KANOS
CAPITAL MANAGEMENT, LLC

Kanos Capital Management

Quarterly Investor Letter

Third Quarter 2025

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Third Quarter Market Review

The third quarter of 2025 was dominated by Fed watching, with Chair Powell's Jackson Hole speech officially changing the 'patience' narrative, climaxing in the Fed's first interest rate cut in mid-September, but punctuated with the Trump Administration's getting involved with Fed governor appointments and potential firings. Trade negotiations and geopolitical activity settled into monotonous regularity (for financial markets), and most assets appreciated in September and for the quarter. Retail investors and international investors continued to buy stocks, while a slowdown in jobs, highlighted by a large 911,000 revision downward in estimated job growth during the 2024-2025 period, helped bond prices rally as some investors worried about a US economic slowdown. International markets, for the most part, also rallied during the quarter, helped by a US dollar that could not sustain any rallies after a July pop. Metals, led by precious metals, were stars of the quarter, as easier money and a weak dollar drove more investors worldwide to seek metals as safe havens. Energy rallied early in the quarter but prices stayed low, helping economic activity worldwide.

Kanos' managed portfolios had one of its best quarters to date, powered by precious metals. While July was a more break-even month, both August and September were blockbusters, with the average portfolio up in the +5-15% range for the quarter. The precious metals miners had one of their best performances in decades; our largest gold mining holding, Agnico Eagle Mines gained +42.0% for the quarter, while Alamos Gold gained +31.3% and Newmont Corp, the world's largest gold miner, rose +45.1%. Silver stocks also were big winners, with Coeur Mining gaining an incredible +111.7%, and Pan American Silver advancing +37.7% for the quarter. Other notable winners include resource investments like Rio Tinto [iron ore & industrial metals] (+15.5%), Copper Miners ETF (+33.6%) and Cameco, the large uranium miner, up +12.9%. Our technology stocks continued to advance but lagged resource company gains, with Microsoft up just 4.3% for the quarter. While oil and gas prices were weak, major energy companies still showed strength, with Chevron up +9.7% and ExxonMobil gaining +5.5% for the quarter, although some domestic exploration & production holdings were weaker, like EOG Resources which was -5.5%. Kanos' pharma investments were mixed, with Merck bouncing back +7.2% from last quarter's losses, while Eli Lilly dropped -1.9% on regulatory and growth fears. Philip Morris International, one of last quarter's winners, was -10.3% on growth and margin concerns.

Major averages were higher during the quarter, with the Dow Jones Industrial Average gaining +5.67%, while the S&P 500 climbed +8.12%. All S&P sectors gained, led by the groups leading the huge Artificial Intelligence buildout in progress: the Tech sector (+22.0%), Communications (+23.4%), Industrials (+18.4%) and Utilities (+17.7%). No sector lost value during the quarter, which is rare [all index/sector performance numbers reflect total returns]. US fixed income averages added to second quarter gains as growth concerns and a loosening Fed continued to push investors back to fixed income, rising between 1.5-2.0%. The 10-year US Treasury note rose, closing the quarter yielding 4.15%. The US dollar stabilized during the quarter, rising 0.9%, after it had its worst performance in more than 50 years during the first half of 2025. Gold gained +16.8% to $3,859/oz, on track for its best performance since 1979. Other metals also performed well with silver gaining

+29.2% and platinum gaining another +15.9%. Energy was again a loser, with Brent falling -0.5% during the quarter, while West Texas Intermediate crude fell -4.2% and US natural gas lost -4.4%. European sovereign bonds were also notable losers, led down by UK Gilts and French long-term bonds, as investors fretted about overspending and high sovereign leverage.

Looking Forward

Introduction

Financial markets have climbed impressively out of the downturn that happened in April when people were most worried about the rapid imposition of tariffs and how that might affect trade and economic activity. Since then, most markets have climbed as economic activity has continued in the US, world trade has recovered and geopolitical upsets have been mostly ignored.

US financial markets, led by US technology, communications and industrial companies, have boomed due to the continued investment in and development of new technology innovations, headlined by artificial intelligence (AI) and the data centers, infrastructure and power/energy needed to establish and grow these capabilities, with smaller efforts occurring overseas, primarily in East Asia but also in the Eurozone. This investment boom continues to grow, with large technology companies vying for first-mover advantages and prime "space," both in front of users and locations of infrastructure. We have been surprised by the escalation in cost and breadth of the announced investments, having a hard time gauging why so many gigantic data centers and the infrastructure needed to outfit and operate them are being built and not knowing what contingencies might be available if all this capacity is not needed in the next couple of years. But we also think that these companies have been able to marshal these immense resources, and we think this investment boom will continue for the time being.

Meanwhile, the Trump Administration continues to foster reshoring of industrial capabilities, ranging from pharmaceuticals to semiconductors to rare earth mineral mining and processing, even to shipbuilding and expanded steel making. These new facilities require construction, development, resources and manpower, not only to erect but also to operate, which will consume resource and skilled labor for a wide variety of formerly offshored industries.

These two main pillars seem to be established economic drivers which we believe will continue to power the US economy and require large amounts of resources for many years. They anchor our investment theses, and the booming financial markets show that US as well as international investors believe the boom has legs and will be long-lived. We have our concerns about the longevity of the boom, but we also think that the forces put in motion will not stop for quite a while.

We will talk about some of our reservations about certain aspects of these twin booms in the sections below. We have included an interesting article about the Fed following our Kanos Commentary. This quarter's Kanos Commentary is a Q&A section where we answer questions we've recently been asked which we think will benefit all of our investors.

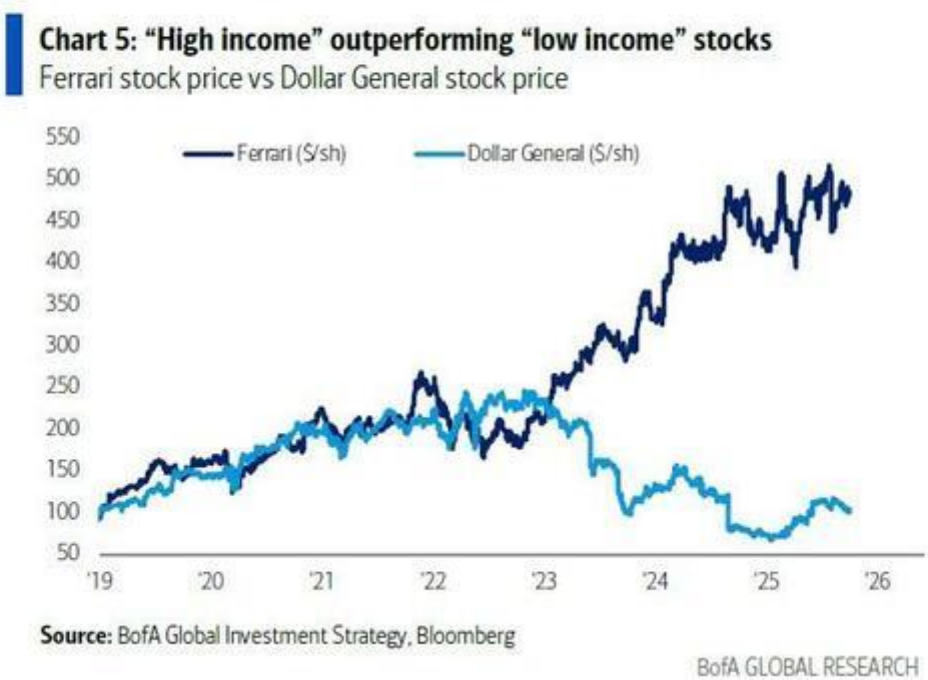
Economy

The US economy is a bit of a conundrum to us because of the strength shown in economic statistics and the "industrial boom", contrasted with the malaise in shopping, restaurants, even entertainment that is not high end. The US economy is reported to have grown around 3.3% in the second quarter, a very robust rate for an economy that also has a number of pockets of weakness.

The industrial side of things, discussed in the Introduction, certainly adds a lot of economic vibrancy to the US, in many different localities. And the reshoring is also adding large amounts of economic engines around the country. But a number of industries appear lackluster at best, led by the energy industry, which is allegedly facing looming oversupply, a condition usually not seen when large industrial projects are being constructed across the nation (and world, frankly) quickly and with less regard for absolute cost, emphasizing speed of construction instead.

And retail, both shopping and dining, seem bifurcated, with high end doing well (although there are winners and losers), while middle and lower cost establishments are struggling with sluggish traffic and rising costs. Lots of vacancies in shopping districts across the nation, coupled with closings of restaurants and marginal entertainment venues, seem to point toward growing economic weakness.

An interesting illustration of this is graphing the stock performance of Dollar General (lower end) versus Ferrari (higher end). This graph, from BofA's Josh Hartnett in his 10/3/25 dispatch Krunchy Kredit, shows how low end has diverged against high end using this methodology.



