HIGHER-FOR-LONGER

Cross-Asset Investment Strategy

Navigating elevated long-term yields in a persistent inflation and fiscal environment

Equities

Fixed Income

Commodities

Inflation Memory

Fiscal Trajectory

Term Premium

Policy Credibility

Report Date: 2025-09-07

Macro Anchor: Drivers of Higher Long-Term Yields

Higher-for-Longer Yield Regime

Inflation Memory

Investors demand compensation for inflation risk, keeping real yields elevated

Fiscal Trajectory

Large deficits drive higher sovereign issuance, creating supply pressure on long ends

Positive Term Premium

After QE, term premium re-established as positive, lifting long-maturity rates

Policy Credibility

Slower easing, questions on inflation control, and rotation away from duration-heavy assets

Global Transmission

Higher U.S. yields tighten global financial conditions (mortgages, capex, EM flows)

Portfolio Implications

- Shorter duration in fixed income
- Cash-generative/quality equities
- Real assets/commodities

Equity Strategy: Sector & Industry Tilts

Equity Duration Concept

In a high-real-yield environment, focus on **near-term cash generators** over far-dated cash flow stories. This follows from the inflation/term-premium sections.

Overweight	Mild OW	Neutral	Underweight
Strong cash generation near term	Moderate near-term cash flow	Balanced cash flow profile	Long-dated cash flow needs

Sector	Tilt
Energy	OW
Financials	MW OW
Industrials	OW
Materials	N→OW
Health Care	OW
Staples	MW OW
Technology	N
Communication	N
Discretionary	UW
Utilities	UW
REITs	UW

Strategic Notes

A balanced portfolio combines cyclical overweights (Energy/Industrials) with defensive quality sectors (Health Care/Staples) to mitigate risk if growth slows while rates remain elevated.

Fixed Income Strategy: Duration Management

Barbell Approach

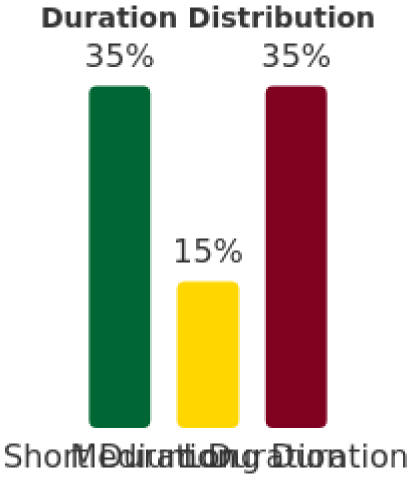
In a "higher-for-longer" environment, the fixed income strategy emphasizes:

- Shorter duration to mitigate rate risk
- Barbell structure with reduced middle portion
- Capturing yields from shorter-maturity instruments

Key Benefits

- Reduces interest rate sensitivity
- Captures yield from short-end of curve
- Balances rate risk with yield opportunity

Barbell Portfolio Structure



Portfolio Construction

Short Duration

- Treasury bills
- Ultra-short Treasuries
- Short-term corporate bonds

Long Duration

- Limited long Treasuries
- Strategic TIPS exposure
- High-quality floating-rate bonds

Key Insight

The strategy moves away from traditional heavy long-duration exposure, recognizing that term premium is positive and rates may rise further even without direct policy rate hikes.

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Commodities & Real Assets: Inflation Protection

Strategic Role

Core Diversifier
Offsets traditional equity and bond exposures

Inflation Hedge
Preserves purchasing power during inflationary periods

Policy Credibility
Provides ballast against fiscal/monetary uncertainty

"Commodities and real assets play a crucial role in a portfolio, especially in an environment characterized by persistent inflation memory and concerns about policy credibility."

Commodity Sleeve Construction

Broad Basket — Core
Rules-based approach
Recommended: **5-10%**

Energy — OW
Inflation & geopolitical hedge
Recommended: **Selective OW**

Industrial Metals — Selective OW
Capex & energy transition
Recommended: **Copper focus**

Gold — Strategic
Policy-credibility/fiscal stress hedge
Recommended: **3-7%**

Implementation Considerations

- Review fund structure/roll and tax implications (K-1 vs 1099)
- Managed futures for trend capture and crisis convexity

Implementation: ETF Mapping

Equities

Sector	ETF	Characteristics
Energy	XLE, XOP, OIH	Cash yield, capital discipline
Financials	XLF, KBE	Strong deposit franchises
Industrials	XLI, ITA/PPA	Public investment/reshoring
Materials	XLB, XME	Industrial metals, capex
Health Care	XLV	Defensive growth, robust FCF
Consumer Staples	XLP	Pricing power, resilient margins

