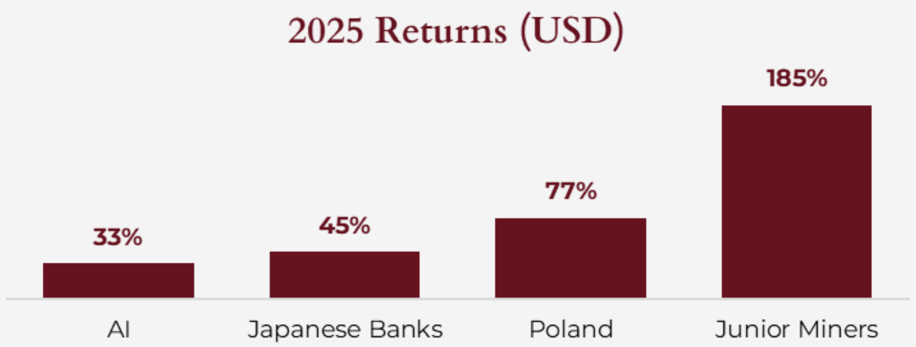
2025 Year-End Letter

Contradictions and TINA's Funeral?

Japanese Banks, Polish Equities, Junior Miners.

All were better investments than the AI trade in 2025:



Source: S&P Capital IQ

Now, obviously the story that commanded attention in 2025 was AI, this is a nice reminder of how insular our financial media can get.

Even with all the hype around another year of AI investment, it arguably wasn't the biggest trade of the year. Maybe not even top 5, and yet it made headlines every day.

In yet another one of these annual letters you will skim, or put through ChatGPT to summarize for you, we're going to have to talk about it – but we think the bigger story is what is happening elsewhere in the world.

There are few certainties in investing, but we're as close as we can get to saying the years of *there is no alternative* (TINA) to US exceptionalism...are over.

"Every time there has been a technology wave that leads to wealth creation...that will inherently invite speculators...

If the wave is real, then you're going to have bubble-like behavior."

- Bill Gurley

The AI reality…and hype

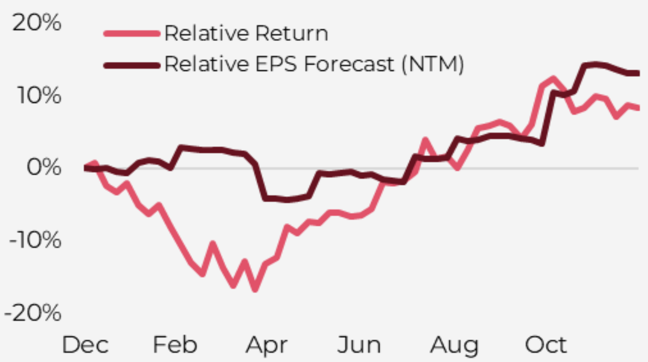
You're already using ChatGPT, or Gemini, or Grok, or DeepSeek. We're going to use them to help write this letter.

We're not going to spend a ton of time summarizing the year, talking about the scale of the CapEx being deployed, or whose model will get them to AGI first. We'll instead just give you a few things to chew on as we enter another year where this is bound to drive the story:

First, *maybe much of this was justified?*

On the side of reality, the earnings growth and capital expenditures of the Magnificent 7 were undeniable. If we had told you at the start of the year what the actual growth would be, you wouldn't have called the stock performance hype; you would have called it fundamental justification. The earnings power at the top of the market is real.

Relative Price Return and EPS Forecast Mag 7 vs. The Rest

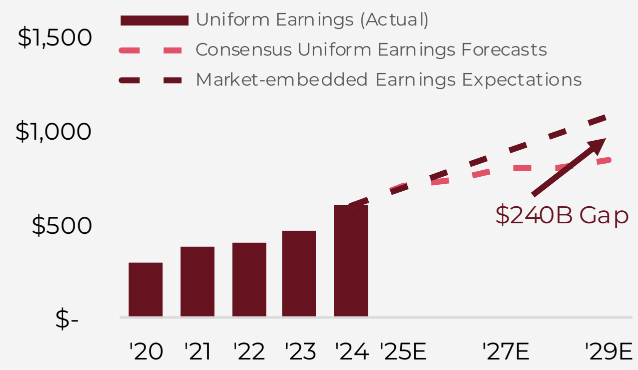


Source: S&P Capital IQ, Monas Investments

The problem is, maintaining that growth is mathematically difficult, if not impossible.

The chart below highlights data provided by Valens Research, taking the "cleaned up" earnings for the Mag 7 and Oracle (which has joined the AI story), fixing the problems inherent in GAAP accounting. With this cleaned up data, Valens's model can infer what the market is pricing in, in terms of expected earnings over the next 5 years, and we can compare that to a like-for-like consensus earnings estimate.

Embedded Earnings ($bn) vs. Consensus Estimates (Mag 7 + ORCL)



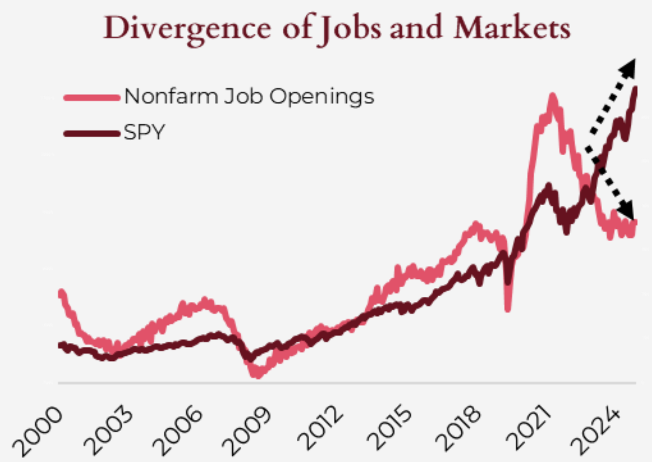
Source: Valens Research, Monas Investments

What we can see from the somewhat busy chart above, is that the market is pricing in ~12-13% annualized growth in this group, with consensus at nearly half that rate. To meet what the market is currently expecting, these companies will need to outperform consensus by nearly $240B by 2029.

If they *do* achieve that kind of growth, we've probably reached some sort of global utopia, so any investment is likely to look better than it does today. This will be incredible.

The problem is, so far this doesn't appear to be flowing down to the marginal consumer, and consumption is still a big part of GDP.

We're already seeing jobs diverge significantly from the stock market:



Source: S&P Capital IQ, FRED

And we're not yet seeing this actually flow through to productivity, so there is a real risk this divergence isn't leading to actual better economic outcomes that will bring people along, and instead we could face real problems if the consumer weakens. The chart below highlights average labor productivity growth by era. Growth in this metric since the launch of ChatGPT is right on average over the last 80 years.