Large employment industries like the homebuilding and automotive "ecosystems," have seen slumps lately but are seeing constant activity, even if it's not rapid growth. And employment, while weaker than previously thought, appears to still be growing, albeit closer to "stall speed" lately.

Thus, as we stated above, we think the economy continues to grow due to the industrial boom, although we do think there could be a slowdown in the economy next year. Economic conditions seem to be improving for businesses, with ample monetary liquidity, a loosening labor market (making adding employees easier than in recent years), relatively cheap energy, and perhaps most importantly, a less-restrictive (and sometimes even encouraging) regulatory environment, cutting down on onerous regulation, endless reviews and red-tape.

European countries' economies have had a rougher time economically, with higher energy prices, lots more regulatory impediments to running a business and less competitive cost structures, led by less competitive employment costs. This has led to Germany, and now France, experiencing economic weakness that in Germany's case has led to recessionary conditions on and off now for a couple of years at least; it was just reported Germany's industrial production dropped 5.6% in August alone. The much stricter regulatory, energy and labor constraints in Europe have led to less technological innovation, so the EU's AI boom is much more muted, accompanied by energy and infrastructure concerns. In addition, the ongoing war in Ukraine is sapping European resources and keeping inflationary pressures up, further hurting economic prospects for non-wartime industries. Thus, we are not enthusiastic about Europe's near-term prospects, and unless they move to cut regulations and provide a more business-friendly environment (very few signs of this so far), we see Europe falling further behind the Americas and Asia in economic viability.

Japan's economy has seemingly adjusted to tariff upsets and geopolitical tensions with China and North Korea. Japan's economic regrouping lasted thirty years after its boom ended in 1989-90, but corporate Japan seems to have come out of it with lean operations and relatively strong banks, able to compete with the rest of the world

China's economy continues to struggle, with official statistics from China's National Bureau of Statistics showing a 4.8% growth in GDP for the third quarters, buoyed by +6.5% year-over-year (yoy) in industrial production (read: products for export) while fixed asset investment (read: housing) <u>fell</u> -0.5% yoy and retail sales rose just 3.0%. These statistics reiterate that the export economy is being leaned on for growth as domestic consumption and domestic real estate markets continue to be weak and in the doldrums. In a recent Bloomberg article by Yihui Xie on 10/11/25 titled "China's Housing Slump Deepens As Holiday Spending Softens," new home purchases during this October's Golden Week holiday slumped 33% versus last year, while existing home sales plunged 55% from the year before. Since real estate represents the majority of wealth of the Chinese citizen, this continued slump in housing shows the stress still in the Chinese housing sector and thus economy.

Many emerging market economies continue to be interesting, especially in Latin America and more specifically in Argentina, Brazil and Colombia. While their political situations are an ongoing concern, the economies appear to be growing healthily as more economically-friendly, less regulatory conditions allow for more broad growth. We will continue to monitor Latin America for improving conditions and attractive investment possibilities.

<u>Bottom line</u>: We are bullish the US economy, believing that the momentum behind the tech and industrial capex booms will continue for months and years. However, we are concerned that the cost of living for many Americans continues to be challenging, keeping a lid on economic growth from more traditional industries like housing, autos and healthcare. We are also bullish on emerging market economies, especially in Latin America and to a lesser extent Asia. In developed countries, we still think Japan and parts of Europe hold promise, although G7 countries, absent the US, are less

attractive. We think China continues to suffer from its overbuilding and lack of domestic demand, meaning poor economic growth should continue there.

Equities

US equity markets have been on a roll this summer, powering through seasonally weak late August and September and setting new all-time highs in October. But the re-emergence of tariff tensions, especially with China, the worry of upcoming technology/AI-oriented earnings, some credit blowups in the financial arena and the extreme polarization in US politics, as demonstrated by the ongoing US Government shutdown, has taken some steam out of the US equity bull market. Stocks have been on such a roll, with nary a 5% pullback since April, that many systemic trading entities have been 100% invested leading to a series of overbought instances since July. Thus, it's natural to have a pause or pullback as we have seen in the past couple of weeks. So, what are the prospects going forward?

Bull Case:

The bulls have momentum, earnings growth (in aggregate), a more business-friendly government and regulatory environment and the US as currently one of the best growth economies as their supports. The momentum of the market is evident, with passive investment flows from 401ks and other savings programs underpinning flows into the US equity markets. The growth of US industry, headlined by tech/AI spending on tech infrastructure and data center buildouts, as well as reshoring industry development and construction, is an earnings driver in the technology, communications, finance, materials and utilities sectors. Also, the US government has demonstrated much more direct support of development of US business, most notably in formerly considered prosaic industries like industrial metals mining; rare earth minerals extraction and refining have gotten direct government investments and regulatory red-tape cutting, driving an investment boom in US mining and metals production and processing. Other industries continuing to get government attention and regulatory relief include semiconductors, energy (petroleum & nuclear) and even shipbuilding. Finally, the US continues to exhibit some of the best growth in the world, with the Atlanta Fed's GDPNow snap estimate of US GDP growth currently estimating 3.9% growth for the third quarter, just revised upward and exceeding the second quarter's 3.8% strong growth.

Bear Case:

The elephant in the room for stock investors continues to be valuation. The S&P 500 currently has a 27.5x price/earnings (P/E) ratio, where the last five years' average P/E ratio is closer to 19.5x, and historically it is closer to 15.0x. And the current P/E ratio is within a few percentage points of the highest ever recorded, including in 1929, 2000, and 2021. Unfortunately, looking at forward P/E (the P/E ratio for estimated next twelve months' earnings), the value is not much different, at 24.1x, again a very high level when compared to history. Why does this matter? In the past, high valuations like we see today have led to poor returns in the future, due to much of the value of those future earnings being built into today's price (the earnings being 'pulled forward'). And of the nine companies traded in the US with over $1 trillion in market capitalization, only two trade for less than the S&P 500's P/E ratio: Alphabet (Google) at 26.9x and Meta (Facebook) at 25.8x. The largest stock, NVIDIA, which is currently worth $4.4 trillion, has a P/E ratio of 52.0x, while Tesla, worth $1.45 trillion, has a P/E of

261.0x. These companies, and thus this stock market, are priced for near perfection, and earnings and prospects need to continue to impress to keep up valuations.

Bears' other concerns in US equity markets right now are tariffs/geopolitics and potential credit problems. Tariff negotiations, especially between the US and China, have spilled out into rhetoric, new trade moves and threats in the past few weeks, causing some short-term market swings and trader indigestion as Trump and China's Xi maneuver before final November negotiations to nail down a tariff framework. Uncertainties in trade with China and other trade partners, in addition to ongoing geopolitical questions, especially in Europe/Russia, continue to impact markets on a daily basis. In addition, a few large blowups in the credit markets have occurred in the last few weeks, where large losses had to be taken by large investors on bond positions/bank loans, reminding investors of similar environments (2007-2009, 2023) when credit problems were found to be more widespread, causing investor losses in mortgage-linked bonds (2000s) or regional banks (2023, when Silicon Valley Bank failed and other regional banks had serious trouble).

The bullish and bearish factors continue to impact markets during a volatile October. We like our mix of stocks which we feel are more defensive than the overall market and have growth opportunities that are not dependent on historically far-overvalued technology and communications stocks. We have more comments below in the Kanos Commentary – Ask the Portfolio Manager.

European indices have also advanced since last spring, but with more fits and starts, reflecting much more economic and political uncertainty, especially from France and Germany, during that time. We still like some defense, industrial and materials companies in Europe, but economic activity seems to be borderline recessionary around the Eurozone, so we are not actively looking to expand our exposure to European stocks, although we will continue to look at attractive worldwide sectors, that may include European companies.

Japan still seems attractive, but the rising long-term interest rates are still a concern there. We own some industrial and bank positions in Japan, and we will continue to monitor the country and their sectors, looking to find attractive situations. The same goes with the "Asian Tigers" like Vietnam, Thailand, Indonesia and Malaysia; we anticipate finding attractive situations in these countries which could merit some investment in the future.

We own some Latin American companies in countries including Argentina, Brazil and Colombia and we anticipate looking at more attractive situations there, especially as more fiscally conservative governments are voted in (like happened in Argentina).

Finally, we continue to see China as uninvestible, not only due to their corporate structures, but that China is weak economically without an easy way of solving their economic problems, which could cause further meddling in the Chinese private sector, which would almost certainly lead to suboptimal outcomes as we saw as they came out of their Covid lockdowns. In addition, the risk of delisting (like Russian companies post the invasion of Ukraine) and the risk of China causing an international blowup (an attack on Taiwan) put too much risk in any of these companies.

Bottom line: The US markets, and many others around the world, have performed well in 2025. We have participated and like our mix of more defensive sectors sprinkled with more traditional growth companies over the index-mandated vast overweight in large cap tech stocks sporting historically-high valuations. The attractiveness of international businesses helps us diversify portfolios by growth prospects, governmental / regulatory regimes and valuations, which make our portfolios robust and equipped to withstand the geopolitical and possible economic volatility we anticipate in the future.

