



**Kanos Capital Management**  
**Quarterly Investor Letter**  
**Fourth Quarter 2025**

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## Fourth Quarter 2025 Investor Letter

### *Fourth Quarter Market Review*

The fourth quarter of 2025 saw a continuation of the tech/AI/industrial buildout trends. Notably, in December the Fed stopped quantitative tightening, lowered rates again and instituted Reserve Management Purchases, a new name for a new bout of quantitative easing (QE). This, along with continued geopolitical turmoil, led to higher precious metals prices, underpinned by continued central bank buying. The economy continued to hum according to statistics, although mass market businesses continued to suffer during the quarter. Job statistics were mixed, although the latest read had jobs growing again while inflation stayed relatively tame, albeit closer to 3% than the Fed's target of 2%. For the year, the big event was the "tariff turmoil" in the spring, but stock, bond and commodity prices all rallied strongly after April as the US economy adjusted to new pricing regimes while the tech and industrial buildouts drove growth in the economy. Worldwide, economies continued their growth paths, with Europe experiencing slower growth and Asia higher. Stock markets across the world rallied for the year, as did most bond markets. Commodities mostly rose on strong demand for materials and metals.

Kanos' managed portfolios had a good quarter, advancing on resource stock gains across the board. Gains in the quarter were generally 5-15%, depending on risk preference. Miners were once again winners, led by copper miners ETF (+20%), Hecla (+58.7%), Pan American Silver (+34.1%), Seabridge (+22.5%), and Rio Tinto (+21.2%). Our pharmaceutical stocks did extremely well, led by Eli Lilly (+41.0%) and Merck (+26.6%). Energy stocks in the portfolio were mixed with ExxonMobil up (+7.7%) and uranium major Cameco up (+9.3%) yet Chevron down (-0.7%). Technology stocks had an up and down quarter, with one of our larger positions, Microsoft, losing -6.4%. Our dividend-paying tobacco companies were also weaker, with Philip Morris down -0.2% and Altria down -11.3%. Despite lower prices in some holdings, we were happy with the quarter. For the year, the precious metals performed spectacularly, with our gold ETF up +63.7%, silver ETF up +144.6% and miners up even more, with Agnico-Eagle up +118.9%, Newmont Mining up +172.2% and the silver miners ETF up +168.5%. Most stocks were up for the year, absent smaller-cap energy stocks. Most other Kanos holdings were up, too, including many mega-caps: ExxonMobil (+15.5%), Chevron (+10.1), Eli Lilly (+40.2%), Merck (+9.9%), Microsoft (+15.6%) and Philip Morris (+38.2%). Portfolios for the year outperformed their benchmarks and major market averages.

Major US averages were higher in the fourth quarter, led by the S&P 500's 2.66% gain, while the Dow Jones Industrials gained +4.03%. The big sector winner was Healthcare (+11.68%) with smaller gains in Technology, Financials, Materials, Energy and Industrials. Sector losers were led by Real Estate (-3.21%) with small losses in Utilities, Communications, Consumer Discretionary and Consumer Staples [all index/sector performance numbers reflect total returns]. Bonds were higher across the board as the Fed lowered interest rates and restarted a form of QE. International stock indices were mostly up during the quarter, led by the Spanish and Japanese stock markets. The best performers of the quarter were metals, with silver rising more than 50% while copper rose 15% and gold was up another 10%. Other commodities were mixed, with oil the loser, down around 10%. For the year, the S&P 500 was up +17.9% while the Dow was up +14.9%. International stock markets

were led by Japan's Nikkei (+28.9%) while Europe was up +20.7%. Emerging markets rose +34.3% according to MSCI. Precious metals were the big winners, with gold (+65%) and silver (+148%) having their best year since 1979. Oil was the big loser, with Brent down -18.5% on oversupply fears.

## *Looking Forward*

### *Introduction*

Financial markets continued to advance in the fourth quarter despite some cracks in the AI growth story and continued geopolitical concerns throughout the world. Despite these two issues, which caused a couple of small corrections during the quarter, US stock indices closed near all-time highs, reflecting continued favorable investor sentiment, fiscal setup and monetary conditions. The Fed ended quantitative tightening on schedule on December 1<sup>st</sup>, then lowered interest rates further at their December meeting while also instituting a new 'Reserve Management Purchases' (RMP) policy, in which the Fed is now buying short-term Treasuries to make sure the financial system has enough reserves to function smoothly, a decidedly dovish new development that mimics QE of the past.

Going forward, we think the sheer amount of monetary liquidity and investment momentum will continue to push equity prices higher. Those same forces will benefit commodities and commodity-oriented stocks (as they did during 2025) which are still at lower, more attractive valuations than most large cap stocks in the US, Europe and developed Asia. Thus, we anticipate continuing to allocate capital in much the same way we have been positioned during late 2025.

However, we do see a couple of flies in the ointment for the macro picture worldwide, which are long-term interest rates and energy prices. Long-term rates have been climbing in many markets around the world, led by Japanese JGBs and UK Gilts. We are focused on bond investors who seem to be pushing up rates due to concerning inflationary pressures worldwide coupled with easing monetary policies from multiple central banks around the world. If interest rates continue to climb, they could have a detrimental impact on equity valuations as well as a dampening effect on economies around the world. Second, energy prices are out of sync with economic, inflation and geopolitical pressures; we believe there is risk to higher (and potentially much higher) energy prices as supply growth falters and demand growth continues strong. Both of these topics will be covered in later sections of this letter.

### *Economy*

We continue to be bullish on the US economy due to the continued emphasis on industrial and tech spending that continues to accelerate due to the AI race for scale by a large number of tech companies as well as the national security and job focus of reshoring defense, pharmaceutical, manufacturing, rare earth and other mineral extraction and refining, etc. championed by the Trump Administration and fanned by Chinese and other embargoes or threatened embargoes of essential items of need for US and Western ways of life.

These points will continue to help direct our investment decisions as we continue to review our current investments and search for new attractive investments as conditions present.

However, a few parts of the US economy continue to show different prospects. In contrast to the strength shown in the overall economic statistics and all the sectors involved in the industrial boom/tech/AI buildouts, there is a malaise in many shopping, restaurants, entertainment and other mass-market consumer businesses. The US government just reported (late, due to the government shutdown this fall) the economy (GDP) grew 4.3% in the third quarter of 2025, a stronger reading than many expected but retail sales grew around the rate of inflation, which masks weak mass-market retail spending with still-robust high-end retail spending. We will continue to watch this dichotomy to see if it signals more general economic weakness going forward or if these weaker sectors are eventually energized by the other, more robust parts of the economy.

European countries' economies continue to sputter compared to the rest of the world as constraining regulatory conditions continue to quash business growth and innovation, while governments devote significant time and money focusing on Russian aggression and how to deter it. The European Central Bank (ECB) has given the Euro area low rates but is currently on hold as far as further easing is concerned, robbing the Eurozone of any further monetary impetus. Germany, France and other countries continue to be plagued by high social costs and falling tax revenues, causing high fiscal budget deficits that must be financed by debt, in the face of low growth and innovation. This is not a good environment for economic growth, so we continue to lean away from European investments for these reasons, although European conglomerates with worldwide operations still are attractive, in some cases.

Japan's economy continues to grow to the point that inflation has become more of a problem in a land where deflation (or at least disinflation) has reigned forever, warping public opinion. The Bank of Japan (BOJ) raised short-term rates in December, and business continues to benefit from a weak yen, tech innovation and the US and its allies pivoting away from sourcing tech products from China and other less trust-worthy sources. Japan's new female prime minister won on implementing more fiscal stimulus and defense spending, pointing to further economic vigor. We continue to favor Japanese investments in international allocations of portfolios, and Japan still looks attractive, in spite of higher long-term interest rates and inflation concerns.

China's economic growth continues to slow, as yearly growth in the economy is almost completely held up by exports, although those exports are increasingly to Europe and developing markets as the US incentivizes businesses to pivot away from Chinese sources. Chinese CPI has most recently registered a small amount of deflation, as Chinese real estate markets continue their years-long decline and domestic consumption growth has fallen to zero in recent months. These moribund economic conditions, after years of double-digit growth by the Chinese economy, continue to concern the People's Bank of China (PBOC), which continues to stimulate the Chinese economy through monetary measures, although always cognizant of too much stimulus which would reignite inflation.