Fixed Income

Sleeve	ETF	Characteristics
Treasury bills	BIL, SGOV	Ultra-short duration
Short Treasuries	SHY, VGSH	1-3y, low volatility
Core IG	VCSH, IGSB	1-5y, quality focus
TIPS	TIP, VTIP	Inflation hedger
Floating-rate	USFR/TFLO, FLOT	Rate insulation
Long Treasuries	IEF, TLT	10-30y, convexity hedge
High Yield	HYG, JNK	Equity-like carry

Commodities & Alts

Sleeve	ETF	Characteristics
Broad basket	PDBC/DBC/COMT	Diversifies equity/bond
Energy	XLE/XOP	Inflation & geopolitical hedge
Industrial metals	CPER	Capex & electrification
Gold	GLD/IAU	Policy credibility/fiscal stress hedge
Managed futures	DBMF/KMLM	Trend capture, crisis convexity

Implementation Considerations

- Review ETF structure/costs before use
- Consider tax implications (K-1 vs 1099)
- Rebalance on drift; use position sizing

Scenario Analysis: How Tilts Change

Asset Class	Base: Higher-For-Longer	Inflation Resurgence	Soft-Landing Disinflation	Hard Landing Recession
Equities	**OW:** Energy, Financials, Industrials/Defense, Health Care/Staples **UW:** Utilities, REITs, rate-sensitive Discretionary	**OW:** Energy/Materials **UW:** Overall equity beta; emphasize Quality	**OW:** Growth/Tech & Homebuilders **Neut:** Quality; add duration	**OW:** Defensives (Staples/Health Care/Utilities) **UW:** Cyclicals and HY-like equities
Bonds	**OW:** T-bills/short IG, TIPS, floaters **Neut:** Small long-end hedge	**OW:** TIPS/floaters **Neut:** Cut duration; OW long duration hedge	**OW:** Duration (IEF/TLT); add IG credit **UW:** TIPS/floaters	**OW:** Long Treasuries aggressively **UW:** HY; add highest-quality IG
Commodities	**Core:** Broad basket (5-10%) **OW:** Energy & gold	**OW:** Broad commodities & gold	**OW:** Energy & gold	**OW:** Some gold **UW:** Cyclical commodities

Overweight | Underweight | Neutral

Risk Controls & Monitoring Framework

Key Metrics to Monitor

Yield Curves

- 10y nominal & real yields
- Term premium
- 2s/10s slope

Inflation

- Breakevens vs realized
- Inflation expectations

Credit

- Credit OAS
- Bank funding costs

Currency

- Dollar (DXY)
- Currency strength

Commodities

- Oil
- Copper/gold ratio

Quality Indicators

- FCF yield
- Interest coverage

Portfolio Construction Best Practices

Rebalance on Drift
Regularly rebalance portfolio to maintain strategic asset allocation

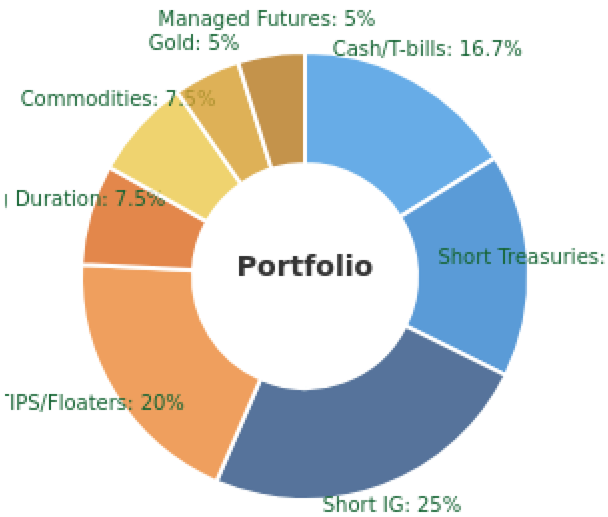
Position Sizing
Use position sizing rather than binary calls for risk management

Barbell Construction
Consider barbell across risk sleeves for balanced exposure

Quality Screen
High FCF yield, low leverage, strong interest coverage, pricing power

Pragmatic Portfolio Construction

Portfolio Allocation Framework



*Illustrative allocation only

Equities

+Quality/+Value tilt; modest OW Energy/Industrials/Defense; MW Tech megacaps; UW Utilities/REITs/rate-sensitive discretionary

Fixed Income

~⅓ cash/T-bills & short Treasuries; ~⅓ short IG; ~¼ TIPS/floaters; ~5–10% long duration hedge

Real Assets/Alts

5–10% broad commodities (with energy bias); 3–7% gold; optional 5–10% managed futures

Strategic Rationale

- Shorter duration fixed income to mitigate rate risk
- Cash-generative equities for near-term income
- Quality companies to navigate economic pressures
- Real assets as inflation hedge