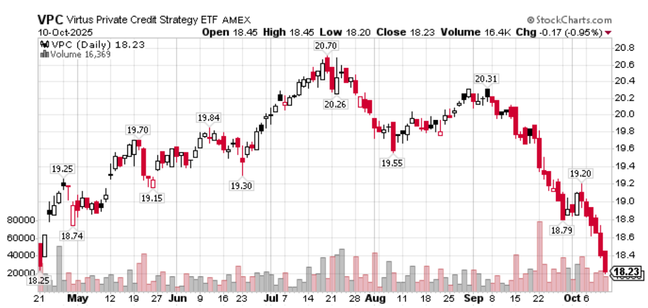
Bonds

The US bond market rallied across the board during the third quarter as bond investors embraced the Fed's newly started rate-cutting regime after Powell's pivot with his late August annual Jackson Hole speech. Most classes of bonds have continued rallying this month as investors expect Fed rate cuts at the October and December FOMC meetings, reinforced by recent reports of slowing employment growth and possibly even the US economy. However, the sheer size of continued issuance, most notably by the US government but by corporates also, has continued to put pressure on the US dollar, as fixed income investors continue to want to cap their US dollar exposure while still buying US bonds.

Until recently, junk bonds, the lowest rated credits in the bond universe, led the way higher due to a general sense of overall health in "credit land" due to a growing US economy coupled with tighter spreads between US corporate bonds (both junk and investment grade) and US Treasuries in years.

However, junk bond spreads and private credit spreads have increased lately as investors in lower-rated credits like junk bonds and private credit funds saw the recent sudden bankruptcy filings by subprime car lender Tricolor and automotive parts manufacturer First Brands. The unfolding story, where collateral has been lent against multiple times and larger financial institutions around the world have announced multiple hundreds of millions of dollars in exposure, including Jefferies in the US and Asian financial institutions, has cast a pall over the lower-credit corner of the US bond market.

The two charts below illustrate these moves; the chart on the left shows recent price action in the Virtus Private Credit ETF (VPC), an ETF of private credit companies who lend to the least credit worthy companies, and as shown, they have fallen swiftly during the September-October period. The chart on the right shows an ETF of large liquid high yield bonds, and it has shown some extreme weakness in the past couple of weeks.



As the financial writer Dennis Gartman used to say, "there is <u>never</u> just one cockroach." Lower-rated credit investors are getting worried that there will be more instances of companies going bankrupt from too much debt. We have been concerned about the private credit structure in general (especially so late in the economic cycle); private credit is an unregulated group of companies that lend at high interest rates to less-creditworthy customers, with limited reporting and high dividends to incentivize investors to provide capital and stay in the investment. However, the structure is ripe for abuse – if certain credits start to go bad, limited visibility, the ability to net exposures and little if any regulatory oversight means most investors won't see trouble until the company/fund is in trouble. We tend to want to steer clear of any exposure to any lower-rated credits for these reasons, and we could look to buy puts on some poorly-performing companies for aggressive investors.

We continue to think that inflation is being tamped down by lower commodity costs, especially energy costs; thus, we believe inflation has bottomed in the 2.6-27% range and could see visible increases as commodity prices rise, including energy prices, due to supply and/or supply chain constraints, geopolitical upsets and realization that supply/demand balances are tighter than recent prices suggest.

Foreign bond markets continue to show stresses, which also give us pause about the possibility of US longer-term interest rates falling much further. As we've talked about in recent letters, a number of foreign bond markets are weak, with higher interest rates seen in the UK, France and Japan. All three of these markets are concerned about governments in some disarray, large budget deficits causing funding concerns and uncertain political situations, with weak governments having trouble convincing citizens of their competency, ability to form and conduct policy and their planned profligate spending going forward. We are gloomy about governments' ability to conduct policy using large budget deficits, especially those with weak currencies like Japan and the UK. Thus, like lower-rated US credits, we will continue to avoid exposure to overseas bond markets.

Bottom line: Bonds have performed well in the last couple of months, but the falling dollar and prospects of large amounts of new Treasury debt coming to market, coupled with the upset in the lower-rated credit markets, make us want to avoid bond markets. Our concern over the re-emergence of higher inflation, especially with a new and presumably more dovish Fed Chair coming in 2025, just reinforce these opinions.

Energy

The energy markets, particularly in crude oil and products (gasoline, diesel, jet fuel, etc.), continue to act weakly, despite statistics which point toward robust demand.

If the worldwide supply/demand balance were truly weak, we should see building inventories and a crude futures market in "contango," where the closest future months are the cheapest, and price are higher for subsequent months, reflecting storage costs. However, the futures market continues to be in "backwardation" through March 2026, which means the closest futures price is the highest, which is usually caused by excess demand – users (in this case, oil refiners) are willing to pay more today (or in the next couple of weeks) for crude rather than waiting until the future. In addition, inventories are lower than forecast, both domestically and worldwide; if supply were overwhelming demand, we should see inventories "piling up." So far, those excess inventories are not in evidence. Finally, worldwide "crack spreads," the calculation of how much gasoline, diesel and other products you get from a barrel of crude oil when it's 'cracked,' have gone up over the past month or so, especially in distillates (diesel fuel and heating oil/gasoil [European name for heating oil] products). Thus, the 'crack' has expanded, meaning worldwide buyers of diesel and heating oil/gasoil are willing to pay more due to a lack of supply. Why? Many believe that Ukrainian attacks on Russian refineries have cut capacity due to damage, limiting worldwide gasoil supplies and leading to higher prices for them. Again, this is not a situation which seems to indicate too much supply.

We continue to blame overly politicized energy statistics organizations for this bearishness. Namely, the International Energy Agency (IEA), which we've talked about in past letters, continues to harbor a green, anti-petroleum bias, and we think this will lead to erroneous conclusions, further hurting exploration and development of future supplies, which we fear will lead to much higher prices. The main premise of the IEA currently is their prediction that demand for petroleum-based products has probably peaked this year, and that demand will fall this winter and for the foreseeable future. The IEA was originally formed by the G7 developed countries in the 1970s to forecast energy supply and demand so that the developed world, the largest users of petroleum products at the time, could understand when more (or less) investment was needed to keep crude and petroleum products prices at levels that would allow healthy economic growth. The problem is that IEA leadership in the 2000s-2010s was co-opted by renewable-minded staffers and eventually leadership, leading the IEA to start skewing forecasts toward more renewable energy, which was expected to displace petroleum-based energy products. And while renewables have supplied more and more energy this century, petroleum demand has not dropped, except during Covid when economies were closed, in many cases. So, to project a top in demand for petroleum products at this time seems like a mistake to us, with no catalyst for a top, and while economic growth is still occurring throughout most of the world.

In addition, the Trump Administration is advocating lower petroleum prices, thinking prices even lower than today would help "goose" US economic growth. The Administration has been steadfast in this thinking and seems to be "helping" it along. Lately, the US Department of Energy has reported weekly domestic oil production at new records, despite prices lagging in the $60s/bbl (and lately in the high $50s/bbl). Many industry participants think break-even shale oil costs (the marginal barrels available to be produced most quickly) are in the mid-$60s/bbl, meaning prices in the high $50s/low $60s may not be economic, thus pointing towards lower production now and in the future, due to lack of incentive. And the reports from the Department of Energy ("914" production reports) continue to indicate record high production occurring, while a separate, less well-known production series on US shale production shows a big discrepancy with the 914 reports, showing shale oil production flat over the summer months. The 914 reports have been revised lower in the recent past, so we think the more recent data will eventually be revised down so that the reports are more in agreement, indicating flat US production, and lower than at recent record levels. We believe as the supply/demand balance comes into better focus, we will see prices rise across the board in crude, products, natgas and other energy products as supply becomes the concern instead of a slowing of demand.

Thus, we continue to be bullish crude oil and the companies that produce it, especially North American companies. Our customers own the supermajors, US independents, Canadian independents, pipeline companies and refiners. All have performed well (and poorly) at different times over the past few months, but most are ahead for 2025 and performing well currently.

As far as natural gas is concerned, high US oil production has produced an increasing amount of associated natural gas, meaning supplies look plentiful. US power demand is starting to grow due to more data centers coming online in the US, and more LNG exports to the rest of the world is also increasing, tightening domestic natgas' supply/demand balance and leading to prices staying above $3.00/MMBtu for the past couple of months. Natgas seems to quietly building a base in price around the $3.00 level, and if the US northeast experiences early cold this month, we think natgas futures prices could spike above $5.00/MMBtu during November/December. We will look for signals to add to our natural gas producer positions at attractive entry points.

Coal prices have jumped around this year, with US domestic demand supporting prices while lackluster foreign demand has led to price pressures. While we think coal will continue to be a vital source of fuel for power generation in the US and the world, we are less sure of the timing due to trade disruptions and tariff issues around the world. Our clients own some coal producers, but we will not be adding any positions at the current time.