In contrast to slow growth developed countries, many emerging market economies continue growing more strongly, as world economic growth calls on emerging markets for commodities and low-end manufactured goods from lower-wage developing nations. We continue to think that US, Chinese and other countries' tech/industrial buildouts will require supplies of goods and commodities from developing countries in Latin America, Eastern Europe and developing Asia, so the economies in these regions should continue to grow faster than world growth, and there could be attractive opportunities for investment in many of them.

Bottom line: We continue to be bullish on the US economy, despite some weakness in lower end consumers. Attractive fiscal and monetary setups, along with pro-business reshoring political focus, will continue to drive widespread investment in the US and beyond. Europe and China are less attractive due to economic growth concerns, but non-China Asia and developing countries worldwide continue to grow, attracting our attention to current and future investment opportunities.

### *Equities*

US equity markets have continued to advance as monetary, fiscal and momentum conditions point toward higher prices in 2026 even after a couple of fourth quarter corrections. The shadow of a more hawkish Fed that hung over the markets for much of the fourth quarter vanished in mid-December as the Fed lowered rates and instituted QE-like Reserve Management Purchases during its final meeting of 2025. This monetary green light, coupled with continued bullishness on AI spending, continues to overcome lingering concerns over the return on investment (ROI) for all of this AI spending. Investors continue to be optimistic about US megacap tech companies securing AI supremacy, and that the trillions of planned AI investing in the next few years will be productive investments.

However, we believe there is a lot of risk to these investments paying off anytime soon and believe that there is an AI bubble, where a number of companies are overvalued due to investor enthusiasm and will suffer losses in the future when the current building spree either concludes or ends early as large AI companies cut back on spending for AI capacity, chips, data centers and advertising (although the timeline of construction could continue for at least a couple of years longer as green-lighted and financed projects are built regardless). As such, we are staying away from very highly-valued chip companies, data center developers, AI providers (like Oracle, a corporate management software company turned AI services mogul) and other companies with hockey-stick projections that propose tens of billions of dollars of prospective revenue without credible products or services that will provide such large revenue growth.

However, we expect the buildout continuing for months or years, and we believe that some of the hyperscaler companies, with wide-moat continuing businesses, will survive the AI boom-and-bust and continue to prosper, so we continue to invest in select tech stocks. In addition, we think that the energy and materials components of the industrial/tech buildout, will be supplied by attractively-valued materials companies, many in which we are invested currently. We will continue to look at attractive equity opportunities in the US and around the world in attractive risk/return situations. Our more defensive mix of materials, energy, pharmaceuticals and defense overweights have proven to be a good mix lately, and we expect market conditions to continue to reward these investments.

European stocks have continued to advance despite European political and economic concerns, albeit at a slower pace than many of their US and Asian brethren. We believe that despite diminished European competitiveness, their fear of Russian aggression and the continued Russia-Ukraine conflict, there is a tailwind for European defense companies. The market has sold them off lately on hopes of peace in Ukraine; however, even peace will require a lot of rebuilding of defense capabilities, especially ammunition and replacement parts, so we have small investments in some of those companies. As stated previously, we think some European multinationals are well-positioned around the world, and we own some materials, pharmaceuticals and energy companies based in Europe. We

continue to scan for companies with European valuation discounts but with attractive worldwide growth opportunities.

We like Japanese stocks, especially Japanese financial companies, who will benefit from a positive yield curve for the first time in many years. In addition, we like Japanese conglomerates that source and manufacture goods across many industries and supply worldwide supply chains. We are concerned about rising Japanese rates but feel like Japanese companies are “lean and mean” from having to operate in a deflationary, slow growth country for the last few decades.

We own Latin American companies in countries including Argentina, Brazil and Colombia and continue to think there will be further opportunities to invest in this cheaper, higher growth region in the future, especially as cartels and the drug trade are actively fought by local governments and the US, providing more opportunity for legitimate business in these countries. The US removal of Maduro from Venezuela shows another glimpse of reducing crime, rogue activities and confiscatory governments that have reduced Latin America’s attractiveness for investment until recently. We currently own energy, financial and country ETFs (invested in a basket of companies) in these countries and continue to look for more opportunities.

Finally, as we’ve reiterated in recent letters, we see China as mostly uninvestible, not only due to their corporate structures, but also for the danger of conflict with the US which would lead to their delisting from US holders, much as Russian companies were in 2022 after the Russian invasion of Ukraine.

Bottom line:

We see the US markets, and many others around the world, continuing to perform well in 2026. Our portfolio mix of commodity stocks and more defensive sectors (pharma, defense) coupled with smaller allocations to growth and international companies outperformed in 2025, and we think they will do so again in 2026 and beyond. The attractiveness of worldwide 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***

Many sectors in the US bond market rallied during the fourth quarter as bond investors shrugged off what was considered more hawkish Fed rhetoric and continued to buy bonds, especially short-term debt instruments. However, Treasuries continued to underperform corporate bonds, and with high deficits and a growing US debt load, this weakness is starting to be concerning.

Short-term Treasuries have continued to perform well, as investors worldwide continued to think the Fed would move more dovish in talk and action in the future, which was rewarded when the Fed cut interest rates and instituted RMP at their December meeting. Two-year rates have since moved up as chances of early 2026 rate cuts have receded. Longer term rates are currently trading around where they ended the quarter, with the 10-year Treasury at 4.17%, while the 30-year Treasury Bond is trading at 4.82%, a few basis points higher than in December, despite falling short-term rates and Fed projections for more rate cuts in mid-to-late 2026. Why higher long rates during a rate cut cycle? Two reasons: 1) concerns about higher future inflation caused by too-low future short rates and/or too-

loose monetary conditions now and expected in the future, and 2) more supply than the market wants in the future, i.e. larger budget deficits that cause bond investors to demand higher, more attractive yields to buy more bonds. Both of these conditions are in evidence today and will get worse in the future, so we are concerned that financial markets are complacent about long-term interest rates, and that we may see even higher rates in the future, which almost everyone (including us) would rather not see, because higher yields represent higher borrowing costs, hurting government budgets (causing even higher deficits) while also costing corporations and individuals more for borrowing, curtailing the ability of consumers and businesses to borrow as much in the future. Thus, we are bearish Treasuries and continue to run down bond portfolios, keeping most of our fixed income in short-term investments, despite lower yields.

Corporates have outperformed Treasuries, but recently issued and planned future borrowing from large tech companies have caught the attention of financial markets recently, as tens of billions of dollars of borrowing by Oracle have caused their credit default swaps (insurance against corporate borrowing defaults) to rise sharply as investors become more concerned about Oracle's overborrowing with only phenomenal growth-y projections to show how the debt will be paid back. Despite some concerns like those about Oracle, the corporate debt market has continued to place large amounts of debt throughout the year and doesn't appear to have trouble finding investors for new debt.

High yield/junk bonds, the lowest rated credits in the bond universe, continue to outperform other debt types due to a general sense of overall health in "credit land" because of a growing US economy and lower short-term rates, making the higher yield of junk bonds more attractive. We are concerned about "below the surface" credit conditions that are more opaque due to many of these credits being inside Private Credit companies, so we are not attracted to high yield bonds due to these looming higher risks.

Foreign bond markets continue to show stresses, deficits, especially those with weak currencies like Japan and the UK. The BOJ in December raised short-term interest rates but their rhetoric was still accommodative, causing concern among longer-term Japanese bond investors, who sold bonds in response, pushing upward long-term yields to the highest in decades as investors see real inflation in Japan continuing in the 2-3% range and feel the BOJ is not fighting inflation effectively. Japanese 10-year rates have climbed above 2.0% for the first time since 1999, and the 30-year rate has climbed even faster since 2023. The following graph from "Japanese Yields Soar To All Time High After PM Takaichi Calls Snap Election Seeking More Spending, Less Taxes," ZeroHedge, 1/19/2026, shows the extreme magnitude of Japanese bond yield increases in recent years. The main bonds investors concentrate on in Japan are the 10-year and the 30-year, although they also have an ultra-long 40-year bond that helps investors gauge long-term expectations for yields and inflation, although that market is not very large or liquid, so we will concentrate on the 30-year bond.