Source: FRED, Monas Investments

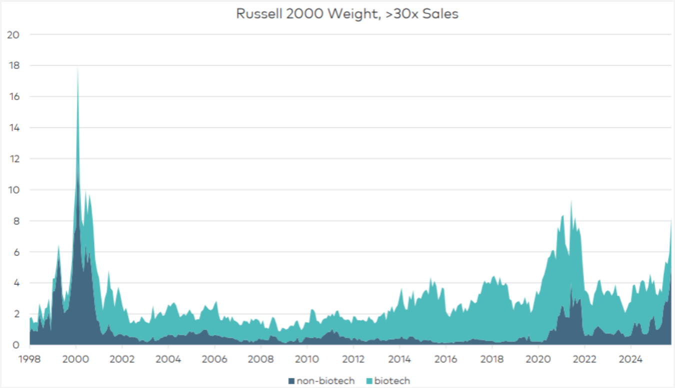
Meanwhile, although the core is real, the periphery of this trade has become speculative. The excitement surrounding this trade has spilled into areas that *aren't* justified, with a resurgence of hype.

In a recent interview ([here]), venture legend Bill Gurley paraphrases author Carlota Perez when saying:

"Every time there has been a technology wave that leads to wealth creation…that will inherently invite speculators…If the wave is real, then you're going to have bubble-like behavior."

Well, the speculators are here.

The below shows the percent of the Russell 2000 that is trading above 30x sales, which we would comfortably acknowledge as "speculative":

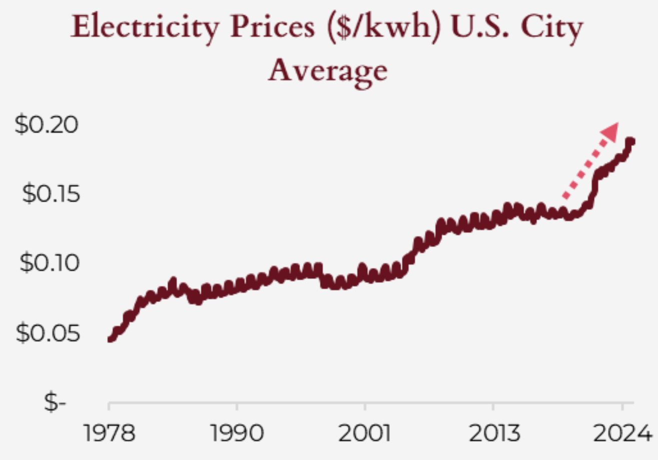


Source: Wasatch Global, Factset

When looking outside of biotech, the share of the index this expensive hasn't been higher since 2000. Even when including biotech, only the meme craze was wilder in the last 25 years.

And finally, this digital revolution has a physical cost, and physical constraints. Valens's embedded expectations graphic doesn't even touch on the fact that in order to achieve expectations, so much else needs to be built.

This massive build-out is having downstream effects on everything from water scarcity to power generation and land values. We are seeing concrete physical impacts, specifically in electricity demand and pricing, as the infrastructure build-out begins to bite. Although valuations have begun to reflect this, it is unlikely this trade is over if the broader hyperscaler trade continues,



Source: FRED

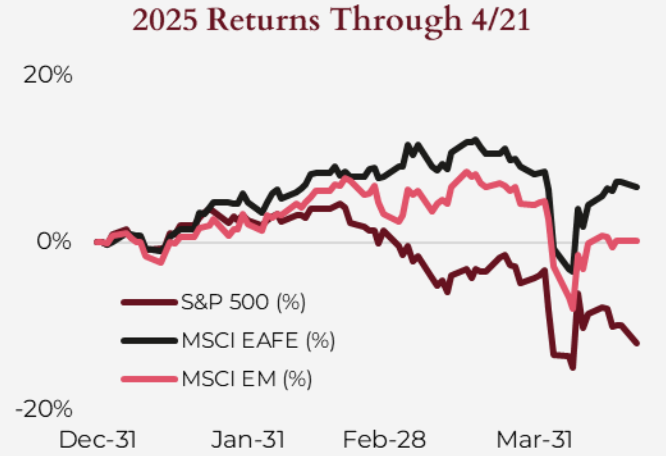
The bigger elephant in the room is overseas

Capital market crises in emerging markets are generally marked by an abrupt reversal of flows into the market:

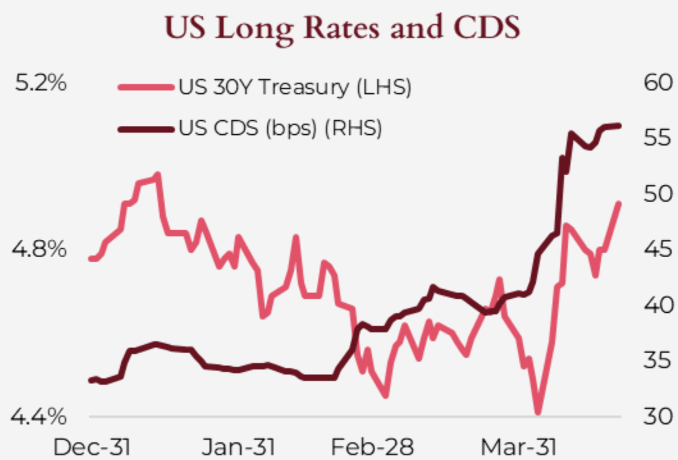
- Stock market falls
- Currency weakens
- Rates jump
- Bond spreads widen

Now, we're certainly not saying the US is an emerging market economy, but through April 21, which marked the last real "risk off" event related to tariffs and Fed pressures, it had a lot of those characteristics.

After the world had a chance to digest the potential effects of Liberation Day, and even before the tariff announcements, it appeared that capital was beginning to move elsewhere:

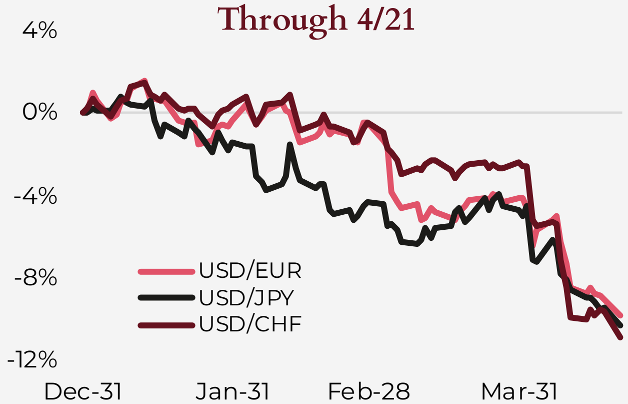


Source: S&P Capital IQ



Source: S&P Capital IQ

USD vs. Major Currencies Through 4/21

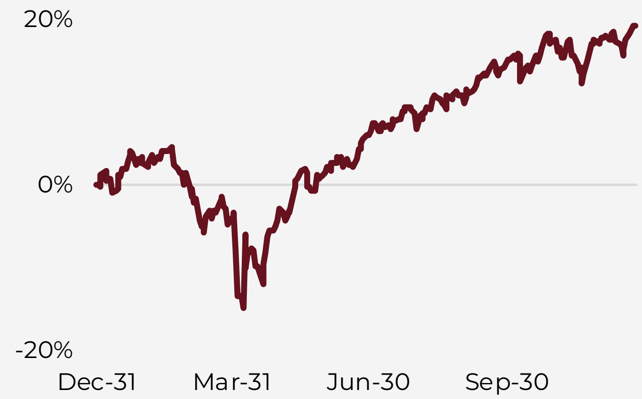


Source: S&P Capital IQ

And then, as quickly as it started, things seemed to normalize. On 4/29, the US revised and clarified application of tariffs, and on 5/12, China and the US reached the first 90-day pause.