Bottom line: We have been frustrated by weak prices in the face of attractive industry fundamentals which are overshadowed by what seems to be a politically-motivated narrative toward a coming supply glut. We believe the current supply/demand situation looks more promising than generalist investors acknowledge, so we continue to be bullish and are invested in a number of companies in all aspects of the energy infrastructure supply chain.

Currencies

The US dollar is still the key currency affecting world currencies. After its plunge around April's "tariff tantrum," the dollar rallied but then settled into a range at its lowest value since early 2022. Ken Griffin, the head of Citadel Securities, one of the largest trading firms in the world, recently commented on the dollar, saying "investors are starting to view gold as a safer asset than the dollar, a development that's 'really concerning.'" He added that international investors seem to continue to increase their already large investments in the United States, but they are hedging their US dollar risk on those investments by selling dollars against their new positions (and probably hedging their prior positions somewhat too), which is highlighted by a falling dollar while US asset prices rise across the board, from stocks to bonds to metals and even dollar-denominated cryptocurrencies. We think the dollar continues to suffer losses as the US continues to run large budget deficits, adding to an already alarmingly high debt load, with a current US government shutdown and rekindled tariff fears adding more volatility to an already concerning situation. We continue to hold and look for other alternatives to the dollar for our investors.

The euro, being the largest component of the US Dollar Index basket, has benefitted from a lower dollar, climbing for much of the year as the ECB seems closer to finishing its rate cuts than the US Fed. We, however, are concerned about the political and economic situation in both France and Germany, with the constant possibility of the Russia-Ukraine conflict spilling into Eastern Europe. Thus, we are not taking advantage of a higher euro, preferring to invest in metals and Asian assets which appear to have a larger margin of safety than Europe and the euro.

The Japanese yen has weakened during mid-2025, as the BOJ continues to talk a big game but continues to hold interest rates relatively low, threatening future hikes but always seeming to find reasons to put them off for a few months. Recently, a new Prime Ministerial candidate was proposed, and her advocacy of fiscal stimulus (and the resultant easier money) has further weakened the yen. While we are bullish on the Japanese economy and own Japanese stocks, we do not feel like we can handicap yen movements, and so we are not taking yen positions.

The Chinese and other Asian nations' currencies have settled down since the upsets around and after April's tariff tantrum, and we don't have a reason to invest in these one way or the other.

Bottom line: The US dollar has continued to be weak in late 2025, and while it could rally, we think the secular forces at work will continue to put pressure on the US dollar, signaling to us to continue to hold an overweight in investment positions that benefit from a weaker dollar.

Commodities

Commodities in general have had an up and down year despite a weaker dollar, and continued world economic growth.

Precious metals continue to lead the commodity world higher, as silver and gold are the two best performing assets in the financial world year-to-date. We continue to be overweight gold, silver and/or precious metals miner and royalty companies because we believe the underlying reasons for their advancing prices continue to be intact, namely:

1) The US dollar has been weak, due to higher and increasing yearly US government budget deficits and stubborn inflation, causing both central banks (with US dollar reserves) and investors to lower their dollar exposure as they anticipate more bond supply and other governmental actions to make the dollar more competitive globally,

2) A now-dovish Federal Reserve entering a new rate reduction cycle while its two mandates are arguably not in need of lower interest rates – inflation has stayed above their long-term target and unemployment is only measured at 4.2%, near historical lows; in addition, investors anticipate the end of quantitative tightening (Fed bond sales) and the possibility of renewed Fed bond buying in the future (dependent on interest rate moves),

3) Foreign central banks realizing they need to have diverse reserve holdings (read: less US dollar reserves) and that precious metals share of reserves had been at a decades-long low. The Western European seizure of Russian central bank reserves held by western banks crystalized this thinking, leading to increasing purchasing of gold for a more balanced reserve mix,

4) Loose financial conditions, with stocks and bonds at or near all-time highs, providing liquidity to almost any kind of financial enterprise,

5) US investors have shockingly not availed themselves of even partial protection from debasement of the US dollar. In his 10/10/2025 weekly Bank of America Flow Show report, B of A's Michael Hartnett relates that gold's future remains bright because "very few [investors] are structurally long gold: within B of A's assets under management, only 0.5% of private client AUM and 2.3% of institutional AUM are invested in gold or gold-related investments. In recent weeks, billionaire investor Ray Dalio has argued for 15% of all portfolios should be in gold, and new "Bond King" Jeffrey Gundlach of DoubleLine Investments has argued that 'a 25% gold position isn't excessive.' These are very successful, mainstream asset managers with tens of billions of dollars under management (or formerly, in the case of Ray Dalio).

6) The precious metals ‘universe’ is relatively small in market capitalization. In September, B of A estimated that the total market capitalization of the global gold mining sector was $550 billion, which represented just 0.39% of total global equity market capitalization. Gold bullion has a larger market cap, but is still a piece of world asset markets. The point is that as more money moves into the sector, especially in gold mining stocks, more volatile moves are possible, driving prices up more than most active stocks due to the lack of supply of shares for these relatively small market cap companies, even the gold majors. Thus, we’ve seen a series of very strong ‘up’ moves over the past few weeks in many large mining companies, as interest by western investors finally starts to enter the gold sector. Large sudden drawdowns like we’ve recently seen in October are also to be expected as corrective moves down in price spook recent large buyers into dumping shares due to fear of losses rather than any fundamental reasons.

We examine the current valuations of precious metals and mining companies in our Kanos Commentary toward the end of this Investor Letter.

However, precious metals aren’t the only commodity doing well. The boom in data centers, electric cars and the need for a rapid ramp-up in the electrification of America and the world has lit a fire under copper, uranium, rare earth metals and other industrial metals. We continue to own copper and uranium miners and continue to monitor other industrial metals and miners to gauge whether valuations, market conditions and the supply/demand balance of other industrial metals make sense for future investment. The chart of the industrial metals miners ETF shows how some investors have embraced this recent bull market, although the assets in the ETF are a shockingly low $2.67 billion!

Other industrial metals have not done as well, such as nickel and tin, so the boom has not extended to all metals (yet).

Agricultural commodities continue to be in good supply, meaning their prices have stayed the same or dropped since prices rose as a result of Russia’s invasion of Ukraine with the resultant supply concerns for grains produced by both combatants in the Black Sea region. The war has generally bypassed agriculture, with both sides continuing to be able to produce and export large amounts of grains, adding to bumper crops in the US and Latin America to keep a lid on prices worldwide. We monitor the supply/demand balance and prices of corn, wheat and soybeans, but we have not found a reason to be invested in them in a while.

Energy commodities, along with agricultural commodities, have helped keep inflation in check by not rising, or even falling in price over the past few months. We covered energy in an above section, but we would not be surprised if both energy and ags increase in price in the future as costs of labor, materials and land start to impact supply and could cause prices to increase as more consumers try to access supplies limited by poor economics.

Bottom line: A number of commodities continue to be attractive to us due to favorable supply/demand balances and inability to increase supply quickly. In addition, the weak US dollar, coupled with the inevitable growth of US debt, money supply and thus liquidity, points to the continued future appreciation of many commodities with the possibility of more "joining the party" in the future.

Kanos Quarterly Commentary

Ask Your Portfolio Manager

We always try to respond to you, our customer, when you ask questions or are unsure of one of our current investment stances or positions. We also think that some of you who haven't asked questions would like to know our opinions and beliefs on some more specific or timely questions having to do with your portfolio, so we are amalgamating some recent questions so that all of our customers and readers can hear the answers to some recent questions.

Q: The stock market has been going up, pretty much ever since the 'tariff tantrum' of April. Do you think it will continue to go up?

A: The stock market has benefitted from favorable monetary conditions, weak economic growth in both Europe and Asia, and from the Tech/AI and reshoring buildout booms. From its low in early April, the S&P 500 is up more than 40% at the end of September, defying many calls for a correction during the historically weak late August-to-end of September timeframe.