The green line shows the yield of the 30-year Japanese Government Bond over the past fifteen years. After staying below 1% for 2016-2021, the post-Covid bout of inflation even reached the perpetually deflationary Japanese economy, causing bond investors to demand higher yields for 30-year bonds. With Japan's huge debt load (over 200% of GDP and the highest in the developed world) and with short-term interest rates so low, suddenly positive and growing inflation has taken its toll on Japanese bonds. Japan has also had such low short-term rates for so long that Japan's money markets have been the source of cheap debt used to leverage carry trades the world over for decades. If Japanese rates were to rise enough to cause traders to have to unwind their carry trades, where cheap Japanese debt allows investors to take the proceeds of that borrowing and invest in higher yielding or larger opportunity investments, traders could start selling their least attractive positions, pushing down prices of assets worldwide formerly financed with cheap Japanese debt. The extent of these carry trades is hard to calculate, but our survey of websites projects the minimum amount as \$2-3 trillion dollars, any liquidation of which could cause a lot of volatility across financial markets.

In addition to the Japanese situation, the smaller but very relevant UK bond market has also seen long-term rates shoot up in recent months as the UK government wrestles with another large budget deficit and how to finance it. 10-year UK Gilts have risen from 0.82% in January 2022 to 4.49% in December 2025, again showing the extreme rise in rates. The 30-year Gilt has a similar upward yield trajectory as the 10-year's. The Japanese and UK bond markets show how large, developed bond markets have bond investors selling and looking for more attractive yields in order to reinvest. Thus, like lower-rated US credits, we will continue to avoid exposure to overseas bond markets.

Bottom line: US bonds have performed well recently, but the risk/reward is not attractive in our eyes, especially when looking at international situations in Japan and the UK that may be precursors to future moves in US bond markets.

## *Energy*

World energy markets continue to act like they're scared of their shadows. The International Energy Agency (IEA) and the US Government's Energy Information Agency (EIA) have both continued to project large inventories as they see supply overwhelming demand for crude oil and products (gasoline and diesel/heating oil). However, those supplies have yet to appear. Why? We believe it is because they don't accurately project developing country demand, which has continued to surprise to the upside in the last couple of years, using the supply the IEA projects as excess supply. In addition, the IEA has become much more political in recent years and is incentivized internally to project waning demand for petroleum and its products in order to show the need for increased spending on renewables, very in vogue in Paris where the IEA is based. The US EIA also has projected record production in the US in recent months even though some other data in their data sets shows that shale production has flatlined and may be falling with weaker prices and demonstrably lower drilling rigs being employed over the past couple of years.

Thus, the energy markets, particularly in crude oil and products (gasoline, diesel, jet fuel, etc.), continue to act weakly. The bogeyman this month has been "oil on the water" with a supposedly massive fleet of tankers holding millions of barrels that, when landed, will prove the surplus. If the worldwide supply were dominating, and tankers were lined up with crude, tanker rates would show a much larger climb than the gentle 2<sup>nd</sup> half 2025 rise in shipping rates and the rather abrupt VLCC (very large crude carrier) rate softness in late December. Thus, we think the market is misjudging the amount of oil in storage/on the water in aggregate, which we believe from private analyses shows flat worldwide inventories rather than the large increase in inventories promulgated by the IEA.

For those reasons, 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 gained in value in 2025 and are performing well currently in 2026, despite oil prices mired in the high \$50s/barrel price range.

Natural gas has gained as early winter weather in the northern hemisphere has driven above average usage, pressuring prices to the highest level in a couple of years. We are bullish natural gas but wary of the volatility of prices around world weather patterns. If cold weather continues in the north, prices could build on gains into the first quarter as suppliers hold back storage supplies in case of extreme February cold snaps.

Coal prices rallied off multi-year lows in May 2025 and have recovered somewhat since then, although they have not gotten the uplift natgas prices have seen with northern hemisphere cold. This is probably because the biggest buyer, China, has raised its domestic production in the last couple of years and usage has not grown much as the Chinese economy slows down. Again, if cold persists in the northern hemisphere, we expect coal prices to follow natgas prices higher, and low-cost US producers will benefit. We are mildly bullish coal but do not have extensive positions in the sector.

### 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 looming supply glut. We believe the current supply/demand situation is 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*

Currencies have faded from front page news as tariff news has ebbed. The US dollar has stayed weak during the fourth quarter as US liquidity and Fed dovish moves and recent rhetoric have pushed down the dollar's attractiveness, although the dollar has rallied in January 2026 due to the fading chances for a January 2026 Fed rate cut. We don't believe the Trump Administration wants a strong dollar, as a weaker dollar makes US exports more affordable in world markets. Thus, we continue to be bearish on the dollar, thinking that US political and monetary forces will put pressure on it during 2026. The large supply of Treasuries which must be sold/rolled over is also putting some pressure on the dollar, as supply is large and many traditional international buyers are less interested in buying more Treasuries at current prices and yields.

The euro, being the largest component of the US Dollar Index basket, gained during dollar weakness in the fourth quarter, reaching the 118 level recently as the ECB has indicated they are on hold for interest rate cuts. We think the weak economic situations of many EU members will force the ECB's hand toward more rate cuts in the future (especially as the Fed continues to cut in 2026, giving the ECB "cover" to cut in proportional amounts), but until that happens, traders seem inclined to hold the euro over the dollar at the margin.

The only real action in the currency markets lately has been in the Japanese yen, which has weakened again, even as the BOJ raises rates, although not enough for the market's expectations, apparently, since the yen continues to be sold against all currencies. We don't have much of an opinion on the direction of the yen from here, as we see inertia pointing to further weakness while the BOJ could be forced into action if inflation builds from current levels (which we expect). Thus, we will refrain from any yen-oriented positions for the time being.

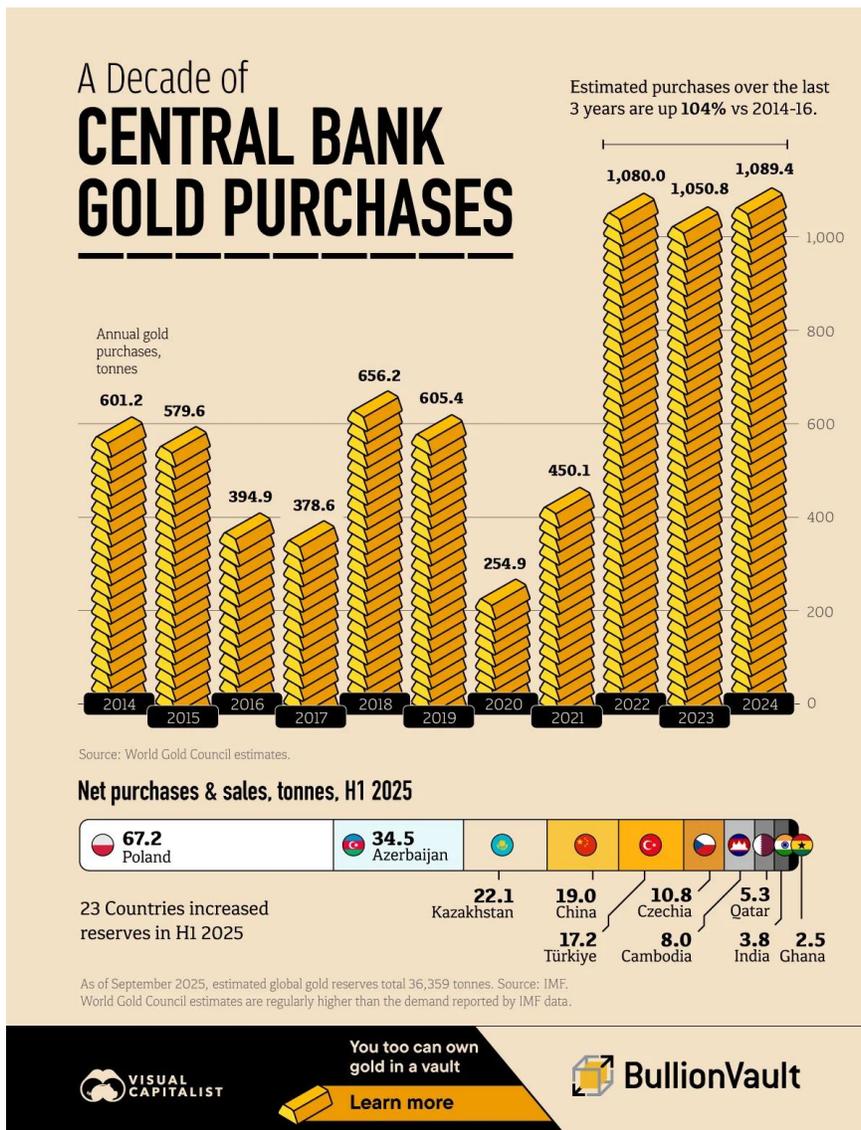
The Chinese yuan has seen strength lately as Chinese exports have boomed (as referenced above – exports are the only part of the Chinese economy showing any strength). As such, the yuan has strengthened as China accumulates foreign currency and tries to balance the economics of exports against the attractiveness of pricing as a strong yuan makes foreign pricing more expensive.

