

Investment Strategy Report

PRESENTED BY

David Stein

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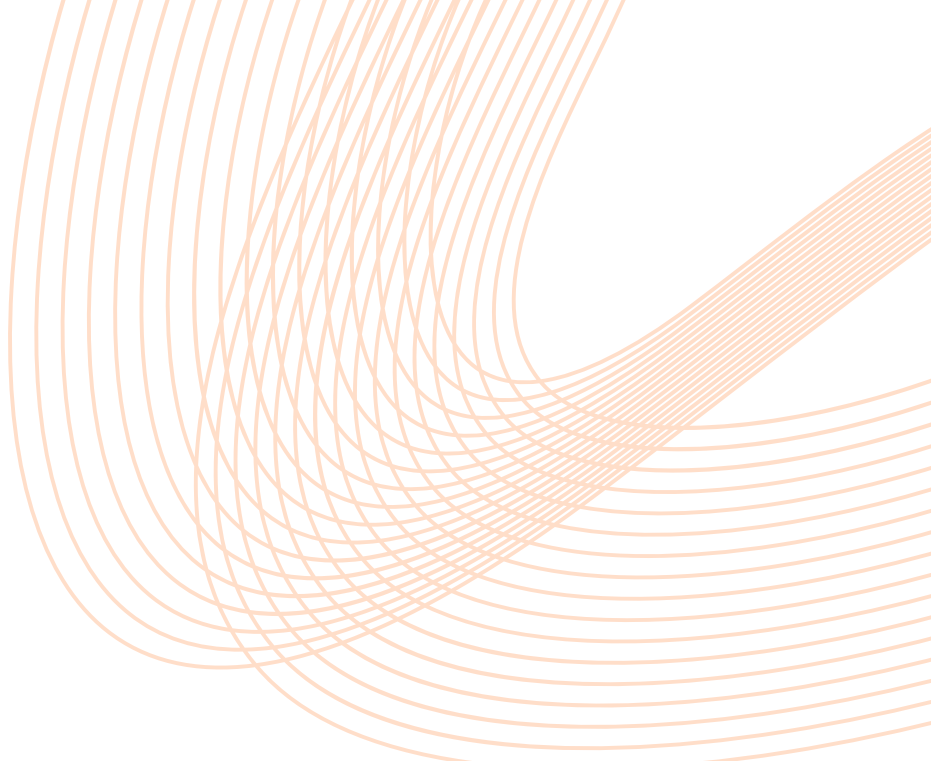


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Our View

We remain concerned about high stock valuations and increasingly bullish earnings expectations. Earnings have risen double digits over the past year, but given the premium being paid for those earnings, stocks could sell off if earnings disappoint.

At the same time, bond yields are rising as uncertainty increases, even as credit spreads remain near record lows. We continue to tilt toward non-U.S., small-cap, and value stocks, keep bond maturities short, and favor high credit quality.

What Happened?

Global and U.S. stocks were essentially flat in July, but there was meaningful divergence beneath the surface. Growth stocks underperformed value stocks as chip makers and AI-related stocks sold off. That chip sell-off pulled down the returns of emerging markets, whose performance had been disproportionately impacted by chip makers in Korea and Taiwan, which comprised over 30% of the index.

Non-U.S. value, including small-cap value stocks, was among the best performers, with returns around 5% for the month. Within the U.S., small-cap value stocks outperformed small-cap growth by nearly 10 percentage points in July.

Global stocks have returned 11.3% year-to-date.

Table 1

USD Net Return for the Periods Ending July 31, 2026

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Returns longer than one year are annualized

Index	1 MO	3 MO	YTD	1 YR	3 YR	5 YR	10 YR	20 YR
ACWI All Country World Index	0.08%	4.40%	11.33%	22.11%	18.28%	10.85%	12.32%	8.41%
AC World ex USA	0.34%	4.77%	14.08%	28.46%	17.37%	9.22%	9.43%	5.79%
World ex USA	2.06%	4.75%	11.44%	25.00%	16.44%	9.62%	9.54%	5.71%
World ex USA Growth	-1.40%	2.35%	5.87%	14.39%	10.33%	4.27%	7.91%	5.53%
World ex USA Value	5.56%	7.21%	17.01%	36.07%	22.68%	14.98%	10.88%	5.71%
World ex USA Small Cap Value	4.71%	3.34%	10.28%	25.44%	17.54%	9.14%	8.96%	6.55%
Emerging Markets	-3.07%	4.82%	20.04%	36.44%	19.30%	8.03%	9.19%	6.52%
USA	-0.08%	4.18%	9.79%	18.68%	18.85%	11.89%	14.50%	10.77%
USA Growth	-2.86%	3.53%	6.21%	16.48%	22.78%	13.31%	18.39%	13.55%
USA Value	2.83%	4.97%	13.48%	20.30%	14.40%	9.59%	9.98%	7.63%
USA Small Cap Growth	-9.25%	3.33%	17.99%	28.76%	15.42%	6.73%	12.62%	11.08%
USA Small Cap Value	0.53%	5.07%	16.08%	28.20%	13.32%	8.57%	9.21%	8.42%

Calculated from MSCI data ⓘ

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What Happened?

Bond Market Update

Interest rates rose in July, sending U.S. and global bonds into negative territory year-to-date.

Table 2

Periods Ending July 31, 2026

Returns longer than one year are annualized

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Index	1 MO	3 MO	YTD	1 YR	3 YR	5 YR	10 YR	20 YR
Global Aggregate (USD)	-0.53%	-0.90%	-0.75%	1.60%	2.99%	-1.91%	0.25%	2.29%
U.S. Aggregate Index (USD)	-1.30%	-0.76%	-0.69%	2.71%	3.72%	-0.40%	1.35%	3.19%
U.S. Corporate High Yield (USD)	-0.25%	0.51%	1.71%	5.17%	8.26%	4.04%	5.50%	6.62%
U.S. Treasury (USD)	-1.11%	-0.72%	-0.84%	1.97%	2.91%	-0.91%	0.71%	2.72%
U.S. Treasury Long (USD)	-4.01%	-2.52%	-3.58%	-0.33%	-1.08%	-7.04%	-1.95%	3.29%
Asian Pacific Aggregate (JPY)	-0.78%	1.52%	2.35%	5.24%	3.56%	3.60%	2.53%	2.73%
European Aggregate (EUR)	-1.47%	-0.01%	-0.19%	0.20%	2.77%	-2.05%	-0.27%	2.44%
Emerging Markets USD Aggregate	-1.30%	-0.04%	0.70%	5.65%	7.56%	1.72%	3.15%	5.33%

Sourced or calculated from Bloomberg Index Services Limited data ⓘ
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Longer-term Treasury yields rose more than shorter-term yields in July, resulting in a steeper yield curve with longer-term rates higher than short-term interest rates. The yield curve is the steepest it has been in four years. In contrast, through June 2026, most of the year-to-date increases in Treasury yields were in the one-to-five year maturity buckets.

What Happened?