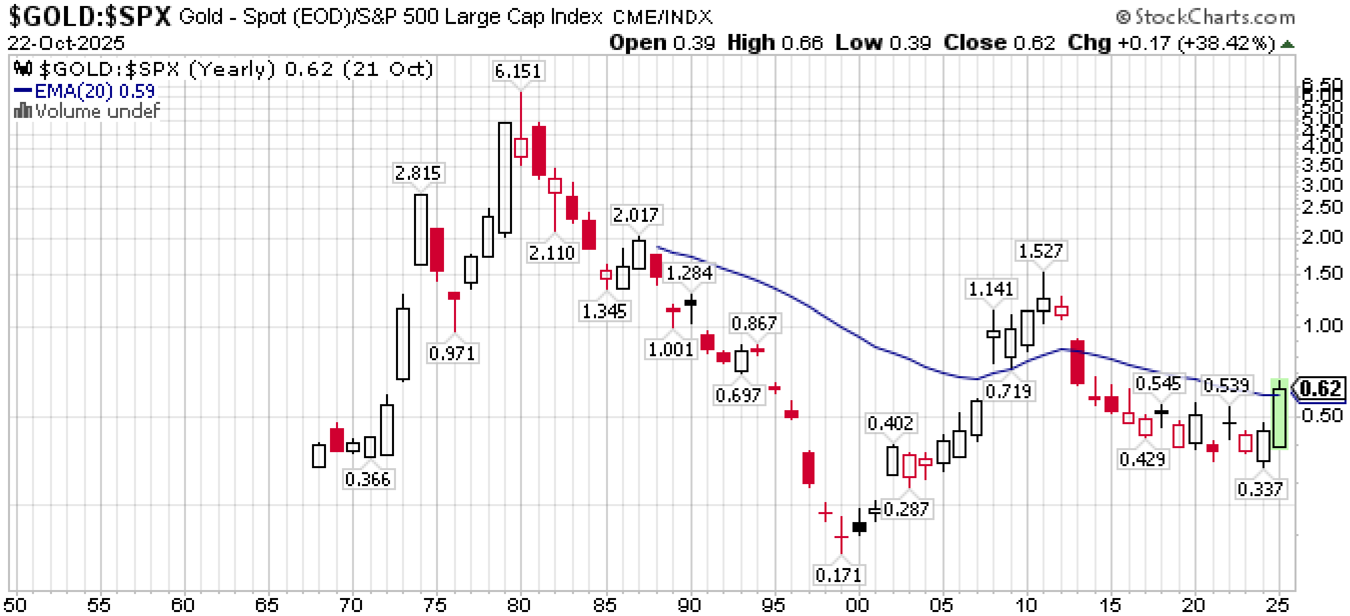
However, mid-October has seen some corrective action in the stock market as tariff negotiations, most notably those with China, have reintroduced some uncertainty in US markets. Valuations are stretched but earnings are expected to grow to the extent that valuation concerns can be put off to another day.

Thus, we believe that investors may lighten up some more on positions as negotiations continue to occur in the political and economic spotlights, but we think both sides are incentivized to get some kind of tariff deal in place and negotiated carefully over time. In addition, we think that many fund managers have been underallocated to tech and metals stocks, lagging against the indices. So, we believe there will be an end-of-year dash for performance (meaning sustained buying by lagging managers), with retail investors tagging along with a FOMO (fear of missing out) attitude, which we think will drive stocks higher for the majority of November and December.

Q: Gold (and silver) have gone up a lot this year, too. Is it time to sell?

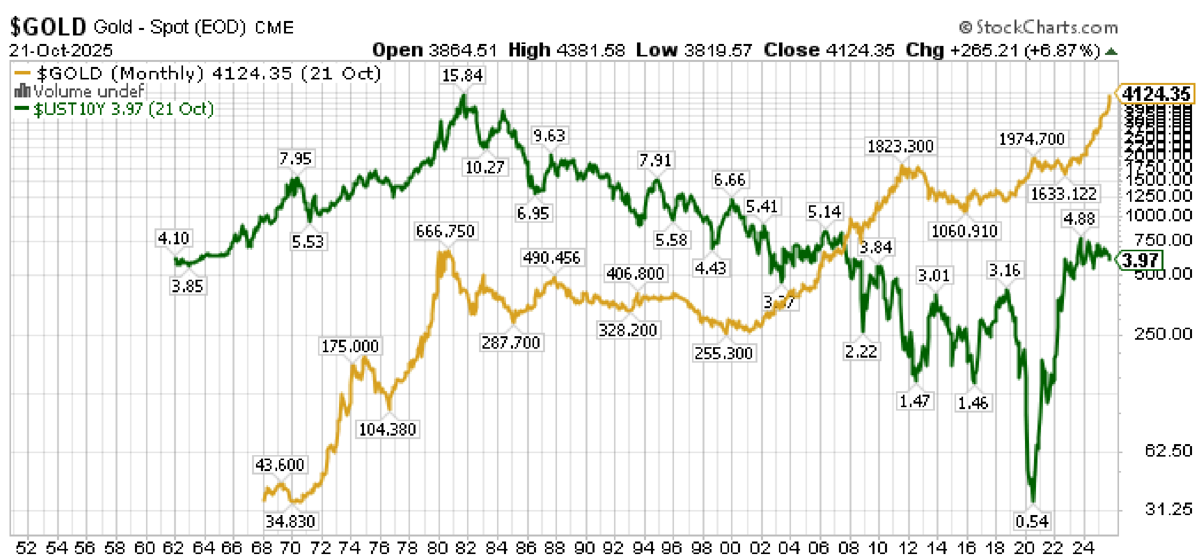
A: Gold is harder to "value" because it does not change or produce income or utility. Thus, a good way to value gold is by comparing it to other assets that are large, liquid and have a long history, like gold.

One thing we can use to compare values is the S&P 500. Gold has only free-floated in price since 1971, so we only have a little more than fifty years for comparison, but as you can see in the following chart, the gold/S&P 500 ratio is instructive.



The gold/S&P 500 chart registered ~0.366x in 1971 and went up through the rest of the 1970s until it reached a level above 6.151x in 1980, as gold rose and the S&P 500 vacillated up and down. Gold troughed in the late 1990s as stocks rose, reaching an interim peak in 1999-2000 when the ratio dropped back to 0.171x. These are the two extremes from the period. When gold rose near $2,000/oz. in 2011, the ratio reached 1.527x. Now in 2025, the ratio is currently 0.62x, the highest in ten years, but is low compared to extreme conditions. <u>If gold were to approach its peak valuation of 1980, 5-6x times $4,000/oz. (a recent "round number" price), would project gold to peak some between $20,000 and 24,000/oz.</u> And using a 20-year moving average to come up with an average value of this ratio (the blue line on the chart above), the long-term average comes out to 0.59x; thus, today's 0.62x ratio is only an average valuation for gold versus the S&P 500. These results point toward valuations not being stretched at this point.

Another comparison worth checking is to the ten-year US Treasury Note, another long-term series of large liquid asset. Here is the chart below from StockCharts.com:



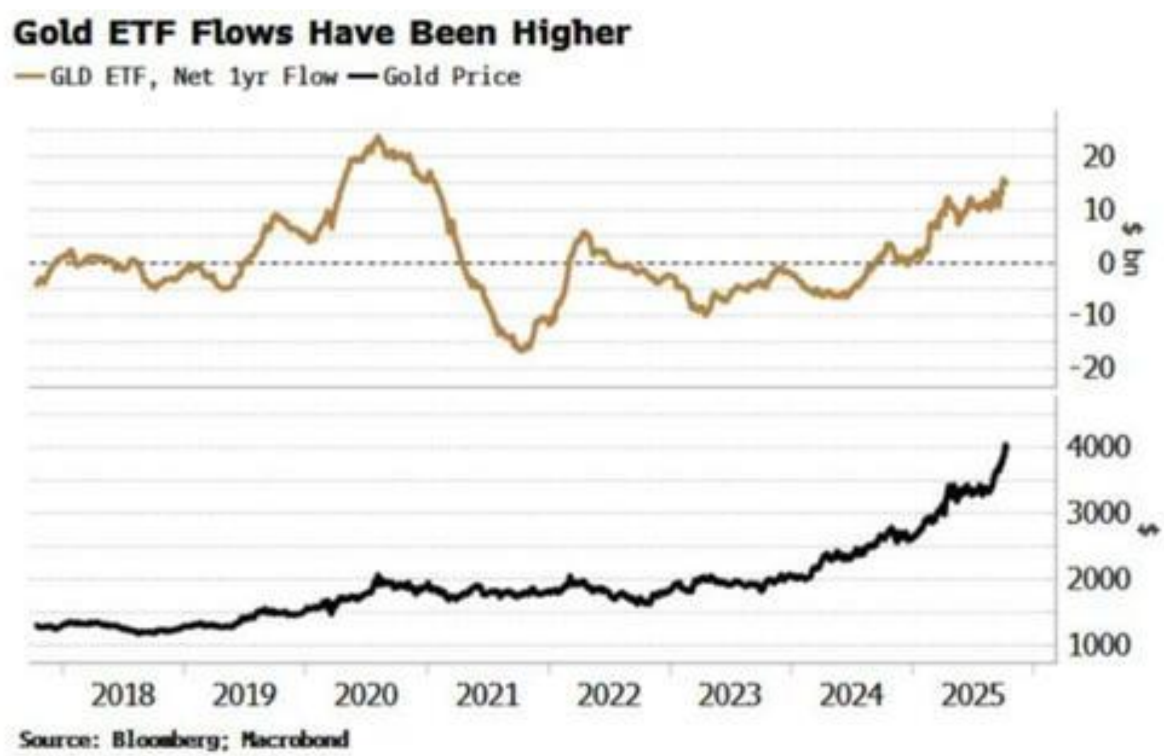
This chart plots the gold price (the gold line) and the yield of the 10-year Treasury yield, both with price labels for reference. On the left side of the chart, during the 1960s and 1970s, rising inflation and rising budget deficits impacted both gold and bonds. Bond fell, with their yields rising from around 4% in the early 1960s to peak at almost 8% in 1970. After a two-year correction, bond yields continued their rise to a high of almost 16% as bond investors demanded higher and higher yields due to soaring inflation, easier monetary policy and the severing of the US dollar's link to gold in 1971. Gold prices rallied as investors moved to gold to protect themselves from these government policies. As the Fed fought inflation in the 1980s, bond yields fell as inflation fell and investors quit demanding yields as high; at the same time, investors didn't need as much protection from government policies, lightening up on their gold positions, causing gold prices to fall.