From there, the US markets recovered, and marked many new highs, largely on the back of AI excitement and expectations for rate cuts, and an easing of the fear that tariffs would significantly affect the economy:

S&P 500 (%) (2025)



Source: S&P Capital IQ

US CDS (bps) (2025)

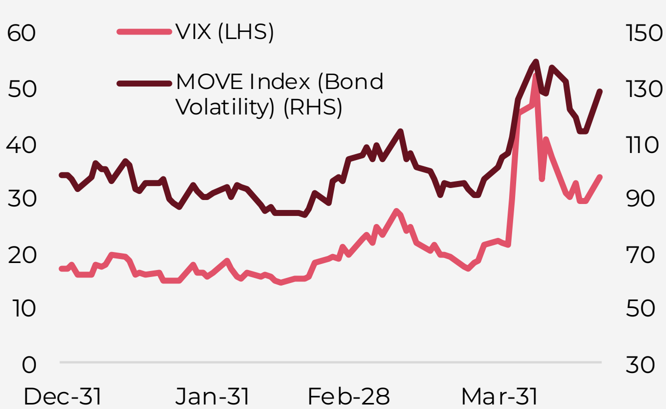
Source: S&P Capital IQ

Meanwhile, the uncertainty caused gold to move higher and vol measures to widen:

Gold Price Through 4/21

Source: S&P Capital IQ

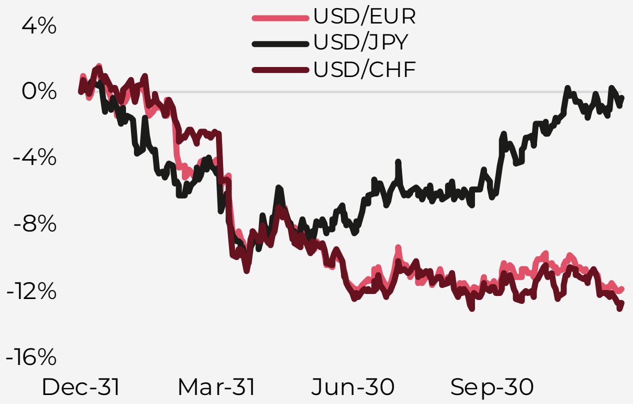
VIX and MOVE Indices Through 4/21



Source: S&P Capital IQ

And the dollar has mostly stabilized, at least relative to other major currencies:

USD vs. Major Currencies (2025)

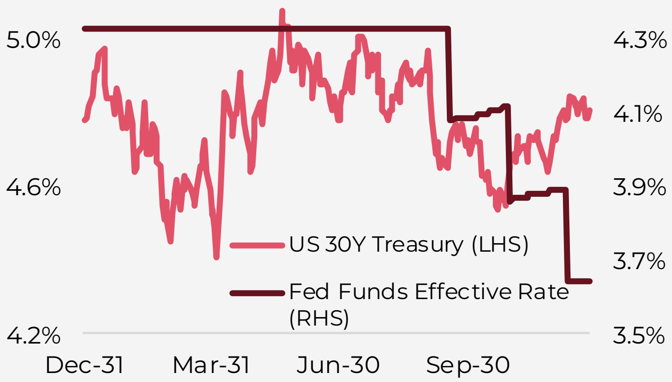


Source: S&P Capital IQ

But if you look closely, or not even that closely, we're not quite back to "normal".

Rates have remained wide at the tail end, even with pressure on the fed and rate cuts coming:

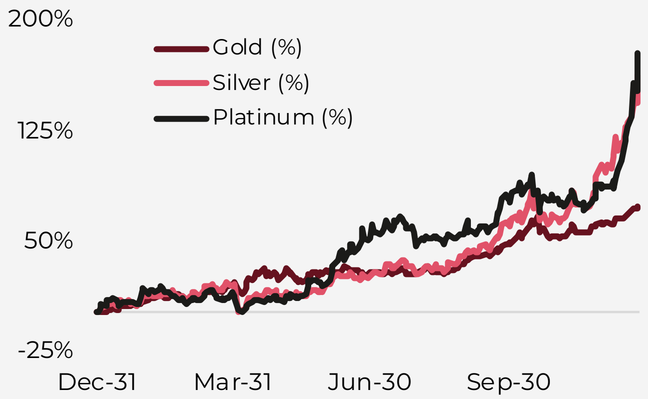
US 30Y and Fed Effective Rate(2025)



Source: S&P Capital IQ

Gold and other precious metals have ripped even higher. This usually isn't a sign of good things to come:

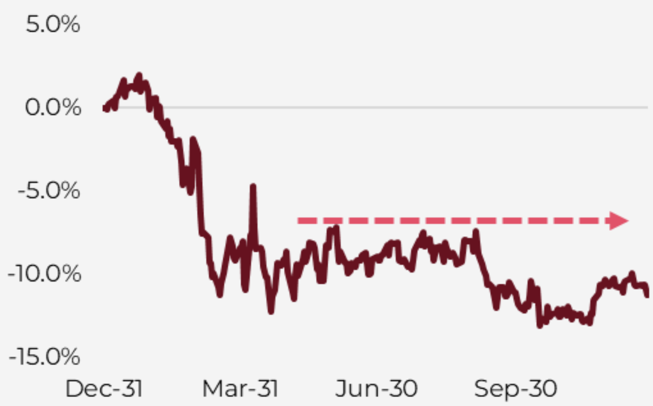
Precious Metals (2025)



Source: S&P Capital IQ

Meanwhile, the rest-of-world trade continues in full force, as capital continues to look for homes outside USD hegemony. Even with the significant rebound the in the S&P, the rest of the developed world has kept pace, and even outperformed slightly in the back part of the year.

S&P vs. EAFE (YTD)



Source: S&P Capital IQ

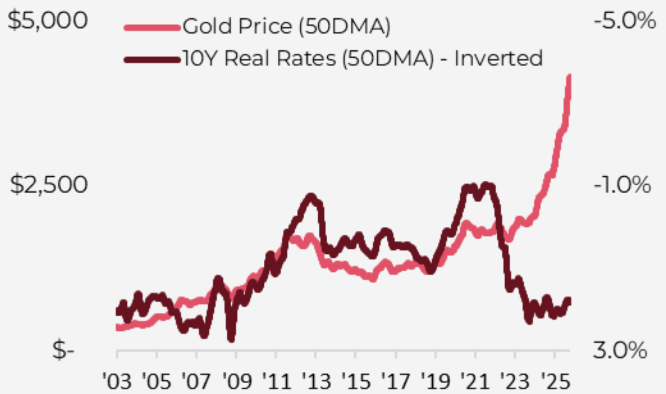
Contradictions abound

None of the above are necessarily contradictions. They could be explained away as a slight reset of expectations and a correct flow of capital to where the most liquidity is likely to be over the next year.

But some things still don't feel quite right.