Chart 1

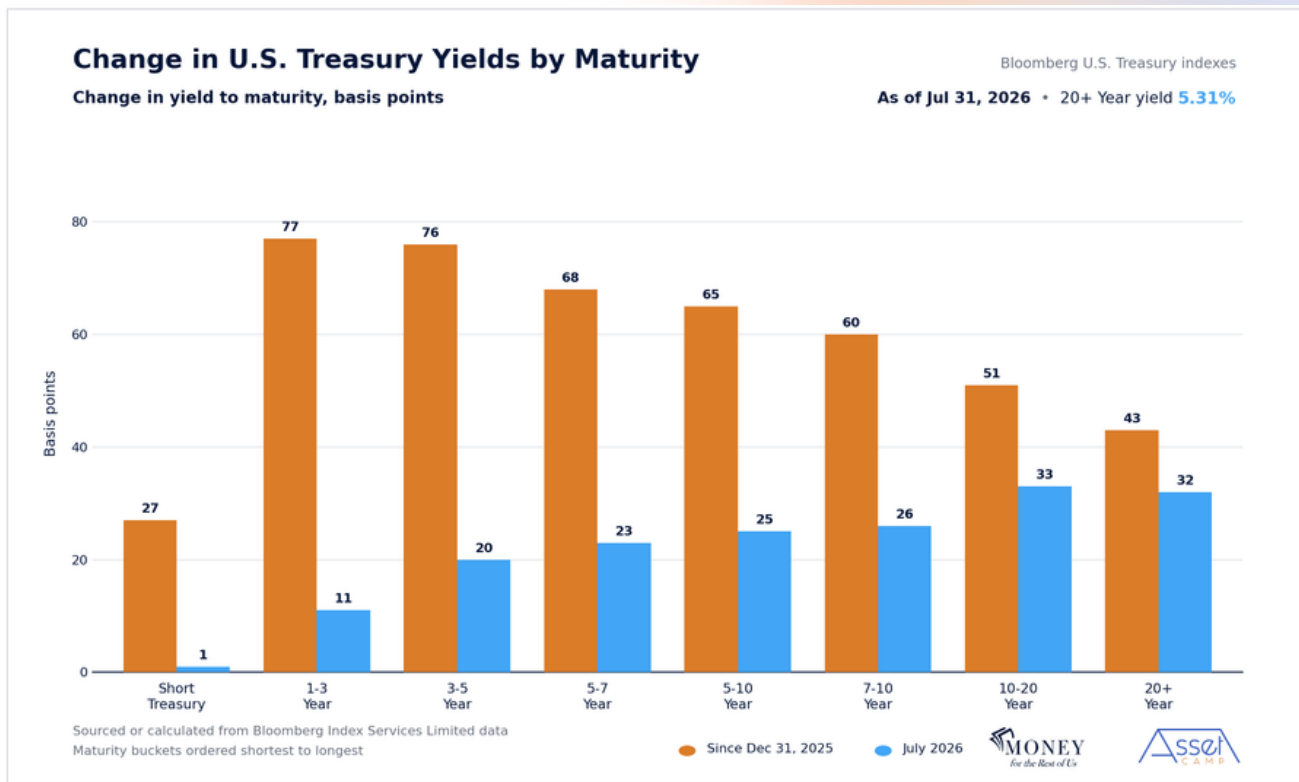
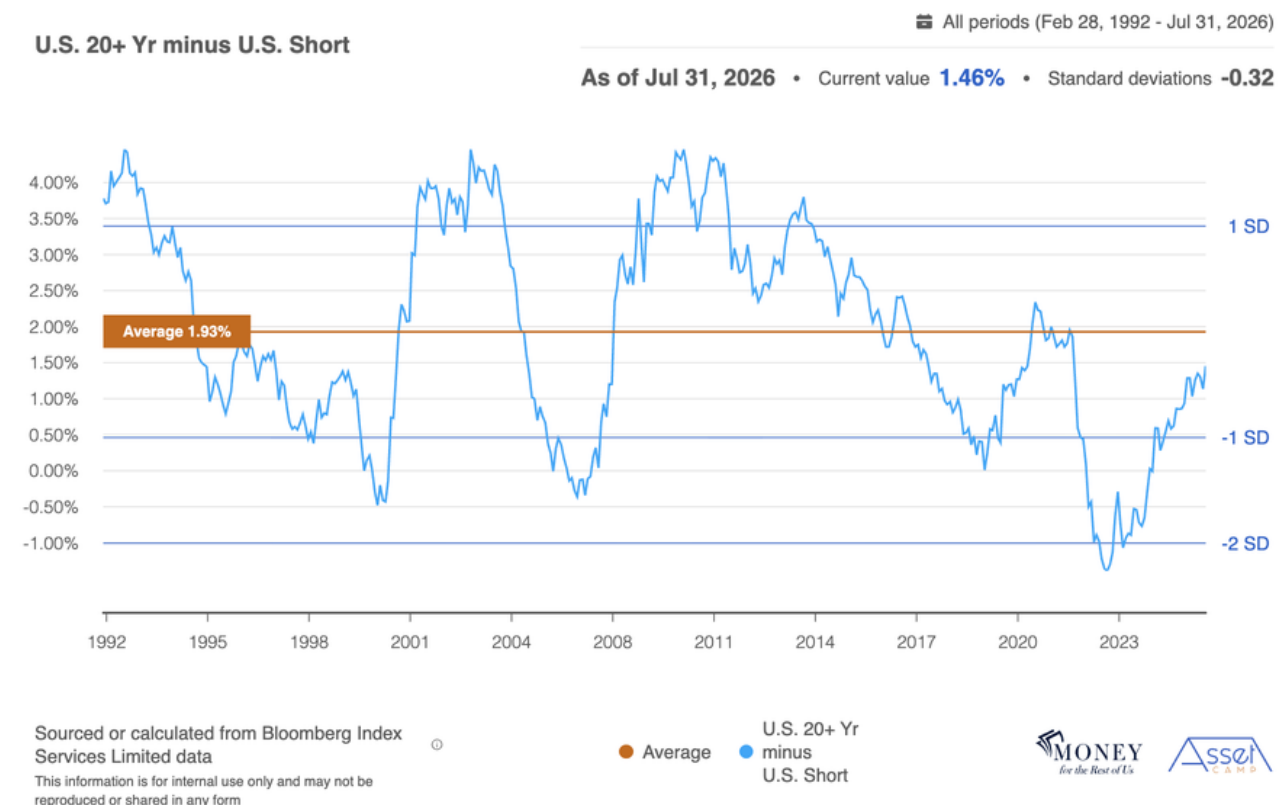


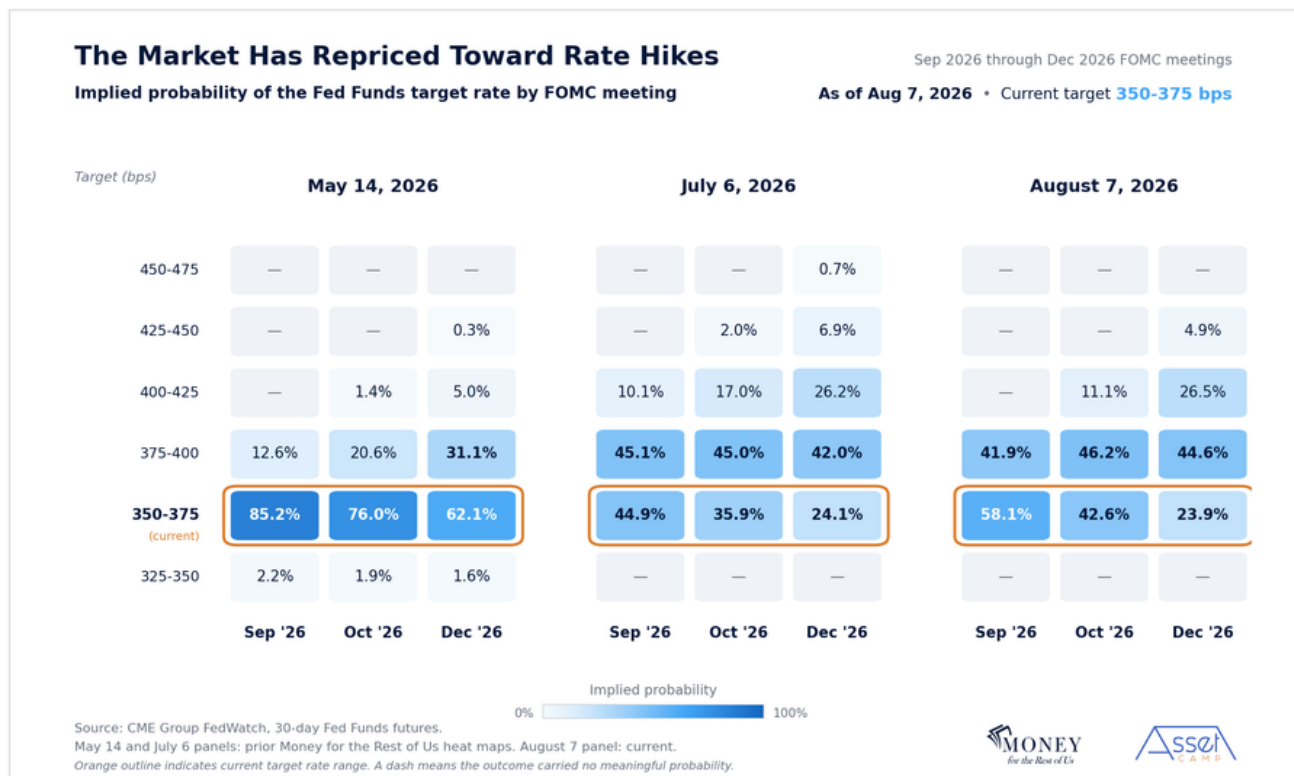
Chart 2



What Happened?

Through June, the rise in Treasury yields was primarily driven by expectations that the Federal Reserve would increase its policy rate. While bond market participants still expect at least one policy rate increase in 2026, much of the recent rise in interest rates reflects uncertainty.

Chart 3

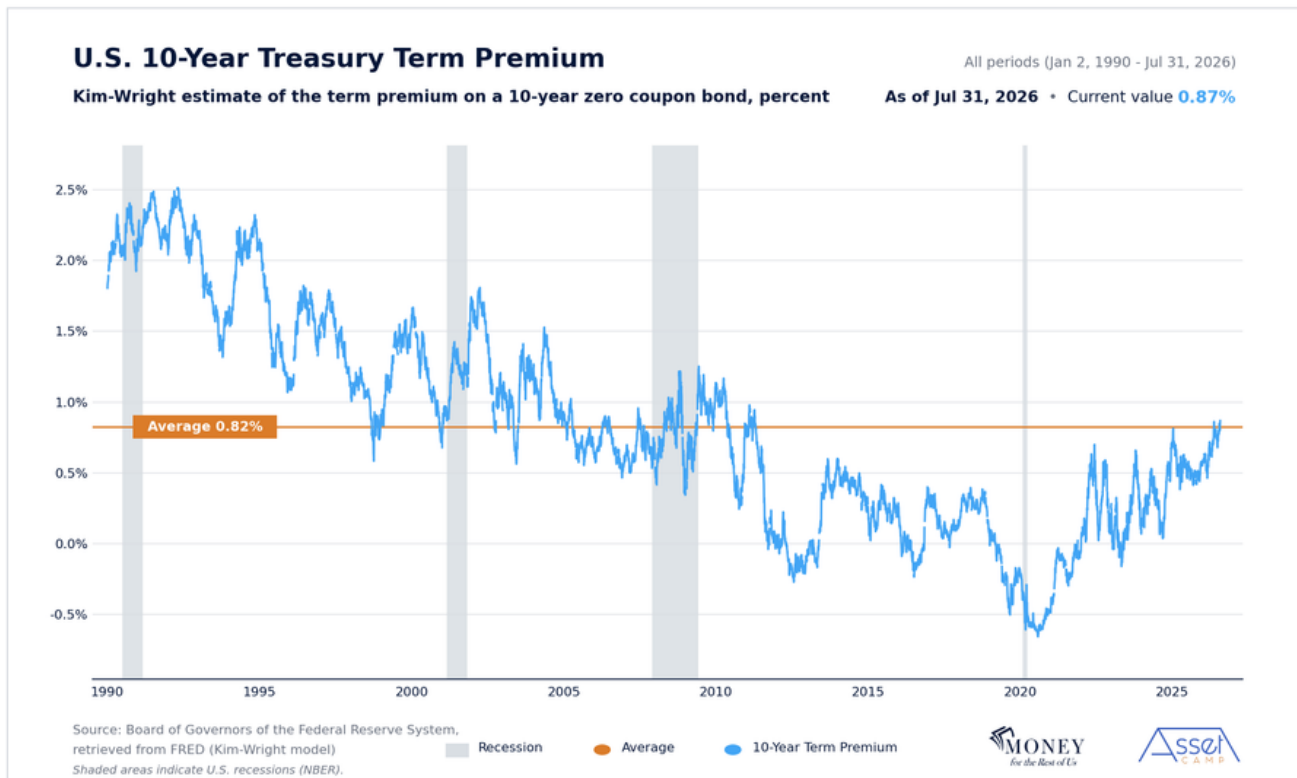


Under Chair Kevin Warsh, the Federal Reserve is providing less guidance on the path of the policy rate and the rationale for its decisions and non-decisions. Warsh says he prefers to get unfiltered financial market reactions rather than markets reacting to what the Fed is saying.