Bottom line: The US dollar was weak in late 2025, as easy monetary conditions and supply of Treasuries to sell pressure the dollar. Although the dollar has shown some early 2026 strength, we still expect political, fiscal and monetary forces to put pressure on it during 2026. Most other currencies are relatively stable, although the yen continues to be weak despite BOJ rate hikes, and the Chinese yuan continues to strengthen as exports boom. We do not think currencies carry enough attractiveness currently to merit any of our capital.

## Commodities

The precious metals have had a historic year in 2025 as reserve diversification, fear of dollar debasement, increased industrial usage and attractive supply/demand balances continue to pull buyers into precious metal investments. Gold and silver had their best year since 1979.

And while the metals have gained significantly in price during 2024-25, the factors driving these gains have not waned, and in many cases, they are growing, continuing to make precious metals look attractive. First, central banks continue their buying, with buying picking up in October, led by the Polish central bank, which returned to the market for the first time in months, buying 16 tons. In addition, the Brazil central bank also returned to the market, buying for the first time since 2021. The following graphic, from the Visual Capitalist (visualcapitalist.com) shows central bank buying for the last ten years (through 2024). The jump above 1,000 total tons purchased per year after the freezing of Russian Central Bank assets in 2022 by the Europeans looks to continue for a fourth year, although 2025 looks like it will be lower than 2024 due in part to much higher prices.



Second, US political and monetary actions continue to point toward a lower dollar, as the Administration continues to have to sell increasingly larger amounts of Treasuries and welcomes a weakening dollar to make US exports more competitive. The Fed is tasked with keeping employment up and has taken on the role of continually making sure US financial markets have adequate liquidity, goosing the already-rising US money supply. Since precious metals are quoted in dollars in many parts of the world, a continually weakening dollar will tend to push up precious metals prices further.

Third, the electrification of the US and the world incorporates the use of gold in chips and other equipment and silver, the best conductor of any metal, in solar and increasingly in other electrification efforts. Solar panels especially use a lot of silver, so the accelerating expansion of solar facilities requires increasingly large amounts of silver to work.

Finally, new supplies of metals are increasingly found in less hospitable locations, take years of exploration, require regulatory approvals and then development before producing any metal for sale. Gold ore bodies found in recent years have been smaller and at lower grade on average than in the past, and only a handful of giant ore bodies have been discovered in the past few years. Silver is generally only produced as a byproduct of gold or lead/zinc mines; thus, it is much harder to ramp up production of silver, unless all the primary metals have strong expansion drivers. Silver has been in deficit for the last five years (usage exceeding production), and with solar panel demand continuing at a high level (and older panels needing to be replaced due to age), silver supplies are starting to get worrisomely tight, hence the recent run-up in price.

These four factors, all of which look to continue for months or years to come, point toward future gains for precious metals prices as those “late to the party” bid up prices for gold reserves, industrial usage and financial investments.

Precious metals aren’t the only commodities doing well. The buildout of data centers, expansion of electric infrastructure/vehicles and the rapid ramp-up of power generation and associated distribution have pushed copper, uranium, rare earth metals and other industrial metals higher in 2026, with copper hitting all-time highs in price as supply concerns keep pressure on prices. Data center construction to support AI is just hitting its stride, and green-lighted and financed projects will need materials and connections for the next two years at least, even if there is a hiccup in forward demand in 2026-27.

Agricultural commodity prices have not kept up, as supplies are plentiful due to diversified sources and generally good summer weather in much of the growing world. We have cut exposures to ags and food investments as other opportunities proved to be more attractive.

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:

Precious metals continue to have good fundamentals as well as momentum, pointing to continued rises in prices over time in the future. We continue to maintain overweights in commodity ETFs and producers, headed by precious metals but also in industrial metals. We think the dollar continues to

weaken over time, and we believe worldwide economic growth and industrial/AI/electrification buildouts, as well as geopolitical concerns, will keep a floor under prices, and any strength in agricultural and/or energy prices could reignite inflation, adding to the attractiveness of hard assets.

## *Kanos Quarterly Commentary*

### **Is AI any help?**

We thought it would be an interesting experiment to use one of our AI tools to answer some investment questions and see what the results might look like. We use Perplexity.ai as one of our research tools, looking for articles and statistics related to investment data, trends and happenings. So, we decided to ask Perplexity the five questions we answered last quarter from our investors. Here are Perplexity's answers to our questions, with its answers drawn from popular internet sources:

**Kanos:** Will the US stock market continue to go up in 2026?

*Perplexity:*

*No one can say with certainty whether the US stock market will keep going up in 2026, but most major Wall Street forecasts currently expect some additional gains rather than a big drop, with more modest returns than the last few years.*

#### ***What forecasters are saying***

- *Large banks and strategists generally project the S&P 500 to end 2026 higher than it started, with many targets implying single- to low-double-digit percentage gains.*
- *Expectations for continued earnings growth, ongoing AI-related investment, and the potential for further interest-rate cuts are key reasons behind these mildly bullish outlooks.*

#### ***Main upside drivers***

- *Strong corporate profits and capital spending, especially around artificial intelligence and technology infrastructure, are expected to keep supporting equities.*
- *Anticipated additional Federal Reserve rate cuts would keep borrowing costs relatively low, which tends to favor stocks over cash and bonds.*

#### ***Key risks in 2026***

- *Elevated valuations after several strong years mean stocks are more vulnerable if growth or earnings disappoint.*
- *Political uncertainty, possible economic slowdown, AI investment not paying off as quickly as hoped, or geopolitical shocks could all trigger bouts of volatility or even a correction.*



### ***What this means for you***

- *Treat 2026 outlooks as scenarios, not guarantees; even a consensus for gains can be wrong.*
- *Consider diversifying (across sectors, sizes, and geographies), aligning risk with your time horizon, and using regular investing rather than trying to time short-term moves.*

*If you share your time horizon, risk tolerance, and whether you're talking about index funds or individual stocks, a more tailored set of next steps can be outlined.*

**Kanos:**        **Gold and silver have gone up a lot. Is it time to sell?**

*Perplexity:*

*It might be a good time to think about trimming, but whether you should sell depends much more on your situation than on the price move itself.*

### ***Where gold and silver are now***

- *Gold is around record highs, recently quoted in the mid-\$4,000s per ounce after gaining over 70% in the past year.*
- *Silver has risen even more sharply, recently in the mid-\$70s per ounce, up more than 150% over the past year.*
- *Demand is being driven by expectations of lower interest rates, geopolitical risk, and strong industrial use (especially for silver).*

### ***Reasons to consider selling (or trimming)***

- *Your position is a large portion of your net worth (for many people, more than 10–20% in a single asset class is high risk).*
- *You need cash in the next 1–3 years for known goals (debt payoff, house, emergency fund).*
- *The recent run-up has taken your allocation to metals far above your target; locking in some gains reduces the risk of a sharp pullback, which often follows big spikes.*

### ***Reasons to consider holding***

- *Many major institutions still see room for further gains, with some forecasts for gold near \$4,800–5,000 and higher silver prices over the next couple of years.*
- *Metals still serve as a hedge against inflation, financial stress, and political or geopolitical shocks, which remain elevated.*
- *If your metals are a modest slice of a diversified portfolio and you do not need the money soon, holding (or only trimming a little) can be reasonable.*

### ***A practical middle-ground approach***

- *Rebalance: Decide what percentage of your total investments you want in precious metals (for example, 5–15%), then sell only enough to get back to that range.*
- *Stagger sales: If you want to de-risk but are worried about “selling too soon,” you can sell in stages over several months or at pre-set price levels instead of all at once.*



- *Match to goals: Metals you were always planning to use for near-term spending are safer to sell after a big rally; long-term “insurance” holdings can be left alone.*

***What would help tailor this to you***

*If you want a more specific answer, share:*

- *Roughly what percentage of your net worth is in gold/silver.*
- *Whether you own physical metal, ETFs, or mining stocks.*
- *Any big upcoming cash needs in the next 1-3 years.*