On the right side of the chart, things changed in 2002-03 when then Fed Chair Greenspan lowered short-term interest rates below the prevailing rate of inflation, thus making "negative real rates" his policy and incentivizing investment after the dot.com bust. This policy was compounded after the 2008 Financial Crisis, when quantitative easing was introduced, further easing monetary conditions. Gold corrected during the post-GFC 2013-2019 reflation and trade globalization period, but Covid lockdowns led the Fed and US Government to ease monetary conditions to the easiest in modern US history, driving down bond yields but rekindling inflation and thus, incentive for investing in gold. Now, the Fed has restarted a rate reduction cycle since the economy appears to be softening, and 10-year Treasuries have fallen to under 4% in yield in a ~3% inflation world. US government budget deficits are large and still growing, leading to speculation that the Fed may restart bond-buying to make sure yields don't get too high for the huge amount of interest the US Government must pay on all its debt. So, investors have started to buy gold again, and the relative unattractiveness of the 10-year Treasury yield is a key to many investors' decisions.

One more long-term ratio is useful: seeing if gold mining companies' stock prices are cheap or expensive compared to the price of gold, due to gold being a large determinate of how they are valued. When gold is considered scarce, often investors give more value to reserves in the ground and possible future reserves observed but not yet measured.

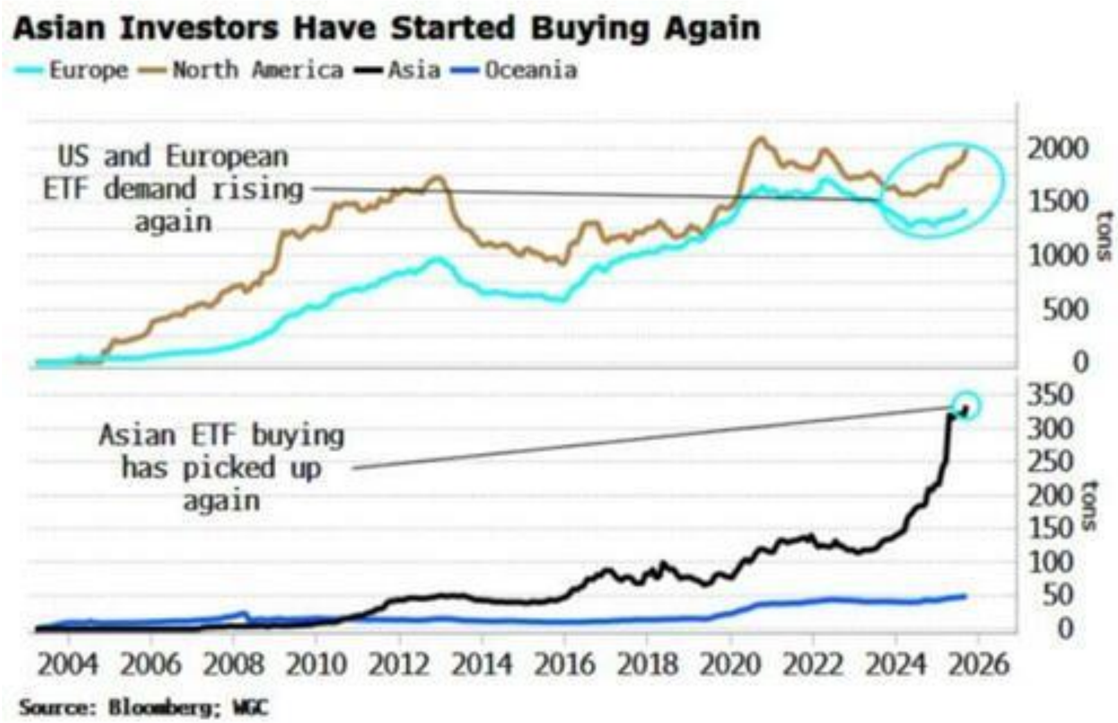
As the chart above shows, gold mining companies, as represented by the oldest gold miner index, the Philadelphia Gold & Silver Index, are still nearer lower historical valuations when compared to the price of gold (and there are no prices from the 1970s gold mania since the index didn't exist then). So, this chart indicates the highest value of 0.4247x was in 1998, while the low was actually earlier in 2025 at 0.0325x, lower than the 2016 and 2020 formerly lowest ratios of 0.0333x and 0.0331x. The current ratio is 0.069x and the 20-year moving average is 0.101x. The current ratio is only one-sixth of the highest value (0.069x divided by 0.4247x = 16.25% of the peak ratio. <u>Thus, this ratio says mining stocks, on average, could rise as much as six times their current values and still not set new valuation highs.</u>

In the 10/14/2025 ZeroHedge article <u>The Gold Bubble Won't Die Until There Is A Seller</u>, author Simon White of Bloomberg shows another possible signal of froth – flows of funds into the largest exchange-traded fund which holds gold bullion, the SPDR Gold Trust, ticker GLD. One chart from the article is shown below:



The chart shows that flows into the GLD during the past year haven't even equaled those around the Covid lockdowns, when gold prices were around $2,000/oz. US and other western buyers have not been buying gold, which many find easiest to do with a bullion exchange traded fund like GLD. So why has gold moved higher so quickly? White's article answers that question as well: Asian buyers.

The chart below shows that while European (blue line) and North American (gold line) ETF buyers have increased purchases somewhat, it's Asian buyers (the lower black line) which have increased demand for gold through increased ETF purchases in 2025 and have restarted buying again recently:



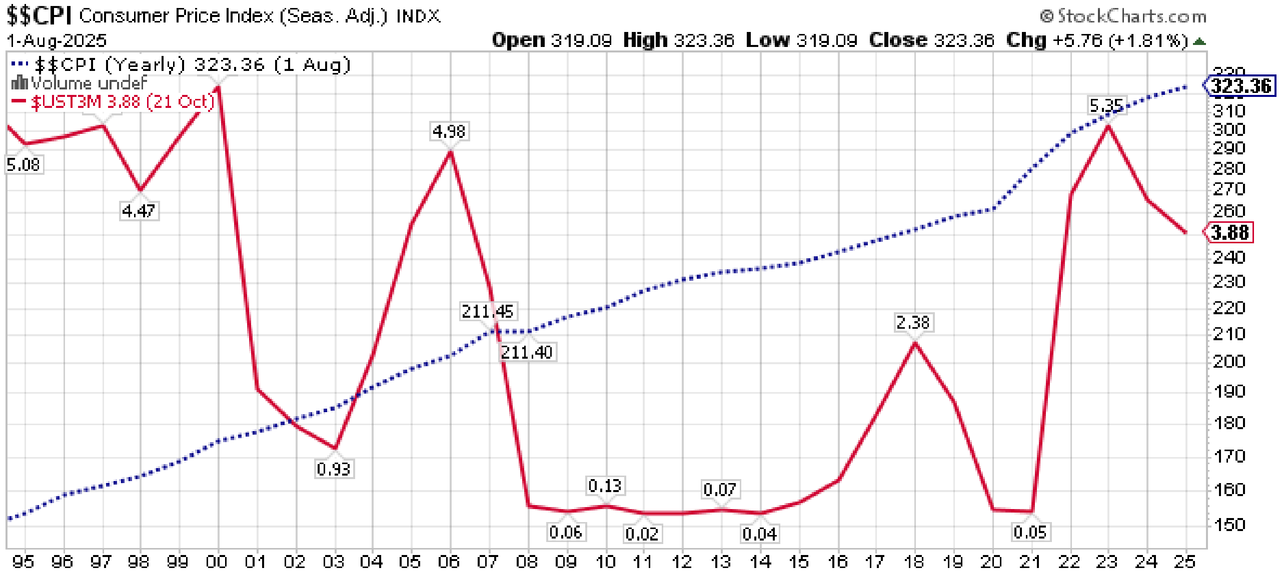
Thus, at current gold prices, Asian demand is high and rising, US and European demand has turned up but is still not at historical highs, and gold and gold mining stocks have arguably only risen back to average valuations compared to the last few decades while monetary conditions are more and more favorable for precious metals investing.

We are in a correction in prices currently, as prices have risen very quickly, and a bout of selling has caused more recent purchasers, usually considered "weaker holders," to sell their recently-acquired positions to avoid losses. As referenced in the Commodities section above, the relatively low market capitalization of precious metals and metals mining sectors make sudden movement by larger capitalized asset traders more violent, both upward and downward. Many thought prices had risen too far too fast, so that a correction was needed to restore a healthy balance to these precious metals markets.