What Happened?

As a result, because the Fed is providing less forward guidance, investors are demanding a higher term premium to hold U.S. Treasury securities to compensate for higher levels of uncertainty regarding Federal Reserve actions.

Chart 4



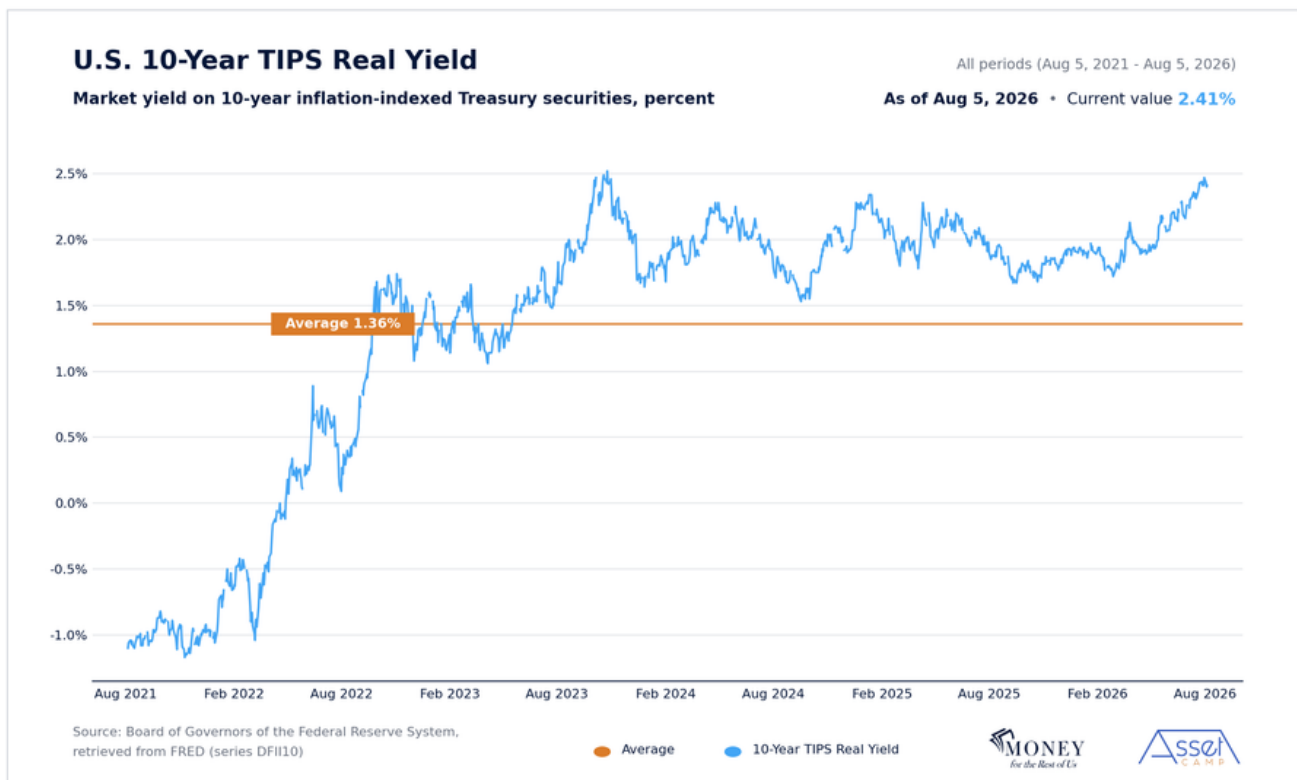
In his July press conference, Warsh suggested the rise in interest rates had already led to tighter financial conditions without the Fed having to raise its policy rate. In other words, higher interest rates on loans will discourage borrowing on the margin, putting some downward pressure on economic growth and inflation.

Where Are We Now?

Apart from a rising term premium and expectations for a higher policy rate, U.S. interest rates are also climbing due to greater borrowing demand.

J.P. Morgan estimates that roughly three-quarters of the \$6 to \$7 trillion in projected AI infrastructure spending over the next five years will be funded with debt. That is about \$4 trillion of new borrowing against a U.S. corporate bond market that currently totals \$11.7 trillion.

Chart 5

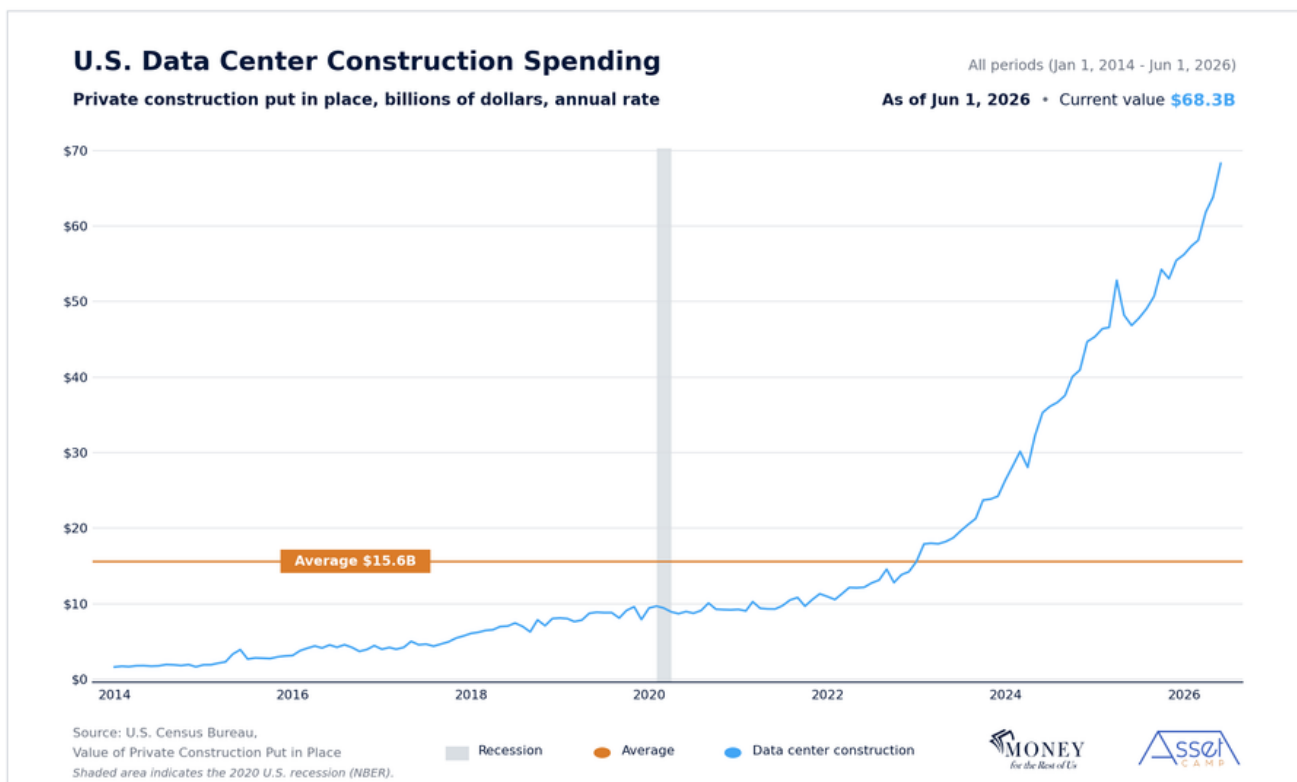


Where Are We Now?

AI infrastructure spending has been a large contributor to U.S. economic growth over the past year, primarily through data center construction and investment in equipment and software.

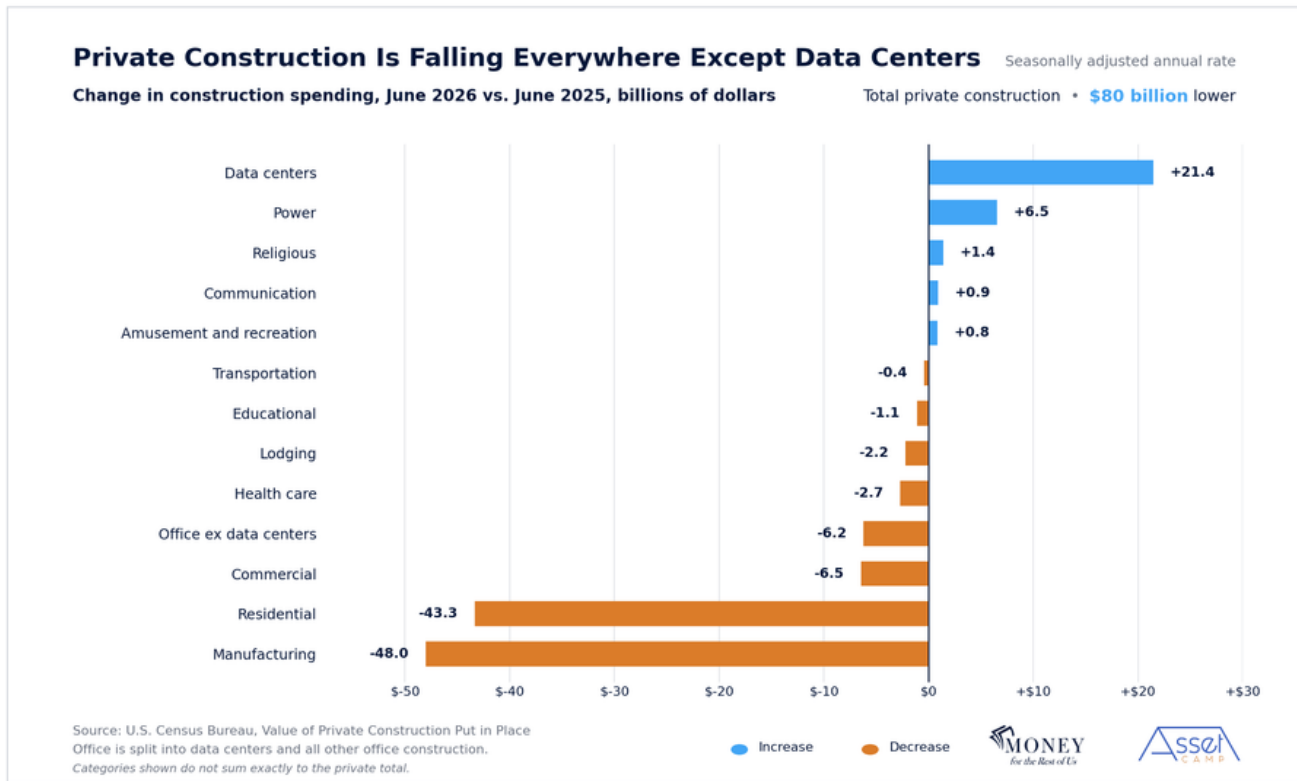
The equipment and software components of U.S. GDP have increased 9% in the past year. Combined, they were the largest contributors to GDP in the first half of 2026. Meanwhile, data center construction has more than tripled in the last three years. It has been the largest contributor to overall construction growth as most areas have contracted in the past year.