First, in a world of US dominance, gold is effectively an inverse of US real rates. That seems to have broken:

Gold vs. 10Y Real Rate (Inverted)



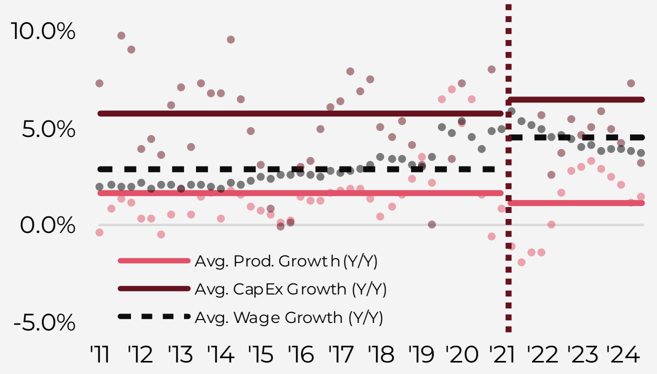
Source: FRED, S&P Capital IQ

We mentioned it earlier, but it bears repeating – if the markets are pricing in significant productivity gains, why have we seen no effect on productivity?

Instead cost of capital is higher, cost of labor is higher, and labor productivity is right at long-term averages.

A bit of a busy chart below, but the key point is since 2022, CapEx growth is up, hourly wage growth is up, and productivity growth is down.

Productivity, CapEx, and Wage Growth (Averages Pre – and Post-2022)

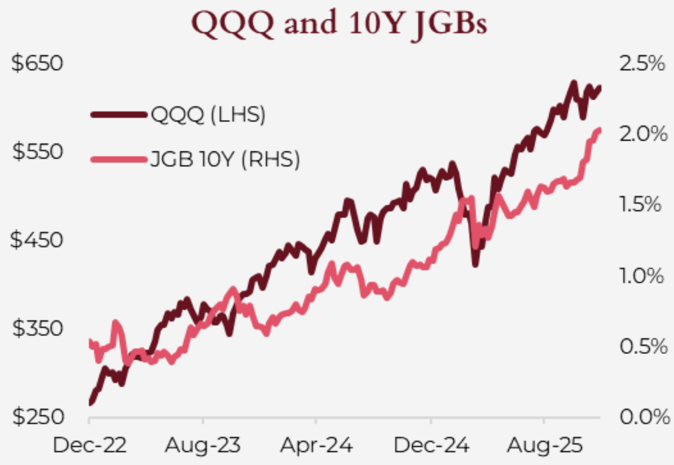


Source: FRED, Monas Investments

Meanwhile, globalization has supported disinflation in the developed markets for years, yet while we re-enter a multi-polar geopolitical world inflation expectations haven't moved.

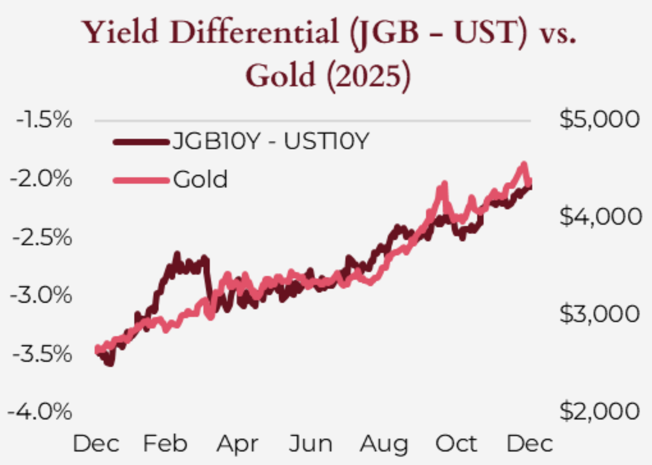
Will AI and robotics be as deflationary as emerging market labor?

And finally, we've grown accustomed to liquidity driving prices, maybe even more than fundamentals. One of the biggest sources of liquidity (the yen and zero percent JGBs) is going the other direction, but the stock market has not blinked:



Source: S&P Capital IQ

But some markets are starting to react. The below shows gold prices versus the yield differential between JGBs and US Treasuries:



Source: S&P Capital IQ, Capital Flows

There is a view forming that as global capital continues to become more expensive, and the source of liquidity in the form of cheap Yen and Japanese bonds dries up, risk is building. Time will tell if this matters or if it was just a coincidence.

Probabilities, not certainties: a four-leg parlay

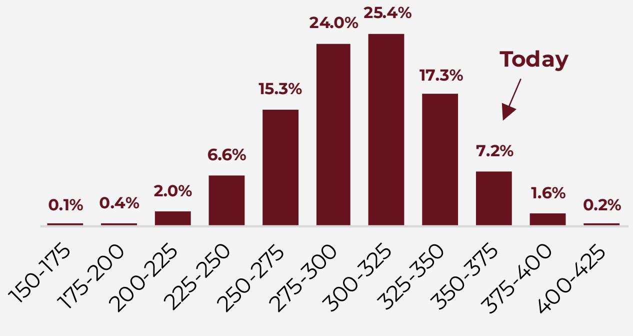
Looking at asset prices today, the consensus that can solve some of the contradictions we see is relatively clear:

AI will work and it will be deflationary. Meanwhile, fiscal dominance is everywhere and inflationary but also massively expansionary.

Here's a few charts highlighting what we know the market is thinking for sure:

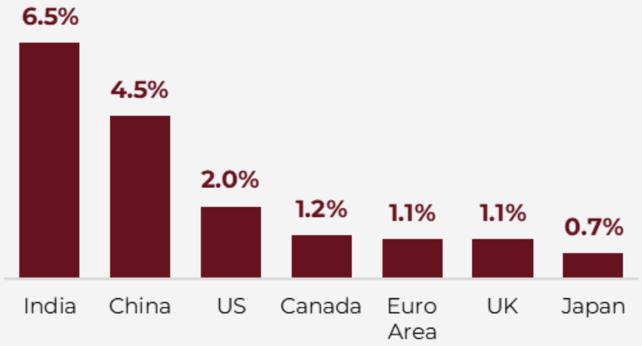
Source: FRED

Target Fed Rate Probabilities – Dec 2027



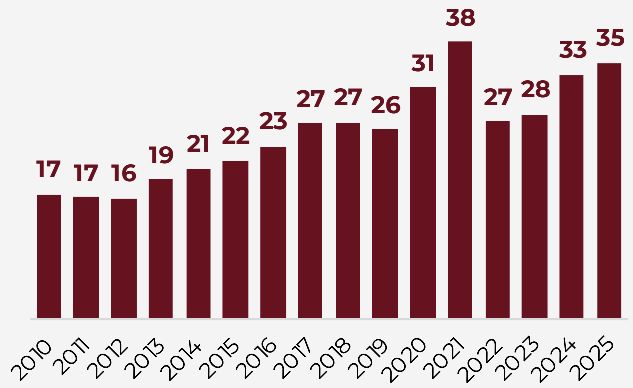
Source: CME Group

Consensus Real GDP Growth Forecast (2026)



Source: Goldman Sachs, Bloomberg

S&P 500 LTM P/E



Source: S&P Capital IQ

IG Credit Spreads (bps)

Source: FRED (BBB OAS)

For 2026 to look like 2025, or most of the decade leading in, we likely need to see four different legs of this bet pay off:

- Growth must stay high
- Inflation must remain muted
- Rates must fall
- Broader geopolitical risk must cool

We would place a significant bet that if even one of these legs fails, the US 60/40 portfolio will underperform alternatives. We're not saying it's impossible, just improbable.