As seen from the above analyses, we believe that prices for the metals can rise significantly from present day prices, and North American and European investors are still far underexposed to precious metals and metals mining stocks, which we believe will lead to a lot of future buying pressure and higher prices.

Q: I don't hear nearly as much about inflation these days. Has it gone away, or should I continue to worry about it?

A: Inflation has receded to the back burner as tariffs, geopolitics and now the government shutdown make the headlines instead. However, statistical measures of inflation show that it has not only not gone away, but after troughing earlier in the summer at around a 2.6% yearly rate, the Consumer Price Index (CPI) has moved higher to just under 3.0% per year. Perhaps picturing inflation and at least one of the influences may help. Below is a chart of the CPI graphed for the last thirty years.

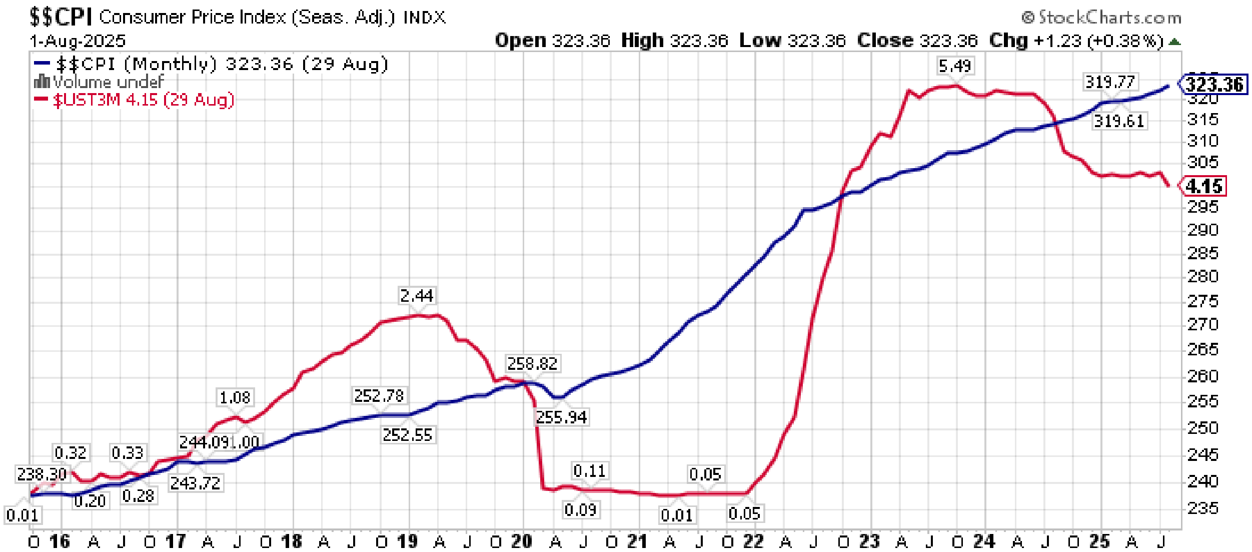


The blue (dashed) line is the level of the prices in the CPI, so inflation is the <u>increase in the price level</u>, or as shown in this chart, <u>the slope of the blue dashed line</u>. You can see that the slope of the line got much steeper starting in 2020, when the Covid lockdowns and the government's/Fed's easy money policies caused the latest inflation acceleration. Since 2022, inflation (blue line's slope) has gotten less steep, but it is still increasing, and at a slope steeper than during the 2008-2019 timeframe. The red line is the yield on the three-month US Treasury Bill, which moves with the Fed's Federal Funds rate. On the right side of the chart, rates fell to 0.05% when the Fed lowered rates during the Covid lockdowns, but rose quickly when world economies reopened and the Fed raised interest rates to 5.25-5.50% in 2022-23. Now, as shown on the very right side of the chart, the Fed has lowered interest rates starting in 2024, and rates have fallen back to 3.88% but the slope of the blue line, the amount of inflation, is still increasing at the steeper rate. As rates go lower and money becomes easier, we believe inflation will not only not go down, it could speed up, especially if energy prices rise going forward, which we expect. Stay tuned.

Q: I've gotten used to getting over 4% on my money in my bank account. Is that going to continue?

A: We don't think so, unfortunately. Deposit accounts and money markets funds typically mimic short-term Treasury rates, and those have been dropping lately, pushed lower when the Fed lowered interest rates in mid-September. In addition, Fed officials and interest rate markets both indicate that 2025 could see two more quarter-point interest rate cuts, with further cuts in 2026 (2-3 currently indicated), which would bring short-term rates down around 3%. This level would probably only allow deposit accounts and money market funds to earn somewhere between 1.5-2.0%, at best, because banks pay a short-term interest rate minus around one percent to pay for their costs. Thus, we think interest rates paid by banks will continue to fall, making it less attractive. The chart below is the same as shown above, with in a smaller timeframe: the CPI (the blue dashed line) and 3-month US T-Bill rate (the red line) for the last ten years. As you can see, in 2023, when short-term rates were raised quickly by the Fed and T-Bills paid up to 5.49%, banks paid depositors up to 4.25-4.50% on their cash balances held in high yield checking accounts or the equivalent. Now, as T-Bill yields fall, and they are currently at 4.15%, banks are going to be paying less, more probably 2.75-3.0% and headed lower.

KANOS
CAPITAL MANAGEMENT, LLC



Q: What are your thoughts on AI and the AI buildout? Is it a bubble or just a boom of very large size?

A: We have a lot of different thoughts and concerns around this AI buildout, so we will share a number of them and see if we can come to a thoughtful conclusion.

<u>Healthy Boom?</u>

In many ways, the AI boom seems very healthy and while huge, is different from the dot.com boom. As we think about the AI buildout, the main products, AI programs and structures to help raise business and personal productivity, exist, work and do save people time and effort in their work and life. ChatGPT and other AI programs allow billions of people to find better ways of doing things by better harnessing human knowledge and know-how and allowing people to deploy it in their processes in business and their personal lives.

And the companies developing, deploying, constructing, connecting, powering and offering the whole AI infrastructure have been doing so in a financially prudent way, spending cash off large tech company balance sheets, buying land, equipment and infrastructure in portions needed or anticipated to be needed in order to size correctly and try to match capabilities needed with costs incurred.

AI algorithms, programs, systems and protocols have been used for years, but the development of larger pools of data, like Large Language Models (LLMs), have allowed for many more uses and the ability for laymen to access those pools of data for reasonable costs.

All this should add up to a rise in business productivity as new products are made available to millions or billions of new customers who then save time and money and can redeploy the saved time, money and resources into further productivity.

<u>Or Big Bubble?</u>

As the AI buildout has progressed, there are some more concerning aspects that have appeared:

The AI programs that are generally available, like ChatGPT, Anthropic, Gemini, etc., have exhibited a tendency to give incorrect answers when not asked a question in a way the program anticipates, which leads to answers that we humans see as "made up" or even "hallucinations," in which the model misinterprets the question asked and ends up going on a mistaken decision path, giving an incorrect answer. Statistically, this has been proven to occur sometime over 10% of the time, and many times, without careful study, the mistaken answer is not detected as incorrect. So, there is a question about whether the time saving and productivity gains are real if the work must be checked, and sometimes extensively, before it can be used. There are other drawbacks/concerns, too, such as copyright infringements, lost of public trust if too many answers are incorrect, legal risks of incorrect answers presented to clients, etc.).

Second, there is a big question about how much can be charged for these programs over time and how much they will be used, especially by large businesses, the natural market for these products. So far, with many competing products and some of the drawbacks noted in the last paragraph, the amounts companies are able to charge for these AI products are low and seems to not be enough to pay for the billions of dollars needed initially to develop the LLMs needed to run these AI programs. And the US Census Bureau has headlined an ongoing study of the usage of AI, and in 2025 large business organization usage of AI products peaked in the summer and has started to drop noticeably as businesses find that using and then checking takes more time than their current systems.

Third, the energy needed to run these systems is massive. The planned buildout in aggregate needs to essentially double the electric grid of the United States (not even taking into account international needs) in the next few years. Our existing nationwide grid system is heterogeneous, antiquated, powered by a less dependable mix of power sources due to the larger share of renewables/non-baseload sources, and difficult to expand due to space needs and population encroachment. Thus, we see powering the needed facilities going forward to be a problem.

In the past few months, the size, scope and especially cost of the growing buildout has ballooned from what seemed like measured growth to gargantuan plans of hundreds of billions of dollars worth of chips, facilities and infrastructure planned by a number of different entities that are vying for first mover advantage, getting to large scale first and becoming the standard by which systems will be designed and run for the next decade or more. While this is not unusual or "wrong," the now trillions of dollars being planned to be invested seem like rampant overbuilding, when compared to a reasonable projection of widespread usage and especially with even optimistic current revenue projections. If only half of all this is needed, the aggregate spend appears to deploy a trillion dollars of misinvestment.