*With that, guidance can be narrowed down to something closer to a yes/no for your situation.*

**Kanos: Has inflation been tamed or should I still worry about it?**

*Perplexity:*

*In the U.S., inflation has come down a lot from the 2022 spike and is now in the 2-3% range, but it is not completely “solved,” so some ongoing caution still makes sense. Most economists would say it is largely under control compared with a few years ago, yet there are still risks that could push prices higher again, especially from housing, wages, and policy shifts.*

***Where inflation stands now***

- *Recent data put U.S. headline inflation around 2.7% year-over-year, much lower than the 8-9% peaks seen in 2022.*
- *Core inflation (excluding food and energy) has also fallen from above 6% to roughly 3% over the last couple of years, closer to but still above the Federal Reserve’s 2% goal.*

***Is it “tamed”?***

- *Several central-bank-watching analyses describe inflation as “tame” or “soft” relative to expectations, which has allowed interest-rate cuts to begin or be discussed.*
- *However, experts still note that shelter costs, tight labor markets, and possible new tariffs could keep inflation somewhat sticky rather than smoothly gliding to 2% and staying there.*

***What this means for your planning***

- *For everyday finances, inflation is no longer at crisis levels, but planning on 2-3% price increases per year rather than near-zero is still prudent.*
- *For investing, many outlooks assume inflation will average in the mid-2% range over the next couple of years, so completely ignoring inflation risk would be unwise, but it no longer needs to dominate every decision the way it did in 2022.*

**Kanos: I’ve been getting over 4% in my savings account. Is that going to continue?**

*Perplexity:*

*Savings rates above 4% are available today, but they are not guaranteed to last and can change quickly as interest rates in the broader economy move.*



### ***What's happening now***

- *Many high-yield savings accounts are still paying around 4% to 5% APY as of early 2026, which is far above the national average savings rate of about 0.4%.*
- *These high rates are a result of the Federal Reserve keeping short-term interest rates elevated to fight inflation, which makes banks more willing to pay up for deposits.*

### ***Will 4%+ likely continue?***

- *No bank will guarantee that rate forever on a variable-rate savings account; the APY can be changed at any time, and tends to fall if the Fed starts cutting rates.*
- *Some analysts expect that as inflation cools and economic growth slows, interest rates could drift down, which would likely pull high-yield savings rates below 4% over time, though the exact timing is uncertain.*

### ***What you can do***

- *Check whether your account is a “high-yield” online savings account and compare its APY to current top rates (often 4–5%); moving to a more competitive bank can help you maintain a higher rate for now.*
- *Match your decision to your time horizon:*
- *Money needed in the next 6–12 months: keeping it in a high-yield savings or short-term cash vehicle is usually sensible.*
- *Money you don't need for several years: consider whether some of it should be in longer-term investments (like diversified stock/bond funds), since high cash yields tend to be temporary.*

*If you share roughly how much you keep in savings and when you might need it, a more tailored “how much to keep at 4% vs invest” breakdown is possible.*

**Kanos: Is AI and the AI buildout a bubble or a boom?**

*Perplexity:*

*AI right now looks like a boom built on real technology and profits, but with clear bubble-like pockets in valuations and spending that are unlikely to be sustainable. The most realistic view is that it is a long-term infrastructure and productivity shift, with a high chance of a sharp correction in some parts rather than a total collapse.*

### ***What “bubble” looks like here***

- *Massive capital spending: Estimates put annual AI-related infrastructure capex (chips, data centers, etc.) in the hundreds of billions of dollars, with big tech and AI labs committing toward or above the trillion-dollar range over a multiyear period. This scale and speed are historically extreme and resemble classic bubbles in terms of investment intensity.*
- *Valuation stretch and concentration: A handful of chip makers, hyperscalers, and flagship AI companies trade at very high multiples, and AI-related names dominate index performance, creating concentration risk reminiscent of late-stage tech bubbles.*



- *Monetization gap: Enterprise AI revenues and realized ROI lag far behind the infrastructure spend, with studies suggesting most generative AI pilots fail to deliver material business value so far. When investment vastly outpaces proven cash flows, repricing risk increases.*

### ***Why it is also a real boom***

- *Profits and cash flows are real: Unlike the dot-com era, today's leading AI and cloud firms generate large, durable profits and are funding much of the capex from cash, not fragile leverage. That makes a systemic crash less likely even if AI enthusiasm cools.*
- *Broad adoption and infrastructure: AI is already embedded in consumer apps, enterprise software, and cloud platforms, and AI-related capex has become a measurable contributor to GDP growth. Overbuilt infrastructure often ends up enabling later, more sustainable waves of innovation rather than being "wasted."*
- *Long demand tail: Structural demand for compute, storage, and networking to run and refine models gives the buildout a multi-year runway, even if near-term use cases disappoint.*

### ***What is likely to happen***

- *Selective corrections, not total collapse: Analysts and market strategists increasingly frame the next phase as a "cycle, not collapse," where overvalued or low-moat players get hit hardest while core infrastructure and dominant platforms remain strong.*
- *Shakeout among startups and weak business models: Feature-only AI startups, undifferentiated model vendors, and companies priced for flawless execution over a decade are the most exposed if expectations reset.*
- *Macro risk if spending slows abruptly: AI-related capex has become a major driver of recent growth, so a sharp pullback—especially if it coincides with disillusionment in boardrooms—could spill over into the broader economy.*

### ***How to think about it as an investor or builder***

- *Treat core infrastructure as boom, peripheral hype as bubble: Chips, data centers, and leading cloud/platform providers are more likely to reflect a durable boom; niche, unprofitable applications with high valuations look more bubble-like.*
- *Focus on real productivity gains: The long-term winners will be those demonstrating measurable cost reduction, revenue lift, or new capabilities, not just "AI-inside" branding.*
- *Expect volatility, not a straight line: History suggests overinvestment is usually followed by a shakeout and then a more sustainable growth phase, rather than a permanent end to the underlying technology trend.*

*In short: AI as a technology and infrastructure shift is a genuine boom, but the way capital is being deployed around it has strong bubble elements that are likely to correct over the next few years rather than fuel uninterrupted exponential gains.*

Conclusions? As we read through Perplexity's "answers," we see that it is a thoughtful compendium of mainstream investment views, presented in a clear, precise format with sensible general conclusions but hedged opinions on what to do and little on when to do them. Specifically, the answers don't give the reader much insight into timing or where specific advantages or disadvantages can be identified and hopefully taken advantage of. We use Perplexity because it seems to provide good, well-structured answers to our research questions. This exercise proves that again. However, it also doesn't seem to

give much investment insight other than investing in the S&P 500. We also disagree with quite a few of the “facts” presented around the AI buildout (covered in the above Equities section and in past letters) – we think overbuilding, much larger use of debt financing and lack of any visibility of revenue (much less profit) coming from AI overall will lead to a large pullback in AI stocks in the future.

### *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 level of today’s “poverty line” is one of those. We thought it was well-written and on point on a lot of hot-button topics.

### **Article from [Yes, I give a fig ... thoughts on markets from Michael Green](#) substack site**

Mike Green is a brilliant but sarcastic market analyst who is willing to call things like he sees them, which is often much earlier and more insightful than almost anyone commenting on financial markets. Here, he shares (frankly) [shocking insights](#) into the cost of living in the US (and other developed countries) and how it needs to change the face of economic and political thinking.

## **How a Broken Benchmark Quietly Broke America**

[MICHAEL W. GREEN](#)

NOV 23, 2025

I have spent my career distrusting the obvious.

Markets, liquidity, factor models—none of these ever felt self-evident to me. Markets are mechanisms of price clearing. Mechanisms have parameters. Parameters distort outcomes. This is the lens through which I learned to see everything: find the parameter, find the distortion, find the opportunity.

But there was one number I had somehow never interrogated. One number that I simply accepted, the way a child accepts gravity.

### **The poverty line.**

I don’t know why. It seemed apolitical, an actuarial fact calculated by serious people in government offices. A line someone else drew decades ago that we use to define who is “poor,” who is “middle class,” and who deserves help. It was infrastructure—invisible, unquestioned, foundational.

This week, while trying to understand why the American middle class feels poorer each year despite healthy GDP growth and low unemployment, I came across a sentence buried in a research paper:

“The U.S. poverty line is calculated as three times the cost of a minimum food diet in 1963, adjusted for inflation.”