Chart 6



Where Are We Now?

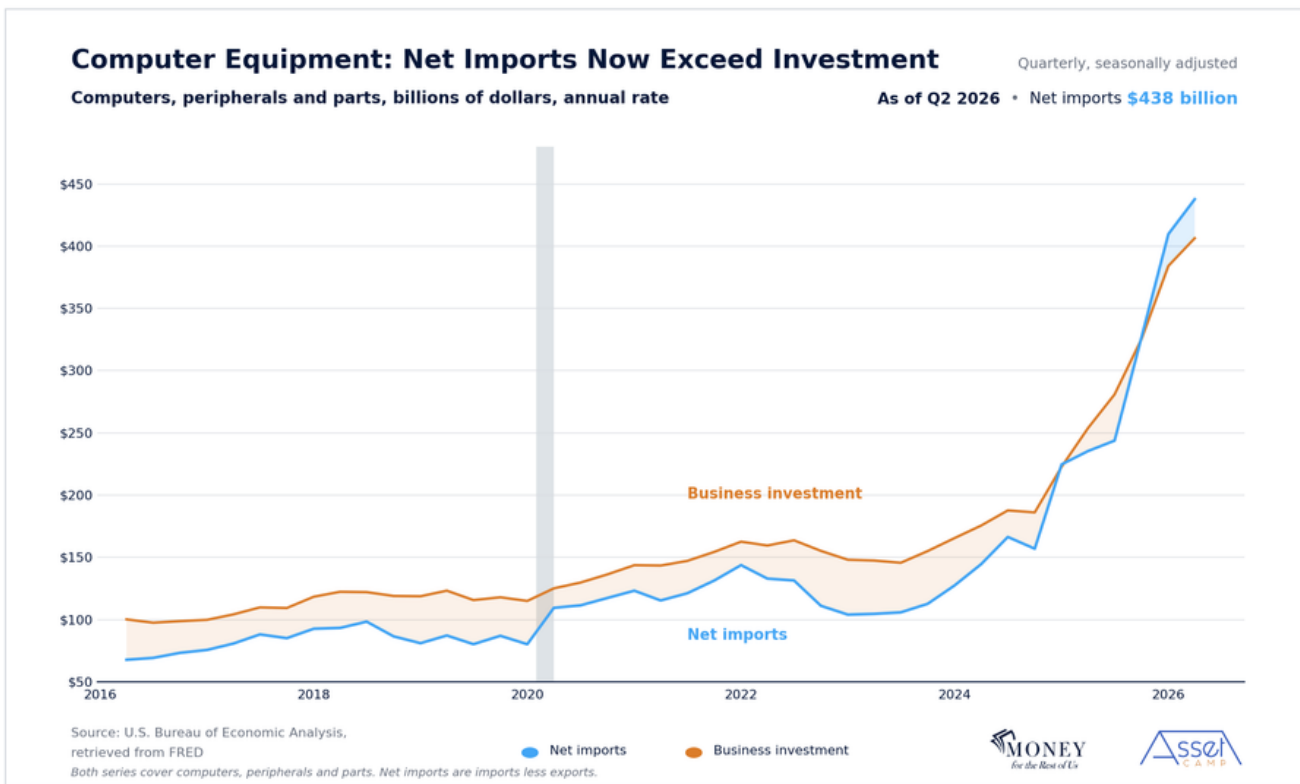
Chart 7



U.S. GDP would be much higher than it is, except that much of the servers and equipment used in data centers is imported. The Wall Street Journal reported that Mexico and Taiwan provided over 90% of servers imported this year. Those imports detract from U.S. GDP growth estimates, given GDP measures what is produced domestically.

Where Are We Now?

Chart 8



Despite the AI buildout, U.S. GDP has only grown 2.1% over the past year. Personal consumption rose 2.3% while federal spending and residential investment contracted. Even the AI contribution is smaller than the capital spending figures suggest, because much of the equipment is imported and imports subtract from GDP.

What we don't know is how fast U.S. GDP would be growing without the AI infrastructure buildout, given AI has boosted capital expenditures but also raised fear among consumers about future job losses.

As we stated in last month's report, AI will help companies innovate, leading to greater productivity and new products and services. These advances take time, and at this point, only the AI infrastructure buildout is accelerating. Other areas of the U.S. economy are struggling amid volatile oil prices, higher interest rates, and AI-driven fears.

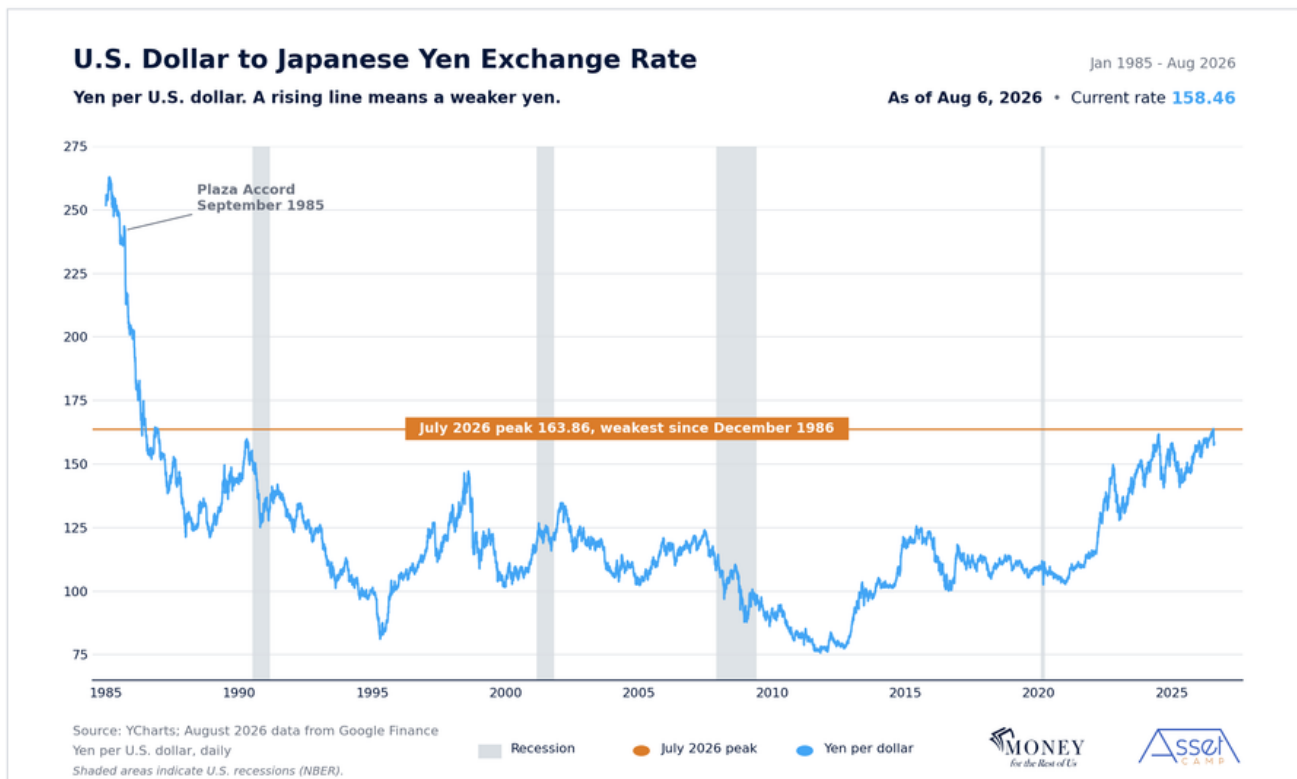
Where Are We Now?

An expanding risk is that hyperscalers and others overbuild AI infrastructure, leading to overcapacity. Those concerns are one reason AI-linked stocks sold off in July. As we have emphasized over the past year, investors can benefit from the AI productivity boom by holding a globally diversified portfolio rather than concentrating in the megacap hyperscalers.

Yen Intervention

In late July, the U.S. and Japan intervened to support the Japanese yen. Japan's Ministry of Finance said the intervention was to counter "excessive volatility and disorderly movements in the Japanese yen" over the past several months. The Japanese yen hit its lowest level since 1986 in July.

Chart 9



Where Are We Now?

This was the first time Japan and the U.S. have acted together to support the yen since 1998, during the Asian financial crisis. Notably, the U.S. sold euros instead of dollars to purchase yen. In the future, Japan intends to use the Federal Reserve's Foreign and International Monetary Authorities (FIMA) Repo Facility to borrow dollars, using U.S. Treasury securities that Japan controls as collateral.