On the topic of probabilities…

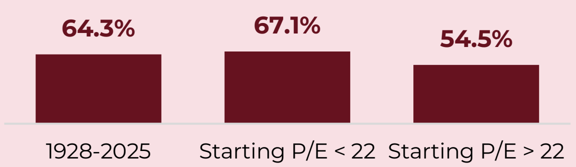
A quick aside, because in our experience most investors tend to think in certainties.

Some things we've heard from investors over the last several years include:

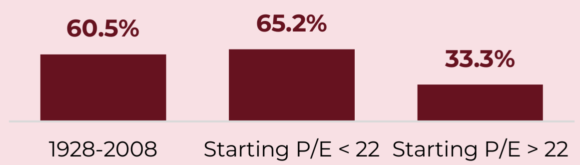
- Rates are going to get cut this year, so what should we buy? (Late 2023.)
- I don't buy international equities, nothing beats the US (late 2024.)
- Gold miners never work (this year, well after gold miners already worked).

It's common and we're not calling anyone specific out. In fact, some of these charts surprised me the first time we put them together, and they serve as a reminder that it is important to not get stuck on recency bias:

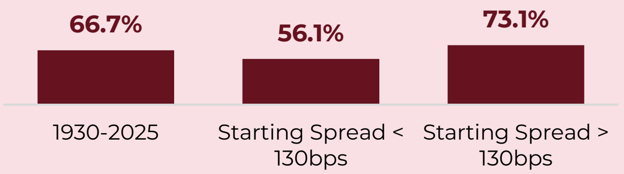
% of Years S&P Outperforms 10Y Treasuries



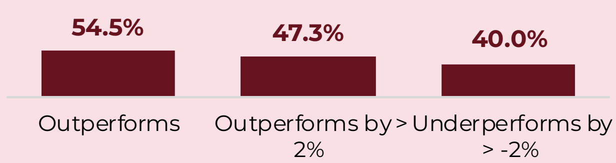
% of Years S&P Outperforms 10Y Treasuries (Pre-QE)



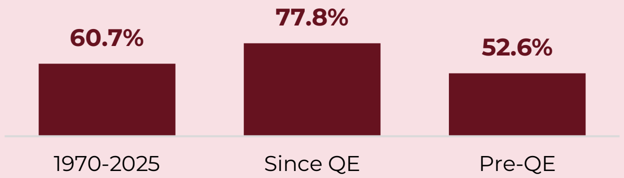
% of Years BBB Outperforms Cash



60/40 Equity/Gold vs. 60/40 Equity/Bonds (Since 1971)



% of Years S&P Outperforms International Markets



Some things that stand out from this:

- Pre-QE, S&P vs. Rest of World was a coin flip. Only recently has this changed.
- S&P at 22x only outperforms treasuries half the time; pre-QE this was 1/3.
- Gold has been a better addition to 60/40 than bonds more often than not.

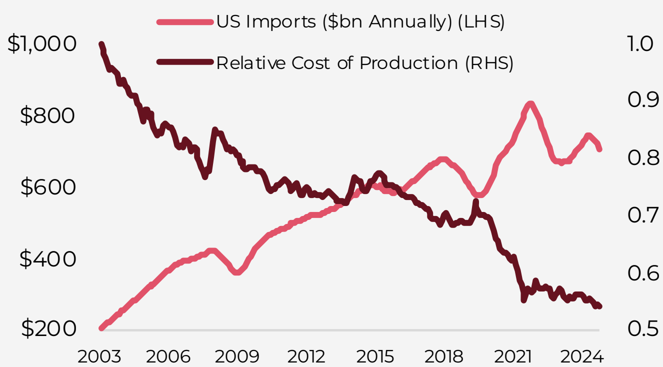
Source: Yale, NYU, S&P Capital IQ, Monas Investments

There are some uncomfortable “what ifs” when thinking about the four legs.

What if inflation has been tamed by a uniquely cooperative geopolitical environment? What if this environment is changing?

Below is a chart highlighting the total US imports from China, Vietnam, Indonesia, Malaysia, and Thailand, compared to the relative cost of production. The cost of producing in China or ASEAN relative to the US has fallen by half over 20 years. Meanwhile, imports are up over $500bn annually.

US Imports and Relative Production Cost (Key Asian Trade Partners)



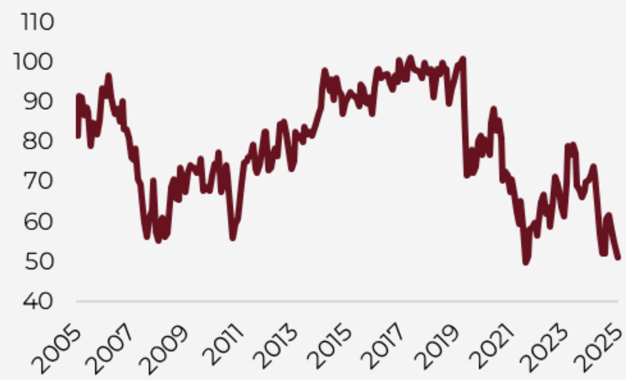
Source: FRED, Monas Investments

The CHIPS Act, Inflation Reduction Act, and Big Beautiful Bill are all fiscally stimulative, but what if building fabs in Arizona, and manufacturing drones in Indiana are more expensive than buying from overseas?

Meanwhile, what if consumption is constrained by a weak consumer? Sentiment continues to reach multi-decade lows, but consumption remains high and growing. Consumption remains a significant portion of GDP, it would be hard for AI to out-grow a constrained consumer base.

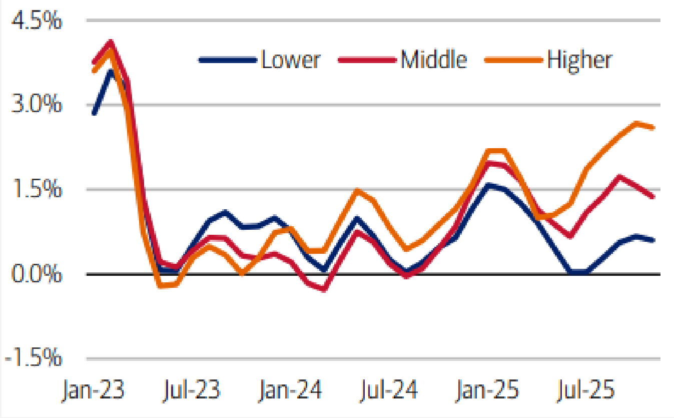
Which of these wins out?

Consumer Sentiment



Source: FRED

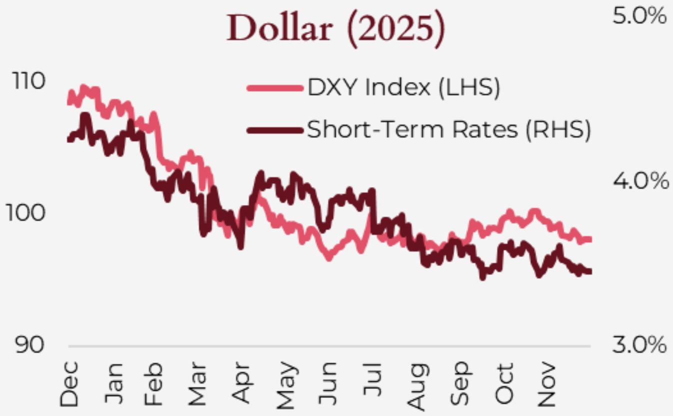
Spending Growth by Income Cohort (YoY%)



Source: Bank of America

What if in an effort to bring down rates as expected, fed independence is questioned and the dollar weakens further?