I read it again. Three times the minimum food budget.

I felt sick.

## The Measurement Failure

The formula was developed by Mollie Orshansky, an economist at the Social Security Administration. In 1963, she observed that families spent roughly one-third of their income on groceries. Since pricing data was hard to come by for many items, e.g. housing, if you could calculate a minimum adequate food budget at the grocery store, you could multiply by three and establish a poverty line.

Orshansky was careful about what she was measuring. In her January 1965 article, she presented the poverty thresholds as a measure of income *inadequacy*, not income adequacy—“if it is not possible to state unequivocally ‘how much is enough,’ it should be possible to assert with confidence how much, on average, is too little.”

She was drawing a floor. A line below which families were clearly in crisis.

For 1963, that floor made sense. Housing was relatively cheap. A family could rent a decent apartment or buy a home on a single income, as we’ve discussed. Healthcare was provided by employers and cost relatively little (Blue Cross coverage averaged \$10/month). Childcare didn’t really exist as a market—mothers stayed home, family helped, or neighbors (who likely had someone home) watched each other’s kids. Cars were affordable, if prone to breakdowns. With few luxury frills, the neighborhood kids in vo-tech could fix most problems when they did. College tuition could be covered with a summer job. Retirement meant a pension income, not a pile of 401(k) assets you had to fund yourself.

Orshansky’s food-times-three formula was crude, but as a **crisis** threshold—a measure of “too little”—it roughly corresponded to reality. A family spending one-third of its income on food would spend the other two-thirds on everything else, and those proportions more or less worked. Below that line, you were in genuine crisis. Above it, you had a fighting chance.

But everything changed between 1963 and 2024.

Housing costs exploded. Healthcare became the largest household expense for many families. Employer coverage shrank while deductibles grew. Childcare became a market, and that market became ruinously expensive. College went from affordable to crippling. Transportation costs rose as cities sprawled and public transit withered under government neglect.

The labor model shifted. A second income became mandatory to maintain the standard of living that one income formerly provided. But a second income meant childcare became mandatory, which meant two cars became mandatory. Or maybe you'd simply be "asking for a lot generationally speaking" because living near your parents helps to defray those childcare costs.

The composition of household spending transformed completely. In 2024, food-at-home is no longer 33% of household spending. For most families, it's 5 to 7 percent.

Housing now consumes 35 to 45 percent. Healthcare takes 15 to 25 percent. Childcare, for families with young children, can eat 20 to 40 percent.

If you keep Orshansky's logic—if you maintain her principle that poverty could be defined by the inverse of food's budget share—but update the food share to reflect today's reality, the multiplier is no longer three.

It becomes sixteen.

Which means if you measured income inadequacy today the way Orshansky measured it in 1963, the threshold for a family of four wouldn't be \$31,200.

It would be somewhere between \$130,000 and \$150,000.

And remember: Orshansky was only trying to define "too little." She was identifying crisis, not sufficiency. If the crisis threshold—the floor below which families cannot function—is honestly updated to current spending patterns, it lands at \$140,000.

What does that tell you about the \$31,200 line we still use?

It tells you we are measuring starvation.

*"An imbalance between rich and poor is the oldest and most fatal ailment of all republics." —  
Plutarch*

## **The Real Math of Survival**

The official poverty line for a family of four in 2024 is \$31,200. The median household income is roughly \$80,000. We have been told, implicitly, that a family earning \$80,000 is doing fine—safely above poverty, solidly middle class, perhaps comfortable.

But if Orshansky's crisis threshold were calculated today using her own methodology, that \$80,000 family would be living in deep poverty.

I wanted to see what would happen if I ignored the official stats and simply calculated the cost of existing. I built a Basic Needs budget for a family of four (two earners, two kids). No vacations, no Netflix, no luxury. Just the “Participation Tickets” required to hold a job and raise kids in 2024.

Using conservative, national-average data:

Childcare: \$32,773

Housing: \$23,267

Food: \$14,717

Transportation: \$14,828

Healthcare: \$10,567

Other essentials: \$21,857

Required net income: \$118,009

Add federal, state, and FICA taxes of roughly \$18,500, and you arrive at a required gross income of \$136,500.

This is Orshansky’s “too little” threshold, updated honestly. This is the floor.

The single largest line item isn’t housing. It’s childcare: \$32,773.

This is the trap. To reach the median household income of \$80,000, most families require two earners. But the moment you add the second earner to chase that income, you trigger the childcare expense.

If one parent stays home, the income drops to \$40,000 or \$50,000—well below what’s needed to survive. If both parents work to hit \$100,000, they hand over \$32,000 to a daycare center.

The second earner isn’t working for a vacation or a boat. The second earner is working to pay the stranger watching their children so they can go to work and clear \$1-2K extra a month. It’s a closed loop.

## **The Housing Lie (Or, Why the Model Is Optimistic)**

Critics will immediately argue that I’m cherry-picking expensive cities. They will say \$136,500 is a number for San Francisco or Manhattan, not “Real America.”

So let’s look at “Real America.”

The model above allocates \$23,267 per year for housing. That breaks down to \$1,938 per month. This is the number that serious economists use to tell you that you’re doing fine.



In my last piece, *Are You An American?*, I analyzed a modest “starter home” which turned out to be in Caldwell, New Jersey—the kind of place a Teamster could afford in 1955. I went to Zillow to see what it costs to live in that same town if you don’t have a down payment and are forced to rent.

There are exactly seven 2-bedroom+ units available in the entire town. The cheapest one rents for \$2,715 per month.

That’s a \$777 monthly gap between the model and reality. That’s \$9,300 a year in post-tax money. To cover that gap, you need to earn an additional \$12,000 to \$13,000 in gross salary.

So when I say the real poverty line is \$140,000, I’m being conservative. I’m using optimistic, national-average housing assumptions. If we plug in the actual cost of living in the zip codes where the jobs are—where rent is \$2,700, not \$1,900—the threshold pushes past \$160,000.

The market isn’t just expensive; it’s broken. Seven units available in a town of thousands? That isn’t a market. That’s a shortage masquerading as an auction.

And that \$2,715 rent check buys you zero equity. In the 1950s, the monthly housing cost was a forced savings account that built generational wealth. Today, it’s a subscription fee for a roof. You are paying a premium to stand still.

## **The Hedonic “Lie”: Why a Phone Costs \$200, Not \$58**

Economists will look at my \$140,000 figure and scream about “hedonic adjustments.” Heck, I will scream at you about them. They are valid attempts to measure the improvement in quality that we honestly value.

I will tell you that comparing 1955 to 2024 is unfair because cars today have airbags, homes have air conditioning, and phones are supercomputers. I will argue that because the quality of the good improved, the real price dropped.

And I would be making a category error. We are not calculating the price of luxury. We are calculating the price of participation.

To function in 1955 society—to have a job, call a doctor, and be a citizen—you needed a telephone line. That “Participation Ticket” cost \$5 a month.

Adjusted for standard inflation, that \$5 should be \$58 today.

But you cannot run a household in 2024 on a \$58 landline. To function today—to factor authenticate your bank account, to answer work emails, to check your child’s school portal (which is now digital-only)—you need a smartphone plan and home broadband.

The cost of that “Participation Ticket” for a family of four is not \$58. It’s \$200 a month.

The economists say, “But look at the computing power you get!”

I say, “Look at the computing power I **need!**”

The utility I’m buying is “connection to the economy.” The price of that utility didn’t just keep pace with inflation; it tripled relative to it.

I ran this “Participation Audit” across the entire 1955 budget. I didn’t ask “is the car better?” I asked “what does it cost to get to work?”

Healthcare: In 1955, Blue Cross family coverage was roughly \$10/month (\$115 in today’s dollars). Today, the average family premium is over \$1,600/month. That’s 14x inflation.

Taxes (FICA): In 1955, the Social Security tax was 2.0% on the first \$4,200 of income. The maximum annual contribution was \$84. Adjusted for inflation, that’s about \$960 a year. Today, a family earning the median \$80,000 pays over \$6,100. That’s 6x inflation.

Childcare: In 1955, this cost was zero because the economy supported a single-earner model. Today, it’s \$32,000. That’s an infinite increase in the cost of participation.