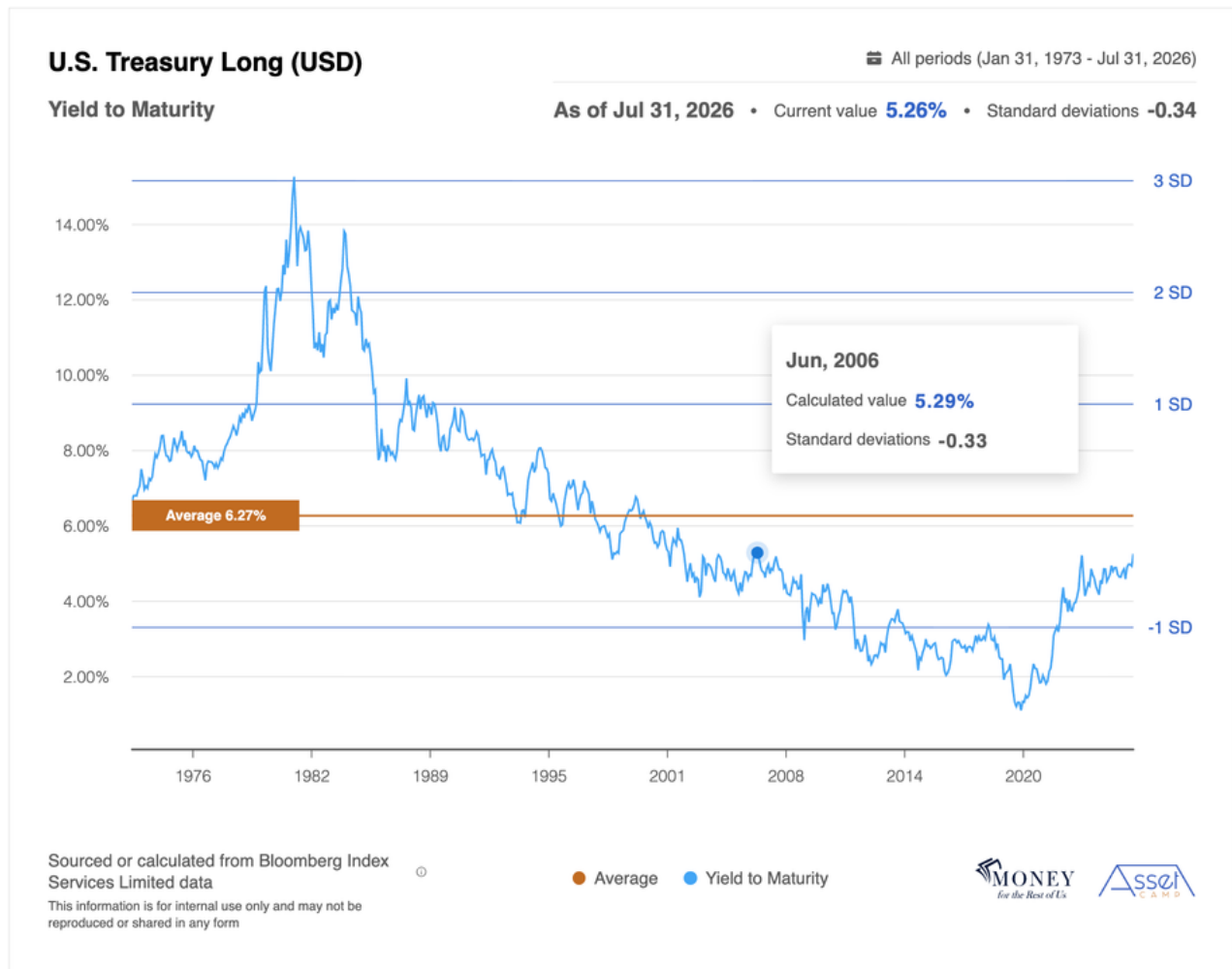
While President Trump suggested the U.S. was providing some help to Japan to combat a weakening yen, this action was more about U.S. Treasury bonds and interest rates. The Japanese government, businesses, and households are the largest foreign holders of U.S. Treasuries, with holdings of \$1.1 trillion. If the Japanese government sold some of its Treasury securities in order to support the yen, that could put additional upward pressure on U.S. interest rates.

In addition, as Japanese interest rates rise, Japanese households and businesses have a greater incentive to sell Treasuries and move the assets back to Japan, especially if they believe the Japanese yen could begin to strengthen after five years of weakness.

With yields on U.S. long Treasuries at their highest level since 2006, the U.S. government doesn't want the additional Treasury supply hitting the market from Japanese sellers.

Where Are We Now?

Chart 10



A less communicative Federal Reserve, a rising term premium, increased AI-related borrowing demand, and the U.S. Treasury signaling it is worried about Japan selling U.S. Treasuries all point to greater upside interest rate risk for U.S. bonds.

Where Are We Now?

To minimize losses if interest rates rise further, we recommend investors keep the duration, or interest rate sensitivity, of their bond portfolio below the portfolio's weighted average yield-to-maturity (ignoring the percent sign). For example, the Money for the Rest of Us Fixed Income Model portfolio has a yield-to-maturity of 5% with a duration of 3.4 years. That compares to a duration of 5.8 years and a yield-to-maturity of 4.7% for the Vanguard Total Bond Market ETF (BND). BND's duration is higher than its yield if we ignore the percent sign.

Economic Trends

Leading economic indicators remain in expansion territory, suggesting continued global economic growth, propelled by the AI infrastructure buildout. The composite of manufacturing and services PMI business surveys hit their highest level since February, prior to the Iran War.

U.S. PMI business surveys have improved markedly this year even as the U.S. employment situation remains uncertain. The number of people employed is down slightly in the past year. It is too early to tell what impact AI is having on the overall job market.

Where Are We Now?

Chart 11

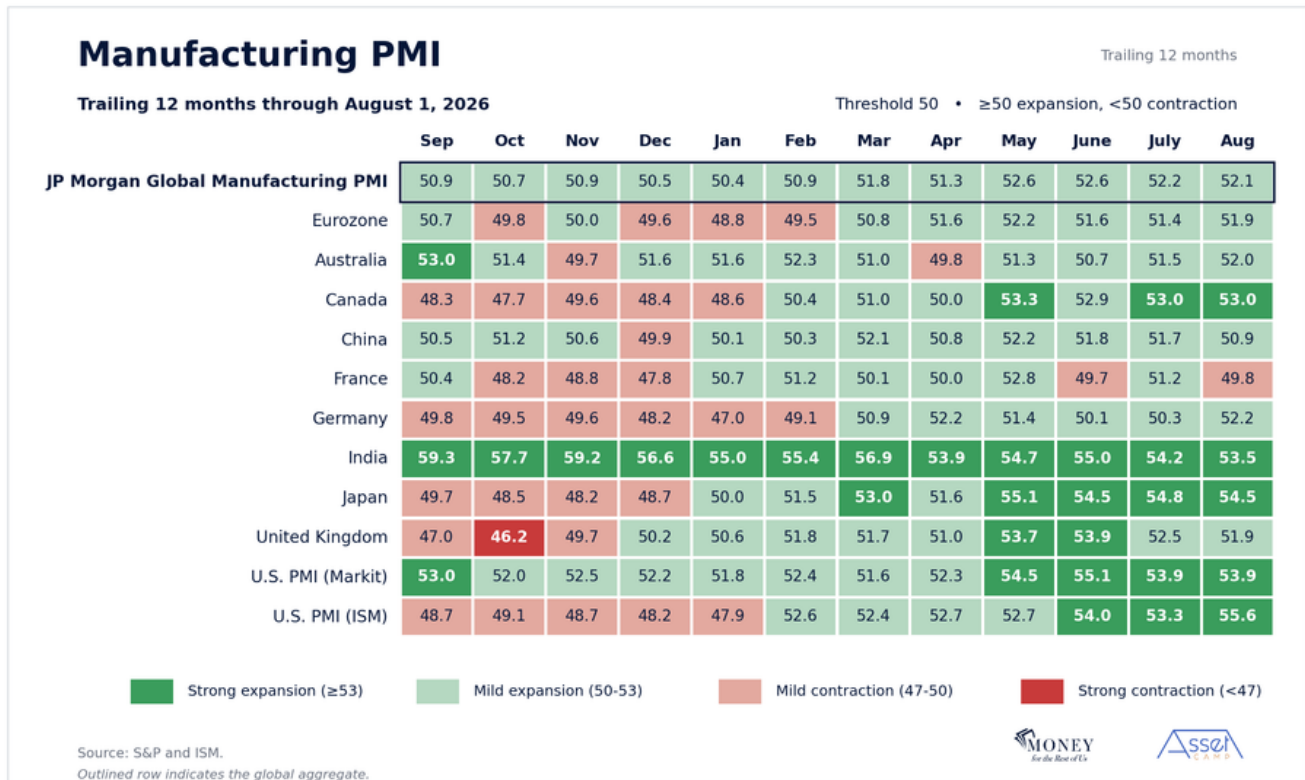
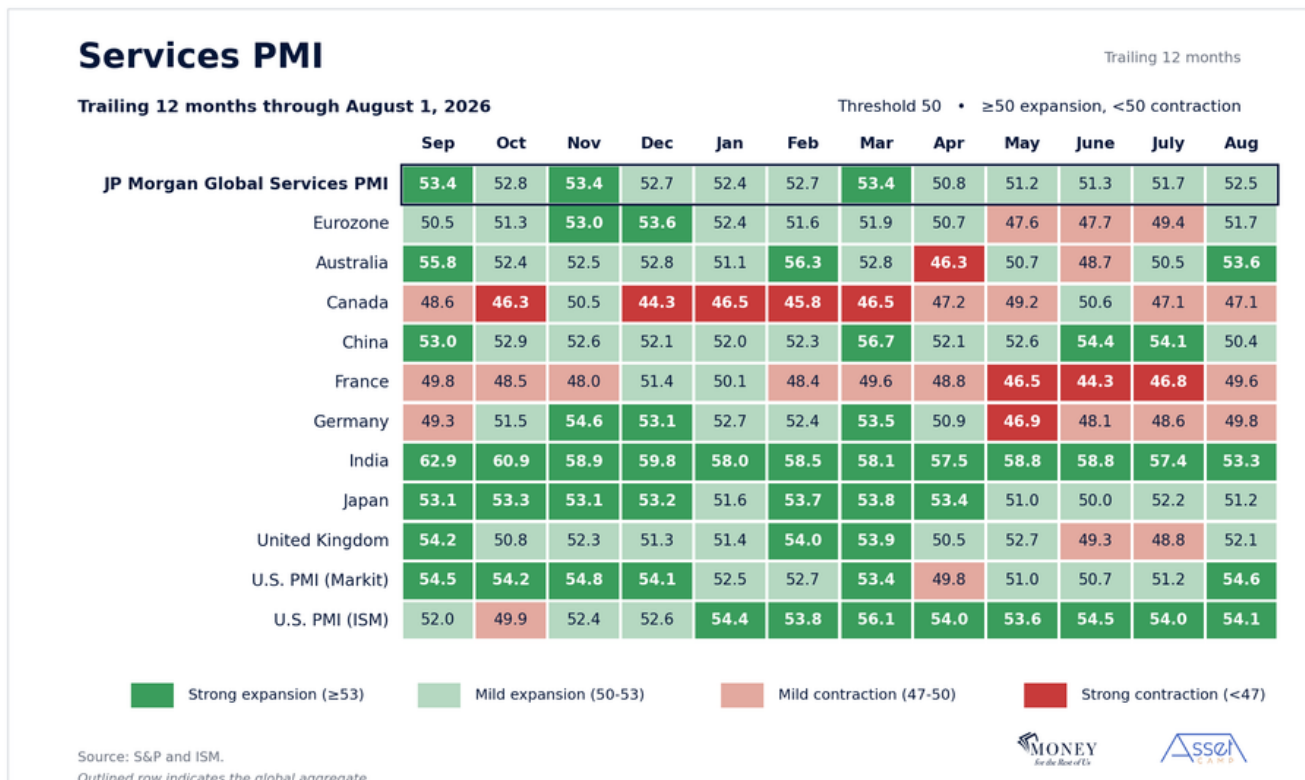