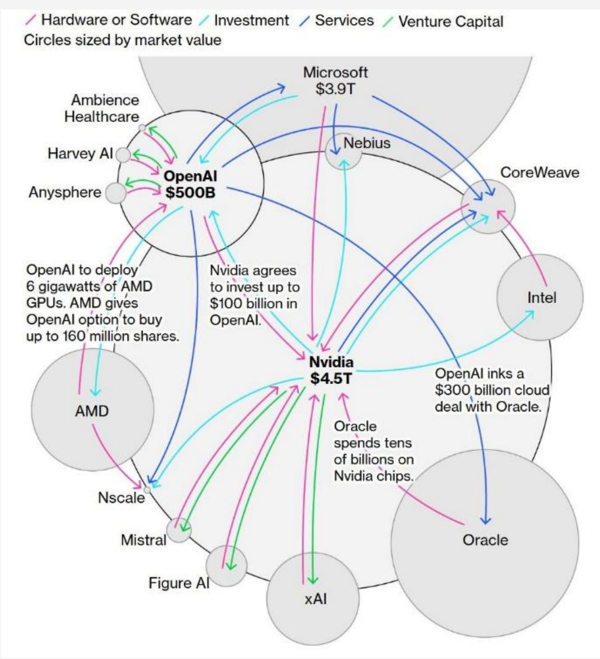
Short-Term Rates and the Dollar (2025)



Source: S&P Capital IQ

What if the AI ouroboros is real, and the music slows? If you have time to read another deep dive, [this article goes into it](). Otherwise, just take a look at the graphic below.

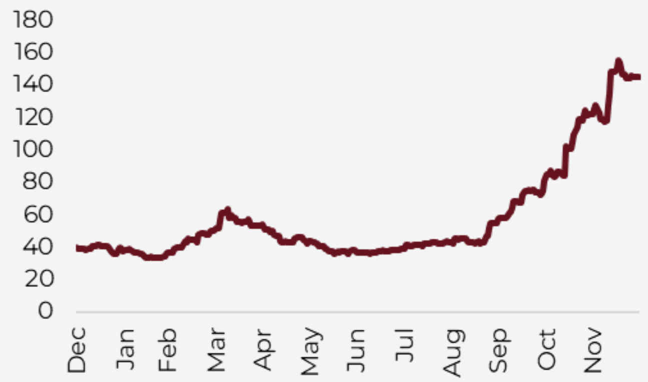
The AI Ouroboros



Source: Bloomberg News

And the market seems to be waking up. Here's Oracles CDS pricing over the back half of the year:

ORCL CDS - 2025



Source: Bloomberg News

Fortunately, these "what ifs" probably mean there are opportunities:

- If growth continues to outpace inflation, but we still cut rates, non-dollar assets will be interesting.
- If geopolitical issues persist, and near-shoring continues, inflation bets are cheap, as is global infrastructure and manufacturing.
- If the US consumer continues to weaken, and AI doesn't offer reprieve, volatility is priced in the first decile.
- If AI *is* the answer, and the consumer is strong, and inflation is maintained, then we need a whole lot more electrons, and energy is still relatively cheap to that scenario.

A brief detour about Monas

Although this may seem like we are decidedly bearish on the markets today, that isn't the case. Rather, when thinking about these probabilities, we are incredibly excited about the asymmetries that have been presented, and the opportunities to do what others are not.

And this is why, to no fanfare, and likely only significant to me and my family, we launched Monas in November.

To explain the name: as simply as I could make it for myself, it's a philosophical concept that can be roughly defined as the fundamental, indivisible unit of reality. A "metaphysical atom" is what Gemini says.

And importantly, the domain and LLC were available in a world where nearly every name has already been claimed.

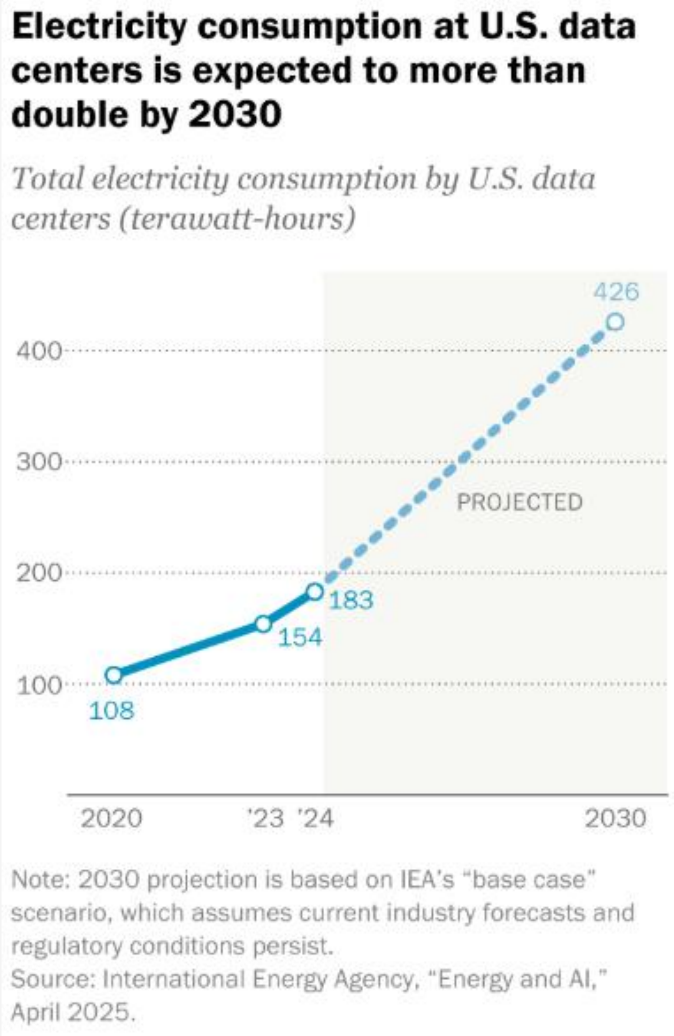
Beyond that though, it does inform our investment philosophy. We believe strongly that investments must be done from first principles, and that by reasoning from core truths, rather than by pattern recognition, we have an opportunity to win.

We believe it is possible to generate alpha – if we did not believe this we wouldn't do what we do. But we also believe this requires looking for those asymmetries, and those with the structural edge to take advantage, and that requires 100% of ones attention, it cannot be done as an afterthought.