The only thing that actually tracked official CPI was... food. Everything else—the inescapable fees required to hold a job, stay healthy, and raise children—inflated at multiples of the official rate when considered on a participation basis. YES, these goods and services are BETTER. I would not trade my 65” 4K TV mounted flat on the wall for a 25” CRT dominating my living room; but I don’t have a choice, either.

## **The Valley of Death: Why \$100,000 Is the New Poor**

Once I established that \$136,500 is the real break-even point, I ran the numbers on what happens to a family climbing the ladder toward that number.

What I found explains the “vibes” of the economy better than any CPI print.

Our entire safety net is designed to catch people at the very bottom, but it sets a trap for anyone trying to climb out. As income rises from \$40,000 to \$100,000, benefits disappear faster than wages increase.

I call this The Valley of Death.

Let's look at the transition for a family in New Jersey:

### **1. The View from \$35,000 (The “Official” Poor)**

At this income, the family is struggling, but the state provides a floor. They qualify for Medicaid (free healthcare). They receive SNAP (food stamps). They receive heavy childcare subsidies. Their deficits are real, but capped.

### **2. The Cliff at \$45,000 (The Healthcare Trap)**

The family earns a \$10,000 raise. Good news? No. At this level, the parents lose Medicaid eligibility. Suddenly, they must pay premiums and deductibles.

- Income Gain: +\$10,000
- Expense Increase: +\$10,567
- Net Result: They are poorer than before. The effective tax on this mobility is over 100%.

### **3. The Cliff at \$65,000 (The Childcare Trap)**

This is the breaker. The family works harder. They get promoted to \$65,000. They are now solidly “Working Class.”

But at roughly this level, childcare subsidies vanish. They must now pay the full market rate for daycare.

- Income Gain: +\$20,000 (from \$45k)
- Expense Increase: +\$28,000 (jumping from co-pays to full tuition)
- Net Result: Total collapse.

When you run the net-income numbers, a family earning \$100,000 is effectively in a worse monthly financial position than a family earning \$40,000.

At \$40,000, you are drowning, but the state gives you a life vest. At \$100,000, you are drowning, but the state says you are a “high earner” and ties an anchor to your ankle called “Market Price.”

In option terms, the government has sold a call option to the poor, but they've rigged the gamma. As you move "closer to the money" (self-sufficiency), the delta collapses. For every dollar of effort you put in, the system confiscates 70 to 100 cents.

No rational trader would take that trade. Yet we wonder why labor force participation lags. It's not a mystery. It's math.

## The Physics of Ruin: The Phase Change

The most dangerous lie of modern economics is "Mean Reversion." Economists assume that if a family falls into debt or bankruptcy, they can simply save their way back to the average.

They are confusing Volatility with Ruin.

Falling below the line isn't like cooling water; it's like freezing it. It is a Phase Change.

When a family hits the barrier—eviction, bankruptcy, or default—they don't just have "less money." They become Economically Inert.

- They are barred from the credit system (often for 7–10 years).
- They are barred from the prime rental market (landlord screens).
- They are barred from employment in sensitive sectors.

In physics, it takes massive "Latent Heat" to turn ice back into water. In economics, the energy required to reverse a bankruptcy is exponentially higher than the energy required to pay a bill.

The \$140,000 line matters because it is the buffer against this Phase Change. If you are earning \$80,000 with \$79,000 in fixed costs, you are not stable. You are super-cooled water. One shock—a transmission failure, a broken arm—and you freeze instantly.

## The Lockdown Arbitrage: Proof of Concept

If you need proof that the cost of participating, the cost of **working**, is the primary driver of this fragility, look at the Covid lockdowns.

In April 2020, the US personal savings rate hit a historic 33%. Economists attributed this to stimulus checks. But the math tells a different story.

During lockdown, the "Valley of Death" was temporarily filled.



- Childcare (\$32k): Suspended. Kids were home.
- Commuting (\$15k): Suspended.
- Work Lunches/Clothes (\$5k): Suspended.

For a median family, the “Cost of Participation” in the economy is roughly \$50,000 a year. When the economy stopped, that tax was repealed. Families earning \$80,000 suddenly felt rich—not because they earned more, but because the leak in the bucket was plugged. For many, income actually rose thanks to the \$600/week unemployment boost. But even for those whose income stayed flat, they felt rich because many costs were avoided.

When the world reopened, the costs returned, but now inflated by 20%. The rage we feel today is the hangover from that brief moment where the American Option was momentarily back in the money. Those with formal training in economics have dismissed these concerns, by and large. “Inflation” is the rate of change in the price level; these poor, deluded souls were outraged at the price LEVEL. Tut, tut... can’t have deflation now, can we? We promise you will like THAT even less.

But the price level does mean something, too. If you are below the ACTUAL poverty line, you are suffering constant deprivation; and a higher price level means you get even less in aggregate.

## **The Politics of Drowning**

*You load sixteen tons, what do you get?  
Another day older and deeper in debt  
Saint Peter, don’t you call me, ‘cause I can’t go  
I owe my soul to the company store — Merle Travis, 1946*

This mathematical valley explains the rage we see in the American electorate, specifically the animosity the “working poor” (the middle class) feel toward the “actual poor” and immigrants.

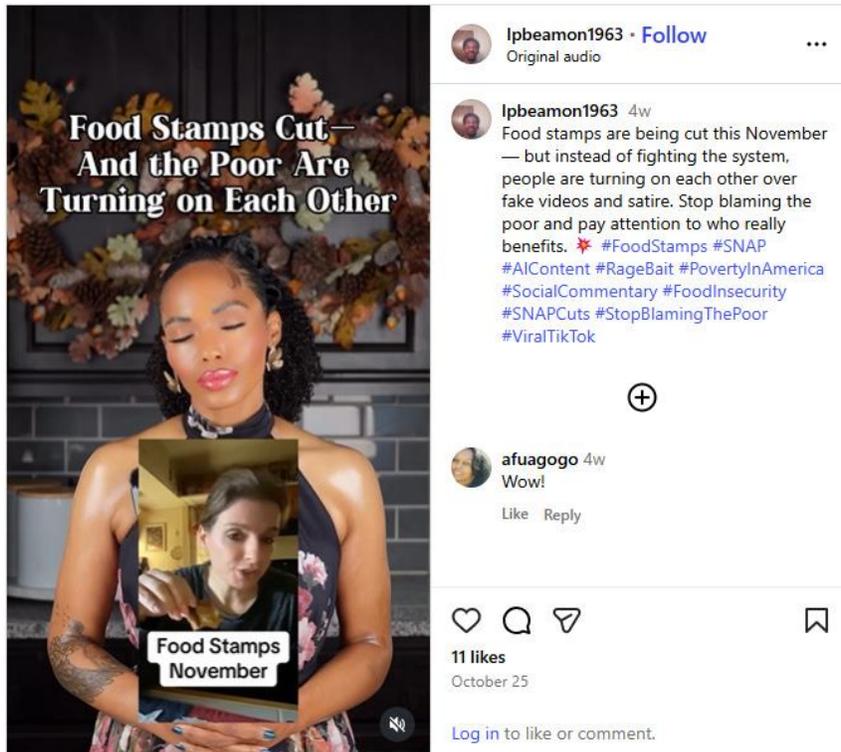
Economists and politicians look at this anger and call it racism, or lack of empathy. They are missing the mechanism.

Altruism is a function of surplus. It is easy to be charitable when you have excess capacity. It is impossible to be charitable when you are fighting for the last bruised banana.

The family earning \$65,000—the family that just lost their subsidies and is paying \$32,000 for daycare and \$12,000 for healthcare deductibles—is hyper-aware of the family earning \$30,000 and getting subsidized food, rent, childcare, and healthcare.

They see the neighbor at the grocery store using an EBT card while they put items back on the shelf. They see the immigrant family receiving emergency housing support while they face eviction.

They are not seeing “poverty.” They are seeing people getting for free the exact things that they are working 60 hours a week to barely afford. And even worse, even if THEY don’t see these things first hand... they are being shown them:



The anger isn’t about the goods. It’s about the breach of contract. The American Deal was that Effort ~ Security. Effort brought your Hope strike closer. But because the real poverty line is \$140,000, effort no longer yields security or progress; it brings risk, exhaustion, and debt.

When you are drowning, and you see the lifeguard throw a life vest to the person treading water next to you—a person who isn’t swimming as hard as you are—you don’t feel happiness for them. You feel a homicidal rage at the lifeguard.