Chart 12



Where Are We Now?

Asset Class Valuations

Global stocks continue to generate strong earnings per share growth, which has helped propel stock markets higher.

Table 3

1-Year Trailing Earnings Per Share Growth

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Index	As of 05/29/2026	As of 06/30/2026	As of 07/31/2026	Long Term Average	Standard Deviations	Long Term Average Starting Year	View Chart
ACWI All Country World Index	14.96 %	13.53 %	16.35 %	7.68 %	0.41	1996	
AC World ex USA	11.15 %	6.63 %	10.89 %	7.52 %	0.14	1996	
Emerging Markets	17.35 %	13.99 %	17.08 %	6.43 %	0.46	1996	
USA	18.17 %	20.08 %	21.48 %	8.32 %	0.73	1970	

Calculated from MSCI data ①

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Analysts remain bullish based on bottom-up earnings-per-share expectations for companies. The following table shows those bottom-up estimates for the next three- to five-year period aggregated at the index level. All are well above their long-term averages. Global expectations are close to four standard deviations above average, and the U.S. is the most extreme at 22.8% expected earnings-per-share growth.

Where Are We Now?

Not only are earnings per share expectations higher than average, but investors are also paying an above-average multiple for those expected earnings. Interestingly, forward P/E ratios declined in July compared to June, but only because analysts ratcheted up expected earnings growth.

Table 4

Analyst Expectations and Valuations Versus History						As of Jul 31, 2026
MSCI equity indexes: bottom-up analyst estimates and index valuations						
Index	Long-Term Forward EPS Growth (3 to 5 Years)			Forward Price-to-Earnings Ratio		
	Current	Long-Term Average	Standard Deviations	Current	Long-Term Average	Standard Deviations
USA	22.8%	12.8%	4.06	20.4	16.8	1.14
ACWI All Country World	20.6%	12.4%	3.70	17.1	15.0	0.95
AC World ex USA	15.3%	10.7%	2.20	13.4	13.2	0.12

Standard deviations measure how far the current value sits above its long-term average.
Long-term averages begin in 2003, except ACWI forward EPS growth, which begins in 1995.
Calculated from MSCI data
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Non-U.S. value and small cap stocks sell at more compelling valuations than broad-based global and U.S. stock indexes.

Where Are We Now?

Table 5

Cyclically Adjusted Price-to-Earnings Ratio

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Index	As of 05/29/2026	As of 06/30/2026	As of 07/31/2026	Long Term Average	Standard Deviations	Long Term Average Starting Year	View Chart
World ex USA Small Cap Value	18.98	17.99	18.72	22.23	-0.57	2003	
ACWI ex USA Small Cap	23.67	22.85	22.54	24.62	-0.36	2003	
USA Small Cap Value	27.85	29.47	29.72	31.70	-0.36	2003	
World ex USA Small Cap	23.06	22.17	22.37	23.10	-0.22	2012	
World ex USA Value	16.84	16.76	17.61	18.35	-0.12	1983	
USA Value	23.18	23.32	23.83	17.56	1.27	1983	
USA	37.86	37.73	37.49	21.93	1.81	1978	
ACWI All Country World Index	29.14	29.09	28.96	20.89	2.09	2004	
USA Growth	64.19	63.81	61.83	30.55	2.47	1983	

Calculated from MSCI data ⓘ

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Where Are We Heading?

Our positioning has not changed. We remain concerned about the high valuations of stocks and increasingly bullish earnings expectations. Earnings have risen double digits over the past year, but given the premium being paid for those earnings, stocks could sell off if earnings disappoint.

At the same time, bond yields are rising as uncertainty increases, even as credit spreads remain near record lows.

We reiterate that investors who would be harmed by a sharp decline in risk assets should consider taking some profits. Those approaching retirement in particular should confirm they hold enough in shorter-duration bonds and cash to meet spending needs without being forced to sell stocks at depressed prices during a period of heightened volatility.

Investors who diversified into non-U.S. value and small-cap stocks have been rewarded over the past year. Those areas remain more attractive than large-cap and large-cap growth stocks.

Shorter-duration bonds remain more compelling than longer-term bonds due to the risk of rising rates.

Where Are We Heading?

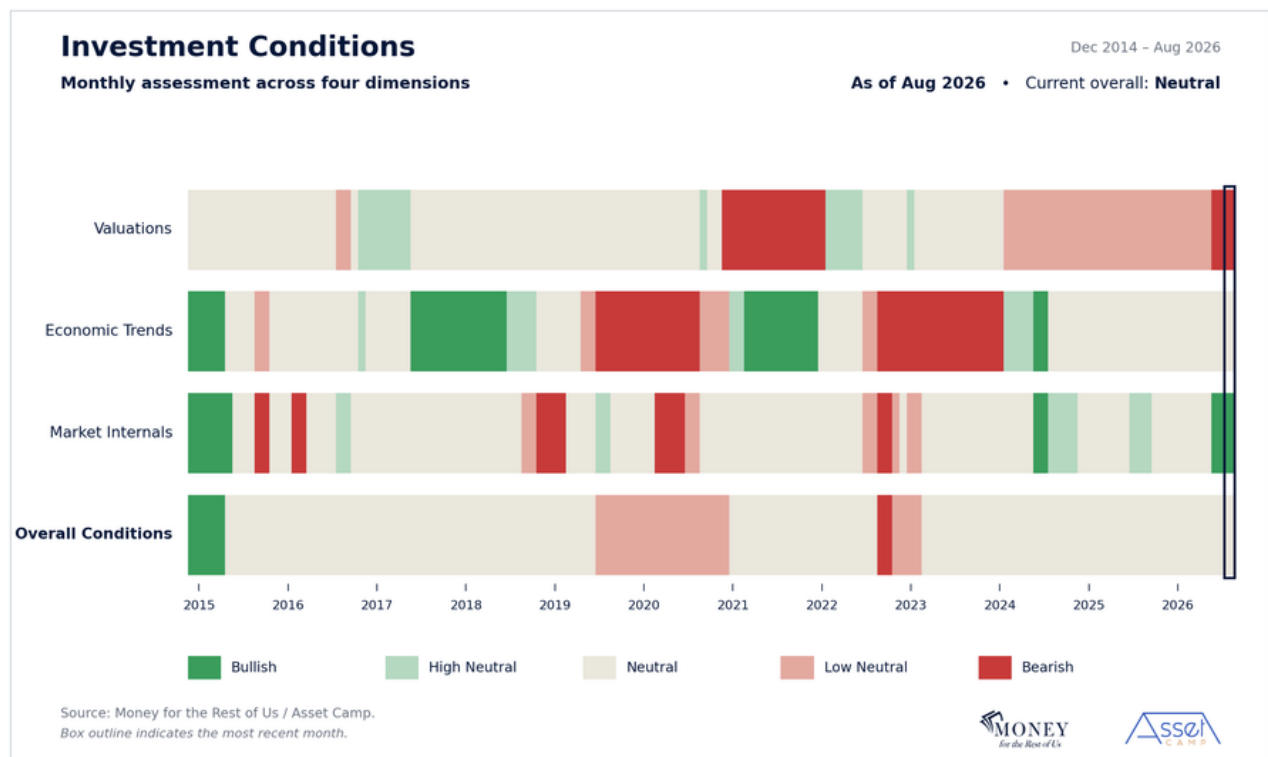
Investment Conditions Summary

The overall reading for global risk assets remains neutral with valuations bearish, economic trends neutral, and market internals bullish.

From a regional perspective, economic trends for the U.S. were upgraded to bullish, and for Europe they were upgraded to neutral due to its improved leading economic indicators.

