed Fed chairs have often been confronted with tough decisions early in their tenure. Kevin Warsh is caught between a White House desiring interest rate cuts and his fellow Fed governors who believe that an increase is necessary to control inflation. Rising bond yields are also placing pressure on the Fed. The 2-year Treasury note has served as a barometer for the appropriate level of Fed funds. Its yield has jumped from 3.48% at year-end to 4.35%. Markets have already begun to tighten.

Economists were stunned last week by the Federal Open Market Committee's decision to leave rates unchanged. This confusion was exacerbated by Kevin Warsh's refusal to provide policy guidance. Whatever happens from here is anyone's guess. It is interesting to note that the first move by eight of the nine new Fed chairs appointed since World War II has been a rate hike. The sole exception was President Carter's appointee G. William Miller, whose rate cut in 1978 triggered the worst stagflationary period in U.S. history. There is another huge issue to consider. Thanks to Warsh's past working relationship with legendary macro trader Stanley Druckenmiller, he possesses a vast knowledge about the inner workings of the financial marketplace. Warsh is certainly aware that new chair Alan Greenspan's initial rate increase in August 1987 was followed by a stock market crash. Kevin is in a tight spot. Our advice - pay attention to long-term Treasury yields, and do not be shocked if the Fed continues to stand pat.

The AI boom is fueling widespread speculative activity, much of it juiced with leverage.

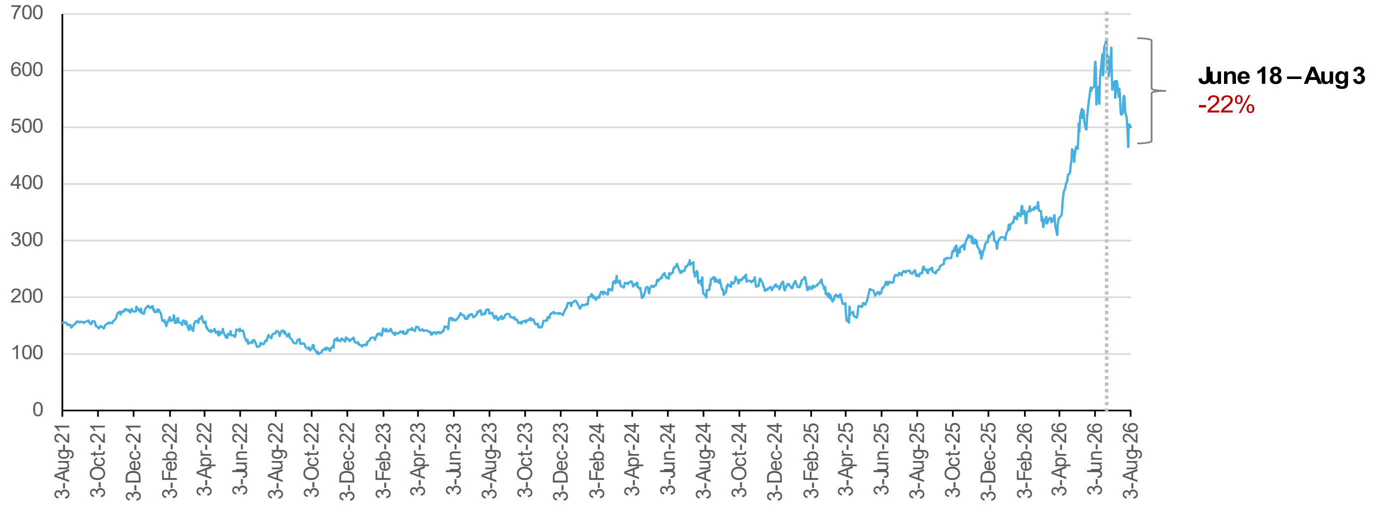
This reckless behavior has spread globally. Shares of companies directly benefiting from the AI infrastructure buildout have soared. The stock prices of SK Hynix and Samsung ballooned to more than 50% of the value of South Korea's KOSPI index. At its June high, the KOSPI had rallied a stunning 291% from the beginning of 2025. This incredible advance powered by the country's very own tech giants enraptured the full spectrum of Korean society. Many took out high interest margin loans to get in on the action. Leveraged single-stock exchange traded funds, owning either SK Hynix or Samsung, have been especially alluring. President Lee Jae Myung could not resist stoking the speculative fire, declaring in the early summer that the market was "undervalued." Unfortunately, every precondition for a crash was in place, and this is precisely what happened. The KOSPI index has plunged 30% over the past six weeks.

### KOSPI Composite Index (5-Year Performance)




The U.S. is not immune to the volatility. For example, the SOXX - iShares Semiconductor ETF surged 176% from last August to its recent high. The index has since fallen over 20%. High flying issues like Micron Technology and SanDisk have dropped 30% and 54% respectively from their peaks. Please note that leverage is also readily available here at home.

**SOXX - iShares Semiconductor ETF (5-Year Performance)**




Throughout Wall Street history, the most ruthless sellers have been margin clerks. The collapse of the Situational Awareness hedge fund last week serves as a classic example of overconfidence. Its founder, 24-year-old Leopold Aschenbrenner, had zero previous investment experience. His writings about a bullish future for artificial intelligence gained a big following among Silicon Valley's elite investor community and the performance of his fund was sensational, attracting a huge inflow of capital. The tech world even began referring to Aschenbrenner as "the Nostradamus of AI." He plunged into the shares of AI-related businesses and supersized the winnings with enormous margin loans and other forms of aggressive leverage. Reality arrived quickly and with a vengeance. The global rout cited above precipitated a barrage of margin calls from the fund's lenders. Aschenbrenner was then forced into a fire sale of the public stock portfolio to Ken Griffin's Citadel at a large discount to the market value. Greed is lethal in the investment game. Every boom serves as a reminder.

A critical component of our job at Withum Wealth Management is risk analysis. This commentary serves as an overview, not a forecast. Short-term risk may have increased, but our diversified asset allocation strategy is designed to provide a constant element of safety.

Experience also counts when stuff happens. It makes sense to be intellectually flexible like Keynes.

Thank you for your confidence and encouragement. We wish you all the best. ▪

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