Opportunities in 2026

Where are the asymmetries today? Where are most investors under-allocated? We have several ideas where we think the odds are on our side:

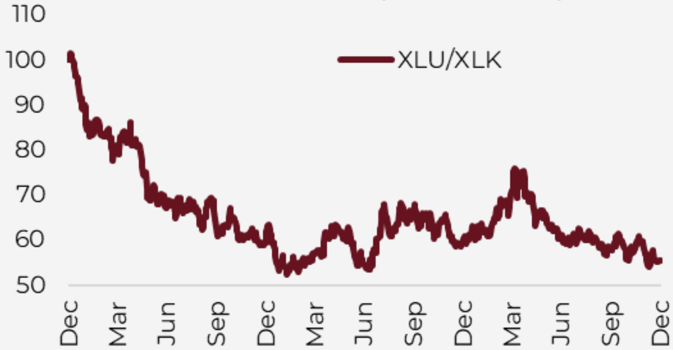
1. If the AI theme does work, the bottleneck is *still* electrons.



Source: Pew Research Center

Fun fact: 26% of the total electricity supply in Virginia was consumed by data centers in 2023, and that number is growing. And yet, utilities have continued to get cheaper:

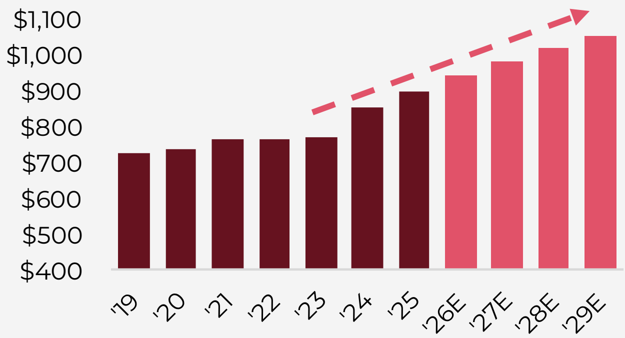
Utilities / Technology Relative Return(2023-2025)



Source: S&P Capital IQ

2. And it also means water is in demand, a place where prices have been rising for some time.

Phoenix Water Assessment Rate ($/AcreFoot)

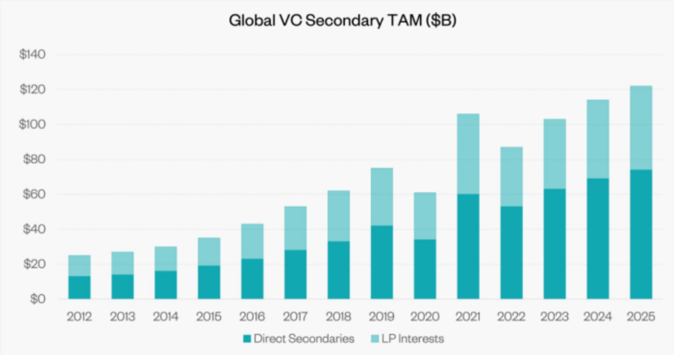


Source: CAGRD

3. If we reach this AI-driven nirvana and private-market golden age continues, founder liquidity will remain at a premium.

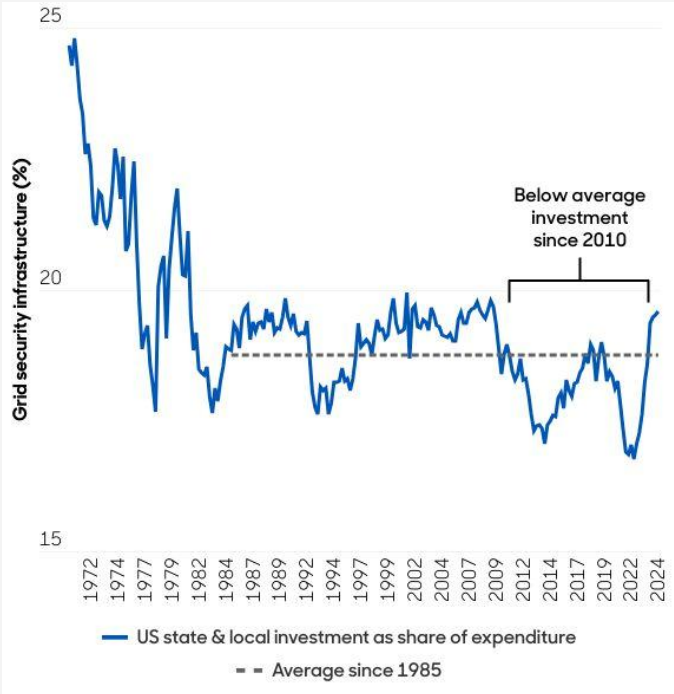
Global VC Secondary TAM has reached has estimated $120bn, with IPO proceeds continuing to grow off 2022 lows, but still well off the highs seen in 2020 and 2021.

As this continues to be the case, private shareholders will continue to seek liquidity from those offering unique solutions. We believe there are several groups with structural advantage to win in this space, though remain skeptical of the alignment issues within the broader secondary market.



Source: Industry Ventures

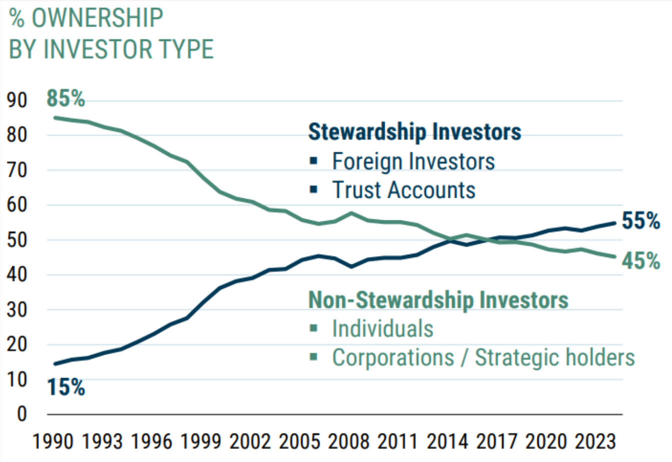
4. If *Pax Americana* remains in question, critical infrastructure at home and abroad isn't ready. Meanwhile, the developed world likely needs a re-industrial revolution, after years of underinvestment.



Source: Aberdeen, Haver

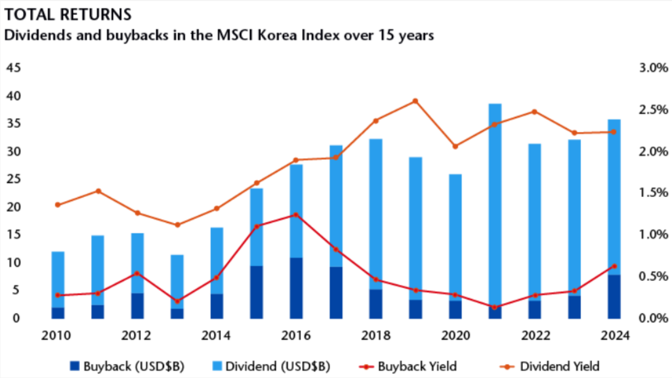
5. The multi-polar world will require greater participation in capitalism from countries who may have underinvested there historically. Japan and Korea could continue to win.