Note: These heat maps depict current investment conditions across asset-class valuations, economic trends, and market internals (trend, momentum, etc.). The heat maps are helpful for understanding how investment conditions evolve across multiple dimensions and where we sit in the current cycle. It is not a market timing tool. Financial markets are too complex for such simplification, as there are multiple levers that can be adjusted within a portfolio, including interest-rate sensitivity, yield, credit exposure, style, size, and other factors.

Chart 13



Where Are We Heading?

Chart 14

Regional Conditions

Investment Conditions as of August 1, 2026

As of August 1, 2026 • 8 equity regions

	Overall	Valuations	Economy	Market Internals
United States	Neutral	Bearish	Bullish	Bullish
Europe Ex-UK	Neutral	Neutral	Neutral	Bullish
United Kingdom	Neutral	Neutral	Neutral	Bullish
Japan	Bullish	Neutral	Bullish	Bullish
Pacific Ex-Japan	Neutral	Neutral	Neutral	Neutral
Canada	Neutral	Neutral	Neutral	Neutral
Emerging Markets	Neutral	Neutral	Neutral	Bullish
Global Stocks	Neutral	Bearish	Neutral	Bullish

■ Bullish
 ■ Neutral
 ■ Bearish

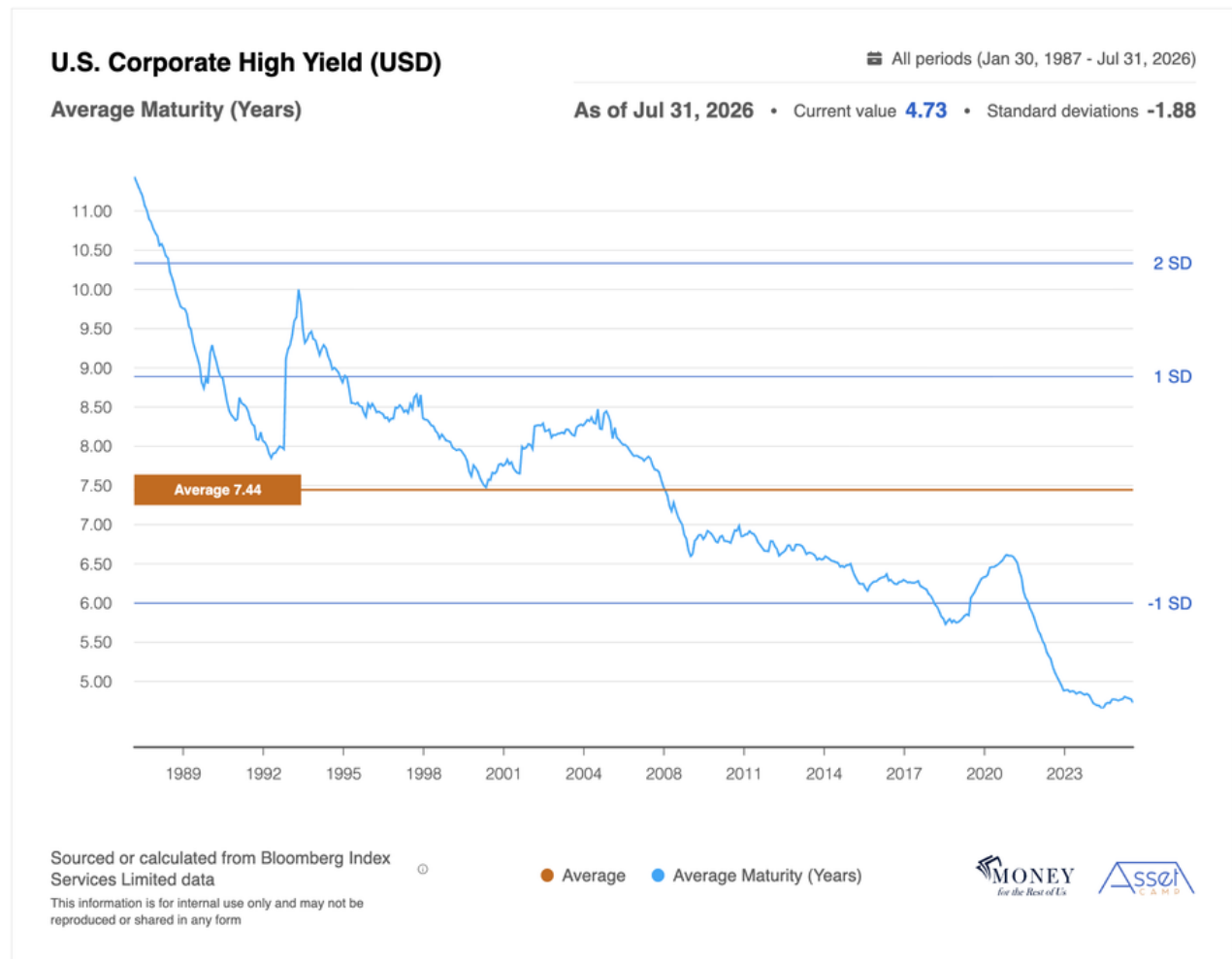
Source: Money for the Rest of Us / Asset Camp.
 Outlined row indicates the aggregate Global Stocks reading.



Focus Topic: Are High-yield Bonds Becoming Less Risky?

As an asset class, non-investment-grade bonds have seen an improvement in average credit quality even as average maturities have shortened. KKR reports that 57% of U.S. high-yield bonds and 68% of European high-yield bonds are rated BB, one notch below investment grade. The average maturity of U.S. high-yield bonds is down to 4.7 years from over 6.5 years in 2021.

Chart 15



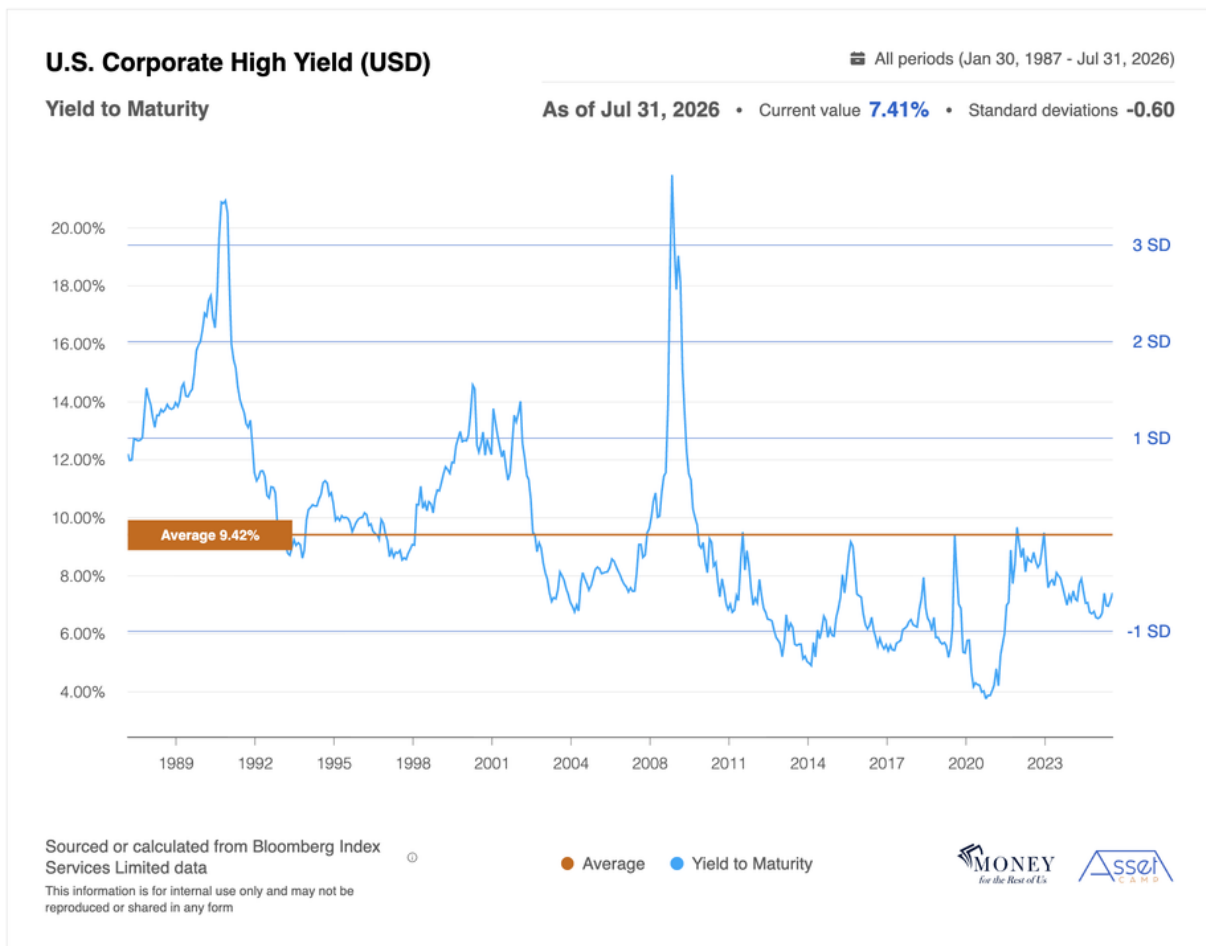
Are High-yield Bonds Becoming Less Risky?

Higher credit quality and shorter maturities suggest default rates for non-investment-grade bonds will be lower. Long-term average default rates for U.S. non-investment-grade bonds have been just over 4%. Defaults exceed the average following recessions, but are less than 3% during non-recessionary periods.

We have forecasted a 3% average annual default rate for non-investment-grade bonds over the next decade. If recoveries are 40%, that leads to an average annual return drag of 1.8% due to default.

The current yield-to-maturity for U.S. high-yield bonds is 7.4%, an increase of 0.9% year-to-date. Subtracting 1.8% due to defaults results in an expected return of 5.6% annualized over the next decade.

Chart 16



Are High-yield Bonds Becoming Less Risky?