And finally, even these large companies and consortia don't actually have nearly enough cash to build the currently planned infrastructure, technology and data centers. The "equity financing" portion of the cycle has already occurred, and more and more of the future plans are using or planning to use debt financing, which will make the cost and usage of these facilities much more important and utilization will need to occur faster and more efficiently. In addition to debt financing, vendor financing, in the form of NVIDIA and other chip makers and other service providers have contracted to provide their products and services as part of the financing effort, meaning that the cash driving the buildout, development, deployment and usage may not be produced fast enough to fill financing promises and commitments, much less debt repayment. Unfortunately, it now very much resembles the internet buildout dynamics of the 1990s before the dot.com bust, when large telecom equipment makers like Cisco and Nortel were vendor financing all the equipment needed by dot.com companies to build their networks and hook up to the internet to provide their products and services. When the dot.com bubble popped, many of the dot.com companies went bankrupt, forcing the equipment makers into financial distress when they weren't paid for many of their receivables. We are afraid that these hundreds of billions of dollars of commitments may lead to large amounts of infrastructure that are then no longer needed – gross misallocation of capital and labor.

So, we are concerned that these consortia are in the midst of building out much faster than the needs, while the products and services offered are not so revolutionary to be able to charge the amounts needed to cover the trillions of dollars being put to work over just the next five-ish years.

And from our perspective, if these forces start to slow down, profits and projected future profits of those very highly valued companies in the stock market may have to be revised down, which would then revise down growth rates, which would make investors rethink the valuations of many of these large technology, communications, industrial, utility and materials stocks, perhaps assigning lower multiples to their profits, leading to lower stock prices. That could cause another malaise in the next few years, as the main engine of economic growth shows much smaller progress than is currently anticipated.

This is one of the main reasons we are underallocated to these large tech and communications companies – they could get re-rated as they have had happen in the past, and when that happens, investors bear the brunt of the damage.

Interesting Article

We occasionally find articles that address today's issues and give a thoughtful and thought-provoking viewpoint on that issue. This article on the politization of the Fed is one of those. We thought it was well-written and on point on a lot of hot-button topics.

Establishment Fears About Trump's Focus on the Fed Are About Optics, Not Policy

09/24/2025
Mises Wire
By Connor O'Keeffe

After the Federal Reserve's board voted to cut interest rates by a quarter of a percent last week, the Wall Street Journal editorial board declared that the central bank was now "Trump's Federal Reserve."

The editors are referring to the political establishment's ongoing concerns that President Trump is mounting an unprecedented and extremely dangerous effort to "take over" the Federal Reserve—turning America's central bank into a political tool for him and his successors.

What began as vague anxiety within the political class, as Trump hinted at a renewed interest in the Fed during the last campaign, grew into panic when Fed governor Adriana Kugler resigned in August, giving

Trump the opportunity to appoint a voting member of the Fed board. While Kugler's term was scheduled to end anyway in January and her replacement would, therefore, only be nominated to serve the final four months, the resignation still gave Trump an earlier-than-anticipated opportunity to exert his presidential control over the Fed.

However, that panic grew to the level of hysteria when the Trump administration attempted to fire Fed governor Lisa Cook for allegedly committing mortgage fraud. Unlike Kugler, Cook's term is scheduled to run until 2038. So a Cook replacement would not only stay on the board long after Trump leaves office, but would replace an establishment-friendly, Biden-appointed governor who's supposed to remain at the Fed throughout and beyond this second Trump term.

However, the effort to fire Lisa Cook has been blocked by federal judges as the evidence of mortgage fraud turned out not to be as blatant or unique as Trump's team had initially claimed. The case is now in front of the Supreme Court.

But even if that falls apart and Cook remains at the Fed, establishment voices—like those on the WSJ editorial board—are still framing Trump's takeover of the Fed as either being imminent or even settled. Because, last week, his replacement for Kugler—Stephen Miran, one of the President's economic advisors—was officially appointed, and the Fed voted to lower rates, which Trump has been demanding for months.

On the surface, the establishment's issue with Trump exerting more control over the Fed is that he will pull the "independent" central bank away from its "data-driven" and "non-political" decision process and force it to stimulate the economy in ways politically convenient for Republicans—risking inflation.

Digging a little deeper, there's also some concern about the potential for Trump to use the Federal Reserve's power to "debank" his political opponents and to print unlimited amounts of money to fund his broad agenda.

However, it is very unlikely that these are the true reasons the American political class is worried about what Trump is doing with the Fed.

To start, the American political establishment has made it very clear for many decades that they are more than okay with inflation. Not only have they embraced monetary inflation, or money printing, as a central tool to pay for government programs, but, over the last thirty years, they have explicitly aimed to bring about price inflation—the speed at which prices rise—every single year.

In the 2010s, when price inflation remained below the Fed's arbitrary target of 2 percent per year, establishment monetary officials pushed hard to raise inflation. That same level of urgency was mostly absent when Americans were slammed with the highest price inflation in decades after the pandemic—which establishment experts falsely dismissed as "transitory." Last year and last week, the Fed decided to cut rates even though price inflation remained above what they claim is their target.

No ruling regime wants hyperinflation, of course, but the idea that the modern American political class has some passionate aversion to inflation is laughable.

It's also hard to believe the political establishment is seriously worried that Trump will debank his political opponents. They play up the threat of Trump unleashing the full power of the federal government on people he personally doesn't like, but so far, Trump has not really been interested in that kind of effort. If Trump is unwilling to seriously investigate the officials who greenlit the illegal use of American tax dollars to help fund gain-of-function virus research in Wuhan, China, before the pandemic, or the officials who certified the 2020 election that he is adamant was stolen from him, it's hard to think the political class is genuinely afraid Trump is about to start debanking his opponents.

The same goes for the establishment's cited worry about Trump using the Fed to spend more money. The big fear from establishment figures and their media allies in the early days of this term was that Trump was going to allow Elon Musk and DOGE to cut federal spending. That's their real fear—that Trump would eliminate some of the spending programs making them and their friends richer and more powerful. The fact that Trump is leaving virtually all of that spending in place and is instead looking to expand it further is not a concern from the establishment's perspective.

Finally, there's the most commonly cited problem, which is that Trump is "politicizing" the Fed.

The frequency and intensity with which this concern is raised in establishment media suggests that it's closer to the real reason the political class is so concerned about Trump's Fed takeover. However, the idea that Trump is politicizing the Federal Reserve rests on an important assumption: that the Fed is not already political. But it is.

As Jonathan Newman laid out in a talk he gave at a Mises conference earlier this year, the whole idea that the Fed is "independent" from the Treasury Department and the rest of the federal government comes from a meeting that took place in 1951 where, according to the Federal Reserve itself, an "Accord" was reached between the Fed and the Treasury Department that formally severed the tie between both agencies—resulting in the "independent Fed" we have today.

But, as Newman demonstrated by citing Fed and Treasury officials from the time of the meeting, and in the decades since in their own words, all that really changed with the 1951 Accord was the way the Fed described itself. While calling itself "independent," the Fed continued to act exactly as it had before regarding its relationship and coordination with the Treasury Department. Fed independence is simply a branding choice, not a principle that manifests itself in monetary policy.

The only reason the Fed has appeared independent or non-political is because both parties have been almost completely unified behind the inflationist, stock-market-amplifying, empire-fueling monetary policy that the Fed has been enacting for virtually its entire 111-year existence.

Which brings us to the real reason the political establishment is likely so anxious about the changes Trump is making, and trying to make, at the Fed. The danger, from their perspective, is not that Trump is politicizing an independent central bank. It's that he will make it impossible to hide the fact that the Fed is already political.

With the appointment of Stephen Miran, the media is already treating him as nothing more than a pawn there to do Trump's bidding. Fed chair Jerome Powell didn't even push back at this characterization when asked about it in his most recent press conference.

Meanwhile, as the Trump administration pushed to get Lisa Cook fired, the MAGA media machine worked to villainize her as a far-left radical Biden appointee, meaning that both parties now have a villain and—especially as the Democrats push back against Trump's attempt to fire Cook—a champion on the Federal Reserve board.

So before Trump was even scheduled to appoint his first Fed official, we are already well on our way to the public thinking of Fed Governors like most already think about Supreme Court Justices—as partisan officials appointed by presidents to help advance their party's agenda.

Going forward, with every new governor Trump appoints to the Fed, his opponents will likely consider the central bank to be more and more a naked instrument of the Trump administration. And whenever Trump comes up short and fails to either get an ally in at the Fed or pressure the board to adopt his preferred monetary policy, his base will likely come to see the Fed as a part of the anti-Trump coalition—trying to thwart the Republican agenda.

It is hard to see a way forward where the Fed's "independent, data-driven, non-political" brand does not take a serious hit. But because that characterization is a lie meant to prevent the American people from noticing or caring about all the ways the Federal Reserve is ripping them off to enrich the political class, we should consider this progress. The public ought to lose trust in untrustworthy institutions.

The Managers of Kanos Capital Management