Tokyo Stock Exchange % Ownership



Source: GMO

South Korea Shareholder Returns



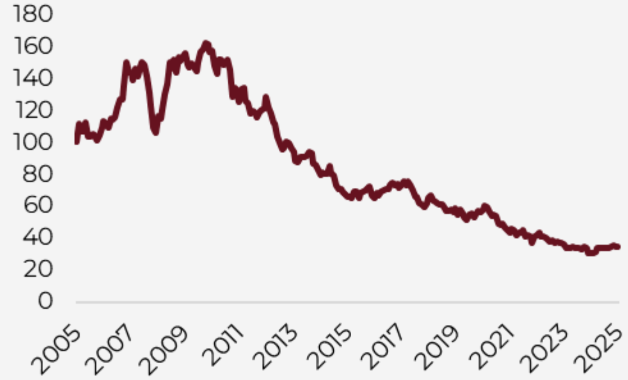
Source: Matthews Asia

6. Emerging and frontier economies didn't benefit nearly as much from years of QE as they will from the ramifications of it.

Rising commodity prices, a falling dollar, and global restructuring means forgotten economies may re-enter the foreground.

More importantly, there is plenty of room for this investment to run:

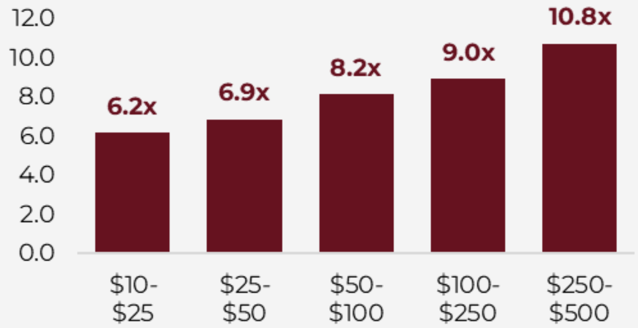
EM Relative to S&P 500



Source: S&P Capital IQ

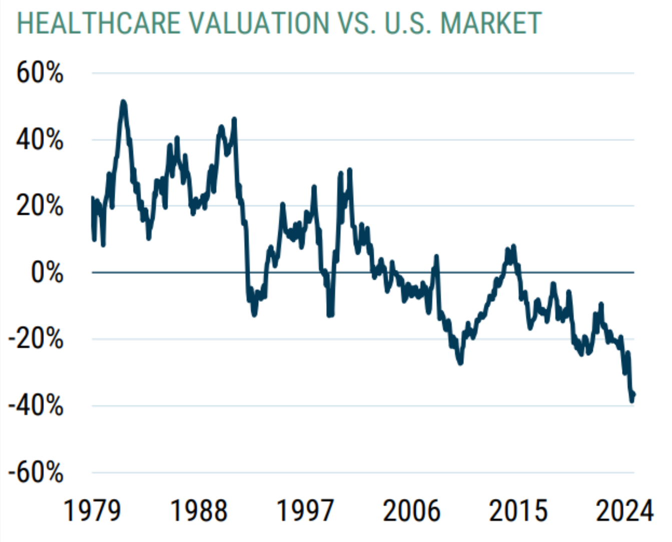
7. The US is still digesting the retirement of Baby Boomers, and although it has been a consensus trade, we see no reason to believe the lower middle market shouldn't continue to benefit from small business sales.

Average EV/EBITDA By Target Size ($mn)



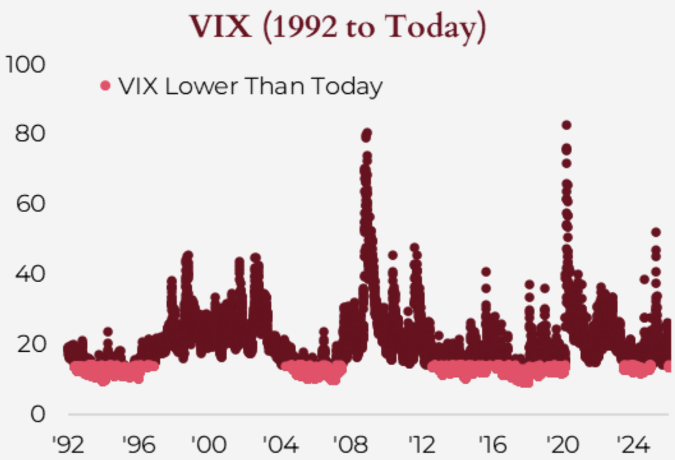
Source: GF Data

8. Even while all the other long-duration assets exploded, biotech and life sciences have faced a long winter, which is showing signs of thawing.



Source: GMO

9. Finally, I understand my career has biased me here, but volatility remains incredibly cheap (even first decline by measures like credit spreads), even while realized volatility is likely to be significantly higher going into the coming environment.



Source: S&P Capital IQ

Asymmetry, Advantage, Alignment

It has already been quite the start to this journey and I greatly appreciate what has already been an outpouring of support.

We believe there is an opportunity to approach investments from first principles with a dogmatic approach to process, that has been largely overlooked by most of the market. From all early inbounds, if you're reading this you largely agree.

When we set out to write down our core beliefs, it centered around three simple concepts: Capital Asymmetry, Competitive Advantage, and Complete Alignment. Simple in concept, but difficult to attack day in and day out.

For as long as we believe we can find those opportunities, we will continue to do so. So happy New Year, and here's to a year of success, however you measure it.

Disclosures & Important Information

This material has been prepared by Monas Investments LLC ("Monas") for informational purposes only. Monas is not registered as an investment adviser with the U.S. Securities and Exchange Commission or any state securities authority. Nothing contained herein should be construed as personalized investment advice, an offer to sell, a solicitation to buy, or a recommendation regarding any security, investment product, or strategy. Any references to funds, securities, or managers are provided solely to illustrate research perspectives and analytical frameworks. Recipients should consult their own legal, tax, and financial professionals prior to making any investment decisions.

This communication is provided on a general basis and does not consider the specific investment objectives, financial situation, or needs of any particular individual or entity. Advisory or consulting services, where provided, are delivered pursuant to a separate written agreement and only to clients who have engaged Monas formally. Information contained herein is subject to change without notice.

Any performance figures or examples presented may be estimated, preliminary, unaudited, and subject to revision. Past performance is not indicative of, and does not guarantee, future results. All investments involve risk, including the potential loss of principal. Benchmarks and indices are shown for comparison purposes only; they may not be directly comparable to any strategy discussed and are unmanaged and not investable vehicles. Returns described may not reflect fees, expenses, or other factors that would reduce actual client returns.

Certain information has been obtained from third-party sources believed to be reliable, but Monas does not guarantee its accuracy or completeness. Opinions reflect the firm's judgment as of the date of publication and are subject to change without notice.

This document may contain forward-looking statements, projections, forecasts, opinions, or assumptions. These reflect current views as of the date indicated but involve known and unknown risks and uncertainties. Actual outcomes may differ materially from those expressed or implied. No guarantee can be made regarding future performance, market conditions, fund execution, liquidity, valuations, deployment pacing, sourcing success, exit environments, or macroeconomic trends.

Investments in private markets, alternative strategies, and illiquid assets involve heightened risk, including but not limited to valuation uncertainty, leverage, liquidity constraints, extended time horizons, and the potential for capital loss. Strategy examples and case studies are hypothetical and provided for illustrative purposes only.

This material is confidential and intended solely for the designated recipient(s). It may not be reproduced, distributed, or forwarded without the prior written consent of Monas. By reviewing this document, you acknowledge and agree to these terms.