We have created a system where the only way to survive is to be destitute enough to qualify for aid, or rich enough to ignore the cost. Everyone in the middle is being cannibalized. The rich know this... and they are increasingly opting out of the shared spaces:

## The Optical Illusion of Prosperity

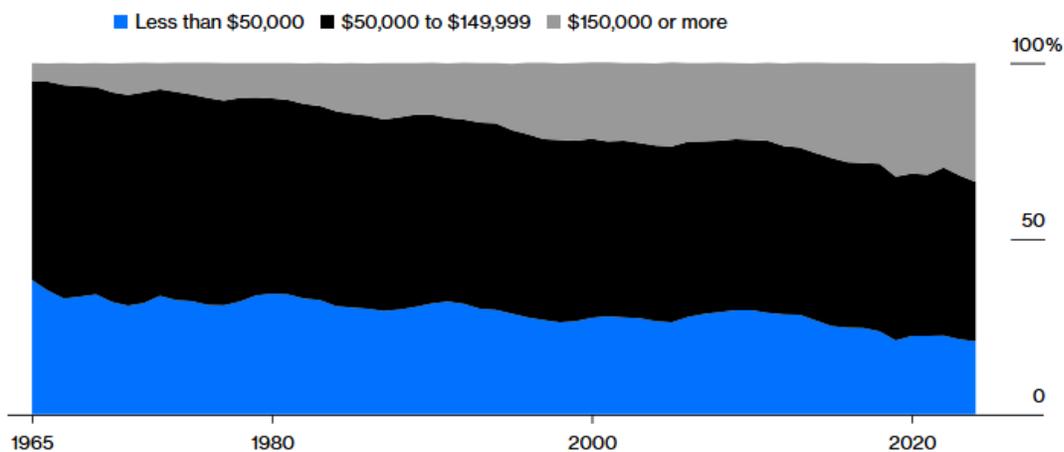
If you need visual proof of this benchmark error, look at the charts that economists love to share on social media to prove that “vibes” are wrong and the economy is great.

You’ve likely seen this chart. It shows that the American middle class is shrinking not because people are getting poorer, but because they’re “moving up” into the \$150,000+ bracket.

The economists look at this and cheer. “Look!” they say. “In 1967, only 5% of families made over \$150,000 (adjusted for inflation). Now, 34% do! We are a nation of rising aristocrats.”

### Growing Wealth — and Inequality

The percentage of US households with a total income greater than \$150,000 has increased as the middle class has been shrinking



Source: US Census Bureau  
Note: In 2024 dollars.

But look at that chart through the lens of the real poverty line.

If the cost of basic self-sufficiency for a family of four—housing, childcare, healthcare, transportation—is \$140,000, then that top light-blue tier isn’t “Upper Class.”

It’s the Survival Line.

This chart doesn’t show that 34% of Americans are rich. It shows that only 34% of Americans have managed to escape deprivation. It shows that the “Middle Class” (the dark blue section between \$50,000 and \$150,000)—roughly 45% of the country—is actually the Working Poor. These are the families earning enough to lose their benefits but not enough to pay for childcare and rent. They are the ones trapped in the Valley of Death.

But the commentary tells us something different:

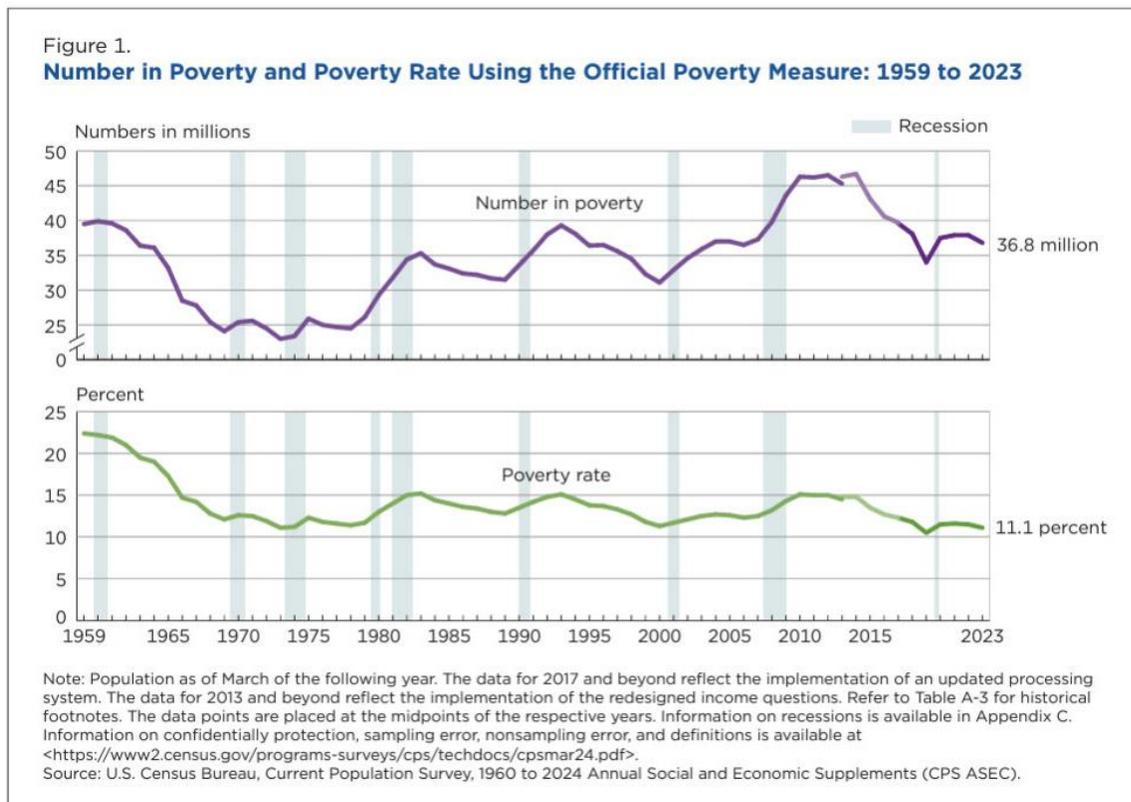
*“Americans earned more for several reasons. The first is that neoliberal economic policies worked as intended. In the last 50 years, there have been big increases in productivity, solid GDP growth and, since the 1980s, low and predictable inflation. All this helped make most Americans richer.”*

**“neoliberal economic policies worked as intended” — read that again. With POSIWID (the purpose of a system is what it does) in mind.**

The chart isn’t measuring prosperity. It’s measuring inflation in the non-discretionary basket. It tells us that to live a 1967 middle-class life in 2024, you need a “wealthy” income.

And then there’s this chart, the shield used by every defender of the status quo:

Poverty has collapsed to 11%. The policies worked as intended!



But remember Mollie Orshansky. This chart is measuring the percentage of Americans who cannot afford a minimum food diet multiplied by three.

It’s not measuring who can afford rent (which is up 4x relative to wages). It’s not measuring who can afford childcare (which is up infinite percent). It’s measuring starvation.

Of course the line is going down. We are an agricultural superpower who opened our markets to even cheaper foreign food. Shrimp from Vietnam, tilapia from... don't ask. Food is cheap. But life is expensive.

When you see these charts, don't let them gaslight you. They are using broken rulers to measure a broken house. The top chart proves that you need \$150,000 to make it. The bottom chart proves they refuse to admit it.

## The Lie

So that's the trap. The real poverty line—the threshold where a family can afford housing, healthcare, childcare, and transportation without relying on means-tested benefits—isn't \$31,200.

It's ~\$140,000.

Most of my readers will have cleared this threshold. My parents never really did, but I was born lucky — brains, beauty (in the eye of the beholder admittedly), height (it really does help), parents that encouraged and sacrificed for education (even as the stress of those sacrifices eventually drove my mother clinically insane), and an American citizenship. But most of my readers are now seeing this trap for their children.

And the system is designed to prevent them from escaping. Every dollar you earn climbing from \$40,000 to \$100,000 triggers benefit losses that exceed your income gains. You are literally poorer for working harder.

The economists will tell you this is fine because you're building wealth. Your 401(k) is growing. Your home equity is rising. You're richer than you feel.

Next week, I'll show you why that's wrong. And THEN we can start the discussion of how to rebuild. Because we can.

The wealth you're counting on—the retirement accounts, the home equity, the “nest egg” that's supposed to make this all worthwhile—is just as fake as the poverty line. But the humans behind that wealth are real. And they are amazing.