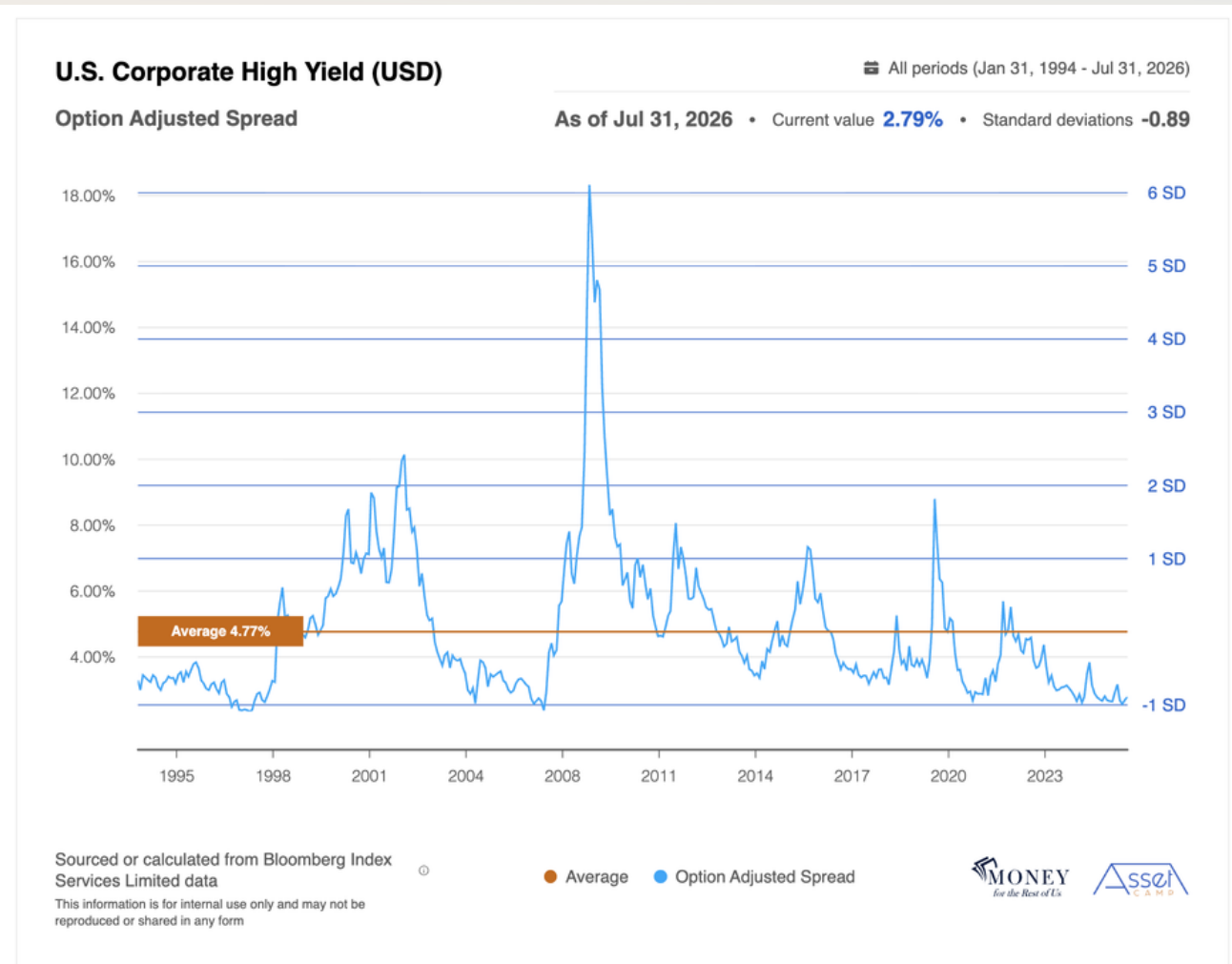
For the ten years ending July 2026, U.S. high-yield bonds returned 5.5% annualized. The starting yield-to-maturity a decade ago was 6.7%. That suggests defaults only reduced returns by about 1.2% annualized. The lower return drag from defaults was driven by the lack of a lengthy recession over the past decade. A brief recession during the pandemic was accompanied by massive stimulus, rock-bottom interest rates, and a willingness by bond investors to allow speculative companies to refinance or extend maturities. That allowed most non-investment-grade bonds to avoid default.

While average non-investment-grade credit quality has improved, the buffer available to absorb defaults is thin.

The incremental yield or spread for non-investment-grade bonds is 2.8% compared to its long-term average of 4.8%. That is the compensation above the risk-free rate to absorb defaults.

Are High-yield Bonds Becoming Less Risky?

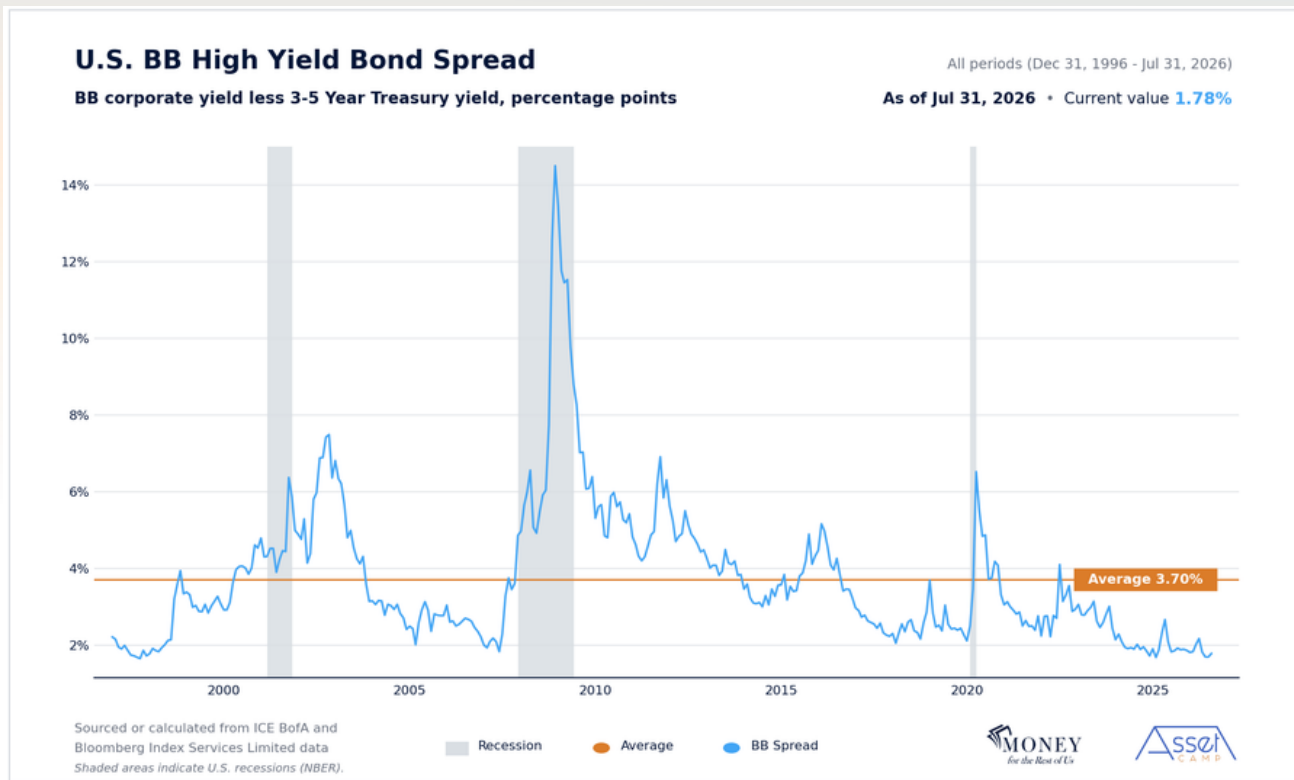
Chart 17



The incremental yield for BB-rated bonds is even less at 1.8% compared to a long-term average of 3.7%.

Are High-yield Bonds Becoming Less Risky?

Chart 18



If non-investment-grade spreads return to their long-term average while annual defaults average 4% over the next five years, U.S. non-investment-grade bonds would return 5.7% annualized over the next five years while global high-yield bonds would return 5.2% annualized. That is in line with our 10-year forecast. Returns would be higher if defaults are less than 4%.

The bottom line is that non-investment-grade bonds are less risky due to shorter maturities and higher credit quality. Despite that, annualized returns holding them will likely be 5% to 6% over the next decade, comparable to returns for the past ten-to-fifteen years.

Are High-yield Bonds Becoming Less Risky?

That is a decent return, but it is comparable to the 5.5% yield-to-maturity for U.S. investment-grade bonds.

Table 6

Bond Market Expected Returns Modeling

Data as of July 31, 2026

Time Period	Interest Rate Change	Spread Change	Corporate Default Rate	Default Recovery Rate
5 year	0%	+2%	+4%	40%

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Index	Starting Yield-to-Maturity	Absolute Price Change	Interest Rate Change Annual Impact	Credit Spread Change Annual Impact	Corporate Default Annual Impact	5 Year Expected Annualized Nominal Return
Global High Yield (USD)	7.17%	-7.25%	0.00%	2.00%	-2.40%	5.18%
U.S. Corporate High Yield (USD)	7.41%	-5.97%	0.00%	2.00%	-2.40%	5.70%

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Who is David Stein?

David spent seventeen years as an institutional investment advisor, including nine as Chief Investment Strategist and Chief Portfolio Strategist at FEG Investment Advisors, a \$15 billion institutional advisory firm, where he advised and managed investments for endowments, foundations, and high-net-worth families.



David strategized and invested through the Asian financial crisis, the dot-com bubble, the 2008 financial crisis and Great Recession, the 2020s' COVID-19 pandemic and its subsequent market volatility, and every other economic moment that mattered between 1995 and today. The work you'll see in Plus Membership is the same work he did for institutional clients, now built for serious individuals.